S&P Global
Ratings

The Ratings View

May 1, 2024

This report does not constitute a rating action.

Key Takeaways

- We expect global bond issuance to rise 7% this year. Strong first-quarter issuance was opportunistic and dominated by refinancing.
- Q1 corporate earnings so far point to a continuing but fragile and fragmented recovery.
- Global light-vehicle sales will likely increase 2%-3% over 2024 and 2025.
- The credit outlook for global airlines remains positive.

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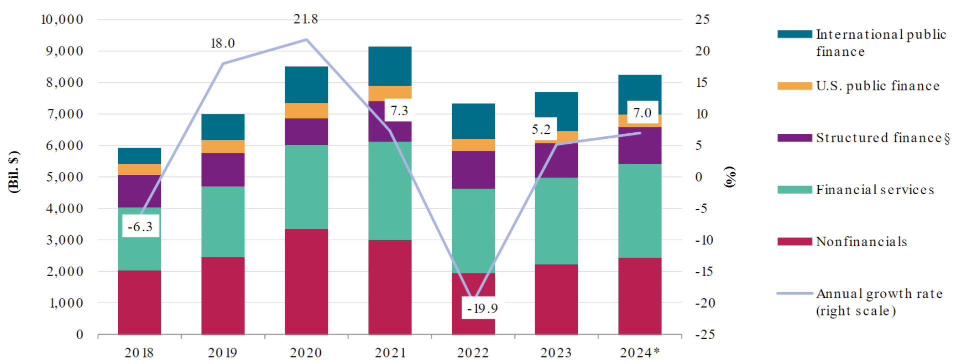
S&P Global Ratings expects global bond issuance to rise 7% in 2024, to roughly $8.2 trillion. Since November 2023, issuance has grown across most major sectors, with first-quarter global bond issuance up 15%, largely due to faster U.S. growth. Global corporate investment-grade bond issuance was up 26% year-over-year, and speculative-grade bond issuance rose 66%. Much of this increase resulted from borrowers taking advantage of the recent sharp decline in yields to refinance ahead of growing uncertainties. Geopolitical risks are increasing, and potential interest-rate differentials between major central banks could further stymie optimism and result in a yet stronger U.S. dollar, suppressing issuance volume ahead, particularly in dollar-converted terms. Issuance outside of developed markets was comparably muted, but could provide an upside surprise later, particularly if Chinese issuance were to expand in response to any potential stimulus measures. But we don't expect this in our base case at this time.

Historical global issuance and forecast



*Full-year forecast. §Structured finance excludees transactions that were fully retained by the originator, domestically-rated Chinese issuance, and CLO resets and refinancings. Sources: Green Street Advisors, Refinitiv and S&P Global Ratings Credit Research & Insights.

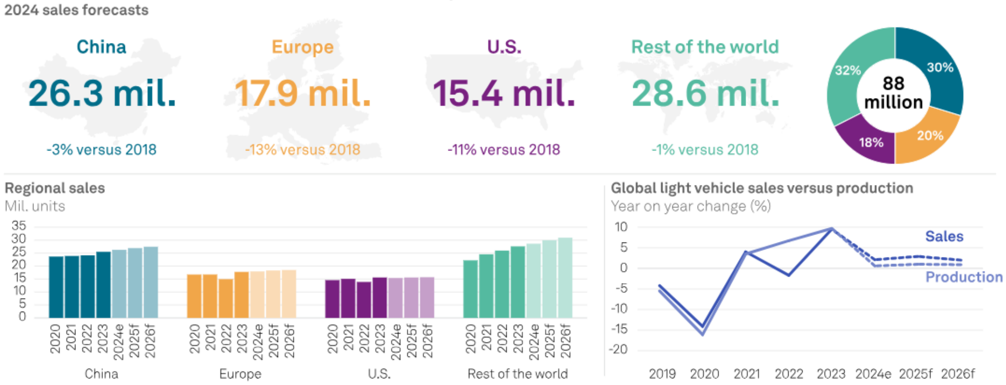
Global Financing Conditions: First-Quarter Issuance Surge Will Taper Off Amid Increasing Risks
Credit Trends: Q2 2024 Global Refinancing Update: Window Of Opportunity May Be Closing

The Q1 results season to date points to a continuing recovery but one that is fragile and fragmented. The global Q1 results season for rated nonfinancial corporates is one-quarter through, dominated by North America results at this point. Conclusions remain necessarily tentative, but earnings are edging higher on a quarterly basis. EBITDA is up 0.7% versus the same quarter a year ago, while revenues are down 0.3%. The turnaround is clearer if volatile commodity components are excluded, with global revenues up 2.3% at an annual rate and EBITDA up 2.7%. However, the recovery is fragmented, with marked regional and industry differences. North America is the only region where sales and EBITDA are both up versus the same quarter a year ago. Industrial cyclicals continue to experience contraction, with positive global industry growth concentrated in leisure-related consumer sectors, technology, healthcare, and aerospace and defense. Margin pressure is still apparent in one-third of sectors.

Corporate Results Roundup Q1 2024: Recovery continues but is fragile and fragmented

Global light-vehicle sales will likely increase 2%-3% over 2024 and 2025 (to over 90 million), mainly supported by growth in Southeast Asia and India. Weaker demand is likely in North America and Europe, while Chinese demand shows signs of strengthening. S&P Global Ratings revised our global forecast for light vehicle (LV) sales over 2024-2026 to incorporate a stronger than expected 2023 baseline (LV sales and production increased 9.5% globally) due to the end of the supply-side bottlenecks that plagued the industry over 2021-2022. We maintain our expectation of modest LV demand growth, in the 1% to 3% range, over 2024-2026. That reflects a return to more traditional demand/supply patterns in the industry, escalating geopolitical tensions, and the impact of elections in major regions this year. Slower EV sales should support legacy automakers' near-term profits, but electrification remains a challenge particularly given China's supply chain advantage.

Global auto sales forecasts: Volume recovery a long way off in Europe and the U.S.
2024 sales forecasts



Note: Percentage change is an average of the estimated range. e--Estimate. f--Forecast.
Sources: S&P Global Mobility (2019-2023 data), S&P Global Ratings (estimates and forecasts).

Global Auto Sales Forecasts: Slower EV Growth Offers Temporary Relief To Legacy Automakers

The credit outlook for global airlines remains positive. Our global rated airlines portfolio has demonstrated a remarkable recovery from several years of lockdowns and travel restrictions. Global industrywide air passenger traffic finally exceeded pre-pandemic (2019) levels in February 2024, and travel demand has so far appeared largely resilient despite strong macroeconomic headwinds: pressures on consumer spending, higher-for-longer interest rates, cost inflation, staff shortages, fuel price volatility, and geopolitical instability. Airlines continue to benefit from elevated ticket prices and a shift in consumer behavior toward experienced-based expenditure. Catching up with pandemic-deferred capital expenditure and large investments in new, more fuel-efficient aircraft will weigh on cash flows, notwithstanding likely delivery delays. Most of our outlooks on our global rated airline portfolio are stable, despite notable downside risks. This takes into account the high industry risk that we already factor into our ratings.

Global Airlines Outlook: Clear Skies, For Now

Asset Class Highlights

Corporates

Notable publications include:

- Global Credit Markets Update Q2 2024: Encouraging Signs Amid The Unease
- U.S. Cable Operators Face Heightened Competition—And A More Cautious View
- U.S. Not-For-Profit Health Care Covenant Violations Will Continue To Affect Pressured Issuers
- The Future Of The Waha Hub Price
- China Auto: Margin Pressure Heightens
- Global Auto Sales Forecast: Slower EV Growth Offers Temporary Relief To Legacy Automakers
- Hybrids Prop Up Japanese Automakers

Financial Institutions

Over the past week, we took several rating actions including:

- Research Update: StoneX Group Inc. Outlook Revised To Positive On Improving Capitalization; 'BB-' Ratings Affirmed
- Research Update: Jefferies Financial Group Inc. 'BBB' Ratings Affirmed; Outlook Remains Stable
- Research Update: OFG Bancorp Outlook Revised To Positive On Favorable Relative Performance; Ratings Affirmed
- Research Update: FirstBank Puerto Rico 'BB+' Long-Term Rating Affirmed On Continued Financial Stability; Outlook Remains Stable
- Outlooks On Six Spanish Banks Revised To Positive On Stronger Profitability
- Various Rating Actions Taken On Distressed Debt Purchasers On New Criteria And Sector Review; Ratings Removed From UCO
- Research Update: Euronext Outlook Revised To Positive On Advanced Integration Of Borsa Italiana And Steady Deleveraging; Ratings Affirmed
- Research Update: China Merchants Bank, Subsidiaries Upgraded To 'A-' On Improved Liquidity; Outlook Stable
- Research Update: CITIC Group Corp. And Core Subsidiaries Upgraded To 'A-' On Improving Capital Strength; Outlook Stable
- Six Peruvian Financial Institutions Downgraded Following Same Action On Peru; Outlooks Stable
- Research Update: ASB Bank Corp. Ratings Lowered To 'BB+/B' From 'BBB-/A-3' On Parent's Downgrade; Outlook Stable

We published commentaries including:

- Bulletin: Deutsche Bank Has Sufficient Capital To Absorb New Litigation Provisions

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- Your Three Minutes In Digital Assets: New Rules Could Boost U.S. Stablecoin Adoption
- Your Three Minutes In Banking: Higher Minimum Reserve Requirements Will Dent Swiss Banks' Profits
- Your Three Minutes In Banking: Saudi Banks May Turn To Alternative Funding Options
- Banking Risk Indicators: April 2024 Update
- G-SIBs Monitor H1 2024: Living Up To Expectations
- Capital Markets Revenue Could Improve In 2024 On Rebounding Investment Banking, Though High Rates May Still Hamper Results
- Private Markets Monthly, April 2024: Private Credit Is A Growing Segment Of Nonbank Finance
- Asia-Pacific Banking Country Snapshots: Stable Ratings As Property Risks Persist
- Islamic Finance 2024-2025: Resilient Growth Anticipated Despite Missed Opportunities

We published several documents linked to our current methodologies:

- Request For Comment: Methodology For Rating Subscription Lines Secured By Capital Commitments
- RFC Process Summary: RFC Process Summary: Risk-Adjusted Capital Framework Methodology
- Additional Details On The Update To Our Risk-Adjusted Capital Framework Methodology, April 30, 2024

Sovereign

- Peru Long-Term Foreign Currency Rating Lowered To 'BBB-' On Political Uncertainty Constraining Growth; Outlook Stable

Structured Finance

- **U.S. Private Credit and Middle-Market CLOs:** S&P Global Ratings published its second-quarter 2024 slide deck highlighting the key themes for the U.S. private credit and middle-market collateralized loan obligation (CLO) sectors, "Private Credit And Middle-Market CLO Quarterly: Not A Sunset, Just An Eclipse (Q2 2024)", on April 24, 2024. Key takeaways include the below.
    - Credit-Estimated Companies Under Stress
        - Credit estimate downgrades continued to dominate this quarter, driven by the impact of higher debt servicing costs on companies given the steep increase in benchmark rates. We expect downgrades to continue, but the volume will likely begin to moderate given the resilience and sustained growth of the U.S. economy, some stabilization in inflation, clarity for now around the direction of policy rates, and efforts companies have taken to contain costs.
    - Strong CLO (Collateralized Loan Obligation) Issuance to Start the Year
        - Middle-market CLO issuance has been very robust this year, although it hasn't (yet) reached the 35% of total U.S. CLO issuance that many in

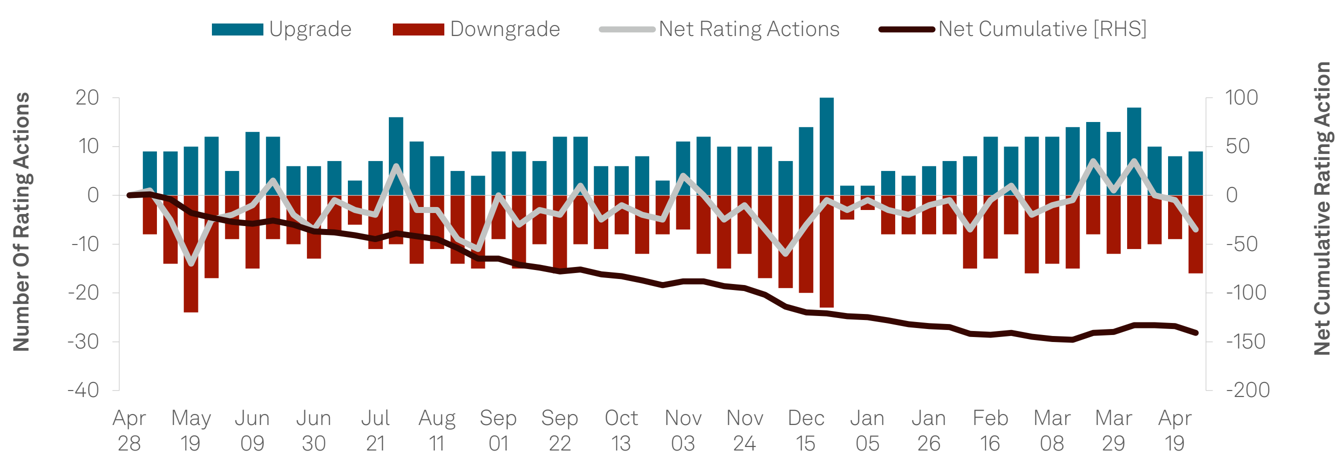
the market had been expecting late last year, largely because broadly syndicated loan (BSL) CLO issuance has been so strong. As of April 15th, middle-market CLO issuance has been $10.49 billion across 21 transactions, up 51.4% over the same period last year. Meanwhile, BSL CLO issuance is up 55.8% year over year, and middle-market CLOs have made up 18.3% of total issuance in 2024 so far.

  - First MM CLO Rating Lowered Since 2020
    - For the first time since 2020, there was a MM CLO rating downgrade in first-quarter 2024; on March 15, we lowered the rating on the class E notes from KCAP F3C Senior Funding LLC to 'B+ (sf)' from 'BB- (sf)' amidst heightened obligor concentration in the portfolio, increased exposure to 'CCC' and 'D' rated collateral, and par losses.

- **U.S. Housing:** Here are a few "Key Takeaways" from a recent article:
  - The trend of rising home insurance premiums is familiar to housing market participants; however, the home price impact associated with this increasing cost is not well understood. There is substantial regional variability in home insurance costs, driven in part by the extent to which land itself contributes to the overall value of the property. Areas where land values are high relative to the dwelling value may indeed require less coverage as a percentage of total property value.
  - Assuming borrowers have a limited tolerance for increases in total monthly costs, a scenario analysis involving shocks to typical insurance premiums indicates that a homeowner with a fixed-rate mortgage could effectively wind up with an implied adjustable-rate feature.
  - Assuming that future excess insurance premium payments are incorporated into current home values, under certain conditions, one could anticipate as much as a 10% discount on prices if premiums were expected to rise 20% annually for the next 20 years.
  - See "Sustainability Insights: The Impact Of Rising Insurance Premiums On U.S. Housing" published April 22, 2024.
- **U.S. Corporate Securitization:** See "U.S. Corporate Securitization Newsletter April 2024" published April 22, 2024.
- **U.S. Structured Finance Esoteric Sector:** S&P Global Ratings published its slide deck highlighting issuance trends and our outlook for the U.S. structured finance esoteric sector, "Structured Finance Esoteric Quarterly Roundup: Q2 2024", published April 24, 2024.

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 April 26, 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. $)
25-Apr	Downgrade	Republic of Peru	Sovereign	Peru	BBB-	BBB	50,542
25-Apr	Downgrade	ARD Finance S.A. (ARD Securities Finance S.a r.l.)	Chemicals, Packaging & Environmental Services	Luxembourg	CCC-	B-	19,923
23-Apr	Upgrade	FirstEnergy Corp.	Utilities	U.S.	BBB	BBB-	19,423
26-Apr	Upgrade	Schneider Electric S.E.	Capital Goods	France	A	A-	12,292
26-Apr	Downgrade	Credicorp Ltd.	Bank	Bermuda	BBB-	BBB	4,031
24-Apr	Upgrade	Air Canada (ACE Aviation Holdings Inc.)	Transportation	Canada	BB	BB-	3,832
25-Apr	Upgrade	GEO Group (The) Inc.	Consumer Products	U.S.	B+	B	3,310
25-Apr	Downgrade	Asplundh Tree Expert LLC	Consumer Products	U.S.	BB+	BBB-	2,995
23-Apr	Upgrade	Reynolds Consumer Products Inc.	Consumer Products	U.S.	BB+	BB	2,475
24-Apr	Downgrade	EyeCare Partners LLC	Health Care	U.S.	SD	CCC	2,200

Source: S&P Global Ratings Credit Research & Insights. Data as of April 26, 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**.**