The American public and investors on Wall Street are becoming more and more frightened by the talk of a default on our national debt. Terms such as “Crashing markets”, “Soaring interest rates” and “Economic depression” are widely used. The probability of any such event is very low. America won’t default on its bonds and interest rates won’t soar.

Behind the scenes we are witnessing a rare event in our nation’s history. From time to time, our citizens become truly aroused and focused, causing significant changes in direction. Upheavals in the past resulted in the Women’s Suffrage, Emancipation of Slaves, Civil Rights…Often this is a time of turmoil, with protest marches, demonstrations, and even civil actions. We are today in the midst of such a groundswell. It is designed to rescue our children and their children from the crushing burden of our debt. Rather than a cause for concern, it is a healthy process.

President Obama won’t go down in history as the first to preside over a national default. Republicans do not want to be the party which shuts down government. Ways to cover obligations will be found as needed, and the Administration has great resources. For example, the FED was able to raise about $1 trillion for quantitative easing, none of which was approved by Congress. Revenues to the government continue to be generated, presently at an annual rate of more than $2 trillion. Payments from Social Security system and Medicare obligations were designed to be covered by their own trust funds.

Democrats want to put overspending behind them, not to be considered again until after the 2012 election. Republicans want to review the budget frequently and most especially before the 2012 election. Disaster scenarios are put forward by the parties to create a sense of urgency and therefore advance their election chances.
Fears that turmoil in Washington will lessen the value of treasury bonds are misplaced. As a matter of fact, the drive to limit excessive spending enhances the value of the bonds. If you loaned money to a friend and he continued to overspend and borrow even more from others, you might have concerns. But if he began to reform and pay down his debts, you would feel more secure. Rather than cheapening the dollar, moves toward a balanced budget will make the dollar stronger.

Our friends should have little concern about crashing markets and especially not the Treasury bond market. The judgment of millions of the best informed, most astute institutions and investors across the globe is reflected in market prices. Today, the benchmark Ten Year Treasury bond yields less than 3 percent, and prices have been rising. The latest report shows an increase in demand by foreigners, especially the Chinese.

Stocks have been selling off in anticipation of a government shutdown. But a forced governmental shutdown may not be as unfavorable to stocks and bonds as some might believe. In 1995 and 1996 the federal government went through forced shutdowns [November 14th – 19th 1995 and December 16th 1995– January 6th 1996]. In both cases the stock and bond market advanced. In general, stocks do better when Congress is out of session. As the debt policy debate concludes, we expect the stock market to rally in relief.

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