S&P Global Ratings

Ratings Weekly Digest

October 20, 2021

This report does not constitute a ratings action

Key Takeaways

- Low default rates persist despite record levels of 'CCC' ratings.
- China can escape its corporate debt trap but only with significant pain and perseverance.
- We have revised our global auto sales forecasts lower.

Key developments

Low default rates persist despite record levels of 'CCC' ratings. Historically, there has been a strong correlation with the percentage of 'CCC' ratings and default rates, but only 16% of 'CCC' rated issuers have defaulted in the past 12 months, versus a historical average of 35%. The severe effects of the pandemic caused downgrades of companies with relatively stronger businesses than those downgraded pre-COVID, which means their recovery prospects may be greater as restrictions are lifted. Upgrades out of the 'CCC' category historically take longer in the years after a major crisis as sustainability of credit metrics improvement needs to be proven. However, default rates could pick up in 2022 if growth and deleveraging prospects stall and key lifelines such as unprecedented policy support and accommodating debt capital markets--essential for the weakest companies--disappear.

Credit Trends: Why 'CCC' Rated Companies Have Risen And Default Rates Have Not

Default, Transition, and Recovery: The U.S. Contributes The Most To Lower Global Corporate Defaults

Can China Escape Its Corporate Debt Trap? Yes, but only with significant pain and perseverance. China's corporate debt of US$27 trillion is equivalent to 31% of the global total, making it too big for investors to ignore. Its debt-to-GDP ratio of 159% is markedly higher than the global rate of 101% and twice the U.S.'. 85%, implying substantial financial and economic contagion risk. The government's decision to reduce financial risk in the economy, especially in speculative activities (notably real estate), has triggered liquidity stress for highly leveraged corporates. China's corporates make up more than half of the global corporates we would categorize as having high indebtedness. Nearly half of them are in construction and real estate, sectors where investor concern is higher given China Evergrande's troubles.

Can China Escape Its Corporate Debt Trap?

Credit FAQ: China's Power Outages--Get Used To It

Asia-Pacific Financial Institutions Monitor 4Q 2021: Evergrande, Southeast Asia Risks, And The Digital Dilemma

China's First Offshore Subnational Bond Clears The Way For More Transparent Financing

We have revised our global auto sales forecasts lower. The intensifying semiconductor shortage has led us to revise downward our projections of a global light vehicle sales recovery to 2%-4% this year (versus our previous projection of 8%-10%) and 4%-6% in 2022. We assume auto production will continue to be constrained into next year before gradually returning to normal in the second half. We don't expect the supply-chain disruptions will affect ratings on global auto manufacturers, but there could be a credit impact for auto suppliers, particularly those at the lower end of the ratings scale. Despite

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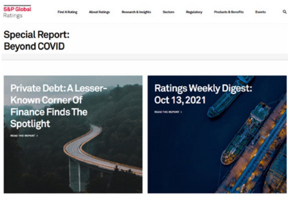
Links

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



a slower sales recovery overall, we project electrification will accelerate, with electric vehicles making up 7%-10% of the global light vehicle fleet this year and to 15%-20% in 2025.

Global Auto Sales Forecasts: Supply Disruption Slows Recovery

U.S. Auto Sales Forecast Lowered For 2021, With A Bumpy Road In 2022; EVs Gear Up To Expand Share

Sector Review: China's Auto Recovery Is Hitting A Speed Bump

Proposed U.S. tax changes include raising the statutory corporate tax rate and other changes affecting both domestic and multinational companies. Most U.S. companies would have somewhat higher effective tax rates and pay more cash taxes. Multinational corporations with high foreign earnings, such as those in technology and health care, would pay even more, absent tax planning. Highly leveraged borrowers would be pressured and have less financial flexibility unless they could use net operating losses or tax credits to offset tax increases or other tax planning measures. While we don't expect ratings changes directly attributable to the proposals, they would have mixed consequences for our adjusted ratio calculations.

U.S. House Tax Proposals: Still Evolving, Limited Ratings Toll

European household electricity bills are double those in the U.S. as a share of disposable income, so there is acute sensitivity to the recent surge in prices. Europe's environmental policies aim at reconciling ambitious energy transition and containing the cost of energy. Yet maintaining a balance between higher transition costs and power affordability is challenging, especially because we expect Europe's power bills will increase even further in the next three years. Political intervention could take the form of fiscal reforms that would alleviate pressure on the consumer or through the recouping of utility profits that would weaken a utility's credit measures. As a result, we view the European electric utilities as having relatively higher exposure to social and political risks than the U.S. utilities, which we believe are better positioned to absorb rising costs associated with the energy transformation and decarbonization.

European Electric Utilities Face Higher Social Risks Than Their U.S. Peers

Credit Market Update

Credit Market Research

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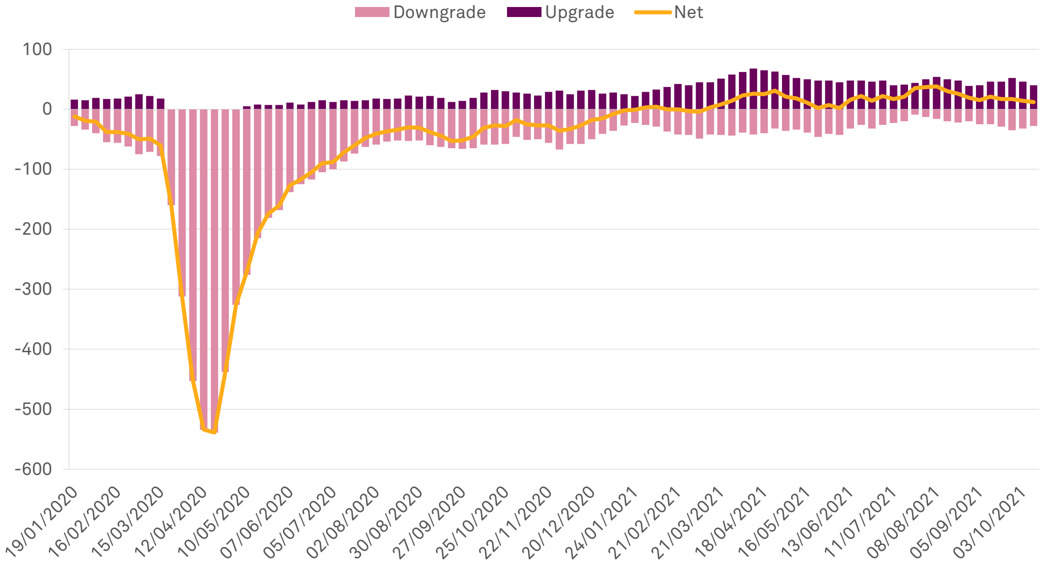
Ratings Trends

Chart 1

The Gap Between Upgrades And Downgrades Dwindles As Downgrades Picked Up The Pace This Week



Source: S&P Global Ratings. Data as of October 18, 2021.

Table 1

Recent Rating Actions

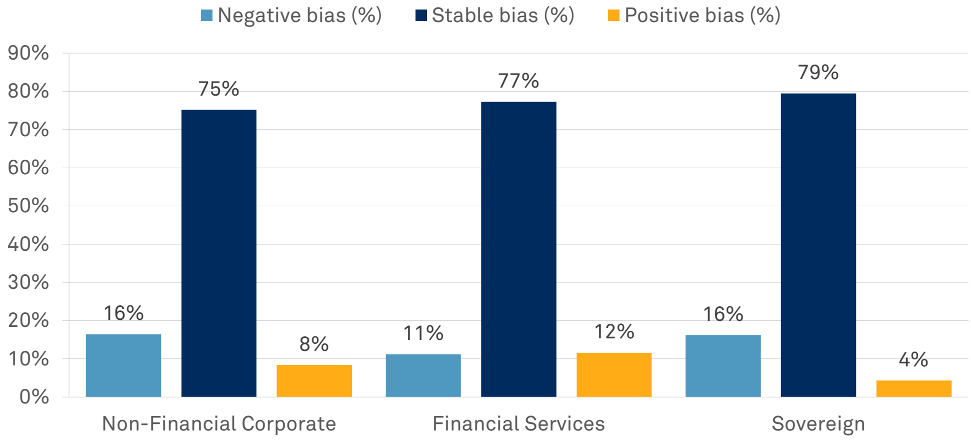
Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. $)
13-Oct	Downgrade	Wynn Resorts Ltd.	Media & Entertainment	U.S.	B+	BB-	13,450
11-Oct	Downgrade	Adler Group S.A. (ADO Group Ltd.)	Homebuilders/Real Estate Co.	Luxembourg	B+	BB	6,019
15-Oct	Upgrade	Antero Midstream Partners LP (Antero Resources Corporation)	Utility	U.S.	BB	BB-	5,900
13-Oct	Upgrade	Concern Rossium LLC	Financial Institutions	Russia	B+	B	4,873
11-Oct	Downgrade	Balboa Intermediate Holdings LLC	High Technology	U.S.	B-	B	4,445
13-Oct	Downgrade	Melco Resorts (Macau) Ltd. (Melco International Development Ltd.)	Media & Entertainment	Macao	BB-	BB	3,750
12-Oct	Downgrade	LABL Inc. (LABL Intermediate Holding Corp.)	Chemicals, Packaging & Environmental Services	U.S.	B-	B	2,801
13-Oct	Downgrade	Studio City Co. Ltd. (Melco International Development Ltd.)	Media & Entertainment	British Virgin Islands	B+	BB-	2,700
14-Oct	Upgrade	Metinvest B.V.	Metals, Mining & Steel	Netherlands	B+	B	2,556
15-Oct	Upgrade	United Natural Foods Inc.	Retail/Restaurants	U.S.	B+	B	2,300

Source: S&P Global Ratings

- **Downgrades picked up this week** with hotels, gaming, and homebuilders leading with three downgrades each.
- **We downgraded global gaming operator Wynn Resorts Ltd.** to 'B+' From 'BB-' due to slow recovery in response to China's zero-tolerance COVID-19 policy.
- **The slowness in global defaults in 2021 so far (at 62) largely reflects lower defaults in the U.S.,** while defaults in Europe, emerging markets, and other developed regions remained close to their 10-year averages. With fewer defaults in September, our estimate suggested a fall in the U.S. 12-month-trailing speculative-grade default rate to a low of 1.4%.

Chart 2

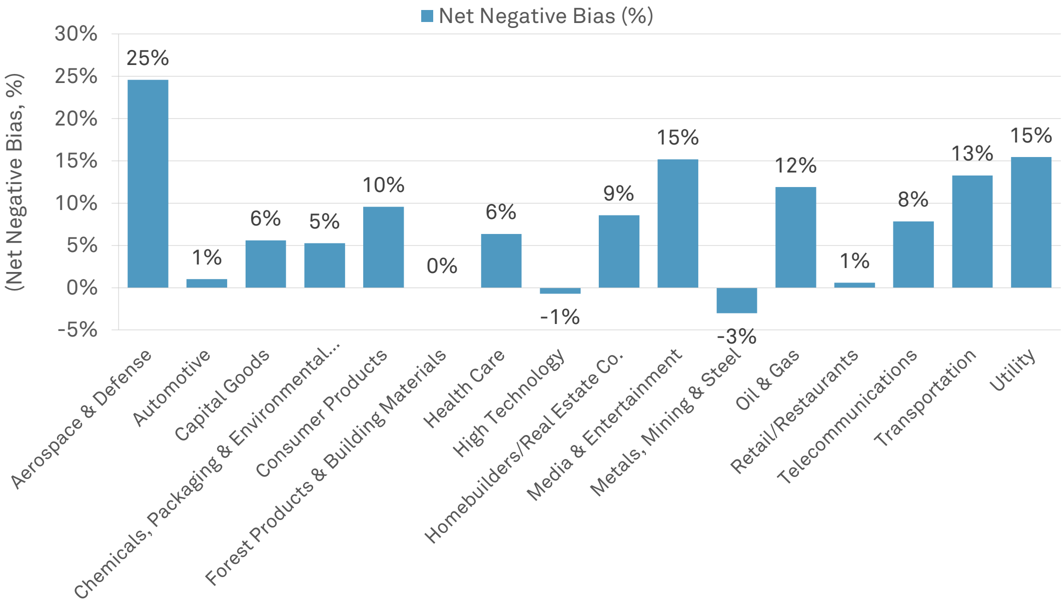
Financial Services Positive Bias Increased To 12% This Week



Source: S&P Global Ratings. Data as of October 18, 2021.

Chart 3

Oil and Gas Had The Greatest Decline In Net Negative Bias This Week To 9%

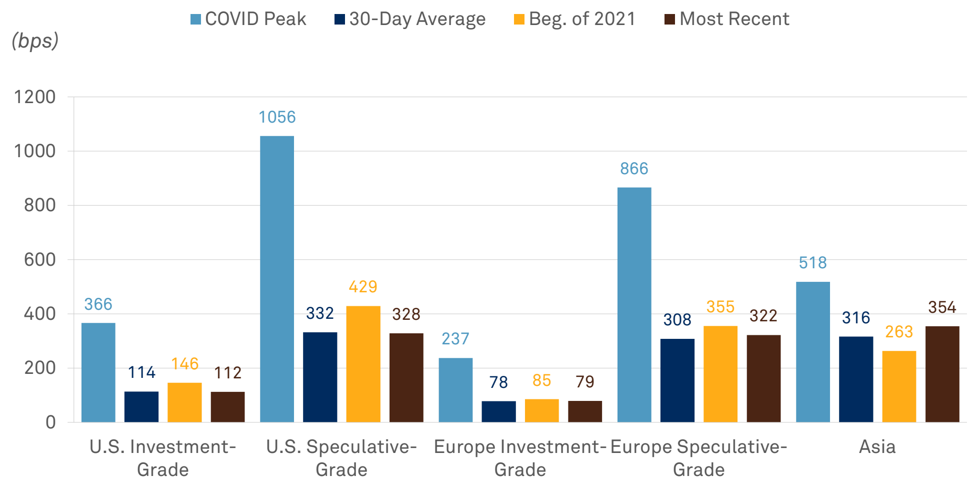


Source: S&P Global Ratings. Data as of October 18, 2021.

Financing Conditions

Chart 4

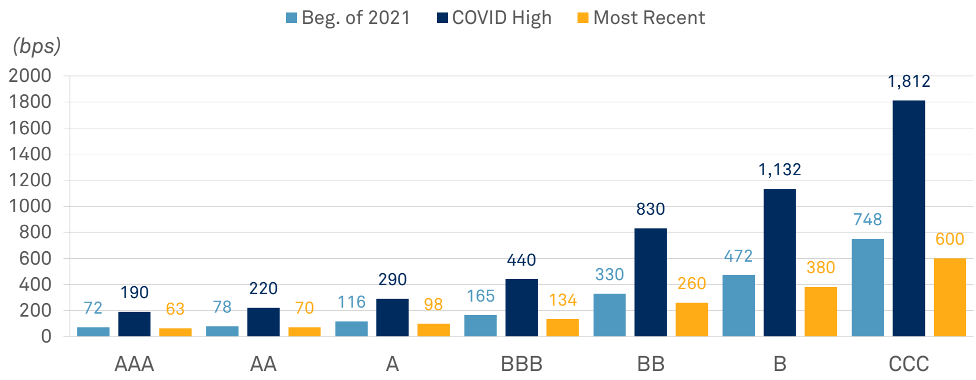
Secondary Market Credit Spreads, U.S., Europe, And Asia



Source: ICE Benchmark Administration Limited (IBA), 'ICE BofAML Asia Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', 'ICE BofAML Europe, the Middle East, and Africa (EMEA) Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BAMLEMRECRPIEMEAOAS, U.S. Investment-Grade and Speculative-Grade Spreads from S&P Global Ratings, Europe Investment-Grade Spreads From S&P Dow Jones Indices. October 18, 2021.

Chart 5

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



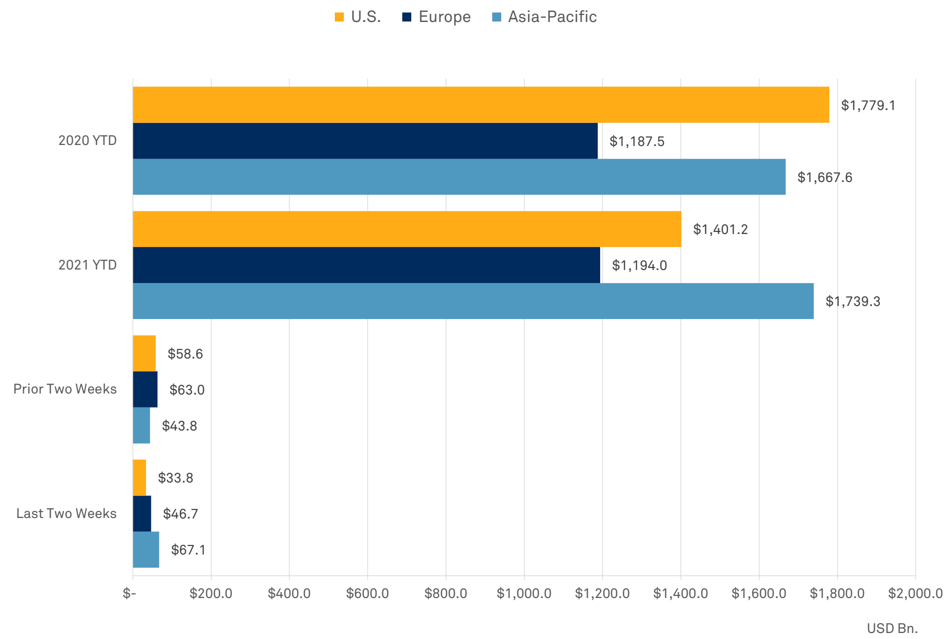
Source: S&P Global Ratings. Data as of October 18, 2021.

- **Debt issuance.** Global year-to-date issuance volumes increased to $4.6 trillion, roughly matching this point in 2020, driven by speculative-grade issuance volumes.
- **Secondary bond spreads tightened this week** across rating categories in both the U.S. and Europe despite dovish signals from central banks.

Debt Capital Markets

Chart 6

Financial And Nonfinancial New Bond Issuance



Source: S&P Global Ratings. Data as of October 18, 2021.

- **Global.** Year-to-date supply stood at $4.6 trillion, compared to $4.8 trillion for the same period last year.
- **Asia.** After two week-long Chinese holidays, corporates managed only a slight recovery as the risk-off sentiment continued. Financial issuance volume dipped, despite a larger number of issuers.
- **Europe.** Illiad's cross-border deal drew healthy demand, bust rising documentation requirements and wider pricing illustrate the rising investor discipline.
- **U.S.** Earnings season blackouts slowed investment-grade corporate bond issuance last week. Meanwhile, the U.S. leveraged loan market set a historical record for annual issuance.

Asset Class Trends

Corporates

Notable publications include:

- European Electric Utilities Face Higher Social Risks Than Their U.S. Peers
- Cost Discipline And Flexible Capex Keep Cash Flows Healthy For European Equipment Rental Companies
- U.S. Auto Sales Forecast Lowered For 2021, With A Bumpy Road In 2022; EVs Gear Up To Expand Share
- Default, Transition, and Recovery: The U.S. Contributes The Most To Lower Global Corporate Defaults
- Credit Trends: Can China Escape Its Corporate Debt Trap?
- Credit Trends: Why 'CCC' Rated Companies Have Risen And Default Rates Have Not
- Global Auto Sales Forecasts: Supply Disruption Slows Recovery
- Sector Review: China's Auto Recovery Is Hitting A Speed Bump

Notable ratings actions include:

- Wynn Resorts Ltd. Ratings Lowered On Slow Recovery In Macau's Gaming Revenue, Removed From CreditWatch; Outlook Negative
- Transportadora de Gas del Peru Outlook Revised To Negative From Stable On Similar Sovereign Action; Ratings Affirmed
- CareCentrix Holdings Inc. Ratings Placed On CreditWatch Positive On Announced Acquisition By Walgreens Boots Alliance
- GPT Group Outlook Revised To Negative On Ascot Capital Acquisition; 'A' Rating Affirmed

Banks and financial institutions

- In EMEA we took various positive rating actions on 14 Russian Banks given the system's reduced economic risk. More-positive-than-expected economic developments and a faster recovery have limited the deterioration of Russian banks' asset quality and supported a rebound in profitability. We believe the prolonged correction phase in the sector has ended.
- In LATAM we revised to negative from stable the outlook on our ratings on six Peruvian Financial institutions following a similar action on the sovereign.
- In North America we revised to positive from stable the outlook on our rating on The Carlyle Group Inc. (BBB+/--). Carlyle's adjusted leverage metric has hovered below 2.0x for the last few years, as adjusted EBITDA was stronger than we had expected. The positive outlook indicates that we could raise the ratings if Carlyle sustains leverage comfortably at the lower end of 1.5x-2.0x to offset its smaller size relative to certain alternative asset manager peers and if investment performance, EBITDA, AUM growth, and liquidity remain strong.
- A recent S&P Global Ratings' conference (Oct. 6) considered whether European banks will be flying or floundering over the next few years as the region emerges from the pandemic (see The Jury Is Out: Will European Banks Fly Or Flounder As Competition Increases?).

Sovereign

- Peru Outlook Revised To Negative On Increased Risks To Debt Dynamics; 'BBB+/A-2' Foreign Currency Ratings Affirmed
- Romania 'BBB-/A-3' Ratings Affirmed; Outlook Stable

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Structured finance

- **U.S. CMBS:** Revenue per available room at U.S. lodging properties has broadly improved this year, but the recovery has not been uniform across locations and property types. Our approach to deriving sustainable net cash flow and value will depend on recent monthly performance trends, hotel-specific demand generators, and performance trends prior to the pandemic. Commercial mortgage-backed securities (CMBS) exposure to lodging properties has decreased in recent years and throughout the pandemic, but issuance is starting to increase; the majority of loans backing the single-borrower deals we rate are now current, though performance metrics have not been uniform. See "After Going Places It's Never Been, CMBS Lodging is Back on the Road Again" published Oct. 14.
- **European CMBS**: On Oct. 14 we published our European CMBS monitor for the third quarter of 2021 (see "European CMBS Monitor Q3 2021"). Six new issue transactions closed during the quarter: Agora Securities UK 2021 DAC (the first retail transaction since the COVID-19 pandemic commenced), Viridis (European Loan Conduit No. 38) DAC, Last Mile Logistics Pan Euro Finance DAC, Taurus 2021-4 UK DAC, Haus (European Loan Conduit No. 39) DAC, and Atom Mortgage Securities DAC. Of these, we rated two. The outstanding S&P Global Ratings-rated European CMBS balance slightly decreased to €29.64 billion from €30.03 billion over the last quarter. The decrease in the note balance is due to two loans repaying this quarter and the change in the net effect of currency rate movements. The number of loans in special servicing remains three, with no changes occurring since the fourth quarter of 2020. Of the loans in special servicing, these comprise hotel (70.1%) and retail (29.9%) assets. Our monitor report provides data for the CMBS transactions that we rate, including maturities, delinquencies, and specially serviced loans, as well as rating and note-level matters. All information is as of Sept. 30, 2021, unless stated otherwise.
- **U.S. CLO**: See "U.S. BSL CLO Top Obligors and Industries Report: Third-Quarter 2021" published Oct. 13. We have updated our quarterly lists of the top companies with loan issuances held by U.S. broadly syndicated collateralized loan obligations (BSL CLOs) and the industry categories these companies operate within, both ranked on a dollar-weighted basis. The information is based on the most recent trustee reports available to us as of the end of the third quarter.
- **German Covered Bonds:** High deposit levels, low interest rates, and competitive central bank funding has left year-to-date German investor-placed benchmark covered bond issuance at nearly 37% lower than the total 2020 level. Nevertheless, Germany remains the second-largest covered bond market with outstanding issuances totaling €375 billion in the first half. Germany was first to complete the parliamentary procedure for the implementation of the EU's Covered Bonds Directive on May 7. Certain parts of the directive implementation remain a work in progress. Government support, low property supply, and increasing immigration helped the German housing market sustain its momentum despite the COVID-19 pandemic. House prices have increased more in Germany's urban centers than in the rest of the country. See "German Covered Bond Market Insights 2021" published Oct. 11.

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