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Fitch: Key Credit Risks Evolve as Stagflation Potential Rises

Fitch Ratings-New York-26 April 2022: The global credit environment has shifted significantly over the past several months with the Russia/Ukraine war upending the macroeconomic outlook and shifting plausible risk scenarios, says Fitch Ratings. The outlook for monetary tightening has increased notably, as has the potential for stagflation, wherein interest rates and inflation rise faster amid lower-than-expected growth.

The effect of a global stagflation scenario on our ratings portfolio would be most felt in sectors with greater exposures to higher input costs, heightened market volatility and tightened financing conditions. This includes industrial and travel-related sectors and finance and securities firms, especially in emerging markets.

Heightened macroeconomic, financial market and geopolitical uncertainty will also have contributing effects on other key risks, including from a debt overhang and asset bubbles, supply chain and trade disruptions, climate transition and Chinese financial sector risks. Each of these risks has been torqued by the events of the past two months, mainly from materially higher inflation and interest rate projections, a significant commodity price shock, added trade and supply chain interruptions and shifting policy prioritizations around Europe's energy transition.

Other emerging and related risks also remain, including those from increased cyber-attacks and ongoing coronavirus-related effects on transport, supply chains and economic activity in certain key economies.

For additional information and links to our most relevant reports on Fitch's key credit risks, please see our latest Risk Headquarters report available through the link above.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

