

U.S. Municipal Bond Market

Lawmakers May Exploit the Debt Ceiling Limit Again

- The cash balance and extraordinary measures the U.S. Treasury can utilize should last until October or November 2021, according to the Congressional Budget Office.
- We will be watching closely to see if Congress exploits the debt ceiling deadline.
- Senate Minority Leader Mitch McConnell's quote could be an indication that debt ceiling negotiations may be tense.

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Bipartisan Budget Act of 2019

The Bipartisan Budget Act of 2019 suspended the need for a federal debt limit until July 31, 2021. On Aug. 1, 2021 the debt limit of \$22 trillion (last set Feb. 2, 2018) will resume unless the suspension is extended, the \$22 trillion limit is increased, or the U.S. Treasury declares a "debt issuance suspension period" and takes "extraordinary measures," in essence buying time after the July 31, 2021 deadline.

The Congressional Budget Office (CBO), in a July 21, 2021 report, [Federal Debt and the Statutory Limit, July 2021](#), highlighted that the U.S. Treasury's cash balance and extraordinary measures would run out sometime in October or November 2021. So, the extraordinary measures, like suspending the use of SLGS, should last at the very least until Oct. 1. This date coincides with a two-week period between Monday, Sept. 20 and Friday, Oct. 1 when both the U.S. House of Representatives and the U.S. Senate will be in session.

Time is not on the side of lawmakers. They have the rest of this week and next week when both chambers are in session. The Senate is in session the first week of August. Otherwise, there is a sizeable gap until that period that begins Sept. 20.

Washington lawmakers may again exploit the debt ceiling as a political tool. This had significant market ramifications, as we pointed out last week, even when the process only went to the 11th hour in 2011.

Lawmakers May Again Exploit Debt Ceiling

Just last week, we reminded readers of the debt ceiling showdown of 2011 in our July 16 report, [Fitch Ratings Questions U.S. Governance, Identifies a Breakdown in Political Norms](#). Coincidentally, Washington lawmakers may again exploit the debt ceiling as a political tool. This had significant market ramifications, as we pointed out last week, even when the process only went to the 11th hour in 2011. It contributed to a S&P Global downgrade of the U.S. sovereign rating, which also reverberated throughout the municipal bond market to credits directly and indirectly linked to the U.S. rating. If not in time, the broader results could be financially destructive with the suspension or debt limit.

On the morning of Wednesday, July 21, Senate Minority Leader Mitch McConnell weighed in on the potential debt ceiling negotiation. McConnell was quoted in Punchbowl News saying the Democrats will need to include the debt ceiling in a budget reconciliation bill, because he doesn't think Republicans will support it. ["I can't imagine a single Republican in this environment that we're in now—to vote to raise the debt limit. I think the answer is they need to put it into the reconciliation bill,"](#) said McConnell.

It is difficult to say the seriousness of Senator McConnell's suggestion. But, the Senate Minority Leader usually chooses his words carefully. We think this is important enough and that investors should pay attention to this dynamic, especially considering Oct. 1 is closer than it appears, since lawmakers will only have a few days left to work.

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Additional Reading

[The Debt Limit Since 2011](#), Congressional Research Service, April 1, 2021

Recent HilltopSecurities Municipal Commentary

- [Fitch Ratings Questions U.S. Governance, Identifies a Breakdown in Political Norms](#), July 16, 2021
- [Our Revised 2021 Municipal Issuance Forecast: \\$460 Billion](#), July 15, 2021
- [June Housing Finance Agency Prepayment Report, Delinquency Trends, and Outlook](#), June 29, 2021
- [Biden Buys Time by Endorsing Framework](#), June 25, 2021
- [U.S. Airport Activity Will Soar Back](#), June 18, 2021
- [HHS Extends Time Hospitals Can Use Emergency Relief Funds](#), June 15, 2021

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