Understanding the credit cycle

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It's lazy to really say the credit cycle is late or it's early. We have to look deeper than that.

~~A~~ credit cycle is really the dynamic where demand and leverage change and put the borrower at risk. Early in a credit cycle, demand is starting to grow and companies tend to have a lower amount of debt because they're managing their businesses cautiously. Later in the credit cycle, we see companies get more comfortable having a higher debt load and then as demand starts to change, those companies can be very vulnerable. That cycle of change is what we call the credit cycle.

I would say there are really three elements in the credit cycle that are diverging in a meaningful way. The first is the traditional **corporate sector versus the consumer sector**. We see corporate leverage at a pretty high level, although there are some segments of industries that are paying down debt. Corporate leverage on hold is pretty high. Where household leverage mortgage debt, credit card debt is pretty low. So that's divergence number one.

Divergence number two would be **domestic versus international** We're seeing that companies who are more domestically focused and have more than half of their business focused on the U.S. are seeing sales *growth* in the 4 to 5% range. Where more internationally focused companies are seeing sales *contract* mid-single digits. So that divergence is very important as well.

And then lastly, the divergence between **industrial manufacturing** companies and those that are more **service-oriented**. And what we're seeing now, because of all the pressure on global trade, is that the industrial cycle is truly lagging. But in each of those instances, there are companies, there are industries and there are assets that we can buy that take advantage of better balance sheets and better structures. So it's not an environment where you want to be hiding under the table waiting for the recession to happen.
