



August 2023

Fitch Downgrade of US Long-Term Ratings

Frank Gutierrez | Head of Portfolio Management & Trading

Keith Lawler | Manager of Credit Research

On August 1, 2023, Fitch Ratings downgraded the United States of America's long-term foreign issuer default rating to AA+ from AAA.¹ The "Rating Watch Negative" was removed, and a "Stable" outlook assigned. Per Fitch, the key drivers for the downgrade were the expected fiscal deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance relative to peers rated AA and AAA over the last two decades that has manifested in repeated debt-limit standoffs and last-minute resolutions.

- Fitch cut the US sovereign credit grade one level from AAA to AA+. The move comes two months after the rating was placed on "Rating Watch Negative" following the debt-ceiling negotiations.
- It is expected that US agencies will be downgraded in lockstep with the US government to F-1+/AA+.
- The initial reaction from US Treasury Secretary Yellen calls the downgrade "arbitrary" and "outdated."²
- Market reaction in the front end has been subdued with little to no change in yields.
- Irrespective of the downgrade, the US Treasury just announced its second quarter refunding schedule, which calls for over \$1 trillion in net new issuance, which will drive yields in the near term.
- Fitch affirmed the US sovereign short-term rating at F-1+. Fitch continues to categorize Treasuries as highly rated, liquid, sovereign debt benefiting from strong market liquidity.

- Moody's continues to assign its top Aaa rating to the US sovereign with a stable outlook.
- S&P downgraded the rating of the United States to AA+ in 2011. S&P has maintained a stable outlook on the AA+ US sovereign rating since the 2011 downgrade.
- US Treasury securities remain highly rated and a permissible investment across our funds.

We do not expect any changes to the AAA rating on our money market funds rated by Fitch as highly rated sovereigns (defined as AA or higher) and their agencies are assigned a zero credit risk factor in Fitch's money market fund rating criteria.

Dreyfus continues to be well positioned to meet the investment needs of our clients with the depth and breadth of experience we bring to this asset class.

**Frank Gutierrez**

Head of Portfolio Management & Trading

Frank is the Head of Portfolio Management & Trading for Dreyfus. Frank is the lead portfolio manager overseeing the Dreyfus portfolio management and trading teams for Dreyfus money market funds, BNY Mellon offshore liquidity funds, sub-advised money market funds, and BNY Mellon's collective investment funds. With a career spanning more than two decades, Frank has deep expertise in government and credit portfolio management and trading as well as Federal Reserve policy and macroeconomics.

Previously, Frank was a senior portfolio manager and trader with J.P. Morgan Asset Management in Global Liquidity. He had direct responsibility for the day-to-day management of over \$250 billion in assets, across U.S. treasury, government and credit in various vehicles including money market funds, Undertakings for Collective Investment in Transferable Securities (UCITS), and separately managed accounts (SMAs). He has also developed deep expertise in repurchase agreements, repo blockchain, Federal Reserve policy and macroeconomics. Frank has been in the investment industry since 1999.

Frank earned a BA from Rutgers University with a major in economics. Frank is also a board member for Dominicans on Wall Street (DOWS), a nonprofit focused on financial literacy, education and professional development of Hispanic professionals and students.

**Keith Lawler**

Manager of Credit Research

Keith is a Senior Vice President and manager of credit research for Dreyfus. He is responsible for oversight of the issuer-approved lists dedicated to Dreyfus money market and short duration investment strategies and BNY Mellon cash collateral re-investment portfolios. Keith chairs the Dreyfus Counterparty Credit Risk Research Committee and the Dreyfus Environmental, Social, and Governance (ESG) Committee. He also serves as a member of the Dreyfus Money Market Liquidity Oversight Group and the Stress Test Assessment Team. Prior to joining the firm in July 2000, Keith spent four years in the Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) where he was a senior associate financial institutions analyst responsible for analyzing fixed income securities held in insurance company investment portfolios.

Keith has an MBA and a BA from Manhattan College.

Endnotes

¹ Fitch Ratings, Rating Action Commentary, Fitch Downgrades the United States' Long-Term Ratings to 'AA+' from 'AAA'; Outlook Stable. Accessed at: <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-united-states-long-term-ratings-to-aa-from-aaa-outlook-stable-01-08-2023>.

² US Department of the Treasury, Statement by Secretary of the Treasury Janet L. Yellen, August 1, 2023. Accessed at: <https://home.treasury.gov/news/press-releases/jy1665>.

Disclosure

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

All investments involve risk, including the possible loss of principal. Certain investments have specific or unique risks. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

This material has been provided for informational purposes only and should not be construed as investment advice or a recommendation of any particular investment product, strategy, investment manager or account arrangement, and should not serve as a primary basis for investment decisions. Prospective investors should consult a legal, tax or financial professional in order to determine whether any investment product, strategy or service is appropriate for their particular circumstances. This document may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or not authorized. Views expressed are those of the author stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. This information may contain projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be, interpreted as recommendations. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any BNY Mellon product. Some information contained herein has been obtained from third party sources that are believed to be reliable, but the information has not been independently verified. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission.

Indices referred to herein are used for comparative and informational purposes only and have been selected because they are generally considered to be representative of certain markets. Comparisons to indices as benchmarks have limitations because indices have volatility and other material characteristics that may differ from the portfolio, investment or hedge to which they are compared. The providers of the indices referred to herein are not affiliated with Mellon Investments Corporation (MIC), do not endorse, sponsor, sell or promote the investment strategies or products mentioned herein and they make no representation regarding the advisability of investing in the products and strategies described herein. Investors cannot invest directly in an index.

BNY Mellon Investment Management is one of the world's leading investment management organizations encompassing BNY Mellon's affiliated investment management firms and global distribution companies. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally.

Mellon Investments Corporation (MIC) is composed of two divisions; Mellon, which specializes in index management and Dreyfus which specializes in cash management and short duration strategies. Dreyfus is one of the industry's leading institutional managers of liquidity solutions. Dreyfus is a division of BNY Mellon Investment Adviser, Inc. (BNYMIA) and MIC, each a registered investment adviser. BNYMIA and MIC are subsidiaries of The Bank of New York Mellon Corporation.

Personnel of certain of our BNY Mellon affiliates may act as: (i) registered representatives of BNY Mellon Securities Corporation (in its capacity as a registered broker-dealer) to offer securities and certain bank-maintained collective investment funds, (ii) officers of The Bank of New York Mellon (a New York chartered bank) to offer bank-maintained collective investment funds, and (iii) Associated Persons of BNY Mellon Securities Corporation (in its capacity as a registered investment adviser) to offer separately managed accounts managed by BNY Mellon Investment Management firms.

For more market perspectives and insights from our teams, please visit www.dreyfus.com.