S&P Global
Ratings

Ratings Weekly Digest

May 5, 2021

Key Takeaways

- India's second COVID wave could knock nearly 3% off GDP growth in fiscal 2022.
- The EU remains on target for 70% adult inoculation by late summer, but emergency economic support measures continue to be extended and amended.
- Cryptocurrencies aren't equivalent to cash in net debt calculations, in our view.

Contents

Key developments

India's second COVID wave could knock 2.8 percentage points from GDP growth in fiscal 2022. This will likely derail what has been a promising recovery in the economy, profits, and credit metrics, year to date. Although the situation is fast-moving, limited vaccination coverage and exposure to more-infectious COVID variants may mean this wave peaks as late as June, with significant effects on credit and funding conditions. Localized lockdowns are in place, so far avoiding a nationwide lockdown, which would have more adverse economic implications.

The EU's slow-starting vaccine program has been boosted by Pfizer and BioNTech announcing they will substantially increase delivery of COVID-19 vaccines to the bloc in the second quarter of this year. We therefore maintain our assumption that the EU will be able to vaccinate 70% of its adult population against COVID-19 by late July-early August 2021. This assumes that the EU can significantly ramp up vaccination rates to about 4.7 million jabs per day in June from the current rate of about 2.5 million. Data showing the eurozone fell into a double-dip recession in the first quarter highlighted the urgency.

The resurgence of COVID-19 in Europe over the winter has led governments to further extend and amend most of their emergency support measures, some as far as to the end of December, to minimize structural damage to economies. Credit support alone won't be sufficient to protect credit quality in sectors most disrupted by the pandemic, as our liquidity scores for rated companies illustrate. Official support is therefore shifting from providing liquidity toward restoring balance sheet strength for companies able to generate growth and employment over the longer term.

Cryptocurrencies aren't akin to cash for credit purposes, in our view (see here). The continuing surge in many cryptocurrency prices—e.g., Ethereum is up more than 1,500% in the past year—and Tesla's high-profile purchase of $1.5 billion worth of bitcoin in January are intensifying broader questions around their use and regulation. Digital currencies like bitcoin carry significant volatility and regulatory risk in our view, and as a result the reported value won't be netted in our net debt calculation. Accessibility and liquidity are the two key factors we use in determining whether digital currencies can be quickly converted to cash to pay down debt; difficulties remain with both factors.

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.

Global Research

Gareth Williams
London
gareth.williams@spglobal.com
+44-20-7176-7226

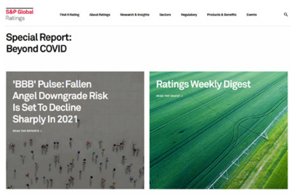
Alexandra Dimitrijevic
London
alexandra.dimitrijevic@spglobal.com
+44-20-7176-3128

Gregoire Rycx
Paris
gregoire.rycx@spglobal.com

Joe Maguire
New York
joe.maguire@spglobal.com

Links

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



Credit Market Update

Credit Market Research

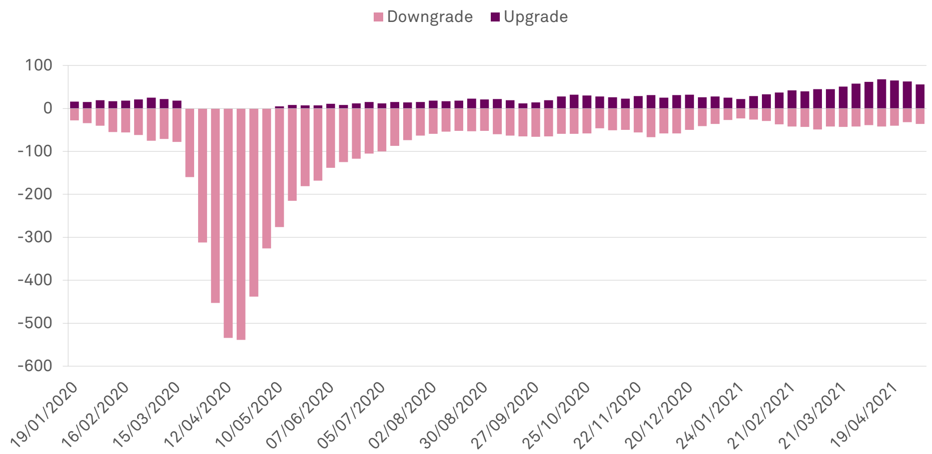
Nicole Serino
New York
nicole.serino
@spglobal.com

Sudeep Kesh
New York
sudeep.kesh
@spglobal.com

Ratings Trends

Chart 1

Upgrades Outpace Downgrades, But At A Slower Pace



Source: S&P Global Ratings. Data as of May 3, 2021.

Table 1

Recent Rating Actions

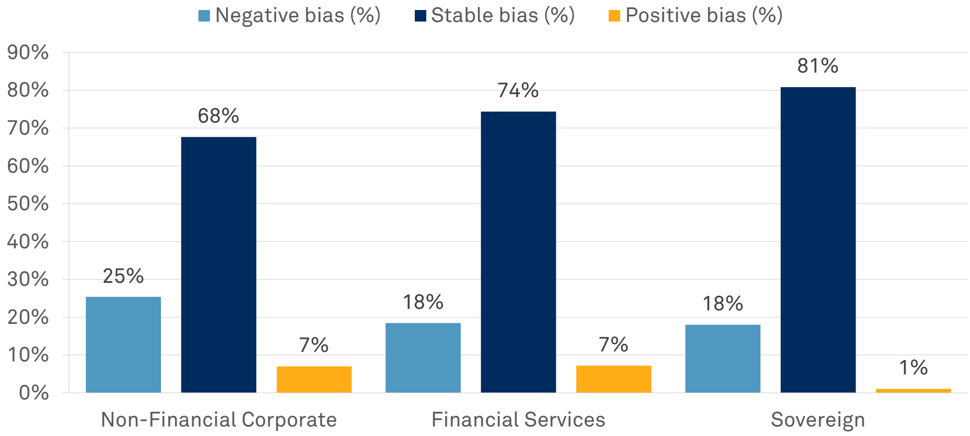
Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. $)
29-Apr	Downgrade	General Dynamics Corp.	Aerospace and defense	U.S.	A-	A	13,000
28-Apr	Upgrade	Equinix Inc.	Telecommunications	U.S.	BBB	BBB-	11,304
29-Apr	Downgrade	Vistra Corp.	Utility	U.S.	BB	BB+	10,198
29-Apr	Upgrade	Endeavor Operating Co. LLC	Media and entertainment	U.S.	B	CCC+	9,172
27-Apr	Upgrade	Kirk Beauty One GmbH	Retail/restaurants	Germany	B-	CCC+	3,302
27-Apr	Upgrade	National Bank of Greece S.A.	Bank	Greece	B+	B	3,133
30-Apr	Upgrade	Synlab Bondco PLC (Synlab AG)	Health care	Germany	BB-	B+	2,606
27-Apr	Upgrade	Eurobank S.A (Eurobank Ergasias S.A.)	Bank	Greece	B+	B	2,591
28-Apr	Downgrade	SolarWinds Holdings Inc.	High technology	U.S.	B	B+	1,990
28-Apr	Downgrade	PACCOR Holdings GmbH	Chemicals, packaging, and environmental services	Germany	B-	B	1,935

Source: S&P Global Ratings

- **Upgrades continue to outpace downgrades, but more slowly than in April.** Much of this activity reflects more stability, as uncertainty around the evolution of the coronavirus pandemic and its economic effects remain.
- **U.S. entertainment and sports company Endeavor Operating Co. LLC and German retailer Kirk Beauty One GmbH were both upgraded** out of 'CCC' territory this week after being downgraded in 2020 due to impacts of the COVID-19 pandemic.
- **2021 corporate defaults rose to 37 this week** after five companies defaulted. Although the default tally continues to rise, it remains well below the 43 defaults at this point last year.

Chart 2

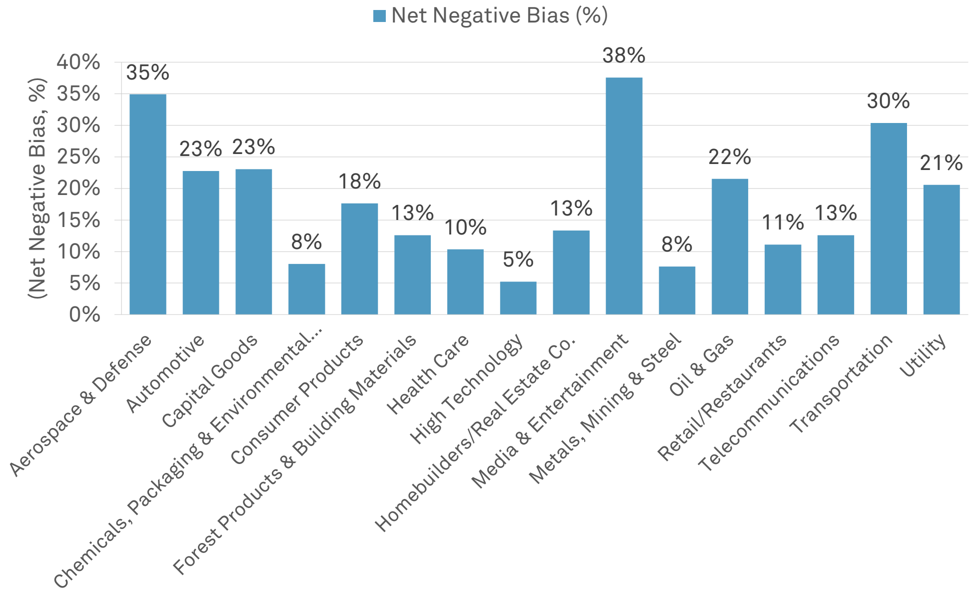
The Positive Bias For Nonfinancial Corporates And Financials Increased This Week



Source: S&P Global Ratings. Data as of May 3, 2021.

Chart 3

The Oil And Gas Sector's Negative Bias Continues To Drop, Decreasing By Half Since The Beginning Of March

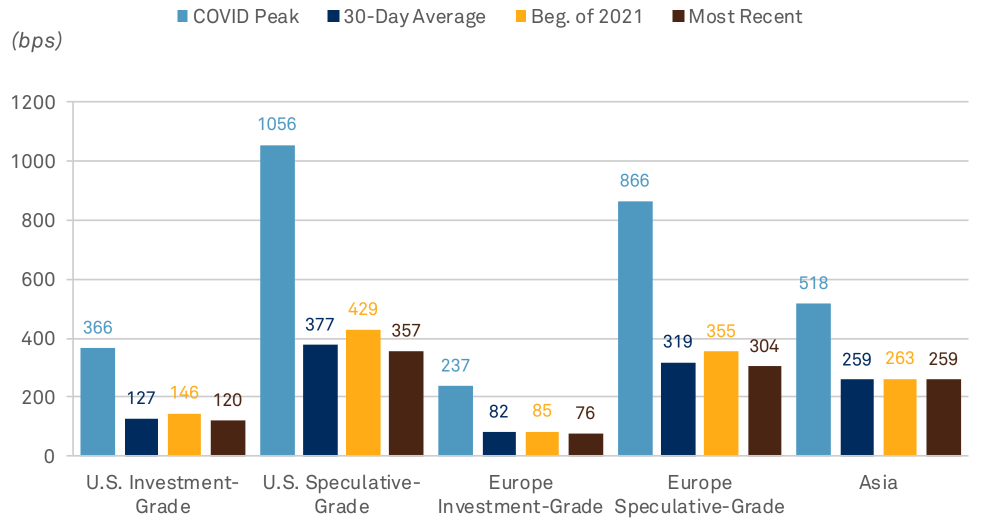


Source: S&P Global Ratings. Data as of May 3, 2021.

Financing Conditions

Chart 4

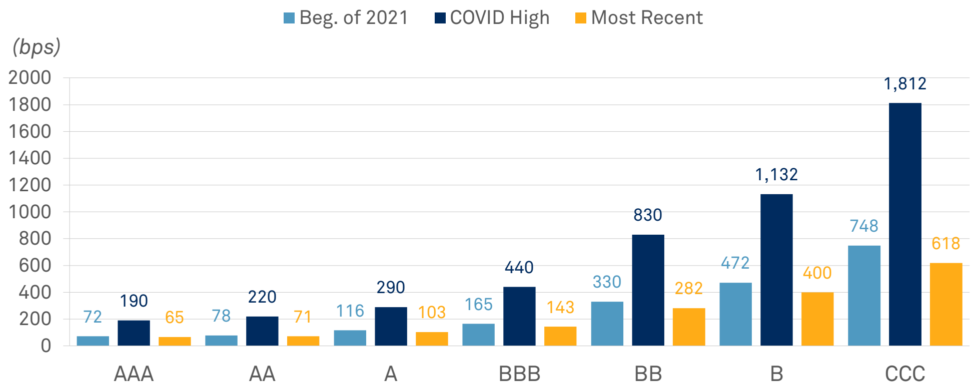
Secondary Market Credit Spreads, U.S., Europe, And Asia



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. May 3, 2021.

Chart 5

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



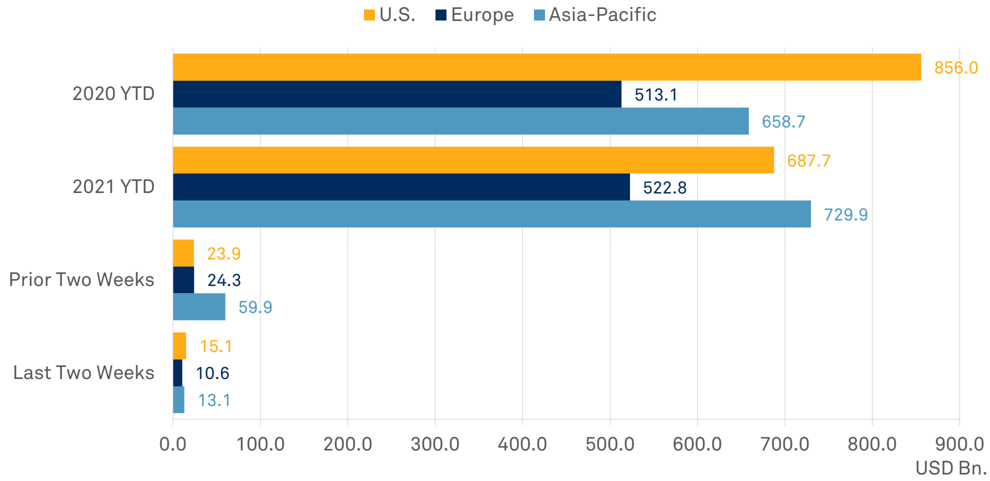
Source: S&P Global Ratings. Data as of May 3, 2021.

- **Debt issuance.** Debt issuance on the year total reached $1.94 billion, a 4% decrease from at this point in 2020, but remains strong.
- **Spreads tightened** at all rating levels this week as financing conditions remain accommodative, even for speculative-grade credits.

Debt Capital Markets

Chart 6

Financial And Nonfinancial New Bond Issuance



Source: S&P Global Ratings. Data as of May 3, 2021.

- **Global.** While the Fed and the European Central Bank (ECB) remain committed to ongoing asset purchases, benchmark rates are near recent highs amid prospects of accelerating growth and inflation.
- **Asia.** Softer market conditions led to tight supply in the primary bond market in the last week of April, but 2021 year-to-date levels at $160.3 billion stand well above past three years.
- **Europe.** Low supply and the search for yields boosted investors' appetite for hybrids and 'B's last week
- **U.S.** The Federal Open Market Committee meeting and the ongoing earnings season kept primary volumes low last week.

Asset Class Trends

Corporates

- Notable publications include:
  - Credit Trends: Global Financing Conditions: Bond Issuance Could Decline 2.25% In 2021 To $8.2 Trillion
  - Credit Trends: U.S. Corporate Defaults: Variations, Forecasts, And The Implications For CLOs
  - Credit Trends: U.S. Corporate Bond Yields As Of April 28, 2021
  - Credit Trends: U.S. Corporate Rating Actions Show Post-COVID-19 Credit Recovery Has Begun
  - Default, Transition, and Recovery: 2021 Corporate Default Tally Climbs To 37
  - U.S. Travel Industry's Recovery Is On Standby
  - European Office REITs Should Prove Resilient To A Gradual Decline In Tenant Demand
  - Office Space Will Lag As Hong Kong Property Markets Recover
  - Global Infrastructure And Energy: First-Quarter 2021 Sector Update
- Notable ratings actions include:
  - Equinix Inc. Upgraded To 'BBB' On Improved View Of Fundamentals And Strength Of Interconnection; Outlook Stable
  - Kentucky Power Co. Downgraded To 'BBB+', On CreditWatch Developing On Announced Sale By Parent American Electric Power
  - Volkswagen AG Outlook Revised To Stable From Negative On Stronger-Than-Expected Free Cash Flow Generation
  - General Dynamics Corp. Downgraded To 'A-' On Weaker Margins, More Aggressive Shareholder Returns; Outlook Stable
  - Vistra Corp. Downgraded To 'BB' From 'BB+'; Outlook Stable; Debt Rating Actions Taken
  - Endeavor Operating Co. LLC Upgraded To 'B' On IPO, Improved Liquidity, And Rebound; UFC 'B' Affirmed; Outlook Negative

Banks and financial institutions

- Following our sovereign rating action on Greece, we raised our long-term issuer credit ratings (ICRs) on National Bank of Greece S.A. (NBG), Eurobank S.A, and Alpha Bank S.A. to 'B+' from 'B' and our long-term ICRs on Piraeus Bank S.A. (Piraeus) to 'B' from 'B-'. The outlooks on all the entities are stable. At the same time, we raised our resolution counterparty ratings (RCRs) on NBG, Eurobank, and Alpha Bank to 'BB-'/'B' from 'B'/'B', and our RCRs on Piraeus to 'B+'/'B' from 'B-'/'B'. In our view, the visible increase in domestic deposits coupled with ongoing balance sheet clean up and monetary developments, including access to the ECB's targeted longer-term refinancing operations funding, have improved funding and liquidity metrics for Greek banks. We also believe that the expected deployment of EU funds will improve economic performance. See Various Rating Actions Taken On Five Greek Banks Following Sovereign Upgrade.

Analytics & Research

Cross-Practice
Gregg Lemos-Stein
gregg.lemos-stein@spglobal.com

Corporate
Jeanne Shoesmith
jeanne.shoesmith@spglobal.com

Financial Institutions
Alexandre Birry
alexandre.birry@spglobal.com

Infrastructure
Karl Nietvelt
karl.nietvelt@spglobal.com

Insurance
Simon Ashworth
simon.ashworth@spglobal.com

Sovereign
Roberto Sifon-Arevalo
roberto.sifon-arevalo@spglobal.com

Structured Finance
Winston Chang
winston.chang@spglobal.com

U.S. Public Finance
Robin Prunty
robin.prunty@spglobal.com

Sovereign

- Korea 'AA/A-1+' Ratings Affirmed; Outlook Stable
- Papua New Guinea 'B-/B' Ratings Placed On CreditWatch Negative On Debt Repayment Uncertainty
- Singapore 'AAA/A-1+' Ratings Affirmed; Outlook Stable

Structured finance

- **ESG and structured finance:** Here are a few highlights from our most recent cross-practice ESG Pulse publication: ESG-related rating actions over the first quarter edged up to 201 (83 in March), of which 126 were downgrades (51 in March). About 60% of actions are health-and-safety-related (social), stemming from direct effects of the pandemic; 30% are related to environmental influence and 10% to governance. We have also just released a series of ESG industry report cards for structured finance. Auto and commercial mortgage asset-backed securities (CMBS) have above-average environmental exposure. We see social risks as above average for credit-card and residential mortgage asset-backed securities (RMBS). In most cases, exposure to ESG credit factors is considered indirect or mitigated by legal and structural features already embedded in typical transactions. Therefore, even if there is a material ESG credit factor there may ultimately be no ratings impact. Finally, over time, and not before September 2021, S&P Global Ratings will begin to publish alpha-numerical ESG Credit Indicators for each transaction. Our aim is to add transparency and help explain the influence of ESG factors on our credit rating analysis. Importantly, such ESG Credit Indicators will not affect our credit ratings. See "The ESG Pulse: A Spotlight on Structured Finance" published April 28.
- **Global ABCP:** Here are a couple key takeaways from a recent commentary in this sector:

  Key Takeaways

  U.S.: Issuance came under some pressure in the second half of 2020, as alternative funding sources of liquidity became more available. Nevertheless, we have rated issuances from several programs over the last six months. Issuance growth should remain stable or increase slightly this year, with no material impact on our ratings in the coming months amid a modest economic rebound.

  EMEA: The total amount of rated ABCP outstanding surpassed $100 bilion as of Dec. 31, 2020. Issuance reached a three-year high after tepid growth for two years, driven by investor demand. We expect stable issuance this year with no material impact on our ratings.

  See "Inside Global ABCP: Economic Recovery to Underpin Modest Issuance and Stable Ratings" published April 28.
- **U.S. CLO:** We recently published a "SF Credit Brief: CLO Insights 2021 U.S. BSL Index: Credit Metrics Have Improved for Three Quarters" on April 26 2021. Here is a graphic from that commentary.

  As the corporate loan market continues to recover from the credit effects of the COVID-19 pandemic, we have seen a modest but material improvement in the credit metrics of U.S. broadly syndicated loan collateralized loan obligations (CLOs), continuing a trend that began in the second half of 2020. In addition, we also published "U.S. BSL CLO Top Obligors and Industries Report: First-Quarter 2021" on April 26.

- **European CMBS:** Here is a graphic from a recent commentary in this sector.

All information is as of March 31, 2021, unless stated otherwise. New issue transactions are those rated by S&P Global Ratings.

Our monitor report provides data for the CMBS transactions that we rate, including maturities, delinquencies, and specially serviced loans, as well as rating and note-level matters. See "European CMBS Monitor Q1 2021" published April 29.

- **U.S. auto ABS:** Here are a couple key takeaways from a recent commentary in this sector: Extensions in February on auto loans in public asset-backed securities fell to their lowest levels since the pandemic started, but on average remained higher than year-ago levels. New this month, we've tracked the vintage cumulative charge-offs of loans extended each month since January 2020, and found that those loans extended in March and April 2020 have had lower cumulative default rates than those loans extended in January and February 2020. In prime, the cumulative charge-off rate of loans extended in April (the peak month of extensions) is 2.1% through February 2021. In subprime, the cumulative charge-off rate of loans extended in April is 8.0%. Cumulative charge-offs on all loans extended (regardless of the month in which the loan was extended) since March total approximately 2.1% and 6.6% in prime and subprime, respectively. See "SF Credit Brief: Loan Deferrals in U.S. Auto Loan ABS Reach Their Lowest Levels Since COVID-19 Began; Deeper Dive into Charge-Offs on Extended Loans" published April 27.
- **Australia RMBS:** See "Australian Prime Home Loan Arrears Fell in February, Report Says" published April 26, 2021 in order to access "RMBS Arrears Statistics: Australia" that provides a comprehensive analysis of arrears statistics on loans underlying Australian RMBS.

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