Macro Roundup Article

Headline: Breaking Down the Sources of US Economic Resilience

Article Link: https://www.bridgewater.com/research-and-insights/breaking-down-the-sources-of-us-economic-resilience

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Publication	Bridgewater Associates
Publication Date	September 14, 2023

Tweet: Bridgewater writes that fiscal deficits have thus far helped keep the economy from slowing, but as net Treasury issuance ramps up, deficits are likely to result in "higher interest rates and lower asset prices."

Summary: The impact on markets of the government's expanded financing need is largely still ahead of us. Over the past year, the government has funded essentially all of the increase in its deficit by issuing T-bills and spending down its cash reserves rather than significantly ramping up the issuance of duration to the market. As a result, Treasury issuance hasn't needed to entice money out of other cash and asset markets, and thus the impact of the expanded deficit on liquidity has been minimal thus far. We think this pressure is delayed rather than eliminated: looking forward, we expect that the Treasury will shift its mix of issuance toward more duration, as the budget deficit remains elevated and the share of bills outstanding rises through the range that the Treasury generally prefers to target (though there is plenty of flexibility around the precise proportion).

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Primary Topic: Business Cycle

Topics: Business Cycle, Fiscal Deficits, Fiscal Policy, GDP, Op-Ed/Blog Post

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