

ANNUAL NEW YORK CONFERENCE
2024 OUTLOOK

Outlook for Defaults in 2024: The Quant Perspective

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a FitchSolutions Company

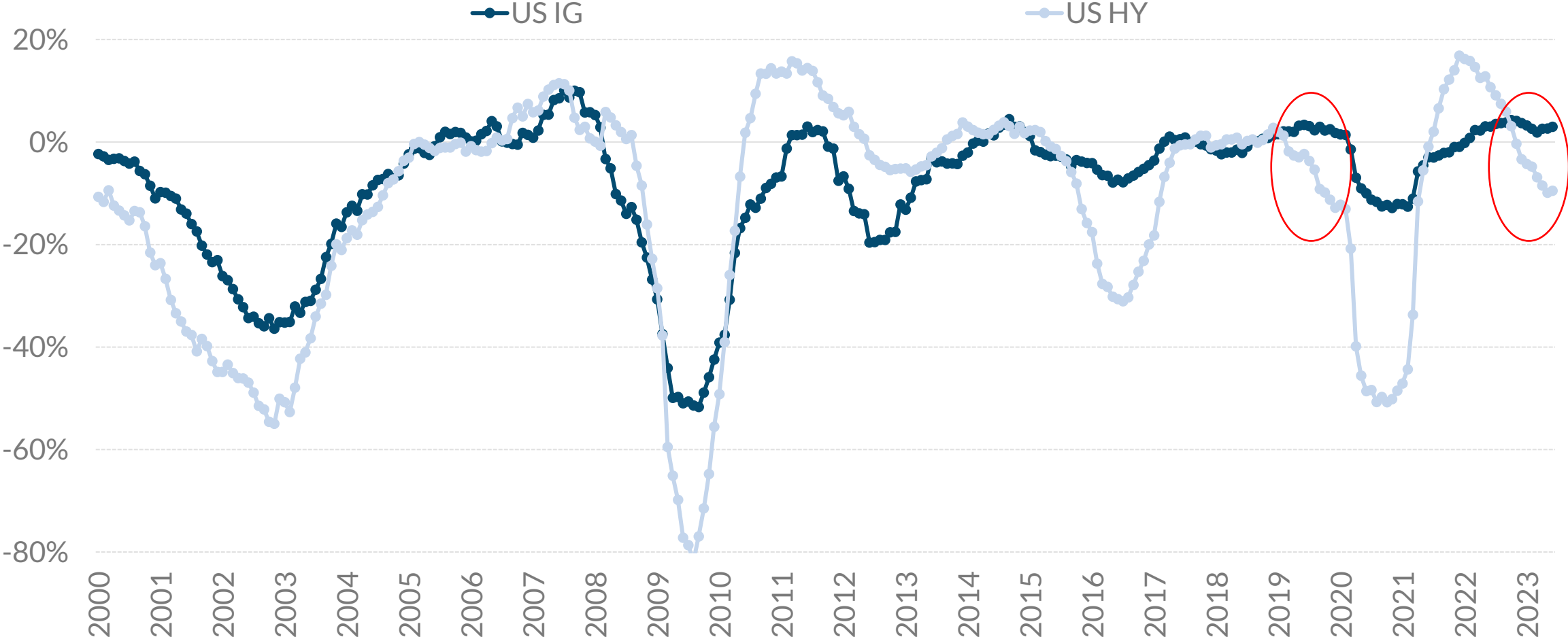
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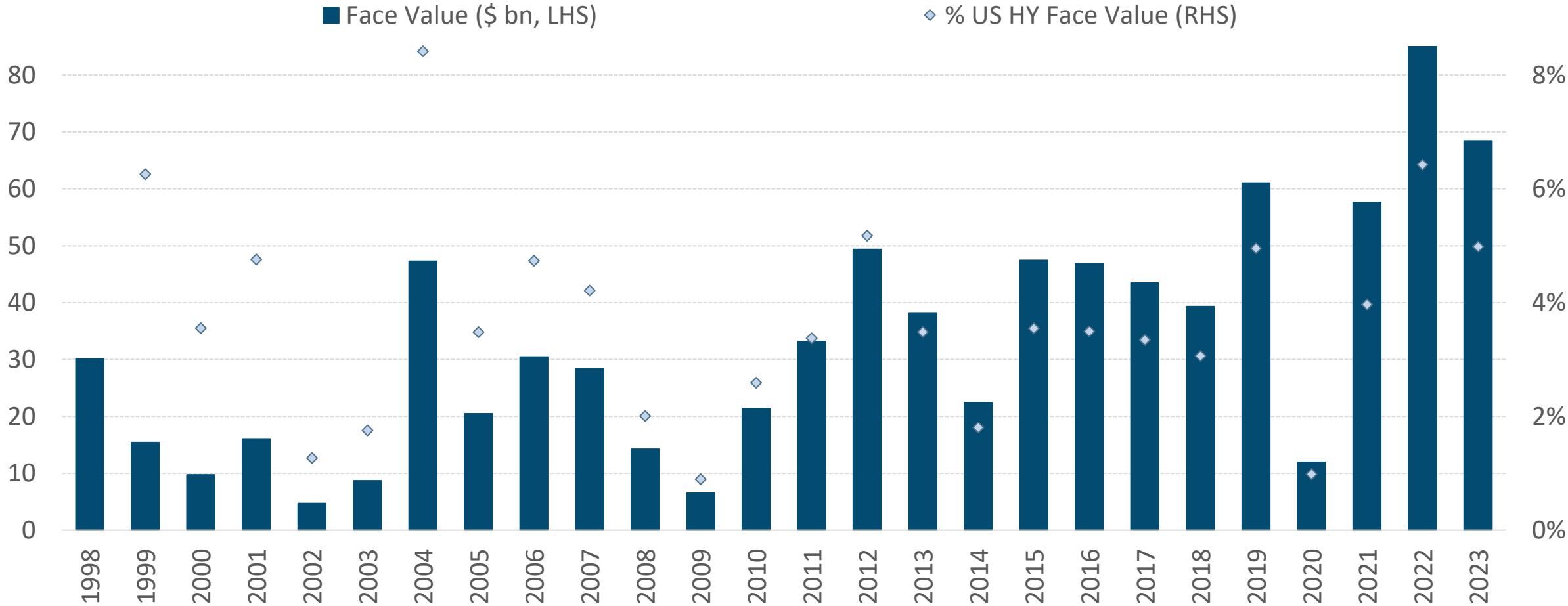
Where Are We in the Credit Cycle?

Net Migration Rates Are Close to Those Seen at the End of 2019



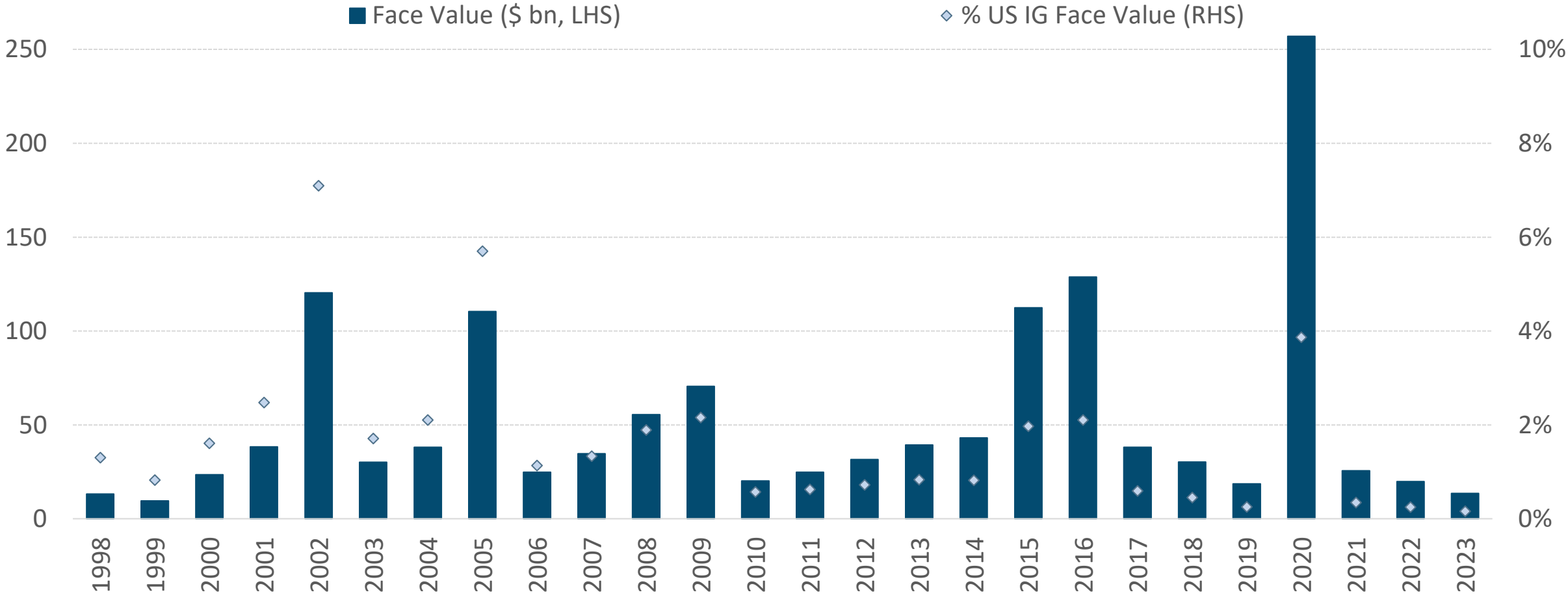
Where Are We in the Credit Cycle?

Rising Star Volumes Are at Cyclical Highs



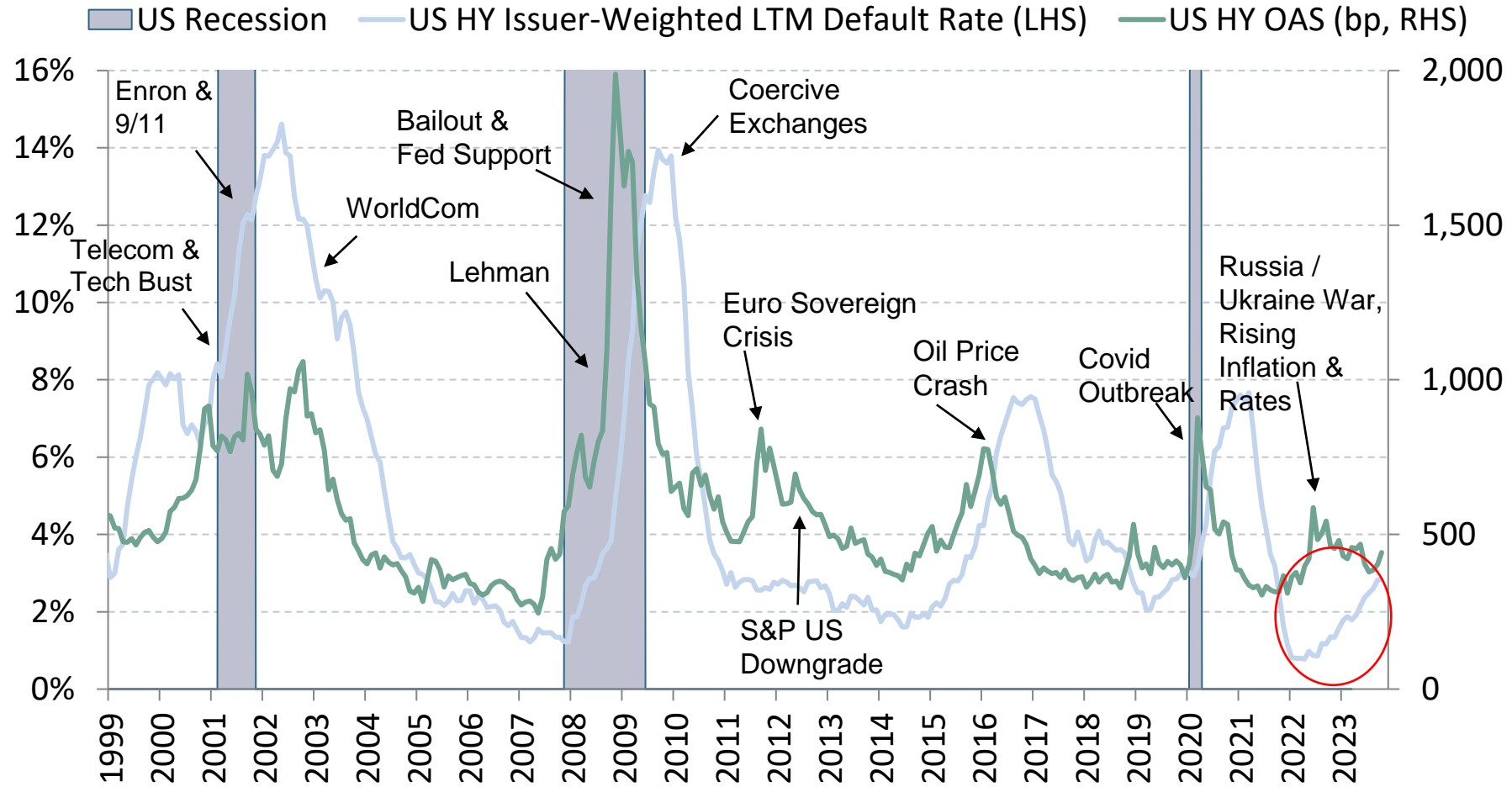
Where Are We in the Credit Cycle?

Fallen Angel Volumes Have Declined for Three Years in a Row



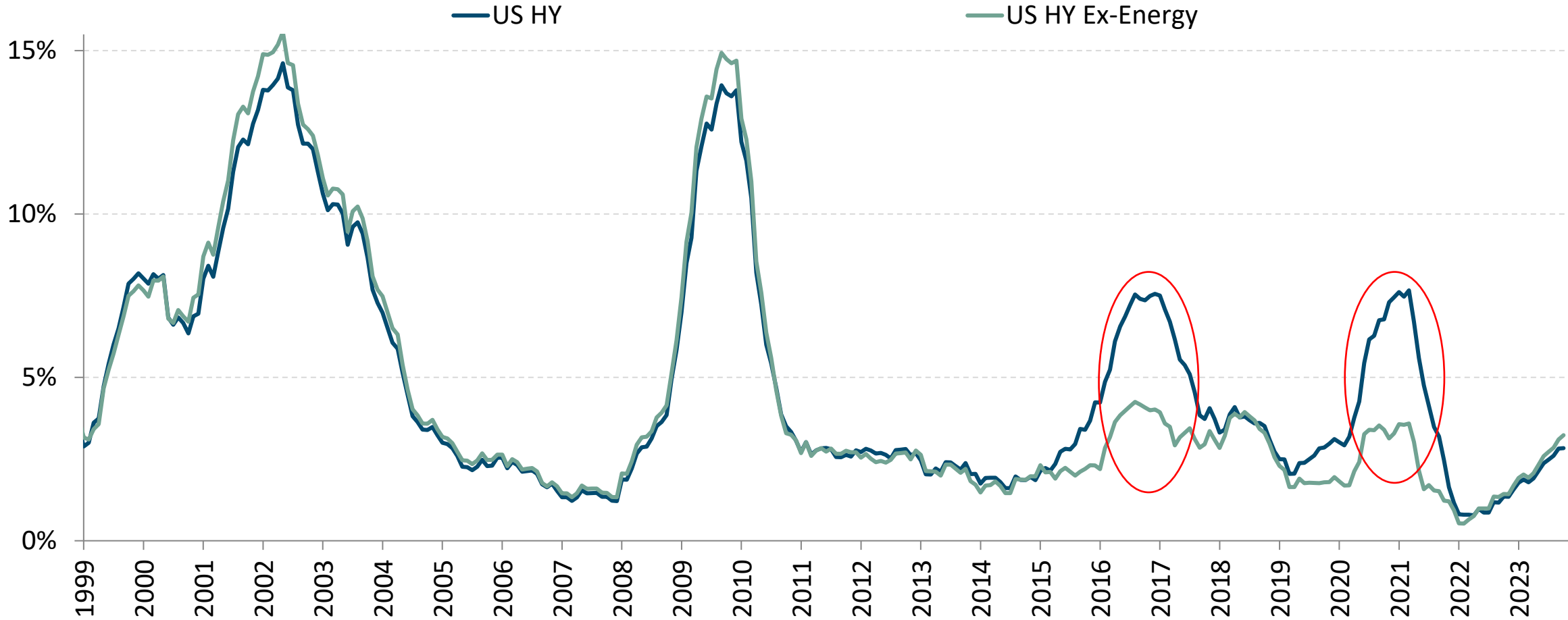
Where Are We in the Credit Cycle?

The US HY Default Rate Has Been Rising Steadily from an All-Time Low



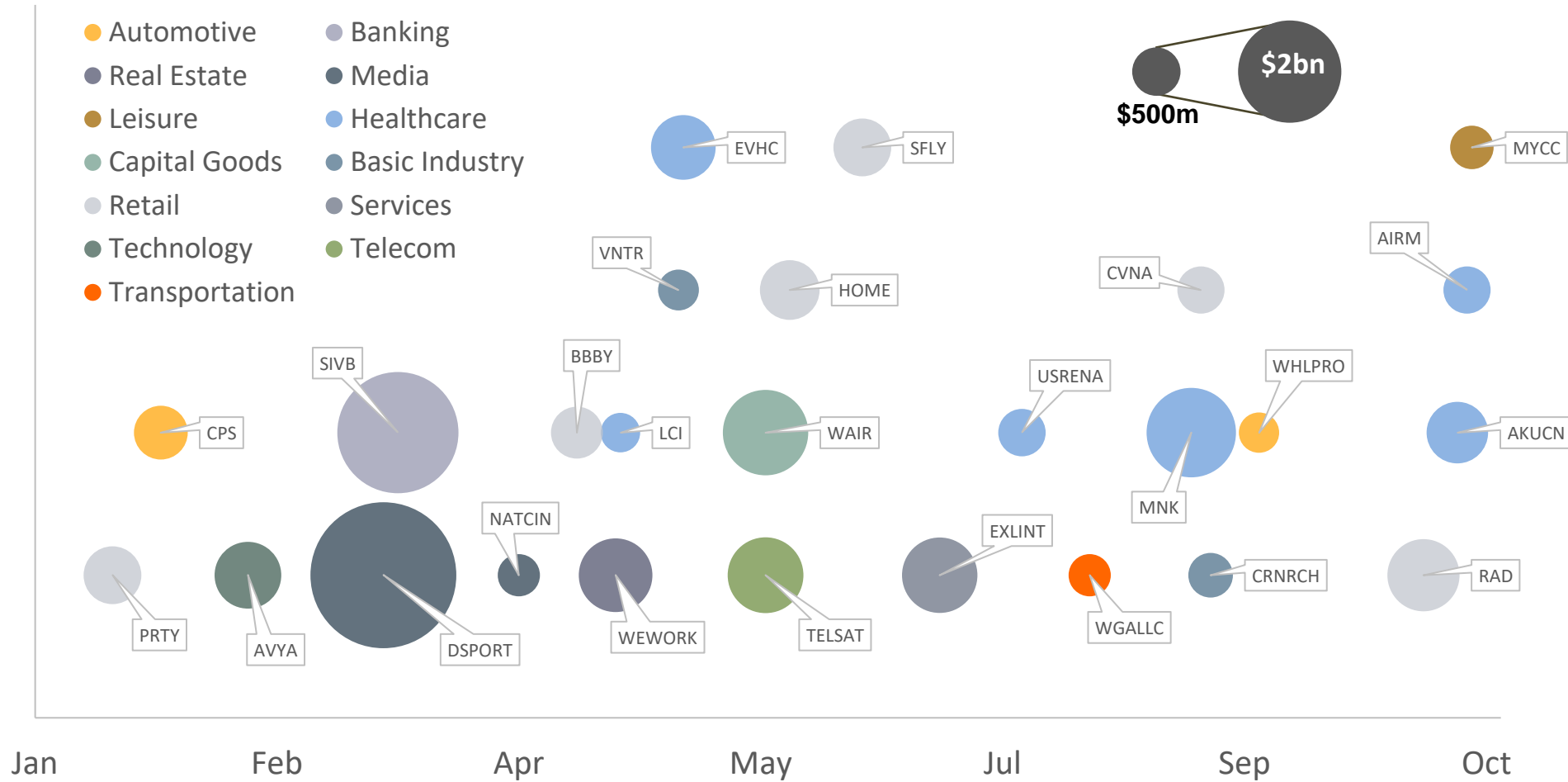
Where Are We in the Credit Cycle?

US HY Ex-Energy Default Rates Haven't Exceeded their Historical Average since the Summer of 2010



Where Are We in the Credit Cycle?

Defaults in 2023 Have (So Far) Been Largely Idiosyncratic



Forecasting Credit Migration and Defaults

We Can Use Transition Matrices to Project Credit Quality Forward in Time

- Transition matrices can be adjusted/stressed to reflect an economic upturn or downturn.
- Allows us to project all rating migration events, such as rising stars, fallen angels, and defaults.
- Can be applied over longer horizons than one year.

Cumulative Monthly Rating Transitions

Start Month: **Dec 2021** End Month: **Nov 2023**

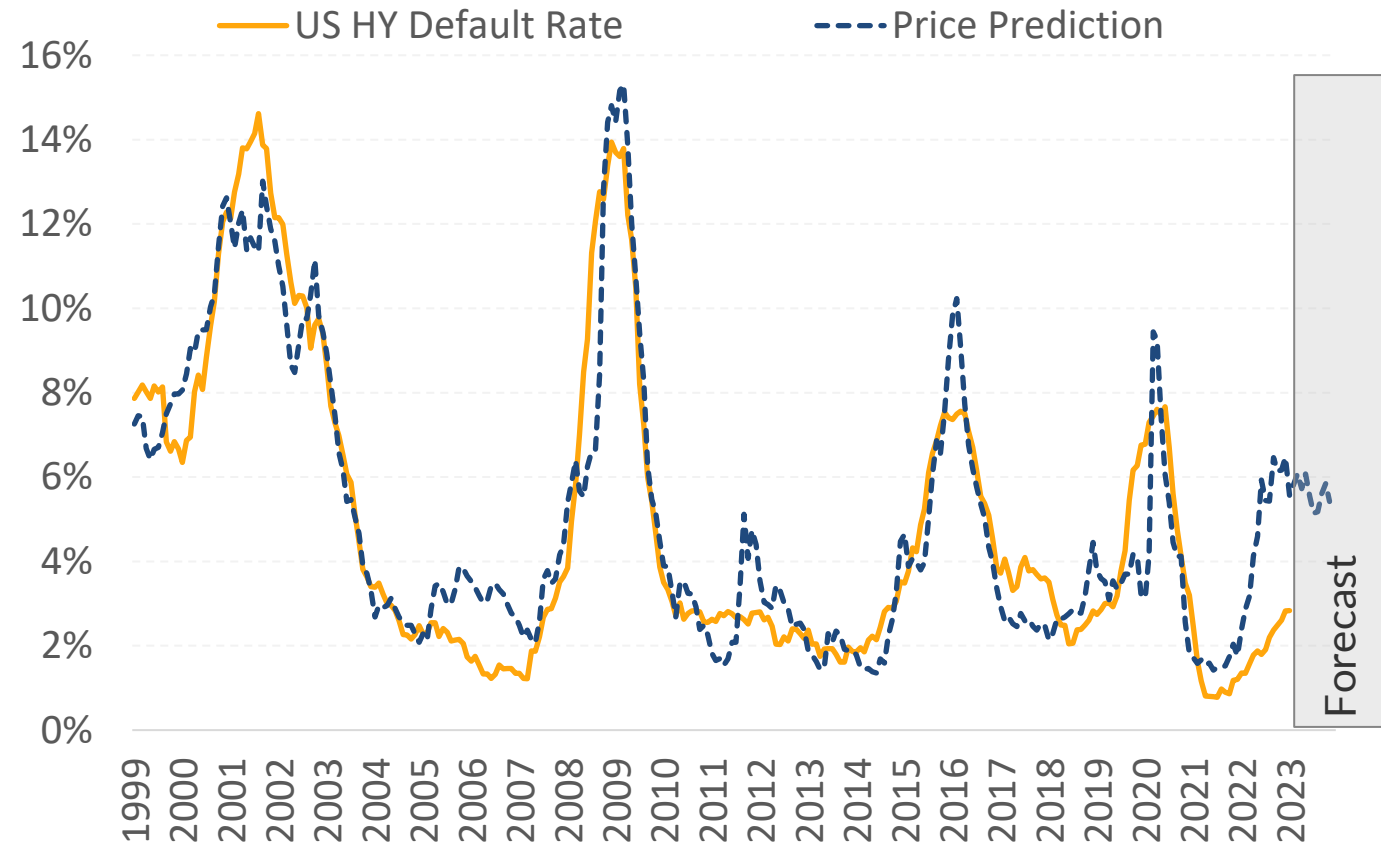
Current Period: Dec 2021 to Jan 2022

Beginning Rating	End Rating							
	AAA	AA	A	BBB	BB	B	<=CCC	D
AAA	100.0%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	99.9%	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%
A	0.00%	0.12%	99.8%	0.11%	0.00%	0.00%	0.00%	0.00%
BBB	0.00%	0.00%	0.01%	100.0%	0.00%	0.00%	0.00%	0.00%
BB	0.00%	0.00%	0.00%	0.40%	99.3%	0.27%	0.00%	0.00%
B	0.00%	0.00%	0.00%	0.00%	1.08%	98.9%	0.00%	0.00%
<=CCC	0.00%	0.00%	0.00%	0.00%	0.00%	2.37%	97.6%	0.00%
D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.0%

Forecasting Credit Migration and Defaults

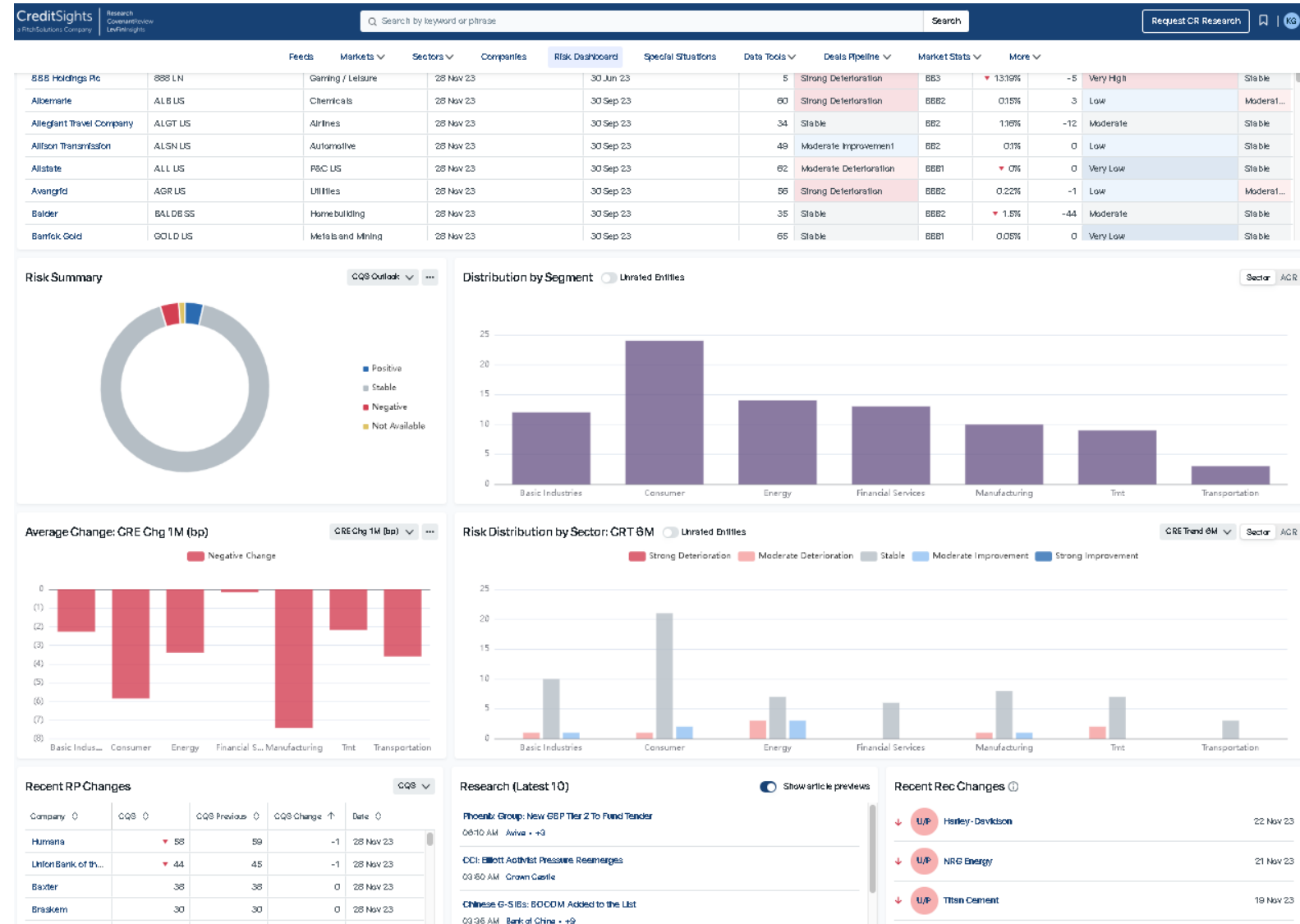
Index Spreads and Prices Are Currently Overstating Potential Default Risk in 2024

- Index spreads and prices provide a very good fit to default rates between 1999 and 2019.
- Both top-down predictors are projecting default rates in the 5% to 6% range by 3Q24.
- These projections have been exacerbated by rising interest rates.
- Current distress ratios suggest that default rates are unlikely to rise significantly in 1H24.



Risk Products 2.0

- We recently launched Risk Products 2.0, a new platform for credit risk assessment:
 - New and improved fundamental sector models
 - Improved default risk methodology
 - Expanded coverage of over 30,000 companies
 - Improved UI, new risk dashboard, enhanced screener
 - Daily updates



Risk Products 2.0

Companies

Search Companies Region ▼ 1 Country X ▼ Sector/Subsector Credit Grade 4 CSView X ▼ 1 Asset Class X ▼ Currency R C N F Q X Reset

Results 39

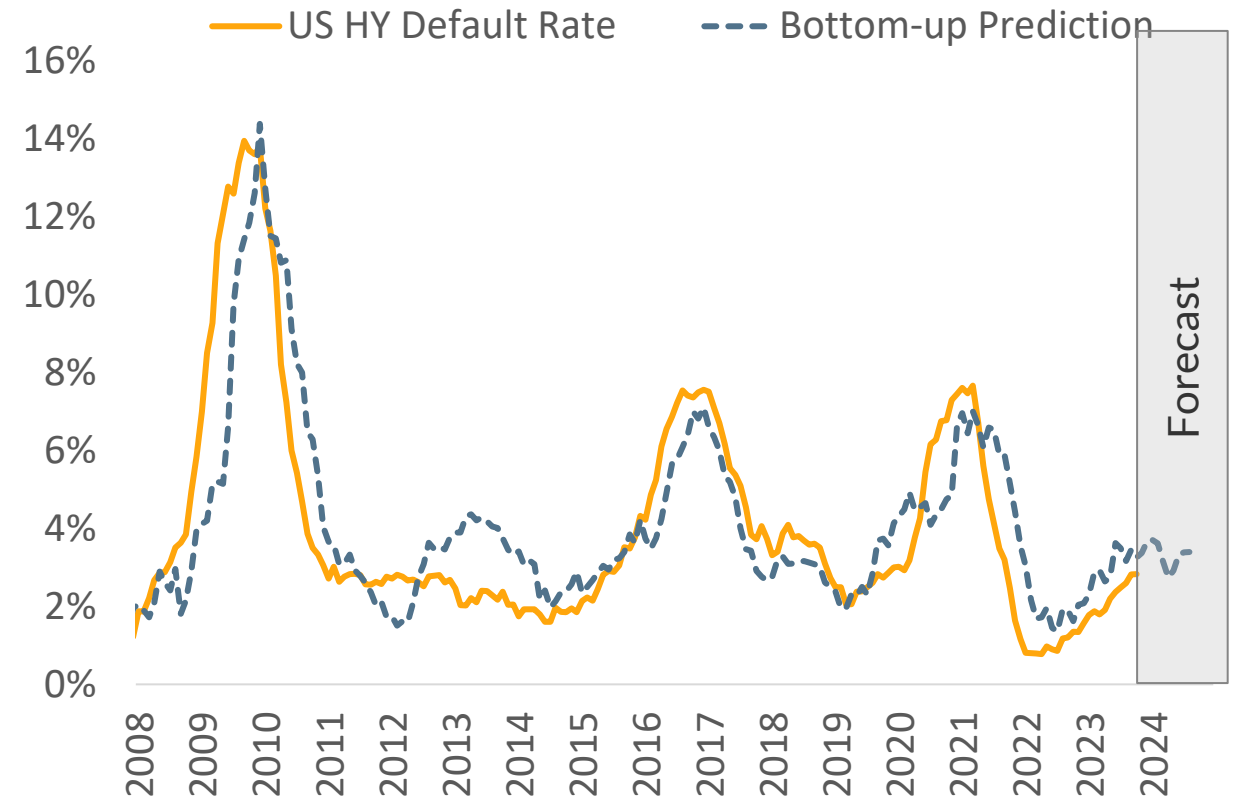
Columns 00 Load watchlist ▼ Export +

<input type="checkbox"/>	Issuer/Borrower	Ticker	CSView	Coverage	ACR	Model	CQS	CQSTrend 1Y	CQD	CRE	CRL	CRE Chg 1M (bp)
<input type="checkbox"/>	Allegiant Travel Company	ALGT US	BUY	R C N F Q	BB2	Airlines	34	Stable	High Negative Differ...	1.16%	Moderate	-12
<input type="checkbox"/>	Allison Transmission	ALSN US	UP	R C N F Q	BB2	Automotive	49	Moderate Improvement	Neutral Differential	0.1%	Low	0
<input type="checkbox"/>	AMC Entertainment Holdin...	AMC US	BUY	R C N F Q	CCC1	Gaming / Leisure	3	Stable	High Negative Differ...	24.31%	Very High	-106
<input type="checkbox"/>	Aramark	ARMK US	UP	R C N F Q	B1	Consumer Products a...	42	Stable	Moderate Positive Dif...	0.25%	Low	0
<input type="checkbox"/>	Altice USA	ATUS US	UP	R C N Q	B2	Media and Cable	18	Moderate Deterioration	High Negative Differ...	9.02%	High	13
<input type="checkbox"/>	Audacy, Inc.	AUD US	HOLD	R C N F Q	CC	Media and Cable	2	Stable	Neutral Differential	34.83%	Very High	-20
<input type="checkbox"/>	CommScope	COMM US	HOLD	R C N F Q	CCC1	Technology	16	Moderate Deterioration	Neutral Differential	10.27%	Very High	19
<input type="checkbox"/>	Coty	COTY US	HOLD	R C N F Q	BB3	Consumer Products a...	53	Strong Improvement	High Positive Differen...	0.09%	Very Low	-8
<input type="checkbox"/>	Community Health Systems	CYH US	SELL	R C N F Q	CCC3	Healthcare / Pharma...	5	Stable	Neutral Differential	15.33%	Very High	2
<input type="checkbox"/>	DISH Network Corp	DISH US	BUY	R C N F Q	B2	Media and Cable	28	Moderate Deterioration	Neutral Differential	4.4%	High	44
<input type="checkbox"/>	Hawaiian Airlines	HA US	UP	R C N F Q	B1	Airlines	13	Strong Deterioration	High Negative Differ...	10.29%	Very High	5
<input type="checkbox"/>	HanesBrands	HBI US	UP	R C N F Q	B1	Consumer Products a...	16	Strong Deterioration	High Negative Differ...	6.94%	High	50
<input type="checkbox"/>	iHeartMedia	IHRT US	UP	R N F Q	CCC1	Media and Cable	4	Stable	High Negative Differ...	18.86%	Very High	-52
<input type="checkbox"/>	Kaiser Aluminum Corp.	KALU US	UP	R C N F Q	B1	Metals and Mining	29	Moderate Deterioration	Moderate Negative D...	0.9%	Moderate	-1
<input type="checkbox"/>	Kohl's	KSS US	UP	R C F Q	BB2	Retail / Grocers	28	Moderate Deterioration	High Negative Differ...	2.23%	Moderate	-2
<input type="checkbox"/>	Lionsgate	LGF/B US	UP	R C N Q	B3	Media and Cable	37	Stable	High Positive Differen...	1.13%	Moderate	-18

Forecasting Credit Migration and Defaults

Risk Products 2.0 is a Bottom-Up Approach to Quantifying Credit Migration and Default Risk

- We can aggregate our 1Y forward probabilities of default to create a forward projection for US HY index defaults:
 - Our aggregate default probabilities provide a good fit to historical US HY default rates.
 - The projection for 3Q24 is less sensitive to interest rate risk.
- We expect a modest rise in the US HY issuer-weighted default rate in 2024:
 - An increase to 4% by the end of 1H24.
 - Range bound between 3.5% and 4% throughout 2H24.
- Investment grade default rates should remain low throughout 2024 (less than 20 bp).



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