THE SHADOW BANKING SYSTEM & THE SPECULATIVE CREDIT CYCLE

US Speculative Credit Cycle 2004-2008 – FED Funds Peak 5%

MORTGAGES SUBPRIME

2Tr = 13% GDP

PRIVATE EQUITY

2Tr : 50% Equity & 50% Loans

1Tr - 600 bn Lev Loans = 400 bn Banks

LEVERAGE LOANS 600 BN

CONSUMER CREDIT

2,5Tr : 27% Subprime = 675 bn

HY

800 bn

TOTAL SPECULATIVE CREDIT

= 4,4 Tr

US GDP 2008

= 15,5 Tr

Speculative Credit/GDP at the Credit Cycle Peak = 28,8%

The «trigger» started from 650bn (30%) of Mortgage Subprime

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THE SHADOW BANKING SYSTEM
& THE SPECULATIVE CREDIT CYCLE

US Speculative Credit Cycle 2010-2024

PRIVATE CREDIT
1,8 Tr (B-/CCC) – Loans to VC, Private Equity & Corporates

LEVERAGE LOANS
1,6 Tr - Loans to VC & Private Equity

TOTAL CONSUMER CREDIT
5,5 Tr (Auto, Credit Cards, Stud Loans): 30% Subprime = 1,65 Tr

TOTAL MORTGAGE OUTSTANDING
18 Tr = 5% Mortgages Subprime = 0,8 Tr

TOTAL HY
1,5 Tr

TOTAL COMMERCIAL REAL ESTATE LOANS + CMBS 4,5 Tr = NPL 30% (?) = 1,35 Tr

PRIVATE EQUITY & VC 9 TR AUM: 48% EQUITY & 52% DEBT = Total debt 4,5 Tr
Less 1,5 Tr LLoans & 1 Tr Private Credit = 2 Tr from Banks = 2 Tr Spec Loans

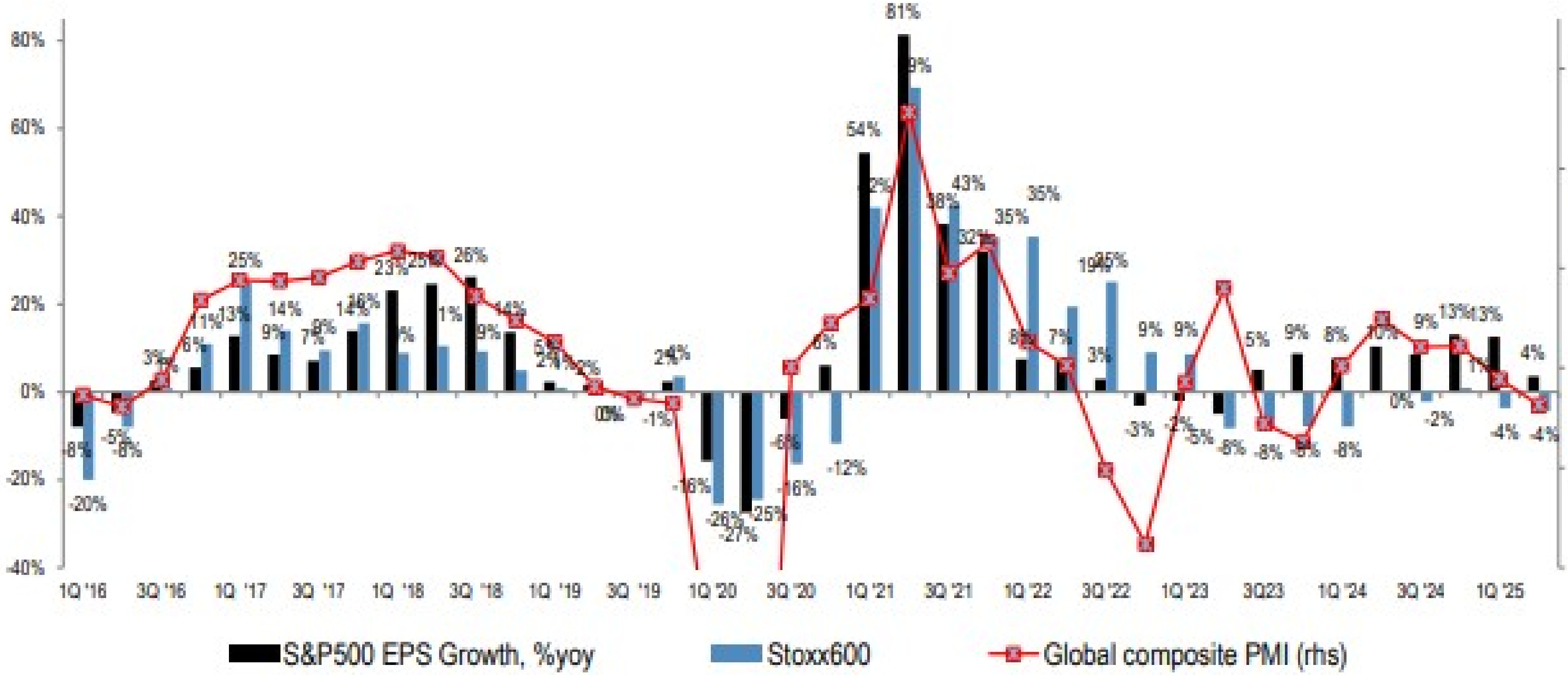
Total Spec Credit = 10,7 Tr

Total GDP = 24 Tr. Spec Credit Outstanding Now = 45% GDP

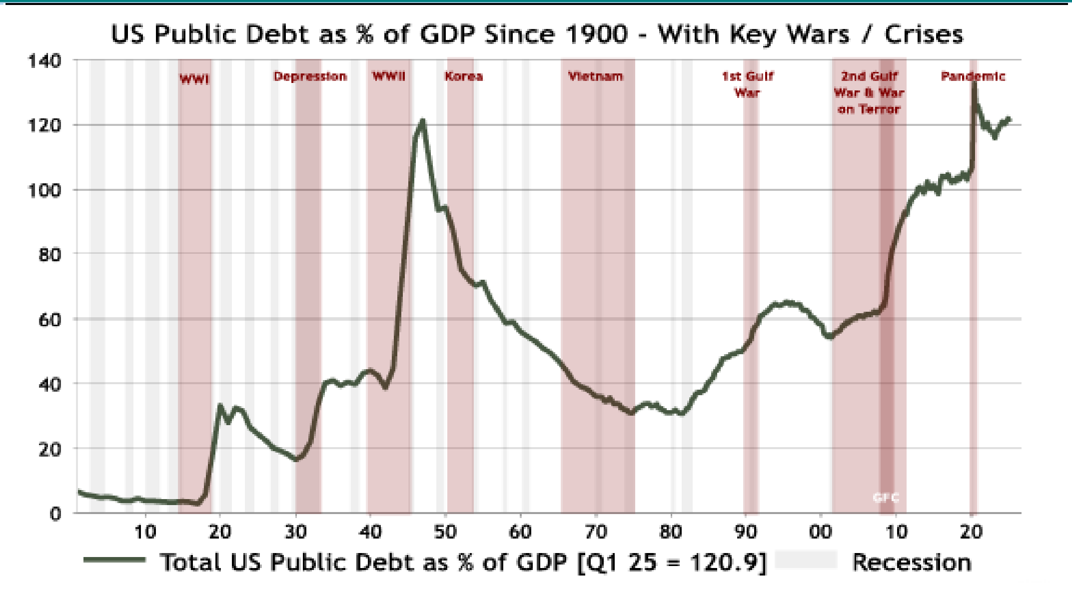
«Credit Quality» is pro cyclical: In case of weak economy or recession the quality worsen…

Sources: IMF, PitchBook, Cred IQ, FED, Financial Stability Board, JPMorgan, BOFA, GS, DBank

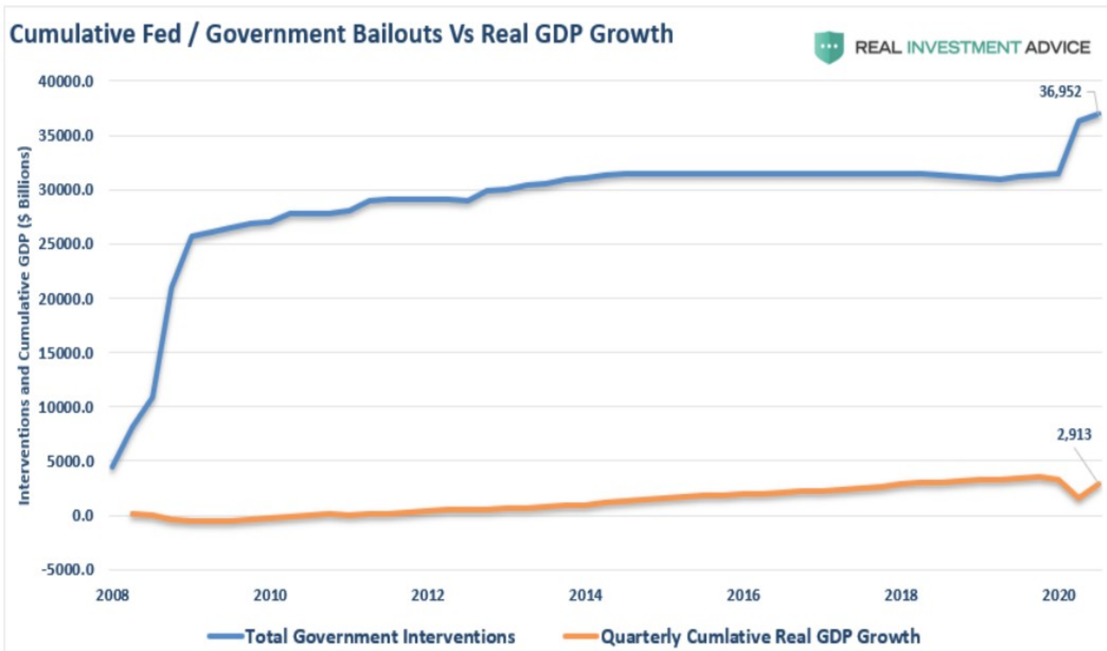
Figure 4: S&P500 and Stoxx600 EPS Growth vs Global Composite PMI



Source: Bloomberg Finance L.P., J.P. Morgan.,Q2 is earnings growth forecast



Source: Source: ASR Ltd / FRB / LSEG Datastream



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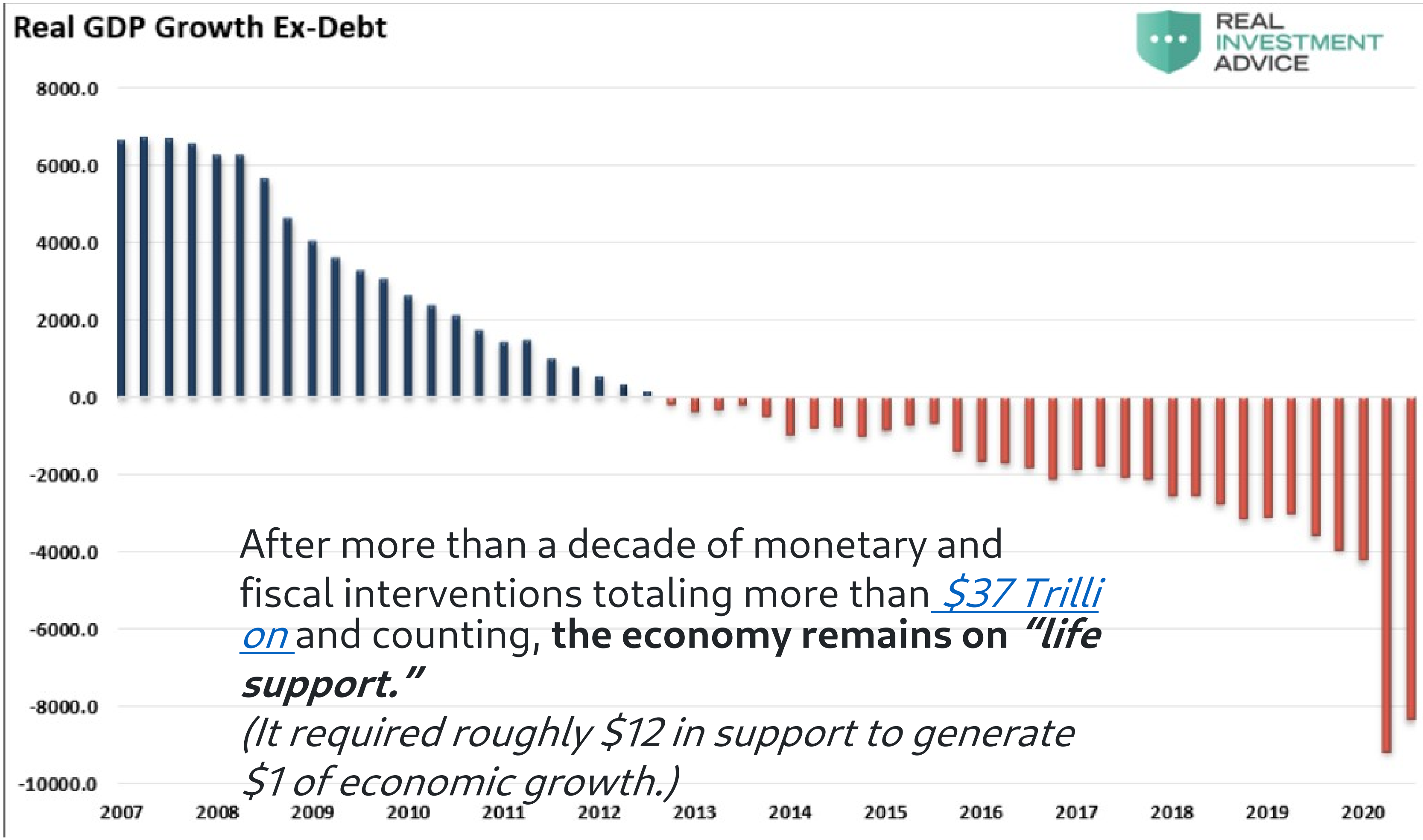
The chart below shows what economic growth would be without the increases in Federal debt.



After more than a decade of monetary and fiscal interventions totaling more than [*$37 Trillion*]() and counting, **the economy remains on *"life support."***

(It required roughly $12 in support to generate $1 of economic growth.)

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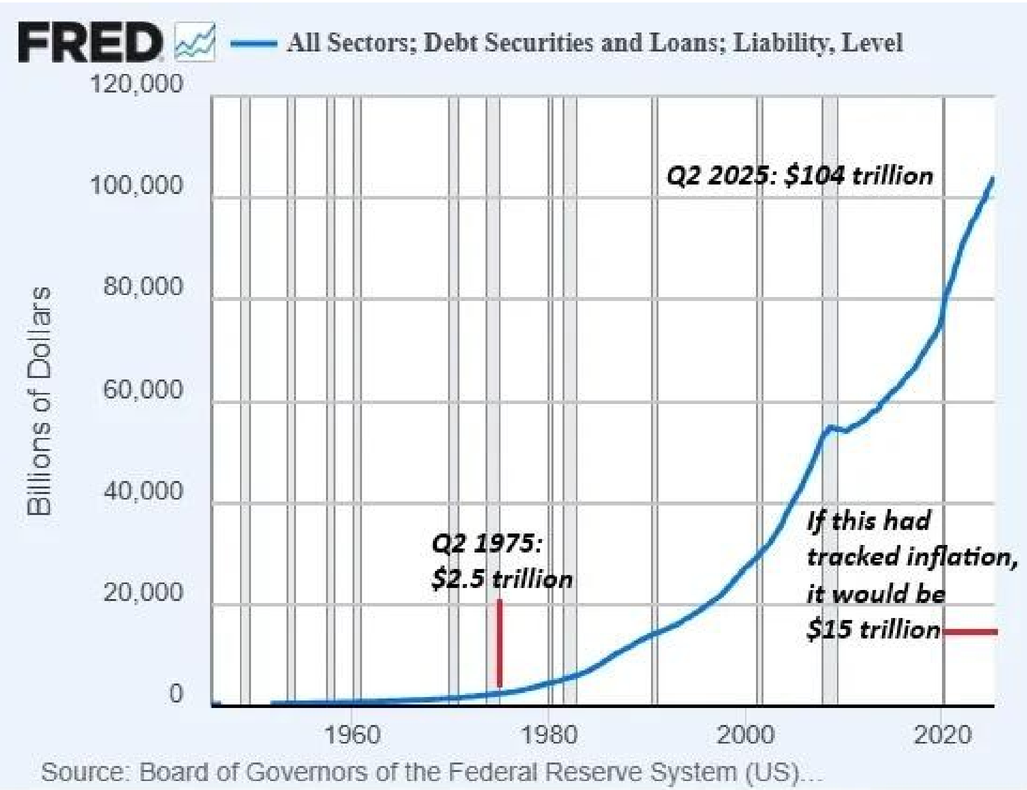
'Normal' deficit range
FDR
WWII
Star Wars
GFC
Covid
5
0
-5
-10
-15
1930
1940
1950
1960
1970
1980
1990
2000
2010
2020



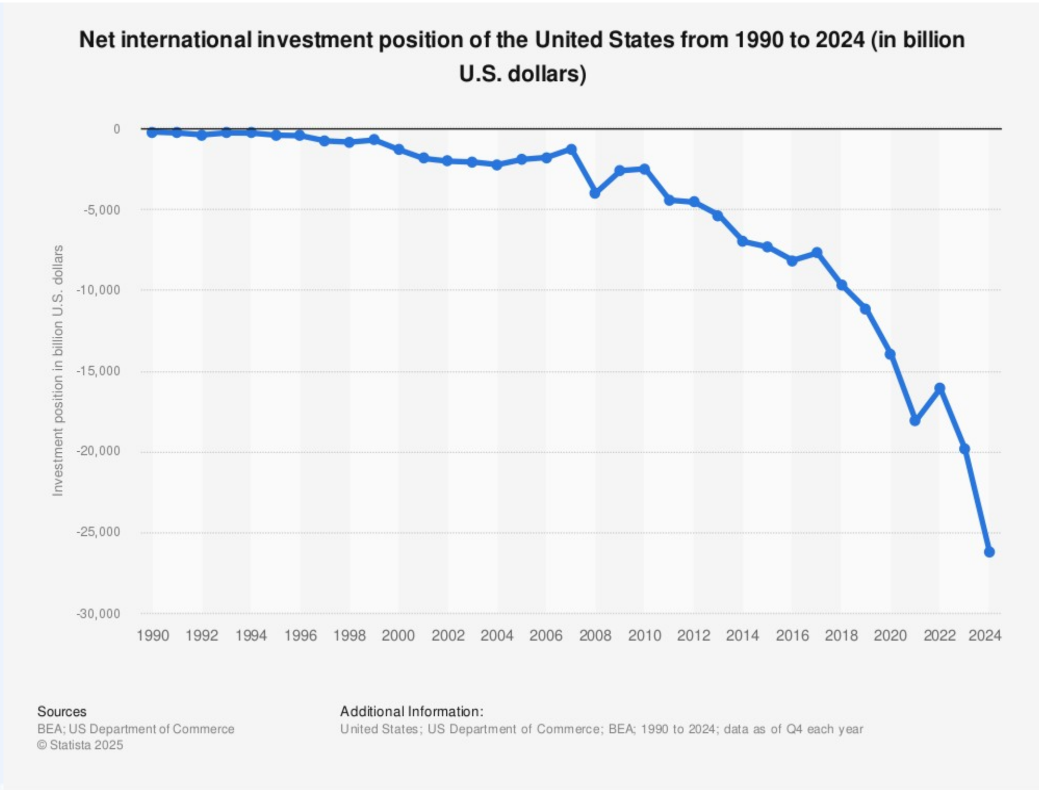
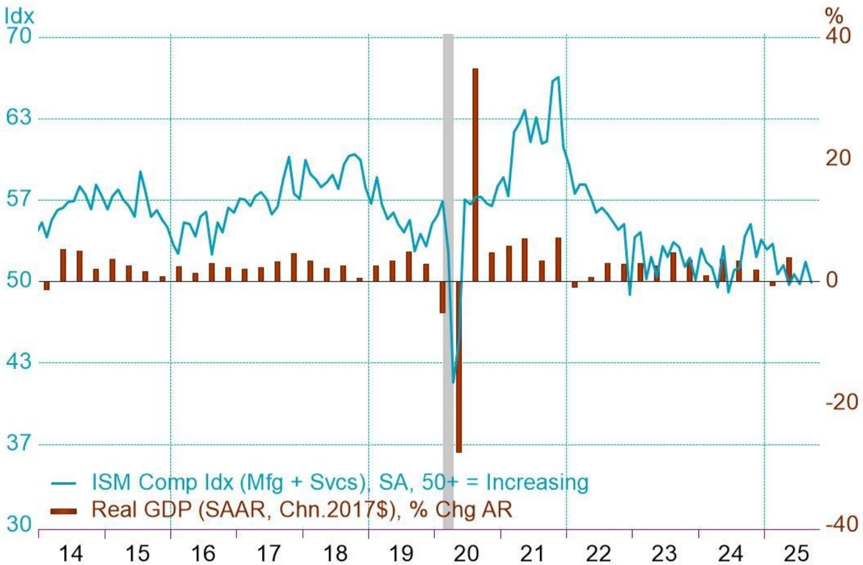


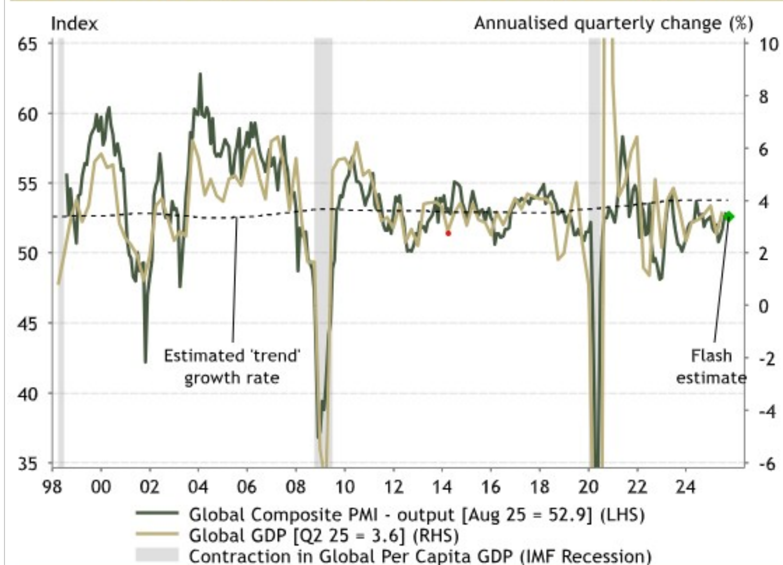
chart notated by Charles Hugh Smith www.oftwominds.com 9/25

ISM Composite Index & Real GDP

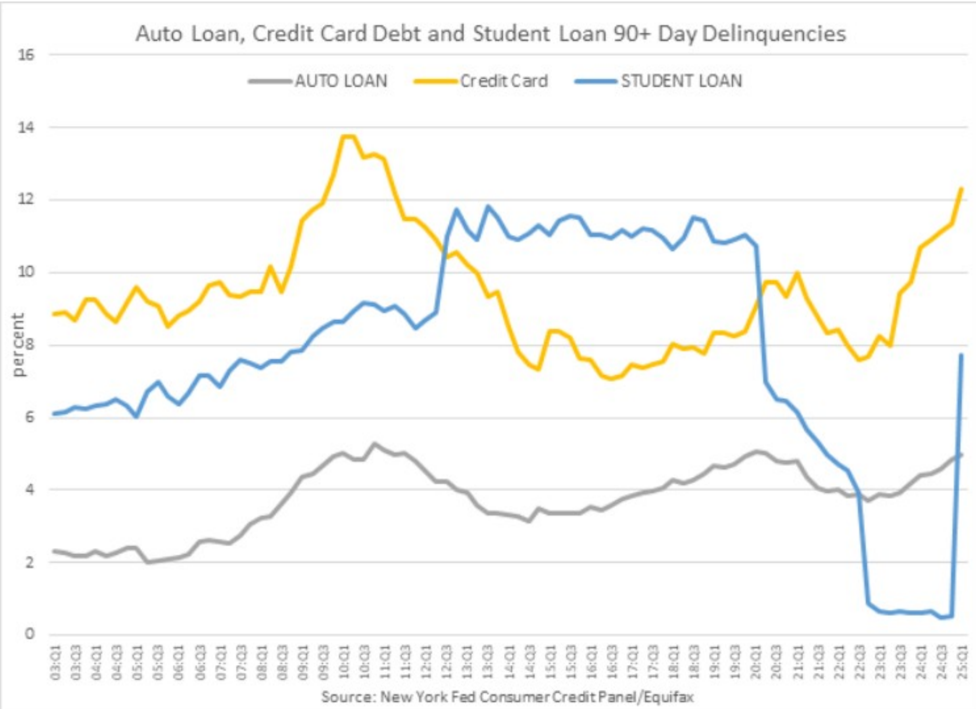


Sources: ISM, BEA/Haver Analytics

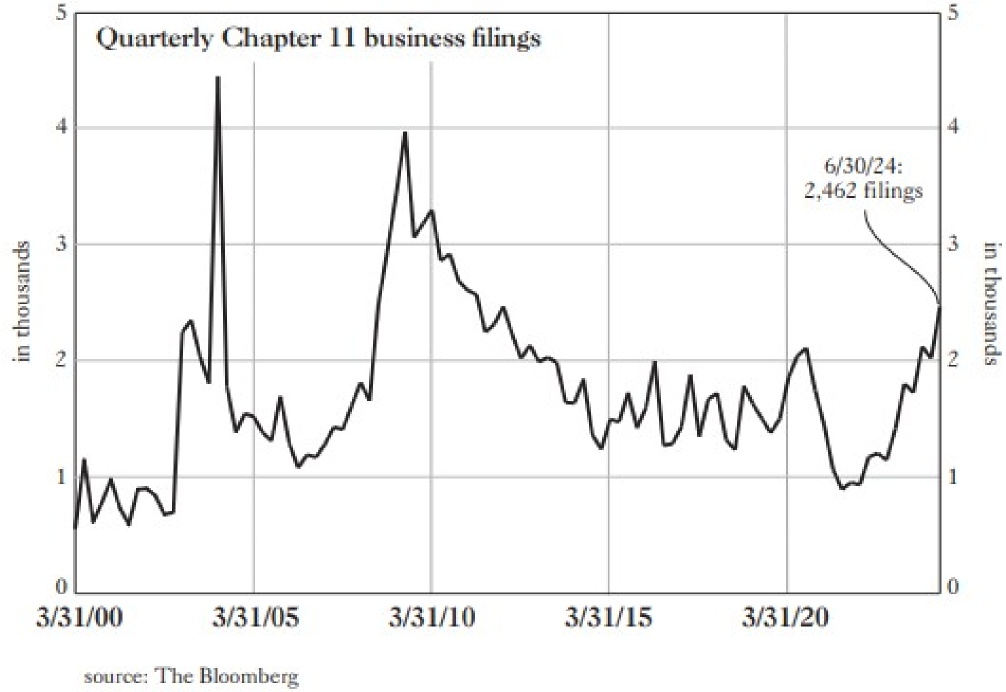
Chart 2: The global composite PMI & global growth



Source: ASR Ltd. / S&P Global / LSEG Datastream



New York Fed Consumer Credit Panel/Equifax



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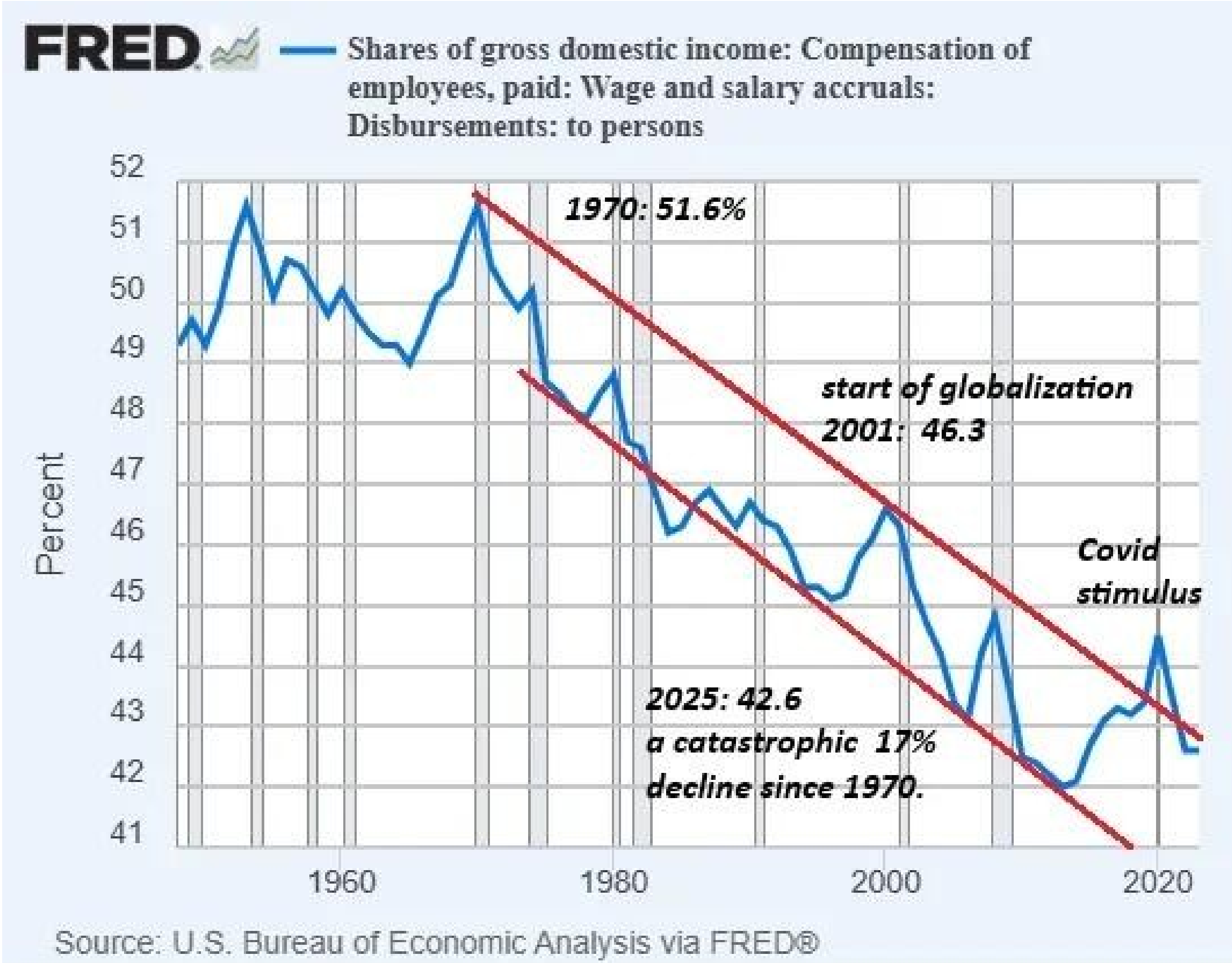

Chart annotated by Charles Hugh Smith www.oftwominds.com 4/2025

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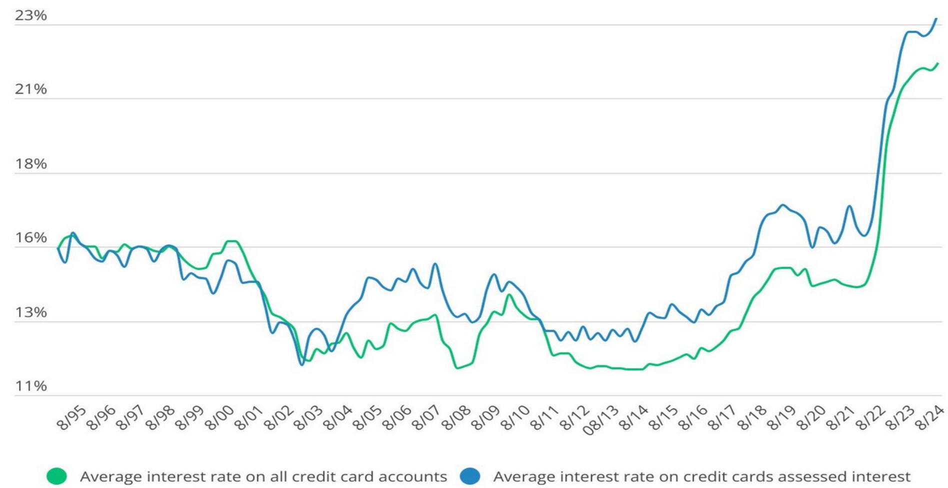
TOTAL HOUSEHOLD DEBT, TRILLION $

Source: New York Fed

Average interest rate for all credit card accounts, 1994 to present



Source: Federal Reserve monthly G.19 report on consumer credit

lendingtree

Total Household Debt as % of Disposable Income

Sources: New York Fed, BEA WOLFSTREET.com

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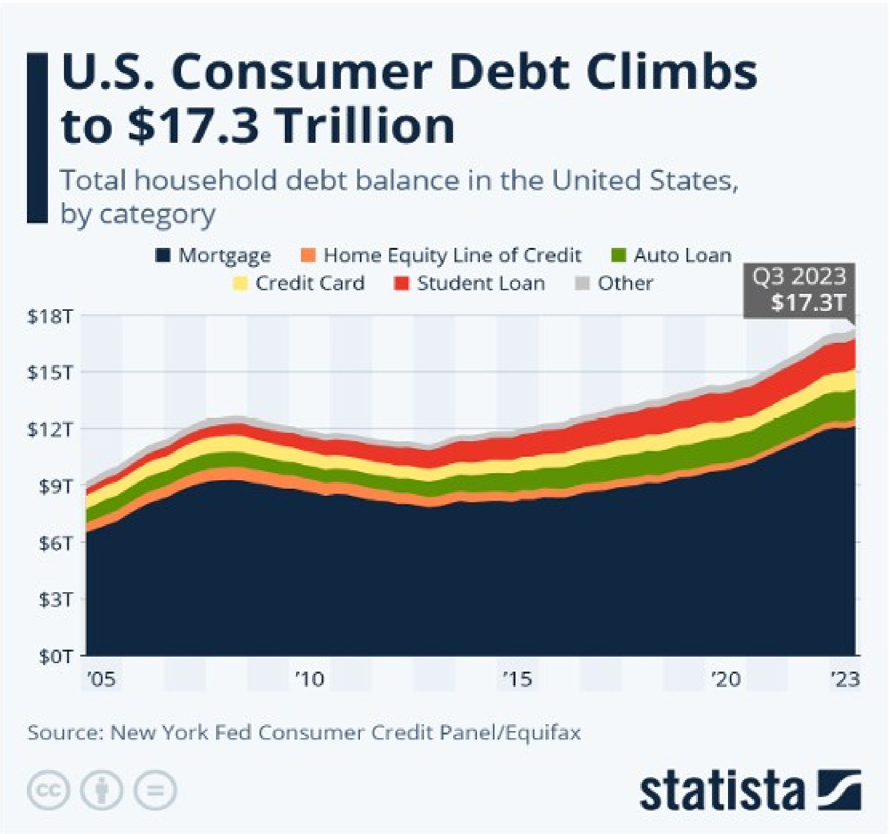
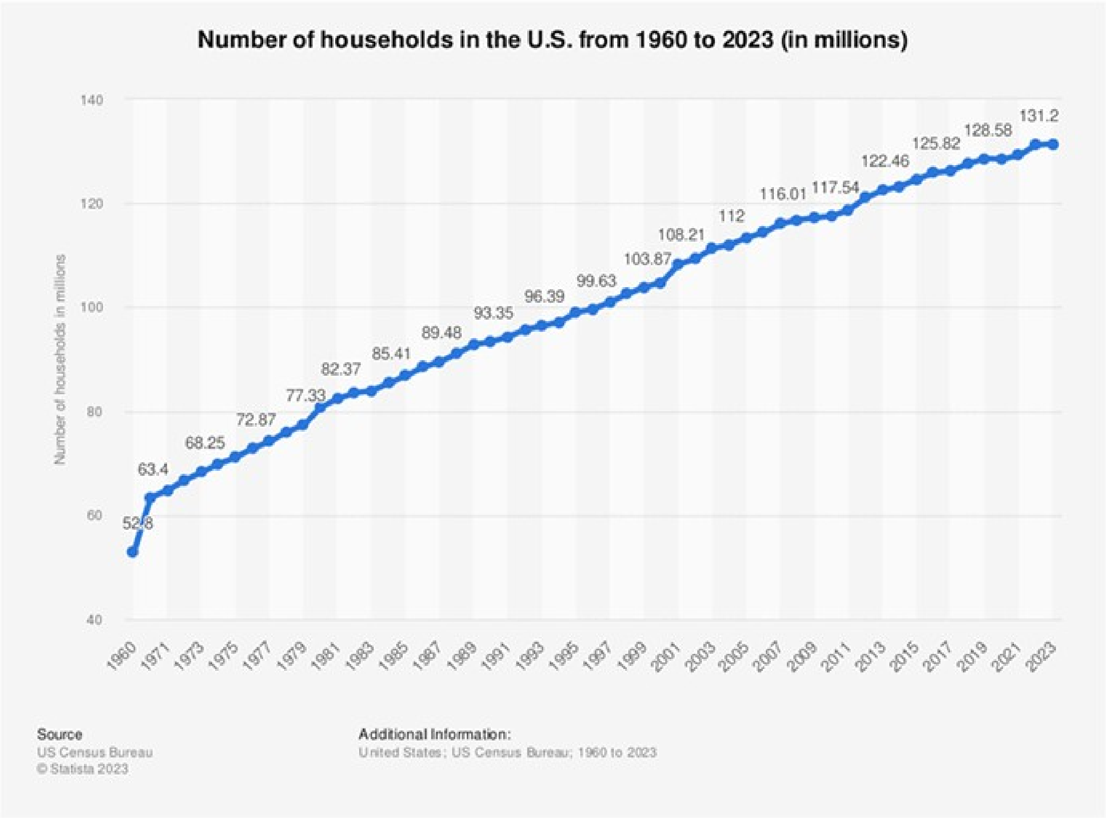
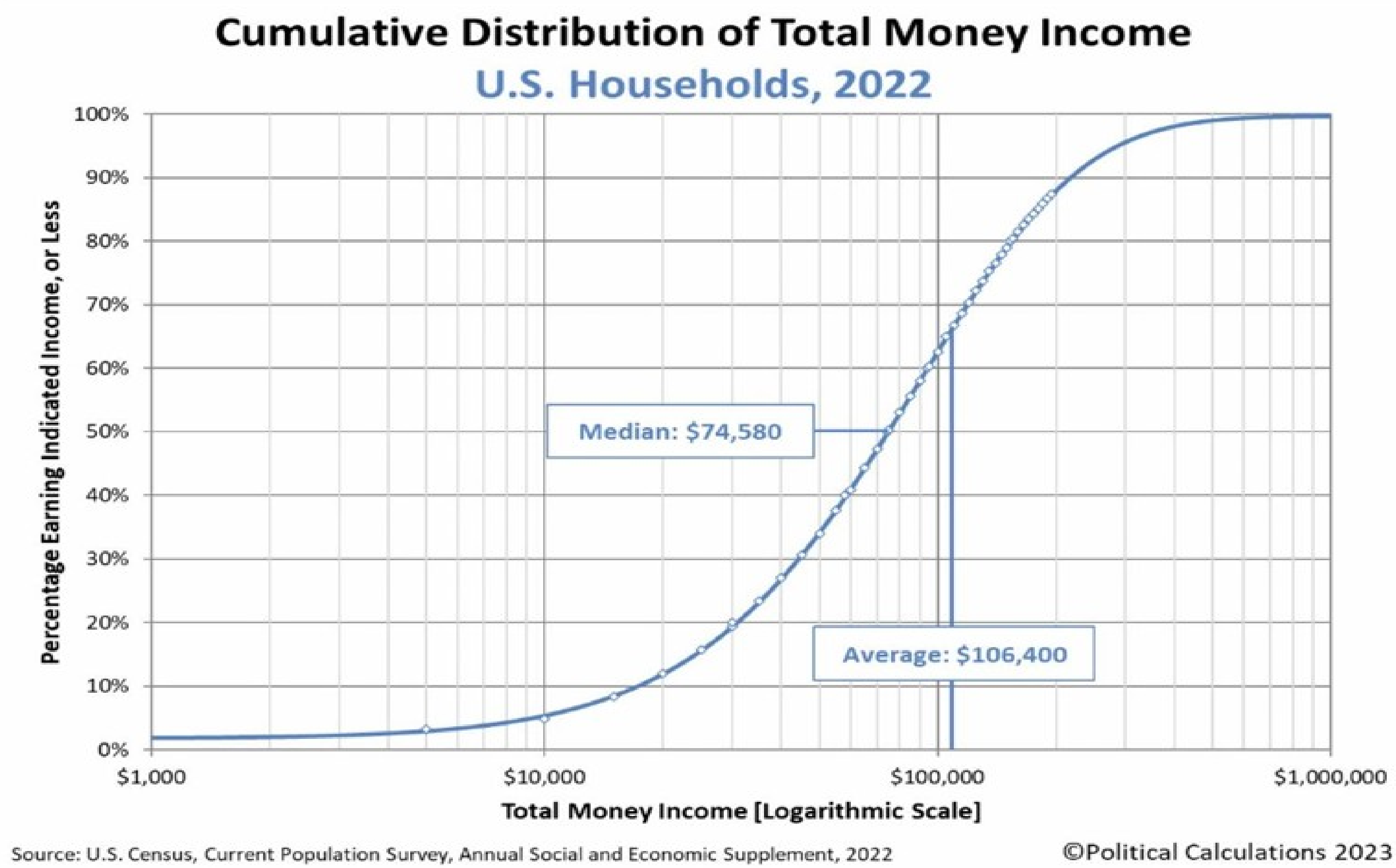
Perché gli Stati Uniti iniziano una guerra commerciale
Household Debt : Fake news e realtà





17.300(Consumer Debt) / 131.2(Housholds) = 131.859 USD Debt per Household

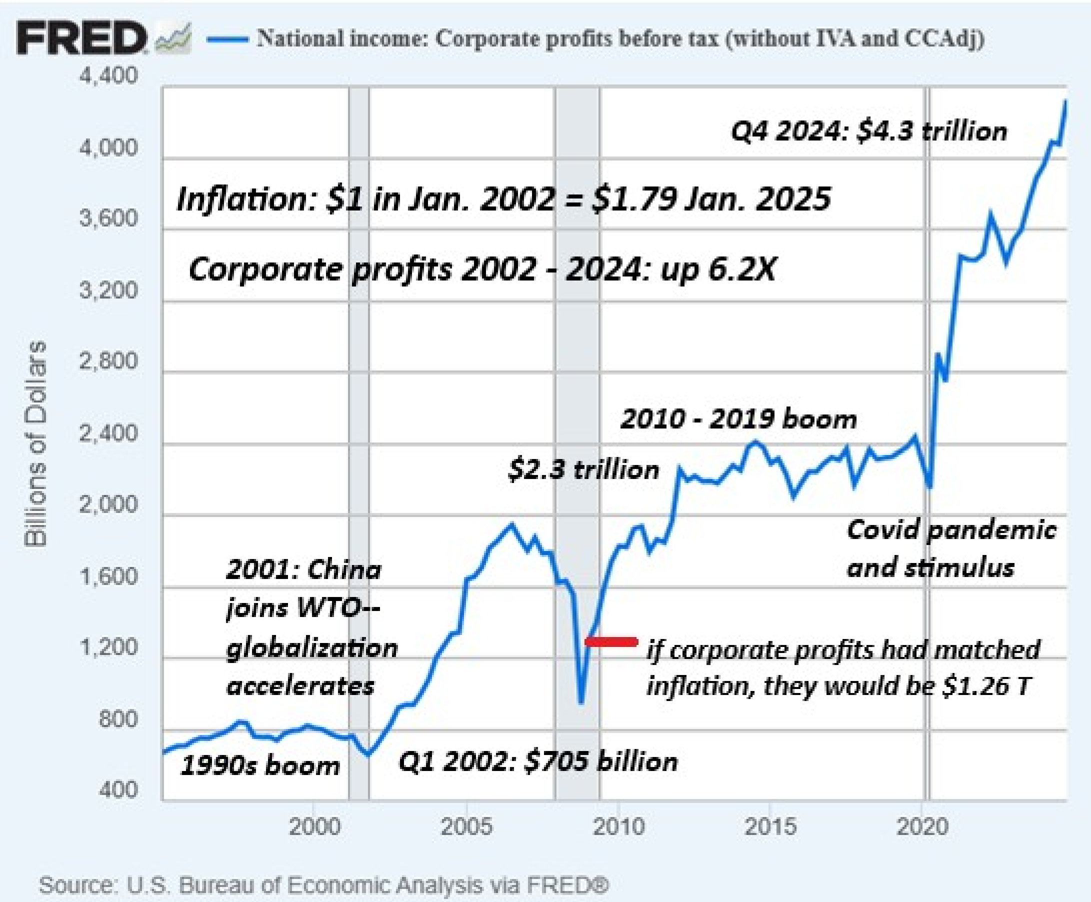
Perché gli Stati Uniti iniziano una guerra commerciale
Household Debt : Fake news e realtà



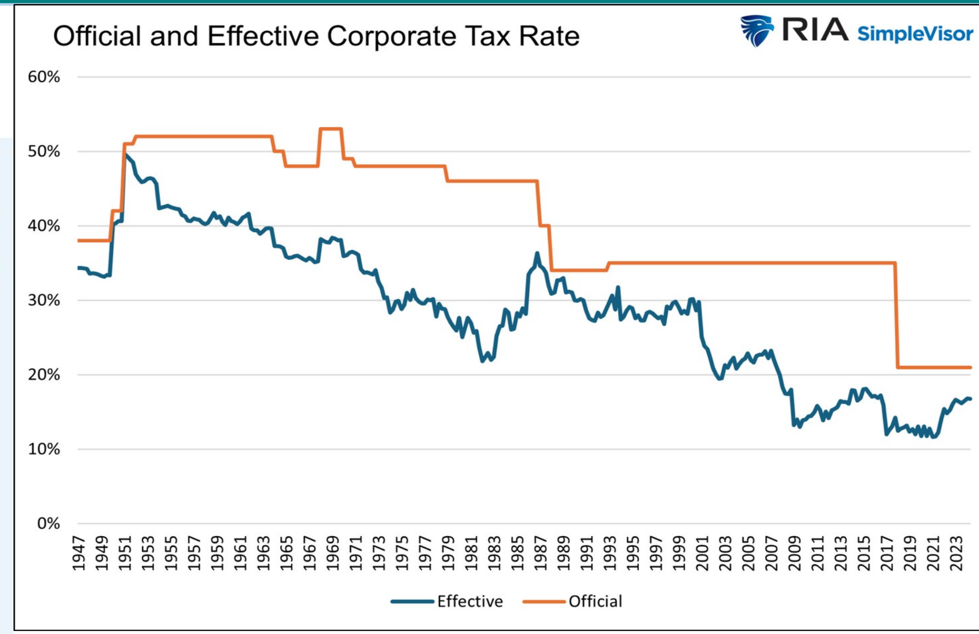
131.859 USD Real Debt/ Average Income = 130%

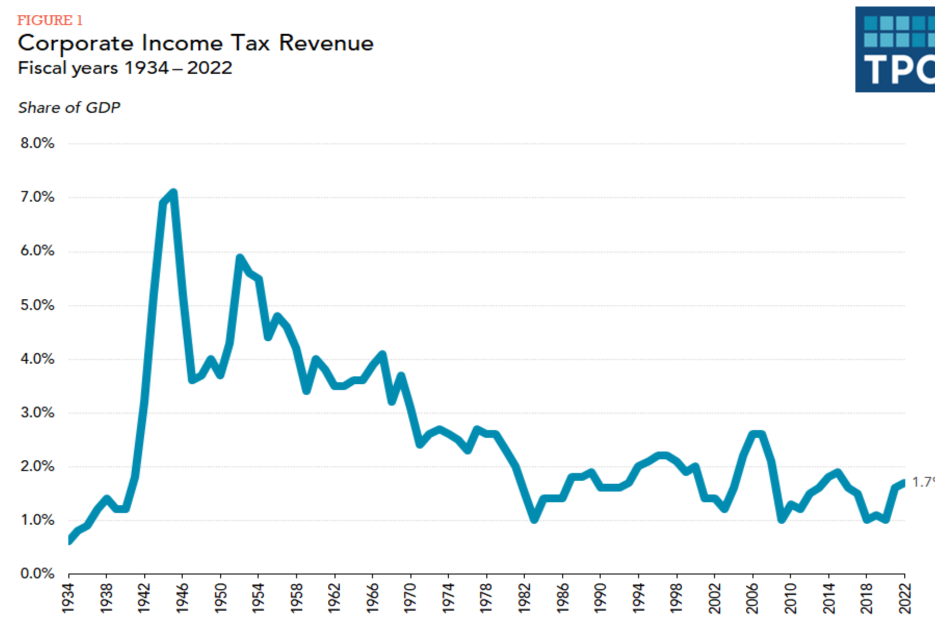
131.859 USD Real Debt/ Median Income = 176%

US Corporate profits before tax



notes added by Charles Hugh Smith www.oftwominds.com 4/25

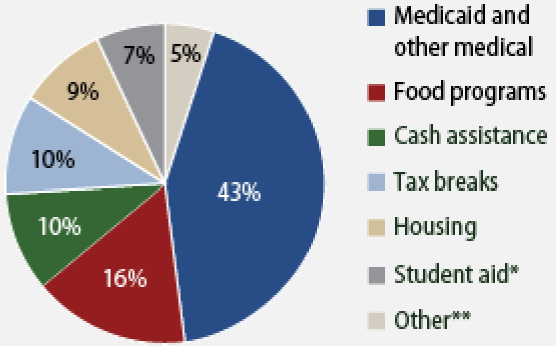




Source: Office of Management and Budget. Historical Tables. Table 2.3, "Receipts by Source as Percentages of GDP: 1934–2028."

FIGURE 3

Federal dollars targeting low-income Americans mostly go to the basic needs of health insurance and food

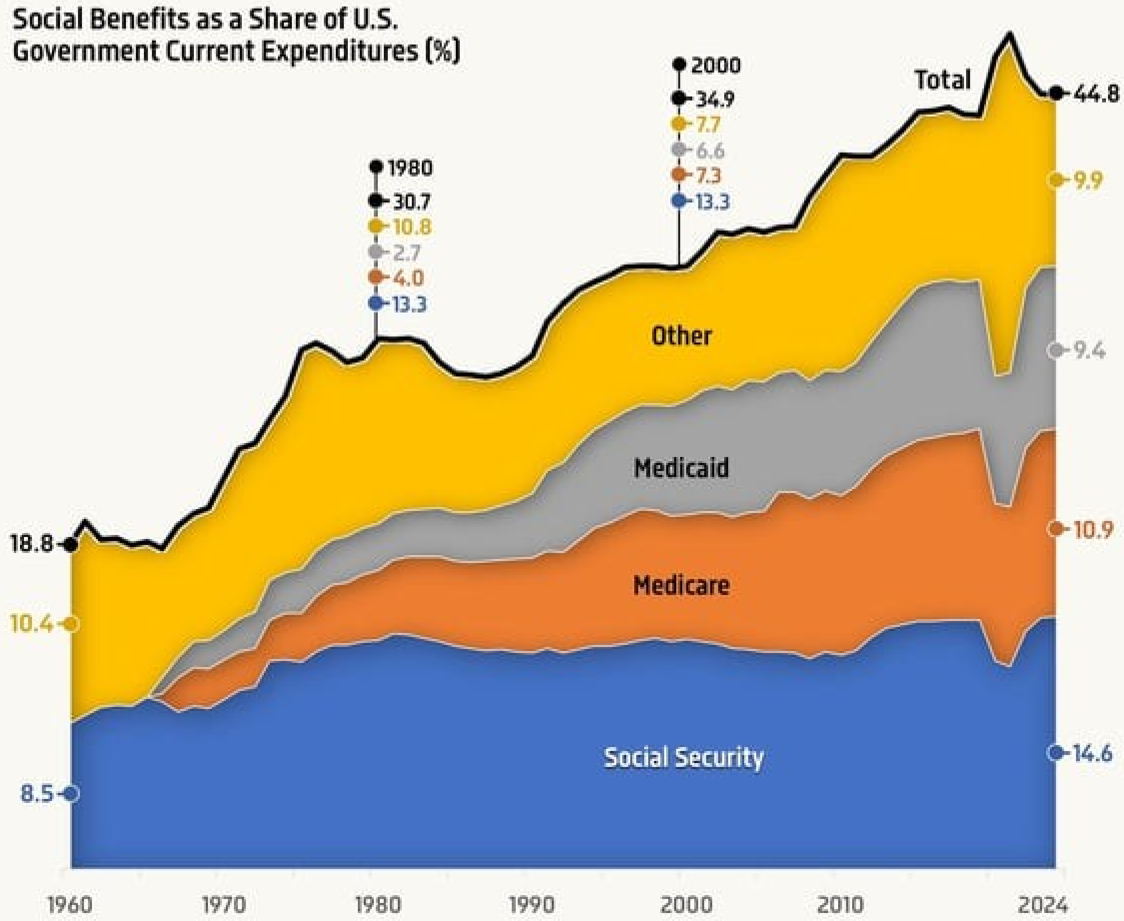


* Student aid money mostly goes to low-income students, but some dollars do not.
**Other programs include LIHEAP (Heating and Cooling Assistance), daycare assistance, foster care and adoption payments, and other items.

Source: Office of Management and Budget, Fiscal Year 2012 Budget of the U.S. Government (Historical Tables).

Social Benefits Reach 45% of U.S. Government Expenditures in 2024

Social Benefits 2024 $4.4 Trillion



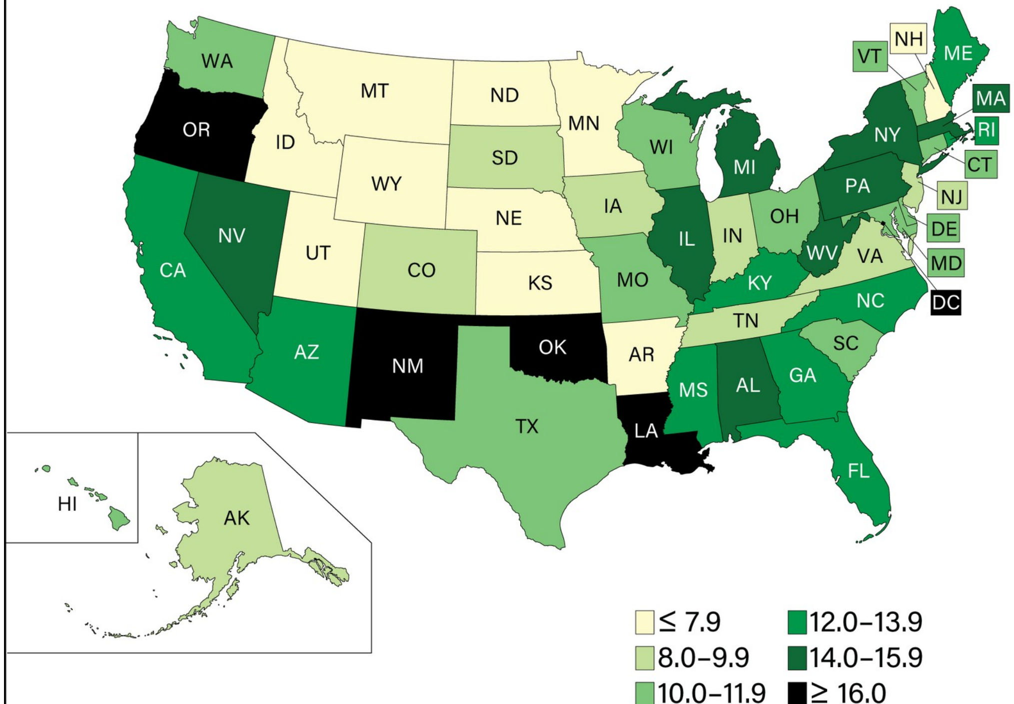
Source of Primary Data: Bureau of Economic Analysis

www.econovis.net @econovisuals

How many Americans receive government assistance?

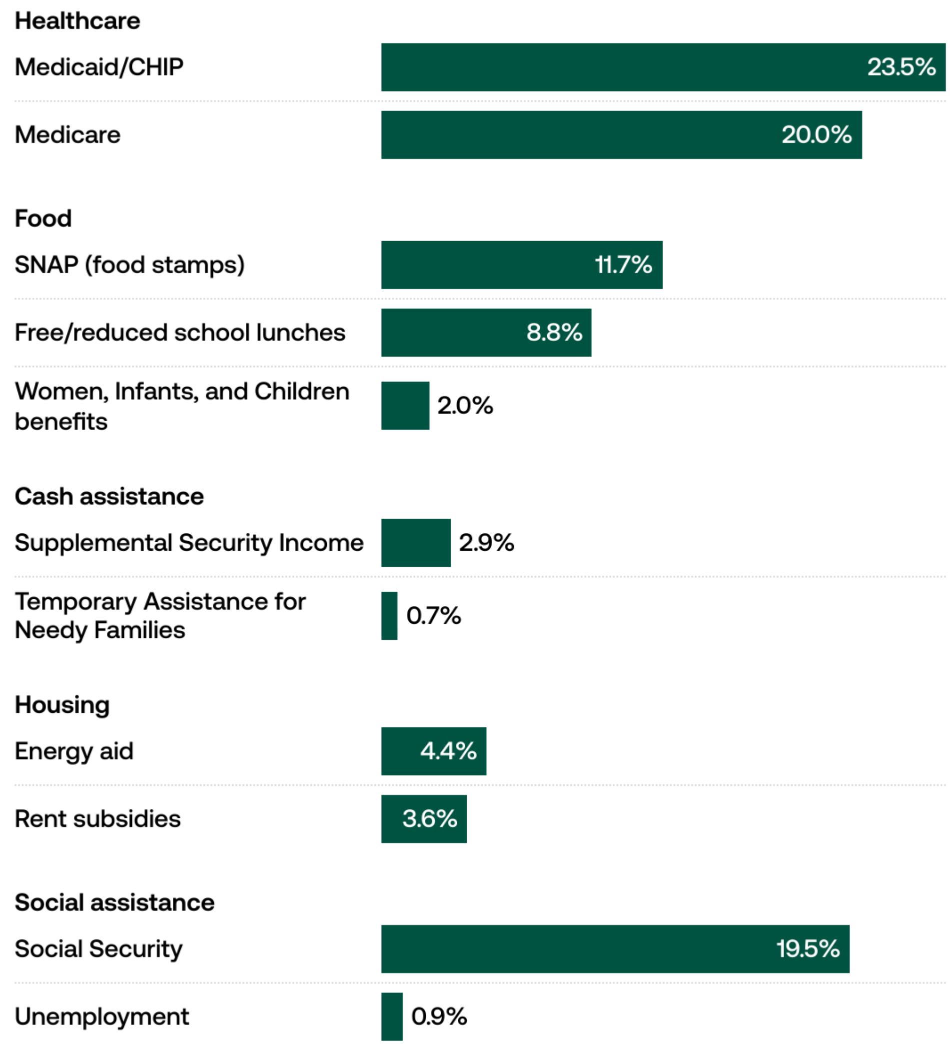
Percentage of individuals receiving benefits by type, 2022

Percent of population receiving SNAP benefits in fiscal year 2024



SNAP = Supplemental Nutrition Assistance Program.

Source: USDA, Economic Research Service using USDA, Food and Nutrition Service data and U.S. Department of Commerce, Bureau of the Census data.



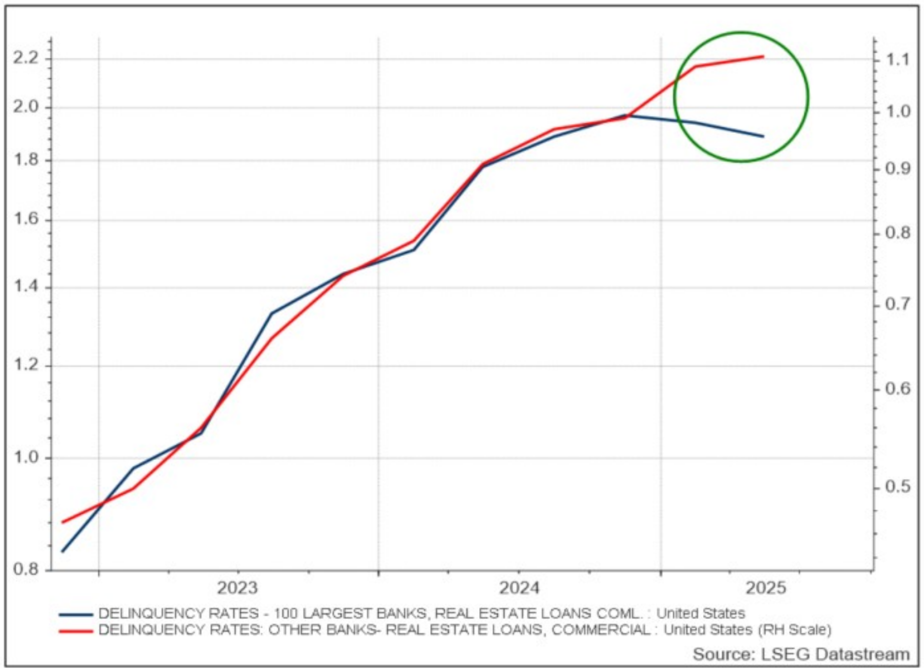
Source: Census Bureau

USAFacts

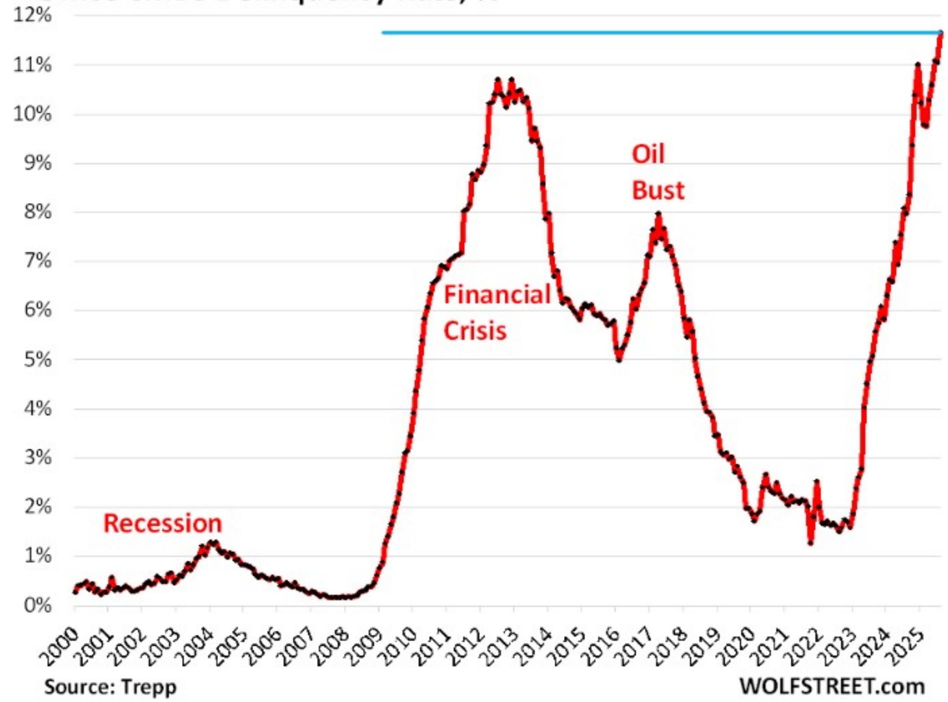
Office CMBS Delinquency Rate Spikes to Record 11.7%, Much Worse than Financial Crisis Peak. Multifamily Delinquencies also Spike

by Wolf Richter • Sep 1, 2025 • 94 Comments

Chart 5: US banks' CRE loan delinquency rates (%)



Office CMBS Delinquency Rate, %



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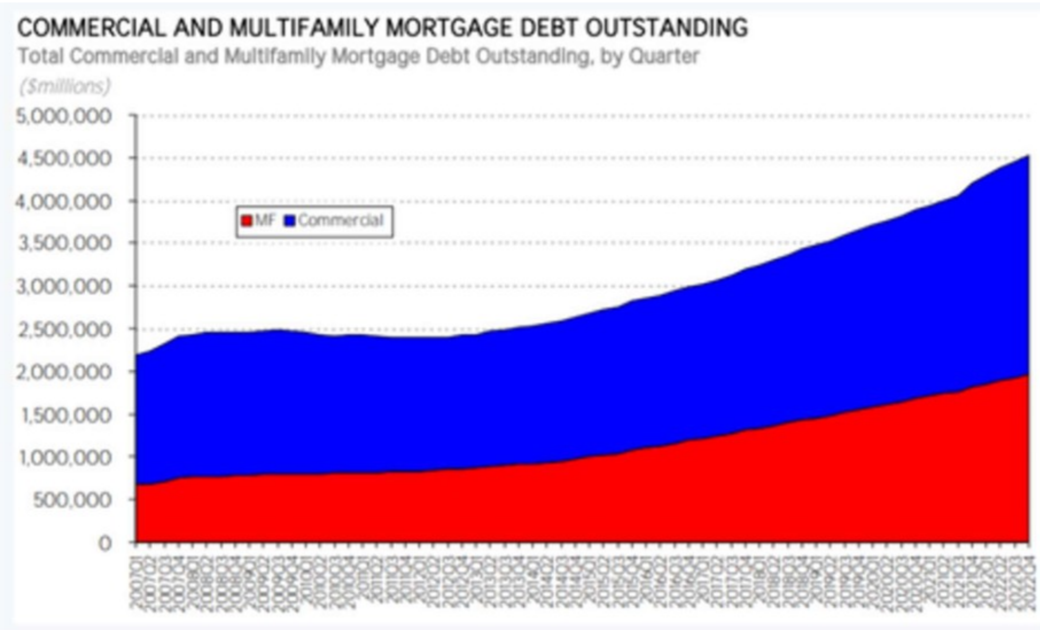
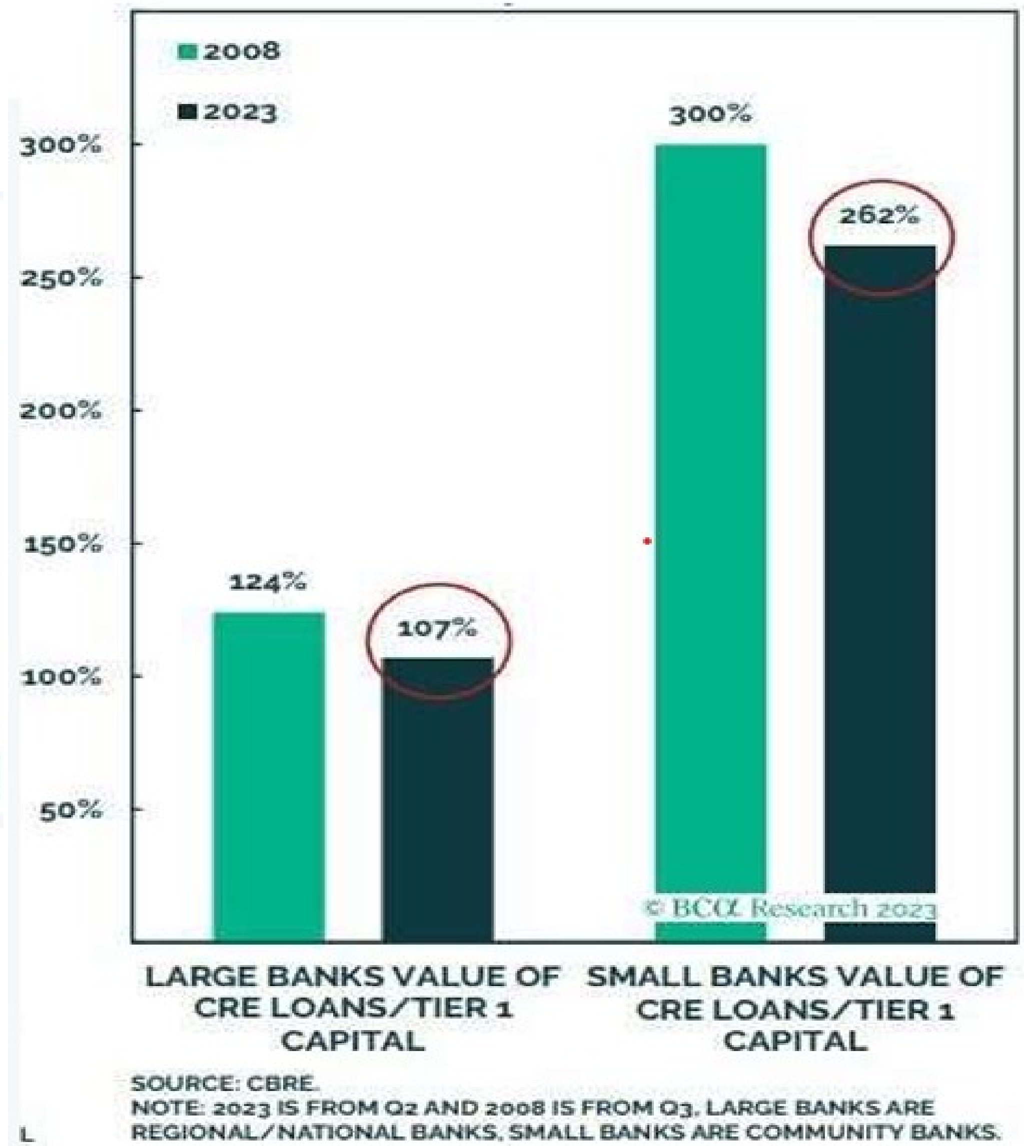

COMMERCIAL AND MULTIFAMILY MORTGAGE DEBT OUTSTANDING
Total Commercial and Multifamily Mortgage Debt Outstanding, by Quarter
($millions)
5,000,000
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
MF
Commercial


2008
2023
300%
250%
200%
150%
100%
50%
124%
107%
300%
262%
© BCA Research 2023
LARGE BANKS VALUE OF CRE LOANS/TIER 1 CAPITAL
SMALL BANKS VALUE OF CRE LOANS/TIER 1 CAPITAL
SOURCE: CBRE.
NOTE: 2023 IS FROM Q2 AND 2008 IS FROM Q3. LARGE BANKS ARE REGIONAL/NATIONAL BANKS, SMALL BANKS ARE COMMUNITY BANKS.