This Month In Credit

September 2024, Volume 19

This report does not constitute a rating action.

Positive Momentum Requires Close Inspection

(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

- High technology saw the most downgrades in August and largely cited weaker than expected operating performance through the first half.

- The number of weakest links ('B-' and lower) has fallen every month this year, bringing August's tally to its lowest in nearly two years.

- Negative bias for issuers rated 'B-' or below fell nearly 2 percentage points in August, though largely owing to withdrawals and defaults. Meanwhile, defaults increased in August and remain elevated compared to the five-year average. Year-to-date, defaults have largely been due to distressed exchanges--which remain at their highest level since 2009.

- Many major central banks have begun to lower rates, but the pace and timing of future moves remain uncertain. Improvement in regional and sectoral rating performance won't be universal.

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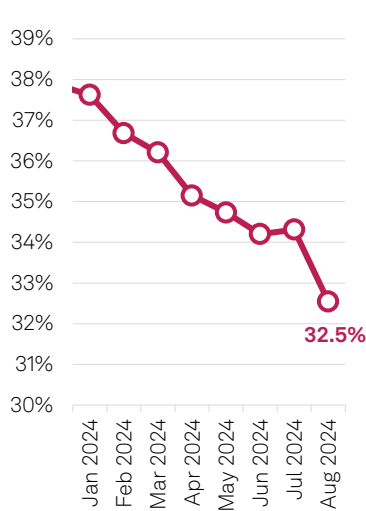
A Rising Tide

Trends for weaker credits improved in August: Negative bias for issuers rated 'B-' and below declined to its lowest since February 2023, and weakest links fell for the eighth month in a row.
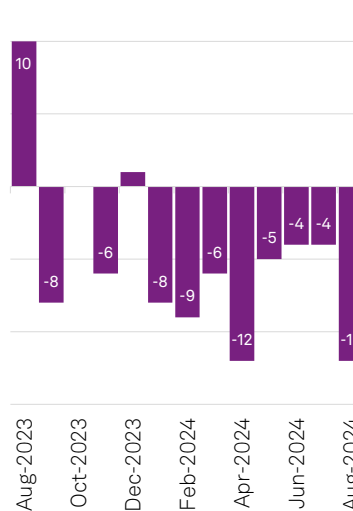
Global net bias (%)
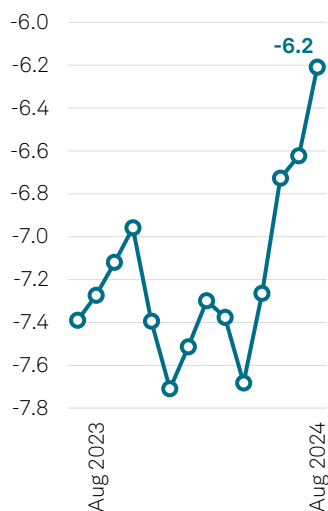
Negative bias 'B-' and lower (%)

Weakest links monthly changes (no.)

Data as of Aug. 31, 2024. Charts show 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). Weakest links include financial and nonfinancial corporate issuers rated 'B-' or lower with negative outlooks or on CreditWatch negative. Source: S&P Global Ratings Credit Research & Insights.

Credit Notes: Rate Descent Underway

Fasten your seatbelts, long-awaited rate cuts have finally arrived. The Federal Reserve cut rates by 50 basis points (bps) at its September meeting, marking the first rate cut in four years. Elsewhere, the European Central Bank cut rates for a second time this year by 25 bps, while the Bank of England kept rates unchanged in September after cutting its policy rate by 25 bps in August.

How aggressive central banks will be in reducing rates will be, in central bank speak, "data dependent." However, rate cuts are unlikely to create a tailwind for all in terms of rating performance.

Somewhat surprisingly, higher rates over the last few years have not hindered most lower-rated issuers' ability to refinance, particularly over the last 12 months. A further drop in yields will clearly be constructive, but most issuers have already refinanced their near-term debt, with nearly 80% of all speculative-grade primary issuance in the first half of 2024 related to refinancing activity.

While we have also seen several 'CCC' rated issuers successfully access markets during 2024, the fall in yields is unlikely to spur a deluge of additional 'CCC' issuance. Demand--rather than supply--drives markets, and some lower-rated issuers that have struggled to refinance will probably continue to struggle, as idiosyncratic (rather than macroeconomic) themes hold sway at the bottom end.

Falling yields also won't universally stem downgrade activity, where sector-specific trends are clear and present. Downgrades increased in August (+17%) and reached their highest level since May, three-quarters of which came from the U.S., where downgrades doubled to 26.

Most downgrades in the U.S. were from high technology and media and entertainment, which together accounted for one-third of this month's global downgrades. High technology saw the most downgrades, with **Intel Corp.** being downgraded for the second time this year, to 'BBB+'. High technology also replaced media and entertainment in August as the sector with the highest monthly defaults by debt amount.

Negative bias for issuers rated 'B-' and below declined by 1.8 percentage points in August to 32.5%, its lowest level since February 2023. While encouraging on the surface, the change in negative bias for issuers rated 'B-' and below owed to 22 exits--and not all for positive reasons.

Of the issuers rated 'B-' or below with negative outlooks or on CreditWatch negative, only six removals resulted from positive actions, while defaults and withdrawn ratings made up most of the difference (59%).

Similarly, the weakest link count continued to fall, declining by 12. This is tied for the largest decline in the last 12 months and brings the tally almost 20% below its five-year average. The count as of Aug. 31 is the lowest since October 2022.

On a sector basis, year-over-year changes in weakest links for consumer products and media and entertainment look rather favorable, but most of the removals were due to defaults rather than upward ratings momentum.

The future is looking brighter--at least for rates--but central bankers have made it clear the trajectory remains data dependent. Rating performance trends are also constructive, and most indicators are trending lower. But the devil is in the details, and credit headwinds can be region-, sector-, or issuer-specific. A controlled descent in rates (as opposed to a recession-induced drop) should be constructive for credit, but the descent will be smoother for some than others.
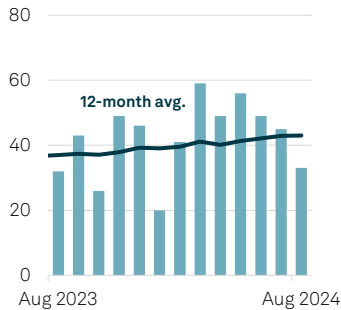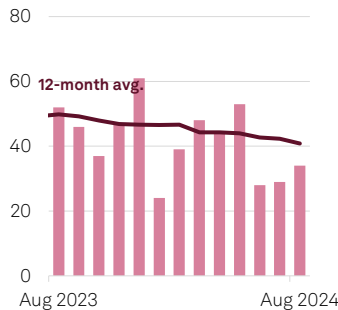
> For more accompanying data, click here

> Some lower-rated issuers that have struggled to refinance will probably continue to struggle, as idiosyncratic (rather than macroeconomic) themes hold sway at the bottom end.

> But the devil is in the details, and credit headwinds can be region-, sector-, or issuer-specific.

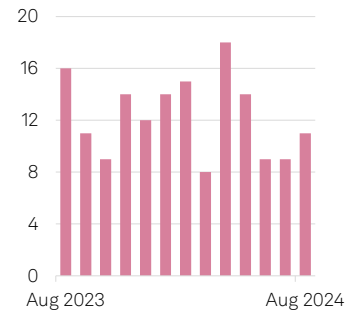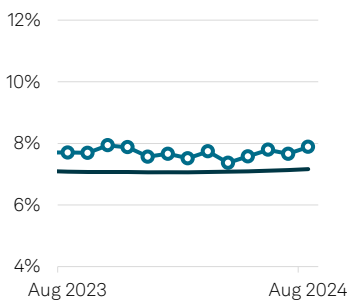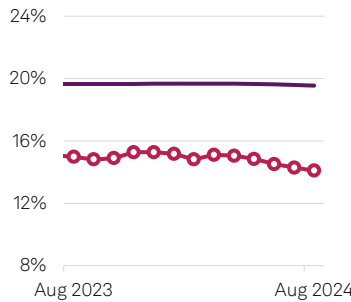# Ratings Trends Snapshot--Through Aug. 31, 2024

Upgrades (no.)

12-month avg.

Aug 2023 — Aug 2024

Downgrades (no.)

12-month avg.

Aug 2023 — Aug 2024

Downgrade ratio

5-year avg.

Aug 2023 — Aug 2024

Defaults (no.)

Aug 2023 — Aug 2024

Positive bias

Aug 2023 — Aug 2024

Negative bias

Aug 2023 — Aug 2024

Negative bias 'B-' and lower

Aug 2023 — Aug 2024

SG default rate

5-year avg.

Aug 2023 — Aug 2024
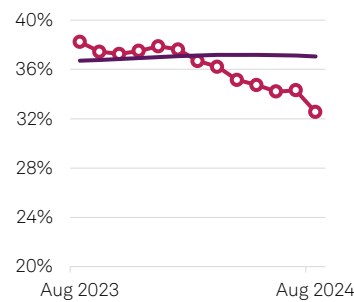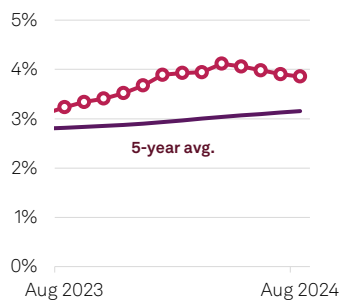
Data as of Aug. 31, 2024. Data represents rating actions and biases for sovereign, financial, and nonfinancial corporate issuers globally. Downgrade counts exclude defaults. Defaults and the speculative-grade default rate exclude sovereigns. SG--Speculative grade. Source: S&P Global Ratings Credit Research & Insights.

Credit Trends: Downgrades Pick Up Though Positive Trends Remain

- Upgrades decreased to 33 in August from 45 in July. Meanwhile, downgrades increased to 34 from 29, bucking the trend of upgrades exceeding downgrades over the previous six months.

- The drop in upgrades, combined with an uptick in downgrades, caused the downgrade ratio to increase to 51% from 39% in July, though it remains below the five-year average of 55%.

- The U.S. continued to lead downgrades in August, doubling to 26. Meanwhile, European downgrades fell by 40% month over month (to six).

- August downgrades mostly came from the high technology (six), media and entertainment (five), and utilities (three) sectors. Five of the high technology downgrades were speculative-grade and largely cited weaker than expected operating performance through the first half.

- Downgrades remained prominent at the lower end of the rating spectrum: The 'B', 'B-', and 'CCC+' rating levels accounted for 59% of downgrades.

- By debt amount, the largest downgrade was semiconductor manufacturer **Intel Corp.**, with $51.5 billion in debt outstanding as of Aug. 31. We downgraded Intel due to weaker than

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expected revenue, largely attributable to industry headwinds and competitive pressures in its core business segments.

- By debt amount, **Hyundai Motor Co.** was the largest upgrade, with $36.0 billion in debt outstanding as of Aug. 31. We upgraded it considering its improved market position and profitability.

Chart 1

While downgrades increased in August, over two-thirds of sectors have positive net rating actions year to date

Data as of Aug. 31, 2024. YTD--Year to date. CP&ES--Chemicals, packaging, and environmental services. Data represents rating actions for sovereign, financial, and nonfinancial corporate issuers globally. Net rating actions equal upgrades minus downgrades. Source: S&P Global Ratings Credit Research & Insights.

Looking forward, bias trends are improving:

- Net bias (positive bias minus negative bias) narrowed for the fourth consecutive month in August, to -6.2%, its lowest level since February 2023.

- On a sector basis, aerospace and defense saw the greatest improvement in negative bias, declining 2 percentage points to 13.8%, as we revised the outlook on one issuer to stable from negative. That said, this sector can exhibit higher month-over-month swings due to the relatively small population of outstanding ratings.

- Sovereigns saw the second largest drop in negative bias (1.7 percentage points). We lowered the rating on the **Republic of Kenya** to 'B-' with a stable outlook, from 'B' with a negative outlook, and we lowered our long-term foreign currency rating on the **Republic of Ukraine** to 'SD' (selective default), from 'CC' after it missed a coupon payment while restructuring its debt.

- Metals, mining, and steel exhibited the largest improvement in positive bias, increasing 2.0 percentage points to 7.6%.

- At the lower end of the spectrum, negative bias for issuers rated 'B-' and below fell 1.8 percentage points in August, the largest monthly decline of the year. However, only a handful

...Negative bias for issuers rated 'B-' and below fell 1.8 percentage points in August, the largest monthly decline of the year.

of the bias changes were for positive reasons, with the majority removed due to defaults or withdrawn ratings.

Chart 3

Issuers citing leverage as the highest risk for potential downgrades increased in August
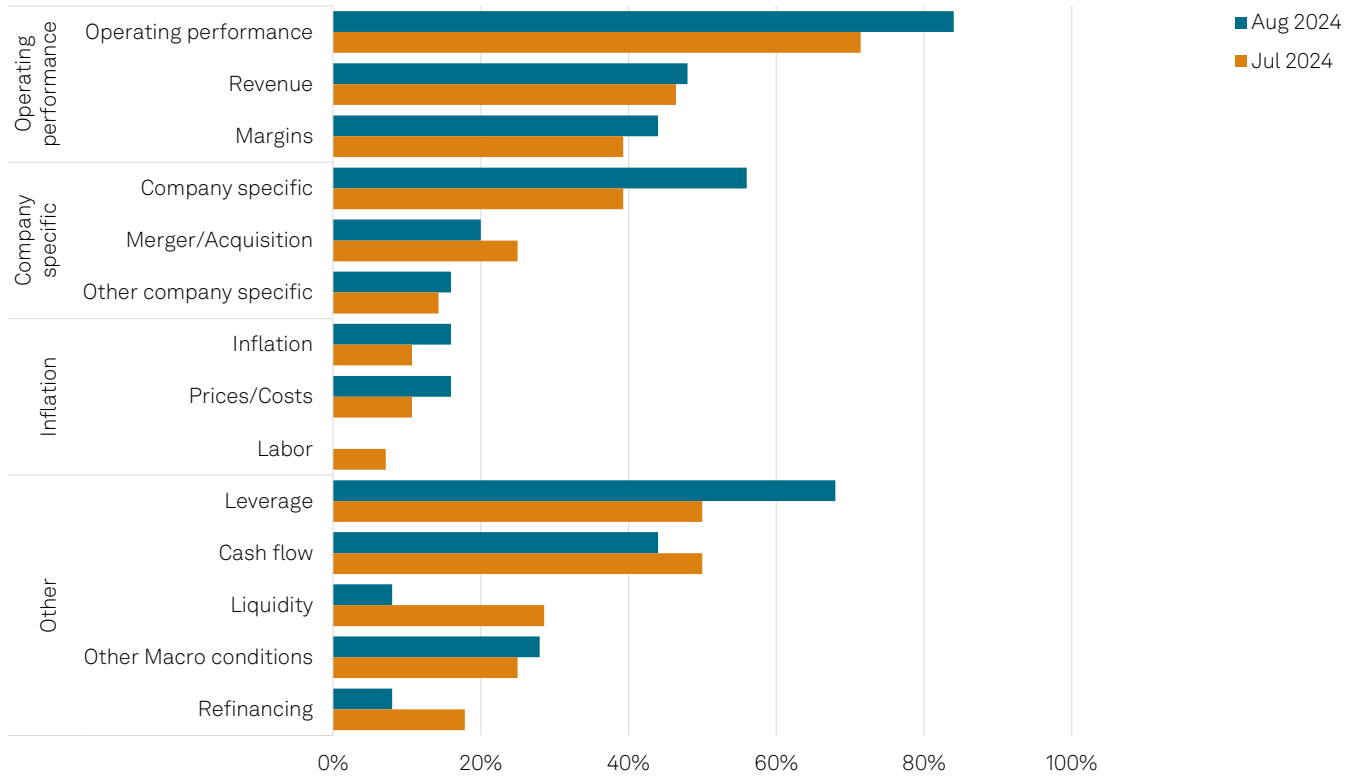
Data as of Aug. 31, 2024. Data represents rating actions and biases for sovereign, financial, and nonfinancial corporate issuers globally. (Note that more than one factor can influence a rating action). Source: S&P Global Ratings Credit Research & Insights.

- Operating performance remained the most common driver for potential downgrades in August, increasing to 84% from 71% in July.

- Leverage and interest rate concerns saw the highest month-over-month increases in August, each up 18 percentage points.

- Liquidity concerns saw the largest month-over-month decrease (21 percentage points) for potential downgrades, likely as many issuers continued to take advantage of strong investor demand to refinance upcoming debt maturities (see "Global Refinancing Update Q3 2024: Near-Term Risk Eases", July 29, 2024).

Liquidity concerns saw the largest month-over-month decrease (21 percentage points) for potential downgrades....

Chart 4

Potential downgrades (no.) by region

Canada, 23

U.S., 350

Europe, 117

Asia-Pacific, 28

EEMEA, 18

Latin America, 28
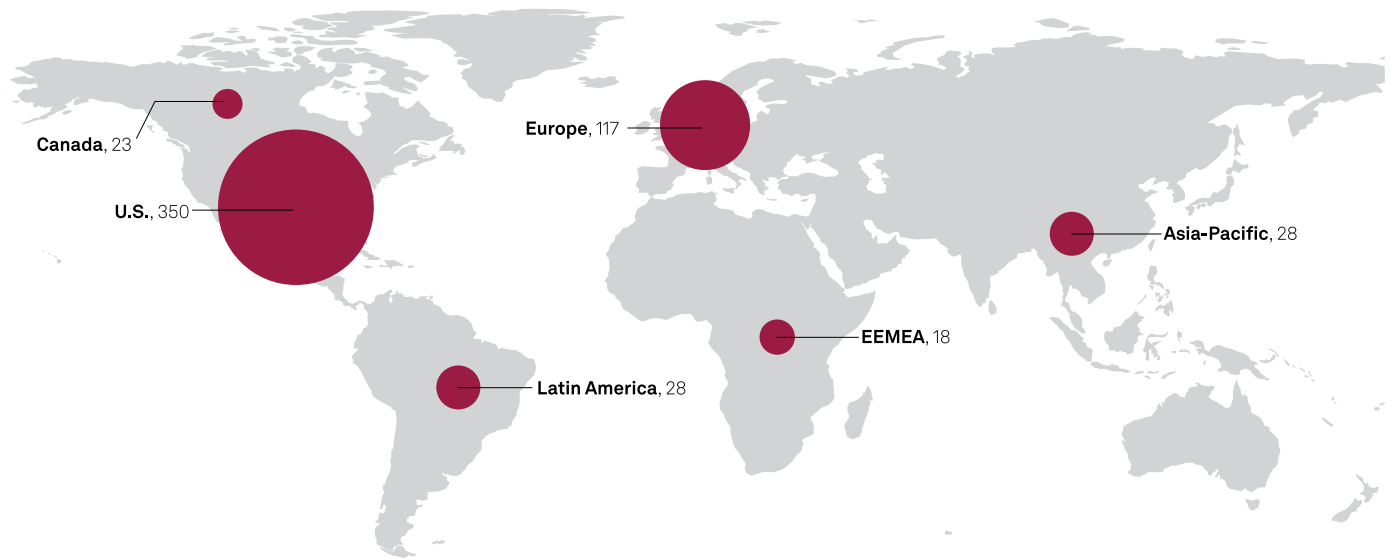
Data as of Aug. 31, 2024. Chart shows number of potential downgrades by region. EEMEA--Eastern Europe, the Middle East, and Africa. Source: S&P Global Ratings Credit Research & Insights.

Specific Credit Indicators Through Aug. 31, 2024

Potential rising stars (no.)
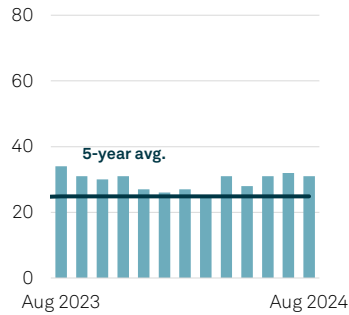
Potential fallen angels (no.)
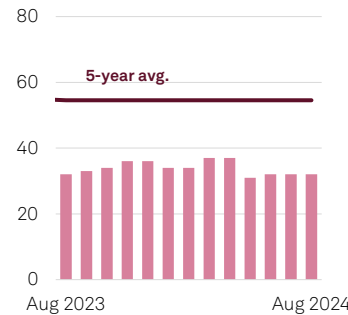
Weakest links (no.)
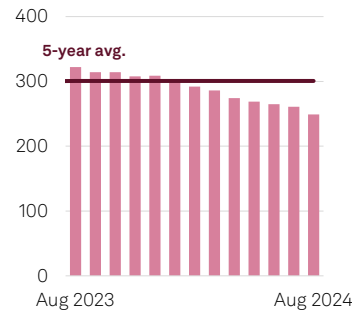
Distress ratio
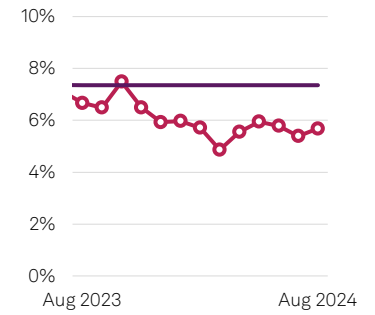
Data as of Aug. 31, 2024. Data represents sovereign, financial, and nonfinancial corporate issuers globally, except for S&P Global Ratings' U.S. distress ratio, which is defined as the number of U.S. speculative-grade issues with option-adjusted spreads of more than 1,000 basis points above U.S. Treasury bonds. Source: S&P Global Ratings Credit Research & Insights.

Fallen angels: There was just one new fallen angel in August, bringing the year-to-date total to 11, compared to 13 through August 2023. We downgraded German homebuilder/real estate issuer **D.V.I. Deutsche Vermögens- und Immobilienverwaltungs GmbH** on ongoing tight credit metrics amid a lower-than-previously anticipated EBITDA margin and higher funding costs. There were two new potential fallen angels: U.S. capital goods issuer **Leggett & Platt Inc.** and media and entertainment company **Warner Bros. Discovery Inc.**

Rising stars: There were four new rising stars, a sharp increase from just one in July. The year-to-date total now stands at 20, two shy of the total through August 2023. We upgraded **Warner Music Group Corp.**, which continues to benefit from growth in the music industry and its large, well-diversified, global portfolio. We upgraded **Uber Technologies Inc.** on improved margin and cash flow. The other rising stars were Indian auto company **Tata Motors Ltd. (Tata Sons Pte. Ltd.)** and Australian transportation issuer **Port of Newcastle Investments (Financing) Pty. Ltd.** There were two new potential rising stars: Finnish chemicals, packaging, and environmental services company **Huhtamaki Oyj** and U.S.-based utilities issuer **System Energy Resources Inc. (Entergy Corp)**.

Weakest links: The number of weakest links fell for the eighth consecutive month, to 249, down 12 from July. The monthly drop in weakest links tied with April's, led by media and entertainment, capital goods, and consumer products. All regions have now fallen below their long-term averages, with the global tally nearly 20% below its five-year average of 301.

The consumer products and media and entertainment sectors have seen the greatest year-over-year decrease in weakest links, falling by 17 and 13 issuers respectively. However, most of the removed weakest links were U.S. based and were removed due to default rather than upward ratings momentum. The consumer products sector also led additions in August.

Distressed ratio: The U.S. distress ratio ticked up only slightly in August, to 5.68% from 5.39% in July. Despite the increase, it remains well below its five-year average of 7.35%. Much of the increase can be attributed to five distressed credits from the media and entertainment: three issues from **AMC Entertainment Holdings Inc.** and two from **Gray Television Inc.** We upgraded AMC Entertainment Holdings Inc. to 'CCC+' from 'SD' after it defaulted earlier this year through a distressed exchange. We downgraded Gray Television Inc. to 'B' from 'B+' on elevated leverage.

The number of weakest links fell for the eight consecutive month, to 249, down 12 from July.

Secular pressures continue to weigh on some media and entertainment issuers, making it more costly to refinance (see "Industry Credit Outlook Update | North America: Media and Entertainment," July 18, 2024).

Defaults: Defaults reached 11, up from nine in July. Despite the slight uptick by number, monthly defaulted debt more than doubled to $14.9 billion, mostly driven by defaults from high technology and telecommunications.

The U.S. accounted for more than 70% of global defaults in August--mostly due to a rise in distressed exchanges. Distressed exchanges accounted for 82% of defaults in August globally, compared to 67% in July, and represent 55% of year-to-date defaults.

At 54, distressed exchanges remained the highest since 2009. Some lower-rated issuers are using distressed exchanges to ease near-term debt burdens and financing costs amid weaker cash flow. This may have raised the default rate above its long-term average, but the pace of distressed exchanges should ease as interest rates decline (see "The U.S. Speculative-Grade Corporate Default Rate Will Continue Its Descent, Reaching 3.75% By June 2025," 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."

Despite the slight uptick in defaults by number, monthly defaulted debt more than doubled to $14.9 billion.

At 54, distressed exchanges remained the highest since 2009.

Table 1

Potential downgrades distribution by sector and region (no.)

Sectors	Global	U.S.	Europe	Asia-Pacific	Latin America	EEMEA	Canada
Aerospace and defense	9	8	1				
Automotive	15	8	5	1	1		
Capital goods	17	13	2	2			
Consumer products	75	54	12	1	4	4	
CP&ES	50	26	16	4	1	2	1
Diversified	1				1		
Financial institutions	54	17	13	8	9	4	3
Forest PBM	11	8	3				
Health care	46	41	4				1
High technology	38	29	8	1			
Home/real estate	32	14	13	4			1
Insurance	7	4	1	2			
Media/entertainment	55	43	11				1
Metals, mining, and steel	17	6	4	1	1	1	4
Oil and gas	13	5	2		2	1	3
Retail/restaurants	34	28	4		1		1
Sovereign	8				5	3	
Telecommunications	29	14	9		2	1	3
Transportation	17	8	4	2	1	2	0
Utilities	36	24	5	2			5

Data as of Aug. 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	9	5	4				
Automotive	7	3	3			1	
Capital goods	11	6	2	1			2
Consumer products	33	19	9	1	1	1	2
CP&ES	11	5	4		1	1	
Diversified							
Financial institutions	46	14	23	5		4	
Forest PBM	12	10	2				
Health care	13	7	4			1	1
High technology	12	10	2				
Home/real estate	8	4	4				
Insurance	12	8	1	2			1
Media/entertainment	30	22	7	1			
Metals, mining, and steel	7	5	1		1		
Oil and gas	28	15	6	1	2	1	3
Retail/restaurants	12	6	5				1
Sovereign	15		6	1	2	6	
Telecommunications	9		6		1	2	
Transportation	11	1	5	2	2	1	
Utilities	19	12	3	1		1	2

Data as of Aug. 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 August

Issuer	Sector	Date	To	From	Country	Amount (bil. $)
Intel Corp.	High technology	8/16/2024	BBB+	A-	U.S.	51.5
Quadgas Midco Ltd.	Utilities	8/23/2024	BBB	BBB+	U.K.	11.2
Gray Television Inc.	Media and entertainment	8/26/2024	B	B+	U.S.	6.6
Republic of Kenya	Sovereign	8/23/2024	B-	B	Kenya	6.6
ELO	Retail/restaurants	8/1/2024	BB	BB+	France	5.6
Sinclair Inc.	Media and entertainment	8/19/2024	B	B+	U.S.	4.9
New Fortress Energy Inc.	Utilities	8/1/2024	B+	BB-	U.S.	4.4
Gainwell Holding Corp.	Health care	8/16/2024	CCC+	B-	U.S.	4.2
Newfold Digital Holdings Group, Inc.	High technology	8/23/2024	B-	B	U.S.	3.6
Xerox Holdings Corp.	High technology	8/16/2024	BB-	BB	U.S.	3.6

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

Table 4

Top 10 upgrades in August

Issuer	Sector	Date	To	From	Country	Amount (bil. $)
Hyundai Motor Co.	Automotive	8/21/2024	A-	BBB+	Korea, Republic of	36.0
Commerzbank AG	Financial institutions	8/7/2024	A	A-	Germany	31.6
Hyundai Capital America (Hyundai Motor Co.)	Financial institutions	8/22/2024	A-	BBB+	U.S.	28.9
National Bank of Canada	Financial institutions	8/26/2024	A+	A	Canada	23.1
Carvana Co.	Automotive	8/14/2024	B-	CCC+	U.S.	9.9
Uber Technologies Inc.	High technology	8/16/2024	BBB-	BB+	U.S.	7.2
SK hynix Inc.	High technology	8/7/2024	BBB	BBB-	Korea, Republic of	6.5
Tata Motors Ltd. (Tata Sons Pte. Ltd.)	Automotive	8/20/2024	BBB	BB+	India	5.0
Rolls-Royce PLC (Rolls-Royce Holdings PLC)	Aerospace and defense	8/21/2024	BBB	BBB-	U.K.	4.6
Warner Music Group Corp.	Media and entertainment	8/13/2024	BBB-	BB+	U.S.	4.2

Data as of Aug. 31, 2024. Table shows 10 largest issuer upgrades by debt amount (rated only) in August 2024. Source: S&P Global Ratings Credit Research & Insights.

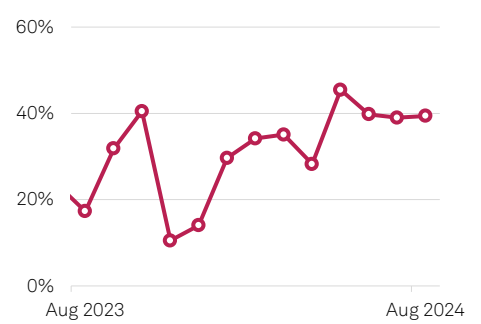# U.S. Public Finance Ratings Trends Snapshot-- Through Aug. 31, 2024
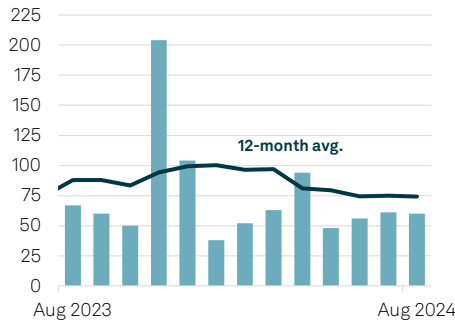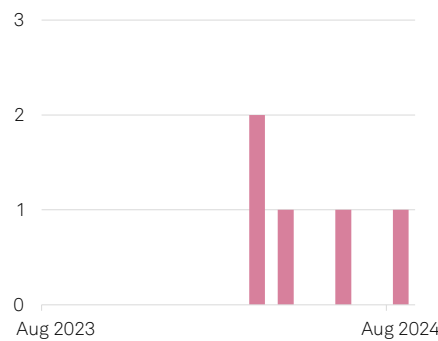
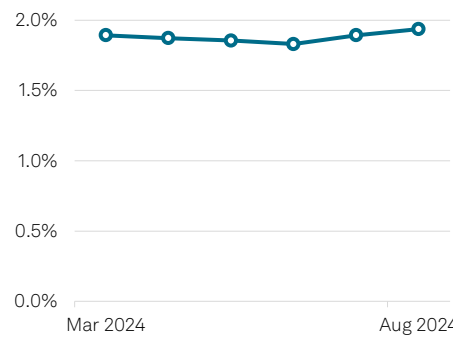### Upgrades (no.)

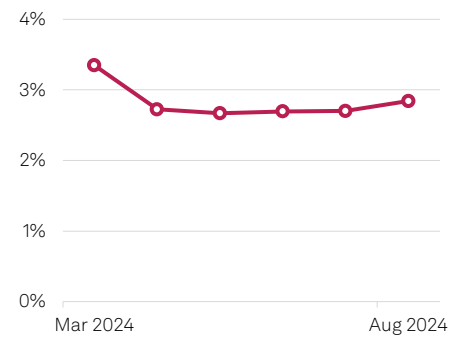### Downgrades (no.)
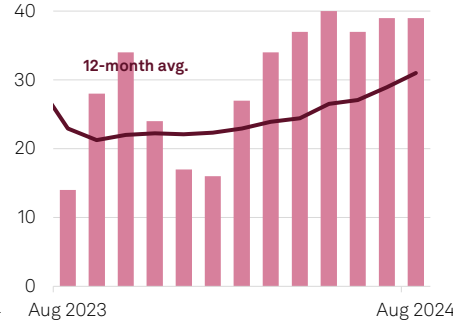
Downgrade ratio

Defaults (no.)

Positive bias

Negative bias

Data as of Aug. 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:

- Upgrades outpaced downgrades, led by 41 local government upgrades and 19 local government downgrades.

- The utilities and health care sectors continued their year-to-date trend of more downgrades than upgrades.

- There were two rising stars in August, up from one in July. We upgraded **Lincoln Park of Michigan** to 'BBB' from 'BB+' and raised the rating on **Maryland Economic Development Corp**'s senior student housing revenue bonds for **Towson University** to 'BBB-' from 'BB+'.

- There were three fallen angels in August, up from one in July. We downgraded **Clyde, Texas** to 'B' from 'A-', **Catholic Medical Center of New Hampshire** to 'BB+' from 'BBB-', and **Tulsa Pythian Manor Inc. of Georgia** to 'BB+' from 'BBB-'.

Related Research

- [Default, Transition, and Recovery: The U.S. Leveraged Loan Default Rate Is Set To Remain Near 1.5% Through June 2025](#), Sept. 20, 2024
- [Monthly Defaulted Debt More Than Doubled To $14.9 Billion In August](#), Sept. 13, 2024
- [2023 Annual Infrastructure Default And Rating Transition Study](#), Sept. 11, 2024
- [U.S. Public Finance Rating Activity, August 2024](#), Sept. 6, 2024
- [CreditWeek: Will A Decline In Corporate Defaults Come As Quickly As Their Recent Rise?](#), Sept. 5, 2024
- [U.S. Public Finance Credit Quality Continues To Improve](#), Sept. 4, 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.