First Trust
Monday Morning OUTLOOK
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US Needs Sensible Debt Financing

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Instead of imposing strict fiduciary rules on Wall Street, banks, investment houses, and financial advisors, the government should apply similar rules to the managers of the federal debt. This is particularly true because unlike the private sector – which faces tough market competition every day – the debt managers at the Treasury Department have a monopoly.

These federal debt managers have been flagrantly violating what should be their fiduciary responsibility to manage the debt in the best long-term interests of the US taxpayer.

Despite a roughly $19 trillion federal debt, the interest cost of the debt remains low relative to fundamentals. In Fiscal Year 2015, interest was 1.2% of GDP and 6.9% of federal revenue, both the lowest since the late 1960s. To put this in perspective, in 1991 debt service hit a post-World War II peak of 3.2% of GDP and 18.4% of federal revenue.

In other words, for the time being low interest rates have kept down the servicing cost of the debt even as the debt itself has soared.

You would think that in a situation like this, with federal debt set to continue to increase rapidly in the future, that the government's debt managers would bend over backwards to lock-in current low interest rates for as long as possible.

But you would be wrong. The average maturity of outstanding marketable Treasury debt (which doesn't include debt held in government Trust Funds, like Social Security) is only 5 years and 9 months. That's certainly higher than the average maturity of 4 years and 1 month at the end of the Bush Administration, but still way too low given the level of interest rates.

The government's debt managers have a built-in bias in favor of using short-term debt: because the yield curve normally slopes upward, the government can save a little bit of money each year by issuing shorter term debt. In turn, that means politicians get to show smaller budget deficits or get to shift spending to pet programs.

But this is short-sighted. The US government should instead lock-in relatively low interest rates for multiple decades, by issuing more 30-year bonds, and perhaps by introducing bonds that mature in 50 years or even longer.

At present, we find ourselves in the fortunate situation of being able to easily pay the interest on the federal debt. But this isn't going to last forever. If the government locks-in low rates for an extended period it would give us time to catch our breath and fix our long-term fiscal problems, like Medicare, Medicaid, and Social Security.

There's no reason this has to be a partisan issue. The government's debt managers should just treat the debt like it's their own. If the government is determined to hold many others to a stricter standard, it should lead by example.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-28 / 7:30 am	Personal Income – Feb	+0.1%	**0.0%**	+0.2%	+0.5%
7:30 am	Personal Spending – Feb	+0.1%	**+0.1%**	+0.1%	+0.5%
3-29 / 9:00 am	Consumer Confidence – Mar	94.0	**94.4**		92.2
3-31 / 7:30 am	Initial Claims - Mar 26	265K	**262K**		265K
8:45 am	Chicago PMI – Mar	50.5	**50.3**		47.6
4-1 / 7:30 am	Non-Farm Payrolls - Mar	210K	**241K**		242K
7:30 am	Private Payrolls – Mar	190K	**237K**		230K
7:30 am	Manufacturing Payrolls – Mar	-1K	**-1K**		-16K
7:30 am	Unemployment Rate – Mar	4.9%	**4.9%**		4.9%
7:30 am	Average Hourly Earnings – Mar	+0.2%	**+0.2%**		-0.1%
7:30 am	Average Weekly Hours – Mar	34.5	**34.5**		34.4
9:00 am	ISM Index – Mar	50.6	**50.4**		49.5
9:00 am	Construction Spending – Feb	+0.1%	**+0.5%**		+1.5%
9:00 am	U. Mich Consumer Sentiment- Mar	90.5	**90.5**		90.0
afternoon	Total Car/Truck Sales – Mar	17.5 Mil	**17.3 Mil**		17.4 Mil
afternoon	Domestic Car/Truck Sales - Mar	13.8 Mil	**13.6 Mil**		13.7 Mil

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.