This Month In Credit

February 2024, Volume 13

This report does not constitute a rating action.

Rising Market Tides Aren't Lifting All Boats

(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: 2024 Data Companion.")

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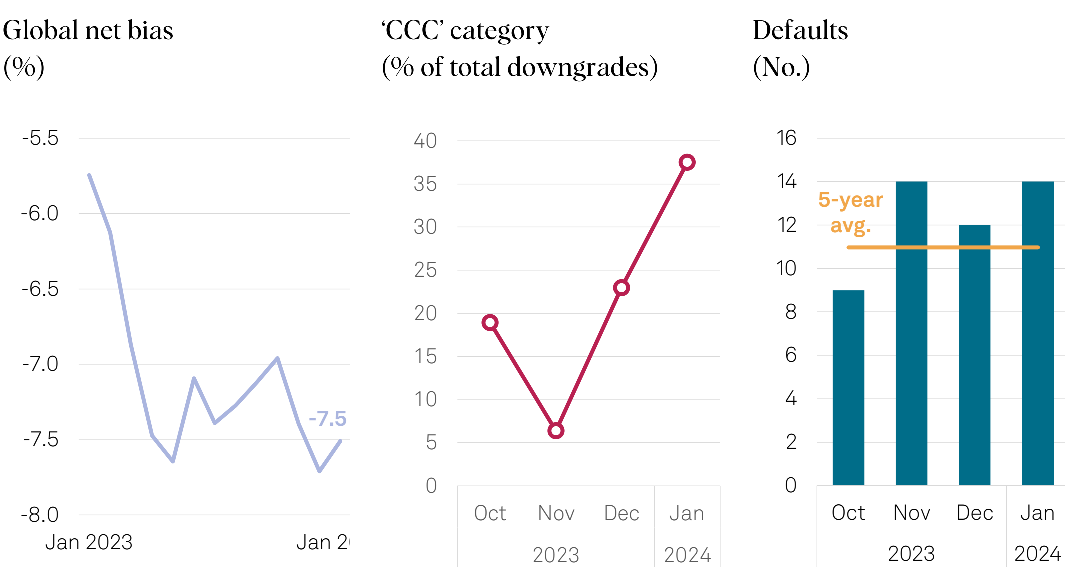
For a weekly snapshot of rating trends and credit conditions, please see **"This Week In Credit,"** released every Monday.

Key Takeaways

- Speculative-grade issuers are broadly benefiting from rebounding issuance and tightening credit spreads, but some weaker credits continue to struggle.
- The number of weakest links declined in January, resulting more from credit deterioration (defaults) than meaningful credit improvement.
- Leverage pressures may be receding--lower leverage was a factor in nearly twice as many new potential upgrades in January than in December.
- Higher-rated rating trends continue to be more favorable, with three rising stars newly upgraded to investment-grade from speculative-grade, including NASCAR Holdings LLC, while there were no fallen angels or new potential fallen angels.

Pressure At The Low End

Global net bias and rating actions turned less negative, but the lowest rating category remains weak.



Data as of Jan. 31, 2024. 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). Middle chart shows the 'CCC'/'C' category share as a percentage of total downgrades, excluding defaults. Defaults shows the number of global financial and nonfinancial corporate defaults. Source: S&P Global Ratings Credit Research & Insights.

Credit Notes: Sinking Links

The primary market for leveraged loan issuance was firing on all cylinders in January. Attractive yields spurred investor demand for leveraged credit, with flows into high-yield and leveraged loan funds surging. Fueled by this demand, leveraged loan issuance in the U.S. and Europe picked up to its highest monthly volume in two years, and speculative-grade bond spreads narrowed to record tights in February.

Even issuers from the lowest rating levels are catching a bid. 'CCC' bond spreads narrowed to their tightest since early 2022, helping to stabilize the U.S. distress ratio, which was unchanged in January. Adding to the sense of relief for some of the lowest-rated borrowers, this year's issuance of bonds rated 'CCC+' or lower (through mid-February) already exceeds 2023's full year total, but that says more about the dearth of issuance in 2023 rather than a barnstorming start to 2024.

Many issuers are clearly benefiting from easing financing conditions, with refinancings and amend-to-extend transactions providing borrowers with some breathing room from near-term maturities.

In addition, some companies are improving their credit metrics, namely leverage. For example, reduced leverage was a factor in two-thirds of new potential upgrades, while higher leverage was a factor in fewer new potential downgrades in January.

But these rising tides are not lifting all boats.

Last month's defaults reached the highest number for a January since 2010 (with 14). And we expect the U.S. trailing-12-month speculative-grade corporate default rate to finish the year at 4.75%, up from 4.5% in December 2023.

The number of weakest links (issuers rated 'B-' and below with negative outlooks or on CreditWatch negative) declined by a meaningful eight in January, effectively driven by credit deterioration rather than credit improvement, as the decline followed the defaults of 10 weakest links since December.

Weakness persists among lower-rated issuers. The 'CCC'/'C' category, specifically, saw a more modest decline in downgrades in January than the higher rating categories. The 'CCC'/'C' category accounted for 38% of the month's downgrades--up 14 percentage points since December. Four of the 10 largest downgrades in the month were of 'CCC'/'C' category issuers.

Furthermore, speculative-grade issuers accounted for 80% of new potential downgrades (issuers with a negative outlook or CreditWatch) in January, a share that's steadily risen since November. This shift suggests more pressure at the lower end and maybe some relief at the higher end of the rating spectrum.

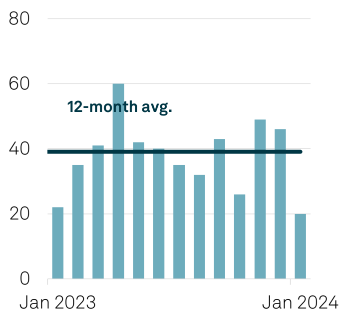
While easier financing conditions and bullish market sentiment are lifting the prospects for many, the gains are not shared equally by all. The bottom line is that slower growth and higher rates are weighing on credit performance, especially at the lower end of the rating spectrum, and this divergence is likely to continue.

For more accompanying data, click here

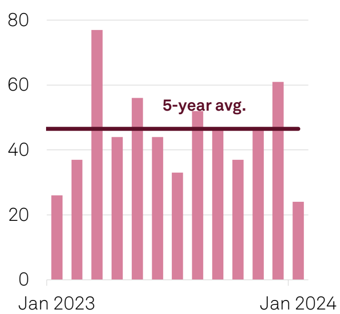
The number of weakest links... declined by a meaningful eight in January, effectively driven by credit deterioration rather than credit improvement.

Ratings Trends Snapshot – Through Jan. 31, 2024

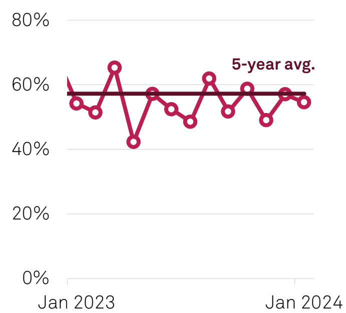
Upgrades (no.)



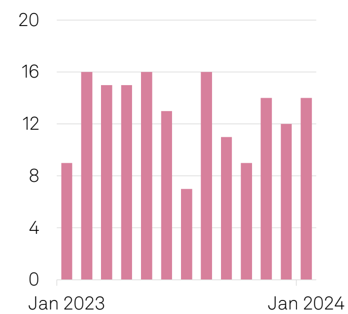
Downgrades (no.)



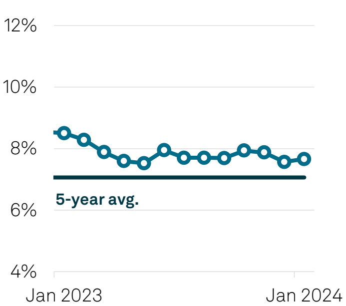
Downgrade ratio



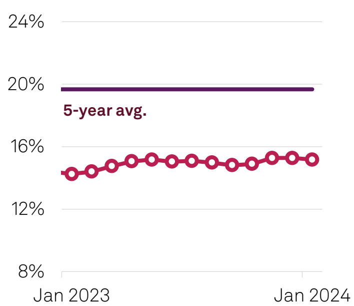
Defaults (no.)



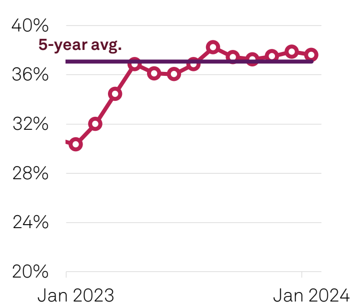
Positive bias



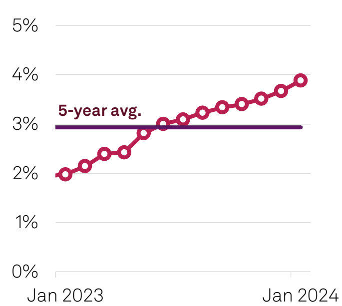
Negative bias



Neg bias 'B-' and lower



SG default rate



Data as of Jan. 31, 2024. Data represents rating actions and biases for sovereign, financial, and nonfinancial corporate issuers globally. Downgrade counts exclude defaults. Defaults and the speculative-grade default rate exclude sovereigns. Source: S&P Global Ratings Credit Research & Insights.

Credit Trends: Weakness Persists At The Low End

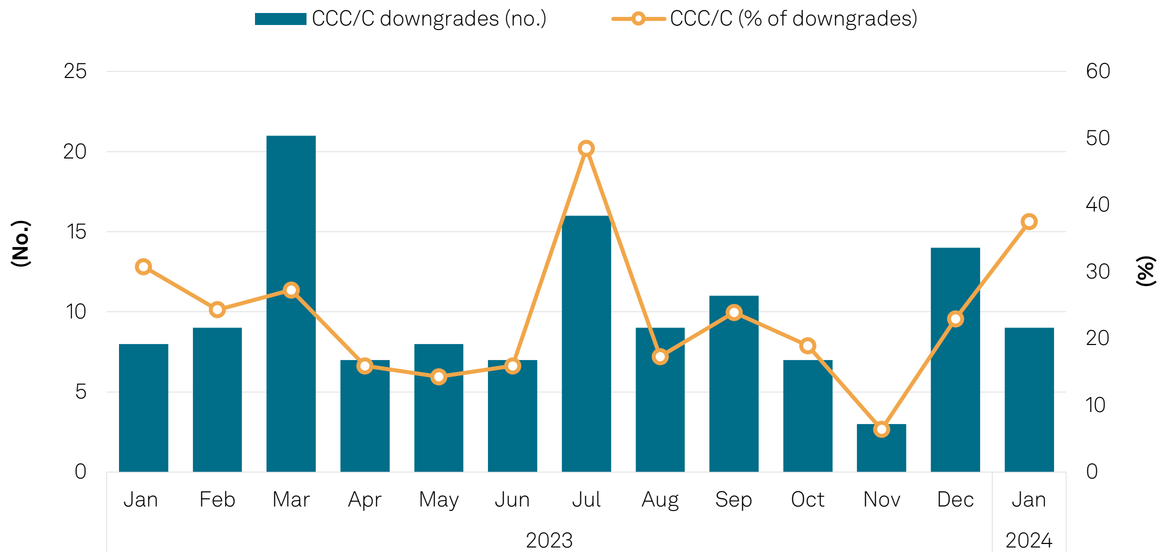
Rating action highlights for January 2024:

- Downgrades fell markedly to 24 in the month, down 61% from December.
- The consumer products, health care, homebuilders and real estate, and telecommunications sectors continued to lead downgrades in January (with three each).
- Speculative-grade accounted for a greater share of downgrades (at 83%) in January than in December (at 79%), as there were fewer investment-grade downgrades .
- The 'CCC'/'C' category accounted for nearly 38% of downgrades during the month, up from 6.4% in November, and at its highest since July (see chart 1).

The 'CCC'/'C' category accounted for nearly 38% of downgrades during the month... its highest since July.

Chart 1

'CCC'/'C' category represents a growing share of downgrades



Data as of Jan. 31, 2024. Includes sovereign, financial, and nonfinancial corporates. Chart shows the 'CCC'/'C' category share as a percentage of the total number downgrades, excluding defaults. Source: S&P Global Ratings Credit Research & Insights.

- In January, seven of the 10 largest downgrades (by debt amount) were downgrades of speculative-grade issuers, and four of those were from the 'CCC'/'C' category: Lumen Technologies Inc., Dish Network Corp., Radiology Partners Holdings LLC, and BW Homecare Holdings LLC.
- Defaults remained elevated in January, up by two to 14, representing the highest January total since 2010.
- Sectors that led defaults in 2023 continued to lead In January: consumer products had four defaults, followed by media and entertainment (three), and health care and transportation (two apiece).
- The sectors with the most upgrades in January were media and entertainment (six) and homebuilders and real estate companies (four). Together, these sectors represented half of the month's upgrades.
- Upgrades during January included three new rising stars (issuers upgraded to investment-grade from speculative-grade), compared with no new fallen angels (issuers downgraded to investment-grade from speculative-grade) during the month.

Upgrades during January included three new rising stars... compared with no new fallen angels.

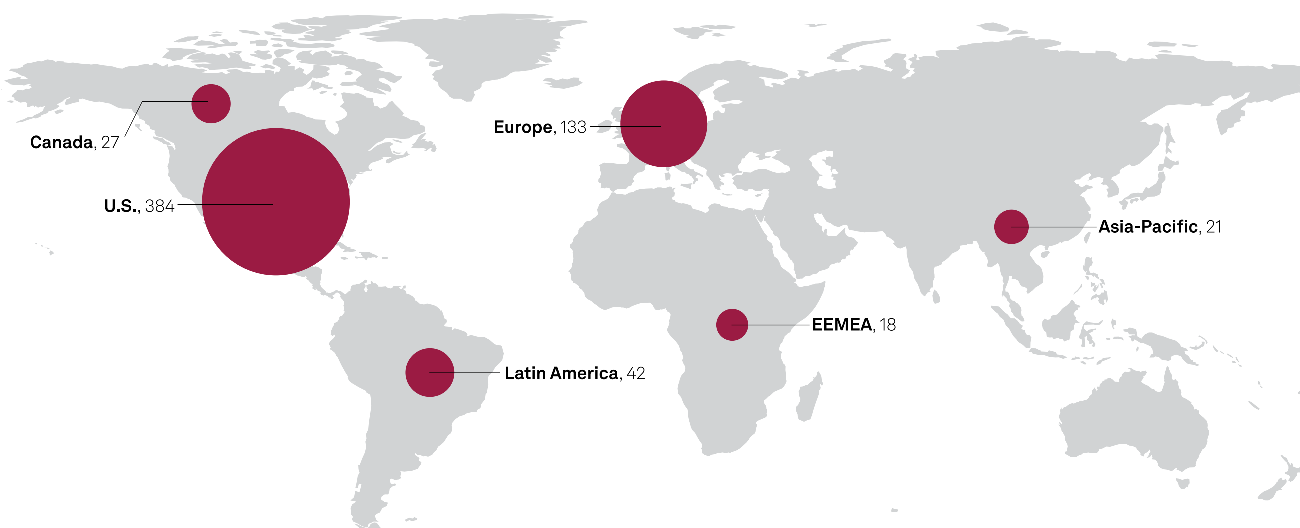
Relative Risks By Region And Sector

The number of potential downgrades declined to 625 as of Jan. 31, 2024, from 646 as of Dec. 31, 2023. Even though the number of potential downgrades had a net decline, January saw 26 new potential downgrades, half of which are U.S.-based issuers.

Chart 2

Potential downgrades (no.)

By region



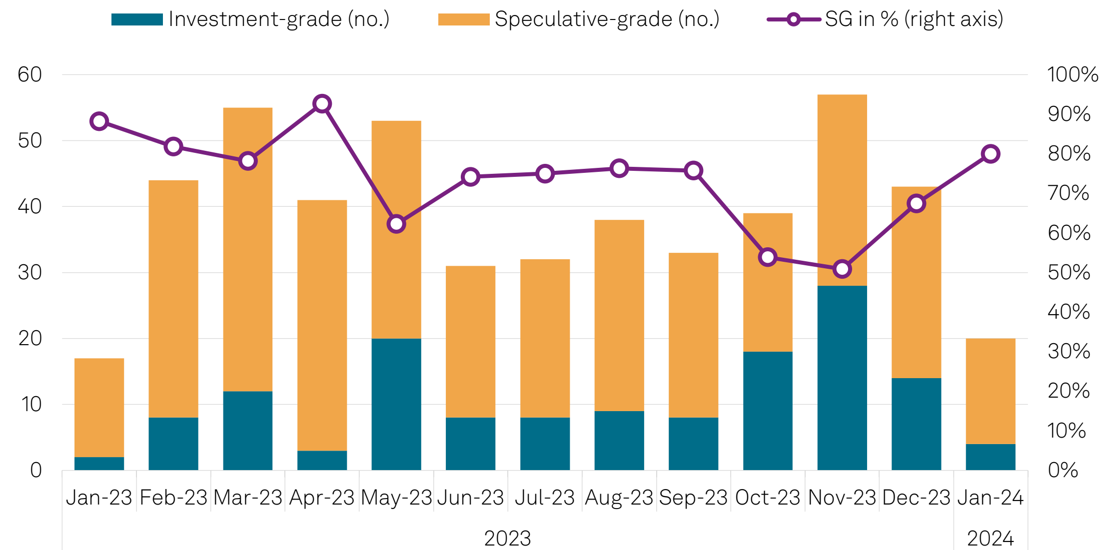
Data as of Jan. 31, 2024. Chart shows number of potential downgrades by region. EEMEA--Eastern Europe, the Middle East, and Africa. Source: S&P Global Ratings Credit Research & Insights.

New potential downgrades, which are issuers rated by S&P Global Ratings with a negative outlook or on CreditWatch negative and are at elevated risk of downgrade, are increasingly speculative-grade. The share of new potential downgrades that were speculative-grade grew to 80% in January from 67% in December. This represented the highest monthly share since April 2023 (see chart 3).

The share of new potential downgrades that were speculative-grade grew to 80% in January... the highest monthly total since April 2023

Chart 3

Speculative-grade accounts for a rising share of new potential downgrades



Data as of Jan. 31, 2024. Chart shows the number of new potential downgrades added each month, and the share of these that were speculative-grade. Source: S&P Global Ratings Credit Research & Insights.

Weakening operating performance--from declining revenue or profitability--was a factor for 35% of additions to potential downgrades during January. This compares to 47% in the previous month. Other company-specific factors accounted for 35% of new potential downgrades.

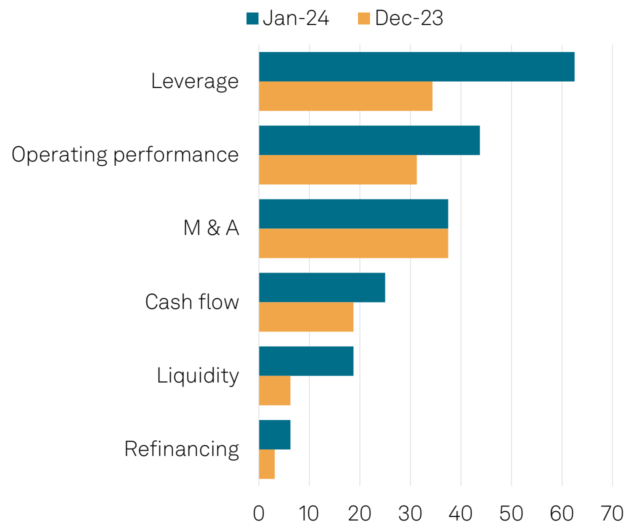
Increased leverage was a factor for fewer new potential downgrades in January (25%) than in December (53%). Although issuance levels have picked up this year, this increased volume is not yet leading to higher leverage--issuers have largely been tapping the credit markets to refinance existing debt, rather than adding new debt.

Furthermore, reduced leverage was the most common factor cited for new potential upgrades in January.

Increased leverage was a factor for fewer new potential downgrades in January (25%) than in December (53%).

Chart 4

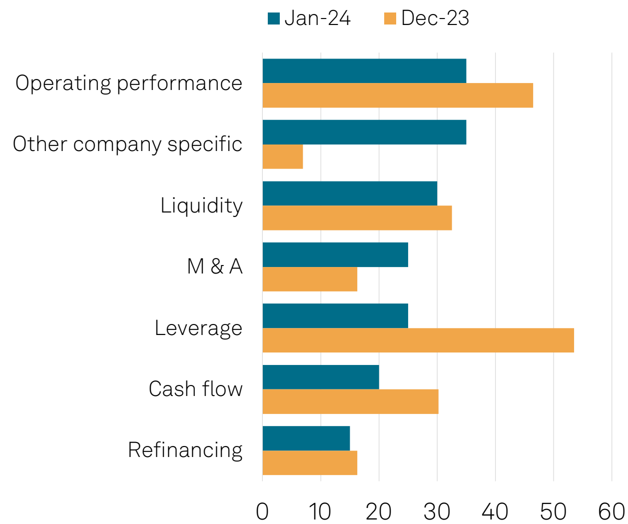
Lower leverage factored in nearly twice as many new potential upgrades in January than in December (%)



Data as of Jan. 31, 2024. 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. M&A--Mergers and acquisitions. Source: S&P Global Ratings Credit Research & Insights.

Chart 5

Weakening operating performance and company-specific factors each drove more than one-third of new potential downgrades



Data as of Jan. 31, 2024. We take stock of the main risks outlined in new potential downgrades and weakest links reports and group them by qualitative factors. One rating action can have multiple qualitative factors. M&A--Mergers and acquisitions. Source: S&P Global Ratings Credit Research & Insights.

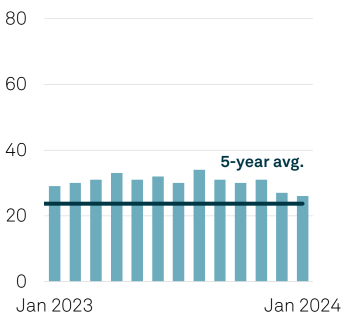
The number of potential upgrades was unchanged between the end of December and Jan. 31, at 303. During January, 19 potential downgrades were added, 16 of which are from the U.S. Consumer products, media and entertainment, and utilities led contributions to new potential upgrades, with three each.

Lower leverage factored in 63% of these additions, nearly twice December's share. Improving operating performance was the second most-cited factor, influencing 44% of new potential upgrades. This was predominantly driven by higher demand and revenue. Mergers and acquisitions--including divestments--were the third most-cited reason (44%), and these were cited in all but one of the positive CreditWatch placements.

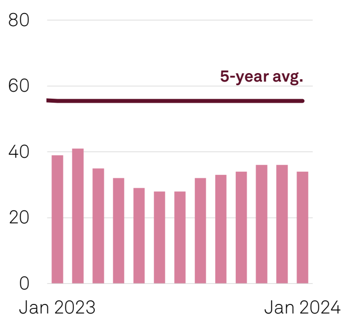
Lower leverage factored in 63% of the additions to potential upgrades, nearly twice December's share.

Specific Credit Indicators - Through Jan. 31, 2024

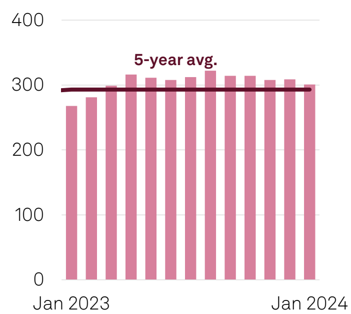
Potential rising stars (no.)



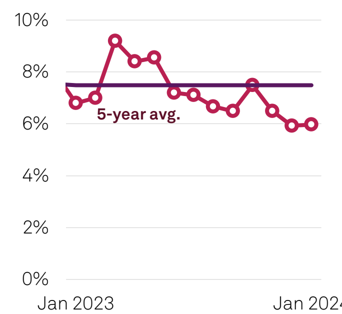
Potential fallen angels (no.)



Weakest links (no.)



Distress ratio



Data as of Jan. 31, 2024. Data represents sovereign, financial, and nonfinancial corporate issuers globally, except for S&P Global Ratings' 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: Fallen angel activity further slowed in January, with no new fallen angels or potential fallen angels (issuers rated 'BBB-' with negative outlooks or on CreditWatch negative).

Of the 34 current potential fallen angels, roughly half are from the homebuilders and real estate companies (seven); financial institutions (five); and chemicals, packaging, and environmental services (four) sectors.

Rising stars: There were three new rising stars in January, including **NASCAR Holdings LLC** (media and entertainment sector) and two from the insurance sector: **Radian Group Inc.** and **MGIC Investment Corp**.

The **NASCAR Holdings LLC** upgrade cited reduced leverage because of the newly announced multiyear, multibillion-dollar rights deal with several broadcast companies, coupled with continually strong attendance and asset sales.

The upgrades of insurers **Radian Group Inc.** and **MGIC Investment Corp** to investment-grade resulted from our revised criteria for analyzing insurers' risk-based capital. The recalibration of the capital model improved our assessments of capital adequacy for Radian and MGIC, largely attributable to mortgage insurance premiums and reserve capital requirements.

However, there were no new potential rising stars added in January (issuers rated 'BB+' with a positive outlook or on CreditWatch positive), leaving the tally at 26. Of the existing potential rising stars, most are from the oil and gas sector (six), with financial institutions and telecommunications contributing three apiece.

While rising stars outnumbered new fallen angels in 2023 (39 to 19). this trend may not continue through 2024, as potential fallen angels (34) outnumber potential rising stars (26).

Weakest links: The defaults of several weakest links since December lowered the number of weakest links in January. The tally of weakest links (issuers rated 'B-' and below with negative outlooks or on CreditWatch negative) fell for the second consecutive month in January--to 301, from 309 in December--but remains elevated compared to its five-year average.

> The health care; high technology; and chemicals, packaging, and environmental services sectors... have higher current tallies of weakest links than their five-year averages.

Defaults accounted for most of the reduction in the number of weakest links. Ten of the weakest links from the end of December defaulted in January, including four from the consumer products and two each from the health care and transportation sectors.

The homebuilder and real estate and capital goods sectors led weakest links additions in January, with two each. Both real estate companies added to the tally are facing ongoing liquidity pressure and refinancing risk related to upcoming debt maturities. Meanwhile, rising interest rates have reduced consumers' purchasing power and curbed their discretionary spending, which has further challenged some lower-rated capital goods issuers that have underperformed our expectations in terms of operating performance.

Overall sector stress can be seen in the health care; high technology; and chemicals, packaging, and environmental services sectors. All three sectors have higher current tallies of weakest links than their five-year averages. Given elevated weakest links, we expect to see more defaults from these sectors.

Although leading the overall weakest links tally, the consumer products and media and entertainment sectors have lower current tallies compared to their five-year averages. However, defaults have been elevated for these two sectors as issuers continue to struggle with high leverage and maturities of lower-rated debt.

Distress ratio: The U.S. distress ratio (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) stabilized in January at 5.97% as credit spreads tightened further, speculative-grade bond and loan issuance strengthened, and markets remained optimistic about the possibility of interest rate cuts and a soft landing for the U.S. economy.

The telecommunications and forest products and building materials sectors had the greatest increase in the number of issuers trading at distressed levels (with four additions each). From the telecommunications sector, additions included two new issues each from Dish DBS Corp. and CSC Holdings LLC. From the forest products and building materials sector, the additions included two issues from Domtar Corp. and one issue each from Werner FinCo L.P. and Rayonier A.M. Products Inc.

Defaults: Global corporate defaults started the year with the highest number of January defaults since 2010, at 14. Half of January's defaults were either from the consumer products or media and entertainment sectors, and these sectors continue to have elevated numbers of weakest links.

While rising stars outnumbered new fallen angels in 2023 (39 to 19), this trend may not continue through 2024, as potential fallen angels (34) outnumber potential rising stars (26).

S&P Global Ratings Credit Research & Insights expect the U.S. trailing-12-month speculative-grade corporate default rate to reach 4.75% by December 2024, from 4.5% in December 2023 (see "U.S. Speculative-Grade Corporate Default Rate To Hit 4.75% By December 2024 After Third-Quarter Peak", Feb. 14, 2024). Meanwhile, we expect the European trailing-12-month speculative-grade corporate default rate to be 3.5% by December 2024, the same level as in December 2023, after its expected rise to slightly higher levels over the summer. ("European Speculative-Grade Default Rate To Stabilize At 3.5% By December 2024," Feb. 14, 2024).

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: 2024 Data Companion.**"

Table 1

Potential downgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
Aerospace and defense	8	8					
Automotive	14	10	2	2			
Capital goods	27	17	5	1	1		3
Consumer products	94	70	17	1	2	3	1
CP&ES	48	27	15	2	2	1	1
Diversified	1				1		
Financial institutions	54	18	13	2	14	5	2
Forest PBM	11	5	6				
Health care	55	47	7				1
High technology	34	26	6	1			1
Home/real estate	39	17	17	4			1
Insurance	11	9	1	1			
Media/entertainment	56	43	11	1			1
Metals, mining, and steel	16	5	4	1	1	1	4
Oil and gas	13	1	4		3	2	3
Retail/restaurants	40	32	7		1		
Sovereign	16		4		7	5	
Telecommunications	26	15	4		3		4
Transportation	20	9	5	3	2	1	
Utilities	42	25	5	2	5		5

Data as of Jan. 31, 2024. 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	10	8	2				
Automotive	12	5	2	3		1	1
Capital goods	15	7	6	1			1
Consumer products	27	13	10		1		3
CP&ES	8	2	5		1		
Diversified							
Financial institutions	38	6	17	11		3	1
Forest PBM	16	12	3		1		
Health care	10	6	3				1
High technology	8	6	2				
Home/real estate	9	5	2			2	
Insurance	8	4	2	1			1
Media/entertainment	35	29	3	1			2
Metals, mining, and steel	15	9	3	1	1		1
Oil and gas	32	19	10	1	1		1
Retail/restaurants	9	4	5				
Sovereign	7		3		1	3	
Telecommunications	9		6			2	1
Transportation	15	4	5	2	2	1	1
Utilities	20	14	3	2	1		

Data as of Jan. 31, 2024. 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 January

Issuer	Sector	Downgrade date	Downgrade to	Downgrade from	Country	Amount (bil. $)
Lumen Technologies Inc.	Telecommunications	1/30/2024	CC	CCC+	U.S.	27.6
Dexia (Dexia S.A.)	Bank	1/2/2024	BBB-	BBB	France	26.4
Dish Network Corp. (EchoStar Corp.)	Telecommunications	1/16/2024	CC	CCC+	U.S.	22.5
Boston Properties Inc.	Homebuilders/real estate co.	1/11/2024	BBB	BBB+	U.S.	10.6
Cushman & Wakefield PLC	Financial institutions	1/12/2024	BB-	BB	U.K.	5.7
Radiology Partners Holdings LLC.	Health care	1/26/2024	CC	CCC+	U.S.	3.4
GoTo Group Inc.	High technology	1/12/2024	CCC+	B-	U.S.	3.0
Everest Group Ltd.	Insurance	1/29/2024	BBB+	A-	Bermuda	2.8
BW Homecare Holdings LLC	Health care	1/23/2024	CCC	CCC+	U.S.	2.4
Atos SE	High technology	1/19/2024	B-	BB-	France	2.1

Data as of Jan. 31, 2024. Excludes defaults. Table shows 10 largest issuer downgrades, excluding defaults, by debt amount in January 2024. Home/RE--Homebuilders and real estate companies. Source: S&P Global Ratings Credit Research & Insights.

Table 4

Top 10 upgrades in January

Issuer	Sector	Upgrade date	Upgrade to	Upgrade from	Country	Amount (bil. $)
Camelot UK Holdco Ltd.	Media & entertainment	1/24/2024	BB-	B+	U.K.	7.6
NGL Energy Partners L.P.	Utilities	1/17/2024	B	B-	U.S.	7.3
WEC US Holdings Ltd.	Capital goods	1/12/2024	B+	B	U.S.	7.1
Artera Services LLC	Capital goods	1/26/2024	B-	CCC+	U.S.	5.4
Chobani Global Holdings LLC	Consumer products	1/11/2024	B	B-	U.S.	3.9
Summit Materials LLC	Forest products & building materials	1/23/2024	BB+	BB	U.S.	3.8
Diversified Healthcare Trust	Homebuilders/real estate co.	1/3/2024	CCC+	CCC-	U.S.	3.8
Cirsa Enterprises S.A.U. (LHMC Finco 2 S.a.r.l.)	Media & entertainment	1/29/2024	B+	B	Spain	2.8
Cinemark Holdings Inc.	Media & entertainment	1/25/2024	BB-	B+	U.S.	2.8
Fitness International LLC	Media & entertainment	1/17/2024	B	B-	U.S.	2.6

Data as of Jan. 31, 2024. Table shows 10 largest issuer upgrades by debt amount in January 2024.
Source: S&P Global Ratings Credit Research & Insights.

Related Research

- U.S. Speculative-Grade Corporate Default Rate To Hit 4.75% By December 2024 After Third-Quarter Peak, Feb. 15, 2024
- European Speculative-Grade Default Rate To Stabilize At 3.5% By December 2024, Feb. 15, 2024
- ESG In Credit Ratings February 2024: A Slow Start, Feb. 15, 2024
- Highest January For Corporate Defaults Since 2010, Feb. 13, 2024
- This Week In Credit: Inflation Indicators, Feb. 12, 2024
- CreditWeek: How Will A Wave Of National Elections Affect Countries' Credit Dynamics?, Feb. 8, 2024
- Risky Credits: Debt Levels Rose 33% In North America In 2023 As Maturities Loom, Feb. 7, 2024
- Risky Credits: Europe Continues To Walk A Fine Line, Feb. 7, 2024
- Risky Credits: Silver Lining For Emerging Markets, Feb. 7, 2024
- Global Refinancing: Maturity Wall Looms Higher For Speculative-Grade Debt, Feb. 5, 2024
- Private Markets Monthly, January 2024: How S&P Global Provides Transparency, Benchmarks, And Data To Power Private Capital, Jan. 31, 2024
- SLIDES: Investment-Grade Credit Check: Walking The Walk, Jan. 30, 2024

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.