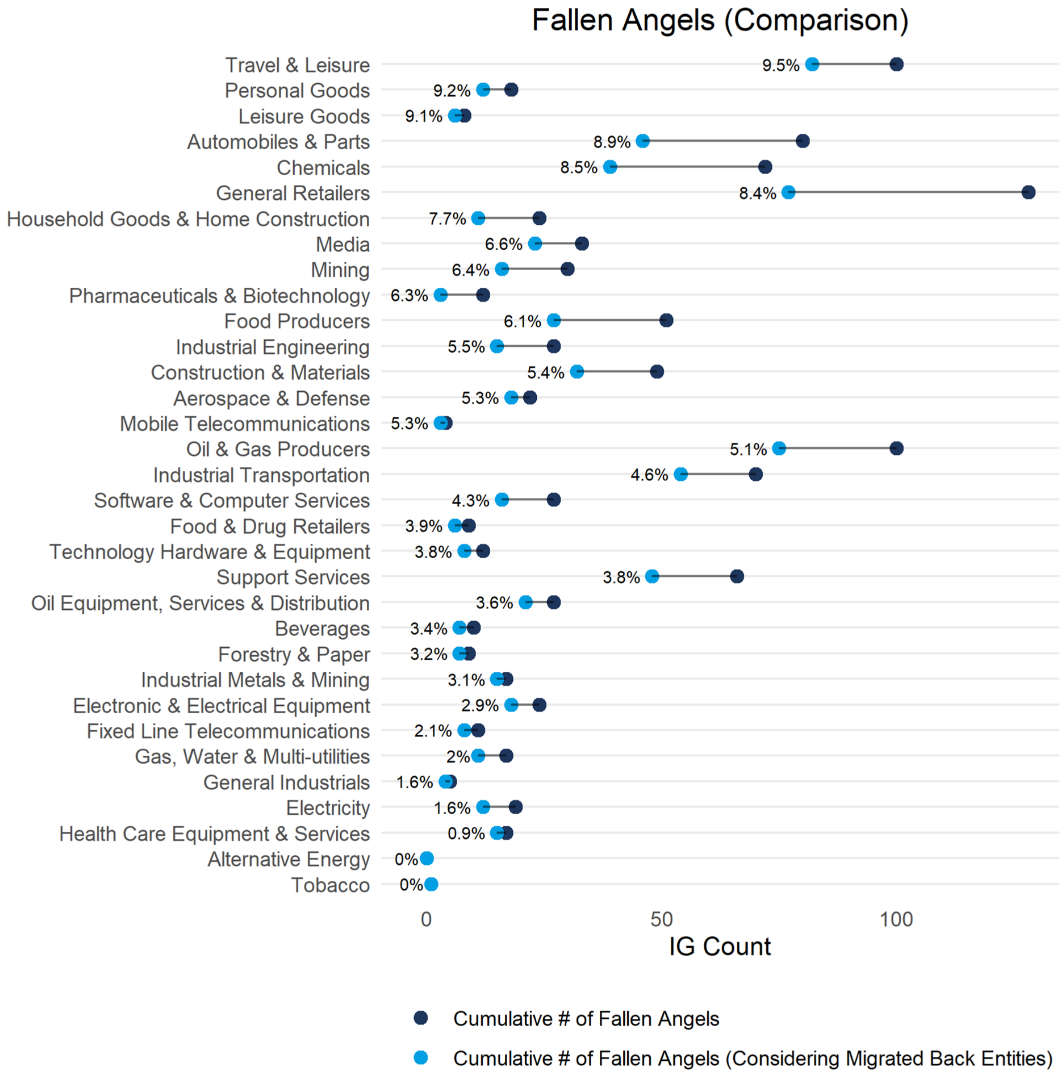
Credit Benchmark

Corporate Credit Stuck in Holding Pattern: Fallen Angels and Rising Stars

June 2021

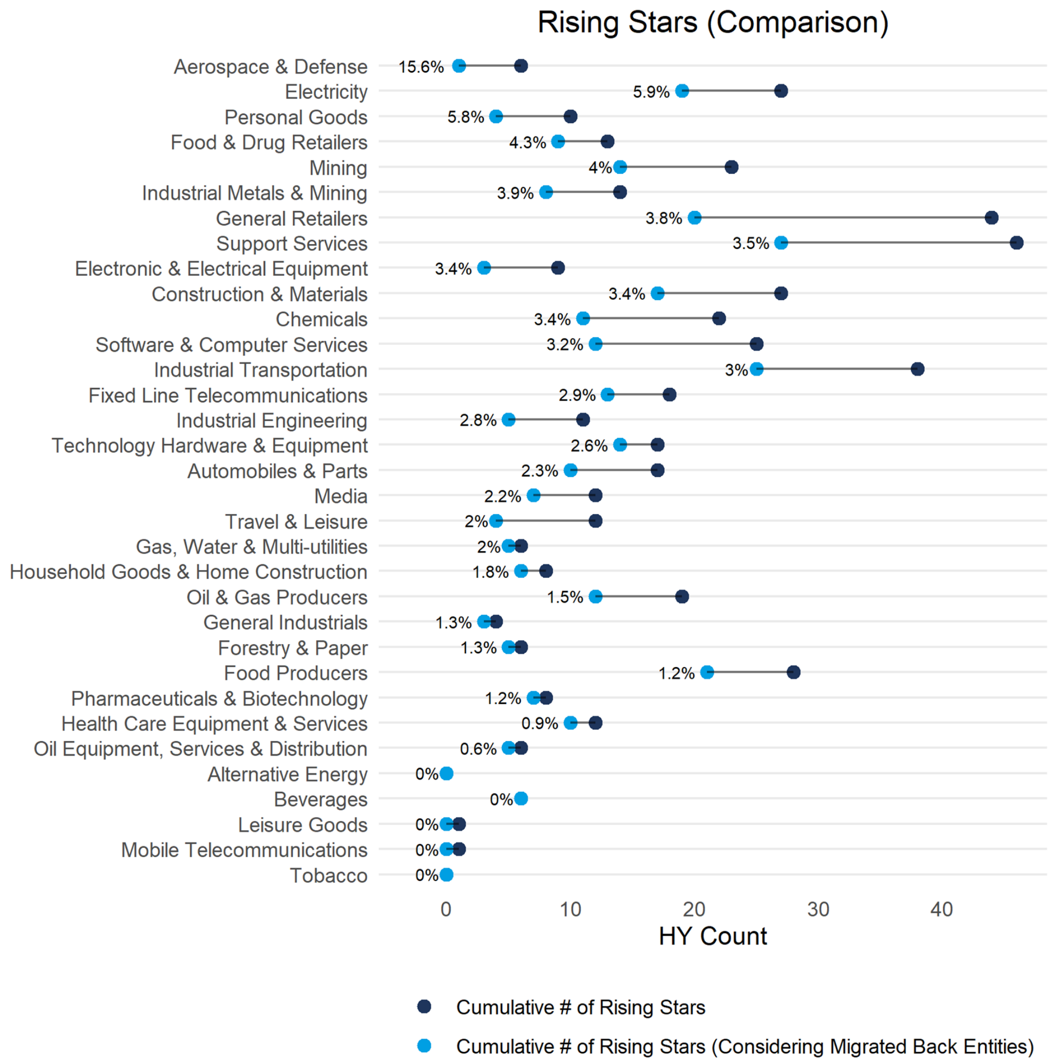
Consensus credit data has indicated improving credit quality for global corporates in the last few months, but the latest data update paints a more nuanced picture.

There has been only a small increase in the number of Fallen Angels this month. Now, a total of 1,099 firms out of a global sample of 6,895 (16%) have migrated from investment-grade to high-yield at some point during the COVID period since February 2020, compared to last month's total of 1,070. Of the firms that were downgraded at some point in this period, 736 (11%) still retain high-yield status, up only a little from 718 in the last update.



Rising Stars also continued to see only small growth. The latest data show 496 firms (7%) out of a global sample of 6,903 have migrated from high-yield to investment grade since this data was first tracked, compared to 470 last month. The number of firms that still retain investment-grade status is 303 (4%), compared to 290 last month.

The differences between firms that moved from investment-grade to high-yield and then migrated back – 5% for Fallen Angels, 3% for Rising Stars – are similar to last month, and this suggests there may be some shuffling within the categories as opposed to broader changes in overall corporate credit quality and risk.



That is certainly the case for some sectors in Fallen Angels. Travel & Leisure went from 13% last month to 10% this month. Oil & Gas Producers went from 5% to 6%, Media went from 5% to 7%, and Automobiles & Parts went from 8% to 9%. Of course, some sectors saw little to no change so that the differences between what shifted and then shifted back is similar to last month, including Mining and General Retailers that remain at 6% and 8%, respectively.

There's also been some shuffling within Rising Stars, like with Construction & Materials that went from 3% to 4%. But many are in a similar position to last month, like Personal Goods whose difference remains at 6%.

These minor changes for Fallen Angels and Rising Stars suggest consensus credit opinions may be in holding pattern at the moment. Indeed, overall global corporate credit default risk is higher than it was prior to the pandemic but has stabilized in recent months and is now 62 bps.

No doubt the worst of the pandemic may be behind us, and this will reduce pressure across a variety of sectors. But there are plenty of potential obstacles ahead, including supply chain issues as well as the potential for a return of lockdowns due to new variants. The months ahead may provide a clearer picture for credit.

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