S&P Global
Ratings

Credit Conditions North America Q4 2021:

Risks Rise As Recovery Hits A Snag

Sept. 28, 2021

(Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly and on an ad hoc basis to review macroeconomic conditions in each of four regions—Asia-Pacific, Emerging Markets, Europe, and North America covering Canada and the U.S. Discussions center on credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the North America committee on Sept. 22, 2021.)

Regional Credit Conditions Chair

David C Tesher
New York
david.tesher
@spglobal.com
+1-212-438-2618

North America Credit Research

Joe Maguire
New York
joe.maguire
@spglobal.com
+1-212-438-7507

Yucheng Zheng
New York
yucheng.zheng
@spglobal.com
+1-212-438-4436

Key Takeaways

- **Overall:** The U.S. economic recovery has hit a snag as supply disruptions slow activity and the fourth wave of COVID acts as an additional drag. We now expect full-year GDP growth of 5.7%. While ratings actions reflect improving outlooks for credit, and lending conditions remain favorable, there's a rising risk that investors may soon push up borrowing costs, especially if inflation persists or unexpected adverse events trigger market turbulence.
- **Risks:** With corporate debt leverage near record levels, the recovery in demand remains uneven across industries. At the same time, borrowers in many sectors are dealing with rising input prices. All of this comes as the COVID health crisis lingers. We are also watching structural risks pertaining to the energy transition and ESG, cyber security, U.S.-China strategic confrontation, and commercial real estate.
- **Credit:** The net negative bias among nonfinancial corporate borrowers has fallen to 8%, from a record 42% in May of last year. However, sectors including aerospace and defense, media and entertainment, and consumer products still reflect somewhat elevated downgrade risk.

While credit conditions in the U.S. and Canada remain remarkably favorable for most borrowers we rate, several factors have increased the chance that investors will soon seek higher returns—which would lead to an increased cost of capital, particularly for riskier credits. Complicating the matter is a fourth wave of the coronavirus pandemic that has torn through the region and will likely act as a drag on GDP growth through year-end.

In the U.S., inflation continues to run hot, to the degree that real (inflation-adjusted) yields on all corporate bonds have plunged into negative territory for the past several months. Even corporate debt in the 'B' ratings category has had negative real yields since June.

Meanwhile, companies are struggling with inflated input costs, as supply constraints persist and unforeseen labor shortages take a toll. This may eat into profit margins, especially for those that find it hard to pass along these costs to customers. This pass-through may become more difficult as the coronavirus delta variant and the end of federal fiscal stimulus (along with the prospect that the Federal Reserve will soon taper its asset purchases) weigh on economic activity and demand.

Beyond inflation, other concerns could push investors into "risk-off" positions—not the least of which are the looming U.S. debt-ceiling crisis and the potential default of property developer China Evergrande Group (CC/Negative/—). While we believe legislators in Washington will work out a compromise to avoid the country's defaulting on certain payments, authorities in Beijing may face a tougher task.

A default by Evergrande could rattle investors' confidence in China's property sector and for speculative-grade markets broadly, potentially diminishing funding access for related sectors—in addition to weighing on China's real estate market. This could have wide-reaching negative ramifications for other developers, suppliers and contractors, and the banks and financial institutions that lend to them. We expect the default risks of weaker, highly leveraged property developers to rise (see "**Credit FAQ: Evergrande Default Contagion Risk—Ripple Or Wave?**," published Sept. 20).

Contents

Top Risks 2
Debt Ceiling 5
Macroeconomic Outlook 6
Financing Conditions 8
U.S. Public Finance 9
Nonfinancial Corporates 10
Structured Finance 11
Financial Institutions 13
Insurance 15
Related Research 17
Appendix 1: Nonfinancial Corporate Sectors Outlook 18
Appendix 2: Economic Data And Forecast Summaries 22
Appendix 3: List Of Analytical Contacts 23

All of this is complicated by the fact that there's already downside pressures on China's economy (which will curb global growth), and equities markets around the world began reacting to speculation about Evergrande's default. Uncertainty about how Beijing will address potential contagion could continue to contribute to investor skittishness, even if there are few direct ramifications for lenders or borrowers outside of China.

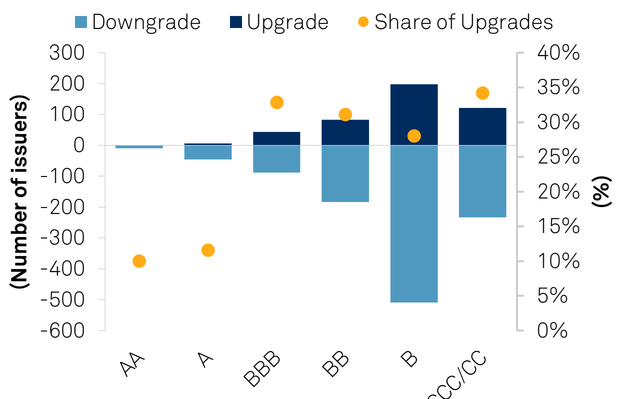
For now, many near-term indicators foretell a lower default rate for U.S. corporate borrowers. Rating actions continue to reflect the improving outlook for credit, lending conditions remain favorable, and the world's biggest economy continues to recover from the pandemic-induced shutdown. In August, we forecast the U.S. trailing-12-month speculative-grade corporate default rate to fall to 2.5% by June of next year, from 3.8% in June 2021.

The picture looks less rosy when we consider the heightened risks investors have assumed in their chase for yield—if, indeed, any yield is to be found. The number of upgrades remains a fraction of the downgrades since the onset of the pandemic (see chart 1). With 37% of our spec-grade ratings at 'B-' or lower (see chart 2), the credit risk inherent in the market suggest that investors should be reaping substantial compensation. Just the opposite is true. Inflation-adjusted yields on spec-grade corporate bonds turned negative for the first time ever in April—with even 'B' real yields falling below zero in June. In other words, investors are effectively paying to lend (see "**Growing Risks, Diminishing Rewards—Has The U.S. Speculative-Grade Market Hit A Peak**," published Sept. 9).

In this light, it's not a question of whether investors will seek higher returns from borrowers, but, rather, when—and at what speed and magnitude.

Chart 1

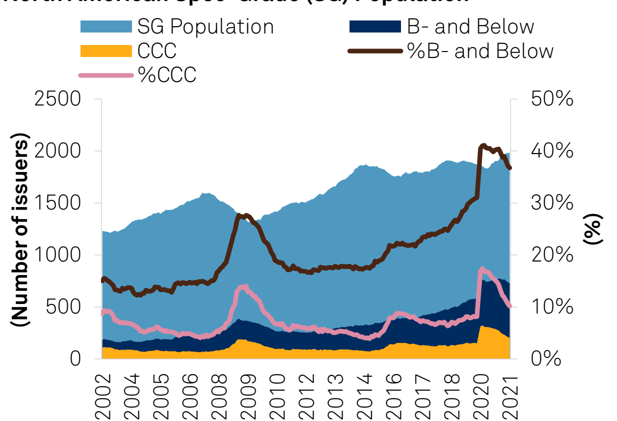
North American Upgrades And Downgrades Since Jan. 2020



Data from Jan. 31, 2020 to Sept. 14, 2021, and includes nonfinancial corporates, financial institutions, and insurance. Source: S&P Global Ratings.

Chart 2

North American Spec-Grade (SG) Population



Data as of Aug. 31, 2021, and includes nonfinancial corporates, financial institutions, and insurance. Source: S&P Global Ratings.

Top Risks

Massive fiscal and monetary support last year helped keep may borrowers afloat through the worst of the pandemic-induced recession, with markets providing the liquidity companies needed to ride out the lockdowns and concurrent hit to demand. This left borrowers with an enormous pile of debt, which, combined with diminished revenues, resulted in historically high leverage and a wave of downgrades—particularly at the lower end of the ratings spectrum.

With corporate debt leverage still at or near record levels, the recovery in demand remains uneven across industries—at the same time as borrowers in many sectors are dealing with rising input prices and labor shortages. If cost pressures persist and/or intensify, profit erosion could become steeper and more widespread than our expectations, and weigh on credit quality. And while many borrowers have pushed out maturities, and the prolonged period of low interest rates has eased debt-servicing burdens, the pullback of government support could fully expose the operational and structural headwinds many borrowers face. We continue to classify this risk as "high" (see table 1).

Moreover, inflation is running hotter—and for longer—than many economists expected amid continued supply constraints and the rebound in demand. While the Fed has communicated that the time to commence tapering of its asset purchases is drawing near, we do not expect the central bank to lift its policy rate from near-zero before late next year. In this light, investors could reset risk-return demands because of escalating credit concerns, fears of more persistent inflation, or an unexpected adverse event. This could result in the repricing of financial and real assets, higher debt-servicing costs, and tighter financing conditions. A disorderly normalization of rates could also trigger a sudden return to "risk-off" positioning that spurs market dislocation. We now see this as a "high" risk that is unlikely to improve substantially in the next 12 months.

Inflationary pressures could trigger a sudden return to "risk-off" positioning that spurs market dislocation

All of this comes as the COVID-19 health crisis persists. While economic activity has proved more resilient to each pandemic wave, the risk of further outbreaks (and a return to social restrictions) is rising as children head back to school and companies implement return-to-office plans. This comes as the region is already dealing with a fourth wave of cases and deaths—due largely to the rise of the delta variant and regional gaps in vaccination rates. An uncontrolled resurgence of the pandemic could cause renewed consumer caution, exacerbate supply-chain constraints, and curb economic activity. We continue to see this risk as "elevated," and we see little chance for much improvement in the next 12 months.

Structural Risks

On a more fundamental level, cyber risks continue to pose a systemic threat and significant single-entity risk, and new targets and methods are emerging. As public and private organizations are forced to accelerate their digital transformation, a key to resilience is a robust cybersecurity system, from internal governance to IT software. Entities lacking well-tested playbooks such as active detection or swift remediation, are most vulnerable.

Environmental, social, and governance (ESG) issues are also a burgeoning concern from a credit perspective. The growing frequency and severity of weather-related catastrophes are becoming more evident. Indeed, this summer alone, many parts of the world have been devastated by heatwaves, droughts, wildfires, and floods—with the consequences felt across many sectors. For example, 11 western U.S. states are battling intense drought conditions, which might increase risk of catastrophic wildfires, drinking-water shortages, electric grid disruptions, and land subsidence. Without mitigation measures, these can affect long-term credit stability of municipals (see "**Could The Western U.S. Drought Threaten Municipal Credit Stability**?" published Aug. 18).

ESG issues are a burgeoning credit concern amid the growing frequency and severity of weather-related catastrophes

Hurricane Ida, the second-most destructive hurricane to strike Louisiana and also causing catastrophic flash flooding in the Northeast, left more than 100 people dead and caused at least $50 billion in damages. Not only can it weigh on the operations and financials of local governments and public finance utilities in the affected areas, property/casualty insurers and reinsurers are exposed as well (See "**Hurricane Ida Poses Liquidity And Cash Flow Risks For Public Finance Utilities And Local Governments**," and "**Hurricane Ida Is Not Expected To Result In Rating Actions On U.S. Property/Casualty Insurers And Reinsurers**," published Sept. 1).

These have become structural risks for many borrowers—especially as policymakers and investors intensify their focus on ESG factors. Companies that are (or are perceived as being) risky from an ESG perspective could be forced to pay a premium to borrow or be shut out completely from the capital markets. And beyond the physical risks of climate change that many companies are subject to, the global drive toward a "net-zero" economy also heightens transition risks (e.g., policy, legal, technology, market, reputation risks) across sectors, and will require significant investment.

On another front, the U.S.-China strategic confrontation still simmers. While the U.S. has taken a more multilateral approach in dealing with its biggest economic rival, the Biden Administration is maintaining pressure on China. China is actively pursuing its drive to be less reliant on markets and technology from foreign countries, including the U.S. While the tension between the two countries look set to persist in the medium-to-long term, we now expect less short-term risk, with actions by both sides to be more measured. Nonetheless, further worsening of the strained relationship could weigh on trade, intellectual property, investments, and financial transactions for both (and other) economies. Certain targeted sectors and industry players could suffer disproportionately as well.

Finally, while demand for real estate is recovering, with stabilizing trends for most property types, the recovery of the office sector could lag given the impact of remote working. The adoption of hybrid working models could result in a longer-term decline in demand for commercial real estate (CRE)—particularly office space in central business districts/gateway markets, thus pressuring cash flows and asset valuations. The accompanying reduction in foot traffic would also likely pressure businesses and tax bases within those locations. This is in addition to the stress already in place from the continued evolution of retail, and an ongoing recovery in higher-priced lodging that depends on group (convention) and business demand (and is likely related to the "return to office" story as well). While there has been improvement in rent collections, asset performance, and property prices—correlated to vaccination rollouts, the lifting of restrictions, and a low rate/yield environment—we may still, over time, see elevated CRE-related loan losses for debtholders, such as U.S. banks, insurers, REITs, and commercial mortgage-backed securities (CMBS), particularly for lower-quality assets.

Table 1

Top North America Risks

High debt threatens credit quality amid uneven recovery and sustained cost pressures

Risk level*	Very low	Moderate	Elevated	High	Very high	Risk trend**	Improving	Unchanged	Worsening
				High				**Unchanged**	

With corporate debt leverage near record levels, the recovery in demand remains uneven across industries—while borrowers in many sectors are dealing with rising input prices and labor shortages. If cost pressures persist/intensify, profit erosion could become more widespread and steeper than we expect, weighing on credit quality for some. And while welcoming markets have eased maturity pressures, with low interest rates mitigating debt-servicing burdens, the draw-down of government support could expose operational and structural headwinds for many.

Persistent high inflation combined with investor risk-repricing increases borrowing costs

Risk level*	Very low	Moderate	Elevated	High	Very high	Risk trend**	Improving	Unchanged	Worsening
				High				**Unchanged**	

Inflationary pressures have increased beyond many early estimates amid continued supply constraints and rising demand. In this light, investors could demand higher returns for the risks they're assuming because of fears of more persistent inflation, escalating credit concerns, or an unexpected adverse event—such as a stalemate around the U.S. debt ceiling or market turbulence caused by the Fed's planned tapering of asset purchases. This could result in the repricing of financial and real assets, higher debt-servicing costs, and tighter financing conditions.

COVID crisis persists, curbing economic activity

Risk level*	Very low	Moderate	Elevated	High	Very high	Risk trend**	Improving	Unchanged	Worsening
			Elevated					**Unchanged**	

While economic activity has proved more resilient to each COVID surge, the risk of further outbreaks and, thus, social restrictions (including vaccination requirements for certain social and employment activities) is rising in a region is already dealing with a fourth wave of cases and deaths—due largely to the rise of the delta variant and regional gaps in vaccination rates. An uncontrolled resurgence of the pandemic could cause renewed consumer caution, exacerbate supply-chain constraints, and curb economic activity.

Structural Risks

Energy transition and ESG factors affect business operations, borrowing costs

Risk level*	Very low	Moderate	Elevated	High	Very high	Risk trend**	Improving	Unchanged	Worsening
			Elevated						**Worsening**

As the focus intensifies on ESG factors, borrowers that are (or are perceived as being) risky from an ESG perspective could be forced to pay a premium to borrow or be shut out completely from the capital markets. In light of climate change, beyond the physical risks many companies are subject to, the global drive toward a "net-zero" economy also heightens the transition risks (e.g., policy, legal, technology, market, reputation risks) across many sectors, and will likely require significant investments.

Cyberattacks disrupt business operations and hurt credit quality

Risk level*	Very low	Moderate	Elevated	High	Very high	Risk trend**	Improving	Unchanged	Worsening
			Elevated					**Unchanged**	

Cyber risk continues to pose a systemic threat and significant single-entity event risk, as new targets and methods emerge. The ransomware attack that shut down the U.S. Colonial Pipeline in May exemplifies the growing sophistication and potential ramifications of cyberattacks. As public and private organizations are forced to accelerate their digital transformation, a key to resilience is a robust cybersecurity system, from internal governance to IT software. Entities lacking well-tested playbooks (such as active detection or swift remediation) are most vulnerable.

U.S.-China strategic confrontation worsens

Risk level*	Very low	Moderate	Elevated	High	Very high	Risk trend**	Improving	Unchanged	Worsening
			Elevated					**Unchanged**	

The White House is maintaining pressure on China, while taking a more multilateral approach than the previous administration. Meanwhile, China is striving to be less reliant on foreign markets and technology. While tensions look set to persist in the longer term, we expect less short-

term volatility, with actions by both sides to be somewhat more measured. Still, further worsening of the relationship could weigh on trade, intellectual property, investments, and financial transactions, for both and other economies—with some sectors suffering disproportionately.

Declining demand for commercial real estate (office space, in particular) pressures asset valuations, hurts lenders									
Risk level*	Very low	Moderate	Elevated	High	Very high	**Risk trend****	Improving	Unchanged	Worsening
Because of behavioral shifts in working, living, and spending there could be a drop in demand for commercial real estate (CRE). The recovery of the office sector could lag and lead to a longer-term decline in demand—particularly office space in central business districts, thus pressuring cash flows and asset valuations. While there has been improvement in rent collections, asset performance, and property prices, we may see elevated CRE-related loan losses for debtholders, such as U.S. banks, insurers, REITs, and CMBS, particularly for lower quality assets.									

Source: S&P Global Ratings.

* **Risk levels** may be classified as very low, moderate, elevated, high, or very high, and are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically these risks are not factored into our base case rating assumptions unless the risk level is very high.

** **Risk trend** reflects our current view on whether the risk level could increase or decrease over the next 12 months.

Debt Ceiling

With the U.S. Treasury now nearly two months into its use of "extraordinary measures" to pay the country's bills, legislators' squabbling about the need to raise the debt ceiling is as rancorous as it has been in recent memory. Senate Republicans on Sept. 27 used the filibuster to block a House-approved bill that would have raised the debt ceiling. All 50 Republicans voted against the bill, intensifying the months-long political brinksmanship over the federal government's ability to pay its bills. Without the support of at least 10 Republicans, Senate Democrats will be forced to use the budget reconciliation process to raise the debt ceiling.

In short, the debt ceiling limits the amount the federal government may borrow. The most recent deal to extend it expired on Aug. 1, with the effect that the limit was raised to the level of debt as it existed at that time—roughly $28.5 trillion. Adding more debt requires an increase in (or suspension of) the debt ceiling—which is crucial since the federal government would need to fund its large fiscal deficit this year and in coming years.

Congress has raised the debt ceiling on time—including at the 11th hour—more than 80 times since 1960, during both Republican and Democratic Congresses and presidencies. In the past decade, Congress has passed legislation (and the president has signed it) to raise or suspend the debt ceiling five times (in 2011, 2013, 2017, 2018, and 2019). Now, as the White House tangles with Congressional Republicans to resolve the showdown, Treasury Secretary Janet Yellen has said the country's cash and its ability to use of extraordinary measures (through reducing federal contributions to various public sector trust funds and similar accounting measures) will run out at some point in October. A failure to raise the debt ceiling by then could cause the country to miss payments on some of its obligations.

S&P Global ratings doesn't expect the sovereign to default—which would almost surely be catastrophic for the economy and financial markets, both here and around the world. But as we get closer to the drying up of extraordinary measures, a lesser, but still potentially damaging, consequence could occur: Investors, fearful of the worst, could spur significant volatility in financial markets or look to flee from riskier assets. This would likely drive up borrowing costs—especially for companies at the lower end of the ratings scale. In some cases, low-rated borrowers could even be shut out of the capital markets completely.

Such a result could be particularly damaging given the high percentage of U.S. borrowers with speculative-grade ('BB+' and below) ratings: More than 69% of the 2,494 U.S. nonfinancial corporates we rate are spec-grade, and in that group, 85% are in the 'B' category or below.

Primary Contact

Joydeep Mukherji
New York
joydeep.mukherji
@spglobal.com
+1-212-438-7351

Macroeconomic Outlook

Primary Contacts

Beth Ann Bovino
New York
bethann.bovino
@spglobal.com
+1-212-438-1652

Satyam Panday
New York
satyam.panday
@spglobal.com
+1-212-438-6009

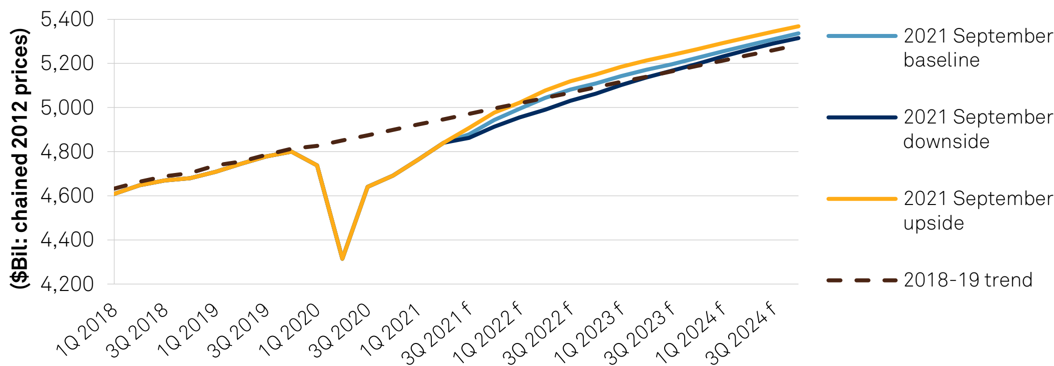
U.S.

The U.S. economic recovery has hit more turbulence in recent weeks. As supply disruptions continue to slow activity, the fourth wave of COVID is acting as an additional drag on the reopening of the world's biggest economy.

Real-time data suggest that mobility across most of the country has slowed, with Americans becoming more reluctant to visit restaurants and take trips, as the coronavirus delta variant sweeps through many regions—particularly areas with low vaccination levels. Weekly consumer confidence readings have stabilized around their August lows, and growth in same-store retail sales (while still robust) has slowed. In this light, S&P Global Economics now expects full-year U.S. GDP growth of 5.7%, down from 6.7% in our previous forecast (see chart 3).

Chart 3

U.S. Real GDP Scenarios



Source: S&P Global Ratings.

While the downward revision is substantial, it's worth noting that if our forecast pans out, we would still see the biggest annual expansion in U.S. GDP since 1984. And there are signs that the fourth quarter may be a good one for economic activity. The pace of new COVID infections has begun to slow—and it seems that many people formerly reluctant to get vaccinated have decided to do so, either because of worries about the new variant, the fact that the Pfizer-BioNTech mRNA vaccine has received full approval from the Food and Drug Administration, or to meet vaccination requirements for certain social and employment activities.

A recent (although slight) easing in inflation, too, may bode well for the economic recovery. While inflation is still running far hotter than the Federal Reserve's target, we believe it has already peaked and will continue to soften as supply bottlenecks unjam and the "base effect" wears off. Inflation as measured by the Consumer Price Index rose 5.3% in August from the prior year—a slightly slower pace than the 5.4% increase in July. On a monthly basis, price gains moderated to a 0.3% increase, down from 0.5% in July and a sharper slowdown than many economists predicted. Perhaps more telling, core CPI (which strips out food and energy prices) rose only 0.1% in August.

We now expect average core inflation will be just above the Fed's 2% target by 2023, giving the central bank cause to slowly reverse what has been historically loose monetary policy—with the benchmark federal funds rate at effectively zero and massive asset purchases bolstering market liquidity. And if the U.S. jobs market eventually finds its equilibrium, as we expect, the Fed will have met the labor-related half of its "dual mandate" of stable prices and maximum employment.

To be sure, the U.S. added just 235,000 jobs in August—far below market expectations. But August often sees substantial revisions, given vacations can keep managers from filing the forms on time. We expect sharp revisions, and given upbeat initial jobless claims data, likely with an upward lean. But with nonfarm payrolls still down 5.3 million (3.5%) since before the pandemic, the road to recovery could take a while. Services sectors added just 195,000 jobs—mainly due to a slump in

hiring in the leisure and hospitality sector, which needs to recoup 1.7 million jobs (nearly one-third of total jobs lost) to get back to its pre-pandemic level.

That said, the unemployment rate fell to 5.2% in August. (Adjusted for all the people who left the jobs market since the onset of the pandemic, it's above 7%.) We now expect the economy to fully regain the 22.4 million jobs lost from the pandemic by the fourth quarter of next year and the unemployment rate to reach its late-2019 range of less than 3.6% by mid-2023.

We expect the U.S. to fully regain the 22.4 million jobs lost from the pandemic by the fourth quarter of next year

Fed Chairman Jerome Powell, in his Aug. 27 speech at the annual Jackson Hole Economic Symposium, indicated it could be appropriate for the central bank to start tapering its monthly $120 billion asset purchases "this year." In Mr. Powell's view, the test for "substantial further progress" has been met for inflation, and employment is on track to meet the Fed's target if the economic recovery continues "broadly as anticipated". In our view, that means even though there has been clear progress toward maximum employment, policy makers would be more confident if they see a clear path to get to 4.8% unemployment by December. We expect the Fed to meet this year-end goal and announce that it will begin to start tapering its $120 billion monthly bond purchases this year. Taking a page from his predecessors, the Fed chair also separated any tapering of quantitative easing (QE) from interest-rate hikes, with the timing of latter facing a much more stringent test. After the end of tapering (likely by the middle of next year), we expect the Fed to begin rate "liftoff" with its first hike in December of next year.

Canada

In recent months, the Canadian economy has been weaker than expected. Real GDP contracted 1.1% (annualized) in the second quarter (following a 5.5% growth in January-March), which was weaker than our 1.9% forecast. Early estimates from Statistics Canada suggest a weaker-than-anticipated July to begin the third quarter, and there are signs that growth in the U.S. (Canada's major trading partner) will also be softer in the third quarter than previously forecast. Combined with increased caution because of the coronavirus delta variant and lingering supply bottlenecks, we've revised our full-year growth forecast for Canada, to 5.4%, from 6.1% in June.

On the plus side, we assume that the high vaccination rate will obviate the need for major social restrictions. Close to 70% of Canadians are fully vaccinated, well above the U.S.'s 55%. We expect strong growth in the second half—roughly 7% annualized—on the sustained reopening of the economy. This would bring real GDP to its pre-pandemic level in the fourth quarter. This will likely be followed by 3.8% growth next year and 2.1% average growth in 2023-2024.

We expect strong growth in the Canadian economy in the second half—roughly 7% annualized

Recent developments have prompted us to raise our consumer-price (year-over-year) inflation forecast by a few tenths of a percentage point for the third quarter of this year through the second quarter of 2022. Supply disruptions that have pushed up prices look set to last longer than we had assumed. Upward pressure persists on food prices globally, and very low vehicle inventories point to further upward pressure on new-vehicle prices. Maritime-freight costs have also surged in the past several months. We now expect CPI and core CPI to remain near or above 3% until the second quarter of next year.

Nevertheless, there are still several reasons why we expect inflation to drop back to less than 2% in the second half of next year. For a start, our oil and gas sector analysts expect oil prices to decline somewhat. Freight rates, too, will eventually decline to more normal levels, and the prices of some goods should fall as supply constraints ease. Additionally, Canada—unlike the U.S.—uses house prices directly in CPI, which means that this component will weigh on overall price growth—consistent with our forecast for a cooling in housing activity. For our forecasts, we assume this process starts around the middle of 2022.

There is of course still substantial uncertainty about how inflation will develop. That uncertainty means the Bank of Canada will remain focused on developments in the labor market. We anticipate unemployment to decline to 6.7% in the fourth quarter (vs, 7.2% currently) and 6.0% by the end of 2022. In its September meeting, the BoC maintained its forward guidance that the overnight rate will remain at its current level until the economy returns to full capacity. We continue to pencil in a policy rate lift-off in the fourth quarter of next year.

Financing Conditions

Primary Contacts

Nick Kraemer
New York
nick.kraemer
@spglobal.com
+1-212-438-1698

Evan Gunter
New York
evan.gunter
@spglobal.com
+1-212-438-6412

Despite potential stressors forming, the ultra-low borrowing costs and strong demand for debt that began a year ago remain as strong as ever. Equity markets have wobbled in the face of the showdown over the debt ceiling, persistent inflation, and worries regarding the potential default of Evergrande. But fixed-income markets haven't had the same volatility. Speculative-grade corporate issuers have sold roughly $811 billion of debt (both bonds and leveraged loans) through August—already eclipsing all but two years' annual totals. It's likely 2021 will set a new record (see chart 4).

Chart 4

U.S. Spec-Grade Debt Issuance Hits Record Pace In 2021

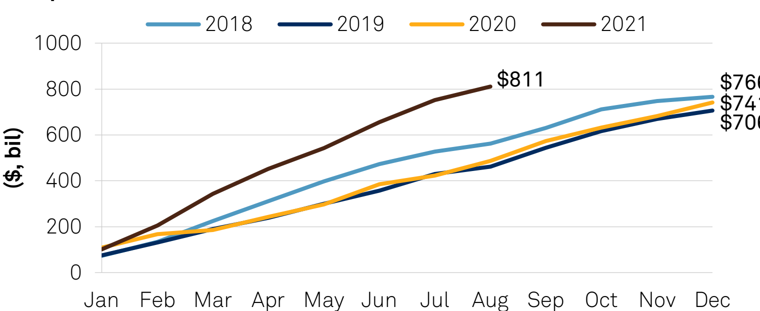
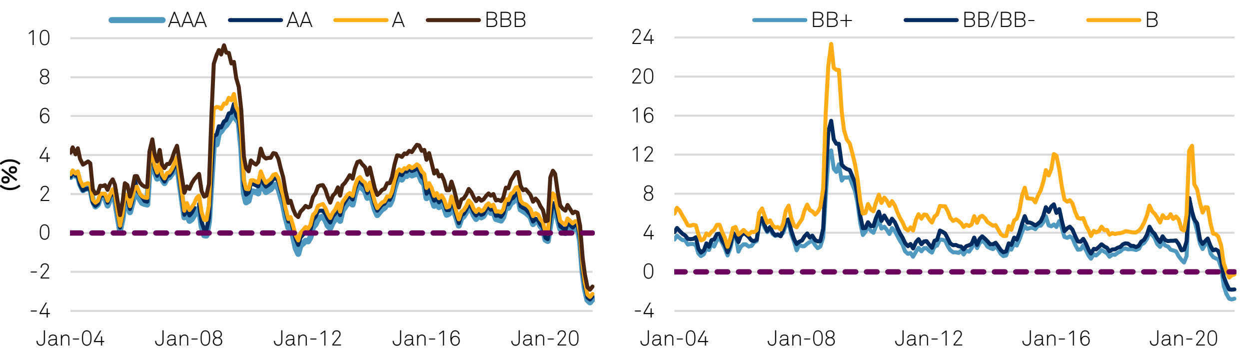


Chart displays combined speculative-grade bond, and leveraged loan issuance. Data through Aug. 31, 2021.
Sources: S&P Global Ratings; Refinitiv; LCD, an offering of S&P Global Market Intelligence.

This is all the more notable given that real (inflation-adjusted) yields on all corporate bonds have plunged into negative territory for the past several months (see chart 5). Certainly, high inflation has been the main contributor, but fixed-rate bonds have had low nominal yields for roughly 12 months. Even 'B' corporate bonds have had negative real yields since June. Should solid economic growth, corporate recovery, or transitory inflation fail to materialize, we would expect financing conditions to become more restrictive.

Chart 5

U.S. 'Real' Corporate Industrial Bond Yields



Sources: S&P Global Ratings; FRED, Federal Reserve Bank of St. Louis.

Along with yields, spreads, too, remain narrow—though they're still some distance from the lows seen prior to the financial crisis. Spec-grade spreads have widened a bit, possibly in response to one or many of the sources of potential stress. The Evergrande default may weigh on market sentiment if it's seen as a signal of a wider economic slowdown in China, or a major policy shift. However, it could also become a tailwind for U.S.-based assets seen as a safe-haven alternative.

We now expect the U.S. spec-grade default rate to fall to 2.5% by June. For now, the more optimistic forces remain in control. While we still acknowledge our low-rated population of issuers, our outlooks and CreditWatch distribution reflects our expectations for a slower pace of downgrades ahead. Upgrades continue to outpace downgrades this year, and we are seeing a steep decline in "fallen angel" debt (downgrades to spec-grade) compared to last year, which we expect to broadly continue.

U.S. Public Finance

Issuers Regaining Stability After Rocky 2020

Primary Contacts

Robin Prunty
New York
robin.prunty
@spglobal.com
+1-212-438-2081

Jane H Ridley
Centennial
jane.ridley
@spglobal.com
+1-303-721-4487

Rapid and widespread vaccination earlier in 2021 helped put economic conditions back on track across the U.S., although spiking COVID-19 caseloads may yet result in an uneven recovery pattern. The strong federal fiscal and monetary response to the pandemic was also a major contributor to improved fiscal prospects for most U.S. public finance issuers. Policy makers will continue to debate infrastructure legislation, the federal budget, interest rate movements, debt ceiling deliberations, and other policy initiatives, including health care, in coming months and could have economic and fiscal implications for public finance issuers (see chart 6). However, given the active management we saw from issuers during the pandemic we do not anticipate a change in credit stability.

State and local issuers who benefited from the significant federal support are also seeing growth in local revenues. State tax revenues are up in 2021 compared to 2020, with most U.S. states seeing growth of 15% or more. State and local tax collections have also been supported by strength in the equity and real estate markets, and solid income growth of high wage earners. The pivot to goods consumption and the capture of online retail activity has also helped bolster sales tax collections.

Having students back on campus is good for the higher-education financial picture, a sector that struggled during the pandemic. Higher education endowments have also benefitted from strong gains in the stock market with returns of 30%-40% for some. However, these gains tend to create more financial strength for schools with big endowments and high demand but don't help smaller schools who are weaker financially following the pandemic. The transportation sector also benefitted from federal stimulus and the airport sector is doing well given a strong return in air travel. Contrast this to mass transit where large urban systems are experiencing depressed ridership levels. We expect this pressure to continue, particularly with delays in return-to-office in many metro areas.

Chart 6

Key U.S. Public Finance Credit Drivers In Second-Half 2021

Strong U.S. economic growth supporting U.S. public finance stability

– Issuers across U.S. public finance have benefitted from the receipt of billions of dollars in federal stimulus that has helped stabilize state and local economies

– Demand for housing pushed the S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index up 18.6% year over year, the highest reading in 30 years. While this is a good sign for housing demand, such rapid growth is placing homes out of reach for many buyers

Acute environmental events

– Fall storm season, wildfires, and drought continue to threaten issuers across the U.S. Preparedness for future weather events will be critical for issuers' credit stability

– The credit impact from weather events is dependent on the extent of local damage. To date, some weather-related rating actions have occurred with a good possibility of more

COVID-19, delta, and newer variants

– Federal stimulus has provided a financial cushion to issuers and individuals but there could be lingering economic effects due to uneven health outcomes in some regions

– Economic recovery from the effects of COVID-19 in the core of many cities is being hampered by a slower return to office than anticipated. In addition, the recent end of the eviction mortarium means more families and individuals will lose housing and could also hinder the recovery

– Revenue collections for many bonds backed by hospitality sector taxes are still affected by low usage levels; recovery in these taxes is dependent on the uncertain timing of the return of travel, particularly for businesses

Source: S&P Global Ratings.

Nonfinancial Corporates

Primary Contacts

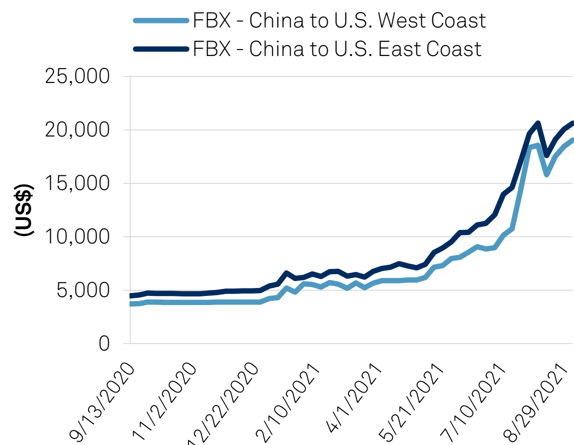
Jeanne L Shoesmith
Chicago
jeanne.shoesmith
@spglobal.com
+1-312-233-7026

Robert E Schulz
New York
robert.schulz
@spglobal.com
+1-212-438-7808

Supply-chain bottlenecks, combined with resurgent consumer demand and labor shortages, have inflated input costs for many industries. Freightos Baltic Index shows that the shipping cost for a 40-foot container from China to the U.S. West Coast reached a record in early September and is five times the rate of a year ago (see chart 7). To the degree companies can pass through costs to customers and consumers, this is feeding headline inflation, which has run hotter—and longer—than many economists expected. Even once input-price pressures moderate (as we expect) and industries pass through costs, there will be an ongoing hit to profit margins for several quarters.

Chart 7

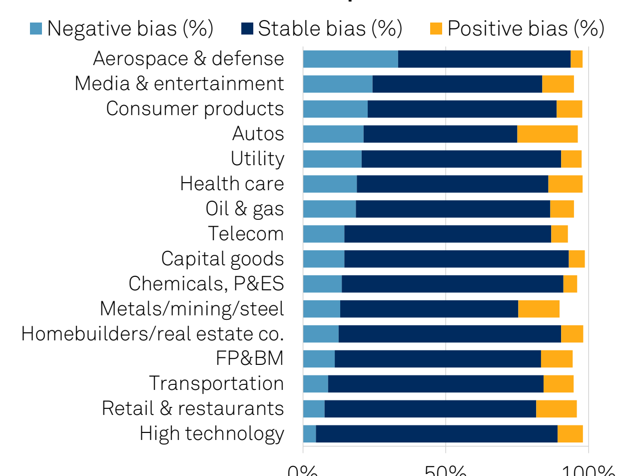
China-To-U.S. Shipping Costs



Data as of Sept. 5, 2021. FBX—Freightos Baltic Index.
Source: Bloomberg.

Chart 8

North American Nonfinancial Corporate Bias



Data as of Sept. 14, 2021. Chemicals, P&ES—Chemicals, packaging and environmental services. FP&BM—Forest products & building materials.
Source: S&P Global Ratings.

In the **auto** sector, for example, while demand remains strong and inventory management and factory utilization are improving, any further worsening of supply disruptions and cost pressures due to chip shortages and rising commodity prices could lead to significant cash burn for some issuers. **Consumer products** companies are facing meaningful cost increases in materials, commodities, and transportation. We expect most companies to be able to offset most of the impact with productivity gains and price increases, but a spiral could threaten credit quality.

The **transportation** sector, too, is feeling some heat. Airlines in particular are highly exposed to fuel costs. And while most freight transporters have fuel surcharges in their contracts, rising labor costs (particularly for truck drivers) could eat into profits.

In the **tech** industry, we expect cost inflation to persist into next year. The question now is: If demand deteriorates significantly or supply constraints lessen, will enterprise customers and consumers still be willing and able to absorb the costs being passed along by tech vendors?

On the bright side, the overall hit to credit quality that came early in the pandemic is well behind us. In fact, the negative bias among nonfinancial corporate borrowers has fallen to 17%, from a record high of 44% in May 2020. Positive bias is at its highest level since April 2011 at 9.5%, with positive ratings trends set to continue in the near-term. However, sectors such as aerospace and defense, media and entertainment, and consumer products still reflect somewhat elevated downgrade potential (see chart 8).

Meanwhile, the latest House tax proposal includes significant changes to the U.S. corporate income tax regime, including raising the corporate statutory tax rate, as well as other changes affecting both domestic and multinational companies. Democrats are debating the size of the package, leaving the timing and ultimate outcome in doubt. While we don't expect ratings changes directly attributable to the House tax proposal, highly leveraged borrowers could be pressured without using tax planning, net operating losses (NOLs), or tax credits to offset the increases.

Structured Finance

Primary Contacts

Winston W Chang
New York
winston.chang
@spglobal.com
+1-212-438-8123

James M Manzi
Washington D.C.
james.manzi
@spglobal.com
+1-202-383-2028

Stephen A Anderberg
New York
stephen.anderberg
@spglobal.com
+1-212-438-8991

The structured finance credit picture remains generally stable-to-improving, buoyed by declines in unemployment, economic growth as businesses continue to reopen, and a relatively positive picture for U.S. consumers, which we detailed in a recently published chartbook (see "**U.S. Structured Finance Snapshot: The Health Of U.S. Consumers**," published Sept. 13). We are assessing performance data for loans emerging from forbearance agreements in several sectors, including autos, student loans, and residential and commercial mortgage-backed securities (RMBS and CMBS). In terms of risks for collateral performance and rating trends, we continue to see the most caution on certain subsectors of CRE and esoteric/nontraditional asset-backed securities (ABS) (see table 2).

While the 30-day-plus delinquency (DQ) rate for CMBS has fallen markedly, to 4.7% in August from its peak of approximately 9% last summer, we're monitoring distress in the retail (mainly malls) and lodging (mainly higher-priced properties that depend on business or group demand) property types and their effect on rated securities. And while office-backed single-borrower transactions continue to perform, with a 1.76% DQ rate, there are longer-term questions about the effects on collateral performance of hybrid working models, especially for properties located in central business districts in gateway markets. In general, the leasing market may remain soft for the medium term, putting properties with significant rollover at heightened risk, before markets reach a new equilibrium for vacancy and rental rates. COVID-related risks are also leading to caution in some areas of nontraditional/esoteric ABS, namely aircraft and small-business transactions.

Table 2

North America Structured Finance Sector Trends (12-Month Outlook) Q4 2021

	Collateral performance outlook	Rating trends
Residential mortgages		
RMBS	Somewhat weaker	Stable
RMBS - servicer advance	Somewhat weaker	Stable
Commercial mortgages		
CMBS - N.A. conduit/fusion	Somewhat weaker	Stable to negative
CMBS - large loan/single borrower	Somewhat weaker	Stable to negative
CMBS - large loan/single borrower (retail)	Weaker	Stable to negative
CMBS - large loan/single borrower (lodging)	Weaker	Stable to negative
CMBS - large loan/single borrower (office)	Somewhat weaker	Stable to negative
Asset-backed securities		
ABS - prime auto loans	Stable	Stable
ABS - subprime auto loans	Somewhat weaker	Stable
ABS - auto lease	Stable	Stable
ABS - auto dealer floorplan	Stable	Stable
ABS - credit cards	Somewhat weaker	Stable
ABS - unsecured consumer loans	Somewhat weaker	Stable to negative
ABS - FFELP student loan	Somewhat weaker	Stable
ABS - private student loan	Stable	Stable
ABS - commercial equipment	Stable	Stable
Asset-backed commercial paper	Somewhat weaker	Stable
Structured credit		
CLOs	Somewhat weaker	Stable
Timeshares	Stable	Stable
Small business	Somewhat weaker	Stable to negative
Tobacco	Somewhat weaker	Stable
Transportation - aircraft	Somewhat weaker	Stable to negative
Transportation - container	Stable	Stable
Transportation - railcar	Stable	Stable
Whole business	Stable	Stable
Triple-net lease	Stable	Stable

FFELP—Federal Family Education Loan Program. Source: S&P Global Ratings.

Perhaps the biggest story in the market for collateralized loan obligations (CLO) is the record-breaking issuance. The year-to-date total, including both new issuance and resets/refinancings, has already exceeded the record $285 billion total from 2017. On the credit side, metrics have generally improved this year, which reflects the fact that upgrades have outpaced downgrades across U.S. BSL CLO obligors every month, but also that manager intervention has increased as measured by portfolio-turnover metrics. Further, the average proportion of the portfolio that has a rating with a negative outlook has declined to 16.4%, about half of what it was at the start of the year (32.4%). We have seen an uptick in 'CCC' buckets of late, attributable to a small number of downgrades of widely held obligors, and holdings of 'B-' obligors remain near the historical highs. We are also watching a modest deterioration in recovery ratings that could affect some pre-pandemic CLOs. Overall, though, we maintain a stable view of ratings trends for the next 12 months.

The story regarding U.S. consumer ABS, housing/RMBS, and nonagency multifamily CMBS remains a largely positive one. Federal stimulus and other government assistance, an improving economy, and higher savings rates, among other factors, have helped consumer ABS products to exhibit relatively strong performance. After peaking in June 2020, forbearance rates in FFELP student loan ABS have since fallen back toward their pre-COVID levels but remain elevated, as some issuers have extended forbearance in line with current policies on federally held student loans. The moratorium suspending monthly interest and principal payments on these loans is set to expire Jan. 31. For consumer ABS generally, the expiration of many forms of government assistance may begin to normalize consumer ABS performance in the coming months.

For the private-label RMBS sector, the steep trajectory of home-price growth is outpacing the prior run-up in 2005, and an improving unemployment rate has also buoyed performance. That said, ending forbearance periods and foreclosure moratoria pose a credit risk for the sector. Regarding private-label CMBS backed by multifamily property, localized weakness stemming from the de-urbanization trend may be offset in part by elevated home prices (and therefore affordability). The sector also benefits from an improving employment picture and government aid, which has supported multifamily sector fundamentals overall, and limited delinquency rate increases.

The LIBOR Transition

European and Japanese financial markets are approaching the final stretch of LIBOR transition as sterling and yen rate settings are scheduled to end after December. While U.S. markets have until June 2023 to complete the transition for dollar LIBOR, domestic bank regulatory bodies have clearly communicated that LIBOR lending by banks should cease by December. While the New York LIBOR assistance law passed in April could provide relief for the liability side of many segments of the U.S. securitization market, such as student loan ABS and legacy RMBS, it appears to have less applicability to other sectors, such as CLOs. This is mainly because many CLOs utilize Alternative Reference Rates Committee (ARRC) recommended fallbacks or specify that the manager selects a replacement liability rate, two conditions where this law isn't operative. Additional clarity on asset rates tied to LIBOR could come through finalization of a Federal LIBOR assistance bill in Congress.

We have seen progress to date in European and Japanese structured finance markets where servicers have amended or are in the process of amending liabilities and hedge agreements to new rates. Not all SF transactions, however, may be able to amend key document provisions away from LIBOR by year-end. In these cases, a "synthetic LIBOR" rate, under development by the Financial Conduct Authority, might be needed. All told, there are many possible outcomes of rates on the assets, liabilities, and hedge agreements as well as the timing of any changes (see "**Potential Effects Of LIBOR Replacement On U.K. RMBS Ratings**," published Sept. 1).

While Europe and Japan remain in the spotlight for LIBOR transition, we expect more alternative rate adoption in new issues and legacy U.S. securitization transactions now the ARRC has endorsed a term secured overnight financing rate (SOFR). While consumer markets for student loans and variable rate mortgages are expected to adopt SOFR, there are questions about to what extent lenders and borrowers in corporate loan market may adopt credit-sensitive rates in addition to SOFR. During the transition period, expected to pick up next year, CLOs are likely to have some exposure to basis risk between their assets and liabilities as rates change at different times.

Financial Institutions

Banks

Primary Contacts

Stuart Plesser
New York
stuart.plesser
@spglobal.com
+1-212-438-6870

Brendan Browne
New York
brendan.browne
@spglobal.com
+1-212-438-7399

The outlooks for the economy and asset quality have improved dramatically in the past several months on government stimulus, extraordinary actions by the Fed, and vaccine distribution. Even accounting for a possible resurgence of COVID, our economists see little chance of a contraction this year that would be severe, broad, or long-lasting enough to be considered a recession.

In this light, we continue to have confidence in the health of the U.S. banking system. Specifically, we believe bank regulation has improved greatly since the global financial crisis (GFC) of 2008-2009, and the balance sheets of U.S. banks look as strong as they have in many years. We believe the regulatory and supervisory enhancements implemented since the GFC have benefited U.S. banks' financial performance leading up to and during the pandemic. Based on this, we may revise the anchor for our ratings on banks in the U.S. to 'A-' from 'BBB+' in the next 1-2 years, which could result in higher ratings on some banks (see "**Various Rating Actions Taken On Large U.S. Banks And Consumer-Focused Banks Based On Favorable Industry Trends**," published May 24).

For the remainder of this year, we expect bank earnings will improve somewhat compared with the second half of 2020 on lower credit-loss provisions, perhaps an increase in net interest income (NII) if loan growth picks up, and a rise in fees from items such as credit card use. That said, the comparison with the prior year will be much more challenging than in the first half of 2021 given that provisions were already relatively low in the last two quarters of 2020, and capital markets revenues were relatively robust. Also, with net interest margins (NIMs) at their lowest levels in many years, improvement in NII will likely be limited even with some loan growth.

Bank asset quality looks set to remain in good shape. Policy responses to COVID have mostly run their course, and our base-case scenario is that asset quality will decline moderately in the quarters ahead from unsustainably strong levels. However, a risk to this scenario is if slow and uneven vaccine rollouts and surges in infections of more contagious coronavirus variants reverse or slow the economic recovery. Moreover, even as the rebound continues, the end of government fiscal-support schemes and bank loan moratoria may unmask fragilities in banks' asset quality, with possible idiosyncratic effects on some banks (see "**A Little More Clarity, A Little Less Gloom: An Update On Our Bank Credit Loss Forecasts**," published July 15).

Finally, the pandemic accelerated banks' push into technology—in particular, consumers' adoption of mobile banking picked up, and the need for branches diminished. Notably, a majority of global systemically important banks (GSIBs) reported increases in both online and mobile banking users in the second quarter. Digital trends continue to be strong as retail mobility recovers at a faster pace than branch transactions, which are still down from pre-pandemic levels. While retail banking and payment segments have been disrupted for years, we expect the corporate banking, investment banking, and asset management segments to see tectonic shifts in digital offerings and market infrastructure, including blockchain technology used for establishing digital bonds and a token economy (see "**Global Banks Outlook Midyear 2021: Clawing Back To Normalcy**," published July 22). We believe the larger banks are better prepared than their smaller counterparts in terms of digital rollout. Indeed, this is part of the reason we have seen significant consolidation in the banking industry of late.

Finance Companies

Primary Contact

Matthew Carroll
New York
matthew.carroll
@spglobal.com
+1-212-438-3112

With the economic recovery supporting asset quality and generally good access to funding, we have stable outlooks on most finance companies we rate. In June, we revised our outlooks on most rated CRE finance companies, to stable from negative, and today have a stable outlook on all CRE finance companies we rate. We think the likelihood of substantial further deterioration in the loan portfolios of CRE finance companies has lessened. Nevertheless, there may be property-specific issues still to work through—for example, some office properties and hotels in central business districts. We now have stable outlooks on all business development companies (BDCs) we rate, too. Overall portfolio valuations have substantially recovered from the depths of the pandemic-related

shutdowns. Loans on non-accrual status are starting to decline, although payment-in-kind (PIK) income remains elevated in some cases. As for consumer finance companies, we generally have stable outlooks and revised our outlook on OneMain Holdings to positive in June. Overall, performance in the consumer finance segment was surprisingly resilient during the pandemic related shutdowns and has remained strong. Earlier in the year, we took positive ratings actions (including upgrades or positive outlooks) on various residential mortgage companies, reflecting strong performance in 2020 and our expectation that 2021 will be a strong year for origination volume and servicing retention.

Asset Managers

Primary Contact

Elizabeth Campbell
New York
elizabeth.campbell
@spglobal.com
+1-212-438-2415

Our outlook on traditional and alternative asset managers remains stable. This reflects our belief that secular industry headwinds (particularly for traditional asset managers) will continue to be offset by higher asset prices, supporting assets under management (AUM) levels and margins. Year-to-date, we have taken slightly more positive (nine) than negative (seven) ratings actions, in contrast to last year's negative bias. We continue to believe alternative asset managers are less exposed to many of the challenges facing traditional managers, since their AUM is largely locked up, and strategies are harder to index. Alternative asset managers have enjoyed significant net inflows due to good investment returns and general expansion—both in size of average fund and broadening platforms. That said, we believe the risks for alternative asset managers remain as higher valuation and stronger competition could hit returns and overall performance of managers.

Low interest rates continue to fuel the active strategic pairings between life insurance companies (typically annuity providers) and asset managers. Both parties may benefit, in our view, but these unions aren't without risks. Asset manager ratings have been largely unaffected so far, but the long-term success of these pairings remains untested, in part because recent credit cycles have been mitigated by external measures. Some of these asset managers will now become more exposed to the risks that annuity providers face; depending, too, upon the asset manager's willingness to provide some form of support to the insurer under certain stress scenarios. That said, we believe alternative asset managers will continue to add AUM from insurers' seeking higher yields on investments.

Insurance

Primary Contact

Joseph N Marinucci
New York
joseph.marinucci
@spglobal.com
+1-212-438-2012

Ratings activity was very limited in the third quarter, with no assessed changes to current business conditions, although we did temper our business conditions outlook for bond insurers to 'no change' from 'somewhat stronger' (see table 3). Overall, the average financial strength rating for the core North American insurance portfolio (life, health, property/casualty) resides at the upper range of strong ('A') category, unchanged from the prior quarter. In addition, a very high percentage (95% or better) of our rating assignments for the core portfolio maintain stable outlooks.

Major rating factors include natural catastrophes, investment yield, regulatory and legislative policy, and competitive conditions. Accommodative financial conditions combined with valuation (life) and intent to diversify beyond insurance (health) are providing ongoing support for consolidation. Balance-sheet strength remains supportive of credit quality for the portfolio, providing a measure of protection from risks related to downside economic developments, and any increase in the magnitude of specific and emerging subsector risks, more specifically.

Table 3

North America Insurance Sector Trends Q4 2021

Sector	Current business conditions	Business conditions outlook	Sector outlook
Life insurers	Satisfactory	Somewhat stronger	Stable
Health insurers	Satisfactory	Somewhat stronger	Stable
Property/casualty insurers	Satisfactory	No change	Stable
Global reinsurers	Weak	Somewhat stronger	Negative
Bond insurers	Satisfactory	No change	Stable
Title insurance	Satisfactory	No change	Stable
Mortgage insurers	Satisfactory	No change	Stable

Note: Business conditions and sector outlook are for the next 12 months. The shaded cells indicate changes since Q3 2021.
Source: S&P Global Ratings.

The first two quarters of 2021 were largely positive for life insurers, powered primarily by strong investment portfolio returns, healthy demand for life and annuities, and mild mortality effects from COVID-19. As the delta variant sweeps through large parts of the U.S. and the world, it remains to be seen whether it will have any significant economic effect on life insurers for the rest of the year. Although we do expect higher mortality in the third quarter, we don't expect this to have a material impact. Demand for life and annuity products continues to be healthy, and we expect it to continue to fuel the recovery in sales we have seen this year. Low interest rates continue to be a concern for the industry, although life insurers have been able to adapt their product portfolios and investment policies to deal with lower rates as best they can. The low-rate environment will likely continue to fuel mergers and acquisitions (M&A). We believe companies will continue look to for opportunities to exit and/or divest nonstrategic businesses and simplify their balance sheets.

Health insurers continue to face public policy risks as the Biden Administration attempts to pass its $3.5 trillion infrastructure bill that will likely include health care initiatives aimed at increasing coverage. We expect policy changes will ultimately be incremental rather than transformative, which moderates overall risk for the industry. For example, we believe higher-level risks such as "the public option" and lowering the Medicare eligibility age face an uphill battle to become law. On the pandemic front, the industry continues to perform relatively well. Per their second quarter earnings releases, publicly traded health insurers maintained or raised their earnings outlook for 2021. That said, health insurers continue to highlight some caution, with some pointing to higher-than-expected medical costs, particularly in the commercial group and individual market segments. Moreover, insurers continue to highlight uncertainty on how the delta variant will affect medical costs in the second half. On the M&A front, the industry remains very active. Publicly traded and private health insurers alike completed or announced deals in the second quarter.

The P/C industry entered the year with a strong balance sheet attributable to stable underwriting earnings in 2020 despite the pandemic, capital raising, and a strong equity market recovery in the second half of last year. Results for the first half of 2021 indicate a continuation of these trends. Further momentum on rate increases, particularly in commercial lines, should buoy underwriting results. Losses from winter storm Uri in the first quarter were mitigated by generally benign

catastrophe activity in April-June. But losses from Hurricane Ida will hit third-quarter earnings. AIR Worldwide has estimated $20 billion-30 billion of insured losses for Ida, including both the Gulf Coast and the Northeast. The estimate excludes flood losses covered by FEMA's National Flood Insurance Program (so it includes privately insured losses only)—although we don't expect it to have an adverse impact on our view of capital adequacy for most of our rated universe. Autumn is typically the most active period for natural catastrophe losses, so hurricane activity in the next two months will determine how insurers perform relative to their full-year catastrophe budgets. We still expect the industry to achieve an underwriting profit for the year. Low interest rates remain a damper on net investment income, but this is being partly offset by strong returns on alternative investments. With resiliency during the pandemic leading to stronger balance sheets, we expect P/C insurers to use excess capital by expanding underwriting opportunities, increasing share buybacks, and pursuing tuck-in acquisitions.

The global reinsurance sector has struggled to earn its cost of capital in the past several years, and the trend has continued due to the pandemic and large natural catastrophe losses, adverse loss trends in certain U.S. casualty lines, lower investment returns, and fierce competition exacerbated by alternative capital—which has eaten up margins in the property catastrophe business. Our outlook on the sector remains negative, but we may revise our view to stable if we think reinsurers can sustainably earn their cost of capital. Sector capitalization remains robust, helped by capital raises in 2020-2021, and financial markets' recovery. As a mitigating factor, reinsurance pricing has been hardening in the past couple of years, with tightening terms and conditions, further supported by COVID and natural catastrophe losses, including U.S. winter storms and wildfires.

Bond insurers continue to capitalize on investors' return to the municipal market with a heightened focus on credit quality, trading value stability, and market liquidity. U.S. municipal issuers have strong records of favorable performance during economic downturns. While the pandemic has led to fiscal challenges for some U.S. public finance issuers, we view the potential effect on bond insurers as somewhat low. From a business production standpoint, par written for the for first six months of the year is up 25% from a year earlier. The quality of business written has remained stable, at 'A-' in the past two years. The growth in business can be attributed to investors' realizing the benefits of the financial guarantee product during market uncertainty. While investor demand for insurance in the USPF may be higher than in recent years, low interest rates could pressure risk-adjusted pricing. Bond insurers will need to adhere to the pricing discipline they have displayed in the past to ensure the long-term profitability.

The title sector is benefiting from a robust housing market, a strengthening commercial real estate market, and supportive sector capitalization. While the residential purchase market has continued to display positive growth trends, the refinancing market hasn't dropped off as expected and remains a meaningful portion of total residential applications. In addition to an overall increase in applications, the growth in revenue is also due to the growth in revenue per order due to strong home-price appreciation and an increase in commercial transactions in deal size. The overall financial strength of the title insurers will depend on their ability to manage operations throughout the mortgage cycle, as well as employ proper risk and underwriting controls during periods of high business volume. Each company we rate has proven successful at expense control and solid sets of risk-tolerance standards, including oversight of agents.

Private mortgage insurers (PMIs) continue to benefit from the economic recovery, borrower forbearance relief, the robust housing market, and adequate capitalization supported by access to reinsurance capacity. While risks persist, we believe pandemic-related stresses are an earnings event for the sector rather than a capital one. Mortgage originations remain robust, partly due to higher refinancing activity. As a result, persistency levels remain low, which will keep PMIs' portfolio growth muted. This also affects premium earnings due to lower premium yield. Nonetheless, we expect the recovering economy will support our improving earnings outlook. Under our base case, we expect the sector's combined ratio will be 45%-50% this year and 40%-45% in 2022. Delinquency rates should continue to moderate. However, we temper our earnings expectation due to the potential for elevated losses depending on the sustainability of the economic recovery, the sensitivity around the transition period when payment forbearance subsides, and the extent of the latter's impact on cure rates.

Related Research

- Credit Conditions Asia-Pacific Q4 2021: COVID Besets, China Resets, Sept. 28, 2021
- Credit Conditions Emerging Markets Q4 2021: Pandemic Scars Will Linger As New Risks Emerge, Sept. 28, 2021
- Credit Conditions Europe Q4 2021: Rampant Recovery, New Risks, Sept. 28, 2021
- Economic Outlook Canada Q4 2021: Growth Delayed, But Not Derailed, Sept. 24, 2021
- Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off, Sept. 23, 2021
- Credit FAQ: Evergrande Default Contagion Risk—Ripple Or Wave?, Sept. 20, 2021
- U.S. Structured Finance Snapshot: The Health Of U.S. Consumers, Sept. 13, 2021
- Growing Risks, Diminishing Rewards—Has The U.S. Speculative-Grade Market Hit A Peak?, Sept. 9, 2021
- Hurricane Ida Poses Liquidity And Cash Flow Risks For Public Finance Utilities And Local Governments, Sept. 1, 2021
- Hurricane Ida Is Not Expected To Result In Rating Actions On U.S. Property/Casualty Insurers And Reinsurers, Sept. 1, 2021
- The U.S. Speculative-Grade Corporate Default Rate Could Fall To 2.5% By June 2022, Aug. 20, 2021
- Could The Western U.S. Drought Threaten Municipal Credit Stability, Aug. 18, 2021
- Global Banks Outlook Midyear 2021: Clawing Back To Normalcy, July 22, 2021
- A Little More Clarity, A Little Less Gloom: An Update On Our Bank Credit Loss Forecasts, July 15, 2021

This report does not constitute a rating action.

The views expressed in the Macroeconomic Outlook section (pages 6-7) are the independent opinions of S&P Global Ratings' economics group, which is separate from but provides forecasts and other input to S&P Global Ratings' analysts. S&P Global Ratings' analysts use these views in determining and assigning credit ratings in ratings committees, which exercise analytical judgment in accordance with S&P Global Ratings' publicly available methodologies.

Appendix 1: Nonfinancial Corporate Sectors Outlook

For analytical contacts, please see Appendix 3.

Table 4

North America Nonfinancial Corporate Sectors Outlook

Sector	Comment
Aerospace and defense	Commercial aerospace has likely hit bottom for revenues and earnings, but the recovery will be bumpy. Most companies will likely see growth in revenues and earnings in the next few quarters as higher air travel in certain markets (e.g., U.S. and China domestic) drives increased demand for aftermarket parts and services, widebody production rates stabilize at low levels, and companies benefit from cost reduction efforts. Widebody production is unlikely to increase until at least 2023 and requires most countries dropping pandemic-related restrictions on international travel. Production of the Boeing 737 MAX should continue to increase as it recovers from the original grounding and more recent electrical issues, and Airbus plans to increase A320 production later this year, although this may be somewhat optimistic. Cash flow should also improve helping liquidity but will remain weak or negative for most commercial aero suppliers as they operate at suboptimal production rates. The biggest risk is a resurgence of the virus or new variant that causes the recovery in air travel to slow or even reverse, with the next biggest being suppliers not being able to invest in working capital and workers to support increasing production rates. Defense demand wasn't materially affected by the pandemic and has provided stable or growing revenues for companies that supply both markets.
Autos	Credit quality in the auto sector will likely improve in the next 12 months as more normal supply levels are restored following disruptions related to chip shortage. Key drivers of the recovery will be sustained solid consumer demand, improved inventory management, better factory utilization and the ongoing favorable product mix (more pickup trucks and SUVs, together classified as trucks) than in previous years. Based on recent developments, including disruptions in supply from Southeast Asia due to the delta variant, we expect supply disruptions further deteriorated in the third quarter leading to a significant cash flow burn for several issuers. Hopes for a strong recovery in production in the fourth quarter are starting to fade for other regions as well. We expect supply issues and higher raw material costs to normalize in the second half of 2022 and into 2023. Despite some downside risks to auto production from semiconductor shortages, volume levels should remain healthy enough for most automakers and suppliers to operate with relatively strong EBITDA margins, especially given the higher profits they earn on trucks.
Building materials	Strong revenue performance through the pandemic faces a tough comp in the next 12 months, and costs will be a margin headwind for a sector that relies on the pass through of volatile commodities for earnings. That said, strong demand and good pricing enabled margin expansion and profit growth through the pandemic, and underlying drivers like housing starts, industrial capex, and infrastructure spending are favorable. Working capital typically consumes cash for working capital in the first half of the year, releasing cash later in the year, so that record commodity prices will exaggerate this volatility. Stronger fundamentals overall should enable deleveraging from earnings this year and next, so the trajectory on credit quality will depend on financial priorities. Some light manufacturers are investing to expand production in the U.S., while several financial sponsors are using unprecedented access to debt markets to fund more dividends from highly leveraged credits.
Capital goods	The supply chain headwinds remain the key risks for the capital goods sector heading into the fourth quarter. We expect third quarter earnings to show more clarity on cost pressure that could lead to issuer revising earnings guidance for the year or impact could linger into next year. Revenue growth is largely in line with our expectations due to healthy industrial activity, with many issuers reporting solid backlog and order rates. Negative ratings bias has eased, to 18% as of end of August, compared to 50% at end of 2020.
Chemicals	We expect many companies will achieve or exceed pre-pandemic 2019 EBITDA this year. However, natural disasters, extreme weather events and the delta variant could slow down, or reverse the exceptional EBITDA improvement. Uncertainties around the coronavirus and its mutations could also weigh on earnings in 2022. Other risks in focus include 1) raw-material price hikes—margins have eroded where market positions are weak and raw material prices increases aren't passed on; 2) downturns in subsegments—last year's earnings gains from cleaning and disinfecting chemical sales have declined this year; 3) commodity price volatility—petrochemicals, agrichemicals, other prices are at highs and will likely come off those highs in the next 12-18 months for several reasons; and 4) a more aggressive financial policy, given the active M&A environment with relatively high multiples.
Consumer products	In consumer products, issuers are facing meaningful cost increases in materials, commodities, and transportation. We expect most companies to be able to offset the bulk of the impact with productivity gains and price increases, but a spiral would threaten credit quality. Supply chain bottlenecks are intertwined with

	inflationary pressures, as companies switch to air freight, alternative shipping routes, and lease entire ships. Branded consumables continue to benefit from financially flush consumers, enabling companies to pass along some inflationary pressures. Consumers' option to trade down to retailers' private label products and their return to dining out could present some pressure on the topline and margins. We expect higher input costs for protein processors in feed, freight, and labor to remain high over the next year, and when coupled with still strong export demand could continue to heighten meat inflation, particularly in the away-from-home channel.
Forest products	Wood prices returned to more normal levels very quickly in mid-2021 after setting records for several quarters. Nevertheless, credit quality still got a much-needed boost after a weak 2019 and early 2020, with high conversion of windfall profits into cash flow. Some disruptions in wood production eased, so that supply caught up with strong demand. Some sawmills are curtailing output heading into yearend after achieving operating rates of 90% earlier in 2021. The swing in industry fortunes highlights the variability and unpredictability of supply-demand balances, as well as the low barriers to incremental production from latent capacity.
Gaming, leisure, and lodging	Even though restrictions on consumer activity continue to loosen, cruise, lodging, fitness, and sports issuers still face a multiyear path recovering revenues and the delta variant has become a risk factor, at least for the remainder of the year. Gaming trends remain positive, and many regional casinos generated higher EBITDA in recent quarters than in 2019, benefiting from good demand and lower costs. As a result, we have made a number of gaming sector upgrades and positive outlook revisions. Las Vegas also recovered faster than expected in the second quarter largely due to leisure demand. However, the delta variant will likely soften the recovery in the third and fourth quarters, when conventions were expected to contribute more materially to visitation and cash flow. Up until a few weeks ago, trends pointed toward upside to our base case for U.S. lodging RevPAR, but the delta variant is slowing business and group travel in a manner that upside may no longer be in the 2021 forecast, which means our current base case reliance on a 2022 recovery for many lodging companies to restore credit measures in line with ratings remains in place. Theme park attendance continues to be strong due to pent-up demand, and we upgraded all four regional theme park companies in the past six weeks. Regulatory oversight still poses a particular risk to the cruise recovery. U.S. cruising is gradually resuming but any pause due to the delta variant could result in a longer cash burn for operators. Constraints so far appear to be in the form of CDC guidance issued in August that vulnerable travelers should avoid cruising, CDC mandated pre-boarding testing even for vaccinated passengers, and some cruise companies reinstating indoor mask mandates. Some outdoor recreational activities like RVs and boats, are faring much better than the overall sector with some experiencing year-over-year growth relative to pre-COVID performance. In addition, debt markets continue to refinance upcoming maturities or expensive debt taken on during the pandemic. Still, because of cash burn rates during the pandemic, some companies will be saddled with a significant amount of incremental (and in some cases high-cost) debt as they navigate recovery and the potential for years of lower revenues. We continue to assume in our base case that there could be a moderation in some drive-to local and outdoor recreation markets in 2022, particularly for companies that benefited during the pandemic. Given the material impact COVID-19 has had on the leisure sector, we believe longer-term structural changes could have a lasting impact on credit quality. This could include properties that never reopen, permanent supply and demand imbalances, and disruption to operations that could affect future profitability. As a result, for many subsectors, we expect a multiyear recovery for credit metrics to reach to pre-pandemic levels.
Health care and pharmaceuticals	The healthcare providers space has largely recovered in terms of volume, though still not fully, and a number of uncertainties remain. Patient and procedure mix and acuity levels haven't yet normalized, and with the CARES Act aid falling away, margins may actually deteriorate in the future. The delta variant and resurgence in COVID cases have also led to cancelations of elective procedures again, though it is more concentrated regionally this time. The pharmaceutical industry, which was less affected by the pandemic, has largely recovered. Prescription volumes, including in therapeutic areas that had originally lagged as doctor visits declined during the pandemic peak, have returned. Companies that had successfully launched vaccines and treatments have benefitted financially, though we continue to see the benefits as temporary and not reflected in the ratings.
Homebuilders	Supply-chain constraints and higher costs have caused some homebuilders to revise their production down a bit, which confirms the industry's message of tight labor and land for the last few years. On the other hand, remarkable pricing so far is yielding stronger margins on lower volumes at smaller home sizes. We have upgraded several homebuilders, because financial discipline before and during the pandemic is yielding stronger ratios and a growing credit buffer. The industry's credit outlook further benefits from good long-term demand, stronger pricing amid tight supply and record-low mortgage rates, good cost management, and judicious capital allocation. U.S. household formation appears solid, and the current peak in housing starts only recently neared the long-term average of 1.5 million-1.6 million. Slower foot traffic and a potentially slower closing process for social distancing has accelerated the digitization of homebuying, enabling better sales conversion from more serious buyers and potentially lower costs. On the other hand, a rise in mortgage rates off record lows could sap the important price growth that has sustained margins amid higher costs and an industrywide shift to lower price points.

Media and entertainment	We're two-thirds of the way through the year and the U.S. media and entertainment industry is still working to put the effects of the COVID-19 pandemic behind it. The recovery in the advertising-focused media sectors has been more robust than in other sectors because advertising spending began recovering in the third quarter of 2020 and will, in aggregate, surpass pre-pandemic levels (in 2019) by the end this year. The out-of-home (OOH) entertainment sectors haven't fared as well, because the previously encouraging pace of recovery in these sectors has been modestly slowed by consumer and government reactions to the spread of the delta variant. While we still expect OOH entertainment revenue to recover next year, it could take until 2023, or beyond, for the credit metrics of the participants in this segment to fully recover given their higher debt levels following the pandemic. For the rest of the year, we will remain focused on the pace of the recovery in OOH entertainment, the post-pandemic future of the film industry, and—most importantly—when the credit measures of industry participants will return to pre-pandemic levels. In addition to these topics, our focus will return to the industry-specific themes that were front and center as of the end of 2019: the secular pressures affecting traditional linear TV as audience ratings decline and advertising shifts to digital platforms; determining the winners and losers in the global streaming service wars; and industry consolidation.
Metals and mining	Record prices for some metals are adding to several years of financial discipline and yielding modest but widespread credit improvement. Nevertheless, we are using a moderating price assumption in the face of the euphoric near-term conditions not the least because these extraordinary cash flow gains are fleeting and often don't sustainably bolster producers' credit quality. First, their strong credit ratios will last only as long as metal prices remain volatile in the absence of debt reduction. Second, we expect that metal shortages could prompt higher capital and operating spending as these companies seek to increase their output while their cash flows are strong. Finally, the most aggressive corporate development decisions, such as risky greenfield projects or acquisitions with debt-funded premiums, often occur during phases of tight market conditions, perceived scarcity, and high price expectations.
Midstream energy	The midstream energy industry has recovered to pre-pandemic volume levels, aided by strong crude oil, natural gas, and natural gas liquids prices that are expected to remain resilient into next year. Capex has been cut due to more limited and subdued growth opportunities, but contracted cash flow provides surety of cash generation that could be used for M&A, share buybacks, or further debt reduction. Upside to the forecast could result from a stronger demand response due to a cold winter or less severe delta variant impact. Downside risk could be another partial shutdown, the loss of financial discipline from exploration and production (E&P) companies (we view as unlikely), or significantly weaker prices.
Oil and gas	The recovery in oil and gas prices has resulted in strong credit metrics for E&P companies that operate in the space. Producers in North America remain focused on generating free cash flow due to investor demand to return capital, and have remained disciplined in their capital spending and maintaining healthy balance sheets while balancing shareholder initiatives. We have seen a very high level of M&A activity especially amongst independent oil and gas producers who face several headwinds such as increased regulation, productivity of reserves, and cost increases. Such trend will likely continue in the foreseeable future. In addition, the majority of M&A deals are funded by equity rather than debt. The key risks remain the path of COVID-19, and a market share battle with OPEC—although this seems unlikely given OPEC has continued to support the supply/demand equation.
Oil refineries	While demand for motor fuel has rebounded to pre-pandemic levels, jet fuel demand, particularly for busines travel is still down. Refining crack spreads are strong but refining margins are not, due to the high cost of renewable identification numbers (RINs). Refining cash flow is therefore still weak and is delaying the recovery. Refineries are also suing the Environmental Protection Agency for the delay in setting the new renewable volume obligations (RVO) and not making a decision of small refinery exemptions (exempting assets from having to pay the 2021 RIN costs/meet the RVO).
REITs	REITs are making good progress on the recovery with earnings rebounding significantly in the second quarter, and we expect the recovery to pick up pace. Retail REITs showed the biggest rebound given steep declines last year, with rent collection getting close to pre-pandemic levels. We expect the recovery of the office REITs to be slow given still weak leasing activity, although rent collection activity remains high as tenants meet rental obligations despite low utilization. While the delta variant poses a threat to the pace of the recovery, we still expect 2021 to be a recovery year, and most REITs have adopted their operations to operate in current environment. Negative rating biased has eased to 16% as of August 2021.
Regulated utilities	In the next 12 months the sector should fully recover from COVID including any impact from the delta variant, which we assess as very modest. Key concerns continue to be weak financial measures due to rising capital spending and ESG associated risks.
Retail and restaurants	We believe the second quarter was a peak for demand and margins, as retailers and restaurants benefitted from the reopening, pent-up demand, and consumers flush with cash. We expect consumers' good financial health to continue to underpin full-price sales and in turn healthy margins into 2022. Barring an upward spiral, inflation in transportation and wages can largely be passed on as long as the consumer is willing and able to spend. Supply chain constraints pose risks to toplines as keeping shelves stocked, especially in advance of the holidays, is likely to continue to be a challenge. The delta variant has had a limited impact on consumer behavior, which is consistent with our view that with each resurgence of the virus, the economic

	impact lessens. Most dine-in restaurants are operating at levels exceeding 2019 partly due to pent-up demand, effective pivots to off-premise operations, and productivity gains. The delay of workers returning to the office is postponing the recovery for apparel retailers exposed to workwear and is accelerating the casualization trend.
Technology	We have a cautious view of the next 12 months for the technology sector because of the negative impact the delta variant could have on the enterprise IT spending (delay) and further constraints added to the already tight supply chain. The biggest concern is if macroeconomic demand environment deteriorates significantly, then enterprise customers or consumers would be unwilling or unable to absorb higher costs currently being passed along by tech vendors. We are starting to see large tech OEMs discuss additional costs from tight supply constraints. However, supply constraints are limiting growth, rather than eliminating growth. We believe any unmet demand is being pushed out rather than lost as the secular trends of cloud computing, digital transformation, 5G buildout, and others are intact.
Telecom	Similar to the recession, we don't expect a meaningful impact from the recovery on telecom and cable credit quality. We expect in-home broadband providers will continue to benefit from higher data consumption, although growth could moderate as more people return to the office. Shifting technology and consumer behavior will continue to result in rising data usage and continued cash flow growth. We expect competitive intensity to increase in wireless as the carriers try to differentiate their 5G capabilities as well as increased competition from cable. However, we also expect service revenue trends to improve as consumers migrate to higher-tiered data plans. Among wireline companies, we expect cash flow and leverage metrics to weaken over the next couple of years as they invest in fiber to the home. At the same time, they continue to lose broadband share to cable in the SMB and residential segments from the loss of copper-based broadband customers.
Transportation	Airlines saw a surge in summer demand, particularly for domestic leisure travel, with good ticket prices. Business travel improved more gradually, and international travel (aside from nearby destinations like Mexico and the Caribbean) was still very depressed. The recent upturn in COVID cases began weighing on bookings in the second half of August, with business travel gains pushed to the right as "back-to-the-office" was postponed for some companies. We still foresee an overall positive revenue (and earnings) trend in the next 12 months, but it will be delayed and more uneven, depending on the health situation. Liquidity isn't a concern, given generous federal aid during the first half and widespread debt raising from receptive capital markets. Freight transportation never fell as far and has been recovering strongly for the past four quarters. Some modes linked to internet commerce, such as trucking and package express, are seeing particularly strong demand. The main problem now is supply constraints, reflecting lack of sufficient truck drivers and trucks (the latter caused by the semiconductor shortage), and ocean shipping congestion at ports. The result is overall positive for most companies, as strong demand has enabled them to raise prices, but rising labor expense and costs to cope with shipper demands offset part of the revenue gains. These issues should moderate over time, but somewhat higher labor costs are probably a lasting outgrowth. Transportation equipment leasing companies vary depending on the sectors they serve, but mostly fare better than their customers. Aircraft leasing companies, which serve a global airline customer base, are seeing somewhat improved payment performance though aircraft lease rates remain depressed.
Unregulated (merchant) power	Power is mostly unaffected by the pandemic. The decline in small commercial and industrial (C&I) sales by about 15% in March-June 2020 has since picked up and was just 4% down for the year. There are pockets of impact (Florida) but nationally has seen a resurgence in residential sales (3% higher). This year, power sales have been higher than trend levels seen in 2019. Meanwhile, power prices have risen because of the steep rise in the price of natural gas. However, they haven't increased at the same pace. As a result, gross margins are tighter.

Appendix 2: Economic Data And Forecast Summaries

Table 5

U.S. – S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP (year % ch.)	(3.4)	5.7	4.1	2.5	2.2
Real consumer spending (year % ch.)	(3.8)	8.1	4.0	2.5	2.4
Real equipment investment (year % ch.)	(8.3)	13.9	5.2	3.4	3.0
Real nonresidential structures investment (year % ch.)	(12.5)	(7.2)	1.8	2.5	4.1
Real residential investment (year % ch.)	6.8	10.3	(3.2)	(1.2)	0.3
Core CPI (year % ch.)	1.7	3.3	2.7	2.5	2.4
Unemployment rate (%)	8.1	5.5	4.3	3.6	3.2
Housing starts (annual total in mil.)	1.4	1.6	1.5	1.5	1.5
Federal Reserve's fed funds policy target rate range (year-end %)	0-0.25	0-0.25	0.25-0.50	0.75-1.00	1.25-1.50

Note: All percentages are annual averages, unless otherwise noted. Core CPI is consumer price index excluding energy and food components. f—forecast. Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, the Federal Reserve, Oxford Economics, and S&P Global Economics' forecasts.

Table 6

Canada – S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP (year % ch.)	(5.3)	5.4	3.8	2.3	1.9
Household real final consumption (year % ch.)	(5.9)	4.8	4.9	2.7	2.2
Real equipment investment (year % ch.)	(17.4)	9.1	9.8	3.9	2.6
Real nonresidential structures investment (year % ch.)	(11.3)	(3.3)	7.5	3.8	2.6
Real residential investment (year % ch.)	4.1	18.4	(0.9)	1.5	1.8
Core CPI (year % ch.)	1.1	2.6	2.6	2.0	2.2
Unemployment rate (%)	9.6	7.6	6.1	5.4	5.2
Housing starts (annual total in thousands)	219.0	279.9	233.3	218.7	218.1
CAD/USD exchange rate (per US$1)	1.34	1.23	1.25	1.25	1.22
Government of Canada 10-year bond yield (%)	0.75	1.39	2.02	2.45	2.56
Bank of Canada overnight rate (%, end of period)	0.25	0.25	0.38	1.00	1.25

Note: All "year % ch." are annual averages percent change. Core CPI is consumer price index excluding energy and food components. f—forecast. Sources: Statistics Canada, Oxford Economics, and S&P Global Economics' forecasts.

Appendix 3: List Of Analytical Contacts

Sector	Analyst Name and Contact
Aerospace and defense	**Philip Baggaley** +1 (212) 438-7683 philip.baggaley@spglobal.com
Autos	**Nishit Madlani** +1 (212) 438-4070 nishit.madlani@spglobal.com
Building materials	**Donald Marleau** +1 (416) 507-2526 donald.marleau@spglobal.com
Capital goods	**Ana Lai** +1 (212) 438-6895 ana.lai@spglobal.com
Chemicals	**Paul Kurias** +1 (212) 438-3486 paul.kurias@spglobal.com
Consumer products	**Sarah Wyeth** +1 (212) 438-5658 sarah.wyeth@spglobal.com
Financial institutions - banks	**Stuart Plesser** +1 (212) 438-6870 stuart.plesser@spglobal.com **Brendan Browne** +1 (212) 438-7399 brendan.browne@spglobal.com
Financial institutions - nonbanks	**Sebnem Caglayan** +1 (212) 438-4054 sebnem.caglayan@spglobal.com **Matthew Carroll** +1 (212) 438-3112 matthew.carroll@spglobal.com **Elizabeth Campbell** +1 (212) 438-2415 elizabeth.campbell@spglobal.com
Forest products	**Donald Marleau** +1 (416) 507-2526 donald.marleau@spglobal.com
Gaming, leisure, and lodging	**Emile Courtney** +1 (212) 438-7824 emile.courtney@spglobal.com
Health care and pharmaceuticals	**Arthur Wong** +1 (416) 507-2561 arthur.wong@spglobal.com
Homebuilders	**Donald Marleau** +1 (416) 507-2526 donald.marleau@spglobal.com
Insurance	**Joseph Marinucci** +1 (212) 438-2012 joseph.marinucci@spglobal.com
Leveraged finance	**Robert Schulz** +1 (212) 438-7808 robert.schulz@spglobal.com **Steve Wilkinson** +1 (212) 438-5093 steve.wilkinson@spglobal.com

Media and entertainment	**Naveen Sarma** +1 (212) 438-7833 naveen.sarma@spglobal.com
Metals and mining	**Donald Marleau** +1 (416) 507-2526 donald.marleau@spglobal.com
Midstream energy / oil refineries	**Michael Grande** +1 (212) 438-2242 michael.grande@spglobal.com
Oil and gas	**Thomas Watters** +1 (212) 438-7818 thomas.watters@spglobal.com
Public finance - Canada	**Sarah Sullivant** +1 (415) 371-5051 sarah.sullivant@spglobal.com **Bhavini Patel** +1 (416) 507-2558 bhavini.patel@spglobal.com
Public finance - U.S.	**Robin Prunty** +1 (212) 438-2081 robin.prunty@spglobal.com **Jane Ridley** +1 (303) 721-4487 jane.ridley@spglobal.com
REITs	**Ana Lai** +1 (212) 438-6895 ana.lai@spglobal.com
Regulated utilities	**Gabe Grosberg** +1 (212) 438-6043 gabe.grosberg@spglobal.com
Retail and restaurants	**Sarah Wyeth** +1 (212) 438-5658 sarah.wyeth@spglobal.com
Sovereign	**Joydeep Mukherji** +1 (212) 438-7351 joydeep.mukherji@spglobal.com
Structured credit	**Stephen A Anderberg** +1 (212) 438-8991 stephen.anderberg@spglobal.com
Structured finance	**Winston Chang** +1 (212) 438-8123 winston.chang@spglobal.com **James Manzi** +1 (202) 383-2028 james.manzi@spglobal.com
Technology	**David Tsui** +1 (415) 371-5063 david.tsui@spglobal.com
Telecom	**Allyn Arden** +1 (212) 438-7832 allyn.arden@spglobal.com
Transportation	**Philip Baggaley** +1 (212) 438-7683 philip.baggaley@spglobal.com
Unregulated (merchant) power	**Aneesh Prabhu** +1 (212) 438-1285 aneesh.prabhu@spglobal.com

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

spglobal.com/ratings