

# Transition Matrices: Multi-Notch Downgrades

August 2022



Transition matrices (“TMs”), derived from credit data, track the speed of full notch and multi-notch upgrades and downgrades over a set timeframe<sup>1</sup>. Figure 1 shows the one-year TM for 9,560 US Corporates.

Figure 1: US Corporates, One-year TM

Jul-21 to Jul-22	aaa	aa	a	bbb	bb	b	c
aaa	82.8%	9.7%	5.4%	1.1%	1.1%	0.0%	0.0%
aa	3.9%	77.0%	12.5%	4.5%	1.5%	0.3%	0.3%
a	0.4%	7.0%	81.8%	8.0%	2.3%	0.5%	0.0%
bbb	0.0%	0.7%	11.0%	75.1%	12.0%	1.2%	0.1%
bb	0.0%	0.3%	1.8%	15.0%	77.2%	4.5%	1.1%
b	0.0%	0.0%	0.2%	2.4%	30.8%	61.7%	5.0%
c	0.0%	0.3%	0.5%	3.4%	16.1%	16.4%	63.3%

For example, 12.5% of this large sample of US Corporates changed credit rating from **aa** to **a** over the past year. The leading diagonal shows the proportion of US Corporates that had no change in credit rating – for example, 75.1% remained in the **bbb** credit category.

Multi-year matrix benchmarks can be derived from the one-year matrix<sup>2</sup>. These multi-year “equivalent” matrices can be compared with actual multi-year transition rates to show if upgrades and/or downgrades are speeding up or slowing down.

Figure 2 shows the 3-year equivalent (left) and the 3-year actual (right) for the same sample of US Corporates.

Figure 2: US Corporates, Three-year equivalent, and actual TMs

## 3Y equivalent = “Adjusted 1Y”

Jul-19 to Jul-22	aaa	aa	a	bbb	bb	b	c
aaa	57.7%	19.6%	14.4%	4.6%	3.2%	0.3%	0.1%
aa	7.6%	48.8%	25.8%	11.0%	5.3%	1.0%	0.5%
a	1.4%	13.6%	59.3%	16.7%	7.5%	1.4%	0.2%
bbb	0.2%	3.1%	21.4%	48.8%	22.9%	3.1%	0.6%
bb	0.1%	1.2%	7.5%	27.5%	53.9%	7.6%	2.2%
b	0.0%	0.4%	2.7%	14.0%	48.3%	28.0%	6.7%
c	0.0%	0.7%	2.9%	12.0%	35.8%	21.2%	27.4%

## 3Y actual

Jul-19 to Jul-22	aaa	aa	a	bbb	bb	b	c
aaa	72.0%	14.7%	2.7%	4.0%	5.3%	1.3%	0.0%
aa	5.2%	56.7%	26.7%	5.2%	4.5%	1.0%	0.7%
a	0.6%	7.6%	68.9%	17.4%	4.3%	1.0%	0.2%
bbb	0.4%	1.1%	12.9%	56.1%	25.5%	2.8%	1.1%
bb	0.0%	0.5%	2.4%	17.9%	65.1%	10.7%	3.4%
b	0.0%	0.2%	0.2%	4.9%	36.2%	47.9%	10.6%
c	0.0%	1.4%	2.9%	7.2%	25.2%	12.2%	51.1%

This shows that the frequency of transitions has increased in the past year - the actual three-year transition frequency is lower across all seven credit rating categories. The leading diagonal for the actual 3Y matrix shows more US Corporates staying in the same credit rating category throughout the period, compared with the recent activity in the adjusted 1Y matrix.

It also shows that higher recent credit mobility appears in both the upper (downgrades) and lower (upgrades) triangles. The 3Y equivalent **aaa** to **a** transition rate is 14.4% compared to the actual value of just 2.7%, and the **aa** to **bbb** is 11% in the 3Y equivalent compared with 5.2% for the actual.

<sup>1</sup> A (credit) transition matrix shows frequency counts of revisions to probability of default estimates that are sufficiently large that the credit rating changes by at least one full 7-category notch over a set time period.

<sup>2</sup> To derive the three-year matrix, the one-year matrix is multiplied by itself, and the resulting two-year matrix is post-multiplied by the original one-year to give the three-year matrix.

The lower triangle shows faster upgrades – the recent “Rising Stars” 3Y equivalent rate for **bb** to **bbb** transitions is 27.5%, compared with 17.9% for the actual 3Y. And the recent 3Y equivalent proportions of very high risk **b** and **c** names moving to investment grade **bbb** are 14% and 12%, compared with 4.9% and 7.2%

The implication is that bank credit estimates for US Corporates show a rising proportion of one-notch upgrades and some multi-notch upgrades in the lower credit categories. But while one-notch downgrades have continued at a similar rate, multi-notch downgrades within the investment grade categories have picked up. The 3Y equivalent proportion of names with no credit rating change has been lower in the past year than for the past three years. So previously downgraded names are staying in their lower categories, and across the investment grade categories those downgraded firms are being rapidly joined by firms that have seen multi-notch downgrades.

**The conclusion is that the post-COVID credit recovery has been strong across most credit categories, but at the same time a significant number of investment grade firms have started to be subject to multi-notch downgrades. This may indicate a structural shift in credit – in the new regime of rising interest rates and supply-side shocks, new winners are emerging, and previously sound firms are showing credit weakness. Any further evidence of more widespread credit deterioration following recent rate hikes will quickly show up in these matrices.**

*To receive regular updates on credit trends across 1000+ geographic and industry/sector combinations, contact us on [info@creditbenchmark.com](mailto:info@creditbenchmark.com). Credit Benchmark TM updates are also available upon request for various geographic and industry/sector combinations, and for more detailed credit categories (e.g. 21x21).*

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40 Million+ Estimates Collected Since Launch



**60,000+**

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Twice Monthly Frequency



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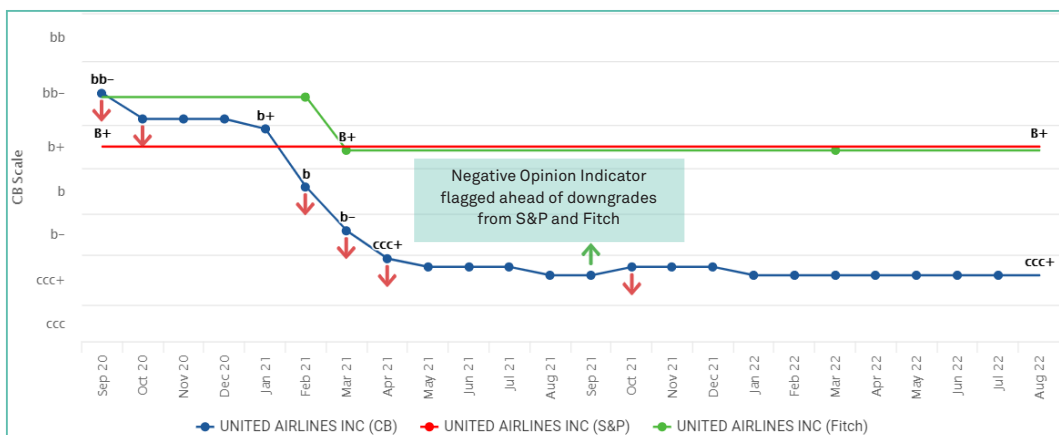
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Home Coverage Aggregates Single Name Lookup My Portfolios **Screener** Reports

CB Screeners View All

Credit Strength Dampens Wildfire Risk  
Focus on Australia  
Credit Benchmark Coverage v. Agencies  
Global Credit Recovery  
Shifting Recreational Trends  
Credit Benchmark Dislocations v. Agencies  
Trade Credit Risk and Supply Chains  
Credit Recovers as Lumber Prices Skyrocket  
5G and Satellite Internet  
Airlines Pulling Out of Credit Risk Tailspin

Quickly filter the database of 60,000+ legal entities

My Screeners Edit

Start creating your first screener

Start

Build screener with criteria below:

Screener name: **Untitled**

☒ S&P Rating is Unrated

☒ Fitch Rating is Unrated

☒ CCR is aaa aa+ aa aa- a+ a a- bbb+ bbb bbb

+ Add Criteria (3/15)

44,628 Entities found

Combine qualitative and quantitative fields to screen for entities that meet your criteria

Screen for public and non-publicly rated entities within specific geographies, industries, sectors and within your defined rating thresholds

Save Run Clear All Criteria

CBID	Entity Name	Credit Consensus Rating	S&P Rating	Fitch Rating
CB0000000009	IHS GLOBAL CANADA LTD	bbb-	Unrated	Unrated
CB0000000025	GYP HOLDINGS III CORP	bb	Unrated	Unrated
CB0000000080	GESTIELLE CEDOLA DUAL BRAND	a-	Unrated	Unrated
CB0000000087	TRANE TECHNOLOGIES LUXEMBOURG FINANCE SA	bbb+	Unrated	Unrated
CB0000000088	TECK HIGHLAND VALLEY COPPER PARTNERSHIP	bbb	Unrated	Unrated

Credit Benchmark Web App: Data Screen Sample

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