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Macro Roundup Artcile

Headline: Why Fitch's Downgrade Matters

Article Link: https://www.wsj.com/articles/fitch-downgrade-us-credit-rating-4ad98230

Author(s)	Greg Ip
Publication	Wall Street Journal
Publication Date	August 09, 2023

Tweet: .@greg_ip notes that the US will spend 10% of federal revenue on interest by 2025, compared with just 1% for the average triple-A-rated country and 4.8% for double-A rated.

Summary: The variable that best captures the change in circumstances is the real Treasury yield—what investors expect to earn on a 10-year note after inflation. It was around zero in August 2011, soon to go negative. Today, it is 1.7%, near the highest since 2009. One takeaway is that the global saving glut—the wall of money in search of safe assets that kept yields down a decade ago—is no more. independent economist Phil Suttle estimates private investors will be asked to absorb government debt worth 7.7% of developed economies' GDP this year and 9.2% next, more than double the 4.3% of 2011. Private borrowers thus face competition from governments for capital, which in the long run hurts investment and growth. We got a taste of that last week when yields jumped on news of larger-than-expected quarterly Treasury auctions. Related: Raising Anchor and American Gothic and Is a U.S. Debt Crisis Looming? Is it Even Possible?

Primary Topic: Fiscal Deficits

Topics: Fiscal Deficits, Fiscal Policy, GDP, Op-Ed/Blog Post, Savings Glut/Trade Deficit

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