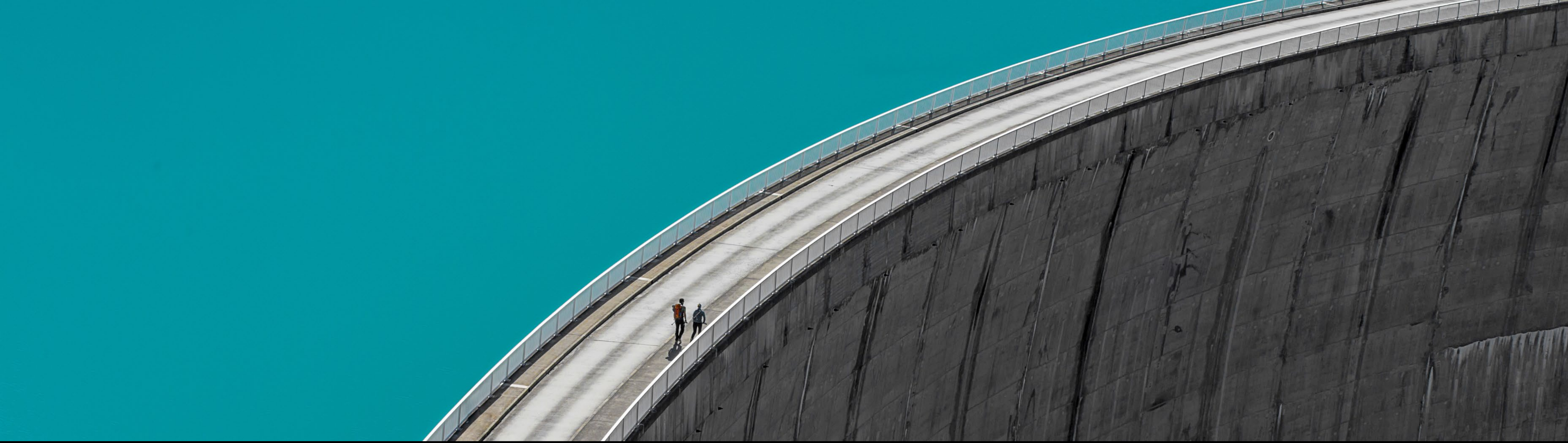


# Global Credit Markets Update | Q3 2024

## On An Upward Curve

July 29, 2024

S&P Global Ratings

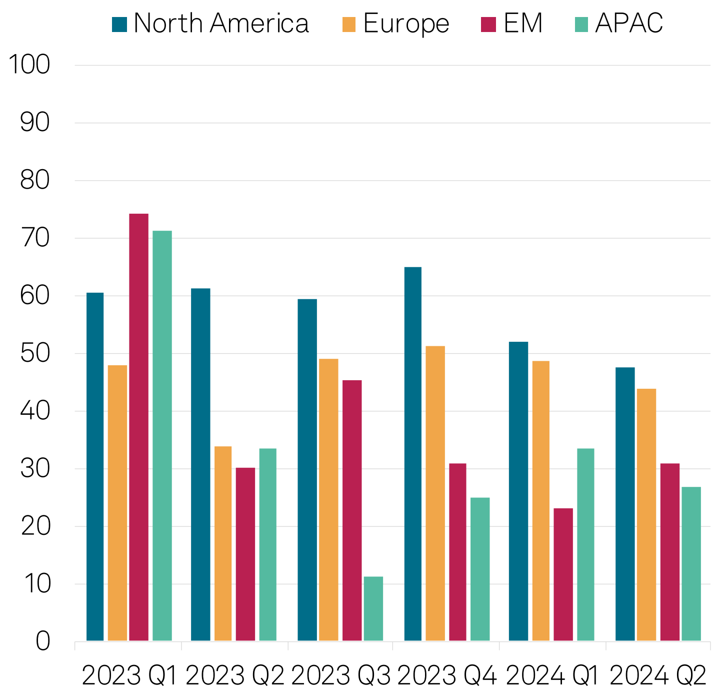
spglobal.com/ratings/CreditMarketResearch

*This report does not constitute a rating action*

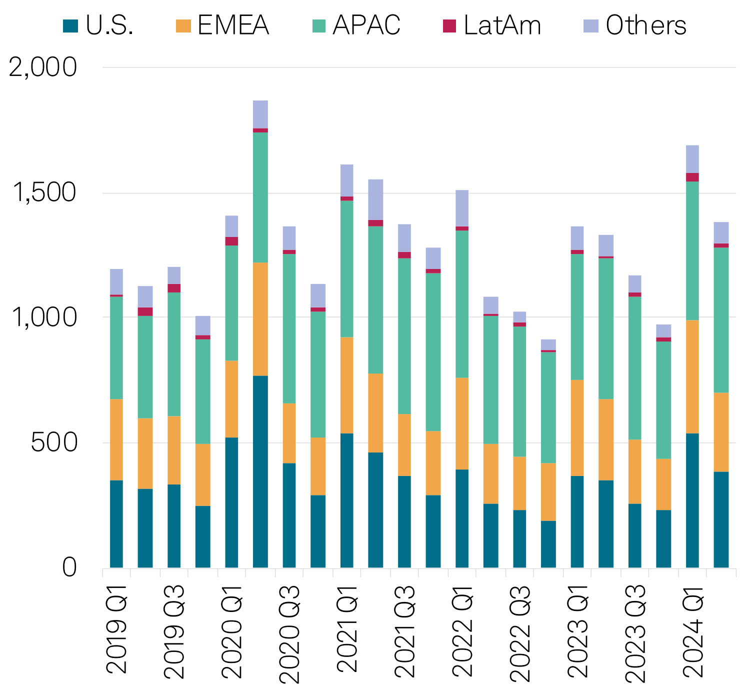
# Ratings Performance

## Trends Remain Constructive Even As Interest Rate Uncertainty Lingers On

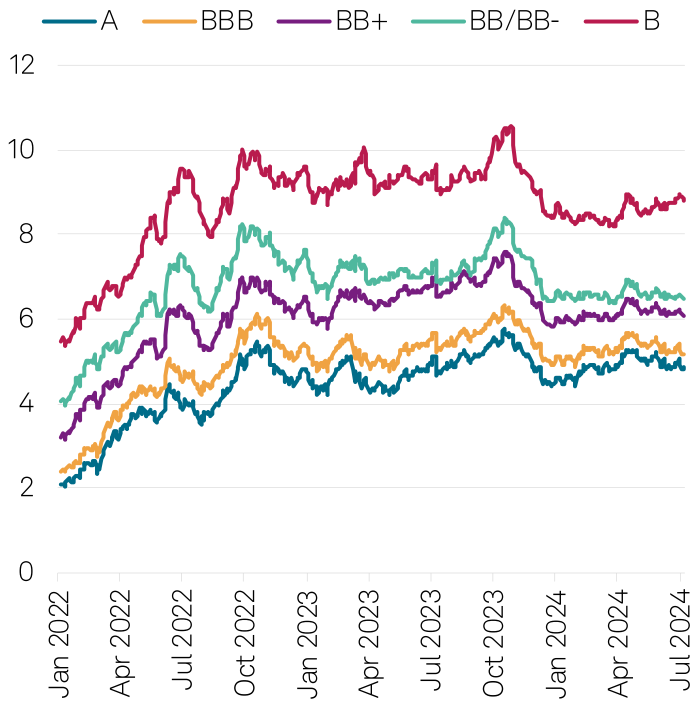
### Downgrade ratios are mostly declining* (%)




### Issuance in H1 highest since 2021§ (Bil. US$)




### Corporate yields remain elevated (%) ‡



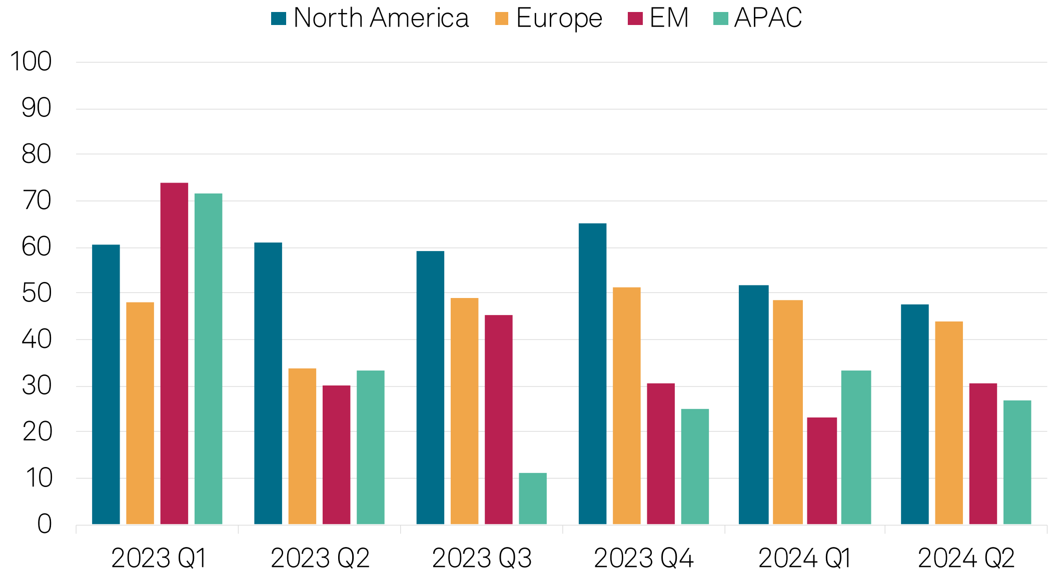

Data as of June 30, 2024 for the left and middle chart, and July 9, 2024 for the right chart. *Left chart shows downgrades as a percentage of rating actions. Excludes sovereigns and defaults. EM--Emerging markets. APAC--Asia-Pacific. EM consists of Argentina, Brazil, Chile, China, Colombia, Hungary, Mexico, India, Indonesia, Malaysia, Thailand, Philippines, Poland, Peru, Vietnam, Saudi Arabia, South Africa, and Turkiye. §Middle chart: Includes rated and unrated issuance for both financial and nonfinancial corporates. ‡Right chart shows corporate US$ 10-year yields. Source: S&P Global Ratings Credit Research & Insights.

# Credit Rating Trends

# Credit Trends | Upgrades Remain In The Ascendancy

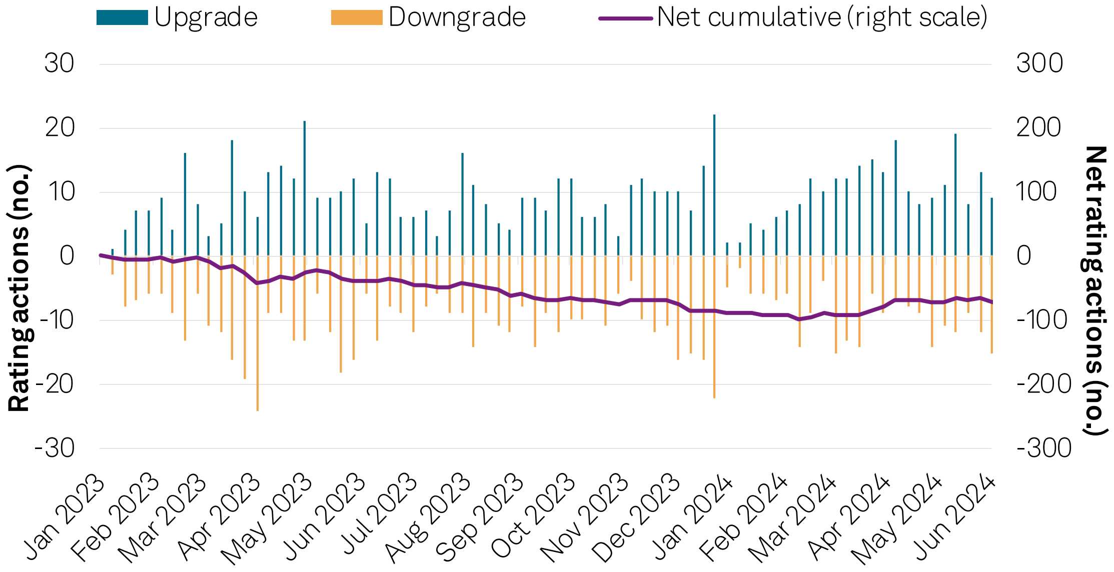
- Downgrade ratios generally fell in Q2 2024, with North America's falling below 50% for first time since 2022 Q2. Emerging Markets was the only region to see an increase (+8 percentage points).
- Net cumulative rating actions (upgrades minus downgrades) have been increasing since bottoming out in the second week of February 2024. Since this low, upgrades have outnumbered downgrades by 47.

## Downgrade ratios fell outside of EM (%)




Data as of June 30, 2024. Chart shows downgrades as a percentage of rating actions. Excludes sovereigns and defaults. EM--Emerging markets. APAC--Asia-Pacific. EM consists of Argentina, Brazil, Chile, China, Colombia, Hungary, Mexico, India, Indonesia, Malaysia, Thailand, Philippines, Poland, Peru, Vietnam, Saudi Arabia, South Africa, and Turkiye. Source: S&P Global Ratings Credit Research & Insights.

## Global rating actions: net actions continue positive trend



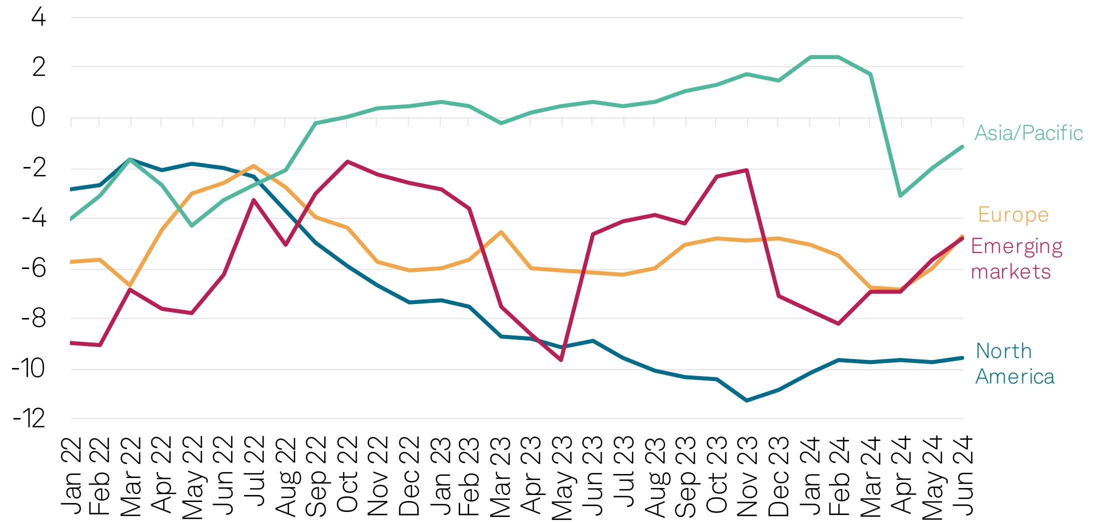

Data as of June 30, 2024. Net cumulative is upgrades minus downgrades. Downgrades are shown as a negative number and excludes defaults. Rating actions for financials, nonfinancials, and sovereigns. Source: S&P Global Ratings Credit Research & Insights.

# Credit Trends | Net Outlook Biases Continue To Improve

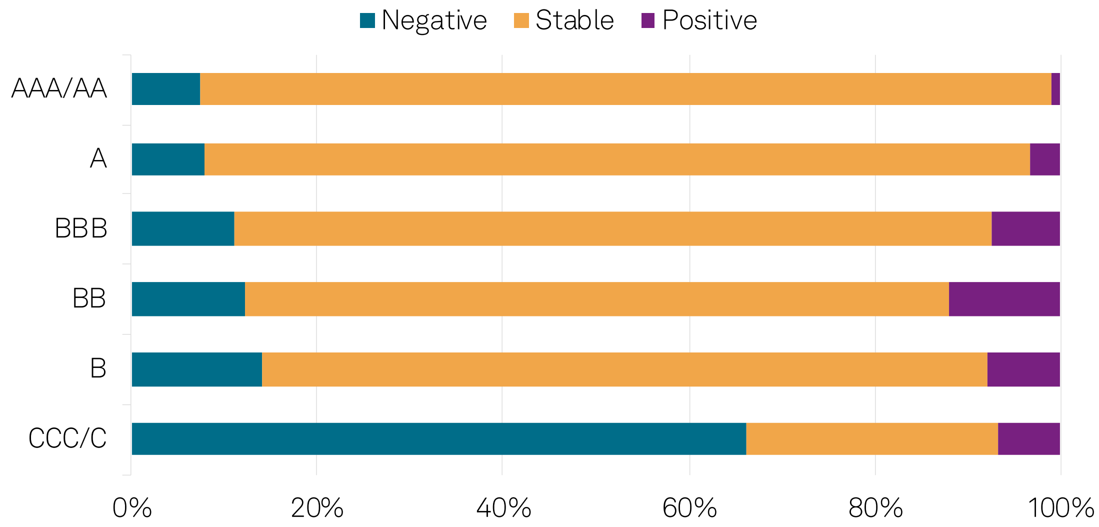
- Net bias (positive minus negative bias) improved across all regions in Q2. North America continues to lag other regions, having the lowest net bias.
- Positive bias is highest among higher speculative-grade ratings ('BB' category), while negative bias remains concentrated among 'CCC' category and below. This implies further downward pressure at the lowest rating categories.

## Regional net rating bias improved across all regions

Net bias by region (%)




## Negative bias concentrated at 'CCC' and below

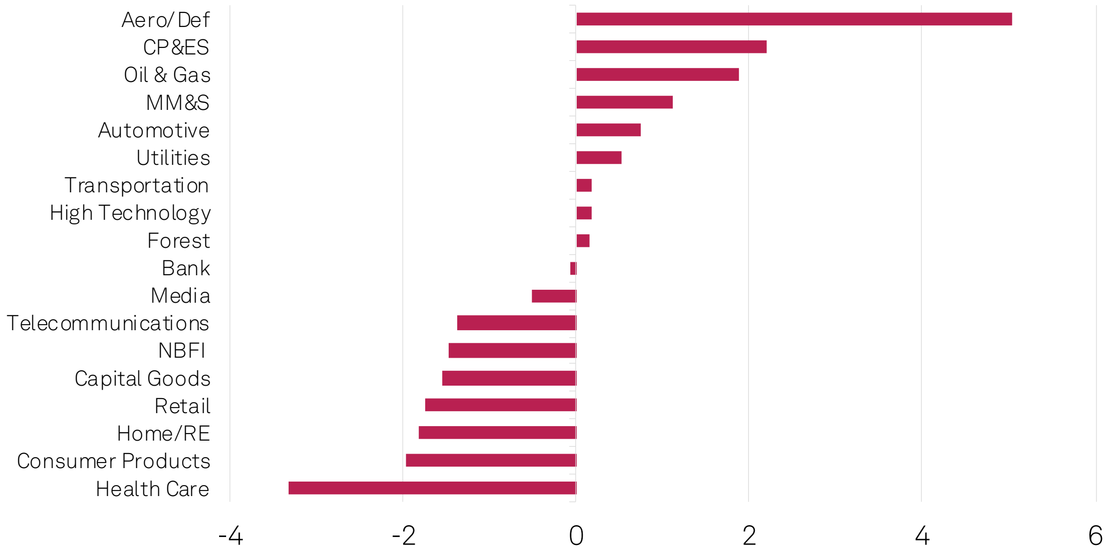



Data as of June 30, 2024. Excludes sovereigns. Net bias is positive bias minus negative bias. Negative bias is the share of issuers with ratings that either have negative outlooks or are on CreditWatch with negative implications. Positive bias is the share of issuers with ratings that either have positive outlooks or are on CreditWatch with positive implications. Emerging Markets consist of Argentina, Brazil, Chile, China, Colombia, Hungary, Mexico, India, Indonesia, Malaysia, Thailand, Philippines, Poland, Peru, Vietnam, Saudi Arabia, South Africa, and Turkiye. Source: S&P Global Ratings Credit Research & Insights.

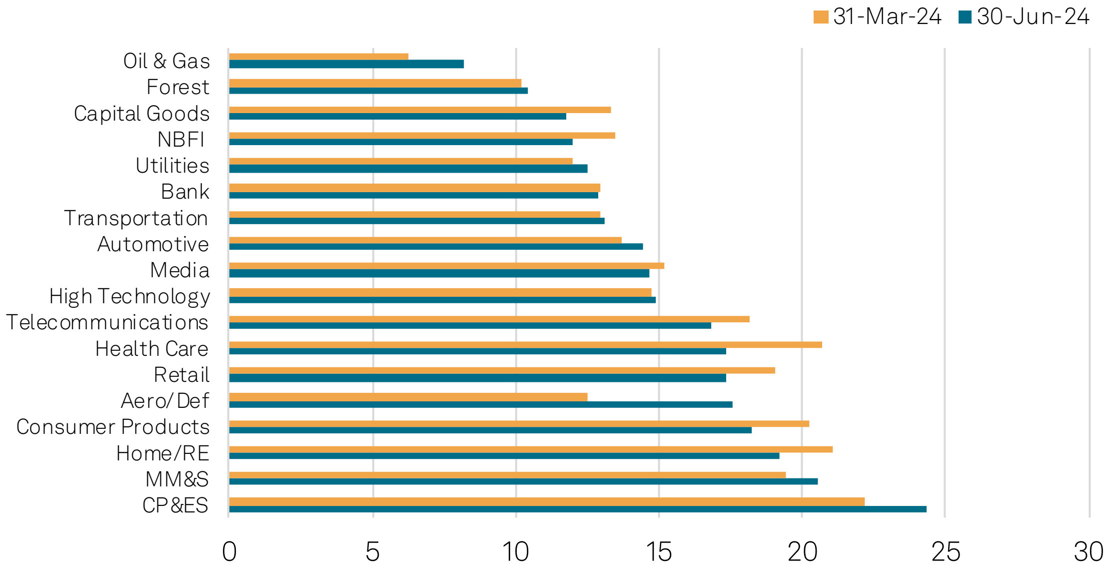
# Sectoral Credit Trends | Negative Bias Is Finely Balanced Across Sectors

- An equal number of sectors saw improving negative bias trends as deteriorating ones.
- The biggest improvement in negative bias occurred among healthcare issuers--declining for the second straight quarter--to 17.3% from 20.7%. The largest deterioration was in aerospace and defense, increasing five percentage points to 17.5% from 12.5%.
- Chemicals, packaging, and environmental services had the highest negative bias at the end of Q2 at 24.4%, up from 22.2% in Q1 24.

## Negative bias changes balanced across sectors in Q2 (%)




## Chemicals continues to have the highest negative bias (%)

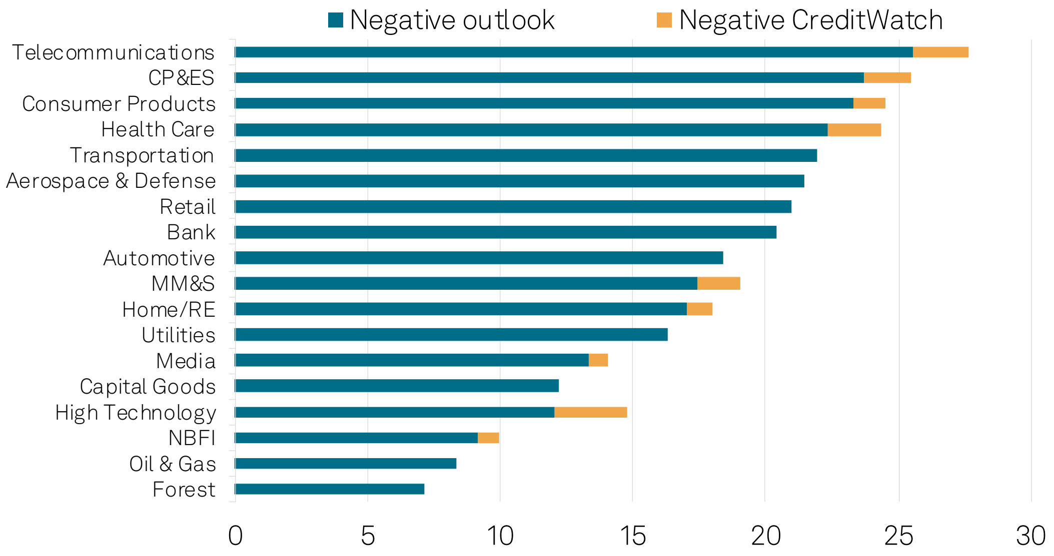



Data as of June 30, 2024. Includes financials and nonfinancial corporates, excluding insurance. Negative bias is the share of issuers with negative outlooks or ratings on CreditWatch negative. Note: The chart on the left shows quarter-over-quarter percentage point changes in negative bias. Aero/Def--Aerospace and defense. CP&ES--Chemicals, packaging, and environmental services. Forest--Forest products and building materials. Home/RE--Homebuilders/real estate companies. Media--Media and entertainment (includes leisure and lodging). MM&S--Metals, mining, and steel. NBFI--Nonbank financial institutions. Retail--Retail/restaurants. Source: S&P Global Ratings Credit Research & Insights.

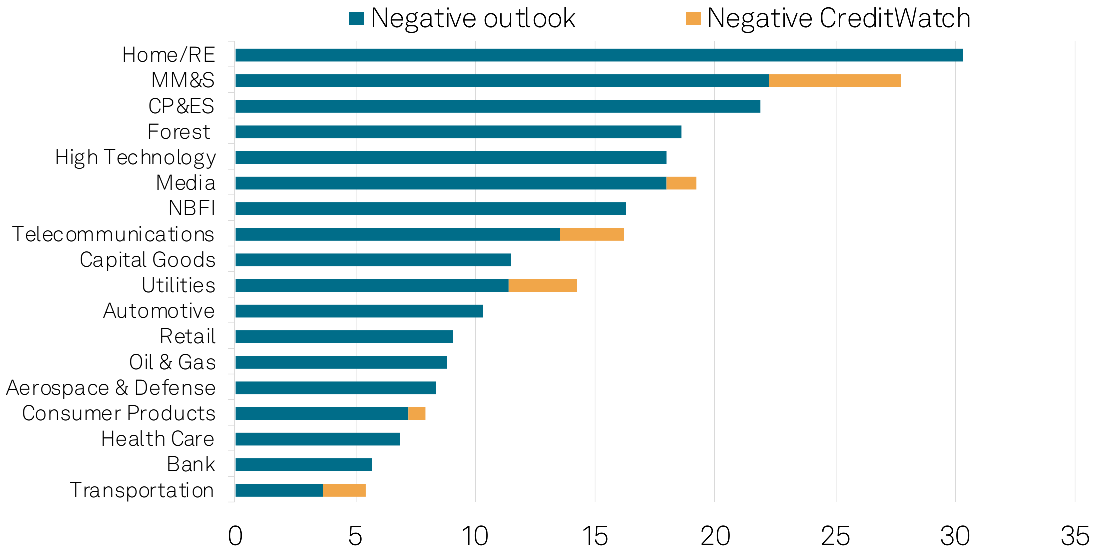
# Regional Credit Trends | Telcos And Real Estate Lead Potential Downgrades

- Telecommunications contributes the most potential downgrades in North America as elevated interest expenses constrain highly leveraged capital structures.
- Real estate, especially the commercial space, leads potential downgrades in Europe. While refinancing risks eased in the second quarter on stabilizing asset valuations and decreasing interest rates, speculative-grade issuers remain under pressure.

## North America: Telcos lead the negative outlooks (%)

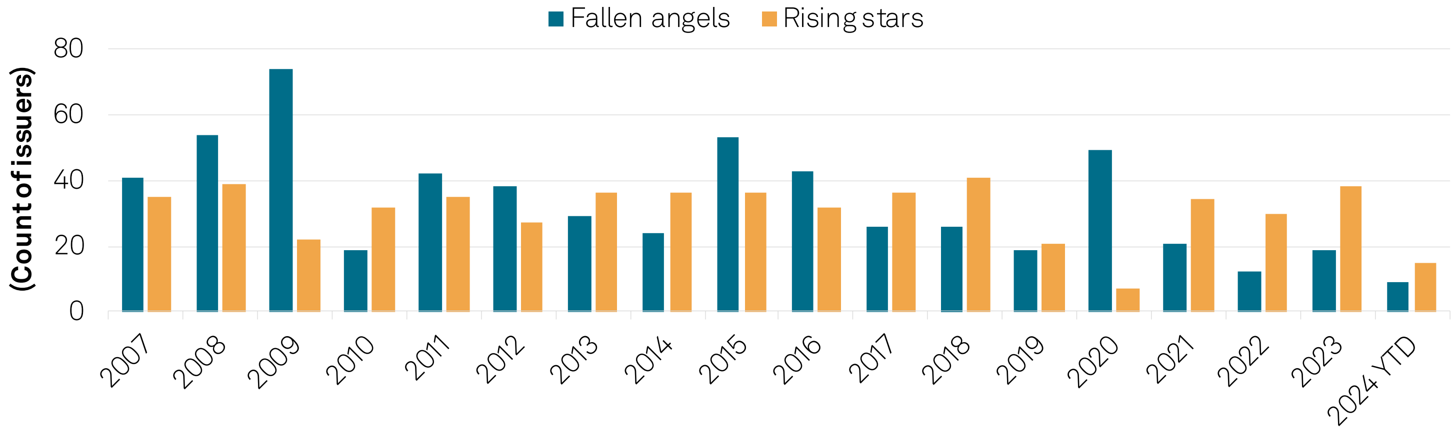


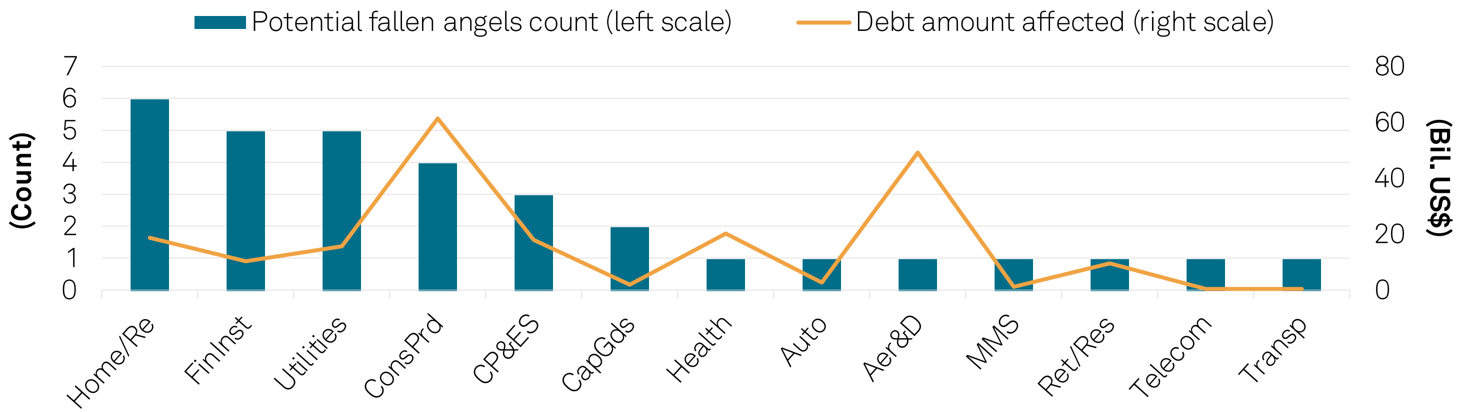

## Europe: Real estate leads negative outlooks (%)




Data as of June 30, 2024. Data used in calculation only includes parent companies and excludes insurance. CP&ES--Chemicals, packaging, and environmental services. NBFI--Nonbank financial institutions. MM&S--Metals, mining, and steel. Retail--Retail/restaurants. Forest--Forest products and building materials. Home/RE--Homebuilders/real estate companies. Media--Media and entertainment (includes leisure and lodging). Source: S&P Global Ratings Credit Research & Insights.

# Credit Trends | Rising Stars And Fallen Angels Call A Draw In Q2



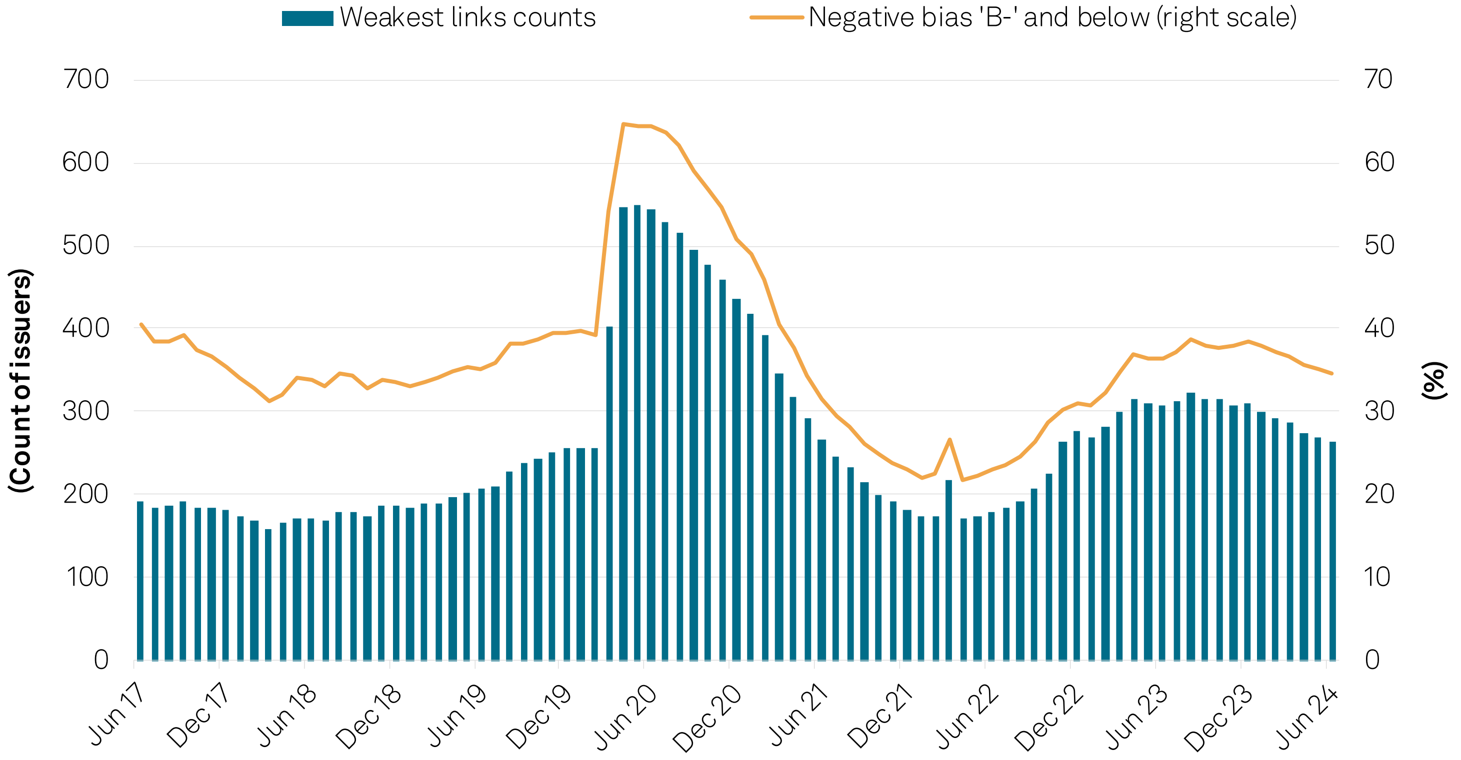




Data as of June 30, 2024. Data exclude sovereigns and 11 Russian, or Russia-related, entities that were fallen angels in March 2022 and whose ratings were subsequently withdrawn in compliance with EU sanctions. CapGds--Capital goods. ConsPrd--Consumer products. FinInst--Financial institutions. HomeRe--Homebuilders/real estate companies. Med&Ent--Media and entertainment. MMS—Metals, mining and steel. OilG--Oil and gas. Ret/Res--Retail/restaurants. Transp--Transportation. Telecom--Telecommunications. Source: S&P Global Ratings Credit Research & Insights.

- Rising stars (upgrades to investment grade) equaled fallen angels (downgrades to speculative grade) in Q2 2024 with five each.
- By region, the U.S. led rising stars with four upgrades, spread across different sectors.
- China-based property development companies led fallen angels in the second quarter with two including: China Vanke Co. Ltd. And Longfor Group Holdings Ltd.
- China's property market continues to search for a bottom even as sales increasingly shift to the secondary market and with the government offering more social housing. Both these developments mean that rated developers will be competing for a smaller slice of a shrinking market.
- Real estate also leads potential fallen angels ('BBB-' with negative outlook or CreditWatch) with six issuers across Europe and the U.S.

# Credit Trends | Weakest Links Tally Falls

## Weakest Links Have Been Falling Steadily Since Q3 2023




Weakest links and speculative-grade data as of June 30, 2024. Weakest links are issuers rated 'B-' or lower with negative outlooks or on CreditWatch negative.
Sources: S&P Global Market Intelligence's CreditPro, S&P Global Ratings Credit Research & Insights.

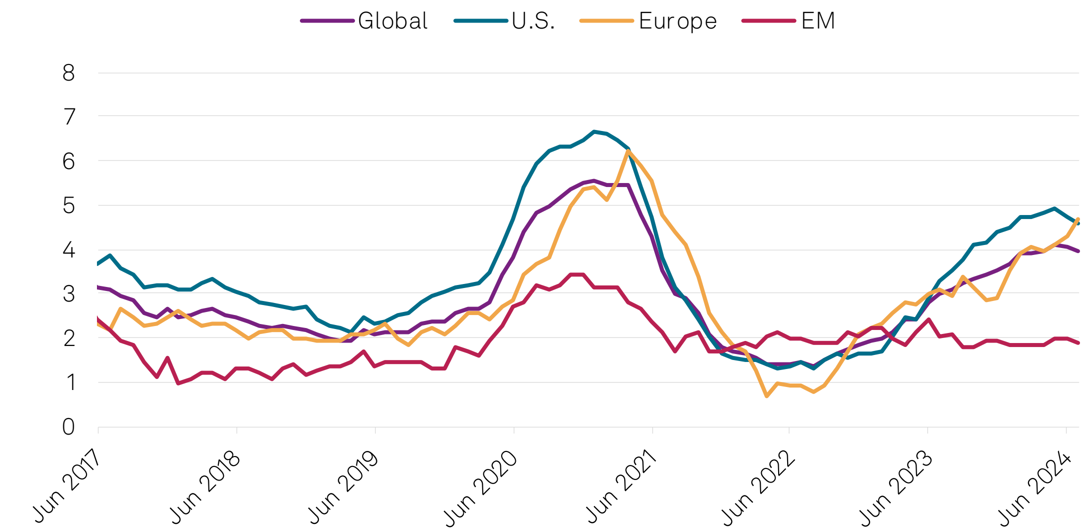
- The number of "weakest links" (issuers rated 'B-' or lower with negative outlooks or on CreditWatch negative) fell to 265 in June 2024 from 286 in the previous quarter; that's below its five-year average of 300.
- Nearly 40% of this quarter's weakest link additions came from either chemicals, packaging and environmental services or high-technology sectors.
- Consumer products leads with the largest number of weakest links at 41. However, metals mining and steel companies have seen the largest year-over-year increase in weakest links with seven, predominantly driven by U.S. and Canadian issuers; the reason for the increases are company specific.

# Credit Trends | Corporate Defaults Are Elevated But May Be Starting to Slow

- Corporate defaults increased to 41 in Q2 versus 37 in Q1. But the year-to-date total is below the first half 2023 total.
- Europe remains the only region where the year-to-date default count is higher than in the first half of 2023, with Forest Products & Building Materials leading the region's tally in the second quarter with three defaults.
- Distressed exchanges account for half of year-to-date defaults. The number of such cases are 36% above their five-year average.

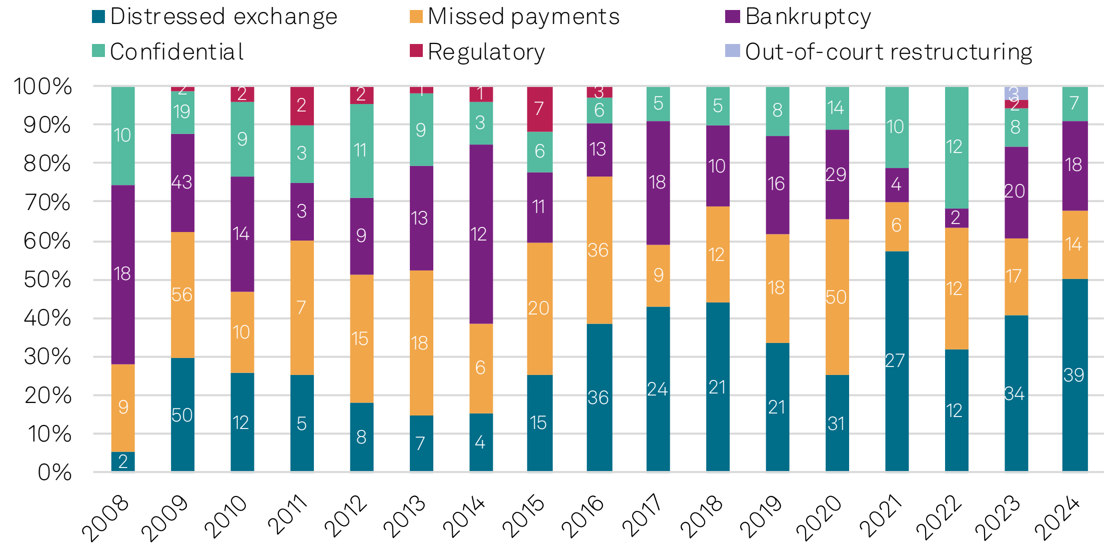
## Default rates continue to rise in Europe

Trailing-12-month speculative-grade default rate (%)




## Distressed exchanges led global defaults in YTD June

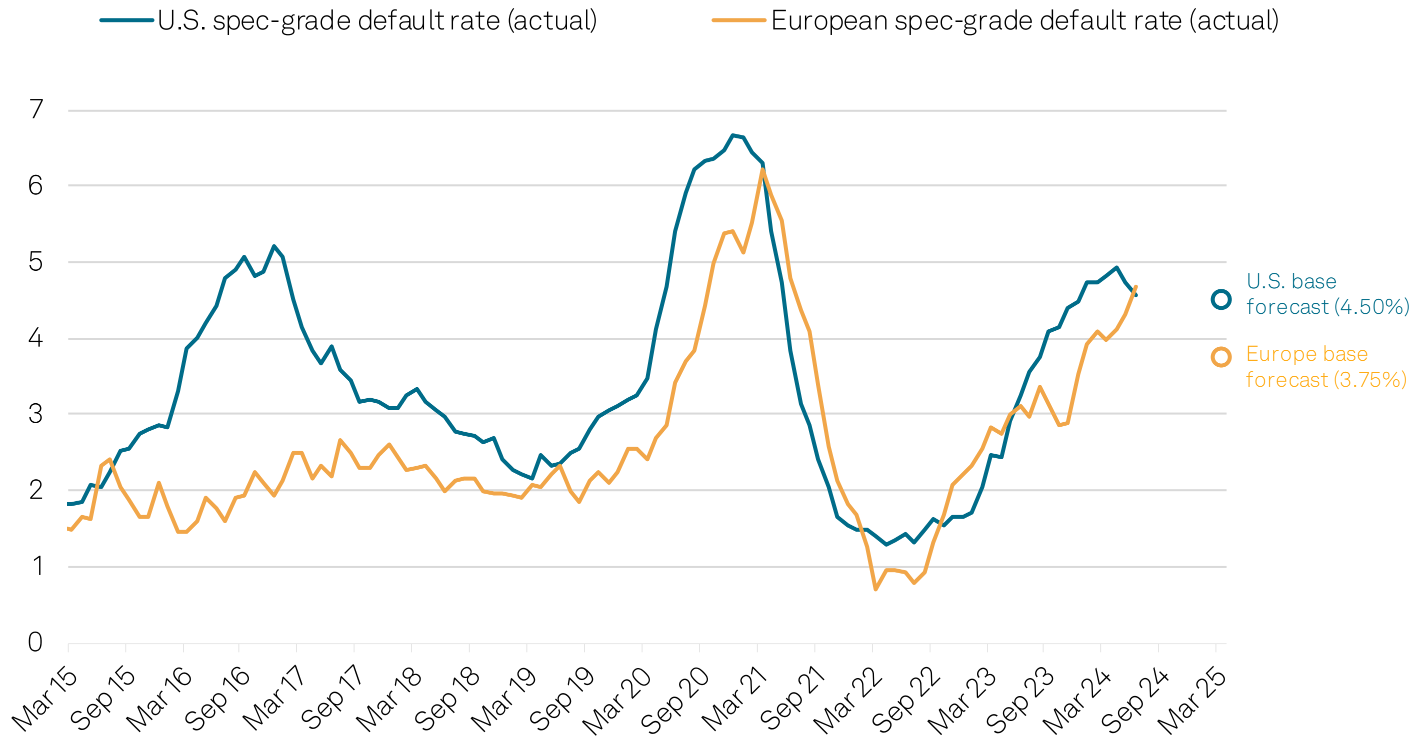
Defaults by default type




Data as of June 30, 2024. EM--Emerging markets. YTD--Year to date. Sources: S&P Global Market Intelligence's CreditPro, S&P Global Ratings Credit Research & Insights.

# Credit Trends | Default Rates May Ease From Elevated By Toward Year-End

The U.S. and European speculative-grade default rate could dip to 4.50% and 3.75% by March 2025 (%)




Data as of June 30, 2024. Forecasts are as of May 16, 2024. Sources: S&P Global Market Intelligence's CreditPro, S&P Global Ratings Credit Research & Insights

- Base case: Default rates remain elevated as prolonged higher interest rates burden weaker borrowers. Resilient economic growth and corporate profits may continue to provide an offset, but the path to expected rate cuts could be slow.
- Optimistic: Economic growth could surprise to the upside alongside falling inflation. If consumers remain resilient, this would result in a "soft landing" for the economies and financial markets and the resumption of 'CCC'/'C'-rated debt issuance.
- Pessimistic: Economic growth slows more than expected and interest rates remain high. Stickier or higher inflation would constrain borrowers if central banks kept rates elevated. This combination could be exacerbated if market sentiment sours and distressed exchanges continue to rise.

# Financing Conditions

# Financing Conditions | Getting Ahead Of The Curve

## Pushing Out

With an active market for refinancings, companies are pushing debt maturities into later years.

| Debt maturing in the next: | 12 months | 24 months | 36 months |
|---|---|---|---|
| Total debt maturing | $2.17 tril. ↑ 8.5% since Jan. 1, 2024 | $4.65 tril. ↑ 2.8% since Jan. 1, 2024 | $7.32 tril. ↑ 0.3% since Jan. 1, 2024 |
| Percentage of total debt | 9.0% | 19.4% | 30.5% |
| Speculative-grade share | 13% | 16% | 19% |
| Amount rated 'B-' and lower | $66.0 bil. ↑ from $60.4 bil. Jan. 1, 2024 | $200.8 bil. ↓ from $214.0 bil. Jan. 1, 2024 | $423.5 bil. ↓ from $441.4 bil. Jan. 1, 2024 |
| Regional breakout | U.S. 39%, Europe 39%, Rest of world 22% | 42%, 40%, 19% | 43%, 39%, 18% |

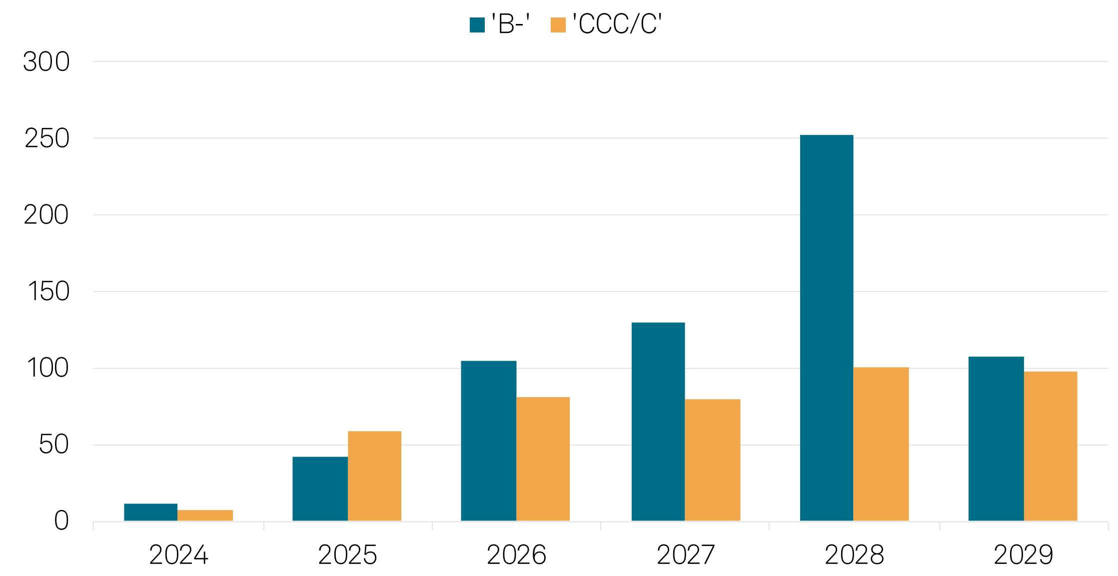
Data as of July 1, 2024. Includes financial and nonfinancial corporates' bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings.
Source: S&P Global Ratings Credit Research & Insights.

- Issuance continued to grow in 2Q 2024, with a rebound in both leveraged loan and spec-grade bond volumes. Refinancing, amend to extend, and add-on deals account for much of the volume.
- 'B-' and below credit presents a greater refinancing challenge. More 'B-' and lower debt is maturing over the next 12 months than at the beginning of the year; but maturities over the next 24 and 36 months have fallen slightly since the beginning of 2024.
- As of July 1, 2024, maturities over the next 12 months total US$2.17 trillion (87% investment grade), which should be manageable, especially given the recent surge of issuance.
- Although financing conditions are constructive at present, the tide can quickly turn--there is no guarantee for how long the current window of opportunity will remain open.

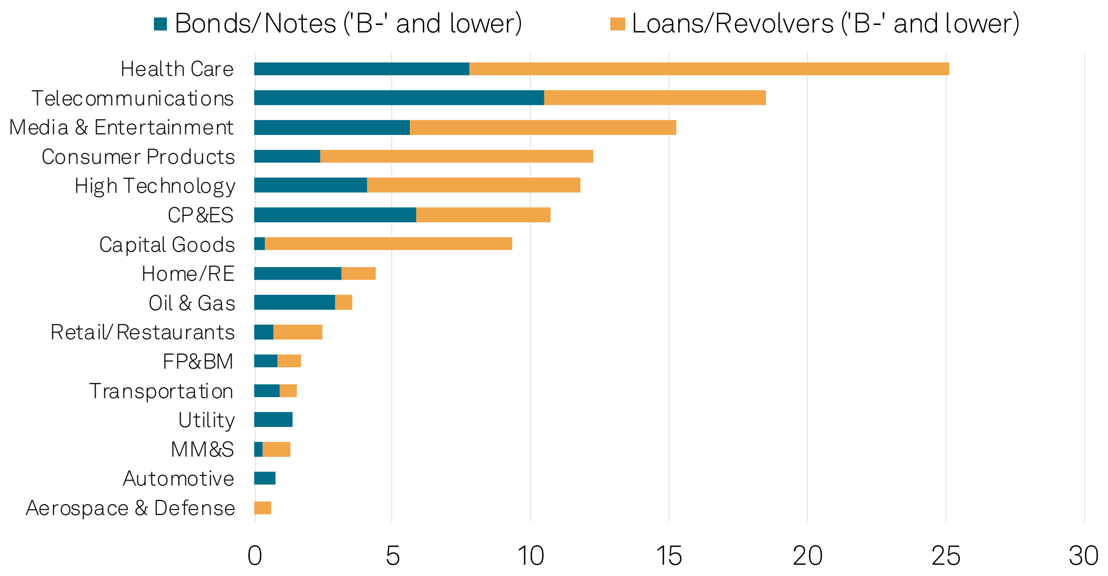
# Financing Conditions | ‘B-’ Maturities To Spike In 2028; ‘CCC’ Maturities The Immediate Test

- ‘B-’ and lower maturities rise steadily through 2027, and then sharply in 2028. Maturities of debt rated ‘CCC+’ and lower exceed those rated ‘B-’ in 2025, as the lowest-rated borrowers have faced comparably more challenging financing conditions over the last year.
- 61% of ‘B-’ or lower nonfinancial corporate debt maturing through 2025 consist of floating rate instruments, mostly loans and revolvers, with health care and telecommunications accounting for the largest share of the debt.

## ‘B-’ maturities rise sharply through 2028 (Bil. US$) ...




## ...with healthcare and telcos leading through 2025 (Bil. US$)

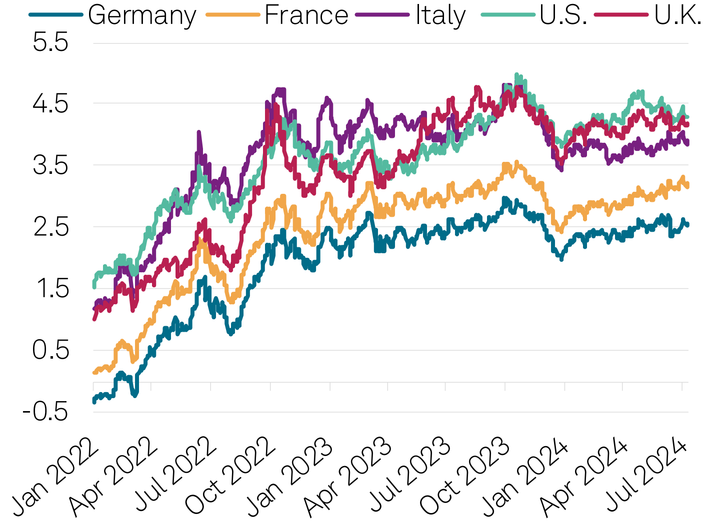



Data as of July 1, 2024. Includes nonfinancial corporate issuers' speculative-grade bonds, loans, and revolving credit facilities that are rated ‘B-’ and lower by S&P Global Ratings. Chart on the right shows global speculative-grade nonfinancial corporate debt maturing July 1, 2024, through Dec. 31, 2025. Excludes debt instruments that do not have a global scale rating. Foreign currencies are converted to U.S. dollars at the exchange rate on July 1, 2024. FP&BM: Forest products and building materials; Home/RE: Homebuilders and real estate; MM&S: metals, mining, and steel; CP&ES: chemicals, packaging, and environmental services. Source: S&P Global Ratings Credit Research & Insights.

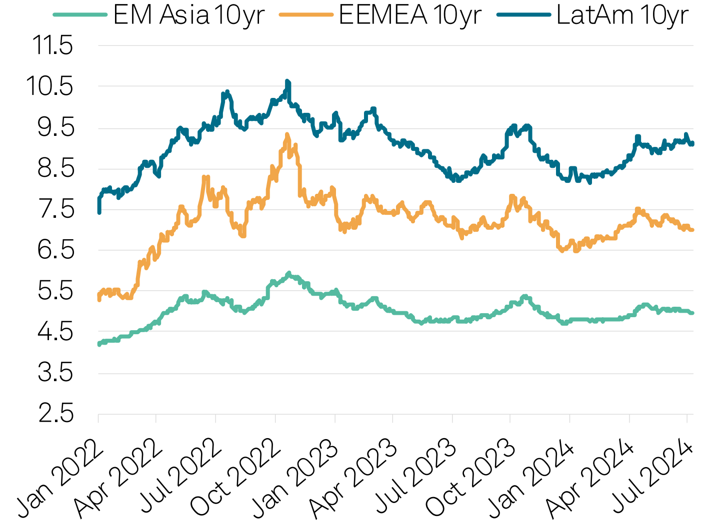
# Financing Conditions | Benchmark Yields Softened Slightly

- Global benchmark yields have declined from their Q2 peaks but remain above troughs at the beginning of the year. A heightened level of uncertainty remains for both the speed and quantum of rate cuts expected in major economies.
- A later start to interest rate cuts by the Fed would contribute to slower monetary policy normalization in most major emerging markets, as reflected notably in Latin American benchmark yields.

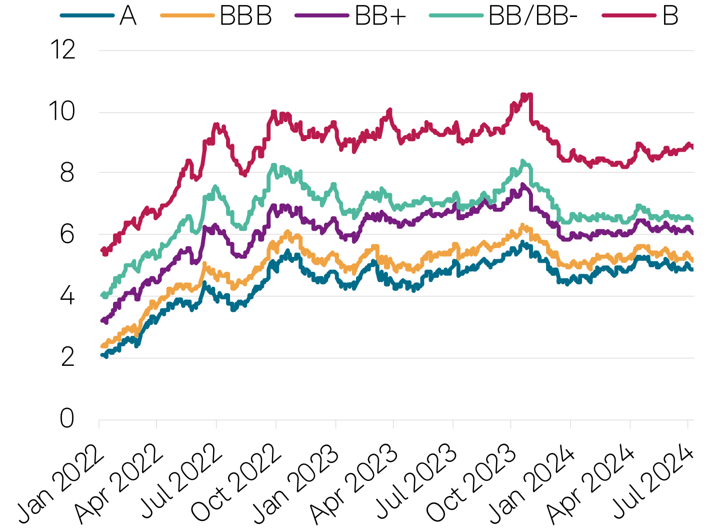
### Developed economies' benchmark yields reflect market uncertainties (%)




### Emerging markets benchmark yields follow trends in U.S. rates (%)



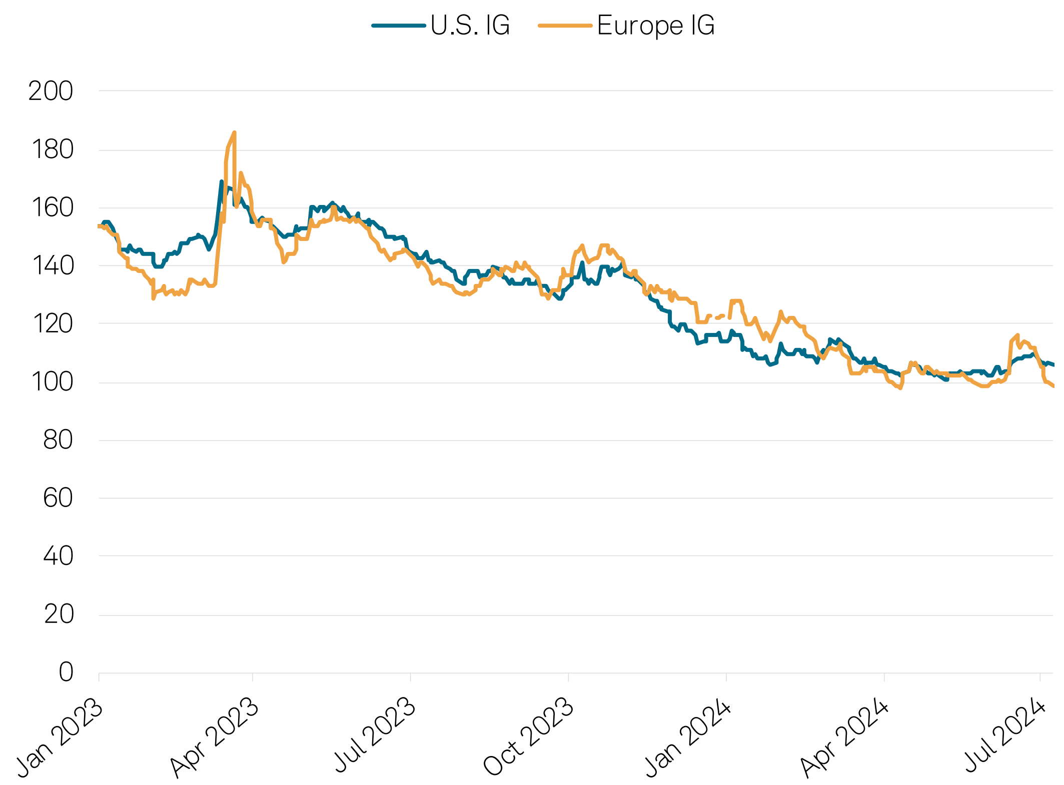

### Corporate yields stabilized but remain elevated due to market uncertainty (%)



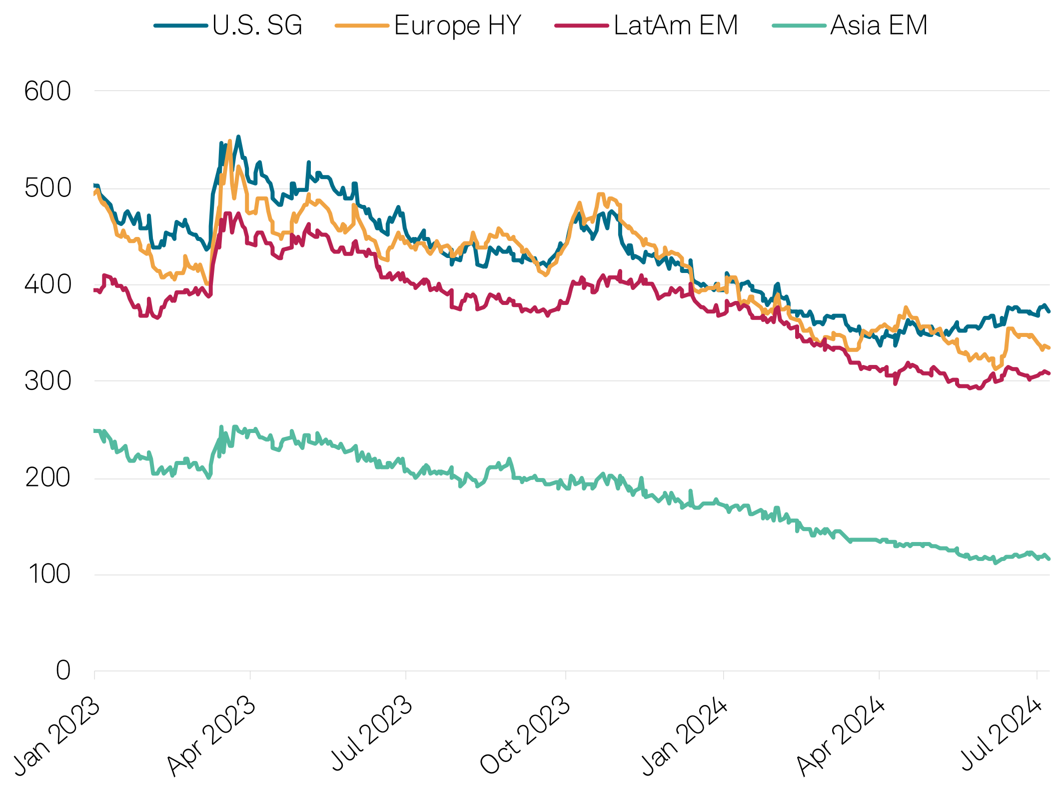

Data as of July 9, 2024. Left chart: 10-year benchmark yields. Middle chart shows regional averages of 10-year benchmark yields. LatAm--Average 10-year yield for Brazil, Mexico, Colombia, Chile, and Peru. EM Asia--Average 10-year yield for India, Indonesia, Thailand, Philippines, Vietnam, and Malaysia. EEMEA--Average 10-year yield of Poland, South Africa, Hungary. Right chart shows corporate US$ 10-year yields. Sources: Refinitiv, Datastream, S&P Global Market Intelligence. S&P Global Ratings Credit Research & Insights.

# Financing Conditions | High Yield Credit Spreads Tightening Has Either Paused Or Finished

## IG spreads remain broadly stable (basis points)




## High-yield spread tightening has stalled (basis points)

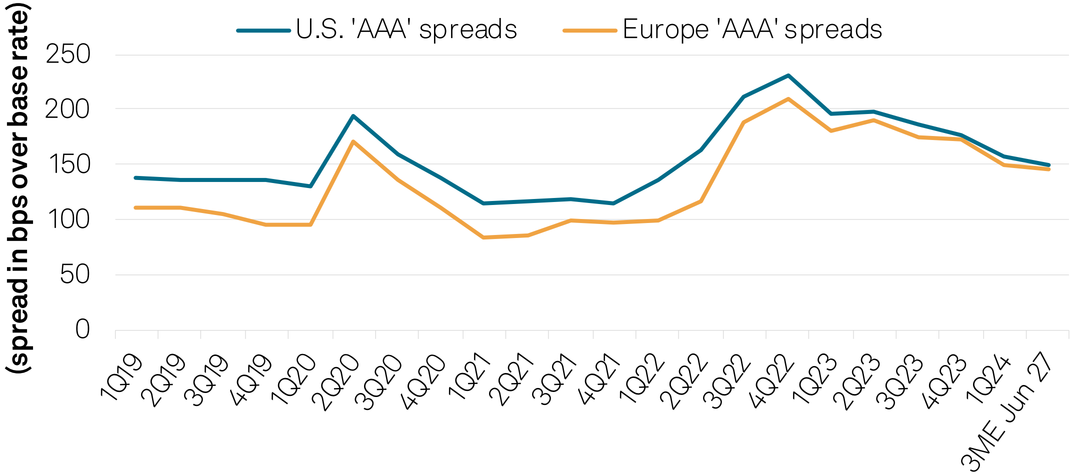



As of July 8, 2024. IG--Investment grade. SG--Speculative grade. HY--High yield. bps--Basis points. LatAm--Latin America. Sources: FRED (for Asia EM, LatAm EM, and Europe HY data). S&P Dow Jones Indices (for Europe IG data). S&P Global Ratings Credit Research & Insights.

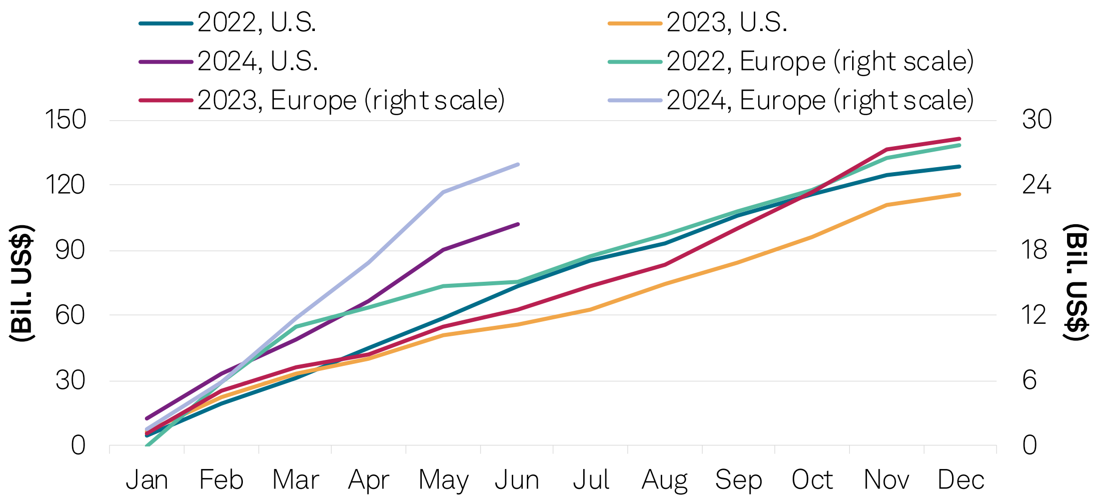
# Financing Conditions | U.S. And European CLO Issuance Rose Significantly

- U.S. issuance of collateralized loan obligations (CLOs) reached a record US$101 billion in H1 2024, up 81% from H1 2023. European issuance rose 105% y/y in H1.
- U.S. and European CLO 'AAA' spreads continued to narrow in Q2 2024 and are down 30 basis points from Q4 2023 as investor demand for floating rate debt continues amid increasing confidence in economic conditions.
- The continued tightening of CLO spreads is providing a tailwind for both CLO new issuance and resets/refinancings in 2024. Global CLO refinancing and resets increased from just two in H1 2023 to 253 in the same period in 2024.

## U.S. and Europe 'AAA' primary CLO spreads narrow and converge




## U.S. and Europe Q2 2024 CLO volumes jump



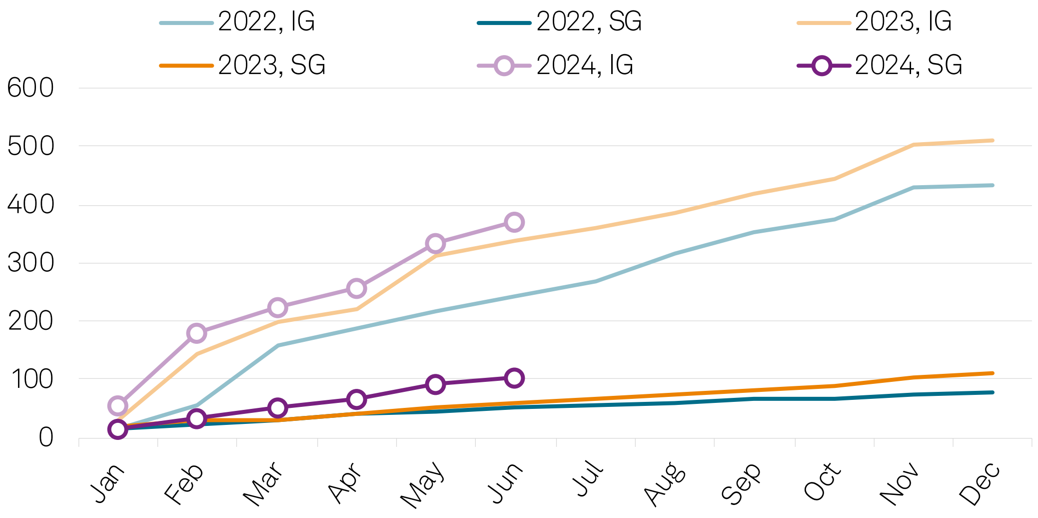

Spread data as of June 27, 2024. Issuance data as of June 27, 2024. CLO--Collateralized loan obligation. 3ME--3 months ending in. Sources: S&P Global Market Intelligence, S&P Global Ratings Credit Research & Insights. Leveraged Commentary and Data (LCD) from PitchBook, a Morningstar company; and Morningstar European Leveraged Loan Index (ELLI).

# Regional Issuance

# U.S. | Nonfinancial IG & SG Corporate Issuance Hurtles Ahead

- Second-quarter issuance by nonfinancial corporates was up 15% compared with Q2 2023, and financial issuance up 5% in that time.
- Year-to-date investment-grade and speculative-grade nonfinancial corporate issuance is also outpacing issuance for the same period in 2023, up 9% for IG and 67% for SG, respectively.
- Speculative-grade issuance volume in the H1 is just 6% below the full-year 2023 volume, and 33% above full-year 2022.

## Rated nonfinancial issuance outpacing prior years (Bil. US$)




Data as of June 30, 2024; data is cumulative. IG--Investment grade. SG--Speculative grade. Sources: Refinitiv, S&P Global Ratings Credit Research & Insights.

## IG led new U.S. bond issuance (Bil. US$)

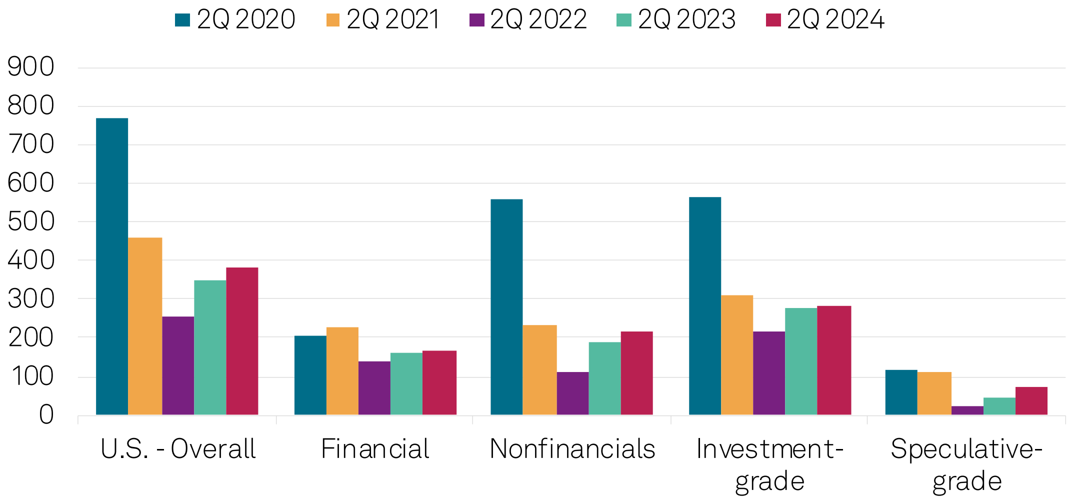
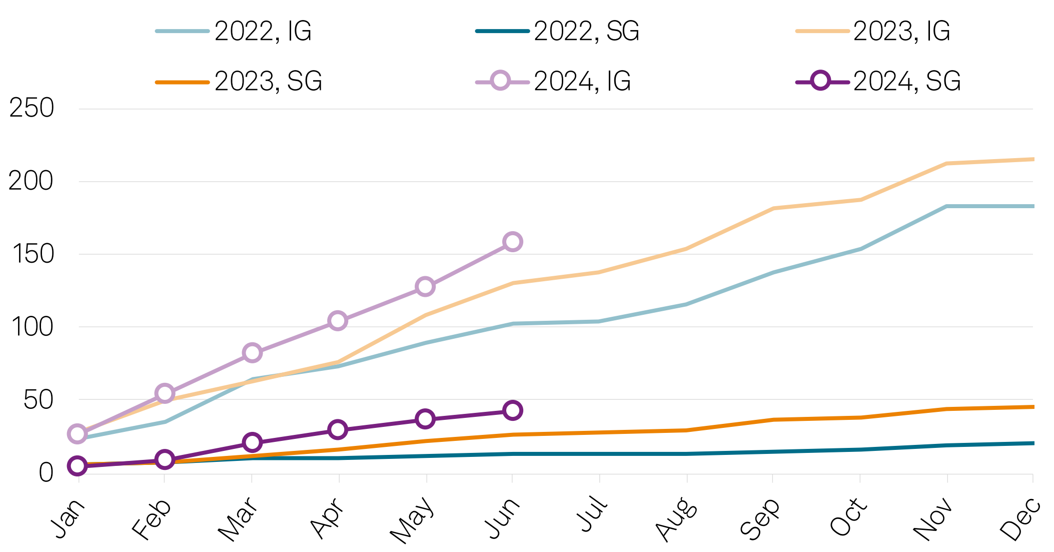



Chart shows second-quarter data as of June 30, 2024. Includes both financial and nonfinancial corporates. Data for the "Overall," "Financial," and "Nonfinancial" categories include unrated issuances. Sources: Refinitiv, S&P Global Ratings Credit Research & Insights.

# Europe | Primary Market Activity Remains Strong Particularly At the Top End

- In Q2 2024, rated bond issuance increased 17% year-on-year, with 67% of the volume coming from financial institutions.
- H1 2024 saw the strongest bond issuance volume since 2018. Investment-grade bond issuance in Europe increased by 9% year over year. Speculative-grade bond issuance rose 95% after subdued activity in 2023, supported by investors' anticipation of rate cuts.
- Only 7% of speculative-grade issuance came from issuers rated 'B-' and below, while 61% came from 'BB' rated entities.

## New nonfinancial issuance continues to be robust (Bil. €)




Data as of June 30, 2024; data is cumulative. IG--Investment grade. SG--Speculative grade. Sources: Refinitiv, S&P Global Ratings Credit Research & Insights.

## Rated issuance has been mostly investment grade (Bil. €)

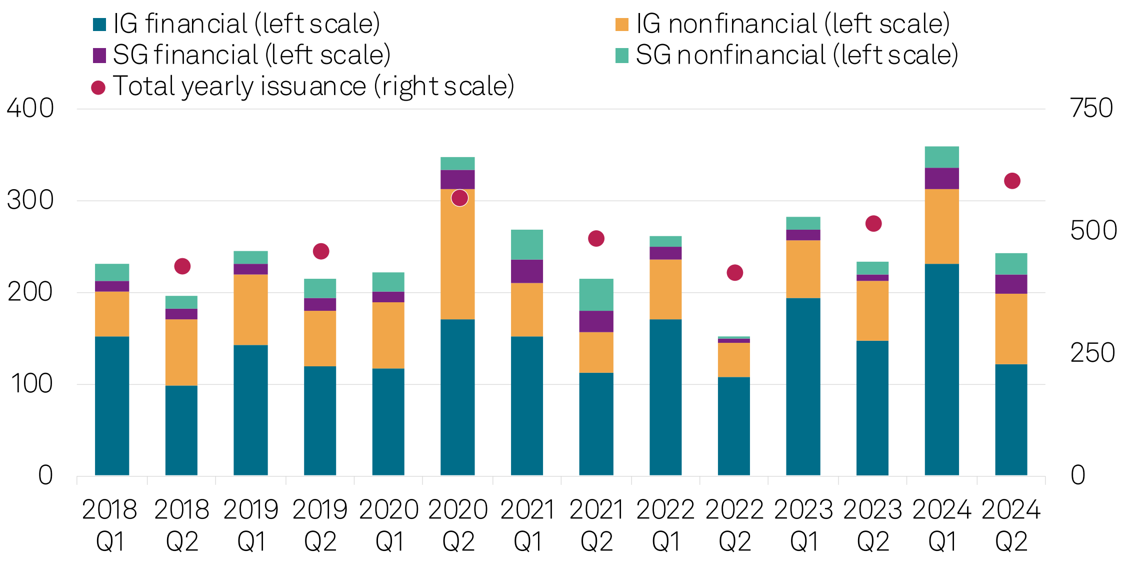
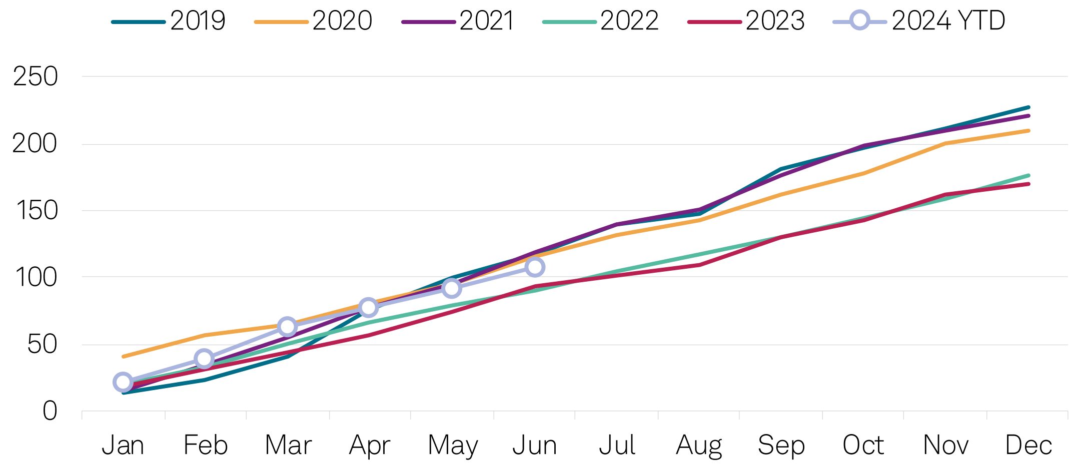



Chart shows quarterly data as of June 30, 2024. Includes both financial and nonfinancial corporates with rated debt. IG--Investment grade. SG--Speculative grade. Sources: Refinitiv, S&P Global Ratings Credit Research & Insights.

# Emerging Markets | SG Market Activity Recovers Amid Regional Discrepancy

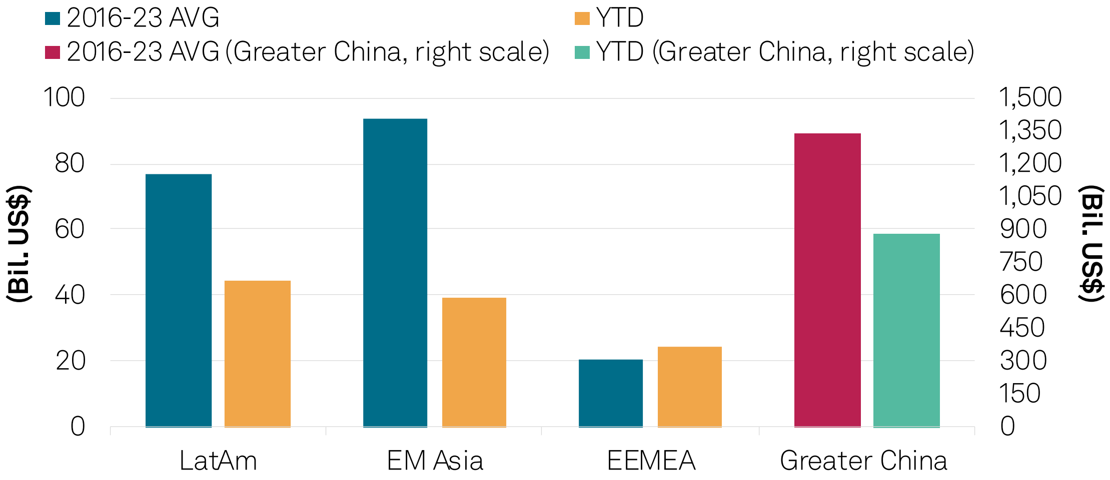
- Bond issuance slowed for emerging markets in 2024Q2, with volumes 30% lower than 2024Q1 record levels. This was driven by the moderation of investment grade issuance, even as the speculative grade bounced back. Speculative grade volumes in the first six months in 2024 almost matched full-year 2023 volumes, and more than doubled full-year 2022.
- Regional issuance showed geographical discrepancy. As of June 2024, EEMEA issuance was already 118% of its 2016-2023 average volume, with a strong performance in Turkiye, Saudi Arabia and Hungary (in financial institutions and high tech). Greater China was at 66%, LatAm 58% and EM Asia only at 42% of their respective average volumes in 2016-2023.

## EM bond issuance, ex-China trailing 2019-21 levels (Bil. US$)




Data as of June 30, 2024; data is cumulative. Includes NR (not rated) and both financial and nonfinancial entities. The chart includes issuance from Argentina, Brazil, Chile, Colombia, Hungary, Mexico, India, Indonesia, Malaysia, Thailand, Philippines, Poland, Peru, Vietnam, Saudi Arabia, South Africa, and Turkiye. Source: Refinitiv, S&P Global Ratings Credit Research & Insights.

## EEMEA issuance outperforming, EM Asia lagging

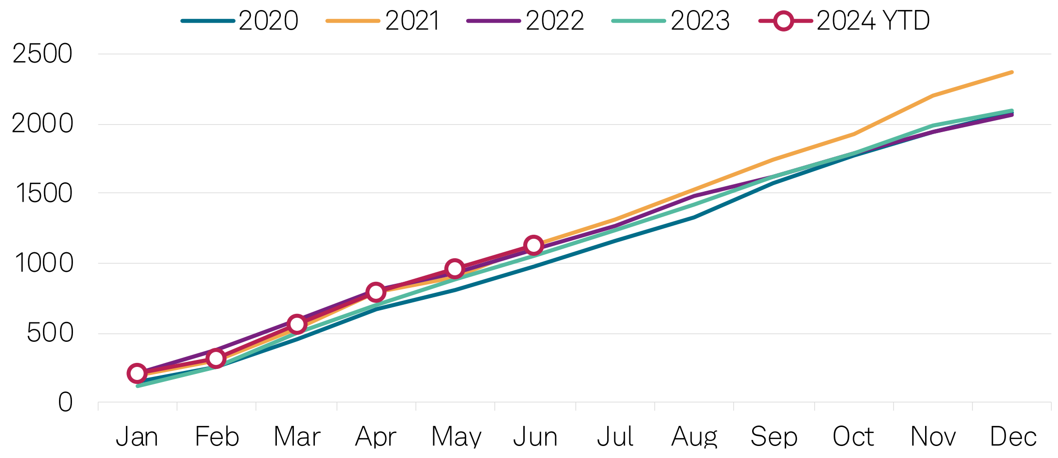



Data as of June 30, 2024. Includes NR (not rated) and both financial and nonfinancial entities. EM consists LatAm-- Brazil, Mexico, Colombia, Chile, and Peru. EM Asia-- India, Indonesia, Thailand, Philippines, Vietnam, and Malaysia. EEMEA-- Poland, South Africa, Hungary, and Czech Republic. Greater China -- China, Hong Kong, Taiwan, Macau. Source: Refinitiv, S&P Global Ratings Credit Research & Insights.

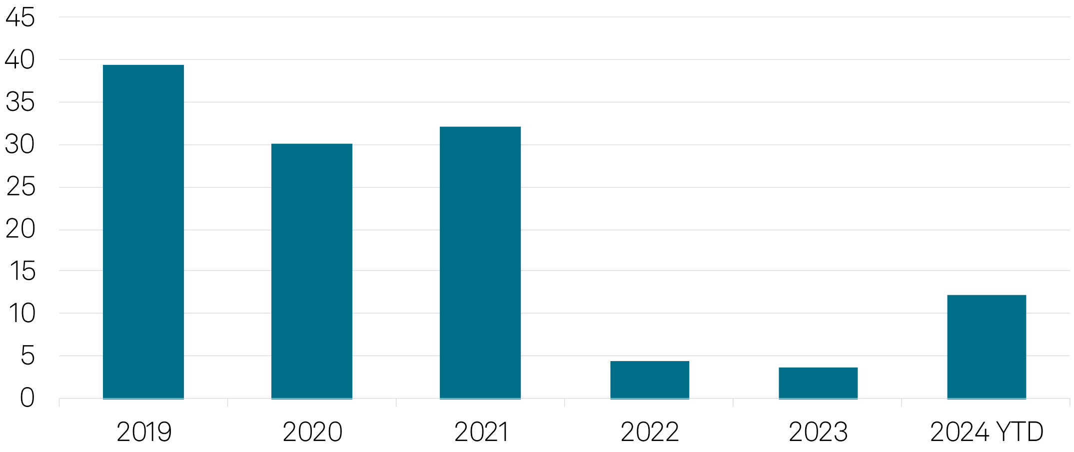
# APAC | SG Issuance Volumes Continue To Improve From Low Base

- Growth in overall bond issuance volume slowed to 3.3% year-on-year in the second quarter, down from 11.6% in the first quarter. Nonetheless, year-to-date issuance is still up 7.2% compared with the first six months of 2023.
- The composition of issuance remains uneven. Most of the issuance is still in local-currency markets, as the further depreciation of the region's currencies kept offshore borrowing more expensive.
- Market access for speculative-grade issuers is still improving, with issuance volumes in that space for the first six months already tripling the fully-year volumes in both 2022 and 2023. However, this remains far below the norms seen before the global rate hikes, and so we continue to watch market access as a key refinancing risk especially in foreign currency bond markets.

### Asia-Pacificbond issuance up 7.2% YTD (Bil. US$)




### SG issuance continues to rise from low base (Bil. US$)




Data as of June 30, 2024; data is cumulative. Issuance volumes include financial and nonfinancial corporate issuers of rated and unrated bonds. Sources: Refinitiv. S&P Global Ratings Credit Research & Insights.

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