

# Fallen Angels: Smaller Increases

November 2020

The number of Fallen Angels – companies whose credit quality has shifted from investment-grade to high-yield or “junk” status – continues to increase, yet each update brings a smaller total number than the last.

Each month, Credit Benchmark tracks a global sample of corporations across all sectors to gauge the percentage of firms at risk of losing their investment-grade status. This month’s report captures consensus credit data for 6,894 companies that were classed as Investment-grade as at end-Feb 2020 and finds that 836 (about 12%) are now classified as High Yield, according to the internal risk views of over 40 leading global financial institutions. This is an increase of 64, which is lower than last update’s increase of 93. Of the 32 sectors examined, 15 have a higher percentage of Fallen Angels than the average for the full sample.

*Figure 1: Fallen Angels % by Global Sector*

Credit Benchmark Risk Entity Sector	Sample of IG companies end-Feb 20	Cumulative # of Fallen Angels Mar - Sep 20	Cumulative % of Fallen Angels Mar - Sep 20
Travel & Leisure	189	79	41.8%
Leisure Goods	22	7	31.8%
Industrial Metals & Mining	64	16	25.0%
Aerospace & Defense	76	16	21.1%
Personal Goods	65	12	18.5%
Media	151	27	17.9%
Automobiles & Parts	384	67	17.4%
General Retailers	605	102	16.9%
Oil & Gas Producers	492	78	15.9%
Mobile Telecommunications	19	3	15.8%
Chemicals	388	59	15.2%
Industrial Transportation	346	51	14.7%
Household Goods & Home Construction	169	22	13.0%
Forestry & Paper	63	8	12.7%
Construction & Materials	316	39	12.3%
Full Sample	6,894	836	12.1%
Oil Equipment, Services & Distribution	168	20	11.9%
Technology Hardware & Equipment	104	10	9.6%
Beverages	87	8	9.2%
Support Services	469	42	9.0%
Food Producers	396	35	8.8%
Electronic & Electrical Equipment	204	18	8.8%
Software & Computer Services	253	21	8.3%
Industrial Engineering	219	18	8.2%
Mining	220	18	8.2%
Food & Drug Retailers	77	6	7.8%
Pharmaceuticals & Biotechnology	142	10	7.0%
General Industrials	62	4	6.5%
Health Care Equipment & Services	227	10	4.4%
Tobacco	25	1	4.0%
Gas, Water & Multi-utilities	303	11	3.6%
Fixed Line Telecommunications	141	5	3.5%
Electricity	448	13	2.9%

Once again, **Travel & Leisure** is in the pole position with 42% of firms classified as Fallen Angels, up slightly from the prior month. Following that are **Leisure Goods** at 32% and **Metals & Mining** at 25%, each unchanged from the prior month.

Also unchanged from the prior update are **Aerospace and Defense** at 21% and **Personal Goods** at 19%.

Drops in credit quality can be seen in **Media**, now at 18%; **General Retailers**, now at 17%; **Oil & Gas Producers**, now at 16%; and **Chemicals**, now at 15%.

Deterioration can also be seen in **Construction & Materials**, now at 12%; **Support Services** and **Electronic & Electrical Equipment**, each now at 9%; and in **General Industrials**, now at 7%.

The best-performing sectors – those with the lowest percentage of Fallen Angels – are **Fixed Line Telecommunications** at 4% and **Gas, Water, & Multi-utilities** at 3%, each at 4%, and **Electricity** at 3%.

As previously noted, [widely cited research](#) suggests up to one third of all corporate bonds with the BBB designation might shift to “junk” status, despite a possible reluctance on the part of agencies to downgrade. Consensus credit data from Credit Benchmark supports this thesis.

The credit sample examined above is based on issuers instead of issues and includes all investment-grade companies, not just BBB. Still, the growing Fallen Angel rates shown here that covers the first six months of the COVID crisis – indicate that the shift for some sectors by the end of 2020 may be yet higher than has so far been suggested. This is true even if the pace of growth is slowing.

## About Credit Benchmark

This 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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