

The Ratings View

May 8, 2024

This report does not constitute a rating action.

Key Takeaways

- We now expect the Federal Reserve to start cutting rates in December.
- China's property market may bottom out this year, but structural problems remain.
- The share of credits characterized as risky has dropped sharply.

We now believe the Fed's first rate-cut will likely come in December (instead of July), with the rate-cutting cycle continuing until late 2026. The expected cut is still conditional on economic growth and inflation pressures slowing. We don't think the broader disinflationary trend of last year has shifted, even with surprising bumps in inflation recently. The shifting path of the federal funds rate has led us to update our forecast for the policy rate, key interest rate, and exchange rate paths for some of the other economies we cover, generally mirroring the changes to the fed funds rate. Developed Europe is the main exception. Despite these changes, our forecasts for key economic variables haven't deviated significantly from our March 2024 Credit Conditions Committee. We plan to update our full macro view in June.

S&P Global Ratings' U.S. rates forecast

May 2024

(%)	--Quarterly average--				--Annual average--				
	Q1 2024	Q2 2024f	Q3 2024f	Q4 2024f	2023	2024f	2025f	2026f	2027f
Federal funds rate	5.33	5.33	5.33	5.26	5.00	5.31	4.60	3.27	2.90
10-year Treasury yield	4.16	4.50	4.24	4.03	4.00	4.22	3.64	3.36	3.47
SOFR	5.32	5.30	5.30	5.12	5.00	5.25	4.53	3.25	2.88
Mortgage rate, 30-year conventional	7.00	7.21	6.91	6.38	6.80	6.88	5.61	5.03	5.04

f--Forecast.

[Global Economic Update: Policy And Exchange Rate Forecasts Revised On New Fed Funds Rate Expectations](#)
[Persistent Above-Target Inflation Will Delay The Start Of Rate Cuts In The U.S.](#)

A double squeeze looms for China's property market. Structural factors are hitting rated developers and unfolding alongside a continued sales slide. S&P Global Ratings expects property firms will be digging deep to repay debt should cash flows turn negative, with many still locked out of capital markets. We believe national sales continue to search for a bottom but may find support at about Chinese renminbi (RMB) 10 trillion to RMB10.3 trillion this year. The range is a 10%-15% drop from 2023. Regrettably for issuers, that isn't the whole story. The structure of the market is shifting and not in a positive way for rated firms. Sales are increasingly shifting to the secondary market, with little benefit to the developers. Secondly, the government is offering more social housing for sale. Volumes will count toward our sales projections but will likely cannibalize the sales of rated developers.

[China Property Watch: Searching For A Bottom](#)

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The count of U.S. and Canadian issuers rated 'CCC+' and below decreased by 15 since

December 2023 to 168-- the steepest drop since the fourth quarter of 2021. Despite a drop in the tally, many of the removals in the first quarter were because defaults and downgrades to the 'CCC+' and below category materially outpaced upgrades. Speculative-grade issuance increased by 84% compared with the first quarter of 2022, as some companies were able to access much needed capital because of investor demand. Issuers in this category reported leverage and reported EBITDA coverage credit measures are stabilizing but remain weak.

[Risky Credits: Defaults Drive Drop In North American Risky Credits](#)

[Risky Credits: European Debt Surged To €80 Billion In Q1 2024](#)

[Risky Credits: External Risks Overshadow Positive Developments In Emerging Markets](#)

Net-zero challenges for European utilities and the relevance for ratings. Europe's energy utilities are crucial to the continent achieving its net-zero targets; the industry share of EU emissions is still close to a quarter. The energy trilemma--balancing energy affordability, security of supply, and sustainability--is key to utilities achieving EU regulatory and government targets. From a credit perspective, the technologies for a net-zero future require huge investment, aren't all fully market-ready, and thus carry a high degree of economic uncertainty. As 2030 draws closer, implementation of net zero strategies and emissions reduction paths is likely to have more rating impact.

[European Utilities' Net-Zero Ambitions Face Myriad Hurdles](#)

[European Utilities: The Rating Relevance Of Net-Zero Commitments](#)

Climate litigation has increased exponentially over the past 10 years, and we expect the trend

to continue. Historically, climate-related lawsuits were U.S.-focused but are increasing globally for a broader range of economic sectors. Oil and gas companies are still subjects of the largest number of lawsuits. The strategic and financial impact of climate litigation on companies could be significant but remains difficult to measure. This makes it challenging to integrate climate litigation into credit analysis. We have not identified rating actions in the oil and gas sector so far that resulted from climate litigation risk. However, we believe that if the costs associated with climate litigation were to increase materially, the potential impact on the competitive position and financial risk profiles of some entities would change.

[Climate Litigation: Assessing Potential Impacts Remains Complex](#)

S&P Global Ratings raised several of its metal price assumptions for 2024-2026, reflecting generally supportive demand, tight supply-demand balances for a few metals, and rising costs across the board. Perhaps most telling, we have raised some longer-term prices to reflect structural pressures, even as near-term prices dropped from record highs.

S&P Global Ratings metal price assumptions

	Revised assumptions (as of May 1, 2024)			Previous assumptions (as of Feb. 8, 2024)		
	Remainder of 2024	2025	2026	Remainder of 2024	2025	2026
Aluminum (\$/mt)	2,300	2,400	2,500	2,300	2,400	2,500
Copper (\$/mt)	9,000	9,200	9,200	8,500	8,700	8,900
Nickel (\$/mt)	16,000	17,000	18,000	16,000	17,000	18,000
Zinc (\$/mt)	2,500	2,500	2,500	2,500	2,500	2,500
Gold (\$/oz)	2,100	2,000	1,700	1,900	1,700	1,600
Iron ore (\$/dmt)	110	100	90	110	100	90
Metallurgical coal (\$/mt)	270	220	200	270	220	160
Thermal coal* (\$/mt)	120	100	90	120	100	90

Source: S&P Global Ratings. mt--Metric ton (1 metric ton = 2,205 pounds). oz--Ounce. dmt--Dry metric ton. *--Newcastle

[S&P Global Ratings Metal Price Assumptions: Prices Rise On Tight Supply And Higher Costs](#)

Asset Class Highlights

Corporates

Notable publications include:

Global

- [S&P Global Ratings Metal Price Assumptions: Prices Rise On Tight Supply And Higher Costs](#)
- [Peer Comparison: Top Pharmaceutical Companies Will See Revenues Soar By 2028](#)
- [Corporate Results Roundup Q1 2024: Recovery continues but is fragile and fragmented](#)

Emerging Markets

- [China Consumer Versus Global Peers: Food And Beverage Firms Get A Taste For Change](#)
- [Overcapacity In China Creates A Headwind For Global Chemical Producers](#)
- [China Property Watch: Searching For A Bottom](#)
- [Risky Credits: External Risks Overshadow Positive Developments In Emerging Markets](#)

North America

- [Risky Credits: Defaults Drive Drop In North American Risky Credits](#)
- [Credit FAQ: Calculating Leverage For Selected U.S. Telecommunications And Cable Companies \(2024 Update\)](#)
- [Despite Some Improvement, Weaker Health Care Services Companies Continue To Struggle](#)
- [North American Upstream Capex Growth To Decelerate In 2024 Amid Greater Capital Efficiency Gains](#)

Europe

- [Risky Credits: European Debt Surged To €80 Billion In Q1 2024](#)
- [European Utilities' Net-Zero Ambitions Face Myriad Hurdles](#)
- [European Utilities: The Rating Relevance Of Net-Zero Commitments](#)

Financial Institutions

Over the past week, we took several rating actions.

- [Various Rating Actions On Israeli Banks On Increased Geopolitical Risks: All Outlooks Negative](#)
- [Research Update: Nu Financeira S.A. Upgraded To 'BB' And 'brAAA' On Lower Competitive Risks; Outlook Stable](#)
- [Research Update: UMB Financial 'BBB+', UMB Bank 'A-' Ratings Affirmed On Merger Agreement With Heartland; Outlook Remains Stable](#)
- [Research Update: Trustmark Corp. 'BBB/A-2' Ratings Affirmed On Planned Sale Of Insurance Subsidiary; Outlook Remains Negative](#)

We published several commentaries including:

- [Bulletin: U.K. Banks Squeeze Another Quarter Of Solid Earnings From Higher Rates](#)

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The Ratings View

- [Bulletin: National Australia Bank's Credit Profile To Remain Robust Despite A\\$1.5 Billion Share Buyback](#)
- [Bulletin: Far East Horizon's Proposed Special Dividend Won't Weaken Credit Metrics](#)
- [Bulletin: Earnings Drop Won't Shift Macquarie Credit Profile](#)
- [Bulletin: Increased Capital Return Won't Weaken Westpac](#)
- [Bulletin: ANZ Capital Return Consistent With Peers And Credit Profile](#)
- [Your Three Minutes In Saudi Vision 2030: Credit Implications For Banks And Corporates](#)
- [Your Three Minutes In Fintech: U.S. Banking Regulators Ramp Up Scrutiny Of Third-Party Partnerships](#)
- [Rising Global Defaults Will Test Private Credit Funds In 2024](#)
- [U.K. Building Societies Go On The Front Foot With Bank Acquisitions](#)

Sovereign

- [Turkey Upgraded To 'B+' On Economic Rebalancing; Outlook Positive](#)

Structured Finance

- **Covered Bonds:** Here are a few “Key Takeaways” from a recent article:
 - Global covered bond issuance remained strong in the first quarter of 2024, and we expect year-end volumes to come close to the record highs of 2023.
 - The implementation of the EU's harmonization directive has not yet led to a significant increase in issuance in Central and Eastern Europe, but established local markets remain vibrant.
 - Singaporean and Korean banks still dominate Asian markets, but legislative developments may attract new issuers.
 - See “[Covered Bonds In New Markets: Issuance Holds Up In 2024](#)”, published April 29, 2024.

- **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
25.93%	7.27%	0.91%	4.04%	97.24	2745	99.66%	5.09%

Change during prior month

■ Risk increasing
 ■ Risk decreasing
 ■ Not applicable

*Through April 22, 2024, update. SPWARF--S&P Global Ratings' weighted average rating factor.

N/A--Not applicable.

- See “[SF Credit Brief: CLO Insights U.S. BSL Index: 'CCC' Buckets Brush Up Against 7.5% Threshold After Altice France Downgrade](#)”, published on April 29, 2024.

The Ratings View

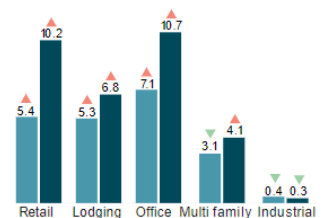
• U.S. CMBS:

U.S. CMBS - April 2024 key insights

S&P Global Ratings

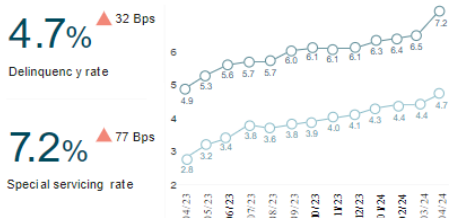
Rates by property type

■ Delinquency rate (%) ■ Special servicing rate (%)



YTD 2024 DQ and SS trend

○ Delinquency rate (%)
○ Special servicing rate (%)



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 "[SF Credit Brief: U.S. CMBS Overall Delinquency Rate Increased By 32 Bps To 4.7% In April 2024; Office Loans Had The Highest Increase](#)", published on April 30, 2024.

- **European RMBS and ABS:** S&P Global Ratings published on April 29, 2024 its "[European RMBS And ABS Monitor Q1 2024](#)". This publication summarizes European RMBS and ABS rating trends over Q1 2024, based on our reviews of transactions that we rate and analysis of newly rated transactions.

• European CMBS:

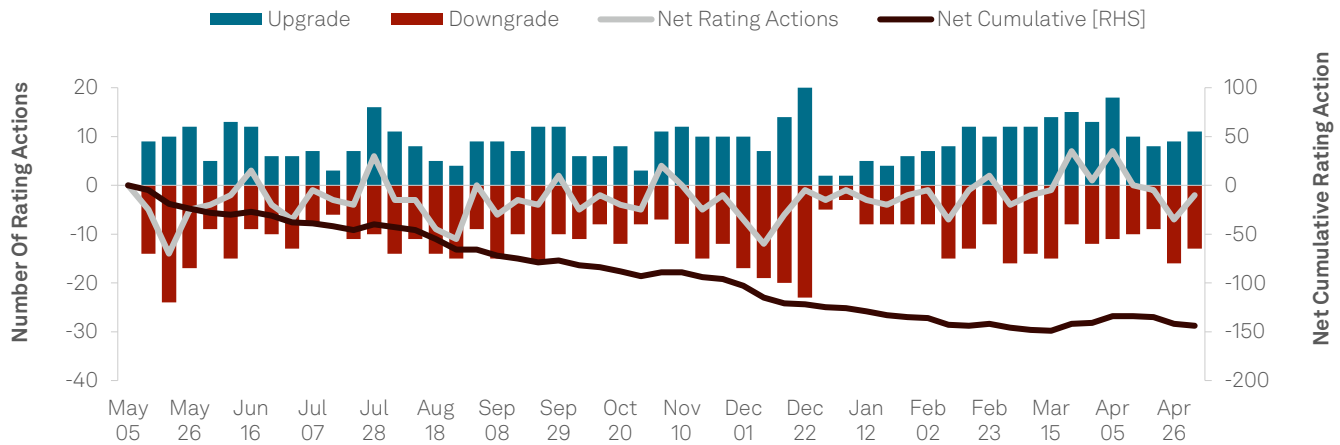


- See "[European CMBS Monitor Q1 2024](#)", published April 29, 2024.

- **Japan RMBS:** Here are a few "Key Takeaways" from a recent commentary:
 - Default and delinquency rates of underlying assets have remained low for the past year.
 - A gradual rise in interest rates as the BOJ lifts its policy rate will have limited impact.
 - A low unemployment rate will support good underlying asset performance.
 - See "[Japan Private-Sector RMBS Performance Watch: Rate Hike Has Limited Impact](#)", published April 30, 2024.
- **Australian Auto ABS:** Australian auto asset-backed securities (ABS) arrears fell in March. 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 decreased to 1.40% in March from 1.59% the previous month (see our February "Auto ABS Arrears Statistics: Australia" publication for commentary on the increase that month). Despite the drop, the figure is still up from the 1.07% recorded in January. The overall upward trend is consistent with our previous arrears expectation.

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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 May 3, 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. \$)
2-May	Upgrade	Southern Co.	Utilities	U.S.	A-	BBB+	56,247
30-Apr	Upgrade	NVIDIA Corp.	High technology	U.S.	AA-	A+	9,750
3-May	Upgrade	Sunoco LP (Energy Transfer LP)	Utilities	U.S.	BB+	BB	7,300
29-Apr	Upgrade	CITIC Group Corp.	NBFI	China	A-	BBB+	6,320
3-May	Upgrade	NuStar Energy L.P.	Utilities	U.S.	BB+	BB-	3,375
29-Apr	Downgrade	Belfor Holdings Inc.	Consumer products	U.S.	B-	B	2,959
2-May	Downgrade	Office Properties Income Trust	Homebuilders/real estate cos.	U.S.	CC	CCC	2,150
29-Apr	Upgrade	China Merchants Bank Co. Ltd.	Bank	China	A-	BBB+	2,110
29-Apr	Upgrade	Doosan Bobcat Inc. (Doosan Enerbility Co., Ltd.)	Capital goods	Korea, Republic of	BB+	BB	2,010
2-May	Downgrade	Bank Leumi le-Israel B.M.	Bank	Israel	A-	A	1,750

Source: S&P Global Ratings Credit Research & Insights. Data as of May 3, 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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