

News Release

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Credit Outlook Still Negative but Improving According to Latest IACPM Forecast; Rising Defaults Seen in North America, Europe, Asia and Australia; Mixed Outlook for Credit Spreads

New York, NY – Respondents to the latest IACPM Credit Outlook Survey are still negative about future credit conditions but less so than in previous surveys. The outlook for corporate credit defaults is negative -27.5, which indicates more participants expect defaults to rise rather than fall, but, at the same time, that is down from minus -56.0 in the last survey taken this past December.

“We’ve seen some large individual defaults in North America and Europe but our members say they appear to be more idiosyncratic rather than systemic,” noted Som-lok Leung, Executive Director of the International Association of Credit Portfolio Managers. “One of our members commented that it seems like we’ve entered a period of higher unrealized defaults.”

While the outlook for corporate defaults is negative in North America, Europe, Asia and Australia, sentiment is mixed in each of these regions with different numbers of respondents more concerned about rising defaults than others. For example, 51% of survey participants expect higher corporate defaults in North America but 28% think they will remain at current levels and 21% believe they will decline. Fifty seven percent of survey participants think corporate defaults will rise in Europe, while 27% expect them to stay the same and 16% forecast a decrease.

So far, recent defaults have generally been confined to individual, larger credit events but some members are beginning to see an increase in stress levels among smaller, lower income US consumers. Defaults have increased somewhat but, at the

same time, consumers are nevertheless showing surprising resilience, perhaps because of continuing low unemployment or because they have affordable home mortgages with very low interest rates.

“One of our members reports seeing a 4% default level at her bank which is about the same as it was before the pandemic,” said Mr. Leung. “It’s well short of the seven to eight percent we’ve seen in more stressed periods, which would be far more troubling.

“Our members are closely watching for a few developments,” Mr. Leung continued. “They’re keeping an eye on potentially higher unemployment which would certainly be negative and they’re watching global central banks for rate cuts which would ease current stress levels.”

The overall outlook for credit spreads is negative -10.8 in the newest survey but the outlook for spreads on North American Investment Grade debt is actually modestly positive, indicating an expectation for tightening spreads in that debt class.

“A number of our members believe spreads, after tightening considerably during the first three months of the year, are now where you would expect them to be given current economic and market cycles,” said Mr. Leung

Concerns regarding a possible recession remain high in Europe and the United Kingdom. Nineteen percent of survey respondents believe Europe is already in a recession, while 37% expect the region to enter a recession later this year. Thirty three percent of respondents think the UK is already in a recession and another 33% forecast it will go into a recession later this year.

Respondents are more optimistic regarding Asia and North America. Eighty seven percent say Asia will not go into a recession, while 75% think North America will avoid one.

The Credit Outlook Survey is conducted among members of the IACPM, an association of 138 financial institutions in 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 138 member institutions located 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.