

The world has a debt problem.



THE SIGNAL FROM WASHINGTON

On 5 August 2026, the U.S. Treasury announced that it would at least keep its issuance profile at the long end stable.^[3] That detail captures the central tension in today's debt markets: governments need an extraordinary amount of funding, yet the marginal buyer is growing ever more sensitive to duration, inflation and fiscal credibility. The problem is not simply that the world has accumulated a lot of debt. It is that an enormous stock of old, cheap debt is being refinanced in a world where capital is no longer anywhere near free.

\$109t

Sovereign and corporate bonds outstanding worldwide

SOURCE: OECD [1]

\$29t

Record bond issuance expected in 2026

SOURCE: OECD [1]

78%

of OECD sovereign issuance in 2026 refinances existing debt

SOURCE: OECD [1]

≈3% of GDP

Global government interest burden, up from ≈2% four years ago

SOURCE: IMF [2]

THE HIDDEN COST OF DEBT

Debt does not become expensive when interest rates rise. It becomes expensive when it has to be refinanced. The policy-rate shock of 2022–23 is working its way through the system one maturity at a time – which is why falling policy rates and rising effective interest costs can coexist.

WHERE THE PRESSURE IS BUILDING

The US is rolling over an enormous stock of Treasuries; Japan is normalising its yields; Europe is funding defence and demographics – while companies are returning to the bond markets in force. Competition for long-term capital is intensifying just as the price-insensitive buyer base has weakened.

GLOBAL BOND ISSUANCE

(IN \$ TRILLION)

2024	25
2026 (expected)	29
of which OECD central governments	18
versus ten years ago	≈2x

SOURCE: OECD [1]

GLOBAL PUBLIC DEBT & INTEREST

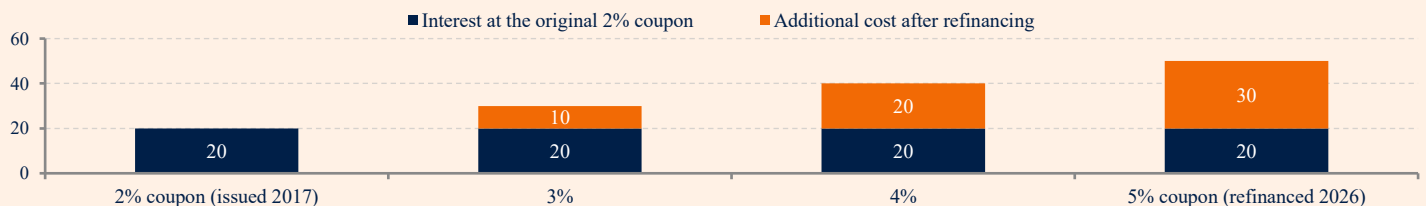
(IN % OF GDP)

Public debt 2025	93.9%
Public debt 2029 (forecast)	100%
Interest expenditure four years ago	≈2%
Interest expenditure today	≈3%

SOURCE: IMF [2]

THE REFINANCING CLOCK

Same principal, bigger bill: annual interest on \$1b of debt (in \$m) when a bond issued in 2017 matures in 2026.



SOURCE: HQAM, ILLUSTRATIVE

\$30m

a year no longer available for R&D, acquisitions or distributions when a 2% coupon is refinanced at 5%

SOURCE: HQAM, ILLUSTRATIVE

\$1.2t

in bonds that nine major AI companies could issue in 2026–2030 – a third contender for capital

SOURCE: OECD [1]



INVESTMENT TAKEAWAY

The refinancing cycle runs on two clocks: the sovereign issuance calendar and the corporate maturity schedule. Ignore either at your peril.

\$84b vs. \$33b

Which company carries the greater financial risk?

Gross debt is a headline. Financial risk is decided by what stands behind it.

METRIC · APR–JUN 2026	APPLE INC.	WARNER BROS. DISCOVERY
Gross debt	\$84.3b Term debt \$82.3b + commercial paper \$2.0b	\$33.1b as defined by the company
Gross debt / EBITDA	0.5x EBITDA annualised \$176b	3.8x Adj. EBITDA, 12 months ≈ \$8.7b
Liquidity	\$146.5b Cash + marketable securities (current and non-current)	\$3.4b Cash and cash equivalents
Net debt	–\$62.2b Net cash: securities exceed debt	\$29.7b Gross debt less cash
Net leverage	–0.4x Net debt / EBITDA	3.4x Net debt / adj. EBITDA (company-reported)
Free cash flow in the quarter	\$31.9b FCF margin 29% of revenue	\$0.6b FCF margin 6.6% of revenue; burdened by ≈\$350m of separation/transaction costs
Gross debt in years of FCF	0.7 years Gross debt / annualised quarterly FCF	14.5 years Gross debt / annualised quarterly FCF
Maturities & refinancing needs	\$13.0b due within 12 months = 9% of liquidity; Oct 2025–June 2026 repaid from cash flow: \$14.1b, no new issuance	Avg. remaining maturity 8.3 years, avg. rate 5.2% \$15bn bridge loan replaced in the quarter by term loans B (\$13b + €1.7b)
Role of debt	Capital-structure choice Refinancing is an option, not a necessity	Strategic constraint Deleveraging competes with content and investment

Same calendar quarter, April–June 2026: Apple calls it “fiscal Q3 2026” (financial year ends late September; period end 27 June), WBD “Q2 2026” (period end 30 June). Sources: Apple Form 10-Q [4], WBD earnings release [5]; ratios for Apple calculated by HQAM (EBITDA = operating income + depreciation and amortisation, October 2025–June 2026 annualised). WBD: acquisition by Paramount Skydance (\$31 per share) agreed in February 2026, regulatory approval pending; figures refer to WBD as a standalone company.

Apple: high debt, low dependence.

Apple's gross debt stands at around \$84b, but it is matched by substantial cash and marketable securities and exceptional operating cash generation. The company can service its obligations under its own steam and has broad access to the capital markets. Here, debt is primarily a capital-structure choice, not a funding dependency.

The liability does not dictate the strategy.

The point is not that Apple carries no balance-sheet risk. What matters is that management can fund R&D, invest in the ecosystem, and pursue buybacks and opportunities without depending on a favourable refinancing window.

Warner Bros. Discovery: debt as a constraint.

At the end of Q2 2026, WBD reported net debt of around \$29.7b and net leverage of 3.4x. Replacing a \$15b bridge loan with longer-term loans reduces the immediate funding risk – but not the strategic weight of the balance sheet.

Every dollar of debt ties up more capacity.

With lower and less predictable cash generation, deleveraging competes directly with investment in content, restructuring and distributions. The nominal debt is smaller; the dependence on sustained cash generation and capital-market access is markedly greater.

The lesson is not “Apple good, WBD bad”. A dollar of debt carries a different economic meaning – depending on the stability of cash flows, maturity structure, liquidity and strategic alternatives.

A THIRD CONTENDER FOR CAPITAL: AI

The refinancing wave arrives just as another enormous demander of capital appears. The OECD estimates that nine major AI companies could issue around \$1.2t of corporate bonds between 2026 and 2030^[1] – a profound shift for a sector that has so far financed investment largely from its own cash flow. The problem is not that these companies cannot borrow; many have outstanding balance sheets. The problem is aggregate demand for capital: governments, defence and infrastructure, refinancing corporates and now a capital-intensive AI cycle. Those who can fund AI investment from free cash flow retain far more flexibility than those who must repeatedly tap external markets.

\$1.2t Expected bond issuance by AI companies, 2026–2030 SOURCE: OECD [1]	\$18t Issuance by OECD central governments, 2026 SOURCE: OECD [1]	2% → 5% Expiring vs. newly fixed coupon – the gap that matters SOURCE: HQAM, ILLUSTRATIVE
---	---	---

THE COST THAT APPEARS IN NO SET OF ACCOUNTS

Corporate-finance research consistently shows that financing constraints change real investment decisions: financially constrained CFOs report abandoning attractive projects because external funding is hard to obtain.^[8] Financial flexibility therefore has option value. When liquidity is ample and balance sheets are strong, a company can act quickly and on its own terms. When funding is scarce, even good ideas compete with debt service.

WALKING DEBT: WHEN REFINANCING PREVENTS CREATIVE DESTRUCTION

Not every economically weak borrower disappears when money becomes more expensive. Some are kept alive through repeated refinancing or the “evergreening” of loans – the zombie companies. A study in *Management Science* (2025) shows that under tight monetary policy, lenders can have *stronger* incentives to keep funding zombies so as not to have to realise losses – leaving them less affected by tightening than healthier borrowers.^[6] The cost extends far beyond the zombie itself: healthy companies in zombie-heavy supplier and customer networks record weaker sales, investment and employment.^[7] The end of cheap money is therefore no automatic cleansing mechanism – but where capital is allowed to move, strong companies benefit twice: from their own resilience and from a more rational allocation of capital across the economy. Creative destruction is uncomfortable. Preventing it can be costlier still.

–2.0% Sales of healthy firms with 10% exposure to zombie suppliers (employment: –1.2%) SOURCE: AKARSU ET AL. [7]	–1.6% Sales with comparable exposure to zombie customers (employment: –0.9%) SOURCE: AKARSU ET AL. [7]	+3.5% Productivity gain within five years from effective insolvency reforms, 22 economies SOURCE: ADB [9]
--	--	---

Quality wins as debt rises

Strong balance sheets multiply freedom.

109

zombie companies among ≈2,800 of the world's largest listed firms in 2022 – up from 92 three years earlier.

Around a fifth still reported an equity ratio above 50% but could not cover even modest interest from earnings. Almost all kept paying dividends.

SOURCE: HQAM [10]

Not every weak borrower disappears when money becomes more expensive. Recent research shows that under tight monetary policy, lenders can have *stronger* incentives to keep funding zombies – and that healthy firms in zombie-heavy networks suffer weaker sales, investment and employment. Where capital is allowed to move, strong companies benefit twice: from their own resilience and from a more rational allocation of capital. Book value and leverage alone do not prove financial quality – the earnings power behind the balance sheet does.

THE FOUR DIMENSIONS OF FINANCIAL QUALITY

1	EARNINGS POWER	Resilient cash flow through the cycle – durable margins, cash conversion and returns on capital that withstand weaker demand.
2	MATURITY OF LIABILITIES	Long-dated, well-structured liabilities. The same leverage means a very different risk depending on maturity, fixed/floating mix and liquidity.
3	STRATEGIC OPTIONALITY	Freedom to invest, acquire, return capital or change course. The best balance sheet is not the one with the least debt, but the one that does not dictate the strategy.
4	REINVESTMENT OPPORTUNITIES	Attractive opportunities to deploy capital at high returns. Flexibility creates the most value when it meets a long runway of profitable reinvestment.



The quality gap HQAM measured in 2022 persists to this day. Between 2022 and 2026, the HQAM USA Quality Portfolio raised its return on equity from 27.8% to 34.9% while cutting debt/equity from 47.3% to 32.1% – beating the MSCI USA Index on both metrics every single year. Europe shows a similar ROE improvement; leverage there rose in 2026 as companies took advantage of the still-favourable rate window, but at 56.4% remains far below the index's 82.4%.^[10]

Why quality can grow through a debt cycle. Two companies with identical economics ahead of a downturn: A starts with ample liquidity and moderate leverage; B is highly indebted and close to its maturity wall. Both see revenues fall by 10%. A keeps investing, acquires a weaker competitor at a discount and maintains R&D. B cuts investment, conserves liquidity and negotiates with creditors. Three years later, it is no longer the downturn that explains the performance gap – it is the compounding of decisions that only one company was free to take. Strong balance sheets are not merely defensive; they are offensive assets.

OCT 2022	ZOMBIES	MSCI ACWI	GLOBAL QUALITY
Debt / Equity	≈169%	62%	40%
Return on equity	5.7%	13.2%	24.1%

SOURCE: HQAM [10] (≈2,800 LARGE LISTED COMPANIES)

QUALITY INSIGHT: QUALITY PORTFOLIOS VS. INDEX, 2022–2026

Debt / Equity — USA

Portfolio vs. Index (%)

–41pp

ROE — USA

Portfolio vs. Index (%)

+18pp

Debt / Equity — Europe

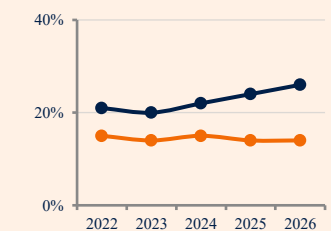
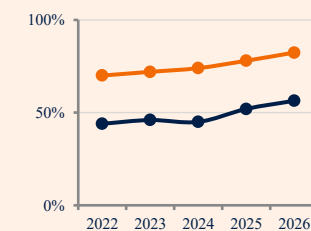
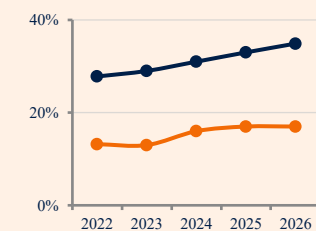
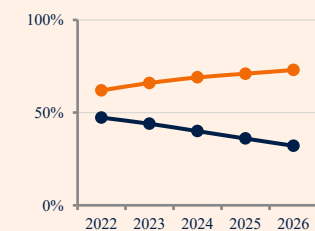
Portfolio vs. Index (%)

–26pp

ROE — Europe

Portfolio vs. Index (%)

+12pp



■ HQAM Quality Portfolio ■ MSCI regional index as at 31 August each year · orange figure = portfolio's gap to the index, 2026 · Source: HQAM [10]

THE PULSE

The true cost of debt is not the coupon. It is the decisions the balance sheet can no longer take.

As the refinancing cycle accelerates, looking at leverage and absolute debt is no longer enough.

Can earnings absorb a higher cost of capital? Do the maturities buy time? Does management retain strategic freedom – and attractive reinvestment opportunities? A strong balance sheet matters above all because it preserves the ability to choose.

SOURCES

1. OECD (2026), *Global Debt Report 2026: Sustaining Debt Market Resilience Under Growing Pressure*, 4 March 2026 – doi.org/10.1787/e9d80efd-en
2. IMF (2026), *Fiscal Monitor, April 2026: Fiscal Policy under Pressure* – imf.org/en/publications/fm/issues/2026/04/15/fiscal-monitor-april-2026
3. U.S. Treasury (2026), *Quarterly Refunding Statement*, 5 August 2026 – home.treasury.gov/news/press-releases/sb0590
4. Apple Inc. (2026), Form 10-Q, quarter ended 27 June 2026 – sec.gov/Archives/edgar/data/320193/000032019326000020/aapl-20260627.htm
5. Warner Bros. Discovery (2026), *Second Quarter 2026 Results*, 6 August 2026 – s201.q4cdn.com/336605034/files/doc_earnings/2026/q2/earnings-result/WBD-2Q26-Earnings-Release.pdf
6. Albuquerque, B. & Mao, C. (2025), “The Zombie Lending Channel of Monetary Policy”, *Management Science* – doi.org/10.1287/mnsc.2024.07315
7. Akarsu, O., Aktuğ, E. & Torun, H. (2025), “Zombie Firms in Network: Congestion and Evergreening”, *Economic Modelling* 151 – doi.org/10.1016/j.econmod.2025.107217
8. Campello, M., Graham, J. R. & Harvey, C. R. (2010), “The Real Effects of Financial Constraints”, *Journal of Financial Economics* 97(3) – doi.org/10.1016/j.jfineco.2010.02.009
9. Nilsson Hakkala, K. & Kumar, A. (2026), *Zombies, Insolvency Reform, and Misallocation of Capital*, Asian Development Bank – adb.org/publications/zombies-insolvency-reform-misallocation-capital
10. HQAM (2022), “End of Zombification Era?”, *Corporate Excellence Insights*, October 2022; HQAM portfolio and index metrics as at 31 August, 2022–2026

