

MARKET SIGHT LINES



The U.S. Debt Trajectory: The Need for a Fiscal Transition

By Michael O'Keeffe, *Chief Investment Officer*



Over the last few years, I've written about a pending [Fiscal Transition](#) across our economy, with consumers, businesses, and our government needing to face the realities of a higher-for-longer interest rate environment after a buildup of debt during the lower rate environment that followed the Great Recession. Our political leaders are not focused on this issue; in fact, they continue to sponsor spending programs that amplify the problem. Corporate leaders had been relatively silent as well, but this year the topic is coming into focus, perhaps motivated by alarming forecasts from the Congressional Budget Office (CBO). In this Sight|Lines, we review these CBO forecasts, messages from corporate leaders, and the implications of our current fiscal trajectory.

THE TAKEAWAY:

OUR DEBT TRAJECTORY BRINGS FISCAL TRANSITION INTO FOCUS

The rising federal budget estimates from the CBO are bringing into focus the risks associated with our debt and spending trajectory, highlighting the need for a Fiscal Transition. In summary:

- The CBO is estimating our 2024 deficit to be \$1.8 trillion, an already alarming level of government debt, and an increased cost of that debt within our budget.
- Even more concerning, the CBO is forecasting our 2034 deficit at \$2.8 trillion, with government debt levels and the cost of debt even higher.
- Corporate leaders are bringing this issue into focus, highlighting the risks associated with our debt and spending trajectory.
- Absent managing through a Fiscal Transition, there are growing risks of the loss of confidence in (i) the U.S. dollar, (ii) U.S. Treasuries as a safe investment, and (iii) capital markets more generally.

IN-DEPTH: OUR DEBT TRAJECTORY BRINGS FISCAL TRANSITION INTO FOCUS

The rising federal budget estimates from the CBO are bringing into focus the risks associated with our debt and spending trajectory, highlighting the need for a Fiscal Transition. Going deeper:

- The CBO has provided estimates for our 2024 budget results:
 - The 2024 U.S. federal deficit is expected to be \$1.8 trillion.
 - This will bring the total U.S. debt to \$35 trillion, an already alarming level.
 - Our cost of that debt (net interest) is estimated to be 16% of tax revenue, 12% of our spending, and 35% of our discretionary spending.
- The CBO 2034 forecasts are even more alarming:
 - The 2034 U.S. federal deficit is forecast to be \$2.8 trillion.
 - This will bring the total U.S. debt to an astonishing \$57 trillion.
 - Our cost of that debt (net interest) is forecast to be 19% of tax revenue, 14% of our spending, and 43% of our discretionary spending, well above current levels.
- In 2024, corporate leaders have started to bring this important issue into focus:
 - “No one is spending enough time talking about deficits ... we need to be finding ways to minimize the role of the deficit ...” – Larry Fink, CEO of BlackRock.
 - “Any country can borrow money and drive growth...America should be quite aware that we’ve got to focus on it more.” – Jamie Dimon, CEO of JPMorgan Chase
 - “Policymakers need to put greater focus on the ballooning debt and deficit.” – David Solomon, CEO of Goldman Sachs
- Absent managing through a Fiscal Transition, the following risks already present will grow:
 - Poor fiscal management may cause investors to question U.S. Treasuries as a perceived safe investment, lowering demand and causing interest rates to rise.
 - What may follow is a loss of confidence in the U.S. dollar, weakening the dollar and bringing into question its role as the world’s reserve currency.
 - Erosion in investor confidence in the dollar and/or U.S. Treasuries, both of which are foundational to our capital markets, increasing the risk of contagion affecting other bond markets and equity markets as well.

CONCLUSION

We’ve written about the need for a [Fiscal Transition](#) across our economy – consumers, businesses, and our government – given increased levels of debt and a higher-for-longer interest rate environment. Our political leaders are not yet focused on this issue and are, in fact, amplifying the problem. But corporate leaders are now bringing this topic into focus given alarming CBO forecasts. This is a step in the right direction.

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