

# News Release

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## **IACPM Members Say Stimulus is Stabilizing Loan Portfolios; Latest Survey Finds Reduced Concern About Next 12 Months But Longer Term, Will Stimulus Lead to Inflation and Higher Interest Rates?**

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**New York, NY** – Members of the International Association of Credit Portfolio Managers say waves of government stimulus have bailed out companies hard hit by the pandemic and stabilized their corporate loan portfolios. At the same time, though, members are concerned about the long-term impact of so much stimulus as the mammoth amount of liquidity could ignite inflation and lead to higher interest rates.

“Our members are increasingly concerned about the long-term impact of all the stimulus,” noted Mr. Leung. “What will be the impact on inflation, on interest rates and what will that mean to our banking clients? Low interest rates are helping them now but what happens if or when rates rise?”

Nearer term, credit conditions are much more benign. Respondents to the latest IACPM Credit Outlook Survey, who are corporate portfolio managers and members of the association, continue to forecast rising defaults and widening credit spreads but with less fervor than in previous quarters. For example, 34% of survey respondents expect North American investment grade credit spreads to widen over the next three months compared to 55% who expected wider spreads in the previous quarterly survey. Similarly, the IACPM Credit Spread Outlook is minus -25.8 in the latest reading versus negative -57.1 in the survey three months ago. The outlook for credit defaults is minus -64.2 this quarter compared to negative -74.5 previously. Negative readings indicate the expectation of worsening credit conditions.

“Our members continue to be cautious in the face of the pandemic and weak

economic conditions but they also say financial markets are acting as expected as a result of government stimulus,” commented Som-lok Leung, Executive Director of the IACPM. “Members note bank deposits are significantly higher and the markets are awash in liquidity, making short term credit conditions more benign.”

While survey respondents continue to forecast wider credit spreads in the latest reading, several point out spreads are currently so low, they cannot reasonably be expected to move much lower. Indeed, more respondents expect spreads to remain unchanged on investment grade debt as expect spreads to widen.

“The natural response is to expect either stable or widening spreads but, in the current environment, it’s more of a technical situation rather than anything fundamental,” said Mr. Leung

IACPM members also continue to be more worried about some sectors of the economy than others. They note the oil sector continues to look weak and some members point out the auto industry is facing potential challenges in the form of new environmental regulations. Many are also keeping close eye on commercial real estate. They expect the hospitality sector to recover but will office buildings? The retail sector, along with related commercial real estate, is currently in the grip of long-term structural changes accelerated by the pandemic.

Longer term, survey respondents are less worried about covid-19. The next couple of months could be challenging as countries fight highly contagious new strains of the virus with lock downs and other restrictions but moving past that, new vaccines offer the strong potential for finally containing the pandemic. A real question, though, is how many people will refuse to take a vaccine? If enough people opt out globally, that could have a major impact on international travel.

The Credit Outlook Survey is conducted among members of the IACPM, an as-

sociation of 115 financial institutions in 25 countries around the world. Members include portfolio managers at many of the world's largest commercial banks, investment banks and insurance companies, as well as a number of asset managers. Members are surveyed at the beginning of each quarter.

Survey results are calculated as diffusion indexes, which show positive and negative values ranging from 100 to minus -100, as well as no change which is in the middle of the scale and is recorded as "0.0." Positive numbers signify an expectation for improved credit conditions, specifically fewer defaults and narrower spreads, while negative numbers indicate an expectation of deterioration with higher defaults and wider spreads.

### **About IACPM**

The IACPM, with over 115 member institutions located in 25 countries, is a professional association dedicated to the advancement of credit portfolio management. The organization's programs of meetings, studies, research and collaboration are designed to increase awareness of the value and the function of credit portfolio management among financial markets worldwide, and to discuss and resolve issues of common interest to its members.