S&P Global
Ratings

The Ratings View

March 20, 2024

This report does not constitute a rating action.

Key Takeaways

- Global debt recovery prospects have deteriorated but aren't as bleak as some fear.
- The year-to-date corporate default tally is at its highest since 2009.
- 'BBB' issuers have shown more credit stability through the interest rate cycle than speculative-grade peers.

Debt recovery prospects are challenging but not bleak. Debt investors are concerned about recovery rates after the sharp rise in defaults in 2023 from historical lows reached in early 2022. While economic and interest rate expectations for 2024 have improved, investors still have concerns about how various factors may adversely affect recovery rates. This includes the impact of elevated interest rates on valuations, expectations for slowing and uneven economic growth, the rise in aggressive out-of-court restructurings, euphemistically referred to as liability management transactions (LMT), and ongoing geopolitical conflicts. Ultimately, we believe there are reasons to be concerned about future debt recovery rates--especially in the U.S., Canada, and Europe--but recovery prospects aren't as bleak as some fear.

Are Prospects For Global Debt Recoveries Bleak?

The 2024 global corporate default is now the highest year to date count since 2009, with 15 defaults in February taking the tally to 29. The U.S. saw the most defaults in February—10 in total—taking the annual count to 17 and the highest regional tally. Elevated defaults in Europe have bolstered the increased pace. With eight defaults so far in 2024, Europe has experienced at least twice the number of defaults as in any other previous year since 2008. By sector, 40% of defaults in February came from either heath care or media and entertainment, with three each.

Default, Transition, and Recovery: Elevated European Defaults Help Push Global Corporate Default Tally To Fastest Pace Since 2009

'BBB' category issuers have exhibited more stability through interest rate cycles than their speculative-grade counterparts. 'BBB' downgrade ratios are nearly uncorrelated with 10-year benchmark rates during upcycles, as opposed to higher positive correlations for speculative grade. Rising stars still outnumber fallen angels, although potential fallen angels are beginning to rise in number from recent historical lows. Despite overall relative stability of 'BBB's, commercial real estate and chemicals are sectors to watch for fallen angel risk.

'BBB' Pulse: 'BBB's Tough Out Interest Rate Cycles

The E.U. AI Act establishes a regulatory framework for restricting and limiting AI use that will likely influence companies and regulators across the globe. The legislation, which is the first major framework of its kind, employs a human-centric and risk-based approach to manage AI systems' safety, and includes measures designed to ensure systems are transparent, traceable, non-discriminatory, environmentally friendly, and aligned with fundamental rights. Entities operating in, or with operations in, the E.U. will have to familiarize themselves with the regulations and financial and reputational risk

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For latest Sector and Industry Research **Click Here** resulting from infringements could be material to credit worthiness. Once the act enters into force, likely by the second quarter of 2024, EU-based companies will, for the most part, have 24 months to be compliant.

Your Three Minutes In AI: The EU AI Act Could Become A Global Benchmark

ESG factors were cited as a rating driver in 13% of all corporate and infrastructure rating actions between April 2020 and December 2023. More than threequarters of the ESG-related rating actions were negative. Rating actions related to health and safety accounted for 83% of ESG-related rating actions since April 2020--largely as a result of COVID-19. But governance factors were also a key driver, having played a part in 28% of ESG-related rating actions in 2023. Until recently, climate-related risks have only driven a low number of credit rating actions, but the number doubled in 2023. It may increase in the years ahead as more disruptive regulations potentially emerge and as issuers make the generally costly low-carbon transition. An increase may also reflect the more frequent and severe physical risks that could stem from climate change.

ESG In Credit Ratings Deep Dive: ESG Factors Drove 13% Of Corporate And Infrastructure Rating Actions Since 2020

Climate economics have seen a paradigm shift, moving from a doom-and-gloom view, where economic growth isn't possible, to a more constructive model in which growth and a sustainable environment can coexist. With this, the focus of climate policy has expanded to include not only the costs of the energy transition but opportunities for innovation and growth. Decarbonizing fossil-fuel-reliant sectors and expanding renewable energy capacity is complicated by additional hurdles, in particular trade frictions, budget constraints, and distribution issues.

Economic Research: Shifting Green Growth Narratives Are Fostering The Energy Transition

The U.S. beverage sector faces a much different landscape in 2024. Sales growth will revert closer to pre-pandemic levels with much more muted pricing. Several industrywide trends are likely to change course, including lower on-premise and premium product demand and a heightened promotional environment. A margin rebound to historical levels is unlikely as higher promotional and marketing spending will offset operating efficiencies and lower input cost inflation. Ratings upside is limited as issuers should increase shareholder returns given the vast majority are operating within their leverage targets.

U.S. Beverage Companies Face A Cautious Consumer In 2024 With Slower Topline Growth And Limited Rating Upside

In the U.S. lodging sector, revenue per available room (RevPAR) will likely grow 2%-4% in 2024 compared to growth of around 5% in 2023, as a move toward normalization causes hotel demand to align with GDP and real consumer spending. We expect occupancy will remain several percentage points below prior cycle peak levels as hotel operators prioritize profitability and maintain elevated average daily rate (ADR) in lieu of filling rooms. U.S. RevPAR growth in 2024 will be the result of group and business transient travel as we expect leisure travel to cool off.

U.S. Lodging Sector RevPAR Growth Will Moderate In 2024

Asset Class Highlights

Corporates

Notable publications include:

- U.S. Beverage Companies Face A Cautious Consumer In 2024 With Slower Topline Growth And Limited Rating Upside
- Credit FAQ: European Building Materials Firms Display Good Rating Headroom In A Sluggish Environment
- Rated GCC Telcos Reinvent Themselves As Techcos
- Health Care IT Improves Cash Flow And Visibility; Rating Pressure Persists
- Are Prospects For Global Debt Recoveries Bleak?
- Default, Transition, and Recovery: Elevated European Defaults Help Push Global Corporate Default Tally To Fastest Pace Since 2009
- Credit Trends: 'BBB' Pulse: 'BBB's Tough Out Interest Rate Cycles
- ESG In Credit Ratings Deep Dive: ESG Factors Drove 13% Of Corporate And Infrastructure Rating Actions Since 2020
- U.S. Lodging Sector RevPAR Growth Will Moderate In 2024

Financial Institutions

- In Europe, we revised the rating outlook on Banco Comercial Portugues S.A. to positive from stable. The outlook revision reflects our view that the bank's credit profile could benefit from easing external imbalances in Portugal or improved industry dynamics in the coming quarters.
- We raised our rating on Kommunalkredit Austria AG o 'BBB/A-2' from 'BBB-/A-3'. The upgrade stems from Kommunalkredit's strong earnings generation over 2023 and better performance than other European banks in its peer group in recent years.
- We revised the rating outlooks on five Kazakhstani banks to positive from stable. We believe the Kazakhstani banking sector has shown better resilience to macroeconomic challenges over recent years, amid exacerbated geopolitical risks in the region. The system's asset quality metrics and financial performance have been significantly better than our expectations.
- In Latin America, we raised our long-term issuer credit ratings on Banco De Galicia Y Buenos Aires S.A.U. and Banco Patagonia to 'CCC' from 'CCC-'. The rating action follows similar action on the sovereign.
- We published several commentaries and bulletin, including:
    - Your Three Minutes In AI: The EU AI Act Could Become A Global Benchmark
    - Credit FAQ: How Our Bank Ratings Consider Interest Rate Risk In The Banking Book
    - Ten Takeaways From The Big European Bank Giveaway

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Structured Finance
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- Your Three Minutes In Banking: European Banks' Earnings Top Equity Costs, For Now
- Bulletin: Ping An Bank's Capitalization Can Absorb Higher Dividends

Sovereign

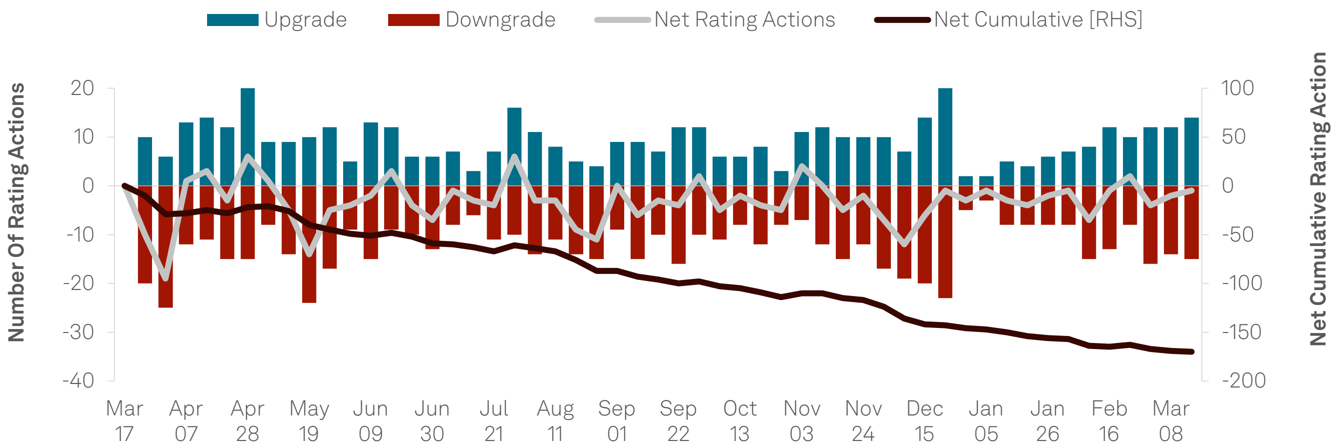
- Egypt Outlook Revised To Positive On Extensive External Support Program; 'B-/B' Ratings Affirmed
- Argentina Long-Term Ratings Raised To 'CCC' As Debt Exchange Is Finalized; Outlook Stable
- Argentina Local Currency Rating Lowered To 'SD' On Another Distressed Exchange; 'CCC-' Foreign Currency Rating Affirmed

Structured Finance

- **Australia RMBS:** Australian prime and nonconforming home loan arrears increased in January. 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 increased to 1.00% in January from 0.97% in December. Most of this increase was in later arrears categories. Nonconforming arrears rose to 4.43% from 4.02% in December, with some of this increase due to a contraction in outstanding balances during the month. The increases reflect a seasonal trend; arrears typically increase between December and February because of higher spending during the Christmas and summer holiday period. The increases in prime and nonconforming arrears were not material for this time of year, however.
- Prime investor arrears remained steady at 0.73% in January, while prime owner-occupier arrears increased to 1.14% from 1.10% in December. Investor arrears' greater resilience to interest rate rises reflects many factors, including tightness in the rental market. Rising property prices will also provide an exit strategy for investors facing cash flow pressures. Investors are more likely to sell a secondary property, to avoid going into arrears, because it is not their primary place of residence. This will also help to temper arrears increases. We expect unemployment to rise this year, resulting in a likely additional increase in arrears. As long as unemployment remains low, however, we don't expect these increases to be material.
- **Norwegian and Finnish Covered Bonds:** Here are a few "Key Takeaways" from a recent article:
    - Finnish and Norwegian households' debt servicing capacity remains sound despite rising interest rates, which have cooled the housing markets.
    - Despite house price corrections, we expect mortgage credit performance in both countries to remain relatively stable.
    - Healthy rating buffers in most covered bond programs continue to support rating performance, despite a weakening economic growth outlook.
    - See "Norwegian And Finnish Covered Bond Market Insights 2024" published March 11, 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 March 15, 2024. 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. $)
15-Mar	Upgrade	Republic of Argentina	Sovereign	Argentina	CCC	CCC-	153,378
13-Mar	Downgrade	Republic of Argentina	Sovereign	Argentina	SD	CCC-	153,334
14-Mar	Upgrade	E.ON SE	Utilities	Germany	BBB+	BBB	30,831
13-Mar	Downgrade	Xcel Energy Inc.	Utilities	U.S.	BBB+	A-	26,834
13-Mar	Downgrade	EchoStar Corp.	Telecommunications	U.S.	CCC-	CCC+	24,000
13-Mar	Downgrade	Grifols S.A.	Health Care	Spain	B	B+	7,908
14-Mar	Upgrade	Rolls-Royce PLC	Aerospace & Defense	U.K.	BBB-	BB+	5,196
13-Mar	Upgrade	CEMEX S.A.B. de C.V.	Forest Products & Building Materials	Mexico	BBB-	BB+	5,187
11-Mar	Downgrade	ELO	Retail/Restaurants	France	BB+	BBB-	5,014
11-Mar	Upgrade	Chart Industries Inc.	Capital Goods	U.S.	BB-	B+	3,751

Source: S&P Global Ratings Credit Research & Insights. Data as of March 15, 2024. 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**.**