At this point, it is simply "too close" to call whether a negotiated deficit reduction bill that increases the debt ceiling beyond the US Presidential election, or simply a short-term "kick the can" extension to Sept 30, is more likely. On the margins, we think the "tougher" path of modest deficit reduction bill to raise the US debt ceiling to Q1 2025 is slightly more likely. While the menu of potential options is expansive, many are viewed as non-viable, gimmicky, non-traditional, potentially illegal, too time-consuming, and/or incongruent with the confidence required for the world's risk-free asset.

Reasonably "severe" market stress may be required to create sufficient "political cover" for Republicans and Democrats to resolve the debt ceiling. In our view, markets have become "more sensitive" to debt ceiling brinkmanship and default risk than prior years. We therefore expect market pressure to rise acutely as we approach closer to June 1. Failure to take the June 1 "x-date" seriously may also precipitate adverse Rating Agency action.

**Viable Options for US Debt Ceiling Resolution**

- **Debt Ceiling Increase with 2 Year Spending Cap**
  - Increases debt ceiling to Q1 2025.
  - Cap set at FY 2023 rate.
  - Entails $300-500bn in cuts.

- **Debt Ceiling Increase with Modest Spending Cuts**
  - Increases debt ceiling to Q1 2025.
  - $300-500bn in deficit reduction over 10 years (i.e., recapturing unused COVID, other minor cuts).

- **Short-term CR with Debt Ceiling Extension to Sept 30**
  - Would require $400-500bn of Gov funding. Effectively "kicks can down the road" by 4 months. Easiest short term path, but creates challenge for Sept 30 a time of other priorities (budget, Gov shutdown risk).

**Non-Viable Options for US Debt Ceiling Resolution**

- **Prioritize Certain Government Payments Over Others.** Current and prior UST Secretaries have dismissed as non-practical. Rating Agency Fitch has singled AAA ratings downgrade likely under this path.
- **"Discharge Petition" House Procedural Maneuver.** Too challenging to obtain 5 GOP votes in the House to side-step Speaker McCarthy with a Democrat sponsored bill. Time period required too long.
- **"Premium Bond" Issuance at Higher Yields.** Complexity and risk of issuance to redeem existing bonds. Treasury unlikely to issue bonds that deviate from its "regular and predictable" issuance mandate. Reputation and confidence damage.
- **Issue Gold Certificates Backed by US Gold Reserves.** 1953 President Truman precedent. Fed may not accept. Non-traditional, inflationary, high risk, dilutes market confidence.

**HIGHER PROBABILITY**

**LOWER PROBABILITY**

**T-Bill Curve Signaling June 1 Timing**

- **US treasury bill curve**
- **NASDAQ**
- **Russell 2000**
- **S&P 500**
- **Dow Jones**
- **Nasdaq 1000**

**Significant Equity Stress Required for Political Cover**

- **Equity performance since March 1, 2023**
- **Mar 1**
- **May 12**
- **Jun 1**
- **Aug 1**
- **Sep 1**

**Global Corporate & Investment Banking Capital Markets Strategy Team**

- **Tom Joyce**
  - Managing Director
  - Tom.Joyce@mufgsecuritie.com
  - (212) 405-4172

- **Hailey Orr**
  - Director
  - Hailey.Orr@mufgsecuritie.com
  - (212) 405-4159

- **Stephanie Kendal**
  - Associate
  - Stephanie.Kendal@mufgsecuritie.com
  - (212) 405-4443

Source: (1) Bloomberg. Data as of May 12, 2023.