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Fitch: Financial Conditions, Debt Limit, CRE Are Key Credit Risks

Fitch Ratings-New York-18 May 2023: Tightening financial conditions, an increased focus on office real estate valuations and political risks from wrangling over the US federal debt limit are among the key credit risks highlighted in Fitch Ratings' Risk Headquarters report for 2Q23.

Since the last quarter, the key risks we highlighted regarding financial instability related to the rising costs of capital were reflected in some of the largest bank failures in US history and the swift takeover of Credit Suisse by UBS following rapid deposit outflows. While further systemic contagion risk has been mitigated through prompt government and regulator support measures, the longer-term effects on financing costs, especially for smaller and regional banks, and credit conditions in the wider economy remain highly uncertain.

The new pressures faced by US community and regional banks have also renewed investor concerns regarding commercial real estate, specifically offices, which are facing a combination of secular challenges from changing work patterns, cyclical pressures from a lacklustre economic outlook and tightening financing conditions.

Our key risks have been updated since the last quarter. Risks related to the cost of capital and financial instability, inflation, and geopolitics, policy and governance are still significant. Fitch expects broader risks to investment and consumption to persist as financial conditions continue to tighten and inflation remains above central bank targets. Political risks are also largely unchanged, with heightened focus on the US federal debt limit as the "x-date" approaches in June or July. Geopolitical risks pertaining to the Russia-Ukraine war, tensions over the Taiwan Strait and US-Chinese geopolitical competition remain.

China Macro has been removed from the key risks. Uncertainty over the Chinese economy's recovery in 2023 has been reduced significantly with the end of Zero-Covid and a rapid consumption-led jump in growth in the first quarter.

'Risk Headquarters - May 2023' is available at [fitchratings.com](https://www.fitchratings.com).

Contacts:

Justin Patrie, CFA
Senior Director
+1 201 283 4620
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

