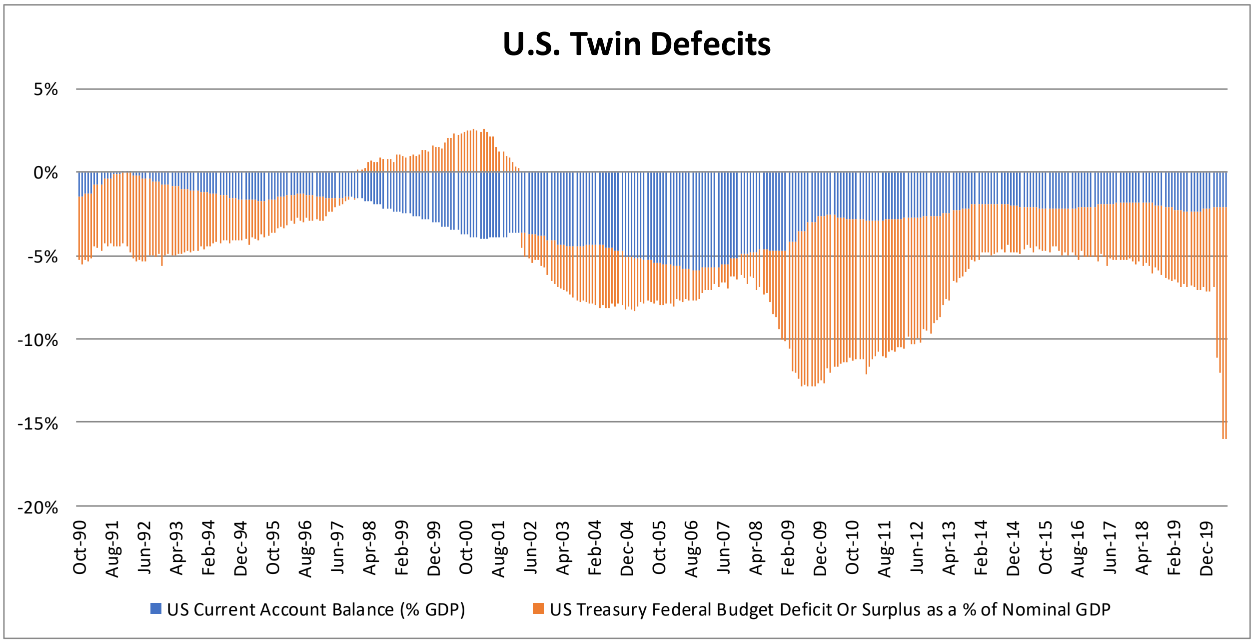
Fitch Revises United States Outlook to Negative

Fitch Ratings took action on the United States Government on Friday, July 31st, as the rating agency affirmed the current AAA rating but revised the outlook from stable to negative. The downshift in outlook is a result of the ongoing deficit and debt buildup due to changes in revenue policy, spending priorities, and stimulus efforts aimed to offset the ongoing viral pandemic. The shift in outlook impacts direct issuance out of the United States Treasury as well as the issuance of agencies that have implicit or explicit support from the U.S. government. The markets had no noticeable reaction to the outlook change.

Given the revenue and spending story here in the United States, the outlook change comes with little surprise. In fact, one could argue what took them so long and why other agencies have not acted. We suspect it stems from their unwillingness to draw the ire of an active administration operating amid a health crisis.

The United States has run a “twin deficit” for many years that has led to a continued buildup of debt. We expect this trend to continue given entitlement spending, the fiscal tone in Washington, and a Federal Reserve who seems content in purchasing issuance from the government to place on their ever-growing balance sheet. Simply put, the path of least resistance is for more debt and more spending. This is especially true with policymakers facing record-low borrowing costs.



In many respects, ratings on issuance out of the United States remain somewhat of an outlier when compared to other notable sovereign issuers as rating agencies have taken more meaningful actions against other major issuers over the years with similar debt profiles. To be fair, some of the difference stems from the global role for the U.S. Dollar, which gives the United States an unparalleled ability to issue and place debt both domestically and internationally.

Country	Standard & Poor's	Moody's	Fitch	Gross Public Debt to GDP*
Japan	A+	A1	A	230%
United Kingdom	AA	Aa2	AA-	82%
France	AA+	Aa2	AAA	86%
Germany	AAA	Aaa	AAA	81%
Canada	AAA	Aaa	AA+	85%
China	A+	A1	A+	26%
United States	AA+	Aaa	AAA	103%

*International Montetary Fund

For investors, we currently see no meaningful impact as a result of the outlook change by Fitch and continue to be comfortable investing in Treasury and Agency securities. We would continue this view even if a downgrade were to occur. Domestic and foreign investors who seek high-quality and liquid investments will continue to support the Treasury and Agency markets. Additionally, we would not rule out continued intervention by the Federal Reserve if markets had a negative reaction to a rating downgrade. After all, if they are willing to support high-yield companies, why wouldn't they support the United States Treasury?