



October 11, 2013

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### Fidelity and Vanguard's Debt-Ceiling Responses

Going by the headlines, the intersection between politics and investing seems to have become more and more treacherous to navigate over the past several years. In the midst of the current government shutdown, which has had a mostly negative impact on the stock markets since it began at the start of October, we're also drawing nearer to reaching the legal limit of debt the U.S. is allowed to incur, another issue that requires an end, at least temporarily, to the gridlock in Washington. You may have been hearing a lot about the political and economic ramifications of a deal not coming to fruition in time to avoid default over the last week-plus, but maybe not as much about what institutional investors like those at Fidelity and Vanguard are doing in response.

- Fidelity and Vanguard's Debt-Ceiling Responses

Fidelity revealed this week that its money market funds have sold out of all short-term Treasury bills that come due in late October and early November on the chance that the U.S. government does default on its obligations, while also increasing their allocation to cash. The firm views that period of time and the issues that are scheduled to be paid off during it as most at risk if there is a failure to return capital to bond-holders when they reach maturity. That said, Fidelity has stated that it believes a deal will be reached to raise the debt ceiling and avoid default, but in its money markets—the most conservative, safest investments it manages—the firm feels an excess of caution is the most appropriate response to current events.

We should note that Fidelity is not the only institutional investor that has been selling short-term Treasuries (JPMorgan Chase was another prominent seller)—prices have fallen on these notes and there has been a corresponding rise in yields from 0.02% to as high as 0.31% on 1-month Treasuries over the first 10 days in October. The move represents a rapid and remarkable jump over such a short period, especially considering that yields on these notes haven't been this high in nearly five years.

Vanguard has not publicly discussed any portfolio moves in response to the shutdown or potential debt-ceiling scenarios, but several of the firm's strategists have shared their opinions and advice. Like Fidelity, Vanguard's stance is that an agreement will be reached before the U.S. hits the debt ceiling, although it might be a short-term measure. But no matter the outcome, both firms have the same advice: Stay the course and keep your eyes on your long-term goals. We concur, although we know it can be difficult to follow through with a long-term plan when it seems like the sky is falling today.

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