S&P Global Ratings

The Ratings View

March 14, 2024

This report does not constitute a rating action.

Key Takeaways

- Our Credit Cycle Indicator suggests a credit recovery in 2025 is increasingly probable.
- Consumer goods companies are continuing to exhibit pricing power.
- We lowered oil price assumptions for 2025 and subsequent years.

A credit recovery in 2025 looks increasingly probable, according to S&P Global Ratings' Credit Cycle Indicator (CCI). Our forward-looking global and regional CCIs, which tend to lead credit stress and recovery by six to 10 quarters, maintain their upward trajectory toward a credit recovery in 2025. However, headwinds in 2024 could mean a bumpy ride to recovery. Costlier debt, households' reduced propensity to spend, and lenders' risk aversion will strain corporate borrowers' profit margins and liquidity profiles, and exacerbate credit pressures. Risk of stickier than anticipated inflation could prompt central banks to keep rates high. A sharp economic slowdown and squeezed disposable income could lead households to pull back on consumption.

Credit Cycle Indicator Q2 2024: Upward Momentum For A Recovery In 2025

Consumer goods companies continue to benefit from favorable pricing, even as volumes remain subdued. Branded consumer goods companies' average annualized price increases will level off within the low- to mid-single-digit range. Input and operating costs will continue to moderate. Together with carryover price increases, this will improve profitability in 2024. Mature markets will face volume compression as consumers look for value and cheaper private-label alternatives. Competition remains intense. Consumer product companies will use gross margin gains to strengthen brand equity through increased advertising and promotional spending. Negative bias is concentrated on lower-rated companies, predominantly in the U.S., where the ratings outlook on about 34% of rated companies is negative. Spillover effects from geopolitical tensions were lower than we expected but further escalations could increase commodity price volatility and supply chain costs, as well as hurt global trade and consumer sentiment.

SLIDES: Consumer Goods 2024 Outlook: Carryover pricing supports margins, volumes stay subdued

S&P Global Ratings has lowered its Brent and West Texas Intermediate (WTI) oil price assumptions for 2025 and subsequent years. We maintain our WTI and Brent price assumptions of $80 and $85, respectively, for this year, noting geopolitical tensions coupled with the Organization of the Petroleum Exporting Countries and its allies (OPEC+) production restraint, supporting oil prices. However, global oil demand will grow at a significantly weaker pace this year, while production from mostly North America will help boost supply despite reductions in output by OPEC+. Given the modest changes to our price deck, we don't anticipate any direct rating actions.

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S&P Global Ratings oil and natural gas price assumptions

	New prices (as of March 11, 2024)					Old prices (as of Feb. 20, 2024)				
	WTI ($/bbl)	Brent ($/bbl)	Henry Hub ($/mmBtu)	AECO ($/mmBtu)	TTF ($/mmBtu)	WTI ($/bbl)	Brent ($/bbl)	Henry Hub ($/mmBtu)	AECO ($/mmBtu)	TTF ($/mmBtu)
Remainder of 2024	80	85	2.5	1.75	10	80	85	2.5	1.75	10
2025	75 ↓	80 ↓	3.5	2.5	10	80	85	3.5	2.5	10
2026	75 ↓	80 ↓	4.25	3.25	10	80	85	4.25	3.25	10
2027 and beyond	75 ↓	80 ↓	4.25	3.25	10	80	85	4.25	3.25	10

Source: S&P Global Ratings. bbl--Barrel. WTI--West Texas Intermediate. HH--Henry Hub. TTF--Title Transfer Facility. AECO--Alberta Energy Co. mmBtu--Million British thermal units. Note: Prices are rounded to the nearest $5/bbl and 25 cents/mmBtu.

S&P Global Ratings Revises Its WTI And Brent Price Assumptions For 2025 And Beyond On Anticipated Oversupply

Fourth-quarter 2023 GDP data point to continuing resilience across most emerging markets (EMs), mostly because of solid domestic demand and helped by ongoing fiscal stimulus. Growth in EMs with high trade exposure to Developed Europe continue to underperform though, and domestic demand trajectories will diverge across EMs in 2024. After strong domestic demand performance in 2023 in EM Asia, we expect household spending to moderate this year, as the lagged effects of tight monetary policy filter through those economies. In contrast, high-frequency indicators in EM EMEA point to improving domestic demand thanks to rising real incomes, particularly in Central and Eastern Europe, following weakness in 2023. Financing conditions continue to improve. EM spreads have broadly tightened across all regions. Investment-grade issuance was strong over the last month, while speculative grade issuance remained anemic, as borrowing costs for weaker credits are still significantly high from an historical perspective.

EM Monthly Highlights: Strong Domestic Demand, Diverging Trajectories

U.S. consumers are stretched by grocery prices that are on average 25% higher than they were a few years ago. They are seeking value, increasing their shopping frequency, and purchasing smaller baskets. Despite our expectation for weak revenue growth in the packaged food sector in 2024 as a result of these pressures, we expect stable ratings for investment-grade issuers, absent large mergers and acquisitions (M&A). Speculative-grade issuers will face more downside risks, especially those with upcoming debt maturities.

U.S. Packaged Food Companies Seek More-Normal Trends In 2024, Though A Delayed Volume Recovery Weighs On The Industry's Outlook

The relationship between artificial intelligence (AI) and cyber security is proving symbiotic, with security practices serving to defend AI systems, while AI is simultaneously leveraged to enhance the effectiveness of security. Yet there is also a parasitic parallel, with AI increasingly used by threat actors as a tool to breach security. Much about these interactions is new, and while AI doesn't demand an overhaul of the fundamental security principles, it is clear that practices and practitioners will have to adapt to meet the evolving applications of AI and its emerging risks.

Cyber Security Experts Already Have Many Of The Tools To Manage AI Risks, Say Experts

Asset Class Highlights

Corporates

Notable publications include:

- SLIDES: Consumer Goods 2024 Outlook: Carryover pricing supports margins, volumes stay subdued
- U.S. Packaged Food Companies Seek More-Normal Trends In 2024, Though A Delayed Volume Recovery Weighs On The Industry's Outlook
- S&P Global Ratings Revises Its WTI And Brent Price Assumptions For 2025 And Beyond On Anticipated Oversupply
- GCC Real Estate: How Credit Stories Have Evolved

Financial Institutions

- In Asia, we revised the rating outlook on two Korea-based securities firms, Korea Investment & Securities and Mirae Asset Securities to negative from stable. Headwinds in domestic and overseas property markets will exert downward pressure on Korean securities firms. These companies' sizable property exposure in both domestic and overseas markets could hurt their asset quality and result in subdued profitability in the coming one to two years.
- We published several commentaries and bulletins, including:
    - U.S. Regional Banks 4Q 2023 Update: Regional Banks Fortify Balance Sheets As Challenging Operating Conditions Persist
    - CFBP's Final Rule On Credit Card Late Fees Could Hurt Card Issuer Earnings But Will Be Manageable For Most
    - LatAm Financial Institutions Monitor Q1 2024: Fragile Asset Quality Stabilization Amid Sluggish Economic Recovery
    - Realigned Capital Rules To Cut China Banks' TLAC Needs
    - Bulletin: Nationwide's Surprise Offer For Virgin Money Would Be A Transformational Acquisition If It Proceeds
    - Bulletin: OTP Bank's Strong Results In 2023 Reflect Its Resiliency Despite A Dip In The Fourth Quarter
    - Bulletin: Raiffeisen Schweiz Genossenschaft Continues To Leverage On Its Leading Retail Franchise
    - Bulletin: HFSF's Exit From Piraeus Confirms Positive Investor Sentiment Around The Greek Banking System

Sovereign

- Ukraine FC Rating Lowered To 'CC' With Negative Outlook On Expected Debt Restructuring; 'CCC+/C' LC Ratings Affirmed

Structured Finance

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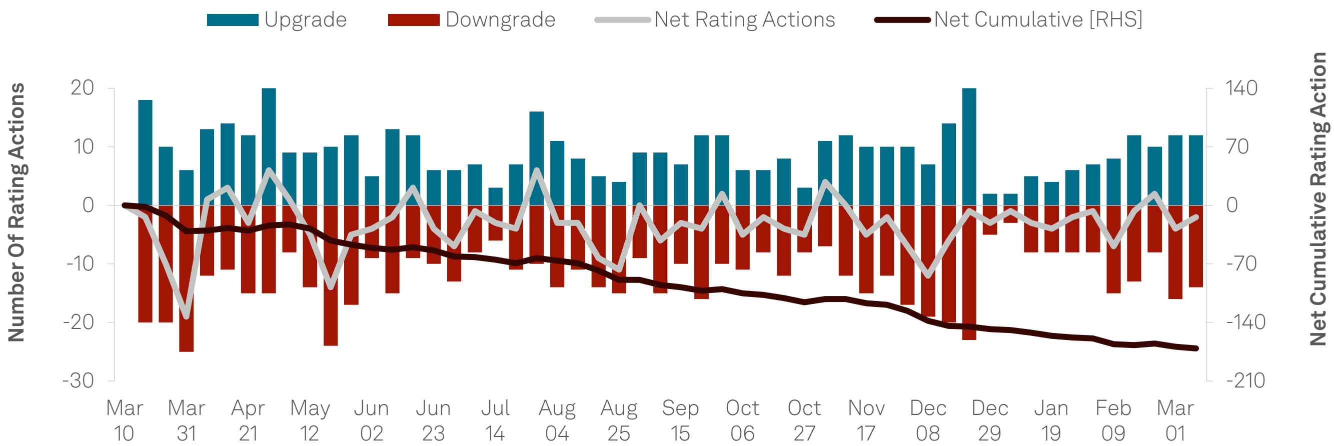
- **U.S. Auto ABS:** Here are a few "Key Takeaways" from a recent article:
    - U.S. auto loan ABS performance weakened in January, with prime and subprime annualized losses both increasing. Prime losses reached their highest January level since 2017.
    - Recoveries improved marginally month on month for the first time since June 2023. However, the recoveries were still lower on a year-over-year basis and as compared to January 2020 pre-pandemic's level.
    - The delinquencies increased marginally for subprime and remained at the same level for prime. Subprime 60+ day delinquencies now stand at their highest ever level.
    - In February, we revised our expected cumulative net loss levels for five transactions, raised six ratings, downgraded four, affirmed 16, and extended the CreditWatch with negative implications on three classes.
    - See "U.S. Auto Loan ABS Tracker: January 2024 Performance" published March 7, 2024.
- **U.S. Utility Securitization:** In our credit FAQ, "The Rationale Behind U.S. Utility Securitization And Reasons For Recent Growth", published on March 4, 2024, we answer some questions concerning:
    - The rationale behind a utility's decision to employ securitization as financing tool;
    - The rapid increase in utility-related securitization issuance levels that commenced in 2021;
    - The potential impact of securitization on the credit rating of a utility acting as servicer for a transaction;
    - The outlook for future issuance;
    - How utility-related securitizations can potentially achieve a higher rating than that of its servicer; and
    - Potential risks to the asset class.
- **Canadian Credit Card ABS:** We published the "Canadian Credit Card Quality Index: Monthly Performance--January 2024" on March 5, 2023. 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.

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 March 8, 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. $)
4-Mar	Downgrade	American Electric Power Co. Inc.	Utilities	U.S.	BBB+	A-	35,380
4-Mar	Downgrade	VMED O2 UK Ltd. (Liberty Global PLC)	Telecommunications	U.K.	B+	BB-	28,543
8-Mar	Downgrade	Republic of Ukraine	Sovereign	Ukraine	CC	CCC	21,733
8-Mar	Downgrade	Anglo American PLC	Metals, Mining & Steel	U.K.	BBB	BBB+	11,685
6-Mar	Downgrade	Humana Inc.	Insurance	U.S.	BBB	BBB+	11,200
5-Mar	Upgrade	Cellnex Telecom S.A.	Telecommunications	Spain	BBB-	BB+	10,408
5-Mar	Upgrade	Motorola Solutions Inc.	High Technology	U.S.	BBB	BBB-	7,241
5-Mar	Upgrade	Uber Technologies Inc.	High Technology	U.S.	BB+	BB-	7,211
5-Mar	Upgrade	NCL Corporation Ltd.	Media & Entertainment	Bermuda	B+	B	6,705
6-Mar	Upgrade	Enlink Midstream LLC	Utilities	U.S.	BBB-	BB+	6,228

Source: S&P Global Ratings Credit Research & Insights. Data as of March. 8, 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**.**