State and local

We are not aware of a consolidated state and local government source that analyzes its financial sustainability.

Application of critical accounting policies

Preparing financial statements requires preparers to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by the application of accounting policies. As the combined financial statements in this annual report represent the aggregation of financial data prepared by other entities, and as we do not have complete information about the accounting policies used to prepare the data, we are unable to determine what are the critical accounting policies.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk[41]

The US is exposed to economic risk from its sovereign credit rating, interest rates, foreign exchange rates, equity prices, and commodity prices. These risks may impact our Government's combined financial statements as well as the overall US economic health and our Government's ability to achieve its objectives.

US financial market conditions were generally stable in 2016. Asset prices generally increased, commodity prices partially recovered after falling in previous years, and commercial real estate valuations remained high, according to certain measures. Short-term funding markets experienced significant changes over the past two years as SEC reforms of money market mutual funds went into effect. While low interest rates have supported growth in recent years, interest rates generally increased across maturities in 2016, against the backdrop of continued gradual improvement in economic fundamentals. Developed economies grew at relatively subdued levels, and emerging market economic growth picked up slightly, as the global economy has continued to rebound slowly in the post-financial crisis period. At the same time, several factors continue to generate global economic uncertainty, including developments following the referendum in the United Kingdom to leave the European Union, problems affecting European banks, and rapid corporate credit growth in China.

Sovereign credit rating

A sovereign credit rating is the credit rating of a country. Sovereign credit ratings give investors insight into the level of economic and political risk associated with investing in a country. The sovereign credit rating usually influences a country's access to international funding and interest rates. A poor US credit rating could have significant impact on global financial markets.

The three major credit rating agencies, Standard & Poor's, Moody's, and Fitch, left overall ratings of US sovereign debt unchanged AA+, Aaa, and AAA, respectively, during 2016, and each maintained a stable outlook for Treasury securities at the end of 2016.[42]

Interest rate

The federal funds rate is maintained by the Federal Reserve and is generally viewed as the base rate for all other interest rates in the US economy. The higher the federal funds rate, the more expensive it is to borrow money. The US federal funds rate can influence domestic and international monetary and financial conditions. See more about the federal funds rate at *Part I, Item I. Purpose and Function of Our Government, Other related entities, The Federal Reserve* within this report.

The historically low-yield environment continues to encourage greater risk-taking across the financial system. In particular, as investors search for higher yields, some may add assets with higher credit or market risks to their portfolios. They may also use more leverage or rely on shorter-term funding. These actions tend to raise the overall level of financial risk in the economy and may put upward pressure on prices in certain markets. If prices in those markets were to fall sharply, owners could face unexpectedly large declines in their overall portfolio value, potentially creating conditions of financial instability. Although both short-term and long-term interest rates have risen since the last annual report, the consequences of past risk-taking may persist for some time.

Over the past few years, regulators, benchmark administrators, and market participants have worked toward improving the resilience of the London Interbank Offered Rate (LIBOR) by subjecting the rate and its administrator to more direct oversight, eliminating little-used currency and tenor pairings, and embargoing the submissions of individual banks to the panel for a three-month period. However, decreases in the volume of unsecured wholesale lending has made it more difficult to firmly ground LIBOR submissions in a sufficient number of observable transactions, creating the risk that publishing the benchmark may not be sustainable. Regulators and market participants have been collaborating to develop alternatives to LIBOR. They are encouraged to complete such work and to take appropriate steps to mitigate disruptions associated with the transition to a new reference.

Foreign currency

The currencies of most developed countries are valued based on the demand and supply of the currency. The value of currency can impact economic factors such as trade balance, GDP, and employment.

The dollar appreciated sharply in late 2014 and early 2015 amidst diminishing monetary accommodation in the United States relative to other major economies and increased concerns about the global growth outlook. The dollar exhibited broader stability against many currencies over the first three quarters of 2016, with notable exceptions of the Japanese yen and British pound. The dollar rallied against most currencies in late 2016, supported by increased expectations for stronger US growth.

Equity

Generally, rising stock prices for companies from a particular country indicate a healthy, growing market, while a downward trend in stocks may reflect weakening fundamentals in a country's economy. Rising stock prices usually indicate net investment in the future health and growth of the economy. An equity index represents a portfolio of securities of a certain market or sector. Global equity indices represent the overall health of the equity market.

Developed and emerging market equities saw generally strong performances in 2016. Equity prices in the United States and other major developed countries generally fell over the first half of 2016 but have rebounded steadily in the last half of 2016. The increase in equity prices over the past year may reflect expectations for expansionary U.S. fiscal policies, along with stronger economic data and earnings growth in both emerging market and advanced economies. The S&P 500 index's composite trailing P/E and P/B ratios rose above their 20-year averages in 2016. The technology sector was the top performer during 2016, supported by strong corporate earnings. Additionally, the financial and industrial sectors outperformed the market in months following the U.S. presidential election, with financials benefiting from a steeper yield curve, and industrials benefiting from the prospect of new infrastructure spending. While the energy sector has recovered from its January 2016 lows, the sector continues to underperform, as oil and natural gas prices remain range bound.

US equity market implied volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), averaged 16% during 2016 which is below its historical average. Volatility levels peaked at 28.1 in February 2016 and spiked again around the June 2016 United Kingdom referendum to leave the European Union and the November 2016 US presidential election. Market volatility declined relatively quickly after these events.

Commodity

Commodities are generally traded goods such as oil, crops, and minerals for inputs towards the production of other goods or services. The price of most commodities are generally valued based on the demand and supply of the commodity. Volatility in global price can have extensive implications for both commodity importers and exporters.

Commodity prices generally rebounded, on net, in 2016, from the declines posted in 2015. The overall S&P GSCI Spot Index increased 28% in 2016, largely reflecting a 45% increase in oil prices (which have a majority weight in the index).

Early in 2016, the continued fall in oil and natural gas prices had called into question the debt repayment capacity of highly-leveraged energy-related companies, specifically in the upstream exploration and production subsector. Oil prices began to rise late in the first quarter of 2016, against the backdrop of slowing U.S. domestic production, public comments by officials from the Organization of Petroleum Exporting Countries (OPEC) pointing to possible tightening in supply, and improved oil demand outlook.

Prices of industrial metals rose in 2016, with the S&P GSCI Industrial Metals Index climbing 19% in 2016. The recent increase is likely due in part to stronger than expected global growth, but also due to prospective supply cuts in some metals. Anti-dumping restrictions may have led to increases in some metal prices, and copper prices were affected by disruptions to mining. Meanwhile, agricultural commodities have been flat in 2016 as the effects of El Niño led to a shift in seasonal supplies. The S&P GSCI Agriculture Index peaked in June 2016, with a 24% rally, but ended 2016 just 3% higher.