S&P Global Ratings

Corporate Top Trends Update

This report does not constitute a rating action.

Argentina

Macro Weakness And Political Turmoil Test Corporations

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What's changed?

Perceived support from the governing coalition to reduce fiscal imbalances has weakened. The public back-and-forth between the president and the vice president centers on how to manage the economy and high inflation--including social transfers, minimum and union wage increases, and energy subsidy reductions--to bolster their political bases for 2023. The president had initially doubled down on supporting his economic team during Extended Fund Facility (EFF) negotiations. However, the subsequent mounting of political, social, and local market pressure weakened perceived support for both the prior economic team and the president's commitment to comply with the program targets and benchmarks. This prompted the former economy minister Mr. Martin Guzman to resign in early July, followed by Ms. Silvina Batakis (who had a short term as economy minister and is being replaced by Mr. Sergio Massa), but the three of them reiterated the government's intent to reduce fiscal imbalances--including energy subsidies--but doubts remain about political support for such policies (read more on "Argentina Faces Financing Obstacles Ahead Of The 2023 Elections," published July 21, 2022).

Inflation and peso depreciation are speeding up. This raises concerns about companies' ability to repay (or even rollover) foreign debt. Access to hard currency remains cumbersome as the country's foreign reserves shrink and the central bank is forced to strengthen currency controls.

What to look out for?

Transfer and convertibility risks. Although most corporations have restructured foreign debt, the risk of stricter currency controls is high and could impair their capacity to pay interest and/or principal or even to import raw materials.

Risk of currency depreciation is elevated. Many Argentine entities issued domestic bonds with coupons pegged to the U.S. dollar. The so-called dollar-linked securities are attractive to domestic investors because they offer some shelter from the weakening peso. However, a sharp depreciation of the official exchange rate could make those securities more expensive, weakening credit profiles. On the other hand, exporters such as oil & gas producers would benefit from a sharp peso depreciation.

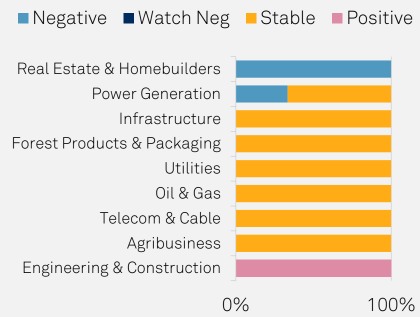
Adverse regulation and risks of price controls remain high. Those risks weigh heavily on utilities, power generators, and integrated oil & gas companies that have margins under pressure due to their inability to adjust prices to match rampant inflation, which is on course to exceed 60% in 2022.

What if conditions worsen?

Harder currency controls; faster inflation, and/or a severe economic contraction could force companies to launch distressed debt exchanges. Those risks are increasing and could intensify with continuing political turmoil. Presidential elections are set for late 2023 and the perception of a potential shift in power could erode room to maneuver for the current administration.

We expect access to markets to remain limited for Argentine corporations until the political scenario is clearer. However, debt maturities are low and companies have been very cautious in debt management and with financial policies in general in the past two years.

Outlook Distribution



Ratings Statistics (YTD As Of June 2022)

	IG	SG	All
Ratings	0	14	14
Downgrades	0	0	0
Upgrades	0	0	0

Performance Heat Map – Expected Median Ratios

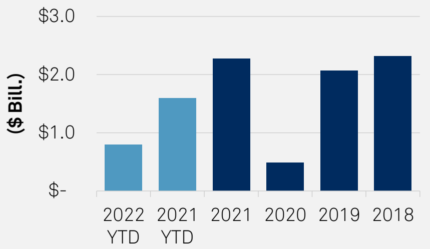
Argentina

GDP *3.3%*

Sector	Margin Trend[1] (2022e)	Leverage Trend[1] (2022e)
Eng. & Const.	Improving	Stable
Telecom & Cable	Stable	Stable
Power Gencos	Improving	Stable
Utilities		Stable
Real Estate	Improving	Improving
Oil & Gas E&P	Stable	Stable
Infr. - Airports	Improving	Improving

[1]Based on 1Q 2022 performance and forecast.

Issuance Trends As Of June 30 – Rated Corporations



Corporate Top Trends Update

Brazil

Growth Recedes But Domestic Consumption Holds

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What's changed?

Economy is decelerating, but fundamentals remain healthy. We expect the economy to grow 1.2% in 2022 and average less than 2.0% growth in 2023-2025. Resilient consumption (partly due to supportive countercyclical measures), high prices, and rising export volumes continue to support economic growth.

Investment is notably recovering, related to the government's efforts to improve its infrastructure concession programs and legal framework across sectors, with the aim of greater private-sector participation in the economy. We expect investment to remain about 18% of GDP in 2022-2025, compared with a 15% average in 2016-2020.

Presidential elections are set for fourth quarter 2022. Brazil will hold national elections on Oct. 2, 2022 (and a second round if needed on Oct. 30). President Jair Bolsonaro and former President Lula da Silva continue to dominate in polls.

What to look out for?

Commodity prices remain an anchor for many sectors' credit quality. Brazilian miners took advantage of soaring iron ore prices in 2021 and significantly reduced debt levels, so although their cash costs are roughly 15% higher than two years ago and prices have receded recently, their credit profiles are stronger. Also, steel producers are enjoying good momentum despite a decline in volumes in specific sectors such as homebuilding in 2022, because domestic prices more than offset volume decline, bolstered by supportive global steel prices.

Forest product producers and sugarcane processors are also benefitting from strong prices that we expect to continue--despite some drops in volume due to the drought and frosts that hit sugar yields in 2021--supported by high global oil prices that are the base for domestic fuel price.

Inflation escalated, like in most countries in the region, and the central bank reacted vigorously. We expect the Brazilian central bank to increase interest rates up to 13.75% by year-end 2022 and then lower them to 9.5% in 2023. That will continue pressuring the interest burden of corporates and infrastructure companies because their debt is largely indexed to the benchmark interest rate and Brazil's consumer price index.

Domestic bond market is reinvigorated after a slow start. Domestic issuances are back on track and outpacing 2019's record levels. The credit supply has become a growth pillar for sectors like homebuilding, retail, agribusiness, and many others with midsize companies that aren't fully served by banks and that cannot access international markets.

What if conditions worsen?

Heavy sectors more exposed to an economic crunch. Homebuilders, building material producers, and steel and automakers would probably suffer more from domestic stress. In fact, homebuilders have been cautious in product launches since late 2021 and we expect that to show sooner than later in steel and cement demand.

Infrastructure and energy assets will likely be pressured, but ratings should withstand. A recession could strain the sector's operational performance and thus the companies' financial standing, while integrated energy groups and transportation infrastructure companies are investing boldly. In addition, interest rates are on the rise while inflation remains high. Also, improved hydrology, is lowering energy costs in 2022, but droughts are recurrent.

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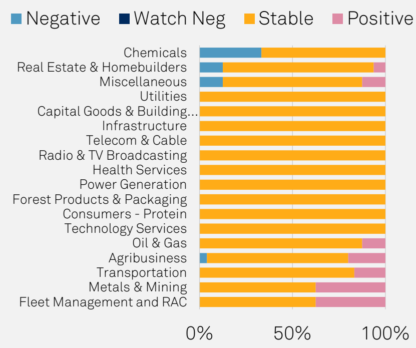
Outlook Distribution



Ratings Statistics (YTD As Of June 2022)

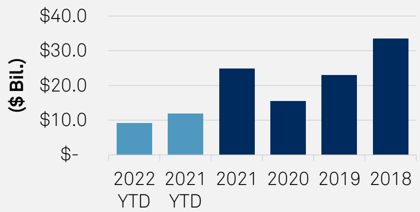
	IG	SG	All
Ratings	8	70	78
Downgrades	0	0	0
Upgrades	0	3	3

Performance Heat Map – Expected Median Ratios

Brazil	**2022**	
GDP	*1.2%*	
Sector	Margin Trend[1]	Leverage Trend[1]
Metals & Mining.	Weakening	Stable
Telecom & Cable	Stable	Weakening
Power Gencos	Improving	Stable
Utilities	Improving	Stable
R. Estate & homeb.	Stable	Weakening
Oil & Gas E&P	Stable	Weakening
Transportation	Improving	Improving
Agribusiness	Improving	Improving
Consumer Protein	Stable	Stable
Chemicals	Stable	Improving
Infr.– Roads/Ports	Improving	Stable
Automotive	Stable	Weakening
Cap good & bld mat	Weakening	Weakening
Forest Products	Improving	Stable
Retail	Stable	Weakening
Fleet Management	Improving	Stable

[1] Based on 1Q 2022 performance and forecast

Issuance Trends (As Of June 30 – Rated Corporations)



Corporate Top Trends Update

Colombia

Strong Economic Growth And High Commodity Prices Are Keeping Credit Conditions Stable

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What's changed?

The new administration proposes reforms on taxes, agriculture, pensions, and health. The incoming government has expressed its interest in speeding up the energy transition to renewable energy. The scope of these proposals is under development, with challenges involving managing the government's fiscal accounts, higher inflation, modest employment performance, and rising interest rates.

We expect growth to remain high in 2022 at 4.6%. Consumption and investment have exceeded pre-pandemic levels. Sectors affected by the pandemic-related restrictions, including air transport, are showing a strong recovery. The fiscal accounts are benefiting from the increase in commodity prices. In addition, the recovery in demand is improving the EBITDA and leverage of corporations in sectors such as oil & gas and power.

What to look out for?

Persistent inflationary pressures and rising interest rates could damage operating margins. EBITDA and debt coverage levels will be pressured in the next 18 months. Although corporations will be able to transfer part of the increase in production costs to consumers in the short term, this possibility will gradually decrease as borrowers' payment capacity falls.

Government decisions related to tax reform could affect both the corporate sector and consumer behavior. Further progress on the electricity sector's roadmap to transform and modernize the country's industry, including its institutional and regulatory framework presented in the second half of 2021, will depend on the decisions of the next president. For the telecom sector, the new government must decide either to modify or to reject the changes that the industry proposed to the remuneration scheme of the spectrum renewal scheduled for 2023.

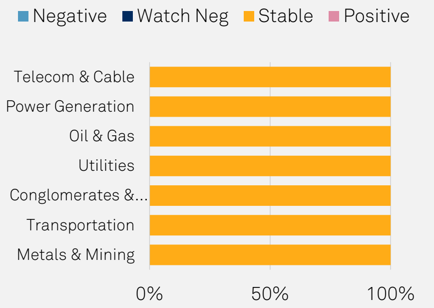
Colombian peso depreciation will generate higher investment costs that may not be completely passed through to end users and could slightly increase debt levels. Telecom companies that participated in the spectrum auction in 2020 are committed to execute capex investment in the next 10 years. Nonconventional renewable energy projects assigned with long-term power purchase agreements (PPAs) in past auctions are facing pressures on their cost structures that the PPAs won't fully compensate. Finally, distribution utilities will need to comply with regulatory investments related to energy efficiency.

What if conditions worsen?

Debt issuances would drastically fall in the next 18 months due to more restrictive financing conditions and rising costs. In the short term, corporates don't have urgent refinancing pressures and have had adequate access to the capital market. However, they face higher financing costs in the international market due to the depreciation of the Colombian peso and high inflation.

Higher financing costs and currency depreciation could delay investment plans in nonconventional renewable energy projects. In the last decade, the Colombian government modified laws to promote the development of nonconventional renewable projects to reduce the country's dependence on thermal generation. However, some projects are delayed because of the pandemic and the transmission curtailment, among other issues. Tighter financial conditions could contribute to longer delays in completing these projects.

Outlook Distribution



Ratings Statistics (YTD As Of June 2022)

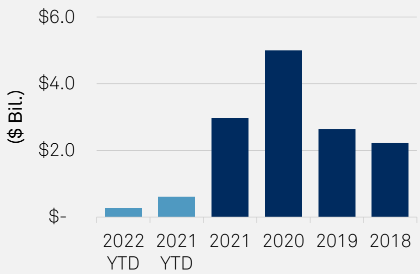
	IG	SG	All
Ratings	1	8	9
Downgrades	0	0	0
Upgrades	0	0	0

Performance Heat Map – Expected Median Ratios

Colombia	**2022**	
GDP	*4.6%*	
Sector	Margin Trend[1]	Leverage Trend[1]
Conglomerates.	Stable	Stable
Telecom & Cable	Stable	Stable
Power	Improving	Improving
Utilities	Stable	Stable
Oil & Gas	Improving	Improving

[1] Based on 1Q 2022 performance and forecast

Issuance Trends (As Of June 30 – Rated Corporations)



Corporate Top Trends Update

Chile

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High Inflation, Sluggish Economy, And Upcoming Policy Changes

What's changed?

Domestic growth has stalled while the current account deficit has widened. Domestic growth was flat in first quarter 2022 quarter-on-quarter, and the central bank has pushed the policy rate well above peers in the region to curb inflation, most notably in food and energy prices. On top of that, weakening copper prices have contributed to a larger current account deficit, which was 7% of GDP in first quarter 2022 (read more: "Economic Outlook Latin America Q3 2022: Resilient So Far This Year, With Tougher Conditions Ahead," published June 27, 2022.

We continue to expect very volatile energy prices due to drought conditions and high fuel prices. So far in 2022, electricity spot prices have increased by 15% from 2021 and more than doubled 2020 levels. This is mainly due to a severe drought coupled with inefficient planning for buying natural gas, aggressive decarbonization programs, and scheduled plant shutdowns for maintenance. As a result, profitability has squeezed for most of the power generators we rate, but mainly for those that need to buy energy in the spot market to meet contractual commitments with distribution companies and unregulated clients. Imbalances in the market, partly due to weather, continue to occur although the sector continues transitioning rapidly to renewable sources from conventional thermal energy, in a context of Chile's target of 70% of electricity from renewable energy by 2030.

What to look out for?

Regulations are changing and could imply higher costs for corporations. The new government plans to increase tax collection by 5% of GDP over the next five years, and reform the pension system by strengthening its solidarity pillar (a pension floor for people with little or no pension) and increasing contributions. Lacking a majority in Congress, the government will rely on opposition centrist legislators to pass reforms, reinforcing the need for pragmatic policies.

Also, in early September, Chile will vote on the constitution that is currently being drafted. In May 2021, Chile elected a constitutional assembly to create the new constitution. The assembly has seven committees that can submit articles (with a simple majority vote) that must then be approved by assembly with a two-thirds majority. The qualified approval mechanism has been effective in moderating the proposals.

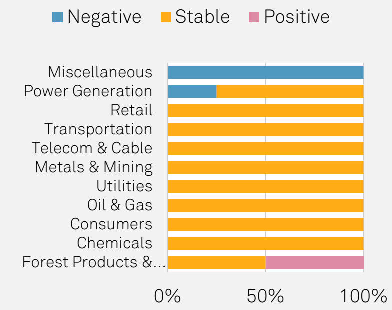
Evolution of hydrology and electricity spot prices during the second half of the year. Typically, in the year's second half, the spot price tends to decrease due to better weather conditions and lower fuel prices, taking into account gas imports from Argentina at very competitive prices.

What if conditions worsen?

Chilean corporations are fairly resilient, but their credit quality could erode if inflation remains high. This is particularly relevant for sectors like retail, power generation, and telecom & cable. We expect forest products and metals and mining companies to continue enjoying good pricing momentum.

Higher mining royalties and other forms of taxation are on their way. As the government looks for ways to fund growing expenses, we think mining royalties and other taxes are likely to increase. Also, the constitution reform could revoke water rights, although it isn't clear how that could affect corporations' cost structures and water availability.

Outlook Distribution



Ratings Statistics (YTD As Of June 2022)

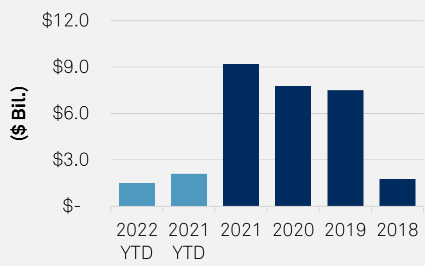
	IG	SG	All
Ratings	27	4	31
Downgrades	1	0	1
Upgrades	1	0	1

Performance Heat Map – Expected Median Ratios

Chile	**2022e**	
GDP	*2.1%*	
Sector	Margin Trend[1]	Leverage Trend[1]
Retail	Weakening	Weakening
Telecom & Cable	Stable	Stable
Power/Utilities	Weakening	Weakening
Toll Roads	Stable	Stable
Metals & Mining	Weakening	Stable
Forest Products	Improving	Improving
Oil & Gas Market.	Improving	Stable

[1] Based on 1Q 2022 performance and forecast

Issuance Trends As Of June 30 – Rated Corporations



Corporate Top Trends Update

Mexico

Diminished Corporate Credit Risk In 2022

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What's changed?

Business headwinds won't dent corporate performance for the rest of 2022. Mexico's corporate sector continues to withstand pandemic-related adversities such as global inflation, supply chain bottlenecks, and more expensive borrowing costs. Somewhat favorable consumer confidence and record-high remittances are supporting domestic demand, while exports have soared to record highs. Companies with strong pricing power in the consumer products and building materials industries have been able to pass through higher costs to end consumers. At the same time, the oil and gas, chemical, and metals and mining industries maintain healthy profit margins due to high commodity prices. Corporate performance will benefit from these trends for the rest of this year.

Local sourcing is helping address supply chain bottlenecks. Many companies have already opted to redirect sourcing efforts locally as a short-term alternative to address supply chain disruptions affecting the availability of specific raw materials, parts, and port closures. However, we expect increasing downward pressure on the region's corporate credit quality if supply chain bottlenecks and high logistics costs go unresolved because we don't expect a strong wave of near-shoring investments in the next year or so.

Sovereign risk no longer a short-term threat. We recently revised the outlook on Mexico to stable from negative, which mitigates the downside credit risk for rated domestic entities that have a sovereign rating cap.

What to look out for?

Extended and generalized economic weakness in the U.S. Exports from Mexico into the U.S. will likely reach a record high this year of about $450 billion. The U.S. represents more than 75% of Mexico's total exports, so the export manufacturing sector depends on the health of the U.S. economy, particularly the auto industry that represents 23% of exports.

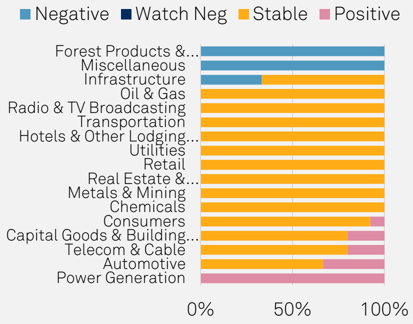
Slowing remittances to Mexico. In the first half of 2022, remittances exceeded $27 billion, and now represent more than 4% of GDP. Mexican households have become increasingly dependent on monthly remittances for purchasing essential and nonessential goods and services, as well as for housing and self-construction. A drop in remittances hurting consumer spending would undermine the baseline demand for many industries in our rated portfolio.

What if conditions worsen?

Pressures on household income could weigh on top-line performance. Inflation is one of the biggest threats because of its direct repercussions on profitability and demand. If consumer spending power deteriorates sharply, companies will have less flexibility to pass through cost increases to end consumers, which would gradually squeeze margins. Also, a scenario of long-lasting inflation in which end-consumers are unable to absorb higher prices would cut demand, reducing volume sales.

Trade tensions with the U.S. and Canada would hit investor confidence and the Mexican peso. The U.S. and Canada recently requested consultations under the USMCA over Mexico's energy policies. Failure to resolve this matter, or an escalation of policy discrepancies among the trade partners, could hurt the Mexican economy. The most tangible short-term effect would likely be a weaker Mexican peso, although investor confidence is also exposed to a potential rise in trade tensions.

Outlook Distribution



Ratings Statistics (YTD As Of June 2022)

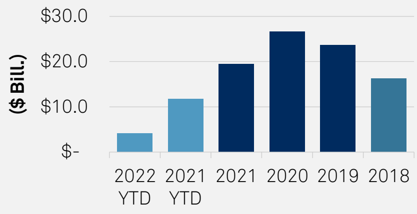
	IG	SG	All
Ratings	33	25	58
Downgrades	0	4	4
Upgrades	0	2	2

Performance Heat Map – Expected Median Ratios

Mexico	**2022e**	
GDP	*1.7%*	
Sector	Margin Trend[1]	Leverage Trend[1]
Metals & Mining.	Stable	Stable
Telecom & Cable	Stable	Stable
Infr. – Roads	Stable	Improving
Utilities	Improving	Stable
Oil & Gas Dst	Improving	Improving
Transp. -Airlines	Improving	Stable
Chemicals	Stable	Improving
R. Estate & Homeb	Stable	Improving
Cap goods & Bldg	Weakening	Stable
Retail non-essent.	Stable	Improving
Infr. - airports	Stable	Stable
Consumer Prods.	Weakening	Stable

[1] Based on 1Q 2022 performance and forecast

Issuance Trends (As Of June 30 – Rated Corporations)



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