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Better Borrowers than Uncle Sam

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In the old days, the expression "what is good for General Motors is good for the United States" held sway and a certain amount of validity. Today, this is no longer the case.

First, GM is a shadow of the former giant, which once employed over one-half million. At the same time, the U.S. work force was less than half its present size.

Second, there is no bellwether blue chip today that can single-handedly boost the standing of the United States as in days past. Private enterprise can collectively help, but only under the right conditions.

Financial prospects for the U.S. have deteriorated to a state where the probability of a default in the full faith and credit of the U.S. government is actually higher than a handful of top tier U.S. publicly traded corporations.

For instance, the cost to insure debt from default for Exxon (XOM), Johnson & Johnson (JNJ), Chevron (CVX), and Walmart (WMT) – as priced in the credit default swap (CDS) market – is lower than the comparable risk of the U.S. government. In fact, even Google (GOOG), a company founded in 1998 and going public less than a decade ago, has a lower probability of default than its home nation.

Figure 1. Select Credit Default Swaps (basis points to insure \$1 in debt)

| | <u>1/1/2008</u> | <u>10/31/2012</u> | <u>11/12/2012</u> |
|-------------------|-----------------|-------------------|-------------------|
| United States | 7 | 30 | 37 |
| Chevron | 23 | 21 | 22 |
| Exxon Mobile | 19 | 16 | 17 |
| Google | na | 24 | 24 |
| Johnson & Johnson | 15 | 39 | 32 |
| Walmart | 26 | 33 | 35 |

Note: The CDS contracts are priced in USD except for the United States, which is priced in EUR.

Source: Bloomberg LP and Center for Financial Stability.

In the old days, the ratings agencies used to speak of a "sovereign debt ceiling." In this case, a corporation would by necessity be rated below the sovereign debt rating where the entity resided.



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Today, the markets are telling a new story. In fact, the story is getting worse. Since Halloween, the U.S. sovereign debt relative to these blue chip corporates has deteriorated sharply. So, for investors in search of yield and safety, corporate credit could prove attractive.

For the US government, now is the time to embrace serious financial repair.

Disclosure: The author owns shares in Exxon Mobil.

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