

Market Insights

Sector Intelligence | Leveraged Finance

S&P Global
Ratings

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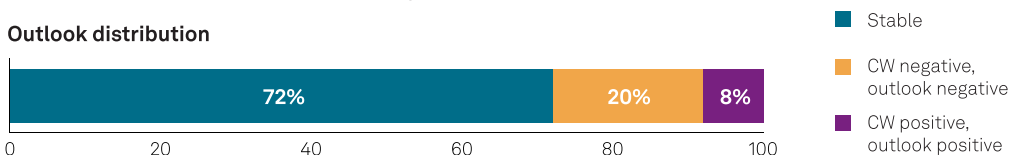
U.S. And Canada Summary Report

April 12, 2023

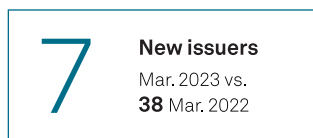
The March Snapshot

North American corporate borrowers will continue to face difficult financing conditions because the turmoil in the bank sector has exacerbated credit strains while the U.S. looks set to slip into a shallow recession

Outlook distribution



One new speculative-grade issuer in March



Top sectors



High technology



Capital goods



Transportation

The U.S. leveraged loan primary market experienced the lowest first-quarter volume since 2010



In light of the recent banking industry volatility, U.S. CLO issuers are now focused on deal-making opportunities



Defaults are on the rise in North America



25 defaults YTD Mar. 2023 vs. 7 defaults in YTD Mar. 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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Download Data

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. The downgrade momentum increased in March as some North American speculative-grade corporate issuers struggled with the difficult operating environment. If unemployment rises and discretionary spending declines, consumer-reliant sectors, which account for roughly half of the issuers in the 'CCC' to 'C' rating categories, would suffer the most. The percentage of speculative-grade issuers with a negative outlook increased modestly to 20%.
2. We expect the U.S. trailing-12-month speculative-grade corporate default rate to reach 4.0% by December 2023, which compares with 1.7% in December 2022. To reach this baseline assumption, 73 speculative-grade companies would need to default.¹ Year-to-date (YTD) as of March 31, 2023, there have been 24 defaults.
3. The increasing costs for, and declining availability of, financing are key risks for the leveraged lending market. Longer-term considerations include how potential consolidation or increased regulation in the banking sector will effect lending conditions.²

Chart Of The Month

'B' And 'B-' Issuers Reported Interest Coverage Impact of "Higher-For-Longer" Benchmark Rates

		Improvement	<= 0.25x decline	>0.25x - 0.5x decline	>0.5x - 0.75x decline	>=0.75x decline		
		Reported EBITDA margin stress						
		15%	10%	5%	0%	-5%	-10%	-15%
Benchmark rate (3-month LIBOR or SOFR)	Sample Size: 820	(16.5% median margin)	(15.8%)	(15%)	(14.4%)	(13.6%)	(12.9%)	(12.2%)
	1.1% (LTM 3Q22)	2.55x	2.43x	2.32x	2.21x LTM	2.10x	1.99x	1.88x
	2.8% (annualized 3Q22)	2.19x	2.10x	2.00x	1.91x	1.81x	1.71x	1.62x
	3%	2.14x	2.04x	1.95x	1.86x	1.76x	1.67x	1.58x
	4%	1.95x	1.86x	1.78x	1.69x	1.61x	1.53x	1.44x
	5%	1.78x	1.70x	1.63x	1.55x	1.47x	1.39x	1.32x
	6%	1.64x	1.57x	1.50x	1.43x	1.36x	1.29x	1.21x

Note: The hypothetical analysis uses the last 12-month financials as of Sept. 30, 2022, as the starting point and assumes that revenue remains unchanged. For this study, we use the average of the higher benchmark rate flow-through from table 1 and chart 2 (approximately 60% for 'B' issuers and 75% for 'B-' issuers). In the column headers, the numbers in parentheses are the median reported EBITDA margin after applying the EBITDA margin stress. Source: S&P Global Ratings.

'B' and 'B-' rated issuers could experience a 0.50x-0.75x decline in reported EBITDA interest coverage if their EBITDA margins remain unchanged and the benchmark rate stays in the 4%-6% range.

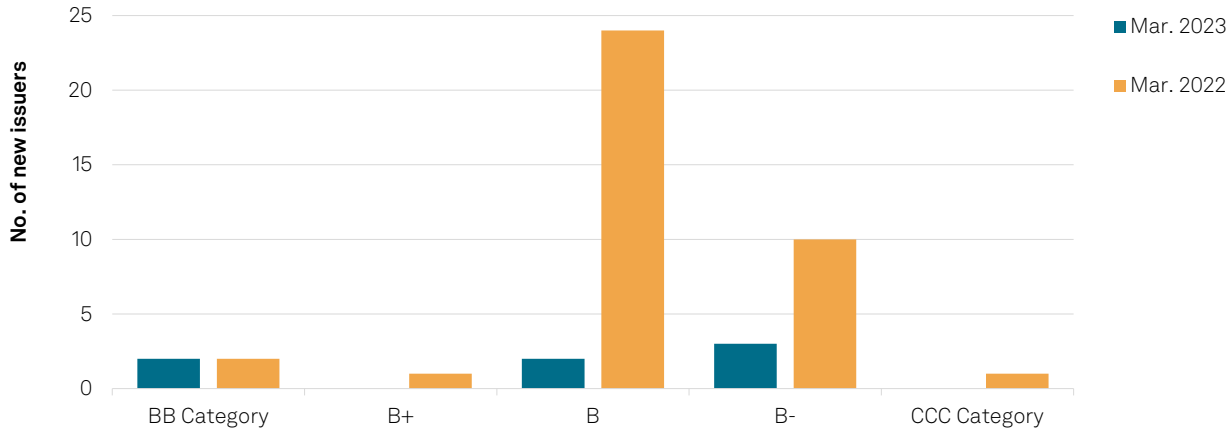
"In Table 2, we detail the results of our study, where we stress reported EBITDA margins and the annualized benchmark rate to assess their impact on reported EBITDA interest coverage ratios for 'B' and 'B-' rated issuers. The analysis assumes revenues remain unchanged and excludes refinancing transactions that result in higher credit spreads. For example, assuming reported median EBITDA margins remain at 14.4% (as of the third quarter of 2022), a 60% and 75% benchmark rate flow-through for 'B' and 'B-' issuers, respectively, and 4% annualized benchmark rates, we estimate a 0.52x (2.21x minus 1.69x) reduction in interest coverage. In this scenario, the percentage of 'B' and 'B-' issuers with reported interest coverage of less than 1x increases to 22% from 15% in the third quarter of the year."

[Read The Full Report](#)

YTD Speculative-Grade New Issuers

Chart 1

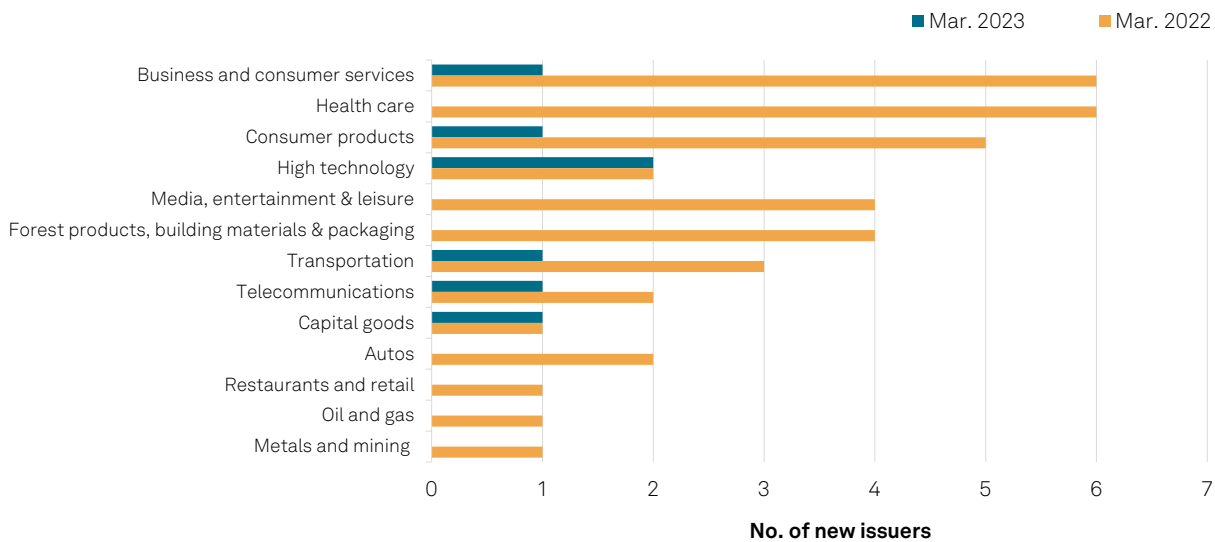
New Issuers By Rating



Note: Data represents new issuers as of Mar. 31, 2022, and 2023. Includes U.S. and Canada corporate ratings and excludes confidential issuers. There were five new issuers in March 2022 and one in March 2023. Source: S&P Global Ratings.

Chart 2

New Issuers By Industry Group



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

Defaults

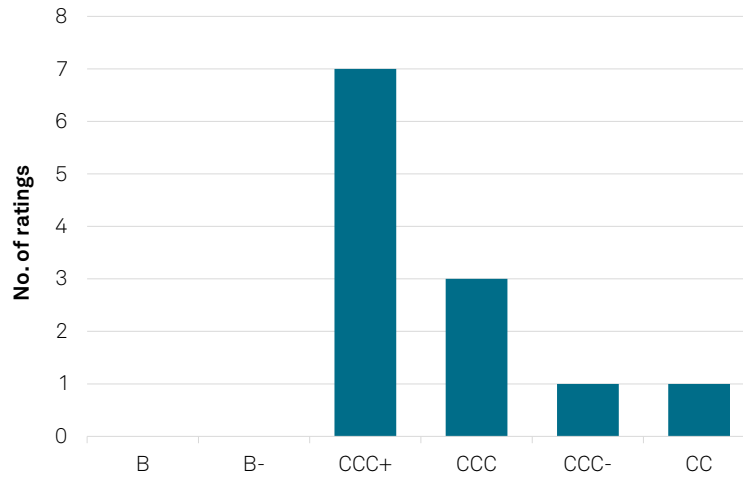
Chart 3

Downgrade To 'SD'/D'



Chart 4

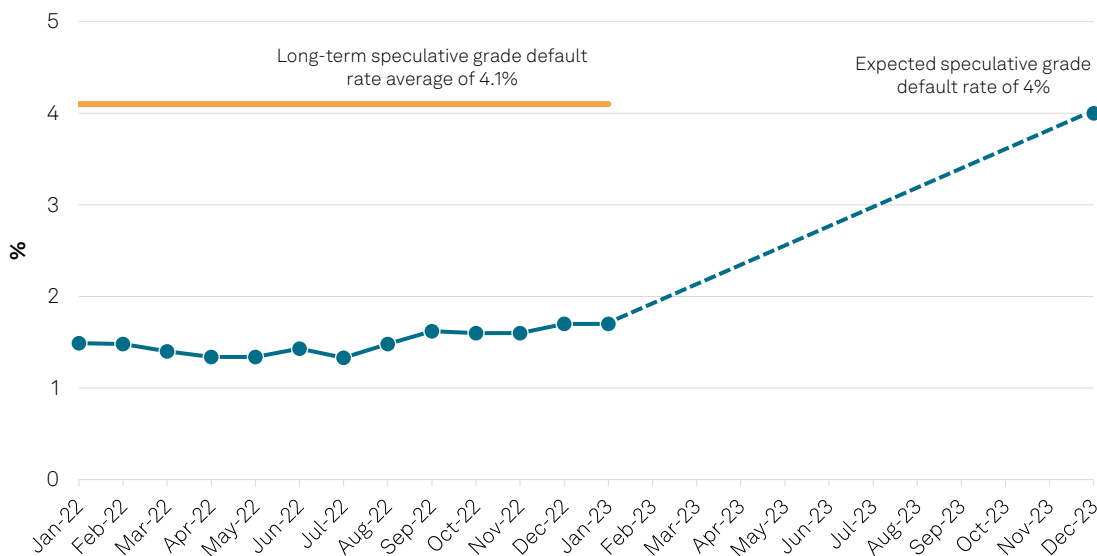
Ratings Raised After Default ('SD')



Note: Data as of YTD Mar. 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, [Corporate Defaults Reach Their Highest Year-To-Date Total Since 2009](#), published Mar. 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

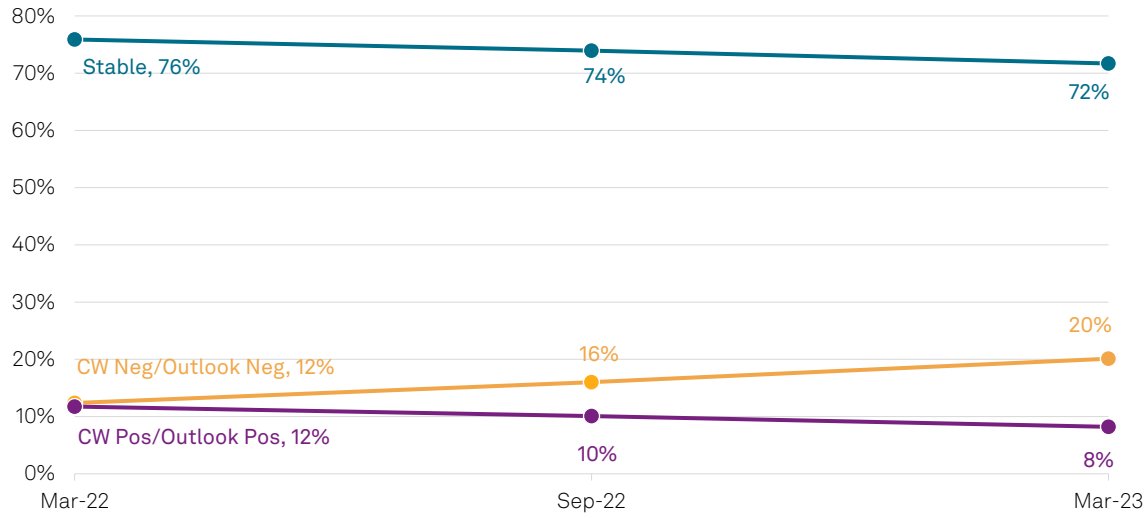


Note: Data as of Jan. 31, 2023. The long-term average dates back to Dec. 1981. Source: S&P Global Ratings. [Corporate Defaults Reach Their Highest Year-To-Date Total Since 2009](#), published Mar. 13, 2023.

Speculative-Grade Rating Outlook Mix

Chart 6

March 2022/2023 Speculative-Grade CreditWatch/Outlook Distribution

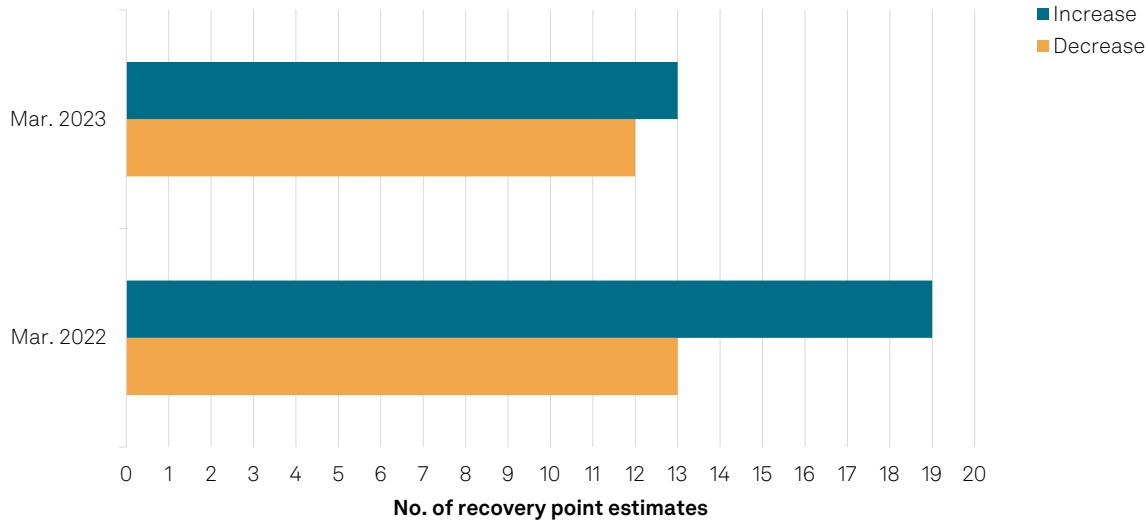


Note: Data as of Mar. 31, 2022, and 2023. CreditWatch/outlook distribution includes all U.S. and Canada corporate ratings. Does not include investment-grade issuers. Source: S&P Global Ratings.

Recovery Ratings

Chart 7

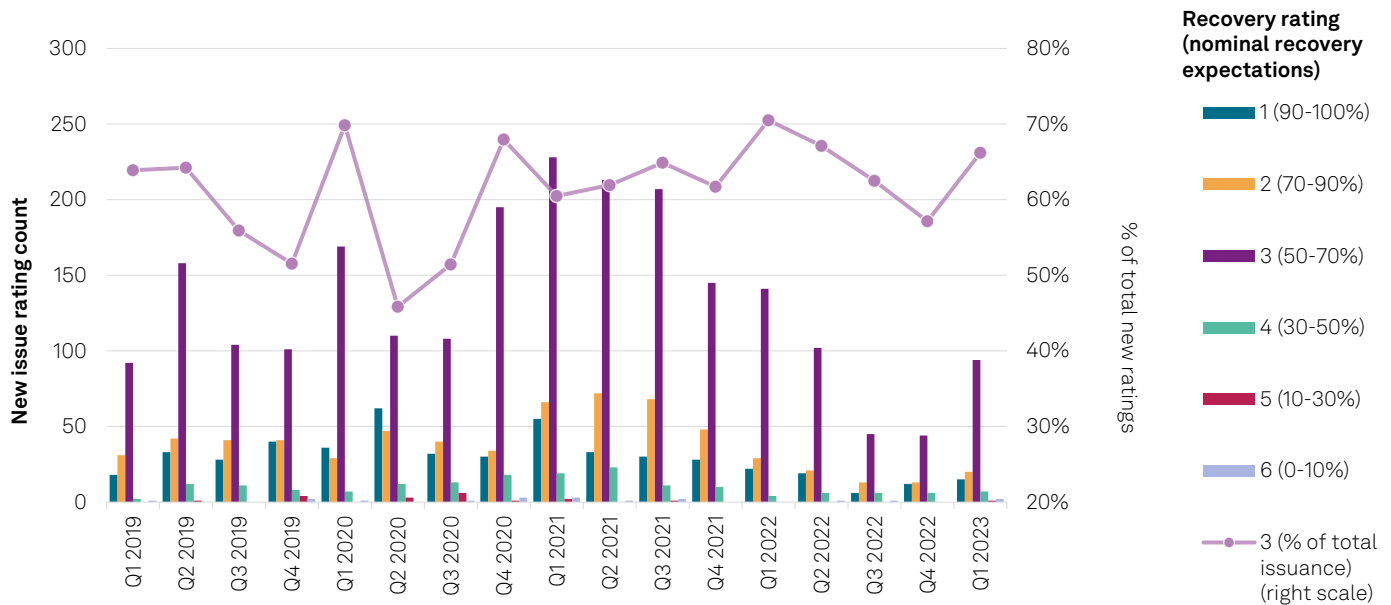
Net Changes In Recovery Point Estimates (Issuer Count)



Note: Data as of Mar. 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.	B/Negative	Diversified telecommunication services
7	Medline Borrower L.P.	B+/Stable	Health care providers and services
8	Endeavor Group Holdings Inc.	B+/Watch Positive	Entertainment
9	Athenahealth Group Inc.	B-/Stable	Health care technology
10	American Airlines Group Inc.	B-/Positive	Airlines

Note: Ratings and CreditWatch/outlooks as of April 12, 2023. NR--Not rated.

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

Middle Market CLOs | Credit Estimates

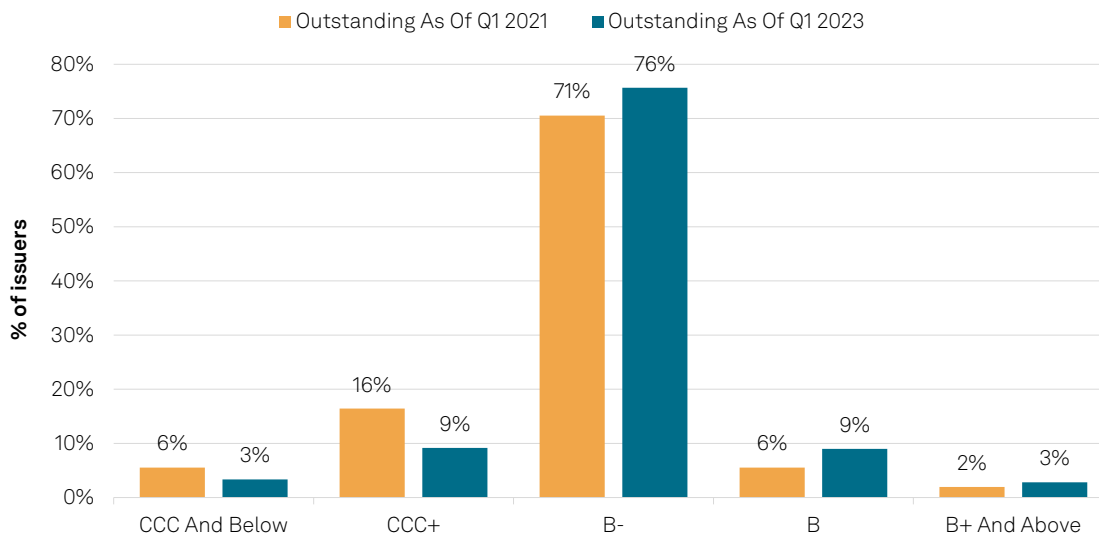
What are credit estimates?

A credit estimate is a point-in-time, confidential indication of our likely rating on a non-rated entity or instrument. A credit estimate is not a credit rating. Corporate credit estimates are primarily used in our analysis of middle-market CLOs. We may also use credit estimates to arrive at ratings for other structured finance products or for other internal purposes.

For more information, click [here](#) for the Credit FAQ on Credit Estimates.

Chart 9

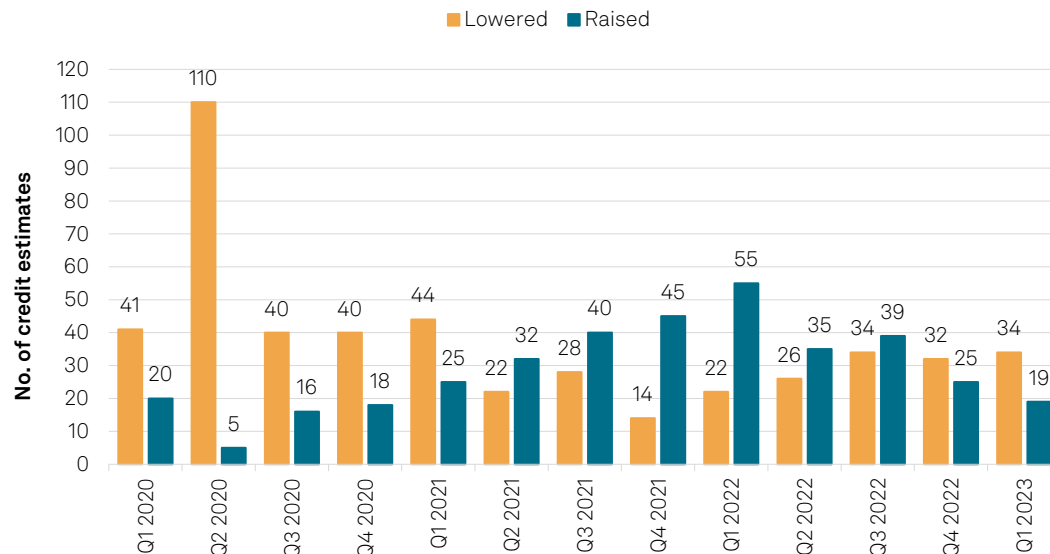
Overall Credit Estimate Distribution By Issuer Count (i)



(i) Covers all outstanding S&P Global Ratings U.S. credit estimates, including estimates for obligors not currently held within a CLO transaction. CLO--Collateralized loan obligation. Source: S&P Global Ratings.

Chart 10

Credit Estimates Raised And Lowered By Quarter (2020 – Q1 2023)



Source: S&P Global Ratings

Sources

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

² [Credit Conditions North America Q2 2023: Coalescing Stresses](#), March 28, 2023

Related Research

- [Risks To Leveraged Loans And CLOs Amid An Increasingly Cloudy Macroeconomic Environment](#), Mar. 29, 2023
- [New Study Finds U.S. Speculative-Grade Issuers Most Vulnerable To Higher-For-Longer Interest Rate Environment](#), Mar. 27, 2023
- [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

Leveraged Finance Key Resources

- [EBITDA Addback Study](#), Feb. 16, 2023
- [U.S. Speculative-Grade Corporate Default Forecast](#), Feb. 16, 2023
- [U.S. BSL CLO And Leveraged Finance Key Themes Q1 2023](#), Feb. 9, 2023
- [U.S. Leveraged Finance Q4 2022 Update](#), Feb. 7, 2023
- [U.S. And Canada Risky Credits](#), Feb. 1, 2023
- [Middle-Market CLO And Private Credit Q1 2023](#), Jan. 27, 2023
- [U.S. Corporate Default And Rating Transition](#), May 11, 2022

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