

# **Bond Case Briefs**

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## **Fitch: Rising Negative Outlooks Reflect Weaker U.S. 2H24 Credit Environment**

Fitch Ratings-New York-31 July 2024: Fitch Ratings anticipates a modestly weaker U.S. credit environment in 2H24, according to the latest U.S. Credit Brief. Consumer spending growth has been holding up well and will likely be tempered as nominal wage and job growth slows. Housing demand is still solid but has recently softened with persistent high home prices, although affordability may improve with declining rates.

Fitch is forecasting two rate cuts in September and December. A soft landing is likely with moderating inflation and low unemployment, and we are projecting annual economic growth of 2.1%, down from 2.5% in 2023.

The vast majority of ratings across sectors in the U.S. have Stable Rating Outlooks. The percentage of ratings with Positive Outlooks exceeds those with Negative Outlooks, 7.2% vs. 5.1%, although the gap has narrowed with the increase in Negative Outlooks over the past four quarters, given cost and interest rate pressures on borrowers.

Delinquencies and defaults will continue to rise in 2H24 for rate sensitive borrowers, including CMBS, high-yield (HY)/ leveraged loan (LL), and subprime consumers. We are projecting higher CMBS delinquencies for all major CRE sectors in 2H24 due to increased maturity defaults from high rates. Structured finance downgrades are mostly tied to CMBS exposed to deteriorating office performance and lower valuations on specially serviced loans, primarily affecting ratings at 'BBBs' and lower.

We expect HY default rates of 5.0%-5.5% in 2024 and have revised our 2024 U.S. LL default rates up to 5.0%-5.5% from 3.5%-4% as high interest rates are pressuring highly levered issuers' liquidity positions and ability to service debt.

Our North American sector outlooks are split fairly evenly between neutral and deteriorating. We changed our sovereign regional outlook to neutral from deteriorating due to an improvement in our 2024 U.S. growth forecasts compared to our forecasts made at the start of the year and our expectations for modest improvement in the U.S. budget deficit in 2024.