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World will react today to U.S. credit woes

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So…what's next?

Does continued angst about the debt crisis in Europe and this weekend's unprecedented downgrade of the United States' creditworthiness unleash a torrent of financial woe?

Or do global stock and bond markets, nations that hold U.S. debt and our fellow citizens simply shrug off Europe's financial failures and the unprecedented dent to what is essentially America's credit score?

The answer might be an uneasy, who knows? And that's especially uneasy for aspiring homeowners, 401-K account holders and the unemployed who would be hurt by a spike in interest rates, a sell-off in the equity markets and a string of bad economic news that kills job growth.

Monday is the first day global markets open since Standard & Poor's lopped a letter off America's coveted AAA credit rating and demoted us to a New Zealand-like AA+.

Investors will first signal their thoughts in markets overseas.

U.S. stock futures on Sunday night were down, according to Bloomberg News.

Atlanta-area economic soothsayers predict a rough day, followed by continued instability in the weeks and months ahead.

"[The downgrade] is a big deal psychologically, and psychology can be important to markets, particularly in the short term," said Dorsey Farr,economist and partner with French Wolf & Farr in Buckhead.

The market heartburn, experts say, isn't caused solely by short-term affects of a downgrade.

Investors worry long term about Europe's debt struggles and those of the U.S. government, and hold broader concerns about a slothful economic recovery.

That recovery once moved in aggravating fits and starts. Now it seems to have stalled.

"I've had a little pit in my stomach wondering what's going to happen on Monday," said David Millican, co-founder and managing partner of Buckhead-based Atlanta Capital Group.

S&P's actions weren't unexpected. The ratings agency had warned of as much months ago, and finally pulled the trigger Friday after markets closed.

S&P cited in its downgrade "political brinkmanship" in Washington and the debt ceiling agreement and cuts of $2 trillion over 10 years that "fell short" of spending changes needed to tame the nation's debt problems. (Fitch Ratings and Moody's still peg the United States as AAA.)

It's unclear what affect the downgrade would have on interest rates on government, business and consumer borrowing, but it's the kind of news that spooks already anxious investors.

If interest rates on U.S. debt do climb, experts say so would rates for things like business loans, mortgages and car loans.

Stephen Sloan, chairman and managing partner of Arcus Capital Partners in Buckhead, said he does not expect the bond market, where government debt is traded, to be seriously hit by the downgrade.

But Sloan thinks substantial changes are needed in government spending and the tax code and that would help the private sector re-engage.

Large pension funds and other investors will likely keep their money in U.S. debt as it remains a safe bet, he said.

“If there’s any country that has the ability to better pay its debts than we do, I want to see it,” Sloan said. “We’re the best house in a lousy neighborhood,” Sloan said. "Where are you going to go?”

Atlanta Capital’s Millican, who like many investment advisers has tried to insulate clients’ assets from domestic stocks, predicts a steep stock market sell off because investors have had all weekend to stew about the U.S. credit downgrade and a wrenching debate overseas about the financial affairs of Italy and Spain.

Just how much, he said, isn’t clear.

Last week featured a 513-point one-day slide in the Dow Jones Industrial Average, weak manufacturing news and employment figures that — while better than economists predicted — barely moved the national unemployment needle.

This week brings a host of closely watched economic reports, among them: small business confidence, workforce productivity, labor costs, jobless claims and retail sales.

U.S. corporations by and large remain highly efficient, using fewer workers to do more and earning higher profit margins. Labor costs remain relatively low and weekly new jobless claims continue to hover around 400,000.

Farr said he expects those trends to continue, pointing to an “economy that’s growing, but slowing substantially.”

Farr said he expects a sell off in global stock markets, but particularly in the United States Investors have placed a premium on U.S. stocks over European stocks, weighing in debt problems in those nations into the share values.

The world has a debt crisis not just in Europe but among most all developed nations — the United States included, Farr said.

What also remains to be seen, Farr said, is if the downgrade to U.S. debt triggers downgrades to the debt of other government entities and large corporations.

Global investment powerhouse BlackRock said on Sunday the firm has “no need to execute any forced selling of securities in response to the S&P action,” and called the downgrade “but one of myriad concerns” for investors.

“While a time may come when the credit risk-free status of Treasury bonds is diminished by continued policy missteps, we do not believe that the S&P downgrade signals that this moment has come now,” BlackRock said in a statement.

Derek Cunningham, a managing director at Commerce Street Capital in Atlanta, said the downgrade is serious in that it changes global perceptions of America’s credibility. It also weakens already feeble business confidence, which could slow hiring and other decisions that help grow an economy.

“At the end of the day, we can’t change what’s happened, and we look different in the world’s eyes going forward,” Cunningham said.
