Fitch Lowers Long-Term U.S. Debt Rating from AAA to AA+

August 2, 2023

Last night, Fitch Ratings downgraded the United States' long-term foreign-currency issuer default rating to AA+ from AAA. The Rating Watch Negative was removed, and a "stable" outlook was assigned. While the timing of this announcement was somewhat surprising given the recent strength in U.S. economic data and the debt limit suspension, the action itself was not entirely unexpected. In their rationale for this downgrade, Fitch cited the growing government debt burden, specifically the "erosion" of governance. They stated that "the repeated debt-limit political standoffs and last-minute resolutions have eroded confidence in fiscal management." Additionally, Fitch highlighted the growing general government deficit which they expect to rise to 6.3% of GDP in 2023, up significantly from 2022's 3.7% level.

This downgrade leaves Moody's as the only rating agency with a AAA rating for U.S. debt. Standard and Poor's lowered the rating to AA+ in August of 2011. After this downgrade, all three rating agencies now have the outlook at "stable".

Our View:

We believe Fitch's downgrade does not materially affect the outlook for U.S. Treasuries. Factors that should drive rates remain Fed policy, economic data and Treasury supply. The latter issue, supply, is set to rise significantly next week when the U.S. Department of the Treasury sells $103B of longer-term securities at its quarterly refunding auctions. The supply issue, along with Fitch's downgrade, appears to be pressuring bonds. However, the U.S. Treasury market remains the world's largest and most liquid, and the U.S. dollar remains the world's reserve currency.

Fed = Federal Reserve. GDP = gross domestic product. Source for data cited herein is Bloomberg L.P.

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