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Debt Doesn’t *Diet* on Debt

$40trn and counting…

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A sharp pullback in treasury yields as the government buys back long-dated treasuries may support the illusion of a government finally beginning to prioritise fiscal responsibility — BUT (as there is always a "but") replacing these with cheaper shorter-dated issuance isn't exactly the antidote to elevated debt. While far from a default concern (reserve currency status helps), funding current growth through debt has a payback in terms of future growth, as the Japan experience amply demonstrates.

INVESTMENT IMPLICATION — The argument supporting alternative currencies (think Gold) as developed world debt continues to spiral remains the longer-term bedrock — shorter-term, lower treasury yields are the catalyst. GOLD, rather than longer-duration corporate bonds (spreads are too tight) is the preferred play!

- Congressional Budget Office (CBO) forecasts **Debt/GDP** to rise from current c123% by c10% points for each of the next 5 years (**aggregate 20% points increase in 10 years**)
- **Interest Costs**, (currently 3.3% of GDP) will rise to 4% in 5 years and 4.6% in 10 years, keeping aggregate budget deficits elevated in the 6% area. *If this isn't a debt trap, what is...*

Is there a tipping point? Yes — when marginal borrowing can't earn its cost — that is when growth tips over — watch the spread between borrowing costs (treasury yields) and nominal GDP growth rate.

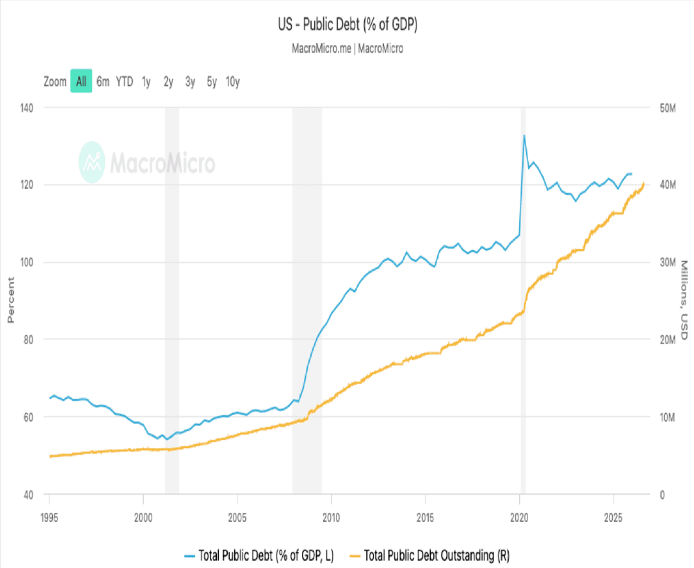
TREASURY BUYING BACK LONG-DATED TREASURY BONDS

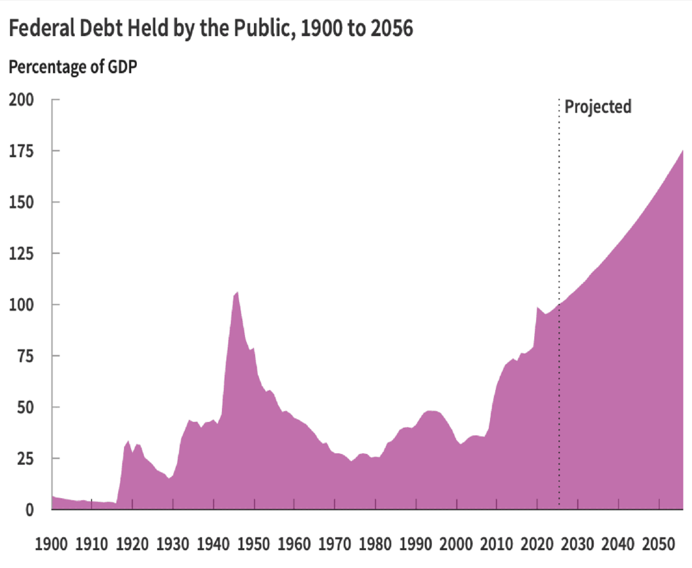
US Treasury to boost long-term bond purchases in bid to steady market

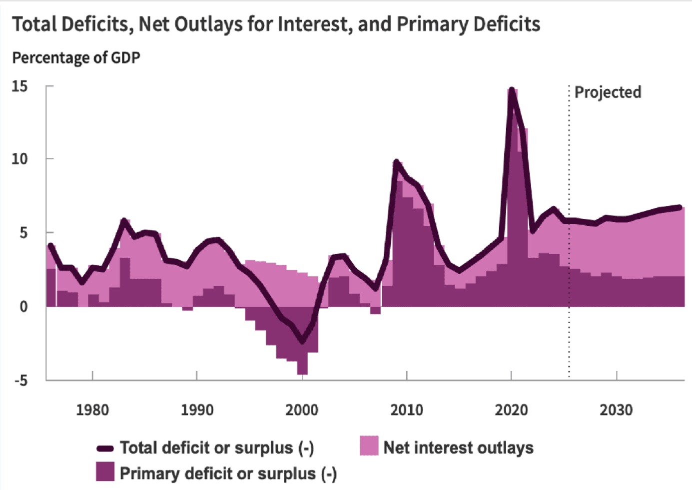
Move reflects Washington's concerns about sharp rise in borrowing costs, investors say

"Given the amount of issuance required to fund the deficit, this implies greater issuance at the short end of the curve," Murray said.

US PUBLIC DEBT — $40TRN AND COUNTING…







Source: Congressional Budget Office, Lighthouse Canton

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