

Ratings Weekly Digest

March 23, 2022

This report does not constitute a rating action

Key Takeaways

- S&P Global Ratings will withdraw its ratings on Russian entities.
- We have further raised price assumptions for some key metals.
- The conflict has led us to lower growth assumptions for global auto sales and IT spending, and will pose particular challenges for agribusiness and food prices.

Key developments

S&P Global Ratings will withdraw its ratings on Russian entities. On March 9, 2022, S&P Global Ratings announced the suspension of its commercial operations in Russia. Following that, on March 15, 2022, the European Union (EU) announced a ban on providing credit ratings to legal persons, entities, or bodies established in Russia. In light of this, S&P Global Ratings will withdraw all of its outstanding ratings on relevant issuers before April 15, 2022, the deadline imposed by the EU.

[S&P Global Ratings To Withdraw Ratings On Russian Entities](#)

[Russia Foreign And Local Currency Ratings Lowered To 'CC' On High Vulnerability To Debt Nonpayment, Still On Watch Neg](#)

[For U.S., Ripple Effects Of Russia-Ukraine Are More Concerning Than Direct Exposure](#)

S&P Global Ratings raised its price assumptions for some key metals, as sanctions and supply chain constraints weigh on already tight markets. We revised our assumptions for aluminum and iron ore up by about 20% in 2022, we raised our assumptions for coal by 40%-50%, and raised our assumption for gold by more than 10% for the next two years. We maintained our price assumptions for nickel in the face of extraordinary price movements on the London Metal Exchange. Metals prices have spiked with the confluence of energy transition, a strategic reconsideration of access to metals and industrial capacity around the world, and fundamentally tight supplies. Our credit outlook for metals and mining companies remains robustly positive, as strong cash flows in 2022 augment several years of capital discipline.

Table 1

S&P Global Ratings' Metals Price Assumptions

	New prices		Old prices (as of Feb. 2, 2022)			
	2022	2023	2024	2022	2023	2024
Aluminum (US\$/mt)	3000	2500	2200	2500	2300	2200
Copper (US\$/mt)	9500	8700	8700	9000	8500	8500
Nickel (US\$/mt)	17500	15500	15500	17500	15500	15500
Zinc (US\$/mt)	3200	2900	2700	3000	2800	2600
Gold (US\$/oz)	1800	1600	1400	1600	1400	1400
Iron ore (US\$/dmt)	130	90	80	110	90	80
Metallurgical coal (US\$/mt)	350	190	150	250	190	150
Thermal coal (Newcastle, US\$/mt)	180	100	70	120	90	70

Source: S&P Global Ratings. mt--Metric ton (1 metric ton = 2,205 pounds). Oz--Ounce. Dmt--Dry metric ton

[Metal Price Assumptions: Shortages Worsen And Prices Spike As Conflict Roils Metals Trading](#)

The Russia-Ukraine conflict is intensifying global supply disruptions and has led us to revise our projections for global light-vehicle sales downward. We now expect global

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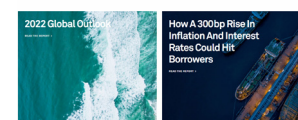
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Links

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

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



<https://www.spglobal.com/ratings/en/research-insights/topics/russia-ukraine-conflict>



There will clearly be profound ramifications—

sales to fall up to 2% in 2022 compared with last year, and light-vehicle production could struggle to surpass pre-pandemic levels even in 2023. Supply issues could have short-term credit implications, given pressure on margins and cash flow generation over the next two years. Although soaring nickel and lithium prices might push electric vehicle prices higher, we don't expect this to significantly change our base-case for electrification globally. We expect electric vehicle sales to continue to accelerate this year and reach 15%-20% of the global fleet by 2025.

Global Auto Sales Forecasts: Russia-Ukraine Conflict Imperils Recovery

The conflict will also test agribusiness and consumers' tolerance for more food inflation. Russia and Ukraine are major global exporters of wheat, sunflower seed meal and oil, barley, and potash, an important input to fertilizer. The military conflict poses significant risk to the region's 2022 commodity exports. Globally, future harvests could be crimped by fertilizer shortages. Direct operating exposure to Ukraine and Russia for most rated agribusinesses is limited. However, the ensuing trade disruption will likely be credit positive for some, such as grain processors, and credit negative for others, such as protein processors. Inflationary pressures in consumer goods, food retail, and food service will be further exacerbated. For many companies in these sectors, preserving credit quality will hinge on the ability to continue to pass on costs to the consumer.

Russia-Ukraine Conflict Will Test Agribusiness Supply Chain Efficiencies And Consumers' Appetite For More Food Inflation

We are lowering our 2022 global information technology spending forecast to 5.1% from 6.3%, reflecting the weakening global macroeconomic outlook related to the Russia-Ukraine conflict. There are pockets of uncertainty, such as ongoing supply chain constraints that could worsen, as well as increasing COVID-19 cases in China. But we believe the technology industry supply chain is resilient and can adapt to meet potential disruptions. We are more cautious on technology sector credit trends than three months ago, but we expect issuer credit profiles to remain mostly stable. Industry trends are still favorable and balance sheets relatively solid because of some capita.

Impact On Tech From Russia-Ukraine Conflict Muted For Now, With Risk Of A Further Macroeconomic Slowdown

Europe's proposal to slash Russian oil and gas imports in light of the Russia-Ukraine conflict will lead to even higher gas and power prices, increased risk of gas shortages, and, we believe, a faster decline of the gas utilities sector as consumers find alternatives. Increased political intervention in the energy market, possibly via state aid, profit clawbacks, and price caps, appears inevitable as governments seek to ensure that energy remains affordable. Further acceleration of power generation from renewables and renewable gases (biomethane and hydrogen) could boost investments, if supported by state funding, but we see major hurdles for Europe in delivering on those plans. That said, European countries appear increasingly open to an alternative energy market design, which could be a game changer for the sector longer term.

Europe's Exit From Russian Gas: 10 Questions On Utilities

We consider most European countries' housing markets to be overvalued relative to the long-term trend in affordability metrics. European house prices have risen sharply, despite the COVID-19 pandemic. Economic shutdowns and support measures led to volatility in reported estimates of income--a key variable in our assessment of housing market under or overvaluation. We have reviewed the under/overvaluation estimates we use when analyzing mortgage-backed structured finance transactions in Europe. Assessments differ by country, but we consider 13 out of 16 European housing markets to be overvalued, in some cases substantially so.

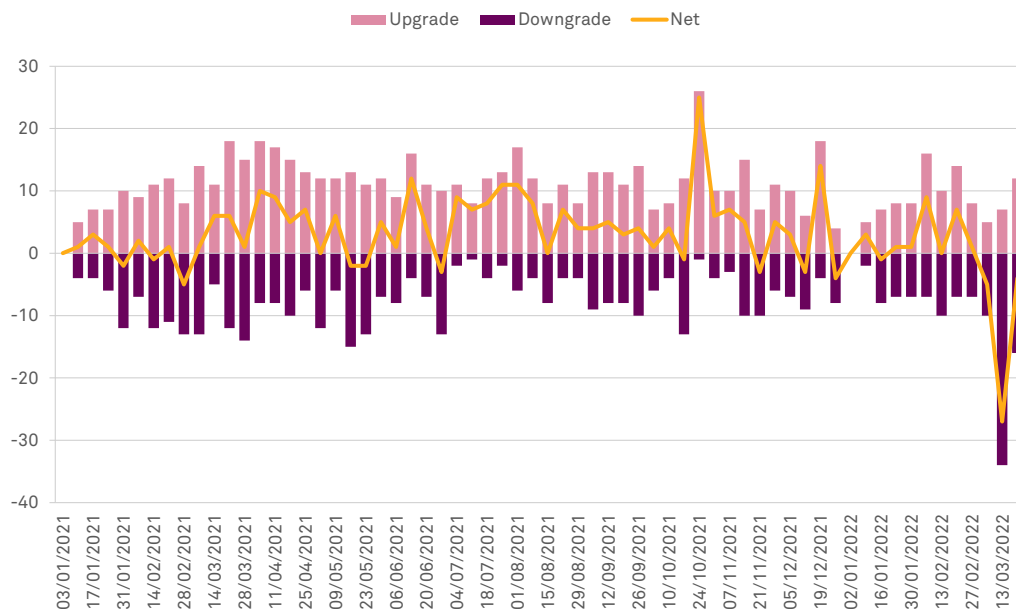
Asset Price Risks: Inflated Property Values Mean Higher Loss Assumptions In European RMBS And Covered Bonds

Credit Market Update

Ratings Trends

Chart 1

Downgrades Continue To Outpace Upgrades For Third Straight Week



Source: S&P Global Ratings. Data as of March 18, 2022.

Credit Market Research

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Table 2

Recent Rating Actions

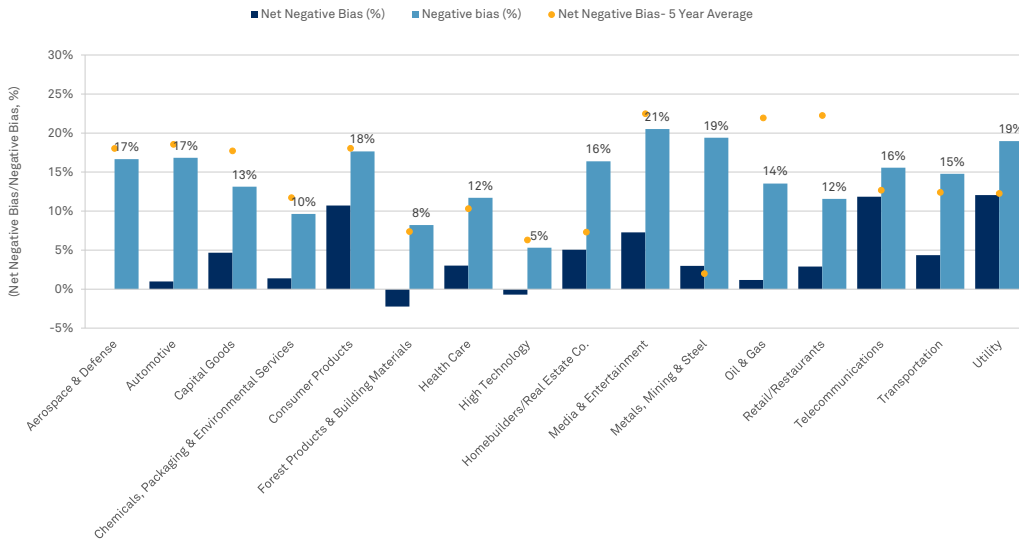
Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. \$)
18-Mar	Downgrade	Republic of Peru	Sovereign	Peru	BBB	BBB+	49,083
18-Mar	Upgrade	Stellantis N.V.	Automotive	Netherlands	BBB	BBB-	43,400
17-Mar	Downgrade	Russian Federation	Sovereign	Russia	CC	CCC-	29,228
16-Mar	Upgrade	Tenet Healthcare Corp.	Health care	U.S.	B+	B	15,310
17-Mar	Upgrade	Yum! Brands Inc.	Retail/restaurants	U.S.	BB+	BB	13,750
16-Mar	Upgrade	Diamond Sports Holdings LLC	Media and entertainment	U.S.	CCC+	CCC	8,722
15-Mar	Downgrade	Diamond Sports Group LLC	Media and entertainment	U.S.	SD	CC	8,175
17-Mar	Downgrade	Sunac China Holdings Ltd.	Homebuilders/real estate	Cayman Islands	B-	BB-	7,562
17-Mar	Upgrade	Hilton Grand Vacations Inc.	Media and entertainment	U.S.	BB-	B+	3,850
14-Mar	Upgrade	Phillips 66 Partners L.P.	Utility	U.S.	BBB+	BBB	3,475

Source: S&P Global Ratings

- **The global weakest links tally increased to 256 as of March 8, 2022**--its first monthly increase since June 2020--due to an influx of negative rating actions on issuers directly affected by the Russia-Ukraine conflict.
- **The Russia Federation has also been downgraded for the third time** so far in 2022 after S&P Global Ratings lowered its long-term foreign sovereign credit ratings on Russia to 'CC' from 'CCC-'.
- **The 2022 global corporate default tally reached 12 this week** after one U.S.- based media and entertainment default. The tally remains at its lowest year-to-date level since 2014; however, as default rates for weakest links are on average 8x higher than overall speculative-grade default rates, we expect the number of defaults to rise.

Chart 2

The Consumer Products Sector Net Negative Bias (%) Increased To 11% This Week And Leads All Other Sectors

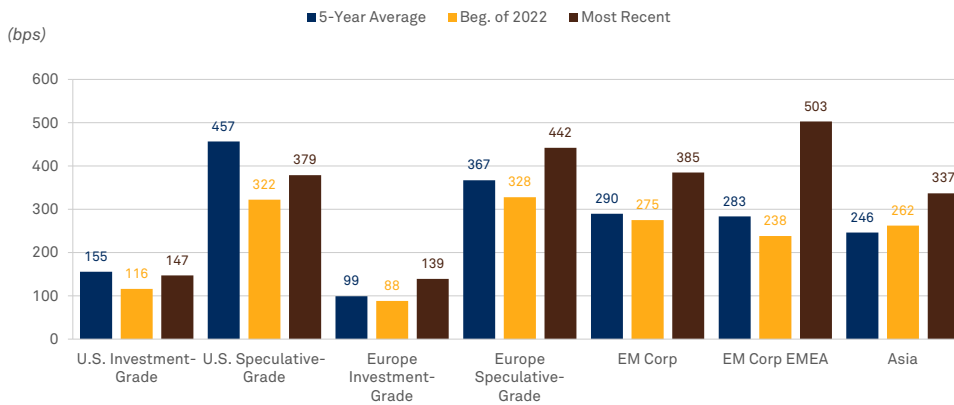


Source: S&P Global Ratings. Data as of March 18, 2022.

Financing Conditions

Chart 3

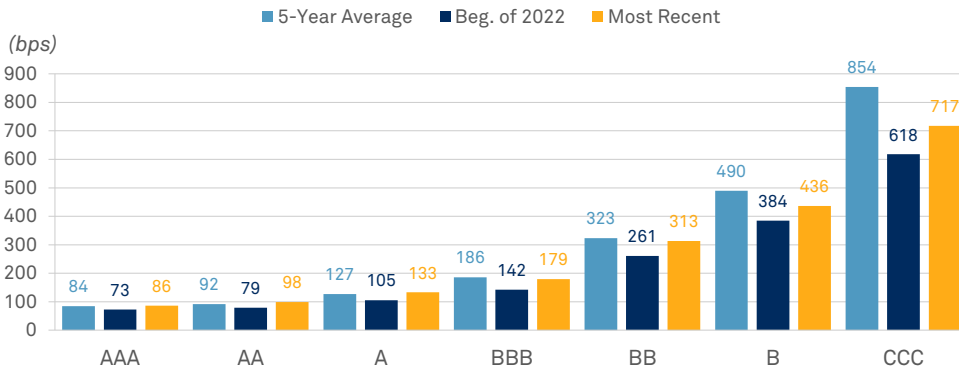
Secondary Market Credit Spreads, U.S., Europe, And Asia



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. March 18, 2022.

Chart 4

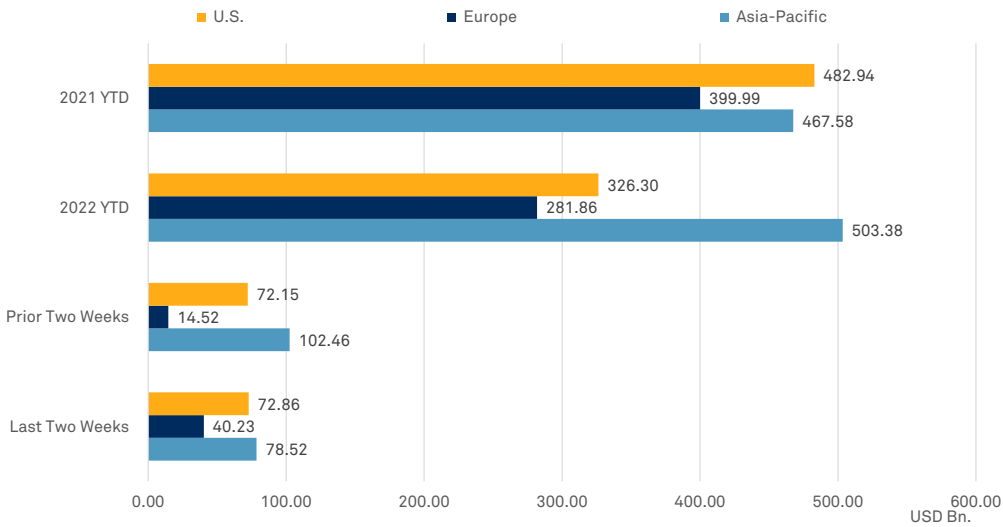
S&P Global U.S. Composite Spreads By Rating, Secondary Market



Source: S&P Global Ratings. Data as of March 18, 2022.

Chart 6

Region Wise New Bond Issuance



Source: S&P Global Ratings. Data as of March 18, 2022.

- **Debt issuance.** Global financial and nonfinancial corporate bond issuance remains down by nearly 18% from this point in 2021, driven by a drop in speculative-grade issuance across markets, with some still shuttered.
- **Secondary market spreads have generally stabilized** – although at material higher levels than the start of the year. Spreads for emerging EMEA corporates are over 100% wider than the start of 2022.

Asset Class Trends

Corporates

- Notable publications include:
 - [Metal Price Assumptions: Shortages Worsen And Prices Spike As Conflict Roils Metals Trading](#)
 - [For U.S., Ripple Effects Of Russia-Ukraine Are More Concerning Than Direct Exposure](#)
 - [Extremely High And Volatile Gas Prices Signal A Structural Shift In Europe's Energy Market](#)
 - [Impact On Tech From Russia-Ukraine Conflict Muted For Now, With Risk Of A Further Macroeconomic Slowdown](#)
 - [Default, Transition, and Recovery: Diamond Sports Group Pushes The Corporate Default Tally To 12](#)
 - [The Outlook For The Health Services Sector Is Stable, With A Positive Bias](#)
 - [Default, Transition, and Recovery: The Global Weakest Links Tally Rises For The First Time Since 2020](#)
 - [Global Auto Sales Forecasts: Russia-Ukraine Conflict Imperils Recovery](#)
 - [China's Auto Companies To Navigate Supply-Chain Disruptions](#)
- Notable ratings actions include:
 - [Stellantis N.V. Upgraded To 'BBB-/A-2' On Stronger-Than-Expected Performance; Outlook Stable](#)
 - [Coca-Cola HBC AG Outlook Revised To Negative On Weaker Credit Metrics From Russian Business Suspension; Ratings Affirmed](#)
 - [Ericsson Outlook Revised To Developing As Governance Issues Offset Strong Cash Flow Prospects; Affirmed At 'BBB-/A-3'](#)
 - [Casino Guichard-Perrachon Outlook Revised To Negative On Weaker Performance, Difficult Deleveraging Path; 'B' Affirmed](#)
 - [InterContinental Hotels Group PLC \(IHG\) Outlook Revised To Positive; 'BBB-' Rating Affirmed](#)

Banks and financial institutions

- In EMEA, we lowered our ratings on several entities that we consider directly or indirectly exposed to Russian financial markets or economic conditions:
 - Russian broker Investment Co. Freedom Finance LLC to 'CCC-' from 'B'.
 - Kazakh bank Freedom Finance JSC, Kazakh brokers Bank Freedom Finance Kazakhstan JSC and Freedom Finance Global PLC, and Cypriot broker Freedom Finance Europe Ltd. to 'B-' from 'B'.

All the ratings remain on CreditWatch with negative implications.
- Regarding Russia's military conflict with Ukraine, we also published two reports on the consequences outside of Europe. The lack of material direct exposures to Russia and Ukraine counterparties will soften the impact but the situation has increased uncertainty globally and could lead to indirect effects on the sector. See [Asia-Pacific Banks And The Ukraine Crisis: Small Exposures But Secondary Impacts Could Bite](#) and [U.S. Financial Institutions Ratings See Some Indirect Increased Risk From The Armed Conflict In Ukraine](#).
- We also revised the rating outlook to stable from negative on two top Spanish banks (Santander S.A. and Banco Bilbao Vizcaya Argentaria S.A.) and subsidiaries following similar action on Spain. The Spanish banking system has demonstrated resilience to the COVID-19 pandemic, and although the conflict in Ukraine renders the economic outlook more uncertain, we think downside risks for Spanish banks are limited.
- We lowered our long- and short-term issuer credit ratings on Singapore-based nonoperating holding company Mulhacen Pte. Ltd. (Mulhacen) to 'D' from 'CC' following completion of its bond restructuring. We consider the transaction as distressed and tantamount to a default, since bondholders have received less than

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they were originally promised and in the form of a more junior, longer-dated instrument.

- In emerging markets, we downgraded seven Peruvian financial institutions following the same action on the sovereign. We also downgraded four Thai banks due to higher systemic risk from high leverage among borrowers.

Sovereign

- [Russia Foreign And Local Currency Ratings Lowered To 'CC' On High Vulnerability To Debt Nonpayment, Still On Watch Neg](#)
- [Spain Outlook Revised To Stable From Negative On Balanced Growth; 'A/A-1' Ratings Affirmed](#)
- [Peru Long-Term Foreign Currency Rating Lowered To 'BBB' On Political Stalemate Limiting Growth Prospects; Outlook Stable](#)
- [Costa Rica Outlook Revised To Stable From Negative On Public Employment Bill, IMF Review; 'B' Ratings Affirmed](#)

Structured finance

- **Structured Finance Podcast:** Listen to a recent podcast, "[Take Notes: The Risk of "Buy Now, Pay Later" Assets and Potential Securitizations](#)" released on March 16, 2022.
- **Global covered bonds:** Here are a couple key takeaways from a recent commentary: The Ukraine-Russia military conflict may deteriorate macroeconomic and credit prospects globally. While the magnitude of the impact on markets is hard to estimate, we expect inflation to surge and economic performance to decrease worldwide. 2022 started with healthy investor-based covered bond issuance, but the outlook for the year remains uncertain. Our covered bond ratings have remained broadly stable, with one upgrade and no downgrades in Q1 2022. See "[Global Covered Bond Insights Q1 2022](#)" published on March 17, 2022.
- **Aircraft ABS:** On March 15, 2022, we published a credit FAQ entitled "[Impact of The Russia-Ukraine Conflict on Aircraft ABS Securitizations](#)." The FAQ addresses some of the frequently asked questions about how the recent EU sanctions over the Russia-Ukraine conflict will affect outstanding aircraft asset-backed securitization (ABS) lease transactions.
- **U.S. CLO:** See "[SF Credit Brief: CLO Insights 2022 U.S. BSL Index: Loan Prices Dip While Credit Remains Stable](#)" published March 15, 2022.



The CLO Insights 2022 Index U.S. BSL Index (2022 Index) is an index of just over 600 S&P Global Ratings-rated U.S. broadly syndicated loan (BSL) collateralized loan obligations (CLOs) that have already started issuing trustee reports as of the start of 2022, and based on their transaction documents, are scheduled to reinvest for all of 2022. The 2022 Index includes CLOs across various vintages (including deals that were reset) issued by 121 different CLO managers. The 2020 Index excludes static deals and deals that will start amortizing in 2022. We plan to provide monthly updates of key metrics based off this index for the remainder of 2022.

- **European CLO:** Here are a couple key takeaways from a recent commentary: Although European CLO performance has been mostly positive amidst the pandemic, 50% of the CLOs saw their total par amount drop below the target par. This par reduction can be due to several factors, including collateral managers' trading activity as they look to protect their par value test. ix CLOs breached their par value test with a maximum failure of 111 basis points and a maximum failure period of over eight months. See "[The European CLO Market: Where's The Par?](#)" published on March 14, 2022.

- **Australia and New Zealand ABS:** Arrears increased slightly in most Australia and New Zealand ABS transactions during the fourth quarter of 2021. The small-ticket commercial sector has experienced material disruptions due to COVID-19 and conditions could remain mixed into 2022. However, most classes of notes have built up credit support due to the relatively low cumulative losses experienced to date. We believe this would provide a buffer for transactions should there be upward pressure on arrears or an increase in losses over the coming months. See "[Australian and New Zealand ABS Portfolio Arrears Increased Slightly In Q4 2021, Report Says](#)" published March 17, 2022 in order to access "[ABS Performance Watch: Australia and New Zealand](#)," which provides a comprehensive analysis of the performance of ABS transactions in Australia and New Zealand.

U.S. Public Finance

- We published several key articles providing insight into how environmental, social, and governance (ESG) risks and opportunities are factored into the credit rating analysis.
 - We have updated our sector-by-sector analysis originally published in April 2020 to provide additional insight on how ESG credit factors intersect with aspects of key criteria frameworks: [Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors](#)
 - We will begin publishing ESG credit indicators for rated entities in U.S. public finance this spring. We expect the sector-by-sector implementation to extend into 2023: [S&P Global Ratings To Enhance Transparency In U.S. Public Finance Credit Analysis With ESG Credit Indicators](#). We also held a webcast to provide additional information to market participants and [U.S. Public Finance Credit Spotlight: ESG Credit Indicators webinar](#)
 - [ESG U.S. Public Finance Report Card: Mountain States](#)
 - [ESG Brief: Incorporating Climate Transition Risk In U.S. States Credit Ratings](#)
- Our monthly U.S. Public Finance Credit Spotlight webcast will be on March 31. We will have two special guests; our sovereign sector lead will provide an update on the Russia/Ukraine conflict, and our chief U.S. economist will provide an economic update on recent forecast changes, followed by an update on credit conditions across U.S. public finance: Credit Spotlight Registration.

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