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Instant View: Fitch downgrades U.S. foreign currency ratings to 'AA+' from 'AAA'

Aug 1 (Reuters) - Ratings agency Fitch on Tuesday downgraded the United States' long-term foreign currency ratings to AA+ from AAA, reflecting expected fiscal deterioration over the next three years as well as a high and growing general government debt burden.

The downgrade follows a debt ceiling agreement in June that came after months of political brinkmanship and ultimately lifted the government's $31.4 trillion debt ceiling.

"In Fitch's view, there has been a steady deterioration in standards of governance over the last 20 years, including on fiscal and debt matters, notwithstanding the June bipartisan agreement to suspend the debt limit until January 2025," the rating agency said in a statement.

MARKET REACTION: The dollar moved lower against a basket of major currencies after the announcement.

S&P 500 futures were recently down 0.4%

STEVEN RICCHIUTO, U.S. CHIEF ECONOMIST, MIZUHO SECURITIES USA, NEW YORK

“This is the first of what I think will be additional warnings to the U.S. government that its spending relative to its tax collections is unsustainable. We've already pushed to the point where the net interest on the public debt is higher than the ability of the economy to grow, that we can't grow our way out of it.

“This basically tells you is the U.S. government’s spending is a problem. It's an unsustainable budget situation because the economy can't even grow its way out of this problem going forward. Therefore, they're going to have to either tackle it or accept the consequences of potential further additional downgrades.”

WENDY EDELBERG, DIRECTOR OF THE HAMILTON PROJECT AT THE BROOKINGS INSTITUTION, WASHINGTON D.C.

"I'm surprised by the timing of the downgrade because I don't understand how they (Fitch) have worse information now, then before the debt ceiling crisis was resolved. Before the debt ceiling crisis was resolved, they had put the U.S. on negative watch list but since then we have got a lot of good news regarding the fiscal outlook."

"I'm also puzzled by how the motivation for the downgrade seems to be about the fiscal trajectory, which is all well and good. Unless they think that fiscal trajectory suggests risk of a default, which I don't think they say, I don't understand the reason for this."

"I think a second downgrade would have mattered more before the debt ceiling deal was reached. That would have had felt reasonably motivated and would have left people much more worried."

"The effect of the downgrade is surely negative but we will need to wait for a few times to assess its impact."

JASON WARE, CHIEF INVESTMENT OFFICER, ALBION FINANCIAL GROUP, SALT LAKE CITY, UTAH

“The timing, you know, I think it was May that put on negative watch triple-A and then went negative on that. So as far as who expected it today, well if you don't work at Fitch probably nobody but if you can't say it's terribly surprising either given the situation and the fact they put us on negative watch anyway.

“So I don't think the reaction, it should surprise anyone in the markets because we've been through this before. Twelve years ago we saw the same thing and you know, that was a buying opportunity. So I don't think you are going to see too many investors, especially those with a long-term investment strategy saying I should sell stocks because Fiitch took us from AAA to AA+.”

MICHAEL O'ROURKE, CHIEF MARKET STRATEGIST, JONESTRADING, STAMFORD, CONNECTICUT

"Well, based on the bond market action today, somebody knew, because the Treasury market acted weak for no reason, just economic data, the ISM missed and was soft, the global ISM's were soft. So, I would say the bond market activity acted as if somebody knew. So, but is it an absolute surprise to me that they did this? Yes.

"In August of 2011, when S&P downgraded, US AAA to AA it cost the S&P President his job within about three weeks. So, I mean, it's definitely a curveball for the tape. Obviously, it would have been a bigger deal if it was Moody's, but it's definitely something people have to consider and be aware of."

BERNARD BAUMOHL, CHIEF GLOBAL ECONOMIST, THE ECONOMIC OUTLOOK GROUP, PRINCETON, NEW JERSEY

"The timing of this announcement is a bit odd. It may reflect an exasperation that the U.S., once again, faces another government shutdown this fall because Congress remains deeply divided on resolving crucial budgetary issues. Yet that didn't stop them from going on vacation this month."

"On the whole, this is not going to have a significant impact on investors' appetite for government debt."

"As we saw when Standard & Poor's made a similar downgrade, demand on that front was still strong. "

MICHAEL SCHULMAN, CHIEF INVESTMENT OFFICER, RUNNING POINT CAPITAL ADVISORS

"I have a feeling Treasury markets will overall take it in stride because the US overall will be seen as strong but I think it's a little chink in our armor."

"It is a dent against the US reputation and standing but quite frankly we did go through an actual play a few months ago."

"I think this is a move that confirms the nervousness of the market from a couple of months ago."

ANGELO KOURKAFAS, SENIOR INVESTMENT STRATEGIST, EDWARD JONES, ST LOUIS

“The timing is definitely surprising.”

“I wonder if that potentially is the excuse for a bit of a pullback tomorrow given that we have seen the market has been very tranquil.”

“I don’t think necessarily that this fundamentally changes things.”

"Back (in 2011) we did see a 10% pullback in the markets...but that was very close to the X-date of the debt ceiling, now we are way past that."

“The backdrop for markets is different now."

“Back then that added to the uncertainty around the X-date of the debt ceiling and now we are past that ... and back then the economy was on a lot more shakier ground if you will after the financial crisis.”

MICHAEL K. FARR, CEO AND FOUNDER, FARR, MILLER & WASHINGTON LLC, WASHINGTON, DC

“I hope this is seen as something of a shot across the bow, that it is sobering, and that it is not simply dismissed.”

“I feel we have become very complacent by the very concept of debt. We continue to spend more than we make and Fitch is telling us that is not sustainable.”

“Right now markets don’t seem to care. That’s not to say this shouldn’t be sobering for everyone.”

KEITH LERNER, CO-CHIEF INVESTMENT OFFICER, TRUIST ADVISORY SERVICES, ATLANTA

“This was unexpected, kind of came from left field. As far as the market impact, it’s uncertain right now. The market is at a point where it’s somewhat vulnerable to bad news...”

“It’s come out of left field after the market has had a big move and the 10-year has had a big move, so this will be a test for the 10-year which at a critical level approaching 4.10 and the equity market which has had five straight months of gains."

ERIC WINOGRAD, CHIEF ECONOMIST, ALLIANCEBERNSTEIN, NEW YORK

"Look, no one is seriously considering the prospect that the U.S. would ever fail to make a payment on its debt. There will continue to be demand for both long-term and short-term Treasuries, and I don’t see this downgrade as a significant signal of any trouble ahead."

QUINCY KROSBY, CHIEF GLOBAL STRATEGIST, LPL FINANCIAL, CHARLOTTE, NORTH CAROLINA

"Economists look at the deficit and then assume your currency is going to weaken and soften as the deficit grows. That's the textbook. As the deficit grows, your currency weakens, and Fitch is putting us in that textbook rationale. The irony is that the US dollar has, in many cases with the deficit, still risen against other currencies."

"This is a warning. Economists say that if the U.S. doesn't get its fiscal house in order, it's currency is going to weaken, but the currency doesn't weaken. And what Fitch is essentially saying is, it's going to happen and the dollar is going to become a casualty."

JACK ABLIN, CHIEF INVESTMENT OFFICER, CRESSET WEALTH ADVISORS IN PALM BEACH, FLORIDA

"I'm surprised, but I'm not surprised."

"The thing about the sovereign debt is, it's not just the ability to pay, it's the willingness, and that is creating a problem. Every time we have a negotiation, it's down to the wire, and it's frustrating, and it creates unnecessary heartburn."

"It's really the just the troubled negotiations that take place every time we have a debt ceiling or budget negotiation. We're preparing for another shutdown in the fall. We have to move beyond this."