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.S. likely to lose AAA rating: Prechter

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By John Parry

NEW YORK (Reuters) - Technical analyst Robert Prechter on Monday said he sees the United States losing its top AAA credit rating by the end of 2010, as he stuck by a deeply bearish outlook on the U.S. economy and stock market.

Prechter, known for predicting the 1987 stock market crash, joins a growing coterie of market heavyweights in forecasting the United States will lose its top credit rating as the government issues trillions of dollars in debt to fund efforts to bail out the economy.

Fears about the long-term vulnerability of the prized U.S. credit rating came to the fore after Standard & Poor's in May lowered its outlook on Britain, threatening the UK's top AAA rating. That move raised fears that the United States could face a similar risk, with the hefty amounts of government debt issued in both countries to pay for financial rescues causing budget deficits to swell.

Prechter, speaking at the Reuters Investment Outlook Summit in New York, said he sees investors' confidence in an economic rebound fading, a trend that will drag the S&P 500 stock index .SPX well below the March 6 intraday low of 666.79 by the end of this year or early next.

"There will be a leg down in stock prices, and it will affect all other areas," including corporate bonds and commodities, said Prechter, who is executive officer at research company Elliott Wave International, based in Gainesville, Georgia.

Prechter, who is known for his bearish views, has repeatedly forecast a steep decline in stocks this year, even as the stock market has rebounded from 12-year lows set in March as optimism about an economic recovery has risen.

Despite the government and Federal Reserve's massive rescues for financial companies and securities markets, Prechter expects credit markets to clam up again as they did in the first phase of the global financial crisis and for the U.S. economy to sink into a depression.

Although U.S. banks' recently passed government "stress tests" that assessed the adequacy of their capital levels to absorb losses and have been able to raise some capital in debt and equity markets, "the banking sector is in severe trouble," as more loans turn bad, he said.

The economy "is obviously heading toward a depression," despite the government's efforts to dodge one, said Prechter.

Federal Reserve Chairman Ben Bernanke has not averted a re-run of the 1930s Great Depression, even though investors are becoming firmly convinced that the Fed has avoided disaster and that the economy has hit bottom.

"It's the next leg down (in stocks) that will make it clear that these things are not true," Prechter said.

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(Editing by Leslie Adler)

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