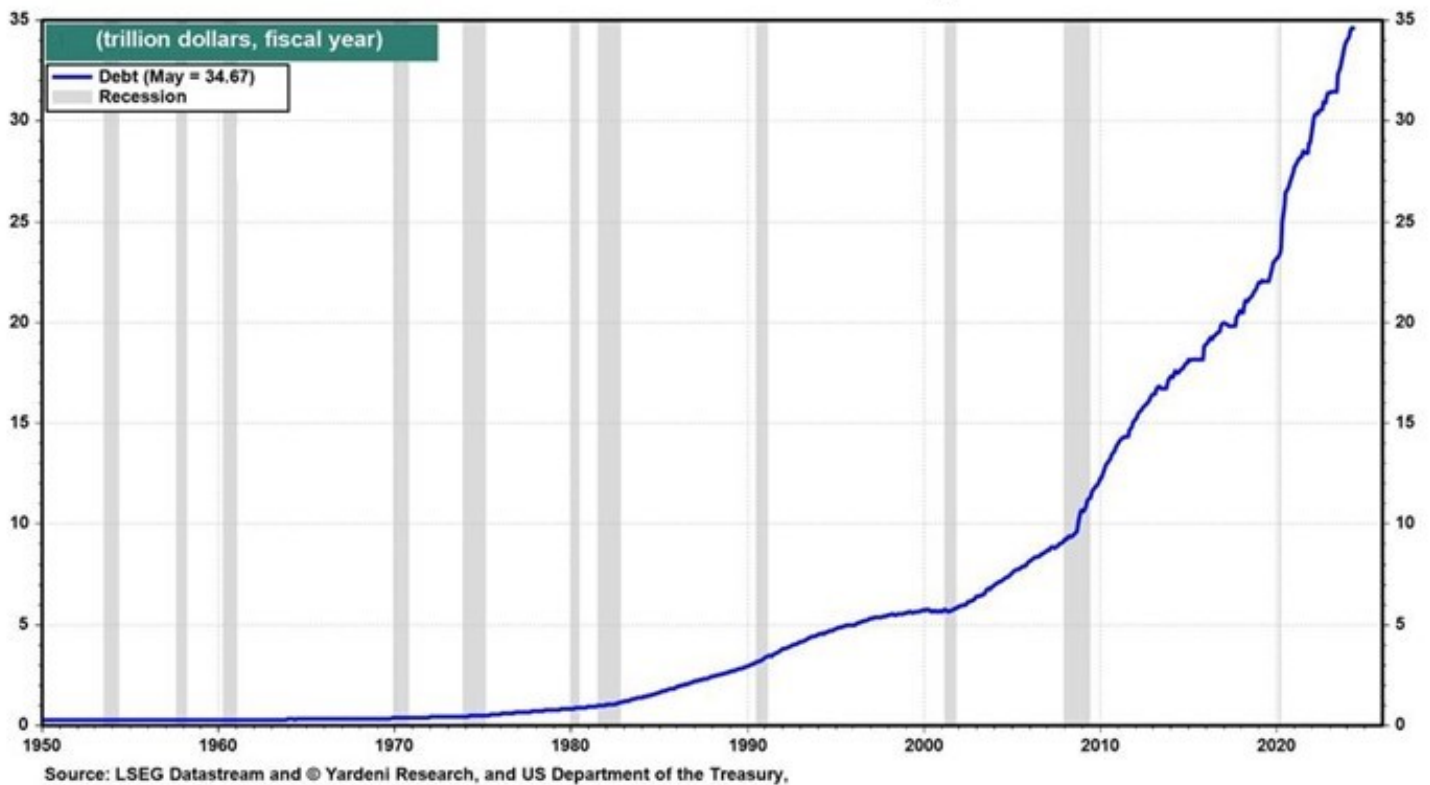


CHART OF THE MONTH

JUNE 2024

US Total Debt Outstanding



The near-term outlook for the economy and stock market continues to be solid with both posting positive growth for the past several quarters with similar expectations through at least year end. The danger longer term involves the government’s finances with a focus on the deficits, debt, and interest expense.

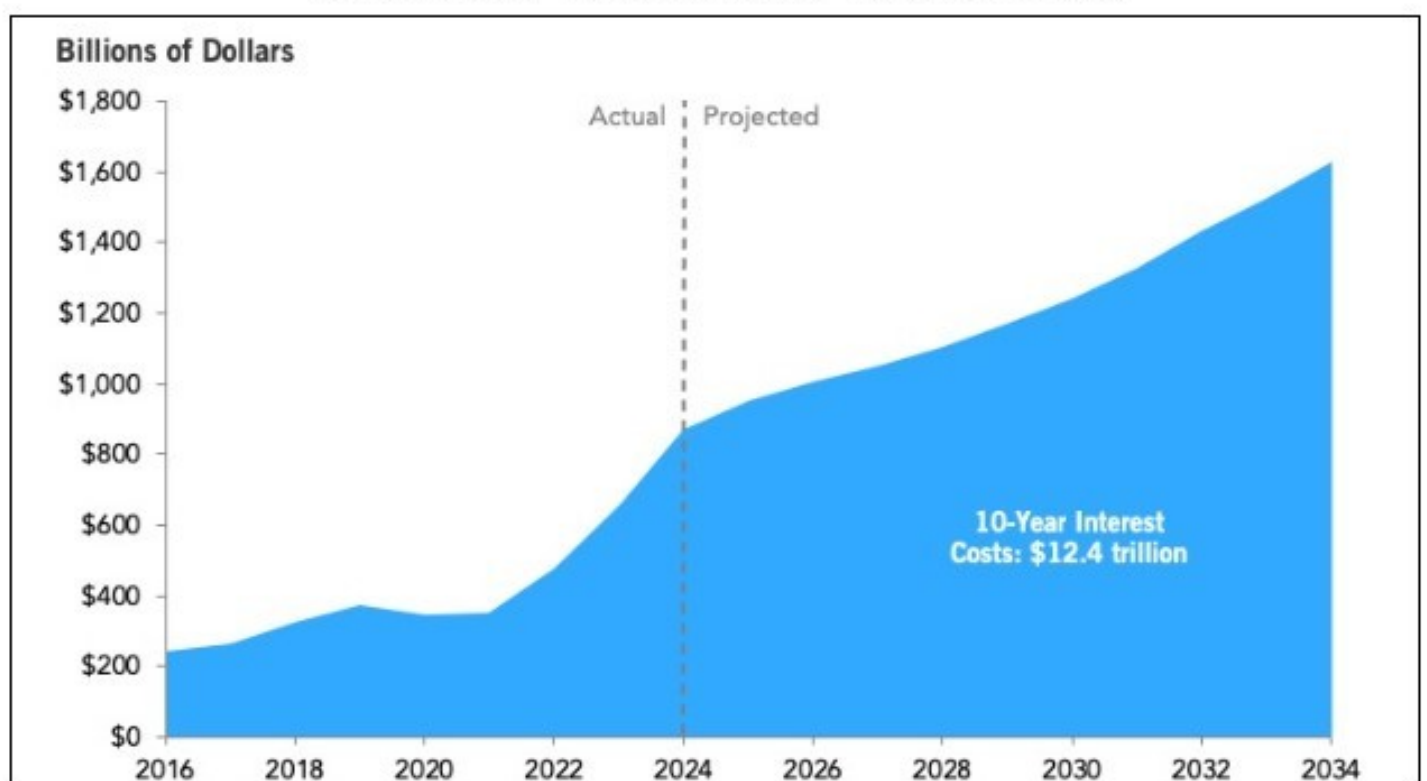
The Congressional Budget Office (CBO) recently projected that the federal budget deficit is expected to reach nearly \$2 trillion this year. The new estimate is \$400 billion above the CBO’s previous forecast in February. The cumulative deficit over the next decade is predicted to total \$22 trillion (or an average of \$2.2T per year). In 10 years, the debt is on pace to advance from about \$35 trillion (see graph above) to over \$55 trillion.

The growth in deficits and debts, of course, means the interest expense will continue to rise and account for a larger and larger share of the budget. In 2024 alone, net interest outlays are likely to amount to \$892 billion (see graph below), equal to nearly 45% of the deficit and more than 3% of GDP.

Reducing government expenditures and raising tax revenues are the obvious solutions to this mounting problem, neither of which has political support on both sides of the aisle. While implementing one or both could be welcomed news on the surface, lower spending and/or higher taxation may also slow the economy more than the CBO currently projects.

Importantly, we’re not suggesting that the economy or the stock market are going to crash. Instead, we’re just pointing out that the size of the government is increasing, perhaps at the detriment of the private markets. At a minimum, there could be a “crowding out” effect whereby the government takes up a greater share of the debt financings, causing long-term interest rates to remain higher than they might be otherwise. Meanwhile, there is still a lot to like about the U.S., including the fact that its markets are the largest and strongest and the dollar remains the world’s reserve currency.

Net Interest Cost Projected to Rise Sharply



SOURCE: Congressional Budget Office and Office of Management and Budget.