

Rising Stars: More Rays of Light

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The rays of light within credit markets are slowly growing. Known as Rising Stars, companies moving from high-yield or “junk” to investment-grade status are increasing across many sectors.

According to the latest consensus credit data from Credit Benchmark, which tracks collective credit quality estimates of lenders to firms in various sectors, the total number of new Rising Stars has increased by 24 since the previous update.

Each month, Credit Benchmark tracks a global sample of corporations across all sectors to gauge the percentage of firms that have improved to investment-grade status. This month’s report captures consensus credit data for 6,901 companies that were classified as High Yield as at end-Feb 2020 and finds that since that time, 329 (about 5%) have migrated into Investment-grade, based on the internal risk views of over 40 leading global financial institutions. Of the 32 sectors examined, 13 have a higher percentage of Rising Stars than the average for the full sample.

Figure 1: Rising Stars % by Global Sector

Credit Benchmark Risk Entity Sector	Sample of HY companies end-Feb 20	Cumulative # of Rising Stars Mar - Sep 20	Cumulative % of Rising Stars Mar - Sep 20
Aerospace & Defense	32	6	18.8%
Electricity	136	19	14.0%
Fixed Line Telecommunications	171	15	8.8%
Food & Drug Retailers	93	8	8.6%
Gas, Water & Multi-utilities	51	4	7.8%
Beverages	39	3	7.7%
Mining	223	16	7.2%
Pharmaceuticals & Biotechnology	86	6	7.0%
Technology Hardware & Equipment	116	8	6.9%
Support Services	546	36	6.6%
Personal Goods	103	6	5.8%
General Retailers	634	33	5.2%
Construction & Materials	291	15	5.2%
Full Sample	6,901	329	4.8%
Industrial Metals & Mining	152	7	4.6%
Industrial Transportation	437	20	4.6%
Software & Computer Services	407	17	4.2%
Mobile Telecommunications	24	1	4.2%
Chemicals	323	13	4.0%
Electronic & Electrical Equipment	174	7	4.0%
Media	230	9	3.9%
Household Goods & Home Construction	113	4	3.5%
Health Care Equipment & Services	216	7	3.2%
Industrial Engineering	216	7	3.2%
Oil & Gas Producers	467	15	3.2%
Food Producers	564	17	3.0%
Automobiles & Parts	299	9	3.0%
Travel & Leisure	405	12	3.0%
Leisure Goods	37	1	2.7%
General Industrials	76	2	2.6%
Forestry & Paper	78	2	2.6%
Oil Equipment, Services & Distribution	158	4	2.5%
Tobacco	4	0	0.0%

Once again, **Aerospace & Defence** has the highest percentage of Rising Stars at 18%, followed by **Electricity** at 14%. Each of those sectors saw their percentages grow. **Fixed Line Telecommunications** is in third at 9%.

Some sectors, like **Food & Drug Retailers** at 9% and **Beverages** at 8%, saw their percentages stay the same.

Many sectors, however, experienced improvement. **Gas, Water & Multi-utilities** improved to 8%, while **Support Services** improved to 7%. **Industrial Transportation** now has 5% of constituents as Rising Stars.

As previously stated, positions in some sectors reflect underlying strength in credit quality. **Health Care Equipment & Services** is one such sector. Already skewed towards investment-grade names, it is less likely to see notable volatility from update to update. But even some sectors whose credit quality is also strong are seeing improvement.

Of course, more thorough improvement across multiple sectors will be harder to come by until a broader economic recovery takes hold. Credit difficulties are certainly not isolated. Airlines have [been ravaged](#) by COVID, with thousands of jobs already cut and [more possibly on the way](#). Such distress affects multiple firms, from those in the energy sector to those in the travel and leisure space.

For now, at least, some sectors are moving in the right direction.

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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