ESG In Credit Ratings April 2024

First Month Since 2020 Without Positive ESG-Related Rating Actions

S&P Global Ratings

This report does not constitute a rating action.

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By the numbers: March 2024 ESG-related credit rating actions

Total ESG-driven credit rating actions, March 2024 versus February 2024

Increase | Decrease | Positive change | Negative change

14 All credit rating actions

0 Positive rating actions

14 Negative rating actions

March 2024 positive rating action breakdown

Key factor 0

Key sector 0

Key region 0

March 2024 negative rating action breakdown

Key factor 5 Risk management, culture, and oversight

Key sector 8 U.S. public finance

Key region 13 North America

ESG-related rating actions are those where ESG credit factors were a key driver of the decision to change a credit rating, outlook, or CreditWatch status. S&P Global Ratings considers ESG credit factors to be those ESG factors that may influence the capacity and willingness of an issuer to meet its financial commitments. Rating actions include changes in ratings, CreditWatch placements, and outlooks, in March 2024. ESG--Environmental, social, and governance.
Source: S&P Global Ratings.

Key Takeaways

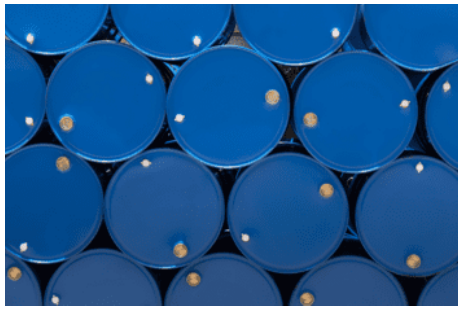
- All 14 of March's ESG-related rating actions were downgrades or negative outlook and CreditWatch changes. This is the first month without positive ESG-related rating actions since May 2020.
- Governance factors remained the primary driver with nine related rating actions. Risk management, culture, and oversight was the primary underlying ESG factor with five. Governance factors have driven 80% of ESG-related rating actions year to date.
- The downgrade of the Region of Brussels-Capital was the first ESG-related rating action this year on an international public finance issuer, driven by governance factors. It was also the only one on a European issuer in March--all others were on North America-based entities.

ESG Research Highlights

Sustainability Insights Research: Risky Business: Companies' Progress On Adapting To Climate Change

April 3, 2024

Physical climate risks are on the rise, but progress on adapting to them still varies, leaving some financial and nonfinancial corporates vulnerable. Only about one-fifth of companies in the sample disclosed an adaptation plan. Some companies are not prioritizing adaptation planning, which could ultimately increase the cost to adapt and the amount of change required. Sectors indirectly exposed to physical climate risks--such as communications services, information technology, and consumer discretionary--could see rising exposure, absent adaptation. Regulation and disclosure requirements could speed up climate adaptation planning.



E-fuels: A Challenging Journey To A Low-Carbon Future

March 25, 2024

Synthetic fuels, or e-fuels, could support decarbonization objectives across numerous sectors. We think aviation and shipping will be the main users of future e-fuels. Policy moves in Europe will likely create a market for these fuels, but huge investment will be required to supply the inputs that make them a low-carbon solution.

Economic models for e-fuels remain uncertain for now. High input-energy requirements present a significant cost barrier for both producers and consumers. There are material technological hurdles still to overcome and, beyond carbon, e-fuels still emit other pollutants. Other environmental exposures could persist.

We see limited credit impact in the next decade given modest regional ambitions regarding e-fuel use. They will have time to plan, but aviation and shipping companies in Europe might need to make difficult choices in the next decade as regulations take effect.

Energy Transition: Competitive Advantages Shield GCC Sovereigns

March 8, 2024

Our analysis of sovereigns in the Gulf Cooperation Council (GCC) under two hypothetical oil price scenarios suggests they will prove resilient to the transition away from hydrocarbons over at least the next decade.

Oil and gas production costs that are among the lowest in the world, and the potential to increase output, makes the region an attractive supplier, even as global oil's share of the energy mix declines in line with achieving net zero by 2050.

Of the six GCC sovereigns in our sample, Abu Dhabi, Qatar, and Saudi Arabia's key ratios indicated greater stability through both price scenarios, while Kuwait, Oman, and Bahrain exhibited more volatility.

Chart Of The Month

Sustainability Insights Research: Risky Business: Companies' Progress On Adapting To Climate Change

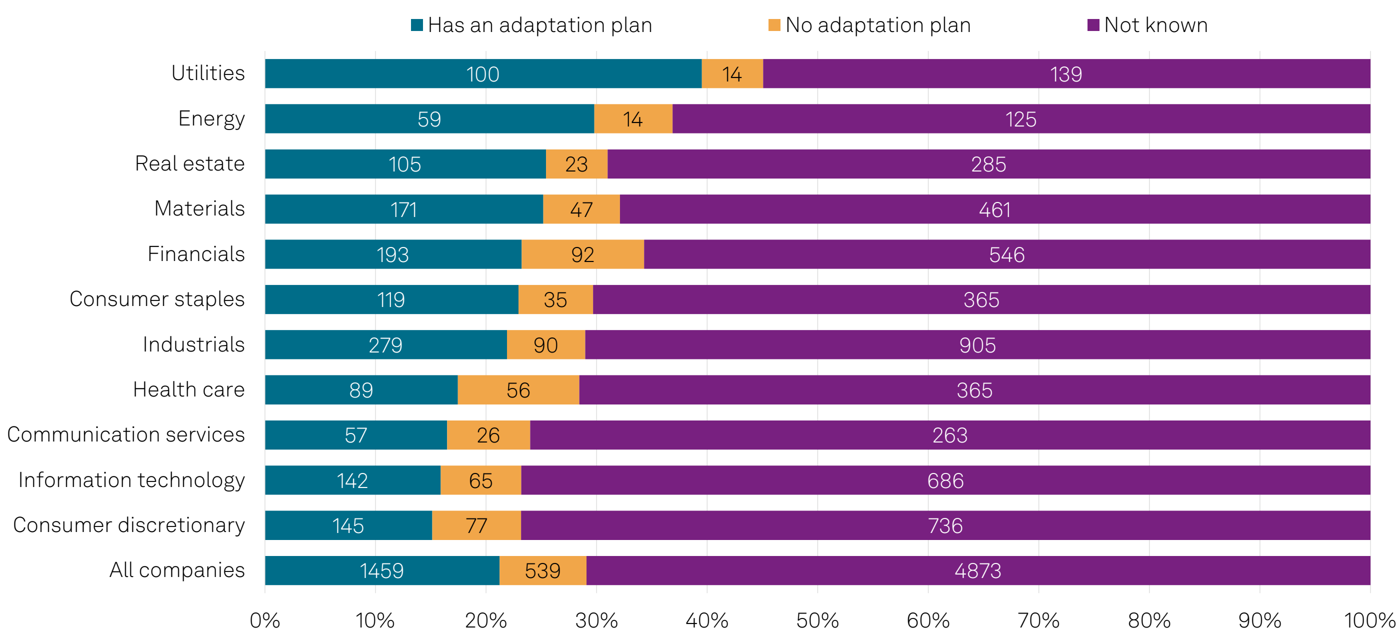
Companies face rising physical climate risks. Extreme weather events and chronic physical climate risks are worsening in many regions. For example, the period 2011-2020 was the warmest on record, affecting most of Europe, southern Africa, and parts of North America and Asia-Pacific, as reported by the World Meteorological Organization. In the U.S., the number of climate disasters costing a billion dollars or more increased to 13.1 events per year in 2010-2019 from 3.3 per year in 1980-1989, and the average for 2021-2023 is 22 events per year, according to the National Oceanic and Atmospheric Administration.

The rising frequency and severity of physical climate risks can pose a potential threat to companies. By 2030, if mitigation is not stepped up, the number of climate-related disasters could be 40% higher than in 2015. This is according to a 2022 UN Office for Disaster Risk Reduction report, which also estimates there could be about 250 events globally per year in such a scenario.

Only 21% (1,459) of the 6,871 companies responding to the 2022 S&P Global Sustainable1 Corporate Sustainability Assessment (CSA) reported they have an adaptation plan ("Adaptation Planning Is The Next Step For Companies To Prepare For Climate Risk," Feb. 21, 2023).

Only 1 in 5 companies has an adaptation plan to address physical climate risks

Number and percentage of companies by sector that have adaptation plans, based on CSA 2022 responses



Data as of April 5, 2023. "Not known" includes companies that responded "not known" in the CSA; companies that did not answer the physical risk adaptation plan question or left the question blank; and companies whose adaptation plans could not be verified using publicly available sources. "No adaptation plan" includes companies that responded "no" or "not applicable" in the CSA and companies for which publicly available sources indicated there is no adaptation plan. Results based on responses from 6,871 companies responding to S&P Global Sustainable1's Corporate Sustainability Assessment (CSA). Source: S&P Global Sustainable1.

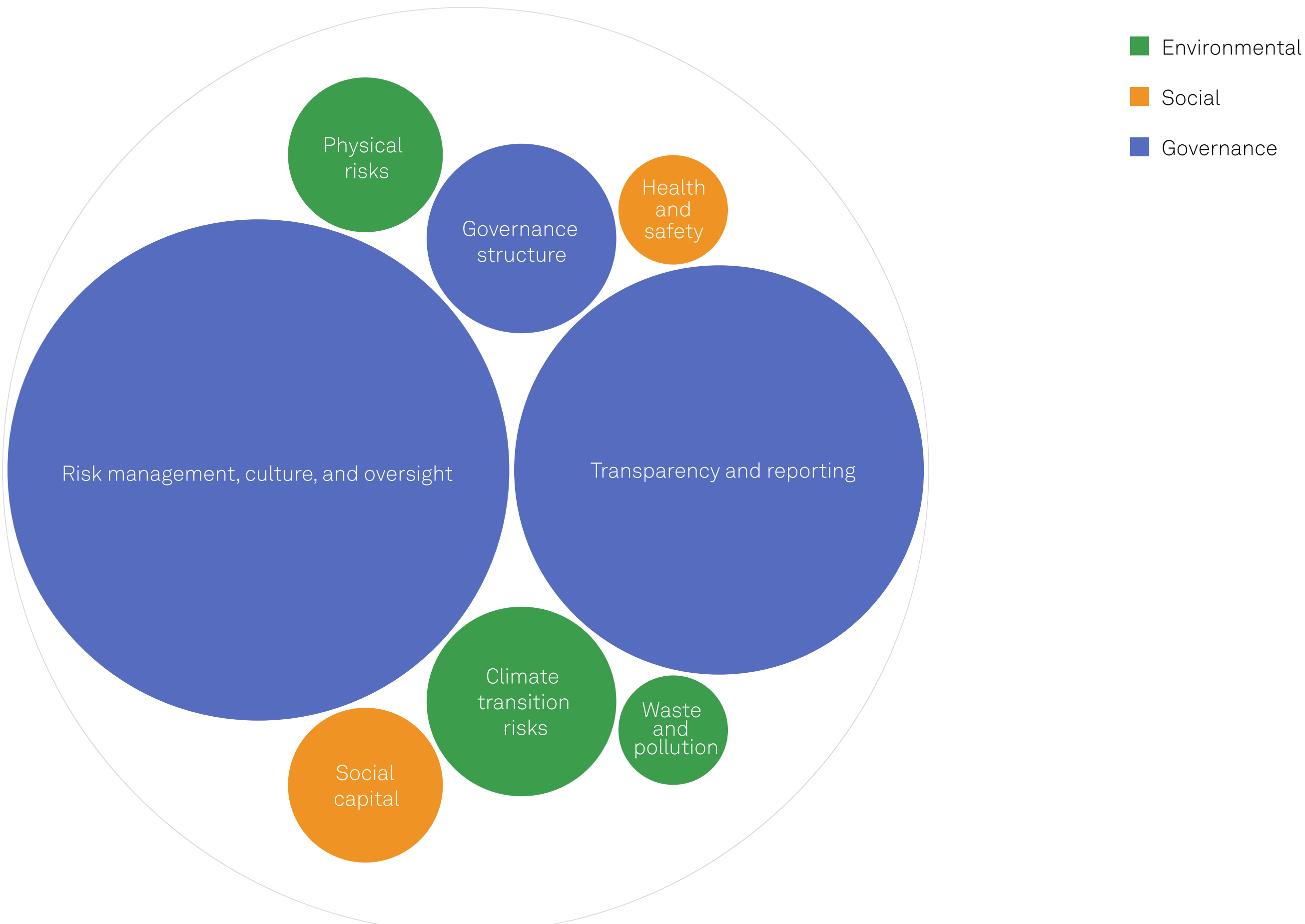
For more, see "Risky Business: Companies' Progress On Adapting To Climate Change," published April 3, 2024.

2024 ESG Credit Rating Actions

S&P Global Ratings includes a reference in its credit rating rationales when one or more of the below ESG factors were a key driver behind a change to the credit rating, outlook, or CreditWatch status. We consider ESG credit factors as those ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. They are not an assessment of an entities' sustainability profile or ESG performance. This newsletter provides additional data and insights on ESG credit factors that have been key drivers behind changes to our credit ratings.

Leading factors cited in ESG-related rating actions

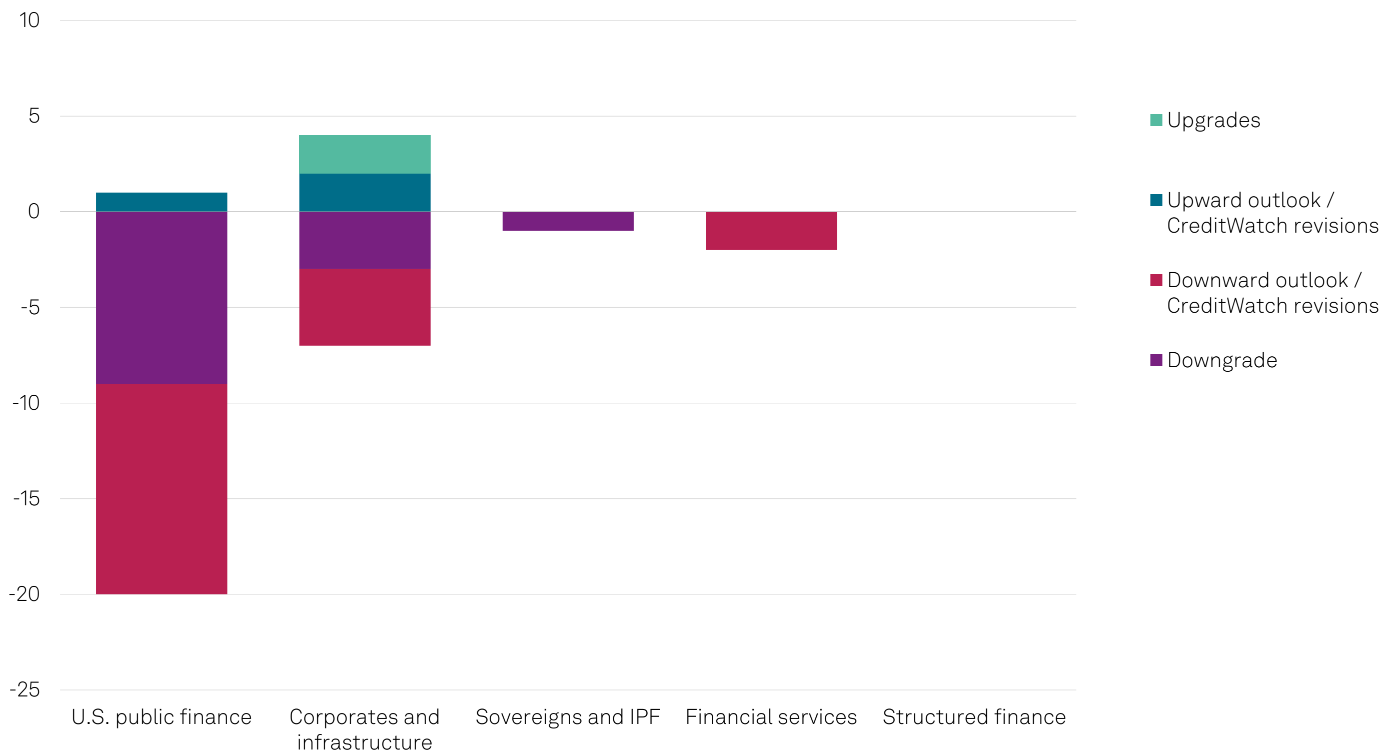
Year-to-date 2024



Data as of March 31, 2024. ESG tagged factors as a proportion of total tagged factors. Bubble size is determined by the occurrence of factors between January and March 2024. In instances where multiple ESG factors were recorded as the main drivers of the credit rating action, each is counted for the purposes of this infographic. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG-related credit rating actions by type

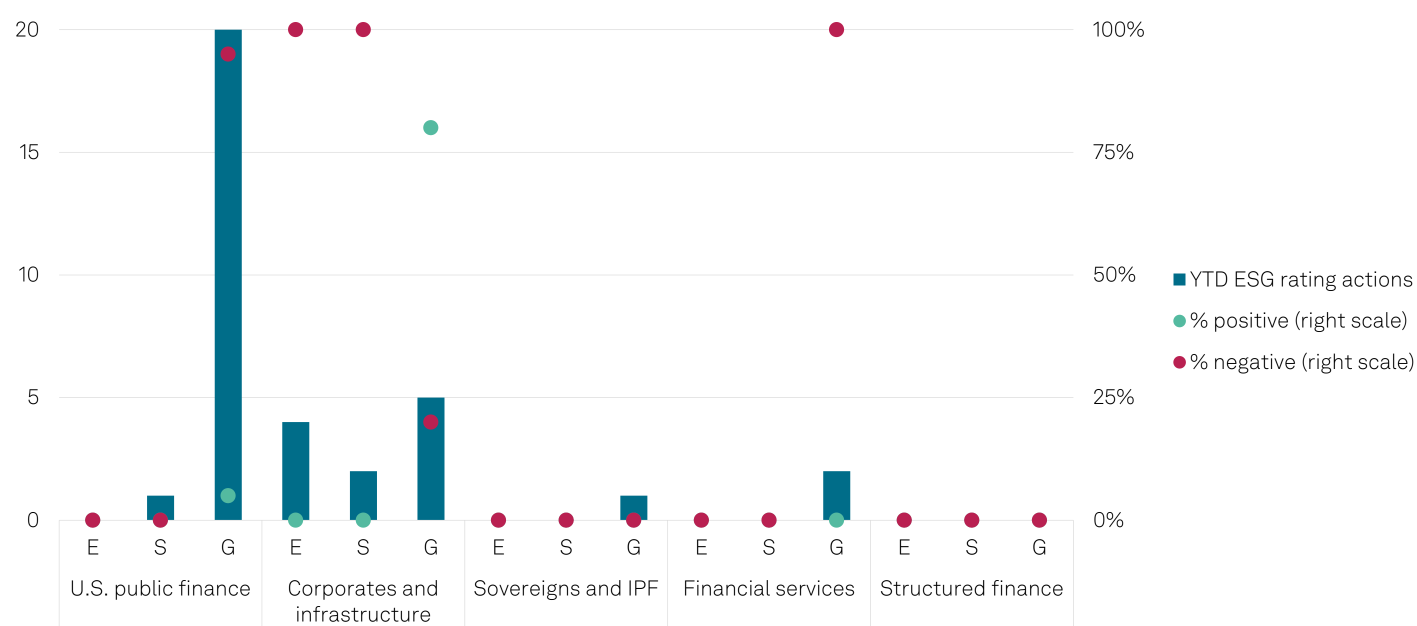
Number of actions, year-to-date



Data as of March31, 2024. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. Upgrades and upward outlook/CreditWatch revisions are shown as positive numbers, while downgrades and downward outlook/CreditWatch revisions are shown as negative numbers. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG-related credit rating actions by sector and factor

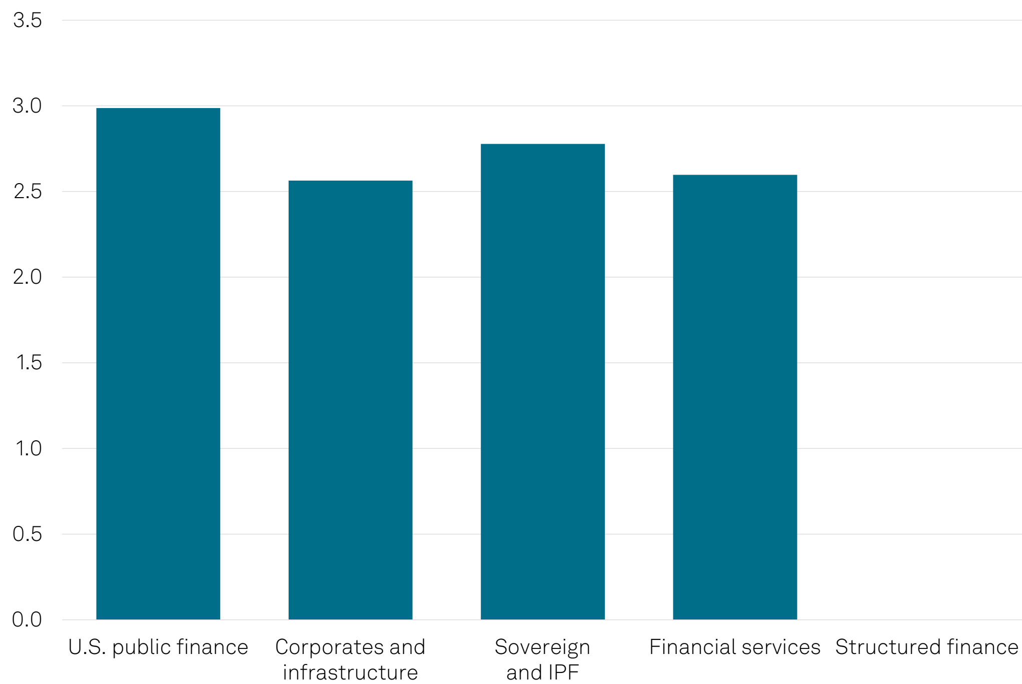
Number of actions, year-to-date



Data as of March 31, 2024. Rating actions include rating, CreditWatch, and outlook changes. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. ESG--Environmental, social, and governance. IPF--International public finance. YTD--Year-to-date.
Source: S&P Global Ratings.

ESG-related credit rating actions

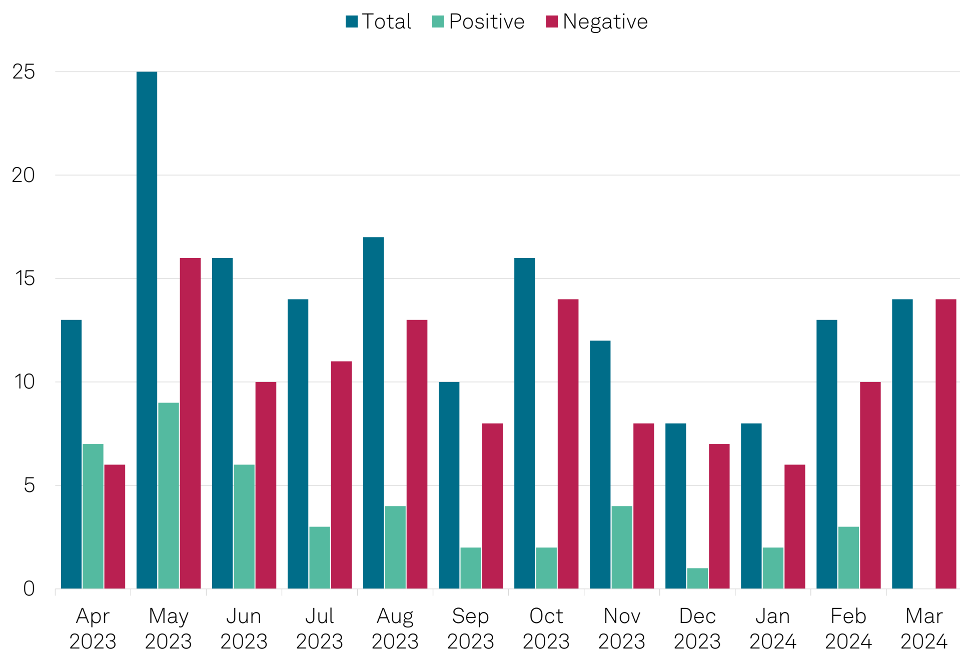
% of total, year-to-date



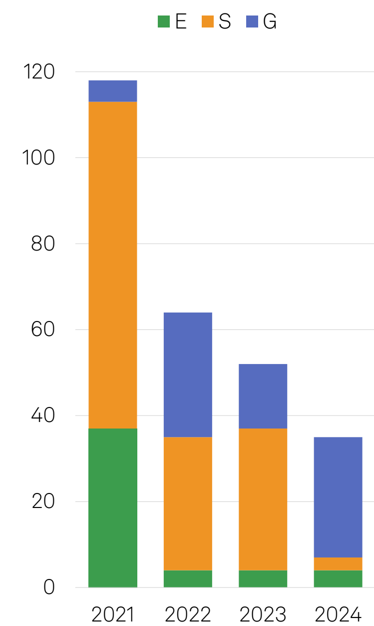
Data as of March 31, 2024. Total rating actions exclude affirmations with no outlook change, withdrawals, and new ratings, including instances where multiple rating actions exist. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

ESG-related credit rating actions

Number of actions, trailing 12 months



Number of actions, year-to-date



Data as of March 31, 2024. Positive actions include upgrades, CreditWatch positive placements, upward outlook revisions, and upgrades with outlook revisions. Negative actions include downgrades, downward outlook revisions, CreditWatch negative placements, and downgrades with outlook revisions. ESG--Environmental, social, and governance.
Source: S&P Global Ratings.

Appendix

ESG-related credit rating actions

Year-to-date

	U.S. public finance	Corporates and infrastructure	Sovereigns	International public finance	Financial services	Structured finance	Total
Downgrade	9	3	0	1	0	0	11
CreditWatch negative	9	0	0	0	0	0	9
Downward outlook revision	2	4	0	0	2	0	8
Upgrade	0	2	0	0	0	0	2
Upward outlook revision	1	2	0	0	0	0	3
CreditWatch positive	0	0	0	0	0	0	0
Total ESG-related rating actions*	**21**	**11**	**0**	**1**	**2**	**0**	**35**
Environmental§	0	6	0	0	0	0	6
Social§	1	2	0	0	0	0	3
Governance§	23	9	0	1	5	0	38
Total ESG-tagged factors§	**24**	**17**	**0**	**1**	**5**	**0**	**47**

Data as of March 31, 2024. *Rating actions include rating, CreditWatch, and outlook changes between January and March 2024. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. §The sum of ESG factors affecting rating actions may exceed total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance.
Source: S&P Global Ratings.

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