S&P Global Ratings

The Ratings View

May 22, 2024

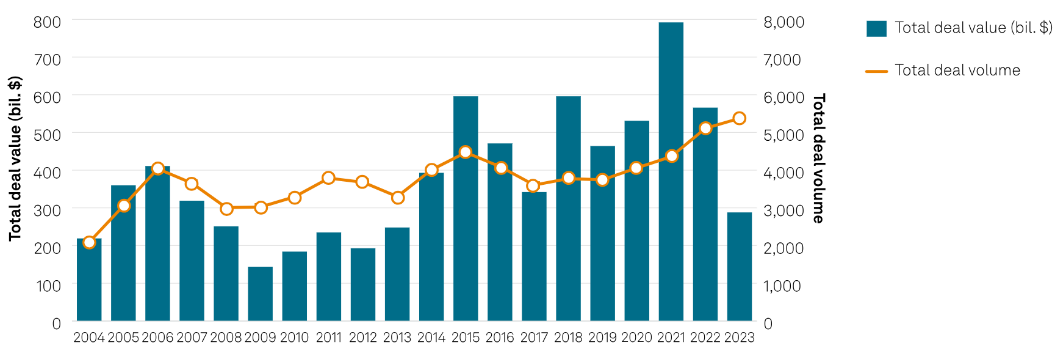
This report does not constitute a rating action.

Key Takeaways

- We expect U.S. tech sector M&A will pick up over the next year.
- Monetary easing in emerging markets looks set to take longer than expected.
- China's latest efforts to boost the property market could finally move the needle.

We expect mergers and acquisitions (M&A) to pick up in the U.S. tech sector over the next year given a resilient U.S. economy, an interest rate environment that has likely peaked, and, in our view, a narrowing valuation gap between potential buyers and sellers. Software companies, despite their higher valuations, attract more M&A attention from both strategic buyers and financial sponsors because of their better growth trajectories; sticky revenue and free operating cash flow (FOCF) streams; and higher-margin characteristics. M&A will compete against shareholder returns and capital expenditures (capex) to be a priority as U.S. technology issuers allocate capital. Healthy FOCF generation and cash levels at investment-grade issuers allow for tech M&A without compromising credit quality.

Recent annual tech M&A activity



Source: S&P Global Market Intelligence.

U.S. Tech M&A, Investments, And Shareholder Returns Compete For Healthy Cash Generation In 2024

We expect monetary-policy normalization in emerging markets (EMs) to take longer than anticipated. Following recent U.S. economic updates and the latest Federal Reserve meeting, we expect the Fed's first interest rate cut in December. The change in the Fed's fund rate path has led us to update our forecasts for the policy-rate and exchange-rate trajectories for many EMs, particularly for those that are more vulnerable to the Fed's decisions, such as Latin America.

Emerging Markets Monthly Highlights: Monetary Easing Will Take Longer

China's latest measures to boost the property market could move the needle on homebuyer confidence over the next few months. This is because they widen access to financing and signal a political willingness to stabilize conditions in the market. The central government will ease

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For latest Sector and Industry Research **Click Here** financing conditions, including by allowing localities to drop downpayments on first-time homebuyers to 15%, from 20%, and is removing the mortgage-rate floor. A similar move was effective in stabilizing sales--at least for a few months when implemented last August after very weak summer sales. In our view, these demand-side policies will reduce the downside risk on our sales forecast of Chinese renminbi (RMB) 10 trillion to RMB10.3 trillion for 2024. Our forecast assumes a 10%-15% drop from 2023.

China's Latest Property Policies Could Be A Temporary Confidence Booster

U.S. dollar strength against some Asian currencies may not be as much of a problem for corporate issuers as in the past. Persistently high U.S. rates are rarely good news for currencies in South and Southeast Asia. This has been the case over the past 18 months, with currencies in the region dropping 5%-10% against the dollar. Such depreciations can strain issuers with revenue in their local currency when they have debt and costs in U.S. dollars. This time may be different. S&P Global Ratings doesn't expect currency depreciations in isolation to lead to a wave of corporate rating or outlook changes in South and Southeast Asia in the next 12 months. That's even if currencies were to weaken a further 5%-10%. In this cycle, currencies have eroded more slowly than in previous major depreciation cycles. Rated entities often have less of a currency mismatch between operations and debt than in previous rounds of forex volatility, either because of more financial hedging, less reliance on dollar funding, or more dollar-linked revenues.

Credit FAQ: How South And Southeast Asian Firms Will Fare As Currencies Depreciate
Credit FAQ: A Look At Why South And Southeast Asian Firms Are Standing Up To A Strong Dollar

Over the next five years, we expect AI/generative AI to impact cities through integration into digital government services, smart transportation and interactive digital twins. Smart cities—cities that use technology to try and enhance the quality of life of citizens--could become even smarter with increased application of AI, both in infrastructure development and analysis of data. Enhancing safety, sustainability, quality of life and resident experience are key benefits of urban areas becoming more AI-powered. However, risks such as data privacy and critical infrastructure security are on the rise and add to the challenge for governments and public bodies to govern and contain.

The Rise of AI-Powered Smart Cities

Asset Class Highlights

Corporates

Notable publications include:

- Pacific Infrastructure Handbook: Balancing Risks For Sustainable Growth
- China's Latest Property Policies Could Be A Temporary Confidence Booster
- U.S. Tech M&A, Investments, And Shareholder Returns Compete For Healthy Cash Generation In 2024
- Credit FAQ: How Asia-Pacific Will Pay For Its Carbon-Cutting Infrastructure
- Emerging Markets Monthly Highlights: Monetary Easing Will Take Longer
- U.K. Water Utilities And Projects: The New DPC Investment Model In Focus
- Your Three Minutes In Electric Power: EPA Emissions Rules Could Hamper Power Production Economics And Utility Credit Metrics
- Corporate Results Roundup Q1 2024: Recovery continues excluding commodity sectors but remains fragile and fragmented
- Latin America Sector Roundup Q2 2024: Signs Of Slipping Credit Quality
- Default, Transition, and Recovery: Resilient Growth, Resilient Yields, And Resilient Defaults To Bring The U.S. Speculative-Grade Corporate Default Rate To 4.5% By March 2025

Financial Institutions

Over the past week, we took several rating actions in Europe:

- Research Update: Ceska Sporitelna Outlook Revised To Stable Amid Receding Economic Risks; Ratings Affirmed At 'A/A-1'
- Research Update: mBank Outlook Revised To Positive On Strong Underlying Performance And Expected Derisking; Affirmed At 'BBB/A-2'
- Research Update: Poland-Based Alior Bank Outlook Revised To Positive On Improving Risk Profile; 'BB+/B' Ratings Affirmed
- Research Update: VP Bank AG Outlook Revised To Negative; 'A-/A-2' Ratings Affirmed

We published several commentaries including:

- Bulletin: Deutsche Pfandbriefbank's First Quarter Results Show A Mixed Picture
- Bulletin: Norinchukin Bank Potential Losses Underline Ongoing Risks

- U.S. Banks Webinar Q1 2024 Slides: Pockets Of Weakness And Strength
- CreditWeek: How Are Funds Using Net Asset Value Loans?
- Credit FAQ: An Overview Of Our Proposed Criteria For Rating Subscription Lines Secured By Alternative Investment Funds' Capital Commitments

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Sovereign

- Credit FAQ: What Does The Dominican Republic's Presidential Reelection Imply For Our Sovereign Credit Rating?
- Cote d'Ivoire Outlook Revised To Positive On Declining Budgetary And External Imbalances; 'BB-/B' Ratings Affirmed

Structured Finance

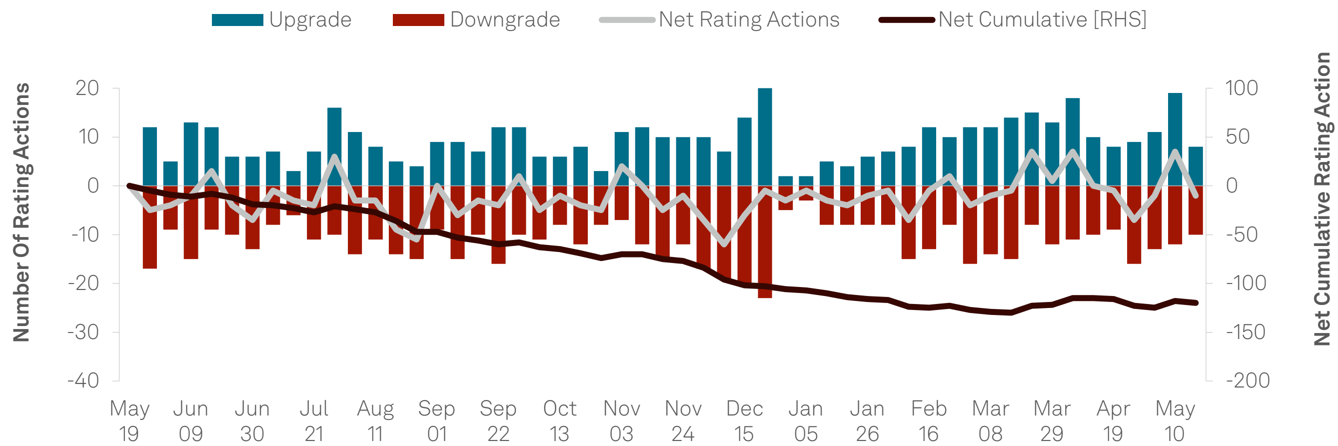
- **U.S. Auto ABS:** Here are a few "Key Takeaways" from a recent article:
    - U.S. prime and subprime auto loan ABS saw improved month-over-month performance in March 2024 due to the tax refund season. However, year-over-year and relative to 2019 (pre-pandemic), both segments experienced significantly higher losses and delinquencies and declining recoveries.
    - The prime 2023 quarterly vintages are showing deterioration relative to 2022, with cumulative gross and net losses in line with or slightly worse than 2016 (the last vintage largely unimpacted by COVID stimulus). Meanwhile, certain subprime pools are reporting improved performance as the subprime index saw slightly lower losses on the 2023 quarterly vintages compared with 2022.
    - Prime issuers reported higher weighted average year-over-year extension levels, based on loan-level data, while the public subprime issuers reported lower levels.
    - Based on the collateral characteristics of most rated auto ABS, lenders are adjusting to a higher interest rate environment by increasing their APRs. Loan terms have lengthened, but not enough to offset higher prices (since 2019) and APRs, leading to higher monthly payments.
    - In April, we revised our expected cumulative net loss levels for four transactions, and we raised one rating and affirmed 18.
    - See "U.S. Auto Loan ABS Tracker: March 2024 Performance", published May 17, 2024.
- **European RMBS:** S&P Global Ratings published on May 16, 2024 its European RMBS Index Report Q1 2024. For a more dynamic, visual, and comparative view of the data presented in this report, access our new interactive European RMBS Index Dashboard at: https://www.spglobal.com/ratings/en/research-insights/sector-intelligence/interactives/european-rmbs-index. The dashboard tracks the collateral performance of all our rated European RMBS transactions and enables the filtering of data to identify key metrics and trends. Starting this quarter, we divide Irish RMBS transactions between "Ireland prime" and "Ireland other". This will better illustrate diverging performance between prime and other collateral types (typically nonconforming or reperforming) in this jurisdiction. Irish prime includes prime buy-to-let (BTL) collateral. Quarter-on-quarter total delinquencies were stable in most indices, with notable exceptions being U.K. nonconforming and Ireland other. Our U.K. BTL - post 2014, Spain, and Portugal indexes experienced minor collateral performance deterioration. For several jurisdictions, arrears will likely continue to increase as borrowers refinance into the higher-rate environment and/or deal with increased unemployment and reduced wage growth. However, proactive servicing and forbearance may increase collection rates for delinquent loans than in previous periods of stress.

- **European Auto and Credit Card ABS:** S&P Global Ratings published on May 17, 2024, its quarterly European and U.K. asset-backed securities (ABS) index reports for the first quarter of 2024:
  - European Auto ABS Index Report Q1 2024
  - European And U.K. Credit Card ABS Index Report Q1 2024

    Despite challenging macroeconomic conditions in 2023 and into 2024, the credit performance of our rated credit card and auto ABS transactions remained mainly unchanged in Q1 2024 year-on-year. Nominal delinquencies remained stable and defaults remained low and within our expectations.
- **China Securitization:** China's new securitization issuance fell 18% in the first quarter of 2024. It declined year on year to Chinese renminbi 303 billion (US$42 billion) and will likely remain flat for the remainder of the year. The issuance momentum of dominant segments will likely slow and the chance of a downside revision has increased. This is according to a chartbook-style commentary we published today, titled, "China Securitization Performance Watch 1Q 2024: A Slow Start For Issuance". Issuance was mainly affected by a decline in sectors such as auto loan asset-backed securities (ABS) and consumer loan ABS under the credit asset securitization scheme as well as lease receivables ABS under the China Securities Regulatory Commission scheme. Collateral performance in the first quarter was somewhat volatile for auto and consumer loan ABS as well as residential mortgage-backed securities relative to the past few quarters. We expect volatility to remain elevated in the next quarter or two.
- **Australian RMBS:** Australian prime and nonconforming home loan arrears increased in March. 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 March from 0.95% in February. Most of this increase was in the early arrears categories, which can be more volatile. Strong new issuance in the first quarter will have had some dilutionary effects on the reported level of arrears. Property price growth, refinancing opportunities (for some borrowers), and low unemployment are keeping arrears low overall. Nonconforming arrears increased to 4.18% in March from 4.17% in February, with most of this increase in later arrears categories. Refinancing loans to alleviate debt serviceability pressures is generally harder for nonconforming borrowers. This will be influencing arrears performance for this sector in the current market.
- **Tender Option Bonds:** In first-quarter 2024, tender option bond (TOB) issuance by par amount was down 51% compared to Q1 2023 due to higher financing costs, said an article published today by S&P Global Ratings. Issuance did spike to approximately $700 million in mid-March, but this was primarily driven by a large one-off trust. On May 14, 2024, we published an article titled "Q1 2024 Tender Option Bond Update: Issuance Plunges Amid High Financing Costs".
- **Variable-Rate Demand Obligations:** See "Your Three Minutes In U.S. VRDOs: Regional Bank Exposure", published on May 14, 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 May 17, 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-May	Downgrade	Altice USA Inc.	Telecommunications	U.S.	CCC+	B-	24,815
16-May	Downgrade	Medical Properties Trust Inc.	Homebuilders/real estate co.	U.S.	B-	B+	12,933
15-May	Upgrade	Antero Resources Corp.	Oil & gas	U.S.	BBB-	BB+	9,300
13-May	Upgrade	Freeport-McMoRan Inc.	Metals, mining & steel	U.S.	BBB-	BB+	7,462
17-May	Downgrade	PENN Entertainment Inc.	Media & entertainment	U.S.	B	B+	3,479
14-May	Upgrade	Thomson Reuters Corp.	Media & entertainment	Canada	BBB+	BBB	3,184
14-May	Upgrade	SeaWorld Parks & Entertainment Inc. (United Parks & Resorts Inc.)	Media & entertainment	U.S.	BB	BB-	3,168
15-May	Downgrade	LGC Science Group Holdings Ltd.	Consumer products	U.K.	B-	B	2,058
16-May	Downgrade	ams-OSRAM AG	High technology	Austria	B	BB-	1,997
14-May	Downgrade	DENTSPLY SIRONA Inc.	Health care	U.S.	BBB-	BBB	1,500

Source: S&P Global Ratings Credit Research & Insights. Data as of May 17, 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.