

# The Ratings View

February 15, 2024

This report does not constitute a rating action.

## Key Takeaways

- Corporate results to date suggest that earnings are stabilizing.
- There were 14 global corporate defaults in January, well above the long-term average.
- Information Technology (IT) spending is turning a corner.

**Global corporate earnings are showing signs of stabilizing.** The global Q4 2023 results season for rated nonfinancial corporates is 30% complete, and results to date suggest annual revenues are flat and EBITDA is down 4.2%. Assuming the soft-landing arrives, further deterioration is likely to be limited and this earnings recession will have been remarkably modest by historical standards. Europe appears to be struggling, with growth weaker and results disappointing market expectations. Regional differences are also apparent in our new transcript and investor presentation sentiment analysis. Amidst a global improvement, median net positivity scores are highest for North American companies. Nearly all North American industries have net positive transcript sentiment; in Europe, roughly half are negative.

[Corporate Results Roundup Q4 2023: Earnings show signs of stabilizing](#)

**There were 14 global corporate defaults in January, well above the long-term average** of nine. Half of the defaults in January were from the consumer products (four) and media and entertainment (three) sectors as lower rated issuers continue to struggle with weak business risks profiles, highly leveraged capital structures, and looming debt maturities. We are expecting defaults to continue rising in 2024, as rating transitions in the 'CCC+' and below rating category continued to increase in 2023.

[Default, Transition, and Recovery: Highest January For Corporate Defaults Since 2010](#)

[Risky Credits: Debt Levels Rose 33% In North America In 2023 As Maturities Loom](#)

[Risky Credits: Europe Continues To Walk A Fine Line](#)

**Information Technology (IT) spending is turning a corner.** We expect it to accelerate in 2024 as the macroeconomic outlook is now less cautious. Waning cloud customer spending rationalization, interest in artificial intelligence (AI), and an improving ad spending market will support accelerating cloud revenue and capital expenditure (capex) growth. The memory market is emerging from its deep downturn more strongly than anticipated, but we don't expect mid-cycle margins for a few more quarters. However, weak demand in select markets, including communications infrastructure, is pressuring U.S. technology sector speculative-grade ratings, with several downgrades to the 'CCC' category over the past few months. Nevertheless, we think debt markets will support refinancing and mergers and acquisition (M&A) transactions.

[Growing IT Spending Is Building Momentum For U.S. Tech In 2024](#)

**High interest rates will weigh on consumer purchasing power and limit U.S. auto sales growth through 2026.** We expect modest credit deterioration in the auto sector, particularly for some lower-rated auto suppliers. Production discipline and strong pent-up demand from fleet

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operators led to stronger-than-expected pricing in 2023, but we expect about a 10% decline through 2025. Rising inventories for several electric vehicles (EVs) and plug-in hybrids indicate slowing demand.

### [Tougher Pricing Conditions In 2024 Could Cramp U.S. Auto Sector Ratings Headroom](#)

**We anticipate that green, social, sustainability, and sustainability-linked bond (GSSSB) issuance will increase modestly** to \$0.95 trillion-\$1.05 trillion this year, from \$0.98 trillion last year, despite global macroeconomic uncertainty in some key regions. Green bonds will continue their dominance in GSSSB markets, buoyed by increased demand for environmental projects across all geographies. Transition and blue bonds may also gain traction in the GSSSB market in 2024. We believe that issuers in middle- and low-income countries will strive to increase their share of GSSSB issuance given their large unmet funding needs.

### [Sustainability Insights Research: Sustainable Bond Issuance To Approach \\$1 Trillion In 2024](#)

**S&P Global Ratings updated its commodity price assumptions** to reflect shifts in economic and market conditions as well as futures curves. We also added assumptions for 2026. We raised our 2024 estimates for both thermal and metallurgical coal, gold, and iron ore, and lowered estimates for nickel. Most of the revised prices differ from our previous assumptions only by about 10%, except for metallurgical coal.

### [S&P Global Ratings Makes Modest Changes To Metal Price Assumptions](#)

**Credit conditions in emerging markets (EMs) have improved.** In Q4 2023, the pace of defaults in EMs was lower than in the U.S. and Europe, following better economic and financing conditions, continued disinflation, positive growth surprises, and a clearer path for Fed policy interest rate cuts. Issuance outside Greater China rose by more than 20% in January compared with December. Despite market expectations for U.S. interest rate cuts moving out from March to midyear, EM benchmark yields were broadly unchanged in January, and corporate yields have gone down. A clearer timeline for the beginning of interest-rate cuts is providing space for EM central banks to ease policy. We continue to expect most EM central banks to be in easing mode by the end of 2024 with EM Asia likely to be the last to start cutting rates.

### [Emerging Markets Monthly Highlights: Improving Financing Conditions Risky Credits: Silver Lining For Emerging Markets](#)

**U.S. state and local governments are shouldering the rapidly growing costs of assisting migrants and asylum seekers as their numbers increase in the U.S.** The number of migrants and asylum seekers gaining entrance to the U.S. along the country's southern border has been increasing in recent years and the influx is straining government budgets. Although much of the pressure affects localities in border states, some of the largest cities across the U.S., including New York City, Chicago, and Denver, are also feeling the impact. These cities are adjusting their budgets to accommodate rising expenditures, but without state and federal government support, these costs are significant enough to strain budgets and could pressure credit quality.

### [Migrants And Asylum Seekers Pose Budgetary Challenges In New York City, Chicago, And Denver](#)

# Asset Class Highlights

## Corporates

Notable publications include:

- [Default, Transition, and Recovery: Highest January For Corporate Defaults Since 2010](#)
- [Tougher Pricing Conditions In 2024 Could Cramp U.S. Auto Sector Ratings Headroom](#)
- [Peer Comparison: European Food Retailers Resilient Amid Operating Shocks](#)
- [SLIDES: U.S. Technology Sector: Magnitude Of Cyclical Rebound Key To Watch In 2024](#)
- [Growing IT Spending Is Building Momentum For U.S. Tech In 2024](#)
- [Credit FAQ: Asia-Pacific Sector Trends 2024: Geopolitical Uncertainty Colors Prospects](#)
- [PIK Refinancing: A Little Room To Breathe, Or One Step Closer To The Edge?](#)
- [Credit Trends: Risky Credits: Debt Levels Rose 33% In North America In 2023 As Maturities Loom](#)
- [Credit Trends: Risky Credits: Europe Continues To Walk A Fine Line](#)
- [Credit Trends: Risky Credits: Silver Lining For Emerging Markets](#)

## Financial Institutions

- In Europe, we raised the rating on Spain-based Banco de Sabadell to 'BBB+' from 'BBB'. Sabadell's strengthened profitability is now more commensurate with its business franchise and those of peers.
- We raised the rating on Armenia-based Ardshinbank CJSC to 'BB-' from 'B+'. Ardshinbank's repayment risk reduced materially after the government of Armenia replaced Nagorno-Karabakh's debt with sovereign bonds. Ardshinbank held about Armenian dram (AMD) 45 billion in debt issued by Nagorno-Karabakh.
- We published several commentaries and bulletins, including:
  - [Bulletin: UniCredit SpA 2023 Year-End Results Confirm Profit Momentum](#)
  - [SLIDES: Nordic Banks In 2024: Ploughing On Through Tough Terrain](#)
  - [Thailand's Sluggish Economy Is Weighing Down Banks](#)
  - [Credit FAQ: What Lies Ahead For UAE Banks In 2024](#)
  - [Asia-Pacific Financial Institutions Monitor 1Q 2024: Property Exposures Will Chart The Course](#)

## Structured Finance

- **European Securitizations:** S&P Global Ratings published on February 6, 2024 a Credit FAQ, titled "How We Assess Government Guarantees In European Securitizations." In this report, we answer questions received about how we analyze a government guarantee that protects against the risk of losses on loans that benefit from that guarantee upon default of borrowers in our structured finance ratings approach.

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## The Ratings View

- **European RMBS:** S&P Global Ratings published on February 9, 2024 its “European RMBS Index Report Q4 2023”. Quarter-on-quarter total delinquency movements were minimal for most jurisdictions, with France/Belgium, Italy, Netherlands, including buy-to-let (BTL), Portugal, and U.K. prime showing stability or minor improvements. Quarter-on-quarter deteriorations are visible for U.K. BTL pre- and post-2014, U.K. nonconforming pre- and post-2014, Spain, and Ireland. Although sectors demonstrating resilience to date will likely continue to do so, overall, we believe the credit performance of mortgage collateral backing European RMBS will likely deteriorate in Q4 2023 and into 2024. We expect persistently high inflation to gradually fall close to target in the second half of 2024.
- **U.S. RMBS:** Here are a few “Key Takeaways” from a recent article:
  - Our assessment of U.S. home price overvaluation nudged up a percentage point to 15.6% as of third-quarter 2023.
  - Home prices were resilient and outpaced wage growth, and 89% of MSAs are still overvalued, though with a fair degree of regional variation.
  - The credit impact on U.S. RMBS will depend on the mortgage pools' geographic distribution and the valuation dates of the underlying properties backing the loans in those pools.

See “[U.S. Home Price Overvaluation Relatively Steady, But Bumps Up A Bit](#)” published February 5, 2024.

- **U.S. Auto ABS:** Here are a few “Key Takeaways” from a recent article:
  - 2023 was a banner year for credit union auto loan ABS issuance, as credit unions almost tripled 2022's volume.
  - Credit unions are looking to continue that growth by utilizing securitization for reliable funding and, for some, expanding beyond their local markets.
  - S&P Global Ratings uses similar approaches when rating credit union and other auto loan ABS transactions, with some occasional differences due to significant geographic concentration in credit union deals.

See “[Credit Unions Make A Splash In 2023, Almost Tripling 2022's Auto Loan ABS Issuance](#)” published February 9, 2024.

- **European Auto and Credit Card ABS:** S&P Global Ratings published on February 7, 2024 its quarterly European and U.K. asset-backed securities (ABS) index reports for the fourth quarter of 2023:
  - European Auto ABS Index Report Q4 2023
  - European And U.K. Credit Card ABS Index Report Q4 2023

Despite challenging macroeconomic conditions in 2023, credit performance in Q4 2023 for both our European auto ABS and European and U.K. credit card ABS indexes remained mainly unchanged year-on-year. Nominal delinquencies decreased marginally, and defaults remained low and within our expectations.

- **Spain RMBS:**

## Spanish RMBS: Robust market with strong fundamentals



**Outstanding issuance totaled €84 billion** as of end Q3 2023. Only 20% was investor-placed.



**Spanish RMBS issuance comprised 6.1%** of the total euro-denominated RMBS investor-placed issuance over the last 10 years.



**Total delinquencies: 6.51%** in overall rated portfolio versus 1.3% in prime rated transactions.



**Nonperforming mortgage ratio for Spanish banks declined to 2.6%** in Q3 2023 from its peak of 6.0% in 2013.

Source: S&P Global Ratings.  
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See "[A Primer On Spain's RMBS Market](#)" published February 6, 2024.

- **Dutch Covered Bonds:** Here are a few "Key Takeaways" from a recent article:
  - Rising funding costs are eroding excess spread and increasing asset-liability mismatch in Dutch programs.
  - Although this leads to higher required credit enhancement, the overcollateralization buffer is sufficient to shield the 'AAA' ratings on Dutch covered bonds.
  - Dutch sustainable covered bond issuance has quadrupled in 2023, although from a low base.

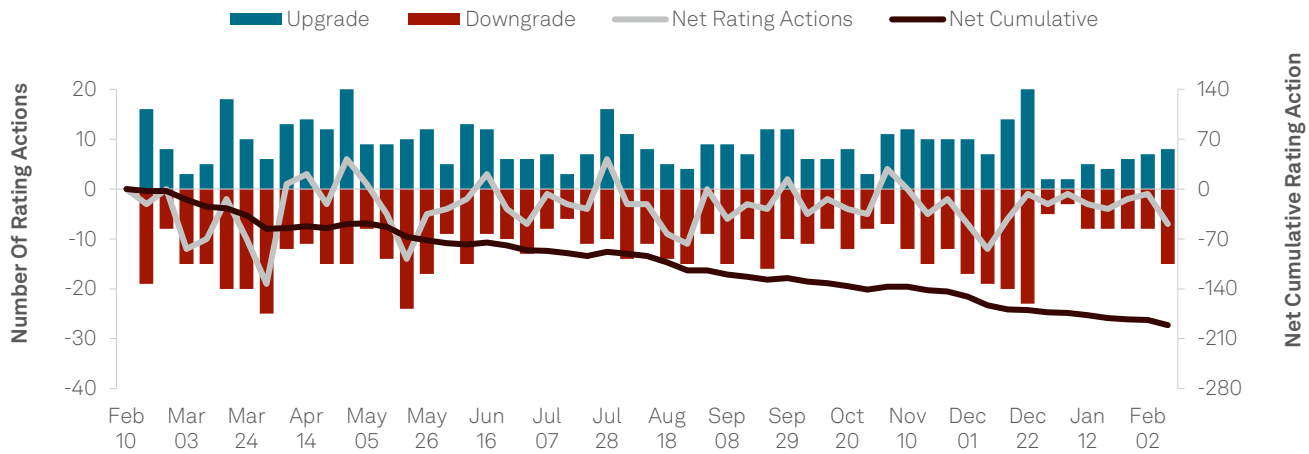
See "[Dutch Covered Bond Market Insights 2024](#)" published February 5, 2024.

- **Aircraft ABS:** As the anticipated repayment date (ARD) for some of the S&P Global Ratings-rated aircraft lease-backed securitization transactions is fast approaching, we analyzed 16 outstanding transactions, forecasting the values of selected metrics within our criteria framework that we believe could influence the transactions' ability to refinance or call notes upon ARD.

See "[Scenario Analysis: Performance Of Aircraft ABS Transactions At ARD And Final Maturity Date Under Three Hypothetical Scenarios](#)" published February 6, 2024.

## The Ratings View

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 Feb. 9, 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. \$)
9-Feb	Downgrade	<a href="#">Intel Corp.</a>	High Technology	U.S.	A-	A	50,775
9-Feb	Upgrade	<a href="#">Banco de Sabadell S.A.</a>	Bank	Spain	BBB+	BBB	14,228
7-Feb	Downgrade	<a href="#">Orsted A/S</a>	Oil & Gas	Denmark	BBB	BBB+	14,066
5-Feb	Upgrade	<a href="#">Equitable Holdings Inc.</a>	NBFI	U.S.	A-	BBB+	12,770
8-Feb	Upgrade	<a href="#">Royal Caribbean Cruises Ltd.</a>	Media & Entertainment	U.S.	BB+	BB-	8,900
8-Feb	Upgrade	<a href="#">Park Hotels &amp; Resorts Inc.</a>	Media & Entertainment	U.S.	BB-	B	4,250
5-Feb	Downgrade	<a href="#">Intrum AB (publ)</a>	NBFI	Sweden	BB-	BB	4,103
5-Feb	Upgrade	<a href="#">Ryman Hospitality Properties Inc.</a>	Media & Entertainment	U.S.	B+	B	3,600
9-Feb	Downgrade	<a href="#">CMG Media Corp. (CMG Holdings Inc.)</a>	Media & Entertainment	U.S.	B-	B	3,169
6-Feb	Downgrade	<a href="#">Office Properties Income Trust</a>	Homebuilders/Real Estate Co.	U.S.	CCC	CCC+	2,500

Source: S&P Global Ratings Credit Research & Insights. Data as of Feb. 9, 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.



## The Ratings View

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