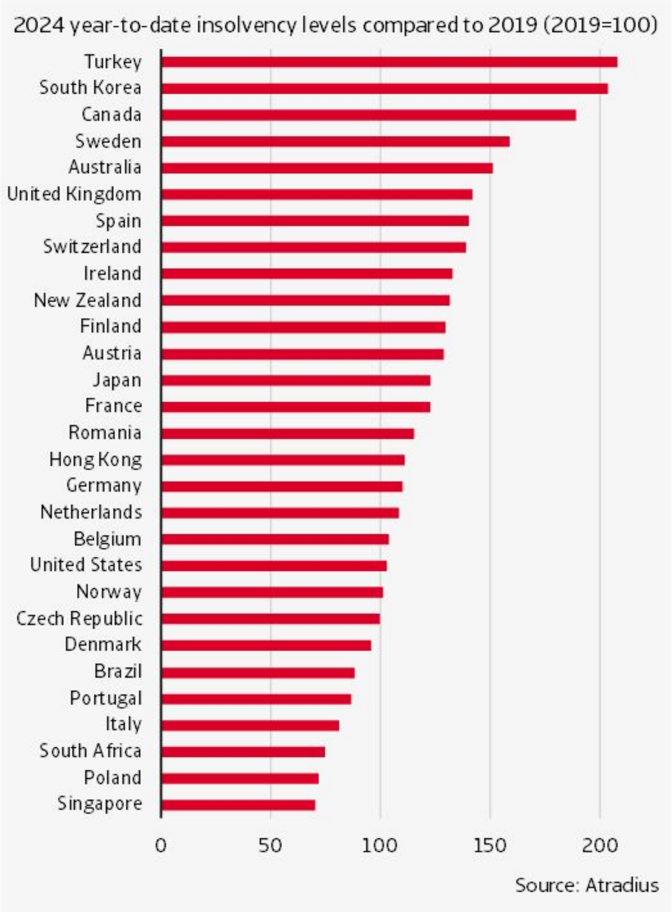

Nucleus
Wealth
SHOULD YOU BE WORRIED ABOUT A DEBT CRISIS?

Disclaimer:

The information provided on this presentation is general in nature and does not constitute personal financial advice. The information has been prepared without taking into account your personal objectives, financial situation or needs. Because of this, you should consider the appropriateness of the information for your own objectives, financial situation and needs before acting on it. Also, before you decide to invest in a financial product arranged by a representative of Nucleus Wealth Management Pty Ltd, ABN 54 614 386 266, corporate authorised representative of Nucleus Advice Pty Ltd AFSL 515796 (Nucleus Wealth or we or us), it is important that you read and consider the Product Disclosure Statement relating to the product before making any decision about whether to invest in it. Your Nucleus Wealth adviser can help you with this decision if you would like them to do so.

2024 vs 2019:

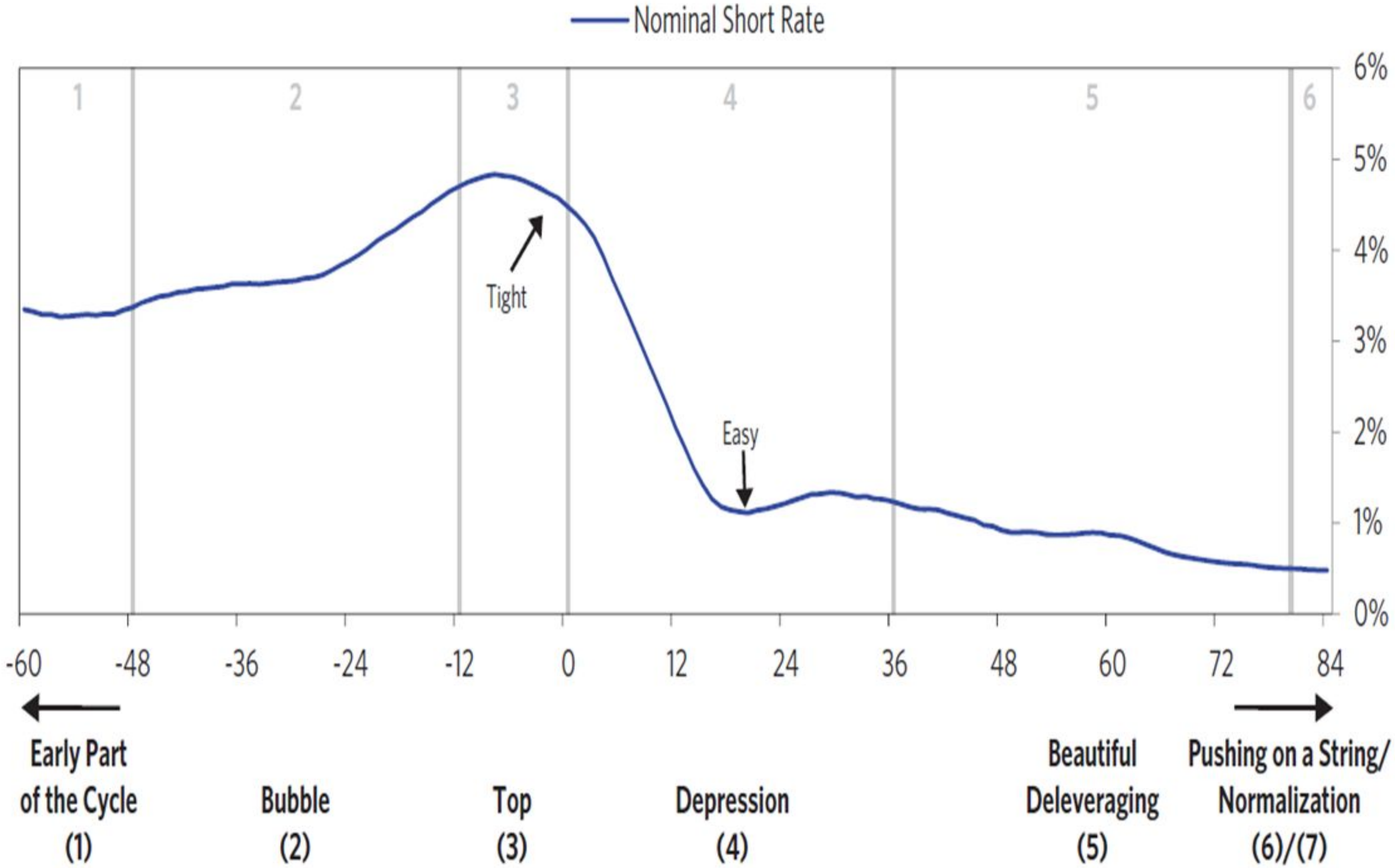


2024 year-to-date insolvency levels compared to 2019 (2019=100)
Turkey
South Korea
Canada
Sweden
Australia
United Kingdom
Spain
Switzerland
Ireland
New Zealand
Finland
Austria
Japan
France
Romania
Hong Kong
Germany
Netherlands
Belgium
United States
Norway
Czech Republic
Denmark
Brazil
Portugal
Italy
South Africa
Poland
Singapore
0
50
100
150
200
Source: Atradius

Regions:

- US
- China
- Australia/Canada
- Europe

7 Stages:

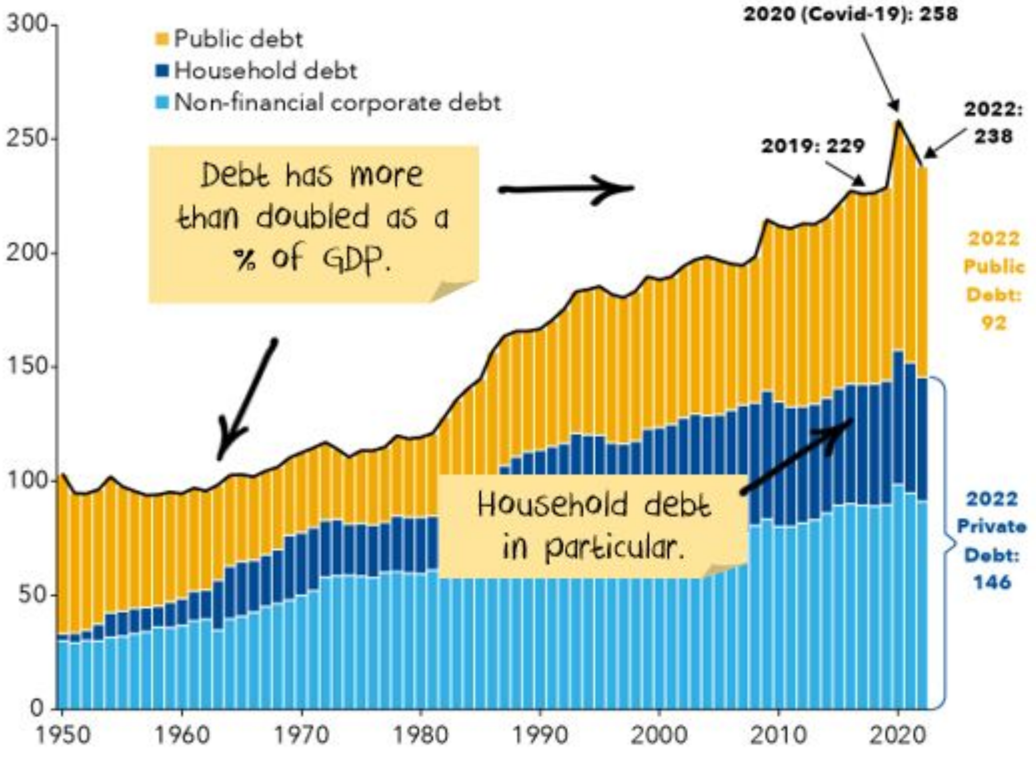


Nominal Short Rate
1
2
3
4
5
6
6%
5%
4%
3%
2%
1%
0%
Tight
Easy
-60
-48
-36
-24
-12
0
12
24
36
48
60
72
84
Early Part of the Cycle (1)
Bubble (2)
Top (3)
Depression (4)
Beautiful Deleveraging (5)
Pushing on a String/ Normalization (6)/(7)

Bubble Classification:

1. Inflationary or Deflationary

2. Long Term or Short Term



Source: IMF 2023 Global Debt Database, and IMF staff calculations.
Notes: The estimated ratios of global debt to GDP are weighted by each country's GDP in US dollars.

IMF

Inflationary or Deflationary:

1. Self Reinforcing

2. New Financial Instruments

3. Distribution of Credit

4. Checklist

Bubble measures:

Applying the Framework to Past Bubbles

		USA 2007	USA 2000	USA 1929	Japan 1989	Spain 2007	Greece 2007	Ireland 2007	Korea 1994	HK 1997	China 2015
1	Are prices high relative to traditional measures?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2	Are prices discounting future rapid price appreciation?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3	Are purchases being financed by high leverage?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes
4	Are buyers/companies making forward purchases?	Yes	Yes	N/A	Yes	No	Yes	No	Yes	Yes	No
5	Have new participants entered the market?	Yes	Yes	N/A	Yes	No	Yes	Yes	Yes	N/A	Yes
6	Is there broad bullish sentiment?	Yes	Yes	N/A	Yes	No	No	No	N/A	N/A	Yes
7	Does tightening risk popping the bubble?	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes

Bubble measures:

Conditions During the Bubble

		Change During Bubble	Range
1	Debt growing faster than incomes	40%	14% to 79%
	Debt growing rapidly	32%	17% to 45%
	Income growth high but slower than debt	13%	8% to 20%
2	Equity markets extend rally	48%	22% to 68%
3	Yield curve flattens (SR - LR)	1.4%	0.9% to 1.7%

Bubble conditions:

In many cases, **monetary policy helps inflate the bubble rather than constrain it.**

Bubble popping:

- More leverage, higher prices = less to prick the bubble
- Willingness to spread the pain
- Zero lower bound

Policy Response:

- **Lower Interest Rates**
- **Curtail panic,** guarantee liabilities
- **Provide liquidity.** Increase collateral taken
- **Support the solvency of systemically important institutions.** Accountancy rule changes?
- **Recapitalize/nationalize/cover losses of systemically important financial institutions.**
- **Victim Narrative**

Policy Response:

Frequency of Levers Used to Manage Debt Problems (% of Cases)

Liquidity Support	Emergency Lending/Liquidity	88%
	Bank Liability Guarantee	58%
	Bank Holiday/Deposit Freeze	21%
Address Insolvent Lenders	Bank Restructuring/Mergers	81%
	Recapitalization	73%
	Nationalizations	60%
	Losses Imposed on Depositors	29%
Dispose of Bad Debts	Through Asset Purchases and Transfers	44%
	Through Centralized Asset Management Co's	38%
Sovereign Default/Restructuring		35%
IMF Program		52%

Policy Response:

- Austerity
- Money Printing
- Debt Defaults
- Redistributing Wealth

1. Bubble - Policy Response:

Good Policy

- Central banks consider growth in debt and its effects on asset markets in managing policy. If they can prevent the bubble, they can prevent the bust.
- Central banks use macroprudential policies to target restraints in debt growth where bubbles are emerging and allow debt growth where it is not excessive.
- Fiscal policies are tightened.

Bad Policy

- Big bubbles are fueled by speculators and lenders over-extrapolating past successes and making further debt-financed investments, and by central banks focusing just on inflation and/or growth and not considering debt bubbles in investment assets, thus keeping credit cheap for too long.

2. Top - Policy Response:

Good Policy

- Central banks constrict the bubble either with the control of broad monetary policy or with well-chosen macroprudential policies and then ease selectively (via macroprudential policies).

Bad Policy

Central banks continue to tighten well after bursting the bubble.

3. Depression - Policy Response:

Good Policy

- Central banks provide ample liquidity, ease short rates quickly until they hit 0%, and then pursue aggressive monetizations, using aggressive targeted macroprudential policies.
- Governments pursue aggressive and sustained fiscal stimulus, easing past the turn.
- Systemically important institutions are protected.

Bad Policy

- Central banks are slower to cut rates, provide more limited liquidity, and tighten too early. They also wait too long to pursue aggressive monetization.
- Governments pursue austerity without adequately easing.
- Systemically important institutions are left damaged or failed.

4. Deleveraging - Policy Response:

- Reflations begin with aggressive monetizations through asset purchases or big currency declines, enough to bring nominal growth above nominal rates.
- Stimulative macroprudential policies are targeted to protect systemically important entities and to stimulate high-quality credit growth.
- Nonsystemically important institutions are allowed to fail in an orderly way.
- Policy makers balance the depressive forces of defaults and austerity with the reflationary forces of debt monetization, currency declines, and fiscal stimulus.

4. Deleveraging - Policy Response:

- Initial monetizations stutter and start. Asset purchases are more muted and consist more of cash-like instruments rather than risky assets, so that purchases don't produce a wealth effect. Stimulation of the central bank is undermined by fiscal austerity.
- Overindebted entities are protected even though they are not systemically important, leading to zombie banks and malaise.
- Ugly inflationary depressions arise in cases where policy makers allow faith in the currency to collapse and print too much money.

5. Pushing on a string - Policy Response:

- Interest Rates
- Quantitative Easing
- Helicopter Drops
- Fiscal/Monetary tensions

6. Normalisation - Policy Response:

- 5-10 years
- Equity premiums remain high

Choose themes to screen from your portfolio away from (i.e. remove stocks)

Climate Change	War	Human Rights	Health
Vices	Animal Rights	Religion	Asset Class
	Thematic		

Climate Change

- [ ] No Fossil Fuels (Worst Offenders)
- [ ] No Fossil Fuels (Any)
- [ ] No Coal Seam Gas or Fracking
- [ ] No Nuclear Power
- [ ] No Old Growth Forest Logging

Personalise Your Portfolio

Screens

You can exclude the below to customise your portfolio

Climate Change | War | Human Rights | Health | Vices | Animal Rights | Religion | Asset Class | Thematic

- No Fossil Fuels (Worst Offenders)
- No Fossil Fuels (Any)
- No Coal Seam Gas or Fracking
- No Nuclear Power
- No Old Growth Forest Logging

Tilts

You can add the below to customise your portfolio

Investment Style Factors | Climate Change | Technology | Consumption | Commodities | Military | GICS Sectors

- Quality Stocks
- Value Stocks
- Growth Stocks
- Defensives

Personalise your portfolio now ›

Account Selection
Investment Choice
Risk Profile
Build Your Portfolio
Ethical Overlay
Review
Applicants
Bank Details
Compliance
Final Review

Build Your Portfolio

Need help with this page? Video Tutorial

Portfolio Tilts

Quality Stocks	Value Stocks	Growth Stocks
Oil & Gas Stocks	Gold Stocks	Agribusiness
Large Technology Stocks	Cloud Computing Stocks	Robotics/AI
Video Gaming	Cybersecurity	Clean Energy
Defensives	Battery Supply Chain	Nuclear Power
Defense Contractors	Travel	Luxury Goods
Logistics	Global Communication Services	Global Consumer Discretionary
Global Consumer Staples	Global Energy	Global Financials
Global Health Care	Global Industrials	Global Information Technology

More from Nucleus Wealth:

Content: Nucleuswealth.com/content

Have a guest or topic suggestion for the show?
Leave a comment on YouTube

Social media:

Facebook.com/nucleuswealth
Linkedin.com/company/nucleuswealth
Instagram.com/nucleus_wealth
Twitter.com/nucleuswealth

Find us on all major (and minor) podcast platforms:

Listen on Google Podcasts
Listen on Apple Podcasts
Spotify