S&P Global
Ratings

Global Credit Conditions Q4 2023

Resilience Under Pressure

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Sept. 28, 2023

This report does not constitute a rating action

Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions: Asia-Pacific, Emerging Markets, Europe, and North America, which cascade into our global coverage. Discussions center on identifying credit risks and their potential rating impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the Global Committee on Sept. 21, 2023.

Contents

Global Credit Conditions: Resilience Under Pressure

Resilience: Economies have avoided major pitfalls since the pandemic, helping borrowers partly offset, or at least postpone, the major headwinds from rising rates.

Credit erosion and divergence: Defaults have picked up in 2023 and will increase into next year among weaker borrowers. Investment-grade ratings can better absorb higher borrowing costs and are expected to see relatively muted credit deterioration ahead, though real estate could see some downgrades.

Building stress: Persistent core inflation, a drawn-out period of high rates, and slower growth will challenge weaker-rated corporates and emerging markets.

Risks remain high: A more severe economic downturn, a longer-than-expected period of high rates, geopolitical events, and challenges for China could derail our base case and lead to weaker business activity and market liquidity when large 2025 maturities loom.

Global credit conditions: key highlights

Slower GDP growth in 2024

Global: 2.8%

U.S.: **1.3%**, eurozone: **0.9%**, China: **4.4%**

Persistent inflation 2023

Core inflation (Q4 averages YoY % change)

U.S.: **4.1%**
eurozone: **4.4%**
U.K.: **5.8%**

Higher for longer

5.1%

median estimate for Fed Funds Rate at end of 2024*

Diverging negative bias

As of Sept. 15, 2023

Investment-grade: **9.3%**
Speculative-grade: **20.2%**
'B-' & lower: **37.5%**

'CCC+' and lower

All corporates (% of all spec-grade)
As of Aug. 31, 2023

Global: 10.3%

U.S.: **12.5%**
Europe: **9.2%**
RoW.: **7.2%**

Corporate debt

As of July 1, 2023

$1.2 tril.

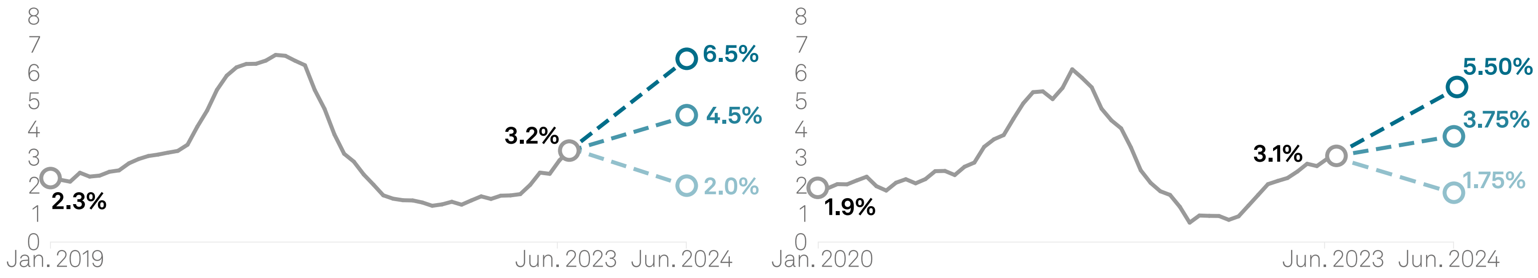
rated 'B-' or lower and

60%

due through 2027

Trailing-12-month speculative-grade default rate and June 2024 forecast

U.S. | Europe

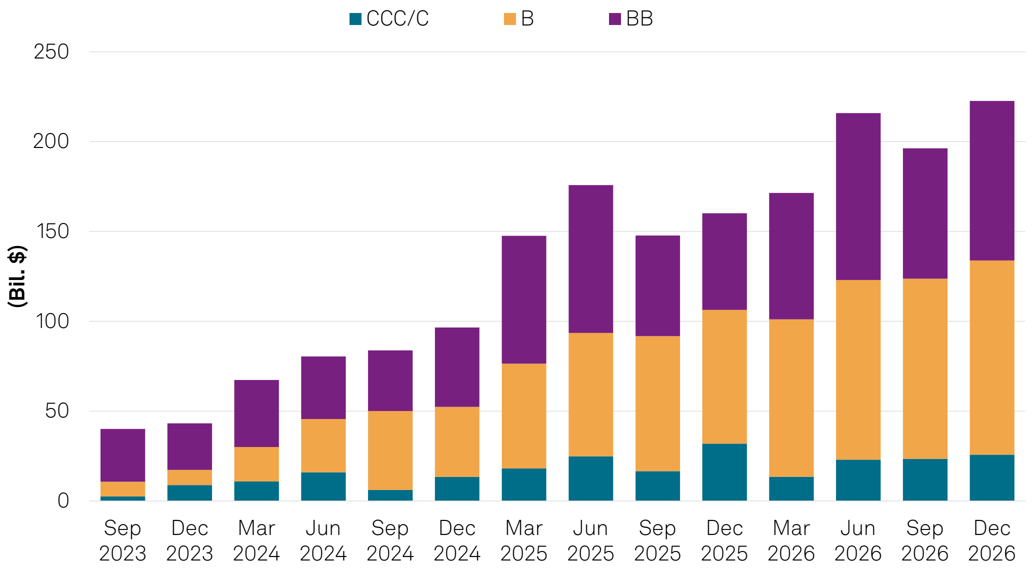


*Based on Sept. 2023 Federal Reserve dot-plot. Trend lines point to our optimistic-, base-, and worse-case scenarios. Negative bias is calculated as the percentage of ratings with negative outlooks. Sources: S&P Global Ratings Research and S&P Global Market Intelligence's CreditPro®.

Higher For Longer Will Be A Lingering Challenge To Markets And Issuers

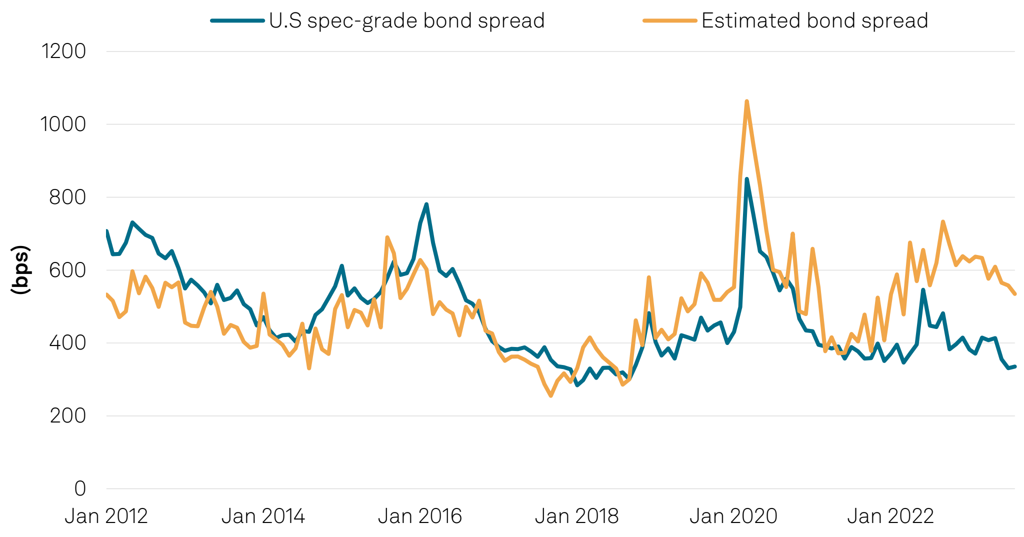
- Borrowing costs have risen at a faster pace since early 2022 as major central banks hike policy rates in response to inflation.
- We anticipate market rates will stay high for a protracted period, even if some relief arrives in the next 12 months.
- Many fixed-rate bond issuers have thus far avoided refinancing at current rates, but bills are coming due very shortly, with a large uptick for the weakest borrowers in 2025.

Global refi wall on the horizon in a higher-for-longer rate environment



Corporate and financial services refi data as of July 1, 2023. Source: S&P Global Ratings Research & Insights.

Current market optimism may be tested



Spread data through August. Source: S&P Global Ratings Research & Insights.

Global Top Risks: Higher For Longer Remains Primary Credit Risk

An extended period of high rates would further strain many of the weakest borrowers

Risk level: High **Risk trend:** Unchanged

A prolonged period of high rates would become more challenging as more debt maturities come up in 2025, either locking out the weakest borrowers, or with most issuers facing higher ongoing debt service costs. This could be exacerbated as inflation slows, raising the level of real interest rates. When combined with slower growth, lenders typically become even more selective or demand greater compensation for increased risk. This could contribute to default rates reaching our pessimistic cases of 6.5% in the U.S. and 5.5% in Europe.

Global real estate markets challenges could worsen across multiple regions

Risk level: Elevated **Risk trend:** Unchanged

High interest rates, falling valuations and cash flow, hybrid work environments, and high leverage together present headwinds for both the commercial and residential real estate sectors, as well as some countries' homebuilders. Spillover effects from vulnerable real estate holdings could further affect some banking systems via falling asset values/increased write-downs.

An economic hard landing would lead to greater credit stress

Risk level: High **Risk trend:** Unchanged

Most countries have entered a slower growth period. Currently, the U.S. is still showing strong performance, but signs of strain among consumers are starting to show. Downside risks could lead to slower growth than our base-case expectations, which could ultimately suppress demand and weaken revenues for the private and public sectors.

China's economic growth challenges could cause ripple effects globally

Risk level: Elevated **Risk trend:** Unchanged

China's economy could weaken on multiple fronts at once, such as renewed housing sector stress, high leverage among corporations and local government financing vehicles, weakening consumer confidence, and reduced trade demand. Given China's large proportion of global trade, its slump could spread to multiple regions.

Risk levels may be classified as moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base case rating assumptions unless the risk level is very high.

Moderate | Elevated | High | Very high

Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Improving | Unchanged | Worsening

Source: S&P Global Ratings.

Global Top Risks: Structural Risks Could Rise Slowly Over Longer Periods

Climate risks and energy transition affect business operations

Risk level:	Elevated	Risk trend:	Worsening

Larger and more frequent natural disasters increase the physical risks public and private entities face and threaten to disrupt supply chains, such as for agriculture and food. This may quickly become a headline risk in the near term as the El Nino phenomenon is expected to disrupt agricultural commodities this year, particularly among emerging markets. At the same time, the global drive toward a "net-zero" economy heightens transition risks (such as policy, legal, technology, market, and reputation risks) across many sectors and will likely require significant investments. The energy market disruption resulting from the Russia-Ukraine conflict, and concerns about energy supply and security, are adding uncertainty to this transition. In the U.S., we see transition risks as less acute currently than in Europe, since U.S. legislative policies focus more on subsidies and incentives rather than carbon taxes and trading. But policy and, hence, transition risks can shift over time as climate emergency escalates.

Cyberattacks and the potential for rapid technological change threaten global business and government infrastructure

Risk level:	Elevated	Risk trend:	Worsening

Amid increasing technological dependency and global interconnectedness, cyberattacks pose a potential systemic threat and significant single-entity event risk. The Russia-Ukraine conflict is raising the prospect of major attacks. Criminal and state-sponsored cyberattacks are likely to increase, and with hackers becoming more sophisticated, new targets and methods are emerging. A key to resilience is a robust cybersecurity system, from internal governance to IT software, all requiring additional costs. Entities lacking well-tested playbooks (such as active detection and swift remediation) are the most vulnerable. Meanwhile, increased digitization and the introduction of AI by public and private organizations will foster broader operational disruptions, and potentially increase market volatility for short periods or even pose greater economic adjustments.

Geopolitical tensions threaten market and business confidence, trade, and a renewal of inflation

Risk level:	Elevated	Risk trend:	Worsening

Geopolitical tensions such as persistent U.S.-China frictions, the ongoing Russia-Ukraine conflict, and domestic issues within certain emerging markets all have the ability to curb business activity, trade, supply chains, and investment flows as well as increase financial market volatility if they escalate.

Risk levels may be classified as moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base case rating assumptions unless the risk level is very high.

Moderate	Elevated	High	Very high

Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Improving	Unchanged	Worsening

Source: S&P Global Ratings.

Economic Conditions

Nearing The Rate Plateau: Slowing Growth And Higher Rates Ahead

- We now see diverging growth outcomes across major regions, with the U.S. still running hot, the eurozone stalling, and China undershooting its growth target, reflecting property sector woes.
- Despite the fastest pace of advanced country policy rate increases in decades, demand for services remains strong and labor markets remain tight. Core inflation is well above target in most economies, though it looks to have peaked.
- Major central banks are at or near their peak policy rates and are signaling that rates will stay higher into 2024. Financial markets increasingly agree. Higher for longer will temper the scope for rate cuts from emerging market central banks.
- Growth should slow in the coming quarters reflecting the effects of past rate hikes.
- On risks, we are entering a delicate phase for monetary policy given the lags. If core inflation remains persistently high, policy rates will need to go higher, increasing the risk of a hard landing.

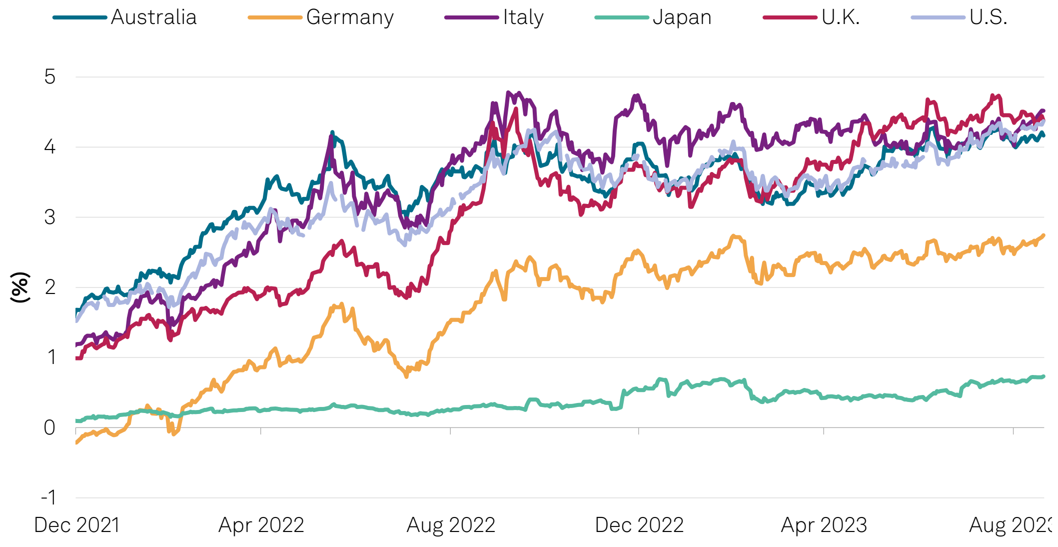
Inflation data as of Aug. 2023. Policy rates as of Sept. 2023. *Simple average. †Median for EM 17 countries. §Refi rate.
Source: S&P Global Ratings.

Financing Conditions

Nominal Yields Start To Stabilize But Won't Fall Meaningfully Anytime Soon

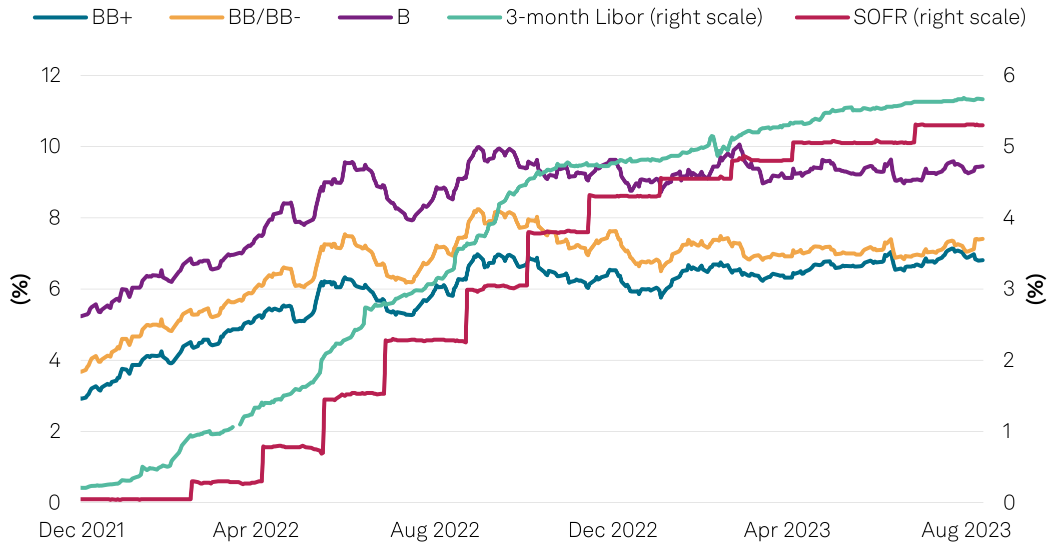
- Long-term yields (five-year maturities and longer) have largely stabilized at the new norm of higher for longer.
- Central banks appear largely done with hikes, but there could be a long wait for any meaningful cuts. We do not anticipate major central banks starting to cut rates until at least the second half of 2024.
- As inflation comes in, higher real yields remain, cutting further into margins ahead.

10-year government bond yields rise slightly this year



Data through Sept. 18, 2023.
Source: S&P Global Ratings Research & Insights, ICE BofA Option-Adjusted Spreads; Refinitiv.

Fixed-rate yields stabilize, floating rate slows the climb



Data through Sept. 18, 2023.
Source: S&P Global Ratings Research & Insights, ICE BofA Option-Adjusted Spreads; Refinitiv.

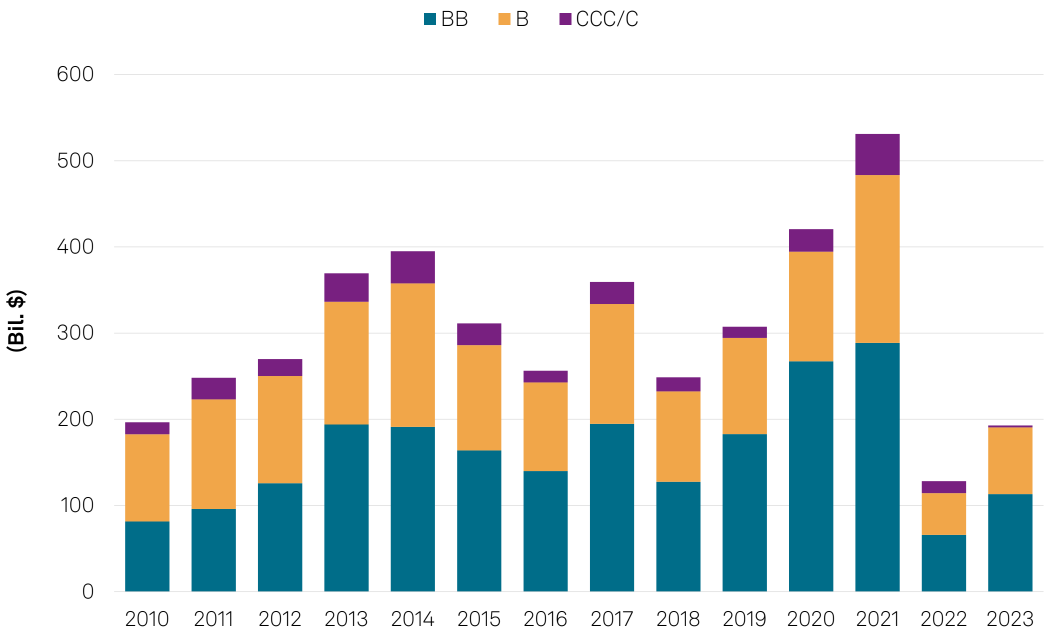
Markets Appear Optimistic But Lending Is Happening Selectively

- Low spreads are signaling greater demand for existing bonds in secondary markets, while primary markets are still subdued.
- Much debt issuance has been for refinancing, and the ‘CCC'/'C’ total this year is only $2.3 billion globally--a low not seen since the financial crisis.
- Spreads are more likely to widen in the future, and an economic downturn could make already sleepy primary markets even less liquid.

Risk pricing falls across all regions

Data through Sept. 18, 2023. bps--Basis points. EM--Emerging markets. HY--High yield. SG--Speculative grade.
Sources: S&P Global Ratings Research & Insights and ICE BofA Option-Adjusted Spreads.

But spec-grade primary bond markets are not booming



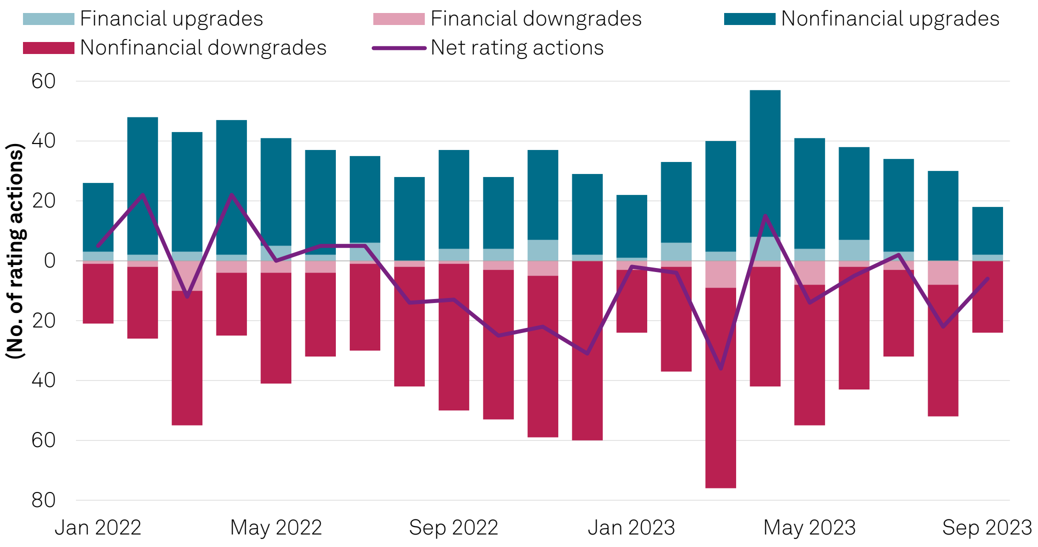
Data is year-to-date as of Sept. 18.
Sources: S&P Global Ratings Research & Insights and Refinitiv.

Rating Trends And Expectations

Credit Quality To Decline Further In 2024

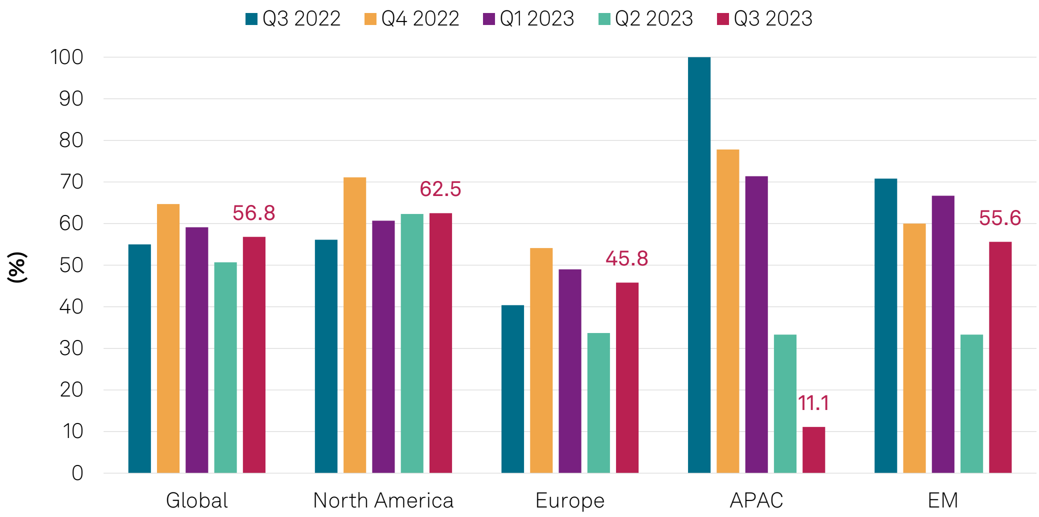
- The downgrade ratio in the third quarter is 57%, up from the prior quarter but still below the long-term average of 62%, for now.
- Given current headwinds--particularly higher borrowing costs and debt service--it's likely we'll see more downgrades than upgrades ahead.
- Most regions' downgrade ratios are on an uptrend, except for APAC, which has come off a 2022 dominated by stress in the homebuilders sector. However, stress in this sector appears far from over, which could produce more rating actions ahead.

Net rating actions turned lower in Q3 but downgrades remain modest. Upgrades are trending lower



Downgrades exclude defaults. Data as of Sept. 15, 2023. Source: S&P Global Ratings Credit Research & Insights.

Downgrade ratios in Q3 edged higher in all regions except APAC. Regional credit risks could diverge until rates bite

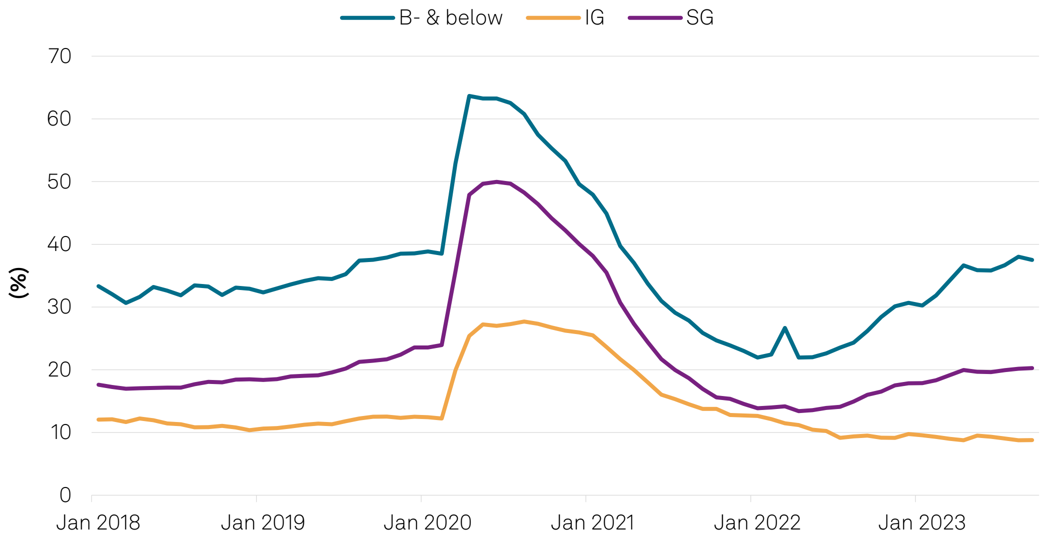


Downgrade ratios exclude defaults. Downgrade ratios include financials and nonfinancials. Data as of Sept. 15, 2023. Source: S&P Global Ratings Credit Research & Insights.

Credit Stress Ahead Expected To Be Largely Limited To Lowest Ratings

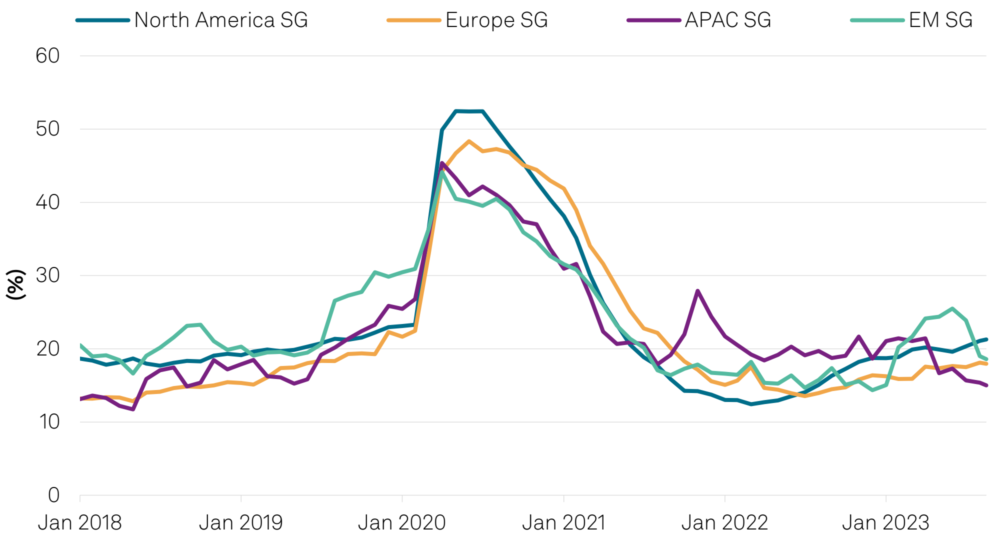
- As expected, interest rate stress continues to hit the lowest ratings hardest, a trend that could be prolonged if rates stay higher for longer as growth slows.
- Meanwhile, investment-grade companies have larger buffers in place after the surge of pandemic-era issuance and more fixed-rate debt secured with very long maturities. As a result, negative bias, at 8.79%, is within a hair of its historical low of 8.75% from April.
- Regional differences in downgrade expectations are relatively small, though in APAC, which has a proportionately stronger rating distribution, they're noticeably lower.

'B-' and below population is driving the rise in spec-grade negative bias



Excludes sovereigns. Data as of Sept. 15, 2023. IG--Investment grade. SG--Speculative grade. Source: S&P Global Research & Insights.

EM and North American currently have the highest negative bias

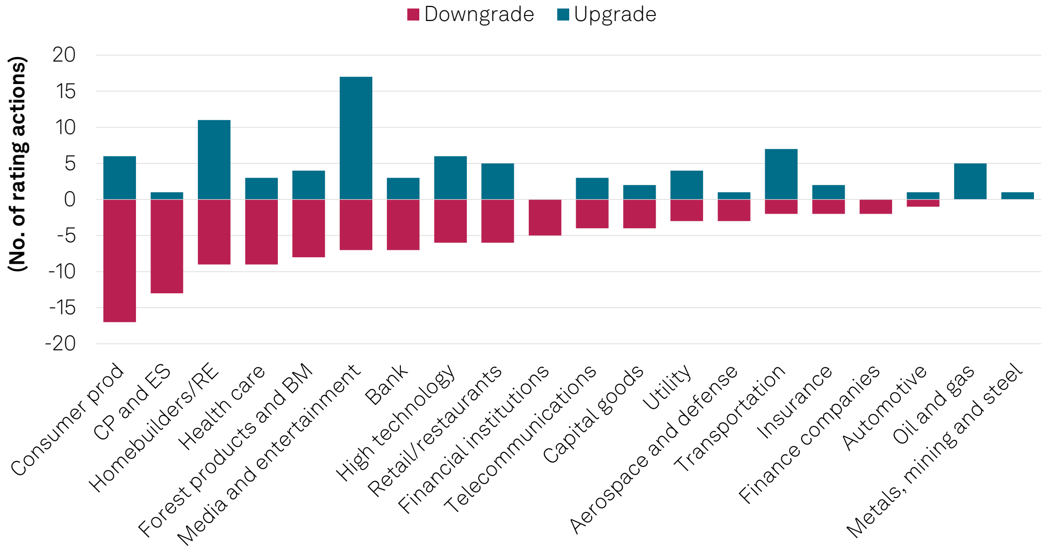


Excludes sovereigns. Data as of Sept. 15, 2023. EM--Emerging markets. IG--Investment grade. SG--Speculative grade. Source: S&P Global Research & Insights.

Consumer-Driven And Loan-Heavy Sectors Are Most Under Strain

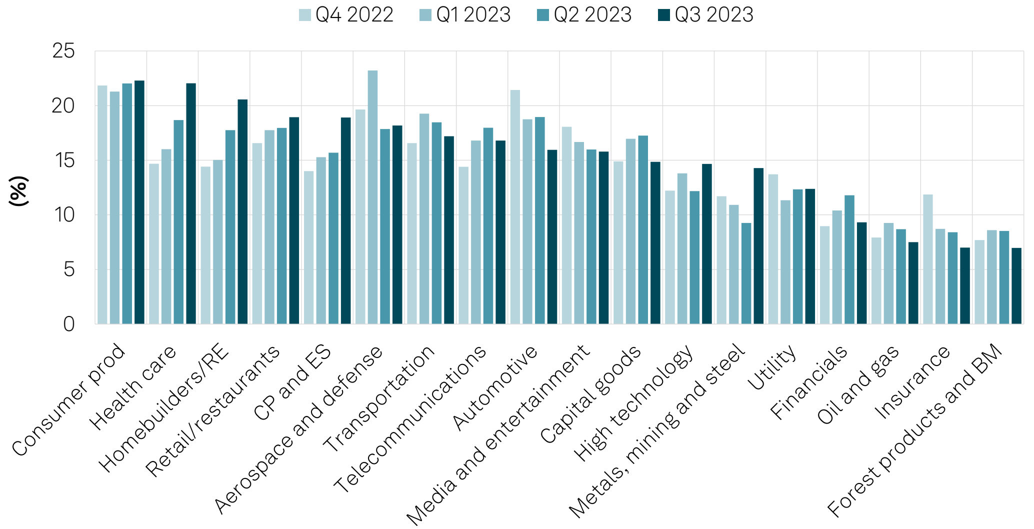
- Media and entertainment led upgrades as leisure operators in developed markets have shown resilience for the second quarter in a row.
- Nonetheless, headwinds remain for many media issuers at the lowest ratings across multiple subsectors: print, TV, business services, leisure, and gaming.
- Chemicals, packaging, and environmental services saw widespread downgrades at lower rating levels across most subsectors and regions.
- Many sectors with the most downgrades recently also have some of the highest negative bias--indicating more downgrades are likely.

Third-quarter 2023 rating actions by sector.
Both positive and negative rating actions were concentrated



Excludes sovereigns. Rating action data as of Sept. 15, 2023. CP and ES—Chemicals, packaging, and environmental services. Source: S&P Global Research & Insights.

Consumer products, health care, and homebuilders have highest neg bias.
Health care, homebuilders, and chemicals, packaging, and environmental services have increased the most year-to-date

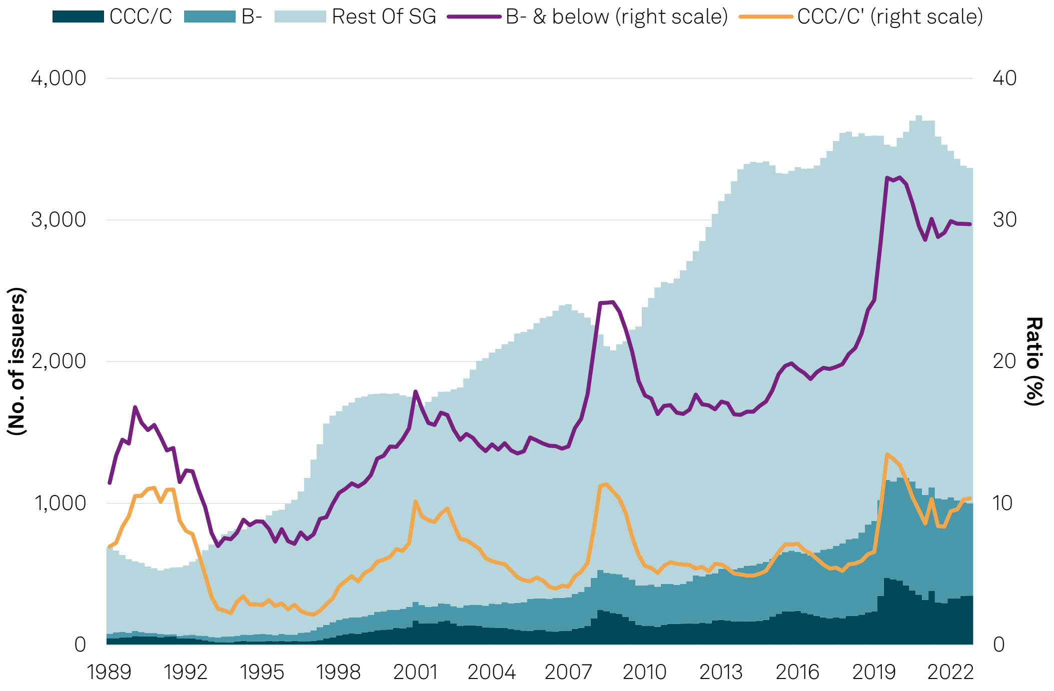


Excludes sovereigns. Bias data as of June 20, 2023. CP and ES—Chemicals, packaging, and environmental services. Source: S&P Global Research & Insights.

Buildup Of Stressed Issuers Points To A Rising Default Rate

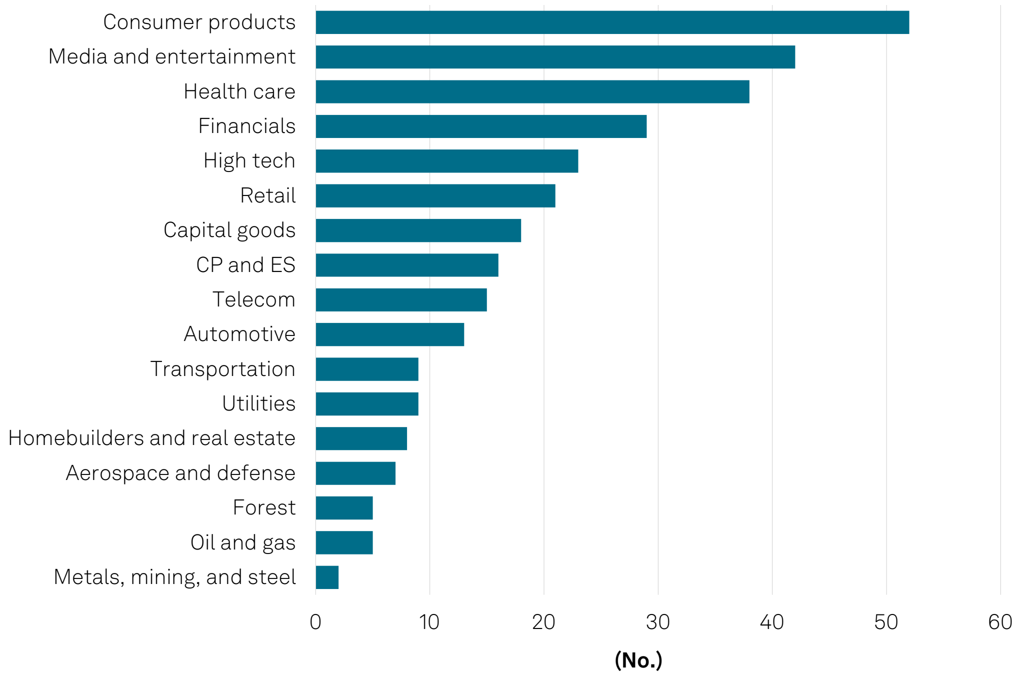
Consumer-facing sectors and those with a high proportion of floating-rate debt are leading the way.

Downgrades into 'CCC'/'C' keep ratio of weakest issuers elevated



Data as of Aug. 31, 2023. SG--Speculative grade.
Sources: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence's CreditPro.

Weakest links are highly concentrated: 42% are in consumer products, media and entertainment, and health care alone

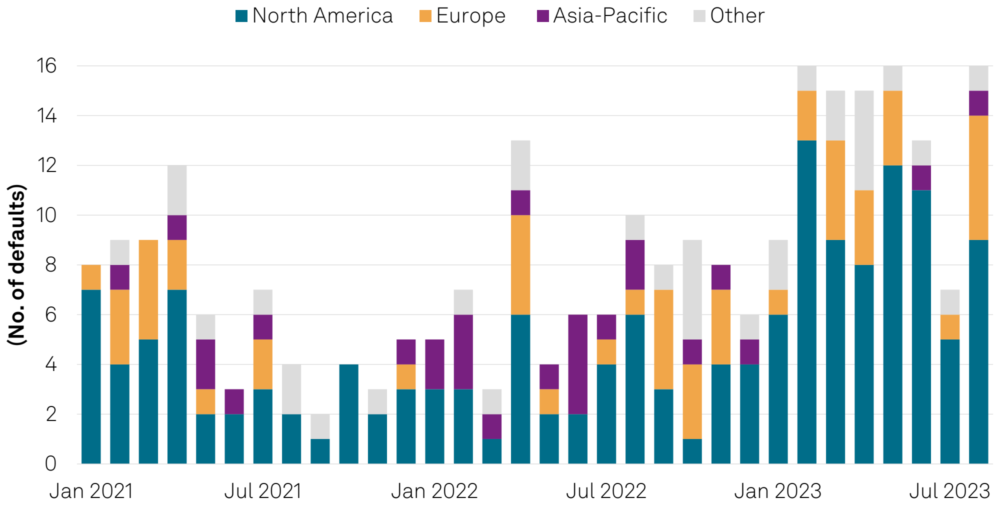


Data as of Aug. 31, 2023. CP and ES—Chemicals, packaging, and environmental services.
Sources: S&P Global Ratings Credit Research & Insights.

Global Defaults Are Gaining Speed, Driven By The U.S. And Europe

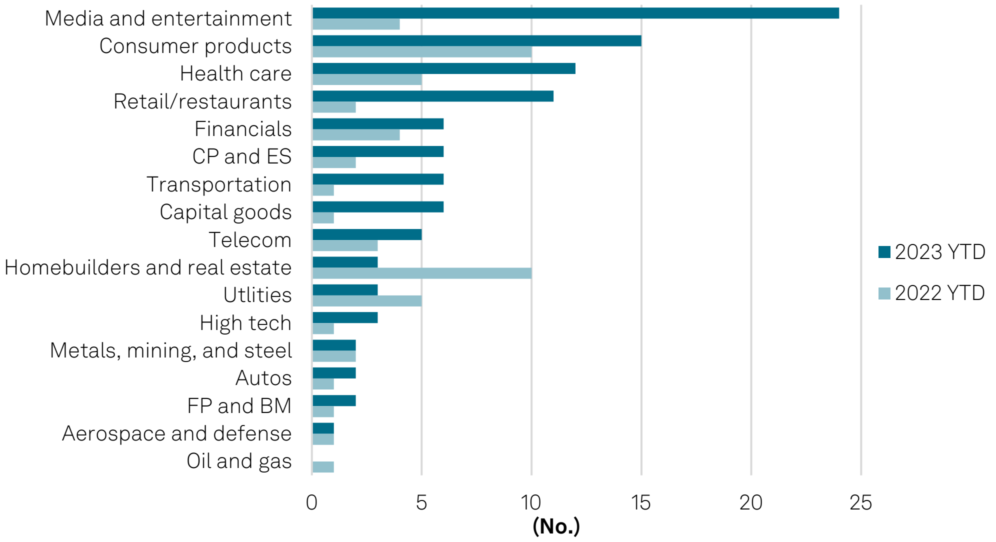
- Defaults have picked up in 2023, alongside interest rate burdens, in sectors with the most floating-rate debt and the highest shares of ratings in the 'B-' and lower categories.
- Defaults among the top four sectors are roughly 58% of all defaults in 2023 and come from sectors most anticipated to see increased defaults ahead.
- Most of these sectors are the largest users of very low-rated, floating-rate debt in recent years. Media and entertainment, consumer products, health care, and retail/restaurants have a combined 61% of their spec-grade debt in loans/revolvers, which have floating interest rates.

Pace of defaults has picked up in 2023 as debt servicing costs rise and cash flow slows



Data as of Aug. 31, 2023. Source: S&P Global Ratings Credit Research & Insights.

Global default tally year to date is twice the 2022 total

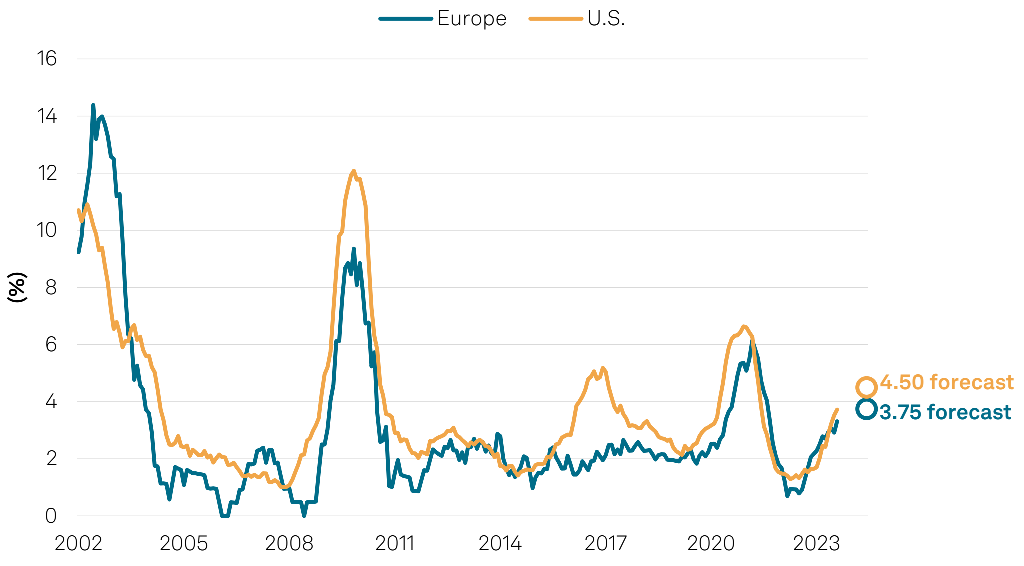


Data as of Aug 31, 2023. CP and ES—Chemicals, packaging, and environmental services. FP and BM--Forest products and building materials. YTD—Year-to-date. Source: S&P Global Ratings Credit Research & Insights.

Defaults Are Expected To Rise, With Distressed Exchanges Leading

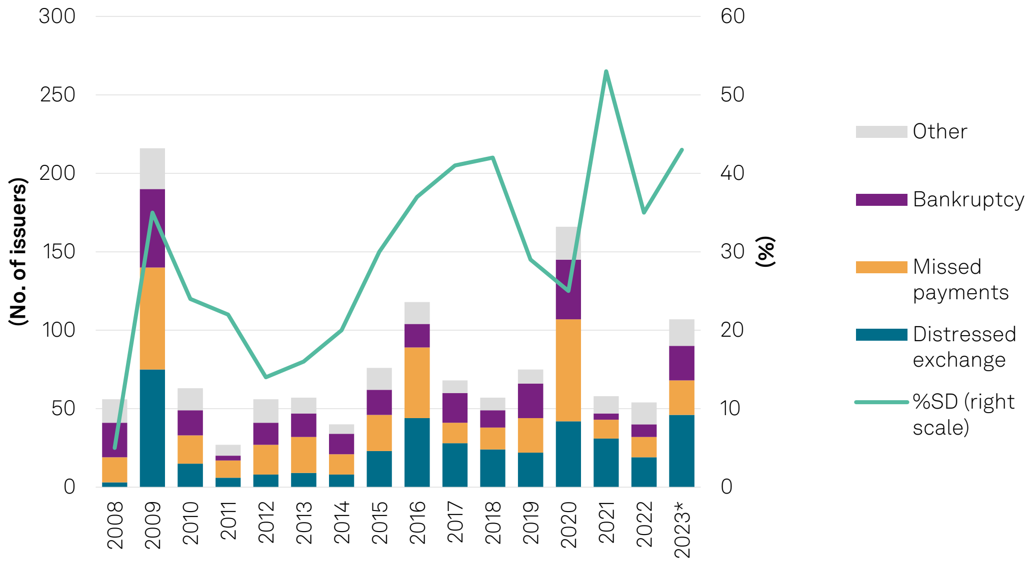
- Distressed exchanges are leading with 43% of all defaults this year, and many distressed exchanges have led to repeat defaults in the past.
- Through August, the U.S. spec-grade default rate was 3.7%, and Europe was 3.3%, roughly equal to our expectations from a year ago.
- Downside risks include even higher market rates, slower-than-anticipated economic growth, and any events that could freeze up primary markets.
- For now, repeat defaulters account for only about 9% of defaults in 2023, but this is likely to increase given the amount of distressed exchanges so far.

Defaults are expected to rise as cash flow is challenged



Through Aug. 31, 2023. Source: S&P Global Ratings Research & Insights.

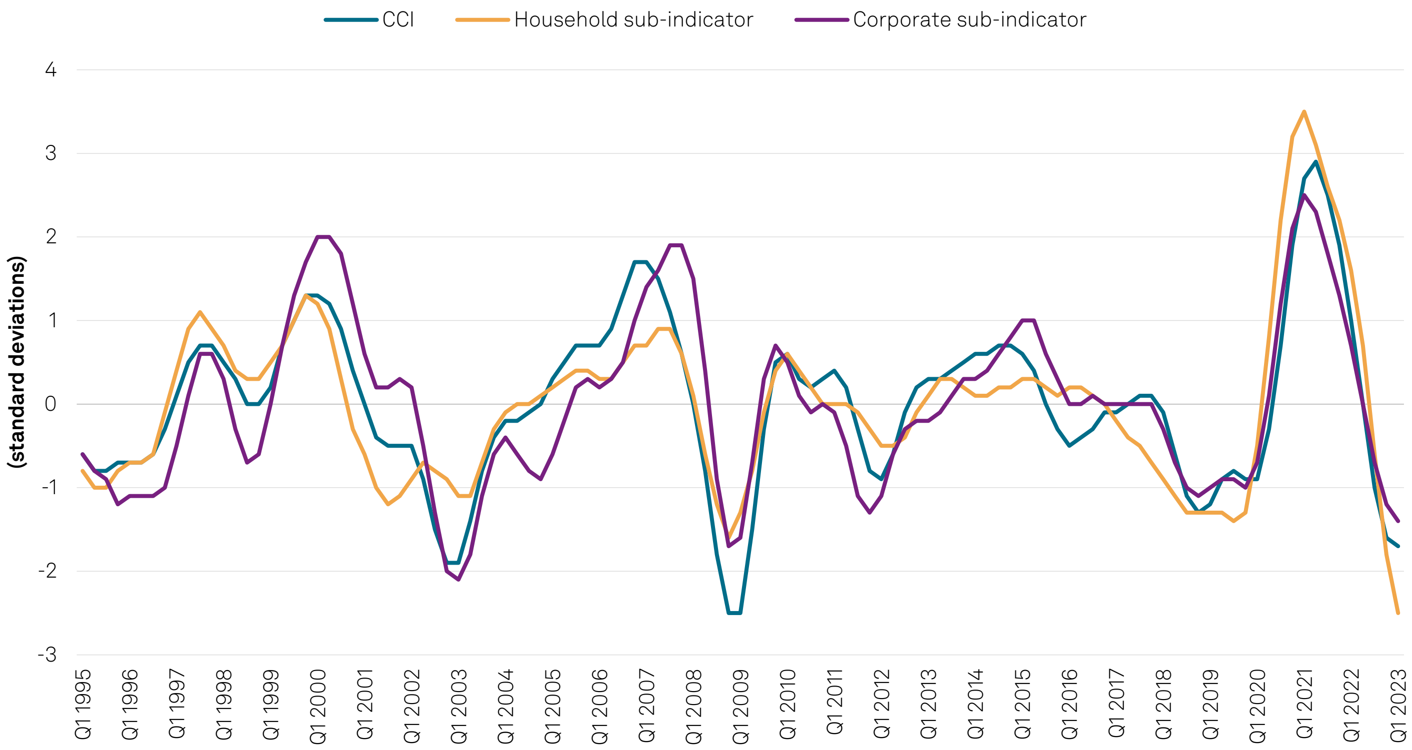
Distressed exchanges have become dominant



*Through Aug. 31. SD—Selective default. Source: S&P Global Ratings Research & Insights.

Credit Cycle Indicator Highlights Risks As Credit Correction Continues

Global credit cycle indicator



Note: Peaks in the CCI tend to lead credit stresses by six to 10 quarters. When the CCI's upward trend is prolonged or the CCI nears upper thresholds, the associated credit stress tends to be greater. Sovereign risk is not included as a formal part of the CCI. The CCI period ends in Q1 2023. Sources: Bank for International Settlements, Bloomberg, and S&P Global Ratings.

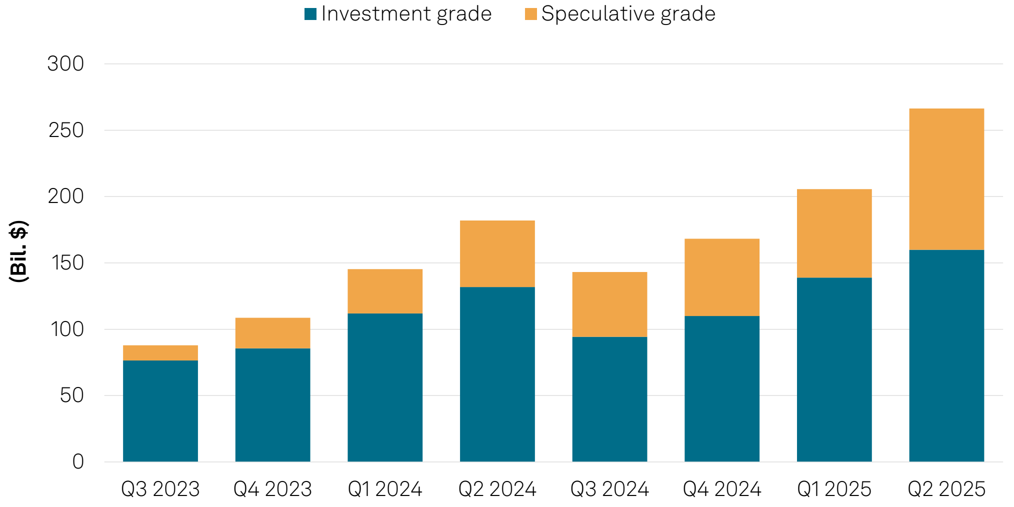
- **The Global Credit Cycle Indicator (CCI)** continued to trend down from its second-quarter 2021 peak, indicating an ongoing credit correction. Peaks in the CCI have historically led periods of credit stress by six to 10 quarters. Defaults have started to pick up, but the tailwinds from the COVID-19 pandemic, years of cheap money, and economic resilience seem to have pushed the peak in credit stress past 2023.
- **So far, broad and sustained turbulence in credit markets has not materialized.** Nonetheless, risks remain, given the extent of the cyclical buildup until 2021. As the credit correction progresses, with increasingly selective lending, higher funding costs, and downward pressure on asset prices, it could affect nonperforming loans and defaults in the coming quarters. We expect speculative-grade default rates in the U.S. and Europe to rise by over 3 percentage points from early 2022 troughs to third-quarter 2024.

Regional Credit Conditions

North America | Slowly Deteriorating Credit Conditions

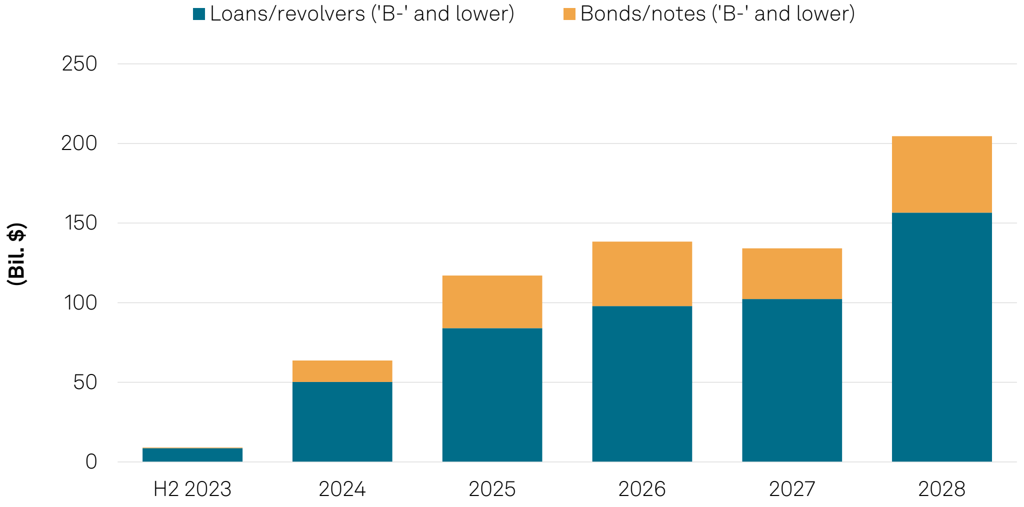
- **Higher-for-longer interest rates.** As the maturity wall approaches, the costs for borrowers (especially lower-rated ones) to service debt or refinance could be overly burdensome.
- **Consumer pullback, lingering inflation.** Any sharper pullback in spending could weigh on revenues and profits in many consumer-reliant sectors at a time when labor and input-cost pressures, while easing somewhat, remain elevated.
- **Potential credit quality erosion.** North American corporates' net outlook bias, indicating potential ratings trends, is at -10.1%, the highest since July 2021. We expect the U.S. trailing-12-month speculative-grade corporate default rate to reach 4.5% by June next year.

Maturities escalate in coming years



Data as of July 1, 2023. Maturities of U.S. nonfinancial corporate debt, including bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Source: S&P Global Ratings Credit Research & Insights.

Weaker borrowers face more pressure

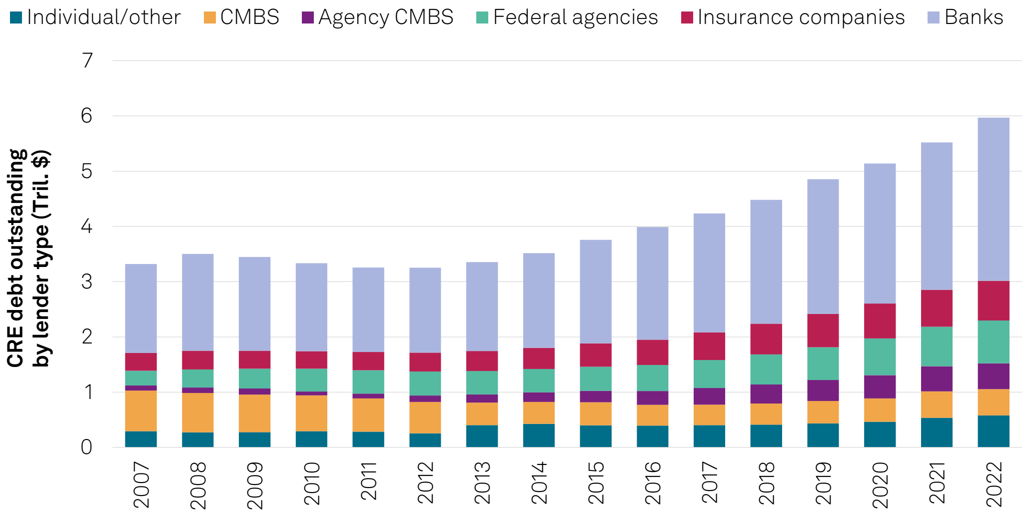


Data as of July 1, 2023. U.S. nonfinancial corporate issuers' bonds, loans, and revolving credit facilities that are rated 'B-' and lower by S&P Global Ratings. Source: S&P Global Ratings Credit Research & Insights.

North America | Commercial Real Estate Under Pressure

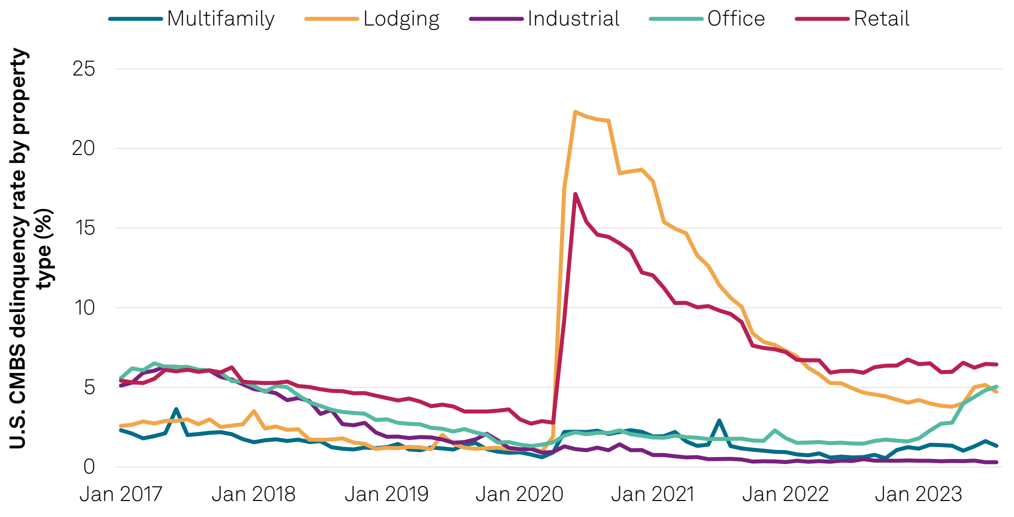
- **Falling asset valuations and heightened refinancing risk** are facing most types of U.S. commercial real estate, given higher financing costs.
- **Declining demand** for certain types of CRE--office space, in particular--is further weighing on asset valuations and curbing cash flows.
- **These factors may lead to elevated CRE-related loan losses for debtholders**, such as banks (with regional lenders having proportionately higher exposure to CRE than larger U.S. lenders do), insurers, REITs, and commercial mortgage-backed securities.

U.S. banks account for the bulk of CRE lending



Note: Bank exposure includes owner-occupied and farm mortgages. Source: Federal Reserve. See Stressful Conditions For U.S. Commercial Real Estate Are Raising Refinancing Risks, S&P Global Ratings, June 5, 2023.

Office CMBS delinquencies have risen for eight straight months

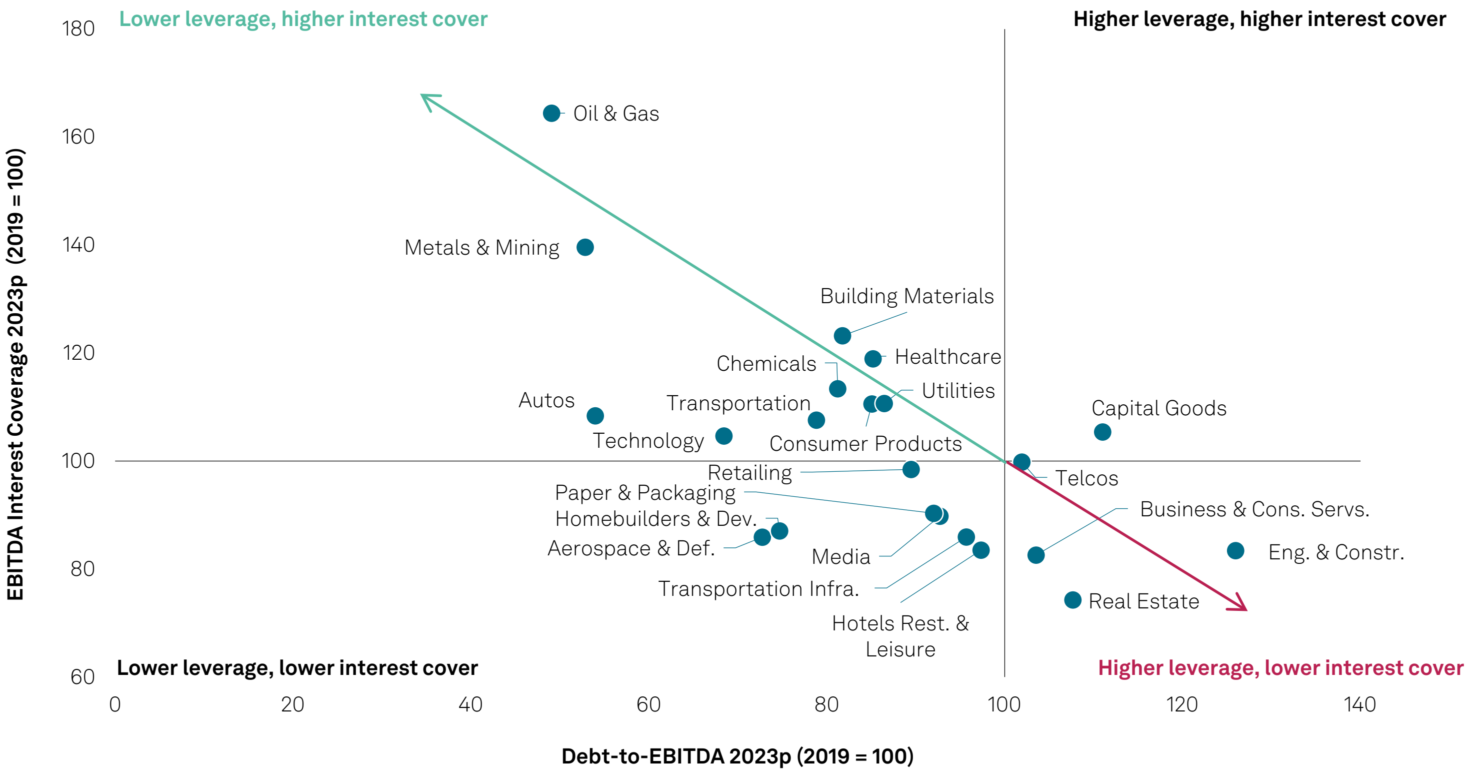


Source: Overall U.S. CMBS Delinquency Rate Declined 19 Bps To 3.6% In August; Office Loan Delinquency Rate Continues To Climb, S&P Global Ratings, Aug. 31, 2023.

Europe | Tighter Financing Conditions To Test Resilience

Corporate leverage is easing, but the interest coverage ratio is weakening

Projected 2023 leverage and interest cover by sector relative to 2019



Credit metrics are S&P Global Ratings adjusted. 2023 figures are projected. p—Projected. Source: S&P Global Ratings.

Official rates will stay higher for longer, and inflation may not return to target until late 2025. This will weigh on growth and keep financing conditions tight--and tighter in real terms--so focus on cash flow, debt service, and sustainability will inevitably increase.

Four key risks are largely unchanged from last quarter:

- A stagnating European economy dragged into a shallow recession
- Tight financing conditions exposing financial vulnerabilities and increasing defaults
- Tail risks linked to the Russia-Ukraine conflict
- Higher refinancing costs and lower valuations pressuring real estate credit quality

Corporates: The trend in credit quality is turning negative as financing conditions tighten and interest coverage ratios decline. Real estate remains one of the most exposed sectors.

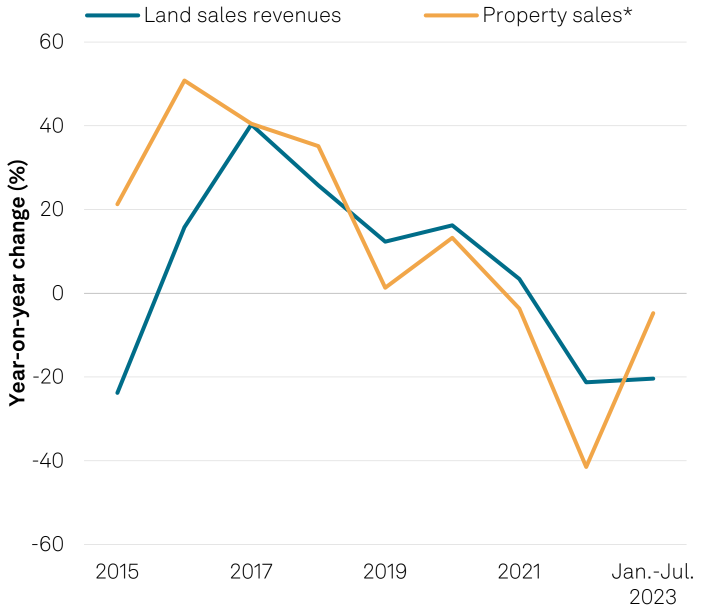
Banks: A gradual deterioration in asset quality is expected to cause banks' credit costs to normalize.

Structured finance: Ratings should be able to remain robust in the face of modest stress.

Asia-Pacific | China's Slowing Growth Bites...

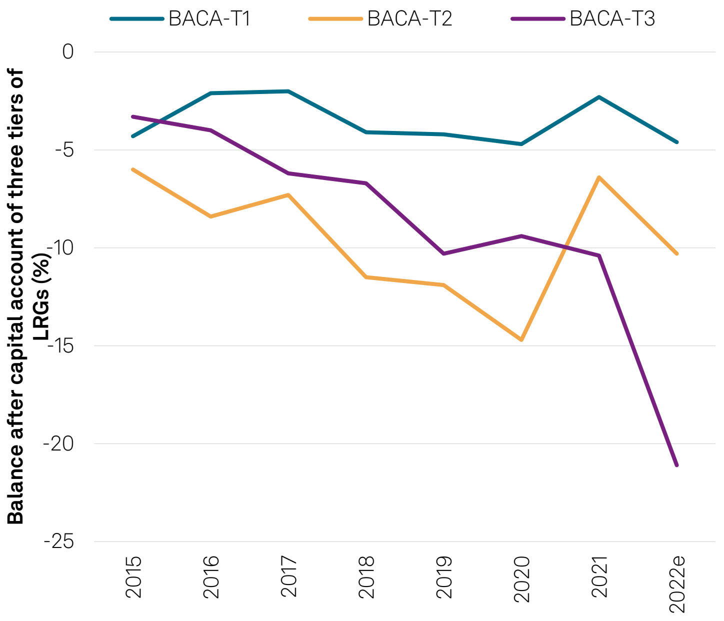
- China's economy is unsteady. A troubled property sector, uncertain local government finances, and softer exports are undermining the country's post-COVID-19 economic recovery. We don't anticipate substantial fiscal or monetary stimulus in the coming months.
- Weak property sales are hitting developers' cash flows and land acquisitions. Lower fiscal revenues of local and regional governments constrain their capacity to support state-owned enterprises and stimulate local economies--dragging business and household sentiment.

Falling sales limit land sales revenues



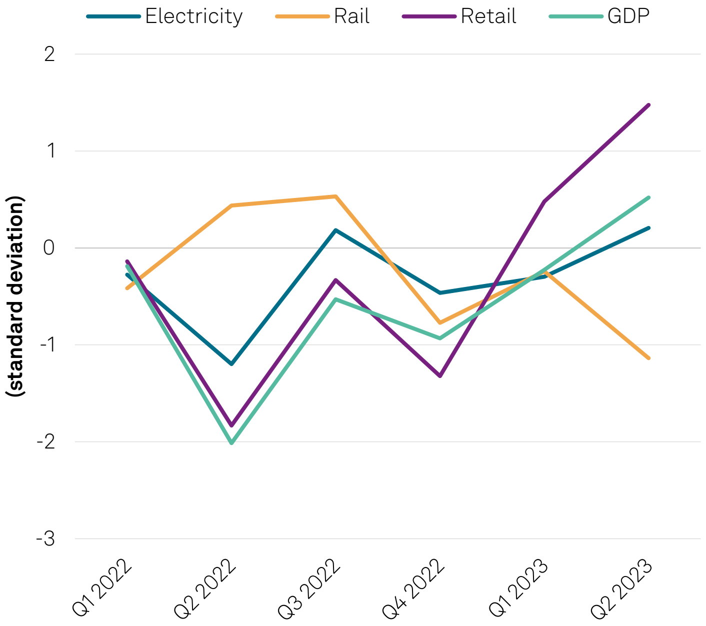
*Top 100 developers. Data source: China Real Estate Information Corp. (CRIC). Source: S&P Global Ratings.

Growing deficits among lower-tier cities



LRGs--Local and regional governments. BACA %--Adjusted total revenue subtracted by adjusted total expenditure, as a percentage of adjusted total revenues. T1--Tier-one government and so on for T2 and T3. e--Estimate. Source: S&P Global Ratings.

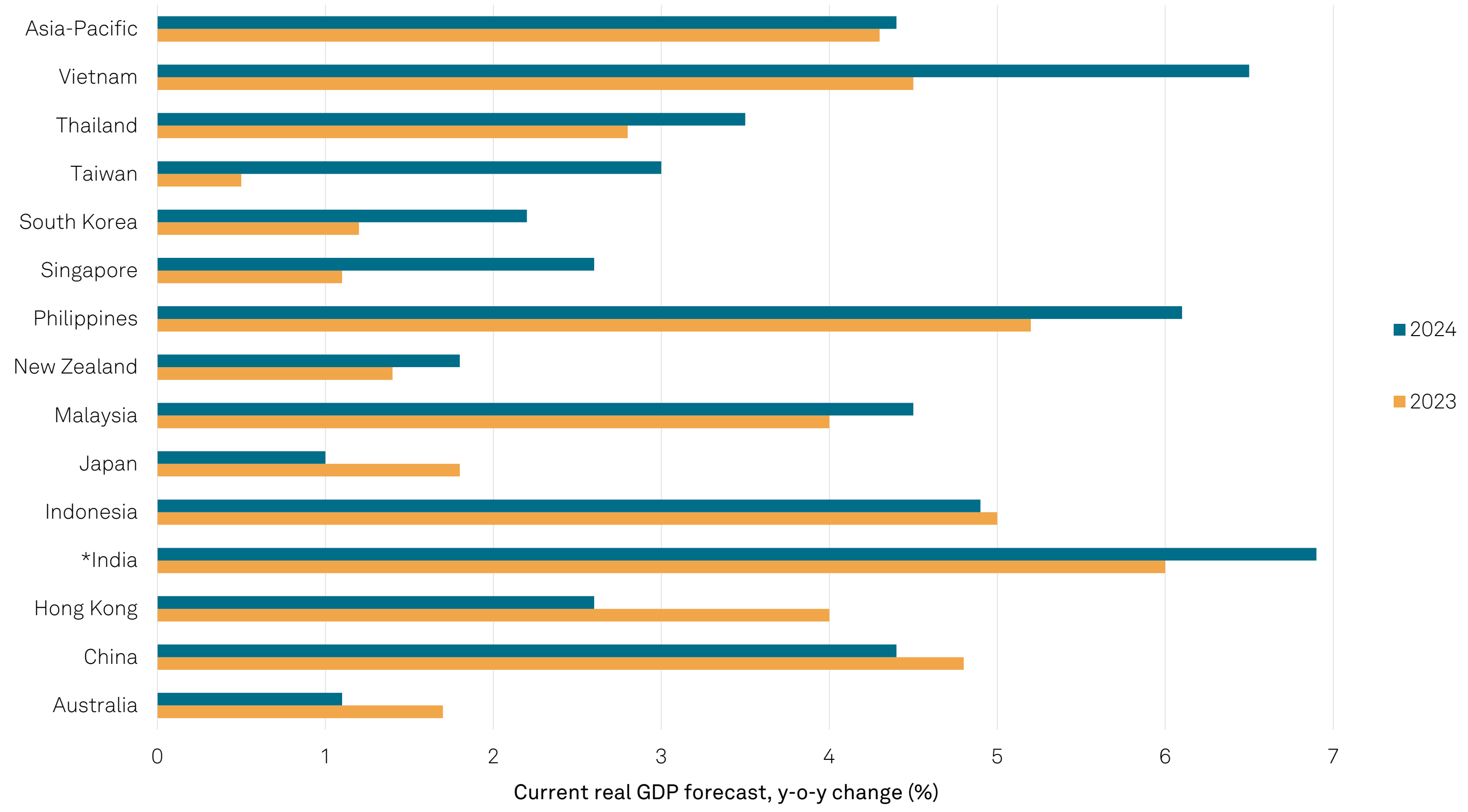
Mixed signals in China's economic growth



Series are detrended year-over-year growth rates, measured in normalized values. Source: Federal Reserve Bank of San Francisco.

Asia-Pacific | ...But The Region Remains Resilient

Resilient growth amid China slowdown



*2023 = FY 2023-24, 2024 = FY 2024-25. Source: S&P Global Ratings Economics.

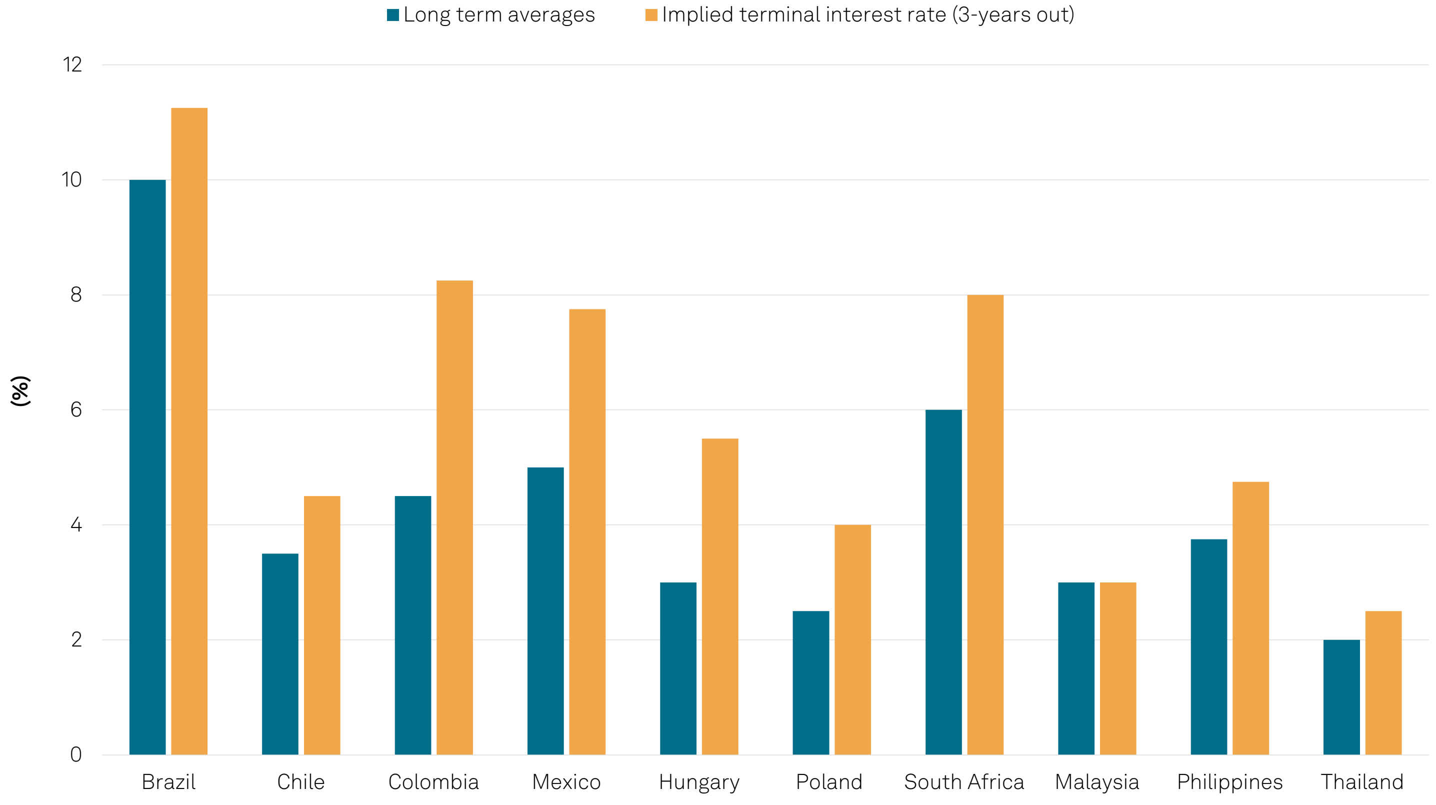
Global demand continues: A soft landing in the U.S. and Europe supports export and manufacturing demand, despite China's slower growth. However, should the U.S. face a recession, businesses and households' propensity to spend could contract.

Domestic currency pressure: With U.S. interest rates not coming down soon, widening interest rate differentials across the region could risk capital outflows and currency depreciation.

Lingering inflation: High energy and food prices are curtailing households' discretionary spending--challenging businesses' cost pass-through. Coupled with high borrowing costs, profits face compression.

Emerging Markets | Facing Higher Rates Moving Forward

EM terminal policy rates will likely stand well above the last decade's averages



Note: Calculations based on interest rate swaps, data as of Sept. 21, 2023. Long-term averages are from 2010 to 2019.
Sources: Bloomberg and S&P Global Ratings.

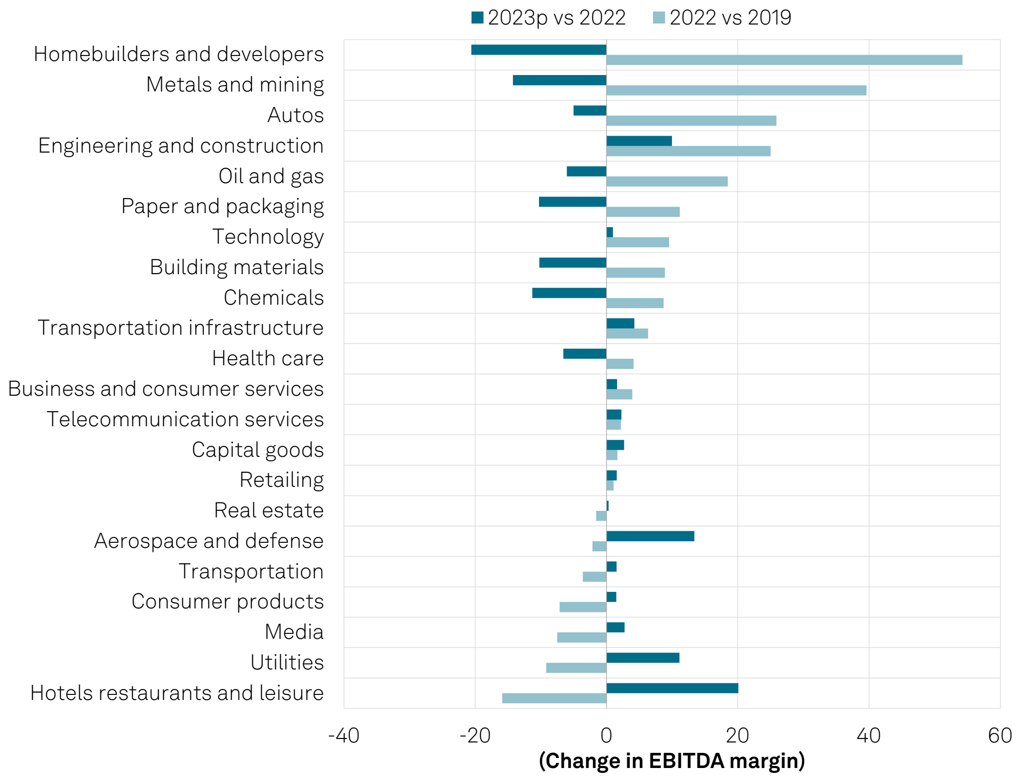
- **The relative stability in credit conditions across emerging markets (EMs) will likely be tested** by weakening growth, high interest rates, and lingering cost pressures.
- **The balance of risks for EMs remains on the downside** as recent trends in oil and food prices could bring new inflationary pressures. At the same time, the risk for a recession in the U.S. remains elevated, while Europe's and China's economies are already showing weakness.
- **Many EMs have already begun monetary easing, and we expect this trend will continue in 2024**, but terminal policy rates will likely remain high. Debt refinancing will likely complicate the picture, as global **maturities are building up, with peaks coming up in 2025**.

Sector Trends

Profit Margins Reversing Course In North America And EMEA For Most Sectors

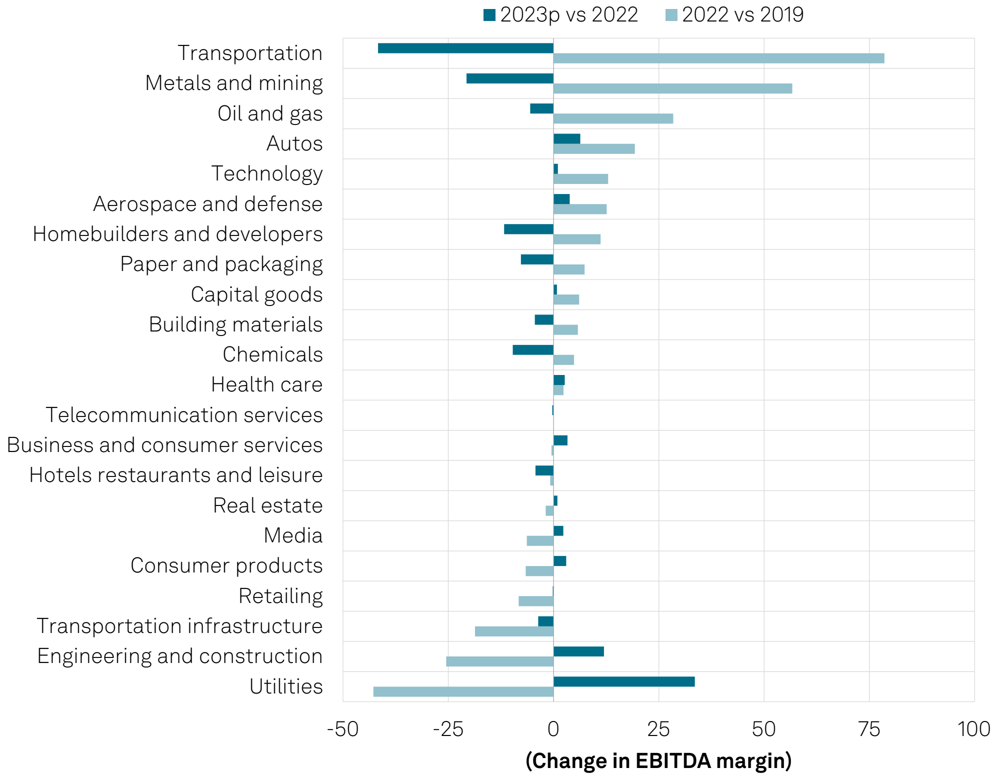
Many sectors that increased profitability in 2019-2022 have seen margins erode this year compared with 2022. The opposite is true for many sectors that found profits under pressure in 2019-2022. Notable exceptions include North American engineering and construction and EMEA automakers.

North America



Measured in U.S. dollars at historical rates. 2023 figures are projected. p—Projected. Source: S&P Global Ratings.

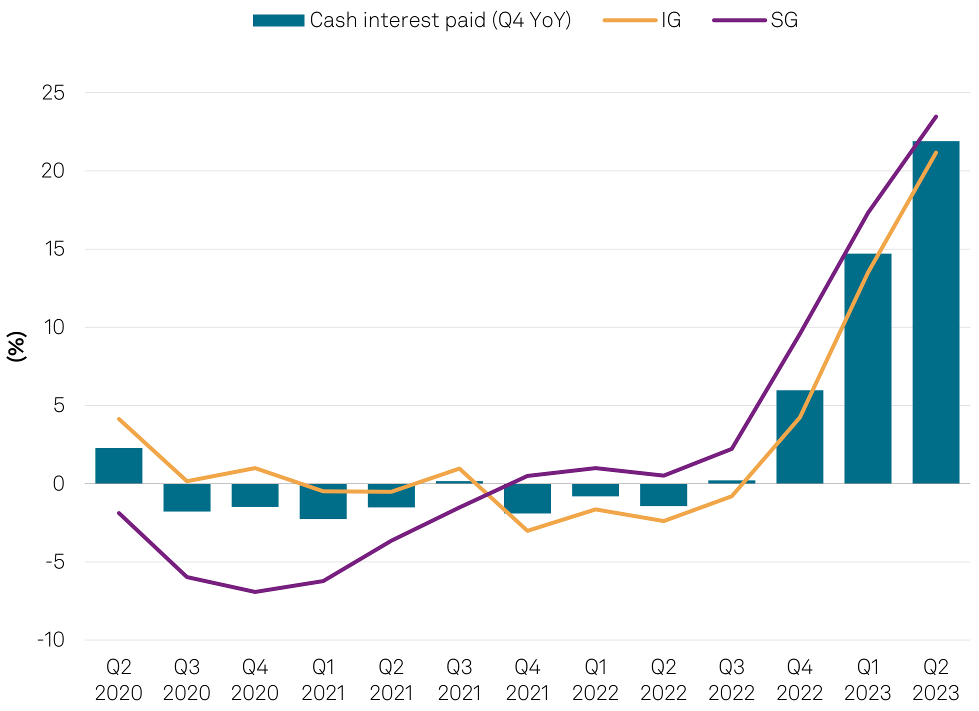
EMEA



Measured in U.S. dollars at historic alrates. 2023 figures are projected. p—Projected. Source: S&P Global Ratings.

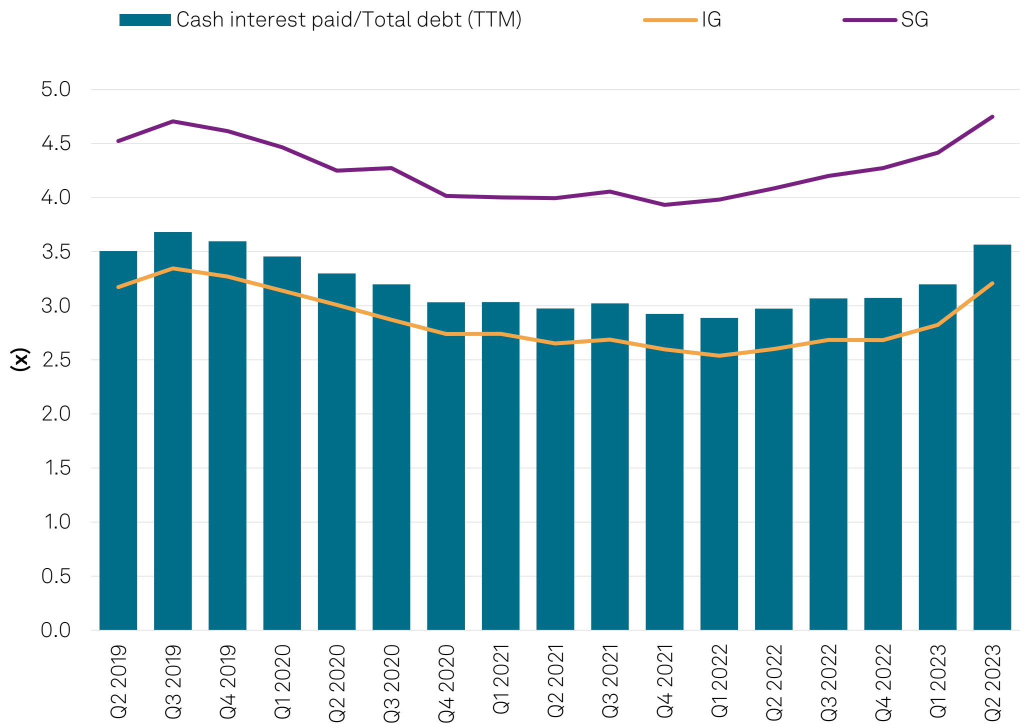
Increasing Cash Interest Paid Will Test Nonfinancial Corporates

Global | cash interest paid, trailing four quarter, YOY



Data to Sept. 5, 2023. Measured in U.S. dollars, at historical rates. Only includes companies reporting quarterly. Latest quarter growth rates only include companies that have reported Q2 2023 results. YOY—Year over year.
Sources: S&P Global Capital IQ and S&P Global Ratings.

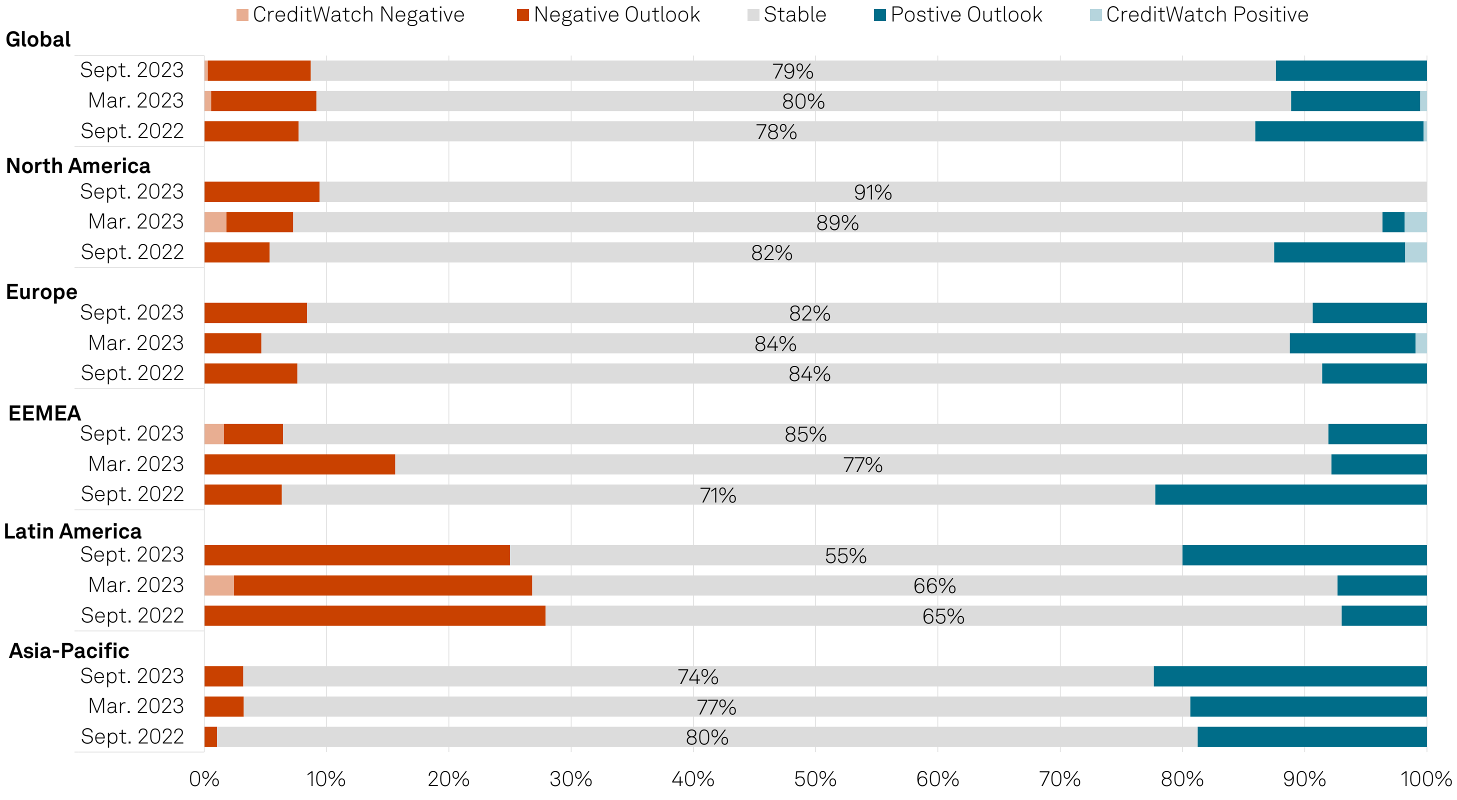
Cash interest paid/total debt, trailing 12 month



Data to Sept. 5, 2023. Measured in U.S. dollars, at historical rates. Only includes companies reporting quarterly. Latest quarter growth rates only include companies that have reported Q2 2023 results.
Sources: S&P Global Capital IQ and S&P Global Ratings.

Global Banks: Resilience Will Be Tested

Evolution of ratings distribution for rated banks

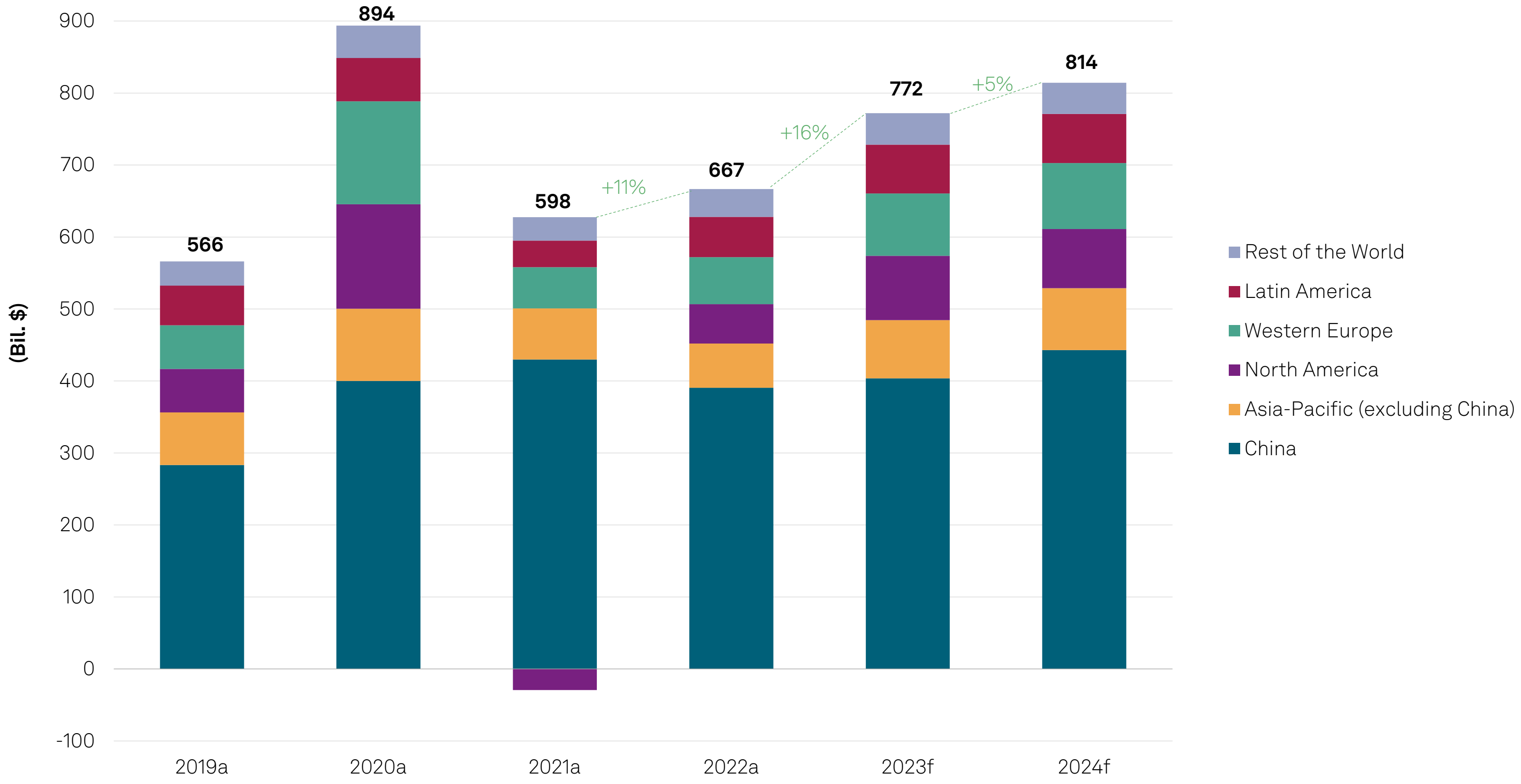


Data as of Sept. 22, 2023. EEMEA--Eastern Europe/Middle East/Africa. Source: S&P Global Ratings Credit Research & Insights.

- The high interest rates and weak economic growth outlook are straining banks' asset quality and financing conditions. Positively, most banks' earnings benefit from the high interest rates.
- Commercial real estate (CRE) markets are suffering a downturn--a key risk factor for banks’ asset quality.
- We expect bank rating outlooks to remain broadly stable as solid capitalization and asset quality will help buttress the sector amid headwinds.
- We anticipate increasing credit divergence. Deterioration will be more acute for nonbank financial institutions and entities with weak funding profiles.

Global Bank Credit Losses: Higher Risks, Higher Losses

Domestic credit losses by region, 2019-2024

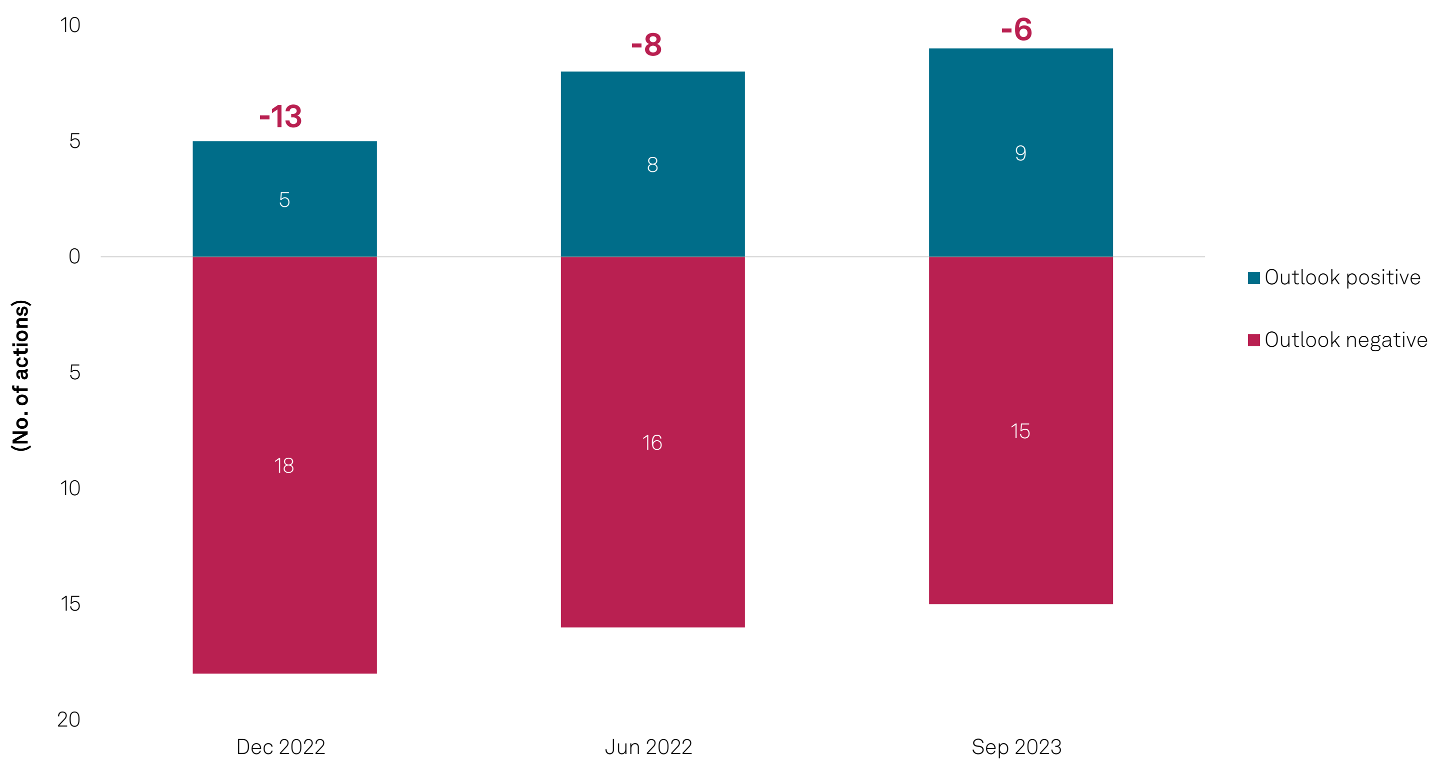


Data for China relates to commercial banks. a--Actual. f--Forecast. Source: S&P Global Ratings.

- Across the 83 banking systems that S&P Global Ratings covers, we expect credit losses will amount to more than $1.5 trillion over the two years to year-end 2024.
- This represents an annual rise in losses of $105 billion (16%) in 2023 and a more modest $42 billion (5%) in 2024.
- More than half of these losses--about $847 billion--are from China's banking system, reflecting its sheer size in a global context. In terms of customer loans, the Chinese banking system is about 95% of the size of the G7 banking systems (Canada, France, Germany, Italy, Japan, U.K., and the U.S.) combined.
- Losses in North America, Western Europe, and the Asia-Pacific region (excluding China) together amount to about $517 billion, or one-third of the global total, evenly spread across these regions.

Sovereign Ratings Stabilize With Diverging Trends

Global sovereign ratings outlook balance



Source: S&P Global Ratings.

Outlook: While the overall balance improved from the second quarter, the trends are uneven.

Risks: Geopolitical factors and the monetary tightening to fight inflation continue to weigh on refinancing costs for sovereigns across the world. Frontier markets are feeling a more pronounced impact, and we observe that distress exchanges are on the rise.

So far in 2023, there have been seven default events (including three by Argentina), and eight sovereigns are rated at 'CCC+' or lower.

Diverging trends: In the Americas and in APAC the outlook is relatively stable. In Africa and Eastern Europe, we continue to see mounting pressures--for Eastern Europe, on the back of the economic slowdown in Germany. In Africa, a difficult fiscal and external position makes access to affordable funding quite challenging. Many are maxing the access to local markets, pushing domestic cost to difficult levels. Finally, for sovereigns in the Middle East--and more specifically net hydrocarbon exporters--current pricing levels are supporting positive momentum.

Structured Finance Remains Resilient Despite Commercial Real Estate Headwinds

Global 12-month-trailing average change in credit quality

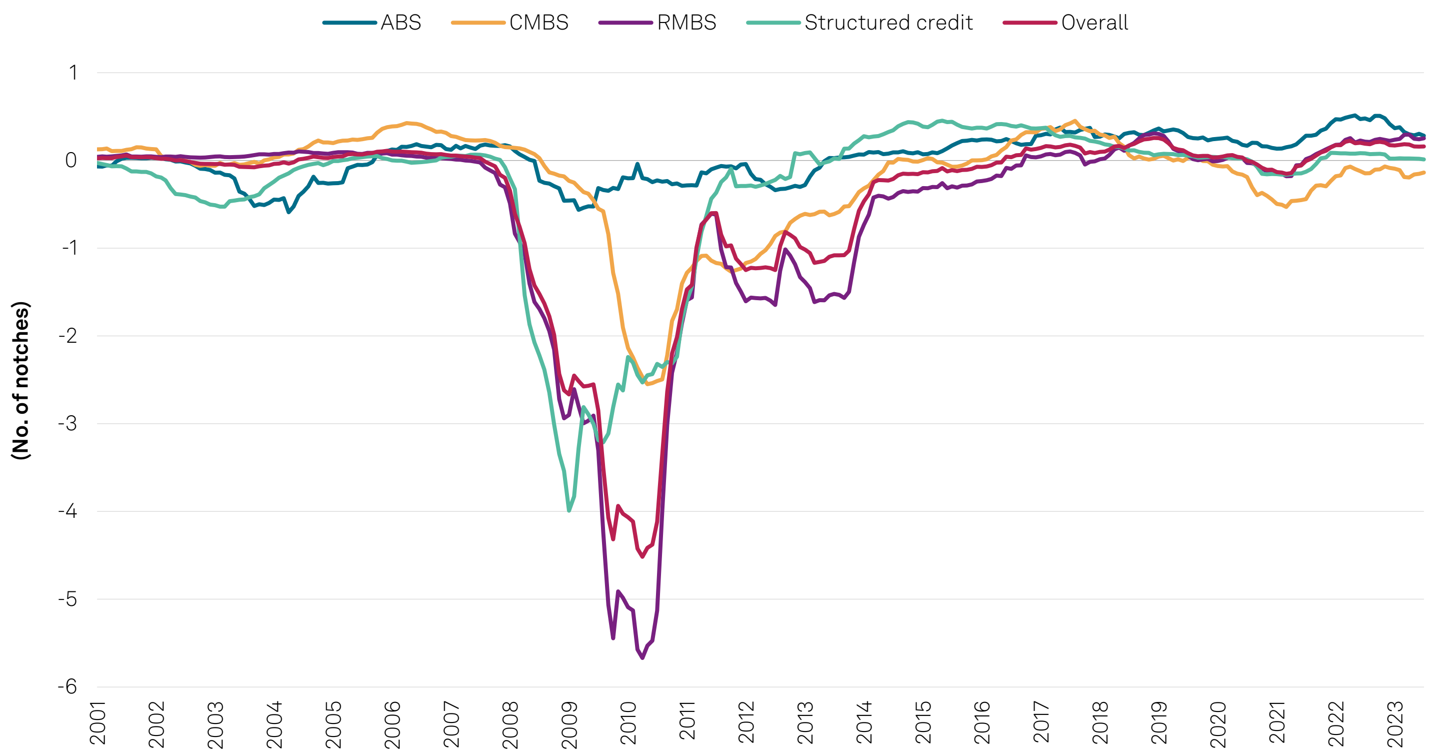


Chart shows the average rating movement over the previous 12 months in terms of rating notches. Securities whose ratings migrated to 'NR' over the 12-month period are classified based on their rating prior to 'NR'. Excludes covered bonds. Source: S&P Global Ratings.

Outlook: Assuming our base-case global macroeconomic forecast, we expect ratings in the asset-backed securities, residential mortgage-backed securities, and collateralized loan obligation sectors to be mostly stable. Commercial mortgage-backed securities (CMBS), especially those backed by certain office and retail properties, will continue to face stress owing to secular shifts (e.g., hybrid work and online commerce, respectively) and more difficult refinancing conditions.

Risks: Ongoing higher interest rates and weaker economic conditions will negatively affect commercial/residential real estate, leveraged corporate borrowers, and lower-income consumers.

Ratings performance: Global structured finance ratings performance has remained resilient in all asset classes other than CMBS (see chart). CMBS ratings have, on average, experienced more downgrades than upgrades in the latest trailing-12-month period.

Related Research And Contacts

Related Research

Credit Conditions

- Credit Conditions Asia-Pacific Q4 2023: China Downside Risk Is High, Sept. 26, 2023
- Credit Conditions Europe Q4 2023: Resilience Under Pressure Amid Tighter Financial Conditions, Sept. 26, 2023
- Credit Conditions Emerging Markets Q4 2023: High Interest Rates Sour The Mood, Sept. 26, 2023
- Credit Conditions North America Q4 2023: Shift To Low Gear, Sept. 26, 2023

Regional Credit Outlooks can be found here

Economic Outlook

- Global Economic Outlook Q4 2023: Nearing The Rate Plateau, Sept. 27, 2023
- Economic Outlook Eurozone Q4 2023: Slower Growth, Faster Tightening, Sept. 25, 2023
- Economic Outlook U.K. Q4 2023: High Rates Keep Growth Muted, Sept. 25, 2023
- Economic Outlook Emerging Markets Q4 2023: The Lagged Effects Of Monetary Policy Will Test Resilience, Sept. 25, 2023
- Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted, Sept. 25, 2023
- Economic Outlook Asia-Pacific Q4 2023: Resilient Growth Amid China Slowdown, Sept. 24, 2023
- Global Economic Outlook Q3 2023: Higher For Longer Rates Is The New Baseline, Jun. 28, 2023

Regional Macro Updates can be found here

Additional research

- China Still Has More Policy Tools To Stabilize The Higher Tier Property Markets, Sept. 25, 2023
- China's District And County Recovery Crimped By Property Slide And Debt Checks, Sept. 13, 2023
- China Policy Patches Alone Won't Fix LGFVs' Fraying Liquidity, Sept. 7, 2023
- Chinese Developers' Profitability Is Searching For A Trough, Sept. 3, 2023
- Will Country Garden's Woes Further Hobble China's Property Market?, Aug. 16, 2023
- Global Bank Exposures To Commercial Property Are Top Of Worry List For Investors, Webcast Polls Show, Aug. 3, 2023
- What Are China's Options To Resolve Local-Government SOE Debt Risk?, Aug. 2, 2023
- Global Banks Country-By-Country Midyear Outlook 2023 | Resilience Will Be Tested, July 20, 2023
- Global Banks Midyear Outlook 2023 | Resilience Will Be Tested, July 20, 2023
- Global Banks: Our Credit Loss Forecasts, July 13, 2023

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