



**S&P
CAPITAL IQ**

McGRAW HILL FINANCIAL

Credit Market Pulse

- *Global Credit Risk Trends*
- *Credit Trends Behind Major Market Indexes*
- *Best, Worst and Top Movers*

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Editors' Note

Welcome to the latest edition of Credit Market Pulse. Produced with the busy investment management, credit officer and financial risk reporting audience in mind, S&P Capital IQ's Credit Market Pulse is the first publication for the credit risk industry that provides a holistic overview of the health and trends of global credit capital markets leveraging the extensive analytical intelligence and depth of data from our own institution. The benchmarks, trends and individual company analyses examined in this article are intended to provide financial professionals with a better understanding of the risks and opportunities underlying their investment or lending decisions as well as how their portfolios perform against the market.

At the core of Credit Market Pulse is S&P Capital IQ's proprietary probability of default (PD) model, 'Market Signals', a unique analytical model which provides daily changing, 1-year forward looking PDs of publicly listed companies based on a cutting-edge econometric framework. In addition, this model generates more than 37,000 company-specific PDs every day, covering 99.9% of global market capitalization across developed economies, frontier and emerging markets.^[1]

Like the previous editions, this issue of Credit Market Pulse has three core sections, providing different views of credit risk. These include the quarterly evolution of the median PD; monthly evolution of the credit risk for constituents of the S&P 500 equity index and its various industry sub-indices, and PD tables of individual companies that merit special attention.

Based on your feedback we enhanced this edition twofold: First, for the first time since the publication of Credit Market Pulse, we provide the credit risk trend for selected individual emerging market countries: for the Ukraine and Russia following the recent geopolitical events in this region and for Brazil and Russia in the aftermath of the downgrade its sovereign debt. We show aggregated credit risk at the country level in section one and specific company data, that merits special attention, in section two. Second, we add the credit risk for constituents of the FTSE 100 equity index using the same concept, with which you are already familiar for the S&P 500 equity index.

In the first section, the quarterly evolution of the median PD is shown for the last three years with a monthly blow-out for the last year. Our charts depict all listed companies headquartered in North America, Western Europe, Asia Pacific Mature as well as Russia, Ukraine and Brazil with revenues over \$500M USD. Due to the elevated PD levels for the Ukraine, the first chart is shown in a logarithmic scale, because otherwise the lines for the other countries or regions would have become almost indistinguishable.^[2]

In the second section, the PDs of all constituents of the S&P 500 and FTSE 100 equity indices and the various S&P500 industry sub-indices are generated and aggregated into median PDs and the monthly evolution of the credit risk is shown for the last year with a weekly blowout for the most recent five weeks.^[3] This process can be replicated for any other index and this will be explored in future editions. Please note that for S&P Capital IQ subscribers, an [Excel® template](#) is available for users to replicate this section with other indices.

Finally, the third section shows a table of individual companies that merit special attention. For each of the regions and countries identified in section 1, the companies with over \$5B USD in revenues with the worst individual PDs as of April 15, 2014 as well as biggest deteriorations or greatest improvement of credit risk since January 15, 2014—highlighted in the last issue of Credit Market Pulse—are singled out.^[4]

We hope Credit Market Pulse will become an important tool for credit risk officers, investment managers, the debt capital market community and others looking to bring additional credit risk metrics and forecasting capabilities into their financial decision making. We continue to publish bi-monthly and will occasionally focus on trends occurring locally, regionally and globally. We look forward to receiving further feedback and suggestions for additional comparative analysis or regions and industries of your interest. To subscribe to the Credit Market Pulse, visit www.spcapitaliq-credit.com/creditmarketpulse.

“ Trouble ahead—credit risk trends for firms from Russia, Ukraine and Brazil continue in one direction: up. ”

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^[1] PD Market Signals enables different views for almost 250 countries and territories, more than 140 different industries and has coverage for companies of all sizes.

^[2] The median PD is preferred over the average PD because it is less sensitive to outliers. The revenue threshold is utilized because North America has a much higher concentration of small and micro-cap companies that negatively skew the credit view of the region [if they are included] when compared to the other regions. The total number of daily observations for this analysis still exceeds 7,000 and counts across regions are fairly even. For reference, the table below the graph shows the PD median values and their mapped credit scores as lower case letter grades.

^[3] Weightings are adjusted for companies that do not produce a PD value as a small handful of companies may be lacking data and we are not scoring most financial institutions at this time.

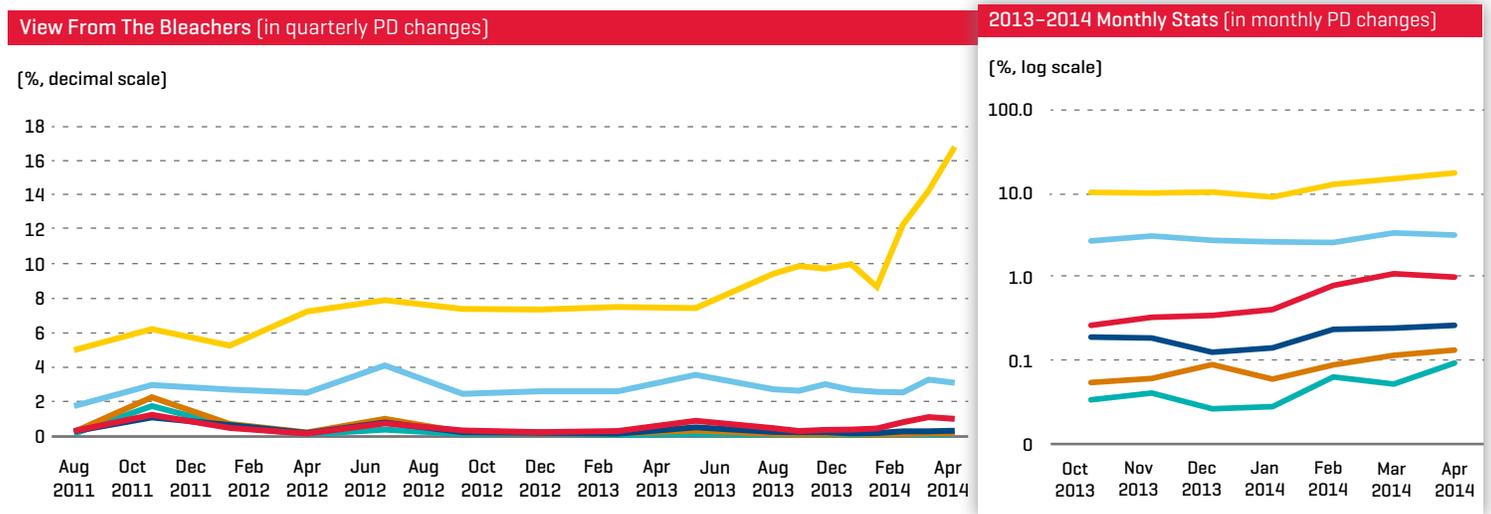
^[4] Their PDs and mapped with credit scores shown and improvements and deteriorations are calculated based on biggest changes in credit scores, not PD percentage change, as small PD values can produce outsized percentage changes that aren't extremely significant [ties are broken with PD percentage change].

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Credit Market Pulse

Global Credit Risk Trends

Market Signals Probability of Default Regional Averages



REGIONAL COMMENTARY

- The aggregated credit risk of public companies from the Ukraine is by far the worst (yellow line) for the entire period. We show the smaller graph in logarithmic scale because otherwise the line for the Ukraine would have dwarfed all others. Our credit risk indicators anticipate a deterioration from October 2013, almost five months prior to the period of political turmoil and the Russian intervention from late February 2014 onward. The median PD has increased further and is at its peak at the 'ccc' level as of April 15th, which is equivalent to the Ukraine's foreign currency sovereign rating of CCC.
- Companies in Russia (light-blue line) are impacted because investors have withdrawn hard currency from the country in flocks due to increased concerns about the rule of law applied in Russia and slowing modernization of its economy with continued emphasis on the energy sector. The median PD level has increased from 2.6% to over 3% ('b+') which is significantly below the recently downgraded sovereign rating of BBB-. Russia was downgraded on April 25, 2014.
- The biggest decline in relative terms of credit risk can be observed for Brazil (red line). The median PD almost quadruples since January from 0.26% ('bbb') to 0.97% ('bb'). Interestingly, the decline started in November 2013, four months prior to the downgrade by Standard & Poor's Ratings Services of Brazil's sovereign debt last month to BBB-. Note that the average corporate credit risk for Brazilian companies is still better than for Russia, although its sovereign ratings are identical. This is because the risk of doing business there is significantly greater in Russia than in Brazil because of higher corruption, worse infrastructure etc. Brazil was downgraded on March 24, 2014.
- Shifting the focus to developed economies, the median PDs have gone up and doubled for Western Europe and APAC Mature (from 0.06% to 0.13% and from 0.14% to 0.26%, respectively) and even tripled for North America, albeit starting from lower levels (from 0.03% to 0.09%). These credit risk levels are still close to median levels observed in 2013 and the increase since January does not stem from new negative signs from developed economies (because there are NO new signs), but rather concerns of spillover effects from the economic slowdown in key emerging markets.

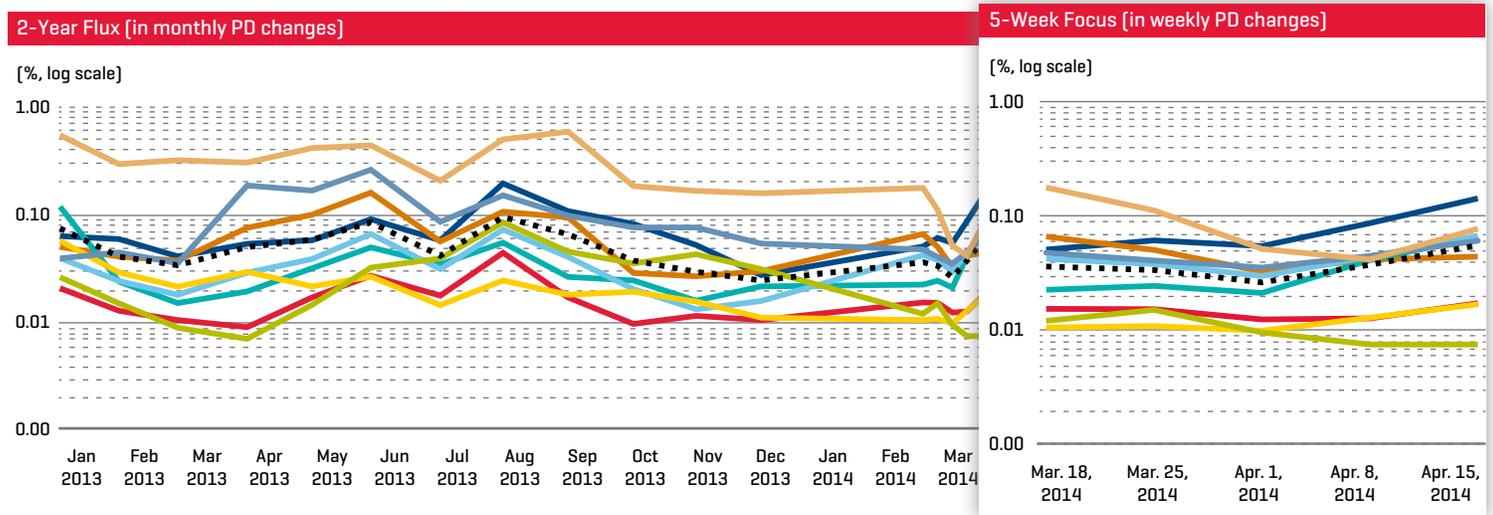
	JUN. 30, 2011	SEP. 30, 2011	DEC. 30, 2011	MAR. 30, 2012	JUN. 29, 2012	SEP. 28, 2012	DEC. 31, 2012	MAR. 29, 2013	JUN. 28, 2013	SEP. 30, 2013	OCT. 15, 2013	NOV. 15, 2013	DEC. 13, 2013	JAN. 15, 2014	FEB. 14, 2014	MAR. 14, 2014	APR. 15, 2014
North America (1754*)	0.11%	1.71%	0.52%	0.07%	0.33%	0.09%	0.13%	0.02%	0.09%	0.04%	0.03%	0.04%	0.03%	0.03%	0.06%	0.05%	0.09%
	a-	bb-	bbb-	a	bbb-	a-	bbb+	aa-	a-	a+	a+	a+	aa-	aa-	a	a	a-
Western Europe (1219*)	0.20%	2.21%	0.67%	0.16%	0.97%	0.19%	0.15%	0.10%	0.28%	0.09%	0.05%	0.06%	0.09%	0.06%	0.09%	0.11%	0.13%
	bbb+	bb-	bb+	bbb+	bb	bbb+	bbb+	a-	bbb	a-	a	a	a-	a	a-	a-	bbb+
APAC Mature (2702*)	0.23%	1.05%	0.59%	0.14%	0.75%	0.19%	0.15%	0.10%	0.47%	0.20%	0.19%	0.18%	0.12%	0.14%	0.23%	0.24%	0.26%
	bbb	bb	bb+	bbb+	bb+	bbb+	bbb+	a-	bbb-	bbb+	bbb+	bbb+	a-	bbb+	bbb	bbb	bbb
Brazil (286*)	0.25%	1.19%	0.43%	0.11%	0.69%	0.28%	0.19%	0.25%	0.85%	0.41%	0.26%	0.32%	0.34%	0.40%	0.77%	1.07%	0.97%
	bbb	bb	bbb-	a-	bb+	bbb	bbb+	bbb	bb+	bbb-	bbb	bbb	bbb-	bbb-	bb+	bb	bb
Russia (212*)	1.70%	2.92%	2.66%	2.49%	4.07%	2.42%	2.57%	2.58%	3.53%	2.68%	2.61%	2.98%	2.65%	2.54%	2.51%	3.25%	3.06%
	bb-	b+	b+	b+	b	b+											
Ukraine (10*)	4.97%	6.19%	5.23%	7.21%	7.88%	7.36%	7.33%	7.48%	7.42%	9.42%	9.87%	9.72%	9.99%	8.66%	12.28%	14.27%	16.81%
	b	b-	b	b-	ccc+	ccc+	ccc+	b-	ccc+	ccc+	ccc						

*Counts as of April 15, 2014. PD Market Signal scores are represented by lowercase nomenclature to differentiate them from S&P Ratings Services credit ratings.

Credit Trends Behind Major Market Indexes

■ Consumer discretionary
 ■ Consumer staples
 ■ Energy
 ■ Healthcare
 ■ Industrials
■ Information technology
 ■ Materials
 ■ Telecom services
 ■ Utilities
 ■ S&P 500 index*

S&P 500 Index GICS Sector PD Market Signal charts



INDEX COMMENTARY

- At the close of April 15th 2014, the credit risk of the S&P 500 index remained stable at an overall probability of default of 0.03%. This held true for most of the S&P 500 sector constituents with the exception once again of 'Telecommunication Services' that saw a deterioration to 0.19% from the 0.12% PD level reported in February. The heaviest single constituent in this sector once more being Frontier Communications at 1.02% PD. But in terms of the worst contributor to the whole index, GameStop Corp from the 'Consumer Discretionary' sector was the single constituent with the largest PD at 1.14%.
- Shifting the gaze to Europe, the FTSE100 showed the exact same level of overall credit risk as the S&P 500 standing at a healthy 0.03% PD ('a+'). Throughout the whole period starting October 2012 the performance has been remarkably similar to its USA comparable, only with few months of marginally higher overall PD.
- Unlike in the S&P 500, with an overall PD of 0.1%, 'Materials' was the sector that represented the main credit burden to the FTSE 100 index. This has been the case throughout the whole study period until April 15, 2014. This sector saw five constituents withdrawn along 2013, with Evraz Plc retired in mid-2013 around the time it peaked at 33.2% PD. At those levels it represented the heaviest credit burden of the entire period. More recently, the remaining constituents have contributed to bringing down the overall credit weight added by this sector. The heaviest single holding of the index was Tullow Oil in the 'Energy' sector standing at a 0.79% PD level as of April 15th 2014 – a 30% lower PD than its highest PD peer on the S&P500.

	FEB. 2013	MAR. 2013	APR. 2013	MAY 2013	JUN. 2013	JUL. 2013	AUG. 2013	SEP. 2013	OCT. 2013	NOV. 2013	DEC. 2013	JAN. 2014	APR. 2014
Consumer Discretionary (84*)													
Value	0.06%	0.04%	0.05%	0.06%	0.09%	0.06%	0.20%	0.11%	0.08%	0.05%	0.03%	0.06%	0.14%
Credit Score	a	a+	a	a	a-	a	bbb+	a-	a-	a	aa-	a	bbb+
Consumer Staples (41*)													
Value	0.01%	0.01%	0.01%	0.02%	0.03%	0.02%	0.04%	0.02%	0.01%	0.01%	0.01%	0.02%	0.02%
Credit Score	aa	aa+	aa+	aa	aa-	aa	a+	aa	aa+	aa	aa+	aa-	aa
Energy (44*)													
Value	0.04%	0.04%	0.08%	0.10%	0.16%	0.06%	0.11%	0.09%	0.03%	0.03%	0.03%	0.05%	0.04%
Credit Score	a+	a+	a	a-	bbb+	a	a-	a-	aa-	aa-	a+	a	a+
Healthcare (53*)													
Value	0.02%	0.02%	0.02%	0.03%	0.05%	0.03%	0.06%	0.03%	0.02%	0.02%	0.02%	0.12%	0.07%
Credit Score	aa-	aa	aa-	a+	a	a+	a	aa-	aa-	aa	aa-	a-	a
Industrials (64*)													
Value	0.02%	0.02%	0.03%	0.04%	0.07%	0.03%	0.07%	0.04%	0.02%	0.01%	0.02%	0.04%	0.07%
Credit Score	aa-	aa	aa-	a+	a	a+	a	a+	aa-	aa	aa	a+	a
Information Technology (66*)													
Value	0.03%	0.02%	0.03%	0.02%	0.03%	0.01%	0.02%	0.02%	0.02%	0.02%	0.01%	0.06%	0.02%
Credit Score	aa-	aa-	a+	aa-	aa-	aa	aa-	aa	aa-	aa	aa+	a	aa
Materials (30*)													
Value	0.04%	0.04%	0.19%	0.17%	0.26%	0.09%	0.15%	0.10%	0.08%	0.08%	0.05%	0.04%	0.06%
Credit Score	a+	a+	bbb+	bbb+	bbb	a-	bbb+	a-	a	a	a	a+	a
Telecommunication Services (5*)													
Value	0.30%	0.32%	0.30%	0.41%	0.44%	0.21%	0.50%	0.59%	0.18%	0.17%	0.16%	0.55%	0.08%
Credit Score	bbb	bbb	bbb	bbb-	bbb-	bbb	bbb-	bb+	bbb+	bbb+	bbb+	bb+	a
Utilities (30*)													
Value	0.02%	0.01%	0.01%	0.01%	0.03%	0.04%	0.09%	0.05%	0.04%	0.04%	0.03%	0.03%	0.01%
Credit Score	aa	aa+	aa+	aa	a+	a+	a-	a+	a+	a+	a+	aa-	aa+
S&P 500 (417*,**)													
Value	0.04%	0.03%	0.05%	0.06%	0.09%	0.04%	0.10%	0.07%	0.04%	0.03%	0.02%	0.07%	0.06%
Credit Score	a+	a+	a	a	a-	a+	a-	a	a+	a+	aa-	a	a

	MAR. 18, 2014	MAR. 25, 2014	APR. 1, 2014	APR. 8, 2014	APR. 15, 2014
Value	0.05%	0.06%	0.05%	0.09%	0.14%
Credit Score	a	a	a	a-	bbb+
Value	0.02%	0.02%	0.01%	0.01%	0.02%
Credit Score	aa	aa	aa	aa	aa
Value	0.07%	0.05%	0.03%	0.04%	0.04%
Credit Score	a	a	a+	a+	a+
Value	0.02%	0.02%	0.02%	0.04%	0.07%
Credit Score	aa-	aa-	aa-	a+	a
Value	0.04%	0.04%	0.03%	0.04%	0.07%
Credit Score	a+	a+	a+	a+	a
Value	0.01%	0.01%	0.01%	0.01%	0.02%
Credit Score	aa+	aa+	aa+	aa	aa
Value	0.05%	0.04%	0.04%	0.04%	0.06%
Credit Score	a	a+	a+	a+	a
Value	0.18%	0.11%	0.05%	0.04%	0.08%
Credit Score	bbb+	a-	a	a+	a
Value	0.01%	0.02%	0.01%	0.01%	0.01%
Credit Score	aa	aa	aa+	aa+	aa+
Value	0.04%	0.03%	0.03%	0.04%	0.06%
Credit Score	a+	a+	aa-	a+	a

*Counts as of April 15, 2014. PD Market Signal scores are represented by lowercase nomenclature to differentiate them from S&P Ratings Services credit ratings.

**S&P 500 is inclusive of all S&P 500 Index constituents that have S&P Capital IQ PD Market Signal coverage and excluding GICS (trade mark) Financial Sector (GICS code 40). Industries are not S&P 500 sub-indices, but rather, GICS 2-digit Sector groupings within the S&P 500 Index.

Best, Worst and Top Movers

REGION	HIGHEST	IMPROVEMENT	DETERIORATION
Western Europe	NasdaqGS:VIP VimpelCom Ltd. [ccc] [16.30%]	ENXTPA:GSZ GDF SUEZ S.A. bbb ▶ aa 0.25% ▶ 0.02%	LSE:VOD Vodafone Group Public Limited Company aaa ▶ b 0.01% ▶ 5.95%
	OM:SAS SAS AB [ccc+] [12.41%]	ENXTPA:RI Pernod-Ricard SA bbb+ ▶ aa+ 0.17% ▶ 0.01%	LSE:CCL Carnival plc aaa ▶ bb 0.00% ▶ 1.26%
	XTRA:AB1 Air Berlin PLC [ccc+] [9.69%]	ENXTPA:TEC Technip SA bb ▶ a- 1.34% ▶ 0.08%	SWX:KUNN Kuoni Reisen Holding AG aa+ ▶ bb- 0.01% ▶ 1.66%
North America	NasdaqGS:NIHD NII Holdings Inc. [ccc-] [34.62%]	NYSE:NRG NRG Energy, Inc. bbb- ▶ aaa 0.38% ▶ 0.01%	NasdaqGS:KELY.A Kelly Services, Inc. aa ▶ bb 0.01% ▶ 1.05%
	NYSE:JCP J. C. Penney Company, Inc. [b-] [9.31%]	NYSE:EXC Exelon Corporation bbb+ ▶ aaa 0.15% ▶ 0.00%	NYSE:MGM MGM Resorts International aa ▶ bb 0.01% ▶ 0.87%
	NYSE:ANR Alpha Natural Resources, Inc. [b-] [9.07%]	NYSE:DVN Devon Energy Corporation bbb+ ▶ aaa 0.13% ▶ 0.01%	NYSE:CCL Carnival Corporation aaa ▶ bbb 0.01% ▶ 0.33%
Brazil Russia Ukraine	BOVESPA:OIBR4 Oi SA [ccc-] [31.95%]	BOVESPA:MRFG3 Marfrig Global Foods S.A. b- ▶ bb 8.35% ▶ 1.36%	BOVESPA:CSNA3 Companhia Siderurgica Nacional bbb ▶ b- 0.21% ▶ 6.78%
	MICEX:AFKS Sistema JSFC [ccc+] [9.84%]	BOVESPA:VVAR3 Via Varejo S.A. ccc+ ▶ bb- 11.91% ▶ 1.65%	BOVESPA:BRKM5 Braskem S.A. bbb+ ▶ b 0.20% ▶ 5.05%
	MICEX:RTKM Open Joint Stock Company Long-Distance and International Telecommunications Rostelecom [b-] [8.43%]	BOVESPA:LAME4 Lojas Americanas SA bbb- ▶ bbb+ 0.38% ▶ 0.19%	BOVESPA:GOAU4 Metalurgica Gerdau S.A. bbb+ ▶ b 0.19% ▶ 3.78%
APAC Mature	KOSE:A117930 Hanjin Shipping Co., Ltd. [ccc+] [10.39%]	NZSE:FCG Fonterra Co-Operative Group Ltd. bb+ ▶ aa+ 0.73% ▶ 0.01%	TSE:8078 Hanwa Co. Ltd. aa- ▶ b 0.02% ▶ 3.80%
	TSE:9104 Mitsui OSK Lines Ltd. [b-] [9.45%]	TSEC:3231 Wistron Corporation bbb- ▶ aa 0.42% ▶ 0.01%	TSE:3407 Asahi Kasei Corporation aa ▶ bb- 0.02% -> 1.52%
	TSE:9509 Hokkaido Electric Power Co. Inc. [b-] [9.45%]	TSEC:4938 Pegatron Corporation bbb ▶ aa+ 0.31% ▶ 0.01%	TSE:7974 Nintendo Co. Ltd. aa+ ▶ bb+ 0.01% ▶ 0.68%

COMPANY PERFORMANCE SPOTLIGHT

Companies over \$5B USD in revenues, changes over two-month period prior to and including October 30, 2013

HIGHEST PDS

- In the company performance section, we see some interesting stories continuing to unfold and resolve from previous issues. Of the companies with the highest PDs as of April 15, 2014 NII Holdings Inc. (North America's Nextel brand) tops all regions with a PD of 34.62%. NII Holdings [NasdaqGS:NIHD] also made the highest PD list in both the 1st and 2nd Editions of this report [28.32% as of Oct. 30, 2013 & 32.89% as of Jan. 15, 2014]. In the last couple of months the company has seen such bad news as removal from S&P Telco Select Index, a ratings downgrade and auditor ongoing concerns – and as of this writing [April 25] its PD has edged to 43%.
- Two industries are represented several times in the section of worst performers: First, airline companies, which is consistent with trends observed in the previous editions of Credit Market Pulse. In particular the European ones with SAS (#2 @12.41%), the Scandinavian airline, and again Air Berlin (#3 @9.69%), German's second largest airline, remain in the focus. Second, we see Telecommunications Services companies filling many of the slots in the list. All three companies from our "highlighted region" (Brazil, Russia and Ukraine) are Telecommunications Services companies as well as VimpleCom from Western Europe and NII Holdings. In this category we see Oi S.A. at a high level of 31.95% [Brazil], Sistema JSFC @ 9.31% [Russia] and OJSC Long-Distance and International Telecommunications Rostelecom @ 9.07%. Oi S.A. shares were down on concerns around a proposed merger with Portugal Telecom [which made the top PD list in previous edition. In Western Europe, Telco VimpelCom Ltd. fell significantly in late January after the company omitted a final dividend for 2013, driving the increase in PD.
- We also observed an overall deterioration in the Western European market based on the highest PD levels. In the reports 2nd Edition [data as of January 15, 2014] its top three highest PDs were SAS AB [6.55%] Air Berlin [2.28%] and Portugal Telecom [2.05%]. In this edition, VimpleCom is almost three times higher [@16.30%] and SAS [@12.41%] and Air Berlin @ 9.69%] are more than three times their respective positions in January.

BIGGEST NOTCH IMPROVEMENTS

- Another story that has evolved is that of Frances Technip SA which made the Deterioration list [2nd Place for Western Europe] in the last report. In this report we find Technip SA having improved five notches, likely on the back of several positive news items including positive earnings news and an announced dividend increase.
- On the whole, Energy and Utility companies had the highest representation on the improvements list. This includes GDF Suez (France Utilities) and Techip SA [France Energy] from Western Europe and NRG Energy, Inc [US Utilities], Exelon Corporation [US Utilities] and Devon Energy Corporation [US Energy] from North America. Potentially, some of these companies benefitted from a particularly harsh winter in the US.

Best, Worst and Top Movers

COMPANY PERFORMANCE SPOTLIGHT (Cont'd.)

- Finally, we see that all three companies from the “highlighted region” are from Brazil and in Consumer sectors. Marfrig Global Foods (Consumer Staples) operates in food and food services and both Via Varejo S.A. and Lojas Americanas operate in Consumer Discretionary Retail. It is not extremely surprising that we see these consumer driven companies being lifted in advance of the 2014 World Cup and the entailing potential benefits to the Brazilian domestic economy.

BIGGEST NOTCH DETERIORATIONS

- In opposition to the consumer story in Brazil, we saw four Consumer Discretionary firms from Western Europe and North America appear in the biggest deteriorations list. Carnival Corporation and PLC [private company] saw two of its public corporations take a hit – Carnival plc[UK LSE:CCL] and Carnival Corporation [US NYSE: CCL]. Additionally, Kuoni Reisen Holding AG [travel services Switzerland] and MGM Resorts International [resorts and casinos US] were represented. Not shown in the chart, but in the 5th position and following this trend in North America was Caesar’s [NasdaqGS:CZR].
- The companies with the largest PD drops [PD mapped to an equivalent drop of 10 or more notches] that we saw in this report were in Western Europe [Vodafone, Carnival and Kuoni Reisen] and APAC Mature [Hanwa, Asahi Kasei].
- Finally, we see that half of the companies on the deteriorations list came from Industrials and Materials. The bulk of these companies were from Brazil [3] and APAC Mature [2]. This seems to be in line with potential global concerns over potential slower growth scenarios in China [despite any potential optimism coming out of Brazil].

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