

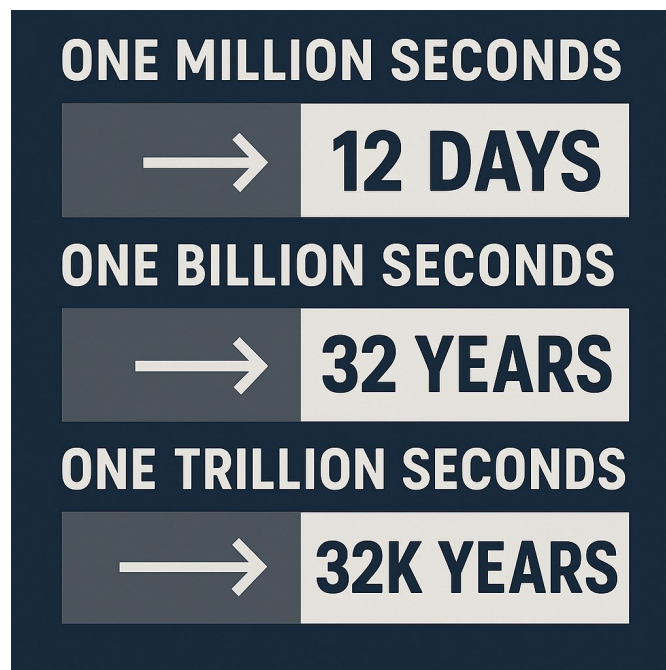
Just How Bad is the Debt Issue?

The total U.S. gross federal debt (debt held by the public + intragovernmental holdings) has surpassed **\$38 trillion**. And the projected federal budget deficit for the 2025 fiscal year is about **\$1.8 trillion**, or 6.2 % of GDP. The federal debt has grown every year since 2001 – that’s 24 straight years!

A trillion dollars is a difficult concept to grasp. To help illustrate the magnitude of these numbers, let’s use units of time (seconds):

- There are one million seconds in **12 days**.
- One billion equals one thousand millions. So one billion seconds equals 12,000 days, or roughly **32 years** (12,000 ÷ 365).
- But here’s the mind-blowing statistic: **one trillion** seconds equals **32,000 years**! (32 years x 1,000).

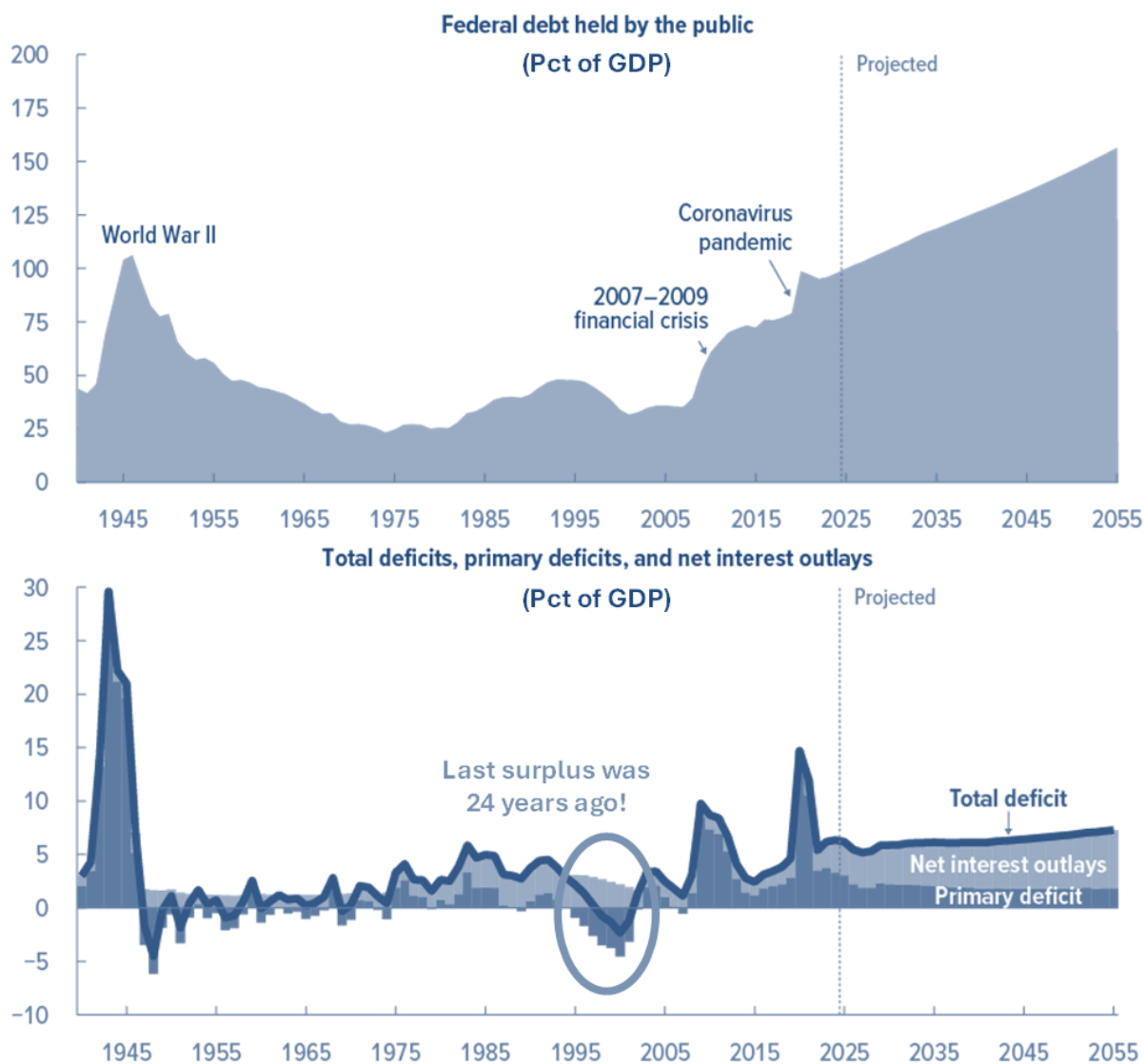
Now multiply by 38 to reach our federal debt. If we could pay down \$1 of debt every second, it would take roughly 1,216,000 years to pay it off (32,000 years x 38). That’s at 0% interest, which is of course not realistic. The time value of money is very real – especially when the government keeps printing it.



Debt As A Percentage Of GDP

A number is most meaningful when measured relative to something else. For corporate debt, we usually measure it as a percentage of either the company's total market cap or total economic value (EV). In the case of the US government, we typically measure debt against the total U.S. gross domestic product (GDP).

For 2024, the Debt/GDP of the US was roughly 98%. When viewed this way, it's clear how much it has grown over the past 20 years — but it's also worth noting that we've been here before. Debt-to-GDP exceeded 100% at the end of World War II. While that's somewhat reassuring, our current trajectory points to 118% by 2035 and more than 150% by 2055.



Source: Congressional Budget Office

Historical Lessons From The 1940s: Yield Curve Control

Clearly, something must be done. Everyone talks about cost-cutting, but few politicians have the courage to follow through. Many administrations have flirted with the idea (Trump's "DOGE" program being the latest example), but these efforts tend to hit a wall quickly. As a result, the administration has made it clear they plan to "grow their way out of debt" instead.

This is exactly what the government did in the 30 years after WWII — though it took a combination of **GDP growth** and **yield curve control** to achieve that goal.

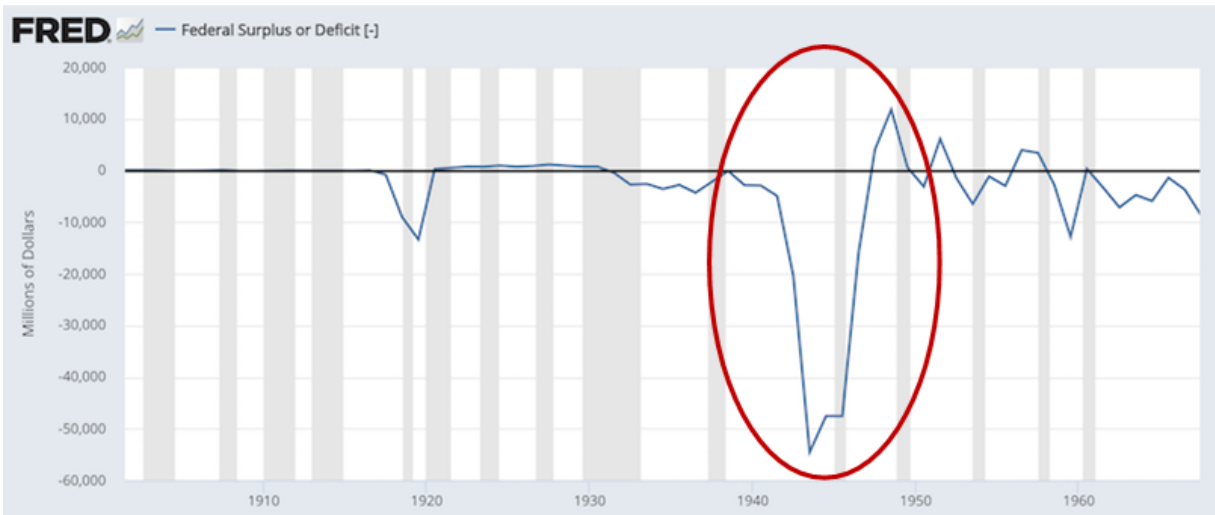
Yield curve control occurs when a government overrides market forces and **caps yields** on its debt. Typically implemented as a last resort, this policy implies that an economy requires accommodative financial conditions, particularly in the face of large fiscal deficits.

How long a central bank maintains these policies depends on how successfully their economies return to full employment and inflation targets and how tolerant central banks will be if inflation rises materially above targets. In the 1940s, short-term interest rates were fixed at 0.375 percent for approximately 5 years, from May 1942 to June 1947. See chart below.



Source: Board of Governors of the Federal Reserve System (US)

Intermediate yields ranged from 0.875% on 1-year bills to 2.5% on long term issues. This approach allowed the government to finance deficits at lower (and fixed) interest rates. Combined with robust GDP growth, this facilitated the US economy's recovery after World War II, as it effectively "grew its way" out of debt. The huge deficits of the early 1940s turned into surpluses by the late 1940s (see below). Once this was achieved, rates were permitted to fluctuate, and treasury bill yields gradually climbed to 4% within the decade.



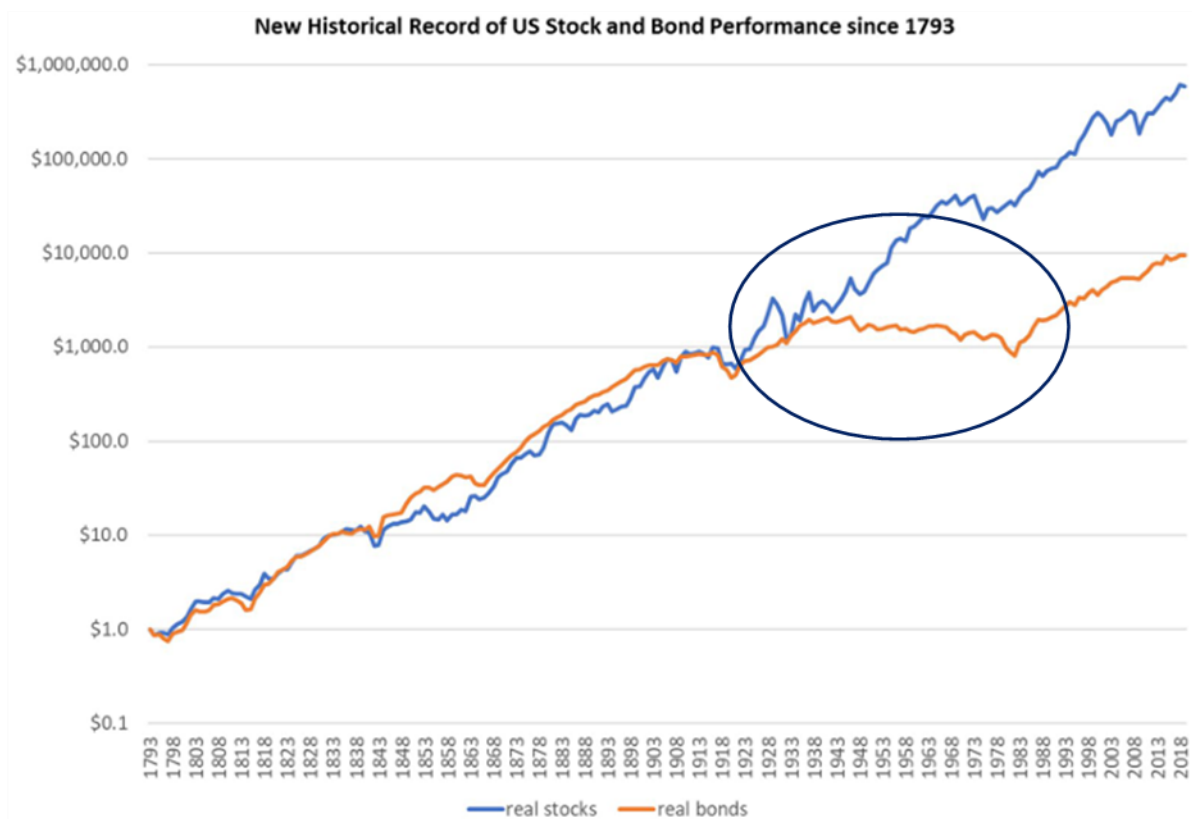
Source: U.S. Office of Management and Budget

The intended outcome of yield curve control is to improve growth conditions in the economy. The risk is driving inflation above sustainable levels. Indeed, inflation rose above 10% several times during the 1940s. But in the end, the government achieved its goal of returning to surpluses.

One Significant Side Effect

When interest rates are capped, central banks become less responsive to economic fluctuations. Bond yields stay steady. This can be good news for stocks, which often rise along with other asset prices. But bonds typically struggle.

Consider the chart below, which compares real (inflation adjusted) bond performance to that of real stock performance. Bonds underperformed radically during the 1940s. And the 1950s. And the 1960s & 1970s. See below. The suppression of both short and long rates contributed to **prolonged underperformance in bonds**.



Source: Study by Edward F. McQuarrie, Professor Emeritus, Santa Clara University, July 2021

The intricacies and clarity surrounding yield curve control policies are crucial. The relative steepness of the yield curve plays a pivotal role. A steep yield curve can keep longer duration bonds relatively attractive, provided inflation is contained. But if inflation emerges, like it did in the 1940s, the spread (long yield vs short yield) is not sufficient and real bond returns suffer.

Implications For Your Investment Portfolio

To be clear, yield curve control is not our base case. The government could figure out a more creative way to accomplish the same goals. But the impact on investments could very likely be the same, and we want our clients to be aware of all possibilities.

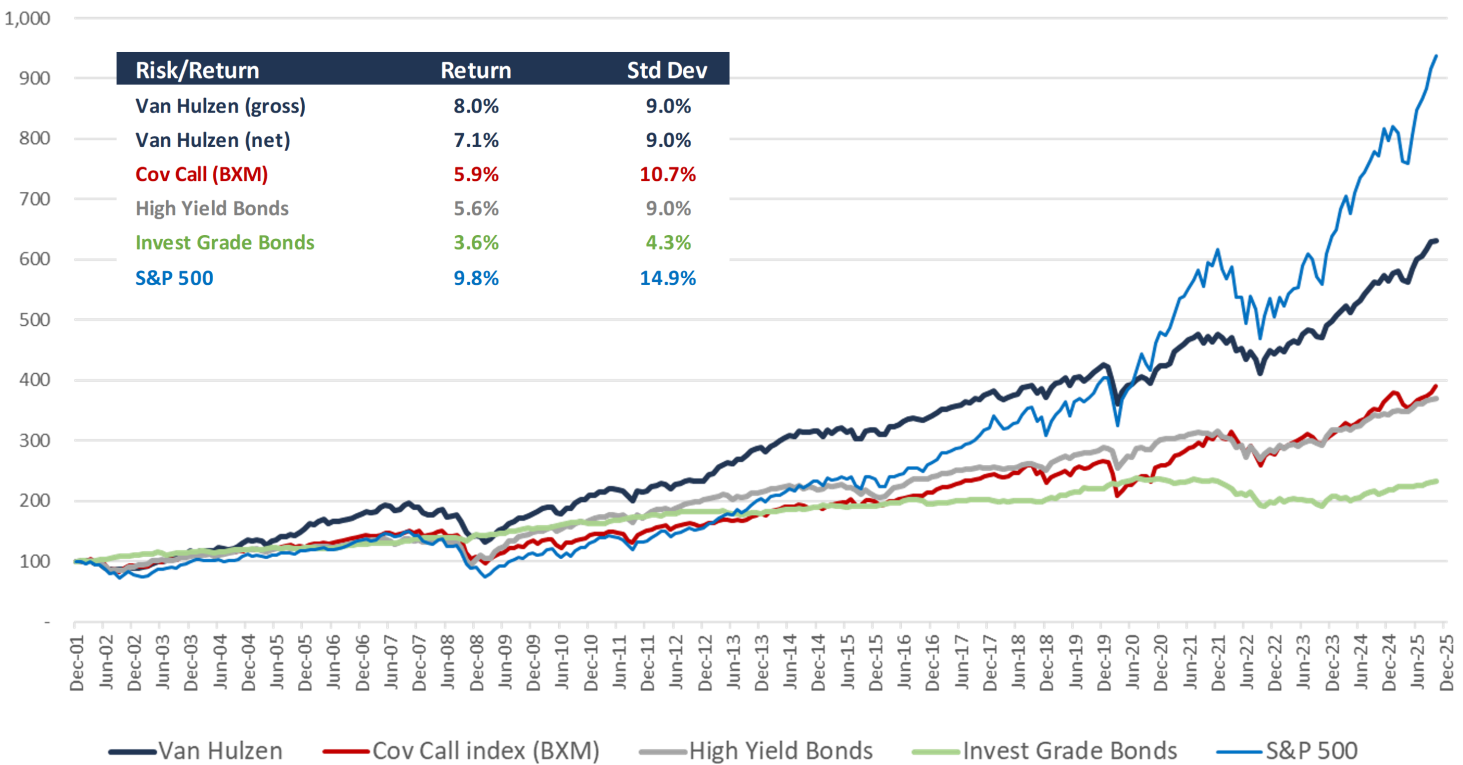
Bonds could continue to see elevated volatility, as they have in recent years, leading to prolonged periods of poor returns for bonds. This scenario could undermine the traditional benefits of a 60/40 portfolio, as bonds may no longer act as a cushion when stocks decline. This would significantly affect retirees' portfolios.

Will investors flock to stocks? Commodities? Bitcoin? These are all volatile markets.

If you read our commentaries regularly, you already know our recommendation. We manage a **hedged equity strategy** that has the same standard deviation as high yield bonds but 2.5% higher returns. The strategy targets a **6-8% yield** and has a **23+ year track** record of delivering **83% S&P 500's upside**, at **40% less volatility**. That's a strong upside/downside ratio (**1.4x**) and an annualized **alpha of 3.5%** versus both the passive covered call index and the high yield bond index.

Van Hulzen’s Approach

Whether you are looking to add downside protection to a large, concentrated position or incorporate a covered call approach in a diversified portfolio, Van Hulzen is here to help.



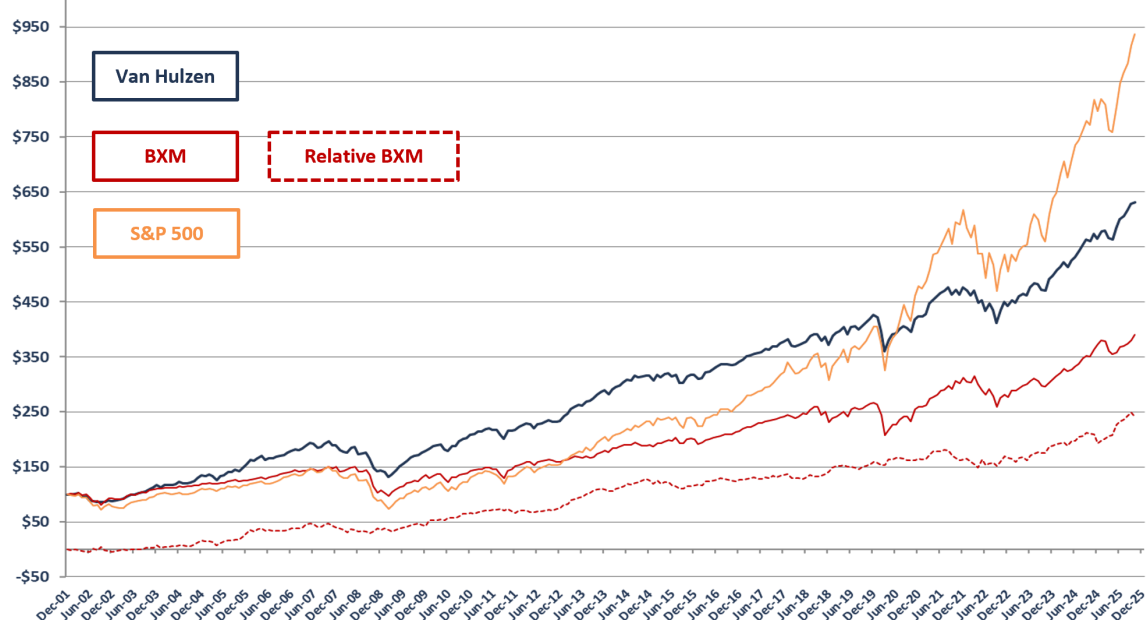
Alpha	Relative to...		
a = Rp – [Rf + (Rm – Rf) β]			
	CC Index	High Yield	S&P 500
Rp = Realized return of portfolio	8.0%	8.0%	8.0%
Rm = Market return	5.9%	5.6%	9.8%
Rf = risk-free rate	1.5%	1.5%	1.5%
β = Beta	0.7	0.7	0.5
Alpha	3.5%	3.5%	2.1%

Source: Bloomberg, Van Hulzen Asset Management. Past returns may not be indicative of future performance

Van Hulzen Covered Call Strategy

The Van Hulzen Covered Call strategy invests in US companies that we consider to have high shareholder yield (dividends and share repurchases) and uses call options with the goal of reducing portfolio volatility and creating incremental income. The goal is a portfolio that has equity exposure while seeking higher than average annual income (target of 6-8% annual), although there is no guarantee that the strategy will achieve its objective, generate profits or avoid losses. Below you will find the graph of the Van Hulzen Covered Call Strategy and the Covered Call Index BXM.

Covered Call Strategy Performance (gross as of 10/31/2025)



Returns (annualized)*	Oct 2025	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	0.4%	4.1%	12.2%	11.7%	12.8%	13.2%	9.9%	7.6%	7.2%	8.0%
Van Hulzen (Net)	0.3%	4.0%	11.9%	11.1%	12.0%	12.4%	9.1%	6.8%	6.5%	7.2%
BXM	2.6%	5.4%	10.0%	4.9%	11.5%	12.3%	10.9%	6.9%	6.9%	5.9%
Difference (Gross-BXM)	-2.1%	-1.3%	2.2%	6.9%	1.3%	0.9%	-1.1%	0.7%	0.3%	2.2%
S&P 500	2.3%	8.2%	23.6%	17.5%	21.5%	22.7%	17.6%	16.0%	14.6%	9.8%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts

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