

Chart of the Day



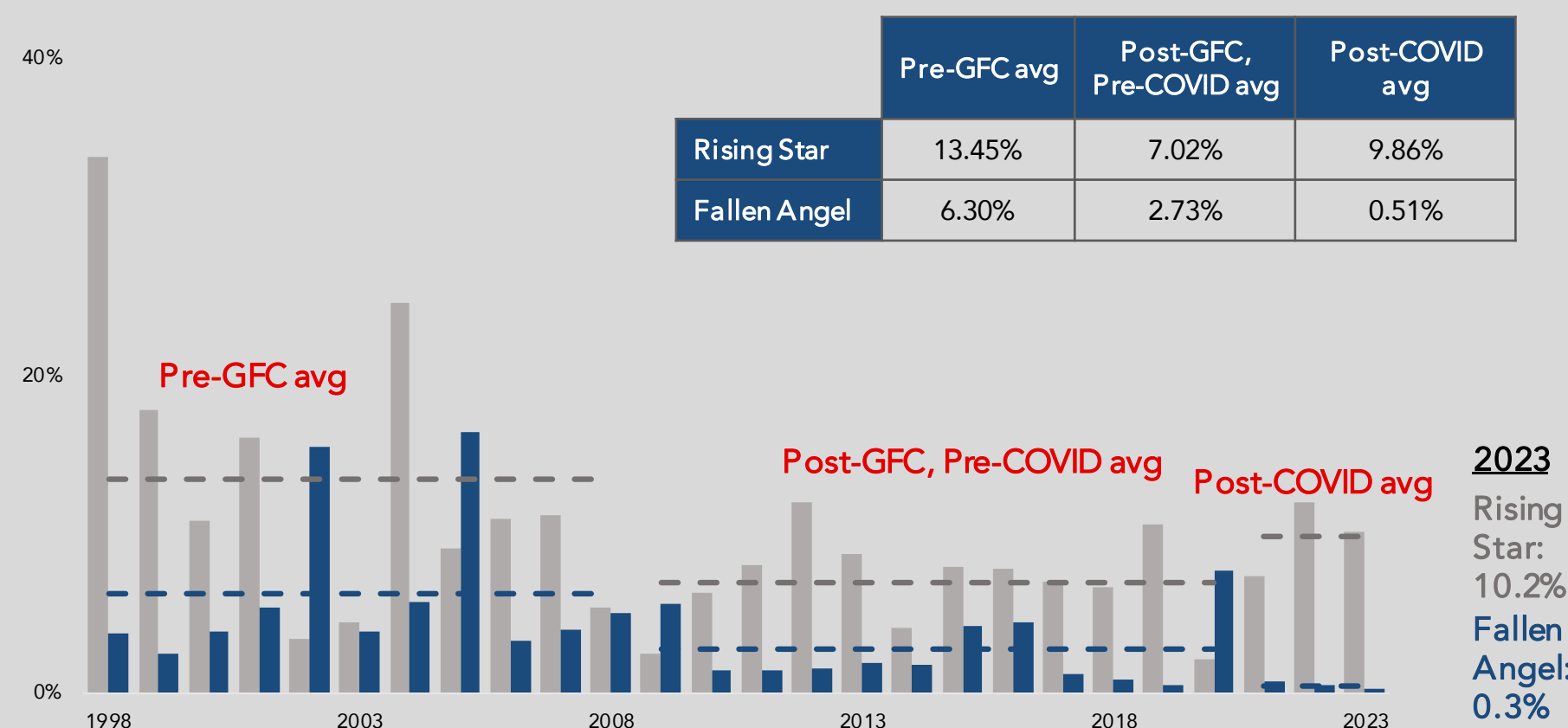
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“Rising Stars” Outpaced “Falling Angels” in 2023

“Rising star” volume reached cyclical highs in 2022 and remained elevated in 2023 while “falling angel” volume declined for three consecutive years. While default rates are expected to rise from here, post-COVID rating migrations, as well as more limited high yield issuance volumes in the past two years, point to a higher quality high yield market backdrop.

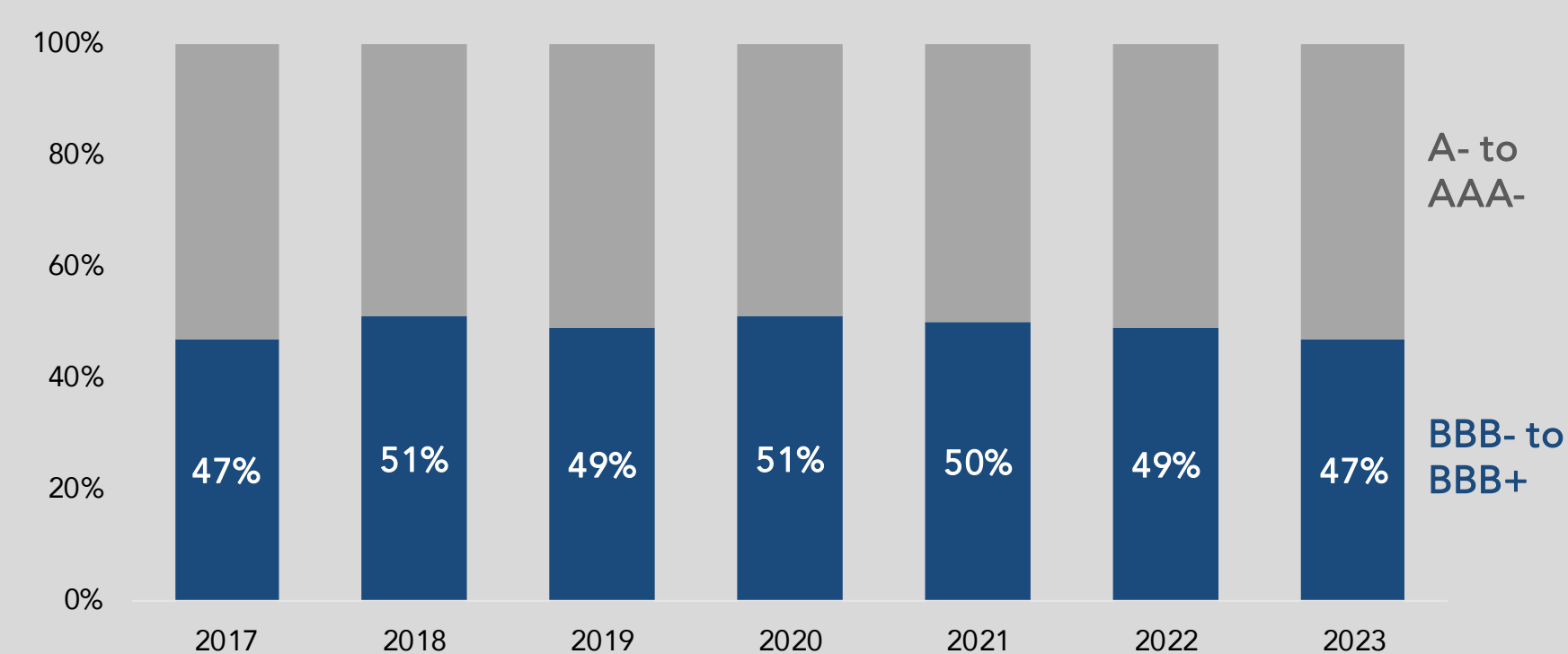
Rising star and fallen angel volumes, % US Face Value



Higher Rated IG Credit Market

Following multiple years of strong earnings growth, balance sheet strengthening and ratings upgrades (“rising stars”), the BBB share of the USD investment grade bond market currently stands at a 7 year low. A number of “credit friendly” trends in the post COVID period have contributed to the ratings upgrade, including: effective business strategy adjustments during COVID, higher cash balances, declining payout ratios during the Fed tightening and effective pre-funding and extension of maturities during the record low rates of 2020-21.

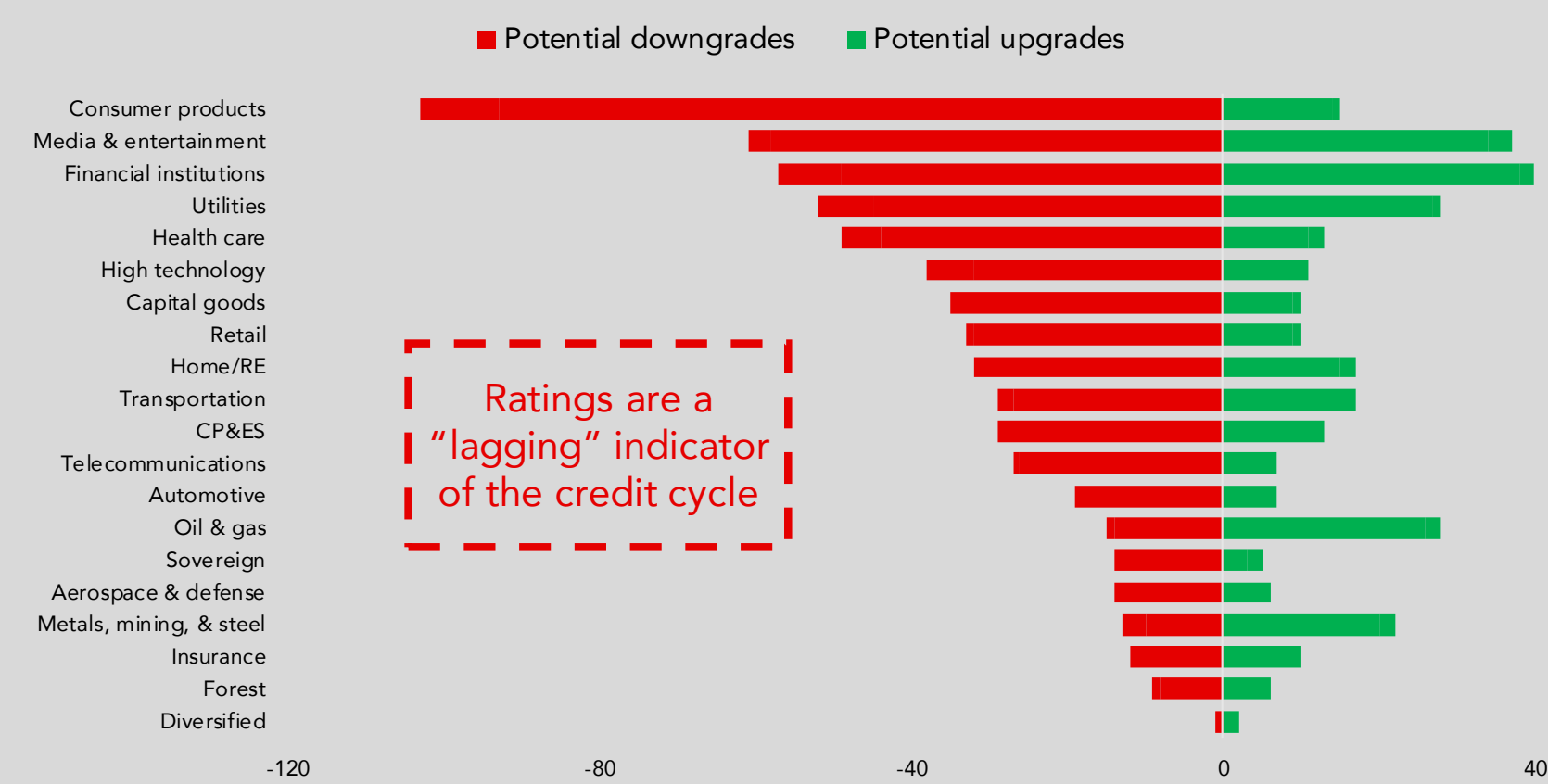
Annual ratings breakdown of the USD IG bond market



Downgrades Outpacing Upgrades Going into 2024

Following a year (2023) in which ratings upgrades outpaced downgrades by a ratio of 4:1, the rating agencies are expecting downgrades to modestly outpace upgrades in 2024 (with consumer products, media and financial institutions most vulnerable). Nonetheless, relative to prior cycles, a large downgrade wave is not expected.

Global potential downgrades and upgrades



Source: (1-3) CreditSights, “Outlook for Defaults in 2024: The Quant Perspective”. CFR, IFR, S&P, “Credit Conditions North America Q3 2023: Risks vs. Resilience” (June 27, 2023).

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“Macro stability isn’t everything, but without it, you have nothing.”