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Macro Roundup Article

Headline: Stress Testing the Corporate Debt Servicing Capacity: A Scenario Analysis

Article Link: https://www.federalreserve.gov/econres/notes/feds-notes/stress-testing-the-corporate-debt-servicing-capacity-a-scenario-analysis-20240509.html

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Tweet: A @FederalReserve analysis of four different scenarios finds that absent a significant recession, the debt servicing capacity of US non-financial corporations is strong despite higher rates and an 8pp rise in debt as a % of GDP.

Summary: The debt-servicing capacity of the U.S. public corporate sector as a whole is robust to sustained elevated interest rates, both in the soft landing (baseline) scenario as well as in a stagflation scenario with a moderate economic downturn [though not the "severely adverse" recession scenario]. This resiliency is due, in large part, to the strong balance sheets of public firms—namely, low borrowing costs on existing debt and moderate refinancing needs in the short run. In the distribution of firms, however, persistently higher interest rates are projected to result in a meaningful deterioration in the credit quality of firms with weaker balance sheets, including some large investment-grade firms that have so far been relatively insulated from rising rates by their high share of fixed-rate debt. Accordingly, the share of debt at risk is likely to see sustained increase over the next two to three years even if earnings remain resilient.

Related Articles: The Corporate Debt Maturity Wall: Implications for Capex and Employment and Corporate Debt, Boom-Bust Cycles, and Financial Crises and Rates Are Up. We're Just Starting to Feel the Heat

Primary Topic: Business Cycle

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

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