S&P Global
Ratings

The Ratings View

April 3, 2024

This report does not constitute a rating action.

Key Takeaways

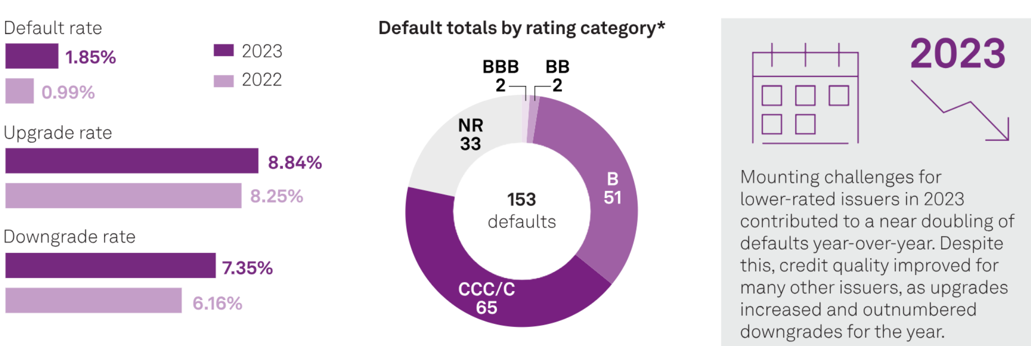
- Improving global credit conditions point to a third-quarter peak in defaults.
- The number of global corporate defaults nearly doubled to 153 in 2023.
- Our latest EBITDA addback analysis continues to show that growth and leverage forecasts are over-optimistic at deal inception.

We expect defaults to peak around the fall, then remain near current levels by the end of the year. Although economic growth has held up better than expected, slowing growth and still-elevated interest rates will pressure low rated corporates in consumer-related sectors and emerging markets. Market relief at receding recession risks has provided an opportunistic window for issuers to refinance debt, albeit at noticeably higher rates. Nevertheless, risks remain elevated. Factors that could derail our base case and lead to weaker business activity and market liquidity include a more severe economic downturn, a longer-than-expected period of high rates, a worsening geopolitical landscape, and challenges for China.

Global Credit Conditions Q2 2024: Between Economic Resilience And Market Exuberance

The number of global corporate defaults nearly doubled to 153 in 2023, from 85 in 2022, as higher interest rates added to pressure on the lowest-rated issuers. The consumer/services sector led the global tally for a third straight year, accounting for 25% of defaults. Of the defaulters that were rated at the start of the year, all but two were speculative-grade: Silicon Valley Bank and its parent SVB Financial Group, which we rated in the 'BBB' category at the start of 2023. Even as defaults rose, credit quality broadly improved. We upgraded more issuers (8.8%) than we downgraded (7.4%), and the one-year global Gini ratio (a measure of ratings performance) rose by 7.6 percentage points to 90.7%.

2023 global corporate default and transition study snapshot



*Rating category shows rating one year prior to default. NR--Not rated. Source: S&P Global Ratings.

Default, Transition, and Recovery: 2023 Annual Global Corporate Default And Rating Transition Study

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Our latest EBITDA addback analysis continues to show a correlation between the magnitude of addbacks at deal inception and the severity of management projection misses. Data for the latest cohort of companies shows a slight improvement in earnings projection. Time will tell if this is an anomaly or an early sign of a fundamental shift toward more realizable projections at deal inception. Companies continue to overestimate debt repayment and actual leverage continues to be far in excess of management projections. In general, EBITDA addbacks remain elevated. Those for deals originated in 2022 represent over 29% of management projected EBITDA and almost 55% of last-12-months reported EBITDA in our latest sample of large mergers, acquisitions, and leveraged buyout transactions. Escalated addbacks create higher event risk and potential credit degradation as company-adjusted EBITDA often defines the size and flexibility companies have under debt agreements.

Leveraged Finance: Adding Up: EBITDA Addback Study Shows Moderate Improvement In Earnings Projection Accuracy

The collapse of the Francis Scott Key Bridge in Baltimore, on March 26, could cause the largest marine insurance losses in history; final losses remain highly uncertain at this stage. After the Dali, a Singapore-flagged container vessel, collided with the bridge, marine insurers could be called on to cover the cost of rebuilding the bridge and damage to the vessel and cargo, as well as business interruption and other liability claims. Nearly all marine insurance globally is provided by the International Group of P&I Clubs (the IG), which has ceded the majority of the risk to the global reinsurance market. A pool of global reinsurers, led by AXA XL, provides the IG with global reinsurance cover up to about $3 billion. We anticipate that the protection and indemnity (P&I) clubs, AXA XL, and the global reinsurance sector will be able to manage their losses with no impact on ratings at this stage.

Baltimore Bridge Accident Could Cost More Than $3 Billion And Still Only Dent Insurers' Earnings

Credit and CHIPS. The U.S. Department of Commerce announced it signed a nonbinding preliminary memorandum of term with Intel Corp. for up to $8.5 billion in direct funding through the U.S. CHIPS (Creating Helpful Incentives to Produce Semiconductors Act) and Science Act to advance Intel's commercial semiconductor projects domestically. We believe Intel's funding allocation will soon unleash a flurry of grant announcements to other semiconductor manufacturers. From a credit perspective, we view grants to semiconductor manufacturers favorably because they partially offset planned capital expenditures. With the exception of Intel, we have not included assumptions for grants from the U.S. CHIPS Act in our base-case financial forecasts of rated issuers. While favorable, any grants that would be awarded are unlikely to materially change our assessment of our rated issuers' credit profiles.

CHIPS Act Funding To Intel Sparks Revival For U.S. Semiconductor Manufacturing

China is rolling out incentives to spark consumer spending in goods ranging from air conditioners to cars to new houses. The various programs are designed to lift the hardest-hit sectors and meet an "around 5%" economic growth target set at the government's recent "Two Sessions" planning event. S&P Global Ratings views these programs as expanded versions of or new twists to existing policies. We see them as China's effort to reprioritize goals and reallocate resources. We believe some sectors will be clear beneficiaries of these programs. For others, the situation could have downsides, including higher debt or exposure to riskier assets.

Credit FAQ: What Are The Credit Implications Of China's Various Programs To Support Growth?

Asset Class Highlights

Corporates

Notable publications include:

- Power Sector Update: The Piper At The Gates Of Dawn
- Default, Transition, and Recovery: 2023 Annual Global Corporate Default And Rating Transition Study
- Credit FAQ: Global Medical Device Demand To Remain Steady In The Era Of GLP-1s
- The Recovery Route For U.S. Transportation Sectors Is Likely To Be Slow
- Asia-Pacific Sector Roundup Q2 2024: A Nuanced Recovery
- Leveraged Finance: Adding Up: EBITDA Addback Study Shows Moderate Improvement In Earning Projection Accuracy
- CHIPS Act Funding To Intel Sparks Revival For U.S. Semiconductor Manufacturing

Financial Institutions

- **In the U.S., we revised the rating outlook on JPMorgan Chase & Co. (JPM) to positive from stable.** The positive outlook reflects our view that given JPM's business strength and diversification, we believe it is well positioned to deliver peer-leading results under various macroeconomic scenarios. See: Research Update: JPMorgan Chase Outlook Revised To Positive On Franchise Strength And Ability To Deliver Solid Results; Ratings Affirmed
- **In the Middle East, we revised the rating outlook on Oman-based BankMuscat to positive from stable.** The outlook revision takes into account the improving performance of key sectors, such as tourism, transportation (mainly shipping), and utilities, coupled with higher economic growth.
- We published several commentaries and bulletin, including:
    - S&P Global Ratings' Response To The Basel Committee's Consultation On Cryptoasset Standard Amendments
    - Funding Costs Will Remain High As Maturities Rise For North American Nonbank Financial Institutions
    - Rating Component Scores For U.S., Canadian, And Bermudian Banks (March 2024)
    - Bulletin: Bank of Communications Faces Capital Pressure As Total Loss-Absorbing Capacity Deadline Nears
    - Bulletin: ICBC Can Navigate Prolonged Property Market Weakness
    - Bulletin: Agricultural Bank of China Can Withstand China's Subdued Economic Recovery

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Sovereign

- Assessing Brazil's Potential Path To Investment Grade
- Default, Transition, and Recovery: 2023 Annual Global Sovereign Default And Rating Transition Study
- Oman Outlook Revised To Positive On Strengthening Fiscal Position; 'BB+/B' Ratings Affirmed
- Morocco Outlook Revised To Positive On Improving Socioeconomic And Budgetary Reform Trajectory; 'BB+/B' Ratings Affirmed
- Turks and Caicos Islands Outlook Revised To Positive From Stable On Prospects For Improved Economic Resilience

Structured Finance

- **U.S and EMEA Structured Finance:** S&P Global Ratings published its round-up of the latest credit developments and underlying performance indicators observed across U.S. structured finance sectors (see "U.S. Structured Finance Chart Book: March 2024," published March 26, 2024). S&P Global Ratings also published on March 28, 2024 its "EMEA Structured Finance Chart Book: March 2024". The report includes a roundup of the latest new issuance and credit developments that we have observed across structured finance sectors, along with data on issuance drivers, recent rating actions, and underlying performance indicators. We also highlight the key takeaways from our recent research publications.
- **Global Covered Bonds:** The main driver behind strong covered bonds issuance is the retreat of central bank liquidity schemes, according to S&P Global Ratings' latest global covered bond insights report published on March 27, 2024. The report, titled "Global Covered Bond Insights Q2 2024: Strong Start To The Year For Issuance", says issuance started the year on a robust footing, with broadly similar volumes compared to the same period in 2023.
- **U.S. CLO:** There were a couple recent commentaries published. Here are a few "Key Takeaways" from the first commentary:
    - Diversification spreads out risks across loan portfolios, which is important given the relatively long lifespan of CLO transactions. While portfolio diversity can mitigate idiosyncratic risks, too much diversity can also guarantee some exposure to the next troubled sector.
    - CLO portfolio obligor diversity has doubled over the past 20 years, although the footprint of the most widely held issuers within CLO portfolios has declined as CLO 2.0s began to diversity into smaller issuers (many rated 'B-') around 2017.
    - We analyzed reinvesting CLO portfolios during 2020 (year of the pandemic) as well as during 2023 (a period of slower economic growth) based on their levels of obligor and industry diversity.
    - Overall, CLO transactions with low obligor and high industry diversity showed weaker performance during both time periods.
    - See "CLO Spotlight: The Impact Of Asset Diversification On CLO Performance" published March 26, 2024. The following is the second commentary.

CLO Insights 2023 U.S. BSL Index*

'B-' category rated issuers	'CCC' category rated issuers	Nonperforming issuers	Avg. cushion at the junior O/C test	Weighted average price of portfolio	SPWARF	% of target par	'B-' on negative outlook
26.97%	6.69%	0.82%	4.10%	97.39	2733	99.72%	5.14%

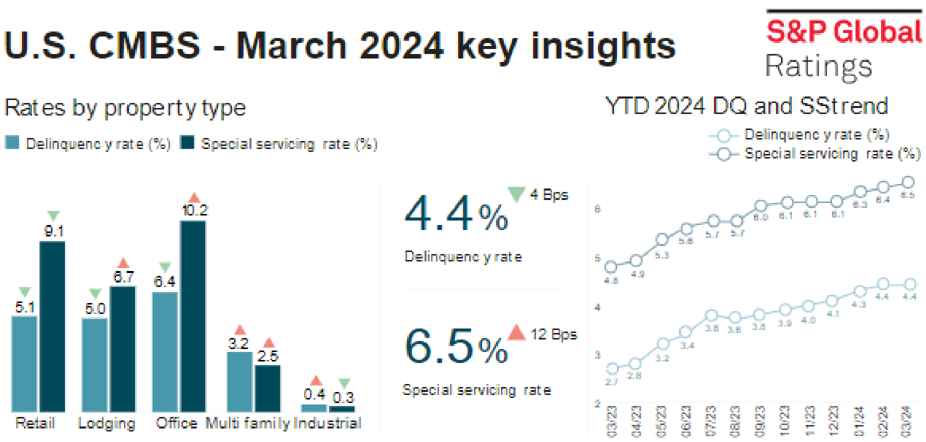
Change during prior month

Risk increasing   Risk decreasing   Not applicable

*Through March 20, 2024, update. SPWARF--S&P Global Ratings' weighted average rating factor.
N/A--Not applicable.

- See "SF Credit Brief: CLO Insights U.S. BSL Index: Altice In The Spotlight, And We Review Rating Action Rationales" published on Mar. 27, 2024.

- **U.S. CMBS:**



Note: Arrows indicate directional change in rate compared to the previous month.
YTD—Year-to-date. DQ—Delinquency. SS—Special servicing. Bps—Basis points. Source: S&P Global Ratings.

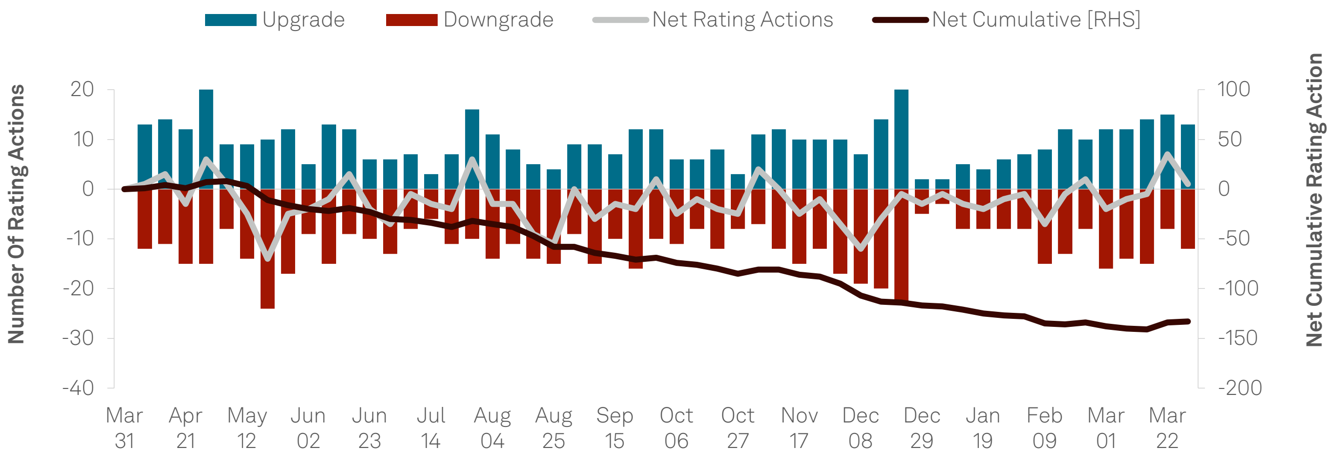
- See "SF Credit Brief: U.S. CMBS Overall Delinquency Rate Declined By 4 Bps To 4.4% In March 2024; Multifamily Had The Highest Increase" published March 28, 2024.

- **China ABS and RMBS:** Here are a few "Key Takeaways" from a recent commentary:
  - The weighted-average 30-plus-day delinquency rate for auto asset-backed securities (ABS) that we rate moved up to 0.37% in February 2024 from 0.29% in January 2024, while the severe delinquency rate also increased by 5 basis points (bps) to 0.17% over the same period.
  - The three-month median of coupons on the most senior tranches of auto ABS remained at 2.55%. There was no new auto transaction priced in February 2024.
  - The weighted-average 30-plus-day delinquency ratio of residential mortgage-backed securities (RMBS) that we rate inched up to 2.92% in February from 2.80% in January.
  - The performance of our rated auto ABS and RMBS transactions has been stable. Coupon rates of auto ABS are likely to fall in the following months after a series of monetary easing measures.
  - See "China Securitization: ABS And RMBS Tracker February 2024" published March 28, 2024.

- **North America Triple-Net Lease ABS:** See "North America Triple-Net Lease ABS Newsletter March 2024" published March 28, 2024.
- **Tobacco Settlement-Backed Bonds:** See "Continued High U.S. Cigarette Shipment Volume Decline Not Expected To Affect Tobacco Settlement-Backed Bond Ratings" published March 29, 2024.
- **Austrialian RMBS and Covered Bonds:** Here are a few "Key Takeaways" from a recent commentary:
    - Australian property prices have outpaced income growth for most of the past two decades.
    - This widening gap adds to economic imbalances.
    - We recently published a request for comment to revise our approach for assessing residential loans in Australia, New Zealand, and Singapore.
    - See "Asset Price Risks: Income And Residential Property Values Diverge For Australian RMBS And Covered Bonds" published March 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 March 29, 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. $)
28-Mar	Downgrade	Altice France S.A.	Telecommunications	France	CCC+	B-	25,804
27-Mar	Downgrade	Paramount Global	Media & Entertainment	U.S.	BB+	BBB-	18,379
28-Mar	Downgrade	Genesee & Wyoming Inc. (Brookfield Corp.)	Transportation	U.S.	BB	BB+	10,075
28-Mar	Upgrade	ABB Ltd.	Capital Goods	Switzerland	A	A-	9,318
27-Mar	Upgrade	Lorca Telecom Bidco S.A.U.	Telecommunications	Spain	BB	B	5,690
26-Mar	Upgrade	Merlin Properties Socimi, S.A.	Homebuilders/Real Estate Co.	Spain	BBB+	BBB	3,568
29-Mar	Upgrade	Sunsource Borrower LLC	Capital Goods	U.S.	B	B-	3,370
25-Mar	Upgrade	Fortum Oyj	Utilities	Finland	BBB+	BBB	2,865
25-Mar	Downgrade	Perrigo Company plc	Consumer Products	Ireland	BB-	BB	2,650
25-Mar	Downgrade	Agiliti Inc.	Media & Entertainment	U.S.	B	B+	2,360

Source: S&P Global Ratings Credit Research & Insights. Data as of March 29, 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**.**