

Fallen Angels: Is the Curve Flattening?

October 2020

Fallen Angels – companies whose credit quality has shifted from investment-grade to high-yield or “junk” status – continue to grow in number but at a slower pace than what we’ve been seeing for the past several months.

Each month, Credit Benchmark tracks a global sample of corporations across all sectors to gauge the percentage of firms at risk of losing their investment-grade status. This month’s report captures consensus credit data for 6,894 companies that were classed as Investment-grade as at end-Feb 2020 and finds that 772 (about 11%) are now classified as High Yield, according to the internal risk views of over 40 leading global financial institutions. This is an increase of 93 compared to the previous update and 214 compared to the update before that. Of the 32 sectors examined, 15 have a higher percentage of Fallen Angels than the average for the full sample.

CB_Risk_Entity_Sector	Sample of IG companies end-Feb20	Cumulative # of Fallen Angels Mar - Aug20	Cumulative % of Fallen Angels Mar - Aug20
Travel & Leisure	189	77	40.7%
Leisure Goods	22	7	31.8%
Industrial Metals & Mining	64	16	25.0%
Aerospace & Defense	76	16	21.1%
Personal Goods	65	12	18.5%
Automobiles & Parts	384	66	17.2%
Media	151	24	15.9%
Mobile Telecommunications	19	3	15.8%
General Retailers	605	91	15.0%
Oil & Gas Producers	492	73	14.8%
Chemicals	388	56	14.4%
Industrial Transportation	346	45	13.0%
Forestry & Paper	63	8	12.7%
Oil Equipment, Services & Distribution	168	19	11.3%
Household Goods & Home Construction	169	19	11.2%
Full Sample	6,894	772	11.2%
Construction & Materials	316	34	10.8%
Technology Hardware & Equipment	104	10	9.6%
Food Producers	396	33	8.3%
Support Services	469	38	8.1%
Industrial Engineering	219	17	7.8%
Mining	220	17	7.7%
Software & Computer Services	253	19	7.5%
Electronic & Electrical Equipment	204	15	7.4%
Beverages	87	6	6.9%
Food & Drug Retailers	77	5	6.5%
Pharmaceuticals & Biotechnology	142	9	6.3%
General Industrials	62	3	4.8%
Tobacco	25	1	4.0%
Fixed Line Telecommunications	141	5	3.5%
Health Care Equipment & Services	227	8	3.5%
Gas, Water & Multi-utilities	303	10	3.3%
Electricity	448	10	2.2%

Travel & Leisure continues to occupy the top slot, with the highest percentage of Fallen Angels at 41%. The second and third positions are still held by **Leisure Goods** and **Industrial Metals & Mining**, but their percentages are unchanged at 32% and 25%, respectively.

Aerospace & Defense continues to see deterioration, with 21% of firms now classified as Fallen Angels. Following that are **Personal Goods** at 19% and **Automobile & Parts** at 17%.

Also struggling are **Media**, **General Retailers**, and **Oil & Gas Producers** with 16%, 15%, and 15% of firms now classified as sub-investment-grade.

Among the best-performing sectors – those with the lowest percentage of Fallen Angels – are **Fixed Line Telecommunications** and **Health Care Equipment & Services** (each at 4%), **Gas, Water, & Multi-utilities** at 3%, and **Electricity** at 2%.

As previously noted, [widely cited research](#) suggests up to one third of all corporate bonds with the BBB designation might shift to “junk” status, despite a possible reluctance on the part of agencies to downgrade. Consensus credit data from Credit Benchmark supports this thesis.

The credit sample examined above is based on issuers instead of issues and includes all investment-grade companies, not just BBB. Still, the growing Fallen Angel rates shown here that covers the first six months of the COVID crisis indicate that the shift for some sectors by the end of 2020 may be yet higher than has so far been suggested. This is true even if the pace of growth is slowing.

About Credit Benchmark

This Credit Benchmark brings together internal credit risk views from 40+ of the world’s leading financial institutions. The contributions are anonymized, aggregated, and published in the form of entity-level consensus ratings and aggregate analytics to provide an independent, real-world perspective of risk. Consensus ratings are available for 50,000+ financials, corporate, funds, and sovereign entities globally across emerging and developed markets, and 75% of the entities covered are otherwise unrated.

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