ESG In Credit Ratings Q3 2024

Negative Actions Outweigh Positive By Four To One

S&P Global Ratings

This report does not constitute a rating action.

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By the numbers: Third-quarter 2024 ESG-related credit rating actions

Total ESG-driven credit rating actions, Q2 2024 versus Q3 2024

	Q2	Q3
ALL CREDIT RATING ACTIONS	42	36
POSITIVE RATING ACTIONS	8	7
NEGATIVE RATING ACTIONS	33	28

Positive rating action breakdown

	Q2	Q3
TOP FACTOR	3 Risk management, culture, and oversight	3 Risk management, culture, and oversight
TOP SECTOR	3 Corporates and infrastructure	2 Sovereigns
TOP REGION	5 North America	4 North America

Negative rating action breakdown

	Q2	Q3
TOP FACTOR	17 Risk management, culture, and oversight	14 Risk management, culture, and oversight
TOP SECTOR	21 U.S. public finance	19 U.S. public finance
TOP REGION	26 North America	19 North America

ESG-related rating actions are those where ESG credit factors were a key driver of the decision to change a credit rating, outlook, or CreditWatch status. S&P Global Ratings considers ESG credit factors to be those ESG factors that may influence the capacity and willingness of an issuer to meet its financial commitments. Rating actions include changes in ratings, CreditWatch placements, and outlooks between January and September 2024. Excludes CreditWatch developing because it can represent either a positive or negative rating action. ESG--Environmental, social, and governance.
Source: S&P Global Ratings.

Key Takeaways

- There were 36 rating actions related to environmental, social, and governance (ESG) factors in the third quarter, with negative actions materially outweighing positive ones by four to one.
- Governance factors remained the primary driver in the quarter, representing 89% of ESG-related rating actions. Risk management, culture, and oversight was also still the main underlying factor with 17 actions.
- U.S. public finance continued to be the sector with the most ESG-related rating actions, although decreasing to 21 from 24 in the second quarter for a year-to-date total of 66 (or 58% of ESG-related rating activity for all practices this year).
- S&P Global Ratings is currently reviewing information from issuers affected by hurricanes Helene and Milton, which hit the Southeastern U.S. in recent weeks, to assess any related rating impacts.

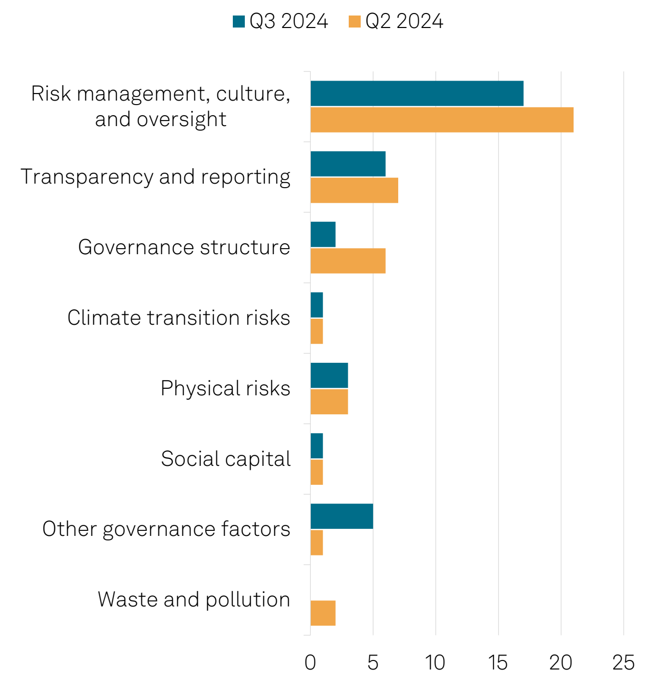
2024 ESG Credit Rating Actions

S&P Global Ratings includes a reference in its credit rating rationales when one or more of the below ESG factors were a key driver behind a change to the credit rating, outlook, or CreditWatch status. We consider ESG credit factors as those ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. They are not an assessment of an entity's sustainability profile or ESG performance. This newsletter provides additional data and insights on ESG credit factors that have been key drivers behind changes to our credit ratings.

ALL ESG-RELATED RATING ACTIONS: DOWNLOAD TABLE >

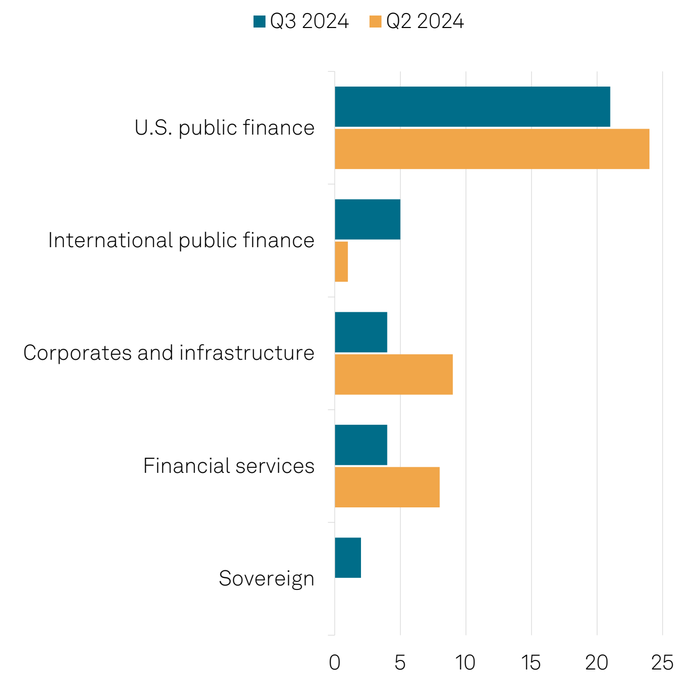
ESG-related rating activity by ESG factor

Q3 2024 versus Q2 2024, no. of actions



ESG-related rating activity by sector

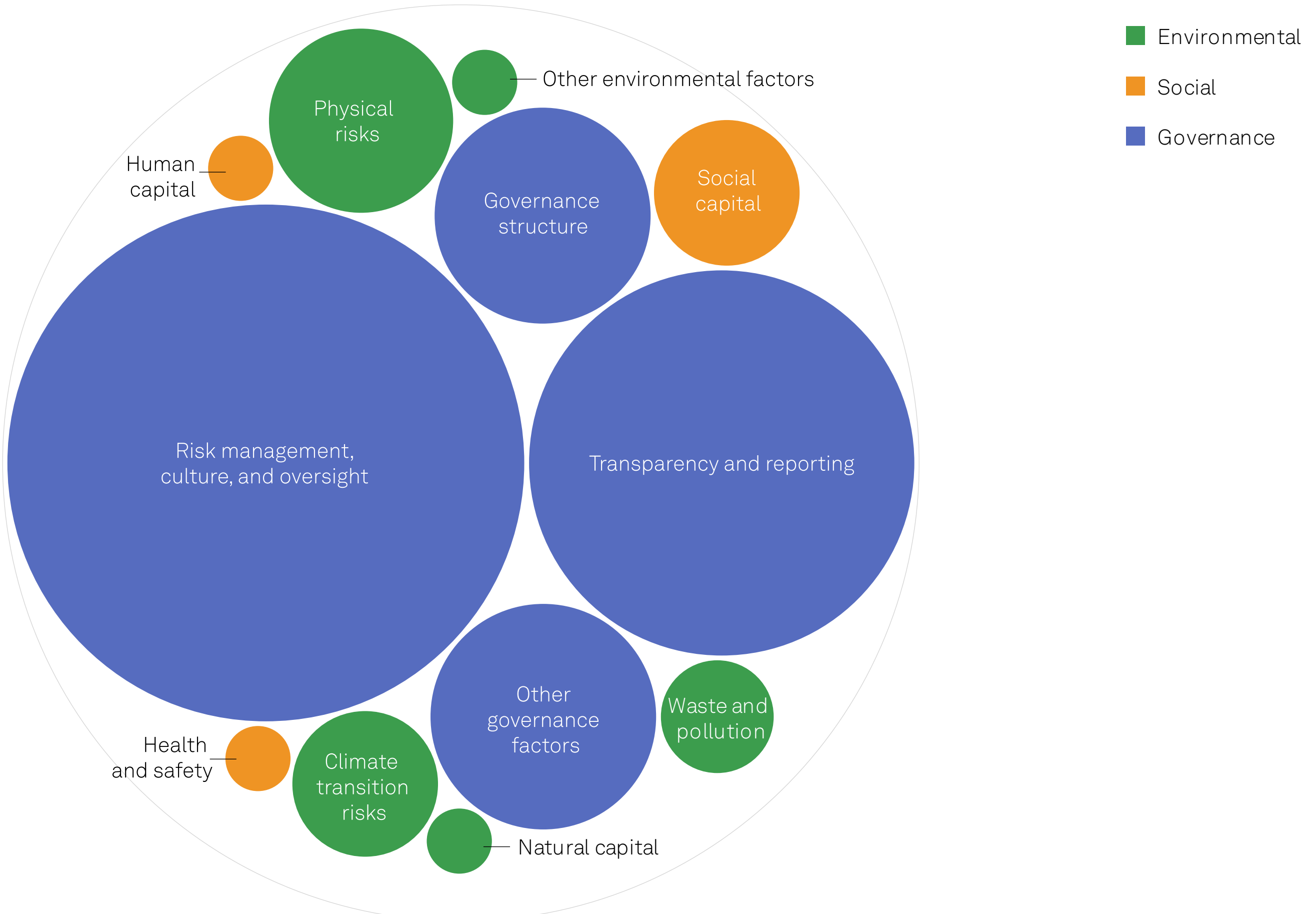
Q3 2024 versus Q2 2024, no. of actions



Data reviews rating activity between June 1, 2024, and Sept. 30, 2024. Source: S&P Global Ratings.

Leading factors cited in ESG-related rating actions

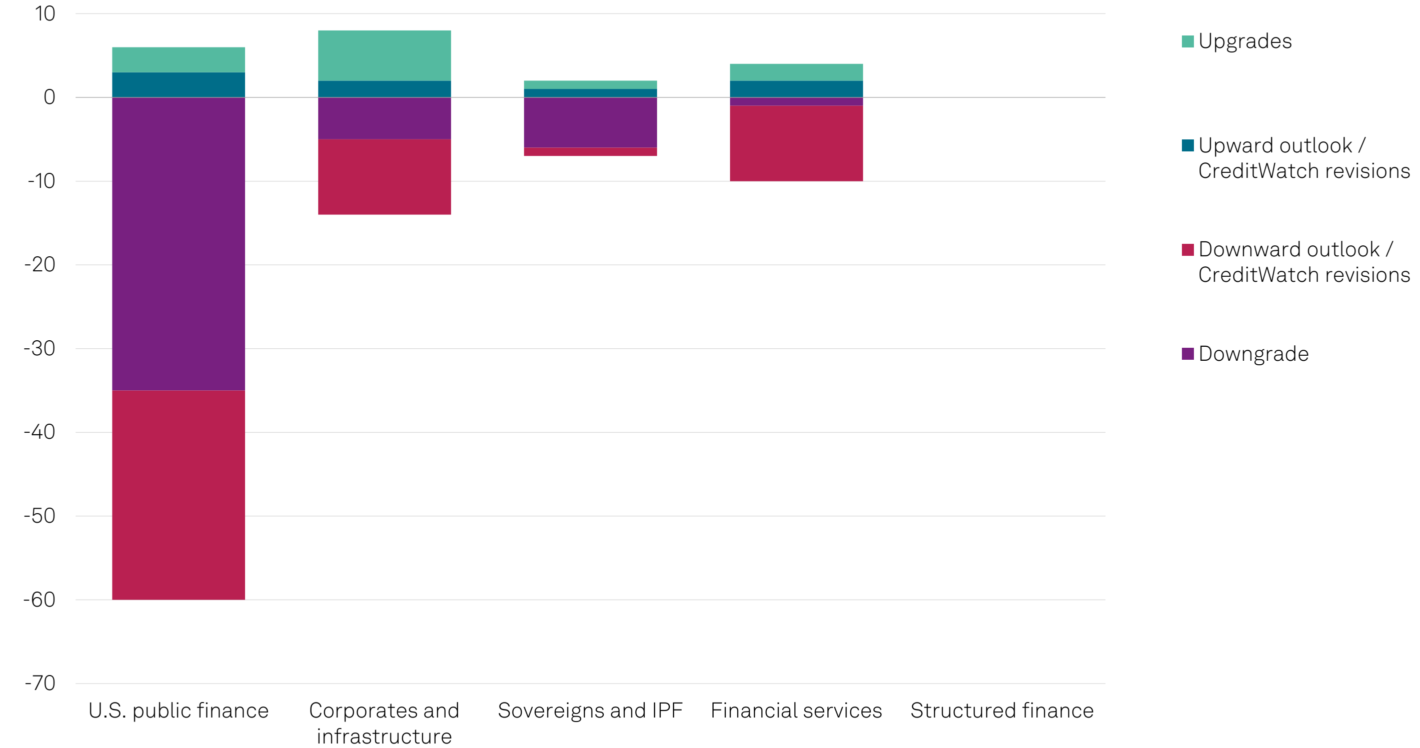
Year-to-date 2024



Data as of Sept. 30, 2024. ESG tagged factors as a proportion of total tagged factors. Bubble size is determined by the occurrence of factors between January and September 2024. In instances where multiple ESG factors were recorded as the main drivers of the credit rating action, each is counted for the purposes of this infographic. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG-related credit rating actions by type

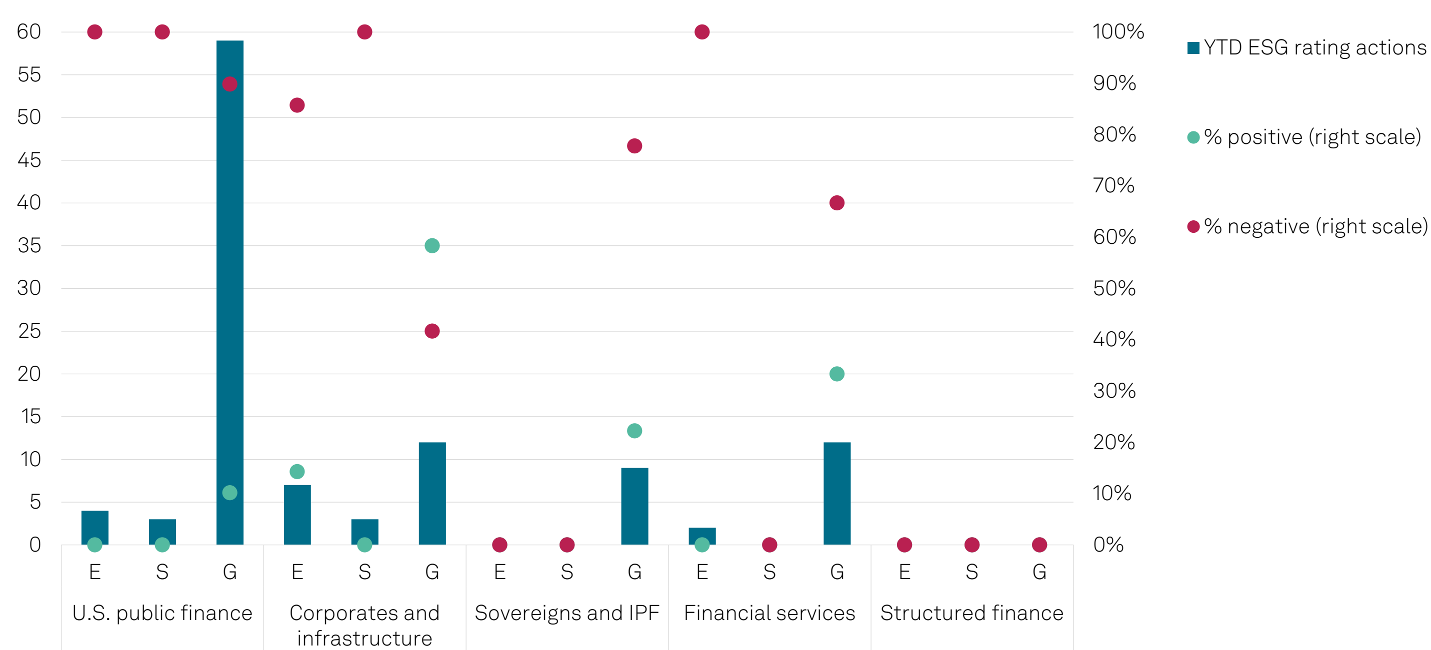
No. of actions, year-to-date



Data as of Sept. 30, 2024. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. Upgrades and upward outlook/CreditWatch revisions are shown as positive numbers, while downgrades and downward outlook/CreditWatch revisions are shown as negative numbers. Two corporate CreditWatch developing actions are excluded for purposes of this chart as they can represent either a positive or negative rating action. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG-related credit rating actions by sector and factor

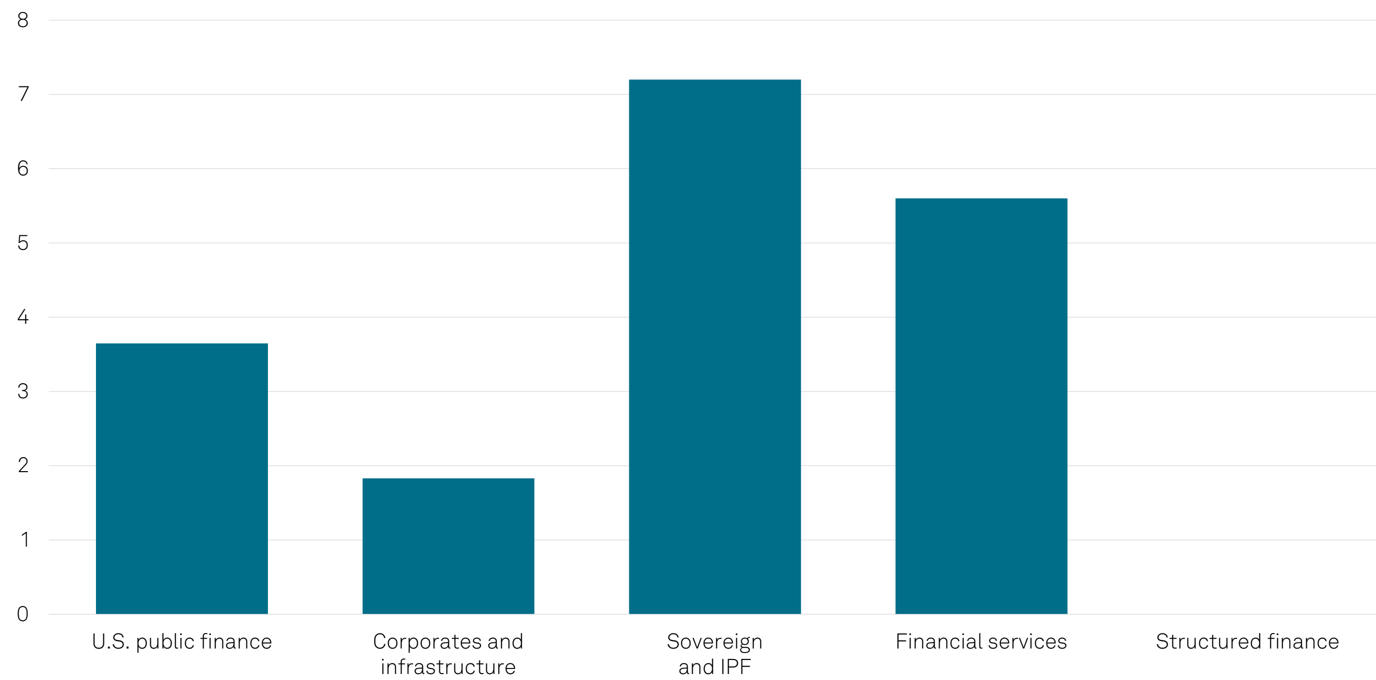
No. of actions, year-to-date



Data as of Sept. 30, 2024. Rating actions include rating, CreditWatch, and outlook changes. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. Excludes CreditWatch developing as it can represent either a positive or negative rating action. ESG--Environmental, social, and governance. IPF--International public finance. YTD--Year-to-date. Source: S&P Global Ratings.

ESG-related credit rating actions

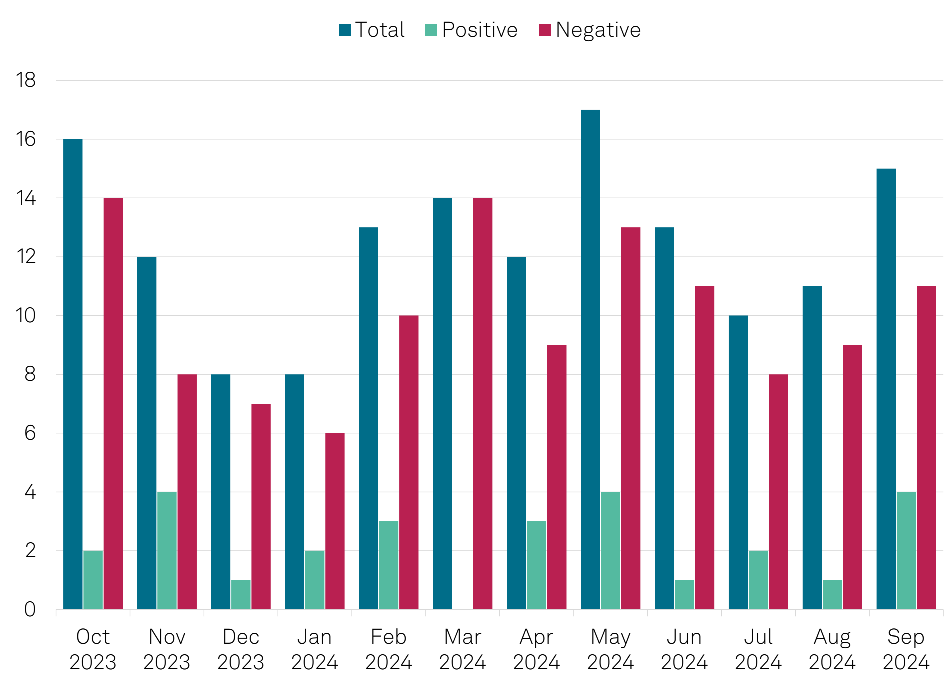
% of total, year-to-date



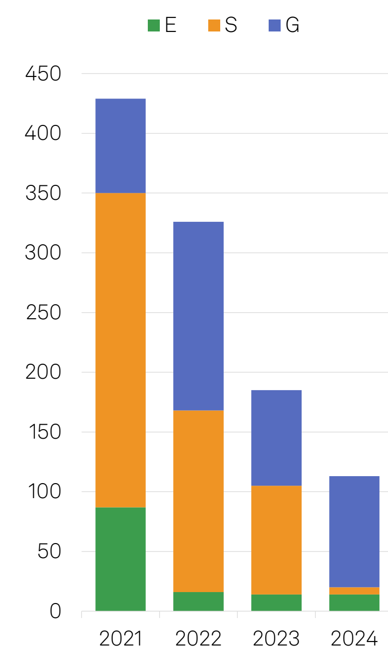
Data as of Sept. 30, 2024. Total rating actions exclude affirmations with no outlook change, withdrawals, and new ratings, including instances where multiple rating actions exist. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

ESG-related credit rating actions

No. of actions, trailing 12 months



No. of actions, year-to-date



Data as of Sept. 30, 2024. Positive and negative chart excludes CreditWatch developing because it can represent either a positive or negative rating action. Positive actions include upgrades, CreditWatch positive placements, upward outlook revisions, and upgrades with outlook revisions. Negative actions include downgrades, downward outlook revisions, CreditWatch negative placements, and downgrades with outlook revisions. CreditWatch developing actions are counted in the total but not in the positive or negative bars because it can represent either a positive or negative rating action. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG Spotlight

Hurricanes Helene And Milton Add To U.S. Public Finance Issuers' Climate And Financial Challenges

Hurricane Helene impact: Public finance overview

S&P Global Ratings is reviewing information from issuers affected by hurricanes Helene and Milton. As we monitor the cleanup and rebuilding process, we believe the financial strength of the entities we rate supports their credit quality in the near term; however, some issuers could experience long-term credit pressure.

The hurricanes' substantial inland damage, along with rising insurance premiums, reduced insurance coverage and availability, and political battles potentially affecting Federal Emergency Management Agency (FEMA) funding, could create hurdles for issuers during what could be a years-long recovery.

It can be difficult to assess potential long-term rating implications in the immediate aftermath of a hurricane or other acute weather event given uncertain infrastructure damage and economic recovery, but issuers with available liquidity and advance planning to address storm damage are generally better prepared to limit short-term credit pressures.

The ongoing willingness and ability of state and federal governments, as well as insurers, to provide disaster recovery funding remains essential to issuers' ability to maintain credit quality and stability.

Source: S&P Global Ratings.

Why this matters. Less than two weeks after Hurricane Helene made landfall along Florida's Big Bend as a Category 4 storm, Hurricane Milton came ashore near Sarasota, Fla., on Oct. 9, 2024, as a Category 3. While coastal residents in the Southeastern U.S. are accustomed to major storms during hurricane season, Helene in particular resulted in inland devastation that was significantly different. In some parts of Western North Carolina and Eastern Tennessee the effects of Helene from damaging winds and flooding are still being assessed weeks after the storm, and some local governments remain unable to quantify both the damage and repairs necessary. Hurricane Milton continued across Florida, leading to flooding and nearly 120 tornadoes that destroyed properties along the state's east coast.

What we think and why. In S&P Global Ratings' view, a shift to inland damage from where the storms make landfall could require greater storm preparedness in such areas, adding to the region's need for storm hardening. Although federal and state disaster relief funds may partly offset the expenditures, costs for infrastructure investments could require additional debt and pressure issuers' fixed costs. Furthermore, where damage to infrastructure and core services is catastrophic, or where property insurance becomes unaffordable or unavailable, some entities could see lasting declines in population and economic activity that impact revenue generation.

For more, see "Hurricanes Helene And Milton Add To U.S. Public Finance Issuers' Climate And Financial Challenges," published Oct. 15, 2024.

Rating Activity: Three U.S. Public Finance Utility Ratings Placed On CreditWatch Negative On Infrastructure Damage From Hurricane Helene

S&P Global Ratings placed its ratings on three U.S. public finance utilities on CreditWatch with negative implications, given their reported significant infrastructure damage from Hurricane Helene and the potential longer-term economic effects. We believe the damage may result in operating challenges, permanent ratepayer displacement, increased leverage, and corresponding negative economic pressure on the underlying service areas.

The affected utilities include:

Asheville, N.C., water system bonds (AA+/Watch Neg);

Greeneville, Tenn., water system revenue and sewer system revenue bonds (A+/Watch Neg);

Erwin Utilities Authority, Tenn., water and sewer system revenue bonds (A/Watch Neg) and electric utility system revenue bonds (A+/Watch Neg).

We will resolve the CreditWatch placement when there is greater clarity regarding the extent of the utilities' infrastructure damage, how federal and state support is deployed, the projected pace of the rebuild, and the influence of these factors on each utility's operational integrity and financial health.

S&P Global Ratings continues to assess how such extensive damage to the utility systems and the ongoing effects of hurricanes Helene and Milton influence credit quality across our rated universe.

For more, see "Three U.S. Public Finance Utility Ratings Placed On CreditWatch Negative On Infrastructure Damage From Hurricane Helene," published Oct. 15, 2024.

ESG Research Highlights

Sustainability Insights: Decarbonizing APAC Chemicals - A Looming Competitive Differentiator

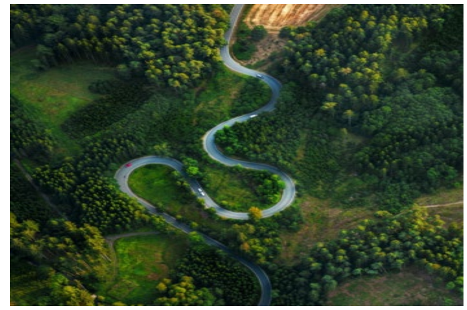
Aug. 26, 2024

Rated entities in Asia-Pacific are setting achievable carbon goals till 2030, without a material impact on their credit profiles in the next few years. The decarbonization path beyond 2030 is highly uncertain, shaped by regulations and new technologies. Current decarbonization actions are unlikely to cause a significant increase in the firms' cost structures by 2030 as the cost of renewables drops. Risks may rise given the unstable supply from renewables. Rated entities, mostly large players in the region, are setting similar or more aggressive carbon goals than required by regulation, with firms able to cover their spending on environmental initiatives with cash flows.

Sustainability Insights: Power Sector Update: Despite Rising Costs, Offshore Wind's Economic Tide Will Turn

Aug. 2, 2024

While we expect technology-led cost reductions in the longer term, over the next two to three years, cost inflation appears an increasingly key issue. We continue to expect execution risks with potential for timeline delays due to the complex nature of projects that have seasonal timing restrictions and multiple parallel processes. Despite inflationary pressures, we still expect offshore wind costs to decline in the long term to $3,250-$3,500 per kilowatt as supporting infrastructure (vessels, ports, transmission) expands and turbine technology improves. We anticipate average unsubsidized levelized costs will decline 30%-35% by 2035-2037.



Sustainability Insights Research: Biofuel Regulations Stoke Demand, Volatility Hits Brakes

July 17, 2024

Increasing biofuel use, which we expect to accelerate over the next 5-10 years, should spur more demand over time, but recent volatility in demand may keep near-term investment outlays muted. While biofuels have been used for decades, notably in transportation, regional and sectoral decarbonization targets and regulation can spur demand and production to another scale. Their use in existing engines and their lower carbon footprint when sustainably produced provide key competitive advantages to fossil fuels. The regulatory landscape is rapidly evolving, and we believe this could benefit the agribusiness and refining sectors to some extent because of favorable remuneration schemes beyond top-line growth. But cost pressures on margins and profit volatility from competing feedstocks remain key risks, while increased fuel cost is an added risk for the transportation sector.

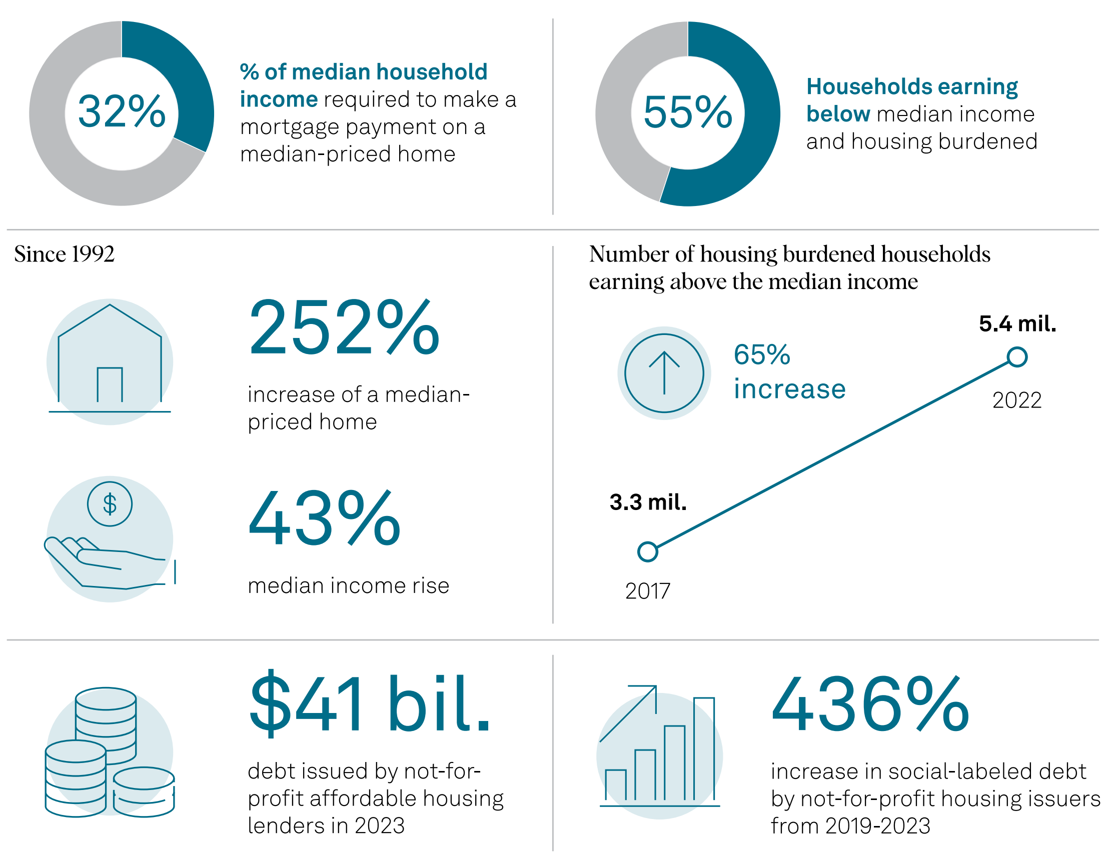
Chart Of The Quarter

Sustainability Insights Research: No Quick Fix For The U.S. Affordable Housing Shortage

Financing mechanisms and entities are working to address an increasing need for affordable housing in the U.S. In this research, S&P Global Ratings examines how access to affordable housing has changed over time, particularly since the COVID-19 pandemic began; the role of affordable housing to help improve socioeconomic outcomes; and the credit implications of these trends on affordable housing entities we rate.

In particular, we focus on U.S. not-for-profit affordable housing lenders and developers to distinguish these entities in the U.S. public finance sector. We look at how they fulfill their publicly stated missions to help stabilize the housing market by providing access to affordable options for renters and homebuyers. We use housing and household income data from the U.S. Federal Reserve and Census Bureau, and our database on U.S. labeled debt.

By the numbers: The state of affordable housing in the U.S.



Source: S&P Global Ratings.

For more, see "Sustainability Insights Research: No Quick Fix For The U.S. Affordable Housing Shortage," published Aug. 21, 2024.

Appendix

ESG-related credit rating actions*

Year-to-date

	U.S. public finance	Corporates and infrastructure	Sovereigns	International public finance	Financial services	Structured finance	Total
Downgrade	35	5	0	6	1	0	47
CreditWatch negative	19	1	0	0	2	0	22
Downward outlook revision	6	8	0	1	7	0	22
Upgrade	3	6	1	0	2	0	12
Upward outlook revision	3	2	1	0	2	0	8
CreditWatch developing or removed from CreditWatch developing	0	2	0	0	0	0	2
Total ESG-related rating actions*	**66**	**24**	**2**	**7**	**14**	**0**	**113**
Environmental§	6	11	0	0	2	0	19
Social§	3	3	0	0	0	0	6
Governance§	71	21	3	7	15	0	117
Total ESG-tagged factors§	**80**	**35**	**3**	**7**	**17**	**0**	**142**

Data as of Sept. 30, 2024. *Rating actions include rating, CreditWatch, and outlook changes between January and June 2024. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. §The sum of ESG factors affecting rating actions may exceed total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

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