MARINER

connect wealth

AUGUST 2025

Market Insights

"In the absence of the gold standard, there is no way to protect savings from confiscation through inflation."
— Alan Greenspan, Ph.D., 13th Chairman of the Federal Reserve (1987 – 2006)

A NEW, NEW, NEW NORMAL.

In 1966, radical ideas proliferated everywhere, from technology (foundations of the Internet) to economics. That year, a young economist named Alan Greenspan put forward a provocative thesis about the corrosive nature of inflation. Two decades before he became Chairman of the Federal Reserve, Greenspan argued that deficit spending was a root cause of inflation, amounted to the "hidden" confiscation of wealth, and that there was effectively no safe store of value.

Nearly six decades later, thanks to clever financial innovation, there are now multiple ways people can hedge against inflation. The options include Treasury Inflation-Protected Securities (TIPS), Series I Savings Bonds that accrue interest monthly but compound semiannually, and Treasury floating-rate notes that reset their coupon to short-bill rates. Ironically, while investors have several mechanisms to manage inflation risks, the U.S. government's interest bill is managed mainly through a single process, namely the U.S. Treasury's issuance mix. In theory, the Treasury can issue across maturities as it chooses; in practice, the market sets the yield at auction, and those yields are heavily influenced by Fed policy.

Until recently, arrangements between the Fed and the Treasury worked well enough. However, decades of deficit spending have led to a ballooning national debt, the interest on which is compounding at rates that are increasingly prompting calls from policymakers for the Fed to cut rates. Considering that interest payments on the national debt are mainly funded from taxes, every dollar spent on debt service is a dollar not available for federal programs. In 2024, net interest outlays rose more than 33% year-over-year from $659 billion to about $880 billion, equal to more than $2,500 for every man, woman, and child in the United States (See Chart 1).

The U.S. is currently in the middle of a 12-month period (April 1, 2025, to March 31, 2026) in which about one-third of all marketable U.S. debt (Treasury bills, notes, and bonds that trade in the market) is scheduled to mature (see Chart 2). That amounts to roughly $9.3 trillion out of total outstandings near $29 trillion. Even a single quarter-point (25 basis point) Fed rate cut would eventually reduce interest costs by tens of billions annually, depending on how quickly debt rolls over. Surely, with where rates are today, there must be ample room for the Fed to set short rates lower, right? Perhaps not. A major constraint lies in the simple mathematics of real yields:

If you sift through Fed data since 2003, you will find that the 10-year TIPS real yield has stayed within about a 400-basis-point band. (See Chart 3). For the past 22 years, investors have earned, on average, about a 1 percent real return. To put this into perspective: the high water mark was just over 3 percent in November 2008 at the height of the financial crisis, while the low of about negative 1.2 percent came during the COVID-19 pandemic in 2021.

Today's 4.3 percent nominal yield, less the most recent 3.1 percent inflation print, implies a 1.2 percent real yield. That figure is broadly consistent with the long-term average real yield. If the Fed cuts rates by 25 basis points in September 2025, as many expect, the real yield would probably fall to about 0.95 percent, almost exactly matching its historical mean. In other words, all other factors staying the same, the Fed may not feel a compelling reason to cut rates.

THE FED'S DILEMMA.

Now consider three scenarios that illustrate the Fed's dilemma. **Scenario 1:** If inflation accelerates to 5.5%, the real yield would fall to -1.2% (4.3% - 5.5%), which would likely force the Fed to raise rates. **Scenario 2:** If inflation were to decelerate to 2%, which is the Fed's target, the real yield of 2.3% would give the Fed a mere 100 basis points of cuts to work with. **Scenario 3:** If the Fed cuts short rates by 1 to 2 percentage points preemptively, without clear evidence that inflation is falling, the added stimulus could push long-term nominal Treasury yields significantly higher while also risking a resurgence of inflation momentum that may be extremely difficult to stop.

If rate cuts were to backfire, the effects could undermine economic stability. Indeed, Greenspan's predecessor, Paul Volcker, famously pushed the federal funds rate above 20% to combat runaway inflation, even though the Fed understood that a painful recession was a likely consequence. (It was.)

In sum, the Fed seems to have three options, none of which are pleasant:

- *If inflation rises, the Fed can't cut and may need to raise.*
- *If inflation falls to target, the Fed has barely any room to cut.*
- *If the Fed cuts preemptively, it risks unknown and potentially severe consequences.*

Which brings us full circle to Greenspan. As Fed Chair, he helped usher in an era that would give investors the tools they currently have to fight inflation. At the same time, he strengthened the Fed's inflation-fighting mandate.

Ever since, battling inflation has taken precedence, even more than full employment. The tools have changed, but the Fed's priorities are the same today as they were in 1987. New players; same playbook.

Charts

Chart 1: U.S. Federal Government Expenditures on Net Interest in $Billions (2014 - 2024)

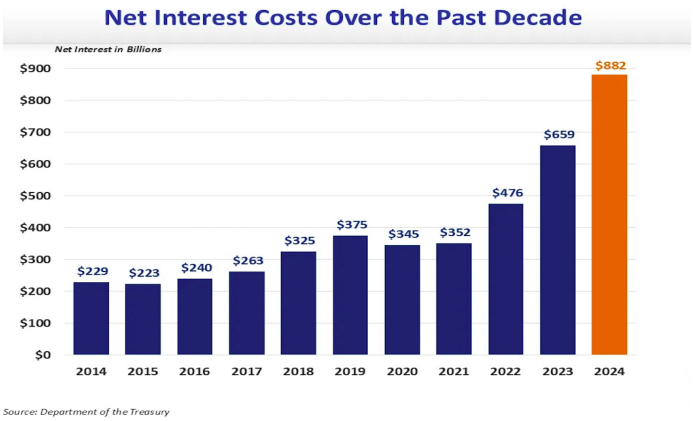

Chart 2: Share of U.S. Debt Held By Public By Year of Maturity (2025 - 2055)

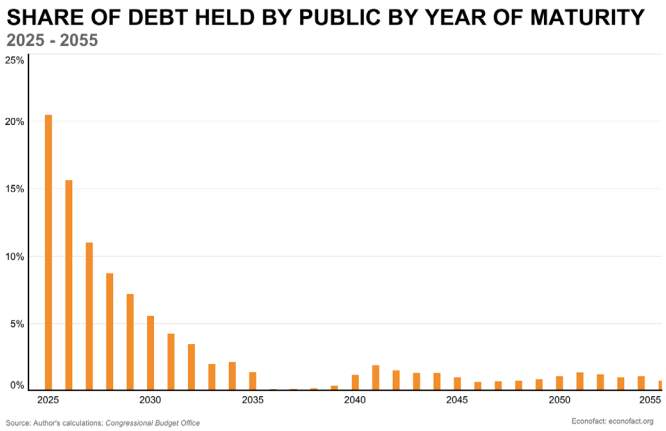

Chart 3: Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, Inflation-Indexed (1/2/2003 - 8/21/2025)

Click each chart for their original and enlarged data source.

This newsletter was written by Mariner Approved for advisor use and for use with the retail public.

Chart 1 Source: crfb.org, November 20, 2024

Chart 2 Source: econfact.org, July 22, 2025

Chart 3 Source: fred.stlouis.org, August 21, 2025

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for your clients. All performance referenced is historical and is no guarantee of future results.

All indexes are unmanaged and cannot be invested into directly. Economic and market forecasts set forth may not develop as predicted. Past relationships between inflation, interest rates, and bond yields may not continue in the future. Market and economic conditions are subject to change without notice.

Investing in stock includes numerous specific risks, including potential loss of principal. Investing in foreign and emerging markets securities involves special additional risks, including currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Treasury Inflation-Protected Securities (TIPS), Series I Savings Bonds, and Treasury Floating Rate Notes are U.S. government obligations. Although guaranteed by the U.S. government as to the timely payment of principal and interest, their market value may fluctuate if sold prior to maturity. Government bonds and Treasury bills are also guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

No strategy assures success or protects against a loss. Diversification and asset allocation strategies do not guarantee profits or protection against loss. Investments in securities and other instruments involve risk and will not always be profitable. Loss of principal is possible.

Any company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services.

Mariner is the marketing name for the financial services businesses of Mariner Wealth Advisors, LLC and its subsidiaries. Investment advisory services are provided through the brands Mariner Wealth, Mariner Independent, Mariner Institutional, Mariner Ultra, and Mariner Workplace, each of which is a business name of the registered investment advisory entities of Mariner. For additional information about each of the registered investment advisory entities of Mariner, including fees and services, please contact Mariner or refer to each entity's Form ADV Part 2A, which is available on the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). Registration of an investment adviser does not imply a certain level of skill or training.