

# The Ratings View

May 15, 2024

This report does not constitute a rating action.

## Key Takeaways

- Big AI investment spenders are ramping up capex, helping a broader recovery in tech.
- The U.S. spec.-grade default rate is expected to edge lower to 4.5% by March 2025.
- Global defaults in April increased to 18, the highest monthly tally since October 2020.

**AI is emerging as a game changer for the technology sector where enterprise IT spending is recovering.** While broad enterprise adoption remains in the early stages, AI investments by hyperscalers—the likes of Meta, Microsoft, Google, and Amazon—are surging, driving demand for AI chips and memory. We now expect U.S. hyperscale capital spending to increase in the mid-40% area, compared to our previous estimate of about 30% from last quarter. AI and security have emerged as top priorities for enterprises. Despite initial spending on AI, overall adoption remains in the early planning and evaluation phase. Enterprises are cautiously exploring use cases for AI assistants and AI-capable PCs, aiming for tangible value from their investments. So, while we expect enterprise spending on generative AI to emerge in the second half, it may have a more significant impact on enterprise IT budgets in 2025.

### [U.S. Tech's AI-wakening: Enterprises Tread Cautiously, Hyperscalers Charge Ahead](#)

**We expect the U.S. speculative-grade default rate will remain close to its current level through early 2025, coming in at 4.5% next March, down from the current 4.8%.** Most indicators of future defaults have declined slightly or remained unchanged, be they market-based or credit-based. But resilient economic growth is coming at the cost of higher interest rates. A confluence of challenges may also be beginning for consumers, and we expect defaults in 2024 to largely come from consumer-facing sectors such as consumer products, and media and entertainment, as well as the still highly leveraged health care sector. Stubborn inflation and geopolitical risks could hamper market sentiment and debt issuance later this year as risks remain tilted to the downside.

### [Default, Transition, and Recovery: Resilient Growth, Resilient Yields, And Resilient Defaults To Bring The U.S. Speculative-Grade Corporate Default Rate To 4.5% By March 2025](#)

**Global defaults in April increased to 18, the highest monthly tally since October 2020.** The global corporate default tally currently stands at 55, similar to the year-to-date level in 2023. U.S. companies led defaults in April, while defaults in Europe remain at their highest year-to-date level since 2008. Even though default counts more than doubled in April, compared with March, monthly defaulted debt nearly halved to \$8.6 billion. Distressed exchanges accounted for 44% of defaults in April, closely followed by bankruptcies (33%).

### [Default, Transition, and Recovery: Monthly Default Tally Reached Four-Year High In April](#)

**Last week, Brazil's southern state of Rio Grande do Sul was hit by the worst flood in the past 80 years.** We assess the floods' potential effect on several corporate sectors--ranging from agribusiness and forest products, industrial, retail, and to infrastructure. Currently, there's no

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rating impact on the corporations stemming from the flood-related damage. However, we believe there will be losses to inventories, production volumes, and sales initially. In the medium term, higher-than-anticipated inflationary pressures and logistics bottlenecks should persist. In addition, some operations of the companies will be damaged permanently, but we currently have a limited visibility on the extent of the damage from the floods.

### [Floods Could Amplify Logistics And Inflationary Strains On Some Brazilian Corporate Sectors](#)

**The global first-quarter 2024 results season for rated nonfinancial corporates is now two-thirds done.** Global earnings are still declining. Measured at an annual rate, global sales and EBITDA are down 1.9% and 5.8%, respectively, both figures worse than last quarter. Revenues are down 1.4% versus the same quarter a year ago, and EBITDA is down 0.6%. The picture is more encouraging if volatile commodities components are excluded. On that basis, revenues are up 1.7% annually and EBITDA is up 1.9%. The degree to which results have beaten market expectations has also moved up sharply, with 29% of EBITDA figures delivering a big beat, versus 12% seeing a big miss. Results overall can be characterized as fragile and fragmented, with marked regional and industry differences. Europe still appears to be struggling the most. Industrial cyclicals are still under pressure, while 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 excluding commodity sectors but remains fragile and fragmented](#)

**Construction and wage-cost inflation could curb the bang-for-buck of U.S. infrastructure spending.** This spending continues to ramp up in 2024 as approximately \$1.8 trillion in federal grants, loans, incentives, tax credits, and other financial assistance works its way into the U.S. economy. After dramatic, pandemic-induced increases since early 2021, general inflation as well as construction-related inflationary measures in the Producer Price Index have moderated, which is good news for public project sponsors and engineering and construction (E&C) issuers. However, still-elevated prices for some construction inputs, permanent wage-rate increases, and continued worker shortages for skilled trades remain key drivers of overall project cost inflation, resulting in what could be a significantly diminished bang-for-the-infrastructure-buck compared with that originally envisioned by policy makers.

### [Record U.S. Infrastructure Spending Is Colliding With Higher Construction Costs And Other Hurdles](#)

**Europe's airports are trundling along.** We expect European airports' traffic growth will be modest, compared with the post-COVID recovery, and mainly rely on macroeconomic developments and asset-specific features. Among others, regulations and financial policies will determine our ratings on airports. Despite normalized traffic, our ratings on European airports generally remain below pre-pandemic rating levels. This is because, in the first quarter, leverage increased by 20% and capital expenditures (capex) by 25%, compared with the sector average in 2019. That said, we see potential ratings upside for airports whose credit metrics are improving thanks to robust traffic, favorable tariff regulations, manageable capex plans, and, ultimately, accommodating their debt structures to the post-pandemic environment. The direct operational and financial effects of European airports' net-zero commitments are modest at this stage. This could change over the longer term if regulatory headwinds and behavioral changes weigh on passenger numbers.

### [European Airports Trundle Along](#)

# Asset Class Highlights

## Corporates

Notable publications include:

- [Default, Transition, and Recovery: Monthly Default Tally Reached Four-Year High In April](#)
- [European Airports Trundle Along](#)
- [Floods Could Amplify Logistics And Inflationary Strains On Some Brazilian Corporate Sectors](#)
- [U.S. Tech's AI-wakening: Enterprises Tread Cautiously, Hyperscalers Charge Ahead](#)
- [Dollar Store Malaise: Difficult Environment Likely To Extend At Least Through 2024](#)
- [Corporate Results Roundup Q1 2024: Recovery continues excluding commodity sectors but remains fragile and fragmented](#)
- [Asia-Pacific Towercos: More Construction, Colocation and Consolidation Ahead](#)

## Financial Institutions

Over the past week, we took several rating actions.

- In Brazil, extremely high rainfall caused unprecedented flood damage in the Brazilian state of Rio Grande do Sul in recent weeks. We placed our ratings on Banco do Estado do Rio Grande do Sul S.A. (BB-/Watch Neg/--) and Banco Cooperativo Sicredi S.A. (BB-/Watch Neg/--) on CreditWatch with negative implications because the banks have significant exposure to flood-affected areas in the state. The placement reflects our view that the direct and indirect effects of this extreme weather event on the region's banks are still unclear. In addition, we think there could be implications for other Brazilian banks and insurance companies. For more details see:
  - [Your Three Minutes In Banking: Brazil Floods Could Take A Toll On Local Banks, Less So On Insurers,](#)
  - [Research Update: Banco Cooperativo Sicredi Ratings Put On CreditWatch Negative Following Floods' Uncertain Impact On Cooperative System](#) and
  - [Research Update: Banco do Estado do Rio Grande do Sul S.A. Ratings On CreditWatch Negative On Uncertain Impact From Floods On The Bank.](#)
- [Research Update: Denmark-Based Saxo Bank Outlook Revised To Negative On Compliance Framework Deficiencies: 'A-' Rating Affirmed](#)
- [Research Update: Ireland-Based Permanent TSB Group Outlook Revised To Positive On Better Profitability Prospects; Ratings Affirmed](#)

We published several commentaries including:

- [Bulletin: Aozora Bank's Investment From Daiwa Securities Group Is No Panacea](#)
- [Bulletin: Spain-Based BBVA Offer To Buy Sabadell Could Create A Stronger National Champion But Entails Execution Risks](#)
- [Bulletin: Turkish Banks' Economic Imbalances Expected To Unwind As Economy Gradually Rebalances](#)

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## Sovereign

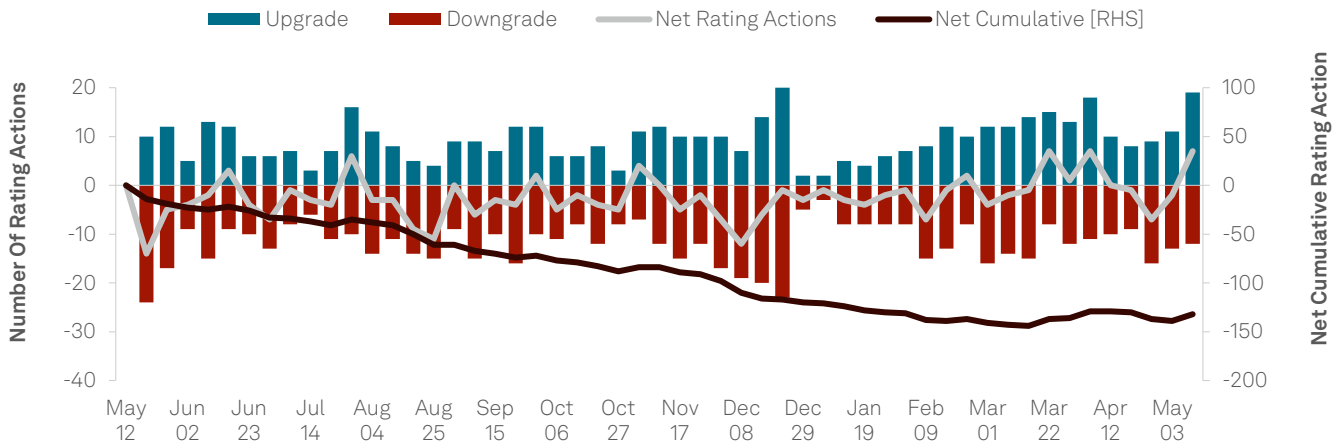
- [Andorra Upgraded To 'A-/A-2' On Improved External Data And Financial Sector's Liquidity Management; Outlook Positive](#)

## Structured Finance

- **U.S and EMEA Structured Finance:** S&P Global Ratings published its round-up of the latest credit developments and underlying performance indicators observed across U.S. structured finance sectors (see "[U.S. Structured Finance Chart Book: May 2024](#)", published May 9, 2024). S&P Global Ratings also published on May 9, 2024 its "[EMEA Structured Finance Chart Book: May 2024](#)". The report includes a roundup of the latest new issuance and credit developments that we have observed across structured finance sectors, along with data on issuance drivers, recent rating actions, and underlying performance indicators. We also highlight the key takeaways from our recent research publications.
- **U.S. CLO:** S&P Global Ratings published its key second-quarter 2024 themes for the U.S. U.S. broadly syndicated loan (BSL) collateralized loan obligation (CLO) and leveraged finance sectors, "[U.S. BSL CLO And Leveraged Finance Quarterly: High Capital Costs Limit Broad-Based Improvement \(Q2 2024\)](#)", on May 8, 2024
- **China ABS:** S&P Global Ratings today published on May 9, 2024 a Credit FAQ, titled "[What's Behind Our First 'AAA \(sf\)' Rating Assigned To Chinese Exchange ABS?](#)" On May 8, 2024, S&P Global Ratings assigned its 'AAA (sf)' rating to the class A notes and 'A (sf)' rating to the class B notes of Tianfeng-Fenqile Phase 1 Asset-Backed Specific Plan. This marked the first time we rated asset-backed securities (ABS) that were issued under the China Securities Regulatory Commission's (CSRC) securitization scheme, as well as the first 'AAA (sf)' rating that we assigned to ABS issued under the CSRC scheme. The issued notes are backed by a pool of unsecured consumer loans co-originated by TTCO Trust Corp. Ltd. and Shenzhen Fenqile Network Technology Co. Ltd. This report addresses questions from investors looking into the CSRC's securitization scheme (also known as exchange ABS), as well as our rating methodology.
- **U.S. and Canadian Credit Card ABS:** We published the "[U.S. Credit Card Quality Index: Monthly Performance--March 2024](#)" on May 8, 2024 and the "[Canadian Credit Card Quality Index: Monthly Performance--March 2024](#)" on May 8, 2024. The CCQI is a monthly performance index that aggregates performance information of securitized credit card receivables in key risk areas.

## 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 May 10, 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. \$)
10-May	Upgrade	<a href="#">Haleon PLC</a>	Consumer products	U.K.	BBB+	BBB	11,151
10-May	Downgrade	<a href="#">Altice International S.a.r.l. (Altice Europe N.V.)</a>	Telecommunications	Luxembourg	B-	B	10,071
6-May	Upgrade	<a href="#">Ingersoll Rand Inc.</a>	Capital goods	U.S.	BBB	BBB-	7,275
6-May	Upgrade	<a href="#">Pioneer Natural Resources Co.</a>	Oil & Gas	U.S.	AA-	BBB	6,590
7-May	Downgrade	<a href="#">Adler Group S.A. (ADO Group Ltd.)</a>	Homebuilders/real estate co.	Luxembourg	CCC-	CCC+	4,984
10-May	Downgrade	<a href="#">Connect Holding II LLC</a>	Telecommunications	U.S.	CCC	B-	4,485
6-May	Upgrade	<a href="#">Videotron Ltee (Quebecor Inc.)</a>	Telecommunications	Canada	BBB-	BB+	3,875
7-May	Downgrade	<a href="#">Hertz Global Holdings Inc.</a>	NBFI	U.S.	B+	BB-	3,545
6-May	Downgrade	<a href="#">Whirlpool Corp.</a>	Consumer products	U.S.	BBB-	BBB	3,500
7-May	Upgrade	<a href="#">Viking Cruises Ltd.</a>	Media & entertainment	U.S.	BB-	B+	3,270

Source: S&P Global Ratings Credit Research & Insights. Data as of May 10, 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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