Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

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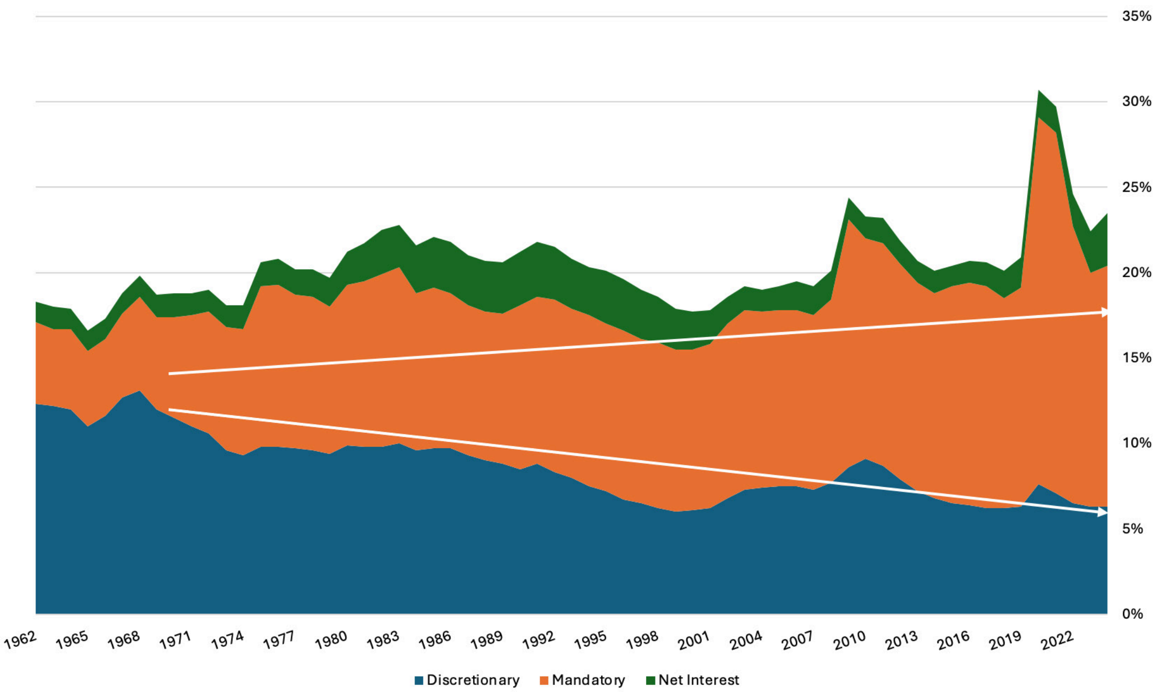
## Deficits Without End

- This month's chart offers a historical lens on the U.S. federal budget, illustrating the evolving composition of spending categories—**Mandatory, Discretionary,** and **Net Interest**—as percentages of Gross Domestic Product (GDP). This perspective provides context for current budget negotiations and fiscal policy discussions.
- According to the Congressional Budget Office, 10-year deficit projections increased by 80% during the Biden administration; they captioned it as "Biden's Four Years of Fiscal Failure." The leadership in Washington has decided that it wasn't enough, introducing what some are calling a *big, beautiful deficit*.
- The recently passed House reconciliation budget package is estimated to increase the deficit by an additional 15-24%, and under their plan, U.S. debt is expected to nearly double over the next 10 years. Investor concerns about escalating deficits and rising debt burdens are manifesting in higher interest rates and a weakening dollar.
- Discretionary spending's share of the economy has been declining and is the primary focus of DOGE's efforts to streamline expenditures. We believe discretionary spending is likely to continue to shrink as a percentage of GDP.
- Mandatory spending has grown significantly, driven by demographic shifts, rising healthcare costs, and legislative expansions. In the proposed House budget bill, approximately two-thirds of the spending cuts target Medicaid. However, the Senate's acceptance of these cuts remains uncertain due to potential voter backlash. Nonetheless, meaningful progress in addressing budgetary concerns is likely to necessitate reductions in mandatory spending.
- Net interest is becoming a significant portion of our budget and is projected to continue growing due to higher debt levels and interest rates. Currently, the average interest rate on federal debt remains below prevailing Treasury yields across all maturities.
- We believe that our fiscal path is unsustainable, but the legislative will to address it appears absent. Failure to do so may lead to even more elevated borrowing costs, make it difficult for the Fed to cut interest rates, reduce fiscal flexibility during crises, suppress private investment, and slow economic growth.

## Federal Outlays % of GDP




*Source: Bloomberg. Annual data from fiscal years 1962 through 2024.*

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