

Market Insights

Sector Intelligence | Leveraged Finance

This report does not constitute a rating action.

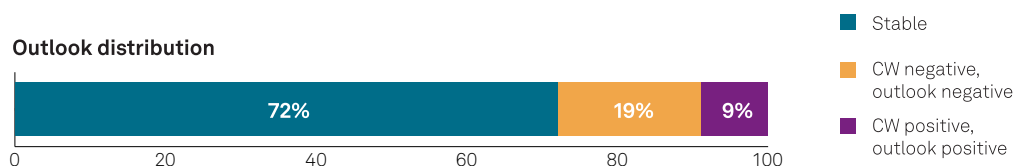
U.S. And Canada Summary Report

March 10, 2023

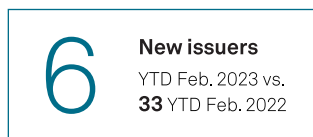
The February Snapshot

Corporate borrowers are facing headwinds from sticky inflation, a potential global economic downturn, eroding customer demand, and still shaky supply chains

Outlook distribution



Two new speculative-grade issuers in February



Top sectors



Consumer products



Capital goods

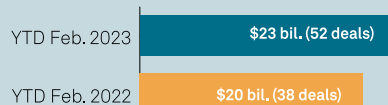


Transportation

Slow pace of issuance in the U.S. leveraged loan market dominated by refinancing and extension activity



U.S. records highest monthly CLO volume since November 2021



The U.S. and Canada default tally increased steeply in February



17 defaults YTD Feb. 2023 vs.
6 defaults in YTD Feb. 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](#).

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

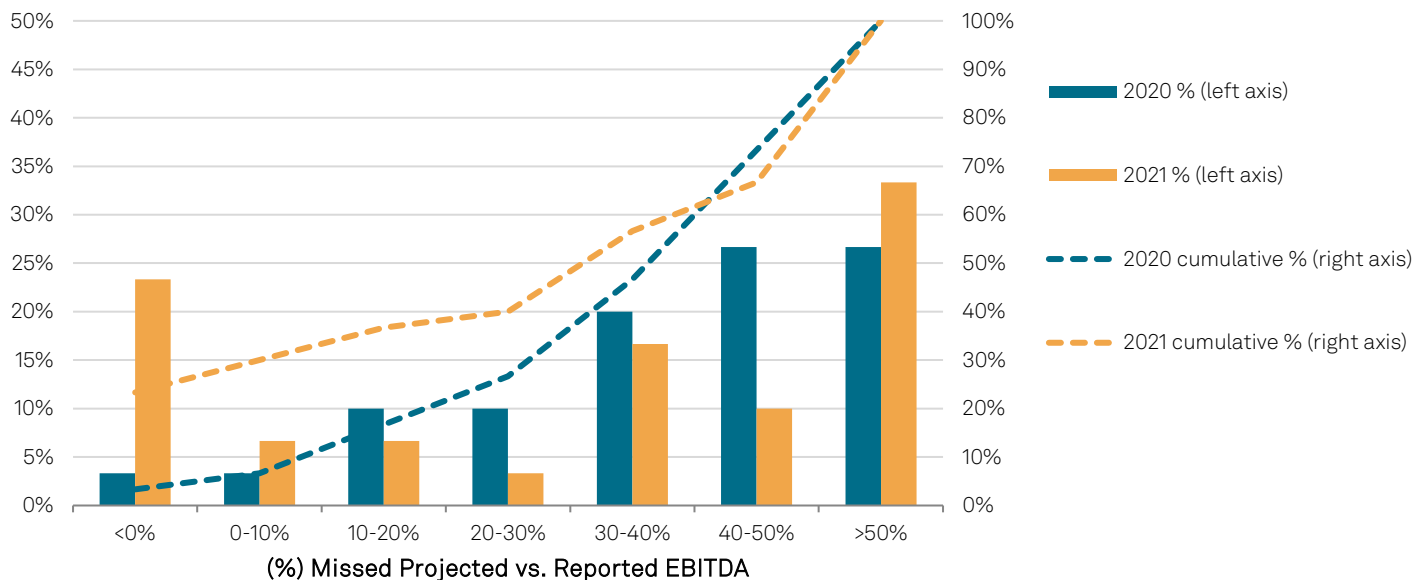
The Upgrade Episode 24: Envision Healthcare Completes Two Major Restructurings in 100 Days, Oct. 6, 2022

Key Insights

1. Macroeconomic conditions, such as high inflation, contracting corporate earnings, and elevated interest rates, continue to weigh on companies' operating performances and liquidity, which is thinning the buffers that supported speculative-grade issuers in 2021 and 2022.
2. Downgrades continued to outpace upgrades over the last 10 months. Although the downgrade to upgrade margin has slightly declined for North American speculative-grade corporate issuers, we expect this trend will continue into the following month. However, the percentage of speculative-grade issuers rated in the 'CCC/CC' category remained relatively flat at 10.7% as of the end of the month and the percentage of speculative-grade issuers with a negative outlook remained at 19%.
3. Rising headwinds could push the U.S. trailing-12-month speculative-grade corporate default rate to 4% by December 2023, which compares with 1.7% in December 2022. To reach this base-line forecast, 73 speculative-grade companies would need to default.¹ The U.S. leveraged loan default rate could reach 2.5% by December 2023 amid persistently challenging credit conditions.²

Chart Of The Month

EBITDA Divergence



EBITDA still fell well short of management projections

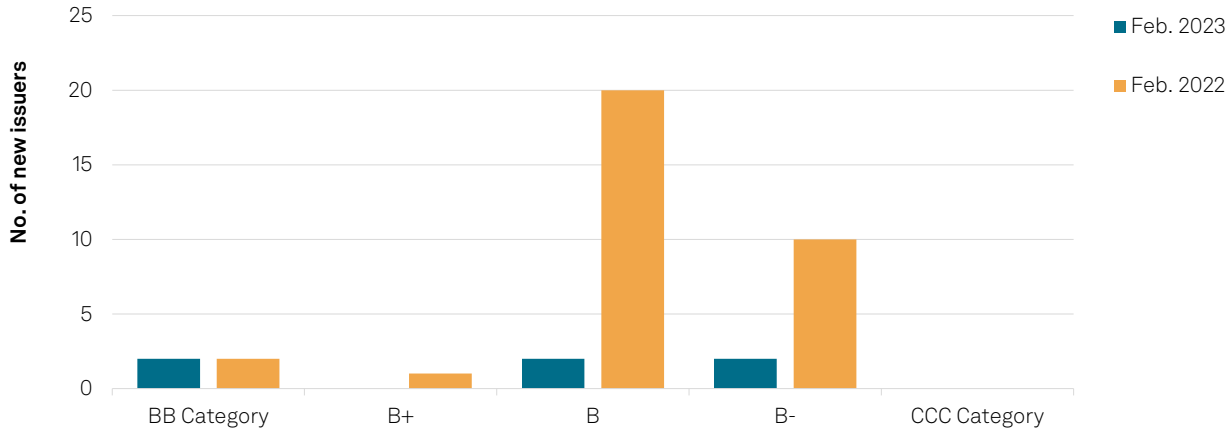
"If companies performed in accordance with their marketing projections, one could expect to see a convergence between management projected and actual reported results as companies realize their anticipated earnings, one-time items fall away, and synergies are achieved. In actuality, we saw a material divergence. The deviation indicates unmaterialized growth projections, operating challenges, and unrealized synergies or unattained cost savings..."

Click [here](#) to view the full report.

YTD Speculative-Grade New Issuers

Chart 1

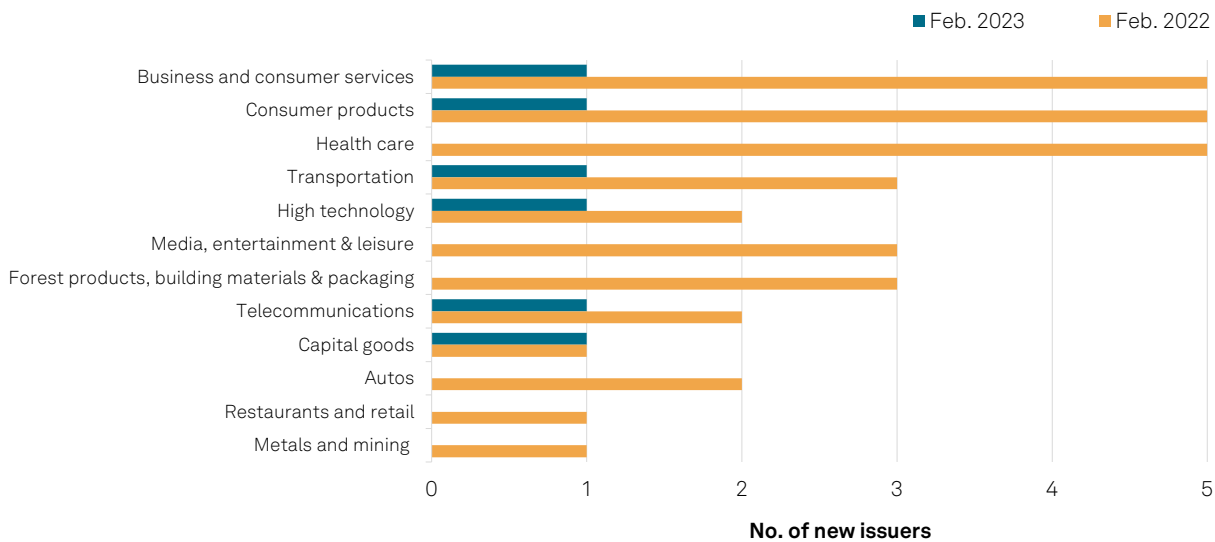
New Issuers By Rating



Note: Data represents new issuers as of Feb. 28, 2022, and 2023. Includes U.S. and Canada corporate ratings and excludes confidential issuers. There were eight new issuers in February 2022 and two in February 2023. Source: S&P Global Ratings.

Chart 2

New Issuers By Industry Group



Note: Data represents new issuers as of Feb. 28, 2022, and 2023. Includes U.S. and Canada corporate ratings and excludes confidential issuers. Source: S&P Global Ratings.

Defaults

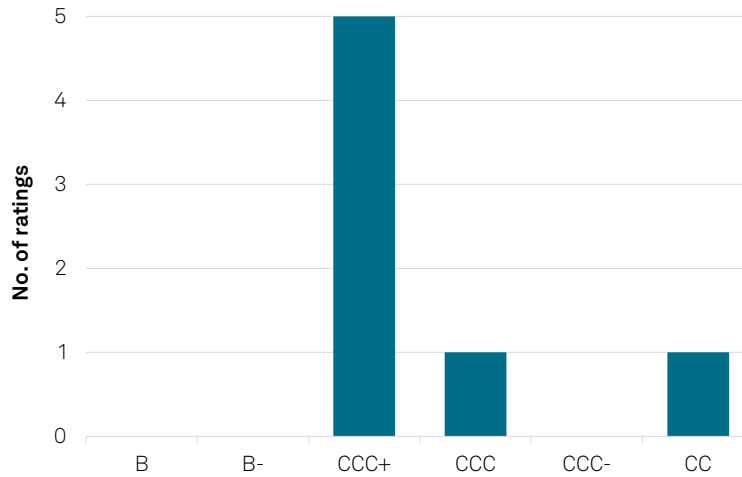
Chart 3

Downgrade To 'SD'/'D'



Chart 4

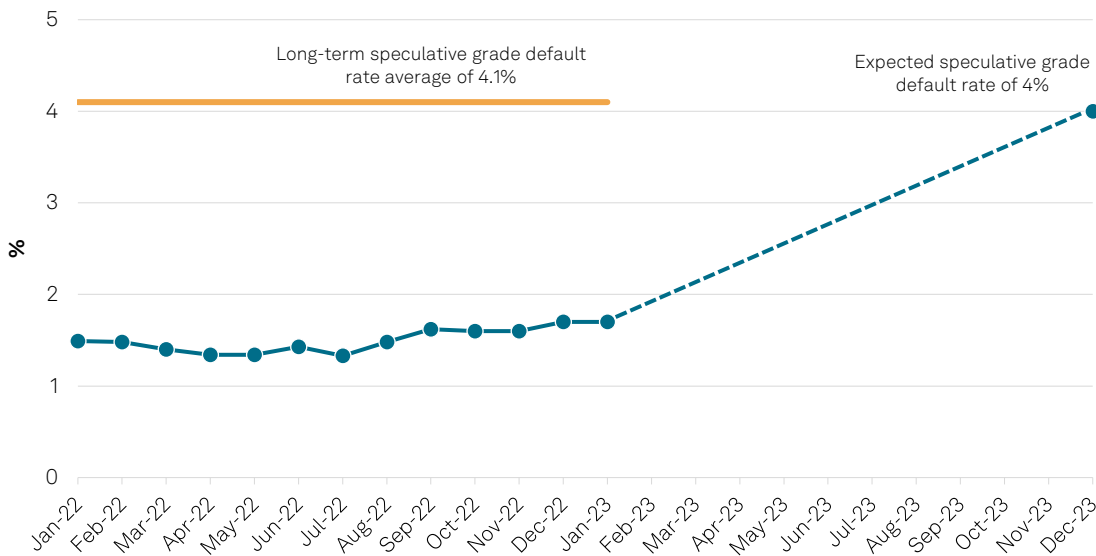
Ratings Raised After Default ('SD')



Note: Data as of Feb. 28, 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, [Corporate Default Momentum Continues With Eight Defaults In January](#), published Feb. 13, 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

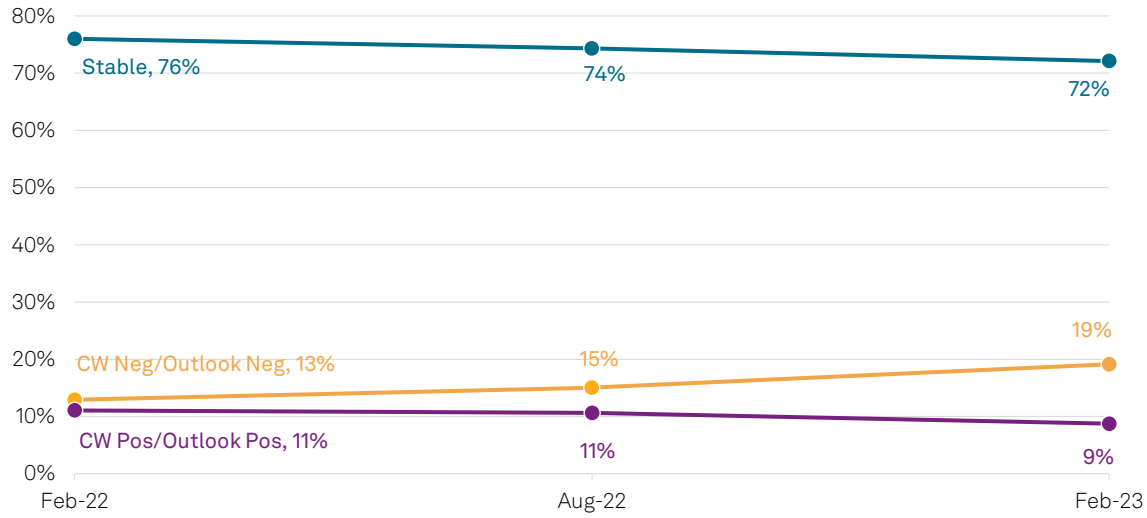


Note: Data as of Jan. 31, 2023. The long-term average dates back to Dec. 1981. Source: S&P Global Ratings. [Corporate Default Momentum Continues With Eight Defaults In January](#), published Feb. 13, 2023.

Speculative-Grade Rating Outlook Mix

Chart 6

February 2022/2023 Speculative-Grade CreditWatch/Outlook Distribution

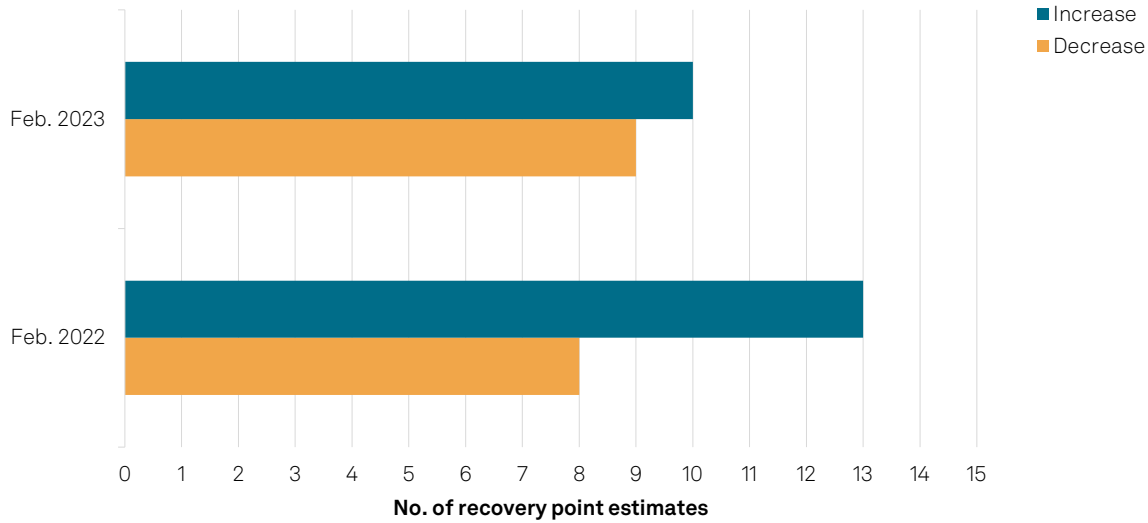


Note: Data as of Feb. 28, 2022, and 2023. CreditWatch/outlook distribution includes all U.S. and Canada corporate ratings. Does not include investment-grade issuers. Source: S&P Global Ratings.

Recovery Ratings

Chart 7

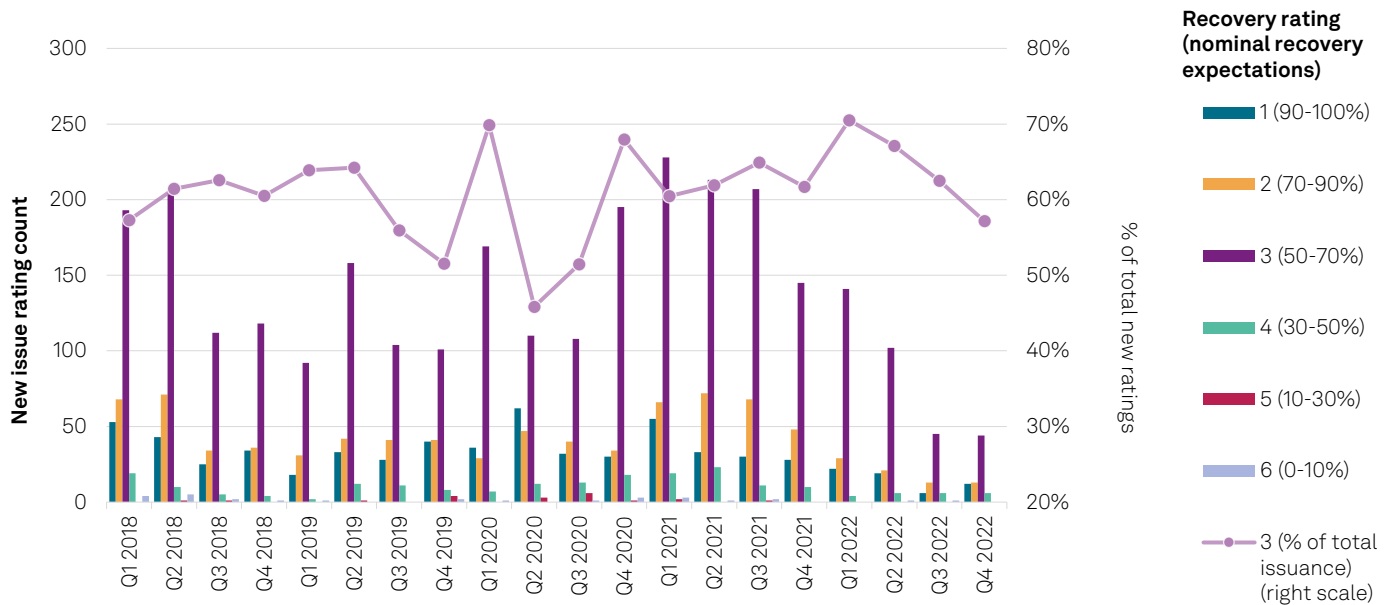
Net Changes In Recovery Point Estimates (Issuer Count)



Note: Data as of Feb. 28, 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 Obligators 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.	B+/Negative	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 March 9, 2023. NR--Not rated.

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

Sources

¹ [Growing Strains Could Push The U.S. Speculative-Grade Corporate Default Rate To 4% By December 2023](#), Feb. 16, 2023

² [The U.S. Leveraged Loan Default Rate Could Reach 2.5% By December 2023 As High Costs Catch Leveraged Credit](#), March 3, 2023

Related Research

- [Fifth Annual Study Of EBITDA Addbacks Finds Management Continues To Regularly Miss Projections](#), Feb. 16, 2023
- [U.S. Leveraged Finance Q4 2022 Update: Inflation Pressures Hit Margins, Rate Rises To Hit Cash Flow](#), Feb. 7, 2023
- [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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