MOODY'S

Corporate Credit Risk Outlook

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Three key themes in our corporate credit risk outlook

1

Corporate credit risk has been surprisingly robust
Defaults have risen since 2022, but less than we might have anticipated. Default rates in the UK may be topping out, but the rates outlook and refinancing window(s) will strongly affect the direction of credit risk going forward.

2

But it depends on where you look
Credit risk outlooks for the US, UK and Europe have converged, but in the US Moody's-rated, larger, more liquid companies are performing substantially better than the rest.

3

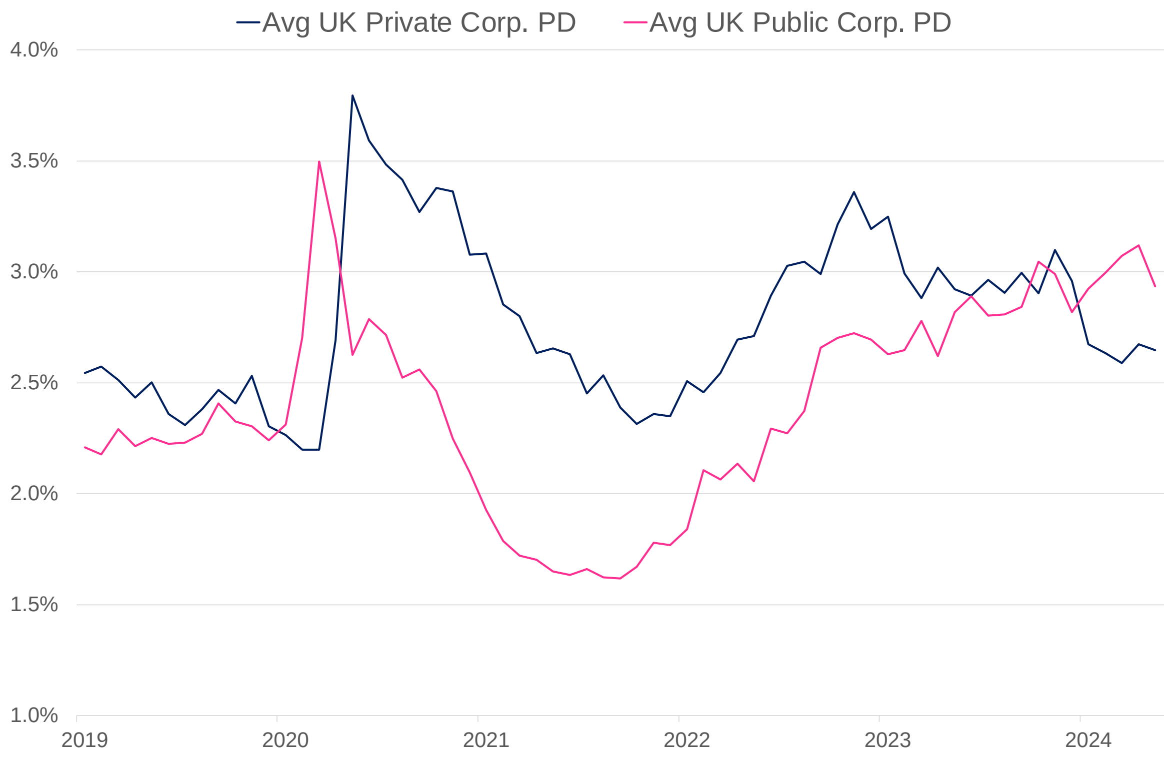
And the outlook really depends on several unknowns
Correlations between macro factors and credit risk have been weak since the pandemic – will they reset or continue to send confounding signals? Are we returning to a more "normal" state?

The corporate credit risk outlook is generally positive, but pockets of weakness & non-trivial downside risks make active credit risk management critical.

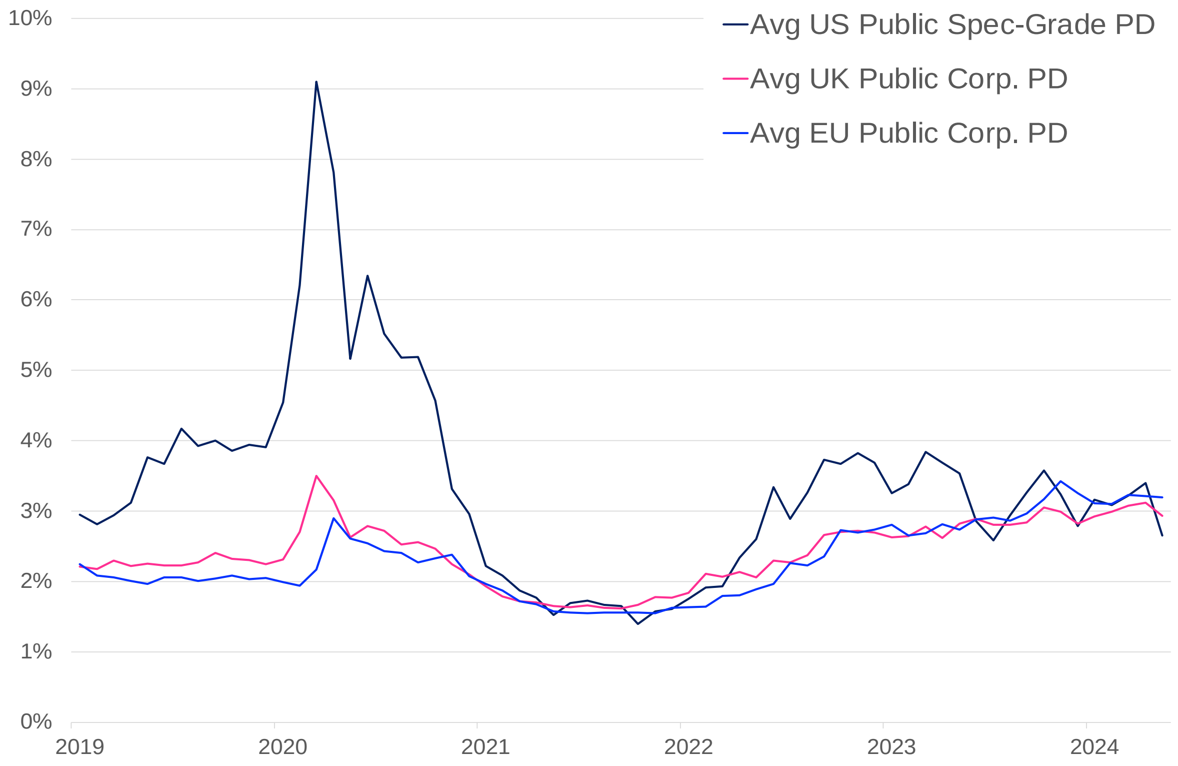
Across corporate credit markets, risk may be peaking...

Forward-looking PDs show UK risk steady to down, and convergence geographically

One-year average PDs for private firms firmly down from its 2022 peak, while public firm risk remains elevated. Too soon to call a top.



Corporate credit risk for public companies has converged in the UK, US, and Europe, with average forward-looking PDs currently near 3%.

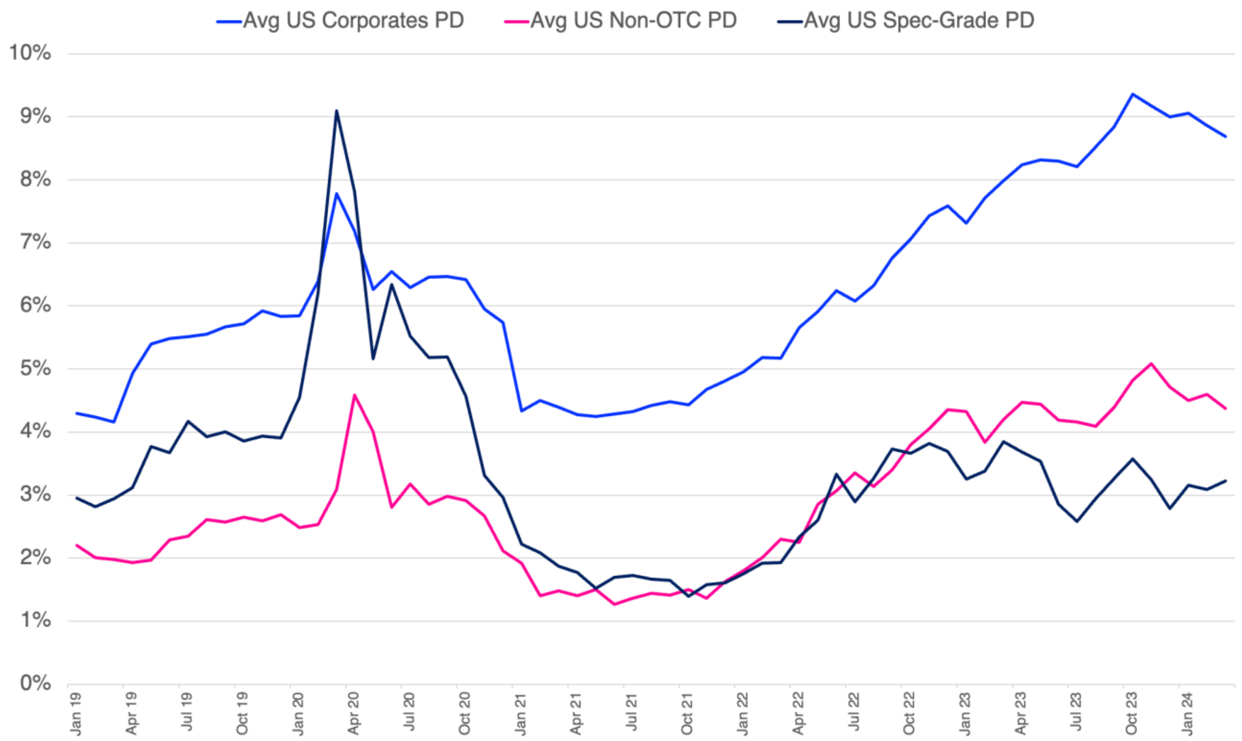


Data sources: Moody's. The average PDs represents the expected probability of default 12 months from now.

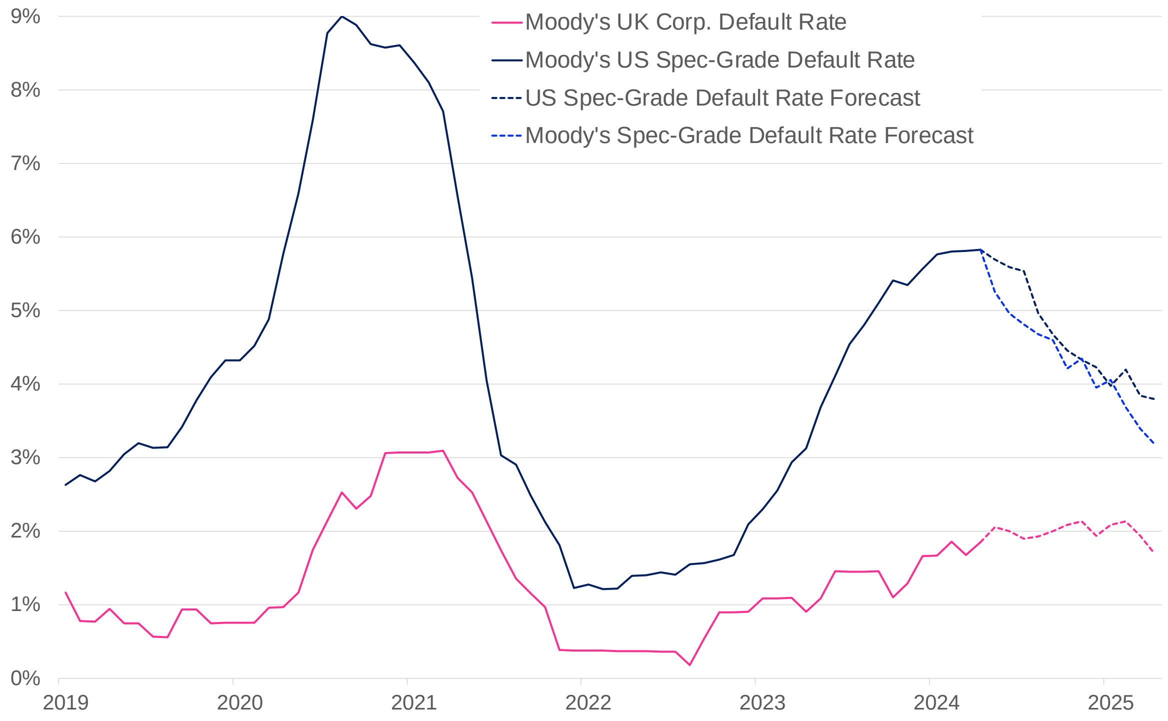
...But significant differences in credit risk outlooks exist...

The broadest measure of risk much higher in the US, near-term default forecasts positive

Size, liquidity, and access to capital strongly affect the credit risk outlook in the US. The broadest measure of credit risk, which includes many smaller firms, shows the highest expected PD.

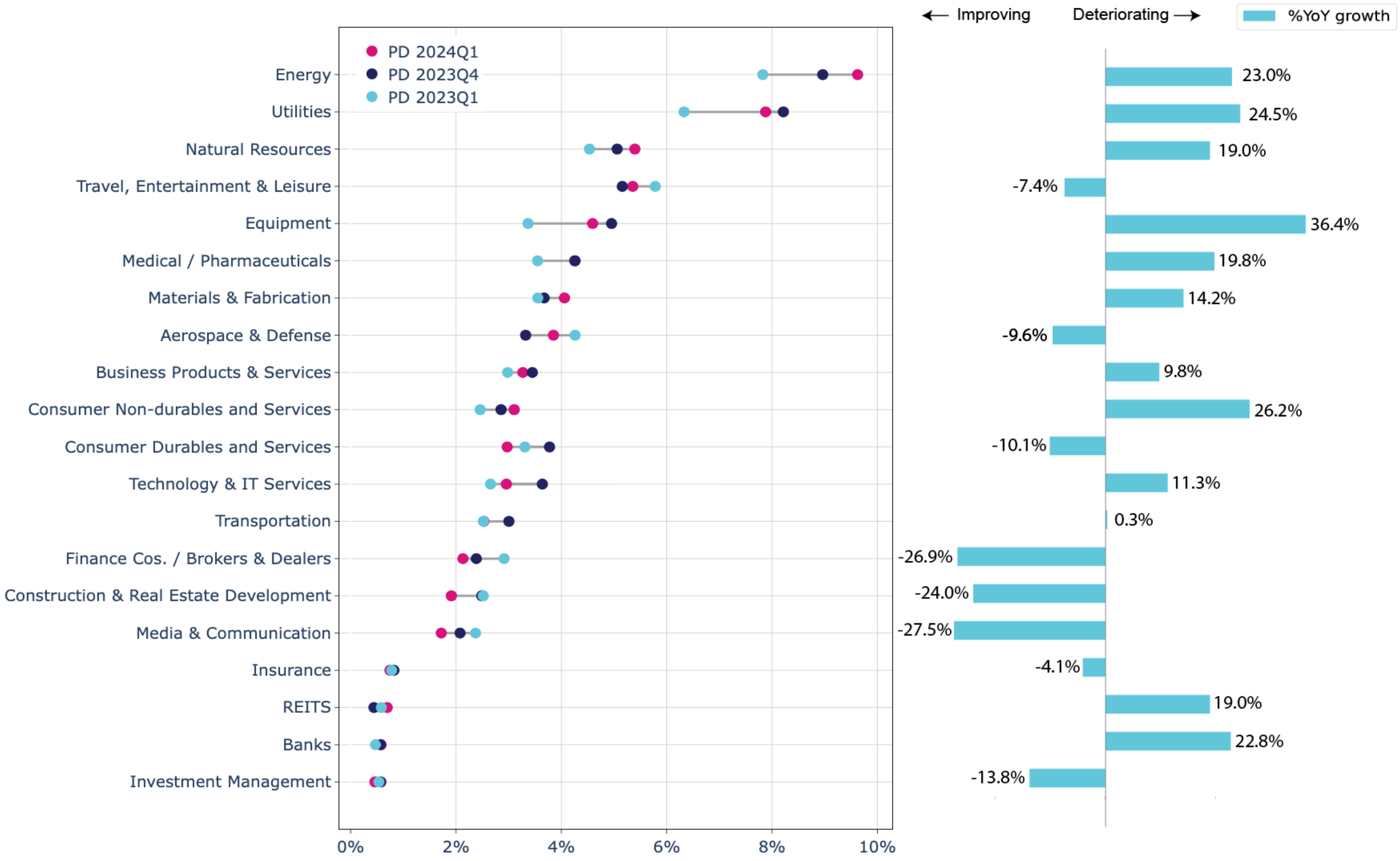


Moody's default rate is expected to be flat to down in the UK over the next year, while the US spec-grade default rate is expected to fall.



Data sources: Moody's and Moody's Ratings. The average PDs represents the expected probability of default 12 months from now.

Among UK public companies, most industry sectors saw credit risk increase



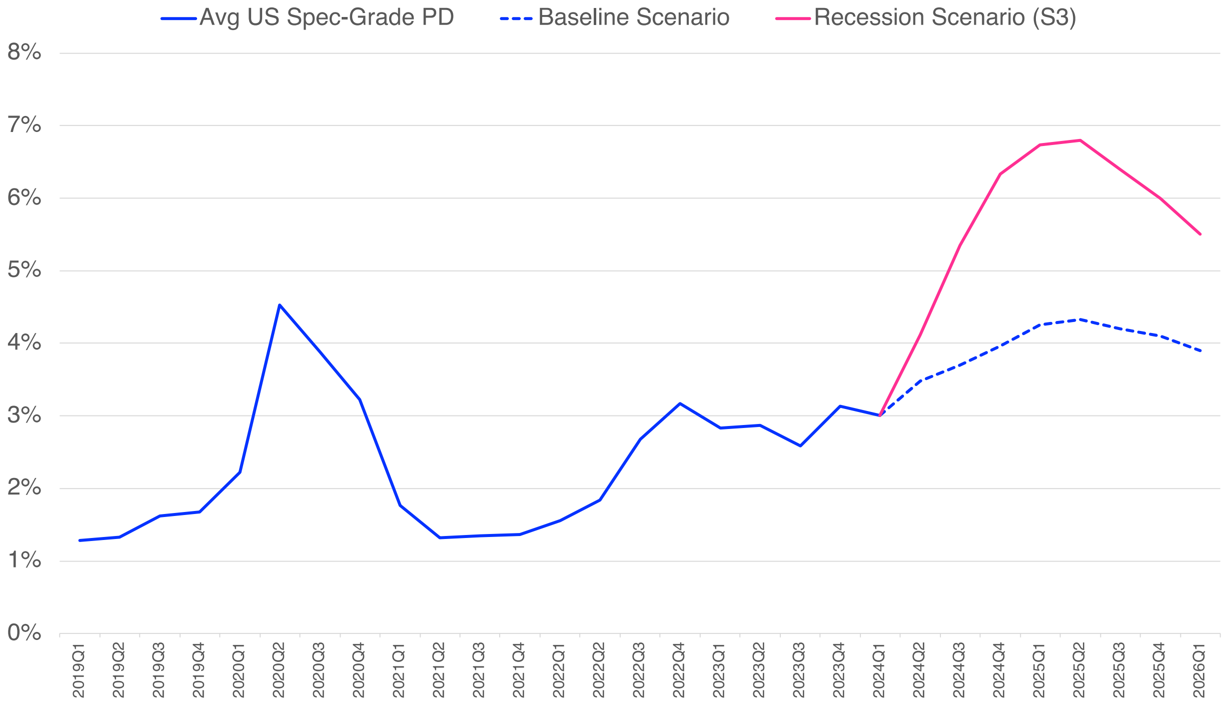
Data sources: Moody's EDF-X. The average PDs represents the expected probability of default 12 months from now.

12/20 sectors saw their credit risk worsen over the past 12 months. Despite a strong Q1 print, growth concerns and rates uncertainty still weigh on public company credit risk outlook.

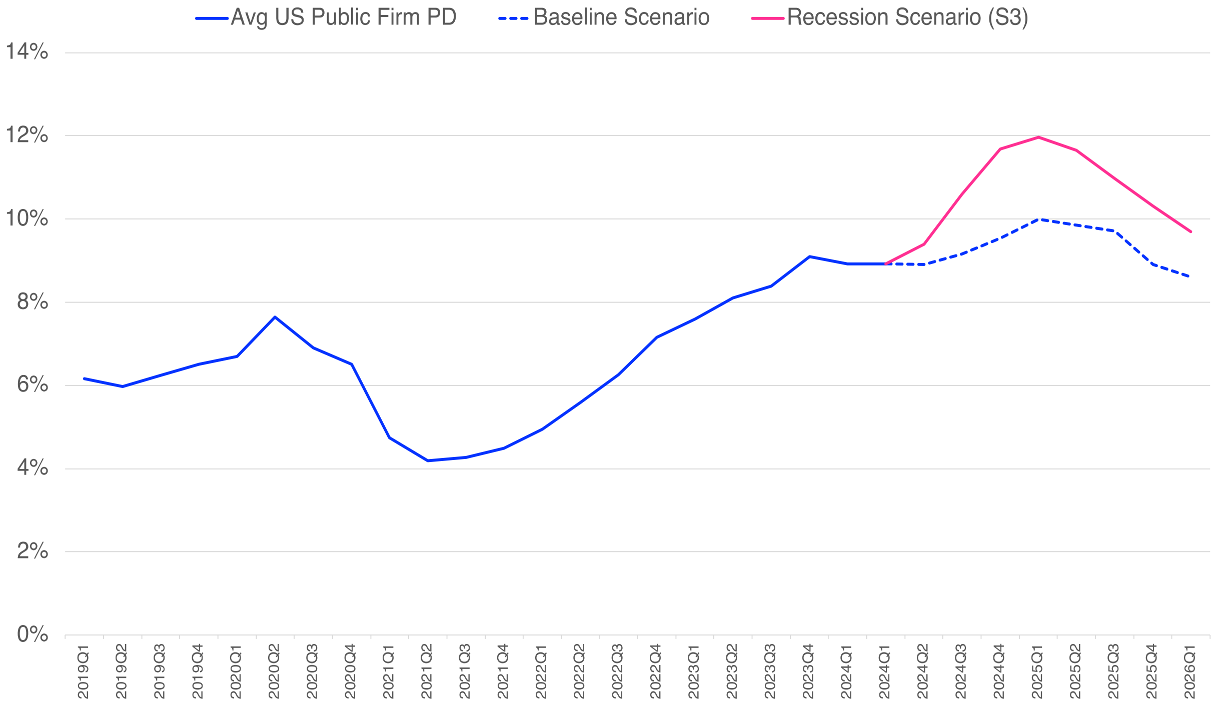
...And more credit market turbulence may lie ahead

EDF-X Stressed PDs show that the impact of yield curve inversion has yet to fully affect credit

In a downside economic scenario the average PD for the US spec-grade portfolio largely agrees with the Moody's Ratings forecast: realized default rate peaks around 7% in early 2025.

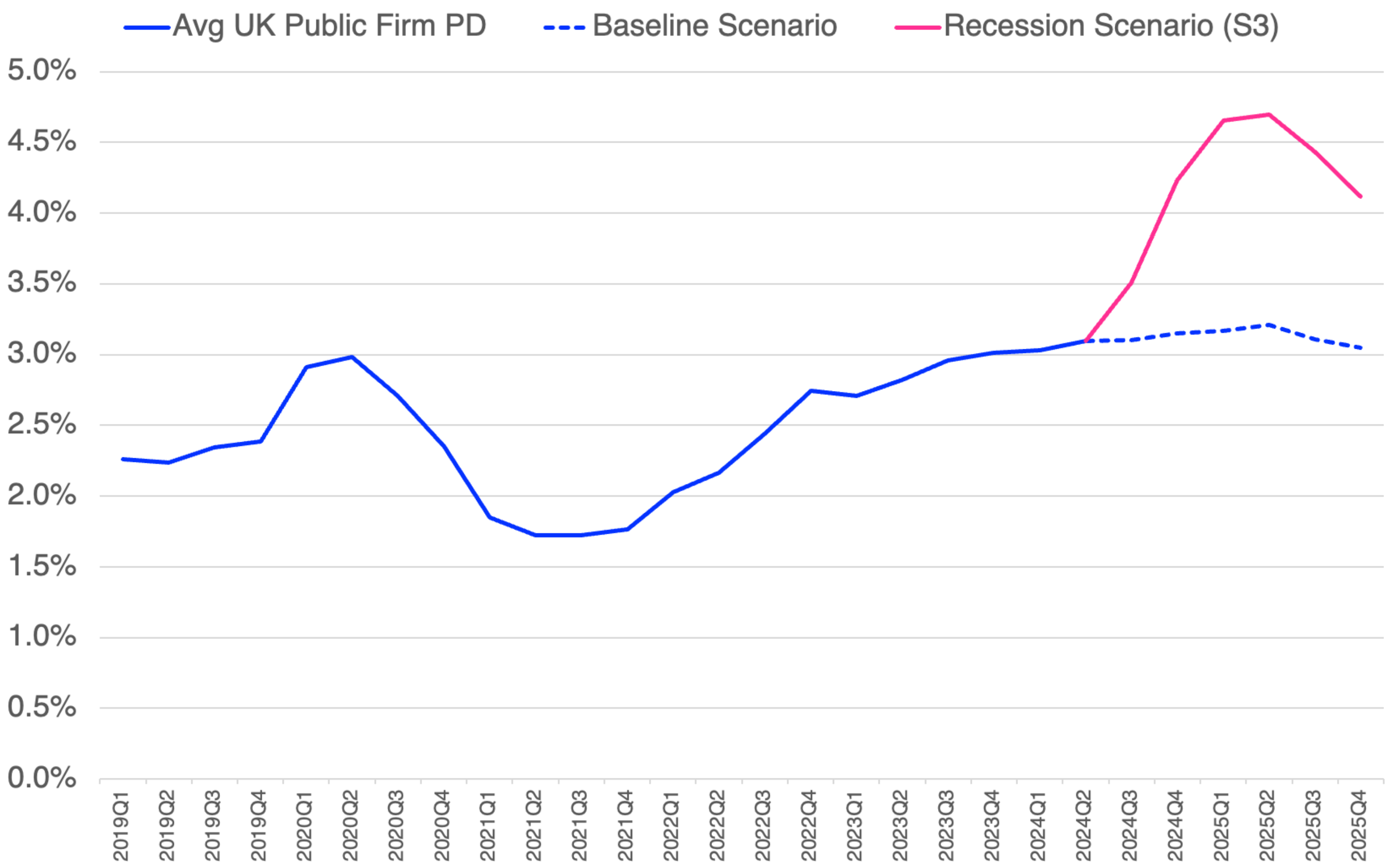


For the larger portfolio of US public firms, the average PD in a downside economic scenario peaks at levels consistent with previous recessions.



Data sources: Moody's EDF-X. The average PDs represents the expected probability of default 12 months from now.

UK corporate credit risk starts falling in second half 2025 in baseline scenario



Data sources: Moody's EDF-X. The average PDs represents the expected probability of default 12 months from now.

In the baseline economic scenario, projected steady to lower credit risk agrees with our PD forecast trend. In a recession scenario defaults are projected to exceed pandemic levels.

Is higher credit risk already baked in? Too late for easing rates?

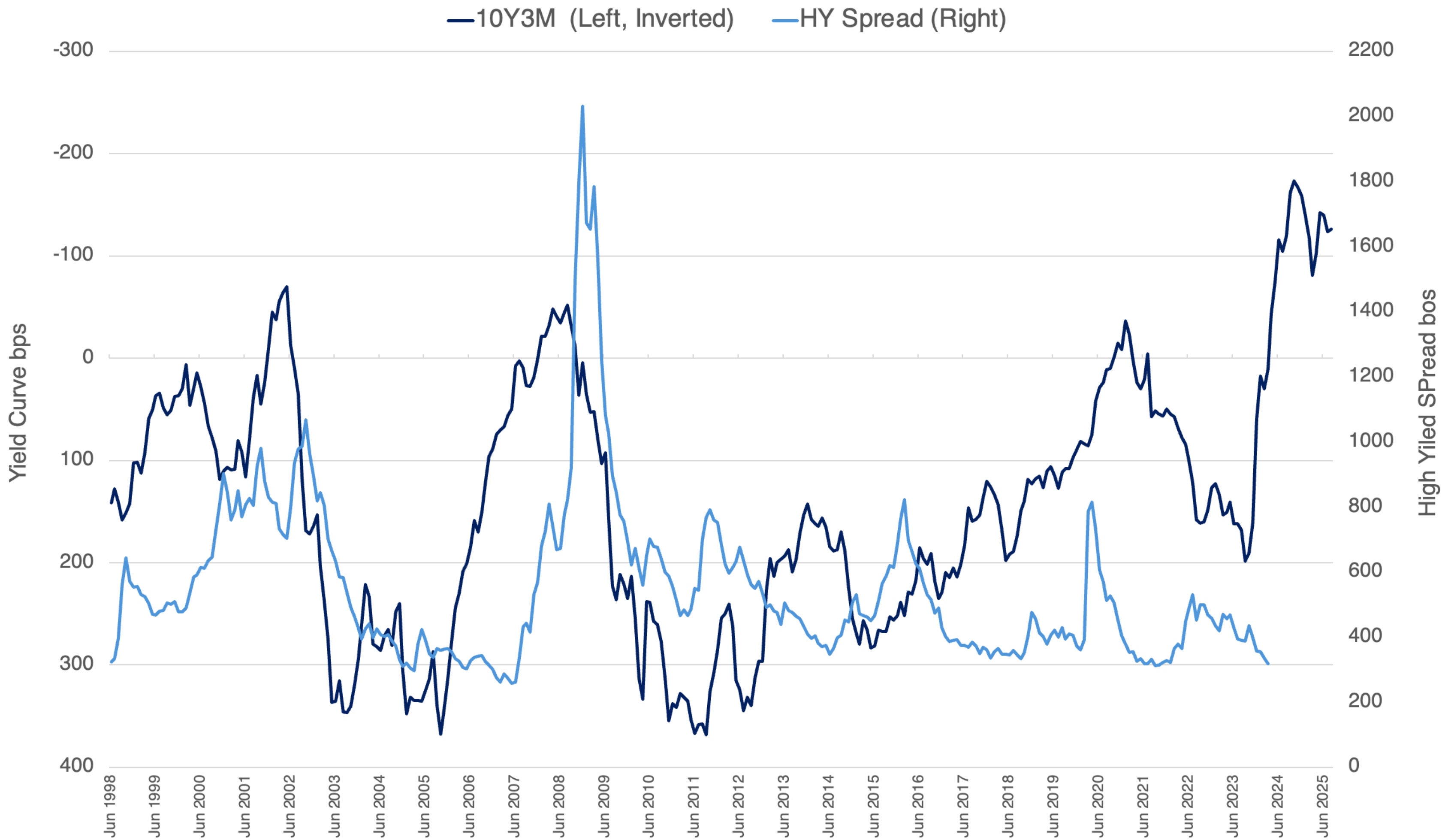
If the post-GFC disconnect between the yield curve & HY spread resets, higher risk awaits

→ **The graph shows the 10-year/3-mo Treasury spread brought forward 18 months.**

→ **Pre-GFC, Fed-induced tightening resulted in higher default risk and higher spreads.**

→ **In the 15 years since the GFC, the negative correlation has weakened.**

→ **If conditions are reverting to historical correlations, higher default risk and spreads lie ahead.**



Data sources: Moody's DataBuffet.

Q&A