S&P Global
Ratings

# The Ratings View

**September 25, 2024**



## Key Takeaways

- Economic prospects are diverging still, even as global rate cuts begin in earnest.
- Easier monetary conditions favor credit, but political and macro risks still loom large.
- We expect only a small improvement in leveraged loan default rates.


## 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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**Even as interest rates fall, economic prospects continue to diverge by region and sector.** The global policy rate-easing cycle is now in full swing following a 50-basis-point (bp) cut by the U.S. Federal Reserve in mid-September; this creates space for a swath of central banks to follow suit, particularly in emerging markets. Economies remain more resilient than we had expected, but outcomes are diverging across the main regions. The U.S. is slowing, the eurozone is recovering, and China faces property-related headwinds. Global GDP growth remains subdued. We are forecasting 3.2% expansion in 2024, and 3.1% in 2025. The bright spots are economies with strong domestic demand or exposure to the global tech cycle. The risks to our baseline remain on the downside. These include sharply lower labor demand and a spike in bond yields and geopolitical risks; terminal policy rates (and neutral rates of interest) remain key unknowns.


Economic Outlook APAC Q4 2024: Central Banks To Remain Cautious Despite U.S. Rate Relief
Economic Outlook Emerging Markets Q4 2024: Lower Interest Rates Help As Pockets Of Risk Rise
Economic Outlook Eurozone Q4 2024: Consumer Spending To The Rescue
Economic Outlook U.S. Q4 2024: Growth And Rates Start Shifting To Neutral
Economic Outlook U.K. Q4 2024: Disinflation And Rate Cuts Will Stimulate Growth


**Monetary easing is a credit positive, but political risks and diverging macro prospects still loom large.** Credit conditions for borrowers in North America look set to steadily improve—although the looming U.S. elections could make for some financial market volatility and policy uncertainty. In Europe, the ECB and the Bank of England have (cautiously) started to dial back their restrictive policy stances, and the macro credit outlook remains broadly constructive. Asia-Pacific's credit backdrop is increasingly nuanced, amid mixed growth and interest rate prospects. In emerging markets, credit conditions will likely remain supportive for borrowers as long as a soft landing continues in the U.S.

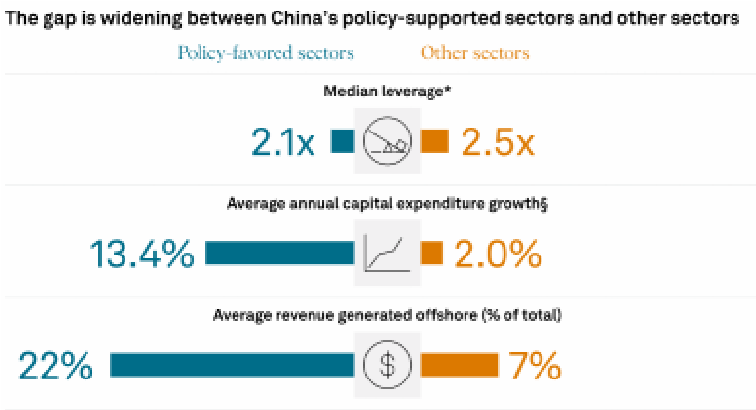

Credit Conditions Asia-Pacific Q4 2024: Mixed Signals: Growth And Rates
Credit Conditions Emerging Markets Q4 2024: Risks Loom Amid A Fragile Stability
Credit Conditions Europe Q4 2024: Turn In Credit Cycle Won't Be Plain Sailing
Credit Conditions North America Q4 2024: Set For Improvement–With Eyes On The Election


**We expect the U.S. leveraged loan default rate to remain near 1.50% through June 2025, from 1.55% as of June 2024.** Leveraged loan issuers have been benefiting from tailwinds including the buildup to interest rate cuts, strong financing conditions, and a flurry of refinancings that have reduced near-term maturities. While these factors already contributed to a 0.5-percentage-point decline in the default rate from February to June, further declines could be hard to come by.

Although benchmark interest rates are beginning to subside, rate cuts won't translate instantly to lower borrowing costs for many borrowers who must wait for loan rates to reset.

Default, Transition, and Recovery: The U.S. Leveraged Loan Default Rate Is Set To Remain Near 1.5% Through June 2025

**China policies are exerting a heavy influence on corporates**, encouraging entities toward favored initiatives such as decarbonization, technology self-sufficiency, and industrial upgrading. We believe China is moving from a reliance on debt-driven sectors such as property and infrastructure, to higher-growth sectors with global ambitions. While policy-favored sectors' returns on capital are not matching their capital expenditure, we believe such entities' more conservative approach to debt should bolster credit profiles.



Policy-favored sectors are autos, capital goods, solar/lithium batteries, technology hardware, technology software and services, and utilities. *Gross debt to EBITDA in 2023. §Growth over the past four years. Sources: S&P Global Ratings, S&P Capital IQ, Wind.

China Top 250 Corporates: Industry In Transition

**China's stimulus efforts will test the banking sector.** China's central bank said it will cut interest rates on existing mortgages by 50 bps on average, as part of a set of steps aimed at stimulating the economy. This will likely squeeze Chinese banks. We believe the measures could strain lenders' net interest margins and mortgage quality. The steps will test banks' management of funding costs and their underwriting ability, with some institutions likely to show lower profitability and diminished asset quality. This should be particularly apparent for regional banks in lower-tier cities due to their exposure to some of the country's weaker property markets.

Your Three Minutes In China Banks: Stimulus To Squeeze Interest Margins

**The refinancing of private debt with public debt was a notable new trend in Europe over the first half of 2024.** Issuers have taken advantage of tight interest rate margins in public debt markets to refinance private debt, reversing the refinancing flows of recent years. Deals have delivered a median 150 bps improvement in interest margins, based on our study of 17 issuers that refinanced private debt mainly in the broadly syndicated loan (BSL) market. The refinancing trend should continue so long as public market credit spreads remain attractive and supported by stable economic and geopolitical conditions.

European Refinancing Flows Have Flipped As Public Leveraged Debt Replaces Private

# Asset Class Highlights

## Corporates

Notable publications include:

- U.S. 2024 Elections: How Dueling Tax Plans Could Matter For Corporates Post Election
- Your Three Minutes In Cyber Security: Cyber Hygiene Can Affect Creditworthiness
- North American Utility Regulatory Jurisdictions Update: Some Notable Developments
- Default, Transition, and Recovery: The U.S. Leveraged Loan Default Rate Is Set To Remain Near 1.5% Through June 2025
- Emerging Markets Monthly Highlights: Fed Easing Sets The Stage For More Cuts
- Sector Update Global Travel Retail: Rising Air Traffic, Shrinking Consumer Budgets
- China Top 250 Corporates: Industry In Transition
- U.K. Corporate Securitization Issuers Can Withstand Higher Refinancing Rates
- Brazilian Mid- To High-Tier Homebuilders Find Their Footing After Sluggish Post-Pandemic Recovery

## Financial Institutions

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

- Research Update: Outlook On Swedbank Revised To Positive As Governance Deficiencies Largely Addressed; 'A+/A-1' Ratings Affirmed
- Research Update: Danske Bank 'A+/A-1' Ratings Affirmed; SACP Revised Upward To 'a' On Improved Risk Management; Outlook Stable
- Rating Outlooks On Three Saudi Banks Revised To Positive Following Similar Action on The Sovereign
- Research Update: Saudi Real Estate Refinance Co. Outlook Revised To Positive After Similar Action On Sovereign; 'A-' Rating Affirmed
- Research Update: Prospect Capital Corp. Outlook Revised To Negative On Strained Asset Quality; 'BBB-' Issuer Credit Rating Affirmed

We published several commentaries including:

- How We Rate Alternative Investment Funds
- Your Three Minutes In Banking: Higher-For-Longer Interest Rates In Brazil Should Weigh On Asset Quality
- Your Three Minutes In Thai Banking: Asset Quality Stress Calls For Elevated Provisioning
- Phasing Out Bank AT1--An Australian Solution To An Australian Dilemma
- Indian Fincos' Balancing Act: Will The Regulatory Burden Crimp High Credit Growth?

## Sovereign

- Jamaica Outlook Revised To Positive From Stable On Institutional Strengthening
- Ethiopia Long-Term Local Currency Rating Raised To 'CCC+'; Outlook Stable; Foreign Currency Rating Affirmed At 'SD'
- Honduras Outlook Revised To Negative From Stable On Weaker Monetary Flexibility; 'BB-/B' Ratings Affirmed

## Research Contributors


**Financial Institutions**

**Matthew Albrecht**
matthew.albrecht@spglobal.com

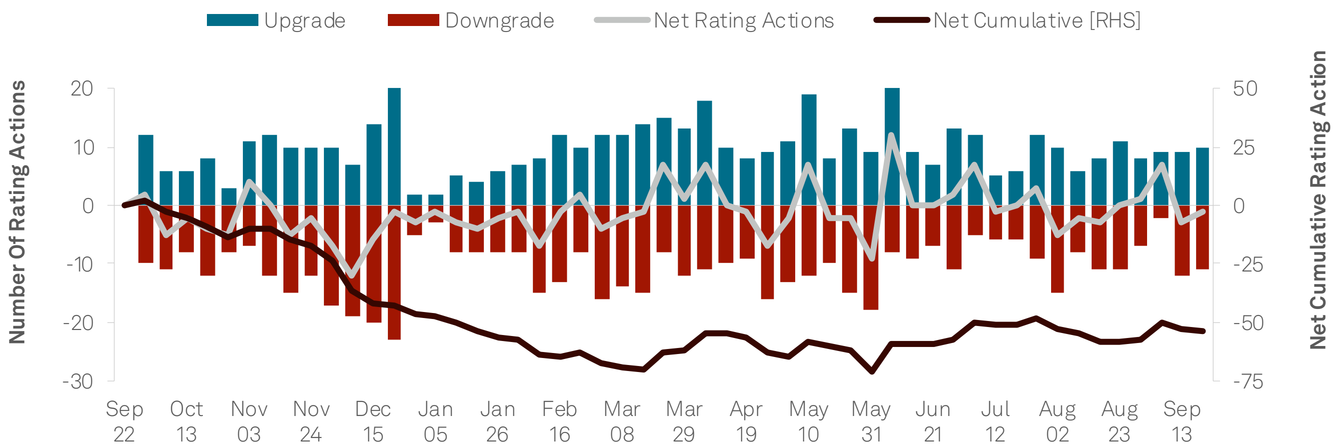
**Mehdi El mrabet**
mehdi.el-mrabet@spglobal.com

**Structured Finance**

**Winston Chang**
winston.chang@spglobal.com

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. 20, 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. $) |
|---|---|---|---|---|---|---|---|
| 19-Sep | Upgrade | Diamondback Energy Inc | Oil & gas | U.S. | BBB | BBB- | 14,965 |
| 17-Sep | Upgrade | Navient Corp. | NBFI | U.S. | BB | BB- | 6,277 |
| 17-Sep | Downgrade | Peraton Corp. | Aerospace & defense | U.S. | B- | B | 6,226 |
| 16-Sep | Downgrade | SL Green Realty Corp. | Homebuilders/real estate co. | U.S. | BB | BB+ | 5,100 |
| 18-Sep | Upgrade | Coty Inc. | Consumer products | U.S. | BB+ | BB | 4,319 |
| 18-Sep | Downgrade | E.W. Scripps Co. (The) | Media & entertainment | U.S. | B- | B | 3,111 |
| 20-Sep | Downgrade | Foundever Group SA | Media & entertainment | Luxembourg | B+ | BB- | 2,762 |
| 20-Sep | Upgrade | Nexus Buyer LLC | Consumer products | U.S. | B | B- | 2,607 |
| 20-Sep | Upgrade | Amneal Pharmaceuticals Inc. | Health care | U.S. | B+ | B | 2,544 |
| 16-Sep | Upgrade | Talen Energy Supply LLC | Utilities | U.S. | BB- | B+ | 2,540 |

Source: S&P Global Ratings Credit Research & Insights. Data as of Sept. 20, 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**.**