

Debt Ceiling Conclusion Inches Closer

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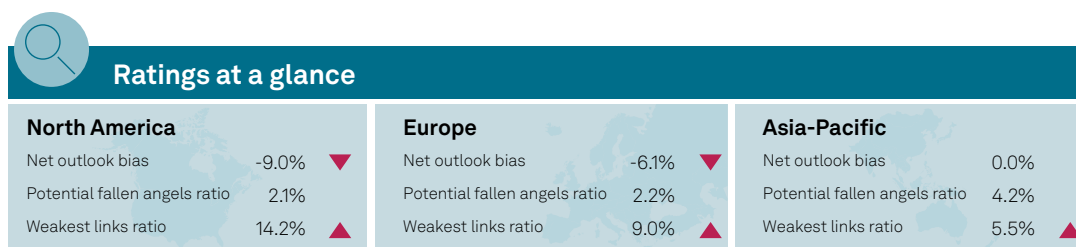
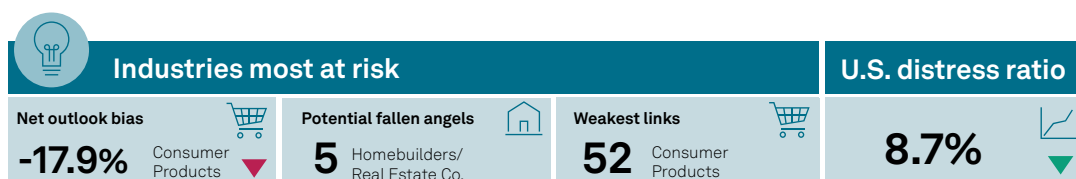
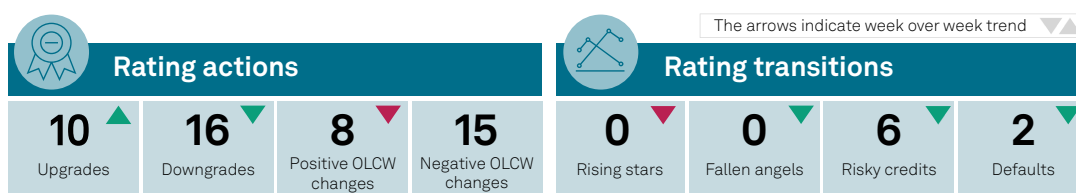
The Top Line | May 29, 2023

A U.S. debt ceiling deal may finally be within reach, but the closer we get to June 5 without a formal announcement, the more uneasy markets will become. U.S. jobs numbers (Friday) are the key release this week for an economy that remains resilient, raising questions regarding the future path for interest rates. Markets now seem unsure about another hike but are more certain that rates will stay higher for longer, which will affect financing costs. The impact of higher rates was one of the primary reasons we recently raised our default forecast for U.S. leveraged loans to 2.5% by March 2024 from 1.42% in April 2023.

Key Takeaways

- Downgrades outpaced upgrades last week, led by an uptick in consumer product ratings moving into risky credit territory ('CCC+' and below). U.S. high technology was the primary driver for negative outlook and CreditWatch revisions.
- Weakest links rose across all regions reaching 14.2% in North America.
- There was a positive tone for credit pricing, although primary issuance fell across all regions.

Ratings performance trends



Data as of May 25, 2023. Note: Weekly rating actions, weekly transitions, and industries most at risk are all global data. Data excludes structured and public finance. Upgrades and downgrades exclude no-debt corporate rating actions and confidential rating actions. Downgrades exclude transitions to default and confidential rating actions. Defaults from confidential issuers are included in the default tally. Source: S&P Global Ratings Credit Research & Insights.

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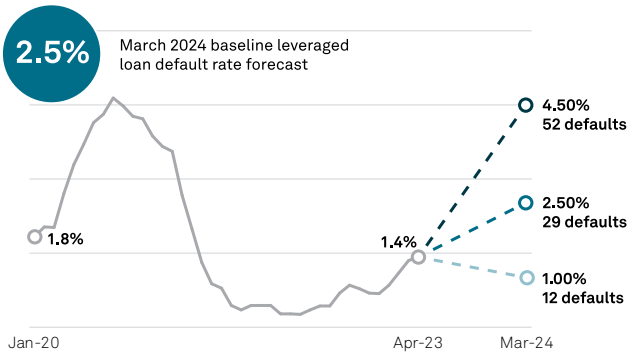
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Chart Of The Week

Chart 1
The leveraged loan default rate climbs



As of April 2023, the Morningstar LSTA U.S. Leveraged Loan Index had over 1,100 rated issuers.

Pessimistic scenario: The number of stressed issuers surges, and credit challenges persist--many issuers cannot access capital.

Base scenario: The number stressed issuers grows, albeit less dramatically than in our pessimistic scenario, amid persistent macroeconomic challenges--liquidity dries up for some.

Optimistic scenario: Macroeconomic challenges ease, and debt markets are open to most distressed borrowers.

Data as of April 30, 2023. chart first appeared in "[The U.S. Leveraged Loan Default Rate Could Hit 2.5% By March 2024 Given Persistent Inflation And Higher Interest Rates](#)," published May 17, 2023, on RatingsDirect. Source: Leveraged Commentary and Data (LCD) from PitchBook, a Morningstar, S&P Global Ratings Credit Research & Insights.

Related Research

[Credit Trends: U.S. Corporate Bond Yields As Of May 24, 2023](#), May 25, 2023 (published weekly)

[2022 Annual European Corporate Default And Rating Transition Study](#), May 25, 2023

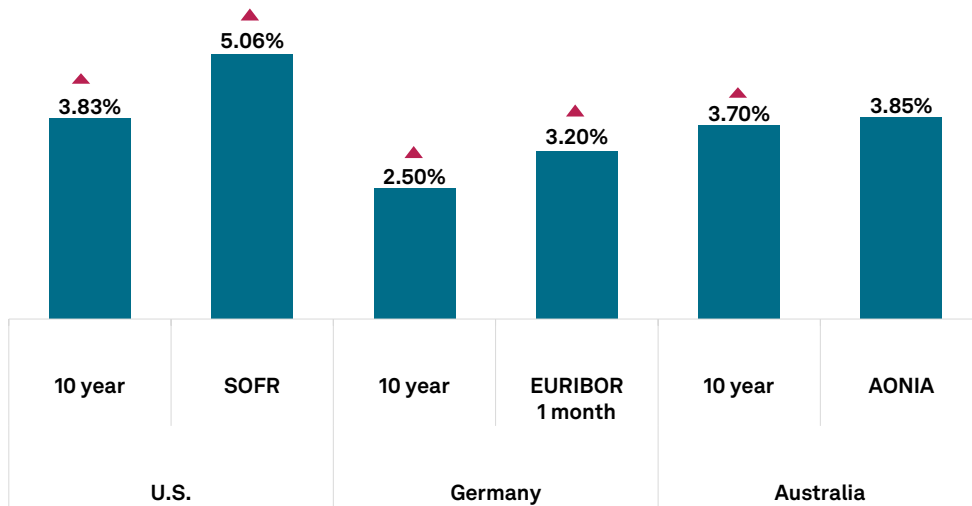
[The U.S. Leveraged Loan Default Rate Could Hit 2.5% By March 2024 Given Persistent Inflation And Higher Interest Rates](#), May 23, 2023

[2022 Annual Emerging And Frontier Markets Corporate Default And Rating Transition Study](#), May 23, 2023

[2022 Annual International Public Finance Default And Rating Transition Study](#), May 23, 2023

Credit Market Conditions

Chart 2
Benchmark yields



Leveraged loan indices average bid price over the week

Morningstar LSTA US LLI

93 ▼ -0.13%

Morningstar ELLI (Europe)

94 ▲ 0.14%

Chart 3

Secondary market credit spreads

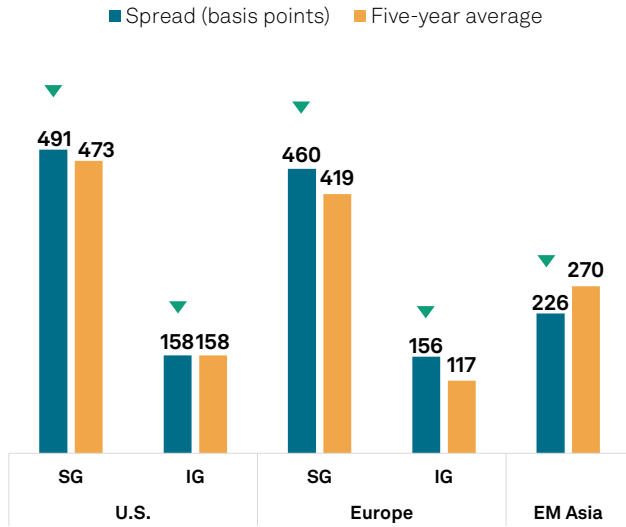
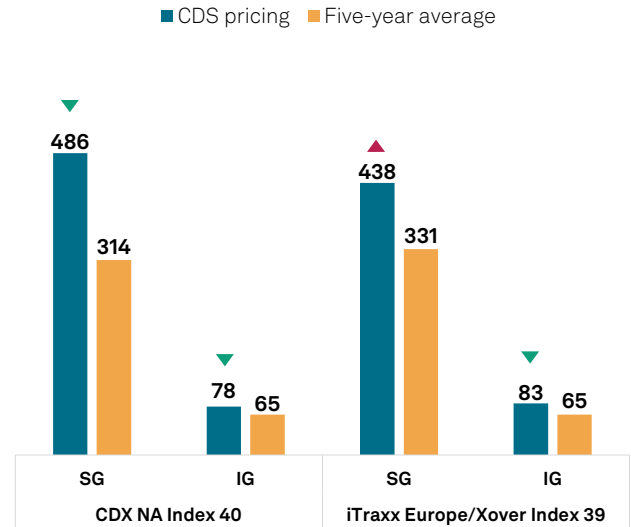


Chart 4

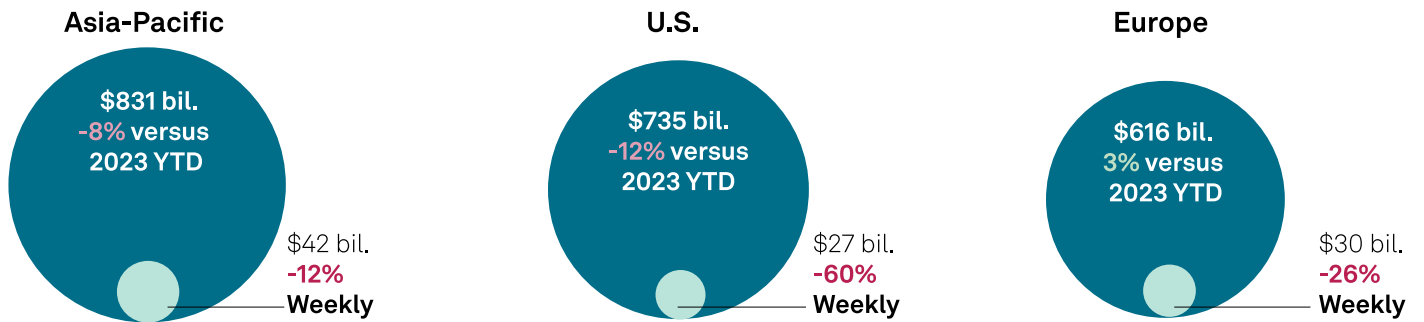
CDS pricing



The arrows indicate weekly trends. Data as of May 25, 2023. Leveraged loan data source: Leveraged Commentary and Data (LCD) from PitchBook, a Morningstar company; Morningstar LSTA U.S. Leveraged Loan Index; Morningstar European Leveraged Loan Index. Sources: S&P Global Ratings Credit Research & Insights, Ice Data Indices LLC, ICE BofA Euro High-Yield Index Option-Adjusted Spread, retrieved from the Federal Reserve Bank of St. Louis, S&P Global Market Intelligence. Please note that the five-year averages exclude data from May 1-3, 2023, due to a technical disruption in our feed.

Chart 5

Corporate debt issuance



Data as of May 25, 2023. Corporate bond issuance is the most recent weekly total and the percentage weekly change. Note: U.S. and Europe totals include bonds and leveraged loans and Asia-Pacific total only includes bonds. Leveraged loan data source: Leveraged Commentary and Data (LCD) from PitchBook, a Morningstar company. YTD--Year to date. Sources: Refinitiv, S&P Global Ratings Credit Research & Insights.

Table 1

Top 10 upgrades and downgrades by debt

Date	Action	Issuer	Industry	Country	To*	From*	Debt volume (mil. \$)
May 19, 2023	Upgrade	Barclays PLC	Financial institutions	U.K.	BBB+/Stable	BBB/Positive	140,580
May 19, 2023	Upgrade	Deutsche Telekom AG	Telecommunications	Germany	BBB+/Stable	BBB/Positive	107,502
May 19, 2023	Upgrade	Republic of Ireland	Sovereign	Ireland	AA/Stable	AA-/Positive	80,072
May 23, 2023	Downgrade	SoftBank Group Corp.	Financial institutions	Japan	BB/Stable	BB+/Negative	22,899
May 22, 2023	Upgrade	Motion Midco Ltd.	Media and entertainment	U.K.	B/Stable	B-/Positive	4,598
May 25, 2023	Downgrade	Catalent Inc.	Health care	U.S.	BB-/Negative	BB/Watch Neg	3,589
May 19, 2023	Downgrade	Photo Holdings, LLC	Media and entertainment	U.S.	CC/Watch Neg	CCC/Negative	3,290
May 23, 2023	Upgrade	HNVR Midco Ltd.	Media and entertainment	U.K.	B-/Stable	CCC+/Positive	2,605
May 24, 2023	Downgrade	Pitney Bowes Inc.	High technology	U.S.	BB-/Stable	BB/Negative	2,600
May 25, 2023	Upgrade	Cirsa Enterprises S.L.U. (LHMC Finco 2 S.a.r.l.)	Media and entertainment	Spain	B/Positive	B-/Positive	2,242

Data as of May 25, 2023. Note: Rating actions include financial and nonfinancial corporates and sovereign issuer credit ratings. Excludes rating actions with no debt. *Long-term issuer credit rating/outlook or CreditWatch status. Downgrades include defaults. Source: S&P Global Ratings Credit Research & Insights.

Table 2

This week's defaults

Date	Parent company	Country/market	Subsector	To	From	Reason
May 22, 2023	LifeScan Global Corp.	U.S.	Health care	SD	CC	Distressed exchange
May 24, 2023	Confidential	Confidential	Media and entertainment	D	CCC	Confidential

Data as of May 25, 2023. Sources: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence's CreditPro®. D--Default. SD--Selective default.

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Glossary And Abbreviations

Ratings Performance Trends

Fallen angels--Issuers downgraded to speculative grade from investment grade.

Investment grade--Issuers rated 'BBB-' or above.

Negative bias--Percentage of issuers with a negative outlook or on CreditWatch.

Net outlook bias--Percentage of issuers with a positive bias minus those with a negative bias.

OLCW--Outlooks and CreditWatch placements.

Positive bias--Percentage of issuers with a positive outlook or CreditWatch placement.

Potential fallen angels--Issuers rated 'BBB-' with either a negative outlook or CreditWatch placement.

Potential fallen angel ratio--The number of potential fallen angels divided by the population of issuers rated in the 'BBB' category.

Rising stars--Issuers upgraded to investment grade from speculative grade.

Risky credits--Issuers in the 'CCC' rating category.

Speculative grade--Issuers rated 'BB+' or below.

U.S. distress ratio--Proportion of speculative-grade issues with option-adjusted composite spreads of more than 1,000 basis points relative to U.S. Treasury bonds.

Weakest links--Issuers rated 'B-' and below with either a negative outlook or CreditWatch placement.

Weakest links ratio--The number of weakest links divided by the total speculative-grade ratings population.

Credit Market Conditions

AONIA--Reserve Bank of Australia Cash Rate.

EM--Emerging markets.

EURIBOR--Euro Interbank Offered Rate.

IG--Investment grade.

SG--Speculative grade.

SOFR--Secured overnight financing rate.

Note: For definitions of ratings, outlooks, CreditWatch status, and other credit terms, see: "S&P Global Ratings Definitions."

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