

May 24, 2023

Hi!

It is likely that you have seen stories in the financial and mainstream media about the national debt and the debt ceiling. As usual, there are plenty of predictions and strong opinions. We are here to not only manage your money, but also to keep you informed and offer perspective in the face of uncertainty. With that in mind, we offer some thoughts about these recent developments.

### **What is the debt ceiling and how did we get here?**

First, despite the word 'default' being thrown around in the media, this is not about the United States being insolvent. Neither is the status of our country. The United States has a centuries-long history of paying its bills. The debt ceiling is a government-imposed administrative matter. It was enacted in the early 1900's and required Congress to approve additional issuance of debt. Until relatively recently, this went smoothly. Since 1962, the debt ceiling has been raised or revised 78 times. Over the last 20 years the process has become more contentious. What should be a simple administrative issue has too often become a political football. This has included posturing and brinkmanship to gain a political advantage while holding the increase of the debt ceiling as a bargaining chip.

### **Has something like this happened before?**

Yes, there has regularly been debt ceiling drama. While usually settled before the actual limit was reached, some negotiations went past the deadline or had other unintended consequences. In April 2002, the government reached the debt limit. Due to political wrangling, the debt limit was not immediately raised. In June 2002, an agreement was reached, and a shutdown and default averted.

More debt ceiling drama occurred in 2011. After a prolonged and unusually ugly political battle, Congress voted to raise the debt ceiling. Just four days later, one of the "Big Three" U.S. rating agencies downgraded U.S. debt from AAA, the highest rating, to AA+, the second highest rating. The rating agency cited, in part, politician's inability to reach a timely agreement.

This caused considerable volatility in equities and howls from politicians. One might think that Treasuries would trade down in price considering the downgrade. In fact, they rose. Among other things, apparently, traders concluded that if the world was so uncertain that U.S. debt could be downgraded, they wanted to buy the safest securities: U.S. Treasuries! You can't make this stuff up.

### **So, what happens now?**

Unfortunately, this could take a while. That is the definition of brinkmanship. In the end, we hope cooler heads prevail. Even politicians likely will realize a fleeting political advantage just isn't worth the potential cost. As Winston Churchill was reported to say, "America can be counted on to do the right thing...after they have exhausted all other possibilities." Of course, we are not dismissive of this current situation. Anything that affects you and your money is of importance, and we are continuing to monitor this closely.

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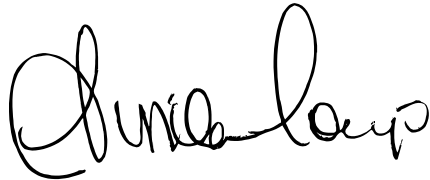
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### **You and your portfolio**

It is important to have a strategy during times like these. That is what we do here. Extrapolating worst case scenarios is not an investment strategy. It can be a recipe for magnified losses. Any alterations to the strategy and portfolio during short-term events should be weighed judiciously and with restraint. As stewards of wealth, we intend to continue to rationally and calmly evaluate the challenges and opportunities that uncertainty in the capital markets may present.

While all of this plays out, we are here for you. We stand ready to help and are willing to discuss your portfolio at your convenience. Please call with any questions or concerns you may have.

Sincerely,



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