

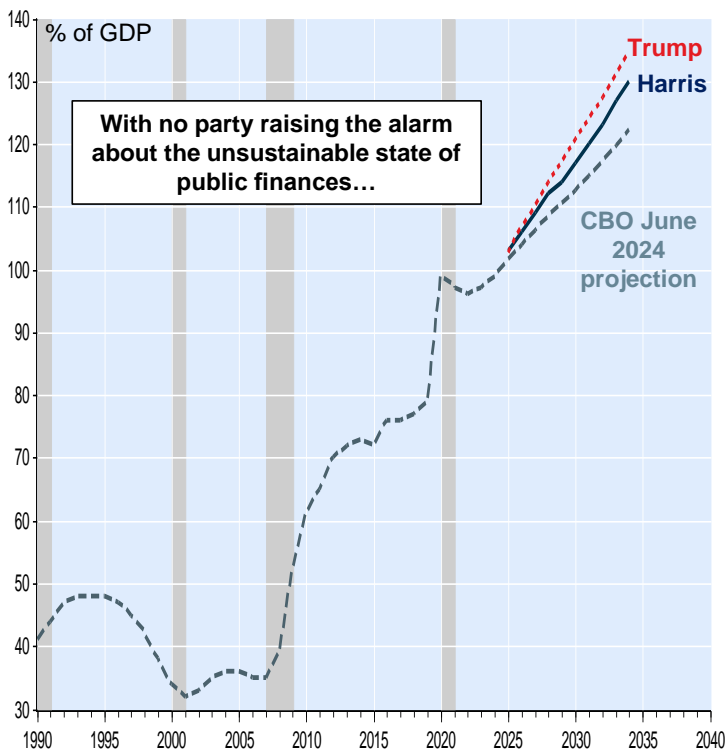
U.S. Watch

By **Matthieu Arseneau**

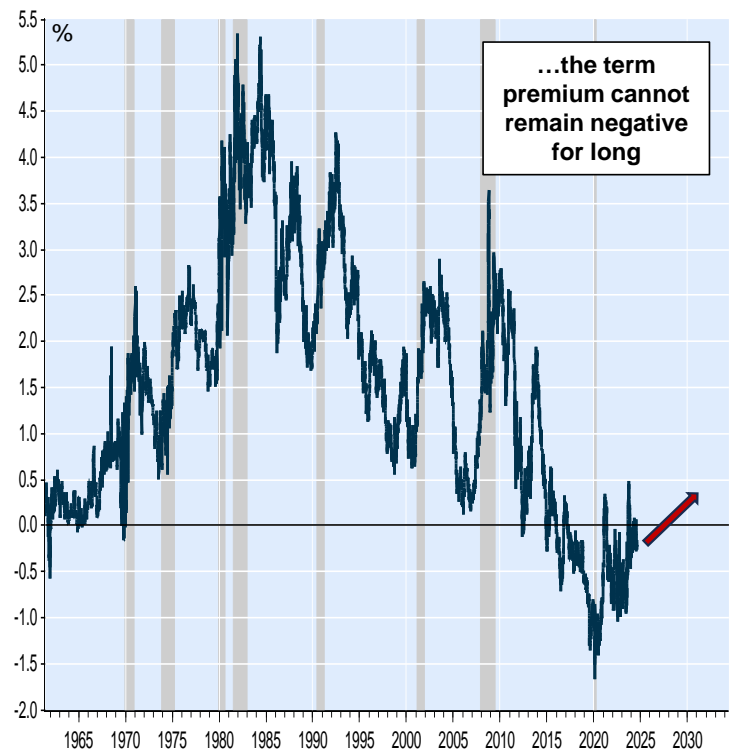
The American presidential campaign is well underway, but the outcome is still highly uncertain. However, one thing is for sure: the two main parties show no appetite for the path of fiscal discipline. Taking into account the economic impact of the measures, the [University of Pennsylvania](#) has recently calculated that Trump's promises represent a \$4.1 trillion increase in the primary fiscal deficits from 2025 to 2034, while Harris would limit herself to a deterioration of "only" \$2.0 trillion. According to our calculations, the total deficit (primary deficit plus interest expenditure) estimated by the CBO at 6.2% on average over the next decade, an already astronomical level, would be 7.7% if Trump's plan materialized, and 7.0% for Harris's. As today's Hot chart shows, this would translate into debt-to-GDP above 130% in 2034 under either Administration. Importantly, these scenarios assume uninterrupted economic growth over the next decade, a very optimistic assumption. The fact that no party seems to be sounding the alarm about the unsustainable state of public finances south of the border, and that no one is contemplating fiscal consolidation in the medium term, leads us to believe that the term premium cannot remain negative for very long. An increase of the term premium represents, all other things being equal, a medium-term headwind both for bonds (higher rates) and indirectly for equities.

U.S.: Fiscal indiscipline can't fly under the radar forever

Debt held by the public as a % of GDP



Term premium on a 10-year bond*



* The compensation that investors require to hold onto longer-duration securities

NBC Economics and Strategy (data via [CBO](#), [University of Pennsylvania](#) and in-house calculations)



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