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Macro Roundup Artcile

Headline: Credit Normalization

Article Link: https://fedguy.com/credit-normalization/

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Publication	Fed Guy Blog
Publication Date	August 14, 2023

Tweet: .@FedGuy12 argues that the "slight deterioration" in credit quality is a story of mean reversion, not the start of a default cycle.

Summary: Excluding Treasuries, there are over $30t of debt securities outstanding. Credit spreads have widened since the lows of 2021, but remain within historical ranges. The slight deterioration seen recently in credit quality across a range of metrics most likely indicates normalization rather than the beginning of financial distress. Looking at bankruptcy filings, filings notably increased in 2023 but only from historically low levels. Given elevated inflation, nominal GDP growth remains high that thus supportive of further revenue growth to support interest expense payments. Interest expense burdens may also further ease next year as the Fed potentially cuts rates next year in line with declining inflation. The overall picture thus suggests a continued benign credit environment. Related: A Default Cycle Has Started and How Is the Corporate Bond Market Functioning as Interest Rates Increase? and Settling Into 4% Inflation?

Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Op-Ed/Blog Post

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