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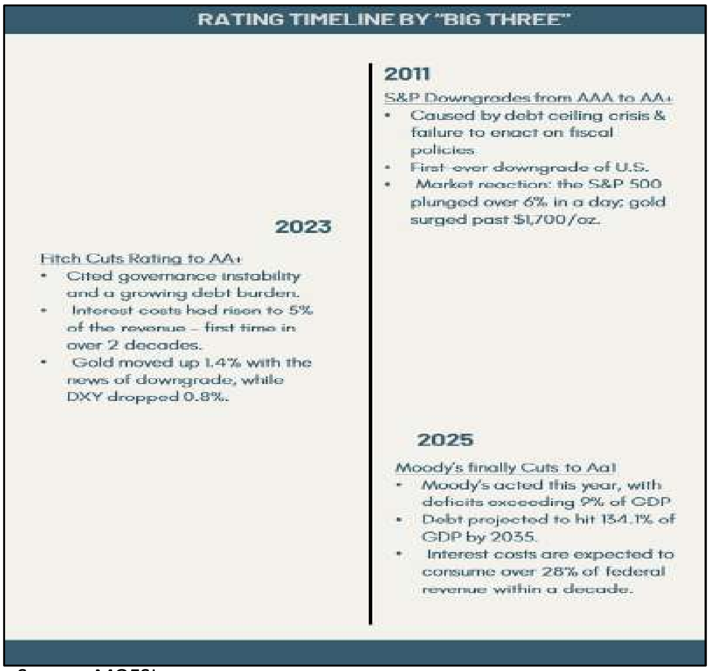
20th April, 2025

Credit Checkmate!!!

America's Credit Reality Check: Big Three Sound Alarm

In a historic alignment of concern, all three major credit rating agencies (The Big Three)—Moody's, Fitch Ratings, and Standard & Poor's (S&P)—have now, taken steps to downgrade or issue warnings on the United States' sovereign creditworthiness. Latest and most symbolic shift came in the month May'25, when Moody's downgraded the U.S. long-term credit rating from Aaa to Aa1—its first-ever cut to the world's largest economy. The move echoed prior actions by S&P in 2011 and Fitch in 2023.



Source: MOFSL

Moody's Downgrade: A Long-Avoided Reckoning

Moody's rationale to revise rating lower is rooted in US hard political dysfunction. US is currently carrying debt levels more than 100% of GDP, and interest payments are poised to absorb up to 30% of federal revenue by 2035. Moody's report shows possibility of persistent fiscal deficits—expected to hover around 9% of GDP annually—and absence of a credible bipartisan plan to stabilize finances. Before this downgrade, Moody's placed the U.S. on a Negative Outlook in late 2023, signaling that a downgrade was possible. Because of this prior signal, the eventual downgrade in May 2025 was largely anticipated by the market—unlike the revisions announced by other two rating agencies, which caught market off guard.

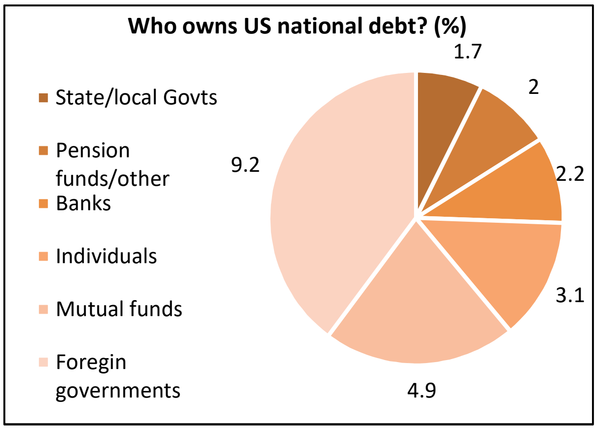
While Moody's had long resisted downgrading the U.S., unlike its peers, the weight of evidence became impossible to ignore. The agency specifically cited the erosion of fiscal strength and the growing interest burden amid higher-for-longer interest rates. With the Federal Reserve maintaining elevated policy rates to combat inflation, debt servicing costs have surged, further straining the government's ability to fund essential programs.

Fitch and S&P: Precedents and Pattern Recognition

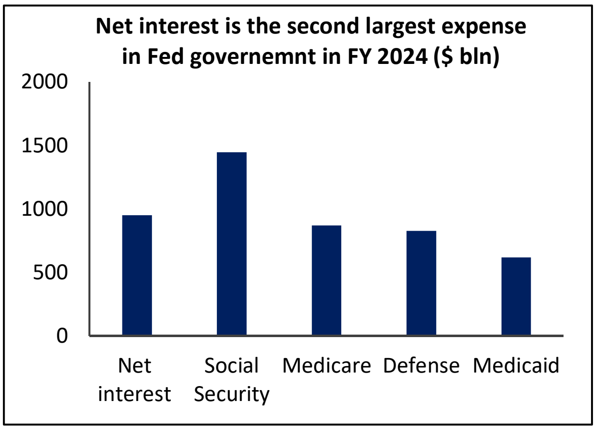
In 2011, S&P fired the first warning shot when it cut the U.S. credit rating from AAA to AA+, following debt ceiling debacle under the Obama admin. In August 2023, Fitch Ratings downgraded the U.S. from AAA to AA+, citing similar reasons:

governance erosion, repeated debt ceiling brinkmanship, and a deteriorating debt-to-GDP trajectory. Fitch noted that the "confidence factor" in global capital markets had visibly weakened.

In short, all three agencies now agree: the U.S. government is on an unsustainable fiscal path, and the window for course correction is narrowing. However, it is interesting to see, S&P have stayed put on their ratings since so many despite the troubles and warning sirens have only become louder.



Source: Bloomberg



Source: Bloomberg

Debt and Interest Burden: Core of the Crisis

At the heart of these credit downgrades is a simple but ominous economic reality—the U.S. is borrowing more than ever and paying more to do it. Recent Bloomberg report suggest that, the interest burden on U.S. debt has reached its highest point in 28 years, exceeding 3.2% of GDP in fiscal 2024. As a share of total government spending, interest payments are outpacing federal investments in education, infrastructure, and even defence - this is a structural problem, not cyclical.

The Congressional Budget Office (CBO) estimates that without reforms, interest costs will double by 2032. While economic growth may help temper debt ratios, the underlying trajectory points toward increasing vulnerability—especially in the event of future crises that require emergency fiscal stimulus.

Political Paralysis: Rating Agencies' Common Denominator

Perhaps most alarming to the rating agencies is not just the numbers themselves, but the institutional backdrop against which they're playing out. Each downgrade or outlook revision has explicitly cited political dysfunction as a critical factor. Repeated battles over the debt ceiling in parliament, partisan gridlock, and a growing unwillingness to pursue either tax increases or spending cuts have undermined investor confidence in U.S. fiscal governance. Debt ceiling has been raised by more than 78 times since 1971, making market participants more nervous about the "debt bubble".

Market Reactions and Global Implications

As mentioned earlier, market reaction, post the revision in rating was very measured, as global uncertainty was in the forefront of highlights and gold prices rose as investors sought hedges. For now, the dollar remains relatively stable, against its major crosses.

A lower credit rating could lead to higher borrowing costs across the board—from federal bond auctions to municipal finance, mortgage rates, and corporate lending. It may also prompt rebalancing in global portfolios, especially among foreign central banks and sovereign wealth funds with conservative mandates tied to AAA-rated instruments. It is also important to note that despite macro-economic changes US Yields and mortgage rates have continued to increase creating more trouble for Trump administration.

Path Forward: Reform or Repercussions

Current convergence of all three major credit agencies on fragility of U.S. fiscal policy should serve as a wake-up call. Unlike in 2011, when S&P's action was somewhat isolated, today's downgrade by Moody's completes a trio of consensus. The message is clear: the U.S. cannot rely indefinitely on its historical reputation to command trust in global markets.

Whether the 2025 downgrade marks a turning point or becomes just another overlooked warning will depend on several factors, primarily the political and fiscal policies adopted moving forward. Without it, the world's largest economy may continue slipping down the ratings ladder—and into deeper fiscal trouble.

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