

Uneven Recovery

March 30, 2021

Key Takeaways

- **Overall:** The two "arms" of the K-shaped recovery are widening. China and several developed Asia-Pacific economies are seeing stronger recoveries than more pandemic-addled emerging markets. Sectors such as essential retail and telecoms should fully recover in 2021 but others, e.g. airlines, will take several more years. These disparities translate into widening ratings trends.
- **Risks:** Sluggish rebounds in revenues, combined with rising debt, are the main threats. High risks are U.S.-China confrontation, slow vaccine rollouts or new infection waves, and policy response uncertainty. Elevated risks include market repricing, climate-change policies, and technology change. The latter, a longer-term risk, could hurt financing access as traditional business models face obsolescence.
- **Credit:** Credit quality has steadied, but meaningful downgrade risk remains. Our negative rating actions have tapered over the past quarter indicating some stabilization in credit quality. That said, one-fifth of our ratings have a net negative rating bias. The likelihood of downgrades remains significant.

(Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, North America, Europe, and Emerging Markets). 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 Asia-Pacific committee on March 23, 2021.)

Improvement in credit conditions vary. Credit conditions are strengthening with the improving economic backdrop and COVID-19 situations across Asia-Pacific. However, this improvement is uneven across sectors and borrower profiles. Geographically, Indonesia, Malaysia, Philippines and Thailand are lagging. Lackluster domestic demand could delay the resumption of revenues and income, slowing the unwind of debt built-up from the COVID-19 pandemic. There is a race between the vaccine rollout and new variants.

Export-driven recovery points to still-supportive monetary stance. We revised up our Asia-Pacific economic growth to 7.3% this year, as we expect Biden's US\$ 1.9 trillion stimulus will further boost manufacturing and exports. However, the still subdued domestic consumption means a broad-based economic recovery is still some way to go. Sectors dependent on mobility or discretionary consumption may see delays in revenue growth. A narrow economic recovery could intensify stress on households and corporates, pushing up credit losses for banks. We expect the region's governments to maintain accommodative monetary policies to facilitate fuller economic repair. However, the capacity for further lowering policy rates is limited.

A disorderly path to interest rate normalization and volatile risk-repricing would exacerbate refinancing challenges. While the cost of refinancing debt is historically low, even for highly leveraged corporate borrowers in sectors seeing slow recovery, a recalibration of risk-return expectations could spark capital flight. Earlier-than-expected tightening of monetary policies could see financial and real assets repricing (i.e. higher yields). In turn, higher debt-servicing costs and narrower access (particularly for borrowers highly reliant on U.S.-dollar funding) could create refinancing dramas for weaker issuers.

The net outlook bias for companies we rate in Asia-Pacific remains about one-fifth negative. Although downgrade or even default risk remains elevated, a flattening of the outlook bias in recent months implies credit quality is settling. Economic recovery and relief measures from regional governments continue to support issuers' debt-servicing ability. Semiconductors, utilities, metals and mining, and automobile-related sectors will recoup pre-pandemic levels in 2021, earlier than our previous expectations of 2022. That said, the unwind of extraordinary COVID-19 stimulus is inevitable. In China, the central government recently announced it will scale back capital spending at the national level, leaving the burden to lower-tier governments. This will pile stresses on already weak local governments' financial positions. More selective support for weak state-owned enterprises could mean defaults to come.

While a further escalation of U.S.-China tensions seems unlikely, the relationship remains strenuous. Recent fractious exchanges between representatives of the two countries underpin the still high tensions not only on economic issues, but also around topics such as Hong Kong and Taiwan. Worsening ties between the world's two largest economies could disrupt international economic conditions.

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Credit Conditions Asia-Pacific: Uneven Recovery

Table 1 lists our top Asia-Pacific risks.

Table 1

Top Asia-Pacific Risks

Slower and uneven revenue recovery with surge in leverage

Risk level* Very low Moderate Elevated High **Very high** **Risk trend**** Improving Unchanged Worsening

China and more developed economies are leading a recovery that has benefited from exports. However, domestic consumption remains lackluster and may normalize only in late 2021/ early 2022. Ongoing revenue recovery, which has benefited from various fiscal stimulus, could be uneven across geographies, sectors, and borrower profiles. Sectors dependent on consumption, particularly mobility-related segments, may see delay in revenue growth. Prolonged pain in revenues will amplify debt burdens driven higher by the COVID-19 downturn. This situation could be exacerbated by investors demanding higher yields, raising the borrowers' debt-servicing costs.

U.S.-China strategic confrontation escalating

Risk level* Very low Moderate Elevated **High** Very high **Risk trend**** Improving **Unchanged** Worsening

The strategic confrontation between the U.S. and China will persist. We do not anticipate the new U.S. president nor Democratic-controlled Senate will transform the U.S. political stand towards China. China's "dual circulation" philosophy indicates a determination to be less reliant on the U.S., such as in the area of technology. Further strains on U.S.-China relations would dampen cross-border investment, with a knock-on effect to other regions' economies. Impact on supply chains and restricted access to intellectual property and financial markets, in turn, would increase the risk of business disruption and loss of investor confidence.

Return of COVID-19 restrictions and unexpected policy changes

Risk level* Very low Moderate Elevated **High** Very high **Risk trend**** Improving Unchanged Worsening

Our base case is for an improving COVID-19 health situation with slowing infection rates across the region. However, threats remain of COVID-19 variants causing new waves of infections could trigger government countermeasures such as sudden lockdowns. The region's slow vaccination roll-out may raise susceptibility to new variants. COVID-19 seems to be under control in China, Australia, Hong Kong, Japan, Korea, New Zealand, Singapore, and Taiwan. Meanwhile countries such as India, Indonesia, Philippines, and Malaysia continue to struggle with the virus containment, delaying their resumption of economic activity. Unexpected policy changes may threaten the trajectory of economic recovery.

Disorderly reflation and market repricing risk

Risk level* Very low Moderate **Elevated** High Very high **Risk trend**** Improving Unchanged **Worsening**

While we expect central banks to keep policy rates low to support fuller recovery, creditors could reset their risk-return expectations. The reset could occur because of investors' rising fear of inflation or, higher risk premium in reaction to an unexpected adverse event (such as a major borrower default). An earlier than expected shift in interest rates or monetary policies could see financial and real assets repricing (i.e. higher yields), debt servicing costs rising, and funding availability tightening. For emerging-market borrowers highly reliant on U.S. dollar funding, the reset would exacerbate refinancing challenges. We are particularly concerned about a potential disorderly path (i.e. speed and volatility of changes) toward eventual normalization.

Net-zero emissions, climate change, and technology risks accelerate faster

Risk level* Very low Moderate **Elevated** High Very high **Risk trend**** Improving Unchanged **Worsening**

Carbon neutrality policy directives, climate change and technology risks could affect issuers' mid- to long-term operations. While climate physical risk (e.g. typhoons, floods, bushfires) appears to have increased in the region, policy risks (e.g. imposition of environmental policies by governments inside and outside a country) and financing access risk (e.g. investors and lenders shying away from high carbon industries) have elevated. Given accelerated digitalization, technology risk pertains to the potential obsolescence of traditional business models and increasing frequency of cyberattacks.

Sources: S&P Global Ratings.

* **Risk levels** may be classified as very low, moderate, elevated, high, or very high, and are evaluated by considering both the likelihood and systemic effect 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.

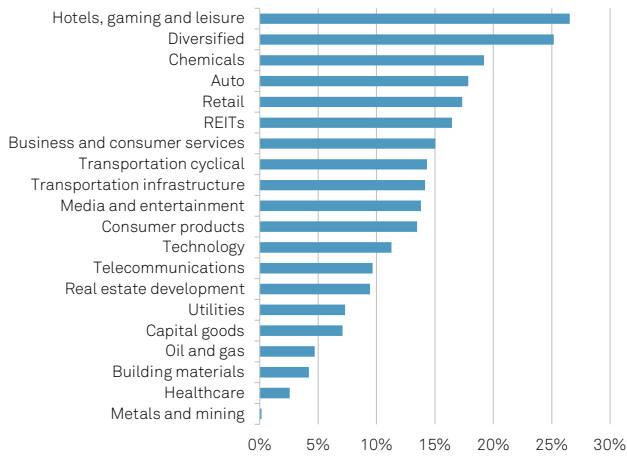
** **Risk trend** reflects our current view on whether the risk level could increase or decrease over the next 12 months.

Credit Conditions Asia-Pacific: Uneven Recovery

Chart 1

Debt Growth By Sector Since The Outbreak

Debt change varied significantly among sectors

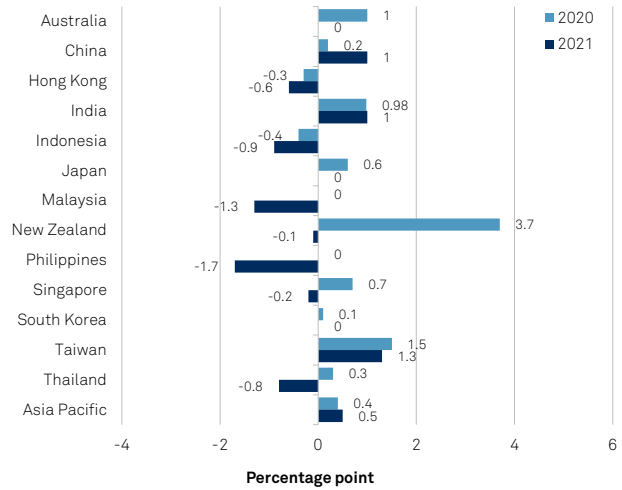


Note: Debt growth measures the Y-o-Y total debt growth of 12,931 non-financial corporates in Asia Pacific, as of Dec. 2020. Source: S&P Global Market Intelligence.

Chart 2

Asia-Pacific: Changes In Economic Forecast

Current forecast versus Nov. 2020, unevenness in recovery

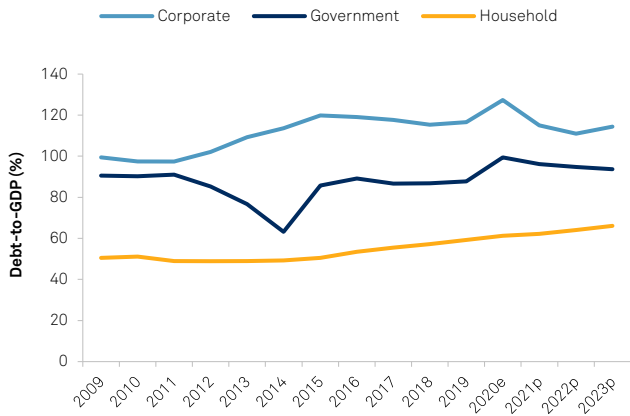


Note: For India, the year runs April to March, e.g. 2020--fiscal 2020 /2021, ending March 31, 2021. ppt--Percentage point. Source: S&P Global Economics.

Chart 3

Asia-Pacific Still Sees High Leverage Across The Board

Higher leverage will be difficult to manage if income recovery remains weak

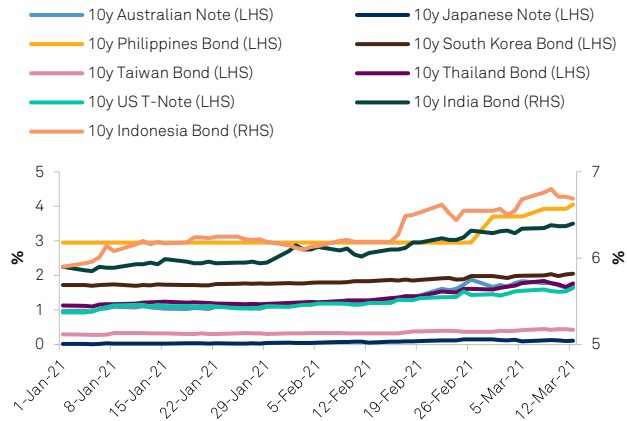


e--estimate. p--projection. Source: Bank for International Settlements, S&P Global Ratings.

Chart 4

10Y Bond Yields Rise Across Asia-Pacific Economies

Steeper yields arise as the region addresses higher market volatility



LHS--Left hand scale. RHS--Right hand scale. Source: S&P Global Market Intelligence.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing 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.

Financing Conditions

Higher U.S. Yields Have Not Derailed Asia-Pacific's Supportive Policies Yet

We expect domestic financing conditions to remain supportive as the region continues to fight for economic recovery and vanquish COVID-19. Economies have emerged from severe lockdowns, however the progression of vaccine rollouts varies. Controlling the pandemic will be a marathon rather than a sprint. Externally, the cost of funding might show some tightening with U.S long term yields hike.

For market pricing, credit spreads in the region are moving in line with global trends. The U.S. investment-grade credit composite spread narrowed to 128 basis points and speculative-grade spread at 376 basis points (data as of March 15, 2021, see chart 5). U.S. spreads have recovered compared with levels at the beginning of 2020 for both investment-grade (IG) and high-yield (HY) debt. However, risk aversion persists, and will continue to reflect pressure in revenue generation, especially for issuers rated 'B-' and below.

Based on where businesses are operated from, Asia-Pacific issuers we rate had 14 defaults in 2020. As a comparison, global defaults rose to 226, an increase mostly attributed to the U.S. and Europe--which account for the largest number of rated issuers and have been hit hard by the pandemic (see "The 2020 Global Corporate Default Tally Reached 226", published on RatingsDirect on Jan. 8, 2021). So far in 2021 (through March 10), there were two defaults (based on where the business is operated) from Asia-Pacific.

What to look for

Asia-Pacific refinancing needs remain robust with over US\$1.1 trillion of debt scheduled to mature through year 2025. The overall corporate maturity wall will peak in 2022, and this includes bonds, loans, and revolving credit facilities that we rate as of January 1, 2021. Financial debt accounts for US\$ 588.9 billion and nonfinancial US\$ 491.4 billion. Japan, Australia, and China still make up the bulk of the refinancing needs in the region. Through March 15, 2021, year to date Asia-Pacific corporate (financial and nonfinancial) bond issuance reached US\$ 371 billion, with both January and February issuance levels at the highest seen for the past five years for these months (see chart 6).

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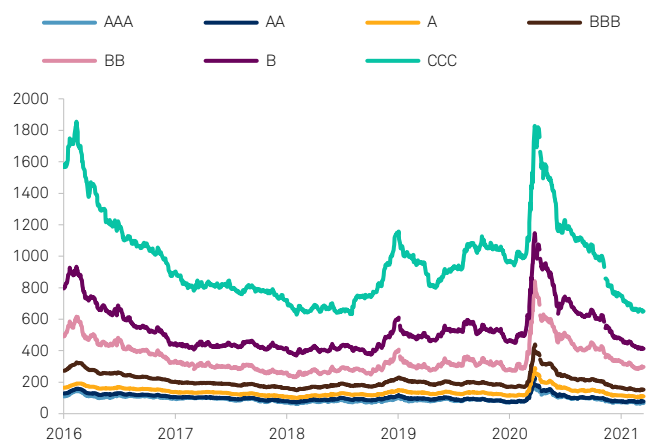
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Chart 5

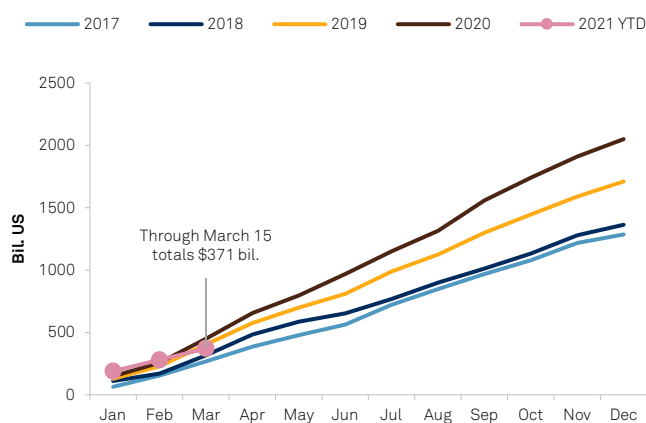
U.S. Spreads By Rating Category



Note: Option-adjusted spreads computed on a pool of over 20,000 U.S.-domiciled bonds with par values of over \$100 mil. that are rated by S&P Global Ratings. Data as of March 15, 2021. Source: S&P Ratings Research; Thomson Reuters.

Chart 6

Asia-Pacific's Cumulative Corporate Bond Issuance



Data as of March 15, 2021. YTD--Year to date. Source: S&P Ratings Research; Thomson Reuters.

Macroeconomic Outlook

Asia-Pacific Growth Outlook Lifted By Exports

We have upgraded our GDP growth forecasts for Asia-Pacific to 7.3% for 2021 from 6.8% previously. A faster-than-expected global vaccine rollout, a large dose of U.S. stimulus, and upside surprises in trade and manufacturing push our forecasts higher. We also expect progressive vaccine coverage in the region to facilitate a virtuous albeit gradual cycle of higher spending on services, more jobs, and rising incomes to power the next leg of the recovery. Domestic demand has been missing from much of the region's recovery so far, but we anticipate more balanced growth later in 2021 and especially 2022.

The region's three-speed recovery may continue a while longer. The leaders include China, New Zealand, Taiwan, and Vietnam which have successfully contained COVID and benefitted from strong export demand. The middle group, including Australia, Japan, and Korea, should get back to pre-pandemic levels in early or mid-2021. The laggards are mostly emerging markets, including Indonesia, where challenges in containing the pandemic and smaller stimulus have pushed back recoveries to later this year.

We raise our forecast for China to 8% in 2021 (from 7% previously) and edged it up to 5.1% for 2022 due mainly to stronger-than-expected exports and lingering momentum in the property market. A cautious policy stance will likely dampen investment later in 2021, though consumption should offset this effect on growth. We raise our forecasts for India to 11% (from 10% previously) for fiscal year 2022 (ending March 31, 2022) in part due to an expansionary fiscal policy that should boost domestic private spending. We maintain Japan's outlook at 2.7% for 2021 but revise up to 2% in 2022 (previously 1.3%) on better prospects for capital goods exports. In most emerging markets, we now see a delayed but not derailed recovery as vaccine rollout is proceeding. We revise down Indonesia's growth to 4.5% in 2021 (from 5.2% previously) as the COVID wave early this year dented confidence and held back consumer spending.

Inflation in the region is set to remain subdued in most cases, notwithstanding higher commodity prices. The passthrough from commodities to core consumer prices, which exclude volatile items such as food and energy and are a helpful predictor of future inflation, will remain weak so long as domestic activity is well below its potential level. Before the crisis, the service sector accounted for three jobs for every one manufacturing job and this ratio may rise further in the years ahead. This means a sustained domestic re-opening, a robust service-sector rebound, and an associated rise in hiring, will likely be needed to ignite a broad-based demand-pull and cost-push inflation in most economies. In turn, this will keep central banks mostly on the sidelines.

With these latest revisions, as in our last forecasts, we see risks to the growth outlook over the next 12 to 18 months as balanced. The pandemic remains the main downside risk, especially new variants or vaccine delays that could dent confidence and set back the timing of herd immunity. It is joined on the downside by the threat of sharply higher real yields in global bond markets that would tighten Asia-Pacific's financial conditions and, potentially for some emerging markets, bring forward policy tightening and dampen domestic demand.

Upside risks include even hotter external demand driven by policy stimulus overseas and more confident consumers that start spending more of the saving they set aside during the pandemic after holding back. Looking a bit further ahead, digital adoption and new ways of doing business, accelerated by COVID, could usher in unanticipated productivity gains during the recovery.

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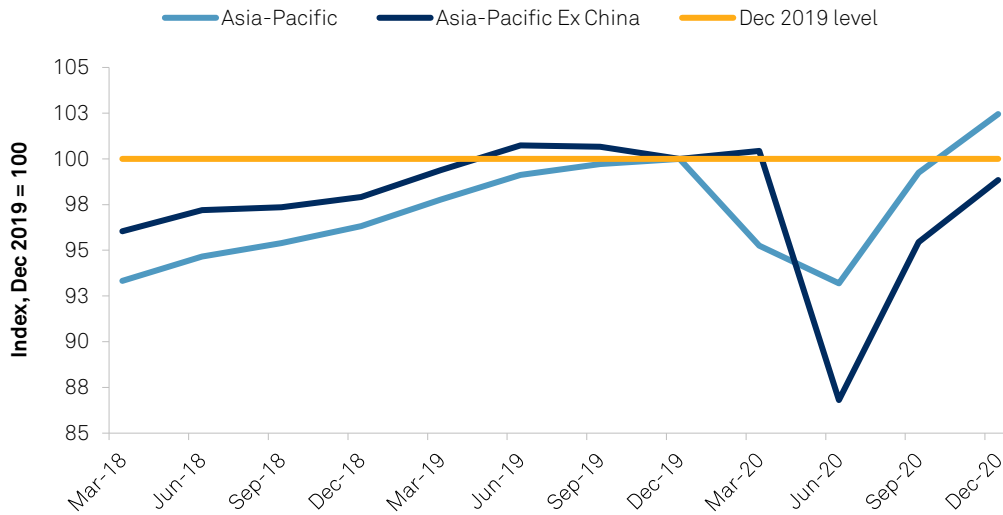
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Chart 7

Activity in Asia Excluding China Is Still Below Pre-COVID Levels

Seasonally adjusted GDP levels



Note: Regional GDP aggregated using purchasing power parity (PPP) GDP at constant prices. Source: Oxford Economics and S&P Global Economics.

The views expressed here are the independent opinions of S&P Global Ratings' economics group, which is separate from but provides forecasts and other input to S&P Global Ratings' analysts. S&P Global Ratings' analysts use these views in determining and assigning credit ratings in ratings committees, which exercise analytical judgment in accordance with S&P Global Ratings' publicly available methodologies.

Sector Trends

Better But Still Not Out Of The Woods

Our net rating outlook bias has marginally improved to negative 17.6% in February 2021 from negative 18.8% in October 2020. Recently reduced estimates of credit losses coupled with policy support helped raise the bias ratio for financial institutions to -16% from -18%. Large infrastructure spending by Australian local and regional governments (LRGs) and New Zealand's outlook changing to stable from positive (after rating upgrades) moved the net rating outlook bias for Public Finance deeper into negative territory at negative 21% from negative 12%. The jump reflects the negative rating actions taken on top Australian local governments, which were partially counterbalanced by New Zealand public finance ratings before the recent upgrade on Feb. 22, 2021. The insurance sector remains in a negative net bias as volatile capital markets dilute capital resilience. Strength of household balance sheets in Asia-Pacific continued to support the strong collateral performance of consumer asset classes, with delinquency rates stabilizing across the region for asset backed securities (ABS) and residential mortgage-backed securities (RMBS). Nonfinancial corporate sectors are riding a selective demand revival, witnessing an improvement in net rating outlook bias to -20.5% from -23.3% since October 2020.

What's changed?

Flattening outlook bias for APAC corporates. The net rating bias for corporates has improved to -20.5% since October 2020. That said, one-fifth of our ratings have a net negative rating bias which indicates significant downside risk remains in the region, with divergences deepening among countries. Auto companies are witnessing a gradual recovery in sales volumes, oil and gas as well as metals and mining are benefiting from a prolonged improvement in global commodity prices.

COVID-19 vaccines have been rolled out, but slow. The improving COVID-19 situation within Asia-Pacific points to effective containment measures by some governments. However, for these "early exiters", this success impedes the populations' uptake of vaccination. Vaccination progress is becoming a race against virus variants, hurting sentiment for some pandemic-sensitive segments.

Key risks

Widespread reinfections. Slow vaccination rates within Asia-Pacific, when compared to some Western countries, point to susceptibility towards new COVID-19 variants. If future mutations of the virus result in the rapid spread of strains of the disease, infection rates may rebound quickly – prompting a resurgence of movement control measures.

External financing conditions. Despite still low policy rates, the cost of external funding might show some tightening given higher U.S. long-term Treasury yields. Disorderly risk-repricing reset could tighten Asia-Pacific's financial conditions and, potentially for some emerging markets. Earlier than expected tapering of stimulus may threaten the trajectory of economic recovery.

Key assumption

Higher GDP growth for Asia-Pacific. We have upgraded our growth forecasts for Asia-Pacific on the back of U.S. President Biden's US\$ 1.9 trillion stimulus and uptick in export activities. The additional stimulus will continue to boost external demand, benefiting trade and manufacturing. That said, weak domestic consumption means broad-based economic recovery is still lacking. But we do anticipate more balanced growth later in 2021 and especially 2022.

What to look for

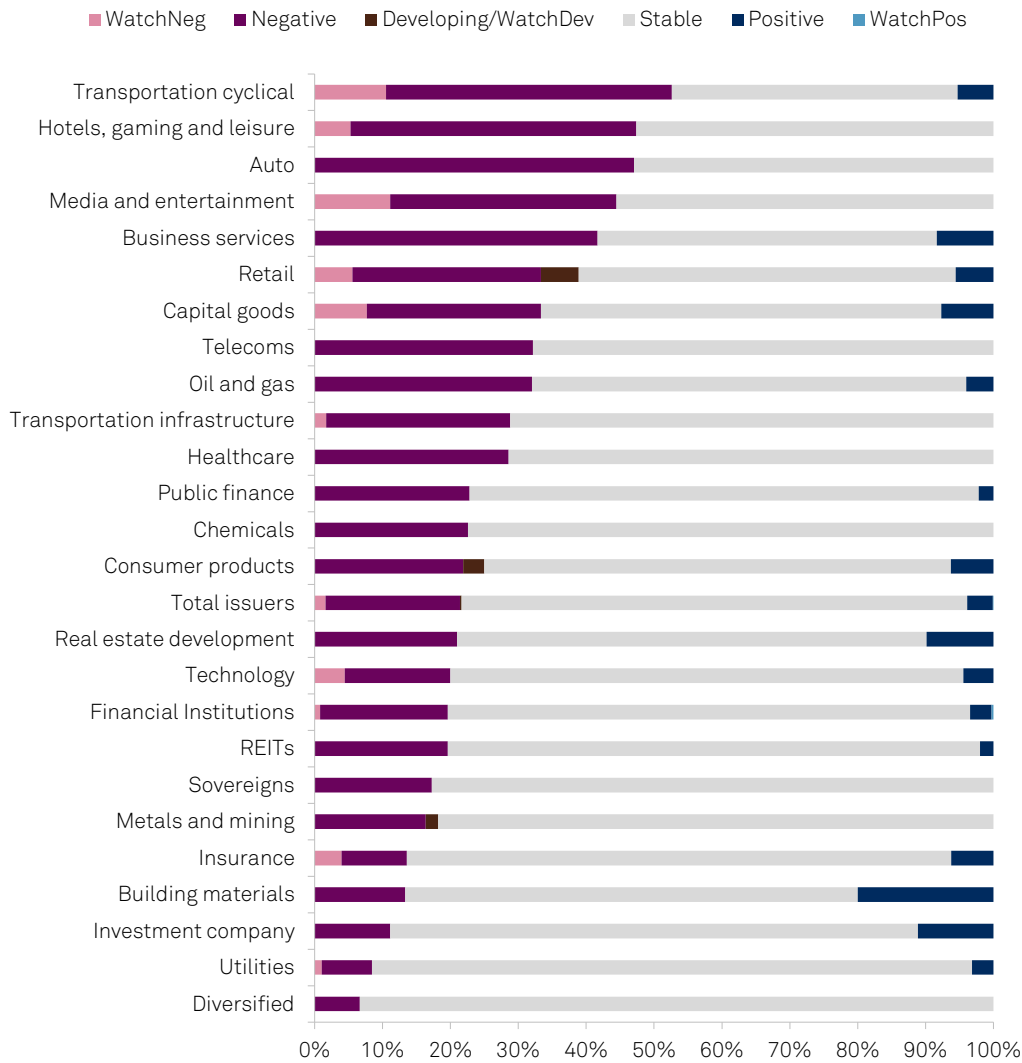
Refinancing needs. Asia-Pacific refinancing needs remain weighty with more than US\$1.1 trillion of debt scheduled to mature through year 2025. Of this, financial debt accounts for US\$588.9 billion and nonfinancial US\$ 491.4 billion. Japan, Australia, and China comprise the bulk of the refinancing needs in the region.

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Credit Conditions Asia-Pacific: Uneven Recovery

Chart 8
Net Outlook Bias Distribution Of Asia-Pacific Issuers By Sector, Feb. 28, 2021



Note: We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter; and a positive figure, vice versa. Source: S&P Global Ratings.

Nonfinancial Corporates

A Slow Credit Recovery Amid Market Volatility

- Divergences in corporate credit conditions are deepening among countries and sectors. The downside bias has reduced in China and India. It stays high in Indonesia, Japan, and Pacific.
- While capital markets have opened for weaker issuers, sustainable funding availability will hinge on comprehensive vaccine rollouts.
- Delays in profit recovery and sudden liquidity withdrawals stand out as key risks.

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What's changed?

Credit divergences are growing among countries. Credit conditions for rated corporate issuers are still biased to the downside with growing differences among countries. Downside rating risk is reducing in China (about 20% of issuer ratings on negative outlook) and in India (about 25%). Both economies are recovering faster than elsewhere in the region. Credit trends in the Indonesian corporate sector continue to stay deeply negative (about 50% on negative outlook). Recovery prospects there are more elusive in 2021. The vaccine rollout is slow, consumer sentiment still subdued, and funding by banks and capital markets highly selective. Downside rating pressure remains close to multi-year highs in Japan and Pacific.

Access to funding is increasingly polarized. Capital market and bank funding is staying widely available and inexpensive for the larger, investment-grade or more diversified issuers across the region. Some funding green shoots in capital markets have also appeared in the past few weeks at the weaker end of the credit spectrum in China and Indonesia. But it could take another three to six months before access to funding deepens across the credit spectrum. Fundraising windows may close quickly. Domestic bank loans are also likely to stay selective as debt moratoriums have ended or are set to end in Malaysia, China, Indonesia, or India through 2022.

Key risks

Further waves of COVID-19. A resurgence of infection rates in the region followed by strict lockdowns will have two effects. First, it would interrupt profit growth and delay the recovery of credit metrics. We estimate that nearly 40% of corporate credit ratings could be at risk if profit recovery is delayed to 2022, especially for issuers in China, Japan, Indonesia, and Pacific. Second, it could shake the confidence of capital providers and complicate refinancing risk.

Funding availability. Further bouts of market volatility – induced by a resurgence in COVID-19, a slow vaccination rollout, or a fast rise in interest rates – could trigger a widespread withdrawal of liquidity at a time where corporate profits have not recovered sustainably. Companies in the 'B' rating category or below (about 15% of rated companies in Asia) or those in working capital intensive sectors (textile, retail, construction and real estate) could be at risk of further downgrade as liquidity and refinancing risk often underpin their future credit trajectory.

Key assumption

A slow but widespread recovery in profits in 2021. We forecast a median profit growth this year in the high single digits for companies we rate, with higher earnings for nine out of ten issuers. Credit metrics for most sectors should return to pre-pandemic levels in 2022.

What to look for

Domestic vaccine rollouts. The pace of the rollouts will be the main contributor to a sustained recovery in consumer confidence and funding availability region wide.

Capital market volatility. Further bouts of market volatility or a sharp rise in interest rates could complicate liquidity and refinancing access for weaker borrowers in emerging Asia.

Financial Institutions

COVID-Related Credit Losses To Hit US\$581 Billion By End-2022

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- COVID-19 is hitting lenders hard; we revised down our forecast of credit losses for China and the rest of Asia-Pacific over 2020-2022.
- Fiscal support and forbearance have contained damage, but downside risks remain as these programs unwind.
- We estimate that credit losses will rise by about US\$581 billion to year-end 2022 because of COVID-19 and other market stresses.

What's changed?

Still-high credit losses. Our updated forecast (in January 2021) for the increase in bank credit losses because of COVID-19 is US\$581 billion for 2020-2022 (over three years). Our previous forecast (in July 2020) was US\$518 billion for 2020-2021 (over two years). Compared with 2019 credit losses of US\$329 billion, the potential for credit losses remains significantly higher. This is contributing to negative ratings pressure.

Support from authorities is aiding resilience. Fiscal and monetary policy support and regulatory forbearance are providing significant buffers. But for this support, ratings would likely be lower. Compared with European peers, however, many Asia-Pacific banks (ex-Japan) have stronger earnings capacity which cushions the impact from higher credit losses.

Key risks

A downturn that is more severe than our base case. A more severe or prolonged economic hit will intensify damage on households and corporates, thereby magnifying credit losses. Any meaningful delays in the availability of a widely distributed vaccine will slow economic recoveries, leading to potential negative spillovers on bank credit.

Leverage, corporate insolvencies, and property. Higher corporate and government sector leverage, and anticipated higher corporate defaults in 2021, are also among our top risks. Further, Asia-Pacific banks have significant property exposures – a disorderly asset price correction would heighten asset quality problems.

Key assumptions

Strong economic rebound. Bank earnings will improve after the economic recovery. A return to pre-COVID-19 levels is not expected until year-end 2022 for some banking systems, longer for others.

Highly supportive governments. Continuing short-term support by public authorities will have a stabilizing effect on bank credit. Further, we expect many systemically important banks will get extraordinary government support, if ever needed.

What to look for

End of supports and moratoriums. Households and businesses may struggle to meet financial obligations after loan moratoriums and government support end, hitting banks' asset quality. Subdued interest margins remain given persistent low interest rates.

Insurance

Premium Growth Resumes Amid Containment

- Negative outlook bias as volatile markets dilute capital resilience.
- Reinvestment challenges and rising counterparty risk will prompt higher investment risk appetite for yield hunt.
- Insurance sales to return with increasing face-to-face interaction following COVID-19 containment.

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What's changed?

Reinvestment challenges to persist. Still low rates, volatile capital markets, and rising counterparty risk complicates insurers' reinvestment strategies. Insurers appetite for credit and market risk may rise, consuming more capital. Unhedged foreign exchange exposure may see volatility in valuations on strong U.S. dollar movements.

Resumed premium growth amid COVID-19 containment. A gradual resumption of social interaction will see a return of traditional sales activities for life insurers. This is in addition to the earlier initiatives to shift to online distribution. In China, increased awareness of insurance protection post-pandemic facilitates strong growth momentum. Property and casualty insurers' top-line growth should increase alongside economic recoveries, though remain lower than that of pre-COVID days.

Key risks

Heightened earnings volatility. Markets that adopt moving-average discount factors could face hikes in reserve. A sharp equity market correction could also dilute insurers' capital and earnings.

COVID-19 resurgence and stimulus withdraw. Pickups in unemployment and withdrawal of stimulus signifies rising lapses and reduced insurance cover, in particular mortgage insurance providers. Renewed COVID-19 restrictions would induce additional business interruptions and event cancellation claims.

Key assumptions

Capital buffers will narrow. Financial market volatility and lower prospective earnings will eat into capital. The rising frequency of natural catastrophes in Asia-Pacific will also raise reinsurance-related costs.

What to look for

Yield chase to pick up. Insurers' appetite for credit and market risk will sharpen. Capital market volatility will likely narrow capital buffers.

Greater insurance protection awareness. Demand for health and medical insurance coverage will rise, post pandemic.

Non-modeled risks. Rapid urbanization and increased frequency of weather-related events make it harder to model risks. Increased reinsurance cost should weigh on the profit margins of property and casualty insurers.

Regulatory and accounting updates. Evolving regulatory and accounting developments signify prospective changes in business and investment strategies, and result in rising operational costs.

Public Finance

New Policy Measures To Fit Recovery

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- Fiscal recovery generally lags economic momentum in most systems.
- Selected LRGs are committing to high capital spending plans, such as those in Australia, China, and India, and won't completely unwind existing aggressive fiscal stimulus any earlier than 2022.
- Japanese and New Zealand LRGs still keep greater spending discretion to prompt a recovery.

What's changed?

Economic rebounds to provide more options for LRGs. The budget focus has shifted from treating and containing the outbreak, to using capital spending to stimulate the economy. In the case of China, the burden will fall mostly to LRGs as budget indicates national-level spending will revert. Stronger than expected recovery in some areas will provide LRGs with capacity to decide their spending in the most effective manner.

Mixed ratings actions. Large infrastructure spending was a contributing factor to our negative rating actions on Australian top LRGs, while our upgrade of New Zealand sovereign ratings combined with a quick economic rebound lifted our ratings on a few public entities which were previously constrained by sovereign ratings.

Key risks

Aggressive stimulus. Fiscal revenues will remain dented for most LRGs, even as pressure to spend remains high. Repeated waves of infection or sputtering vaccination drives would worsen these strains.

Contagion fears. Fears will continue to prevent travel and hinder consumption in Asia. Vaccination progress is becoming a race against virus variants, and such variants will make countries cautious on borders reopening. This is a weight for some pandemic-sensitive public-finance segments such as Australian universities.

Key assumptions

Varying scope for countercyclical measures. Most LRGs will not raise taxes and are unlikely to recover their revenue bases soon. Uncertainties on the recovery will spur LRGs to increase spending, especially capital expenditure to sustain growth. This will create greater risk to their fiscal standing. Australian and New Zealand LRGs have greater spending discretion to prompt a recovery, but this is weighing on their finances. China's LRGs can still rely on large cash transfers and new borrowings, subject to ongoing support from the central government. The finances of Indian LRGs remain stretched and further handicapped by limited financial flexibility. Japanese LRGs will look to the central government to undertake nation-wide economic stimulus, rather than squeezing their already damaged budgets.

What to look for

Policy shifts. Any aggressive LRG fiscal expansions, either to sustain growth or to control social stability, could erode credit quality. LRGs in economies experiencing stronger economic rebounds should be able to normalize more quickly. That said, China is one of the first to recover, yet we see scope for accumulated stress to strike state-owned enterprises. Any moves to provide largescale bailouts to stressed entities would be a credit negative.

Sovereign

Risks To A Goldilocks Recovery Multiply

- Vaccine rollouts have increased optimism of easing sovereign pressures.
- New virus strains pose a risk of COVID-19 resurgence.
- Supply chain bottlenecks and volatile financial conditions could slow metric recovery.

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What's changed?

Supply and logistical risks to export recovery have increased. A shortage of semiconductor chips and delays in moving shipping containers back to Asia have disrupted production and raised transport costs for regional manufacturers.

Global interest rates and commodity prices have picked up. Interest rates are picking up in some countries amid improving economic outlooks. This combined with supply shortages hitting inputs have contributed to increasing energy and non-energy commodity prices.

Vaccines roll-out underway. COVID-19 infection rates have fallen sharply in some countries as vaccination rates climb (such as Israel), giving hope that the pandemic could be brought under control.

Key risks

COVID-19 variants. If mutations outpace vaccine rollouts and infection rates rebound in the region, sovereign credit metrics could weaken significantly.

Sudden capital swings. A sharp deterioration in investor sentiment in emerging markets could see swift capital outflows from some economies. U.S. inflation risk could be the spark. In lower-rated sovereigns that are dependent on imported sources of energy, higher oil prices would weaken their external balances and exacerbate capital outflows. Most vulnerable would be emerging-market countries relying on easy domestic funding conditions to spur borrowing and investment.

Dampened export recovery may weigh on growth and fiscal recovery. The combination of rising component and commodity prices, as well as shipping costs, could hobble export recoveries in some economies. If these supply-factor trends continue later into the year, the pressures on Asian manufacturers may be intensified by weaker demand as government support for their economies are withdrawn. That in turn would weaken economic momentum and fiscal revenue recoveries. In China, mounting economic or labor-market pressures could accelerate credit growth. Growing financial instability risks would limit the capacity of China to provide support, implicating regional sovereigns.

Key assumptions

Global economic activity will recover without major volatility. As the vaccination rates in key economies rise, recoveries will become more entrenched. While interest rates and commodity may rise further, they will not escalate rapidly or to levels that could significantly disrupt the economic recovery.

What to look for

Geopolitical developments that could disrupt momentum of economic recovery. U.S.-China tensions are increasingly being played out with displays of military prowess. For example, the Chinese military has responded to recent naval maneuvers in the South China Sea and the Taiwan Strait by the U.S. and its allies with maneuvers of their own. Meanwhile, conflict risks are increasing due to territorial disputes between China and its neighbors. Against this background, the likelihood that small "accidents" escalate into broader confrontations have increased, even if they remain small.

COVID-19 disruptions in 2021. Poor efficacy of vaccines against new variants of COVID-19 would have significant negative impact on our baseline assumptions about sovereign credit metrics. The risks could be exacerbated if speed of mutation and the variety of resistant viruses increase.

Structured Finance

Consumer Asset Classes Remain Stable

- Solid household balance sheets in Asia-Pacific continue to support the strong collateral performance of consumer asset classes (ABS and RMBS).
- New originators, low interest rates, and changing regulatory landscapes may shift risk profiles across structured finance markets.

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What's changed?

Asia-Pacific is returning to the new normal. Delinquency rates in China have stabilized in auto-loan ABS and RMBS. Delinquencies remain low and relatively stable in Japan. In Australia, mortgage deferrals have declined to around a quarter of peak levels.

Key risks

Shocks to fragile consumer confidence. Shocks from a virus resurgence, or the effect of weak overseas markets on exports, if prolonged, may feed through to consumer credit-backed and mortgage-backed loan performance.

Potential risks for new China auto loan ABS. Amid broadly stable collateral performance, risks might emerge from idiosyncratic originators and issues, such as aggressive expansion of auto-financing to lower-tier cities or into the less familiar used-car segments. Another issue is that to boost loan origination last year, some originators have promoted loan products with more flexible principal repayment terms, such as balloon payments representing a higher percentage of the loan amount. Risks could ensue if such originators attempted to securitize such unseasoned loans, to the extent that they become a significant percentage of the underlying pool.

Support measures tapering in Australia. The winding down of extraordinary income support measures and expiry of loan deferrals in March, alongside the slowing of recovery in employment, may start to uncover more challenged borrowers in loan portfolios. We expect delinquencies to increase.

Key assumptions

Structural supports. Ratings should be stable, with low levels of speculative-grade ratings and structural supports to cushion some deterioration. Stable residential property markets and low interest rates support RMBS.

What to look for

Regulatory shift may slow issuance in China. Regulators are further tightening their grip on banks' exposure to the real estate sector. In our view, limits on mortgage loans and how mortgage loans backing RMBS are to be reported for regulatory purposes could feed through to RMBS issuance. On Dec. 31, 2020, the People's Bank of China (PBOC) and the China Banking and Insurance Regulatory Commission (CBIRC) jointly announced requirements for domestic banks to comply with ceilings on their property loans over the next two to four years. The new regulation, effective from Jan. 1, 2021, will cap real estate loans and personal housing loans for banks.

Virus resurgence in Japan. Pressure on the performance of auto loans and mortgage-backed loans from the state of emergency Japan declared in April 2020 seems to have peaked out. However, a recent resurgence of the virus and the consequent containment measures in the country may lead to another period of pressure for such loans.

Housing market dynamics. Australia's property markets are experiencing growth across most cities supported by low interest rates and government incentives. Longer term supply constraints, prolonged low interest rates, and potential relaxation in consumer lending regulation may shift the risk profiles in RMBS in Australia.

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Appendix 1: Ratings trends

Table 2

Net Outlook Bias Of Asia-Pacific Issuers By Sector, Feb. 28, 2021

	Feb. 2020	May 2020	Aug. 2020	Oct. 2020	28 Feb. 2021	No. of entities	Notional average rating
Auto OEM and suppliers	-23%	-71%	-67%	-65%	-47%	34	BBB
Building materials	0%	-13%	-20%	-13%	7%	15	BBB-
Business services	-8%	-25%	-36%	-42%	-33%	12	BB+
Capital goods	-7%	-15%	-15%	-19%	-26%	39	BBB
Chemicals	-20%	-30%	-46%	-31%	-23%	31	BBB-
Consumer products	-20%	-24%	-21%	-18%	-16%	32	BBB-
Diversified	13%	-7%	-13%	-13%	-7%	15	A-
Healthcare	-38%	-38%	-38%	-38%	-29%	7	BB+
Hotels, Gaming and Leisure	-25%	-78%	-67%	-44%	-47%	19	BB+
Investment company	-10%	-10%	-20%	-10%	0%	9	A-
Media and Entertainment	-29%	-22%	-22%	-44%	-44%	9	BBB
Metals and mining	-7%	-24%	-22%	-24%	-16%	55	BB+
Oil and gas	-14%	-34%	-39%	-39%	-28%	25	BBB+
Real estate development	-8%	-11%	-11%	-12%	-11%	81	BB-
Real estate investment trusts	-6%	-25%	-22%	-18%	-18%	51	A-
Retail	0%	-31%	-38%	-22%	-28%	18	BBB-
Technology	-9%	-17%	-20%	-20%	-16%	45	BBB-
Telecommunications	-32%	-26%	-26%	-33%	-32%	28	BBB+
Transportation cyclical	-10%	-55%	-40%	-40%	-47%	19	BB+
Transportation infrastructure	-3%	-37%	-31%	-29%	-29%	59	BBB+
Utilities	3%	-5%	-6%	-4%	-5%	95	BBB+
Total corporates	-9%	-25%	-25%	-23%	-20%	698	BBB
Financial institutions	8%	-14%	-17%	-18%	-16%	377	BBB+
Insurance	15%	1%	-4%	-8%	-7%	177	A
Public finance	17%	2%	-10%	-12%	-21%	92	A+
Sovereign	12%	4%	-10%	-10%	-17%	29	BBB+
Total issuers	1%	-17%	-19%	-19%	-18%	1,373	BBB+

Light blue colored cells indicate improvement from prior period, navy blue deterioration.

Appendix 2: Economic data and forecast summaries

Table A1

Australia--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-2.4	4.0	3.3	2.6	2.5
Inflation %	0.9	1.6	1.8	1.9	2.1
Unemployment rate %	6.5	5.7	5.5	5.2	5.1
Policy rate % (EOP)	0.1	0.1	0.1	0.1	0.25
Exchange rate (US\$ per A\$)	0.77	0.78	0.78	0.79	0.79

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period. A\$--Australian dollar. Sources: Oxford Economics, S&P Global Ratings.

Table A2

China--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	2.3	8.0	5.1	5.0	4.8
Inflation %	2.5	1.8	2.1	2.2	2.2
Unemployment rate %	5.7	5.4	5.1	5.0	4.9
Exchange rate (per US\$)	6.52	6.50	6.40	6.40	6.30

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period. Sources: Oxford Economics, S&P Global Ratings.

Table A3

Hong Kong--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-6.1	4.2	3.6	2.0	1.9
Inflation %	0.3	1.7	1.9	2.0	1.9
Unemployment rate %	5.9	5.5	4.5	3.7	3.3
Exchange rate (per US\$)	7.75	7.77	7.78	7.79	7.79

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period. Sources: Oxford Economics, S&P Global Ratings.

Table A5

India--S&P Global Ratings Economic Outlook

	2020f	2021f	2022f	2023f	2024f
Real GDP %	-8.0	11.0	6.1	6.3	6.4
Inflation %	6.4	5.0	4.5	4.5	4.6
Policy rate % (EOP)	4.00	4.25	4.75	5.00	5.25
Exchange rate (per US\$)	73.5	75.0	76.0	77.0	78.0

Note: Inflation and unemployment rate shown are the period average. For India, 2019 means fiscal 2019/2020 (year ending March 31, 2020); 2020 means fiscal 2020/2021 (year ending March 31, 2021); and so forth. f--S&P Global Ratings forecast. EOP--End of period. Sources: Oxford Economics, S&P Global Ratings.

Credit Conditions Asia-Pacific: Uneven Recovery

Table A6

Indonesia--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-2.1	4.5	5.4	5.1	5.1
Inflation %	2.0	2.8	3.0	3.0	3.1
Unemployment rate %	6.2	6.8	6.3	5.8	5.6
Policy rate % (EOP)	3.75	3.50	4.00	4.50	4.50
Exchange rate (per US\$)	14,050	14,500	14,650	14,800	14,950

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period.
Sources: Oxford Economics, S&P Global Ratings.

Table A7

Japan--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-4.9	2.7	2.0	1.0	0.9
Inflation %	0.0	0.3	0.5	0.8	0.9
Unemployment rate %	2.8	2.8	2.7	2.4	2.3
Policy rate % (EOP)	-0.10	-0.10	-0.10	-0.10	-0.10
Exchange rate (per US\$)	103.5	105.0	104.0	103.0	103.0

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period.
Sources: Oxford Economics, S&P Global Ratings.

Table A8

Malaysia--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-5.6	6.2	5.6	5.0	4.8
Inflation %	-1.1	2.0	1.9	2.1	2.1
Unemployment rate %	4.5	4.3	4.0	3.7	3.5
Policy rate % (EOP)	1.75	1.75	2.00	2.50	2.50
Exchange rate (per US\$)	4.01	4.14	4.17	4.2	4.2

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period.
Sources: Oxford Economics, S&P Global Ratings.

Table A9

New Zealand--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-1.2	4.2	3.0	2.9	2.8
Inflation %	1.7	1.9	2.0	2.1	2.1
Unemployment rate %	4.6	4.7	4.4	4.2	4.2
Policy rate % (EOP)	0.25	0.25	0.50	1.00	1.00
Exchange rate (US\$ per NZ\$)	0.72	0.72	0.73	0.73	0.73

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period. NZ\$--New Zealand dollar. Sources: Oxford Economics, S&P Global Ratings.

Table A10

Philippines--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-9.5	7.9	7.2	7.2	7.1
Inflation %	2.6	4.7	2.2	2.2	2.5
Unemployment rate %	10.4	7.9	6.1	4.8	4.0
Policy rate % (EOP)	2.00	2.00	2.25	2.75	3.00
Exchange rate (per US\$)	48.04	51.8	51.0	49.4	49.9

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period.
Sources: Oxford Economics, S&P Global Ratings.

Table A11

Singapore--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-5.4	5.8	3.7	2.8	2.8
Inflation %	-0.2	0.7	1.3	1.5	1.7
Unemployment rate %	3.0	2.8	2.4	2.2	2.2
Exchange rate (per US\$)	1.32	1.34	1.35	1.35	1.35

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period.
Sources: Oxford Economics, S&P Global Ratings.

Table A12

South Korea--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-0.9	3.6	3.1	2.5	2.5
Inflation %	0.5	1.0	1.2	1.4	1.6
Unemployment rate %	4.0	3.8	3.4	3.3	3.2
Policy rate % (EOP)	0.50	0.50	0.50	0.75	1.00
Exchange rate (per US\$)	1,088	1,100	1,090	1,080	1,070

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period.
Sources: Oxford Economics, S&P Global Ratings.

Table A13

Taiwan--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	3.1	4.2	2.7	2.4	2.5
Inflation %	-0.2	1.2	1.0	1.0	0.9
Unemployment rate %	3.8	3.6	3.6	3.5	3.5
Policy rate % (EOP)	1.13	1.13	1.38	1.38	1.38
Exchange rate (per US\$)	28.5	28.2	28.1	28.0	27.9

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period.
Sources: Oxford Economics, S&P Global Ratings

Credit Conditions Asia-Pacific: Uneven Recovery

Table A14

Thailand--S&P Global Ratings Economic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP %	-6.1	4.2	4.5	3.6	3.7
Inflation %	-0.8	1.3	1.1	1.0	1.0
Unemployment rate %	1.7	1.8	1.4	1.2	1.1
Policy rate % (EOP)	0.50	0.50	0.50	0.50	0.50
Exchange rate (per US\$)	30.04	30.89	30.60	30.30	30.00

Note: Inflation and unemployment rate shown are the period average. f--S&P Global Ratings forecast. EOP--End of period.
Sources: Oxford Economics, S&P Global Ratings.

Table A15

Regional--S&P Global Ratings Economic Outlook

Real GDP (%)	2020	2021f	2022f	2023f	2024f
Asia Pacific	-1.6	7.3	4.9	4.6	4.5
Eurozone	-6.8	4.2	4.4	2.1	1.6
Latin America 5	-6.6	4.5	2.7	2.4	2.3
U.S.	-3.5	6.5	3.1	1.7	2.1

Asia Pacific and Latin America 5 aggregate GDP growth numbers are based on current purchasing power parity GDP weights. U.S. percentages are annual average percentage changes. Latin America 5 comprises Argentina, Brazil, Chile, Colombia, and Mexico. Source: S&P Global Ratings.

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