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IACPM

Latest IACPM Credit Outlook Survey Forecasts Worsening Credit Conditions; Survey Also Shows Markets Have Ample Liquidity and Corporate Treasurers Have Ready Access to it

New York, NY – Survey respondents to the latest IACPM Credit Outlook Survey are modestly less optimistic about future credit conditions in the face of continuing covid-19 challenges and the potential for higher interest rates. They say corporate defaults could rise over the next 12 months compared to a flat or modest expectation that defaults would decline in the last quarterly survey taken at the beginning of July. At the same time, though, they say credit conditions are still strongly favorable.

"Survey respondents, who manage corporate loan portfolios at banks, insurance companies and asset managers around the world, are closely monitoring a few names for problems but there is no systemic concern right now," commented Som-lok Leung, Executive Director of the International Association of Credit Portfolio Managers. "The financial markets are awash in liquidity and corporate treasurers have multiple sources of access to it."

Reflecting their generally benign view of current and future credit conditions, credit portfolio managers modestly reduced the amount of risk in their portfolios but still reported a positive outlook. The IACPM Index for Retained Risk dropped from a positive 20.5 reading last quarter to a still positive 7.3 in the current survey.

At the same time, survey respondents say there are pockets of turbulence. Rising energy prices are cause for concern and supply chain issues, along with labor market challenges, have raised questions about whether signs of higher inflation are temporary or longer term. Higher yields in fixed income markets, along with shifting Federal

Reserve comments have raised additional concerns about the potential for rising interest rates. Despite these issues, however, survey respondents are still comfortable with their favorable outlook regarding future market conditions.

“Bear in mind, we’ve had very few corporate defaults this year and that can’t continue forever,” said Mr. Leung. “Interest rates are moving up a bit and covid is going to be around for awhile but none of this is catastrophic. It’s more of a return to normal. Stimulus may be ending but levels of liquidity and other support are still high and companies are still surviving.”

The Credit Outlook Survey is conducted among members of the IACPM, an association of more than 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 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.

The current outlook for corporate defaults is similar globally. The latest reading for corporate defaults in North America is minus -14.7, while the forecast for defaults in Asia is negative -17.4. The outlook for European corporate defaults is a bit better at minus -6.3, as is the forecast for Australia which is negative -5.6. The overall IACPM Credit Default Outlook Index, which covers every region in the world, is a modestly negative -16.2.

Survey respondents also think credit spreads will widen over the next three months, especially in high yield markets. Fifty percent of respondents say high yield spreads will widen in North America, while 37% expect them to remain the same. Forty six percent of respondents expect high yield spreads to increase in Europe, with 43% forecasting no change.

About IACPM

The IACPM, with more than 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.