S&P Global Ratings

The Ratings View

January 17, 2024

This report does not constitute a rating action.

Key Takeaways

- We expect a heightened focus on climate-related adaptation and resilience planning.
- The number of corporate defaults in 2023 was up 80% from the year before.
- U.S. labor data suggests it's too soon to declare victory in the battle with inflation.

Key 2024 sustainability trends. As the physical risks from climate change increase, we expect 2024 to bring a heightened focus on adaptation and resilience planning alongside rising understanding of the impacts of climate change — including on human health. In the year ahead we expect companies will take steps to measure and manage material sustainability issues, such as plastic, throughout their value chains under some countries' mandatory disclosure standards. Assessing value chain impacts is complex, highlighting the need for high-quality data and transparent methodology. As reliance on newer technologies such as artificial intelligence (AI) grows, we expect increasing pressure to ensure more robust governance to manage the risks and opportunities AI presents. Lastly, we anticipate that the increasing urgency around decarbonizing the economy could take the global green, social, sustainability, and sustainability-linked bond (GSSSB) market closer to the $1 trillion mark.

Key 2024 sustainability trends driving the year ahead

The number of corporate defaults rose to 153 in 2023, up 80% from 2022 (85 defaults). There was a shift in the regions and sectors seeing more defaults: The U.S. accounted for 63% of defaults and consumer-facing sectors accounted for 42%. Distressed exchanges were the largest driver of defaults in 2023, accounting for over 40% of defaults for the third straight year. We expect consumer-facing sectors to lead defaults again in 2024. Because of higher interest rates, we also expect mounting pressure on issuers with higher debt burdens.

Default, Transition, and Recovery: Corporate Defaults Jumped 80% In 2023 To 153

U.S. payroll jobs creation came in higher than the consensus expectation in December but with offsetting downward revision to prior months. Job gains continue to temper and stabilize to a more sustainable pace on a three-month average basis. Employment growth was once again reliant on non-cyclical sectors such as health care, and state and local government. The sectoral breadth of payroll gains narrowed through last year. The unemployment rate held steady at 3.7%. Average hourly earnings ticked up a bit faster than expected at 0.4% over the month (4.1% year over year), suggesting there may be some upside risk to inflationary pressures stemming from the labor market. We currently do not anticipate the first rate cut before June. The return to 2% inflation is progressing nicely, but declaring victory in the battle against inflation remains premature, in our view, and it's too soon to confidently expect that the Federal Open Market Committee will begin cutting rates at the March policy meeting.

Economic Research: Solid Headline Gain In U.S. Labor Market Masks Steadily Cooling Demand

Contacts

Gareth Williams
London
Head of Corporate Credit Research
+44-20-7176-7226
gareth.williams@spglobal.com

Gregoire Rycx
Paris
Senior Analyst
gregoire.rycx@spglobal.com

Gregg Lemos-Stein
New York
Chief Analytical Officer, Corporate Ratings
+1-212-438-1809
gregg.lemos-stein@spglobal.com

Joe Maguire
New York
Lead Research Analyst
joe.maguire@spglobal.com

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Asset Class Highlights

Corporates

Notable publications include:

- Default, Transition, and Recovery: Corporate Defaults Jumped 80% In 2023 To 153
- Asia's Petrochemical Outlook 2024--The Last Cough Of A Cyclical Trough
- China Commodities Watch: Upstream Will Hold Up, Downstream Will Suffer
- Corporate Japan Sees Ray Of Light In Semiconductors
- Outlook For U.S. Not-For-Profit Transportation Infrastructure: Back To The Future For Most Operators, While Mass Transit Minds The Gap

Financial Institutions

- In the U.S., we downgraded the issuer credit rating of global real estate service providers Cushman & Wakefield to 'BB-' from 'BB'. The higher-for-longer interest rate environment has led to an industrywide decline in commercial real estate (CRE) transaction activities, including capital markets and leasing. This has resulted in weaker-than-expected credit metrics for Cushman & Wakefield.
- We published several commentaries, including:
    - EU Banking Package: Inconsistencies Temper Framework Improvements
    - Credit FAQ: How The U.S. Proposes To Implement Basel III Capital Rules And The Impact On U.S. Bank Capital Ratios
    - U.S. Bank Outlook 2024: Facing A Slower Economy, Tighter Regulation, And A Potential Drop In Rates
    - Tech Disruption In Retail Banking: Regulation And Infrastructure Development Can Help Nigeria's Retail Banks Fend Off Fintechs
    - Tech Disruption In Retail Banking: South African Banks Move In Lockstep With System And Technology Innovation

Sovereign

- Ecuador Outlook Revised To Negative On Increasing Liquidity Strains; 'B-' Long-Term Ratings Affirmed

Structured Finance

- **Global Structured Finance:** S&P Global Ratings published on Jan. 10,2024 its annual outlook report for the global structured finance sector (see "Global Structured Finance 2024 Outlook"). The report includes breakdowns by asset type of what is expected this year in structured finance for the U.S. and Canada, as well as overviews for Europe, Latin America, Australia, China, and Japan. Key takeaways from the report are as follows:
    - We are forecasting only modest (single-digit) growth in global structured finance issuance volume to roughly $1 trillion in 2024.

Research Contributors

Corporate
Gregoire Rycx
gregoire.rycx@spglobal.com

Financial Institutions
Alexandre Birry
alexandre.birry@spglobal.com

Mehdi El mrabet
mehdi.el-mrabet@spglobal.com

Structured Finance
Winston Chang
winston.chang@spglobal.com

  - Interest rates are expected to decrease gradually in 2024. This is always the wild card when forecasting structured finance issuance, especially this year when the spread of the 30-year fixed mortgage rate to the 10-year Treasury note yield has persisted at abnormally high levels.
  - Regulations, mainly in the form of Basel IV, have the potential to sway issuance volumes depending on the finalized bank capital rules that are attached to various forms of lending.
  - Consumer credit has been generally stable across the board, although some cracks are beginning to show in areas such as U.S. subprime auto and unsecured personal lending.
  - Geopolitical uncertainty remains in 2024, even with inflation and unemployment normalizing to more sustainable levels. Our U.S. forecast calls for only modest economic growth. Despite global macroeconomic headwinds, we expect overall performance and ratings across most structured finance asset classes to remain stable in 2024, with potential challenges from CMBS.

- **European Structured Finance:** European securitization issuance could pick up to €95 billion in 2024, given a larger call pipeline, a recovery in some areas of underlying lending, and rising market engagement from bank originators after their recent limited activity. According to an S&P Global Ratings report published on Jan. 9, 2024, "European Structured Finance Outlook 2024: Pushing On Through," structured finance ratings are weathering the effects of higher prices and interest rates, remaining largely stable through the current period of stress, especially at investment-grade levels.
  Inflation has ebbed, policy rates are peaking, and real incomes are beginning to rise again. However, some pressure on collateral performance in consumer-related securitizations will persist, as the new rate environment gradually feeds through to more underlying loan contracts. Borrower sentiment and lender risk appetite may both be turning a corner though, suggesting that the volume of credit originations that could act as new securitization collateral may begin to recover from current depressed levels in some areas. The ongoing unwinding of central banks' cheap term funding schemes will likely support more bank-originated securitization supply in 2024, especially in the U.K. Slowing deposit growth may also contribute further to banks' wholesale funding issuance.

- **China Structured Finance:** Here are a few “Key Takeaways” from a recent article:
  - We expect issuance in China's structured finance market to stay flat in 2024, with the issuance momentum of dominant segments to slow.
  - Issuance prospects will depend on the fundamentals of the respective sectors amid a slow recovery of China's economy.
  - Collateral performances will continue to hold up across auto ABS, RMBS, and consumer finance ABS that we rate.
  - Important sector trends to watch are the resumption timing of RMBS issuance, the issuance trajectory of consumer ABS and green auto ABS, as well as the increasing issuance of micro and small enterprise loan securitization, nonperforming loan ABS, and asset-backed plans managed by insurance asset management companies.

See “China Structured Finance Outlook 2024: Consumer ABS A Bright Spot Amid Flat Total Issuance" published Jan. 10, 2024.

- **Japan Structured Finance:** Here are a few “Key Takeaways” from a recent article:

- We expect Japan's real GDP growth to remain positive, although low, and for inflation to decline moderately in 2024 and beyond. Personal loans are likely to continue stable performance, supported by low unemployment.
- Assets backing apartment loan RMBS, corporate ABS, and CMBS will likely somewhat underperform, while others will be stable.
- Overall, rating trends will generally remain stable except for apartment loan RMBS, which is somewhat negative.

See "Japan Structured Finance Outlook: Inflation Entrenches?" published Jan. 11, 2024.

- **U.S. Auto ABS:** Here are a few "Key Takeaways" from a recent article:
  - U.S. ABS auto loan performance in November was mixed, with subprime annualized losses declining month over month, the first decline since April 2023, while prime losses rose. In addition, recovery rates for both sectors dropped substantially, and delinquencies continued to weaken.
  - November's prime and subprime recovery rates of 49.26% and 36.80% were the lowest November levels since 2008.
  - Delinquencies (60-plus-day) ticked up to the highest November level since 2010 for prime and highest ever November level for subprime (although the month-to-month increases were minimal).
  - In November, we revised our expected cumulative net loss levels for 36 transactions, raised 44 ratings, affirmed 87, and placed two on CreditWatch negative.

See "U.S. Auto Loan ABS Tracker: November 2023 Performance" published Jan. 9, 2024.

- **U.S. CLO :**

CLO Insights 2023 U.S. BSL Index*

'B-' category rated issuers	'CCC' category rated issuers	Nonperforming issuers	Avg. cushion at the junior O/C test	Weighted average price of portfolio	SPWARF	% of target par	'B-' on negative outlook
26.85%	7.67%	0.47%	4.08%	95.88	2752	99.76%	5.93%

Change during prior month

Risk increasing | Risk decreasing | Not applicable

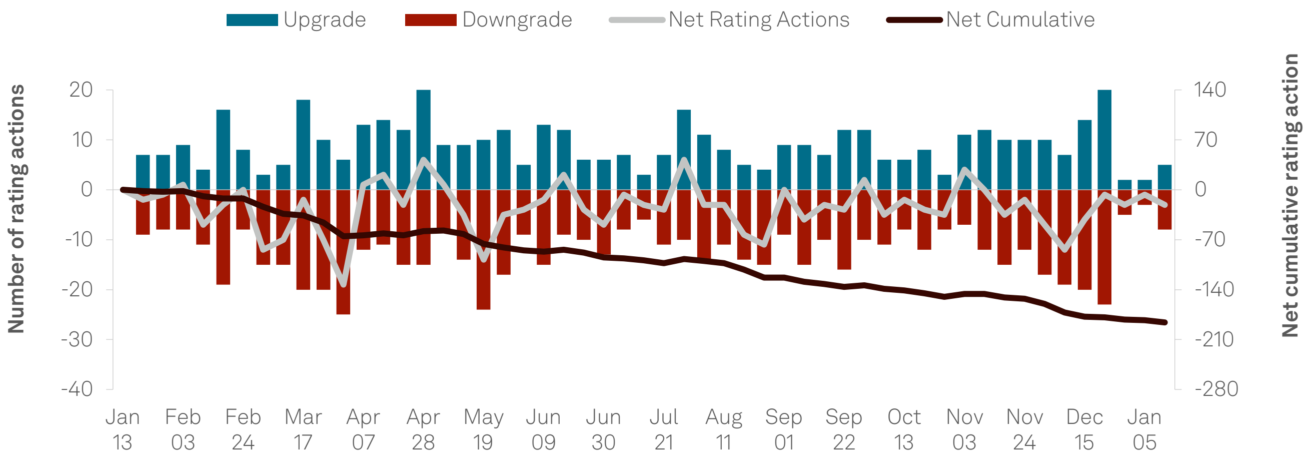
*Through Dec. 20, 2023, update. SPWARF--S&P Global Ratings' weighted average rating factor.
N/A--Not applicable.

See "SF Credit Brief: CLO Insights U.S. BSL Index 2023 Wrap Up: 'B-' Assets Down; Amortizing CLOs Up" published on Jan. 9, 2024.

- **German ABS & RMBS:** S&P Global Ratings said today that the recent judgments of the European Court of Justice (ECJ) on SCHUFA's scoring system and its data storing practices are unlikely to have wider repercussions for the German ABS/RMBS market as a whole. Nevertheless, we will closely monitor any developments as the cases proceed at the Administrative Court of Wiesbaden (Verwaltungsgericht Wiesbaden). See "Limited Impact On The German ABS/RMBS Market From ECJ Rulings On SCHUFA Scoring And Data Storing Practices" published Jan. 10, 2024.

Chart 1

Global rating actions (rolling 52-weeks)



Source: S&P Global Ratings. Net rating actions means downgrades minus upgrades. Net cumulative means total net rating actions. Data as of Jan. 12, 2023. Global rating actions include actions on both financial and non-financial corporates and sovereign issuers.

Table 1

Recent rating actions

Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. $)
11-Jan	Downgrade	Boston Properties Inc.	Homebuilders/real estate co.	U.S.	BBB	BBB+	10,550
12-Jan	Upgrade	WEC US Holdings Ltd.	Capital goods	U.S.	B+	B	7,050
12-Jan	Downgrade	DTZ UK Guarantor Ltd.	NBFI	U.K.	BB-	BB	5,716
11-Jan	Upgrade	Chobani Global Holdings LLC	Consumer products	U.S.	B	B-	3,860
11-Jan	Downgrade	Vedanta Resources Ltd.	Metals, mining & steel	U.K.	SD	CC	3,800
12-Jan	Downgrade	GoTo Group Inc.	High technology	U.S.	CCC+	B-	3,000
8-Jan	Upgrade	Radian Group Inc.	Insurance	U.S.	BBB-	BB+	1,425
11-Jan	Downgrade	Del Monte Foods Inc.	Consumer products	U.S.	B-	B	725
8-Jan	Upgrade	MGIC Investment Corp.	Insurance	U.S.	BBB-	BB+	650
11-Jan	Downgrade	Affinity Interactive	Media & entertainment	U.S.	B-	B	545

Source: S&P Global Ratings Credit Research & Insights. Data as of Jan. 12, 2023. U.S. means United States, U.K. means United Kingdom and U.A.E. means United Arab Emirates. NBFI - NonBank Financial Institutions (ex. Insurance)

For further credit market insights, please see our **This Week In Credit** newsletter**.**