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Fitch U.S. Public Finance Rating Actions Report and Sector Updates: First-Quarter 2023

Upgrades Outpaced Downgrades Positive rating momentum continued in 1Q23 for the U.S. Public Finance sector despite high inflation, persistent labor shortages and elevated costs of capital. In 1Q23, Fitch Ratings upgraded 38 U.S. Public Finance ratings and downgraded 12 compared to 43 and 18, respectively, in 4Q22. Upgrades represented approximately 4.5% of rating activity this past quarter, while downgrades represented approximately 1.5%. Six of eight USPF Sector Outlooks are deteriorating', with the remaining two at Neutral, relative to 2022. Fitch's Rating Outlooks Remain Stable Despite a largely deteriorating sector outlook, the distribution of Rating Outlooks continues to reflect credit stability. Stable Rating Outlooks represented 91.2% of the portfolio. Positive Rating Outlooks/Watches represented 5.5% of the portfolio and Negative Rating Outlook/Watches represented 3.4% as of 1Q23 quarter end. While an expected economic slowdown in 2023 will weaken the macro conditions facing U.S. states and local governments, Fitch anticipates overall credit quality will remain stable and strong given prudent efforts in recent years to bolster financial resilience. In the Not-For-Profit Hospital sector, healthcare providers remain under considerable pressure, particularly with respect to labor challenges, general inflation, and equity market volatility and limited coronavirus outbreaks and favorable demographic trends allowed for stable to improving occupancy across most Life Plan Communities. Despite deceleration in home prices, healthy residential real estate markets generally translated into consistent demand for LPCs.

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