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ASK THE **ADVISERS**

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Not Time to Panic?

Secretary Janet Yellen has been warning Congress that the Treasury could run out of money by June 1st if Congress does not authorize a debt ceiling increase. The magnitude of the potential loss a default could cause in the value of the stock market could be massive. With June 1st less than 2 weeks away, why hasn’t the stock market been going down more? There are two potential reasons.

One is that the market may be expecting Congress to blink and pass the debt ceiling increase before June 1st. Republicans want a ceiling increase tied to spending increases and Democrats want a clean bill with no conditions. However, most members of Congress haven’t indicated a willingness to compromise.

The second reason may be that, because of extraordinary measures and moving money around, the treasury won’t run out of money until much later. On June 15th quarterly federal income taxes are due. That will provide a big influx of revenue into the treasury department. The question is will we make it to June 15th?

The first two days of June are very big outflow days as the US must pay certain obligations as well as a large batch of social security payments. However, according to a model created by John Comiskey, the US will make it to June 9th with about $39 billion left. The week of June 12th will mark the start of the treasury receiving its quarterly tax revenues. That, plus some additional extraordinary measures, should get the US to at least late July.

Obviously, we are cutting it close; it has been widely speculated that if the US did need to choose between paying interest to US Treasury bondholders and paying certain salaries of federal employees and social security benefits, they would prioritize the bondholders to avoid a catastrophic default and complete chaos in world financial markets. Although this would avoid a default on Treasury bonds, it would still be considered a technical default and bad for the stock market.

Source: https://johncomiskey.substack.com/p/projecting-the-x-date-and-the-tga

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