

This report does not constitute a rating action.

Inflation Cools As Geopolitics Heats Up

(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](#)." "This Month In Credit" publication will take a break in July and return in August.

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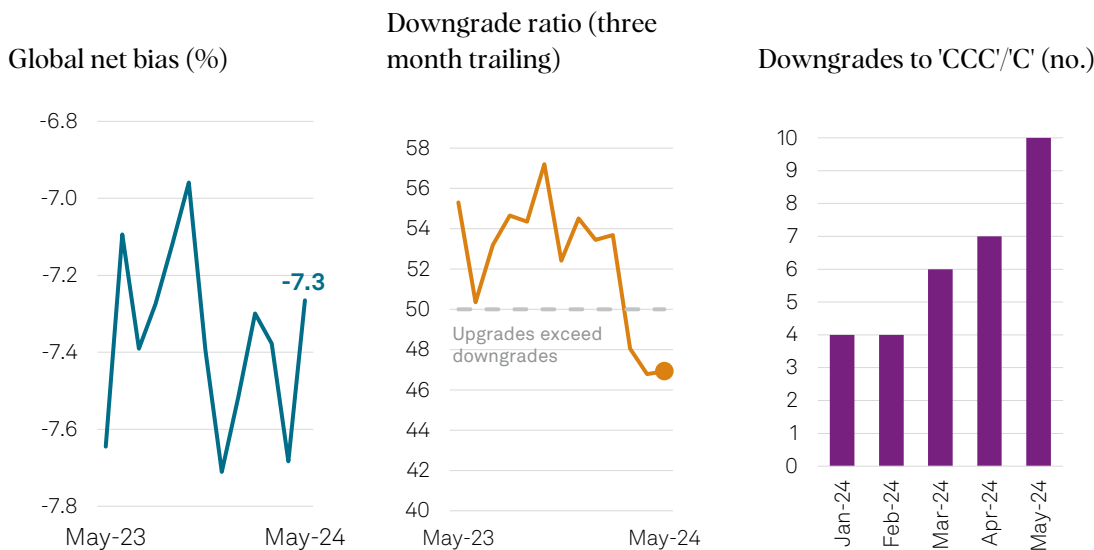
For a weekly snapshot of rating trends and credit conditions, please see "[This Week In Credit](#)," released every Monday.

Key Takeaways

- Headline inflation slowed in the U.S. as May's consumer price index (CPI) reading came in below expectations, just as upgrades outnumbered downgrades for a fourth consecutive month--reflecting issuers' improving credit quality.
- But not all is well in credit, as signs point to heightened geopolitical risk. There were four sovereign downgrades in the month, including three in Eastern Europe affected by the extended conflict in Ukraine.
- Weakness persists at the low end of credit: downgrades into the 'CCC'/'C' category continued to rise even as upgrades out of the category continued to decline.
- Despite fewer defaults in May, the global default tally remains elevated, and Europe's year-to-date tally remains at its highest since 2008.

Lingering Weakness

Even with upgrades surpassing downgrades for a fourth consecutive month, downgrades of issuers into the 'CCC'/'C' category continued to rise in May.



Data as of May 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). Downgrade ratio (three month trailing, %) shows the sum of the trailing-three-months' downgrades, divided by the sum of the trailing-three-months' upgrades and downgrades. Downgrades to 'CCC'/'C' shows the number of issuers downgraded to 'CCC+' or lower from 'B-' or above, by month. Source: S&P Global Ratings Credit Research & Insights.

Credit Notes: Half Full, Half Empty

A brighter outlook for inflation is clear. Markets rallied as May's month-over-month CPI numbers came in below expectations--suggesting that U.S. inflation may finally be slowing. Markets increasingly expect the long awaited rate cuts will commence in late third quarter, as opposed to the fourth quarter (our view is the first rate cut will not take place until December).

Meanwhile in Europe, the European Central Bank (ECB) took the lead announcing its first rate cut in five years on June 6. We expect the ECB to cut rates by 25 basis points (bps) per quarter until the deposit rate bottoms out at 2.5%.

While markets took these headlines as favorable signposts pointing to slowing inflation, geopolitical risks appear to be coming more to the fore.

Four sovereigns were downgraded in May, including three Eastern European countries, which face challenges stemming from the extended conflict in Ukraine. Meanwhile, France was downgraded, reflecting our projection that, contrary to our previous expectations, France's general government debt as a share of GDP will increase as a result of larger-than-expected budget deficits over 2023-2027. Election results in Mexico and India contributed to bursts of stock market volatility, and this volatility could linger in Europe after French President Emmanuel Macron called for a snap election, which has initially led to a 40-bps hike in the iTraxx-Xover.

Despite simmering uncertainty, rating performance trends remain broadly constructive as upgrades surpassed downgrades globally for a fourth consecutive month--the longest streak since 2021. We saw fewer downgrades among investment-grade and higher-rated speculative-grade borrowers. Rising stars once again outnumbered fallen angels (by four to one in May), and the number of potential downgrades fell by 10 to 588.

But pockets of stress remain, particularly among issuers with weaker credit.

Ten issuers were downgraded from 'B-' or higher to 'CCC+' or below during the month--the most such downgrades this year--while fewer 'CCC'/'C' category issuers were upgraded to higher categories.

The number of weakest links continued to decline (down by five to 269), but this was primarily because seven issuers from last month defaulted. Although there were somewhat fewer defaults in May than in April, the tally remained elevated (with 14), bringing the year-to-date total to 69. In Europe, defaults are at their highest level since 2008 with 19 year to date.

In credit markets, the relative calm in recent months has contributed to favorable financing conditions: the market is open for those that want to issue new debt. Spreads are near all-time lows, and strong demand has driven issuance up year over year for investment-grade, speculative-grade, leveraged loans, and collateralized loan obligations (CLOs). Despite the narrow spreads, the S&P Global U.S. distress ratio inched up for a second consecutive month, back to its highest level since January (at 5.95%).

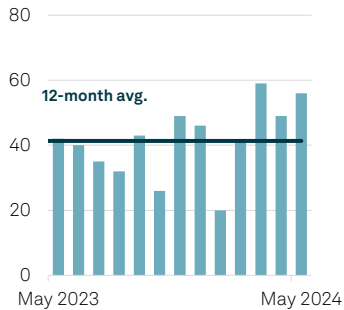
Issuers overall continue to show strength and resilience as they adjusted to high-for-longer interest rates, but the uncertain impact of geopolitical shifts could provide another cause for concern for those lower rated issuers already struggling in the current environment.

For more
accompanying
data, [click here](#)

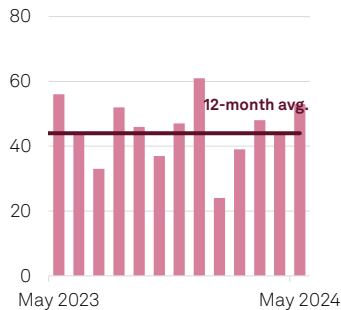
Ten issuers were downgraded from 'B-' or higher to 'CCC+' or below during the month, and this was the most such downgrades this year.

Ratings Trends Snapshot – Through May. 31, 2024

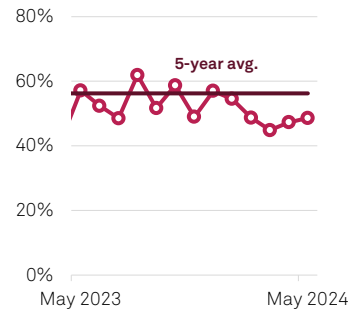
Upgrades (no.)



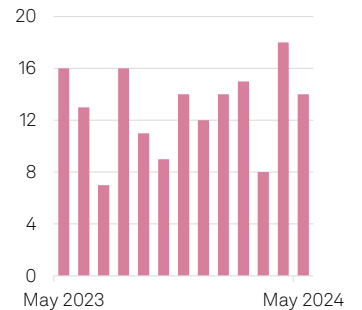
Downgrades (no.)



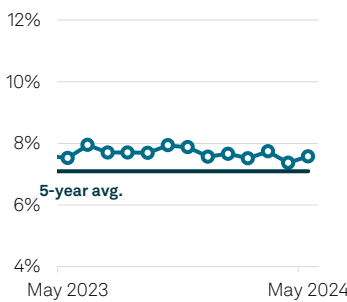
Downgrade ratio



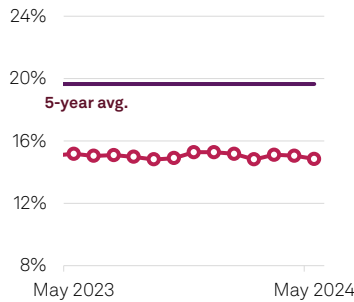
Defaults (no.)



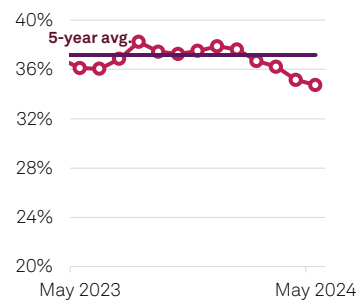
Positive bias



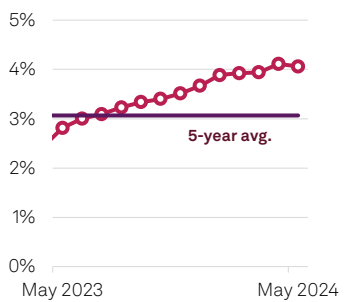
Negative bias



Negative bias 'B-' and lower



SG default rate



Data as of May. 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. SG--Speculative grade. Source: S&P Global Ratings Credit Research & Insights.

Credit Trends: Speculative-Grade Weakness Lingers

Overall upgrades exceeded downgrades once again in May, but potential risk lingers at the lower end.

- Upgrades (56) exceeded downgrades (53) for a fourth consecutive month, the longest stretch since the start of 2021.
- Going against the trend, the U.S. had more downgrades (36) than upgrades (26), while Europe and Latin America also had marginally higher downgrades. Asia/Pacific, Canada, and Europe, the Middle East, and Africa primarily saw upgrades in May.
- Upgrades exceeded downgrades in the 'BBB' and 'BB' categories, with 31 in total versus 11 downgrades.
- While the 'B' category had the most upgrades in the month (with 22), these were just surpassed by 23 downgrades for the category.
- Lower-rated entities continue to show weakness, and speculative-grade downgrades (43) exceeded speculative-grade upgrades (39), with the downgrades most concentrated among issuers rated 'B-' and lower (see chart 1).

Upgrades exceeded downgrades for a fourth consecutive month, the longest stretch since 2021.

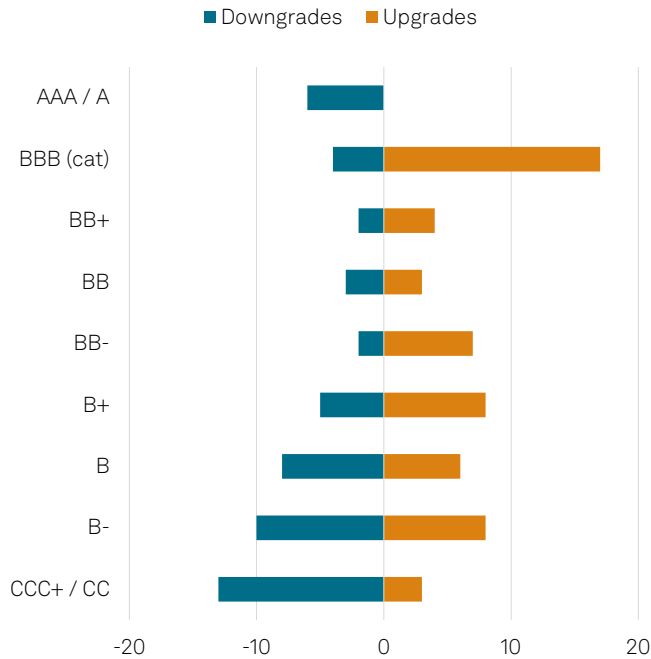
- In addition, 10 issuers were downgraded from the 'B' category to the 'CCC' category in May, up from seven in April and marking the highest monthly total year to date.
- Downgrades into the 'CCC'/'C' category are increasingly exceeding upgrades from 'CCC'/'C' into higher rating categories (see chart 2).
- Higher-rated issuers continue to show resilience, with fewer investment-grade issuers downgraded in May (10) than in April (14).
- While investment-grade downgrades decreased overall in May, there was an uptick of downgrades from issuers rated in the 'A' category or higher. In large part, this was from the downgrade of four sovereigns during the month.
- These downgrades included the **Republic of France**, along with three Eastern European sovereigns (**Republic of Latvia**, **Republic of Lithuania**, and **Republic of Estonia**).
- These three Eastern European sovereigns were downgraded due to the effects of the protracted war between Russia and Ukraine, in addition to broader geopolitical risks, and accounted for three of the largest downgrades for the month.
- By debt amount, the largest downgrade for the month was telecommunications company **Altice USA Inc.**, downgraded to 'CCC+' from 'B-' following concerns of the sustainability of its capital structure. Additionally, **Altice International S.a.r.l (Altice Europe N.V.)** was downgraded to 'B-' on weaker performance and higher debt burden.
- The consumer products sector led downgrades, with nine in May. This brings the year-to-date total to 37 as inflation and interest rates weigh on consumer spending.
- Financial institutions followed with seven downgrades in the month, and telecommunications with six.

Lower-rated entities continue to show weakness, as speculative-grade downgrades exceed upgrades.

Three Eastern European sovereigns were downgraded due to the effects of the protracted war between Russia and Ukraine, in addition to broader geopolitical risks, and accounted for three of the largest downgrades for the month

Chart 1

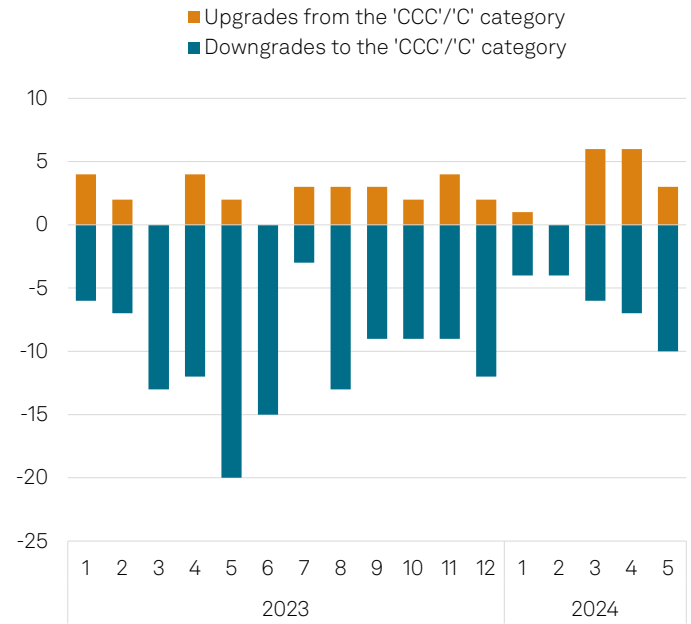
Rating actions by category (in May)



Data as of May 31, 2024. Downgrades shown as a negative number. Source: S&P Global Ratings Credit Research & Insights.

Chart 2

Downgrades into the 'CCC' category are surpassing upgrades from it*



Data as of May 31, 2024. * Downgrades from issuers rated 'B-' or above to 'CCC+' or below. Upgrades shows upgrades from 'CCC+' or lower to the 'B' category or higher. Downgrades shown as a negative number. Source: S&P Global Ratings Credit Research & Insights.

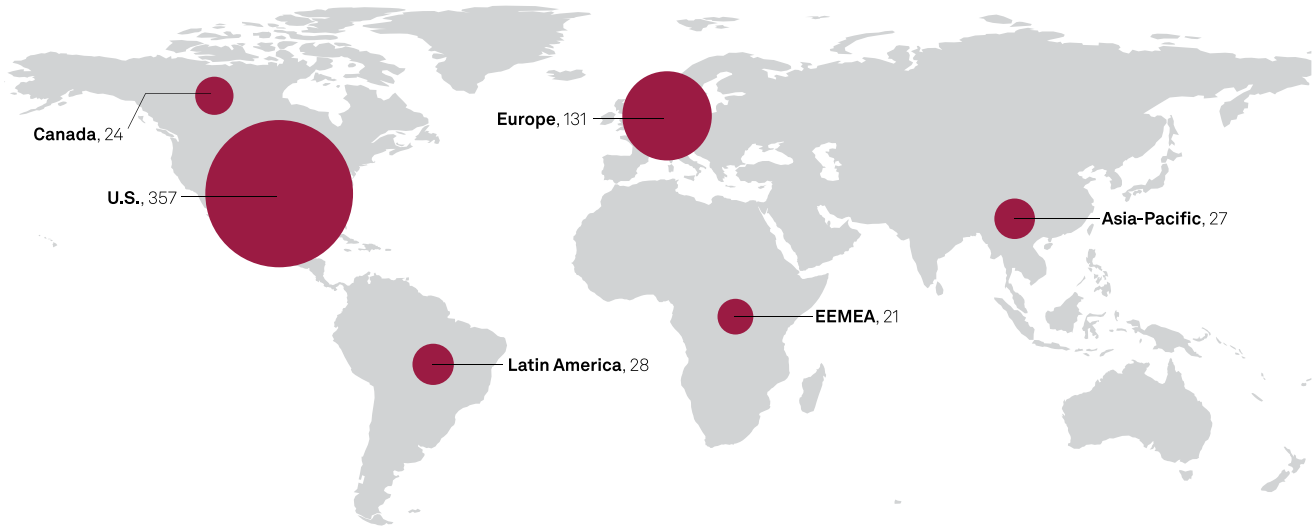
Looking forward, bias and potential rating actions highlight key areas to watch:

- Chemicals, packaging, and environmental services (CP&ES) continue to lead negative bias with 24.9%. Additionally, with five new additions to potential downgrades, CP&ES remains the sector with the third-most potential downgrades with 55 in May, as U.S. and European chemical sectors continue to face challenges (see "[CreditWeek: Is The Slumping Chemicals Sector Set For An Earnings Rebound?.](#)" May 23, 2024).
- Consumer products leads potential downgrades with 82 for May, following five additions. Financial institutions follows with 62 in total, after seven additions.
- Aerospace and defense has the greatest positive bias in May with 17.9%, closely followed by oil and gas.
- Potential upgrades by issuer count is led by financial institutions with 43 for May, followed by media and entertainment with 36.

Chart 3

Potential downgrades (no.)

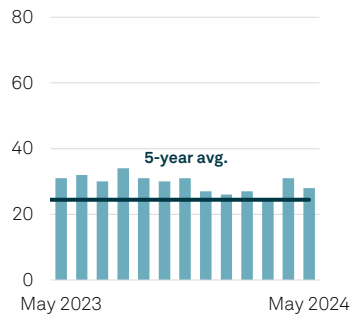
By region



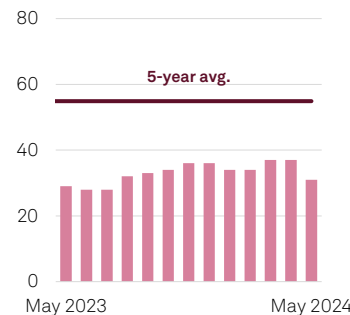
Data as of May 31, 2024. Chart shows number of potential downgrades by region. EEMEA--Eastern Europe, the Middle East, and Africa. Source: S&P Global Ratings Credit Research & Insights.

Specific Credit Indicators Through May. 31, 2024

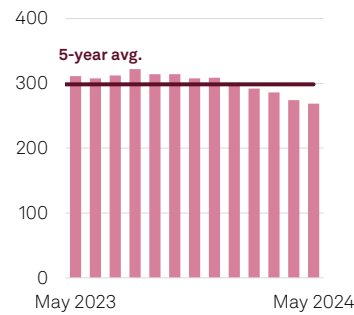
Potential rising stars (no.)



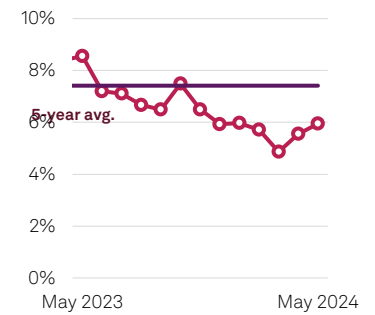
Potential fallen angels (no.)



Weakest links (no.)



Distress ratio



Data as of May 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 bps above U.S. Treasury bonds. Source: S&P Global Ratings Credit Research & Insights.

Fallen angels: Following April's three new fallen angels, there was just one new fallen angel in May, bringing the total tally to nine for the year. Luxembourg-based home/real estate issuer, **CPI Property Group S.A.** was downgraded on May 31, in part on higher-than-expected leverage in 2023, as well as anticipated continued pressure on credit metrics.

There were no new potential fallen angels added in May, and the total for the month declined to 31 (from 37 at the end of April).

Rising stars: There were four new rising stars in May (up from zero in April), bringing the total for the year to 14.

Rising stars included two U.S.-based issuers. **Antero Resources Corp.**, a Denver-based oil and gas company, was upgraded on continued debt reduction and increasing free cash flow expectations. Metals, mining and steel issuer **Freeport-McMoRan Inc.** was upgraded following the third consecutive year of low debt leverage and a robust earnings outlook. Other rising stars include **Videotron Ltd. (Quebecor Inc.)**, a Canadian telecommunications company and **Empresa Nacional del Petroleo**, a utilities issuer based in Chile.

There was just one new entrant to potential rising stars, **Permanent TSB Group Holdings PLC**, a financial institution based in Ireland with estimated debt affected of \$649 million. The total number of potential rising stars at the end of May was 28, down from 31 at the end of April.

Weakest links: While the number of weakest links fell for the fifth consecutive month to 269 from 274 the previous month and dipped further below its five-year average (299), the story is not all positive. The number of weakest links from last month that were removed from the list due to either an upgrade or outlook revision equaled the number removed due to default or further downgrade as weaker issuers continue to get weaker.

The high technology sector led with the most additions to the weakest links list with four (two from the U.S. and two from Asia-Pacific). For this sector, the trajectory of borrowing cost and business conditions remain key focus areas for issuers rated 'B-' or lower for the remainder of 2024 (see "[Industry Credit Outlook 2024: Technology](#)," Jan 9, 2024).

Distressed ratio: The U.S. distress ratio rose for the second consecutive month to 5.95% as of May 31, from 5.55% as of April 30. Despite the increase, the distress ratio remains well below its

There were four new rising stars in May... while there was just one new fallen angel

five-year average of 7.41%. While spreads widened marginally during the month of May, they remain near all-time lows as markets waning optimism for potential rate cuts mixed with continual geopolitical tensions created more uncertainty.

The telecommunications sector leads with the highest distress ratio at 37%, amounting to \$28.6 billion of distress debt outstanding with several new distressed issues from **CSC Holdings LLC**. However, this month's greatest increase in distress ratio came from the high technology sector, with the addition of distressed issues from **Rackspace Technology Global Inc.** and **Pitney Bowes Inc.**--all of which are trading well above 1,000 basis points over U.S. Treasuries.

Defaults: Defaults in May reached 14, down by 4 from the previous month but still elevated as the global corporate tally reached 69 for the year. Over one-third of defaults in May came from the media and entertainment sector, where lower rated issuers are continuing to struggle with changing consumer preferences, upcoming debt maturities, and highly leveraged capital structures.

Regionally, Europe is the only region where defaults are higher than their 2023 levels as persistently high market rates are making it more difficult for lower-rated issuers to service their debt. Although default rates will remain higher in the short to medium term, we expect the European trailing-12-month speculative-grade corporate default rate to level out around 3.75% by March 2025, only slightly below the 4.1% default rate for the 12 months ended April 2024 (see "[The European Speculative-Grade Default Rate Should Level Out At 3.75% By March 2025](#)," May 22, 2024).

For the U.S., we believe the default rate will remain close to its current level of 4.7% before dipping to 4.5% by March 2025 (see "[Resilient Growth, Resilient Yields, And Resilient Defaults To Bring The U.S. Speculative-Grade Corporate Default Rate To 4.5% By March 2025](#)," May 16, 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](#)."

Over one third of defaults in May came from the media and entertainment sector.

Europe is only region where defaults exceed 2023 levels.

Table 1





















Potential downgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
 Aerospace and defense	10	10					
 Automotive	15	9	3	2	1		
 Capital goods	23	16	4	1	1		1
 Consumer products	82	60	13	1	3	4	1
 CP&ES	55	29	18	4	1	2	1
 Diversified	1				1		
 Financial institutions	62	22	17	6	10	4	3
 Forest PBM	14	7	7				
 Health care	44	37	6				1
 High technology	37	28	7	1			1
 Home/real estate	36	15	16	4			1
 Insurance	6	4	1	1			
 Media/entertainment	49	37	10	1			1
 Metals, mining, and steel	19	7	4	1	1	1	5
 Oil and gas	13	4	2		2	2	3
 Retail/restaurants	33	28	4		1		
 Sovereign	10				5	5	
 Telecommunications	24	12	7		1	1	3
 Transportation	17	7	5	2	1	2	
 Utilities	38	25	7	3			3

Data as of May 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	11	9	2				
 Automotive	11	5	2	2		1	1
 Capital goods	11	5	3	1			2
 Consumer products	21	13	6				2
 CP&ES	10	4	4		1	1	
 Diversified							
 Financial institutions	43	11	21	6		5	
 Forest PBM	13	9	3				1
 Health care	10	6	3				1
 High technology	10	9	1				
 Home/real estate	9	6	2			1	
 Insurance	11	6	2	2			1
 Media/entertainment	36	28	7	1			
 Metals, mining, and steel	9	6	1	1	1		
 Oil and gas	26	14	5	1	2		3
 Retail/restaurants	10	4	5				1
 Sovereign	14		4	1	2	7	
 Telecommunications	10	1	5		2	2	
 Transportation	11	2	5	1	2	1	
 Utilities	14	12	1	1			

Data as of May 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 May

Issuer	Sector	Downgrade date	To	From	Country	Amount (bil. \$)
Altice USA Inc.	Telecommunications	5/15/2024	CCC+	B-	U.S.	24.8
Republic of Latvia	Sovereign	5/31/2024	A	A+	Latvia	16.2
Republic of Lithuania	Sovereign	5/31/2024	A	A+	Lithuania	14.7
Medical Properties Trust Inc.	Homebuilders/real estate co.	5/16/2024	B-	B+	U.S.	12.9
Altice International S.a.r.l. (Altice Europe N.V.)	Telecommunications	5/10/2024	B-	B	Luxembourg	10.1
CPI Property Group S.A.	Homebuilders/real estate co.	5/31/2024	BB+	BBB-	Luxembourg	6.3
Adler Group S.A. (ADO Group Ltd.)	Homebuilders/real estate co.	5/7/2024	CCC-	CCC+	Luxembourg	5.0
Connect Holding II LLC	Telecommunications	5/10/2024	CCC	B-	U.S.	4.5
Republic of Estonia	Sovereign	5/31/2024	A+	AA-	Estonia	4.3
Hertz Global Holdings Inc.	Financial Institutions	5/7/2024	B+	BB-	U.S.	3.6

Data as of May 31, 2024. Excludes defaults. Table shows 10 largest issuer downgrades, excluding defaults, by debt amount in May 2024. Note: France, the unsolicited sovereign rating of which was lowered in May, is not included in this list. Source: S&P Global Ratings Credit Research & Insights.

Table 4

Top 10 upgrades in May

Issuer	Sector	Upgrade date	To	From	Country	Amount (bil. \$)
Southern Co.	Utilities	5/2/2024	A-	BBB+	U.S.	56.2
SoftBank Group Corp.	Financial institutions	5/22/2024	BB+	BB	Japan	20.2
Haleon PLC	Consumer products	5/10/2024	BBB+	BBB	U.K.	11.2
Antero Resources Corp.	Oil and gas	5/15/2024	BBB-	BB+	U.S.	9.3
George Weston Ltd.	Retail/restaurants	5/29/2024	BBB+	BBB	Canada	9.1
Fairfax Financial Holdings Ltd.	Insurance	5/31/2024	BBB+	BBB	Canada	8.9
Freeport-McMoRan Inc.	Metals, mining, and steel	5/13/2024	BBB-	BB+	U.S.	7.5
Sunoco LP (Energy Transfer LP)	Utilities	5/3/2024	BB+	BB	U.S.	7.3
Ingersoll Rand Inc.	Capital goods	5/6/2024	BBB	BBB-	U.S.	7.3
Pioneer Natural Resources Co.	Oil and gas	5/6/2024	AA-	BBB	U.S.	6.6

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

Related Research

- [Q3 2024 Global Economic Update: The Policy Rate Descent Begins](#), June 26, 2024
- [This Week In Credit: Speculative Grade Leads Upgrades](#), June 24, 2024
- [This Week In Credit: Another Positive Week For Rating Actions](#), June 17, 2024
- [Default, Transition, and Recovery: An Increase In Distressed Exchanges Drives Defaults In Europe](#), June 12, 2024
- [2023 Annual Asia Corporate Default And Rating Transition Study](#), June 11, 2024
- [Default, Transition, and Recovery: 2023 Annual Greater China Corporate Default And Rating Transition Study](#), June 11, 2024
- [CreditWeek: What Could Trigger Lower-Rated Sovereigns To Default--Or Rebound--In 2024?](#), June 6, 2024
- [Default, Transition, and Recovery: Overstated But Overdue: The Current Default Environment In The U.S.](#), June 5, 2024
- [The European Speculative-Grade Default Rate Should Level Out At 3.75% By March 2025](#), May 22, 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 Ratings' 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.

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