UNITED METHODIST FOUNDATION OF MICHIGAN

What is the debt ceiling?
The debt ceiling is the maximum amount of debt that the federal government can accrue. Social Security and Medicare benefits, military salaries, interest on the national debt and tax refunds are examples of expenses incurred by the federal government. Typically, the federal government's expenses exceed their revenue. Thus, the Treasury borrows money to make up this shortfall. The total amount that can be borrowed is limited by Congress. This limit is the debt ceiling. Once this limit is reached, the debt ceiling theoretically has to be raised in order for the federal government to keep paying its bills. Congress has either raised or suspended the debt ceiling more than 100 times since World War II. These raises have not pledged any additional spending. Rather, they merely have raised the borrowing limit so that the federal government may continue to pay back its obligations.

What happens if the debt ceiling is reached?
Actually, the debt ceiling was already reached in late January. Since then, the Treasury is spending its Federal Reserve cash balance and using a variety of accounting maneuvers to avoid an immediate default. Although these types of measures have been used a few times since 1985, they are not long-term solutions. Some recent estimates indicate that these extraordinary measures could be exhausted as early as June 1, also known as the "X-date." A default would occur if the federal government fails to pay the bondholders who have lent money to the government.

Why is Congress debating this now?
The debt ceiling is prominently in the news because the federal government reached the debt ceiling of $31.4 trillion on January 19th. Now, Congress is charged with acting. If an agreement is not reached, the federal government risks default.

What happens if the government defaults on the debt?
The United States has never defaulted on its debts. Hence, U.S. Treasury bonds are viewed as a safe investment. A default would potentially create serious instability in both the domestic and global economies.

When was the last time the debt ceiling was raised?
The debt ceiling is raised periodically to accommodate repayment of the federal government's debt. It was last raised in 2021. Raising the debt ceiling historically was considered more of a bureaucratic function than a political debate.

What does it mean to raise the debt ceiling?
Raising the debt ceiling means increasing the amount of debt the federal government can accrue in order to pay its bills. It is unrelated to future spending, rather it is a limit on the amount of money that the federal government can borrow to meet its existing legal obligations.

What are the potential market implications this time?
Historically, market volatility increases as the deadline or X-date approaches. The length of time that it takes Congress to reach an agreement correlates to a greater likelihood of more volatility. The degree to which the markets react to the political negotiations surrounding this issue remains to be seen.

How can church investors prepare?
Be calm and remain steadfast. Volatility and fluctuation are a normal course of equity and fixed income markets. We encourage church investors to adhere to a long-term, balanced allocation model and to remain patient amid the highs and lows of short-term variances.

What is our view on the outcome?
While resolving the debt ceiling remains uncertain, history suggests that an agreement will be reached ahead of the "X-date." The escalating emotion, slowing economy, late hour timing, and political choreography add to the potential for at least short-term volatility and risk. Our investment advisors and fund managers will make some necessary tactical moves, as they always do, to account for the changing geopolitical, social, and cultural climate. Nonetheless, we caste our vision on the long-term horizon and maintain our disciplined, value-aligned investment posture.

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We have served congregations, pastors, church and ministry leaders and individuals across Michigan since 1925. Staffed by dedicated professionals and governed by a volunteer Board of Directors, we are ready to serve you. We come alongside your ministry to help you live into your purpose and vision. We offer a broad continuum of financial stewardship services, including value-aligned investment funds, stewardship consultation, planned giving seminars, grants, awards, and scholarships.