

The Riverwood Wealth Management Group at Morgan Stanley

News and Views

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I have to admit, it feels a little surreal to put 2025 on this note. Do you remember the sensations we went through as the calendar ticked over from 1999 to 2000? For those of us that are a bit grey we can probably think of old movies that used dates like 2025 to project some crazy futuristic point in time. Well, here we are and as we opined on in the last months letter, the advances in technology over the past few decades has delivered many of those Hollywood predictions into our daily lives.

Let's take a minute and look at the other side of the coin this month. As much as change has been rapid and constant, quite of lot has not changed at all. The old saying that familiarity breeds contempt might be applied a little in this regard. We tend to disregard what we are used to as common and normal while we focus on things that are new or different. In addition, sometimes we make the mistake of thinking that something that is occurring today is new, when it is simply new to us, but has happened before. Perhaps what we know about certain things, and how fast we learn about what is happening might different (thanks technology). Maybe our understanding of things is different, which allows us to view these events/things in a different light. Regardless, when you really drill into it the number of truly really "new" things in life might not be all that large.

It might be fair to change the word new to evolution. For example, cars, while new when they first came out, were simply an evolution of travel. Self-driving cars, while new in the strictest sense of the word, are simply the latest evolution in travel. Communication has evolved from grunting and hand signals, to talking, drawing, writing, printing, telegraph, wired phones, wireless, and so forth. Communication has evolved, but at the end of the day is still communication. There are some things that seem to resist this evolution. Chief among them might be efforts to reduce the size of our government. Since the election, there has been a fair amount of excitement and conversation around this topic as President-elect Trump has formed the Department of Government Efficiency (DOGE) and placed a few well-known people in charge. But to call it a new idea would not be accurate. There have been many efforts over the years to do this, yet the results have been largely negligible, and the size of the government continues to increase.

The most recent significant effort was the Grace Commission, formed by President Reagan in in 1982, also led by a well-known businessman. In a recent piece First Trust Economist Brian Wesbury pointed out that at that time the debt to GDP ratio was just under 32%. Today it is over 120%. After 2 years, and the creation of 36 task forces to investigate ideas, the commission presented nearly 2500 recommendations that would cut over \$400 billion. They warned at the time that without reform the debt could reach \$2.5 trillion by the year 2000. FYI, the debt stands at over \$34 trillion today. Finding areas that could potentially be cut or reduced was not too difficult, but getting those changes implemented was. At the end of the day, nothing really happened. All the changes proposed would have affected somebody, and Congress did not have the will to annoy potential voters. That issue has not changed. In addition, today nearly 86% of the federal budget is categorized as mandatory or essential, making those items nearly untouchable.¹

Maybe now is the point in time where the people involved in the process and the technology available to help in the effort are in the right place at the right time. We are rooting for positive results in this endeavor. Regardless of the outcome, there will probably be a lot of chatter/tweets/stories surrounding this, and other, topics next year. Thanks to the evolution of the process, we can be more informed of everything along the way than we were during the Grace era (thanks technology). What we are hoping has evolved is the willingness of our elected officials to act on some of the recommendations, despite potentially impacting some of their constituents. While all this is playing out, our efforts will be centered on helping you stay focused on your personal goals and objectives. As always, thanks for your confidence. Feel free to call anytime.

"Working hard to earn your trust...and even harder to keep it"

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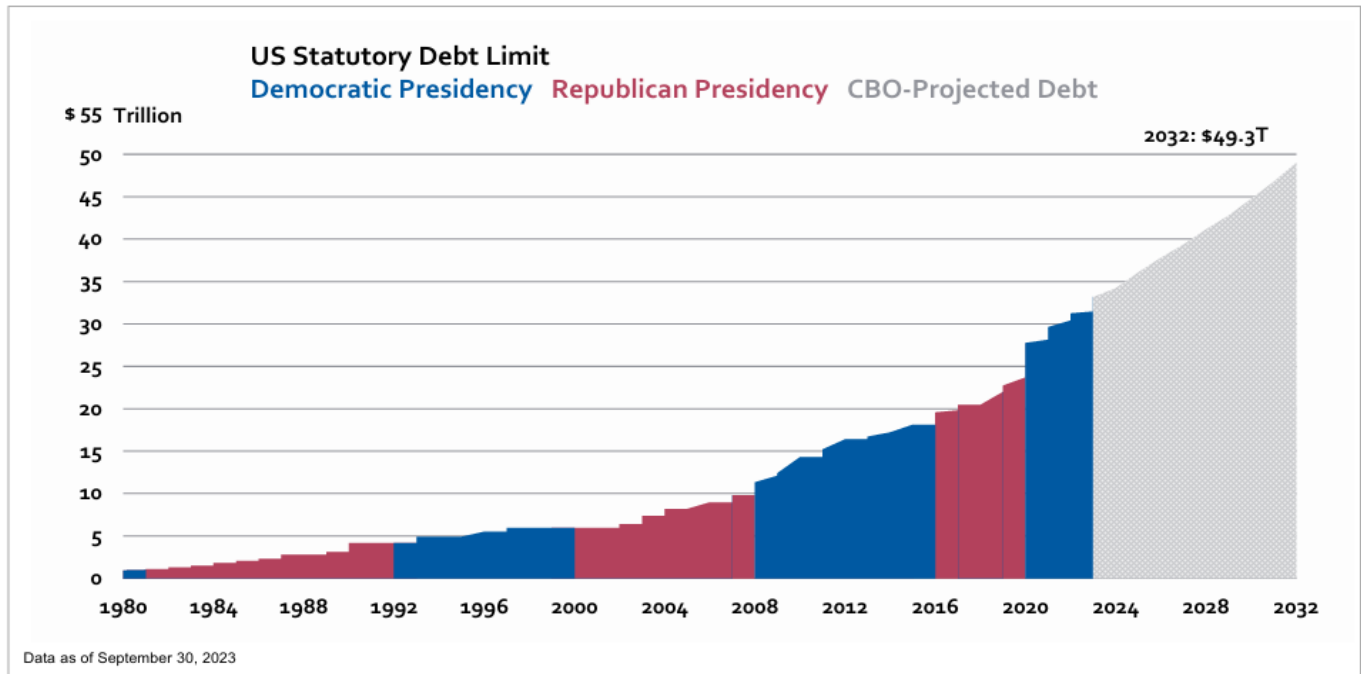
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Historical Accumulation of Debt

- The US reached the federal debt limit earlier in 2023, but avoided a default with the passage of the Fiscal Responsibility Act in June
- The Congressional Budget Office projects that by the end of 2032, \$49.3 trillion will be subject to the limit, 193% of 2022 GDP

US debt accumulation and debt limit increases are supported by both political parties



Source: Bloomberg, Congressional Budget Office, Morgan Stanley Wealth Management Global Investment Office

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¹ Data points in paragraph 4 regarding Grace Commission, debt levels, and budget items sourced from First Trust Economic Update “Cautionary Tale of DOGE”, December 3 2024. Brian Wesbury, Robert Stein Authors

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