

# Volatility Ahead

## Investment Team Weekly Focus

17 December 2021



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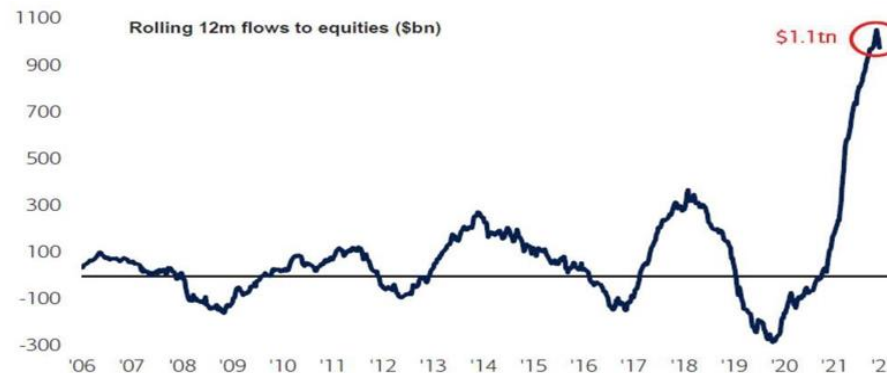
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## Investors should keep an eye on corporate defaults

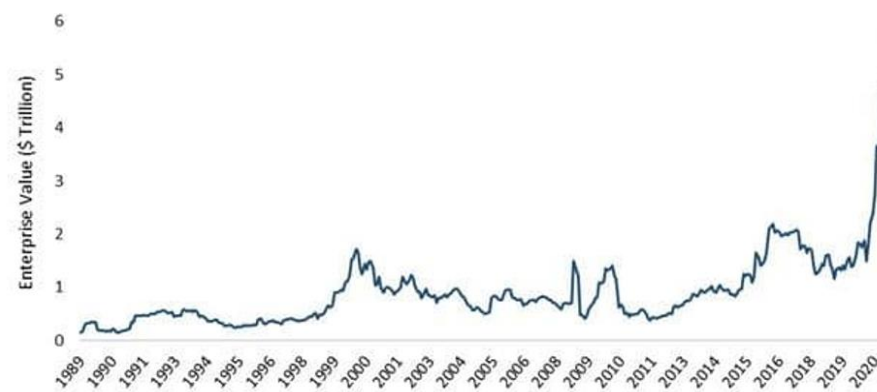
- Investors have allocated more to global equities over the last 12 months, than over the past 19 years combined (Graph #1, Source BofA, December 2021). This is another indication that global equities are most likely in a bubble and that inflated valuations have been driven by large inflows as opposed to improving fundamentals (higher margin and/or higher growth).
- More concerning, the second chart shows that the total Enterprise Value (i.e. the sum of total Debt and total Equity) of companies which EBIT is less than their interest expense is now amounting to 6 Trillion USD worldwide. In other words, the total “value” of companies that are currently unable to pay their next bond coupon payment has never been this high in recent history.
- With 3 interest-rates hikes likely for 2022 (Source FOMC, December 2021), we expect a surge in the number of companies having difficulties paying back their debt or even their coupons in time. Investors should be prepared for more corporate defaults in 2022 and consequently higher volatility next year.

### 1-year inflow to equities exceeds combined inflow of past 19 years



Source: BofA Global Research, December 2021

### Total Enterprise Value of firms with EBIT < Interest Expense



Source: Kailash Capital LCC, December 2021



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