News Release

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Global Recession Risk High As Latest IACPM Credit Outlook Forecasts Rising Defaults and Wider Credit Spreads; Europe Especially Vulnerable

New York, NY – Members of the International Association of Credit Portfolio Managers responding to the latest IACPM Credit Outlook Survey forecast rising credit defaults globally. Not a single respondent expects defaults to decline. Rather, an overwhelming majority believe defaults will rise in North America, Europe, Asia and Australia. A small number think defaults will remain at current levels. The latest Aggregate IACPM Credit Default Outlook Index is negative –82.3.

"Looking at these results, it's almost impossible not to think the risk of recession is extremely high virtually everywhere around the globe," commented Som-lok Leung, Executive Director of the IACPM. "In the financial markets and among our members, there is an increasing recognition that the Federal Reserve will take rate action even if it will affect the economy."

European members of the IACPM say the risk of recession is especially high in Europe, at least for the next several months, because of the ongoing conflict in Ukraine. The war is causing a number of disruptions but probably the most severe is energy, affecting supplies of both oil and natural gas. North Americans will face higher prices for energy this winter but Europeans could face shortfalls, as well as higher prices.

"Europe will almost certainly burn through more of its financial resources obtaining energy supplies than other parts of the globe and industrial disruption in Europe is a clear possibility," noted Mr. Leung. "It's a small silver lining perhaps but, if European economies do indeed fall into recession, the pain could at least be mitigated somewhat by lower interest rates."

The timing of global recessions, if they occur, could be later this year or even 2023. While Europe is facing Ukrainian headwinds, in North America, consumers and businesses alike have ample liquidity, thanks to historically low interest rates and the enormous amount of money pumped into the US economy in response to the Covid-19 pandemic. Because of this, defaults in the US are at all-time lows.

"Defaults are currently at rock bottom but that will change as we go through the year," said Mr. Leung. "Consumers and businesses have a bit of a cushion for now but our members expect to see significantly higher numbers of defaults in 2023 and perhaps even into 2024."

Defaults may be at an early stage but credit spreads are already widening. IACPM members point out investment grade spreads have significantly increased over the last three months but, even so, three quarters of survey respondents believe spreads will widen even further. The latest IACPM Credit Spread Outlook Index is minus –69.8, with the North American Investment Grade index at negative –69.0 and the European Investment Grade Index at negative –63.3.

"Financial markets appear to have priced in three and a half to four percent interest rates," said Mr. Leung, "Current credit spreads have already accounted for nearly half that amount."

Survey respondents also note nations are largely turning to monetary policy to fight rising global inflation. They point out, though, monetary policy is a blunt instrument carrying a serious risk of overcorrection. The question is how quickly can central banks tame inflation and what will the final results ultimately look like.

"The risk of monetary policy is well known and well entrenched at this point as is the continuing risk of inflation and the threat of recession," said Mr. Leung. "Risk is high and it's everywhere."

Members of the IACPM are closely monitoring their entire portfolios but a few areas are getting particular attention. They include leveraged loans, commercial office space, healthcare, especially senior housing which is still dealing with Covid-19, and smaller businesses which do not have the flexibility of scale or alternative sources of liquidity.

The Credit Outlook Survey is conducted among members of the IACPM, an association of 136 financial institutions in 28 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 several 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 136 member institutions located in 28 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.