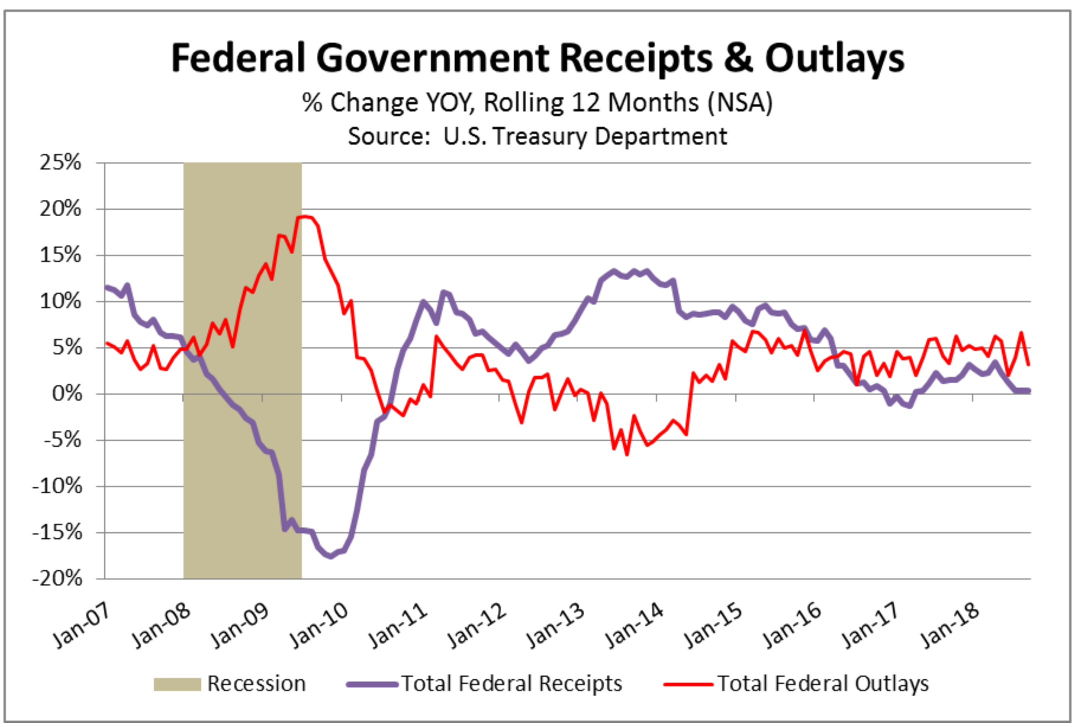
Wealth Management International, Ltd.
Proactive Investment Management & Financial Planning

Economic Chart of the Week
October 24, 2018

The federal government's fiscal year ended on September 30, so it's now possible to get a look at total receipts, outlays, and the deficit for FY 2018. The preliminary figures show total federal receipts came to $3.329 trillion for the year, while outlays came to $4.108 trillion. The deficit expanded to $779.0 billion, compared with $665.8 billion in FY 2017.

Besides looking at the total figures in dollars, it can also be instructive to consider how receipts and outlays are growing over time. As shown in this week's chart, total federal outlays (including everything from defense and "discretionary" programs to Social Security and interest) have been growing at a remarkably steady rate of about 3.7% per year for the last three years. The big change over that period is that receipts (everything from individual and corporate income taxes to Medicare premiums and tariffs) have been growing at a slower and slower rate. In late 2016, receipts were actually falling slightly on a year-over-year basis, in spite of the good momentum in economic growth. Receipts then rebounded a bit, but as the impact of the recent tax cuts took hold, they still ended FY 2018 up just 0.2% from the previous year. Looking forward, we worry that outlays and receipts will continue to follow widely differing trajectories, and that the deficit will continue to expand. That could make many investors nervous about federal debt levels, which could discourage them from buying Treasury bonds and help drive interest rates higher. We still appreciate the relative stability that fixed-income investments have historically provided compared with stocks and other riskier assets, so as we continue working to cut risk in our various strategies, we still expect to roll some funds into bonds. However, we're looking intently for fixed-income assets that might hold up better if the federal budget deficit widens dramatically.

Patrick Fearon, CFA
Chief Investment Officer



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