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NOVEMBER CREDIT OUTLOOK

Bankruptcies Surge, Manufacturing Dips, & Credit Metrics Stay in Limbo

Economic Update

The U.S. manufacturing rate contracted in October, falling 2.3% to 46.7% on the ISM Index. The decline was largely attributed to the automotive strike. Inflation dipped to 3.2% down 0.5% in October, a welcoming trend. However, unemployment rose to 3.9%, which was the highest since January 2022. The economy added only 150,000 jobs, a sharp decline from the prior month's 297,000. Our take, further monetary tightening is likely to be on hold for the time being.

Insolvencies

Commercial Chapter 11 filings are up 106.0% in October 2023 when compared to October 2022. Total bankruptcies were up 24.0% and small business filings were up 47.0% in the same time frame. October marks 15 consecutive months where total and commercial filings have demonstrated monthly year-over-year increases. Overall, we note that staving off bankruptcy will continue to be a challenge as companies depending on seasonal spending could be in for a rude awakening.

State of Corporate Credit

On the low end of credit quality, companies continue to experience headwinds from surging cash interest payments and debt service. Debt levels are rising while interest coverage continues to deteriorate. The industrial sector, oil and gas, metals, mining, heavy industry, and transportation among others are reporting weaker earnings, revenue, and demand. The slowdown will translate into weaker credit metrics over the near term.

CURRENT & EVOLVING CREDIT RISKS

Future Outlook

B-minus or lower issuers have increased for five straight quarters. This group has grown by 52% over the last twelve months because of costlier financing options tied to aggressive rate hikes. Typically, this group is a good indicator of future credit outlook, which looks to be pessimistic and troubled.

Downgrades Persist

Bond issuers continued to see downgrades and junk borrowers surpassed upgrades for the first time in four months. This is problematic as any negative changes to credit ratings will likely result in higher borrowing costs. While investment-grade companies have been safe and resilient during this elevated period, businesses with significant leverage will pay the price.

Automotive

The aftereffects of the automotive strike coupled with persistent supply chain challenges are taking their toll on the sector. Bankruptcies and profit warnings for the automotive industry were both up 255.0% year-over-year. Weakening profitability tied to supply chain challenges and high rates impacting consumer demand will slowly deteriorate credit metrics.

U.S. Business Bankruptcies