This Month In Credit

August 2024, Volume 18

S&P Global Ratings

This report does not constitute a rating action.

On A Roll

(Editor's note: This Month In Credit datasets cover sovereign, financial, and nonfinancial corporate issuers globally unless otherwise stated. For additional exhibits on credit trends, including rating actions, outlooks, fallen angels, rising stars, weakest links, and the U.S. distress ratio, please see the related data publication: "This Month In Credit: 2024 Data Companion.")

Key Takeaways

- Credit trends remain positive, despite recent market volatility, with upgrades outnumbering downgrades for a sixth consecutive month--the longest monthly streak since 2021.
- July's upgrades were concentrated among financial institutions, almost exclusively from Europe (six out of seven). Financial institutions account for the second highest number of upgrades in the year to date (38), closely following media and entertainment (41).
- Negative rating actions continue to fall, with net bias at its highest level since February 2023. Downgrade activity remains primarily concentrated at the 'B-' and 'CCC/C' levels.
- Global corporate defaults are still elevated but, in our base-case forecast, we expect U.S. and European speculative-grade default rates to fall to 3.75% and 4.25%, respectively, by June 2025.

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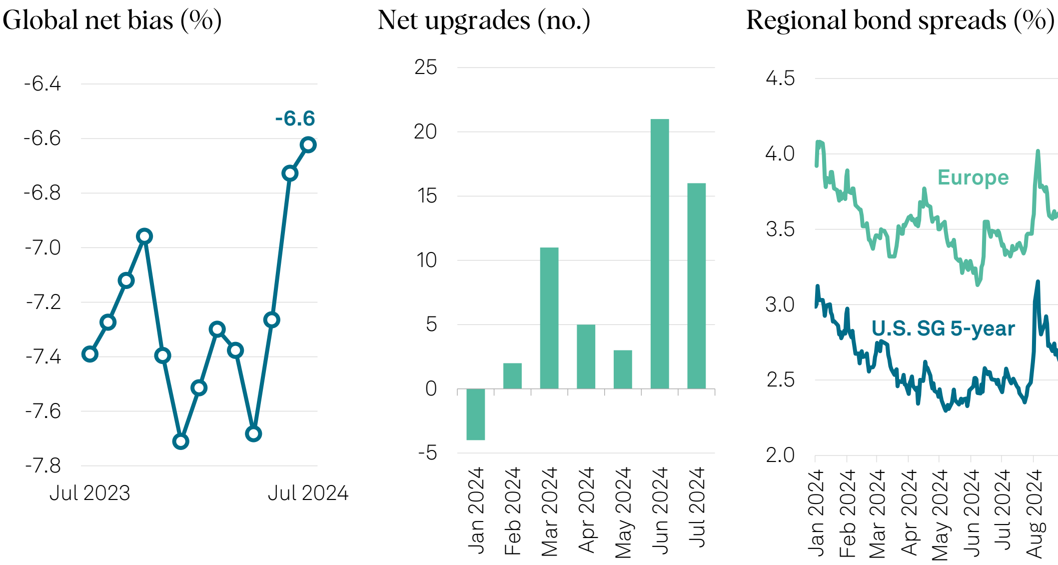
For a weekly snapshot of rating trends and credit conditions, please see **"This Week In Credit,"** released every Monday.

Ratings Resilience

Despite a brief surge in spreads in early August, credit trends remain broadly positive as evidenced by upgrades outpacing downgrades for the longest run since 2021.



Data as of July 31, 2024. Charts show downgrade and bias figures globally, including investment-grade and speculative-grade issuers. Net bias is the positive bias minus the negative bias (for both investment- and speculative-grade issuers). Net upgrades equal upgrades minus downgrades. Spread data as of Aug. 27, 2024. Source: Federal Reserve Bank of St. Louis, S&P Global Ratings Credit Research & Insights.

Credit Notes: Mind The Blip

The sky is falling or so it seemed momentarily in early August as a cocktail of surprising U.S. economic data, market technicals, seasonal liquidity, and a shifting market structure combined to produce a bout of eyewatering volatility--marked by a record VIX move and a sharp selloff across equity and credit indices. However, the effect was fleeting, with the ensuing recovery nearly as quick for many market indicators. Economic data surprises have also relented and S&P Global Ratings economists now believe the U.S. Federal Reserve will start cutting its benchmark rate in September, with 125 basis points (bps) of cuts by year-end 2025 (see "A Cooling U.S. Labor Market Sets Up A September Start For Rate Cuts," published Aug. 6, 2024). Elsewhere, markets anticipate both the European Central Bank (ECB) and Bank of England will further reduce rates next month after cutting in June and August, respectively.

For more accompanying data, click here

The sudden onset of market volatility renewed concerns regarding the perceived vulnerability, or at least fragility, of markets including credit. That said, beyond the headline price swings and data surprises, rating trends have been far less volatile, and have remained on an upward curve, with sector divergence still a key underlying theme through 2024.

Upgrades exceeded downgrades for a sixth consecutive month, the longest stretch since 2021.

For a start, rating action trends were positive once again in July, with 45 upgrades to 29 downgrades. Notably, upgrades outnumbered downgrades for a sixth consecutive month--the longest monthly streak since 2021--and the margin of outperformance (16) was the second highest since April 2022, only short of June's differential (21). Consequently, the trailing three-month downgrade ratio is still trending downward and reached 42% in July, its lowest level since February 2022. The number of weakest links also fell for the seventh consecutive month to 261 from 265 in June--dipping further below the five-year average of 300.

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Hospitable market conditions continued to support refinancing activity, which was very robust through first-half 2024, with many issuers taking advantage of strong investor demand to push out maturities into later years. The peak year for total maturities (investment- and speculative-grade) for financial and nonfinancial corporate issuers is now 2028. Total corporate maturities due in second-half 2024 and full-year 2025 eased by 8%, with speculative-grade nonfinancial corporates trimming maturities by 30% (see "Global Refinancing Update Q3 2024: Near-Term Risk Eases," published July 29, 2024). This has provided much-needed near-term liquidity relief for some weaker borrowers.

But perennial sector divergences remain. In the year to date, the utilities, media and entertainment, capital goods, and oil and gas sectors led upgrades and have some of the lowest downgrade ratios. In contrast, health care, chemicals, packaging and environmental services, and retail had the most net downgrades and highest downgrade ratios over the same period. Retail accounted for the most downgrades globally in July with five, compared to seven in total across the previous six months. In contrast potential upgrades--issuers on positive outlooks or CreditWatch positive--were highly concentrated among the financial institutions (44), media and entertainment (31), consumer products (30), and oil and gas (27) sectors. These accounted for 45% of total potential upgrades in July.

Risks at the lower bound of the rating spectrum also remain in focus. The 'B-' rating category continued to lead downgrades in July, with 59% to issuers rated 'B-' or below. Meanwhile, the number of downgrades from the 'CCC/C' category remained elevated, increasing to nine in July from six in June.

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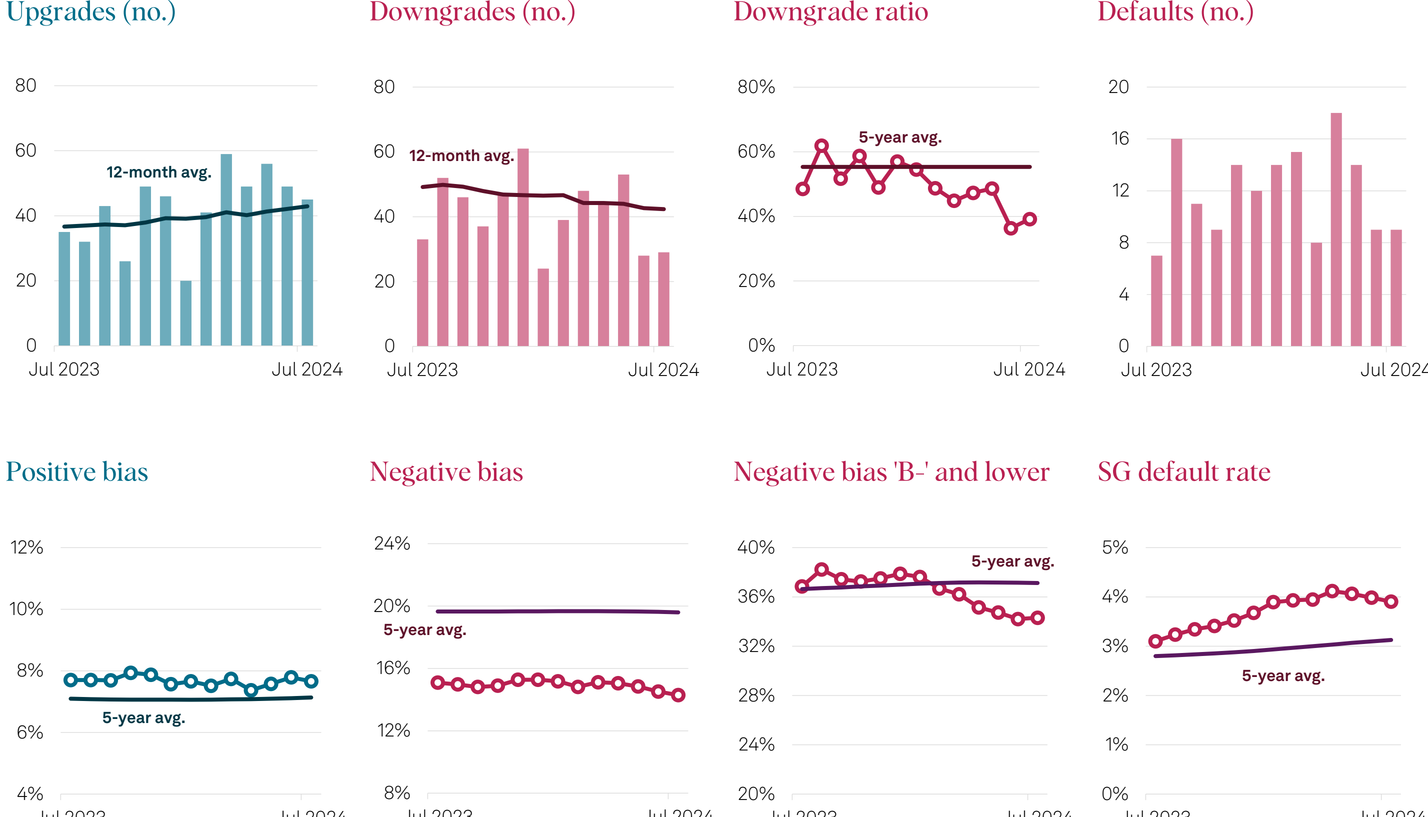
The period of market volatility has passed--for now--but underlying credit trends remain the same--a story of resilience and improvement at most rating levels but punctuated by continued sector divergence and weakness at the bottom of the credit stack.

Ratings Trends Snapshot – Through July 31, 2024



Data as of July 31, 2024. Data represents rating actions and biases for sovereign, financial, and nonfinancial corporate issuers globally. Downgrade counts exclude defaults. Defaults and the speculative-grade default rate exclude sovereigns.
SG--Speculative grade. Source: S&P Global Ratings Credit Research & Insights.

Credit Trends: Upgrades Continue, Downgrades Moderate

- Upgrades (45) exceeded downgrades (29) for the sixth consecutive month in July, the longest stretch since the start of 2021. The margin of outperformance (16) was also the second highest since April 2022, only short of last month's differential (21).
- Two-thirds of upgrades were among speculative-grade issuers, which saw upgrades (30) marginally exceed downgrades (26) in July.
- By sector, upgrades were concentrated in financial institutions (seven), utilities (six), and media and entertainment (five). Six of July's seven financial institution upgrades came from Europe, largely citing strengthening balance sheets, stable deposits, and more affordable funding from debt markets abroad.
- By region, 91% of July upgrades were to U.S.- (53%) and Europe (38%)-based issuers. The remainder were split nearly evenly across other regions apart from Latin America, which recorded none in July.

The margin of outperformance (16) was also the second highest since April 2022, only short of last month's differential (21).

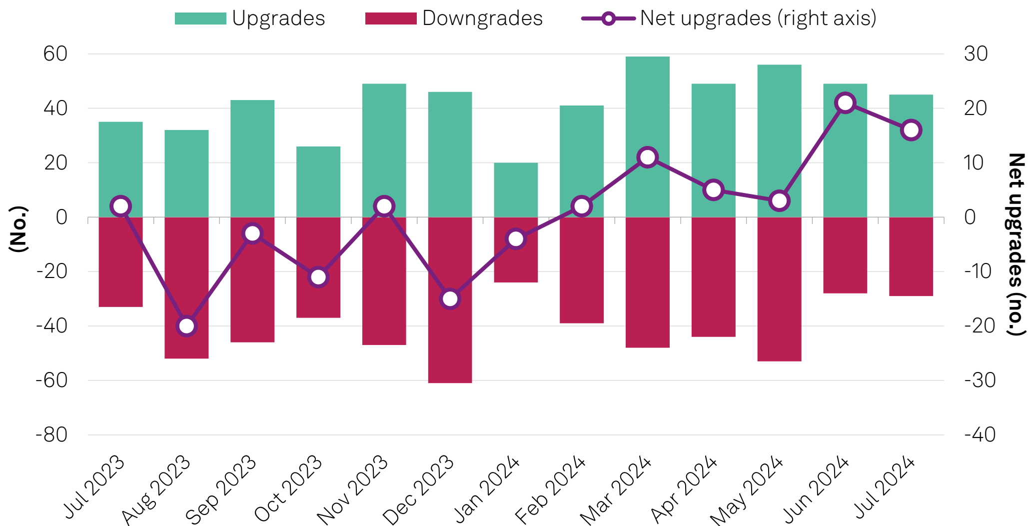
- By debt amount, the largest upgrade was to French bank **BPCE**, with $108.2 billion in debt outstanding as of July 31, 2024. BPCE was upgraded due to an increase in its senior nonpreferred note issuance, which strengthened its additional loss-absorbing capacity (ALAC).
- Downgrades increased slightly to 29 in July from 28 the previous month but remained well below the 12-month average of 42. Downgrades were also down 12% versus July 2023.
- Downgrades remained prominent at the lower end of the rating spectrum. The 'CCC+' and below category led with nine, followed closely by the 'B-' level with eight.
- While the U.S. continued to lead downgrades in July with 13, Europe saw the largest increase to 10 from six the previous month. Forest products & building materials, along with financial institutions, led European downgrades with three apiece.
- Retail accounted for the most downgrades globally in July with five, compared to seven total the previous six months, including fallen angel **Walgreens Boots Alliance, Inc.** Retail downgrades were largely attributed to meaningful revenue declines, weak operating perfomance, and refinancing risk.
- The chemicals, packaging, and environmental services sector continues to lead negative bias with 23.9% of issuers on a negative outlook or CreditWatch negative.
- Telecommunications saw the greatest increase in negative bias last month, rising 2.4 percentage points from the end of June to 19.2%. This was driven by three issuers seeing negative outlook revisions in July, two in Europe and one in the U.S.
- By sector, telecommunications also saw the largest decline in positive bias, decreasing 1.7 percentage points to 5.0%. Two issuers, one each in the U.S. and Europe, were no longer on positive outlooks following upgrades and newly assigned stable outlooks.
- By region, Latin America continued to lead negative bias in July with 20.4% of issuers on a negative outlook or CreditWatch negative. However, this follows a notable decline of 1.4 percentage points compared to June, with our outlooks on three issuers revised from negative.

Retail accounted for the most downgrades globally in July with five, compared to seven total the previous six months.

The telecommunications sector saw both the greatest increase in negative bias and greatest decrease in positive bias in July.

Chart 1

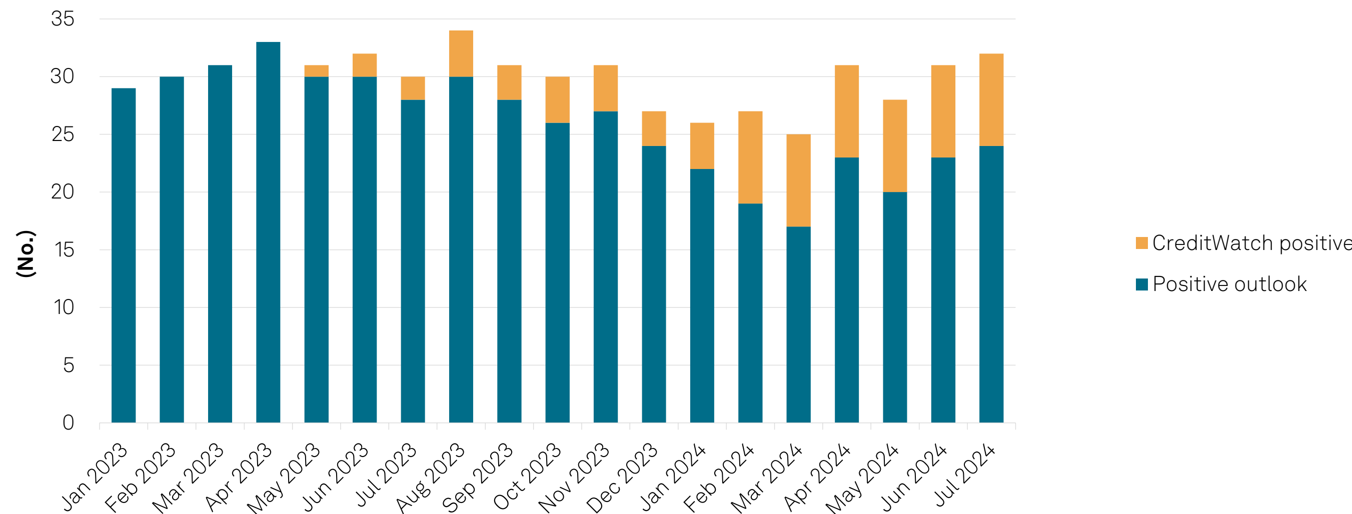
Upgrades have been consistently positive since the start of the year



Data as of July 31, 2024. Data represents rating actions and biases for sovereign, financial, and nonfinancial corporate issuers globally. Net upgrades equal upgrades minus downgrades. Source: S&P Global Ratings Credit Research & Insights.

Chart 2

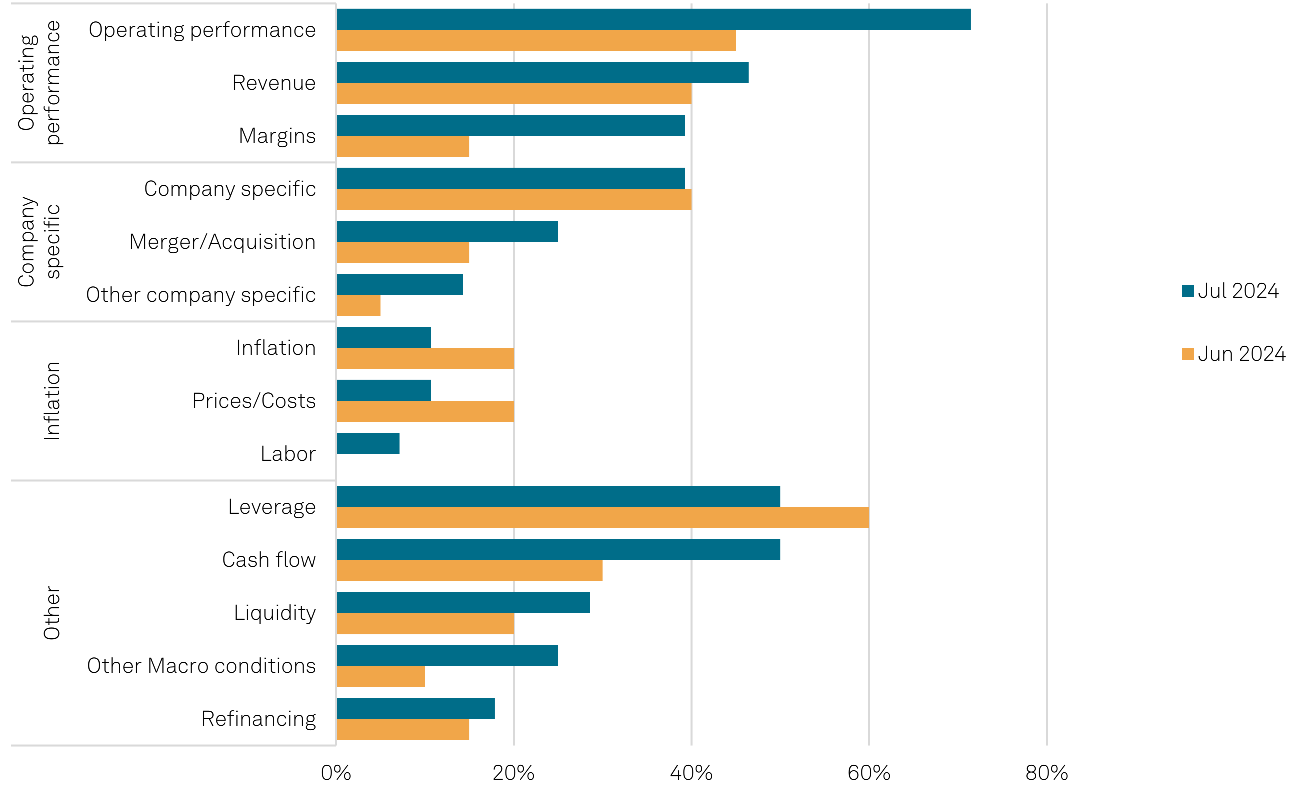
Potential rising stars reached their highest level since August 2023 indicating more upgrades may be on the horizon



Data as of July 31, 2024. Data represents rating actions and biases for sovereign, financial, and nonfinancial corporate issuers globally. Potential rising stars are issuers rated 'BB+' on positive outlooks or CreditWatch positive. Source: S&P Global Ratings Credit Research & Insights.

Chart 3

Operating performance has become the highest risk for issuers facing potential downgrades



Data as of July 31, 2024. Data represents rating actions and biases for sovereign, financial, and nonfinancial corporate issuers globally. (Note that more than one factor can influence a rating action.) Source: S&P Global Ratings Credit Research & Insights.

Looking forward, bias and potential rating actions highlight key areas to watch:

- Operating performance was the most common driver for potential downgrades in July, increasing to 71% from 45% in June.
- In particular, margin concerns saw the largest increase month over month, by 24 percentage points.
- While company-specific reasons remained relatively unchanged month-over-month (39% in July versus 40% in June), many cited subsector specific headwinds as the reason for their negative outlook. Meanwhile, mergers and acquisitions and other company specific citations inched upward in July.
- Leverage and inflation concerns decreased for potential new downgrades month over month.

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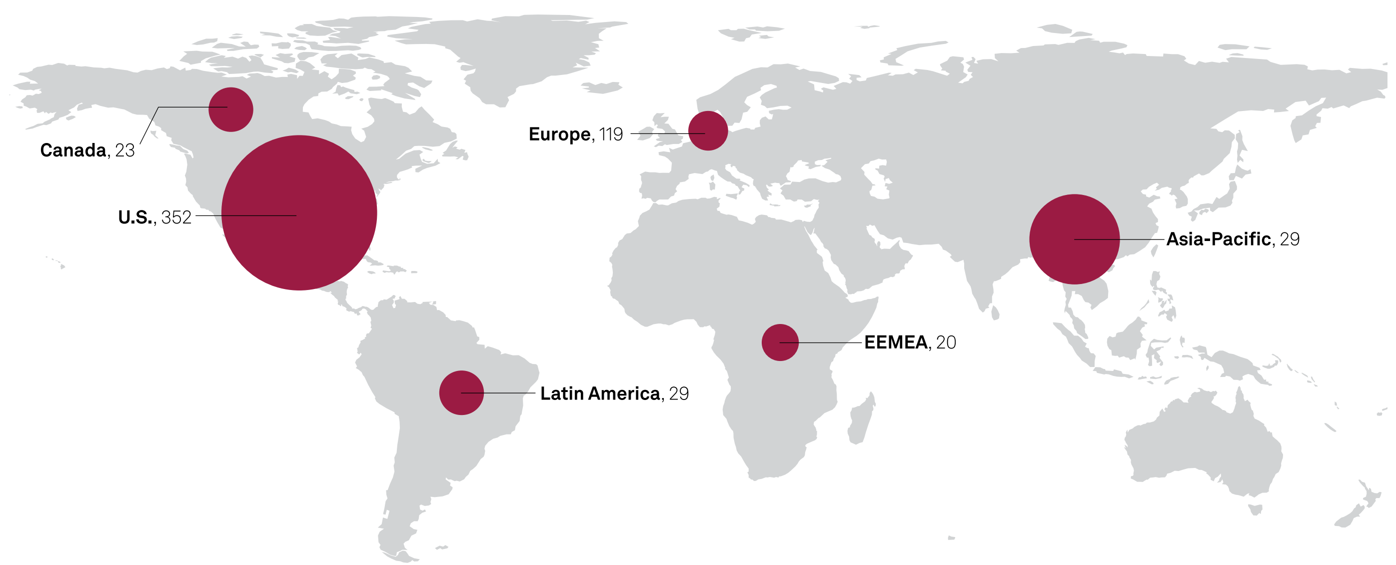
Chart 4

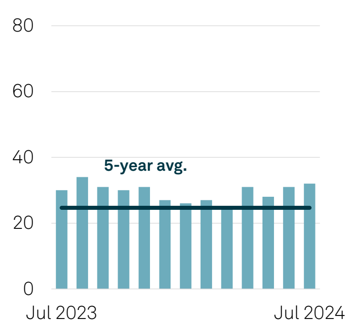
Potential downgrades (no.) by region



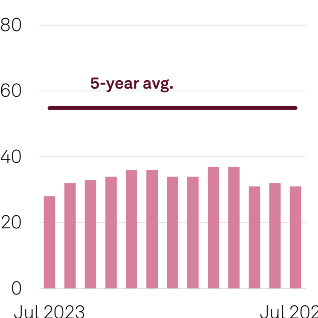
Data as of July 31, 2024. Chart shows number of potential downgrades by region. EEMEA--Eastern Europe, the Middle East, and Africa. Source: S&P Global Ratings Credit Research & Insights.

Specific Credit Indicators Through July 31, 2024

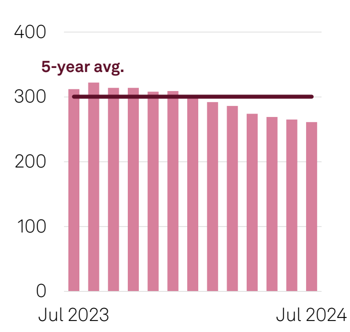
Potential rising stars (no.)



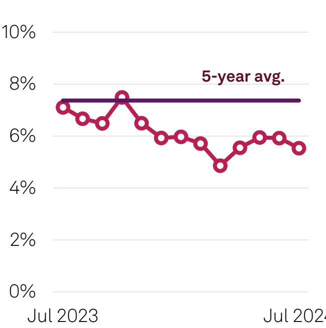
Potential fallen angels (no.)



Weakest links (no.)



Distress ratio



Data as of July 31, 2024. Data represents sovereign, financial, and nonfinancial corporate issuers globally, except for S&P Global Ratings' U.S. distress ratio, which is defined as the number of U.S. speculative-grade issues with option-adjusted spreads of more than 1,000 basis points above U.S. Treasury bonds. Source: S&P Global Ratings Credit Research & Insights.

Fallen angels: There was just one new fallen angel in July after no additions in June, bringing the year-to-date total to 10 in 2024 from 13 through July 2023. U.S. based retail issuer, **Walgreens Boots Alliance Inc.**, was downgraded to 'BB' on July 19, in part due to material strategic changes, limited cash flow generation, and large maturities in the coming years.

There were two additions to potential fallen angels in July, telecommunications issuer, **CAS Holding No.1 Ltd.** and U.S. based utilities issuer, **Equitrans Midstream Corp.**, bringing the total to 32.

Rising stars: There was one new rising star in July, following one addition in June, bringing the year-to-date total to 16. **Equitrans Midstream Corp.** was upgraded to 'BBB-' on its acquisition by **EQT Corp**. Equitrans was also assigned a negative outlook, mirroring the outlook on **EQT Corp.**, with this issuer concurrently added to the list of potential fallen angels as a result.

There were two additions to potential rising stars in July, Greece-based financial institutions: **Eurobank S.A.** and **National Bank of Greece S.A.** This followed positive rating actions on eight Greek banks on resilience to economic cycles and improving funding profiles.

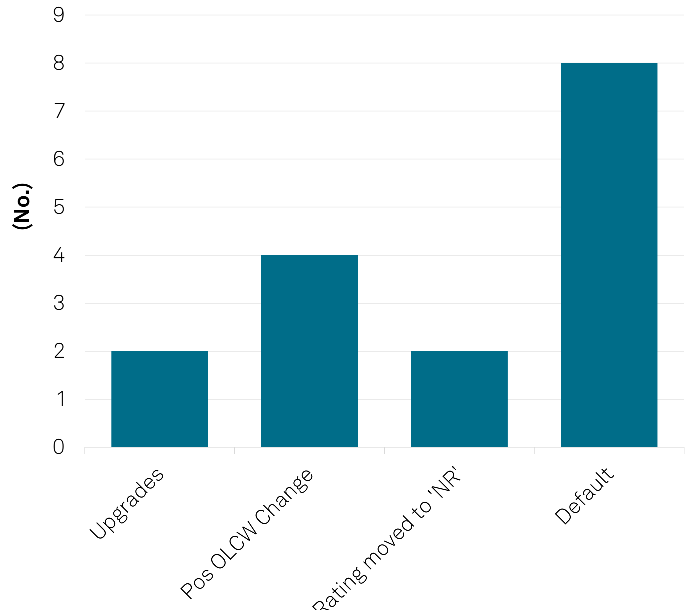
Weakest links: The number of weakest links fell for the seventh consecutive month to 261 in July from 265 in June--dipping further below the five-year average (300). However, despite clear signs of positive credit momentum, 50% of last month's removals came after the issuer defaulted compared to only 38% due to a positive rating action.

High tech and media and entertainment led additions this month with two each and were added to the tally either through a downgrade or a change to an outlook or CreditWatch. Meanwhile, the sectors with the highest weakest links tallies and most risk of further defaults include consumer products and health care. These two sectors alone hold nearly 30% of all weakest links, amounting to over $130 billion in debt outstanding. They have seen their fair share of defaults so far in 2024 and given the high number of weakest links we expect this to continue.

The consumer products and health care sectors hold nearly 30% of all weakest links, amounting to over $130 billion in debt outstanding.

Chart 5

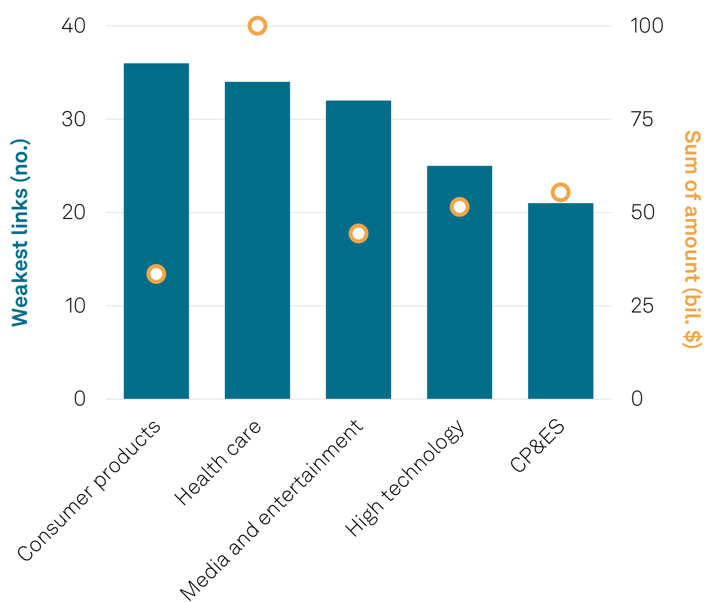
Reasons for weakest link removals in July



Data as of July 31, 2024. OLCW -outlook or CreditWatch. Source: S&P Global Ratings Credit Research & Insights.

Chart 6

Top five sectors at risk for further defaults



Data as of July 31, 2024. CP&ES—Chemicals, packaging, and environmental services. Source: S&P Global Ratings Credit Research & Insights.

Distressed ratio: The U.S. distress ratio fell for the second consecutive month to 5.53% as of July 31, from 5.92% as of June 30, and remains well below its five-year average of 7.37%. The homebuilders sector saw the greatest increase in its distress ratio, jumping to 8.43% from 2.60%. The rapid increase can be attributed to the inclusion of five distressed issues from Massachusetts-based REIT, Office Properties Income Trust, which faces significant near-term debt maturities over the next six to 12 months.

The homebuilders sector saw the greatest increase in its distress ratio, jumping to 8.43% from 2.60%.

The delay in rate cuts in 2024 has heightened refinancing risk for some commercial real estate borrowers in the U.S., especially those at the lower end of the credit spectrum. However, given the recent jobs report and deceleration in employment demand, S&P Global Ratings anticipates the U.S. Federal Reserve will begin cutting its benchmark rate in September, which may improve access to capital (see "Industry Credit Outlook Update: North American Real Estate," published July 18, 2024).

Defaults: Defaults reached nine last month, in line with June, but this was still elevated, with the global corporate tally at 87 in the year to date. Over two-thirds of defaults in July came from distressed exchanges, which are at their highest year-to-date level since 2009. The increase this year can be attributed to a high number of redefaults (issuers that have already defaulted at least once), since some companies have become more comfortable with high leverage in their capital structures (see "The Rise of Repeat Defaulters," published April 11, 2024).

Regionally, Europe accounted for four of the nine defaults last month. This is the only region to exceed its 2023 levels because persistently high market rates have made it difficult for lower-rated issuers to service their debt. Although default rates will remain higher in the short to medium term, we expect the European trailing-12-month speculative-grade corporate default rate to fall to 4.25% by June 2025, marginally below the 4.7% for the 12 months through June

Europe is the only region where year-to-date defaults exceed 2023 levels.

2024 (see "The European Speculative-Grade Default Rate Will Level Out At 4.25% By June 2025," published Aug. 22, 2024).

For the U.S., we believe the default rate has reached its peak (4.9% in April) and will fall to 3.75% by June 2025. This is given many supportive trends--such as near-term liquidity relief, resilient second-quarter earnings, and consumer spending--remain in place (see "The U.S. Speculative-Grade Corporate Default Rate Will Continue Its Descent, Reaching 3.75% By June 2025," published Aug. 19, 2024).

For more data and charts on fallen angels, potential fallen angels, rising stars, potential rising stars, weakest links, and the U.S. distress ratio, please see the related publication: "This Month In Credit: 2024 Data Companion."

Table 1

Potential downgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
Aerospace and defense	10	9	1				
Automotive	15	10	3	1	1		
Capital goods	18	13	2	2	1		
Consumer products	77	57	12	1	3	4	
CP&ES	50	25	16	4	2	2	1
Diversified	1				1		
Financial institutions	55	17	13	8	10	4	3
Forest PBM	13	7	6				
Health care	45	40	4				1
High technology	38	29	8	1			
Home/real estate	34	15	14	4			1
Insurance	7	4	1	2			
Media/entertainment	53	40	11				2
Metals, mining, and steel	18	7	4	1	1	1	4
Oil and gas	13	5	2		2	1	3
Retail/restaurants	33	28	3		1		1
Sovereign	10				5	5	
Telecommunications	28	14	9		1	1	3
Transportation	16	8	3	2	1	2	
Utilities	38	24	7	3			4

Data as of July 31, 2024. The darker red indicates more potential downgrades per region.
PBM--Products and building materials. CP&ES--Chemicals, packaging, and environmental services.
Source: S&P Global Ratings Credit Research & Insights.

Table 2

Potential upgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
Aerospace and defense	10	7	3				
Automotive	9	4	2	2		1	
Capital goods	11	6	2	1			2
Consumer products	30	18	9			1	2
CP&ES	12	7	3		1	1	
Diversified							
Financial institutions	44	13	23	5		3	
Forest PBM	11	9	2				
Health care	11	6	3			1	1
High technology	10	8	2				
Home/real estate	6	2	4				
Insurance	12	8	1	2			1
Media/entertainment	31	23	7	1			
Metals, mining, and steel	7	4	1	1	1		
Oil and gas	27	14	6	1	2	1	3
Retail/restaurants	13	6	6				1
Sovereign	14		4	1	2	7	
Telecommunications	9		5		2	2	
Transportation	12	2	5	2	2	1	
Utilities	16	10	2	1		1	2

Data as of July 31, 2024. The darker blue indicates more potential upgrades per region.
PBM--Products and building materials. CP&ES--Chemicals, packaging, and environmental services.
Source: S&P Global Ratings Credit Research & Insights.

Table 3

Top 10 downgrades in July

Issuer	Sector	Downgrade date	To	From	Country	Amount (bil. $)
Walgreens Boots Alliance Inc.	Retail/restaurants	7/19/2024	BB	BBB-	U.S.	9.7
Magenta Buyer LLC	High technology	7/23/2024	CCC	CCC+	U.S.	4.3
Intrum AB (publ)	Financial institutions	7/12/2024	CC	CCC	Sweden	4.2
CMG Media Corp. (CMG Holdings Inc.)	Media and entertainment	7/18/2024	CCC+	B-	U.S.	3.2
Rockwell Automation Inc.	Capital goods	7/2/2024	A-	A	U.S.	2.9
Corus Entertainment Inc.	Media and entertainment	7/23/2024	CCC	B-	Canada	2.2
Garfunkelux Holdco 2 S.A.	Financial institutions	7/9/2024	CCC+	B	Luxembourg	2.1
Medical Solutions Parent Holdings, Inc.	Health care	7/12/2024	B-	B	U.S.	1.5
Allen Media LLC	Media and entertainment	7/18/2024	CCC+	B-	U.S.	1.5
Franchise Group Inc.	Retail/restaurants	7/24/2024	CCC+	B-	U.S.	1.4

Data as of July 31, 2024. Excludes defaults. Table shows 10 largest issuer downgrades, excluding defaults, by debt amount in July 2024. Source: S&P Global Ratings Credit Research & Insights.

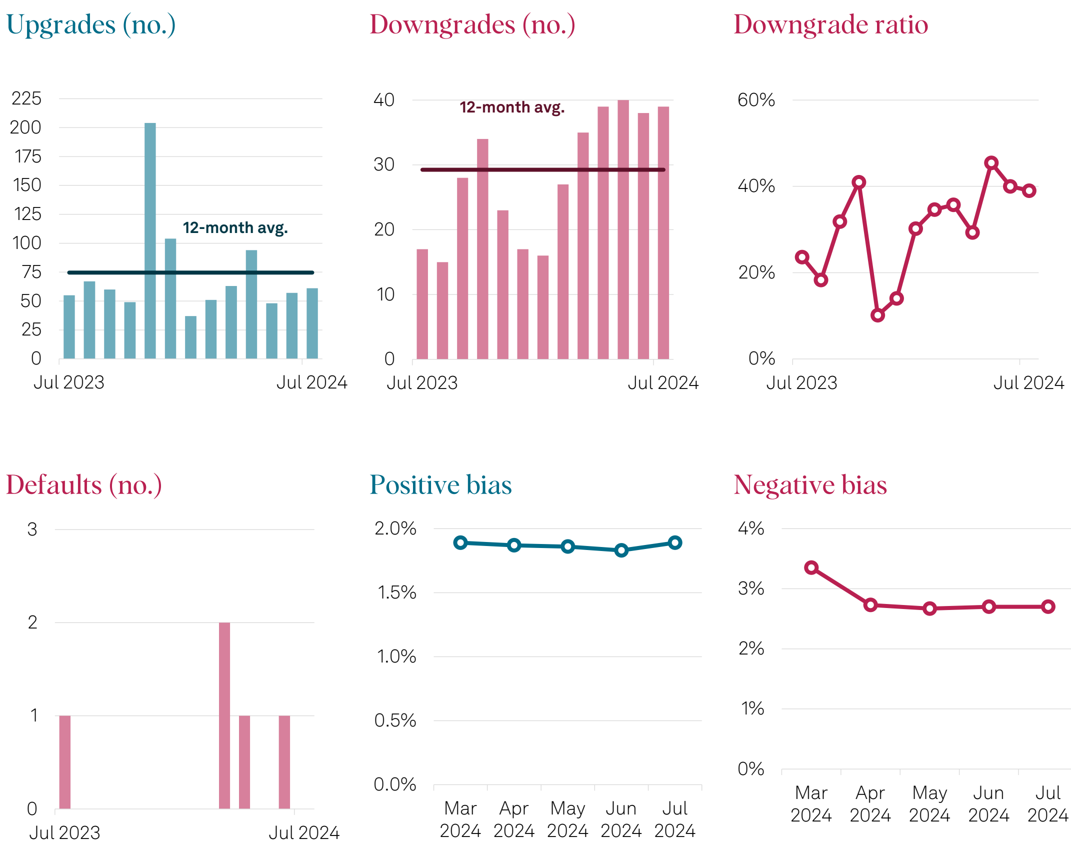
Table 4

Top 10 upgrades in July

Issuer	Sector	Downgrade date	To	From	Country	Amount (bil. $)
BPCE	Financial institutions	7/15/2024	A+	A	France	108.2
AstraZeneca PLC	Health care	7/26/2024	A+	A	U.K.	27.3
Telecom Italia S.p.A.	Telecommunications	7/9/2024	BB	B+	Italy	25.8
Netflix Inc.	Media and entertainment	7/22/2024	A	BBB+	U.S.	13.9
Amentum Holdings LLC	Aerospace and defense	7/23/2024	BB-	B	U.S.	10.2
Munich Reinsurance Co.	Insurance	7/26/2024	AA	AA-	Germany	9.4
Six Flags Entertainment Corp.	Media and entertainment	7/1/2024	BB	B+	U.S.	9.4
General Dynamics Corp.	Aerospace and defense	7/16/2024	A	A-	U.S.	9.3
McGraw-Hill Education Inc.	Media and entertainment	7/22/2024	B	B-	U.S.	7.5
Suncorp-Metway Ltd. (Suncorp Group Ltd.)	Financial institutions	7/30/2024	AA-	A+	Australia	6.6

Data as of July 31, 2024. Table shows 10 largest issuer upgrades by debt amount in July 2024. Source: S&P Global Ratings Credit Research & Insights.

U.S. Public Finance Ratings Trends Snapshot – Through July 31, 2024



Data as of July 31, 2024. The U.S. public finance data included in this report is based on S&P Global Ratings default study data sets and may differ slightly from other sources of U.S. public finance data. Data represents rating actions and biases for U.S. public finance issuers. Downgrade counts exclude defaults. Source: S&P Global Ratings Credit Research & Insights.

U.S. public finance rating trends:

- Overall, upgrades outpaced downgrades, primarily driven by rating activity in the local governments sector. In the year to date, downgrades have outpaced upgrades in the charter schools, education, health care, and utilities sectors.
- Water and sewer and public power utilities in U.S. public finance are typically operated by local governments and generally have break-even operating performance, in contrast to corporate utility issuers, since local governments balance affordability with the cost of service.
- There was one rising star in July, down from five in June, **Northeastern Illinois Univ, IL Unlimited Student Fees** was upgraded to 'BBB-' from 'BB+'. This rating action resulted from the university's improving financial operations as state appropriations increased and the declining enrollment trend stabilized. There was one fallen angel in July, down from three in June.
- Both positive and negative bias held steady month over month and remain low with most U.S. public finance ratings on stable outlooks.

Related Research

- The European Speculative-Grade Default Rate Will Level Out At 4.25% By June 2025, Aug. 22, 2024
- Default, Transition, and Recovery: The U.S. Speculative-Grade Corporate Default Rate Will Continue Its Descent, Reaching 3.75% By June 2025, Aug. 19, 2024
- The Cost Of A Notch: Fallen Angels Remain Costly Despite Tightening Spreads, Aug. 19, 2024
- Default, Transition, and Recovery: Distressed Exchanges Reached Their Highest Level Since 2009, Aug. 15, 2024
- Economic Research: A Cooling U.S. Labor Market Sets Up A September Start For Rate Cuts, Aug. 9, 2024
- U.S. Public Finance Rating Activity, July 2024, Aug. 7, 2024
- CreditWeek: How Do Scenarios Show The Potential For Climate Change To Affect Creditworthiness?, Aug. 1, 2024
- Investment-Grade Credit Check: Moving On Up, July 30, 2024
- Credit Trends: Global Refinancing Update Q3 2024: Near-Term Risk Eases, July 29, 2024
- Credit Trends: Global Financing Conditions: Early Issuance Should Support Growth Through Second-Half Slowdown, July 29, 2024
- Global Credit Markets Update Q3 2024: On An Upward Curve, July 29, 2024
- Credit Trends: Risky Credits: U.S. And Canadian Downgrades Into 'CCC' Sharply Rise, July 26, 2024
- Credit Trends: Risky Credits: Positive Ratings Momentum In Europe Continues, July 26, 2024

Glossary And Abbreviations

Downgrade ratio--The number of downgrades divided by the number of downgrades plus upgrades.

Fallen angels--Issuers downgraded to speculative grade from investment grade.

Investment grade--Issuers rated 'BBB-' or above.

Negative bias--Percentage of issuers with negative outlooks or ratings on CreditWatch negative.

Net outlook bias--Percentage of issuers with a positive bias minus those with a negative bias.

OLCW--Outlooks and CreditWatch placements.

Positive bias--Percentage of issuers with positive outlooks or ratings on CreditWatch positive.

Potential downgrade--An issuer rated by S&P Global Ratings with a negative outlook or on CreditWatch negative.

Potential fallen angels--Issuers rated 'BBB-' with either negative outlooks or on CreditWatch negative.

Potential upgrade--An issuer rated by S&P Global Ratings with a positive outlook or on CreditWatch positive.

Rising stars--Issuers upgraded to investment grade from speculative grade.

Risky credits--Issuers in the ‘CCC’ rating category.

Speculative grade--Issuers rated 'BB+' or below.

S&P Global Ratings' U.S. distress ratio--The proportion of speculative-grade issues with option-adjusted spreads of more than 1,000 basis points relative to U.S. Treasury bonds divided by the total number of speculative-grade issues.

Speculative grade--Issuers rated 'BB+' or below.

Weakest links--Issuers rated 'B-' and below with either negative outlooks or on CreditWatch negative.

Weakest links ratio--The number of weakest links divided by the total speculative-grade ratings population.

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