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**Q3 2025 - QUARTERLY COMMENTARY**

World order is being challenged in ways not seen in several decades. Except for a temporary spike in oil prices, global markets experienced only a minor negative reaction to the 12-Day War involving Israel and the U.S. against Iran. Not seen in recent years, Europe’s economy and stock market are outpacing the U.S., driven by unprecedented stimulus spending of $588 billion on infrastructure and more borrowing on defense, in response to Trump’s wavering position on security guarantees. India’s economy and stock market are now slowing due to a surplus in workers, many educated, without employment. China’s declining demographics, debt problem, and economic growth rate heading close to zero have reduced their stock market’s advance, too. But the trend with the greatest consequences, as recently reported in the *Financial Times*, may be “The world is changing, the U.S. market is not,” by Ruchir Sharma, Rockefeller International Chairman.

Consistent with the unknown effects of geopolitics, the implications of tariffs for the U.S. economy and financial markets are increasing uncertainty. President Trump asserts that the “One Big Beautiful Bill Act” includes nearly $1.7 trillion in mandatory spending reductions in government programs before offsetting expenditures in border security, tax cuts, and more, netting $1.4 trillion in net deficit reduction. He also claims that Americans won’t feel the cuts. Unsurprisingly, critics note that the President is attempting to diffuse the deficit concerns by focusing on prospects for economic growth. The White House predicts that our domestic economy will grow at a 2.8% annual rate over the next decade. Assuming this growth rate materializes, the White House expects the benefits of the Act to reduce the deficit. Other organizations, including the Tax Foundation and the Congressional Budget Office (CBO), suggest the Act could increase the deficit over the long term. The difference in opinion is due to the CBO estimation of only 1.8% growth, thereby resulting in a deficit increase of $3.4 trillion instead. The U.S. now spends more than $1 trillion a year to service its debt, triple the cost from 2020 levels. Debt service now exceeds spending on all other major government programs, such as national defense and Medicare, except for Social Security. Both higher interest rates and an increasing national debt are to blame.

This phenomenon should be of interest to all investors. If the U.S. national debt gets too large for the world’s investors to tolerate, numerous negative consequences may occur, such as potential bond investors of U.S. government debt demanding higher interest rates. Such a reaction can depress both stock and bond prices as well as increase inflation. This result pressures government spending on public services, all of which leads to a decrease in wages and living standards for Americans. Furthermore, a potential loss of global economic standing will likely lead to less confidence that the U.S will retain its status as the world’s reserve currency, exacerbating our nation’s challenges. One of the predominant financial determinants of a decline in a country’s great power is spending more on debt than defense, known as “Ferguson’s Law,” according to historical research by Niall Ferguson, conservative British American historian, Milbank Fellow at the Hoover Institution, University of Austin co-founder, and past professor at Cambridge University, Oxford University, New York University, and Harvard University.

A tipping point is reached when a country’s interest payments on its debt surpass its defense spending, because the combined forces of the total debt burden weaken the geopolitical strength of a great power. This tipping point is known as the “Ferguson Limit.” Servicing burdensome debt requires excessive capital, reducing the amount available for national security, leaving the power more vulnerable to military challenges. If true, is our massive deficit at least partially responsible for Trump’s temporary hardline pause against military aid to Ukraine? Ferguson’s research shows that it is very rare, but not unprecedented, for a great power to return to the right side of the Ferguson Limit. In 2024, the United States began violating Ferguson’s Limit for the first time in nearly a century. Net interest outlays on the U.S. national debt reached 3.1% of GDP, exceeding defense spending of 3.0%. By way of comparison, between the Cuban Missile Crisis and the fall of the Berlin Wall, U.S. interest payments averaged 1.8% of GDP, compared to 6.4% of GDP for defense. The CBO projects that net interest payments will be nearly double the defense budget, or 4.9% versus 2.5% by 2049, assuming the U.S. defense spending remains around the 2014-23 average.

Although Elon Musk’s national anti-debt crusade gets plenty of publicity due to his media company, X Corp., Jamie Dimon, CEO of J.P. Morgan Chase, often voices concerns about the mounting U.S. national debt, calling it a “big deal” and a “real problem.” He believes the swelling debt ultimately will create challenges for the bond market, possibly leading to instability and higher borrowing costs, making it harder for our government and businesses to borrow money. David Solomon, Goldman Sachs CEO, and Warren Buffet have similar apprehensions on the unsustainability of the U.S. deficit. Jerome Powell, Chair of the Federal Reserve (Fed), has also repeatedly expressed reservations about the U.S. government’s fiscal path. Likewise, former Treasury Secretary and Fed Chair, Janet Yellen, called President Trump’s tax bill the “Big Ugly Bill” and said it will be “devastating” for low-income households, causing prices to rise and average household incomes to fall by $1,000 or more, depending on how things emerge with the tariff program, even if U.S. inflation decelerates.

Can the opinions of these financial experts and many more be mistaken in their outlook? ICC is confident that unless our nation’s debt and spending problems are addressed directly by making hard decisions, instead of predominantly relying upon optimistic assumptions, such as promised robust economic growth, our country is likely to face increasing headwinds. When it comes to economic forecasts, most expert opinions miss their mark widely, so we concur with one of the greatest catchers in baseball history, still holding several World Series records, Yogi Berra, and avoid swinging at that pitch. One of his relevant Yogi-isms is, “it’s tough to make predictions, especially about the future.” Even if enough of President Trump’s economic predictions result in reducing the deficit, consequences regarding the “One Big Beautiful Bill Act” cannot be known yet. However, this is certain, “All progress is precarious, and the solution of one problem brings us face to face with another problem” as quoted in 1963 from Martin Luther King Jr’s. book, “Strength to Love.”

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Yours sincerely,

Randy Garcia

Chief Executive Officer

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