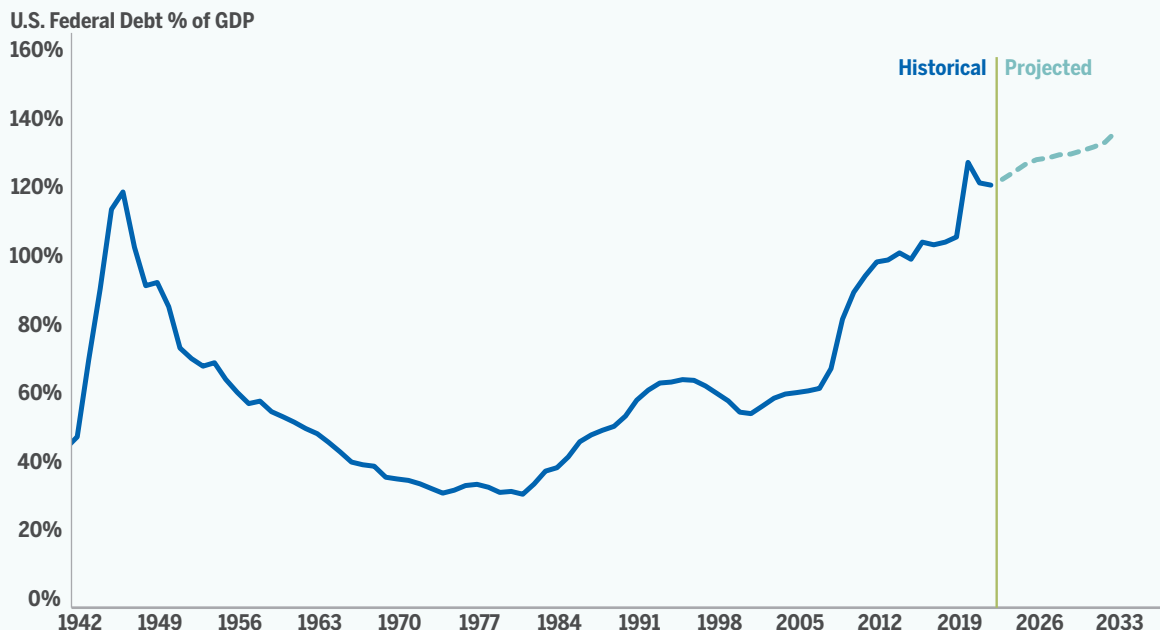


The Debt Debate

The U.S. debt ceiling is the maximum amount of money that the U.S. government is authorized to borrow, which is set by Congress. The date that the U.S. Treasury may be unable to fund its deficit spending without increasing the debt ceiling is rapidly approaching. Whether or not Congress approves a deal in the coming weeks, we believe it is important to look at the bigger picture to understand the trend of U.S. debt and interest costs and how that may impact the economy going forward.

Up, Up and Away?



Source: U.S. Office of Management & Budget and Congressional Budget Office projections.

- Earlier this year, U.S. federal debt surpassed the debt ceiling of \$31.4 trillion. Congress will need to raise the ceiling so the government can pay its interest and spending obligations or significantly cut spending to avoid defaulting on its debt.
- The accelerated pace of projected growth in the federal debt may continue to be in the spotlight well after this debt ceiling debate, as the Congressional Budget Office (CBO) estimates the U.S. federal debt to rise to \$52 trillion by 2033. That would be approximately 137% of GDP, considerably higher than the 119% peak after World War II. Moreover, U.S. federal interest costs are also expected to rise from under 2% of GDP in 2022 to 3.6% by 2033 and to 6% by the middle of the century, according to the CBO.
- We believe the higher U.S. debt burden could weigh on economic growth going forward unless the growing debt is managed with combination of lower spending or increased taxes. However, we believe investors should view the U.S. debt to GDP relative to the rest of the world, where many countries have higher debt levels (e.g., Japan with >250% debt/GDP according to the IMF). Moreover, we believe the U.S. remains central to the global economy, which is home to some of the most innovative companies in the world and has successfully weathered many economic storms throughout its history.



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The Congressional Budget Office (CBO) is a federal agency within the legislative branch of the United States government that provides budget and economic information to Congress.

The International Monetary Fund (IMF) is an international organization that aims to promote global economic stability and growth by providing financial assistance, policy advice, and technical assistance to its member countries.

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