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Default, Transition, and Recovery:

Global Weakest Links And Default Rates: Weakest Links Count Declined To 137

Global Fixed Income Research:
Diane Vazza, Managing Director, New York (1) 212-438-2760; diane.vazza@standardandpoors.com
Sudeep K Kesh, Director, New York (1) 212-438-7982; sudeep.kesh@standardandpoors.com
Gregg R Moskowitz, Associate Director, New York (1) 212-438-1838; gregg.moskowitz@standardandpoors.com

Research Contributor:
Mayur Sangoi, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

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Default, Transition, and Recovery:

Global Weakest Links And Default Rates: Weakest Links Count Declined To 137

The number of global weakest links decreased by three issuers to 137 (as of Oct. 28, 2014) from 140 (as of Sept. 23, 2014) with nine additions and 12 removals from the Weakest Links list. Weakest links are issuers rated 'B-' and lower with either negative rating outlooks or ratings on CreditWatch with negative implications. These issuers on the lower end of the speculative-grade spectrum are poised to be downgraded and have greater default risk than higher rated entities. Our weakest links study breaks down the characteristics of these high-risk entities by sector, region, history, and more. The 137 weakest links have total rated debt worth approximately $214 billion.

A plurality of entities that changed ratings (14.6 %) shifted to a 'B-' rating from a 'B' rating to become weakest links. This one-notch downgrade movement is a common theme among weakest links, representing 25.6% of the weakest links on our list. Alternatively, 27.7% of the entities were downgraded multiple notches to become weakest links, while 32.1% of the entities did not go through any ratings change and solely joined the weakest links list through a change to their outlook or CreditWatch status.

Fifty issuers defaulted so far in 2014 (through Oct. 28) including confidential entities. These defaulted issuers have outstanding debt worth $85.2 billion. By comparison, 79 issuers defaulted on debt worth $97 billion in 2013, 85 issuers defaulted on debt worth $86.7 billion in 2012, 53 issuers defaulted on debt worth $84.26 billion in 2011, 82 issuers defaulted on debt worth $97.5 billion in 2010, and 264 issuers defaulted on debt worth $627.7 billion in 2009.

Overview

- The number of global weakest links declined to 137.
- The global trailing-12-month corporate speculative-grade default rate increased to 1.72% in September.
- A plurality of entities (14.6 %) with a ratings change moved to a 'B-' rating from a 'B' rating to become weakest links.
- Fifty issuers defaulted so far in 2014 (through October 28), including confidential entities.

We incorporated the list of the 250 top corporate obligations held in rated U.S. cash flow collateralized loan obligations (CLOs) in our weakest links research. We found that eight of the 250 companies are weakest links. The media and entertainment sector has the highest concentration of weakest links, with five out of eight. The ratings on the eight companies that overlap with the CLO list range from 'B-' to 'CC'. Of these entities, two entities are rated 'B-', four are rated 'CCC+', and one entity each is rated 'CCC-' and 'CC' (see table 1).

Table 1

Weakest Links Listed In The Top 250 Corporate Obligors In Outstanding Rated U.S. Cash Flow CLOs

Organization	Rank in U.S. CLO transactions	Outlook/CreditWatch	Applied rating	Sector/subsector
Avaya Inc.	12	Negative	B-	High technology

Table 1

Weakest Links Listed In The Top 250 Corporate Obligors In Outstanding Rated U.S. Cash Flow CLOs (cont.)				
Caesars Entertainment Corp.	74	Negative	CCC-	Media and entertainment
iHeartMedia Inc.	108	Negative	CCC+	Media and entertainment
RP Crown Parent LLC	138	Negative	B-	High technology
Education Management LLC	215	Negative	CC	Media and entertainment
Walter Energy Inc.	230	Negative	CCC+	Capital goods
Dex Media Inc.	235	Negative	CCC+	Media and entertainment
Deluxe Entertainment Services Group Inc.	247	Negative	CCC+	Media and entertainment

CLO--Collateralized debt obligation. Data as of Oct. 28, 2014. Source: Standard & Poor's Global Fixed Income Research.

The global trailing-12-month corporate speculative-grade default rate increased to 1.72% in September from 1.66% (see table 2 and chart 1). At the same time, the U.S. corporate speculative-grade default rate increased to 1.56% from 1.52% in September. The European speculative-grade default rate also increased to 2.07% from 1.71%, and the emerging markets default rate declined marginally to 1.35% from 1.36% in September.

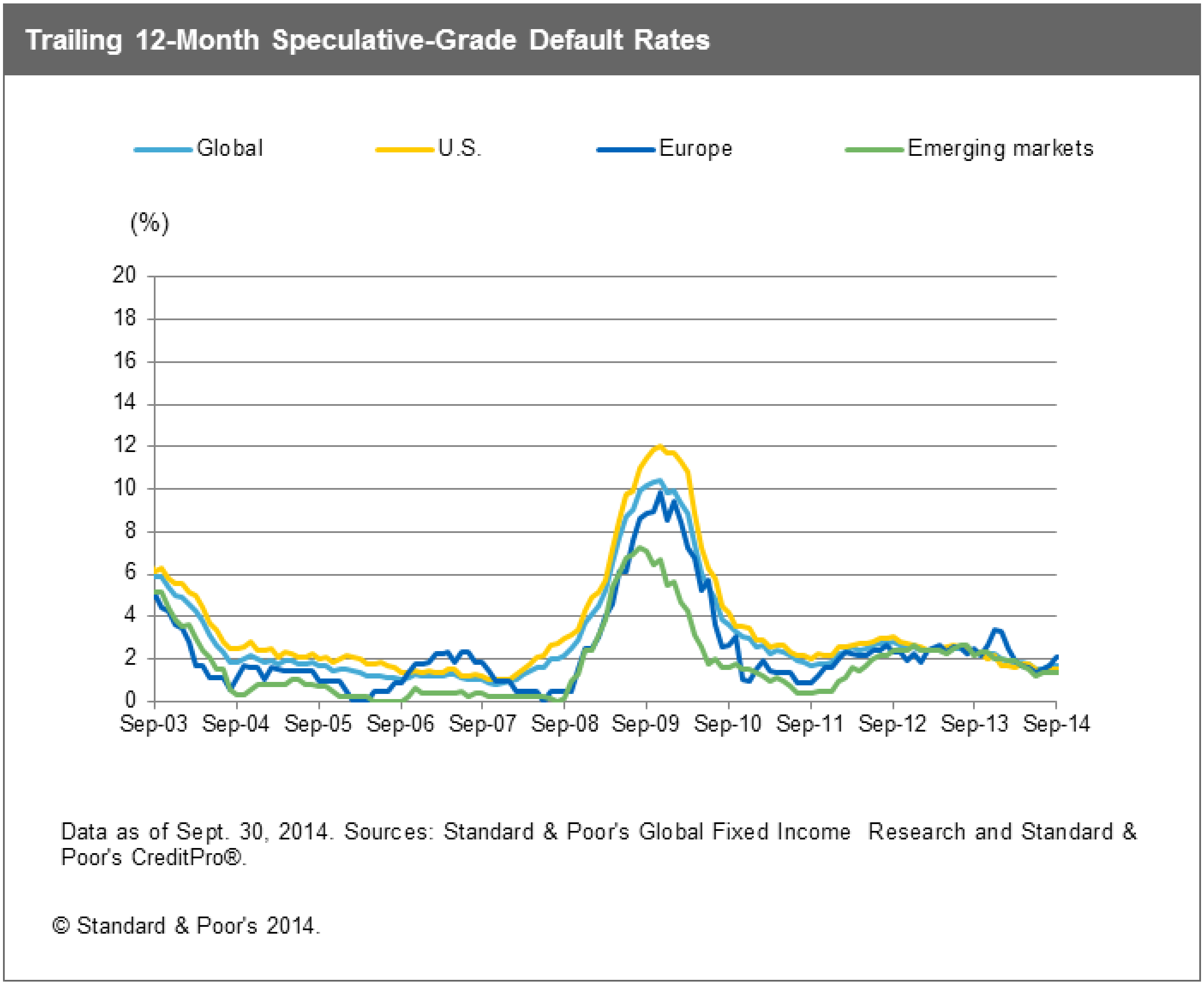
Table 2

Default Rates (%)

	Global	U.S.*	Europe¶	Emerging markets
12-month rolling§				
Investment grade	0.00	0.00	0.00	0.00
Speculative grade	1.72	1.56	2.07	1.35
All rated	0.83	0.84	0.76	0.74
2013				
Investment grade	0.00	0.00	0.00	0.00
Speculative grade	2.28	2.16	3.40	2.00
All rated	1.06	1.15	1.06	1.10
2012				
Investment grade	0.00	0.00	0.00	0.00
Speculative grade	2.56	2.63	2.24	2.62
All rated	1.13	1.36	0.59	1.43
2011				
Investment grade	0.03	0.07	0.00	0.00
Speculative grade	1.83	2.14	1.59	0.47
All rated	0.80	1.12	0.35	0.27
2010				
Investment grade	0.00	0.00	0.00	0.00
Speculative grade	2.99	3.44	1.00	1.55
All rated	1.20	1.68	0.18	0.82

*U.S. default rate includes issuers incorporated in U.S. tax havens--e.g., Bermuda and the Cayman Islands. ¶Europe refers to Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, and the U.K. United Kingdom. §Data through Sept. 30, 2014. Subject to revision. Source: Standard & Poor's CreditPro®.

Chart 1



The general decline in default rates since 2010 reflects an improvement in the credit markets. Nonetheless, the utility, energy and natural resources, and high technology, computers and office equipment sectors have significantly higher default rates than any other sector (see table 3). These sectors' results reflect their slow recovery and cyclicality.

Table 3

Trailing 12-Month Corporate Default Rates By Industry (U.S. Speculative-Grade Issuers Only*)

(%)	Sept. 30, 2014	Aug. 31, 2014	Six months ago	12 months ago
Financial				
Financial institutions	0.00	0.00	0.00	1.54
Insurance	0.00	0.00	0.00	0.00
Nonfinancial				
Aerospace/automotive/capital goods/metals	0.47	0.48	0.94	1.45

Table 3

Trailing 12-Month Corporate Default Rates By Industry (U.S. Speculative-Grade Issuers Only*) (cont.)				
Consumer/service sector	1.40	1.40	1.82	1.19
Energy and natural resources	3.06	3.11	2.75	1.82
Forest and building products/homebuilders	1.39	1.39	2.78	3.03
Health care/chemicals	1.02	1.03	2.05	2.00
High technology/computers/office equipment	1.99	2.04	0.72	0.76
Leisure time/media	2.33	1.92	2.87	4.55
Real estate	0.00	0.00	0.00	0.00
Telecommunications	1.43	1.45	1.37	1.43
Transportation	1.85	1.85	2.00	6.00
Utilities	7.69	7.69	3.85	14.81

*U.S. default rate includes issuers incorporated in U.S. tax havens--e.g., Bermuda and the Cayman Islands.Data as of Sept. 30, 2014. Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®.

In 2014 (through Oct. 28, 2014), there were 50 global corporate defaults (including five confidential entities) accounting for $85.2 billion in debt (see table 4). In comparison, 79 entities defaulted in 2013 (totaling $97 billion), 85 entities defaulted in 2012 (totaling $86.7 billion), 53 entities defaulted in 2011 (totaling $84.3 billion), 82 issuers defaulted in 2010 ($97.5 billion), 264 issuers defaulted in 2009 ($627.7 billion), and 127 issuers defaulted in 2008 ($433 billion).

Six nonconfidential entities defaulted since our most recent weakest links report (through Oct. 28, 2014).

On Oct. 2, 2014, Standard & Poor's lowered its corporate credit rating on U.S.-based composite and coatings resin supplier Reichhold Industries Inc. to 'D' from 'CCC-'. The rating action was taken after the company announced that its U.S. subsidiary, Reichhold Inc., has filed to reorganize under Chapter 11 of the U.S. Bankruptcy Code (see "Research Update: Reichhold Industries Inc. Ratings Lowered To 'D' On Bankruptcy Filing", published Oct. 2, 2014, on RatingsDirect).

On Oct. 3, 2014, Standard & Poor's lowered its issuer credit rating on U.S.-based casino operator Mashantucket (Western) Pequot Tribe to 'SD' from 'CC'. The rating was downgraded after the company failed to make full and timely interest payments to junior debtholders on Sept. 30, 2014 (see "Research Update: Mashantucket (Western) Pequot Tribe Downgraded To 'SD' From 'CC' On Missed Junior Interest Payments", Oct. 3, 2014).

On Oct. 3, 2014, Standard & Poor's lowered its corporate credit rating on Trinidad & Tobago-based building materials company Trinidad Cement Limited Group (TCL) to 'D' from 'B'. The rating action was taken after the company missed its debt service payments on Sept. 30, 2014. TCL notified stakeholders on Sept. 29, 2014 that all payments due under the existing restructured loan agreements would be placed on hold (see "Research Update: Trinidad Cement Limited Group Downgraded To 'D' From 'B' On Missed Payments", Oct. 3, 2014).

On Oct. 6, 2014, Standard & Poor's lowered its corporate credit rating on Industrias Metalurgicas Pescarmona S.A.I.C.y.F. (IMPSA) to 'D' from 'CC'. The rating was downgraded after the company failed to make the payment on its local bonds, series VIII and IX, for which the five-day grace period ended Oct. 3, 2014. We believe IMPSA will not make any payments on its remaining past-due financial obligations within the applicable grace periods (see "Research

Update: Industrias Metalurgicas Pescarmona And WPE International Cooperatief Downgraded To 'D' On Missed Bond Payment", on Oct. 6, 2014).

On Oct. 13, 2014, Standard & Poor's lowered its long- and short-term counterparty credit ratings on Portugal-based Banco Espirito Santo S.A. (BES) to 'R/R' from 'CC/C'. The downgrade reflects our understanding that BES, because of its financial condition, is under regulatory supervision whereby the Bank of Portugal has the power to authorize payment of some obligations and not others (see "Research Update: Rating On Portuguese Banco Espirito Santo Lowered To 'R' From 'CC' Then Withdrawn", Oct. 13, 2014).

On Oct. 22, 2014, Standard & Poor's lowered its long-term corporate credit rating on Hidili Industry International Development Ltd. To 'SD' from 'CC'. The rating action was taken after the Hidili has completed the buyback of US$197.2 million of its outstanding 8.625% senior unsecured notes due 2015 at a substantial discount to the par value. We view the transaction as a "distressed exchange" tantamount to a default (see "Research Update: Hidili Industry International Development Rating Lowered To 'SD', Issue Rating Lowered To 'D' On Buy Back Of Notes", Oct. 13, 2014).

Table 4

Global Corporate Defaults In 2014*

Company	Country	Industry	Debt amount (mil. $)	Default date
Tuscany Intl Drilling Inc.	Canada	Energy and natural resources	0.00	2/2/2014
Cognor S.A.	Poland		169.65	2/4/2014
Alliance Bank JSC	Kazakhstan	Financial institutions	988.82	2/11/2014
MModal Inc.	U.S.	High tech/computers/office equipment	770.00	2/19/2014
Midwest Vanadium Pty Ltd.	Australia	Aerospace/automotive/capital goods/metals	335.00	2/20/2014
Sorenson Communications Inc.	U.S.	Leisure time/media	1,620.00	3/4/2014
Travelport Holdings Ltd.	U.S.	Transportation	4,215.72	3/5/2014
USEC Inc.	U.S.	Aerospace/automotive/capital goods/metals	575.00	3/5/2014
Aralco Industria e Comercio S.A.	Brazil	Consumer/service sector	250.00	3/6/2014
Sbarro LLC	USA	Consumer/service sector	287.30	3/10/2014
Global Geophysical Services Inc.	U.S.	Energy and natural resources	250.00	3/27/2014
Koosharem Corp.	U.S.	Leisure time/media	209.00	4/1/2014
Brookstone Inc.	U.S.	Consumer/service sector	125.61	4/3/2014
Guitar Center Holdings Inc.	U.S.	Consumer/service sector	3,066.76	4/3/2014
Texas Competitive Electric Holdings Co. LLC	U.S.	Energy and natural resources	28,650.80	4/4/2014
Baghlan Group FZCO	Azerbaijan	Energy and natural resources	0.00	4/8/2014
James River Coal Co.	U.S.	Energy and natural resources	907.50	4/9/2014
The Cash Store Financial Services Inc.	Canada	Financial institutions	120.81	4/15/2014
Momentive Performance Materials Inc.	U.S.	Health care/chemicals	6,981.02	4/16/2014
Energy Future Holdings Corp.	U.S.	Energy and natural resources	8,316.44	05/01/2014
GSE Environmental, Inc.	U.S.	Health care/chemicals	217.80	5/6/2014

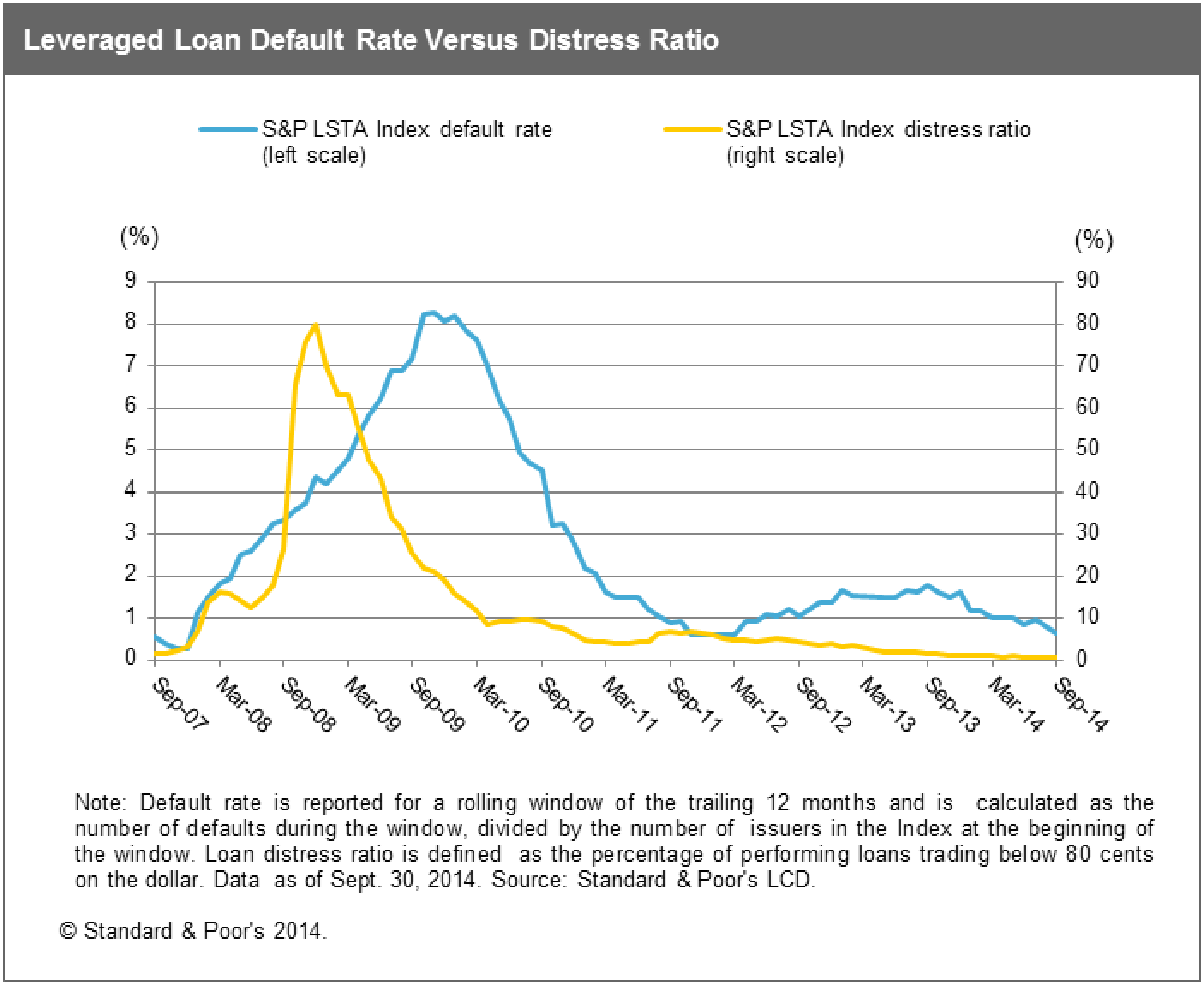
Table 4

Global Corporate Defaults In 2014* (cont.)				
Allen Systems Group Inc.	U.S.	High tech/computers/office equipment	815.00	5/20/2014
Affinion Group Holdings Inc.	U.S.	Leisure time/media	3,065.60	6/10/2014
Altegrity Inc.	U.S.	Consumer/service sector	51.00	7/3/2014
PT Bumi Resources Tbk.(A)	Indonesia	Energy and natural resources	1,000.00	7/4/2014
Nelson Education Ltd.	Canada	Leisure time/media	482.00	7/8/2014
Espirito Santo Financial Group S.A.	Luxembourg	Financial institutions	0.00	7/24/2014
New World Resources N.V.	Netherlands	Energy and natural resources	1,037.72	08/01/2014
SMU S.A. y Subsidiarias	Chile	Leisure time/media	300.00	08/01/2014
Mriya Agro Holding PLC	Cyprus	Consumer/service sector	650.00	8/8/2014
PT Bumi Resources Tbk.(B)	Indonesia	Energy and natural resources	0.00	08/13/2014
Walter Energy Inc.	U.S.	Energy and natural resources	4,045.00	08/14/2014
Essar Steel Algoma Inc.	Canada	Aerospace/automotive/capital goods/metals	1,134.70	8/18/2014
Alion Science and Technology Corp.	U.S.	High tech/computers/office equipment	560.00	08/19/2014
NII Holdings Inc.	U.S.	Telecommunications	4,350.00	08/19/2014
Endeavour International Corp.	U.S.	Energy and natural resources	554.00	9/5/2014
American Media Inc.	U.S.	Leisure time/media	469.90	9/11/2014
Waterford Gaming LLC	U.S.	Leisure time/media	128.50	9/16/2014
Phones4u Finance PLC	U.K.	Consumer/service sector	900.71	9/16/2014
Reichhold Industries Inc.	U.S.	Health care/chemicals	207.00	10/2/2014
Mashantucket (Western) Pequot Tribe	U.S.	Leisure time/media	563.00	10/3/2014
Trinidad Cement Ltd. Group	Trinidad and Tobago	Forest and building products/homebuilders	0.00	10/3/2014
Industrias Metalurgicas Pescarmona S.A.I.C.y.F.	Argentina	Aerospace/automotive/capital goods/metals	225.00	10/6/2014
Banco Espirito Santo S.A.	Portugal	Financial institutions	4,855.00	10/13/2014
Hidili Industry International Development Ltd.	Cayman Islands	Energy and natural resources	400.00	10/22/2014
		Total	83,851.36	

Excludes confidential entities. *Data as of Oct. 28, 2014. Source: Standard & Poor's CreditPro®.

In the leveraged loan segment, Standard & Poor's LCD reported that the trailing-12-month institutional loan default rate (based on the number of loans) decreased to 0.64% in September 2014 from 0.8% in August. The leveraged loan default rate declined significantly since 2009 because of the stabilization of the credit markets and increased economic activity. The loan distress ratio (the percentage of loans trading below 80 cents on the dollar) declined marginally to 0.66% in September 2014 from 0.67% in August (see chart 2).

Chart 2



This Month's Weakest Links

The number of global weakest links declined by three issuers to 137, as of Oct. 28, 2014. The 137 weakest links account for a total of $214 billion of debt. Weakest links have either negative outlooks or ratings on CreditWatch with negative implications--good indicators of actual downgrades.

Many weakest links have already defaulted, and we expect a large proportion of the defaults in the next few quarters will come from this group. Weakest links account for a large proportion of defaults relative to all speculative-grade entities, particularly during periods of economic stress. During the 2001-2002 economic downturn, more than one-half of the weakest links defaulted within 12 months, and nearly 65% defaulted within three years. By contrast, about 10% of all speculative-grade-rated entities defaulted within 12 months, and about 23% defaulted within three years.

During the last default cycle, the trailing-36-month weakest links default rate continued to climb (reaching 58% in March 2011) while the trailing-12-month weakest links default rate declined (falling significantly to 16% from a high of 43% in September 2009). As of Dec. 31, 2012, the trailing-36-month weakest links default rate was about 30.5%. This compares with a speculative-grade default rate of 6.44%. Additionally, the trailing-12-month weakest links default rate was 24% compared with a speculative-grade default rate of 2.5% (see "Weakest Links Are Nearly Ten Times More Likely To Transition To Default Than Speculative-Grade Entities", Feb. 27, 2013).

The number of weakest links declined significantly from the record high of 300 in April 2009, when the credit markets were much more volatile. Weakest links are the lowest-rated entities, so it is no surprise that many of the companies that defaulted were weakest links. During the 2001 recession, the sharp rise in defaults accompanied the rise in weakest links. More recently, for publicly rated companies, weakest links represented 97 of the 105 defaulted companies in 2008, 218 of the 236 defaulters in 2009, 59 of the 70 defaulters in 2010, 41 of the 53 defaulters in 2011, 45 of the 63 defaulters in 2012, and 50 of the 65 defaulters in 2013. So far in 2014, 38 of the 45 (excluding four confidential entities) defaulted entities have been weakest links.

Since our most recent report, we removed 12 entities from our list of weakest links and added nine. Of the 12 entities we removed list, seven are in the U.S., two each in Europe and Latin America, and one in Asia-Pacific (see tables 5 and 6).

Table 5

Weakest Links Removals

Entity	Rating action	Revised outlook	Revised Creditwatch	Default type	Rating withdrawn
Odeon & UCI Cinemas Group Ltd.	Downgrade	Stable			
Reichhold Industries Inc.				Default	
21st Century Oncology Holdings Inc.	Upgrade	Stable			
SMU S.A. y Subsidiarias	Upgrade	Stable			
United Distribution Group Inc. (The)		Stable			
Accuride Corp.		Stable			
Coastal Greenland Ltd.					Yes
Banco Espirito Santo S.A.				R	
Boart Longyear Ltd.			Positive		
Industrias Metalurgicas Pescarmona S.A.I.C.y.F.				D	
Mashantucket (Western) Pequot Tribe				Selective default	
TRM Holdings Corp.					Yes

Data as of Oct. 28, 2014. Source: Standard & Poor's Global Fixed Income Research.

Table 6

Weakest Links Additions

Entity	Rating action	Revised outlook	Revised Creditwatch	Newly rated
PT Metropolis Propertindo Utama	Downgrade	Negative		
Connacher Oil and Gas Ltd.		Negative		
Virgolino de Oliveira S.A. - Acucar e Alcool	Downgrade		Negative	

Table 6

Weakest Links Additions (cont.)

New World Resources N.V.			Yes
Deluxe Entertainment Services Group Inc.	Upgrade	Negative	
Golfsmith International Holdings LP	Downgrade	Negative	
Goodrich Petroleum Corp.		Negative	
Momentive Specialty Chemicals Inc.	Downgrade	Negative	
Hopson Development Holdings Ltd.		Negative	

Data as of Oct. 28, 2014. Source: Standard & Poor's Global Fixed Income Research.

Of the nine entities we added this month, four are in the U.S. (including Bermuda and the Cayman Islands), two are in Canada, and one each is in Asia-Pacific, Europe, and Latin America.

Table 7 shows the weakest links' current ratings compared with their previous ratings. A plurality of entities (14.6%) with a ratings change shifted from a 'B' rating to a 'B-' rating to become weakest links. This one-notch downgrade movement is a common theme among weakest links. Approximately 25.6% of weakest links were previously rated one notch higher (see table 8). Alternatively, 27.7% of entities were downgraded multiple notches to become weakest links, and 32.1% of entities did not go through any ratings change and solely joined the weakest links list through a change to their outlook or CreditWatch status.

Table 7

Weakest Links: Current Rating Versus Previous Rating

Rating (%)	B-	CCC+	CCC	CCC-	CC	C
AAA	0.00	0.00	0.00	0.00	0.00	0.00
AA+	0.00	0.00	0.00	0.00	0.00	0.00
AA	0.00	0.00	0.00	0.00	0.00	0.00
AA-	0.00	0.00	0.00	0.00	0.00	0.00
A+	0.00	0.00	0.00	0.00	0.00	0.00
A	0.00	0.00	0.00	0.00	0.00	0.00
A-	0.00	0.00	0.00	0.00	0.00	0.00
BBB+	0.00	0.00	0.00	0.00	0.00	0.00
BBB	0.00	0.00	0.00	0.00	0.00	0.00
BBB-	0.00	0.00	0.00	0.00	0.00	0.00
BB+	0.00	0.00	0.00	0.00	0.00	0.00
BB	0.00	0.00	0.00	0.00	0.00	0.00
BB-	0.00	0.00	0.00	0.00	0.00	0.00
B+	1.46	1.46	1.46	0.73	0.00	0.00
B	14.60	3.65	0.73	8.03	0.73	0.00
B-	27.01	8.03	0.73	5.84	1.46	0.00
CCC+	0.00	4.38	2.19	1.46	0.00	0.00
CCC	0.00	0.73	0.73	0.73	0.00	0.00
CCC-	0.00	0.00	0.00	0.00	0.00	0.00
CC	0.00	0.00	0.00	0.00	0.00	0.00
C	0.00	0.00	0.00	0.00	0.00	0.00

Table 7

Weakest Links: Current Rating Versus Previous Rating (cont.)

SD	1.46	2.19	1.46	1.46	0.00	0.00
D	0.73	1.46	0.00	0.73	0.00	0.00
Other*	2.19	1.46	0.00	0.73	0.00	0.00

*Other captures entities that are newly rated or were previously not rated. Source: Standard & Poor's Global Fixed Income Research.

Table 8

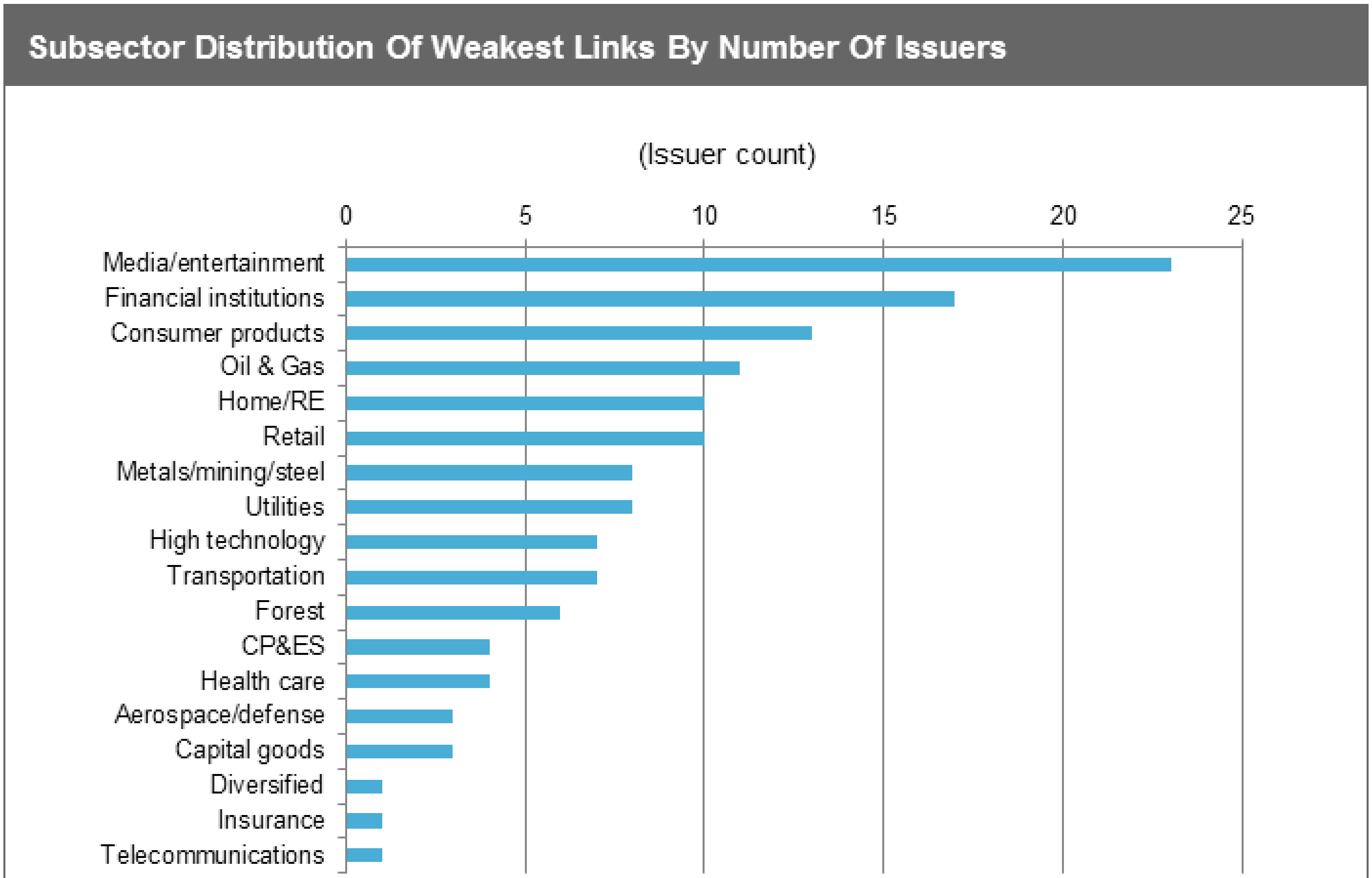
Matrix Summary (%)

Breadth/ratings change	Upgraded	Downgraded	Unchanged*
One notch	0.73	25.55	_
Multiple notches	0.00	27.74	_
Unchanged*	_	_	32.12

*Only CreditWatch or outlook changed. Note: Excludes transition to/from 'D', 'SD' (selective default), newly rated, and NR (not rated). Source: Standard & Poor's Global Fixed Income Research.

Based on the number of weakest links, the media and entertainment, financial institutions, and consumer products sectors are the most vulnerable to default (see chart 3). The media and entertainment sector has the greatest number of weakest links with 23 (16.8% of the total). The financial institutions sector has the next largest number of weakest links with 17 (12.4%).

Chart 3



Home/RE--Homebuilders/real estate companies. Retail--Retail/restaurants. Forest--Forest products and building materials. CP&ES--Chemicals, packaging, and environmental services. Data as of Oct. 28, 2014. Source: Standard & Poor's Global Fixed Income Research.

U.S.-based issuers account for 62% of the 137 weakest links (see table 9). This preponderance partially reflects the fact that a large proportion of issuers Standard & Poor's rates are U.S.-based. By volume, the 85 U.S.-based weakest links account for about $171 billion of debt, which represents 80% of the $214 billion total for all weakest links. The U.S., Latin America, and Europe continue to account for the greatest number of weakest links, similar to the list's composition at this time 12 months ago. However, the Eastern Europe/Middle East/Africa (EEMEA) and Asia Pacific regions' proportion of weakest links increased compared with this time one year ago.

Table 9

Geographical Distribution Of Weakest-Rated Issuers

Region	Total	Distribution (%)	12 Months Ago (%)
U.S.	85	62.04	59.42
Latin America	20	14.60	15.22

Table 9

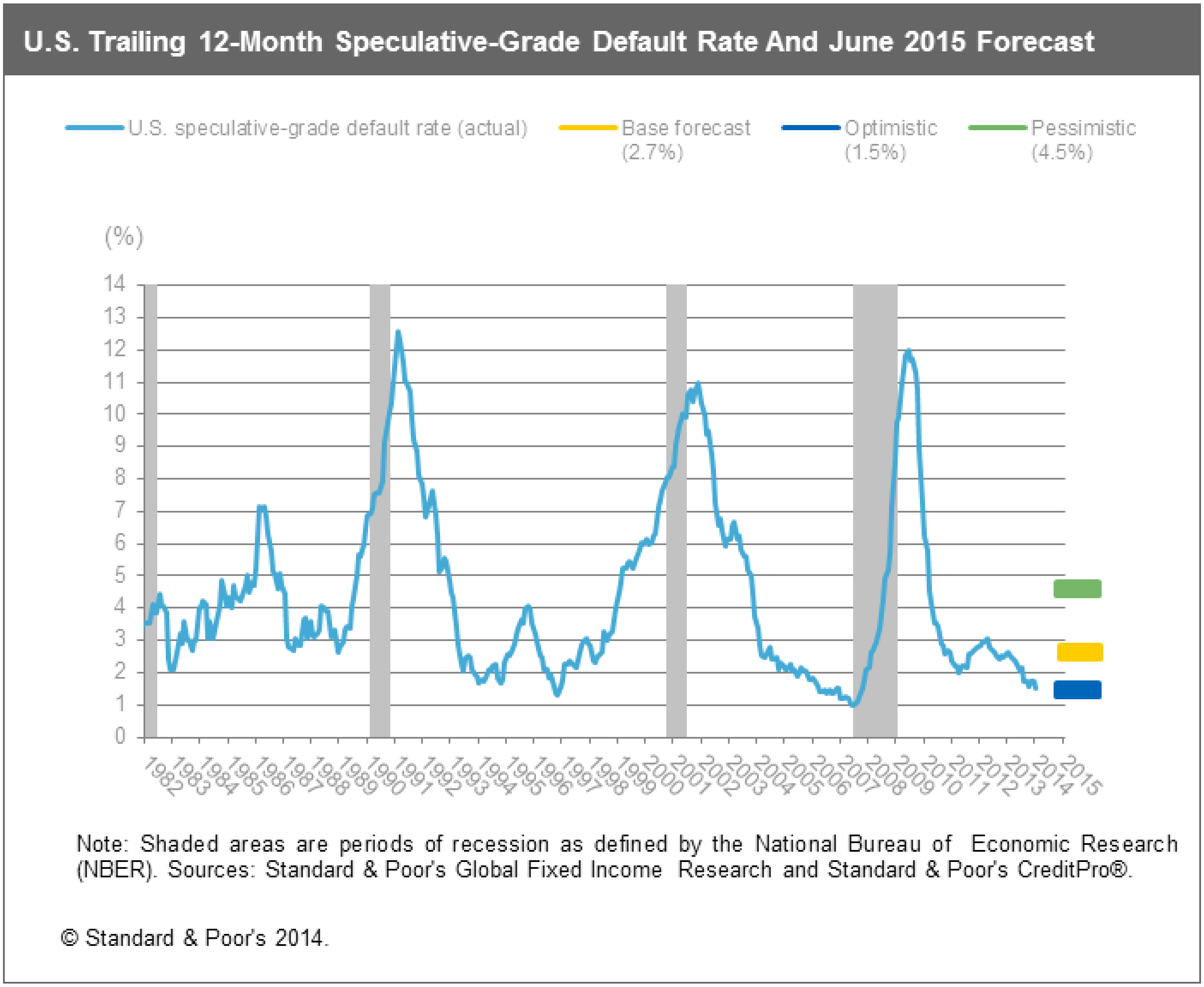
Geographical Distribution Of Weakest-Rated Issuers (cont.)			
Europe	13	9.49	15.94
EEMEA	8	5.84	2.90
Asia/Pacific	6	4.38	3.62
Canada	5	3.65	2.90
Grand total	137	100.00	100.00

EEMEA--Eastern Europe/Middle East/Africa. Data as of Oct. 28, 2014. Source: Standard & Poor's Global Fixed Income Research.

U.S. Speculative-Grade Default Forecast

Standard & Poor's expects the U.S. corporate trailing-12-month speculative-grade default rate to increase to 2.7% by June 2015 from 1.5% in June 2014 and 2.2% in December 2013 (see chart 4). Our baseline projection is well below the long-term (1981-2013) average of 4.4%. A total of 48 speculative-grade issuers would need to default from July 2014 through June 2015 to reach this projection. In comparison, 25 speculative-grade entities defaulted in the 12 months ended June 2014, and 34 defaulted in 2013 (see "The U.S. Corporate Speculative-Grade Default Rate Is Expected To Rise To 2.7% By June 2015", Aug. 12, 2014).

Chart 4



Macroeconomic Sources Of Default Rates

Spreads tightened significantly during the past year. The speculative-grade spread has widened 21 basis points (bps) over the past 12 months to 501 bps on Oct. 28, 2014, from 480 bps one year prior. However, the U.S. corporate investment-grade spread contracted to 161 bps from 182 bps.

Bond spreads naturally correlate with Standard & Poor's U.S. distress ratio, which typically reflects the movements in spreads. Standard & Poor's distress ratio decreased to 5% in September from 5.4% in August (see table 10 and chart 5).

Table 10

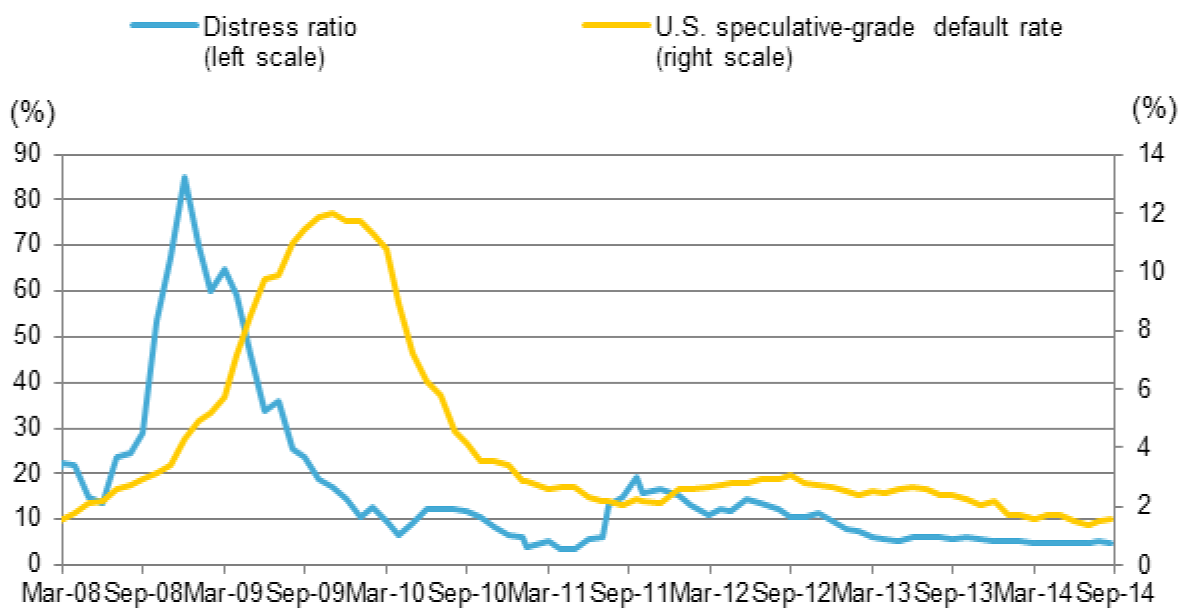
Historical Default Cycle Characteristics

--Default cycle--		Length	--Default rate (%)--		--Default rate change (%)--	
Trough	**Peak**	**(Years)**	**At trough**	**At peak**	**Trough to peak**	**12 months after trough**
5/31/1989	7/31/1991	2.2	2.64	12.54	9.90	3.81
3/31/1995	3/31/1996	1.0	1.68	4.06	2.38	2.38
4/30/1997	4/30/2002	5.0	1.31	10.82	9.51	1.71
12/31/2007	11/30/2009	1.9	1.00	11.50	10.5	3.09
Average		2.5	1.7	9.7	8.07	2.75

Source: Standard & Poor's Global Fixed Income Research.

Chart 5

U.S. Distressed Credit Ratio* Versus U.S. Speculative-Grade Default Rate



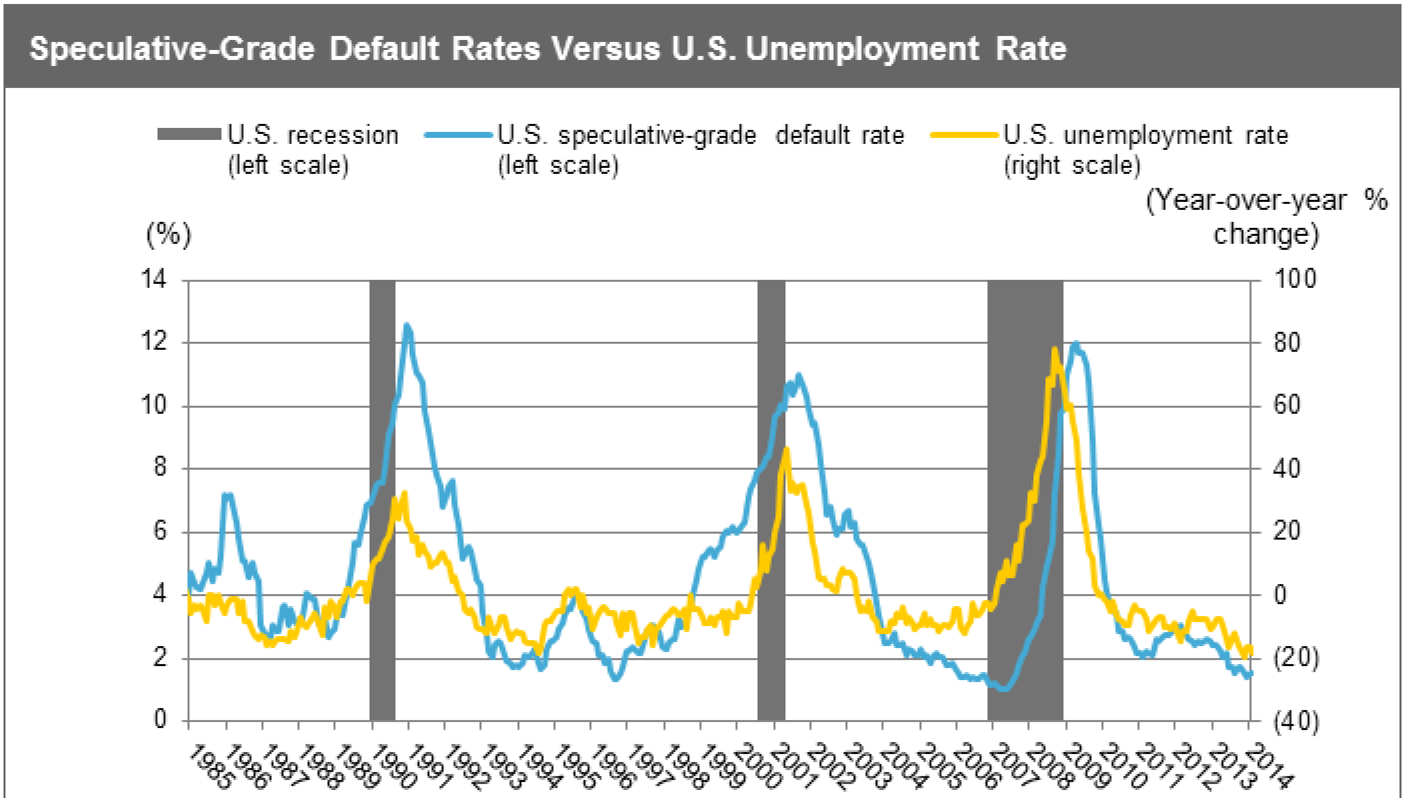
*Ratio defined as the number of speculative-grade issues with option-adjusted spreads above 1,000 basis points (bps)/total number of speculative-grade issues. Default rate is reported for a rolling window of the trailing 12 months and includes issuers incorporated in U.S. tax havens--e.g., Bermuda and the Cayman Islands. Subject to revision. Data as of Sept. 30, 2014 for the default rate and Sept. 22, 2014 for the distress ratio. Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®.

The U.S. distress ratio increased to 8.2% in October, compared with 5.0% in September. The distress ratio generally trended lower since the second half of 2012 as spreads tightened. However, given equity-market volatility and widening spreads over the past reporting cycle, the ratio saw a dramatic increase. Standard & Poor's distress ratio is the number of distressed securities divided by the total number of speculative-grade issues (those Standard & Poor's Ratings Services rates 'BB+' or lower). Distressed credits are speculative-grade issues that have option-adjusted composite spreads of more than 1,000 basis points (bps) relative to U.S. Treasuries. The ratio indicates the level of risk that the market has priced into the bonds. A rising distress ratio reflects an increased need for capital and is typically a precursor to more defaults when accompanied by a severe and sustained market disruption (see chart 6, and "Distressed Debt Monitor: The U.S. Distress Ratio Increased Significantly To 8.2%", Nov. 4, 2014)

The U.S. economy increased at an annual rate of 3.5% in the third quarter of 2014, according to the "advance" estimate released by the Bureau of Economic Analysis. The U.S. economy increased at an annualized rate of 4.6% for second-quarter 2014. The U.S. economy decreased 2.1% in the first quarter of 2014. Our economists predict GDP will grow 2.2% in 2014.

Industrial production increased by 1.0% in September after declined by 0.1% in August. The unemployment rate declined to 5.9% in September. The unemployment rate historically is a lagging indicator. According to the Bureau of Labor Statistics, total nonfarm payroll employment increased by 248,000 in September. This was after the data for July were revised to 243,000 and the data for August were revised to 180,000.

Chart 6

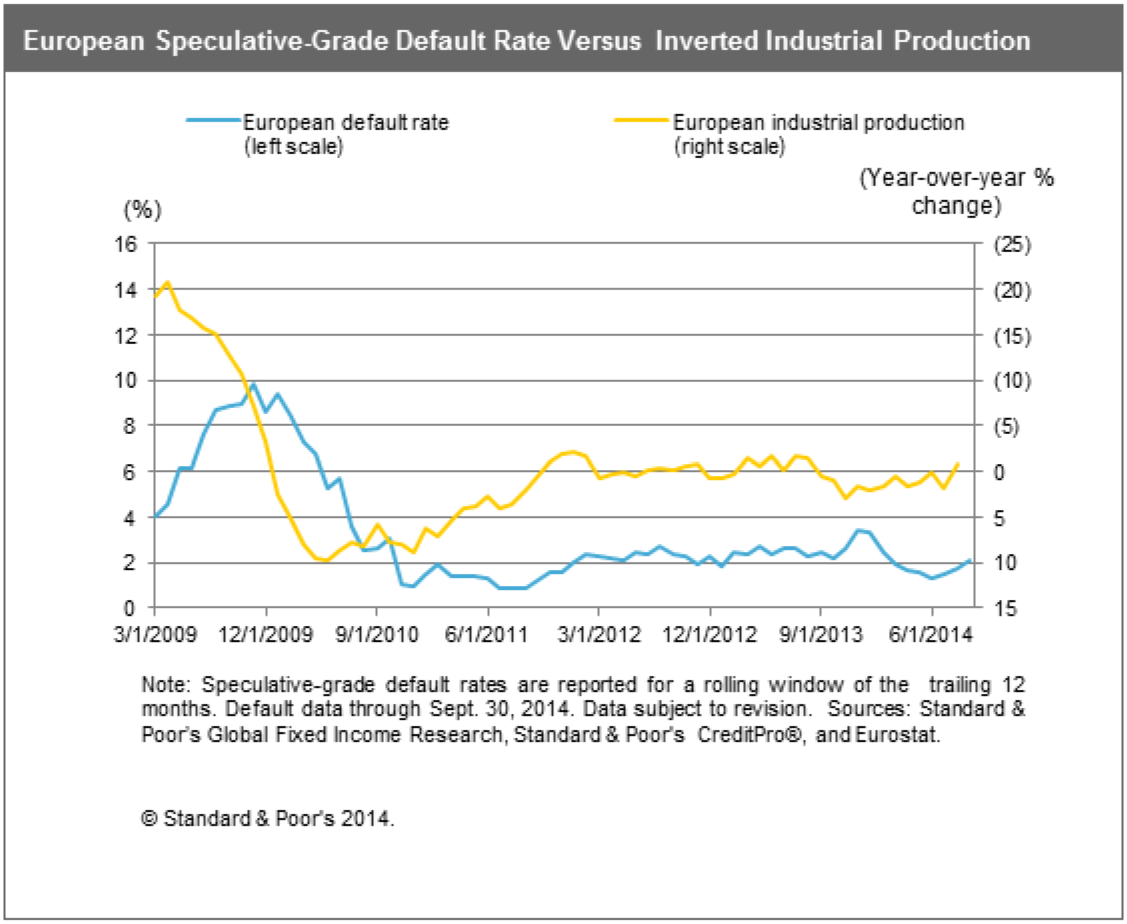


Note: Speculative-grade default rates are reported for a rolling window of the trailing twelve months. U.S. default rate includes issuers incorporated in U.S. tax haven-- e.g., Bermuda and the Cayman Islands. Default data through Aug. 31, 2014. Subject to revision. Recession dates defined by the U.S. Bureau of Economic Analysis. The determination that the last expansion ended in March 2001 is the most recent decision of the Business Cycle Dating Committee of the U.S. Bureau of Economic Analysis. Sources: Standard & Poor's Global Fixed Income Research, Standard & Poor's CreditPro®, Bureau of Labor

According to the Institute for Supply Management (ISM), the ISM's manufacturing index declined by 2.4 to 56.6 points in September from 59 points in August. The new order index decreased by 6.7 to 60 points in September from 66.7 points in August; the delivery index decreased by 1.7 points to 52.2 points, and the production index increased by 0.1 points to 64.6 points. Exports declined by 1.5 to 53.5 points, while imports decreased by 3 to 53 points in September.

In the Eurozone, seasonally adjusted GDP remained stable in the second quarter of 2014 after expanding by 0.2% in the first quarter of 2014. The unemployment rate in July remained stable at 11.5% compared with the previous month. Industrial production decreased by 1.8% in August after it rose by 0.9% in July (see chart 7). The Eurozone Purchasing Managers' Index (PMI) for the manufacturing sector in September 2014 dropped to 50.3, compared with 50.7 in August.

Chart 7



Monitoring The Pipeline Of Low-Rated Issuance Activity

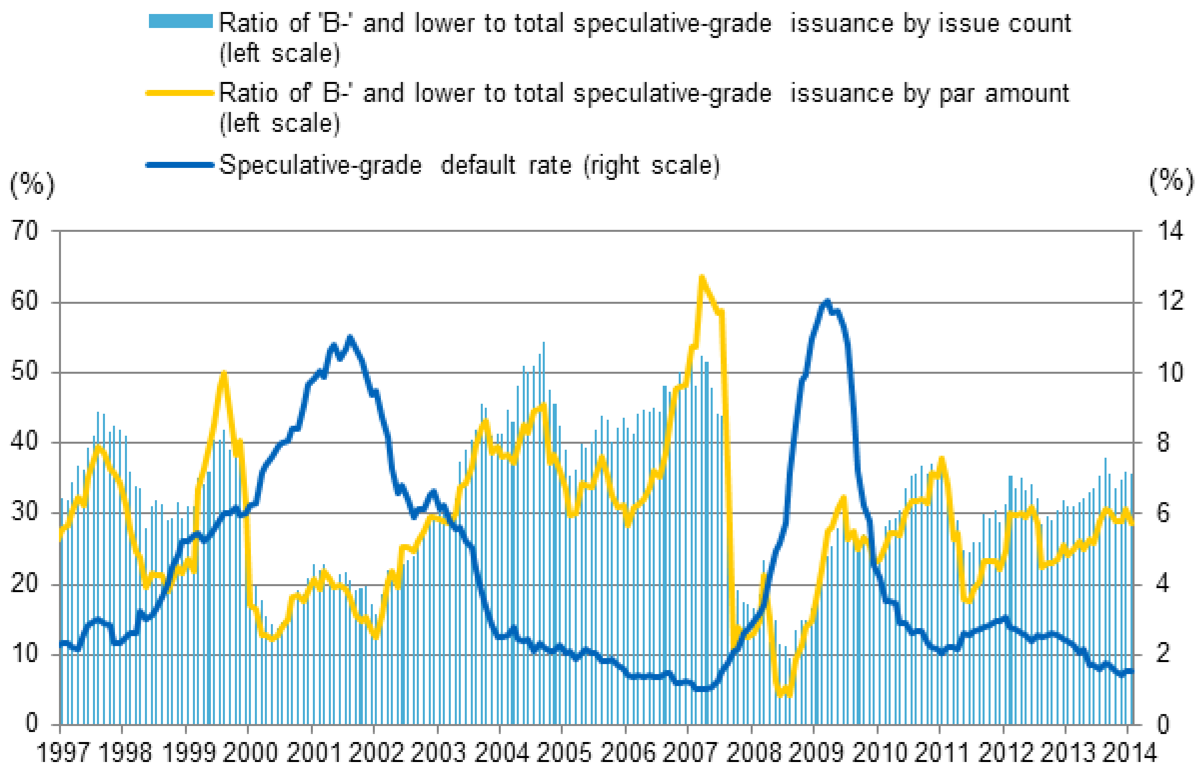
In October (through Oct. 28, 2014), 45 deals (worth $31.7 billion) came to market globally, compared with 100 deals (worth $54.8 billion) in September and a mere 18 deals ($5.9 billion) in August 2014. In the third quarter of 2014, 208 deals ($100.2 billion) came to market globally. By comparison, in the second quarter of 2014, 273 deals ($169 billion) came to market globally. Historically, 1,032 new speculative-grade deals ($506.5 billion) came to market in 2013, 879 new speculative-grade deals ($421 billion) came to market in 2012, 631 new speculative-grade deals ($298.1 billion) came to market in 2011, and 744 deals ($341.8 billion) in 2010.

In the U.S., 24 new speculative-grade deals ($16 billion) came to market in October (through Oct. 28, 2014), compared with 50 deals ($30.7 billion) in September and seven ($2.3 billion) in August 2014. A total of 109 new issuances ($53.6 billion) came to market in the third quarter of 2014, whereas 124 new issuances ($66.8 billion) came to the market in the second quarter of 2014. Historically, 559 new speculative-grade deals ($275 billion) came to market in 2013, 584 new speculative-grade deals ($291 billion) came to market in 2012, 404 new speculative-grade issuances ($186 billion) in 2011, and 514 ($224 billion) in 2010.

The number of new issues rated 'B-' or lower during the trailing six months as a proportion of total speculative-grade issuance decreased to 28.5% in September 2014 from 30.6% in August (see chart 8). In September, 28.6% of the new speculative-grade deals that came to market were rated 'B-' or lower. On an annual basis, this ratio was 30.59% in 2013, 32.7% in 2012, 34.2% in 2011, and 28.4% in 2010.

Chart 8

U.S. Speculative-Grade Issuance Versus Default Rate



Note: Speculative-grade default rates are reported for a rolling window of the trailing 12 months. Issuance is for the trailing six months and includes all public and rule 144a issuance of straight, convertible, floating-rate, and medium-term notes issued into the U.S. marketplace by financial and nonfinancial entities. Data as of Sept. 30, 2014. Sources: Standard & Poor's Global Fixed Income Research, Standard & Poor's CreditPro®,

In Europe, 12 new speculative-grade deals ($6.2 billion) came to market in October (through Oct. 28, 2014), following 22 new speculative-grade issues ($11 billion) in September and seven new speculative-grade issues ($2.4 billion) in August. In the third quarter of 2014, 59 new speculative-grade issues ($27.5 billion) came to the market. In the second quarter of 2014, 109 new speculative-grade issues ($87.3 billion) came to the market. In 2013, 284 deals ($154 billion) came to market. In 2012, 166 deals ($75 billion) came to market.

We closely monitor the issues Standard & Poor's rates 'B-' and lower because we believe these demonstrate investors' appetite (or lack thereof) for absorbing riskier assets. Entities rated at this end of the rating spectrum are usually more prone to default and are often the first to lose access to financing when market liquidity recedes. Over the long term (1981-2013), an average of 7.97% of all global entities Standard & Poor's rated 'B-' defaulted within 12 months, and the average default rate was much higher for entities rated lower than 'B-' (see table 11). The average 12-month transition to default declines for higher-rated issuers (for example, 2.33% for entities rated 'B+', 1.15% for entities rated 'BB-'). The previous spike in issuance at these speculative-grade rating categories for 1997-1999 led to an increase in defaults in 2001 (see chart 8, again). During this period, the share of speculative-grade-rated companies with issues rated 'B-' or lower consistently exceeded 30%. The increase in issues rated 'B-' and lower in 2003-2007 was an early warning of the credit deterioration and default risk in 2008 and 2009 (see table 12).

Table 11

Global Corporate Transition Matrix: 1981-2013 (%)

Rating	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC/C	D
AAA	87.08	5.72	2.55	0.70	0.16	0.24	0.13	0.00	0.05	0.00	0.03	0.05	0.00	0.00	0.03	0.00	0.05	0.00
AA+	2.56	76.32	12.08	3.92	0.82	0.44	0.22	0.05	0.11	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
AA	0.45	1.29	79.82	8.78	2.97	1.29	0.38	0.42	0.14	0.09	0.05	0.03	0.02	0.02	0.00	0.02	0.05	0.02
AA-	0.05	0.13	4.00	77.07	10.40	2.59	0.66	0.31	0.18	0.08	0.03	0.00	0.00	0.03	0.10	0.00	0.00	0.03
A+	0.00	0.07	0.54	4.67	76.81	9.31	2.45	0.71	0.39	0.10	0.07	0.11	0.01	0.08	0.04	0.00	0.00	0.06
A	0.04	0.05	0.25	0.50	5.31	77.36	7.08	2.67	1.03	0.32	0.14	0.13	0.09	0.11	0.03	0.00	0.02	0.07
A-	0.05	0.01	0.08	0.17	0.53	6.78	75.98	7.67	2.46	0.70	0.18	0.15	0.15	0.14	0.03	0.01	0.04	0.08
BBB+	0.00	0.01	0.07	0.08	0.26	0.91	7.26	73.46	8.78	1.90	0.45	0.39	0.16	0.21	0.14	0.03	0.08	0.14
BBB	0.01	0.01	0.06	0.04	0.13	0.41	1.14	7.48	74.74	6.14	1.54	0.74	0.34	0.29	0.15	0.05	0.07	0.20
BBB-	0.01	0.01	0.01	0.06	0.07	0.20	0.32	1.32	9.27	71.36	5.46	2.38	0.90	0.46	0.30	0.20	0.27	0.32
BB+	0.06	0.00	0.00	0.04	0.02	0.12	0.10	0.57	2.10	12.23	62.95	6.52	3.15	1.10	0.74	0.22	0.51	0.43
BB	0.00	0.00	0.05	0.02	0.00	0.08	0.06	0.21	0.61	2.36	9.67	64.06	7.78	2.42	1.23	0.42	0.69	0.68
BB-	0.00	0.00	0.00	0.01	0.01	0.01	0.06	0.13	0.28	0.44	2.03	9.32	62.70	8.53	3.24	0.91	0.81	1.15
B+	0.00	0.01	0.00	0.04	0.00	0.04	0.08	0.05	0.06	0.12	0.30	1.58	7.81	63.69	8.21	2.70	1.84	2.33
B	0.00	0.00	0.01	0.01	0.00	0.05	0.07	0.03	0.09	0.04	0.16	0.38	1.45	8.62	59.30	8.29	4.76	4.77
B-	0.00	0.00	0.00	0.00	0.03	0.05	0.00	0.11	0.08	0.16	0.13	0.19	0.54	2.74	11.17	51.84	11.41	7.97
CCC/C	0.00	0.00	0.00	0.00	0.04	0.00	0.12	0.08	0.08	0.08	0.04	0.19	0.46	1.31	3.04	9.31	43.36	27.05

Sources: Standard & Poor’s Global Fixed Income Research and Standard & Poor’s Credit Pro©.

Table 12

Entities Rated ‘B-’ Or Lower With Either Negative Outlooks Or On CreditWatch With Negative Implications

Rating combination and subsector	Issuer	Debt (mil. $)	Country
B-/CreditWatch negative			
Oil and gas	BreitBurn Finance Corp. (BreitBurn Energy Partners LP)	1,155	U.S.
Oil and gas	Denver Parent Corp.	750	U.S.
Utilities	Martin Midstream Finance Corp. (Martin Midstream Partners L.P.)	600	U.S.
B-/outlook negative			
Capital goods	Barminco Holdings Pty Ltd.	485	Australia
Capital goods	Constellation Enterprises LLC	130	U.S.

Table 12

Entities Rated 'B-' Or Lower With Either Negative Outlooks Or On CreditWatch With Negative Implications (cont.)			
Capital goods	Evergreen Tank Solutions Inc.	207	U.S.
Consumer products	Arctic Glacier LLC	280	U.S.
Consumer products	Carolina Beer & Beverage Holdings LLC	260	U.S.
Consumer products	Quiksilver Inc.	1,687	U.S.
Consumer products	Reddy Ice Holdings Inc.	225	U.S.
Consumer products	Sun Products Corp. (The)	1,630	U.S.
Consumer products	Targus Group International Inc.	190	U.S.
Consumer products	Wilton Holdings Inc.	400	U.S.
Chemicals, packaging, and environmental services	Liberty Tire Recycling Holdco LLC	900	U.S.
Chemicals, packaging, and environmental services	STI Infrastructure Sarl	645	Luxembourg
Financial institutions	Banca Carige SpA	835	Italy
Financial institutions	Bank for Innovation and Development	0	Russia
Financial institutions	Bank Tavrichesky	0	Russia
Financial institutions	CB Intercommerz Ltd.	0	Russia
Financial institutions	Commercial Bank OBRAZOVANIE	0	Russia
Financial institutions	Expert Global Solutions LLC	875	U.S.
Financial institutions	InterProgressBank	0	Russia
Financial institutions	LLC CB Koltso Urala	0	Russia
Financial institutions	OJS Commercial Bank Rost Bank	0	Russia
Financial institutions	SquareTwo Financial Corp.	290	U.S.
Financial institutions	Turkiston Bank	0	Uzbekistan
Forest products and building materials	Dispensing Dynamics International	130	U.S.
Forest products and building materials	Euramax International Inc.	375	U.S.
Health care	Lantheus Medical Imaging Inc.	400	U.S.
Health care	LHP Hospital Group Inc.	275	U.S.
Health care	Smile Brands Group Inc.	260	U.S.
Health care	Valitas Health Services Inc.	1,140	U.S.
High technology	Alion Science and Technology Corp.	816	U.S.
High technology	Aspect Software Inc.	885	U.S.
High technology	Avaya Inc.	6,904	U.S.
High technology	Global A&T Electronics Ltd.	1,127	Singapore
High technology	RP Crown Parent LLC	2,140	U.S.
High technology	SITEL Worldwide Corp.	868	U.S.
High technology	Triple Point Group Holdings Inc.	435	U.S.
Homebuilders/real estate companies	Breboro Holdings Co. Ltd. Group	0	Cyprus
Homebuilders/real estate companies	China Properties Group Ltd.	250	Cayman Islands
Homebuilders/real estate companies	Glorious Property Holdings Ltd.	700	Cayman Islands
Homebuilders/real estate companies	Hopson Development Holdings Ltd.*	600	Bermuda
Homebuilders/real estate companies	PT Metropolis Propertindo Utama*	0	Indonesia
Insurance	Phoenix Cos. Inc. (The)	475	U.S.

Table 12

Entities Rated 'B-' Or Lower With Either Negative Outlooks Or On CreditWatch With Negative Implications (cont.)			
Media and entertainment	Central European Media Enterprises Ltd.	333	Bermuda
Media and entertainment	infoGROUP Inc.	410	U.S.
Media and entertainment	Language Line Holdings LLC	2,135	U.S.
Media and entertainment	Mood Media Corp.	940	Canada
Media and entertainment	SFX Entertainment Inc.	270	U.S.
Media and entertainment	Stockbridge/SBE Investment Co. LLC	600	U.S.
Metals, mining, and steel	A.M. Castle & Co.	210	U.S.
Metals, mining, and steel	St Barbara Ltd.	250	Australia
Oil and gas	Goodrich Petroleum Corp.*	494	U.S.
Oil and gas	Sidewinder Drilling Inc.	250	U.S.
Oil and gas	Songa Offshore SE	0	Cyprus
Retail/restaurants	California Pizza Kitchen Inc.	370	U.S.
Retail/restaurants	Caribbean Restaurants LLC	195	U.S.
Retail/restaurants	Claire's Stores Inc.	2,440	U.S.
Retail/restaurants	Golfsmith International Holdings LP*	114	Canada
Retail/restaurants	Guitar Center Holdings Inc.	940	U.S.
Retail/restaurants	Logan's Roadhouse Inc.	355	U.S.
Retail/restaurants	Ruby Tuesday Inc.	250	U.S.
Transportation	Florida East Coast Holdings Corp.	2,905	U.S.
Utilities	NGPL PipeCo LLC	3,000	U.S.
CCC+/outlook negative			
Consumer products	ASG Consolidated LLC	932	U.S.
Consumer products	EveryWare Global Inc.	500	U.S.
Chemicals, packaging, and environmental services	Grupo Fertinal S.A. de C.V.	0	Mexico
Chemicals, packaging, and environmental services	Momentive Specialty Chemicals Inc.*	5,544	U.S.
Diversified	Walter Energy Inc.	4,620	U.S.
Financial institutions	FCC Holdings LLC	200	U.S.
Forest products and building materials	Armtec Holdings Ltd.	137	Canada
Forest products and building materials	Norske Skogindustrier ASA	1,077	Norway
Homebuilders/real estate companies	Orleans Homebuilders Inc.	130	U.S.
Media and entertainment	Affinion Group Holdings Inc.	4,111	U.S.
Media and entertainment	Cambium Learning Group Inc.	175	U.S.
Media and entertainment	Deluxe Entertainment Services Group Inc.*	605	U.S.
Media and entertainment	Dex Media Inc.	3,487	U.S.
Media and entertainment	Eagle Topco 2013 Ltd.	2,531	U.K.
Media and entertainment	iHeartMedia Inc.	27,488	U.S.
Media and entertainment	Production Resource Group Inc.	1,650	U.S.
Media and entertainment	Riviera Holdings Corp.	0	U.S.
Media and entertainment	Sorenson Communications Inc.	1,100	U.S.

Table 12

Entities Rated 'B-' Or Lower With Either Negative Outlooks Or On CreditWatch With Negative Implications (cont.)

Media and entertainment	Spanish Broadcasting System Inc.	350	U.S.
Metals, mining, and steel	Allied Nevada Gold Corp	364	U.S.
Metals, mining, and steel	Imperial Metals Corp.	325	Canada
Metals, mining, and steel	Mongolian Mining Corp.	600	Mongolia
Metals, mining, and steel	New World Resources N.V.*	416	U.K.
Metals, mining, and steel	Solway Investment Group Ltd.	0	Cyprus
Oil and gas	Black Elk Energy Offshore Operations LLC	300	U.S.
Oil and gas	Connacher Oil and Gas Ltd.*	869	Canada
Oil and gas	Petroleos de Venezuela S.A.	25,050	Venezuela
Oil and gas	RAAM Global Energy Co.	200	U.S.
Retail/restaurants	Sears Holdings Corp.	3,756	U.S.
Telecommunications	PRWireless Inc	180	U.S.
Transportation	Comboios de Portugal, E.P.E (Republic of Portugal)	1,803	Portugal
Transportation	First Ship Lease Trust	0	Singapore
CCC/outlook negative			
Aerospace and defense	AM General LLC	330	U.S.
Aerospace and defense	Colt Defense LLC	500	U.S.
Aerospace and defense	Heckler & Koch GmbH	409	Germany
Homebuilders/real estate companies	Renhe Commercial Holdings Co. Ltd.	900	Cayman Islands
Media and entertainment	American Media Inc. (American Media Operations Inc.)	365	U.S.
Media and entertainment	Tunica-Biloxi Gaming Authority	150	U.S.
Metals, mining, and steel	Hidili Industry International Development Ltd.	400	Cayman Islands
Transportation	Lemtrans Ltd.	0	Cyprus
Transportation	Western Express Inc.	285	U.S.
Transportation	Winsway Coking Coal Holdings Ltd.	309	British Virgin Islands
CCC-/CreditWatch negative			
Consumer products	Virgolino de Oliveira S.A. - Acucar e Alcool*	735	Brazil
CCC-/outlook negative			
Consumer products	Altegrity Inc.	1,692	U.S.
Consumer products	American Apparel Inc.	200	U.S.
Consumer products	Mastellone Hermanos S.A.	200	Argentina
Financial institutions	Banco de Galicia y Buenos Aires S.A.	300	Argentina
Financial institutions	Banco de la Provincia de Buenos Aires S.A.	0	Argentina
Financial institutions	Banco Hipotecario S.A.	250	Argentina
Financial institutions	Banco Patagonia S.A.	0	Argentina
Forest products and building materials	Alto Parana S.A. (AntarChile S.A.)	270	Argentina
Homebuilders/real estate companies	CLISA-Compania Latinoamericana de Infraestructura & Servicios S.A.	120	Argentina
Homebuilders/real estate companies	IRSA Inversiones y Representaciones S.A. (Cresud S.A.C.I.F. y A.)	420	Argentina

Table 12

Entities Rated 'B-' Or Lower With Either Negative Outlooks Or On CreditWatch With Negative Implications (cont.)			
Homebuilders/real estate companies	RAGHSA S.A.	100	Argentina
Media and entertainment	Caesars Entertainment Corp.	60,071	U.S.
Media and entertainment	Chester Downs and Marina LLC	990	U.S.
Media and entertainment	LBI Media Holdings Inc.	581	U.S.
Media and entertainment	Talon PIKco N.V.	491	Belgium
Oil and gas	Petrobras Argentina S.A.	300	Argentina
Oil and gas	Quicksilver Resources Inc.	3,225	U.S.
Retail/restaurants	BCBG Max Azria Group Inc.	0	U.S.
Retail/restaurants	RadioShack Corp.	325	U.S.
Transportation	Aeropuertos Argentina 2000 S.A.	300	Argentina
Utilities	CAPEX S.A.	200	Argentina
Utilities	Compania de Transporte de Energia Electrica en Alta Tension TRANSENER S.A.	154	Argentina
Utilities	Empresa Distribuidora Y Comercializadora Norte S.A.	520	Argentina
Utilities	Hidroelectrica Piedra del Aguila S.A.	100	Argentina
Utilities	Metrogas S.A.	194	Argentina
Utilities	Transportadora de Gas del Sur S.A. (TGS) (Compania De Inversiones de Energia S.A.)	874	Argentina
CC/CreditWatch negative			
Financial institutions	Doral Financial Corp.	703	U.S.
CC/outlook negative			
Forest products and building materials	Verso Paper Finance Holdings LLC	2,042	U.S.
Media and entertainment	Education Management LLC	1,109	U.S.

*Indicates Issuer added to the list since the Sept. 2014 ¶Indicates an issuer moving to a negative outlook from CreditWatch negative or to CreditWatch negative from a negative outlook since Sept. 2014 commentary. Data as of Oct. 28, 2014. Source: Standard & Poor's Global Fixed Income Research.

Related Research

- Distressed Debt Monitor: The U.S. Distress Ratio Declines To 5.0% In September, Sept. 22, 2014
- Quarterly U.S. Cash Flow CLO And CLO 2.0 Exposure Report As Of Second-Quarter 2014, July 28, 2014
- The U.S. Corporate Default Rate Is Expected To Remain Subdued, Rising Modestly To 2.5% By December 2014, Feb. 26, 2014
- Weakest Links Are Nearly Ten Times More Likely To Transition To Default Than Speculative-Grade Entities, Feb. 27, 2013