Global Credit Markets Update – Q2 2022
Regional Headwinds Replace Global Tailwinds

April 5, 2022

S&P Global Ratings

This report does not constitute a rating action

Key Themes

Financing Conditions Tightening

-17%

Market volatility has led to a pause in debt issuance –particularly at the lower end of the credit spectrum. Global financial and nonfinancial new bond issuance is down by 17% since this point in 2021.

Positive Credit Momentum Stalls

After 14 months of largely positive rating momentum, downgrades have been exceeding upgrades for the past four weeks with the Russia Ukraine conflict a key factor.

Spreads Widening

Credit spreads have been widening year to date in most major markets suggesting investors are becoming somewhat more risk-averse.

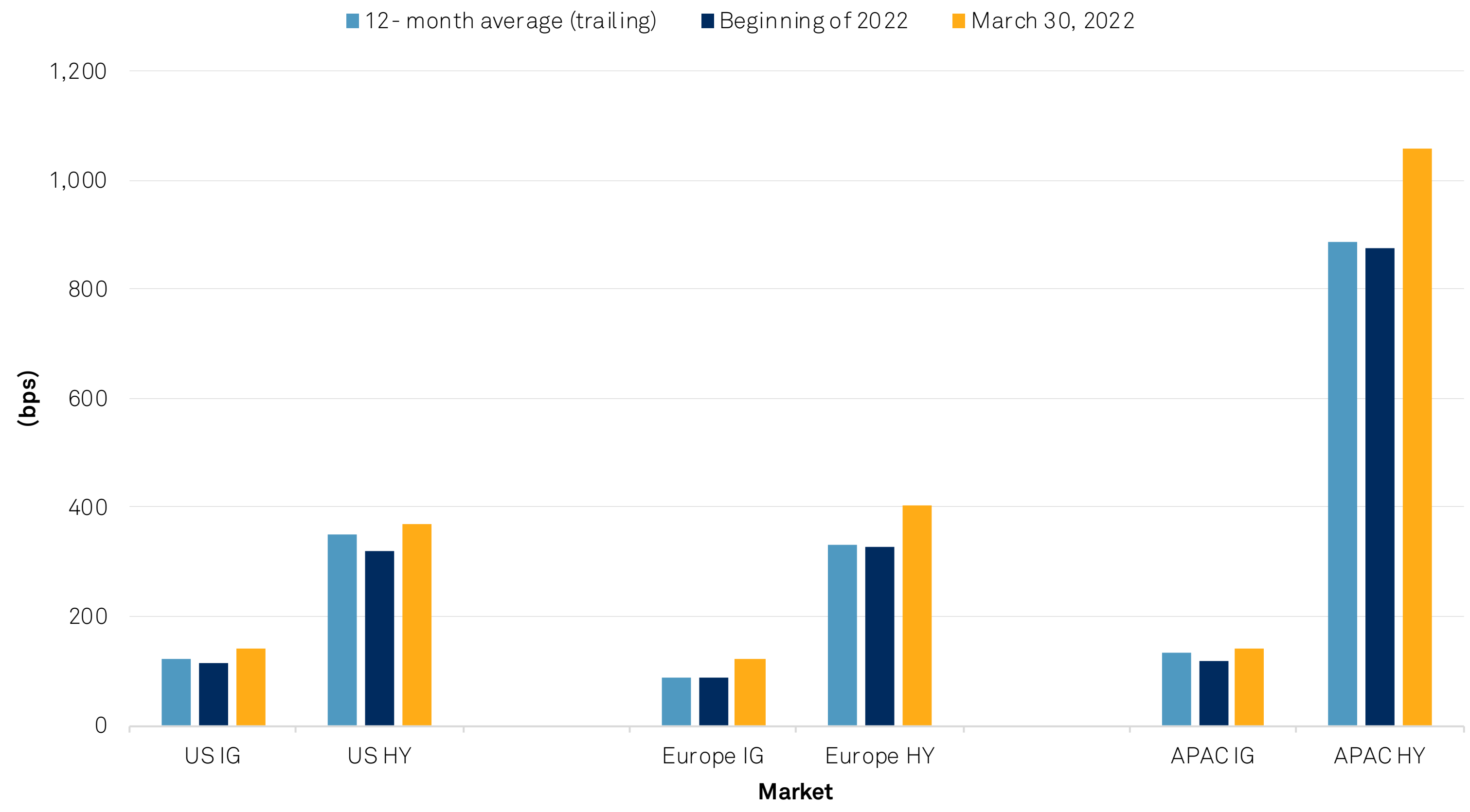
Defaults Remain Low For Now

1.5%

The global 12-month trialing spec-grade default rate remains low at just 1.5% as the number of defaults in 2022 are at their lowest levels since 2014.

Credit Spreads | Global Widening With Concurrent Risks At Play

Spreads By Rating Grade And Region

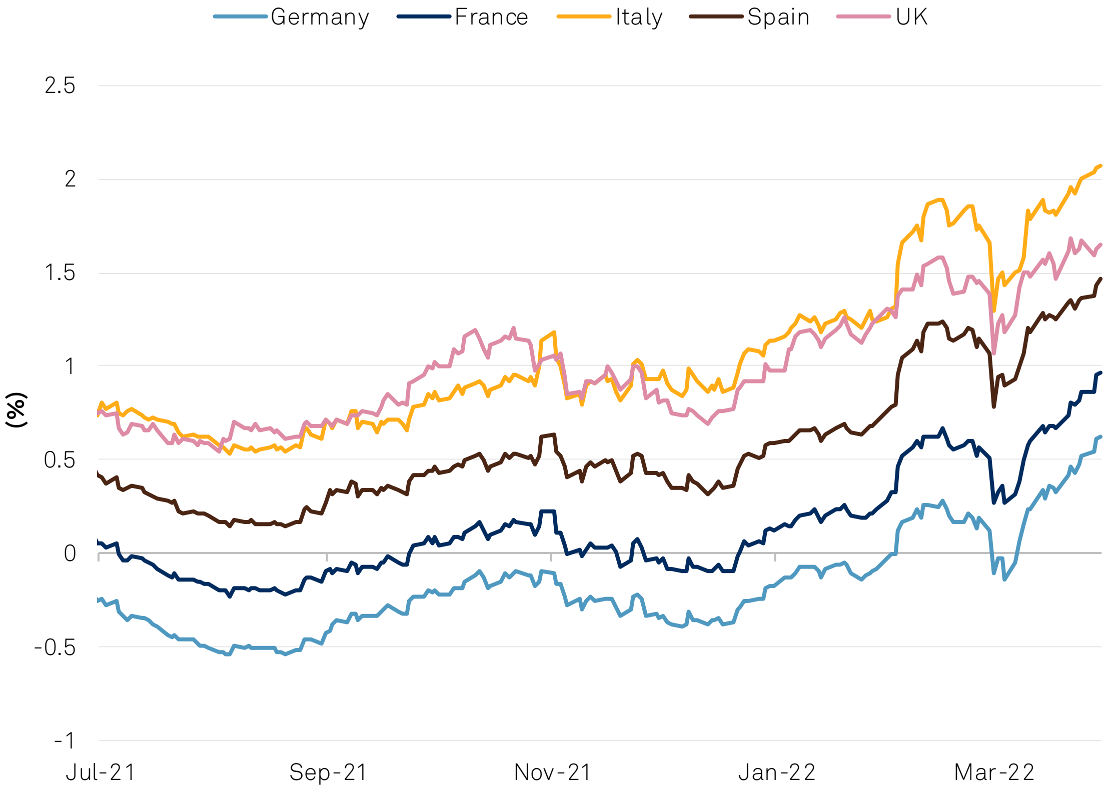


Note: Data as of March 30, 2022. IG—Investment grade. HY—High yield. Sources: S&P Global Ratings, Refinitiv, S&P Dow Jones Indices, U.S. Federal Reserve Bank of St. Louis, Bank of America Merrill Lynch, Bloomberg-Barclays Indices. Spreads from Bloomberg-Barclays are secondary market pricing. Europe HY as of March 29, 2022.

- **Concurrent yet related risks** of higher inflation, energy prices, and the conflict, along with regional specific credit issues are having an uneven impact across regions
- **U.S. corporate credit spreads have widened in 2022** as persistent inflation fuels unease about the pace of monetary tightening
- U.S. and European speculative-grade spread widening **has arguably been less severe** than one might expect in a true risk off period.
- **In absolute terms, speculative-grade spreads in APAC are widening the most-**-as concerns for the Chinese property market sector and rising counts of Omicron cases weigh on investor appetite.

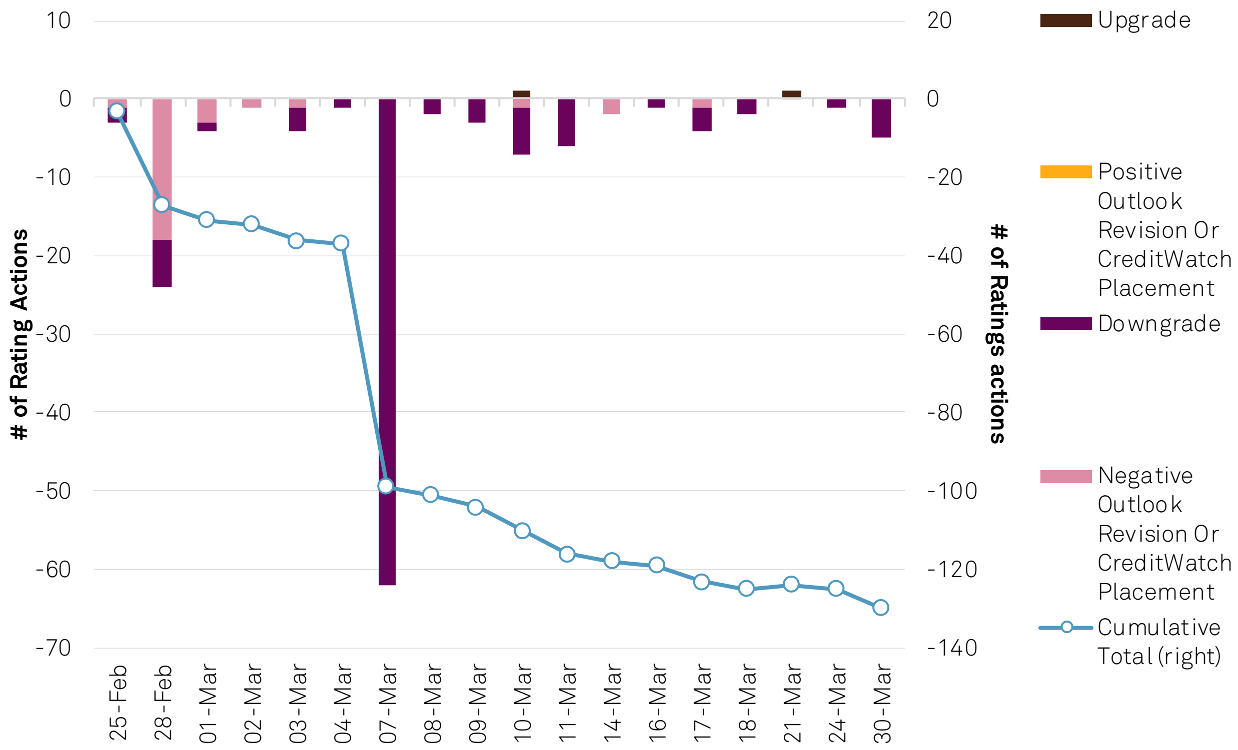
Russia-Ukraine | Increase In Negative Rating Actions

Concurrent Risks Lift European Benchmark Yields Well Above Zero



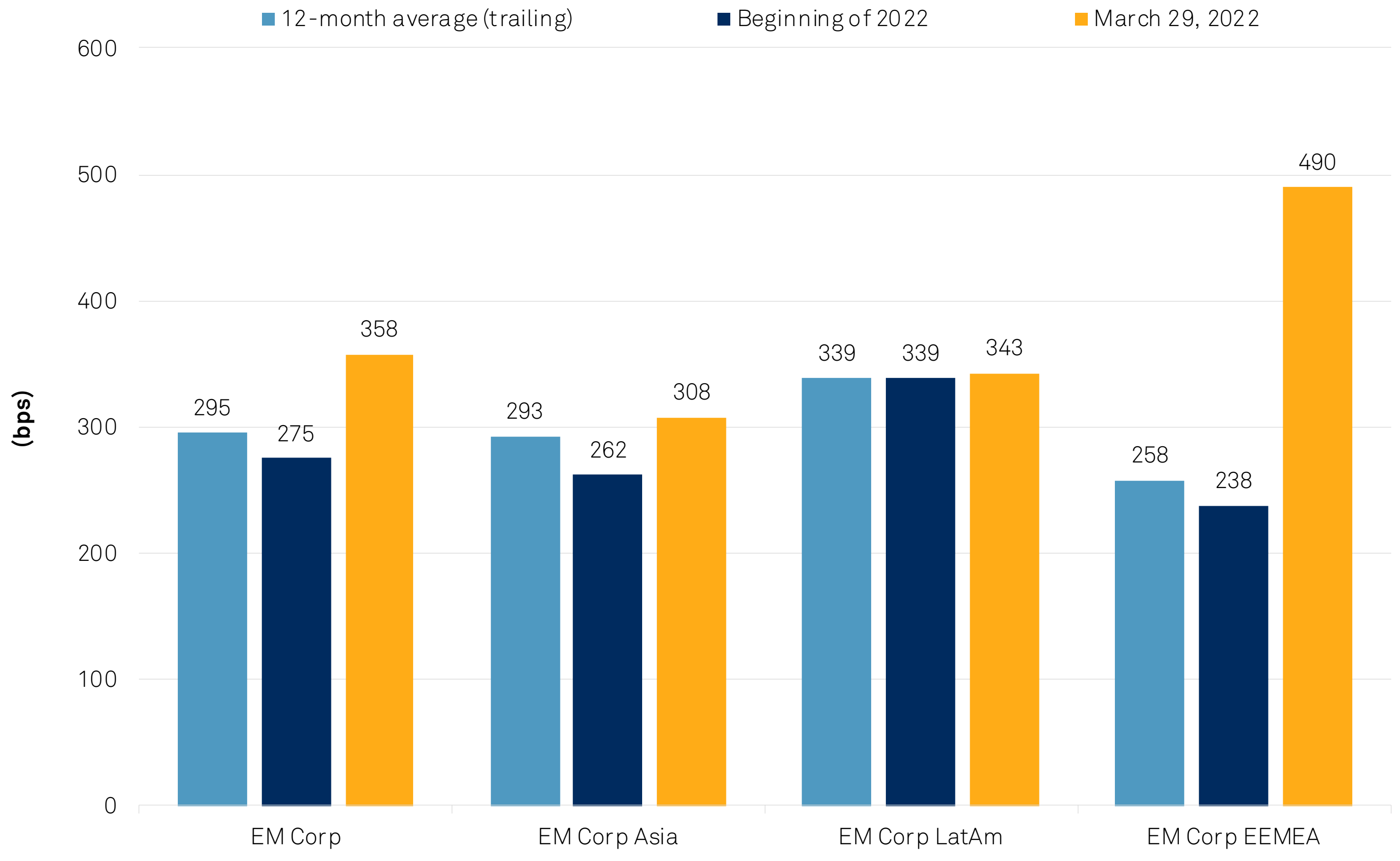
Sources: S&P Global Research, Refinitiv

Distribution Of Rating Actions Related To The Russia-Ukraine Conflict and Energy Prices



Rating actions are tracked at the rating action level, not the issuer level. Therefore, one issuer credit rating can have multiple rating actions. Data as of March 30, 2022. Source: S&P Global Ratings.

EM Credit Spreads | EEMEA Spreads Most Affected By The Russia-Ukraine Conflict



- **EM spreads have widened since the start of the year** as the conflict in Ukraine and concerns for the Chinese property market have fueled growing risk aversion
- Within EM, **EEMEA spreads are most affected**, more than doubling this year, due to their geographic and economic proximity to the conflict
- **Spreads continue widening in EM Asia** (but to a lesser extent than in EEMEA) as concerns for the Chinese property market continues to weigh on lower-rated credit.
- **LatAm spread widening has been more contained, which is somewhat surprising** since LatAm is the EM region most exposed to a disorderly tightening in the U.S.

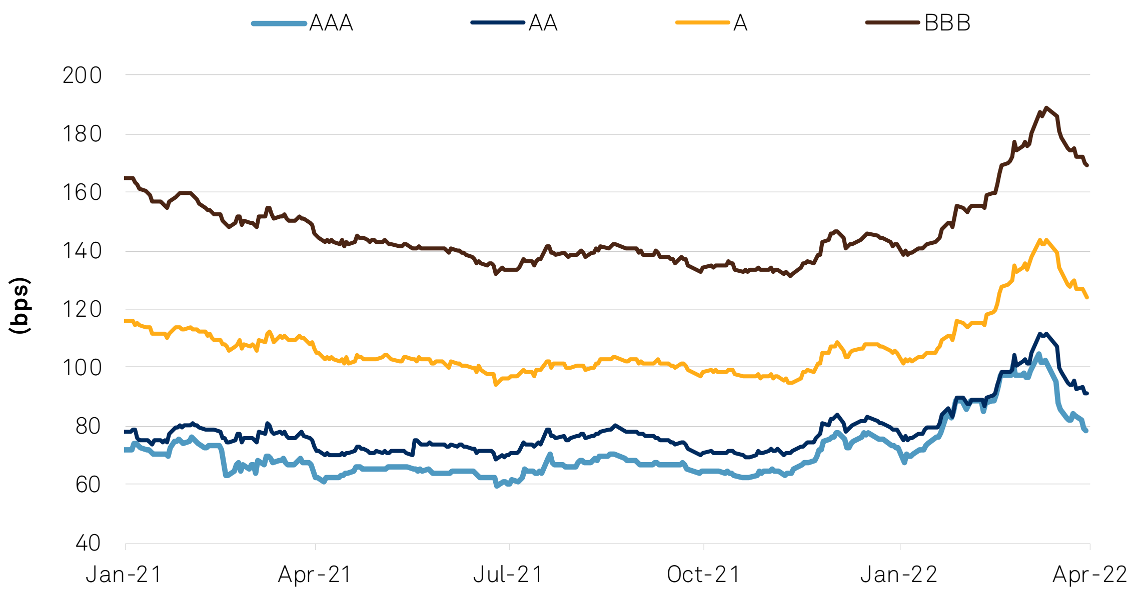
ICE Benchmark Administration Limited (IBA), 'ICE BofAMLAsia Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', 'ICE BofAML Europe, the Middle East, and Africa (EMEA) Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread'; Data as of March 29, 2022. Source: Federal Reserve Bank of St. Louis, S&P Global Ratings.

U.S. Credit Spreads | Slowly Tightening After Sharply Widening

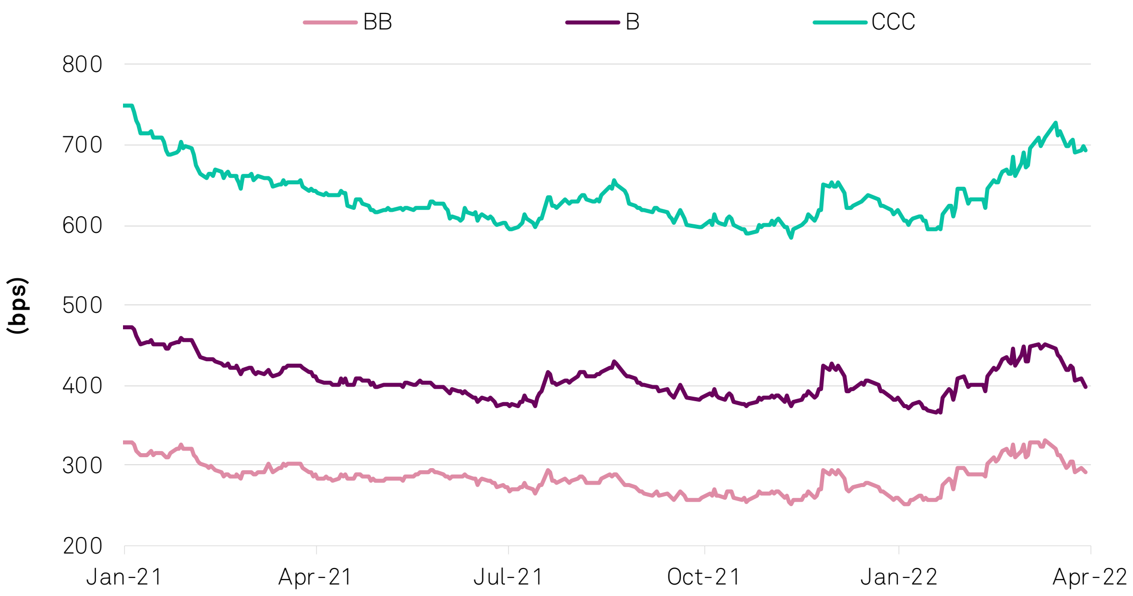
– Despite recent tightening IG spreads still remain wider than any point in 2021.

– Speculative-grade spreads are broadly back to Q1 2021 levels.

U.S. Investment-Grade Spreads by Rating Category



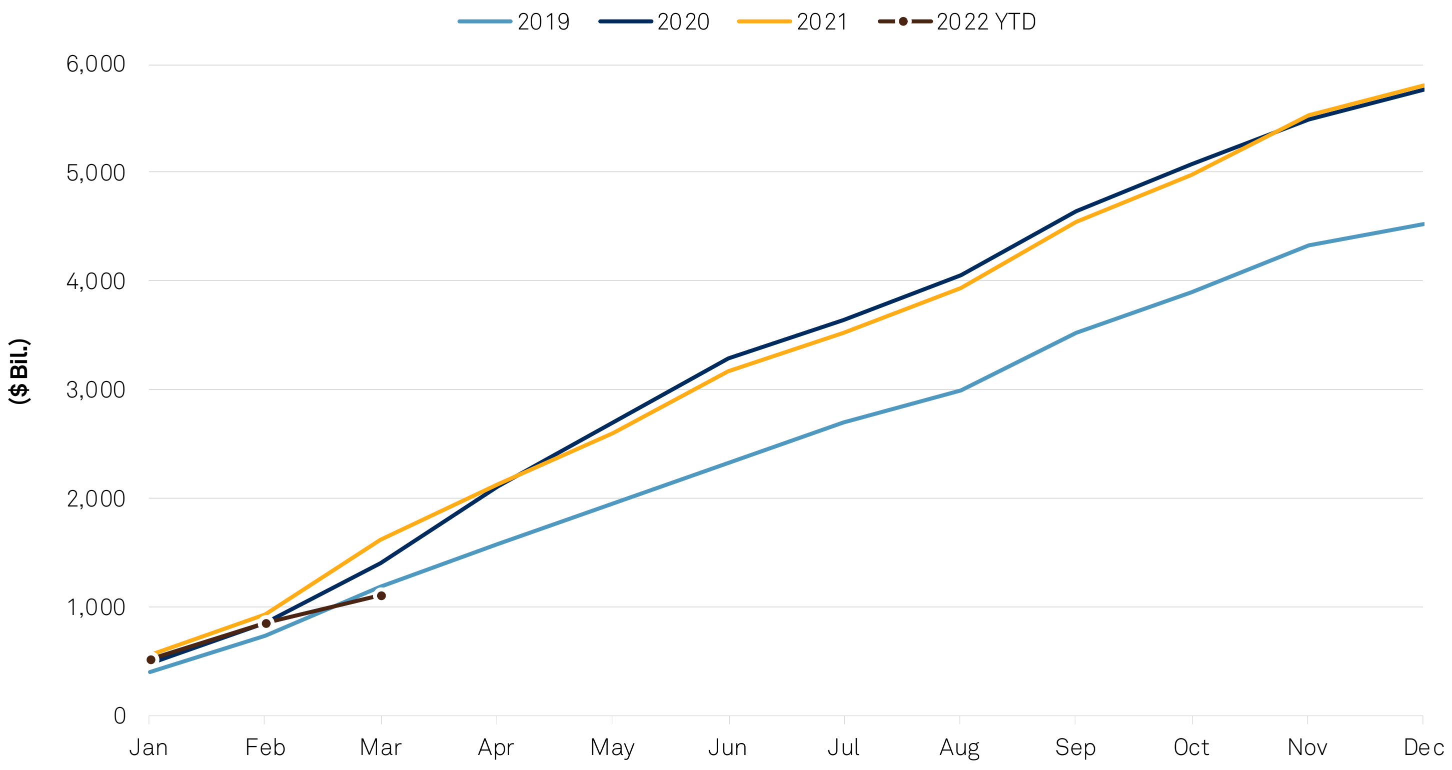
U.S. Speculative-Grade Spreads by Rating Category



** Option-adjusted spreads computed on a pool of over 20,000 U.S.-domiciled bonds with par values of over $100M that are rated by S&P Global Ratings. Data as of March 30, 2022.*
Source: S&P Ratings Research, Refinitiv.

Primary Issuance | Down But Not Out As Investors Evaluate Risks

Global Cumulative Corporate (Financial And Nonfinancial) New Bond Issuance



Data as of March 14, 2022.
Sources: S&P Global Ratings, Refinitiv.

- **Global corporate bond issuance at the start of 2022 has lagged** the starts of the past two years- -not surprising given the record volumes of 2020 and 2021.
- **Investors are facing risks from many fronts,** including geopolitics, supply chains, China's real estate slowdown, and inflation.
- **These widespread risks are dampening demand for lower-rated credit,** particularly in Europe and Asia-Pacific.
- **Overall issuance remains supported by more resilient demand for investment-grade and financial services bonds**, and this is helping issuance to remain near 2019's volume.

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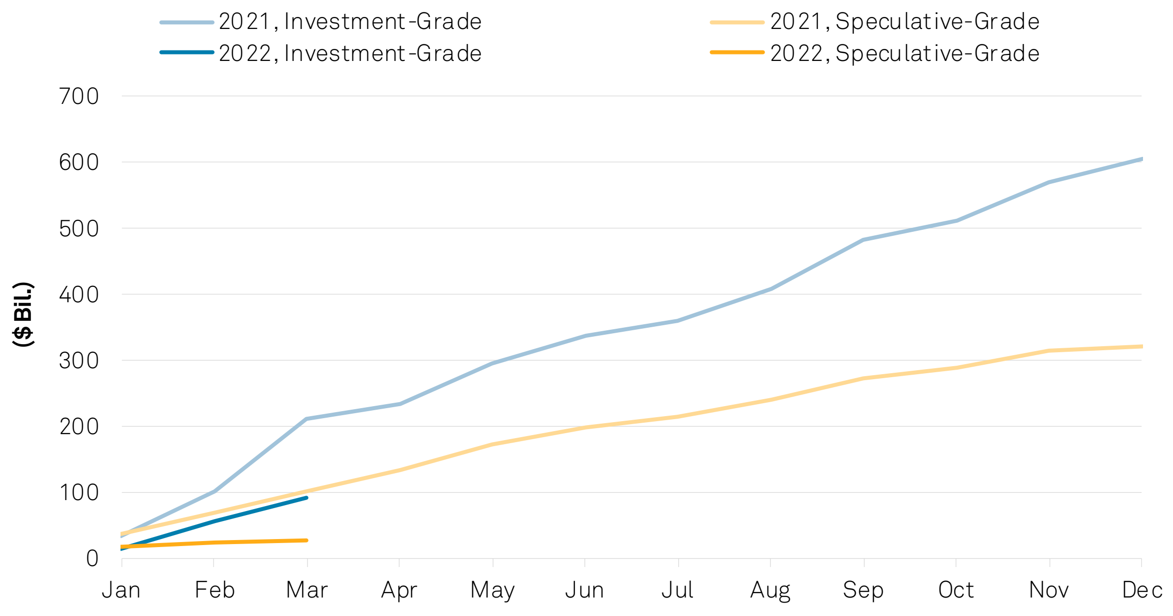
North American Issuance | Tightening Policy Crimps Demand

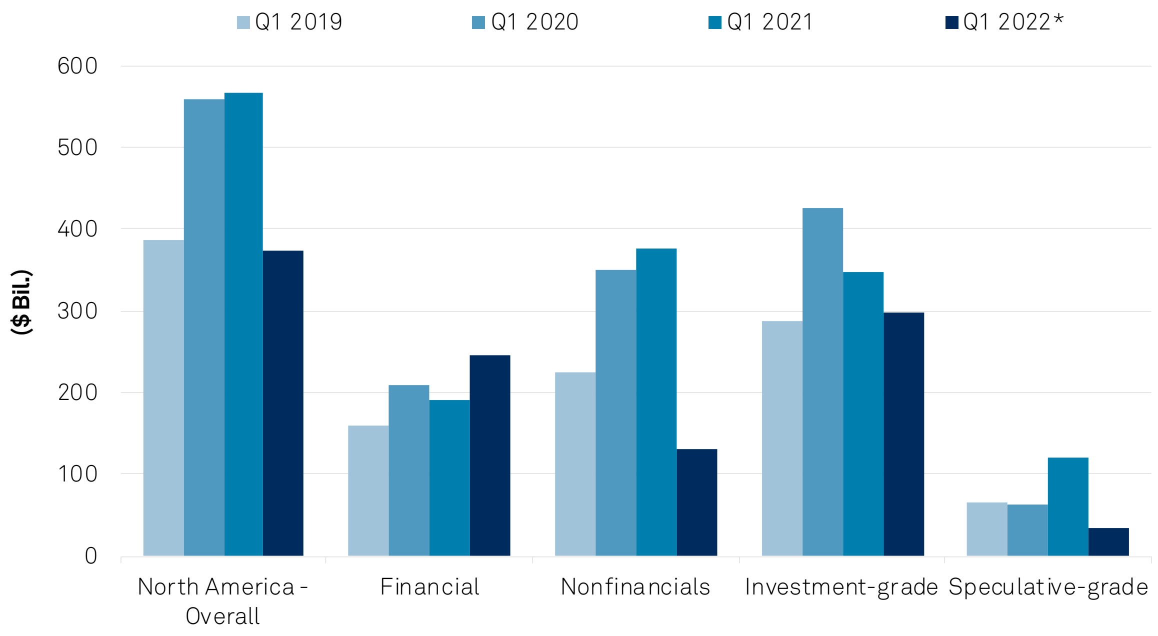
- **North American nonfinancial corporate** issuance has slowed in 2022 on tighter financial conditions .
- **Investment-grade nonfinancial** issuance is down 56% year-over year in 2022*, while **speculative-grade nonfinancial** issuance is down even further (by 73%).
- Despite this slowdown, the primary market for speculative-grade remains more accessible in North America than in other regions.

New Nonfinancial Bond Issuance (Cumulative)



*Data as of March 14, 2022.
Sources: S&P Global Ratings, Refinitiv.

North America New Bond Issuance By Category



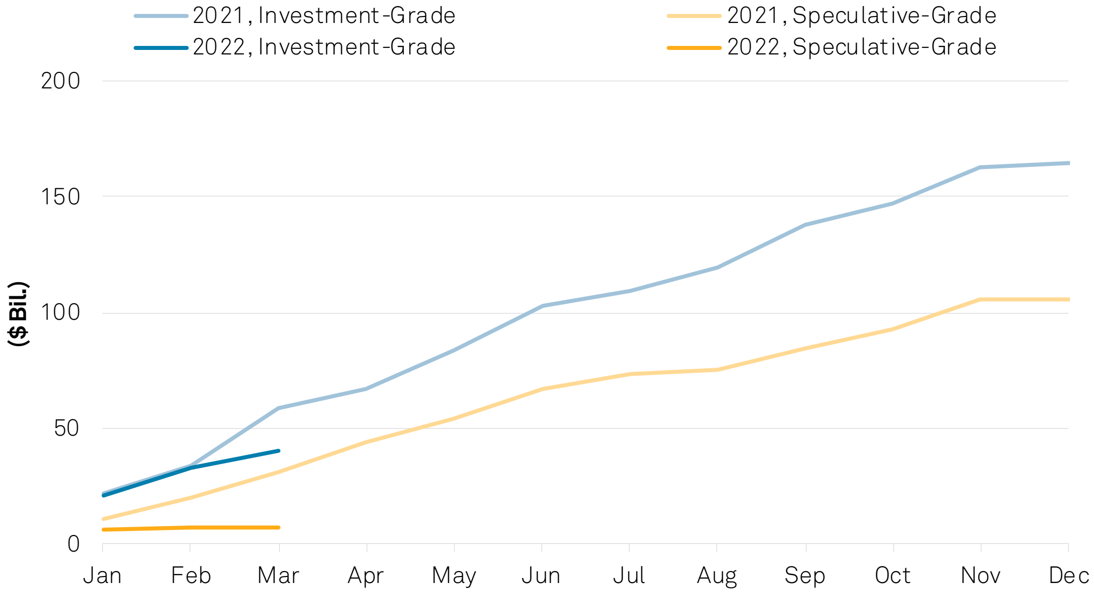
*Denotes YTD data as of March 14, 2022, includes rated debt only. Data including both financial and nonfinancial corporates. Overall, Financials, Nonfinancial includes unrated issuances.
Sources: S&P Global Ratings, Refinitiv.

S&P Global Ratings

European Issuance | Uncertainties Around The Conflict Weigh On Issuance

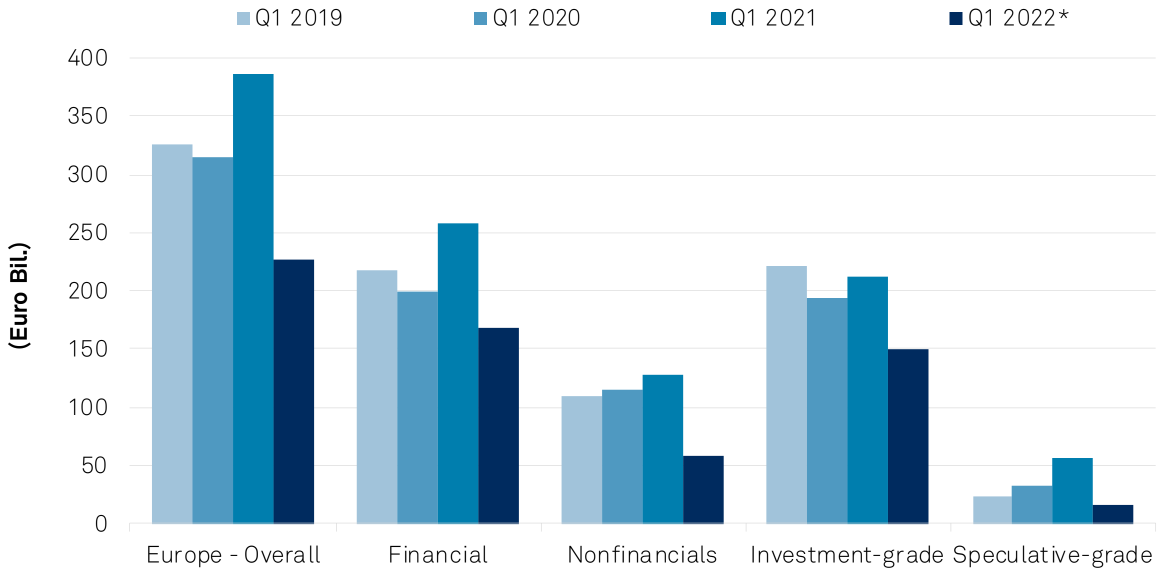
- **European nonfinancial corporate** issuance totaled just €59 billion*, 54% below Q1 2021 issuance.
- **Investment-grade nonfinancial bond** issuance is down 32% year-over year in 2022 while **speculative-grade nonfinancial** issuance has dropped by 78%.
- **Speculative-grade** issuance began the year slow and then stalled in mid February, with hardly any deals since February 15.

New Nonfinancial Bond Issuance (Cumulative)



** Data as of March 14, 2022.*
Sources: S&P Global Ratings, Refinitiv.

Europe New Bond Issuance By Category

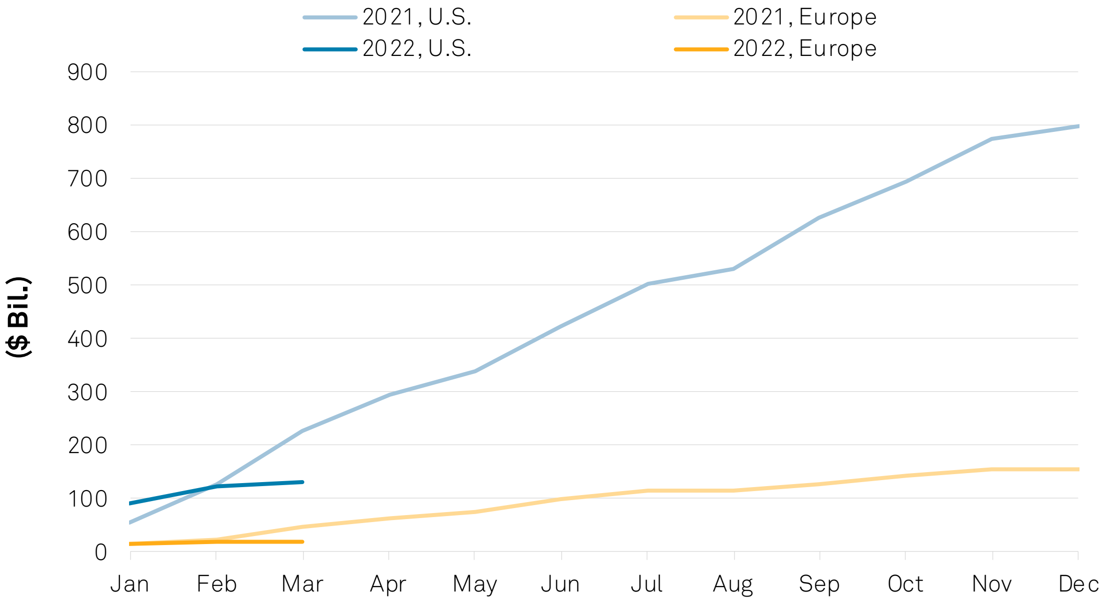


**Denotes YTD data as of March 14, 2022. Data including both financial and nonfinancial corporates, with rated and unrated debt. Overall, Financials, Nonfinancial includes unrated issuances.*
Sources: S&P Global Ratings, Refinitiv.

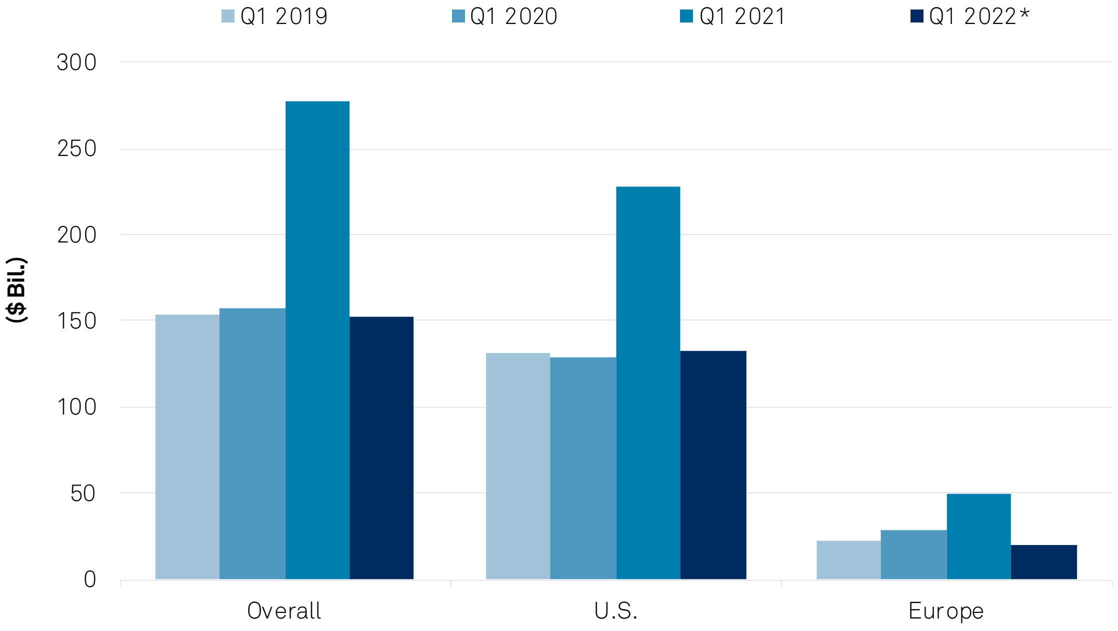
Leveraged Loan Issuance | Unsurprisingly Can't Match 2021's Record Pace

- **Leveraged loan issuance** has fallen sharply year-over-year in the first quarter due to challenging comparisons with 2021's record issuance volume.
- **U.S. leveraged loan issuance** volume remains near the levels from 2019 and 2020, while **European issuance** has slowed from heightened risk aversion.

New Leveraged Loan Issuance Volume (Cumulative)



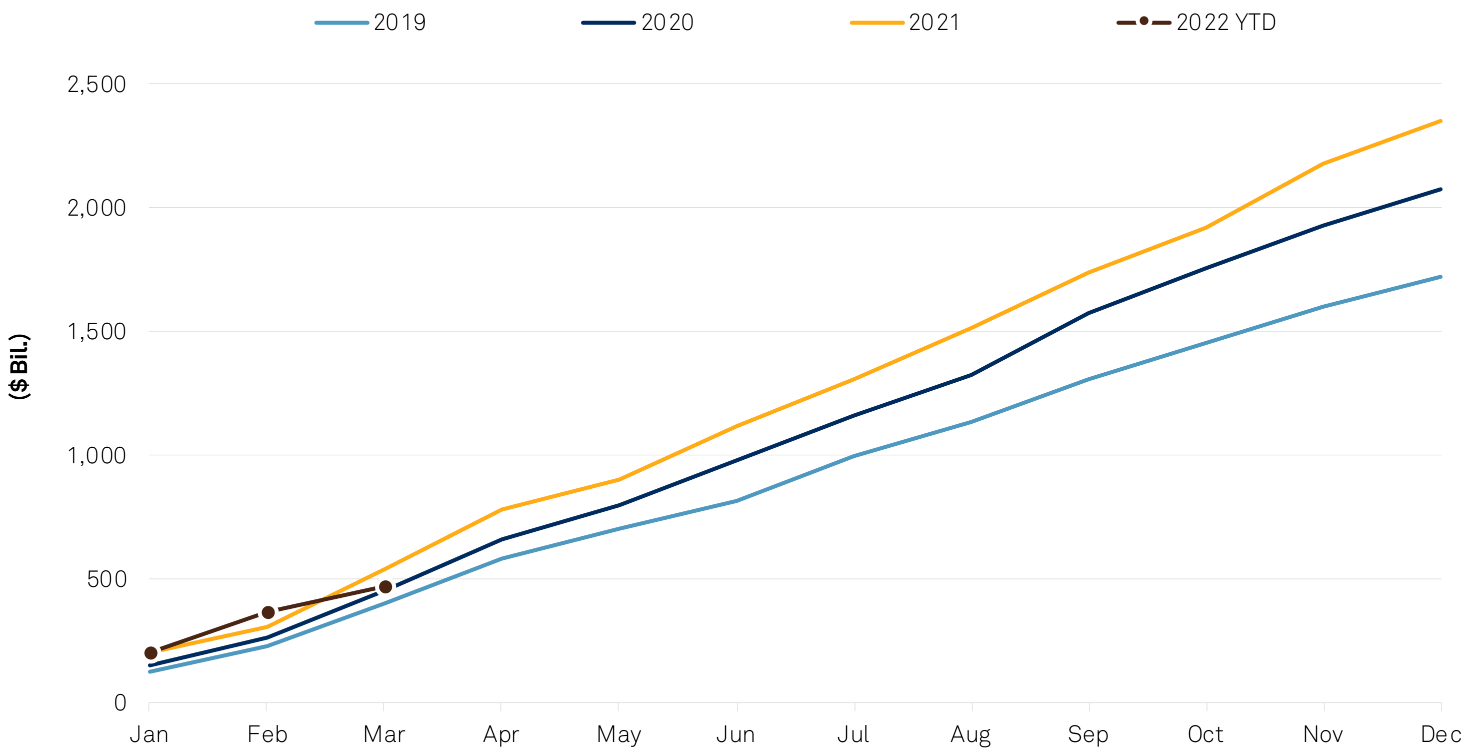
First-Quarter Leveraged Loan Issuance (U.S. And Europe)



**Data as of March 18, 2022. Leveraged loan issuance includes institutional and pro rata loans. Source: S&P Global Ratings Research; LCD, an offering of S&P Global Market Intelligence.*

APAC Issuance | Heightened Risk Aversion Contributes To Lack Of Issuance From Lower-Rated Entities

Asia-Pacific Cumulative Corporate (Financial And Nonfinancial) New Bond Issuance

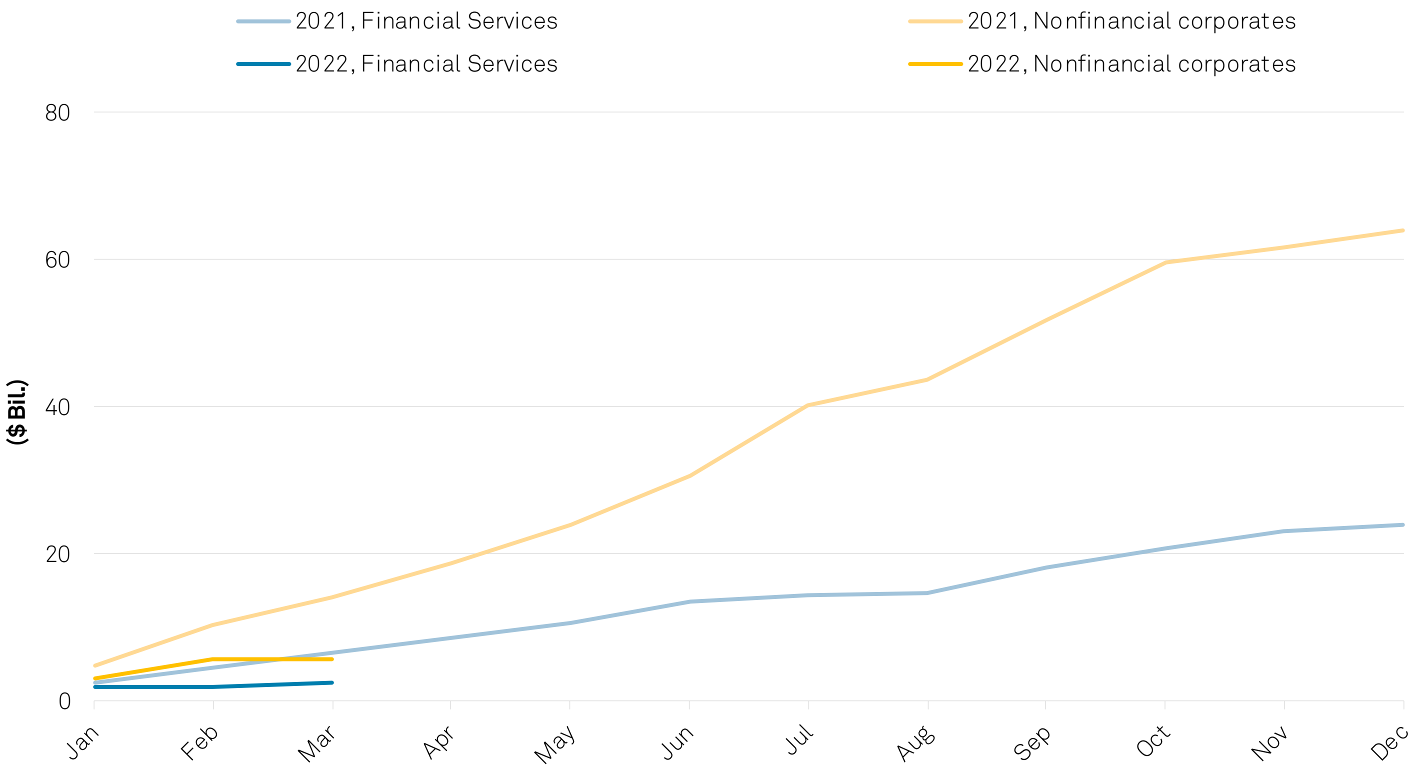


Data as of March 14, 2022.
Source: S&P Global Ratings; Refinitiv.

- **Asia-Pacific issuance has held up surprisingly well given increases in both benchmarks and spreads.** While issuance is down from last year's exceptional pace, it remains near that of 2019 and 2020.
- **However, most of the activity has been from issuers with relatively higher credit quality.** Issuance from the lower-end of the credit spectrum has fallen substantially.
- The continued property slowdown in China, along with initial concerns about the impact of Omicron, and uncertainty about the spillovers from the Russia-Ukraine conflict are **contributing to the slowdown in lower-quality issuance**.

LatAm Issuance | U.S. Monetary Policy Concerns Adds To Tightening Regional Financing Conditions

LatAm Cumulative Corporate (Financial And Nonfinancial) New Bond Issuance



*Data includes rated and unrated new bond issuance. * Denotes YTD data as of March 14, 2022. Source: S&P Global Ratings Research.*

- **Issuance volumes in Latin America are down more than 50% year-to-date,** even though Latin American corporate credit spreads have been less affected by current volatility than other EM regions,
- **Issuance has declined comparably for both financial- and nonfinancial corporates and** financing conditions in the region appear more vulnerable than other regions to a disorderly tightening in the U.S.

Ratings Summary

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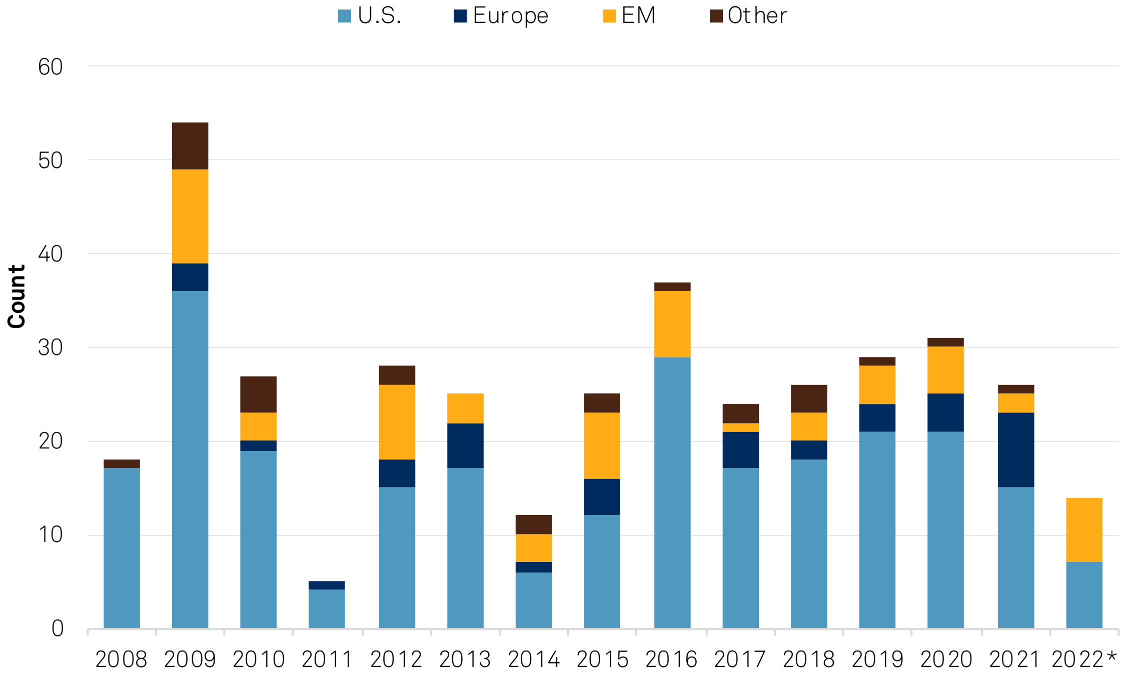
Ratings

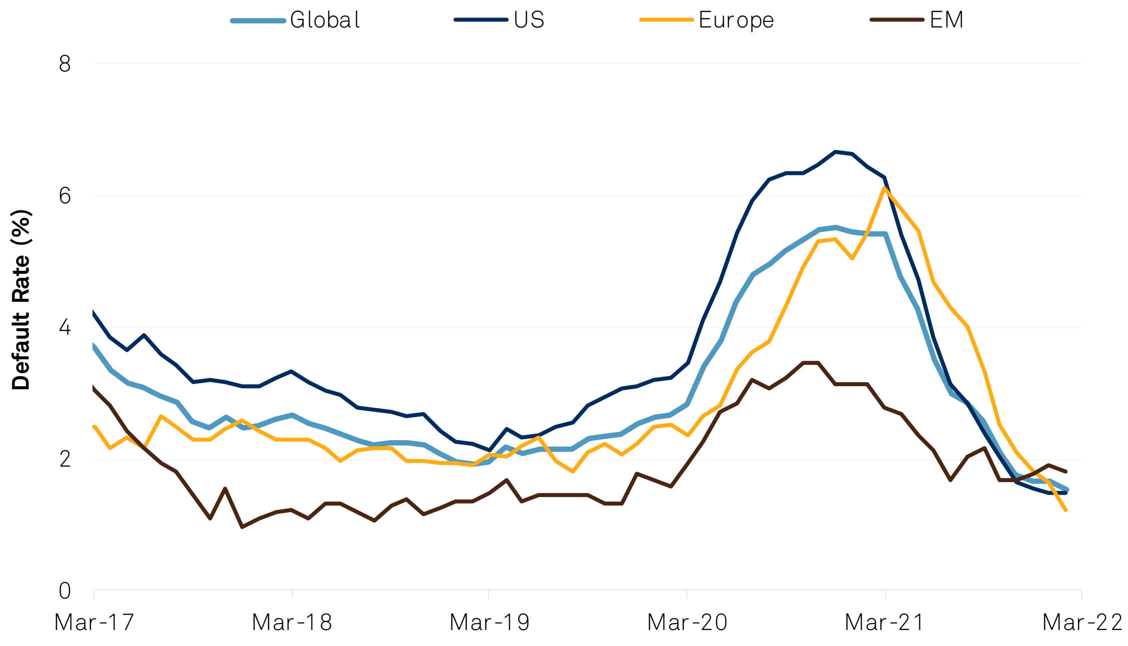
Rating Actions | Corporate Default Rates Remain Low

- **The number of defaults in 2022 are at their lowest levels since 2014.**
- So far this year the U.S. and Emerging Markets regions lead defaults with seven and six respectively, with no defaults from Europe.
- For more information, see "Quarter-On-Quarter Default Totals Inch Up," published April 4, 2022.

Year-To-Date Defaults By Region

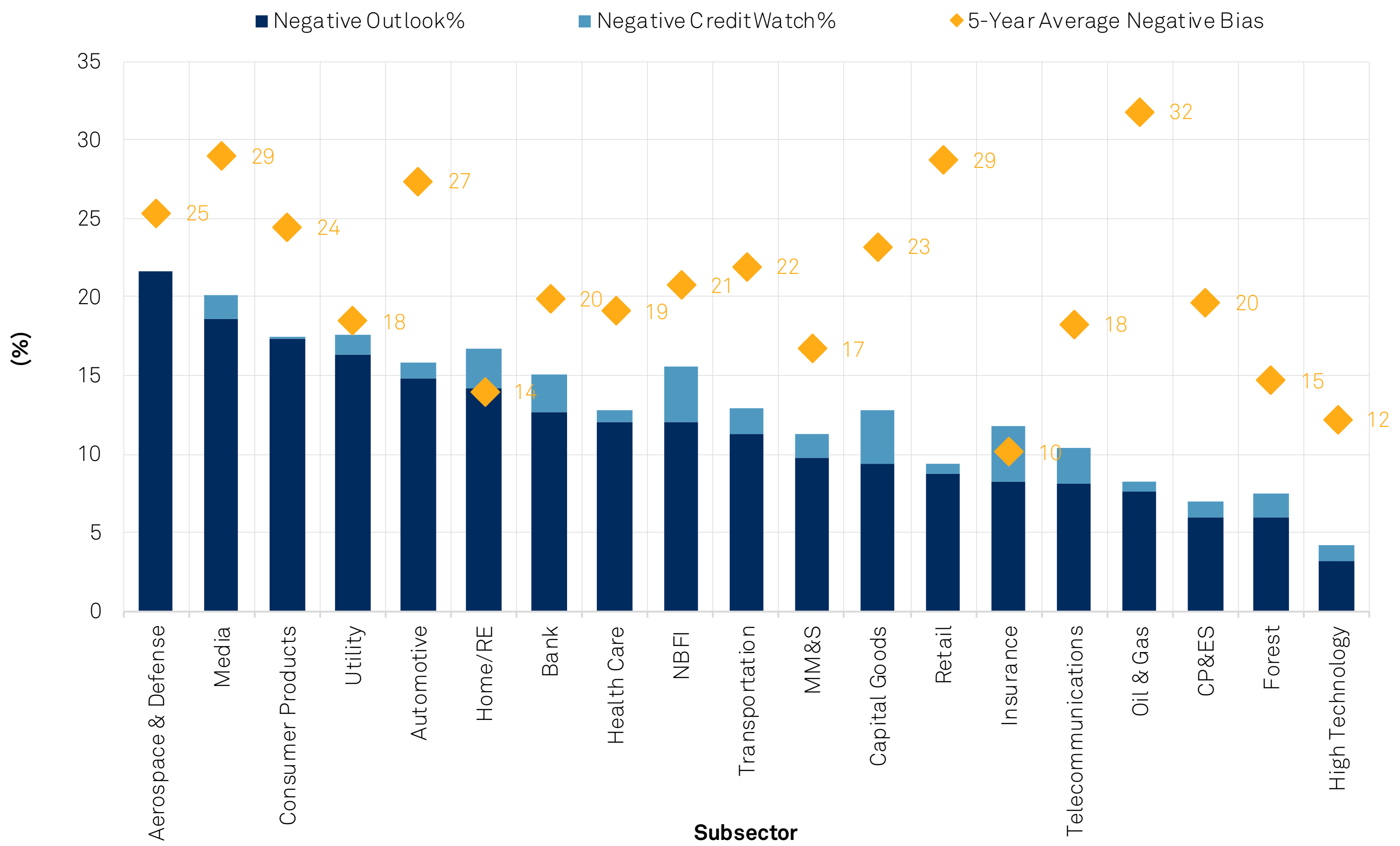


Trailing 12-Month Speculative-Grade Default Rates Remain Low



**Default tally data as of March 30, 2022. Default rates as of February 2022. Source: S&P Global Ratings and S&P Global Market Intelligence's CreditPro®.*

Global Downgrade Potential | Lower Downgrade Risk Expected Across Most Sectors But The Recovery Remains Uneven



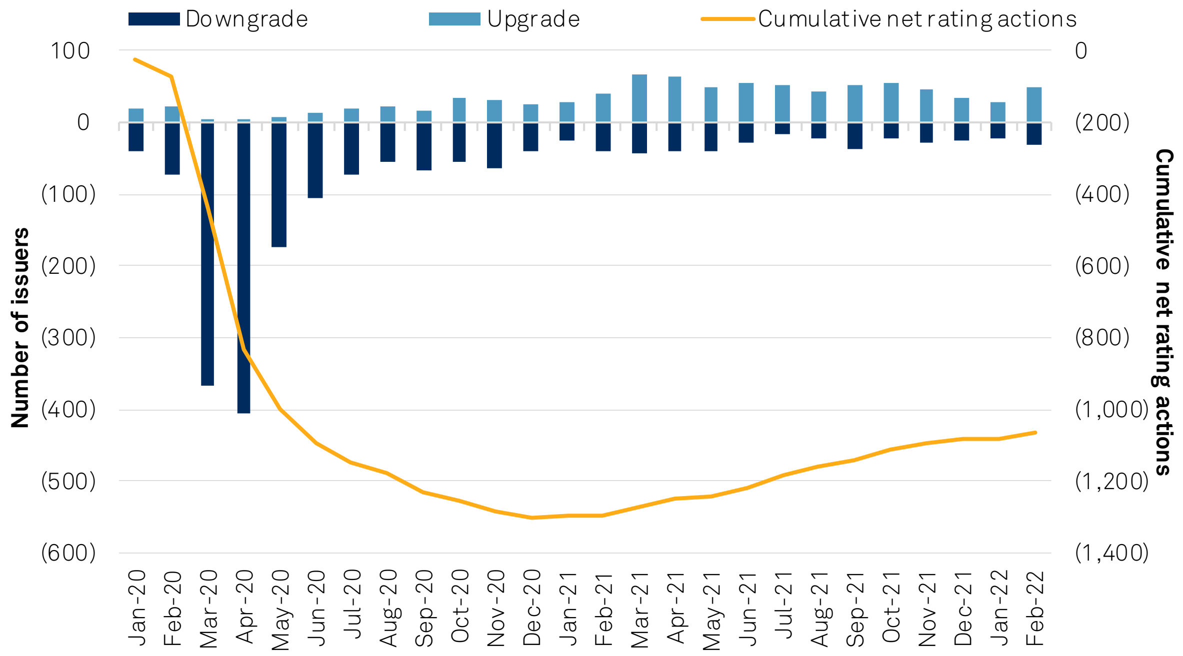
- **Ratings outlooks reflect the continued credit recovery globally,** with nearly all sectors having a smaller share of ratings with a negative outlook or on CW than their respective five-year averages.
- **But the extent of recovery is still uneven across sectors.** Even after considerable improvements since 2020, reduced travel still weighs on the aerospace and defense and media and entertainment sectors, both of which have the highest share of negative outlooks or CWs. At the other end of the spectrum, tech and commodity-related sectors have the lowest negative biases.

CP&ES – Chemicals, packaging and environmental services, NBFI – NonBank Financial Institutions (ex. Insurance), MM&S – Metals, Mining & Steel, Retail – Retail/restaurants, Forest – Forest products and building materials, Home/Re – Homebuilders / real estate companies. Media – Media and entertainment sector includes leisure and lodging. Data as of Feb. 28, 2022 and exclude sovereign. Source: S&P Global Ratings.

Global Rating Actions | Regional Risks Are Slowing Rating Gains

- Globally positive rating momentum is slowing as the Russian Ukraine conflict, ongoing supply chain disruptions, Omicron, and consequences of inflation began to present regional headwinds for corporate borrowers.
- After 14 months of largely positive rating momentum – downgrades have exceeded upgrades for the past four weeks.

Global Monthly Rating Actions



Cumulative net rating actions (Upgrades minus downgrades) since Jan. 1, 2020. Downgrades shown as a negative number. Data as of Feb. 28, 2022. Source: S&P Global Ratings.

Global Downgrade Ratio

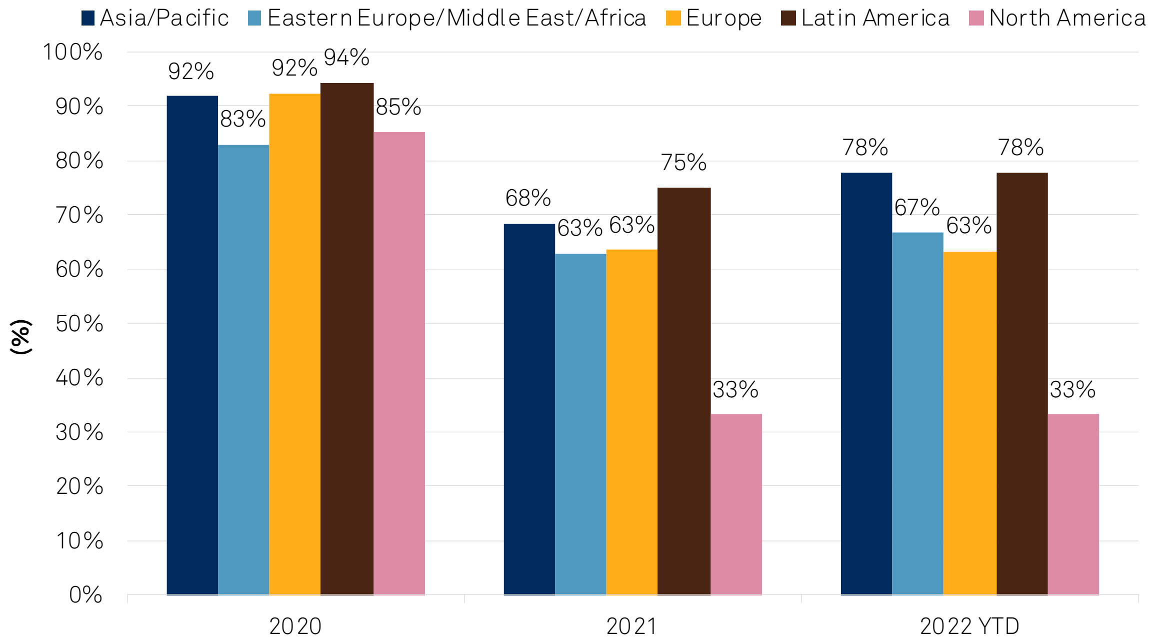
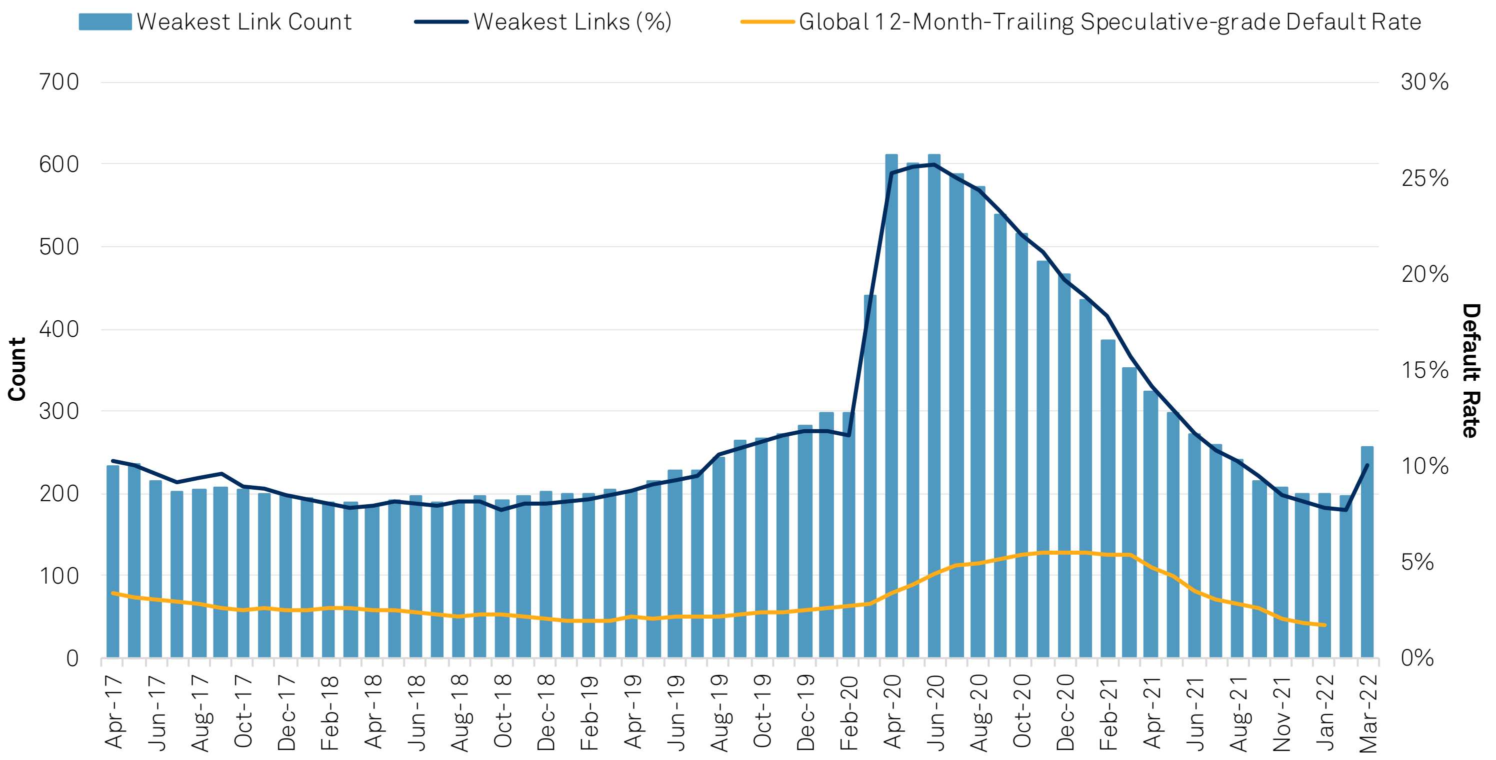


Chart shows downgrades as a percent of rating actions. Data as of Feb. 28, 2022. Source: S&P Global Ratings.

Rating Actions | An Increase In Weakest Links Points To Risks Ahead

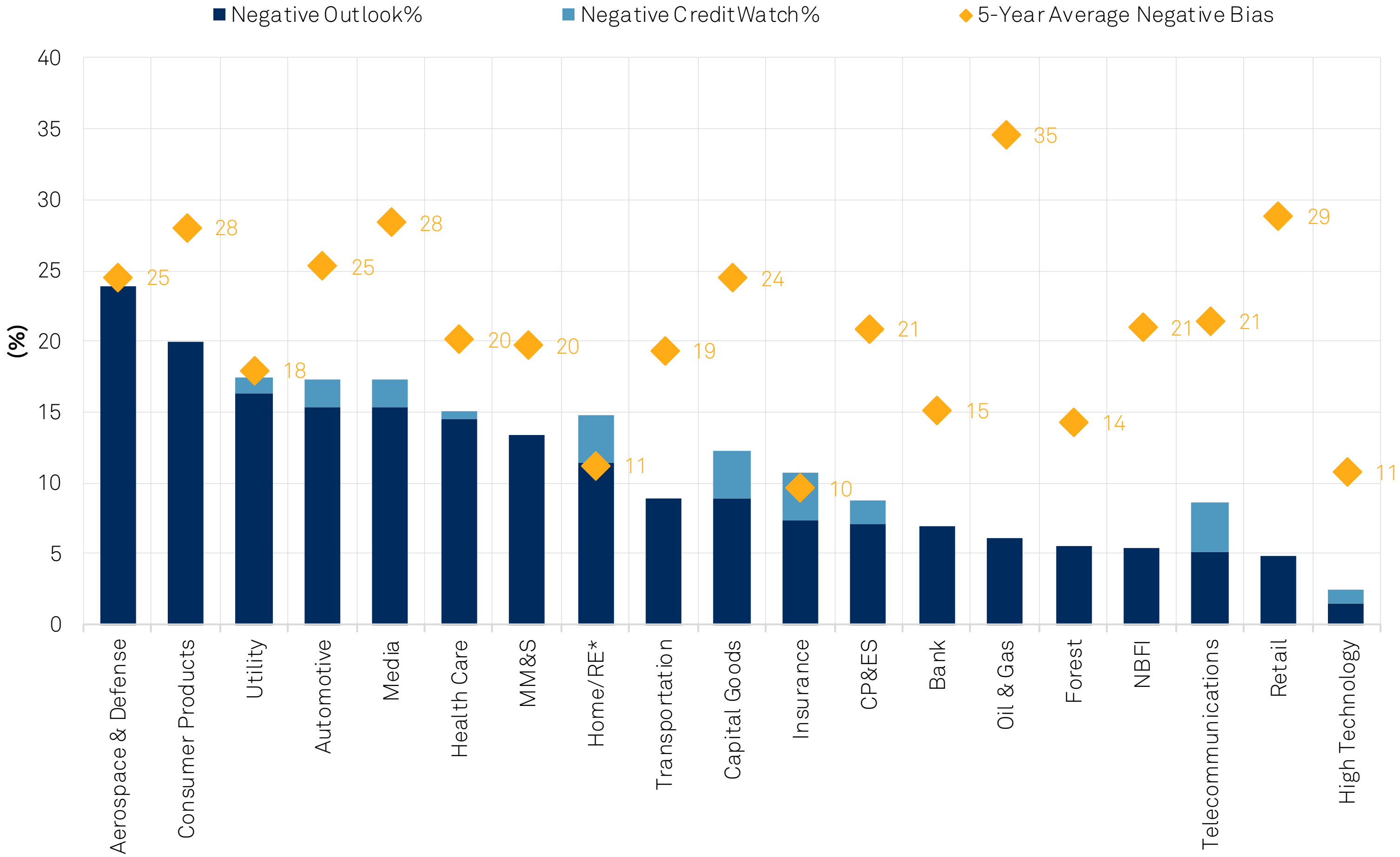
Weakest Links Rise For The First Time In 19 Months Signaling Potential Higher Defaults Ahead



Default Rates as of January 2022. Weakest links and speculative-grade data as of March 8, 2022.
Sources: S&P Global Ratings and S&P Global Market Intelligence's CreditPro®.

- **The number of weakest links** (issuers rated 'B-' or lower by S&P Global Ratings with negative outlooks or ratings on CreditWatch with negative implications) **rose in March - and this was the first increase since June 2020.**
- Issuers in Europe and EMEA affected by the Russia-Ukraine conflict led the increase in weakest links.
- **Weakest links default at a rate that is 8x higher on average than overall speculative-grade population**, suggesting that we can expect the number of future defaults to rise.

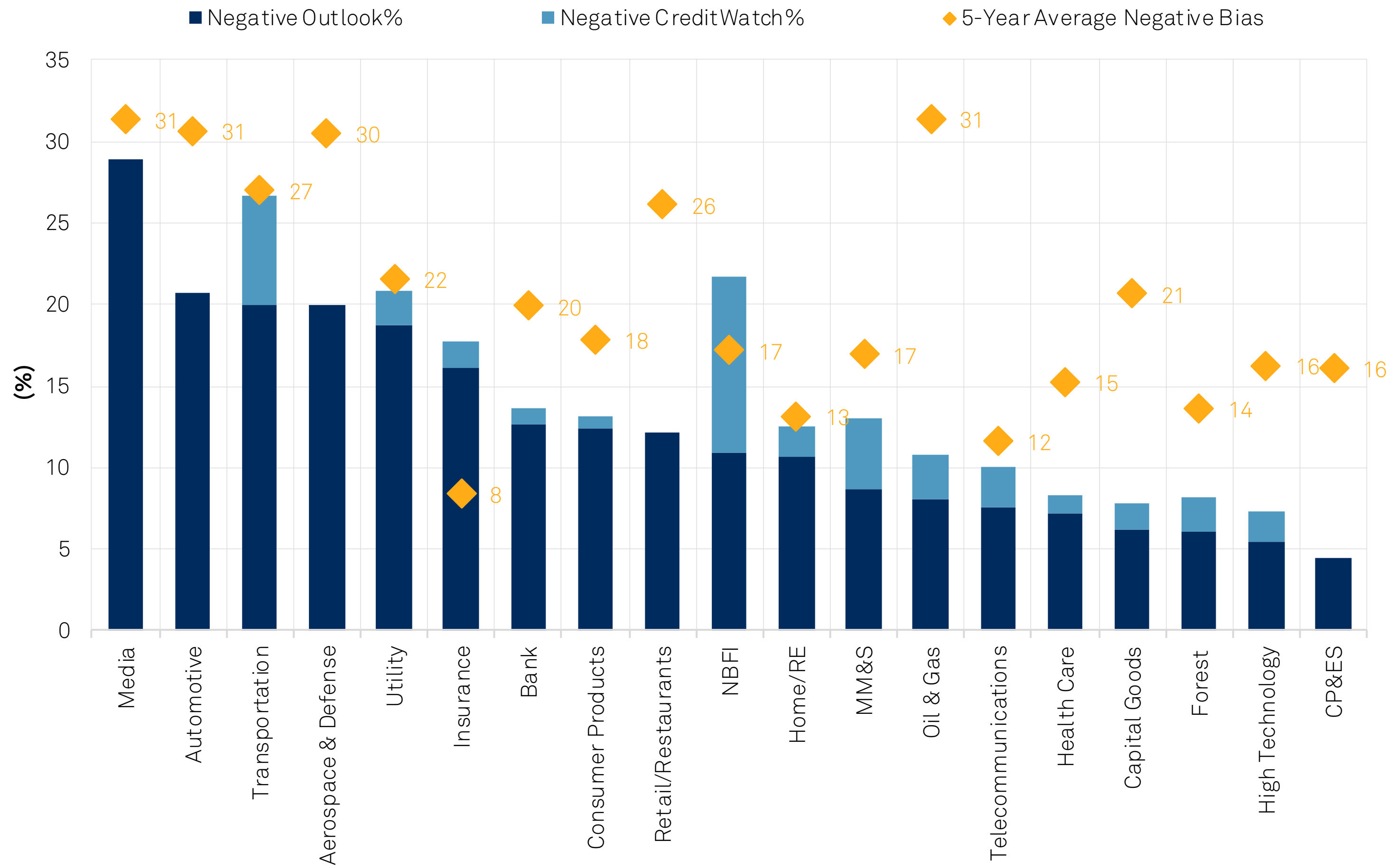
North America Downgrade Potential | Outlook And CreditWatch Distribution Reflect Broad Improvements



- **Downgrade potential remains below the average level of the past five years in most sectors.**
- While **aerospace & defense has the highest current negative bias,** signs of improving demand for air traffic in some large domestic markets is boosting demand for aircraft.
- **The negative bias is rising for the homebuilder/real estate sector**, and this sector shows above-average downgrade risk, as concerns for the Chinese property market spilled over into capital markets.

CP&ES – Chemicals, packaging and environmental services, NBFI – NonBank Financial Institutions (ex. Insurance), MM&S – Metals, Mining & Steel, Retail – Retail/restaurants, Forest – Forest products and building materials, Home/Re – Homebuilders / real estate companies. Media – Media and entertainment sector includes leisure and lodging. Note: Several Chinese property developers are included within the data for U.S. corporate rating actions because they are incorporated in the Cayman Islands, which we group with the U.S. as a tax haven. Data as of Feb. 28, 2022, and exclude sovereign. Source: S&P Global Ratings.

Europe Downgrade Potential | Russian Ukraine Conflict Is A Headwind



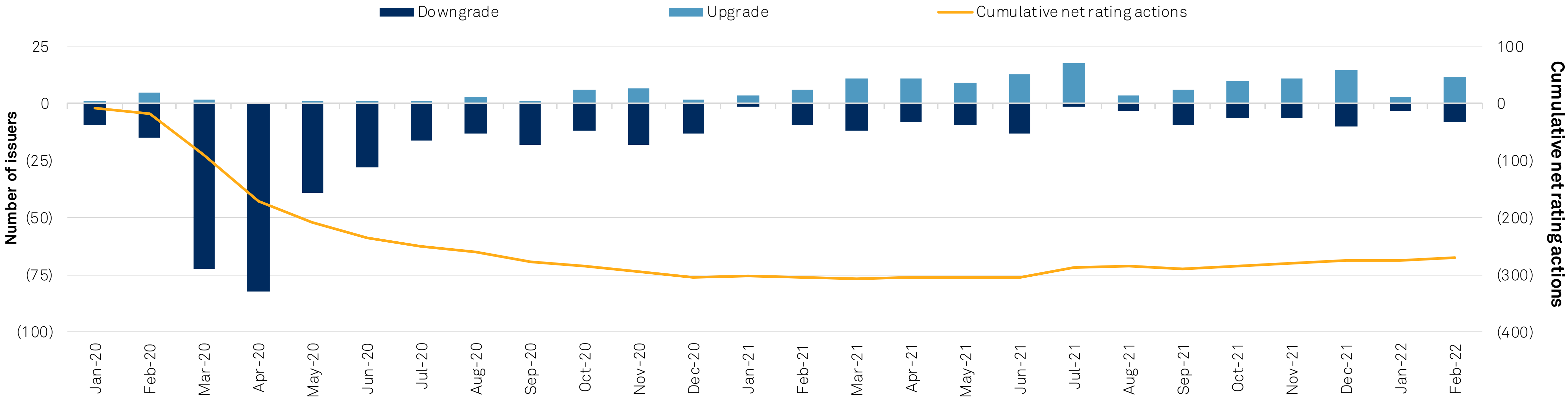
- **In Europe, downgrade potential stands below five-year averages for most sectors,** except insurance and nonbank financial institutions, as the economic recovery continues.
- European issuers have seen **negative rating changes due to the Russia-Ukraine conflict,** and remain vulnerable to further deterioration in credit quality as the conflict continues.
- Stall in positive momentum **suggests a conflict induced headwind or a wider inflection point.**

CP&ES – Chemicals, packaging and environmental services, NBFI – NonBank Financial Institutions (ex. Insurance), MM&S – Metals, Mining & Steel, Retail – Retail/restaurants, Forest – Forest products and building materials, Home/Re – Homebuilders / real estate companies. Media – Media and entertainment sector includes leisure and lodging. Data as of Feb. 28, 2022 and exclude sovereign. Source: S&P Global Ratings.

Europe | Still A Long Way To Go to Return To Pre-Covid Levels

- Despite **positive rating changes outpacing negative ones for 14 consecutive months through February**, downgrades between February 2020 and 2022 outnumber upgrades by a factor of 2.2. This indicates that there is still some way to reach pre-COVID credit quality.
- The U.K. has seen the most rating actions (147 negative and 86 positive), followed by France (82 negative, 60 positive).
- However, negative rating actions linked to the Russia-Ukraine conflict are beginning to contribute to negative rating momentum, including many negative actions on Russian companies incorporated in Cyprus.

Europe: Monthly Rating Actions

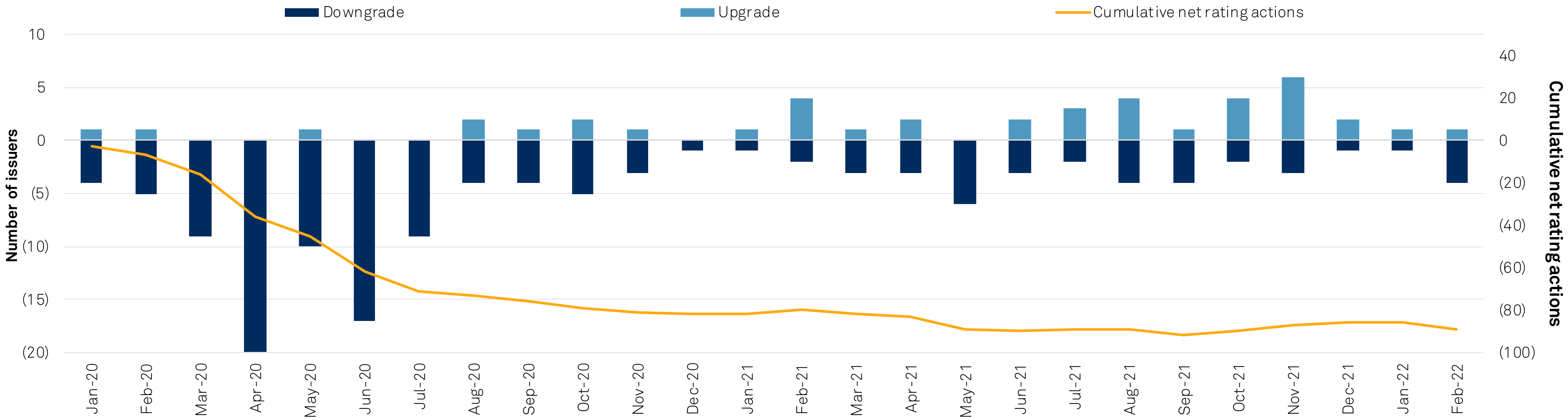


Note: Data excludes Sovereign. Data from Jan. 1, 2020 – Feb. 28, 2022. Source: S&P Global Ratings.

APAC | Chinese Property Sector Slows Positive Rating Action Momentum

- Positive rating actions outnumbering negative ones, in the second half of 2021, although the pace of this improvement lagged both the U.S. and Europe.
- However, that momentum has slowed in recent months as the challenges faced by China's property sector (which accounts for a large part of the region's bond market) weigh on net rating actions.

APAC: Monthly Rating Actions

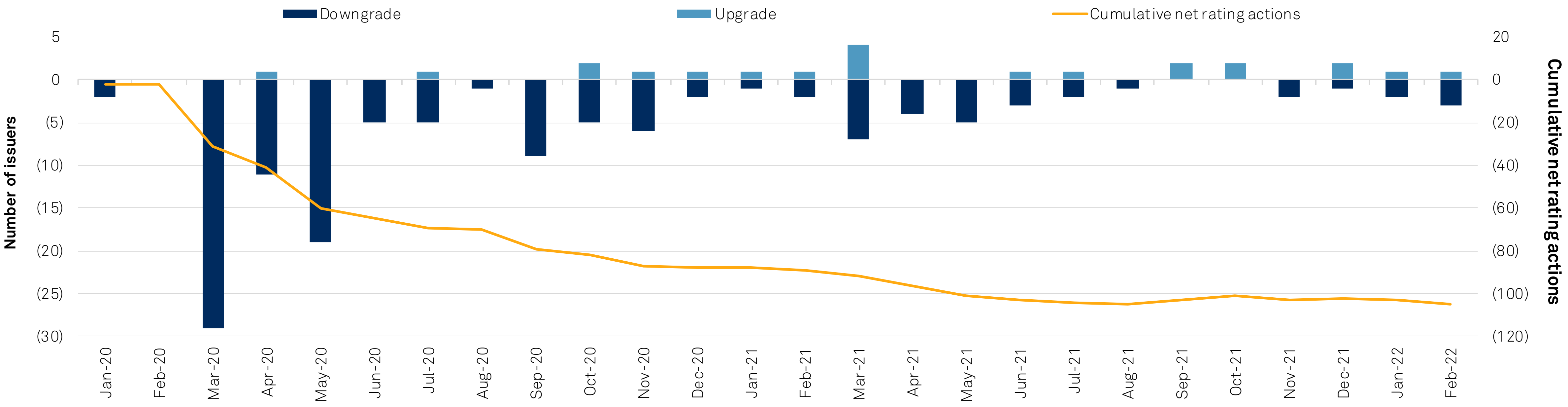


Note: Data excludes Sovereign and defaults. Data from Jan. 1, 2020 – Feb. 28, 2022. Source: S&P Global Ratings.

LatAm | Challenges Of Growth And Inflation Leading Downgrade Pressure

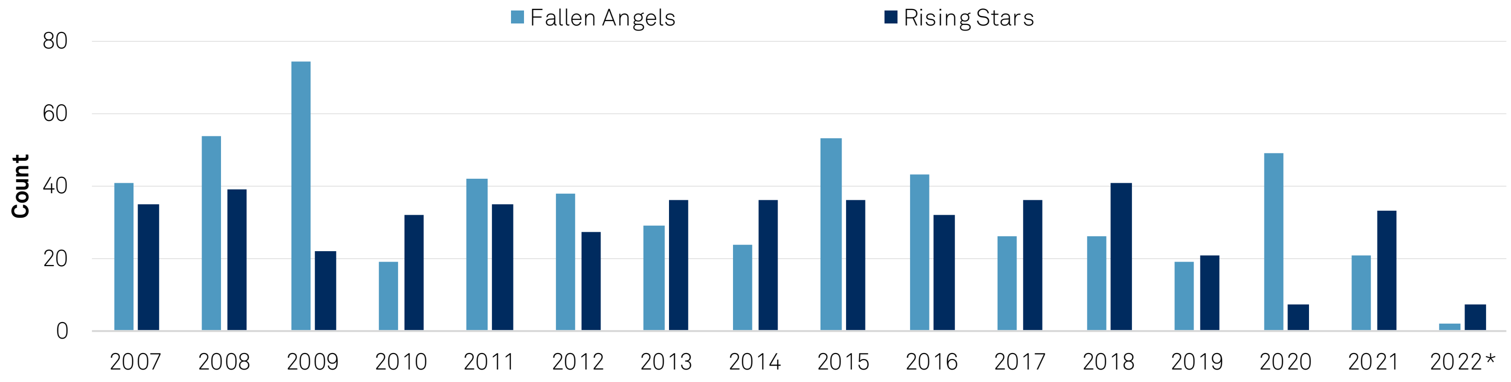
- Positive rating momentum was much less pronounced in the second half of 2021, than experienced in other regions.
- By early 2022, negative rating actions have begun to outpace positive ones once again, partially due to growth and inflation challenges.

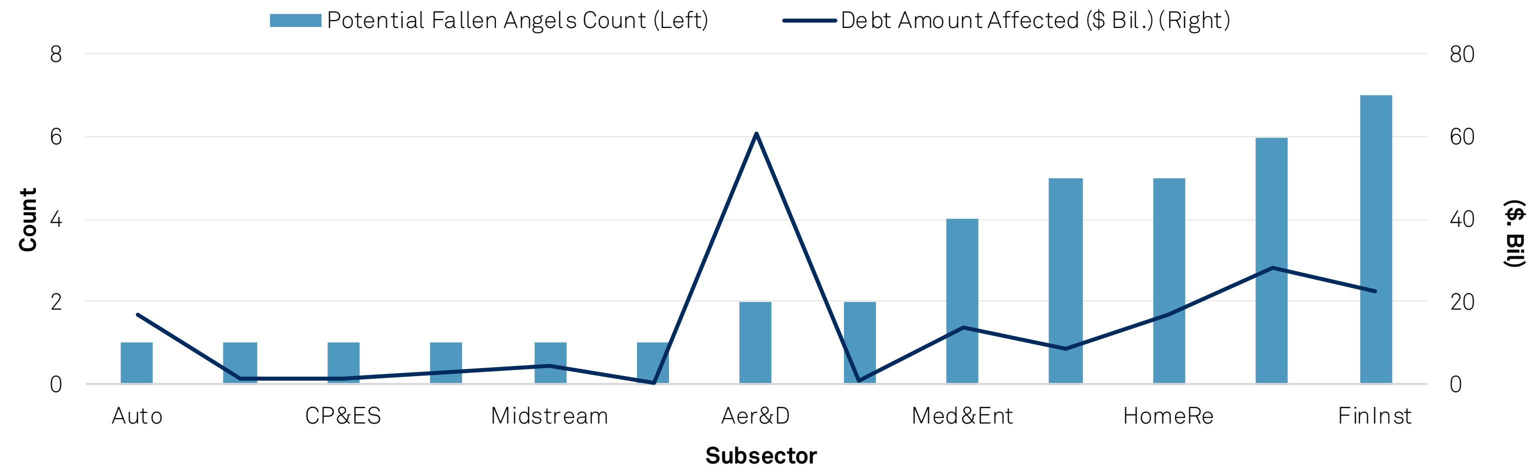
LatAm: Monthly Rating Actions



Note: Data excludes Sovereign. Data from Jan. 1, 2020 – Feb. 28, 2022. Source: S&P Global Ratings.

Rating Actions | Global Fallen Angels And Global Rising Stars



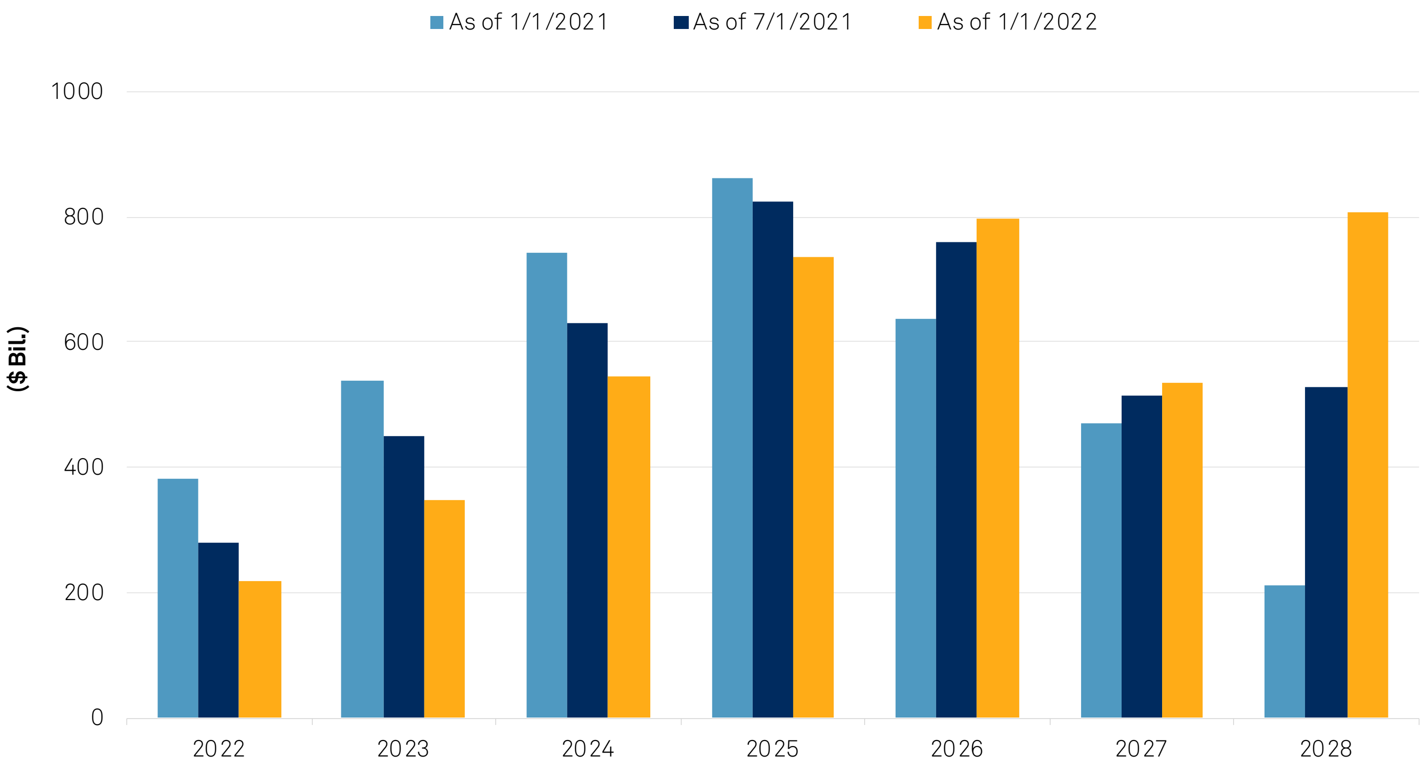


- **Rising stars continue to see positive momentum as they outpace fallen angels in 2022*** with seven rising stars to just two fallen angels.
- **Fallen angels are at the lowest level since November 2018.** In 2022* there have been only two fallen angels (issuers downgraded from investment-grade to speculative-grade) compared with seven rising stars (issuers upgraded to investment-grade from speculative-grade).
- **Momentum remains for further improvements.** The number of potential fallen angels (issuers rated 'BBB-' by S&P Global Ratings with negative outlooks or ratings on CreditWatch with negative implications) fell sharply to 38 from a peak of 126, while potential rising stars remain at 32.

Aer&D - Aerospace & Defense, Auto - Automotive, CapGds - Capital Goods, ConsPrd - Consumer Products, FinInst - Financial Institutions, HiTech - High Technology, HomeRE - Homebuilders/Real Estate Co., Med&Ent - Media & Entertainment, MerPower - Merchant Power, OilG - Oil & Gas, Ret/Res - Retail/Restaurants, Transp - Transportation. Excludes Sovereign Data as of Feb. 28, 2022. Source: S&P Global Ratings.*

Global Nonfinancials | Lengthening Of The Speculative-Grade Maturity Wall Suggests Reduced Near-Term Risks

Global Speculative-Grade Nonfinancial Corporate Maturity Wall

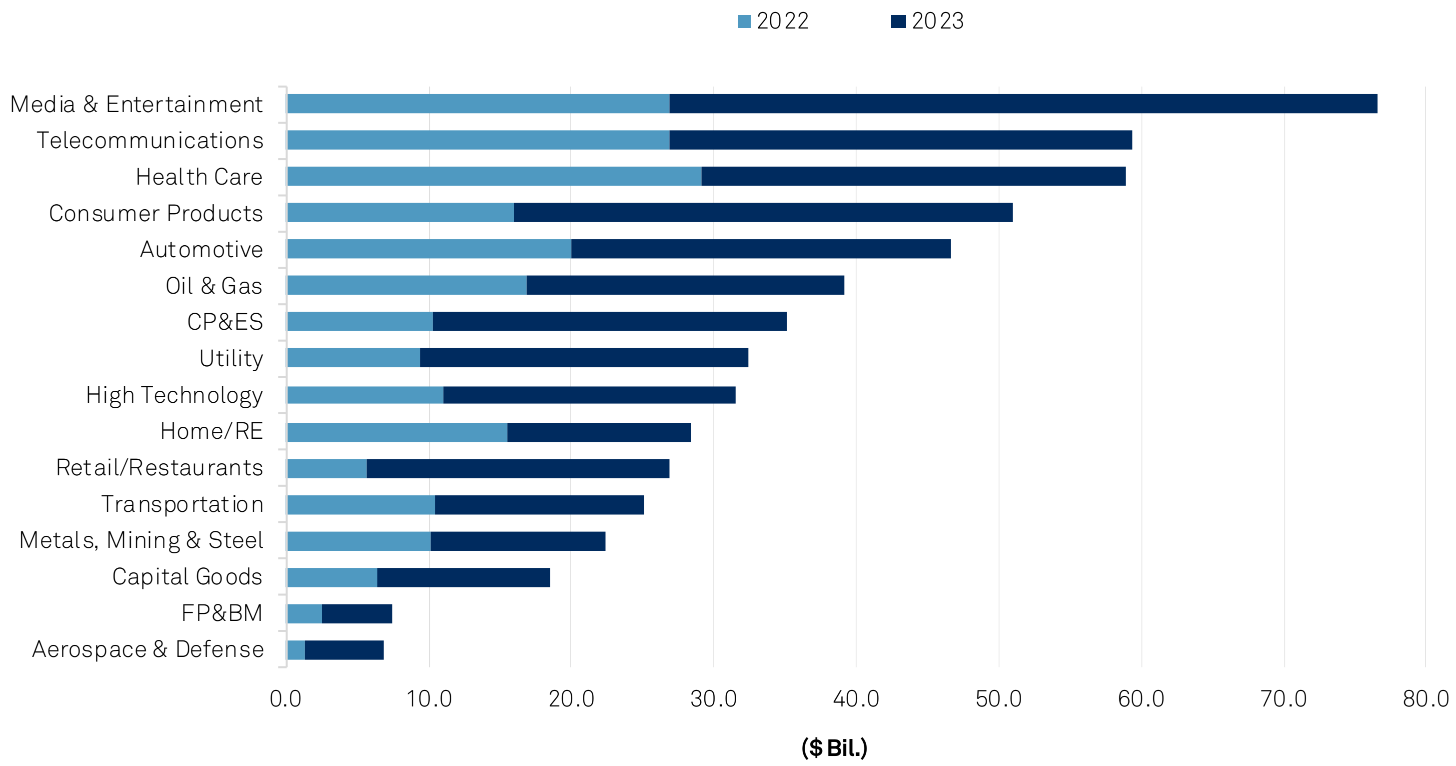


- **Near term:** Over the past year, companies reduced speculative-grade maturities in 2022 by 43%, a steeper-than-usual decline.
- **Midterm:** With extremely favorable financing conditions in 2021, issuers brought more longer-term debt to market, extending maturities and/or locking-in funding costs.
- **Longer term:** Maturities saw an above-average increase further out the curve, as maturities reach their highest levels in 2026 and 2028.

Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings on the respective report date. Source: S&P Global Ratings.

Global Nonfinancials | Speculative-Grade Maturities By Sector Show Limited Concentration Risk

Global Speculative-Grade Nonfinancial Debt Maturing Through 2023



- **The media and entertainment sector has the most speculative-grade debt maturing through 2023,** and this includes subsectors of leisure and gaming that have faced continued challenges from new waves of the pandemic including Omicron.
- **The health care sector has the most speculative-grade debt set to mature in 2022,** and most of this is rated in the 'BB' category.
- Bond and loan issuance volumes over the past eight years have been consistently higher than upcoming speculative-grade maturities--and we expect capital markets will be able to generate sufficient liquidity for companies to meet maturing debt demands.

CP&ES – chemicals, packaging, and environmental services. FP&BM – Forest products and building materials. Home/RE – homebuilders and real estate. Excludes the diversified sector. Note: Includes bonds, loans, and revolving credit facilities that are rated by 'BB+' and lower by S&P Global Ratings. Data as of 1/1/22. Source: S&P Global Ratings.

Related Research

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Credit Markets And Ratings Performance | Latest Research

- Global Credit Conditions Q2 2022: Confluence Of Risks Halts Positive Credit Momentum, March 31, 2022
- Global Economic Outlook Q2 2022: No Cause For Complacency As The Russia-Ukraine Conflict Modestly Dents Growth, March 31, 2022
- Default, Transition, and Recovery: Quarter-On-Quarter Default Totals Inch Up, April 4, 2022
- Ratings Actions Waypoint: The Russia-Ukraine Conflict As Of March 30, 2022, March 31, 2022
- The Global Weakest Links Tally Rises For The First Time Since 2020, March 22, 2022
- Russia-Ukraine Conflict Stalls 2022's Global Positive Rating Action Momentum, March 10, 2022
- Strong Issuance In 2021 Fueled Lengthening Maturities In The U.S. And Europe, Report Says, Feb. 28, 2022
- 'BBB' Pulse: Cautious Optimism Grows With No Fallen Angels And Three Rising Stars In January, Feb. 19, 2022

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