



**DECODING DEBT CYCLES IN 2025:
INSIGHTS FOR INVESTORS
HIVE**

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Executive Summary

Economies go through ups and downs, much like how families might borrow money to buy things and then have to pay it back. Sometimes, borrowing leads to spending that boosts the economy, but too much debt can cause problems. Ray Dalio, a famous investor, has a way of looking at these patterns called debt cycles. At Hive Financial, we use advanced tools like artificial intelligence to understand these cycles better, especially for people who don't have easy access to credit, such as many millennials and Generation Xers. This article explains debt cycles in simple terms, provides a snapshot of the U.S. economy in June 2025, and offers perspectives for investors.

Debt Cycles: A Foundational Overview

Imagine a family taking out loans to buy a bigger house or a new car. At first, this spending makes them feel richer, but if they borrow too much, they might struggle to pay back the loans, leading to cutbacks or selling their assets. The same thing happens in the economy: when businesses and people borrow a lot, it can lead to growth, but if debt gets out of hand, it can cause a downturn.

The Credit Boom

During a credit boom, people are optimistic and borrow money easily because interest rates are low. This leads to more spending, which makes the economy grow and pushes up prices for things like stocks and houses. Everyone feels confident, creating a positive cycle. Signs of a credit boom include:

- More debt compared to the economy's size (debt-to-GDP ratio).
- Rising prices for stocks and homes.
- Low interest rates.
- High confidence among consumers and businesses.

The U.S. housing boom before 2008, with lots of borrowing and soaring home prices, is a good example of this phase.

The Deleveraging Phase

When debt becomes too big to handle, deleveraging starts. People struggle to pay back loans, leading to missed payments (defaults), less spending, or selling assets like homes. This slows the economy, lowers asset prices, and makes it harder to get loans. Signs include:

- More people missing loan payments.
- Falling prices for stocks and homes.
- Banks tightening lending rules.
- Rising unemployment.

The 2008 financial crisis, caused by mortgage defaults and a housing market crash, is a classic example of deleveraging.

Types of Debt Cycles

Debt cycles can play out in different ways. In a deflationary cycle, prices fall as people spend less, like during the Great Depression in the 1930s. In an inflationary cycle, the government might print more money to help pay off debts, which can make prices rise, as seen in Germany in the 1920s. Understanding these patterns helps predict economic changes.

Identifying the Cycle's Transition

Knowing when the economy is shifting from a boom to a bust is key. Warning signs include:

- The Federal Reserve raising interest rates to slow things down.
- Slower economic growth.
- More debt compared to income.
- Unstable stock markets.

For people with limited credit access—often called underbanked, like many median-income millennials or Generation Xers—these shifts can be especially tough, as loans become harder to get.

Current Economic Position: June 2025 Data Snapshot

To see where the U.S. economy stands in the debt cycle, we look at key numbers as of June 2025.

Debt Levels

- **Government Debt-to-GDP:** 120.8% in Q1 2025, meaning the government owes more than the economy produces in a year, which is a heavy burden [FRED](#).
- **Total National Debt:** About \$37 trillion in June 2025, a huge amount that raises concerns about whether it can be managed [US Debt Clock](#).
- **Household Debt-to-GDP:** 60.7% in Q1 2025, showing households have significant debt, especially those with lower credit scores [New York Fed](#).
- **Subprime Auto Loan Delinquency Rate:** Around 6% in Q1 2025, indicating some borrowers are struggling to pay car loans [Wolf Street](#).

Economic Growth

- **GDP Growth:** The economy shrank by 0.3% in Q1 2025, meaning it's producing less than before, a sign of economic trouble [BEA](#).

Interest Rates

- **Federal Reserve Benchmark Rate:** Between 4.25% and 4.50% as of the latest Federal Open Market Committee (FOMC) meeting, kept steady to manage economic uncertainties [Federal Reserve](#).

Inflation

- **Inflation Rate:** Prices rose 2.4% in May 2025, up slightly from 2.3% in April, with core inflation (excluding food and energy) at 2.8%, showing ongoing price pressures [BLS](#).

Asset Prices

- **S&P 500 P/E Ratio:** 28.8 as of June 11, 2025, higher than historical averages, suggesting stocks may be overpriced [Multpl.com](#).
- **Housing Prices:** Expected to rise 3% in 2025, growing slowly but still at risk if the economy weakens [J.P. Morgan](#).

Recent Developments

In May 2025, the U.S. signed trade deals with the UK and China, reducing tariffs. These agreements might lower costs and support the economy, but their full impact, especially for underbanked consumers, is still unclear [White House UK](#), [White House China](#).

Interpretation

The U.S. economy in June 2025 shows signs of strain: high government debt (120.8% of GDP), a shrinking economy (-0.3% GDP growth), and high stock prices (P/E ratio of 28.8). These suggest we might be at the end of a credit boom, where borrowing has pushed growth but could soon lead to deleveraging, with less spending and falling asset prices. Interest rates (4.25%–4.50%) are stable, but inflation at 2.4% adds pressure. The 6% subprime auto loan delinquency rate indicates challenges for underbanked borrowers, who may face tighter credit. However, recent trade deals with the UK and China could ease some pressures by reducing costs and boosting trade, potentially softening the transition to deleveraging.

Table: Key Economic Indicators for U.S. Debt Cycle (June 2025)

Indicator	Value	Implication
Government Debt-to-GDP	120.8% (Q1 2025)	High debt signals late-cycle risks
Total National Debt	~\$37.0T (June 2025)	Growing debt raises sustainability concerns
Household Debt-to-GDP	60.7% (Q1 2025)	Moderate household debt levels
Subprime Auto Loan Delinquency Rate	~6% (Q1 2025)	Stress in non-prime credit markets
GDP Growth	-0.3% (Q1 2025)	Economic contraction indicates potential deleveraging
Interest Rate	4.25%–4.50% (latest FOMC)	Stable rates reflect cautious policy
Inflation Rate	2.4% (May 2025)	Moderate pressures, trade deals may ease
S&P 500 P/E Ratio	28.8 (June 11, 2025)	Overvaluation increases correction risk
Housing Price Growth	3% (projected 2025)	Moderate growth, potential for slowdown

Analyzing Debt Risks: New Angles

Hive Financial uses unique methods to assess debt risks, going beyond standard measures.

Debt Service Burden

We look at how much money is needed to pay interest and principal on debts compared to the economy's output. With interest rates at 4.25%–4.50% and national debt at \$37 trillion, this burden is growing, especially for subprime borrowers who pay higher rates.

Leverage Multiplier

This measures how much debt fuels economic activity. With household debt at 60.7% of GDP and negative growth (-0.3%), the economy relies heavily on borrowing, which could lead to a slowdown if credit tightens.

Fiscal Space

This shows how much more the government can borrow without causing problems. With debt at 120.8% of GDP and ongoing deficits, there's less room to borrow, limiting options if a crisis hits.

Hive Financial's Unique Perspective and Advanced Analytics

Unique Perspective: Underbanked Markets

Hive Financial specializes in underbanked markets—people with steady jobs but limited credit access, often millennials or Generation Xers. These groups are hit hard when interest rates rise or lending tightens. We use a network model to see how borrowers, lenders, and regulators are connected, helping us predict how economic shocks, like a rate hike, affect defaults (e.g., the 6% subprime auto loan delinquency rate).

Advanced Analytics: A New Approach to Cycle Analysis

We use cutting-edge tools to study debt cycles, focusing on underbanked markets.

Graph Neural Networks (GNNs)

These are like smart maps showing how borrowers and lenders are linked. By analyzing these connections, we can predict how problems, like a drop in economic growth, might increase defaults, helping identify risks and stable areas.

Bayesian Optimization for Risk Management

This method tests different investment strategies to find the best balance between returns and risk. It's like choosing the safest path through a storm, prioritizing stable investments for underbanked markets during uncertain times.

These tools give us a clear, data-driven view of debt cycles, helping investors make informed decisions.

Perspectives on Asset Classes

Different investments behave differently during debt cycles:

- **Stocks:** They do well in credit booms but can drop sharply if the economy slows, especially with a P/E ratio of 28.8.
- **Bonds:** Government bonds are safer during deleveraging, as people seek secure investments.
- **Real Estate:** Home prices (projected 3% growth) could fall if credit tightens.
- **Commodities:** Gold can shine during inflationary times or uncertainty.

In underbanked markets, fintech companies using AI to assess credit risk may stay strong, even in tough times.

Conclusion

Ray Dalio's debt cycle framework helps us understand economic ups and downs. In June 2025, high debt (120.8% debt-to-GDP), a shrinking economy (-0.3%), and expensive stocks (P/E at 28.8) suggest the U.S. may be at or past the peak of a credit boom, with risks of deleveraging ahead. This could mean less spending and falling asset prices, especially impacting underbanked consumers who face credit challenges. Recent trade deals with the UK and China may help by lowering costs, but uncertainties remain. Hive Financial's AI-driven approach offers clear insights to navigate these shifts, especially for those often overlooked by traditional finance.

Explore more at HiveResearch.com. To learn about Hive Financial Assets, a private credit fund with consistent debt yield returns since 2017, contact IR@HiveFinancialAssets.com or visit [Hive Financial Assets](https://HiveFinancialAssets.com).

This article is for informational purposes only and does not constitute investment advice. Hive Financial is not a registered investment advisor or broker and does not offer investment advice. Consult a registered financial professional before making investment decisions.

Footnotes and References

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