



## Global corporates demonstrate stability in credit risk for 2021, while headwinds remain going forward

by [NUS-CRI Market Monitoring Team](#)

- **Global credit quality remained stable throughout 2021 on the back of economic recovery and benign financing conditions**
- **New Omicron variant and imminent rate hikes caused by high levels of inflation pose headwinds for credit outlook of global listed companies**
- **While airlines, textiles, oil & gas services, and coal industries demonstrate highest credit risk in 2021, storage, household products, healthcare services, and biotechnology industries fared the best**

Global credit risk for corporates stabilized in 2021 compared to the [rollercoaster witnessed in 2020](#), as the broad economy recovered from the fallout of the COVID-19 pandemic, and corporates around the world are supported by extended pandemic stimulus programs. The NUS-CRI 1-year Aggregate (median) Probability of Default (Agg PD) demonstrates a stable credit profile of global listed corporates throughout 2021, with the Agg PD stable around 15bps (See Figure 1a). Despite the improvement from 2020, the credit risk is still [higher than](#) the levels witnessed before the pandemic with multiple risks brewing. Looking forward, as most central banks are signaling rate hikes to curb rising inflation risk around the world, the NUS-CRI Aggregate (median) Forward 1-year PD (Forward PD<sup>1</sup>) shows that the global credit outlook is set to worsen due to potential risks arising from economic growth uncertainties and higher borrowing costs (Figure 1b).

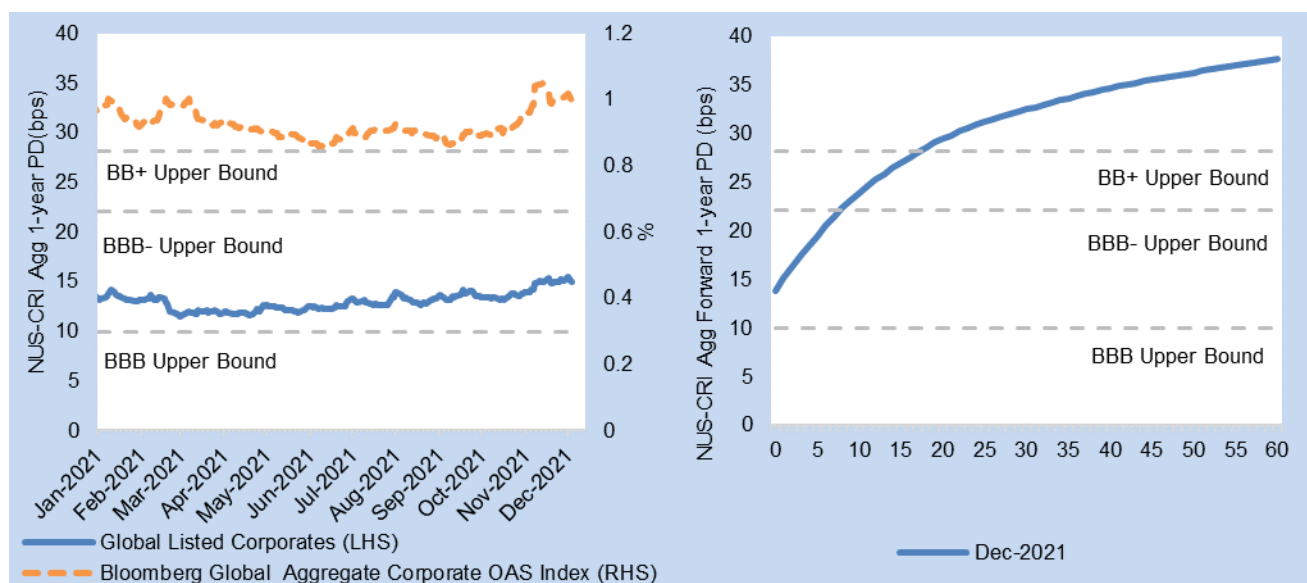


Figure 1a (LHS): NUS-CRI Agg 1-year PD (primary axis) for global listed corporates referenced to PDiR2.0<sup>2</sup> and Bloomberg Global Aggregate Corporates OAS (option adjusted spread) index (secondary axis) from Jan-2021 to Dec-2021. Figure 1b (RHS): NUS-CRI Agg Forward 1-year PD for global listed companies as of Dec-2021 referenced to PDiR2.0. *Source: Bloomberg, NUS-CRI*

In the midst of multiple COVID-19 variants threatening economic growth in 2021, mass vaccination efforts by countries throughout 2021 have helped fuel economic recovery. Resultantly, NUS-CRI recorded fewer defaults in 2021 compared to the initial year of the pandemic (See Figure 2a) due in part to the improving financing

<sup>1</sup> The Forward PD estimates the credit risk of a company in a future period, which can be interpreted similar to a forward interest rate. For example, the 6-month Forward 1-year PD is the probability that the firm defaults during the period from 6 months onwards to 18 months, conditional on the firm's survival in the next 6 months.

<sup>2</sup> The Probability of Default implied Rating version 2.0 (PDiR2.0) provides a more familiar interpretation through mapping the NUS-CRI 1-year PDs to the S&P letter grades. The method targets S&P's historical credit rating migration experience exhibited by its global corporate rating pool instead of relying solely on the reported default rates.

environment. Global bond issuance in 2021 was similar to levels witnessed in [2020](#) (See Figure 2b), as financing conditions remained favorable across asset classes primarily stemming from low-interest rates and extended stimulus programs such as the Fed's [bond-buying program](#) and the ECB's bond-buying tool which remains available for [reactivation](#) even as it is on track to be wound down. These asset-purchase programs helped keep borrowing costs low and allowed companies to [easily issue and refinance debt](#). The Bloomberg Global Aggregate Corporate OAS Index showed a downward trend for a major part of the year, supporting the borrowing efforts of corporates globally (Figure 1a). However, as the COVID-19 pandemic transitions slowly into being endemic, the sustained government support and fiscal stimulus that has aided in the financing of corporates, especially those which are highly leveraged, will subside. Credit pressures for such firms that have been overly reliant on the benefits of government support programs may therefore see an increase caused by potential deterioration in repayment abilities.

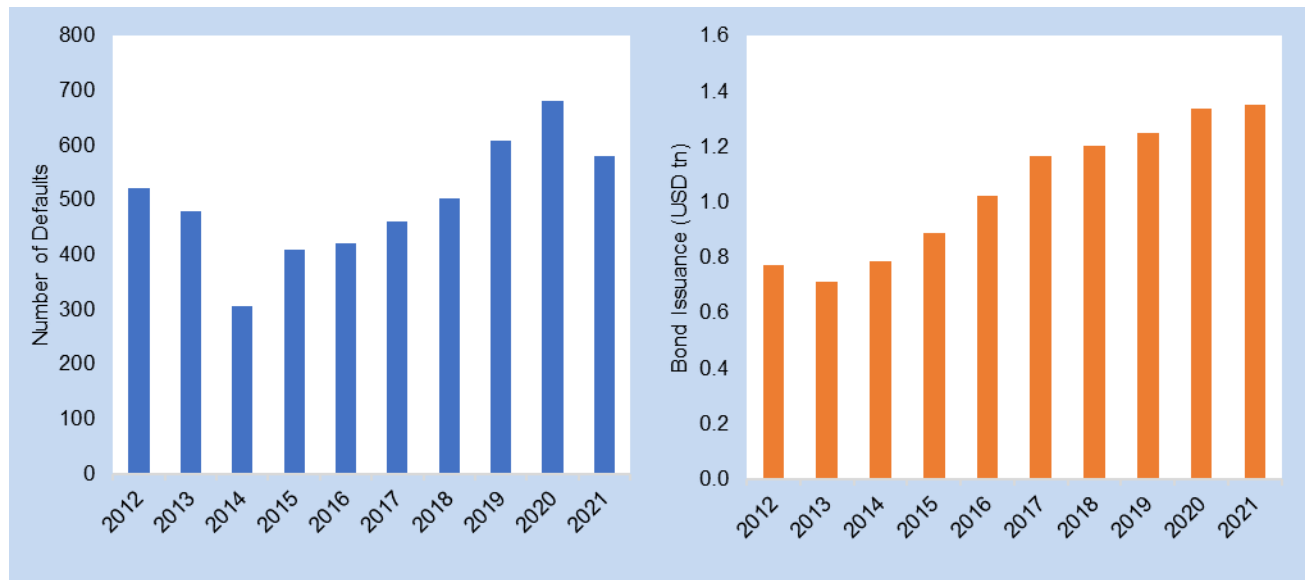


Figure 2a (LHS): Number of default events from 2012 to 2021. Figure 2b (RHS): Bond issuance amount (USD tn) for global corporates from 2012 to 2021. Source: NUS-CRI, Bloomberg

Furthermore, 2021 has also seen a plethora of governments battle high levels of inflation brought on by persistent supply-chain setbacks as well as rising energy prices. In an effort to curb inflation levels, most central banks around the globe are on the cusp of increasing interest rates and tapering their bond purchase programs, which have inadvertently increased pressure on borrowing costs for corporations around the world. With [central banks](#) including the Fed, Bank of England (BOE), and the ECB signaling a potential hike in interest rates in 2022, the impact on borrowing costs amidst operational challenges such as [supply-chain disruptions](#), [surging production costs](#), and labor shortages are likely to hinder earning levels and increase leverage levels, potentially increasing credit risk in the long term as displayed by Forward PD in Figure 1b. Furthermore, as pandemic-related government support schemes around the world have increased government deficits, it is possible that a [potential](#) increase in taxes will hinder earnings momentum for corporations in the short term as governments aim to reduce deficits in order to not be overly leveraged and to replenish their fiscal reserves.

The recent emergence and [alarming spread](#) of the Omicron variant has introduced new levels of uncertainties for the global economic outlook. As the pandemic may persist for a prolonged period, risks of a fall in economic activities as well as further disruptions to global supply chains and higher inflation are on the rise. When the [earliest known cases](#) of Omicron were found in Nov-2021, the Bloomberg Global Aggregate Corporates OAS widened (Figure 1a). With unease about Omicron in the spotlight, investors remain cautious about the outlook and thus may change their risk appetite, threatening global companies' financing moving forward (Figure 1b).

Looking into industry groups, the industries with the highest credit risk in 2021 were airlines, textiles, oil & gas services, and coal (Figure 3a). The airlines industry [continues](#) to have the highest credit risk in 2021, with its credit risk amplified by the [debt binge](#) supported by the previously benign government support. Its credit quality will hinge on the development of the pandemic and the resultant impact on operations caused by [cross-border restrictions](#), especially [due to the surge in Omicron cases](#) across the globe. Meanwhile, disruptions in supply chains have not only [delayed](#) production and delivery, but also increased [freight cost](#) and [raw material cost](#) for the textile industry. To add to its woes, [labor shortages](#) prevent the industry from operating at desired capacity, hindering its cash-flow generating ability. Furthermore, the fast rebound of the global economy in 2021 [drove up coal demand](#) and prices and helped improve the coal industry's credit quality [compared to last year](#). Yet, the

tight supply constrains the coal industry's ability to translate demand into profits, and [headwinds in financing](#) weigh on the industry's credit profile. The oil & gas services industry, although still among the industries with the highest credit risk, [improved its credit quality](#) in 2021 on the back of [oil prices](#) reaching a six-year high. However, shifts to renewable energy and ESG concerns pose [structural financing risks](#) for the industry.

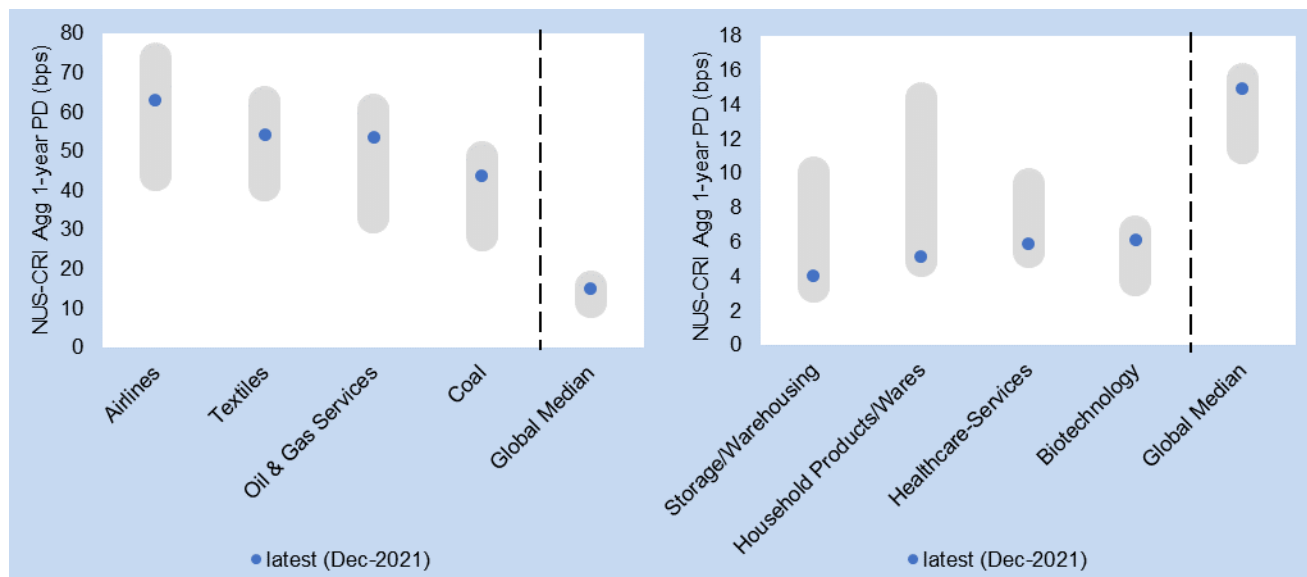


Figure 3a (LHS): Min-max range of Agg PD in 2021 and latest Agg PD for industries with highest Agg PD in Dec-2021. Figure 3b (RHS): Min-max range of Agg PD in 2021 and latest Agg PD for industries with lowest Agg PD in Dec-2021. Source: NUS-CRI

In contrast, companies in storage/warehousing, household products/wares, healthcare services, and biotechnology industries demonstrate the lowest credit risk in 2021 (Figure 3b). The storage/warehousing industry faced skyrocketing demand in 2021 from the growth of [e-commerce](#) and the excess [industrial goods](#) left by global supply chain bottlenecks. The household products/wares industry has been placed at an advantage as the COVID-19 pandemic has resulted in an increased focus on hygiene and [higher consumer engagement with homecare](#). Household goods' [price hikes](#) have helped to [offset increasing costs](#) from raw materials and fuel and thus maintain profit. The consumption of healthcare services is supported by [government healthcare funding](#) to combat COVID-19. Moreover, digital transformation trends accelerated by the pandemic bring the industry huge [potential for innovation and growth](#), which is a positive revenue driver looking forward into 2022. Meanwhile, the biotech industry has defensive qualities during the pandemic [on the back of](#) its continuous innovation, significant unmet medical needs, stable demand from aging populations, and improving healthcare access globally, as well as the industry's [innate financial resilience against economic cycles](#). The industry saw [huge investments](#) pouring in 2021, demonstrating investors' optimism on its outlook.

Credit risk for global listed companies has been stable throughout 2021, thanks to vaccine-driven economic recovery and favorable financing conditions. Looking forward, there are still multiple challenges as high inflation fueled by [supply chain disruptions and high energy prices](#) prompt central banks to raise interest rates. However, uncertainty on rate hikes still remains as central banks try to balance tapering and monetary tightening with economic contraction, especially in emerging markets where the Omicron variant is expected to hinder growth the most. Long-term risks pertaining to ESG and climate concerns will become more pertinent looking forward, especially given that stakeholders have become a lot more mindful of social concerns due to the lasting impact of the pandemic. For companies that are able to navigate such headwinds going into 2022, their credit risk outlook may substantially improve.

## Credit News

### China dollar bond market: risks and opportunities ahead as property sector defaults continue in 2022

**Dec 29.** China's dollar bond market faces extended default risk, especially in the property sector, amid policy uncertainty. The cumulative default rate of China's high-yield dollar bonds is expected to rise from 38 percent to 42 to 45 percent in the coming three to six months, said Credit Suisse. Meanwhile, Goldman Sachs forecasts that the default rate in China's property high-yield bond segment will reach 28.7 percent by the end of 2022. China's offshore bond market has lost much of its refinancing function. Dollar bond issuances by Chinese companies fell 6.2 percent in the first 11 months of 2021, while total maturities of Chinese dollar bonds in 2022 will surge 19 percent to at least USD 118.5bn from 2021. While recent policy action, including cuts in the one-year loan prime rate and the reserve requirement ratio, is relatively positive, there is uncertainty in how much time it will take for liquidity to be transmitted to the market and individual companies. ([SCMP](#))

### Companies funding acquisitions to drive bond sales this month

**Jan 1.** Deutsche Bank predicted that approximately USD 140bn to USD 145bn of bonds are expected to fund mergers and acquisitions by 2022, more than twice the level of the same period last year. Some may appear in January, as January is often the month with the largest bonds supply. High-grade supply will slow down this year, but the level of funding will remain relatively attractive even amidst interest rates hikes. It is expected that junk bond issuance in 2022 will drop by about 10% to 15%. The hot sales pace since 2021 may slow down in Jan-2022 as lenders are transferring the benchmark interest rate for loans from Libor to SOFR. ([Bloomberg](#))

### The return of credit risk doesn't have to be an unwanted sequel

**Dec 30.** Consumer loan asset quality has been exceptionally strong so far, remaining at roughly half the levels they were at two years ago. However, delinquent payments and charged-off credits are starting to increase as support measures recede, and many expect a slow and steady reversion to normal. Yet, banks are well-positioned to handle a steady increase in consumer credit risk in 2022, and a bank credit card or auto loan charge-offs are not expected to peak until 2023. Banks still have relatively large loan-loss cushions, so they may not have to make unusual provisions in earnings even if credit deteriorates. Allowances for losses as a percentage of loans and leases at large US banks are still almost half a point above where they were at the end of 2019. Meanwhile, loan growth could continue to boost banks' net interest income, while potential rate raises would benefit margins. ([WSJ](#))

### Cash floods Municipal-bond market

**Jan 1.** Investors poured USD 64bn into municipal bond funds through mid-December 2021, more than they ever have in decades during that period. These funds now hold 24% of outstanding debt, compared with 16% five years ago. Tax breaks and stimulus have helped investors move past worries about pandemic-related defaults. State and local governments issued a 10-year record of USD 302.3bn of debt for new projects as of the end of Dec-2021, as expectations of possible tax increases likely stoked investors' appetites, and could potentially sell around USD 100bn more of bonds without driving down prices. Mutual and exchange-traded muni fund holdings reached more than USD 1tn as of Sep-2021, but the amount of municipal debt held by brokers and dealers has shrunk to USD 12.1bn, a 26% drop from 2019, making the market increasingly vulnerable to the kind of free fall experienced in Mar-2020, when investors fled muni bond funds, triggering a liquidity crisis, and sending prices plunging. ([WSJ](#))

### Red-hot housing market fuels mortgage borrowing record

**Jan 1.** The mortgage boom, driven by low-interest rates and a strong labor market, has pushed Americans to borrow USD 1.61tn in purchase loans in 2021, breaking the previous record of USD 1.51tn issued in 2005. Sales of existing homes are expected to hit the highest level since 2006, as home prices increased by 19.1% in the year ended October. One of the main drivers for the surge in the housing market is wage increases for private-sector workers. The growth in purchase loans helped offset the decline in refinancing due to rising

mortgage rates. However, economists project that it would be the surge in home prices, not rate increases, that would turn off potential homeowners. ([WSJ](#))

**China developers confront a USD 197bn challenge in January** ([Bloomberg](#))

**Philippine Air exits bankruptcy with option to tap financing** ([Bloomberg](#))

**Reliance to raise up to USD 5bn in offshore bond offering** ([Bloomberg](#))

### Regulatory Updates

#### China central bank issues first loans to back financing for emissions cuts

**Dec 30.** Under the carbon emission reduction facility (CERF), launched by the People's Bank of China (PBOC) to support China's peak carbon emissions by 2030 and carbon neutrality emissions by 2060, financial institutions can apply for low-cost funding to support corporate emission reductions. Under the CERF, the PBOC will provide financial institutions with funds equivalent to 60% of the loan principal, with a one-year loan interest rate of 1.75%, lower than the seven-day reverse repo rate of 2.20%. China has issued the first CNY 85.5bn batch of low-cost loans to financial institutions to encourage green projects and corporate efforts to reduce carbon emissions. After the monetary tool is fully launched in 2022, the CERF may invest CNY 1tn in clean energy-related projects every year. The PBOC has also officially launched low-cost loans to support companies to use clean coal. The CERF and the special clean coal loans can increase the overall credit supply and stabilize credit growth. ([CNA](#))

#### Some companies are ready for Libor's demise, but not all

**Dec 30.** From January 1, US banks won't be allowed to issue new debt linked to Libor. Large US financial institutions have been preparing for the transition for many years. Many of them replaced Libor with alternative reference rates, especially the Secured Overnight Financing Rate (SOFR) for some of their assets. In contrast, non-financial companies and smaller institutions like regional banks are in different stages of choosing replacement rates and updating systems. Many products, including currency swaps and floating-rate notes, have been converted from Libor. For example, all new mortgage-backed securities issued by Fannie Mae and Freddie Mac are now linked to SOFR and about 90% of recently issued floating-rate notes. Meanwhile, cross-currency swaps between the US dollar and other currencies have almost completely transitioned to SOFR or other reference rates. SOFR is also the most accepted alternative rate in the leveraged loan market as it is based on observable transactions and large volumes. However, for business loans, the transition has been slower. ([WSJ](#))

**China to issue record treasury bonds in 2022, guide rates lower** ([Reuters](#))

**Turkey weighs inflation-protected lira bonds, Nikkei reports** ([Bloomberg](#))