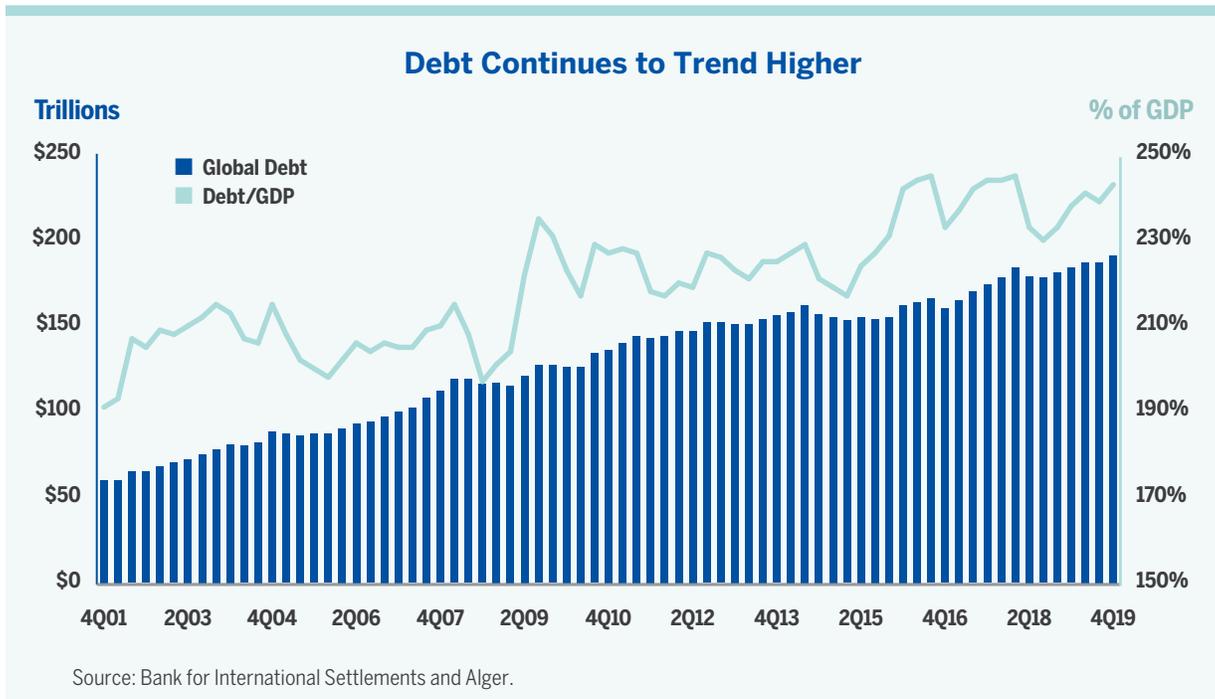


Dangerous Debt?

Even before the coronavirus pandemic, global debt stood at record levels. Now with fiscal stimulus pouring in around the world, debt is surging. What are the implications?



- Worldwide debt reached \$191 trillion at the end of 2019, according to the Bank for International Settlements. That represents 6% year-over-year growth and pushed global debt-to-GDP to 243% from 233% as compared to the prior year. U.S. debt hit approximately \$55 trillion or 254% of GDP, including the government, corporate and household sectors.
- These debt levels are increasing rapidly given the global fiscal response to coronavirus, which Cornerstone Macro estimates at over \$11 trillion. For the U.S., this debt issuance along with large deficits may cause government debt to expand quickly, with Goldman Sachs estimating that U.S. federal debt held by the public relative to GDP will hit 150% by 2030, up from 79% in 2019.
- While the absolute levels of debt paint a bleak picture, debt service (the amount of interest and principal amortization) relative to income looks more manageable. For example, according to the Bank for International Settlements, U.S. household and corporate debt service relative to income is below the 20-year average; the same is true in Italy, the U.K., Spain and Japan. Overall, debt expansion is likely to slow as stimulus dries up, weighing on economic growth rates. This will potentially put a premium on companies that can outgrow the industries in which they compete in a lower growth environment.



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