

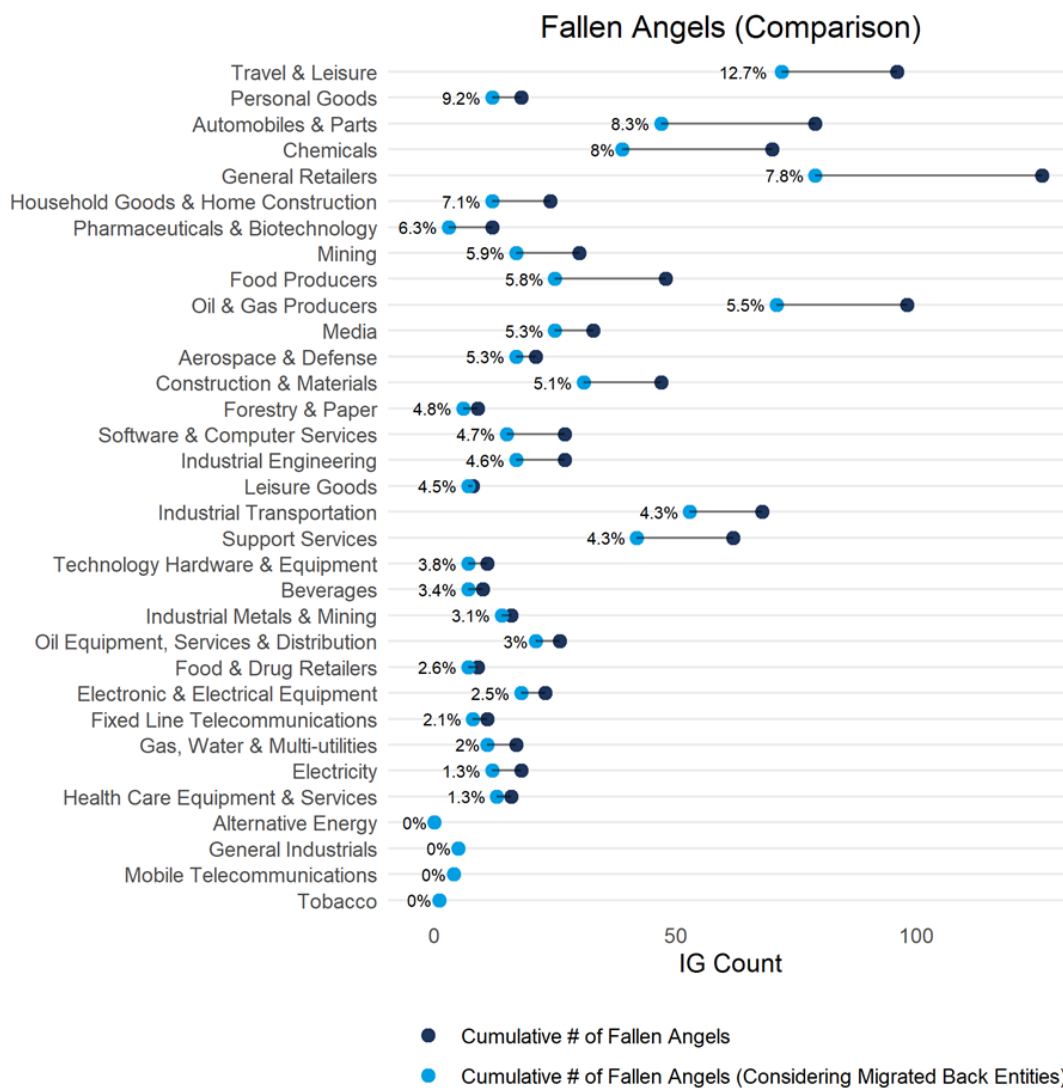
Fallen Angels Dwindle While Rising Stars Continue to Ascend: Corporate Credit

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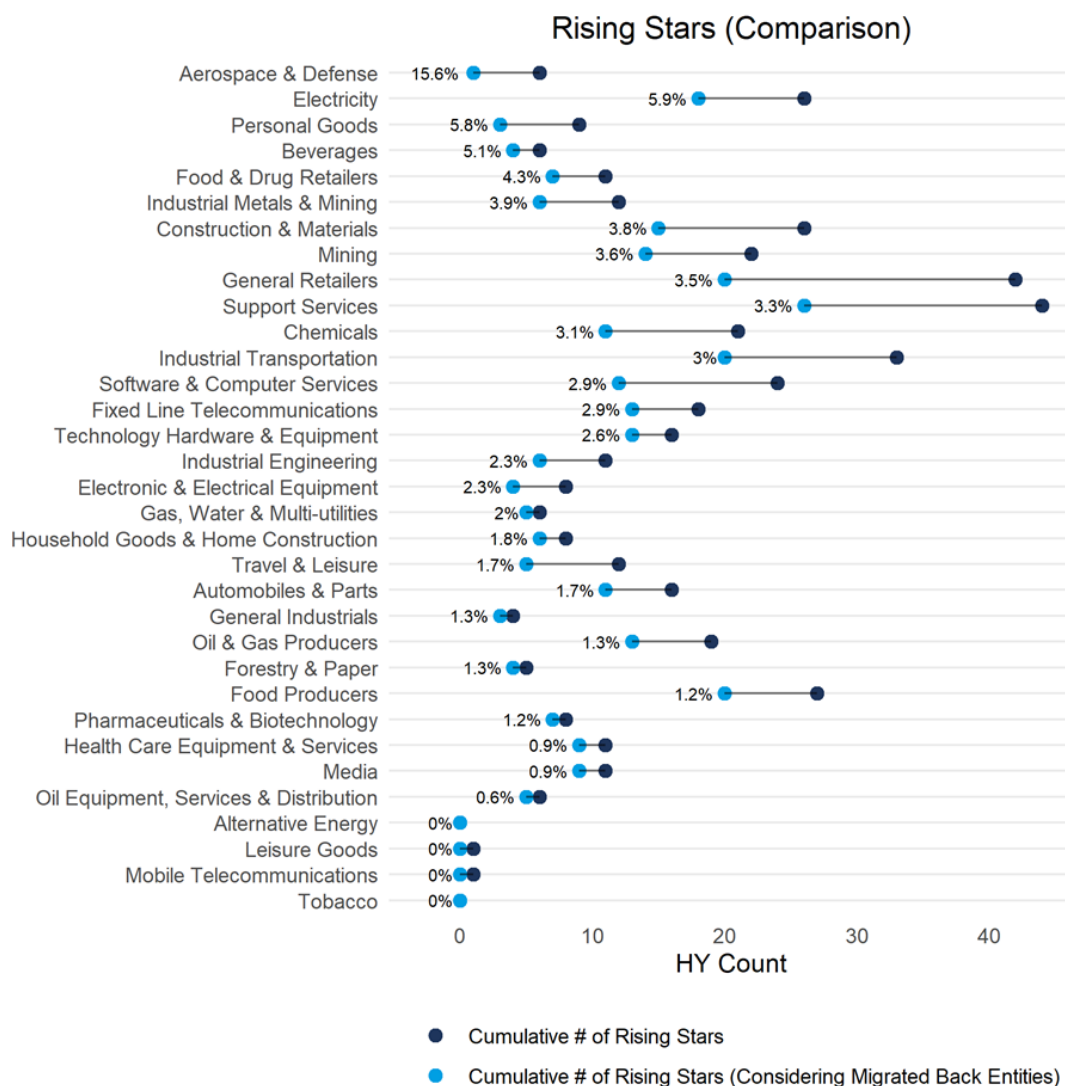
The pandemic-fueled deterioration in credit quality for many corporations may be coming to an end. Credit Benchmark noted early signs of improving credit quality [last month](#). The latest consensus data update provides more evidence that corporate credit quality is improving across a number of sectors.

The rate of increase of Fallen Angels is slowing to a trickle. Now, only 1,070 firms out of a global sample of 6,895 (16%) have migrated from investment-grade to high-yield at some point since February of 2020, a modest change from 1,051 Fallen Angels in the last update. Of the 1,070 that have fallen into high-yield in this time period, only 718 (10% of total sample) retain this status compared to 734 in the last update. This means that a third of companies that became Fallen Angels during the COVID period have since migrated back to investment-grade.



At the same time, the number of Rising Stars continues to grow. A total of 470 firms out of a global sample of 6,903 (7%) have changed from high-yield to investment-grade since February 2020, up from 437 in the last update. 290 of these firms (4%) remain classified as investment-grade, compared to 269 last month.

This dynamic of fewer Fallen Angels and more Rising Stars can be seen across a variety of sectors, particularly those with a heavy consumer focus, even as default risk remains high in many.



To understand the magnitude of corporate credit disruption in the pandemic era, simply compare it to the period a year earlier (**see charts overpage**). There are 718 firms still classified as Fallen Angels and 290 still classified as Rising Stars as of the latest update. Over the same period a year earlier, there were 433 Fallen Angels out of a global sample of 5,820 firms (7%) and 380 Rising Stars out of a global sample of 5,987 firms (6%). In other words, there were far fewer Fallen Angels and more Rising Stars, in both absolute and percentage terms, during the pre-pandemic period.

At the sector level, differences are even more pronounced. Consider Travel & Leisure, one of the worst hit sectors. Now 38% of firms are still classified as Fallen Angels, compared to 17% a year earlier. For Leisure Goods and Aerospace & Defense, 21% and 20% are classed as Fallen Angels, respectively. This trend can also be seen with Rising Stars, although in some cases sample sizes are relatively small.

On top of shifts like [narrowing spreads](#) and [lower defaults](#), recent trends in investment-grade and high-yield consensus data indicate the worst in credit dislocation may be behind us.

Fallen Angels				Rising Stars			
Sector	March 2020	March 2021	Difference	Sector	March 2020	March 2021	Difference
Travel & Leisure	17.0%	38.1%	21.1%	Beverages	6.1%	10.3%	4.2%
Leisure Goods	11.1%	31.8%	20.7%	Mining	2.6%	6.3%	3.7%
Aerospace & Defense	2.8%	22.4%	19.6%	Forestry & Paper	1.6%	5.1%	3.5%
Mobile Telecommunications	7.7%	21.1%	13.4%	Health Care Equipment & Services	3.2%	4.2%	1.0%
Personal Goods	6.0%	18.5%	12.5%	Fixed Line Telecommunications	6.7%	7.6%	0.9%
Oil & Gas Producers	5.8%	14.4%	8.7%	Industrial Metals & Mining	3.5%	3.9%	0.4%
Media	8.9%	16.6%	7.7%	General Industrials	3.6%	3.9%	0.3%
Oil Equipment, Services & Distribution	5.0%	12.5%	7.5%	Food & Drug Retailers	7.2%	7.5%	0.3%
Industrial Transportation	9.6%	15.3%	5.7%	Technology Hardware & Equipment	11.0%	11.2%	0.2%
Beverages	2.5%	8.0%	5.5%	Gas, Water & Multi-utilities	9.8%	9.8%	0.0%
General Retailers	7.9%	13.1%	5.2%	Tobacco	0.0%	0.0%	0.0%
Automobiles & Parts	8.2%	12.2%	4.1%	Oil & Gas Producers	3.2%	2.8%	-0.4%
Tobacco	0.0%	4.0%	4.0%	Food Producers	4.2%	3.5%	-0.6%
Mining	4.1%	7.7%	3.7%	Aerospace & Defense	3.8%	3.1%	-0.7%
Food & Drug Retailers	5.6%	9.1%	3.5%	Travel & Leisure	2.0%	1.2%	-0.8%
Full Sample	7.4%	10.4%	3.0%	Electricity	14.0%	13.2%	-0.8%
Support Services	6.0%	9.0%	2.9%	Pharmaceuticals & Biotechnology	9.1%	8.1%	-1.0%
Health Care Equipment & Services	3.4%	5.7%	2.3%	Personal Goods	4.3%	2.9%	-1.3%
Gas, Water & Multi-utilities	1.5%	3.6%	2.1%	Industrial Engineering	4.6%	2.8%	-1.8%
Industrial Metals & Mining	20.4%	21.9%	1.5%	Media	5.9%	3.9%	-2.0%
Chemicals	8.8%	10.1%	1.3%	Full Sample	6.3%	4.2%	-2.1%
Household Goods & Home Construction	6.3%	7.1%	0.9%	Software & Computer Services	5.2%	2.9%	-2.3%
Technology Hardware & Equipment	6.1%	6.7%	0.6%	Leisure Goods	2.5%	0.0%	-2.5%
Alternative Energy	0.0%	0.0%	0.0%	General Retailers	5.8%	3.2%	-2.6%
Construction & Materials	10.5%	9.8%	-0.7%	Support Services	8.3%	4.8%	-3.6%
Industrial Engineering	8.5%	7.8%	-0.7%	Construction & Materials	8.9%	5.2%	-3.7%
General Industrials	9.5%	8.1%	-1.5%	Industrial Transportation	8.5%	4.6%	-3.9%
Electricity	4.2%	2.7%	-1.5%	Chemicals	7.9%	3.4%	-4.4%
Electronic & Electrical Equipment	10.5%	8.8%	-1.7%	Oil Equipment, Services & Distribution	7.7%	3.2%	-4.5%
Forestry & Paper	11.3%	9.5%	-1.8%	Automobiles & Parts	10.8%	3.7%	-7.1%
Software & Computer Services	8.2%	5.9%	-2.3%	Household Goods & Home Construction	14.4%	5.3%	-9.1%
Fixed Line Telecommunications	8.1%	5.7%	-2.5%	Electronic & Electrical Equipment	12.5%	2.3%	-10.2%
Food Producers	10.7%	6.3%	-4.4%	Mobile Telecommunications	20.0%	0.0%	-20.0%
Pharmaceuticals & Biotechnology	7.1%	2.1%	-5.0%	Alternative Energy	50.0%	0.0%	-50.0%

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