

# The Ratings View

April 10, 2024

This report does not constitute a rating action.

## Key Takeaways

- Surging AI investment will reshape credit prospects for the U.S. technology sector.
- China's e-commerce leaders face slower growth and intensifying competition.
- Corporates' progress on preparing for physical climate risks appears slow.

**The AI revolution should prove a massive growth opportunity for the technology sector**, with AI-related revenues forecast to grow at a compound annual growth rate (CAGR) in the high-20% range to nearly \$650 billion by 2028. Large cloud service providers are leading the AI investment cycle, but increased spending by enterprises, investment in AI at the edge, and the refreshing of endpoint devices, will deliver a multi-year investment cycle benefiting the entire IT industry. Semiconductor makers have been the early winners, though the hardware sector is also benefiting as it provides infrastructure for AI's massive data flows. The software and services sectors will take longer to generate meaningful AI revenues as they must create demonstrably beneficial use cases. AI will affect credit quality at different speeds, reflecting rated issuers' ability to deliver sustainable increases in revenues and cash flow at different stages of the AI investment cycle. Many issuers will benefit, but some will be disrupted.

### [AI Will Gradually Reshape U.S. Tech Companies' Credit Quality](#)

**The pioneers of China e-commerce are facing challenges.** Sector growth is slowing as China's economic growth rate is ebbing. The country's e-commerce market is set to grow by about 8%-9% annually over the next two years, down from a 13% CAGR over the past five years. Competition is also intensifying, and consumers are tightening belts. Alibaba Group Holding Ltd. and JD.com Inc. face difficult choices in fending off PDD Holdings Inc., which has an aggressive focus on unbranded goods. For now, the ratings on Alibaba and JD.com remain underpinned by their absolute scale, resilient profit, and cash flows.

### [China E-Commerce Giants Face Their Biggest Test](#)

**Physical climate risks are on the rise but progress on adapting to them still varies**, leaving some financial and non-financial corporates vulnerable. Only about one-fifth of companies in the sample disclosed an adaptation plan. Some companies are not prioritizing adaptation planning, which could ultimately increase the cost to adapt and the amount of change required. Sectors indirectly exposed to physical climate risks--such as communications services, information technology, and consumer discretionary--could see rising exposure, absent adaptation. Regulation and disclosure requirements could speed up climate adaptation planning.

### [Sustainability Insights Research: Risky Business: Companies' Progress On Adapting To Climate Change](#)

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# Asset Class Highlights

## Corporates

Notable publications include:

- [AI Will Gradually Reshape U.S. Tech Companies' Credit Quality](#)
- [China E-Commerce Giants Face Their Biggest Test](#)
- [China's Oil Majors Will See Slower Demand This Year](#)
- [Indonesian Developers Could Opt For Debt Restructuring, Tender Offers As Maturity Wall Looms](#)
- [CreditWeek: What Are The Top Risks To Global Credit Conditions As Of Q2 2024?](#)
- [Sustainability Insights Research: Risky Business: Companies' Progress On Adapting To Climate Change](#)

## Financial Institutions

- **In Australia, we raised our long-term issuer credit ratings on most of the non-major banks and other financial institutions.** The rating actions reflect continued strengthening of institutional and governance standards in the Australian banking sector that have reduced industrywide risks. See [Most Non-Major Australian Banks Upgraded On Strengthened Institutional Framework; Outlooks Stable](#) and [Credit FAQ Looks At Government Support In Australian Bank Ratings](#) and [Credit FAQ: Australian Banks Are Increasing TLAC. So Why Are Bailouts Still An Option?](#)
- **In Japan, we lowered the rating on Orix to 'BBB+' from 'A-'**. Our downgrade of the Japan-based diversified finance company reflects our view that the balance between risk assets and capital will not recover soon. See [Japan-Based Orix Downgraded To 'BBB+' On Slow Recovery For Capitalization; Outlook Stable](#)
- **In Iceland, we raised the ratings on three banks to 'BBB+' from 'BBB'**. We consider that economic risks facing Icelandic banks have abated with a stabilizing housing market and significant deleveraging of the private sector. See [Three Icelandic Banks Upgraded On Receding Economic Imbalances; Outlooks Stable](#).
- **We raised the ratings on two Tunisian banks to 'CCC+' from 'CCC'**. See [Two Tunisian Banks Upgraded To 'CCC+' On Receding Macroeconomic Instability Risk; Outlooks Stable](#)
- We published several commentaries and bulletin, including:
  - [Bulletin: Nigerian Banks Are Confronted With The Lingering Naira Depreciation](#)
  - [Banking Industry Country Risk Assessment Quarterly Monitor: Q1 2024](#)
  - [Ratings Component Scores For The Top 200 Banks Globally--April 2024](#)
  - [Your Three Minutes In Banking: Reasons Behind The Surge Of Hybrid Instrument Issuance In Latin America](#)
  - [Sector Review: 2024 Taiwan Banking Sector Credit Trends](#)

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## Sovereign

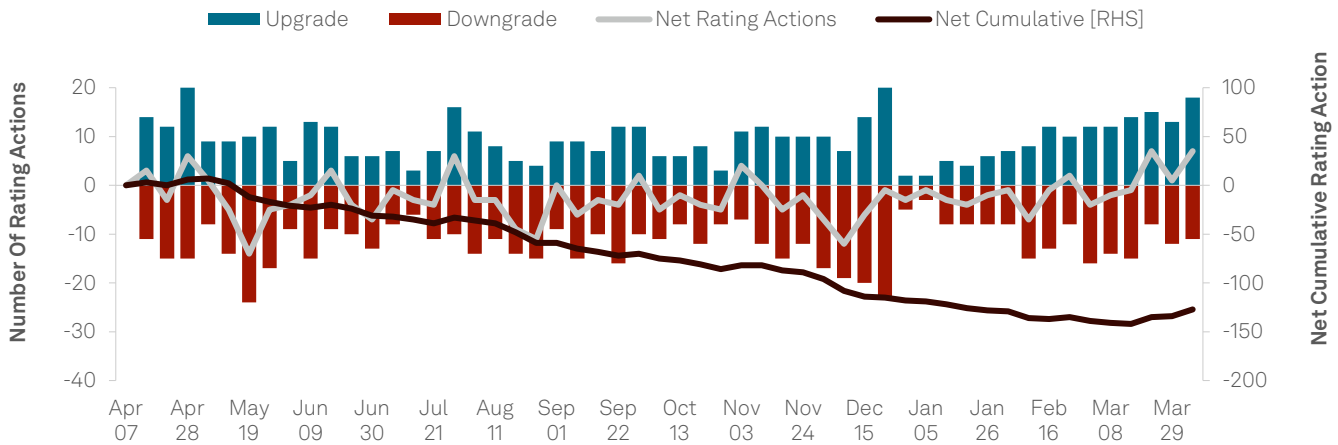
- [Serbia Outlook Revised To Positive On Improving Fiscal And External Profile: 'BB+/B' Ratings Affirmed](#)

## Structured Finance

- **U.S. CLOs:** Since S&P Global Ratings rated its first collateralized loan obligation (CLO) transaction 30 years ago in 1994, we have rated more than 18,000 U.S. CLO tranches, totaling nearly \$1.4 trillion in issuance (including CLO refinancing and reset activity). To date, through 30 years and several recessions (including the pandemic-related downturn in 2020), these CLO ratings have shown only a modest number of defaults, and they have outperformed almost any other rated asset type. We are updating our list of U.S. CLO defaults to show the full 30-year history to date in our article "[Thirty Years Strong: U.S. CLO Tranche Defaults From 1994 Through First-Quarter 2024](#)", published April 1, 2024. We also include a list of tranches from CLO 2.0 transactions that we view as likely candidates for future default based on their current ratings assigned in the article.
- **U.S. and Canadian Credit Card ABS:** We published the "[U.S. Credit Card Quality Index: Monthly Performance--February 2024](#)" on April 3, 2024 and the "[Canadian Credit Card Quality Index: Monthly Performance--February 2024](#)" on April 5, 2024. The CCQI is a monthly performance index that aggregates performance information of securitized credit card receivables in key risk areas.
- **Australian Auto ABS:** Australian auto asset-backed securities (ABS) arrears continued to increase in February. 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 rose to 1.59% in February from 1.07% the previous month. This was primarily due to an increase in 31-60 days arrears across the transactions from one originator. It followed a servicing system change in February that disrupted the originator's direct debit file processing. Accordingly, although we expect arrears to continue rising overall, the Australian auto ABS SPIN for March will likely show a decline.

## 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 Apr. 5, 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. \$)
5-Apr	Downgrade	<a href="#">ARD Finance S.A. (ARD Securities Finance S.a.r.l.)</a>	Chemicals, Packaging & Environmental Services	Luxembourg	B-	B	19,992
1-Apr	Upgrade	<a href="#">GFL Environmental Inc.</a>	Consumer Products	Canada	BB-	B+	6,934
4-Apr	Downgrade	<a href="#">ORIX Corp.</a>	NBFI	Japan	BBB+	A-	4,947
4-Apr	Upgrade	<a href="#">Landsbankinn hf.</a>	Bank	Iceland	BBB+	BBB	4,204
2-Apr	Upgrade	<a href="#">Bank of Queensland Ltd.</a>	Bank	Australia	A-	BBB+	3,662
3-Apr	Downgrade	<a href="#">Rackspace Technology Global Inc.</a>	High Technology	U.S.	SD	CCC-	3,300
2-Apr	Upgrade	<a href="#">Bendigo and Adelaide Bank Ltd.</a>	Bank	Australia	A-	BBB+	3,065
4-Apr	Upgrade	<a href="#">Islandsbanki hf</a>	Bank	Iceland	BBB+	BBB	2,903
3-Apr	Upgrade	<a href="#">Avolta AG</a>	Retail/Restaurants	Switzerland	BB+	BB	2,776
4-Apr	Downgrade	<a href="#">Athletico Holdings LLC</a>	Health Care	U.S.	CCC+	B-	1,750

Source: S&P Global Ratings Credit Research & Insights. Data as of Apr. 5, 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.



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