

# The Ratings View

January 24, 2024

This report does not constitute a rating action.

## Key Takeaways

- Red Sea shipping disruption poses conflict escalation and supply-chain risks.
- The Fed's rate pivot has opened space for rate cuts in emerging markets (EMs).
- The number of credit rating actions related to ESG declined in 2023.

**Disruption to shipping in the Red Sea poses conflict escalation and supply-chain risks.** The Houthi attacks represent a worrying step toward the possibility that conflict in the Middle East could escalate. But while the effects on supply chains and inflation may cause some dislocation in the short term, we believe they will largely be manageable—barring the extreme tail risk of a regional war leading to the weaponization of energy against the West via restrictions on oil and gas tankers' rights of passage through the Strait of Hormuz.

[CreditWeek: How Will The Red Light In The Red Sea Affect Supply Chains And Inflation?](#)

**The Federal Reserve's December pivot provides additional space for interest rate cuts in EMs in 2024.** We expect central banks in major EMs, which began cutting rates, to continue doing so in the coming months, and those that haven't to start by the end of 2024. Benchmark bond yields of key EM economies have compressed since the Fed's pivot in December, as markets price in more aggressive interest rate cuts. Across EM economies, except for a few exceptions, local-currency borrowing rates were either stable or declined significantly. However, the Red Sea incidents, together with ongoing disruptions in the Panama Canal, increase the risk of renewed upward pressure on inflation. The Red Sea is a key route for the transit of energy commodities (particularly oil and liquefied natural gas), as well as for goods in general. Freight costs have increased as a reaction to the conflict, although the uptick in commodity prices remains subdued so far. Key EM economies that are more directly impacted include, India, China (through energy imports), and Turkiye (through supply-chain disruptions).

[Emerging Markets Monthly Highlights: Red Sea Tensions Hinder Disinflation](#)

**Credit rating actions related to environmental, social, and governance (ESG) factors fell 44% in 2023 versus 2022,** largely due to the ongoing decline in COVID-related risks. The corporates and infrastructure sector and U.S. public finance retained their leads in ESG-related positive and negative rating actions, respectively. The dominant factor in both positive and negative ESG-related rating actions was health and safety, overtaking risk management, culture, and oversight as the top factor behind negative rating actions by a slight margin (48 versus 44 in 2023). Governance factors continued to play a meaningful role, accounting for over 40% of ESG-related rating actions, while climate transition risk remains a limited, albeit growing, rating action factor.

[ESG In Credit Ratings January 2024: 2023 In Review](#)

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# Asset Class Highlights

## Corporates

Notable publications include:

- [APAC Consumer Products And Retail Outlook In 2024: Spending To Soften](#)
- [China's RMB350 Billion Policy Push May Help Developer Destocking](#)
- [China Retail Sales Will Likely Grow Slower Than GDP This Year](#)
- [Japan Consumer Electronics' Credit Stability Hinges On Enhanced Portfolios](#)
- [2024 U.S. Residential Mortgage And Housing Outlook: A Rate And Supply Story](#)

## Financial Institutions

- In Asia, we raised the ratings on three Indonesian state-owned banks to 'BBB' from 'BBB-', and our short-term issuer credit ratings to 'A-2' from 'A-3', respectively. This reflects the very high likelihood of extraordinary government support. This is due to their very important role in supporting Indonesia's economic growth via financial intermediation and deeper inclusion.
- In Latin America, we revised the rating outlook on three Colombian commercial banks and subsidiaries, and on two government-owned banks to negative from stable. The rating revision mirrors the sovereign rating action on Colombia.
- We published several commentaries, including:
  - [For Korea's Nonbanks Real Estate Risk Is Becoming Reality](#)
  - [South African Banking Outlook 2024: Banks Are Largely Immune To The Faltering Economy](#)
  - [Nigerian Banking Outlook 2024: Banks Stand Firm Amid Macroeconomic Pressures](#)
  - [Stabilizing Interest Rates Ease Pressure On Asset Managers. Despite Headwinds](#)

## Sovereign

- [Colombia Outlook Revised To Negative On Subdued Economic Growth Prospects; 'BB+/B' Foreign Currency Ratings Affirmed](#)

## Structured Finance

- **U.S. Residential Mortgage and Housing Outlook:** Here are a few “Key Takeaways” from a recent article:
  - Elevated mortgage rates and limited housing supply will continue to influence the relationship between rental and ownership markets, with regional variations.
  - We expect non-agency issuance to grow in 2024 after unusually low volume in 2023.

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## The Ratings View

- While overall mortgage performance seems healthy, there could be regional pockets of pressure, and some portfolios could have negative exposure from adjustable-rate mortgage resets.

See "[2024 U.S. Residential Mortgage And Housing Outlook: A Rate And Supply Story](#)" published Jan. 17, 2024.

- **Japan RMBS:** A large earthquake on Japan's Noto Peninsula is unlikely to severely hit securitization performance. We expect it to have limited impact on the creditworthiness of residential mortgage-backed securities (RMBS) transactions backed by apartment construction loans we rate.

See "[Japan Earthquake To Have Limited Impact On RMBS](#)" published Jan. 15, 2024.

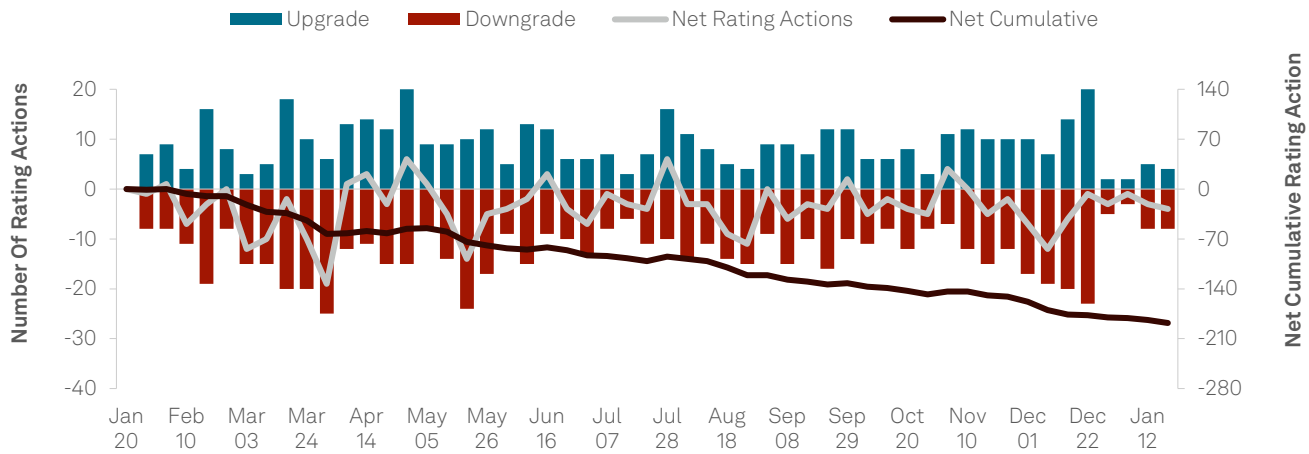
- **Australian RMBS:** Australian prime home loan arrears were steady in November and nonconforming arrears increased. That's according to S&P Global Ratings' recently published "RMBS Arrears Statistics: Australia." The Standard & Poor's Performance Index (SPIN) for Australian prime mortgages loans excluding noncapital market issuance dipped to 0.91% in November from 0.92% in October. Nonconforming arrears declined in percentage terms to 3.65% in November from 3.70% in October, but this result was affected by an increase in outstanding loan balances due to new issuance. In dollar terms, nonconforming arrears increased month on month.

Loans in arrears have held steady since August, in part reflecting a pause in rate rises from June to November. Property price increases, particularly in Queensland and Western Australia, will be helping arrears by providing some borrowers with an exit strategy to self-manage their way out of financial pressure. Arrears in these states declined over the month, in contrast to Victoria and New South Wales, which recorded modest monthly increases. Arrears are likely to increase between December and February, reflecting an increase in the cash rate in November, and the Christmas holiday period. The higher spending incurred during these months is likely to have downstream effects on mortgage arrears for a small proportion of borrowers. This trend is seasonal but is likely to become more pronounced, given the challenges for household budgets in 2023 from a range of higher costs over the year. Low unemployment is keeping a lid on higher arrears for most borrowers, despite consecutive interest rate rises and cost-of-living pressures. Provided unemployment remains low, we don't expect a material rise in arrears.

- **Canadian Credit Card ABS:** We recently published the "[Canadian Credit Card Quality Index: Monthly Performance--November 2023](#)" on Jan. 18, 2024. 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.

## The Ratings View

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 Jan. 19, 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. \$)
16-Jan	Downgrade	<a href="#">DISH Network Corp. (EchoStar Corp.)</a>	Telecommunications	U.S.	CC	CCC+	22,500
17-Jan	Upgrade	<a href="#">NGL Energy Partners LP</a>	Utilities	U.S.	B	B-	7,300
17-Jan	Upgrade	<a href="#">Fitness International LLC</a>	Media & entertainment	U.S.	B	B-	2,550
19-Jan	Downgrade	<a href="#">Atos SE</a>	High technology	France	B-	BB-	2,061
19-Jan	Downgrade	<a href="#">Leggett &amp; Platt Inc.</a>	Capital goods	U.S.	BBB-	BBB	1,800
16-Jan	Downgrade	<a href="#">Brandywine Realty Trust Inc.</a>	Homebuilders/real estate co.	U.S.	BB	BB+	1,500
16-Jan	Downgrade	<a href="#">Baffinland Iron Mines Corp.</a>	Metals, mining & steel	Canada	CCC	B-	1,150
18-Jan	Upgrade	<a href="#">Mytilineos S.A.</a>	Metals, mining & steel	Greece	BB+	BB	1,088
17-Jan	Downgrade	<a href="#">TMK Hawk Parent Corp.</a>	Consumer products	U.S.	SD	CC	936
18-Jan	Downgrade	<a href="#">Vue Entertainment International Ltd.</a>	Media & entertainment	U.K.	CC	CCC+	809

Source: S&P Global Ratings Credit Research & Insights. Data as of Jan. 19, 2023. U.S. means United States, U.K. means United Kingdom 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.



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