



# Debt Ceiling Outlook

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# What is the debt ceiling?

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## What is the debt ceiling?

The debt ceiling, or debt limit, is the cap on how much the federal government is authorized to borrow to fund its financial obligations. It does not authorize new spending, but rather funds existing spending Congress has already agreed upon.

The current debt limit is **\$31.381 trillion**, which was **reached on January 19, 2023**.

## Why do we have a debt ceiling?

The debt limit was instituted in 1917. Prior to that, the Treasury had to seek permission from Congress each time it needed to issue bonds to pay its bills. The debt limit streamlined that process.

## Why is this an issue now?

The debt limit was reached on January 19, 2023. However, the U.S. did not automatically default on meeting its obligations above the debt limit because it can draw on funds in the **Treasury General Account (TGA)**, the federal government's operational account at the Federal Reserve. It can also employ "**extraordinary measures**", which essentially includes suspending investment/reinvestment in certain government pension funds for a period and making them whole once the debt ceiling issue has been resolved.

The government can meet its obligations until these two sources are depleted. The date on which funding runs out is the "**X-date**". The current estimate for the X-date is early June, although there is considerable uncertainty around this estimate.

The debt ceiling can be raised or suspended, as it has 102 times since World War II, but lawmakers are currently at an impasse.

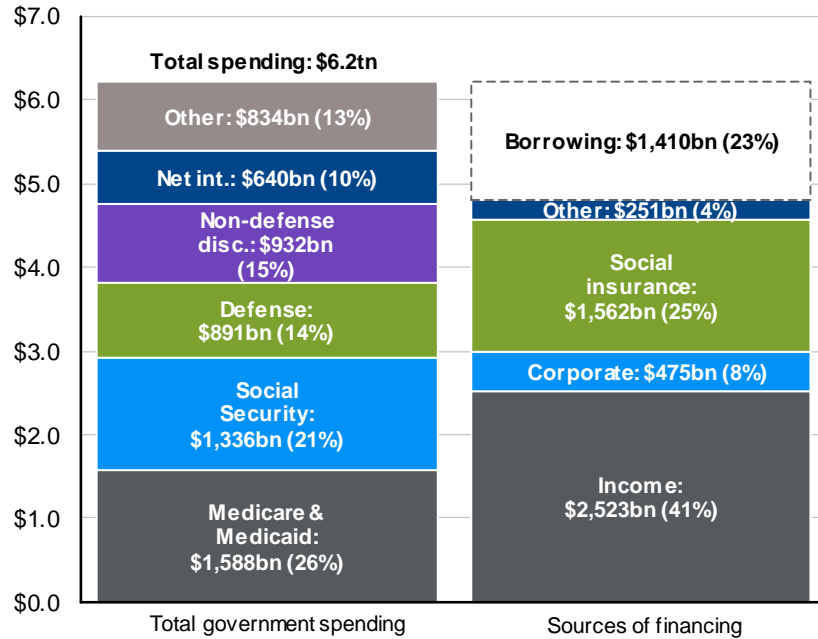
Source: CRFB, U.S. Treasury Department, J.P. Morgan Asset Management.



# Deficits and debt surged during the pandemic.

## The 2023 federal budget

CBO Baseline forecast, USD trillions

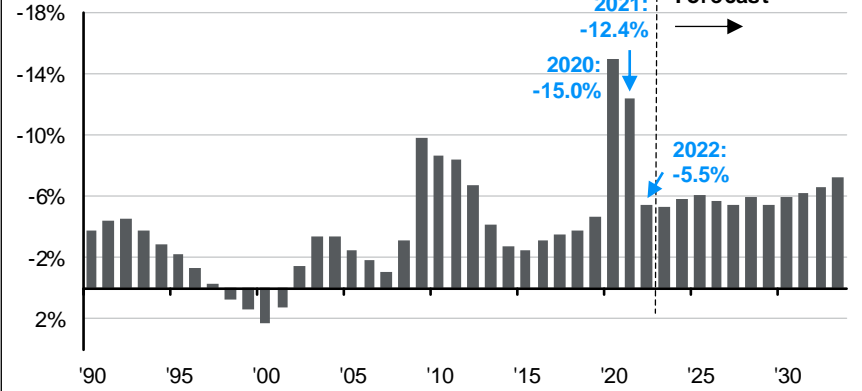


### CBO's Baseline economic assumptions

	2023	'24-'25	'26-'27	'28-'33
Real GDP growth	0.3%	1.9%	2.4%	1.9%
10-year Treasury	3.8%	3.8%	3.8%	3.8%
Headline inflation (CPI)	5.7%	2.8%	2.1%	2.2%
Unemployment	4.3%	4.9%	4.5%	4.5%

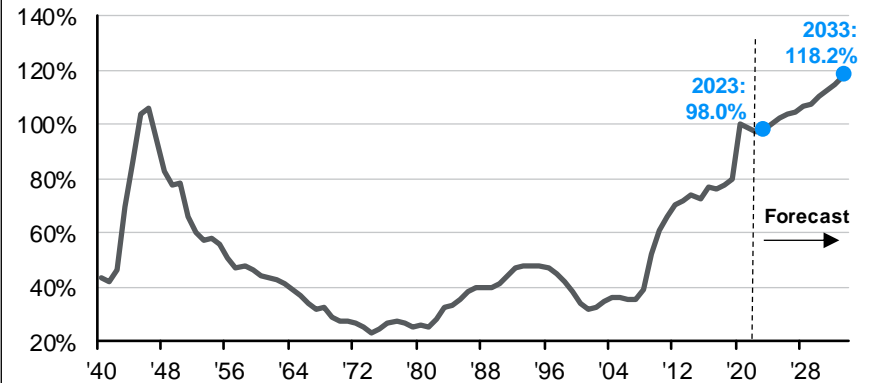
## Federal budget surplus/deficit

% of GDP, 1990 – 2033, CBO Baseline Forecast



## Federal net debt (accumulated deficits)

% of GDP, 1940 – 2033, CBO Baseline Forecast, end of fiscal year



Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department.

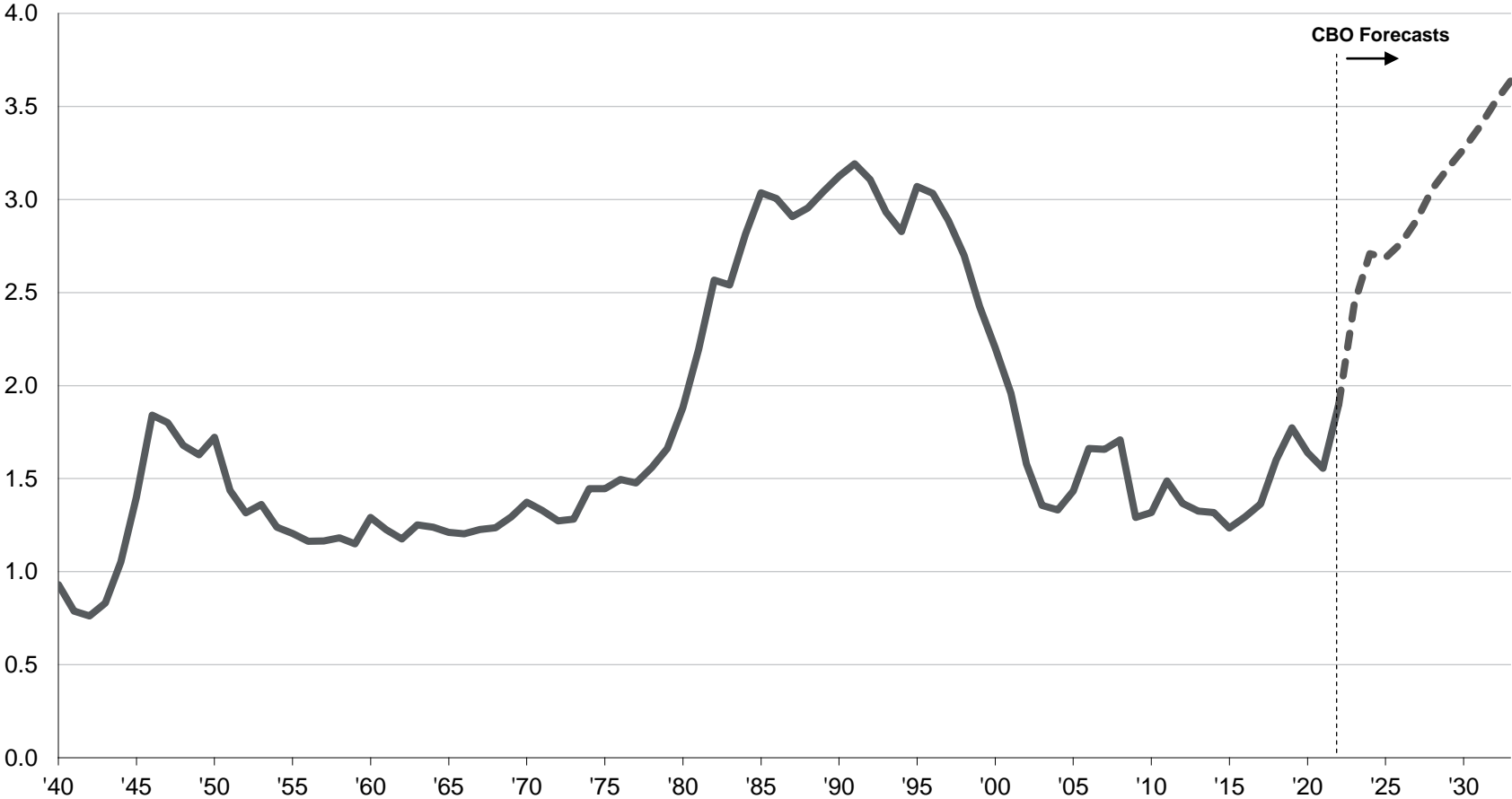
Estimates are based on the Congressional Budget Office (CBO) February 2023 Update to the Budget and Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: Years shown are fiscal years. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. *Guide to the Markets* – U.S. Data are as of May 8, 2023.



# Interest payments on national debt are on the rise, creating greater uncertainty around available funding.

## Interest payments on federal debt

% of GDP, 1940-2033, fiscal years



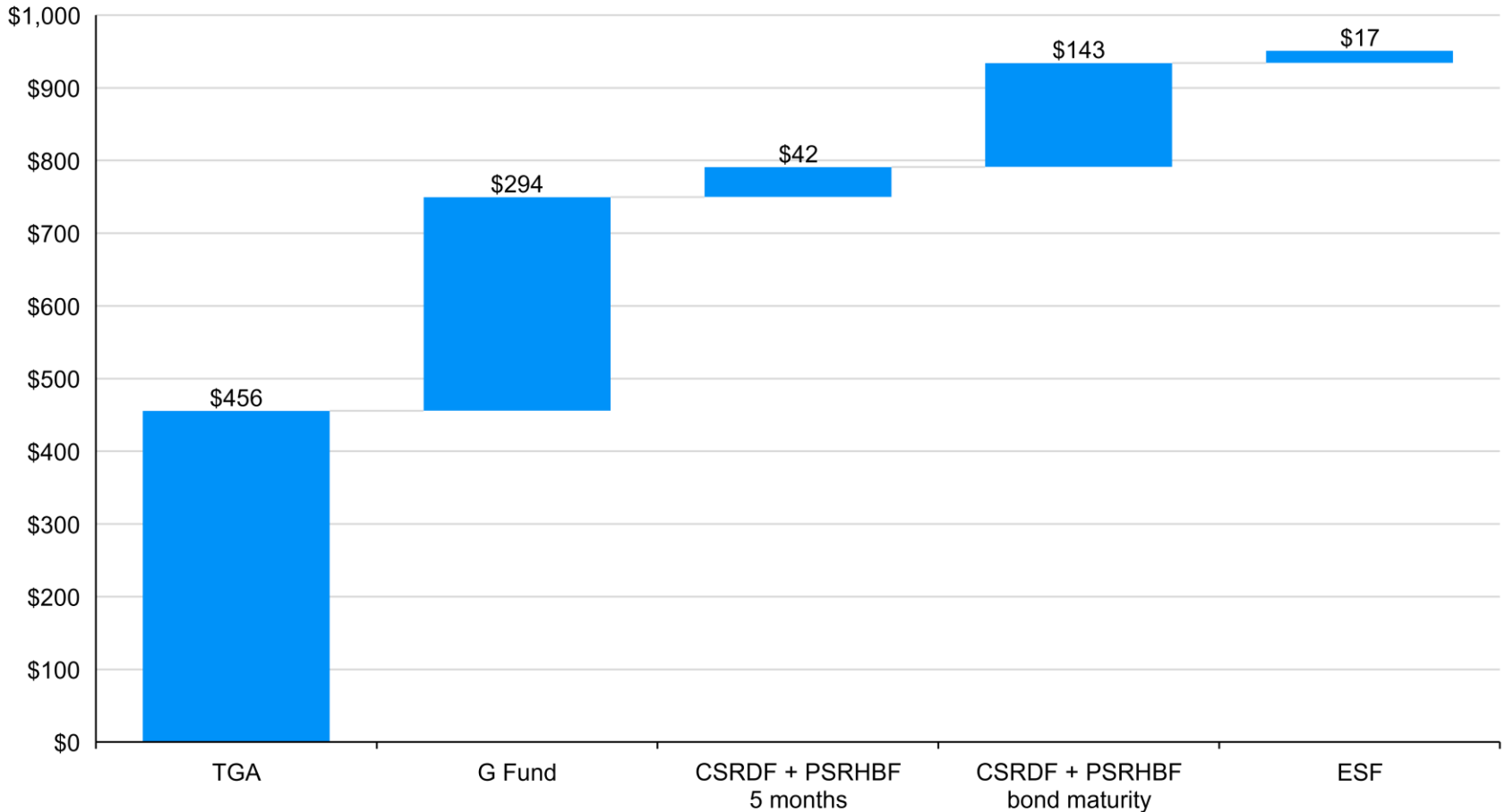
Source: Congressional Budget Office, FRED, J.P. Morgan Asset Management. Forecasts are based on the Congressional Budget Office (CBO) February 2023 Update to the Budget and Economic Outlook. Data are as of May 8, 2023.



# Funding available has dwindled from roughly \$950 billion in January to \$360 billion in May...

## Estimated funding available in excess of the federal debt limit as of January 19, 2023

USD billions

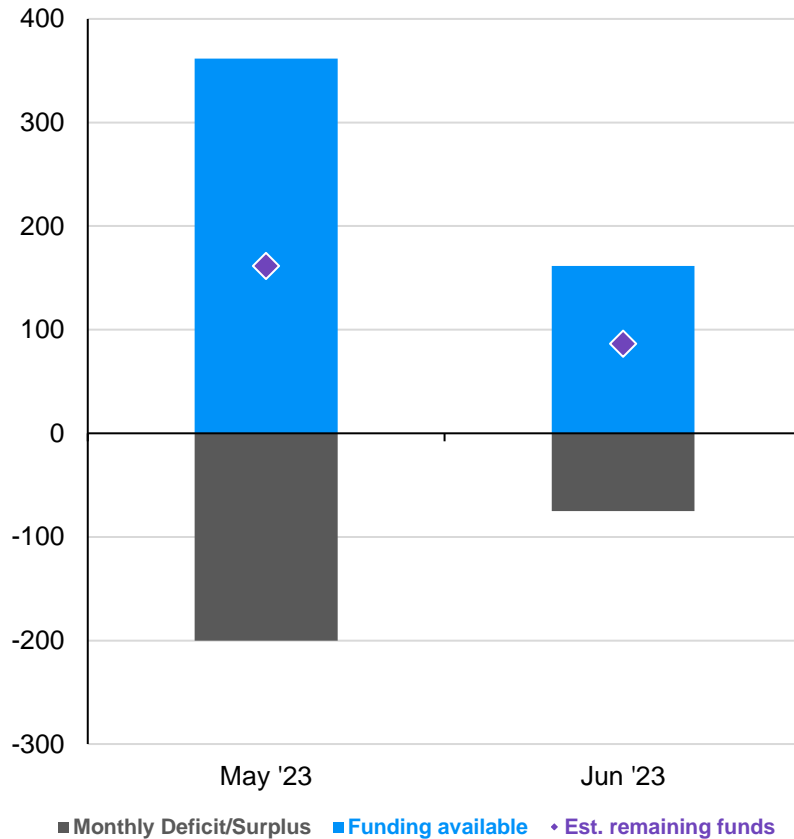


Source: U.S. Treasury, J.P. Morgan Asset Management. Treasury General Account (TGA), Government Securities Investment Fund of Federal Employees Retirement System Thrift Savings Plan (G Fund), Exchange Stabilization Fund (ESF), Civil Service Retirement and Disability Fund (CSRDF), Postal Service Retiree Health Benefits Fund (PSRHB). Data are as of May 8, 2023.

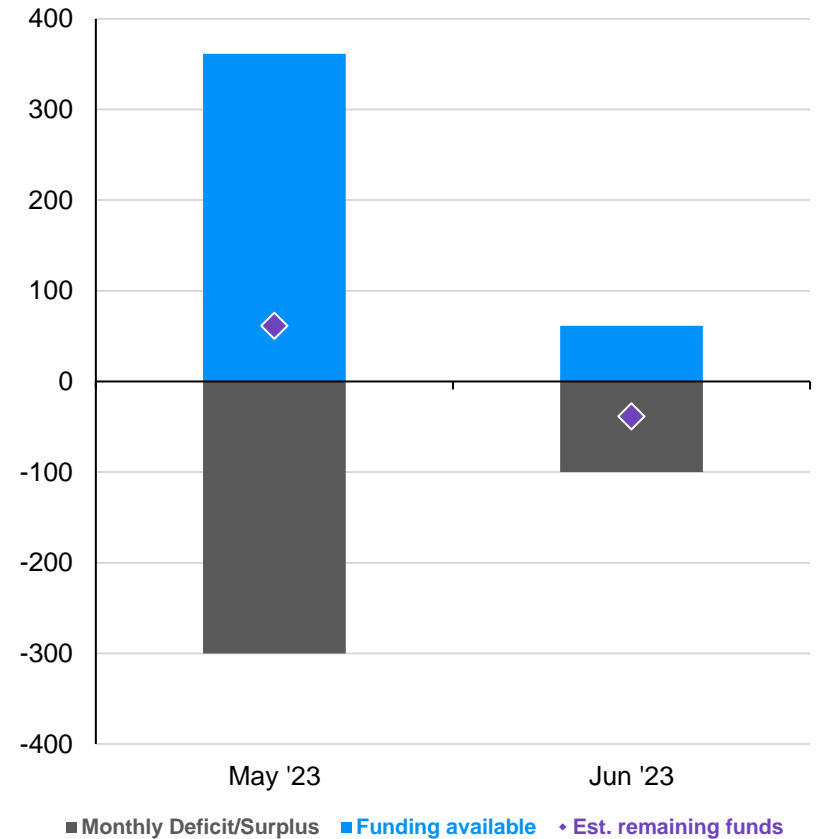


# ...which means resources could be exhausted by early June or late July.

Funding available if \$200bn deficit in May and \$75 billion in June  
USD billions



Funding available if \$300bn deficit in May and \$100 billion in June  
USD billions



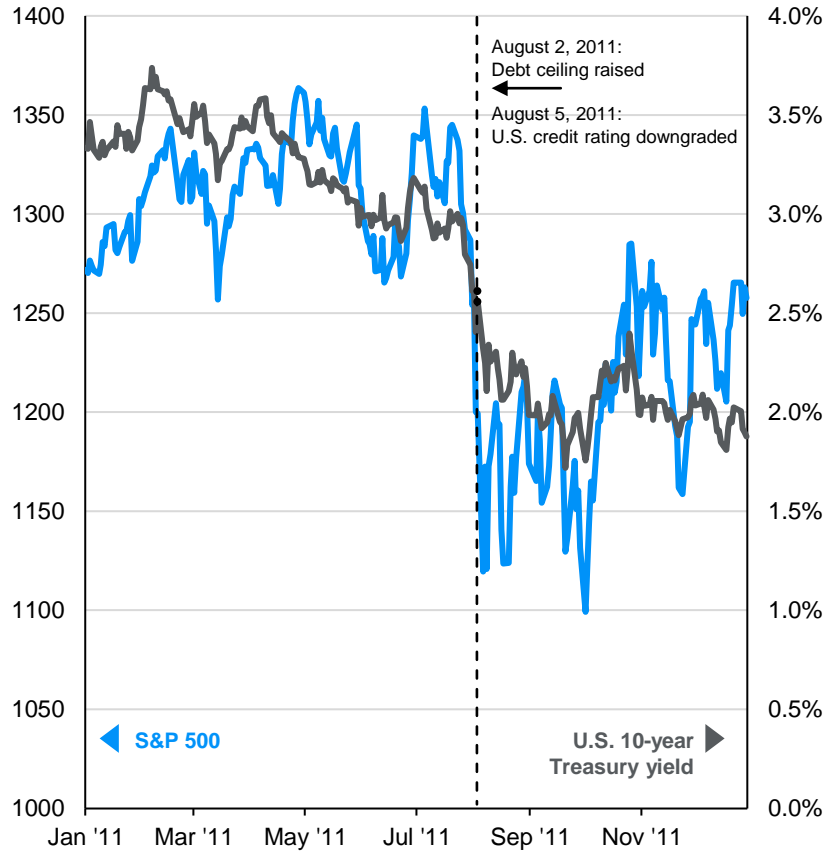
Source: Congressional Budget Office, J.P. Morgan Asset Management. Calculations are based on [May statement from Congressional Budget Office](#). Assumes \$362 billion in TGA and extraordinary measures as of April 30, \$200-\$300 billion deficit in May and \$75-100 billion deficit in June per CBO estimates, additional \$4 billion in extraordinary measures in June, and \$145 billion in extraordinary measures available June 30. Data are as of May 8, 2023.



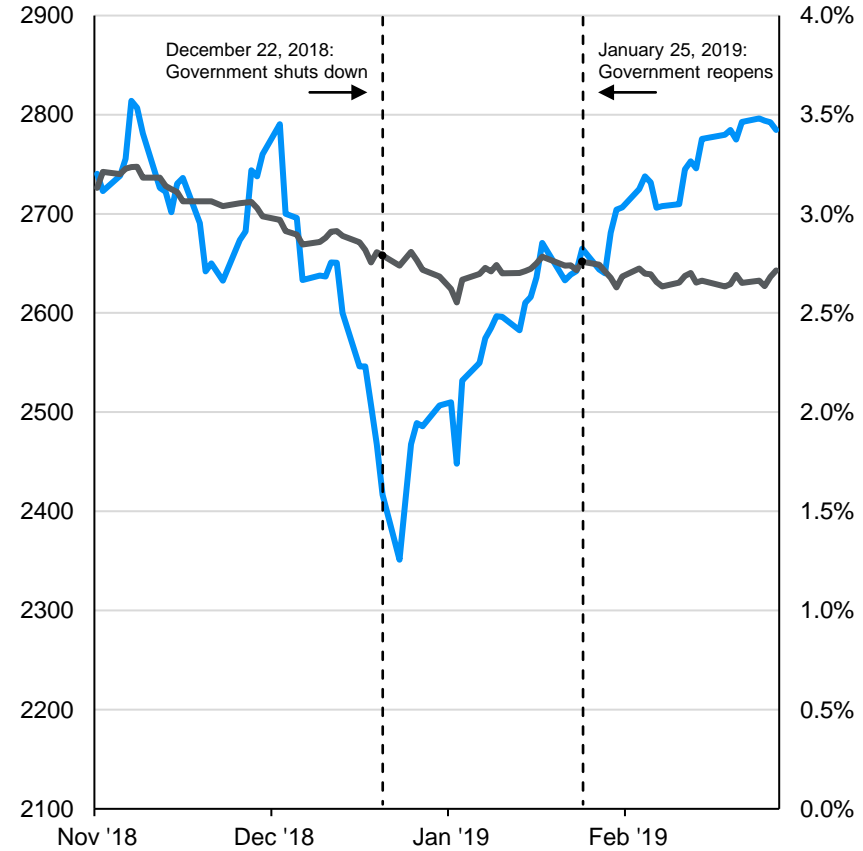
# The impact of a default could be much more severe than a government shutdown or credit downgrade.

GTM U.S.

### Market performance around U.S. credit downgrade 2011



### Market performance around U.S. government shutdown 2018-2019



Source: Standard and Poor's, U.S. Treasury, J.P. Morgan Asset Management. Data are as of May 8, 2023.



# How can the U.S. avoid default?

GTM

U.S.

- 1. Raise or suspend the debt ceiling.** The debt ceiling has been raised or suspended 102 times since World War II.
- 2. Prioritize debt payments over other obligations.** While it is possible, it is unclear that operationally the systems and procedures in place are equipped for this.
- 3. Invoke the 14<sup>th</sup> amendment.** The Public Debt Clause in the 14<sup>th</sup> amendment states, “The validity of the public debt of the United States... shall not be questioned.” This is subject to legal interpretation and could get tied up in the courts.
- 4. The Treasury could issue a trillion-dollar coin.** This coin could be deposited at the Fed in exchange for funds in the Treasury General Account. This has been broadly dismissed by central bankers.

Source: J.P. Morgan Economic Research, J.P. Morgan Asset Management.

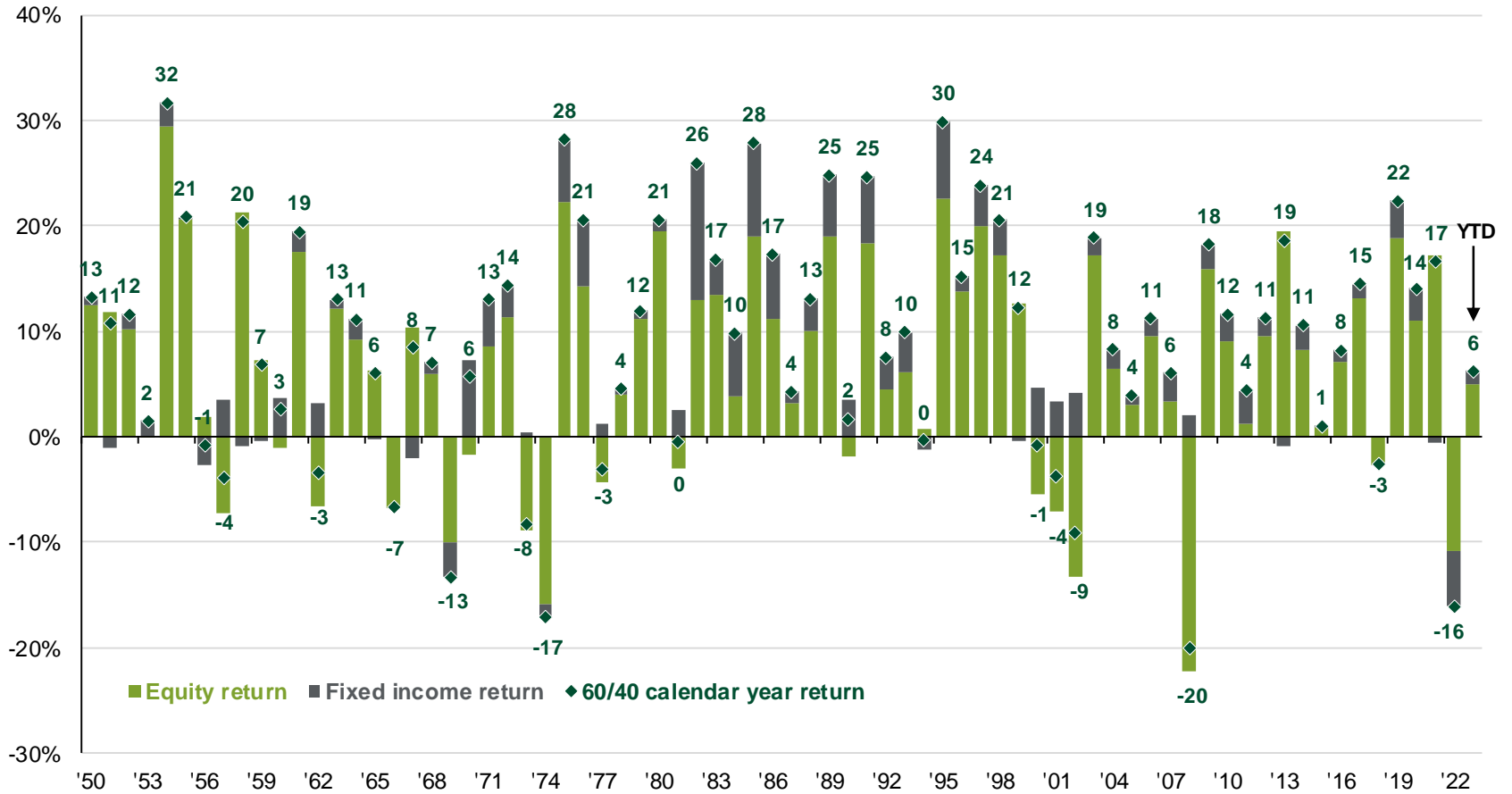




# Now is the worst time to give up on diversification.

## 60/40 annual return decomposition

Total returns, 1950 – present



Investing Principles

Source: Bloomberg, FactSet, Ibbotson/Strategas, Robert Shiller, Standard & Poor's, Yale University, J.P. Morgan Asset Management. The 60/40 portfolio is 60% invested in S&P 500 Total Return Index and 40% invested in Bloomberg U.S. Aggregate Total Return Index. S&P 500 returns from 1950 to 1970 are estimated using the Shiller S&P Composite. U.S. fixed income total returns from 1950 to 1975 are estimated using data from Strategas/Ibbotson. The portfolio is rebalanced annually. *Guide to the Markets – U.S.* Data are as of May 8, 2023.



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