

What you should know about the debt ceiling

Introduction

June 1, 2023, marks the earliest date that Treasury Secretary Janet Yellen has projected the U.S. government would run out of cash and be unable to pay its debts. A default on the national debt would be unprecedented, and even getting close to the deadline without Congress having raised the debt ceiling could have consequences for markets.

As in years past when a deal was uncertain, Vanguard is taking steps to prepare operationally and from an investment management standpoint in the event a default can't be averted. We believe investors should maintain a long-term focus.

What the debt limit is and isn't

The debt limit, or debt ceiling, is the statutory limit on the amount of debt the U.S. Treasury can have outstanding to pay for the government's bills, obligations, and current and past expenses that Congress has already approved. It is not an authorization for future spending.

Without a congressional increase in the debt limit, the U.S. could eventually default on its debt and obligations—an unprecedented event with a potentially serious impact on global markets and economies.

Why this sounds familiar

Over the decades, Congress has raised the debt limit dozens of times—usually a routine affair. But there are notable exceptions, such as in 2011, when the government increased its borrowing capacity just days before it would have exhausted its cash balance. That year, Standard & Poor's downgraded the credit rating of the United States from AAA to AA+, citing in part the "political brinkmanship" that was resolved only at the last minute.

Such brinkmanship can erode the perception of the government's willingness and ability to service its debts, which may result in higher financing costs, debt downgrades, and greater market volatility.

What it means for investors

The very nature of this situation increases the uncertainty in the economy and financial markets, which can mean greater volatility over the short term. Vanguard continually takes steps to mitigate risk through formal preparations across our portfolio management, risk management, operations, fund accounting, and fund compliance teams.

We also stand ready to counsel investors on potential market volatility and other dynamics. It's important to remember that volatility goes in both directions—up as well as down—and that the markets are efficient at processing news. Time in the markets is ultimately better for your portfolio than market-timing.

As we learn more between now and an ultimate resolution, we encourage investors to focus on the things they can control. In uncertain times like these, we believe it's best to stay the course and remember Vanguard's fourth principle for successful investing—maintain perspective and long-term discipline.

Related resources:

- [What to know about a potential U.S. debt default](#) (Vanguard Institutional article, issued September 2021.)
- [Vanguard's principles for investing success](#)

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