



MAY 20, 2025

Moody's Ratings Lowers U.S. Credit Rating

Moody's rating agency downgraded the U.S. government's long-term credit rating from Aaa to Aa1 on May 16, 2025, marking the first time the rating agency has removed its top-tier rating from the United States.

Moody's was the last of the three major rating agencies to maintain a triple-A rating, making this a significant shift. The downgrade reflects Moody's concern that successive U.S. administrations and Congress have been unable to implement measures to reverse the trajectory of large fiscal deficits and rising interest costs.

WHY DID MOODY'S TAKE THIS ACTION?

Moody's cited several key factors:

- » **Persistent Fiscal Deficits:** Elevated structural deficits with limited political consensus on medium-term fiscal consolidation.
- » **Rising Interest Costs:** Due to higher bond yields since 2021, interest expense has been on the rise, increasing pressure on the budget.
- » **Debt Sustainability Concerns:** Debt-to-GDP ratio is projected to rise over the next decade without reforms.
- » **Reduced Policy Flexibility:** Due to higher deficits, the U.S. government has less capacity to respond effectively to future economic or financial shocks.

HOW DOES THIS COMPARE TO PAST DOWNGRADES?

RATING AGENCY	DATE	RATING ACTION	CONTEXT
S&P	Aug 5, 2011	Aaa → AA+	Political gridlock over debt ceiling in Congress
Fitch	Aug 1, 2023	AAA → AA+	Growing national debt and concerns about governance
Moody's	May 16, 2025	Aaa → Aa1	Rising debt burden, annual deficit growth, interest costs

WHAT DOES THIS MEAN FOR INVESTORS?

- » **Markets Were Largely Prepared:** With S&P acting 14 years ago and Fitch nearly 2 years ago, Moody's downgrade was widely seen by markets as inevitable.
- » **Implications for U.S. Agency Issuers:** Ratings were also downgraded to Aa1 due to their close ties to the sovereign, reflecting expectations of government support.
- » **Bank Ratings Impacted:** Several U.S. banks were subsequently downgraded due to reduced assumptions of sovereign support.

While the Moody's downgrade is symbolically significant—marking the first time the U.S. is no longer rated AAA by any major agency—all three rating agencies now assign a stable outlook. This reflects continued confidence in the U.S.'s deep capital markets, reserve currency status, and economic resilience, underpinned by its scale, high income levels, and strong long-term growth potential. However, it highlights the importance of fiscal reform and the mounting cost of inaction. Investors should monitor ongoing developments in U.S. debt policy, but long-term U.S. Treasury obligations remain widely viewed as among the safest and most liquid assets globally.



M E E D E R
PUBLIC FUNDS

1.866.633.3371 | meederpublicfunds.com

Commentary offered for informational and educational purposes only. Opinions and forecasts regarding markets, securities, products, portfolios, or holdings are given as of the date provided and are subject to change at any time. No offer to sell, solicit, or recommend any security or investment product is intended. Certain information and data has been supplied by unaffiliated third parties as indicated. Although Meeder believes the information is reliable, it cannot warrant the accuracy, timeliness or suitability of the information or materials offered by third parties.

Investment advisory services provided by Meeder Public Funds, Inc. Meeder Public Funds, Inc. is a registered investment adviser and affiliate of Meeder Investment Management, Inc.