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To the point!

Cross-Asset- and Strategy-Research

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

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America's debt binge

How long can the U.S. deficit party go on?

Never before has a government, in what until a few weeks ago still passed for peacetime, piled up as much debt as the U.S. The deficit is just under 7% of GDP, and the independent Congressional Budget Office projects that the debt ratio will climb from a little above 120% of GDP today to 150% within the next ten years (see fig. 1). And what is Trump doing? He is cutting taxes on a (of course) ["historic" scale](#) and wants to raise defense spending by another 20% – even though it already stands at a hefty 3% of GDP this year.

Trump is not the first to pursue questionable fiscal policy. The last president to act in a fiscally responsible way was Bill Clinton, more than a quarter of a century ago. Since then, Democratic presidents have tended to raise spending, while Republicans have focused on tax cuts, in the unshakeable but still erroneous belief that lower rates will boost the economy so much that revenues rise despite the cuts.

Worse is yet to come

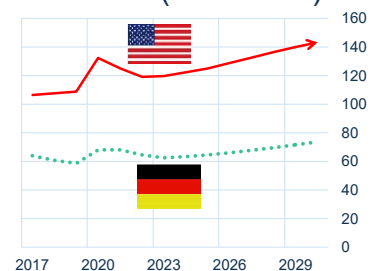
Deepening political polarization is pushing a cross-party deal on fiscal consolidation ever further out of reach. On his Truth Social platform, Trump recently declared: "Now with the death of Iran, the greatest enemy America has is the Radical Left, Highly Incompetent, Democrat Party"!

And the pressure from debt will continue to build. Rising interest costs and steadily increasing spending on an aging population are pushing the deficit higher. Rating agency S&P Global estimates that the gross debt ratio will climb to well over 230% of GDP by 2060.

Can that really happen? I am skeptical. Sooner or later, creditors will walk away. As the issuer of the world's reserve currency,

Fiscal indiscipline as an American tradition

Fig. 1: General government debt (% of GDP)



Source: IMF, LBBW Research

however, the U.S. can get away with far more grievous fiscal sins than – say – Kenya or Iceland. A currency is like a rubber band. The exorbitant privilege of the U.S. dollar means that its rubber band can be stretched a much longer way than other currencies. But even the strongest and most elastic rubber band eventually snaps. The question is: when? And then what?

It is something of a miracle that investors have not withdrawn barely any money from U.S. Treasuries in Trump's first year (see fig. 2). This was despite his erratic economic policymaking, his habit of insulting creditors, his [preference](#) for a weaker dollar and his repeated attacks on the Federal Reserve. Political shocks like a war with Iran would normally be textbook triggers for capital flight. The fact that not even Trump managed to scare off foreign investors suggests that, for now, the dollar's status as a safe haven is secure. After the attacks on Iran, there was even a flight into the dollar, although the supposed safe haven – the U.S. – was itself the source of the uncertainty.

Looking for a firefighter currency

[Martha Gimbel](#), executive director of the Yale Budget Lab, likens the situation to a holiday rom-com: creditors are like a young woman in a big city dating a guy who is bad for her. Eventually she goes back to her small hometown, realizes she has alternatives and ends up with a decent firefighter instead. But which currency could be that decent firefighter? The first candidate would be the euro. Yet the euro area is grappling with its own political, economic and fiscal challenges.

As fig. 3 shows, no other currency comes close to matching the dollar's mix of liquidity and the volume of high-grade government bonds. Still, we should not lull ourselves into a false sense of security, let alone schadenfreude. When the dollar's rubber band snaps, it will trigger a major financial crisis, which will make the 2008 crisis look like a walk in the park.

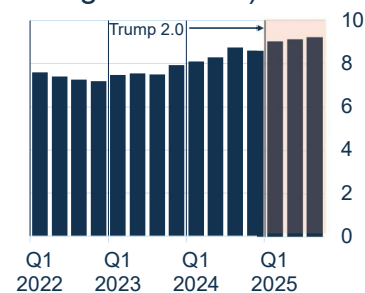
Waiting for the rating agencies is like Waiting for Godot

Do not expect early warning signals from the rating agencies. All of them assign the U.S. an AA+ rating, the second-highest rating, with a stable (!) outlook. In the summer of 2011, I had the dubious privilege of serving on the S&P committee that, for the first time ever, decided to downgrade the U.S. The administration's reaction was strikingly harsh – and costly for the agency. And that was under Barack Obama, a gentleman compared with the current Rumpelstiltskin in the White House.

It is entirely conceivable that Trump would pick up the phone to Paul Atkins, the subservient head of the Securities and Exchange Commission (SEC), and instruct him to suspend the license of the offending agency. For the firm concerned, that would effectively be an economic death sentence: the U.S. is by far the largest and most profitable ratings market in the world. No one will want to take that risk. Investors will have to do their own homework.

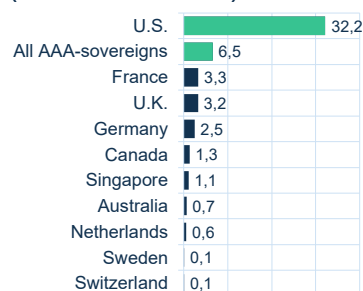
How much longer can the dollar's rubber band stretch?

Fig. 2: Foreign owners of US-Treasuries (trn. USD, through Q3 2025)



Source: [US Treasury](#), LBBW Research

Fig. 3: Outstanding Sovereign Debt (trn. USD, 2026)



Source: S&P Global, LBBW Research

Rating agencies sit on their hands

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