

Market Insights

Sector Intelligence | Leveraged Finance

This report does not constitute a rating action.

U.S. And Canada Summary Report

Jan. 11, 2023

The December Snapshot

Credit quality deteriorated further with more than triple the number of negative rating actions relative to positive ones

Outlook distribution



No new speculative-grade issuers in December



Top sectors



Business and consumer services



Health care services

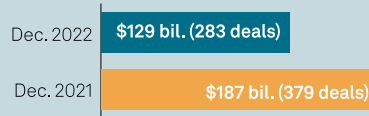


Media, entertainment, and leisure

The U.S. leveraged loan market was battered by volatility and constant headwinds in 2022



The U.S. CLO market reached its second-highest annual tally of the post-crisis era



The U.S. and Canada default tally in 2022 was slightly higher than prior year



40 40 defaults Dec. 2022 vs.
37 defaults in Dec. 2021



4 defaults in Dec. 2022

Note: Data above is year-to-date (YTD) except for the outlook distribution and monthly default count. CW--CreditWatch. CLO--Collateralized loan obligations. The default count includes U.S. (including Bermuda and Cayman Islands) and Canada corporate ratings. Outlook distribution only includes U.S. and Canada corporate ratings (excluding utilities sector). Source: S&P Global Ratings. Leveraged loan and CLO volumes are sourced from LCD News.

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DATA - To see the data referenced in this report, click [here](#).

PODCASTS

The Upgrade Episode 26: 'CCC' Buckets Pick Up In CLOs As Cash Flow Generation Falls, Nov. 25, 2022

The Upgrade Episode 25: The Pinch Of Higher Benchmark Rates and Risk Premiums, Oct. 21, 2022

The Upgrade Episode 24: Envision Healthcare Completes Two Major Restructurings in 100 Days, Oct. 6, 2022

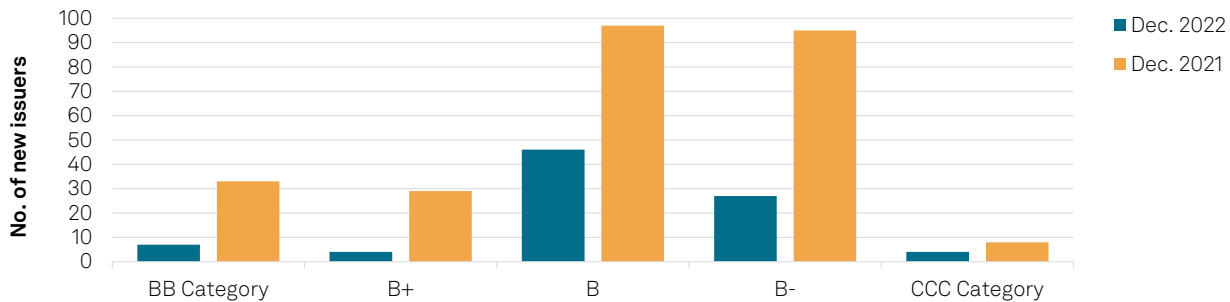
Key Insights

1. Pressures continue to mount as some companies face weaker demand and persistent cost inflation amid unfavorable macroeconomic conditions. Given the ongoing aggressive policy normalization, financial conditions will likely weaken further as concerns about the U.S. economy entering a shallow recession in the first half of 2023 increase.
2. Downgrades continued to outpace upgrades by a wide margin in December. The percentage of speculative-grade issuers with a negative rating outlook increased to 19% as of the end of December, which is up by 5% since June 2022.
3. We expect the U.S. trailing-12-month speculative-grade corporate default rate will remain relatively low compared with previous recessions but reach 3.75% by September 2023, which compares with 1.6% in September 2022. To reach our base-line forecast, 69 speculative-grade companies would need to default. We forecast a default rate of 6% under our pessimistic scenario.¹

YTD Speculative-Grade New Issuers

Chart 1

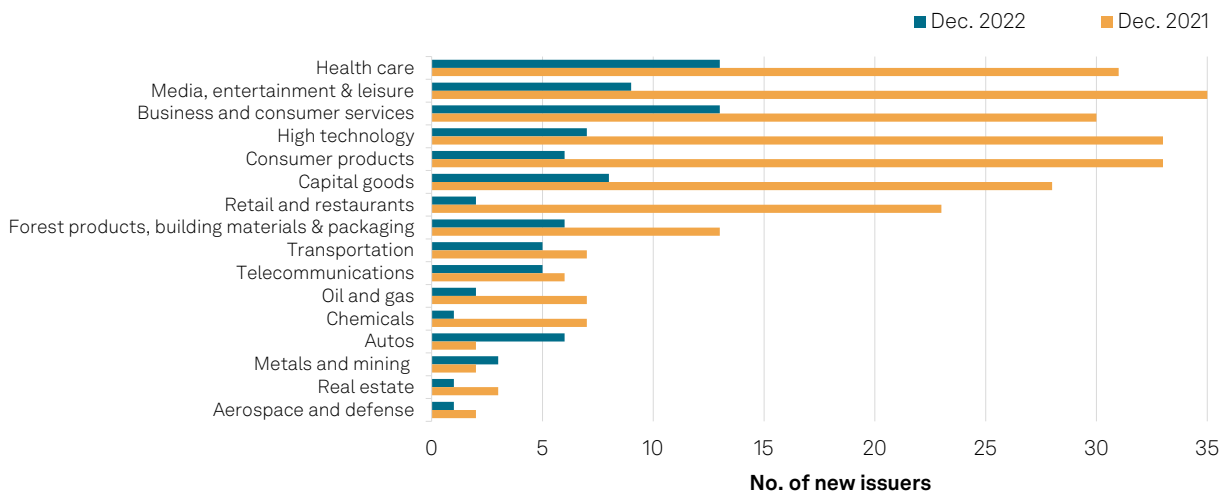
New Issuers By Rating



Note: Data represents new issuers as of Dec. 31, 2021, and 2022. Includes U.S. and Canada corporate ratings, as well as confidential issuers. There were 15 new issuers in December 2021 and none in December 2022. Source: S&P Global Ratings.

Chart 2

New Issuers By Industry Group



Note: Data represents new issuers as of Dec. 31, 2021, and 2022. Includes U.S. and Canada corporate ratings, as well as confidential issuers. Source: S&P Global Ratings.

YTD Defaults

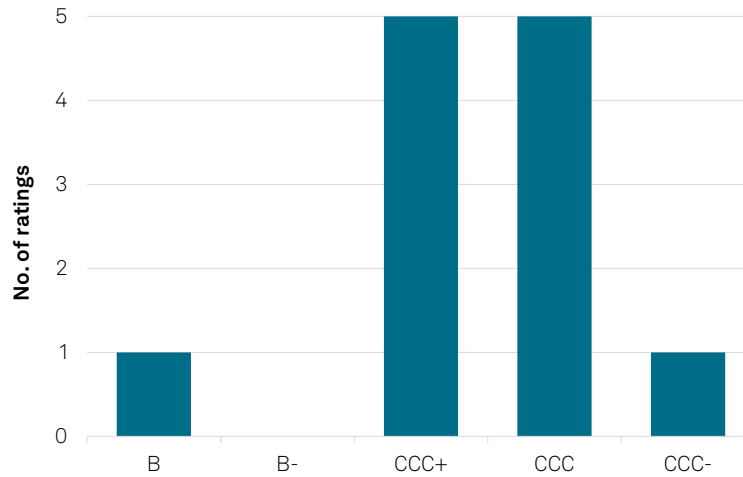
Chart 3

Downgrade To 'SD'/D'



Chart 4

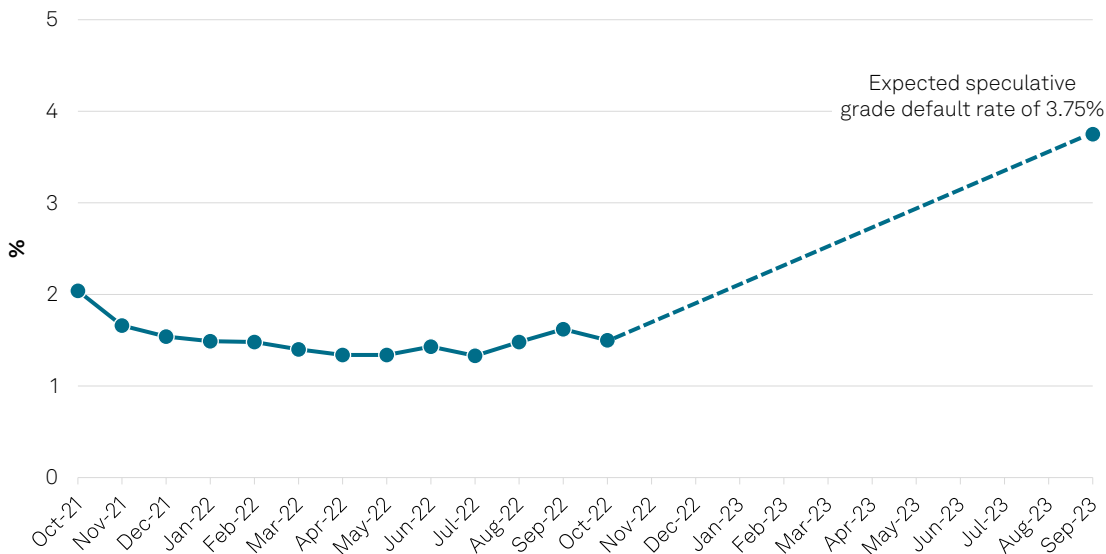
Ratings Raised After Default ('SD')



Note: Data as of Dec. 31, 2022. Includes U.S. (including Bermuda and Cayman Islands in chart 3) and Canada corporate ratings. SD--Selective default. Source: S&P Global Ratings. For more information on U.S. and Canada defaults, refer to our monthly publication, [Global Corporate Defaults Push Past 2021's Year-End Total](#), published Dec. 16, 2022. Additionally, we also publish a newsletter, This Week In Credit, which lists our weekly rating actions and defaults. Click [here](#) for the latest This Week In Credit report.

Chart 5

U.S. Trailing-12-Month Speculative-Grade Default Rate

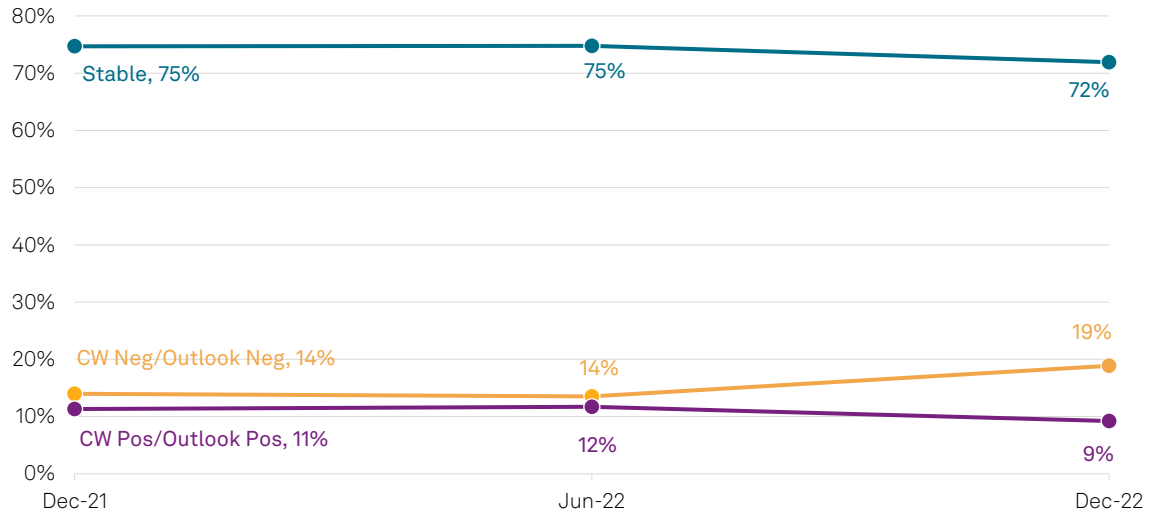


Note: Data as of Oct. 31, 2022. Sources: S&P Global Ratings. [Global Corporate Defaults Push Past 2021's Year-End Total](#), published Dec. 16, 2022.

Speculative-Grade Rating Outlook Mix

Chart 6

December 2021/2022 Speculative-Grade CreditWatch/Outlook Distribution

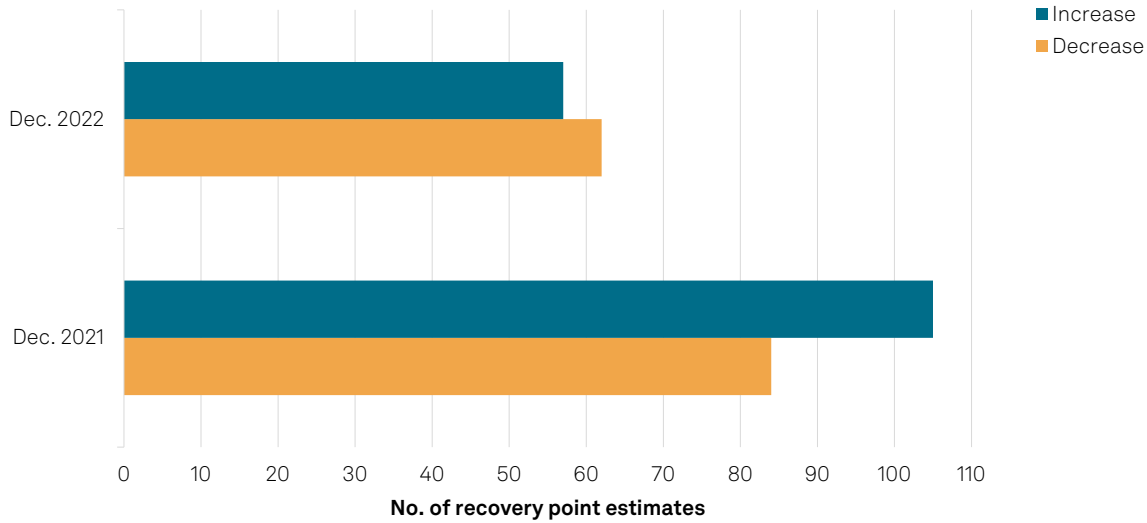


Note: Data as of Dec. 31, 2021, and 2022. CreditWatch/outlook distribution includes all U.S. and Canada corporate ratings. Does not include investment-grade issuers. Source: S&P Global Ratings.

Recovery Ratings

Chart 7

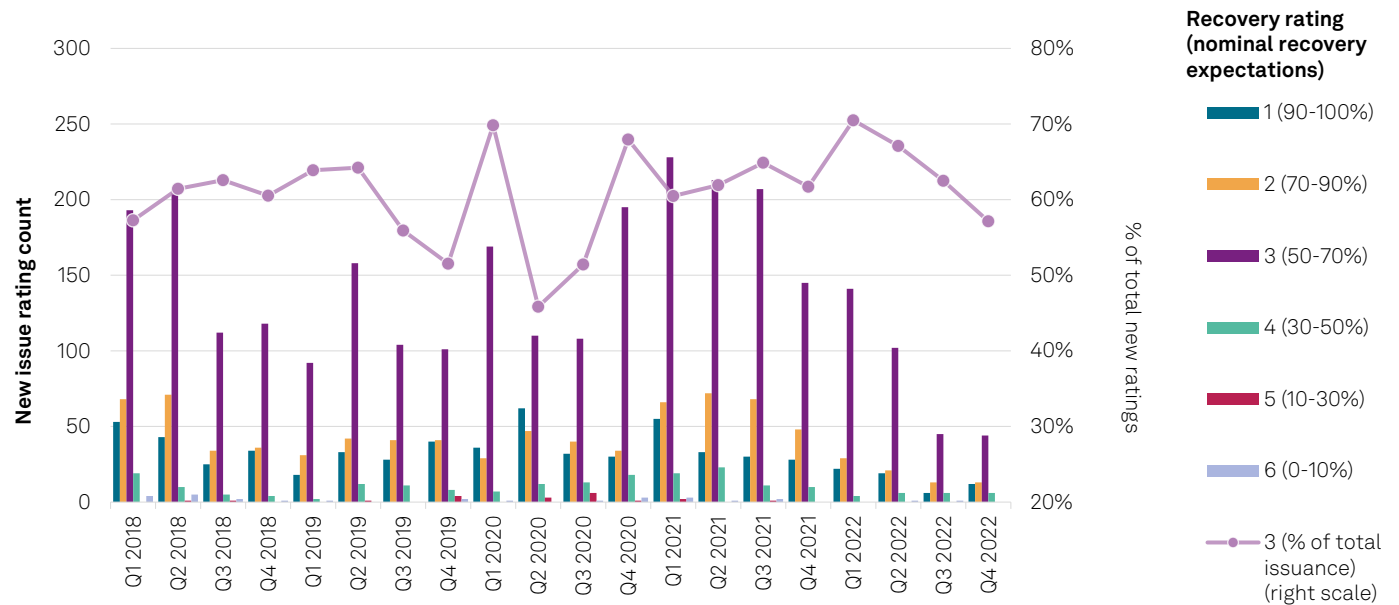
Net Changes In Recovery Point Estimates (Issuer Count)



Note: YTD data as of Dec. 31, 2021, and 2022. Data only includes recovery point estimate changes equal to or greater than 15% for both senior secured and unsecured notes (e.g., the recovery point estimate changes to '3' [50%] from '4' [35%]). Source: S&P Global Ratings.

Chart 8

Recovery Ratings Distribution Of First-Lien New Issues (U.S. And Canada)



Source: S&P Global Ratings.

CLOs

Table 1

Top 10 Obligators Held In U.S. BSL CLOs (Fourth-Quarter 2022)

Rank	Obligor	Rating & CW/Outlook	GIC Code
1	Liberty Global PLC	BB-/Stable	Diversified telecommunication services
2	Altice Europe N.V.	NR	Diversified telecommunication services
3	Asurion Group Inc.	B+/Stable	Information technology services
4	Altice USA Inc.	B+/Negative	Media
5	TransDigm Inc.	B+/Stable	Aerospace and defense
6	Lumen Technologies Inc.	BB-/Stable	Diversified telecommunication services
7	Medline Borrower L.P.	B+/Stable	Health care providers and services
8	Endeavor Group Holdings Inc.	B/Stable	Entertainment
9	Athenahealth Group Inc.	B-/Stable	Health care technology
10	American Airlines Group Inc.	B-/Stable	Airlines

Note: Ratings and CreditWatch/outlooks as of Jan. 11, 2023. NR--Not rated.

Source: S&P Global Ratings. [U.S. BSL CLO Top Obligators And Industries Report: Fourth-Quarter 2022](#), Jan. 6, 2023.

Sources

¹ [The U.S. Speculative-Grade Corporate Default Rate Could Reach 3.75% By September 2023](#), Nov. 21, 2022

Related Research

- [Credit Trends: Risky Credits: North America's 'CCC+' And Below Rated Debt Reaches \\$230 Billion](#), Nov. 23, 2022
- [U.S. Leveraged Finance Q3 Update: 'CCC' Buckets Pick Up In CLOs As Cash Flow Generation Falls](#), Oct. 27, 2022
- [Credit FAQ: Envision Healthcare Corp.'s Two Major Restructurings In 100 Days](#), Sept. 2, 2022
- [Leveraged Finance: Leveraged Loan Market Could Feel The Pinch Of Higher Benchmark Rates And Risk Premiums For A While](#), Aug. 10, 2022
- [U.S. Leveraged Finance Q2 2022 Update: Corporate Borrowers Brace For Slow-Growth Recession](#), July 27, 2022
- [Common Themes In Middle-Market Credit Agreements](#), July 6, 2022
- [Recovery Prospects In The U.S. Technology Sector](#), June 28, 2022
- [Searching For Stress Fractures: Evaluating The Impact Of Interest Rate And EBITDA Stresses On U.S. Speculative-Grade Corporates](#), May 25, 2022
- [U.S. Leveraged Finance Q1 2022 Update: Free Operating Cash Flow Is Put To The Test As Headwinds Blow Harder](#), May 3, 2022
- [Credit FAQ: Themes From Recent Leveraged Finance Investor Conversations](#), May 2, 2022
- [U.S. CLO & Leveraged Finance Experience An Early Spring Chill In Q2. A Slide Deck Summary](#), April 28, 2022
- [Global Leveraged Finance Handbook Provides Unique Insights Into Challenging Questions](#), April 5, 2022
- [Leveraged Finance: Beyond The Term Sheet: Analysis Of LIBOR Transition Language Within Executed Credit Agreements](#), Feb. 11, 2022
- [A Credit-Cycle Turn Could Expose Vulnerabilities In The Middle Market](#), Feb. 9, 2022
- [EBITDA Addbacks Continue To Stack](#), Feb. 8, 2022
- [Recovering From COVID-19: Why The Timing Of Bankruptcy And Emergence Matters For Debt Recovery](#), Feb. 7, 2022
- [U.S. Corporate Credit Outlook 2022: New Year, New Risks \(Beyond, Of Course, Inflation\)](#), Jan. 31, 2022
- [North American Speculative-Grade Corporates Have A Whole Lotta Liquidity \(And Upgrades\)](#), Dec. 14, 2021
- [A Closer Look At How Uptier Priming Loan Exchanges Leave Excluded Lenders Behind](#), June 15, 2021

Articles are available at [Corporate Research | S&P Global Ratings \(spglobal.com\)](#).

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