News Release

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Respondents to Latest IACPM Credit Outlook Survey Say Defaults Are Already Rising With More Expected As Interest Rates Stay Higher For Longer; That Said, Borrowers Are Doing Better Than Expected

New York, NY – Respondents to the latest IACPM Credit Outlook Survey are forecasting rising defaults over coming months with some saying they're already seeing an increase, especially among smaller borrowers. The IACPM Aggregate Credit Default Index is minus -44.1 this quarter compared to negative -36.5 last quarter, which means more respondents expect higher defaults now versus in the last survey conducted three months ago.

"Interest rates have stayed higher for longer," noted Som-lok Leung, the Executive Director of the International Association of Credit Portfolio Managers, "and borrowers are beginning to feel the pinch, alongside the difficulties posed by continuing inflation."

Smaller borrowers may be the first to run into trouble but even some larger ones are beginning to show some weakness. Several sectors are affected, according to survey participants. Among them, transportation, especially trucking, automotive, healthcare and commercial real estate, including office buildings and senior housing, are exhibiting some strain.

Respondents note, however, that for all the challenges faced by companies over the last three or four years, including the pandemic, rising inflation and higher interest rates, borrowers have held up remarkably well.

"Survey respondents, who manage the risk in corporate loan portfolios, say borrowers are doing much better than expected when central banks began raising interest rates a few years ago," commented Mr. Leung. "Companies are addressing risk and performing unexpectedly well."

The outlook for credit spreads in the latest survey shows an expectation for wider spreads over the next three months. The index result for North American Investment Grade Debt is negative -23.5 this quarter compared to positive 11.4 in the last survey taken at the end of March. The forecast for spreads on European investment grade debt is similarly more negative, moving from minus -15.4 last March to negative -42.9 in the latest reading.

"A forecast for wider credit spreads typically indicates an expectation for deteriorating credit conditions," said Mr. Leung. "In this case, though, credit spreads narrowed towards the end of the spring and a forecast for wider spreads now is more of a correction than a warning."

Major challenges still lie ahead to be sure. Survey respondents are especially focused on geopolitical developments, including the ongoing wars in Ukraine and the Middle East. Upcoming elections in the United States are also a concern, along with the fallout from elections recently held in the United Kingdom, France and the European Union, as well as India. Respondents continue to pay close attention to global central bank activity, especially regarding the ongoing fight to reduce inflation and corresponding moves on interest rates.

"The world remains in an unsettled state but there is one ray of sunshine," said Mr. Leung, "While interest rates may not be coming down as quickly as hoped, they don't appear to be about to rise."

Indeed, for the first time in several quarters, a substantial majority of survey respondents are not expecting recessions to occur in the US, EU, UK or among most countries in the Asia-Pacific regions.

The Credit Outlook Survey is conducted among members of the IACPM, an association of 144 financial institutions in 32 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 several 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.

About IACPM

The IACPM, with 144 member institutions located in 32 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.