

Investment Views

JUNE 2025

One Big Beautiful...Breakup

"Sometimes you see two young children fighting like crazy," said President Trump at the beginning of this month. "They hate each other, and they're fighting in a park, and you try and pull them apart. They don't want to be pulled. Sometimes you're better off letting them fight for a while and then pulling them apart."

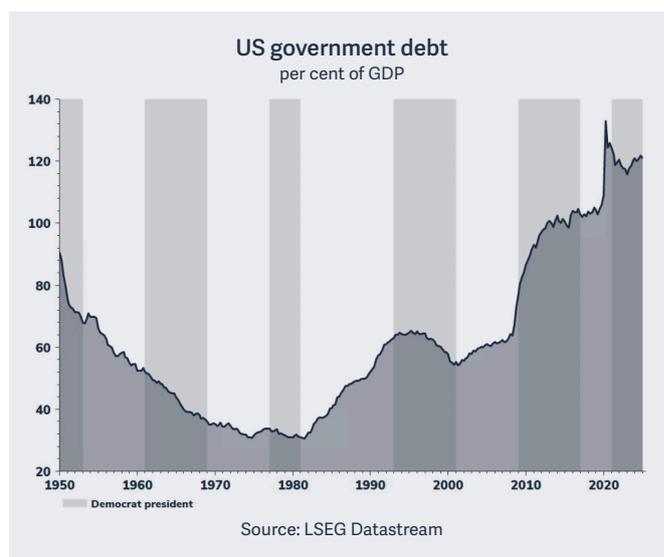
He was talking about the Russia-Ukraine conflict, although you would be forgiven for thinking he was talking about himself and Elon Musk. In a remarkable yet inevitable turn of events, the US President and his top financial backer - the man who contributed almost \$300million to ensure Trump's re-election, and who in return was appointed co-chair of the oh-so-funnily-named Department of Government Efficiency (DOGE) - fell out. Who would have guessed? Everyone. This most visible of political-business "bromances" thus quickly unravelled, descending into remarkable scenes of public bickering between the world's richest man and its most powerful leader, played out not behind closed doors but, of course, on social media to applause and ridicule like...err... two young children.

The fallout is over Trump's "One Big Beautiful Bill", a comprehensive piece of legislation aimed at delivering significant tax relief and economic incentives to various segments of the American population. On the face of it, it seeks to fuel an American manufacturing boom by providing pro-growth, pro-worker tax policies. Key provisions include removing tax on tips, impacting 4 million workers such as waiters and bartenders; no tax on overtime pay to reward those who put in extra hours; tax relief for low-income pensioners; no tax on auto-loan interest for American made cars; 100% expensing for job creators building production facilities in the United States; a permanent extension of the 2017 tax cuts and an increase in the gift and estate tax exemptions to \$15 million.

Nothing wrong with any of that, nor with the tangible benefits and animal spirits it could unleash. For example, a typical single mother working as a waitress may save more than \$3,000 from no tax on tips and overtime, tax deductions, enhanced Child Tax Credit and car loan interest deduction. Similarly, a taxi driver in New Jersey may end up with a \$2,000 tax cut. In fact, making the 2017 Trump tax cuts permanent, coupled with new incentives for domestic investment, is expected to raise wages, boost small business and manufacturing growth, and increase investment in the American economy. All of which sounds great.

The problem is that all of this good stuff requires adding trillions of dollars to the national debt, which as the chart below shows, is already elevated. The US Treasury needs to issue at least US\$2

trillion of new bonds each year just to fund the existing deficit. The "Big Beautiful Bill" could more than double that figure within the next 10 years, aside from the trillions of dollars of debts that need to roll over each year. That is the reason Musk called it a "disgusting abomination".



Does more debt matter? Yes, it does, because debt has always been the ruin of great powers*. No one knows exactly how much debt is too much or exactly when the day of reckoning will arrive, but we do know that at some point over the very long term, it always does. One barometer to consider is when debt service exceeds defence spending, leaving a nation vulnerable over time to military challenge. This is the threshold that the US began violating for the first time in a century last year, with expenditure on interest standing at \$1.12 trillion and defence spend at \$1.11 trillion. Looked at another way, a little over 3% of GDP was spent on interest and just under 3% on defence. Compare that to the period between 1962 and 1989, when the spend averaged 6.4% of GDP on defence and just 1.8% servicing debt – 3.5x as much. Even after the Cold War, the US spent twice as much on national security as it did on debt. The world does not feel like a much safer place today.

As Niall Fergusson points out*, there is no escaping the consequences of spending more on interest than on defence. Based on current projections the US is likely to move further beyond this crucial limit in the coming decades, encumbered as it is with an expensive welfare system and entitlement programs that will only become more expensive as the population ages. Adding significantly to current debt levels via the Bill is therefore concerning, potentially reckless. Which, along with the public bickering, does nothing to diminish the uncertainty already felt by small businesses and consumers due to the ongoing tariff debacle, which itself means that “no business in America can plan beyond lunchtime” (Michael Moritz, FT, 9.6.25).

There are two ways out of the debt and interest burden. One is austerity, which causes a lot of pain and is therefore disliked by politicians facing election every few years. The other is growth, the option which Musk himself recently appeared to accept: “I have come to the perhaps obvious conclusion that accelerating GDP growth is essential... the profligacy of government means that only radical improvements in productivity can save our country”. So much for DOGE.

Abomination or not, America’s brief attempt at fiscal discipline looks to be over and expanding budget deficits are here to stay. Which means that government debt levels and financing needs will remain the primary driver of interest rates and inflation. Provided long-term bond yields remain under control, all will be well. As the other Fergusson (Adam, the Scottish political theorist) said, though a nation may “sink in some future age, every minister hopes it may still keep afloat in his own.”

**“Debt has always been the ruin of Great Powers. Is the US next?”
Niall Ferguson, WSJ, 21 February 2025*

DISCLAIMER

Published and distributed by **Bentley Reid & Co (UK) Limited**

29 Queen Anne’s Gate, London SW1H 9BU, England
Tel +44 (0) 20 7222 8081, Fax +44 (0) 20 7227 8440, Email info@bentleyreid.com

Authorized and regulated by the Financial Conduct Authority (FRN 572096), registered office 29 Queen Anne’s Gate, London SW1H 9BU. Registered Number 07602886

The content of this document is for information purposes only. The authors believe that, at the time of publication the views expressed and opinions given are correct but cannot guarantee this and readers intending to take action based upon the content of this document should first consult with the professional who advises them on their financial affairs. Any companies cited in this report are used to support the view of the authors, and should not be construed as recommendations to purchase or sell the underlying securities. Neither the publisher nor any of its subsidiaries or connected parties accepts responsibility of any direct or indirect or consequential loss suffered by a reader or any related person as a result of any action taken, or not taken in reliance upon the content of this document.