S&P Global
Ratings

The Ratings View

August 1, 2024

This report does not constitute a rating action.

Key Takeaways

- Our industry credit outlooks midyear updates suggest quiet optimism, a sentiment echoed by our U.S. midyear corporate credit outlook.
- The outlook for global sovereigns is brightening.
- Global bond issuance in the first half of 2024 increased 13%, and total corporate maturities due in the second half of 2024 and full-year 2025 have eased by 8%.

Industry credit outlooks midyear updates suggest quiet optimism. A quiet, if fragile, optimism is the theme of our industry credit outlook midyear updates. Resumed earnings growth, resilient economies, receptive capital markets, receding leverage, and the prospect of lower policy rates as we head into 2025, all give reasons to be cheerful. Financial policy appears to be reflecting this shift, with M&A and shareholder returns back in focus and deleveraging less of an imperative. Caution is not far from the surface, with high labor costs and what they might mean for interest rates a particular concern, inventory levels still relatively high, and supply-chain fragility still apparent. Geopolitical risks loom large, particularly in a year of elections and ongoing conflicts, as does the threat of escalating tariff tensions. Weaker credits face continuing risks and difficulties in refinancing, even as investment-grade and stronger speculative-grade entities demonstrate improving credit quality.

Industry Credit Outlook Midyear 2024: Quietly optimistic

US corporates could soon see improving credit conditions. With the U.S. economy likely settling into a soft landing and the Federal Reserve poised to lower interest rates, U.S. corporate borrowers could soon see improving credit conditions. But a brighter environment is no guarantee if borrowing costs remain high for longer than we anticipate and uncertainty around the U.S. elections spark market volatility. After a minor earnings recession last year, we expect positive median EBITDA growth this year for most U.S. sectors. However, corporate borrowers continue to battle elevated input costs, uncertain consumer demand, and heavier debt-service burdens. The net outlook bias for U.S. corporates hasn't changed much since the beginning of the year and was at negative 11.0% as of June 30.

U.S. Corporate Credit Outlook Midyear 2024: Steering Towards Sunlight

The outlook for global sovereigns is brightening. Economic resilience, the reopening of China, strong commodities prices, and some progress on fiscal consolidation have supported the balance of rating outlooks for sovereigns (positive minus negative) improving to 10, from -8 in June 2023. Deficits have retreated from the pandemic-era peaks, but stocks of debt and the cost of servicing them remain higher than before the pandemic--one of the main risks to our outlook. In addition, geopolitical risk remains high, posing destabilizing threats. And more than 60 sovereigns are holding general elections this year, which could create policy swings and uncertainty. Sovereign credit quality remains, on average, two notches below the levels before the global financial crisis.

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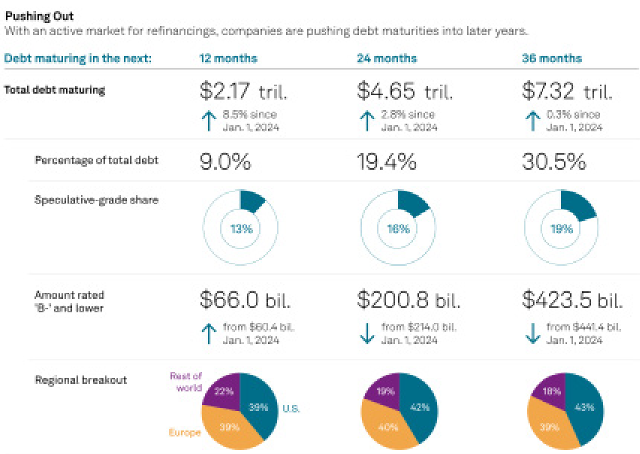
Global Sovereign Rating Trends Midyear 2024: Outlook Balance Improves

Global bond issuance in the first half of 2024 increased 13%, with even larger increases among structured finance and U.S. public finance. Much of this increase resulted from borrowers taking advantage of strong market demand to refinance and planning for growing uncertainties on the horizon. Slowing inflation is fueling market expectations for more interest rate cuts in the second half of this year, but a more aggressive pace of refinancing debt, a relative slowdown of mergers and acquisitions, and increased market volatility are likely to offset any benefit from lower policy rates in the near term. Taken together, these factors along with first-half totals bring us to expect bond issuance will increase roughly 9% this year, with upside potential given geopolitical risks are often more feared, than actually restrictive.

Global Financing Conditions: Early Issuance Should Support Growth Through Second-Half Slowdown

Total corporate maturities due in the second half of 2024 and full-year 2025 have eased by 8%, with speculative-grade nonfinancial corporates trimming maturities by 30%. Robust issuance supported a 2% increase in the total amount of rated debt globally during the first half of this year, and maturities now peak at $2.8 trillion in 2028. We estimate that median financing costs of 'BBB' and 'BB' bonds (in the U.S. and Europe) maturing this year could rise around 2.5 percentage points--if refinanced at current rates. While 'CCC'/'C' category debt likely poses the highest relative refinancing risk, the median price for 'CCC'/'C' bonds maturing in the next 12 months has risen two percentage points.



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.

Global Refinancing Update Q3 2024: Near-Term Risk Eases

Risky credits update. In North America, downgrades to the 'CCC' rating category increased to 19 in the second quarter from 10 in the first quarter, led by consumer product and health care companies. By contrast, the number of European financial and nonfinancial corporates rated 'CCC+' and lower is now in line with the five-year average, with removals from the risky credits cohort coming largely from upgrades that followed improved operating metrics. In emerging markets, the number of issuers rated 'CCC+' and lower stabilized and risky credits now represent 10.5% of the speculative-grade universe.

Risky Credits: U.S. And Canadian Downgrades Into 'CCC' Sharply Rise
Risky Credits: Positive Ratings Momentum In Europe Continues
Risky Credits: Corporate Ratings In Emerging Markets Stabilize

Artificial intelligence (AI) technology holds promise for the U.S. telecom sector both as a revenue opportunity and as a tool to reduce costs and improve efficiencies. AI also poses credit risks associated with higher capital spending and the integration of nascent technology. The credit impact of AI on the sector will depend on how telecom companies pay for and execute on their strategies, but we expect the impact over the long term will be largely positive.

The AI Gold Rush Will Use Telecom's Picks And Shovels

We will pause publication of The Ratings View in August, resuming in September.

Asset Class Highlights

Corporates

Notable publications include:

- Investment-Grade Credit Check: Moving On Up
- The AI Gold Rush Will Use Telecom's Picks And Shovels
- The Canadian Telco Squeeze--The Need To Compete Will Lower Returns
- Global Credit Markets Update Q3 2024: On An Upward Curve
- Credit Trends: Global Financing Conditions: Early Issuance Should Support Growth Through Second-Half Slowdown
- Credit Trends: Global Refinancing Update Q3 2024: Near-Term Risk Eases
- Industry Report Card: Latin American Power Generators
- Industry Report Card: Latin American Midstream And Refineries
- China Consumer Versus Global Peers: More Direct Competition In Restaurants, Apparel, Appliances
- Ratings Rollercoaster: Ascent Of U.S. Theme Parks On Reopenings Has Likely Reached Its Peak
- U.S. Fitness Operators See Gains From Industry Tailwinds But Face High Build Costs
- Credit Trends: Risky Credits: U.S. And Canadian Downgrades Into 'CCC' Sharply Rise
- Credit Trends: Risky Credits: Positive Ratings Momentum In Europe Continues
- Credit Trends: Risky Credits: Corporate Ratings In Emerging Markets Stabilize
- White Paper: Scenarios Show Potential Ways Climate Change Affects Creditworthiness
- Global Engineering And Construction 2024 Outlook Update

Financial Institutions

Over the past week, we took several rating actions and published some bulletins:

- Research Update: Santander Holdings U.S.A. Inc. 'BBB+/A-2' And Santander Bank N.A. 'A-/A-2' Ratings Affirmed; Outlook Remains Stable
- Research Update: Uzbekistan-Based Turon Bank 'B' Ratings Affirmed On Expected Capital Support Measures; Outlook Stable
- Research Update: Australia and New Zealand Bank (China) Co. Ltd. Ratings Affirmed At 'A+/A-1' On Group Support; Outlook Stable
- Research Update: Jump Financial LLC Outlook Revised To Stable From Negative On Strengthened Capitalization; 'BB-' Ratings Affirmed
- Bulletin: China Cinda's Profit Warning Shows AMCs Aren't Close To Recovery
- Bulletin: Euroclear's Planned Acquisition Of Inversis Is Consistent With Its Strategy

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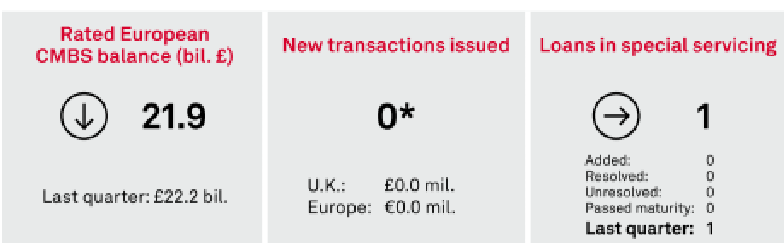
Sovereign

- Global Sovereign Rating Trends Midyear 2024: Outlook Balance Improves
- Americas Sovereign Rating Trends Midyear 2024: Highest Number Of Positive Outlooks Since 2011
- Asia-Pacific Sovereign Rating Trends Midyear 2024: Fiscal Strains Rise
- European Developed Markets Sovereign Rating Trends Midyear 2024: Lagging Regional Growth Could Weigh On Public Finances
- European Emerging Markets Sovereign Rating Trends Midyear 2024: A Mixed Picture, Broadly Stabilizing
- Central And Eastern Europe Sovereign Rating Outlook Midyear 2024: Brightening, With A Few Dark Spots

Structured Finance

- **EMEA RMBS and ABS:** S&P Global Ratings published on July 22, 2024 its "EMEA RMBS And ABS Monitor Q2 2024". This publication summarizes EMEA RMBS and ABS rating trends over Q2 2024, based on our reviews of transactions that we rate and analysis of newly rated transactions.
- **Private Credit and Middle Market CLO:** S&P Global Ratings published on July 24, 2024 its third-quarter 2024 slide deck highlighting the key themes for the U.S. private credit and middle-market collateralized loan obligation (CLO) sectors, "Private Credit And Middle-Market CLO Quarterly: Pick Up In Performance And PIKs (Q3 2024)".
- **Esoteric Structured Finance:** S&P Global Ratings published on July 24, 2024 "Structured Finance Esoteric Quarterly Roundup: Q3 2024", a report highlighting issuance trends and outlooks for U.S. structured finance esoteric sectors.
- **European CMBS:**

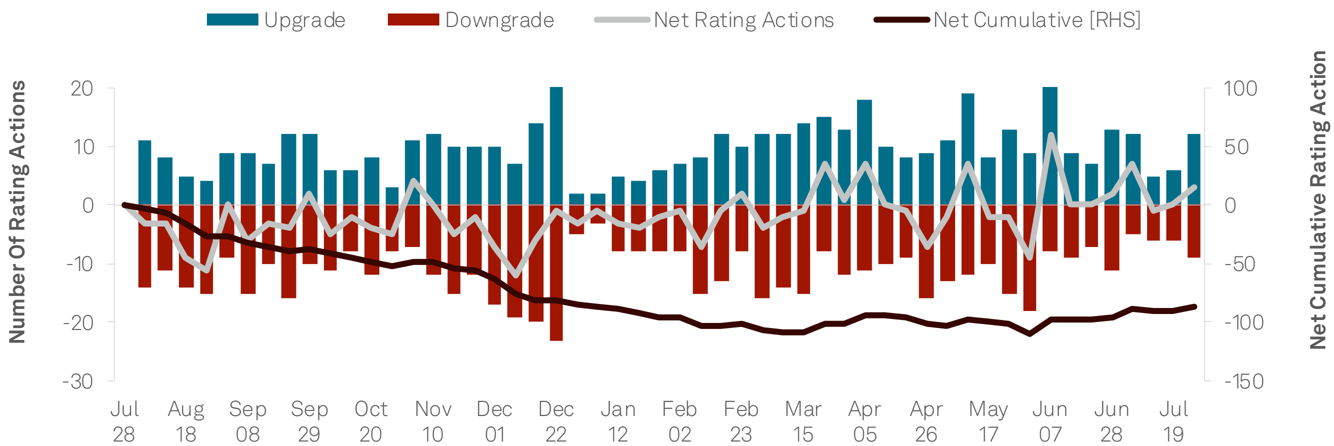


*Rated by S&P Global Ratings.

  - The article is titled "European CMBS Monitor Q2 2024" and published on July 23, 2024.
- **Japan Auto Loan ABS:** Here are a few "Key Takeaways" from a recent article:
  - We expect default and delinquency rates on auto loans underlying Japanese ABS transactions to remain low and stable.
  - The prepayment rate has risen sharply since 2020, reaching a record 19% per annum in April 2024.
  - The prepayment rate is likely to remain high thanks to rising used car prices.
  - The article is titled "Japan Auto Loan ABS Performance Watch: Prepayments Stay Elevated" and published on July 25, 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 July 26, 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. $)
26-Jul	Upgrade	AstraZeneca PLC	Health Care	U.K.	A+	A	27,316
22-Jul	Upgrade	Netflix Inc	Media & Entertainment	U.S.	A	BBB+	13,930
23-Jul	Upgrade	Amentum Holdings LLC	Aerospace & Defense	U.S.	BB-	B	10,226
26-Jul	Upgrade	Munich Reinsurance Co.	Insurance	Germany	AA	AA-	9,393
22-Jul	Upgrade	McGraw-Hill Education Inc.	Media & Entertainment	U.S.	B	B-	7,500
23-Jul	Downgrade	Magenta Buyer LLC	High Technology	U.S.	CCC	CCC+	4,340
23-Jul	Downgrade	AMC Entertainment Holdings Inc.	Media & Entertainment	U.S.	SD	CCC+	3,841
25-Jul	Upgrade	Permian Resources Corp.	Oil & Gas	U.S.	BB	BB-	3,450
25-Jul	Upgrade	Vedanta Resources Ltd.	Metals, Mining & Steel	U.K.	B-	CCC+	2,972
23-Jul	Downgrade	Corus Entertainment Inc.	Media & Entertainment	Canada	CCC	B-	2,222

Source: S&P Global Ratings Credit Research & Insights. Data as of July 26, 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**.**