

The markets have known for a while of the data which caused the lowering of the US credit rating by S&P on Friday. As such, this does not mean any fundamental increase in volatility, and clients should not modify their actions based only on the downgrade. That being said, given the combination of persistent economic weakness and regulatory ambiguity, this may serve as an indicator to some clients to re-examine their risk tolerance.

Though we have worked directly with our clients to shed light on their investment policies, and to report to them of likely market reactions resulting from a downgrade of U.S. government credit, this is but one of innumerable concerns clients face in present day markets.

Elevated levels of debt, the considerable likelihood of policy gaffes, and slow economic growth are, to a great extent, what the developed world is faced with. These components have radically increased market unpredictability and reduced liquidity.

Meek levels of expansion and the weakness in labor markets collectively support an increasing chance that the Federal Reserve will continue its Fed Funds policy range at low levels for at a minimum another year and conceivably throughout 2012.

Additionally, the Fed should persist in sustaining the recovery using any method it can in view of an unusually weak real growth rate of 0.4% for first-quarter 2011, revised downward from 1.9%, and a lower than consensus estimate of 1.3% for second-quarter,.

The mounting debt crisis in Europe continues to intensify the threat of a considerable slowing in European growth, along with the deep-seated concerns over the condition of the U.S. economic recovery.

The sluggish and ill-conceived policy resolutions that make up the European predicament draw attention to the brunt that financial markets will bear as a result. At the heart of the problem, liquidity has been provided in an effort to deal with a solvency crisis, and sovereign credit markets have not been persuaded with regard to the effectiveness of each succeeding "answer" to the expanding debt spreads of other countries.

Nevertheless, it is imperative to call attention to the fact that U.S. Treasuries continue to be the primary liquid fixed income market in the world with the largest scale of price lucidity and hardly any other real choices in this arena.

Most investors will more than likely keep on using the Treasury yield curve as a risk-free benchmark as a method of evaluating credit spread issues, despite the concerning events that resulted in the S&P downgrade.

Additionally, Treasuries should continue to receive strong interest from institutional investors of all types and remain a hedge to risky investment vehicles. More than likely, Treasury bonds will maintain their risk-free standing, despite the S&P downgrade, but it does not rule out a point in time when this risk-free standing could be weakened by continuous lapses in policy resolutions.

Dealing with the financial struggles that face the United States is a continual responsibility. Those struggles cannot be triumphed over through quick-fixes, but will necessitate hard work expanding over a long period of time. Policymakers need to collectively make the tough choices required to bring a stop to the escalation of the deficit, such that the U.S. economy can continue to maintain its time-honored status as the world's most robust economy.