

# Global Credit Markets Update – Q3 2022

## Market Stresses Begin To Weigh On Credit

July 6, 2022



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**S&P Global**  
Ratings

*This report does not constitute a rating action*

# Credit Market Key Themes

## Credit Risk To the Fore



Refocus on credit risk and credit risk premia has led spreads to widen sharply as investors contemplate slower growth and even a recession.

## Financing Conditions Tighten



Market liquidity is falling, and primary markets remain choppy, particularly for lower rated issuers. Secondary market discounts further challenge new issuance.

## Rating Trends: Resilient But Divergent



Ratings are exhibiting resilience, but we detect signs of divergence across regions and sectors.

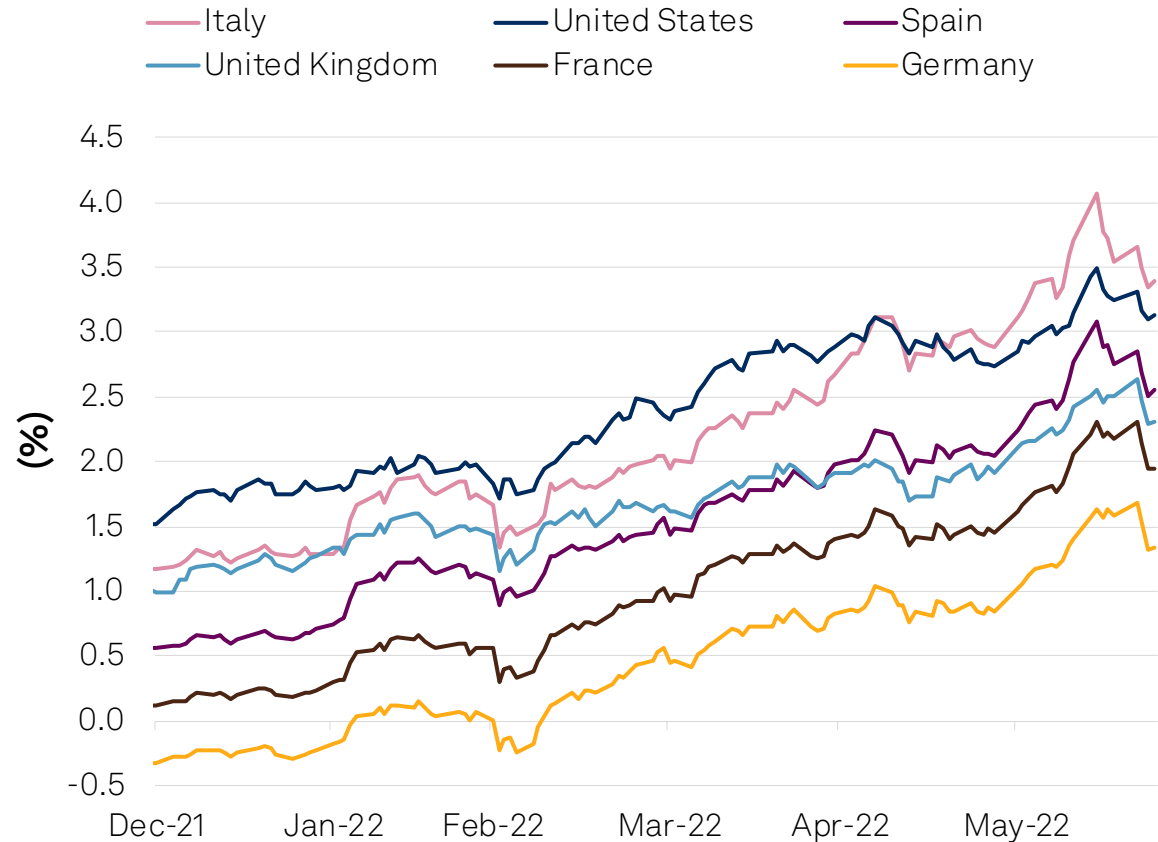
## Refinancing Risk Limited



Despite difficult market conditions, defaults are trending lower than in 2021, and refinancing risk is limited for lower rated issuers.

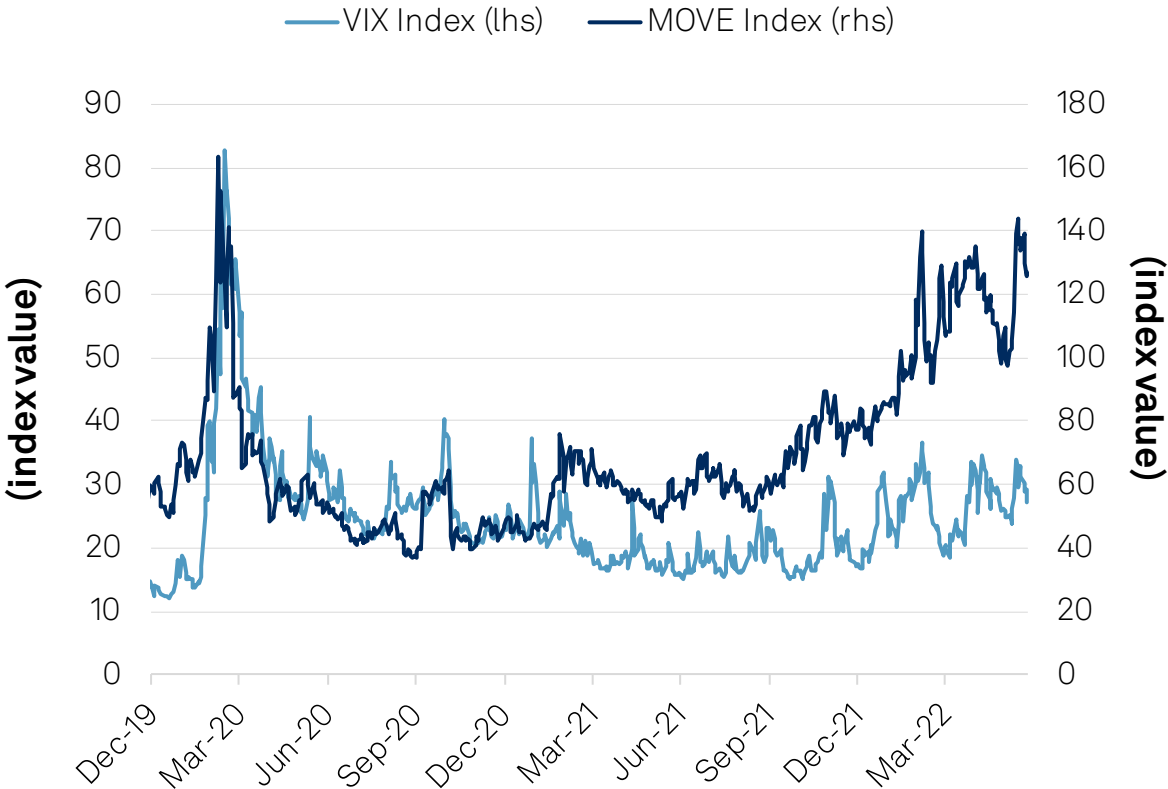
# Financing Conditions | Volatility Underpins Bond Markets

**Recession And Fragmentation Fears Slow Rise In Benchmark Yields**



Data as of June 24, 2022. Sources: S&P Global Ratings Research, Refinitiv

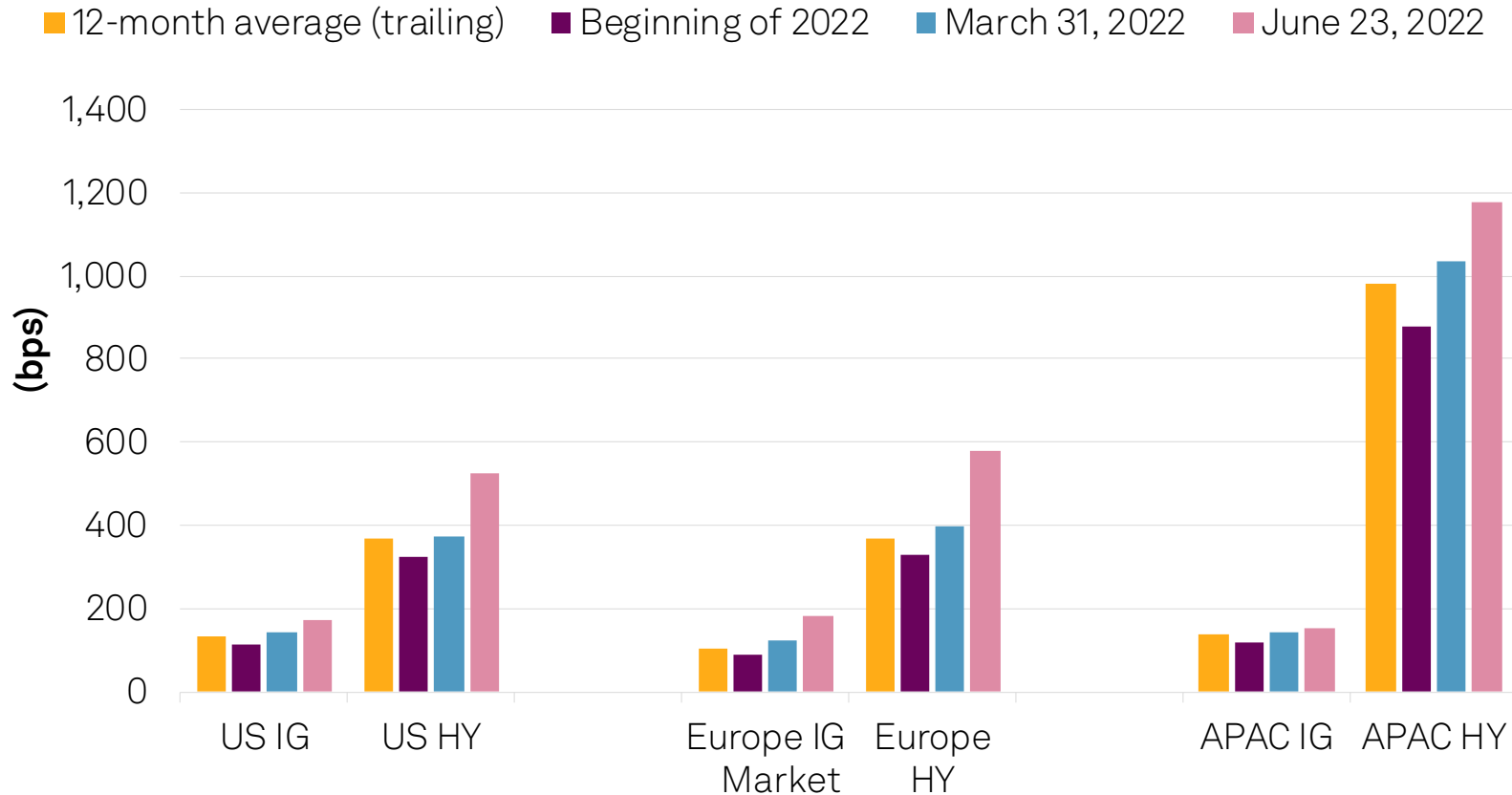
**Bonds Exhibiting Greater Volatility Than Equities**



Data as of June 24, 2022. Source: CBOE Volatility S&P 500 Index; ICE BofAML MOVE Index. Source: Financial Times; S&P Global Market Intelligence.

# Financing Conditions | Risk Premia Return To The Fore In Most Regions

## Spreads By Rating Grade And Region

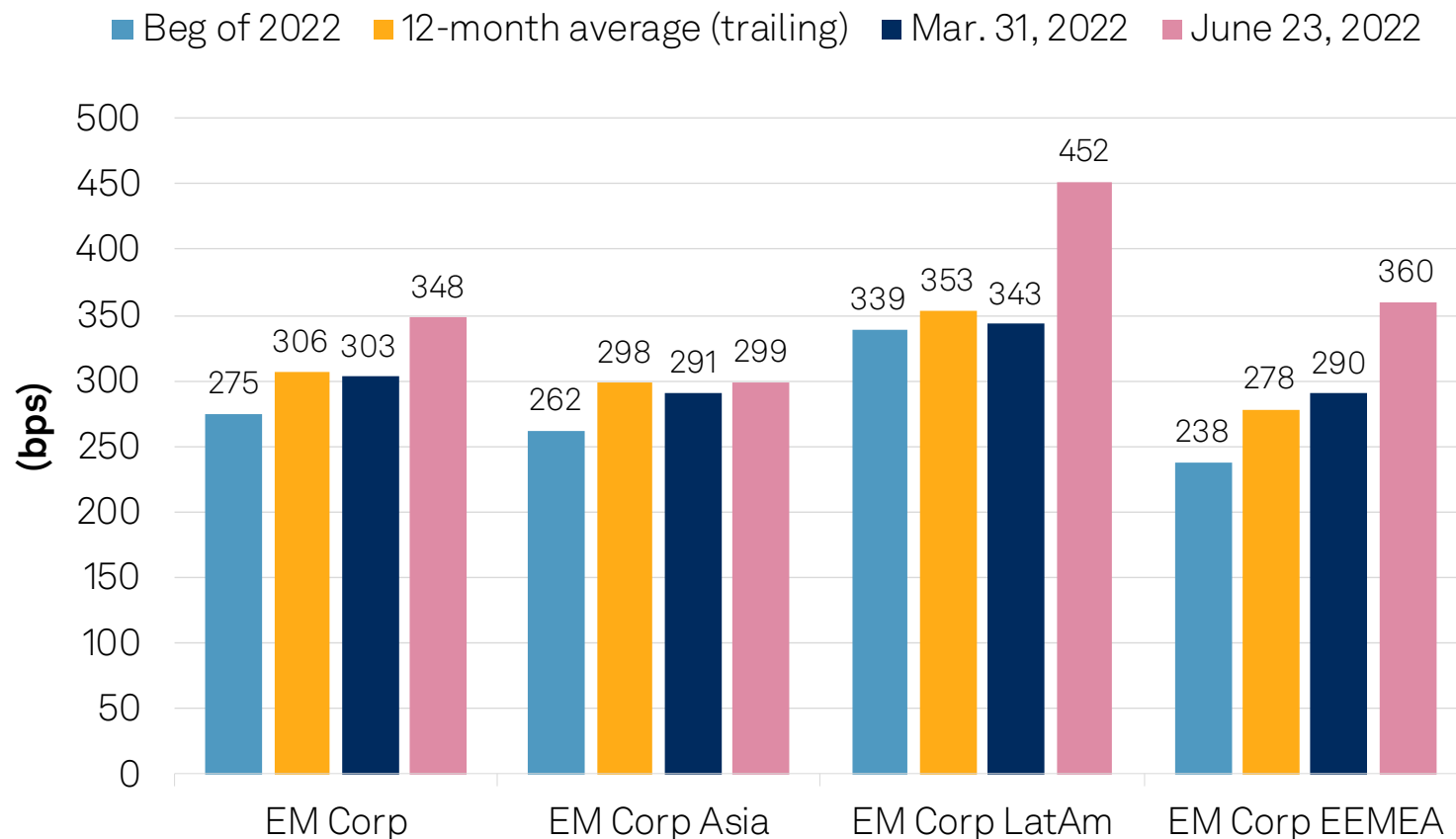


- **Investors are refocusing on credit risk premia** as rapidly deteriorating macroeconomic conditions and growing recession risk further complicate challenging financing conditions.
- **U.S. corporate credit spreads further widened in 2Q2022** as the Federal Reserve’s rate hikes sparked investors’ concerns of a hard landing.
- **Risk aversion intensified for lower rated credit** as speculative-grade spreads in the U.S. and Europe widened at an accelerating pace in 2Q.
- **By comparison, spreads in APAC were relatively calm in 2Q2022**, as COVID-19 lockdowns eased and the Chinese government began to show renewed support for the hard-hit tech sector.

Note: Data as of June 23, 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 June 23, 2022.

# Financing Conditions | Latin America Exhibits the Sharpest Spread Widening In EM

## Emerging Market Spreads By Sub-Region



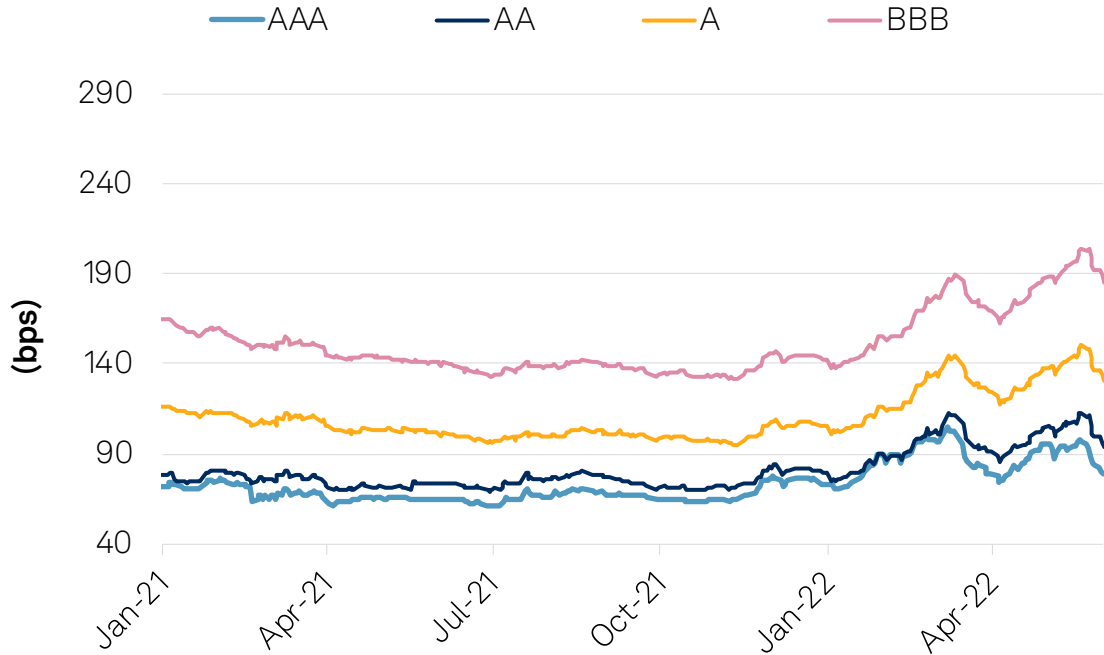
- **EM spreads continue to trend wider**, with global rate hikes and growth risks heightening investors' risk aversion.
- Exposure to the U.S. both in terms of rapid monetary tightening and possible recession risk is leading LatAm to exhibit the **highest spreads among EM sub-regions**.
- **EEMEA spreads are also pushing upwards** as the conflict and growing periphery risk contribute to renewed risk aversion.
- **Spreads in EM Asia have resumed their gradual increases after a brief calm**. Despite recent spread narrowing, weakness in China's real estate sector remains a key issue for the sub-region, and for EM overall.

ICE Benchmark Administration Limited (IBA), 'ICE BofAMLA 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'; Data as of June 23, 2022. Source: Federal Reserve Bank of St. Louis, S&P Global Ratings Research.

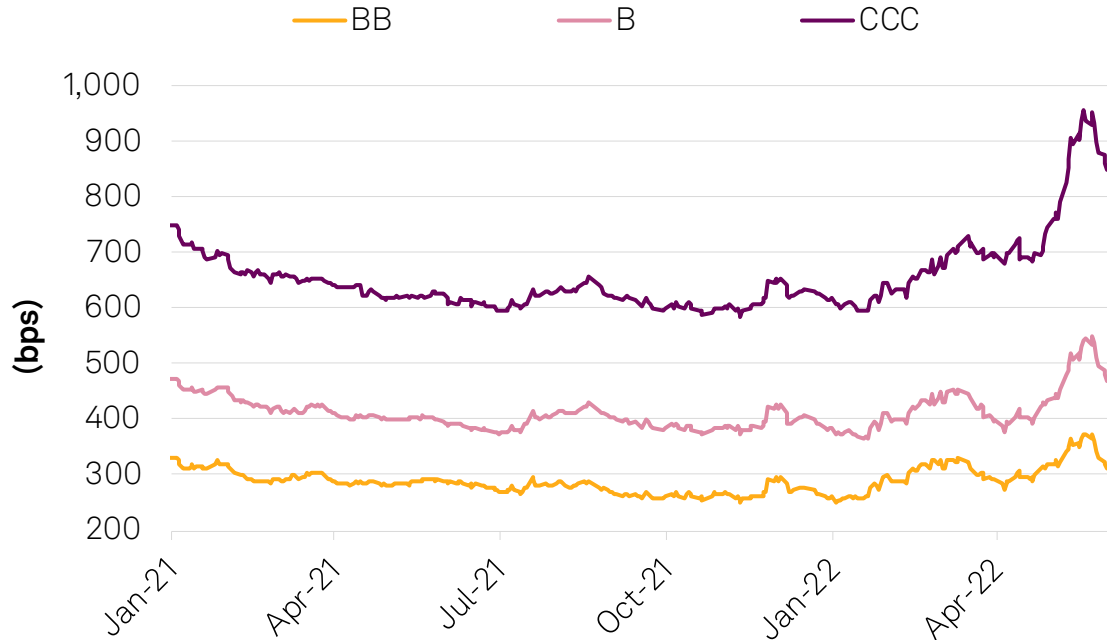
# Financing Conditions | Pressures Mount For Weaker Credits In U.S.

- Investment-grade and speculative-grade spreads have recently reached their widest levels since the beginning of 2021, with speculative-grade surpassing 500 bps
- The 'CCC/C' spread has widened to levels last seen in third-quarter 2020 as investors' concerns intensify for risky credit

**U.S. Investment-Grade Spreads by Rating Category**



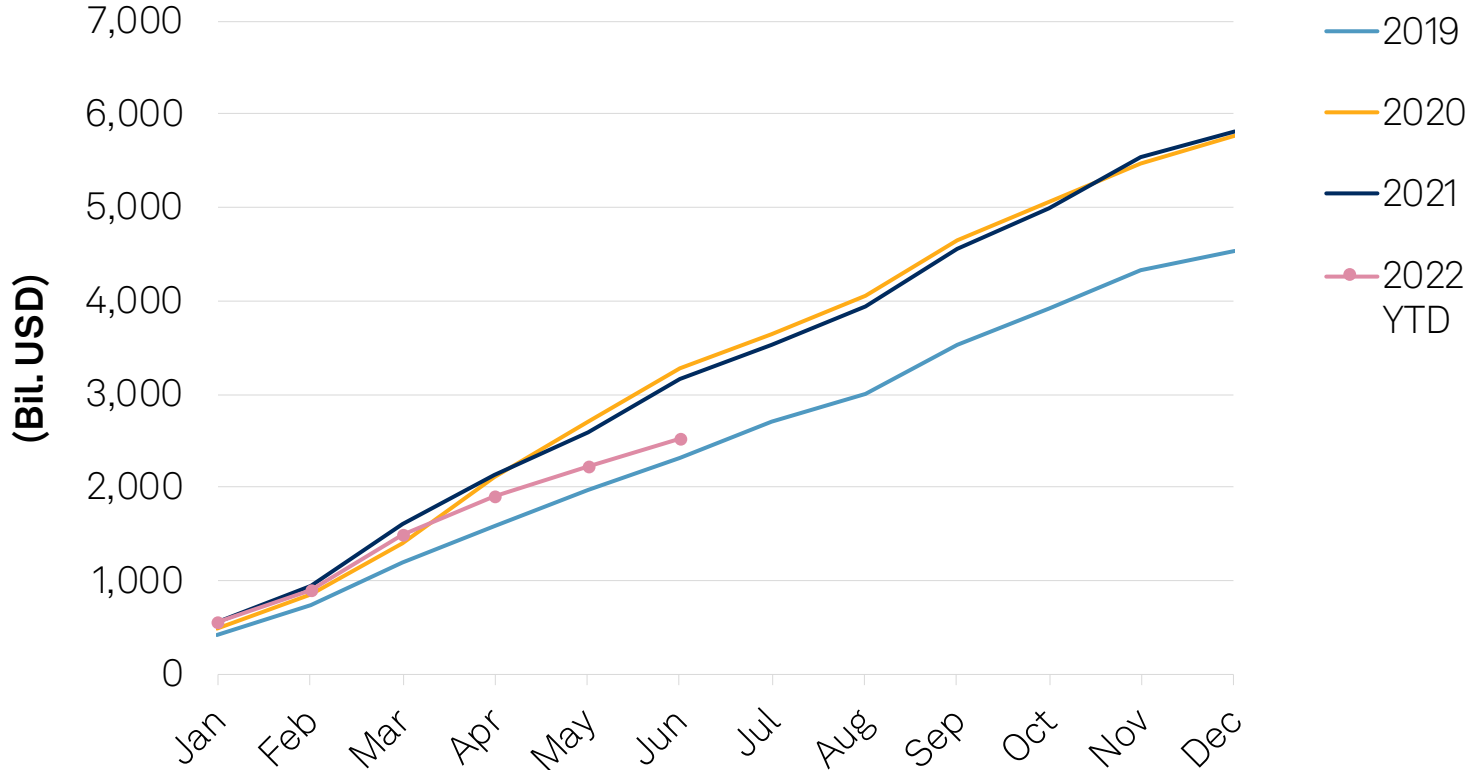
**U.S. Speculative-Grade Spreads by Rating Category**



\* 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 June 23, 2022. Source: S&P Global Ratings Research, Refinitiv.

# Financing Conditions | Global Issuance Reflects Market Concerns

Global Cumulative Corporate (Financial And Nonfinancial) New Bond Issuance



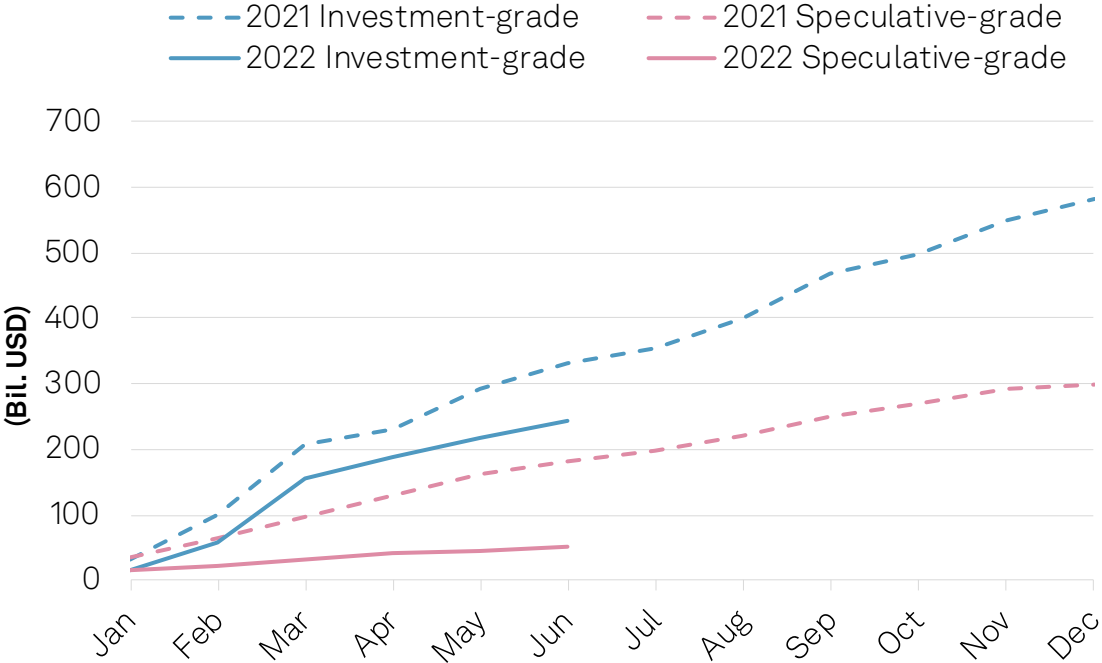
- Facing macroeconomic uncertainty, geopolitical tensions, persistently high inflation, market volatility, and rising yields, **financing conditions are tightening, especially for the lowest-rated credit.**
- Global corporate bond issuance lags record-setting volumes of the past two years – **down near 20% over the same period in 2021.**
- **Beset by uncertainty, many issuers are choosing to wait and see** if financing conditions improve before launching new issues.
- **Despite the slowdown, issuance year to date continues to be bolstered by financial services** as financing conditions have remained more supportive for banks amid rising rates.

Data as of June 23, 2022. Sources: S&P Global Ratings Research, Refinitiv.

# Financing Conditions | In U.S., Tightening Policy Crimps Demand

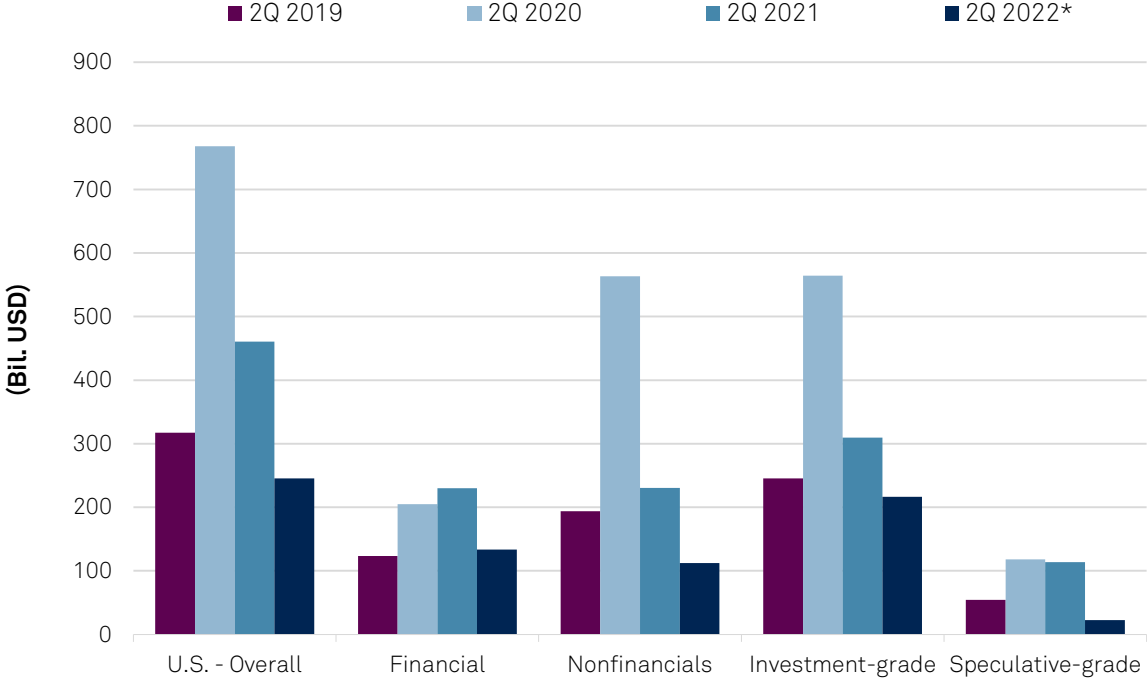
- **North American nonfinancial corporate** issuance has sharply slowed as financing conditions tighten.
- **U.S. speculative-grade nonfinancial** issuance has led the slowdown, with year-to-date issuance in 2022 down 71% compared with the same period in 2021, while **U.S. investment-grade nonfinancial** issuance is down 25%.

## New Nonfinancial Bond Issuance (Cumulative)



\*Data as of June 23, 2022. Sources: S&P Global Ratings Research, Refinitiv.

## U.S. New Bond Issuance By Category



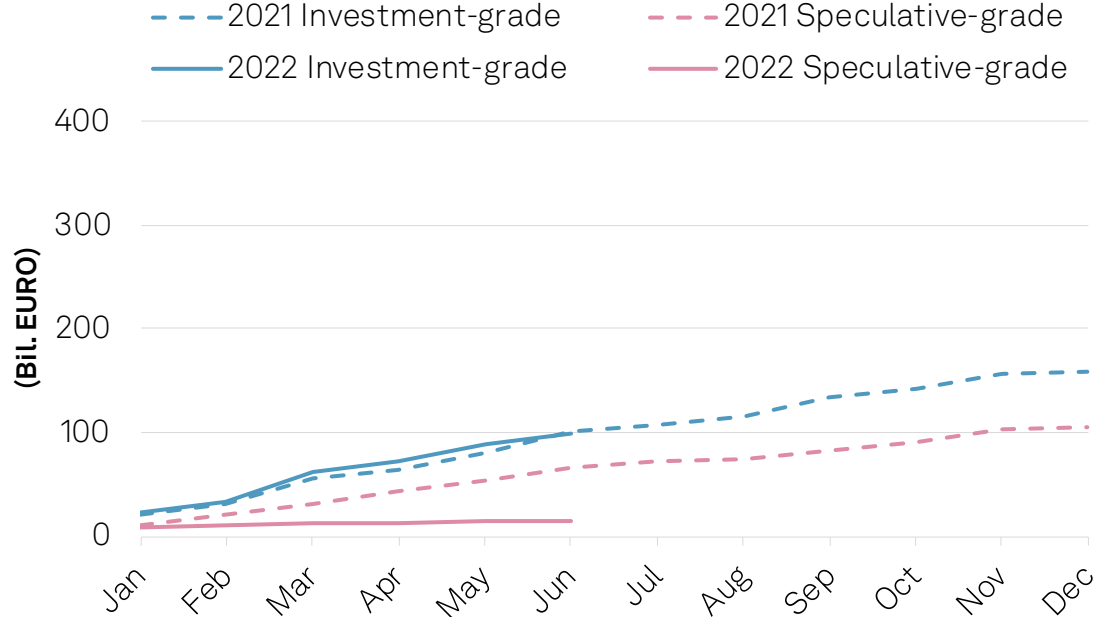
\*Denotes data as of April 1 - June 23, 2022. Data including both financial and nonfinancial corporates. Overall, Financials, Nonfinancial includes unrated issuances. Sources: S&P Global Ratings Research, Refinitiv.



# Financing Conditions | In Europe, Speculative-Grade Issuance Has Collapsed

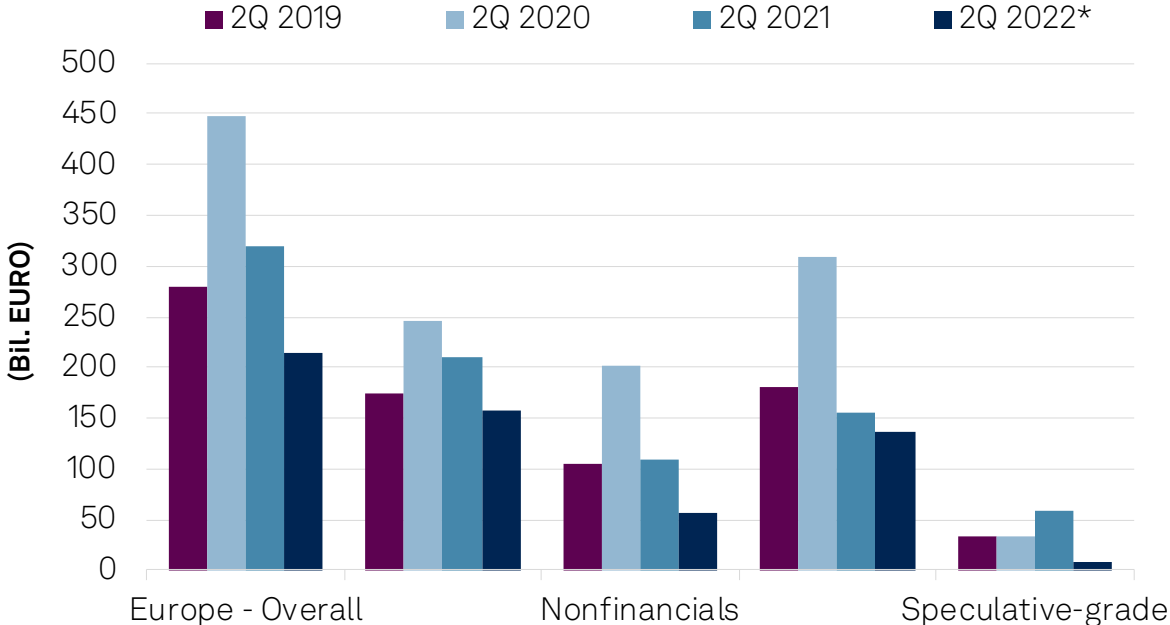
- European nonfinancial corporate rated issuance is 30% below the same period in 2021, dragged lower by speculative grade volumes.
- Speculative-grade nonfinancial issuance has collapsed - down 77% YTD, while investment-grade is flat.
- Primary markets remain choppy, but are not shut – affording issuers intermittent windows to access primary markets (but at higher costs)

**New Nonfinancial Bond Issuance (Cumulative)**



\* Data as of June 23, 2022. Sources: S&P Global Ratings Research, Refinitiv.

**Europe New Bond Issuance By Category**

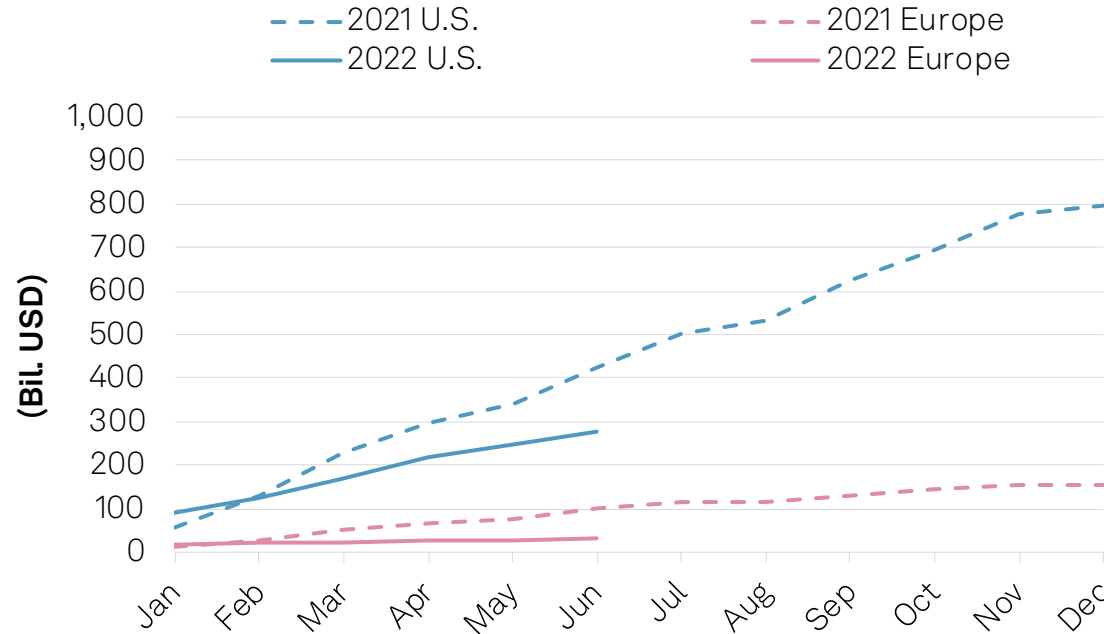


\*Denotes 2Q data as of April 1 - June 23, 2022. Data including both financial and nonfinancial corporates, with rated and unrated debt. Overall, Financials, Nonfinancial includes unrated issuances. Sources: S&P Global Ratings Research, Refinitiv.

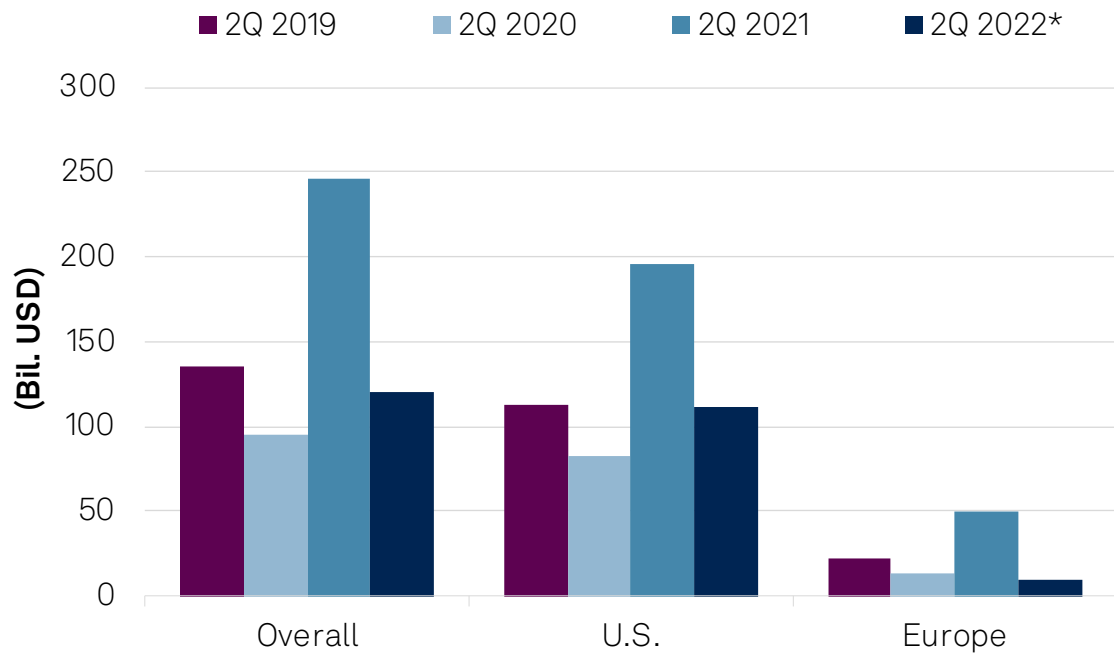
# Financing Conditions | Leveraged Loan Issuance Stalls...

- **U.S. leveraged loan issuance** has slowed dramatically after a strong start in January, but **European issuance** has nearly ground to a halt.
- **Loan prices have also dropped sharply**, further challenging a restart to primary market issuance.
- Demand has dropped even though leveraged loans offer floating rates that provide an offset to rising interest rates, **implying credit as well as duration risks concern investors.**

**New Leveraged Loan Issuance Volume (Cumulative)**



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

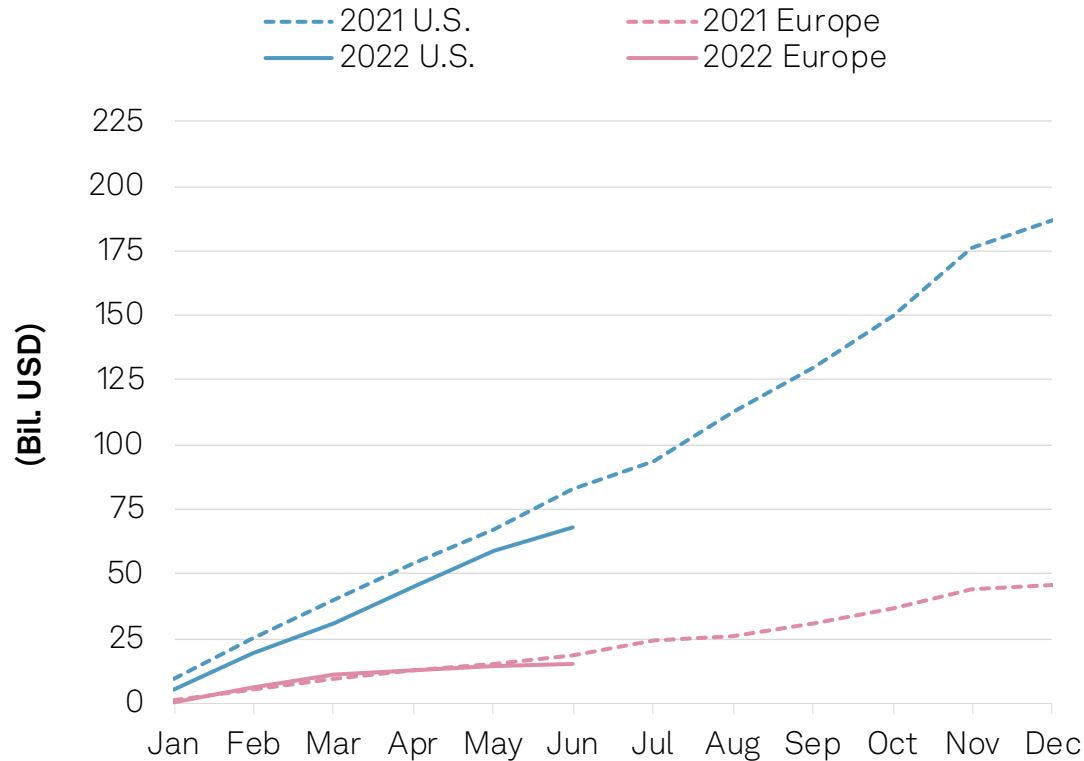


\*Data as of June 24, 2022. Leveraged loan issuance includes institutional and pro rata loans. Source: S&P Global Ratings Research; Leveraged Commentary & Data (LCD)

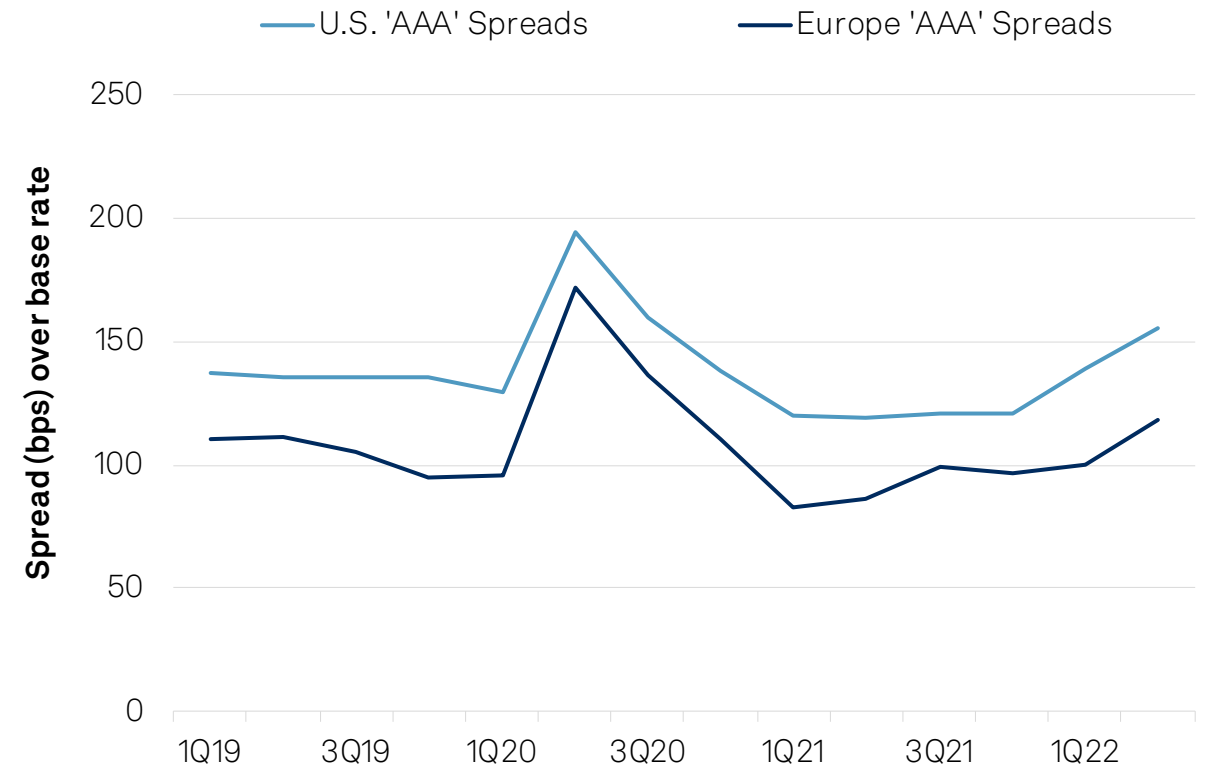
# Financing Conditions | CLO Issuance Sees More Modest Decline

- U.S. and European CLO issuance is down 13% and 14%, respectively, YTD in 2022 versus the same period 2021.
- CLO 'AAA' spreads are widening, reflecting the tightening financing conditions in the broader market.

**U.S. And Europe Annual CLO Volume**



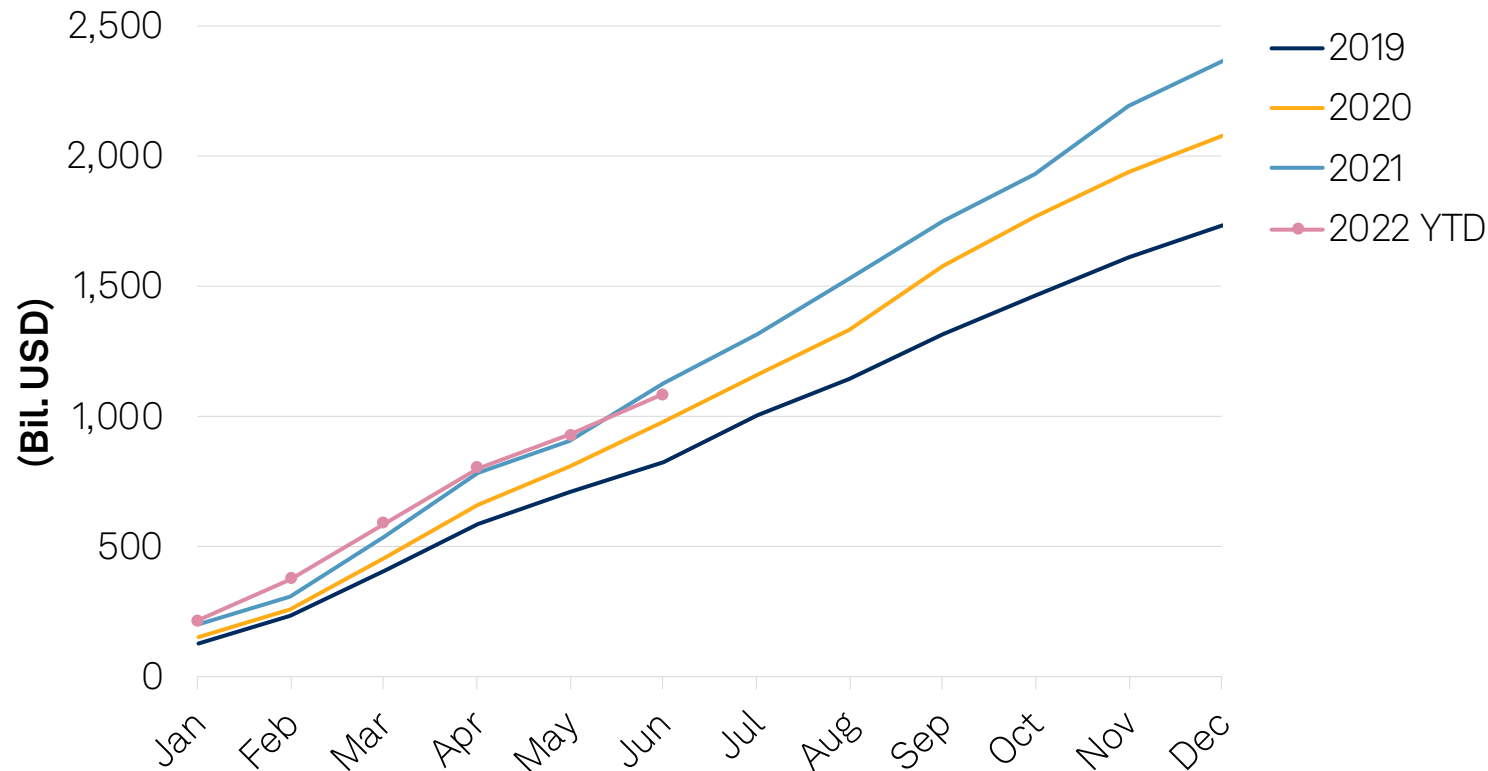
**U.S. And Europe 'AAA' Primary CLO Spreads**



Issuance data through June 24, 2022; spreads through June 20, 2022. Source: Leveraged Commentary & Data (LCD)

# Financing Conditions | In APAC, Conditions Challenge Lower-Rated Issuers

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



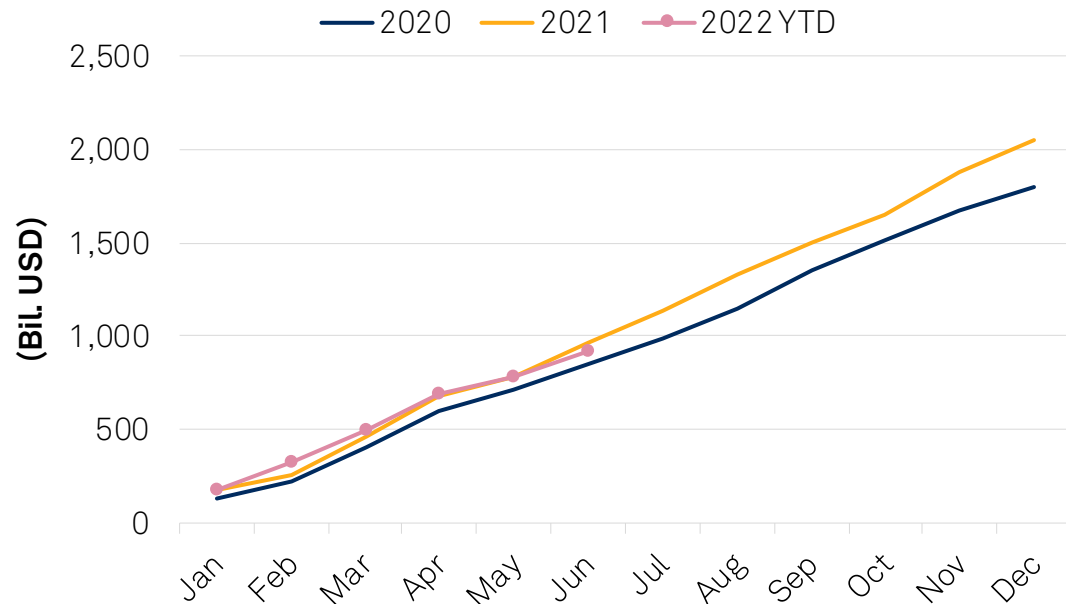
Issuance volumes including financial and nonfinancial corporate issuers of rated and unrated bonds. Data as of June 23, 2022.  
Source: S&P Global Ratings Research; Refinitiv.

- After spillovers from China's real estate sector and lockdowns spurred market turbulence across APAC earlier this year, **strong inflation readings and rising benchmark yields are now adding to tightening financing conditions.**
- Volumes are diverging: **investment-grade issuance is holding-up** compared with last year's volume, while the primary market **for new speculative-grade issuance remains virtually shut.**
- With access to external markets becoming more difficult for all borrowers, particularly lower-rated issuers, some issuers have tried to shift foreign currency borrowing to domestic banks, but these remain highly expensive.

# Financing Conditions | EM Bond Issuance Slows Broadly

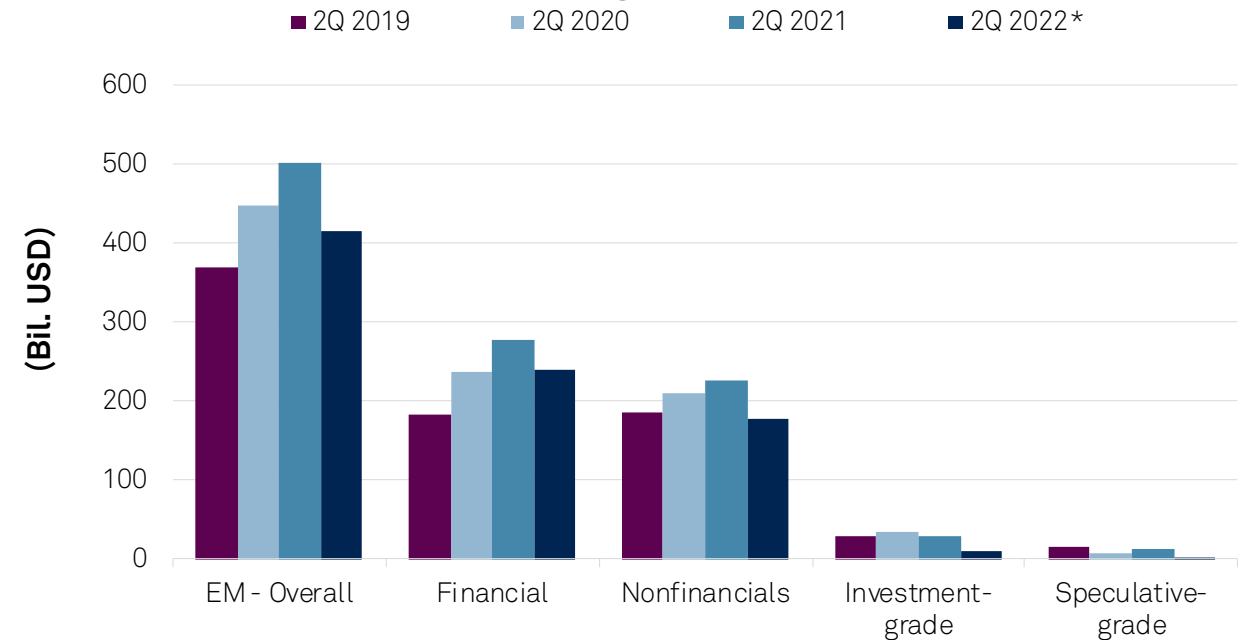
- **The slowdown in EM issuance has broadened to include Asia**, joining the sub-regions of EEMEA and LatAm, which are all on pace with lower overall issuance volumes than in 2021.
- **With financing conditions tightening globally and macro risks increasing**, overall issuance volumes are unlikely to see a strong rebound soon.
- Continued declines in **investor confidence remains a further risk** if this leads to further currency depreciation and sharp capital outflows.

## New Cumulative EM Bond Issuance



Issuance volumes including financial and nonfinancial corporate issuers of rated and unrated bonds.  
 \*Data as of June 23, 2022. Sources: S&P Global Ratings Research, Refinitiv

## EM New Bond Issuance By Category



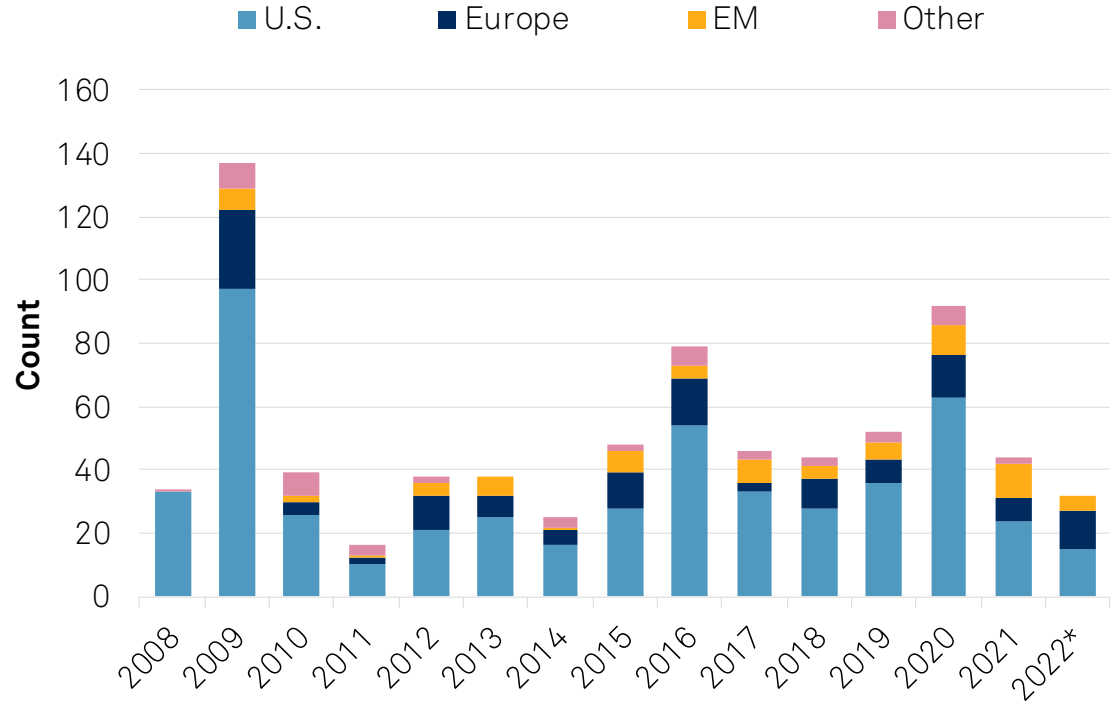
\*Denotes data as of April 1 - June 23, 2022. Data including both financial and nonfinancial corporates. Overall, Financials, Nonfinancial includes unrated issuances. Sources: S&P Global Ratings Research, Refinitiv.

# Credit Trends

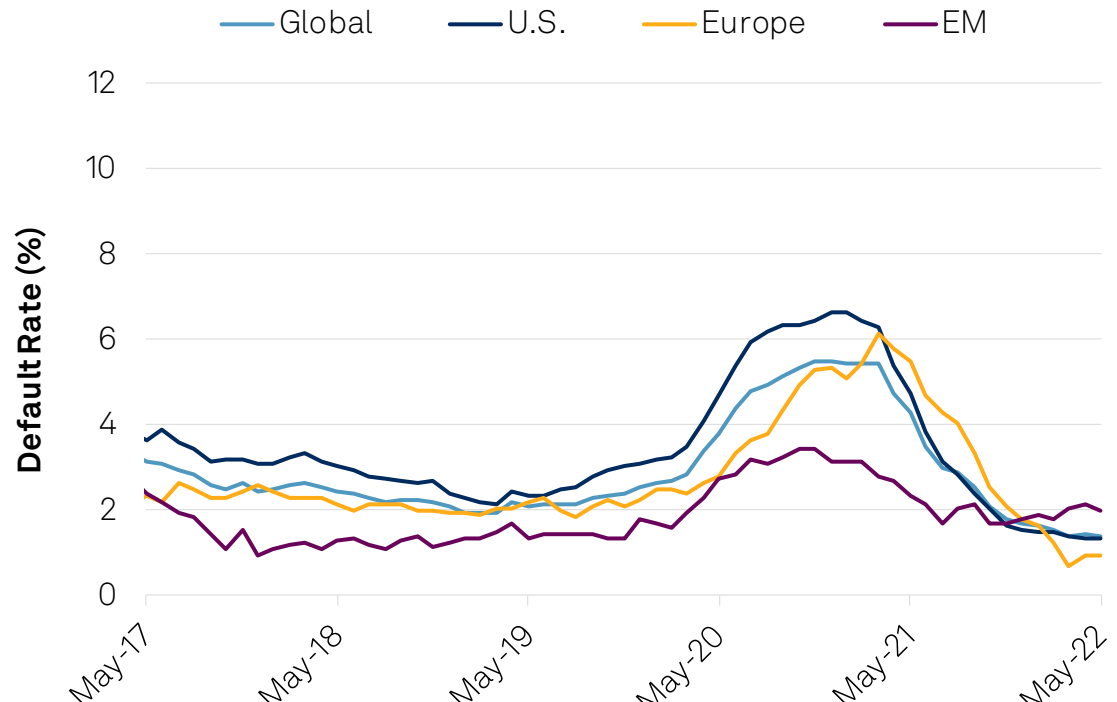
# Credit Trends | Market Stresses Have Yet To Lead To Higher Defaults

- The number of defaults in 2022 are at their lowest levels since 2014.
- The homebuilders and real estate sector leads defaults this year with seven, most resulting from stress in the Chinese property market.
- Growing market stresses have yet to meaningfully lift default rates, which remain below long-term averages across regions.

**Year-To-Date Defaults By Region**



**Trailing 12-Month Speculative-Grade Default Rates Remain Low**



\*Default tally data as of May 31, 2022. Default rates as of May 2022. Source: S&P Global Ratings Research and S&P Global Market Intelligence's CreditPro®.

# Credit Trends | Extending The Maturity Wall Has Reduced Some Of The Risk

## Global Speculative-Grade Nonfinancial Corporate Maturity Wall

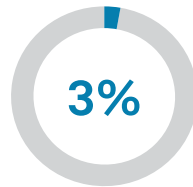
Issuers with debt maturing in...

2H 2022

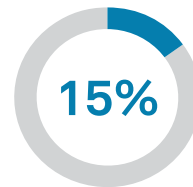
2H 2022 through 2023

2H 2022 through 2024

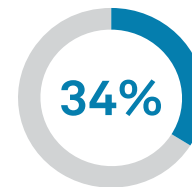
Of 581 North American issuers rated 'B-' or lower:



20 issuers

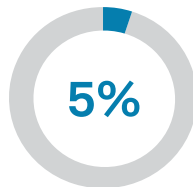


86 issuers

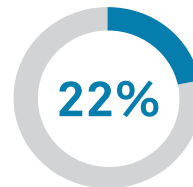


198 issuers

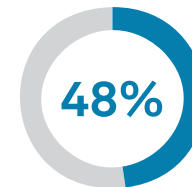
Of 186 EMEA issuers rated 'B-' or lower:



9 issuers



41 issuers



90 issuers

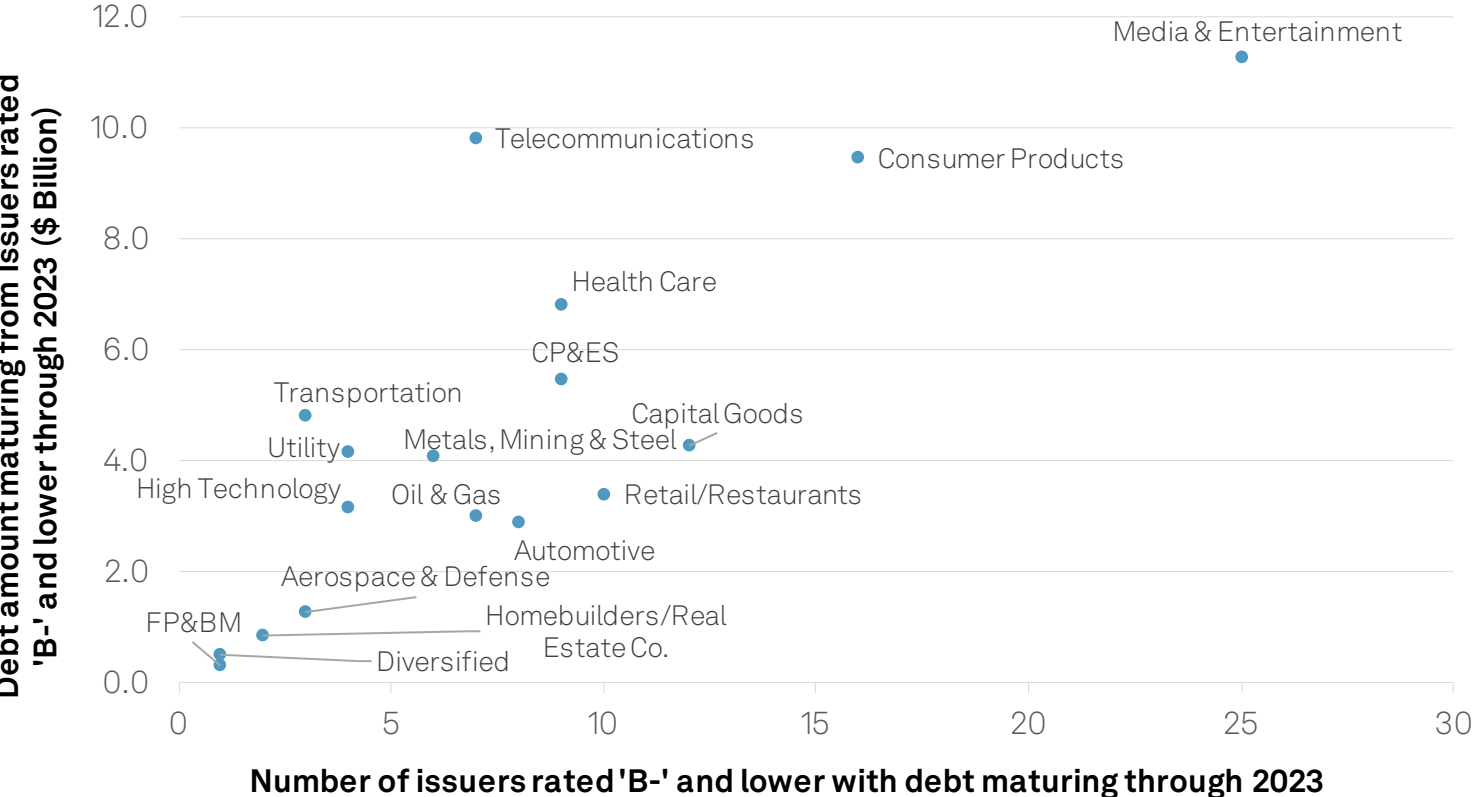
- Following record issuance volume and easy financing conditions in 2021, **refinancing demands largely appear manageable**, especially over the next 18 months.
- **North American issuers appear better positioned than those in EMEA**, with a lower percentage of 'B-' and below issuers with debt maturing through 2023.
- However, 86 issuers rated 'B-' or lower in North America (and 41 in EMEA) have debt maturing through 2023, and **the number grows in later years**.
- **Refinancing risk for lower-rated issuers could be exacerbated** by growing risk aversion, rising market volatility, and rapidly shifting financing conditions.

EMEA—Europe, Middle East, and Africa. Source: S&P Global Ratings Research.



# Credit Trends | Consumer-Sensitive Sectors Show Relatively Higher Refinancing Vulnerability

Sector Concentrations Of Issuers Rated 'B-' And Below With Debt Maturing

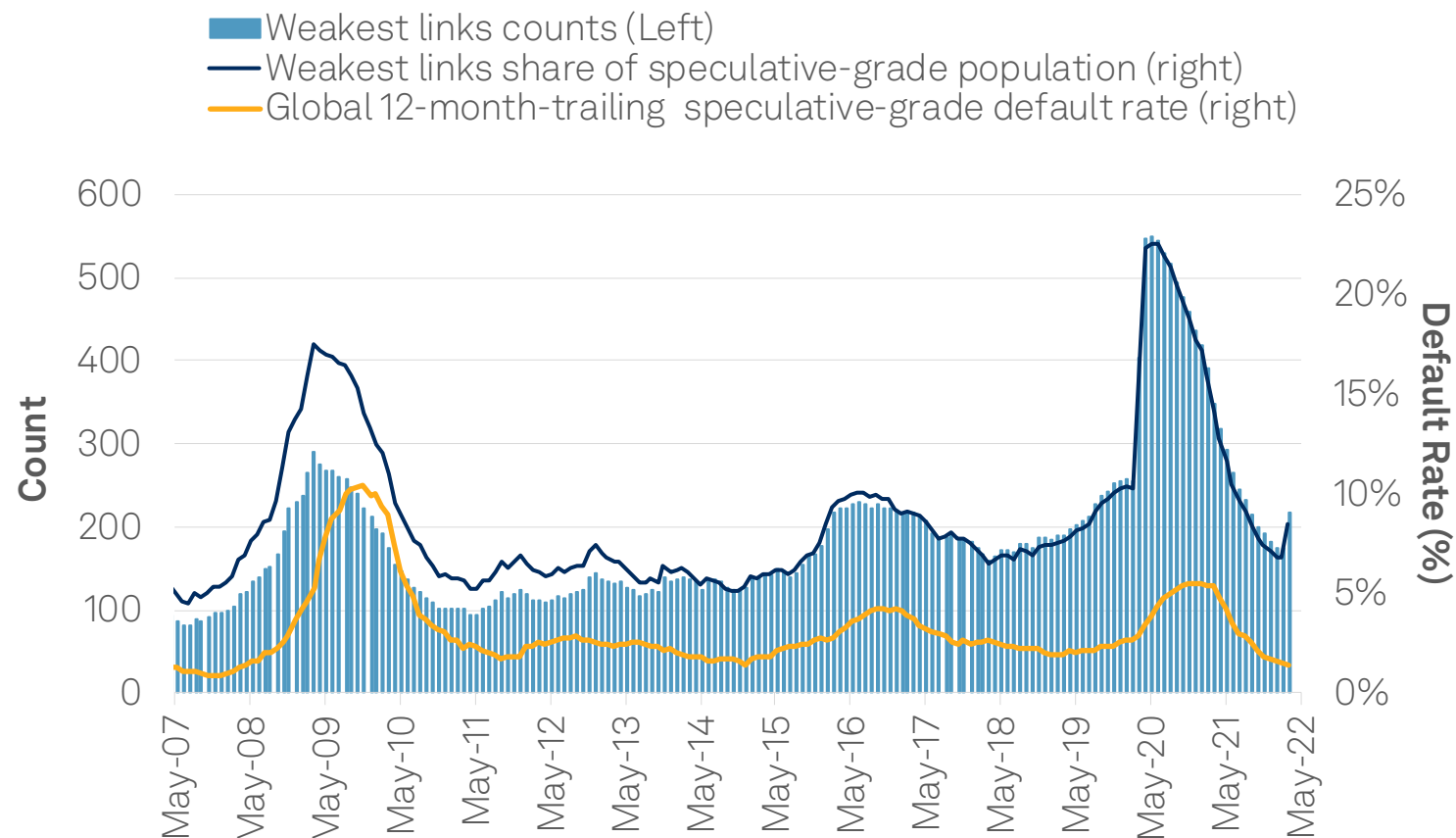


- Tightening financing conditions are slowing or stalling speculative grade issuance, and **this creates headwinds for issuers that need to refinance maturing debt.**
- **Consumer-focused industries of media and entertainment and consumer products have a relatively elevated exposure by number of issuers,** and this adds to the challenges they face from weakening consumer sentiment.
- Despite tightening financial conditions, overall volume of debt issuance appears sufficient to meet refinancing demands through next year, but **choppy markets and higher funding costs can heighten risks to individual issuers.**

Chart shows number of nonfinancial issuers rated 'B-' and lower from North America and EMEA with debt maturing from 7/1/22 through 12/31/23, with the maturing debt amount (\$ Billion). Debt includes bonds, notes, and term loans, excluding revolvers. Source: S&P Global Ratings Research.

# Credit Trends | Low End Of Credit Shows Signs Of Weakening

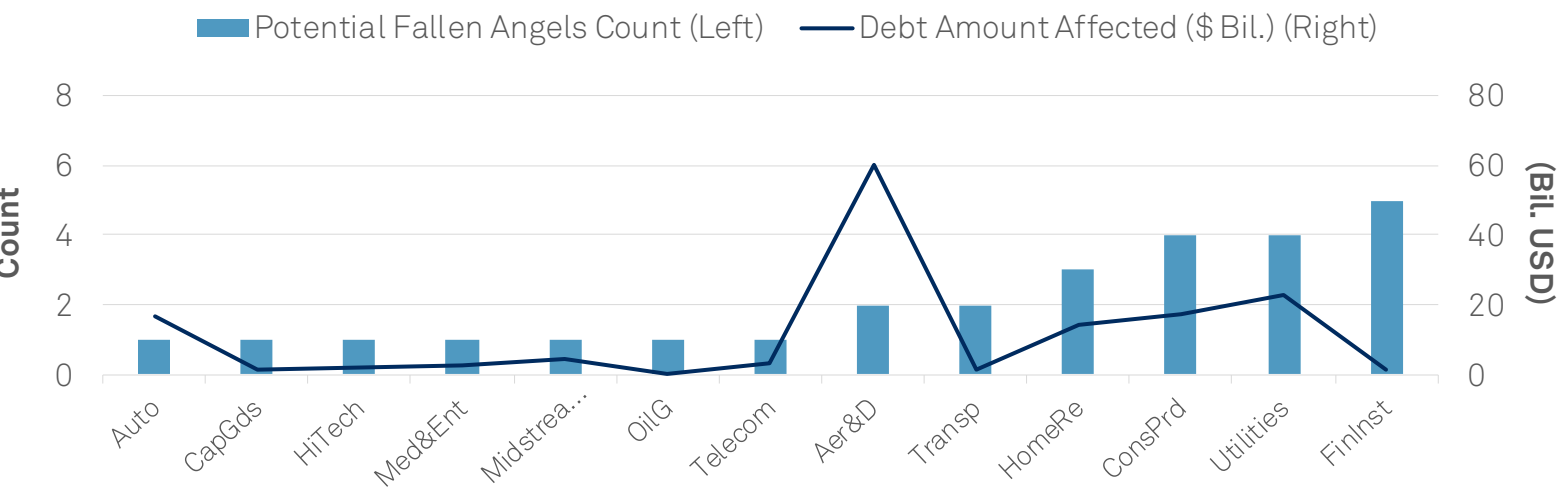
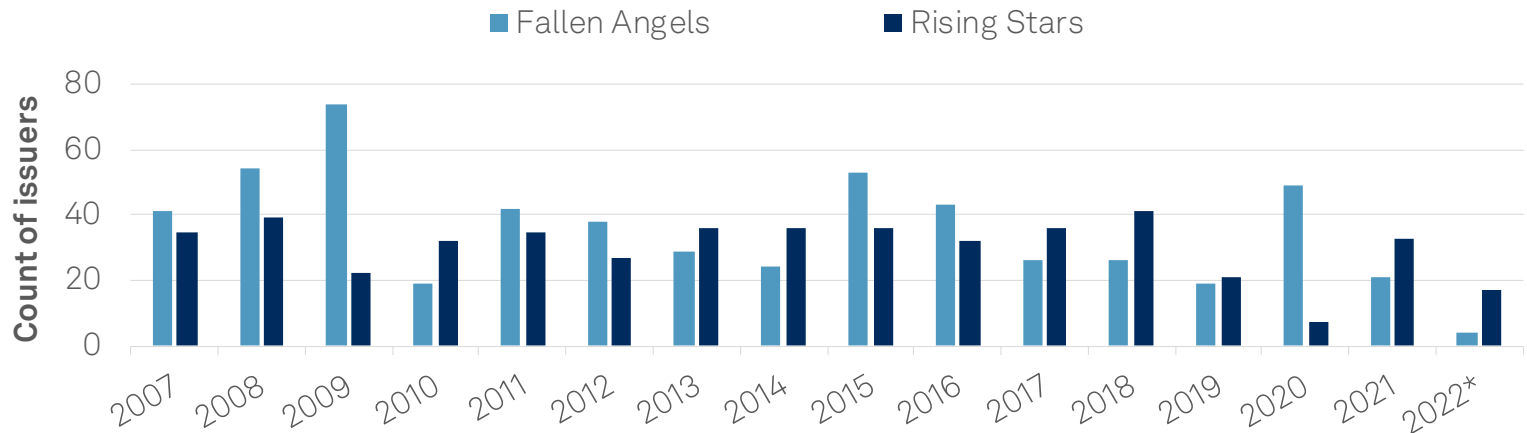
## An Increase In Weakest Links Signals Rising Potential For Defaults



- **The number of weakest links rose for the first time in 19 months in May**, (Weakest links are issuers rated ‘B-’ or lower by S&P Global Ratings with negative outlooks or ratings on CreditWatch with negative implications).
- **Retail and capital goods contributed to most to the rise** as revenue streams are being affected by supply chain constraints and inflationary pressures.
- **Weakest links default at a rate that is 8x higher on average than the overall speculative-grade population**, and a rising tally of weakest links may suggest a rise in defaults ahead.

Default Rates as of May 2022. Weakest links and speculative-grade data as of May 24, 2022. Sources: S&P Global Ratings Research and S&P Global Market Intelligence's CreditPro®.

# Credit Trends | Investment Grade Continues To Show Resilience



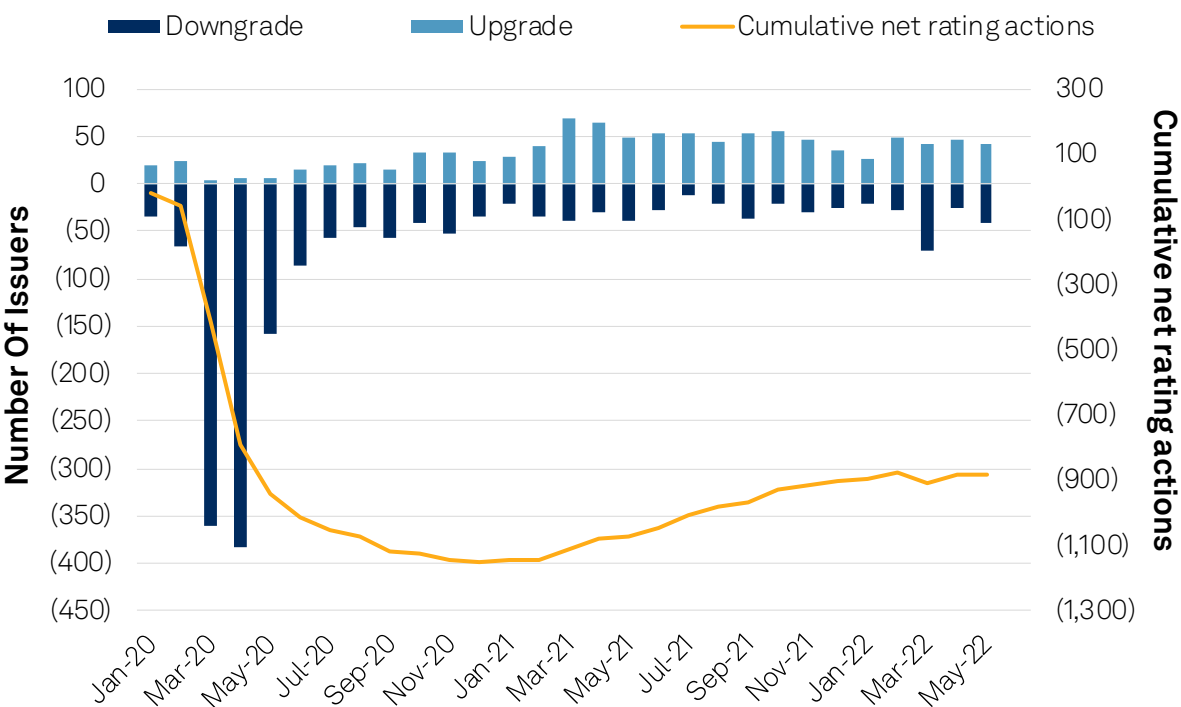
- **Rising stars continue to see positive momentum, outpacing fallen angels in 2022** as credit quality of higher-rated issuers continues to show resilience.
- Potential fallen angels (issuers rated 'BBB-' by S&P Global Ratings with negative outlooks or ratings on CreditWatch with negative implications) fell to an all time low of 27 financial and nonfinancial corporate issuers.
- **However, market turbulence, tighter financing conditions, and rising inflation are stirring headwinds**, as consumer products and utilities, which both face sharply rising input costs, lead nonfinancial potential fallen angels.

Note excludes 11 Russian, or Russia-related, entities that were fallen angels in March 2022, whose ratings were subsequently withdrawn in compliance with EU sanctions. 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 May 31, 2022. Source: S&P Global Ratings Research.

# Credit Trends | Regional Risks Slow Momentum Of Rating Gains

- Rating momentum remained marginally positive globally in the second quarter with upgrades just outnumbering downgrades.
- However, credit trends are diverging regionally with a lower level of downgrades in North America and Europe than in the rest of the world.
- Downgrades have been primarily concentrated among issuers rated 'B-' and below.

## Global Monthly Rating Actions



Cumulative net rating actions (Upgrades minus downgrades) since Jan. 1, 2020. Downgrades shown as a negative number. Data as of May 31, 2022. Excludes Sovereign and defaults. Source: S&P Global Ratings Research.

## Global Downgrade Ratio

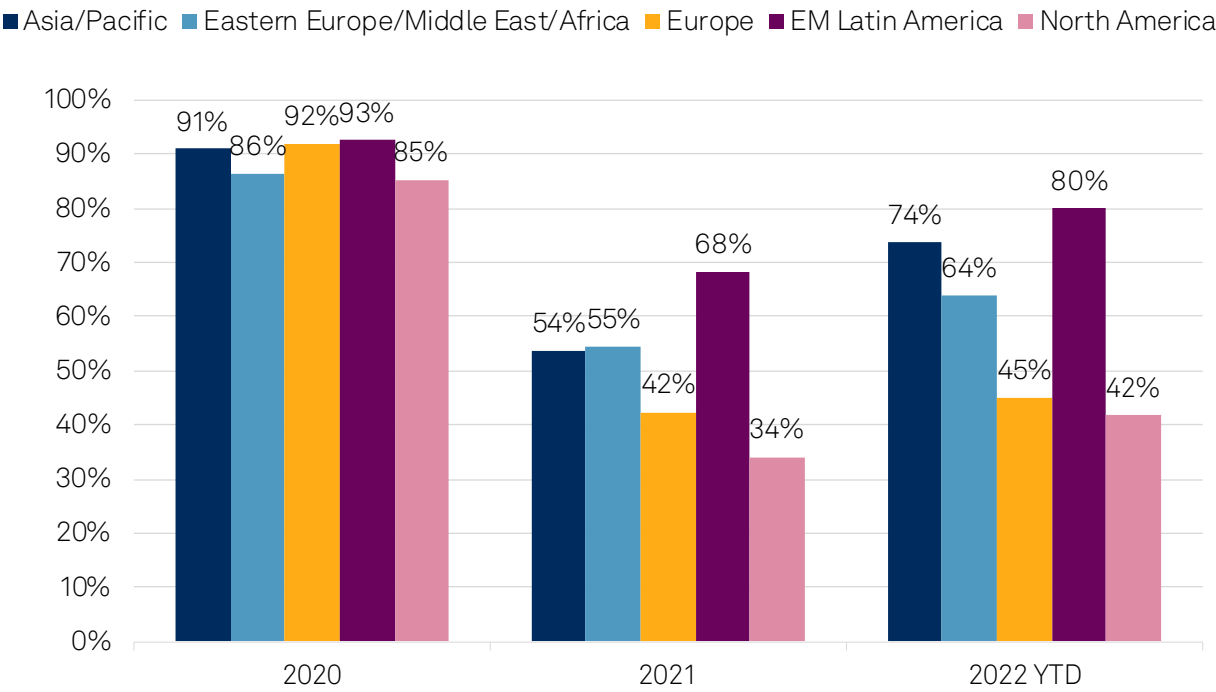
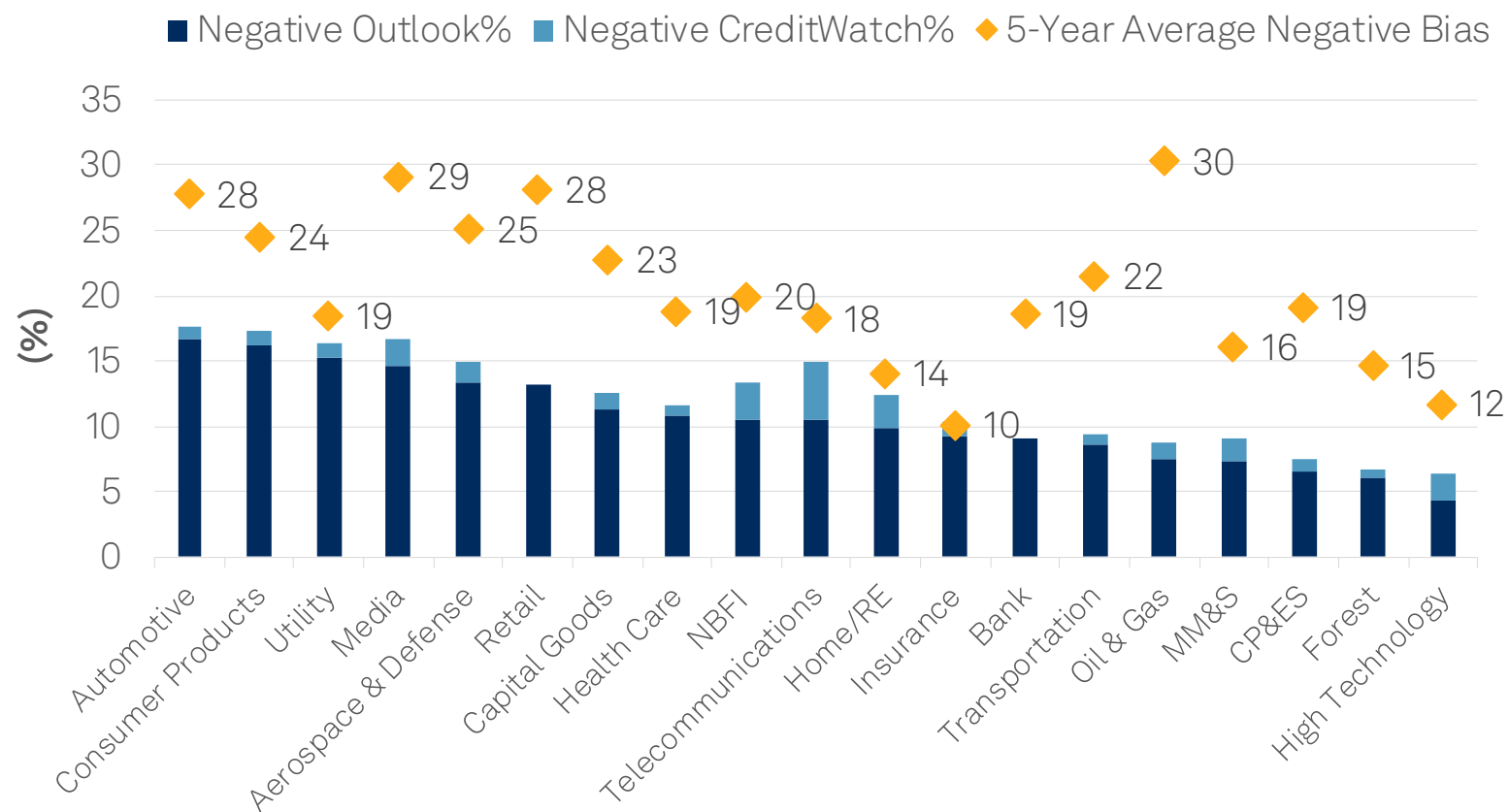


Chart shows downgrades as a percent of rating actions. Data as of May 31, 2022. Excludes Sovereign. Source: S&P Global Ratings Research.

# Credit Trends | Sector Downgrade Risk Begins To Diverge

## Global Downgrade Potential Remains Below Average

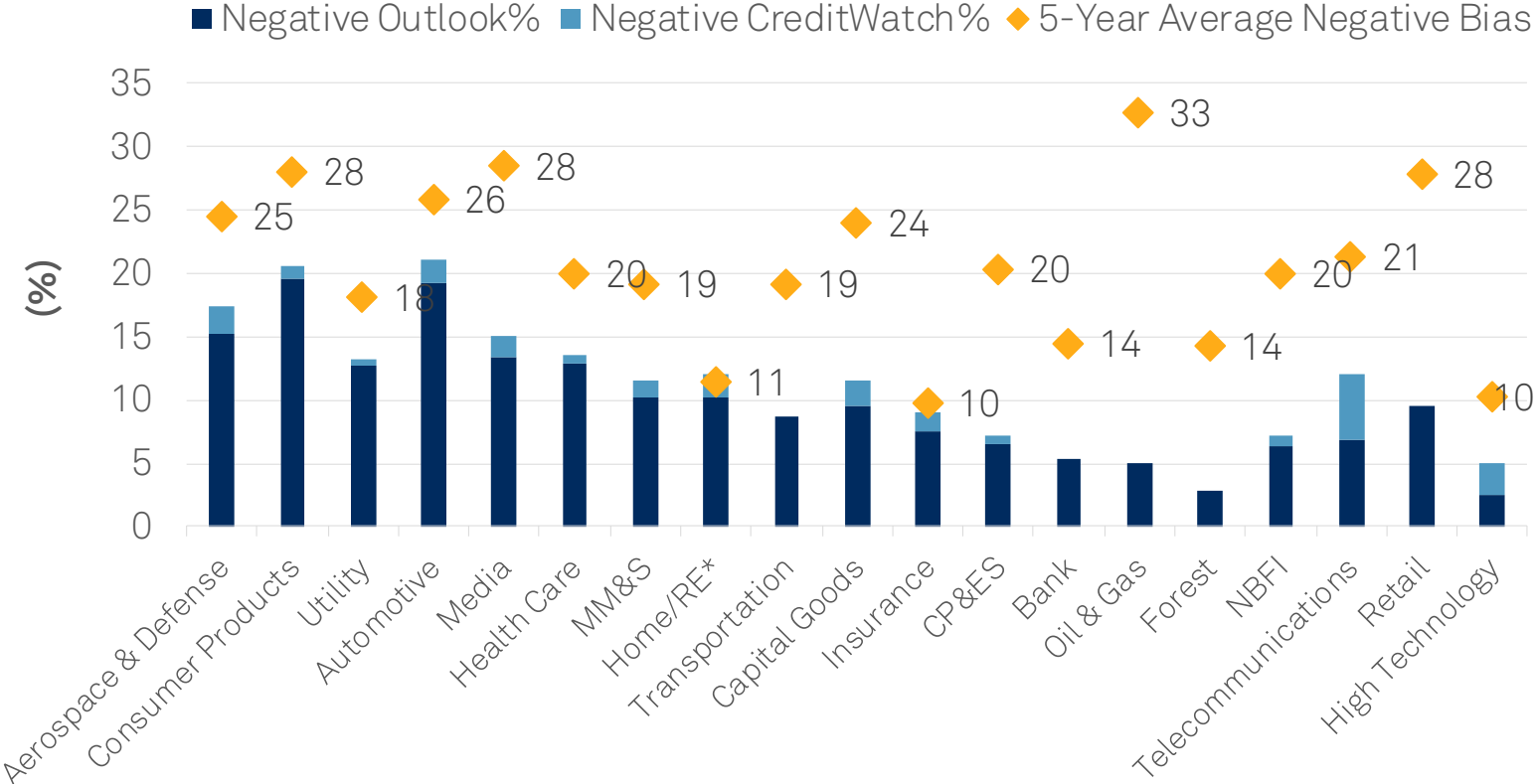


- **Ratings outlooks reflect continued positive credit stability in the near-term**, with all sectors' negative bias below their five-year averages.
- **But there are divergences emerging among sectors.** Both retail and automotive sectors have seen their negative bias increase last month but remain below their long-term average.

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 May 31, 2022 and exclude sovereign. Source: S&P Global Ratings Research.

# Credit Trends | In the U.S., Outlook And CreditWatch Distribution Reflect Broad Improvements

## U.S. Downgrade Potential Remains Below Average

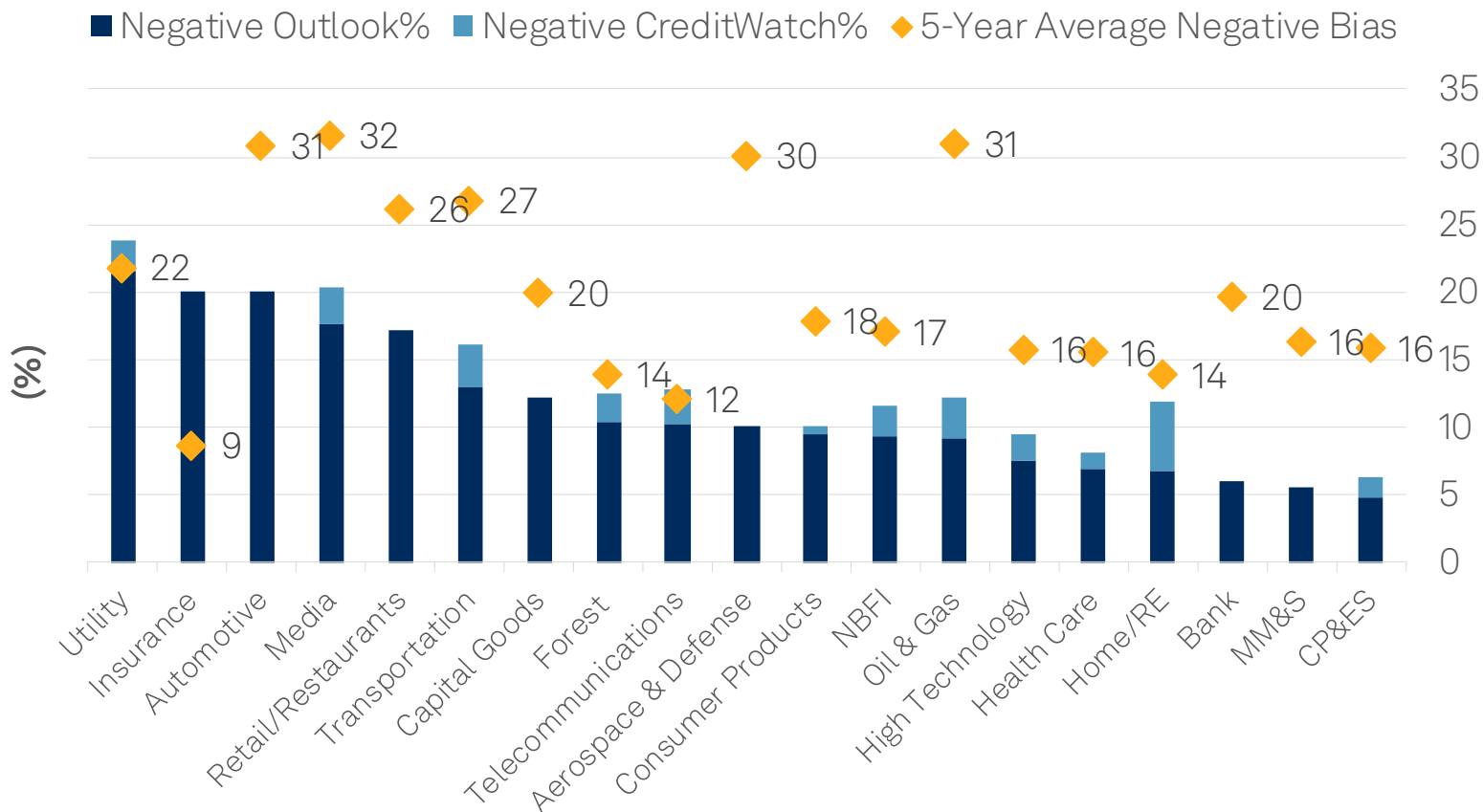


- **Downgrade potential remains below the average** level of the past five years in most sectors with the exception of insurance and homebuilders and real estate.
- **Consumer products and automotive leads with the highest current negative bias** as both sectors are highly sensitive to consumer driven demand.
- **The negative bias is rising for the retail sector but** remains below its five-year average.

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 May 31, 2022, and exclude sovereign. Source: S&P Global Ratings Research.

# Credit Trends | In Europe, Spill Over Effects From Russian Ukraine Conflict Spur Downgrade Potential

## European Downgrade Potential Is Elevated For The Most Affected Sectors



- In Europe, downgrade potential stands below five-year averages for most sectors, except for utilities and insurance sectors.
- On the positive side, the reopening of the service sector is supporting economic recovery.
- However, surging inflation and fears about weak economic growth are taking a toll on consumer behavior, and on the credit quality of issuers in sectors with weak pricing power.

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 May 31, 2022 and exclude sovereign. Source: S&P Global Ratings Research.

# Related Research



# Credit Markets And Ratings Performance | Latest Research

- ['BBB' Pulse: Pressures Mount, But The Positive Streak Continues](#), June 27, 2021
- [Rating Actions Waypoint: The Russia-Ukraine Conflict As Of June 21, 2022](#), June 23, 2021
- [Risky Credits: Downgrades Push North American 'CCC' Rated Issuers To A 2022 High](#), June 23, 2021
- [Credit Trends: From "Whatever It Takes" To Wherever It Leads: How The ECB Has Reshaped The European Economy And Markets](#), June 22, 2022
- [This Week In Credit Newsletter](#), June 20, 2022
- [Default, Transition, and Recovery: The Pace Of Defaults In 2022 Is Likely To Pick Up](#), June 15, 2022
- [Credit Trends: Where To Look For Refinancing Vulnerabilities Through 2023 Amid Market Turmoil](#), June 13, 2022
- [Credit Trends: Highest Month-Over-Month Change Since March 2020 As U.S. Distress Ratio Rises To 4.3%](#), June 13, 2022
- [Market Acceptance Of 'B-' Ratings Has Created A Feedback Loop That May Be Challenged](#), June 7, 2022
- [Default, Transition, and Recovery: The S&P/LSTA Leveraged Loan Index Default Rate Could Rise To 1.75% By March 2023](#), June 6, 2022
- [Credit Trends: 'BBB' Pulse: Inflationary Factors Spring Positive Surprise In April](#), May 26, 2022
- [Default, Transition, and Recovery: The U.S. Speculative-Grade Corporate Default Rate Could Reach 3% By 2023 As Risks Continue To Increase](#), May 19, 2022
- [The European Speculative-Grade Corporate Default Rate Could Rise To 3% By March 2023](#), May 18, 2022
- [Global Macro Update: Growth Forecasts Lowered On Longer Russia-Ukraine Conflict And Rising Inflation](#), May 17, 2022
- [Global Credit Conditions Special Update: Inflation, War, And COVID Drag On](#), May 17, 2022
- [Credit Trends: Global Financing Conditions: Bond Issuance Looks Set To Contract Almost 5% In 2022 As Conditions Tighten Quickly](#), Apr. 27, 2022
- [Default, Transition, and Recovery: 2021 Annual Global Corporate Default And Rating Transition Study](#), April 13, 2022

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