

COVID-19 Weekly Digest

November 12, 2020

Key Takeaway

- BioNTech/Pfizer's announcement of 90% efficacy in phase 3 trials of its new vaccine offered hope that an end might be in sight to the COVID-19 crisis.

Key developments

Reports that BioNTech and Pfizer's pioneering messenger RNA vaccine had achieved more than 90% efficacy in phase 3 trials with no serious side effects appears to be a game-changer, providing a potential route to a post-COVID world. Financial markets rose sharply in response, with the companies hit hardest by the pandemic seeing asset prices surge. Emergency regulatory approval will be sought once full test results are available in around three weeks. Inevitably there will be complications--the BNT162b2 vaccine requires two doses, three weeks apart, and has to be stored at -75 degrees Celsius, which might prove challenging for countries without adequate cold chain facilities. Efficacy was tested seven days after the second dose; there's no indication yet of vaccine duration.

Formidable logistical challenges lie ahead. The U.S., U.K., EU, and Japan have already bought much of the existing supply, and while the World Health Organization's COVAX initiative should help ensure global access to this and other vaccines, available doses are unlikely to cover whole populations even for countries with large pre-orders. Social distancing is likely to remain necessary for some time yet, and this development won't prevent a difficult winter for Northern Hemisphere countries where cases are surging.

With a widespread medical solution likely to take time, **the recovery in travel and hotel demand will be slower than we expected**, and may not take hold until the second half of next year. We believe U.S. revenue per available room (RevPAR) will be down about 50% in 2020, recovering next year but remaining 20% to 30% below 2019 levels. The risk of "fallen angels" in the sector is still high among the remaining investment-grade lodging issuers. Some lodging REITs may need to pursue long-term solutions for their capital structures, either through equity issuances or hotel sales.

Joe Biden won the U.S. presidential election, along with vice president-elect Kamala Harris, albeit with some legal challenges and recounts taking place. The Democrats failed to win control of the Senate, potentially constraining the new administration, although two runoffs in Georgia on Jan. 5 could yet swing the balance. President-elect Biden has initiated a COVID-19 advisory board, with policy changes likely to include mandating greater use of masks and renewed test-and-trace efforts. Recorded U.S. cases now exceed 10 million, with new cases growing at the fastest rate since the epidemic began.

The global corporate default tally has hit 200--the highest seen since 2009. These numbers translate into a 12-month-trailing speculative-grade default rate of 5.1% globally, 6.3% in the U.S., and 4.9% in Europe, including both high-yield bond and loan borrowers that S&P Global rates. [U.S. and Canadian issuers in the 'CCC' rating category](#) currently total 242--nearly double the 134 as of December 2019.

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Contents

- 1 Key developments
- 2 Credit Markets Update
- 5 Asset Class Trends

Global Research

Gareth Williams

London
gareth.williams
@spglobal.com
+44-20-7176-7226

Alexandra Dimitrijevic

London
alexandra.dimitrijevic
@spglobal.com
+44-20-7176-3128

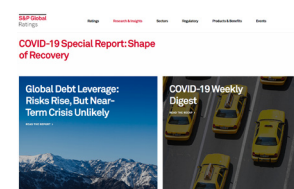
Joe Maguire

New York
joe.maguire
@spglobal.com
+1-212-438-7507

Links

Daily research updates, including a summary of related ratings actions, are available at:

<https://www.spglobal.com/ratings/en/research-insights/topics/coronavirus-special-report>

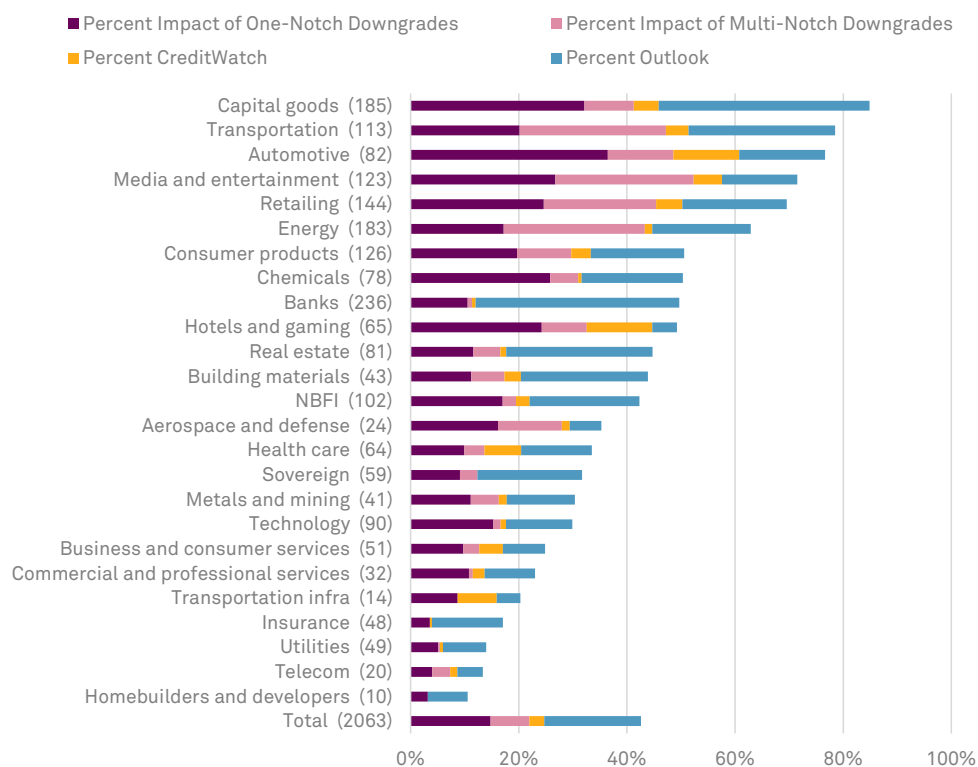


Credit Market Update

Ratings Trends

Chart 1

Percent Of Issuers Downgraded Due To COVID-19 And Oil Prices By Sector



Source: S&P Global Ratings Research. Downgrades tracked from Feb. 3rd to Nov. 9th. NBFI: Non-bank financial institution.

- **S&P Global Ratings has taken 2063 negative rating actions** (as of Nov. 9) on global corporate nonfinancial, financial, and sovereign issuers, including 1064 downgrades, 866 outlook revisions to negative, and 133 placements on CreditWatch with negative implications. The **downgrades for nonfinancial companies represent roughly 22% of the rated portfolio**, higher than that of financial institutions (17%) and sovereigns (11%). By comparison, **roughly 4% of the structured finance rated portfolio experienced negative actions**, primarily consisting of **CreditWatch negative placements**.
- The **pace of negative rating actions due to COVID-19 and oil-related pressures continues to steady at a slower pace**, with just 18 rating actions this week (from 14 actions in the week prior). 11 out of the 18 negative actions this week were downgrades, mirroring recent trends of downgrades accounting for a larger share of negative actions as prior Outlooks and CreditWatch placements are resolved at a lower credit rating.
- **The global corporate default tally reaches 200 for the first time since 2009.** Regionally, much of the rise in defaults so far in 2020 can be attributed to an increase in defaults in both the U.S. and Europe--both regions hold the largest numbers of rated issuers globally and the impact of the COVID-19 pandemic has pressured vulnerable sectors like oil and gas, consumer and retail, media and entertainment, and lodging sectors (all of which had comparatively weak credit before the pandemic began). In Europe, the number of defaults has well surpassed its year-end 2009 levels of 22 defaults and have reached a historic high of 35. Although below its June high of 57%, Europe's negative bias of 49% remains well above its pre-pandemic levels.

Credit Market Research

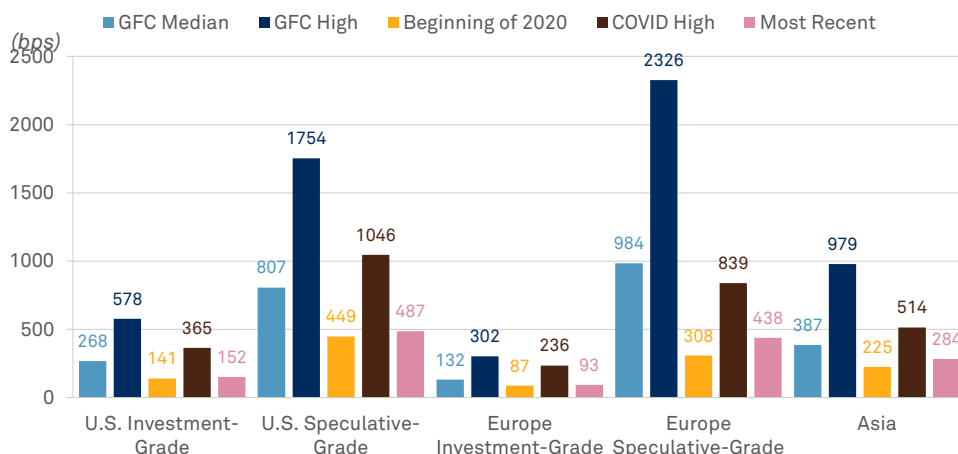
Sudeep Kesh
New York
sudeep.kesh@spglobal.com

Nicole Serino
New York
nicole.serino@spglobal.com

Financing Conditions

Chart 2

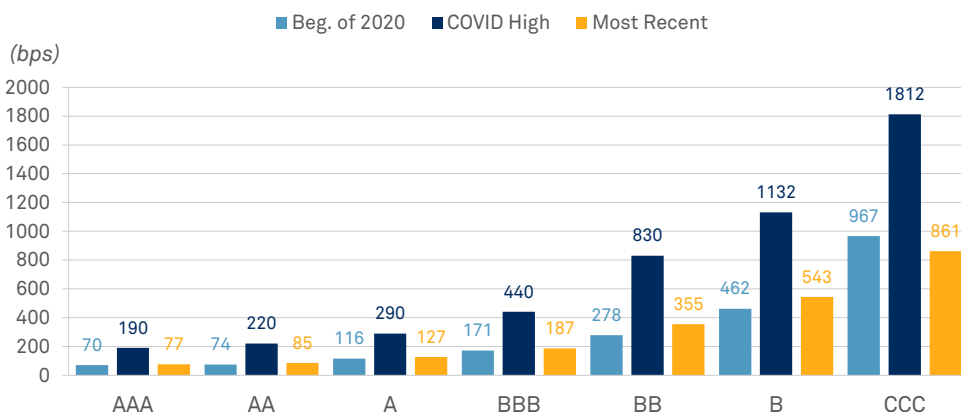
Secondary Market Credit Spreads, U.S., Europe, And Asia



Source: ICE Benchmark Administration Limited (IBA), 'ICE BofAML Asia Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', 'ICE BofAML Europe, the Middle East, and Africa (EMEA) Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/BAMLEMRECRPIEMEAOS>, U.S. Investment-Grade and Speculative-Grade Spreads from S&P Global Ratings, Europe Investment-Grade Spreads From S&P Dow Jones Indices. Nov. 9, 2020.

Chart 3

S&P Global U.S. Composite Spreads By Rating, Secondary Market



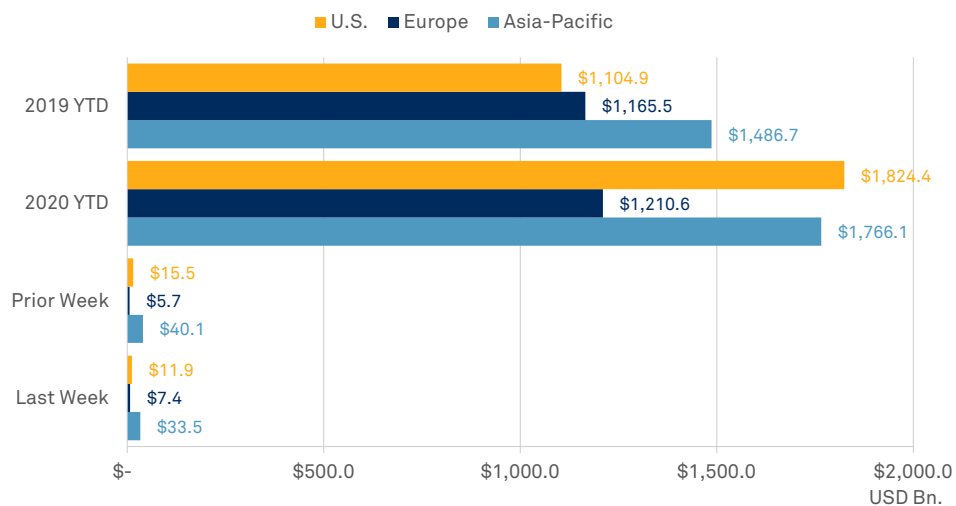
Source: S&P Global Ratings. Data as of Nov. 9, 2020.

- **Debt issuance.** Issuance was largely paused globally last week on count of the U.S. elections, though its conclusion this weekend (for most races) followed by the announcement of a promising COVID19 vaccine has caused markets to rally. Accommodative financial conditions will likely continue to support issuance for companies with stronger and healthier balance sheets and risk appetite may grow, supported by improvements in investor sentiment. Consequently, investors may increase purchase risk assets as they measure relative risk against a backdrop of extremely low yields.
- **Spreads tighten.** Market sentiment has markedly shifted after Monday’s announcement of a promising COVID19 vaccine, tightening an average of 15 basis points for investment-grade categories and nearly one percentage point for speculative-grade categories week-over-week. While spreads recently rose due to rising COVID19 infections, they quickly contracted with this week’s news.

Debt Capital Markets

Chart 4

Financial And Nonfinancial New Bond Issuance



Source: S&P Global Ratings. Data as of Nov. 9, 2020.

- **Global.** Global new issuance rises to \$5.05 trillion in 2020, 12% higher than the entirety of 2019 as the U.S. elections were in focus last week.
- **Asia.** Asian issuance paused as borrowers opted to wait for clarity before they get resume planned issuances in November.
- **Europe.** European new issues also saw a pause-- nevertheless, conditions remain supportive for a late flurry before the year end.
- **U.S.** Last week’s new issuance in the U.S. came to a halt as issuers waited for election results.

Asset Class Trends

Corporate

- During the week ending Nov. 10, 2020, notable rating actions from continued pressure on travel and leisure include downgrades of cinema advertising firms National CineMedia Inc. and Screenvision LLC and concession catering operator PAX Midco Spain. The rating on cruise line operator Carnival Corp. was further lowered by 2 notches to 'B' from 'BB-'.
- New reports include our analysis of how a slower than expected recovery in business and group travel and hotel demand could delay a recovery of U.S. revenue per available room (RevPAR) until 2023 at the earliest. See [The U.S. Lodging Sector: A Slower Recovery Could Take Until 2023](#), published Nov. 5, 2020.

Banks and Financial Institutions

- Over the past week, we lowered our rating on a U.S.-based investment holding company to 'BB' from 'BB+' due to a significant decline in the value of the investment portfolio through the third quarter of 2020.

Structured Finance

- **EMEA Structured Finance:** See "[EMEA Structured Finance Surveillance Chart Book](#)" published Nov. 4, 2020. Our Chart Book includes the latest credit developments within the region and across sectors. In addition, you can find the latest sector performance indicators and recent rating actions by sector.
- **U.S. CMBS:** See "[SF Credit Brief: U.S. CMBS Delinquency Rate drops to 7.53% in October, but the Proportion of Seriously Delinquent Loans continues to grow](#)" published Nov. 5, 2020.
- **Japan RMBS:** We published two reports last week. Here are a couple "Key Takeaways" from our report related to our scenario analysis in this sector: "We haven't observed material changes in performance of loans backing RMBS transactions in Japan, despite COVID-19. We estimate a 5% default rise and 5% real estate price decline would hurt less than 10% of the classes we rate." See "[Scenario Analysis: Japanese RMBS' Credit Enhancements tolerate Pandemic Stresses](#)" published Nov. 5, 2020. Here is one of the "Key Takeaways" from our other report: "The impact of COVID-19 on default and delinquency rates of Japanese private sector RMBS transactions has been limited, based on collection data through to July 2020." See "[Performance Watch: Japan Private-Sector RMBS endures Pandemic Challenges](#)" published Nov. 5, 2020.

Analytics & Research

Cross-Practice

Gregg Lemos-Stein
gregg.lemos-stein
@spglobal.com

Corporate

Jeanne Shoesmith
jeanne.shoesmith
@spglobal.com

Financial Institutions

Alexandre Birry
alexandre.birry
@spglobal.com

Infrastructure

Karl Nietvelt
karl.nietvelt@spglobal.com

Insurance

Simon Ashworth
simon.ashworth
@spglobal.com

Sovereign

Roberto Sifon-Arevalo
roberto.sifon-arevalo@spglobal.com

Structured Finance

Winston Chang
winston.chang
@spglobal.com

U.S. Public Finance

Robin Prunty
robin.prunty@spglobal.com

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis.

S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

spglobal.com/ratings