

# Market Insights

## Sector Intelligence | Leveraged Finance

This report does not constitute a rating action.

## U.S. And Canada Summary Report

Feb. 7, 2023

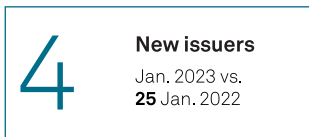
### The January Snapshot

U.S. corporate borrowers will likely face intensifying profit pressure due to operational and financing headwinds

#### Outlook distribution



#### Four new speculative-grade issuers in January



#### Top sectors



Consumer products



Capital goods

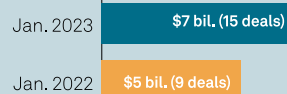


Transportation

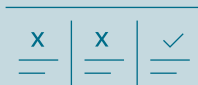
Slow start for the U.S. leveraged loan primary market with the lowest January volume since 2010



This month's volume represents the third-highest January deal tally for the CLO market since the global financial crisis



The U.S. and Canada default tally in 2023 was slightly higher than prior year



5 defaults Jan. 2023 vs. 3 defaults in Jan. 2022

Note: Data above is year-to-date (YTD) except for the outlook distribution and monthly default count. CW--CreditWatch. CLO--Collateralized loan obligations. The default count includes U.S. (including Bermuda and Cayman Islands) and Canada corporate ratings. Outlook distribution only includes U.S. and Canada corporate ratings (excluding utilities sector). Source: S&P Global Ratings. Leveraged loan and CLO volumes are sourced from PitchBook LCD.

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**DATA** - To see the data referenced in this report, click [here](#).

## Key Insights

1. We expect speculative-grade credit ratings will worsen this year as the effects of higher interest rates, tightening financial conditions, high operating costs, and slowing demand hurt companies' profit margins, cash flow, and debt-service capacity.<sup>1</sup>
2. Downgrades continued to outpace upgrades by a wide margin in January. However, the percentage of speculative-grade issuers rated in the 'CCC/CC' category remained relatively flat at 10.8% at month end, and speculative-grade issuers with a negative rating outlook remained at 19%.
3. Given the economic headwinds, we expect the U.S. trailing-12-month speculative-grade corporate default rate to rise to 3.75% by September 2023, which compares with 1.6% in September 2022. This would more than double the rate as of the end of 2022 (1.65%) but still fall below the long-term average of 4.1%.<sup>2</sup>

### PODCASTS

The Upgrade Episode 26: 'CCC' Buckets Pick Up In CLOs As Cash Flow Generation Falls, Nov. 25, 2022

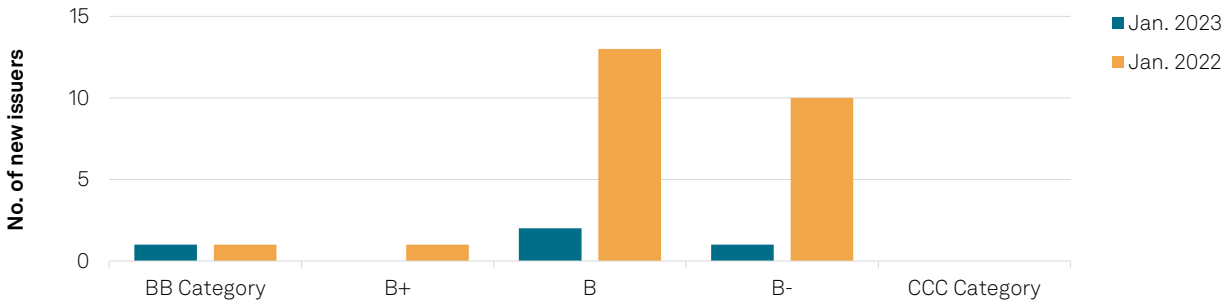
The Upgrade Episode 25: The Pinch Of Higher Benchmark Rates and Risk Premiums, Oct. 21, 2022

The Upgrade Episode 24: Envision Healthcare Completes Two Major Restructurings in 100 Days, Oct. 6, 2022

## Speculative-Grade New Issuers

Chart 1

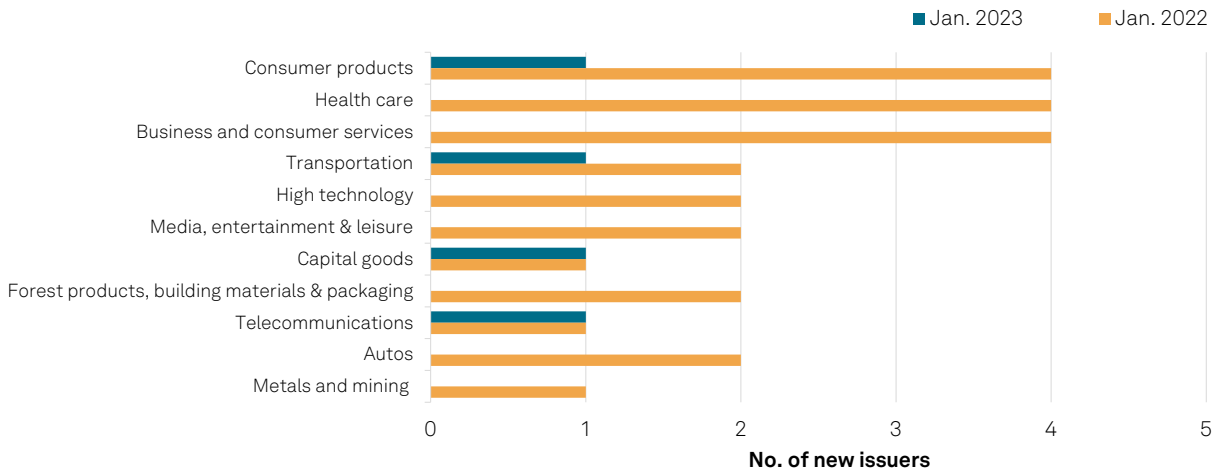
### New Issuers By Rating



Note: Data represents new issuers as of Jan. 31, 2022, and 2023. Includes U.S. and Canada corporate ratings and excludes confidential issuers. There were 25 new issuers in January 2022 and four in January 2023. Source: S&P Global Ratings.

Chart 2

### New Issuers By Industry Group



Note: Data represents new issuers as of Jan. 31, 2022, and 2023. Includes U.S. and Canada corporate ratings and excludes confidential issuers. Source: S&P Global Ratings.

# Defaults

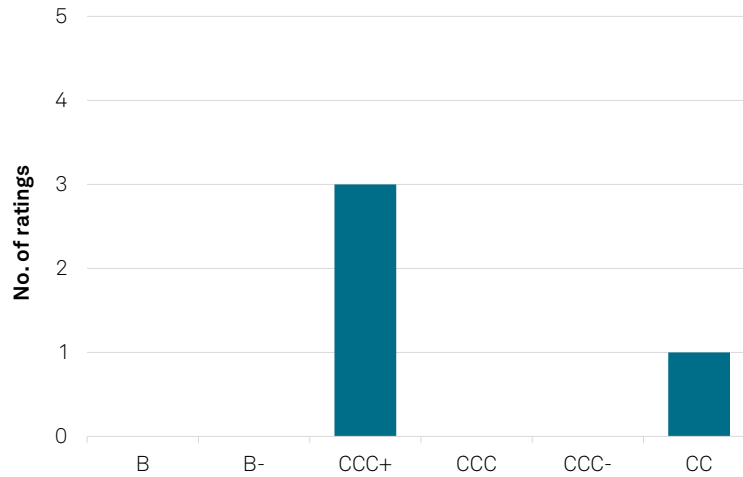
Chart 3

## Downgrade To 'SD'/'D'



Chart 4

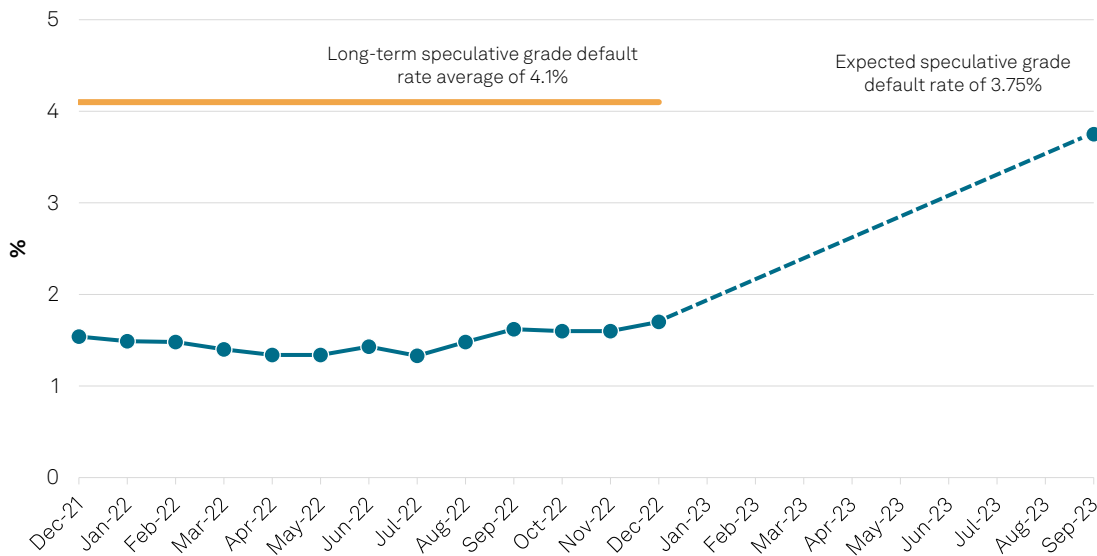
## Ratings Raised After Default ('SD')



Note: Data as of Jan. 31, 2023. Includes U.S. (including Bermuda and Cayman Islands in chart 3) and Canada corporate ratings. SD--Selective default. Source: S&P Global Ratings. For more information on U.S. and Canada defaults, refer to our monthly publication, [Gaps Open As Global Corporate Defaults Increase By 15% In 2022](#), published Jan. 18, 2023. Additionally, we also publish a newsletter, This Week In Credit, which lists our weekly rating actions and defaults. Click [here](#) for the latest This Week In Credit report.

Chart 5

## U.S. Trailing-12-Month Speculative-Grade Default Rate

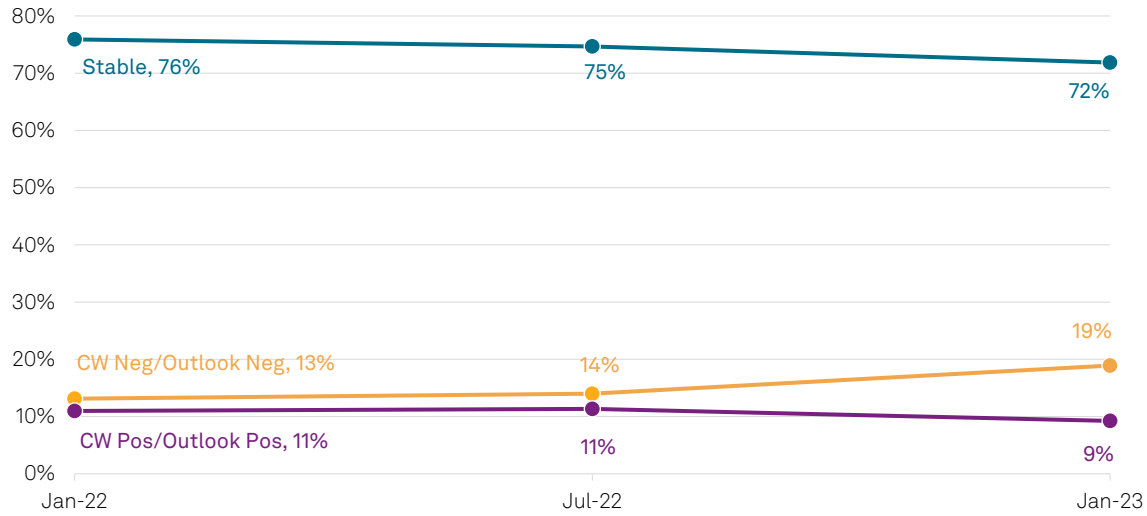


Note: Data as of Dec. 31, 2022. The long-term average dates back to Dec. 1981. Source: S&P Global Ratings. [Gaps Open As Global Corporate Defaults Increase By 15% In 2022](#), published Jan. 18, 2023.

## Speculative-Grade Rating Outlook Mix

Chart 6

January 2022/2023 Speculative-Grade CreditWatch/Outlook Distribution

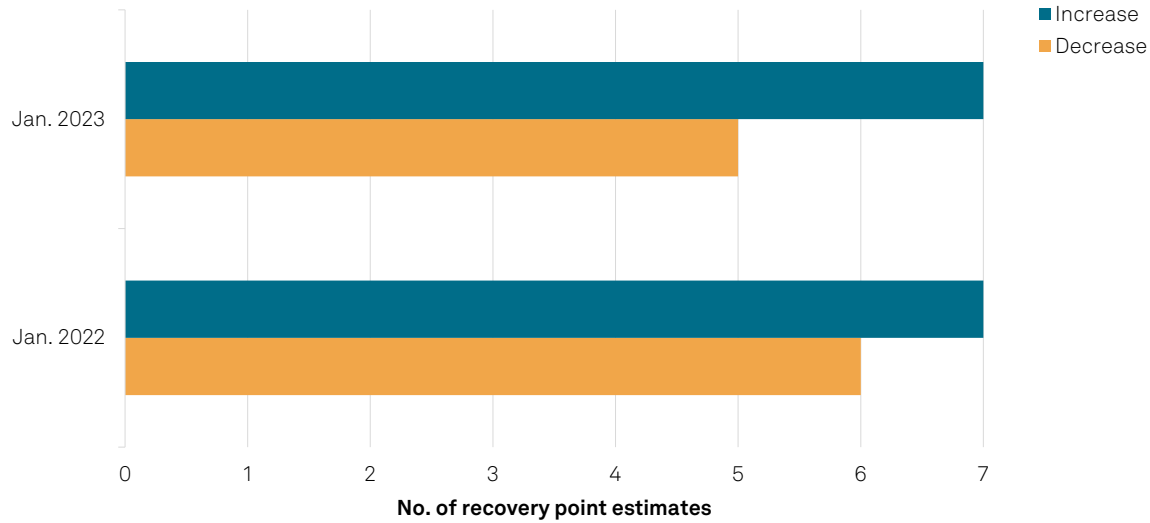


Note: Data as of Jan. 31, 2022, and 2023. CreditWatch/outlook distribution includes all U.S. and Canada corporate ratings. Does not include investment-grade issuers. Source: S&P Global Ratings.

# Recovery Ratings

Chart 7

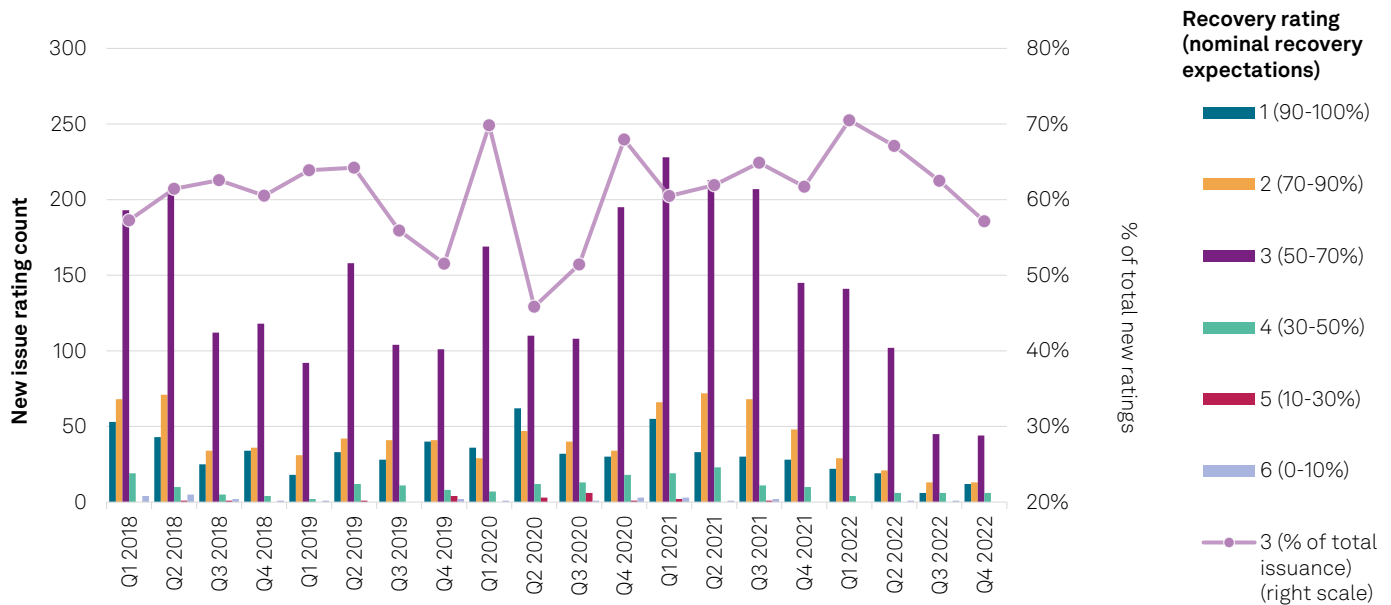
## Net Changes In Recovery Point Estimates (Issuer Count)



Note: Data as of Jan. 31, 2022, and 2023. Data only includes recovery point estimate changes equal to or greater than 15% for both senior secured and unsecured notes (e.g., the recovery point estimate changes to '3' [50%] from '4' [35%]). Source: S&P Global Ratings.

Chart 8

## Recovery Ratings Distribution Of First-Lien New Issues (U.S. And Canada)



Source: S&P Global Ratings.

## CLOs

Table 1

### Top 10 Obligor Held In U.S. BSL CLOs (Fourth-Quarter 2022)

| Rank | Obligor                      | Rating & CW/Outlook | GIC Code                               |
|------|------------------------------|---------------------|--|
| 1    | Liberty Global PLC           | BB-/Stable          | Diversified telecommunication services |
| 2    | Altice Europe N.V.           | NR                  | Diversified telecommunication services |
| 3    | Asurion Group Inc.           | B+/Stable           | Information technology services        |
| 4    | Altice USA Inc.              | B+/Negative         | Media                                  |
| 5    | TransDigm Inc.               | B+/Stable           | Aerospace and defense                  |
| 6    | Lumen Technologies Inc.      | BB-/Stable          | Diversified telecommunication services |
| 7    | Medline Borrower L.P.        | B+/Stable           | Health care providers and services     |
| 8    | Endeavor Group Holdings Inc. | B/Stable            | Entertainment                          |
| 9    | Athenahealth Group Inc.      | B-/Stable           | Health care technology                 |
| 10   | American Airlines Group Inc. | B-/Stable           | Airlines                               |

Note: Ratings and CreditWatch/outlooks as of Feb. 6, 2023. NR--Not rated.

Source: S&P Global Ratings. [U.S. BSL CLO Top Obligors And Industries Report: Fourth-Quarter 2022](#), Jan. 6, 2023.

## Sources

<sup>1</sup> [U.S. Corporate Credit Outlook 2023: Profit Pressures, Refinancing Risk](#), Feb. 2, 2023

<sup>2</sup> [The U.S. Speculative-Grade Corporate Default Rate Could Reach 3.75% By September 2023](#), Nov. 21, 2022

## Related Research

- [Credit Trends: Risky Credits: North America's 'CCC+' And Below Rated Debt Reaches \\$230 Billion](#), Nov. 23, 2022
- [U.S. Leveraged Finance Q3 Update: 'CCC' Buckets Pick Up In CLOs As Cash Flow Generation Falls](#), Oct. 27, 2022
- [Credit FAQ: Envision Healthcare Corp.'s Two Major Restructurings In 100 Days](#), Sept. 2, 2022
- [Leveraged Finance: Leveraged Loan Market Could Feel The Pinch Of Higher Benchmark Rates And Risk Premiums For A While](#), Aug. 10, 2022
- [U.S. Leveraged Finance Q2 2022 Update: Corporate Borrowers Brace For Slow-Growth Recession](#), July 27, 2022
- [Common Themes In Middle-Market Credit Agreements](#), July 6, 2022
- [Recovery Prospects In The U.S. Technology Sector](#), June 28, 2022
- [Searching For Stress Fractures: Evaluating The Impact Of Interest Rate And EBITDA Stresses On U.S. Speculative-Grade Corporates](#), May 25, 2022
- [U.S. Leveraged Finance Q1 2022 Update: Free Operating Cash Flow Is Put To The Test As Headwinds Blow Harder](#), May 3, 2022
- [Credit FAQ: Themes From Recent Leveraged Finance Investor Conversations](#), May 2, 2022
- [U.S. CLO & Leveraged Finance Experience An Early Spring Chill In Q2, A Slide Deck Summary](#), April 28, 2022
- [Global Leveraged Finance Handbook Provides Unique Insights Into Challenging Questions](#), April 5, 2022
- [Leveraged Finance: Beyond The Term Sheet: Analysis Of LIBOR Transition Language Within Executed Credit Agreements](#), Feb. 11, 2022
- [A Credit-Cycle Turn Could Expose Vulnerabilities In The Middle Market](#), Feb. 9, 2022
- [EBITDA Addbacks Continue To Stack](#), Feb. 8, 2022
- [Recovering From COVID-19: Why The Timing Of Bankruptcy And Emergence Matters For Debt Recovery](#), Feb. 7, 2022
- [U.S. Corporate Credit Outlook 2022: New Year, New Risks \(Beyond, Of Course, Inflation\)](#), Jan. 31, 2022
- [North American Speculative-Grade Corporates Have A Whole Lotta Liquidity \(And Upgrades\)](#), Dec. 14, 2021
- [A Closer Look At How Uptier Priming Loan Exchanges Leave Excluded Lenders Behind](#), June 15, 2021

Articles are available at [Corporate Research | S&P Global Ratings \(spglobal.com\)](#).

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