S&P Global Ratings

The Ratings View

March 6, 2024

This report does not constitute a rating action.

Key Takeaways

- Social media has become an important factor in bank runs.
- Clothing could become a focus for environmental regulation.
- Subnational borrowing will stay elevated, but decrease over the coming two years.

Contacts

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

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

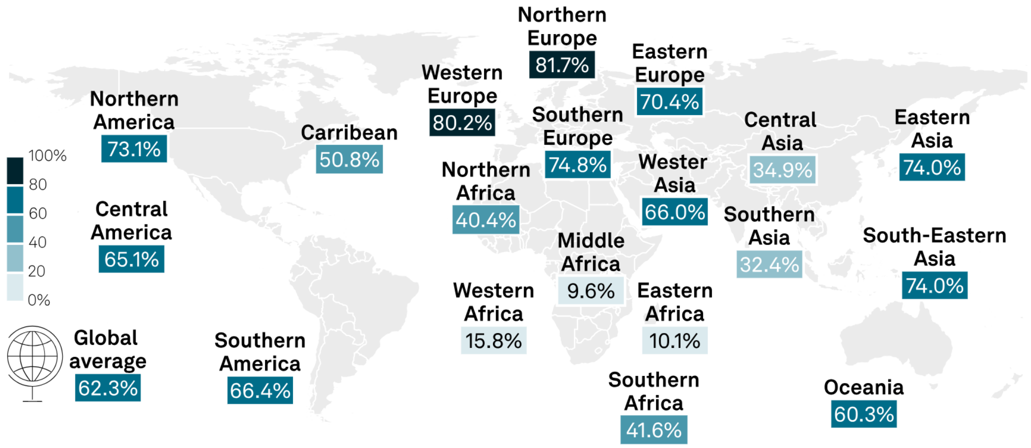
Joe Maguire
New York
Lead Research Analyst
joe.maguire@spglobal.com

For latest Sector and Industry Research **Click Here**

Banks should monitor social media as part of their liquidity risk management. Bank failures (and near-failures) in 2023 were often characterized by substantial and rapid deposit outflows (funds being withdrawn faster than new funds are deposited), exacerbated by negative attention on social media. In all cases, the troubled banks had underlying issues, including financial imbalances, structural deficiencies, and notable shortcomings in risk management and governance. Yet, once a bank is vulnerable to liquidity stress, social media activity (regardless of its veracity) can quickly expose weaknesses by eroding client confidence and accelerating deposit outflows. S&P Global Ratings believes social media would unlikely be the sole driver of a bank run, but with about five billion users and an ability to rapidly distribute information, its potential to stress liquidity buffers shouldn't be ignored.

Social media penetration is broad and often deep

Social media accounts as % of total regional population (as of January 2024)



Note: Social media accounts may not represent unique individuals. Regions based on the United Nations Geoscheme (Syria excluded). Source: Data based on DataReportal's "Global Social Media Statistics".

Your Three Minutes In Fintech: Social Media Could Catalyze Bank Runs
Tech Disruption In Retail Banking: Heavy Digital Investment Helps U.K. Banks Fend Off Competition
Supervising Cyber: How The ECB Stress Test Will Shape The Agenda

Clothing could become a new area of focus for environmental regulation. Although the volume of clothes produced and sold globally is increasing alongside its environmental impact, the apparel sector's carbon emissions, waste, and pollution risks remain largely unpriced. At the same time, the financial impact of environmental risks on the sector and our ratings has so far been negligible, reflecting a lack of stringent environmental regulations and little change in consumers' buying behavior. We believe value- and fast-fashion retailers--whose earnings are mostly led by volumes--could become more exposed to these increasing risks than luxury brands.

Sustainability Insights: As The European Apparel Sector's Environmental Footprint Widens, Credit Risks Are Low, For Now

We project local and regional governments' (LRGs) gross borrowing will stay elevated globally, but decrease over the coming two years, reflecting narrowing funding needs. Outside of China, we expect net borrowings will remain flat, reflecting debt growth in India, offset by deleveraging in Japan and Switzerland. Net borrowings in China are set to reduce following the projected completion of swap transactions between LRGs and their financing vehicles, and as LRGs' focus progressively shifts to limiting debt build up. Most European countries will be constrained by balanced-budget requirements amid slow economic growth. Net borrowings will largely stabilize in Australian states and Canadian provinces, albeit higher than pre-pandemic levels, as they focus on investments in infrastructure that contribute to economic growth.

SLIDES: Subnational Debt 2024: Focus on debt sustainability

Corporate Australia's hopes for a soft landing remain on track. Companies have, for the most part, taken higher interest rates and persistent inflation in their stride. But it won't be a smooth ride for all. We anticipate a margin squeeze for retailers amid falling demand, as well as sluggish conditions for major ports. Other sectors face material credit hurdles. Most at risk are rate-sensitive office REITs and the structurally declining postal sector.

Corporate Australia Eyes A Soft Landing

California's extremely high rainfall in 2023 is continuing into 2024 but has not yet had a material effect on credit quality for cities and counties rated by S&P Global Ratings, although the longer-term effects on issuers could be more significant. Maintaining high levels of reserves and liquidity is one way issuers can navigate the short-term effects of extreme weather events, in particular as FEMA reimbursement, if approved, can take months or even a year to arrive. As weather events become more frequent or severe, cities and counties have prepared by evaluating stormwater infrastructure or installing flood gates or moveable walls to redirect water to protect municipal assets. S&P Global Ratings continues to monitor the effects of extreme weather events on the credit quality of California cities and counties by evaluating infrastructure, risk management, and finances on a case-by-case basis.

Flooding Events For California Cities And Counties Are Unlikely To Abate And May Result in Long-Term Credit Risks

Hong Kong home prices will continue to fall in 2024 before stabilizing in 2025. Recent easing in property-cooling measures will only moderately stimulate demand in 2024. The stronger liquidity profile and track record of conservative financial management will underpin access to funding for rated developers. Rated developers will be prudent toward land acquisitions and use sizable proceeds from mass-market flats to reduce debt.

Hong Kong's Easing Property Policy Isn't A Quick Fix For Developers
Swedish Real Estate: The End Of The Slump Could Soon Be In Sight

Asset Class Highlights

Corporates

Notable publications include:

- Corporate Australia Eyes A Soft Landing
- Credit FAQ: Why The Recovery May Be Moderate For Asia-Pacific Agrochemicals
- Credit FAQ: The Rationale Behind U.S. Utility Securitization And Reasons For Recent Growth
- GCC Corporate And Infrastructure Outlook 2024: Holding Up Against Refinancing Needs
- Corporate Results Roundup Q4 2023: Earnings show signs of stabilizing
- SLIDES: Global Retail And Restaurants Outlook 2024: Consumers Will Remain Cautious Even As Inflation Eases
- CreditWeek: Does Our CreditWatch Negative On Paramount Mean More Pain Ahead For The U.S. Media Sector?

Financial Institutions

- **In North America, we believe that asset quality at many commercial real estate (CRE) lenders deteriorated substantially over the past year, primarily driven by office loans**. We expect these lenders to continue to face headwinds, but the extent of the impact will depend on location, property type, and the underwriting quality on the properties securing their loans.

  As a result, we took negative rating actions on three U.S. nonbank CRE lenders:

  - Blackstone Mortgage Trust Inc. (downgraded to 'B+' with a stable outlook)
  - Claros Mortgage Trust Inc. (downgraded to 'B-' with a negative outlook)
  - KKR Real Estate Finance Trust Inc. (revised outlook to negative, with ratings affirmed at 'B+')

  We affirmed our ratings and maintained our outlooks on two other CRE lenders that we believe are better positioned to navigate through the difficult conditions:

  - Ladder Capital Finance Holdings LLLP (BB-/Positive/--)
  - Starwood Property Trust Inc. (BB/Stable/--)

  And we left unchanged our rating on Apollo Commercial Real Estate Finance Inc. (B+/Stable/--). See “Recent Negative Rating Actions On CRE Finance Companies Reflect Declining Asset Quality And Potential Liquidity Pressure”.

- **In Europe, we raised our issuer credit rating on Portugal based, Banco Santander Totta to 'A-' from 'BBB+'.** The outlook is positive. The upgrade follows a similar action on Portugal as we think Banco Santander Totta's financial profile and performance will remain highly correlated with the sovereign's creditworthiness, owing to the bank's high business concentration in its domestic market. We also assume the bank will remain a strategic subsidiary for Banco Santander.

- **We published several commentaries and bulletins**, including:

Research Contributors

Financial Institutions

Alexandre Birry
alexandre.birry@spglobal.com

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

Structured Finance

Winston Chang
winston.chang@spglobal.com

  - SLIDES: U.S. GSIBs Q4 2023 Update--A Tough Year Weathered As New Challenges Await
  - Asia-Pacific Banking Country Snapshots: Property Exposures Will Test Ratings In 2024
  - The Fed Pivot Will Change Dynamics For Singapore Banks
  - Tech Disruption In Retail Banking: Heavy Digital Investment Helps U.K. Banks Fend Off Competition
  - Your Three Minutes In Fintech: Social Media Could Catalyze Bank Runs
  - Islamic Banking In Central Asia Remains Nascent
  - Bulletin: Austria-Based Erste Group's Strong Preliminary 2023 Results Underpin Expectations Of Solid Earnings Development
  - Bulletin: London Stock Exchange Group Reports Solid 2023 Results And Maintains Good Mid-Term Growth Prospects

Sovereign

- Portugal Upgraded To 'A-' On Ongoing Steep External And Government Deleveraging; Outlook Positive
- Montenegro Outlook Revised To Positive On Resilient Growth And Potential Stronger Fiscal Performance; Affirmed At 'B/B'

Structured Finance

- **EMEA Structured Finance:** S&P Global Ratings published on Feb. 26, 2024 its "EMEA Structured Finance Chart Book: February 2024". Investor-placed securitization issuance for January 2024 was €8.3 billion--more than double the volume in January 2023. Early issuance in 2024 included the return of U.K. prime master trust RMBS activity, with issuance from three originators, as well as some of the anticipated refinancing of some large U.K. RMBS transactions backed by collateral originated pre-crisis. European covered bond issuance had another strong start to the year, with €43.1 billion of benchmark issuance in January--the highest monthly total in at least a decade.

  In January 2024, we raised 14 of our ratings on European securitization tranches, mostly in the leveraged loan CLO sector, where some older transactions are beginning to delever. There were eight downgrades, all in RMBS, though most were due to an error correction in a single U.K. transaction. The report includes a roundup of the latest new issuance and credit developments that we have observed across structured finance sectors, along with data on issuance drivers, recent rating actions, and underlying performance indicators. We also highlight the key takeaways from our recent research publications.

- **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
26.33%	6.49%	1.22%	4.15%	96.60	2748	99.85%	5.36%

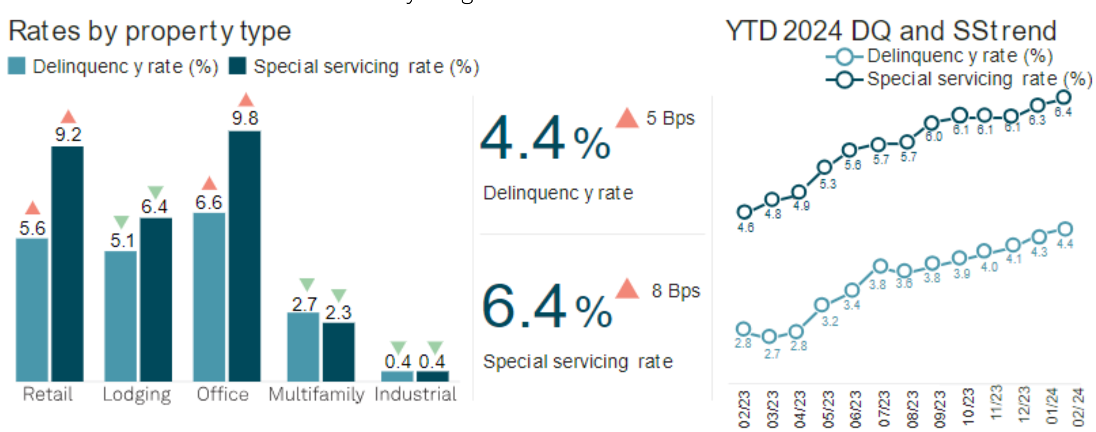
Change during prior month

Risk increasing Risk decreasing Not applicable

*Through Feb. 20, 2024, update. SPWARF--S&P Global Ratings' weighted average rating factor.
N/A--Not applicable.

See "SF Credit Brief: CLO Insights 2024 U.S. BSL Index: Corporate Rating Upgrades Outpace Downgrades For The First Time In Almost Two Years; Defaults Tick Up Across CLO Portfolios" published on Feb. 29, 2024.

- **U.S. CMBS:** U.S. CMBS – Feb. 2024 key insights



Note: Arrows indicate directional change in rate compared to the previous month. YTD—Year-to-date. DQ—Delinquency. SS—Special servicing. Bps—Basis points. Source: S&P Global Ratings.

See "U.S. CMBS Overall Delinquency Rate Rose 5 Bps To 4.4% In February 2024; Office Saw The Highest Increase For the Third Consecutive Month" published on Feb. 29, 2024.

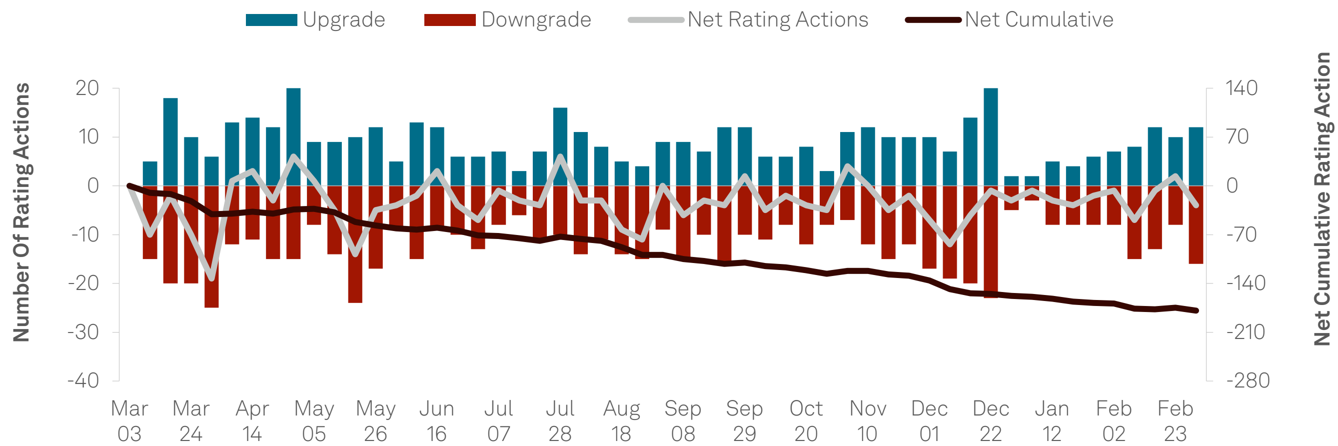
- **China ABS and RMBS:** Here are a few "Key Takeaways" from a recent article:
  - The weighted-average 30-plus-day delinquency rate for auto asset-backed securities (ABS) that we rate crept up to 0.29% in January 2024 from 0.26% December 2023, while the severe delinquency rate remained stable at 0.12% over the same period.
  - The three-month median of coupons on the most senior tranches of recently closed auto ABS rose to 2.55% during November 2023 to January 2024.
  - The weighted-average 30-plus-day delinquency ratio of residential mortgage-backed securities (RMBS) that we rate inched up to 2.80% in January from 2.75% in December 2023.
  - The performance of our rated auto ABS and RMBS transactions has been stable. Coupon rates of auto ABS are likely to fall in the following months after a series of monetary easing measures.
  - See "China Securitization: ABS And RMBS Tracker January 2024" published Feb. 27, 2024.

- **U.S. Credit Card ABS:** We published the "U.S. Credit Card Quality Index: Monthly Performance--January 2024" on March 1, 2024. The CCQI is a monthly performance index that aggregates performance information of securitized credit card receivables in key risk areas: receivables outstanding, yield, payment rate, net loss rate, delinquencies, base rate, and excess spread rate.
- **Australian RMBS:** Australian prime mortgage arrears rose during the fourth quarter of 2023. This is likely to continue amid lingering high interest rates and rising unemployment, according to S&P Global Ratings' recently published "RMBS Performance Watch: Australia." Most borrowers have been resilient on the debt-serviceability front, though some are handling this by significantly reprioritizing their spending and drawing on savings. But not all households face the same levels of pressure in servicing their debts and this has helped to keep overall arrears low to date. The last leg of this tightening cycle could prove to be the most challenging, though, as savings are depleted, unemployment rises, and higher interest rates continue. Financial prudence might no longer be enough for some households, leading to further increases in arrears in the months ahead.

  Although it's rising, unemployment is still low, which should keep arrears increases modest. Moderating property price growth also affords existing homeowners greater agency in self-managing their way out of any financial stress. This will also help to temper arrears increases. Despite the difficult times ahead for some borrowers as buffers are drawn down, we expect broadly stable employment conditions and proactive efforts by lenders to work with affected borrowers to minimize any dislocation in mortgage markets and systemic risk.
- **Australian ABS:** Arrears levels increased slightly for most Australian and New Zealand ABS transactions during the fourth quarter (Q4) of 2023. That's according to the recent edition of S&P Global Ratings' "ABS Performance Watch: Australia And New Zealand." Although arrears increased, cumulative losses experienced to date remain relatively low and, by and large, there has been a build up of credit support for rated notes. We believe this would provide a buffer for transactions should there be any deterioration in performance.
- **Australian Auto ABS:** Australian auto ABS arrears continued to increase in January. That's according to S&P Global Ratings' recently published "Auto ABS Arrears Statistics: Australia." The Standard & Poor's Performance Index (SPIN) for Australian auto ABS and mixed auto pool arrears increased in January to 1.07% from 1.03% the previous month. Although the increase in arrears since November 2023 is partially seasonal, it also reflects elevated cost-of-living pressures and softer business conditions. While in our view arrears levels will remain relatively low, consistent with our forecast for a moderate increase in the unemployment rate, we do expect arrears to increase over the next few months.

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 Mar. 1, 2024. 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. $)
26-Feb	Downgrade	Braskem S.A. (Odebrecht S.A.)	Chemicals, Packaging & Environmental Services	Brazil	BB+	BBB-	6,200
1-Mar	Downgrade	iHeartMedia Inc.	Media & Entertainment	U.S.	CCC+	B	6,051
1-Mar	Downgrade	The Chemours Co.	Chemicals, Packaging & Environmental Services	U.S.	BB-	BB	5,986
26-Feb	Upgrade	Westinghouse Air Brake Technologies Corp.	Capital Goods	U.S.	BBB	BBB-	3,750
28-Feb	Downgrade	Rackspace Technology Global Inc.	High Technology	U.S.	CCC-	CCC+	3,300
29-Feb	Upgrade	AppLovin Corp.	Media & Entertainment	U.S.	BB+	BB	3,000
28-Feb	Downgrade	Blackstone Mortgage Trust Inc.	NBFI	U.S.	B+	BB-	2,421
1-Mar	Downgrade	Comstock Resources Inc.	Oil & Gas	U.S.	B	B+	2,373
1-Mar	Upgrade	Latam Airlines Group S.A.	Transportation	Chile	B+	B	2,250
29-Feb	Upgrade	Grab Holdings Ltd.	High Technology	Singapore	B+	B	2,000

Source: S&P Global Ratings Credit Research & Insights. Data as of Mar. 1, 2024. 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**.**