



Steven Blitz Chief US Economist TS Lombard



Mr. Steven Blitz joined TS Lombard in 2017 as Chief US Economist, where a global capital flows perspective drives his outlook of the economy and Federal Reserve policy. He is long-term bullish on a capital spending cycle for the US, but also notes that ten years of ultra-low policy rates has flipped household vulnerability from the liability side of its balance sheet to the asset side. We are seeing this play out now in how the Fed works to slow growth. Looking forward, the credit cycle returns.

His professional experience as an economist and fixed-income portfolio manager began in the late 1970s. It includes econometric modelling at Data Resources Inc. (now IHS); creating interest rate and FX derivatives strategies at Salomon Brothers; managing fixed-income portfolios at OFFITBANK; global head of fixed-income at Lazard Asset Management; and, more recently, as Chief Economist at M Science, where “big data” was used to underpin analysis of the economy, central bank policies, and capital market pricing.

Mr. Blitz, a well-known commentator on economic and financial issues, is frequently quoted in the financial press, appearing on TV and radio, and writing guest columns for financial publications.

TS Lombard is a globally renowned independent research provider with a formidable 30 year track record in providing actionable investment ideas driven by unique understanding of economics, politics and markets.

Presentation: “The Credit Cycle Returns”



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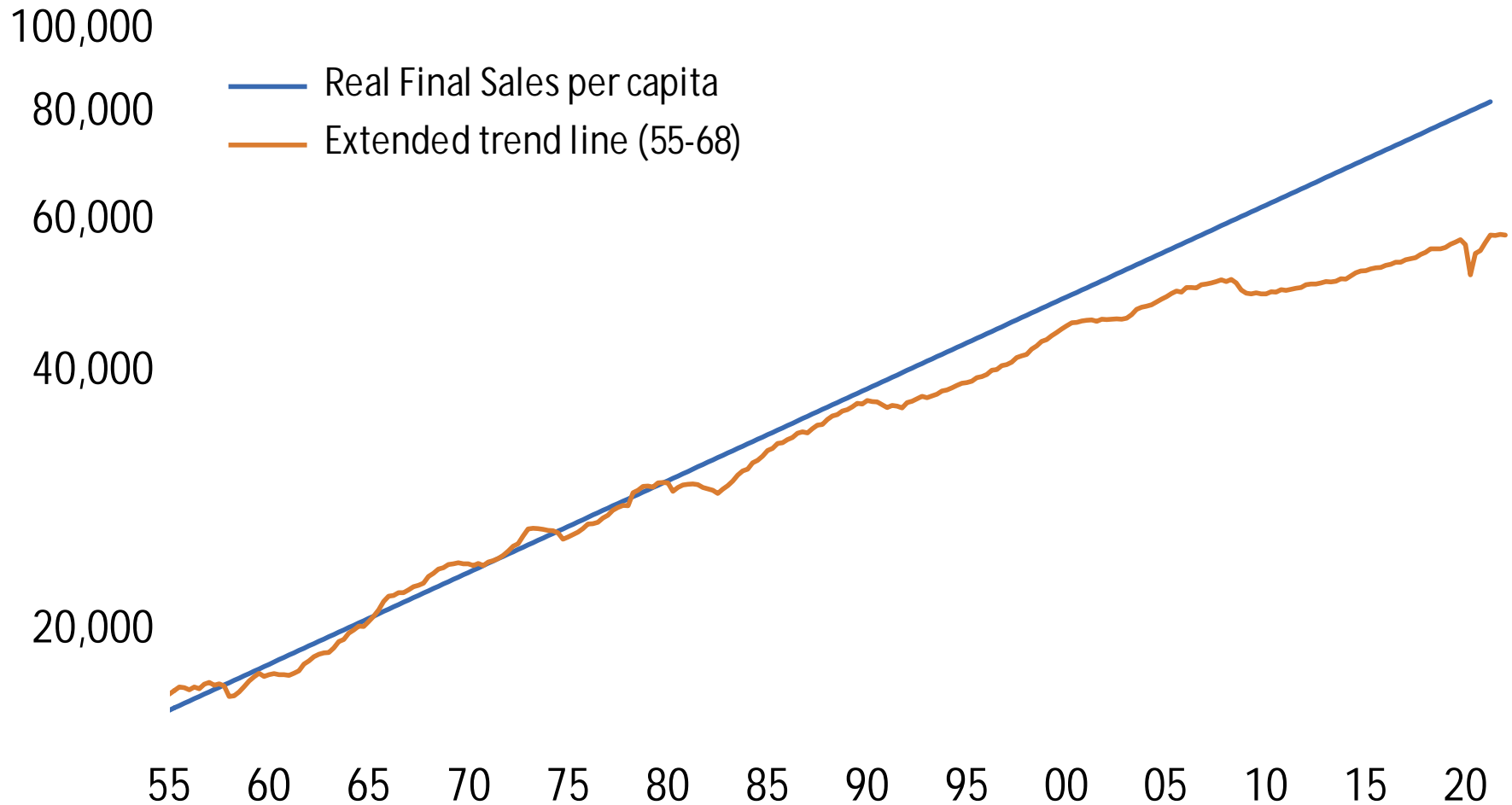
Economics / Politics / Markets

US OUTLOOK – IS A CREDIT CYCLE RETURNING?

STEVEN BLITZ , CHIEF US
ECONOMIST
July 2022

THE BASIC PROBLEM

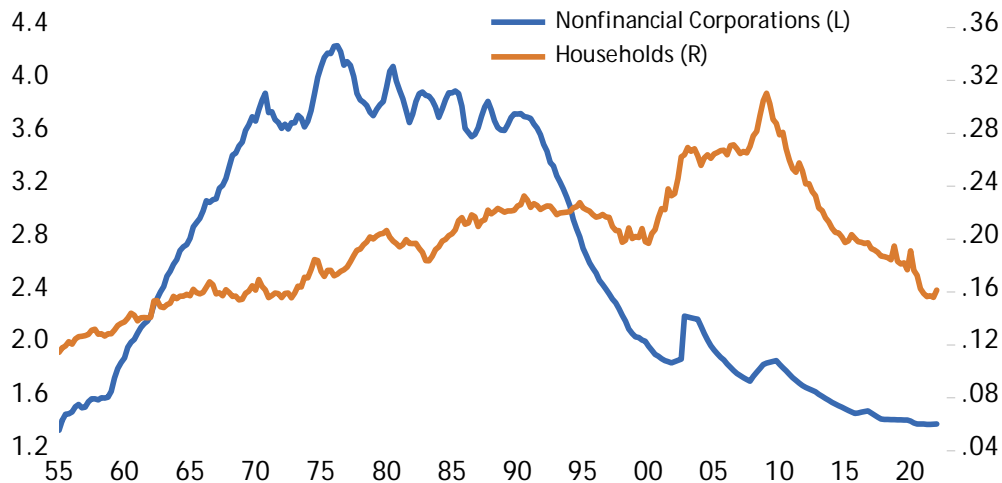
Gap problem --real sales per capita vs trend (log scale)



Source: BEA, TS Lombard

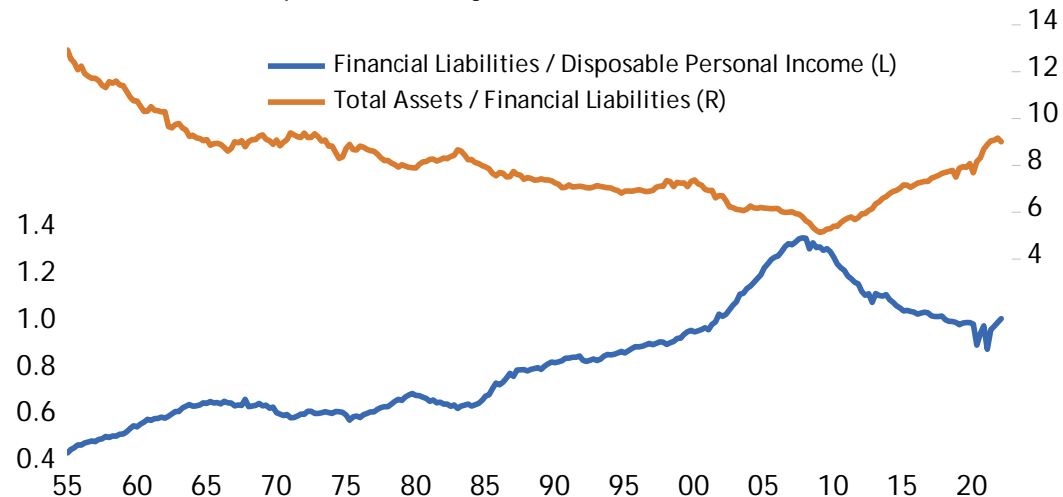
DELEVERAGING MAKES SOLVING THE PROBLEM MORE DIFFICULT

Since 2008-09 recession, HH deleveraging as well



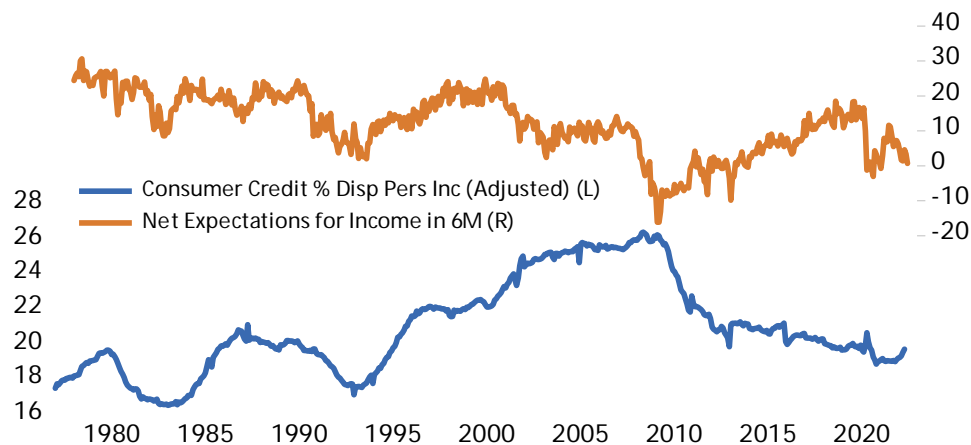
Source: Federal Reserve, TS Lombard

The post-GFC change in HH behavior -- less debt



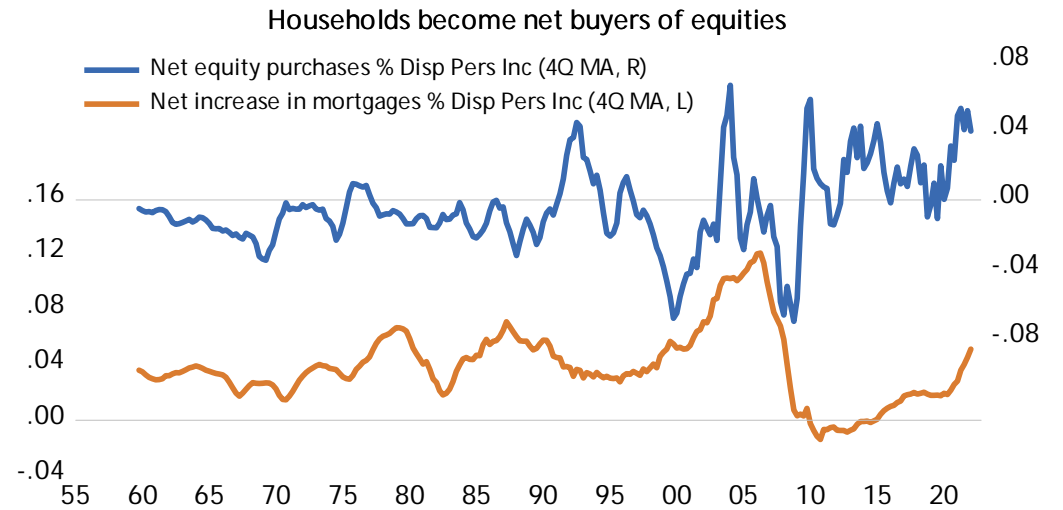
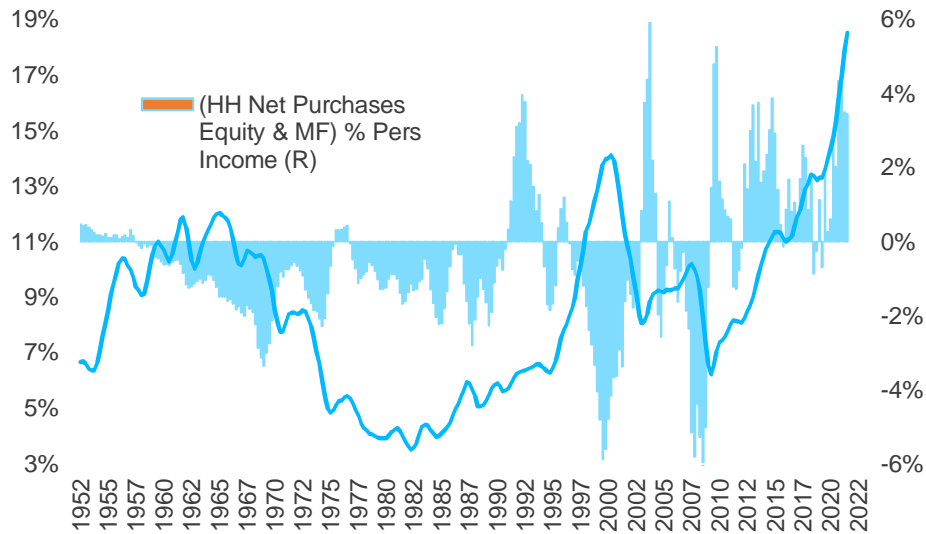
Source: Federal Reserve, TS Lombard

Reduced borrowing in the last cycle



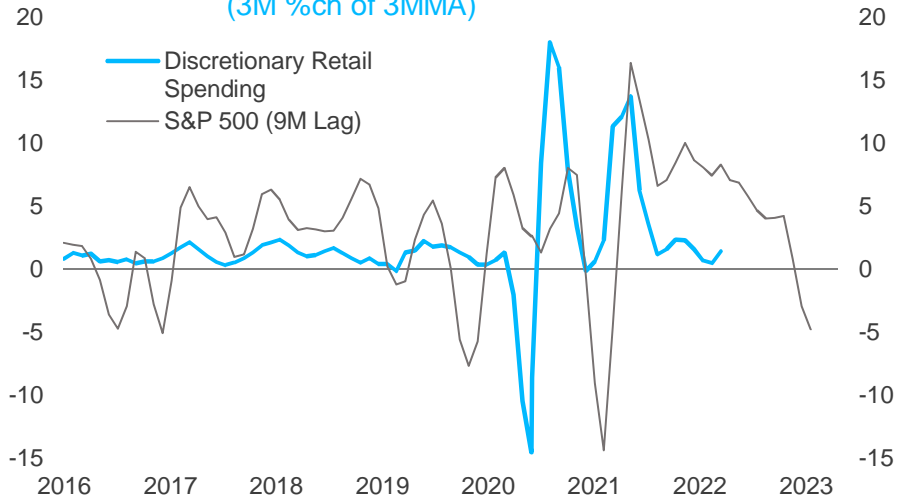
Source: BEA, Federal Reserve, ConferenceBoard, TS Lombard

USING QE, FED CREATES AN ASSET CYCLE

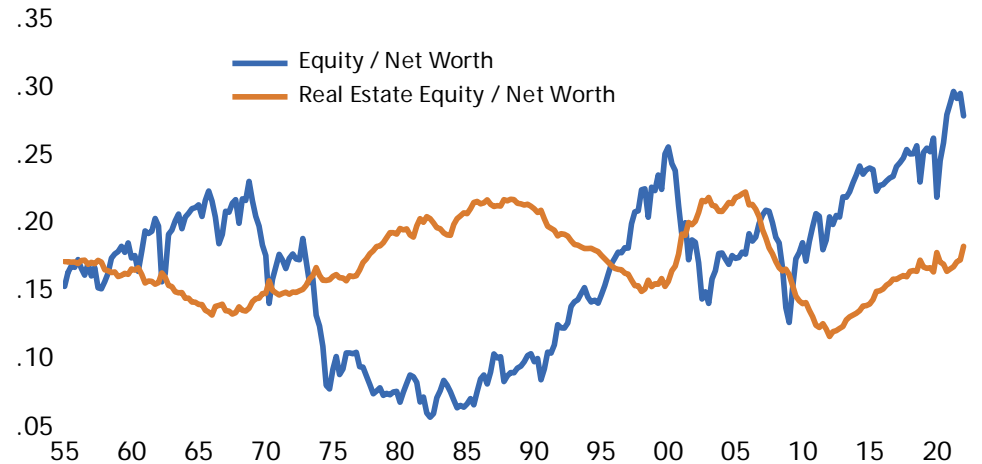


Source: Federal Reserve, TS Lombard

S&P 500 performance leads spending by 9 months (3M %ch of 3MMA)



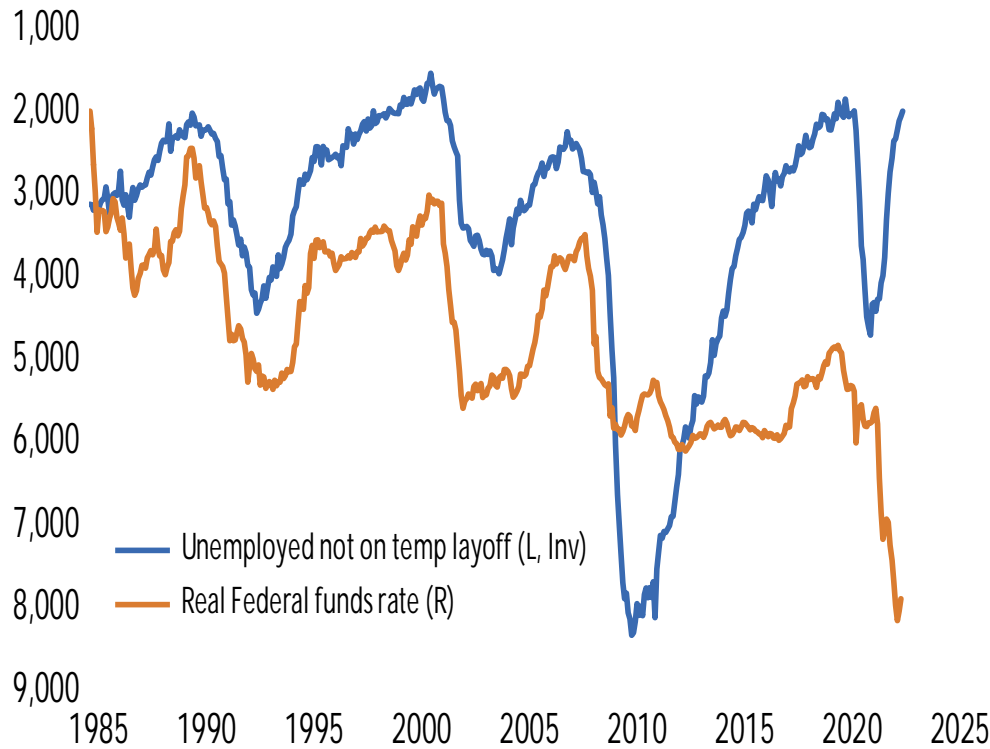
HH Vulnerability Shifts to Equities



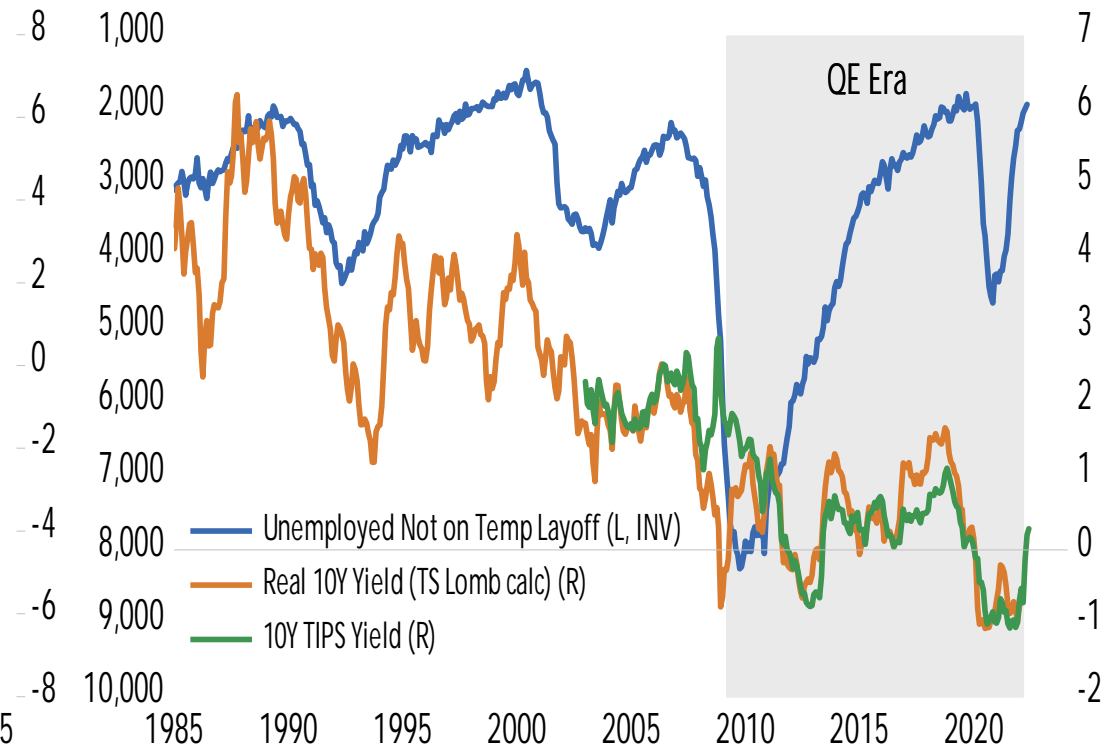
Source: Federal Reserve, TS Lombard

REAL YIELDS HAVE TO RISE ...

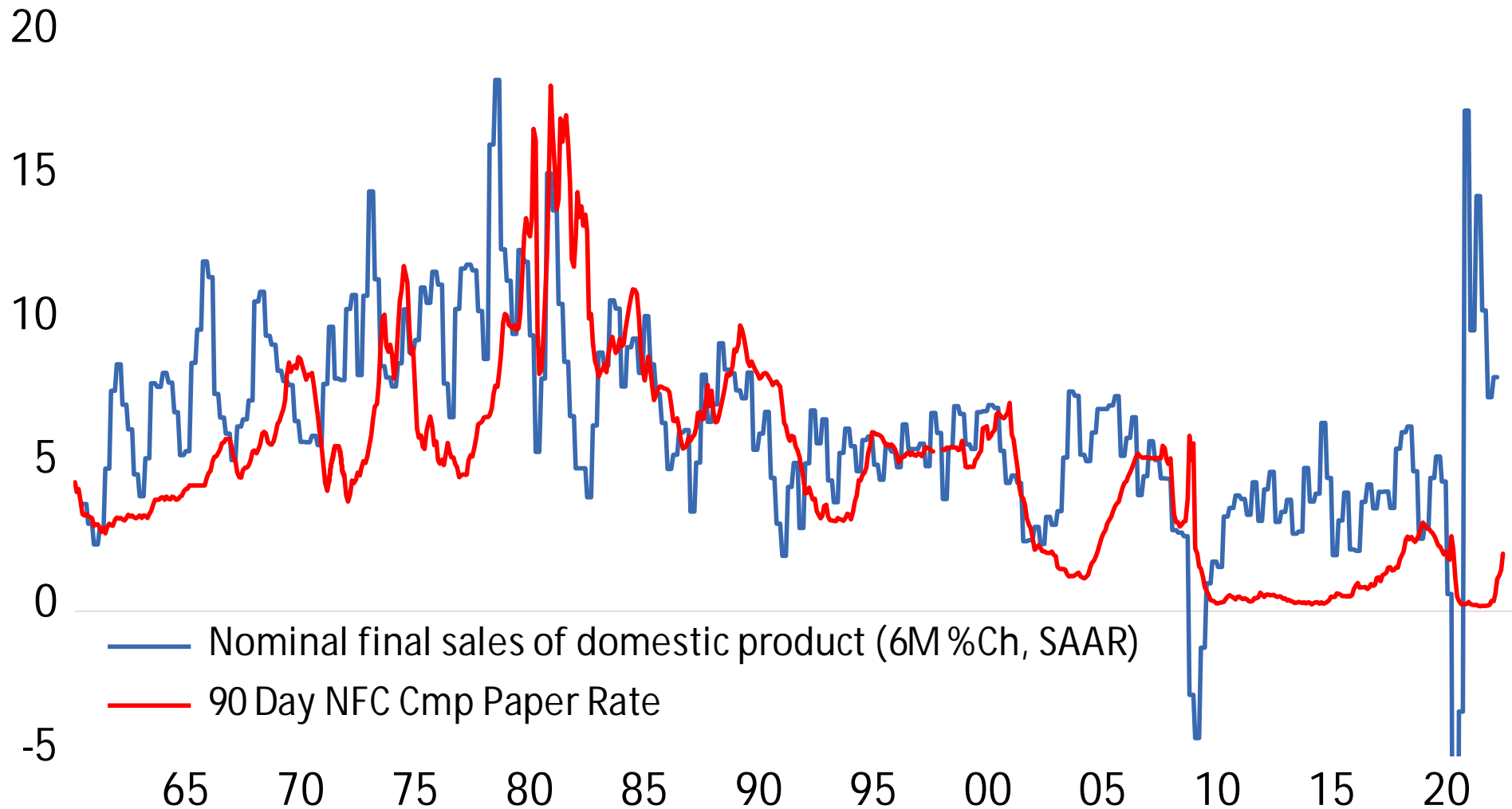
Fed is a long way from where the real funds rate should be



Real yields need to rise ... but how far?

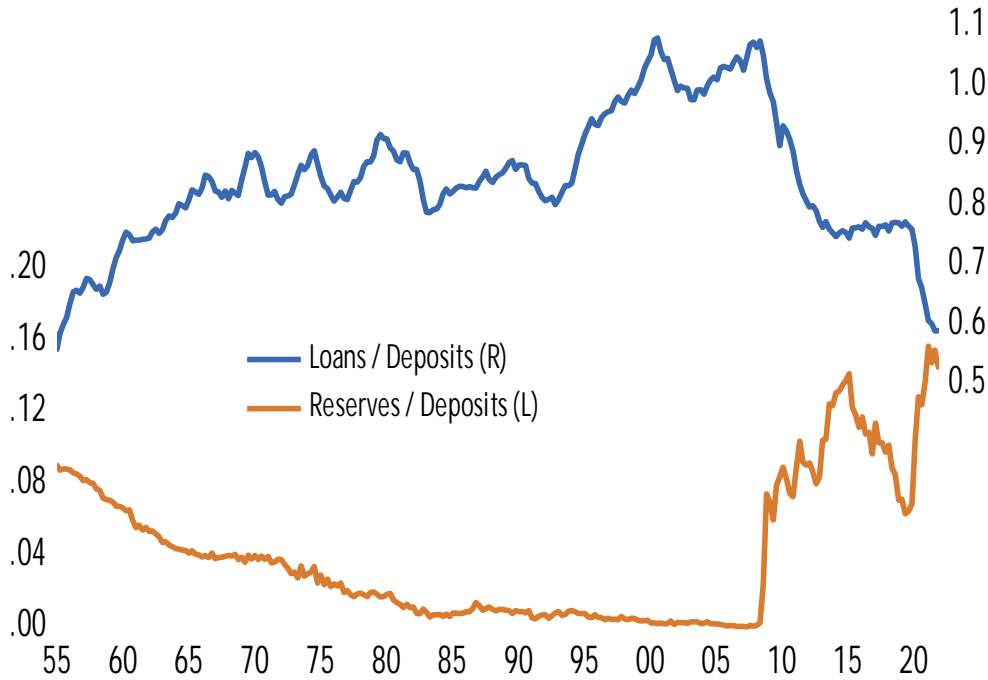


FED ISN'T TIGHT UNTIL THERE IS NEGATIVE CARRY FOR INVENTORY



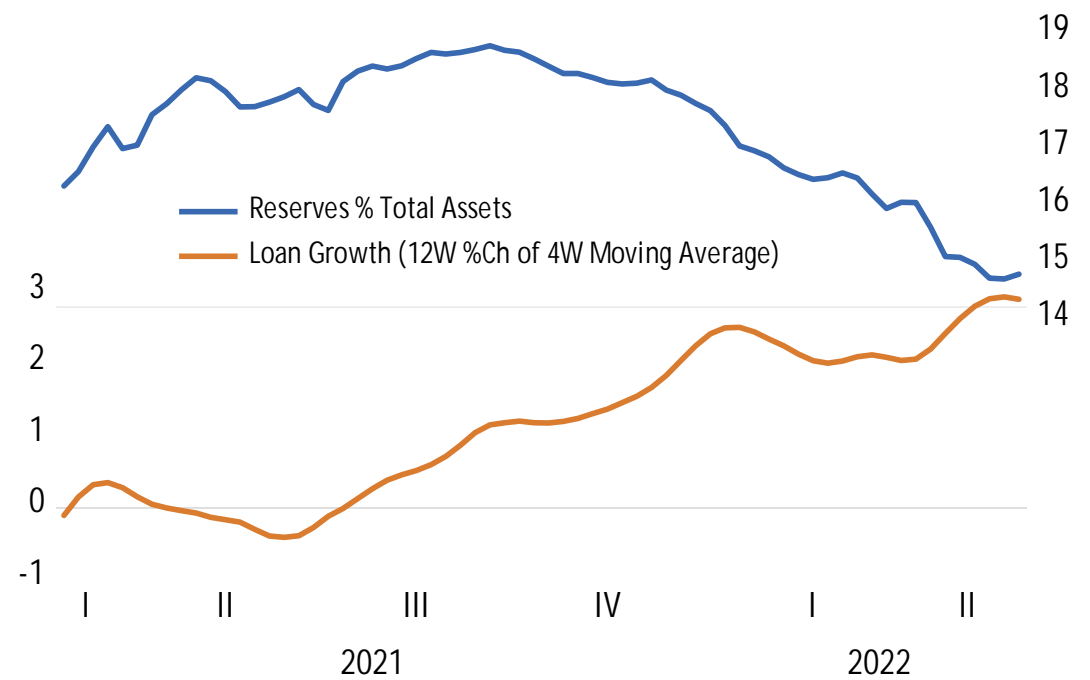
INFLATIONARY SOURCES EBB, CREDIT CYCLE AWAITS – INFLATION IS FINANCED!

Bank balance sheets -- this will change, and is changing



Source: Federal Reserve, TS Lombard

As reserves drop, lending increases

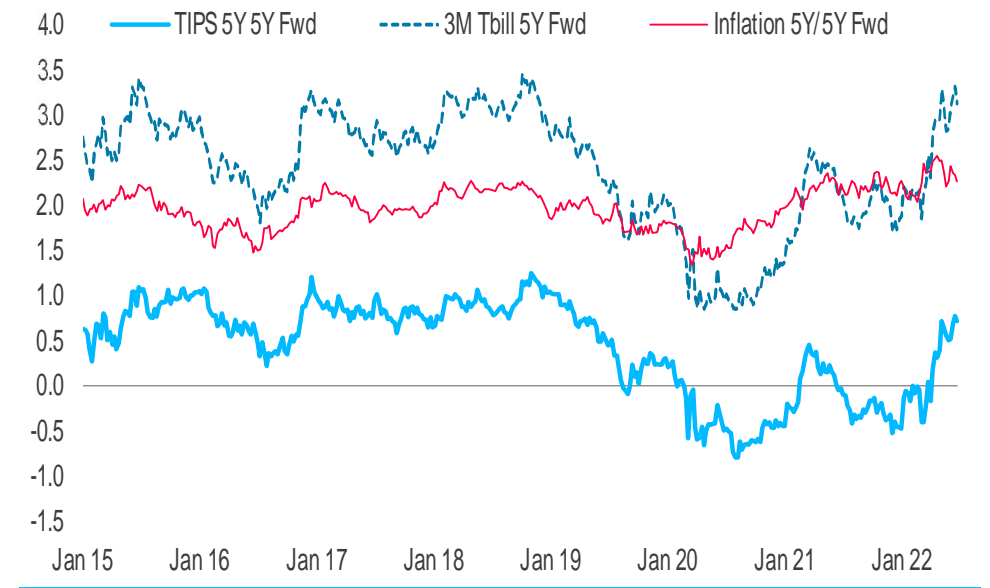
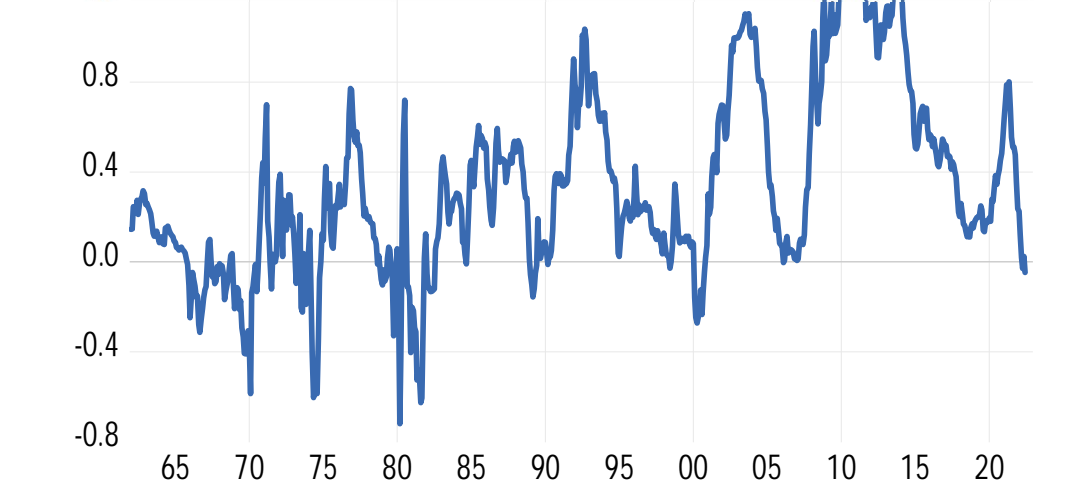


Source: Federal Reserve, TS Lombard

RENTLY



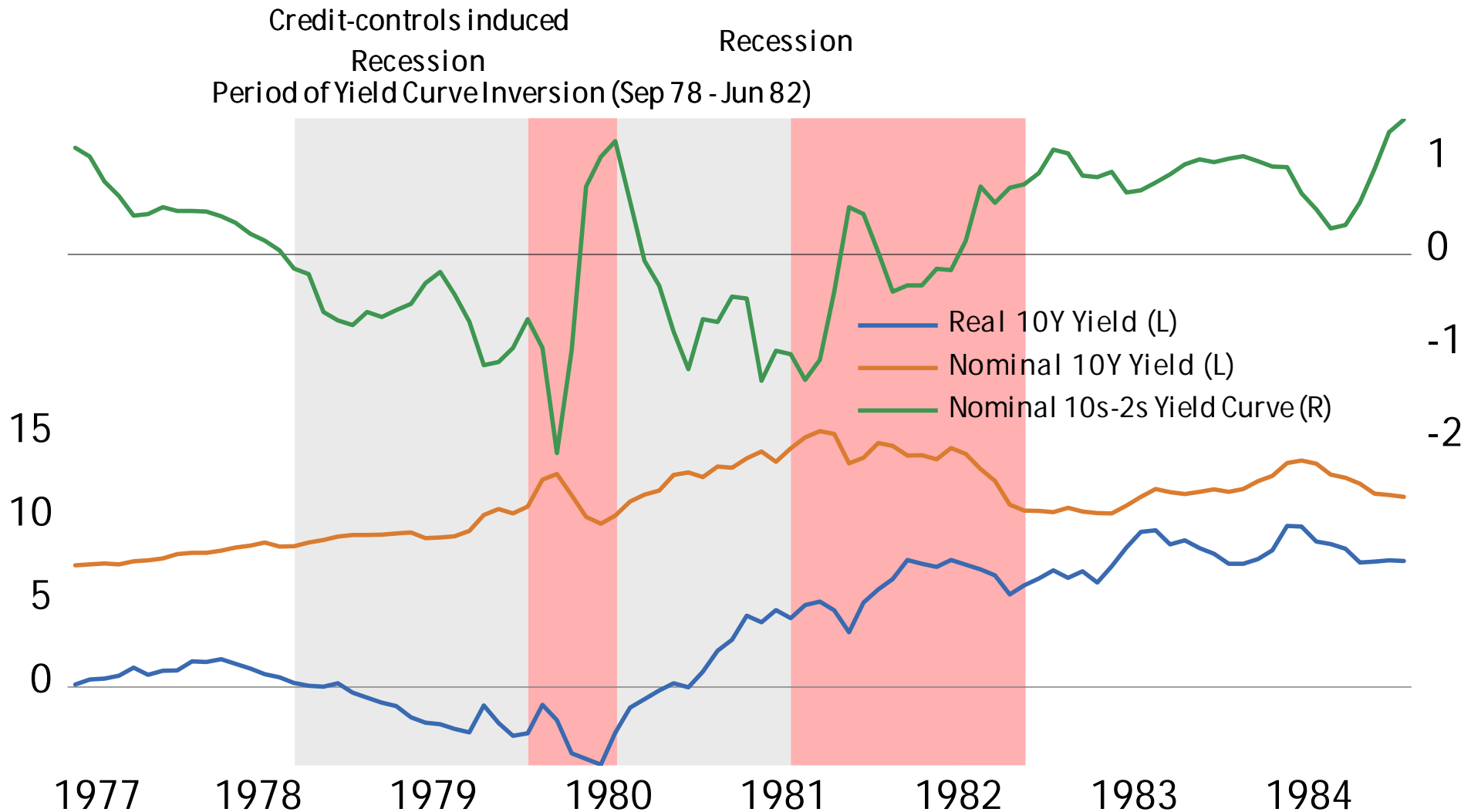
Back to the past for market future expectations



Source: Bloomberg, TS Lombard

REAL YIELDS MATTER

In the late 70s, inversion bit when real yields began to rise



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