

# What's Hot: U.S. budget deficit returns to the spotlight - Is the inflation trade back?

Publicato il 28 ottobre 2024

**Blake Heimann**

Senior Associate, Quantitative Research

## Punti chiave

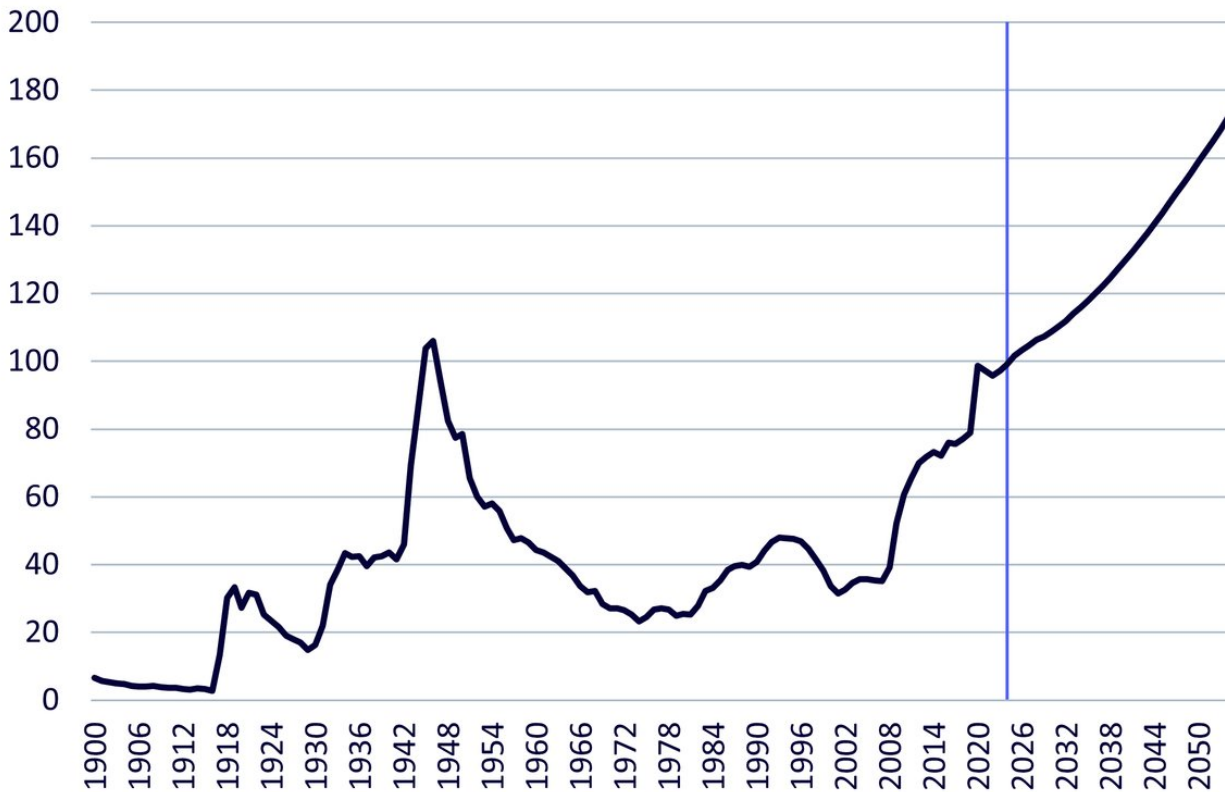
- U.S. government budget deficits are expected to grow, regardless of the election outcome, increasing concerns about fiscal sustainability.
- Paul Tudor Jones suggests investors may soon reckon with the unsustainable borrowing levels, potentially driving bond yields higher.
- Without major policy changes, long-term inflation is likely, making assets like gold, bitcoin, and commodities compelling allocations in portfolios.
- Related Products WisdomTree Physical Bitcoin, WisdomTree Physical Gold, WisdomTree Broad Commodities UCITS ETF – USD Acc Find out more

Last week, billionaire hedge fund manager Paul Tudor Jones joined CNBC's Andrew Ross Sorkin for an interview. As with many hedge fund founders, it is not often they step into the limelight to share their thoughts on markets or overall portfolio positioning. The topic of discussion was the upcoming U.S. election and the ballooning government debt, which has now reached a staggering \$35 trillion. Amidst the contentious battle for votes, both sides of the aisle are making promises—tax cuts, spending programs, and more—all aimed at securing the remaining undecided voters.

Jones shared his primary concern on the ever-growing U.S. budget deficit, which is further exacerbated by these election-year promises. The U.S. Congressional Budget Office estimates that national debt will rise from its current \$35 trillion to \$48 trillion over the next decade, with some forecasts, like Statista's, suggesting it could climb as high as \$54 trillion<sup>1</sup>. Today, the U.S. collects roughly \$5 trillion in tax receipts annually while operating with a \$2 trillion deficit every year. With this level of deficit spending, the US is on track to expand the debt to GDP (Gross Domestic Product) ratio from near 100% to over 170% by 2054<sup>2</sup>. As Jones pointed out, the debt is only going to grow, offering serious implications for the fixed income markets.

## Figure 1: US Government Debt to GDP, Historical and Forecasts

## U.S. Debt as a % of GDP



Source: Congressional Budget Office, as of October 2024. **Historical Performance is not an indication of future performance and any investments are subject to risk and uncertainties. Forecasts are not an indicator of future performance and any investments are subject to risk and uncertainties.**

To make this clearer, he offered a compelling analogy: Imagine he's your neighbor, earning \$100,000 a year, yet he already owes you \$700,000. Now, every year, he turns around and asks to borrow another \$40,000 until that \$700,000 is repaid. Would you lend him the money? Most would say 'no'. Jones argues this is precisely the proposition the U.S. government is making to Treasury bondholders—a situation that many other countries mirror. So why do investors still buy U.S. bonds? As Bill Gross, co-founder of PIMCO and often called the 'Bond King' famously put it, the U.S. is the 'cleanest dirty shirt' in the laundry basket of global bonds.

## Awaiting a Minsky Moment: The Bond Market Reckoning

Jones went on to highlight the potential for a 'Minsky moment', where financial markets suddenly wake up to the reality that this level of borrowing is unsustainable. Jones believes that the U.S. is facing a scenario where bond markets could soon demand higher yields for the increased risk of lending to a heavily indebted government.

Hearing this, one can't help but feel a sense of déjà vu, recalling the U.K.'s Liz Truss and her ill-fated 2022 'mini-budget' proposal. Her plan, deemed financially reckless, sent bond markets into turmoil, pushing borrowing costs higher and forcing her to swiftly reverse course.

Jones argued that investors are living in a false sense of security, blindly accepting the current fiscal conditions without acknowledging the looming risks. Much like in the U.K., the bond market could eventually force the U.S. government to 'pay the price' for its spending spree, leading to a sharp correction. As of time of writing, the US 10Y treasury bond yield has been on the rise over the last month, having risen from around 3.8% up to 4.2%, a large move in yields for a relatively short period of time.

## Figure 2: US 10Y Treasury Yield

### US 10Y Treasury Yield



Source: Bloomberg, as of 25th October 2024. For period September 27th, 2024 to October 25, 2024.

**Historical Performance is not an indication of future performance and any investments are subject to risk and uncertainties.**

## Inflating Away the Debt: The Inevitable Path Forward

Jones claims that, historically, there's been only one reliable way for governments to manage massive debt burdens: inflation. By inflating the debt away, they reduce its real value, albeit at the cost of eroding the purchasing power of their citizens. As Jones succinctly put it, 'All roads lead to inflation.' While there may be potential policies that could help balance the budget, none seem politically feasible given the current landscape. Inflation, then, becomes the most likely path forward, gradually reducing the debt burden relative to the size of the economy.

He outlined the policy playbook: run inflation at or above 2%, while keeping interest rates below the inflation rate, allowing nominal growth to outpace inflation, which should help to stabilize the debt to GDP ratio. Inflation acts as a slow tax on the population, but it's a necessary mechanism to manage unsustainable debt levels without needing to make politically painful choices like cutting spending or raising taxes.

His portfolio positioning aligns with this outlook. Jones is long on bitcoin and gold and has short positions on long-term US Treasury bonds (10-30 years). He also sees commodities as undervalued, and views stocks, particularly those in the Nasdaq, as another alternative hedge against inflation.

## Positioning for Inflation with Alternatives

In a relatively short interview, Jones makes a compelling case for emergence of long-term structural inflation in the U.S. economy. The case could very well be extrapolated to many other major economies that face similar problems. The recent move in 10-year yields supports this narrative, and we've seen strong price performance for bitcoin and gold over the past year. If his outlook is correct, the current momentum we are seeing stands to continue.

Whether or not we experience a 'Minsky moment' where markets abruptly wake up to fiscal reality, the bull case for bitcoin, gold, and commodities remains clear. Fiscal irresponsibility, rising geopolitical instability, and central banks accumulating hard assets like gold—and, in some cases, bitcoin—only strengthen his argument. As currencies and fixed income rely on a central government's ability to promote economic strength and stability through policy, it's crucial for investors to stay mindful of the risks when decisions may not lead to the desired outcomes. In such uncertain times, diversifying into alternatives like gold, bitcoin, and commodities, which can offer long-term value and inflation protection, becomes increasingly compelling.

**Interview Link: [Legendary investor Paul Tudor Jones: I am clearly not going to own any fixed income](#)**

1 [Federal debt forecast U.S. 2034 | Statista](#)

2 [The Budget and Economic Outlook: 2024 to 2034 | Congressional Budget Office](#)

## Important Risks Related to this Article

### Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in ETPs is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained on this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information on this document should be taken, transmitted or

distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

### **WisdomTree Issuer ICAV**

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at [www.wisdomtree.eu](http://www.wisdomtree.eu). Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

## **WisdomTree Broad Commodities UCITS ETF – Index Disclaimer**

“Bloomberg®” and the Bloomberg Commodity Index(es)<sup>SM</sup> referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the indices (collectively, “Bloomberg”) and have been licensed for use for certain purposes by WisdomTree UK Limited and its permitted affiliates including WisdomTree Management Limited and WisdomTree Issuer ICAV (together, WisdomTree). Bloomberg is not affiliated with WisdomTree, and Bloomberg does not approve, endorse, review, or recommend the WisdomTree Broad Commodities UCITS ETF. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the index(es).

## **WisdomTree Issuer X Limited**

The products discussed in this document are issued by WisdomTree Issuer X Limited (the “Issuer”). Investors should read the prospectus of the Issuer before investing and should refer to the section of the prospectus entitled “Risk Factors” for further details of risks associated with an investment in the securities offered by the Issuer.

Securities issued by the Issuer are direct, limited recourse obligations of the Issuer alone and are not obligations of or guaranteed by any of Swissquote select \* fromBank Ltd (“Swissquote”), Coinbase Custody Trust Company LLC (“Coinbase”), any of their affiliates or anyone else or any of their affiliates. Each of Swissquote and Coinbase disclaims all and any liability whether arising in tort, contract or otherwise which it might have in respect of this document or its contents otherwise arising in connection herewith.

The product discussed in this document is an unregulated ETP, approved to trade on the SIX Swiss Exchange in Switzerland, Euronext Paris, Euronext Amsterdam and the Deutsche Börse Xetra in Germany. Cryptocurrencies are a high-risk investment and may not be suitable for all types of investor. Prospective investors should be aware that the price of the underlying asset(s) by which the securities are secured can demonstrate higher volatility than other asset classes and consequently the value of the securities may be extremely volatile. You must ensure that the nature, complexity and risks associated with cryptocurrencies are suitable for your objectives in light of your circumstances and financial position.

## **Jersey Issuers**

The products discussed in this document are issued by WisdomTree Metal Securities Limited (the “Issuer”). The Issuer is regulated by the Jersey Financial Services Commission. Investors should read the prospectus of the Issuer before investing

and should refer to the section of the prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the securities offered by the Issuer.

## **WisdomTree Metal Securities Limited**

Securities issued by the Issuer are direct, limited recourse obligations of the Issuer alone and are not obligations of or guaranteed by any of HSBC Bank plc and JP Morgan Chase Bank, N.A. any of their

affiliates or anyone else or any of their affiliates. Each of HSBC Bank plc and JP Morgan Chase Bank, N.A. disclaims all and any liability whether arising in tort, contract or otherwise which it might have in respect of this document or its contents otherwise arising in connection herewith.

### **Notice to Investors in Switzerland – Qualified Investors**

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: **https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports**

Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

**For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

**For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.