

# CORPORATE BORROWERS COULD DRIVE THE NEXT DOWNTURN

## Ask the PORTFOLIO MANAGER

### Should investors be worried about an imminent recession?

Transcript of a video recorded on November 8, 2017.

**Michael Grant, SVP, Senior Portfolio Manager, says a recession is not imminent. Relevering by corporates, not consumers, could be the next problem.**

The long deleveraging cycle that began in the U.S. in 2008 washed to Europe's shores in 2012 and then hit the emerging economies in the last two years. I think that long deleveraging process is complete. So, the direct answer to your question is no. There is little doubt that consumers today, especially in the developed world, are in far better shape than they have been in, really, the past two decades. There are some exceptions to that. The Chinese economy, for example, is the one major economy that hasn't delevered, and that process will probably begin next year. So, it's not a perfectly clean outlook in terms of the major economic blocs, but generally it is.

With respect to the source of the next cyclical downturn here in the U.S., I think that's likely to be driven by the corporate side of the economy, not the consumer side. The corporate side has re-levered and it has put on debt levels on the assumption that interest rates stay at these levels for a very long time. So, sometime in the 2019, 2020 period, I think higher interest rates will ultimately impact the corporate sector. And you'll have some high-profile failures. Particularly in industries where the industry dynamics are also changing, such as telecom services, cable and so forth.



**MICHAEL GRANT**  
SVP, Senior Portfolio  
Manager

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Video recorded 11/8/2017.

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