## Holowesko Partners Ltd.
## September 2024

I had dinner with some friends the other night and the American political scene raised its ugly head. I pity the rest of the world if America is ever able to channel its political passion into improving productivity and furthering their already enormous advantage in innovation and entrepreneurship.

After dinner, I received a memo supporting one party's past record of economic growth over the other. A quick check of economic data shows you could easily switch the argument depending on the mix of parties between branches of government, averages versus starting and ending dates, or adjusting time frames to account for when policies began to be implemented or had a meaningful impact.

But it all seems to miss the mark for me. Neither candidate seems to fit the mold of US presidents I studied as a student. It also doesn't pull back the curtain on the looming American crisis, the big boogey man in the room that threatens to upend whoever wins the political race in a few weeks' time. The American economy has a government debt problem. A big one. Despite what Dick Cheney told me in a duck blind one cold autumn day in Maryland, debt does matter – eventually.

US government debt is accruing at an alarming pace, and neither party has expressed a plan to rein in the problem. Over the last 4 years, US national debt has skyrocketed by a whopping $11 trillion. Current US gross domestic product is $29 trillion. So, the debt accumulated over 4 years equals 38% of current gross domestic product[1]. It took 220 years for total US debt to reach $11 trillion. Since June of 2023, the US debt has been increasing by $1 trillion every 100 days! As the Peterson Foundation notes, the current $34 trillion national debt is roughly the value of the economies of China, Germany, Japan, India and the UK combined.

What is extremely worrisome is that the debt is accumulating much faster than the economy is growing. It's taking greater amounts of debt to stimulate smaller amounts of economic growth. It's also highly unusual, or irresponsible, for the government to be spending like a drunken sailor when the economy is not in a recession and unemployment levels are low.

As the latest minutes of the Federal Reserve Open Market Committee noted, "real gross domestic product (GDP) has expanded solidly so far this year. The pace of job gains continued to moderate since the beginning of the year, and the unemployment rate has moved up but remained low" so why the need for so much deficit spending.

[1] "Gross domestic product (GDP) in the featured measure of US output, is the market value of the goods and services produced by labor and property located in the United States."

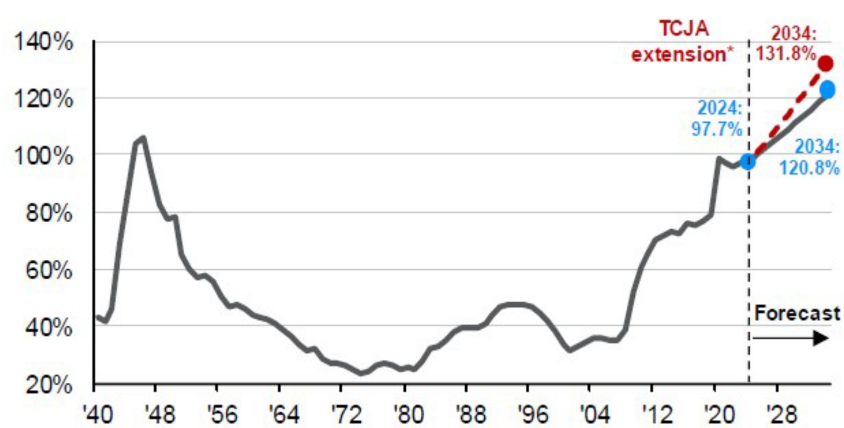
## UNEMPLOYMENT RATE AT WIDEST BUDGET DEFICIT

| Date | Unemployment Rate (%) | Budget Deficit % of GDP |
|---|---|---|
| Covid Era | 14.8% | -14.0% |
| Global Financial Crisis | 10.0% | -10.2% |
| 1982 Recession | 10.2% | -5.6% |
| Early 1990s Recession | 7.3% | -5.1% |
| Mid 1970s Recession | 7.9% | -4.6% |
| **Current** | **4.1%** | **-6.7%** |

Note: Data as of 9-30-2024
Source: Strategas Research Partners.

During World War II, America's debt reached 119% of GDP. It's now 123% and rising.

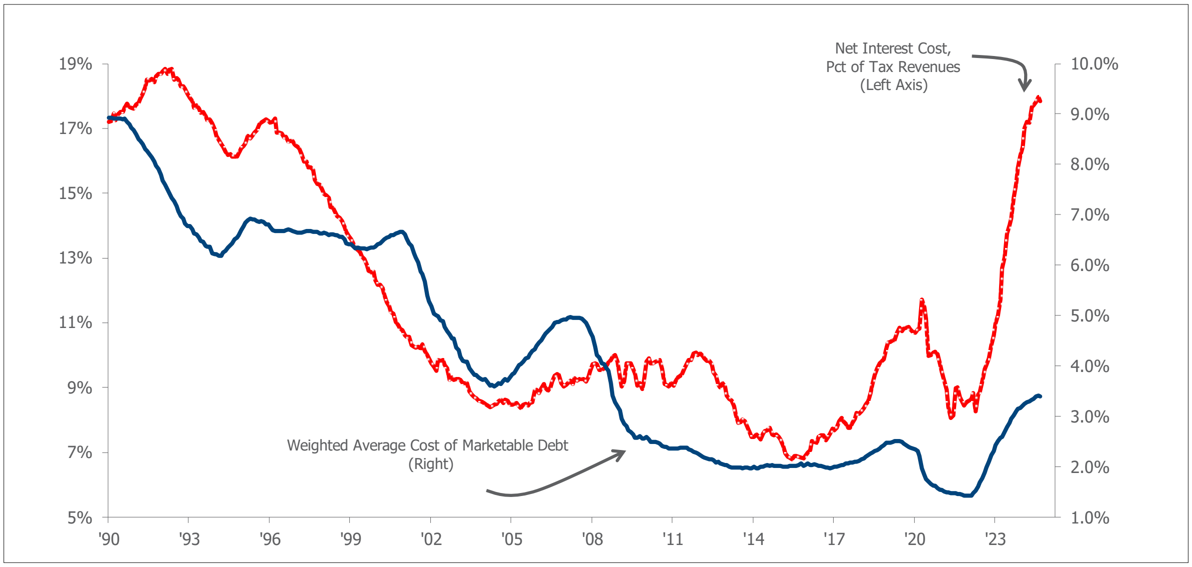
## FEDERAL NET DEBT (ACCUMULATED DEFICITS)
Percentage of GDP, CBO Baseline Forecast, End of Fiscal Year
1940-2034




Note: Estimates are from the Congressional Budget Office (CBO) June 2024 An Update to the Budget Outlook: 2024 to 2034. "Other" spending includes, but is not limited to, health insurance, subsidies, income security and federal civilian and military retirement. Years shown are fiscal years. *Adjusted by JPMAM to include estimates from the CBO May 2024 report "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues" on the extension TCJA provisions. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. *Guide to the Markets – U.S.* Data are as of September 30,2024.
Source: CBO, BEA, Treasury Department, J.P. Morgan Asset Management.

This rapidly accumulated debt didn't impact the federal budget while rates were close to zero. Now net interest cost as a percent of tax revenues is a whopping 17%. As noted by 13D research, the Congressional Budget Office (CBO) preliminary estimate of net interest expense in FY 2024 approximated $950 billion, up 34% year-over-year and 28% higher than estimated just 18 months ago. Net interest expense now exceeds both defense and Medicare spending. Federal net interest expense is now over 3% of US GDP.

NET INTEREST COST AND WEIGHTED AVERAGE
Cost of Marketable Debt




Source: Strategas Research Partners.

Like in the past, the US government will probably resort to growing/inflating its way out of the problem. That should equate to higher inflation than is currently being estimated, higher rates (higher cost-of-capital) and a good environment for stock pickers, although a lousy environment for those savers relying on real returns from government bonds. If there is a big risk in the world, it is primarily currently in the bond market.

## Farewell to our Friend

It's with great sadness that we report the passing of our friend and colleague, Greg Cleare, who has been valiantly fighting cancer for the last 10 years. As our CFO, Greg brought an invaluable level of integrity, professionalism and competence to our operations. He performed his duties in a manner that not only added the highest level of professionalism, but brought joy and inspiration to those around him. Greg's career included posts as the head of KPMG in The Bahamas, a board member of the Central Bank of The Bahamas and so many positions on charitable and government committees that helped his fellow man. He was a true gentleman, a valuable colleague and a loyal friend.

His duties for the past few years have been steadily taken over by Karen Zyp, who becomes our CFO. She was Greg's confidant and colleague in all operations issues and her dedication and professionalism in our firm has always been unmatched.