Weekly Commentary

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Fitch waves amount to ripples

What does the Fitch downgrade of the U.S. government credit rate mean for liquidity products? In a word, nothing. Last week, the company lowered it from AAA to AA+, citing the debt ceiling debacle and fiscal spending. But this applies to the long-term U.S. debt, not the short-term securities cash managers trade. Actually, it means little to the entire Treasury bill, note and bond market as the U.S. remains the most stable currency, economy and government in the world, despite the political theater. One wonders if theater also was behind Fitch's action. It certainly brought the company press.

Although the argument for a recession has lost steam recently, there are signs the economy is slowing. The banking sector provides a credible indicator, and recently banks have been more reluctant to lend across the board, from consumers to business. This is a classic development when an economy is on the downswing during a Federal Reserve tightening cycle. But the case for the resilience of the domestic economy came with yet another strong jobs report. The Labor Department reported that the U.S. gained 187,000 jobs and the unemployment rate slipped to 3.5% (from 3.6% in June). While that is softer than the last few nonfarm labor reports, it is not what the Fed wants to see, increasing the likelihood for more rate tightening.

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