Debt Ceiling Debate

Stock markets do not like uncertainty, and even before the debt ceiling debate, the stock markets were already experiencing market volatility with bank failures, inflation, and the possibility of a mild recession. Unfortunately, politicians are adding to the volatility. However, we can find comfort in history, knowing this debate has happened before, and the government reached an agreement and avoided default.

The most recent debate on whether or not to raise the debt ceiling occurred in 2013 when the government shut down for 16 days. Before that, in 2011, a compromise was reached at the 11th hour, causing the United States' credit rating to be downgraded from AAA to AA+. Yet, the markets survived the government shutdown and the downgrade. In both instances, the stock market reached new highs in the following 12 months and over the last 12 years despite two bear markets.

Ultimately, the parties will compromise since neither party benefits from a default. If a default should happen, politicians would likely find an agreement quickly since they tend to be reactive versus proactive. The economic results of the default are likely to be short-lived, except for the credit rating being downgraded yet again. Once an agreement is reached, the markets should react favorably to the news.

As usual, I recommend staying the course and reducing your exposure to the 24-hour news cycle. Finally, remember you are not alone in weathering this latest uncertainty.

Kind regards,
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