

# Global Structured Finance Defaults And Downgrades Eased In 2021 As The Sector Recovered From The Pandemic

(Editor's note: This article provides an overview of the global structured finance default and rating transition study, which we will publish in the coming weeks.)

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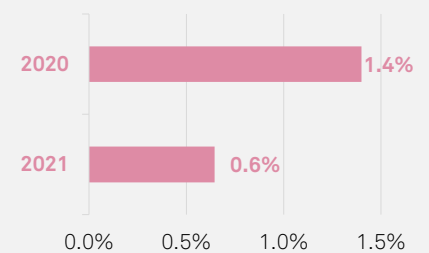
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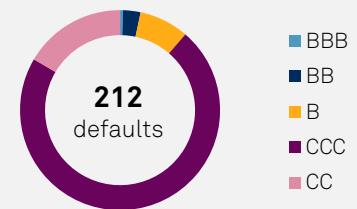
## Key Takeaways

- Global structured finance's default rate declined to 0.6% in 2021 from 1.4% the prior year as the sector began to recover.
- Default rates in 2021 were generally higher at lower rating categories, and of the 212 structured finance defaults that occurred, all but one was at the speculative-grade level.
- Overall, upgrades outpaced downgrades in 2021 in all subsectors except for two.

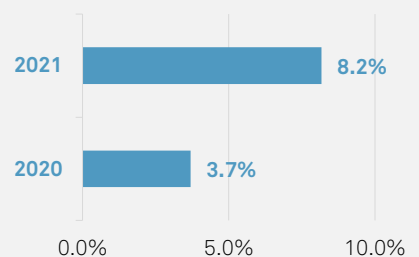
## Default Rates



## 2021 Default Rates By Rating Category



## Upgrade Rates



Following a year in which a global pandemic plagued economic growth and broader market performance, 2021 proved to be a remarkable recovery year for global structured finance. The sector's default rate more than halved to 0.6% from 1.4% in 2020.

Default rates in 2021 were generally higher at lower rating categories. Of the 212 structured finance defaults that occurred in 2021, all but one was at the speculative-grade level. The lone investment-grade default occurred at the 'BBB' rating category, and there were no defaults from the 'AAA', 'AA', and 'A' categories.

Chart 1

## Default Rates Fall Year-Over-Year With Investment-Grade Remaining Near Zero

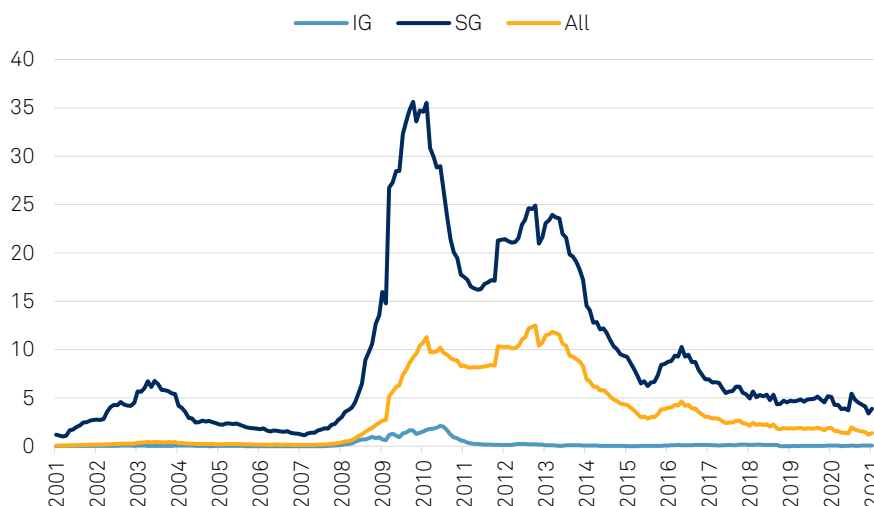
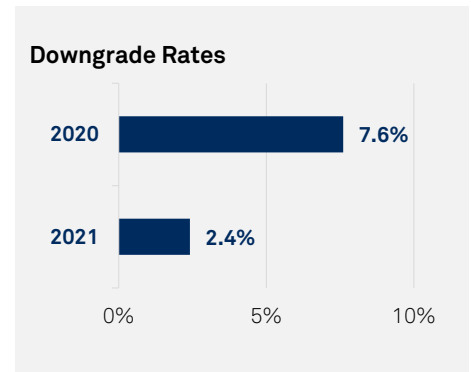
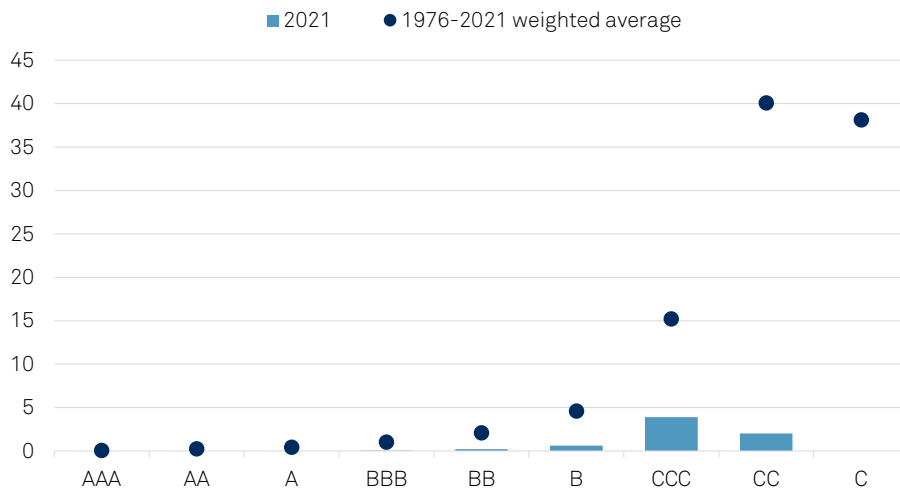


Chart 2

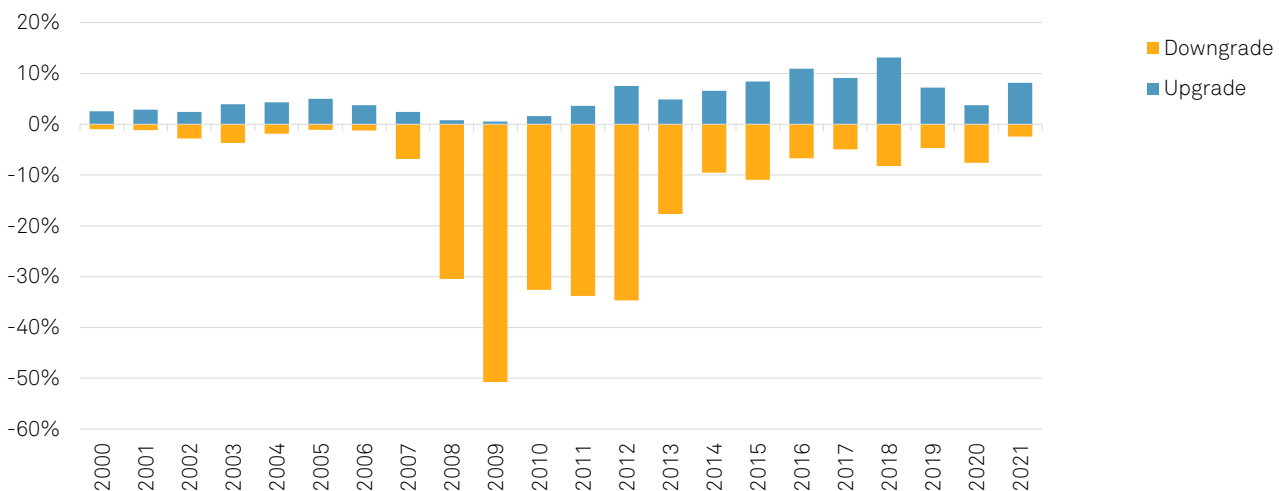
**Default Rates Continue To Be Seen Almost Exclusively At The Speculative-Grade Level**



In a reversal of the trend seen in 2020, upgrades heavily outweighed downgrades last year. The global structured finance upgrade rate increased year over year to 8.2% from 3.7%, while the downgrade rate decreased to 2.4% from 7.6%. The 2021 upgrade rate was markedly above the long-term average of 3.49%, while the downgrade rate was well below the long-term average of 11.66%. The aggregate improvement is partially attributable to resilience across regions in both asset-backed securities (ABS) and residential mortgage-backed securities (RMBS).

Chart 3

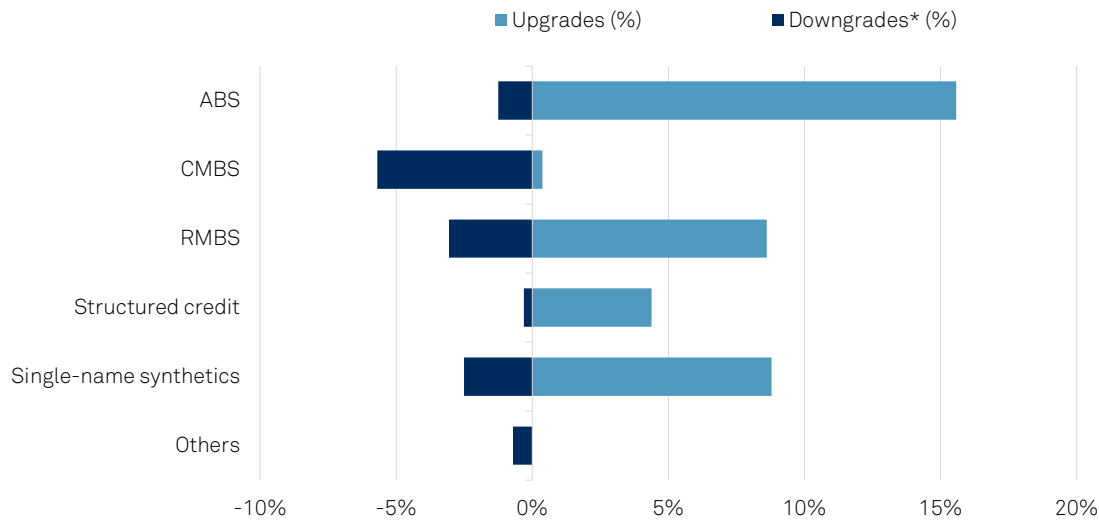
**Annual Rating Actions**



Upgrades outpaced downgrades in all global subsectors except for commercial mortgage-backed securities (CMBS) and "others." While CMBS underperformed relative to other subsectors, its 2021 downgrade rate improved significantly relative to 2020, falling to 5.7% from 14.9%. Meanwhile, ABS had the highest upgrade rate at 15.6%, soaring above its long-term average of 5.2%.

Chart 4

**Most Sectors Shined With Upgrades Heavily Outweighing Downgrades**

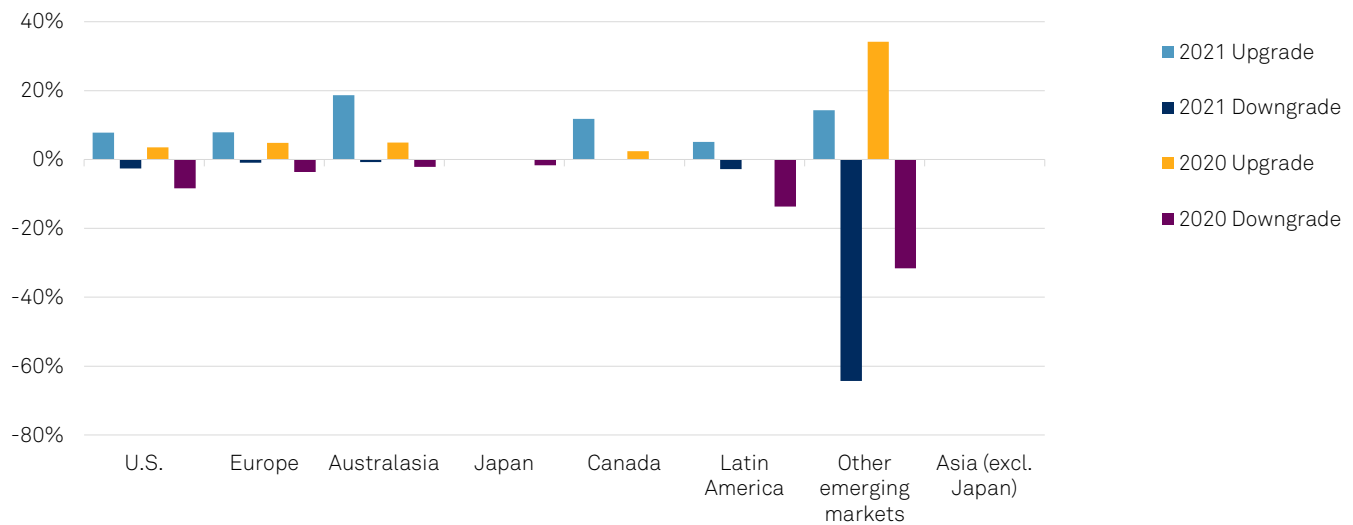


\*Including defaults. Securities whose ratings migrated to 'NR' over the period are classified based on their rating prior to 'NR'. Source: S&P Global Ratings Research.

Upgrade rates were up across all regions, with Australasia leading the way with an astonishing upgrade rate of 18.6%, significantly above its long-term average of 5.1%. Downgrade rates also improved. Only other emerging markets posted a higher downgrade rate in 2021 (64.3%) than in the previous year (31.6%), albeit with only 28 outstanding ratings at the beginning of 2021. We note that there were no outstanding ratings in Asia (excluding Japan) in 2021.

Chart 5

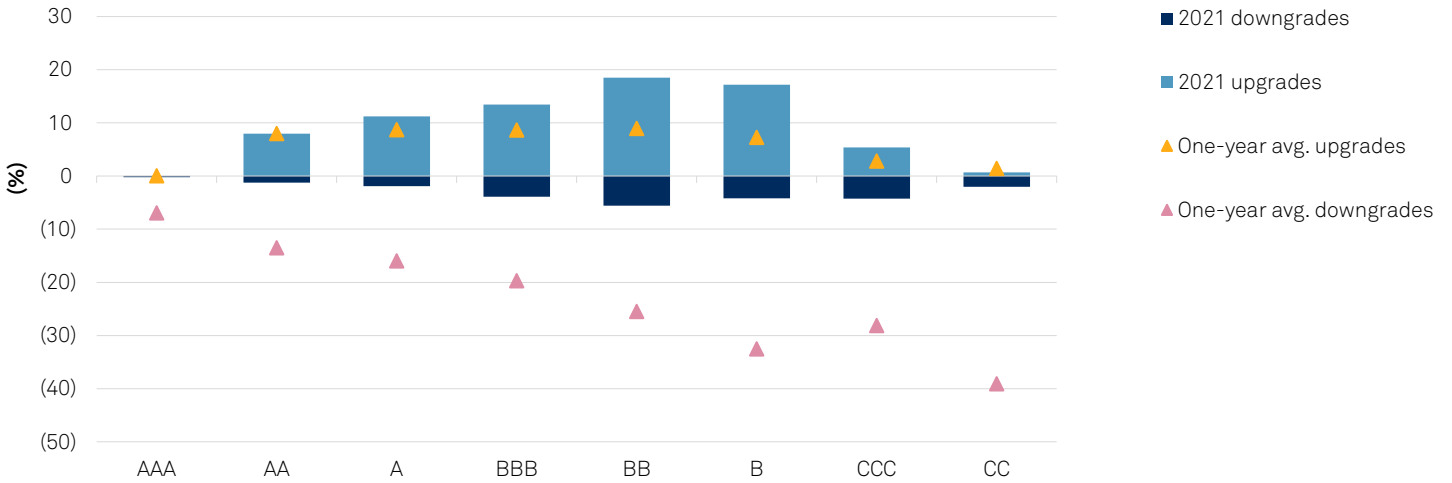
**Upgrade/Downgrade Rates By Region (2021 Versus 2020)**



Relative to the previous year, upgrade rates improved across all rating categories in 2021, except 'CC', and were above their respective one-year averages. Similarly, downgrade rates across all rating categories declined year over year.

Chart 6

Global Structured Finance Transition Rates By Rating Category

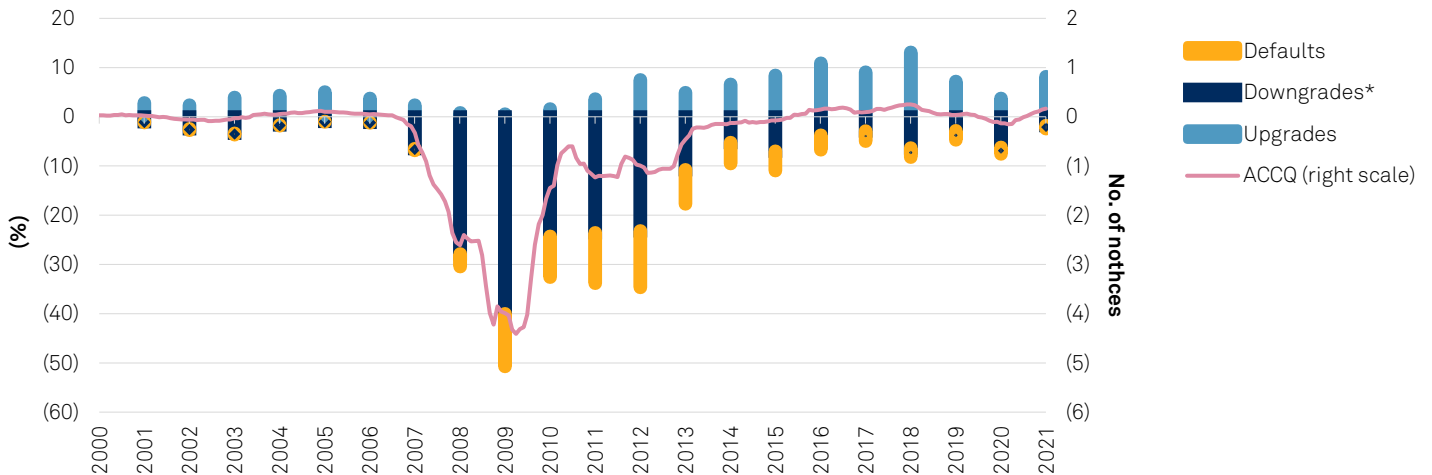


\*Securities whose ratings migrated to 'NR' over the period are classified based on their rating prior to 'NR'.  
Source: S&P Global Ratings Research.

After having fallen into the red in 2020, the average change in credit quality improved relative to the previous year. The average change in credit quality was +0.17 notches in 2021, versus -0.13 notches in 2020, and reached the highest level since February 2019.

Chart 7

Global Structured Finance Transition Rates And Average Change In Credit Quality



\*Excluding defaults.  
ACCQ--Average change in credit quality.  
Securities whose ratings migrated to 'NR' over the period are classified based on their rating prior to 'NR'.  
Source: S&P Global Ratings Research.

## Related Research

- [Global Financing Conditions: Bond Issuance Looks Set To Contract Almost 5% In 2022 As Conditions Tighten Quickly](#), April 27, 2022
- [2021 Annual Japanese Structured Finance Default And Rating Transition Study](#), March 25, 2022
- [Global Structured Finance 2022 Outlook](#), Jan. 13, 2022
- [2020 Annual Global Structured Finance Default And Rating Transition Study](#), May 13, 2021

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