EURIZON
ASSET MANAGEMENT

USA, Flow of funds – family patrimonies reached new record levels thanks to stocks, real estate value and fiscal stimulus. New highs for stock evaluation indices as well.

Financial accounts data gathered by the Federal Reserve highlight in the 4Q **a sharp increase of family patrimonies, being at new record levels**.
Consistent and increasing wealth, exceptional saving rates, measured debt and new fiscal stimuluses suggest favorable conditions for a yearly consumption acceleration before activities reopen.
The increase in stock exchange quotes not only helped increase family fortunes but also brought determined quotes to strongly increase like **Tobin's Q metric suggested, reaching new heights**.

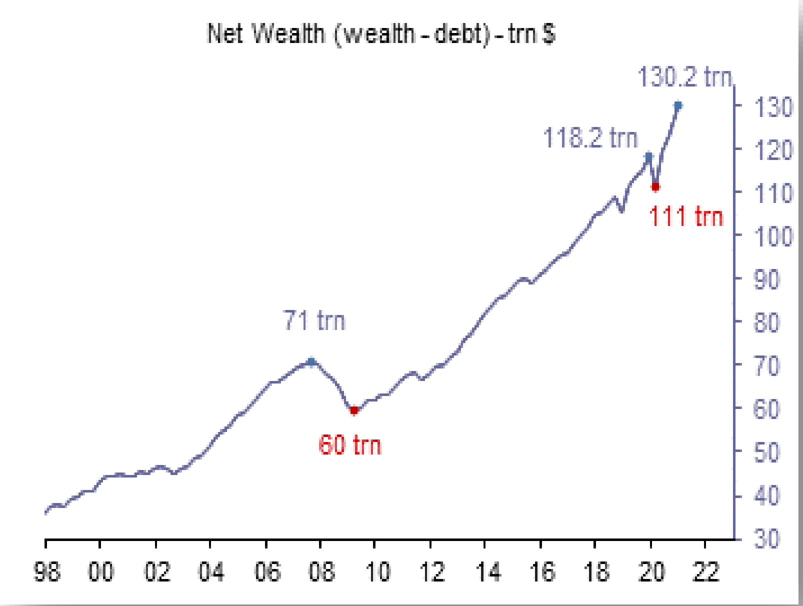
Families to exit the crisis with more wealth than ever

In 4Q the net wealth (wealth – debt) of families picked up the pace, reaching a new record of $130.2 trm (+6.9 trn in the quarter). **On 2020 this wealth escalated by 12 trn**, and at the end of the year the ratio between net wealth and disposable income is also at its peak (as 4Q's acceleration has been amplified by income decline). The increase in wealth has been led by stock and real estate price increases, and by ample fiscal stimuluses and accommodating financial conditions.

Unlike other recessions, **USA families are coming out of this crisis with an increasing amount of wealth. This is the opposite of what happened in 2008**, when a sudden decrease in stock value and real estate, compared to an excessive debt, caused families to lose their wealth and hence causing a blockage in consumption expenses.

Today's situation is quite different: at the beginning of 2020 families began the financial year with strong bases (elevated wealth and measured debt), while after the pandemic the overall wealth got even higher, while debt is increasing (+6.5% in 4Q) and yet close to pre-covid levels, which are the lowest since 2001.

Consistent and increasing wealth, exceptional saving rates, measured debt and new fiscal stimuluses suggest favorable conditions for a yearly consumption acceleration before activities reopen. Last decade's wealth increase had a weak connection with consumption dynamics, also because such increase has been concentrated on the richest population segment. New data supplied by the Fed shows large differences in wealth distribution and evolution (e.g., 70% of the wealth generated after the Great Recession, from 2009 to 2019, went to the top 10% of the rich population). At least, during 2020, **wealth increased across all the macro-categories.**



Net Wealth (wealth - debt) - trn $
130.2 trn
118.2 trn
111 trn
71 trn
60 trn
130
120
110
100
90
80
70
60
50
40
30
98
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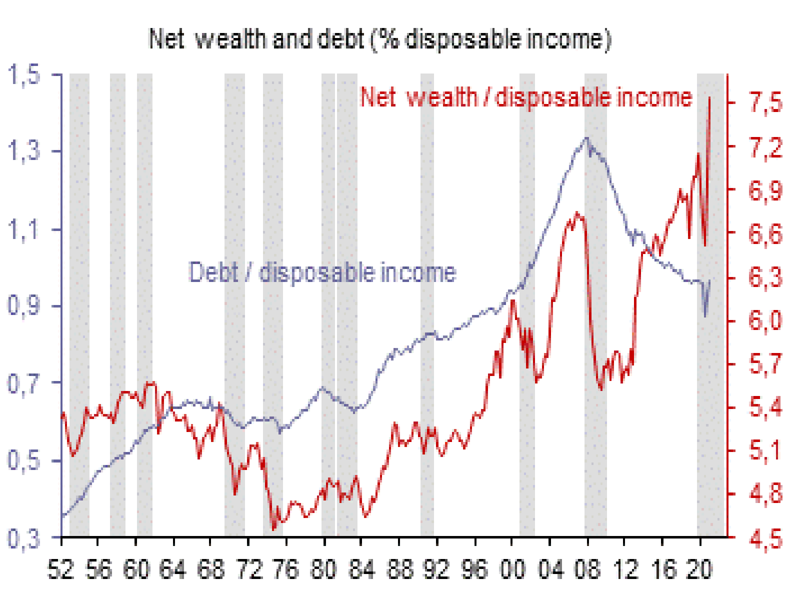


Net wealth and debt (% disposable income)
Net wealth / disposable income
Debt / disposable income
1,5
1,3
1,1
0,9
0,7
0,5
0,3
7,5
7,2
6,9
6,6
6,3
6,0
5,7
5,4
5,1
4,8
4,5
52 56 60 64 68 72 76 80 84 88 92 96 00 04 08 12 16 20

Debt/GDP: pandemic's rising stops

The whole of the US debt, in absolute terms, decreased its increasing rate in 4Q (+6.3%), after the first six month's acceleration.

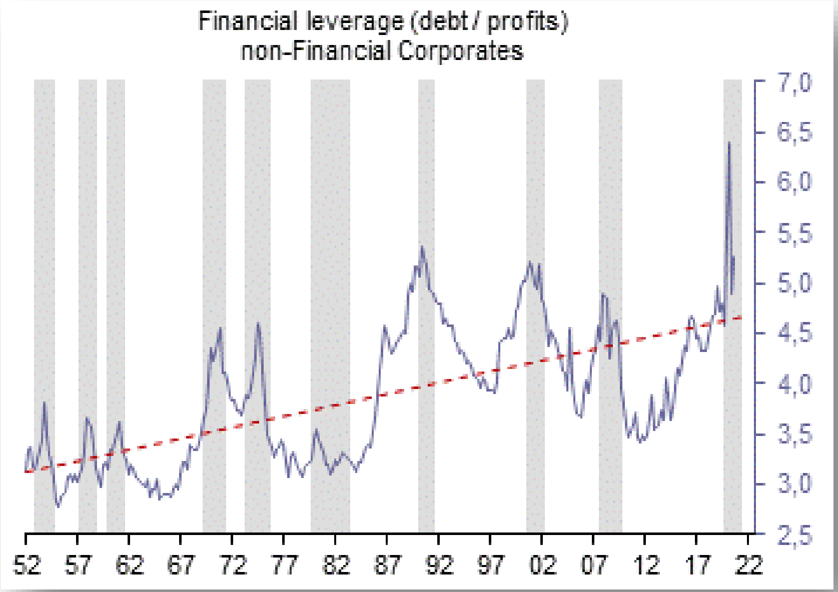
With respect to the nominal GDP, debt stabilized itself at 3Q levels of 366%, 40 percentual points above the pre-pandemic time (during which was at its lowest in 12 years).

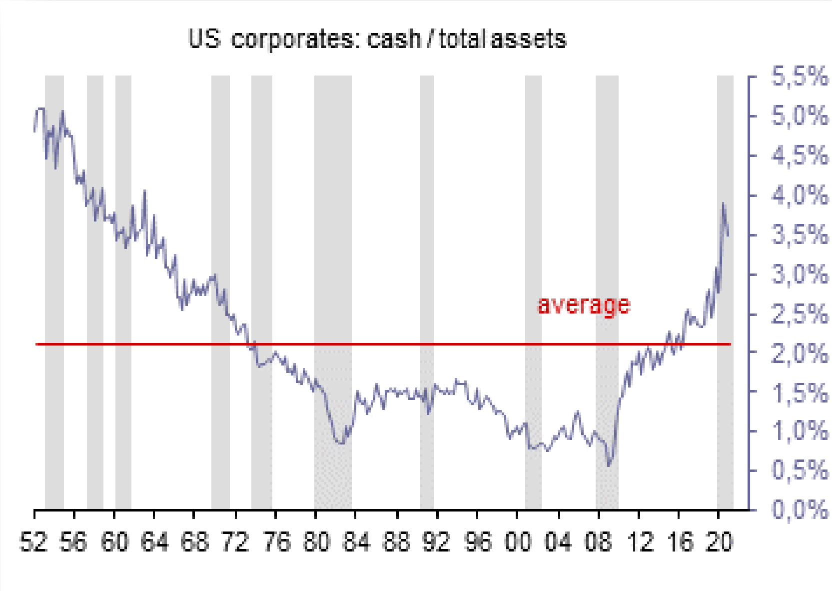
In the quarter the strongest debt increase (in absolute terms) **has still been the Federal Government's** (+10.9%), **followed by families'** (+6.5%), with an intense increase in mortgages (+5.2%) because of very low rates.

The debt of non-financial businesses marks a constant increase (+0.8%) for the second consecutive quarter, after the steep increase from the first half of the year, but still remaining at historically high values when compared to the GDP (at 82.5%, little below the highest highs reached during the second quarter).

Public debt is increasing because of the extended fiscal maneuvers that took place last year.

Treasure's emissions are on the rise and the ratio between treasuries and GDP is close to 100%. Major owners are foreign investors, whose general amount is declining (at 34%ù, the lowest since 2001) and the Fed (who just reached 25%), followed by hedge funds, pension funds, privates and banks.


Financial leverage (debt / profits)
non-Financial Corporates
7,0
6,5
6,0
5,5
5,0
4,5
4,0
3,5
3,0
2,5
52 57 62 67 72 77 82 87 92 97 02 07 12 17 22

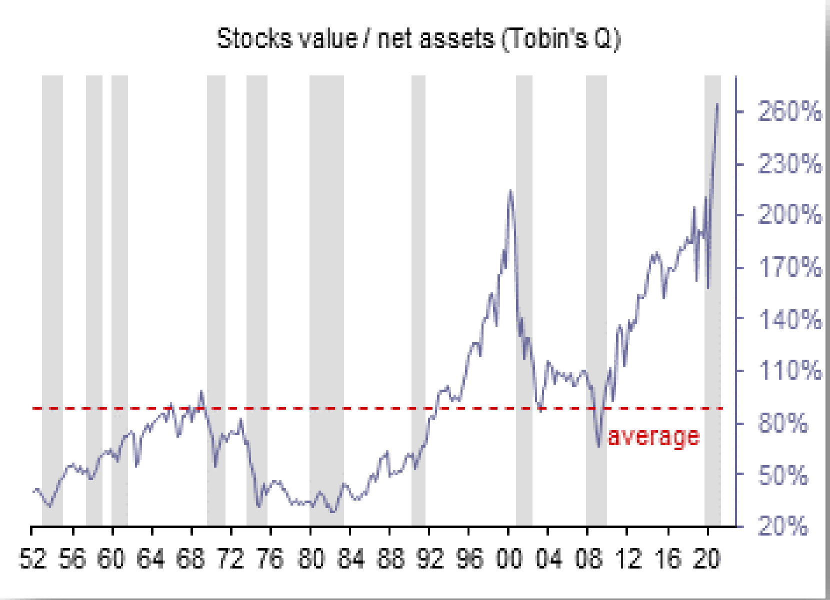

US corporates: cash / total assets
average
5,5%
5,0%
4,5%
4,0%
3,5%
3,0%
2,5%
2,0%
1,5%
1,0%
0,5%
0,0%
52 56 60 64 68 72 76 80 84 88 92 96 00 04 08 12 16 20

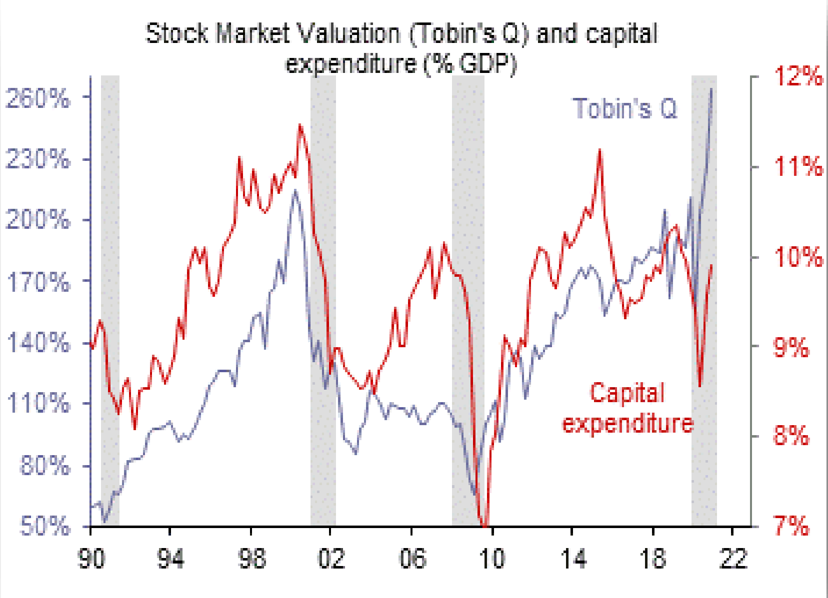
Quotes at peak level

Stock quotations brought quote estimation to an intense rise. Metrics such as Tobin's Q, which compares the market value of businesses to their net worth (total activities – debt), reached again new highs, already superior to its peak since the year 2000.

The upward tendency of stock markets will nonetheless find support, in the medium term, in profit recovery, expected to rise by the year in order to accompany the cyclic recovery (business reopening and fiscal stimuluses). This, as long as the normalization of long-term rates, which will support the recovery, will be smooth and contained.

At the same time strong evaluations increases the convenience for businesses to invest (with respect to buybacks). An increase in profit along with an increase in consumption would definitely improve business' productivity for the medium term.


Stocks value / net assets (Tobin's Q)
260%
230%
200%
170%
140%
110%
80%
50%
20%
average
52 56 60 64 68 72 76 80 84 88 92 96 00 04 08 12 16 20


Stock Market Valuation (Tobin's Q) and capital expenditure (% GDP)
260%
230%
200%
170%
140%
110%
80%
50%
12%
11%
10%
9%
8%
7%
Tobin's Q
Capital expenditure
90 94 98 02 06 10 14 18 22