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Think Strategically

America's Downgrade: From AAA to Alarm Bells, Tracing the Surge in U.S. Debt-to-GDP Since 1993

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From The Gold Standard to A Downgraded Nation

By now, you have heard the United States has lost its AAA credit rating—an event that would have been unthinkable just two decades ago.

The country long held the gold standard in sovereign credit, a foundation of the global financial system. But today, all three major rating agencies—**S&P, Fitch, and Moody's** have downgraded U.S. debt or placed it under negative watch. What once symbolized unmatched fiscal strength and political cohesion has become a cautionary tale of rising debt, legislative dysfunction, and diminishing creditworthiness.

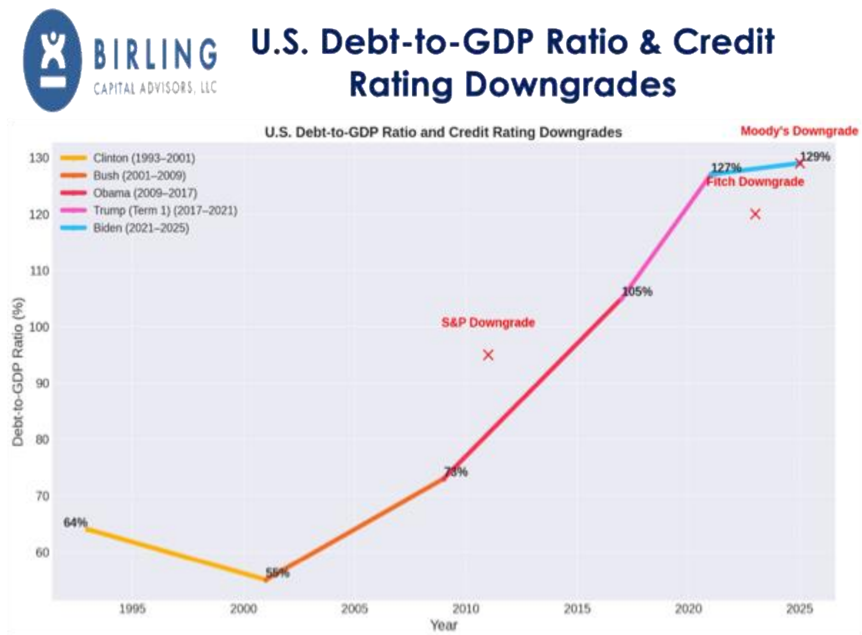
This downgrade is more than symbolic. It reflects a structural deterioration in America's financial stewardship, marked by runaway deficits, mounting interest payments, and a debt-to-GDP ratio that has more than **doubled since 2001**. To understand how we got here, it's essential to trace the arc of U.S. debt accumulation through the lens of presidential terms—from Bill Clinton through Joe Biden**, and now as** President Trump begins his second non-consecutive term—and to assess what lies ahead for the markets.

What Happens Once the Marktes Opens Monday

When markets open on Monday, investors will begin to price in the implications of the downgrade. A mix of sentiment, technical factors, and longer-term structural fears will shape reactions. Based on prior experience, here's what we can expect in the immediate aftermath and beyond:

- **Treasury yields could rise**, as a downgrade diminishes the perceived safety of U.S. government bonds, causing investors to demand higher returns.
- **Stock market volatility is likely**, especially in sectors sensitive to interest rates such as financials, housing, and technology.
- **The U.S. dollar may weaken**, as foreign investors question the long-term fiscal integrity of the United States.
- **Gold and other safe-haven assets could rally**, as global capital seeks perceived stability outside the U.S. dollar.
- **Credit spreads may widen**, especially for U.S. corporates whose cost of borrowing often benchmarks off Treasurys.

However, the more profound impact lies not in the immediate moves but in what this signals about the United States' long-term trajectory**.**



The Downgrades: A 14-Year Slide

S&P Global Ratings (2011) – AAA → AA+

- Triggered by the debt ceiling crisis during the Obama administration.
- Warned of a dysfunctional political system unwilling to address long-term deficits.

Fitch Ratings (2023) *– AAA → AA+*

- Cited declining governance standards and the erosion of U.S. fiscal credibility.

Moody's Investors Service (2025) *– Aaa → Aa1*

- Cited rising interest burdens, long-term fiscal mismanagement, and unsustainable debt growth.

Each agency expressed a common theme: **fiscal policy failure in the face of mounting obligations and political gridlock**.

Snapshot of Moody's Analysis: The End of AAA

Moody's rationale reflects deep structural issues:

- Over the past decade, the U.S. has **failed to reverse large fiscal deficits**.
- **Interest payments** are rising faster than revenue. They are projected to consume **30% of federal revenue by 2035**, up from 9% in 2021.
- Federal **mandatory spending is rising**, expected to reach **78% of total federal outlays** by 2035.
- If the **2017 Tax Cuts and Jobs Act is extended**, it will add **$4 trillion to the deficit** over 10 years.
- By 2035, Moody's projects:
    - **Debt-to-GDP at 134%**
    - **Deficit nearing 9% of GDP**
    - **Interest payments exceeding $2 trillion annually**.

While Moody's acknowledges America's economic dynamism, deep capital markets, and the dollar's global dominance, it concludes that these strengths **no longer fully offset the fiscal deterioration**. "We expect that the U.S. will continue its long history of very effective monetary policy... but we no longer believe that fiscal strength justifies an Aaa rating", the agency wrote.

Yet Moody's moved the **outlook to "Stable"**, signaling that the U.S. is not in immediate danger of further downgrade. **They cited:**

- Strong macroeconomic policy institutions
- An independent and effective Federal Reserve
- The unique global role of the U.S. dollar
- Institutional resilience stemming from the separation of powers and the rule of law

Still, the conclusion was clear: The United States' fiscal trajectory is increasingly out of step with its Aaa peers.

United States Debt-to-GDP: The 30-Year Climb

The data presents a clear historical trajectory of the U.S. federal debt as a percentage of GDP across presidential administrations from 1993 to the present, with striking contrasts in fiscal performance.

President	Term	Debt-GDP Start	Debt-GDP End	Change
Clinton	1993-2001	64%	55%	-9%
Bush	2001-2009	55%	73%	18%
Obama	2009-2017	73%	105%	32%
Trump-1	2017-2021	105%	127%	22%
Biden	2021-2025	127%	129%	2%
Trump-2	2025-	129%		

- **President Bill Clinton (1993–2001)** is the only president in the chart to **reduce the debt-to-GDP ratio**, bringing it down from **64% to 55%**, a **9-point decrease**. This period benefited from economic expansion, budget surpluses, and bipartisan fiscal discipline.

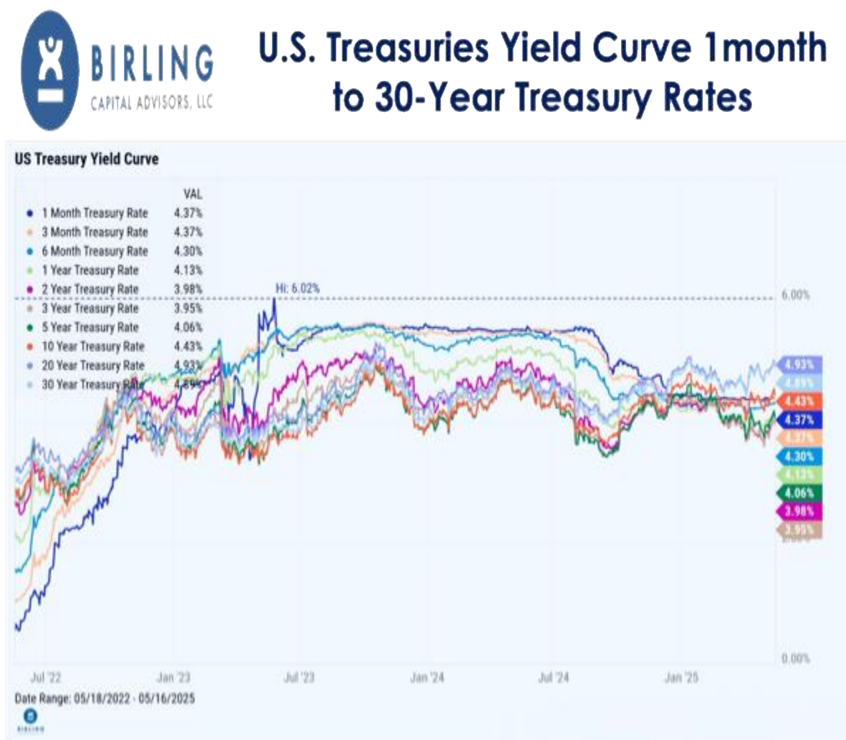
- **President George W. Bush (2001–2009)** oversaw a reversal, with the ratio climbing from **55% to 73%**, an **18-point increase**, driven by tax cuts, two wars, and the 2008 financial crisis.
- **President Barack Obama (2009–2017)** faced the full brunt of the Great Recession, with massive stimulus spending and bailouts contributing to the most significant increase in the chart—**32 percentage points**, from **73% to 105%**.

- **President Donald Trump's first term (2017–2021)** saw a further rise from **105% to 127%**, a **22-point increase**, driven by tax reform, increased defense and discretionary spending, and pandemic-related stimulus.

- **President Joe Biden (2021–2025)** inherited a high debt ratio and saw only a modest increase from **127% to 129%**, a **2-point change**, despite continued spending on recovery and inflation mitigation efforts.

- **President Trump's second term (2025–)** begins with a **debt-to-GDP ratio of approximately 129%**, consistent with the Congressional Budget Office (CBO) and Treasury data as of early 2025. It is too early to determine the precise trajectory of the debt ratio during this term. However, **preliminary estimates from independent analysts and budget watchdogs** suggest that if a **revamped version of the Trump-era tax cuts**—including extensions and potential expansions—passes Congress, it could **add at least $4 trillion to the national debt over a 10-year horizon**. According to the **Committee for a Responsible Federal Budget (CRFB)** and other nonpartisan sources, such a package would significantly worsen the fiscal outlook unless offset by spending cuts or new revenue sources.

What the Downgrade Means for Financial Markets



1. **Treasury Market Turbulence:** The U.S. Treasury market is the **backbone of global finance**. A downgrade raises concerns about U.S. creditworthiness and can cause a **sell-off in Treasurys**, pushing **yields higher**. That means:
   - **The cost of borrowing for the U.S. government increases**, putting further strain on deficits.
   - Other debt instruments, such as corporate bonds, mortgages, and municipal debt, have higher yields because they're priced relative to Treasurys.
2. **Stock Market Volatility:** Credit downgrades create **uncertainty and fear** in equity markets. Key effects include:
   - **Financial sector stress**, as banks and insurers hold large amounts of U.S. government bonds.
   - **Technology and growth stocks under pressure**, as higher yields reduce the present value of future earnings.
   - **Emerging market outflows**, as capital flees riskier regions in times of U.S. volatility.
3. **U.S. Dollar at Risk:** While the dollar remains the world's reserve currency, a downgrade **chips away at its dominance**:
   - Central banks and sovereign funds may **diversify away** from dollar-denominated assets.
   - Long-term confidence in the dollar as a **store of value** and medium of exchange could erode.
   - Volatility in the FX markets may rise, especially if confidence in the U.S. fiscal outlook deteriorates further.
4. **Higher Interest Rates Across the Economy:** As the benchmark 10-year yield rises:
   - **Mortgage rates climb**, slowing the housing market.
   - **Corporate borrowing becomes more expensive**, reducing investment and hiring.
   - **Consumers face higher credit card, auto loan, and personal loan costs**, impacting demand.
5. **Safe Havens and Commodities Rally:** In times of systemic uncertainty:
   - **Gold, silver, and Bitcoin** may benefit from flight-to-safety behavior.
   - **Oil markets** may react depending on how the downgrade affects global growth expectations.
6. **Impact on Pension Funds and Insurance**

   Many institutional investors—including **pension funds, endowments, and insurance firms**—are bound by investment mandates limiting non-AAA debt holdings. A downgrade can:

   - Force **rebalancing of portfolios** away from Treasurys.
   - Trigger changes in **risk-based capital requirements**, especially in insurance sectors.
   - Create **mark-to-market losses** in large fixed-income portfolios.

Systemic Risk and Psychological Impact

While the U.S. is unlikely to default, the downgrade **undermines faith in U.S. institutions**. Investors, analysts, and governments worldwide see a country:

- **Unable to govern itself financially**
- **Addicted to borrowing**
- **Caught in cycles of short-term political brinkmanship**

This erosion of **policy credibility** is perhaps more damaging than the numeric rating itself.

The Final Word: America at a Fiscal Crossroads

The United States' loss of its final AAA credit rating is not a verdict on its ability to repay its debt today, but a warning about its political trajectory tomorrow. Moody's downgrade, followed by S&P and Fitch, reflects growing concern over the erosion of fiscal discipline, political dysfunction, and the absence of a long-term plan to stabilize the debt trajectory. It is not about solvency—it is about stewardship.

With the debt-to-GDP ratio now near 130%, and interest payments on course to become the largest single line item in the federal budget within a decade, the U.S. faces a looming fiscal reckoning. This moment requires more than rhetoric—it demands leadership.

The downgrade has amplified political fault lines in Washington.

Treasury Secretary Scott Bessent dismissed the downgrade as a "lagging indicator", attributing it to fiscal excesses from the Biden era and arguing that the proposed Trump tax reforms will drive economic growth sufficient to offset the debt increase. He called **Moody's analysis outdated and disconnected** from what he sees as an improving fiscal outlook.

On the other side of the aisle, **Senate Majority Leader Chuck Schumer** called the downgrade a **"wake-up call", warning that extending the 2017 tax cuts would amount to "deficit-busting giveaways" that deepen the fiscal hole.**

These sharply contrasting views are symptomatic of a deeper failure: the inability of America's political class to forge a coherent, sustainable fiscal strategy. As President Donald J. Trump begins his second non-consecutive term, the world is watching—not just for what policies he enacts but also for whether the U.S. can rise above partisan gridlock and reclaim its role as a disciplined economic superpower.

History is clear: great nations do not collapse from a single event but from a series of ignored warnings. This downgrade is not just a blemish on America's financial standing—it's a mirror reflecting decades of delay, denial, and dysfunction.

As Thomas Sowell cleverly points out**, "It is hard to imagine a more dangerous way to make decisions than entrusting them to people who pay no price for being wrong—like politicians, who survive like parasites by draining the lifeblood of the productive sector of the economy".**

The question is no longer whether we can afford to act—it's whether we can afford not to.

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