

# [***Fitch Puts U.S. AAA Credit Rating On 'Negative' Watch Here's Why It Matters***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:689X-H581-DXVP-5441-00000-00&context=1516831)

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**Highlight:** The agency said continued political brinkmanship over the debt ceiling raises concerns over the U.S. ability to pay its debts.

**Body**

**Topline**

Credit rating agency Fitchwarnedthe U.S. top-tier rating could be downgraded amid continued political brinkmanship over the debt ceiling, a move that could send shockwaves through the global financial system and topple the country from its prime position as potential default nears.

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House Speaker Kevin McCarthy is negotiating with President Biden over the debt ceiling.

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**Key Facts**

Credit ratings signal the health of a nation s economy and tell investors how risky investing there might be, effectively assessing how likely it is that a country will pay back its debt.

Ratings can determine the type of credit extended to governments and on what terms in theory, a lower ranking means higher borrowing costs affecting its ability to raise money.

The ratings of three credit agencies Moody s, S&P and Fitch play a particularly large role in how investors view a country and as both Moody s and Fitch still award the U.S. their top score many investors still rank the country in their top tier for safe and secure investments.

Another downgrade S&P downgraded the government s rating to its second-highest in 2011 and kept it there ever since could topple the U.S. from its leading position in the global economy, putting it in a tier below countries like Germany, Denmark, Canada, Switzerland, Singapore and Australia.

A downgrade would likely mean higher borrowing costs for the U.S. government but it could also ignite broader financial turmoil across the board.

S&P s decision to ding the U.S. credit rating in 2011triggereda globalselloffthat led to Wall Street s worst day since the 2008 financial crisis and raised fears of a new recession.

**News Peg**

Fitch on Wednesday placed the U.S. top rating on rating watch negative, and global stock marketsweakenedfollowing the warning. The agency, which still expects a deal to be made before cash runs out, said the move reflects the political brinkmanship that is standing in the way of raising or suspending the debt limit. It came after President Joe Biden and Republican House Speaker Kevin McCarthy again failed to strike a deal on the debt ceiling.

**What To Watch For**

Treasury Secretary Janet Yellen haswarnedthe country may be unable to pay its bills as soon as June 1 and it faces a potentially catastrophic default on payments if the ceiling is not raised by then.

**Key Background**

The U.S. reached its $31.4 trillion debt limit in January and the Treasury took steps to avoid breaching the debt ceiling. The debt ceiling is the limit the government can borrow to pay for things. Itborrowsby selling treasury securities and it cannot sell beyond a certain limit, which is set by Congress. Most comparable countriesdo not havea debt ceiling and the intensely partisan nature of American ***politics*** has transformed discussions over raising the debt ceiling into a hyper-political bargaining match, which all too often results in weeks or months of tense stalemate as default creeps closer.

**What We Don t Know**

It s uncertain what would happen should another major agency downgrade the U.S. credit rating, even if default is averted. A lot will depend on how investors respond (many did not heedadviceto largely ignore S&P s 2011 downgrade). The ramifications of a downgrade could reach further than they would for most countries given the U.S. central role in the global financial system. Government debt is the largest debt in the global debt market and the dollar is the dominant currency of international trade. The top positions of both the greenback and the country, which allows the U.S. to negotiate far more favorable deals than it would otherwise manage, is at risk if the downgrade sparks doubt on the solidity of American investments for foreign investors and governments.

**Tangent**

Moody s is unlikely to downgrade the U.S. anytime soon, William Foster, a senior vice president and senior credit officer in the firm s Sovereign Risk Group,toldPolitico. Even if lawmakers did not strike a deal by June 1, Foster said the odds of the U.S. missing an interest payment on its bonds remained very low and a Moody s downgrade unlikely. If we got past the X-Date where we re in a period where there was prioritization of payments and interest was continuing to be paid, but other payments were missed we would have to reassess at that point.

**Crucial Quote**

Even if politicians manage to strike a deal and avoid defaulting, credit agencies likeFitchhave warned the frequent political standoffs over the debt ceiling have nevertheless damaged the U.S. in the eyes of investors. James McCormack, Fitch s global head of sovereign ratings,toldCNN America s rating is based on the twin ideas of the dollar being the global reserve currency and U.S. Treasuries being treated as risk-free assets. The repeated episodes of fighting that bring the country closer to default chip away at those two things, McCormack added. When investors have to think about a possible U.S. default, that s not what you re looking for in a risk-free asset, McCormack said.

**Further Reading**

America s credit rating could get downgraded even if a default is avoided, Fitch Ratings warns(CNN)

Here's what could happen in markets if the U.S. defaults. Hint: It won't be pretty(NPR)

Default on U.S. Debt Risks Permanently Denting Nation s Credit Rating(NYT)

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