Harry's Take

June 30, 2020

Corporate Bond and Loan Defaults Already Exceeding Worst Year, 2009: 2021 Will Be Hell!

The markets bounced strongly yesterday, because pending contracts for homes bounced back very strongly. It's just another sign to the "markets on crack" that we will be back to normal by year end or so…

THAT'S NOT GOING TO HAPPEN!

Some major industries won't come back for years—and it's even worse once you look at my economic forecasts for my most financially significant cycles, especially the 90-year cycle, set to hit more fully in 2021 with a giant hangover into 2022-2023. Airlines, cruise ships, hotels, restaurants, movie theaters, and many more industries have been hit more deeply than ever before in history. And think what will happen with commercial real estate, once everyone begins to question how much they really want to work at the office in the future?

The biggest thing the markets are missing is that the economy has been overstretched by debt and stimulus for 11 years now. There are many marginal or "zombie" companies—19% and growing. See my June 18

Harry's Take for more information on that. The zombies will default or restructure or go out of business, despite the extremely generous (and moronic) stimulus and loan programs offered.

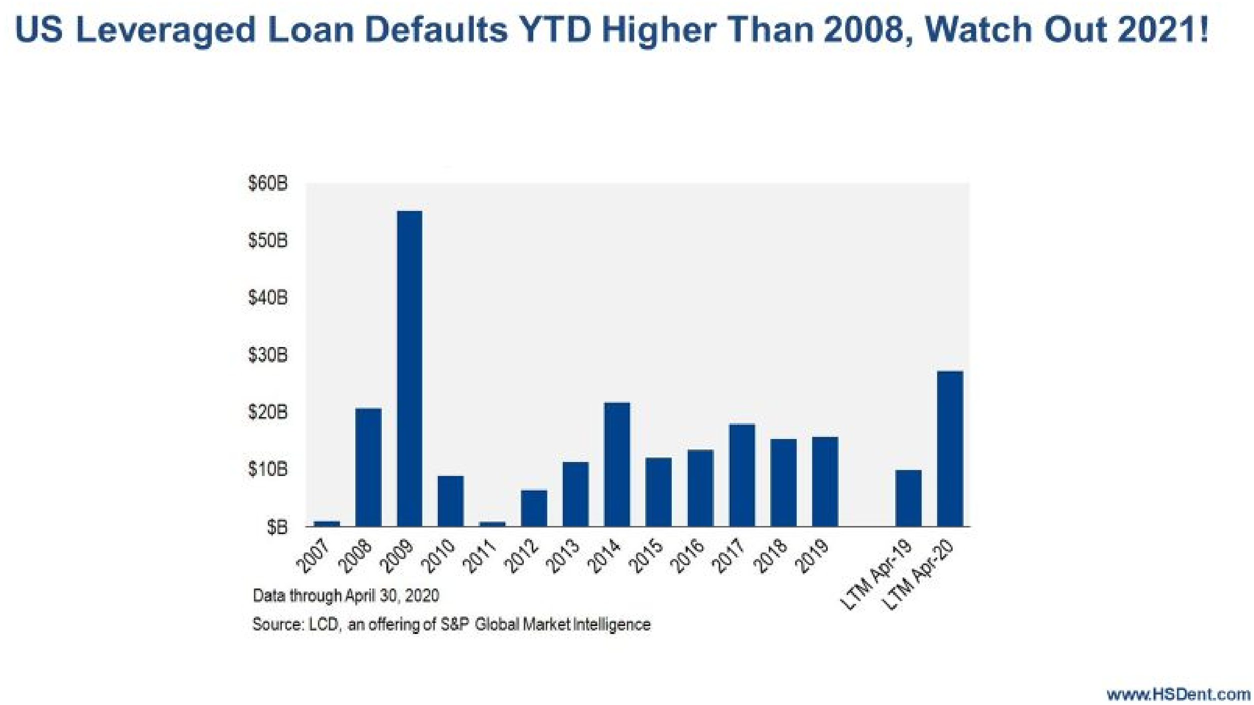
The point is that despite massive stimulus and cash flow support, they are defaulting anyway—and we're only halfway through this year. I do expect the virus to continue to recede to near zero by the fall, even without a vaccine and even though the U.S. has managed this virus extremely poorly compared with other industrialized nations. But the shock has hit, and there simply will be major fallout in company and debt failures—there's no way around that.

# of Corporate Bond Defaults YTD Project We Exceed Worst in 2009!

Sources: S&P Global; and IMF staff calculations.

The total corporate bond market is about $13 trillion globally, much less than the total corporate debt, at $72 trillion. Year to date, the number of companies defaulting on their bonds is about 100, vs. 148 for the worst year to date, in 2009. We're on track to end up with 200+ defaulters, well more than in the worst year—and this is only the first of three bad years in a deep downturn, by my calculations. So, imagine what we'll see in 2021!

I repeat my forecast over and over: 2021 will be a suck year. It will be the worst year we see in our lifetimes, and the hangover from it will continue into 2022 for stocks and 2023 for the economy. There is no way in hell we get back to 3.5% unemployment or a full recovery anytime soon.



On June 23, I showed that leveraged loans were up to $8 trillion globally. That's about 14% of around $59 trillion in corporate loans ($72T total less $13T in bonds). This chart shows, similarly, U.S. companies have defaulted to the tune of about $27B so far through only April of this year. That annualizes to $81B and it likely will be higher, given that the first 2 months of the year weren't as bad. Likewise, that's higher than for the worst year, 2009, at $57B.

Are you going to listen to the markets on crack and CNBC cheerleaders or to common sense?

Harry

Got a question or comment? You can reach us at info@hsdent.com.