

Where the Federal Dollar Goes

Part 3 of 3: What the Fiscal Paths Mean for Investors



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Prepared by Uniting Wealth Partners



Data current as of October 14, 2026

For informational purposes only; not individualized investment advice. See Important Disclosures at the end.

Executive takeaway. The path Washington takes on deficits will shape interest rates, inflation, and growth—the forces behind most investment returns. A credible plan to balance the budget or stabilize debt would likely pull long-term yields down over time while slowing near-term growth; continued drift under current law would keep rates higher for longer and raise inflation and fiscal-stress risk. Because the outcome is uncertain, this paper argues for resilience over prediction: a diversified core, deliberate decisions on bond duration and inflation protection, tax-aware planning, and modest tilts that adjust as the signposts become clearer.

Recap from Parts 1 and 2. In FY2025 the federal government spent \$7.01 trillion against \$5.23 trillion in receipts, a \$1.78 trillion deficit. Under current law, CBO projects deficits rising to \$3.1 trillion (6.7% of GDP) by 2036 and debt held by the public reaching 120% of GDP. Part 2 outlined three paths for the next decade:

- **Balance the budget by FY2036.** About \$3.1 trillion in annual savings by 2036, the largest fiscal consolidation in modern U.S. history.
- **Stabilize debt (deficits near 3% of GDP).** About \$1.7 trillion in annual savings by 2036, phased in over several years.
- **Current-law drift.** No new action; net interest roughly doubles to \$2.1 trillion by 2036, and an automatic Social Security benefit cut arrives in 2032.

1. What the Paths Mean for Investors

Why fiscal policy matters for portfolios. The path Washington takes will shape the three forces that drive most investment returns: interest rates, inflation, and economic growth. A credible deficit-reduction plan would likely pull long-term interest rates down over time but slow growth in the near term. Continued drift would keep rates higher for longer, raise inflation risk, and leave markets exposed to periodic episodes of fiscal stress. Because no one can know in advance which path lawmakers will choose, the goal is not to bet on one outcome but to build portfolios that hold up across all three while leaning toward the signals as they emerge.¹

¹ Sources: [CBO, The Budget and Economic Outlook: 2026 to 2036](#); [CBO, Monthly Budget Review: September 2026](#). Scenario effects on asset classes reflect the author's analysis.

Important: This section is general educational analysis, not individualized investment advice. The allocations shown are illustrative tilts for a hypothetical moderate-risk investor. Appropriate decisions depend on each investor's goals, time horizon, tax situation, and risk tolerance, and should be made with a qualified financial professional. For households with large taxable accounts, concentrated positions, or private investments, implementation matters as much as the target mix: tilts are often best made with new cash, income, and tax-lot selection rather than by selling appreciated holdings. Past patterns do not guarantee future results.

INVESTOR SCORECARD: HOW ASSET CLASSES FARE ON EACH PATH

Directional, relative to a neutral starting point. Illustrative; not a forecast or a recommendation.

	Balance the budget	Stabilize debt	Current law (drift)
Cash and short-term Treasuries	Neutral	Neutral	Mildly favorable
Long-term Treasuries	Favorable	Mildly favorable	Unfavorable
Inflation-protected bonds (TIPS)	Mildly unfavorable	Neutral	Favorable
Investment-grade corporate bonds	Mildly favorable	Mildly favorable	Mildly unfavorable
Municipal bonds	Mildly favorable	Mildly favorable	Mildly unfavorable
U.S. large-cap equities (quality)	Neutral	Mildly favorable	Neutral
Rate-sensitive and small-cap equities	Neutral	Mildly favorable	Unfavorable
International equities and non-dollar assets	Mildly unfavorable	Neutral	Mildly favorable
Real assets (commodities, gold, infrastructure)	Mildly unfavorable	Neutral	Favorable
Sectors reliant on federal spending	Unfavorable	Mildly unfavorable	Neutral

Federal-spending sectors include health-care providers and insurers tied to Medicare and Medicaid, defense contractors, and government services.

Source: Author analysis based on CBO, The Budget and Economic Outlook: 2026 to 2036 (February 2026), and the scenario descriptions in Part 2 of this series

Path 1: Balance the Budget by FY2036

The macro picture. A consolidation of roughly 6.7% of GDP would sharply reduce Treasury borrowing. Over time, that would likely lower long-term interest rates and shrink the risk premium investors demand to hold U.S. debt. The cost is a meaningful drag on growth in the early years, especially if cuts and tax increases arrive quickly. Corporate earnings growth could slow, and firms that depend on federal contracts or reimbursements would face direct revenue pressure.

Portfolio implications. High-quality bonds would be the main beneficiaries: falling yields raise bond prices, so investors could reasonably extend duration toward the long end of their range. Investment-grade corporate and

municipal bonds would also benefit, and munis would become more valuable if tax increases fall on higher earners. In equities, favor quality companies with strong balance sheets and steady earnings over cyclical businesses. Be selective in health-care services and defense, where federal spending restraint would bite. With inflation risk lower, TIPS and commodities would matter less.

Path 2: Stabilize Debt (Deficits Near 3% of GDP)

The macro picture. A phased package of about \$1.7 trillion in annual savings by 2036 would steady the debt-to-GDP ratio without a sharp shock to growth. Markets would likely reward a credible, enforceable plan with gradually lower long-term yields and a more stable dollar, while the slower pace of change limits the near-term drag.

Portfolio implications. This is the most balanced environment for a diversified portfolio. A neutral-to-modestly-longer bond duration, broad U.S. and international equity exposure, and a steady allocation to investment-grade bonds should all perform reasonably well. Rate-sensitive areas such as small-cap stocks, real estate, and utilities could benefit as borrowing costs ease. Investors should still plan for tax changes: tax-efficient vehicles, municipal bonds for those in higher brackets, and careful timing of income realization would add value.

Path 3: Current-Law Drift

The macro picture. Under the CBO baseline, debt climbs to 120% of GDP by 2036 and interest costs double. Heavy and rising Treasury issuance would likely keep long-term yields elevated and the yield curve steeper, as investors demand more compensation for holding long-dated debt. Inflation risk would be higher, the dollar more vulnerable, and markets more prone to sudden episodes of fiscal stress, such as a failed auction, a credit-rating downgrade, or a debt-limit standoff. The 2032 Social Security shortfall would add pressure on retirees and on consumer spending.

Portfolio implications. Keep bond duration short to intermediate and avoid concentrating in long-term nominal Treasuries, which would suffer most if yields rise further. Use TIPS for part of the fixed-income allocation to protect against inflation. Increase real assets such as commodities, gold, and infrastructure, and add international diversification to reduce dependence on the dollar and on U.S. fiscal policy. In equities, favor companies with pricing

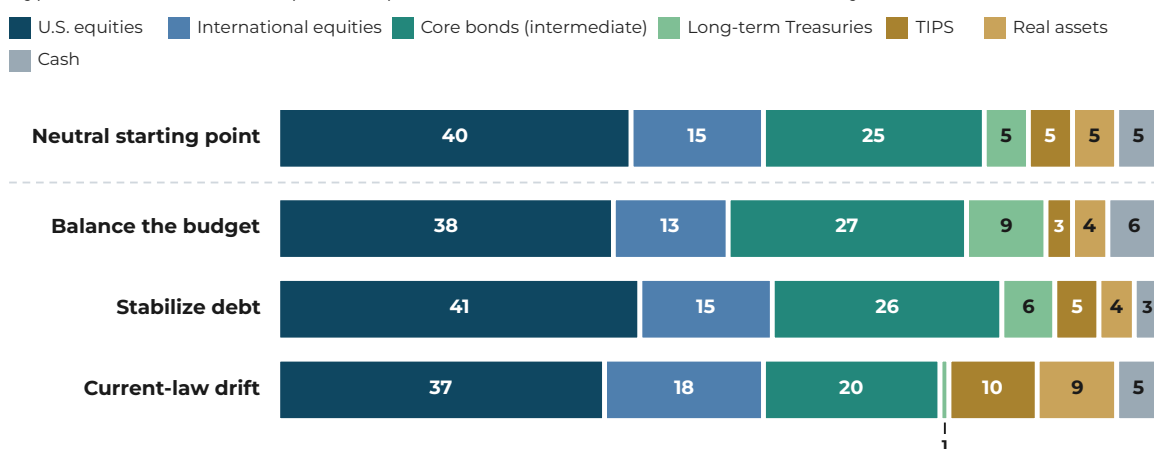
power, low debt, and strong cash flow, and be cautious with highly indebted and rate-sensitive businesses. Maintain liquidity so that market dislocations become buying opportunities rather than forced sales.

Allocating Across the Paths

Small tilts, not big bets. Because the path is uncertain and could take years to become clear, the illustration below keeps every portfolio diversified and shifts allocations by only a few percentage points at a time. The largest moves are in bond duration and inflation protection, the two exposures most directly affected by fiscal policy. Investors can adjust gradually as the signposts later in this section point toward one path or another.

ILLUSTRATIVE ALLOCATION TILTS BY PATH

Hypothetical moderate-risk portfolio, percent of total. Not a recommendation for any individual investor.



Balance the budget: lengthen duration and add high-quality bonds; trim inflation hedges and cyclical exposure.

Stabilize debt: stay close to neutral with modestly longer duration and full equity diversification.

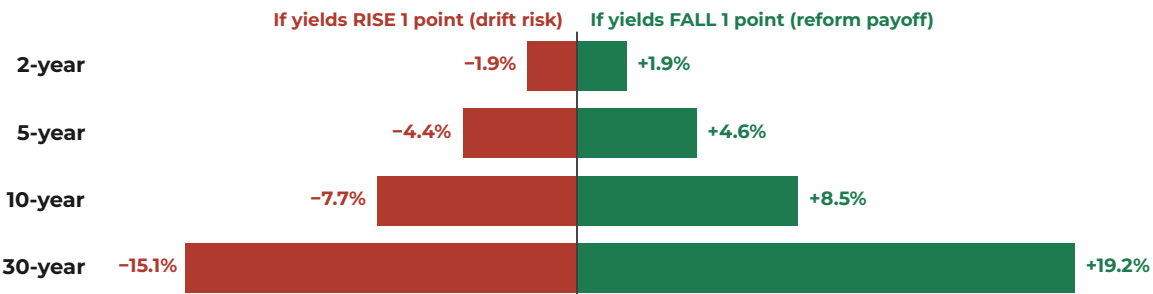
Current-law drift: shorten duration; add TIPS, real assets, and international exposure to hedge inflation and the dollar.

Source: Author analysis. Figures are illustrative tilts around a hypothetical neutral mix and are not based on any client's circumstances.

The duration decision. The single most important fiscal choice for a bond portfolio is how much interest-rate sensitivity to carry. The chart shows how much more a 30-year bond moves than a 2-year note when yields change by one percentage point, which is why the allocation tilts above lengthen duration under reform and shorten it under drift.

WHY BOND DURATION MATTERS ON EACH PATH

Price change for a 1-percentage-point move in yields, par Treasury bonds yielding 4.2%



Long-dated bonds gain the most if a credible plan pulls yields down and lose the most if drift pushes yields up. Duration is the main lever investors can use to position for the fiscal outcome while keeping overall portfolio risk in check.

Source: Author calculations for hypothetical par Treasury bonds with semiannual coupons; excludes coupon income. Actual results vary with yield levels.

Which Path Are We On? Signposts for Investors

Reading the signals. The fiscal path will not be announced in a single moment. It will emerge from budget deals, market behavior, and official projections. The table below links observable signals to the portfolio adjustments they would support.

Signposts and portfolio responses		
Path	Signals to watch	Portfolio response
Balance the budget	Bipartisan multi-year deal with enforceable caps; Social Security and Medicare reforms enacted; CBO baseline shows deficits falling toward zero; long-term yields decline	Extend bond duration; add high-quality corporate and municipal bonds; favor quality equities; reduce inflation hedges; review federal-spending-dependent holdings

Signposts and portfolio responses		
Path	Signals to watch	Portfolio response
Stabilize debt	Fiscal commission or budget framework targeting about 3% of GDP deficits; phased trust-fund fixes; steady Treasury auctions; stable or improving credit ratings	Hold near-neutral allocation with modestly longer duration; stay broadly diversified across U.S. and international equities; emphasize tax-efficient investing
Current-law drift	Repeated stopgap funding and debt-limit standoffs; deficits above CBO projections; weak Treasury auction demand or rising term premium; rating downgrades; no action before the 2032 Social Security deadline	Shorten duration; add TIPS, real assets, and international exposure; favor companies with pricing power and low debt; keep extra liquidity to rebalance into dislocations

Source: Author analysis.

A Playbook for Every Path

Diversify first, tilt second. No single path is certain. A portfolio that spans stocks, high-quality bonds, inflation protection, and global exposure aims to be resilient across all three outcomes; fiscal views should shape modest tilts, not the core mix.

Rebalance on a schedule. Fiscal headlines can drive sharp moves in rates and markets. A disciplined rebalancing policy is designed to turn that volatility into an advantage by trimming what has risen and adding to what has fallen.

Plan for higher taxes. Every realistic path to lower deficits includes additional revenue. Investors can prepare by using tax-advantaged accounts, holding tax-inefficient assets where they are sheltered, considering municipal bonds in higher brackets, and evaluating Roth conversions while current rates are in place. Higher-income investors are the most exposed: capital-gains rates, the 3.8% net investment income tax, and the estate exemption are recurring

revenue options, even though the 2025 reconciliation act made the current estate exemption and top income-tax rate permanent.

Stress-test retirement income. Retirement plans should model Social Security benefits at about 78% of scheduled levels after 2032 as a downside case, along with possible Medicare premium and cost-sharing changes. Building a cash or short-term bond reserve for the early years of retirement reduces the risk of selling assets in a downturn. For higher-income retirees, Social Security is usually a smaller share of income, but income-related Medicare premiums (IRMAA) and the taxation of benefits make the timing of withdrawals, Roth conversions, and capital-gain realizations more consequential.

Keep liquidity for opportunity. Episodes of fiscal stress, such as debt-limit standoffs or weak Treasury auctions, have tended to be temporary. Investors with dry powder can rebalance into dislocations rather than being forced sellers.

Avoid all-or-nothing bets. Predictions of an imminent debt crisis have repeatedly proven early. Selling everything or concentrating in a single hedge, such as gold, can cost more in missed returns than the risk it protects against.

Locate assets deliberately. Hold tax-inefficient assets such as taxable bonds and actively traded strategies in tax-deferred accounts, and favor municipal bonds and tax-efficient equity funds in taxable accounts. Compare municipal bonds with Treasuries on an after-tax basis: Treasury interest is exempt from state and local income tax, which narrows the municipal advantage in some states.

Harvest losses in volatile periods. Fiscal-stress episodes can create opportunities to realize losses and reset cost basis without changing overall market exposure, subject to wash-sale rules.

Use today's transfer-tax rules. The \$15 million-per-person estate and gift exemption that took effect in 2026 has no scheduled sunset, but a future Congress could reduce it. Families with estates near or above that level may want to review lifetime gifting and trust strategies with counsel while current rules apply.

Revisit charitable timing. Beginning in 2026, itemized charitable deductions are subject to a floor of 0.5% of adjusted gross income, and the value of itemized deductions is capped at 35% for top-bracket taxpayers. Bunching

gifts through a donor-advised fund or donating appreciated securities can preserve more of the benefit.

Manage concentration and liquidity. Concentrated stock and private-market holdings amplify fiscal and interest-rate risk. Keep the liquidity reserve separate from illiquid investments so that capital calls and rebalancing never force sales into a dislocation.

Bottom line for investors. The fiscal outlook argues for resilience over prediction: a diversified core, a deliberate view on bond duration and inflation protection, tax-aware planning, and the discipline to adjust gradually as the signposts become clearer.

2. Method and Source Notes

This paper applies the three fiscal scenarios from Part 2 of this series, which draw on CBO’s February 2026 baseline and the 2026 Social Security Trustees Report, to investment portfolios. The savings estimates and scenario descriptions are illustrative analysis, not official projections. The scorecard, allocation tilts, and signposts are the author’s judgment for a hypothetical moderate-risk investor, and the bond price figures are calculations for hypothetical par Treasury securities. Dollar amounts are nominal unless stated otherwise.

3. Verified Source Register

Primary-source verification completed October 14, 2026		
Source	Verified claims	Source status
U.S. Treasury Fiscal Data: National Deficit	FY2025 outlays of \$7.01T, receipts of \$5.23T, and deficit of \$1.78T	Official Treasury data; completed fiscal year
CBO: The Budget and Economic Outlook: 2026 to 2036	Cumulative FY2027–FY2036 deficits of \$24.4T; 2036 deficit of \$3.1T (6.7% of GDP); debt of 120% of GDP in 2036; outlays and revenues as shares of GDP	Official CBO baseline projections
CRS: Social Security: Selected	OASI trust fund depletion in 2032; about 78% of scheduled benefits	Nonpartisan congressional

Primary-source verification completed October 14, 2026		
Source	Verified claims	Source status
<u>Findings of the 2026 Annual Report</u>	payable thereafter; 75-year shortfall of 4.42% of taxable payroll	research summarizing the 2026 Trustees Report
<u>H.R. 1 (P.L. 119-21), 2025 reconciliation act</u>	Permanent 37% top income-tax rate and \$15M-per-person estate and gift exemption from 2026; 0.5%-of-AGI floor on itemized charitable deductions and 35% cap on the value of itemized deductions for top-bracket taxpayers from 2026	Enacted law

Your Next Step

If you would like to talk through what these fiscal paths mean for your own plan, schedule a free 20-minute introductory call with Rick Hadrava. Scan the QR code below or visit calendly.com/rick-unitingwealth/introduction-call.



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Forward-looking statements. This report contains projections, scenarios, and other forward-looking statements, including those drawn from the Congressional Budget Office, the Social Security and Medicare Trustees, and the author's own analysis. Such statements are based on assumptions that may not prove accurate and are subject to significant uncertainty, including changes in legislation, economic conditions, interest rates, inflation, and geopolitical events. Actual outcomes may differ materially. The three fiscal paths described are illustrative scenarios, not predictions.

Investment risks. All investing involves risk, including the possible loss of principal. Bond prices generally fall when interest rates rise, and longer-duration bonds are more sensitive to rate changes. Fixed-income investments are also subject to credit, inflation, liquidity, and call risk. Treasury Inflation-Protected Securities (TIPS) can lose value when real interest rates rise. Municipal bond income may be subject to state and local taxes and, for some investors, the alternative minimum tax; capital gains are generally taxable. International investments involve additional risks, including currency fluctuation, political and economic instability, and differences in accounting standards; these risks are greater in emerging markets. Commodities, gold, and other real assets can be highly volatile. Small-capitalization and sector-concentrated investments may experience greater volatility than the broader market. Cash and short-term instruments may not keep pace with inflation.

Diversification and rebalancing. Asset allocation, diversification, and rebalancing do not ensure a profit or protect against loss in declining markets. Rebalancing may result in transaction costs and taxable events.

Past performance. Past performance is not indicative of, and does not guarantee, future results. Historical references in this report, including past fiscal consolidations and market episodes, may not be repeated.

Tax and legal matters. Uniting Wealth Partners does not provide tax or legal advice. References to tax-advantaged accounts, municipal bonds, Roth conversions, or potential tax changes are general in nature. Tax laws are complex and subject to change, and their application depends on individual circumstances. Consult a qualified tax professional or attorney before acting on any tax or legal matter.

Social Security and Medicare. References to Social Security and Medicare benefits reflect current-law projections published by the programs' Trustees and the Congressional Budget Office. Future benefits,

eligibility, premiums, and cost-sharing may change through legislation. Individuals should review their own benefit estimates, available from the Social Security Administration, when planning for retirement.

Third-party data. Data and information in this report were obtained from sources believed to be reliable, including the U.S. Department of the Treasury, the Congressional Budget Office, the Office of Management and Budget, the Congressional Research Service, the Government Accountability Office, and other federal agencies. Uniting Wealth Partners has not independently verified all such information and makes no representation or warranty, express or implied, as to its accuracy, completeness, or timeliness. Fiscal year 2026 figures are preliminary estimates and are subject to revision.

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