News Release

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IACPM

IACPM Outlook Survey Shows Rising Global Credit Concerns in the Face of Inflation, Higher Interest Rates and Reduced Bank Liquidity; Continuing Threat of Recession By Year-End

New York, NY – Respondents to the latest IACPM Credit Outlook Survey point to several major concerns in forecasting continued global credit deterioration and the strong possibility for a recession by the end of the year. The respondents, who are members of the International Association of Credit Portfolio Managers, say ongoing challenges posed by rising inflation, higher interest rates and geopolitical concerns are now joined by a threat to credit availability caused by reduced bank liquidity and credit risk concerns.

"Banks, especially regional ones, are not only looking at their deposit bases and whether their depositors will stick around but they're also hearing from regulators calling for higher levels of liquidity at their institutions," said Som-lok Leung, the Executive Director of the IACPM. "In response, banks will do what they have to do to preserve capital and one way to do that is to make fewer loans."

A significant majority of survey respondents forecast higher defaults globally over the next 12 months. In terms of North America, 86% of respondents say defaults will rise, while 14% expect the numbers to remain unchanged. Ninety one percent expect defaults to increase in Europe, while nine percent forecast them to stay the same. Asia is somewhat less lopsided with 71% of respondents expecting higher defaults and 24% forecasting no change.

"Our members have expected to see the impact of rising interest rates for some time and we're beginning to see more credit stress and defaults in corporate borrowers now," said Mr. Leung. "Unfortunately, this could take some time to work its way through the system."

Some industry sectors are more vulnerable to current market conditions than others. Healthcare is one, along with medium-sized tech companies, defense manufacturers and transportation companies, including trucking firms. Commercial real estate may be particularly vulnerable. Large numbers of office workers continue to work from home putting pressure on office occupancy rates, while many property owners will eventually have to refinance in a less accommodating banking environment.

Not surprisingly, credit spreads are forecast to widen over the next three months. The Major Markets Credit Spread Outlook Index is minus -60.0 which means a large number of survey respondents expect spreads to widen. European Investment Grade debt is negative -56.7, while North American Investment Grade debt is minus -48.4. Interestingly, though, the Credit Spread Index for High Yield North American debt is sharply higher at negative -73.3.

"Some of the difference between Investment Grade and High Yield can be explained by market activity, as there were large inflows recently into Investment Grade debt, smoothing out results in that asset class" commented Mr. Leung. "At the same time, though, as noted above, some sectors and names are encountering significantly more challenges than others. Highly leveraged companies are a notable example in this regard."

A large majority of survey respondents expect global economies to fall into recession sometime in the foreseeable future. When exactly that happens is still unknown. Some believe parts of the world are already experiencing a downturn, while most expect a recession to strike at some point later this year. Eighty four percent believe a recession will occur in the US sometime this year and 61% see a recession in

Europe and the UK by year end, with another 17% believing these areas are already in a downturn. Respondents also see higher defaults and recession concerns in Emerging Market countries but, because of unique banking structures in those places, the impact will probably be delayed.

The Credit Outlook Survey is conducted among members of the IACPM, an association of over 130 financial institutions in 30 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 high defaults and wider spreads.

About IACPM

The IACPM, with over 130 member institutions located in 30 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.