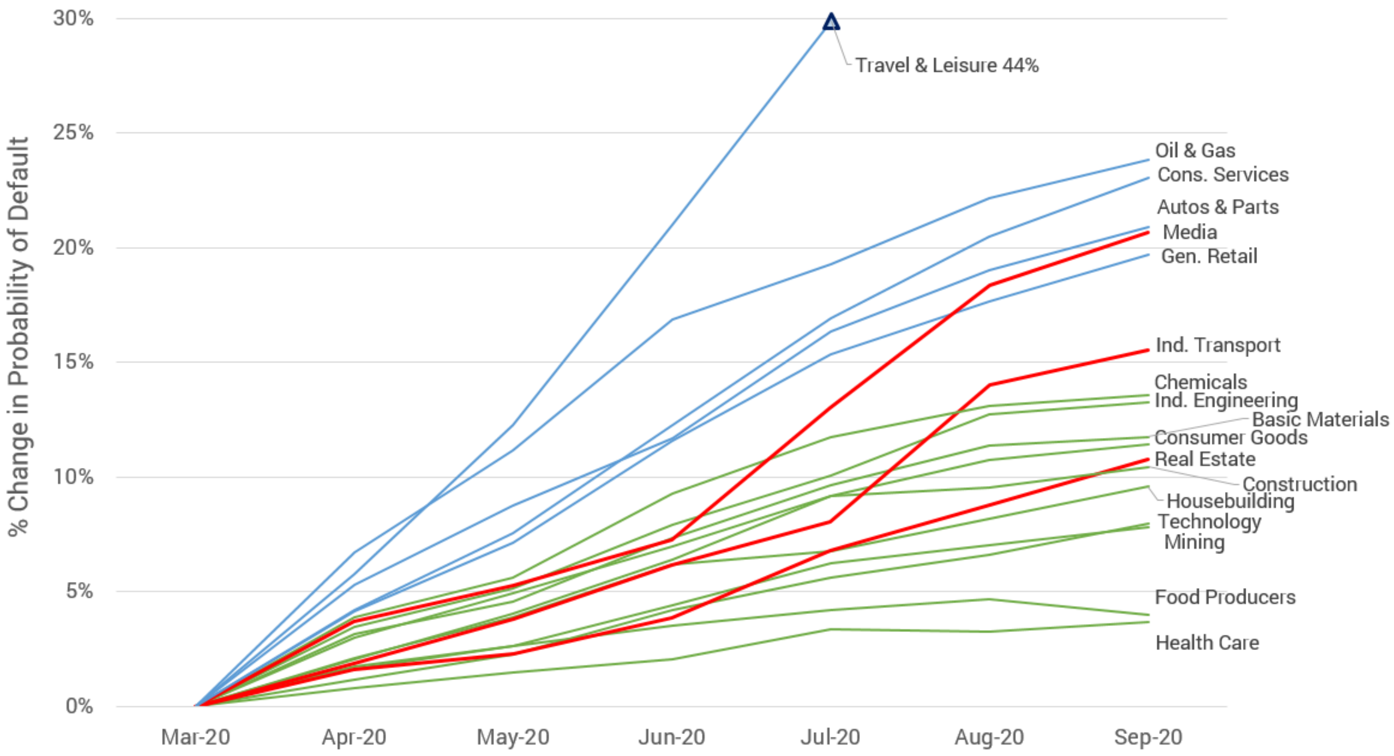
Credit Benchmark

Vaccine in Sight – Sectors to Watch

November 2020

An effective COVID vaccine may be in sight, and some sectors could see major improvements in their credit fundamentals. The first COVID lockdown brought hotels, airlines and oil companies to their knees, and second wave circuit breakers are causing major financial damage to pubs, restaurants, sports venues and all aspects of the arts. Equity markets have been euphoric about a brighter outlook for some of these hard hit areas of the economy, and some sectors could see a rapid recovery. But the damage wrought by COVID has also disrupted supply chains and some of these will take a long time to recover. The primary and secondary sectors are lower profile but key to the healthy recovery of the overall economy. Have some of them held up well? Were some of them heading for serious trouble?

Figure 1 below shows consensus credit trends for a broad range of global sectors.



Since March 2020, the sectors that show the largest increase in consensus credit risk[1] are Travel & Leisure (up 44% so far – truncated in the chart) along with Oil & Gas, Autos, General Retail and Consumer Services. These have been joined by Media (now up more than 20%) which has seen a sharp deterioration since June 2020.

Industrial Transportation (including e.g. shipping) is another sector to show a recent spike, rising just over 15% since March with more than half of that since July.

[1] *Change in Average One Year Forward Looking Probability of Default across Sector constituents*

Sectors like Basic Materials, Chemicals, Industrial Engineering and Consumer Goods are levelling off after rising 10%-15%, while Real Estate is now moving steadily upwards after showing limited change in the first few months of COVID.

Of the sectors shown here, only one – Food Producers – shows a recent fall, while Health Care has been stable. Both sectors have only ever risen by a few percent during the crisis to date.

If an effective vaccine is available in early 2021, then some of the worst-hit sectors in Figure 1 – especially those linked to Travel and Leisure – are likely to show the largest bounce-back. Some of the newly deteriorating sectors, like Media, could show a rapid improvement. But others – Industrial Transportation and Real Estate – may take longer. Changes in supply chains and increased appetite for space and homeworking could mean further structural adjustments in those areas,

Constituent lists, single name credit time series and associated metrics for these aggregates are available to subscribers.

CB USA
12 East 49th Street, 9th Floor
New York, NY, 10017
Telephone: +1 646 661 3383

CB UK
131 Finsbury Pavement, 5th Floor
London, EC2A 1NT
Telephone: +44 (0)207 099 4322