



Hosking Partners®

# Hosking Post 'Normal' Service Resumes

July 2026

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## **‘NORMAL’ SERVICE RESUMES**

***“We have normality. I repeat, we have normality. Anything you still can’t cope with is therefore your own problem.”***

*Douglas Adams, The Hitchhiker’s Guide to the Galaxy*

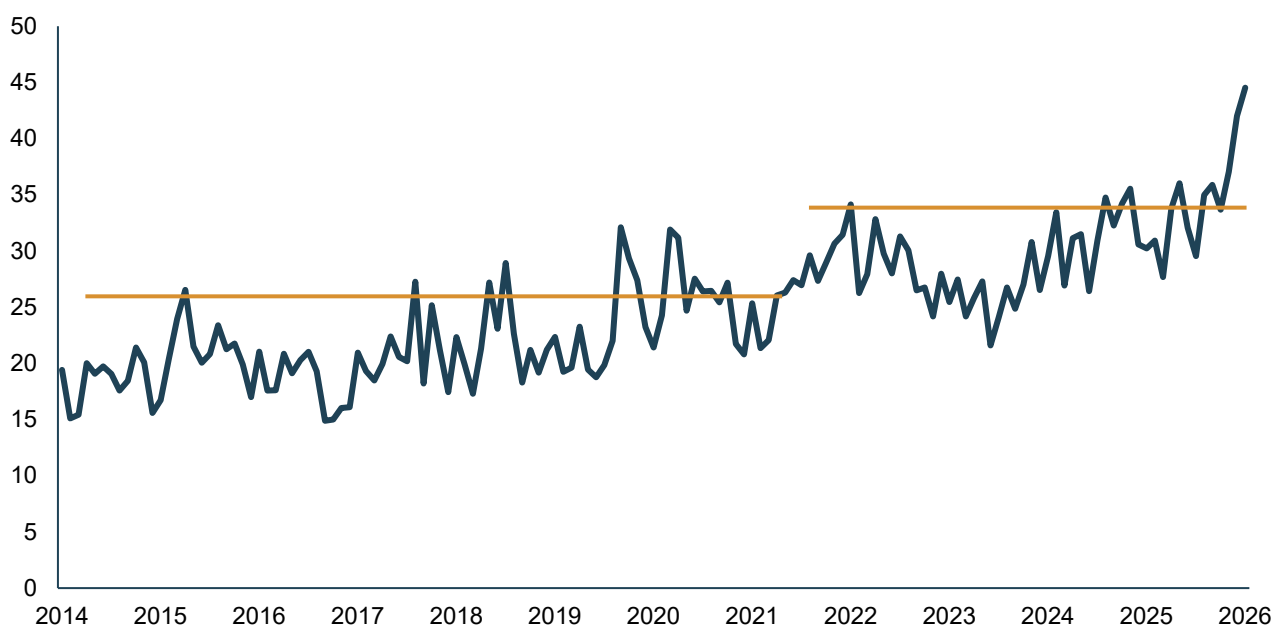
Suggest to someone with even a passing interest in investing that stock markets are behaving normally and you will most likely be met with a look somewhere between derision and pity. Perhaps justifiably - liquidity remains abundant; exuberance is highly visible; trillion-dollar IPOs; and markets near all-time highs. Yet if equity market normality is defined by historic patterns and behaviours then it is obvious to us that normality is back in all its messy glory. It was the eerie twilight zone of the 2010s that was truly anomalous.

As capital cycle investors, we are seeing all the right markers. Capital is flowing aggressively into popular investment themes, most obviously AI infrastructure, but also energy transition, critical minerals, defence and industrial reshoring. These are recognisably old fashioned capital cycles, where anecdotes trump substantive financial justification, investments are front loaded, excess is visible, and bankers are mobilising their capital-raising might. Like all capital cycles we can comfortably predict overcapacity, bankruptcies, consolidation and rewards (eventually) accruing to those with well thought through business models.

Perhaps most encouragingly, we see evidence that the capital cycle is functioning at the other end. Focus is being pulled from companies unable to compete with promises of hyper-growth and generational transformation. These ‘left behinds’ are the casualties of the great capital draw, and the process is creating much needed market bifurcation (see chart below). Creative destruction is biting – we are seeing ever more instances of in-market consolidation and corporate bankruptcies are at their highest level in over a decade. This sits in stark contrast to the sustained decline in corporate bankruptcies seen in the decade to 2021, caused, most obviously, by an artificially suppressed interest rate.



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Source: CBOE, Bloomberg, Hosking Partners. Period 30 Jun 2014 to 30 Jun 2026.

The duration of capital cycles is always uncertain, but the presence of a genuine (albeit low) cost of capital restores inevitability to outcomes, something that has been missing in recent years. While we are not yet ready to claim that risk is being priced appropriately, we believe the unique set of circumstances that drove rates and risk premia to absurd levels has fundamentally changed. As we are seeing, even a meagre cost of risk is enough to grease the wheels of the capital cycle.

Loose money has long been a feature of the system, but until the 2010s it rarely overwhelmed the market mechanism for extended periods – risk had a price, and eventually it mattered. China's post-financial crisis response appeared to change that. An extraordinary wave of stimulus distorted price signals at home and, through aggressive currency management, mercantilist policies and significant purchases of foreign assets, exported deflation and lower interest rates abroad. Supply expanded relentlessly – first in property and infrastructure, then manufacturing – while financial repression channelled credit into production rather than consumption.

The result was a self-reinforcing loop: excess capacity flowed west, capital flowed east, and global yields were held down by a price-insensitive buyer of debt at unprecedented scale. Where Western policy acted directly to suppress interest rates, China suppressed inflation, creating the conditions that allowed those policies to persist far longer than they otherwise could have. Investors came to treat this arrangement as permanent, even as the imbalances grew more acute. That assumption is now breaking: the West is no longer willing to absorb China's overcapacity, and China appears a



less willing (able?) buyer of Western debt. As such, the world is losing an effective system of rate suppression, replaced by buyers who, once again, care about price.

While this has undoubtedly created tensions that affect all investors, for Hosking Partners the simple restoration of a mechanism for creative destruction – a more normal cost of capital – is a considerable improvement on a regime that distorted rational allocation of capital and corporate valuations.

Markets oscillating between feverish enthusiasm for technology hardware and a rising tide of bankruptcies may appear disorderly on the surface, and certainly a far cry from the smooth, low volatility ascent investors became accustomed to through the 2010s, but this volatility reflects deliberate choices about where risk is being taken. Today, investors are concentrating risk, funnelling capital into popular investment themes while withdrawing it from others. The result is lower costs of capital and elevated valuations in one corner of the market, and the opposite elsewhere. This imbalance is inherently self correcting: abundant capital ultimately erodes future returns, while scarcity plants the seeds of recovery. The return of creative destruction is not a malfunction; it is evidence that the system is working again. The investible opportunities this is creating for patient capital cycle investors are compelling, and the widest we have seen in some time.

Perhaps most striking is the reluctance among investors to accept that the zero-rate years were an aberration, not a destination. Low rates did not just distort markets, they infected orthodoxy, training a generation to increase terminal growth rates and reduce WACCs rather than understand business cycles and capital allocation.

The exuberance we see in markets today is an important part of investors re-learning fundamentals. Capital having a cost makes this lesson both inevitable and painful. While we will find our fair share of pain, we have reverted to a market much more conducive to the capital cycle: where capacity, competition and the cost of capital all bear on outcomes and where differences between businesses and management quality drive returns. Much of what we are describing is the system behaving as it should, rather than any particular insight of ours. Long may this messy, dysfunctional, flawed normality last.

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