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## Bond Market Update: The United States Loses its last AAA Rating

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Moody's downgraded the United States credit rating to Aa1 from AAA and revised the outlook to stable from negative on May 16. The market reaction has been relatively muted, partly because the possibility of a downgrade was well-telegraphed. Moody's announced a negative outlook on the U.S. over 18 months ago.

Further, the rationale behind the downgrade, including "the increase over more than a decade in government debt and interest payment ratios," reflects well-known challenges recognized by other rating agencies. For example, Fitch downgraded the U.S. to AA+ from AAA in 2023, while S&P lowered its rating to AA+ from AAA in 2011. In this context, the latest move by Moody's doesn't provide new information but serves as a reminder that the U.S. will ultimately need to get its fiscal house in order.

### The United States Remains a Solid Credit

In its downgrade note, Moody's observed the U.S. "retains exceptional credit strengths such as the size, resilience and dynamism of its economy and the role of the U.S. dollar as global reserve currency" — a view we share. The U.S. Treasury market remains the world's largest and most liquid, serving as the bedrock of the global financial system. While rising debt levels and interest costs may pose long-term challenges, we don't believe this downgrade signals an inability or unwillingness to meet its financial obligations.

### Yields Track Lower After Downgrade

In the two weeks since Moody's rating action, U.S. Treasuries have rallied modestly, with yields slightly down across major tenors, as illustrated in the table below. While we expect fixed income volatility to remain high in the near term, fears of an immediate shock in the U.S. Treasury market after the U.S. downgrade have failed to materialize.

Yield Change - US Treasuries (05/16/2025 - 05/30/2025)			
US Treasury (Maturity)	5/16/2025	5/30/2025	Change (Basis Points)
2-Year	4.00%	3.90%	-10.50
5-Year	4.09%	3.96%	-13.20
10-Year	4.48%	4.40%	-8.00
30-Year	4.95%	4.93%	-1.50

Source: Bloomberg. Past performance is not a guarantee of future results.

While Moody's downgrade marks the end of the U.S.'s last AAA credit rating, it does little to alter the underlying fundamentals. The U.S. continues to benefit from unparalleled economic strengths and the unique status of the dollar and Treasury market in global finance. The muted market response reflects this enduring confidence — however, the fiscal challenges highlighted by Moody's remain real and will need to be addressed over time to sustain that credibility.

*Fixed income. Flexible thinking.*

A prudent approach to fixed income investing calls for diversification across both credit and duration exposure. As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

Should you need help navigating fixed income for your clients, contact Dynamic's Asset Management team at (877) 257-3840, ext. 4, or [assetmanagement@dynamicadvisorsolutions.com](mailto:assetmanagement@dynamicadvisorsolutions.com).

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