Another Warning, Not a Shock: U.S. Downgraded by Moody's Ratings

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- Moody's downgraded the U.S. rating to Aa1 from Aaa, citing persistent deficits and a deteriorating fiscal outlook—echoing concerns previously raised during downgrades by S&P (2011) and Fitch (2023).
- The Moody's downgrade comes as no surprise—it serves as yet another warning to markets and policymakers. More importantly, it reinforces that fiscal strain is no longer a distant concern; it is unfolding in real time, with significant implications for investor sentiment and policy discussions.
- Top-rated municipal bonds could gain renewed appeal post-downgrade, as some state, local, and public entities maintain Aaa/AAA ratings—making them increasingly valuable to investors.
- The Moody's downgrade amplifies the unprecedented threat to the municipal bond tax-exemption, as rising deficits and fiscal pressures may push lawmakers to reconsider this important infrastructure financing tool in search of new revenue sources for 2025 tax policy or during future deficit reduction negotiations.

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