



US Corporate debt: Picking up pennies in front of a steam roller?

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SUMMARY

US Nonfinancial Corporate Business cash flows and earnings have fallen 20% and 30% respectively from 4Q19 to mid-2020. PBT is now back to levels first seen in 2005 but corporate sector liabilities are 112% high than then. We estimate Interest cover is near GFC lows.

The current profits recession is already elongated by historic standards and the rebound will likely be slower than previous cycles. Time spent at low levels of cash generation increases the probability of insolvency.

The main factor maintaining interest cover is market willingness to refinance debt at extremely low rates, creating a prisoner's dilemma. This willingness reflects faith in the Federal Reserve's propensity to socialize the losses.

Corporate business Net Worth has been inflated by rising real estate values – revaluation reserves account for more than 50% of net worth. Recovery rates may depend on the ability to liquidate commercial property.

Current loss adjusted returns are highly unlikely to meet the demands and expectations of savers particularly regarding pension liabilities. Supporting bond prices is therefore exacerbating inter-generational and general wealth inequality and distorting the allocation of capital.

A return to the spreads seen in the earlier part of the year or in previous economic downturns is a distinct possibility unless the Fed is prepared to further nationalize credit risk. An end to SMCCF could be a catalyst for a reappraisal of credit risk.

Is US corporate debt yielding enough to compensate investors for default risk and inflation risk?

INTRODUCTION

Nonfinancial corporate businesses in the United States had debt securities outstanding of USD7.125 trillion at the end of June, up over USD570bn on the end of 2019. In addition, they had USD3.91 trillion of loans outstanding at end June up about USD420bn. Together these two liabilities amount to more than 55% of US GDP. Having sold off at the start of the COVID- induced recession in Q1, corporate bonds have continued to rally. This report looks at leverage in the nonfinancial corporate business sector as a whole; the sector's profitability and cash flows with a view to helping answer the question: Is US corporate debt yielding enough to compensate investors the risk?

COVID, cash flows and Profits.

The recession has reduced corporate profits by 30% and cash flows by 20%

COVID related disruptions to the US economy have obviously hit the US nonfinancial corporate sector hard. As the table below, drawn from the Z1 flow of funds data shows, Profit Before Tax fell by 30% from the 4Q19 level and retained profits fell 93% - because dividend payouts so far have been maintained. Capex has had to be cut by 20% matching the decline in cash flows and bringing it into line with depreciation to reduce the need for more forced borrowing.

Table 1.

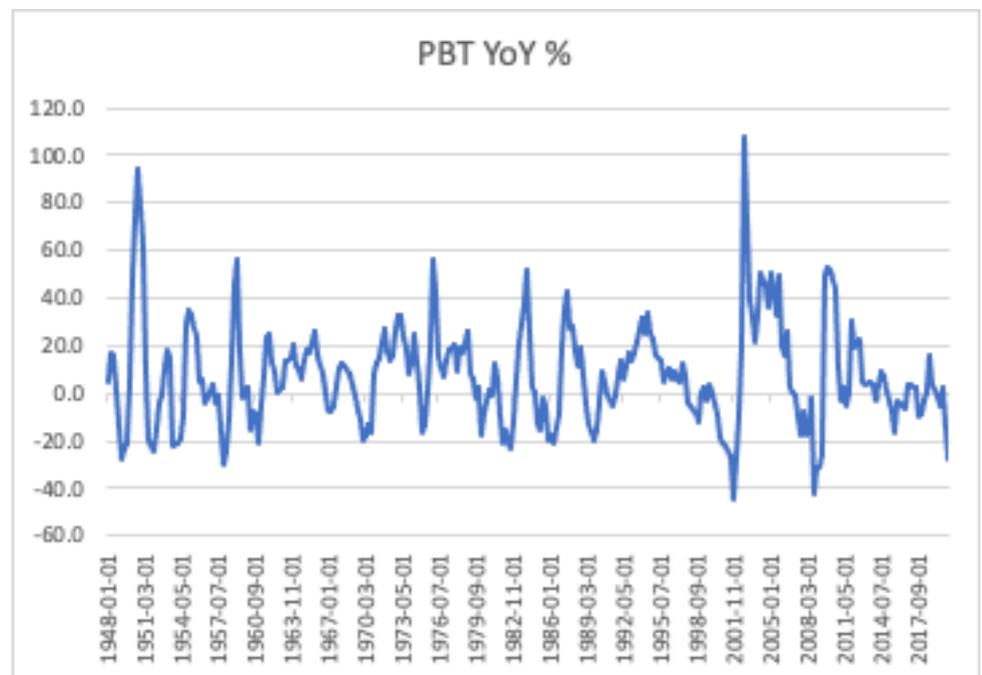
Nonfinancial corporate businesses (USDbn)	4Q19	2Q20	Change
Profit before tax	1313	913	-30%
Tax	221	156	-29%
Net Dividends Paid	662	729	10%
Retained profits	430	28	-93%
Inventory Valuation adjustment	-18	53	-394%
Capital consumption allowance	1672	1688	1%
Foreign earnings retained abroad	108	17	-84%
Gross savings	2192	1786	-19%
Capex	2107	1692	-20%

Source: Z1 Flow of Funds data.

(The fall is not as steep as previous recessions yet)

In an historical context, as the chart below shows, the drop in non-financial corporate profits so far reported is not nearly as bad yet as those seen in either 2001 (44%) or 2009 (42%) and is of a similar order of magnitude to the drops seen on a number of occasions in the 1940s and 50s. Given the severity of the economic downturn as measured by the decline in GDP, it would be surprising if this were to be the outcome. The Year-over-year decline does not of course necessarily capture the true damage to profitability, as the pace of rebound and the time spent at subnormal levels of profitability could be more important in determining a company's ability to service and repay debts than the depth of any statistical year on year decline.

Chart 1

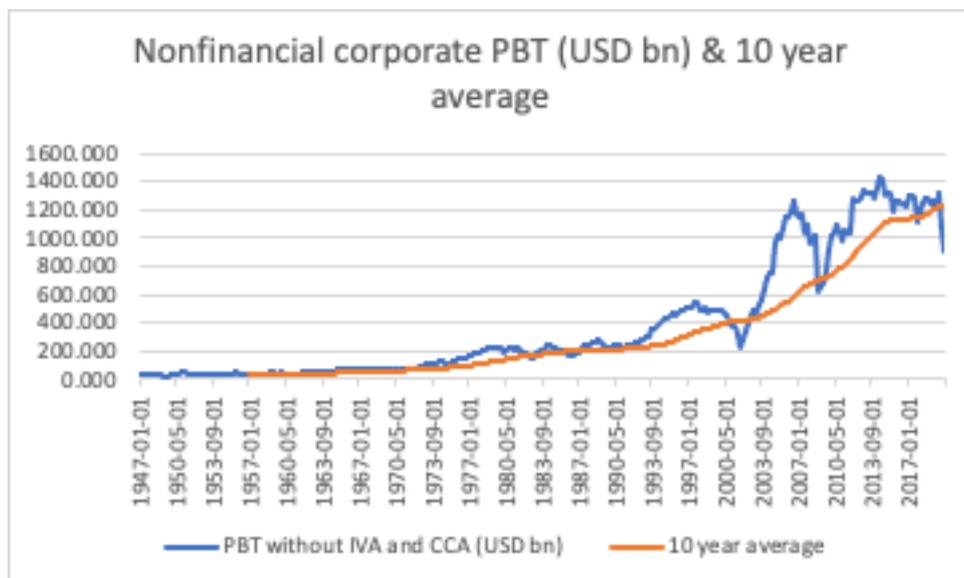


Source: Z1 flow of funds data, Federal Reserve.

But the profits decline started a long time ago back in 2014

In the current profit cycle, nonfinancial corporate business profits actually peaked way back in 3Q 2014 at USD1.428 trillion dollars, meaning we are now 23 quarters into a period in which profits have been below that level and they are currently running at an annual run rate some 37% below that high. As the chart below shows, the current level of profitability is back to levels first seen fifteen years ago in 2005 and is about 25% below its 10 years moving average (the cyclically adjusted level usually used for a CAPE calculation).

Chart 2



Source: Z1 flow of funds data, Federal Reserve.

If we look at the four previous profit recession since 1980, although some have been very steep in terms of the decline of profitability, they have tended to be relative short in terms of the time taken, from the trough, for profits to recover to a new high. With peak levels of profitability restored quickly, the impact of corporate solvency is perhaps more muted. For example, the long decline in US corporate profits from 1997 through to 2001, although sharp at the tail end of the recession, lasted 17 quarters and produced a peak to trough fall of 60%. That fall took profits back to a level first seen 21 years before hand in 1980 and to a 47% discount to the 10-year moving average. Just 8 quarters later, profits were hitting a new high from a starting point of just 40% of the previous peak.

Table 2

Profit recessions	Starting level (USD bn)	ending level (USD bn)	Percentage fall	No of Quarters to trough	Peak to new high (Qs)
3Q 2014 to Present	1438	913	-37%	23	
3Q 2006 to 4Q 2008	1260	622	-51%	9	22
3Q 1997 to 4Q 2001	548	221	-60%	17	25
4Q 1988 to 2Q 1991	265	225	-15%	10	16
1Q 1980 to 4Q 1982	230	156	-32%	11	16
Average			-39%	12	20

Source: Z1 flow of fund data, Federal Reserve.

Recovery to the previous peak could well take a long time.

Taking the past four profit recession since 1980, the typical shape has been a three-year fall in profits from peak to trough of 40%, followed by a 2-year recovery to a new profit high. The current decline of 37% from 3Q 2014 is bigger than average, albeit not the biggest, but it is already nearly twice as long as average.

This begs two questions: is there anything in the balance sheet strength of the US corporate sector that could lead one to believe that investors will escape with meaningfully lower default rates than previously and, is there any evidence to suggest the speed and size of the rebound will match past cycles?

Rising leverage, falling interest rates, and declining interest cover.

Using flow of funds data has the advantage of capturing the entire corporate sector but the data needs to be adjusted to put it in a form useful for analyzing credit worthiness. For example, Foreign Direct Investment is a liability to the sector, whereas from a credit or equity valuation perspective, the equity portion of FDI is obviously equity and not debt. Making these adjustments and looking at the aggregate balance sheet of the US nonfinancial corporate business sector through the prism of the flow of funds data reveals a number of both short term and long-term trends.

The majority of the de-leveraging from 1995 to 2006 has been undone

The structural rise in leverage measured by debt (debt securities issues and loans received) relative to adjusted net worth is potentially a cause for alarm. The debt/ net worth ratio, as the chart shows, is off its all-time high but is still considerably higher than it has been at times of previous sharp rises in default rates. The vast majority of the improvement in corporate balance sheets from 1995 to 2006 has been undone.

Chart 3



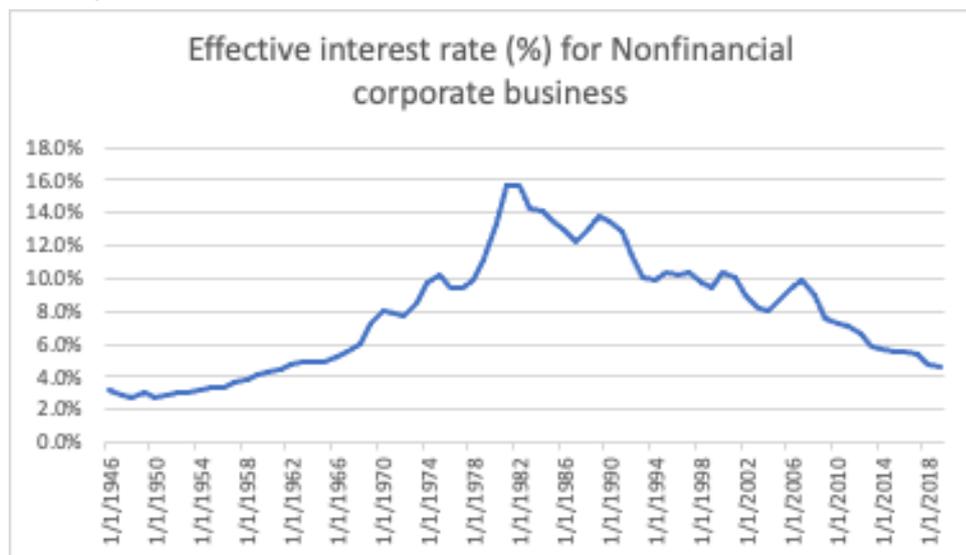
The structural rise in leverage since 1980 has been accompanied by falling rates

Lower returns on debt are the only thing keeping interest cover reasonable

The rise in leverage has been counteracted by the fall in interest rates from 1980 onwards. The anti-inflationary drive of Paul Volker was the catalyst for falling nominal rates in the 1980s. This in turn gave way to the deflationary impact of globalization and in particular economic interaction with China. Aggressive monetary policy aimed at maintaining aggregate demand in the face of the global savings glut, which has progressed from low rates, to zero rates to unorthodox monetary policy as time has passed, has lowered the borrowing costs to the corporate sector.

The result has been a collapse in the effective interest rate that the nonfinancial corporate business sector has paid on its interest-bearing liabilities. In 2019, interest payments totaled USD465bn on a stock of debt and loans of just shy of USD10 trillion. By way of comparison, in 2007 interest payments were USD603bn on a debt and loan stock of just over USD6 trillion. The halving of the effective rate of interest is the sole reason why interest cover has remained benign.

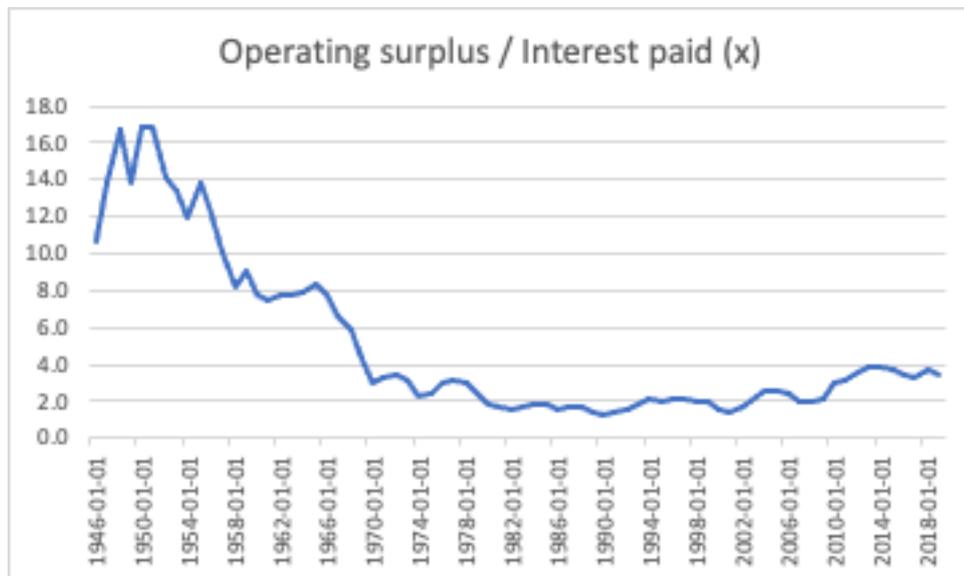
Chart 4



Source: Z1 flow of funds data, Federal Reserve.

The Operating Surplus of the sector (an economic operating profit) relative to interest payments can be thought of as a measure of interest cover. This has been in structural decline since the Second world war, reflecting in part at least, the collapse of the Dollar-gold standard and the move to fiat money with the associated flexibility that bought to monetary policy aimed at economic stabilization. This has had a comforting impact on companies, enabling them to run higher levels of leverage in the knowledge that accommodating monetary policy would alleviate stress.

Chart 5



Source: Z1 flow of funds data, Federal Reserve.

The drivers of higher corporate profits are maybe turning negative

From the turn of the century, the trend in interest cover has been rising. This reflects a number of trends: 1) The rapid rise in corporate profitability post the 2001 profits recession that saw profits rise from about USD200bn to over USD1,200bn in 5 years. 2) This in turn was driven by suppressed wage growth, as a consequence of Chinese accession to WTO and greater trade and outsourcing. 3) The deflationary impact of globalization’s impact on borrowing costs though lowered inflationary expectations, coupled with the greater degree of central bank intervention in the suppression of interest rates. And 4) the initial deleveraging from 1995 to 2006.

These factors now seem to be potentially unwinding. Under current circumstances, a rapid rebound in profitability of the magnitude seen in the early 2000s seems unlikely. De-globalization is perhaps moderating deflationary pressure (short term cyclicity aside) as bilateral US-China trade falls sharply. The dichotomy between high profit growth on the one hand and suppressed pricing of labour on the other, has perhaps reach its political limits. What remains is just central bank repression of market rates aimed at keeping default rates manageable, together with the market’s willingness to accept low returns on corporate liabilities.

Interest cover is very sensitive to interest rates

The table below illustrates the sensitivity of interest cover to a rise in interest rates. Given the very low starting point it is not surprising to see the speed with which interest cover disappears even under modest assumptions regarding funding costs relative to history. A 7.7% average cost (the high in this scenario analysis) vs 4.7% now, would still be the low end for the period between 1970 and 2010.

Table 3

Interest Rate scenario analysis	Interest payment	Interest cover using 2019 PBIT	Interest cover using 2Q20 PBIT
4.70%	467	3.81	2.95
5.70%	567	3.14	2.43
6.70%	666	2.67	2.07
7.70%	766	2.32	1.80

The decline in corporate profits from 2014 and an element of re-leveraging has taken interest cover off its recent high but, as of the end of 2019, it remained high within the context of the post 1971 monetary paradigm. The evidence of the first half of 2020 is that it has declined substantially and not just because of the fall in PBIT as illustrated above. The table below shows the short-term evolution of Nonfinancial corporate balance sheets during the COVID impacted 1H 2020.

Table 4

USD bn	4Q19	2Q20	Change	Difference
Total Assets	45692	46509	1.8%	817
Non-Financial assets	24842	25046	0.8%	204
Financial Assets	20850	21463	2.9%	613
Total Liabilities	29875	30697	2.8%	822
Debt securities	6554	7126	8.7%	572
Loans	3499	3915	11.9%	416
Others	19822	19656	-0.8%	(166)
Net worth (at Market)	15817	15812	0.0%	(5)
Liabilities net of Financial assets	9025	9234	2.3%	209
Debt / Adjusted Net worth	43%	47%		
Adjusted Net worth	23412	23372	-0.2%	(40)

There has been a sharp rise in the issuance of interest bearing liabilities in 2020

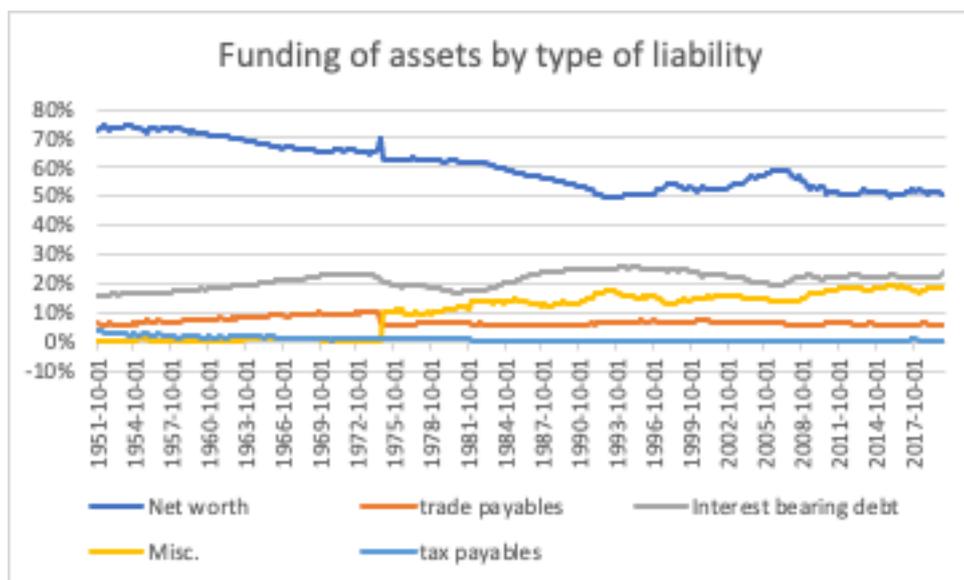
While Net worth was stable over the 1H 2020, there was a marked shift in the composition of liabilities towards interest bearing loans and bonds and away from the low-cost variety. This points to a rise in interest payable which set against the backdrop of a 30% fall in profits will make a meaningful dent in the interest cover – taking it towards the GFC lows even without a rise in the effective interest rate.

Debt by another name

While debt to adjusted net worth, is the standard measure of leverage, it potential hides two further trends that should worry holders of US corporate debt: The pace and nature of growth in the asset side of the balance sheet, which has implications for recovery rates, and the liberal use of non-debt liabilities (pension fund deficits, payables and others) to fund the assets, which disguises leverage and risks of insolvency.

The chart below shows how the funding of the corporate sectors total assets has been financed. The net worth in this chart is adjusted to include the equity portion of FDI.

Chart 6



Source: Z1 Flow of funds data, Federal Reserve.

There is also a lot of “debt by another name”

What the chart clearly shows is that the equity portion of funding fell consistently from 75% to 50% from the 1950s through to the early 1990s. From then on equity financing has accounted for between 50% and 60% of assets funding. In the early decades of leveraging, interest bearing debt replaced equity. Interest bearing debt was decreased during the high inflation 1970s and reintroduced from 1980 onwards but has not exceeded 25% and currently stands at 24% of funding. The bigger change in recent times has been the dependence on miscellaneous liabilities, a category capturing for example, pension liabilities.

While these Miscellaneous liabilities remain uncrystallized, they are perhaps more relevant to equity owners than bond holders, but their growing importance as a source of asset funding is indicative of how interest bearing liabilities may increase should they need to be replaced.

The asset side of the balance sheet

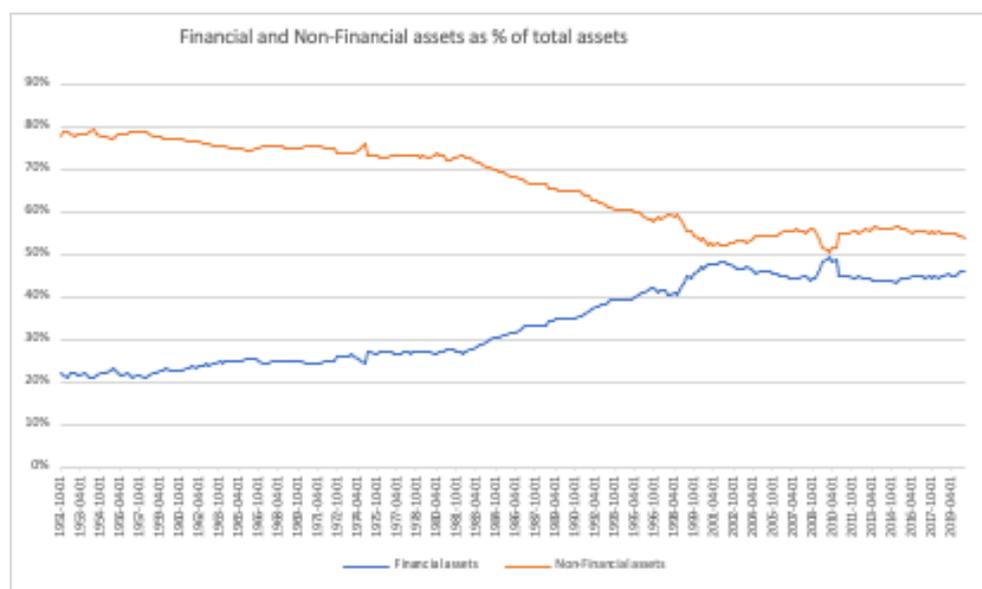
There are two trends in the evolution of the Asset side of the Non-financial corporate balance sheet that might be imperative to understanding the potential vulnerability of the sector and the value of its liabilities.

The asset composition of balance sheets poses a treat of a feed-back loop in financial assets

The first is the change in nature of the asset composition of the sector. The financialization of the US economy has not passed the nonfinancial corporate sector by. The percentage of total assets that are “non-financial” (Machinery, real estate, structures and inventory) used to dominate the balance sheet. In fact, between 1945 and 1980, this portion of assets represented between 80% and 70% of the total. Companies have always required cash and held other assets such as trade receivables, but they composed a small (20-30%) share of the total assets.

From 1980 onwards however, the financial assets component has grown significantly faster than the non-financial component. Corporate entities have become large holders of cash, money market funds and other riskier financial assets. This introduces a potentially dangerous feedback loop from falling financial asset prices, whereby net worth is eroded as financial assets fall. As the chart below shows, financial assets now make up almost half of total assets.

Chart 7



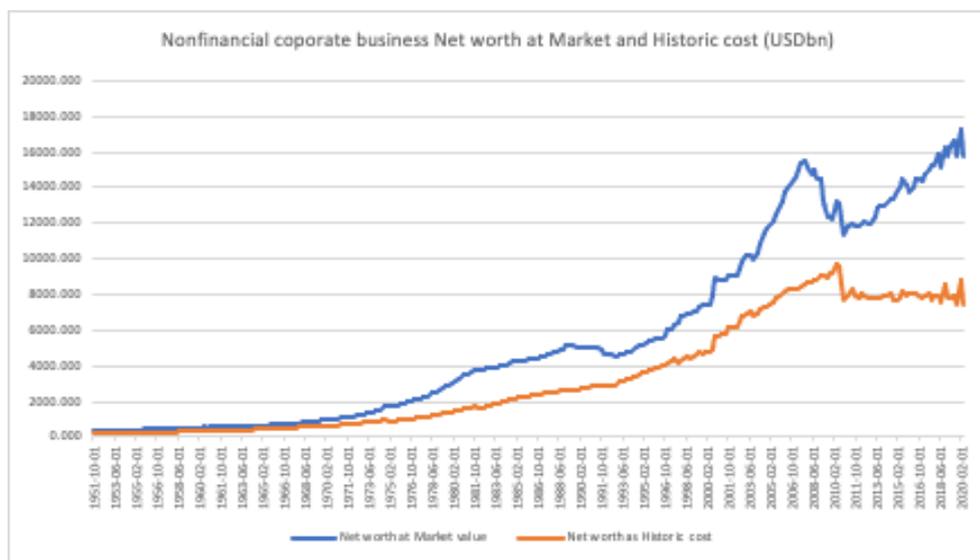
Source: Z1 Flow of Funds data, Federal Reserve.

Asset growth has been financed by debt of revaluation of existing assets

The second trend has been the lack of growth in assets financed by equity, via investment over and above the level of capital consumption, and the complete reliance on the revaluation of existing assets to produce asset growth and sustain net worth in the face of rising liabilities. Since 2009, for example, total assets at historic cost have risen 56% or USD13.7 trillion, whereas total assets at market value have risen by 70% or USD19.2 trillion. The additional USD5.4 trillion of market value comes from the revaluation of existing assets – almost exclusively the real estate assets of the sector. Total liabilities rose by USD15.5 trillion over the same time frame. The excess growth in liabilities over assets at historical cost reflects the prevalence of share buy-back (equity retirement) and distributions to shareholders though dividends.

The chart below shows two measures of net worth from the flow of funds data: the net worth on a flow of funds basis at market value and the net worth calculated at historic cost (neither series is adjusted for FDI). The dichotomy is very stark.

Chart 8



Source: Z1 flow of funds data, federal Reserve.

Net worth growth has been dependent on revaluation of commercial real estate

The risk here is obvious: that real estate assets can fall in value as well as rise and an increasing percentage of corporate sector net worth is vulnerable to a correction in financial and real estate markets. As the chart above shows, with assets at historic cost, net worth is still at pre-crisis levels, whereas at market value Net worth is 30% higher. The main reason is that the market value ascribed to real estate assets has expanded such that the revaluation premium to historic cost for real estate now stands at USD7.76 trillion up from USD2.4 trillion at the

start of 2010 which accounts for the entirety of the gap between the two measures of net worth.

Furthermore, as the chart below shows, this gap between the two measures has only ever been higher after the great inflation of the 1970s, when after a decade or more of rampant inflation, one would obviously expect the gap between net worth measured at historic cost and market values to be very different. In other words, the combination of leverage, asset price inflation in real estate and the asset mix in corporate balance sheets has produced the same distortion as the 1970s inflation when it comes to historic cost vs market value net worth.

Chart 9



Source: Z1 flow of funds data, Federal Reserve and analyst estimates.

With the gap between historic cost and market value net worth so large, it begs the question what happens if real estate prices fall. During the GFC, the revaluation premium on real estate assets fell by USD4 trillion taking the premium from 170% to 67% above historic cost. Given the asset mix at the time, this took the total asset market premium over historic cost down from 30% to 14%. Net worth at market values fell USD3.3 trillion or 21% from peak to trough. This time round, corporate leverage is higher, and the revaluation premium is higher relative to net worth as a result, even though it is lower relative to historic cost of assets.

The table below shows the four different calculations of corporate net worth: Starting with Market value on a Flow of Funds basis, adjusting

firstly for the equity component of FDI, which boosts net worth, and secondly for the revaluation premium, and then for both adjustments. This we then compare to debt levels, both now and prior to the Global Financial Crisis when corporate leverage was at its post 1980s low in 1Q 2007.

Table 5

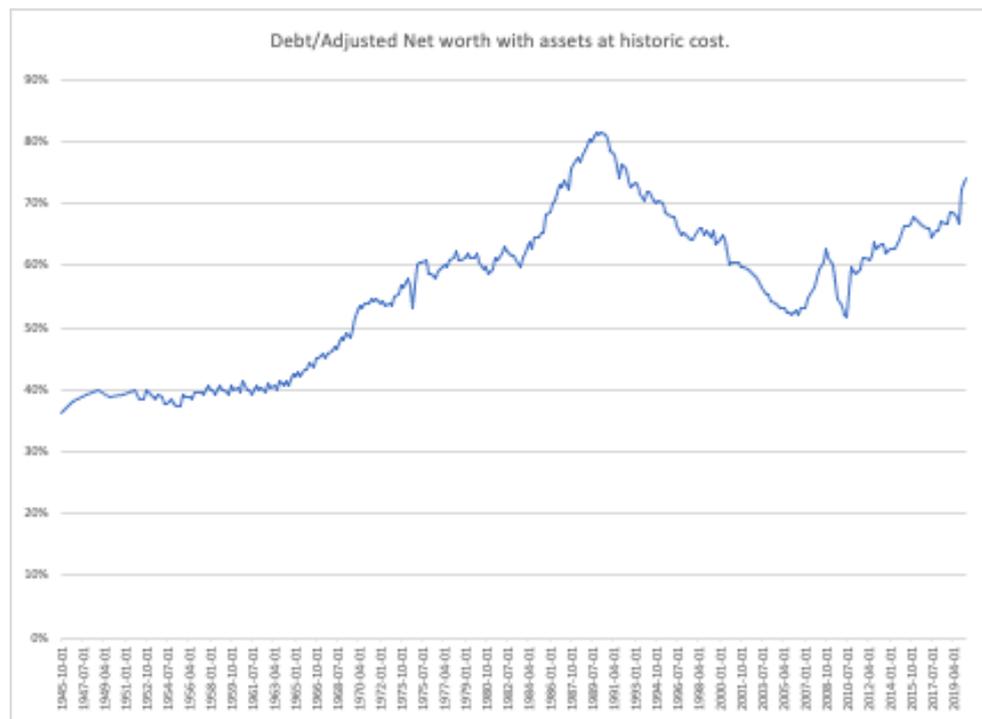
USD bn	2Q 2020	1Q 2007
Net Worth <u>FoF</u> basis at Market	15,812	14,648
Net Worth adj for FDI at Market	23,279	17,121
FDI equity component	7,468	2,472
Net Worth <u>FoF</u> basis at HC	7,388	8,390
Revaluation reserves	8,424	6,259
Net worth adj for FDI at HC	14,855	10,862
Interest bearing debt	10,995	5,788
Debt / Net worth adj for FDI at Market	47%	34%
Debt / Net worth adj for FDI at HC	74%	53%

Source: Z1 Flow of funds data, Federal Reserve, analyst estimates.

Leverage is much higher using historic cost of assets

What the balance sheet analysis shows is that while leverage on a market value of assets basis is 13 percentage points higher now than on the eve of the GFC, on an historic cost basis it is 21 percentage points higher, at 74% of net worth.

Chart 10



Source: Flow of funds data, Federal Reserve.

As the chart above shows in historical context, this measure of leverage is almost as high as it has ever been. The future evolution of Corporate America's net worth, therefore, seems intrinsically linked to revaluation reserves and in particular the future direction of commercial property prices. This could have a very dramatic impact on recovery rates in the event of solvency, increasing the risk and potential size of losses for holders of corporate liabilities.

What does COVID mean for commercial property prices?

Readers will have their own well thought out views as to how the COVID pandemic may or may not impact long term working, entertainment and shopping habits and consequently the impact any change will have on the commercial real estate sector. The author is yet to hear a convincing bullish story based upon the recent change in circumstances although there is of course the possibility of a return to the ex-ante status quo. Perhaps more likely trends might include, a more diffuse population reducing metropolitan premia, greater working flexibility, requiring less office space per person, and a further deterioration of footfall on the shopping high street and in entertainment spaces. Careful attention should be paid to collateral prices for an indication of how loss ratios may rise as this cycle plays out.

Alternatives to corporate liabilities

If the outlook is as benign as bond spreads imply, why not buy commercial property or banks?

Those who hold a more optimistic view of commercial property, might consider purchases in the sector, given that the yields are potentially higher than the yields on the corporate sector liabilities so heavily collateralized against real estate. If indeed, recovery rates are dependent on real estate valuations holding up and bond prices suggest the risk of losses are low, then why not skip the intermediary and take the higher return?

Banks, of course, are big holders of corporate liabilities, and it is striking that their performance has been so poor relative to the market performance of the corporate liabilities they hold as bank assets. An equal weighted basket of US Banks is down in the region of 30% since the start of 2020, trading at a similar price to five years ago. This is in stark contrast to US corporate bonds that have demonstrated positive YTD performance in the region of 6%.

Equally, bank lending standards and their recent provisioning, point to a less sanguine outlook for corporate credit than currently indicated by the bond pricing.

How bad could it get?

In past recessions, default rates have been much higher than currently implied by market prices

There has been a sharp rise in the share of new bond issuances by companies with speculative ratings, with the share increasing for around 15% in 2014 to about 35% now. In part this may reflect the lowering of credit ratings – more companies are deemed speculative -but even among issuers with a first credit rating though, the percentage carrying a speculative rating has reached a high – nearly 50%. Even in 2019, default rates were spreading beyond the much-troubled energy and retail sectors and this is likely to continue given the breadth of sectors impacted by the recession of 2020.

The move in BB spreads from 200 bps to 800 bps during the 1H2020, was modest in comparison to the default rates implied by both history and the analysis above. The fact they have rallied back towards 400 bps (similar levels to 2016) seems to defy fundamentals give ratings momentum is likely to remain firmly negative for the foreseeable future.

Given the severity of the recession and the stress of the balance sheets of the nonfinancial corporate business sector as a whole, it would appear probable that high yield default rates will exceed or match those of 2008/9 – 12% with perhaps a range of 8-15% being appropriate. High yield Spreads of perhaps 1,000 to 1,400 bps would seem more in keeping with historical price action relative to future anticipated default rates.

In addition to the cash flow and interest rate cover analysis above, it is also worth remembering that since the GFC covenant protection for owners of debt liabilities has been reduced substantially, a part of the overall loosening of credit standards, which one might expect to result in losses potentially surpassing the previous (double-digit) peaks on 1982, 1990/1, 2001/2 and 2008/9.

The muted reaction to the deepest recession on record in the highly leveraged US corporate liability market reflects the faith the market has in the Federal Reserve to socialize losses. The Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit facility (SMCCF), that total USD750bn, is seen as evidence of

The fed has driven a wedge between what investors need to compensate for risk and what the market yields

this. As things stand this is due to expire at the end of the year.

Federal reserve corporate bond buying may of course suppress the yield, and support the price, of “bad bonds” hiding the signal that the market would otherwise be giving as to the prospects of future losses. In doing so it may facilitate the roll-over of debt in unviable companies, but what the analysis above suggests is that stress is high even at the lowest interest rates since the early 1960s. A withdrawal of Fed support could result in a sharp reappraisal of credit risk and hence renewed price discovery.

Expect pro-cyclical but negatively correlated recovery rates

While default rates look set to continue to rise, what of recovery rates? The evidence of previous cycles suggests that recovery rates fall in periods of economic weakness, therefore applying an average 40% recovery rate to corporate debt securities may underestimate the true likely losses in a situation such as we now find ourselves. In 2008 recovery rates fell to nearly 20% - they were lower still in 1981. If, as the above analysis suggests, recovery rates may be very dependent on the ability to off-load commercial real estate into a weak market environment, it might be prudent to anticipate low recovery rates in this cycle.

CONCLUSIONS

The COVID 19 recession has taken levels of nominal corporate business profits back to levels first seen in 2005, 37% below their peak in 2016. The only factor holding up interest cover has been a fall in effective borrowing costs back to levels last seen in the 1960s under the dollar-gold standard and before the big leveraging up of corporate balance sheets.

Current levels of interest on corporate liabilities do not appear to reward owners for the risks they are taking. Default rates in previous times of economic stress have reach double digits, even when interest cover has been higher and balance sheets strong than they currently are.

The gap between corporate net worth at market value vis a vis historic

cost, reflects the fact that much asset growth has come from the revaluation of real estate in the past decade, riding a tide of higher property prices. Selling commercial real estate into a cyclically and possibly structurally weak market could well result in lower than anticipated recovery rates.

At the time of writing, ten year US treasuries are yielding 0.7%, implied inflation is 1.6%; AA corporate debt yields of 1.5% are thus below expected inflation offering negative real returns if held to maturity. The BBB yield of 2.4% is 60 bps below the start of the year and leaves little to no room for defaults if it is to deliver a positive real return. The BB yield of 4.4%, while modestly higher than the Pre- COVID undisturbed yield does not appear to the author to compensate investors for the risks they are taking, especially given the ratings downgrade momentum that is likely to remain in place in the absence of a very rapid and pronounced bounce back in corporate cash flows.

In our introduction to Capital Dialectics, we identify the “Nine Fault Lines” that have emerged since the 1980s, that in our view will largely determine economic and capital market outcomes in the coming decades. Through the

prism of that framework, the above analysis suggests that the growing “impotence of monetary policy” has encouraged rising leverage in the US corporate sector up to a point where only exceedingly low yields, and therefore returns to owners of the liabilities, can contain defaults. While institutional behavior – incentive structures for both the buyers and issuers of corporate liabilities – has played a part in enabling the situation to exist, the returns on offer simply will not meet the expectations and liabilities (pensions among others) of the underlying savers, and is therefore unsustainable. The generation of savers buying at current levels are therefore being induced to buy assets the return on which will not match their liabilities.

Most commentators have accepted for a while that returns on treasuries at the long end of the maturity spectrum have been heavily influenced by Federal reserve involvement in the market. This in turn influences returns on corporate liabilities, as market participants price corporate bonds and credit risk with reference to spreads over treasuries.

Direct Federal reserve participation in the market for corporate liabilities though (through the SMCCF and the PMCCF), aimed at ab-

sorbing credit risk; facilitating continued leverage and limiting losses, represents a socialization of corporate risk. The cost will be born in part through monetary debasement (a higher aggregate price level than would otherwise have been the case) and in part by those who take ownership of the asset class at inflated prices in the future, thus accentuating the wealth gap between both different generations, and those who own capital and those that do not.

Fed support is due to stop at the end of 2020, the run up to this date will likely see nervousness in the market and is the potential catalyst for a pricing of credit risk that reflects fundamentals.

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