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Research Update:

U.S. 'AA+/A-1+' Ratings Affirmed Following Presidential Election; Outlook Remains Stable

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Overview

- Donald J. Trump won the U.S. presidential election and will assume office in 2017 with an electoral victory that includes continued Republican control of the House of Representatives and the Senate.
- We assume the long-standing institutional strengths and robust checks and balances of the U.S. will support policy execution in a Trump Administration, despite the president-elect's lack of experience in public office, which raises uncertainty on policy proposals.
- The credit strengths of the U.S. include its diversified and resilient economy, extensive economic policy flexibility, and unique status as the issuer of the world's leading reserve currency. However, high general government debt and now increased uncertainty over its trajectory constrain the ratings.
- We are affirming our 'AA+/A-1+' sovereign credit ratings on the U.S.
- The outlook remains stable, reflecting our expectation that the inherent economic, institutional strengths of the U.S. will continue to offset its high level of debt and increased policy uncertainty.

Rating Action

On Nov. 9, 2016, S&P Global Ratings affirmed its 'AA+' long-term and 'A-1+' short-term unsolicited sovereign credit ratings on the United States of America. The outlook on the long-term rating remains stable.

Rationale

On Nov. 8, 2016, Donald J. Trump became president-elect of the U.S. over Hillary R. Clinton and is set to become the 45th president of the U.S. on Jan. 20, 2017. Mr. Trump will assume office after a campaign that heightened debate about economic issues, including international trade, immigration, globalization of industry, inequality, and the stagnation of real incomes of the middle class. Mr. Trump ran on a platform that was at odds with some policies of the traditional Republican leadership and its historical base.

We affirmed our sovereign ratings on the U.S., reflecting the expected smooth transition of power, a hallmark of U.S. democracy, and the strength of its institutions. Despite his various differences with political stakeholders, Mr. Trump reached out to Republicans, Democrats, and Independents in his victory speech. Although bridging divides will be a challenging task, both President Obama and former secretary Clinton have highlighted the importance of unity during the transition.

Given Mr. Trump's lack of experience in public office, and his win as a political outsider without an established policy track record, there is a degree of uncertainty over policy formulation and execution. However, there is a difference between campaign rhetoric and concrete policy proposals and execution once in office. We await further information on the formation of a cabinet and policy proposals, particularly once the president-elect assumes office. Alongside Mr. Trump's victory, the Senate remains in Republican hands, as does the House of Representatives. Hence, the president-elect and the Republicans have a mandate for and ability to effect policy change more easily than with a more divided government in recent years.

Given the institutional strengths of the U.S., our rating affirmation is predicated on several assumptions. On the real economy, we assume that any eventual measures enacted on trade or immigration will not materially lower the trend growth of the U.S., which is estimated near 2%. On fiscal policy, we assume that any relaxation to encompass more public works or tax relief will be within bounds consistent with the traditional approach to public finances of the Republican Party. On monetary policy, we assume that the independence of the Federal Reserve will be respected. On the external side, we assume the U.S. dollar will remain the world's premier reserve currency and that current account deficits will remain within historical ranges.

Outlook

The stable outlook signals our view that negative and positive rating factors will be balanced over the next two years.

The 'AA+' rating already factors in our view that U.S. elected officials are less able to react swiftly and effectively to public finance pressures than are officials of other highly rated sovereigns. Given the composition of Congress is aligned with that of the incoming administration, we believe the risk of debates over raising the debt ceiling has diminished. However, we believe there is a risk of policy uncertainty and potential missteps given the untested nature of the incoming Trump Administration. If these risks eventuate, there could be downward pressure on the rating. For example, a meaningful relaxation of fiscal policy without countervailing measures to address the longer-term fiscal challenges of the U.S., if serious enough, could lead to a rating action. Similarly, measures that would materially lower the U.S.'s medium-term growth prospects or adversely affect its geopolitical position could put downward pressure on the rating.

On the other hand, we could raise the rating if we see evidence that policy efforts point to more proactive fiscal and public policies that result in a lower debt burden--be it through fiscal measures or a stronger trajectory in trend growth.

Key Statistics

Table 1

United States of America--Selected Indicators											
	2009	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f	2019f
ECONOMIC INDICATORS (%)											
Nominal GDP (bil. LC)	14,418.70	14,964.40	15,517.90	16,155.30	16,691.50	17,393.10	18,036.60	18,551.78	19,417.60	20,430.37	21,451.89
Nominal GDP (bil. $)	14,418.70	14,964.40	15,517.90	16,155.30	16,691.50	17,393.10	18,036.60	18,551.78	19,417.60	20,430.37	21,451.89
GDP per capita ($000s)	47.0	48.4	49.8	51.4	52.7	54.5	56.1	57.3	59.4	62.1	64.6
Real GDP growth	(2.8)	2.5	1.6	2.2	1.7	2.4	2.6	1.5	2.4	2.3	2.2
Real GDP per capita growth	(3.6)	1.7	0.8	1.4	0.9	1.6	1.8	0.7	1.5	1.5	1.4
Real investment growth	(13.0)	1.1	3.7	6.4	3.1	4.3	3.7	0.7	3.0	3.8	3.0
Investment/GDP	17.5	18.4	18.5	19.4	19.8	20.0	20.3	19.5	19.3	20.1	20.2
Savings/GDP	14.8	15.4	15.6	16.6	17.6	17.8	17.8	16.9	16.9	17.7	17.6
Exports/GDP	11.0	12.4	13.6	13.6	13.6	13.7	12.6	11.9	11.8	11.9	12.0
Real exports growth	(8.8)	11.9	6.9	3.4	3.5	4.3	0.1	(0.1)	3.4	3.8	4.0
Unemployment rate	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.8	4.5	4.5	4.5
EXTERNAL INDICATORS (%)											
Current account balance/GDP	(2.7)	(3.0)	(3.0)	(2.8)	(2.2)	(2.3)	(2.6)	(2.5)	(2.4)	(2.5)	(2.5)
Current account balance/CARs	(16.8)	(16.8)	(15.4)	(14.4)	(11.4)	(11.7)	(14.6)	(14.9)	(14.1)	(14.7)	(14.9)
CARs/GDP	15.9	17.6	19.3	19.2	19.3	19.2	17.6	17.0	16.8	16.8	16.9
Trade balance/GDP	(3.5)	(4.3)	(4.8)	(4.6)	(4.2)	(4.3)	(4.2)	(4.1)	(4.1)	(4.3)	(4.4)
Net FDI/GDP	(1.1)	(0.6)	(1.2)	(0.8)	(0.7)	(0.8)	0.2	(0.6)	(0.6)	(0.5)	(0.5)
Net portfolio equity inflow/GDP	1.1	0.7	0.8	0.8	(2.1)	(1.6)	(2.1)	(0.4)	(0.5)	(0.7)	(0.8)
Gross external financing needs/CARs plus usable reserves	542.7	390.6	366.3	394.6	351.5	347.9	358.6	347.0	346.4	351.1	354.8
Narrow net external debt/CARs	320.6	295.2	287.7	289.4	299.9	309.1	330.4	355.4	366.8	373.6	379.6
Net external liabilities/CARs	114.7	95.4	148.7	145.8	167.1	211.1	228.0	243.9	250.7	255.5	260.7
Short-term external debt by remaining maturity/CARs	495.4	334.4	311.0	350.1	302.9	282.8	292.9	279.5	280.0	280.9	281.2
Reserves/CAPs (months)	1.3	1.6	1.7	1.9	1.9	1.4	1.4	1.4	1.4	1.3	1.2

Table 1

United States of America--Selected Indicators (cont.)											
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016f**	**2017f**	**2018f**	**2019f**
Reserves (mil. $)	408,414	490,170	548,642	574,268	447,724	432,651	429,556	449,219	436,144	423,069	423,069
FISCAL INDICATORS (%, General government)											
Balance/GDP	(12.0)	(11.4)	(10.9)	(8.7)	(5.5)	(4.5)	(4.0)	(4.7)	(4.5)	(4.5)	(4.7)
Change in debt/GDP	11.0	11.0	6.8	6.7	4.3	3.4	3.4	4.7	4.5	4.5	4.7
Primary balance/GDP	(10.1)	(9.2)	(8.6)	(6.5)	(3.3)	(2.4)	(2.1)	(2.7)	(2.2)	(1.8)	(1.8)
Revenue/GDP	28.8	30.1	29.3	29.6	31.7	32.2	32.5	32.1	32.0	31.6	31.6
Expenditures/GDP	40.8	41.5	40.2	38.3	37.2	36.7	36.5	36.8	36.6	36.1	36.3
Interest /revenues	6.9	7.1	7.8	7.5	6.9	6.3	6.0	6.4	7.2	8.4	9.2
Debt/GDP	71.4	79.8	83.7	87.2	88.7	88.6	88.8	91.1	91.5	91.5	91.8
Debt/Revenue	248.2	264.7	285.8	294.1	279.8	274.7	273.4	283.8	285.8	289.4	290.4
Net debt/GDP	60.5	67.9	73.9	77.6	79.1	78.9	78.8	80.7	81.1	81.1	81.4
Liquid assets/GDP	10.9	11.9	9.8	9.6	9.6	9.7	10.0	10.4	10.4	10.4	10.4
MONETARY INDICATORS (%)											
CPI growth	(0.4)	1.6	3.1	2.1	1.5	1.6	0.1	1.4	2.5	2.3	2.3
GDP deflator growth	0.8	1.2	2.1	1.8	1.6	1.8	1.1	1.3	2.2	2.9	2.7
Exchange rate, year-end (LC/$)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Banks' claims on resident non-gov't sector growth	(3.2)	(1.7)	0.3	2.4	2.7	4.3	4.5	4.5	4.8	5.3	5.0
Banks' claims on resident non-gov't sector/GDP	165.8	157.1	151.9	149.4	148.5	148.6	149.7	152.1	152.3	152.5	152.5

Note: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private-sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. f--forecast.

Ratings Score Snapshot

Table 2

United States of America--Ratings Score Snapshot	
Key rating factors	**Assessments**
Institutional assessment	Strength
Economic assessment	Strength

Table 2

United States of America--Ratings Score Snapshot (cont.)

Key rating factors	Assessments
External assessment	Strength
Fiscal assessment: flexibility and performance	Neutral
Fiscal assessment: debt burden	Weakness
Monetary assessment	Strength

Note: S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). Section V.B of S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 23, 2014, summarizes how the various factors are combined to derive the sovereign foreign currency rating, while section V.C details how the scores are derived. The ratings score snapshot summarizes whether we consider that the individual rating factors listed in our methodology constitute a strength or a weakness to the sovereign credit profile, or whether we consider them to be neutral. The concepts of "strength," "neutral," or "weakness" are absolute, rather than in relation to sovereigns in a given rating category. Therefore, highly rated sovereigns will typically display more strengths, and lower rated sovereigns more weaknesses. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in assessment of the aforementioned factors does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the assessments.

Related Criteria And Research

Related Criteria

- Sovereign Rating Methodology, Dec. 23, 2014
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Risk Indicators, found at spratings.com/sri
- The U.S. Election: A Look At Candidates' Economic Plans, Oct. 19, 2016
- The U.S. Economy Shrugs Off Its Sluggishness, Though It's Hardly Full Steam Ahead, Oct. 6, 2016
- United States of America 'AA+/A-1+' Ratings Affirmed; Outlook Remains Stable, June 30, 2016
- 2015 Annual Sovereign Default Study And Rating Transitions, May 24, 2016
- Banking Industry Country Risk Assessment: U.S., Aug. 20, 2015

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee agreed that the debt assessment had deteriorated, while all other key rating factors were unchanged.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

United States of America	
Sovereign Credit Rating |U	AA+/Stable/A-1+
Transfer & Convertibility Assessment	AAA
Federal Reserve Bank of New York	
Federal Reserve System	
Sovereign Credit Rating |U	AA+/Stable/A-1+

|U   Unsolicited ratings.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.