

# Is Corporate Credit Quality Improving? Fewer Fallen Angels, More Rising Stars

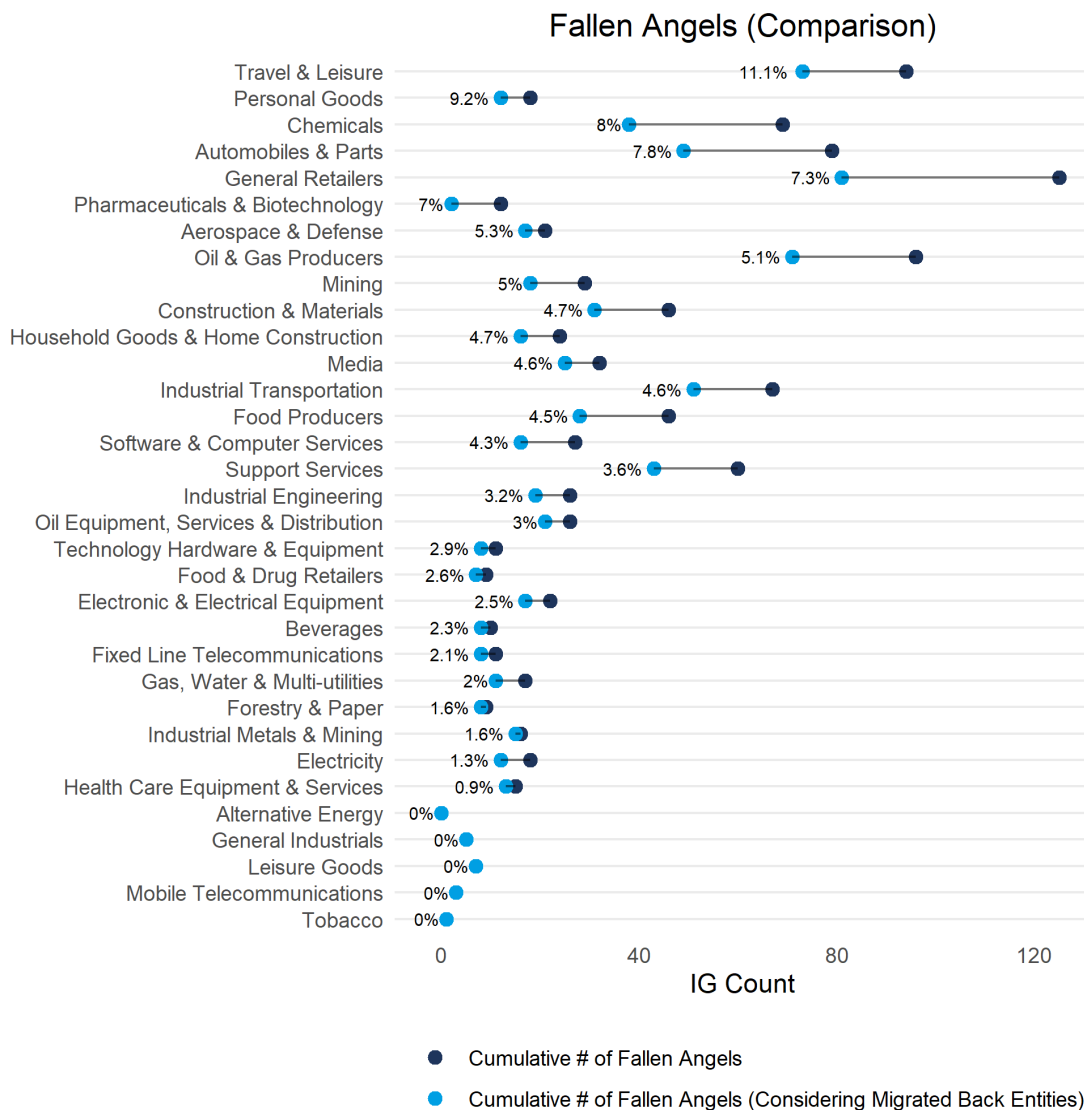
April 2021



The COVID era has caused corporate credit quality to shift rapidly between investment-grade and high-yield in either direction – and for some companies, to shift right back again, suggesting a premature upgrade or downgrade. But the latest data from Credit Benchmark suggest consensus estimates may be improving overall.

The ranks of Fallen Angels, which are companies that have seen their credit status change from investment-grade to high-yield, continue to increase. Now a total of 1,051 companies out of a global sample of 6,895 (15%) have deteriorated to high-yield at some point over the last year, up from 1,009 in the last update. However, only 734 (11%) of these Fallen Angels remain in high-yield status, essentially unchanged from last month's figure of 733. Thus, 317 (5%) have migrated back to investment-grade, up from 276 last month.

In the Fallen Angels category, the latest data show that sectors which are heavily consumer oriented continue to show the largest credit movement. The Travel & Leisure group has seen 50% of its constituents drop into high-yield at some point but 11% have since shifted back to investment-grade status. Personal Goods is right behind with 28% of constituents falling into high-yield, and 9% reverting back to investment-grade. Travel and leisure activities are still hampered by COVID, and the retail sector remains in flux.

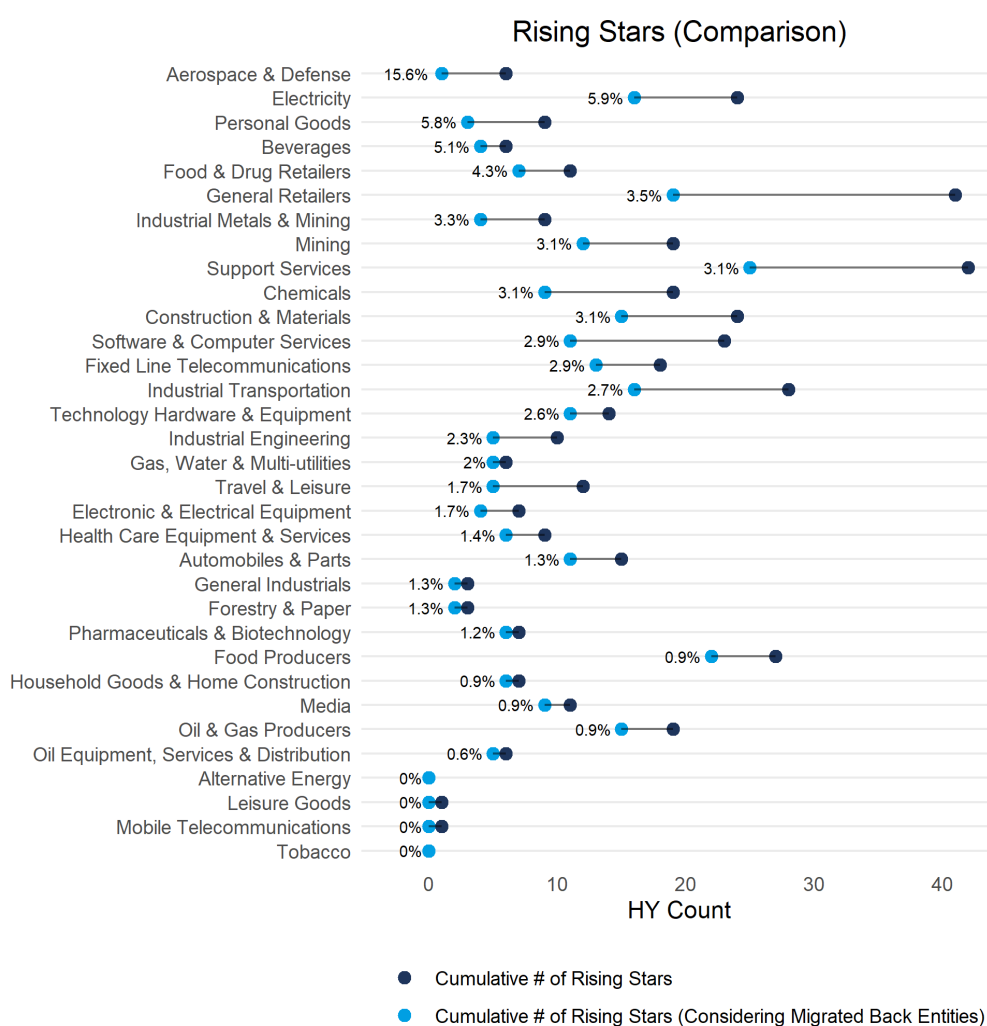


Another stand out sector is Pharmaceuticals & Biotechnology, which saw 9% of firms become Fallen Angels, and subsequently 7% migrate back to investment-grade.

For Oil & Gas Producers, 5% of Fallen Angel firms have migrated back to investment-grade status amid ongoing pressure and upheaval. This global sector’s credit quality has declined by 46% over the last 12 months, and default risk remains at 68 bps.

It’s a different story with Rising Stars. The number of firms whose credit quality was high-yield pre-COVID but then moved to investment-grade continues to grow. Out of a global sample of 6,903 firms, a total of 437 (6%) have now been upgraded, up from 396 last month. Of these, 269 (4%) remain in investment-grade, up from 229 last month, meaning just 168 (2%) have migrated back to high-yield over the sampled time period, compared to 167 last month. In other words, the cross-boundary shuffling that continues with Fallen Angels was not seen in the latest Rising Stars data. Changes in individual sectors such as General Retailers, Automobiles & Parts, and Food Producers have been minor.

There may be more shifting in the months ahead for both Fallen Angels and Rising Stars, but the extent of it will be determined heavily by the evolution of the pandemic and the shape of the economy. The IMF [upgraded](#) its global growth forecast to 6% from 5.5%, yet it also noted that there could be [divergences](#) between countries.



#### 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 55,000+ financials, corporate, funds, and sovereign entities globally across emerging and developed markets, and 90% of the entities covered are otherwise unrated.

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

**RESTRICTED DISTRIBUTION:** Credit Benchmark does not solicit any action based upon this report, which is not to be construed as an invitation to buy or sell any security or financial instrument. This report is not intended to provide personal investment advice and it does not take into account the investment objectives, financial situation and the particular needs of a particular person who may read this report.