Heartwood
Investment Management

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Our thoughts

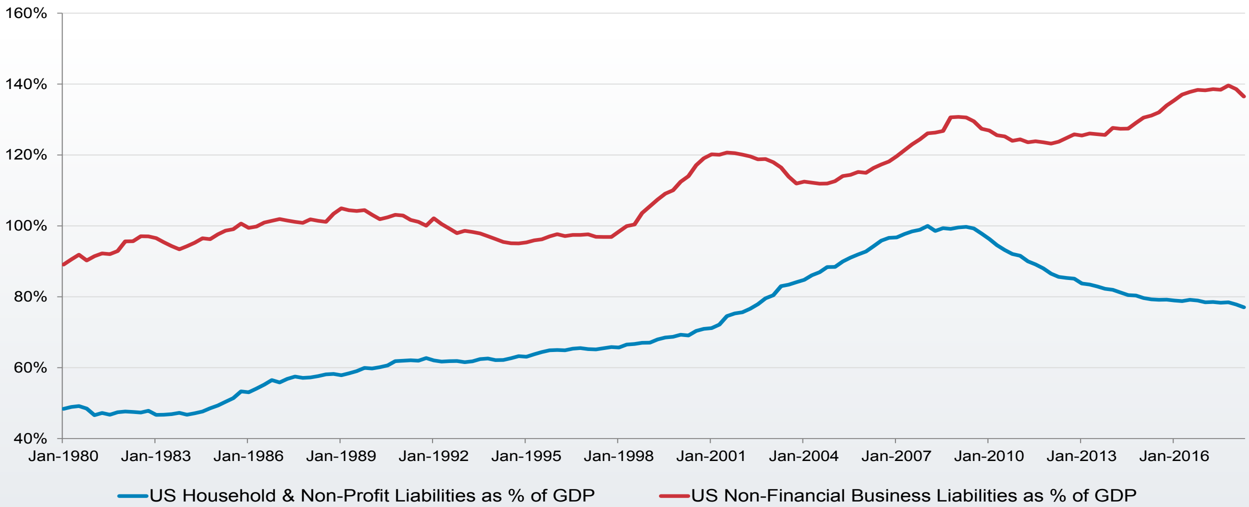
# Market observation

## Is high corporate leverage flagging a future weak spot?

In the run up to the 2008 global financial crisis, US household debt levels were high and rising as a percentage of GDP. Though few investors recognised it at the time, this pointed to an Achilles heel ahead of the ensuing housing (and mortgage market) breakdown.

Today, household debt levels are not so extreme, but corporate leverage is noticeably high. While interest rates are set to remain historically quite low in the near term, companies do face slowly rising borrowing costs, potentially creating the beginnings of some refinancing risk. This could indicate a key weak spot to monitor ahead of a future downturn.

**Corporate leverage is conspicuously elevated**
Liabilities as a percentage of GDP




Past performance is not a reliable indicator of future results.

Source: US Federal Reserve, Blomberg, Macrobond, Bloomberg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## Important Information