Concerns Over US Government Debt

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US government debt is back in the news after recently surpassing $40 trillion. Investors may find this level of debt concerning and wonder whether a change is needed in their portfolios.

One thing we should note is that debt level concerns have been around for a while now. In fact, government debt was the main culprit cited by Moody's when downgrading the US sovereign debt rating last year.

Judging by credit default swap (CDS) spreads, it doesn't appear the market's assessment of the situation has gotten any worse recently. The CDS rate reflects the cost to insure against the US defaulting on its sovereign debt and as such has information about a bond's credit quality. For the past three years, the rate has been around the same level, apart from a brief spike around the onset of tariff trepidation in April 2025.

This is important for investors to keep in mind—market prices reflect investors' expectations for the future, including government debt levels and the anticipated fallout for stocks and bonds. Absent a major development in the debt picture, it's not clear investors need to amend their asset allocation.

US five-year credit default swap spread (basis points)

August 24, 2023–August 24, 2026

Source: Bloomberg

Glossary

Basis Points: One basis point equals 0.01%.

Credit Default Swap: A contract that acts as insurance where the seller of the swap agrees to compensate the buyer if a debt defaults.

Sovereign Debt Rating: An assessment of a country's creditworthiness. Ratings are published by credit rating agencies.

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