Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – June 1, 2025

There can be no freedom or beauty… [in] a life that depends on borrowing and debt. ~Henrik Ibsen

At the moment we craft this piece, large US markets have clawed back to a little better than even for the year so far. We've discussed the issues that caused some of the swooning in previous missives and so refer you back for a thorough review. Some of those earlier fears have at least temporarily diminished. For instance, massive tariff confusion has settled into merely routine tariff confusion. Ultra-cheap Chinese AI is not going to usurp American AI in a matter of weeks. And lastly, earnings reports have been good enough to justify most stock prices.

What remains unresolved is the "big, beautify bill" currently being debated and/or amended in the Senate. The House passed its version of the tax legislation recently.

Recall a few things. The tax bill signed into law by President Trump in 2017 had an automatic sunset date of December 31, 2025. There were many popular features of that act that require action to continue past the sunset. There were some unloved qualities of the act that require tweaking if they are to continue.

The House version does all of that, making permanent popular features, and correcting those that were unloved to make them loved. Unfortunately, as we've come to expect, it also adds in a good many things that have little to do with tax policy. It is a "big, beautiful bill" after all. It has plenty of other regulations, spending, pork, and policy that make supporting it or not supporting it an exercise in political mysticism more than cold economic policy.

Regrettably, obfuscation might be the point. The United States of America has operated without a single budget passed since 2008. Incredulous as you may be, it is true. We encourage you to look it up. Instead, continuing resolutions have funded our government's operations. These are ways of simply saying let's just keep doing what we were doing, and then some, year in and year out. We do not expect the Senate version to do anything to change this fact.

We also don't expect the final, signed act to do anything other than continue monstrous spending. For those clients who have met with us in the past six weeks or so, we've shown a few long-term charts that demonstrate the permanent spike in spending that first occurred in 2008 and boosted again in 2020. In both of those cases, it was not only the dollar amount of spending that clung around year after year. The percentage of our economy sucked up by government spending remained elevated. It remains there today.

This is important to finance and economics for a host of reasons. One is that if the Federal government borrows more, it crowds out the ability for private businesses to borrow. It doesn't mean private businesses cannot borrow at all. It means that they pay higher rates.

It is also important for other economic reasons. Looking at data back to just after World War II, whenever government spending runs above 21% of GDP (as it has been since 2008), a host of economic results are worse. Fewer new jobs are created, fewer dollars are invested into capital projects in companies, economic growth is lower, and inflation is higher whenever the government spends too much.

The rate at which the debt hole is being dug has also permanently increased since 2008. A sustainable annual deficit for a large, productive country should top out at 2% of GDP. We've averaged a deficit of about 8% annually for almost twenty years. We're digging deeper, faster.

Let's now examine the hole itself. The dollar value of the debt is some enormous number in the $37 trillion range. That number is meaningless to us. But, if we make a ratio that we can use to compare over the entire history of our nation (and other nations) we can begin to draw conclusions.

In the US Civil War, our debt-to-GDP ratio was about 30%. Americans borrowed a lot of money to kill other Americans. That ratio dwindled slowly until the 1910s, bottoming at an unheard of 7%. World War I spiked the debt ratio to 35%. It slowly dwindled until Roosevelt's New Deal which took it to an all-time high of 44%. Then World War II, a massive two-front, full-scale conflict rocketed our borrowing to over 100% of our GDP. For the past five years, it is painful to say, our indebtedness has been over 125% of our GDP. Only two countries on the planet are higher. And they are two you'd not want to be.

Great Britain has discovered the truth of Ibsen's above quote many times in its long history. One example that Americans might find significant happened about 250 years ago. In fighting the French and Indian War during the 1750s and 1760s, Britain's debt to GDP spiked to about 150%. As a result of crippling interest and principal payments, the government had to find all sorts of new ways to generate tax revenue. You might remember things like the Sugar Act, the Stamp Act, or the Townshend Acts that caused the loss of a handful of colonies soon to become the United States.

Oh, how history repeats itself. Our interest payments alone are the single biggest item in our annual budget, surpassing defense spending some time ago. After compiling hundreds of years of data, Economist Niall Ferguson suggests that once the interest payment versus defense spending Rubicon is crossed, it cannot be uncrossed. It is not difficult to imagine what happens to our own spending if interest rates tick up, further exacerbating economic malaise.

Why bring this up now? First, the legislation is up for debate. While we are supporters of extending many of the features from the first Trump tax plan back in 2017, we look for true budgetary spending cuts, not just those small ones from Musk's DOGE efforts. Perhaps let your senators know that you, too, would like some restraint in spending. For the good of us all.

Second, so-called bond vigilantes are finally attempting to force constraints on US spending in the only way they know how. At recent Treasury auctions (how the government raises money by selling bonds), the interest return demanded by buyers swiftly jumped. To be sure, it was a small percentage move. For now. But if our representatives (and we) do not begin to demand spending and borrowing restraint, those spikes could be swifter and more pronounced. That may then cause a daisy chain of events among bond buyers in particular and finance players in general.

After all, another quotation from Henrik Ibsen correctly captures the essence of our markets. "These heroes of finance are like beads on a string – when one slips off, all the rest follow."

In the meantime, let us be sensible in all our dealings. Let us be prudent in our personal finances, conservative in our spending, generous in our giving, and most diligent in our earning.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
Jason Born, CFA
President

1246 County Road Q, McClure, OH 43534 P: 419-832-1111
www.stirlingbridgewealthpartners.com F: 419-832-1211