Credit Conditions North America:

Recession Risk Has Eased For Now

December 3, 2019

Key Takeaways

- **Overall:** Despite continued tension between the U.S. and China, we have lowered our forecast of the risk of a recession starting in the U.S. over the next 12 months. But there is still uncertainty around global growth, leaving the economy in a delicate balance.

- **What's changed:** A more divergent funding environment for 'B–' versus 'B' rated leverage loans. While housing is improving, manufacturing new order growth has turned negative.

- **Risks and imbalances:** Geopolitical and trade risks remain. Although a U.S.-China partial deal might come about, the next steps in negotiation will be difficult, and tensions could escalate again.

- **Financing conditions:** Investors' thirst for yield and declining interest rates have tightened investment-grade funding costs. However, 'B–' rated corporates are facing wider premiums, especially in the loan market. Investors and regulators remain focused on liquidity risk.

- **Macroeconomic conditions:** Although we revised the odds of a recession starting within the next 12 months to 25%-30% from 30%-35% previously, the risk is still high compared with a year ago. Business investment is clouded with uncertainty, and the manufacturing sector has suffered.

- **Sector themes:** The late stages of the credit cycle and the economic slowdown are material concerns for nonfinancial corporates. More challenging organic revenue growth prospects--coupled with diminishing returns from cost cutting--will be headwinds for U.S. based corporate credit in 2020.

( Editor’s Note: S&P Global Ratings’ Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Latin America, North America, and Europe, the Middle East, and Africa). Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the North America committee on Nov. 25, 2019.)

Trade. Tension between the U.S. and China has eased somewhat amid hopes that Phase 1 of a trade deal will come to fruition, but uncertainty remains and the dispute could still have longer-term consequences on global supply chains and business sentiment. The next steps in negotiations will be difficult, and although a mini deal between the U.S. and China seems possible, we doubt this will address longer-term issues over technology, intellectual property, and market access. In addition, protests in Hong Kong and responses from the U.S. Congress complicate matters.

Recession risk. The Federal Reserve has cut interest rates three times this year, which seems to have eased investor fears about a near-term recession and helped keep borrowing costs stable. We have lowered our risk of recession to the high end of the 25%-30% range from 30%-35% last quarter, largely based on the domestic economy. Financing conditions are broadly neutral but are more challenging for lower-rated companies. Across the rating spectrum, growth in debt concentrations has led investors and regulators to continue to focus on liquidity risks.

Financing conditions. The cost-of-funding disparity between ‘B–’ and ‘B’ rated U.S. leverage finance loans has increased over the last three months. Contributing to this risk premium is a waning CLO bid given this financing source’s portfolio concerns around potential increasing ‘CCC’ exposures (especially when the cycle turns).

Economic conditions. Of the 10 leading indicators of near-term U.S. economic growth, three are positive, five are neutral, and two are negative. There was a slight improvement as the term spread (the inverted yield curve) and single-family building permits turned neutral from negative, but manufacturing new orders turned negative. While we don’t think a recession is likely to start over
the next 12 months, GDP growth is slowing. We expect growth of 2.3% this year and 1.9% in 2020. The U.S.-China trade dispute remains a risk, especially in the longer term.

**Sector trends.** In the U.S., the corporate negative bias is rising as economic growth slows. The potential for downgrades is becoming more pronounced across sectors—with seven sectors showing a higher negative bias than its long-term average. Based on negative bias, the sectors most at risk for downgrades are automotive, oil and gas, and retail/restaurants.

### Table 1

<table>
<thead>
<tr>
<th>Top North-America Risks</th>
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<tbody>
<tr>
<td><strong>Geopolitical and trade disputes cloud world growth</strong></td>
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<tr>
<td><strong>Risk level</strong></td>
</tr>
<tr>
<td>Trade and geopolitical tensions continue to dampen business confidence and weigh on growth forecasts. While a mini-deal between the U.S. and China seems possible, we do not think this will address the dispute over technology, intellectual property, and market access. Ongoing protests in Hong Kong and the Congressional U.S. response complicates U.S.-China trade negotiations. Regional trade tensions linger as the United States-Mexico-Canada Agreement (USMCA) has not been ratified and the risk of wider escalations with Europe and Latin America remains possible. Government interventions via tariffs, subsidies, and regulations continue to cloud capex decisions. Despite trade uncertainty, a resilient U.S. labor market and economy prompted S&amp;P Global Ratings' economists to lower their U.S. recession forecast.</td>
</tr>
</tbody>
</table>

| **Mature credit cycle and the potential for volatile liquidity** |
| **Risk level** | Very low | Moderate | Elevated | Very high | **Risk trend** | Improving | Unchanged | Worsening |
| Trade tensions and other risks to global growth led the Fed to three quarter-point rate cuts in three consecutive meetings since July. While lower interest rates contributed to a drop in investment-grade funding costs, companies rated 'B-' or lower face widening risk premiums as investors have moved up the credit curve. The build-up in corporate debt over the past decade of economic expansion has led to a growing concentration of investment-grade ratings in the 'BBB' category and speculative-grade ratings in the 'B' category. With debt concentrations growing, investors and regulators continue to focus on liquidity risks, especially among thinly traded instruments within the credit market. |

| **Cybersecurity threats to business activity** |
| **Risk level** | Very low | Moderate | Elevated | Very high | **Risk trend** | Improving | Unchanged | Worsening |
| Increasing technological dependency and global interconnectedness means cyber risk poses a systemic threat and significant single-entity risk. As cyberattacks become increasingly sophisticated, new targets and methods are emerging. Companies face the risk of criminal, proxy, and direct state-sponsored cyber-attacks. Governments are also vulnerable, with local governments appearing to be the target with increasing frequency. This rapidly emerging risk has led to a fast-growing cyber-insurance market, though insured losses from cyber-attacks are still small compared with economic losses. Still, the relentlessness of cyber-attacks creates a need for heightened governance measures for all types of issuers. |

| **Housing imbalances remain a threat for Canada even as credit growth slows** |
| **Risk level** | Very low | Moderate | Elevated | Very high | **Risk trend** | Improving | Unchanged | Worsening |
| More stringent government mortgage qualification rules for homebuyers have resulted in decelerating home prices across Canada, with household credit growth slowing more quickly versus other advanced economies. Although consumer debt service burdens have eased with a) less incurrence of new debt and b) a pick-up in income growth, elevated house price-to-income multiples and stretched housing affordability remain a threat to financial stability. However, the Bank of Canada's dovish policy will support steady debt-service ratios for consumers. |

Sources: S&P Global Ratings.

* **Risk levels** may be classified as very low, moderate, elevated, high, or very high, are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically these risks are not factored into our base case rating assumptions unless the risk level is very high.

** Risk trend reflects our current view on whether the risk level could increase or decrease over the next 12 months.
Regional credit conditions

What’s changed?

Tensions between the U.S. and China seem to have waned somewhat for now, and we expect a Phase 1 trade deal will occur. However, the risk of uncertainty around trade remains, with tensions possibly re-escalating as negotiations continue into the U.S. election cycle. Regardless, we have lowered the risks of a recession starting in the U.S. over the next 12 months to 25%-30% from 30%-35% though the risk remains at the top of this range, largely based on the U.S. labor market and the domestic economy. However, trade uncertainty continues to be a black cloud for business investment, with manufacturing showing signs of weakness.

Assessment of key risks

Geopolitical and trade disputes cloud world growth: Trade, geopolitical tensions, and global growth concerns have all contributed to weak business investment. Although the U.S. and China may come to a Phase 1 agreement on trade, the next steps in negotiation remain difficult, with uncertainty overhang and tensions likely to persist. Furthermore, the protests in Hong Kong and the recent U.S. Congressional response add complexity to ongoing trade negotiations. Amid this uncertainty, the U.S. and Canada have yet to ratify the USMCA and wider escalations (for example European autos, Brazilian and Argentinian steel and aluminum) remain possible.

Mature credit cycle and potential liquidity volatility: Three consecutive rate cuts from the Federal Reserve have eased some investor worries, but this remains the longest economic expansion in U.S. history, and the question remains whether the end to the cycle is imminent. There has been a buildup in corporate debt over the past decade, with low-tier investment-grade and speculative-grade debt concentrations growing and investors and regulators focusing significantly on liquidity risks (especially those associated with rating-based triggers).

Cybersecurity: Increasing technological dependency and global interconnectedness means cyber risk poses a systemic threat and significant single-entity risk. Cyber attacks will continue to evolve and become more sophisticated, exposing a wider array of targets across our rating practices. Both nonfinancial and financial issuers face an escalating risk of criminal, proxy, and direct state-sponsored cyber-attacks. Governments are also vulnerable, with local governments appearing to become the target with increasing frequency. The low-cost, high-impact ramifications of cyber-attacks have facilitated the need for heightened governance measures for all types of issuers.

Canada housing: The cumulative impact of rising interest rates since mid-2017 plus macro prudential policy tightening—notably, tougher federal government mortgage qualification rules for homebuyers—are contributing to a faster deceleration in house prices for Canada. In addition, household credit growth has been slowing more quickly versus other advanced economies.

As the U.S.-China trade dispute rolls on, non-tariff moves could soon come into play.
Financing conditions

U.S. financing conditions have been broadly mixed since the last report, with investment-grade yields and spreads tightening since the end of September, while those for lower-rated segments within speculative-grade continue to gradually widen. Market sentiment generally turned positive in October as a series of gradual breakthroughs in the U.S.-China trade situation trickled in. Along the way, the yield curve, which had been inverted since late May, changed course and is now in a more typical upward slope. This was largely the result of Treasury yields on the long-end rising recently on the back of improved market sentiment on trade and, partially, in response to market reactions to a third rate cut by the Fed since July.

For credit markets, risk assessments have become more positive toward the majority of the market, with investment-grade spreads falling to 136 basis points (bps) from 173 bps at the end of 2018. In general, the 'BB' segment's spread has had a similar trajectory to investment-grade this year. However, some lingering risk aversion from a year ago, alongside expectations for a slowing economy, appear to be keeping 'B' and 'CCC/C' spreads elevated and on an upward trajectory this year (see chart 1).

Chart 1
Some Stress At The Low End (bps)

Data as of Aug. 30 2019. Source: S&P Global Ratings Research

Market volatility has declined back to more benign levels since early August, largely in step with the pace and tone of communications on the trade issue. The closely watched VIX had a recent spike to 21 on Oct. 2 but fell back to 12.8 as of Nov. 20.

Providing some support for market optimism beyond the trade topic, the Fed’s recent rate cut at its October meeting also contributed to the positivity. Bond issuance is up year-to-date through October, with investment-grade gaining 7% (to $771 billion) and speculative-grade up 29% (to $166 billion). Leveraged loans remain well below their comparable pace of issuance in 2018, coming in at $435.3 billion, which is 24% below 2018, through October.

Despite tightening corporate spreads in October, we estimate the speculative-grade spread should still have finished the month about 74 bps wider, based on various economic and financial indicators. Since the start of last year, the implied spread has exceeded the actual in 17 of the past 22 months. This could imply that despite the spread’s increase, financial markets are overly optimistic in the face of sustained pressures. That said, the upcoming maturity profile for U.S. speculative-grade issuers appears largely manageable. However, a few sectors may be facing funding risk in the future (see chart 2).
S&P Global Ratings Research projects the speculative-grade default rate to come in at 3.9% through September 2020 (see chart 3). This is up from 2.8% at the end of September of this year, inching closer to the long-term average of 4.2%. The expected slowdown in corporate profits continues, the ratings mix continues to deteriorate, and the economy is expected to slow next year. By sector, we still expect energy and consumer-reliant sectors (such as retailers and consumer products) to lead in terms of defaults, given their ongoing external stressors, structural changes, and possible funding challenges.

Chart 2
Some Sectors May Face Funding Stress Ahead


Chart 3
U.S. Trailing-12-Month Speculative-Grade Default Rate And June 2020 Forecast

Note: Shaded areas are periods of recession as defined by the National Bureau of Economic Research (NBER). Data as of June 30, 2019. Sources: S&P Global Rating Research and S&P Global Market Intelligence's CreditPro®.
Macroeconomic developments and assumptions

(Editor's Note: The views expressed in this section are those of S&P Global Ratings' economics team. While these views can help to inform the rating process, sovereign and other ratings are based on the decisions of ratings committees exercising their analytical judgment in accordance with publicly available ratings criteria.)

U.S.

State of play: As the U.S. economic expansion extends its record run, the question of whether there is an imminent end to the cycle has taken on greater importance, especially amid signs that GDP growth is slowing. Of the 10 leading indicators of near-term U.S. economic growth we look at, three are positive, five are neutral, and two negative. (That is a slight improvement from our assessment in August, as the term spread and single-family building permits turned neutral from negative, and ISM manufacturing new orders index turned negative from neutral.) Our qualitative assessment, combined with calculated odds, now puts the overall risk of a recession in the next 12 months at 25%-30% —with the probability near the top of this range. Recession risk was 15%-20% a year ago.

On the bright side, trade tensions between the U.S. and China have waned somewhat, and the Federal Reserve’s three interest-rate cuts this year seem to have eased investor fears that an economic slump is on the near-term horizon. Moreover, American consumers, whose spending accounts for roughly 70% of the world’s biggest economy, continue to fuel growth. For this reason, we still think a recession is unlikely in the next 12 months—short of a shock that all but ends companies’ already cautious capital spending and causes consumers to pull back.

Outlook: S&P Global Ratings now forecasts full-year U.S. GDP growth of 2.3% this year and 1.9% next year, followed by average annual expansion of 1.8% for 2021-2023. We expect unemployment to drift lower to 3.4% by next year (before starting to drift higher), with core consumer price inflation a little above 2%. We believe Fed policymakers will keep the benchmark federal funds rate at 1.50%-1.75% the rest of 2019 and through 2020—depending, as always, on the data.

Risks: The biggest risk to the economy right now, in our view, is the ongoing trade disputes with China and with the European Union. U.S. manufacturing is only modestly positive compared to the first two quarters of the year, which highlights its vulnerabilities. Business investment has slowed dramatically, with business investment for equipment and construction turning negative in the third quarter. Any re-escalation of the U.S.-China trade dispute—and the secondary effects this could have on business and consumer spending—remain a downside risk. The dispute has had only minimal direct macroeconomic effects on either country, but the longer-term consequences for global supply chains, U.S. business sentiment, and consumers’ purchasing power could be more severe.
Canada

State of play: After a brief midyear resurgence, growth has decelerated. As we had anticipated, real GDP is on track for 1.0%-1.5% (annualized) growth in the third and fourth quarters, following a stronger-than-expected 3.7% (annualized) in the second quarter. Based on the year-to-date industry contributions, two major goods industries (natural resources and construction) are only modestly helping growth, while the service sector (outside of wholesale and retail trade) led by professional and business, finance, and real estate, is carrying the burden of growth. Housing starts hit a speed bump in October but remained on a modest recovery pace as households are adjusting to earlier stringent mortgage regulations.

Employment dipped modestly in October after adding jobs at a healthy clip for two consecutive months. The unemployment rate held steady at 5.5% (barely above the record low), and waged growth remains solid, now up 4.3% (year-over-year). With the unemployment rate low and inflation at 1.9% in August and September, the Bank of Canada (BoC) left its policy rate unchanged at 1.75% at the end of October.

Outlook: We are comfortable keeping our full-year estimates for real GDP growth at 1.5% in 2019. For 2020, we now forecast 1.6% growth, which is an uptick from 1.4% in our September forecast but still under potential (trend) growth rate. The uptick reflects slight improvements in private investment and exports.

Although global trade frictions and the possibility of an investment-led slowdown remain a threat, we see the recovery in domestic spending positioning Canada for a return to trend growth closer to 2% in 2021-2022.

Oil price forecasts are still down, which means significant headwind to the energy sector and the Alberta, Saskatchewan, and Newfoundland economies, which are experiencing economic setbacks.

We continue to anticipate BoC to hold policy rate steady through 2020. The downside risks are not yet large enough to justify rate cuts, partly because there would be costs associated with those cuts, namely the potential for increased financial risks and above-target inflation. Also, Canada’s real 10-year bond rate and the U.S. real 10-year bond rate are both negative. Therefore, there is less pressure to lower the overnight policy rate, as rates are stimulative.

Risks: The ordinary risks surrounding our baseline growth forecast are balanced. There is little sign of a near-term fiscal stimulus following the new minority government (still led by Trudeau). Still, a weaker profile for investment could emerge if commodity prices further deteriorate, which would worsen Canada’s terms of trade and could weaken investment outlays in the energy sector. On the other hand, a tighter labor market and decisive policy actions (like Trudeau’s proposal to raise the tax-free income allowance) could lead to stronger-than-expected household spending and business investment.

Signing of CUSMA (revised NAFTA aka USMCA on the south side of the border) will be a welcome development, but it is unlikely to change our investment forecasts materially.

Measures of financial leverage have begun to stabilize with the pickup in household incomes, and debt-service ratios are steadier. Still, household debt affordability remains stretched, and heavy consumer debt burdens will likely limit growth in consumer spending. Vulnerabilities are likely to diminish only gradually.
Non-Financial Corporates

- While trade-related concerns have eased somewhat during the fourth quarter, we believe that prospects of potentially slower global economic growth pose the biggest challenge to U.S. corporates. Cyclical sectors could experience significant pressure if global growth weakens.
- In line with the debt markets, credit health is bifurcated, as 'BBB's and high-quality speculative-grade firms have capitalized on the favorable financing conditions, while those rated “B” and lower remain vulnerable to financing pressures.
- As highlighted by the increasing negative rating bias, secular pressures due to disruptive trends and regulatory challenges in certain sectors could exacerbate credit deterioration in the event of an economic downturn.

What's changed?

Concerns over the U.S.-China trade conflict have eased amid hopes that Phase 1 of a trade deal is within reach. Given the volatile nature of such negotiations, we do not rule out the possibility of both parties failing to reach a mutually acceptable agreement. While there is still progress to be made, there are expectations of a partial deal, including licensing concessions that would permit U.S.-based technology firms to resume business activities with Huawei. If this expected deal comes to fruition, it would be positive for the overall technology sector. As such, we believe the rating pressure for the technology sector over the next 12 months has improved. However, we remain prepared for the potential for setbacks as a result of further U.S.-China trade escalation.

Slowing global growth remains a major risk from a credit conditions perspective. For the next 12 months, we anticipate the majority U.S. corporate sectors to confront stable to negative rating trend pressure (see Table 2) due to rising global economic uncertainty and potential signs of weakening business and financial conditions.

Table 2
U.S. Non-financial Corporate Sector Outlook

<table>
<thead>
<tr>
<th>Outlook - No Change Since Q3</th>
<th>Midstream Energy, Oil Refineries, REITs, Unregulated (merchant) power, Aerospace &amp; Defense, Transportation,</th>
<th>Metals &amp; Mining, Oil &amp; Gas Media &amp; Entertainment, Regulated Utilities, Telecom, Consumer Non-Durable, Forest Products, Chemical, Capital Goods, Leisure &amp; Sports</th>
<th>Retail, Consumer Durables, Healthcare, Pharmaceutical, Auto OEMs &amp; Auto Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outlook Downgrade Since Q3</td>
<td>Midstream Energy, Building Materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outlook Upgrade Since Q3</td>
<td>Homebuilders</td>
<td>Technology</td>
<td></td>
</tr>
<tr>
<td>Stable-to-Positive</td>
<td>Stable</td>
<td>Stable-to-Negative</td>
<td></td>
</tr>
<tr>
<td>Stable</td>
<td>Negative</td>
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</table>

Source: S&P Global Ratings

Note: Sector outlook indicates credit rating trends expected over the coming 12 months. Stable to Positive (Stable to Negative) outlook: indicates potential for a modest number of rated entities in the sector to be upgraded (downgraded). Positive (Negative) outlook: indicates potential for a material number of rated entities in the sector to be upgraded (downgraded). Arrows (if displayed) indicate direction of change in sector outlook from previous quarter.
Key assumptions

Cyclical Sectors Feel the Pressure as the Cycle Turns

Given the uncertainty arising from trade tensions, global growth concerns, nominal business investment growth, and the late stage of the credit cycle, cyclical sectors are exposed, especially those sectors engaged in heavy manufacturing activities. Demand slowdown in end markets remains a top risk for automobile, leisure and sports, and chemical sectors. Meanwhile, retail, consumer products, and capital goods firms will continue to confront margin pressures from the inability to fully pass on increasing input costs to consumers. As economic growth has slowed, the U.S. corporate ratings negative bias rose to 19% as of Sept. 30, 2019, up 3 percentage points over the past year, driven by an increasingly negative bias for speculative grade ratings. The auto and oil and gas sectors have the highest share of issuers with a negative outlook or ratings that are on CreditWatch with negative implications, indicating our expectation for continued credit declines as the cycle turns.

Chart 4

Automotive Leads With Highest Negative Bias, While Metals Show the Highest Positive Bias


Key risks

Flight to Quality

Protracted low interest rates and a borrower-friendly debt market have aided investment-grade and high quality speculative-grade firms across sectors to extend their maturity curve. The speculative-grade debt market remains extremely bifurcated, with demand firmly skewed in favor of high-quality names, primarily among ‘BB’ category credits. We believe the broader credit fundamentals reflect a similar view, with amplified economic headwinds translating to increased defaults and downgrades concentrated at the lower end of the speculative-grade credit spectrum. Risk is particularly pronounced in sectors such as retail and oil and gas, where about 15% and 14%, respectively, of our portfolio is rated in the ‘CCC’ category or lower. Oil and gas led downgrades in the third quarter, and high-yield credits and many oilfield service companies and drillers will remain under pressure. Sectors such as aerospace and defense, chemicals, health care services, pharmaceuticals, non-durable consumer product companies with narrow focus, capital goods, and metals and mining could have greater slippages from the ‘B’ to ‘CCC’ category in the event of a sharp slowdown in growth.
Entities reliant on supplies from China will remain exposed to trade-related policy uncertainties. Some sectors have mitigated supply chain risks in the short term by shifting production to other countries, asking suppliers to absorb costs, raising prices, and passing on some of the additional costs to end consumers—a challenging ongoing prospect in the event of a downturn. With respect to unraveling and decoupling established longer term supply chain exposure to China, we currently are not seeing pronounced changes, but we anticipate companies could re-evaluate sourcing exposure given what has transpired on the trade front.

Chart 6
U.S. imposed tariffs on remaining US$300 billion of Chinese imports

Chart 7

Top Risks U.S. Non-Financial Corporates

Credit Risk
- Refinancing Risks
- Regulatory / Environmental Litigation

Economic Risk
- Trade War / Supply Chain / Geopolitics
- Wage Pressure / Input Costs / Stronger USD
- Input Costs

Micro Risk
- Tech / Structural Disruption
- Pricing Pressure / Weaker End Market

Source: S&P Global Ratings. Data reflects survey results from S&P analysts in Q4

What to look for in the next quarter

No End to Disruptive Trends and Regulatory Pressures

While we expect refinancing-related challenges to be restricted to names on the lower end of the speculative-grade spectrum, disruptive trends in select sectors could influence credit ratings. Consumer non-durable manufacturers could confront intense competition from ongoing pressure from private-label alternatives and start-ups, resulting in reduced shelf space. Media and entertainment firms that lack deep content could be left behind as large media companies launch their own direct-to-customer services. We are also keeping a close watch on disruptive trends in health care, autos, and retail.

Meanwhile, a few sectors are beginning to face elevated regulatory pressures, and the outcome of the 2020 U.S. presidential elections could further add to policy-related uncertainty. These risks are particularly high in the health care industry; regulations dealing with drug pricing and ongoing opioids litigation continue to pose challenges to pharmaceutical firms, while heightened populist sentiment could lead to increased pressure on health care service providers to cut costs. Among other sectors, regulatory restrictions might prevent media and technology firms from pursuing specific strategic moves. ESG factors will continue to affect midstream energy and merchant power firms, as we expect continued retirement of coal-based plants and risks of environmental opposition to pipeline projects.
Financial Institutions

- As expected, monetary policy has continued to loosen in the U.S., further pressuring net-interest margins (NIMs).
- Potential asset-quality weakening in a downturn seems most likely among highly leveraged corporate loans and commercial real estate in the U.S. and consumer loans in Canada. We believe the riskiest assets are held outside the banking system.
- Regulation is easing for certain categories of U.S. banks, but we continue to view the sector as stable, overall.

What's changed?

As expected, in the first month of the fourth quarter, the Fed reduced its policy rates by a further 25 bp after already lowering rates by that much twice earlier in the year. We currently expect the Fed to hold its policy rates steady through 2020, but the lagged effects of rate cuts already made will gradually but increasingly weigh on banks' NIMs, as loan- and deposit-rates are reset. Strong asset quality and continued loan growth have, so far, mitigated the profitability drag from weak NIMs, but declining interest rates may also encourage riskier borrowing, pressuring future loan performance. In addition, U.S. regulators finalized rules tailoring regulation to the perceived level of risk various categories of banks pose to the overall system. Although this results in eased regulation for certain categories, particularly regarding liquidity and stress testing, we continue to see the overall level of risk in the U.S. banking sector as stable because this easing applies to banks holding only about 15% of the assets in the banking system. The level of regulation applied to G-SIBs has not changed materially, in our view.

Key assumptions

- We currently expect both the Fed and the Bank of Canada to hold their respective policy rates steady through 2020.
- U.S. loan growth is likely to continue at a low- to mid-single-digit percent pace.
- Credit losses have likely bottomed out and will gradually increase in 2020, though monetary loosening could delay this.
- The current expected credit loss (CECL) standard will be implemented on schedule (Jan. 1).
- The USMCA will remain on a slow path toward U.S. ratification.

Key risks

- U.S. monetary easing will increasingly pressure bank profitability, as both assets and liabilities increasingly reset to current rates. That said, bank earnings have improved markedly in recent years and have been relatively robust in recent periods.
- Asset prices, already driven higher by (among other factors) an extended period of low interest rates, could rise further with the recent revision in the expected path of rates, risking a sharper eventual correction with associated capital-market volatility.
- Corporate credit quality, particularly in leveraged lending, could deteriorate after several years of significant loan growth.
- Asset quality could also worsen in auto, student, and CRE lending.
- In Canada, a sufficiently negative employment shock could trigger a substantial sudden decline in home prices, given still-elevated (though moderating) prices. This could be accompanied by noticeably higher losses on consumer loans. We believe such a result unlikely outside a significant recession, which is not our base case.
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What to look for in the next quarter

For U.S. banks, we expect single-digit percent earnings growth—down sharply from the rapid pace of last year, which benefited from reduced tax rates and higher interest rates.

NIMs will gradually decline, increasing pressure on bank profitability. Fee income will depend on capital markets activity, market valuations, and mortgage volumes. Banks will continue to contain costs by consolidating branches, containing headcount, and growing digitization.

The Fed may finalize a separate proposal to simplify its capital rules for large banks, most notably with the introduction of a stress capital buffer. Capital management at the global systemically important banks (GSIBs) will depend on the finalization of that proposal combined with the results of this year’s Comprehensive Capital Analysis and Review (CCAR).

For Canadian banks, we expect operating performance to continue to gradually strengthen from domestic, U.S., and other international businesses, as large banks pursue scale- and strategy-enhancing acquisitions (at home and abroad) and continue to invest in efficiency-enhancing technology. Such improvement will be small and risk-prone, however, as Canadian banks face similar NIM pressure to their U.S. peers, and loan-growth opportunities in Canada will be more-constrained by weak growth in domestic credit demand. Because exports account for about one-third of Canada’s GDP (substantially more than the equivalent measure for the U.S. and for most developed economies), sentiment is being hurt by the delay in U.S. ratification of the USMCA, in particular, and a generally less-certain outlook for global trade. Combined with an already-high household debt-to-income ratio, this will likely constrain Canadian demand for both household and corporate credit.

Insurance

- Our North American insurance sector outlooks reflect expectation for limited change for the next 12 months
- Average financial strength for the portfolio in upper half of the strong (‘A’) category
- Balance-sheet strength continues to mitigate key risk factors

What’s changed?

Rating activity in the current quarter as well as year to date through Mid-November 2019 was strongly affirmations. Overall, the average financial strength rating for the insurance portfolio continues to reside just inside in the upper half of the strong (‘A’) category.

Table 3

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average credit quality (financial strength rating)</th>
<th>% of ratings with stable outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>A+</td>
<td>89%</td>
</tr>
<tr>
<td>Health</td>
<td>A-</td>
<td>91%</td>
</tr>
<tr>
<td>Property / Casualty</td>
<td>A</td>
<td>85%</td>
</tr>
<tr>
<td>Global Reinsurers</td>
<td>A+</td>
<td>88%</td>
</tr>
<tr>
<td>Bond Insurers</td>
<td>AA</td>
<td>100%</td>
</tr>
<tr>
<td>Title Insurers</td>
<td>A</td>
<td>100%</td>
</tr>
<tr>
<td>Mortgage Insurers</td>
<td>BBB</td>
<td>67%</td>
</tr>
</tbody>
</table>

Source: S&P Global Ratings.

Key assumptions

Balance-sheet strength remains a pillar of credit-quality support for the portfolio, providing a measure of protection from economic risks broadly, and the expansion or increase in the magnitude of specific current and emerging subsector challenges more specifically.
Credit Conditions North America: Recession Risk Has Eased For Now

Key risks

Factors related to pricing adequacy, profitability, portfolio yield, disciplined growth, regulation, policy risk, and slowing economic growth reflect areas of ongoing concern and analytical focus for the remainder of the year and prospective 12-month period.

What to look for in the next quarter

Life insurers' top-line growth during 2019 is dominated by index-linked products, though we expect growth to moderate as pricing becomes less attractive. Other growth areas are group/voluntary insurance and pension risk-transfer businesses. Traditional life insurance will remain a low-single-digit percent growth line of business, whereas products that provide long-term care benefits within a life insurance or annuity chassis will continue to have higher growth.

Deal volume via block merger and acquisition (M&A) transactions by traditional insurers and nontraditional capital investors will remain a key part of this market, though there have been more bolt-on acquisitions this year, particularly tilted toward fee based businesses. Life insurers' speculative-grade exposure remains contained, but insurers have increased their exposure to the 'BBB' category and less-liquid investments. During the third quarter of 2019, most life insurers experienced net negative unlocking impacts, largely due to the low rate environment, yet these charges were contained within earnings.

For health insurers, political/regulatory risks are emerging ahead of the 2020 elections. Multiple Medicare-For-All proposals have been floated that incorporate varying levels of government involvement, but we see a partial-to-complete restructuring of the industry as a low-probability/high-risk issue. In the interim, the federal government backtracked from a proposal to remove drug rebates in the Medicare/Medicaid markets. However, a number of bills are advancing in Congress that attempt to tackle a wide range of issues (price transparency, drug costs, surprise billing, etc.).

We see the industry proactively restructuring itself through technology/service investments and M&A to stay ahead of competitive threats. We believe the CVS Health/Aetna and Cigna/Express Scripts mergers could be transformative, but they face near-term integration and leverage risks. Meanwhile, Anthem is making acquisitions to grow its health care services business. In terms of outside threats, Haven (the newly named Amazon/JP Morgan Berkshire joint venture) might or might not be a competitor for insurers, but its formation reflects some underlying employer dissatisfaction with current market solutions.

The U.S. property/casualty (P/C) insurance industry has enjoyed a good build-up of excess capital, mostly attributable to good earnings, dwindling share buyback and M&A activities, and asset appreciation. Even though there is ample capitalization, P/C insurers are still demonstrating restraint through underwriting discipline, effective enterprise risk management (ERM) programs, and conservative investment strategies, which collectively support our stable outlook on the sector.

Pricing increases continue to accelerate in 2019 in response to rising loss cost trends including social inflation, tort reform, and rising class-action lawsuits. Pricing is increasing despite climbing capital levels and continuation of favorable reserve development, albeit at lower levels, which makes this hardening rate cycle unique. P/C insurers are deploying less underwriting capacity for business lines with higher loss cost trends, most aptly in the excess and surplus market. Overall, we project the industry will report a 98% combined ratio in 2019.

Reinsurers are battling the commoditization of their business and the rise of alternative capital nibbling at their margins. This has led many to pursue M&A, divest nonperforming businesses, diversify into less-commoditized lines of business, and embrace the permanence of alternative capital. They've also adjusted risk exposures and are actively managing their capital structures through share buy-backs, special dividends, and refinancing their maturing securities with more cost-effective ones. In addition, alternative capital continues to challenge reinsurers' business models and influence both retrocession and reinsurance pricing, despite its recent slowdown. In the face of ongoing competitive pressures in the industry, robust capitalization, sophisticated enterprise risk management, and still-rational underwriting practices remain strengths for the
sector. Moreover, property/casualty reinsurance prices have been hardening during the 2019 renewals in reaction to record back-to-back catastrophe years in 2017-2018 and the resulting loss creep, and they’ve maintained positive momentum heading into 2020. These factors will continue to push the sector to evolve, forcing market consolidation, product and service innovation, expansion of product offerings, and reimagining of the re/insurance value chain.

With the decline in interest rates, the limiting effect of spread compression on new business volume is likely to reappear in the bond insurance market as investors are unwilling to give up yield for premiums. However, a decline in new issue volume is unlikely to have a negative effect on the operating performance of the bond insurers. Bond insurers typically collect premiums associated with the U.S. public finance business up front and earn them over the life of the underlying transaction, 20 years on average. The more important trend in underwriting is the uptick in insured secondary-market issues as institutional investors use insurance to manage investment-portfolio risk. From a risk perspective, the insurers are insuring issues in the lower-risk city, county, and school sectors.

With revenue growth potential expected to be modest for title insurers over the next two years. Supply still somewhat lags demand for home purchases, but the recent decline in interest rates has led to an increase in refinancing. With the potential for further rate cuts, refinance volume could rise. The low interest rate environment has also led to an uptick in commercial mortgages and an increase in property values, both of which are likely to result in a meaningful rise in commercial premiums for the title insurer. The overall profitability of the title insurers will depend on their ability to manage operations throughout the mortgage cycle. Each company has proven successful at expense control, and we don’t expect this to change. Continued industry efforts to monitor operating efficiency closely, combined with higher investment income, have helped to maintain profitability and strengthen capital.

Private mortgage insurers (PMIs) continue to benefit from favorable employment, housing and demographic trends. Millennials are entering the housing market, which should strengthen housing demand across the U.S. With tight housing supply affecting affordability, buyers—especially first-time buyers—would increasingly look to mortgage insurance to help acquire that dream home. Strong purchase mortgage origination market and increase in refinances from decline in interest rates is supporting growth in new insurance written volumes. The industry’s adoption of risk-based pricing allows for granular pricing; however, it could also pressure rates. Nevertheless, we expect strong earnings to continue for 2019. Earnings accrual and higher reinsurance utilization (including insurance linked notes) is supporting sector’s capitalization.
Structured Finance

- Sector performance and expected credit outlooks are mostly stable.
- The focus remains mainly on CLOs, subprime autos, and the emergence of the non-QM RMBS sector.
- We continue to watch for signs of the cycle turning.

What’s changed?

Structured finance sector fundamentals remain generally stable overall, similar to last quarter. Our 12-month outlook on CLOs remains cautious, though we believe that most of the downgrade risk continues to lie with speculative-grade tranches in the case of a potential downturn.

Key assumptions

Our base case is for moderate economic growth and generally range-bound interest rates. The risk of recession appears to have moderated somewhat, though it still is relatively elevated (25%-30% over the next 12 months per our economics team’s business cycle barometer).

Key risks

For collateralized loan obligations (CLOs), we continue to monitor the risk for downgrades, especially in junior classes, as obligor credit and recovery ratings are trending downward. We are now publishing weekly updates on rating actions affecting U.S. broadly syndicated loan (BSL) CLOs, and updating the count of CLOs failing one or more of their overcollateralization tests (to join those email lists, contact one of the authors listed on the top right of this page); the number was 17 as of mid-November. U.S. BSL CLO exposure to ‘B-’ obligors is inching closer to 20%, which is a new high virtually every time it increases, while ‘CCC’ buckets have been steady at around 4.5%.

With asset-backed securities (ABS), the focus remains on auto loan deals, especially those backed by subprime receivables. Our latest available data (August) showed some mixed results with regard to collateral performance. U.S. prime auto loan losses increased month-over-month and year-over-year to 0.58% from 0.55% in July and 0.53% in August 2018. Subprime auto loan losses increased month-over-month and year-over-year to 8.78% from 8.21% and 8.65%, respectively. On a modified basis, however, for which three deep subprime lenders are excluded, losses improved to 6.64% from 6.92% a year earlier and was the lowest August level since 2015. Both prime and subprime recoveries improved month-over-month and year-over-year. At 0.42%, the prime 60-plus delinquency rate remained nearly stable both month-over-month and year-over-year. At 5.25%, subprime delinquencies remained stable month-over-month but increased year-over-year and was the highest August level since 2009.

Our outlook for residential mortgage-backed securities (RMBS) is stable, and we maintain our forecast of $100 billion in non-agency RMBS issuance for 2019. Performance has been strong, driven by economic growth, low unemployment, and continued home price appreciation, albeit at a slower pace now than a few years ago when the recovery was in full swing. Affordability continues to be a problem across the country, largely due to a supply/demand mismatch in new home supply. However, low mortgage interest rates are offsetting costs to some degree. Among the various private-label RMBS market segments, non-QM is the fastest growing, with $25 billion in issuance expected by the end of the year. This will place non-QM RMBS in the lead among other non-agency subsectors (see chart 8). The QM patch—a rule allowing the GSEs to securitizing mortgage pools for which borrowers have debt-to-income (DTI) ratios in excess of 43%—is set to expire in 2021. How and whether this comes about, however, lies in the hands of the CFPB. If indeed the patch does expire, it could result in a large (on the order of hundreds of billions of dollars) increase to the non-QM market, which would inherit these loans.
Although stable fundamentals are expected to continue and will offer support against slower growth, credit concerns for CMBS are largely unchanged. Lodging revenue per available room growth is about 1% year to date, down from 3% last year—and many top (larger, such as New York City) markets have felt the impact of increased supply during the past few years. Suburban office remains a focus, especially if signs of macroeconomic stress emerge, as re-tenanting risk relative to central business district properties could lead to rising loan delinquencies in that sector. The focus for retail will be the all-important holiday season. The overall delinquency (DQ) rate for U.S. CMBS transactions declined to 1.87% in October 2019, down 10 bps from September 2019 and 93 bps from 2.80% in October 2018.

**What to look for in the next quarter**

In a moderate economic downturn, default and downgrade risks for most structured finance sectors and regions would broadly be contained to speculative-grade classes, albeit with some risk in low investment-grade (such as ‘BBB’) credits for CLOs. We continue to focus on signs that the economy is moving away from our base case (moderating, but still positive growth, continued low unemployment, etc.), given that asset prices remain elevated, and risks to the downside seem to outweigh potential upside scenarios.
U.S. Public Finance

- Revenue collections for states have remained strong in 2019, and projections for 2020 revenue growth indicate a continuation of the trend, providing credit stability for state and local governments.
- Changing policies at the national level, such as plans to increase or decrease tariffs, may start to erode credit stability if a change to tariffs starts to affect spending habits, and, as a result, sales tax collections.

What’s changed?

Even with global growth and trade risk clouding the picture for the national economy, state and local government credit stability remains largely unchanged, supported by good revenue trends and positive operating results. As we round out the fourth quarter of 2019 and look ahead to 2020, states are projecting a continuation of the credit strength this year. With a solid foundation, state and local governments should, by and large, be better prepared for any disruptions the new year brings, be they economic, political, or ESG related.

Supported by a solid financial backdrop from states, local government credit quality remains stable. Should the national economy start to weaken, it will likely affect states first and then move on to locals. With few signals that state governments are planning to cut aid to locals, the ramp up into 2020 also looks stable for locals. However, rising expenditures for local governments without a commensurate increase in revenues have continued to drive a wedge in operational balance over time. Should the state or local governments start to experience material weaknesses, any municipality that didn’t adequately build up reserves over this very long economic expansion will be at a distinct disadvantage in maintaining structural balance.

There have been some ups and downs in housing sector projections, but the most recent figures for residential investment were stronger. Increases in housing permits suggest gains are likely to continue through the fourth quarter, particularly in the South. As shown in the map (see chart 9), the forecast for housing starts in 2020 is being led by the Rust Belt.

Chart 9

2020 Housing Starts: Growth Projected Nationwide With the Rust Belt Leading The Way

Source: S&P Global Ratings, IHS Markit.
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Key assumptions

- Low unemployment, strong wage growth, and advantageous interest rates will continue to support stable credit quality, and any shifts due to changes at the national economy level will be gradual. These factors also contribute to ongoing growth in the tax base, a foundation of economic stability.

- Limited disruption from equity market volatility, but the potential for uneven impacts from the ongoing trade war, depending on tariff implementation.

- Accumulated reserves will help many state and local governments cushion any immediate blows that come from economic softness or other operating disruptions.

Key risks

Underlying all long- and short-term risks for state and local governments is political uncertainty created by policy changes at the federal level. Major shifts in the equity markets following policy announcements can drive losses from capital gains tax and pension fund earnings, and if changes to Medicaid reimbursements (a significant state budget driver) come again to the fore, the potential for credit disruption heightens.

If tariffs end up being added to more retail goods—particularly around the holidays—the extent to which this starts to negatively affect consumption could affect spending habits and, therefore, sales tax collections. This could be particularly be hard on sales-tax-supported governments.

An inability to identify and/or address ESG issues will create deterioration in credit quality over time, weakening a government’s ability to provide core services to its constituents in the long term. When these attacks hit an unprepared government, the risk of an impact to credit quality increases sharply.

Underfunded pensions and OPEB (other post-employment benefits) remain a perennial problem for both state and local governments that will play out over a longer time horizon. For plans without good funding discipline (such as a realistic discount rate, an amortization period of 20 years or less, and other assumptions that keep in step with changing demographics), the pressures from unfunded liabilities are more likely to spike and create a budgetary disruption.

What to look for in the next quarter

Although to date state revenues remain strong, should the broader economic picture weaken, any states unprepared to face a slowdown will be disproportionately affected. Any trends of weakening state revenues would indicate potential credit deterioration for both the effected state and its local governments.

For the 46 states with a June 30 fiscal year, December represents the midpoint in the annual budget. Most states are reporting monthly collections that indicate tax receipts year-to-date have met or exceeded their budget assumptions. However, a period of market volatility could destabilize state budgets, adding to any fiscal stress experienced.

ESG issues aren’t just for the summer months and snow events or rapid freezing and thawing can take a toll on buildings and roads unprepared for extreme weather events. This is particularly concerning for any credits where issues haven’t been met with a commensurate level of ESG planning.
Public Finance - Canada

- In 2020, we expect overall credit stability for the 46 provincial and municipal governments in Canada. As of Nov. 4, 2019, our ratings on all provinces and cities were between 'A' and 'AAA' with stable outlooks, except for four positive outlooks on the provinces of Manitoba and Prince Edward Island, the regional municipality of York, and the city of Laval.
- We consider that provincial governments in Canada have been on a road to fiscal consolidation this year and they are likely to maintain this path in 2020-2021, although some governments could achieve it as late as 2023.
- Some risks remain from the U.S. due to protectionist measures and potential lower economic growth in the next couple of years that could affect Canadian provinces with cross-border production chains and investments.

What's changed?

Even with lower growth expectations, Canadian provinces seem to be able to achieve fiscal consolidation in 2019-2020 in the majority of the cases. Give this, positive rating actions could occur in 2020 if provinces continue complying with fiscal consolidation efforts as we expressed in the positive outlooks on ratings for Manitoba and Prince Edward Island.

Key assumptions

Overall, we assume that 2020 and 2021 will have less economic growth than past years for Canada. However, we don't believe political transitions will be disruptive and think the institutional framework will continue to be highly predictable and transparent, though not necessarily as supportive as other 'AAA'-rated sovereigns (for example, Germany and Australia). If LRGs' financial management remains strong or very strong as per our criteria, provincial governments could achieve fiscal consolidation and stabilize or keep decreasing their debt levels in the next two years. Pension obligations and ongoing payments are not an issue for Canadian provinces; these factors compare favorably with those of international peers in similar rating categories. Canada, the U.S, and Mexico will continue with a trade deal, but it is uncertain if it would be rectify by all countries before the end of 2019.

Key risks

We think the main risks that could affect Canadian provinces and cities are trade tensions between the U.S. and China; the risk of recession in the U.S. (though it's declined somewhat), and a lack of planning in certain provinces for a more uncertain future in terms of economic growth and high debt.

What to look for in the next quarter

Maintaining fiscal discipline will be critical for provinces should their revenue growth not live up to current expectations. Aging demographics and strong population growth will make it progressively harder for them to restrain their health care outlays, which account for more than 40% of total operating spending. Also, debt trends would be relevant to follow in 2020 as Canadian provinces remain with the highest debt burdens compared to international peers.
Related Research

- Eurozone Economic Outlook: Consumers Won’t Give Up In 2020, Nov 28, 2019
- Credit Conditions Latin America: Political Challenges Will Prevail in 2020, Dec. 3, 2019
- Credit Conditions EMEA: Low Growth, Lower Rates, Dec. 3, 2019
- Credit Conditions Asia-Pacific: Rate Relief, Risks Remain, Dec. 3, 2019
- Global Credit Conditions: A Precarious Balance, Dec. 3, 2019

Only a rating committee may determine a rating action and this report does not constitute a rating action.

Writer: Rae Nudson
Appendix: Ratings trends and surveys

North America Banking Industry Trends

<table>
<thead>
<tr>
<th>U.S.</th>
<th>BICRA Group 3/10</th>
<th>Canada</th>
<th>BICRA Group 2/10</th>
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<tbody>
<tr>
<td>Score 3</td>
<td>Trend Stable</td>
<td>Score 3</td>
<td>Trend Stable</td>
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</table>

Note: Our BICRA Groups, Economic risk scores, and Industry risk scores are each classified '1' through '10', from lowest- to highest-risk. Economic and Industry risk trend are each classified as stable, positive or negative. For more information please see Banking Industry Country Risk Assessment Update: Mar, 2019.

Source: S&P Global Ratings Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

North America Nonbank Financial Trends

<table>
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<tr>
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<th>Stable to Positive</th>
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<tbody>
<tr>
<td>Finance companies</td>
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<tr>
<td>Asset managers</td>
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Note: Sector outlook indicates credit rating trends expected over the coming 12 months. Stable to Positive (Stable to Negative) outlook indicates potential for a modest number of rated entities in the sector to be upgraded (downgraded). Positive (Negative) outlook indicates potential for a material number of rated entities in the sector to be upgraded (downgraded). Arrows (if displayed) indicate direction of change in sector outlook from previous quarter.

Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

North America Corporate Sector Trends

U.S.

<table>
<thead>
<tr>
<th>Negative</th>
<th>Stable to Negative</th>
<th>Stable to Positive</th>
<th>Positive</th>
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</thead>
<tbody>
<tr>
<td>Healthcare services; Retail; Pharmaceutical; Consumer durables; Auto OEMs and auto suppliers</td>
<td>Telecom; Media and entertainment; Regulated utilities; Consumer non-durables; Forest products; Chemical; Capital goods; Leisure and sports; Oil and gas; Metals and mining</td>
<td>Aerospace and defense; Forest products; REITs; Transportation; Unregulated (merchant) power; Oil refineries</td>
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<tr>
<td>Building materials; Midstream energy</td>
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<td>Homebuilders</td>
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<td>Technology</td>
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### North America Corporate Sector Trends

**Canada**

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<tr>
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<th>Stable</th>
<th>Stable to Positive</th>
<th>Positive</th>
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</thead>
<tbody>
<tr>
<td>Unregulated (merchant) power</td>
<td>Midstream energy; Oil and gas; Forest products; Building material</td>
<td>Transportation (Canadian airlines); Transportation (Canadian rails); Utilities; Telecom; Chemicals</td>
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</tr>
<tr>
<td>Metals and mining; Retail</td>
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<td>Media and entertainment</td>
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</table>

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### North America Insurance Trends

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<tr>
<td>Life Insurers; Property &amp; casualty insurers; Title insurance; Reinsurers; Bond insurers; Health insurers</td>
<td></td>
<td>Mortgage insurers</td>
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### US Public Finance Trends

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<tr>
<td>Transit</td>
<td>Higher education</td>
<td>Local governments; States; Health care; Housing; Electric utilities; Water and sewer utilities; Airports and ports; Garages</td>
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<td>Toll roads and bridges</td>
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</tbody>
</table>

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### North America Structured Finance Trends

#### Residential mortgages

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<tr>
<td>RMBS - Servicer advance; RMBS Re-REMICs; RMBS</td>
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#### Commercial mortgages

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<th>Stable</th>
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<th>Positive</th>
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</thead>
<tbody>
<tr>
<td>CMBS - Canadian conduit/fusion; CMBS - large loan/single borrower; CMBS - U.S. conduit/fusion</td>
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# Credit Conditions North America: Recession Risk Has Eased For Now

### Asset-backed securities

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<tbody>
<tr>
<td></td>
<td>ABS - auto loans; ABS - auto lease; ABS - credit cards; ABS - unsecured consumer loans; ABS - FFELP student loan; ABS - private student loan; ABS - commercial equipment; Asset-backed commercial paper</td>
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### Structured Credit

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<tbody>
<tr>
<td>Tobacco; CLO</td>
<td>Timeshares; Small business; Transportation</td>
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