Credit Market Pulse

2018 Q2 and Q3

S&P Global
Market Intelligence

Editor's Note

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Mixed Performance Overall

The S&P Global Broad Market Index (BMI) started the second quarter of 2018 with a probability of default (PD) of 0.76% and finished the third quarter with a PD of 0.73%. The S&P Europe and North America BMIs were relatively stable over the period, but the S&P Latin America BMI and S&P Mid-East and Africa BMI went from being the most stable indices in the first quarter to the most volatile in the second and third quarters. The Latin America BMI was also the worst performing index, impacted in part by social unrest that choked Brazil in the May/June timeframe.

At an industry level, S&P Global BMI Energy was the best performing index during the second and third quarters on the heels of an increase in oil prices. It was also the most volatile, however, with a standard deviation of 0.29. The worst performing index was the S&P Global BMI Information Technology, which deteriorated by 24.02% over the two quarters, finishing at 0.51%, or an implied credit score of 'bb+' .

Unrest in Brazil

A nationwide trucking strike in May created road blockades, bringing the country to a standstill and affecting the market-implied credit risk. Protesters demanded a decrease in the price of diesel fuel, exemption from certain tolls, and other trucking reforms. President Temer announced billions in concessions to end the strike and enable goods to reach supermarkets, hospitals, and gas stations. This included the offer to subsidize the cost of diesel for the next 60 days, exempt empty trucks from tolls, and introduce a minimum freight fare for truckers. The strike resulted in the surprise resignation of the CEO of Brazil's state-controlled oil company, who took the job in 2016 on the condition that he would have the freedom to control fuel prices. Though the PD doubled in the build-up to the strike, it had increased five-fold by the end in early June. The market-implied risk spiked again in mid-August as Lula da Silva, the imprisoned former president, formally registered as a presidential contender. His ballot entry was eventually blocked by the election court, and the PD decreased. Going forward, additional spending cuts will be needed in other areas to fund the trucking concessions, which could increase social tensions.

Trade-Related Concerns in China

Intensifying global trade tensions between China and the U.S. had the largest impact on the country's market-implied credit risk during the second and third quarters, even as China's second-quarter GDP growth remained unchanged at 6.7% year-over-year. The PD jumped up following the announcement of tit-for-tat trade tariffs on June 15. A lack of progress on trade talks sent the PD steadily higher until mid-September. On December 1, the U.S. and China agreed to a temporary truce to deescalate trade tensions. Both countries said they will refrain from increasing tariffs or imposing new tariffs for 90 days, as they work towards a more encompassing deal. How this plays out will impact their market-implied risk in 2019.

A No-NAFTA Impact in Mexico

Trade issues also had an impact on Mexico as President Trump's unfavorable view of NAFTA raised concerns about potential negative effects on the Mexican economy if the agreement was not renegotiated. Mexico met U.S. tariffs on steel with its own tariffs on American pork, steel, and whiskey. Upward pressure on the PD eased following the landslide victory of López Obrador for president on July 1, who declared he would forge a new relationship with the U.S. based on mutual respect when he took office on December 1. In August, the U.S. and Mexico agreed to a trade deal, helping to alleviate some market uncertainty. Investors then welcomed a tri-lateral deal including Canada that was reached at the end of September, ending more than a year of intense negotiations.

Crackdowns in Saudi Arabia

Saudi Arabia's market-implied risk performance was relatively stable, as the kingdom's ongoing military intervention in Yemen did not significantly impact its PD between April and September. The crown prince's efforts to modernize the country were also seen positively, including a move to allow women to drive cars and even open their own businesses. But these moves have gone hand-in-hand with a crackdown on critics and the arrest of many civil rights activists, business and government workers, and even members of the royal family. The market-implied risk ticked upwards when the Canadian ambassador was expelled from the country in August, and new

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trade and investment with Ottawa was suspended after Canada's foreign ministry urged Riyadh to release arrested activists. The scandal over the suspected killing of Jamal Khashoggi on October 2 has also negatively impacted the prince's Vision 2030 effort, which is aimed at diversifying the economy away from oil, raising concerns about the country's economic future.

Questionable Economic Policies in Turkey

The politics of president Erdogan created a volatile situation for market-implied credit risk in the second and third quarters of the year, as fear spread that the authoritarian government was pursuing irresponsible economic policies and undercutting the independence of the central bank. President Erdogan's snap general election in June was viewed as a bid to consolidate his power before an expected economic downturn hit the country. In July, he claimed the exclusive power to appoint central bank rate-setters and named his son-in-law to oversee economic policy. By mid-September, the PD was nearly seven-times higher than on April 1, the Turkish lira had lost close to 20% in value, and foreign investors began to lose appetite for Turkish assets. Trade and diplomatic tensions with the U.S. over the continued detention of North Carolina pastor Andrew Brunson reinforced market pressures, though the PD eventually dropped, closing in September two-times higher than at the end of the first quarter.

Ratings Trends

As in previous issues, we look at ratings migration and firms on CreditWatch. In addition, this time we zero in on Windstream Holdings, Inc. that provides network communications and technology solutions in the U.S. Secular changes in the industry resulted in weak operating trends across the company's business segments. Consequently, S&P Global Ratings downgraded its issuer credit rating to 'SD' (or 'selective default'), and the market-implied credit risk jumped to 100%.

As always, we hope you enjoy this issue of Credit Market Pulse and encourage you to provide us with your feedback and suggestions for future reports.

Credit Scoring Definitions

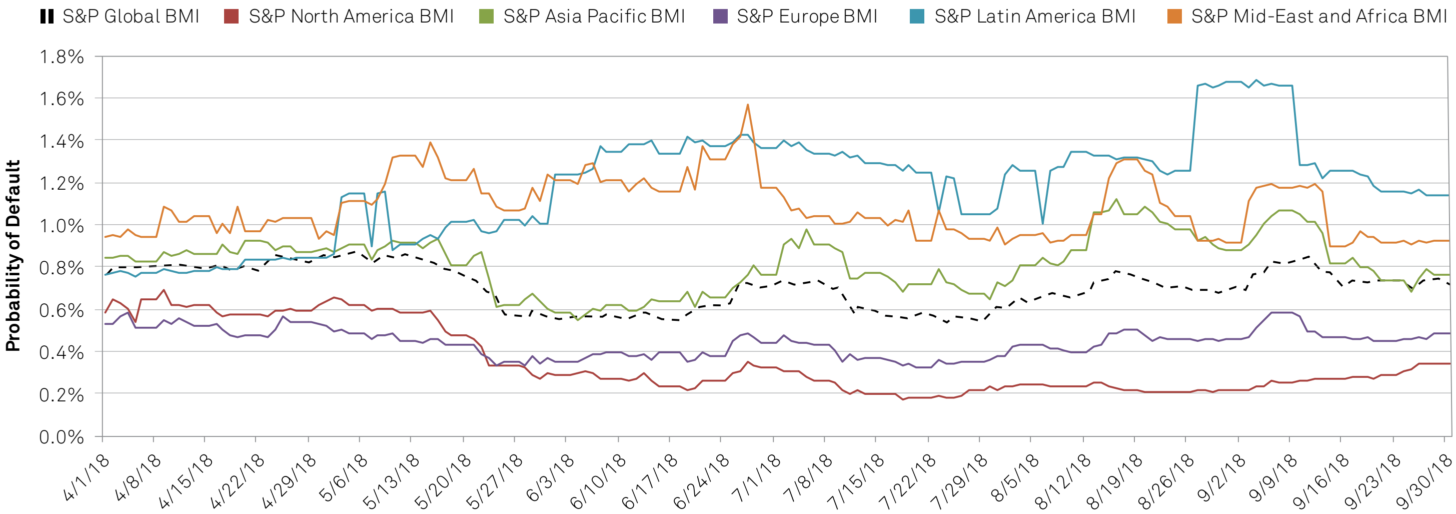
Two primary measures of credit risk are used in Credit Market Pulse to score rated, unrated, public, and private entities across the world. Broadly aligned with credit ratings from S&P Global Ratings, our quantitative models provide both a fundamental-based view of default risk to capture the inherent risk of the firm from its financial standing and a market-based view of default risk to capture emerging risks perceived by the markets.

- **PD Model Market Signals** provides a point-in-time view of credit risk for public companies based on our sophisticated equity-driven model that captures equity market sentiment to provide an early-warning sign of potential default between financial reporting periods. The Market Signal PDs are updated daily and cover 64,000+ public companies globally.
- **PD Model Fundamentals** provide an innovative approach to assessing potential default by looking at financial risk and business risk to measure the likelihood of default of public and private banks, corporations, and REITS over one- to five-year time horizons. Models cover more than 250 countries and 20 segments, regions, and industries.

Regional Risk

Chart 1:

Regional Trends, Market Signal Probability of Default



Source: S&P Capital IQ platform as of October 19, 2018.

Between April 1 and September 31, 2018, the S&P North America BMI was the best performing index, improving by 41.17% over the two quarters. The worst performing index was the S&P Latin America BMI, which deteriorated by 50.59% over the same period. The S&P Europe BMI was the most stable index, with a standard deviation of 0.07. In contrast, the S&P Latin America BMI was the most volatile index, with a standard deviation of 0.24.

Market-implied credit risk at a global scale was stable in April and May, albeit at a higher risk following a steep increase in February. The S&P Global BMI started the period with a PD of 0.76%, retreated slightly in June, and then steadily increased to finish the period with a PD of 0.73%.

In a reversal from the first quarter of 2018, in which the S&P Latin America BMI and S&P Mid-East and Africa BMI were the most stable indices, both clocked the most volatility in the second and third quarter of 2018. The S&P Latin America BMI started the period with a PD of 0.76%, but deteriorated to finish the period with a PD of 1.14%. The S&P Mid-East and Africa BMI started the period with a PD of 0.94%, and then slightly improved to finish the period with a PD of 0.92%. The index experienced a volatility of 0.14.

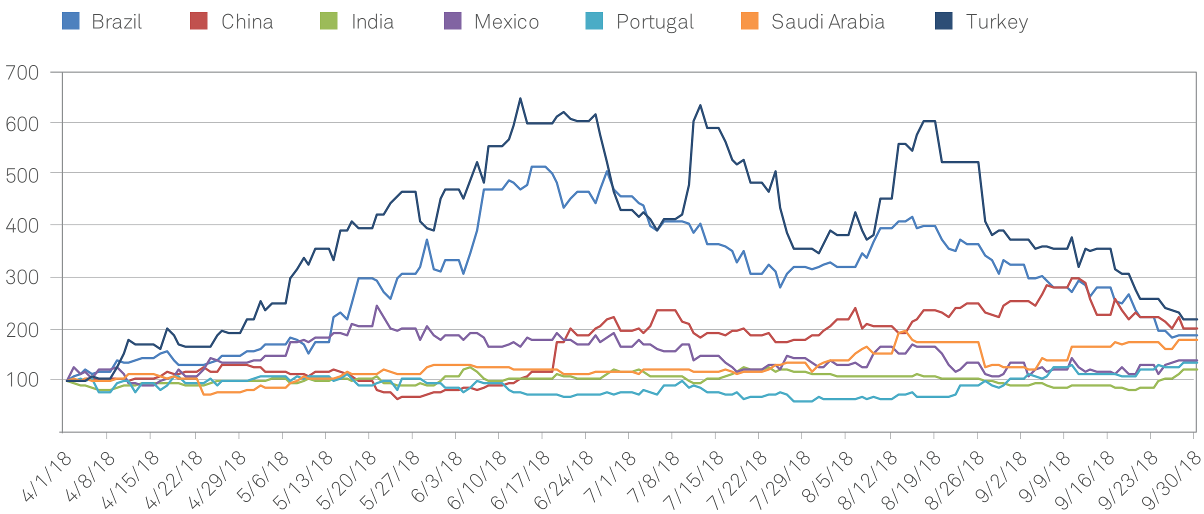
The S&P Asia Pacific BMI was the third most volatile index during the second and third quarter of 2018, with a standard deviation of 0.13. It started April with a PD of 0.84%, improved in June, and then subsequently increased at three distinct times before improving to a PD of 0.77%. Although this is a small improvement during this timeframe, the current market-implied risk is roughly three times higher than it was at the start of 2018.

Europe and North America continue their closely related performance. The S&P Europe BMI started the period as the least risky index with a PD of 0.53%, and then improved to finish the period with a PD of 0.48%. Meanwhile, the S&P North America BMI started the period with a PD of 0.58%, and then improved to finish the period as the least risky index with a PD of 0.34%. The market-implied risk spread between the two regions was markedly larger and more persistent than in the first quarter of the year.

Political Risk

Chart 2:

Country Trends, Market Signal Probability of Default (100 = April 1, 2018)



Source: S&P Capital IQ platform as of December 1, 2018.

Brazil

A nationwide truckers' strike that started on May 21 affected Brazil's market-implied credit risk. The strike caused severe shortages of fuels, food, and medicine across the country. Though the PD doubled in the build-up to the strike, it eventually increased five-fold by the end of the strike in early June. Coupled with a period of intense political activity during a presidential election year, the market-implied risk spiked once again in mid-August as Lula da Silva, the imprisoned former president, formally registered as a presidential contender. His ballot entry was eventually blocked by the election court, and the PD decreased.

China

The trade war between the U.S. and China had the largest impact on China's market-implied credit risk during the second and third quarter of 2018. Though the PD stayed relatively flat until mid-June, it jumped up following the announcement of tit-for-tat trade tariffs on June 15. Both countries expressed a chance for trade talks a month later, which contributed to a modest drop in the PD. However, a lack of progress and the prospect of new trade tariffs sent the PD steadily higher until mid-September.

Mexico

Mexico's implied credit risk was also impacted by the U.S.'s new trade stance and a looming presidential election. President Trump's hard stance against NAFTA made investors uneasy about the potential economic impact of a failed renegotiation of the agreement. By the end of May and early June, the U.S. had imposed tariffs on steel from Mexico, Canada, and the European Union. Mexico retaliated with tariffs on American pork, steel, and whiskey. Upward pressure on the PD eased following the July 1 election of López Obrador for president, and the announcement of a revised trade deal with the U.S. in late August.

Saudi Arabia

Saudi Arabia's market-implied risk performance between April and September was relatively stable. The kingdom's ongoing military intervention in Yemen did not significantly impact its PD. There were some positive market signals: the lifting of a ban on women driving is expected to increase economic activity and Saudi Arabia reached agreement with the U.S. and Russia regarding oil prices. Market-implied risk did tick upwards as diplomatic tensions with Canada increased in August, as a result of Canada's urging for the release of an activist.

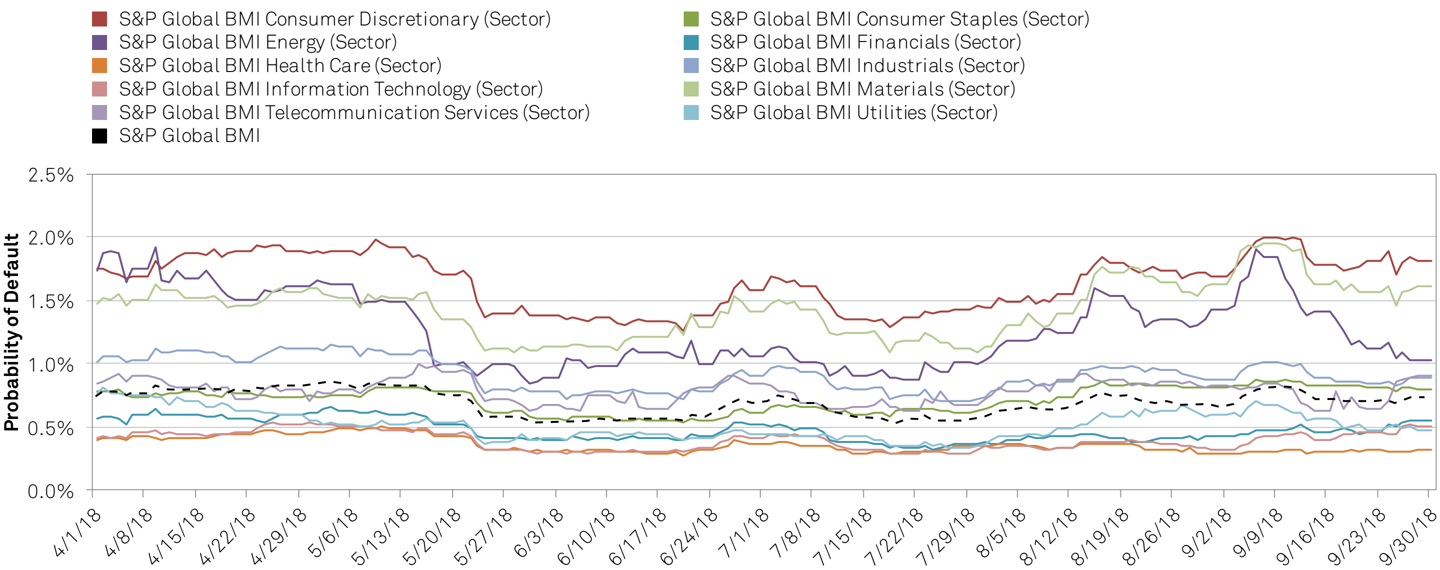
Turkey

The second and third quarter of 2018 saw a rollercoaster ride for Turkey's market-implied credit risk. Turkey's president Erdogan called a snap general election for June in what was seen as an effort to get ahead of economic woes. Ahead of his eventual victory on June 24, Erdogan signaled his desire to increase his power over monetary policy and showed opposition to interest rate hikes to prevent the economy from overheating. By mid-September, the PD was nearly seven-times higher than on April 1, the Turkish lira had lost close to 20% in value, and foreign investors began to lose appetite for Turkish assets. Trade and diplomatic tensions with the U.S. reinforced market pressures, though the PD eventually dropped, closing in September two-times higher than at the end of the first quarter.

Industry Risk

Chart 3:

Industry Trends, Market Signal Probability of Default



Source: S&P Capital IQ platform as of October 19, 2018.

Market-Implied Credit Risk

As discussed, the median credit risk of the S&P Global BMI showed relative stability, after a similar trend in the first quarter, improving to a one-year PD of 0.73% from 0.76%, equivalent to an implied credit score of 'bb'. For roughly two-thirds of the second and third quarters, the implied credit score improved to 'bb+'. The sectors were split over the two quarters, with five improving and five deteriorating.

Best Performers

The index that improved the most was the S&P Global BMI Energy, with a PD decrease of 41.29% over the second and third quarters. It started with a PD of 1.74% and finished with a PD of 1.02% and an implied credit score of 'bb'. This improvement was on the heels of an increase in oil prices; the price of West Texas Intermediate rose by 12.63% to close at $73.06 on September 30, and Brent Crude rose by 19.31% to close at $82.73. Typically, an increase in oil prices is correlated with improving credit health of the Energy sector.

Worst Performers

The worst performing index was the S&P Global BMI Information Technology. It deteriorated by 24.02% over the two quarters, starting with a PD of 0.41%, but finishing at 0.51%, or an implied credit score of 'bb+'.

Volatility

While it exhibited the largest improvement during the period, the S&P Global BMI Energy was also the most volatile, with a standard deviation of 0.29. S&P Global BMI Health Care was again the most stable index, with a standard deviation of 0.06. Materials and Consumer Discretionary were the two other sectors with volatility greater than 0.2, at 0.22 and 0.21 standard deviations, respectively.

Fundamental-Based Credit Risk

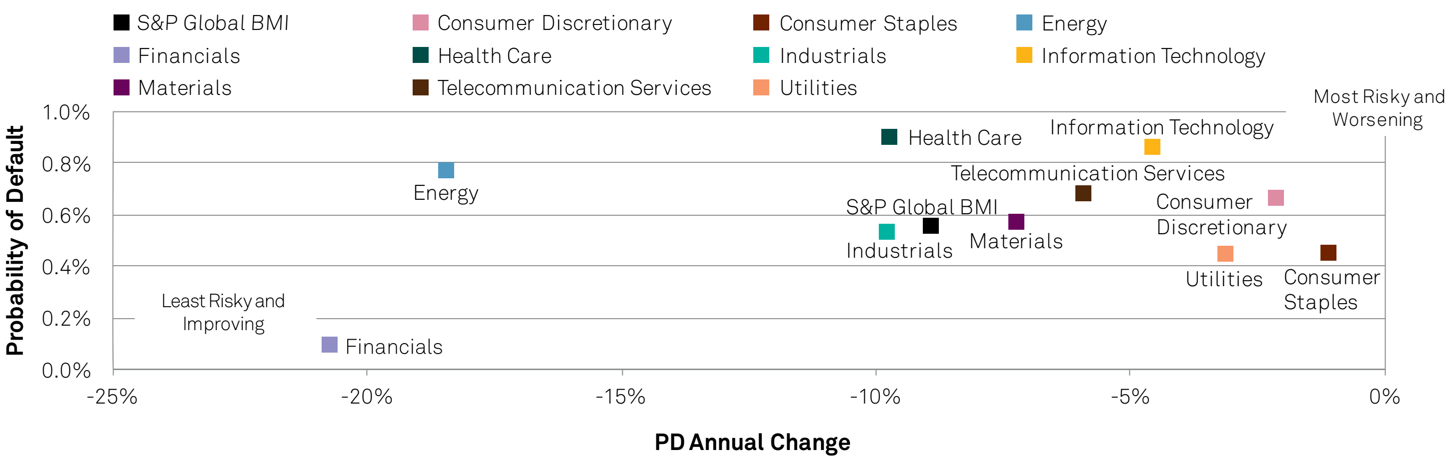
Compared to the second quarter of 2017, the median Fundamental PD improved by 7.41% to 0.58%. This was driven by an across-the-board improvement in the Fundamental PD for all sectors versus one year ago. Overall, the S&P Global BMI had an implied credit score of 'bb+', which held stable over this time. This implied credit score, driven by financials, is now one notch better than the level of the market-implied PD of 'bb' which remained stable over the second and third quarters of 2018, as we observed earlier.

The Financials sector, once again, showed the largest relative improvement, a position it holds most quarters, with a run of year-over-year fundamental improvement that stretches back to the third quarter of 2016. It has seen a notable improvement in creditworthiness with a 21% reduction in the median PD in the year-over-year period, resulting in a one-year PD of 0.09%, or an implied credit score of 'a-'. It remains the only sector with an implied credit score of 'a-' or higher, up from 'bbb+' in the second quarter of 2017.

The Energy sector also showed positive improvement, with a 19% reduction in its Fundamental PD to 0.78%. This is also a continued trend, since the Fundamental PD for the sector hit 1.35% in the second quarter of 2016 amid plunging oil prices. Energy, along with Health Care and Information Technology, are the lowest scored sectors with implied credit scores of 'bb'.

Chart 4:

Annual Industry Changes, Fundamental Probability of Default



Source: S&P Capital IQ platform as of October 19, 2018.

Table 1:

Movers and Shakers

REGION	Highest		Improvement		Deterioration	
S&P Global BMI	**OTCPK:SHLD.Q**	(cc)	**LSE:SHP**	bb- -> aa	**NasdaqGS:NXPI**	aaa -> bb
	Sears Holdings Corporation	(65.18%)	Shire plc	1.37% -> 0.01%	NXP Semiconductors N.V.	0.00% -> 1.18%
	JSE:SNH	(cc)	**NYSE:OGS**	bb+ -> aa+	**NYSE:EAF**	aa+ -> bb-
	Steinhoff International Holdings N.V.	(60.17%)	ONE Gas, Inc.	0.76% -> 0.01%	GrafTech International Ltd.	0.01% -> 1.90%
	BSE:532617	(cc)	**NZSE:TPW**	bb+ -> aa+	**SEHK:316**	aa+ -> bb
	Jet Airways (India) Limited	(48.74%)	Trustpower Limited	0.65% -> 0.01%	Orient Overseas (International) Limited	0.01% -> 1.19%
S&P North America BMI	**OTCPK:SHLD.Q**	(cc)	**NYSE:OGS**	bb+ -> aa+	**NYSE:EAF**	aa+ -> bb-
	Sears Holdings Corporation	(65.18%)	ONE Gas, Inc.	0.76% -> 0.01%	GrafTech International Ltd.	0.01% -> 1.90%
	NasdaqGS:SGMS	(cc)	**NYSE:SHW**	bbb- -> aaa	**TSX:ARE**	aa+ -> bb+
	Scientific Games Corporation	(48.16%)	The Sherwin-Williams Company	0.41% -> 0.00%	Aecon Group Inc.	0.01% -> 0.63%
	NYSE:VNTR	(ccc-)	**NYSE:DG**	bbb- -> aaa	**NasdaqGS:SFLY**	bbb -> ccc+
	Venator Materials PLC	(37.59%)	Dollar General Corporation	0.37% -> 0.00%	Shutterfly, Inc.	0.19% -> 10.76%
S&P Asia Pacific BMI	**KOSDAQ:A036000**	(cc)	**NZSE:TPW**	bb+ -> aa+	**SEHK:316**	aa+ -> bb
	YeaRimDang Publishing Co., Ltd.	(43.05%)	Trustpower Limited	0.65% -> 0.01%	Orient Overseas (International) Limited	0.01% -> 1.19%
	TSE:3194	(ccc-)	**TSE:9735**	bbb- -> aaa	**SGX:V03**	aa- -> bb-
	Kirindo Holdings Co., Ltd.	(31.45%)	SECOM CO., LTD.	0.35% -> 0.00%	Venture Corporation Limited	0.02% -> 1.77%
	ASX:RCR	(ccc-)	**TSE:4555**	bb- -> a+	**SEHK:178**	a+ -> b+
	RCR Tomlinson Limited	(31.33%)	Sawai Pharmaceutical Co., Ltd.	1.95% -> 0.02%	Sa Sa International Holdings Limited	0.03% -> 2.84%
S&P Europe BMI	**DB:TC1**	(cc)	**LSE:SHP**	bb- -> aa	**NasdaqGS:NXPI**	aaa -> bb
	Tele Columbus AG	(43.94%)	Shire plc	1.37% -> 0.01%	NXP Semiconductors N.V.	0.00% -> 1.18%
	LSE:DEB	(ccc-)	**SWX:PWTN**	bb -> aa	**ENXTAM:FLOW**	a -> b
	Debenhams plc	(36.56%)	Panalpina Welttransport (Holding) AG	0.85% -> 0.01%	Flow Traders N.V.	0.05% -> 3.45%
	LSE:TCG	(ccc-)	**NYSE:AER**	bb- -> aa-	**ENXTAM:BESI**	a- -> b
	Thomas Cook Group plc	(34.43%)	AerCap Holdings N.V.	1.43% -> 0.01%	BE Semiconductor Industries N.V.	0.07% -> 4.49%
S&P Latin America BMI	**BVC:CLH**	(ccc-)	**SNSE:COPEC**	bbb -> aa-	**BOVESPA:VVAR3**	bb+ -> ccc+
	CEMEX Latam Holdings, S.A.	(32.44%)	Empresas Copec S.A.	0.30% -> 0.02%	Via Varejo S.A.	0.72% -> 12.24%
	BOVESPA:OIBR4	(ccc-)	**BMV:BSMX B**	b -> bbb-	**SNSE:LTM**	bb+ -> ccc+
	Oi S.A.	(29.84%)	Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	5.30% -> 0.36%	LATAM Airlines Group S.A.	0.78% -> 12.07%
	BOVESPA:MRFG3	(ccc)	**BMV:ELEKTRA ***	bb- -> bbb	**SNSE:ENELAM**	bbb+ -> bb-
	Marfrig Global Foods S.A.	(19.13%)	Grupo Elektra, S.A.B. de C.V.	1.66% -> 0.18%	Enel Américas S.A.	0.12% -> 1.72%
S&P Mid-East and Africa BMI	**JSE:SNH**	(cc)	**JSE:DTC**	ccc- -> bb-	**DFM:AIRARABIA**	bb+ -> b-
	Steinhoff International Holdings N.V.	(60.17%)	Datatec Limited	27.91% -> 1.44%	Air Arabia PJSC	0.72% -> 6.69%
	JSE:BLU	(ccc)	**DSM:VFQS**	bb+ -> a-	**JSE:BLU**	b+ -> ccc-
	Blue Label Telecoms Limited	(24.51%)	Vodafone Qatar Q.S.C.	0.61% -> 0.08%	Blue Label Telecoms Limited	2.80% -> 24.51%
	CASE:ORWE	(ccc)	**DSM:QGTS**	b+ -> bb+	**ADX:ETISALAT**	aa -> a-
	Oriental Weavers Company For Carpets (S.A.E)	(22.10%)	Qatar Gas Transport Company Limited (Nakilat) (QPSC)	3.55% -> 0.49%	Emirates Telecommunications Group Company PJSC	0.02% -> 0.08%

Source: S&P Capital IQ platform as of October 19, 2018.

For the first time in several publications, Consumer Discretionary does not constitute the majority of risky firms, though it remains the most prevalent sector. Across the five covered regions, six of the riskiest firms operate in the Consumer Discretionary sector, down from nine at the end of the first quarter of 2018.

Sears Holdings Corporation (OTCPK:SHLD.Q), which has since filed for Chapter 11 bankruptcy protection as of October 15, 2018, held the highest PD globally at 65.18% at the end of the third quarter, an implied credit score of ‘cc’. Sears, a department store retailer in the U.S., has struggled for some time under a challenging retail environment. It had previously been rated ‘SD’ by S&P Global Ratings upon the completion of a distressed exchange from March 22, 2018 until April 9, 2018, when it regained a ‘CCC-’ minus rating.

Steinhoff International Holdings N.V. (JSE:SNH) remains one of the three riskiest public firms globally as of the end of the third quarter, a title it has held since the end of 2017. The firm ended the quarter with a one-year forward-looking PD of 60.17%, or an implied credit score of ‘cc’. The elevated PD is the result of an ongoing accounting scandal at this global owner of numerous household goods and general merchandise brands.

We continue to monitor the situation for Steinhoff as it develops. On September 17, 2018, Steinhoff received a Compliance Certificate from the CIPC confirming that it was satisfied that the requirements set out for compliance were met as of July 24, 2018. This was in response to a compliance notice announced on January 30, 2018 requiring an investigation of the firm’s reported accounting irregularities. However, shareholders and other investors in the company are advised to exercise caution when dealing in the securities of the group.

NXP Semiconductors N.V. (Nasdaq GS:NXPI) experienced the largest PD increase globally over the second and third quarters, going from a PD just higher than 0% to 1.18%, or an implied credit score of ‘aaa’ to ‘bb’. This was triggered largely by the news that the Netherlands-based NXPI’s acquisition by U.S.-based Qualcomm Incorporated (Nasdaq GS:QCOM) would not be approved by China. The merger was judged on antitrust concerns, though the climate in 2018 has centered around the U.S.-China trade tariffs. The acquisition had been approved in eight other jurisdictions.

Air Arabia (DFM:AIRARABIA) exhibited the largest PD increase in the Mid-East and Africa, going from a one-year PD of 0.72% to a PD of 6.69%, or an implied credit score of ‘bb+’ to ‘b-’. In June, Air Arabia disclosed that it had a $336 million exposure to funds managed by Abraaj Group. Abraaj Group, a private-equity firm founded by Arif Naqvi, who was also a member of the Air Arabia board, is undergoing a debt restructuring.

S&P Global Ratings Trends

Chart 5:

Credit Ratings Distribution

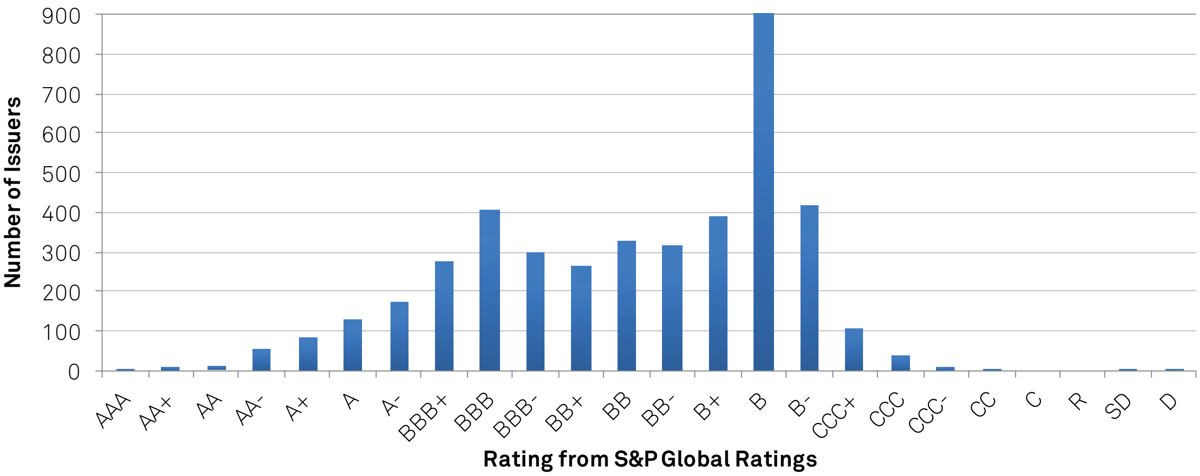


Chart 6:

Credit Ratings Migration

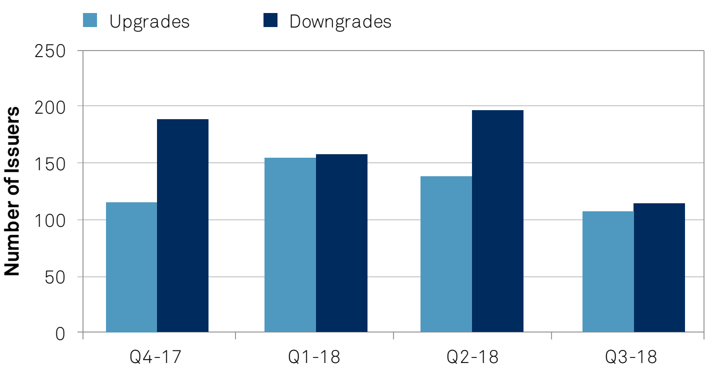
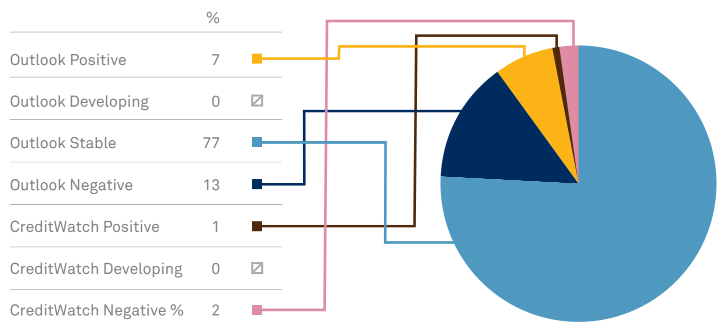


Chart 7:

Credit Ratings CreditWatch/Outlook Distribution



Ratings Migration

A total of 334 issuers migrated during the second quarter of 2018, the most in the past year, and 221 in the third quarter, the least in the past year. Between the second and third quarters combined, 245 issuers were upgraded and 310 downgraded.

The upgrade-to-downgrade ratio continued to oscillate, with downgrades outpacing upgrades by more than 40% in the second quarter, and then nearing parity in the third quarter. This upgrade-to-downgrade ratio tracked 0.61, 0.99, 0.70, and 0.94 during the past four quarters, and the recent rise towards parity was a result of the fewest number of downgrades in the past four quarters. The relatively higher level of downgrades in the second quarter was consistent with the relatively higher degree of firms on CreditWatch Negative versus CreditWatch Positive, which signaled a propensity for a higher rate of downgrades.

Charts this page: Source: S&P Capital IQ platform as of October 19, 2018.

Firms on CreditWatch

Looking forward, the overall positive/negative ratio of firms on CreditWatch/Outlook held constant, with the first quarter at 0.5. We will watch the ratings migrations trends to see if they maintain near parity levels, but the percentage of firms on CreditWatch Negative remained the same, and at a level that is double those on CreditWatch Positive. All else equal, this presages more downgrades in the future.

Ratings Distribution

The ratings distribution remained consistent with recent quarters. A total of 34.3% of Industrial firms were rated investment grade (‘BBB-’or higher), resulting in an investment grade-to-noninvestment grade ratio of .52x, slightly down from the 0.53x in the first quarter of 2018 and continuing recent trends. There were 52 (3%) more firms in the ‘B’ ratings category (inclusive of +/- notches) versus the first quarter of the year. ‘B’ remained the most popular rating level, which had 21.1% of all rated Industrials.

Quarterly Default Review

Table 2:

2018 Q2-3 Defaults, Selected Defaults, and Bankruptcies

Company Name	Bankruptcy Date	Rating Default Date	Country	Total Assets (USD MM)	Primary Industry
Community Health Systems Inc.		6/26/2018	United States	16,469	Health Care Facilities
Intelsat S.A.		7/13/2018	Luxembourg	12,514	Alternative Carriers
Windstream Holdings Inc.		8/3/2018	United States	10,710	Integrated Telecommunication Services
FirstEnergy Solutions Corp.		4/2/2018	United States	5,514	Electric Utilities
QGOG Constellation S.A.		5/9/2018	Luxemburg	5,263	Oil and Gas Drilling
PT MNC Investama Tbk.		5/4/2018	Indonesia	3,769	Broadcasting
American Tire Distributors Inc.		9/5/2018	United States	3,599	Distributors
Nine West Holdings, Inc.	4/6/2018	4/6/2018	United States	2,512	Apparel, Accessories and Luxury Goods
Westmoreland Coal Co.		5/29/2018	United States	1,468	Coal and Consumable Fuels
Harvest Oil & Gas Corp.	4/2/2018		United States	1,458	Oil and Gas Exploration and Production

Chart 8:

Bankruptcies by Company Age and Sector

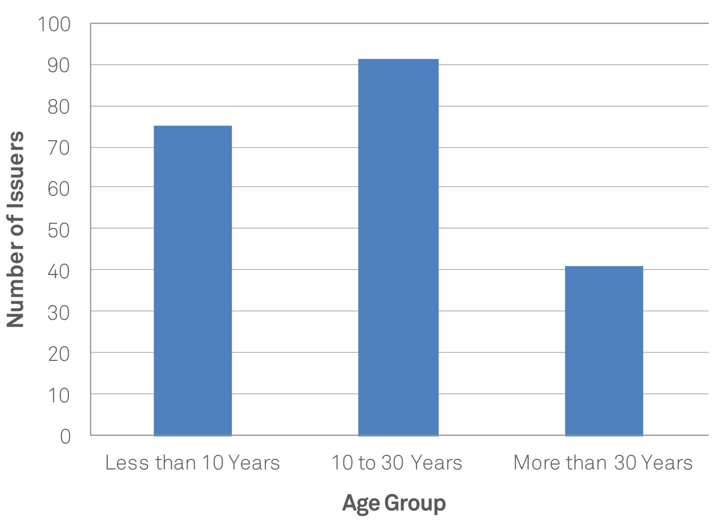
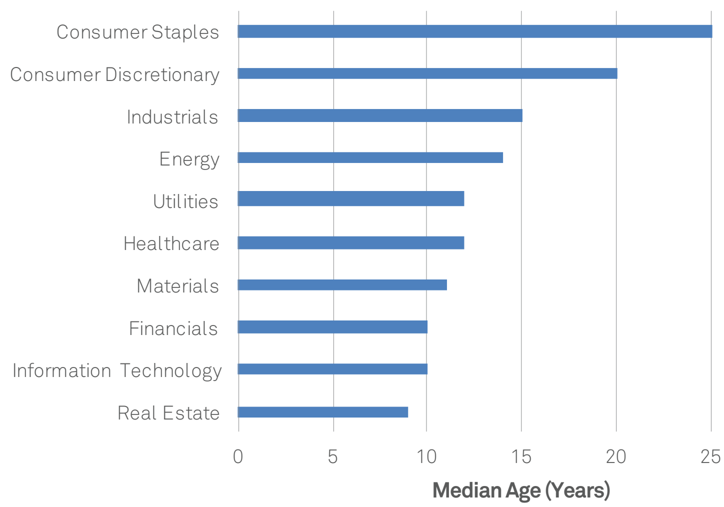


Chart 9:

Distribution of Age by Sector



Communication Services was the sector with the most defaulted assets, representing $26.9 billion (36.1% of the total), followed by Health Care with $16.5 billion (22.1% of the total), and then Energy with $13.1 billion (17.6% of the total).

On an industry view, Health Care Facilities was the industry with the most defaulted assets with $16.4 billion (22% of the total), followed by Alternative Carriers with $12.5 billion (16.7% of the total), and then Integrated Telecommunication Services with $10.7 billion (14.3% of the total).

Of the 298 companies that either defaulted or declared bankruptcy, 207 companies have the year in which they were founded available. The distribution of bankruptcies by company age is illustrated above – 75 were less than 10 years old, 91 were between 10 and 30 years old, and 41 were older than 30 years old. We observe that companies older than 10 years defaulted or declared bankruptcy at a rate that was 1.8x higher than younger ones.

Charts this page: Source: S&P Capital IQ platform as of December 1, 2018.

Single-Entity Default Analysis

Chart 10:

Windstream Holdings, Inc.: Early Warning Default Indicator

Source: S&P Capital IQ platform as of December 1, 2018.

Windstream Holdings, Inc. ("Windstream") provides network communications and technology solutions in the U.S. The company's business segments are Consumer and Small Business, Enterprise, and Wholesale. The first segment serves approximately 1.4 million residential and small business customers with voice and Internet services, as well as value-added services, including security and online backup. The Enterprise segment offers integrated voice and data services. The Wholesale segment provides network bandwidth, fiber-to-the-tower connections, voice and data carrier services, special access services, and time division multiplexing private line transport. The company incorporated in 2013 in Little Rock, Arkansas.

Windstream has a strong position in rural areas as a provider of telecommunications services, though it came under increased pressure in more competitive markets. Secular changes in the industry compressed the company's margins, especially from strong competition in the Consumer and Small Business segment. In April 2018, it was expected that cost cuts and synergy realizations would improve the company's operating and financial performance. Accordingly, the graph above shows the market-implied PD improving between April and June. However, this was short-lived and not expected to mitigate overall weak operating trends across the company's business segments.

Windstream's liquidity position was considered adequate by S&P Global Ratings as of April 2018. Sources of liquidity included roughly $43 million in cash, $475 million available on a revolving credit line facility, and $900 million cash from operations. Uses of liquidity included capital expenditures around $750 million, and about $14 million annual debt amortization. The company's declining cash flow and revenue made it difficult to reduce leverage. Though it completed a debt exchange in 2017 on $1.9 billion of unsecured debt, shifting to after 2023, it still had a $1.3 billion maturing in both 2020 and 2021.

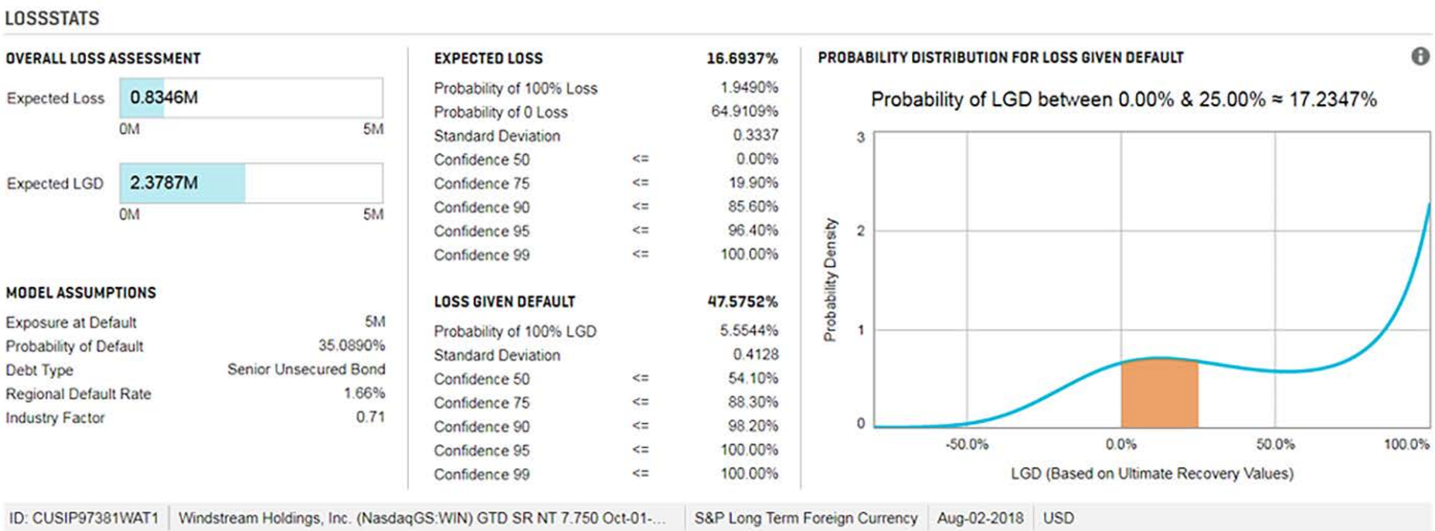
As prospects of a distressed exchange mounted, the market-implied credit risk responded by tracking upwards during July 2018. On August 3, 2018, the company announced an exchange at discount to par of about $1 billion in face value of subsidiary Windstream Services LLC's 7.7% senior notes due 2021, 7.5% senior notes due 2022, 7.5% senior notes due 2023, 6.375% senior notes due 2023, and 8.75% senior notes due 2024. Consequently, S&P Global Ratings downgraded its issuer credit rating on Windstream to 'SD' (or 'selective default'), and the market-implied credit risk jumped to 100%.

Single-Entity Recovery Analysis

Continuing with the example above, it is possible to estimate potential losses on any exposure to Windstream using S&P Global Market Intelligence's LossStats™ Model. Taking the company's 7.75% senior unsecured corporate debentures due October 2021, we can construct a hypothetical scenario. We analyze a holding of $5 million in the above debenture and apply a set of standardized assumptions about the characteristics and performance of senior unsecured notes. Furthermore, we take the PD of the entity the day before the selective default (i.e. 35%), along with pre-calculated regional default rates, to estimate a loss given default of 47.57% or $2.38 million.

Figure 1:

Windstream Holdings, Inc.: Sample Recovery Analysis



Source: S&P Capital IQ platform as of December 1, 2018.

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