This Month In Credit

This report does not constitute a rating action.

Rising Stars Reach A New High

(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.**" Please note that we plan to publish the next update of "This Month In Credit" in January 2024.)

Key Takeaways

- Divergence within speculative grade is growing as the negative bias for 'B-' and lower is nearly double that of speculative grade.
- Tightening discretionary spending continues to weigh on consumer-facing sectors, including consumer products and media and entertainment.
- More than half of the 155 new potential downgrades (issuers with negative outlooks or ratings on CreditWatch negative) that were added in July-October cited high leverage as a factor.
- Rising stars reached a new monthly high for the year in October (with six), including Greece, Ford Motor Co., and British Airways PLC.
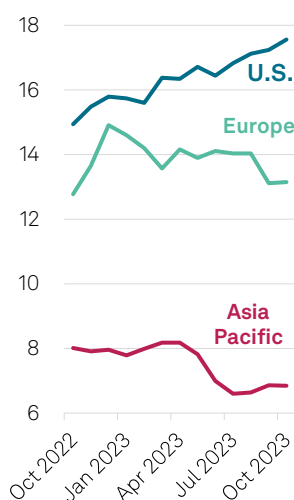
Looking Up

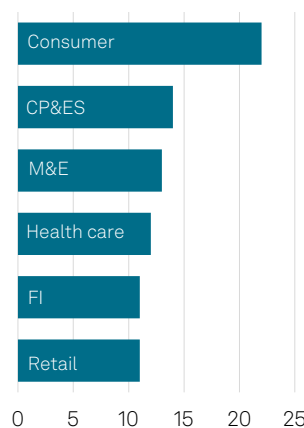Global net bias improved again in October, but the U.S. remains the focal point of downward pressure

Global net bias (%)
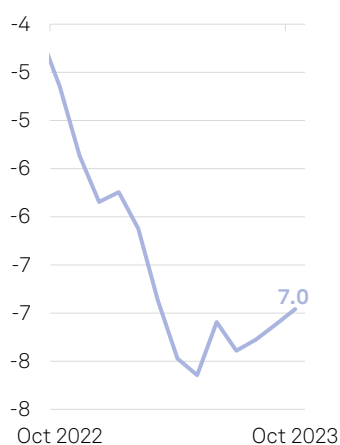
Negative bias (%)

Downgrades by sector (no.)

Data as of Oct. 31, 2023. Charts show downgrade and bias figures globally, including investment-grade and speculative-grade issuers. Net bias is the positive bias minus the negative bias (for both investment- and speculative-grade issuers). Negative bias is the percentage of issuers with negative outlooks or ratings on CreditWatch negative. Downgrades chart shows the sectors with the most downgrades between Aug. 1, 2023 and Oct. 31, 2023. Consumer--Consumer products. CPE&S--Chemicals, packaging, and environmental services. M&E--Media and entertainment. FI--Financial institutions. Source: S&P Global Ratings Credit Research & Insights.

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

Credit Notes: Five Sound Bites For 2024

Five rating performance themes that defined 2023 may continue to shape 2024.

The low end of the lower end looks under increasing strain. 'B-' and lower rated issuers have accounted for 43% of downgrades year to date (through October). Furthermore, the negative bias (or the percentage of issuers with negative outlooks or ratings on CreditWatch negative) for 'B-' and lower is 37%, nearly double that of speculative grade. Over the past three months, downgrades have outnumbered upgrades for issuers rated 'B' and below, while the 'BB+' and 'BB' rating levels have experienced more upgrades than downgrades.

In a world of higher-for-longer interest rates and slower economic growth, a near-term reversal of these trends looks unlikely.

Investment grade is walking the walk. Despite intermittent upticks in investment-grade downgrades this year, such as in the aftermath of the Silicon Valley Bank collapse, investment-grade downgrades account for less than 20% of the downgrades year to date. Furthermore, the monthly tally of downgrades has dwindled since August, falling by half in October (to three), with no downgrades among issuers rated 'BBB+' or above.

With a soft landing our current baseline, investment-grade downgrades may remain limited and idiosyncratic.

In a fragmented world, regional divergence will continue. With U.S. defaults more than doubling from 2022, they now account for nearly two-thirds of global defaults year to date, up from less than half last year. Negative bias in the U.S. is also up, while in contrast it has fallen across Europe and Asia-Pacific. Notably, U.S. performance likely reflects the higher concentration of lower-rated issuers. Nearly 36% of U.S. speculative-grade issuers are rated 'B-' or lower, compared with just 22% in the rest of the world. However, unsynchronized growth rates across major economies, plus the evolution of geopolitical risks in 2024, could weigh more heavily on ratings outside the U.S.

The consumer products sector is not out of the woods. Improved consumer spending-- particularly in the U.S.--is a reason for optimism. However, the sector posted both an elevated number of downgrades (22 in August through October) and potential downgrades (issuers with negative outlooks or ratings on CreditWatch negative), which now total 100. It is also the sector with the second-highest year-to-date default count.

With global growth expected to slow and consumer spending to moderate, sector rating pressures may continue into 2024.

Leverage matters. High leverage has been one of the most common drivers of new potential downgrades. It accounted for more than half of new potential downgrades in July-October.

If rates stay higher for longer, the cost of debt will remain elevated, weighing on issuers with higher debt, weaker cash flows, and forthcoming refinancing risk.
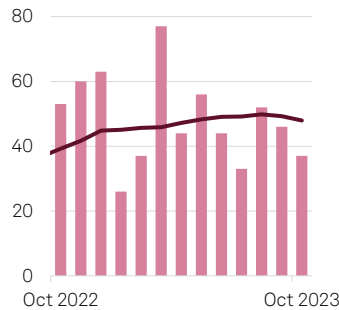
For more accompanying data, click here

'B-' and lower rated issuers accounted for close to 42% of downgrades year to date (through October), and investment-grade downgrades account for less than 20%.
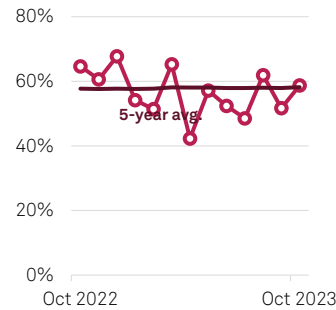
Ratings Trends Snapshot - Through Oct. 31, 2023
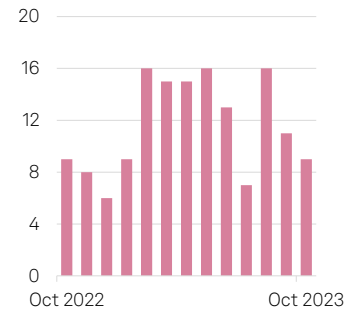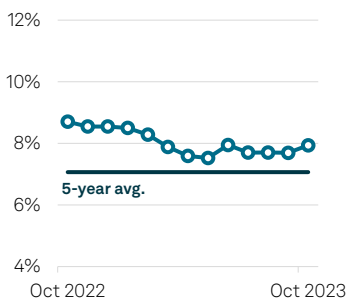
Upgrades (no.)
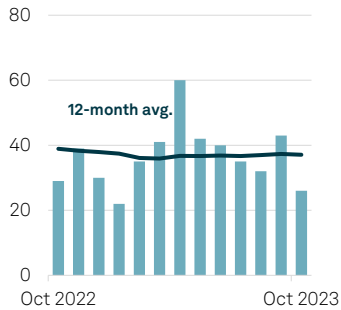
Downgrades (no.)

Downgrade ratio

Defaults (no.)

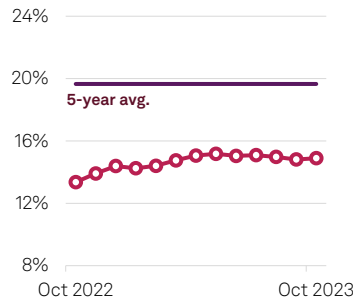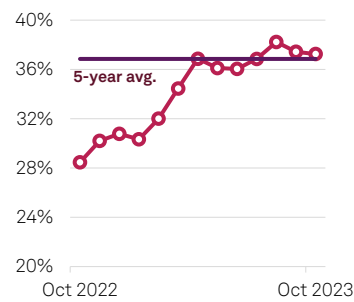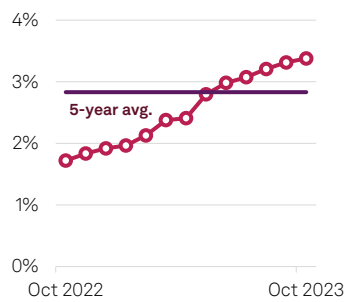### Positive bias

Negative bias

Neg bias 'B-' and lower

SG default rate

Data as of Oct. 31, 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: Rating Actions Slowed In October

October's rating action highlights:

- Downgrades decreased to 37 in October from 46 the month prior, falling further below the 12-month average of 48.

- With upgrades also declining, the downgrade ratio rose to 59%, back in line with the five-year average of 58%. Nearly half of the speculative-grade downgrades were of issuers rated 'B-' or lower.

- Investment-grade downgrades fell by half, and there were no downgrades of issuers rated 'BBB+' or above during the month.

- Over the past three months, downgrades outnumbered upgrades for issuers rated 'B' and below, while the 'BB+' and 'BB' rating levels experienced more upgrades than downgrades.

Over the past three months, downgrades outnumbered upgrades for issuers rated 'B' and below, while the 'BB+' and 'BB' levels experienced more upgrades than downgrades.

Chart 1

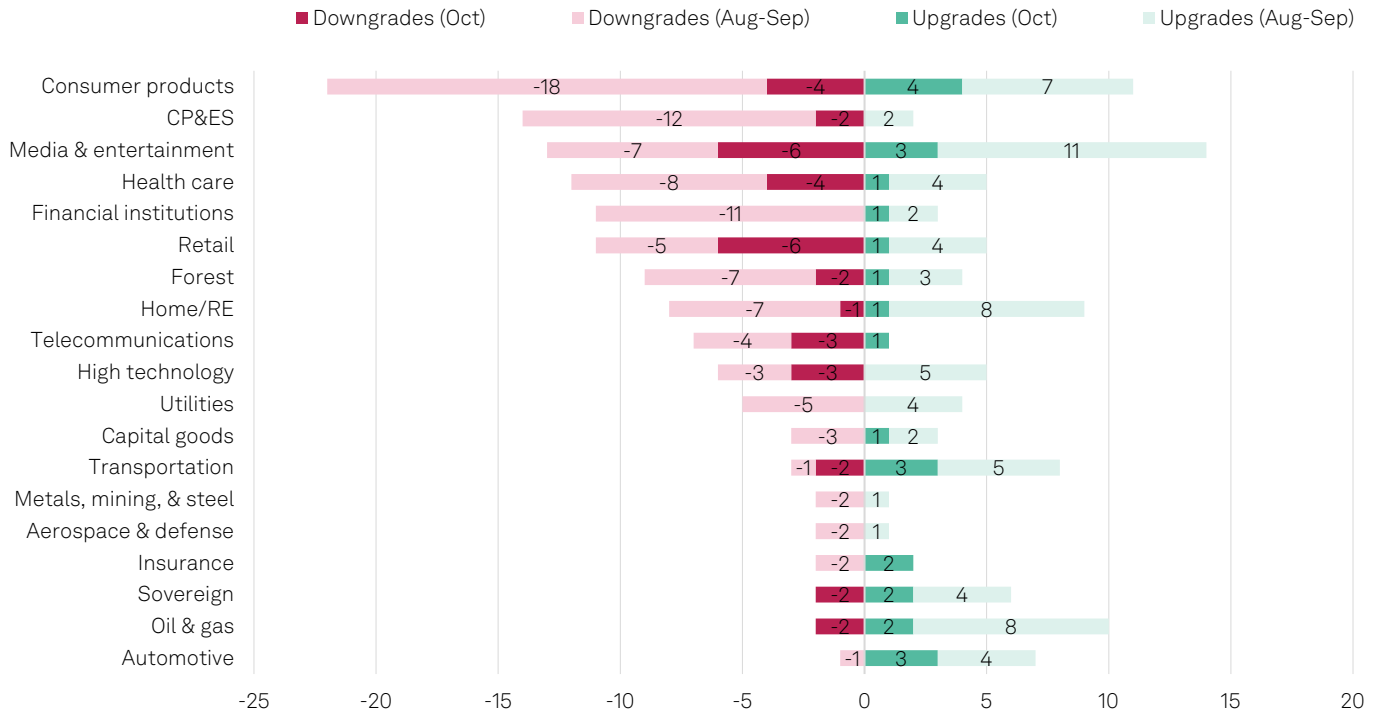## Downgrades outnumber upgrades at lower rating levels
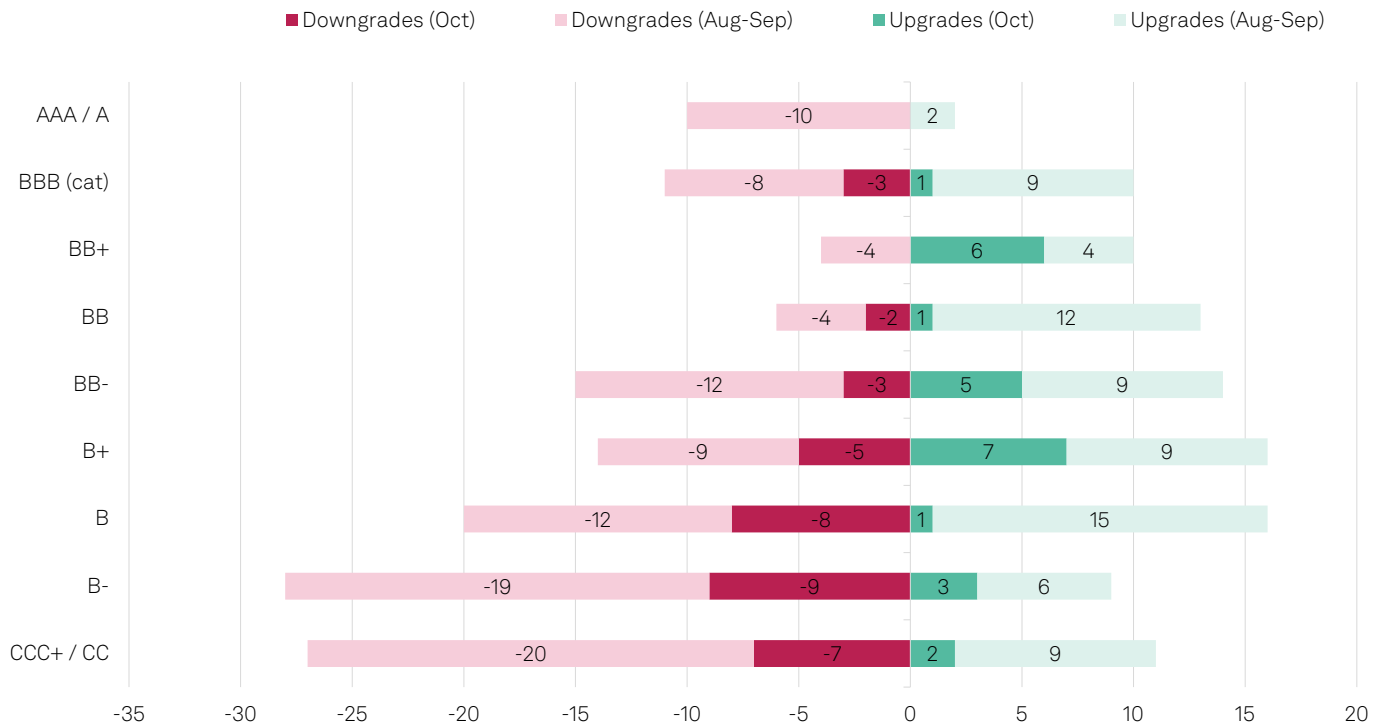
■ Downgrades (Oct) ■ Downgrades (Aug-Sep) ■ Upgrades (Oct) ■ Upgrades (Aug-Sep)

Rating	Downgrades (Aug-Sep)	Downgrades (Oct)	Upgrades (Oct)	Upgrades (Aug-Sep)
AAA / A	-10		2	
BBB (cat)	-8	-3	1	9
BB+	-4		6	4
BB	-4	-2	1	12
BB-	-12	-3	5	9
B+	-9	-5	7	9
B	-12	-8	1	15
B-	-19	-9	3	6
CCC+ / CC	-20	-7	2	9

Data as of Oct. 31, 2023. Includes sovereign, financial, and nonfinancial corporate downgrades globally between August 1, 2023 and October 31, 2023, excluding defaults. Source: S&P Global Ratings Credit Research & Insights.

- For the media and entertainment sector, S&P Global Ratings cited weaker-than-expected operating performance, increasing leverage, and liquidity strains as the primary factors behind downgrades. For retail/restaurants, softer sales, higher leverage, and, in certain cases, lower customer traffic led downgrades.

- Five of October's 10 largest downgrades by debt amount were of issuers in the 'B' rating category, and ratings on three of these issuers were lowered to the 'CCC' category.

- Upgrades fell to 26 from 43 in September, a 40% decline. The consumer products sector led upgrades (with four), followed by automotive, media and entertainment, and transportation (with three each).

- Three of the top 10 upgrades in October were rising stars. **Greece (Hellenic Republic)**, **Ford Motor Co.**, and **ICON PLC** were all upgraded to 'BBB-' from 'BB+' during the month.

Consumer products continues to lead downgrades in 2023

Downgrades by sector

Legend: ■ Downgrades (Oct) ■ Downgrades (Aug-Sep) ■ Upgrades (Oct) ■ Upgrades (Aug-Sep)

Sector	Downgrades (Aug-Sep)	Downgrades (Oct)	Upgrades (Oct)	Upgrades (Aug-Sep)
Consumer products	-18	-4	4	7
CP&ES	-12	-2	2	
Media & entertainment	-7	-6	3	11
Health care	-8	-4	1	4
Financial institutions	-11		1	2
Retail	-5	-6	1	4
Forest	-7	-2	1	3
Home/RE	-7	-1	1	8
Telecommunications	-4	-3	1	
High technology	-3	-3		5
Utilities	-5			4
Capital goods	-3		1	2
Transportation	-1	-2	3	5
Metals, mining, & steel	-2		1	
Aerospace & defense	-2		1	
Insurance	-2			2
Sovereign		-2	2	4
Oil & gas		-2	2	8
Automotive		-1	3	4

Data as of Oct. 31, 2023. Includes sovereign, financial, and nonfinancial corporate downgrades globally between Aug. 1, 2023 and Oct. 31, 2023, excluding defaults. Source: S&P Global Ratings Credit Research & Insights.

Relative Risks By Region And Sector

During October, we added 40 entities to the list of potential downgrades. Financial institutions contributed the most new potential downgrades, followed by the health care sector. The consumer products sector led additions the prior month.

Chart 3

Potential downgrades (no.)

By region
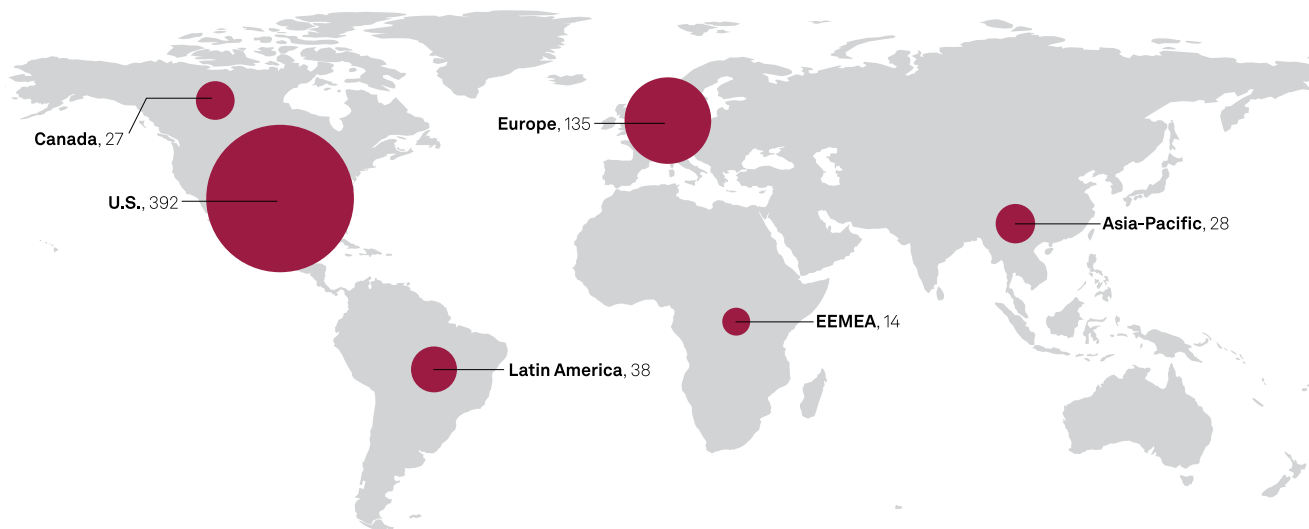
Data as of Oct. 31, 2023. Chart shows number of potential downgrades by region. EEMEA--Eastern Europe, the Middle East, and Africa. Source: S&P Global Ratings Credit Research & Insights.

Increased leverage was the most common driver of new potential downgrades in October, accounting for 56%. Issuer-specific factors, meanwhile, were cited in nearly 45% of October additions, more than double their share in September. (Note that more than one factor can influence a rating action.) Among the issuer-specific factors, increased geopolitical risk was the most prominent, cited in our outlook revisions on the sovereign rating on Israel and the ratings on three Israeli financial institutions.

Other outlook revisions due to issuer-specific factors included two Chilean financial institutions whose ratings were affected by an action on the sovereign. In addition, regulatory risks were cited in three instances, including two issuers from the utilities sector.

Among the issuer-specific factors, increased geopolitical risk was the most commonly cited for new potential downgrades.

Chart 4

Improvements in leverage and operating performance were a less prevalent factor for potential upgrades in October than in the previous month (%)
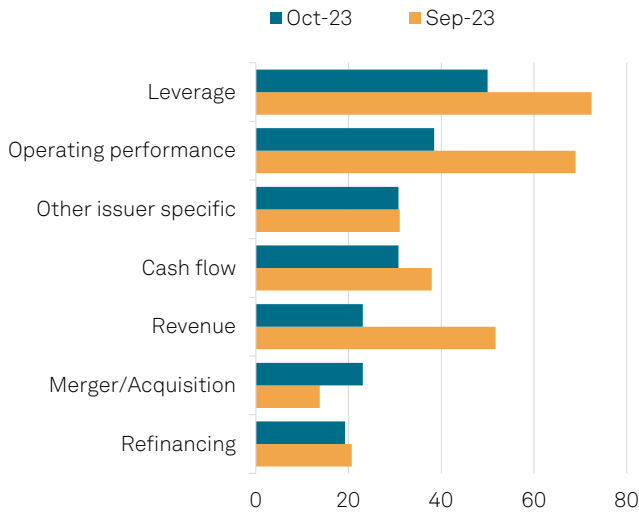
Data as of Oct. 31, 2023. We take stock of the main factors outlined in new potential upgrades reports and group them by qualitative factors. One rating action can have multiple qualitative factors. Source: S&P Global Ratings Credit Research & Insights.

Chart 5

High leverage continued to be cited in more than half of new potential downgrades in October (%)
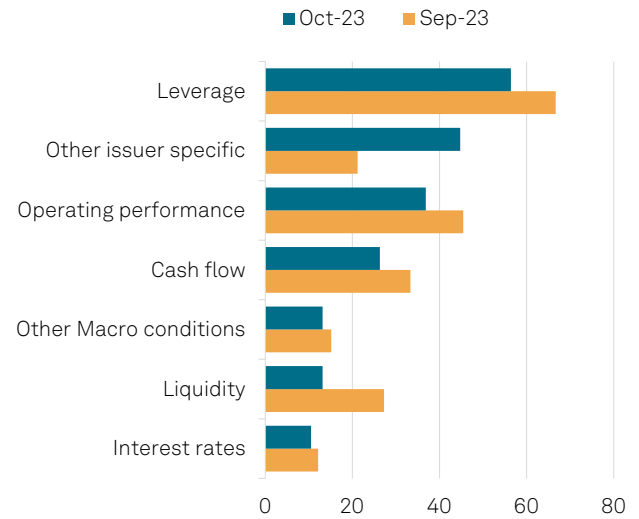
Data as of Oct. 31, 2023. We take stock of the main risks outlined in new potential downgrade and weakest links rating reports and group them by qualitative factors. One rating action can have multiple qualitative factors. Source: S&P Global Ratings Credit Research & Insights.

Following the addition of 26 issuers, the number of potential upgrades reached 312 as of Oct. 31, 2023, an increase from 303 in September.

Improved leverage was still the most commonly cited factor, mentioned in 50% of positive outlook or CreditWatch placements, but it was down 22 points from September. Oil and gas and consumer products were the two sectors citing improving leverage the most.

Improved operating performance, commonly reflecting higher revenues, was the second-most prominent driver, accounting for 38% of new potential upgrades. Mergers and acquisitions (or their announcements), concentrated in the oil and gas and homebuilders and real estate sectors, drove 23% of new potential upgrades, nearly 10 percentage points more than in the previous month.

Mergers and acquisitions were concentrated in the oil and gas and homebuilders and real estate sectors, accounting for 23% of new potential upgrades.

Specific Credit Indicators - Through Oct. 31, 2023

Potential rising stars (no.)
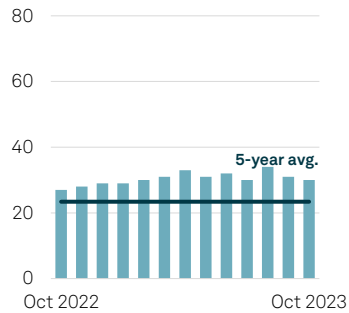
Potential fallen angels (no.)
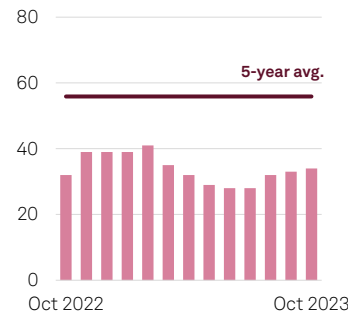
Weakest links (no.)
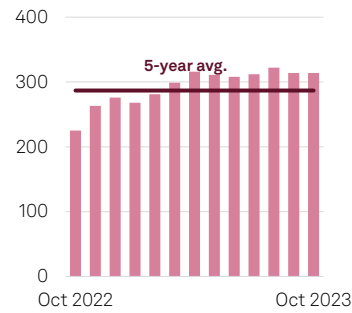
Distress ratio
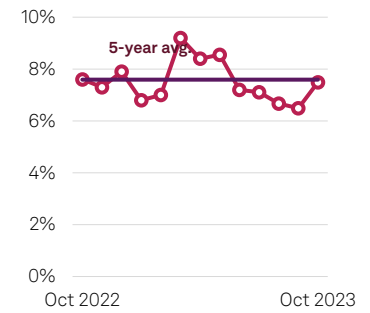
Data as of Oct. 31, 2023. Data represents sovereign, financial, and nonfinancial corporates issuers globally, except for the S&P Global U.S. distress ratio, which is defined as the number of U.S. speculative-grade issues with option-adjusted spreads of more than 1,000 basis points above U.S. Treasury bonds. Source: S&P Global Ratings Credit Research & Insights.

Fallen angels: October saw two new fallen angels: French-based telecom company **Eutelsat Communications S.A.** (downgraded to 'B+' from 'BBB-') and German home and real estate company **Alstria Office REIT-AG** (downgraded to 'BB+' from 'BBB-').

Eutelsat's downgrade followed the completion of its all-share merger with satellite operator OneWeb, and our opinion that the combined groups' credit metrics will deteriorate in the near term. Alstria was downgraded after it announced its intention to pay a special dividend, which we believe will no longer keep its credit metrics in line with what we view as investment grade over the next 12-24 months.

In addition, four new potential fallen angels (issuers rated 'BBB-' with negative outlooks or on CreditWatch negative) were added in October. By sector, two of the four were from the homebuilder and real estate sector (**Altarea SCA** and **Brookfield Property Partners L.P.**). Higher-for-longer interest rates have particularly challenged this sector.

Rising stars: There were six new rising stars (issuers upgraded to investment grade from speculative grade) in October, a monthly high for the year. Rising stars accounted for the two largest upgrades of the months, including the sovereign rating on **Greece** and U.S. automotive giant **Ford Motor Co.** Rising stars in the month also included Irish consumer products company **ICON PLC**, European transportation companies **British Airways PLC** and **International Consolidated Airlines Group S.A.**, and Bermuda insurance company **Sagicor Financial Company Ltd**.

We raised the sovereign rating on **Greece** owing to an improvement to its public finances and budgetary consolidation efforts.

We upgraded **Ford Motor Co.** after its EBITDA margin well exceeded our previously stated target of 8% and it showed strength relative to its peers. Additionally, we believe Ford's significant cash balances and overall liquidity provide solid financial flexibility to compete in its highly cyclical and disruption-prone end-markets.

New rising stars totaled six in October, marking a monthly high for the year.

There were three new potential rising stars (issuers rated 'BB+' with positive outlooks or on CreditWatch positive) in October: **Iccrea Banca SpA**, **Hess Midstream Operations L.P.**, and **TechnipFMC PLC**. The oil and gas sector continues to account for the most potential rising stars with seven, including two issuers added in October.

While rising stars continue to outnumber fallen angels year to date, 31 to 16, potential fallen angels continue to outnumber potential rising stars, 34 to 30.

Weakest links: The tally of weakest links (issuers rated 'B-' and below with negative outlooks or on CreditWatch negative) remained at 314 in October, unchanged from September but above its five-year average.

The media and entertainment and capital goods sectors led weakest links additions, with three and two, respectively. Additions from the media and entertainment sector were **Hurtigruten Group AS**, **Safari Beteiligungs Gmbh**, and **Sprint HoldCo B.V.**, while the capital goods additions were **LTI Holdings Inc.** and **Wastequip LLC**. Many of these new weakest links are ultimately exposed to shifting consumer demand and several are facing liquidity constraints.

Distress ratio: The U.S. distress ratio increased to 7.5% from 6.5% last month. Despite this increase, it remains just below its long-term average of 7.6%. (The distress ratio is 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.)

The telecommunications sector continues to show the highest distressed ratio (near 30%), although this was little changed in the month. Meanwhile, high technology had the largest increase in the number of distressed issues in the month (up by three).

Defaults: Global corporate defaults slowed in October, although the lull is not expected to last. The decline was led by a drop in U.S. defaults to three, the lowest monthly tally so far in 2023. However, global corporate defaults are still elevated at nearly 2x year-to-date 2022 levels and 13% above their five-year average.

S&P Global Ratings expects the U.S. trailing-12-month speculative-grade corporate default rate to rise to 5% by September 2024, from 4.1% in September 2023 (see "Higher Rates For Even Longer Could Push The U.S. Speculative-Grade Corporate Default Rate To 5% By September 2024," Nov. 16, 2023). Meanwhile, we expect the European trailing-12-month speculative-grade corporate default rate to rise 3.75% by September 2024, from 3.1% in September 2023 ("Elevated Interest Rates Could Push The European Speculative-Grade Corporate Default Rate To 3.75% By September 2024," Nov. 17, 2023). For both regions, persistently high interest rates are expected to continue to squeeze weaker borrowers.

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."

Global corporate defaults slowed in October, led by a drop in U.S. defaults to its lowest monthly tally so far in 2023.

The high technology sector had the largest increase in the number of distressed issues in the month.

Table 1

Potential downgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
Aerospace and defense	10	10					
Automotive	13	9	3	1			
Capital goods	31	18	8	1	1		3
Consumer products	100	73	19	1	2	4	1
CP&ES	42	24	12	2	3		1
Diversified	2				1		1
Financial institutions	49	19	10	4	10	4	2
Forest PBM	11	5	6				
Health care	62	52	9				1
High technology	38	27	8	2			1
Home/real estate	40	16	16	7			1
Insurance	10	7	2	1			
Media/entertainment	58	46	9	2	1		
Metals, mining, and steel	14	6	4		2		2
Oil and gas	10	2	1		2	1	4
Retail/restaurants	33	29	3		1		
Sovereign	12		4		4	4	
Telecommunications	26	15	5		3		3
Transportation	21	7	7	4	1	1	1
Utilities	52	27	9	3	7		6

Data as of Oct. 31, 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	8	6	2				
Automotive	9	4	3	1		1	
Capital goods	13	6	6	1			
Consumer products	24	11	8		2		3
CP&ES	10	3	5		2		
Diversified	2				2		
Financial institutions	38	6	13	11	4	2	2
Forest PBM	12	7	3		1	1	
Health care	14	9	4				1
High technology	12	9	3				
Home/real estate	11	7	1			2	1
Insurance	7	4	2	1			
Media/entertainment	37	28	6		1		2
Metals, mining, and steel	15	6	5	1	1		2
Oil and gas	32	19	9	1	2		1
Retail/restaurants	9	6	3				
Sovereign	9		4		2	3	
Telecommunications	7		6				1
Transportation	15	5	5	2	2		1
Utilities	28	17	5	2	3	1	

Data as of Oct. 31, 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 October

Issuer	Sector	Downgrade date	Downgrade To	Downgrade From	Country	Amount (bil. $)
Arab Republic of Egypt	Sovereign	10/20/2023	B-	B	Egypt	32.7
Walgreens Boots Alliance Inc.	Retail	10/19/2023	BBB-	BBB	U.S.	9.7
Anywhere Real Estate Group LLC	Media & entertainment	10/31/2023	B	B+	U.S.	5.7
Michaels Companies Inc., (The)	Retail	10/4/2023	CCC+	B-	U.S.	4.1
NOVA Chemicals Corp.	CP&ES	10/5/2023	BB-	BB	Canada	3.2
Petroleos del Peru Petroperu S.A.	Oil & gas	10/12/2023	B+	BB	Peru	3.0
Eutelsat Communications S.A.	Telecommunications	10/9/2023	B+	BBB-	France	2.7
Restoration Hardware Inc., (RH)	Retail	10/5/2023	B+	BB-	U.S.	2.5
EyeCare Partners, LLC	Health care	10/27/2023	CCC	B-	U.S.	2.2
PHM Netherlands Midco B.V.	Forest	10/27/2023	CCC+	B-	Netherlands	2.1

Data as of Oct. 31, 2023. Excludes defaults. Table shows 10 largest issuer nondefault downgrades, excluding defaults, by debt amount in October 2023. Source: S&P Global Ratings Credit Research & Insights.

Table 4

Top 10 upgrades in October

Issuer	Sector	Upgrade date	Upgrade to	Upgrade from	Country	Amount (bil. $)
Hellenic Republic	Sovereign	10/20/2023	BBB-	BB+	Greece	155.9
Ford Motor Co.	Automotive	10/30/2023	BBB-	BB+	U.S.	113.3
Endeavor Group Holdings Inc.	Media & entertainment	10/5/2023	BB-	B+	U.S.	9.8
Sedgwick L.P.	Insurance	10/17/2023	B+	B	Cayman Islands	7.0
Molson Coors Beverage Co.	Consumer products	10/5/2023	BBB	BBB-	U.S.	6.5
ICON PLC	Consumer products	10/12/2023	BBB-	BB+	Ireland	6.0
Republic of Costa Rica	Sovereign	10/27/2023	BB-	B+	Costa Rica	6.0
Peer Holding III B.V.	Retail	10/12/2023	BB	BB-	Netherlands	3.7
Shelf Drilling Holdings Ltd.	Oil & gas	10/9/2023	B-	CCC+	Cayman Islands	2.3
Ashton Woods USA LLC	Home/RE	10/11/2023	BB-	B+	U.S.	2.0

Data as of Oct. 31, 2023. Table shows 10 largest issuer upgrades by debt amount in October 2023.
Source: S&P Global Ratings Credit Research & Insights.

Related Research

- [ESG In Credit Ratings November 2023: Positive Rating Actions Fall To A Year-To-Date Low](), Nov. 16, 2023

- [Higher Rates For Even Longer Could Push The U.S. Speculative-Grade Corporate Default Rate To 5% By September 2024](), Nov. 16, 2023

- [Default, Transition, and Recovery: U.S. Defaults To Rise After October Lull](), Nov. 16, 2023

- [Default, Transition, and Recovery: 2022 Annual Infrastructure Default And Rating Transition Study](), Nov. 15, 2023

- [Risky Credits: North American Telecoms In The Spotlight](), Nov. 1, 2023

- [Risky Credits: Emerging Markets Hang In Balance](), Nov. 1, 2023

- [Europe's Risky Credits: Liquidity And Refinancing Risks Start To Bite](), Nov. 1, 2023

- [Global Credit Markets Update Q4 2023: Hanging By A Thread](), Oct. 31, 2023

- [SLIDES: Investment-Grade Credit Check: Pockets Of Risk](), Oct. 30, 2023

- [Credit Trends: Global Financing Conditions: Stubborn Rates Portend Slower Issuance Growth In 2023 And 2024](), Oct. 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.