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Macro  
Memo

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## A New Investment Season

Comedian George Carlin was the guest host of the very first episode of Saturday Night Live on October 11, 1975. For his opening monologue he performed his "Baseball vs Football" routine for the first time. In his unique style Carlin comically highlights just how different the two sports are.

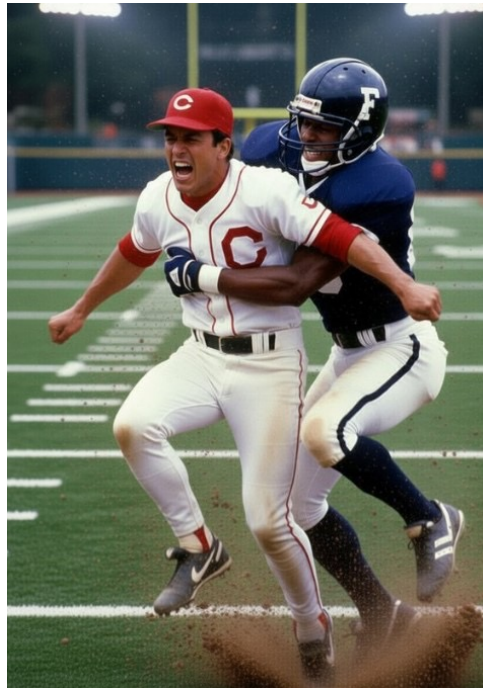
Even a non-sports fan listening to Carlin's routine could grasp the difference. Different sports have different seasons and different rules apply. Imagine showing up to play football in your baseball uniform, and somehow believing the rules will be the same. You would be at a competitive disadvantage that could possibly result in your injury, potentially a permanent injury.

We think this is an analogy for the changing investment "season."

For the past few decades, investors operated in a disinflationary environment. Interest rates were generally falling, inflation stayed contained, and financial assets like stocks and bonds benefited.

That environment is changing.

An inflationary or stagflationary world plays by a different set of rules. It is more volatile and less forgiving. Investors who do not adjust may risk more than just underperformance. They risk permanent impairment to their portfolio's purchasing power and the implications that would bring.



### The End of the Road

For years, policymakers have pushed off difficult fiscal decisions, kicking the proverbial can down the road. In the process, they have built what we would call a debt supercycle.

In 1980, U.S. federal debt was about 30% of GDP. Today it is over 120% and still rising.

In fiscal 2025, the government spent more than \$1 trillion just on interest. That is more than we spent on national defense.

Here is the part that matters most: the government is now approaching a point where it must

borrow money just to pay interest on its existing debt. After collecting all of its tax revenue, there still is not enough to cover interest costs. That is before funding the Department of War, the Department of Homeland Security, or any other government function.

If a private company looked like this, it would be considered financially stressed. Its debt would likely fall below investment grade, which means lenders would view it as risky and demand higher interest to compensate. That is what people mean when they say "junk" debt. It is not worthless, but it carries a real risk of not being repaid as expected.

The United States is different because it controls its own currency.

It can issue debt and the Federal Reserve buys that debt. A simple way to think about it is this: new money

can be created digitally and added to the system. That ability keeps things functioning, but it does not make the underlying issue go away. It just changes how the problem shows up.

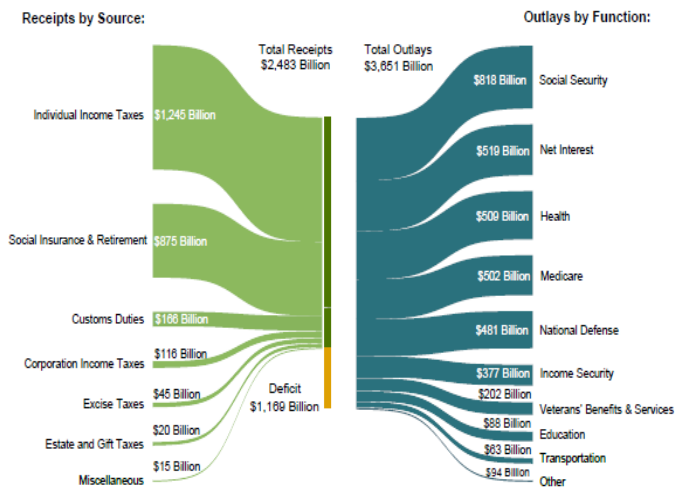
### True Interest Expense

The official debt number, the amount carried on our nation's balance sheet, does not tell the full story.

There are also other long-term obligations, called off-balance sheet items, like Social Security, Medicare, Medicaid, and Veterans' Benefits. These are promises to pay that extend decades into the future. We cannot calculate the exact total because it depends on things like lifespan and healthcare costs.

What we do know is the cost to maintain these programs each year. It's the annual benefits paid out of each program. And increasingly, those annual costs are larger than the interest paid on traditional debt. When the two are added together we get what can be referred to as the "true interest expense"<sup>1</sup>.

Figure 2. Cumulative Receipts, Outlays, and Surplus/Deficit through Fiscal Year 2026



So, the real burden is bigger than what shows up on the balance sheet.

When the true interest expense exceeds 100% of tax receipts, which is essentially 100% of our government's income, the markets begin to reject current economic policy.

### What the Markets Are Telling Us

Markets have been signaling concern for a while. Normally, when the Federal Reserve cuts interest rates, long-term rates move lower as well.

That is not what is happening.

Since September 2024, the Fed has cut rates by about 1.5%. Over that same period, the 10-year Treasury yield moved higher. At the same time, hard assets have surged. Copper is up more than 40%. Gold is up over 80%.

The takeaway is straightforward: markets are not convinced that inflation is under control.

When long-term rates rise while the Fed is cutting, it suggests investors are demanding more compensation for inflation risk. When assets like gold and copper rally, it reflects concern about the future value of money.

### Financial Repression

Before discussing the implications of the current situation it's important to understand an economic concept that gets very little discussion in the financial media: financial repression: It refers to policies governments use to manage high levels of debt without defaulting.

These policies can include keeping interest rates low, encouraging institutions to hold more government bonds, and allowing inflation to run higher than interest rates.

The goal is to reduce the real (inflation-adjusted) value of debt over time.

After World War II, the United States used this approach to work down its debt burden. Inflation ran higher than interest rates for an extended period, which quietly reduced the value of that debt.

There is a tradeoff.

When inflation runs higher than what you earn on savings or bonds, your purchasing power declines.

For the average investor, this shows up in a few ways. Cash loses value over time. Traditional safe investments may not keep up. Real assets tend to hold up better.

### The Binary Choice

Because policymakers kicked the can so far down the road, they kicked it well past any options with tolerable amounts of pain associated with their outcomes. What remains is the choice between two options. We can call one, bad, and the other, worse.

**Option 1:** Defend the dollar by allowing interest rates to rise meaningfully. That would help slow inflation. It would also raise borrowing costs across the economy, put pressure on housing and stocks, and make the debt problem even harder to manage.

In simple terms, fighting inflation aggressively could trigger a sharp economic slowdown.

**Option 2:** Keep the system supported by issuing more debt and adding liquidity.

This keeps things functioning, but it comes at a cost. When more money enters the system, each dollar is worth less, meaning inflation moves higher.

A simple way to think about it is supply. When you increase the supply of something significantly, its value tends to fall. The same applies to money.

Neither option is ideal. History suggests policymakers tend to choose the path with less immediate pain, even if it creates longer-term consequences. So, we expect them to choose option 2.



## Conclusion

We believe the debt supercycle is reaching its limits. Policymakers are being pushed toward a choice between protecting the dollar and protecting the financial system (Treasury market).

Market behavior suggests the direction is already becoming clear. The focus will likely be on preserving the system, even if it means reduced purchasing power over time.

In plain terms, your portfolio may grow on paper, but your purchasing power only grows when your investment returns exceed inflation.

This is a different investment season.

In this environment, traditional financial assets face more challenges, which means hard assets (like commodities) will play a more important role. Strategy becomes more important than simply staying invested.

## What This Means for You

Different environments require different approaches. This is a good time to take a fresh look at your strategy. Understand where you are exposed to inflation risk and where you may need to adjust.

We are here to help you think through those decisions and position your portfolio for this new investment season.

<sup>1</sup> Source: Monthly Treasury Statement, March 2026

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