

# Why good gardeners should take credit

## Strong growth requires more than just liquidity

- **No short cuts** — Just as with the global economy, in gardening there are no short cuts. Unless you pull out the weeds by their roots, your plants are unlikely to thrive.
- **Pour on more fertilizer** — Yet short cuts are exactly what we have taken, pouring on liquidity and postponing painful structural reforms rather than dealing with the debt. The only two major economies in which total non-financial sector debt has fallen since 2000 are Germany and Japan. Even EM growth has become dangerously credit-dependent.
- **Growth reaching its limits?** — Western corporates basically stopped hiring back in 2000. Whether the root cause is globalization, ageing populations, or uncertainty created by all the debt, most now seem keener on returning capital than on investing it. Yet without a vibrant corporate sector, deleveraging by governments and households becomes almost impossible.
- **Unreliable harvests** — Adding fertilizer and liquidity before the ground has been cleared stimulates growth, but in weeds as well as plants. With defaults being artificially suppressed, and investors left desperate for yield, the environment is actually extremely positive for credit. But such chemically induced growth is much less stable than it seems. While we expect spreads to continue tightening, we have little confidence in the durability of the harvest.

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