MARKET INSIGHTS

Debt Ceiling Outlook

Meera Pandit, CFA
Global Market Strategist
May 2023

J.P.Morgan
ASSET MANAGEMENT

What is the debt ceiling?

What is the debt ceiling?

The debt ceiling, or debt limit, is the cap on how much the federal government is authorized to borrow to fund its financial obligations. It does not authorize new spending, but rather funds existing spending Congress has already agreed upon.

The current debit limit is **$31.381 trillion**, which was **reached on January 19, 2023**.

Why do we have a debt ceiling?

The debt limit was instituted in 1917. Prior to that, the Treasury had to seek permission from Congress each time it needed to issue bonds to pay its bills. The debt limit streamlined that process.

Why is this an issue now?

The debt limit was reached on January 19, 2023. However, the U.S. did not automatically default on meeting its obligations above the debt limit because it can draw on funds in the **Treasury General Account (TGA)**, the federal government's operational account at the Federal Reserve. It can also employ **"extraordinary measures"**, which essentially includes suspending investment/reinvestment in certain government pension funds for a period and making them whole once the debt ceiling issue has been resolved.

The government can meet its obligations until these two sources are depleted. The date on which funding runs out is the **"X-date"**. The current estimate for the X-date is early June, although there is considerable uncertainty around this estimate.

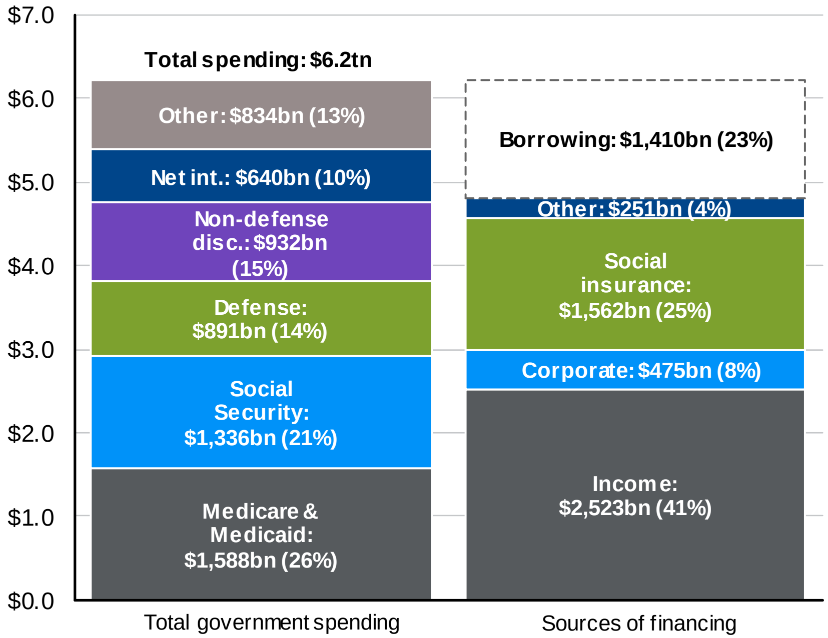
The debt ceiling can be raised or suspended, as it has 102 times since World War II, but lawmakers are currently at an impasse.

Source: CRFB, U.S. Treasury Department, J.P. Morgan Asset Management.

Deficits and debt surged during the pandemic.

The 2023 federal budget

CBO Baseline forecast, USD trillions

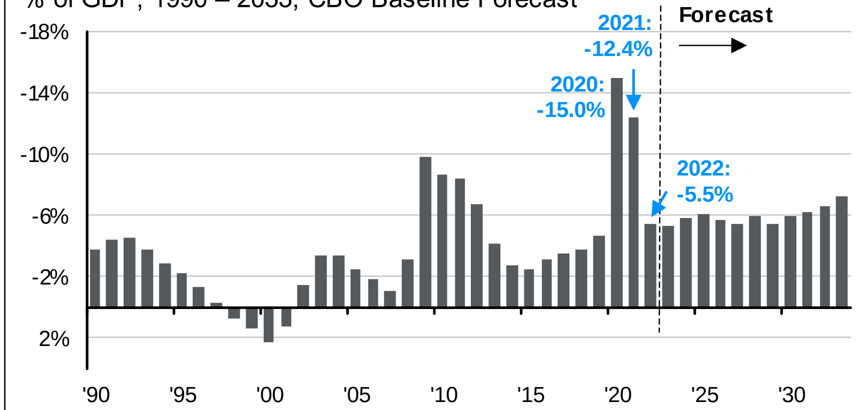


CBO's Baseline economic assumptions

	2023	'24-'25	'26-'27	'28-'33
Real GDP growth	0.3%	1.9%	2.4%	1.9%
10-year Treasury	3.8%	3.8%	3.8%	3.8%
Headline inflation (CPI)	5.7%	2.8%	2.1%	2.2%
Unemployment	4.3%	4.9%	4.5%	4.5%

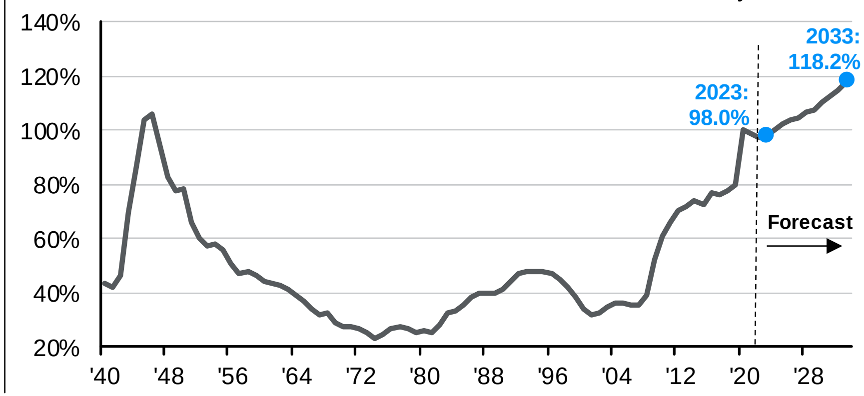
Federal budget surplus/deficit

% of GDP, 1990 – 2033, CBO Baseline Forecast



Federal net debt (accumulated deficits)

% of GDP, 1940 – 2033, CBO Baseline Forecast, end of fiscal year

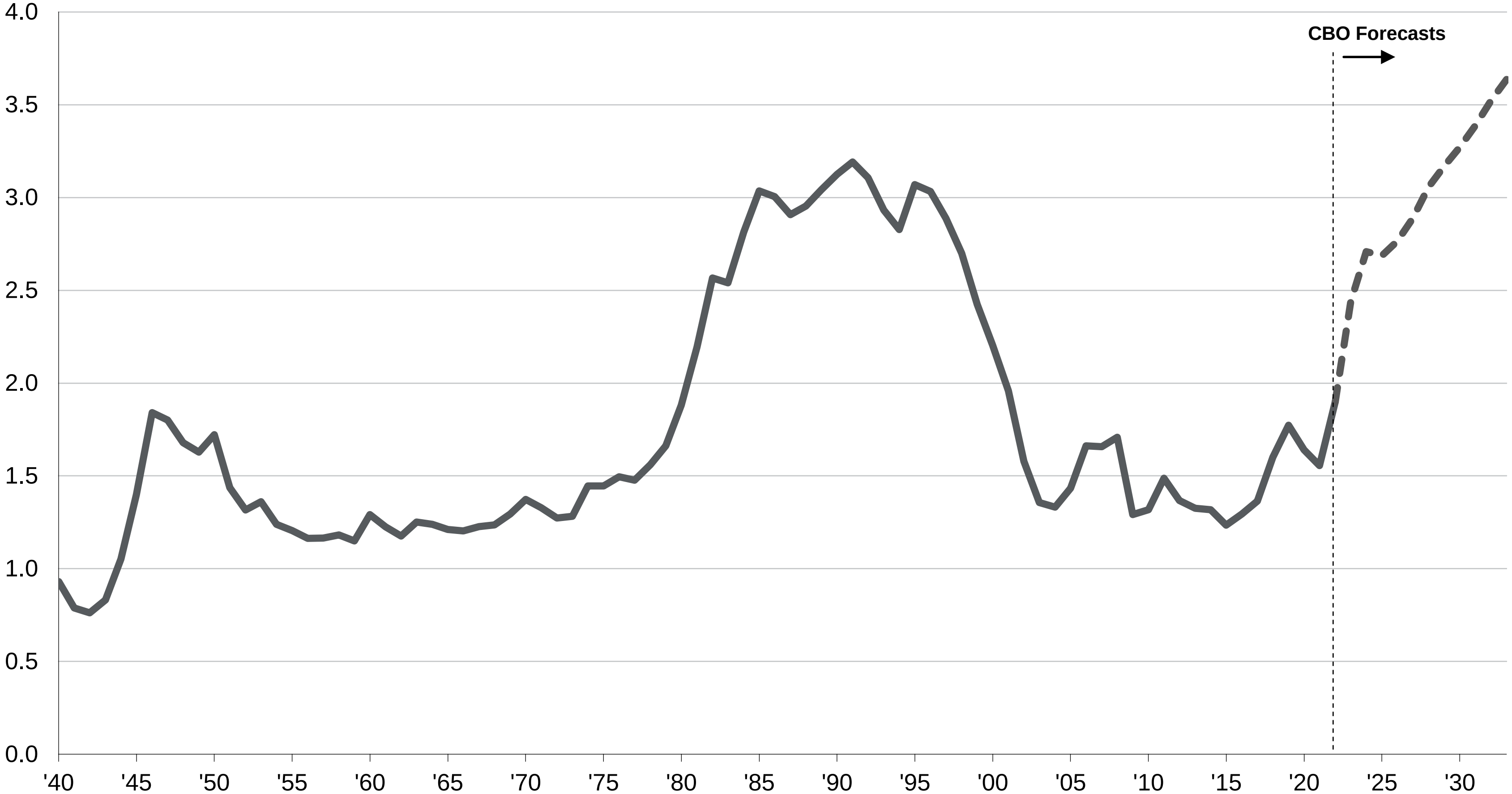


Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department.
Estimates are based on the Congressional Budget Office (CBO) February 2023 Update to the Budget and Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: Years shown are fiscal years. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of May 8, 2023.

J.P.Morgan ASSET MANAGEMENT

Interest payments on national debt are on the rise, creating greater uncertainty around available funding.

Interest payments on federal debt
% of GDP, 1940-2033, fiscal years

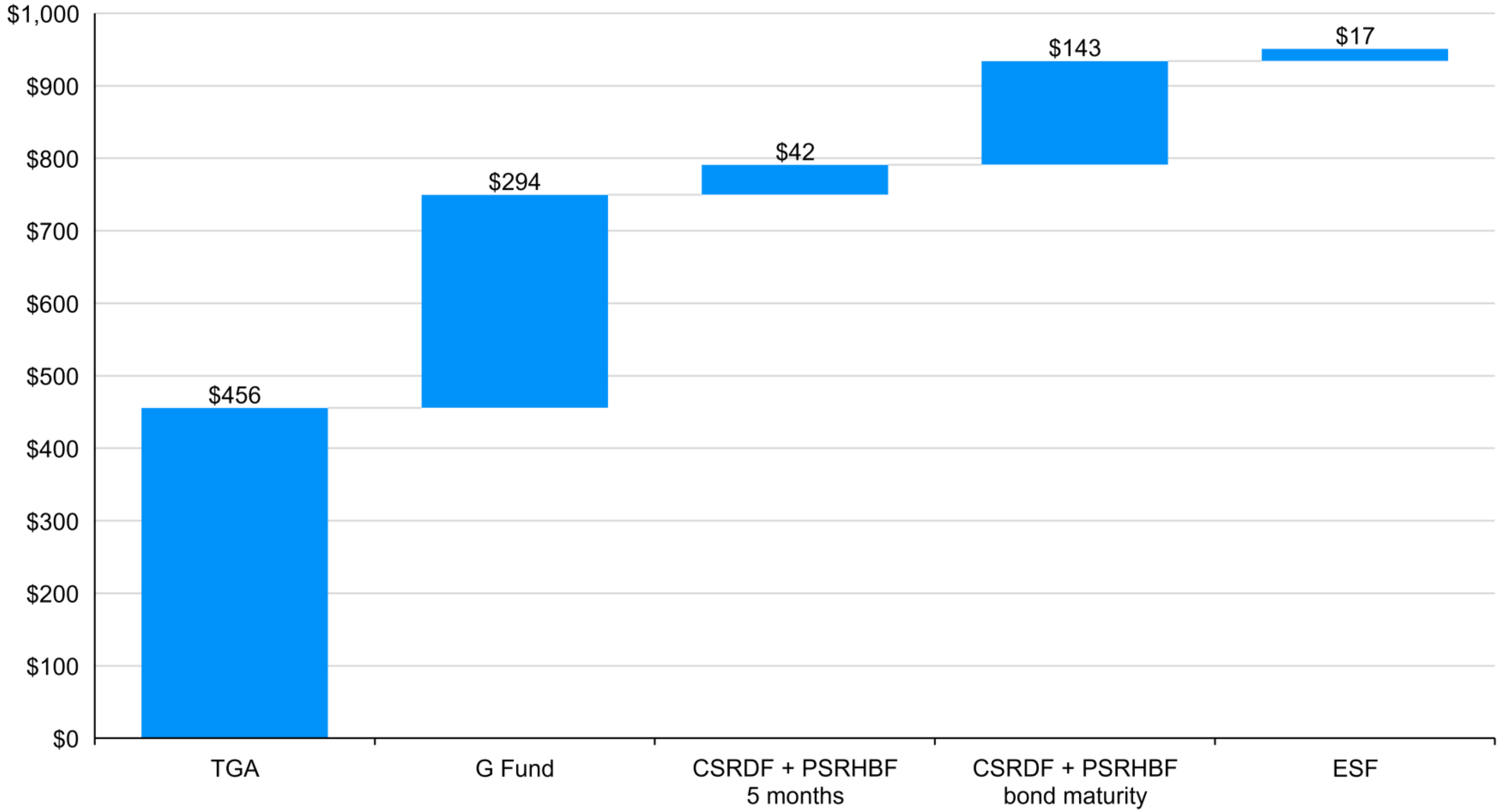


Source: Congressional Budget Office, FRED, J.P. Morgan Asset Management. Forecasts are based on the Congressional Budget Office (CBO) February 2023 Update to the Budget and Economic Outlook. Data are as of May 8, 2023.

J.P.Morgan
ASSET MANAGEMENT

Funding available has dwindled from roughly $950 billion in January to $360 billion in May…

Estimated funding available in excess of the federal debt limit as of January 19, 2023
USD billions

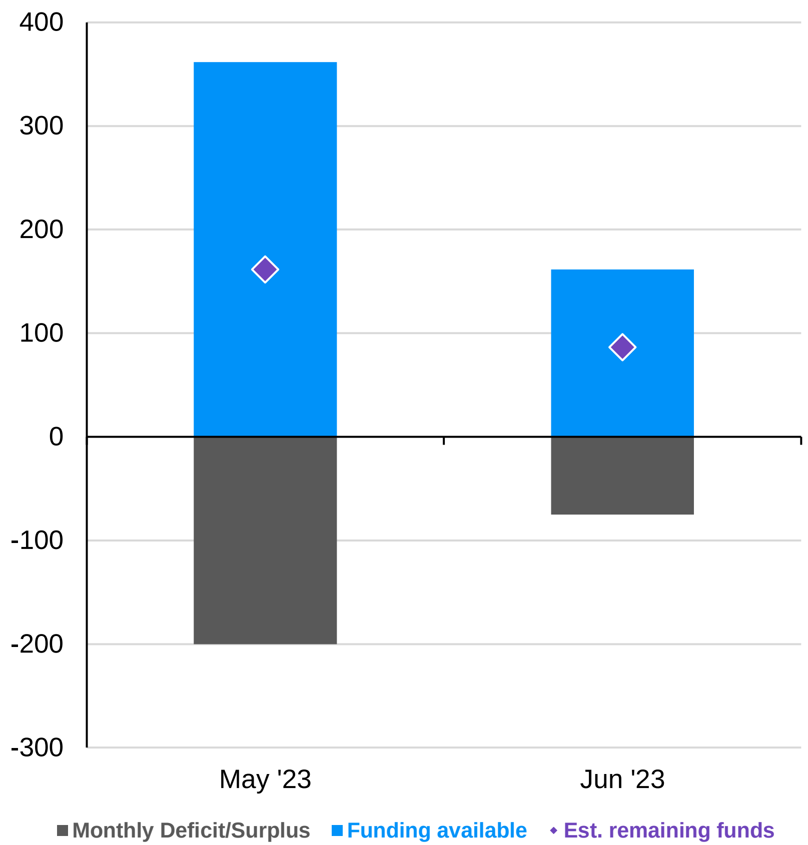


Source: U.S. Treasury, J.P. Morgan Asset Management. Treasury General Account (TGA), Government Securities Investment Fund of Federal Employees Retirement System Thrift Savings Plan (G Fund), Exchange Stabilization Fund (ESF), Civil Service Retirement and Disability Fund (CSRDF), Postal Service Retiree Health Benefits Fund (PSRHBF). Data are as of May 8, 2023.

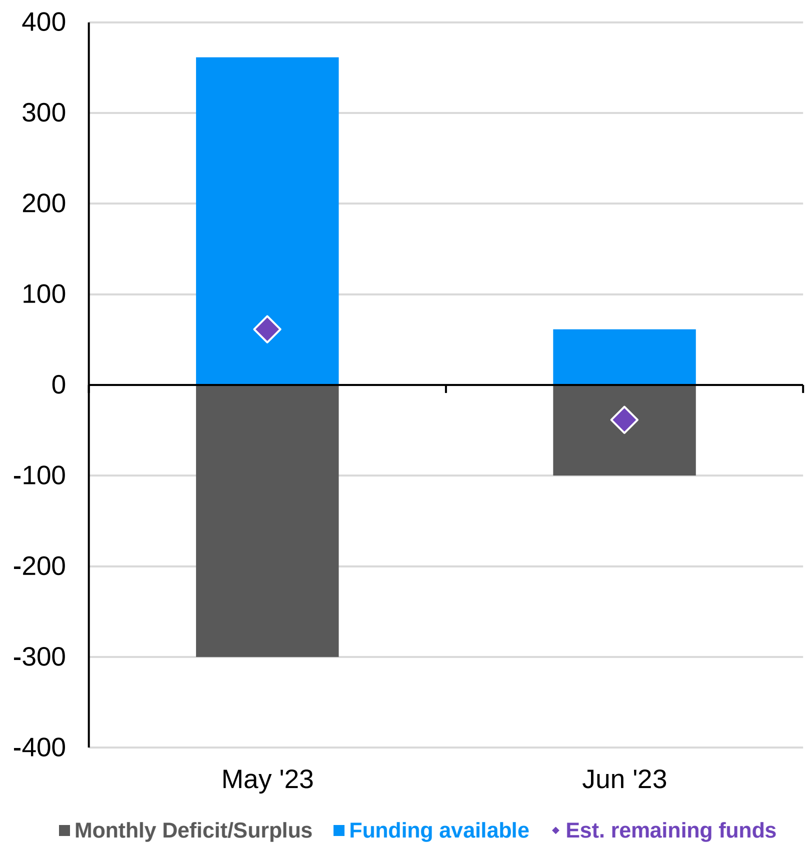
J.P.Morgan
ASSET MANAGEMENT

...which means resources could be exhausted by early June or late July.

Funding available if $200bn deficit in May and $75 billion in June
USD billions



Funding available if $300bn deficit in May and $100 billion in June
USD billions

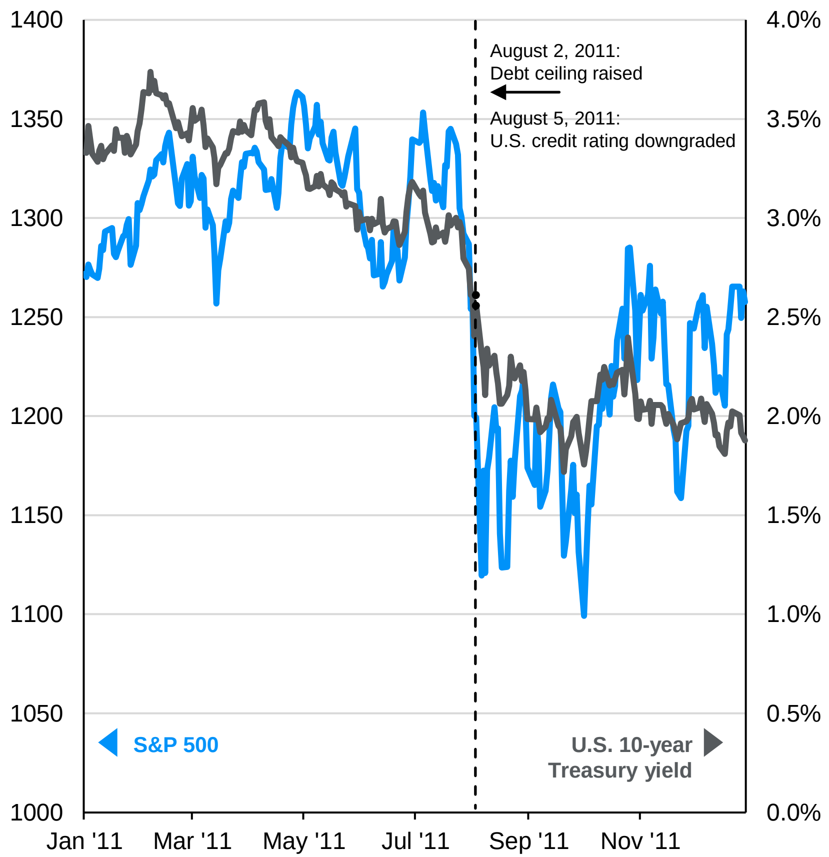


Source: Congressional Budget Office, J.P. Morgan Asset Management. Calculations are based on May statement from Congressional Budget Office. Assumes $362 billion in TGA and extraordinary measures as of April 30, $200-$300 billion deficit in May and $75-100 billion deficit in June per CBO estimates, additional $4 billion in extraordinary measures in June, and $145 billion in extraordinary measures available June 30. Data are as of May 8, 2023.

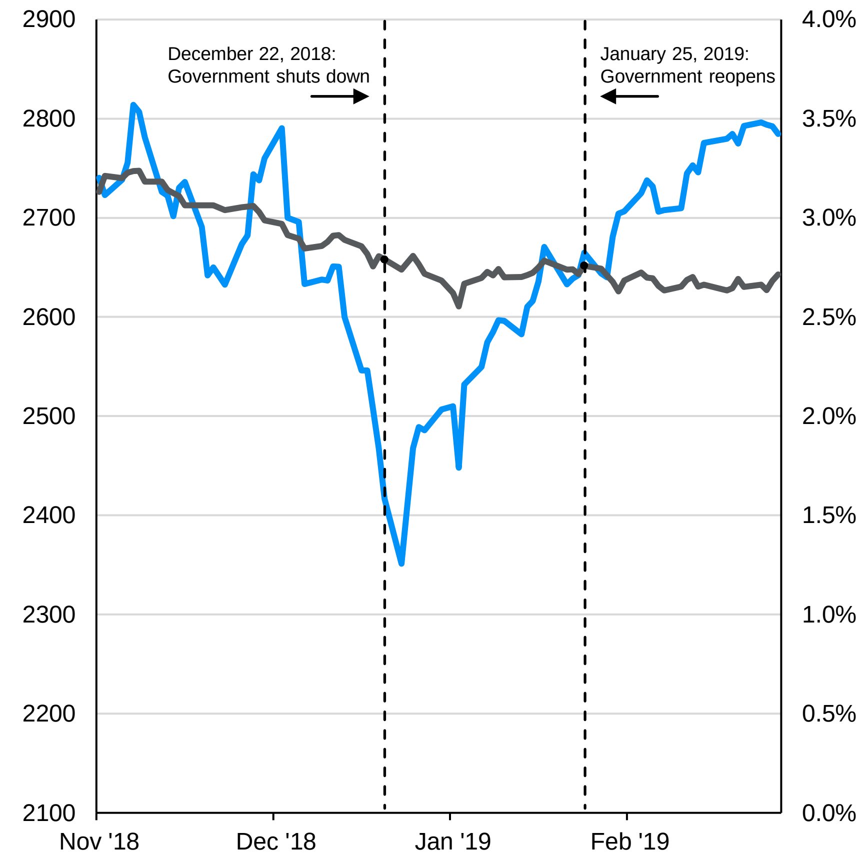
J.P.Morgan
ASSET MANAGEMENT

The impact of a default could be much more severe than a government shutdown or credit downgrade.

Market performance around U.S. credit downgrade
2011



Market performance around U.S. government shutdown
2018-2019



Source: Standard and Poor's, U.S. Treasury, J.P. Morgan Asset Management. Data are as of May 8, 2023.

J.P.Morgan
ASSET MANAGEMENT

How can the U.S. avoid default?

1. **Raise or suspend the debt ceiling.** The debt ceiling has been raised or suspended 102 times since World War II.

2. **Prioritize debt payments over other obligations.** While it is possible, it is unclear that operationally the systems and procedures in place are equipped for this.

3. **Invoke the 14th amendment.** The Public Debt Clause in the 14th amendment states, "The validity of the public debt of the United States… shall not be questioned." This is subject to legal interpretation and could get tied up in the courts.

4. **The Treasury could issue a trillion-dollar coin.** This coin could be deposited at the Fed in exchange for funds in the Treasury General Account. This has been broadly dismissed by central bankers.

Source: J.P. Morgan Economic Research, J.P. Morgan Asset Management.

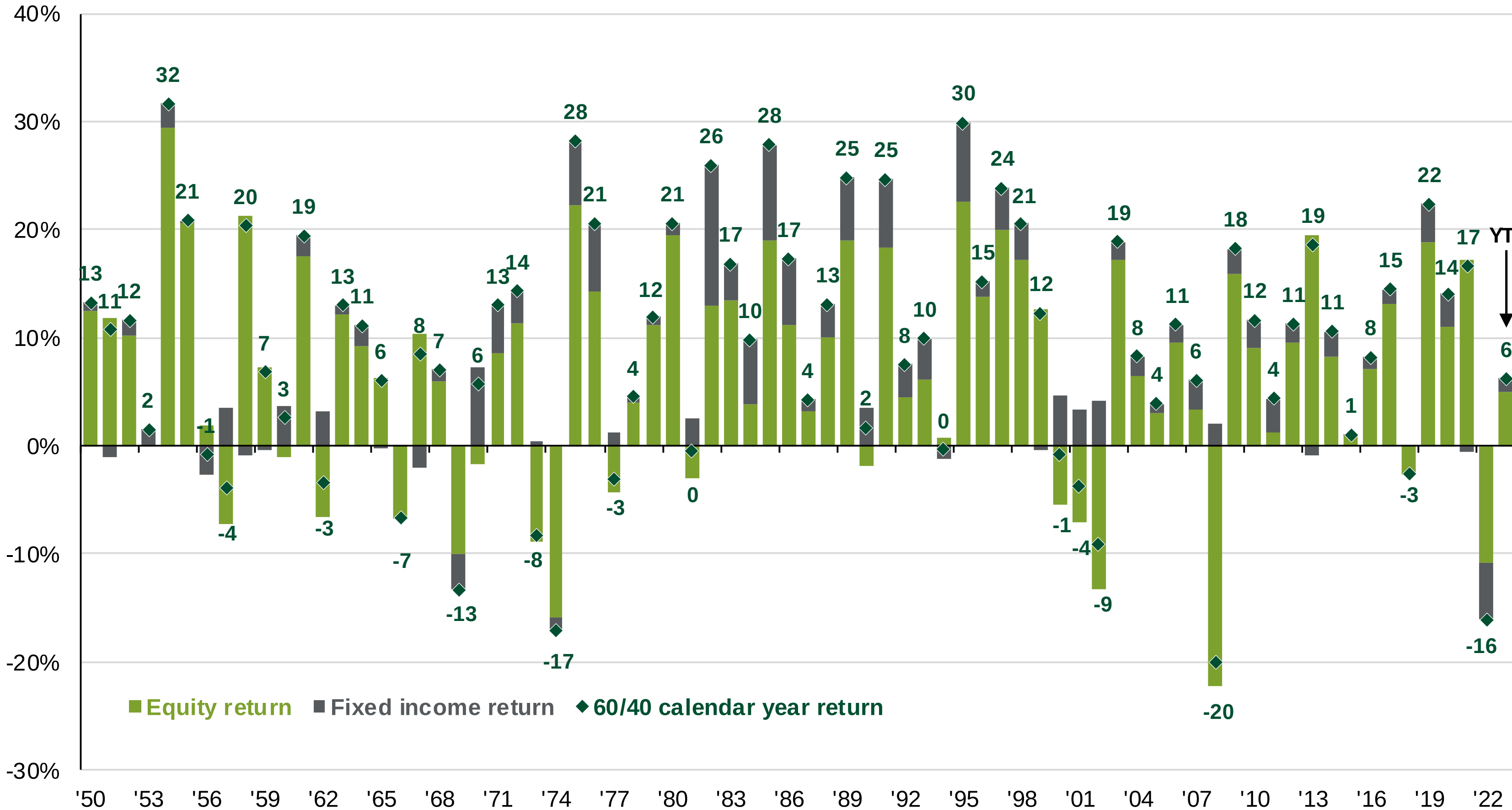
Now is the worst time to give up on diversification.

GTM | U.S. | 64

Investing Principles

60/40 annual return decomposition

Total returns, 1950 – present



Source: Bloomberg, FactSet, Ibbotson/Strategas, Robert Shiller, Standard & Poor's, Yale University, J.P. Morgan Asset Management.
The 60/40 portfolio is 60% invested in S&P 500 Total Return Index and 40% invested in Bloomberg U.S. Aggregate Total Return Index. S&P 500 returns from 1950 to 1970 are estimated using the Shiller S&P Composite. U.S. fixed income total returns from 1950 to 1975 are estimated using data from Strategas/Ibbotson. The portfolio is rebalanced annually.
Guide to the Markets – U.S. Data are as of May 8, 2023.

J.P.Morgan
ASSET MANAGEMENT

J.P. Morgan Asset Management – Risks & disclosures

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own financial professional, if any investment mentioned herein is believed to be appropriate to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at https://am.jpmorgan.com/global/privacy.

This communication is issued by the following entities:

In the United States, by J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative Asset Management, Inc., both regulated by the Securities and Exchange Commission; in Latin America, for intended recipients' use only, by local J.P. Morgan entities, as the case may be. In Canada, for institutional clients' use only, by JPMorgan Asset Management (Canada) Inc., which is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon and is also registered as an Investment Fund Manager in British Columbia, Ontario, Quebec and Newfoundland and Labrador. In the United Kingdom, by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions, by JPMorgan Asset Management (Europe) S.à r.l. In Asia Pacific ("APAC"), by the following issuing entities and in the respective jurisdictions in which they are primarily regulated: JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, each of which is regulated by the Securities and Futures Commission of Hong Kong; JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; JPMorgan Asset Management (Taiwan) Limited; JPMorgan Asset Management (Japan) Limited, which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia, to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Commonwealth), by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919). For all other markets in APAC, to intended recipients only.

For U.S. only: If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

Prepared by: Meera Pandit

092I230902163351

Unless otherwise stated, all data are as of May 8, 2023 or most recently available.

J.P.Morgan
ASSET MANAGEMENT