The Ratings View

October 2, 2024

This report does not constitute a rating action.

Key Takeaways

- Falling policy rates should improve global credit conditions, but political risks are high.
- Our credit cycle indicator points to a credit recovery in 2025.
- Generative AI will transform pharmaceutical R&D.

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Global credit conditions Q4 2024. Refinancing activity has been strong across most ratings and sectors. Upgrades continue to outpace downgrades, and defaults have started to moderate in recent months. We expect the default rate to fall, but at a slower pace than it rose due to residual strain for the lowest-rated borrowers. Most economies are growing, led by strong momentum in the U.S. due to resilient consumer spending and increased productivity. This is partially offset by sluggish growth in Europe and a sequential slowdown in China, which has been held back by its still flagging property sector. We expect global growth to slow modestly in 2025 as the U.S. moderates, Europe's pace picks up, and China's slows further. Market turmoil in early August proved short-lived but has revealed market vulnerability to shifting sentiment given currently rich valuations. Optimism is rooted in assumptions for sustained interest rate cuts ahead, but yields are likely to stabilize at higher long-term levels than pre-pandemic era lows. The geopolitical landscape and potential trade barriers ahead remain risks.

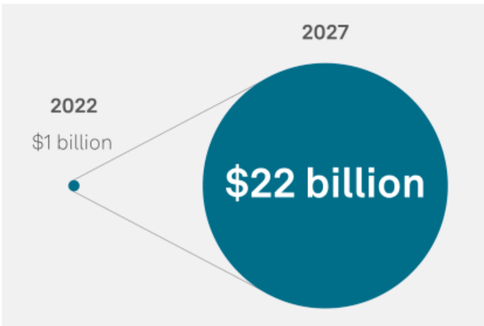
[Global Credit Conditions Q4 2024: Policy Rates Easing, Conflicts Simmering]

Our forward-looking credit cycle indicators (CCIs) continue to signal a potential credit recovery in 2025. However, an increasingly complicated macroeconomic landscape means the recovery could play out differently across markets and sectors. Recovering earnings and improving market conditions keep momentum positive for corporates, while household credit in most markets is still riding a correction and house prices are soft. Credit recovery prospects could also differ across geographies as they navigate macroeconomic and geopolitical uncertainties.

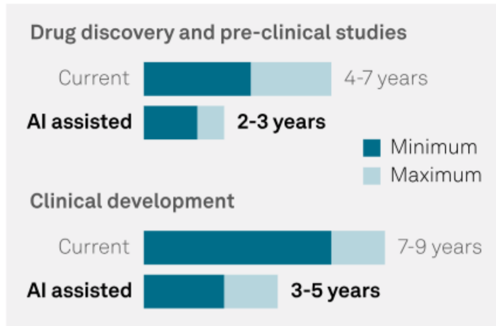
[Credit Cycle Indicator Q4 2024: Credit Recovery Prospects Are Mixed Across Markets]

Generative AI will transform pharmaceutical research and development by strengthening innovation, offering cost efficiencies, and speeding the traditionally ponderous research-to-market cycle. Large pharmaceuticals companies' significant investments in AI could establish enduring competitive advantages over smaller rivals. The benefits of AI will likely take years to filter through to treatments (and pharmaceutical company revenues) and remain dependent on further investment, regulatory evolution, and effective change management.

Global pharmaceuticals' AI budgets



Faster development of new medicines



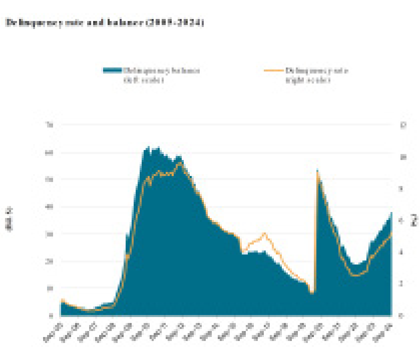
Sources: Boston Consulting Group, S&P Global Ratings.

AI In Pharmaceuticals Promises Innovation, Speed, And Savings

We see diverging prospects across economies and sectors in Asia-Pacific. We anticipate China's growth will slow further in 2024-2025. On the other hand, the region's emerging markets are riding a solid export recovery. Easing policy rates should improve financing for the region's borrowers. China's sticky property downturn and slower consumption are compounding drags on confidence. These are spilling over to downstream sectors and producers reliant on Chinese demand (e.g., building materials, chemicals, and consumer related segments). While the latest round of monetary stimulus could support liquidity in the system, cautious lending appetite and household spending might limit uplift. The net rating outlook bias for Asia-Pacific issuers is steady at negative 2% as of end-August, but sector prospects remain skewed. The chemicals, transportation cyclical, building materials and real estate sectors have the largest negative outlook percentages. Gaming continues to outperform.

Industry Credit Outlook: Asia-Pacific Sector Roundup Q4 2024: The Great Divide

The U.S. CMBS overall delinquency rate rose 34 bps month over month to 5.2% in September.



By balance, delinquency rates increased for retail (85 bps to 6.6%), office (55 bps to 8.2%), lodging (34 bps to 5.4%), and multifamily (19 bps to 4.2%); and decreased for industrial (8 bps to 0.3%). Special servicing rates rose for lodging, office, retail, multifamily, and industrial loans. The share of loans that were either modified or extended increased 9 bps month over month to 10.4%.

SF Credit Brief: U.S. CMBS Delinquency Rate Rose 34 Bps To 5.2% In September 2024; Office Rate Surges Past 8.0%

Asset Class Highlights

Corporates

Notable publications include:

- Asia-Pacific Sector Roundup Q4 2024: The Great Divide
- China Natural Gas: Slip In Policy Pecking Order Will Hit Growth
- This Month In Credit: Positive Momentum Requires Close Inspection (September 2024)
- This Month In Credit: 2024 Data Companion

Financial Institutions

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

- Bulletin: Commerzbank's Creditworthiness Could Come Under Pressure If UniCredit's Acquisition Plans Materialize
- Bulletin: DOJ's Antitrust Suit Adds To Visa's Legal Risks; Its Business And Financial Strengths Provide Protections
- Research Update: Virgin Money UK And Clydesdale Bank Upgraded After Acquisition By Nationwide; Outlook Stable
- Research Update: Jefferies Finance 'BB-' Rating Affirmed; New Senior Secured Facilities Rated 'BB-'; Unsecured Notes Downgraded To 'B+'
- Research Update: HSBC Bank Bermuda Ltd. 'A-' Issuer Credit Rating Affirmed; SACP Revised To 'bbb' From 'bbb-' On Improved Risk Profile
- Research Update: U.K.-Based Zeus Bidco Ltd. (Zenith Group) Downgraded To 'B' On Increasing Financial Risks; Outlook Negative
- Research Update: Inversiones Atlantida And Banco Atlantida Outlooks Revised To Negative After Same Action On Sovereign; Ratings Affirmed

We published several commentaries including:

- Banking Industry Country Risk Assessment Update: September 2024
- Ratings Component Scores For The Top 200 Banks Globally--September 2024
- Rating Component Scores For U.S., Canadian, And Bermudian Banks (September 2024) Your Three Minutes In U.S. Banking: What To Watch Regarding Regulation In The Upcoming Election
- European Banks' Resolution Story Moves To The Next Chapter
- Your Three Minutes In China Banks: Stimulus To Squeeze Interest Margins
- Your Three Minutes In Vietnamese Banking: Typhoon Debt Relief Measures Could Crimp Profitability

Sovereigns

- Oman Upgraded To 'BBB-' From 'BB+' On Continued Public Sector Deleveraging; Outlook Stable
- Rising Demand For Its Dollar Is A Growing Credit Strength For 'AAA' Rated Canada
- Japan's Rate Hikes Could Stabilize Sovereign Support

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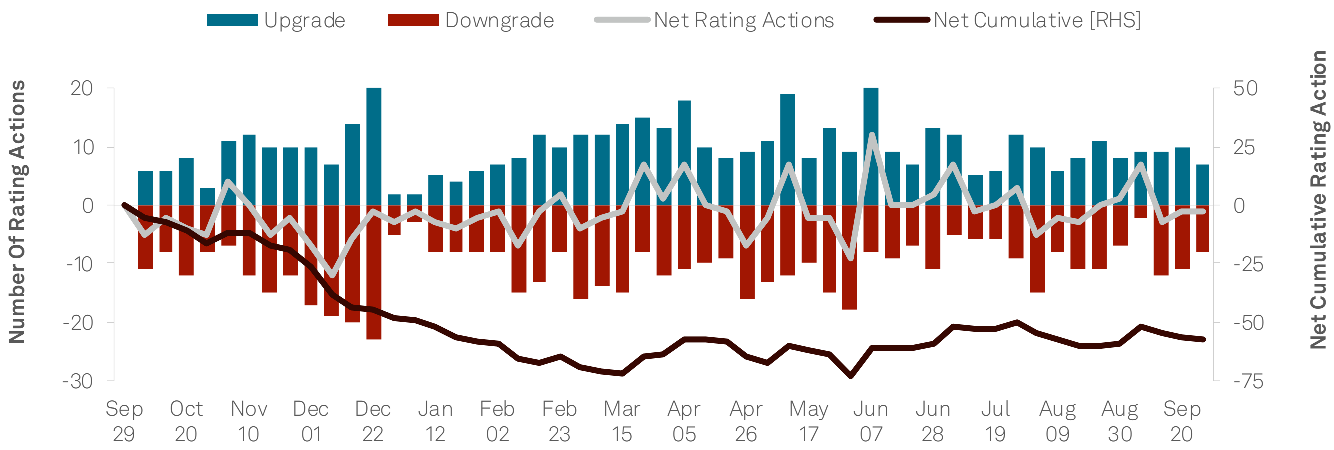
Chart 1

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. 27, 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. $)
23-Sep	Downgrade	Belron Group S.A.	Media & entertainment	Luxembourg	BB-	BBB-	15,331
27-Sep	Downgrade	Radiate Holdco LLC	Telecommunications	U.S.	CCC	CCC+	9,940
23-Sep	Upgrade	Dynasty Acquisition Co. Inc.	Aerospace & defense	U.S.	B	B-	8,264
27-Sep	Upgrade	Sultanate of Oman	Sovereign	Oman	BBB-	BB+	5,742
24-Sep	Upgrade	American Builders & Contractors Supply Co. Inc.	Forest products & building materials	U.S.	BB+	BB	2,578
24-Sep	Downgrade	Cuppa Bidco B.V.	Consumer products	Netherlands	CCC+	B-	2,533
26-Sep	Upgrade	Glatfelter Corp.	Forest products & building materials	U.S.	B+	CCC+	1,585
25-Sep	Upgrade	AdaptHealth Corp.	Health care	U.S.	BB-	B+	1,450
23-Sep	Upgrade	ASGN Inc.	Media & entertainment	U.S.	BB+	BB	1,049
27-Sep	Downgrade	CD&R Vialto UK Intermediate 3 Ltd.	Media & entertainment	U.K.	CCC-	CCC+	969

Source: S&P Global Ratings Credit Research & Insights. Data as of Sept. 27, 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**.**