News Release

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Default Fears Fade Globally in Latest IACPM Credit Outlook Survey as Government Stimulus Floods Economy; Inflation Remains Major Concern; Temporary Price Increases or Structural Change?

New York, NY – The wall of government stimulus that has flooded markets and the economy has significantly reduced fears of credit defaults globally, according to the latest IACPM Credit Outlook Survey. Respondents, who are credit portfolio managers at major global financial institutions, have a positive outlook for every region of the world and every sector in the survey, except commercial real estate, which is essentially neutral. The Aggregate Credit Default Index is a slightly positive 2.6 in the latest reading versus negative -90.3 at the beginning of the coronavirus pandemic last March.

"The amount of stimulus pumped into the system has been critical to providing an underpinning for businesses, as well as consumers," commented Som-lok Leung, Executive Director of the IACPM. "As one of our members notes, from a default perspective, the stimulus has reduced the threat of default and every day this continues, it's one more day for businesses to repair their balance sheets."

All the stimulus has also resulted in substantial and continuing concern about inflation. At the same time, though, survey respondents are not convinced recent price increases are structural or long term in nature. They point out there is a lot of evidence many of the increases are short term and transitory. Respondents are weighing that evidence against other data indicating at least some of the increases are indeed structural and could pose significant long-term problems.

"There are a number of structural issues that are being closely watched," said Mr. Leung. "Some of the inflation we're seeing could be transitory but some of it could be systemic. Additionally, given the amount of stimulus, you can ask yourself, how will all of this be unwound? Higher interest rates are on the table but maybe it could also require higher taxes in some countries."

After backing away from taking on additional risk at the beginning of the pandemic in March last year, survey respondents are now far more willing to carry or even add additional risk to their portfolios. In the March 2020 survey, respondents delivered a negative index reading of -38.1 in terms of their willingness to add risk. By June last year, respondents' appetite for risk was even lower at minus -42.6. However, as new stimulus began to appear last year, risk appetite improved to a still negative -15.9 in September and minus -7.0 in December. As 2021 got underway and even more stimulus came into the economy, risk appetite climbed to positive 4.2 in March and 20.5 in the last reading in the current survey.

"Fear of immediate disaster has receded," said Mr. Leung. "For the moment, there are far fewer concerns."

The Credit Outlook Survey is conducted among members of the IACPM, an association of 125 financial institutions in 26 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 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, including fewer defaults and narrower spreads, while negative numbers indicate an expectation of deterioration with higher defaults and wider spreads.

The current outlook for lower defaults over the next 12 months is global but there are at least some differences in different parts of the world. The most striking change is the outlook for European corporate debt. Three months ago, respondents gave Europe a negative -31.4 reading in terms of corporate credit defaults. In the latest survey, the European forecast has improved to a positive 12.1. Respondents note not much has happened on a macro level but, at the same time, the European Central Bank is still accommodative and European governments are being pushed to do more. Further, there is more optimism regarding the outlook for the pandemic.

“Our members are encouraged by increasing levels of vaccinations in Europe,” said Mr. Leung. “Europe may be a few weeks behind the United States but it’s still making considerable progress.”

Survey respondents are uncertain how long current credit conditions will last but they point to several factors they are closely watching. Factors include changes in the pandemic, including the rise of variants such as the Delta virus, supply chain disruptions and especially central bank responses to inflation. If central banks take a gradual approach, though, respondents are hopeful there will not be any major disruptions.

About IACPM

The IACPM, with over 125 member institutions located in 26 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.