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Perspective on the Debt Ceiling

The U.S. national "debt ceiling" has garnered much attention in the media of late. Whenever those words make their way into headlines, they tend to trigger anxiety for investors, politicians, and government employees. But what is the "debt ceiling"? Why is everyone talking about it? And how might it impact your investment strategy?

The History of the Debt Ceiling

In the infancy of the United States, there was no defined limit regarding how much money the country could borrow to meet its obligations. In 1917, during World War I, the first debt limit was imposed on certain categories of debt, and in 1939, the "debt ceiling", as we now know it, was broadened to apply to all federal debt. It remains in place today and serves as a safeguard against runaway debt and ensures that borrowing decisions are scrutinized and approved by lawmakers.

Over the years, the United States has found itself in numerous situations where it needed to increase the debt ceiling to continue to fund its debts without taking extreme measures that would ultimately harm the economy. In fact, the debt ceiling was raised over 90 times during the 20th century alone. Importantly, while this issue tends to have political overtones, it has been successfully dealt with by every president in the modern era and every conceivable combination of parties in Congress. As it stands right now, the government reached the current $31.4 trillion cap on January 19 and has been funding outstanding debts with extraordinary measures, which Treasury Secretary Janet Yellen warns may run out as early as June 1. We have no doubt that a solution will be reached in this instance as well.

What Can You Do As an Investor?

The good news here is that nobody, even those involved in the negotiations, stands to benefit from the government defaulting on its debt, so there is a strong incentive to come to an agreement. However, it is quite possible that we could see increased market volatility as we get closer to the June 1 deadline. If so, we can draw from the lessons learned in other times of market stress to help navigate through any challenges.

Here are some things to consider for all investors:

- Recall that we have seen some instances of market corrections after prior debt ceiling debates, but those have been followed by strong recoveries that investors need to participate in.
- It is tempting to compare the 2023 debt ceiling issues to those of 2011, when the U.S. credit rating was ultimately downgraded. However, the market struggles at that time were likely more a function of the economic challenges in Europe in the wake of the Credit Crisis. (See chart: "In the Wake of The Credit Crisis")
- It is always helpful to review the overall risk level in our portfolios. This risk level should be appropriate for the full market cycle and does not need to be altered based on short term trends.
- Any correction in the market as a result of this debate may result in an opportunity to rebalance the portfolio and could allow for tax loss harvesting in taxable accounts.
- Always review short term cash needs with your advisor and make sure there is a plan in place for providing that liquidity.

Most importantly, if you are concerned about this issue or any headline that you might be reading in the news, the best course of action is to schedule a meeting with your advisor. In a short period of time, we can determine whether any action item is warranted and whether your portfolio is positioned appropriately based on your long-term goals and objectives.

We have been watching these developments closely and will continue to do so with your situation in mind. As always, we look forward to the opportunity to discuss your personal wealth management plan.

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