S&P Global Ratings

The Ratings View

January 31, 2024

This report does not constitute a rating action.

Key Takeaways

- We expect global bond issuance to rise 4.3% this year.
- A soft landing will draw a line under the earnings recession. We expect global EBITDA to rise 8% this year after falling 5% last year.
- While U.S. corporate earnings will likely improve modestly, we expect further credit deterioration, particularly at the lower end of the ratings scale.
- 2024 will likely mark the end of a period of extraordinary liquidity.

S&P Global Ratings expects global bond issuance to rise 4.3% in 2024, to roughly $8 trillion. Despite a year that saw stress early on with a few high-profile bank failures, 2023 issuance growth largely landed close to our initial projections for most sectors. For 2024, the course of interest rates will dominate the macro-credit landscape once again. Recent positive developments have led to widespread agreement on declining rates ahead, helping to push up our expectations slightly relative to last quarter. Downside risks include recessions this year but could also include interest rates remaining higher than even the more conservative estimates if the "last mile" to tame inflation proves long.

Global Financing Conditions: Cautious Optimism After Peak Rates
Global Credit Markets Update Q1 2024: Competing Forces

Key industry outlook themes for 2024. A soft landing for the global economy suggests revenues and cash flow will see a modest rebound and draw a line under a remarkably mild earnings recession. Dwindling cost inflation should boost margins, but labor costs remain a concern and supply-chain worries could deepen if Middle East conflicts or trade tensions escalate. Credit risks are mostly concentrated in the weaker parts of the credit spectrum where stretched capital structures create vulnerabilities to refinancing and rate pressure.

Industry Credit Outlook 2024: Key Themes

U.S. corporate credit outlook 2024. While U.S. corporate earnings will likely improve modestly, we expect further credit deterioration, particularly at the lower end of the ratings scale. Borrowing costs look set to remain elevated and weigh on corporates' ability to service debt and refinance. Telecom, health care, chemicals, consumer products, and retail and restaurants have the highest net negative bias, suggesting a gloomier ratings outlook. The commercial office sector is also under intense pressure. The U.S. will likely avoid a near-term recession and settle into a "soft landing", but recession risks remain. Labor cost pressure and supply-chain constraints could linger.

U.S. Corporate Credit Outlook 2024: A Bumpy Ride To A Soft Landing
SLIDES: Private Credit And Middle-Market CLO Quarterly: Shelter From The Storm (Q1 2024)

2024 will likely mark the end of a period of extraordinary liquidity. The Federal Reserve will likely take a more gradual approach to rate cuts than markets have priced in. The exact timing

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For latest Sector and Industry Research **Click Here** and amount of these cuts are still uncertain. European banks have contributed to resilient financing conditions in the European economy but the cumulative effects of central banks' actions could test financing conditions in 2024. The People's Bank of China's monetary policy will probably remain accommodative in light of modest economic growth and inflation. Money market funds (MMFs) on both sides of the Atlantic are playing an increasingly important role in liquidity provision, with U.S.- and EU-domiciled MMF assets almost doubling since 2013. Liquidity is already a key factor in rating performance, influencing 31% of potential downgrades in 2023.

Liquidity Outlook 2024: Five Questions, Five Answers

The probability of a U.S. recession within the next 12 months has moderated since the middle of last year but remains elevated relative to our baseline, at 25%-30%. We expect below-trend growth in the coming quarters, given a mixed bag of leading indicators. Current data shows favorable trends in the consumer sector, with receding inflation and a healthy labor market; however, any further short-run cyclical boost to spending growth is limited by the economy's underlying growth potential. The manufacturing sector remains soft. Key risks include conflicts in the Middle East and a potential resurgence in inflation that would threaten the Federal Reserve's expected monetary easing.

U.S. Business Cycle Barometer: Recession Risk Moderates, But Growth Is Limited By Potential

Asia-Pacific corporate top trends update. Ratings trends in Asia-Pacific are turning more positive, with diminishing default risk for rated companies. Profit growth and ratings upside in 2024 are limited by the continued slowdown in consumer demand in China, soft GDP growth in key export markets in Western economies, and input-cost pressures. The issuance trend is more positive for 2024 than 2023, amid greater clarity on the trajectory of U.S. interest rates. Funding is likely to stay selective for speculative grade issuers.

Asia-Pacific Corporate Credit In 2024: Taking The Slow Road

China met its 5% growth target in 2023, despite the real estate downturn. But economic momentum at year-end was less strong than headline numbers suggest. We believe falling prices at industry and retail levels point to overcapacity in some major goods markets. S&P Global Ratings maintains its 4.6% GDP growth forecast for 2024. But we project moderate consumption growth, given the outlook for real estate, confidence, and the absence of significant measures to support consumption. With relatively strong manufacturing investment, and soft consumption, the strain on prices and profit margins in goods markets may persist.

China Deflation Risks Hinge On Growth Mix

We have revised upward our European housing price forecasts amid improved price resilience. Supply factors--in particular, the continuing high cost of building materials--are the main driving force behind house-price resilience, alongside a strong labor market, construction backlog, and government support. Despite this revision, we believe that the price correction isn't yet over. Demand will continue to adapt to higher interest rates and slow down, while supply constraints will probably ease, barring a new shock on commodities. While some mortgage rates reflect the lower 10-year bond yields at the start of 2024, we don't think they will see a sustained downward trend before midyear, because we expect central banks will cut rates later than markets are currently pricing.

European Housing Markets: Forecast Brightens Amid Ongoing Correction

Asset Class Highlights

Corporates

Notable publications include:

- Investment-Grade Credit Check: Walking The Walk
- Macao Gaming 2024 Outlook: Odds Favor Further Recovery
- Evergrande Liquidation To Amplify Subordination Risk On China Property Bonds
- Global Credit Markets Update Q1 2024: Competing Forces
- Pharmaceutical Industry 2024 Credit Outlook Is Stable As Revenue Growth Mitigates Pressures
- China Engineering & Construction 2024 Industry Outlook: Rated E&C Companies Should Ride Through The Speed Bump

Financial Institutions

- In Asia, we revised the rating outlook of Thailand-based Bank Krung Thai Bank (KTB) to positive from stable. The outlook revision reflects our view that KTB could sustain improvements in profitability and earnings diversity, amid improvements in risk management. We view the bank's revenue-enhancement measures as positive for its business position. Nevertheless, the bank still has to demonstrate its ability to navigate a still-difficult operating environment over the next 12-24 months.
- We published several commentaries, including:
    - Declining Asset Quality And Funding Obstacles Follow U.S. Finance Companies Into 2024
    - FMIs' All-Weather Business Models Support Stability In 2024
    - Japan Banking Outlook 2024: BOJ Hikes Will Widen Disparities
    - Philippine Banks Outlook 2024: Better Economic Prospects Will Bolster Sector
    - Top European Bank Rating Trends In 2024: The Future Is Now
    - SLIDES: German Banks In 2024: Rating Resilience Despite Economic Underperformance
    - SLIDES: French Banks In 2024: Domestic Interest Income To Rebound
    - Italian Banks Outlook 2024: Sound Margins Shield Against Higher Credit Losses
    - SLIDES: Spanish Banks In 2024: Clear Skies
    - Portuguese Banks Outlook 2024: Embracing Resilience
    - Comments Requested On Proposed Changes To Financial Institutions Risk-Adjusted Capital Framework Methodology
    - Credit FAQ: What's Behind The Proposal To Update Our Risk-Adjusted Capital Framework Methodology?

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Structured Finance

- **Australian Structured Finance Outlook:** Australian structured finance issuance is entering a likely challenging 2024 from a position of strength. Issuance and collateral performance have held up well so far, defying expectations in the face of multiple interest rate rises and persistent cost-of living pressures. See "2024 Structured Finance Outlook: Australia And New Zealand" published January 24, 2024.
- **Latin America Structured Finance Outlook**: Here are a few "Key Takeaways" from a recent article:
  - We expect 2024 new issuances in Latin America to increase 15% relative to 2023.
  - Brazil will continue to account for the bulk of issuance.
  - Ratings performance should remain stable, despite the challenging economic environment in the region.

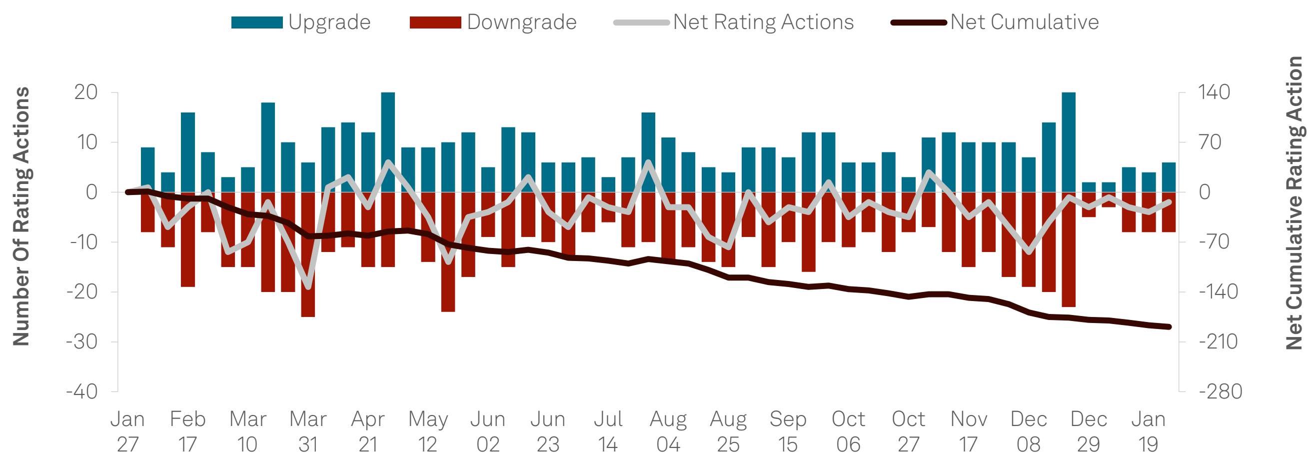
See "Latin America Structured Finance Outlook 2024: Increased Issuance Amidst Low Economic Growth" published January 24, 2024.

- **U.S. Private Credit and Middle-Market CLOs:** S&P Global Ratings published on January 26, 2024 its first-quarter 2024 slide deck highlighting the key themes for the U.S. private credit and middle-market collateralized loan obligation (CLO) sectors, see "SLIDES: Private Credit And Middle-Market CLO Quarterly: Shelter From The Storm (Q1 2024)."
- **European RMBS and ABS:** S&P Global Ratings published on January 25, 2024 its "European RMBS And ABS Monitor Q4 2023." There were 146 rating actions during Q4 2023, including 83 affirmations, 57 upgrades, and six downgrades. Most upgrades continued to reflect stable credit performance and transaction deleveraging. The U.K. RMBS sector accounted for most affirmations (50) and upgrades (30), reflecting stable credit performance and higher credit enhancement thanks to deleveraging. All six of our downgrades related to the U.K. nonconforming RMBS sector, where arrears continued to surge amid ongoing cost-of-living pressures and the high interest rate environment. This sector however also accounted for 42% of all affirmations and 21% of all upgrades, as increased credit enhancement supported senior and mezzanine classes. In the ABS sector we upgraded 19 tranches, accounting for one third of all upgrades. We did not take any negative rating actions. Most upgrades reflected increased credit enhancement and better-than-expected performance.
- **U.S. RMBS Servicing:** For a deep dive into the key differences between agency and private-label RMBS master servicer roles, see our report, "Agency Vs. Private-Label RMBS Master Servicer Roles: Key Differences Explained," published on January 22, 2024.
- **Japan RMBS:** Here are a few "Key Takeaways" from a recent article:
  - General characteristics of Japanese residential mortgage loans include: 1) a long loan life of 25 to 35 years; 2) recourse loans; and 3) a high ratio of high-LTV loans.
  - Mortgage loans with floating interest rates, including fixed-rate convertible loans, occupy about 90% of the new loans in a low-interest environment, while full-term fixed-rate loans have declined to about 10%.
  - New issuance of RMBS has decreased in recent years along with a growing proportion of mortgage loans with floating rates, because loans backing RMBS transactions mainly have fixed rates.

See "A Primer On Japan's RMBS Market" published January 24, 2024.

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. 26, 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. $)
24-Jan	Upgrade	Camelot UK Holdco Ltd.	Media & Entertainment	U.K.	BB-	B+	7,553
26-Jan	Upgrade	Artera Services LLC.	Capital Goods	U.S.	B-	CCC+	5,432
23-Jan	Upgrade	Summit Materials LLC.	Forest Products & Building Materials	U.S.	BB+	BB	3,810
26-Jan	Downgrade	Radiology Partners Holdings LLC.	Health Care	U.S.	CC	CCC+	3,435
25-Jan	Upgrade	Cinemark Holdings Inc.	Media & Entertainment	U.S.	BB-	B+	2,770
23-Jan	Downgrade	BW Homecare Holdings LLC	Health Care	U.S.	CCC	CCC+	2,392
23-Jan	Downgrade	Sirona Holdco	Chemicals, Packaging & Environmental Services	France	B-	B	1,012
24-Jan	Downgrade	New Trojan Parent Inc..	Consumer Products	U.S.	D	CCC-	715
26-Jan	Downgrade	Anastasia Holdings LLC.	Consumer Products	U.S.	CCC	CCC+	650
26-Jan	Downgrade	Femur Buyer Inc..	Health Care	U.S.	CCC-	CCC+	485

Source: S&P Global Ratings Credit Research & Insights. Data as of Jan. 26, 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**.**