

Global Credit Conditions Q2 2021 – Beyond COVID

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March 31, 2021



S&P Global
Ratings

Agenda

- Paul Gruenwald, Global Chief Economist
- Alexandra Dimitrijevic, Global Head of Research
- David Teshler, Head of North America Credit Research
- Eunice Tan, Head of Asia-Pacific Credit Research
- Paul Watters, Head of EMEA Credit Research
- Jose Perez-Gorozpe, Head of Emerging Markets Credit Research
- **Q&A** moderated by Alexandra Dimitrijevic, Global Head of Research, with the participation of Jeanne Shoesmith, Global AOCC Co-Chair, Nick Kraemer, Head of Ratings Performance Analysis and Roberto Sifon-Arevalo, Head of Sovereign & IPF Analytics & Research

Main Themes: Macro Update | 2021 Q2 Credit Conditions Round

- **The global macroeconomic outlook has improved noticeably.** The recovery from COVID-19 looks set to accelerate in mid-2021, particularly in the U.S. on the back of a massive fiscal stimulus plan. US growth will be 6.5% this year.
- **We have revised our 2021 global GDP growth forecast up by 50 basis points, to 5.5%.** This reflects brighter prospects for North America, China, and India. 2020 growth was revised up as well.
- **Orderly reflation is a positive development for the macro and credit.** Rising yields on the back of a robust recovery is a good thing (as opposed to rising yields solely on inflation concerns). Moving away from very low rates lessens the search for yield, lessens distortions to asset prices (financial and non-financial), and increases two-way risk.
- **What to watch: Unevenness of the recovery and the lack of convergence.** Key dimensions: vaccinations, mobility restrictions, sector recoveries, and country growth prospects. The effect on key variables of faster recoveries in some markets, countries and sectors could cause stress in slower recoveries markets, countries and sectors.

2021 Global GDP Growth Lifted By US, China And India

- 2020 GDP estimate revised up by 0.5ppt on nearly across-the-board better performance.
- 2021 upward revision very unevenly based. US contribution should almost equal China's this year (crossover was around GFC).
- Not shown: Still uneven growth drivers (US/EZ consumption, China/EM manufacturing and trade); wide sectoral variations.

2021 Q2 CCC – GDP Growth Forecasts (In percent)

	Current Forecast					Change from Previous Forecast***			
	2020	2021	2022	2023	2024	2020	2021	2022	2023
U.S.	-3.5	6.5	3.1	1.7	2.1	0.4	2.3	0.0	-0.4
Eurozone	-6.8	4.2	4.4	2.1	1.6	0.4	-0.7	0.5	-0.1
China	2.3	8.0	5.1	5.0	4.8	0.3	1.0	0.1	0.0
India*	-8.0	11.0	6.1	6.3	6.4	1.0	1.0	0.0	0.1
Japan	-4.9	2.7	2.0	1.0	0.9	0.6	0.0	0.7	0.1
Russia	-3.1	3.3	2.5	2.0	2.0	0.4	0.4	-0.2	0.0
Brazil	-4.4	3.4	2.5	2.4	2.3	0.4	0.2	0.0	-0.2
United Kingdom	-9.9	4.3	6.8	2.2	1.8	1.1	-1.7	1.8	-0.3
World	-3.5	5.5	4.2	3.6	3.4	0.5	0.5	0.2	0.0

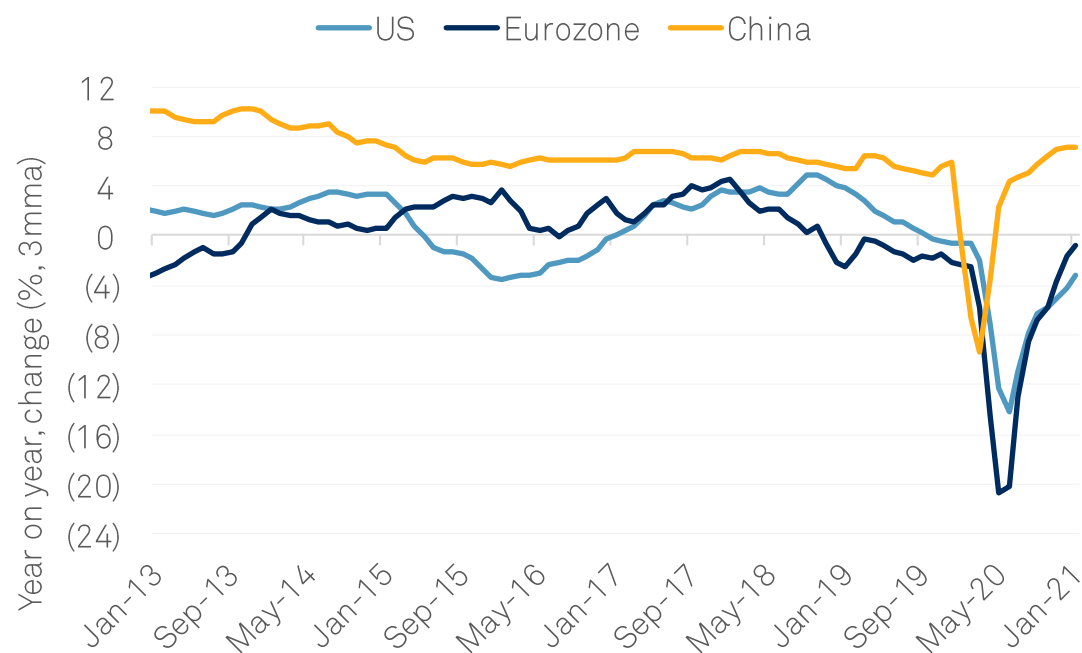
Sources: S&P Global Economics, Oxford Economics,

*fiscal year ending in March of the following year, ** Weighted by purchasing power parity exchange rates. ***Previous forecasts ended in 2023

COVID Rebound To Date Remains Uneven

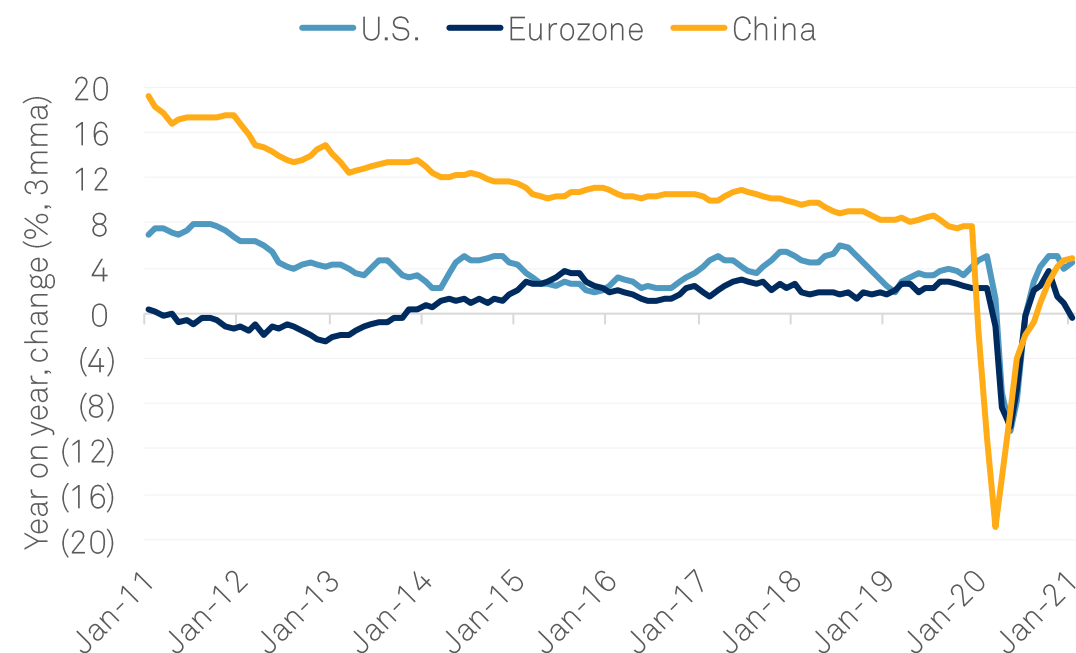
- China (and many EMs) have seen a manufacturing and export led recovery.
- US and Europe have seen a household led recovery.
- This shows up in widening current account imbalances, and we are looking for some reversal as the rebound gains pace.

Industrial Output Growth



Source: Eurostat, US Census Bureau, NBS, Bloomberg. Data through January 2021

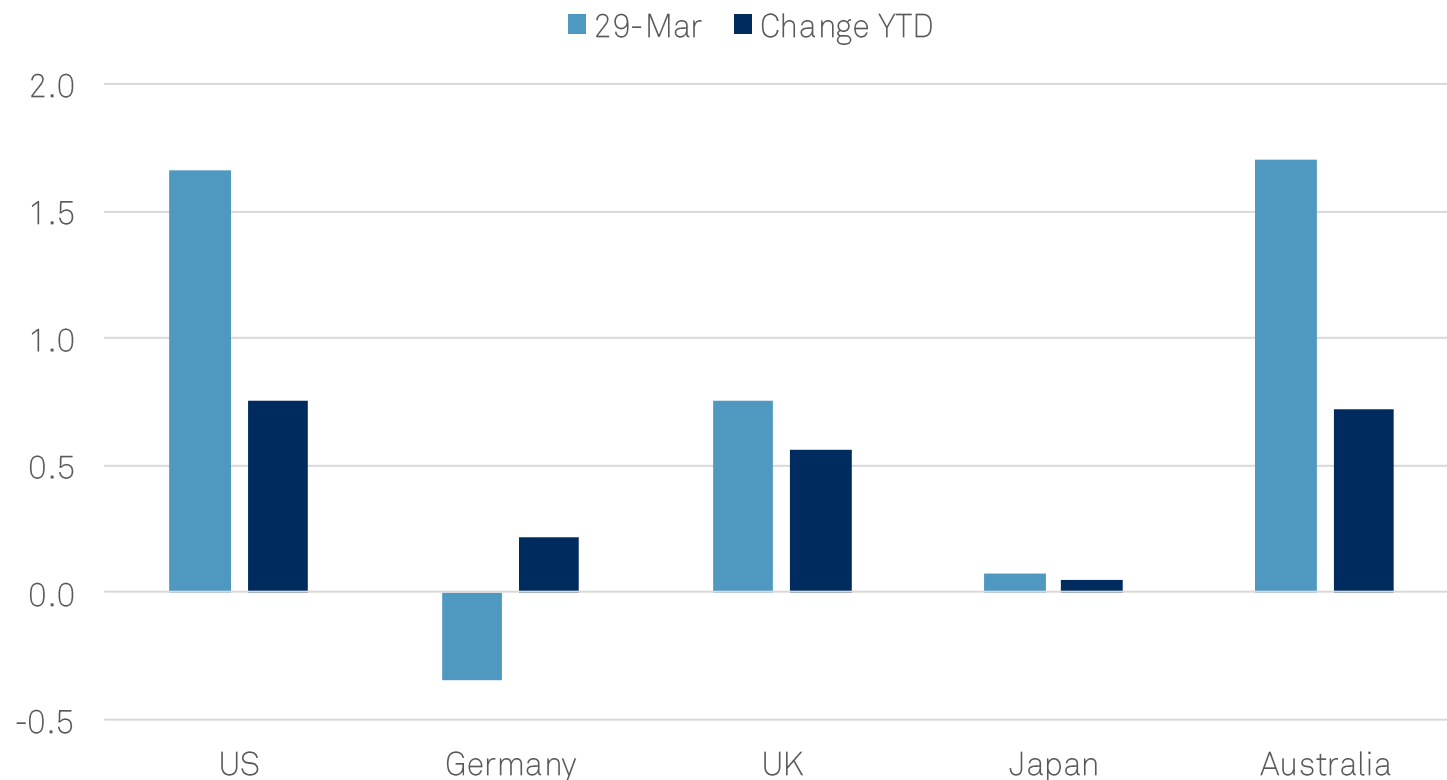
Retail Sales Growth



Note: Saudi Arabia is excluded due to data limitations. Sample selected to calculate Z-score: 2011 Jan – 2021 January. Source: National Statistics Bureau, IMF, Bloomberg. Data through January 2021 (Q4 2020 for Australia).

Bond Yields: Will US Macro Outperformance Cause Problems?

Selected Countries: 10-Year Govt Bond Yields

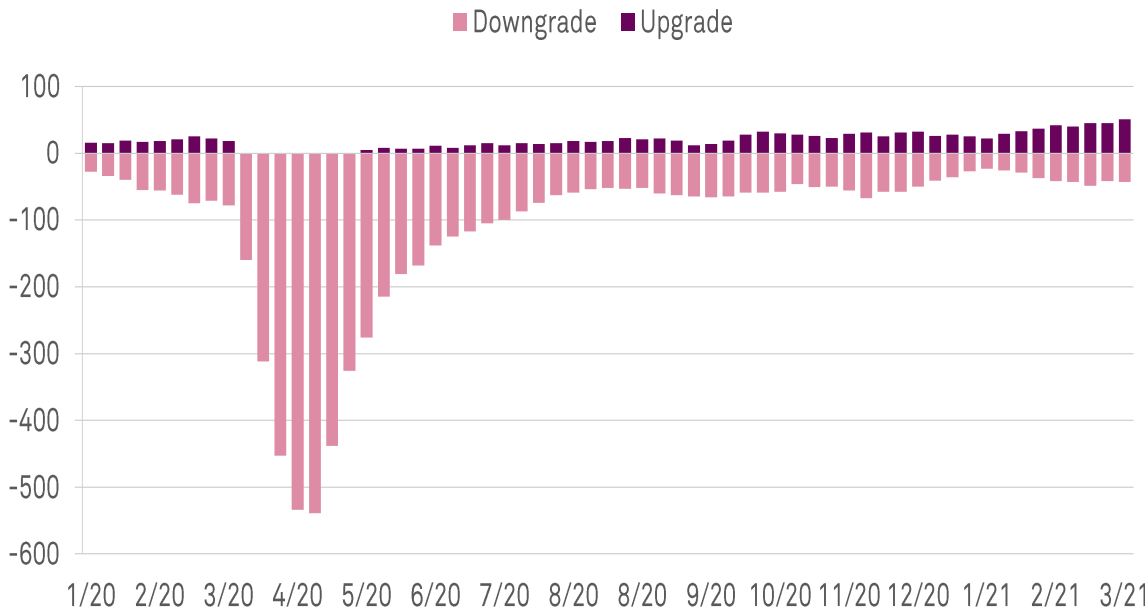


Source: Trading Economics

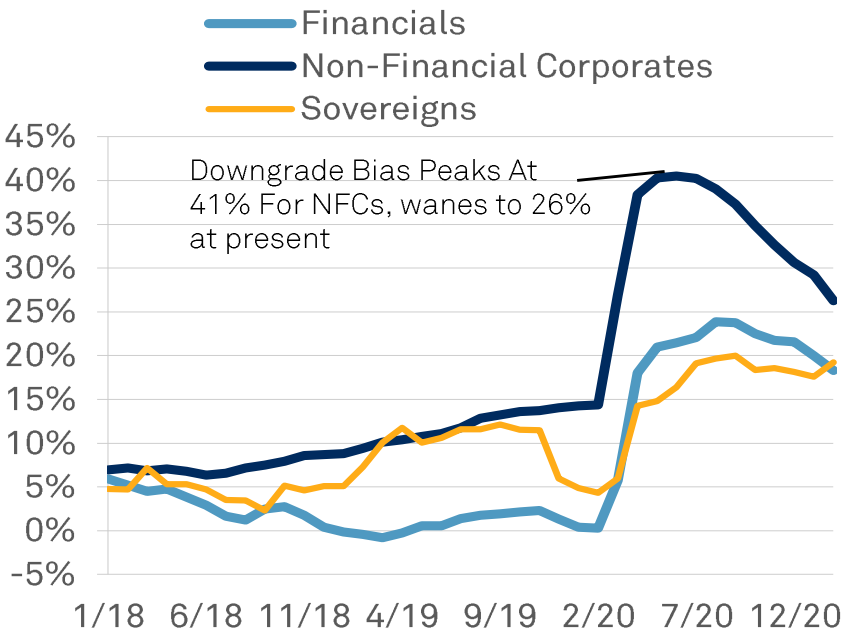
- US yields driven by higher growth and inflation expectations.
- Healthy for the US, but will cause a rise in funding costs for EM US\$ borrowers.
- Unwanted spillovers to DM domestic yields may force higher QE/bond purchases by central banks.
- Note: Australia is “canary in the coal mine” – RBA is first central bank to exit COVID measures.

Global Credit Trends| Improving Rating Trends Point to a K-Shaped Recovery

Upgrades are now outpacing downgrades while remaining modest



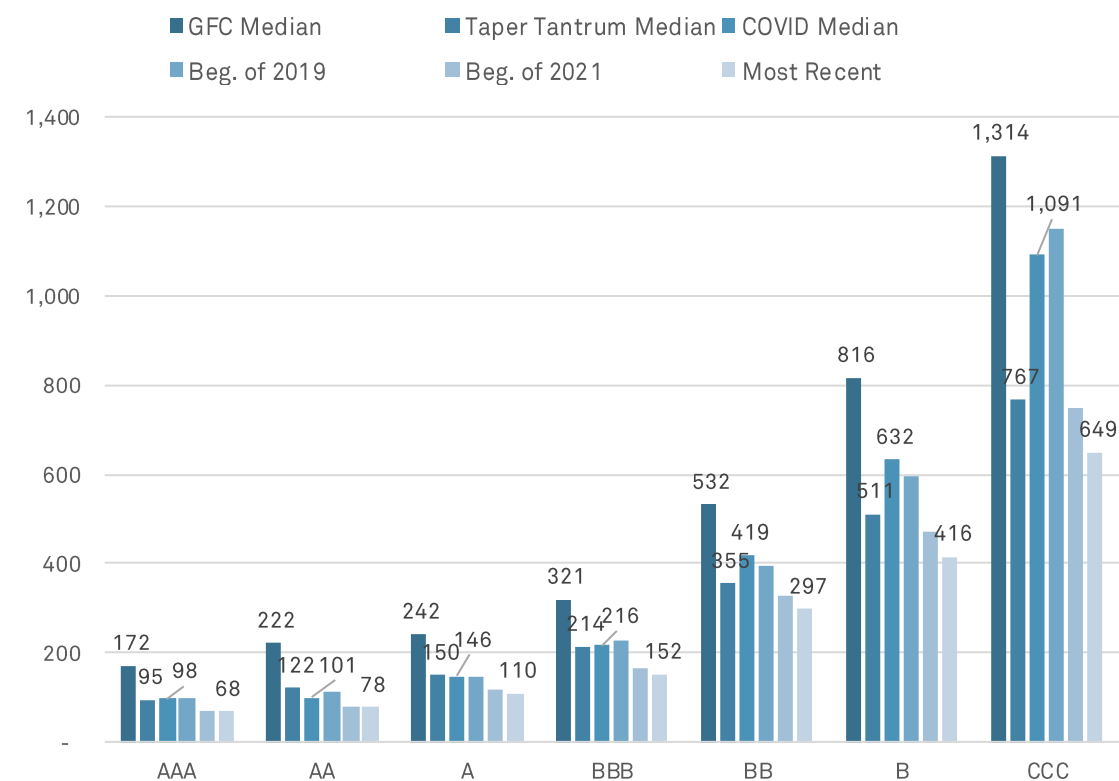
Nonfinancial Corporates Downgrade Pressure Was Greater Than For Financial And Sovereign Peers But Has Eased More Rapidly
Net Negative Outlook Bias By Asset Class (%)



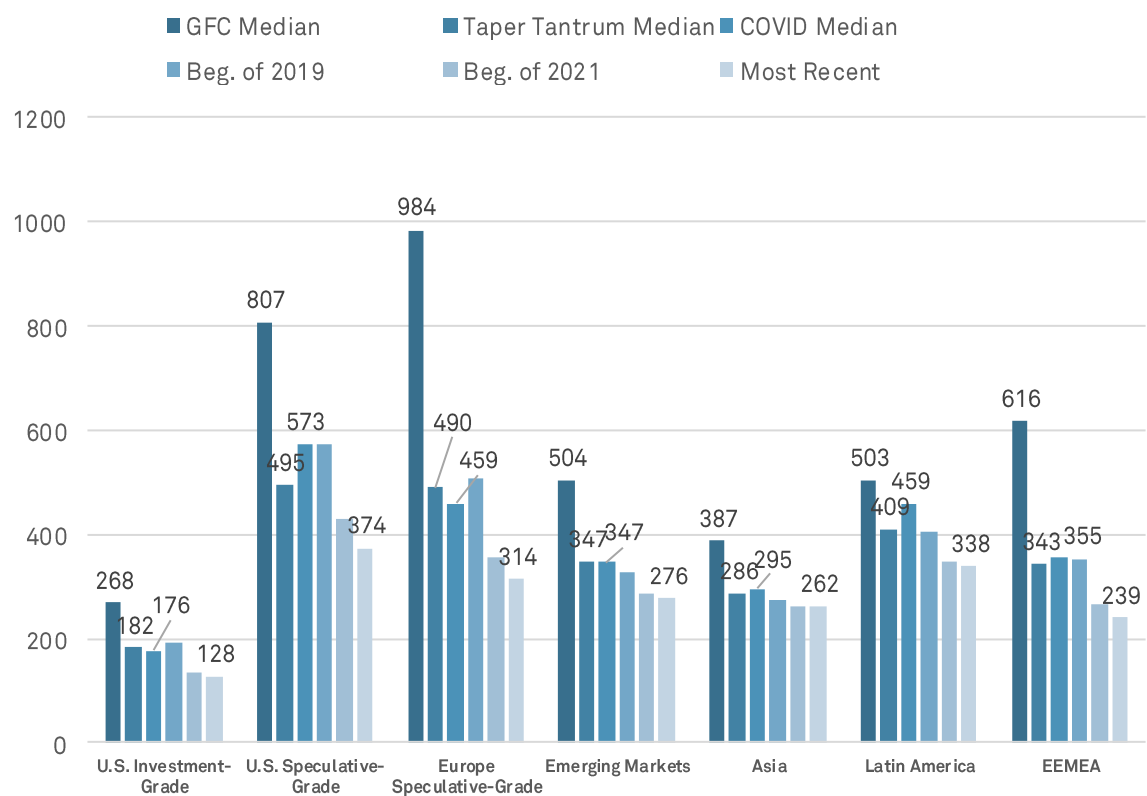
Data as of Mar. 21, 2021. Source: S&P Global Ratings

Global Financing Conditions | Market Conditions Supportive Across The Rating Scale

U.S. Secondary Spreads Remain Tight Across The Spectrum



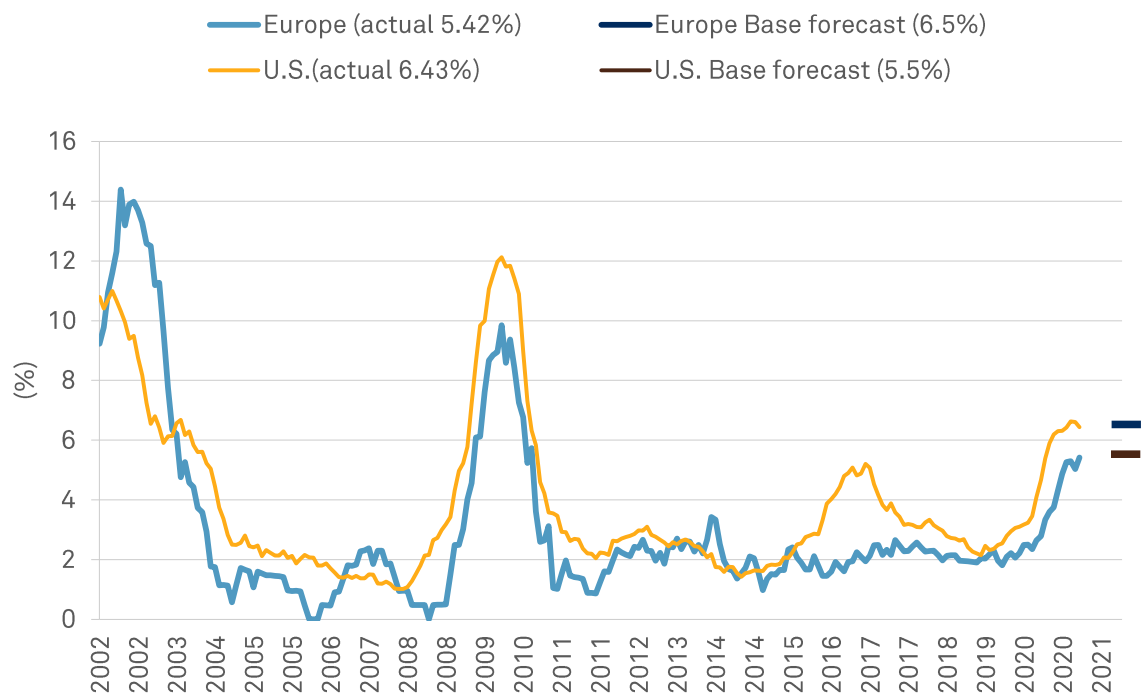
... And Across Geographies, Though Regional Differences Are Rising



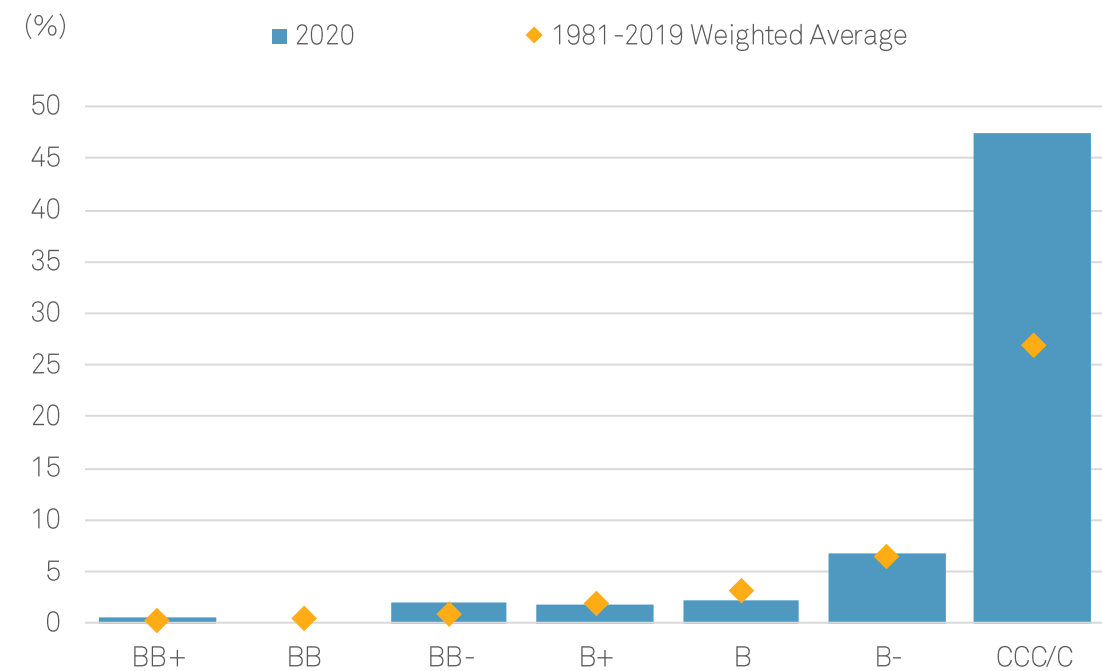
Data as of Mar. 21, 2021. Source: S&P Global Ratings; Federal Reserve Bank of St. Louis; Bank of America Merrill Lynch.

Global Credit Markets | Default Rates Expected To Remain Elevated

U.S. And Europe Default Rates Expected To Remain Elevated In The 5-7% Range By December 2021



94% Of Corporate Defaults In 2020 Began The Year At 'B' And Below



Data as of March 30, 2021. Source: S&P Global Ratings.

Global Credit Conditions | **Top Risks**

Global Top Risks



Debt: Corporate solvency risk and new highs in government debt



Risk Level

Very High

**Forward
12-mth Trend**

Improving

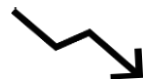


COVID-19: Uneven and slow global vaccine rollout and material new variants



High

Improving



Markets: Disorderly reflation and market repricing risk



Elevated

Worsening



Secular shifts: Energy transition, accelerated digitalization, cyber-risk disrupting operating models

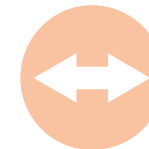


Elevated

Worsening



Politics: Economic and social spillover from geopolitical tensions, vaccine nationalism and rising inequalities



Elevated

Unchanged

*Risk levels may be classified as very low, moderate, elevated, high, or very high, are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base case rating assumptions unless the risk level is very high. ** Risk trend reflects our current view on whether the risk level could increase or decrease over the next twelve-months.

North America Credit Conditions | Outlook Brightens

American Rescue Plan: Key Credit Issues That Matter



Sector Support



Economic Recovery



COVID Containment



Health Care

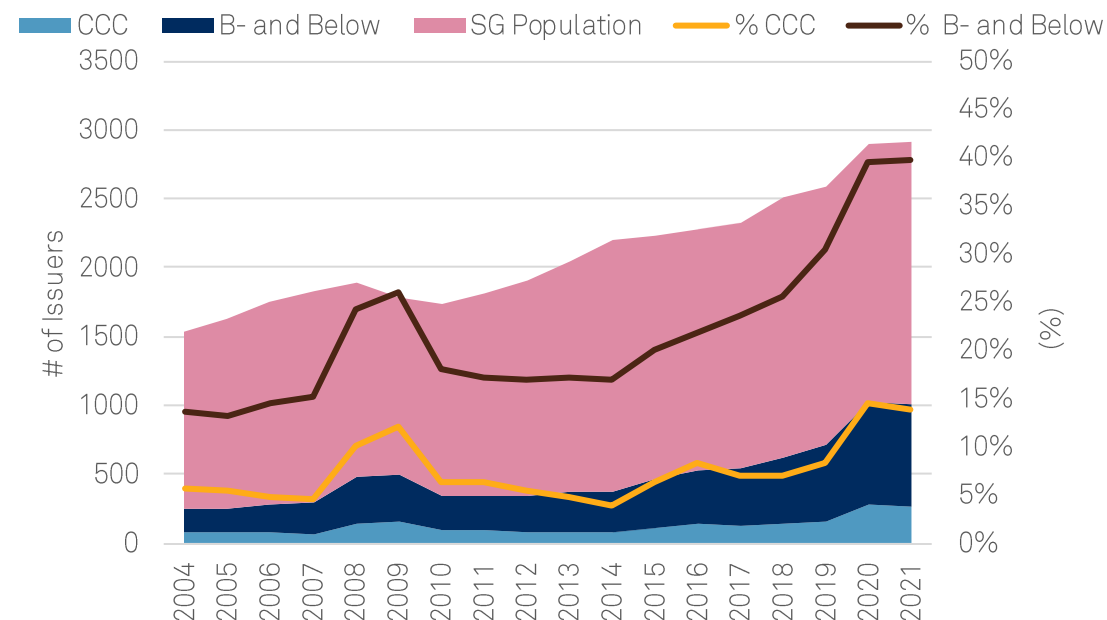
- **Vaccines:** With the acceleration in rollouts and the launch of the single-dose Johnson & Johnson vaccine, we assume widespread immunity can be achieved in the U.S. and Canada by the end of Q3.
- **Federal stimulus:** We expect the \$1.9 trillion stimulus continue to bolster consumer spending. U.S. public finance sectors, in particular, stand to benefit. Against this backdrop, we now forecast U.S. real GDP to grow 6.5% in 2021 and 3.1% in 2022.
- **Credit:** Capital markets remain welcoming to issuers even at the lower end of the ratings ladder. Upgrades has outpaced downgrades in recent weeks. We expect the U.S. trailing-12-month speculative-grade corporate default rate to fall to 5.5% by December, from our prior estimate of 7%.

Source: S&P Global Ratings.

North America Credit Conditions | Risks Remain

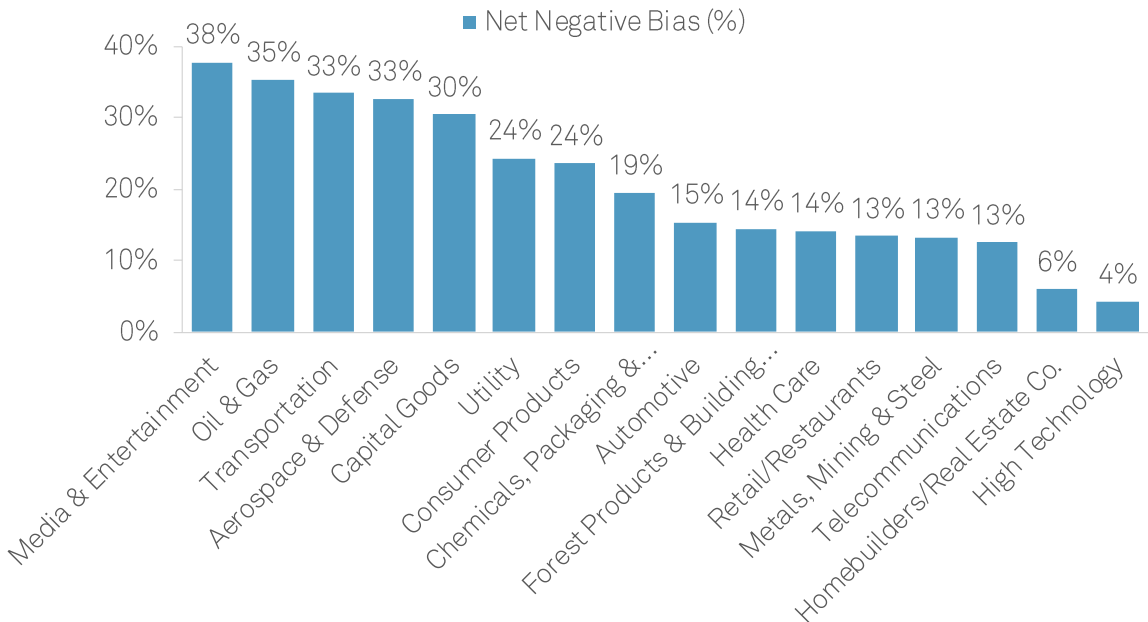
- **Uneven recovery:** Despite positive trends, recovery prospects vary substantially across industries.
- **High debt:** If income recovers more slowly than we expect, some borrowers may find it difficult to manage debt burdens.
- **Market repricing of risks:** Escalating credit concerns, inflation fears, or an unexpected adverse event could result in the repricing of financial and real assets, higher debt-servicing costs, and tightening financing conditions.

40% Of SG Credits In The U.S. Were Rated ‘B-’ And Below



Data as of March 17, 2021. Source: S&P Global Ratings

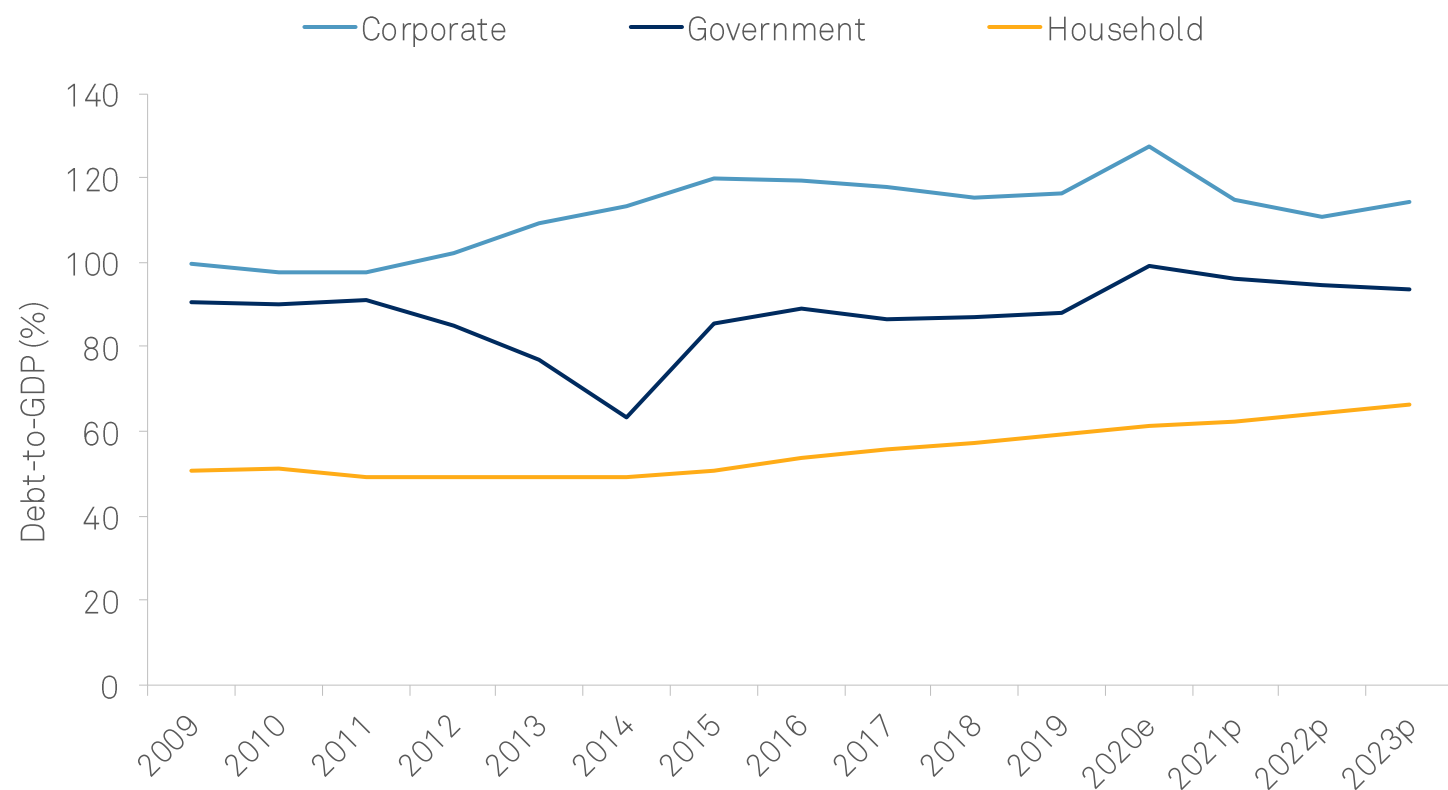
North America Nonfinancial Sectors: Wide Variation In Net Negative Bias



Net negative bias—the percentage of ratings with negative outlooks or on CreditWatch negative minus the percentage with positive outlooks or on CreditWatch positive

Asia-Pacific Credit Outlook | Uneven Recovery

Asia-Pacific Still Sees High Leverage Across The Board

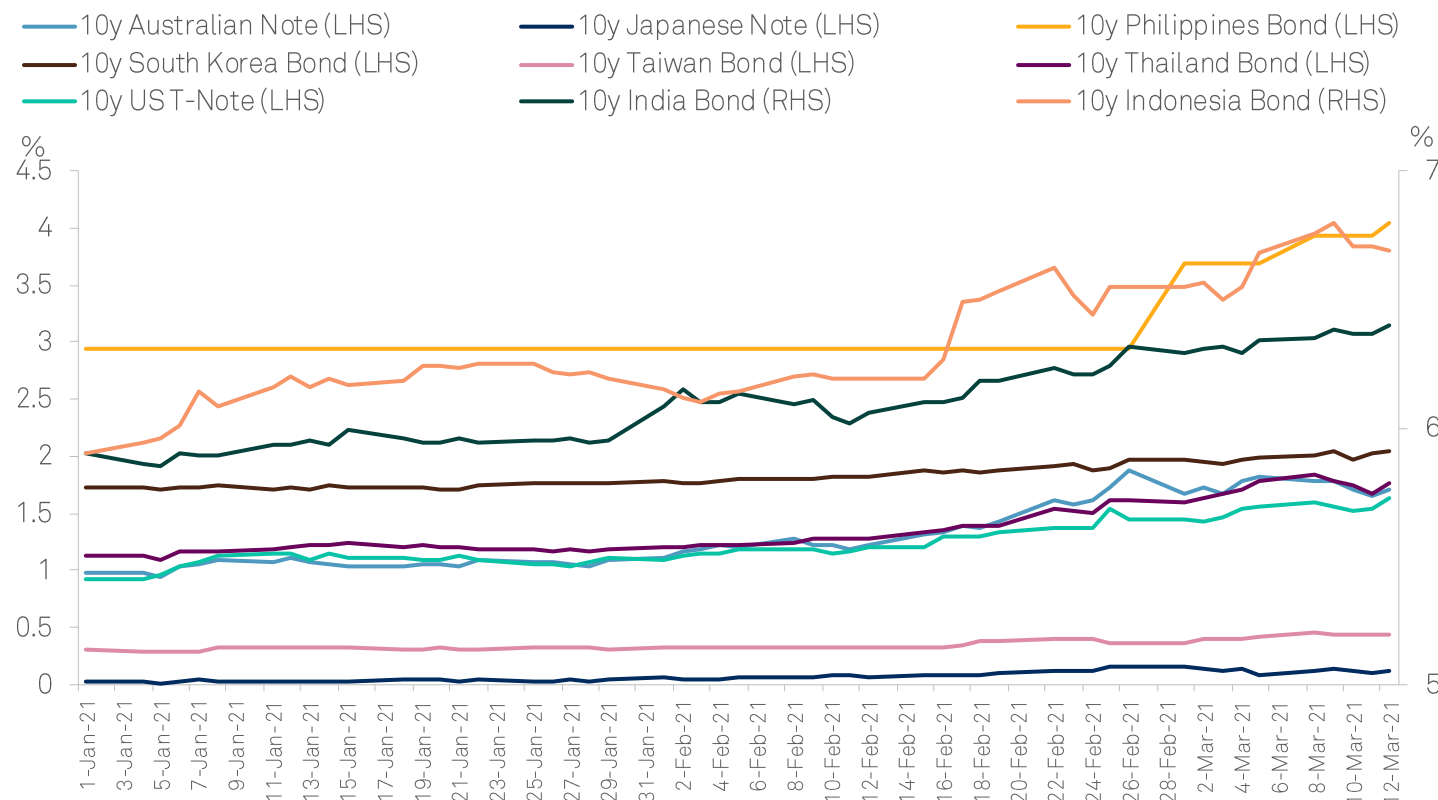


e--estimate, p--projection. Source: Bank for International Settlements, S&P Global Ratings.

- Export-led economic rebound and lackluster domestic demand have deepened the divergence among sectors.
- Sectors dependent consumption, particularly mobility-related segment may see delays in revenue growth. Sectors like semiconductors, utilities, metals and mining, and automobiles are likely to see earlier recoveries.
- The region's slow vaccination roll-out may raise susceptibility to new variants, prompting resurgence of movement control measures.

Asia-Pacific Credit Outlook | **Reset In Risk Repricing**

10Y Bond Yields Rise Across Asia-Pacific Economies

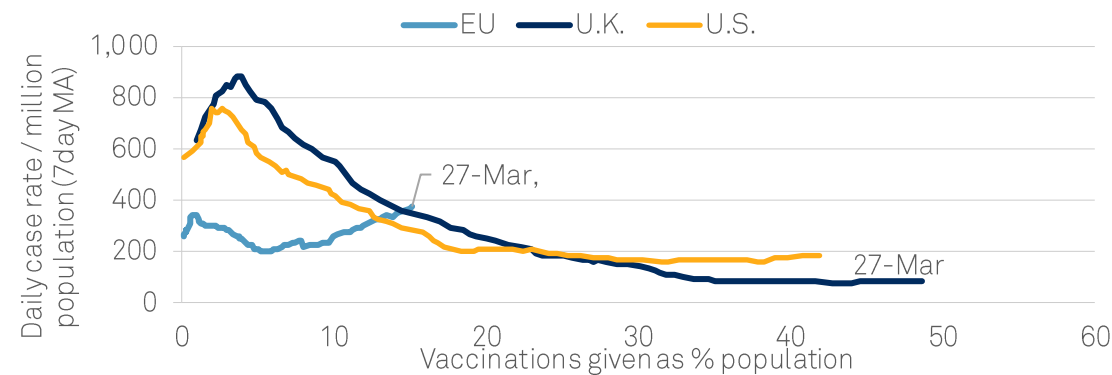


LHS--Left hand scale. RHS--Right hand scale. Source: S&P Global Market Intelligence.

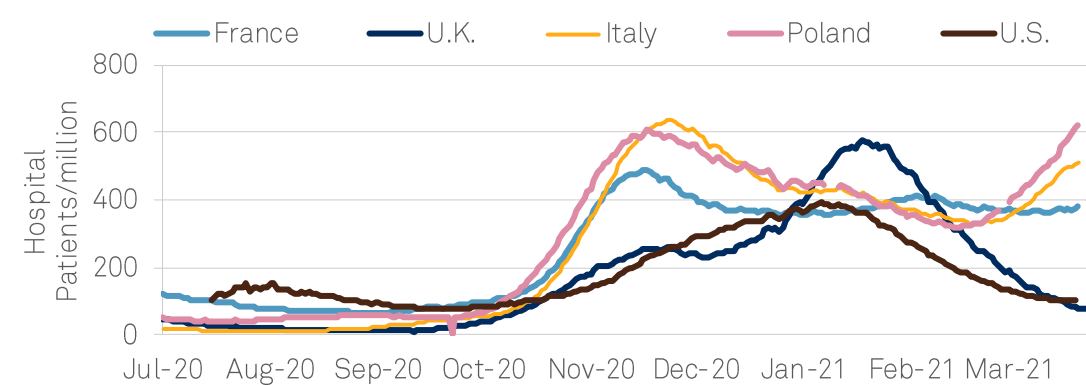
- Central banks will keep policy rates low to support recovery.
- However, rising fears of inflation and unexpected adverse events could drag on policy effectiveness.
- Emerging-markets borrowers reliant on USD-denominated funding will face refinancing challenges from rising U.S. Treasury yields.

Europe Credit Conditions | New Horizons, Old Risks

Rising Infection and Slow Vaccine Rollout in EU Headwind to Growth

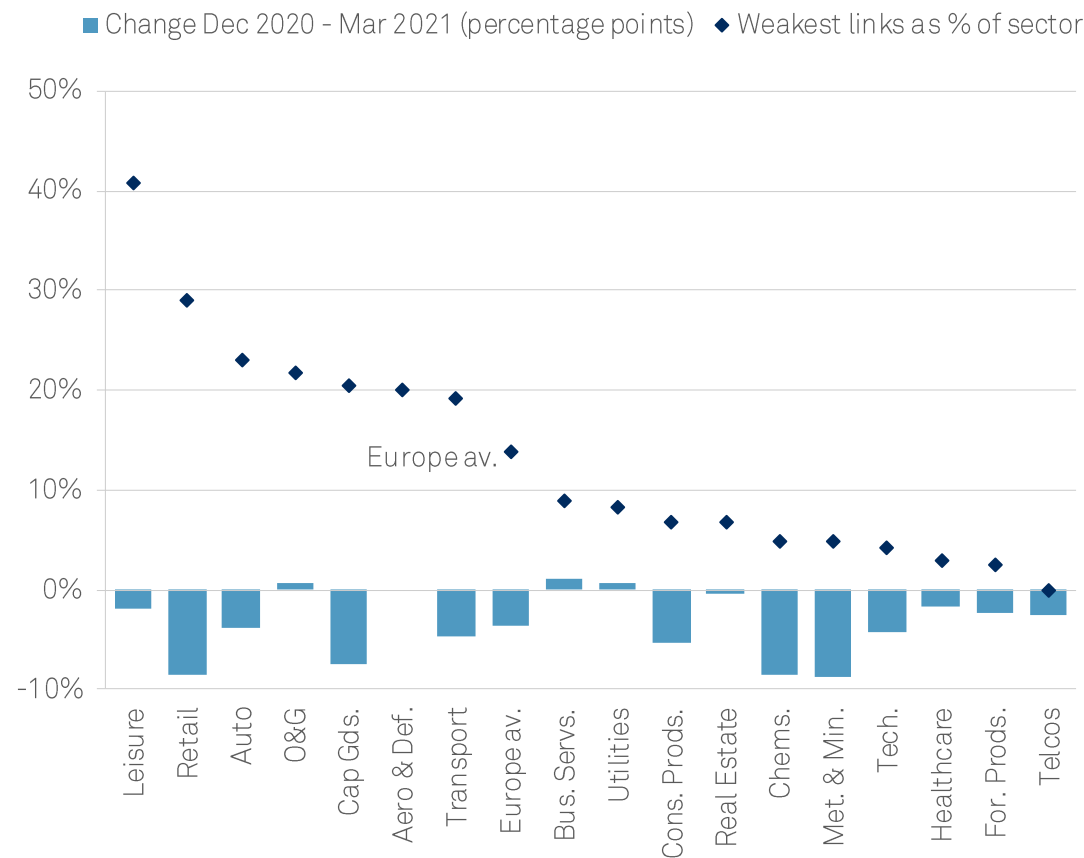


Hospital Occupancy Remains Key Policy Driver



Source: Our World In Data, Mar. 27, 2021. S&P Global Ratings

Some Stabilization in Ratings Among Weakest Links* Since Year-end, Albeit Concentration in COVID Disrupted Sectors Increasing



* Weakest links – nonfinancial corporate ratings rated 'B-' or lower and on negative outlook or CreditWatch negative. Data as of Mar. 28, 2021. Source: S&P Global Ratings.

EM Credit Conditions | Brighter Panorama Prone to Setbacks

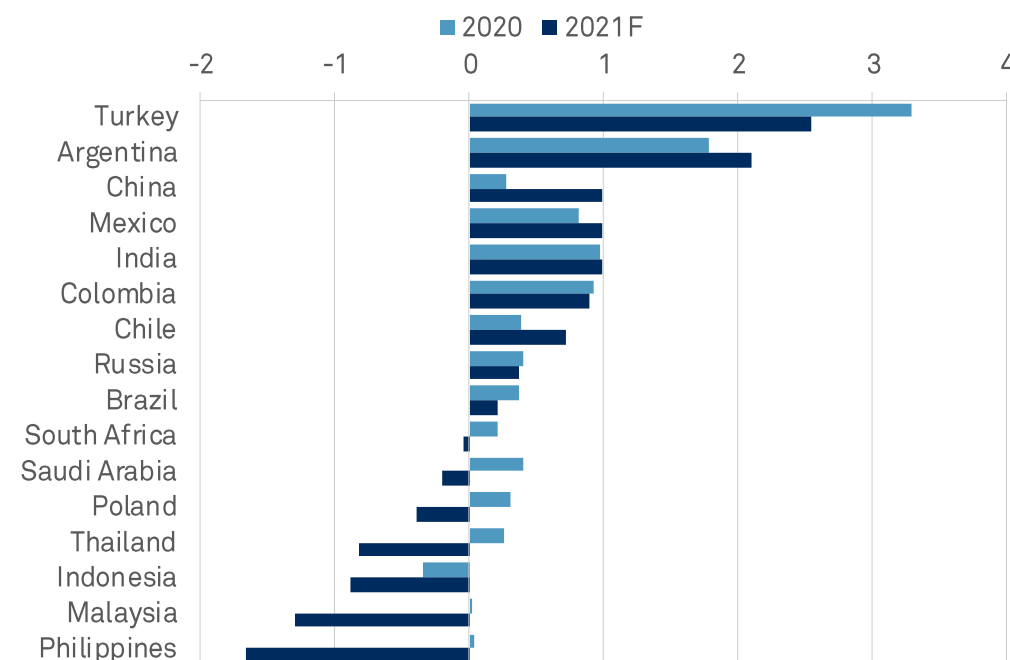
- Credit conditions in emerging markets (EMs) look brighter than last year, given that developed economies' recovery accelerates and vaccination progresses.
- EMs Face Uneven Recovery And Are Vulnerable To Setbacks.

Uneven Recovery

Real GDP %	Foreing Currency Rating (Mar. 26, 2021)	Expected Return to Pre COVID Level
China	A+/Stable/A-1	Q2 2020
Turkey	B+/Stable/B	Q3 2020
India	BBB-/Stable/A-3	Q1 2021
Indonesia	BBB-/Negative/A-2	Q2 2021
Russia	BBB-/Stable/A-3	Q3 2021
Poland	A-/Stable/A-2	Q3 2021
Malaysia	A-/Negative/A-2	Q4 2021
Saudi Arabia	A-/Stable/A-2	Q4 2021
Thailand	BBB+/Stable/A-2	Q4 2021
Brazil	BB-/Stable/B	Q1 2022
Chile	A/Stable/A-1	Q2 2022
Colombia	BBB-/Negative/A-3	Q2 2022
Philippines	BBB+/Stable/A-2	Q2 2022
Mexico	BBB-/Negative/A-2	Q4 2022
South Africa	BB-/Stable/B	Q3 2023
Argentina	CCC+/Stable/C	Q3 2023

Source: S&P Global Ratings

Real GDP Changes From November 2020 Baseline (percentage points)

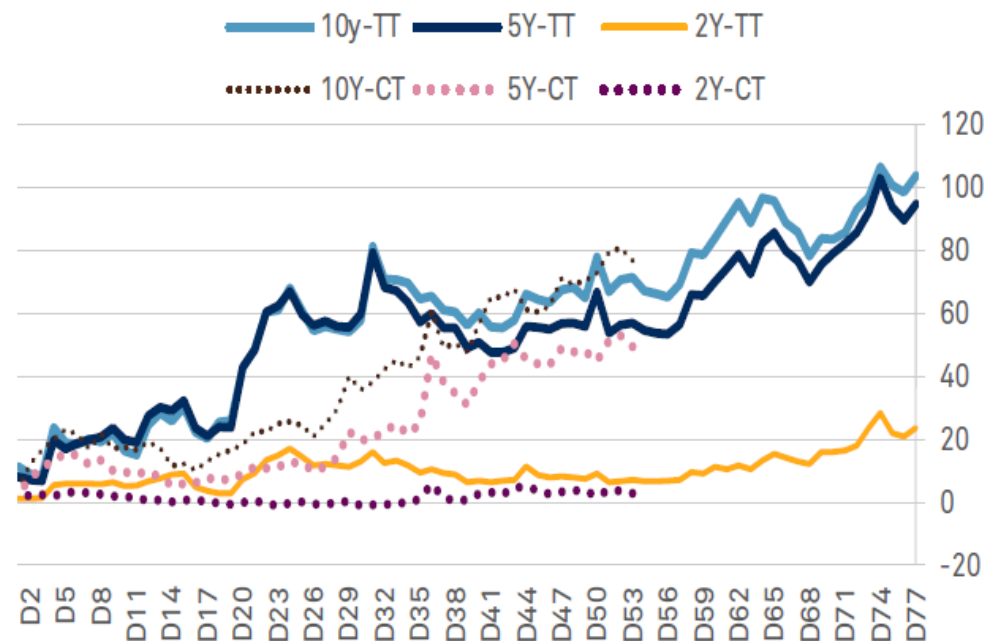


Source: Oxford Economics; F--S&P Global Ratings forecast. For India 2020 = FY 2020 / 21, 2021 = FY 2021 / 22

EM Credit Conditions | Brighter Panorama Prone to Setbacks

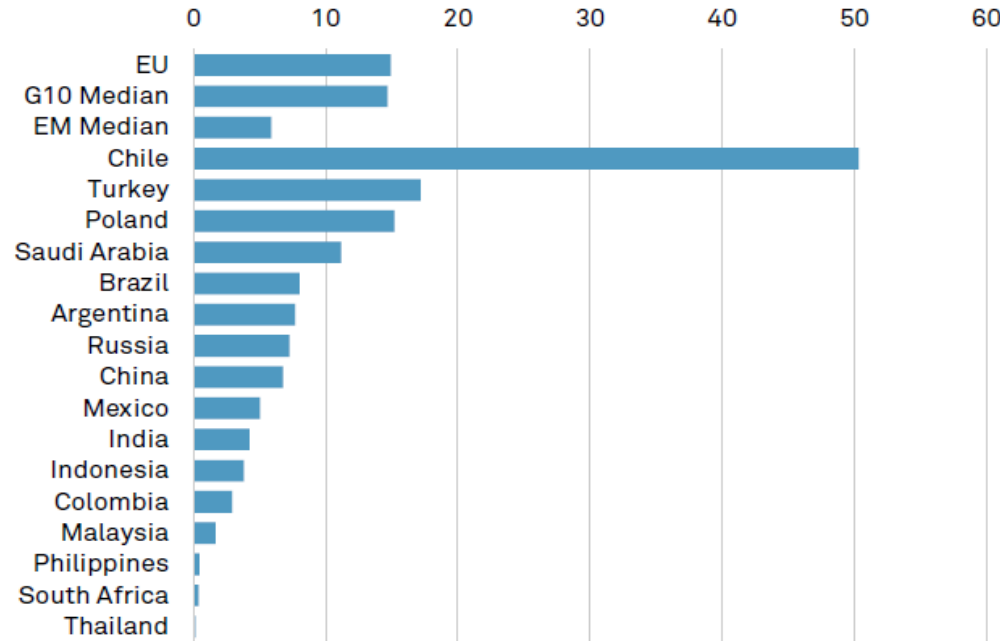
- Downside risks are relevant and recovery itself will bring new challenges for many EMs, especially if risks from U.S. economy overheating were to materialize and financing conditions worsen.
- Most EMs continue struggling to contain the pandemic, and with few exceptions, vaccine rollouts have been slow. Consequently, risks from case resurgence, partial lockdowns, and economic activity setbacks prevail.

Cumulative Change in U.S. Yields Taper Tantrum Versus Covid Tantrum (bps)



Source: Bloomberg. Note : Day 1 for taper tantrum is May 22, 2013. Day 1 for Covid Tantrum is January 5 2021

Total COVID-19 Vaccine Administered Per Hundred Population (as of March 26, 2021)

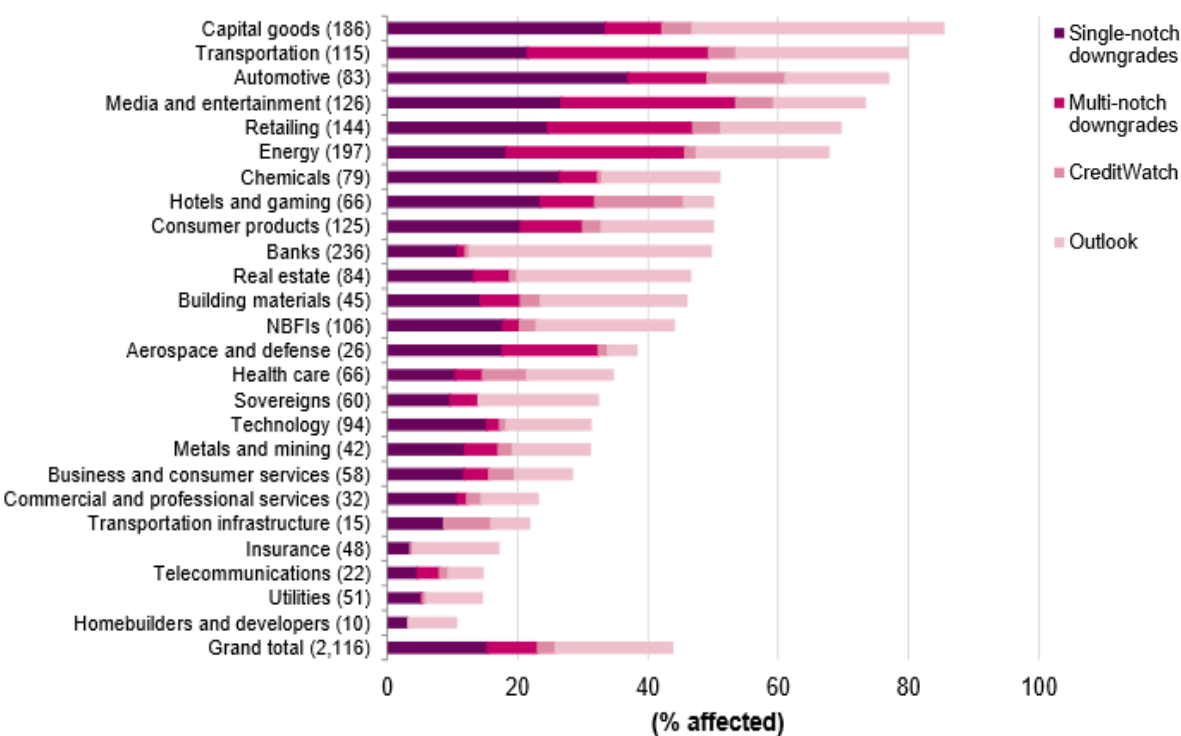


Source: OWID

COVID-19-And Oil Price-Related Public Rating Actions

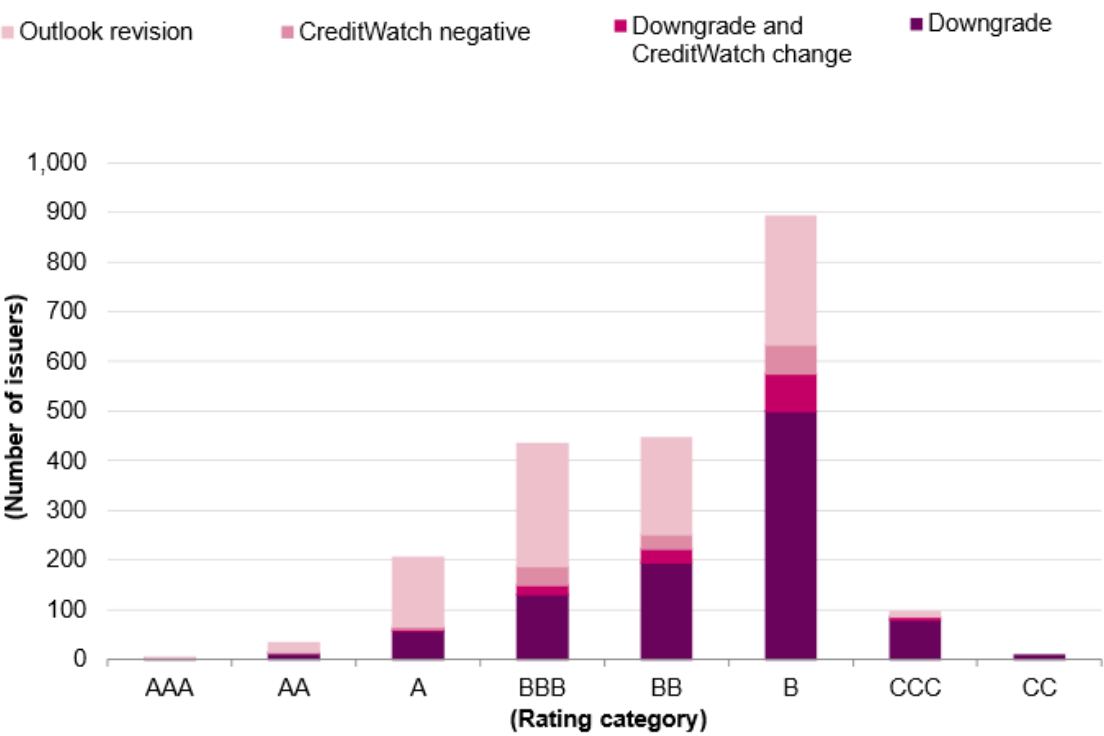
Sector Breakdown Of Corporate And Sovereign Downgrades By Number Of Notches

Percent of issuers affected by COVID-19 and oil prices



Source: S&P Global Ratings Research. Downgrades tracked from Feb. 3, 2020 to February 22, 2020, NBFI: Non-bank financial institutions.

Corporate And Sovereign Issuers Impacted By COVID-19 & Oil Prices By Rating Category And Action Type



"Data as of February 22, 2021. Source: S&P Global Ratings Research. Rating actions are tracked at an issuer level. If an issuer has had multiple rating actions since Feb. 3rd, the last rating action date is reflected in the chart above. Not included in this chart is one issuer who was previously rated 'C'."

Related Research

COVID-19 And Shape Of Recovery | Latest Research

Covered Today:

- Global Credit Conditions Q2 2021: The Risks Of An Uneven Recovery , March 31, 2021
- Global Economic Outlook Q2 2021: Global Recovery Gains Traction As Unevenness Abounds, March 31, 2021
- [Credit Conditions North America Q2 2021: As Outlook Brightens, Risks Remain](#), March 30, 2021
- [Credit Conditions Asia-Pacific Q2 2021: Uneven Recovery](#), March 30, 2021
- [Credit Conditions Europe Q2 2021: New Horizons, Old Risks](#), March 30, 2021
- [Credit Conditions Emerging Markets Q2 2021: Brighter Prospects Prone To Setbacks](#), March 30, 2021
- [Economic Outlook U.S. Q2 2021: Let The Good Times Roll](#), March 24, 2021
- [Economic Outlook Asia-Pacific Q2 2021: Three-Speed Recovery Will Benefit From Faster Global Growth](#), March 25, 2021
- [Economic Outlook Europe Q2 2021: The Path To A Strong Restart](#), March 25, 2021
- [Economic Outlook Emerging Markets Q2 2021: Tailwinds From Stronger Global Growth, But Several Challenges On The Radar](#), March 30, 2021
- [Economic Outlook Latin America Q2 2021: Despite Growth Picking Up, Pre-Pandemic Weaknesses Remain](#), March 26, 2021
- [Orderly Global Reflation Will Support The Recovery From COVID-19](#), March 22, 2021
- [Central Banks, Credit Markets, And The Catch-22 Taper](#), March 22, 2021
- [U.S. Speculative-Grade Corporate Default Rate Forecast For Year-End 2021 Falls To 5.5%](#), March 30, 2021
- [The European Speculative-Grade Corporate Default Rate Could Reach 6.5% By December 2021](#), Feb 25, 2021

You might be also interested by:

- [Ratings Weekly Digest: March 24, 2021](#)
- [COVID-19 Impact: Key Takeaways From Our Articles](#), March 24, 2021
- [COVID-19- And Oil Price-Related Public Rating Actions On Corporations, Sovereigns, International Public Finance, And Project Finance To Date](#), Feb 23, 2021

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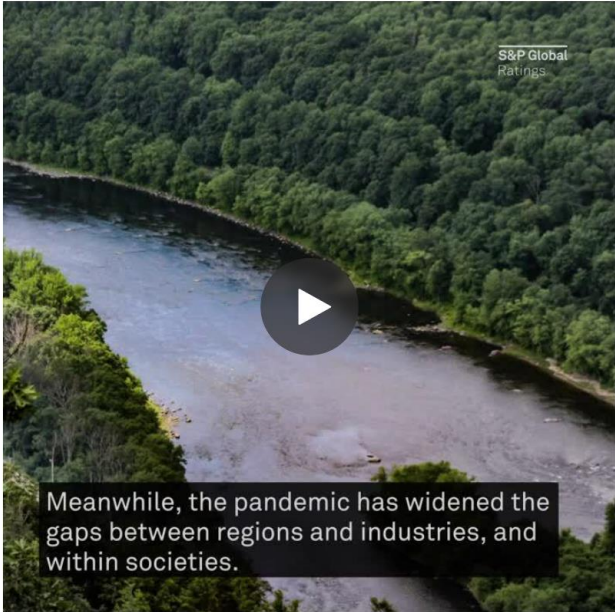
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Global Credit Outlook: Back on Track?

COVID-19 will continue to put a heavy strain on global credit conditions in 2021. Even if a vaccine becomes widely available by midyear, which we assume in our baseline, containment of the pandemic will be very uneven worldwide. Until then, further waves of COVID-19 cases, requiring renewed containment measures, may harm a fragile economic recovery and lead to further credit deterioration, particularly in sectors most exposed to social distancing and travel restrictions.

[Read the Report](#)



Global Credit Conditions

S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Latin America, North America, and Europe, the Middle East and Africa).

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Credit Conditions

Sector	
<input type="checkbox"/> Capital Markets	
<input type="checkbox"/> Coronavirus	
<input type="checkbox"/> Corporates	+
<input type="checkbox"/> Credit Analysis	
<input type="checkbox"/> Credit Market Research	

WEBINAR REPLAYS — Mar 31, 2021 — Live Webinar

Global Credit Conditions: Beyond COVID - March 31 - EMEA & Americas

Mar. 31, 2021

Live Webinar

1 hour

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