PEAK EARNINGS, HIDDEN FRAGILITY

How strong reported profits can mask rising credit stress — from 2007 to today

THEN: PRE-GFC (2006–2007)

STRONG PROFITS. GROWING RISKS.





- Corporate earnings looked healthy.
- Home prices had peaked, but many investors stayed calm.
- Subprime and adjustable-rate mortgage stress was building.
- Bank leverage and off-balance-sheet exposures were rising.
- Liquidity looked fine — until confidence broke.

Investor Blind Spot

Many investors focused on earnings strength while asset quality and balance-sheet risk were deteriorating.

THE PARALLEL

1. Strong earnings
2. Hidden balance-sheet deterioration
3. Credit stress surfaces
4. Systemic repricing

The lesson: *earnings are backward-looking; balance sheets and funding conditions reveal fragility earlier.*

TODAY: MODERN DEBT RISKS

STRONG GROWTH. NEW VULNERABILITIES.



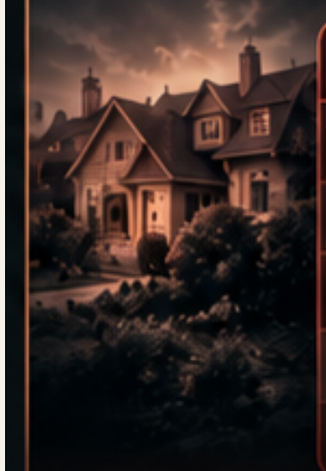


- Some companies still report strong revenue and earnings.
- Free cash flow can remain weak despite growth.
- Refinancing risk rises when debt matures into higher-rate markets.
- Private credit and leveraged lending can obscure true stress.
- Exposure can migrate to insurers and nonbank lenders.
- If confidence falls, illiquidity can turn into forced repricing.

Modern Blind Spot

Reported growth can distract from leverage, weak cash generation, and hidden credit exposure.

POTENTIAL SYSTEMIC RISKS: THEN VS. TODAY



2007 RISKS	TODAY'S RISKS
Housing + structured credit	AI infrastructure debt + private credit
Bank leverage	Nonbank / insurer exposure
Mortgage resets	Refinancing wall
Hidden asset-quality problems	Illiquidity / delayed marks
Confidence shock	Funding shock



Systemic risk often builds quietly: profits can look strong right before credit markets force reality into view.

ZEFFER