

Navigating the unfolding debt ceiling dilemma

Update from the Liquidity Management team at UBS Asset Management

Reaching the debt ceiling

The US already hit the debt ceiling on January 19, 2023 but has not defaulted on its debt because of the action taken by the Treasury. On January 19, Treasury Secretary Janet Yellen sent a letter to congressional leaders detailing “extraordinary measures” the Treasury had taken to avoid a potential default on the national debt. These extraordinary measures pushed back the timeline for actually defaulting on the debt.

Approaching the “x-date”

On May 1, 2023, Secretary Yellen gave her updated forecast for the “x-date”, the date beyond which the Treasury will be unable to satisfy the government’s debt obligations, via a letter to congressional leaders. Secretary Yellen argued that the Treasury will not be able to satisfy all of the government’s obligations by early June, “and potentially as early as June 1”, if Congress does not raise or suspend the debt limit before that time. The Congressional Budget Office (CBO) also announced an updated forecast saying that there is “significantly greater risk that the Treasury will run out of funds in early June.”

At this point, our base case continues to be that Congress ultimately raises the debt ceiling, however; the path between now and then will be bumpy given the divided political situation in Washington. Legislation to raise the debt ceiling may not be agreed upon in Congress until the eleventh hour. It will be interesting to see if there are updates to the

“x-date” timeframe in the weeks ahead, but for the time being, the markets will be using June 1, or shortly thereafter, as the potential “x-date.”

Positioning our portfolios

Our team has successfully managed portfolios through numerous debt ceiling episodes over the past 27 years.

Treasury SMAs We have been adjusting the UBS Ultra Short Duration Treasury Ladder and UBS Short Duration Treasury SMAs since January to account for debt ceiling uncertainty. In these strategies, we are currently avoiding maturities from June – September 2023.

UBS Money Market Funds UBS Select Treasury Preferred Fund (STPXX), UBS Select Treasury Institutional Fund (SETXX), UBS Select Government Preferred Fund (SGPXX), UBS Select Government Institutional Fund (SEGXX), UBS RMA Government Money Market Fund (RMGXX) and UBS Government Investments Money Market Fund (PCEXX) are currently positioned with very short weighted average maturity (WAM) profiles. Our Select Treasury Funds have a WAM of approximately 1 day, our Government Money Market funds have a WAM of approximately 4 days and our UBS Government Money Market Investments Fund (PCEXX) has a WAM of approximately 6 days. As of 3/31/23, the longest 2023 Treasury security maturity in these money market funds is 5/30/23.

Clearly this is a fluid situation and a lot can change. We will continue to monitor the situation closely and act in the best interest of our clients. Please direct any questions to your respective regional sales director.

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Americas

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