

The Ratings View

November 8, 2023

This report does not constitute a rating action.

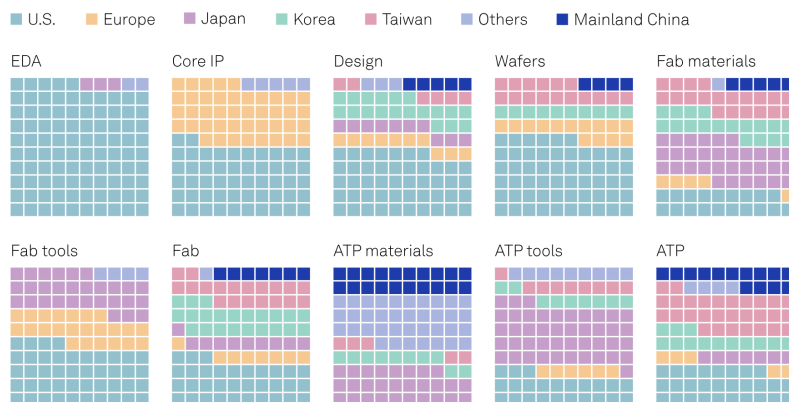
Key Takeaways

- U.S. chip export restrictions will likely bring a "moonshot" style response from China.
- We continue to expect one more U.S. rate hike of 25 basis points in December.
- China's economic woes may herald a shift in gravity for the region's credit activity.

U.S. restrictions on the sale of advanced chips to China will likely drive a "moonshot" style response. Mainland China has a large, mature chip industry, but it remains unable to make cutting-edge chips without imported technology. This dependence means recent U.S.-led bans on the export of advanced chips and equipment to China will pose significant challenges to China's efforts to catch up. China's efforts to catch up on advanced chips will involve mobilizing the country's financial and human capital, backed by both the public and private sectors, including the country's tech giants.

Mainland China's share of the global semiconductor value chain is relatively small and focused on assembly, packaging, and testing

Market share by value, by region



EDA--Electronic design automation software. Core IP--Licensed intellectual property used in chip design.
ATP--Assembly, testing, and packaging. Source: Kearney.

[China's Chip 'Moon Shot'--The Response To Restrictions](#)

We continue to expect one more U.S. rate hike of 25 basis points in December. The Federal Reserve held its policy rate steady at a 22-year high of 5.25%-5.50% at its latest policy meeting. The American economy has had generally stronger-than-expected employment and GDP growth, and inflation progress has slowed since the September meeting. But still, the Fed was inclined to hold rates because financial conditions have tightened sharply. Futures market pricing now indicates less than a 25% chance for a rate hike in December or January. However, we think economic data will drive decision-making once again in the policy meeting in December, and continue to expect one more rate hike.

[Federal Reserve Holds Rates Steady For Now On Tighter Financial Conditions](#)

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China's economic woes may herald a shift in gravity for the region's credit activity. With China's dampened economic prospects, corporates and investors are looking at other emerging markets (the "plus one") to set up operations and invest. While it's still early days, the development implies that the center of gravity of credit activity in Asia-Pacific may be shifting from China to South and Southeast Asia. This shift could be as profound as when the economic center of gravity moved in the late 20th century from Japan to China. The current shift is already showing up in near-term economic prospects, industry outlooks, and credit conditions risks of the region.

[Asia-Pacific Sector Roundup Q1 2024: Slowing Dragons, Roaring Tigers](#)
[Hong Kong Developers Can Push Through The Unfolding Downturn](#)
[Asia-Pacific Aviation Is On A Recovery Runway](#)

We have published the latest in our "Risky Credits" series, reports which focus on financial and nonfinancial corporate issuers rated 'CCC+' and lower. In North America, the telecom sector led additions last quarter as capital structure pressures intensified for the sector's lower-rated issuers. The media and entertainment sector and consumer products sector currently lead the risky credits tally. In Europe, higher financing costs and limited investor appetite for lower-rated issuance could trigger liquidity squeezes and ultimately defaults for some risky credits. However, rebounding speculative-grade bond issuance has alleviated some near-term refinancing concerns. In emerging markets, almost 70% of issuers that are rated 'CCC+' and lower and on negative outlook are based in Argentina.

[Credit Trends: Risky Credits: North American Telecoms In The Spotlight](#)
[Credit Trends: Europe's Risky Credits: Liquidity And Refinancing Risks Start To Bite](#)
[Credit Trends: Risky Credits: Emerging Markets Hang In Balance](#)

European retailers are still struggling to restore profit margins and credit metrics have limited headroom. The direction of travel is positive. Margins should improve moderately in 2024 and 2025, thanks to the deceleration of inflation on goods, input, and energy costs, offset by high labor costs. With inflation set to continue moderating and wage growth still accelerating, real disposable income will pick up, gradually easing income constraints for households and supporting consumption. However, post-pandemic margin recovery has been uneven, and over half of rated European retailers will be unable to restore their pre-pandemic margins even by 2025. While rated European retail and restaurant companies' strong pricing and operating resilience have led to many positive rating actions this year, they have limited headroom in their credit metrics. Our stress tests show that a 100 basis-point haircut to our 2024 base-case EBITDA margins could affect issuer credit ratings or outlooks on around 14 of the 50 retailers assessed.

[European Retailers' Margins Are Unlikely To Regain Their Pre-Pandemic Strength](#)

We have updated our assessment of the global Q3 2003 results season, which is now 52% complete for rated nonfinancial corporates. Revenue growth has stalled and EBITDA continues to decline. Measured at annual rate, revenues are near-flat and EBITDA is down 4.4%. Industry patterns continue to show good performance from some consumer sectors – media, leisure, and retail – and deterioration for heavy industries, resources, transportation, and technology. The pressure from surging cash interest payments continues to grow, rising 19% annually overall and 22% for SG based on results so far. Leverage is drifting higher and interest-cover continues to ebb. Companies have reacted to the deteriorating growth environment by cutting back on share buybacks and curbing dividend growth, and there some signs that capex growth is easing too.

[Corporate Results Roundup Q3 2023: Deterioration continues and revenues disappoint](#)

Asset Class Highlights

Corporates

Notable publications include:

- [Asia-Pacific Sector Roundup Q1 2024: Slowing Dragons, Roaring Tigers](#)
- [Regulatory Friction Is Constraining Cost Recovery For North American Investor-Owned Utilities](#)
- [Global Offshore Energy Sector Is On The Road To Recovery](#)
- [European Retailers' Margins Are Unlikely To Regain Their Pre-Pandemic Strength](#)
- [SLIDES: U.S. BSL CLO And Leveraged Finance Update: Elevated Rates Expected To Keep Pressure On Low-Rated Corporates](#)
- [China's Chip 'Moon Shot'--The Response To Restrictions](#)
- [Credit Trends: Risky Credits: North American Telecoms In The Spotlight](#)
- [Credit Trends: Europe's Risky Credits: Liquidity And Refinancing Risks Start To Bite](#)
- [Credit Trends: Risky Credits: Emerging Markets Hang In Balance](#)

Financial Institutions

- On Oct. 24, 2023, we revised our outlook on Israel to negative from stable due to the ongoing Israel-Hamas conflict. We think the development of the conflict, its duration, and the effects on Israel's economy and business confidence might have negative consequences for the banking sector. Therefore, we revised our rating outlooks to negative on Bank Leumi, Bank Hapoalim, Mizrahi Tefahot Bank, and Israel Discount Bank and affirmed the ratings.
- In North America, U.S.-based asset manager, TortoiseEcofin Parent Holdco LLC, has exchanged \$300 million of its term loan due January 2025 for a \$60 million term loan due October 2028 and \$190 million of perpetual convertible preferred equity, which will convert to common equity of undetermined value. We view the transaction as distressed and tantamount to a default because we believe it resulted in lenders receiving less than what was originally promised. As a result, we lowered our issuer credit rating on Tortoise to 'SD' (selective default) from 'CCC' and our issue rating on the senior secured notes to 'D' (default) from 'CCC'.
- We published several commentaries:
 - [EMEA Financial Institutions Monitor 4Q2023: Standing Firm Against Slow Economic Growth](#)
 - [Future Of Banking: Neobanks In The UAE Will Complement, Not Replace, Traditional Banks](#)
 - [Leading Nordic Banks Enjoy Record Profits Amid Higher Interest Rates](#)
 - [Which Emerging Market Banking Sectors Are Vulnerable To Property-Related Losses?](#)
 - [Banking Risk Indicators: November 2023 Update](#)

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Sovereign

- El Salvador Ratings Raised To 'B-/B' From 'CCC+/C' After Local Debt Reprofitting; Outlook Stable
- Panama Outlook Revised To Negative From Stable On Potential Risks To Investor Confidence And Economic Growth

Structured Finance

- **U.S. Residential Mortgages:** Here are a few "Key Takeaways" from a recent article:
 - Although a reduction in home equity could disincentivize timely mortgage payments, housing fundamentals remain supportive despite regional pockets of weakness.
 - The abnormally wide spread of the 30-year fixed-rate mortgage to the 10-year Treasury note yield continues to strain affordability.
 - Student loan payment resumption is unlikely to cause meaningful mortgage payment disruption. However, there may be minor performance issues in the investor property non-QM subsector.

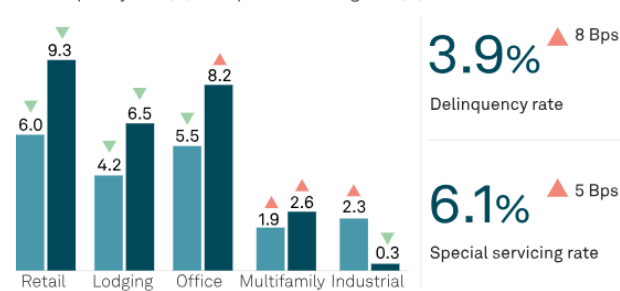
See "[Residential Mortgage Performance: 'Like A Rock' And 'Still the Same'](#)" published Nov. 3, 2023.

- **U.K. RMBS:** S&P Global Ratings expects the U.K. residential mortgage-backed securities (RMBS) market to see an increase in the number of transactions permitting product switches. In a Credit FAQ published on Oct. 30, 2023, titled "How Do Product Switches Affect U.K. RMBS?," we address key questions relating to what we have observed in the market and our analytical considerations when assigning ratings to transactions that feature product switches.
- **U.S. CMBS:**

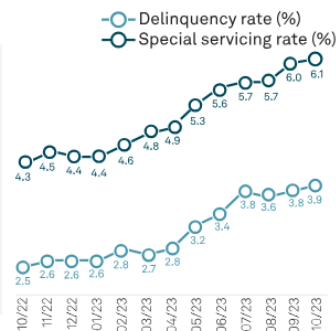
U.S. CMBS - October 2023 key insights

Rates by property type

■ Delinquency rate (%) ■ Special servicing rate (%)



YTD 2023 DQ and SS trend



Note: Arrows indicate directional change in rate compared to the previous month. YTD—Year-to-date. DQ—Delinquency. SS—Special servicing. Bps—Basis points. Source: S&P Global Ratings.

See "[SF Credit Brief: The Overall U.S. CMBS Delinquency Rate Increased By Eight Basis Points To 3.9% In October](#)" published on Oct. 31, 2023

- **U.S. CLO and Leveraged Finance:** We recently published two articles: the first one was "SLIDES: U.S. BSL CLO And Leveraged Finance Update: Elevated Rates Expected To Keep Pressure On Low-Rated Corporates" published Nov. 3, 2023, and the second one was "SF

The Ratings View

Credit Brief: CLO Insights 2023 U.S. BSL Index: CLO 'CCC' Exposures Plateau In October; Manager Performance Metrics Compared" published on Oct. 31, 2023

CLO Insights 2023 U.S. BSL Index*

'B-' category rated issuers	'CCC' category rated issuers	Nonperforming issuers	Avg. cushion at the junior O/C test	Weighted average price of portfolio	SPWARF	% of target par	'B-' on negative outlook
28.57%	7.11%	0.58%	4.18%	95.80	2765	99.88%	6.23%

Change during prior month

Risk increasing Risk decreasing Not applicable

*Through Oct. 23, 2023, update. SPWARF--S&P Global Ratings' weighted average rating factor. O/C--Overcollateralization.

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- Japan RMBS: Here are a few "Key Takeaways" from a recent article:
 - We believe default rates of pools of loans backing Japanese residential mortgage-backed securities (RMBS) transactions correlate with Japan's real GDP, land prices, unemployment rate, and business sentiment.
 - Our sensitivity analysis finds a 1 percentage point (ppt) rise in Japan's unemployment rate corresponds with a 0.68 ppt increase in the default rate on loan receivables.

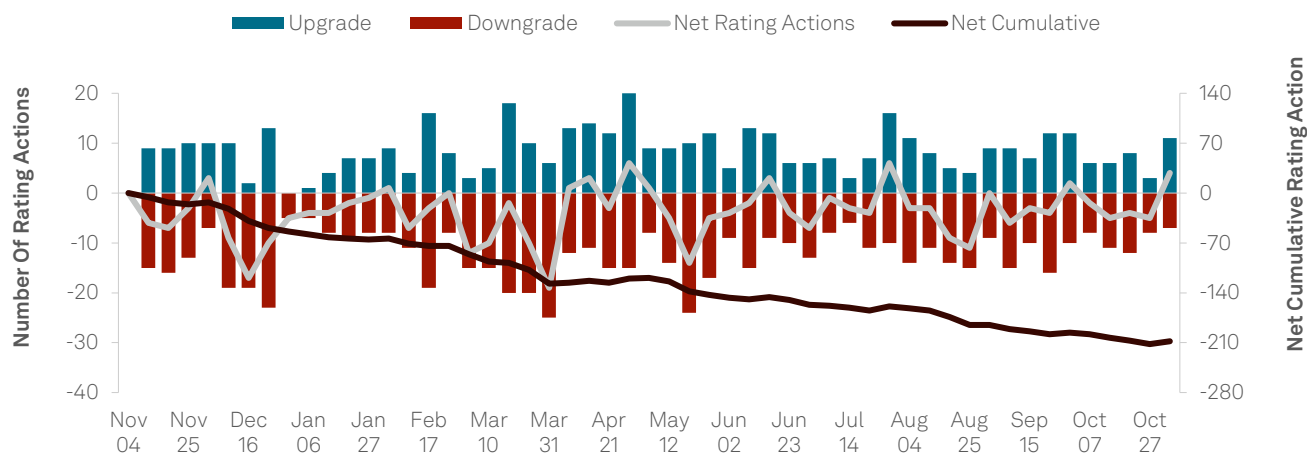
See "[Japan RMBS Correlation And Sensitivity Analysis: Land Prices, GDP, And Business Sentiment Are Key](#)" published Nov. 1, 2023.

- U.S. and Canadian Credit Card ABS: We recently published the "U.S. Credit Card Quality Index: Monthly Performance--September 2023" on Nov. 1, 2023 and the "Canadian Credit Card Quality Index: Monthly Performance--September 2023" on Nov. 3, 2023. The CCQI is a monthly performance index that aggregates performance information of securitized credit card receivables in the following key risk areas: receivables outstanding, yield, payment rate, charge-off rate, delinquencies, base rate, and excess spread rate.

The Ratings View

Chart 1

Global Rating Actions (Rolling 52-Weeks)



Source: S&P Global Ratings. Net rating actions means downgrades minus upgrades. Net cumulative means total net rating actions. Data as of Nov. 3, 2023. Global rating actions include actions on both financial and non-financial corporates and sovereign issuers.

Table 1

Recent Rating Actions

Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. \$)
30-Oct	Upgrade	Ford Motor Co.	Automotive	U.S.	BBB-	BB+	113,328
2-Nov	Upgrade	AbbVie Inc.	Health Care	U.S.	A-	BBB+	59,181
31-Oct	Downgrade	Anywhere Real Estate Group LLC	Media & Entertainment	U.S.	B	B+	5,723
3-Nov	Upgrade	Crestwood Equity Partners LP (Crestwood Holdings LLC)	Utilities	U.S.	BBB	BB	5,662
3-Nov	Upgrade	Brixmor Property Group Inc.	Homebuilders/Real Estate Co.	U.S.	BBB	BBB-	4,600
1-Nov	Upgrade	Sunshine Luxembourg VII S.a r.l.	Consumer Products	Switzerland	B	B-	4,395
2-Nov	Upgrade	Project Alpha Intermediate Holding Inc. (Qlik Parent Inc.)	High Technology	U.S.	B	B-	4,018
2-Nov	Upgrade	Permian Resources Corp.	Oil & Gas	U.S.	BB-	B+	3,450
2-Nov	Upgrade	Lear Corp.	Automotive	U.S.	BBB	BBB-	2,600
1-Nov	Downgrade	WeWork Cos. LLC	Media & Entertainment	U.S.	SD	CCC	1,914

Source: S&P Global Ratings Credit Research & Insights. Data as of Nov. 3, 2023. U.S. means United States, U.K. means United Kingdom and U.A.E. means United Arab Emirates. NBFi - NonBank Financial Institutions (ex. Insurance)

For further credit market insights, please see our **This Week In Credit** newsletter.



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