News Release

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IACPM

IACPM Survey Respondents See Limited Credit Problems in their Portfolios Currently but, as Bond Yields Rise Globally, They're Expecting Higher Defaults and Wider Spreads

New York, NY – Responding to the latest IACPM Credit Outlook Survey as 10-year US Treasury yields were surging higher and even before an unexpectedly strong US employment report was released or war in Israel broke out, survey participants forecast the worst is yet to come in terms of credit problems. Respondents, who are members of the International Association of Credit Portfolio Managers, say they are currently seeing limited evidence of trouble in their portfolios, but most expect to see rising credit defaults globally over the next 12 months. In the latest reading, the IACPM Credit Default Index is minus -59.9, a sharply negative value. At the same time, the IACPM Credit Spread Index also predicts wider spreads, but members note market moves have already pushed spreads wider, thus covering much of their forecast.

"Our members say government spending during the pandemic, in addition to continued strong employment, probably helped create better economic conditions," noted Som-lok Leung, Executive Director of the IACPM. "But stubborn inflation and a resulting expectation for higher interest rates, as well as other recent developments, have led many to believe more difficult credit conditions lie ahead globally."

Survey respondents cite several concerns going forward. Rising inflation driven by higher labor costs, continuing supply chain issues and higher prices for a range of things such as the cost of driving a car is putting pressure on global central banks to raise interest rates. Global political concerns are also casting looming shadows.

US Federal Reserve Chairman Jerome Powell has repeatedly stated the central bank wants to lower inflation to two percent and will not settle for anything higher. Several survey participants note financial markets have seemingly been in denial regarding the Fed's intentions and have only recently woken up to the notion Chairman Powell is serious about holding the line at two percent.

"Inflation has proven to be incredibly persistent. It simply isn't just going away," commented Mr. Leung. "Our members say financial market participants might have been hoping the Fed would settle for higher target, like three percent, but Mr. Powell certainly doesn't appear to be giving in."

Rising interest rates often lead to a recession and that is another leading concern for survey participants. While 28% of respondents are not expecting a recession in the US, fully 64% think there will be one by the end of 2024. Another eight percent expect a US recession by the end of this year. Ninety two percent of respondents expect a recession in Europe by the end of 2024. Thirteen percent say Europe is already in a recession.

The Credit Outlook Survey is conducted among members of the IACPM, an association of over 135 financial institutions in more than 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 135 member institutions located in more than 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.