

July 2025



# THE CAPSTONE QUARTERLY

The weather outside is heating up, and the weather on Wall Street is following suit. The markets are pressing forward and regaining some of the traction they lost in the spring, possibly re-testing the all-time highs despite the geopolitical concerns. In this newsletter, Bryce gives some perspective on the U.S. government debt, and Casey discusses the Israel & Iran conflict and what it means for investors.

## BRYCE'S POINT OF VIEW

Bryce Pease, CFP®

### Government Debt



If you think the United States has high government debt, let's take a look at some other countries to compare.

This chart below looks at the government debt of the major countries around the world which is getting a lot of attention as it has risen faster than ever since COVID began. Governments may have, and especially the U.S., made a huge error in over-reacting with stimulus to COVID: \$11T out of the total \$27T since 2008 in the U.S. debt came in just three years between 2020 and 2022.<sup>1</sup>

| Country        | Debt/GDP Ratio | Total Debt |
|----------------|----------------|------------|
| Singapore      | 419            | 1.0T       |
| France         | 261            | 8.0T       |
| United Kingdom | 250            | 10.5T      |
| Switzerland    | 250            | 2.3T       |
| Belgium        | 250            | 1.7T       |
| Finland        | 233            | 0.7T       |
| Germany        | 161            | 4.5T       |
| Canada         | 146            | 3.2T       |
| United States  | 96             | 26.0T      |
| Argentina      | 46             | 0.7T       |

Our total government debt may sound high at \$26.0T, but it is second to the lowest as a percentage of GDP at 96%,

and that is very high historically. But it is very low compared to our peers. Only Argentina is lower at 46% of GDP, as it is a second-world country with less creditworthiness to access debt, which is currently only \$0.7T. That's less than half the ratio of the U.S.

Look at the other leading countries. Singapore is a true city-state, which alone gives it higher income and debt ratios, but its 6 million citizens have more government debt at \$1.0T than the \$0.7T of 45.5 million people in Argentina. But as a percentage of GDP, Singapore's debt ratio is the highest at 419%. France is next at 261%, closely followed by the U.K., Switzerland and Belgium at 250%. China is on the edge of bankruptcy although you'd never know it by their high level of current spending.

For our advisory clients, have you ever wondered why we have had little or no money in your accounts outside of the United States? Most other financial advisors are forced by their home office to include international or foreign stocks in their client accounts. This is done to diversify your accounts. We believe diversifying accounts is important, but we think some diversification outside of this country may not be a good idea. At least right now.

We do not want to invest outside of this country at this time because of this extraordinary high level of foreign debt. Interest alone on this debt is staggering. Who would have thought we would have looked so fiscally responsible at a mere 96%? Not that our country is in such great shape financially. In the event of some kind of world economic turmoil, the U.S. could end up being the best house in a bad neighborhood. The world may be in some kind of a debt bubble and for some countries this may not end well.

## CASEY'S CORNER

Casey Morris, CFP®

### Israel & Iran



While it has been a couple of weeks since Israel first launched military strikes against Iranian nuclear facilities and military bases, I thought I would answer the question we've been getting most around the office – What does this all mean for investors?

Since I'm a financial advisor, I'll leave military concerns to the generals and political ones to the politicians. What I am most concerned about is how it will affect the markets. Since I don't have a crystal ball, there is no way of truly knowing but history suggests that it won't have much effect at all, or for very long.

The financial industry often likes to stress that "past performance is no guarantee of future results." The reason is because we've seen time and again that just because something happened a certain way before doesn't mean it will automatically happen that way again. On the other hand, there's another saying that's equally valid: There's nothing new under the sun. In this case, international crises are nothing new. That means we have a lot of history to turn to when trying to gauge how tensions in the Middle East might impact the markets.

Think back on all the major international events we've lived through. Terrorist attacks and wars. Elections and economic recessions. The Cuban Missile Crisis. The JFK assassination. The 1973 Arab oil embargo. The fall of the Berlin Wall. The 9/11 attacks, Brexit, and COVID. The Russian invasion of Ukraine. Unless you're very young, you've witnessed many periods full of tension, drama, and importance. But they rarely have much effect on the markets. Or rather, they rarely have a *sustained* effect. After the 9/11 attacks, stocks dropped almost 15% over a two-week period.<sup>2</sup> And when the COVID pandemic began, the markets crashed in spectacular fashion, falling nearly 20% in a month.<sup>3</sup> But in each of these cases, the markets recovered with surprising speed. After 9/11, it took just a few months for the markets to recover.<sup>2</sup> And even as the world practiced social distancing during COVID, the stock market regained its previous levels four months later.<sup>3</sup>

A similar phenomenon is often seen in oil markets, too. After Russia invaded Ukraine in early 2022, oil prices skyrocketed. A year later, the market had "fully absorbed" the impact of the invasion, and prices retreated to more normal levels.<sup>4</sup>

To understand why this is, I like to think about the difference between an acute illness and a chronic illness. The former usually develops suddenly but only lasts for a few days or weeks. A chronic condition, on the other hand, often develops slowly and gets worse gradually. It can last for months, years, even decades. Acute illnesses – like the stomach flu – feel miserable, but we usually get over them quickly because there's nothing systemically wrong with our bodies. But a chronic illness means something inside us is not working the way that it should.

For investors, a geopolitical event is usually the equivalent of an acute illness for the markets. It comes on suddenly. Investors react to it much like our immune systems react to a virus. But if the event subsides or fails to spread, which is often the case, the markets adjust, and investors move on. There's nothing systemically wrong with the markets or the

### Did you know?

Summer is actually the second most expensive season of the year. In one poll, participants spent an average of \$300 more in the summer compared to the spring. Much of this is likely because of the vacations and social events that are more common during this time of year. Unfortunately, 48% of those surveyed said they will take on credit card debt to cover these extra expenses.

Source:

<https://lendedu.com/blog/summer-spending-statistics/>

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global economy. This is why it's so important to not overreact to headlines or make major changes to our investment strategy, just as we wouldn't completely change our lifestyle or medication regimen because of a stomach bug.

Now, it's important to note that acute conditions can develop into chronic ones. This is true for our bodies and for the markets. Analysts and economists often ponder the possibility of contagion, where a problem spreads from one area to another. When this happens, it can either cause or reveal systemic problems in the markets, and the symptoms become much worse and last much longer. The best example of this is probably the financial crisis of 2008, where a combination of factors – a housing bubble, over-speculation in risky assets, and others – caused a recession that lasted nearly two years. In that case, there was something fundamentally unhealthy about the economy, and the markets suffered a chronic illness as a result. In this case, we do need to keep an eye on the possibility of contagion should this conflict widen or persist for an extended period. And we should be prepared for further volatility in the oil market over the coming days, which in turn could affect the stock market.

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## FINALLY...

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Casey recently had the opportunity to educate her peers about government benefits and the "deferred resignation" offer that was given to government employees earlier this year. She spoke at the Financial Planning Association Orange County Chapter study group to other financial advisors and professionals. The study group is a chance for advisors to come together once a month and share knowledge with each other on various topics relevant to the current financial world. It was an honor for her to be selected to spread information to try and help as many government employees as possible.

We try not to overreact to these geopolitical events, because we are always asking ourselves: Is this an acute event, or a chronic condition? Naturally, it's impossible to know what will happen next, but we will continue to keep our eyes open and focus on our strategy. If you ever have any questions about the markets, please don't hesitate to ask.

Sincerely,

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P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser, we always appreciate it when you pass on our name.

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1 HSDent.com, Harry's Take, June 24, 2025

2 "How Markets Respond to Geopolitical Crises," A Wealth of Common Sense, <https://awealthofcommonsense.com/2017/06/how-marketsrespond-to-geopolitical-crises/>

3 "What We've Learned From 150 Years of Stock Market Crashes," Morningstar, <https://www.morningstar.com/economy/what-weve-learned150-years-stock-market-crashes>

4 "Oil market has fully absorbed impact of Russia's invasion of Ukraine," Reuters, <https://www.reuters.com/business/energy/oil-market-hasfully-absorbed-impact-russias-invasion-ukraine-kemp-2023-03-09/>