
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

October 1, 2021

DEBT LIMIT

The House of Representatives sent two separate bills to suspend or raise the Treasury's debt ceiling to the Senate, and in both cases, Republicans blocked simple majority votes. Treasury Secretary Yellen has indicated that without additional borrowing the Treasury will run out of funds on October 18th, while the Congressional Budget Office (CBO) has estimated that this would happen in late October or early November. Yields on T-Bills in this date range have risen on concerns about delayed payments.

Our Take: Republicans want Democrats to have to use the reconciliation process to raise the debt ceiling in order to further campaign against them on fiscal issues. Democrats are stating that the increase is necessary to pay for previously enacted Republican policies. Both sides are seeking political advantage. A default on the payment of Treasury obligations would result in a catastrophic financial crisis, massive social upheaval and a major global depression. Because of the dire consequences of a default, it is almost a certainty that the debt ceiling will be raised either through the reconciliation process or by Democrats offering Republicans something to allow a vote on a bill in the Senate.

MUNICIPALS

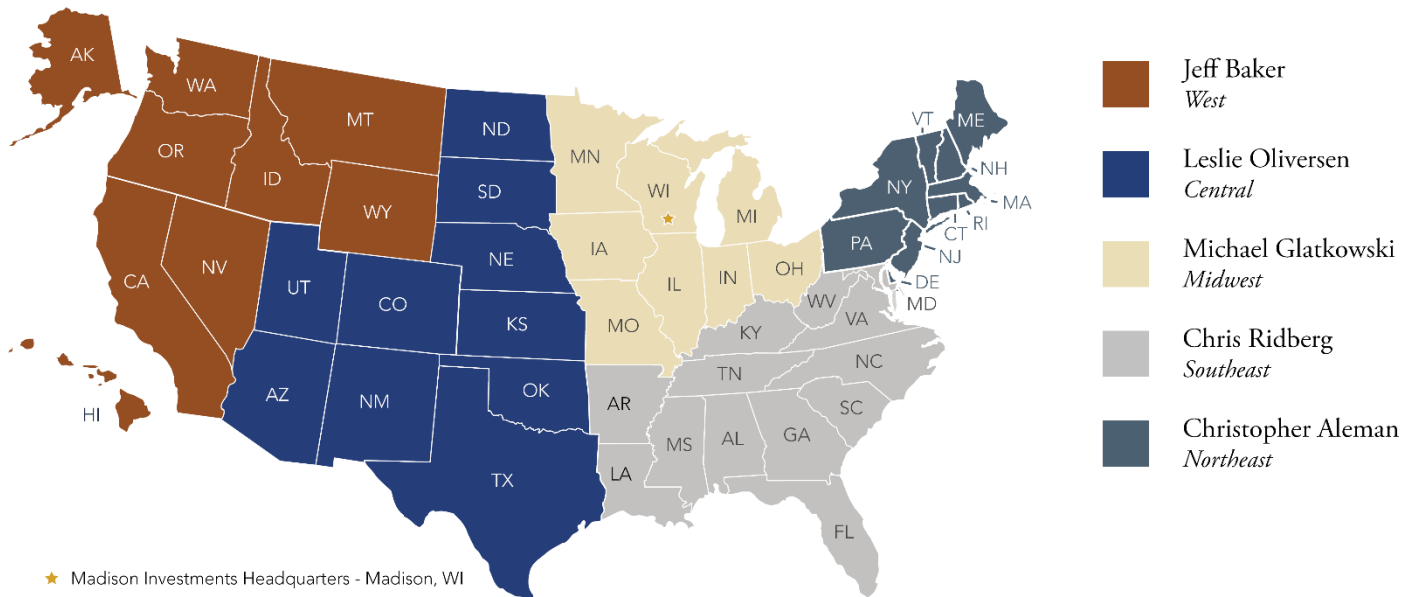
State and local governments issued nearly \$33 billion of debt in September. This marks a 30% decline from the same time period in 2020 according to Bloomberg. 2021 total issuance has reached \$335 billion which is slightly higher than 2020 issuance. October issuance is expected to trail 2020 levels as state and local governments rushed to issue debt before the 2020 election.

Our Take: Issuance has slowed recently due to rising interest rates and may continue to slow due to uncertainty surrounding COVID and the delta variant. However, compared to years prior to 2020, 2021 issuance remains strong.



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