GLOBAL MARKET SQUARE

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Triple-Downgraded America as Moody's Decision Marks Final Blow to U.S. AAA Prestige and Wall Street Closed Up.

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The U.S. and European stock markets began the week with gains, somewhat reacting to Moody's decision to downgrade the United States' long-term issuer and senior unsecured debt ratings from Aaa to Aa1. This move makes Moody's the third and final major rating agency to lower the U.S. sovereign credit rating, following S&P's downgrade in 2011 and Fitch's in 2023.

The downgrade is weighing on sentiment across most sectors of the S&P 500, with technology, consumer discretionary, and energy leading the downside. Meanwhile, bond markets are seeing a rise in yields, especially at the long end of the curve. The 10-year Treasury yield rose to 4.46%, while the 30-year closed at 4.92%. European markets closed mostly higher, while Asian stocks closed mostly in the red overnight.

Moody's Downgrade Highlights Mounting Fiscal Strains

In its decision released late Friday, Moody's cited the U.S. government's rising debt levels and interest expenses, which far exceed those of peer nations with similar ratings.

Moody's rating reflects deep structural Issues:

- Over the past decade, the U.S. has **failed to reverse large fiscal deficits**.
- **Interest payments** are rising faster than revenue. They are projected to consume **30% of federal revenue by 2035**, up from 9% in 2021.
- Federal **mandatory spending is rising**, expected to reach **78% of total federal outlays** by 2035.
- If the **2017 Tax Cuts and Jobs Act is extended**, it will add **$4 trillion to the deficit** over 10 years.
- By 2035, Moody's projects:
    - **Debt-to-GDP at 134%**
    - **Deficit nearing 9% of GDP**
    - **Interest payments exceed $2 trillion annually**.

Moody's stated, "We expect that the U.S. will continue its long history of very effective monetary policy... but we no longer believe that fiscal strength justifies an Aaa rating and expressed skepticism that current fiscal proposals would reverse the growing deficit trend. Despite the downgrade, Moody's revised its outlook to "stable." For historical context, following the S&P downgrade in 2011, long-term Treasury yields declined, with the 10-year yield falling from 2.34% in August to 1.72% by mid-September. Equities were initially volatile but closed the year up 7% from the downgrade date.

The 2023 Fitch downgrade, however, told a different story. Yields surged from 4% to nearly 5% in weeks, and the S&P 500 fell roughly 10% by mid-October before recovering to post a 4% gain by year-end.

Implications for Investors: Focus on Allocation, Not Panic

While the downgrade was expected given Moody's previously negative outlook, it is a stark reminder of U.S. policymakers' long-term fiscal challenges. For investors, we emphasize staying grounded in strategy rather than reacting to headlines.

We continue to favor an overweight equity relative to fixed income, focusing on U.S. large—and mid-cap names. In the bond space, we recommend an overweight in intermediate—to long-duration investment-grade bonds, particularly those in the 7–10 year maturity range. This allows investors to lock in attractive yields while mitigating some of the duration risk associated with longer-dated maturities if term premia widen due to fiscal instability.

Retailers Wrap Up Earnings Season

As earnings season draws to a close, about 92% of S&P 500 companies have reported. Retailers will be in the spotlight this week, with Home Depot, Target, Lowe's, and Ross Stores set to release results. Lowe's stockholders will be focused on forward-looking commentary, especially related to tariffs and their potential impact on pricing and consumer demand.

Overall, first-quarter results have exceeded expectations, with S&P 500 earnings on track to rise approximately 13%, up significantly from initial estimates of around 7% at the end of March.

Economic Update:

- **Eurozone Inflation Rate:** Excluding Energy, Food, Alcohol, and Tobacco: rose to 2.70%, compared to 2.40% last month.
- **China Loan Prime Rate:** is unchanged at 3.10%, compared to 3.10% last month.

Eurozone Summary:

- **Stoxx 600:** Closed at 549.98, up 0.72 points or 0.13%.
- **FTSE 100:** Closed at 8,699.31, up 14.75 or 0.17%.
- **DAX Index:** Closed at 23,934.98, up 167.55 or 0.70%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 42,791.94, up 137.20 points or 0.32%.
- **S&P 500:** closed at 5,963.59, up 5.22 points or 0.09%.
- **Nasdaq Composite:** closed at 19,215.46, up 4.36 points or 0.02%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,971.66, down 4.03 points or 0.10%.
- **Birling Capital U.S. Bank Index:** closed at 6,788.10, up 15.98 points or 0.24%.
- **U.S. Treasury 10-year note:** closed at 4.46%.
- **U.S. Treasury 2-year note:** closed at 3.97%.

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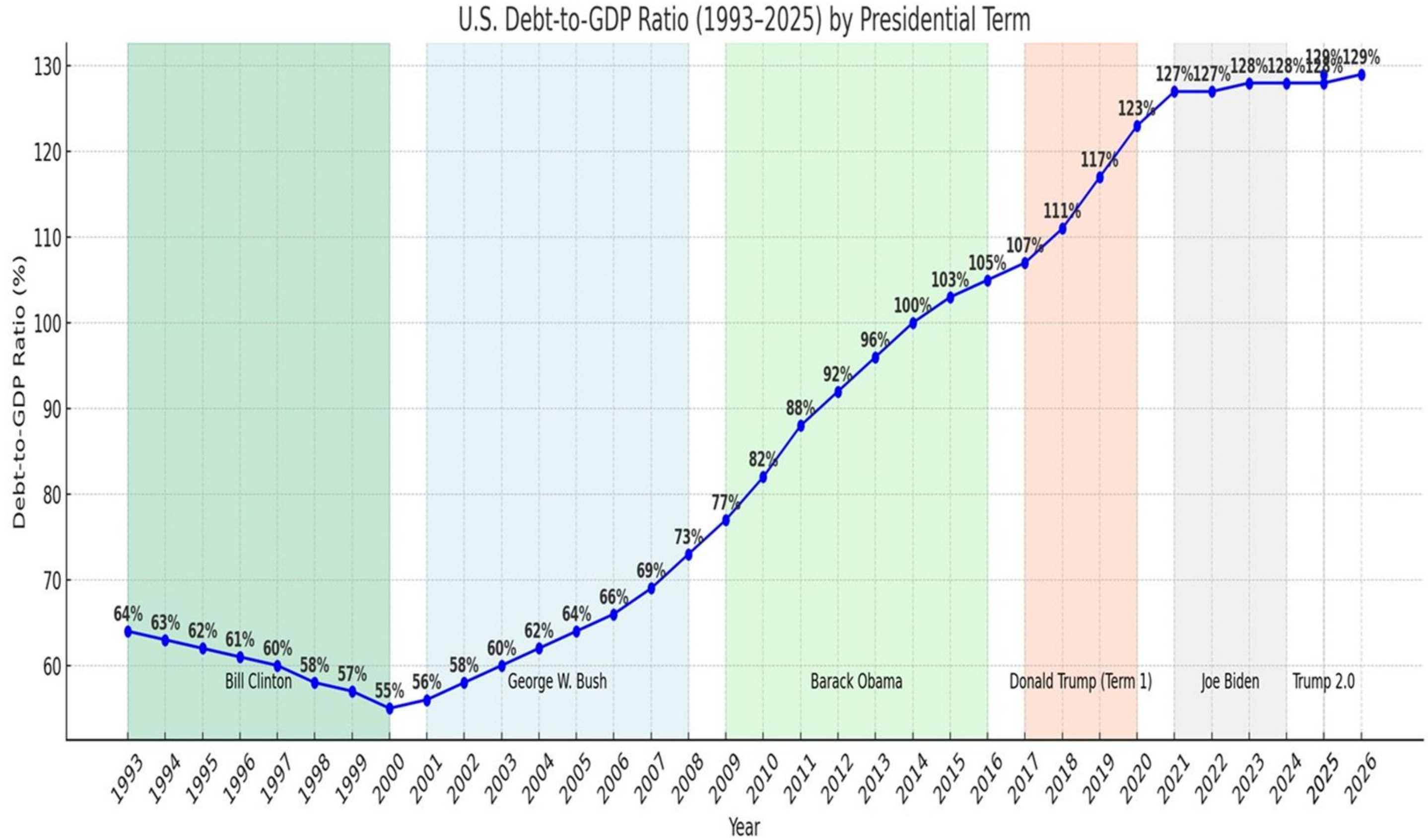
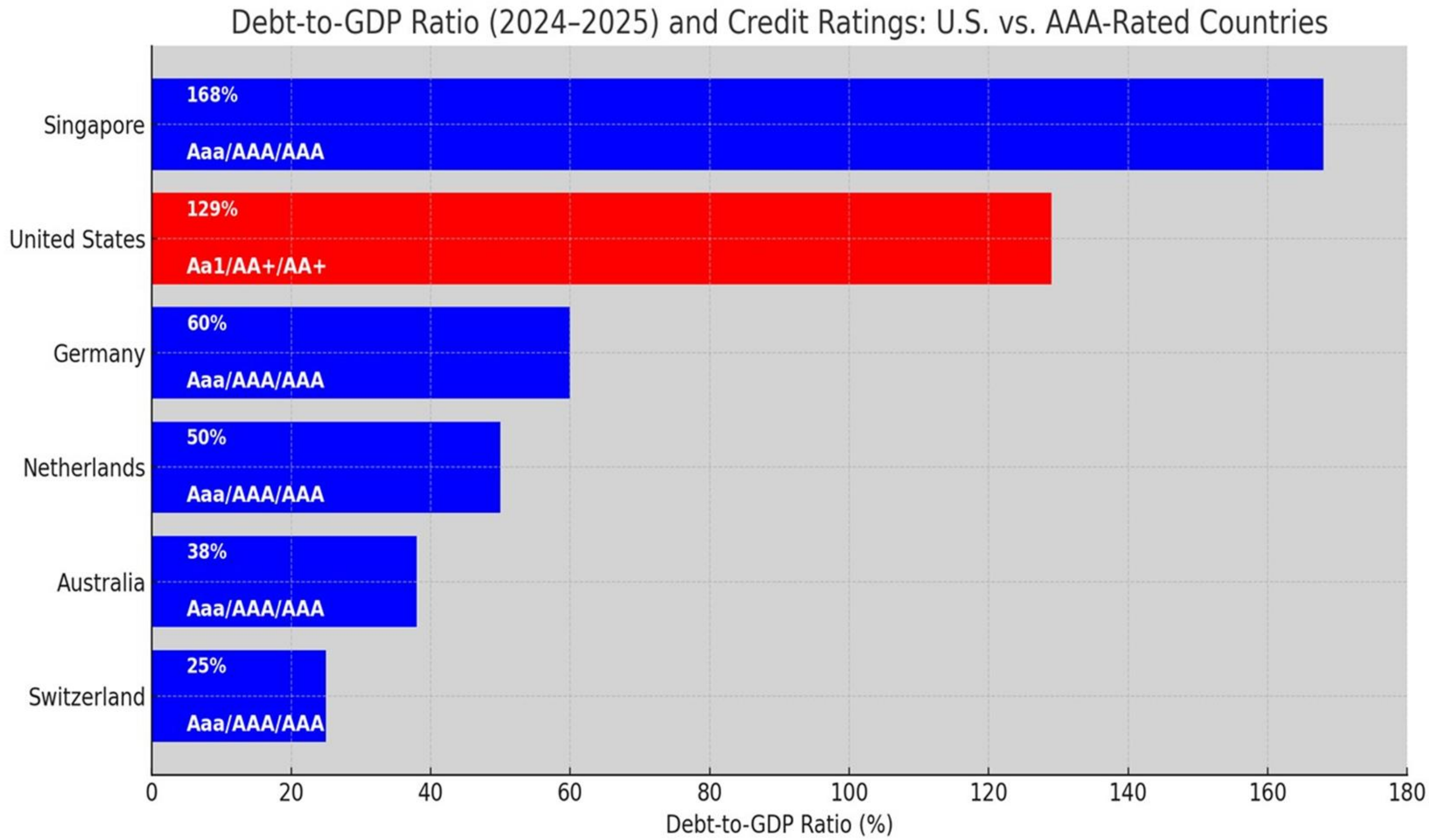
US Debt-to-GDP Ratio 1993-2025 from Clinton to Trump



Nations rated AAA and their Debt-to-GDP Ratios compared to the US

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S&P 500 Level 5963.60
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19215.46
16000.00
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VAL
Birling Capital Puerto Rico Stock Index Level 3971.66
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VAL
Birling Capital U.S. Bank Index Level 6788.10
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Jan '25
Feb '25
Mar '25
Apr '25
May '25
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