Bond Case Briefs

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S&P: U.S. Ports Face Headwinds

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Key Takeaways

- **We modified our port sector outlook on Jan. 15, 2020, to negative from stable.**
- **We believe the sector remains strong, though the still-unsettled U.S.-China trade policies, ongoing tariff disputes, and the developing economic and supply chain fallout due to COVID-19 could weigh on these issuers.**
- **We expect issuers in the port sector will increasingly integrate emerging risks, including cyber- and climate-related risks, into their long-term business strategies and capital planning.**

The U.S. port sector is inherently exposed to volatility due to the normal business cycle, shifting trade patterns and supply chains, drastic fluctuations in commodity prices, and changes in both bilateral and multilateral trade policies. Now added to the list is fallout from the new coronavirus (COVID-19) outbreak, which S&P Global Ratings believes will undermine the credit strength of many Chinese infrastructure operators in 2020 and negatively affect exports (see "Coronavirus Will Take A Big Toll On China's Transport Operators" published Feb. 3, 2020, on RatingsDirect). Many of our U.S. rated ports have very strong business profiles and strong financial metrics, particularly debt service coverage and low debt levels, relative to other transportation sectors. Historically, these metrics have provided cushions for these issuers to absorb volatility and maintain their current rating profile. In our view, the likely implementation of the new U.S.-Mexico-Canada Agreement (USMCA) and the U.S.-China "Phase One" trade agreement lessens the near-term risks somewhat. However, we feel there is still a high level of uncertainty regarding Asia trade and longer-term shifts in trading patterns and supply chains that will produce winners and losers and dampen volumes and revenues at some ports.

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