

## Ratings Weekly Digest

April 28, 2021

### Key Takeaways

- A resurgent pandemic is creating a health crisis and economic risks for India.
- We look at the potential impact of the EU's stimulus package and what rising input costs mean for U.S. corporate profit margins.

## Key developments

**India's escalating second wave of COVID-19** has caused a severe and distressing health crisis, and [poses downside risks to the economy](#). This may prompt us to revise our base-case assumption of 11% growth for fiscal 2021-2022, particularly if the government is forced to reimpose broad containment measures.

**S&P Global Ratings raised its long-term sovereign credit rating on Greece**, to 'BB' from 'BB-', and affirmed its short-term rating at 'B'. The outlook is positive, signifying that we could raise our ratings on Greece within the next 12-18 months. Following last year's COVID-19-induced 8.2% GDP contraction, we expect Greece's economy to rebound and grow 4.9% this year before accelerating to 5.8% in 2022. The government benefits from substantial fiscal buffers, and the economy is likely to be one of the prime beneficiaries of the EU's "Next Generation" stimulus plan.

**The €750 billion Next Generation EU stimulus plan could add as much as 4.1% to GDP by 2026**, assuming it has a high impact, and 1.5% on low-impact assumptions. The plan is a mixture of loans (€360 billion), grants (€312.5 billion), and targeted funds, and aims for growth that reduces economic divides in the EU—including through national structural reform—fosters the transition to a green and digital economy, and strengthens the euro's international role. We view the plan as supportive of European sovereigns' creditworthiness, though national governments' ability to implement structural reforms hinge on unwinding economic imbalances that have worsened because of the pandemic.

**Cost pressures and price rises have been a frequent theme of first quarter results in the U.S.**, and we assess the potential impact on profit margins [here](#). Most U.S. corporate sectors expect the pandemic, supply chain disruptions, and rising commodity and labor costs to drive up input prices this year. Such pressures are largely manageable through cost-saving strategies, productivity gains, or pass-through to customers. S&P Global Ratings expects profit-margin erosion to be moderate, hitting a relatively small percentage of companies, and unlikely to weigh too heavily on credit quality.

**Delayed results from Huarong Asset Management**, China's biggest distressed debt investor, are stoking investor concerns about transparency risks, and creating market volatility. Central authorities also appear concerned about **the impact of SOE defaults**, given recent instructions to local governments to mitigate such risks. See [here](#) for more. 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](http://www.spglobal.com/ratings)). As the situation evolves, we will update our assumptions and estimates accordingly.

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### Global Research

#### Gareth Williams

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

#### Alexandra Dimitrijevic

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

#### Gregoire Rycx

Paris  
gregoire.rycx  
@spglobal.com

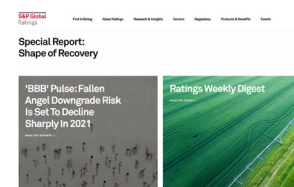
#### Joe Maguire

New York  
joe.maguire  
@spglobal.com

### Links

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

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

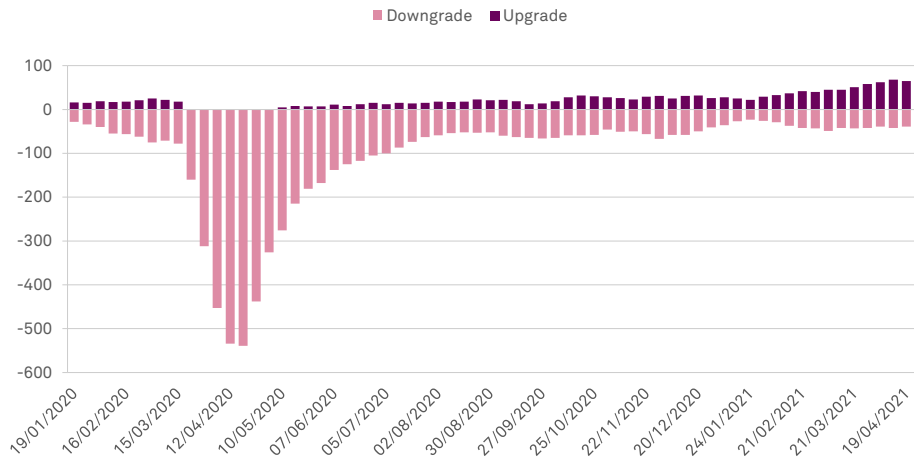


# Credit Market Update

## Ratings Trends

Chart 1

### The Number Of Downgrades Continues To Shrink



Source: S&P Global Ratings. Data as of April 19, 2021.

Table 1

### Recent Rating Actions

Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. \$)
23-Apr	Upgrade	Hellenic Republic	Sovereign	Greece	BB	BB-	154,088
22-Apr	Upgrade	Altice USA, Inc.	Telecommunications	U.S.	BB	BB-	24,025
22-Apr	Upgrade	Allied Universal Topco LLC	Consumer Products	U.S.	B	B-	17,227
19-Apr	Downgrade	Serta Simmons Bedding LLC	Consumer Products	U.S.	SD	CC	8,851
23-Apr	Downgrade	GLP Pte. Ltd.	Homebuilders/Real Estate Co.	Singapore	BBB-	BBB	2,620
23-Apr	Upgrade	Vesteda Residential Fund FGR	Homebuilders/Real Estate Co.	Netherlands	A-	BBB+	1,804
23-Apr	Upgrade	Sapphire Midco B.V.	Media & Entertainment	U.K.	B	B-	1,564
22-Apr	Upgrade	Qorvo, Inc.	High Technology	U.S.	BBB-	BB+	1,550
22-Apr	Upgrade	Element Solutions Inc.	Chemicals, Packaging & Environmental Services	U.S.	BB	BB-	1,544
23-Apr	Upgrade	Bombardier Recreational Products Inc.	Media & Entertainment	Canada	BB	BB-	1,520

Source: S&P Global Ratings

- **The gap between the number of downgrades and the number of upgrades continues to grow** as positive rating activity remains strong. Much of this activity reflects more stability, as uncertainty around the evolution of the coronavirus pandemic and its economic effects remain.
- **Greensboro, N.C.-based radio-frequency (RF) semiconductor maker Qorvo Inc. became a rising star** this week after it was upgraded, to ‘BBB-’ from ‘BB+’, following higher-than-expected growth in the past two quarters, which is expected to continue due to demand from 5G smartphone makers and from customers in Qorvo's infrastructure and defense products (IDP) segment.
- **This year's global corporate default tally has reached 32** after four U.S.-based companies defaulted this week. The U.S. leads the default tally with 20, although still only half of the year-to-date 2020 levels as favorable financing conditions and an improving economic outlook have helped slow the pace of defaults in recent months.

## Credit Market Research

**Nicole Serino**

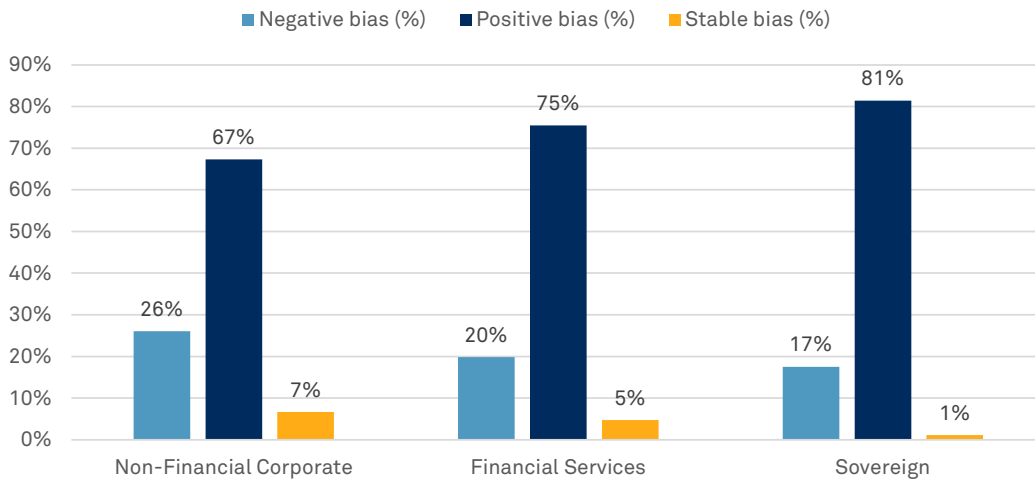
New York  
nicole.serino  
@spglobal.com

**Sudeep Kesh**

New York  
sudeep.kesh  
@spglobal.com

Chart 2

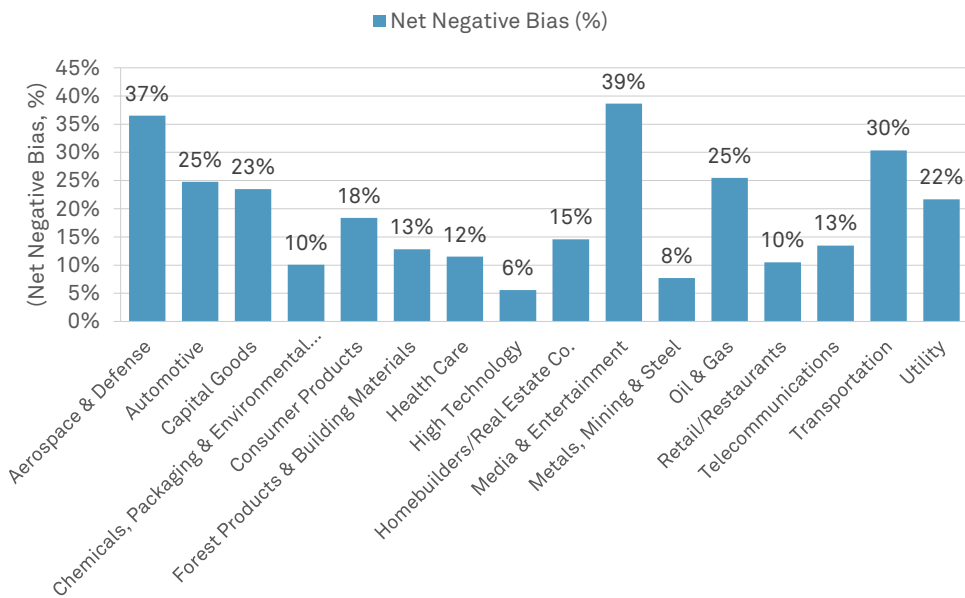
**The Positive Bias For Non-Financial Corporates, Financials and Sovereigns Increased This Week**



Source: S&P Global Ratings. Data as of April 26, 2021.

Chart 3

**Net Negative Bias Continues To Decrease For Sectors Most Impacted By Covid-19 Including Oil and Gas, Retail and Restaurants and Transportation**

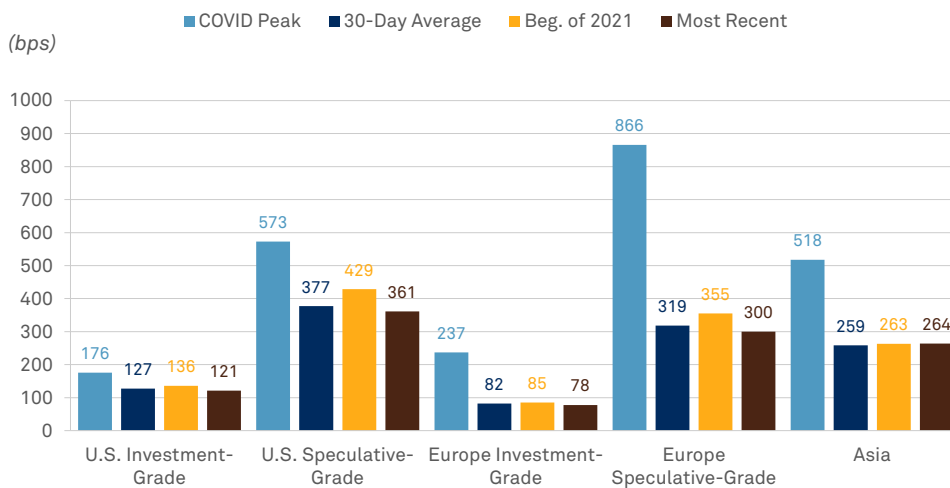


Source: S&P Global Ratings. Data as of April 26, 2021.

## Financing Conditions

Chart 4

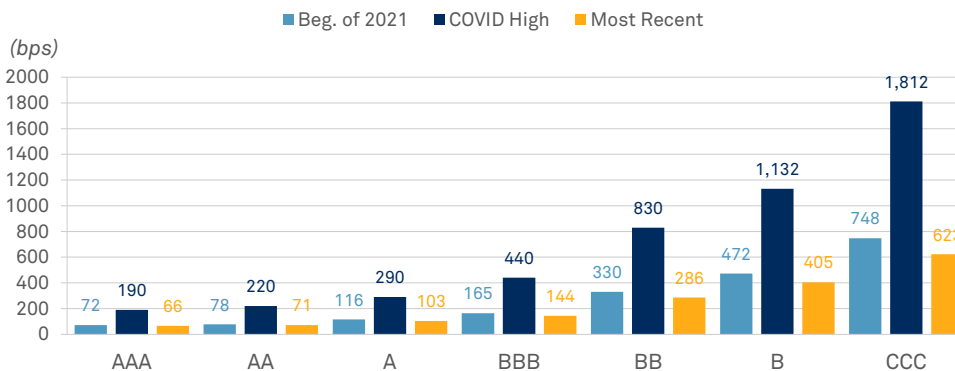
### Secondary Market Credit Spreads, U.S., Europe, And Asia



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/BAMLEMRECRPIEMEOAS>, U.S. Investment-Grade and Speculative-Grade Spreads from S&P Global Ratings, Europe Investment-Grade Spreads From S&P Dow Jones Indices. April 26, 2021.

Chart 5

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



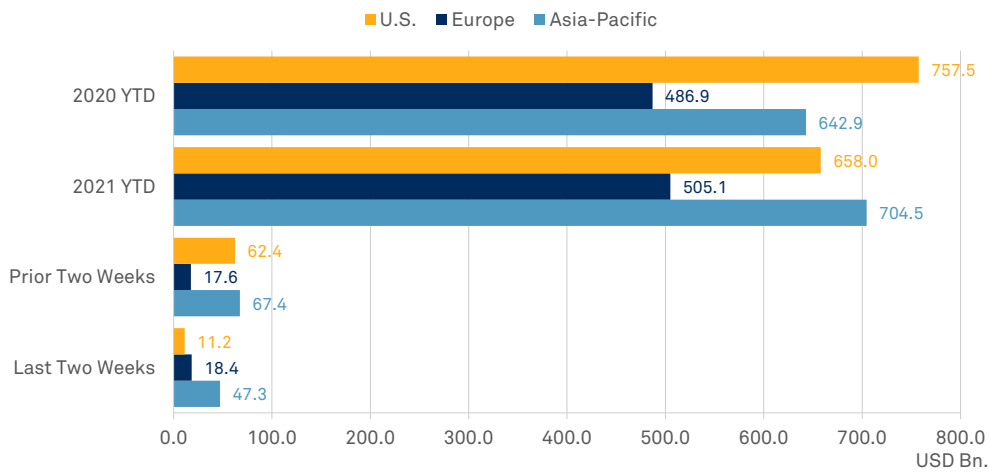
Source: S&P Global Ratings. Data as of April 26, 2021.

- **Debt issuance.** Debt issuance on the year total reached \$1.86 billion, more recently driven by speculative-grade appetite.
- **Spreads widened slightly** this week at most rating levels but remain relatively stable.

## Debt Capital Markets

Chart 6

### Financial And Nonfinancial New Bond Issuance



Source: S&P Global Ratings. Data as of April 26, 2021.

- **Global.** There has been a spurt in speculative-grade issuance globally; healthy investor appetite has minimized execution risks for lower rated names.
- **Asia.** Investment-grade issuers outside China continued to push up deal volumes, while a number of small Chinese deals have flowed through. Meanwhile, SSAs were very active last week.
- **Europe.** Supply in the leveraged finance market climbs as it is met with strong demand and attractive financing conditions.
- **U.S.** Borrowers continue to capitalize on favorable conditions. This month is on track to be the busiest April on record for speculative-grade issuance.

# Asset Class Trends

## Corporates

- Notable publications include:
  - [U.S. Corporate Cost Pressures May Hit Profit Margins In The Near Term](#)
  - [Credit Trends: The U.S. Distress Ratio Drops To Its Lowest Level In 14 Years](#)
  - [How The Decline In The U.S. Television Ecosystem Could Squeeze Credit Ratings](#)
  - [Default, Transition, and Recovery: Four U.S. Defaults Push 2021 Global Tally To 32](#)
  - [Semiconductor Supply Shortage And U.S. Policy Response Mark A Renaissance For Domestic Manufacturing And Equipment Investments](#)
  - [China Tweaks Its Template On SOE Defaults](#)
- Notable ratings actions include:
  - Alpek Outlook Revised To Positive From Stable, On Stronger Credit Metrics, 'BB+' Ratings Affirmed
  - GLP And GLP China Ratings Lowered To 'BBB-', Outlook Stable; 'BBB-' Issue Rating Affirmed
  - Automaker Daimler Outlook Revised To Positive From Stable On Improved Cash Flow Prospects; 'BBB+/A-2' Ratings Affirmed
  - WestRock Co. Outlook Revised To Stable From Negative On Sizeable Debt Repayment, 'BBB' Issuer Credit Rating Affirmed
  - U.S. Steel Corp. Outlook Revised To Positive On Improving Debt Leverage; 'B-' Issuer Credit Rating Affirmed
  - Siemens AG Outlook Revised To Stable On Strong Performance; 'A+' Rating Affirmed
  - McDonald's Corp. Outlook Revised To Stable From Negative On Progress Restoring Credit Metrics; 'BBB+' Rating Affirmed
  - Macy's Inc. Outlook Revised To Positive From Negative On Expectations For Stronger Recovery; Ratings Affirmed
  - Allied Universal Upgraded To 'B' On Improved Competitive Positioning, Scale On Acquisition Of G4S; Outlook Stable
  - Altice USA Inc. Ratings Raised On Favorable Business Prospects Despite High Leverage; Outlook Stable
  - Qorvo Inc. Upgraded To 'BBB-' On 5G Catalyst, Strengthening Mitigation Of Apple Risk

## Banks and financial institutions

- We took more than 30 positive rating actions on financial institutions over the past week.
- In Puerto Rico, we upgraded two banks and revised the outlook to positive from stable on one bank. Rated Puerto Rican banks have remained profitable, with large deposit inflows improving their funding models, and we believe ongoing fiscal stimulus related to the pandemic, coupled with the continued disbursement of private insurance payments and federal aid following Hurricane Maria, will provide a meaningful boost to the Puerto Rican economy and bank balance sheets.
- In Taiwan, following sovereign rating action, we upgraded three banks and revised the outlook to positive from stable on seven banks. We classify the Taiwan government's tendency to support systemically important banks as highly supportive. Given the enhanced credit strength of the government, we now see an enlarged capacity to support those issuers that benefit from its extraordinary support. The degree of the support will also be subject to the systemic importance of the banks or the likelihood of support for government-related entities.

## 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

## Ratings Weekly Digest

- In Australia, we see a positive trend in industry risk reflecting the Australian banking system's improving funding profile in the past 10 years. In our opinion, the downside to economic risks facing Australian financial institutions due to the COVID-19 outbreak and containment measures is also receding. We now view the economic risk trend as stable. [We are revising our outlooks on 14 mutual banking institutions](#), and one nonbank financial institution to positive from stable to reflect the ease in systemwide risks. We are also revising our outlooks to positive on two Australian regional banks to reflect the easing systemwide risks.
- In Europe, [Cembra Money Bank AG](#) had a better-than-expected financial performance in 2020 despite difficult operating conditions amid the pandemic. We therefore revised our outlook on the bank to stable from negative.
- Regarding recently published commentaries, we published our [Asia-Pacific Financial Institutions Monitor 2Q 2021: Views From The Bottom Of The U](#) and [EMEA Financial Institutions Monitor 2Q 2021: Another Challenging Year](#).

## Sovereign

- [Japan 'A+/A-1' Ratings Affirmed; Outlook Stable](#)
- [Taiwan Ratings Raised To 'AA/A-1+' With Positive Outlook On Strong And Sustained Growth](#)
- [Indonesia 'BBB/A-2' Ratings Affirmed; Outlook Remains Negative](#)
- [Colombia Ratings Affirmed Following Tax Reform Proposal; Outlook Remains Negative](#)
- [Greece Upgraded To 'BB' On Improved Governance Effectiveness; Outlook Positive](#)
- [United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable](#)
- [Italy Ratings Affirmed At 'BBB/A-2'; Outlook Stable](#)
- [Emirate of Sharjah 'BBB-/A-3' Ratings Affirmed; Outlook Stable](#)
- [Canada Ratings Affirmed At 'AAA/A-1+'; Outlook Remains Stable](#)

## Structured finance

- **European CMBS - Retail Property Sector:** On April 21, we held a cross-practice webinar, including Corporate Real Estate, Retail and CMBS analysts, and if you would like to watch a replay, here is the link: "[Bricks & Mortar: Is There A Light At The End Of The Tunnel For The European Retail Property Sector](#)".
- **Argentina RMBS:** Here are a couple "Key Takeaways" from a recent commentary in this sector: In Argentina, the fallout from severe economic constraints, including rising inflation and the government-backed freeze of the UVA value for UVA-denominated mortgage loans, is creating a trend of asset-liability mismatches that could reverse years of progress. Subordination levels for the single UVA RMBS transaction we rate remain high at around 70%, but the asset-liability mismatch means that the cash flow into the transaction structure may eventually fail to meet the bondholders' requirements. We believe the Argentine mortgage market will continue to shrink as political and economic challenges and risks persist. See "[Argentina's Mortgage Market may be Doomed to Repeat History](#)" published April 21.

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