S&P Global
Ratings

The Ratings View

May 3, 2023

This report does not constitute a rating action.

Key Takeaways

- We have lowered full-year issuance projections after a volatile first quarter.
- Q1 nonfinancial corporate results so far suggest we are entering an EBITDA recession.
- Media and consumer products lead risky credit counts in North America and Europe.

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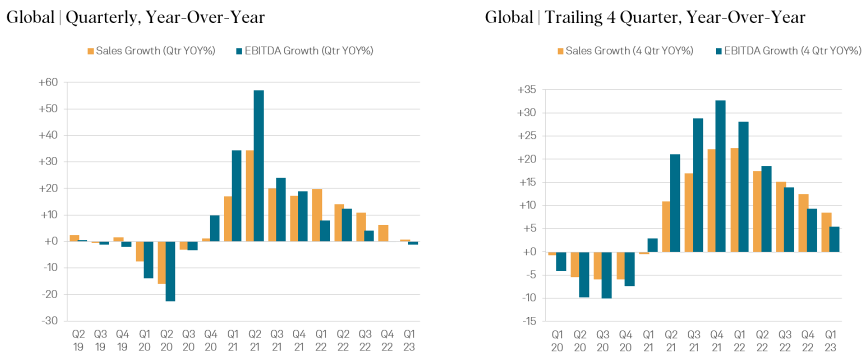
We have slightly lowered our full-year issuance projections for all sectors except nonfinancial corporates, where we believe issuance will expand this year. Banking sector turbulence contributed to most sectors recording issuance declines in the first quarter of 20% or more year over year. We believe backstops by various authorities should limit contagion within or from the bank sector. This, combined with favorable technical factors (such as weak second-half totals in 2022, a likely stabilization in interest rates, and expectations for a weaker U.S. dollar) could result in healthy issuance in the second half of 2023. Risk factors include a still unresolved debt ceiling debate in the U.S., over $1 trillion of outstanding leveraged loans facing LIBOR's end in June, and lingering uncertainties about the health of U.S. regional banks.

Global Financing Conditions: Tumultuous March Cuts Into Full-Year Issuance Projections

We are entering an EBITDA recession based on first quarter corporate results so far. The global Q1 results season for rated nonfinancial corporates is 30% complete. Results are beating market consensus expectations by a significantly greater degree than last quarter, with one-third of speculative-grade entities and a quarter of investment grade have beaten consensus EBITDA by more than 7.5%. Margins are compressing but still showing resilience. Even so, EBITDA revenues are down 1.1% versus Q1 2022, the first decline since Q3 2020 and excluding resource companies – oil and gas, metals and mining – quarterly EBITDA is now into its third quarter of year-over-year contraction.

Rated Nonfinancial Corporates: Sales And EBITDA Growth*



Source: S&P Capital IQ, S&P Global Ratings. Data to May 3, 2023.
* Measured in U.S. Dollars, at historic rates. Only includes companies reporting quarterly. Latest quarter only includes companies that have reported Q1 2023 results.

Corporate Results Roundup Q1 2023: Beating Expectations, But EBITDA In Recession

Risky credits update. The number of 'CCC+' and below rated U.S. and Canadian corporate issuers increased to 165 in March from 161 in December 2022. Retail and health care had the greatest increase in risky credits, signaling an increase in default risk for issuers in these sectors. Media and entertainment and consumer products lead by issuer count and are typically more vulnerable to economic downturns. The health care sector leads by debt volume, with 30% of total 'CCC+' and below rated debt. In Europe, the count of risky credits fell in the first quarter of 2023, but partly due to a rise in defaults and rating withdrawals. Refinancing risk and weak operating performance remain the main factors of downgrades to 'CCC+' and below, with the former driving most of the European defaults. Consumer products and media and entertainment continue to have the highest number of risky credits.

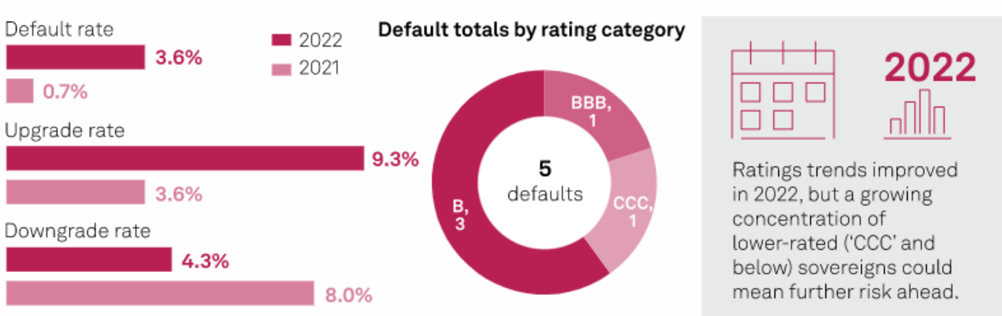
Risky Credits: Retail And Health Care Drive Higher Default Risk In The U.S. And Canada
Risky Credits: Europe's Q1 Fall Masks The Full Story
Risky Credits: Emerging Market Default Risk Centers On Latin America

Volatility may remain a strong undercurrent for financing conditions. Rating actions were less negative in the first quarter, although downgrades still outpaced upgrades. The health care and retail sectors had the largest net downgrades (downgrades minus upgrades), driven by the North American region. The downgrade ratio fell across regions in the first quarter compared with the previous quarter.

Credit Trends: Global Credit Markets Update Q2 2023: Riding Out Higher Rates

Five sovereigns defaulted in 2022, up from one in 2021. Three defaults were related to the Russia-Ukraine conflict. The foreign currency rating on Russia was lowered by 12 notches to 'SD' from 'BBB-' at the beginning of the year, making this the steepest sovereign rating decline in a 12-month period on record. Last year saw mixed results for aggregate sovereign credit quality: there were 11 downgrades and 13 upgrades, from 12 and 5, respectively, in 2021. Rating actions, positive and negative, mainly took place in emerging and frontier market countries during 2022. At the end of 2022, eight sovereigns were rated at the lowest rating levels of 'CCC+' and below, suggesting high near-term default risk.

2022 global sovereign default and transition study snapshot



The data refers to foreign currency ratings. Excludes downgrades to 'SD'.
Source: S&P Global Ratings Credit Research & Insights.

Default, Transition, and Recovery: 2022 Annual Global Sovereign Default And Rating Transition Study

Asset Class Highlights

Corporates

Notable publications include:

- Credit Trends: Global Financing Conditions: Tumultuous March Cuts Into Full-Year Issuance Projections
- Latin America Sector Roundup 2Q 2023: Slower Growth, Tighter Financing Compound Pain
- Credit Trends: Risky Credits: Retail And Health Care Drive Higher Default Risk In The U.S. And Canada
- Credit Trends: Risky Credits: Europe's Q1 Fall Masks The Full Story
- Credit Trends: Risky Credits: Emerging Market Default Risk Centers On Latin America
- Investment-Grade Midstream Issuers Weathered Pandemic-Related Volatility By Focusing On Leverage Reduction

Financial Institutions

- In the U.S., the California Department of Financial Protection and Innovation announced that it took possession of First Republic Bank and appointed the FDIC as receiver. JPMorgan Chase & Co. subsequently purchased the deposits and substantially all the assets of First Republic from the FDIC, without assuming any of First Republic's corporate debt or preferred stock and assuming only a portion of First Republic's secured borrowings. Since JPMorgan assumed the substantial majority of First Republic's assets, we view it as a virtual certainty that First Republic will default on any remaining senior financial obligations given what we assume would be an insufficient remaining asset base. We lowered our issuer credit rating on First Republic Bank to 'CC' and preferred stock and subordinated debt issue-level ratings to 'D' and subsequently withdrew them. At the time of the withdrawal, the issuer credit rating remained on CreditWatch with negative implications since we expect default to be a virtual certainty.
- In Middle East and North Africa, we upgraded the long-term issuer credit rating on Mashreqbank to 'A' from 'A-'. In our view, there is a high likelihood of extraordinary government support for Mashreqbank if needed, given its high systemic importance in the UAE.
- We revised the rating outlooks on three Egyptian banks National Bank of Egypt, Banque Misr, and Commercial International Bank (Egypt) S.A.E. to negative from stable. The rating actions follow the revision of the outlook on our sovereign rating on Egypt to negative from stable.
- In Europe, we placed our 'AA' long-term issuer credit rating on Deutsche Boerse on CreditWatch with negative implications. Deutsche Boerse's takeover offer for SimCorp could signal that its appetite for leverage is increasing. We expect to resolve the CreditWatch placement when we are certain that the takeover will complete, and when we have visibility of the offer acceptance level and expected implications
- We published several reports and bulletins:
    - Islamic Finance 2023-2024: Growth Beyond Core Markets Remains Elusive

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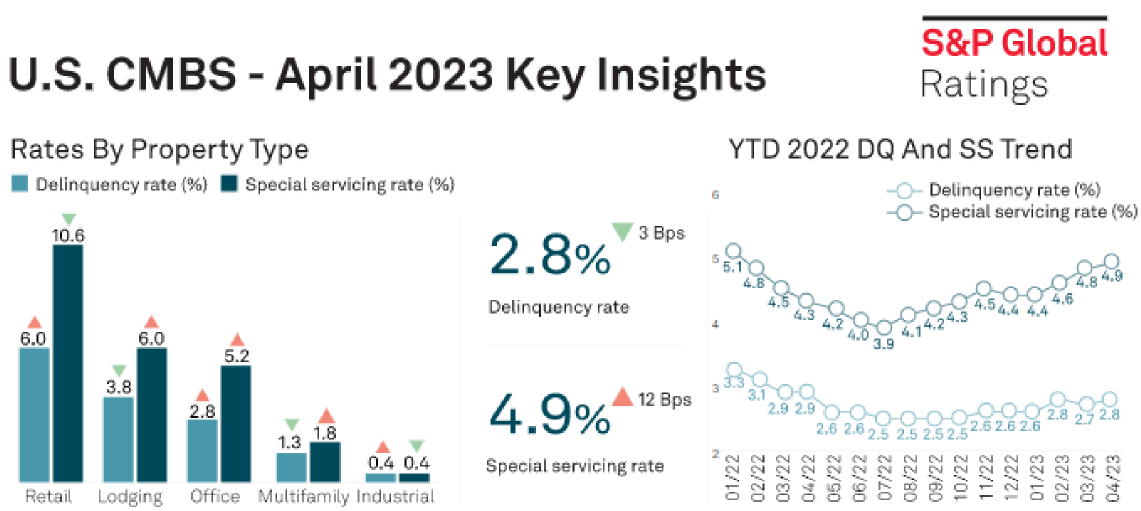
- [Bulletin: Deutsche Bank's First Quarter Earnings Show Resilience To Sector Volatility]
- [Banking Risk Indicators: May 2023 Update]
- [Bulletin: JPMorgan Chase & Co.'s Wealth Management Business Benefits From Acquired First Republic Assets]

Sovereign

- Uruguay Long-Term Ratings Raised To 'BBB+' On Stronger Fiscal Policy; Outlook Stable

Structured Finance

- **Scenario Analysis – U.S. CLO:**
  Here are a couple "Key Takeaways" from a recent article: U.S. broadly syndicated loan (BSL) collateralized loan obligation (CLO) overcollateralization (O/C) ratios have performed well over the past two years, with the average junior O/C test cushion for CLOs originated before the pandemic reaching 3.80% from a low of 1.13% in 2020. Given 'B-' exposures now account for over 30% of CLO exposures on average, it wouldn't take a lot of corporate rating downgrades to increase the average size of BSL CLO 'CCC' baskets. In this scenario analysis, we explore the impact on BSL CLO O/C ratios of various hypothetical corporate 'CCC' downgrade scenarios and loan market price declines. We find that most 'BB' tranche O/C test cushions can withstand 'CCC' baskets increasing into the mid-teens or more before failing, although there were significant differences across amortizing and reinvesting CLOs. See "Scenario Analysis: How Rising U.S. BSL CLO 'CCC' Baskets Could Affect Junior Overcollateralization Test Cushions" published April 28, 2023.
- **U.S. CMBS:**



Note: Arrows indicate directional change in rate compared to the previous month.
YTD—Year-to-date. DQ—Delinquency. SS—Special servicing. Bps—Basis points. Source: S&P Global Ratings.

  See "SF Credit Brief: Overall U.S. CMBS Delinquency Rate Mostly Stable In April 2023; Office Special Servicing Rate Saw Large Increase" published April 28, 2023.
- **European CMBS:** See "European CMBS Monitor Q1 2023" published April 25, 2023.

Rated European CMBS balance (bil. £)	New transactions issued	Loans in special servicing
23.5	0	1
Last quarter: £24.9 bil.	U.K.: £0.0 mil. Europe: €0.0 mil.	Added: 0 Resolved: 0 Unresolved: 0 Passed maturity: 0 **Last quarter: 1**

- **U.S. CLO:** On April 24, 2023, S&P Global Ratings published both (i) a slide deck highlighting the key themes for the U.S. middle-market collateralized loan obligation (CLO) and private credit sectors in the second quarter of 2023, "Middle-Market CLO And Private Credit Quarterly: A Steeper Path Ahead?" and (ii) an article titled "U.S. BSL CLO Top Obligors And Industries Report: First-Quarter 2023". In addition, on April 25, 2023, we published the "SF Credit Brief: CLO Insights 2023 U.S. BSL Index: Obligor Downgrades Hit A Post-Pandemic High; Scenario Analysis Performed On CLO O/C Tests".

CLO Insights 2023 U.S. BSL Index*

'B-' category rated issuers	'CCC' category rated issuers	Nonperforming issuers	Avg. cushion at the junior O/C test	Weighted average price of portfolio	SPWARF	% of target par	'B-' on negative outlook
30.53%	5.32%	0.70%	4.25%	93.82	2771	99.87%	4.28%

Change during prior month

Risk increasing Risk decreasing Not applicable

*April 2023 update. SPWARF--S&P Global Ratings' weighted average rating factor. YTD--Year to date.

N/A--Not applicable.

- **Global ABCP:**

Key Takeaways

U.S.: The total amount of ABCP outstanding reached a peak of approximately $309.3 billion as of year-end 2022 driven by increased utilization rates and corporate and bank borrowings under derivative financing arrangements.

EMEA: The total amount of ABCP outstanding reached a decade high, surpassing $125 billion, driven by strong issuances in the second half of 2022, particularly from conduits backed by investment contracts.

U.S. and EMEA: While macro-economic conditions remain uncertain, we expect no material impact on our ratings over the next six months. We expect stable issuance subject to any potential impact from macro-economic uncertainties.

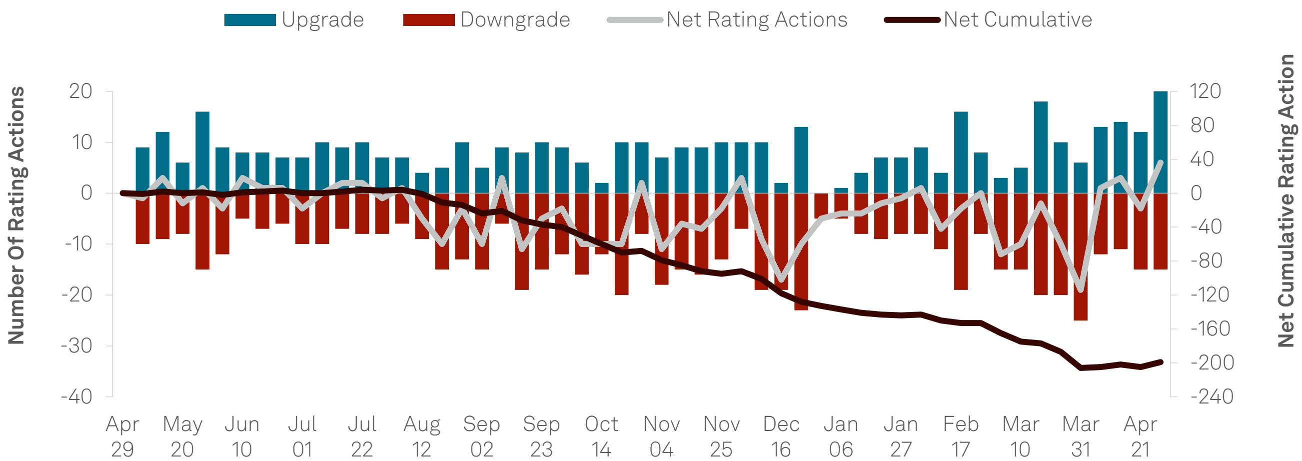
See "Inside Global ABCP: Alternative Financing Arrangements Support Issuance Growth" published April 27, 2023.

- **U.K. Residential Mortgage Servicing:** Here are a couple "Key Takeaways" from a recent article: In our view, more flexibility for U.K. mortgage borrowers struggling with payments--as part of the FCA's finalized guidance--may slow, and reduce the impact of rising RMBS arrears. Overall, the servicing guidance does not affect U.K. lenders' practices and reinforces the current regulatory position but offers a more tailored and definitive approach to support borrowers struggling with the cost of living. The impact of the FCA's finalized guidance on U.K. RMBS is deal-specific and depends on deal documentation and interpretation, however we do expect lenders to be more proactive in assessing borrower payment profiles and offering forbearance options or support. See "U.K. Residential Mortgage Servicing Flexibility Could Ease Arrears Pain" published April 26, 2023.

- **Irish RMBS:** Here are a couple "Key Takeaways" from a recent article: Private landlords are leaving Ireland's rental market due to difficult market conditions. The recent lifting of the eviction ban is likely to result in more landlords selling their BTL properties. We believe these recent developments will help sustain the already high three-month CPR in Irish RMBS backed predominantly by BTL collateral. House price appreciation and tighter regulation are longer-term trends contributing to small scale 'amateur' landlords selling their properties. See "Landlord Exodus Sustains Higher Irish RMBS Prepayments" published April 27, 2023.
- **Japan RMBS:** Here are a couple "Key Takeaways" from a recent article: We expect Japanese private-sector RMBS to continue to perform stably. Potential pressure will depend on how much rising consumer prices affect obligors' ability to repay. Default and delinquency rates remain low. A low unemployment rate is highly likely to continue to underpin underlying asset performance. See "Japan Private-Sector RMBS Performance Watch: Rising Prices Loom Over Stability" published April 28, 2023.
- **U.S. Credit Card ABS:** We recently published the "U.S. Credit Card Quality Index: Monthly Performance--March 2023" on April 27, 2023. The CCQI is a monthly performance index that aggregates performance information of securitized credit card receivables in the following key risk areas: receivables outstanding, yield, payment rate, charge-off rate, delinquencies, base rate, and excess spread rate.

Chart 1

Global Rating Actions (Rolling 52-Weeks)



Source: S&P Global Ratings. Net rating actions means downgrades minus upgrades. Net cumulative means total net rating actions. Data as of April 28, 2023. Global rating actions include actions on both financial and non-financial corporates and sovereign issuers.

Table 1

Recent Rating Actions

Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. $)
26-Apr	Downgrade	Altice France S.A. (Altice Europe N.V.)	Telecommunications	France	B-	B	25,562
27-Apr	Downgrade	DISH Network Corp.	Telecommunications	U.S.	CCC+	B-	22,500
26-Apr	Upgrade	Oriental Republic of Uruguay	Sovereign	Uruguay	BBB+	BBB	21,469
24-Apr	Upgrade	Compagnie de Saint-Gobain	Forest Products & Building Materials	France	BBB+	BBB	11,045
26-Apr	Downgrade	Buckeye Partners L.P.	Utilities	U.S.	BB-	BB	6,283
25-Apr	Upgrade	Tata Motors Ltd. (Tata Sons Pte. Ltd.)	Automotive	India	BB	BB-	6,033
26-Apr	Downgrade	Seagate Technology Holdings plc	High Technology	Ireland	BB	BB+	5,450
27-Apr	Downgrade	Global Medical Response Inc. (Air Medical Holdings LLC)	Health Care	U.S.	CCC+	B-	4,474
25-Apr	Upgrade	Eurobank Ergasias Services and Holdings SA	NBFI	Greece	B	B-	4,005
26-Apr	Upgrade	Teollisuuden Voima Oyj	Utilities	Finland	BBB-	BB+	3,464

Source: S&P Global Ratings. Data as of April 28, 2023. U.S. means United States and U.A.E. means United Arab Emirates.
NBFI - NonBank Financial Institutions (ex. Insurance).

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