

Macro Roundup Article

Headline: [Businesses are in for a Mighty Debt Hangover](#)

Article Link: <https://www.economist.com/business/2023/05/16/businesses-are-in-for-a-mighty-debt-hangover>

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Summary: In the years before the pandemic the non-financial firms in the S&P 500 and STOXX 600 index in Europe consistently splashed more cash on capital investments and shareholder payouts than they generated from their operations, with the gap plugged by debt. But if they wish to avoid a sustained drag on profitability from higher interest rates, they will soon need to start paying down those debts. At current debt levels, every percentage point increase in interest rates will wipe out roughly 4% of the combined earnings of these firms, according to our estimates. Many firms will have no choice but to cut back on dividends and share buy-backs, squeezing investor returns. Borrowing money in order to fork it over to shareholders makes less sense in a world of higher interest rates, argues Lotfi Karoui of Goldman Sachs.

Primary Topic: Financial Markets

Topics: Financial Markets, GDP, Investment, News article, Productivity

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