# 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 ratings[2] 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 score[3] 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.

## About S&P Global Market Intelligence

At S&P Global Market Intelligence, we understand the importance of accurate, deep and insightful information. We integrate financial and industry data, research and news into tools that help track performance, generate alpha, identify investment ideas, perform valuations and assess credit risk. Investment professionals, government agencies, corporations and universities around the world use this essential intelligence to make business and financial decisions with conviction.

S&P Global Market Intelligence is a division of S&P Global (NYSE: SPGI), the world's foremost provider of credit ratings, benchmarks and analytics in the global capital and commodity markets, offering ESG solutions, deep data and insights on critical business factors. S&P Global has been providing essential intelligence that unlocks opportunity, fosters growth and accelerates progress for more than 160 years. For more information, visit www.spglobal.com/marketintelligence.

**CONTACT US**

**The Americas**
+1-877-863-1306

**Europe, Middle East & Africa**
+44-20-7176-1234

**Asia-Pacific**
+852-2533-3565