Truist Advisory Services, Inc.

The Washington brief from the Investment Advisory Group

Wrapping up the debt ceiling drama

June 1, 2023

What happened

- This week the House passed the Fiscal Responsibility Act, which effectively suspends the debt ceiling until after the current presidential election cycle (Jan. 1, 2025).
- The bi-partisan vote (314-117) had the support of Speaker McCarthy, President Biden and most rank-and-file Republicans and Democrats. While the Senate will take additional days to vote on the bill, clearing the House puts it on a glide path to becoming law.
- Among its major provisions, the bill puts a two-year cap on non-defense discretionary spending (fiscal years 2024 and 2025) and rescinds $30 billion of unspent coronavirus relief funding. Another $20 billion of previously allocated IRS funding will be moved to other non-defense funds while work requirements for SNAP/TANF governmental assistance programs will be enhanced. The bill also effectively ends the current pause on student loan debt repayment.

Our take

We view the House passage of this bill positively, as it effectively takes the threat of a debt default off the table. We also view the legislation as potentially encouraging for future compromises in the upcoming appropriations negotiations. That said, the reduced spending and restarting student loan payments will be a modest negative economically.

Perhaps the most important feature of the bill is the way it deals with appropriations over the next two years. Prior to the deal, we had assumed the debt ceiling fight would be followed by a rancorous appropriations process where, because of the massive disparity in their priorities, the House and Senate would be unable to pass bills. The debt deal legislation anticipates this issue and addresses it with a mechanism that will very likely drive compromises leading to passage of the 12 bills in fiscal years ’24 and ’25.

Under the proposal, if any one of the appropriations bills doesn’t pass, then all 12 of the bills would be subject to a funding formula where discretionary spending will operate at 99% of current fiscal year (FY’23) levels. While this sounds like a uniform haircut, this would reduce defense spending and non-defense spending would increase. **This provision will put pressure on House Republicans to pass all 12 appropriations bills to protect the defense spending increases that are included in the deal on a going forward basis.** “Regular order” appropriations will, in the end, increase the predictability of government spending for the two-year period covered under the bill.

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Truist Wealth is a name used by Truist Financial Corporation. Banking products and services, including loans, deposit accounts, trust and investment management services provided by Truist Bank, Member FDIC. Securities, brokerage accounts, insurance/annuities offered by Truist Investment Services, Inc. member FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products offered by referral to Truist Insurance Holdings, Inc. and affiliates. Investment advisory services offered by Truist Advisory Services, Inc., Sterling Capital Management, LLC, and affiliated SEC registered investment advisers. Sterling Capital Funds advised by Sterling Capital Management, LLC. While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. TIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. TIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

TIS/TAS shall accept no liability for any loss arising from the use of this material, nor shall TIS/TAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction. Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

TIS/TAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

Asset classes are represented by the following indexes. An investment cannot be made directly into an index.

S&P 500 Index is comprised of 500 widely held securities considered to be representative of the stock market in general.

2023-5715613.1 EXP06-2024