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Credit Clouds Gathered In August

S&P Global Ratings

This report does not constitute a rating action.

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, more than 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.

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Sector highlights for July and August

Highest positive rating activity	Media and entertainment	14	upgrades
		6	positive outlook or CreditWatch changes
Highest negative rating activity	Financial institutions	15	downgrades
		13	negative outlook or CreditWatch changes
Highest number of defaults	Media and entertainment	6	defaults
Highest change in positive bias	Aerospace and defense	14.3%	12.5% as of June 30, 2023
Highest change in negative bias	Metals, mining, and steel	13.2%	9.2% as of June 30, 2023

Positive bias: Percentage of issuers with a positive outlook or CreditWatch placement. Negative bias: Percentage of issuers with a negative outlook or on CreditWatch. Diversified sector was excluded from the positive bias highlight due to small sample size. Source: S&P Global Ratings Credit Research & Insights.

Sector and regional divergence continued, with U.S. issuers contributing 10 of the 15 financial institution downgrades

Table 1

Rating activity over July and August

	July	August	2023	2022
	Counts		Counts YTD	
Defaults	7	16	107	54
Upgrades	35	32	307	318
Downgrades*	33	52	369	309
Fallen angels	0	0	13	18
Rising stars	4	2	22	22
Weakest links	17	31	322	215
Global net bias	-7%	-7%	-7%	-3%

*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.

Downward rating pressure accelerated in August with a notable pick up in downgrades to 'CCC+' and lower.

Market Pricing

Chart 1

Secondary market credit spreads

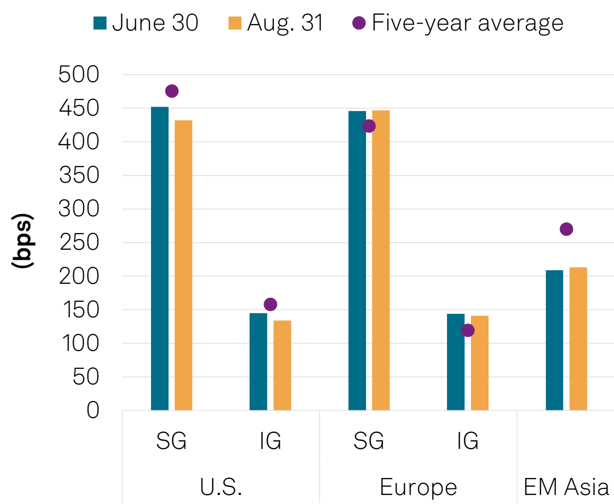
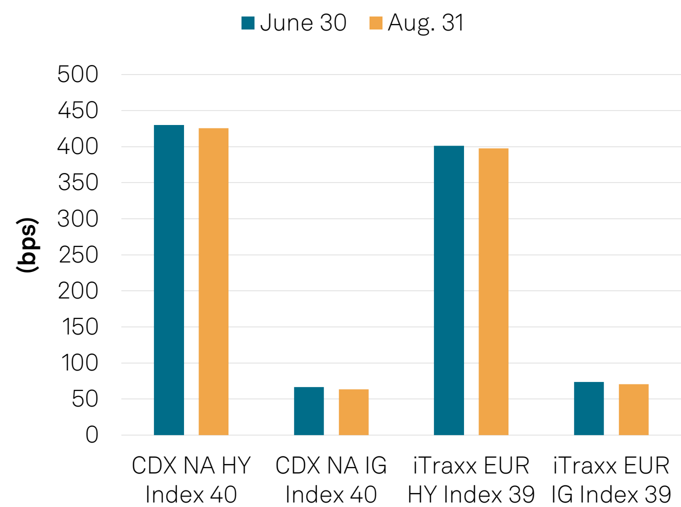


Chart 2

CDS pricing



Data as of Aug. 31, 2023. Data as of Aug. 30, 2023, for Europe-SG and EM Asia secondary credit market spreads. The arrows indicate weekly trends. CDS--Credit default swaps. EM--Emerging markets. IG--Investment grade ('BBB-' and higher). SG--Speculative grade ('BB+' and lower). 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, and S&P Global Market Intelligence.

Chart 3

10-year benchmark yields

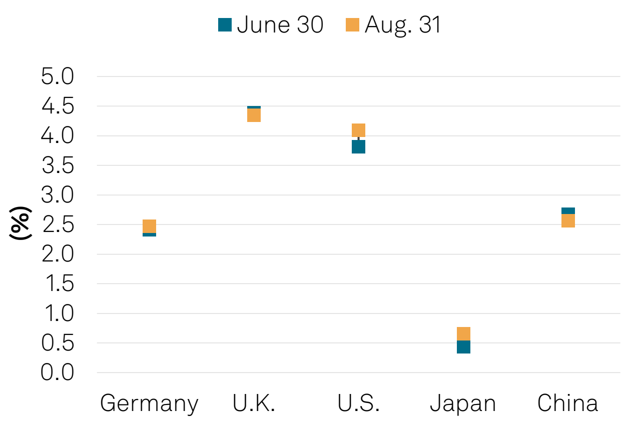
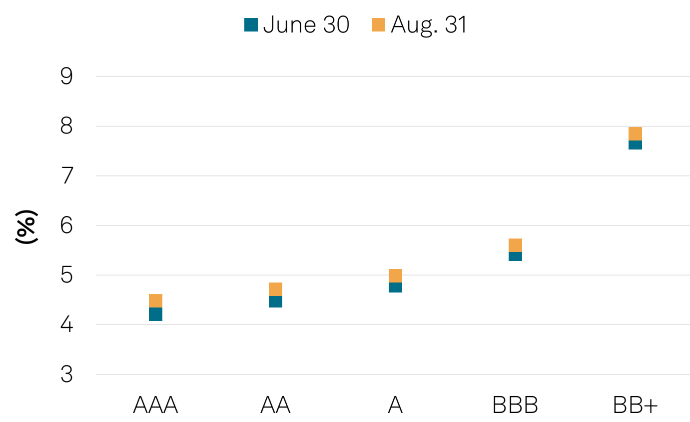


Chart 4

10-year U.S. corporate bond yields



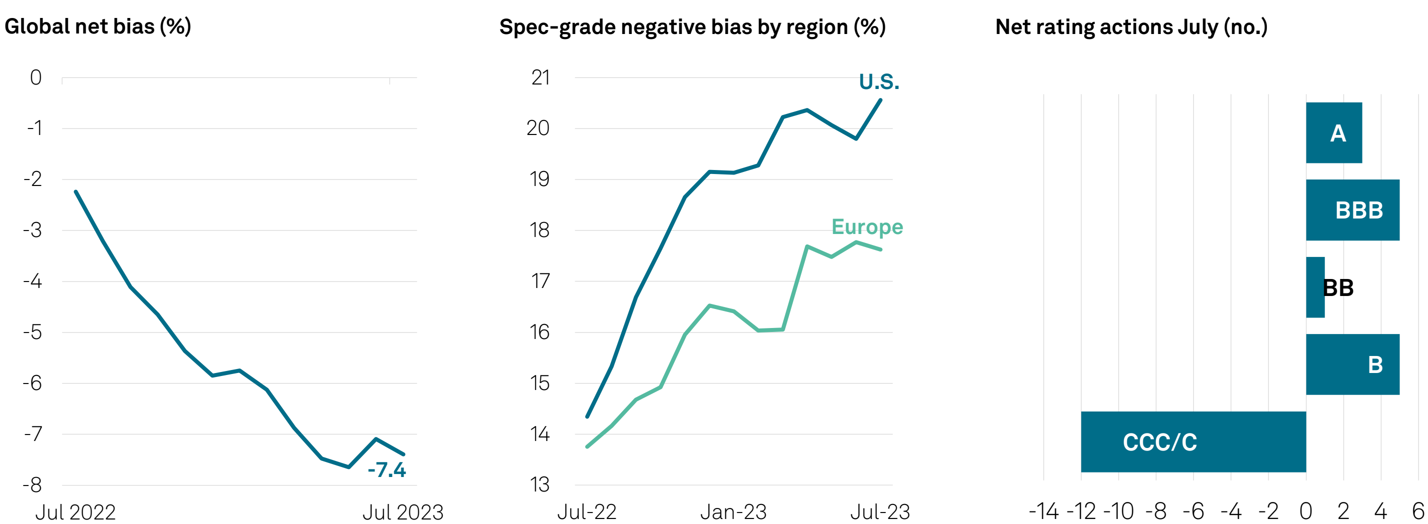
Source: S&P Global Ratings Credit Research & Insights, S&P Global Market Intelligence.

Five Articles You May Have Missed

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

Mixed messages

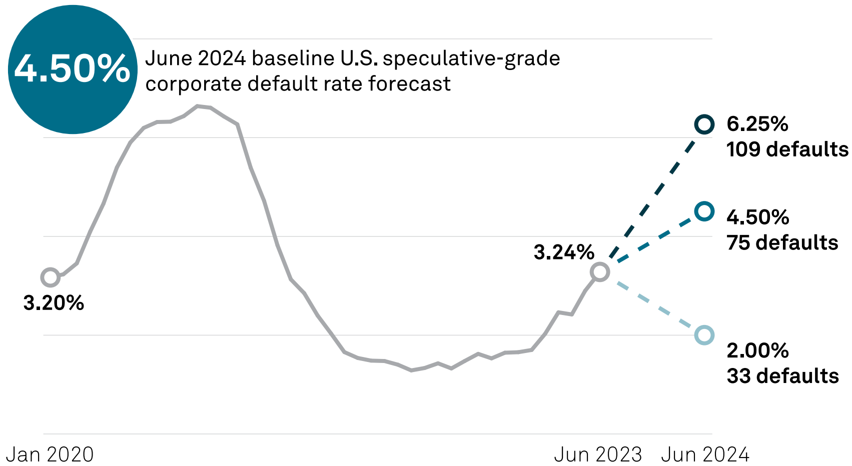
Speculative-grade negative bias rises in the U.S. as rating actions in July skew positive for higher-rated issuers



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

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

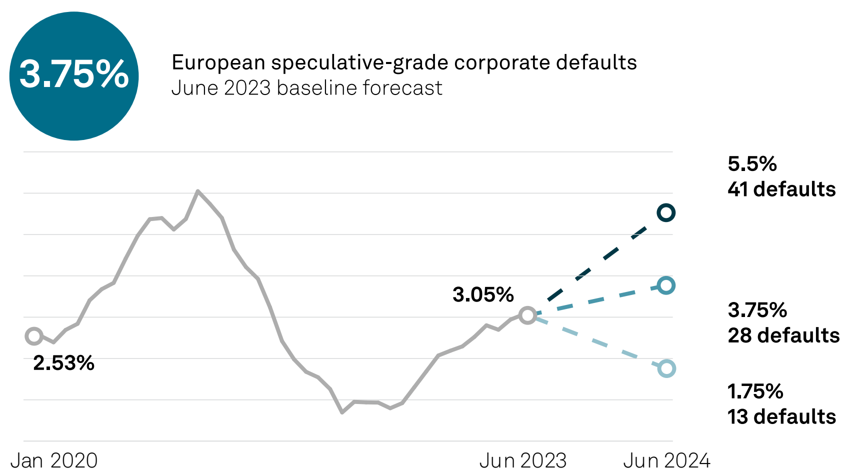
Base scenario: Cash flow remains challenged for the weakest and most leveraged issuers in a slow-growth environment with higher borrowing costs.

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

Pessimistic scenario: Defaults rise faster if 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©.

Default, Transition, And Recovery: Defaults Slow In July

Regional default insights

(No. of defaults)	July 2023	2023*	2022*	Leading sector
U.S.	5 ▼	60	19	Media and entertainment
Europe	1 ▲	14	6	Health care; consumer products
Emerging markets	1 –	12	17	Utilities; forest products and building materials; media and entertainment; transportation
Other developed	0 ▼	5	2	Health care; metals, mining, and steel

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

Debt maturing in the next:	12 months	24 months	36 months
Total debt maturing	$1.90 tril.	$4.35 tril.	$6.88 tril.
Percent of total debt	8.2%	18.8%	29.7%
Speculative-grade share	12%	17%	21%
Amount rated 'B-' and lower	$57.6 bil.	$201.5 bil.	$410.2 bil.
Regional breakout (U.S. / Europe / Rest of world)	38% / 41% / 21%	42% / 39% / 20%	43% / 39% / 18%

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.

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