Sept. 5, 2023

As markets pick up after the summer lull, here we provide a recap of rating activity and pricing trends during July and August, as well as links to key publications you may have missed.

Key Takeaways

- **In August, downgrades outnumbered upgrades, following a benign July.** Financial institutions and consumer producers featured prominently among the downgrades, while metals and mining showed the sharpest rise in the negative bias. Yet there were six rising stars over the summer, two each in the media and entertainment and homebuilder/real estate sectors, and one each in aerospace/defense and oil and gas.

- **Defaults followed a similar pattern, almost doubling in August.** The media and entertainment and consumer products sectors led the defaults, and we raised our forecasts of speculative-grade defaults through June 2024 for both the U.S. and Europe to 4.5% and 3.75%, respectively.

- **Pricing volatility centered largely on benchmark yields.** Most 10-year benchmarks were higher than at the end of June, as a higher-for-longer theme permeated markets. U.S. corporate yields pushed upward but credit risk premia fell marginally over the summer, while mostly staying close to five-year averages.

Sector highlights for July and August

<table>
<thead>
<tr>
<th>Highest positive rating activity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Media and entertainment</td>
<td>14 upgrades</td>
</tr>
<tr>
<td></td>
<td>6 positive outlook or CreditWatch changes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Highest negative rating activity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial institutions</td>
<td>15 downgrades</td>
</tr>
<tr>
<td></td>
<td>13 negative outlook or CreditWatch changes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Highest number of defaults</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Media and entertainment</td>
<td>5 defaults</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Highest change in positive bias</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace and defense</td>
<td>14.3% 12.5% as of June 30, 2023</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Highest change in negative bias</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metals, mining, and steel</td>
<td>13.2% 9.2% as of June 30, 2023</td>
</tr>
</tbody>
</table>

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For more Credit Market Research click here
Downward rating pressure accelerated in August with a notable pick up in downgrades to ‘CCC+’ and lower.

Table 1

Rating activity over July and August

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>August</th>
<th>2023</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counts</td>
<td>Counts YTD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defaults</td>
<td>7</td>
<td>13</td>
<td>104</td>
<td>54</td>
</tr>
<tr>
<td>Upgrades</td>
<td>35</td>
<td>32</td>
<td>307</td>
<td>318</td>
</tr>
<tr>
<td>Downgrades*</td>
<td>33</td>
<td>52</td>
<td>369</td>
<td>309</td>
</tr>
<tr>
<td>Fallen angels</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Rising stars</td>
<td>4</td>
<td>2</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Weakest links</td>
<td>17</td>
<td>31</td>
<td>322</td>
<td>215</td>
</tr>
<tr>
<td>Global net bias</td>
<td>-7%</td>
<td>-7%</td>
<td>-7%</td>
<td>-3%</td>
</tr>
</tbody>
</table>

*Downgrades exclude defaults and selected defaults. Weakest links: net additions during July and August, data as of Aug. 31, 2022 and 2023, respectively. Global net bias: defined as positive minus negative bias; as of July 31 and Aug. 31, annual averages YTD. Source: S&P Global Ratings Credit Research & Insights.

Market Pricing

Chart 1

Secondary market credit spreads

![Secondary market credit spreads chart]

Chart 2

CDS pricing

![CDS pricing chart]

Five Articles You May Have Missed

This Month In Credit: At A Crossroads (August 2023)

Mixed messages

Speculative-grade negative bias rises in the U.S. as rating actions in July skew positive for higher-rated issuers

Data as of July 31, 2023. Net bias is the positive bias minus the negative bias (for both investment- and speculative-grade issuers). Negative bias is the percentage of issuers with negative outlooks or ratings on CreditWatch negative. The net rating actions chart shows the tally of issuer upgrades minus downgrades for July. Source: S&P Global Ratings Credit Research & Insights.
The U.S. Speculative-Grade Corporate Default Rate Could Rise To 4.5% By June 2024

Defaults pick up into June 2024

As of June 2023, S&P Global Ratings rates 1,670 U.S. speculative-grade corporate issuers

6.25%
6.25%
109 defaults

4.50%
4.50%
75 defaults

2.00%
2.00%
33 defaults

4.50% June 2024 baseline U.S. speculative-grade corporate default rate forecast

3.24%
3.24%

Jun 2023
Jun 2024

Pessimistic scenario: Defaults rise faster as the U.S. enters a prolonged period of low growth, with persistent core inflation leading to even higher-for-longer rates.

Base scenario: Cash flow remains challenged for the weakest and most leveraged issuers in a slow-growth environment with higher borrowing costs.

Optimistic scenario: The default rate falls as growth remains resilient and inflation continues to decline, bringing interest rates down earlier than anticipated, leading markets to resume their search for yield.

Data as of June 30, 2023. Sources: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence’s CreditPro©.

The European Speculative-Grade Corporate Default Rate Could Rise To 3.75% By June 2024

European defaults will rise on confluence of stressors

As of June 2023, S&P Global Ratings rates 751 European speculative-grade corporate issuers

5.5%
5.5%
41 defaults

3.75%
3.75%
28 defaults

1.75%
1.75%
13 defaults

3.75% European speculative-grade corporate defaults

2.53%
2.53%

Jan 2020
Jun 2023
Jun 2024

Pessimistic scenario: Defaults rise faster as Europe enters a prolonged period of low growth or recession, with persistent core inflation leading to even higher-for-longer rates by central banks.

Base scenario: Cash flow remains challenged for the weakest and most leveraged issuers amid stagnant economic growth with higher borrowing costs persisting, if with slowing increases ahead.

Optimistic scenario: The default rate falls if growth remains resilient and inflation continues to fall, bringing interest rates down earlier than anticipated.

Data as of June 30, 2023. Sources: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence’s CreditPro©. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.
Default, Transition, And Recovery: Defaults Slow In July

Regional default insights

<table>
<thead>
<tr>
<th>Region</th>
<th>July 2023</th>
<th>2023*</th>
<th>2022*</th>
<th>Leading sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>5</td>
<td>▼</td>
<td>60</td>
<td>19 Media and entertainment</td>
</tr>
<tr>
<td>Europe</td>
<td>1</td>
<td>▲</td>
<td>14</td>
<td>6 Health care; consumer products</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>1</td>
<td>▼</td>
<td>12</td>
<td>17 Utilities; forest products and building materials; media and entertainment; transportation</td>
</tr>
<tr>
<td>Other developed</td>
<td>0</td>
<td>▼</td>
<td>5</td>
<td>2 Health care; metals, mining, and steel</td>
</tr>
</tbody>
</table>

Data as of July 31, 2023. *Year-to-date. Direction of arrow indicates month-over-month change. Other developed region includes Australia, Canada, Japan, and New Zealand. Default counts may include confidentially rated issuers. Sources: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence’s CreditPro®.

Credit Trends: Global Refinancing--Progress Made As Pressure Remains

Refinancing challenges are set to mount

The predominance of investment-grade maturities in the next 12 months wanes as speculative grade maturities increase in the coming years

<table>
<thead>
<tr>
<th>Debt maturing in the next:</th>
<th>12 months</th>
<th>24 months</th>
<th>36 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt maturing</td>
<td>$1.90 tril.</td>
<td>$4.35 tril.</td>
<td>$6.88 tril.</td>
</tr>
<tr>
<td>Percent of total debt</td>
<td>8.2%</td>
<td>18.8%</td>
<td>29.7%</td>
</tr>
<tr>
<td>Speculative-grade share</td>
<td>12%</td>
<td>17%</td>
<td>21%</td>
</tr>
<tr>
<td>Amount rated 'B-' and lower</td>
<td>$57.6 bil.</td>
<td>$201.5 bil.</td>
<td>$410.2 bil.</td>
</tr>
</tbody>
</table>

Data as of July 1, 2023. Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Source: S&P Global Ratings Credit Research & Insights. Copyright © 2023 by Standard & Poor’s Financial Services LLC. All rights reserved.

Research Contributor: Yogesh Kumar
Back To Business: Credit Clouds Gathered In August

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