Looking at MARKETS *in 3D*

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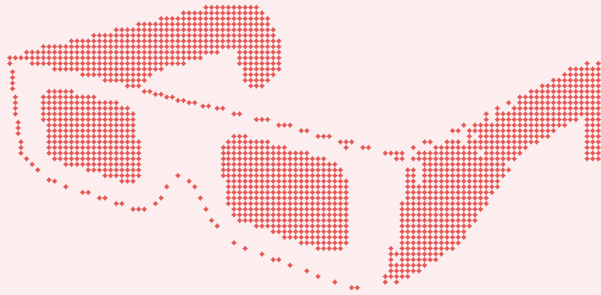


Three forces, debt, dollar debasement and diversification, could shape investment returns over the next decade.

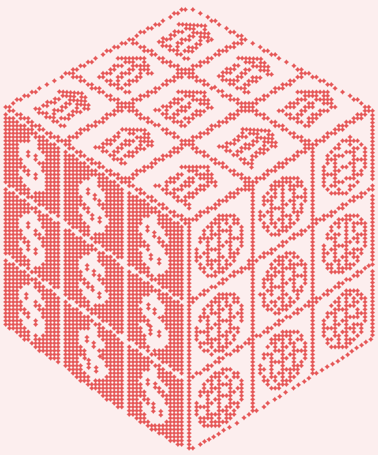
If investors remember just three things over the next decade, they all begin with the letter “D”. They are **d**ebt sustainability, **d**ollar debasement and **d**iversifying portfolios.

Public debt levels continue to surge, raising questions around debt sustainability. At the same time, the US government is becoming increasingly dependent on low borrowing costs, raising the risk of dollar debasement, or a gradual loss of purchasing power, over time. As these risks build, the case for portfolio diversification becomes stronger. Together, these themes could influence future returns for investors.

Debt sustainability

US government debt now exceeds $40 trillion for the first time, having crossed $30 trillion only four-and-a-half years ago in January 2022.[1] It took around two centuries for the US to accumulate its first $1 trillion of debt, but only a few years to add the most recent $10 trillion.[2]

The debt itself is worrying, but the bigger issue is persistent budget deficits and the interest costs associated with that debt. Governments across the developed world continue to spend more than they collect in revenue, causing debt burdens to rise each year as borrowing increases. For now, however, interest costs appear manageable in the US, the world's largest government debt market. This is because the average interest rate paid on US Treasury debt, at around 3.4%, remains well below nominal GDP growth of more than 6%.[3] However, continued large primary deficits, which exclude interest payments and measure the gap between government spending and revenue, mean the debt burden may still rise over time.



US annual nominal GDP growth and average interest rate paid on Treasuries

Source: LSEG Datastream/Evelyn Partners, data as at 2 Sep 2026

As such, there is a tendency for the authorities to treat debt sustainability as a financing problem that can be solved through unconventional policy measures. For instance, central banks can support market functioning through quantitative easing during times of financial turmoil, as they did during the Global Financial Crisis in 2008. Governments can also buy back long-dated bonds using funds raised by issuing more short-term debt. Yet none of these measures addresses the underlying problem: governments are spending too much.

Ultimately, there are only four ways to deal with excessive debt: i) raise taxes, ii) borrow more, iii) spend less or iv) reduce the debt burden through inflation and currency debasement. Large tax increases risk weakening economic growth. More borrowing simply postpones the problem. Spending restraint is politically difficult but remains the most durable solution. Yet, there is little sign that governments are willing to pursue it. That leaves inflation and dollar debasement in the US as the most politically convenient option.

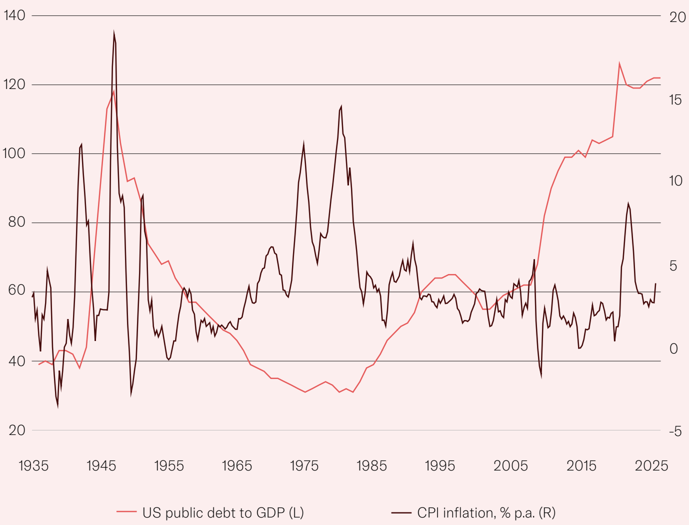
Dollar debasement

Recent market events suggest US policymakers are increasingly focused on keeping financing conditions manageable. Following a sharp rise in long-term Treasury yields, the US Treasury announced an expansion of its bond buyback programme to improve market functioning and help limit upward pressure on borrowing costs.

The broader issue is that the US needs to finance two large demands for capital simultaneously. The first is government borrowing. The second is an unprecedented wave of private-sector investment in artificial intelligence, data centres and digital infrastructure. Supporting both requires abundant capital and favourable financing conditions.

A weaker dollar could help attract foreign capital back into US assets and improve US competitiveness. But a falling currency also raises the cost of imports, putting upward pressure on inflation. In effect, inflation becomes one of the ways governments can reduce the real burden of debt over time. History suggests this is not without precedent. Following the Second World War, US inflation surged, reaching almost 20% in 1947, while government debt burden nearly halved to 61% of GDP in 1956 from its post-wartime peak of roughly 118% in 1946.[4] At the same time, interest rates were deliberately held below market levels through the Fed-Treasury interest rate peg, a form of what economists now call financial repression.

US public debt to GDP, % and CPI inflation (%, p.a.)



Source: LSEG Datastream/Evelyn Partners, data as at 2 Sep 2026

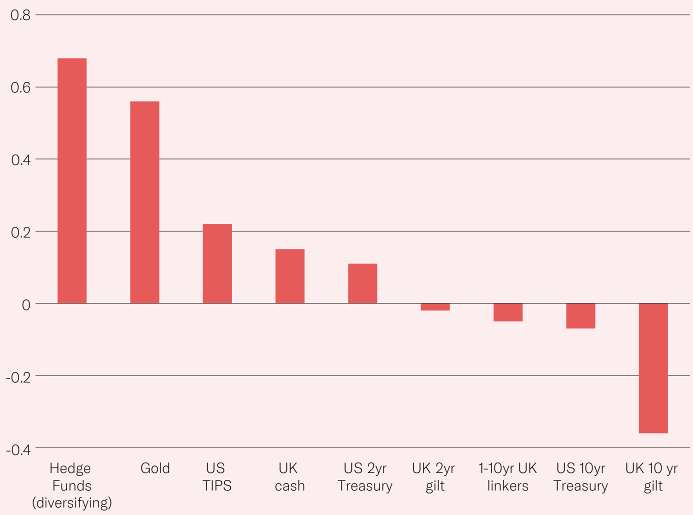
This does not mean policymakers are deliberately trying to repeat the post-war playbook. However, a weaker dollar, easier financial conditions and a willingness by authorities to intervene when government borrowing costs rise too far, too fast, do appear to point in a similar direction. Viewed through this lens, dollar debasement is not simply a currency story. It is part of the adjustment mechanism through which economies cope with rising debt burdens, gradually reducing the real value of liabilities while keeping the financial system stable.

Diversifying portfolios

Government bonds have often been viewed by some as the safest part of a portfolio. However, recent experience has shown that bond markets can also be a source of significant volatility. When concerns over debt or inflation emerge, bonds and equities can come under pressure at the same time. This was evident in 2022, when the US Federal Reserve aggressively raised interest rates to combat inflation following the ultra-loose monetary policies adopted during the Covid pandemic. Rising rates weighed on both interest rate-sensitive technology stocks and bond prices, highlighting the importance of diversification.

Gold is one example of a portfolio diversifier. It has historically performed well during periods when investors are concerned about inflation, geopolitical uncertainty or excessive government borrowing. The precious metal has also responded positively to recent Treasury actions aimed at supporting bond markets and has outperformed many traditional diversifiers.

Diversifiers' returns since the US treasury buyback announcement (19 August 2026) in GBP terms, %



Source: LSEG Datastream/Evelyn Partners, data as at 2 Sep 2026

Gold's appeal is straightforward. Unlike paper currencies, it cannot be printed. Unlike bonds, it is not somebody else's liability.

Of course, portfolio diversification extends beyond gold. It means owning a broad mix of financial assets to avoid dependence on any single economic outcome. This can include hedge funds, infrastructure, cash, short-term government bonds and other assets whose returns are less dependent on the direction of fixed income and equity markets.

Conclusion

Today's environment can be distilled into three simple themes: debt sustainability, dollar debasement and diversifying portfolios.

For investors, the response is not panic but preparation. A well-diversified portfolio cannot eliminate risk, but it can help protect against a world of rising debt and a potentially weaker dollar.

While the challenges facing markets may change over time, the three "Ds" remain a useful guide. Understanding them may prove to be one of the simplest and most valuable investment lessons of the decade.

Sources:

[1,2] Bernama, US national debt tops US$40 trillion for the first time, 20 August 2026

[3] LSEG/Evelyn Partners

[4] US Treasury, Measuring Worth, Evelyn Partners

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