



deteriorating balance sheet.

Preeminent Financial, Economic Position Offsets Weakening Government Finances

Moody's issued the report to update its forecasts in light of the recently enacted Tax Cuts and Jobs Act, a measure that will severely curtail revenues, and swell deficits, in the years to come. The study appeared just before a recent deal in which Congress passed a \$150 billion increase in discretionary spending for 2018, so it didn't incorporate all of the appropriation's impact in its projections.

2018

"We had already adjusted defense spending as a share of GDP upwards to historic levels," says lead author Sarah Carlson, a Moody's SVP, who adds that Moody's hasn't yet run the numbers on the non-defense cuts. "Clearly, these new appropriations will put upward pressure on the expenditure line."

GDP

Today, Moody's awards the U.S. its highest rating for sovereign bonds, Aaa. Were the U.S. to suffer a downgrade, all borrowers, foreign nations, banks and individuals, would demand much higher rates. That menace is a favorite bogeyman for deficit hawks in Congress. And a spike in rates caused by worries over U.S. credit, on top of the rise in yields already in the cards, could ignite a crisis.

Aaa

But that's not an outcome Moody's foresees as most likely. "We expect the U.S.'s broad economic strength to support its credit profile for the foreseeable future," states the study.

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The big threat, says Carlson, is a major, structural downshift that hobbles future growth. And that could happen if President Trump actually delivers on the protectionist agenda he championed as a candidate. But barring an historic reversal in U.S. economic policy, the credit outlook is surprisingly positive. "In the report, we wanted to express a balanced view. We don't want readers to forget the significant strengths that the U.S. has, and that other highly-rated countries don't have," says Carlson.

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