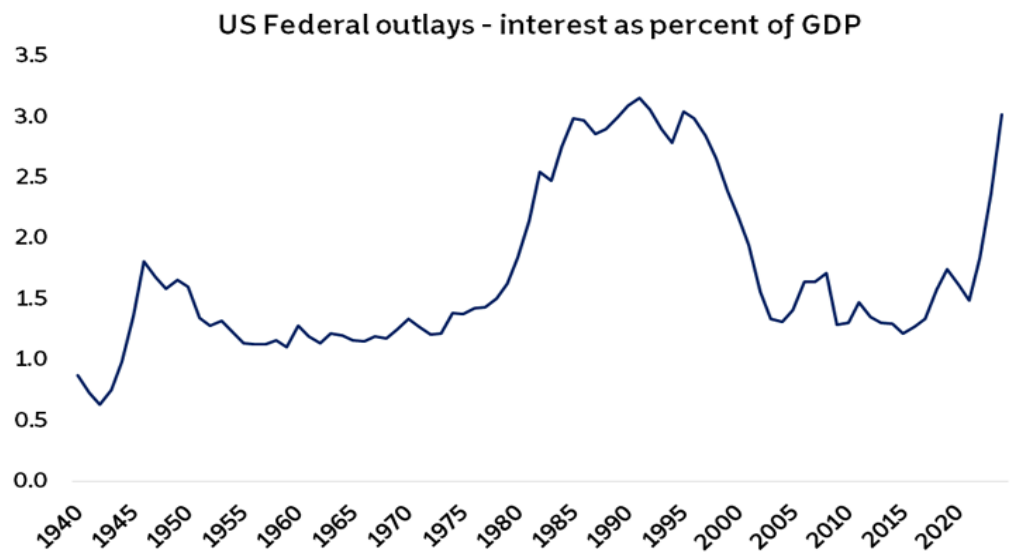


## Debt of a nation

By Tom Delic

Chart of the Week



Source: Momentum Global Investment Management, Bloomberg Finance L.P., data to end 2024

### What this chart shows

The chart shows an 85-year history of US federal outlays on interest payments, as a percentage of US GDP. This is forecast to rise to its highest level over the period, while accelerating to above 4% by 2035<sup>1</sup>. This rapid increase in recent years has occurred due to an unsustainable trajectory of debt issuance and the normalisation of interest rates.

The increase is both startling and concerning when compared to the last peak in 1991. The preceding decade to 1991 saw an average 10-year US Treasury yield of 9.7%, an expensive time to issue debt. This compares to just 2.5% in the decade to the end of 2024, a period of tremendous lender generosity in the era of zero interest rates. While yields fell in the years following 1991, making the refinancing and issuance of debt more manageable for the US, it is unlikely we will see history repeat. A back of the envelope calculation shows that the refinancing of debt due to roll off over the next 5 years adds a further 0.5% of today's GDP to the yearly interest bill.

### Why this is important

The concern surrounding the rising debt burden in the US is mounting, with the final major credit rating agency, Moody's, downgrading the US to below AAA in recent weeks. The current administration's appetite for debt shows no sign of abating, an unsurprising characteristic given the Commander-in-Chief's business record. "Yippy" bond markets have already forced President Trump to backtrack on his aggressive protectionist policies, and the bond vigilantes may return to warn the US government again – a shaky fiscal position will cost you.

Further, a recent paper by historian Niall Ferguson used events of the past to highlight the dangers of a high interest burden. In 2024, debt service costs outstripped defence spending for the first time in a century, a leading indicator that Ferguson finds in his paper, if remaining intact for an extended period, has been predictive of the decline of history's great global power.

Source: <sup>1</sup> Congressional Budget Office – 'The Budget and Economic Outlook: 2025 to 2035'



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