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Headline: Sea Change

Article Link: https://fedguy.com/sea-change/

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Publication	Fed Guy Blog
Publication Date	February 12, 2024

Tweet: .@FedGuy12 notes that fiscal deficits could exceed the new CBO projections of 5.5% of GDP and argues, "We are in the early innings of an era with strong nominal growth and surging equity markets" driven by fiscal stimulus.

Summary: The steady rise in the fiscal deficit is largely due to a secular rise in spending rather than changes in revenue. This structural change is largely driven by rising retirement related spending and interest expense, both of which are politically very difficult to change. The fiscal authorities are essentially on track to print trillions in Treasuries for the foreseeable future. Recall that Treasuries are essentially money that pays interest. The increase in Treasury supply will continue to weigh on long-dated interest rates, and the increase in private sector purchasing power will continue to place upward pressure on inflation – including asset inflation. Fiscal spending is not the only thing that matters, but the current trajectory strongly argues we are in the early innings of an era with strong nominal growth and surging equity markets. There will be periods of over extension and pull backs along the way. Related: The Curious Incident of the Elevated Profit Margins and The Budget and Economic Outlook: 2024 to 2034 and When Does Federal Debt Reach Unsustainable Levels?

Primary Topic: Fiscal Deficits

Topics: Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Op-Ed/Blog Post

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