

The Ratings View

July 10, 2024

This report does not constitute a rating action.

Key Takeaways

- Elections in France and the U.K. were inconclusive and decisive, respectively, but difficult policy trade-offs remain for both countries.
- Some commercial real estate has seen market declines greater than during the Global Financial Crisis, with consequent pressure on commercial mortgage-backed securities.
- AI could transform some of the world's largest and most labor-intensive industries. Yet its application and adoption will likely be uneven across and within nations.

The new parliamentary landscape in France (unsolicited, AA-/Stable/A-1+) will likely complicate policymaking. In our view, the current lack of visibility over the nature of the next government is creating uncertainty regarding the details of its economic and fiscal policy strategy. Given the split parliament--in which no party came close to having the 289 seats required to secure an absolute majority--we anticipate that the resulting government will struggle to implement meaningful policy measures and will face a persistent risk of a vote of no confidence. In this context, the next government's approach to public finances, and to economic and budgetary reforms, could be key to determining France's creditworthiness. The 2025 budget, due to be presented by early October, will give an indication of the new government's willingness to reduce France's large budget deficits and comply with the EU's fiscal rules.

[France's Hung Parliament Is Likely To Complicate Policymaking](#)

U.K. elections resulted in a large parliamentary majority for the Labour Party, but the new government will face difficult policy trade-offs, given the U.K.'s (unsolicited; AA/Stable/A-1+) constrained fiscal position. The size of the new government's majority in Parliament should give it latitude to move ahead with policy priorities including bolstering economic growth, accelerating housing construction, improving access to health care, reducing long-term energy costs for households, and strengthening energy security. Nevertheless, the U.K.'s fiscal position remains constrained and a weakness for our 'AA' sovereign credit ratings on the U.K. The general government deficit was 6% of GDP in 2023 while gross debt was slightly above 100% of GDP, the highest in decades. This limits the government's ability to fund its policy initiatives through increased net borrowing. We expect the new administration will be committed to reducing budgetary deficits and cutting government debt as a percentage of GDP, and a key factor underpinning the government's ultimate success at stabilizing public finances will likely be the U.K.'s growth outcomes.

[The U.K.'s Constrained Fiscal Position Implies Difficult Policy Trade-Offs For The Labour Government](#)

U.S. and European commercial real estate (CRE) markets continue to endure historic stress due to higher interest rates, e-commerce, and the jump in popularity of remote working introduced by the COVID pandemic. Some segments are now facing market value declines that are greater than during the global financial crisis (GFC). In particular, the market value of office

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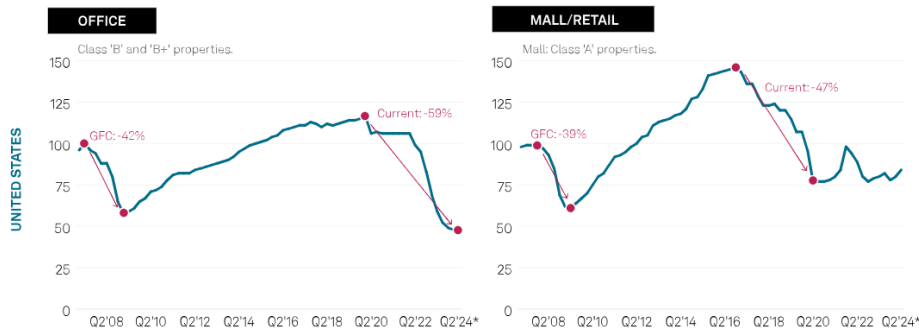
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and retail properties has declined significantly over the past several years in both the U.S. and Europe. Commercial mortgage-backed securities (CMBS) have seen a corresponding rise in credit risk. Given the persistent and severe deterioration in underlying CRE markets, we have lowered 732 of the 2,799 CMBS ratings that were outstanding at the beginning of 2020. Higher interest rates continue to increase the challenge of refinancing commercial mortgage loans, and more defaults could follow, particularly for loans secured on lower-quality office properties in secondary locations. This could put further pressure on CMBS ratings.

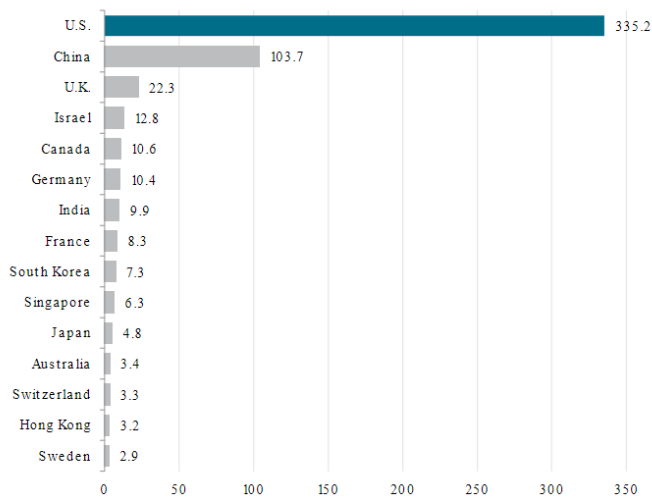
Commercial real estate value indices, by subsector (index pts)



[U.S. And European Commercial Real Estate Market Stress Reflected In CMBS Downgrades](#)

Private investment in AI startups could reach \$800 billion to \$900 billion by 2027, equal to about 0.6%-0.7% of global GDP, excluding funding from large corporations and governments, which will continue to be major backers of AI. Development of AI capabilities and the realization of resulting productivity gains will require investment and skilled workers, while the extent of the benefits for nations and regions remains uncertain given that large-scale AI deployment is untested. AI's effects will be hard to disentangle from other major disruptive trends, including energy transformation, digitization, and demographic aging.

U.S. private sector investment in AI dwarfs other nations ...
Cumulative private investment in AI between 2013 and 2023 (bil. \$)



Source: Quid, 2023, Stanford 2024 AI Index Report.

[Investment And Talent Are The Keys To Unlocking AI's Potential](#)

Asset Class Highlights

Corporates

Notable publications include:

- [Investment And Talent Are The Keys To Unlocking AI's Potential](#)
- [Korea Corporate Outlook: The Pain Before The Gain](#)
- [Asia-Pacific Oil And Gas Producers: Long-Dated Debt A Sticking Point For Investors In The Energy Transition](#)
- [Sector Review: 2024 Taiwan Mid-Year Credit Outlook](#)
- [Asia-Pacific Nonfinancial 'BBB's: Less Fallen Angels Risk, But Broader Credit Downside Is Building](#)
- [Hong Kong Retail Property: Survival Of The Fittest](#)

Financial Institutions

Over the past week, we took several rating actions:

- [Positive Rating Actions Taken On Eight Greek Banks On Resilience To Economic Cycles And Improving Funding Profile](#)
- [Research Update: Eiendomskreditt AS Affirmed At 'BBB-' Amid Challenges From Norwegian Commercial Real Estate; Outlook Stable](#)
- [Research Update: Landshypotek Bank AB Outlook Revised To Stable On Strengthened Capital Base; 'A' Rating Affirmed](#)
- [Research Update: Hungarian MBH Investment Bank Outlook Revised To Stable From Positive; 'BB+/B' Ratings Affirmed](#)
- [Research Update: 3i Group Plc Upgraded To 'A-' On Higher Financial Flexibility; Outlook Stable](#)

We published several commentaries including:

- [Bulletin: BlackRock Inc.'s Proposed £2.55 Billion Acquisition Of Preqin Will Add Recurring Revenue But Raise Near-Term Leverage](#)
- [U.S. Bank Shareholder Payouts May Rise In 2024, Despite Higher Capital Depletion In Stress Test](#)
- [European Banks: Covered Bonds Are A Cheap, Stable Funding Source With Limited Side Effects](#)
- [Your Three Minutes In Malaysia's Islamic Banking: Funding Fix May Be A Five-Year Wait](#)

Sovereign

- [Bulletin: France's Hung Parliament Is Likely To Complicate Policymaking](#)
- [Bulletin: The U.K.'s Constrained Fiscal Position Implies Difficult Policy Trade-Offs For The Labour Government](#)

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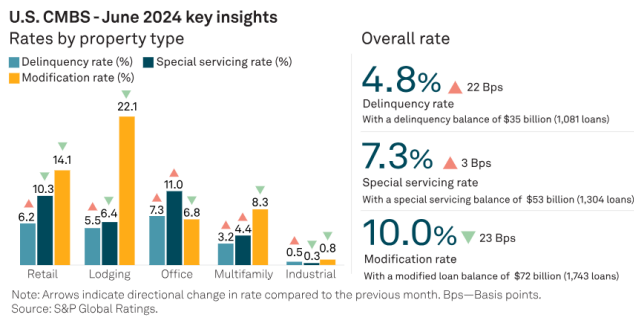
Structured Finance

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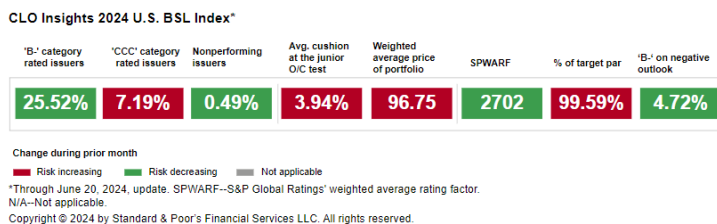
Structured Finance

- U.S. CMBS:**



See [“SF Credit Brief: U.S. CMBS Delinquency Rate Rose 22 Bps To 4.8% In June 2024: Updates Provided On Modification Rate By Property Type”](#) published July 1, 2024.

- U.S. CLO:**



See [“SF Credit Brief: CLO Insights U.S. BSL Index: SPWARF Improves, But 'CCC' Buckets Remain Elevated; CLOs Outperform Loan Market In Exposure To Defaults”](#) published July 2, 2024.

- Covered Bonds:** Here are a few “Key Takeaways” from a recent article:

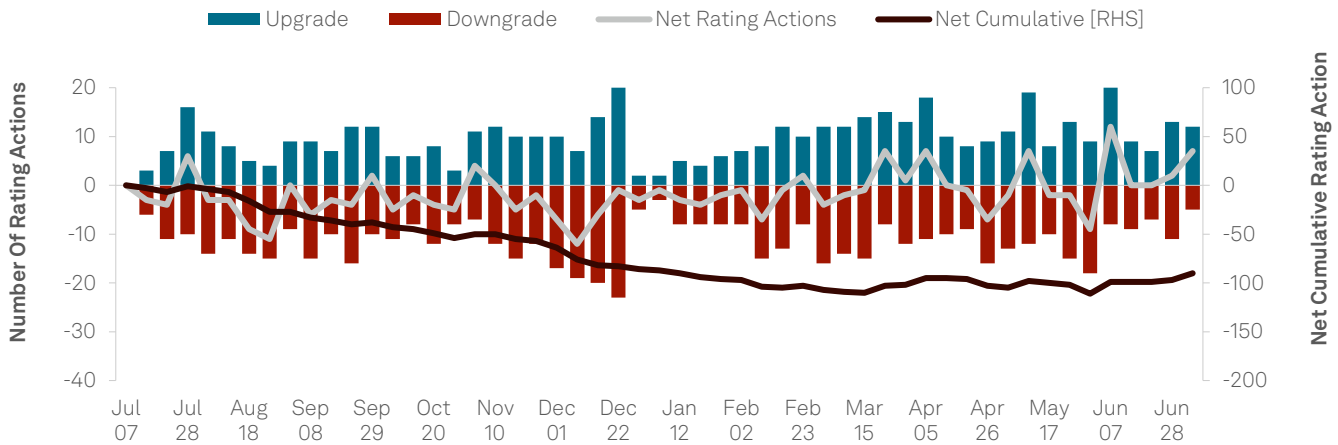
- o Amid tighter funding conditions, some European banks are turning increasingly to covered bonds for relatively cheap and historically very stable term funding.
- o Positively, issuing covered bonds leads to greater funding diversification. We foresee them remaining a reliable funding source even under challenging market conditions.
- o While covered bonds can be a valuable contingent funding source and support a bank's liquidity in a hypothetical crisis, they can also contribute to high asset encumbrance and complications in a liquidation or resolution scenario.

The article is titled [“European Banks: Covered Bonds Are A Cheap, Stable Funding Source With Limited Side Effects”](#) and published on July 4, 2024.

- Australian Auto ABS:** Australian auto asset-backed securities (ABS) arrears rose in May. That's according to S&P Global Ratings' recently published [“Auto ABS Arrears Statistics: Australia”](#). The Standard & Poor's Performance Index (SPIN) for Australian auto ABS and mixed auto pool arrears increased in May. Despite a 21% increase in the total current receivables balance, the SPIN rose to 1.41% from 1.17% a month earlier. The movement was primarily caused by an increase in reported arrears for the transactions from one originator. This was due to the ongoing reconciliation of receivables' arrears status since a servicing system change in February. We understand this process has now been completed and should not affect arrears reported in future. Accordingly, although we continue to expect a moderate increase in overall arrears, the Australian auto ABS SPIN is likely to decline next month.

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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 July 5, 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. \$)
1-Jul	Upgrade	Six Flags Entertainment Corp.	Media & entertainment	U.S.	BB	B+	9,354
5-Jul	Upgrade	Smurfit Kappa Group PLC	Forest products & building materials	Ireland	BBB	BBB-	5,993
4-Jul	Upgrade	Eurobank Ergasias Services and Holdings SA	Bank	Greece	BB-	B+	4,457
4-Jul	Upgrade	Alpha Services and Holdings Societe Anonyme	Bank	Greece	B+	B	3,490
3-Jul	Downgrade	Samhallsbyggnadsbolaget i Norden AB (publ)	Homebuilders/real estate co.	Sweden	SD	CCC	3,487
4-Jul	Upgrade	Piraeus Financial Holdings S.A.	Bank	Greece	B+	B	3,061
2-Jul	Downgrade	Rockwell Automation Inc.	Capital goods	U.S.	A-	A	2,900
2-Jul	Upgrade	Range Resources Corp.	Oil & gas	U.S.	BB+	BB	1,850
4-Jul	Upgrade	National Bank of Greece S.A.	Bank	Greece	BB+	BB	1,757
5-Jul	Upgrade	3i Group PLC	NBFI	U.K.	A-	BBB+	1,561

Source: S&P Global Ratings Credit Research & Insights. Data as of July 5, 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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