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## **Fitch Rtgs: Shape of Next US Economic Cycle Will Inform USPF Macro Stress**

Fitch Ratings-New York-21 November 2019: The federal government's two primary tools to stimulate the economy, fiscal and monetary policy, may be constrained relative to previous cycles, potentially exacerbating cyclical US public finance (USPF) funding deficits and delaying the rebuilding of issuer reserves during and coming out of the next downturn, says Fitch Ratings. More limited possibilities for aggressive macro policy easing could culminate in a slower path of recovery after any future recession. This has the potential to affect the USPF cyclical stress assumption used at that time in our three to five year forward look analysis, but would not represent a change in criteria, as Fitch's criteria anticipates the potential modification of standard sector scenarios in a period of economic decline. Any such change would be communicated publicly and applied consistently from that point.

Fitch's USPF group embeds a forward-looking stress to test the resiliency of its ratings through the cycle by incorporating a multi-year scenario consisting of a theoretical cyclical moderate decline and recovery, specified in GDP terms. While Fitch does not anticipate a recession in the near term, given the long duration of the current recovery, it is useful to explore certain factors, such as the strength of the next recovery, that might inform if and when to modify USPF's standard stress scenario during and coming out of the next recession.

Policy makers may be more limited in the future to confront a future slowdown in the economy. Over the past four recessions, short-term interest rates fell by over five percentage points shortly before the onset of the recession to the low point experienced after the trough or during early recovery. Currently, treasury yields through the intermediate part of the curve are less than 2%, so such a decline would imply interest rates of between negative 3.5% and negative 4%, which is virtually impossible. Consequently, considering even slightly negative rates as the floor, rates can fall less than 2% at most, less than half the average decline relative to past recessions, to help confront a recession and spur consumer and business demand.

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