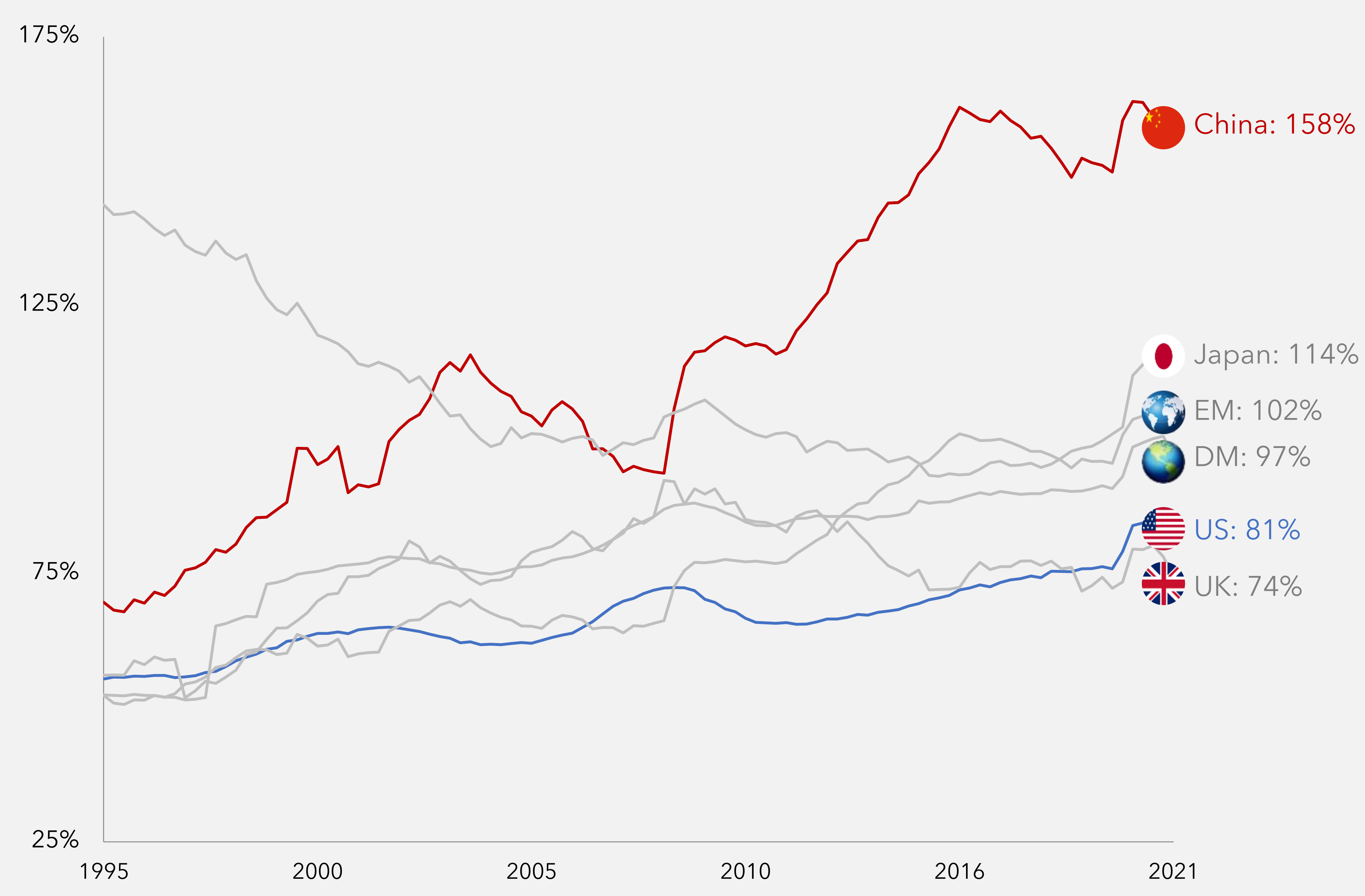
Capital Markets Strategy
Essential inCights for the C-Suite

Chart of the Day

Since the Global Financial Crisis, the banking sector (globally) and consumer balance sheet (in the US) has generally delevered, whereas corporate and government balance sheets have generally increased leverage. Looking at the various pockets of global debt issues globally, **China's sharply rising corporate debt levels over the past decade pose more risk for the global economy and markets than most.**

Looking at historic debt default cycles, commercial property bubbles are often the most complicated to unwind, which makes China's real estate debt issues (i.e., Evergrande and others) more concerning. **While China has the resources and political incentives** (Xi Jinping's appointment to third five-year term in 2022) **to contain a systemic "financial market" event** (i.e., Lehman Brothers)**, the macro channel** (slower growth, deleveraging) **remains the more likely avenue of contagion, with economies and markets most dependent on China more exposed** (EMFX, commodities, economies with high trade links, currencies w large current account deficits, etc).

Corporate debt as % of GDP



Source: (1) IIF. Data as of October 5, 2021. The Economist, "How threatening are high levels of corporate debt?" (September 23, 2021).

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