

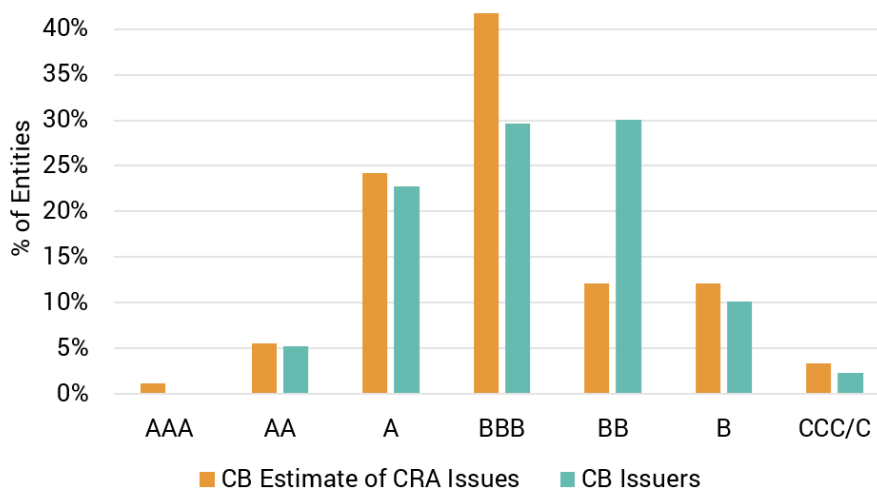
Bank Lenders Sound Alarm on Corporate Credit Risk – One-Third of BBB-Rated Bonds on Precipice of High-Yield Bond Cliff

US corporate debt is notoriously overrepresented in the 'BBB' rating category, and investors fear that economic pressure could topple these bonds Jenga-style into high-yield status. Enter coronavirus – the rapid spread of the disease has caused a sharp shock to global markets and a swathe of industries are vulnerable to take a profit hit as the economy faces a 'slowbalisation' effect.

But if the tower of **BBB** debt is to fall, where will the pieces land? The latest credit risk snapshot from **Credit Benchmark**, which captures probability of default (PD) estimates from the world's leading financial institutions to produce a consensus-based credit rating, provides some clues that are not yet showing up in traditional credit ratings agency (CRA) forecasts. The data illustrates the spread in credit quality of US Corporate Borrowers, comparative to the major CRAs' rating spread of US Corporate Bonds. Whereas the estimates from the traditional CRAs show a sharp drop off from **BBB** to the high-yield category of **BB** (gold bars in chart below), the Credit Benchmark consensus estimates demonstrate roughly equal weighting between **BBB** and **BB** borrowers before tailing into the **B** and **C** categories (green bars in chart below).

This means many corporate bond issuers whose bonds are currently rated **BBB** by the traditional CRAs have already been downgraded to high-yield status in the Credit Benchmark dataset. This is important because the Credit Benchmark dataset captures a larger universe and more frequently updated consensus estimates. The data in the chart below is updated monthly, representing the most current view of credit risk estimates from the world's largest lending institutions.

The data suggests a current disparity of 15% between bond ratings from the CRAs vs the Credit Benchmark consensus estimate when it comes to high-yield distribution, suggesting that **over a third** of **BBB** rated bonds are highly vulnerable to a downgrade into non-investment territory. The Credit Benchmark **BBB/BB/B** spread of borrowers may pre-emptively reflect the future distribution of US Corporate Bonds in the event that a catalyst such as coronavirus topples the status quo.



About Credit Benchmark

Credit Benchmark brings together internal credit risk views from 40+ of the world's leading financial institutions. The contributions are anonymized, aggregated, and published in the form of entity-level consensus ratings and aggregate analytics to provide an independent, real-world perspective of risk. Consensus ratings are available for 50,000+ financials, corporate, funds, and sovereign entities globally across emerging and developed markets, and 75% of the entities covered are otherwise unrated.

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