

EDITORIAL BOARD

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Ideas Generation



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Is there any asset class you are particularly concerned about regarding downside or upside risk?

Corporate Credit might be the epicentre of the next financial crisis. Valuations are extreme and dispersion in balance sheet quality is wide among issuers. Net leverage is high and interest cover will gradually deteriorate. The credit cycle is mature. Defaults would not rise unless there was an economic downturn and an increase in volatility. In the US, the Fed has flagged its normalisation process properly, and that has been priced into spreads. The EM crisis (Turkey and Argentina), the Sovereign crisis in Europe (Italy) and the likelihood of corporate fallen angels (GE, AT&T) are early warnings of the fragile environment.