

Where the Federal Dollar Goes

U.S. Federal Spending in FY2025: Composition, Trends, and the Outlook



INSIDE THIS REPORT

- Where the money goes in FY2025
- 12-year trend: receipts vs. spending
- Pressure points and deadlines
- Three paths to fiscal balance
- What each path means for investors
- Signposts and an investor playbook

Prepared by Uniting Wealth Partners

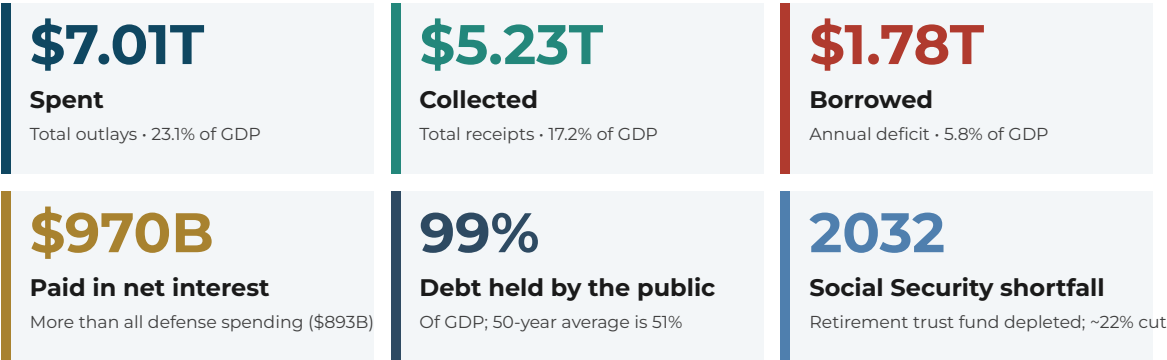
Data current as of October 14, 2026

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

Executive takeaway. The federal government recorded \$7.01 trillion in outlays and \$5.23 trillion in receipts in fiscal year 2025, leaving a \$1.78 trillion deficit. The center of gravity is not the annual appropriations debate: mandatory programs accounted for about \$4.2 trillion, discretionary programs for about \$1.9 trillion, and net interest for roughly \$970 billion. Social Security and Medicare alone exceeded one-third of all spending. The long-run pressure comes from population aging, health costs, and debt service; near-term volatility comes from defense, emergency measures, and policy changes. Preliminary CBO data for FY2026, which ended September 30, 2026, show the deficit widening to about \$2.0 trillion.¹

THE FEDERAL BUDGET AT A GLANCE

Fiscal year 2025 (October 2024–September 2025)



EVERY DAY IN FY2025, THE FEDERAL GOVERNMENT...



Interest alone works out to about \$111 million an hour. Daily figures are annual totals divided by 365.

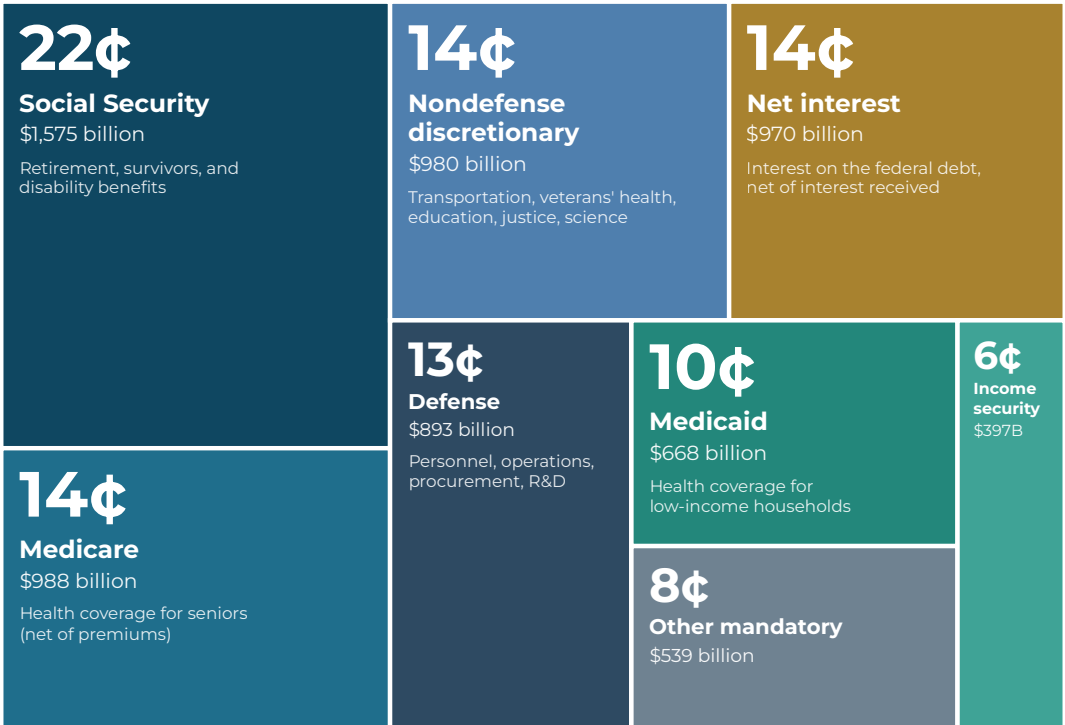
Sources: CBO, The Federal Budget in Fiscal Year 2025 (March 2026); U.S. Treasury, Final MTS, FY2025; 2026 Trustees Report.

¹ Sources: [Treasury Fiscal Data, FY2025 deficit](#); CBO, FY2025 budget infographics; [CBO, Monthly Budget Review: September 2026](#).

1. The FY2025 Spending Map

WHERE THE FEDERAL DOLLAR WENT

U.S. federal outlays, fiscal year 2025: \$7.01 trillion • Box size = share of total spending



BY BUDGET TYPE



HOW EACH DOLLAR WAS PAID FOR



Gray: customs duties (3¢) and other receipts (3¢). Receipts totaled \$5.23 trillion; the \$1.78 trillion gap was borrowed.

Sources: CBO, The Federal Budget in Fiscal Year 2025: An Infographic (March 2026); U.S. Treasury, Final Monthly Treasury Statement, FY2025. Cents are rounded shares of total outlays; components may not sum to totals because of rounding.

Federal outlays by budget type, FY2025			
Budget type	Approx. outlays	Share of total	What it covers
Mandatory	\$4.2T	~59%	Social Security, Medicare, Medicaid, income support, federal retirement, veterans' income security, and other benefit programs
Discretionary	\$1.9T	~27%	Defense plus annually appropriated domestic and international programs
Net interest	\$970B	~14%	Interest on federal debt, net of interest received
Total	\$7.01T	100%	Components may not sum because of rounding and classification adjustments

Sources: *Treasury Fiscal Data, Federal Spending; CBO, FY2025 mandatory and discretionary totals.*

How to read the numbers. “Outlays” are cash payments made during the fiscal year, not budget authority granted or obligations incurred. That distinction matters for multi-year appropriations—especially defense procurement, disaster relief, infrastructure, and immigration enforcement—because funding may be enacted in one year and spent over several.

2. Category-by-Category Trends and Outlook

Social Security

What it funds. Old-Age and Survivors Insurance and Disability Insurance. CBO’s FY2025 detail shows roughly \$1.42 trillion for old-age and survivors benefits and \$158 billion for disability benefits. **Trend.** Spending rises with the number of beneficiaries and automatic cost-of-living adjustments. **Outlook.** Under current law, Social Security remains one of the largest and fastest-growing dollar commitments; trust-fund financing constraints make benefit or revenue policy a central medium-term issue.²

² Sources: [CBO, Mandatory Spending in FY2025](#); [CBO, 2026–2036 outlook](#).

Major Health Programs

What they fund. Medicare, Medicaid, premium tax credits, the Children's Health Insurance Program, and related programs. CBO reports FY2025 mandatory outlays of about \$988 billion for Medicare net of offsetting receipts and \$668 billion for Medicaid. **Trend.** Major health programs produced the largest mandatory-spending increases over the past two decades. **Outlook.** Aging, enrollment, service intensity, and medical prices push costs upward; policy can materially change the path through payment rates, eligibility, drug pricing, and delivery reform.³

Income Security and Other Mandatory Programs

What they fund. Federal civilian and military retirement, nutrition assistance, Supplemental Security Income, unemployment compensation, refundable tax credits, student loans, family support, and agricultural programs. **Trend.** These programs are more cyclical and policy-sensitive than Social Security and Medicare; unusually large pandemic-era payments have receded, while veterans' income security and retirement costs have grown. **Outlook.** Baseline growth is generally slower than for major health and retirement programs, but recessions, emergencies, credit re-estimates, or new legislation can create sharp year-to-year swings.

Defense and National Security

What it funds. Military personnel, operations and maintenance, procurement, research and development, military construction, nuclear security, and other defense activities. CBO reports FY2025 defense discretionary outlays of \$893 billion (2.9% of GDP), led by operation and maintenance (\$341 billion), military personnel (\$184 billion), and procurement (\$162 billion). **Trend.** Defense outlays remain the largest discretionary category, but their share of GDP is well below Cold War peaks. Nominal growth has accelerated with pay, readiness, procurement, munitions, and global commitments. **Outlook.** The path depends primarily on annual appropriations and security conditions; force structure, shipbuilding, nuclear modernization, space, cyber, and replenishment needs create persistent upward pressure.⁴

³ Source: [CBO, Mandatory Spending in FY2025](#).

⁴ Source: [CBO, Discretionary Spending in FY2025](#).

Military spending: operations, veterans, and war-related costs are different buckets		
Bucket	FY2025 reference point	Interpretation
Department of Defense and related defense activities	Largest share of defense discretionary outlays	Current force, readiness, procurement, R&D, construction, and defense-wide programs
Department of Veterans Affairs	\$369.3B FY2025 budget request: \$134.0B discretionary and \$235.3B mandatory	Health care, disability compensation, pensions, education, housing, insurance, cemeteries, and administration for veterans
Cost of War Toxic Exposures Fund	\$24.5B included in the FY2025 VA request	Veterans' health and benefit costs linked to toxic exposures; not current combat operations
"Actual war expenses"	No single clean FY2025 line	Combat-related costs are embedded across operations, procurement, personnel, intelligence, aid, and supplementals; they should not be inferred by subtracting VA from defense

Key distinction. Veterans' benefits are deferred compensation and care for prior service; they are not expenditures for fighting current wars. Conversely, "war cost" is not synonymous with the entire defense budget. A defensible estimate requires a theater- and mission-specific accounting of incremental costs, including supplemental appropriations and replacement of equipment. The VA request is used here as a transparent reference point, not as FY2025 final outlays.⁵

Nondefense Discretionary Programs

What they fund. Transportation, education and training, justice, housing, science, environment, diplomacy, public health, and agency operations. CBO

⁵ Source: [VA, FY2025 Budget in Brief](#).

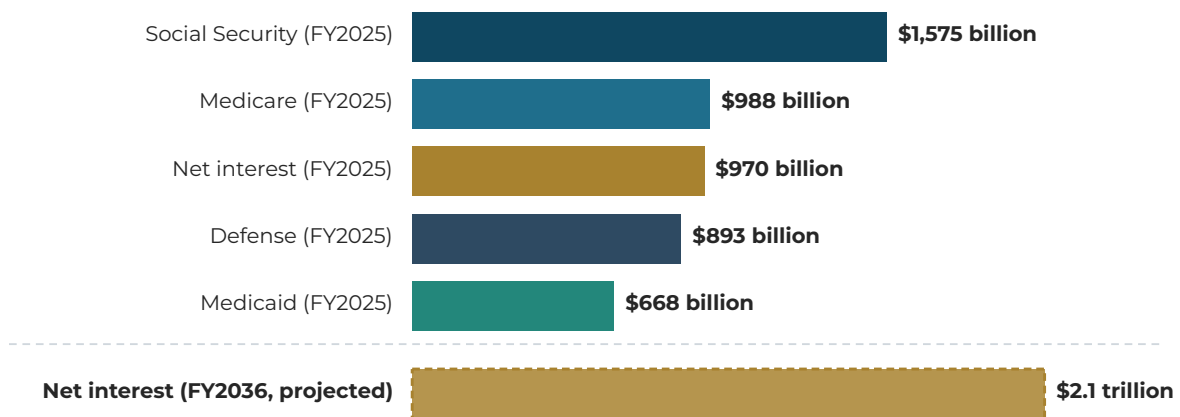
identifies FY2025 outlays of roughly \$145 billion for transportation, \$126 billion for most veterans' health benefits, \$124 billion for education/training/employment/social services, \$112 billion for housing and other income security, and \$80 billion for administration of justice. **Trend.** Nondefense discretionary outlays exceeded half of the FY2025 discretionary total but have generally been constrained as a share of GDP. **Outlook.** They are highly exposed to annual caps, appropriations choices, and emergency designations; infrastructure laws can lift outlays with a lag.⁶

Net Interest

What it funds. The cost of servicing federal debt after netting interest receipts. FY2025 net interest reached about \$970 billion, or 3.2% of GDP—more than twice its 2021 share. **Trend.** Debt accumulation and refinancing at higher rates have made interest one of the budget's fastest-growing components. **Outlook.** CBO projects deficits rising from \$1.9 trillion in 2026 to \$3.1 trillion in 2036 and debt held by the public reaching 120% of GDP; rising interest costs drive much of the increase.⁷

INTEREST NOW RIVALS MEDICARE—AND IS ON TRACK TO DOUBLE

Federal outlays for selected categories, billions of dollars



Net interest more than doubles from about \$1.0 trillion in FY2026 to \$2.1 trillion in FY2036, totaling \$16.2 trillion over the decade.

Sources: CBO, The Federal Budget in Fiscal Year 2025 (March 2026); CBO, The Budget and Economic Outlook: 2026 to 2036 (February 2026).

⁶ Source: [CBO, Discretionary Spending in FY2025](#).

⁷ Sources: [CBO, FY2025 budget overview](#); [CBO, 2026–2036 outlook](#).

3. ICE Spending: A Focused Sidebar

Historical baseline. ICE reported total FY2006 enacted and supplemental resources of about \$4.21 billion including the then-attached Federal Protective Service and fee-funded accounts (about \$3.48 billion in appropriated accounts alone); its FY2007 total on the same basis was \$4.73 billion. These older totals are not perfectly comparable with today because organizational scope and account structure changed. For FY2025, DHS received full-year continuing appropriations through September 30, 2025 (P.L. 119-4) rather than a traditionally structured annual DHS appropriations act. Separately, the 2025 reconciliation act (P.L. 119-21, enacted July 4, 2025) provided ICE more than \$75 billion in multi-year funding available through September 30, 2029—including \$45 billion for detention capacity and \$29.9 billion for enforcement and removal operations—an amount several times ICE’s recent annual appropriations. Accordingly, a defensible comparison distinguishes enacted budget authority, transfers and supplementals, and actual outlays.⁸

ICE: selected historical and current funding markers		
Period	Marker	What it shows
FY2006	\$4.21B enacted and supplemental, including Federal Protective Service and fee accounts	Early post-creation operating scale
FY2007	\$4.73B total including Federal Protective Service and fee accounts	Rapid early expansion; scope differs from modern ICE
FY2014–FY2023	\$1.8B planned transfers within DHS to support ICE, plus \$365M in supplementals during FY2016–FY2023	Recurring mismatch between enacted annual resources and operational demand

⁸ Sources: [ICE, FY2006 budget](#); [ICE, FY2007 budget](#); CRS, FY2025 DHS appropriations status; [H.R. 1 \(P.L. 119-21\), Congress.gov](#).

ICE: selected historical and current funding markers		
Period	Marker	What it shows
FY2025	DHS operated under continuing appropriations through September 30, 2025, rather than a traditionally structured annual DHS appropriations act	Comparisons should use enacted authority by component and distinguish annual authority from actual outlays
FY2025–FY2029	More than \$75B in multi-year reconciliation funding (P.L. 119-21): \$45B for detention capacity and \$29.9B for enforcement and removal operations	Multi-year authority far above annual appropriations; outlays will occur over several years

Interpretation. The durable trend is upward, but comparisons require consistent scope. ICE’s modern portfolio includes Enforcement and Removal Operations, Homeland Security Investigations, legal proceedings, technology, and support. GAO found that ICE repeatedly needed transfers and supplemental funding and that its budget models and spend-plan practices needed improvement. The most useful current metric is therefore three-part: annual enacted authority, supplemental or mandatory multi-year authority, and actual outlays in the period being analyzed.⁹

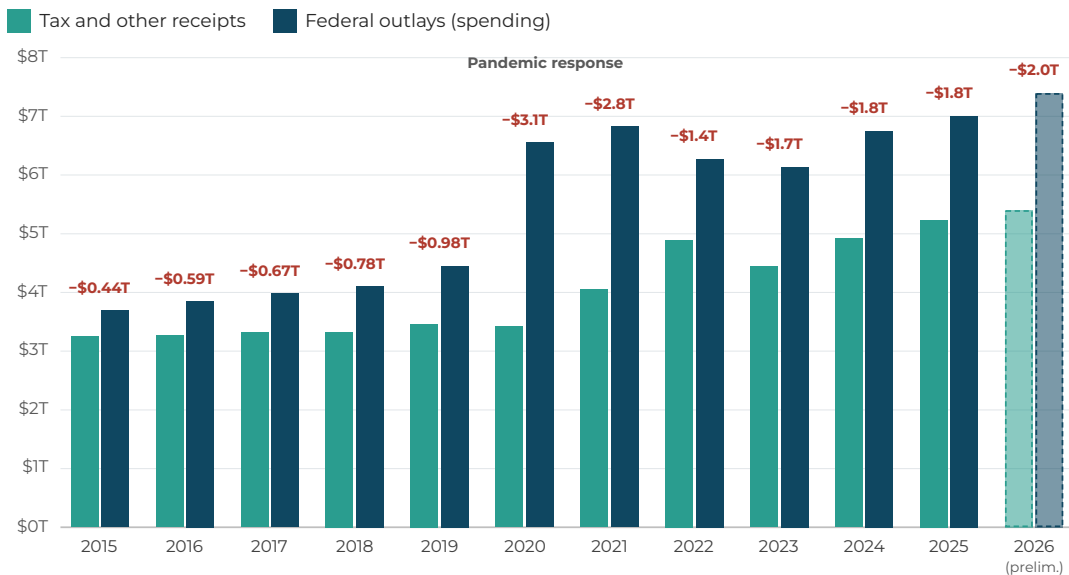
⁹ Source: [GAO, ICE financial management](#).

4. What the Trend Line Means

Twelve-year trend. Receipts have grown since FY2015, but spending has grown faster. Receipts rose about 66% between FY2015 and FY2026, while outlays roughly doubled, and the annual deficit has not fallen below \$1.3 trillion since the pandemic.

FEDERAL RECEIPTS VS. OUTLAYS, FY2015–FY2026

Trillions of nominal dollars. Red figures above each pair show that year's deficit (outlays minus receipts).



Sources: OMB, Historical Tables, Table 1.1 (FY2015–FY2023); U.S. Treasury, Final Monthly Treasury Statements (FY2024–FY2025); CBO, Monthly Budget Review: September 2026 (FY2026 preliminary estimate, October 8, 2026). Receipts include all taxes, fees, and Federal Reserve remittances.

- **The budget is structurally concentrated.** Retirement and health programs dominate mandatory spending; changing smaller domestic programs cannot by itself stabilize the long-run fiscal path.
- **Interest reduces policy room.** Debt service competes with both defense and domestic priorities without delivering a current public service.
- **Defense and veterans must be tracked separately.** One funds current national-security capacity; the other delivers earned benefits and care tied to prior service.
- **Emergency and multi-year appropriations blur annual comparisons.** Budget authority, obligations, and outlays answer different questions and should be labeled explicitly.

- **The baseline is not a forecast of policy.** CBO assumes current law; elections, appropriations, economic conditions, wars, disasters, and court decisions can materially alter outcomes.

Separating myth from math. Several popular claims about the budget do not hold up against the numbers.

Myths vs. facts	
Common belief	What the numbers show
“Cutting foreign aid would close the gap.”	International affairs outlays were \$61 billion in FY2025, about 3% of that year’s \$1.78 trillion deficit.
“Tariffs can pay for it.”	Customs duties raised \$195 billion in FY2025 and about \$172 billion in FY2026, less than a tenth of the FY2026 deficit.
“Cutting discretionary programs is enough.”	Eliminating all nondefense discretionary spending (\$980 billion) would have covered only about 55% of the FY2025 deficit.
“Interest is a minor line item.”	At \$970 billion, FY2025 net interest exceeded defense (\$893 billion) and nearly matched Medicare (\$988 billion).
“Social Security will run out and pay nothing.”	When the retirement trust fund is depleted in 2032, payroll taxes would still cover about 78% of scheduled benefits. The risk is a roughly 22% cut, not zero.
“Economic growth alone will fix it.”	CBO’s baseline already assumes steady growth (real GDP growth averaging about 1.8% a year after 2026) and still projects deficits rising to \$3.1 trillion by 2036.

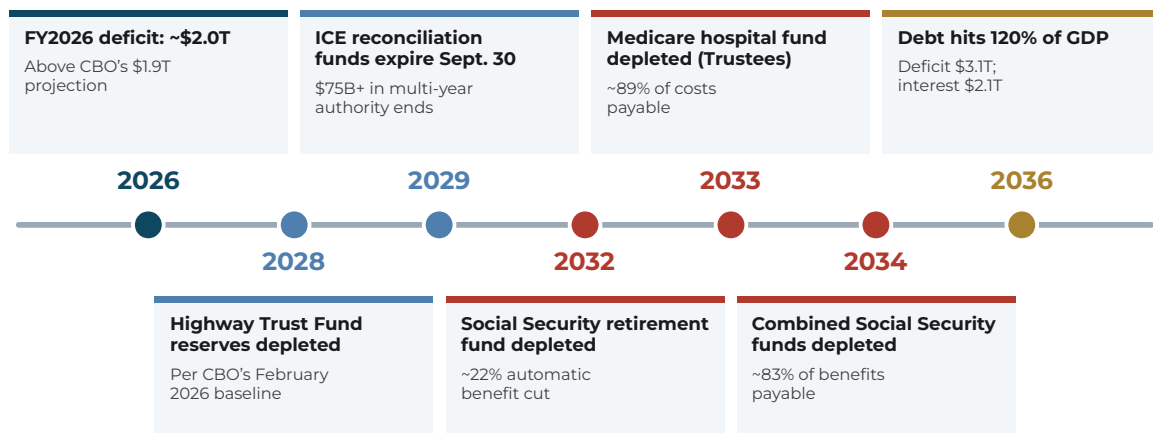
Sources: CBO, *Discretionary Spending in Fiscal Year 2025*; CBO, *Monthly Budget Review: September 2026*; CBO, *The Budget and Economic Outlook: 2026 to 2036*; 2026 Social Security Trustees Report.

5. The Next Decade: Paths to Fiscal Balance

The scale of the challenge. Under current law, CBO projects cumulative deficits of \$24.4 trillion over FY2027–FY2036, with the annual deficit reaching \$3.1 trillion, or 6.7% of GDP, in 2036. Outlays rise from 23.3% to 24.4% of GDP over that period, while revenues stay between 17.5% and 17.8%. Balancing the budget by 2036 would therefore require closing a gap of about \$3.1 trillion in that year alone. That is equivalent to cutting projected 2036 outlays by roughly 27%, raising projected revenues by roughly 37%, or some combination of the two. A swing of that size has happened only once in modern history: the move from a deficit of 4.5% of GDP in 1992 to a surplus of 2.3% in 2000. That turnaround was powered by an unusually strong economy, a post–Cold War defense drawdown, and bipartisan budget agreements. A more realistic first objective is to stabilize debt as a share of the economy by bringing deficits down to about 3% of GDP. Reaching that target would require roughly \$1.7 trillion in annual savings by 2036, somewhat less once the resulting interest savings are counted.¹⁰

PRESSURE POINTS ON THE CALENDAR

Key fiscal deadlines and milestones under current law



Sources: CBO, Monthly Budget Review: September 2026; CBO, The Budget and Economic Outlook: 2026 to 2036; 2026 Social Security and Medicare Trustees Reports; P.L. 119-21. Medicare date per Trustees; CBO projects Hospital Insurance depletion around 2040.

¹⁰ Sources: [CBO, The Budget and Economic Outlook: 2026 to 2036](#); [OMB, Historical Tables](#).

What Would Have to Change

Social Security solvency. The 2026 Trustees Report projects that the retirement (OASI) trust fund will be depleted in late 2032. From that point, incoming revenue would cover only about 78% of scheduled benefits, an automatic cut of roughly 22% for every beneficiary. The program's 75-year shortfall equals 4.42% of taxable payroll. Realistic packages combine several levers: raising or eliminating the cap on taxable wages, gradually linking the retirement age to longevity, slowing benefit growth for higher earners, and adjusting the cost-of-living formula. Acting before 2032 allows changes to be phased in gradually; waiting forces abrupt ones.¹¹

Health-care cost growth. Medicare and Medicaid together cost about \$1.66 trillion in FY2025 and remain the fastest-growing major programs. Options include Medicare payment reforms (such as site-neutral payments and Medicare Advantage coding adjustments), broader prescription-drug negotiation, higher premiums for upper-income beneficiaries, and changes to federal Medicaid financing. Each option lowers federal costs by shifting some of them to providers, states, or households. Timing also matters: Medicare's trustees project that the Hospital Insurance trust fund will be depleted in 2033, although CBO projects a later date of around 2040.¹²

Revenue. Federal revenues have averaged 17.3% of GDP over the past 50 years, while spending commitments now run about six percentage points higher. Closing that gap through spending cuts alone would require reductions deeper than Congress has ever enacted, so most bipartisan frameworks include new revenue. Options include limiting large tax expenditures, broadening the tax base, adjusting rates, or adopting a new broad-based tax. Tariffs are a fragile foundation: CBO credited higher tariffs with reducing projected deficits by \$3.0 trillion, yet customs receipts fell 11% in FY2026 as refunds followed a February 2026 Supreme Court decision on tariffs imposed under emergency-powers authority.¹³

Discretionary spending. Discretionary programs account for only about 27% of outlays. Eliminating every nondefense discretionary program (\$980 billion

¹¹ Sources: [CRS, Social Security: Selected Findings of the 2026 Annual Report](#); [Bipartisan Policy Center, 2026 Social Security Trustees Report, Explained](#).

¹² Sources: [Western CPE, The 2026 Social Security Trustees Report](#); [CRFB, CBO's February 2026 Budget and Economic Outlook](#).

¹³ Sources: [CBO, 2026 to 2036 Executive Summary](#); [CBO, Monthly Budget Review: September 2026](#).

in FY2025) would not have covered that year's \$1.78 trillion deficit. Enforceable caps, such as those in the Budget Control Act of 2011 and the Fiscal Responsibility Act of 2023, can contribute, but they cannot carry the load alone—particularly with upward pressure on defense.

Interest costs. Net interest is not directly controllable, but every dollar of deficit reduction lowers future interest payments, and a credible multi-year plan could reduce the risk premium investors demand on Treasury debt. CBO's recent analyses of higher-interest-rate scenarios illustrate the reverse risk: rates above its baseline would add materially to deficits.

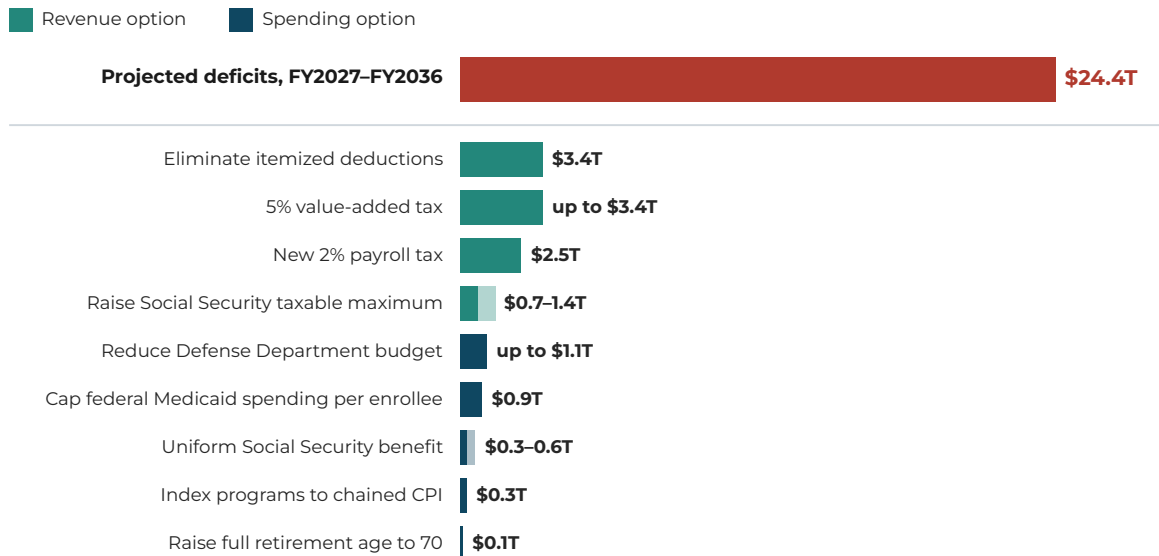
Process and enforcement. Past consolidations relied on enforceable rules, such as statutory pay-as-you-go requirements and spending caps backed by automatic sequestration, and on bipartisan negotiating vehicles. A fiscal commission with guaranteed up-or-down votes, an explicit debt-to-GDP target, and triggers tied to trust-fund solvency are among the mechanisms that could anchor a durable agreement.

The menu of options. CBO's most recent catalog of deficit-reduction options shows why no single policy can close the gap. Even the largest options cover only a fraction of projected deficits, and many are politically difficult.¹⁴

¹⁴ Source: [CBO, Options for Reducing the Deficit: 2025 to 2034](#).

NO SINGLE FIX: WHAT THE BIGGEST OPTIONS WOULD SAVE

Estimated 10-year savings from selected CBO options, trillions of dollars, versus projected deficits



Even the two largest options together would offset less than 30% of projected deficits. Lighter shading shows the range across CBO's policy variants. Estimates cover FY2025–FY2034 and predate the 2025 reconciliation act; they are not additive.

Sources: CBO, Options for Reducing the Deficit: 2025 to 2034 (December 2024); CBO, The Budget and Economic Outlook: 2026 to 2036 (February 2026).

Three paths for the next decade (illustrative)		
Path	What it requires	What it likely means
Balance the budget by FY2036	About \$3.1 trillion in annual savings by 2036 (about 6.7% of GDP), requiring major changes to Social Security, Medicare, and taxes at the same time	The largest fiscal consolidation in modern U.S. history; a meaningful near-term drag on growth unless phased in gradually; the lowest long-run debt and interest burden
Stabilize debt (deficits near 3% of GDP)	About \$1.7 trillion in annual savings by 2036 (about 3.7% of GDP), phased in over several years	Debt levels off at roughly today's share of GDP; modest near-term drag; lower interest rates and more private investment over time
Current law (CBO baseline)	No new action; deficits total \$24.4 trillion over FY2027–FY2036	Debt reaches 120% of GDP by 2036; net interest roughly doubles to \$2.1 trillion; automatic Social Security benefit cut in 2032

Sources: CBO, *The Budget and Economic Outlook: 2026 to 2036* (February 2026); Social Security Trustees, *2026 Annual Report*. Savings estimates are author calculations from CBO's 2036 projections.

What These Decisions Would Mean for the Economy

Near-term drag. Cutting spending or raising taxes reduces demand in the short run. The effect is largest when changes are abrupt, when the economy is already weak, or when the Federal Reserve has little room to offset them with lower interest rates. Phasing changes in over several years, and enacting them well in advance, limits the drag and gives households and businesses time to adjust.

Long-term gains. Lower deficits leave more private saving available for business investment rather than Treasury borrowing, which supports productivity and wage growth over time. Lower debt also reduces interest

costs, freeing budget room for national priorities and preserving the capacity to respond to the next recession, war, or emergency.

Who bears the cost. The composition of a package determines its burden. Social Security and Medicare changes fall on retirees and those nearing retirement; health-payment reforms fall on providers and beneficiaries; revenue measures fall on taxpayers and businesses; Medicaid financing changes shift costs to states; and discretionary caps affect agencies, contractors, and grant recipients. Gradual phase-ins that protect people closest to retirement have been a feature of every major past reform.

Financial-market effects. A credible, enforceable plan would likely lower long-term Treasury yields over time, reducing borrowing costs for mortgages, businesses, and state and local governments, while improving the government's capacity to borrow in a crisis.

If Reform Does Not Succeed: The Current-Law Trajectory

The baseline path. Under current law, CBO projects that debt held by the public will rise from 101% of GDP in 2026 to 120% in 2036. That would exceed the previous record of 106%, set in 1946, and CBO projects debt reaching about 175% of GDP over the following two decades. Net interest would grow from about \$1.0 trillion (3.3% of GDP) in 2026 to \$2.1 trillion (4.6% of GDP) in 2036, totaling \$16.2 trillion over the decade.¹⁵

The baseline may prove optimistic. The FY2026 deficit came in at about \$2.0 trillion, above CBO's February projection of \$1.9 trillion. Ten-year Treasury yields in the first half of 2026 also ran above the rates CBO assumed. The baseline does not build in a recession, a major conflict, or another emergency, and it assumes that current law—including scheduled expirations—holds.¹⁶

Forced choices instead of planned ones. Without legislation, depletion of the Social Security retirement trust fund in 2032 and of Medicare's Hospital Insurance trust fund thereafter would trigger automatic benefit and payment reductions. That is the most disorderly form of deficit reduction: it falls hardest on retirees and gives them no time to prepare.

¹⁵ Sources: [CBO, The Budget and Economic Outlook: 2026 to 2036](#); [House Budget Committee, CBO Baseline Summary \(February 2026\)](#).

¹⁶ Sources: [CBO, Monthly Budget Review: September 2026](#); [Fiscal Lab, February 2026 CBO Outlook](#).

Economic consequences. Persistently rising debt would crowd out private investment, put upward pressure on interest rates, and slow the growth of incomes. It would narrow the room to respond to future downturns or security threats. It would also raise the risk—small in any single year but growing over time—of a sudden loss of investor confidence, a sharp jump in borrowing costs, or pressure to tolerate higher inflation.

Bottom line. The arithmetic points to a multi-part package rather than a single fix. Such a package would combine Social Security and Medicare reforms phased in over a decade, additional revenue, and enforceable limits on discretionary spending and new legislation. The earlier lawmakers act, the smaller and more gradual the required changes. For clients, the practical implications are a higher-for-longer interest-rate environment, policy risk around retirement and health benefits after 2030, and the likelihood that tax changes will be part of any eventual agreement.

What to watch over the next 12–18 months

Final FY2026 results. Treasury’s final year-end statement and CBO’s detailed review will confirm whether the deficit reached \$2.0 trillion and which programs drove the increase.

CBO’s next baseline. CBO typically updates its 10-year projections early in the calendar year. Watch for revisions to deficits, interest costs, and tariff revenue.

Interest rates. Ten-year Treasury yields above CBO’s assumptions translate directly into higher interest costs and larger deficits.

Tariff refunds and trade policy. Refunds following the February 2026 Supreme Court decision are already reducing customs receipts; further changes would alter the revenue outlook.

Trustees reports. The 2027 Social Security and Medicare Trustees Reports will update the 2032 and 2033 depletion dates.

Budget process signals. Appropriations deadlines, spending caps, and any proposal for a bipartisan fiscal commission will indicate whether lawmakers are moving toward a plan.

6. 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.¹⁷

***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. 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 Section 5.

¹⁷ 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.

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.

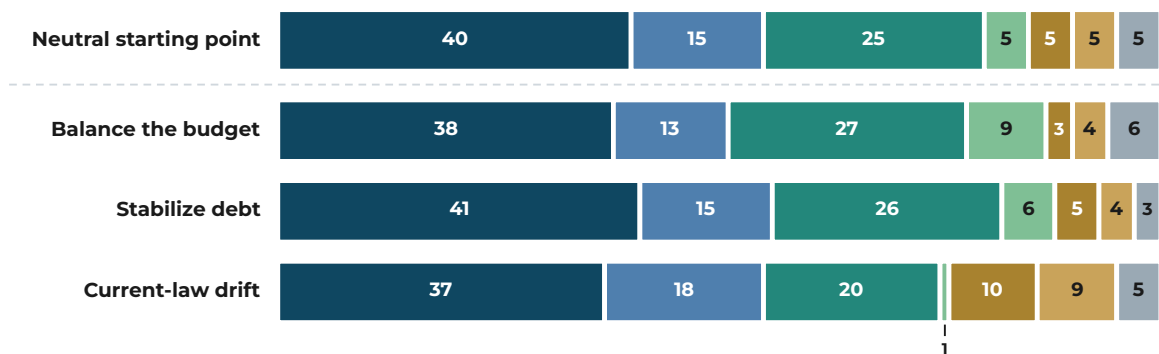
Allocating Across the Paths

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.

■ U.S. equities ■ International equities ■ Core bonds (intermediate) ■ Long-term Treasuries ■ TIPS ■ Real assets ■ Cash



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.

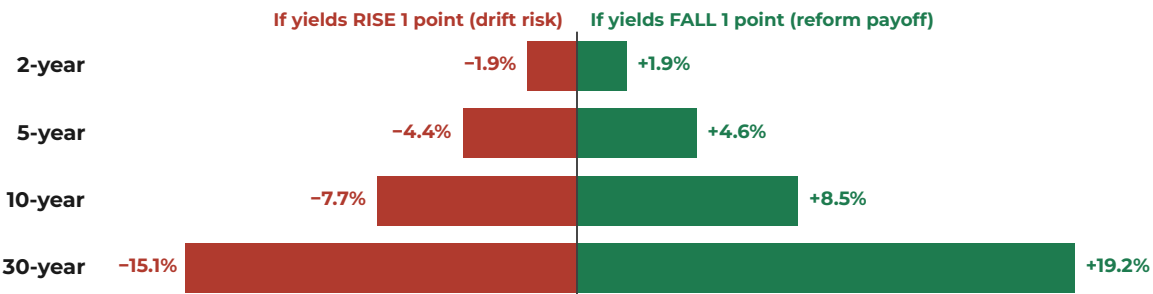
Current-law drift: shorten duration; add TIPS, real assets, and international exposure to hedge inflation and the dollar.

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.

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.

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.

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.

7. Method and Source Notes

This paper uses FY2025 outlays as the common baseline because FY2025 is the most recent fiscal year with final, category-level results. FY2026 ended on September 30, 2026; CBO's preliminary estimate shows outlays of \$7.4 trillion, receipts of \$5.4 trillion, and a deficit of \$2.0 trillion. Those preliminary figures appear only in the 12-year trend chart and the Section 5 outlook until final detail is published. Section 5 draws on CBO's February 2026 baseline and the 2026 Social Security Trustees Report; its savings estimates and scenario descriptions are illustrative analysis, not official projections. Section 6 applies those scenarios to investment portfolios; its scorecard, allocation tilts, and signposts are the author's judgment for a hypothetical moderate-risk investor, and its bond price figures are calculations for hypothetical par Treasury securities. Treasury supplies the government-wide cash totals; CBO supplies consistent categories, trend context, and the 2026–2036 baseline; VA, DHS, ICE, CRS, and GAO provide agency-level detail. Dollar amounts are nominal unless stated otherwise. Requests, enacted budget authority, obligations, and outlays are identified separately when the distinction is

material. Totals may differ because of rounding, offsetting receipts, intragovernmental transactions, and classification.

8. Verified Source Register

Primary-source verification completed October 14, 2026		
Source	Verified claims	Source status
<u>U.S. Treasury Fiscal Data: National Deficit</u>	FY2025 outlays of \$7.01T, receipts of \$5.23T, and deficit of \$1.78T	Official Treasury data; completed fiscal year
<u>CBO: Federal Budget in FY2025</u>	Mandatory, discretionary, and net-interest totals; net interest as a share of GDP	Official congressional budget analysis
<u>CBO: Mandatory Spending in FY2025</u>	Social Security, Medicare, and Medicaid outlays	Official CBO FY2025 detail
<u>CBO: Discretionary Spending in FY2025</u>	Transportation, veterans' health, education, housing/income security, and justice outlays	Official CBO FY2025 detail
<u>VA: FY2025 Budget in Brief</u>	\$369.3B request; \$134.0B discretionary; \$235.3B mandatory; \$24.5B toxic-exposures fund	Official budget request, not final outlays
<u>CRS: DHS Appropriations FY2025</u>	Full-year continuing appropriations through September 30, 2025	Nonpartisan congressional research
<u>GAO-24-106550</u>	\$1.8B in planned DHS fund movements in FY2014–FY2023; \$365M in FY2016–FY2023 supplementals; budget-model findings	Official audit report
<u>ICE FY2006 budget and ICE FY2007 budget</u>	Historical ICE resource totals and scope caveats	Official agency fact sheets; scope differs by year
<u>CBO: Federal Budget in FY2025</u>	Category totals in the spending-map infographic: Social Security \$1,575B; Medicare \$988B;	Official CBO FY2025 detail

Primary-source verification completed October 14, 2026

Source	Verified claims	Source status
<u>(infographic)</u>	Medicaid \$668B; defense \$893B; nondefense \$980B; net interest \$970B	
<u>OMB Historical Tables, Table 1.1</u>	FY2015–FY2023 receipts and outlays shown in the 12-year trend chart	Official OMB historical data
<u>Treasury: Final Monthly Treasury Statement, FY2024</u>	FY2024 receipts of \$4.92T and outlays of \$6.75T	Official Treasury data; completed fiscal year
<u>CBO: Monthly Budget Review, September 2026</u>	FY2026 receipts of \$5.40T, outlays of \$7.40T, and deficit of \$1.99T	Preliminary CBO estimate; final Treasury figures pending
<u>H.R. 1 (P.L. 119-21), 2025 reconciliation act</u>	ICE funding of more than \$75B through FY2029, including \$45B for detention and \$29.9B for enforcement and removal	Enacted law
<u>CBO: The Budget and Economic Outlook: 2026 to 2036</u>	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
<u>CRS: Social Security: Selected Findings of the 2026 Annual Report</u>	OASI trust fund depletion in 2032; about 78% of scheduled benefits payable thereafter; 75-year shortfall of 4.42% of taxable payroll	Nonpartisan congressional research summarizing the 2026 Trustees Report
<u>CBO: Options for Reducing the Deficit: 2025 to 2034</u>	10-year savings for the options shown in the options chart	Official CBO estimates; FY2025–FY2034 window

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.

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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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