Global Credit Markets Update | Q1 2024

Competing Forces

January 25, 2024

S&P Global Ratings

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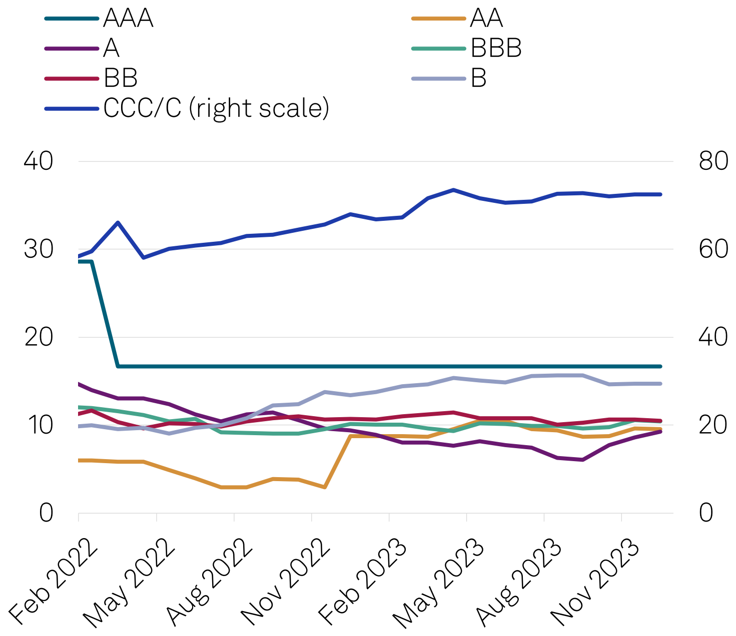
This report does not constitute a rating action

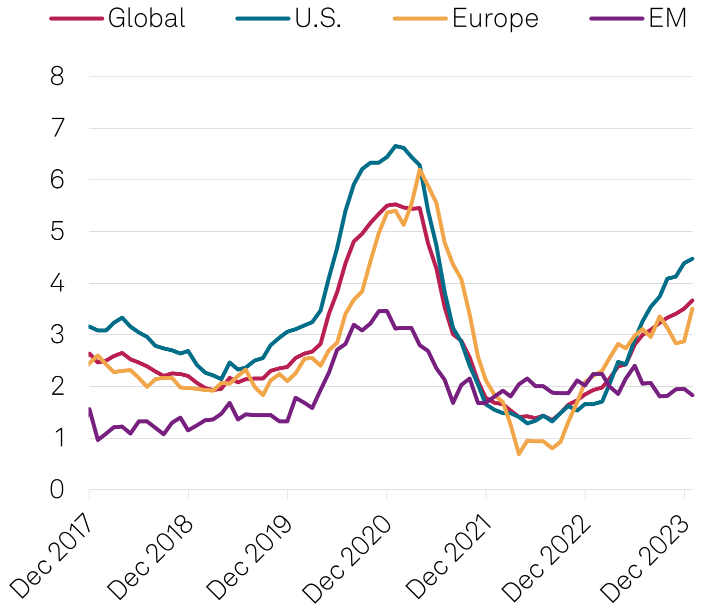
Ratings Performance

Continued Ratings Pressure Versus Narrower Spreads – Something's Got To Give

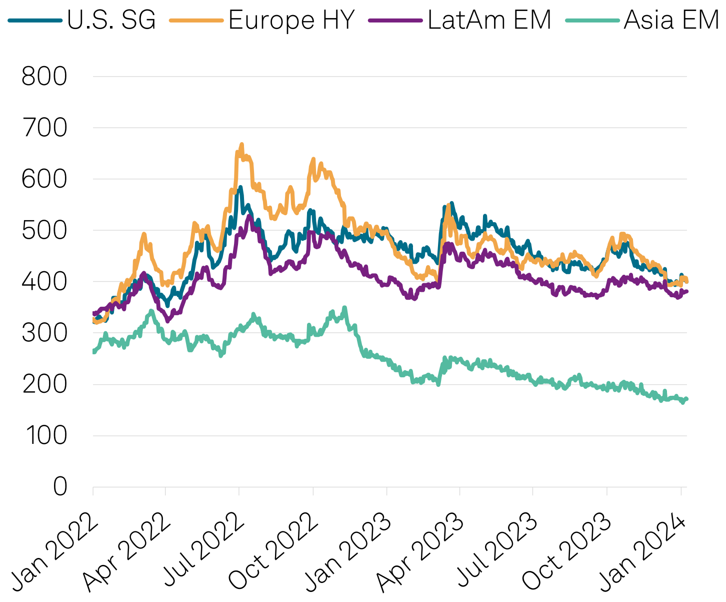
Negative bias remains high at the low end of the spectrum (%)



Defaults rates continue to rise especially in the U.S. and Europe (%)



Credit spreads are narrowing (basis points)



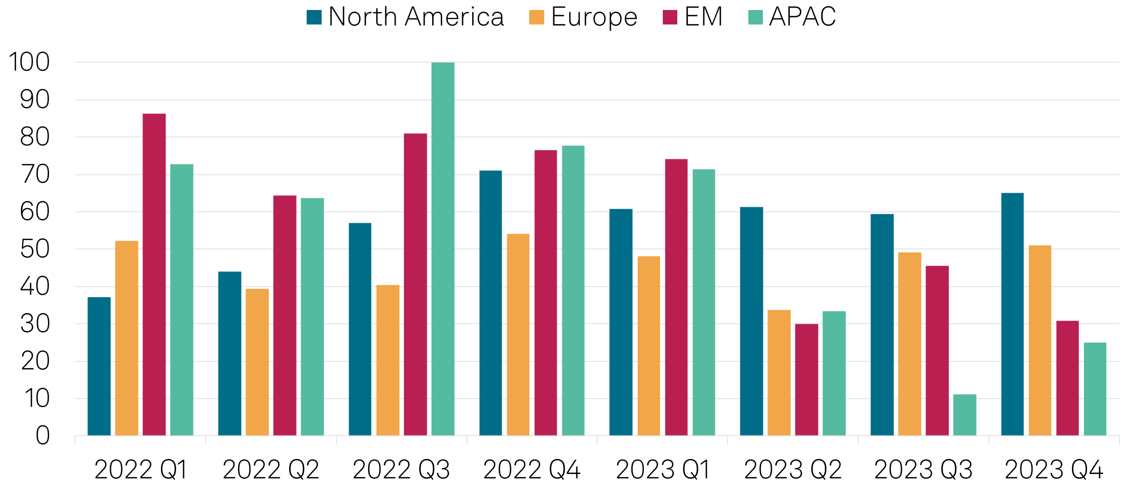
Negative bias data as of Dec. 31, 2023. Includes financials and nonfinancial corporates. Negative bias is the share of issuers with negative outlooks or ratings on CreditWatch negative. Default rates as of Dec. 31, 2023. Credit spreads data as of Jan. 9, 2024. SG--Speculative grade. HY--High yield. Source for left chart: S&P Global Ratings Credit Research & Insights. Source for middle chart: S&P Global Market Intelligence's CreditPro, S&P Global Ratings Credit Research & Insights. Source for right chart: FRED (for Asia EM, LatAm EM, and Europe HY data). S&P Dow Jones Indices (for Europe IG data). S&P Global Ratings Credit Research & Insights.

Credit Rating Trends

Credit Trends | Downgrades Outpaced Upgrades For Most Of 2023

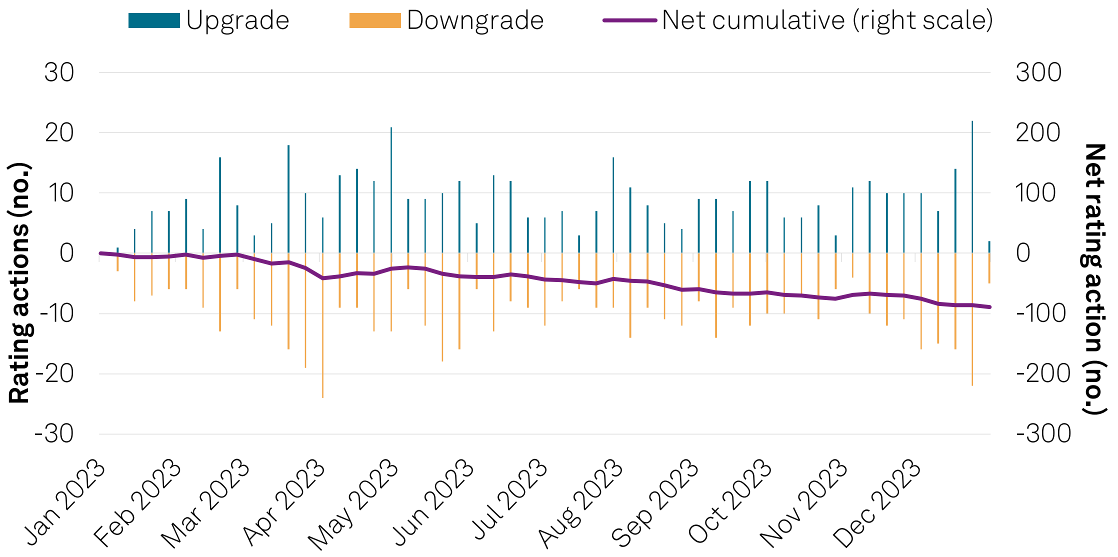
- Regional downgrade ratios (downgrades divided by total rating actions) in the fourth quarter were below those seen in the same period of 2022. Nonetheless, downgrades continue to outpace upgrades overall, led by North America and Europe.
- North America holds the highest downgrade ratio for the third straight quarter in a row at 65%-- its highest quarterly downgrade ratio of 2023, but lower than the fourth quarter of 2022.

North America still dominates the quarterly downgrade ratio (%)



Note: To ensure better regional alignment, we have incorporated minor adjustments to the country composition of certain regions. Data as of Dec. 31, 2023. Chart shows downgrades as a percentage of rating actions. Excludes sovereigns and defaults. EM--Emerging markets. APAC--Asia-Pacific. EM consists of Argentina, Brazil, Chile, China, Colombia, Hungary, Mexico, India, Indonesia, Malaysia, Thailand, Philippines, Poland, Peru, Vietnam, Saudi Arabia, South Africa, and Turkiye. Source: S&P Global Ratings Credit Research & Insights.

Global rating actions: more downgrades than upgrades



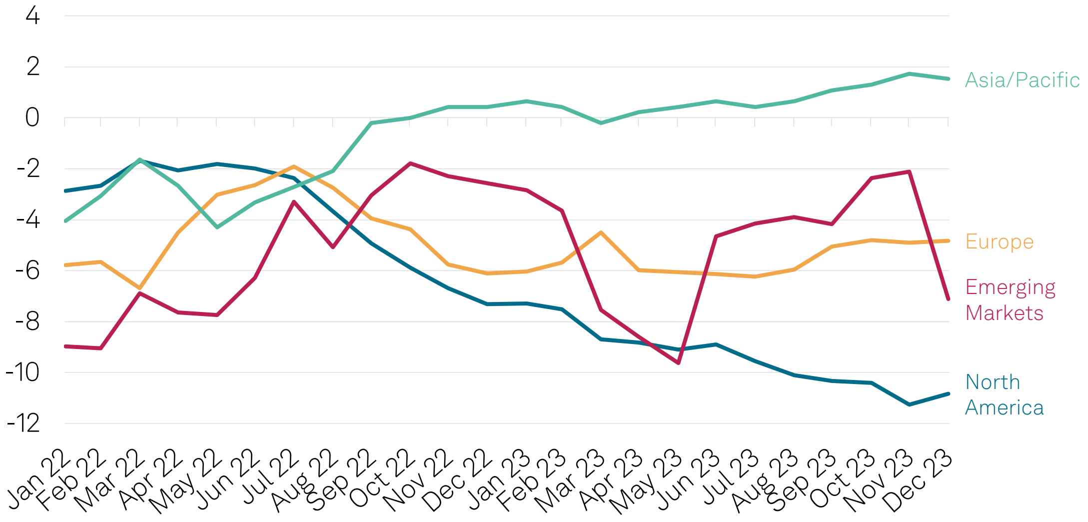
Data as of Dec. 31, 2023. Net cumulative is upgrades minus downgrades. Downgrades are shown as a negative number and excludes defaults. Rating actions for financials, nonfinancials, and sovereigns. Source: S&P Global Ratings Credit Research & Insights.

Credit Trends | Negative Net Outlook Biases Forewarn Further Downward Rating Pressure

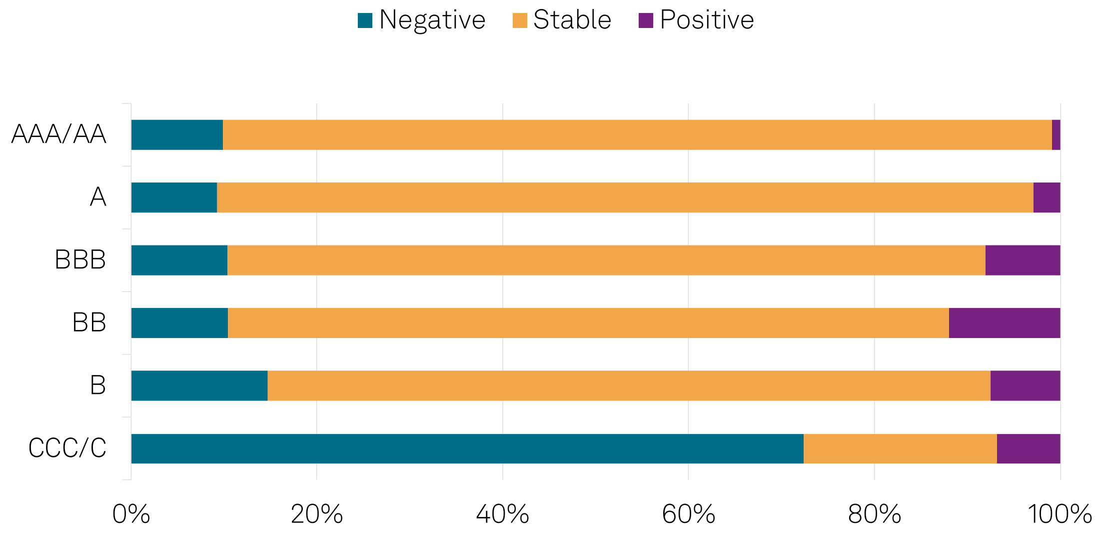
- Net bias (the positive bias minus the negative bias) is negative for all regions outside of Asia-Pacific. It is more negative in the U.S. than elsewhere, largely reflecting the higher concentration of U.S. issuers rated 'B-' and below.
- The lowest rated issuers face more immediate challenges from high financing costs and slowing economic growth.
- The sharp decline in emerging markets net bias in December was due to the addition of 23 negative outlook revisions last month. Of these, 78% were from Brazil as our sovereign outlook was revised from positive to stable in December.

Regional rating bias partially reflects rating distributions

Net bias by region (%)



Bias by rating category: More negative at ‘CCC’ category and below

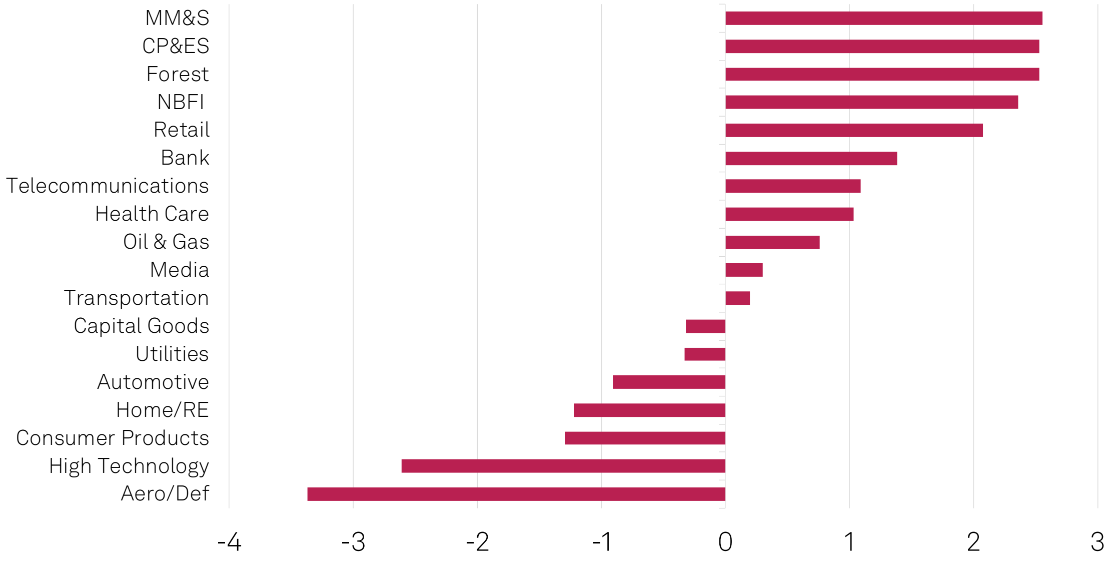


Data as of Dec. 31, 2023. Excludes sovereigns. Net bias is positive bias minus negative bias. Negative bias is the share of issuers with ratings that either have negative outlooks or are on CreditWatch with negative implications. Positive bias is the share of issuers with ratings that either have positive outlooks or are on CreditWatch with positive implications. Note: To ensure better regional alignment, we have incorporated minor adjustments to the country composition of certain regions. Emerging Markets consist of Argentina, Brazil, Chile, China, Colombia, Hungary, Mexico, India, Indonesia, Malaysia, Thailand, Philippines, Poland, Peru, Vietnam, Saudi Arabia, South Africa, and Turkiye. Source: S&P Global Ratings Credit Research & Insights.

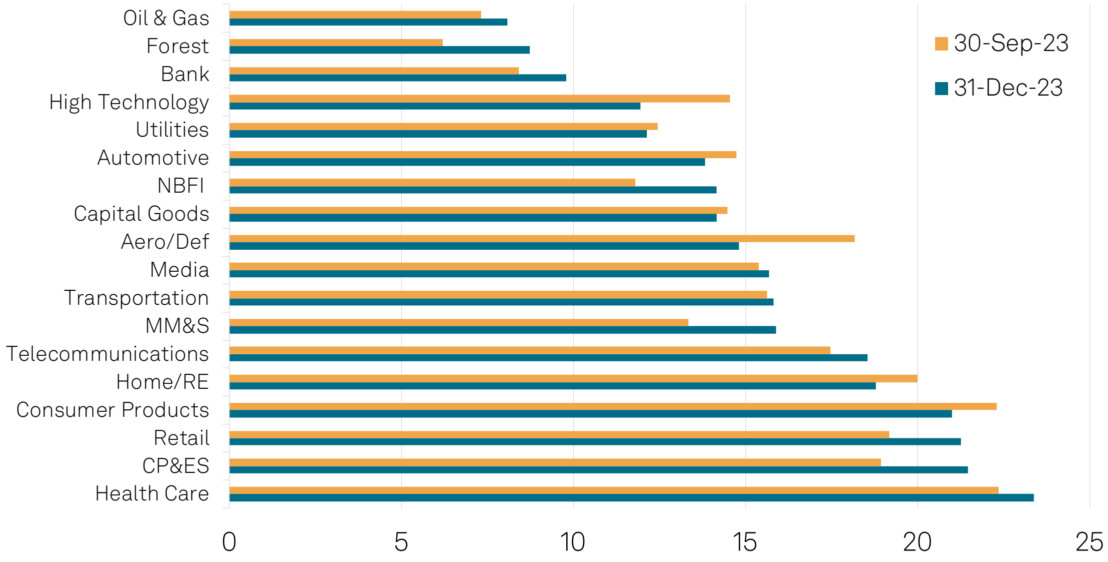
Sectoral Credit Trends | Healthcare Starts 2024 With The Highest Level Of Negative Bias

- Non-oil and gas hard commodities and related sectors had the greatest quarter-over-quarter increase in negative bias in the fourth quarter of 2023.
- The health care sector had the highest level of negative bias as of the end of the fourth quarter, with healthcare services in particular struggling with a tight labor market.
- The sizable decrease in aerospace and defense negative bias is disproportionately affected by a small dataset.

More sectors saw negative bias worsen quarter-on-quarter (%)



Health care led in the absolute level of negative bias in 2023 (%)

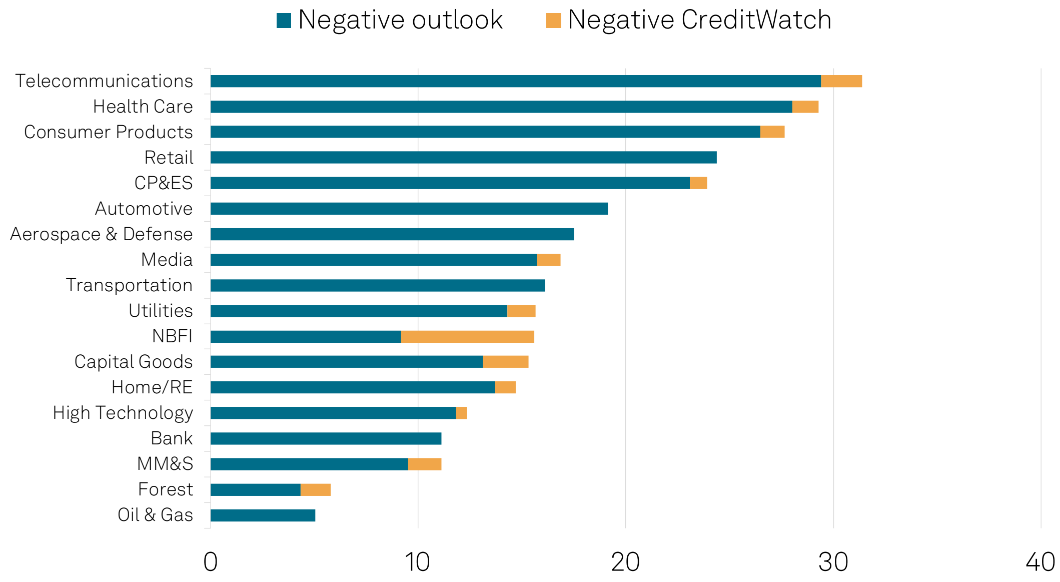


Data as of Dec. 31, 2023. Includes financials and nonfinancial corporates, excluding insurance. Negative bias is the share of issuers with negative outlooks or ratings on CreditWatch negative. Note: The chart on the left shows quarter-over-quarter percentage point changes in negative bias. Aero/Def--Aerospace and defense. CP&ES--Chemicals, packaging, and environmental services. Forest--Forest products and building materials. Home/RE--Homebuilders/real estate companies. Media--Media and entertainment (includes leisure and lodging). MM&S--Metals, mining, and steel. Retail--Retail/restaurants. Source: S&P Global Ratings Credit Research & Insights.

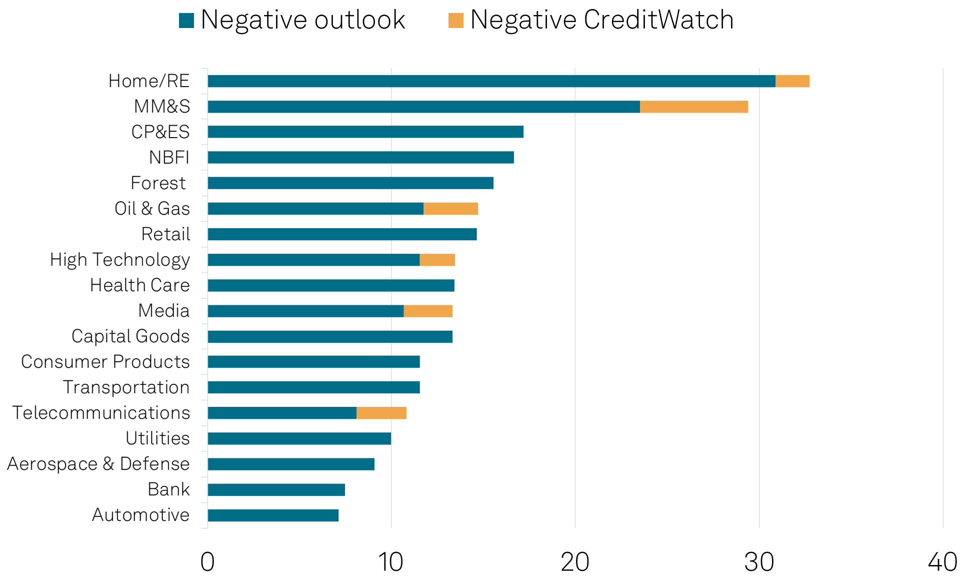
Regional Credit Trends | Sector Divergences Between North America And Europe

- Telecommunications contributed the most potential downgrades in North America (overtaking health care from the third quarter) while homebuilders/real estate companies continue to lead Europe.
- The consumer products and retail sectors have a far higher share of potential downgrades in North America than in Europe, largely reflecting a higher concentration of consumer products manufacturers in the former.

North America: Telcos lead the negative outlooks (%)

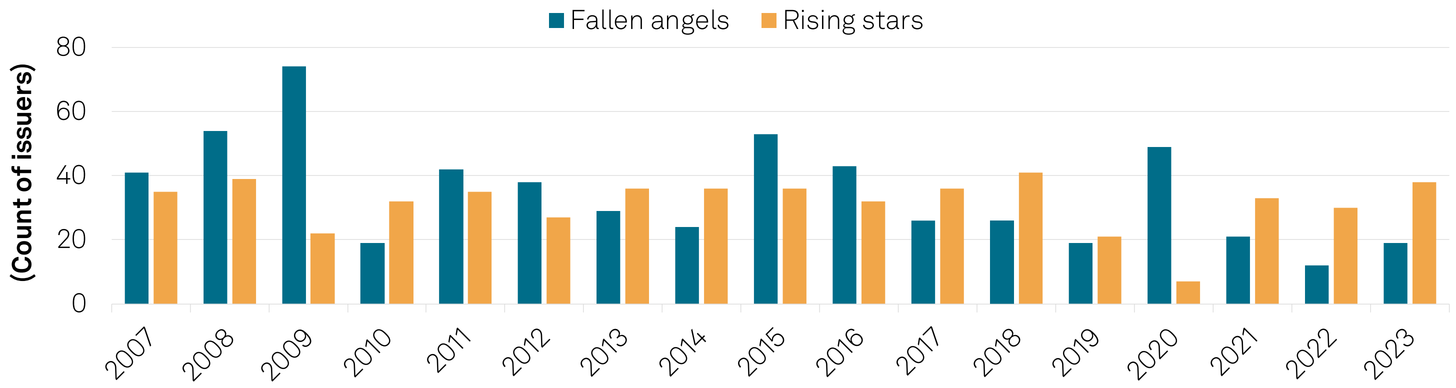


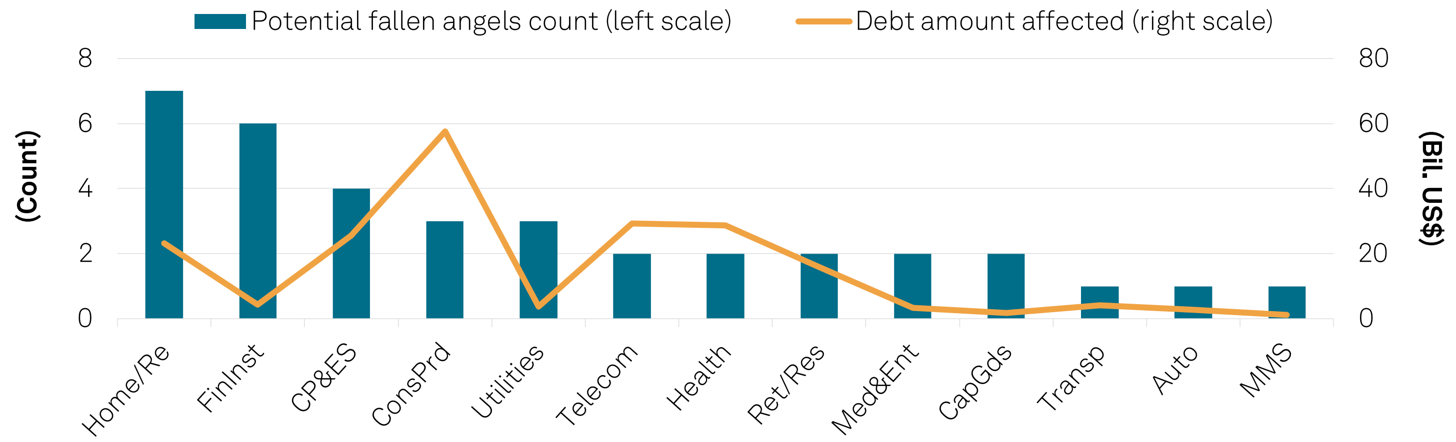
Europe: Real estate leads negative outlooks (%)



Note: To ensure better regional alignment, we have incorporated minor adjustments to the country composition of certain regions. Data as of Dec. 31, 2023. Data used in calculation only include parent companies, and excludes insurance. CP&ES--Chemicals, packaging, and environmental services. NBFI--Nonbank financial institutions. MM&S--Metals, mining, and steel. Retail--Retail/restaurants. Forest--Forest products and building materials. Home/RE--Homebuilders/real estate companies. Media--Media and entertainment (includes leisure and lodging). Source: S&P Global Ratings Credit Research & Insights.

Credit Trends | Some Bright Spots: Rising Stars Outnumber Fallen Angels



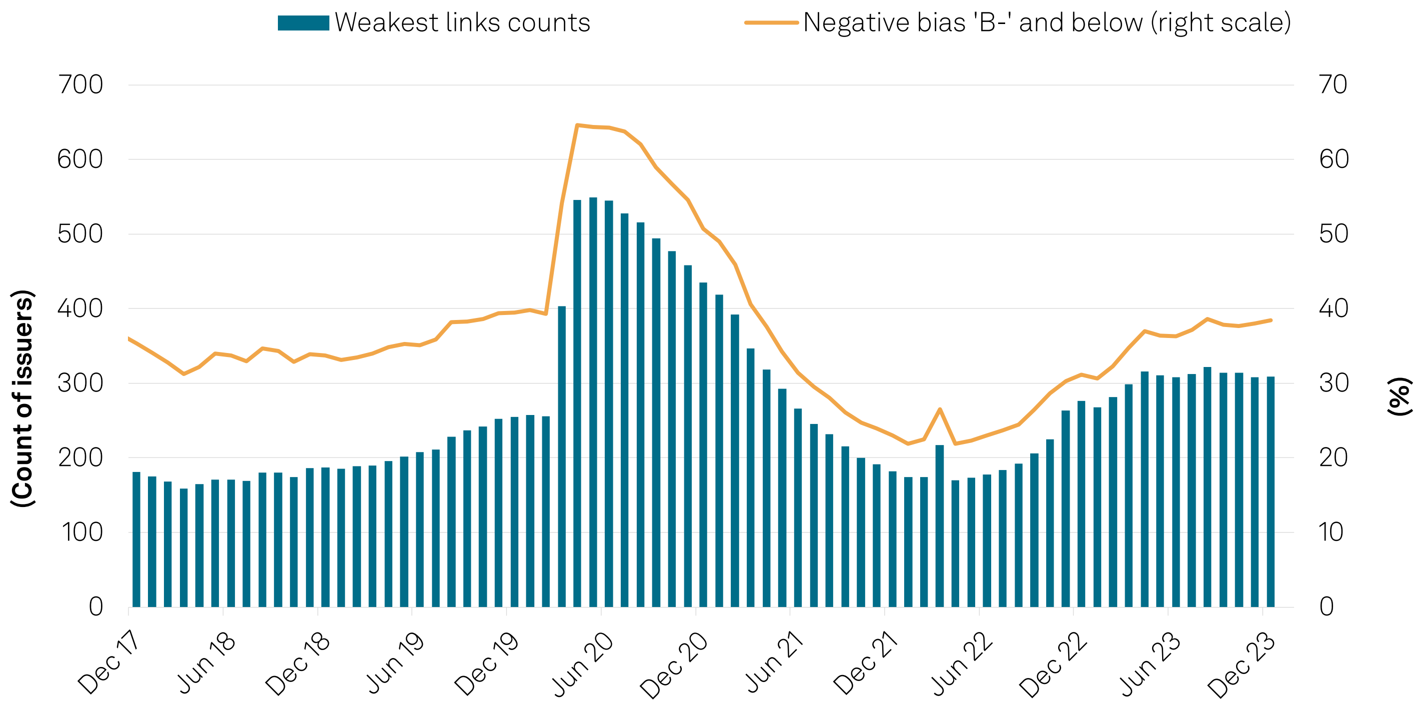


Data as of Dec. 31, 2023. Data exclude sovereigns and 11 Russian, or Russia-related, entities that were fallen angels in March 2022 and whose ratings were subsequently withdrawn in compliance with EU sanctions CapGds--Capital goods. ConsPrd--Consumer products. FinInst--Financial institutions. HomeRe--Homebuilders/real estate companies. Med&Ent--Media and entertainment. MMS—Metals, mining and steel. OilG--Oil and gas. Ret/Res--Retail/restaurants. Transp--Transportation. Source: S&P Global Ratings Credit Research & Insights.

- New rising stars (upgrades to investment grade) were 3x more prevalent than new fallen angels (downgrades into speculative grade) in the fourth quarter. For the year overall, there were double the number of rising stars than fallen angels.
- The transportation sector led rising stars in the quarter, most of which were European airlines. Higher passenger volumes and fares are boosting airline finances and offsetting higher costs; especially for larger, financially stronger airlines.
- Potential fallen angel risk is highest in the homebuilder sector—largely European-based real estate investment companies.

Credit Trends | The Number Of Weakest Links Remains High Despite Elevated 2023 Defaults

The proportion of speculative-grade ratings that are weakest links remains elevated



Weakest links and speculative-grade data as of Dec. 31, 2023. Weakest links are issuers rated ‘B-’ or lower with negative outlooks or on CreditWatch negative.
Sources: S&P Global Market Intelligence's CreditPro, S&P Global Ratings Credit Research & Insights.

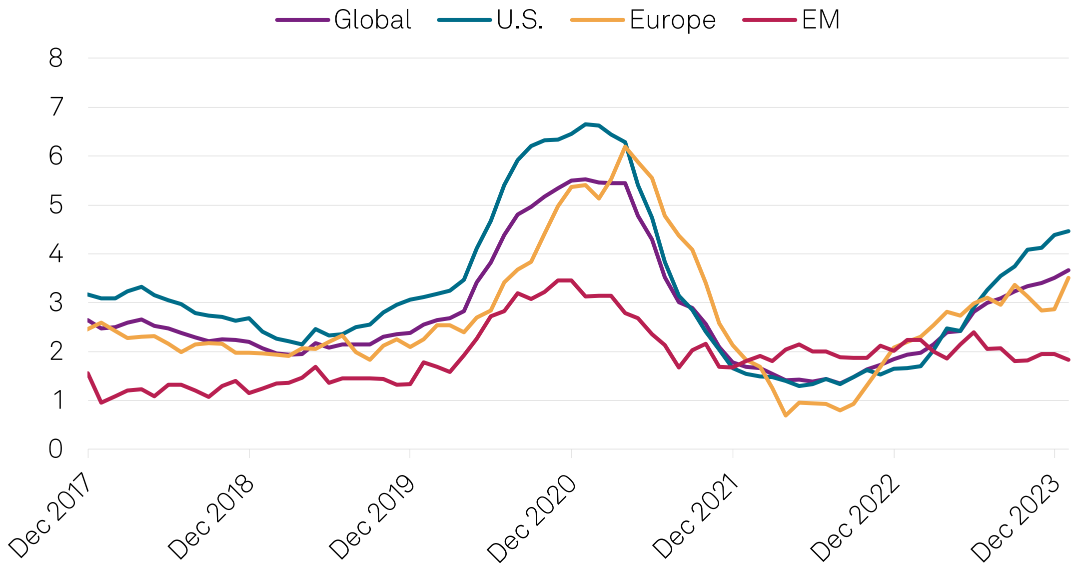
- The number of “weakest links” (issuers rated ‘B-’ or lower with negative outlooks or on CreditWatch negative) fell to 309 at the end of the fourth quarter, from 314 in the prior quarter.
- The health care sector– led by the healthcare services, especially U.S. companies– had the greatest year-over-year increase in weakest links in 2023. This is due to increased debt burdens, plus strains from labor shortages.
- Despite an elevated number of defaults that already happened in 2023, the U.S. continues to dominate the weakest links tally with 74% of global weakest links.

Credit Trends | Corporate Default Rates Finish The Year Well Above Five Year Averages

- Corporate defaults hit 35 in the fourth-quarter of 2023, from 34 defaults the previous quarter. The global year-to-date default tally finished the year with 153 defaults– well above its five-year average of 131. As of end-2023, the 12-month trailing default rate was 3.7%.
- Distressed exchanges accounted for 20 (57%) of total defaults in the fourth-quarter of 2023 and 72 on the year– well above its five-year average of 51.

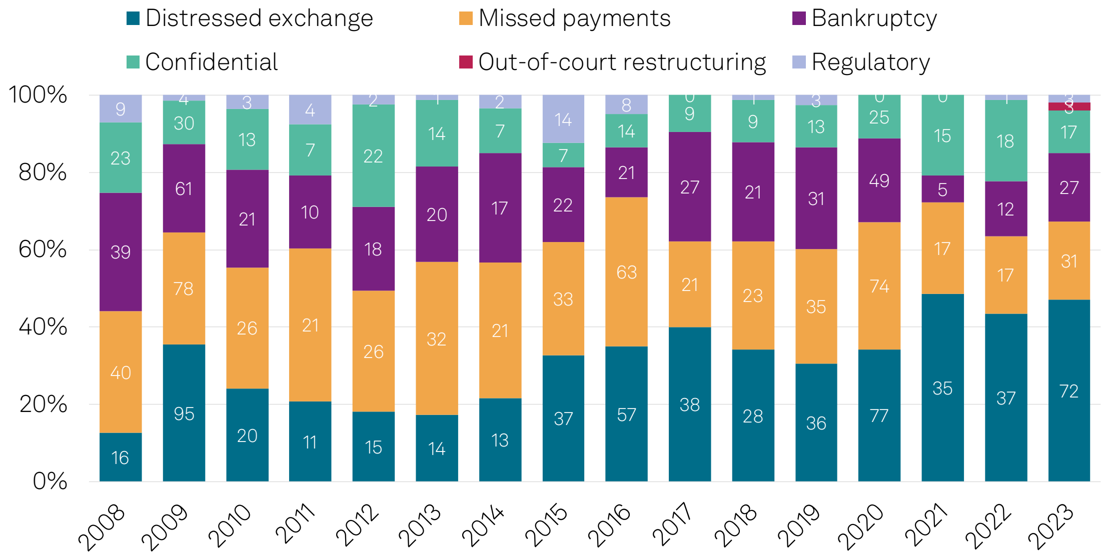
Default rates are rising globally

Trailing-12-month speculative-grade default rate (%)



Distressed exchanges led global defaults in 2023

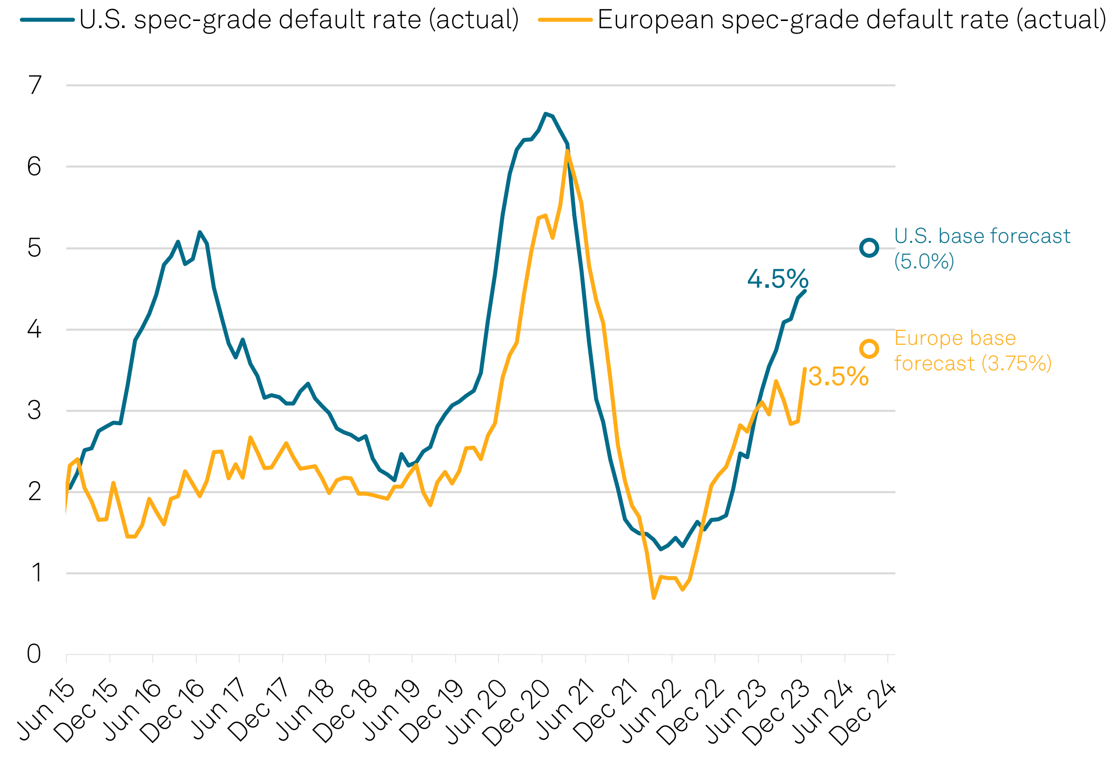
Defaults by default type



Data as of Dec. 31, 2023. EM--Emerging markets. Sources: S&P Global Market Intelligence's CreditPro, S&P Global Ratings Credit Research & Insights.

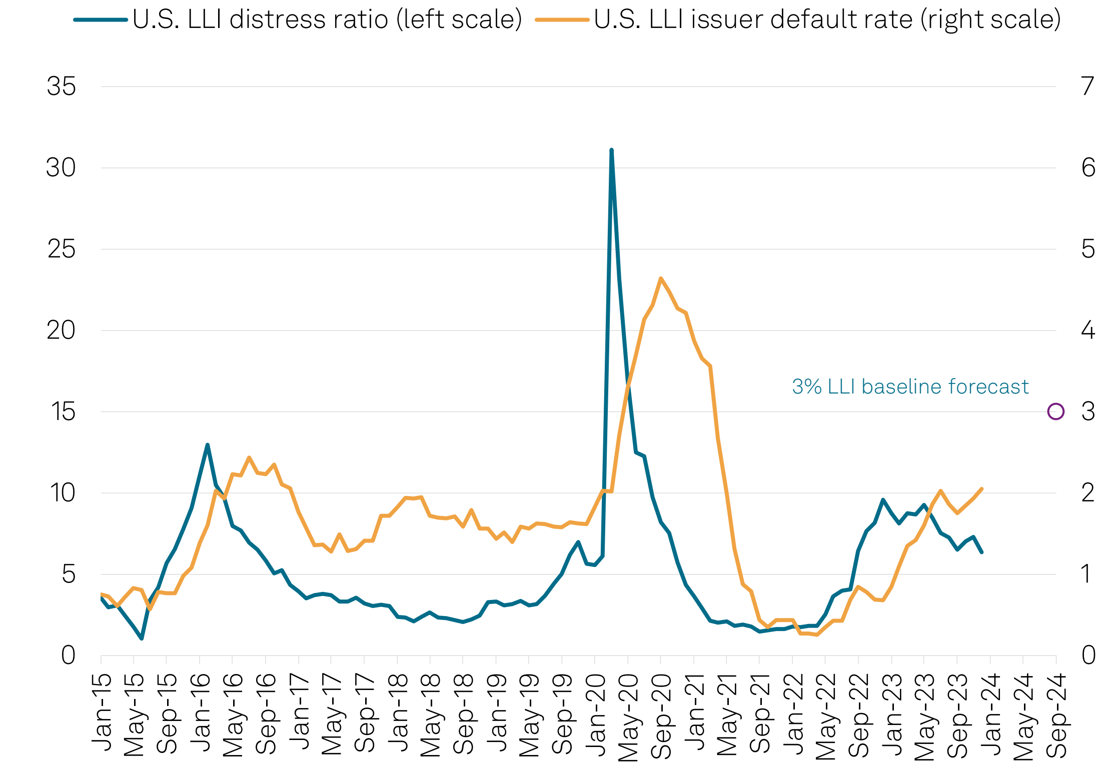
Credit Trends | We Expect Default Rates To Keep Rising In 2024

The U.S. speculative-grade default rate continues to climb while Europe inched back up in Q4 (%)



Data as of Dec. 31, 2023. Forecasts are as of September 30, 2024. Sources: S&P Global Market Intelligence's CreditPro, S&P Global Ratings Credit Research & Insights

The U.S. leveraged-loan default rate is climbing as costs catch up with leveraged credit (%)



Data as of Dec. 31, 2023. The distress ratio is by number of issuers. LLI-Leveraged loan index. Forecasts are as of September 30, 2024. Sources: PitchBook | LCD. S&P Global Ratings Credit Research & Insights.

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Financing Conditions

Financing Conditions | Refi Risk Concentrated At The Lower End Of The Credit Spectrum

Refinancing demands loom

Speculative-grade represents a growing share of upcoming maturities

Debt maturing in the next:	12 months	24 months	36 months
Total debt maturing	$2.00 tril.	$4.52 tril.	$7.30 tril.
Percent of total debt	8.5%	19.3%	31.1%
Speculative-grade share	12%	17%	20%
Amount rated 'B-' and lower	$60.4 bil.	$214.0 bil.	$441.4 bil.
Regional breakout: U.S.	41%	42%	44%
Regional breakout: Europe	38%	38%	38%
Regional breakout: Rest of world	21%	21%	18%

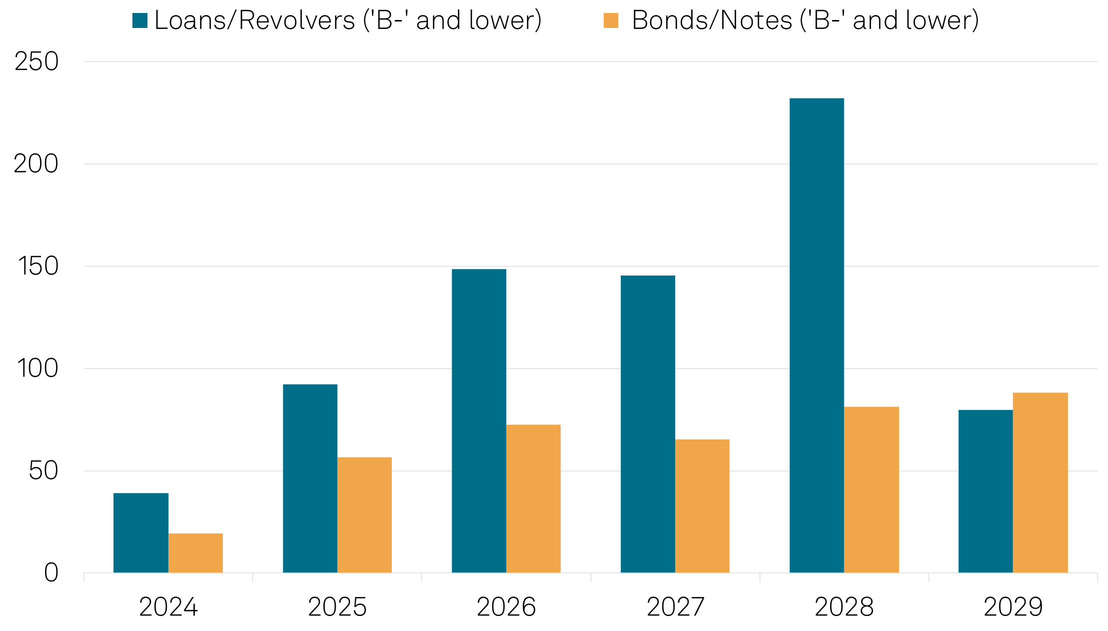
Data as of Jan. 1, 2024. Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings.
Source: S&P Global Ratings Credit Research & Insights.

- A strong end to 2023, in terms of amend and extend transactions, has significantly reduced 2024 refinancing risk for speculative grade.
- As of Jan. 1 , 2024 maturities total US$2 trillion (88% investment grade) , which should be manageable in light of recent issuance volumes.
- Lower-rated debt, particularly 'B-' and below, presents a greater refinancing challenge. 'B-' and lower maturities account for just US$60.4 billion of 2024 maturities; the amount grows in sharply in coming years.

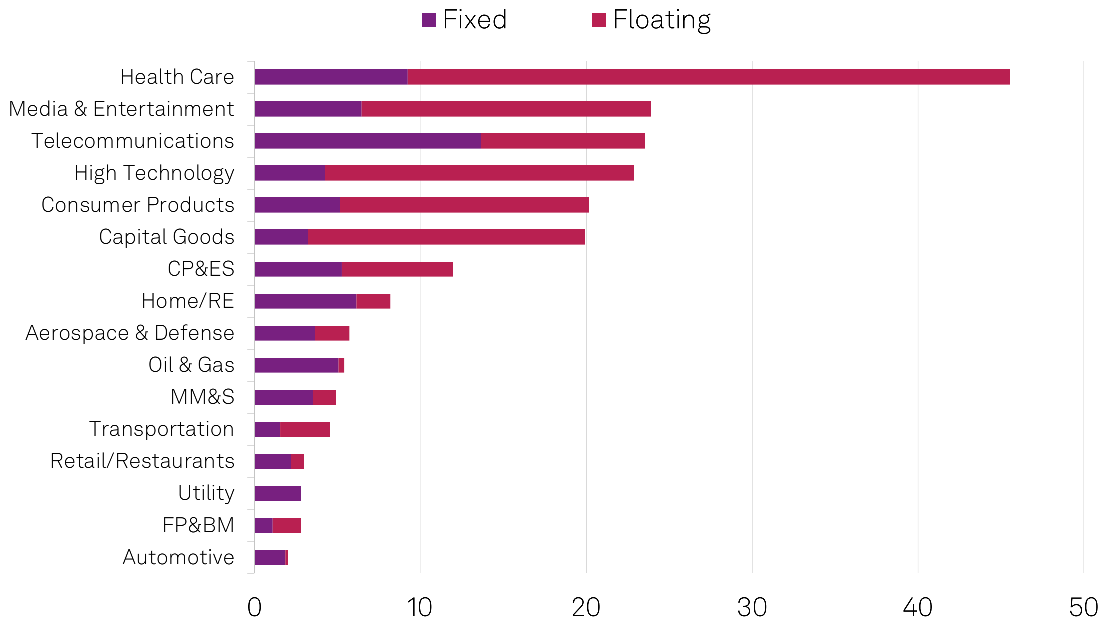
Financing Conditions | ‘B-’ And Lower Maturities To Escalate With A Focus On Healthcare

- While 2024 debt maturities are limited for ‘B-’ and lower issuers, they will more than double in 2025 and continue to rise through 2028.
- 64% of ‘B-’ or lower nonfinancial corporate debt maturing through 2025 are floating rate instruments, mostly loans and revolvers. The biggest issuers in this group are in health care and media entertainment.

Lower-rated nonfinancial corporate debt maturities set to rise in coming years (bil. US$) ...



...and are led by health care and media/entertainment sectors (bil. US$)

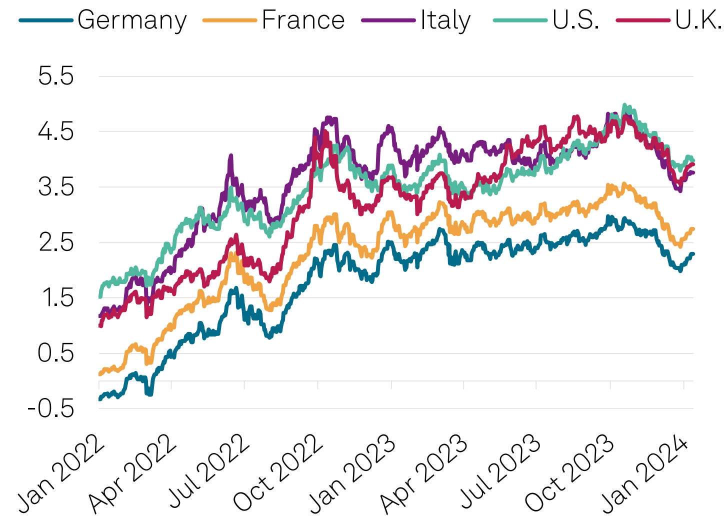


Data as of Jan 1, 2024. Includes nonfinancial corporate issuers' speculative-grade bonds, loans, and revolving credit facilities that are rated ‘B-’ and lower by S&P Global Ratings. Chart on the right shows global speculative-grade nonfinancial corporate debt maturing Jan. 1, 2024, through Dec. 31, 2025. Excludes debt instruments that do not have a global scale rating. Foreign currencies are converted to U.S. dollars at the exchange rate on Jan. 1, 2024. Home/RE: Homebuilders and real estate; MM&S: metals, mining, and steel; CP&ES: chemicals, packaging, and environmental services. Source: S&P Global Ratings Credit Research & Insights.

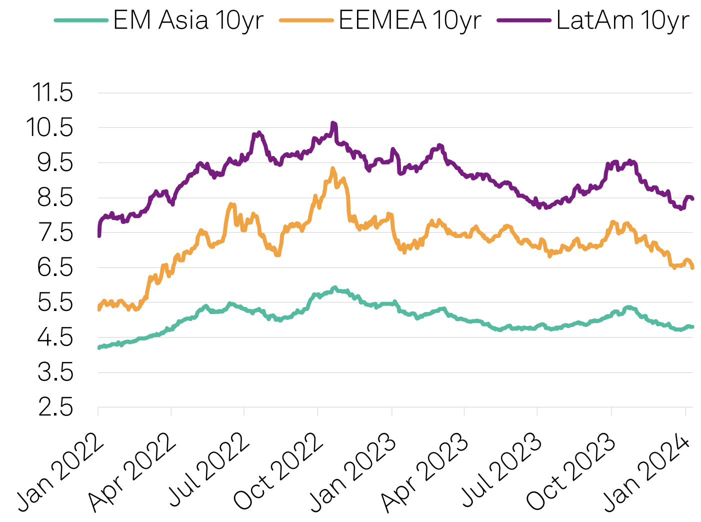
Financing Conditions | Benchmark Yields Pause After A Sharp Fall

- Global benchmark yields dropped across the board, and almost in sync, late in 2023 upon increased expectation regarding the timing and quantum of major central bank 2024 rate cuts.
- Strong economic data and communications from central bank stakeholders since the start of the year have since tempered expectations.

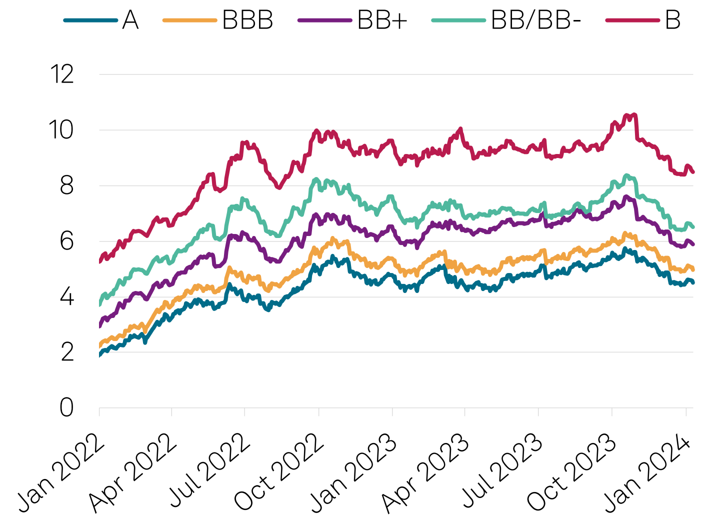
Recent surge in developed economies' benchmark yields might fade (%)



Emerging markets benchmark yields trending down (%)



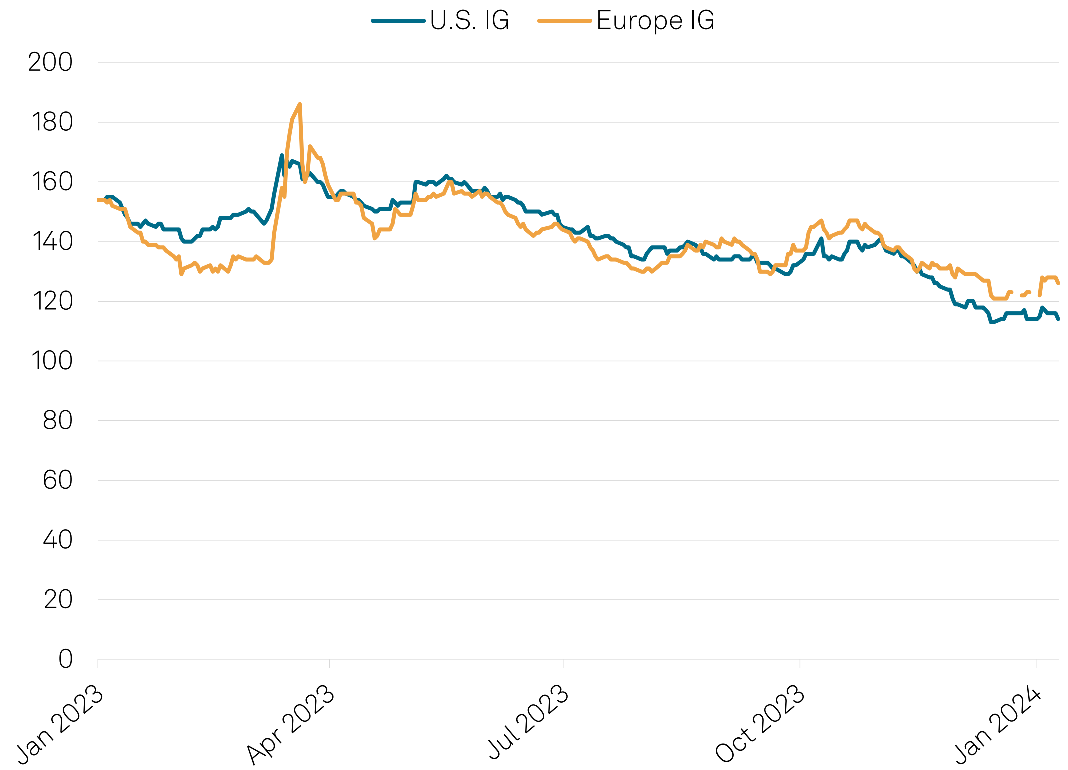
Corporate yields are falling (%)



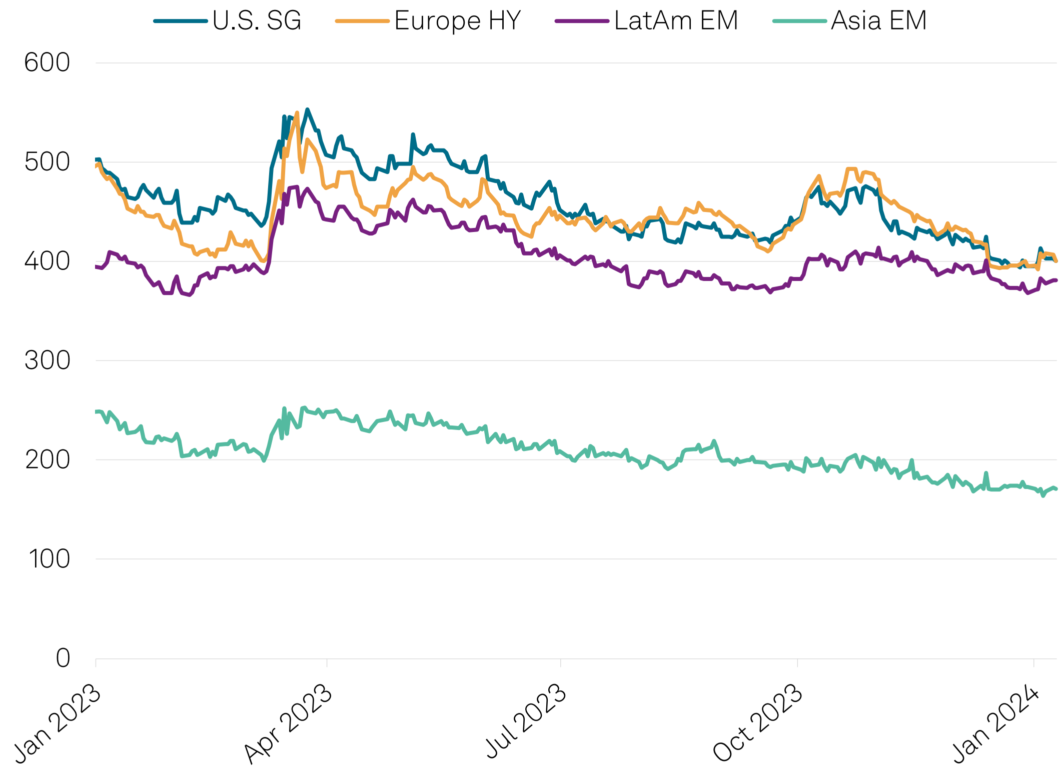
Data as of Jan. 11 ,2024. Left chart: 10-year benchmark yields. Middle chart shows regional averages of 10-year benchmark yields. LatAm--Average 10-year yield for Brazil, Mexico, Colombia, Chile, and Peru. EM Asia--Average 10-year yield for India, Indonesia, Thailand, Philippines, Vietnam, and Malaysia. EEMEA--Average 10-year yield of Poland, South Africa, Hungary. Right chart shows corporate 10-year yields. Sources: Refinitiv, Datastream, S&P Global Market Intelligence. S&P Global Ratings Credit Research & Insights.

Financing Conditions | Credit Spreads Drop Back To Two Year Low

European investment-grade spreads slightly wider than U.S. equivalent (basis points)



Higher yield and emerging market spreads gradually narrowing (basis points)

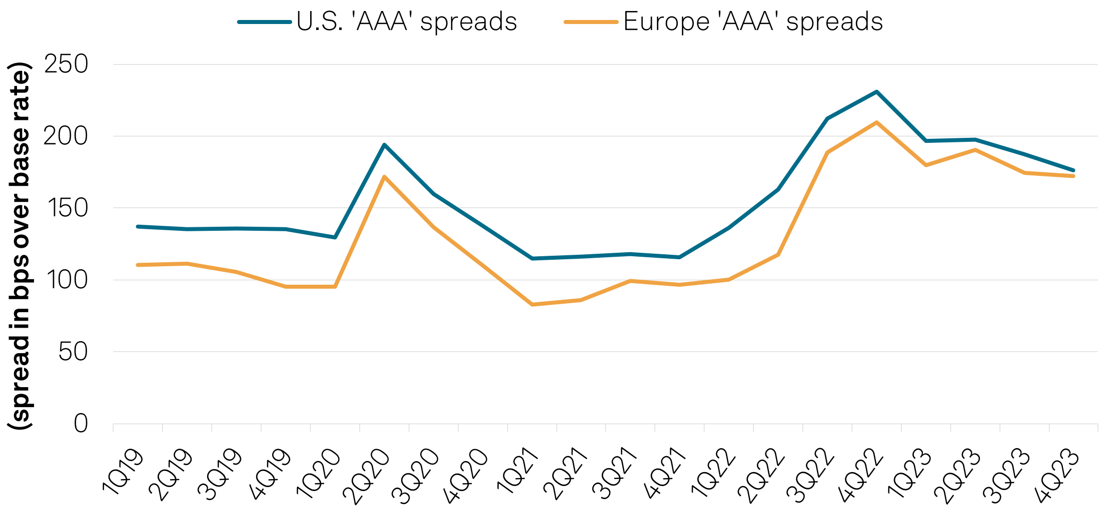


As of Jan. 9, 2024. IG--Investment grade. SG--Speculative grade. HY--High yield. bps--Basis points. LatAm--Latin America. Sources: FRED (for Asia EM, LatAm EM, and Europe HY data). S&P Dow Jones Indices (for Europe IG data). S&P Global Ratings Credit Research & Insights.

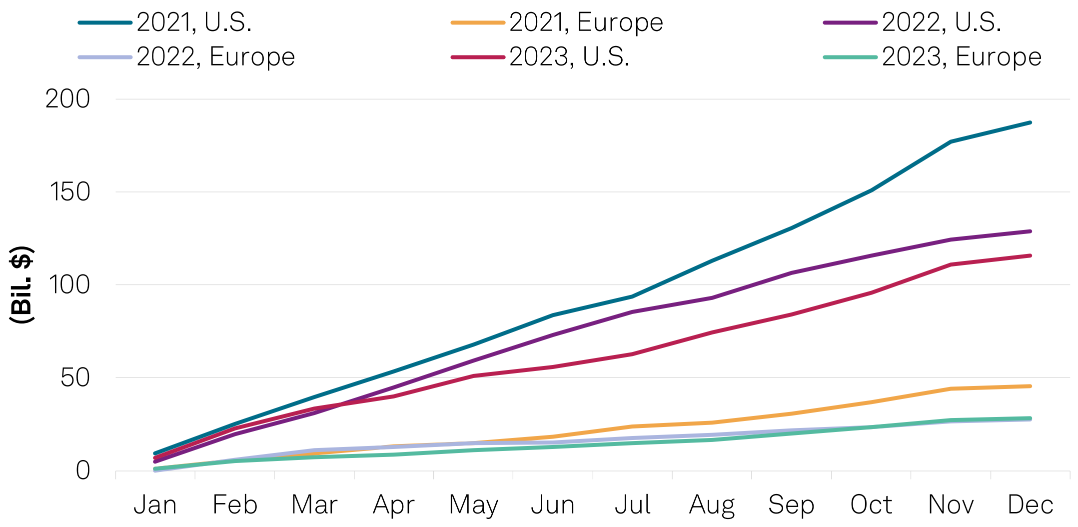
Financing Conditions | CLO New Issues Fell Just 8% In 2023 Despite Headwinds

- Global issuance of collateralized loan obligations (CLOs) was down 8% in 2023. U.S. led the decline at 10%, while Europe rose 2%.
- Despite the overall decline, leveraged loan originations saw an uptick in the second half, especially in the third quarter. The 12-month trailing leveraged loan origination ended the year up 2%.
- CLO 'AAA' spreads narrowed in Q4 2023 but remain above pre-pandemic levels. The recent tightening of spreads reflects improving financing conditions and could result in increased CLO new issuance, resets, and refinancings in 2024 depending upon how spreads in the broadly syndicated loan market move.

U.S. and Europe 'AAA' primary CLO spreads are narrowing



U.S. and Europe annual CLO volumes have stalled



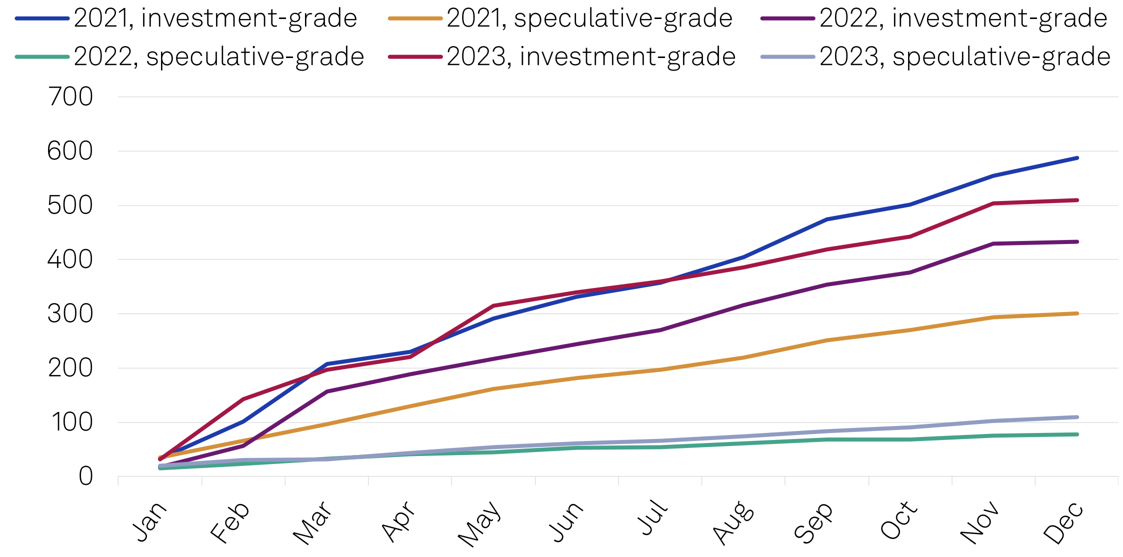
Spread data as of Jan, 1, 2024. Issuance data as of Dec. 31, 2023. CLO--Collateralized loan obligation. Sources: S&P Global Market Intelligence, S&P Global Ratings Credit Research & Insights. Leveraged Commentary and Data (LCD) from PitchBook, a Morningstar company; and Morningstar European Leveraged Loan Index (ELLI).

Regional Issuance

U.S. | Speculative Grade Nonfinancial Corporate Issuance Still Weak

- Fourth quarter issuance in 2023 was up 26.4% year-on-year, a rebound that was seen across financial and nonfinancial as well as across investment- and speculative-grade.
- For the full year, issuance rose 21% in 2023, even as it fell short of matching 2021's very strong volumes.
- However, speculative grade issuance remained relatively muted with fourth quarter volumes at less than 20% of Q4 averages from 2019 to 2021.

Nonfinancial bond issuance gaining pace (bil. US$)



Data as of Dec. 31, 2023; data is cumulative. Sources: Refinitiv, S&P Global Ratings Credit Research & Insights.

IG led new U.S. bond issuance (bil. US$)

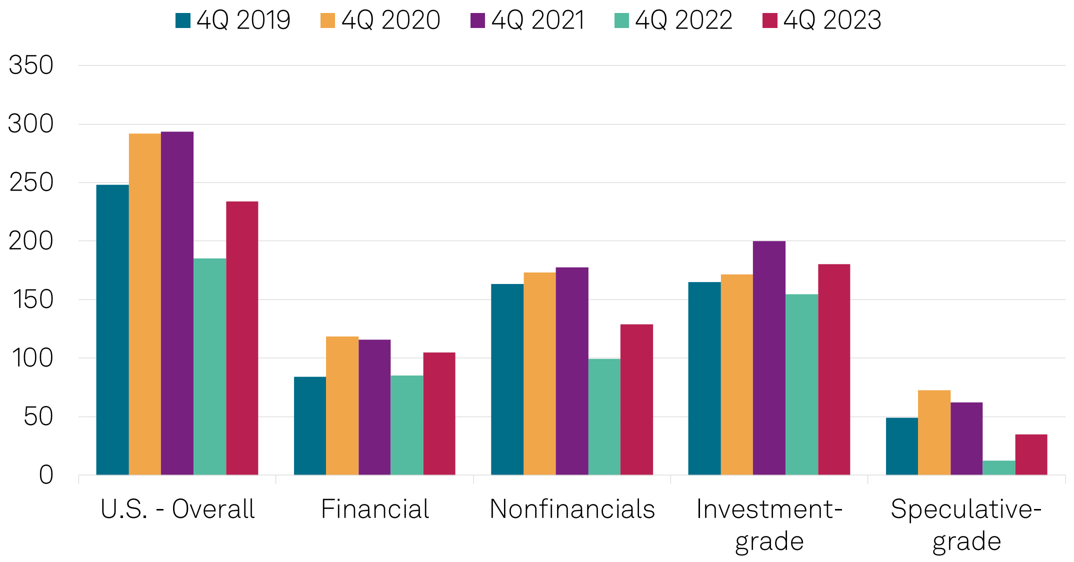
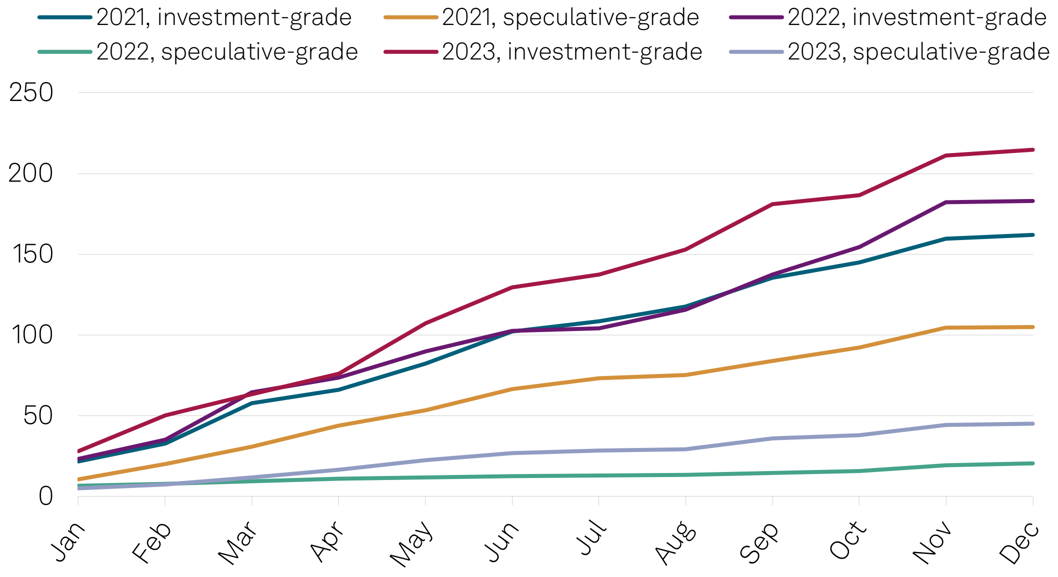


Chart shows fourth-quarter data as of Dec. 31, 2023. Includes both financial and nonfinancial corporates. Data for the "Overall," "Financial," and "Nonfinancial" categories include unrated issuances. IG—Investment grade. Sources: Refinitiv, S&P Global Ratings Credit Research & Insights.

Europe | Issuance Volumes Weakest At The Lowest End Of The Ratings Spectrum

- 2023 issuance surpassed 2021 and 2022 levels, but volumes were gradually declining quarter on quarter. Q4 2023 had the lowest volume since 2018.
- 86% of rated issuance in the fourth quarter was investment grade (mostly financial institutions). 70% of the speculative grade volume was from 'BB' rated entities, as the lower-end of rated issuers still see relatively restricted access to financing and elevated costs of debt servicing.

New nonfinancial bond issuance losing momentum (bil. €)



Data as of Dec. 31, 2023; data is cumulative. Sources: Refinitiv, S&P Global Ratings Credit Research & Insights.

Rated issuance has been mostly investment grade (bil. €)

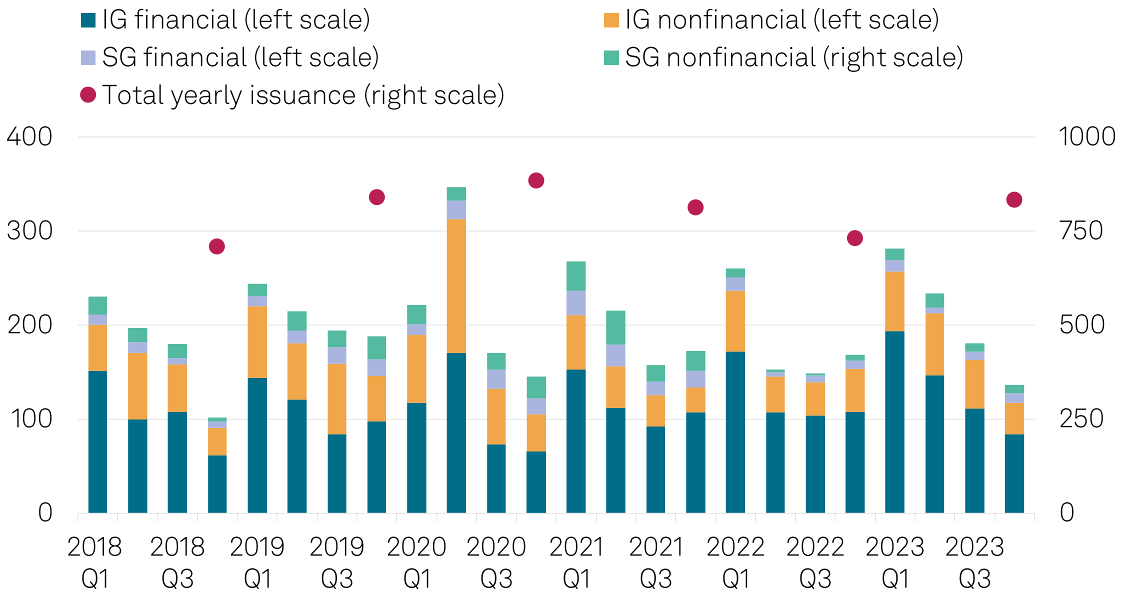


Chart shows quarterly data as of Dec. 31, 2023. Includes both financial and nonfinancial corporates with rated debt.
Sources: Refinitiv, S&P Global Ratings Credit Research & Insights.

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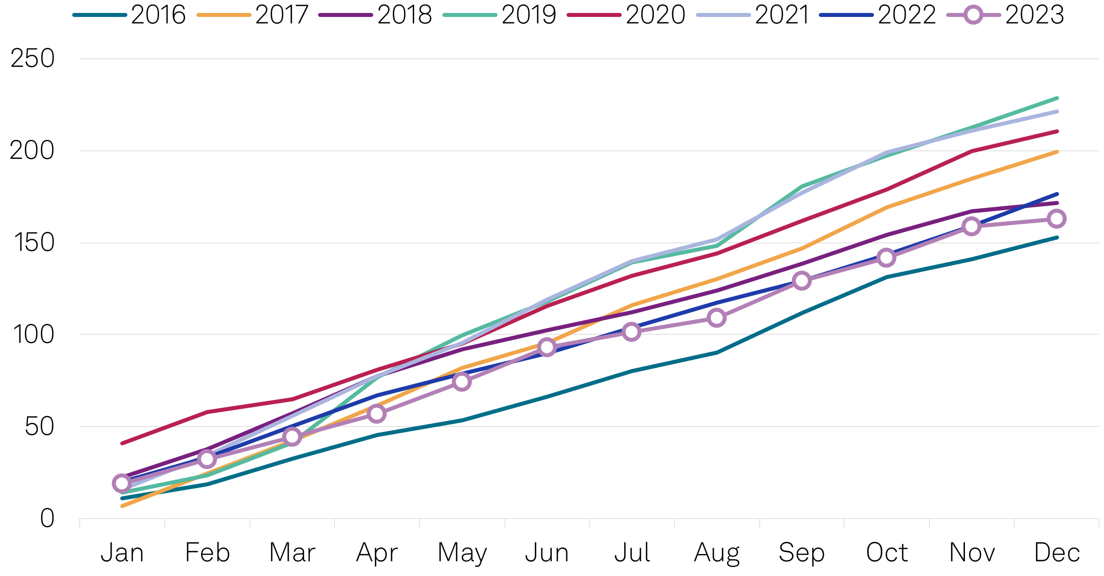
Emerging Markets | Issuance Weakest In Latin America And EM Asia ex-China

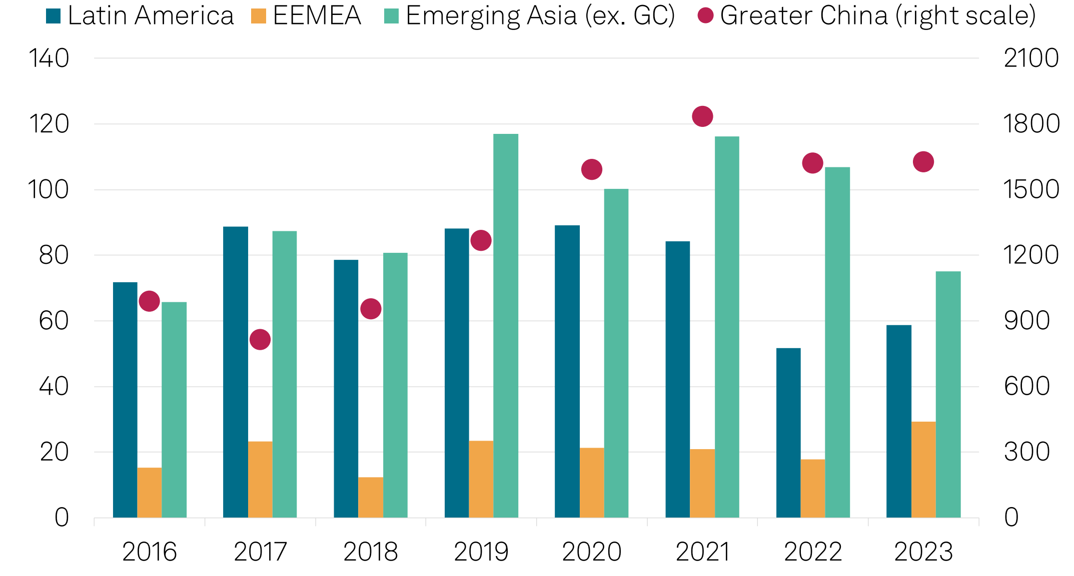
- 2023 issuance in emerging markets outside of Greater China was the lowest since 2016, constrained by elevated financing costs. Refinancing risk was reflected in less long-tenor issuance: 69% of 2023 issuance had tenors of one to seven years versus the 2016-22 average of 51%.
- The year-on-year volume trends vary by geography. Issuance rose in EEMEA at US$29 bn (+53% with respect to 2016-22 average) and Greater China at US$1.6 trn, (+25%). But it dropped in EM Asia ex-China at US$75 bn (-22%) and Latin America at US$59 bn (-26%).

EM bond issuance, ex-China was low in 2023 (bil. US$)



Data as of Dec. 31, 2023; data is cumulative. Includes NR (not rated) and both financial and nonfinancial entities.
Source: Refinitiv, S&P Global Ratings Credit Research & Insights.

EM bond issuance rose in Greater China, EEMEA (bil. US$)

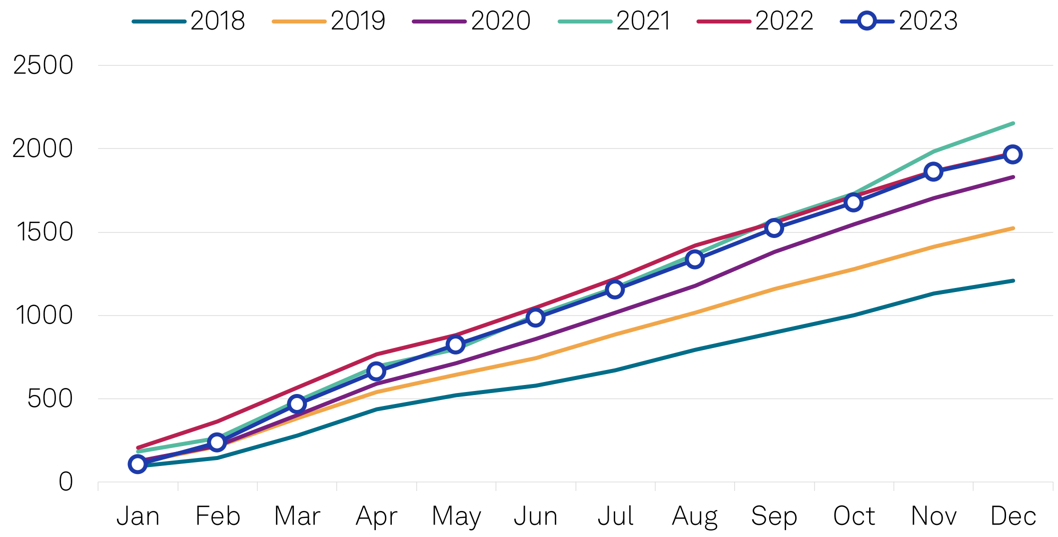


Data as of Dec. 31, 2023. EEMEA—Emerging EMEA. Includes NR (not rated) and both financial and nonfinancial entities.
Source: Refinitiv, S&P Global Ratings Credit Research & Insights.

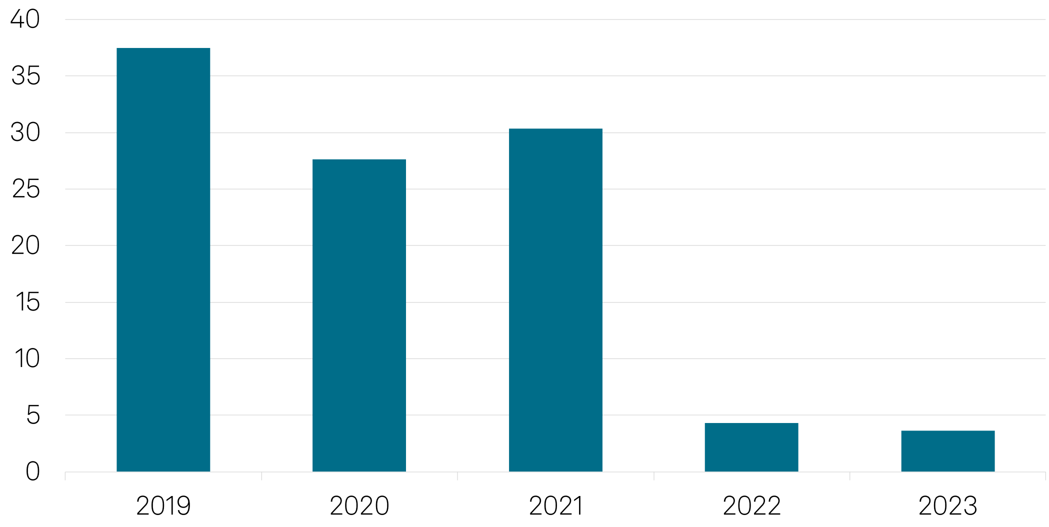
APAC | Relatively Strong But Highly Selective Issuance

- 2023 bond issuance volumes were just about on par with the previous year, despite considerable global market pricing volatility throughout the year. Nonetheless, new issuance was down 18% quarter on quarter, due to the seasonally weak Q4.
- With continued monetary policy tightness from the Fed and ECB, offshore financing became much less preferable. Most of the year's issuance was in local-currency bond markets. Offshore issuance volume was 11.6% lower than 2022, and 46.8% lower than 2021.
- In foreign currency bond markets, which is far more accessible to global investors, uneven borrower access was still apparent. Speculative-grade issuance stayed sparse as bond investors have become much more selective.

Asia-Pacific corporate bond issuance was flat overall...



...though speculative-grade volumes were weak (bil. US$)



Data as of Dec. 31, 2023; data is cumulative. Issuance volumes include financial and nonfinancial corporate issuers of rated and unrated bonds. Sources: S&P Global Ratings Credit Research & Insights. Refinitiv.

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Contributors

Patrick Drury Byrne

Global Head Of Credit Market Research

patrick.drurybyrne@spglobal.com

Evan Gunter

Lead Research Analyst, Ratings Performance Research

evan.gunter@spglobal.com

Luca Rossi

Associate Director, Credit Markets Research

luca.rossi@spglobal.com

Vince Conti

Senior Economist, Credit Markets Research

vincent.conti@spglobal.com

Nicole Serino

Director, Credit Markets Research

nicole.serino@spglobal.com

Zev Gurwitz

Research Associate, Ratings Performance Research

zev.gurwitz@spglobal.com

Brenden Kugle

Associate, Credit Markets Research

brenden.kugle@spglobal.com

Ekaterina Tolstova

Associate Director, Credit Markets Research

ekaterina.tolstova@spglobal.com

Erik Wisentaner

Associate, Credit Markets Research

erik.wisentaner@spglobal.com

Sarah Limbach

Associate, Credit Markets Research

sarah.limbach@spglobal.com

Nivritti Mishra

Associate, Credit Markets Research

sarah.limbach@spglobal.com

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