Making Sense

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The One-Two Punch With Higher Federal Debt

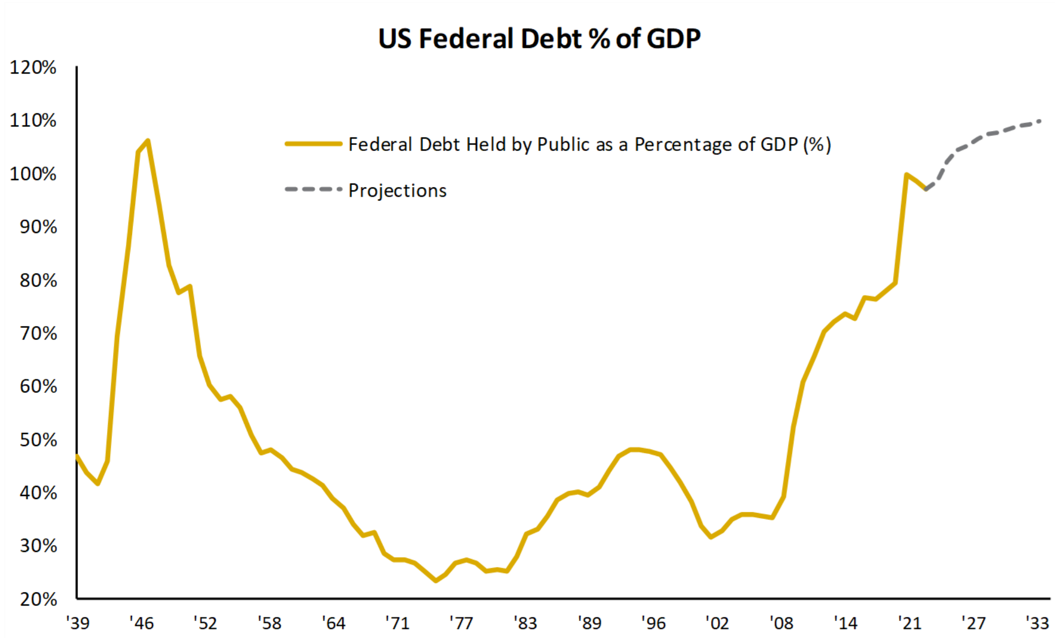
In this month's market update, we discussed the Fed's higher-for-longer approach to rates, union strikes, the ever-looming path of inflation, and the state of U.S. government finances.

U.S. Government Finances

We discussed yields in fixed income markets during our update, and government finances always matter when investors study fixed income. The potential government shutdown on October 1, 2023 is in large-part a debate over the federal debt level. As shown in Figure 1, the current federal debt as a percentage of GDP is close to World War II levels and projected to move higher. While levels were already on an upward path, the pandemic pushed the federal debt even higher.

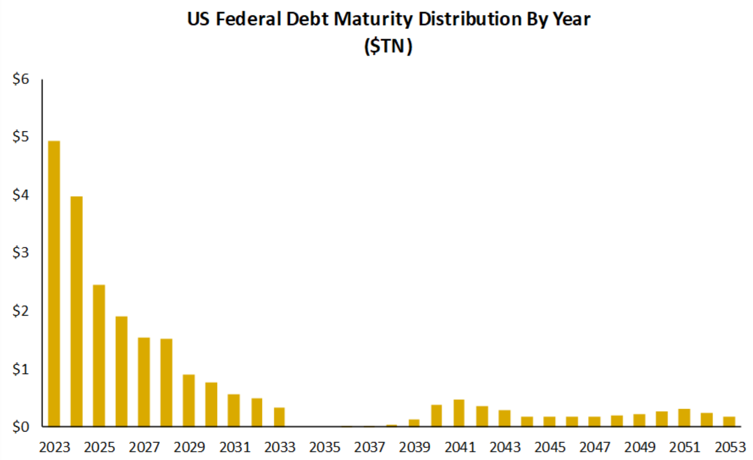
Why is that sharp increase potentially a problem? Figure 2 shows federal debt maturing by year. **In the next three years, 49% of outstanding federal debt matures and must be refinanced at prevailing interest rates, which are very much on the rise.** As Figure 3 shows, both the government's weighted average cost of debt and the net interest cost as a percentage of tax revenues are on the rise. **In other words, federal government borrowing costs and interest expenses are increasing at the same time as federal debt.**

Figure 1:



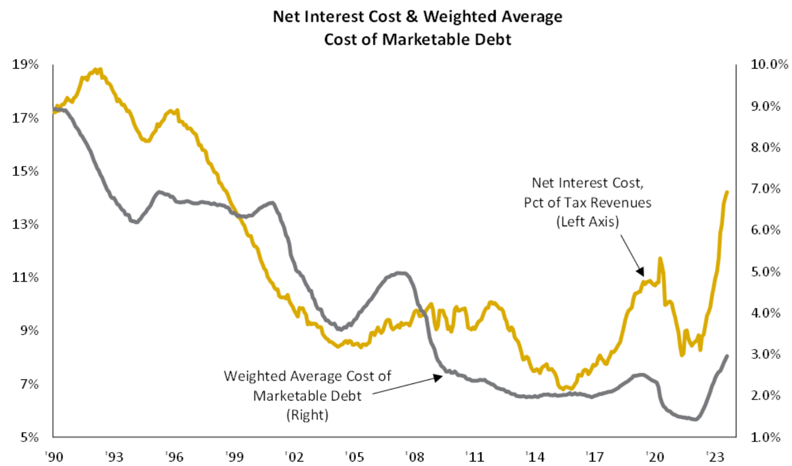
Source: Strategas, Projections from Office of Management and Budget

Figure 2:



Source: Strategas

Figure 3:



Source: Strategas

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