

ESG In Credit Ratings

March 2024

A North American Clean Sweep

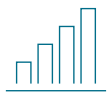
S&P Global
Ratings

This report does not constitute a rating action.

By the numbers: February 2024 ESG-related credit rating actions

Total ESG-driven credit rating actions, February 2024 vs. January 2024

▲ Increase ▼ Decrease ■ Positive change ■ Negative change



13 ▲

All credit rating actions



3 ▲

Positive rating actions



10 ▲

Negative rating actions

February 2024 positive rating action breakdown

Key factor



2

Risk management, culture, and oversight

Key sector



2

Corporates and infrastructure

Key region



3

North America

February 2024 negative rating action breakdown

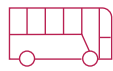
Key factor



4

Transparency in reporting

Key sector



8

U.S. public finance

Key region



10

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 in February 2024. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Key Takeaways

- There were 13 rating actions related to environmental, social, and governance (ESG) factors in February, up from eight in January--with negative actions continuing to outpace positive ones.
- All 13 of February's ESG-related rating actions came from North America. It was the first month without multiple region contributors to ESG-related rating actions since we began linking rating actions to ESG factors in April 2020.
- Governance factors (11) remained the primary driver. Risk management, culture, and oversight (five) was the primary governance factor.
- In February, U.S. public finance continued to be the sector with the most ESG-related rating actions (nine), and all but one were negative. In addition, governance factors drove all nine of those rating actions, five of which were CreditWatch negative placements.

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ESG Research Highlights



As The European Apparel Sector's Environmental Footprint Widens, Credit Risks Are Low, For Now

Feb. 29, 2024

Although the volume of clothes produced and sold globally is increasing alongside its environmental impact, the apparel sector's carbon emissions, waste, and pollution risks remain largely unpriced. At the same time, the financial impact of environmental risks on the sector and our ratings has so far been negligible, reflecting a lack of stringent environmental regulations and little change in consumers' buying behavior. We believe value- and fast-fashion retailers--whose earnings are mostly led by volumes--could become more exposed to these increasing risks than luxury brands.



U.S. Electric Vehicle Auto Lease Growth Could Raise Residual Value Risk

Feb. 22, 2024

U.S. electric vehicle sales rose 51% year over year in 2023, with EV market share increasing to 9.1% due to charging station growth, improvements in vehicle range, lower pricing, and government subsidies. However, the higher exposure to EVs could increase residual value risk in U.S. auto lease ABS. Further, studies show that EVs currently have higher depreciation levels than internal combustion engine vehicles, which could result in lower recoveries and thus lower residual values in our analysis. Residual performance on auto lease ABS transactions we rate remain positive, reflecting the well-diversified pool mix. Our analytical approach provides for adjustments to our assumptions, if needed, as EV concentrations increase in rated pools. We expect U.S. EV sales growth to slow to 25%, EV leasing rates to increase, and auto lease ABS ratings performance to remain stable this year.



U.S. Muni Sustainable Bonds: Moderate Growth In 2024

Feb. 15, 2024

We anticipate 5% U.S. municipal GSSSB issuance growth in 2024, modestly outpacing the broader municipal market and reflecting pent-up demand. Affordable housing will lead: GSSSBs are especially well suited for such projects, particularly as housing affordability hit a low in 2023. A concentration of several large issuers will likely continue to embrace GSSSBs but could also produce volatility. State mandates for renewable power supply will support momentum in green bond financing while mass transit operators will continue tapping the market to fund capital-intensive systems.

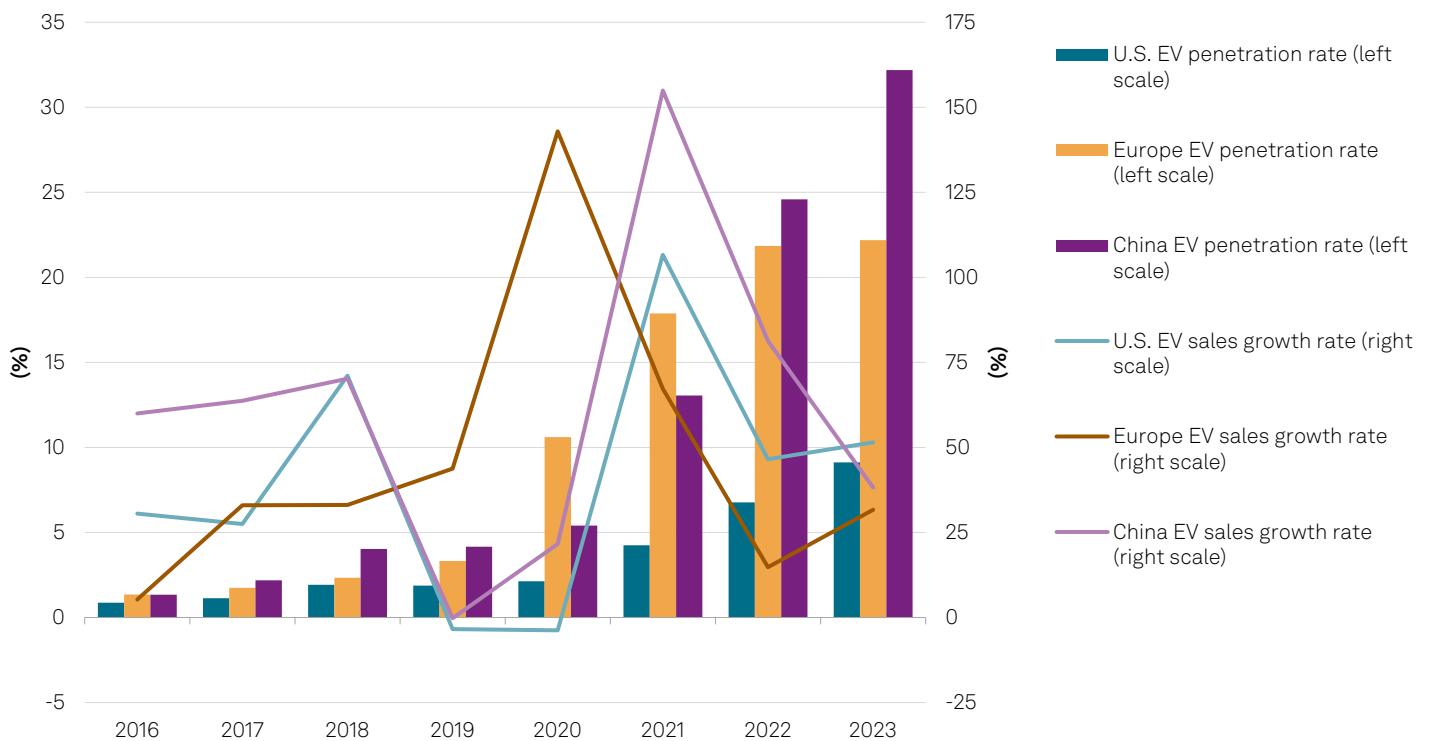
Chart Of The Month

U.S. Electric Vehicle Auto Lease Growth Could Raise Residual Value Risk

Electric vehicle (EV) sales and market share growth are rising in the U.S., although not as quickly as in other global markets such as Europe and China. In 2023, U.S. battery electric and plug-in hybrid EV sales grew approximately 51.0% year over year, expanding the EV market share to 9.1%. BEVs accounted for much of the recent growth and represented approximately 80% of total U.S. EV sales in 2022 and 2023. [Tesla](#) held about 60% of the EV market share both years.

S&P Global Ratings believes these trends will likely continue due to rising consumer confidence in EV technology, available government subsidies, increasing manufacturer and finance company incentive offerings, and forthcoming regulations that are set to limit the production of internal combustion engine vehicles and perhaps accelerate over time as infrastructure catches up and technology improves. While we have yet to see any sustained or sharp increases in the concentration of EVs in U.S. auto lease asset-backed securities collateral pools we rate, we expect the rising trend could impact the pools' vehicle recovery values.

EV sales growth and penetration rate



EV includes BEVs and PHEVs. The European markets include Denmark, France, Germany, Italy, Netherlands, Norway, Spain, and the U.K. EV--Electric vehicle. BEV--Battery EV. PHEV--Plug-in hybrid EV. Sources: S&P Global Mobility (Europe and China data) and Ward's AutoInfoBank (U.S. data).

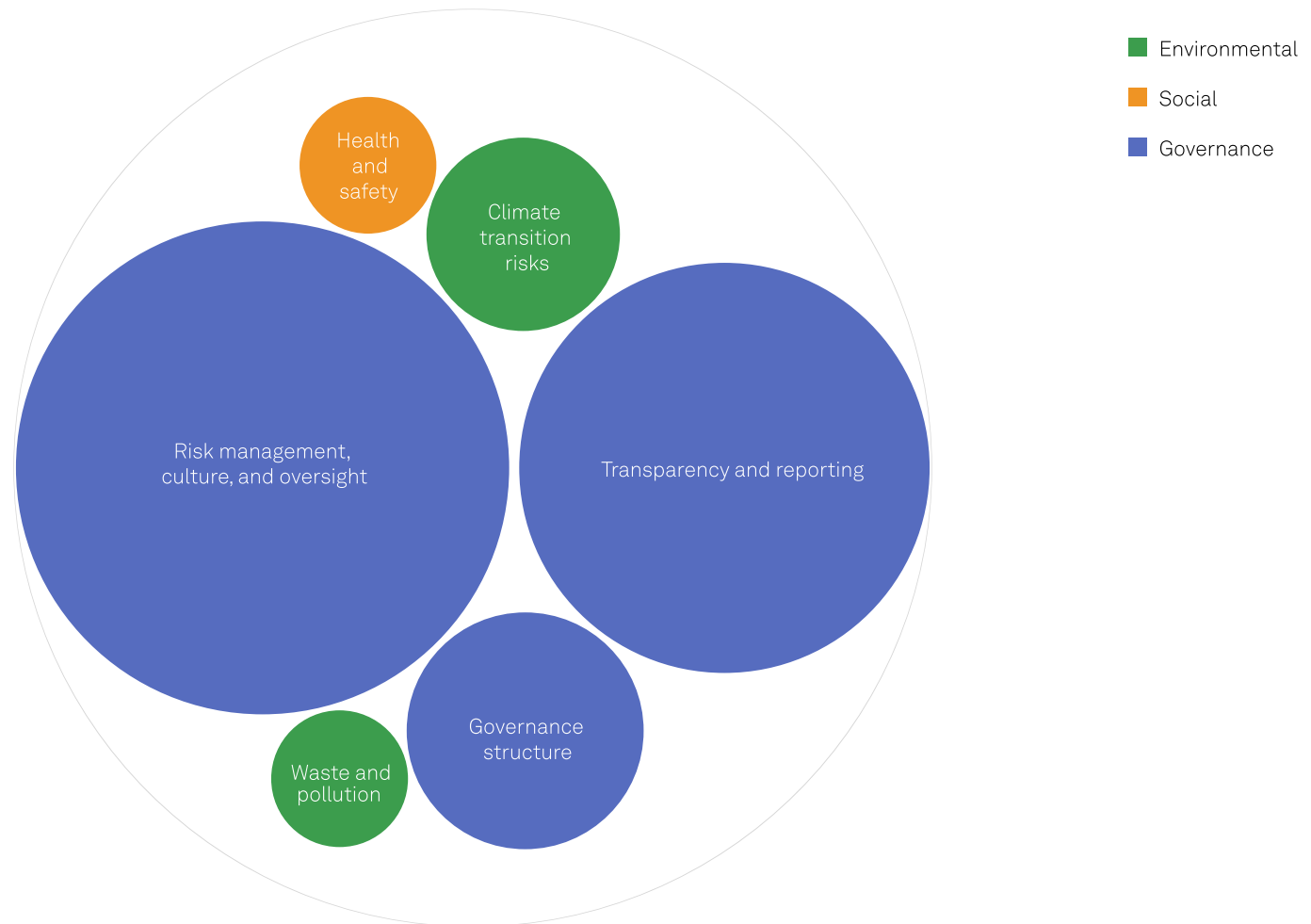
For more, see "[U.S. Electric Vehicle Auto Lease Growth Could Raise Residual Value Risk](#)," published Feb. 22, 2024.

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 entities' 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.

Leading factors cited in ESG-related rating actions

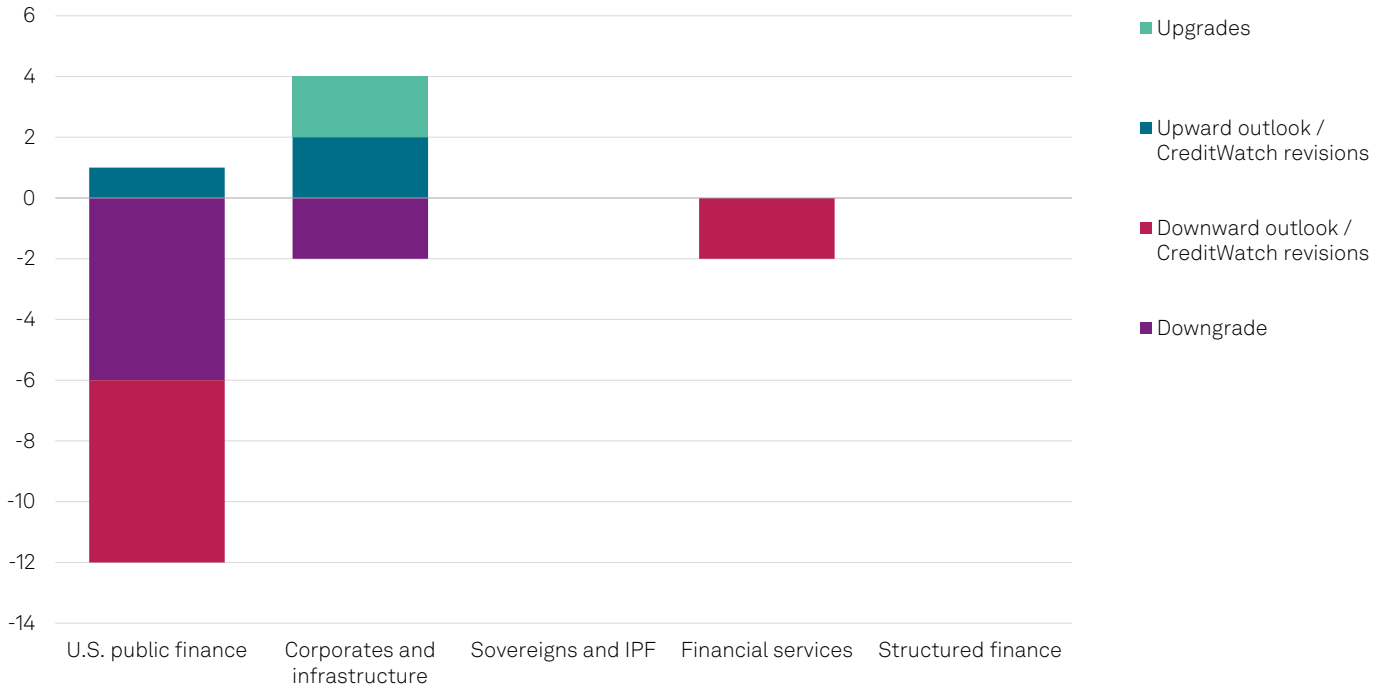
Year-to-date 2024



Data as of Feb. 29, 2024. ESG tagged factors as a proportion of total tagged factors. Bubble size is determined by the occurrence of factors between January and February 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

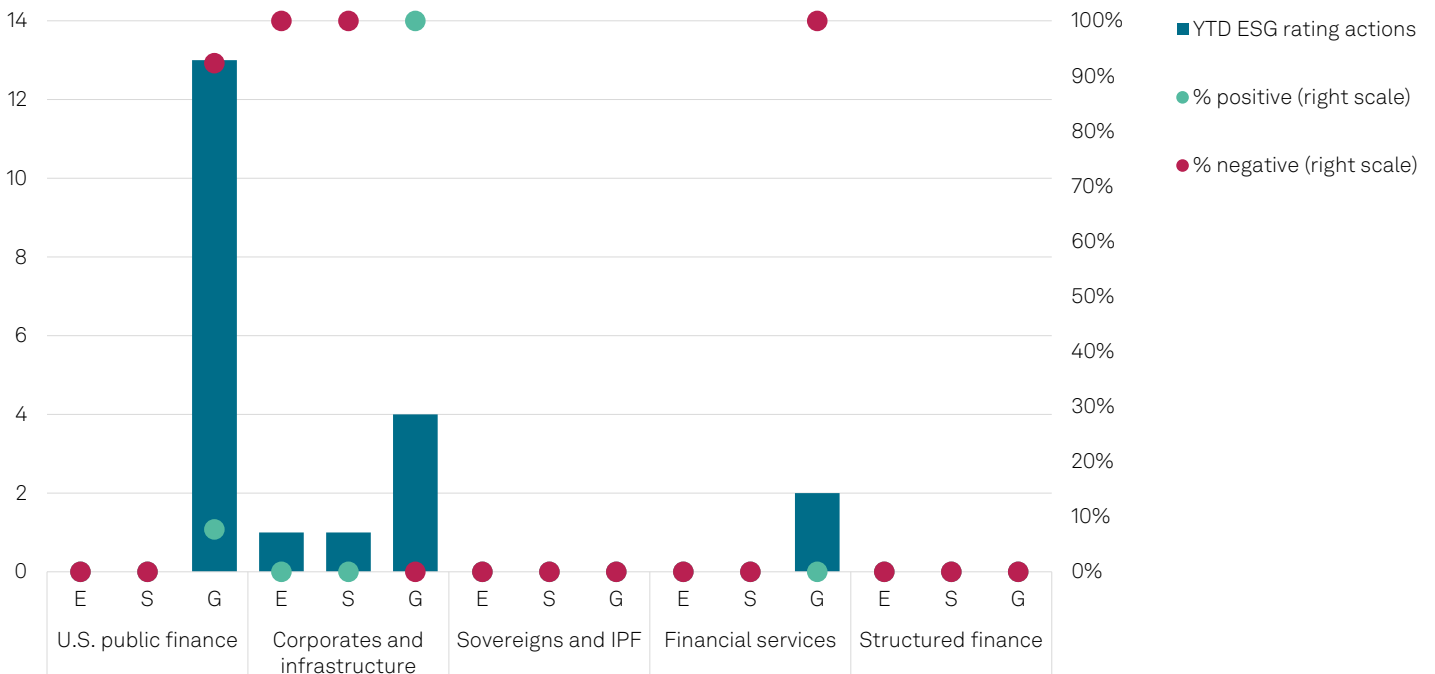
Number of actions, year to date



Data as of Feb. 29, 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. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

ESG-related credit rating actions by sector and factor

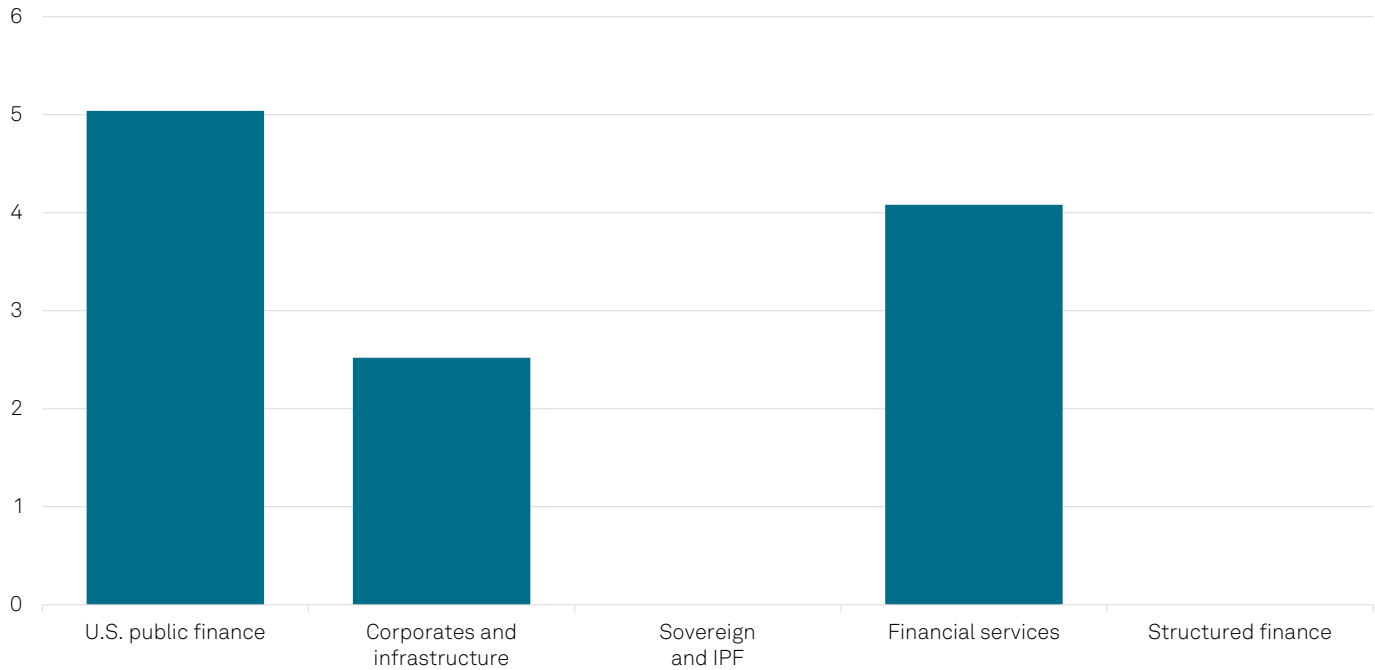
Number of actions, year to date



Data as of Feb. 29, 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. ESG--Environmental, social, and governance. IPF--International public finance. YTD--Year-to-date. Source: S&P Global Ratings.

ESG-related credit rating actions

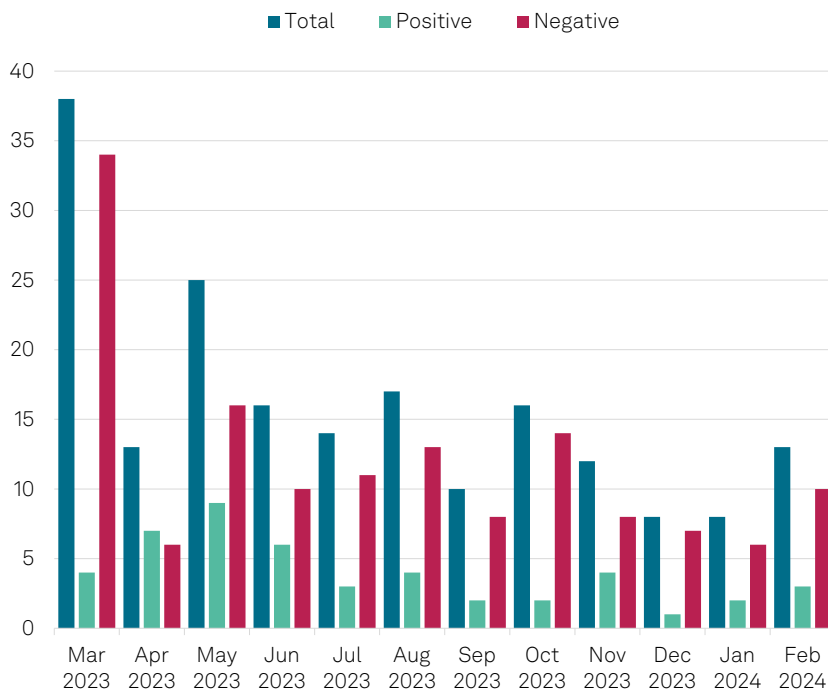
% of total, year to date



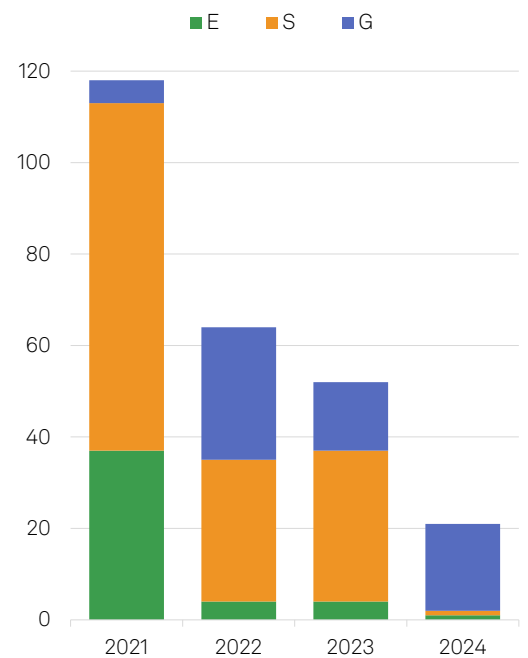
Data as of Feb. 29, 2024. Total rating actions exclude affirmations with no outlook change, withdrawals, and new ratings, including instances where multiple rating actions exist. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

ESG-related credit rating actions

Number of actions, trailing 12 months



Number of actions, year to date



Data as of Feb. 29, 2024. 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. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

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	6	2	0	0	0	0	8
CreditWatch negative	5	0	0	0	0	0	5
Downward outlook revision	1	0	0	0	2	0	3
Upgrade	0	2	0	0	0	0	2
Upward outlook revision	1	2	0	0	0	0	3
CreditWatch positive	0	0	0	0	0	0	0
Total ESG-related rating actions*	13	6	0	0	2	0	21
Environmental§	0	3	0	0	0	0	3
Social§	0	1	0	0	0	0	1
Governance§	14	6	0	0	5	0	25
Total ESG-tagged factors§	14	10	0	0	5	0	29

Data as of Feb. 29, 2024. *Rating actions include rating, CreditWatch, and outlook changes between January and February 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 tagged factors 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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