Title: More Diverging Narratives --- Bloomberg: "Zombie Firms Face Slow Death in US as Era of Easy Credit Ends: [...] Companies kept alive by cheap, plentiful debt face reckoning" --- Hmm...Is GameStop too damn DEBT-FREE w/ too much CASH to be included w/ usual MSM favorite ■■■■'s? What do they know? ■
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Linked Post Content:
NOTE: Full text of Bloomberg article and Zero-MSM-clicks archive article link below video:

https://reddit.com/link/v209s1/video/eohf5rr4nv291/player

THIS VIDEO FEATURES: CAROLINE HYDE!

* You may recall, just today on LIVE BLOOMBERG TV: [Caroline very clearly said in re: to GameStop/GME: "TAKE ALL THOSE SHORTS AWAY! No investment advice here..."](https://www.reddit.com/r/Superstonk/comments/v1y92z/i_know_im_not_tripping_but_did_bloomberg_just_say/)

THIS JUST IN:

Caroline Hyde is not on assignment in Capri with Jonathan Ferro...YET...

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Zero-MSM-clicks archive article link here: https://archive.ph/DAZOd

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Full Bloomberg article text here:

"Zombie Firms Face Slow Death in US as Era of Easy Credit Ends"

* Rising rates are reshaping the corporate borrowing landscape
* Companies kept alive by cheap, plentiful debt face reckoning

By [Lisa Lee](https://archive.ph/o/DAZOd/https://www.bloomberg.com/authors/ATMSjnbdn6o/lisa-lee) May 31, 2022, 11:00 AM UTC

They are creations of easy credit, beneficiaries of central bank largesse. And now that the era of unconventional monetary policy is over, they’re facing a challenge like never before.

They are America’s [corporate zombies](https://archive.ph/o/DAZOd/https://www.bloomberg.com/news/articles/2020-05-19/america-s-zombie-companies-are-multiplying-and-fueling-new-risks), companies that aren’t earning enough to cover their interest expenses, let alone turn a profit. From meme-stock favorite [■ Entertainment Holdings Inc.](https://archive.ph/F8hgW) to household names such as [American Airlines Group Inc.](https://archive.ph/o/DAZOd/https://www.bloomberg.com/quote/AAL:US) and [Carnival Corp.](https://archive.ph/o/DAZOd/https://www.bloomberg.com/quote/CCL:US), their ranks have swelled in recent years, comprising roughly a fifth of the country’s 3,000 largest publicly-traded companies and accounting for about $900 billion of debt.

Now, some say, their time may be running short.

Firms that could once count on virtually unfettered access to the bond and loan markets to stay afloat are being turned away as investors girding for a recession close the spigot to all but the most creditworthy issuers. The fortunate few that can still find willing lenders face significantly higher borrowing costs as the Federal Reserve raises interest rates to tame inflation of more than 8%. With surging input costs poised to eat away [at earnings](https://archive.ph/o/DAZOd/https://www.bloomberg.com/news/articles/2022-05-26/us-corporate-profits-fall-while-consumer-spending-revised-up), it's left a broad swath of corporate America with little margin for error.

The end result could be a prolonged stretch of bankruptcies unlike any in recent memory.

"When interest rates are at or close to zero, it's very easy to get credit, and under those circumstances, the difference between a good company and a bad company is narrow," said Komal Sri-Kumar, president of Sri-Kumar Global Strategies and former chief global strategist of TCW Group. "It's only when the tide runs out that you figure out who is swimming naked."

Zombies Rise

The count of zombie firms remains significantly higher than pre-Covid

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Of course, there have been any number of moments over the past decade when zombie firms have appeared on the cusp of a reckoning, only for markets to be tossed a last-minute lifeline. But industry watchers note that what makes this time different is the presence of [rampant inflation](https://archive.ph/o/DAZOd/https://www.bloomberg.com/news/features/2022-05-11/where-is-inflation-highest-in-us-texas-city-hit-hard-by-price-hikes), which will limit the ability of policy makers to ride to the rescue at the 11th hour.

That's not to say that a wave of defaults is imminent. The Fed's unprecedented efforts to [bolster liquidity](https://archive.ph/o/DAZOd/https://www.bloomberg.com/news/articles/2021-12-11/massive-u-s-debts-could-trap-powell-as-fed-fights-inflation) following the onset of the pandemic allowed zombie companies to raise hundreds of billions of dollars of debt financing that could last months, even years.

Yet as the central bank works to quickly unwind the stimulus, the effects on credit markets are already [plain to see](https://archive.ph/o/DAZOd/https://www.bloomberg.com/news/terminal/RC2N5ST0G1KW).

Junk-rated companies, those ranked below BBB- by S&P; Global Ratings and Baa3 by Moody's Investors Service, have borrowed just $56 billion in the bond market this year, a more than 75% decline from a year ago.

In fact, issuance in May of just $2.2 billion is set to be the slowest for the month in data going back to 2002.

"If rates had not been so low, many of them would have gone under" already, said Viral Acharya, a professor at New York University's Stern School of Business and former deputy governor of the Reserve Bank of India. "Unless we have another full-blown financial crisis, I don't think the Fed's capacity to bail out is necessarily that high. Especially when they are explicitly saying they want to reduce demand. How is that consistent with keeping these firms alive?"

Junk Plunge

High-yield bond sales tumble as creditors balk at riskier borrowers

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Raising cash in the leveraged loan market [hasn't been much easier](https://www.bloomberg.com/news/terminal/RCEIGIDWRGG0) amid concern monetary policy tightening could tip the US into a recession. New loan starts of under $6 billion in May compare with more than $80 billion in January, according to data compiled by Bloomberg.

What's worse, companies that piled loans onto their balance sheets to ride out the pandemic now face the daunting prospect of higher interest rates eating a larger and larger share of their earnings.

The Fed is set to boost its target rate by [3 percentage points](https://www.bloomberg.com/news/terminal/RB4I7LT1UM0X) by the end of next year, according to Bloomberg Economics, driving up floating-rate benchmarks that underpin corporate loans.

Even the few speculative-grade firms that can raise funds are having to pay up to tap the market.

Cruise-ship operator Carnival sold $1 billion of [eight-year notes](https://www.bloomberg.com/news/terminal/RC3EHVGF4NPC) that yield 10.5% earlier this month, a stark contrast to the $2 billion it was able to raise just seven months prior at a [rate of 6%](https://www.bloomberg.com/news/terminal/R18WL4GFA9Z4).

[Read more: Carnival Junk-Bond Sale Signals End to Easy Money Era](https://www.bloomberg.com/news/terminal/RC3CJ4T0AFB4)

At the same time, US [corporate profits](https://www.bloomberg.com/news/articles/2022-05-26/us-corporate-profits-fall-while-consumer-spending-revised-up) fell in the first quarter by the most in almost two years as some companies struggled to pass along rising costs for materials, shipping and labor onto consumers.

Of the 50 largest zombies by outstanding debt, half reported lower operating margins in their latest results, data compiled by Bloomberg show. The trend is only going to get worse, according to Viktor Hjort, global head of credit strategy at BNP Paribas SA.

"Price increases have only been fairly recent," Hjort said. "We'll see that start to have an impact in the second and third quarter results."

Stumbling Along

Zombie firms get their nickname because of how they tend to stumble along, weighed down by their debt burdens yet with sufficient access to capital markets to roll over their obligations. They drag on overall productivity and economic growth because they can't afford to invest in their businesses, and tie up assets that could be better used by stronger players.

While the exact criteria market experts use can vary, many economists consider zombies to have interest-coverage ratios below one over a given period. To account for the impact of the pandemic, Bloomberg's analysis looked at the trailing 12-month operating income of firms in the Russell 3000 index relative to their interest expenses over the same span.

Roughly 620 companies didn't earn enough to meet their interest payments over the past year, down from 695 12 months prior, but still well above pre-pandemic levels.

Matt Miller, a spokesperson for American Airlines, said that the company has a "strong liquidity balance of $15.5 billion and anticipate being profitable in the second quarter."

A representative for Carnival said that the company plans to have its entire global fleet sailing by the end of the year, and has been working over the past 12 months to refinance its debt at more attractive rates.

[redacted] didn't respond to a request seeking comment.