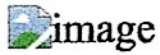


3-7-2025



Standard & Poor
Fitch Ratings
Moody's

What Happens If Moody's Downgrades the U. S.'s Credit Rating?

It's every investor's fantasy: You hop into your DeLorean with a flux capacitor and peruse the next day's newspaper. Imagine reading that one of the world's leading credit-rating firms would downgrade trillions of dollars in bonds nearly everyone owns. You'd sell yours, naturally. *

But in April 2011, when Standard & Poor's issued a negative outlook on Uncle Sam's credit, benchmark Treasury note prices began to rise, and not by a little. In August, when they actually downgraded the U.S. to a mere AA+, stocks plunged but Treasury debt continued to rally. Between April and early September the notes' yield, which moves in the opposite direction of prices, fell from 3.4% to less than 2%. *

Only in America. S& P said at the time that it might downgrade again in the next two years, but it hasn't, and it was all quiet on the credit front until competitor Fitch Ratings also decided to drop America to AA+ in August 2023. That episode helped push yields to a 16-year-high instead of the other way. Note

Investors got spooked about the U.S.'s fiscal path.

What would happen if the final major agency, Moody's, joined its peers?

At the time of S& P's downgrade, debt held by the public was just passing a shocking \$10 trillion. We're now months away from cracking \$30 trillion. Italy, whose debt numbers actually are slightly tamer, is rated BBB by S& P. *

It seems like the sort of grade inflation that would make an Ivy League student blush. Sovereign ratings are as much an art as a science, though, and America gets a pass no other country would because it owns the world's reserve currency. Note

In November 2023, Moody's lowered its outlook to negative from stable, so the ground has been laid. The fiscal picture has kept deteriorating, but the agency also could point to the U.S. economy's remarkable resilience. *

A final piece of the puzzle, the strength of America's institutions, bears watching. With an agency never authorized by Congress gutting agencies legislators voted to fund, that part suddenly looks iffy. Still, given the flurry of measures that the administration claims will cut costs, including Elon Musk's DOGE, they could get the benefit of the doubt.

But not forever. And, while a country that borrows in its own currency need never default ratings are about more than that. The market's reaction to the loss of America's last AAA badge could be worse than when Fitch made its move. Think 2011, but with a nasty twist.

Back then, stocks narrowly avoided a bear market and shocked investors piled into that classic haven, U.S. Treasury debt. Many already nervous about sustainability might trim exposure to longer-term notes and bonds next time. And with the debt pile three

times as high, that really matters. Anything that pushes up America's interest tab—it just crossed \$1 trillion a year—can make a bad fiscal picture worse.

There might be too much happening right now for any agency to make a major move, but investors are whistling past the ratings graveyard.

—Spencer Jakab

[Copyright \(c\)2025 Dow Jones & Company, Inc. All Rights Reserved. 3/7/2025](#)

[Powered by TECNAVIA](#)

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

Friday, 03/07/2025 Page .B010

Copyright (c)2025 Dow Jones & Company, Inc. All Rights Reserved. 3/7/2025