S&P Global Ratings

The Ratings View

July 24, 2024

This report does not constitute a rating action.

Key Takeaways

- We published our industry credit outlook midyear updates.
- Global disruption from CrowdStrike's software update highlights IT ecosystem risks.
- Defaults decreased in June, and the annual tally is lower than this time last year.

Contacts

Gareth Williams
London
Head of Corporate Credit Research
+44-20-7176-7226
gareth.williams@spglobal.com

Gregg Lemos-Stein
New York
Chief Analytical Officer, Corporate Ratings
+1-212-438-1809
gregg.lemos-stein@spglobal.com

Joe Maguire
New York
Lead Research Analyst
joe.maguire@spglobal.com

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We published our Industry Credit Outlook updates for midyear 2024. The series lays out our expectations for 24 global corporate and infrastructure sectors, drawing on assessments of more than 5,500 rated corporate and infrastructure entities. A surprisingly resilient global macro backdrop and favorable financial market conditions have softened the impact of weaker revenues and higher interest rates. Cost and inventory pressures have abated but remain a concern for many industries, as does supply-chain fragility and the risk of escalating trade tensions. All the reports are available from the link below.

Industry Credit Outlook Update 2024

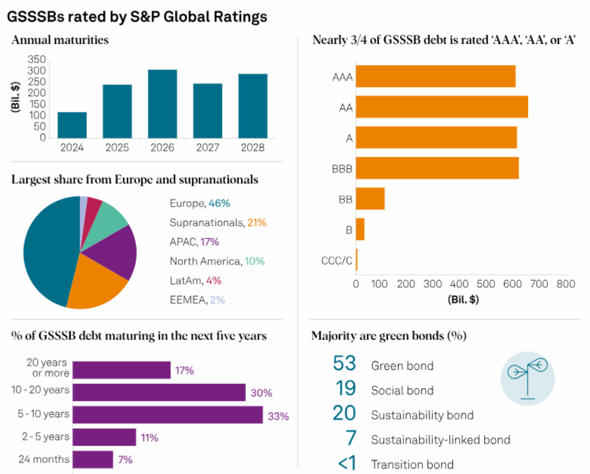
The wide-scale disruption following Crowdstrike Holdings Inc.'s software update highlights risks to the global IT ecosystem arising from the interdependency of critical systems and software. This event also underscores the concentration risk arising from the dominance of a few key vendors in the global IT ecosystem. While CrowdStrike indicated this wasn't a security incident or cyberattack, the event has disrupted critical systems across a wide range of companies worldwide and has wide-ranging ramifications. Typically following an event like this, whether malicious or not, credit risks tend to rise from revenue loss and reputational damage, and in the longer term many companies will continue to incur costs to respond to and remediate impacted IT systems and business processes. With growing digitization, S&P Global Ratings believes these incidents may become more commonplace.

CrowdStrike Update Issues Highlight The Perils To Global IT Systems From Interdependency And Concentration

Global defaults in June decreased to nine from 14 in May. With 78 defaults, the global corporate default tally is well-above its five-year average, but below this point in 2023. The default debt amount in Europe rose to $3.2 billion, making it the highest monthly defaulted debt amount reported since August 2023. By sector, one-third of the June defaults came from the health care sector and distressed exchanges continue to be the primary reason for defaults (56%).

Default, Transition, and Recovery: Defaults Drop In June

The growth in GSSSB issuance is leading to rising maturities, but we expect them to remain manageable. The value of green, social, sustainable, and sustainability-linked bonds (GSSSBs) rated by S&P Global Ratings that are maturing from April 2024 through 2028 has grown to $1.2 trillion. Annual maturities through 2028 peak at $307 billion in 2026, and annual issuance over the past few years has been roughly double this amount. As a result, we think the depth of the GSSSB market is more than sufficient to meet refinancing needs. What's more, over 90% of GSSS



Dataset includes outstanding GSSSBs issued between 2013 and 2023 that are rated by S&P Global Ratings, from financial and nonfinancial corporate issuers as well as international public finance, sovereign, and supranational entities. Supranational includes the EU. Ratings as of April 1, 2024. Top left chart includes debt maturing through Dec. 31, 2028, and all other charts also include debt maturing after 2028. Sources: Environmental Finance, S&P Global Market Intelligence CapitalIQ Pro, and S&P Global Ratings Credit Research & Insights.

bonds are rated investment-grade. Green bonds represent 51% of the total GSSSB maturities through 2028, followed by sustainability bonds (22%) and social bonds (20%). Europe is the main issuing region with 41% of maturities through 2028.

Green, Social, And Sustainable Debt Maturities Approach $1.2 Trillion Through 2028

There were 42 rating actions related to environmental, social, and governance (ESG) factors in the second quarter, up from 35 in the first quarter, a 20% increase--with negative actions continuing to outpace positive ones. Governance factors remained the primary driver in the second quarter, representing 83% of ESG-related rating actions. Risk management, culture, and oversight continued to be the primary underlying ESG factor with 21 actions, up from 18 the previous quarter. U.S. public finance continued to be the sector with the most ESG-related rating actions in the second quarter, increasing to 24 from 21 the prior quarter, for a year-to-date total of 45 (58% of total ESG-related rating activity this year).

ESG In Credit Ratings Q2 2024: Governance Factors Drive Quarter's ESG-Related Rating Actions

Our short-term housing price forecasts for Europe have improved. We revised upward our price forecasts for 2024 for most European countries, especially Belgium, Portugal, and Spain. This is because housing prices were more resilient at year-end 2023 than we expected, while housing loans recovered faster than they did in previous cycles. We believe the faster-than-expected recovery in housing loans mainly results from the strong European labor market. That said, unit labor costs are high by historical standards and the labor market is cooling. Although we think housing markets in most European countries have bottomed out, we continue to forecast a moderate increase in nominal housing prices over 2024-2027. After the rate cuts, structural factors will continue to drive housing demand, while easing supply constraints will prevent sharp price increases.

S&P Global Ratings economists' nominal price forecasts

	Year-over-year change in Q4 in nominal house prices (%)						Change compared with previous forecasts (%)				
	2022	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026
Germany	-3.6	-7.1	-0.3	0.5	2	2	0	-1.7	0.7	0	0
France	4.7	-3.9	-2.5	1	1.5	2	0	-2.4	1	-0.5	-0.5
Italy	2.7	1.8	-3.7	-1.5	1	1	0	1	0.2	-0.5	0
Spain	5.5	4.4	4	3	2.4	2	0	3.4	4.3	1.5	0.4
Netherlands	5.7	0.2	0.1	0.8	1.7	1.9	0.3	2	2.1	-0.2	-0.6
Belgium	4.6	3.3	1.5	1.5	1.4	1.4	-0.2	3.9	1.9	0.5	0
Portugal	11.2	7.8	3.5	3.5	3	3	-0.1	6.5	3.2	1.5	0.6
Switzerland	5.5	1.6	0	1.5	2	2.6	0	1.9	0.5	0	0
U.K.	9.3	-1.7	1.4	2.3	2.6	2.9	0.3	-0.2	0.4	0.2	0
Ireland	8.6	3.1	5.8	4.1	3.2	3.2	0	1.3	4.5	2	1
Sweden	-3.6	-2.9	0.6	2.1	2.7	2.7	0	2.8	2.1	0.1	0.1

Data as of July 2024. Sources: OECD, S&P Global Ratings.

Economic Research: European Housing Markets: Better Days Ahead

Asset Class Highlights

Corporates

Notable publications include:

- Industry Credit Outlook Update Midyear 2024
- Corporate Rating Component Scores: North America Q2 2024
- Corporate Rating Component Scores Europe, The Middle East, and Africa Q2 2024
- Corporate Rating Component Scores Asia-Pacific Q2 2024
- Corporate Rating Component Scores Latin America Q2 2024
- Credit FAQ: Inflation, China, And EV Transition Risks Casts Long Shadow On North American Auto Suppliers
- CrowdStrike Update Issues Highlight The Perils To Global IT Systems From Interdependency And Concentration
- Health Care Credit Beat: U.S. Supreme Court's Chevron Decision Holds Mixed Implications For Industry
- Emerging Market Re-Defaulters' Business Overhaul Plans May Be Falling Short
- ESG In Credit Ratings Report Published For Q2 2024
- European Telecoms: Sector Outlook And Hot Topics
- Default, Transition, and Recovery: Defaults Drop In June
- Emerging Markets Monthly Highlights: Blurring Long-Term Outlook

Financial Institutions

Over the past week, we took several rating actions:

- Research Update: Outlook On CCF Revised To Stable On Completed Acquisition; My Money Bank Outlook Still Negative; Ratings Affirmed
- Research Update: Basellandschaftliche Kantonalbank 'AA+' Rating Affirmed; Outlook Stable; Liquidity Revised To Adequate From Strong
- Research Update: Saudi Investment Bank 'BBB/A-2' Ratings Affirmed; Outlook Remains Positive Despite Higher-Than-Expected Growth
- Research Update: Burgan Bank 'BBB+/A-2' Ratings Affirmed On Strategic Asset Reallocation; Outlook Stable
- Research Update: China Development Bank Fin'l Leasing, CDB Aviation Outlook Revised To Negative On Evolving Support; 'A' Ratings Affirmed
- Research Update: BRB - Banco de Brasilia S.A. Long-Term Credit Rating Cut To 'B' On Capital And Profitability Strains; Outlook Stable

We published several commentaries including:

- Global Banks Midyear Outlook 2024: Searching For Calmer Waters
- Global Banks Country-By-Country Midyear Outlook 2024: Searching For Calmer Waters
- Your Three Minutes In Cyber Security: New Rules Will Change EU Banks' Management Of Third-Party Provider Risk
- Credit FAQ: Bank Regulation Can Help Insulate Captive Auto Lenders
- Cambodian Banks: The Struggle Is Real

Research Contributors

Financial Institutions
Matthew Albrecht
matthew.albrecht@spglobal.com

Mehdi El mrabet
mehdi.el-mrabet@spglobal.com

Structured Finance
Winston Chang
winston.chang@spglobal.com

Sovereign

- What Will Recent European Election Results Mean For Sovereign Debt And Ratings?

Structured Finance

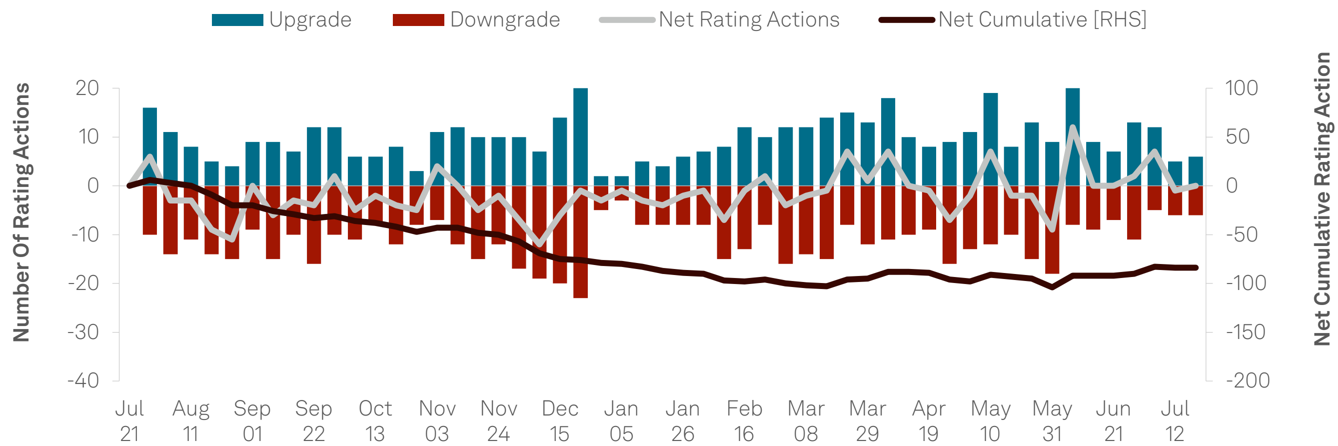
- **U.S and EMEA Structured Finance:** S&P Global Ratings published its round-up of the latest credit developments and underlying performance indicators observed across U.S. structured finance sectors (see "U.S. Structured Finance Chart Book: July 2024," published July 18, 2024). S&P Global Ratings published on July 18, 2024 its "EMEA Structured Finance Chart Book: July 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.
- **European CLO:** Here are a few "Key Takeaways" from a recent article:
  - Rating activity for European CLOs was strong during Q2 2024, where we reviewed six transactions managed by five collateral managers.
  - Rating transitions--mainly upgrades (60% of classes reviewed) and affirmations (40%)--were positive primarily due to stable credit performance and higher credit enhancement driven by deleveraging.
  - Rating action severities were 2.4 notches for upgrades and 1.5 notches for all rating actions during the quarter.
  - CELF accounted for most affirmations and upgrades among the six transactions we reviewed (with two transactions for this collateral manager)
  - We reviewed 121 transactions as part of our annual review surveillance process.
  - We rated 45 new transactions (including one refinance and nine reset).
  - We withdrew ratings on 135 tranches in 25 transactions, mainly due to redemption, reset, and refinancing.

    The article is titled "European CLO Monitor Q2 2024" and published on July 15, 2024.
- **U.K. RMBS:** Here are a few "Key Takeaways" from a recent article:
  - Our analysis suggests that one in every five loans in 90+ days arrears backing legacy U.K. buy-to-let (BTL) residential mortgage-backed securities (RMBS) transactions that we rate, is more than 12 months in arrears. This build-up of late-stage arrears may have several causes.
  - Although interest rates have increased rapidly since 2022, the absolute level is similar to rates that loans backing legacy U.K. BTL RMBS transactions saw at origination.
  - Servicers are reporting that smaller BTL investors have been using BTL as their primary personal income source and have been unable to pass on rate rises and/or have prioritized personal spending above keeping up-to-date on their BTL mortgage payments.
  - The build-up of loans in arrears for longer than three months will become a key transaction performance metric, as build-up may indicate the appointment of a receiver of rent is not economically viable.

    The article is titled "Legacy U.K. Buy-To-Let RMBS: Crunch Time For Arrears And Losses" and published on July 18, 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 July 19, 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. $)
15-Jul	Upgrade	BPCE	Bank	France	A+	A	108,193
19-Jul	Downgrade	Walgreens Boots Alliance Inc.	Retail/restaurants	U.S.	BB	BBB-	9,710
16-Jul	Upgrade	General Dynamics Corp.	Aerospace & defense	U.S.	A	A-	9,250
17-Jul	Upgrade	Summit Midstream Partners, LP	Utilities	U.S.	B+	B	3,320
18-Jul	Downgrade	CMG Media Corp.	Media & entertainment	U.S.	CCC+	B-	3,169
18-Jul	Downgrade	Allen Media LLC	Media & entertainment	U.S.	CCC+	B-	1,505
18-Jul	Upgrade	FAGE International S.A	Consumer products	Luxembourg	BB	BB-	640
15-Jul	Upgrade	Speedway Motorsports LLC	Media & entertainment	U.S.	BB+	BB	600
18-Jul	Downgrade	Rodan & Fields LLC	Consumer products	U.S.	D	CCC-	550
18-Jul	Downgrade	Enstall Group B.V.	Forest products & building materials	Netherlands	B-	B	475

Source: S&P Global Ratings Credit Research & Insights. Data as of July 19, 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**.**