This Month In Credit

April 2024, Volume 15

This report does not constitute a rating action.

Curb Your Enthusiasm

(Editor's note: For additional exhibits on credit trends, including rating actions, outlooks, fallen angels, rising stars, weakest links, and the U.S. distress ratio, please see the related data publication: "This Month In Credit: 2024 Data Companion.")

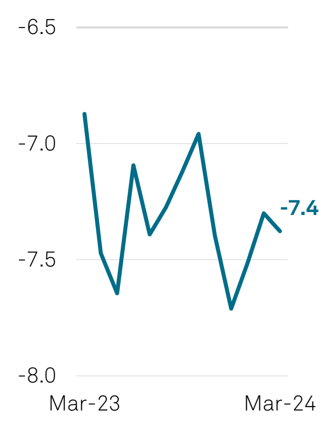
Key Takeaways

- The number of upgrades rose 44% in March (to 59), outnumbering downgrades for a second consecutive month.
- Fallen angels chalked up three additions in March (bringing the first-quarter total to four) but were outpaced by six new rising stars.
- Near-term default pressure seemed to ease in the month: the number of weakest links fell further (to 286), the U.S. distress ratio fell by nearly a percentage point (to 4.86%), and the default tally declined by nearly half (to eight).
- While credit trends broadly improved into March, escalating geopolitical tension and inflation could pose renewed challenges to credit if rising uncertainty leads to higher funding costs.

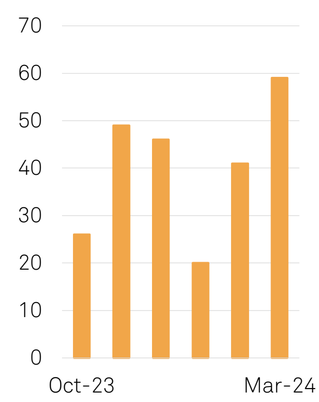
Better Days For Credit

Credit improved on many fronts in March, but recent events are testing investor enthusiasm.

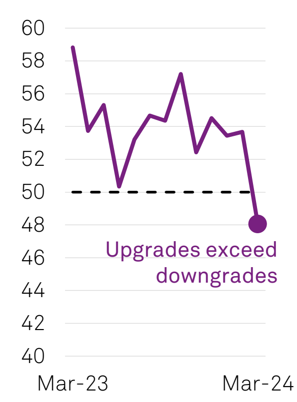
Global net bias (%)



Upgrades (no.)



Downgrade ratio (3 mo. trailing, %)



Data as of March 31, 2024. Charts show downgrade and bias figures globally, including investment-grade and speculative-grade issuers. Net bias is the positive bias minus the negative bias (for both investment- and speculative-grade issuers). Upgrades (no.) chart shows the number of upgrades by month, and downgrade ratio (3 mo. trailing, %) shows the sum of the trailing three-months' downgrades, divided by the sum of the trailing three-months upgrades and downgrades. Source: S&P Global Ratings Credit Research & Insights.

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For a weekly snapshot of rating trends and credit conditions, please see **"This Week In Credit,"** released every Monday.

Credit Notes: Testing Resilience

For more accompanying data, click here

The credit market's recent bull run could be nearing an end. Confronted by geopolitical, macroeconomic, and supply-chain challenges, uncertainty is seeping back into markets. This could impact consumer confidence, pressure margins, and raise credit funding costs.

Iran's military action against Israel on April 13 stoked fears of regional escalation. While the immediate risk seems to have passed, we view escalating geopolitical risks as the biggest challenge to our macro-credit base case. In the markets, we've seen U.S. speculative-grade credit spreads widen modestly, but at 244 basis points on April 24, this spread is back near its all-time low.

Stronger-than-expected employment and inflation data in the U.S. has sharply tempered investors' expectations for rate cuts, with a growing minority now expecting a further rate hike before any cuts. In response, the yield on the 10-year Treasury has risen back above 4.6% for the first time this year.

Further compounding cost pressures are the impact of tensions on Middle East shipping lanes and the collapse of Baltimore's Francis Scott Key Bridge. Each of these will likely increase supply chain costs and potentially push up inflation in the U.S.

Each of these factors could challenge credit quality but are happening just as rating actions have started to turn more positive.

The number of upgrades rose by 44% in March (to 59), reaching its highest in a year. Although downgrades also increased, the pace was slower (up 23% to 48).

Not only did upgrades exceed downgrades for a second consecutive month in March, these upgrades also pushed the trailing-three-month downgrade ratio below 50--meaning there've been more upgrades than downgrades over the past three months--for the first time in more than a year.

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March's upgrades included six new rising stars, double the number of fallen angels.

Default pressure showed signs of easing. Through February, the number of defaults in 2024 had been the highest since the global financial crisis. But with defaults falling by nearly half (to eight) in March, 2024's first-quarter default tally was below that of 2023.

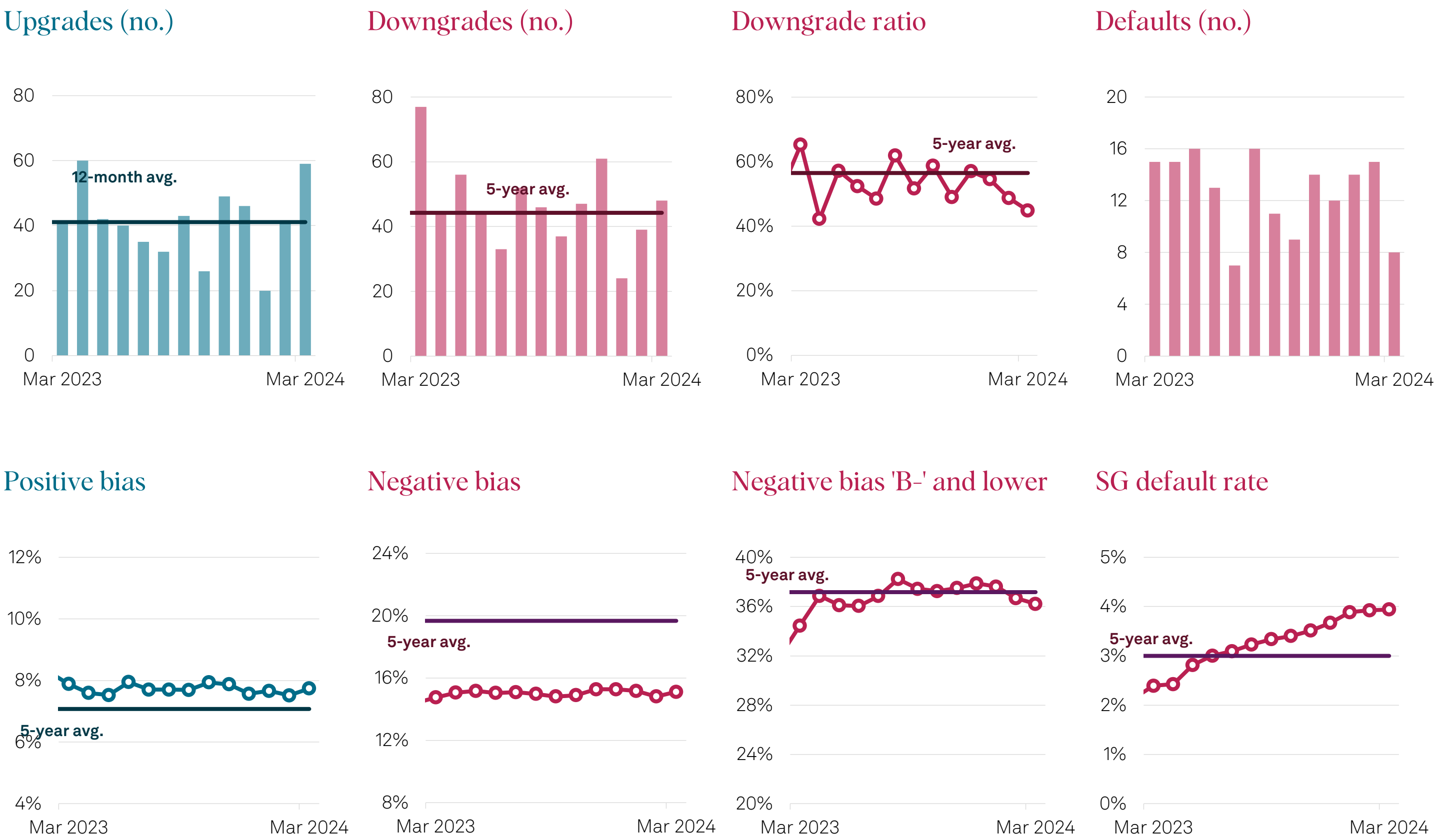
Further reducing potential default pressure, the number of weakest links continued to decline, falling by six to 286 at the end of March.

Spread tightening in March helped lower the U.S. distress ratio, which fell by nearly a percentage point to 4.86% at the end of March. This suggests that the market considered fewer issuers to have elevated risk of default.

Recent economic resilience is undoubtedly supporting credit quality through March. But with recent geopolitical developments and a potential shift in U.S. monetary policy, which would also affect emerging markets, financing conditions could turn more challenging.

Last month, we asked if we were out of the woods yet. For now, it appears we aren't.

Ratings Trends Snapshot – Through Mar. 31, 2024



Data as of Mar. 31, 2024. Data represents rating actions and biases for sovereign, financial, and nonfinancial corporate issuers globally. Downgrade counts exclude defaults. Defaults and the speculative-grade default rate exclude sovereigns. SG—speculative grade Source: S&P Global Ratings Credit Research & Insights.

Credit Trends: Upgrades Got A Lift In March

With improving sentiment and better-than-expected economic growth, rating actions grew increasingly positive in March. However, this may be temporary.

- Upgrades exceeded downgrades for the second month in a row, having increased 44% to 59 in March.
- Consequently, first-quarter upgrades (120) outnumbered downgrades (111). This was the first time since mid-2022 that upgrades have outnumbered downgrades over three months.
- U.S.-based entities accounted for half of the upgrades in March and a higher share of downgrades than other regions.
- In contrast to the global trend, downgrades outnumbered upgrades in the U.S.
- Speculative-grade issuers saw the bulk of upgrades, and these upgrades (46) outpaced speculative-grade downgrades (39).
- The upgrades include six rising stars this month, bringing the year-to-date total to 10.

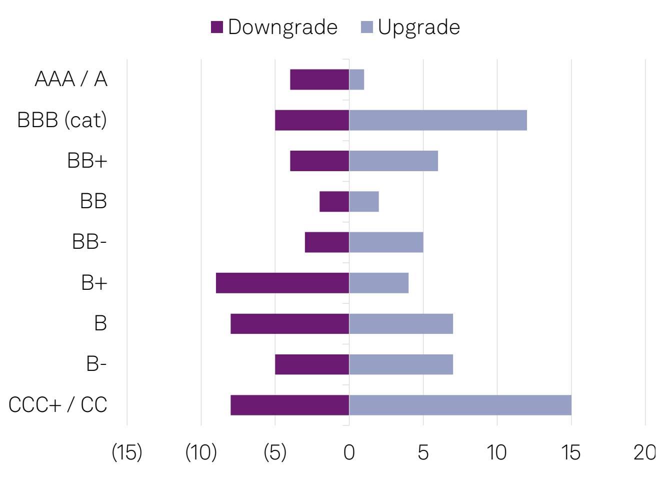
In contrast to the global trend, downgrades outnumbered upgrades in the U.S.

- Most upgrades were from the utilities sector (eight), followed by capital goods (seven). Consumer products, high technology, media and entertainment, and oil and gas all had five upgrades each.
- Upgrades were widely dispersed by sector, with these six sectors accounting for just 60% of upgrades in the month.
- The Republic of Argentina was the largest upgrade during the month (by debt amount), with $154 billion in associated debt.
- Upgrades spiked in the 'CCC/C' category (to 15 in March from just one in February). However, nine of these were related to the upgrade of the Republic of Argentina to 'CCC'.
- Downgrades increased 23% in March to 48.
- Speculative-grade issuers accounted for nearly 80% of downgrades in March--predominantly from the U.S.
- Downgrades included three fallen angels, bringing the total for the year so far to four.
- A growing share of downgrades were from the 'B' category (22 in March, up from 14 in February).
- Six of these downgrades from the 'B' category resulted in issuers lowered into the 'CCC' category, up from four in February.
- The majority of downgrades (44) came from North America and Europe. All investment-grade downgrades (nine) were in the U.S. and Europe, including four utilities in the U.S.

Six of the downgrades from the 'B' category resulted in issuers lowered into the 'CCC' category, and this was up from four in each of the past two months.

Chart 1

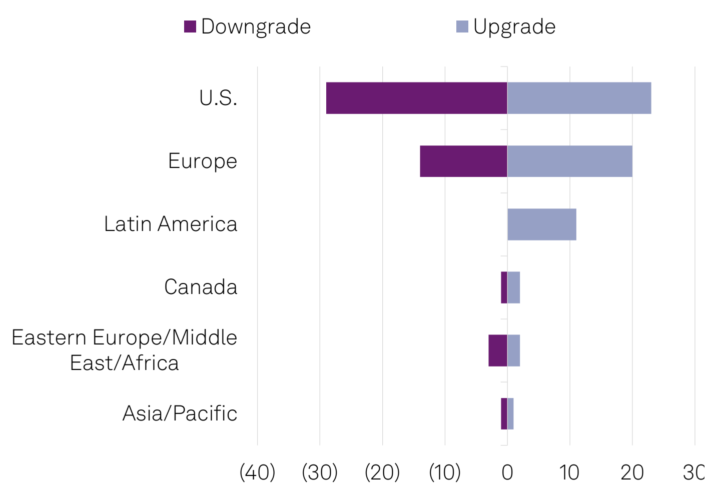
Rating actions by category in March



Data as of March 31, 2024. Source: S&P Global Ratings Credit Research & Insights.

Chart 2

Rating actions by region in March



Data as of March 31, 2024. Source: S&P Global Ratings Credit Research & Insights.

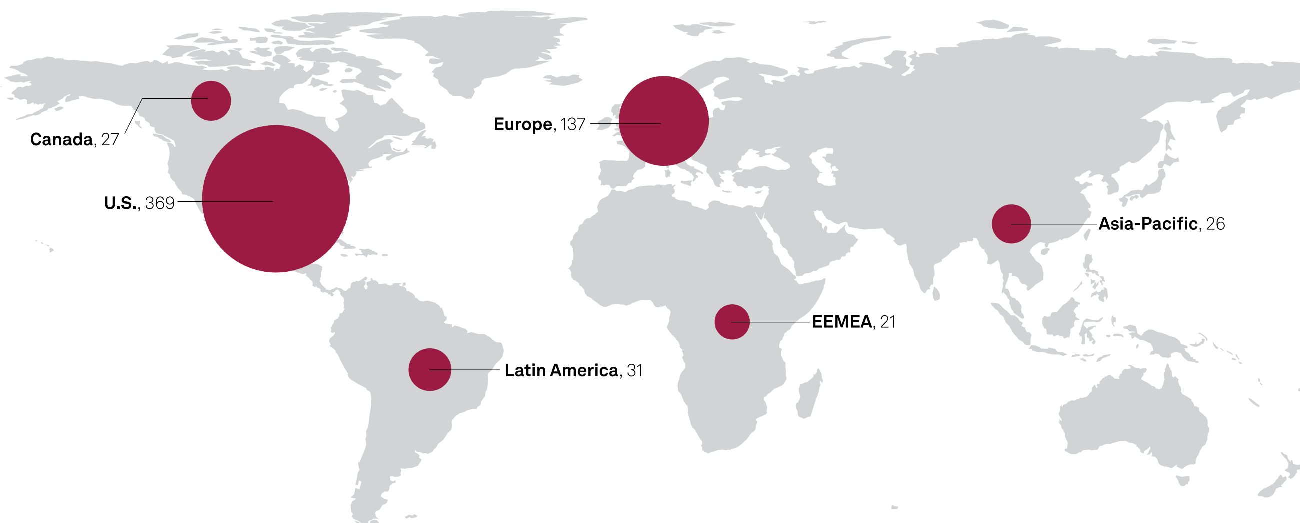
- Consumer products once again saw the most downgrades in the month, with nine (all speculative-grade issuers), doubling its year-to-date total. Reasons for downgrades varied, with two (**Badger Finance LLC** and **Herbalife Nutrition Ltd.**) citing near-term maturities as a concern. Media and entertainment and home/real estate companies followed with six downgrades each.
- However, from a debt outstanding perspective, two out of the three largest downgrades were utilities: **American Electric Power Co. Inc.** ($35 billion) and **Xcel Energy Inc.** ($27 billion). Wildfire risk was cited as a reason for Xcel's downgrade and a potential business risk for American Electric Power.
- Financial institutions had the largest increase in potential downgrades (11), bringing its total to 63. Utilities and high technology followed with six new potential downgrades each. Consumer products remains the sector with the most potential downgrades (91) following four new additions in March.

Wildfire risk was cited as a reason for a downgrade or a potential business risk for two of the largest three downgrades.

Chart 3

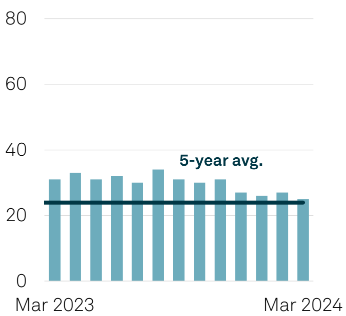
Potential downgrades (no.)

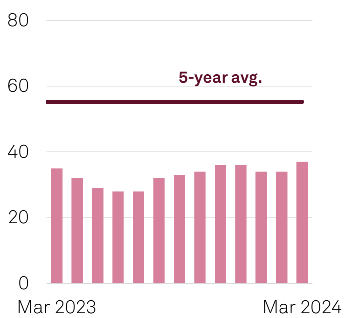
By region

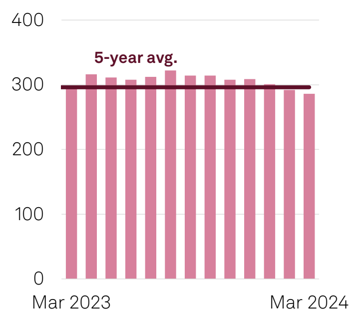


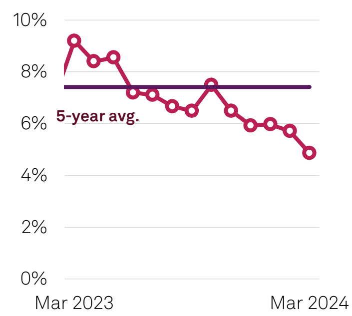
Data as of March 31, 2024. Chart shows number of potential downgrades by region. EEMEA--Eastern Europe, the Middle East, and Africa. Source: S&P Global Ratings Credit Research & Insights.

Specific Credit Indicators Through Mar. 31, 2024









Data as of Mar. 31, 2024. Data represents sovereign, financial, and nonfinancial corporate issuers globally, except for S&P Global Ratings' U.S. distress ratio, which is defined as the number of U.S. speculative-grade issues with option-adjusted spreads of more than 1,000 bps above U.S. Treasury bonds. Source: S&P Global Ratings Credit Research & Insights.

Fallen angels: March had three fallen angels, a sharp increase from just one in February. Fallen angels included **Paramount Global**, which we'd flagged as a potential fallen angel the month prior. The rating action cited worsening credit metrics given a more competitive, less certain streaming model.

The other two fallen angels in the month were **ELO S.A.**, a French retail company, facing uncertain business prospects in French retail, and its subsidiary **New Immo Holding S.A**.

There were six new potential fallen angels in March, bringing the total to 37. The new additions included three financial institutions. With nine in total, this sector has the most potential fallen angels.

Rising stars: March also saw a large increase in rising stars, with six additions in the month, from six different sectors. The largest was Cellnex, with $10 billion in debt affected. **Cellnex Telecom S.A.** was upgraded following its reinforced commitment to reducing leverage.

There were five new potential rising stars in March: two sovereigns, and one each from telecommunications, capital goods, and high technology. The additions helped to offset seven issuers removed from the list of potential rising stars and brings the tally of potential rising stars to 25.

Weakest links: The number of weakest links fell for the third consecutive month to 286, 10 below its five-year average. Nearly half of the removals from last month were from Argentine entities, including utilities, financial institutions, transportation, and oil and gas companies with ratings linked to that on the sovereign. S&P Global Ratings raised the sovereign credit rating on **Argentina** to 'CCC' from 'CCC-' and revised the outlook to stable from negative.

18 issuers were added to the tally of weakest links in March. The consumer products sector led with three, followed by financial institutions; media and entertainment; metals, mining and steel; telecommunications; and utilities (with two each). Consumer products has the most weakest links at 46, given these issuers' higher exposure to inflation, weaker top lines and margins, high leverage, and refinancing risks.

March had three fallen angels, a sharp increase from just one in February.

March also saw a large increase in rising stars, with six additions in the month, from six different sectors.

Distress ratio: With investor optimism about potential interest rate cuts in 2024 contributing to tighter secondary market spreads in the first quarter, the U.S. distress ratio dropped to 4.86% as of March 31, from 5.71% as of Feb. 29.

The telecommunication sector had the highest distress ratio at 20% as of the end of March--down from 27.7% in February after several distressed issues were removed due to the default of **Lumen Technologies Inc**.

With hotter-than-expected inflation data in April, spreads are widening and benchmark yields rising, signaling market doubt over the potential rate cuts. Just as falling inflation expectations were leading spreads and the distress ratio lower, rising inflation expectations may help them pick back up.

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Defaults: Global defaults slowed in March to eight, from 15 in February. With this decline, the number of global corporate defaults totaled 37 in the first quarter of 2024, three fewer than at this point in 2023. Despite the year-over-year dip, the trailing-12-month global speculative-grade default rate remains above its 10-year average.

The slowdown in defaults in March came across regions, except Europe. Meanwhile, Europe (with three defaults in March) remains at its highest year-to-date tally since 2008. We expect defaults in Europe to remain elevated through the summer but stabilize at around 3.5% by December 2024 (see "European Speculative-Grade Default Rate To Stabilize At 3.5% By December 2024," Feb. 15, 2024).

The U.S.-based telecom sector has the highest defaulted debt volume so far in 2024, with $13 billion, amid weakened liquidity and credit ratios driven by constrained access to capital markets. We expect defaults in the U.S. to peak in the third quarter before ending the year around 4.75% (see "U.S. Speculative-Grade Corporate Default Rate To Hit 4.75% By December 2024 After Third-Quarter Peak," Feb. 15, 2024)

For more data and charts on fallen angels, potential fallen angels, rising stars, potential rising stars, weakest links, and the U.S. distress ratio, please see the related publication: "This Month In Credit: 2024 Data Companion."

Table 1

Potential downgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
Aerospace and defense	7	7					
Automotive	14	10	2	2			
Capital goods	26	17	5	1	1		2
Consumer products	91	67	16	1	2	4	1
CP&ES	49	28	15	2	1	2	1
Diversified	1				1		
Financial institutions	63	24	13	6	13	5	2
Forest PBM	14	6	8				
Health care	51	42	8				1
High technology	39	28	8	1			2
Home/real estate	40	15	18	5			2
Insurance	5	3	1	1			
Media/entertainment	54	39	13	1			1
Metals, mining, and steel	18	7	3	1	1	1	5
Oil and gas	10	1	3		1	2	3
Retail/restaurants	37	30	6		1		
Sovereign	15		4		6	5	
Telecommunications	24	12	5		2	1	4
Transportation	16	8	4	2	1	1	
Utilities	37	25	5	3	1		3

Data as of Mar. 31, 2024. The darker red indicates more potential downgrades per region.
PBM--Products and building materials. CP&ES--Chemicals, packaging, and environmental services.
Source: S&P Global Ratings Credit Research & Insights.

Table 2

Potential upgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
Aerospace and defense	10	8	2				
Automotive	12	5	2	3		1	1
Capital goods	13	7	3	1			2
Consumer products	25	14	8				3
CP&ES	11	5	5		1		
Diversified							
Financial institutions	41	7	16	11		6	1
Forest PBM	14	10	3				1
Health care	8	5	2				1
High technology	8	7	1				
Home/real estate	7	5	1			1	
Insurance	10	5	2	2			1
Media/entertainment	39	31	6	1			1
Metals, mining, and steel	14	9	2	1	1		1
Oil and gas	28	18	9		1		
Retail/restaurants	10	5	5				
Sovereign	10		3		1	6	
Telecommunications	6		3			2	1
Transportation	14	2	6	2	2	1	1
Utilities	16	12	1	2	1		

Data as of Mar. 31, 2024. The darker blue indicates more potential upgrades per region.
PBM--Products and building materials. CP&ES--Chemicals, packaging, and environmental services.
Source: S&P Global Ratings Credit Research & Insights.

Table 3

Top 10 downgrades in March

Issuer	Sector	Downgrade date	To	From	Country	Amount (bil. $)
American Electric Power Co. Inc.	Utilities	3/4/2024	BBB+	A-	U.S.	35.4
VMED O2 UK Ltd. (Liberty Global PLC)	Telecommunications	3/4/2024	B+	BB-	U.K.	28.5
Xcel Energy Inc.	Utilities	3/13/2024	BBB+	A-	U.S.	26.8
Altice France S.A. (Altice Europe N.V.)	Telecommunications	3/28/2024	CCC+	B-	France	25.8
EchoStar Corp.	Telecommunications	3/13/2024	CCC-	CCC+	U.S.	24.0
Republic of Ukraine	Sovereign	3/8/2024	CC	CCC	Ukraine	21.7
Paramount Global	Media and entertainment	3/27/2024	BB+	BBB-	U.S.	18.4
Anglo American PLC	Metals, mining, and steel	3/8/2024	BBB	BBB+	U.K.	11.7
Humana Inc.	Insurance	3/6/2024	BBB	BBB+	U.S.	11.2
Genesee & Wyoming Inc. (Brookfield Corporation)	Transportation	3/28/2024	BB	BB+	U.S.	10.1

Data as of Mar. 31, 2024. Excludes defaults. Table shows 10 largest issuer downgrades, excluding defaults, by debt amount in March 2024. Source: S&P Global Ratings Credit Research & Insights.

Table 4

Top 10 upgrades in March

Issuer	Sector	Upgrade date	To	From	Country	Amount (bil. $)
Republic of Argentina	Sovereign	3/15/2024	CCC	CCC-	Argentina	153.4
E.ON SE	Utilities	3/14/2024	BBB+	BBB	Germany	30.8
Cellnex Telecom S.A.	Telecommunications	3/5/2024	BBB-	BB+	Spain	10.4
ABB Ltd.	Capital goods	3/28/2024	A	A-	Switzerland	9.3
Cenovus Energy Inc.	Oil and gas	3/18/2024	BBB	BBB-	Canada	7.9
Motorola Solutions Inc.	High technology	3/5/2024	BBB	BBB-	U.S.	7.2
Uber Technologies Inc.,	High technology	3/5/2024	BB+	BB-	U.S.	7.2
NCL Corporation Ltd.	Media and entertainment	3/5/2024	B+	B	Bermuda	6.7
Enlink Midstream LLC,	Utilities	3/6/2024	BBB-	BB+	U.S.	6.2
Lorca Telecom Bidco S.A.U.	Telecommunications	3/27/2024	BB	B	Spain	5.7

Data as of Mar. 31, 2024. Table shows 10 largest issuer upgrades by debt amount in March 2024.
Source: S&P Global Ratings Credit Research & Insights.

Related Research

- Credit Trends: Q2 2024 Global Refinancing Update: Window Of Opportunity May Be Closing, April 24, 2024
- CreditWeek: How Does Iran's Attack On Israel Affect Credit Conditions And Sovereign Ratings?, April 18, 2024
- White Paper: Assessing How Megatrends May Influence Credit Ratings, April 18, 2024
- Default, Transition, and Recovery: Global Defaults Are Still High Despite Dipping In March, April 16, 2024
- Ratings Performance Insights: Q1 2024, April 16, 2024
- ESG In Credit Ratings April 2024: First Month Since 2020 Without Positive ESG-Related Rating Actions, April 16, 2024
- Global Credit Conditions Update: Geopolitical Risks Rise On Iran-Israel Conflict Expansion Despite Immediate Reprieve, April 15, 2024
- Credit FAQ: The Rise of Repeat Defaulters, April 11, 2024
- Global Credit Conditions Q2 2024: Between Economic Resilience And Market Exuberance, April 2, 2024
- Default, Transition, and Recovery: 2023 Annual U.S. Public Finance Default And Rating Transition Study, March 28, 2024
- Default, Transition, and Recovery: 2023 Annual Global Corporate Default And Rating Transition Study, March 28, 2024

Glossary And Abbreviations

Downgrade ratio--The number of downgrades divided by the number of downgrades plus upgrades.

Fallen angels--Issuers downgraded to speculative grade from investment grade.

Investment grade--Issuers rated 'BBB-' or above.

Negative bias--Percentage of issuers with negative outlooks or ratings on CreditWatch negative.

Net outlook bias--Percentage of issuers with a positive bias minus those with a negative bias.

OLCW--Outlooks and CreditWatch placements.

Positive bias--Percentage of issuers with positive outlooks or ratings on CreditWatch positive.

Potential downgrade--An issuer rated by S&P Global Ratings with a negative outlook or on CreditWatch negative.

Potential fallen angels--Issuers rated 'BBB-' with either negative outlooks or on CreditWatch negative.

Potential upgrade--An issuer rated by S&P Global Ratings with a positive outlook or on CreditWatch positive.

Rising stars--Issuers upgraded to investment grade from speculative grade.

Risky credits--Issuers in the 'CCC' rating category.

Speculative grade--Issuers rated 'BB+' or below.

S&P Global U.S. distress ratio--The proportion of speculative-grade issues with option-adjusted spreads of more than 1,000 basis points relative to U.S. Treasury bonds divided by the total number of speculative-grade issues.

Speculative grade--Issuers rated 'BB+' or below.

Weakest links--Issuers rated 'B-' and below with either negative outlooks or on CreditWatch negative.

Weakest links ratio--The number of weakest links divided by the total speculative-grade ratings population.