

The Ratings View

April 17, 2024

This report does not constitute a rating action.

Key Takeaways

- Iran's attack on Israel signals a significant increase in geopolitical risk.
- Global defaults slowed in March but remain above 10-year averages year to date.
- China's banks are bracing for a tide of bad property loans.

The recent attack by Iran on Israel represents a dangerous expansion of the Israel– Hamas war and raises the risk of a sharp escalation of the conflict. The signaling and coordination that minimized harm prevented an immediate full-scale regional conflict. While last weekend's events signal a significant increase in geopolitical risk, the central narrative of our base-case scenario remains broadly unchanged including our baseline macroeconomic assumptions for the major economies. Nevertheless, our expectations are contingent on the nature and magnitude of the Israeli response. The medium-term trajectory remains fraught with risk, given the enormous challenges in finding a de-escalatory pathway. This means we will continue to closely monitor those key transmission channels exposed to the conflict that could affect credit conditions. These include energy prices, supply-chain disruptions, financial market volatility, and resumption of inflationary pressures, all of which could worsen if the conflict reaches a tipping point.

[Global Credit Conditions Update: Geopolitical Risks Rise On Iran-Israel Conflict Expansion Despite Immediate Reprieve](#)

[A Wider Middle East Conflict Remains Outside Our Base Case Despite Iran's Military Action](#)

Global defaults in March slowed to eight, from 15 in February, but remain above the 10-year average across regions. Europe is the only region in which year-to-date defaults are above the 2023 year-to-date tally. Defaults in the region remain at their highest, year to date, since 2008. U.S.-based telecoms led defaults in March, with two. The sector now leads in terms of the volume of defaulted debt, at US\$13 billion. Three quarters of defaults in March were from distressed exchanges as the number of re-defaults grows.

[Default, Transition, and Recovery: Global Defaults Are Still High Despite Dipping In March](#)
[Credit FAQ: The Rise of Repeat Defaulters](#)

China's banks are bracing for a tide of bad property loans, with an uneven economic recovery hindering an improvement in the asset quality. We project the bank sector's nonperforming asset (NPA) ratio to fluctuate from 5.5% to 5.9% in 2024-2026. The country's push to promote access to financial services has helped most micro and small enterprise (MSE) loans perform following a moratorium on repayments during the pandemic. Nullifying this improvement, however, are the ongoing strains in the property sector, which have spread to surviving developers and are causing more debt restructuring in lower-tier cities. We estimate the nonperforming loan (NPL) ratio for property lending to peak higher and later at 6.4% in 2025. Property loan exposure could fall to less than 6% of total loans over 2024-2026 as banks are cautious about lending to this sector.

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[China Banks Brace For Tide Of Bad Property Loans](#)

External developments could prompt emerging market (EM) central banks to be more cautious about cutting interest rates. The recent rise in commodity prices, particularly oil, increases the risk of renewed inflationary pressure, particularly for net energy importers. Furthermore, incoming U.S. data, both on activity and inflation, have led to a repricing in the federal funds rate, pushing cuts further out into the future, with a similar impact on benchmark rates in several major EMs, especially in Latin America. We expect growth in EMs to diverge significantly this year. Economic growth will moderate for many countries that previously outperformed in 2023 (such as Brazil, Mexico, and India) but conversely, some countries that underperformed last year are expected to pick up later this year (such as Chile, the Philippines, Poland, and Vietnam).

[Emerging Markets Monthly Highlights: Rising Challenges To Interest-Rate Cuts](#)

The collapse of Baltimore's Francis Scott Key Bridge is amplifying supply-chain challenges.

Baltimore port is particularly important for the wood (39% of northeast ports' imports), construction machinery (31%), and steel/aluminum (20%) sectors. The port is also one of the largest handlers of specialty wheeled transport shipments (cars and trucks) in the U.S. Other East Coast ports seem to have capacity and operational flexibility to handle cargo diverted from Baltimore, but the accident will likely increase supply chain costs, especially for autos, coal, oil and gas, and agribusiness. We don't expect the accident to dent the U.S. economy overall, but it could limit the disinflationary momentum and weigh on the local economy. The accident is unlikely to affect our ratings on the relevant U.S. public finance entities and insurers.

[Baltimore Bridge Accident Will Likely Increase Supply Chain Costs, With Minimal Rating Impacts](#)

Asia's energy transition is facing challenges. Energy transition plans are being revised as countries move to execution, with extended reliance on coal plants (China) or new coal plants (India), delayed retirement of coal plants (Australia), and a focus on alternate sources, such as gas (Vietnam), or hydro/geothermal (Indonesia). Higher power demand, slower renewable capacity addition, the intermittency of renewable power, and lack of non-fossil fuel baseload power will likely result in missed 2030 targets in some Asia-Pacific countries. Stable supply sources with storage solutions will be critical to accelerate transition. High capital expenditure and unregulated returns will remain key credit risks for renewable developers.

[Asia-Pacific Energy Transition: Adapting To Looming Execution Risks](#)

[China's Energy Transition Will Be Powered By Debt](#)

Japan's move away from negative policy interest rates suggest the Bank of Japan believes higher nearer-target inflation is here to stay. We broadly agree with that assessment. Price and wage-setting behavior is changing, as indicated by the solid recent wage increases that prompted the Bank of Japan to move its policy rate into positive territory. Changes in price and wage setting will translate to medium-term inflation of 1.5%-2%, in our view. This will support nominal revenue growth for firms and the government, thus offsetting the impact of higher interest costs. Consequently, we believe the BOJ will likely slowly increase the policy rate to around 1% by end-2027, although this is still significantly lower than in other major developed economies.

[Economic Research: Japan's Long Wait For Sustained Inflation Is Likely Ending](#)

Asset Class Highlights

Corporates

Notable publications include:

- [Credit FAQ: Unilever Streamlines Its Portfolio By Separating Its Ice Cream Business](#)
- [Baltimore Bridge Accident Will Likely Increase Supply Chain Costs, With Minimal Rating Impacts](#)
- [Credit FAQ: Outlooks Diverge For U.S. Local TV Broadcasters As Industry Faces Secular Challenges](#)
- [Asia-Pacific Energy Transition: Adapting To Looming Execution Risks](#)
- [Latin American Forest Products Companies Continue To Grapple With Industry Downturn](#)
- [GCC Oil And Gas Producers' Capex Cooldown Won't Fire Up Drillers' Leverage](#)
- [Japan Automakers Versus Global Peers: Market Position And Profitability Remain Key](#)
- [China Food And Beverage: A Soft Economy Can't Derail The Sector's Solid Growth](#)
- [China's Energy Transition Will Be Powered By Debt](#)
- [Credit FAQ: The Rise of Repeat Defaulters](#)
- [Credit FAQ: Europe's Chemical Sector: Spotting Signs Of Recovery](#)

Financial Institutions

- **In the U.S., we affirmed our 'BBB-' long-term issuer credit rating on Texas Capital Bancshares Inc. (TCBI) and our 'BBB' long-term issuer credit rating on Texas Capital Bank N.A.** Our ratings affirmation balances our favorable view of management's more conservative financial strategies against uncertainties regarding how quickly it can grow its fee income, improve profitability, and diversify its funding base. See [Research Update: Texas Capital Bancshares Inc. 'BBB-' Rating Affirmed On Ongoing Financial Improvements; Outlook Remains Stable.](#)
- We published several commentaries and bulletins, including:
 - [Bulletin: HSBC Holdings PLC Continues Its Strategic Disposals With The Agreed Sale Of Its Argentina Business](#)
 - [Bulletin: BPCE's Offer For SG's Equipment Finance Activities Signals Its Ambition To Also Expand Beyond France](#)
 - [Comparative Statistics: U.S. Banks \(April 2024\)](#)
 - [China Banks Brace For Tide Of Bad Property Loans](#)
 - [Sector Review: 2024 Taiwan Broker Sector Credit Trends](#)
 - [Sector Review: 2024 Taiwan Finance Sector Credit Trends](#)
 - [Your Three Minutes In Climate Disclosure: Benefits And Limitations Of The Green Asset Ratio For EU Banks](#)

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Sovereign

- [Kenya's Debt Conundrum: What Is The Path Forward?](#)

Structured Finance

- **U.S. CMBS:** Here are a few "Key Takeaways" from a recent commentary:
 - U.S. CMBS overall delinquency and special servicing rates continued to trend upward in first-quarter 2024, largely driven by the office sector. Property type exposures in conduits and single-borrower transactions have largely mirrored market credit concerns.
 - Overall issuance pace significantly increased year over year, with \$18 billion issued in the first quarter. Conduit issuance remained steady at \$6 billion, while SASB issuance rose approximately 70% to \$12 billion, largely due to several large industrial transactions. Conduit transactions have also featured lower leverage levels over the past five quarters, though the offerings have been smaller and more concentrated.
 - We declined to give preliminary rating feedback on most of the single-borrower offerings priced in the first quarter due to debt service coverage constraints, based on our cash flow analysis and current SOFR levels.
 - See "[U.S. CMBS Update Q1 2024: Office Performance And Interest Rates Are Still Driving The Conversation](#)" published April 10, 2024.
- **European CMBS:** Here are a few "Key Takeaways" from a recent commentary:
 - Several of the commercial real estate loans due to mature in 2023 follow the amend and pretend route, which not all loans will continue to take this year.
 - Nevertheless, five loans out of 13 did repay in 2023.
 - Higher-for-longer interest rates are affecting the commercial mortgage-backed securities space, but not in a uniform way.
 - We take a more negative view of the office and retail sectors, although believe that most borrowers are in a good position to refinance.
 - See "[European CMBS Can Ride The Refinance Wave](#)" published April 11, 2024.
- **U.S. Auto ABS:** Here are a few "Key Takeaways" from a recent commentary:
 - U.S. auto loan ABS performance improved in February, with prime and subprime annualized losses both decreasing from the previous month. This improvement in performance can be mostly attributed to the boost received from the much-anticipated tax season. However, both sectors continued to report losses that were higher on a year-over-year basis; and relative to pre-pandemic February 2020 levels, the prime sector posted higher losses while the subprime segment reported lower losses. Recoveries also improved considerably month over month. However the recoveries were still lower on a year-over-year basis and as compared to the pre-pandemic February 2020 level.
 - The delinquencies also decreased for both prime and subprime. After reaching its highest-ever level in January 2024, the subprime 60-plus-day delinquencies now have seen the first month-over-month decline since September 2023.

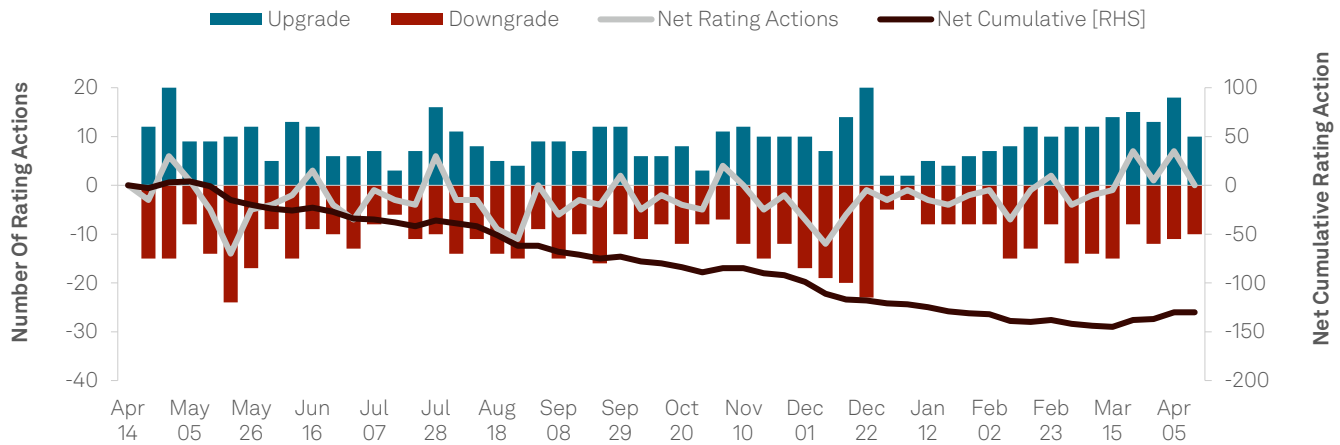
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Nonetheless, delinquencies for both sectors remained higher on a year-over-basis and relative to pre-pandemic February 2020 levels.

- In March, we revised our expected cumulative net loss levels for 13 transactions, raised 26 ratings, downgraded one (which had been on CreditWatch negative), and affirmed 31 classes.
- See "[U.S. Auto Loan ABS Tracker: February 2024 Performance](#)" published April 10, 2024.
- **Australian RMBS:** Australian prime and nonconforming home loan arrears fell in February. That's according to S&P Global Ratings' recently published "[RMBS Arrears Statistics: Australia](#)." The Standard & Poor's Performance Index (SPIN) for Australian prime mortgage loans excluding noncapital market issuance fell to 0.95% in February from 1.00% in January. Most of this fall was in later arrears categories. Nonconforming arrears dropped to 4.17% from 4.43% in December, with falls across all arrears categories. The declines in prime and nonconforming arrears may be partly due to a strong start to the year for new issuance, which was a feature of the first quarter in 2024. This can have a dilutionary effect on arrears levels. We expect unemployment to rise this year, resulting in a likely additional increase in arrears. As long as unemployment remains relatively low, however, we don't expect these increases to be material.

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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 April 12, 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. \$)
9-Apr	Downgrade	Entain PLC	Media & Entertainment	U.K.	BB-	BB	4,743
12-Apr	Upgrade	Michaels Cos. Inc.	Retail/Restaurants	U.S.	B-	CCC+	4,100
10-Apr	Downgrade	China Vanke Co. Ltd.	Homebuilders/Real Estate Co.	China	BB+	BBB+	2,593
11-Apr	Downgrade	Atos SE	High Technology	France	CCC-	CCC	2,063
11-Apr	Upgrade	Five Point Holdings LLC	Homebuilders/Real Estate Co.	U.S.	B-	CCC+	1,723
12-Apr	Downgrade	Pathway Vet Alliance LLC	Health Care	U.S.	CCC+	B-	1,560
12-Apr	Downgrade	Longfor Group Holdings Ltd.	Homebuilders/Real Estate Co.	Cayman Islands	BB+	BBB-	1,500
11-Apr	Upgrade	EquipmentShare.com Inc.	Capital Goods	U.S.	B	B-	1,440
9-Apr	Upgrade	HERC Holdings Inc.	Capital Goods	U.S.	BB	BB-	1,200
8-Apr	Downgrade	OQ Chemicals International Holding GmbH (OQ S.A.O.C)	Chemicals, Packaging & Environmental Services	Germany	CCC-	B	1,014

Source: S&P Global Ratings Credit Research & Insights. Data as of April 12, 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.



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