

US Federal debt  
downgraded by  
ratings agency

Interest rates on  
Federal debt rise

## Possible Consequences of the Rating Downgrade

Brian Gongol - [www.gongol.com](http://www.gongol.com) - August 7, 2011

Fear increases among  
some (possibly many)  
investors

Temporary (but harsh)  
stock-market selloff

Higher inflows into  
corporate bond  
investments

Interest rates for some  
corporate borrowers fall

Gold bugs and other  
paranoiacs get louder

Bubble in "fear"  
investments like gold and  
hard assets

Companies may borrow  
more rather than turning  
to equity markets to raise  
capital

Patient investors make a  
killing by buying during  
the panic cycle

Greater concentration of  
wealth in the hands of the  
already-rich

Rates increase for some  
private-sector borrowing,  
particularly those  
borrowings backed by the  
Federal government

Mortgage interest rates rise

Households with ARMs  
get hit hard by the  
apparent decrease in  
household wealth due to  
larger payments

Homebuilding demand is  
depressed

Many private households  
feel less wealthy

Federal debt becomes  
more expensive to service  
and pay down

Future debt repayment  
and service becomes more  
costly

Future Federal income tax  
rates are relatively higher

Future Federal budgets  
include much smaller  
transfers to state  
governments and more  
unfunded mandates

Future state income tax  
rates are relatively higher