

Retail Desk Commentary

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U.S. Debt Downgrade

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With the downgrade in U.S. debt to AA+ by S&P, Monday looks to be a volatile day. The ability of the U.S. Government to pay its debt is not in question for the near term as the debt has senior right-of-claim of government revenues. However, what is in question is the ability of our government to fix the long-term problem of solvency for our nation in the not-so-distant future with the exponentially growing cost of the big three "entitlement programs" along with the expanding size of our federal government. The S&P downgrade was a result of their need to see \$4 trillion in savings over the next decade while the plan appears to only have \$2.1 trillion. The other two rating agencies, Moody's and Fitch, have affirmed their AAA rating but have the U.S. on negative outlook. The next big test will come this fall as the newly created Gang of 12, consisting of six democrats and six republicans, will convene to create a long-term fix to our Federal fiscal issues. The future credit rating of our nation may be greatly impacted by their progress. There is no doubt that the 2012 elections will have this topic as one of the headline issues, and it should.

As scary as much of this seems, in reality, it is great news that the politicians are willing to take on some of the toughest issues facing our country. We are watching the effects of large government and enormous entitlement programs relative to GDP play out in Europe and see the results there. The immense fiscal pressures well publicized in Greece, Ireland, and several other European countries offer a potential view into what could happen if we are not successful now. The voting public is making fiscal responsibility popular enough that politicians no longer are able to kick tough financial decisions down the road to get or stay elected. It has already happened with great success at the State and local government level. There are still many challenges, but very tough decisions are being made to balance budgets. These decisions are not all one sided. Many involve cuts and some involve revenue increases. In the case of all but one or two states they must balance their budgets. This is not the case for the federal government. However, the voting public is in some cases encouraging and in others mandating that we shore up our future. There is no doubt that it will take some eventual level of compromise, and my hope is for more compromise from the left, but the outcome should stabilize our position as the global financial leader.

The short-term effect will certainly involve volatility in our markets. The safe haven is likely to still be U.S. Treasury bonds with their current claims paying ability. But in the end, assuming many highly capable people offering advice in the process are heard, the outcome should be one that assures our continued prosperity for generations.

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