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U.S. bond downgrade: "Budget deficits are already factored in," say experts

NIKKEI

The excerpt below was originally published in Japanese on Nikkei, and has been translated to English.

Moody's Ratings[1], a major credit rating agency, downgraded the U.S. credit rating by onelevel on March 16, citing rising government debt and interest payment costs. We asked U.S. experts about the market reaction.

Downgrade does not impact risk assessment

Andrew Wells, CIO at U.S. investment management firm SanJac Alpha

We view the downgrade of U.S. Treasuries by Moody's as merely a reflection of the trend of large budget deficits that have been ongoing for the past several years. The downgrade itself was not that significant and the market reaction was limited. The bond market had already factored in large budget deficits and interest rates were rising.

Andrew "Andy" Wells
SanJac Alpha LP
Chief Investment Officer

The downgrade did not particularly affect our risk assessment either. We were bearish on the bond market given the redemption of about $9 trillion in U.S. Treasuries this year and had already adopted a strategy of increasing our holdings of short-term debt.

Therefore, the downgrade did not cause us to change our position over the weekend. When I talked with other managers, they did not seem to see the Moody's downgrade as a factor in their decisions.

Government fiscal policy is now having a greater impact on the economy than the Federal Reserve. The tax cut legislation currently under consideration would be detrimental to the economy as it would further widen the deficit and increase borrowing costs and inflation, which would be a huge burden on consumers.

On the other hand, if the final bill strikes a balance between cutting taxes and not increasing the budget deficit, it will be positive for both the economy and the market.

(Interviewer: Sato Riko, New York)

IMPORTANT INFORMATION

[1]**Moody's Ratings** - assigns credit ratings to various entities, including corporations, governments, and financial institutions, to assess their ability to repay debt.

All investing involves risk, including loss of principal.

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