# Three key perspectives on the US debt drama

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I've been thinking about the recent shutdown of the US Government due to partisan game-playing over Obamacare. Whatever the initial "principles" of the matter, this time, the brinkmanship led the US to within moments of defaulting on its debt. We saw similar selfishness - parading as "national interest" - debilitate Australian politics and further demean its reputation over the past three years. As my dad used to say, it takes a lifetime to build a reputation and a minute to destroy it. What's true for our governments is the same for our families, communities and businesses. But this was the United States of America, the world's biggest economy! Unfortunately, not even what should be an over-riding concern for the common good of the average US citizen overrode political bluff in one of the world's strongest democracies - and its reputation as a bastion of what is good about democracy, along with a bunch of ordinary citizens, took another hit.

Anyway, enough philosophising. I'd like to take my usual portfolio construction helicopter view by sharing with you three of the things I've looked at recently that may help give you some practical insights on the US situation.

First, I've just finished listening to the podcast of the presentation that won the Delegate's Pick Award for best elective at the recent PortfolioConstruction Forum Conference, earned by London-based fund manager Andy Seaman of Stratton Street Capital. Stratton St is a global fixed interest manager, that invests only in bonds issued by wealthy nations, or countries that have no debt problems. Often, Andy says, those bonds have better yields than those issued by debtor nations (such as most developed countries, including the US and Australia) and will face substantially fewer risks in the long term. This may well be something to think about for your client portfolios. You can listen to Andy's presentation here. There's also a paper on the subject there too. The bottom line si that the US debt is affecting its bond yields as well as its politics and living standards!

Second, and interestingly, the Bank of International Settlements (BIS) - the world's central bank for central banks - held a seminar on a related topic (Sovereign Risk: a world without risk free assets), where they considered the consequences of a loss in confidence in risk-free assets such as US bonds. It's a contention that would have been inconceivable even five years ago. The portfolio consequences are obviously very significant and worth spending some time thinking about. There was a very interesting and readable speech given on the history of large countries defaulting, or nearly defaulting, through time. Britain nearly defaulted during the Napoleonic Wars and Australia was only saved from default by Britain in the 1890s. So, a US default, or the very significant threat of one, is hardly without precedent.

Finally, in spite of all this, my good friend and regular contributor to PortfolioConstruction

Forum, Jonathan Pain, has spoken to me about his optimism regarding the US economy. Those of you who know Jonathan will understand this is an unusual position for him to take, as he's been quite bearish for the past few years. His thoughts, as always, are interesting and thought provoking but, at the moment, most importantly, they provide a valuable counter to much of the negativity we are seeing regarding the US at the moment.

These three insights should help give you context on the US situation. By the time we next meet, we will know more about the next chapter of how this US drama is playing out. I look forward to it.

Till next time, all the best.

Graham

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