



5/1/2023

FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

Debt ceiling chatter has intensified over the past few weeks as the U.S. is quickly approaching the forecasted ‘X date’ – the date on which the Treasury may not be able to pay its outstanding obligations. A situation that feels all too familiar and is once again raising questions surrounding the fiscal prospects of the United States.

For the 79th time since 1960, Congressional Leaders must vote on a proposal to either raise or suspend the debt ceiling. Initial forecasts pointed towards the X date arriving between late summer and early fall of this year. However, recent tax collection data coming in weaker than expected has pulled forecasts forward to as early as June 15th, forcing the hand of lawmakers to work on getting a proposal through the House and Senate sooner rather than later. As of this writing, a proposal to extend the borrowing limit by \$1.5T in conjunction with spending cuts over the next decade has passed through the House but is likely dead on arrival on the Senate floor in its current state. Although unlikely, failing to reach a solution before the X date could have significant financial market and economic consequences. For some, this prospect has stoked memories of 2011 when a bill wasn’t passed until the suspected X date had already reached us. Despite avoiding a technical default, the U.S. was given a long-term credit rating below AAA by S&P for the first time ever, who cited concerns about policymaking resistance and uncertainty surrounding the dynamics of our nation's debt. Interestingly, despite the perceived increase in credit risk, investors across the globe still flocked to U.S. debt during this time as the European debt crisis unfolded; U.S. Treasuries posted one of their strongest performances on record during the year.

While all of this sounds dire, I remind you that we are far from unknown territory. Despite all the brinkmanship, Congress has always raised the debt ceiling, often at the last minute, and even if the process did some damage along the way. At this point, financial markets are behaving as if this, once again, is the most likely outcome. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don’t hesitate to give our office a call.

With My Best Regards,

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