S&P Global
Ratings

The Ratings View

July 14, 2022

This report does not constitute a rating action.

Key Takeaways

- S&P Global Ratings has published 39 Industry Top Trends midyear updates.
- We have stress-tested 20,000 global corporates for a stagflation scenario.
- Credit momentum is positive but ebbing.

S&P Global Ratings has published 39 Industry Top Trends midyear updates for EMEA and North America. These consider what's changed, what to look out for, and what the industry implications might be if economies fall into recession. All the reports are accessible here.

Stress-testing for stagflation. We have stress-tested 20,000 (mostly not-rated) global corporates for a stagflation scenario. Lower global growth, inflation spikes. and higher interest-rate spreads could see corporate loss-makers (potential defaulters) more than double, to 17%, by next year. China would fare worst. Its loss-makers would triple, to 22%, under our severe scenario. Accounting for one-third of global corporate debt, China's corporates pose a contagion risk. Meanwhile, consumer discretionary, industrials, and real estate haven't fully recovered from the COVID-19 pandemic. Under stress, their loss-makers would rise by more than half. The report comes in three sections, focusing on overall results, geographic differences, and industry variations.

Global Debt Leverage: If Stagflation Strikes, Loss-Making Corporates Will Double Globally
Global Debt Leverage: If Stagflation Strikes, China Corporates Are Most Vulnerable
Global Debt Leverage: If Stagflation Strikes, Still-Recovering Corporate Sectors Hit Hardest

Credit momentum is positive but ebbing. Potential downgrades normally substantially exceed potential upgrades, but a long period of favorable credit trends has narrowed the gap to a record low. However, the long trend of improving credit momentum is fading as macroeconomic headwinds build. Global risks are influencing rating actions: Input price inflation and supply chain disruptions were major factors adding to potential downgrades, while elevated commodity prices were the main reason for half of new potential upgrades in the oil and gas sector.

Elevated Inflation And Supply Chain Constraints Threaten Potential Credit Improvement

Our Financial Fragility Indicator (FFI) weakened to negative 1.34 in March from negative 1.83 at year-end. This is still well below its historical average, suggesting near-term risks are modest, but as the Federal Reserve aggressively tightens monetary policy, conditions will likely worsen. Positive values indicate higher vulnerability compared with history, and vice versa. The nonfinancial corporate sector saw the biggest jump into riskier territory--the FFI was negative 0.92 in the first quarter, compared with negative 1.52 in fourth-quarter 2021. All leverage indicators in the first quarter worsened from the prior quarter, and liquidity across the nonfinancial corporate sector tightened.

Economic Research: Financial Fragility Of U.S. Households And Businesses: On The Rise While Still Below Its Historical Average

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Asset Class Highlights

Corporates

Notable publications include:

- Credit Trends: Market Stresses Begin To Weigh On Credit
- Macau Gaming: COVID Surge Clouds The Path To Recovery
- Credit Trends: Elevated Inflation And Supply Chain Constraints Threaten Potential Credit Improvement
- Global Debt Leverage: If Stagflation Strikes, Loss-Making Corporates Will Double Globally
- Japan's Telecom Sector Seeks Diversity Amid Maturity

Financial Institutions

- In Latin America, we revised our rating outlooks on 12 Mexico-based financial institutions to stable from negative. This followed a similar rating action on the sovereign rating because it constrains ratings on the 12 Mexican financial institutions--due to their substantial exposure to country risk and the highly sensitive nature of their businesses to sovereign stress. Even though we expect pressure on these entities' performance during the next 12-18 months--because of deteriorating global macroeconomic conditions, high and increasing interest rates given historically high inflation, and market volatility--we believe the impact would be manageable.
- We also revised our rating outlook on Mexican microfinance lender Financiera Independencia (Findep) to stable from negative. In the past couple years, Findep changed its strategy to focus on its core business line: individual personal loans. Additionally, Findep kept relatively stable asset quality metrics in 2021, and we expect it to maintain those throughout 2022.
- In North America, we revised our rating outlook on New York-based trading firm Jane Street Group LLC to positive from stable. The positive outlook reflects recent improvement in capitalization despite a fast-expanding balance sheet, a strengthening market position, and incremental improvement in liquidity. If these trends continue, we could raise the ratings. Our affirmation of the 'BB-' ratings consider the company's highly profitable trading business, including its leading exchange-traded fund (ETF) market-making franchise, balanced by its high-risk appetite, volatile principal trading business, and reliance on short-term wholesale funding.
- We published a commentary about the start of the normalization of the European Central Bank's monetary operations. Overall, eurozone banks will be able to repay upcoming targeted longer-term refinancing operations (TLTRO) maturities until end-2024 with existing liquidity buffers and while maintaining adequate regulatory liquidity coverage ratios. In this context, the ability to raise low-cost term funding will again become a key competitive advantage, enabling banks with a strong funding profile--including low-cost franchise-driven deposits--to continue lending and reap the benefits of higher lending rates (see report).

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Sovereign

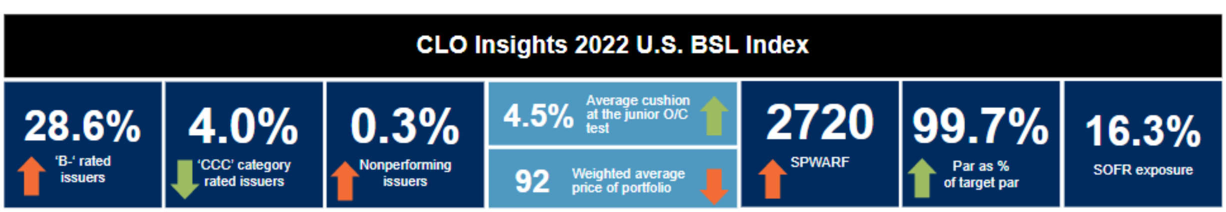
- [Mexico Outlook Revised To Stable On Cautious Policy Execution; 'BBB' Foreign Currency Rating Affirmed]

Structured Finance

- **EMEA structured finance:** We published our "EMEA Structured Finance Chart Book: July 2022" on July 7, 2022. Investor-placed securitization issuance for June 2022 was only €3.0 billion--the lowest total for the month in more than a decade. This means that overall issuance for the first half of the year--about €49 billion--was down 7% compared with 2021. Meanwhile, European benchmark covered bond issuance has bounced back from the lows of 2021, reaching €93 billion so far--comfortably more than double the volume recorded in the first half of 2021. We lowered our growth forecasts for the eurozone economy to 2.6% this year and 1.9% next year, as growth headwinds strengthen. Higher inflationary pressures are the main driver of our downward revision. We now expect eurozone consumer price inflation to reach 7% this year and 3.4% in 2023, on the back of higher energy and food prices resulting from the geopolitical context. In June 2022, we raised 44 of our ratings on European securitization tranches and lowered two. The report includes a roundup of the latest new issuance and credit developments that we have observed across structured finance sectors, along with data on issuance drivers, recent rating actions, and underlying performance indicators. We also highlight the key takeaways from our recent research publications.

- **U.S. collateralized loan obligations (CLOs):** Here are a couple key takeaways from a recent article: From the mid-1990s through second-quarter 2022, we lowered ratings on 50 U.S. CLO tranches to 'D', out of nearly 16,000 tranches rated. Of these, 40 were CLO 1.0 transactions issued prior to the global financial crisis (2009 and before), while the other 10 defaulting tranches were from CLO 2.0 transactions. Additionally, there was another CLO 2.0 tranche rated 'CC' that we expected would default. At the start of 2015, these 11 CLO 2.0 transactions had lower portfolio obligor diversity and larger-than-average exposure to assets from 'CCC' category obligors and nonperforming assets. They also had lower junior overcollateralization cushions and about double the exposure to energy-related issuers than nondefaulting peers. See "CLO Spotlight: The Dirty (Almost) Dozen: What Separates Defaulting U.S. CLO 2.0 Tranches from the Rest," published on July 7, 2022.

  In addition, we published "SF Credit Brief: CLO Insights 2022 U.S. BSL Index: Downgrades in CLO Pools Accumulate in June; Loan Defaults in Managed CLOs Continue to Outperform the Market" on July 8, 2022.

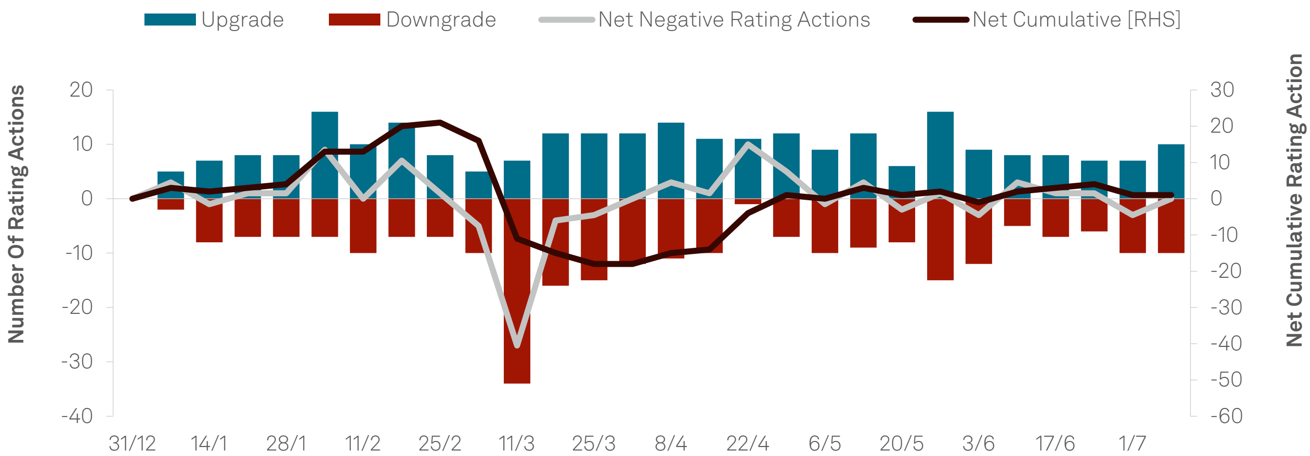
  

  The CLO Insights 2022 Index U.S. Broadly Syndicated Loan (BSL) Index is an index of just over 600 S&P Global Ratings-rated U.S. BSL CLOs that had already started issuing trustee reports by the start of 2022, and based on their transaction documents, aren't scheduled to exit their reinvestment period during 2022. The 2022 Index includes CLOs across various vintages (including deals that were reset) issued by 121 CLO managers. It excludes static deals and deals that, based on their transaction documents, we expect to exit their reinvestment period this year. We plan to provide monthly updates of key metrics based off this index for the rest of 2022.

- **Canada credit card asset-backed securities:** We recently published the "Canadian Credit Card Quality Index: Monthly Performance--May 2022" on July 7, 2022. The CCQI is a monthly performance index that aggregates performance information of securitized credit card receivables in key risk areas: receivables outstanding, yield, payment rate, charge-off rate, delinquencies, base rate, and excess spread rate.

Chart 1

Global Rating Action In 2022 YTD



Net negative rating actions means downgrades minus upgrades. Net cumulative means total net negative rating action. Data as of July 8, 2022. Source: S&P Global Ratings.

Table 1

Recent Rating Actions

Date	Action	Issuer	Industry	Country	To	From	Debt volume (mil. $)
July 6	Upgrade	America Movil S.A.B. de C.V.	Telecommunications	Mexico	A-	BBB+	15,171
July 7	Downgrade	Transocean Ltd.	Oil and gas	Switzerland	CCC-	CCC	8,810
July 8	Downgrade	Vier Gas Transport GmbH	Utilities	Germany	BBB+	A-	3,058
July 6	Upgrade	Red Ventures Holdco L.P.	Media and entertainment	U.S.	BB-	B+	2,284
July 7	Downgrade	Signal Parent Inc.	Consumer products	U.S.	B-	B	1,080
July 8	Upgrade	WaterBridge Operating LLC	Oil and gas	U.S.	B-	CCC+	1,000
July 6	Upgrade	Kimberly-Clark de Mexico S.A.B. de C.V.	Consumer products	Mexico	A-	BBB+	1,000
July 6	Downgrade	Canopy Growth Corp.	Consumer products	Canada	SD	CCC	750
July 4	Downgrade	Crown Resorts Ltd.	Media and entertainment	Australia	BB-	BBB	619
July 6	Upgrade	Sugarhouse HSP Gaming Prop. Mezz. L.P.	Media and entertainment	U.S.	B	B-	600

Data as of July 8, 2022. SD--Selective default. Source: S&P Global Ratings.

For further credit market Insights, please see our **This Week In Credit** newsletter**.**