

News Release

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Jon Teall 212 317-8296



Amid Concerns Over Inflation, Geopolitical Pressures and Supply Chain Issues, Respondents to the latest IACPM Credit Outlook Survey Forecast Rising Defaults and Wider Credit Spreads

New York, NY – Respondents to the latest quarterly IACPM Credit Outlook Survey, citing geopolitical concerns, supply chain issues and continued expectations for rising inflation, forecast rising credit defaults over the next 12 months and wider credit spreads over the next three months. Respondents, who are members of the International Association of Credit Portfolio Managers, foresee rising defaults around the world. The latest Credit Default Index for Europe is minus -76.7. Not a single survey respondent expects defaults to decline in that region over the next 12 months. At the same time, though, respondents forecast rising defaults in North America, Asia and Australia as well. The Aggregate Credit Default Outlook Index this quarter is negative -58.0 compared to positive 2.6 just nine months earlier.

“Increased defaults will be driven by higher inflation and rising interest rates,” said Som-lok Leung, Executive Director of the IACPM. “Playing a major role as well will be supply chain issues which have increased from pandemic related problems to include the impact of the war in Ukraine which is affecting the global supply of metals, soft commodities, auto parts and, of course, natural gas and oil.”

Survey respondents forecast wider credit spreads, especially for high yield debt. The index reading for European high yield spreads is negative -69.0 and negative -62.2 for North American high yield spreads. While negative, the index reading for North American investment grade debt is a lower minus -28.9 with almost the same number of respondents expecting investment grade spreads to remain at current levels

as the number of respondents who are expecting spreads to widen. A significant number of respondents, 43%, also expect investment grade spreads to stay unchanged in Europe as well.

“Given current global market conditions, survey respondents are not surprisingly more inclined to expect high yield spreads to widen than investment grade debt,” said Mr. Leung. “Respondents also note a considerable amount of widening has already taken place, so a further increase is less likely.”

In response to higher inflation and other issues, central banks are raising interest rates globally and are reducing their vast asset holdings. These actions will significantly impact global economies, financial markets and individual credits but survey respondents note the full effect is unknown at this stage.

“At this point in the process, our members point out it is difficult to say with any degree of certainty how extensive an impact rising rates will ultimately have on global economies,” said Mr. Leung. “The increases have just begun and there are too many unknown factors, such as unexpected geopolitical events or how tenacious inflation will finally prove to be, to be able to say when and where markets and economies will end up.”

The Credit Outlook Survey is conducted among members of the IACPM, an association of 131 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 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 131 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.