News Release Archive

300bp Rise In Rates, Costs Would About Double Loss-Making Entities, Says Report

MELBOURNE, Australia, Dec. 8, 2021 /PRNewswire/ -- After a decades-long retreat, inflation is back. Prices are rising, often dramatically, for items such as oil, semiconductors, and vehicles. Inflation strains are prompting some central banks to tighten, raising funding costs. In a scenario analysis assuming a stress of a 300 basis point (bp) increase in prices and interest rates, S&P Global Ratings expects that the ratio of loss-making entities could about double.

This is according to a report published today, titled, "How A 300bp Rise In Inflation And Interest Rates Could Hit Borrowers."

"Our stress scenario for a 300bp interest rate hike only assumes that rates would return to the levels that prevailed before the global financial crisis," said Terry Chan, a senior research fellow at S&P Global Ratings. "Yet, we find that this increase would significantly alter the financials of corporate issuers."

By region, China's corporates are most sensitive. Globally, transportation cyclical and leisure and sports, yet to fully recover from COVID-19, are the most vulnerable sectors.

"Persistent inflation, tied to supply chain disruptions and energy prices, could trigger wage inflation and push the Fed and other central banks to hike rates faster. This could trigger market volatility, amplified by elevated debt levels," said David Tesher, S&P Global Ratings' head of North America credit research.

Advanced-economy sovereigns are generally able to absorb a 300bp interest hike, but some emerging markets may be stressed. For households, some geographic and wealth cohorts may be vulnerable to rate rises.

To quantify the potential effect of a high inflation and interest spreads scenario, we stress-tested a sample of over 24,000 nonfinancial corporates (91% unrated) for a 300bp rise in producer-price inflation, and for a similar rise in average interest rate spreads.

Should interest rates spike dramatically, some household borrower cohorts may be more vulnerable than they were in 2008.

This report does not constitute a rating action.

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