Uncertain Moments

By John Mauldin | July 12, 2025

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We like to say markets don't lie. That may be so, but they can certainly send mixed signals.

It happened last week when President Trump announced tariff rates on several important trade partners not so different from the ones he set back in April. Back then, stocks swooned, the dollar cratered, and bond yields soared. This time, it was a big yawn. What gives?

One explanation is the "TACO" hypothesis (a term I hate because it is both derogatory and not always true), that Trump won't actually impose these punishing rates, at least not for long. He is instead negotiating (we hope) in his characteristic way, threatening extreme consequences to get a more moderate result.

We'll see what happens. My concern is that what Trump considers "moderate" will still be severe enough to suppress economic growth below its already-low potential. Today and over the next few weeks we are going to talk about the economic impact and cost of those tariffs. The debt situation requires raising revenue as well as spending cuts. As I demonstrated last week, we can't simply grow our way out of this problem as we could have in the past. I think it matters how we do that.

On the market conundrum, another explanation is that investors just don't care. Some are blissfully on autopilot, dutifully adding more to their 401(k)s every month. Others see it all as a roll of the dice. The fact that bears keep losing their shirts gives bulls more confirmation. The word for all this is "complacency," and (to paraphrase Keynes) **markets can stay complacent longer than you can bet against them. "Staying on the sidelines" while you are waiting for the end of the world which could be a long way off is not a good investment strategy.**

Other things are happening, too. The now official One Big Beautiful Bill Act will have some positive effects—avoiding what would have been a massive tax increase and almost a sure recession—but is also going to drive federal debt even higher. Choose your poison carefully. The trends we all called "unsustainable" are even less so now.

This doesn't surprise me. I've been saying for years now that all our debt options are bad, and we won't seriously address the problem until a crisis forces us to. The crisis hasn't come yet. It will. We are establishing the conditions for one right now.

Today we'll discuss how this may unfold. There's a connection between our willingness to let the debt problem fester and investors throwing their money into a wildly overvalued stock market. In both cases, we've grown way too comfortable with uncertainty.

Stability Breeds Instability

You've no doubt heard the phrase, "Minsky Moment." It refers to the ideas of economist Hyman Minsky, who studied financial crises. He actually developed the main portions of his thesis in 1979 and presented them at a conference called "Reaganomics and the Stagflationary Economy."

(Charles Kindleberger also spoke at that conference. Kindleberger wrote ***Manias, Panics, and Crashes: A History of Financial Crises*** in 1978 and should be studied along with Minsky but today we focus on Minsky. Dr. Lacy Hunt was there, deeply studied both men's work, and has given me fabulous stories about that conference and their later interactions.)

Minsky found crises occur when a long period of stability prevents investors from seeing risks that are, in hindsight, usually quite obvious. I have written about this before, but I think it is one of the most important things we need to understand as we think about how the future will unfold. *Grasping this concept will give you a big leg up on everyone else trying to make sense of what will happen.*

Investopedia (an excellent site, by the way) has a nicely readable article describing the Minsky Moment principles. This graphic is their quick definition…

Source: Investopedia

…And here's the background. [I am going to insert side comments in brackets like this.]

> "The phrase 'Minsky moment' was coined in 1998 by Paul McCulley of PIMCO fame while referring to the Asian Debt Crisis of 1997. The concept derives from the view that periods of bullish speculation, if they last long enough, will eventually lead to a crisis, and the longer the period of speculation lasts, the more severe the eventual crisis will be. Hyman Minsky worked for much of his career in relative obscurity, but that would change when his work on economic crises became unfortunately relevant. Minsky thought these events were the result of a new form of capitalism, which he called 'money manager capitalism' (what others would later call 'financialization') in the last decades before he died in 1996. Here, Minsky gives a succinct summary of his views:

> ‘The major flaw of our type of economy is that it is unstable. This instability is not due to external shocks or to the incompetence or ignorance of policymakers. … The dynamics of a capitalist economy which has complex, sophisticated, and evolving financial structures leads to the development of conditions conducive to incoherence—to runaway inflations or deep depressions. [JM: the general economic conditions in the US for the prior almost 200 years. Although I think he would make the same assertions today but with some nuances.] But incoherence need not be fully realized because institutions and policy can contain the thrust to instability. *We can, so to speak, stabilize instability*.’ [JM: which is what generally happened after 1982 as the periods between recessions and their severity lengthened.]

“In short, Minsky was a Keynesian, arguing that markets tend to produce crises that good institutions and policies can prevent. Minsky believed that financial markets move through cycles of boom and bust, emphasizing that **once there's a transition from stable investment to speculative finance, the chance for a crash heightens when the time comes that investors can no longer afford their spiraling debt**.”

In one sense, Minsky was simply recognizing the reality of history. His view was dramatically confirmed by Reinhart and Rogoff’s seminal book in 2009, “This Time Is Different” which analyzed over 200 such crashes throughout world history. This is not simply an American development but seems to be part of the human experience.

Continuing the quote:

“Minsky's work describes how periods of economic stability can paradoxically lead to greater instability in the long run. According to Minsky, ***more investment generates higher profits at the aggregate level, all else being equal***. While this is a positive sign for most investors and the public, it can make the financial system more unstable [this is Minsky’s main insight and it is a true paradox].

“When profits continually exceed expectations, servicing debt becomes easier, encouraging firms to borrow ever more sums. After all, in a booming economy, profits from speculation outpace the interest to be paid. As Janet Yellen put in 2009, ‘When optimism is high and ample funds are available for investment, investors tend to migrate from the safe hedge end of the Minsky spectrum to the risky speculative and Ponzi end.’”

I must say, including a quote from Janet Yellen here seems ironic. She had a big part in the policies that made servicing debt easier, “encouraging firms to borrow ever more sums.” And in her case, it was homeowners and not just firms. When she made that statement, as my dad would say, “the horse was already out of the barn and well into the North 40.”

But in fairness, debt isn’t inherently bad. Having it available is good if lenders and borrowers employ it wisely in productive and income-producing investments. Problems arise when they don’t.

Minsky described three stages in the credit cycle that leads to a Minsky Moment.

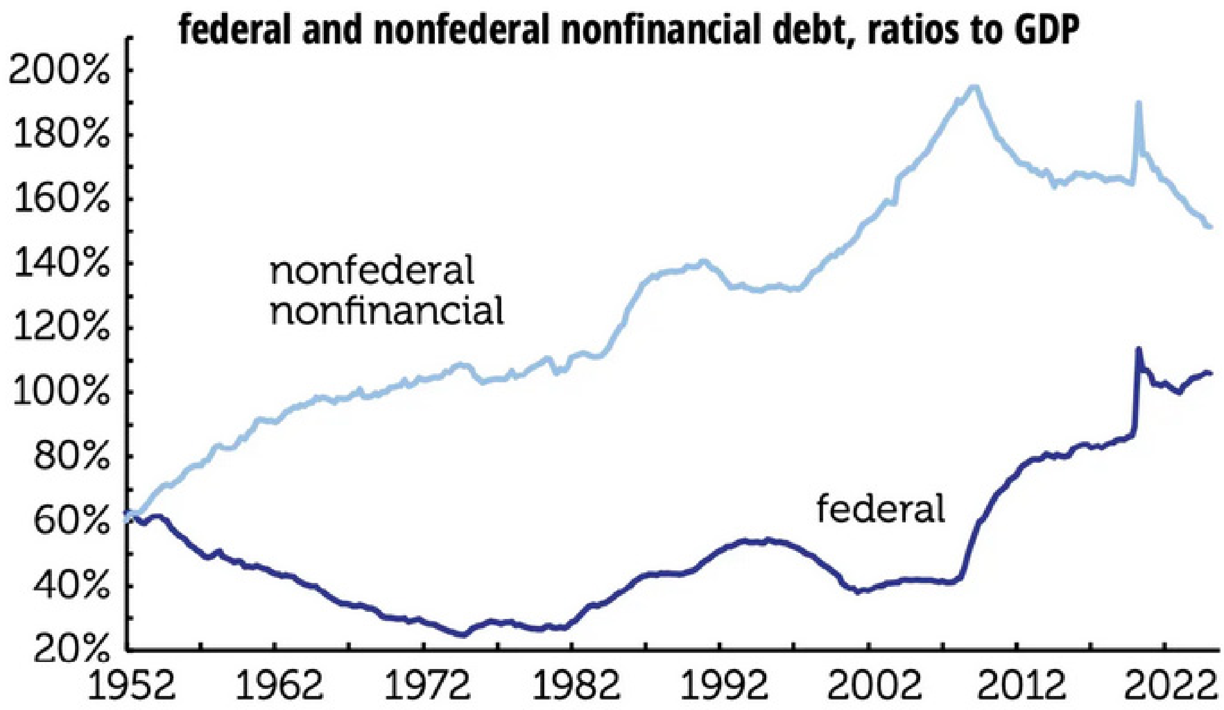
> “**The hedge finance stage**: In this economic period, borrowers can repay their debts with revenue or cash on hand. They have enough cash flow to cover both the principal and interest on their loans.
>
> “**The speculative finance stage**: Borrowers can still pay interest on their loans but must continually roll over the principal. They have no choice at this point but to rely on the assumption (or hope) that they can refinance or borrow new funds to cover their principal.
>
> “**The Ponzi finance stage**: Borrowers can only repay their debts by increasing their debt or selling borrowed assets at fire sale prices since many are in the same position and the market knows you must sell, giving you no bargaining position. Borrowers don't have enough cash coming in to cover either the principal or interest payments on their loans. They can now only rely on the appreciation of their assets or the willingness of lenders to provide additional funding.
>
> “Once an economy reaches the third stage, if prices don't go up and lenders stop lending, then the Minsky moment arrives.”

We are right now in the late portion of the speculative finance stage. Debtors (in this case the US government) assume they’ll have the income needed or the printing press to service their debts and will be able to refinance if needed. For now, they’re right. This will change. But as I said above, governments and markets and investors can be complacent longer than you can bet against them. We are in an Era of Complacency.

Relocated Debt

The kind of crises Minsky described happen when people become oblivious to the amount of debt they're carrying. In the current case, this is happening in part because most people (though not all) think their own debt situations are manageable. They're not wrong, either.

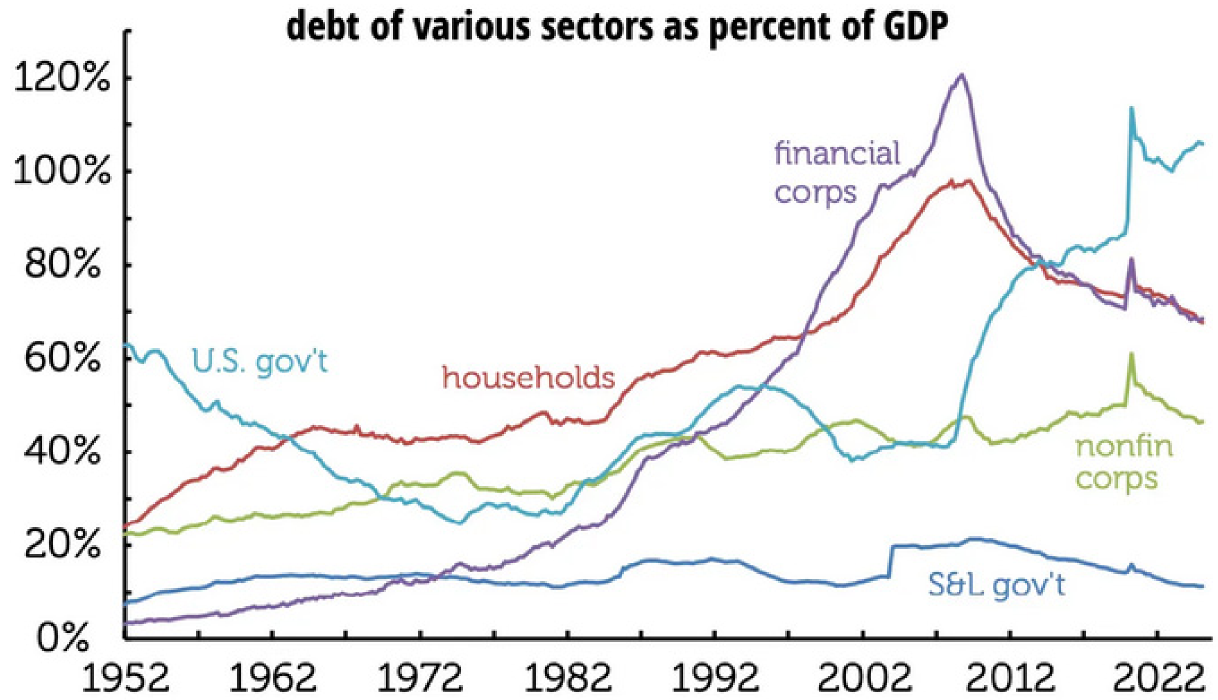
My friend David Kotok recently highlighted some research by my other friends Philippa Dunne and Doug Henwood. It turns out our debt hasn't just increased; it has also relocated. This chart shows how.



Source: TLR Analytics

The lower, darker line is federal debt as a percentage of GDP. It fell in the 1990s and early 2000s then started rising after 2008. The other "nonfederal nonfinancial" debt represents all the economy's other debt (except banks). Corporate bonds, mortgages, student loans, etc. It declined while government debt rose.

This chart breaks it down further. From 2008 forward, federal debt rose while the other categories fell or stayed flat (including, surprisingly, state and local government debt).



Source: TLR Analytics

Of course, this is as a percentage of GDP. In dollar terms, debt increased across the board, but in line with economic growth—except for Uncle Sam.

What happened? My theory is that **we've slowly transferred debts that would once have stayed in private hands to the federal government's balance sheet**, or to the quasi-federal lending agencies. The various post-2008 bailout/loan guarantee/QE programs *changed the way we borrow*. The assorted COVID programs changed it even more. We transferred a lot of risk from the private sector to the government.

We're still accumulating unsustainable levels of debt. But we are shifting them out of the private economy to the government. This creates *an illusion of solvency*. Businesses and households seem to be in good shape because so much debt has left their shoulders and moved to Washington. But as taxpayers, they're still ultimately responsible for it.

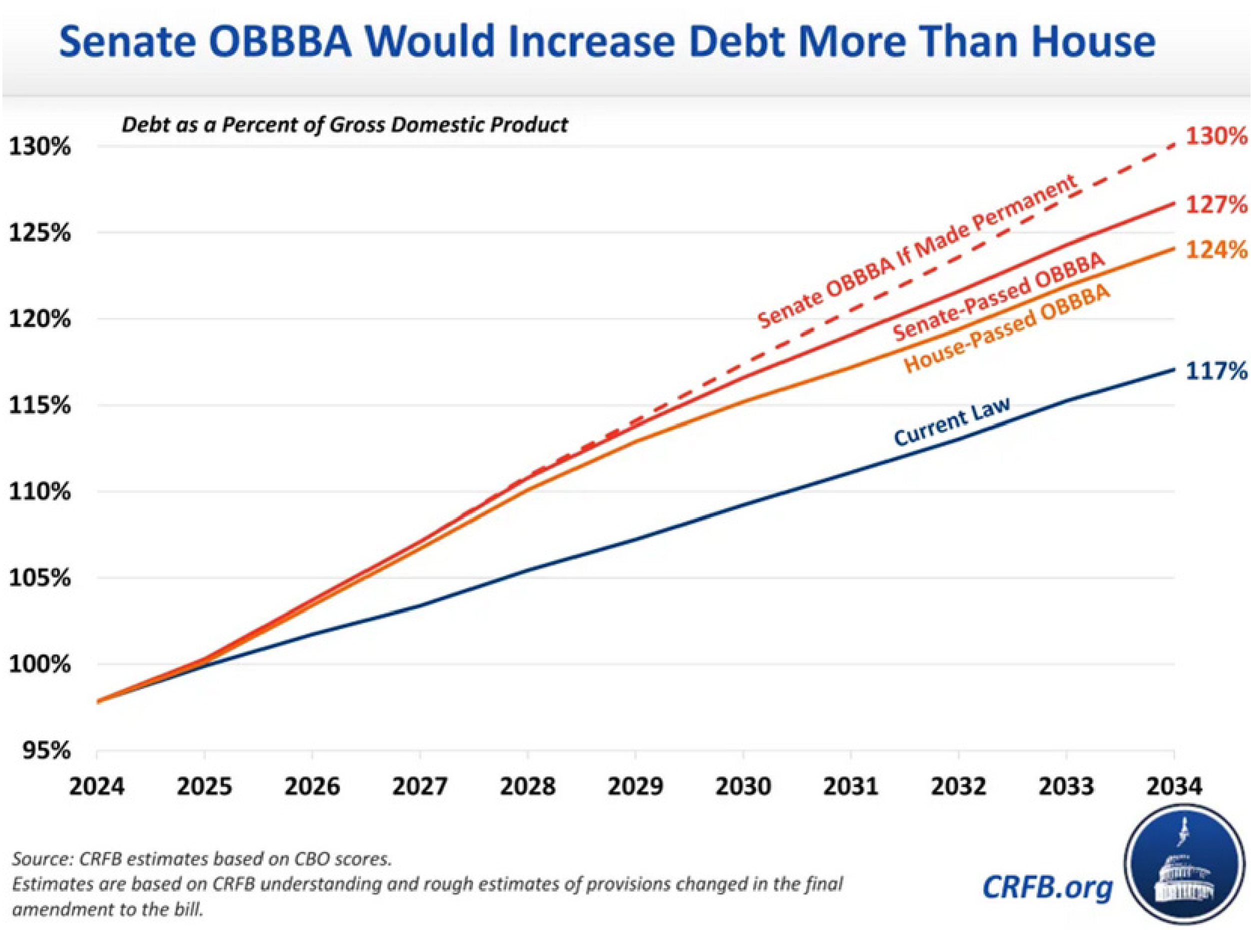
Intentionally or not, we've put our debt "out of sight, out of mind." This lets us keep merrily spending and investing in ways we probably wouldn't if we knew how much debt we really had. The federal part is someone else's problem… or so voters seem to think.

Falling Multipliers

Back to current events. Another reason the federal debt keeps growing is we keep expanding the federal government's responsibilities. It does all kinds of things that were once left to the private sector, or pays for state and local governments to do them. Once in place, these expanded roles are almost impossible to reverse. More often, they just get bigger. Hence the debt.

The latest effort to rationalize the budget will, unfortunately, do nothing of the sort. Let's first visit the budget projections from the bipartisan and non-ideological Committee for a Responsible Federal Budget.

This is the CRFB projection for how OBBBA (the Senate version, which is what finally passed) will affect the debt.



Source: CRFB

Going into this year, CRFB estimated the federal debt would grow to 117% of GDP by 2034, assuming current law (including expiration of the 2017 tax cuts) remained in place. The OBBBA law as passed by the House would have increased this to 124%.

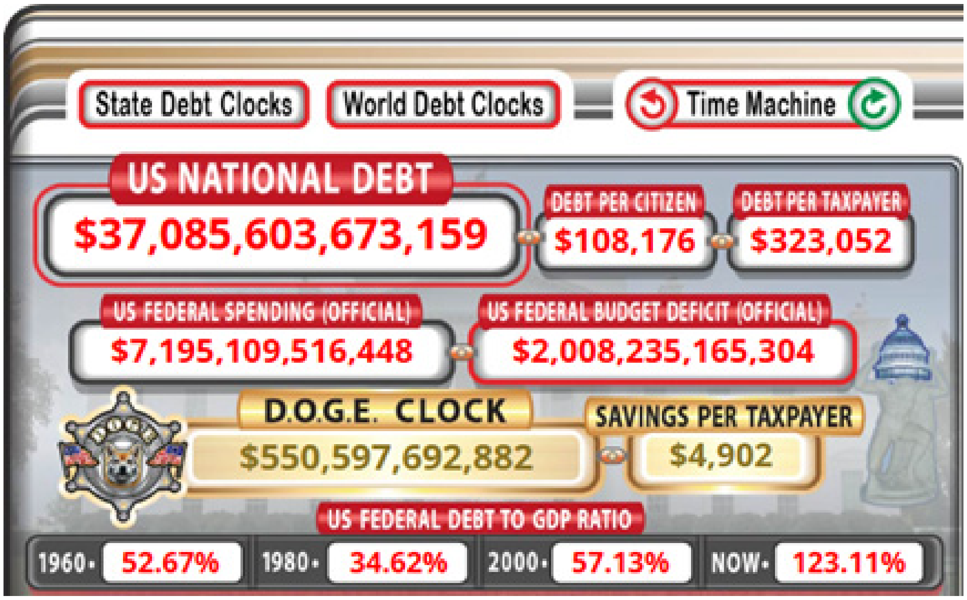
The Senate—which in our system is supposedly the more prudent and thoughtful chamber—made the debt impact *even worse* at 127%. And if the expiring provisions are made permanent, as is highly likely, it will be more like 130%.

Note also, none of this includes the impact of extraordinary events like war, pandemics, recessions, natural disasters, etc. Do you think we'll get through the next 10 years without some such thing happening? Any of those will blow up the debt even more.

But Wait, There's More!

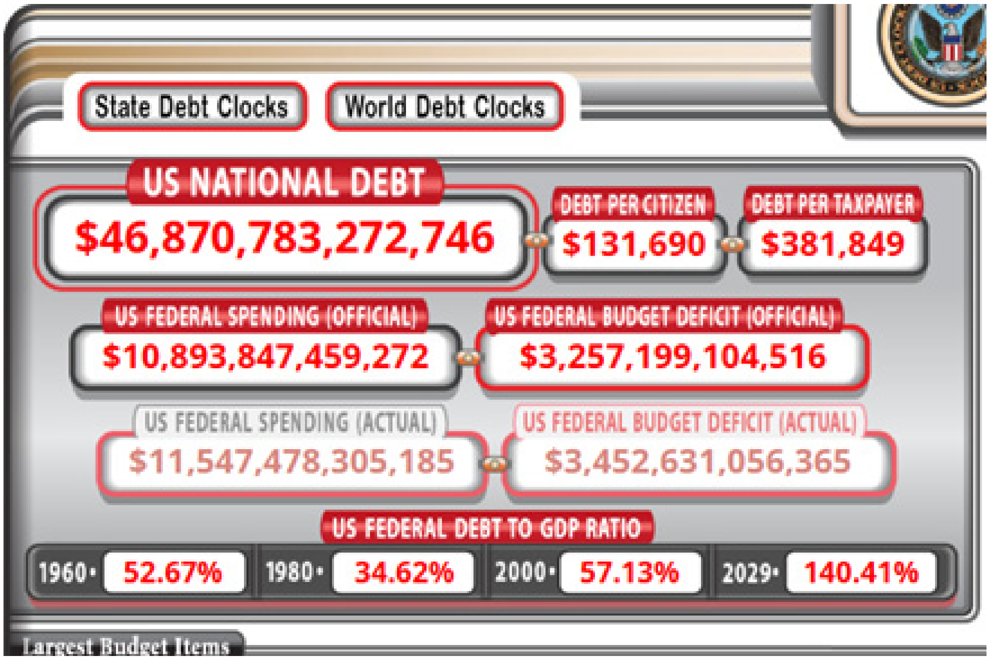
This CRFB does not count "money that we owe ourselves" as part of the national debt. I understand the arguments but don't agree with that approach. There is no Social Security trust fund. We have spent that Social Security money by using it to buy government debt. Each year we must take money from that debt "trust fund" to pay Social Security. The way we do that is to borrow more money. So while technically in a way that only a government accountant would approve, we owe it to ourselves. We are still going to have to borrow money to make those payments. And we will owe it to someone else. If you or a business have debt on your balance sheet, and have already spent the money, you cannot count it as an asset. So, to have honest accounting, let's look at what the debt to GDP would be counting all government debt.

Thankfully, those friendly folks at the [US Debt Clock]() have done that work for us. Quickly, here are three charts. The first one is where we are today. Note that debt is $37 trillion and is 123% of debt to GDP.



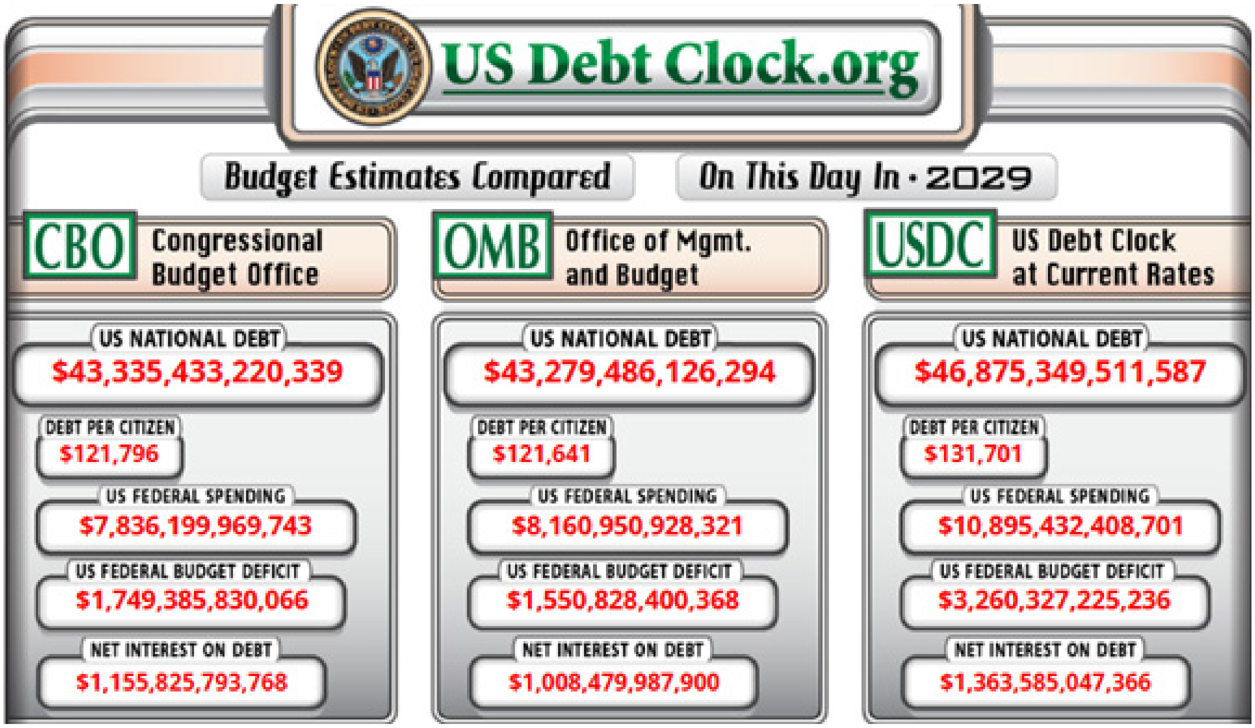
Source: US Debt Clock

Then using their "Time Machine" feature, we can go to 2029 and see that in just four years the debt will rise to almost $47 trillion and 140% of debt to GDP.



Source: US Debt Clock

I can hear the objections saying that the Congressional Budget Office and the Office of Management and Budget have lower projections. Again, let's compare their projections with the US Debt Clock. It's not that big a difference in just four years. Less than $3 trillion of difference.



Source: US Debt Clock

I should point out that the CBO and OMB do a fair job of estimating revenues. Where they are continually off, and their track record clearly demonstrates this, is that they severely underestimate spending. Under either party, we always end up spending more and the governmental organizations have no way to assume that. I've been following the US Debt Clock group for decades, and whatever their methodology, it is far closer to reality. I wish they were wrong. I really, really do. The truth is they have been right, and other organizations have been wrong.

The implication of the above chart says that we will be in the mid $50 trillion range within a few years after 2029. Working backward, OMB and CBO assume that interest rates on total US debt will be around 2.5% in 2029. US Debt Clock assumes about 3%.

Does anyone really think investors will want to buy US debt approaching $50 trillion for an average of 3%, let alone 2.5%? Unless it is all at Fed-manipulated short-term rates which will let inflation once again grab hold? And I would point out that inflation is just another tax and another way to pay interest. Like the old Fram oil filter mechanic used to say: "Pay me now or pay me later."

An average of 4% interest rates would be almost $2 trillion and it will certainly be approaching that by the early 2030s. If the Fed decides to launch the kind of financial repression it did after the Great Recession or in the late 1940s, I believe this will be inflationary at the levels of debt we will be financing. The longer-term debt will require higher rates simply because investors expect inflation. Can we run a country on short-term debt? We may find out. That is where the Minsky Ponzi scheme moment kicks in.

At that point, the debt migration from private to Federal government starts to bite. Debt in the private sector has a much higher multiplier effect than public debt because it is typically (though not always) used in more productive ways. Lacy Hunt has shown how government debt actually has a *negative* multiplier at these high levels. If government debt represents a larger share of total debt, which is happening, GDP growth diminishes.

As I noted recently in *The Great Slowdown*, average real GDP growth in this century has been only 2.2%. Maybe 1.8% is a reasonable discount from that level but I can easily see it being lower.

This combination of growing government debt and diminished risk-taking isn't good at all. At lower levels, it was reasonable to think we could grow our way out of the debt. That hope is gone. Nothing of consequence will happen until we have a Minsky Moment that forces it.

Complacency will continue until it doesn't.

Final suggestion: I have had numerous people asked me what I think about the OBBBA. There are both good and frustrating elements to it. I think the best economic and philosophical analysis that I have read is from David Bahnsen of The Bahnsen Group. You can read it here.

As you know, TBG is my recommended money manager with their growing dividend strategy combined with their stellar access to alternative investments. This is the way I have chosen to get through what is a great period of uncertainty before we get to the other side. You can talk to them directly here.

New York, West Palm Beach, Columbia, Maryland, British Columbia, and ???

I will be going to New York City next Sunday for a few days for dinners, meetings, and maybe some media. And doing some research. I always enjoy being with old (and new!) friends and hashing out what's really happening.

A few other trips are in the works, but they will be quick "hit and run" business meetings. I now try to avoid those when possible. Living in Dallas spoiled me because everything was just a few hours away. From Puerto Rico it is 4–5 hours and often two stops, at generally inconvenient times. Getting to Vancouver, British Columbia, for our August fishing trip is a 14-hour day.

Shane and I are really looking forward to being at the West Coast Fishing Club. We will be joined by something like 35 readers enjoying a fabulous resort and hopefully catching a few trophy fish. I will confess, I get far more from the conversations and camaraderie that I do from fishing. I don't mind if the fish decide not to bother me in the middle of the great conversations.

You have a great week and I hope your summer is going well. I am still working on trying to figure out how to slow down my life, but I'm not doing a very good job of it. Shane tells me that I need to do better. And with that, I will hit the send button. And don't forget to follow me on X!

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