

WEEKLY STRATEGY Perspectives



Private Wealth

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Debt Dilemma

"To preserve our independence, we must not let our rulers load us with perpetual debt. We must make our election between economy and liberty, or profusion and servitude."

– Thomas Jefferson

The Through Line: Debt of all flavors has ballooned over the past several decades thanks to low interest rates, willing lenders and increasingly sophisticated ways to borrow. This week's piece focuses on sovereign (a.k.a. government) debt, the allure of deficit spending and why longer-term bonds don't seem all that fussed (yet) about mounting national IOUs.

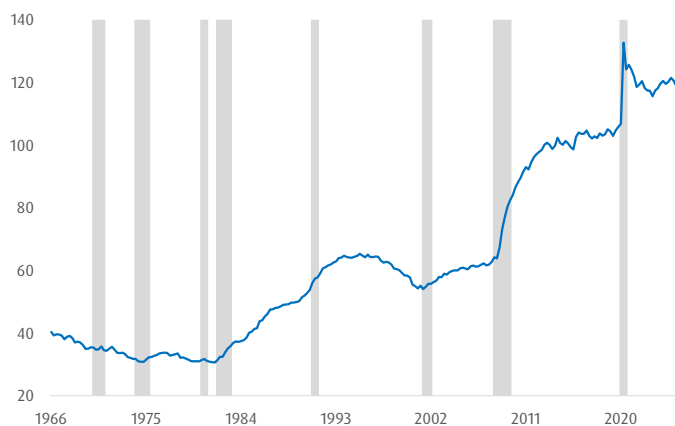
Mountains are made of mole hills

The U.S. hit an ignoble milestone last week when the total amount of sovereign *debt* (the amount amassed over the country's lifespan) hit \$38 trillion. Exacerbating the situation: in the just-completed fiscal year, the country spent \$7.01 trillion relative to \$5.23 trillion in receipts, producing a *deficit* (the annual run rate) of nearly \$2 trillion.ⁱ It's tough to whittle away at the mountain before the annual mole hill is wrestled into submission.

How did we get here? In classic economic theory, governments step up fiscal spending during recessions. They provide things like food, wage, housing and/or healthcare support in an attempt to stave off the worst impacts of a downturn and (hopefully) stimulate growth. According to the theory, extra spending can be scaled back when things have stabilized. This was largely what happened until the early 2000s. But in the two most recent recessions (the GFC and COVID), government spending ramped up mightily and never reverted (chart). At the end of 2025's second quarter, the U.S. debt-to-GDP ratio stood at 118%.

ⁱⁱ A recent IMF report suggests that the current policy trajectory could lead to an annual budget deficit-to-GDP ratio of 7% plus through 2030, potentially passing both Greece and Italy to reach the highest debt ratio in the industrialized world.ⁱⁱⁱ

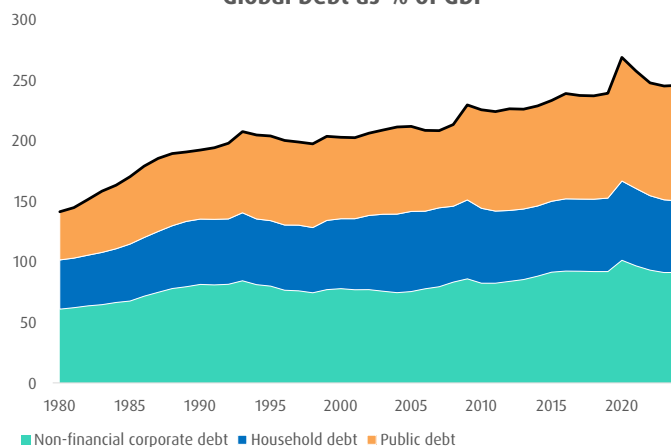
U.S. Public Debt as % of GDP



Gray bars indicate U.S. recessions.
Source: Bloomberg L.P. (2025), as of April 2025

The U.S. isn't alone in this predicament: national and provincial debts in Canada have more than doubled since 2007/2008 (the GFC). Prime Minister Mark Carney's budget next week will likely include a combination of pro-growth policies and measures to support tariff-affected industries which would expand the mismatch. Globally, according to the International Monetary Fund, total debt in 2024 (denominated in US\$) added up to 235% of worldwide GDP. Private sector debt actually dropped to the lowest level in a decade while public sector (government) debt continued to increase and stood at 40% of the total.^{iv}

Global Debt as % of GDP

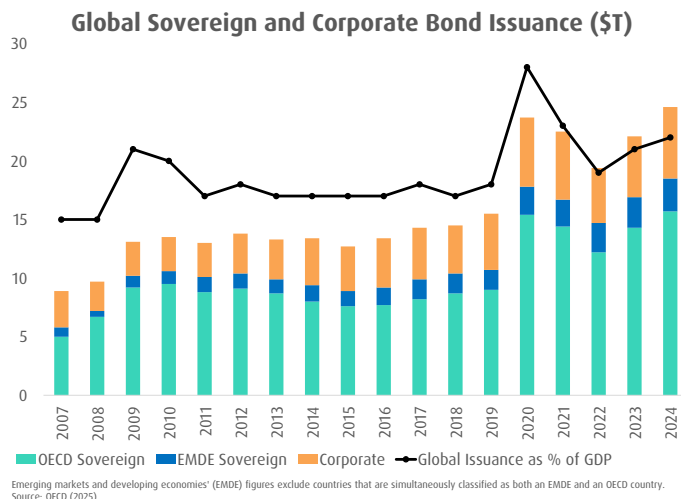


Source: International Monetary Fund (2025)

Like moths to a flame

It can be challenging for governments to resist the seductive allure of deficit spending – especially since the basic equation is elected officials doing the giving and important voting blocs doing the receiving. Current case in point: Democrats in the U.S. are refusing support for a continuing resolution to reopen the government largely because they want the bill to include an extension of expiring tax credits that make health insurance cheaper for millions of Americans.

Many government expenditures relate to social programs, particularly entitlements such as medical care and pensions (social security) for aging populations. When these programs were set up decades ago, life spans were substantially shorter and families were bigger – leading to a better balance of receipts and outflows. Aging populations, restricted immigration and falling birth rates mean complicated choices for elected officials: raise retirement ages, cut benefits, or raise taxes. The electorally palatable answer has been “none of the above” for many developed economies, so they issued more debt.



Oh debt, where is your sting?

Unlike households or private companies (where spending \$7 for every \$5 earned wouldn't be a viable long-term plan), governments can get away with deficit spending if investors continue to purchase their IOUs (bonds). This is where the U.S. Treasury market – the largest, deepest and most regulated security market on the planet – has had a distinct advantage since WWII. U.S. Treasury debt is held broadly by institutional and individual investors and is often relied upon for steady portfolio ballast when market turbulence occurs. This longstanding positioning was called into question during the early April tariff turmoil, when bonds sold off and longer-dated yields rose, but has since reasserted itself.

Angst has mounted in recent months (at least among the media and many strategists) that global sovereign debt levels may be getting too high, particularly against what is presumed to be a more moderate growth and sticky inflation backdrop. Yet intermediate and longer bond yields have moved *down* markedly from early April. Why don't bond investors seem to care? Or alternatively, what potential scenario do they assume those same strategists are missing? We submit a handful of theories:

- **Changed funding mix** – Treasury Secretary Scott Bessent has noted his intent to keep the government's funding needs positioned in shorter-term maturities, at least until rates come down substantially. Then, too, the government is counting on tariff revenue to boost income without having to tap the debt markets. A key unknown here is the extent to which an increase in issuance of T-bills might pressure rates. For example, what would happen if a big uptick was needed to back stablecoin issuance required under the GENIUS Act? (see [WSP - Stablecoin: store of value, transaction token or hedge against the unknown?](#)) A Federal Reserve that continues to cut rates could help keep that issue at bay.

- **Investors seeking higher yields** – by buying longer-dated bonds – as Fed and Bank of Canada cuts push short rates down.
- **Crying wolf for too long (simple inertia)** – behavioral economists tell us we are wired to place more credence on recent experience. Investors have been shrugging off rising sovereign debt levels for decades. Like many “in plain sight” issues, it won't be an issue until it becomes one – which could happen suddenly. The U.S. housing bubble that triggered the GFC was ballooning for years before it finally burst in 2008.
- **Continued positive capital flows** – despite concerns about capital leaving the U.S., the record financial surplus account (net inflows into the U.S.) tells a different story and is likely helping to keep bond yields under control.
- **Expectations for moderating economic growth** – perhaps investors are assuming that a softening labor market and sticky inflation will slow economic growth when trade relationships and supply chains get reworked. The ongoing U.S. government shutdown could exacerbate and prompt more overt Fed easing.
- **Deflationary impact of AI** – is helping anchor inflation expectations at more subdued levels.
- **Solid fundamental underpinnings** – the U.S. remains an engine of growth bolstered by strong consumption. This would partially explain why the U.S. continues to benefit from a high credit rating that supports continued demand.

Implications for investors

The bond vigilantes have been known to remind investors of rising policy risks – demanding higher yields for intermediate and longer-term auctions, for example, when new leaders have suggested cutting taxes and/or increasing spending too substantially. Still, they have been patient and the inertia factor seems well entrenched. After decades of super low (or even below zero) interest rates, memories are vague about 1970s-type inflationary ravages. While the risks exist, we do not believe rising debt would lead to similar market reaction.

Market response to changes in bond issuance schedules and auction results tend to be short term in nature and no real impact of rising U.S. or Canadian deficit/debt has been reflected yet. Nonetheless, similar to inflation, investors cannot ignore the rising domestic and global debt levels and government over-reliance on aggressive fiscal policies in the evolving global trade environment. **Over time, bond yields and the yield curves will reflect the new reality, but the timing and expected impact are very difficult to forecast. Bonds continue to play an important role in portfolios, providing conservative income and ballast against shocks.** Overall, yields remain attractive. However, if the U.S. and other governments continue on current fiscal trajectories, longer-dated bonds may or may not prove to be adequate compensation for the additional policy risk involved in long holding periods.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

U.S. government shutdown continues – If it goes past next Wednesday, the shutdown will surpass the 35-day record set during President Trump's first term. *The Congressional Budget Office estimates the U.S. economy has already lost between \$7 billion and \$14 billion in real GDP that will not be recovered.* Democrats continue to demand an extension of Affordable Care Act (ACA) subsidies, while Republicans insist the issue can be resolved after the passage of a continuing resolution to fund the government. President Trump is in Asia this week, so substantive discussions are on hold. About 750,000 federal workers have been furloughed; the Office of Management and Budget has argued these employees should not receive back pay. An additional 730,000 federal employees are working without pay. The Trump administration was able to cover October 15 paychecks for members of the Armed Services by reallocating funds but that will be more difficult by November 1 as those monies dry up. The Bipartisan Policy Center estimates a shutdown extending through Thanksgiving could result in roughly \$21 billion in missed wages. Roughly 42 million SNAP recipients and 6.6 million WIC participants are expected to lose benefits starting November 1. Nationwide ACA enrollment kicks off this weekend, and if subsidies are not renewed, more than 24 million Americans could see a sharp increase in healthcare costs. The Kaiser Family Foundation projects that if subsidies are not extended, average net premiums could more than double, which could significantly thin the ranks of policyholders. Democrats hope higher healthcare costs will force the Republicans' hand. Essential workers are now seeing zeros on their paychecks. The temptation to use sick days will grow, setting the stage for increased service disruptions. During President Trump's first term, chaos at U.S. airports from air-traffic-controller sickouts was the catalyst that ended the 35-day budget standoff.

U.S. Federal Reserve cuts key policy rate – The Federal Reserve Open Market Committee (FOMC) elected to cut the federal funds rate by 25 basis points, as anticipated, upon wrapping its meeting on Wednesday. Coming into decision day, investors had placed the odds of a follow-up December rate cut at 99.5%. Fed Chair Jerome Powell threw a bit of cold water on that idea during the press conference, however, saying a December cut was far from a foregone conclusion. Risks to inflation remain tilted to the upside, while labor-market risks are tilted to the downside. These opposing forces create a challenging situation for a Fed armed with a single policy tool. As the two-sided risks in the Fed's dual mandate have become more balanced, the FOMC has sought to lower policy rates toward a more neutral level. After 150 basis points of rate cuts, there is a growing chorus among committee members who believe it is now time to step back, making it increasingly difficult to find consensus moving forward. Reduced data availability due to the government shutdown may be another factor cited by those advocating for a pause. On a positive note, Chair Powell

said inflation risks have declined significantly since April, and he attributes much of the slowing in hiring to an immigration-policy-induced reduction in labor supply rather than a true weakness in demand. Equity markets trended lower during Mr. Powell's press conference but closed above session lows.

Bank of Canada lowers rates – The BoC made a widely expected 25 basis point cut to 2.25% in its overnight lending rate, keeping an eye on still-elevated uncertainty and downside risk stemming from the trade war. That's likely it for now, re BoC easing. The central bank appears to believe that the easing to date will offer support. It expects inflation to stay close to its 2% target. In this unique economic environment the usefulness of monetary policy is somewhat limited. That said, BMO Economics believes that ongoing softness in the job market leaves the door open for some further support, and another rate cut of 25 basis points is still on the table for early 2026.

Robust Canadian retail sales – Retail sales rose 1.0% in August; most sectors posted increases. Meanwhile, the flash estimate for September points to a 0.7% drop, which could look even softer in volume terms since goods prices jumped in the month. Despite a decent August report, the disappointing September flash highlights the underlying weakness in Canadian retail spending. The BMO Business Activity Index (BAI) rose 0.4% in September, marking a modest acceleration in underlying business conditions after a flat August. This was the fourth increase in five months, reversing a string of declines earlier in the trade war. The index is up 2.2% from year-ago levels, pointing to a gradual recovery in economic activity.

Next week

As of this writing, the U.S. government is STILL closed with both sides STILL firmly dug in. This will continue to delay or cancel the release of key data. Key purchasing manager surveys are released in both countries and Canadian Prime Minister Carney reveals budget plans.

Monday 11/3 – U.S. S&P Manufacturing PMI and ISM manufacturing | Canada S&P Global Manufacturing PMI, 2025/26 Federal Budget

Tuesday 11/4 – U.S. trade deficit, factory orders, job openings

Wednesday 11/5 – U.S. Supreme Court hears testimony in the Trump administration's IEEPA tariffs case, ADP employment, S&P services PMI, ISM Services | Canada S&P Global composite and services PMI

Thursday 11/6 – U.S. Initial jobless claims, productivity, Wholesale inventories

Friday 11/7 – U.S. non-farm payrolls report, Consumer Sentiment | Canada unemployment reports

Data scorecard as of October 29, 2025

Equity Market Total Returns						
	10/29/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,891	1.5%	18.4%	25.0%	26.3%	-18.1%
NASDAQ	23,958	3.3%	24.7%	29.6%	44.7%	-32.5%
DOW	47,632	0.9%	13.5%	15.0%	16.2%	-6.9%
Russell 2000	2,485	-1.1%	12.6%	11.5%	16.9%	-20.5%
S&P/TSX	30,145	-0.6%	24.6%	21.7%	11.8%	-5.8%
MSCI EAFE	10,349	0.7%	28.1%	3.8%	18.2%	-14.5%
MSCI EM	771	2.0%	34.3%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		-0.3%	7.0%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		-0.3%	6.2%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		-0.3%	7.9%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.2%	7.7%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	4.7%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.2%	3.2%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		-0.3%	2.5%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		-0.1%	4.6%	6.9%	8.2%	-9.5%
Government Bond Yields						
	10/29/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.08%	4.15%	4.15%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.16%	3.18%	3.18%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.39%	4.70%	4.70%	4.56%	3.53%	3.66%
German 10-Year Bund	2.62%	2.71%	2.71%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.65%	1.64%	1.64%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	10/29/2025 Level	WTD	YTD	2024	2023	2022
USD Index	99.22	0.3%	-8.5%	7.1%	-2.1%	8.2%
CAD:USD	\$0.72	0.4%	3.2%	-7.9%	2.3%	-6.7%
Bitcoin	\$111,451.31	0.5%	18.9%	120.5%	157.0%	-64.3%
Gold	\$3,930.07	-4.4%	49.7%	27.2%	13.1%	-0.3%
Oil (WTI)	\$60.48	-1.7%	-15.7%	0.1%	-10.7%	6.7%

*Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average ("DOW") is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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ⁱ America's Finance Guide | U.S. Treasury Fiscal Data

ⁱⁱ Federal Debt: Total Public Debt as Percent of Gross Domestic Product (GFDEGDQ188S) | FRED | St. Louis Fed

ⁱⁱⁱ US debt set to soar above Italy and Greece after Trump's 'big, beautiful bill' | US economy | The Guardian

^{iv} Global Debt Remains Above 235% of World GDP