

## Ratings Weekly Digest

September 8, 2021

### Key Takeaways

- China's zero-tolerance approach to COVID may amplify growing risks for Chinese corporates.
- U.S. default trends and prospects remain favorable, but the large proportion of weaker credits is still a concern.
- Hurricane Ida is the latest in a series of climate-related events adding to pressure on global reinsurance. The sector outlook remains negative.

## Key developments

**COVID-19's latest resurgence in China came at a time when risks are rising for Chinese corporates.** Higher leverage, weaker cash flows, tighter liquidity, and volatile financing conditions are occurring amid unprecedented distress events and regulatory actions. S&P Global Ratings believes China's zero-tolerance approach to COVID may exacerbate these stresses and amplify worsening ratings momentum if outbreaks continue. We anticipate the government will continue its push against excessive leverage and market abuse. Unlike last year, we don't expect a large stimulus to boost corporates in the near term. As a result, corporate risks will remain elevated as the pandemic persists, casting a shadow over the second half of this year. See [here](#) for more.

**U.S. corporate defaults through August were at their lowest since 2014.** We forecast the U.S. speculative-grade default rate [will fall to 2.5% by June 2022](#) as the economic recovery continues, vaccine rollouts persist, credit quality stabilizes, and investors remain receptive to speculative-grade debt in their search for yield. We expect the S&P/LSTA Leveraged Loan Index issuer default rate (which has a narrower definition) to remain low, [reaching 1% in June 2022](#). That said, this is [no time for complacency](#). Receptive markets in the wake of COVID-related policy stimulus have contributed to higher leverage and a larger proportion of issuers rated 'B-' or lower than at any time in history. While economic and financial conditions remain favorable, it is unlikely that there will be a large wave of upgrades for these weaker issuers anytime soon. This could produce a higher default rate over the longer term and, based on our experience, implies a higher default rate than our current projection.

**In the latest in a series of climate-related events, Hurricane Ida hit Louisiana in late August,** one of the strongest storms on record to hit the U.S. Initial insured loss estimates range from \$15 billion to \$25 billion. [Global reinsurers will be significantly exposed to the damage caused](#) but losses will likely result in an earnings event rather than a capital event. We view the sector as continuing to benefit from robust capitalization. Nonetheless, 2021 could be another expensive natural-catastrophe loss year for the reinsurance industry. Global reinsurance didn't earn its cost of capital in 2017-2020 due to COVID-19 losses, natural-catastrophe losses, adverse trends in certain U.S. casualty lines, and fierce competition. As a result, our sector view of the global reinsurance sector remains negative. Among U.S. public finance entities, [the potential for the most pronounced rating effects](#) from Hurricane Ida are on local governments and municipal and cooperative electric, water, and wastewater utilities.

### Contents

- 1 Key developments
- 2 Credit Markets Update
- 6 Asset Class Trends

### Global Research

#### Gareth Williams

London  
gareth.williams  
@spglobal.com  
+44-20-7176-7226

#### Alexandra Dimitrijevic

London  
alexandra.dimitrijevic  
@spglobal.com  
+44-20-7176-3128

#### Gregoire Rycx

Paris  
gregoire.rycx  
@spglobal.com

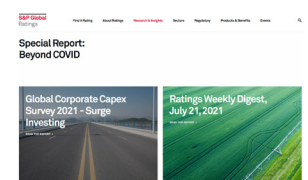
#### Joe Maguire

New York  
joe.maguire  
@spglobal.com

### Links

Research updates, including a summary of related ratings actions, are available at:

<https://www.spglobal.com/ratings/en/research-insights/topics/special-report-beyond-covid>

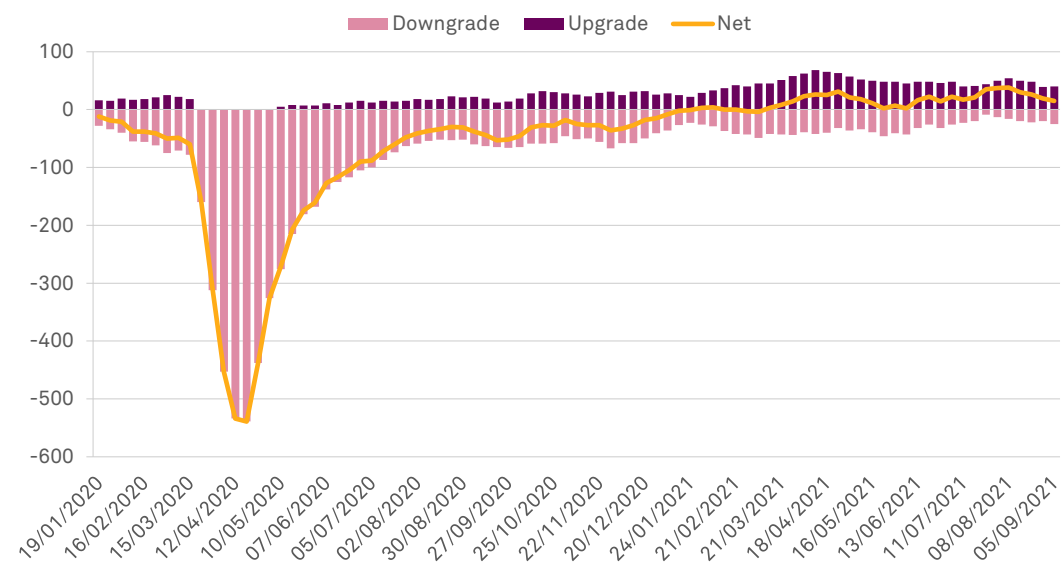


# Credit Market Update

## Ratings Trends

Chart 1

### Upgrades Picked-Up In August, Led By Largely Speculative-Grade U.S. Hotel And Leisure Companies



Source: S&amp;P Global Ratings. Data as of July 6.

Table 1

### Recent Rating Actions

Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. \$)
3-Aug	Upgrade	T-Mobile US Inc. (Deutsche Telekom AG)	Telecommunications	U.S.	BB+	BB	78,180
23-Aug	Upgrade	Occidental Petroleum Corp.	Oil & Gas Exploration & Production	U.S.	BB	BB-	33,939
5-Aug	Downgrade	China Evergrande Group	Homebuilders/Real Estate Co.	China-based (Cayman Islands Incorporated)	CCC	B-	16,260
6-Aug	Upgrade	Targa Resources Corp.	Utility	U.S.	BB+	BB	15,959
27-Aug	Downgrade	Sinclair Broadcast Group Inc.	Media & Entertainment	U.S.	B	B+	14,116
13-Aug	Downgrade	PBF Holding Company LLC (PBF Energy Inc.)	Utility	U.S.	B	B+	7,950
23-Aug	Upgrade	Western Midstream Operating LP	Midstream	U.S.	BB+	BB	7,620
11-Aug	Downgrade	Energizer Holdings Inc.	Consumer Products	U.S.	B+	BB-	6,759
19-Aug	Downgrade	Talen Energy Supply LLC (Talen Energy Corporation)	Midstream	U.S.	B-	B	5,520
9-Aug	Upgrade	Applied Materials Inc.	High Technology	U.S.	A	A-	5,500

Source: S&amp;P Global Ratings

## Credit Market Research

**Nicole Serino**

New York  
nicole.serino  
@spglobal.com

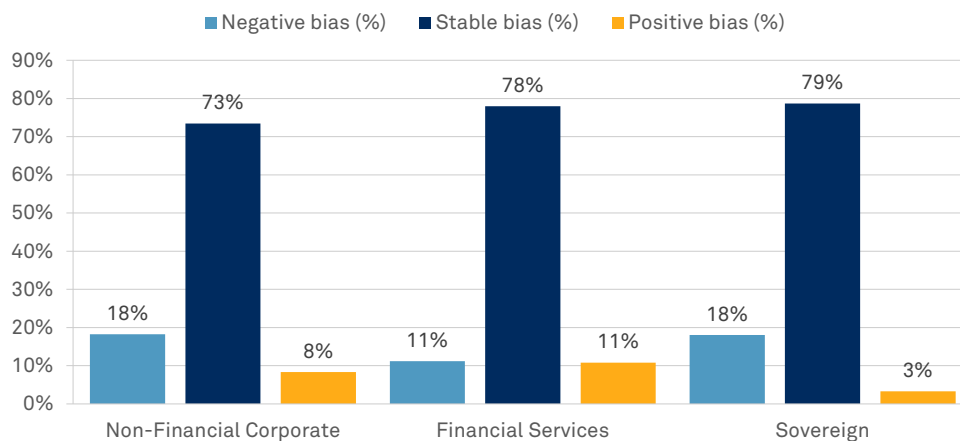
**Sudeep Kesh**

New York  
sudeep.kesh  
@spglobal.com

- **The positive rating action trend continued** in August as upgrades outpaced downgraded by nearly four times.
- **We upgraded U.S.-based wireless provider T-Mobile US Inc. to 'BB+' from 'BB'** after strong operating performance, which should improve levels of free operating cash flow and leverage reduction.
- **Net negative bias across nonfinancial corporates improved significantly** in August with the automotive sector falling from 11% to 2%.
- **The 2021 corporate default tally has reached 59** (as of Sept. 1) with five defaults in August. U.S. defaults have hit their lowest levels since 2014 with 31, and we estimate the U.S. 12-month trailing speculative-grade default rate fell to 2.8% in August from 3.1% in July.

Chart 2

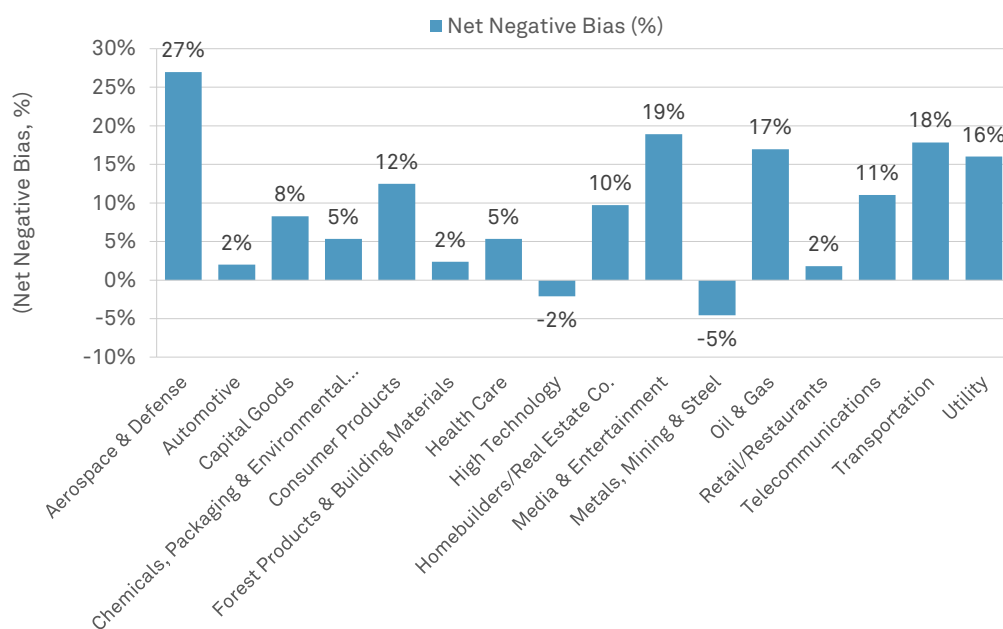
### Financial Services Positive Bias Increased Since our Last Report To 11%



Source: S&P Global Ratings. Data as of Sept. 6.

Chart 3

### Autos Showed The Highest Improvement In Net Negative Bias In August Dropping From 11% To 2%

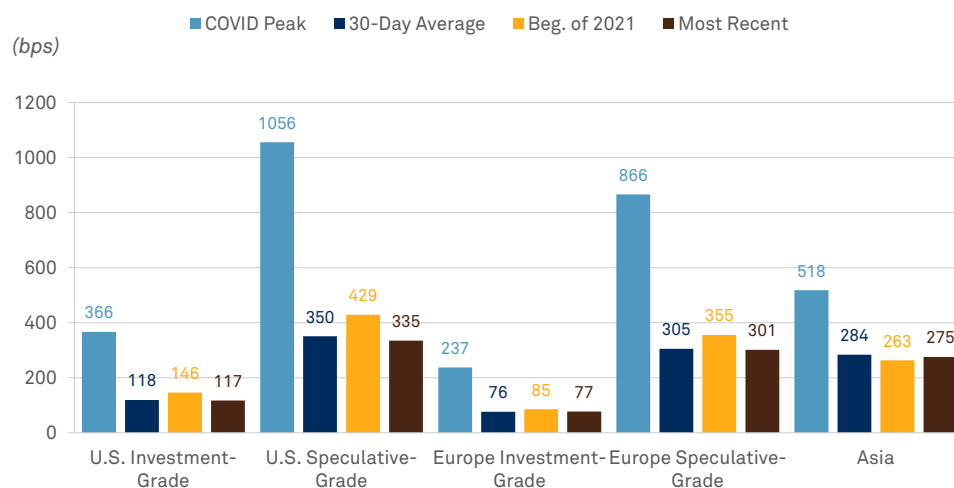


Source: S&P Global Ratings. Data as of Sept. 6.

## Financing Conditions

Chart 4

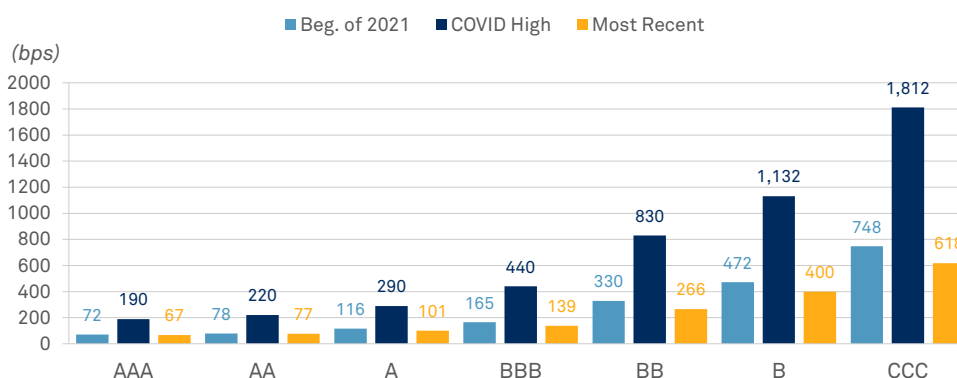
### Secondary Market Credit Spreads, U.S., Europe, And Asia



Source: ICE Benchmark Administration Limited (IBA), 'ICE BofAML Asia Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', 'ICE BofAML Europe, the Middle East, and Africa (EMEA) Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/BAMLEMRECRPIEMEA0AS>, U.S. Investment-Grade and Speculative-Grade Spreads from S&P Global Ratings, Europe Investment-Grade Spreads From S&P Dow Jones Indices. Sept. 6.

Chart 5

### S&P Global U.S. Composite Spreads By Rating, Secondary Market



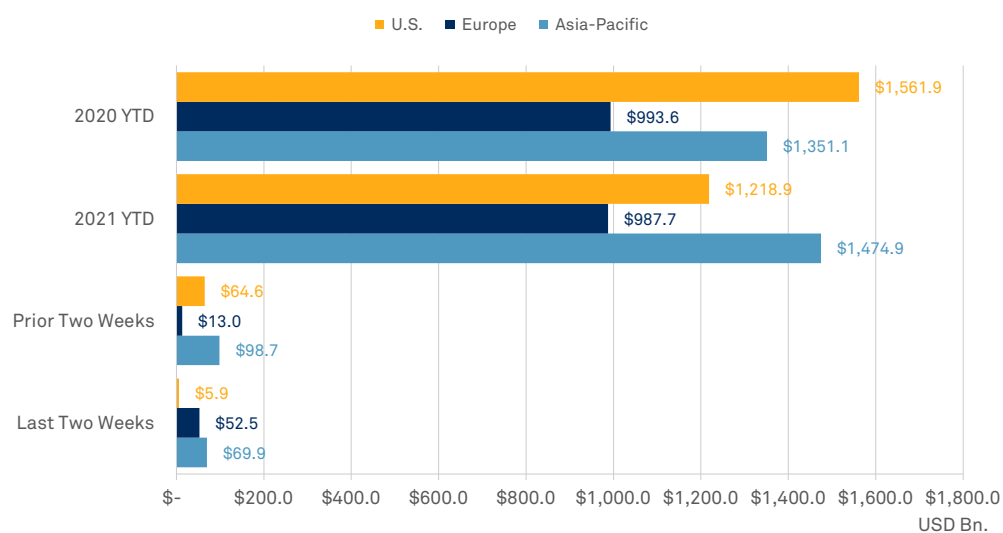
Source: S&P Global Ratings. Data as of September 6, 2021.

- **Debt issuance.** The speculative-grade year-to-date issuance volume is now higher than year-end volumes of five of the past six years.
- **U.S. and Europe secondary market spreads narrowed** since our last report.

## Debt Capital Markets

Chart 6

### Financial And Nonfinancial New Bond Issuance



Source: S&P Global Ratings. Data as of Sept. 6.

# Asset Class Trends

## Corporates

- Notable publications include:
  - [China's Zero-COVID Approach To Aggravate Rising Corporate Risks](#)
  - [China Developers Battle Tight Liquidity And Plummeting Profitability](#)
  - [Credit Trends: No Time For Complacency For The U.S. Speculative-Grade Market](#)
  - [Default, Transition, and Recovery: U.S. Corporate Defaults Through August Mark A Seven-Year Low](#)
  - [Credit Trends: U.S. Corporate Bond Yields As Of Sept. 1, 2021](#)
  - [Default, Transition, and Recovery: The S&P/LSTA Leveraged Loan Index Default Rate Is Expected To Reach 1% In June 2022](#)
  - [Rebooting The U.S. Media Sector: Double-Digit Advertising Growth Can Thank Digital](#)
- Notable ratings actions include:
  - Industrial Gas Producer L'Air Liquide Upgraded to 'A/A-1' From 'A-/A-2' On Improved Metrics; Outlook Stable
  - Braskem S.A. Upgraded To Investment Grade On Stronger Profitability And Debt Reduction; Outlook Stable
  - Macy's Inc. Upgraded To 'BB-' From 'B+' On Strong Performance Recovery And Debt Reduction; Outlook Positive
  - Entergy Louisiana LLC Downgraded To 'BBB+' From 'A-' On Weaker Financial Metrics Due To Storm Damage; Outlook Stable
  - Hyundai Motor Group Companies Outlook Revised To Stable On Improving Profitability; Ratings Affirmed

## Banks and financial institutions

- We have [revised our outlook on Sweden-based debt collector Intrum to stable from negative and affirmed our 'BB/B' ratings](#). We believe Intrum's collections from portfolio investments and earnings from third-party servicing will improve in the next 12 months, allowing it to deleverage further after absorbing most of the difficulties caused by COVID-19. We project our gross debt-to-cash-adjusted EBITDA ratio will remain within the 4.0x-4.3x range by the end of 2022, and that Intrum's liquidity profile will stay sound.
- In 2020 and first-half 2021, [Russian Standard Bank JSC materially improved its capital position](#) thanks to sustainably high profitability and limited asset growth. We expect the bank's capitalization will keep strengthening over the next 12-18 months, with our risk-adjusted capital (RAC) ratio remaining above 7.0% on solid profitability, no dividend distribution, and relatively low growth of risk-weighted assets (RWAs). We have therefore raised our long-term rating on the bank to 'B' and affirmed our 'B' short-term rating. The outlook is stable.

## Sovereign

- [Cyprus Outlook Revised To Positive On Solid Economic Prospects: 'BBB-/A-3' Ratings Affirmed](#)
- [Kazakhstan Ratings Affirmed At 'BBB-/A-3'; Outlook Stable](#)

## Structured finance

- **U.S. Structured Finance:** New issuance totaled more than \$57 billion in August 2021 across the industry's four major sectors: asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), collateralized loan obligation

## Analytics & Research

**Cross-Practice**  
**Gregg Lemos-Stein**  
 gregg.lemos-stein  
 @spglobal.com

**Corporate**  
**Jeanne Shoesmith**  
 jeanne.shoesmith  
 @spglobal.com

**Financial Institutions**  
**Alexandre Birry**  
 alexandre.birry  
 @spglobal.com

**Infrastructure**  
**Karl Nietvelt**  
 karl.nietvelt@spglobal.com

**Insurance**  
**Simon Ashworth**  
 simon.ashworth  
 @spglobal.com

**Sovereign**  
**Roberto Sifon-Arevalo**  
 roberto.sifon-arevalo@spglobal.com

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

**U.S. Public Finance**  
**Robin Prunty**  
 robin.prunty@spglobal.com

(CLO), and residential mortgage-backed securities (RMBS). August brought these four sectors' year-to-date (YTD) total to \$467 billion--an increase of over 65% from \$283 billion a year ago. See "[SF Credit Brief: U.S. Structured Finance Issuance Totaled \\$57B In August, Rising 65% Year Over Year To \\$467B](#)" published Sept. 1.

- **LIBOR transition – U.K. RMBS:** We have performed a scenario analysis of a typical seasoned U.K. RMBS transaction to examine the hypothetical effects of LIBOR replacement on our ratings. Our analysis demonstrates rating resilience when applying the most likely transition patterns and replacement terms, even for non-investment-grade rated tranches. For the revised transaction terms to cause a negative rating transition they would need to materially exceed the current market expectations on the year-end sterling LIBOR rate, LIBOR to SONIA credit adjustment spread, or time to solicit the noteholders' consent to replace LIBOR. Junior notes are generally more at risk as break-even thresholds are lower than for higher ranking tranches. The scenario analysis results should be interpreted as indicative only. While we generally do not anticipate LIBOR replacement to trigger negative rating actions based on the outcome of our break-even analysis, the rating effect on the actual transactions may be different. See "[Scenario Analysis: Potential Effects of LIBOR Replacement on U.K. RMBS Ratings](#)" published Sept. 1.
- **ESG – Social RMBS:** On Sept. 1 we also published an article titled "[Credit FAQ: Social RMBS: Is the Pursuit of Housing Equality a Risky Business?](#)" With ESG labels furthering their way into financial services, it's no surprise that social residential mortgage-backed security (RMBS) transactions have arrived on the scene. In the credit FAQ we assess the pros and cons of social lending from a credit risk perspective while weighing in the social considerations.
- **European CLOs:** European CLO 2.0 equity has shown resilience, achieving annualized equity returns similar to those of previous years, even when considering the severe market disruptions stemming from the COVID-19 pandemic. CLO equity returns continue to be affected by asset selection and funding costs, and we have identified new relationships demonstrating trend patterns against equity returns. Individually, some variables are more effective than others in driving CLO equity performance, though these features come with associated risks. (See "[Examining Equity: What's Driving the Resilience of European CLO Equity Returns?](#)" published Aug. 31.) Collateralized loan obligations issued in Europe this year have started to again resemble pre-pandemic deals. Par subordination (the buffer to par that needs to default before a loss occurs) has moved back to the 38%-40% range compared with 42%-44% for CLOs issued last year. Documentation continues to evolve, adding further flexibility for effective management of CLO portfolios. (See "[CLO Spotlight: New Features Continue to Appear in European CLOs](#)" published on Sept. 1.)
- **Australia RMBS:** The Standard & Poor's Performance Index (SPIN) for Australian prime mortgages fell to 0.90% in June from 1.15% the same month a year earlier. The resilience of household balance sheets, bolstered by government stimulus measures and low interest rates, has enabled many borrowers to build up repayment buffers, cure prior arrears positions, and stay on top of their mortgage repayments. Strong property prices have also enhanced refinancing options for many borrowers by boosting equity positions in their home loans. Refinancing is a common way for borrowers to self-manage their way out of arrears. See "[Australian Home-Loan Arrears Showing Few Signs Of COVID-19 Scarring. Report Says](#)" published Sept. 1, to access any one of the eight separate parts to the "[RMBS Performance Watch: Australia](#)" that provides a comprehensive analysis of arrears statistics on loans underlying Australian RMBS.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis.

S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

**[spglobal.com/ratings](http://spglobal.com/ratings)**