A Budget Compromise is Reached, But Unresolved Issues Remain
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The agreement reached last October to raise the nation's debt ceiling established a bipartisan committee to negotiate a budget to run the federal government in 2014 and 2015. The committee's primary focus was to replace the next round of across-the-board "sequestration" cuts, which otherwise would significantly reduce spending on defense and domestic programs during those years.

The leaders of the committee, Representative Ryan and Senator Murray, have now announced a modest compromise plan that, if passed by Congress, would fund the government through September 31, 2015.

The compromise plan would replace a portion of the 2014 and 2015 sequester cuts with:

- Increased employee pension contributions for new federal workers
- Reduced cost of living pension increases for military personnel
- Increased user fees for airline travelers

The compromise also would add small additional sequester cuts to later years.

More important is what the compromise does NOT do:

- Change the growth of entitlement spending (currently 2/3 of all federal spending)
- Raise additional tax revenue or close tax loopholes
- Meaningfully reduce the deficit
- Change the trajectory or amount of outstanding federal debt
- Replace the bulk of the sequester cuts
- Extend long-term unemployment benefits

- Raise the debt limit

This last bullet is perhaps the most important for the immediate term. Under the debt ceiling agreement, the nation's ability to borrow expires on February 7, 2014. The government can sustain itself without borrowing for a number of months after that date using tax receipts and other funds. But at some point next year – likely prior to the election – Congress will again need to raise the debt limit to avoid a default on U.S. debt.

As we approach a debt limit deadline in 2014, investors should look for potential buying opportunities. As I had predicted early this year, the market suffered a temporary downturn in September 2013 as we approached the twin deadlines for funding the government and raising the debt ceiling. Because I knew Congress would not allow the nation to default, I suggested that this downturn would be a buying opportunity, as the markets would rebound once an agreement was in sight. This is exactly what transpired. Investors who missed that market inflection should look for similar opportunities if we approach similar deadlines in 2014.

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