S&P Global Ratings

Recession Risk And Ratings:

What Recession Could Mean For European Speculative Grade Nonfinancial Corporates

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This report does not constitute a rating action

Corporate Ratings

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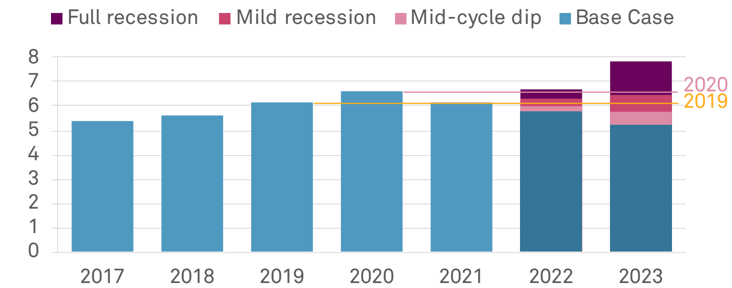
Key Takeaways

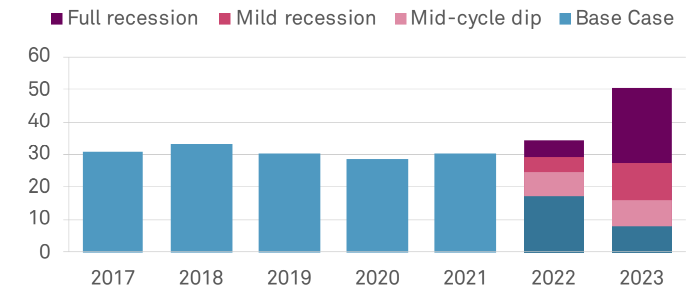
- **Recession risks are rising**. Although not our base case, we have applied three hypothetical downturn scenarios to the European speculative grade nonfinancial entities that we rate to assess the impact of varying degrees of downturn. The most severe would deliver a 20% fall in EBITDA by end-2023, in line with previous cycles. We have tailored the degree of stress to industry and risk characteristics at the company level.
- **European corporates are well positioned to weather milder downturns almost unscathed.** Financial metrics might deteriorate, but not beyond pandemic peaks and pressure would be confined to the most vulnerable issuers. Results for 2021 have been exceptionally strong, bolstering cashflow and reducing leverage.
- **A full recession scenario would stretch financial metrics beyond pandemic levels and pressure ratings further**. This scenario could increase adjusted median 2023 leverage to 7.8x versus a pandemic peak of 6.6x and our base-case assumption of 5.3x. 50% of speculative grade issuers would have negative free operating cash flow versus 30% last year. Median leverage for 'B+' rated issuers would become highly leveraged at 6.8x. Downgrade risk in the 'B' rating category and below would be significant.

European nonfinancial SG median debt/EBITDA (x)



Recession could increase median leverage to 7.8x vs pandemic peak of 6.6x and base case of 5.3x

European nonfinancial SG share entities with negative FOCF (%)



Recession could see 50% of SG issuers with negative free operating cash flow

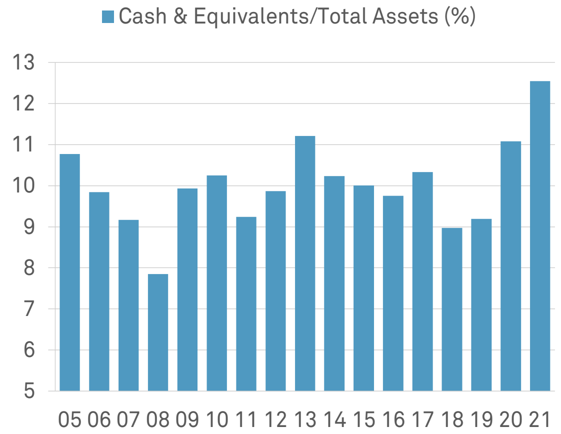
Source: S&P Global Ratings

Renewed recession would pose significant risks for ratings on speculative grade entities. Only two years from the nadir of the recession caused by the COVID-19 pandemic, financial markets are increasingly concerned that the U.S. and Europe may relapse into another recession. This is evident in rising corporate bond yields, the inversion of the U.S. yield curve, slumping consumer confidence, and substantial equity market declines. Soaring cost inflation, particularly in relation to energy and food, has taken central banks by surprise, necessitating higher policy rates and creating a cost-of-living crisis for many consumers facing falling real incomes. These pressures have been intensified by war in Ukraine and China's ongoing efforts to attain "zero-COVID", both of which have exacerbated the global supply-chain shock and surging energy costs.

Were recession to come, and this is not the base case of S&P Global Economics, the corporate sector is relatively well placed to handle all but the most severe downturn. Financial results for 2021 were strong, reflecting favorable financing conditions, exceptionally low interest rates, and a rapidly recovering global economy. This helped companies rebuild cash balances: European nonfinancial speculative grade entities rated by S&P Global Ratings held a record 12.5% of cash and equivalents as a share of total assets (see chart 1): 2.5% more than the 10% average since 2005, and above the 9.2% held at end-2019 just before to the pandemic. Profit margins have also recovered robustly, reflecting strong demand and an ability to pass on cost increases. Unadjusted EBIT margins for European nonfinancial speculative grade entities rebounded from a paltry 1.7% in 2020 to 6.5% in 2021, not far short of the 6.7% average since 2005 (see chart 2).

Chart 1

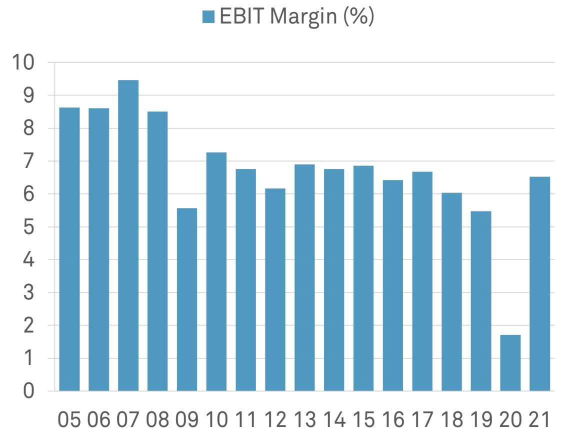
European speculative grade entities have increased cash holdings to a record level...



Source: S&P Capital IQ, S&P Global Ratings.
Data for European nonfinancial corporate entities currently rated as speculative grade by S&P Global Ratings.

Chart 2

...and profitability has recovered, despite substantial cost pressures

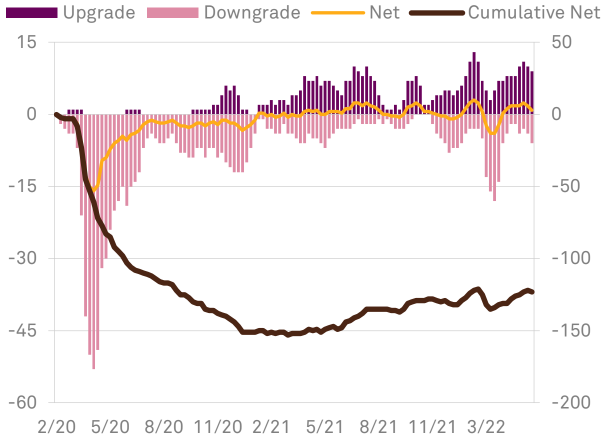


Source: S&P Capital IQ, S&P Global Ratings.
Data for European nonfinancial corporate entities currently rated as speculative grade by S&P Global Ratings.

Despite this improvement, credit quality has not fully recovered. Although stimulus and recovery have bought invaluable time for even those companies hardest hit by the pandemic, credit quality has not returned to pre-pandemic levels. This reflects higher debt levels and great uncertainty around cash flows for many weaker credits. This is apparent in cumulative rating changes seen in European speculative grade ratings since the onset of pandemic (see chart 3). While weekly upgrades have mostly exceeded downgrades since early 2021--the period around Russia's further invasion of Ukraine being a notable exception--ratings have not fully recovered. The ratings distribution has shifted substantially, with the share of issuers we assess as most vulnerable--those rated 'B-' and below--still considerably higher than before the pandemic (see chart 4). These entities currently account for just under 30% of European nonfinancial corporates, compared with 19% at the end of 2019.

Chart 3

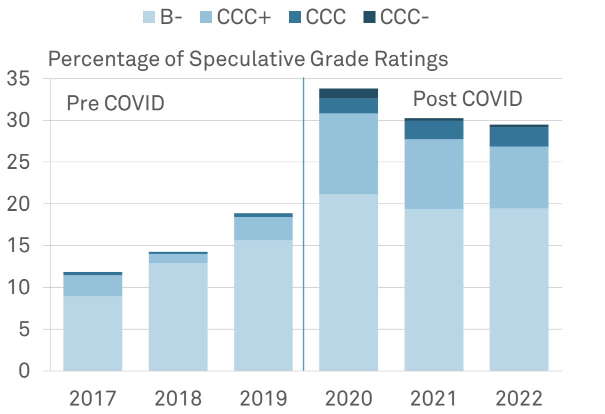
European nonfinancial corporate speculative grade ratings upgrades and downgrades since February 2020



Source: S&P Global Ratings. Downgrades, upgrades, and net show the 4-week trailing sum. Cumulative net changes are the absolute sum of net ratings changes since Feb. 3, 2020.

Chart 4

Vulnerable issuers (rated 'B-' and below) represent a higher share of ratings than pre-COVID 19



Source: S&P Global Ratings. Shows end-year ratings distribution shares for European nonfinancial corporate entities currently rated as Speculative Grade by S&P Global Ratings.

Three Stress Scenarios: Mid-Cycle Dip, Mild Recession, Full Recession

To understand the potential impact of a renewed downturn on European nonfinancial speculative grade corporate ratings, we have undertaken a stress test of the entities that we rate. The stresses have been applied to base-case assumptions as of June 6, 2022, for 658 entities. **The stress was applied in two areas: EBITDA and cash interest paid, with the primary intention of assessing the impact on leverage and interest coverage metrics.** Higher interest charges reflect the likelihood of higher short-term interest rates on floating-rate debt, and weaker EBITDA is intended to capture the impact of a downturn, irrespective of whether the driver is weaker revenues, lower profit margins, or both. Conceptually, we have aimed at three levels of stress:

- **A mid-cycle dip where EBITDA growth weakens this year and sees a modest decline in 2023**, while cash interest charges rise 1%. This is akin to a typical mid-cycle adjustment where recovery necessitates tighter monetary policy and growth momentum ebbs, but where recession is avoided. It is similar to our base case, but with a greater impact on cash flow.
- **A mild recession where EBITDA growth weakens considerably this year and sees a more substantial decline in 2023**, while cash interest charges rise by 1.5%. This could be described as a bumpy soft-landing, where the financing and operating environment becomes more difficult, and technical recession (two negative quarters) might occur in some countries, but where full-blown recession is avoided.
- **A full recession, where EBITDA growth is negligible this year and sees a sharp decline in 2023** that matches previous earnings recessions, while cash interest charges rise by 1.5%. This is likely to see both the U.S. and many European economies in a more severe recession, with higher unemployment, weaker industrial production, and falls in consumer spending.

We emphasize that this impact assessment has considerable limitations. Although we have attempted to make the stress more realistic in relation to industry and entity cyclicality risks, the results are only broad approximations. The reality of a downturn would be shaped by the exact causes and form of recession. More importantly, companies themselves would not be passive observers; they would likely adjust to the pressures on cash flow by cutting costs, capital expenditure, and shareholder distributions. As a result, the rises in leverage and falls in cash coverage shown are unlikely to be as severe in reality.

Calibrating The Stress Test

The impact of higher interest rates and a cyclical downturn will not be felt evenly across entities. To reflect this, we have made two broad adjustments to the overall stresses applied to interest charges and EBITDA.

1. Adjusting the EBITDA stress for relative industry cyclicality and the volatility of profitability

For a given overall EBITDA stress, such as reducing all nominal EBITDA forecasts for 2023 by 10%, we have used a multiplier to reflect industry and entity level cyclicality factors (see table 1).

Table 1

EBITDA stress applied at entity level reflecting industry cyclicality adjusted by entity's volatility of profitability

Cyclicality adjusted by profitability volatility	Multiplier applied to stress	Starting EBITDA growth stress			
		-5%	-10%	-15%	-35%
1 (lowest applied)	0.25x	-1%	-3%	-4%	-9%
2	0.5x	-3%	-5%	-8%	-18%
3	0.95x	-5%	-10%	-14%	-33%
4	1.05x	-5%	-11%	-16%	-37%
5	1.5x	-8%	-15%	-23%	-53%
6 (highest applied)	1.75x	-9%	-18%	-26%	-61%

The cyclicality measure combines two ratings component elements into a single score that can theoretically vary from 0 to 7 (but 1 to 6 in practice): the industry cyclicality assessment (with a range of 1 [very low risk] to 6 [very high risk] that forms part of our Industry Risk Assessments and the entity specific volatility of profitability, which has a range of 1 [least volatile] to 6 [most volatile]. We base the volatility of profitability on the standard error of the regression (SER) for a company's historical EBITDA, EBITDA margins, or return on capital. We evaluate a company's SER in the context of its industry group. The individual entity *volatility of profitability* measure is used to notch the *industry cyclicality* score. For low volatility scores of 1 and 2, we reduce the starting industry cyclicality measure by 1, for medium scores of 3 and 4 we make no change, and for high volatility scores of 5 and 6, we add 1.

Source: S&P Global Ratings

In this example, an entity in a sector not particularly sensitive to the economic cycle, and where the company's profitability is among the least volatile in its industry, the reduction applied to base-case EBITDA would be only 3% rather than 10%. For an entity in a highly cyclical sector, and where individual profitability is also relatively volatile, the reduction would be increased to 18%. The range of the multipliers used is arbitrary but designed to give more realistic reductions in EBITDA than a simple haircut would allow.

The multiplier is calculated for each entity and reflects two ratings component scores.

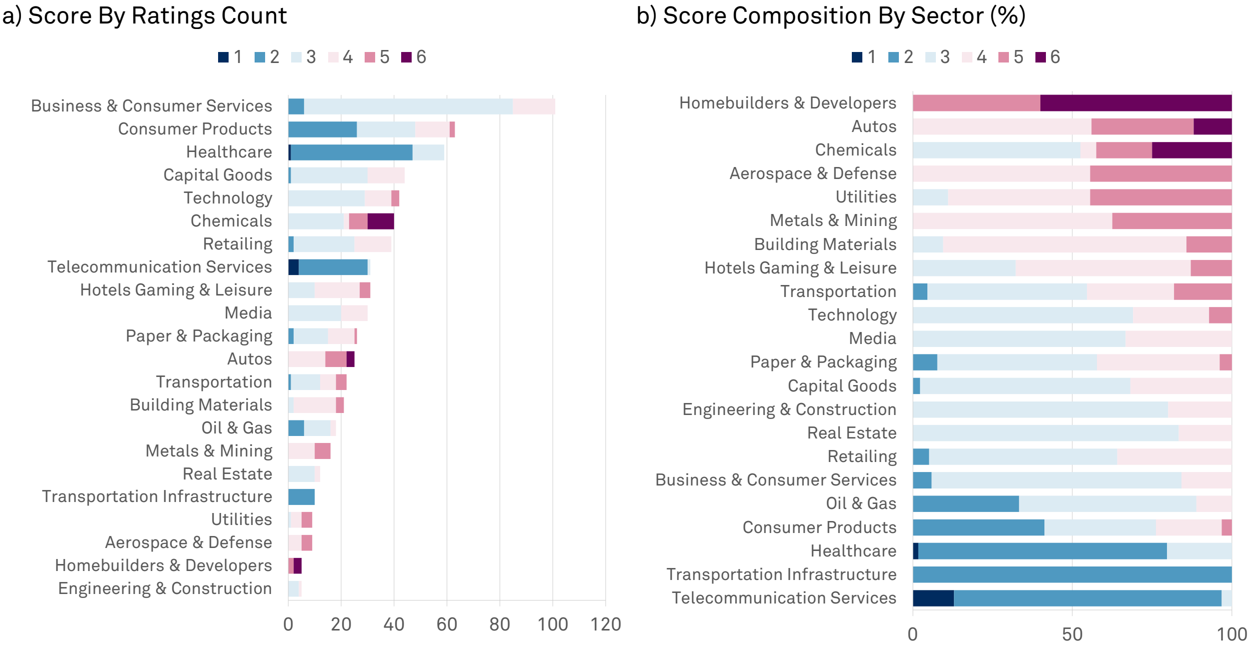
- First, the **industry cyclicality assessment**, which has a range of 1 [very low risk] to 6 [very high risk] and which forms part of our industry risk assessments (see "Industry Risk Assessments Update: Jan. 27, 2021").
- Second, we then take the entity's individual **volatility of profitability** score, which can range from 1 [least volatile] to 6 [most volatile]. The volatility scores are calibrated relative to the industry the company is in, so are measures relative to the industry mean rather than absolute measures.
- To determine the **individual entity multiplier**, we use the volatility score to notch the industry cyclicality score. For low volatility scores of 1 and 2, we reduce the starting industry cyclicality measure by 1, for medium scores of 3 and 4 we make no change, and for high volatility scores of 5 and 6, we add 1. This measure of relative cyclicality, adjusted by relative volatility of profitability, determines the multiplier applied to the stress.

Finally, we have applied some **qualitative adjustments** to industry cyclicality to reflect particular aspects of the current cycle, namely extraordinarily high energy prices, supply chain disruptions, and suppressed demand following the pandemic. In our view, many of these factors will continue to influence the operating environment, particularly given the likelihood of the war in Ukraine continuing into next year—and the associated energy market disruptions --and the latent impact of China's zero-COVID policy on global supply chains. Specifically, we have reduced the industry risk score for air freight and logistics, shipping, and trucking by 2 to reflect strong demand for global logistics; for airlines, hotels, and leisure by 1, to reflect strong post-pandemic travel demand; and for oil, gas, metals, and mining by 1, given the likely persistence of higher energy and commodity prices. We have increased the risk for commodity chemicals and regulated utilities by 1 to reflect the cost pressures arising as a result. See table 4 for the full list of industry risk scores.

The end result is a more nuanced stress that reflects the real-world experience of downturns and recessions where EBITDA outcomes vary widely, but one also attuned to the specific industry and risk structure of the speculative grade nonfinancial entities that we rate, which is neither the same as the broader economy nor the broader unrated universe. Chart 5a shows the number of ratings by sector and the multipliers being applied. Chart 5b displays the proportion of multipliers within each sector with the sectors with a higher proportion of riskier scores at the top.

Chart 5

European nonfinancial speculative grade – entity industry-cyclicality scores adjusted by variability of profitability



See notes to Table 1 for the text above for details of the calculations. Note that the industry risk scores differentiate to a finer degree than the sectors shown, covering 54 sub sectors rather than the 22 higher level sectors shown.

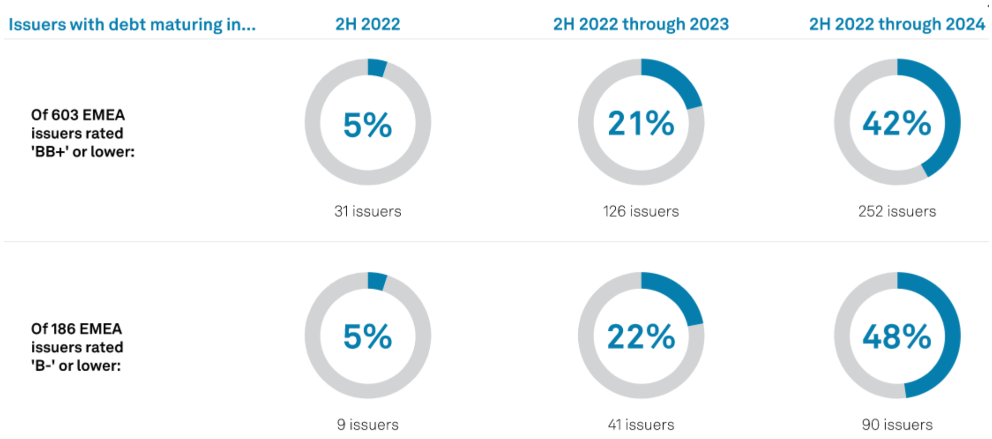
Source: S&P Global Ratings

2. Adjusting the cash interest payment stress for the balance of fixed and variable rate debt.

In our view, interest rates are unlikely to be a primary stress for European rated nonfinancial entities. Eurozone policy rates are likely to rise less and more slowly than the U.S. Federal Funds rate, and 2021's issuance boom permitted refinancing at generous rates and maturity extensions. Although corporate bond spreads have risen sharply, and full-blown recession may bring more challenging financing conditions, the benefits of earlier refinancing are likely to persist. Only 5% of nonfinancial issuers rated 'B-' and lower from EMEA have debt maturing before the end of 2022. For end-2023, the share rises to 22% (see "Credit Trends: Where To Look For Refinancing Vulnerabilities Through 2023 Amid Market Turmoil," June 13, 2022).

Chart 6

Not many lower-rated EMEA nonfinancial corporates have debt maturing before end-2023

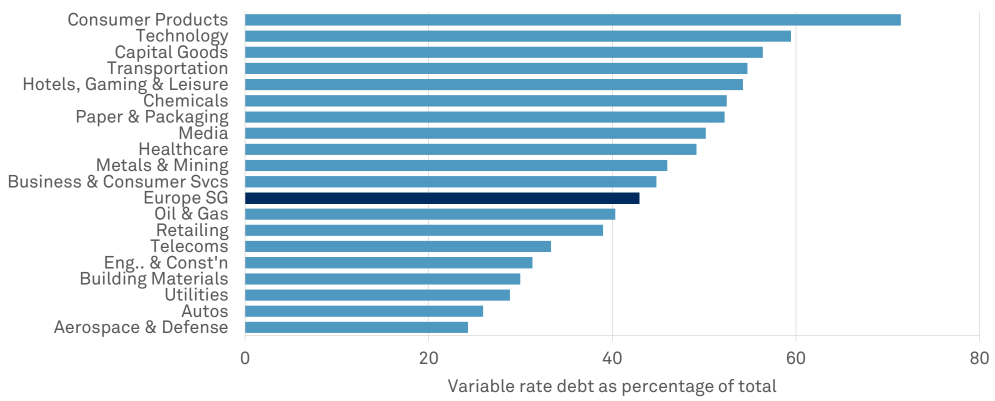


Source: Data as of Jan. 1, 2022. S&P Global Ratings

In addition, a significant proportion of debt is fixed rate rather than floating rate. Data from S&P Capital IQ suggests that approximately 43% of European speculative grade corporate debt is variable-rate debt, with wide variations by sector (see chart 7). To incorporate this into the interest rate element of the stress, the calculated increase in cash interest payments is only applied to the estimated variable rate debt share. If no data is available, the aggregate estimate of 43% is used.

Chart 7

European speculative grade sectors - estimated variable rate debt as percentage of total (2021)



Source: S&P Capital IQ, S&P Global Ratings. Shows variable rate debt as a percentage of total, where estimates for fixed and variable rate debt amounts are available.

How Far Could EBITDA Fall In A Recession?

What constitutes a realistic stress test in terms of the aggregate impact on nonfinancial speculative grade EBITDA? Given the gradual development and deepening of European debt capital markets, long runtime series are not available, but equity indices provide a proxy. Chart 8a shows trailing 12-month EBITDA growth for the Refinitiv total nonfinancial equity index from 1995, along with markers for eurozone recession. There were four clear EBITDA recessions, with an average peak-to-trough EBITDA decline of 23% and duration of 16 months. This excludes the period after 2012 following the eurozone debt crisis, as this offers less clear-cut turning points and blurs into the commodity downturn.

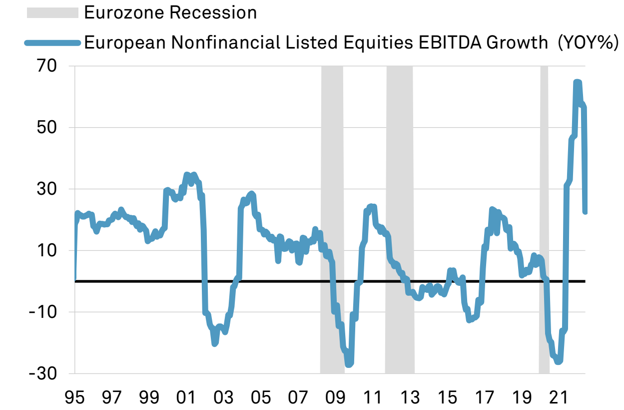
Does the equity data provide a meaningful benchmark for a credit stress? Chart 8b suggests it does. Annual EBITDA growth for rated nonfinancial investment and speculative grade rated entities correlate well with the equity time series both in terms of timing and magnitude, although the relationship is closer with investment grade (85% correlation versus 77%). Of note is that the pandemic-induced downturn brought a much sharper decline and recovery in speculative grade EBITDA, reflecting the intense volatility of cash flow for vulnerable issuers during the pandemic.

What does history suggest for the stress applied? Every downturn is different, with various causes and consequences. The current recessionary threat is marked by resurgent inflation, real income declines, low interest rates, and relatively high indebtedness. But whatever the cause, history suggests EBITDA will fall by at least 20%.

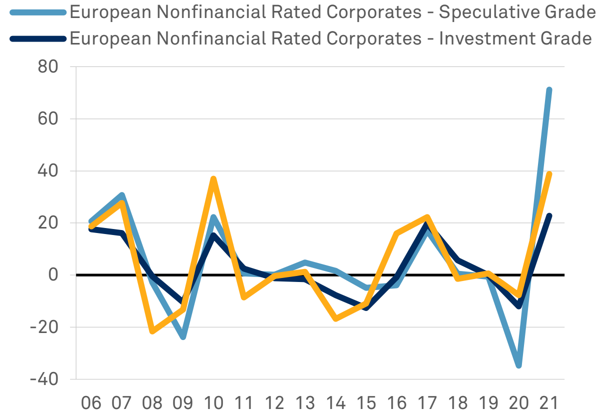
Chart 8

Major European EBITDA downturns bring peak annual contractions of roughly 10%-30%

a) European nonfinancial listed equities' EBITDA trailing 12-month growth and eurozone recessions



b) Comparing annual EBITDA growth for rated European nonfinancial corporates and listed nonfinancial equities



Source: Refinitiv, Euro Area Business Cycle Network, S&P Global Ratings. Note that chart a) is denominated in EUR, and chart b) is denominated in USD. For chart b), the annual data shows the trailing year-on-year growth in EBITDA at the end of the following June for the year in question, reflecting the point at which most European companies will have reported prior year results.

Table 2

European EBITDA recessions since 2000

Cause of downturn	Peak	EBITDA Index	Trough	EBITDA Index	Peak-to-trough decline (%)	Duration (months)
TMT crash	31/05/2001	639	28/02/2003	475	-25.6	21
Global financial crisis	31/10/2008	1015	30/11/2009	736	-27.5	13
Commodity slump	29/05/2015	999	31/08/2016	866	-13.3	15
COVID-19	29/11/2019	1305	31/12/2020	961	-26.4	13
Mean					**-23.2**	**16**

The EBITDA index is the aggregate EBITDA in Euros for Refinitiv's Total Market – Nonfinancial equity index, divided by a million.
Source: Refinitiv, S&P Global Ratings

Stress Test Results

EBITDA would fall by 20% in 2023 in our full recession scenario. Table 3 shows the stress tests applied and the outcome for EBITDA growth (see also chart 9). We have calibrated the EBITDA forecast reductions to the growth outcome to give a range of realistic scenarios. Our base-case assumptions shape the profile: following an estimated 60% surge in EBITDA in 2021, our analysts project 16.2% EBITDA growth in 2022, and 1.3% in 2023. Consequently, EBITDA increases in 2022 in all scenarios, although negligibly in a full recession. In all cases, EBITDA contracts in 2023, in the worst case severely. The full recession stress results in an estimated 20% cumulative decline in EBITDA, similar in magnitude to previous downturns shown in table 2, but not quite as severe.

Table 3

European nonfinancial speculative grade base case and stress scenarios

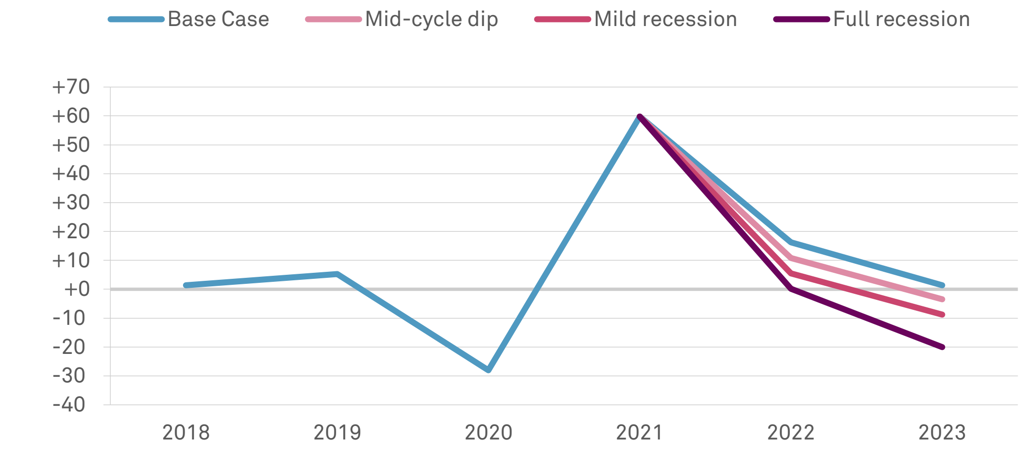
Scenario	Interest charge stress	EBITDA Forecast Reduction		Resulting EBITDA Growth Projection		
		2022	2023	2022	2023	2023 v 2021
Base Case	..	..	..	+16.2%	+1.3%	+17.8%
Mid-cycle dip	+1.5%	-5%	-10%	+10.9%	-3.5%	+7.0%
Mild recession	+1.5%	-10%	-20%	+5.5%	-8.8%	-3.8%
Full recession	+1.5%	-15%	-35%	+0.1%	-20.0%	-20.0%

Note that both the interest rate and EBITDA stresses are modified on a per entity basis as described above. All forecasts expressed in euros. Implied EBITDA growth is aggregate (sum-weighted), not median.

Source: S&P Global Ratings

Chart 9

European nonfinancial speculative grade EBITDA growth: base case and stressed



Source: S&P Global Ratings

A full recession could increase adjusted median leverage by a full turn above the COVID-19 pandemic peak. Chart 10 shows the median adjusted debt to EBITDA multiple for European speculative grade nonfinancial corporates in the base case and under three stress scenarios. Strong 2021 EBITDA growth has reduced leverage to 6.1x, just below 2019's pre-pandemic level of 6.2x, although this is still high relative to the years before that. The scenarios lead to significantly different outcomes:

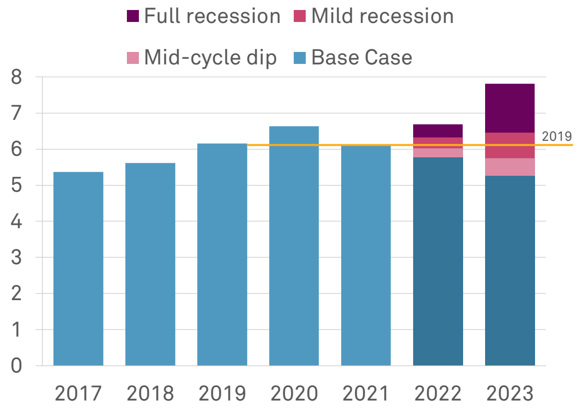
- Our base case reduces median leverage rapidly, returning to 2017 levels next year.
- A mid-cycle dip slows the improvement but doesn't reverse it.

- A mild recession would raise median leverage back above pre-pandemic levels, but not above 2020's high.
- Full-blown recession would push leverage above the pandemic-induced peak this year (6.7x versus 6.6x), and over a full turn higher in 2023 to 7.8x.

EBITDA cash-interest coverage metrics only deteriorate below 2020's pandemic-induced low in the second year of the full recession scenario. Interest coverage metrics are less stretched than leverage measures, reflecting rapid EBITDA recovery, still exceptionally low policy rates, and favorable refinancing trends in recent years as described above. Median EBITDA cash interest coverage in 2021 already exceeds 2019's level (see chart 11). Nevertheless, in all three scenarios, coverage for both 2022 and 2023 dips back below the pre-pandemic level. The potential outcomes for 2023 are wide ranging, from recovering to the 2017 median on the base case to being even weaker than 2020 in a full recession.

Chart 10

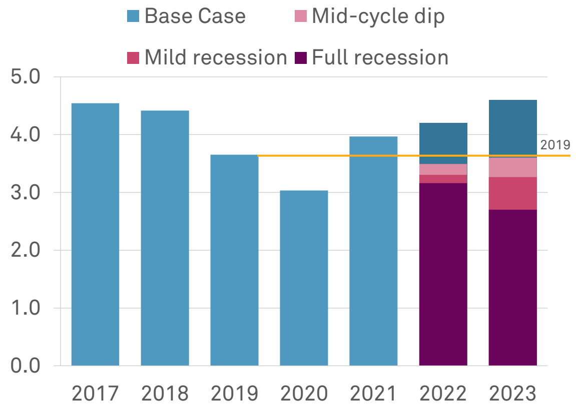
European nonfinancial spec. grade median adjusted debt/EBITDA scenarios (x)



Source: S&P Global Ratings

Chart 11

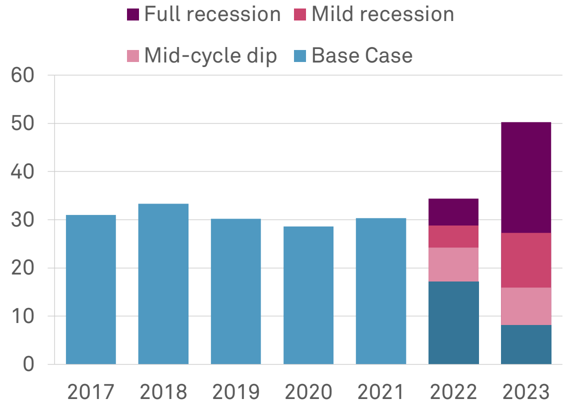
European nonfinancial spec. grade median adjusted EBITDA cash interest cover scenarios (x)



Source: S&P Global Ratings

Chart 12

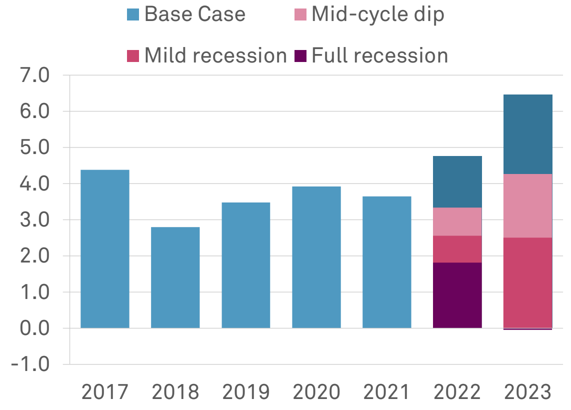
Share of European nonfinancial spec. grade entities with negative adjusted FOCF (%)



Source: S&P Global Ratings

Chart 13

European nonfinancial speculative grade median adjusted FOCF/debt (%)

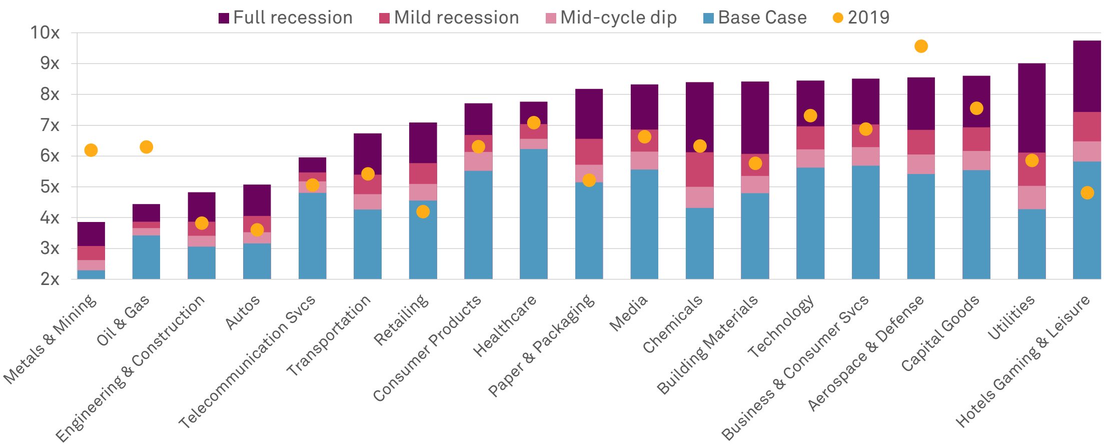


Source: S&P Global Ratings

A full-blown recession could see 50% of speculative grade issuers with negative free operating cash flow (FOCF) in 2023 (see chart 12) and median adjusted FOCF to debt would turn negative (see chart 13). This could prompt issuers to aggressively cut back capital expenditure to preserve FOCF. The path of both measures is highly sensitive to the scenarios applied. Base-case assumptions suggest the share of issuers with negative FOCF will decline rapidly to 8% by 2023, and both of the milder downturn scenarios would result in the share of entities with negative FOCF reducing from 2021's outturn.

Chart 14

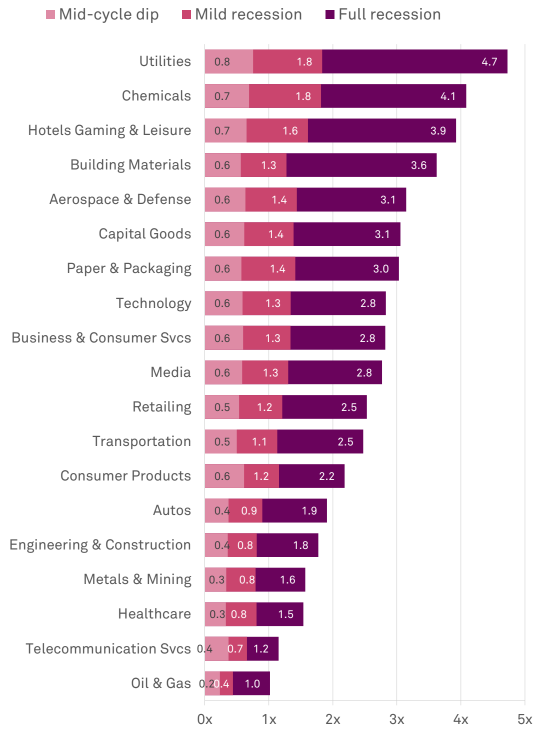
European nonfinancial speculative grade median 2023 adjusted debt/EBITDA under different stress scenarios



Source: S&P Global Ratings

Chart 15

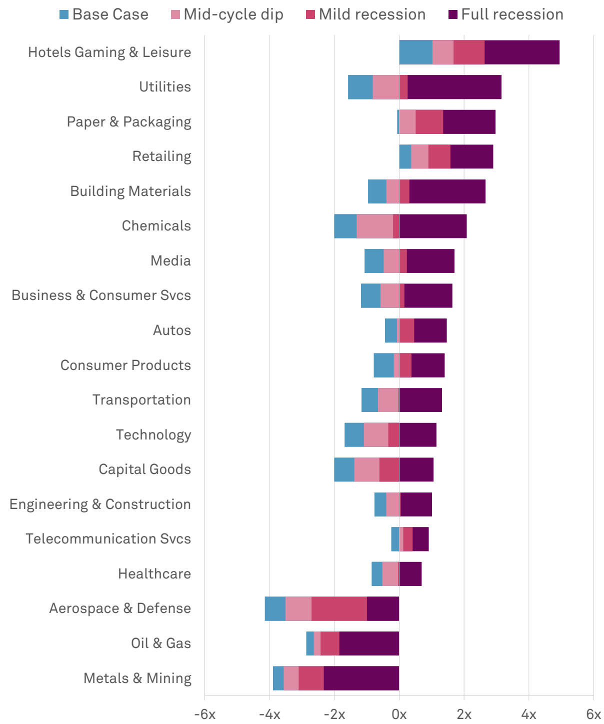
Incremental European nonfinancial spec. grade median 2023 adjusted debt/EBITDA under different scenarios (difference with base case assumptions)



Source: S&P Global Ratings

Chart 16

European nonfinancial spec. grade median 2023 adjusted debt/EBITDA under different scenarios relative to pre-COVID (difference with 2019)



Source: S&P Global Ratings

The impact on sector leverage varies widely. Chart 14 shows median adjusted debt to EBITDA leverage for 2023 by sector under our base case and the three stress scenarios (with 2019 leverage added for context), ranked by descending order of leverage under the full recession scenario. Chart 15 shows the same data in incremental terms, so the change in 2023 leverage versus the base case, and chart 16 shows the base case and scenario leverage assumptions for 2023 relative to 2019. **It should be noted that speculative grade sector depth varies greatly (see chart 5a above) and individual entity risk may consequently be a greater driver than broader industry trends**. For example, most utilities are investment grade and the entities here are largely unregulated or are smaller companies focused on renewable energy.

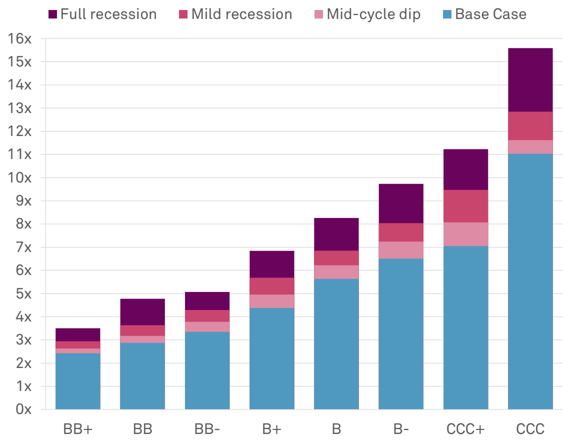
Considering the three scenarios and their effect on 2023 leverage in turn:

- **In the mid-cycle dip scenario,** no sector sees leverage increase by more than one turn and 17 out of 20 sectors have median leverage below 2019.
- **In the mild recession scenario**, six sectors (oil and gas, telecoms, metals and mining, healthcare, engineering and construction, and autos) still see leverage rise by less than one turn. All others fall between a leverage difference of 1x and 2x.
- **In the full recession scenario**, all sectors see leverage increase by more than one full turn. Six see leverage increase by two turns, and seven by three turns or more. These sectors may be particularly vulnerable to rating pressure from leverage triggers: utilities; chemicals; hotels, gaming, and leisure; building materials; aerospace and defense; capital goods; paper and packaging.

'CCC' category ratings are most vulnerable, but downgrade risk is wider in the full recession scenario. Chart 17 shows base-case median adjusted debt/EBITDA projections for 2023 by ratings category and the impact on median ratings of the three scenarios, and chart 18 shows the implied change in leverage. Median leverage for 'B+' and 'B' ratings would move decisively into highly leveraged in terms of our benchmark ranges under the full recession scenario. Median 'B' rating category leverage would exceed 6x under any of the three scenarios, including the milder mid-cycle dip, and in the full recession scenario, all 'B' ratings would have a median rating as high or higher than 'CCC+' ratings under the base case.

Chart 17

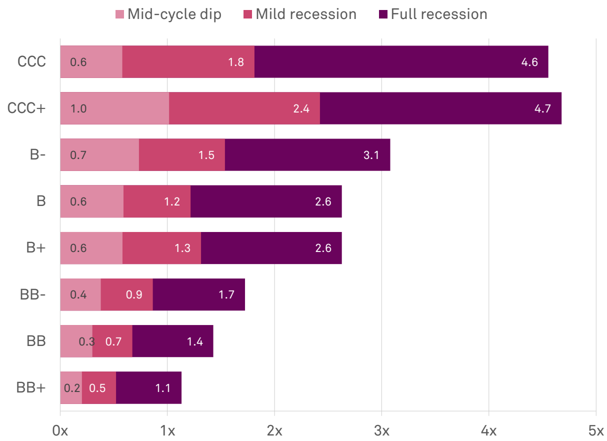
European nonfinancial speculative grade median 2023 debt/EBITDA by rating under different stress scenarios



Source: S&P Global Ratings. Based on current ratings as of June 6, 2022.

Chart 18

Incremental European nonfinancial speculative grade median 2023 debt/EBITDA by rating under different scenarios (difference with base case assumptions)

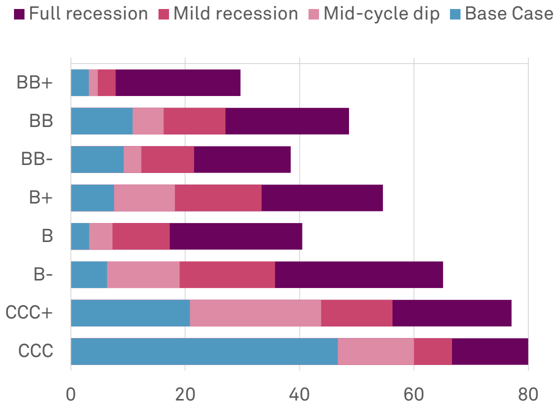


Source: S&P Global Ratings. Based on current ratings as of June 6, 2022.

Free operating cash flow would be under acute pressure in a full recession scenario. Even for 'BB+' category ratings, the share of entities with negative FOCF would rise from 3% to 30% (see chart 19). For 'CCC' ratings, this share would rise from 47% to 80%. Related payback ratios would also be stretched, with median FOCF to debt close to or negative for all ratings categories from 'B+' and lower (see chart 20).

Chart 19

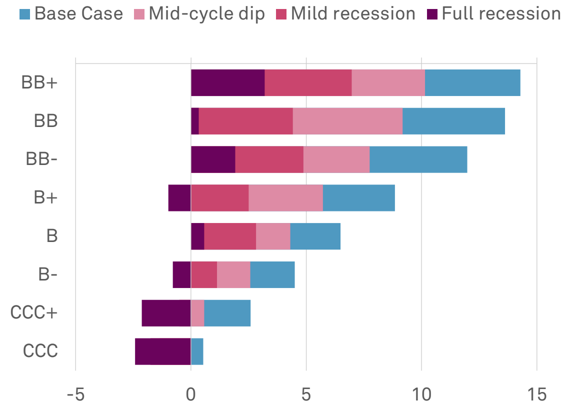
Share of European nonfinancial speculative grade entities by rating category with negative adjusted FOCF (%)



Source: S&P Global Ratings

Chart 20

European nonfinancial speculative grade median adjusted FOCF/Debt by rating category (%)



Source: S&P Global Ratings

Conclusion

European speculative grade entities have regained their footing following the pandemic; refinancing at favorable rates, extending maturities, restoring cash balances, and rebuilding profit margins despite and, in some cases, because of soaring cost inflation. But credit quality has not fully recovered, with the proportion of vulnerable issuers being higher than pre-pandemic. Debt ratios were high before the pandemic and a significant proportion of issuers were struggling with weak cash flow. 2021's recovery has been restorative, but fragility remains.

With markets increasingly anticipating recession, what would it mean for issuers? The stress tests described above offer mixed comfort. If the current easing of growth turns out to be a mid-cycle downturn or if central banks do achieve something of a softish landing, rating pressure is likely to be limited. Some or all of the improvement in credit metrics since the pandemic would be lost but, outside of some vulnerable sectors, the results do not point to extreme pressure.

However, a full-blown recession--defined as an outcome that results in a significant peak-to-trough decline of EBITDA of about 20%--would be far more difficult. Leverage and payback measures would deteriorate significantly, going beyond what was seen in the pandemic. This would bring severe ratings pressure, particularly to the 'B' ratings categories and lower.

As a final thought, a second recession this decade would pose considerable challenges for the corporate sector, which has barely recovered from the pandemic and its aftershocks. The return of war and disease have shaken many assumptions about political risk, supply chains, and the way we live and work. With central banks and governments having already expended considerable financial firepower to alleviate the pandemic, there may be less room for maneuver this time around, particularly amid soaring inflation. This might bring fears of stagflation characterized by stagnant growth and persistent inflation, leading to prolonging market volatility and greater liquidity stress.

Related Research

- [SLIDES] Inflation, Rate Strains Set In For Asia-Pacific Corporates, Jun. 21, 2022
- Searching For Stress Fractures: Evaluating The Impact Of Interest Rate And EBITDA Stresses On U.S. Speculative-Grade Corporates, May 25, 2022

Table 4

Industry Risk Assessments - Cyclicality

Industry Name	Cyclicality assessment		Qualitative Adjustment	Adjusted Cyclicality assessment for stress	
Advertising	Intermediate risk	3		Intermediate risk	3
Aerospace & Defense	Moderately high risk	4		Moderately high risk	4
Agribusiness & Commodity Foods	Moderately high risk	4		Moderately high risk	4
Agricultural Co-operatives	Moderately high risk	4		Moderately high risk	4
Air Freight & Logistics	High risk	5	-2	Intermediate risk	3
Airlines	High risk	5	-1	Moderately high risk	4
Auto OEM	High risk	5		High risk	5
Auto Suppliers	Moderately high risk	4		Moderately high risk	4
Branded Nondurables	Low risk	2		Low risk	2
Building Materials	Moderately high risk	4		Moderately high risk	4
Business & Consumer Services	Intermediate risk	3		Intermediate risk	3
Cable & Satellite	Low risk	2		Low risk	2
Capital Goods	Intermediate risk	3		Intermediate risk	3
Commodity Chemicals	Moderately high risk	4	+1	High risk	5
Consumer Durables	Intermediate risk	3		Intermediate risk	3
Containers & Packaging	Intermediate risk	3		Intermediate risk	3
Content	Intermediate risk	3		Intermediate risk	3
Cruise	Moderately high risk	4		Moderately high risk	4
Engineering & Construction	Intermediate risk	3		Intermediate risk	3
Environmental Services	Low risk	2		Low risk	2
Forest & Paper Products	Moderately high risk	4		Moderately high risk	4
Gaming	Moderately high risk	4		Moderately high risk	4
Healthcare Equipment	Low risk	2		Low risk	2
Healthcare Services	Low risk	2		Low risk	2
Homebuilders & Developers	High risk	5		High risk	5
Hotels	Moderately high risk	4	-1	Intermediate risk	3
Leasing & Other	Low risk	2		Low risk	2
Leisure	Moderately high risk	4	-1	Intermediate risk	3
Media and entertainment	Intermediate risk	3		Intermediate risk	3
Metals & Mining Downstream	High risk	5	-1	Moderately high risk	4
Metals & Mining Upstream	High risk	5	-1	Moderately high risk	4
Midstream Energy	Intermediate risk	3	-1	Low risk	2
Oil & Gas Drilling, Equipment & Services	Intermediate risk	3	-1	Low risk	2
Oil & Gas Integrated, Exploration & Production	Moderately high risk	4	-1	Intermediate risk	3
Oil & Gas Refining & Marketing	Moderately high risk	4	-1	Intermediate risk	3
Online	Intermediate risk	3		Intermediate risk	3
Other Media	Intermediate risk	3		Intermediate risk	3
Out of Home	Intermediate risk	3		Intermediate risk	3
Pharmaceuticals	Low risk	2		Low risk	2
Print/Publishing	Intermediate risk	3		Intermediate risk	3
Railroads	Intermediate risk	3		Intermediate risk	3
Real Estate Investment Trusts	Intermediate risk	3		Intermediate risk	3
Regulated Utilities	Low risk	2	+1	Intermediate risk	3
Retail & Restaurants	Intermediate risk	3		Intermediate risk	3
Shipping	High risk	5	-2	Intermediate risk	3
Specialty Chemicals	Intermediate risk	3		Intermediate risk	3
Technology - Hardware & Semiconductors	Moderately high risk	4		Moderately high risk	4
Technology - Software & Services	Intermediate risk	3		Intermediate risk	3
Telecoms	Low risk	2		Low risk	2
Transportation cyclical	High risk	5		High risk	5
Transportation Infrastructure	Low risk	2		Low risk	2
Trucking	High risk	5	-2	Intermediate risk	3
TV	Intermediate risk	3		Intermediate risk	3
Unregulated Power & Gas	Moderately high risk	4		Moderately high risk	4

Source: S&P Global Ratings

spglobal.com/ratings