S&P Global
Ratings

The Ratings View

September 11, 2024

This report does not constitute a rating action.

Key Takeaways

- Trade tensions and supply-chain relocations could threaten global IT growth.
- Results from Q2 2024 showed the slow earnings recovery continuing, with margin expansion the primary driver rather than revenue growth.
- European trade prospects are threatened by fading competitiveness and trade tensions.

IT spending has grown strongly despite trade tensions and the pandemic, but future growth is not guaranteed. During eight tumultuous years (2017-2024) that saw escalating U.S.-China trade tensions and a pandemic, IT spending still grew at a 7% compound annual rate as the tech sector became increasingly important to the global economy. Sustaining this growth may be difficult. We expect U.S.-China tensions will persist irrespective of the new U.S. administration; retaliation against U.S. tech companies is an increasing risk. Moreover, efforts to diminish tech supply-chain concentration in China will be long and arduous. U.S.-China tensions have had limited ratings impact over the past decade. We believe the semiconductor industry to be most at risk. While these companies' strong balance sheets help blunt near-term geopolitical or trade conflict, their longer-term rating trajectory will depend on navigating a more competitive business landscape and likely lower business activity between the U.S. and China.

Long-Term U.S. Tech Ratings Will Be Tested By Geopolitical And Trade Uncertainties

The Q2 2024 results season saw the slow earnings recovery continuing, although driven more by margin improvement than static revenue growth. Measured at an annual rate, global sales for companies rated by S&P Global Ratings that report quarterly are essentially flat (-0.2%) and EBITDA up 2.5%. Large U.S. technology companies (NVIDIA, Amazon, Meta, Microsoft) continue to have the biggest positive impact on global EBITDA growth, and energy companies the most negative. Cash flow pressure from higher interest payments is easing, and interest cover is starting to edge higher after declining steadily since mid-2022. Companies are trimming capital expenditure growth, with capex up 4.2% versus 7.2% last quarter, while share buyback growth has turned positive again. Beyond the moderation in capex, it's difficult to point to any harbingers of renewed broad-based deterioration.

Corporate Results Roundup Q2 2024: Slow recovery continues, driven more by margin improvement than revenue growth

Europe's trade prospects are threatened by weakening competitiveness and possible policy changes in the U.S. and China. This threat is significant given that we estimate Europe's foreign trade has enriched the EU by €19,000 per capita since the mid-1990s. Many European sectors are so intertwined with the U.S. and China through exports, value added content in final demand, and technology that trade restrictions or increased tariffs would prove detrimental to them. Given that protectionism is not in Europe's DNA or interest, the region should address its falling share of global trade by restoring competitiveness to avoid the middle technology trap. This should

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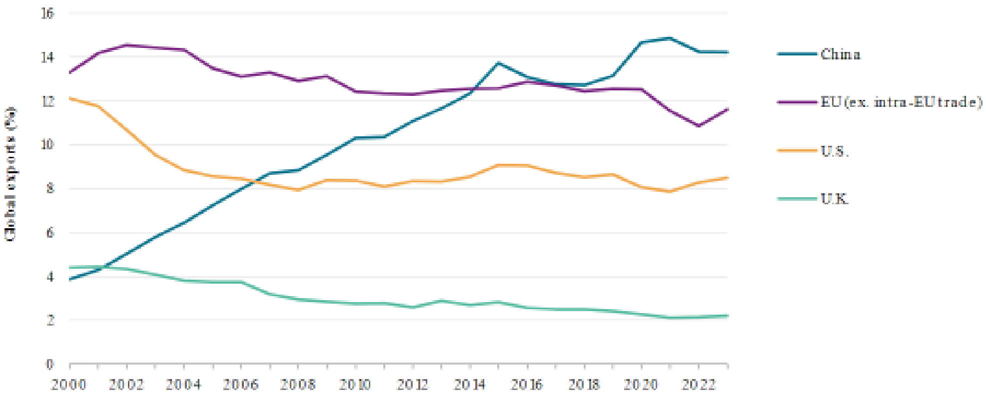
For latest Sector and Industry Research **Click Here** include further integration (especially in energy and capital markets), greater investment, and initiatives to foster innovation.

Europe has lost global market share over the past 20 years, mainly to China
Global merchandise exports by origin / total exports



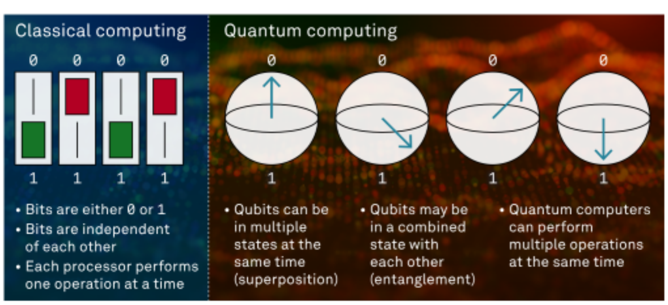
Sources: OECD, S&P Global Ratings.

[Economic Research: Europe Must Avoid The Middle Technology Trap To Continue Reaping Free Trade's Rewards]

We expect a continued steep buildup of offshore wind power capacity in European waters over 2024-2030. This implies about $270 billion in investment, although Europe is likely to remain the second largest market after China. We project that the levelized cost of electricity in Europe could rise by as much as 26% over the next two years after decreasing in the past decade, diverging from Asia-Pacific, where costs are still decreasing. Yet we think European power utilities like Orsted, RWE, Iberdrola, EnBW, EDF, SSE, and Eneco, are set to remain the sector leaders over the next five years, implying large exposures to single projects and high investments that constrain deleveraging. Pressure on providers of integrated supply chain and grid connections to deliver on numerous projects simultaneously will remain high unless the pace of renewables construction slows.

[Sustainability Insights: Power Sector Update: European Offshore Wind Is Racing Ahead]

Quantum computing's combination with artificial intelligence promises a paradigm shift in computational speed and capability but will also bring new threats in terms of cyber security, privacy, and the potential for damaging bias. Recent developments in both areas have been remarkable. Yet, advancements in their combination will require scarce human talent and the development of specialized hardware and algorithms, meaning quantum AI will remain the preserve of well-funded institutions and that widespread commercial adoption is unlikely over the next decade. The potential for negative outcomes demands the implementation of ethical and environmental frameworks to guide applications and ensure that the technology benefits humanity.



[Artificial Intelligence and Quantum Computing: The Fundamentals]

Asset Class Highlights

Corporates

Notable publications include:

- Utilities Handbook 2024: Western Europe Regulated Power
- S&P Global Ratings Revises Its North American Natural Gas Price Assumptions; Oil Price Assumptions Unchanged
- CreditWeek: Will A Decline In Corporate Defaults Come As Quickly As Their Recent Rise?
- Long-Term U.S. Tech Ratings Will Be Tested By Geopolitical And Trade Uncertainties

Financial Institutions

Over the past week, we took several rating actions and published some bulletins:

- Research Update: Jefferies Finance LLC Outlook Revised To Stable From Negative On Improved Operating Performance; 'BB-' Ratings Affirmed
- Research Update: Greece-Based Alpha Bank Rating Raised To 'BB+' On Improved Capitalization Post AT1 Issuance; Outlook Stable
- Research Update: Germany-Based DekaBank Outlook Revised To Positive On Stronger Group Support Capacity; 'A/A-1' Ratings Affirmed
- Bulletin: Nationwide Receives Regulatory Green Light For Virgin Money Acquisition
- Bulletin: Texas Capital Bancshares Inc.'s Updated Strategy Should Boost Near-Term Profitability
- Bulletin: Raiffeisen Bank International's Risks From Russian Operations Remain Elevated After Russian Court Decision

We published several commentaries including:

- U.S. Regional Banks 2Q 2024 Update: Banks Navigated Difficult Times But Challenges Remain
- European Banks Continue To Reap The Benefits Of Benign Credit Conditions
- Your Three Minutes In Banking: GCC Banks Are Well Positioned To Continue Their Strong Run
- Reduced Risk Of Government Intervention Is A Positive For Malaysia Banks
- Bottleneck In Exits Will Increase Some Alternative Investment Funds' Leverage
- Credit FAQ: How We Rate Common Private Credit Investment Vehicles

Sovereign

- Jordan Upgraded To 'BB-' On Economic Resilience; Outlook Stable

Structured Finance

- **European Structured Finance:** Here are a few "Key Takeaways" from a recent article:

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Structured Finance

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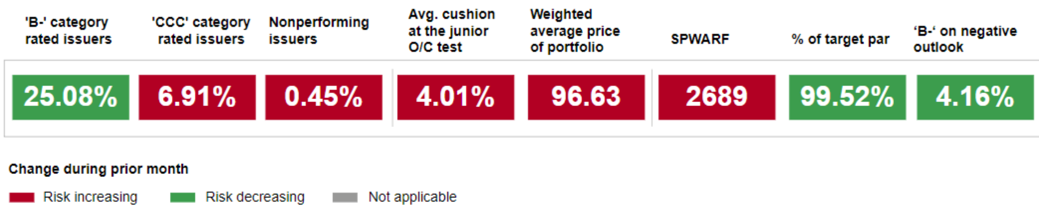
- The structured finance market is seeing strong issuance growth, led by collateralized loan obligations (CLOs) and U.K. residential mortgage-backed securities (RMBS).
- Credit performance across sectors remains largely unperturbed by higher rates and rising corporate defaults.
- Pockets of weakness include commercial mortgage-backed securities (CMBS), though there are signs of stabilization.
- The article is titled "Highlights From S&P Global Ratings' European Structured Finance Conference 2024" and published on Sept. 9, 2024.

- **Synthetic Risk Transfer Securitization:** Here are a few "Key Takeaways" from a recent article:
  - Global banks are increasingly using credit risk transfer (CRT) securitizations to help manage their regulatory capital requirements and risk exposures.
  - CRTs enable banks to offload part of an asset portfolio's credit risk to third-party investors, often synthetically through the issuance of credit-linked notes (CLNs).
  - Assessing the creditworthiness of synthetic transactions can differ from traditional cash securitizations depending on how credit events and recoveries are defined, whether and how synthetic excess spread is determined, and the transaction's legal and counterparty risk exposures.
  - Compared with traditional cash securitizations, our view of the creditworthiness of funded synthetic transactions depends more heavily on counterparties such as the originator (protection buyer), account bank, and temporary investments that collateralize the CLNs.
  - The article is titled "ABS Frontiers: The Credit DNA Of Synthetic Risk Transfer Securitizations" and published on Sept. 3, 2024.
- **Fiber Securitization:** Here are a few "Key Takeaways" from a recent article:
  - Remote work trends and broad shifts in how society communicates have led to strong demand for broadband internet connections.
  - Despite the high costs related to construction and other capital expenditures, there is a large potential market for fiber technology.
  - High financial barriers to entry suggest that securitization may be a suitable mechanism for funding fiber projects.
  - While fiber optic technology has been around for decades, fiber ABS is a relatively new sector, and there are risks that need to be better understood.
  - The article is titled "ABS Frontiers: Digging Our Way To Fiber Securitizations" and published on Sept. 9, 2024.
- **European CLO:** Here are a few "Key Takeaways" from a recent article:
  - An accumulation of higher cash balances in European CLOs has in part been driven by limited refinancing opportunities since 2021, a high prepayment rate, and restrictive conditions to reinvest.

- o Uninvested cash is an inefficiency for CLOs when maximizing present value and the internal rate of return to equity. Hence, documentation is evolving as managers seek innovative solutions to address this inefficiency and "make the cash work" in their CLOs.
- o CLO documentation may become more flexible in future as managers prepare for post-reinvestment period life.
- o The article is titled "European CLOs: Awash With Cash" and published on Sept. 3, 2024.

- **U.S. CLO:**

CLO Insights 2024 U.S. BSL Index*



*Through Aug. 21, 2024, update. SPWARF--S&P Global Ratings' weighted average rating factor.
N/A--Not applicable.

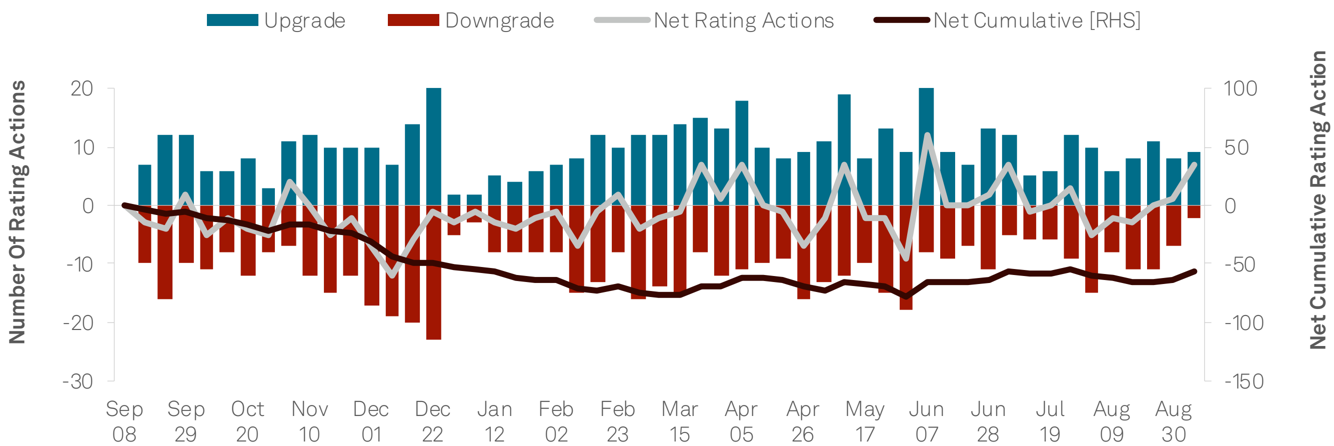
- o See "SF Credit Brief: CLO Insights U.S. BSL Index: Slight Pickup In Some Junior O/C Cushions; Middle-Market CLO Manager Overlap By EBITDA" published Sept. 3, 2024.

- **U.S. Auto ABS:** Here are a few "Key Takeaways" from a recent article:
  - o U.S. auto loan ABS prime and subprime losses increased month over month in July and relative to both the July 2023 and the July 2019 pre-pandemic levels due to abnormally low recovery rates.
  - o Sixty-plus-day delinquencies climbed to the highest ever July level since 2009 for prime and the highest ever July level for subprime.
  - o In August, we upgraded 41 classes, including 35 from subprime transactions issued in 2020 through August 2023. There were no downgrades.
  - o The article is titled "U.S. Auto Loan ABS Tracker: July 2024 Performance" and published on Sept. 5, 2024.

- **Australian Auto ABS:** Australian auto asset-backed securities (ABS) arrears fell in July. 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 1.24% in July from 1.35% a month earlier. We expect arrears to increase as unemployment rises modestly and amid ongoing cost-of-living pressures. But overall strong labor markets will keep increases restrained.

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 Sept. 6, 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. $)
4-Sep	Downgrade	Lumen Technologies Inc.	Telecommunications	U.S.	CC	CCC+	36,533
3-Sep	Upgrade	American Tower Corp.	Telecommunications	U.S.	BBB	BBB-	29,907
6-Sep	Upgrade	Hashemite Kingdom of Jordan	Sovereign	Jordan	BB-	B+	6,715
4-Sep	Upgrade	Alpha Services and Holdings	Bank	Greece	BB-	B+	3,598
4-Sep	Upgrade	Victra Holdings LLC	Retail/restaurants	U.S.	B+	B	2,884
6-Sep	Downgrade	China Vanke Co. Ltd.	Homebuilders/real estate co.	China	BB-	BB+	1,795
6-Sep	Upgrade	Burford Capital Ltd.	NBFI	Guernsey	BB	BB-	1,425
4-Sep	Upgrade	Rede D'Or Sao Luiz S.A.	Health care	Brazil	BB+	BB	1,350
5-Sep	Upgrade	Diamond Offshore Drilling Inc.	Oil & gas	U.S.	BB-	B	550
5-Sep	Upgrade	Harbour Energy plc	Oil & gas	U.K.	BBB-	BB	500

Source: S&P Global Ratings Credit Research & Insights. Data as of Sept. 6, 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**.**