Let's take a look at the potential US Debt Downgrade Impact.

The ratings downgrades of USA are as follows:

- S&P: 8/5/2011 AAA to AA+
- Fitch: 8/1/2023 AAA to AA+
- Moody's: 5/16/2025 Aaa to Aa1

Credit rating scale below. Note the U.S. debt is still rated on the 2nd best possible level.

Credit Rating Scales by Agency, Long-Term

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	D	In default
/			
/			

"Junk"

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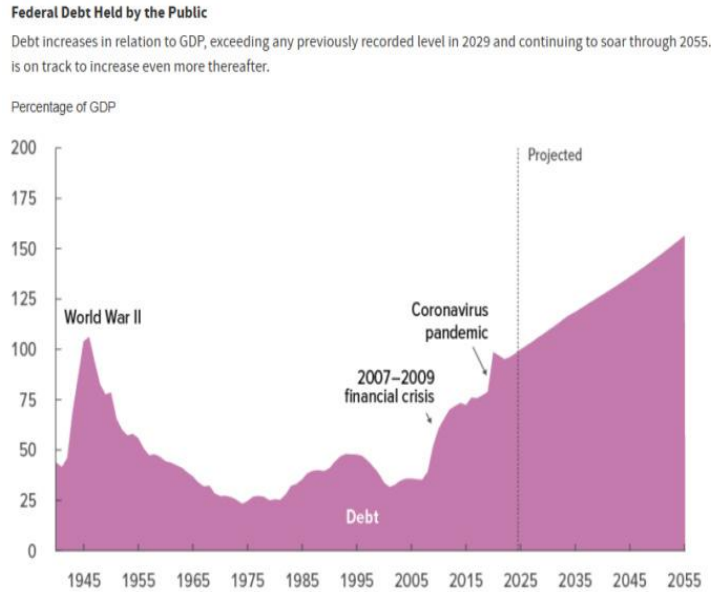
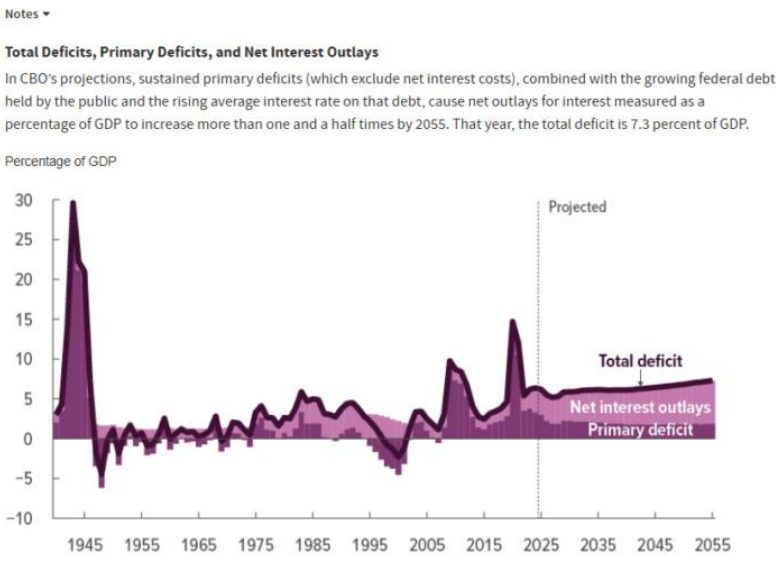
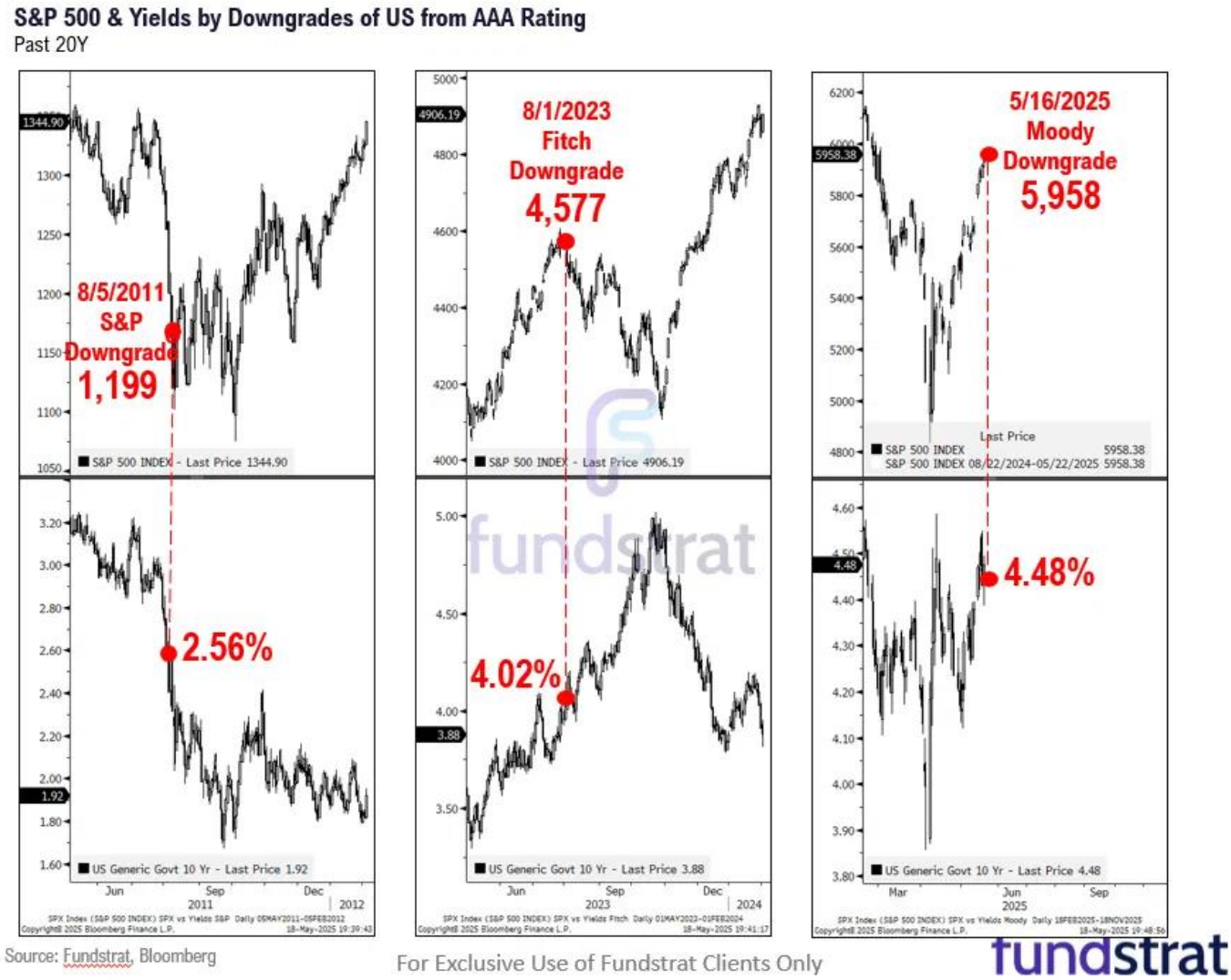
Here is the key reason why I believe Moody's took action: "Successive U.S. administrations and Congress have failed to agree on measures to reverse the trend of large annual fiscal deficits and growing interest costs. **We do not believe that material multi-year reductions in mandatory spending and deficits will result from current fiscal proposals under consideration."** Projections for the Federal debt, deficit, and interest burden, as shown in the chart below, continue to all trend higher.





Comparing Previous Debt Downgrades to Today's

- The US debt downgrade by Moody's (following Fitch in 2023 and S&P in 2011) has historically triggered 8-10% S&P declines, but current conditions suggest a milder impact.
- The S&P has rallied 20% since its April lows, showing overbought signals. However, retail FOMO and institutional "performance anxiety" may cushion the drop.
- Unlike 2011 (Eurozone crisis fears) or 2023 (inflation/yield spikes), today's backdrop includes improving trade dynamics (China tariff rollbacks) and economic resilience.
- Bottom line: This downgrade was more anticipated and less disruptive - watch for buy-the-dip behavior, but tariff shifts and liquidity will dictate the next move.



Summary:

While a debt downgrade is notable, there are several things that investors must consider.

- This is not the first time that U.S. debt has been downgraded.
- The debt downgrade does nothing to impair the reserve currency status of the U.S. dollar.
- The U.S. Treasury remains the gold standard for "risk-free" investment for foreign and domestic savers.
- Commercial banks, pensions, foreign governments, banks (collateral for repo operations), etc., are all, and will remain, demand buyers for Treasuries.

Technical and sentiment readings suggest the market has gotten ahead of itself after a strong market V shape rally over the past several weeks. Therefore, we anticipate market volatility in both equities and bonds. With Moody's debt downgrade, media headlines are running wild with speculation about what it means. As we have seen in the previous two downgrades, it has not meant much. **Almost 15 years after S&P's downgrade of the debt, the U.S. remains the world's reserve currency, gold vastly underperformed equities, and the economy didn't collapse under the weight of the debt.** On the contrary, investors have been well rewarded betting against those outcomes. Long term, as history has shown, these trends in asset classes will likely continue. Therefore, from a portfolio perspective we will look to continuing buying dips and selling rips!

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