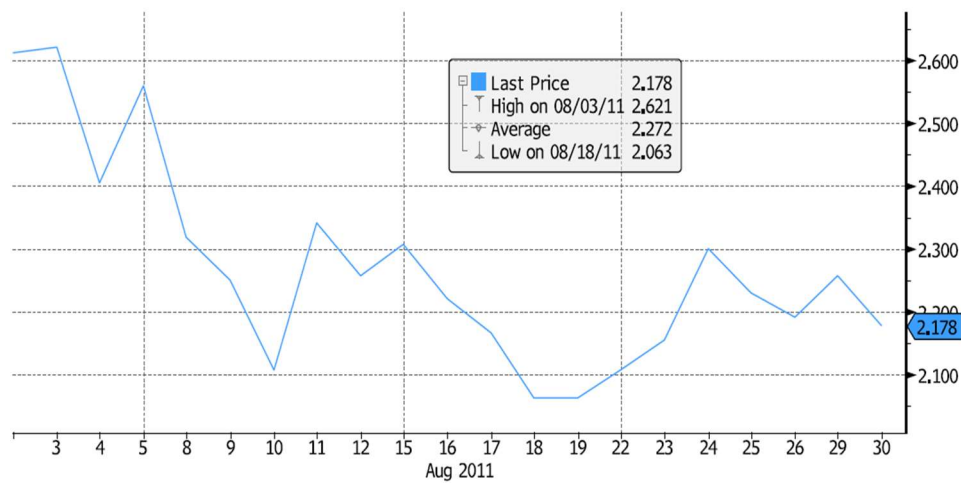


## U.S. sovereign rating downgraded... Again...

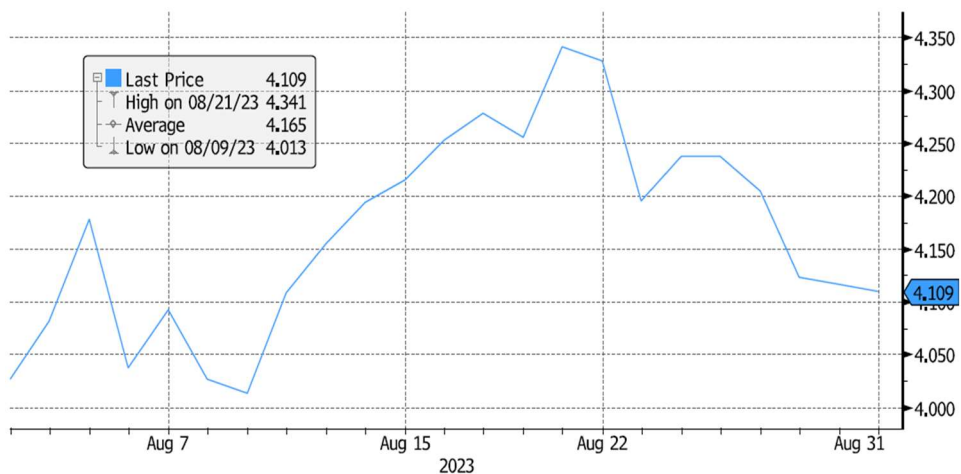
Does a U.S. downgrade matter? In short, not really as it is a reflection of what the market already knows.

- The state of the U.S. fiscal situation is publicly known and priced in. In our view, the rating agency Moody's is just catching up with reality and is more of a reaction to the agencies expectations of the U.S. Administration addressing the deficit. The "big, beautiful bill" that is now in the hands of the Senate is not showing any effort to reduce spending and it in fact contains deficit increasing proposals. In addition, as mentioned in previous commentaries, as much as the intent of DOGE is a good one, it is becoming increasingly clear that the overall impact of cost cutting measures will not get to the trillions as needed.
- If history is a reference, U.S. sovereign downgrades in 2011 and 2023 led to diverging yield reactions. In 2011, yields fell sharply in the days following the downgrade and in 2023, yields rose modestly.

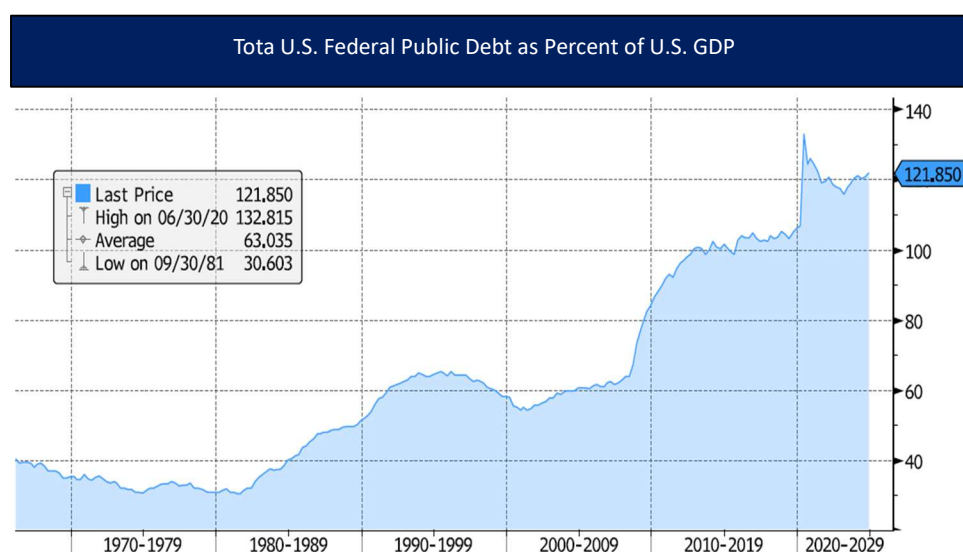
U.S. 10-year Yield August 2011



U.S. 10-year Yield August 2023



- Finally, “U.S. government guaranteed” does not mean AAA. When it comes to portfolio structuring and the impact a downgrade could have on portfolios, allocations to treasuries will not necessarily need to be adjusted as investment objectives typically refer to the U.S. treasury allocations as U.S. government guaranteed and do not specify a particular rating. In other words, whether the U.S. is rated AAA or A, portfolios will not need to reallocate due to a downgrade.
- What really is the issue at hand? From a U.S. perspective, it is our currency and it is the rest of the world's problem.
- There is increasing nervousness around the status of the U.S. dollar as the world's preferred reserve currency. The deficit is the real issue here. In an environment where the U.S. will continue to increase its outstanding treasury debt to fund its spending problem; yields increase and the interest expense on that debt continues to grow to unprecedented levels. As much as the world has had confidence in the ability of the U.S. to print money, the market is finally crying “uncle” and it is high time for a plan to be put in place to balance the budget.
- The tariff impact that could lead to onshoring, and the number of investment commitments in the U.S. from Fortune 100 companies and the Middle East, could positively impact the percent of debt relative to GDP. Unfortunately, that is a longer-term solution that will take years to play out and will likely not be enough to offset the continuous spending increase.



### Uncertainty likely not going away

The amount of inputs the market must consume on a daily basis from Administration tweets and/or policy changes, U.S. Supreme Court rulings, economic data, earnings, multiple ground wars headlines, etc. is not likely to hit a steady and predictable state any time soon. For that reason, we are focusing on two components to help us manage the noise.

- The tariff issue is not getting resolved in the near term as the Administration is struggling to get trading partners to come to an agreement. One could argue that the U.K. trade agreement with the U.S. was arguably the easiest of all trade agreements to resolve and that took over a month to come to terms. Adding to the confusion the U.S. Court of International ruled the Trump tariffs illegal on May 29<sup>th</sup>. Despite that, the original Liberation Day levies will remain in place while the White House appeals the ruling. In addition, as noted by Goldman Sachs, the Trade Act of 1974 provides additional ways to institute tariffs even if the appeal fails.
- We believe the market paradigm has changed. The Global Capital Markets are larger now than they have ever been. According to SIFMA, the outstanding size of the Global Fixed Income markets is now ~\$140tn and the Global Equity markets is ~\$115tn. Both markets have experienced ~5% 10-year CAGR. Add to that the massive growth experience by the private credit markets which is estimated by Moody's between \$1.5-2.0tn and is expected grow to \$3tn by 2028. In our view, this is a demand for investable assets that the world has not seen before and despite the uncertainty could provide some resilience to the markets in the short-term.

## Who We Are

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*Seelaus Asset Management, LLC is a private, women-owned investment manager providing expertise in active fixed income and equity portfolio management and designing customized investment strategies.*

### Our Vision

*To be a best-in-class asset manager that leads with value in a client driven, partnership model.*

### Our Values

- *Innovative*
- *Impactful*
- *Diverse Perspective*
- *Authentic*

### Our Mission

*To be an agent for change in the finance industry by demonstrating a straight line between the support we receive as a women-owned firm and the support we provide to women in the industry and in the community.*

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To learn more about our investment offerings, please call 212-935-0755, email [ir@seelausam.com](mailto:ir@seelausam.com) or visit <https://www.rseelaus.com/asset-management/>

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