

# Bloomberg

## Buffett Says Cutting U.S. Rating Was Mistake, Sees No Recession

By Betty Liu and Andrew Frye - Aug 6, 2011

Billionaire [Warren Buffett](#) said [Standard & Poor's](#) erred when it lowered the U.S. [credit rating](#) and reiterated his view that the economy will avoid its second recession in three years.

The U.S., which was cut Aug. 5 to AA+ from AAA at S&P, merits a "quadruple A" rating, Buffett, 80, said yesterday in an interview with Betty Liu at Bloomberg Television. The downgrade followed the biggest weekly selloff in U.S. stocks in 32 months, with the [S&P 500](#) slumping 7.2 percent to its lowest level since November.

"Financial markets create their own dynamics, but I don't think we're facing a double dip recession," said Buffett, chairman and chief executive officer of Omaha, Nebraska-based [Berkshire Hathaway Inc. \(BRK/A\)](#) "Clearly what stock markets do have is an effect on confidence, and this selloff can create a lack of confidence."

Stocks plunged last week amid signs the [U.S. economy](#) is slowing and speculation that [Europe](#) will fail to contain its sovereign-debt crisis. Reports on manufacturing and consumer spending trailed economists' forecasts. Euro-region central bank governors are planning emergency talks aimed at limiting the market fallout from the first U.S. rating downgrade in history.

The U.S. cut, announced after the close of trading in New York, was prompted by rising public debt and "greater policymaking uncertainty," S&P said in a statement. The U.S. has the top credit rating at both Moody's Investors Service and Fitch Ratings. Buffett said he doesn't rely on the views of ratings firms when buying and selling securities. Berkshire is the biggest shareholder of Moody's Corp.

### Rising Earnings

Berkshire posted a \$3.42 billion second-quarter profit, up 74 percent from a year earlier, the company said Aug. 5. Returns from derivatives improved, and Buffett's 2008 investment in Goldman Sachs Group Inc. led to an after-tax gain of about \$806 million. Buffett is seeking investments and acquisitions as Berkshire's cash climbed to \$47.9 billion at the end of June.

The S&P downgrade won't have an impact on investment decisions in money funds and bond funds at Western Asset Management, said [Pasadena](#), California-based Chief Investment Officer

Stephen Walsh. Western Asset, the bond unit of Legg Mason Inc., manages about \$365 billion in assets and has an "underweight" position in U.S. Treasuries.

"Our money funds are required to invest in securities with the full faith and credit of the U.S. government, but it doesn't speak to a rating," Walsh said. "Our conversations with central banks and foreign investors show that they won't view Treasuries differently."

Mohamed El-Erian, the chief executive officer of [Newport Beach](#), California-based Pacific Investment Management Co., said that the downgrade will spur uncertainty in the market.

"It will fuel uncertainties about the functioning over time of the world economy as there are no other pure AAA's able and willing to materially complement or replace the role of the U.S. at the core of the global financial system," El-Erian wrote in an e-mailed response to questions.

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