S&P Global
Ratings

The Ratings View

October 24, 2024

This report does not constitute a rating action.

Key Takeaways

- Data centers are a bright spot for real estate given soaring AI-related demand.
- Rates may be falling, but floating-rate debt is still a concern for weaker credits.
- Negative ESG-related rating actions outweighed positive by four to one in Q3.

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Growth potential is significant for the data center sector, with booming demand stemming from AI and other cloud services. We expect this to support rent and overall top-line growth for U.S. data center operators. Projects are increasingly large and numerous, with significant investments and project management as key constraining factors. These include securing large industrial land plots in the right areas to accessing and securing significant power needs. This trend has not driven any material rating actions so far, but risk appetite could curb companies' overall credit profiles. We view development, operating, leasing and technology risks as manageable over the next several years, but as technology and tenants' needs evolve there is rollover risk to release at lease maturity or tenant in sourcing. Other considerations, such as environmental footprint and obsolescence, may also influence rents and values over time, but we generally see them as remote or manageable risks for the short to intermediate term.

Data Centers: Computing Risks And Opportunities For U.S. Real Estate
Data Centers: More Gas Will Be Needed To Feed U.S. Growth

Policy rates are starting to fall, but floating-rate debt is still a cause for concern. The pace and timing of the rate-cutting cycle is still highly uncertain, and rates remain near decade-high levels. This is pressuring some issuers--particularly those with floating-rate debt. Additionally, issuance of floating-rate debt remains strong, and if the descent of interest rates disappoints, it could place increasing pressure on these issuers. Issuers with floating-rate instruments tend to be lower rated. Year to date, 62% of instruments associated with North American defaulters have been floating rate, with most of those defaults occurring via a distressed exchange. Just over three-quarters of current weakest links have at least one floating-rate instrument. Unhedged, lower-rated floating-rate borrowers remain particularly vulnerable to the timing and extent of future rate cuts.

Credit Trends: Floating-Rate Debt Is Still A Cause For Concern Despite Rate Reductions

Negative ESG-related ratings actions outweighed positive ones by four to one in the third quarter. In this period, there were 36 rating actions related to environmental, social, and governance (ESG) factors. Governance factors remained the primary driver, 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.

ESG In Credit Ratings Q3 2024: Negative Actions Outweigh Positive By Four To One

S&P Global Ratings updated its metal price assumption for 2024-2027, taking into account its expectations for lower economic growth around the world and lower inflation, but with persistent cost pressures to produce industrial metals. Our assumptions for the next few years reflect generally supportive demand from construction and machinery investments, even as U.S. economic growth slows with interest rates returning to neutral levels. Furthermore, production costs for metals are intractably higher, so we expect higher trough prices in a downturn.

S&P Global Ratings Metal Price Assumptions: Prices Hold Steady Despite Headwinds

Corporate Japan is on firm footing, even if the global economy falters. S&P Global Ratings expects ongoing stable creditworthiness for the Japanese corporate sector over the next one to two years. It will be supported by a strong financial base, in our view. Further improvement in creditworthiness is likely to be limited. Many Japanese companies will increase growth investments and shareholder returns amid market expectations for higher profit and improved capital efficiency. Growth investments exceeding our expectations are a potential risk factor for creditworthiness. We see a significant slowdown in global growth—mainly in the U.S. and China—and heightened geopolitical tensions as potential key risk factors.

Japan Corporate Credit Spotlight: Resilience Amid Adversity Abroad

Emerging markets (EMs) would be more severely affected than advanced economies if the Middle East conflict escalates, due to energy's larger share in their consumption basket. Higher oil prices could also delay interest rate normalization in some EMs. Credit conditions for EMs issuers remain favorable if the U.S. soft landing holds, but uncertainty around U.S. election outcomes could cause tighter financing conditions and increase borrowing costs and inflationary pressures. China's stimulus measures, including monetary easing and property market support, aim to boost sentiment and growth. However, weak credit demand limits their impact, with growth prospects hinging on the extent of additional fiscal stimulus.

Emerging Markets Monthly Highlights: Navigating Risks Amid Fed Easing

We think China's property sales could stabilize toward the second half of 2025 as prices in higher-tier cities and overall sales volumes steady. This will depend on the government's continued support for funding conditions for developers and efforts to reduce inventories. Structural obstacles still hinder sales. We estimate national property sales will decline to about RMB8.5 trillion-RMB9 trillion in 2024 and further to RMB8 trillion-RMB8.5 trillion in 2025. We expect Chinese developers to face shrinking liquidity buffers and rising leverage as sales and margins continue to decline. To replenish liquidity, developers will need to ensure they have access to smooth financing channels.

China Property Watch: Charting A Path To Stabilization

China's auto sector will be a survival of the fittest over the next 12-24 months. Margin pressure remains high for auto makers because of a price war and rising sales of electric vehicles (EVs). We expect domestic light vehicle sales to grow by 0%-3% annually in 2025-2026, from 0%-2% in 2024. Domestic EV sales will likely rise 10%-20% a year over the period, from about 30% this year. Upside may emerge if the government steps up stimulus that boosts economic growth and consumer confidence. Key risks are demand weakness, intense competition, and the transition to EVs.

China Auto: Survival Of The Fittest

Asset Class Highlights

Corporates

Notable publications include:

- Global Emerging Markets: Bright Spots Emerge Amid A Shifting Trade Environment
- Credit Trends: ESG In Credit Ratings Q3 2024: Negative Actions Outweigh Positive By Four To One
- Credit Buffer Sows Seeds Of Stability For Global Fertilizer Companies
- EMEA Business Services Investment-Grade Portfolio: Credit Stories Unfolded
- Credit Trends: Floating-Rate Debt Is Still A Cause For Concern Despite Rate Reductions
- Japan Corporate Credit Spotlight: Resilience Amid Adversity Abroad
- Energy Transition: U.S. Investor-Owned Regulated Electric Utilities Face Hurdles With The EPA's Finalized Rules For Fossil-Fueled Power Plants
- China Property Watch: Charting A Path To Stabilization
- Default, Transition, and Recovery: The Pace Of Global Corporate Defaults Slows
- SLIDES: EMEA Sector Update: Chemicals
- China Auto: Survival Of The Fittest
- S&P Global Ratings Metal Price Assumptions: Prices Hold Steady Despite Headwinds

We took some ratings actions:

- Gerdau S.A. Upgraded To 'BBB' From 'BBB-' On Sustained Low Leverage And Conservative Financial Policies; Outlook Stable
- JBS S.A. Outlook Revised To Stable From Negative On Significant Cash Generation; 'BBB-' Ratings Affirmed

Financial Institutions

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

- Research Update: Slovenia-Based Gorenjska Banka D.D. Assigned 'BB+' Rating; Outlook Stable
- Banco del Estado de Chile And Scotiabank Chile Outlooks Revised To Stable From Negative On Same Action On Sovereign
- BankMuscat S.A.O.G. Upgraded To 'BBB-/A-3' On Receding Economic Imbalances; Outlook Stable
- Bulletin: Pressure Looms Over Seven Bank Credit Quality If Parent Reduces Stake

We published several commentaries including:

- Top 200 Rated Banks' Capital Ratios Are On A Stable Trend
- What Would An Escalation Of The War In The Middle East Mean For GCC Banks?
- Italy Brief: €3 Billion Hit To Banks Shows Strong Links To Sovereign Creditworthiness
- Banking Brief: French Banks Aim To Resume Housing Loan Origination

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Sovereign

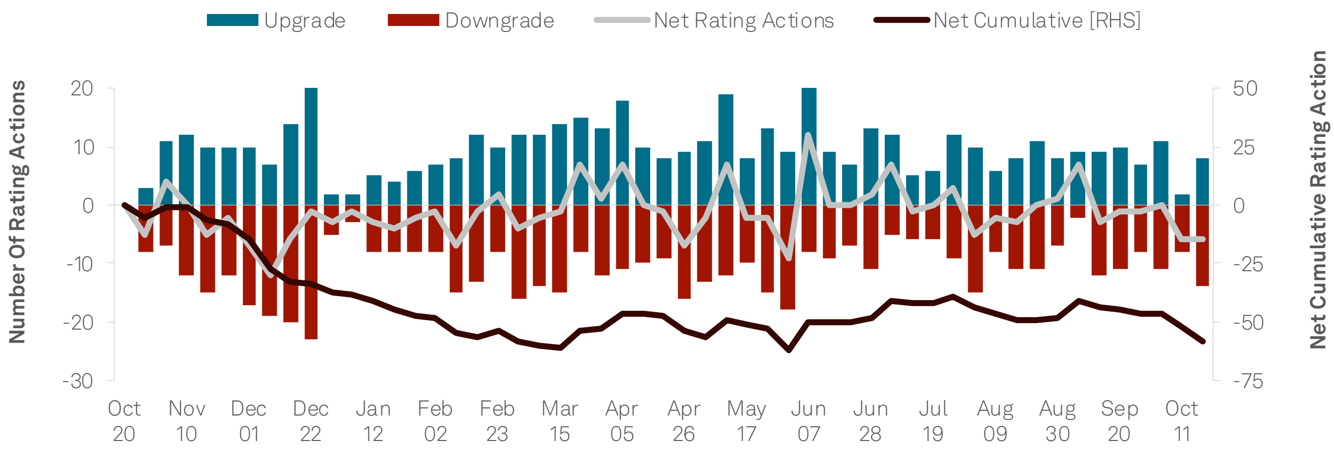
- Costa Rica Outlook Revised To Positive On Potential Improvement In External Profile; 'BB-/B' Ratings Affirmed
- Global Sovereign Rating Trends Third-Quarter 2024
- Cote d'Ivoire Upgraded To 'BB' On Strong Support From WAEMU Membership And Declining Budgetary And External Imbalances
- Mozambique Local Currency Rating Lowered To 'CCC' On Domestic Liquidity Strain; 'CCC+' Foreign Currency Rating Affirmed
- Senegal Outlook Revised To Negative On Fiscal Slippage; 'B+/B' Ratings Affirmed
- Benin Outlook Revised To Positive From Stable On Strong Budgetary Prospects; 'BB-/B' Ratings Affirmed

Structured Finance

- **U.S. RMBS:** See the following Criteria – Request for Comment and two commentaries titled:
  - "Criteria Structured Finance Request For Comment: Request For Comment: Global Methodology And Assumptions: Assessing Pools Of Residential Loans (U.S.)" published October 16, 2024
  - "Credit FAQ: Understanding The Proposed Changes To Our U.S. RMBS Criteria" published October 16, 2024
  - "U.S. Home Price Overvaluation Ticks Up As Wage Growth Lags Home Price Gains" published on October 14, 2024.
- **U.S and EMEA Structured Finance:** S&P Global Ratings published its round-up of the latest credit developments and underlying performance indicators observed across U.S. structured finance sectors (see "U.S. Structured Finance Chart Book: October 2024" published October 16, 2024). S&P Global Ratings published on October 16, 2024 its "EMEA Structured Finance Chart Book: October 2024". The report includes a roundup of the latest new issuance and credit developments that we have observed across structured finance sectors, along with data on issuance drivers, recent rating actions, and underlying performance indicators. We also highlight the key takeaways from our recent research publications.
- **U.S. CLO:** See article titled "Private Credit And Middle-Market CLO Quarterly: The Times They Are A-Changin' (Q4 2024)" and published on October 18, 2024.
- **Solar ABS:** Solar panels are physical units attached to the roof of a structure (often residential) that convert the sun's energy into electricity, which, to some extent, should offset the cost of conventional electricity used to power the home. In this Credit FAQ, S&P Global Ratings provides a recent snapshot of the sector by addressing frequently asked questions related to the way solar panels are funded, how transactions are structured, the solar panel market outside the U.S., and more. See article titled "Credit FAQ: Solar ABS Trends: Partially Cloudy Skies" and published on October 17, 2024.
- **Esoteric Structured Finance:** See article titled "Structured Finance Esoteric Quarterly Roundup: Q4 2024" and published on October 18, 2024.
- **U.S. Student Loan ABS:** See articles titled "Credit FAQ: U.S. Student Loan ABS Cash Flow Modeling Examples" and published on October 16, 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 Oct. 18, 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. $)
15-Oct	Downgrade	Toronto-Dominion Bank (The)	Bank	Canada	A+	AA-	107,628
18-Oct	Upgrade	Republic of Cote d Ivoire	Sovereign	Cote d'Ivoire	BB	BB-	13,760
15-Oct	Upgrade	Apache Corp.	Oil & Gas	U.S.	BBB-	BB+	9,430
18-Oct	Upgrade	Enlink Midstream LLC	Utilities	U.S.	BBB	BBB-	6,206
14-Oct	Downgrade	Kilroy Realty Corp.	Homebuilders/Real Estate Co.	U.S.	BBB-	BBB	3,400
17-Oct	Downgrade	CMG Media Corp.	Media & Entertainment	U.S.	CC	CCC+	3,169
15-Oct	Downgrade	Creative Planning Holdco LLC	NBFI	U.S.	BB-	BB	2,850
14-Oct	Downgrade	Highwoods Properties Inc.	Homebuilders/Real Estate Co.	U.S.	BBB-	BBB	2,150
17-Oct	Downgrade	Piedmont Office Realty Trust Inc.	Homebuilders/Real Estate Co.	U.S.	BB+	BBB-	1,600
18-Oct	Upgrade	KUEHG Corp. (KinderCare Learning Cos. Inc.)	Media & Entertainment	U.S.	B+	B	1,590

Source: S&P Global Ratings Credit Research & Insights. Data as of Oct. 18, 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**.**