Evidence is growing that the coronavirus pandemic has reached and in some cases passed its peak, with the global daily case growth rate plateauing and falling in many countries. Death rates, too, are showing a similar pattern. In this context, attention is increasingly focused on when and how containment measures might be eased. Some countries have eased restrictions on travel (Iran), school attendance (Denmark), construction (Spain), and some smaller shops (Germany). Nonetheless, in the absence of a vaccine and given scientific uncertainty around infection rates, most countries are likely to retain significant elements of social distancing, implying a sustained economic hit.

Governments and financial policymakers continue to respond. The U.S. topped up the CARES Act with a further $484 billion, and around 185,000 U.K. companies have used the Coronavirus Job Retention Scheme. Eurozone finance ministers will meet tomorrow on a $540 billion support package. Social and financial pressures on emerging markets remain particularly acute, with Argentina triggering another sovereign default. Despite currency pressure, Turkey has cut interest rates further, by 100 basis points (bps), to 8.75%, and Mexico cut its policy rate 50 bps, to 6%, in a second unscheduled meeting.

As a result of the sharp deterioration in macroeconomic prospects, we have significantly lowered our GDP forecasts for 2020. We now see a global contraction of 2.4% before a rebound to growth of 5.9% next year.

The corporate earnings season gave first indications of the scale of the damage to financial performance. Loan-loss provisions at six of the largest U.S. banks exceeded $25 billion in the first quarter, the highest tally since the Global Financial Crisis. Ford reported an expected loss of around $2 billion, and Coca Cola said sales dropped by one-quarter in April. Illustrating the pressure on airlines, Virgin Australia went into administration, and United Airlines said it expected to cut 90% of capacity in May. In response to these pressures and reflecting a steadying of financial market sentiment, there has been a surge in corporate debt issuance, particularly by U.S. investment-grade credits.

Extraordinarily, the West Texas Intermediate (WTI) oil price fell below zero for the first time ever. While this reflected technical issues around futures contract expiry and lack of storage for an onshore oil product, this is still a dramatic indication of the collapse in oil demand and the pressure coming to bear on oil producers.

S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.
Economic Update

Data reflecting the economic effects of measures to curb the spread of COVID-19 have gone from bad to worse, with downside fears playing out. On the broad themes:

– Services will be hit harder than manufacturing;
– Discretionary consumer spending will be hit harder than spending on necessities; and
– Smaller business will be hit harder than larger ones.

Moreover, lockdowns and social-distancing constraints now look to be in place longer than expected, which will cause a much sharper decline in activity than previously thought. In light of these developments, we have further lowered our 2020 growth outlook and raised our 2021 forecasts to partially compensate.

Table 1

<table>
<thead>
<tr>
<th>GDP Growth Forecasts</th>
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<tbody>
<tr>
<td>Real GDP</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Baseline forecast</td>
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<tr>
<td></td>
</tr>
<tr>
<td>(%)</td>
</tr>
<tr>
<td>Q1 CCC</td>
</tr>
<tr>
<td>2019f    2020f    2020f</td>
</tr>
<tr>
<td>U.S. 2.3 -1.3 -5.2 6.2 2.5</td>
</tr>
<tr>
<td>Eurozone 1.2 -2.0 -7.3 5.6 3.7</td>
</tr>
<tr>
<td>U.K. 1.4 -2.0 -6.5 6.0 3.2</td>
</tr>
<tr>
<td>China 6.1 2.9 1.2 7.4 4.7</td>
</tr>
<tr>
<td>India* 5.3 3.6 1.8 7.5 6.5</td>
</tr>
<tr>
<td>World¶ 2.9 0.4 -2.4 5.9 3.9</td>
</tr>
</tbody>
</table>

Source: S&P Global Economics, Oxford Economics

*Fiscal year ending in March. ¶Weighted by purchasing power parity

More recent and broader-based high-frequency indicators now confirm an imminent very sharp decline in activity. Purchasing manager indices (PMIs) for March show post-GFC lows. Social restrictions have had an outsized effect on airlines, restaurants, hotels, and cinemas. The resulting decline in the global services PMI was the largest ever recorded. Surveys from countries and regions tell similar stories.

Policymakers have launched a fresh round of measures in the past few weeks as the data confirms a sharper than previously expected downturn:

– In the U.S., the Federal Reserve announced it will help bolster credit creation to small and medium businesses, as well as state and municipal governments, through coordination with the Treasury. This will be achieved by purchasing loans and establishing liquidity facilities.

– In Europe, governments agreed to a three-pronged approach, including European Commission support for short-term national working schemes, European Investment Bank lending guarantees for small and medium enterprises (SMEs), and European Stability Mechanism credit lines with reduced conditionality (structural reforms).

– In China, a range of targeting measures have been rolled out, but the broad stimulus can be quantified by looking at financial conditions, which have swung one standard deviation looser than year-end 2019. Also, the flow of credit to the nonfinancial sector has risen 4 percentage points of GDP in the past three months.

The results of these policy interventions have been broadly positive. Volatility is down, risk appetite has stabilized, equity indices have begun to recover, and market conditions remain relatively orderly compared with just a few weeks ago.

Nevertheless, as a result of the sharp deterioration in macroeconomic prospects, we have significantly lowered our GDP forecasts for the year (see table 1). We now see a global contraction of 2.4% before a rebound to growth of 5.9% next year.
Credit Market Update

Ratings Trends

Chart 1

Sector Impact of COVID19 and Oil Price War

- S&P Global Ratings has taken 1320 negative rating actions (as of April 14) on global corporate nonfinancial and financial issuers, including 642 downgrades, 486 outlook revisions to Negative, and 192 placements on CreditWatch with Negative Implications.

- The majority of actions hail from North America (739), which comprises a sizable portion of the rated portfolio, followed by EMEA (312) and Latin America (144), and then APAC (125). Sovereign downgrades (27) have had knock-on impacts on many banks and corporate issuers.

- Many sectors have been hit hard by the abrupt stoppage of travel and social distancing measures as a result of measures designed to slow the health and human cost of COVID19 and rapidly falling oil prices have hurt the energy sector. These include media and entertainment, hotels and gaming, retailing, and transportation companies – the first three of which saw particular vulnerability with a relatively low ratings mix in the sectors coming into the crisis, exacerbating their vulnerability before getting a direct hit to their revenues.

- Automotive, pressured before the current crisis due to a manufacturing recession, also saw substantive downgrades owing to the sectors’ weakened position combined with low expected demand amidst lockdowns.

Source: S&P Global Ratings. Data as of Apr. 21, 2020
Financing Conditions

Chart 2
Secondary Market Credit Spreads, U.S. and Emerging Markets


Chart 3
S&P Global U.S. Composite Spreads By Rating, Secondary Market

Source: S&P Global Ratings. Data as of April 21, 2020

- Markets Gradually Opening. Bond spreads have tightened significantly off highs above GFC levels in most markets, though the past two days of extreme weakening in oil prices pushed up risk premiums, especially at the bottom end of the ratings spectrum. Investor confidence is generally improving but remains extremely delicate.

- Risks. Social distancing still presents hard shocks on revenues, despite secondary markets and indeed some primary markets opening up, and will constrain capital demand. Many issuances recently have been completed to help fund high costs and
low revenue expectations for the near-future. Investor confidence is weak globally and volatility likely as investors are juxtaposed by spread compression driven by central bank action and harsh fundamentals due to social distancing measures, mandated business closures, and significant health risks still present.

Debt Capital Markets

Chart 4

Financial and Non-Financial New Bond Issuance


– **Global.** Bond issuance totals $1.8 trillion to date with improved investor confidence, especially in the U.S., helping to open up debt markets across the spectrum there, and offering a glimmer of hope in Europe, Asia, and emerging markets. Generally, however, lower-quality borrowers still face reduced market appetite as tightening spreads remain delicate and under threat by continued weak economic fundamentals and rapid deterioration in oil prices, freshly renewed in the past two days.

– **Asia.** With credit spreads tightening for investment-grade firms, a few Asian non-financial corporates made large deals last week, in contrast to the predominant silence in this space for a few weeks. However, speculative-grade bond supply remains dry.

– **Europe.** The spec-grade bond market finally reopens, but conditions aren’t supportive enough for vulnerable issuers to launch their deals.

– **U.S.** Renewed investor appetite and relatively stable market conditions (considering the past month’s volatility) led to a surge in issuance across the board, and enabled credits in troubled sectors to complete their deals, largely to manage cash flow amid abrupt stoppage in revenues.
Asset Class Trends

Corporate
- We downgraded 91 corporates in the week ended April 17, related to COVID-19 and oil prices, bringing the total to 564 overall.
- This pace is similar to the prior week, but lower than during previous weeks. Almost all downgrades during the week were on companies rated speculative-grade.
- Several EMEA-based auto-suppliers were placed on CreditWatch with negative implications, including Faurecia SE, Gestamp, and Garrett Motion.
- There were two further defaults: U.S.-based department store operator J.C. Penney Co. on a missed interest payment; and U.S.-based Mister Car Wash Holdings Inc., as certain cash interest payments were replaced with slightly higher pay-in-kind (PIK) amounts.

Banks and Financial Institutions
- Rating actions include eight European distressed-debt purchasers, two banks and five non-bank financial institutions in India, and a few more specialized lenders.
- Beside the short-term effects on asset quality, the revision of our macroeconomic forecasts will likely put more focus on longer term considerations for banks, such as lower-for-even-longer rates and other factors that may durably dent banks’ profitability—which was already feeble at the onset of the crisis for many.

Insurance
- Summary of rating actions to date: 25 negative rating actions (including four downgrades) split as follows:
  - 32% sovereign-related (economic or oil related)
  - 36% financial market volatility and capital pressure
  - 24% related to US mortgage insurers and potential for higher credit losses
  - 8% pressure on business models given lower sales volumes
- Life insurers are more at risk, particularly those with relatively thin capital buffers and significant exposure to financial-market volatility through their asset portfolios or product offerings.
- Focus continues to be on the quality of insurer’s investment portfolios especially corporate and noninvestment-grade exposures as well as updating our forecasts of capital and earnings in light of revised macroeconomic and credit related assumptions.
- Continue to closely track capital levels and risks from loose policy terms and conditions or government intervention which cause unexpected business interruption claims.

Structured Finance
- **US CLO:** Ratings on 155 classes from 113 U.S. reinvesting CLOs placed on CreditWatch Negative. A growing number of corporates with loans held in U.S. broadly syndicated CLOs (BSL CLOs) have suffered negative rating actions, largely due to coronavirus-related concerns and economic dislocation. With more than 250 classes (more than 6% of all rated U.S. CLO classes) on CreditWatch Negative due primarily to the impact of the pandemic or reduction in oil prices, the vast majority of these current actions are related to noninvestment-grade classes.
- During CLO webinars, we received numerous questions from participants. Many of these are addressed in “Credit FAQ: U.S. CLOs In The Time Of Coronavirus -Webinar Follow Up”, Apr. 15, 2020.
- **European Corporate Securitizations:** 34 tranches on seven U.K. corporate securitizations placed on CreditWatch Negative due to COVID-19 uncertainty. In the U.K., the pandemic has caused a mandatory closure of all pubs, restaurants, cafes, and other non-essential businesses, and a ban on mass gatherings, such as sporting
events. In our view, the credit quality of each transaction may decline due to health and safety fears related to COVID-19.

- **Global SF:** A summary of the Global Structured Finance public rating actions related to the COVID-19 is published (See “COVID-19 Activity In Global Structured Finance”, Apr. 20, 2020).

- **Global RMBS:** In line with its criteria, S&P Global Ratings is assessing the effects that COVID-19 may have on our market outlooks for residential mortgage-backed securities (RMBS) and covered bonds across various countries globally. Our market outlooks inform our foreclosure frequency assumptions and, correspondingly, the loss coverage. Changes in our outlooks could potentially affect our outstanding ratings (See: “S&P Global Ratings Is Assessing The Impact Of COVID-19 On Mortgage Market Outlooks For Global RMBS”, Apr. 17, 2020).

- **US RMBS:** Given our current projection of the impact that COVID-19 is likely to have on the U.S. economy and housing market (see "Economic Research: An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020), we have applied our criteria to revise the 'B' projected foreclosure frequency to 3.25% from 2.5%(See “Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later”, Feb. 22, 2018).

- **US CMBS:** We will continue to monitor COVID-19's impact on the U.S. CMBS transactions we rate, especially those with lodging and retail exposures, and take individual rating actions, as appropriate (See “U.S. CMBS Conduit Update Q1 2020: The Magnitude Of COVID-19 Fallout Remains Uncertain”, Apr. 17, 2020).

- **European RMBS:** Thirty-one European residential mortgage-backed securities (RMBS) transactions have call options that could be exercised in the next 12 months, of which 19 are U.K. transactions. Market disruption caused by COVID-19 has made refinancing conditions more difficult, raising the likelihood that some of these calls may not be exercised (See “COVID-19 May Be A Litmus Test For European RMBS Calls”, Apr. 15, 2020).

- **Australian and New Zealand Structured Finance:** Ratings on Australian and New Zealand structured finance transactions are unaffected by a recent batch of outlook changes on sovereign and financial institution ratings (See "Will Recent Outlook Revisions On Australia And Australian Banks Affect Structured Finance Ratings?", Apr. 14, 2020).
