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BBVA Research

U.S. Recession Risk Monitor

June 2019

Creating Opportunities

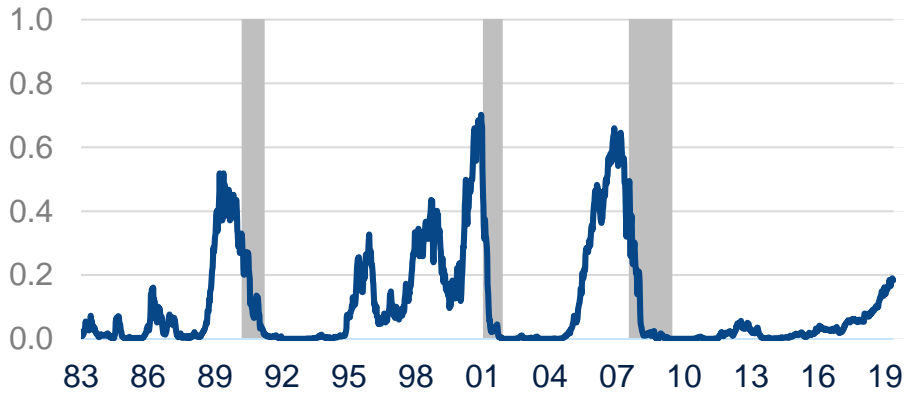
Highlights

- Models suggest more than 70% probability of recession within the next 24 months
- Shadow banking, business debt and risk appetite represent major red flags
- Dovish Fed response has potential to negate downside risks in short-term
- Trade tensions weigh on business expectations and market sentiment
- Economic fundamentals for households and financial institutions remain solid
- Weak activity and higher financial stress abroad

BBVA U.S. Recession Probability

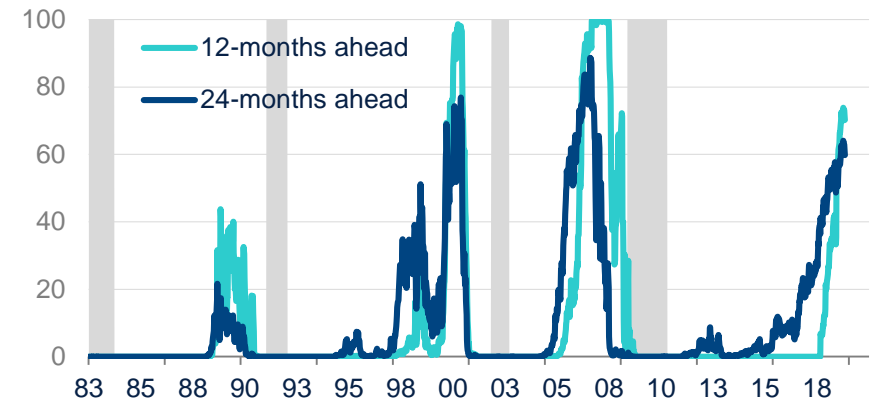
Treasury Spread Term-Premium Adjusted

%, 12m-ahead



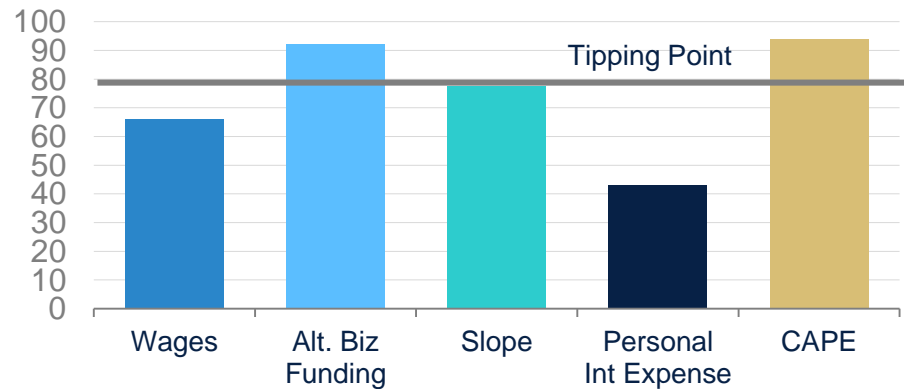
Recession Probability Factor

%, 12-months & 24-months ahead



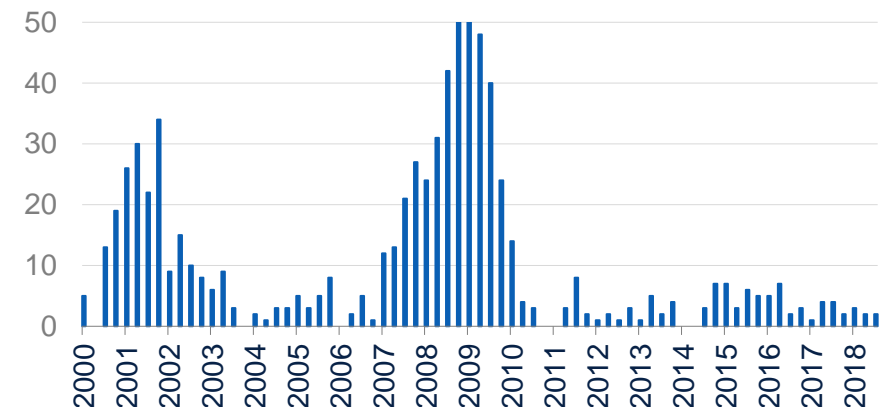
Risk Factors

Percentile Rank



Regional Conditions

of States with greater than 30% probability



Recession Probability

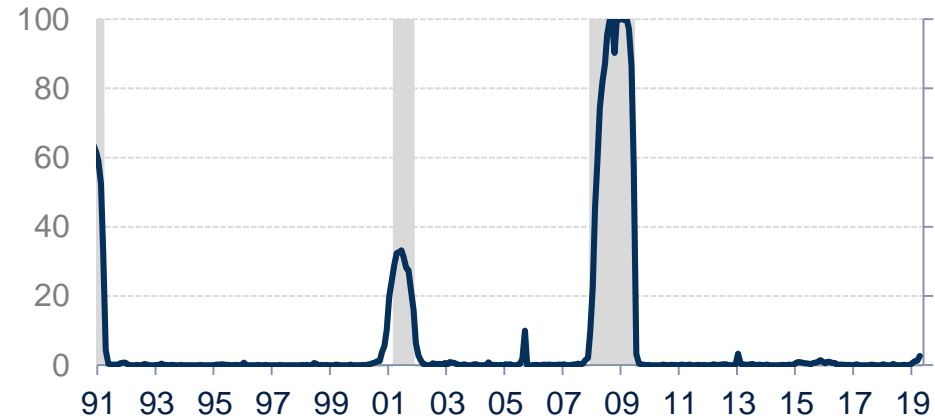
Treasury Spread Model

%, 12-months ahead



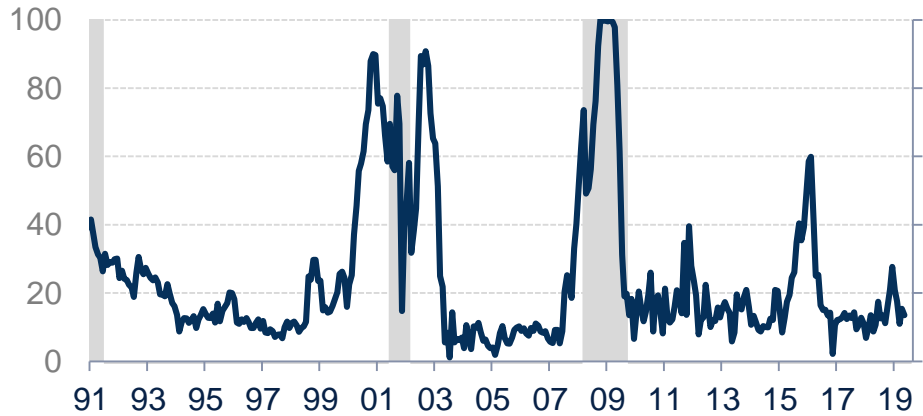
Dynamic-Factor Markov-Switching Model

%, 12-months ahead



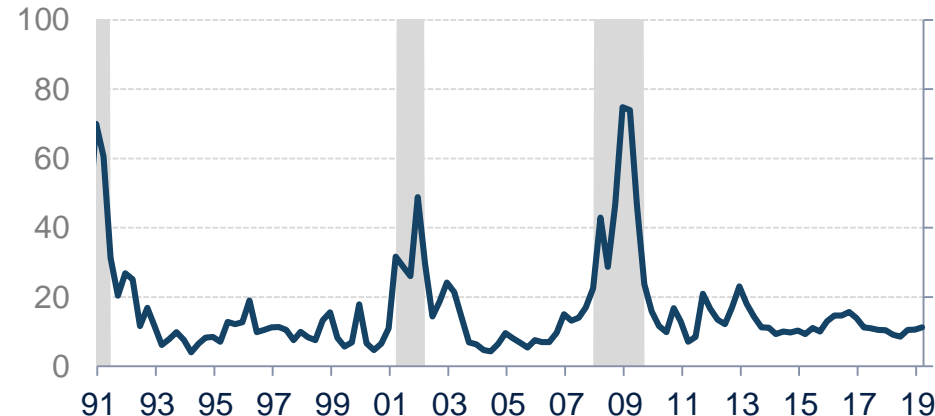
Credit Spread Model

%, 12-months ahead



Survey of Professional Forecasters

Probability of decline in real GDP next quarter, %

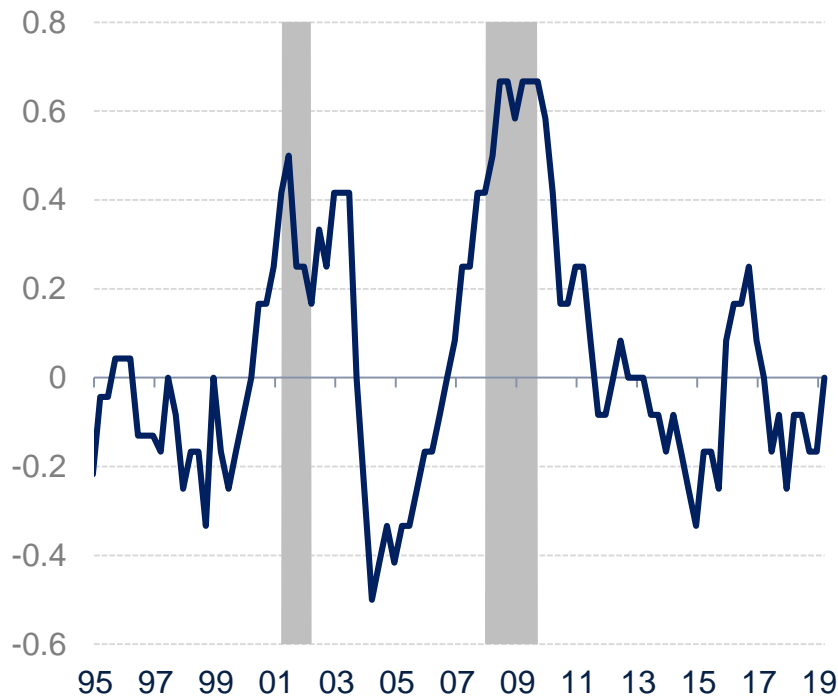


Credit Cycle and Recession Timing Indexes

Risk of systemic crisis remains low.
 Timing of next recession is narrowing

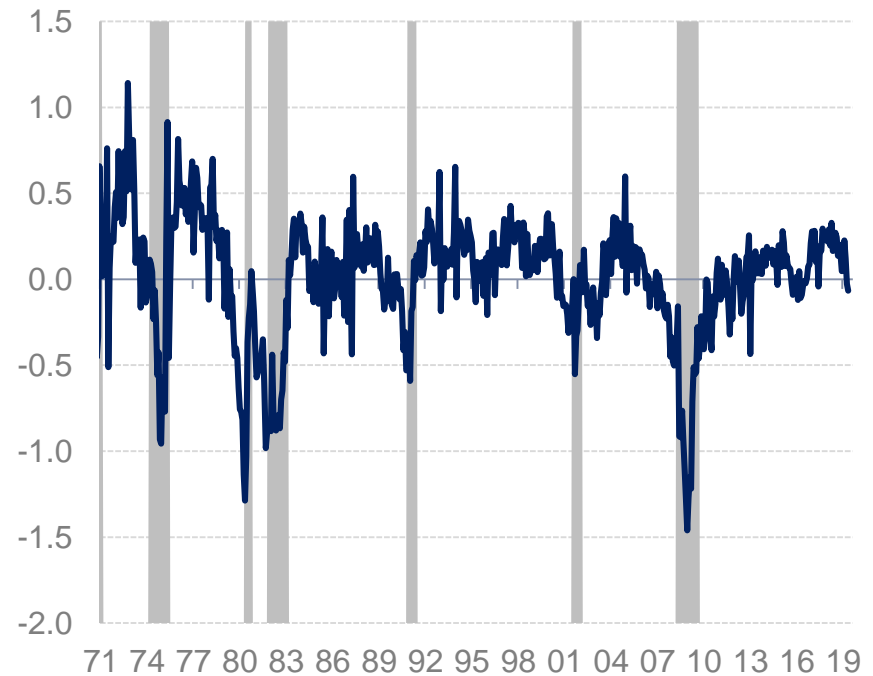
BBVA U.S. Credit Cycle Risk Index

Above 0 = above average risk



BBVA U.S. Recession Timing Index

Below 0 = shorter lag to recession

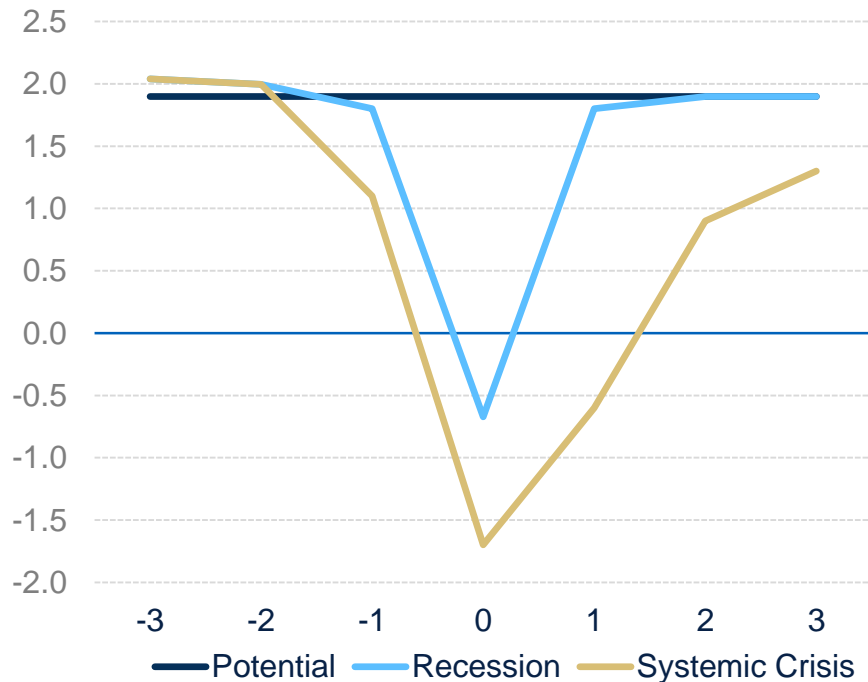


Scenarios

A painfully slow U-shape recovery is more likely under less effective monetary and fiscal response

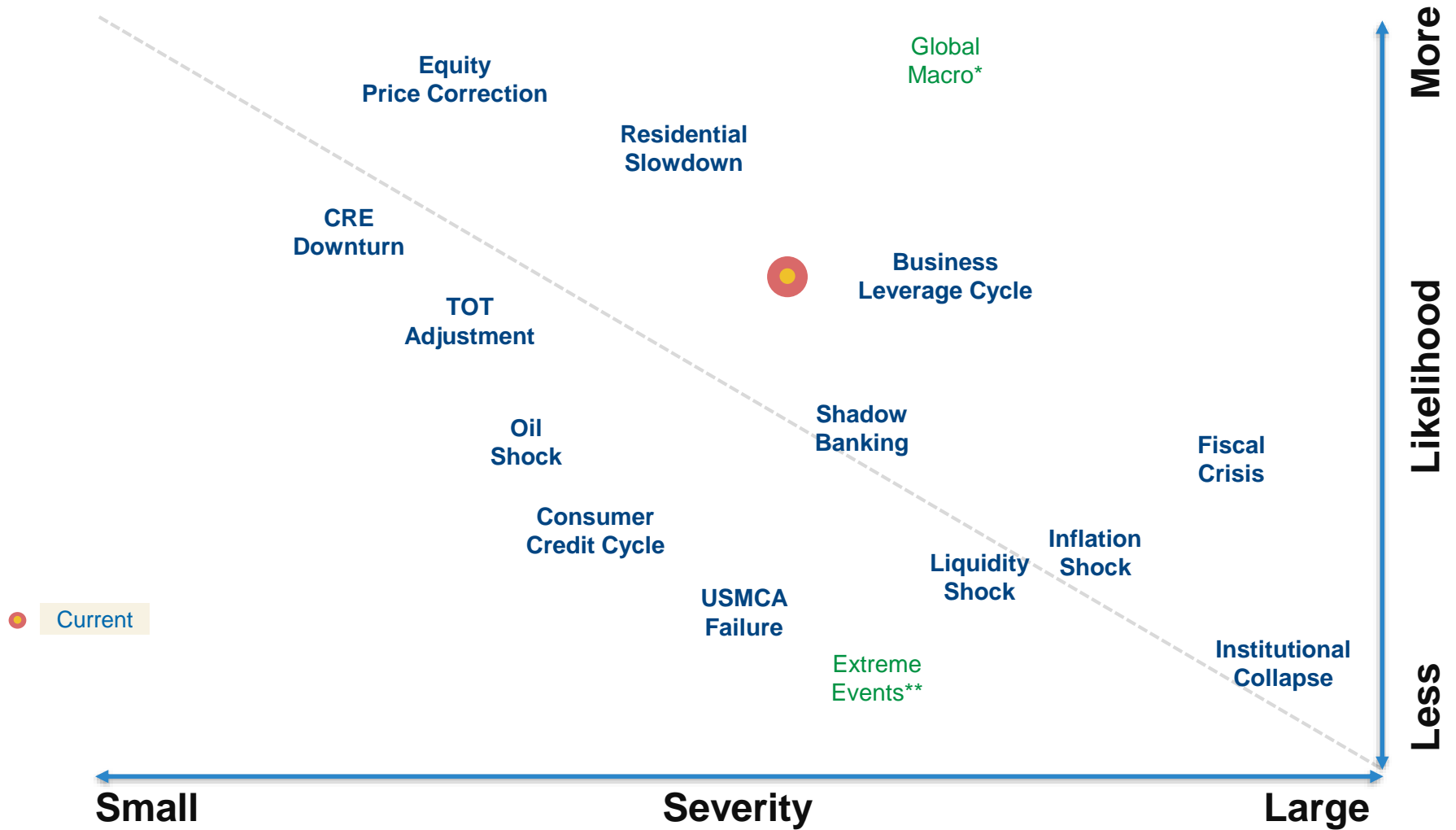
Recession Severity

Real GDP growth; t=0 year of recession



Outcome	Probability 2019-2021	t	t+1
No recession	55%	2.1 (Baseline avg. 2019-21)	
Recession	45%	-0.7	1.8
<i>Systemic crisis</i>	4%	-1.7	-0.6

Risk Matrix



Source: BBVA Research; This assessment is not static and can change significantly depending on future developments

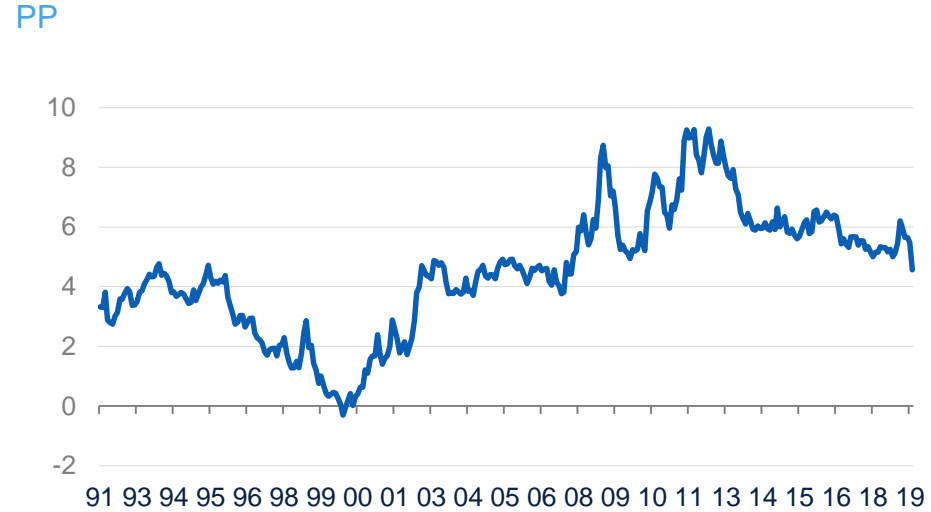
* Includes trade war, macro conditions in China, Euro Area, Brexit, Emerging Markets ** Includes non-economic factors: Climate, Cybersecurity, Pandemic, Terrorism, Migration, etc.

Financial Markets

Forward PE ratio of S&P 500 Firms



S&P Spread Forward EP Ratio to Real 10YTN



Corp. Bond Premium over Expected Losses



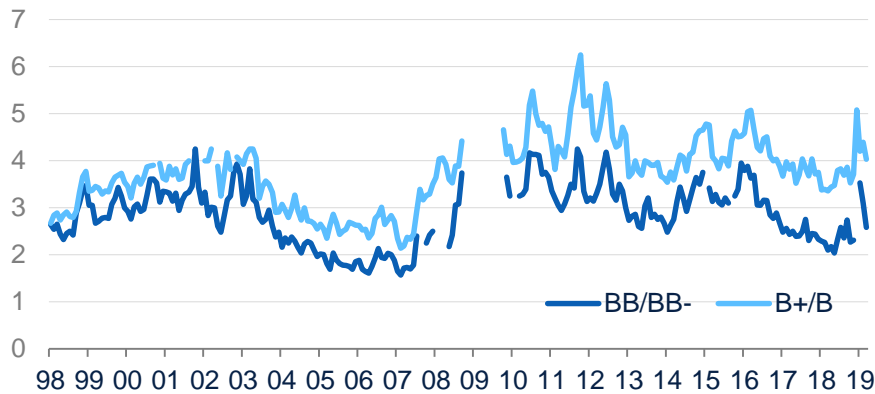
Term-Premium on Nominal 10YTN



Financial Markets

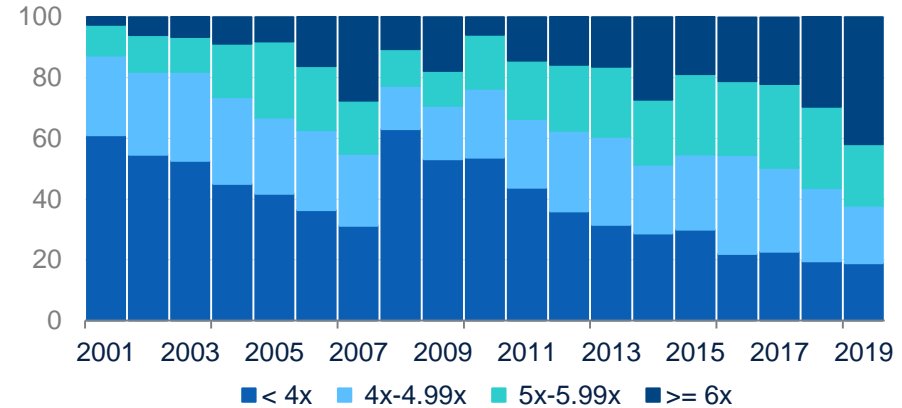
Newly Issued Institutional Leveraged Loans

Spread, PP

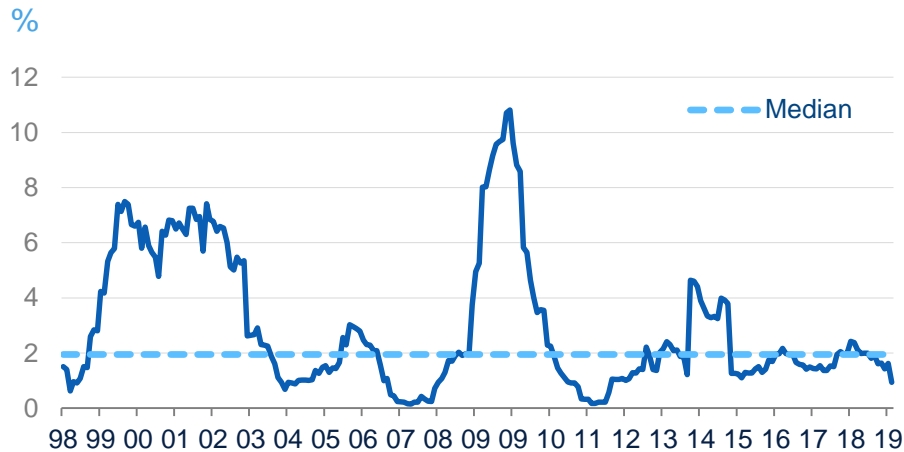


Large Institutional Leveraged Loan Volumes

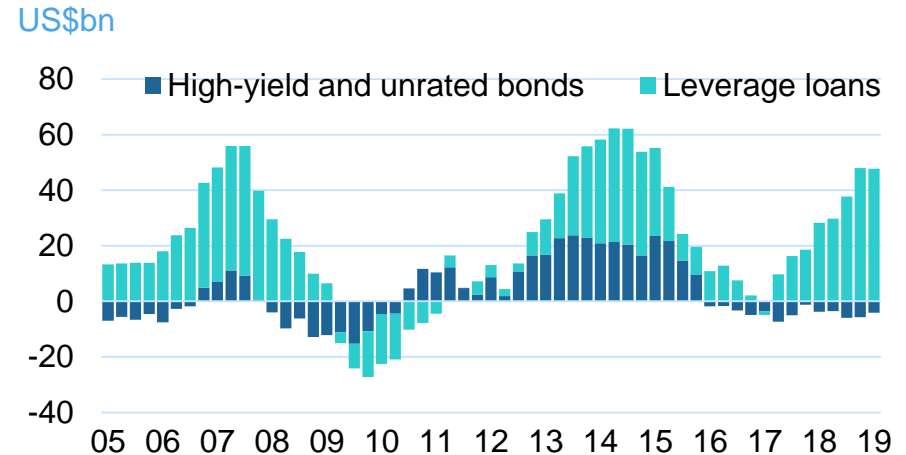
Debt-to-EBITDA ratio, %



Default Rates of Leveraged Loans



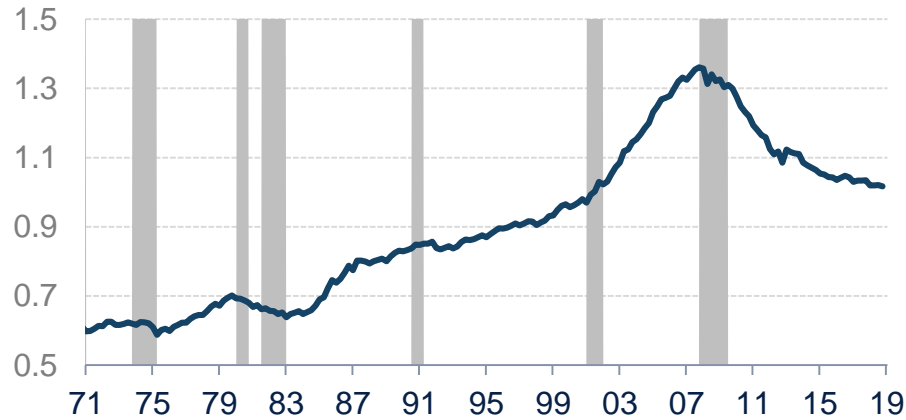
Net Issuance of Risky Business Debt



Households

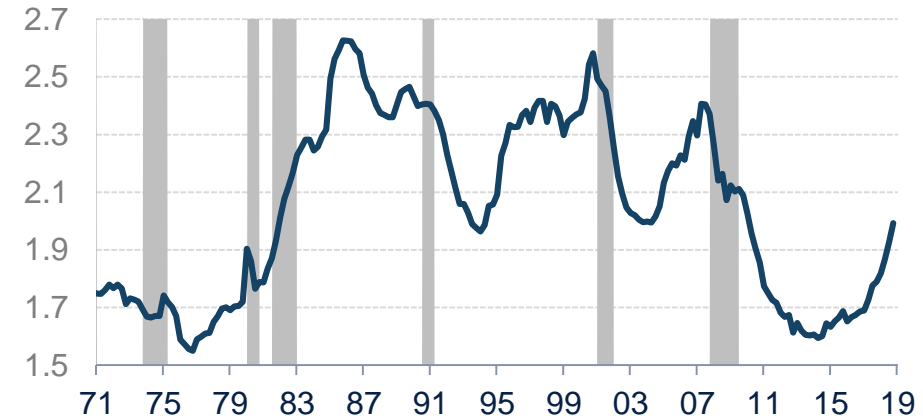
Liabilities/Disposable Income

Ratio



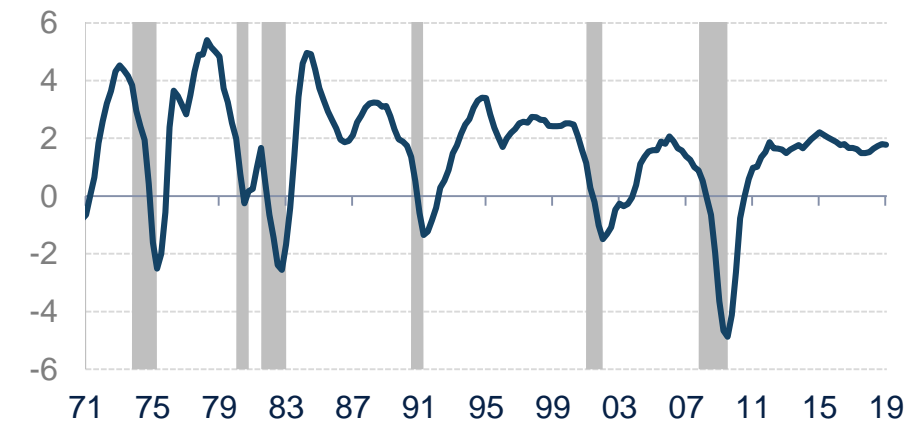
Interest Payments/Personal Income

%



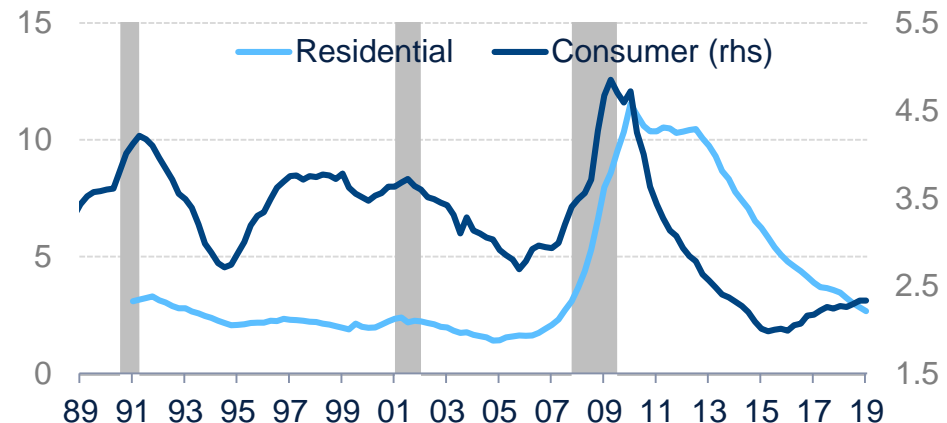
Nonfarm Payroll

YoY % Change



Delinquency Rate

%



Businesses

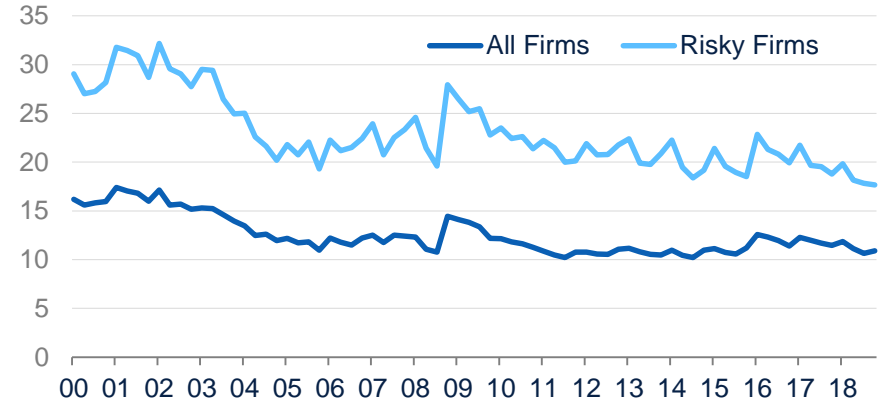
Gross Balance Sheet Leverage

Public nonfinancial corporations, %



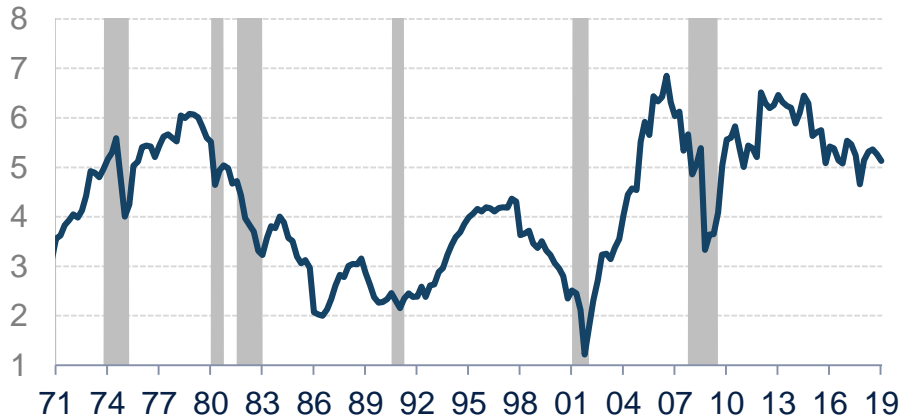
Interest Expense Ratio

Public nonfinancial corporations, %



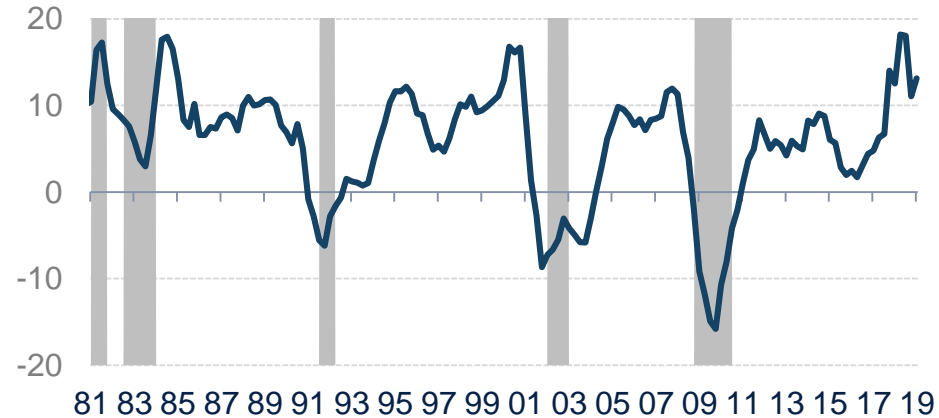
Nonfinancial Corporate Profits

% of GDP



Nonfinancial Short-term Liabilities

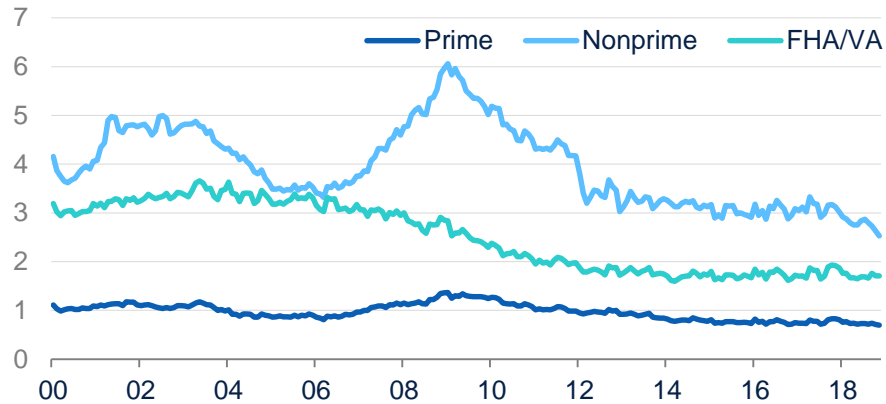
Corporate, YoY % Change



Real Estate

Mortgage Transition Rates into Delinquency

% of previously current loans



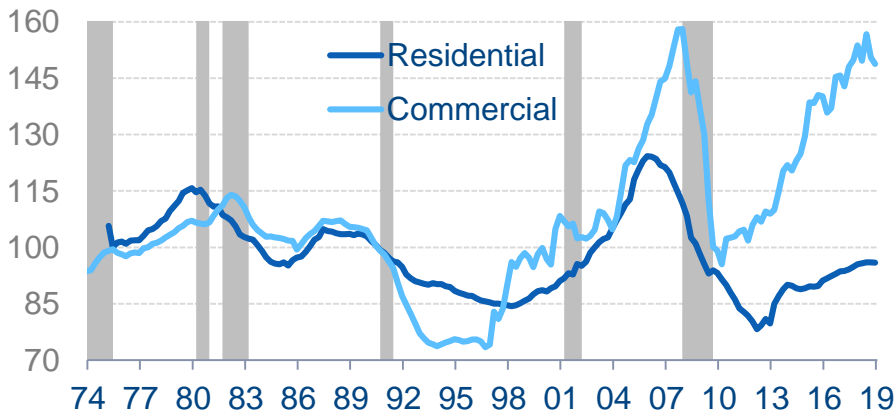
Mortgages with Negative Equity

%



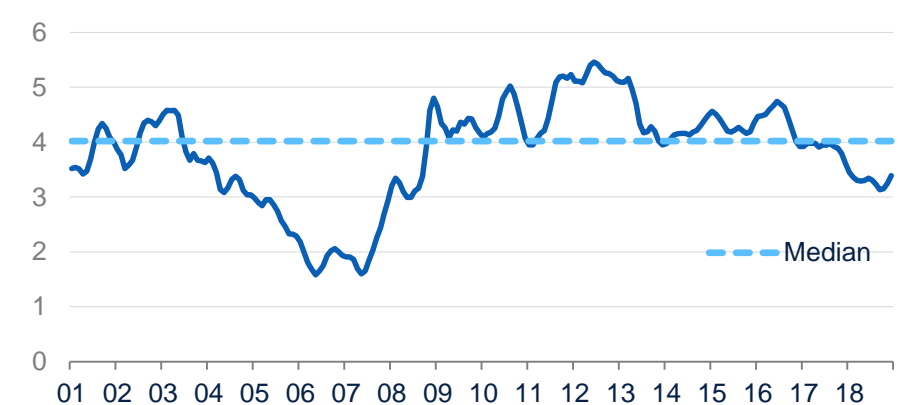
BBVA Real Estate Price Misalignment

1990=100



Cap Rates to 10-Year Treasury Yield

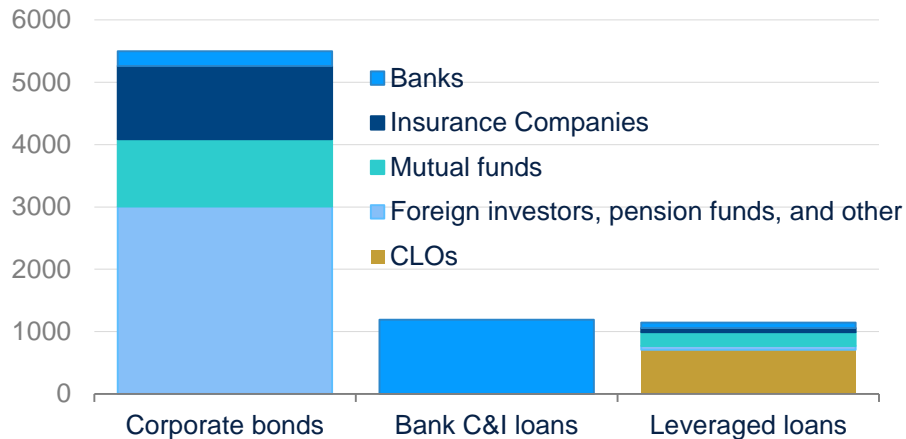
Spread, PP



Financial Sector

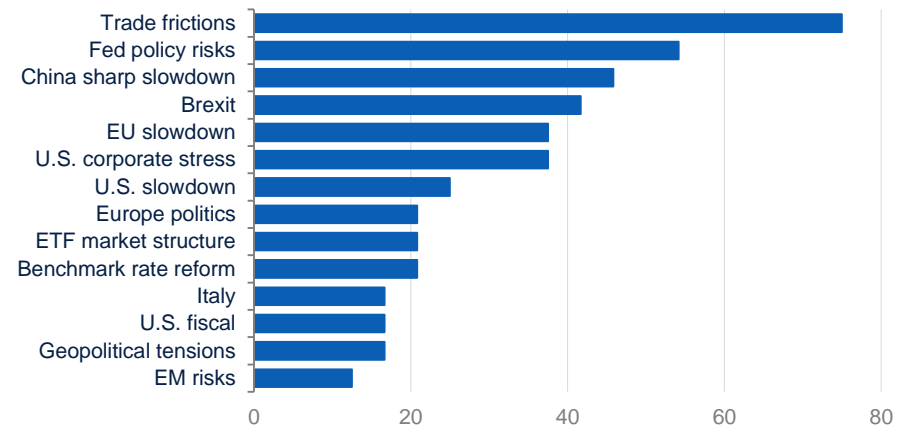
Corporate Debt, by Type of Debt and Holder

US\$Bn



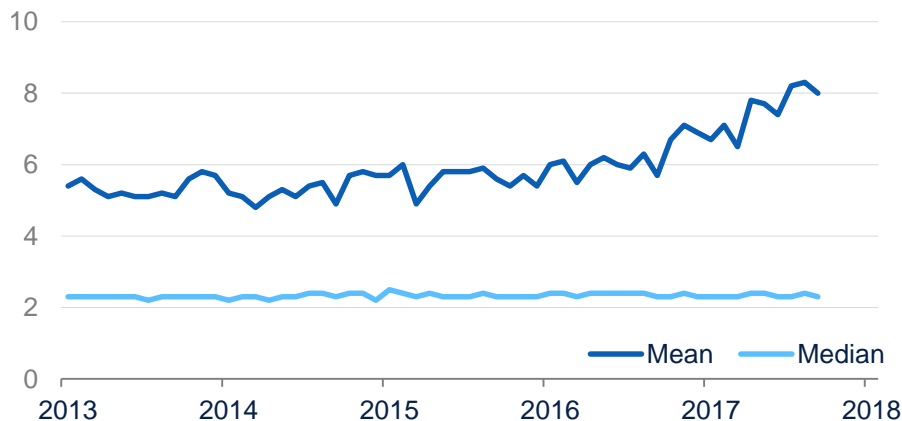
Concerns-Potential Shocks

Share of contacts citing shock, % of total



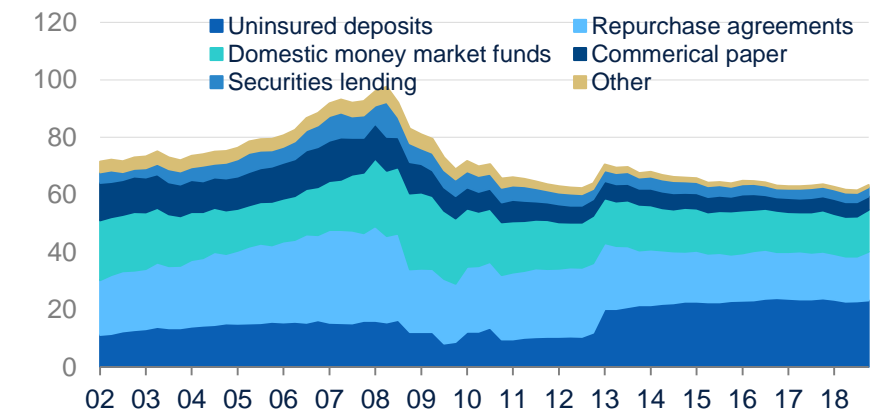
Gross Leverage of Hedge Funds

Ratio



Runnable Money-Like Liabilities

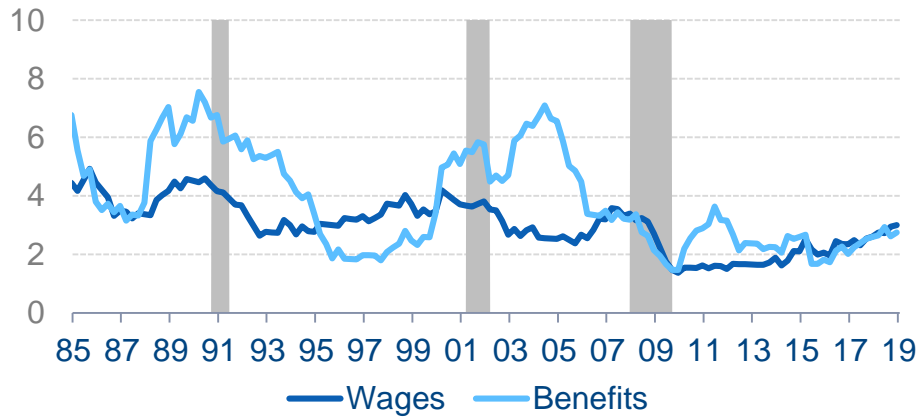
% share of GDP



Prices

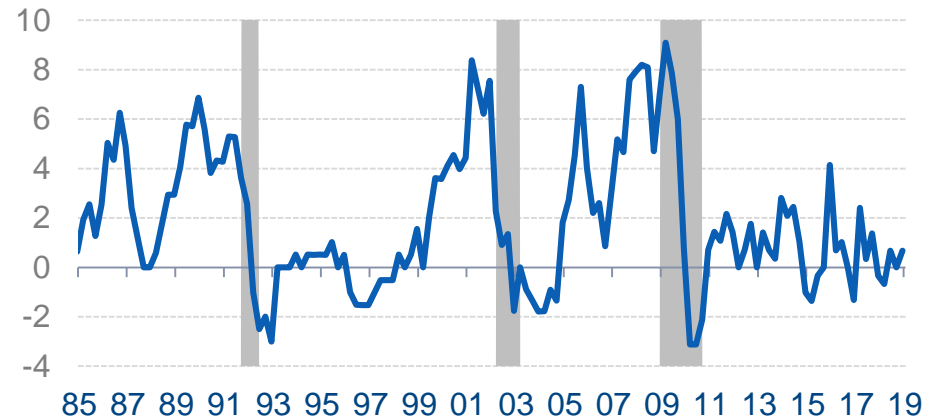
Labor Costs

YoY % change, ECI



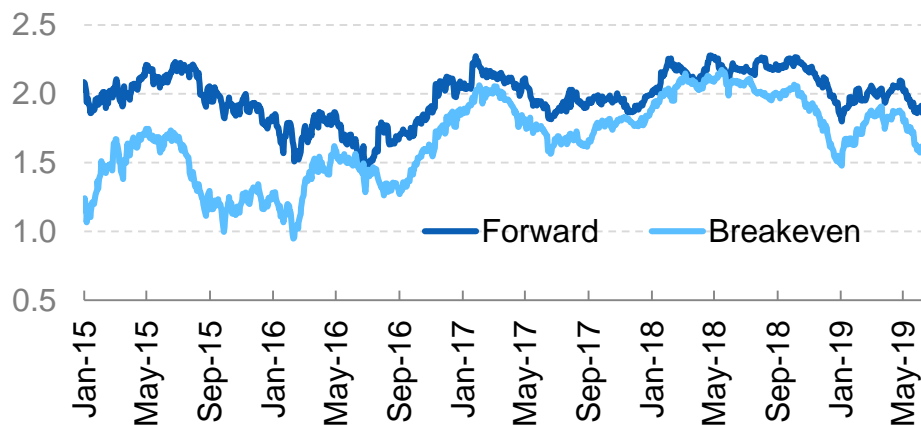
Nonlabor Costs per Unit of Real GDP

YoY % change



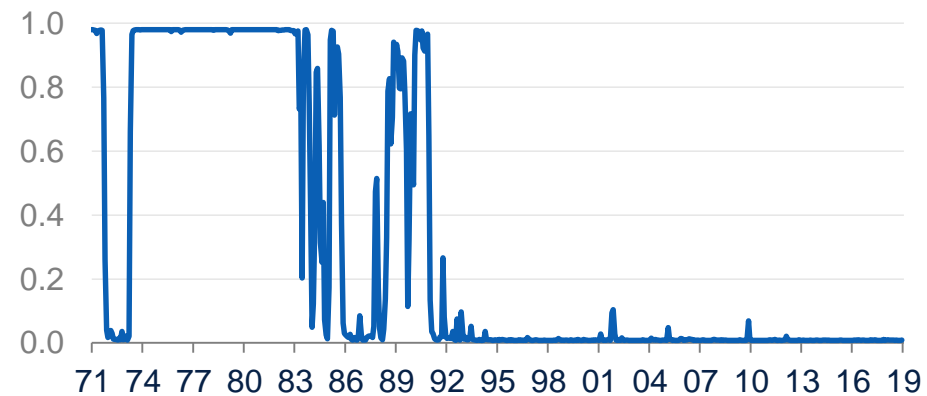
Market Inflation Expectations

%



BBVA Inflation Regime Probability

Regime change low to high, %



Global Conditions

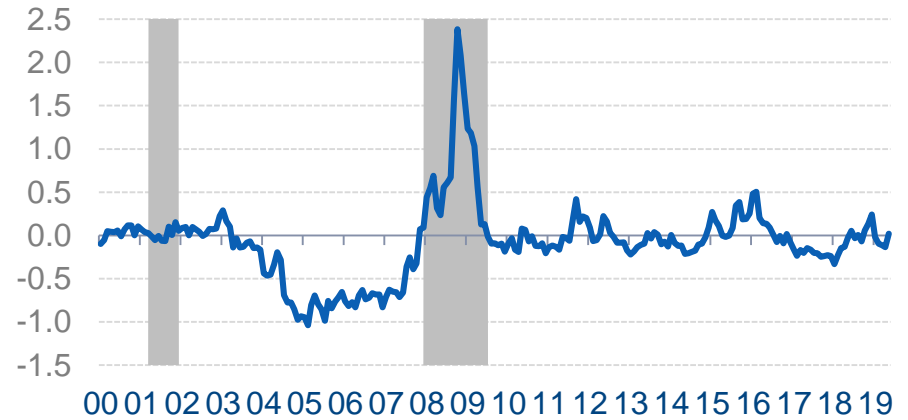
Advanced Economies Financial Stress

0=Average stress level



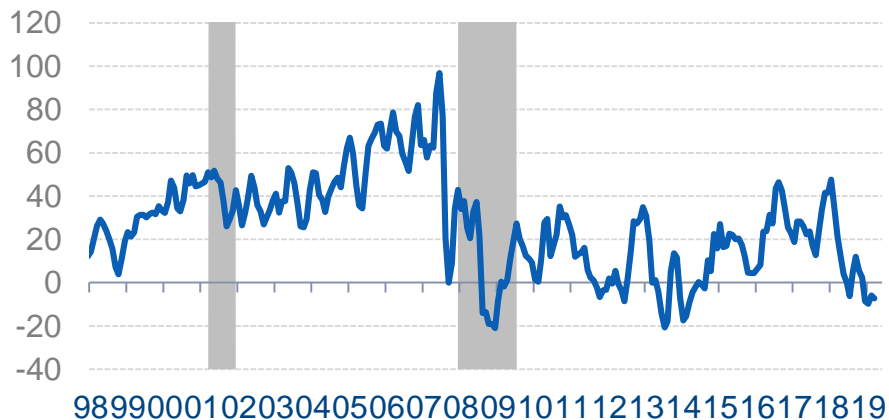
Emerging Markets Financial Stress

0=Average stress level



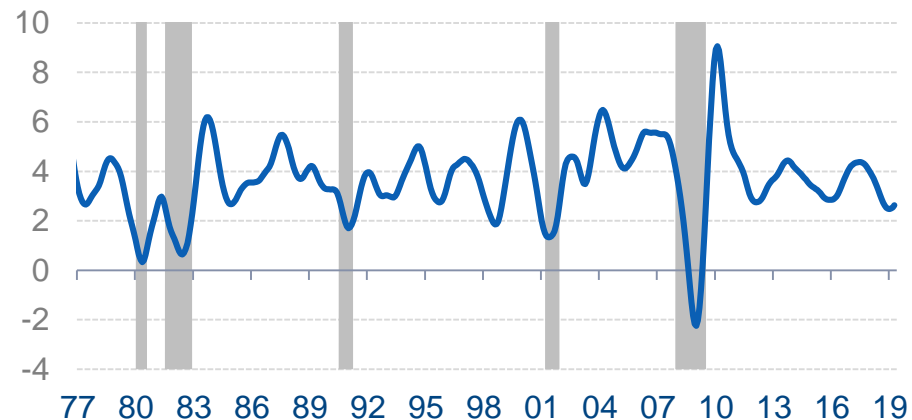
Net Foreign Purchases of U.S. Securities

US\$bn, 3mma, excluding OFIs and Int'l organizations



Global Activity Leading Indicator

YoY % Change



For more information

Recent economic briefs and presentations:

[All things come to an end, but is the U.S. headed for recession?](#)

[Corporate debt in the twilight of the credit cycle](#)

[Just what the doctor ordered: real-time recession forecasts](#)

[Recession risk monitor January 2019](#)

[Recession risk monitor March 2019](#)

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