When 2023 kicked off, there were two storylines every economist, analyst, and financial advisor were keeping an eye on. Two potential crises that could upend the markets.

We're referring, of course, to the debt ceiling and the possibility of a recession.

Today, six months later, we're thrilled to announce that the first potential crisis has been resolved. There's good news on the second one as well!

Good news. That's a wonderful phrase to hear, isn't it?

Let's start with the debt ceiling. After weeks of negotiations, President Biden and House Speaker Kevin McCarthy struck a deal to suspend the debt ceiling until January 1, 2025. That removes the possibility of the U.S. defaulting on its debt obligations, which would certainly have triggered a massive recession.

Quick recap in case you haven't been following this story very closely. The debt ceiling is "the total amount of money that the United States government is authorized to *borrow* to meet its existing legal obligations."[1] What are these obligations? Think Social Security and Medicare benefits. Military salaries. Tax refunds and interest payments on Treasury bonds.

The debt ceiling, then, is the limit to what the government can borrow to pay back *what it has already spent.* (Or is legally obligated to spend.)

Normally, raising the debt ceiling requires a simple act of Congress. Some years, however, politicians disagree on whether the ceiling *should* be raised without a simultaneous decrease in spending or other appropriations. When this happens, we get a **debt ceiling crisis**, where the nation comes close to defaulting on its debts.

In this case, Janet Yellen, the Secretary of the Treasury, predicted that the U.S. would default sometime in June if the debt ceiling wasn't raised. With that deadline in mind, the President and the Speaker reached an agreement on May 28. A few days later, Congress approved the deal.

Here's a brief look at what's in the deal. First, and most importantly, is the aforementioned suspension of the debt ceiling. Rather than *raising* the ceiling to a new number, Washington has negated the idea of a debt limit altogether for the next eighteen months. This means the government can borrow *above* the current limit in order to meet its existing obligations.

In return, both sides of the political aisle have agreed to cap future domestic spending to 1% through the 2025 fiscal year.[2] Given that this number is lower than inflation, this effectively amounts to a spending cut. The deal also ends the White House's pause on student loan payments, while adding new work requirements for Americans who qualify for food stamps and other government assistance.

For the economy, however, the deal is less important for what it does than for what it *prevents*.

If the U.S. had breached the ceiling and defaulted on its debt payments, the economic impact would have been severe. Seniors would have stopped receiving Social Security payments, or at least experienced delays. Child Tax Credit payments, paychecks for federal employees, veterans' benefits, Medicare benefits…all would have been either curtailed or delayed.

Less gut-wrenching on a human level, but equally impactful financially, is what a default would have meant for the bond market. In a default, bondholders would no longer have been paid. The value of their bonds would have plummeted. This would have led to dramatically higher interest rates on any new debt issued in the future – which in turn would mean higher rates for *everyone*. Given that rates are already higher than they've been in years, this would have likely plunged the economy into a deep recession. And since Treasury bonds are historically the most stable investment in the world, it would probably have disrupted international bond markets, too. The result? A *global* recession.

Thankfully, the debt ceiling deal prevented this crisis from unfolding. And while politicians on both sides of the aisle are reportedly unhappy with some aspects of the bill, the risk of default was simply too great.

But this wasn't the only bit of good news in the past week! We mentioned earlier that there was a second storyline to keep an eye on in 2023: The possibility of a recession.

As you know, the Federal Reserve has been steadily raising interest rates to bring down inflation. At the start of the year, many economists predicted these rate hikes would lead to mass layoffs and lower consumer spending. The two main causes, in other words, of most recessions.

Thus far, however, neither of those things has come to pass. Consumer spending actually rose by 0.8% in April, up from lower increases in February and March.[3] The labor market, meanwhile, has proven incredibly resilient. The most recent report indicated the economy *added* 339,000 new jobs in May.[4] That's far more than experts predicted. It's also greater than any single month in 2019, the last year before the pandemic! The report revised the numbers for March and April, too, with both months bringing more job growth than initially thought.

The upshot of all this is that the economy is doing far better than forecasters expected. Does it mean a recession is off the table? No. But it does mean a recession isn't a certainty this year, either.

That, is what we call good news.

Now, to be clear, this doesn't mean market volatility is over, or that hard times aren't ahead. For one thing, inflation is proving stubborn, too. The Federal Reserve may have more interest rate hikes in store. This could bring renewed uncertainty to the markets in the short term. In the long term, it could still tip the economy into a recession. And despite the strong jobs report, the unemployment rate *is* still technically on the rise.

So, as investors, we must continue to be cautious. As *your* financial advisors, we'll still keep our eye on the markets every day, passing along what we think you need to know.

In the meantime, though, it's perfectly okay to celebrate good news! And it's also perfectly okay for *you* to "unplug" for a while if that's what you want. Savor the summer months. Spend time with family. Work on your golf swing. Take that road trip you've been dreaming of, or just relax in a hammock with a nice, cold glass of lemonade. Our team will keep our eyes on the road ahead so *you* can enjoy the view out the passenger window.

As always, please don't hesitate to reach out if you have any questions. Our door is always open!

Sincerely,

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[1] "Debt Limit," *U.S. Department of the Treasury,* https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/debt-limit

[2] "Here's what's in the debt ceiling package," *CNN,* June 2, 2023. https://www.cnn.com/2023/05/30/politics/whats-in-the-debt-ceiling-deal/index.html

[3] "U.S. Consumer Spending Jumped in April," *The Wall Street Journal,* May 26, 2023. https://www.wsj.com/articles/consumer-spending-personal-income-april-2023-b1b57c31

[4] "The US economy added 339,000 jobs last month," *CNN Business,* June 2, 2023.
https://www.cnn.com/2023/06/02/economy/may-jobs-report-final/index.html

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