Global Credit Markets Update – Q3 2022
Market Stresses Begin To Weigh On Credit

July 6, 2022

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

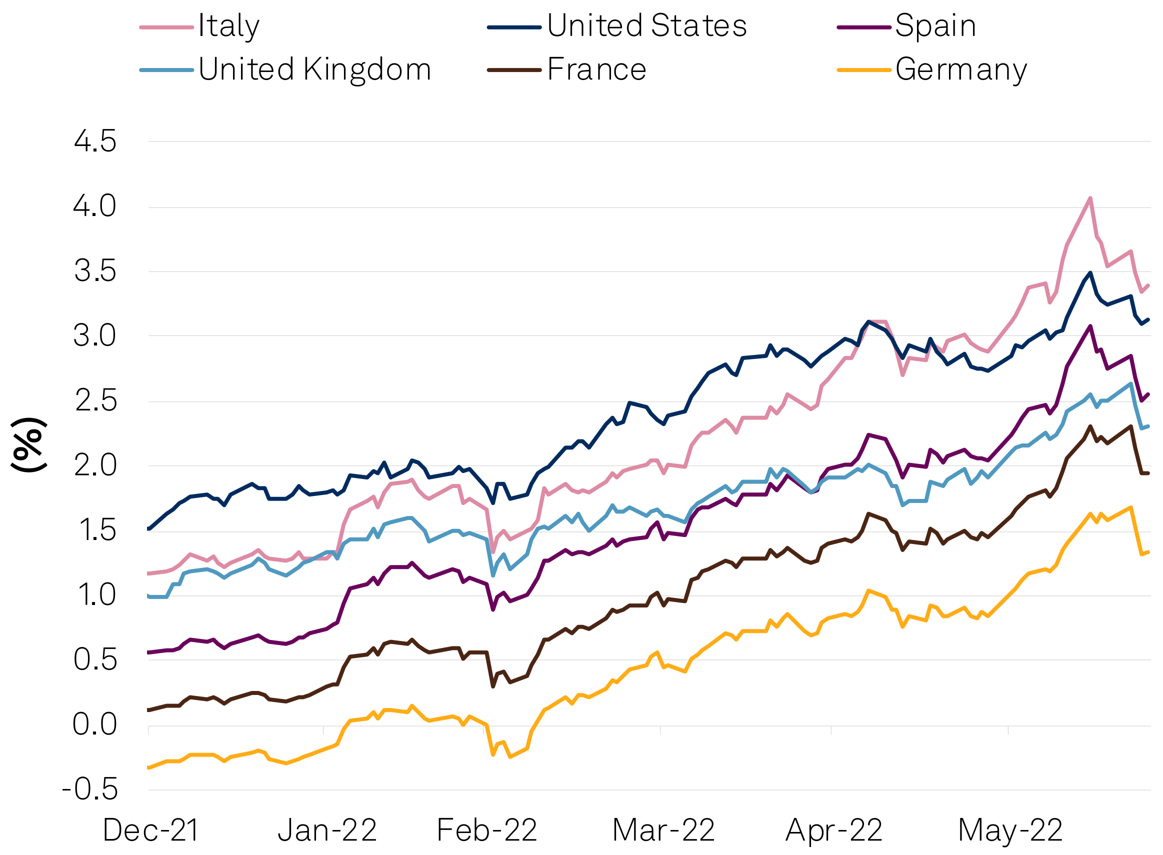
Ratings are exhibiting resilience, but we detect signs of divergence across regions and sectors.

Refinancing Risk Limited

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

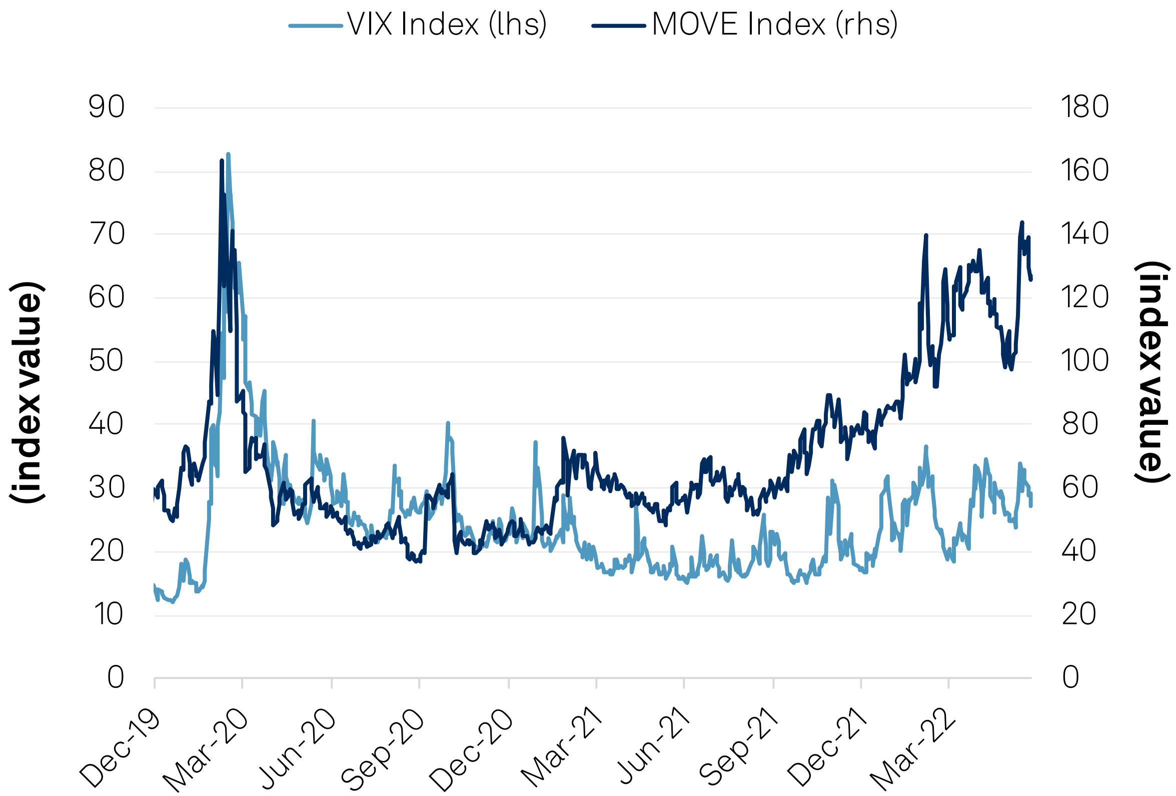
Financing Conditions | Volatility Underpins Bond Markets

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

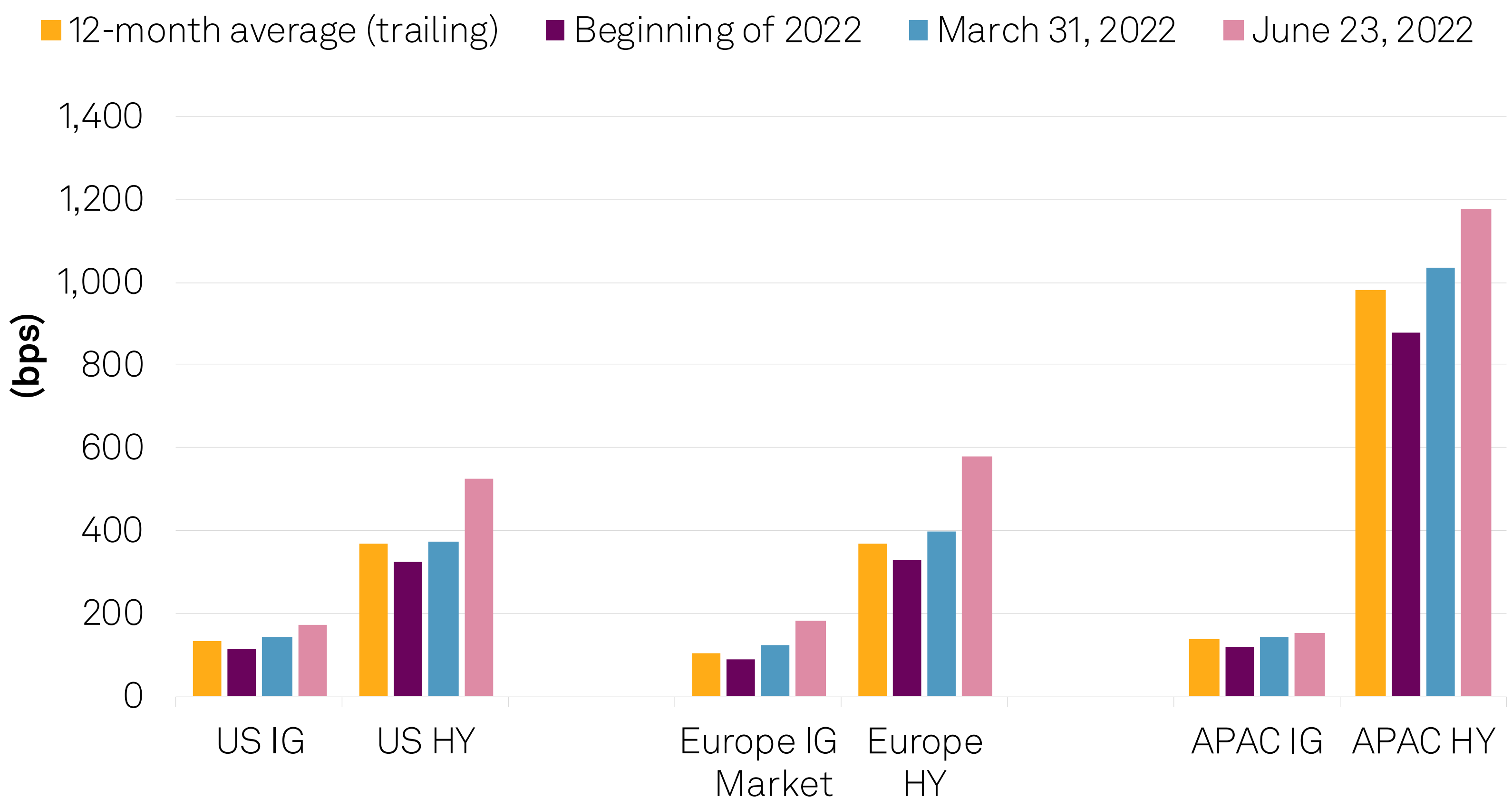


Data as of June 24, 2022. Source: CBOE Volatility S&P 500 Index; ICE BofAML MOVE Index. Source: Financial Times; S&P Global Market Intelligence.

S&P Global
Ratings

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

Spreads By Rating Grade And Region

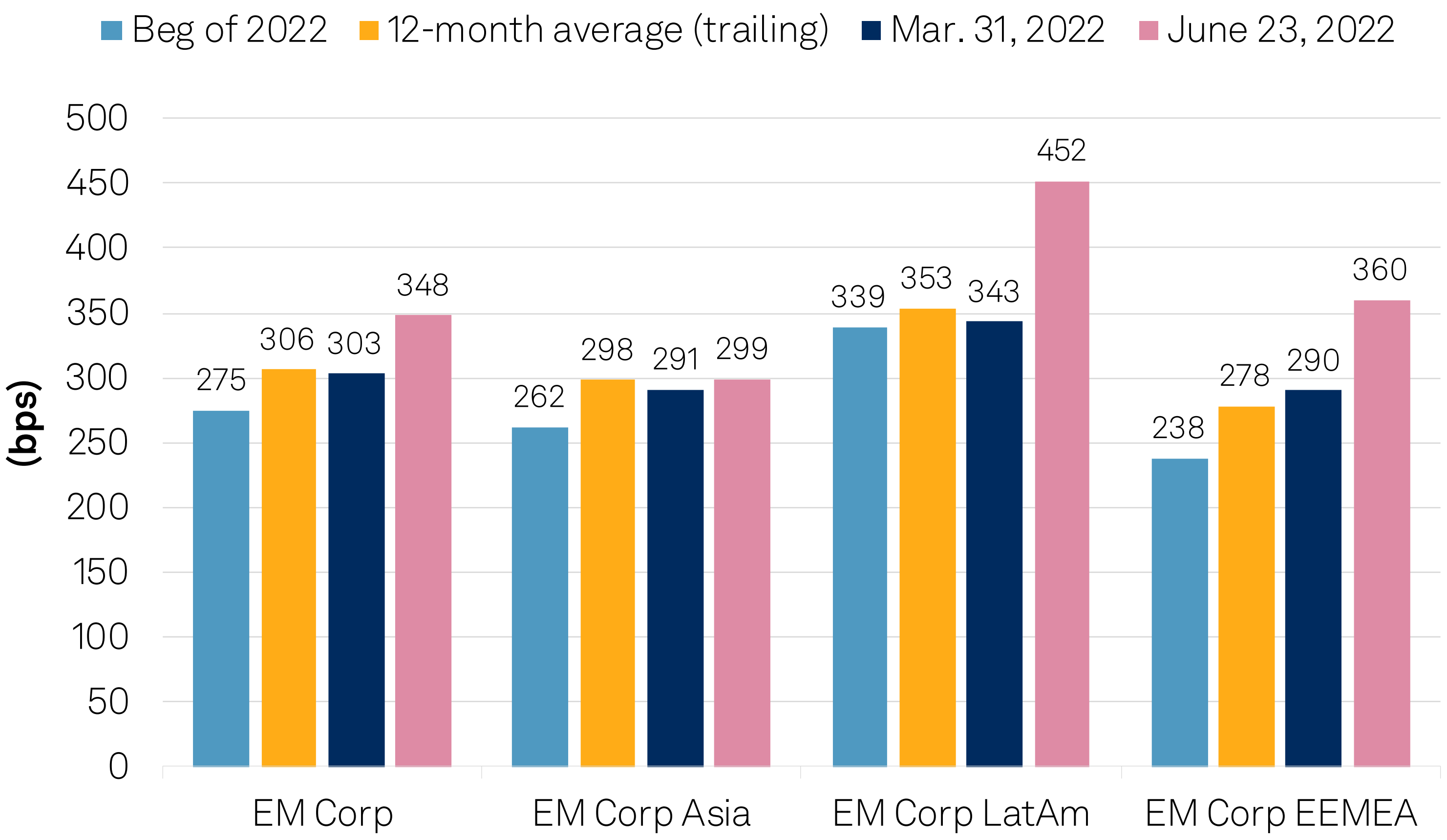


Note: Data as of June 23, 2022. IG—Investment grade. HY—High yield. Sources: S&P Global Ratings, Refinitiv, S&P Dow Jones Indices, U.S. Federal Reserve Bank of St. Louis, Bank of America Merrill Lynch, Bloomberg-Barclays Indices. Spreads from Bloomberg-Barclays are secondary market pricing. Europe HY as of June 23, 2022.

- **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.

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

Emerging Market Spreads By Sub-Region



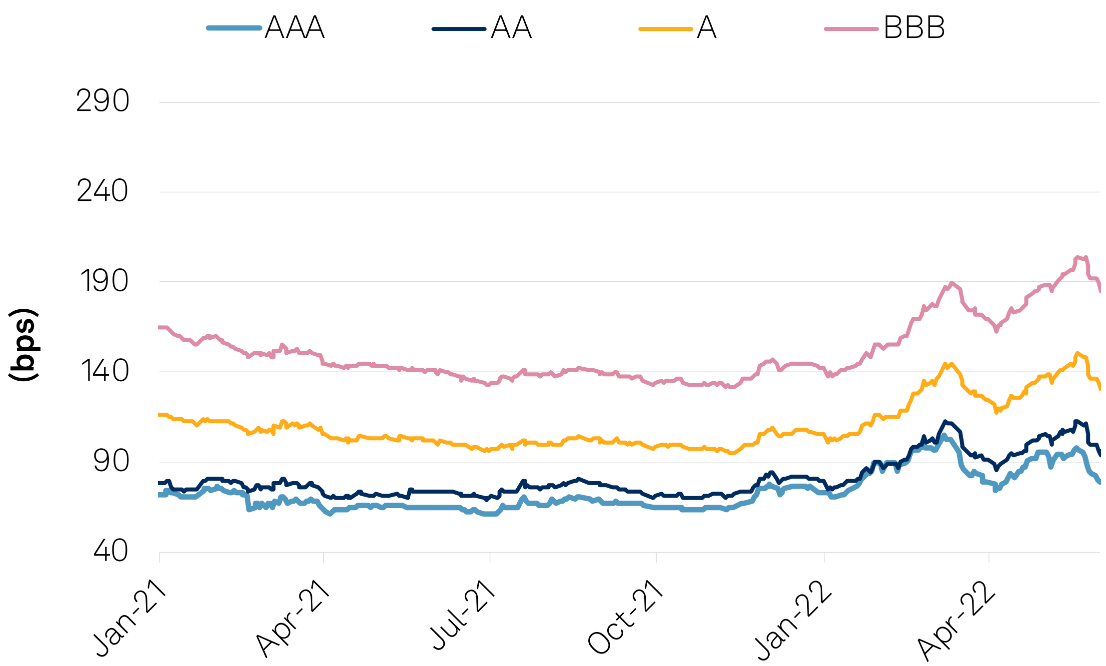
- **EM spreads continue to trend wider,** with global rate hikes and growth risks heightening investors' risk aversion.
- Exposure to the U.S. both in terms of rapid monetary tightening and possible recession risk is leading LatAm to exhibit the **highest spreads among EM sub-regions**.
- **EEMEA spreads 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 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 June 23, 2022. Source: Federal Reserve Bank of St. Louis, S&P Global Ratings Research.

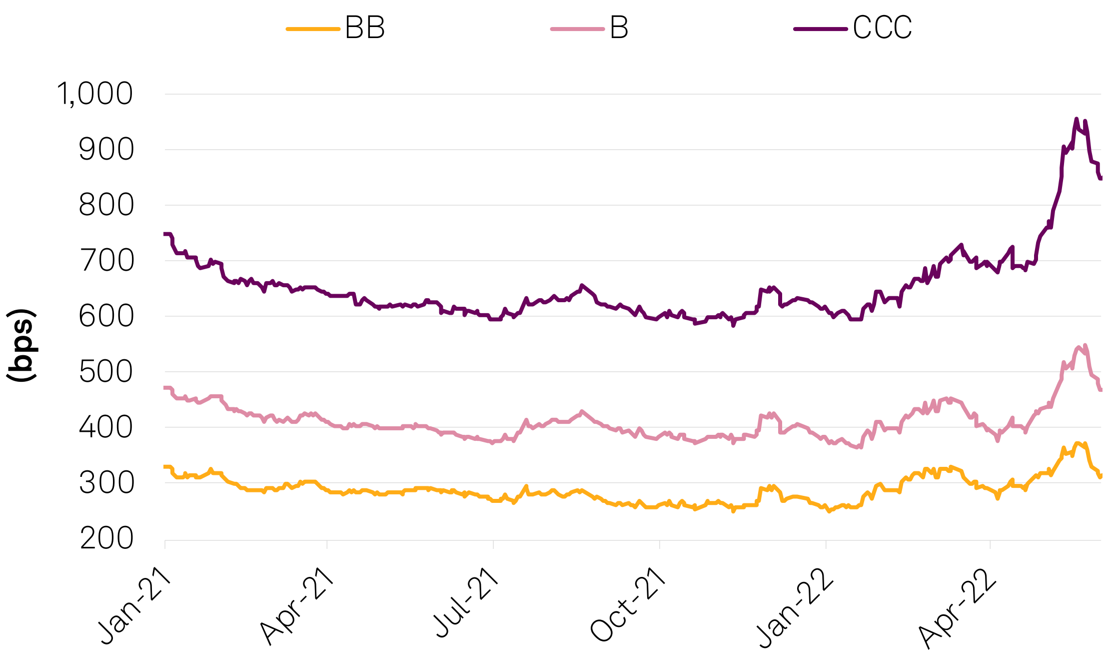
Financing Conditions | Pressures Mount For Weaker Credits In U.S.

- 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



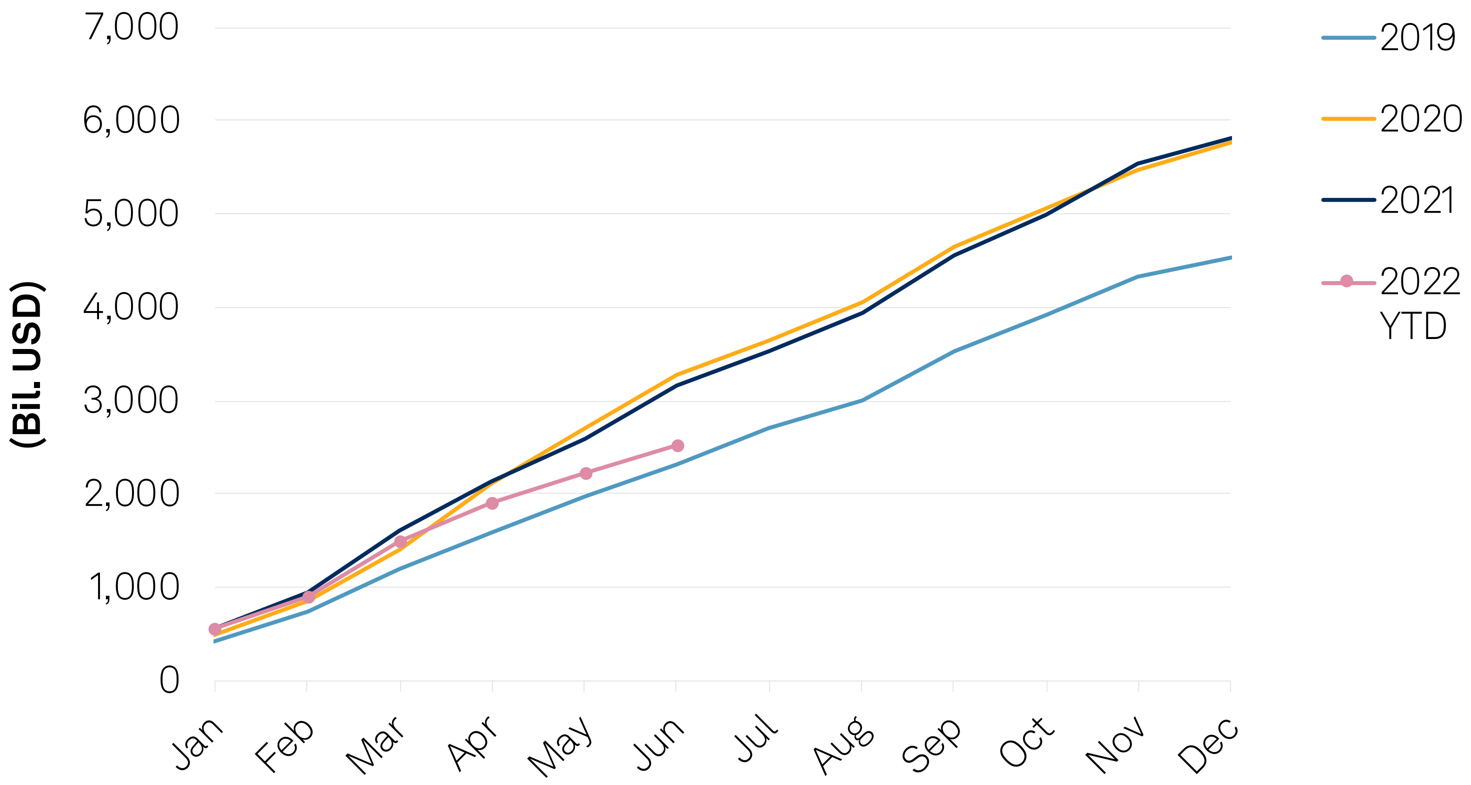
U.S. Speculative-Grade Spreads by Rating Category



** 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



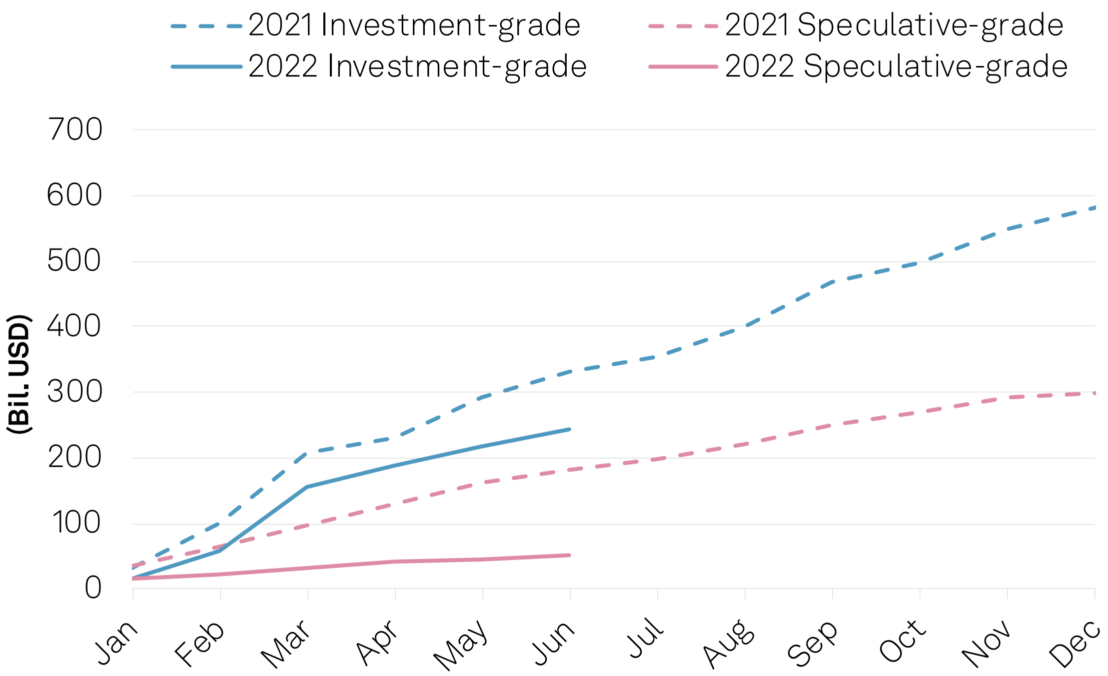
Data as of June 23, 2022. Sources: S&P Global Ratings Research, Refinitiv.

- 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.

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

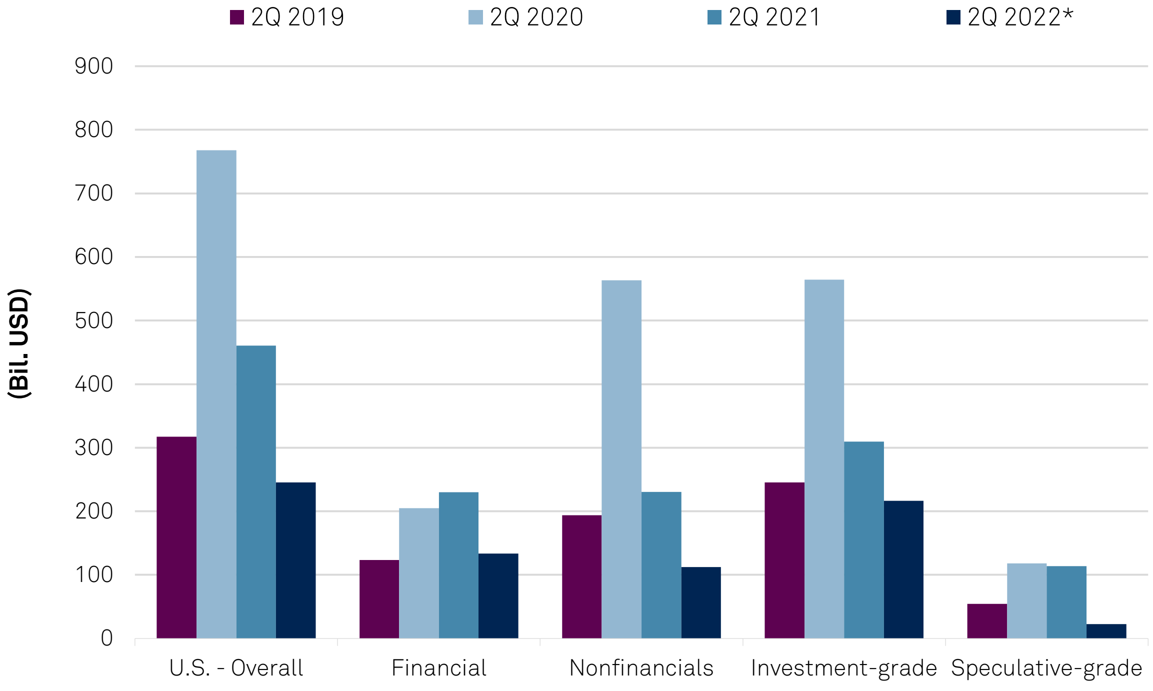
- **North American nonfinancial corporate** issuance has sharply slowed as financing conditions tighten.
- **U.S. speculative-grade nonfinancial** issuance has led the slowdown, with year-to-date issuance in 2022 down 71% compared with the same period in 2021, while **U.S. investment-grade nonfinancial**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



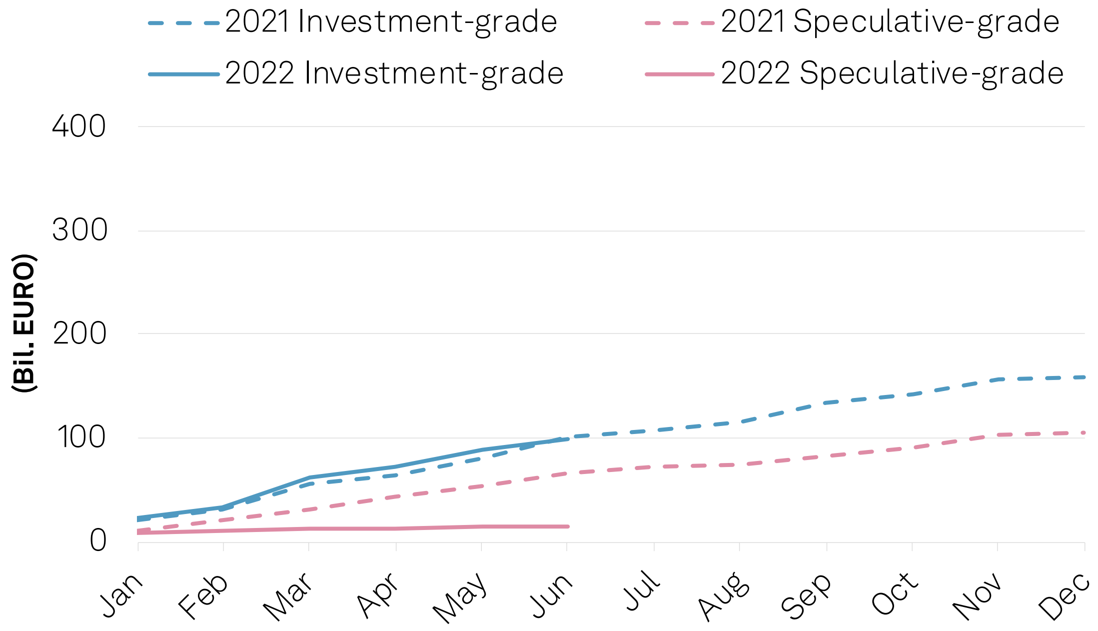
Denotes data as of April 1 - June 23, 2022. Data including both financial and nonfinancial corporates. Overall, Financials, Nonfinancial includes unrated issuances. Sources: S&P Global Ratings Research, Refinitiv.

S&P Global Ratings

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

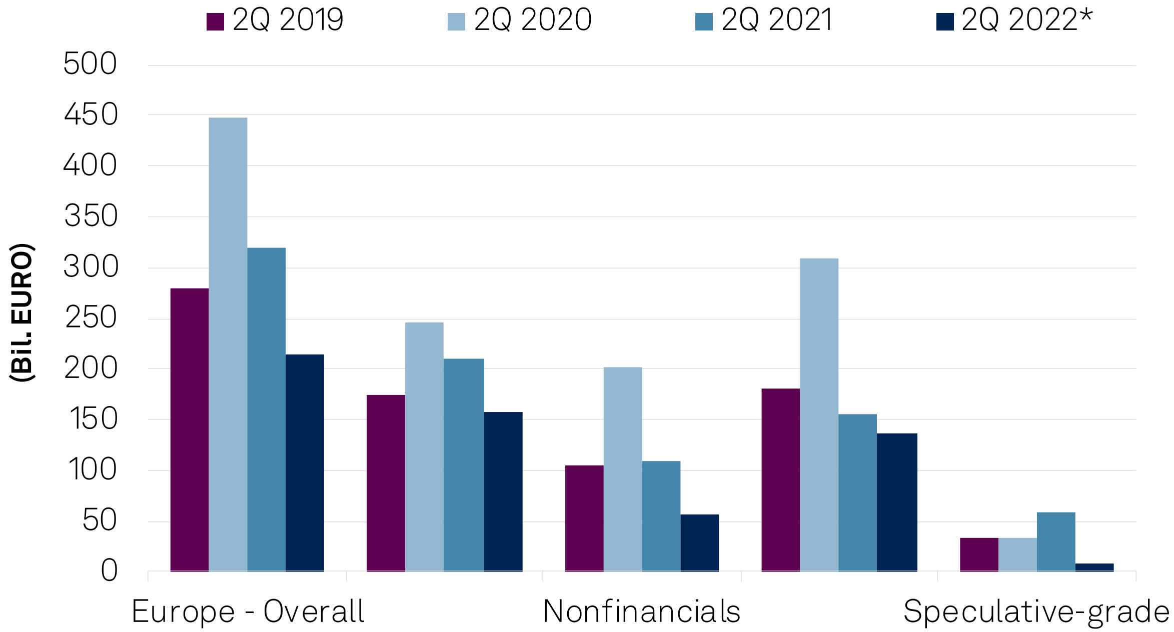
- **European nonfinancial corporate rated issuance is 30%** below the same period in 2021, dragged lower by speculative grade volumes.
- **Speculative-grade nonfinancial issuance has collapsed - down 77% YTD**, while investment-grade is flat.
- Primary markets remain choppy, but are not shut – affording 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

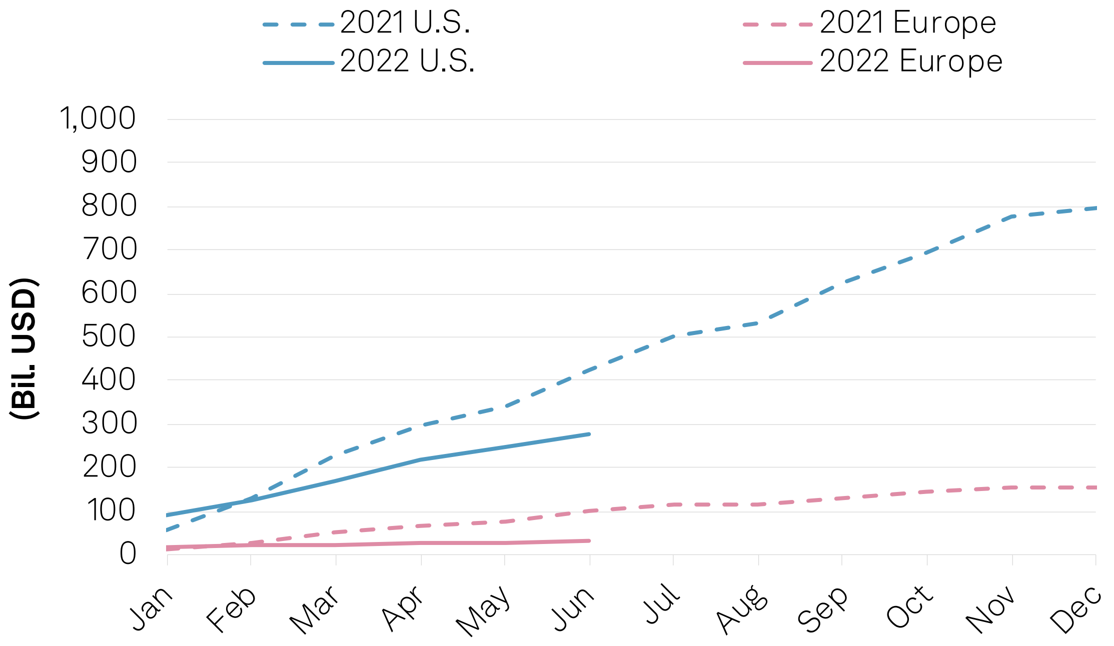


**Denotes 2Q data as of April 1 - June 23, 2022. Data including both financial and nonfinancial corporates, with rated and unrated debt. Overall, Financials, Nonfinancial includes unrated issuances. Sources: S&P Global Ratings Research, Refinitiv.*

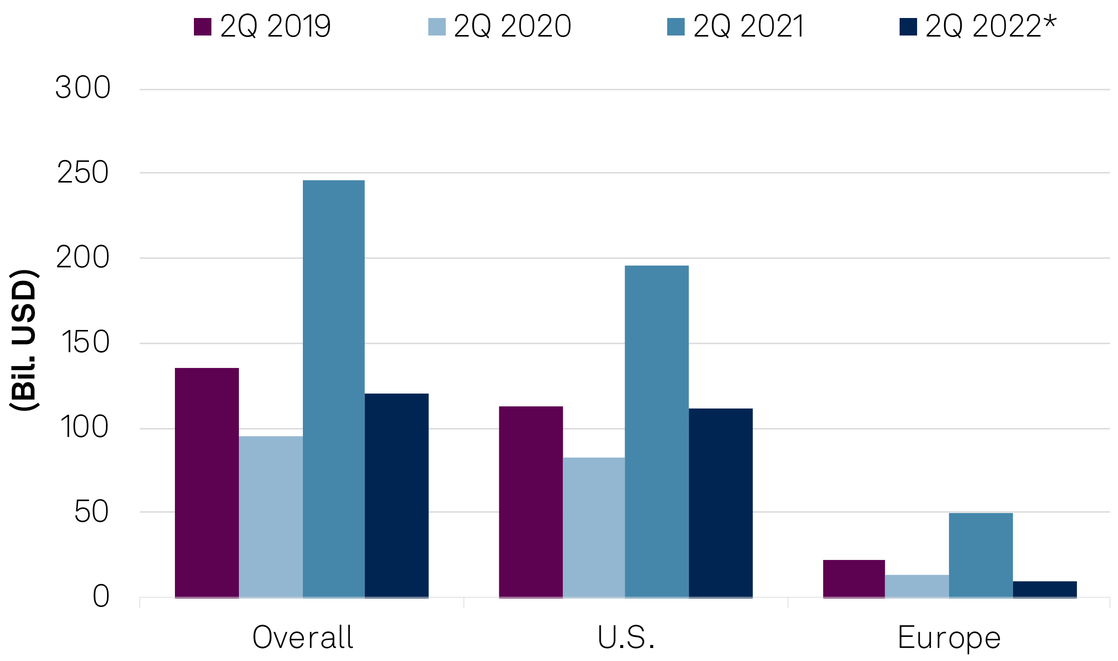
Financing Conditions | Leveraged Loan Issuance Stalls...

- **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)

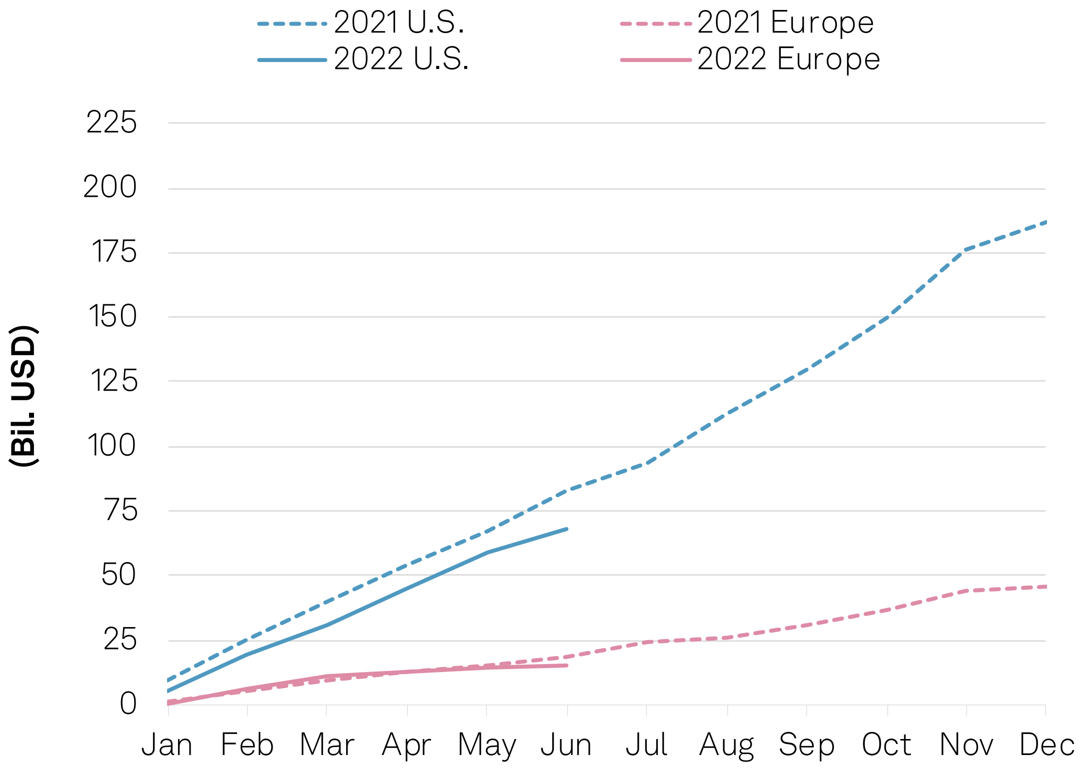


**Data as of June 24, 2022. Leveraged loan issuance includes institutional and pro rata loans. Source: S&P Global Ratings Research; Leveraged Commentary & Data (LCD)*

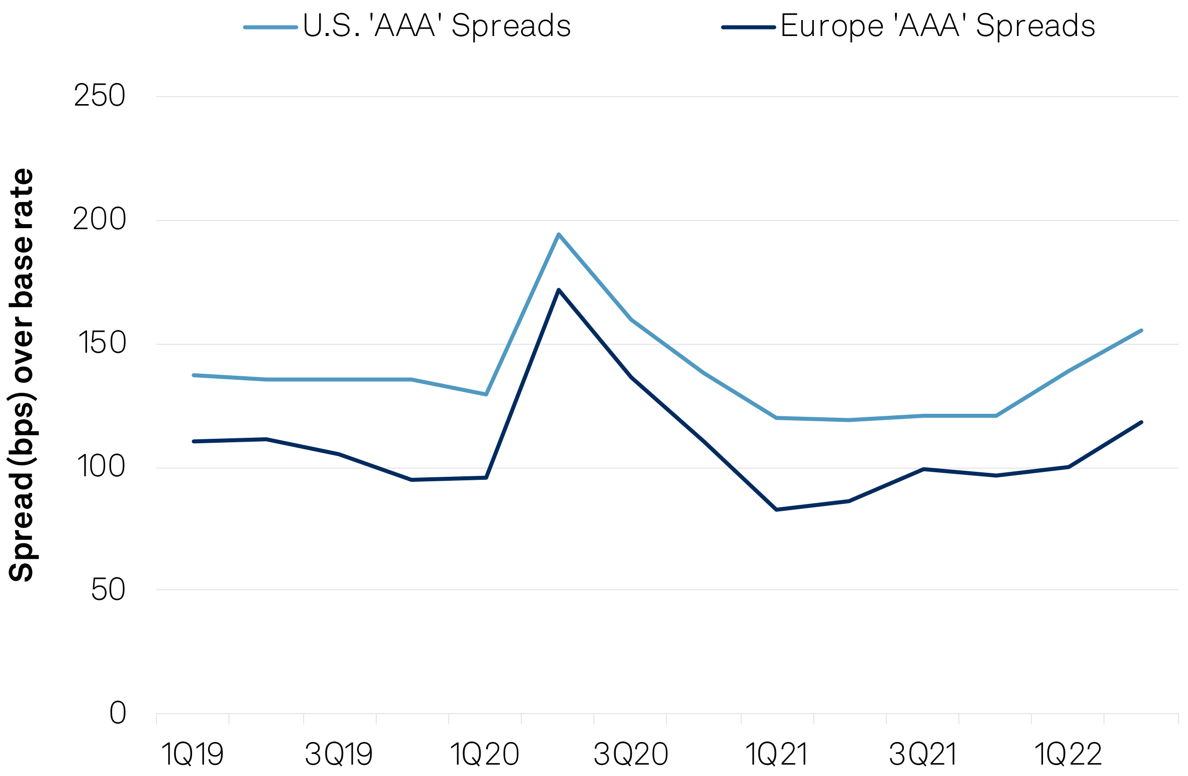
Financing Conditions | CLO Issuance Sees More Modest Decline

- 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



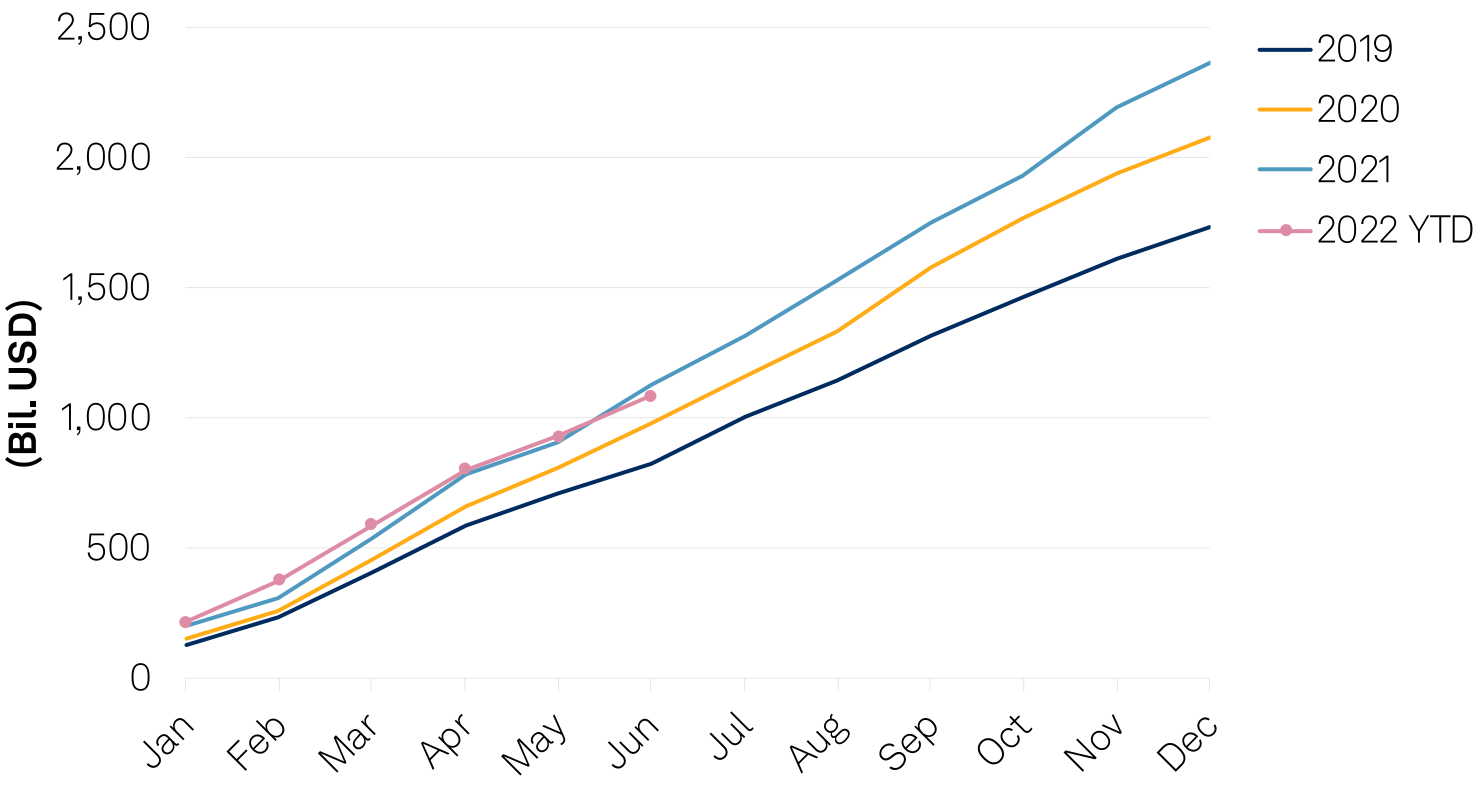
U.S. And Europe 'AAA' Primary CLO Spreads



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



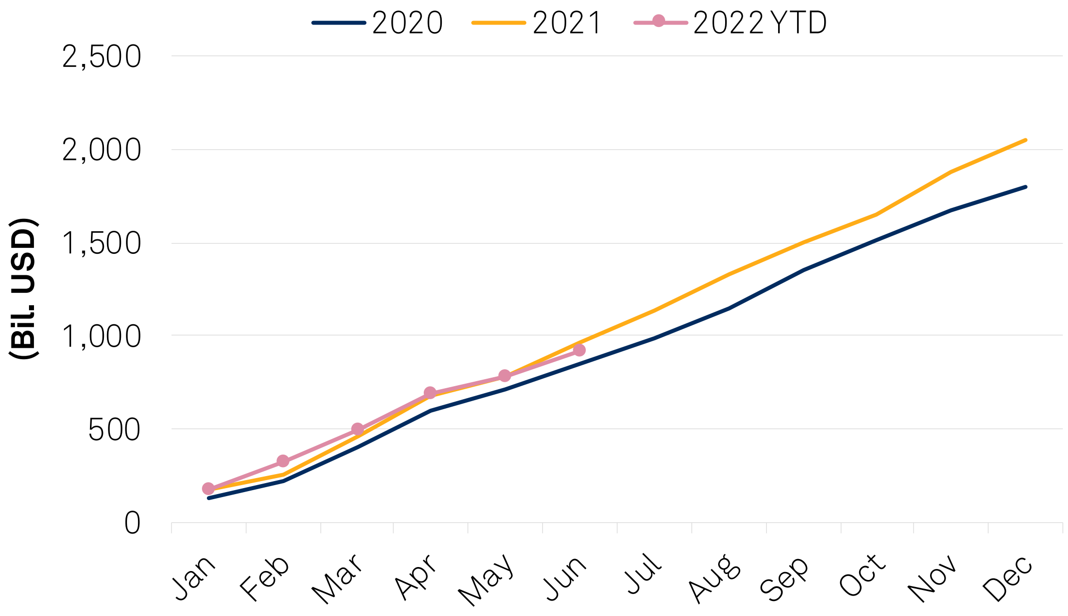
Issuance volumes including financial and nonfinancial corporate issuers of rated and unrated bonds. Data as of June 23, 2022.
Source: S&P Global Ratings Research; Refinitiv.

- 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

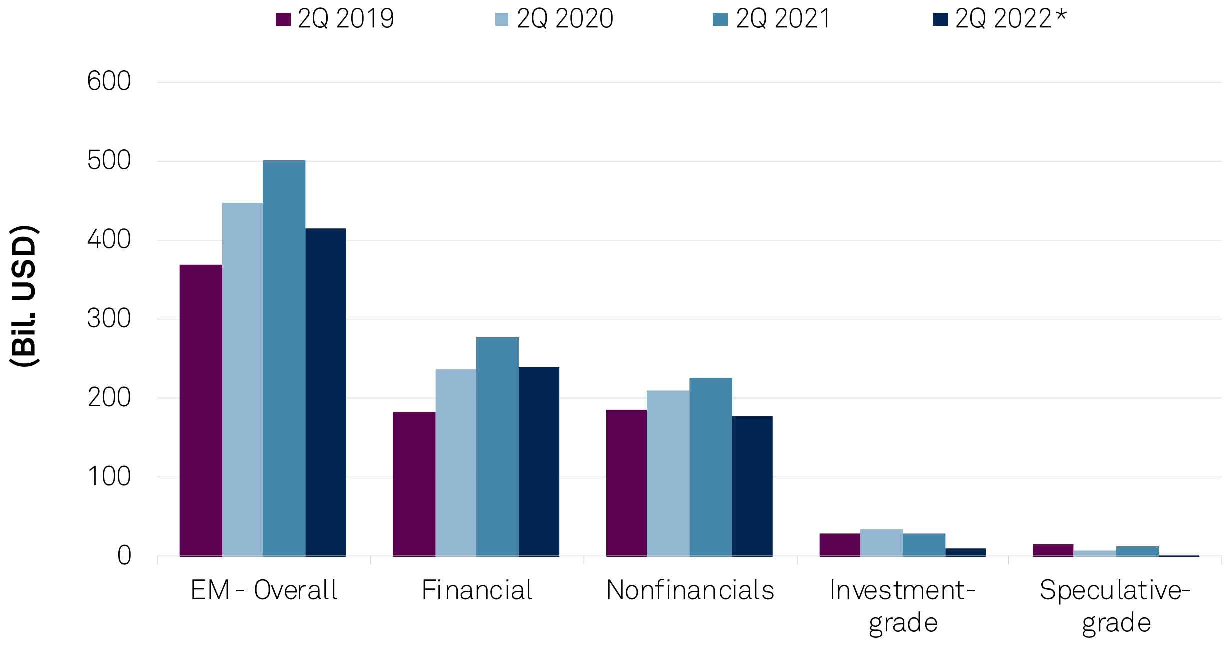
- **The slowdown in EM issuance has broadened to include Asia,** joining the sub-regions of EEMEA and LatAm, which are all on pace with lower overall issuance volumes than in 2021.
- **With financing conditions tightening globally and macro risks increasing,** overall issuance volumes are unlikely to 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.*

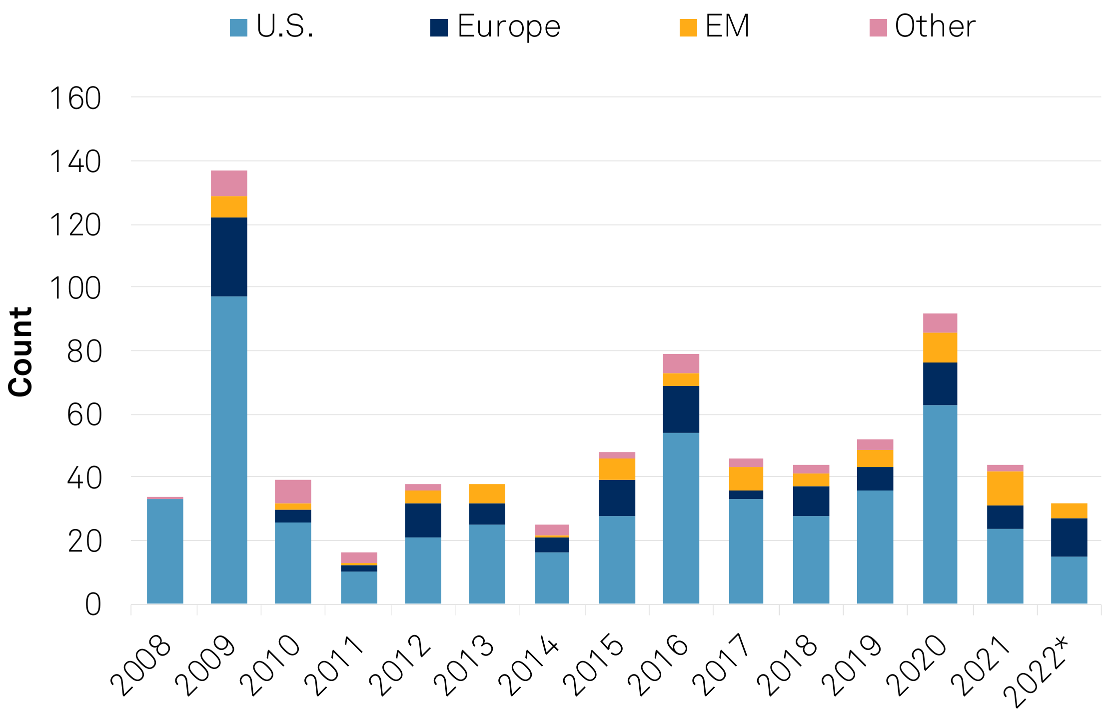
Credit Trends

S&P Global
Ratings

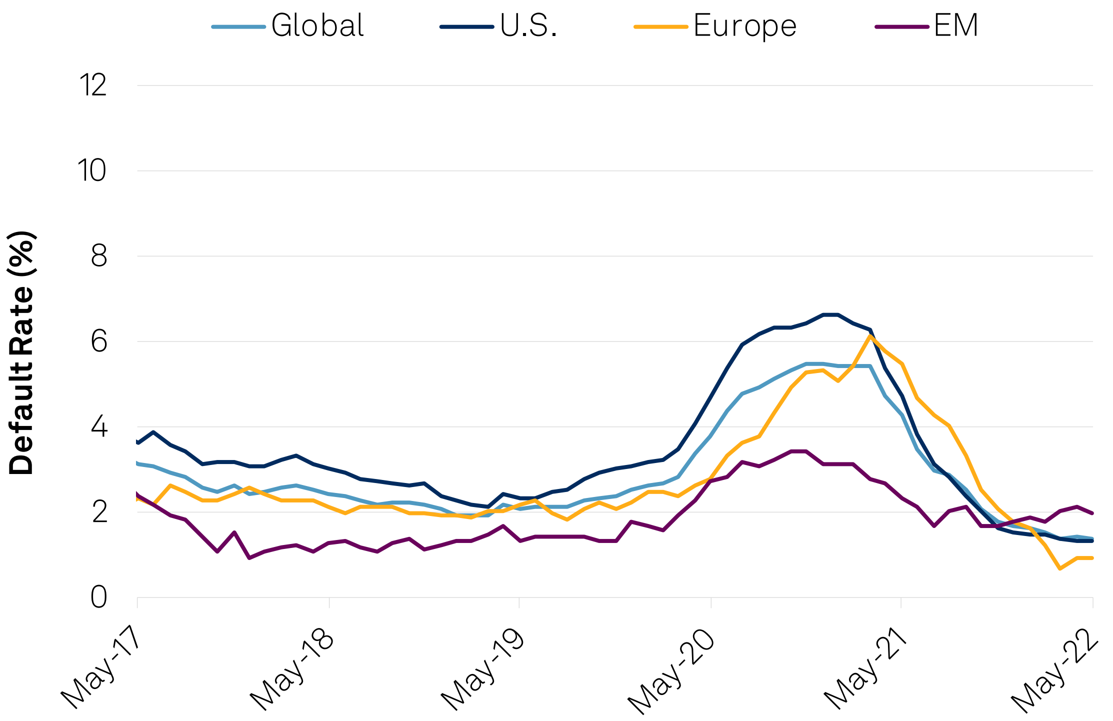
Credit Trends | Market Stresses Have Yet To Lead To Higher Defaults

- **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®.*

S&P Global Ratings

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

Global Speculative-Grade Nonfinancial Corporate Maturity Wall

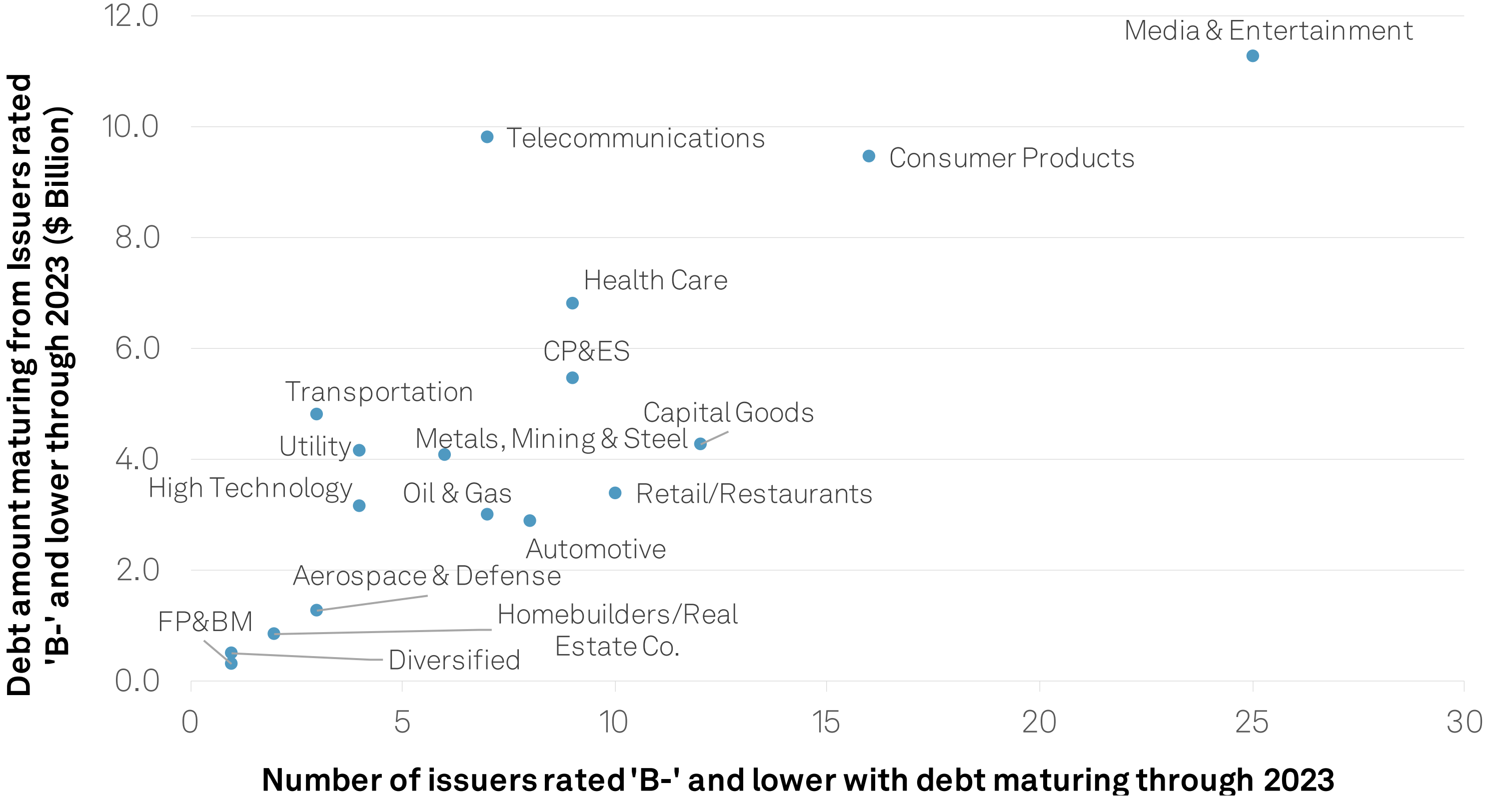
Issuers with debt maturing in...	2H 2022	2H 2022 through 2023	2H 2022 through 2024
Of 581 North American issuers rated 'B-' or lower:	3% 20 issuers	15% 86 issuers	34% 198 issuers
Of 186 EMEA issuers rated 'B-' or lower:	5% 9 issuers	22% 41 issuers	48% 90 issuers

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

- 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.

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

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

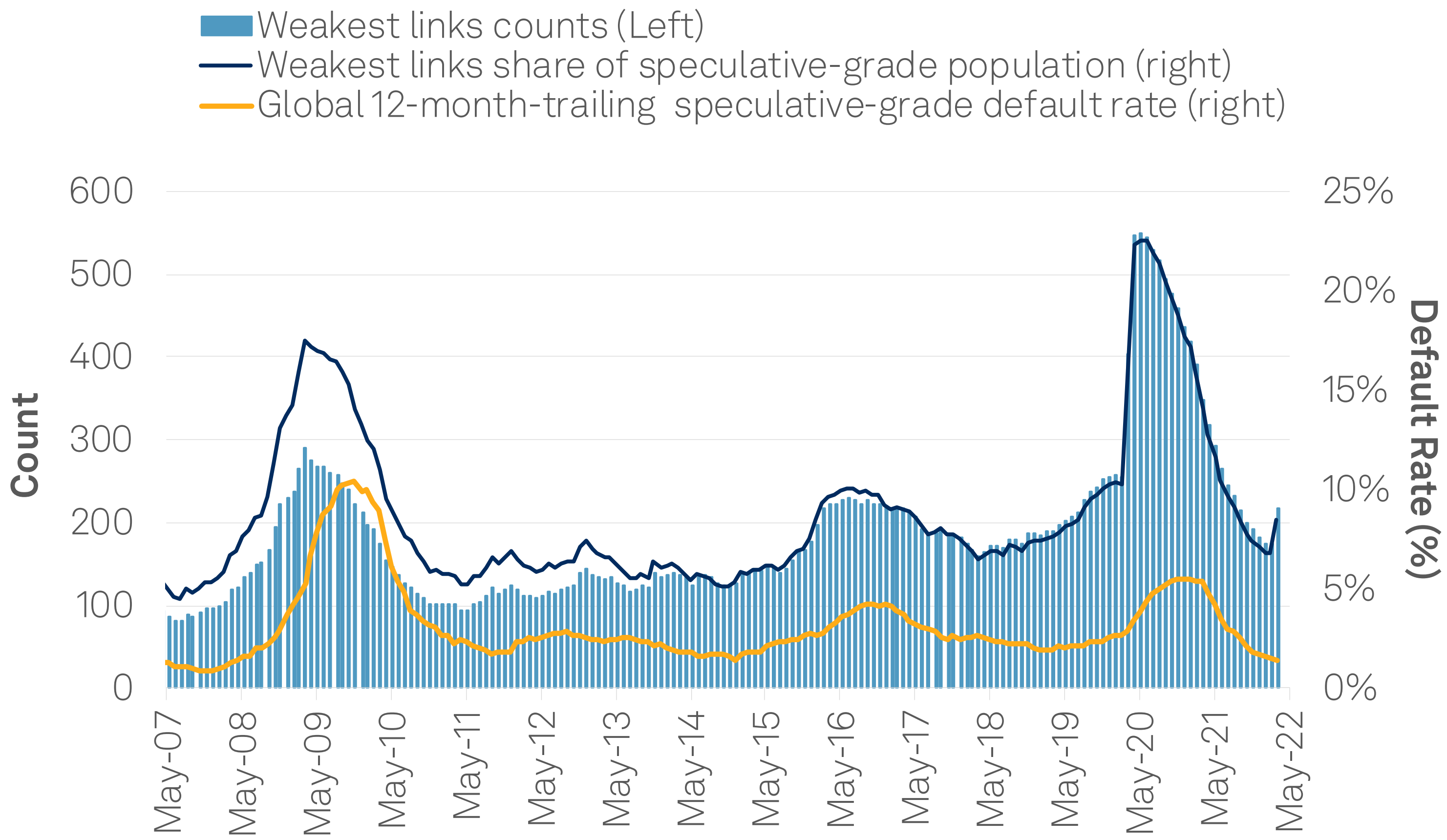


- Tightening financing conditions are slowing or stalling speculative grade issuance, and **this creates headwinds for issuers that need to refinance maturing debt.**
- **Consumer-focused industries of media and entertainment and consumer products have a relatively elevated exposure by number of issuers,** 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

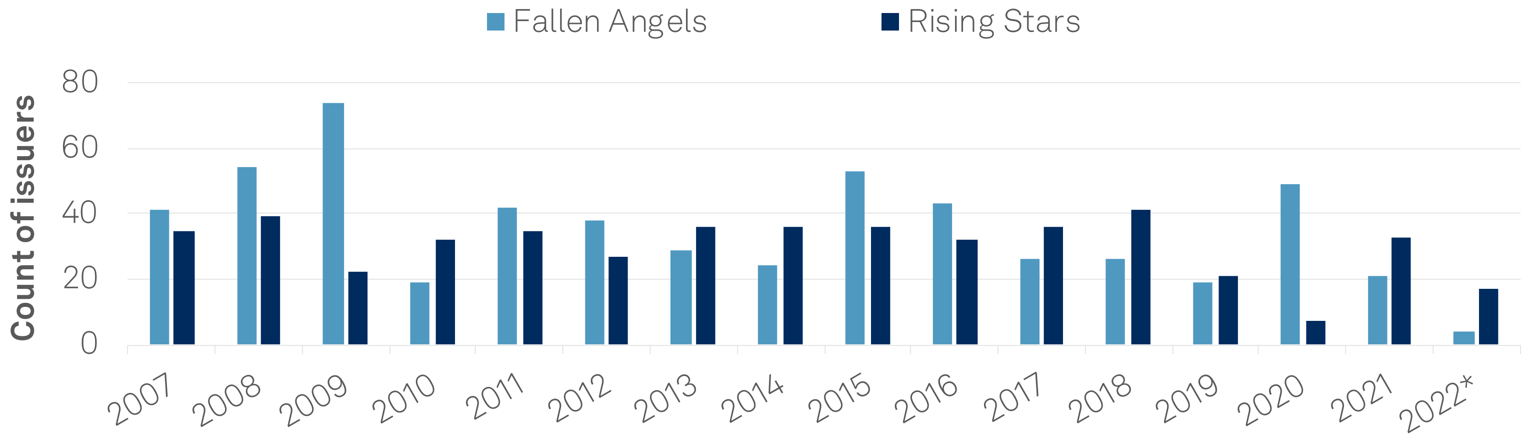
An Increase In Weakest Links Signals Rising Potential For Defaults

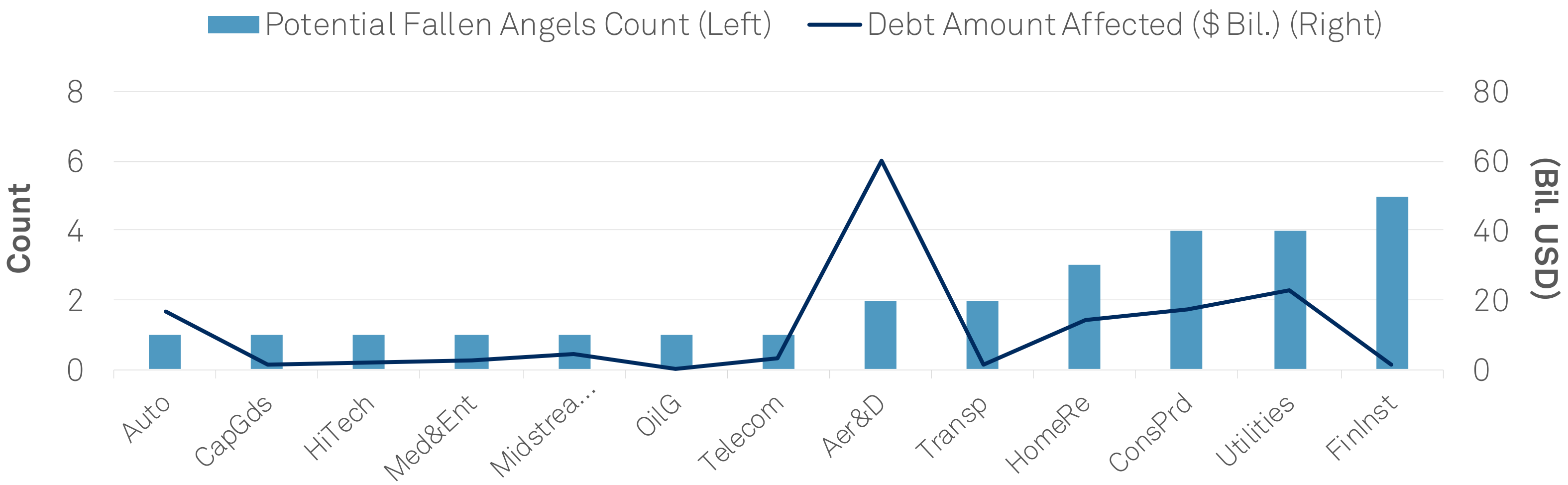


- **The number of weakest links rose for the first time in 19 months in May,** (Weakest links are issuers rated 'B-' or lower by S&P Global Ratings with negative outlooks or ratings on CreditWatch with negative implications).
- **Retail and capital goods contributed to most to the rise** as revenue streams 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





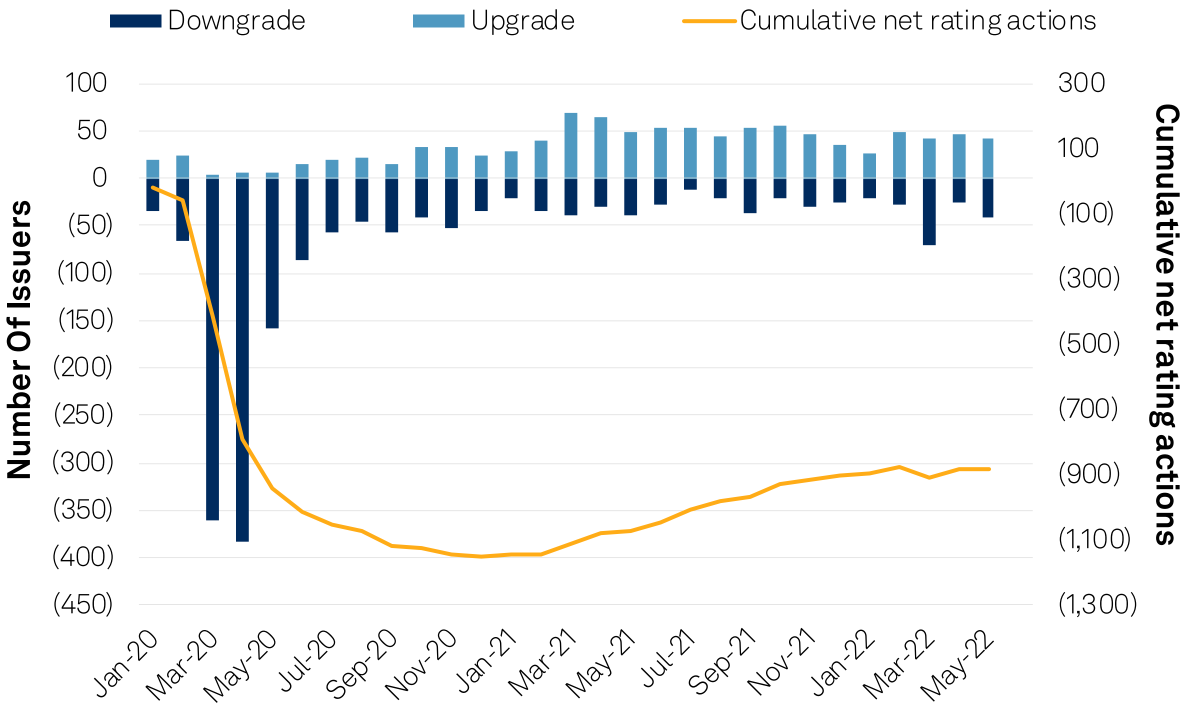
- **Rising stars continue to see positive momentum, outpacing fallen angels in 2022** as credit quality of higher-rated issuers continues to show resilience.
- Potential fallen angels (issuers rated 'BBB-' by S&P Global Ratings with negative outlooks or ratings on CreditWatch with negative implications) 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

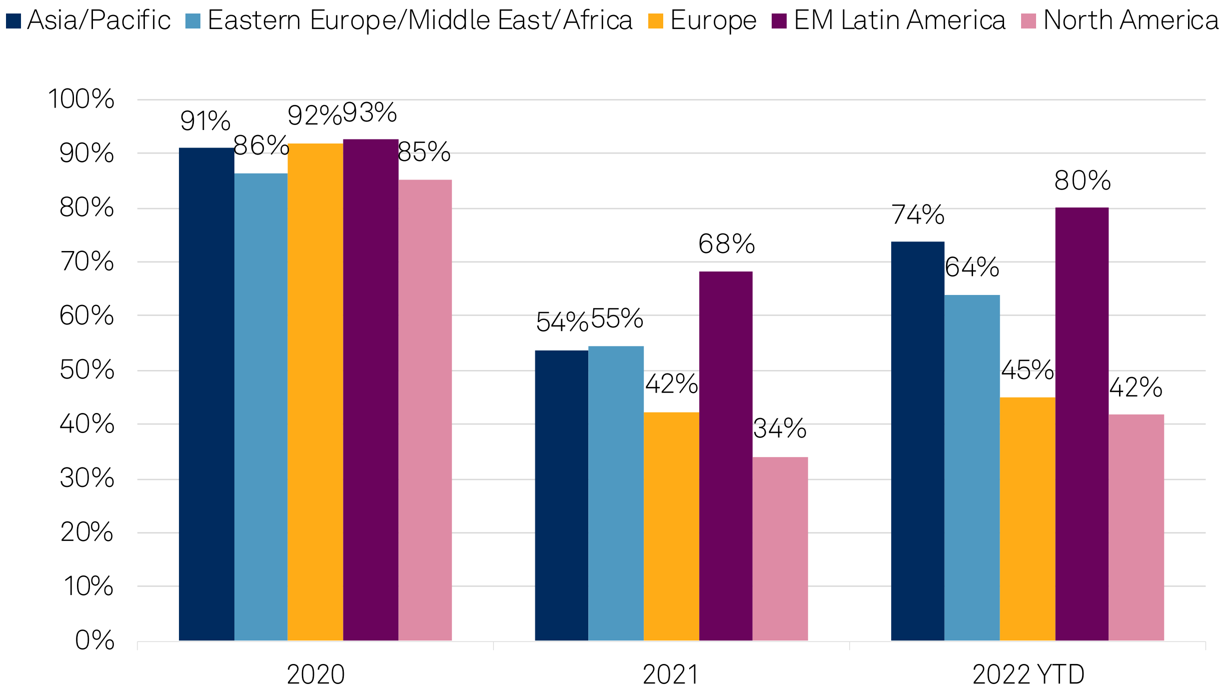
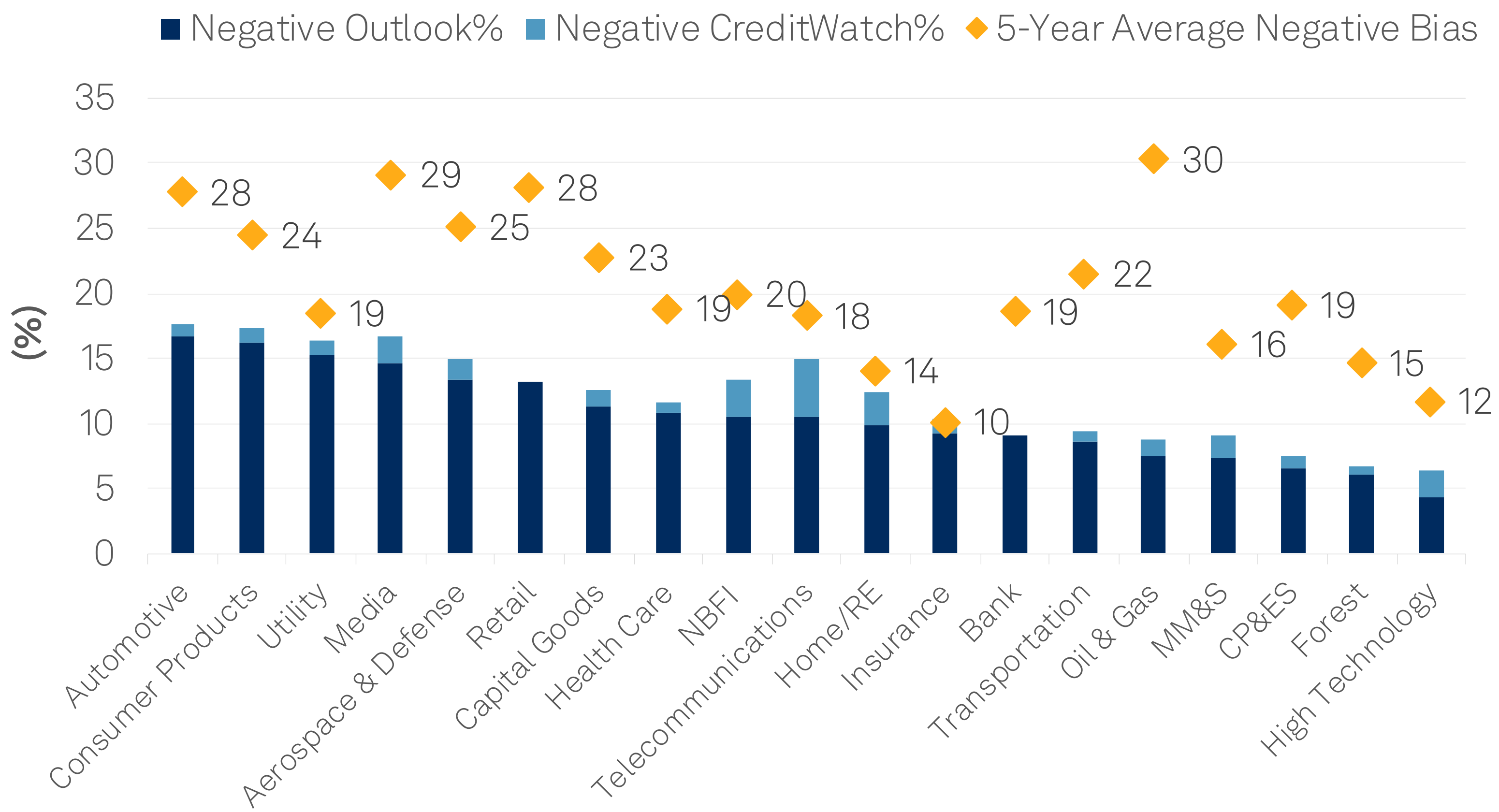


Chart shows downgrades as a percent of rating actions. Data as of May 31, 2022. Excludes Sovereign. Source: S&P Global Ratings Research.

Credit Trends | Sector Downgrade Risk Begins To Diverge

Global Downgrade Potential Remains Below Average

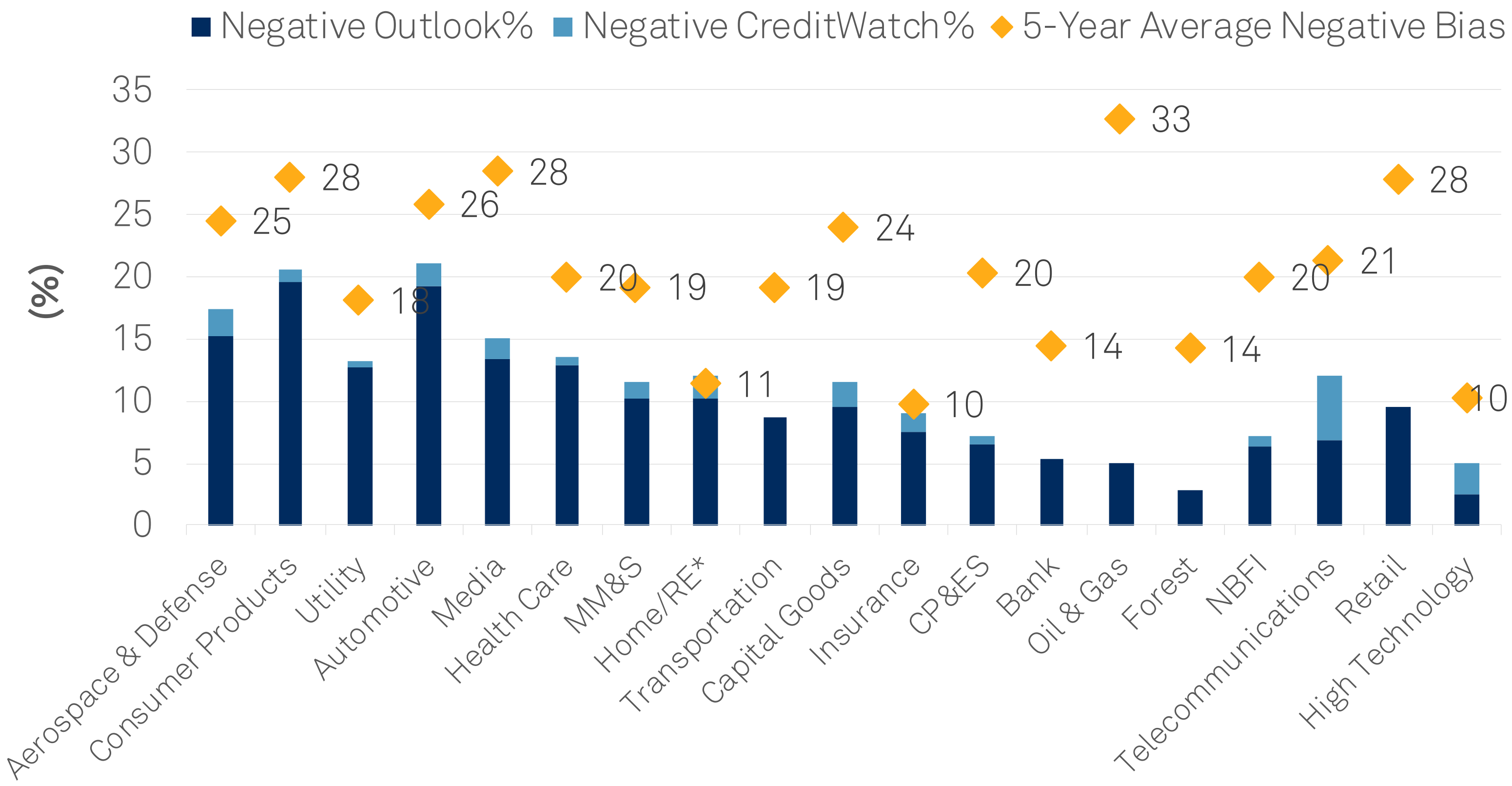


- **Ratings outlooks reflect continued positive credit stability in the near-term,** with all sectors' negative bias below their five-year averages.
- **But there are divergences emerging among sectors.** Both retail and automotive sectors have seen their negative bias increase last month but remain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

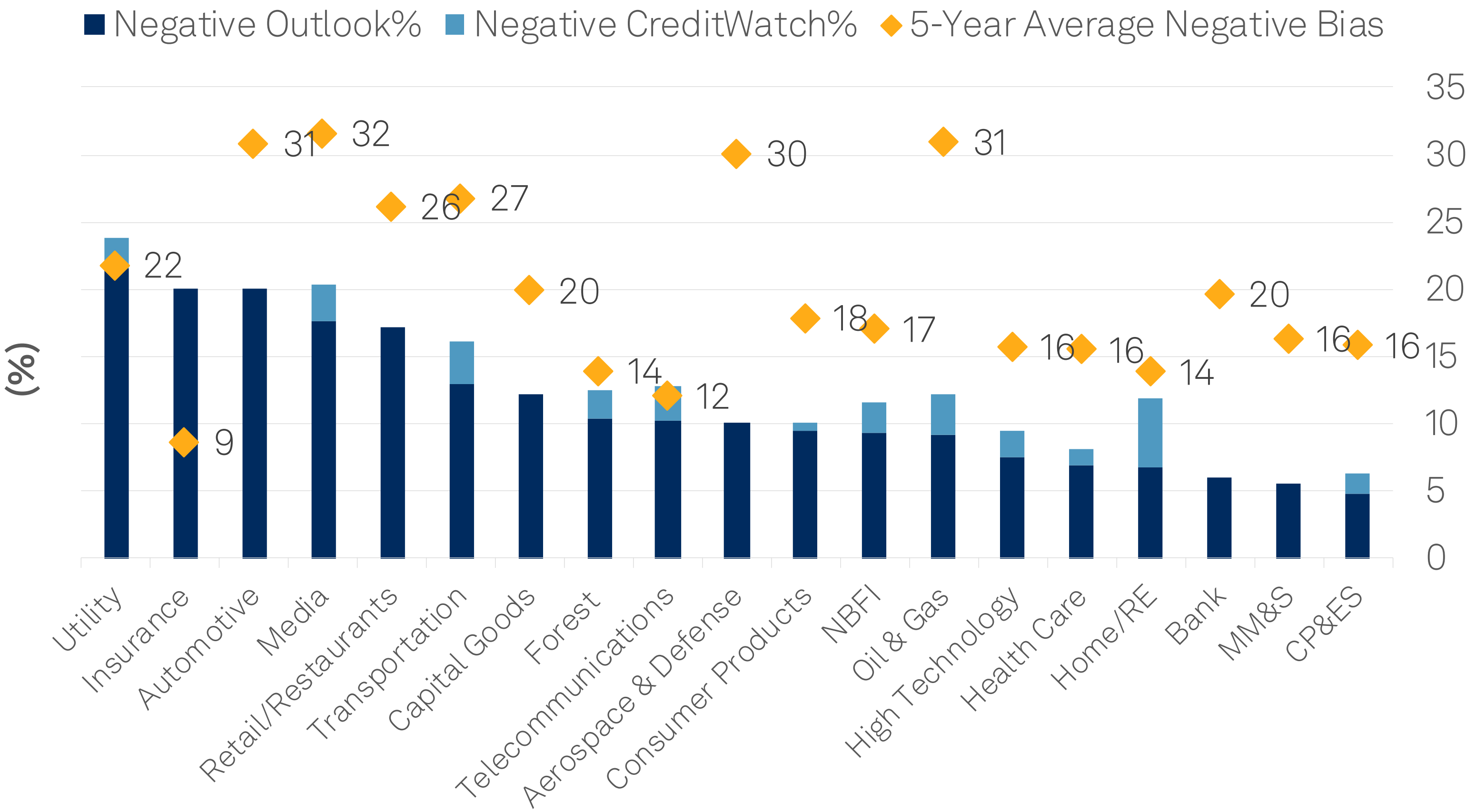


- **Downgrade potential remains below the average** level of the past five years in most sectors with the exception of insurance and homebuilders and real estate.
- **Consumer products and automotive leads with the highest current negative bias** as both sectors are highly sensitive to consumer driven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

S&P Global
Ratings

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, April13, 2022

Contributors

Patrick Drury Byrne
Global Head Of Credit Market Research
patrick.drurybyrne@spglobal.com

Evan Gunter
Lead Research Analyst
Ratings Performance Research
evan.gunter@spglobal.com

Vince Conti
Senior Economist
Credit Markets Research
vincent.conti@spglobal.com

Sarah Limbach
Economist
Credit Markets Research
sarah.limbach@spglobal.com

Jon Palmer
Research Associate
Ratings Performance Research
jon.palmer@spglobal.com

Nicole Serino
Associate Director
Credit Markets Research
nicole.serino@spglobal.com

Brenden Kugle
Associate
Credit Markets Research
brenden.kugle@spglobal.com

Nivritti Mishra
Lead Analyst, Research
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
nivritti.mishra@spglobal.com

Tanya Dias
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
tanya.dias@spglobal.com

Yogesh Kumar
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
yogesh.kumar2@spglobal.com

spglobal.com/ratings

S&P Global
Ratings