Explore how future economic scenarios may impact credit risk with Macro-Scenario Model

There is a well-known link between the business cycle and credit cycle, and ignoring this relationship can prove costly during periods of economic expansion — or even fatal during severe recessions. Every risk management toolkit needs a capability to explore how future economic scenarios may impact credit risk. The Macro-Scenario Model (MSM) enables users to gauge how a firm’s credit risk may change by leveraging either user-defined or pre-defined forward-looking macroeconomic scenarios.

Essential analytics
- Quantify credit risk impacts on counterparties and investments with macroeconomic scenario what-if analysis.
- Use MSM as a tool to support expected credit loss calculations, as required by IFRS 9 and CECL accounting standards.¹

Model flexibility
- Select pre-defined inputs, specify scenarios of choice, or use a “recession switch” to simulate impacts similar to those of the most extreme economic downturns of the past 15 years.
- View MSM probability of default results for the full term structure, from one month through to 39 years.
- Monitor changes and be notified via alerts if an entity breaches a pre-set threshold.

Powerful data
- Leverage a model with inputs that include S&P Global Ratings’ credit ratings and the outputs of Credit Analytics’ fundamentals-based statistical models (CreditModel™ and PD Model Fundamentals).
- Draw on a subset of macroeconomic factors that banking industry regulators normally consider for stress-testing purposes, with variables selected for their predictive power, economic sense, and positive impact on overall model performance.

Rigorous methodology
- Explore what future scenarios may bring with a model trained on S&P Global Ratings’ credit ratings² that leverages the historical statistical relationship observed between credit ratings’ changes and corresponding macroeconomic conditions.
- Evaluate the average tendency of companies to transition to a different level of creditworthiness (or remain at the same level) under a given macroeconomic condition.
- Calculate a credit score³ representing the expected score that all companies with the same current score will migrate to within one year, based on the specified macroeconomic scenario.

Flexible delivery
- Use MSM on a standalone basis on the Market Intelligence platform, or in conjunction with other S&P Global Market Intelligence quantitative features to support the calculation of expected credit losses for IFRS 9 and CECL purposes.
- View MSM results across a whole portfolio of companies via batch scoring.
- Generate reports directly from the platform or via Excel® that dynamically links the analysis to PowerPoint to efficiently replicate credit memos or senior management presentations.

¹ IFRS and CECL stand for International Financial Reporting Standards and Current Expected Credit Loss, respectively.
² S&P Global Ratings is analytically and editorially independent from any other analytical group at S&P Global.
³ S&P Global Ratings does not contribute to or participate in the creation of credit scores generated by S&P Global Market Intelligence. Lowercase nomenclature is used to differentiate S&P Global Market Intelligence PD credit model scores from the credit ratings issued by S&P Global Ratings.
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