Global Macro Drivers and Risk Management

Lawrence Goodman
President – Center for Financial Stability

Remarks for the North American Chief Risk Officer (CRO) Council

New York, NY
June 18, 2020
Global Macro Drivers and Risk Management

Topics and / or questions posed by Chief Risk Officers:

II. Can fiscal measures continue forever without implications?
III. Is there any political will to start modifying this agenda?
IV. Perspective on the broader economic agenda.
V. Views into potential longer term dynamics, 10-20 years out
Figure 1. Lesson on Markets and Money from 2019

A RARE OCCURRENCE:
Earnings plunged and markets soared ... in response to eases and an unhinged balance sheet after December 18, 2018.

Source: Bloomberg LP and Center for Financial Stability.
Figure 2. Public debt is a greater albatross than many acknowledge

Total Debt was only **40%** of GDP before the WWII expansion.

Total Debt was already **60%** of GDP before the Great Recession.

Source: US Department of Treasury and Center for Financial Stability.
Figure 3. A Global Issue: Fiscal Space around the World

Source: International Monetary Fund and Center for Financial Stability.
Figure 4. Three Vectors for Investors and Officials

- Coronavirus
- Policy
- Markets
IV. Conclusions and Solutions

- Supersized policies will ensure and even exacerbate global macroeconomic distortions well into the future.
- Resolution of skewed incentives and these forces will dominate financial market valuations and movements.
- Ironically, economic growth will remain restrained.
- Expect higher inflation not only due to central bank policy … but perform of financial system.
- Sovereign and private debt defaults and workouts will increase meaningfully.

*Risk management will be vital to protect and grow companies and financial institutions.*
About CFS and Disclosure

The Center for Financial Stability (CFS) is a private, nonprofit institution focusing on global finance and markets. Its research is nonpartisan.

*This publication reflects the judgments and recommendations of the author(s). They do not necessarily represent the views of Members of the Advisory Board or Trustees, whose involvement in no way should be interpreted as an endorsement of the report by either themselves or the organizations with which they are affiliated.*


*The Center for Financial Stability is a non-profit organization formed for educational purposes.*