

# [***U.S. Loses Second Triple-A Bond Rating But Retains Its License To Be Irresponsible***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:68W2-F9K1-DXVP-52F0-00000-00&context=1516831)

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**Highlight:** Fitch waited 12 years to follow S&P in downgrading debt of the United States. Still, the dollar s position as the world s reserve currency remains unrivaled.

**Body**

**Fitch waited 12 years to follow S&P in downgrading debt of the United States. Still, the dollar s position as the world s reserve currency remains unrivaled.**

**By Mitchell Martin, Forbes Staff**

Fitch Ratings took awayAmerica s triple-A creditrating this week, but it could not downgrade the almighty dollar.

The No. 3 U.S. credit rater joined larger rival Standard & Poor s after more than a decade in cutting Treasury bonds from AAA to AA+ on Wednesday, citing well-known economic and political issues that weigh on the country s finances, particularly a debt measure that is more than twice the amount of similarly rated countries.

But the U.S. has something those nations do not: the world s preeminent reserve currency, which gives the government extraordinary financing flexibility, Fitch wrote in explaining the downgrade, which is based on expected fiscal deterioration over the next three years.

Indeed, the dollar s popularity with overseas investors and governments it accounts for 60% of official reserves around the the world, according to S&P gives the U.S. a license to be irresponsible, according to Martin Fridson, chief investment officer at Lehmann, Livian, Fridson Advisors and editor of thenewsletter.

The website formerly known as Twitter was full of fury at Fitch, for the downgrade itself and also for its seemingly whimsical timing. The White House helpfully compiled a list of high-profile critics that ranged from former Treasury Secretary Lawrence Summers ( bizarre and inept ) to Paul Krugman, winner of the Nobel Memorial Prize in Economic Sciences ( widely and correctly ridiculed ) and Mark Zandi, chief economist of Moody s Analytics, whocommented: Ask global investors whose bonds they would rather own if push comes to shove in the global economy- it s those of the U.S. Treasury.

The timing of Fitch s downgrade goes back to the latest bout of debt-ceiling drama. Richard Francis, co-head of sovereign ratings for the Americas and the author of the negative report, tells Forbes the decision had been made after the latest round of bickering in Washington brought the U.S. to the cusp of default.

Congress agreed tosuspendthe debt limit in June, and Fitch decided to take a little more time rather than say something right after the resolution, Francis says. The lifting of the $31.4 trillion cap ends in January 2025, right after the next presidential election, which he points out is less than two years from now, adding that the recurring debt-limit crises have been coming roughly every other year since 2011.

Increasing extremism in U.S. ***politics*** is a key issue for Fitch. The left is moving left, the right more right and the center is falling apart, says Francis. He adds it would be preferable to get rid of the debt ceiling altogether, which would resolve the biannual brinksmanship though it would likely exacerbate the problem of mounting debt.

A road back to triple-A could involve ending the cap and just stabilizing federal borrowing at the current level, he adds. But that would require some combination of spending discipline and revenue increases, which an increasingly divided Washington has shown no ability to execute.

Borrowing is approaching $33 trillion, more than twice the levelwhen S&P downgraded the country to AA+ in August 2011.

Treasury-bond yields were stable on Wednesday but edged up on Thursday, with the 10-year benchmark rising to 4.19% from 4.05% before the downgrade. Long-term U.S. yields are almost a percentage point below those of instruments with maturities of one year or less the so-called inverted yield curve a possible sign of an impending recession but certainly not an indicator of bond-market panic.

When you re talking about the difference between triple-A and double-A, they re basically the same thing, saysJames St. Aubin, chief investment officer of $5.6 billion Sierra Mutual Funds. Fixed-income professionals feel they do a better job of predicting default risk by determining market interest rates than companies like Fitch can achieve with credit ratings.

St. Aubin adds that Treasury bonds are fairly priced at around current levels and that the market may be underestimating the risk of a recession and overestimating inflationary pressures. Longer-term you cannot continue to deficit spend without creating inflation, but the risk of default is mostly theoretical for the U.S. at this juncture.

At the margins, however, the growing debt burden that was part of the rationale behind the downgrade means that it s going to cost more for the U.S. government to service its debt, saysLaura Veldkamp, a professor of economics at the Columbia University Graduate School of Business, and at some point, somebody is going to have to pay higher taxes.

You can look at it this way, she adds: Suppose your car insurance company found out that you were playing a game of chicken with your car, seeing who could get to the edge of the cliff first. They d want to raise your insurance rates.

The 10-year yield has been rising from 3.3% in early April, a reflection of increasing shorter-term rates engineered by the Federal Reserve to fight inflation, which is running at about 3% overall but a more worrisome 4.8% when food and energy are excluded.

Over the long term, the Fed s credibility in keeping prices stable is a reason why the dollar remains in favor.

The growing debt burden cited by Fitch for the rating cut was also among S&P s arguments for keeping its AA-plus unchanged and those that Moody s Investors Service considers as risks for a future downgrade from its triple-A. Fitch highlighted a ratio of government debt to gross domestic product estimated at 113% this year, compared with a median of 39.3% for other countries rated AAA, likeDenmark, Germany andAustralia, and 44.7% for those rated AA like France, Finland and Taiwan.

The report also focused on an aging population that will lead to increases in Social Security and Medicare costs with only limited progress in meeting those challenges.

One area in which Fitch differs from its competitors is its gloomier economic forecast for next year. It sees U.S. economic growth of just 0.5% for 2024 with a recession starting in the final quarter of this year. Moody s is a little more optimistic at 0.9% and S&P is higher still at 1.3% GDP growth. Francis said the near-term outlook was not a contributing factor in the downgrade.

Besides the benefits of the dollar, all three rating agencies point to structural reasons why the U.S. is still a strong credit. From the perspective of default risk, an AA+ credit is nearly indistinguishable from the top category.

Fitch says exceptional strengths underpin the United States ratings. Among them are a large, advanced, well-diversified economy, supported by a dynamic business environment. Yet the company repeatedly referred to concerns about governance, focusing on the debt-ceiling debates and also mentioning tax cuts and spending initiatives that have contributed to successive debt increases over the last decade.

All of its concerns are well-known and long-running, and in time they might combine to overcome the reserve-currency benefit that allows the U.S. to borrow with near-abandon. Rating agencies are often accused of being behind the curve, says Fridson, but despite the colorful internet commentary, he says the downgrade decision and timing was just business as usual.

I don t think there was anything shocking about it or there shouldn t be, he says. Rating agencies don t look at themselves as organizations that break news, they re not really in the business of uncovering great undiscovered facts.

**Updated September 6 to correct spelling of Laura Veldkamp s last name.**

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