

The Ratings View

July 3, 2024

This report does not constitute a rating action.

Key Takeaways

- Economic resilience and net upgrades so far this year may prove a high point for credit as we expect growth to slow in the second half and rates to remain elevated.
- The debt burdens of the G7's largest economies continue to rise.
- Payment defaults in private credit remain low.

Global credit conditions update Q3 2024. Resilient economies have contributed to upgrades outnumbering downgrades for corporates, financial institutions, and sovereigns in the first half of 2024. But this may prove a high point as we expect growth to slow in the second half while rates remain elevated. Regional differences in the pace of cuts could add to volatility and capital outflows to higher-yielding locations. We expect defaults to subside only slowly after their recent rise. Softer economic growth and still high interest rates will continue to pressure low-rated corporates in consumer-related sectors and emerging markets. Over time, companies are refinancing more and more debt at noticeably higher rates, squeezing businesses' headroom. A worsening geopolitical landscape, a more severe economic downturn, a longer-than-expected period of high rates, and growing threats to global trade could derail our base case and lead to weaker business activity and market liquidity.

Global credit conditions: key highlights

<p>Slower GDP growth in 2024</p> <p>Global: 3.3%</p> <p>U.S.: 2.5%, eurozone: 0.7%, China: 4.8%</p>	<p>Trade vulnerability</p> <p>Imports and exports as % of GDP, 2022 figures</p> <p>U.S.: 27.4%</p> <p>China: 38.1%</p> <p>World: 62.6%</p>	<p>Diverging rates ahead</p> <p>Year-end policy rates for 2024</p> <p>U.S.: 5.3%, Europe: 3.4%, Japan: 0.25%, China: 2.5%</p>
<p>Falling negative outlook bias</p> <p>As of June 17, 2024</p> <p>Investment-grade: 9.7%</p> <p>Speculative-grade: 18.9%</p> <p>'B-' & lower: 34.8%</p>	<p>'CCC+' and lower</p> <p>All corporates (% of all spec-grade)</p> <p>As of May 31, 2024</p> <p>Global: 10.1%</p> <p>U.S.: 11.7%</p> <p>Europe: 9.1%</p> <p>RoW: 5.7%</p>	<p>Corporate debt</p> <p>As of April 1, 2024</p> <p>\$1.26 tril.</p> <p>rated 'B-' or lower and</p> <p>76%</p> <p>due through 2028</p>

Trailing 12 month speculative-grade default rate and March 2025 forecast



[Global Credit Conditions Q3 2024: Soft Landing, Fragmenting Trajectories](#)

Debt-to-GDP ratios are still rising for the G7's largest economies. Despite still benign financing conditions and recovering nominal GDP growth, no member of the G7 is on track to return debt to

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The Ratings View

GDP to pre-pandemic levels by 2027. We estimate that--for the U.S., Italy, and France--the primary balance would have to improve by more than 2% of GDP cumulatively for their debt to stabilize; this is unlikely to happen over the next three years. In our view, only a sharp deterioration of borrowing conditions could persuade G7 governments to implement more resolute budgetary consolidation at the present stage in their electoral cycles.

[Sovereign Debt In Large Advanced Economies: Up, Up, And Away](#)

Payment defaults in private credit remain low, with just over 65 instances identified among credit-estimated (CE) borrowers since 2020. Defaults, often the result of elevated interest and operating costs, have slowed down in 2024 after accelerating in 2023. Bankruptcies are rare as out-of-court restructurings appear favored by all involved parties, often resulting in amendments from lenders or debt equitization. Default count concentration among sponsors was minimal, but larger lenders are not immune to borrower defaults. If interest rates stay higher for longer, there may be less incentive for sponsors to support certain distressed portfolio companies from a valuation standpoint.

[Private Credit Payment Defaults Rose In 2023 As Weaker Borrowers Struggled To Service Debt](#)

Light-vehicle sales grew 5% in the first quarter of 2024, with Europe and China the main contributors. Global production was slightly down year-on-year, suggesting destocking. New and used vehicles are experiencing pricing pressure as consumers seek more affordable mobility options and due to increasing availability of cars. In 2024, drivetrain flexibility and extensive hybrid offerings will be a tailwind for traditional original equipment manufacturers (OEMs) that have suitable product line-ups. While auto suppliers are counting on additional client compensations, OEMs expect suppliers to share their cost reduction effort. Suppliers' payback on investments in the powertrain transition has been delayed by a bumpier-than-expected road to electrification.

[Autoflash EMEA: Suppliers Feel The Heat Of Low Volumes And Earnings Pressure](#)

We applied almost 4,500 management and governance (M&G) modifiers to rated nonfinancial corporate and infrastructure entities worldwide following the publication of our M&G criteria in January. Our M&G modifiers reflect higher credit risk for one-third of our rated corporate and infrastructure entities globally. We see a greater proportion of moderately negative or negative M&G modifiers in the speculative-grade rating category. Ownership structure is the main subfactor behind most negative M&G modifiers, generally reflecting owners' prioritization of shareholders' interests over those of other stakeholders.

[How Management And Governance Modifiers Influence Corporate Ratings](#)

Policymakers continue to reflect on lessons learned from the banking sector volatility in the U.S. and Europe last year. We see an emerging two-phase reaction: local enhancements to regulation, supervision, and crisis management, mainly in the U.S. and Switzerland, and, over a longer time, some likely modest changes to global standards. We would likely consider such enhancements to be credit supportive, but highly unlikely in and of themselves to lead us to revise our risk assessment of these banking systems. The revealed crystallized banking risks are not new risks, but secular and cyclical changes merit close analytical attention.

[2023 Banking Turmoil: Global Regulators Reflect And React](#)

Countries and companies around the world face increasing climate risks that, when properly managed, can also present opportunities. S&P Global's latest quarterly update explores the major climate risks companies face and the opportunities a green transition presents.

[Sustainability Quarterly: The Great Climate Balancing Act](#)

Asset Class Highlights

Corporates

Notable publications include:

- [Autoflash EMEA: Suppliers Feel The Heat Of Low Volumes And Earnings Pressure](#)
- [Credit FAQ: From Bust To Boom: How AI Is Uplifting The Korean Memory Makers](#)
- [Air Traffic Takes Off In Latin America, Fueling Investment Needs](#)
- [Private Credit Payment Defaults Rose In 2023 As Weaker Borrowers Struggled To Service Debt](#)
- [How Management And Governance Modifiers Influence Corporate Ratings](#)

Financial Institutions

Over the past week, we took several rating actions:

- [Research Update: ING Groep N.V. 'A-/A-2' Ratings Affirmed Despite Reducing Capitalization: Outlook Stable](#)
- [Norinchukin Bank Outlook Revised To Negative On Risk Of Delay In Recovery Of Earnings Base: 'A/A-1' Ratings Affirmed](#)
- [Research Update: Outlook On Freedom Holding Corp.'s Subsidiaries Revised To Positive On Strengthened Capitalization And Risk Management](#)
- [Research Update: Finland-based S-Bank Upgraded To 'BBB+' From 'BBB' On Improved Profitability; Outlook Stable](#)
- [Research Update: Bonum Bank Assigned 'BBB+/A-2' Resolution Counterparty Ratings: 'BBB/A-2' Ratings Affirmed; Outlook Positive](#)
- [Research Update: Kazakhstani Kaspi Bank Upgraded To 'BB+' And 'kzAA+' On Solid Financial Performance; Outlook Stable](#)
- [Research Update: BAC International Bank Inc. 'BBB-/A-3' Ratings Affirmed; Outlook Remains Stable](#)

We published several commentaries including:

- [2023 Banking Turmoil: Global Regulators Reflect And React](#)
- [The Role Of Bank AT1 Hybrid Capital One Year On From The 2023 Banking Turmoil](#)
- [Your Three Minutes In Chinese Rural Financial Institutions: A Thorough Cleanup Could Take a Decade](#)
- [Ratings Component Scores For The Top 200 Banks Globally--June 2024](#)
- [Rating Component Scores For U.S., Canadian, And Bermudian Banks \(June 2024\)](#)

Sovereign

- [Sovereign Debt In Large Advanced Economies: Up, Up, And Away](#)
- [Sovereign Ratings Score Snapshot](#)

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Structured Finance

- **Global Leveraged Loan CLO:** Here are a few "Key Takeaways" from a recent article:
 - Collateralized loan obligation (CLO) defaults rose to eight tranches rated by S&P Global Ratings in 2023, from six in 2022.
 - All eight tranches that defaulted were from U.S. CLO 2.0 vintages, were initially rated in the 'BB' or 'B' categories, and had been downgraded to the 'CCC' and 'CC' categories before 2021.
 - The CLO downgrade rate remained low but increased to near 0.5% in 2023 (from 0.1%), while upgrades outnumbered downgrades and defaults for a third consecutive year.
 - CLO trends were more positive in Europe, with no defaults or downgrades for a third consecutive year and the upgrade rate rising to a six-year high.
 - The article is titled "[Default, Transition, and Recovery: 2023 Annual Global Leveraged Loan CLO Default And Rating Transition Study](#)" and published on June 27, 2024.
- **EU Covered Bonds:** Here are a few "Key Takeaways" from a recent article:
 - Two years after the EU's Covered Bond Directive became effective, the sector is readying itself for proposals which may emerge from the European Commission's assessment of the implementation process.
 - Extensive intervention by central banks over the past few years has made it more difficult to isolate the market impact of the new framework but we consider that it has been broadly credit positive.
 - Potential developments could include introducing a third-country equivalence regime or a new type of covered bond backed by loans to small and midsize enterprises (SMEs). Despite industry interest, we consider both options subject to considerable uncertainty.
 - We see limited scope for further harmonization, although there are still discrepancies in how local covered bond markets treat extendible note features.
 - The article is titled "[EU Covered Bond Harmonization: Next Steps](#)" and published on June 26, 2024.
- **China ABS and RMBS:** S&P Global Ratings published on June 27, 2024 its "[China Securitization: ABS And RMBS Tracker May 2024](#)." Highlights from the chartbook, which tracks the performance of China asset-backed securities (ABS) and residential mortgage-backed securities (RMBS) that we rate, include the following:
 - A decline in the Shanghai Interbank Offered Rate has led to lower coupon rates on the most senior tranches of auto ABS. Average coupon for the senior-most tranches of ABS issuances was below 2% in May 2024.
 - Severe delinquency ratios increased for auto loan ABS that we rate, mainly due to rising arrears of deals with distinct pool attributes.
 - Cumulative delinquency rates of RMBS transactions that we rate further climbed up, largely due to the paydown of the underlying pools. That said, we

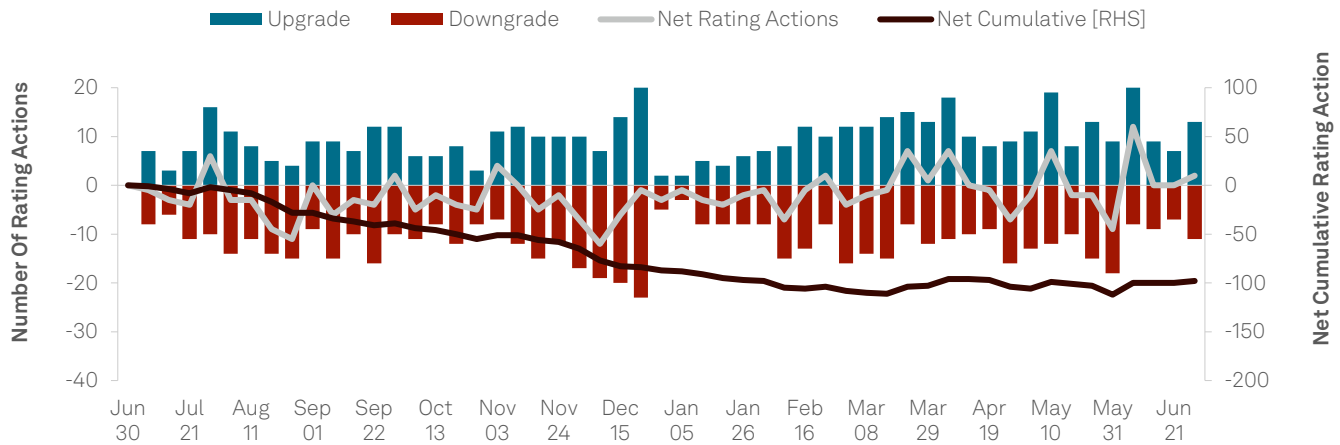
The Ratings View

expect the strong credit enhancement available to maintain the stability of our RMBS ratings.

- Consumer loan ABS had higher and more volatile delinquency rates compared with auto loan ABS. The utilization of excess spreads and high credit enhancement available provided rating comfort for rated notes in the observed Anyihua transactions.
- **Australian RMBS:** Here are a few "Key Takeaways" from a recent article:
 - More nonbanks are originating SMSF loans to diversify their credit offerings, increasing competition in this niche sector.
 - Borrower behavior, foreclosure processes, ongoing compliance obligations, and reputational risks for SMSF loans have not been tested through a stressed economic period.
 - The strong performance of SMSF loans reflects a skew toward older and wealthier borrowers and mostly benign economic conditions.
 - The article is titled "[Australian RMBS And The Growing SMSF Factor](#)" and published on June 24, 2024.
- **U.S. Credit Card ABS:** We published the "[U.S. Credit Card Quality Index: Monthly Performance--May 2024](#)" on June 27, 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 June 28, 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-Jun	Upgrade	AerCap Holdings N.V.	Transportation	Netherlands	BBB+	BBB	62,910
25-Jun	Upgrade	Carnival Corp.	Media & entertainment	Panama	BB	BB-	24,627
25-Jun	Upgrade	Banff Parent Inc.	High technology	U.S.	B	B-	13,483
27-Jun	Upgrade	Westlake Corp.	Chemicals, packaging & Environmental aervices	U.S.	BBB+	BBB	4,699
24-Jun	Downgrade	Intrum AB (publ)	NBFI	Sweden	CCC	B	4,115
26-Jun	Downgrade	H-Food Holdings LLC	Consumer products	U.S.	CCC-	CCC	3,979
25-Jun	Upgrade	PT Medco Energi Internasional Tbk.	Oil & gas	Indonesia	BB-	B+	2,259
24-Jun	Downgrade	Adler Group S.A. (ADO Group Ltd.)	Homebuilders/real estate co.	Luxembourg	SD	CCC-	1,954
28-Jun	Upgrade	Kite Realty Group Trust	Homebuilders/real estate o.	U.S.	BBB	BBB-	1,575
28-Jun	Downgrade	EagleView Technology Corp.	Media & entertainment	U.S.	CCC	B-	810

Source: S&P Global Ratings Credit Research & Insights. Data as of June 28, 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.



The Ratings View

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