



Zanetti Monday Missive 2023.05.22 We've Moved And The US Debt Limit

“A billion here, a billion there, sooner or later it adds up to real money.”

~ Everett Dirksen (U.S. Representative, 1959-1969)

“If you think nobody cares if you’re alive, try missing a couple of car payments.”

~ Earl Wilson (American Journalist)

Happy Monday Everyone!

First things first. We've moved!

Not to worry, we're still easy to find. In fact, we just across the parking lot in the same office complex. Our new address is actually different by only 1 digit:

5130 San Francisco Rd NE
Suite A
Albuquerque, NM 87109

Same phone number.

Same website.

Same bat time.

Same bat channel 😊

Come by and visit us in our new digs.

And, while you're there, meet our new assistant. Her name is Amy and she would love to meet you. You might speak with her on the phone the next time you call.

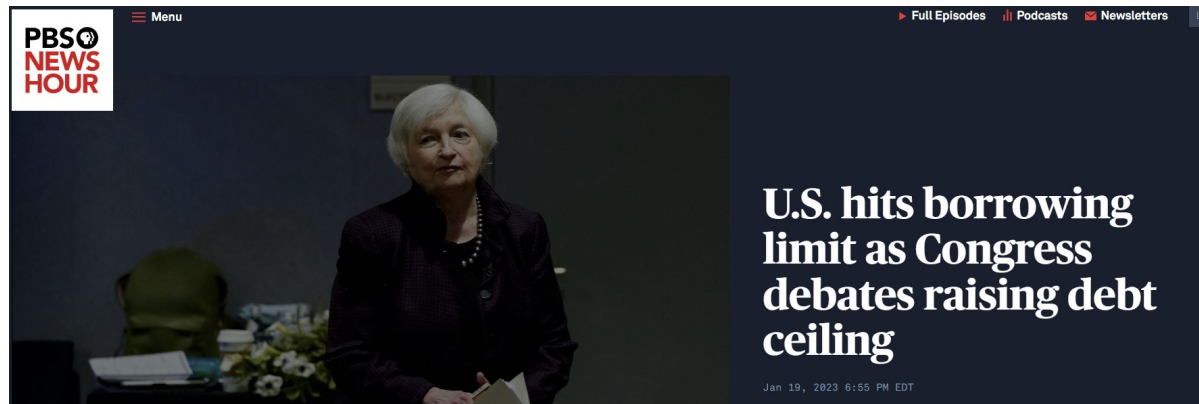
Ok, now on to some financial news.

Not sure if any of you are aware but the United States Government has maxed out all of its credit cards and is now scrambling for a new credit card company to give them a new credit line so they can keep paying their bills and not have to file bankruptcy.

Well, that's not exactly how it's being reported in the news.

You've probably heard something that sounds more sophisticated and political like this:

“U.S. hits borrowing limit as Congress debates raising debt ceiling”



That sounds much more clean and responsible – the way we would want our elected officials managing our money. Well, maybe not the “exact” way, but it definitely sounds better than how I wrote it in the previous paragraph.

But the way I put it is basically what’s happening – at least in terms of how money works, and debt, and credit.

None of us wants to be in a situation where we've maxed out every credit card we have just to get by – but that’s basically where the U.S. Government has found itself.

In January, the U.S. maxed out it’s credit limit at \$31.4 Trillion. And according to Treasury Secretary Janet Yellen, our cash reserves (think: “emergency savings account” for you and me) may be depleted next month. That means it’s now up to Congress to do something about it.

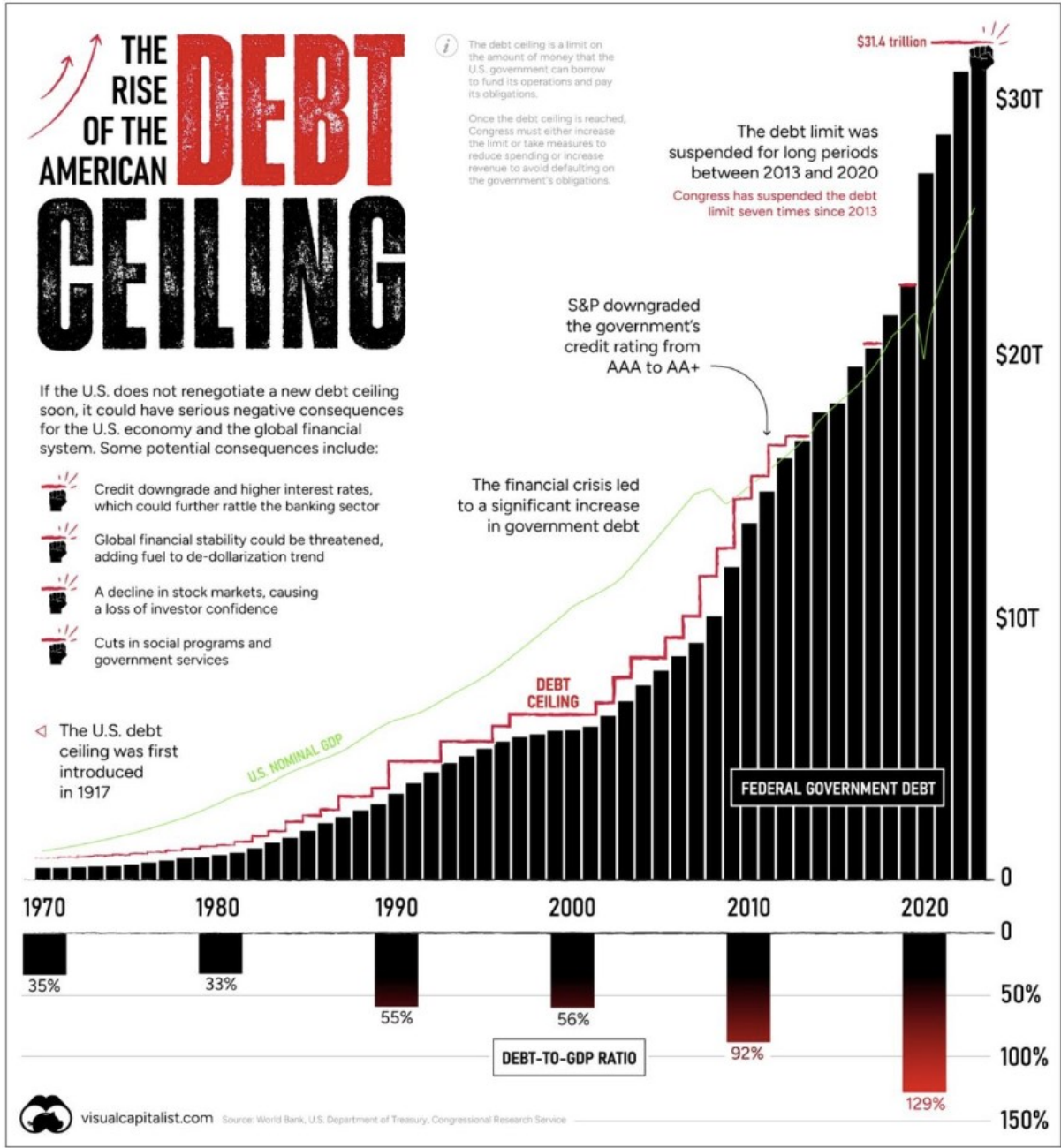
Oh, sure, they could cut expenses and live within their means. As you or I would if we were faced with the same scenario. But they won’t.

Yes, Representative Kevin McCarthy is asking for cuts to spending in return for an increase in credit, but President Biden is arguing for an increase in debt with no strings attached.

Either way, with or without strings attached, they will raise the debt ceiling (i.e., give themselves a new credit card.).

Raising the debt ceiling isn't a new concept. In fact, it's been raised 78 times since 1960. But as you can see in the picture below, the growth of our debt has almost become parabolic.

Common sense should tell you that this rate of growth is probably not sustainable.



So, what are the consequences if the U.S. doesn't raise the debt limit in time (that's the real question: not whether or not they will raise the debt limit, but by when)?

1. **Higher interest rates for the U.S. debt.** Just like with individuals who borrow too much – the new loans they get are at higher interest rates because they are deemed a “risky” borrower.
2. **Eroding International Credibility.** Will other countries continue to “make loans” to us (that’s what happens when other countries buy U.S. Treasuries) – considering us a trustworthy borrower? Even now our national credit risk is looking more like an “emerging market.”



3. **Financial Sector Turmoil.** Coupled with higher Govt. interest costs, the financial markets could see that strain passed on to them. Lower investor demand could continue to depress stock market prices.

Which outcome do I think is most likely?

Simply put, I think we will see a combination of all three.

Your Maybe-Congress-Thinks-"Outstanding-Debts"-Mean-They-Are-"Fantastic",

Walt

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