

This report does not constitute a rating action.

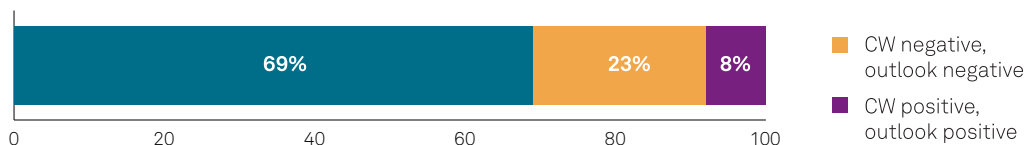
U.S. And Canada Summary Report

Sept. 12, 2023

The August Snapshot

The U.S. speculative-grade negative bias continues to point toward increasing downgrade risk

Outlook distribution



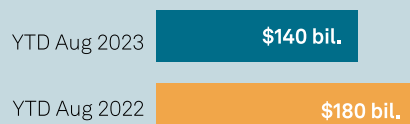
Three new speculative-grade issuers in August



Top sectors (% of total new issuers)



August was a strong month for the leveraged loan secondary market; new deals in the primary market are still largely related to refinancings



August was an active month, with issuance of \$11.5 billion across 27 deals in the U.S. primary CLO market



Note: The data above is year-to-date (YTD) except for the outlook distribution. CW--CreditWatch. CLO--Collateralized loan obligations. Outlook distribution is rounded to a whole number and only includes U.S. and Canada corporate ratings (excluding the utilities sector). Source: S&P Global Ratings. Leveraged loan (institutional) and CLO primary market data is sourced from PitchBook LCD.

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CONTENTS

Monthly Highlight	2
YTD Speculative-Grade New Issuers	3
Defaults	4
Speculative-Grade Rating Outlook Mix	5
Recovery Ratings	6
CLOs	7
Middle Market CLOs - Credit Estimates Sources And Related Research	7
	8

Download Data

Key Insights

1. Consumer-facing sectors such as consumer products, media and entertainment, and retail and restaurants comprise a large portion of our weakest issuers. Approximately 38% of speculative-grade issuers within these sectors are rated 'B-' and below. Many sectors rely on consumer spending, which may experience a pullback over the year ahead.
2. We expect the U.S. trailing 12-month speculative-grade corporate default rate to reach 4.5% by June 2024, which is just above the 4.1% long-term average (see chart 5). If a recession were to occur--particularly if inflation and interest rates remained high--it could result in our pessimistic 6.5% default rate (109 defaults).¹ Year to date (YTD), as of July 31, 2023, there have been 64 defaults.
3. Refinancing risk for leveraged companies remains high, particularly for sectors with a high proportion of weaker credits. Among the 'CCC' rating category maturing in the next 12 months, healthcare led the list. Free cash flow pressure and deteriorating interest coverage are key risks.

PODCASTS

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

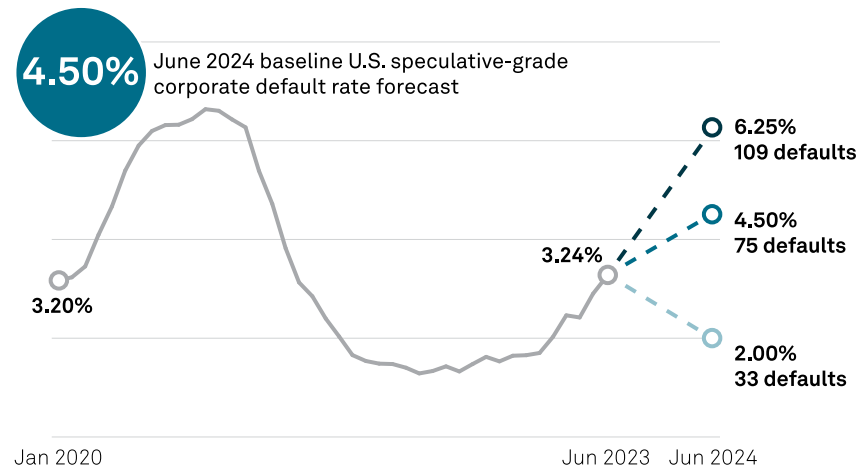
The Upgrade Episode 25: The Pinch Of Higher Benchmark Rates and Risk Premiums, Oct. 21, 2022

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

Monthly Highlight

The U.S. Speculative-Grade Corporate Default Rate Could Rise To 4.5% By June 2024

Defaults pick up into June 2023



As of June 2023, S&P Global Ratings rates 1,670 U.S. speculative-grade corporate issuers

Pessimistic scenario: Defaults rise faster as the U.S. enters a prolonged period of low growth, with persistent core inflation leading to (even) higher-for-longer-rates

Base scenario: Cash flow remains challenged for the weakest and most leveraged issuers in a slow-growth environment with higher borrowing costs.

Optimistic scenario: The default rate falls as growth remains resilient and inflation continues to decline, bringing interest rates down earlier than anticipated, leading markets to resume their search for yield.

Data as of June 30, 2023.

Sources: Leveraged Commentary and Data (LCD) from PitchBook, a Morningstar company, and S&P Global Ratings Credit Research & Insights.

S&P Global Ratings Credit Research & Insights expects the U.S. trailing 12-month speculative-grade corporate default rate to reach 4.5% by June 2024, from 3.2% in June 2023 (see chart above).

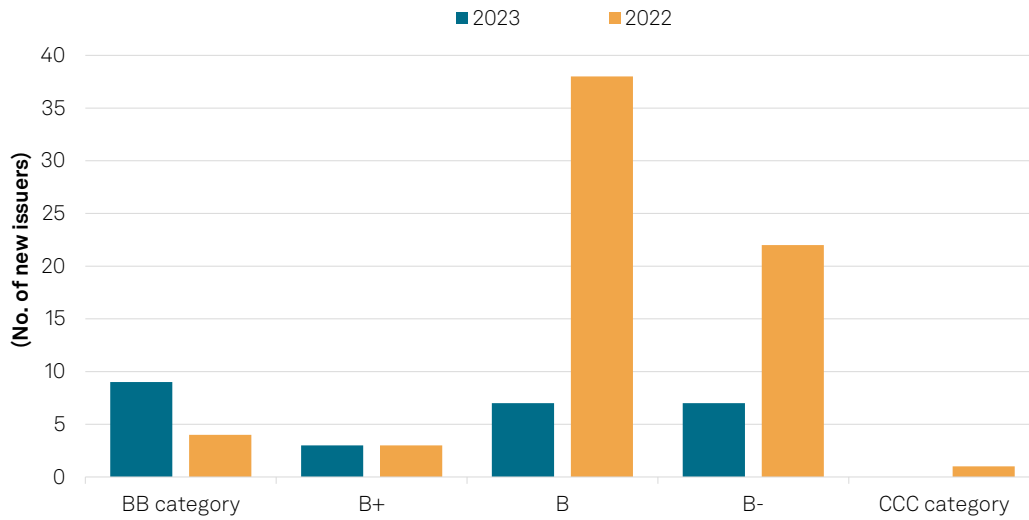
"In our base case, we expect defaults to continue rising as corporates grapple with higher interest rates and slower growth ahead. Rising rates are eroding profitability, and second-quarter earnings estimates forecast declining profits relative to a year ago, in aggregate. Downgrades and defaults from falling cash flow and rising debt costs have increased across many sectors, and much of the debt rated 'B-' or lower is among floating-rate loans. Although headline inflation continues to fall, core inflation has been stickier, keeping central banks on a hiking schedule. A potential confluence of rising rates, elevated costs, and slowing growth could push the default rate higher still."

[Read The Full Report >](#)

YTD Speculative-Grade New Issuers

Chart 1

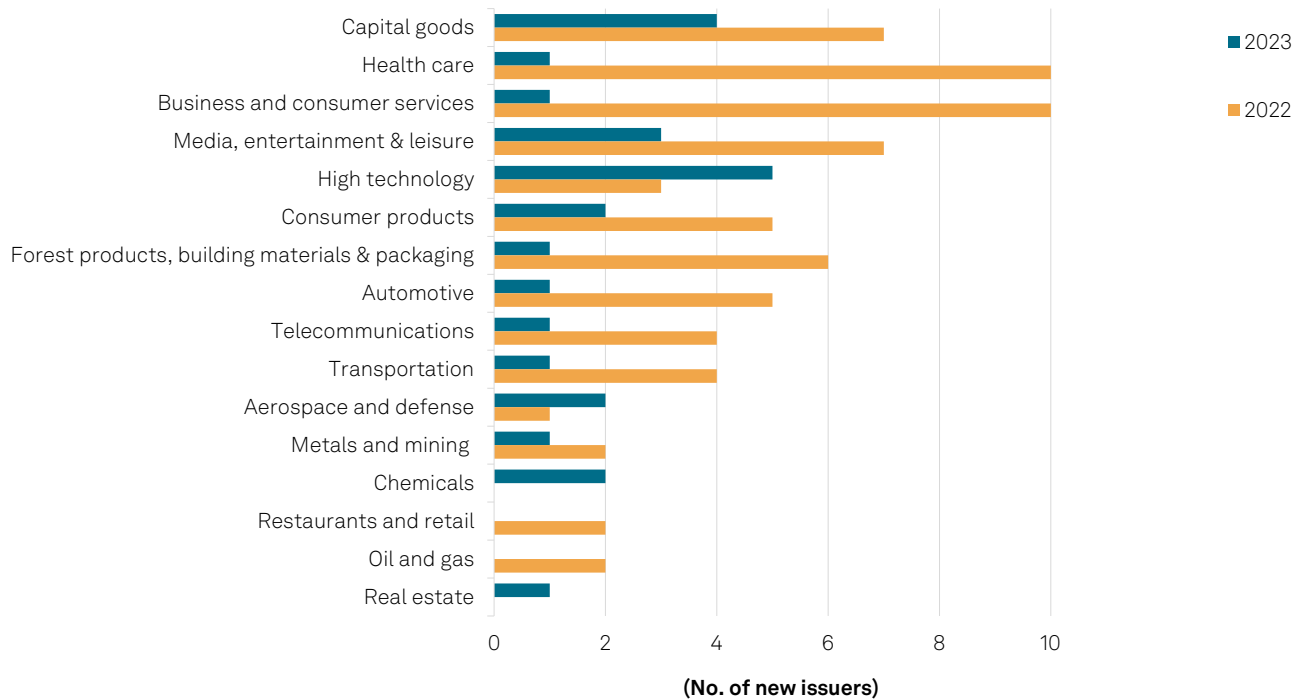
New issuers by rating



Note: Data represents new issuers as of Aug. 31, 2022, and 2023. Includes U.S. and Canada corporate ratings and excludes confidential issuers. There was one new issuer in Aug. 2022 and three in Aug. 2023. Source: S&P Global Ratings.

Chart 2

New issuers by industry group



Note: Data represents new issuers as of Aug. 31, 2022, and 2023. Includes U.S. and Canada corporate ratings and excludes confidential issuers. Source: S&P Global Ratings.

Defaults

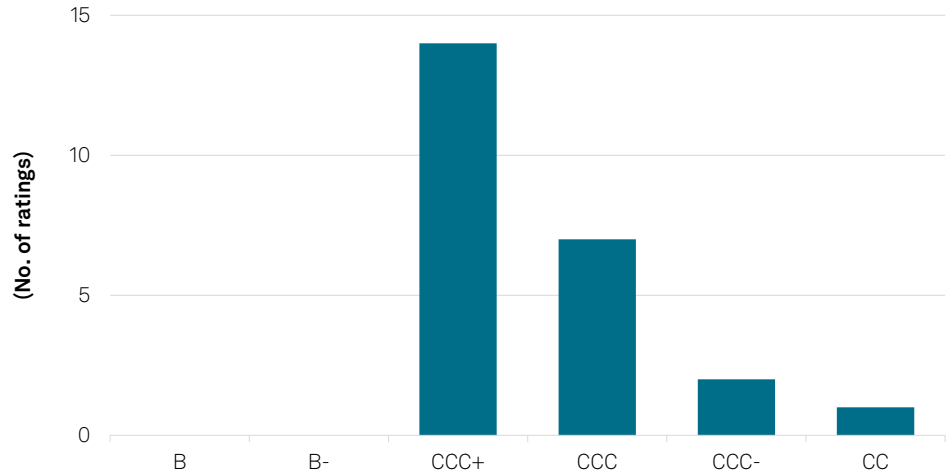
Chart 3

Downgrade to 'SD'/'D'



Chart 4

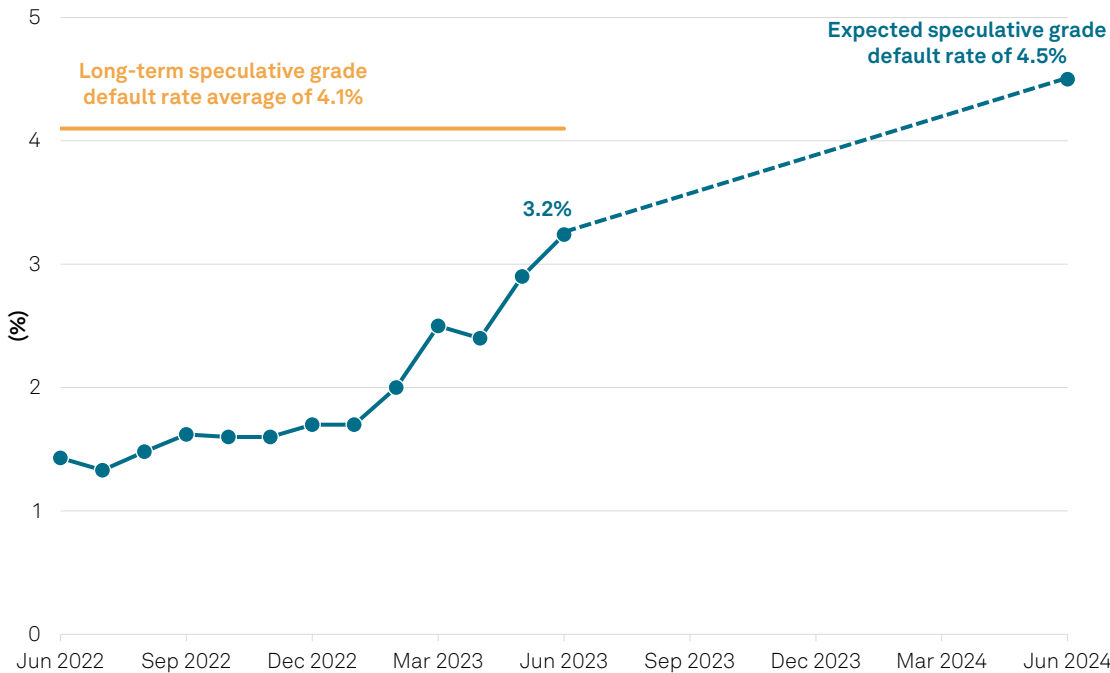
Ratings raised after selective default ('SD' - 24 Raised)



Note: Data as of YTD July 31, 2023. 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, [Defaults Slow In July](#), published Aug. 15, 2023. 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

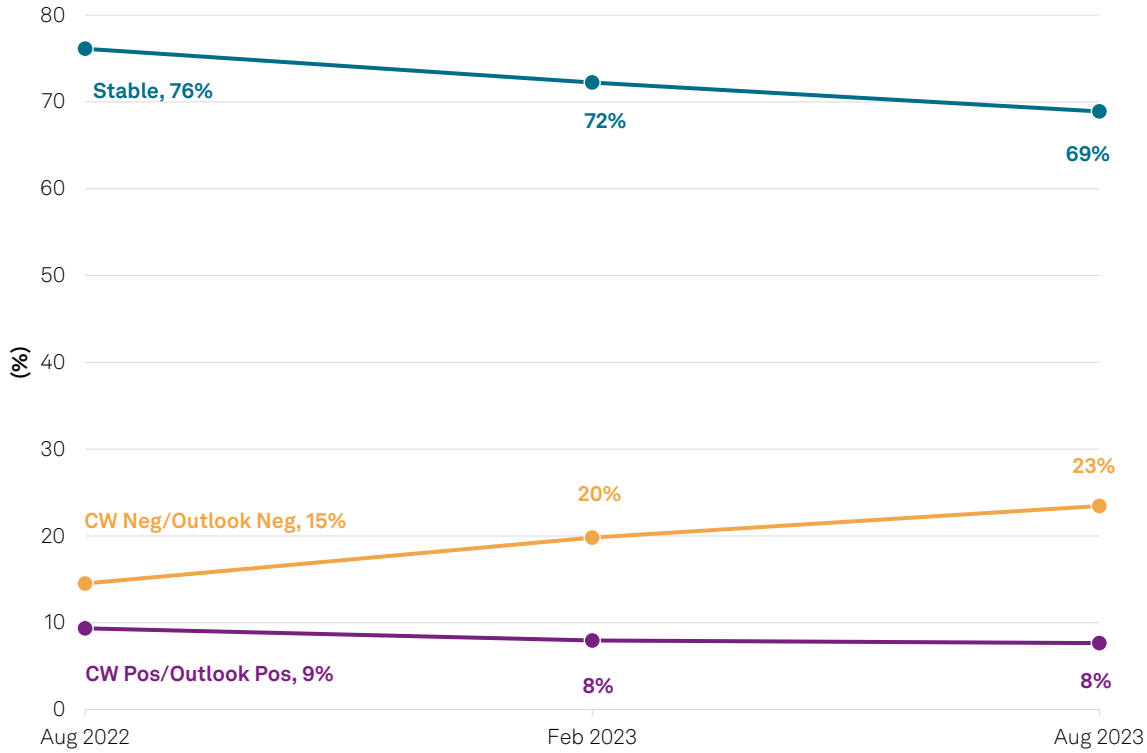


Note: Data as of June 30, 2023. The long-term average dates back to Dec. 1981. Source: S&P Global Ratings, [Defaults Slow In July](#), published Aug. 15, 2023.

Speculative-Grade Rating Outlook Mix

Chart 6

August 2022/2023 speculative-grade CreditWatch/Outlook distribution

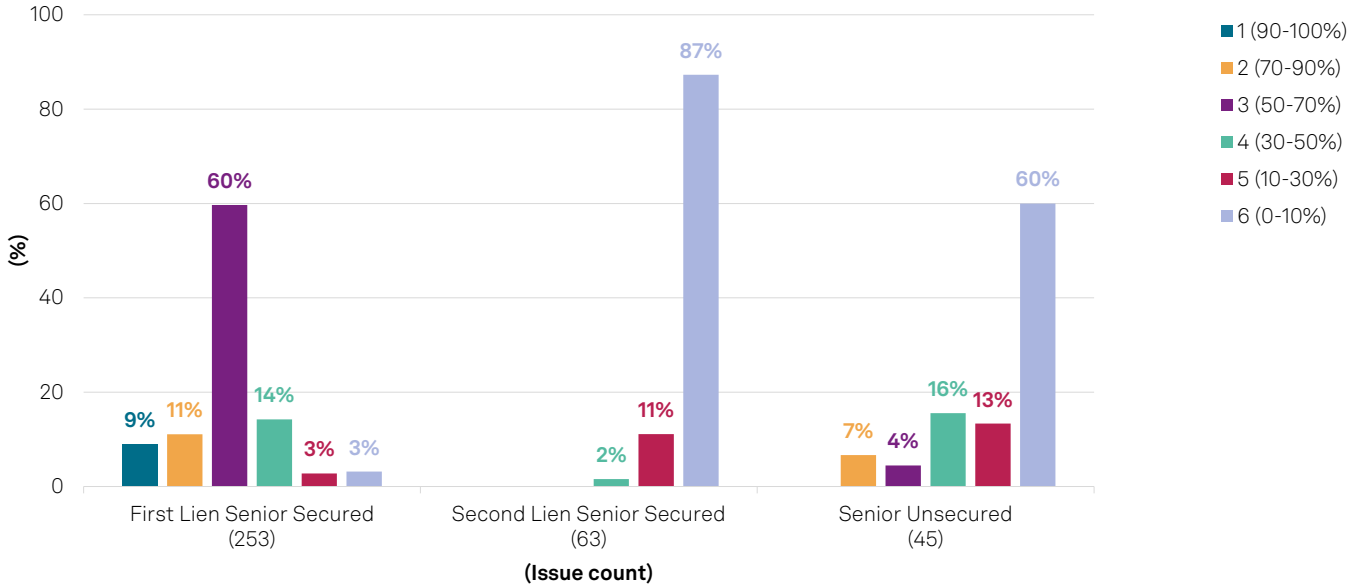


Note: Data from Aug. 31, 2022 to Aug. 31, 2023. CreditWatch/outlook distribution includes all U.S. and Canada corporate ratings. Does not include investment-grade issuers. Source: S&P Global Ratings.

Recovery Ratings

Chart 7

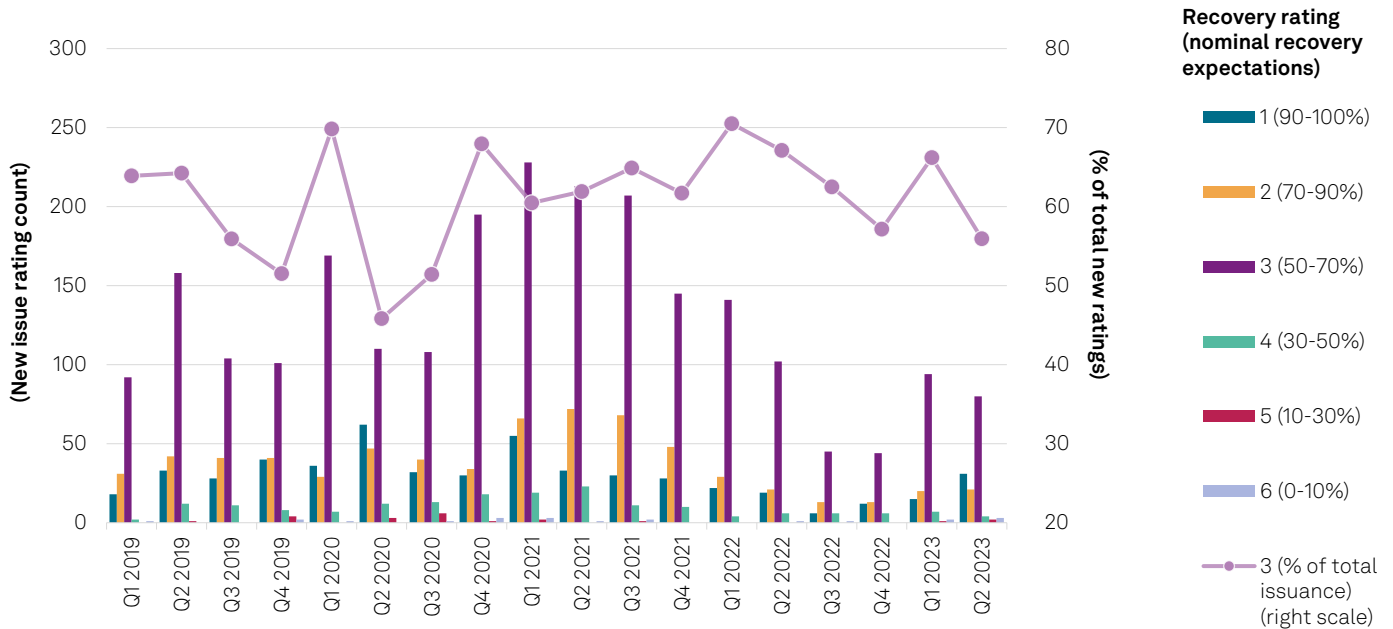
Recovery rating distribution for 'Weakest Links'



Note: Data as of June 30, 2023. Weakest Links-- Issuers rated 'B-' and below with either negative outlooks or on CreditWatch negative. 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 obligors held in U.S. BSL CLOs (second-quarter 2023)

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

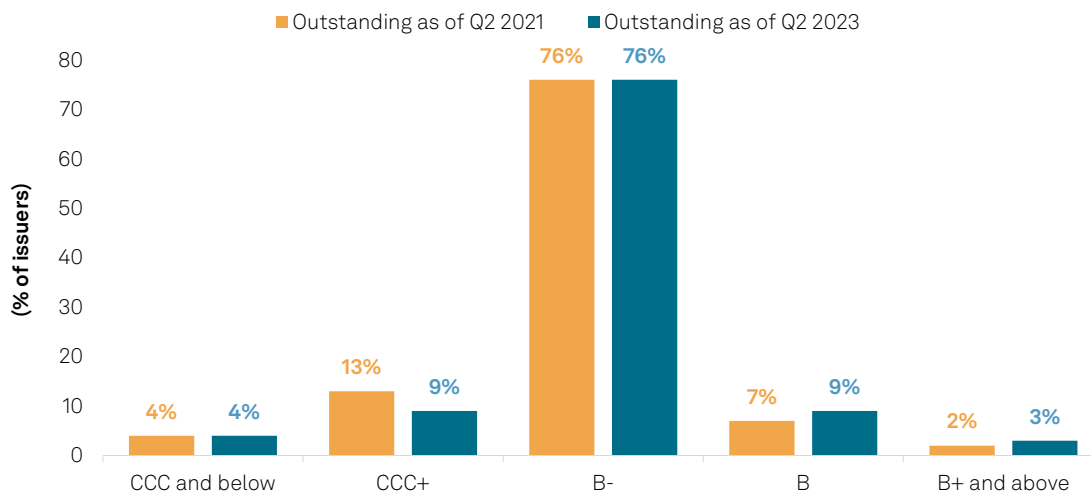
Note: Ratings and CreditWatch/outlooks as of Sept. 8, 2023. NR--Not rated.
 Source: S&P Global Ratings. [U.S. BSL CLO Top Obligors And Industries Report: Second-Quarter 2023](#), July 19, 2023.

Middle Market CLOs | Credit Estimates

For more information, click [here](#) for the Credit FAQ on Credit Estimates.

Chart 9

Overall credit estimate distribution by issuer count*



*Covers all outstanding S&P Global Ratings U.S. credit estimates, including estimates for obligors not currently held within a CLO transaction. CLO--Collateralized loan obligation. Source: S&P Global Ratings.

Sources

¹[The U.S. Speculative-Grade Corporate Default Rate Could Rise To 4.5% By June 2024](#), Aug. 17, 2023

Related Research

- [U.S. Leveraged Finance Q2 2023 Update: Disparities Emerge By Sector, Rating, Company Size, And Debt Cushion](#), Aug. 3, 2023
- [Rocky Road Ahead For Recurring-Revenue Loans](#), June 21, 2023
- [Refinancing Needs And Rate Uncertainty Drive Issuers To The High-Yield Bond Market](#), June 1, 2023
- [Recovery Report Tracker--U.S. And Canada \(As Of April 27, 2023\)](#), April 27, 2023
- [Risks To Leveraged Loans And CLOs Amid An Increasingly Cloudy Macroeconomic Environment](#), March 29, 2023
- [New Study Finds U.S. Speculative-Grade Issuers Most Vulnerable To Higher-For-Longer Interest Rate Environment](#), March 27, 2023
- [Fifth Annual Study Of EBITDA Addbacks Finds Management Continues To Regularly Miss Projections](#), Feb. 16, 2023
- [U.S. Leveraged Finance Q4 2022 Update: Inflation Pressures Hit Margins. Rate Rises To Hit Cash Flow](#), Feb. 7, 2023
- [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

Leveraged Finance Key Resources

- [U.S. Speculative-Grade Corporate Default Forecast](#), Aug. 17, 2023
- [U.S. BSL CLO And Leveraged Finance Key Themes Q3 2023](#), Aug. 7, 2023
- [U.S. Leveraged Finance Q2 2023 Update](#), Aug. 3, 2023
- [U.S. And Canada Risky Credits](#), July 26, 2023
- [Middle-Market CLO And Private Credit Q3 2023](#), July 24, 2023
- [Global Leveraged Finance Handbook. 2022-2023](#), July 17, 2023
- [U.S. Corporate Default And Rating Transition](#), June 13, 2023
- [EBITDA Addback Study](#), Feb. 16, 2023

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