

Where Are We In The Credit Cycle?

There are certain times in
our economic
environment when we
need to assess where we
are in the credit cycle



Credit Cycle Report 2024

by Professor **Edward Altman**, Co-founder of Wiserfunding

A Shift from Benign to Average to Stressed Scenario

2023

Last past decade was characterised by a **benign credit cycle**. 2023 marked the end of the Benign Credit Cycle, paving the way for what Edward Altman classifies as an **Average risk scenario**.

2024

According to recent statistics, the number of **Chapter 11 Bankruptcies** in the U.S. in the first half of 2024 **registered a record level** going back to even the GFC. So, while the U.S. economy seems to be in good shape, the number of defaults, especially amongst SMEs, is telling a **different story**.

Credit Cycle Indicators

The following five indicators are used by Professor Altman to assess the health of the current credit cycle:

	<u>HISTORICAL AVERAGE*</u>	<u>2024 OUTLOOK</u>
DEFAULT RATES	HY BONDS: 3.3% LEV LOANS: 2.5%	HY BONDS: 3.2-4.0% LEV LOANS: 3.4%-6.0%
RECOVERY RATES	HY BONDS: 45% LEV LOANS: 60-65%	HY BONDS: 45% LEV LOANS: 58%
REQUIRED RATES OF RETURN	5.4% (OAS)	3.5% (OAS)
DISTRESS RATIO	8-10%	5%
LIQUIDITY	~\$200-\$250 BN (2015-2022)	\$175 BN

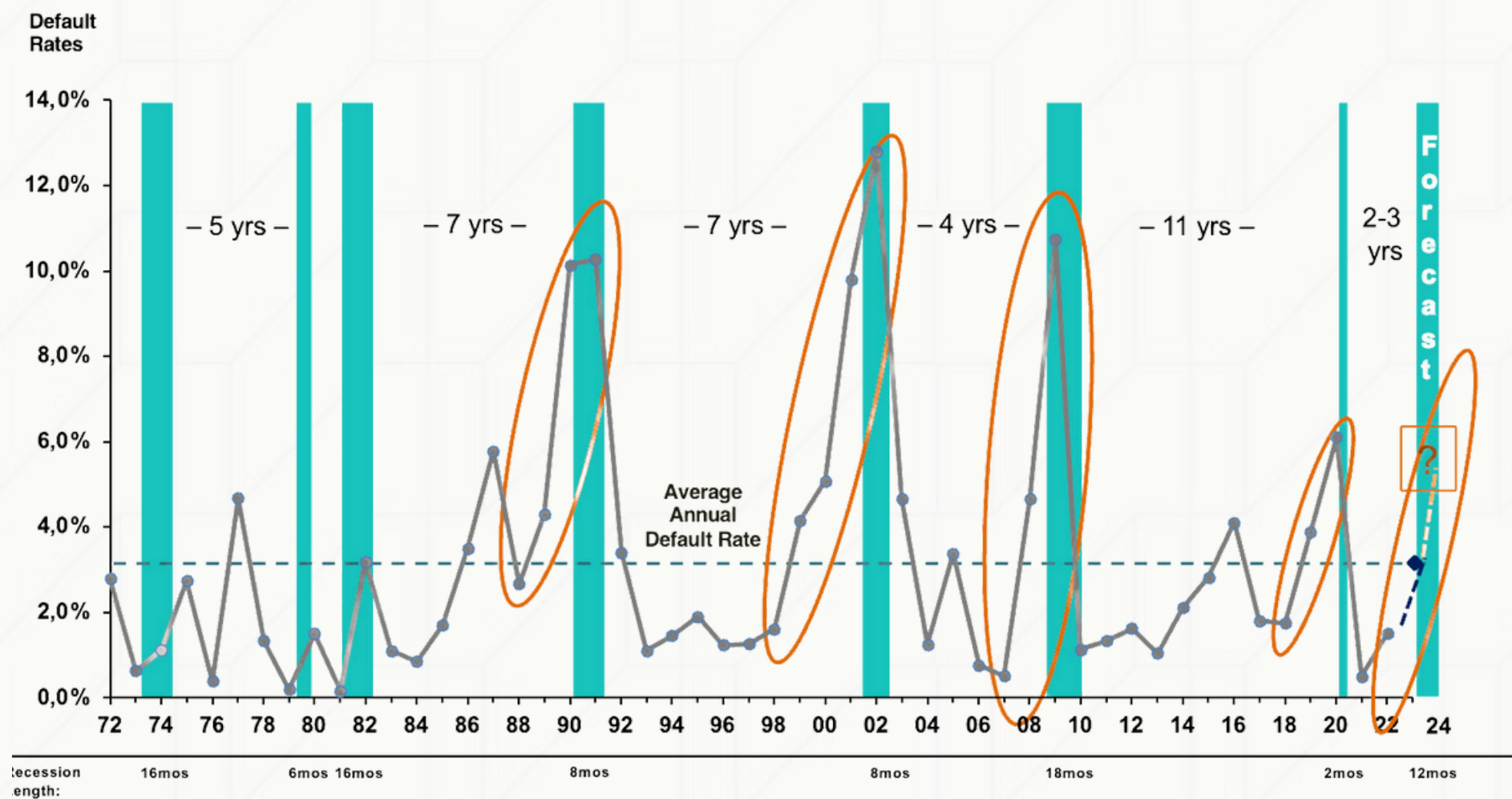
*Analysis on historical indicators over the last 50 years from 1971 to 2022.

HY = high yield. LEV = leveraged

Sources: E. Altman (NYU Stern); E. Rosenthal (KBRA) (*).

The credit cycle and the business cycle

The following graph represents the relationship between High Yield Bond Default Rates and economic recessions. It indicates that annual default rate trends (solid line) have been a leading indicator of recessions (light green bars). In all cases, except 2020, **Default Rates** increased from a low, benign level from one to three years prior to the onset of the **recession**.



Note: The highlighted areas show Periods of Recession. Periods of Recession are as follows: 11/73 – 3/75, 1/80 – 7/80, 7/81 – 11/82, 7/90 – 3/91, 4/01 – 12/01, 12/07 – 6/09, 2/20 – 4/20, 1/23 – 12/23. 1/23 - 12/23 is a forecast rather actual. Benign credit cycles are approximated. All rates are annual.

Source: E. Altman (NYU Salomon Center); National Bureau of Economic Research



**How would a change
in the credit cycle
impact the risk profile
of your portfolio?**

**REGISTER FOR A FREE TRIAL OF
OUR NEW PORTFOLIO
MANAGEMENT SOLUTION**