This Month In Credit

July 2023, Volume 7

S&P Global Ratings

Glimmers Of Sunlight

This report does not constitute a rating action.

(Editor's note: For additional exhibits on credit trends, including rating actions, outlooks, fallen angels, rising stars, weakest links, and the U.S. distress ratio, please see the related data publication: "This Month In Credit: 2023 Data Companion.")

Key Takeaways

- The global net bias in June had its most positive move in the past year, led by a 10 percentage point increase in the Latin America positive bias following a positive outlook revision to our sovereign rating on Brazil.
- Rating action trends turned less negative in June as downgrades fell 21% from May, with speculative-grade downgrades accounting for the decline.
- Through the second quarter, the financial institutions sector, the media and entertainment sector, and the oil and gas sector have all been showing renewed strength, with upgrades exceeding downgrades.
- The U.S. distress ratio fell below its five-year average for the first time in four months as 'CCC' category bond spreads narrowed.

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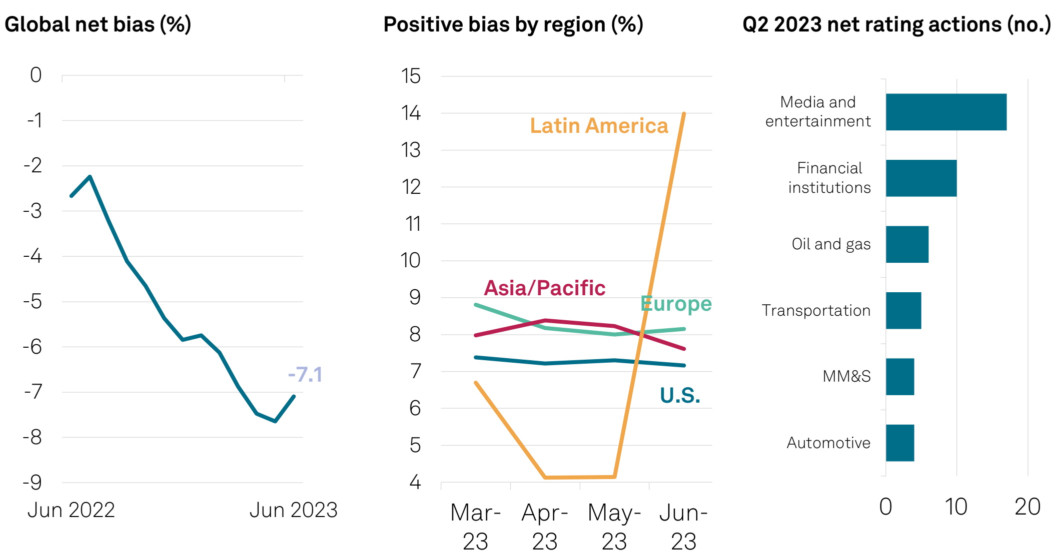
For a weekly snapshot of rating trends and credit conditions, please see **"This Week In Credit,"** released every Monday.

Pockets of strength

Brazil lifts June's net bias while net rating actions reveal positive glimmers



Data as of June 30, 2023. Net bias is the positive bias minus the negative bias (for both investment- and speculative-grade issuers). Positive bias is the percentage of issuers with positive outlooks or ratings on CreditWatch positive. The positive bias calculation excludes confidential issuers with global scale ratings. The net rating actions chart shows the tally of issuer upgrades minus downgrades for select sectors. MM&S--Metals, mining, and steel. Source: S&P Global Ratings Credit Research & Insights.

Credit Notes: Seasonal Adjustment

It's summertime in the Northern Hemisphere--while it's been worryingly hot in many places, this season is generally a positive time that gives many people a chance to recharge or take a vacation. This summer, so far, has turned out to be positive for market and rating performance trends, particularly in some sectors that suffered through a long winter.

The initial trigger for market optimism was the U.S. Consumer Price Index print for June, which showed inflation decelerating to 3.0% from nearly 5% two months prior. Renewed hope for slower growth (instead of a recession) and an end to interest rate hikes has fueled a market rally, with the S&P 500 gaining nearly 6.5% in June and building on this momentum in July. And all of this has seeped through to credit: There has been a pickup in issuance, including in leveraged loans, and a general tightening of credit pricing, with speculative-grade credit default swap spreads at or close to 2023 lows in both the U.S. and Europe.

For more accompanying data, click here

Credit indicators also pointed to a positive shift in June as well. One example: the global net bias, which rose by over half a percentage point in June, the most positive move it has seen over the past year. Although net biases were little changed in most regions, Latin America was the exception: On June 14, we revised our rating outlook on Brazil to positive, and that led to positive outlook revisions for several Brazilian issuers.

And then there are the signs of positive sentiment among sectors that have been under pressure recently. Take media and entertainment, for instance. This sector led upgrades in the second quarter (with upgrades outnumbering downgrades by 17), and it's also the nonfinancial corporate sector with the most potential upgrades (37). Some issuers have benefited from a rebound in demand for live events, as well as a shallower-than-expected downturn in European advertising. This sector can also lay claim to June's largest upgrade by debt amount: The Walt Disney Co. was upgraded to 'A-' from 'BBB+' on expectations that the company will reduce leverage amid optimism that there will be a return to normalcy for its international theme parks and cruise business.

There are the signs of positive sentiment among sectors that have been under pressure recently

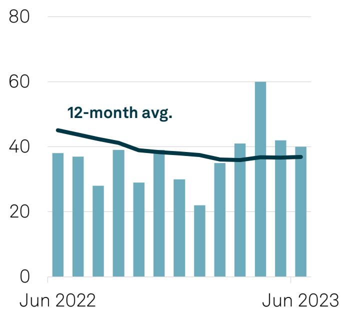
In the financial institutions sector, fears of contagion among banks are receding. The sector leads potential upgrades (issuers with positive outlooks or on CreditWatch positive) with 42, and it had 10 more upgrades than downgrades in the second quarter. While we still see divergence within the sector from the impact of higher rates, most banks' earnings stand to benefit.

And the oil and gas sector continues to show positive trends as well, with 33 potential upgrades currently and six more upgrades than downgrades in the quarter. It saw more new potential upgrades in the first half than any other sector, accounting for nearly 16% of new potential upgrades. Even though oil and gas prices have weakened from their highs, recent production cuts announced by OPEC+ are likely to limit further price declines. The sector is adapting strategies to prioritize investments while managing capital expenditures. And Europe's shift away from Russian gas supplies has boosted demand for liquefied natural gas.

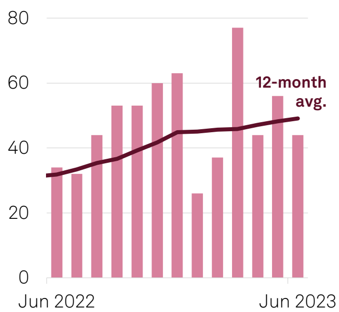
No summer is perfect, however--and despite these recent glimmers of positive sentiment, shadows continue to hover over the credit market. We expect economic growth to slow, interest rates to remain higher for longer than many initially expected, and upcoming maturities to present challenges for lower-rated issuers. These factors will continue to strain many issuers. The consumer products sector has a net outlook bias of -17.3%, as well as the highest number of weakest links (52). And while the media and entertainment sector is improving overall, there's still weakness in some pockets as the sector led defaults in the quarter (with nine). Divergence in rating performance--by region and by sector--will remain a key near-term credit theme, with shadows for some and sun for others.

Ratings Trends Snapshot - Through June 30, 2023

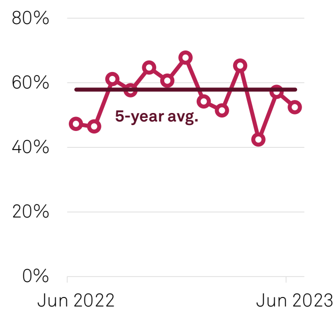
Upgrades (no.)



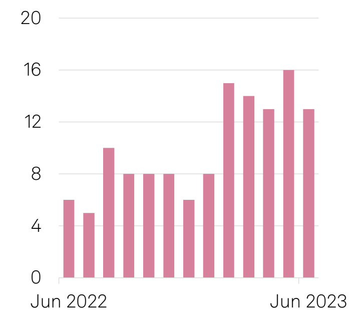
Downgrades (no.)



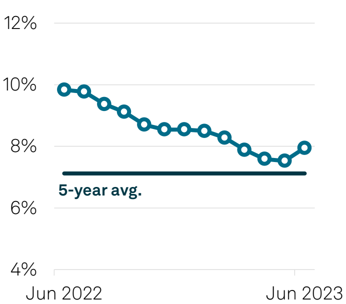
Downgrade ratio



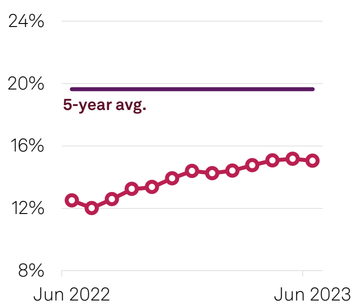
Defaults (no.)



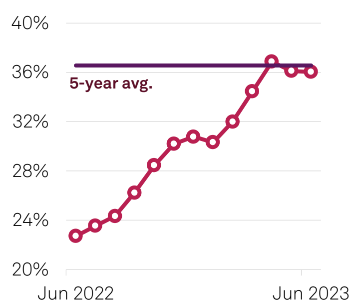
Positive bias



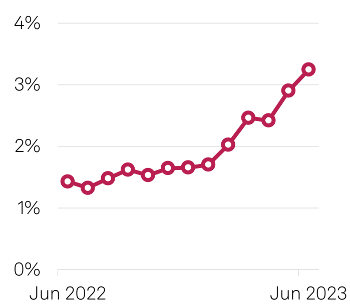
Negative bias



Neg bias 'B-' and lower



SG default rate



Data as of June 30, 2023. Data represents rating actions and biases for sovereign, financial, and nonfinancial corporates issuers globally. Downgrade counts exclude defaults. Defaults and speculative-grade default rate exclude sovereigns.
Source: S&P Global Ratings Credit Research & Insights.

Credit Trends: Bright Spots In Between The Dark Clouds

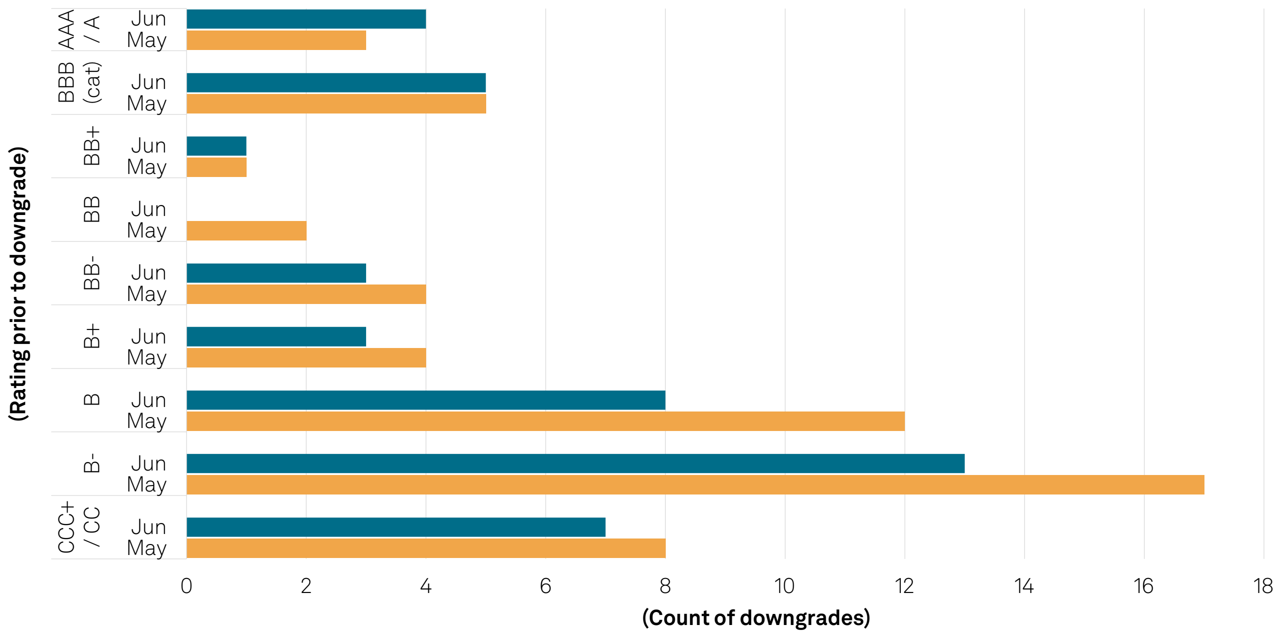
Divergences by region and sector continue to reflect challenges, but some bright spots emerged in June. Among the rating action highlights:

- The downgrade ratio fell marginally (to 52%) as upgrades dipped modestly (down 5% to 40), but downgrades saw an even steeper drop (down 21% to 44).
- Of the 44 downgrades, more than 86% were of North American or European issuers.
- A decline in speculative-grade downgrades included a drop in the number of issuers with ratings lowered to the 'CCC' category, to 15 in June from 20 in May (see chart 1).

The downgrade ratio fell marginally (to 52%) as upgrades dipped modestly, but downgrades saw an even steeper drop.

Chart 1

Downgrades decreased broadly in June across speculative-grade rating categories



Includes sovereign, financial, and nonfinancial corporate downgrades globally, excluding defaults.
Source: S&P Global Ratings Credit Research & Insights.

- No large sector concentrations were evident among downgrades. The most-represented sector, consumer products, only accounted for 14% of downgrades, and the four most-represented sectors together accounted for just over a third of the month's downgrades.
- Upgrades outnumbered downgrades in several sectors in the second quarter, led by the media and entertainment, financial institutions, and oil and gas sectors as they show some pockets of strength (see chart 2).

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Chart 2

Net rating actions by sector (Q2 2023)

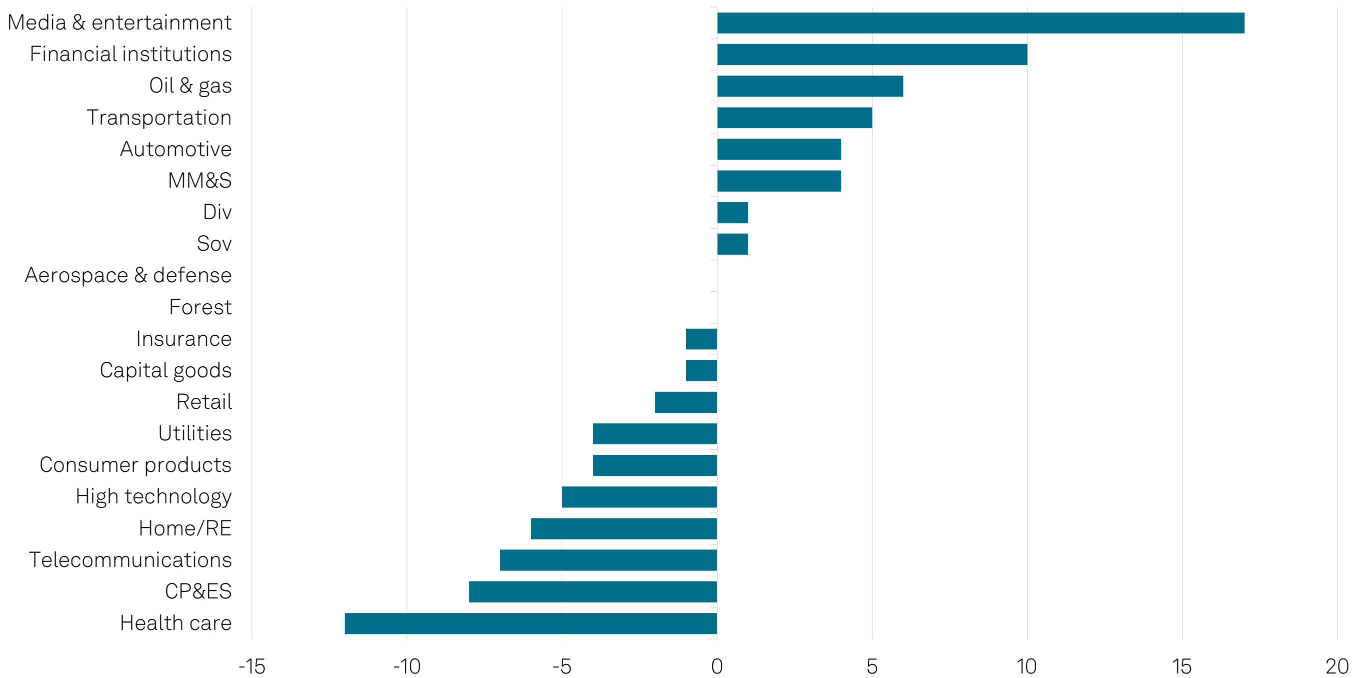
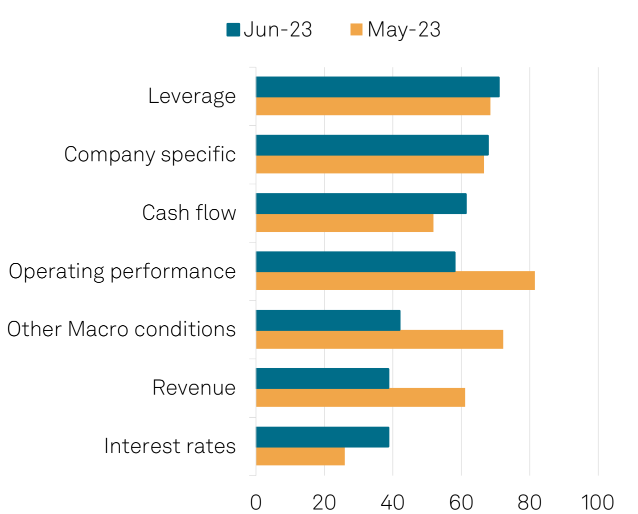


Chart shows tally of upgrades minus downgrades by sector in Q2 2023. Includes sovereign, financial, and nonfinancial corporate downgrades globally, excluding defaults. Source: S&P Global Ratings Credit Research & Insights.

Chart 3

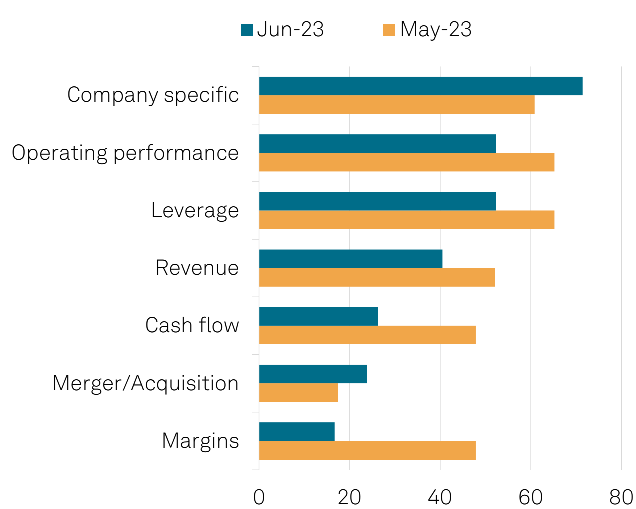
Potential downgrades increasingly show leverage concerns (%)



Data as of June 30, 2023. We take stock of the main risks outlined in new potential downgrade and weakest links rating reports and group them by qualitative factors. One rating action can have multiple qualitative factors. Source: S&P Global Ratings Credit Research & Insights.

Chart 4

Improved operating performance is behind fewer potential upgrades (%)



Data as of June 30, 2023. We take stock of the main factors outlined in new potential upgrade rating reports and group them by qualitative factors. One rating action can have multiple qualitative factors.
Source: S&P Global Ratings Credit Research & Insights.

Fewer new potential downgrades (issuers with negative outlooks or on CreditWatch negative) were added in June (31) than in May (54), and this slowdown contributed to the slight decrease in the total number of potential downgrades.

The most common reason for these negative outlook revisions and CreditWatch placements was concern about leverage--71% of these actions cited it as a factor. However, among the new potential downgrades rated 'B-' or lower, cash flow concerns factored into more of the outlook revisions and CreditWatch placements.

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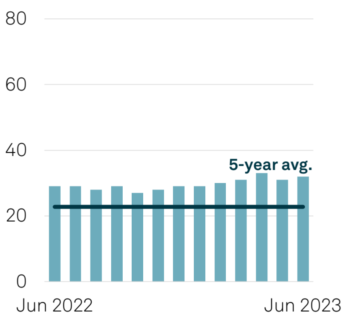
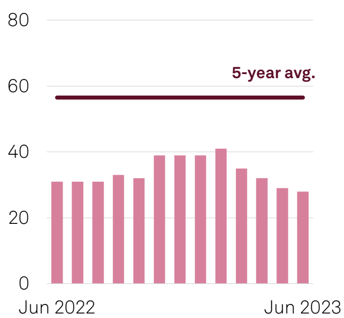
June saw a new year-to-date high of 42 new potential upgrades (issuers with positive outlooks or on CreditWatch positive), up from 23 in May. Among the new potential upgrades in June, company-specific factors were cited most often--in this category, notably, are the Brazilian issuers with rating outlooks that were revised to positive following the outlook revision for the sovereign rating. Additionally, improving operating performance and deleveraging were cited as factors in more than half of the month's positive outlook revisions and CreditWatch placements.

Specific Credit Indicators - Through June 30, 2023

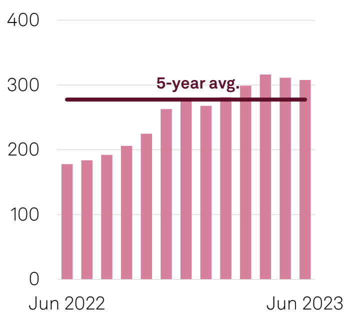
Potential rising stars (no.)



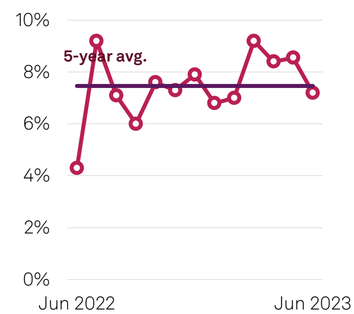
Potential fallen angels (no.)



Weakest links (no.)



Distress ratio



Data as of June 30, 2023. Data represents sovereign, financial, and nonfinancial corporates issuers globally, except for the S&P Global U.S. distress ratio, which is defined as the number of U.S. speculative-grade issues with option-adjusted spreads of more than 1,000 basis points above U.S. Treasury bonds. Source: S&P Global Ratings Credit Research & Insights.

Fallen angels: Two new fallen angels (issuers downgraded to speculative grade from investment grade) were added in June, down from three in May. June's new fallen angels were both from the U.S.--utility issuer **System Energy Resources Inc**. and office REIT **Brandywine Realty Trust**. Brandywine is the year's fourth new fallen angel from the homebuilder and real estate sector.

Two new potential fallen angels (issuers rated 'BBB-' with negative outlooks or on CreditWatch negative) were added to the list in June. The rating outlook on U.S. retailer **Advance Auto Parts Inc**. was revised on weaker-than-expected performance, and the rating outlook on Canadian gold producer **Kinross Gold Corp**. was revised on its sensitivity to lower gold prices given its leverage.

Rising stars: In June, there was one new rising star (an issuer upgraded to investment grade from speculative grade). Germany's **K+S AG** was upgraded on a decline in leverage and management's commitment to maintaining a strong balance sheet as the company benefited from high potash prices.

New rising stars continue to outnumber new fallen angels year to date, 16 to 13. Three new potential rising stars (issuers rated 'BB+' with positive outlooks or on CreditWatch positive) were added to the list in June, including two oil and gas companies (**Patterson-UTI Energy Inc.** and **Ultrapar Participacoes S.A**.) and one from the metals, mining, and steel sector (**Nexa Resources S.A.**).

Weakest links: The weakest links tally fell for the second consecutive month to 308, but it remains above its long-term average of 296. In the second quarter, the U.S. (35) and Europe (nine) accounted for most of the issuers removed from the list. The high technology sector accounted for more issuers that were removed than any other sector; it was followed by the consumer products and media and entertainment sectors. Most of the high technology issuers that were removed from the weakest links list had been downgraded to ‘CCC+’ or below with a stable outlook as the burden of higher interest rates weigh on free operating cash flow.

In June, the health care sector, the high technology sector, and the forest products and building materials sector had the most new weakest links, with three each. Most of the additions were U.S.-based issuers. The weakest links tallies in most regions remained well above their five-year averages; Canada and the Asia-Pacific region were the exceptions.

Distress ratio: In June, the U.S. distress ratio (the share of speculative-grade issues with option-adjusted spreads of more than 1,000 basis points relative to U.S. Treasury bonds divided by the total number of speculative-grade issues) dropped by more than a percentage point to 7.2%, falling below the five-year average of 7.46% for the first time in four months.

In June, 17 issues (from 13 issuers) were removed from the distressed list. Narrowing spreads accounted for most of the removals (nine issues) as speculative-grade composite spreads fell during the month across rating levels. The 'CCC' composite spread, for instance, narrowed to 1,056 basis points on June 30 from 1,251 basis points on May 30 as investor sentiment became more optimistic.

Defaults: The monthly tally of defaults fell to 13 in June, bringing the first-half total to 84 as quarterly defaults rose to their highest level since 2020. The media and entertainment sector led defaults in June (with three) followed by consumer products and telecommunications (with two each). Media and entertainment accounts for more defaults so far in 2023 than any other sector, and defaults in that sector have jumped fivefold from the year-ago period. About 65% of the defaults so far in 2023 have been of U.S.-based issuers, and about 40% of the defaults have been distressed exchanges while another 24% were bankruptcies.

Media and entertainment accounts for more defaults so far in 2023 than any other sector, and defaults in that sector have jumped fivefold from the year-ago period.

For more data and charts on fallen angels, potential fallen angels, rising stars, potential rising stars, weakest links, and the U.S. distress ratio, please see the related publication: "This Month In Credit: 2023 Data Companion."

Relative Risks By Region And Sector

In June, the negative bias for Eastern Europe, the Middle East, and Africa (EEMEA) rose by just over a percentage point, to 21%. This increase brings the negative bias for EEMEA in line with that of Latin America, with these two regions showing the highest negative bias. The financial institutions sector accounts for more potential downgrades in EEMEA than any other sector.

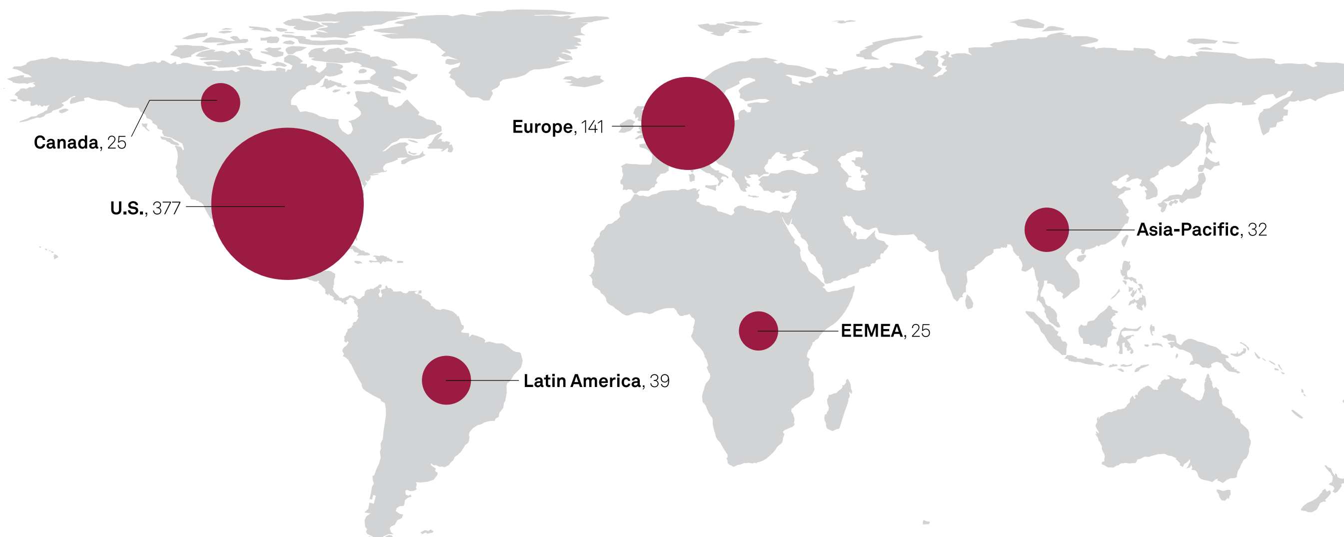
However, even with its elevated negative bias, Latin America also has the highest positive bias (15%). A 10 percentage point jump in the positive bias in June followed the outlook revision on the sovereign rating on Brazil. This turned the net bias for Latin America less negative, to -7.3%, as a result, overtaking the net bias for the U.S. (-9.3%) but staying below the net bias for Europe (-6.0%) and for the Asia-Pacific region (0.6%).

Consumer products trends are mixed across regions. While consumer behavior appears to be gradually normalizing in the U.S. and the Asia-Pacific region, the preferences of European consumers appear to be shifting.

Chart 5

Potential downgrades (no.)

By region



Data as of June 30, 2023. EEMEA--Eastern Europe, the Middle East, and Africa.
Source: S&P Global Ratings Credit Research & Insights.

Financial institutions had more new potential upgrades than any other sector in June (eight), with Brazil accounting for half. The sector accounts for just over 11% of the new potential upgrades year to date.

Consumer products had the second-most new potential upgrades in June (seven), largely in North America and Europe. These outlook revisions largely cited deleveraging or an increased likelihood of sustaining strong performance metrics as the primary reason.

Meanwhile, consumer products also leads potential downgrades, with 100. But industry trends are mixed across regions. While consumer behavior appears to be gradually normalizing in the U.S. and the Asia-Pacific region, the preferences of European consumers appear to be shifting away from branded products and toward private-label and discounted products.

Forest products and building materials was tied for the most new potential downgrades in June, with four. These outlook revisions and CreditWatch placements largely cited negative free operating cash flow resulting from sluggish demand and cost headwinds, as well as increasing refinancing risks. Given tight credit markets and higher interest rates, refinancing for these entities could be costly.

The **utilities** sector also had four new potential downgrades in June. The rating outlooks that were revised to negative during the month all cited company-specific risks.

Table 1

Potential downgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
Aerospace and defense	11	11					
Automotive	19	11	6	2			
Capital goods	35	21	9	1	1		3
Consumer products	100	74	19	2		4	1
CP&ES	31	18	9	1	2		1
Diversified	2				1		1
Financial institutions	57	21	12	4	12	7	1
Forest PBM	13	6	7				
Health care	50	40	9				1
High technology	35	26	6	2			1
Home/real estate	34	14	13	5			2
Insurance	12	6	4	2			
Media/entertainment	58	46	8	3	1		
Metals, mining, and steel	11	7	2				2
Oil and gas	14	2	3	1	2	3	3
Retail/restaurants	34	26	7		1		
Sovereign	14		4		5	5	
Telecommunications	27	13	5		3	3	3
Transportation	27	7	10	5	2	2	1
Utilities	55	28	8	4	9	1	5

Data as of June 30, 2023. The darker red indicates more potential downgrades per region.
PBM--Products and building materials. CP&ES--Chemicals, packaging, and environmental services.
Source: S&P Global Ratings Credit Research & Insights.

Table 2

Potential upgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
Aerospace and defense	7	3	3	1			
Automotive	8	3	3	1		1	
Capital goods	13	6	5	1			1
Consumer products	17	7	7		1		2
CP&ES	13	4	5		1	1	2
Diversified	2				2		
Financial institutions	42	10	12	11	4	3	2
Forest PBM	6	3	2			1	
Health care	15	10	4				1
High technology	10	6	3	1			
Home/real estate	17	14	1			1	1
Insurance	8	5	2	1			
Media/entertainment	37	24	8	1	1		3
Metals, mining, and steel	19	7	5	2	2		3
Oil and gas	33	20	8	1	2		2
Retail/restaurants	9	6	3				
Sovereign	6		2		2	2	
Telecommunications	6	1	5				
Transportation	15	9	3	1	1		1
Utilities	31	20	5	1	4	1	

Data as of June 30, 2023. The darker blue indicates more potential upgrades per region.
PBM--Products and building materials. CP&ES--Chemicals, packaging, and environmental services.
Source: S&P Global Ratings Credit Research & Insights.

Table 3

Top 10 downgrades in June

Issuer	Sector	Downgrade date	Downgrade to	Downgrade from	Country	Amount ($bn)
3M Co.	Capital goods	6/26/2023	A-	A	U.S.	$13.8
PacifiCorp (Berkshire Hathaway Inc.)	Utilities	6/20/2023	BBB+	A	U.S.	$10.5
Samhallsbyggnadsbolaget i Norden AB (publ)	Home/RE	6/7/2023	BB-	BB+	Sweden	$5.8
VF Corp.	Consumer products	6/6/2023	BBB	BBB+	U.S.	$5.7
Nasdaq Inc.	Financial institutions	6/12/2023	BBB	BBB+	U.S.	$4.8
Broadridge Financial Solutions Inc.	High technology	6/13/2023	BBB	BBB+	U.S.	$3.8
Quest Software US Holdings Inc.	High technology	6/26/2023	CCC+	B-	U.S.	$3.6
Radiology Partners Holdings, LLC	Health care	6/5/2023	CCC+	B-	U.S.	$3.4
ADMI Corp.	Health care	6/28/2023	B-	B	U.S.	$2.8
Tullow Oil PLC	Oil & gas	6/21/2023	CCC+	B-	U.K.	$2.6

Data as of June 30, 2023. Excludes defaults. Table shows 10 largest issuer nondefault downgrades, excluding defaults, by debt amount in June 2023. Source: S&P Global Ratings Credit Research & Insights.

Table 4

Top 10 upgrades in June

Issuer	Sector	Upgrade date	Upgrade to	Upgrade from	Country	Amount ($bn)
Walt Disney Co. (The)	Media & entertainment	6/5/2023	A-	BBB+	U.S.	$60.4
Credit Suisse Group AG	Financial institutions	6/12/2023	A-	BBB-	Switzerland	$44.7
AIB Group PLC	Financial institutions	6/14/2023	BBB	BBB-	Ireland	$12.9
Sigma HoldCo BV	Consumer products	6/14/2023	B	B-	Netherlands	$12.4
NVIDIA Corp.	High technology	6/5/2023	A+	A	U.S.	$11.0
Bank of Ireland Group PLC	Financial institutions	6/14/2023	BBB	BBB-	Ireland	$10.3
Connect Bidco Ltd.	Telecommunications	6/1/2023	BB-	B+	Guernsey	$9.4
Aramark	Retail	6/6/2023	BB	BB-	U.S.	$7.8
Alcon Inc.	Health care	6/5/2023	BBB+	BBB	Switzerland	$5.8
Carvana Co.	Automotive	6/6/2023	CCC	CC	U.S.	$5.7

Data as of June 30, 2023. Table shows 10 largest issuer upgrades by debt amount in June 2023.
Source: S&P Global Ratings Credit Research & Insights.

Related Research

Risky Credits: Refinancing Struggles Keep Emerging Markets On Their Toes, July 26, 2023

Risky Credits: North America Approaches Pandemic Peaks, July 26, 2023

Global Refinancing--Progress Made As Pressure Remains, July 25, 2023

Ratings Performance Insights: Q2 2023, July 24, 2023

2022 Annual European Structured Finance Default And Rating Transition Study, July 21, 2023

Global Banks Midyear Outlook 2023, July 20, 2023

ESG In Credit Ratings July 2023: Negative Actions Exceed Positive As ESG-Related Rating Actions Drop, July 20, 2023

Industry Top Trends Update North America: Media and Entertainment, July 18, 2023

Industry Top Trends Update Asia-Pacific: Media and Entertainment, July 18, 2023

Industry Top Trends Update Europe: Media and Entertainment, July 18, 2023

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Default, Transition, and Recovery: 2022 Annual U.S. Corporate Default And Rating Transition Study, June 13, 2023

Default, Transition, and Recovery: 2022 United Kingdom Corporate Default And Rating Transition Study, June 12, 2023

Default, Transition, and Recovery: 2022 Annual Global Financial Services Default And Rating Transition Study, June 12, 2023

Research Update: First Republic Bank Issuer Credit Rating Lowered To 'CC' After Regulatory Closure; Ratings Subsequently Withdrawn, May 2, 2023

Credit Trends: Global Financing Conditions: Tumultuous March Cuts Into Full-Year Issuance Projections, April 26, 2023

Glossary And Abbreviations

Downgrade ratio--The number of downgrades divided by the number of downgrades plus upgrades

Fallen angels--Issuers downgraded to speculative grade from investment grade.

Investment grade--Issuers rated 'BBB-' or above.

Negative bias--Percentage of issuers with negative outlooks or ratings on CreditWatch negative.

Net outlook bias--Percentage of issuers with a positive bias minus those with a negative bias.

OLCW--Outlooks and CreditWatch placements.

Positive bias--Percentage of issuers with positive outlooks or ratings on CreditWatch positive.

Potential downgrade--An issuer rated by S&P Global Ratings with a negative outlook or on CreditWatch negative.

Potential fallen angels--Issuers rated 'BBB-' with either negative outlooks or on CreditWatch negative.

Potential upgrade--An issuer rated by S&P Global Ratings with a positive outlook or on CreditWatch positive.

Rising stars--Issuers upgraded to investment grade from speculative grade.

Risky credits--Issuers in the ‘CCC’ rating category.

Speculative grade--Issuers rated 'BB+' or below.

S&P Global U.S. distress ratio--The proportion of speculative-grade issues with option-adjusted spreads of more than 1,000 basis points relative to U.S. Treasury bonds divided by the total number of speculative-grade issues.

Speculative grade--Issuers rated 'BB+' or below.

Weakest links--Issuers rated 'B-' and below with either negative outlooks or on CreditWatch negative.

Weakest links ratio--The number of weakest links divided by the total speculative-grade ratings population.