News Release

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Latest IACPM Outlook Survey Shows Reduced Expectations for Rising Defaults After the Federal Reserve Cut Rates But Also Reveals Continuing Concerns, Especially For Heavily Indebted Borrowers

New York, NY –Despite the US Federal Reserve's decision last month to ease the Fed Funds rate, 42% of respondents to the latest IACPM Credit Outlook Survey expect corporate credit defaults to rise globally over the next 12 months. Thirty eight percent of respondents think the level of defaults will remain the same, while 20% say defaults will decline. Taken together, the responses result in a minus -21.6 score in the latest reading of the IACPM Aggregate Credit Default Index, which, while negative, is still an improvement over an even more negative -36.6 reading three months ago at the beginning of July.

"Last month's Fed Funds rate cut will certainly help borrowers but it doesn't solve every problem, especially among highly leveraged borrowers," commented Som-lok Leung, Executive Director of the IACPM, or the International Association of Credit Portfolio Managers. "Nor does it address significant global concerns, including continuing geopolitical difficulties and substantial electoral uncertainty."

Survey respondents, who manage the corporate loan portfolios at global banks, insurance companies and asset managers, say the Fed appears to have achieved a so-called soft landing, bringing inflation down without triggering a recession. US unemployment inched up this past summer before dropping in the latest reading. Respondents also note European banks are generating more capital than expected, even while observers remain concerned about the German and French economies, as well as upcoming budget deliberations in the United Kingdom. Indeed, 53% of respondents expect credit defaults to rise in Europe, more than any other region globally.

“A soft landing wasn’t expected by many people but it looks like it’s here,” said Mr. Leung. “Our members are taking that into account as they weigh what risks are still in play and what effect they will have on defaults and credit spreads. The picture may not be totally rosy but it is better than it was.”

While survey respondents remain vigilant about risks and challenges in the current financial and market environments, they largely believe that global economies will not go into recession. Ninety one percent of respondents say the US will avoid a recession, 84% believe the Asia-Pacific region will avoid one, 80% think the UK will do the same and 70% expect Europe to skip one as well.

The latest survey also forecasts wider credit spreads in both North America and Europe, especially among high yield assets. IACPM members point out credit spreads covering financial activity such as leveraged buyouts are vulnerable to changing perspectives and, considering ongoing developments, spreads could be susceptible to widening.

The Credit Outlook Survey is conducted among members of the IACPM, an association of 146 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 over 146 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.