Moody's Shifts U.S. Government Rating Outlook to Negative
November 13, 2023

Moody's took action last Friday by putting the U.S. Government's Aaa rating on a negative outlook. They are the last of the big three rating agencies to take action, with both Fitch and S&P already having downgraded the nation's rating to AA+. The reason is understandable given the ballooning deficit, rapidly rising interest costs and constant fears around the debt ceiling and government shutdowns. We expect Moody's to downgrade the rating in the near future as we do not see any credible action out of the government to alleviate the stated concerns, especially with so much of the problem driven by entitlement programs that are very popular with voters.

Below is an excerpt from Moody's explaining the rationale:

> **Moody's changes outlook on United States' ratings to negative, affirms Aaa ratings**
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> The key driver of the outlook change to negative is Moody's assessment that the downside risks to the US' fiscal strength have increased and may no longer be fully offset by the sovereign's unique credit strengths. In the context of higher interest rates, without effective fiscal policy measures to reduce government spending or increase revenues, Moody's expects that the US' fiscal deficits will remain very large, significantly weakening debt affordability. Continued political polarization within US Congress raises the risk that successive governments will not be able to reach consensus on a fiscal plan to slow the decline in debt affordability.

There was no market reaction after the release, and we continue to believe this is of little concern to domestic investors given the government has the ability to print currency to pay off debts. Ultimately the Federal Reserve will step in, if needed, to allow the market to clear and for the government to finance operations.

As always, reach out if you have any questions or would like to discuss the matter further.

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