

# Global nonfinancial corporates: Interest-rate costs start to bite

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This report does not constitute a rating action

## Corporate Ratings

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### Key Takeaways

- Reported nonfinancial corporate cash interest payments surged 15% in Q1 2023, as interest rate increases start to bite.
- We estimate the median effective interest rate speculative-grade entities are paying globally will rise to 6.1% in 2023, its highest level since 2010.
- Interest cost pressures will build slowly but surely for all companies, but for weaker speculative-grade entities, reliance on floating-rate debt means declining EBITDA and higher interest costs is a more immediate and present threat to credit quality.

**Interest payments are surging as higher interest rates start to feed through into corporate results.** Cheap pandemic-era refinancing and interest-rate hedges have moderated the impact of higher rates until recently, as higher borrowing costs were limited to new borrowing, refinancing, and floating-rate debt, the latter which is largely the preserve of speculative-grade entities. Nevertheless, rate pressure is starting to work its way through to cashflow statements. The first quarter results season (see [Corporate Results Roundup Q1 2023: Beating Expectations, But EBITDA In Recession](#), May 24, 2023) revealed that cash interest payments have started to surge, rising 15% annually for rated nonfinancial corporates globally (chart 1) and 17% for speculative-grade entities. This is in marked contrast to the pandemic era when interest costs mostly fell. In nominal terms, the interest rate bill for rated nonfinancial companies reporting quarterly jumped to \$307 billion in the first quarter, versus \$284 billion in the fourth quarter of 2022 (chart 2).

Chart 1

### Percentage change in cash interest paid

Rated nonfinancial corporates that report quarterly

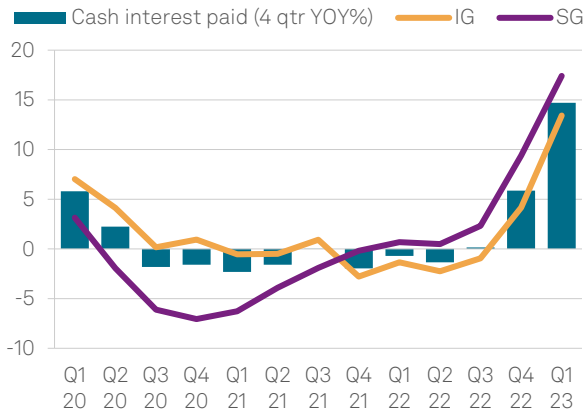
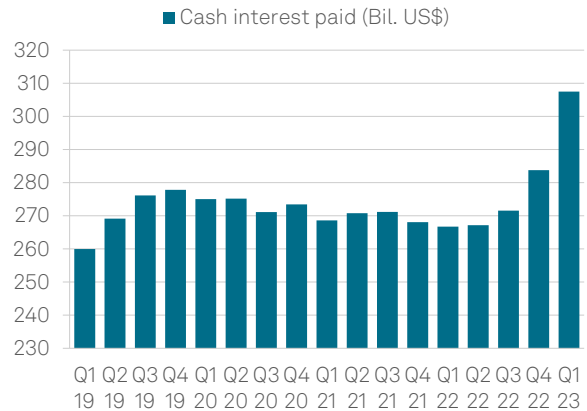


Chart 2

### Cash interest paid (billion US\$, nominal)

Rated nonfinancial corporates that report quarterly



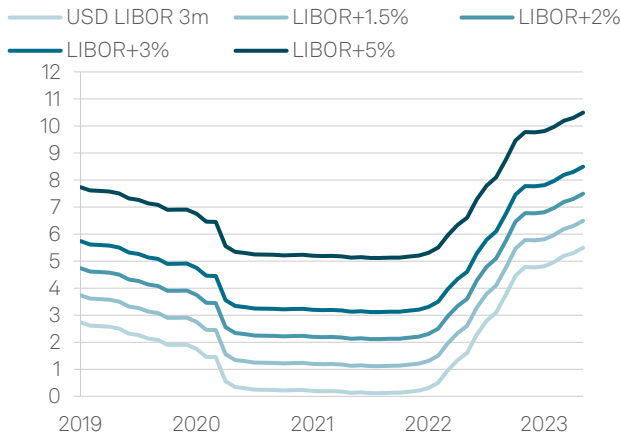
Source: S&P Capital IQ, S&P Global Ratings. Data to May 24, 2023. Nominal data, measured in U.S. dollars at historic conversion rates. Only includes companies reporting quarterly. Q1 2023 growth rate only includes companies that have reported results and is used to extrapolate the notional cash amount paid.

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**Interest rate pain will likely be felt for some time.** Three-month interbank rates, the primary reference point for loans, have surged with three-month USD LIBOR rates plus a 2% spread having more than tripled from 2.2% in December 2021 to 7.3% at the end of May 2023 (chart 3), and LIBOR plus 5% -(a more typical spread for a weak 'B'-rated credit) having doubled from 5.2% to 10.5%. Over the same period, yields on 'B'-rated bond debt in the S&P 500 Bond Index has doubled from 4.15% to 8.36%. Persistent inflation pressures and economic resilience in many economies give little reason to expect a reversal of interest rate pressure over the next year. We don't expect policy rates to fall in the U.S. and Europe until 2024.

Chart 3

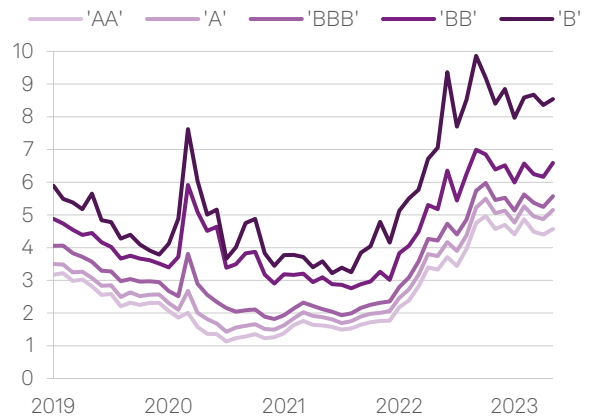
**U.S. three-month interbank rate and spread bands**



Source: ICE, Refinitiv, S&P Global Ratings. Month-end data to May 31, 2023.

Chart 4

**S&P 500 bond indices yield by rating**

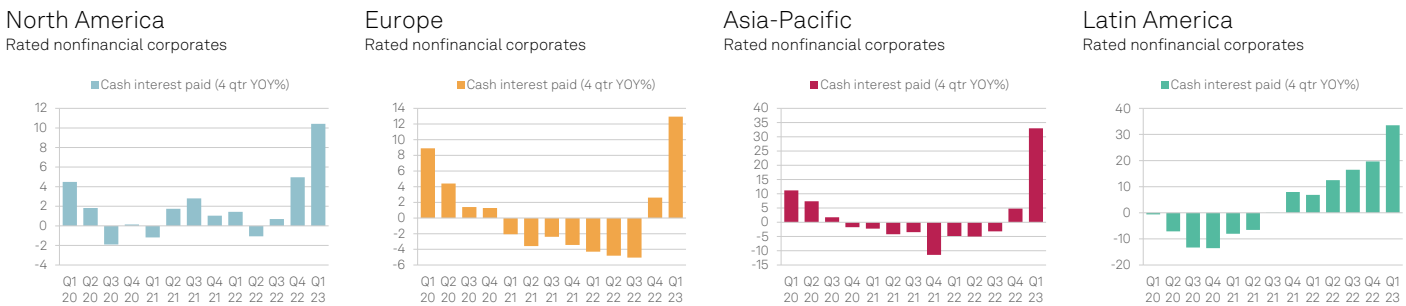


Source: S&P Indices, S&P Global Ratings. Month-end data to May 31, 2023.

**The transition to a higher rate world is being felt globally.** Annual cash interest payments have risen sharply for rated nonfinancial corporates in North America, Europe, Asia-Pacific, and Latin America (chart 5). In Latin America, the process began earlier, with rate rises already being felt in Q4 2021 and costs up 34% in the first quarter to date.

Chart 5

**Percentage change in cash interest paid**



Source: S&P Capital IQ, S&P Global Ratings. Data to May 24, 2023. Nominal data, measured in U.S. dollars at historic conversion rates. Only includes companies reporting quarterly. Q1 2023 growth rate only includes companies that have reported results.

**Interest cover ratios are consequently coming under pressure.** Sharply rising interest payments will likely remain a key theme of quarterly results through the year, and with global EBITDA growth turning negative for the first time since Q3 2020, interest cover is starting to fall (charts 6 and 7). While cover remains significantly above its pandemic lows, deteriorating EBITDA and rising interest costs will likely bring a sustained drop, particularly for more vulnerable entities.

**Global nonfinancial corporates: Interest-rate costs start to bite**

Chart 6

**EBITDA/cash interest paid, trailing 12 month**

Rated nonfinancial corporates that report quarterly

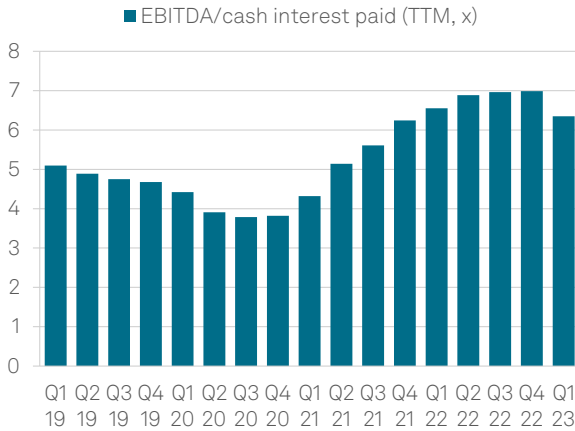
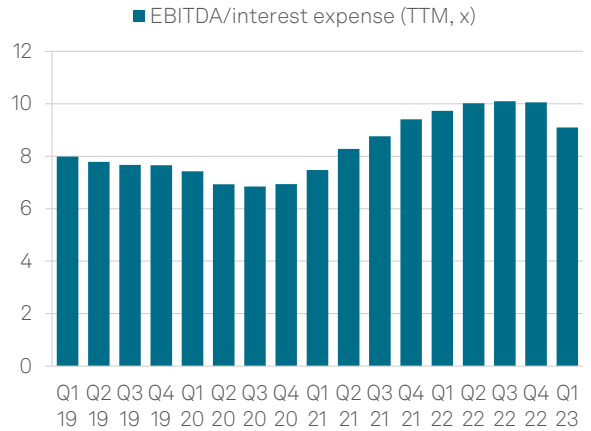


Chart 7

**EBITDA/interest expense, trailing 12 month**



Source: S&P Capital IQ, S&P Global Ratings. Data to May 31, 2023. Measured in U.S. dollars, at historic rates. Only includes companies reporting quarterly. Latest quarter only includes companies that have reported Q1 2023 results

**Weighted-average interest rates are starting to rise.** Interest rates vary considerably across the capital structure, reflecting a given entities' credit quality, the balance of bonds and loans, rates at the point of issuance, currencies, and hedging costs. But one way to express the aggregate trend in effective interest rates is to look at cash interest payments as a percentage of total debt, a proxy for a weighted average interest rate. On an aggregate basis, this effective interest rate has started to trend higher, particularly for speculative-grade entities (see chart 8) where the sum-weighted aggregate effective interest rate of all entities rose to 4.5% in Q1 2023, its highest rate since Q1 2020, and likely to move higher still as rate rises feed through. Chart 9 shows how median effective interest rates have risen over the last year across the broader 'BBB/BB/B' ratings group, with rates for 'B-' up to 6.8% from 6.1% this time last year.

Chart 8

**Cash interest paid /total debt (sum-weighted)**

Rated nonfinancial corporates that report quarterly

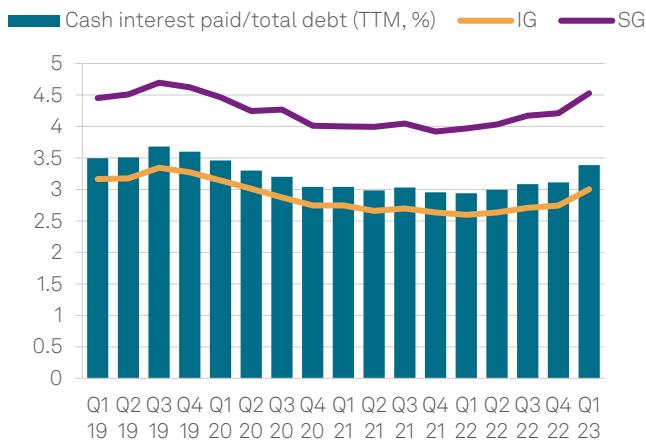
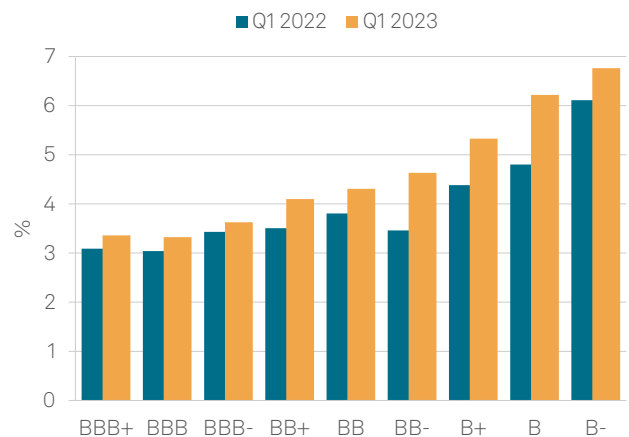


Chart 9

**Median cash interest paid /total debt by credit rating**

Rated nonfinancial corporates that report quarterly



Source: S&P Capital IQ, S&P Global Ratings. Data to May 31, 2023. Measured in U.S. dollars at historic conversion rates. Only includes companies reporting quarterly.

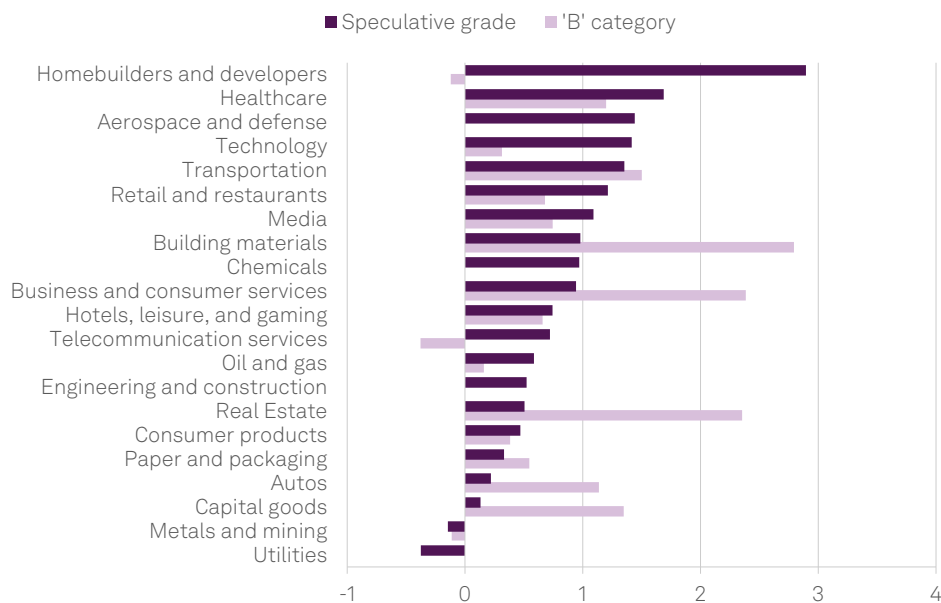
## Global nonfinancial corporates: Interest-rate costs start to bite

**Interest rate increases vary considerably across industries.** Chart 10 shows how effective interest rates have changed between Q1 2022 and Q1 2023 for rated speculative-grade U.S. nonfinancial corporates, a relatively comparable group given uniform quarterly reporting and reliance on domestic funding. There is considerable variation across industries, although this will reflect relative ratings distributions. Focusing solely on 'B' category rates, increases are highest for building materials, business and consumer services, and real estate.

Chart 10

### Difference in median cash interest paid/total debt by industry and credit rating

U.S. rated nonfinancial corporates; between Q1 2022 and Q1 2023



Source: S&P Capital IQ, S&P Global Ratings. Data as of May 31, 2023. Only includes companies reporting quarterly.

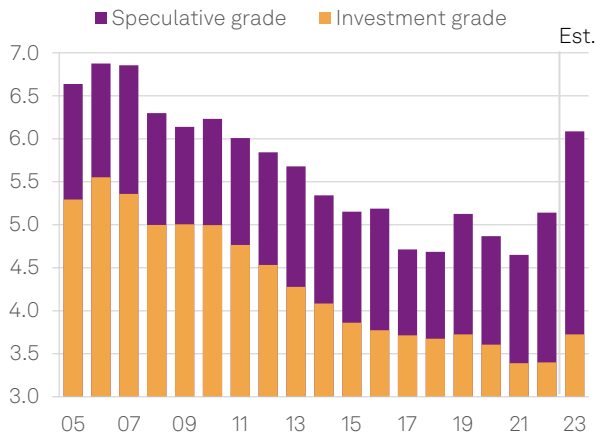
**S&P Global Ratings entity forecasts suggest rated nonfinancial corporate interest costs will move sharply higher for 2023, particularly for speculative-grade entities.** Charts 11 and 12 show median annual effective interest rate trends for the entire nonfinancial rated corporate group, not just those reporting quarterly. For speculative-grade entities, we anticipate median cash interest paid as a share of adjusted total debt to rise from 5.1% in 2022 to 6.1% in 2023, its highest level since 2010 (6.2%). The upward shift in investment grade is more muted, to 3.7% from 3.4%, reflecting the much greater reliance on fixed-rate debt that those entities will replace gradually. The increases at the weaker end of the credit spectrum are already substantial, with median effective interest rates for the 'B' rating category expected to rise to 6.2% in 2023 versus 4.2% in 2021, and to 7.1% versus 5.1% in 2021 for 'B-' ratings.

**Global nonfinancial corporates: Interest-rate costs start to bite**

Chart 11

**Median cash interest paid/total debt (adjusted, %) – investment grade and speculative grade**

Rated nonfinancial corporates

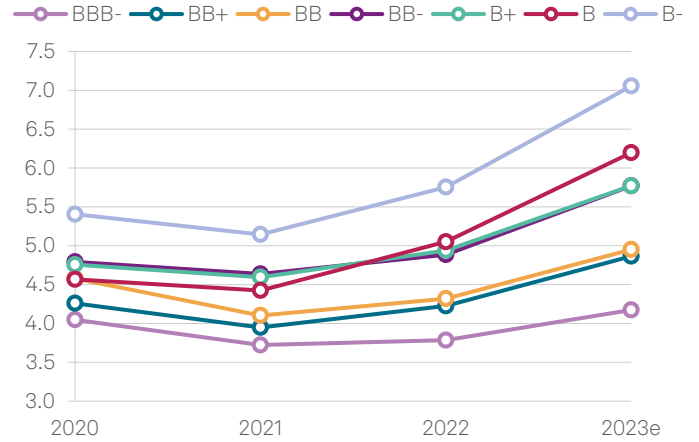


Source: S&P Capital IQ, S&P Global Ratings. Data as of May 31, 2023.

Chart 12

**Median cash interest paid/total debt (adjusted, %) by ratings category**

Rated nonfinancial corporates



Source: S&P Capital IQ, S&P Global Ratings. Data as of May 31, 2023. e=estimate

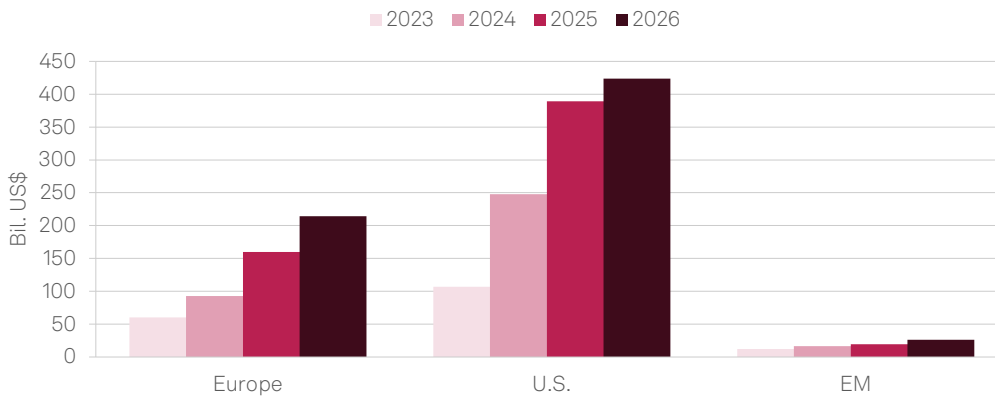
**Pressure on corporate credit quality from higher interest costs will build slowly but surely.**

Investment grade will see a more gradual change as its debt is mostly fixed rate and longer duration, particularly in developed markets. Moreover, interest rate spreads have risen less for stronger credits given the apparent resilience of economies and company results that continue to substantially exceed market expectations. However, **for weaker speculative-grade entities, greater exposure to floating-rate debt means a pincer movement of declining EBITDA and higher interest costs is a clear and present threat to credit quality.** In addition, although debt maturity pressures escalate from 2025 (see chart 13), refinancing will likely need to be undertaken 18-24 months sooner to maintain liquidity, potentially locking in current higher rates.

Chart 13

**Maturing debt by year**

Rated nonfinancial speculative grade corporate debt by region



Source: S&P Global Ratings Credit Research & Insights. See, [Regional Refinancing: Overhang Of Pandemic-Era Debt And Higher Interest Rates Present Regional Challenges](#), Mar. 24, 2023.

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