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**SIGNIFICANTLY OVERSTRETCHED CORPORATE BALANCE SHEETS
MAKE U.S. ECONOMY VULNERABLE TO ECONOMIC SHOCKS,
NEW LEVY ECONOMICS INSTITUTE STUDY SAYS**

ANNANDALE-ON-HUDSON, N.Y.— As policymakers scramble to address the global fallout from an emerging pandemic, a new One-Pager report from the Levy Economics Institute of Bard College, “A Global Slowdown Will Test US Corporate Fragility,” finds that significantly overstretched corporate balance sheets make the U.S. economy increasingly vulnerable to a shock.

“We find evidence that corporate sector balance sheets are significantly overstretched, exhibiting a degree of fragility that, according to some measures, is unmatched in the postwar historical record,” write Levy President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza. “In the context of an overvalued stock market, this is a situation in which even a mild shock could create harmful ripple effects with serious impacts on economic activity.”

In their study, analyzing the trends impacting the financial balances of the private, government, and external sectors of the U.S. economy, the Levy authors find that the nonfinancial corporate sector’s liabilities are now higher as a percentage of GDP than they were in 2007, on the cusp of the crisis, and the corporate sector’s gross leverage is higher than both its pre-2008 crisis and late 1990s levels. They add that the share of issuers of corporate debt issuing the lowest investment-grade rated bonds (BBB) has increased, and the share of BBB-rated bonds in investment-grade corporate bond mutual fund portfolios has grown from 18 percent in 2010 to 45 percent today (while the share of A-rated bonds has declined).

“With this combination of overvalued asset markets and overleveraged corporate balance sheets, the U.S. economy is vulnerable to a shock that could trigger a cascade of falling asset prices and private sector deleveraging, with severe consequences for both the real and financial sides of the economy,” write Papadimitriou, Nikiforos, and Zezza. “It is not clear what will end up being the

ultimate tipping point—whether a deceleration of the global economy, perhaps worsened by this incipient global health crisis, or some other, as yet unanticipated, series of events. What is becoming clear, however, is that the US economy is sitting on a fault line.”

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One-Pager No. 61: “A Global Slowdown Will Test US Corporate Fragility”

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit levyinstitute.org.

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