News Release

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Expectations for Rising Defaults and Wider Credit Spreads Ease in Latest IACPM Survey But Remain High; Respondents Say Inflation and Interest Rates Will Take Longer Than Expected to Decline

New York, NY – Many survey participants in the newest IACPM Credit Outlook Survey believe the euphoria seen in global financial markets the last two months of 2023 was overdone. Instead, respondents note, while credit conditions look better today, the fight against inflation will probably take longer than expected and that, in turn, will likely mean interest rates will remain higher for longer.

"Going the last mile in taming inflation is often the hardest and longest part of the battle," commented Mr. Leung. "Many of our respondents believe central banks will cut rates more slowly than many in the financial markets expect. We'll probably see a start, a pause and then more waiting."

In the face of this, one survey respondent noted her bank is not forecasting a recession but is expecting a downturn. The difference between the two can often be small. Another participant wondered "what miracle has to happen in order to avoid a recession? The path to a soft landing is extremely challenging."

Overall, survey participants are still forecasting rising defaults globally and generally wider credit spreads but, at the same time, they are more mixed in their views than in the last survey three months ago. The outlook for North American Investment Grade credit spreads is 0.0 in the latest reading, which is neutral, compared to minus -42.4 in the previous survey. The forecast for North American credit defaults is negative -57.1 in the new survey compared to minus -71.4 in the last one. In Europe, though, expectations for rising defaults are actually higher, with 89% of respondents predicting higher levels, compared to 69% last fall.

"Respondents are still largely expecting worsening credit conditions going forward," said Som-lok Leung, Executive Director of the International Association of Credit Portfolio Managers, "but not as many people believe that now as did before interest rates, such the yield on 10-year US Treasuries, began to fall in October."

Some geographic regions and market sectors appear to have a higher risk for more difficult conditions than others. Two thirds of survey respondents do not expect the United States to fall into recession, while 69% think the United Kingdom and Europe are already in a recession or will be by the end of 2024.

Seventy six percent of respondents think credit defaults will rise in commercial real estate, while 60% believe there will be an increase in the retail and consumer mortgage sectors.

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.