Moody’s cuts US credit rating as debt crisis grows

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Concern over the rise and rise of US debt as the Trump administration seeks to push through its “big beautiful bill” of tax cuts for corporations and the ultra-wealthy has again come into the financial spotlight with the decision by Moody’s to cut the credit rating for the US from its top grade.

The decision, announced last Friday after Wall Street had closed, means that the US no longer enjoys the top rating from any of the three major agencies—the first time in history this has happened.

Moody’s cut the US rating from triple A to Aa1 and changed its outlook from negative to stable. Fitch and S&P had already downgraded the US from the top rate.

Reporting on the decision, the *Financial Times* (FT) said it had come when “investors are growing increasingly concerned about the US’s fiscal trajectory” as Trump and the Republican party are “pursuing a budget bill that is widely expected to increase debt significantly over the next decade.”

Announcing its downgrade, Moody’s said: “While we recognize the US’s significant economic and financial strengths, we believe these no longer fully counterbalance the decline in fiscal metrics.”

It forecast that over the next decade, annual federal deficits would rise to 9 percent of GDP by 2035, compared to 6.4 percent last year.

Even more significant was its forecast for the increase in payments for a rising interest bill. It predicted that due to higher interest rates since 2021, “federal interest payments are likely to absorb around 30 percent of revenue by 2035, up from about 18 percent in 2024 and 9 percent in 2021.”

It continued: “This one-notch downgrade… reflects the increase over more than a decade in government debt and interest rate payment ratios to levels that are significantly higher than similarly rated sovereigns.”

As a result of its decision on the US government, Moody’s also lowered its ratings on several large American banks, including Bank of America, JP Morgan Chase, and Wells Fargo.

The Moody’s decision had immediate consequences, reflecting concerns in financial markets about the financial position of the US and the stability of the dollar as the global currency.

The yield (interest rate) on 30-year Treasury bonds rose by 0.13 percentage points to reach 5.03 percent at one point yesterday, exceeding the rise during the turmoil after the announcement of the Trump tariff hikes last month. The dollar fell by 0.7 percent against a basket of currencies.

One of the fears in some sections of the financial markets is that the US could experience a “Liz Truss moment”—a repetition on a larger scale of the financial crisis in the UK in September 2022 when her short-lived Tory government sought to provide major tax cuts to the wealthy and corporations, supposedly to promote growth, by increasing debt.

In a post on X, billionaire founder of the hedge fund Bridgewater Ray Dalio, who has continually warned of the rise in debt, wrote: “For those who care about the value of their money, the risks for US government debt are greater than the rating agencies are conveying.”

There have been a series of warnings about the state of the US economy and the financial position of the government.

The head of JP Morgan, Jamie Dimon, told his firm’s investor day meeting yesterday that financial markets were not taking into account the impacts of a potential downturn.

“Credit today is a bad risk,” he said, “The people who haven’t been through a major downturn are missing the point about what can happen in credit.”

In an interview with the FT, the head of the Congressional Budget Office, Phillip Swagel, warned that the Trump tariff war could be a "tipping point" for foreign investors' willingness to hold US assets.

The flows of finance into the US, buying up American assets, enabled the financing of government debt and deficits. But now, there is a "constellation of worries that a hesitation among global investors to put capital into the US, or even just to rebalance in a way that diminishes their interest in the US securities, would affect the dollar."

He said the sentiment among senior global financial officials at the meeting of the International Monetary Fund last month was "really the most negative I can remember."

Nicolas Trindale, a fund manager at the French financial firm Axa, said the downgrade was a "stark reminder that the US should not take for granted its 'exorbitant privilege' that enabled it to issue debt at a relatively lower cost despite a very high fiscal deficit."

Comments by Yesha Yadav, a professor at the Vanderbilt Law School who studies the Treasury market, to the FT pointed to the political thrust contained within the Moody's decision.

It was, he said, the "latest reality check on an increasingly bleak prognosis for US government debt management" and a "scolding to policymakers to focus on what reforms are needed to ensure that US credit retains its sheen as the world's essential risk-free asset."

There are two aspects to the debt crisis. It has objective roots in the deep-seated crisis of US capitalism, which has been building over decades. But it is also the outcome of political decisions made by the ruling elite in response to it.

One of the chief components has been the ever-increasing outlays on armaments as US imperialism has sought to counter its economic decline through the use of military might.

Over the past 15 years, particularly since the financial crisis of 2008, the coffers of the Treasury have been the source of government bailouts for major corporations to the tune of hundreds of billions of dollars.

The Federal Reserve has opened its spigots to supply trillions of dollars of ultra-cheap money for financial speculation, lifting the fortunes of the financial oligarchs to stratospheric heights.

Calls for "reforms" do not mean any reversal of these disastrous policies, but rather an intensification of the onslaught against the working class now being implemented via the budget reconciliation process aimed at slashing hundreds of billions of dollars from Medicaid and other vital social services.

While these attacks are being implemented by Trump, they are the response of the entire ruling class to the deepening crisis of the capitalist system. The road forward for the working class in opposition to the program of war, dictatorship, and social devastation is the development of an industrial and political offensive for a socialist program aimed at the overthrow of corporate and financial power and the reconstruction of the entire economy.