S&P Global
Ratings

Ratings Weekly Digest

April 14, 2021

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Key Takeaways

- Market expectations for runaway inflation in the U.S. are overdone, in our view.
- Last year's seven sovereign defaults were a record, and downgrades hit a decade high.
- Distressed exchanges continue to represent the bulk of global corporate defaults.

Key developments

With U.S. financial markets beginning to reflect the view that runaway inflation is on the horizon—and that the Federal Reserve will be forced to tighten monetary policy sooner than it would like—S&P Global Economics thinks this view is overdone. We see inflationary pressures as transitory, tied to the "base effect" from depressed prices last year and the reopening of economic activity. To be sure, stimulus-boosted household savings will increase demand for goods and services, likely pushing inflation above 2% this year—but hardly to runaway levels.

The seven sovereign defaults last year marked the most ever, eclipsing the six in 2017. The health and economic crisis, and the collapse of oil prices created challenges for sovereigns we rate, and those that defaulted entered 2020 with weakened credit metrics and little headroom to absorb the effects of the pandemic. In addition to the defaults, sovereign downgrades rose to their highest since 2011. All defaults were sovereigns rated 'B' or below at start of year, and most downgrades were of speculative-grade sovereigns from emerging and frontier markets. Sovereign ratings will remain pressured as massive fiscal and monetary stimulus leave a substantial debt overhang for years to come.

Distressed exchanges continue to make up the bulk of global corporate defaults (nearly 60% of the total), with the trailing 12-month count of distressed exchanges reaching 81—the most since 2010. Overall, the global corporate default tally has reached 26 this year, less than two-thirds of the tally (43) at the same point last year, when credit stress rapidly increased due to the COVID-19 pandemic. In the first quarter, there were only three bankruptcy-related defaults, compared with nine in January-March of 2020.

The number of potential fallen angels, and the debt they represent, continues to fall as the economic recovery takes hold and coronavirus vaccinations roll out. We estimate that, among nonfinancial companies in the U.S. and EMEA, $195 billion in 'BBB' category debt will be downgraded to speculative-grade this year—a 47% decline from 2020. Markets, too, appear to have lower expectations for a large wave of fallen angels, with the gap in spreads between 'BB+' and 'BBB-' narrowing to 97 basis points (bps) on March 24, only slightly wider than the long-term average of 82 bps.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

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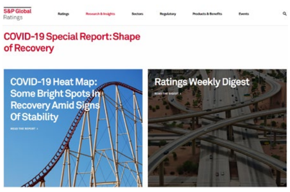
Links

Research updates, including a summary of related ratings actions, are available at:
https://www.spglobal.com/ratings/en/research-insights/topics/coronavirus-special-report



Credit Market Update

Credit Market Research

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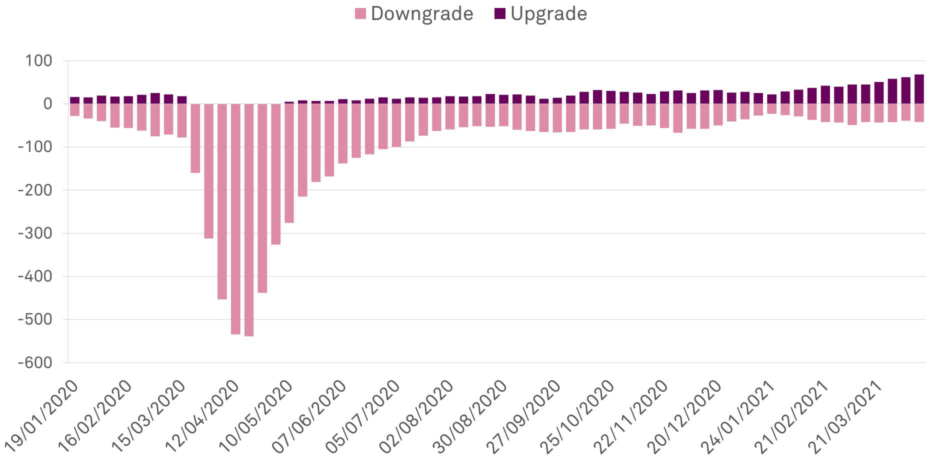
Ratings Trends

Chart 1

Upgrades Continue To Drive Rating Actions



Source: S&P Global Ratings. Data as of April 13, 2021.

Table 1

Recent Rating Actions

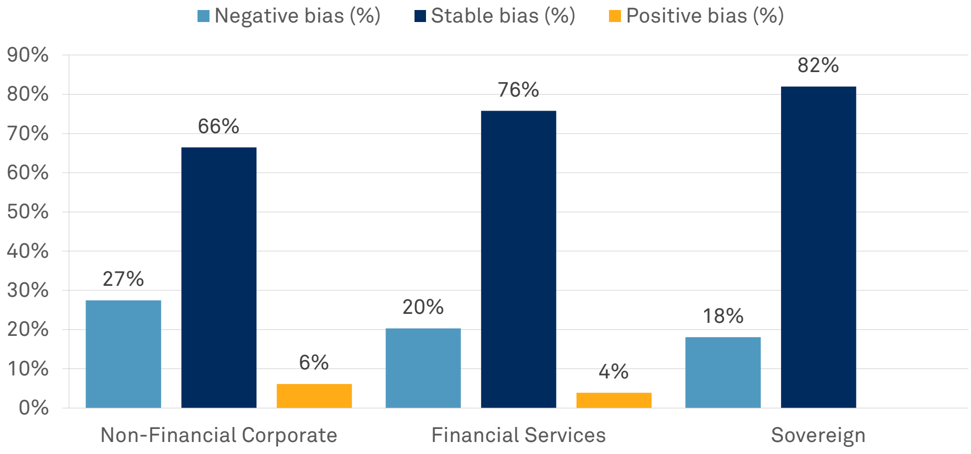
Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. $)
12-Apr	Upgrade	Nexstar Media Group, Inc.	Media and entertainment	U.S.	BB	BB-	8783
09-Apr	Upgrade	First Quantum Minerals Ltd	Metals, Mining, and steel	Canada	B	CCC+	5900
08-Apr	Upgrade	DVB Bank SE (Cooperative Banking Sector Germany)	Bank	Germany	AA-	BBB	4542
09-Apr	Upgrade	Univar Solutions Inc.	Chemicals, packaging, environmental services	U.S.	BB+	BB	3884
12-Apr	Upgrade	Paysafe Group Holdings II Ltd.	High technology	U.K.	B+	B-	3006
07-Apr	Upgrade	Gentiva Health Services Inc.	Health care	U.S.	B+	B	2541
08-Apr	Upgrade	Shimao Group Holdings Ltd.	Homebuilders/real estate co.	Cayman Islands	BBB-	BB+	2100
07-Apr	Downgrade	CDRH Parent, Inc.	Health care	U.S.	CC	CCC-	1590
09-Apr	Downgrade	Mitel Networks (International) Ltd	High technology	U.K.	CCC+	B-	1380
07-Apr	Downgrade	Japan Tobacco Inc.	Consumer products	Japan	A+	AA-	1250

Source: S&P Global Ratings

- **70% of the top 10 rating actions by debt amount this week were upgrades**, spread across both North America and Europe. Upgrades continue to outpace downgrades as financing conditions remain accommodative.
- **China-based (Cayman Islands incorporated) real-estate developer Shimao Group Holdings Ltd. became a rising star this week** when it was upgraded from 'BB+' to 'BBB-' on strong sales and stable profitability which should allow it to sustain its improved credit metrics on both a consolidated and look-through basis over the next 12 months.
- **The 2021 global corporate default tally reached 26 this week.** This year's tally is less than two-thirds of the total at the same point in 2020, when credit stress rapidly increased due to the COVID-19 pandemic.

Chart 2

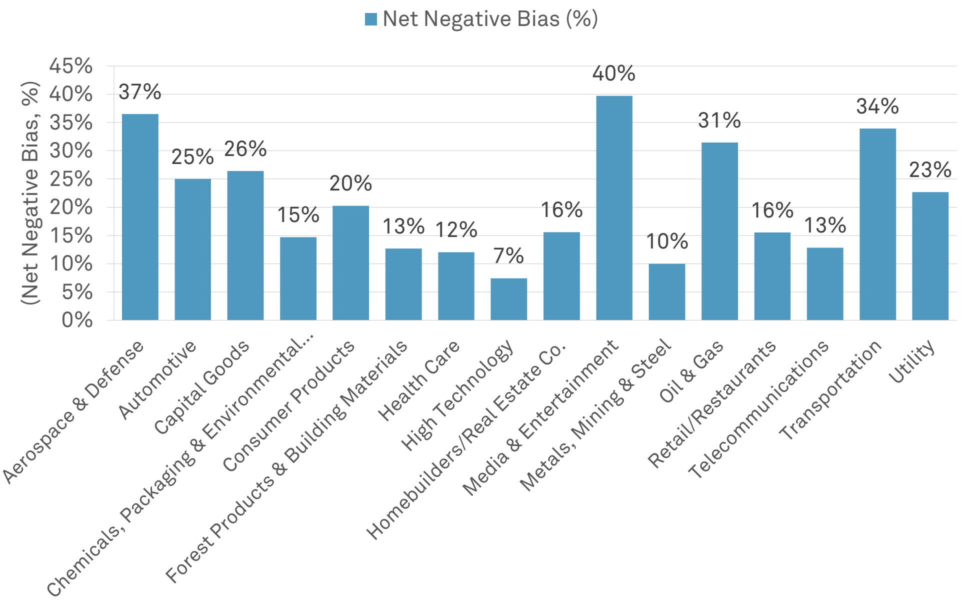
The Negative Bias For Nonfinancial Corporates And Sovereign's Stabilize



Source: S&P Global Ratings. Data as of April 13, 2021.

Chart 3

Oil and Gas And Transportation Sectors Lead The Greatest Drop In Negative Bias

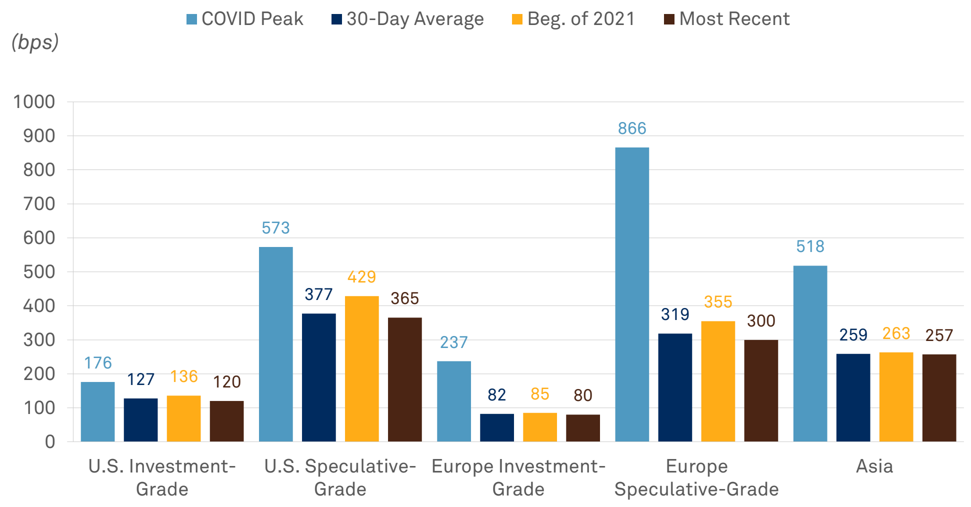


Source: S&P Global Ratings. Data as of April 13, 2021.

Financing Conditions

Chart 4

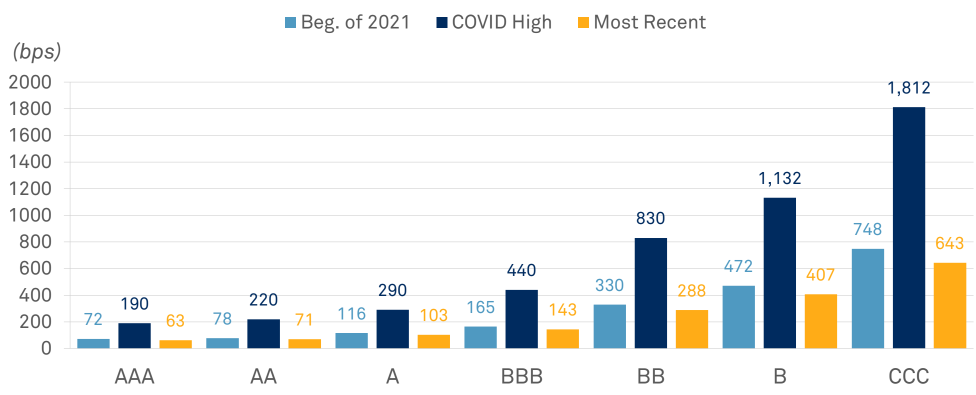
Secondary Market Credit Spreads, U.S., Europe, And Asia



Source: ICE Benchmark Administration Limited (IBA), 'ICE BofAML Asia Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', 'ICE BofAML Europe, the Middle East, and Africa (EMEA) Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BAMLEMRECRPIEMEAOAS, U.S. Investment-Grade and Speculative-Grade Spreads from S&P Global Ratings, Europe Investment-Grade Spreads From S&P Dow Jones Indices. April 13, 2021.

Chart 5

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



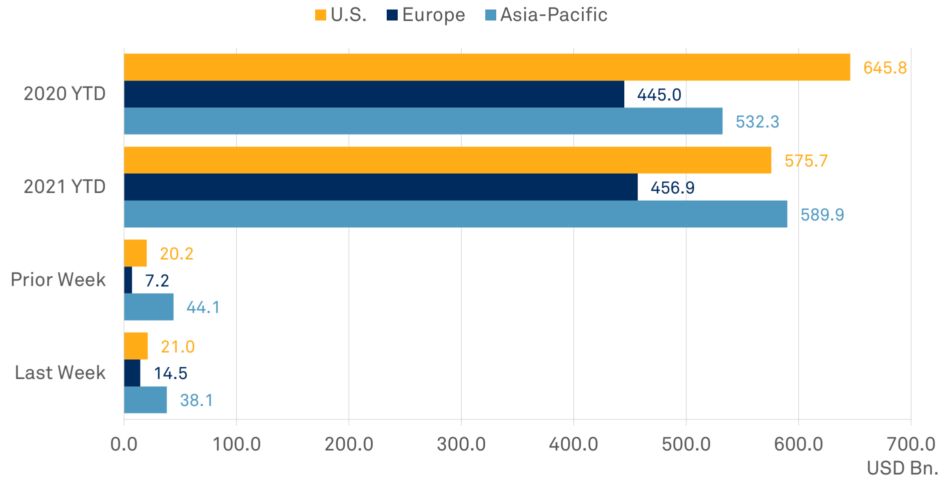
Source: S&P Global Ratings. Data as of April 13, 2021.

- **Debt issuance.** Debt issuance on the year total reached $1.6 billion and is in line with total issuance at this point last year.
- **Spreads narrowed.** Spreads continue to fall at all ratings levels – the largest tightening at the 'AAA' and 'AA' rating levels, which fell 10% and 8%, respectively.

Debt Capital Markets

Chart 6

Financial And Nonfinancial New Bond Issuance



Source: S&P Global Ratings. Data as of April 5, 2021.

- **Global:** Appetite remains healthy but COVID-driven supply needs are curbing.
- **Asia.** Market started slow last week after the Easter holidays, as rising coronavirus cases and lingering Chinese market concerns dampened investor sentiments.
- **Europe.** Concessions whittled down amid low supply and substantial redemptions in April will likely lead to better technicals for credit.
- **U.S.** Speculative-grade primary supply remained robust given borrower-friendly market conditions.

Asset Class Trends

Corporates

- Notable publications include:
  - Default, Transition, and Recovery: 2020 Annual Global Corporate Default And Rating Transition Study
  - North American Regulated Utilities' Credit Quality Begins The Year On A Downward Path
  - Infrastructure: Ten Roads, Ten Routes Ahead
  - U.K. Pubs, Shaken And Stirred, Look To Recover After A Cocktail Of Headwinds
  - Default, Transition, and Recovery: Distressed Exchanges Account For Over Half Of 2021 Defaults
  - Sector Roundup Asia-Pacific Q2 2021: The Climb Back Is Steeper For Some
  - Corporate Credit Recovery In Southeast Asia Lacks One Key Ingredient: Liquidity
  - Rebooting The U.S. Media Sector: 2021 Advertising Trends Are Nicely Up, With Some Sectors Lagging
  - China's Corporate Debt Slowdown Is Timely As Rate Cycle Turns
  - U.S. Markets See Inflationary Ghosts; Macroeconomic Signs Disagree

- Notable ratings actions include:
  - Sodexo Downgraded To 'BBB+' On Slower Recovery From COVID Disruption; Outlook Negative
  - Shimao Upgraded To 'BBB-' On Stable Profitability And Prudent Financial Management; Outlook Stable
  - BOC Aviation Outlook Revised To Stable On Resilient Performance; 'A-' Rating Affirmed
  - Li & Fung Downgraded To 'BBB-' Due To Deteriorating EBITDA And Cash Position; Stable Outlook
  - National Grid North America Ratings Affirmed, Outlook Stable; Actions Taken On Subsidiaries
  - Evergrande And Subsidiaries Outlooks Revised To Stable On Improving Capital Structure, Liquidity; Ratings Affirmed
  - Argentine Power Company YPF Energia Electrica Downgraded To 'SD'
  - Nexstar Media Group Inc. Rating Raised To 'BB' On Lower Leverage Expectations; Outlook Stable

Banks and financial institutions

- Recent rating actions include several on Uzbek banks amid resilient performance despite the pandemic's effects. We believe risks have largely stabilized for Uzbek banks and expect business growth to continue in 2021-2022, while risks for earnings prospects and funding sustainability are less acute. Therefore, we upgraded Orient Finans Bank (to 'B+' from 'B') and Davr-Bank (to 'B' from 'B-') and revised the outlook to positive from stable for Kapitalbank (B-/Positive/B).
- We also updated our forecasts for capital markets activities (see Capital Markets Revenue Should Remain Robust For Global Banks In 2021 Despite Risks). We project capital markets revenue to remain robust this year but to decline 5%-10% from 2020's elevated levels. Although revenue will likely remain robust, risk has risen for some of the large capital market players as reflected by trading losses in some banks' prime brokerage businesses. We believe capital markets businesses are more opaque than traditional lending businesses and the risks more difficult to quantify. But we also see this business as a revenue diversifier, which was validated during the pandemic.

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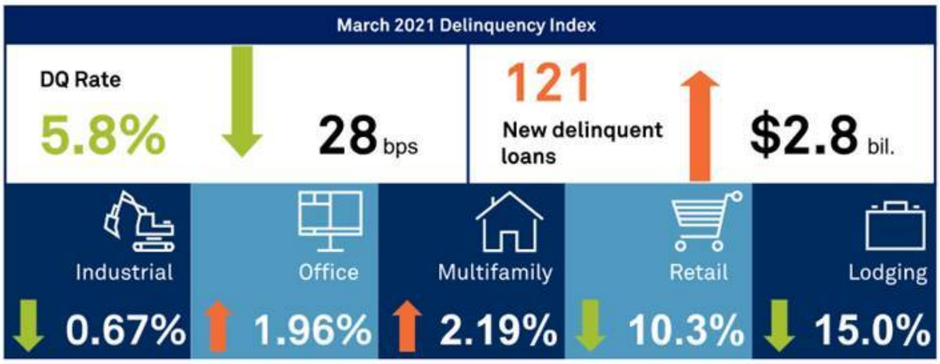
Sovereign

- [Sovereign Ratings Score Snapshot]

Structured finance

- **LIBOR Transition in Structured Finance:** Listen to a recent podcast, "Take Notes: The Impact of the FCA's Official LIBOR Cessation Dates on Structured Finance" released on April 8.
- **U.S. CLO and Leveraged Finance:** Listen to a recent podcast, "The Upgrade Episode 10: Looking Back, and Looking Forward at Spec Grade Credit and CLOs" released on April 8.
- **Covered Bonds:** Here are a couple key takeaways from a recent commentary in this sector: Conditions are in place for a solid economic recovery in Europe in the second half, and we have marginally changed our GDP forecasts accordingly. However, the outlook remains largely uncertain and highly contingent on the race between the vaccine and the virus. Year-to-date covered bond issuance is more than 50% below 2020 levels and 2021 issuance prospects remain subdued. The path to EU covered bond harmonization is unfolding with more countries releasing public or confidential consultation papers to meet the July implementation deadline. See "Global Covered Bond Insights Q1 2021" published April 8. We also published a report on April 8 that lays out core characteristics and risk indicators that we regularly assess in our analysis (see "Global Covered Bond Characteristics and Rating Summary Q1 2021").
- **U.S. CMBS:** See "U.S. CMBS Downward Delinquency Trend Continues, but the Overall Rate Is Still 440 Bps Higher Than Pre-COVID-19 Levels" published April 7. Here is a graphic from that commentary:

  The U.S. CMBS overall delinquency rate decreased 28 bps month over month to 5.8% in March 2021. Just 7.6% of loans are in forbearance or have requested forbearance relief. By balance, delinquency rates decreased for retail (95 bps), lodging (41 bps), and industrial (8 bps), while multifamily and office increased 26 bps and 13 bps, respectively.

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