

US loses last perfect credit rating

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Now all three major credit rating firms no longer give the United States their best rating.

The US has lost its last perfect credit rating, as influential ratings firm Moody's expressed concern over the government's ability to pay back its debt.

The agency cited a dangerous convergence: rising interest costs, unsustainable deficits, and entrenched political dysfunction. As of Q2 2025, the federal debt has surpassed \$36.2 trillion, or 124% of GDP, while interest payments are projected to top \$1.3 trillion annually, overtaking even military spending.



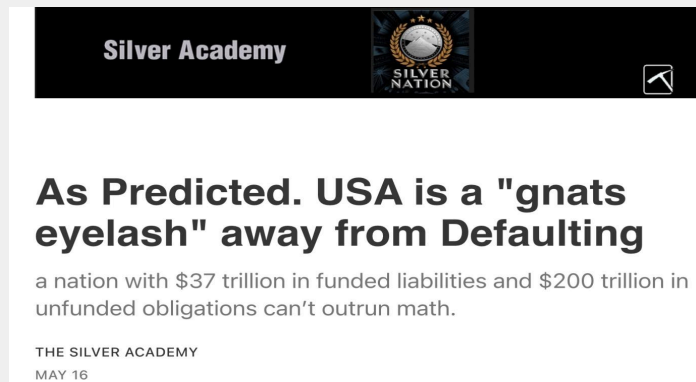
In lowering the US rating from 'AAA' to 'Aa1', Moody's noted that successive US administrations had failed to reverse ballooning deficits and interest costs.

A triple-A rating signifies a country's highest possible credit reliability, and indicates it is considered to be in very good financial health with a strong capacity to repay its debts. A lower credit rating means countries are more likely to default on their sovereign debt, and generally face higher borrowing costs.

“America hasn’t run out of options,” said Mohamed El-Erian. “But it has exhausted its ability to delay.”



The United States has crossed a Rubicon of fiscal credibility. Moody's historic downgrade of America's credit rating from Aaa to Aa1 isn't merely a technical adjustment-it's a **flashing red siren** about a debt crisis metastasizing beneath the surface of global markets.



With Treasury Secretary Scott Bessent openly discussing extending maturities and slashing coupons on foreign-held debt, Washington isn't just flirting with default-it's engineering a slow-motion financial coup against the world economy.

The Default Playbook in Plain Sight

The Treasury's proposal to unilaterally alter bond terms for foreign creditors isn't creative accounting-it's financial expropriation.

When Jeff Gundlach, Bob Moriarty and Jon Little call this a veiled default , they're underscoring what markets already know: a nation with \$37 trillion in funded liabilities and \$200 trillion in unfunded obligations can't outrun math. Forcing foreign bondholders into longer-dated, lower-yielding paper would shatter the bedrock premise of U.S. debt-that it's the world's safest asset. The immediate aftermath? A 30-year Treasury yield spiking to 4.96% [FOX], capital flight from dollar-denominated assets, and a scramble for tangible stores of value like gold and silver .

Leverage Meets Systemic Fragility

Moody's warns that U.S. debt will balloon to 134% of GDP by 2035, but this misses the real danger: derivatives markets. In 2008, the notional value of over-the-counter derivatives stood at \$592 trillion. Today, that figure exceeds \$1.2 quadrillion [BIS data]. U.S. Treasuries underpin this edifice as collateral. A

loss of confidence in their liquidity or credit quality could trigger margin calls exceeding the 2008 crisis by orders of magnitude. The Federal Reserve's balance sheet, already bloated at \$9 trillion, would face impossible pressure to backstop both Treasury markets and cascading derivatives failures.

Political Failure as Accelerant

The downgrade reflects a bipartisan truth: Washington's fiscal recklessness has no ideological boundaries. Despite President Trump's pledge to balance the budget, deficits are widening through tariff-driven revenue schemes and Musk's DOGE department layoffs. Moody's explicitly doubts any administration's ability to curb mandatory spending, and with good reason-April's 105,441 job cuts (the highest non-pandemic April in five years) reveal an economy already buckling under austerity's weight.

The Coming Currency Crisis

When the world's reserve currency issuer toys with default, the fallout transcends bond markets. The dollar has already shed 20% against major currencies this year, and Bessent's trial balloon ensures further erosion. Historical parallels? Look to 1971's Nixon Shock-but with magnitudes greater consequences. A dollar collapse would ignite inflation in import-dependent sectors, crush emerging markets holding dollar reserves, and force a BRICS-led push for alternative reserve currencies.

This isn't 2008 redux. It's 1929 meets 1971 in a derivatives-laden, algorithmically-driven financial system. The Moody's downgrade isn't the story-it's the first tremor before the quake. When the "safest asset" becomes a vector of default, no hedge fund, pension system, or central bank can claim immunity. The only question now is what breaks first: the Treasury market's liquidity, the dollar's hegemony, or the political will to stop this train.

The Fed is "Quietly" Buying Billions

The Federal Reserve recently made a stealthy return to quantitative easing, buying \$43.6 billion in U.S. Treasuries over four days without public attention. This "stealth QE" is seen as a quiet monetary easing rather than normal policy, signaling concerns about financial stability. The move has fueled rallies in gold and bitcoin, as investors seek alternatives amid growing distrust in fiat currencies and geopolitical tensions. China is also shifting reserves into gold, preparing for potential monetary upheaval. Resource-rich markets like Brazil are benefiting, with commodities and related ETFs surging, as investors position for further dollar weakness and market volatility.

The Federal Reserve's recent bond-buying spree has sparked whispers of a stealth quantitative easing (QE) program, executed with surgical precision under the radar of mainstream media. While officials maintain their quantitative tightening (QT) narrative-reducing the balance sheet by allowing assets to mature-the Fed purchased \$43.6 billion in Treasuries over four days in May 2025. These transactions, framed as routine balance sheet management, reveal a central bank walking a tightrope: publicly committing to inflation control while quietly backstopping debt markets.

The Mechanics of "Stealth QE"

The Fed's balance sheet remains bloated at \$6.7 trillion, down only marginally from its pandemic peak. Under QT, the Fed aims to shrink holdings by letting \$5 billion in Treasuries roll off monthly. However, when \$76 billion in bonds matured in May 2025, the Fed offset this by buying \$71 billion-a net reduction of just \$5 billion. This technical sleight of hand allows the Fed to inject liquidity without expanding the balance sheet, blurring the line between tightening and easing.

Critics argue these purchases mirror QE's market-distorting effects. By absorbing \$34.8 billion in 10-year Treasuries and \$20 billion in 3-year notes in targeted operations, the Fed suppresses yields and masks weak demand for U.S. debt. As one analyst noted, "This is QE in all but name-monetizing debt while claiming austerity".

Media Silence and Market Implications

The lack of media scrutiny is striking. While Powell warns of persistent “supply shocks” and higher long-term rates, the Fed’s actions suggest a different priority: preventing a Treasury market meltdown as \$9 trillion in debt rolls over within a year. Commodity markets have sniffed out the tension, with gold soaring 20% since early 2024, a traditional hedge against monetary debasement.

Meanwhile, the fed funds rate remains at 4.25-4.50%, but real-world borrowing costs tell another story. By propping up bond prices, the Fed risks reigniting inflation while undermining its credibility. If investors lose faith in this balancing act, the consequences could dwarf the 2008 crisis.

The Bottom Line

The Fed’s bond-buying pivot-whether labeled “stealth QE” or “QT lite”-exposes a fragile financial system addicted to central bank support. Without transparency, these maneuvers risk distorting markets, eroding trust in the dollar, and setting the stage for a reckoning. As the debt pile grows, the Fed’s next move may hinge less on data than on desperation.