S&P Global Ratings

Technology

IT spending and rating expectations remain intact

This report does not constitute a rating action.

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What's changed?

Not our information technology (IT) spending growth expectation of about 8% for 2024. We see stronger spending growth in data center infrastructure (fueled by AI-related growth themes) offsetting a modest slowdown in enterprise software and non-AI hardware spending as tech companies exercise cost controls.

AI spending is higher than the highs we expected. Hyperscale data centers have been ramping up their AI investments ahead of an anticipated surge in AI workload. We now expect U.S. hyperscalers' data center spending to increase in the mid-40% areas, up from our prior estimates of about 30% earlier this year.

Negative rating actions outnumbered positive ones in 1H24. Issuers experiencing weak operating performance and having significant debt outstanding continue to be vulnerable to high interest burden, leading to an uptick in downgrades and outlook revisions to negative. Most positive rating actions were on issuers in the 'BB' category or better.

What to look out for?

High growth expectations for the second half of this year. Non-AI enterprise spending was weak across storage, servers, and PCs, but tech companies anticipate improvement as the year progresses, citing inventory correction no longer being a headwind and catalysts such as PC refresh and AI adoption.

Software growth decelerated in the first half, but will it last? Software companies attribute the weaker-than-expected growth to AI spending and customer cost-consciousness as hiring slowed.

Payment defaults/distressed exchanges for a small cohort of tech companies. The higher likelihood of interest rates remaining high adds to the need for companies to take aggressive restructuring actions, operationally and financially. Especially vulnerable are those facing secular business declines, near-term debt maturities, or dwindling liquidity.

What are the key risks around the baseline?

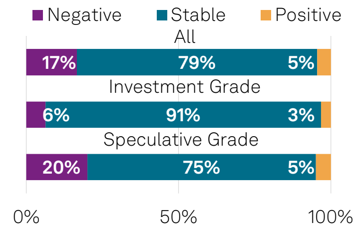
Acceleration of supply chain diversification or expanding scope of trade restrictions. Our baseline expectations for a moderate pace of supply chain diversification by global tech firms could be challenged if escalating geopolitical tensions lead to sharp cost inflation and the need for higher inventory levels.

What will an AI spending slowdown look like? Although we're confident that AI will be a catalyst for product refreshes and rising IT spending as a percent of global GDP, we are cognizant that AI spending will be lumpy given the concentrated customer base. This could lead to swings in credit metrics for some semiconductor and hardware providers.

Capital markets remaining conducive to debt refinancing is not a given. Funding availability has not been a major concern for most of our rated tech issuers thus far in 2024. Macroeconomic growth or geopolitical risk concerns could suppress the risk appetite of market participants.

Rating Trends

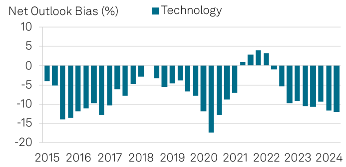
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	63	184	247
Downgrades	2	6	8
Upgrades	2	13	15

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	3.7	5.0
EBITDA growth (Y/Y%)	6.9	11.3
EBITDA margin (%)	31.8	27.1
Capex growth (Y/Y%)	6.3	4.7
Debt/EBITDA (x)	0.8	6.3
FFO/Debt (%)	56.9	6.0
FOCF/Debt (%)	40.8	4.1

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Midyear 2024 IT Forecast Update: Robust Cloud Spending Offsets Still-Cautious Enterprise Budgets, July 17, 2024

U.S. Tech M&A, Investments, And Shareholder Returns Compete For Healthy Cash Generation In 2024, May 17, 2024

U.S. Tech's AI-wakening: Enterprises Tread Cautiously, Hyperscalers Charge Ahead, May 9, 2024

AI Will Gradually Reshape U.S. Tech Companies' Credit Quality, April 8, 2024