Global Credit Outlook 2021: COVID-19 Will Trigger More Downgrades, Report Says

LONDON, Dec. 3, 2020 /PRNewswire/ -- (S&P Global Ratings) The COVID-19 pandemic will continue to put a heavy strain on global credit conditions in 2021, despite positive news on a vaccine, says S&P Global Ratings today in its "Global Credit Outlook 2021: Back On Track?" published on RatingsDirect and on our website.

"Even if a vaccine becomes widely available by midyear, which we assume in our baseline, the containment of the pandemic will be very uneven worldwide," said Alexandra Dimitrijevic, Global Head of Research at S&P Global Ratings.

"Until then, the main risk for the first half of 2021 is that further waves of COVID-19 cases, requiring renewed containment measures, may harm a fragile economic recovery and lead to further credit deterioration, particularly in sectors most exposed to social distancing and travel restrictions."

Our key forecasts for 2021 include:

- With economic momentum fading as COVID cases surge again, we are forecasting a weaker start to 2021, although our 2022-2023 GDP forecast is broadly unchanged. We expect full-year global GDP growth at 5.0%, down 30 basis points from our previous forecasts. For China--first into the crisis and first out--we see GDP expanding by 7.0% next year as acute downside risks ease and some upside emerges. The U.S. and Europe are mired in a second wave of COVID-19, but extensive vaccine purchases lined up by their governments support prospects of a turnaround in the second quarter. We forecast 4.2% GDP growth in the U.S. and 4.8% for the eurozone in 2021. For emerging markets, financial pressures may hamper the pace of recovery.
- After peaking at 265% of global GDP at the end of 2020, global leverage is likely to ease only slightly in 2021, and mostly as a result of a rebound in global GDP. With vaccine availability and a rebound in the global economy, the focus in the second half of 2021 will likely turn to the gradual unwinding of extraordinary fiscal support, revealing the extent of credit losses for banks. Governments, meanwhile, face the difficult task of balancing the near-term risks of premature austerity with a medium-term need to put debt on a declining path.
- Our rated corporates and governments have a 36% negative bias, pointing to more downgrade potential in 2021. However, our base-case economic and credit assumptions do not suggest a large second wave of changes akin to that necessary in the post-March adjustment to the COVID shock. Instead, changes will reflect the widening outlook gaps between and within sectors and regions. Those hit hard by COVID--such as leisure, transportation, and retail--will only recover by 2022 or later; those least affected should be back on track next year.
- Defaults will continue to rise. Even though we expect central banks to preserve very low funding costs through 2021, higher leverage and a large share of vulnerable corporates are likely to induce further defaults, resulting in the 12-month speculative-grade default rate rising to around 9% in the U.S. and 8% in Europe by September 2021, versus 6.3% and 4.3% in September 2020.
- The pandemic is putting ESG factors in the spotlight. 2021 will see greater focus on achieving an environmentally sustainable recovery and addressing the social inequalities magnified by COVID-19. Unprecedented fiscal support cushioned the social impact of COVID-19. As this wears off, the question of equitable burden-sharing could determine political agendas in 2021.

The report also provides to 20 Questions That Matter, collected through our interactions with investors and other market participants. These are also available on our website here.

The report is available to subscribers of RatingsDirect atwww.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4009.

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