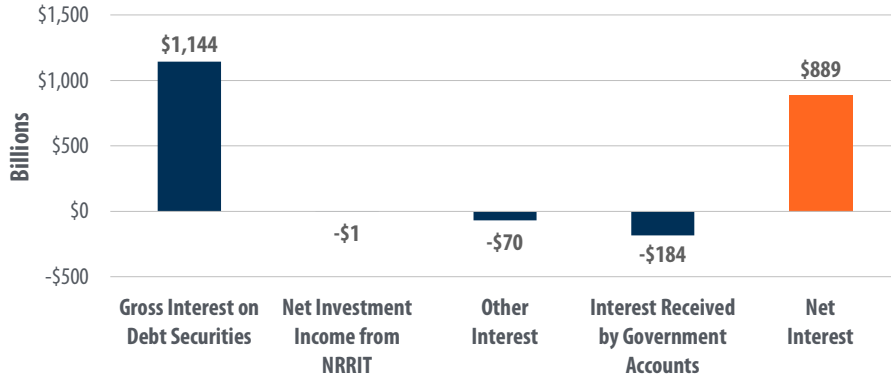


In this week's installment of "Three on Thursday," we take a look at the surge taking place in net interest payments on treasury debt securities. Each year, when the U.S. incurs a deficit, it contributes to the growth of our national debt. The current outstanding federal debt has surpassed a staggering \$33.6 trillion. However, what truly counts is the government's ability to meet all the interest payments on this accumulating debt. In the last 12 months through May, federal net interest payments have soared to an unprecedented total of \$836.1 billion. This figure represents the highest level ever recorded in our nation's history. It's important to note that as long as interest rates remain elevated and the government continues to accumulate new debt while refinancing old debt at higher interest rates, this number is poised to rise even further. To provide further insight, we've included three informative charts below.

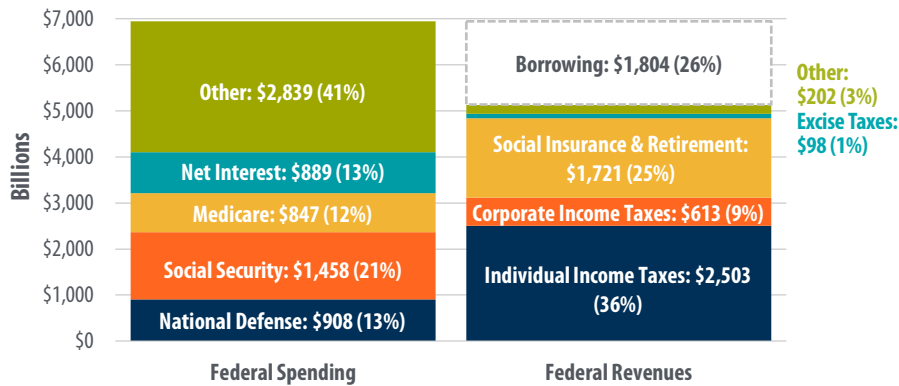
Projected Federal Interest Outlays (+) and Receipts (-) for FY 2024



Source: Office of Management and Budget (OMB), First Trust Advisors. Estimates as of March 2024. NRRIT stands for the National Railroad Retirement Investment Trust.

For fiscal year (FY) 2024, ending on September 30th, the OMB estimates that interest on Treasury debt securities will reach \$1.144 trillion. However, a more accurate measure of the financial burden of debt servicing is net interest on the federal debt, which excludes the interest payments the government pays itself as part of an accounting gimmick used for trust funds and other government accounts. These intragovernmental interest payments are designed to give the beneficiaries of these programs more confidence that their benefits will be paid in the future, but these interest payments do not affect the overall budget deficit. For FY 2024, the federal government is expected to pay itself \$255.0 billion in interest income, making the net interest payments for the year an estimated \$888.6 billion.

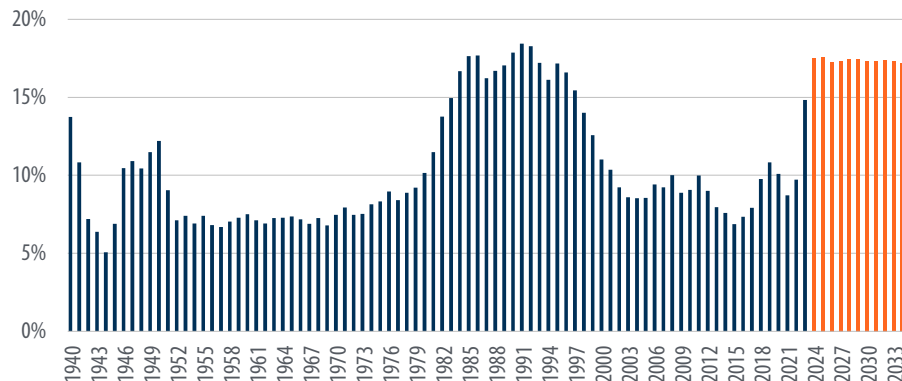
The 2024 Federal Budget



Source: Office of Management and Budget (OMB), First Trust Advisors. Data for fiscal year 2024.

Net interest payments on government debt, projected at \$888.6 billion for FY 2024, would set an all-time high, marking a 35% increase from the previous year, 136.9% over the past five years, and 288.1% over the past decade. Net interest's share of total federal government spending is estimated to reach 12.8% in FY 2024, the highest since 1999 and nearly matching 2024 FY defense spending, which is projected at 13.1% of government spending. With interest rates elevated compared to the past 20 years and massive deficits forecasted (\$1.87 trillion estimated for FY 2024 alone), net interest payments are expected to continue growing, occupying a larger portion of government spending over the next decade.

Net Interest as a Percentage of Total Federal Revenues



Source: Office of Management and Budget (OMB), First Trust Advisors. Annual data 1940-2023. Data for 2024-2034 are projections.

In the late 1970s, rising national debt and higher interest rates led to a significant increase in interest costs, peaking at 18.4% of federal revenues in 1991. However, smaller budget deficits and lower interest rates caused this ratio to decline over the following decade. From 2003 to 2018, interest outlays remained at or below 10% of federal revenues, despite substantial borrowing, due to low interest rates. Recently, the combination of rising interest rates and mounting debt has pushed net interest as a share of revenues to 17.5% in FY 2024, the highest level since 1992.

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.