

# Market Volatility



# Agenda

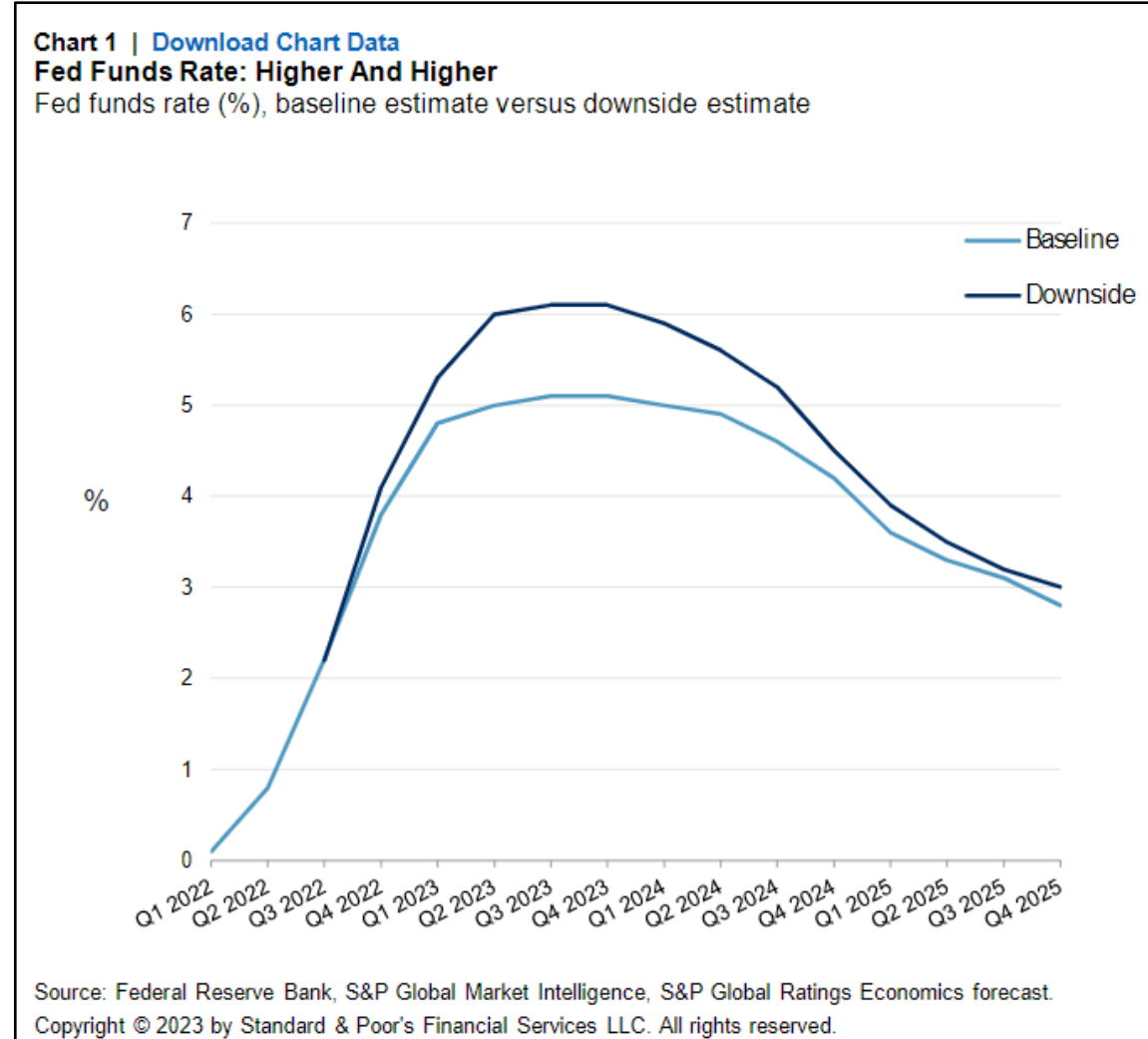
1. 6 Risks that Matter More Now
2. Oil and Gas Rating Trends
3. Remaining Q&A

# Poll Question: Which of these Investment Risks are you most concerned with now?

1. Interest Rate Risk
2. Liquidity Risk
3. Credit Risk
4. Market Risk
5. Concentration Risk
6. Climate Risk

# Interest Rate Risk - Key Questions

1. What is Interest Rate Risk?
2. What's driving higher interest rates?
3. What is the near-term outlook for the Fed Funds Rate in 2023?

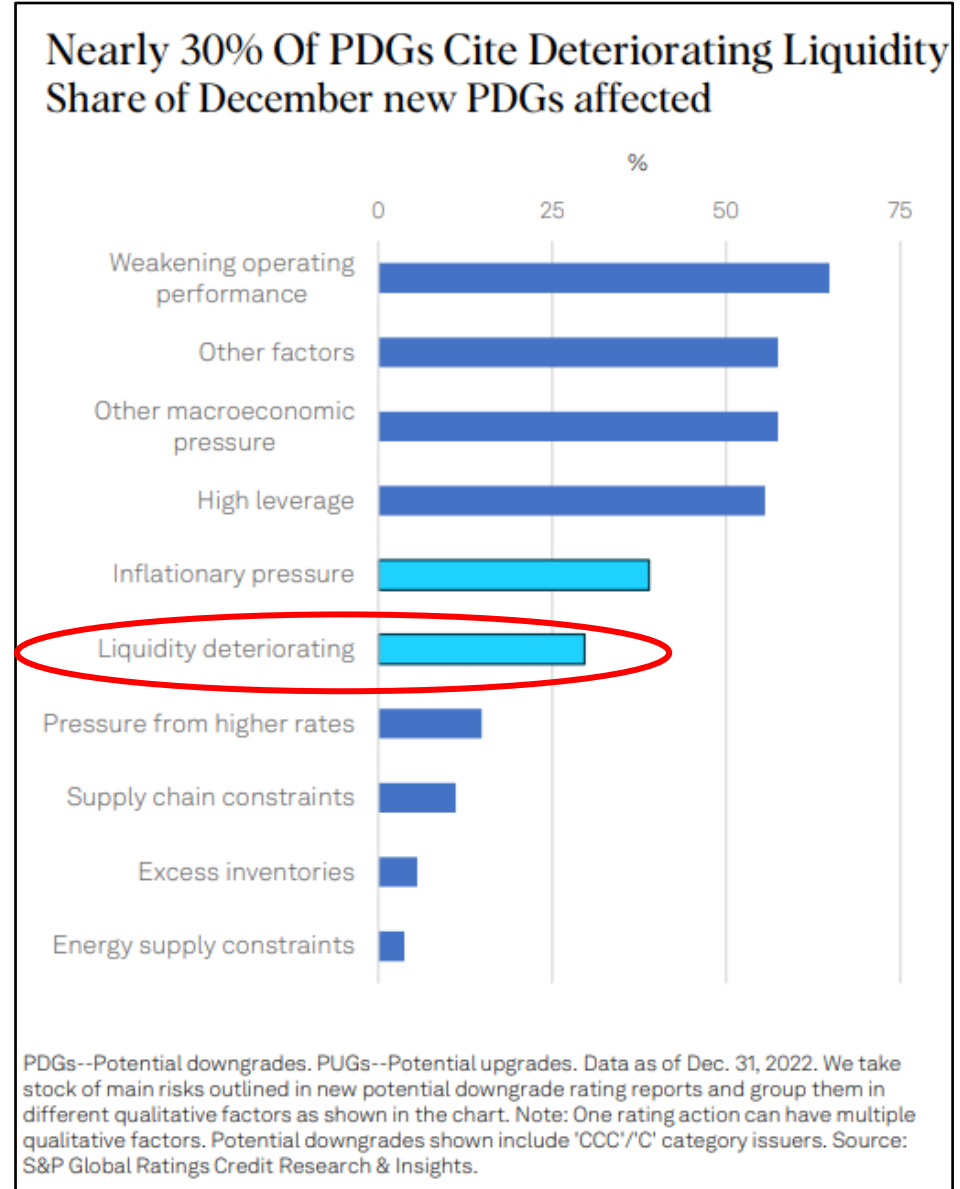


# Why does Interest Rate Risk Matter More Now

1. Helped trigger last month's second and third largest banking failures in US history
2. Generally troublesome for stocks and bonds
3. Poses near term risk to credit quality
4. Highly leveraged sectors such as media, technology and telecommunications are the most impacted

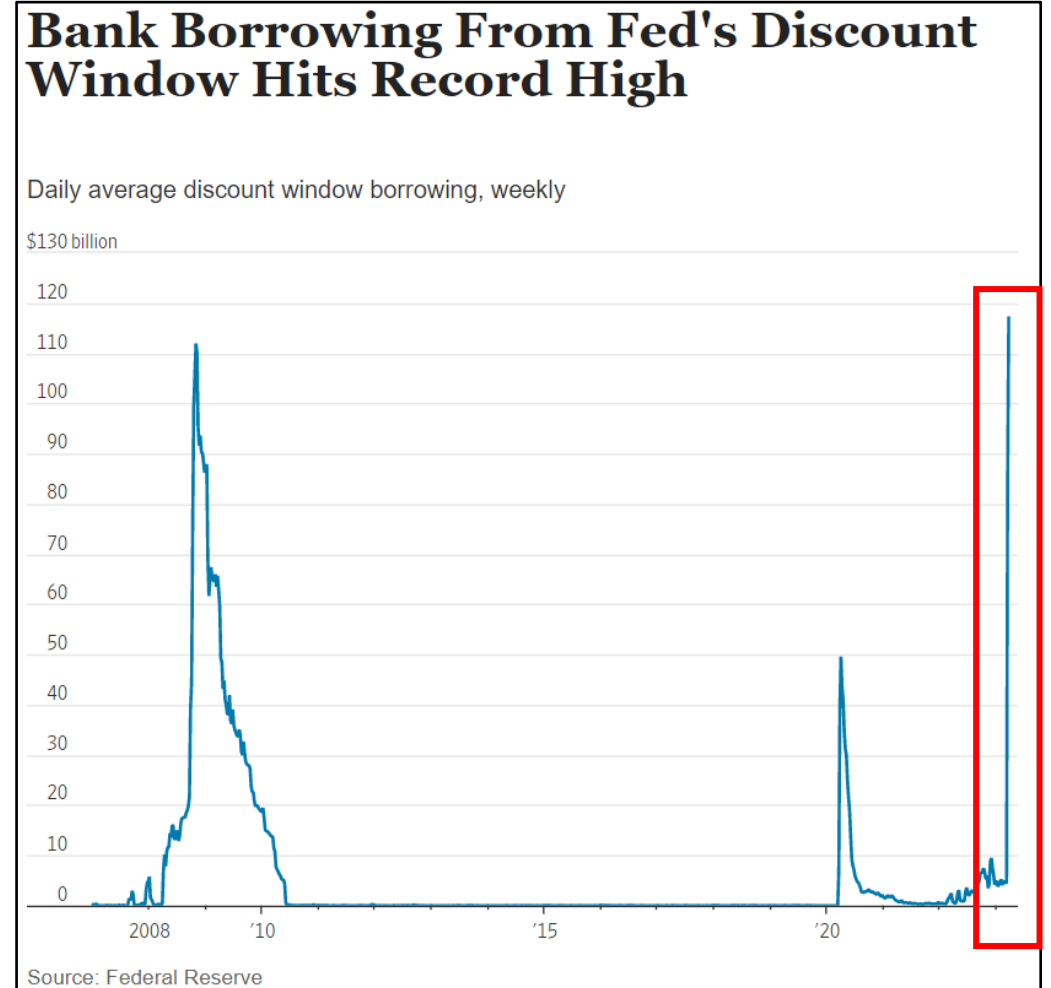
# Liquidity Risk - Key Questions

1. What is Liquidity Risk?
2. Why is Liquidity emerging as a heightened risk factor?
3. What central bank actions are being taken to ensure market confidence?



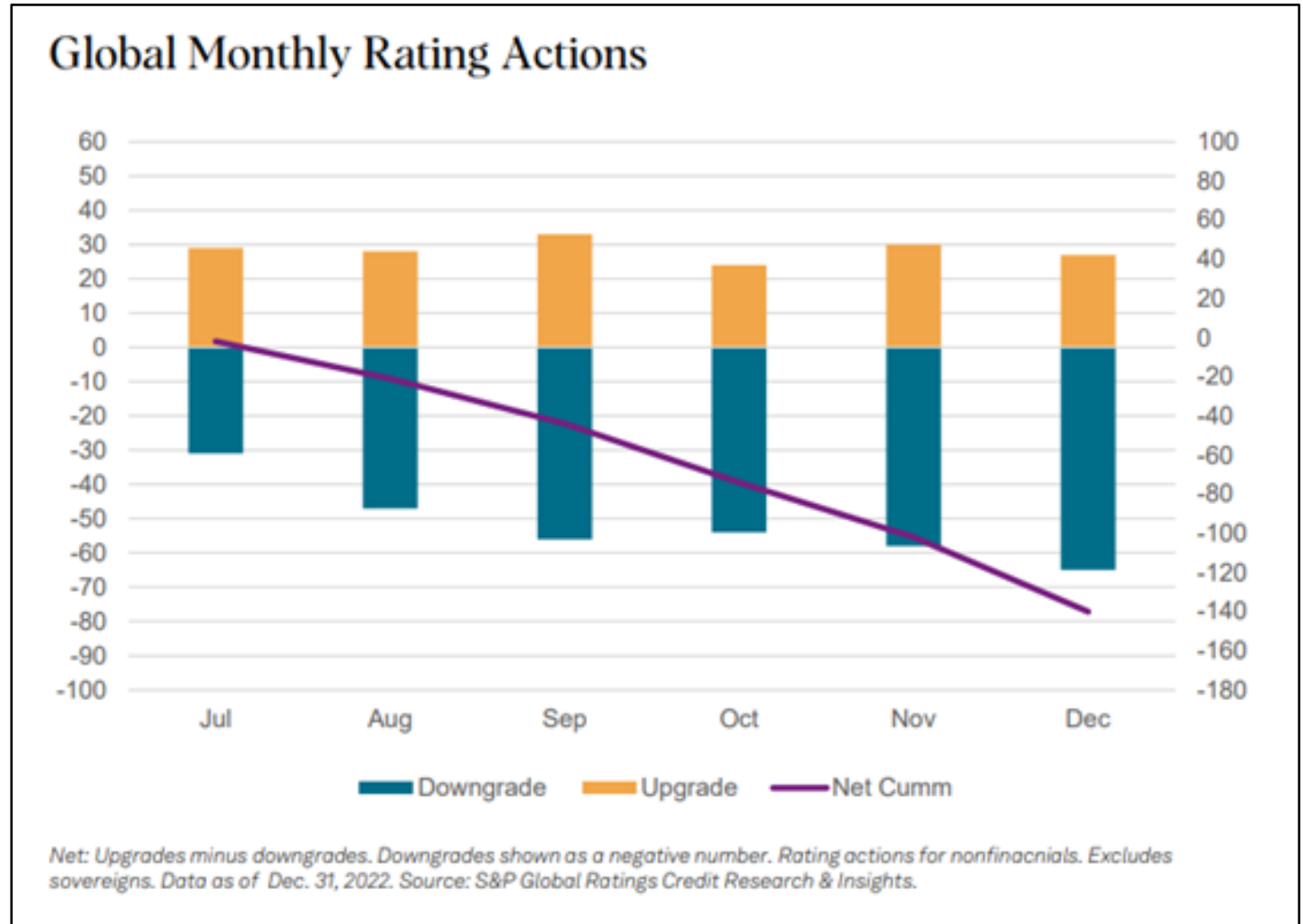
# Why does Liquidity Risk Matter More Now

1. Liquidity matters more during adverse market conditions
2. In March, borrowings from the Fed's discount window hit a record high
3. Borrowing from the discount window carries a stigma that a bank is in trouble



# Credit Risk - Key Questions

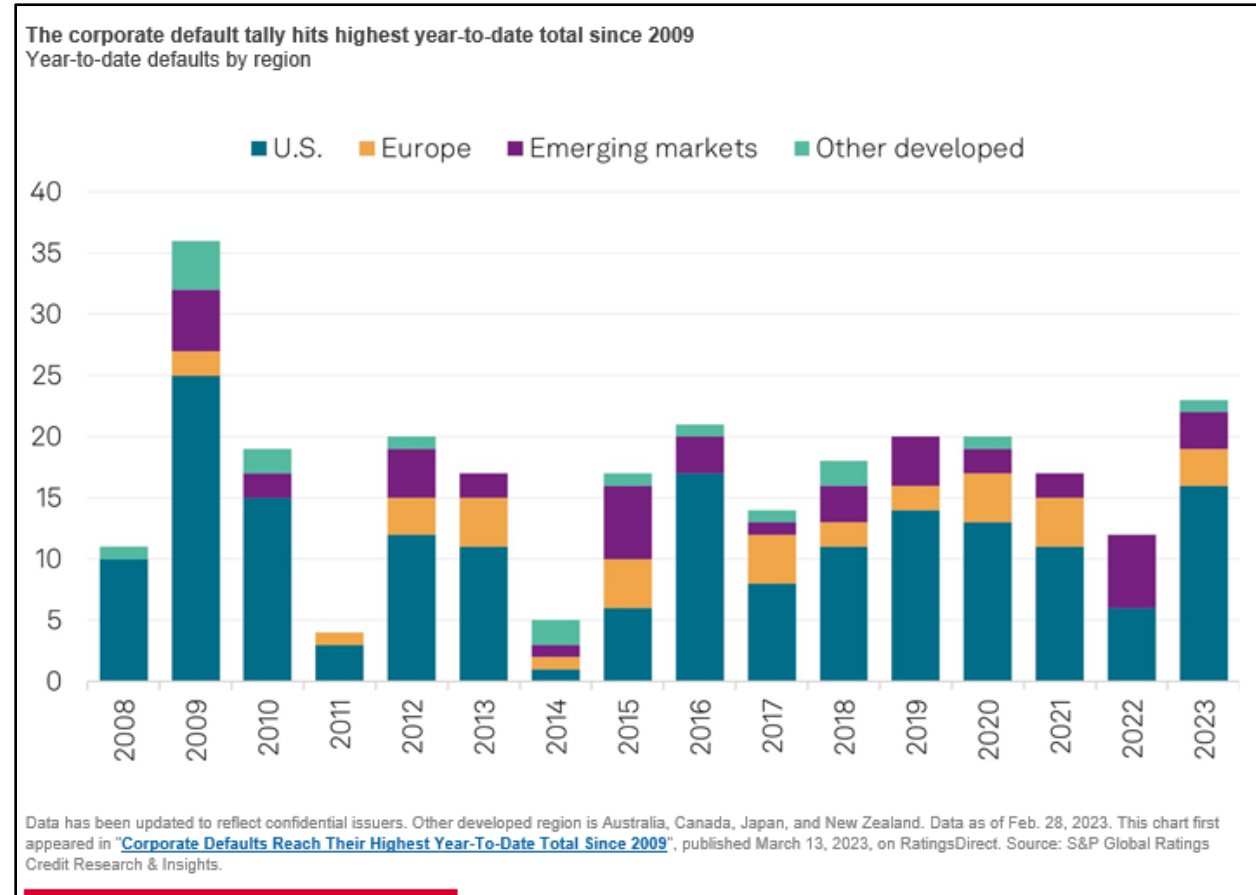
1. What is Credit Risk?
2. Is the current credit weakness contained to only banks?
3. What is a credit crunch?





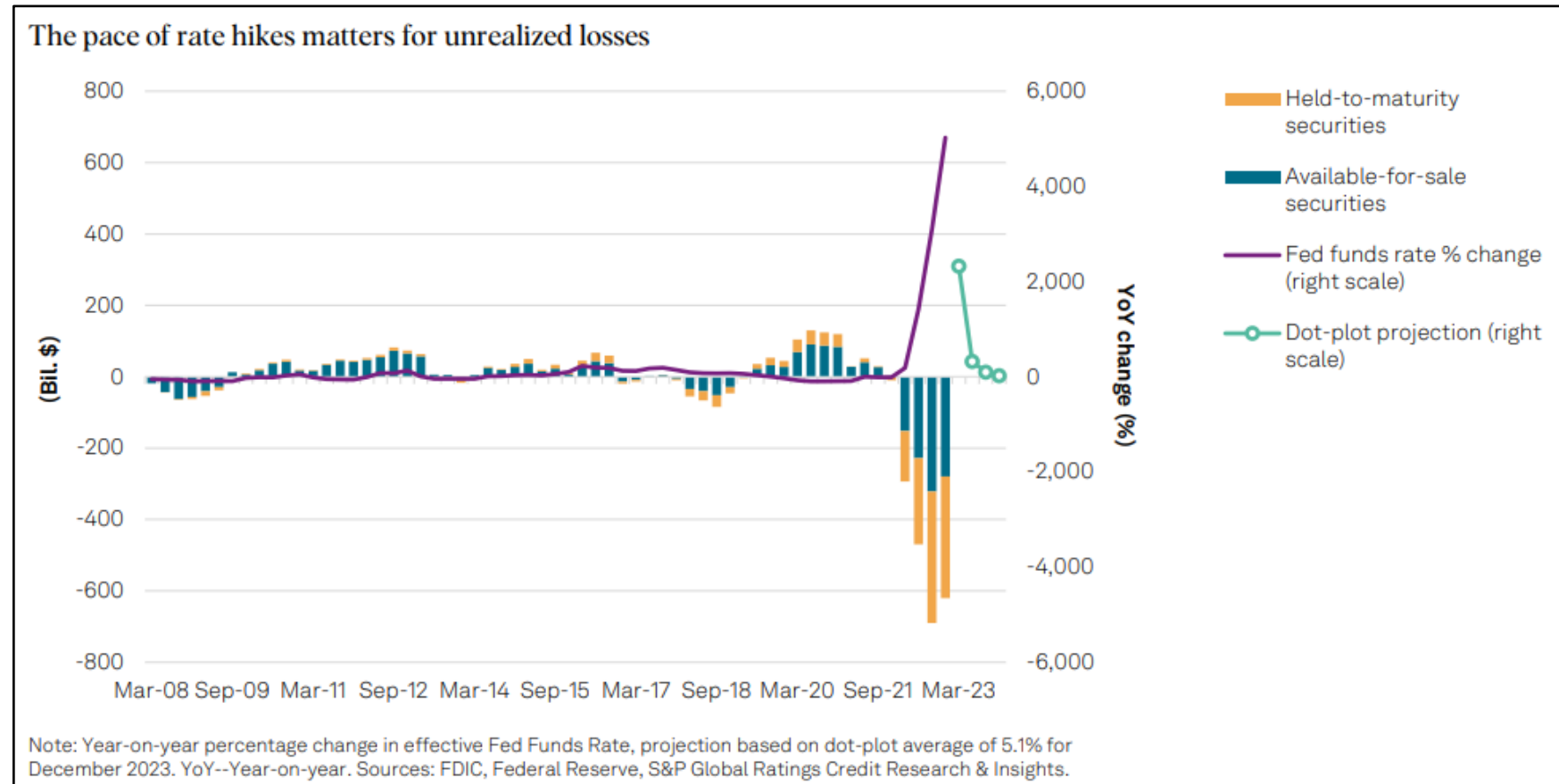
# Why does Credit Risk Matter More Now?

1. Means more when there are adverse economic conditions
2. Deeply connected with other risks indicated
3. Global defaults are on the rise
4. Heightened credit risk cuts across all regions & asset classes



# Market Risk - Key Questions

1. What is Market Risk?
2. Why has Market Risk accelerated?



# Why does Market Risk Matter More Now?

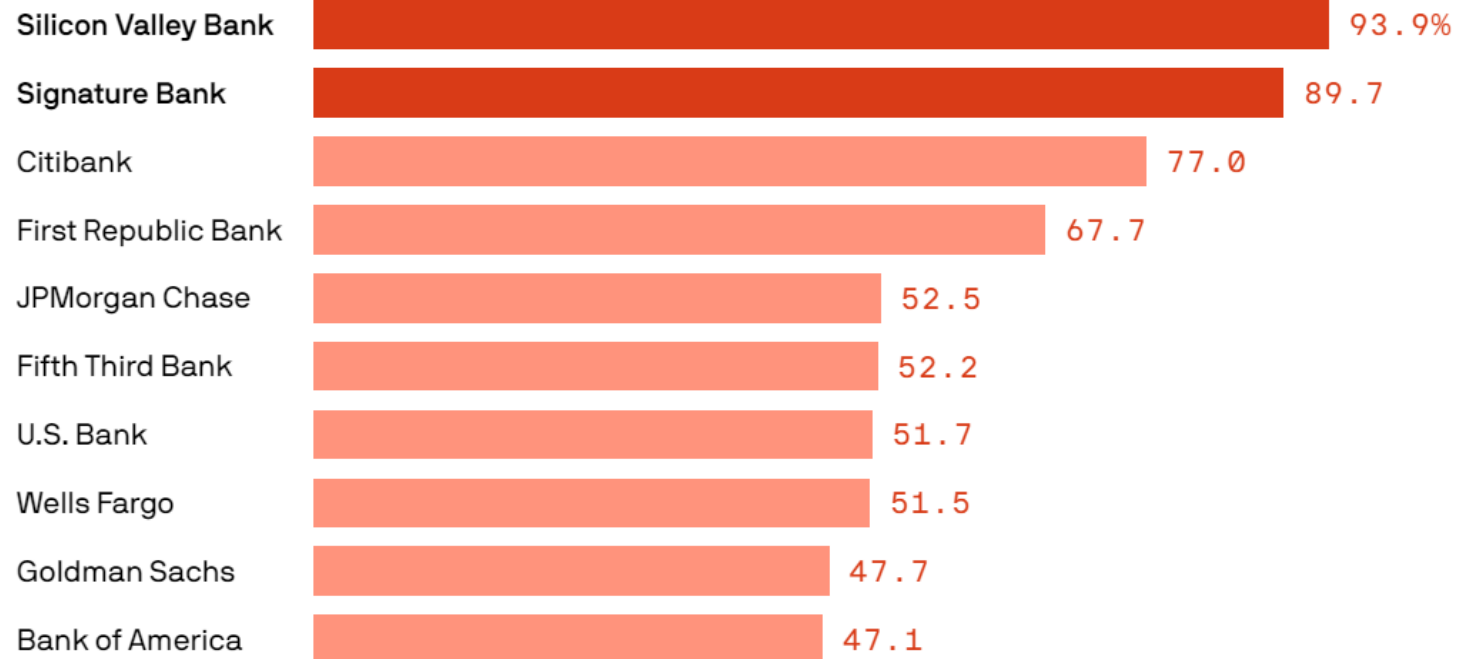
1. Seems to impact banks more because they are highly leveraged, confidence sensitive institutions
2. The best-protected banks will continue to avoid market risk concentrations
3. Both SVB & Signature Bank were exposed to high market or duration risk.
4. Losses materialized as depositors fled both banks

# Concentration Risk - Key Questions

1. What is Concentration Risk?
2. Which type of Concentration Risk helped drive the current banking crisis?

## Percentage of domestic deposits that were uninsured

As of Dec. 31, 2022



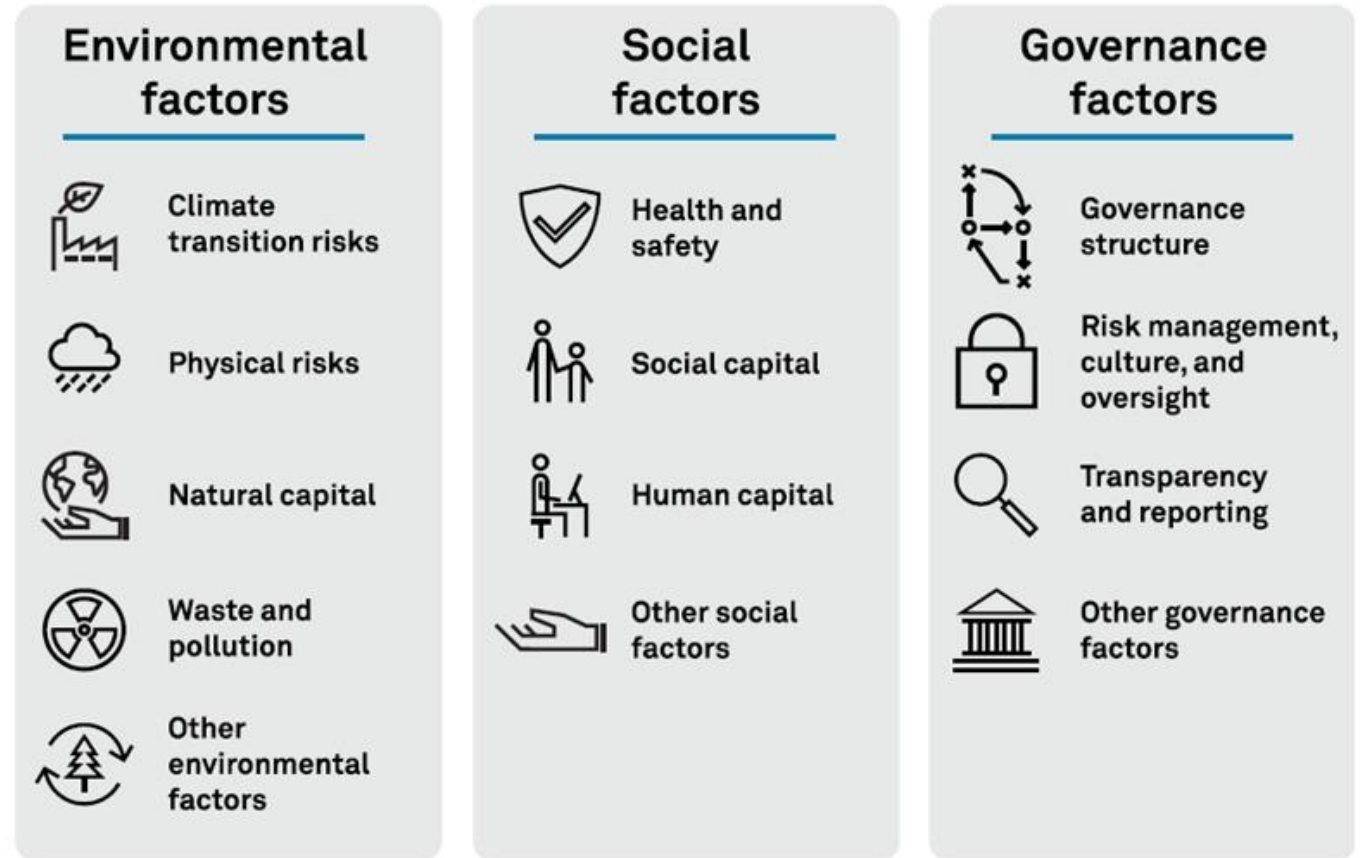
Data: S&P Global Market Intelligence; Chart: Axios Visuals

# How about other types of Concentration Risk?

1. Asset Concentration
2. Customer concentration
3. Sector concentration
4. Product concentration
5. Geographic concentration

# Climate Risk - Key Questions

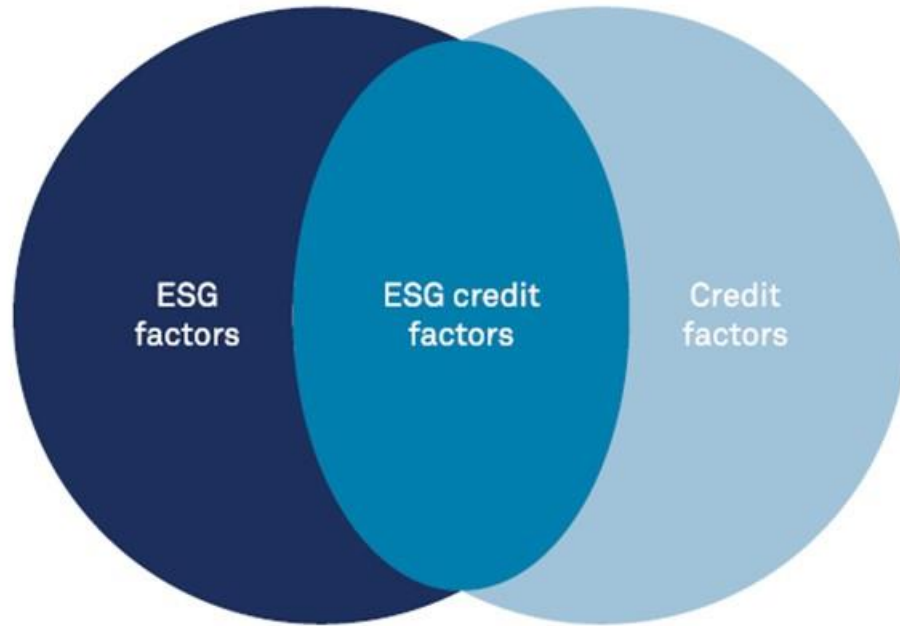
1. What is ESG?
2. Which is Physical Risk?
3. What is Transition Risk?



ESG--Environmental, social, and governance. Source: S&P Global Ratings.  
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# Methodology: The Intersection of ESG and Credit

## Measuring the influence of ESG factors on the credit quality



ESG--Environmental, social, and governance. Source: S&P Global Ratings.  
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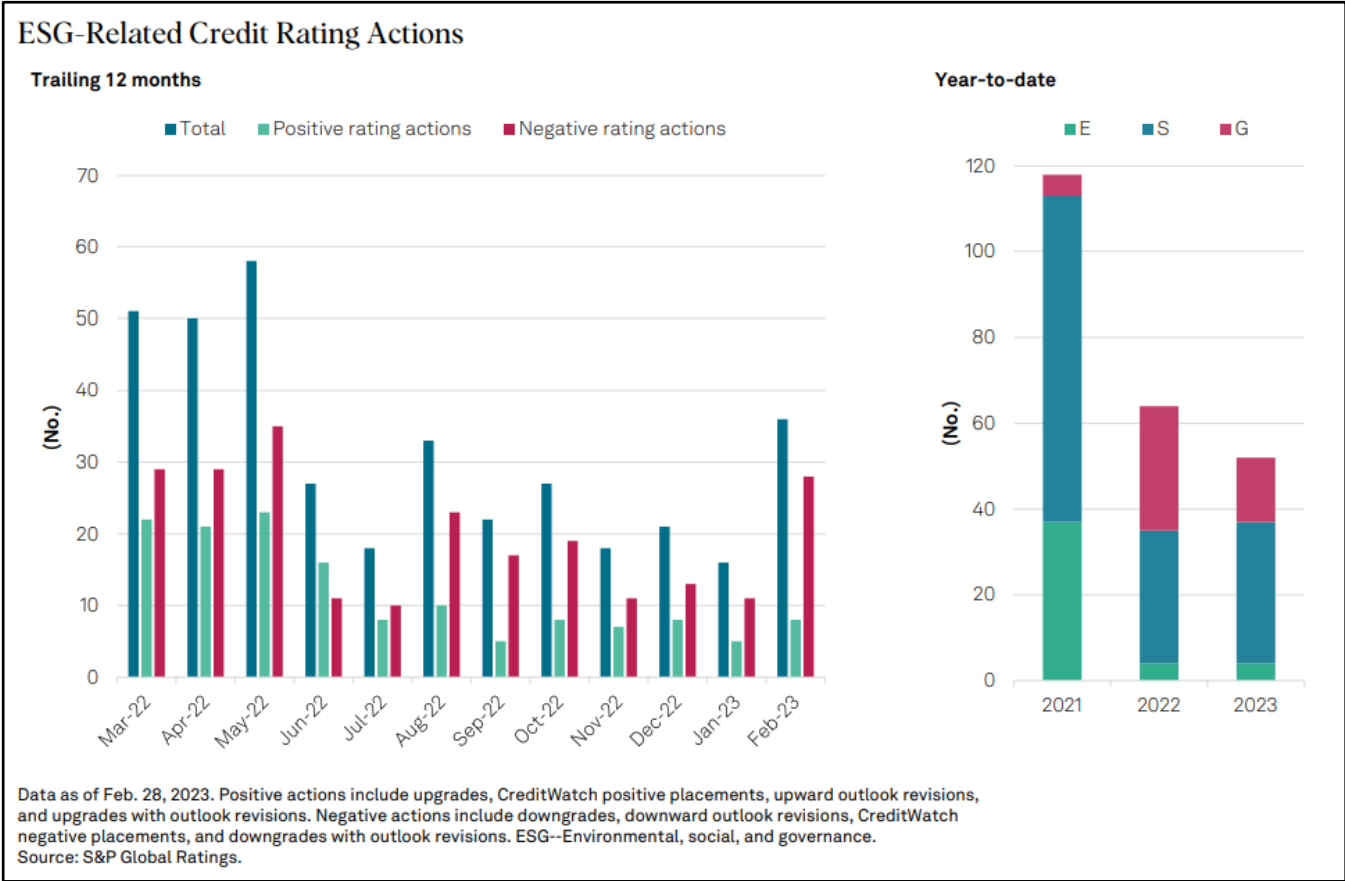
- Not all ESG factors materially influence credit ratings.
- We focus on ESG Credit Factors – those that have been shown to be sufficiently material to influence credit ratings across sectors.
- Entities with strong creditworthiness may not necessarily have strong ESG characteristics.

# 5 Ways ESG is Transforming Traditional Credit Analysis

1. ESG Matters More Now
2. ESG Factors are Directly Impacting Credit Quality across All Sectors
3. Systemic ESG Country and Industry Risk Factors Take on Added Importance
4. Entity-specific Competitive Analysis will further Differentiate ESG Credit
5. Isolating the Main ESG Factors is the Key to Understanding the Impact on Credit Quality

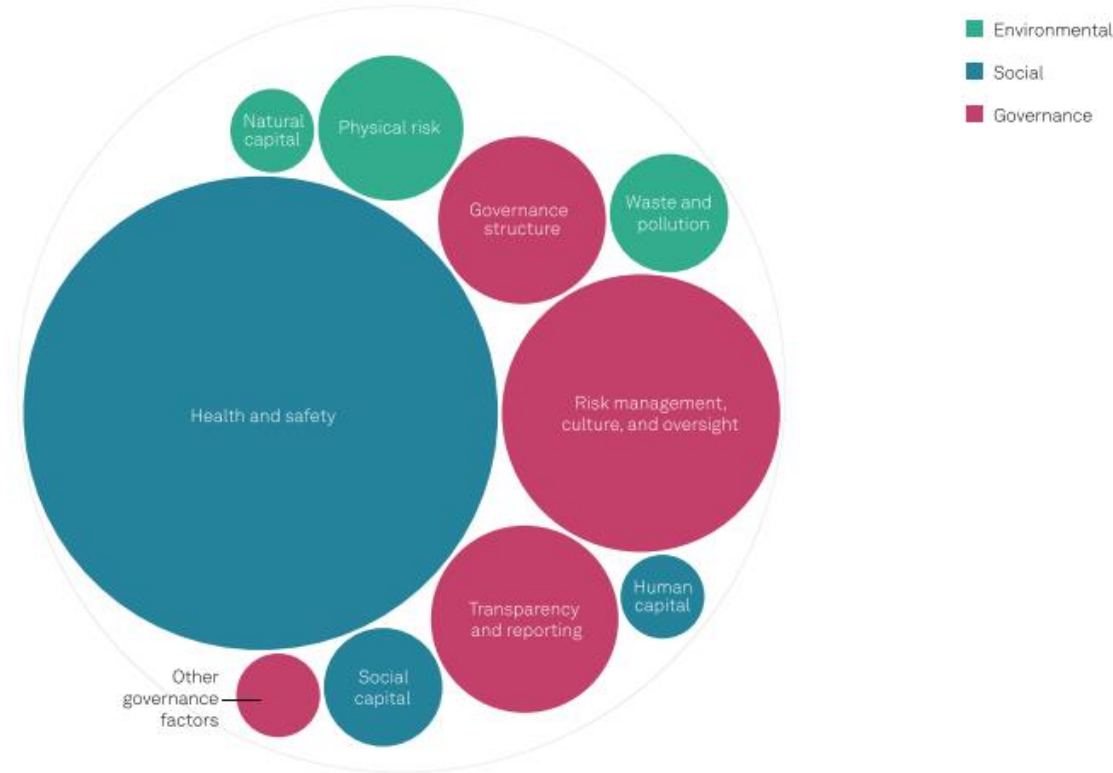


# ESG Related Credit Rating Actions



# ESG Factors Driving Credit Rating Actions

Leading ESG Factors Driving Credit Rating Actions  
As A Proportion Of Total Tagged Factors  
Year-to-date



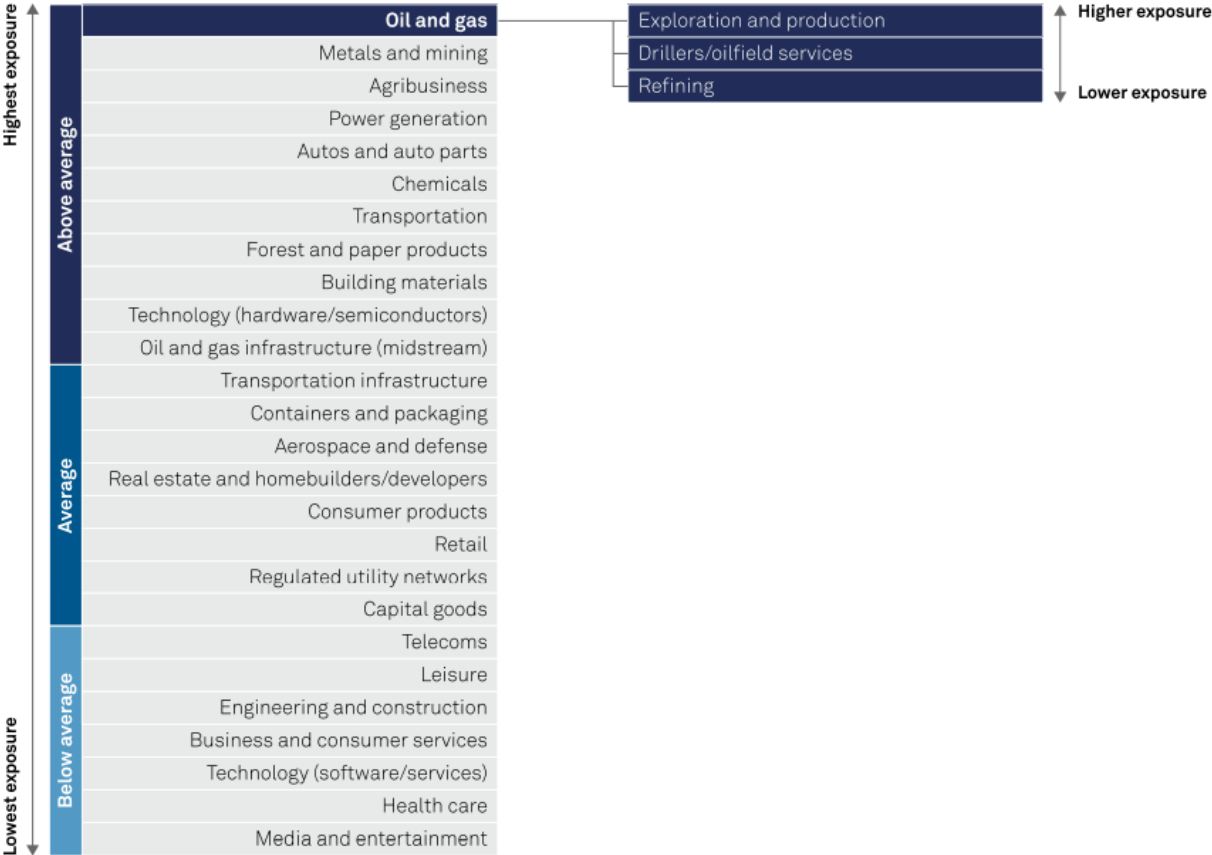
Data as of Feb. 28, 2023. Bubble size is determined by the occurrence of factors between January and February 2023. In instances where multiple ESG factors were recorded as the main drivers of the credit rating action, each is counted for the purposes of this infographic. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

# Climate Exposures by Industry

Chart 1

## Qualitative Sector Listing Of Relative Environmental Exposure: Oil And Gas

Greenhouse gas emissions, waste, pollution, and land use



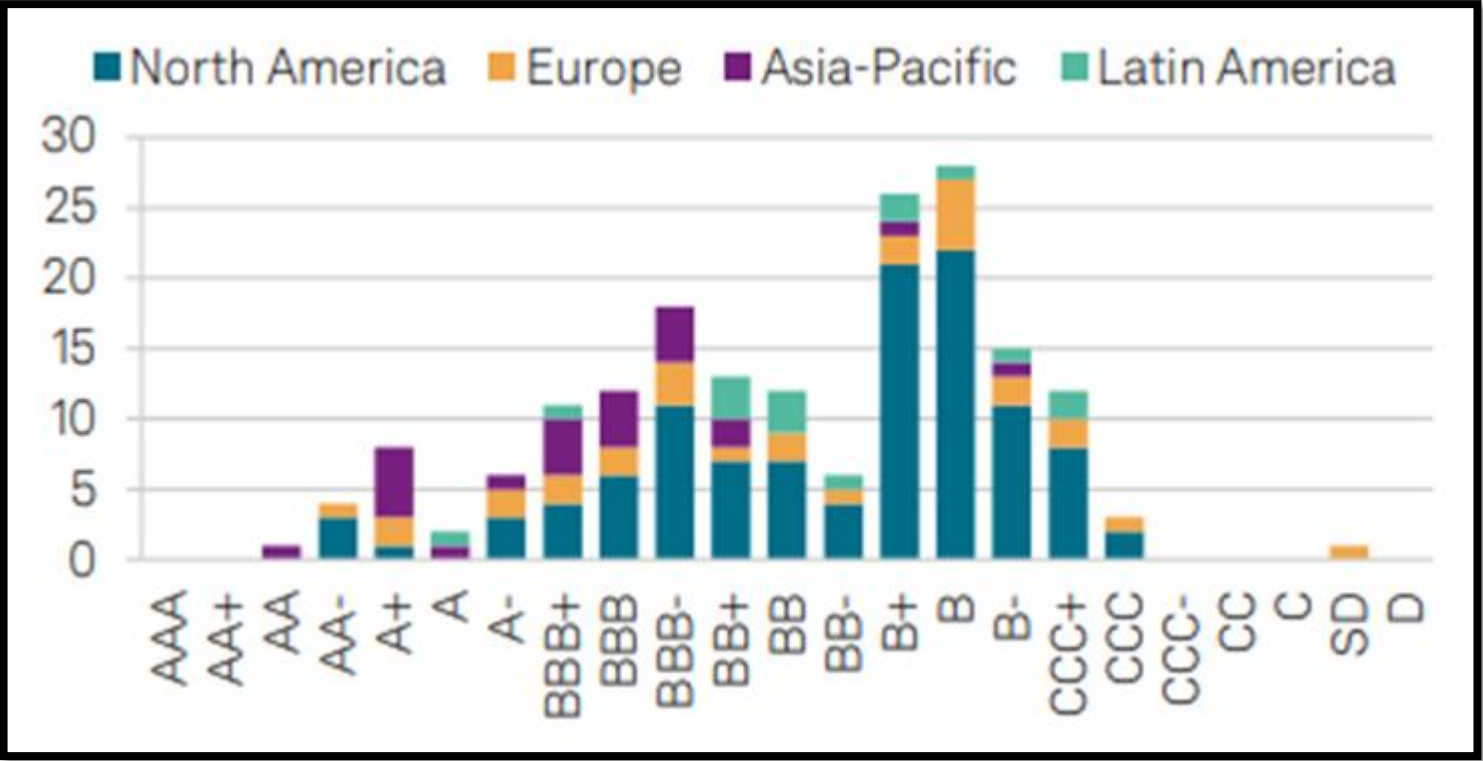
Source: S&P Global Ratings.  
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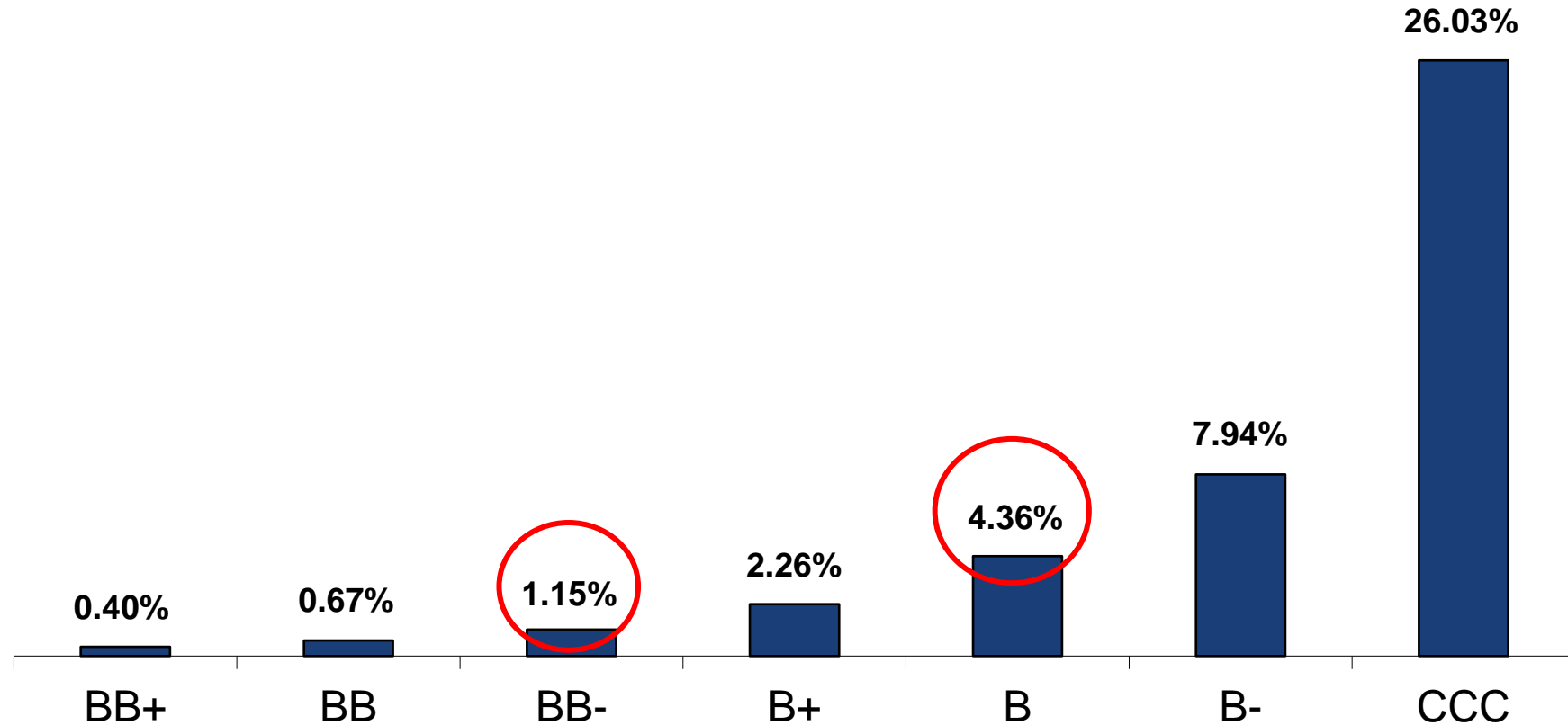
# Oil and Gas Rating Trends

## Ratings Distribution by Region



# Granularity Matters

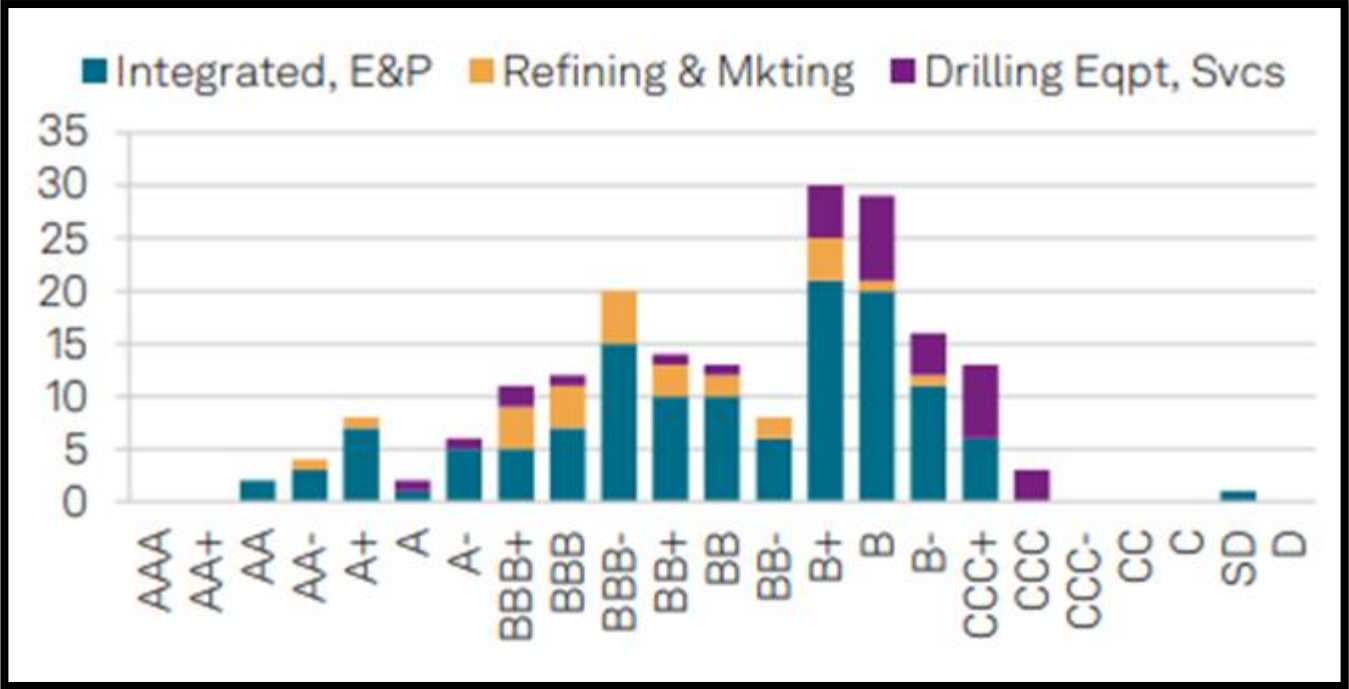
## 1-Year Global Historical Default Rate\*



\*Based on CreditPro default rates,

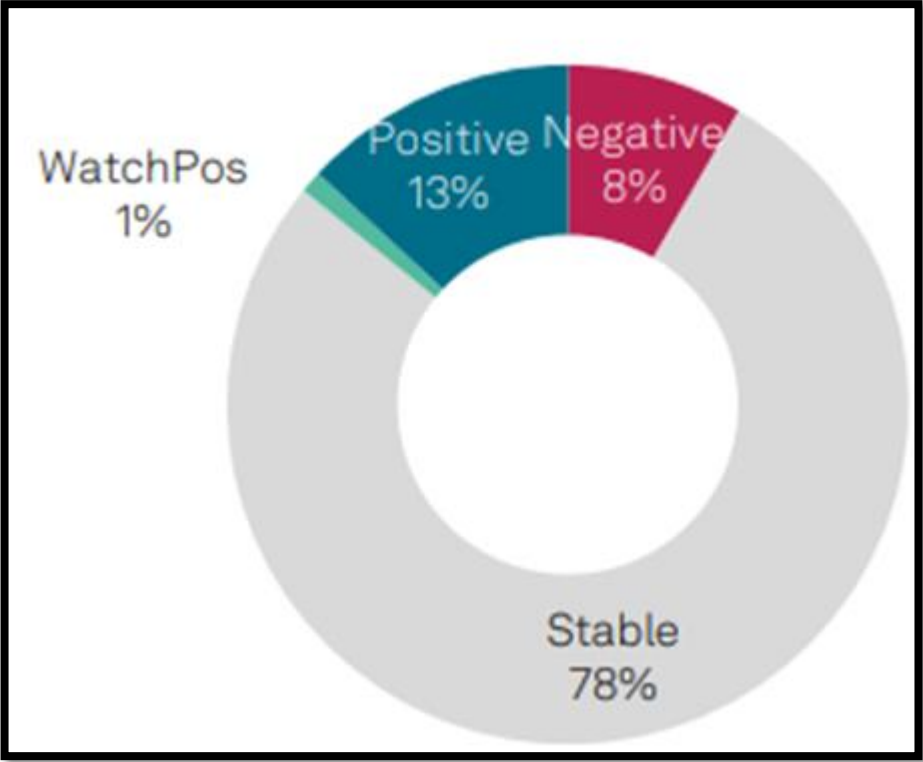
# Oil and Gas Rating Trends

## Ratings Distribution by Subsector



# Oil and Gas Rating Trends

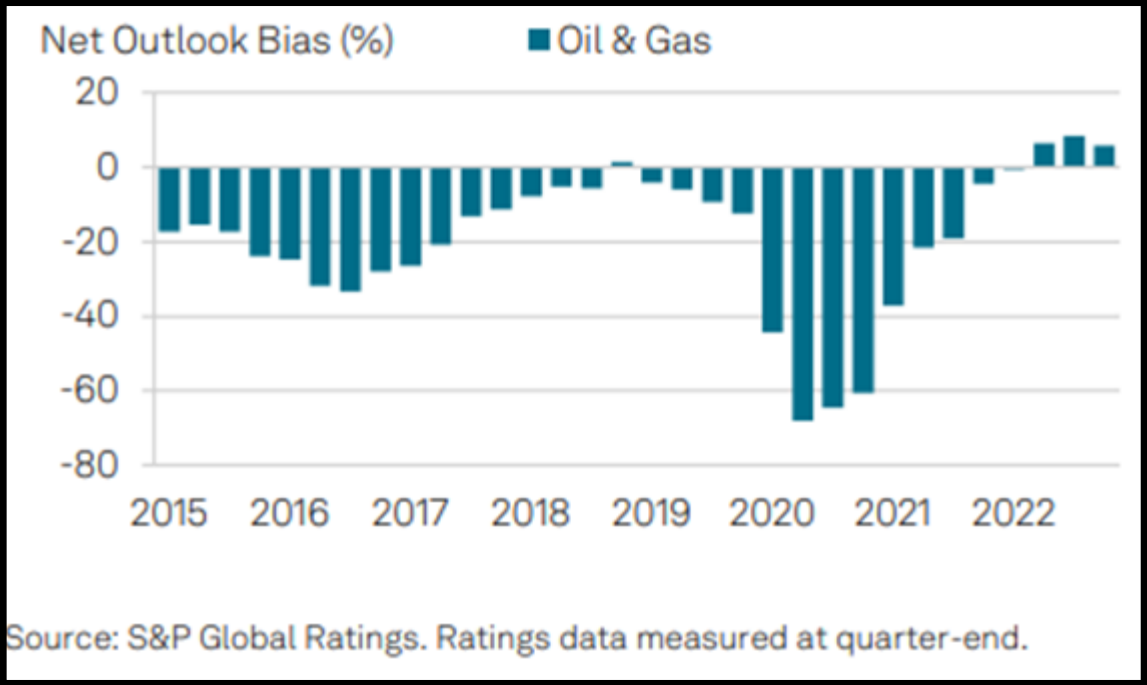
## Oil and Gas Ratings Outlook





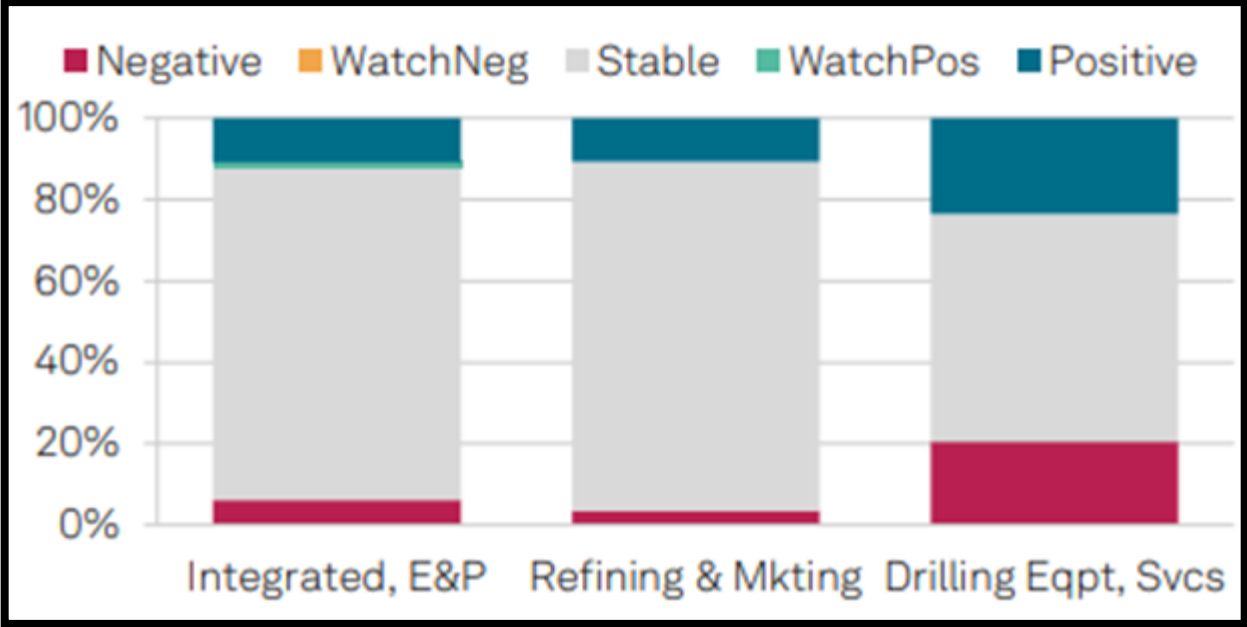
# Oil and Gas Rating Trends

## Ratings Outlook Net Bias



# Oil and Gas Rating Trends

## Ratings Outlook by Subsector



# APPENDIX

# Early Warning Signals: Using Credit Metrics

## Early Warning Signal Credit Metrics

EBIT Margin

Interest Coverage (EBIT/Interest Expense)

Return on Capital

Net Income / Total Liabilities

Debt to Total Capital

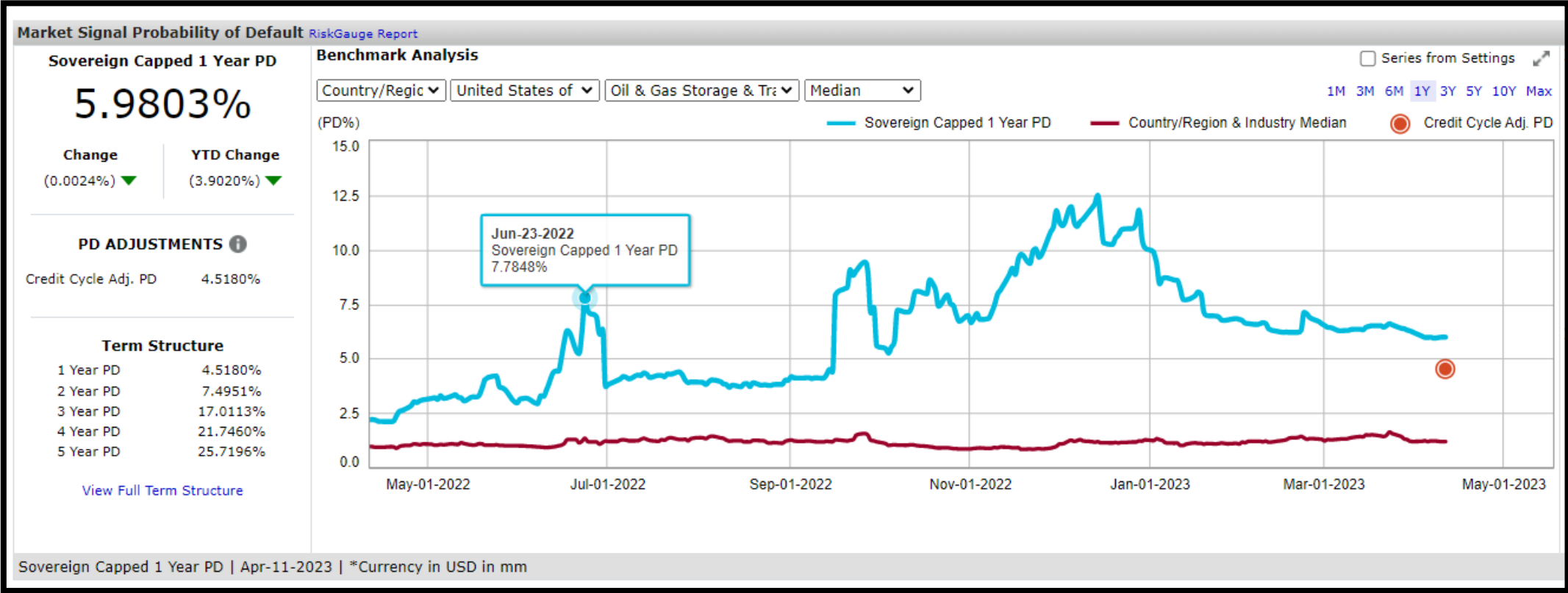
# Early Warning Signals: Using Credit Metrics

## Credit Metric Deterioration Before Downgrade

Chart Selected Items	Most Recent 3 Yrs. Unweighted Avg.	12 months Mar-31-2020	12 months Mar-31-2021	12 months Mar-31-2022
For the Fiscal Period Ending				
Currency	USD	USD	USD	USD
Adjustment Status [10096]		Reviewed	Reviewed	Reviewed
<b>Profitability Metrics [10456]</b>				
EBITDA Margin (%) [45281]	8.16	7.84	10.27	6.37
Return on Capital (%) [45254]	2.23	4.63	0.48	1.60
EBIT Margin (%) [45285]	1.56	3.21	0.48	0.98
<b>Other Sector Specific Ratios [10458]</b>				
Debt/Debt and Equity (%) [45272]	81.76	72.09	84.50	88.69
Debt/Debt+Equity(undepreciated basis) (... [48916]	75.89	65.86	73.12	88.69
Debt Fixed Charge Coverage (%) [48909]	2.04	3.07	1.74	1.30
ROCE (%), Adj. For AFUDC [45251]	(53.02)	(21.45)	(75.37)	(62.25)
ITV (%) [48911]	NM	NM	NM	NM
EBIT Interest Coverage (x) [45258]	0.51	1.26	0.08	0.20

# Early Warning Signals with Equity-Driven Credit Models

S&P's Market Signal Probability of Default Model indicated potential credit deterioration as early as Q2 2022.



# Early Warning Signals

## S&P Ratings Actions

1. Downgraded from B to B- on August 31, 2022
2. Downgraded from B- to CCC+ on November 23, 2022

+ RatingsDirect® Entity Summary ▾Take a tour of the new widget framework

**Credit Ratings** | [Related S&P Research](#) ⚙️ ↗️

Debt Type (Rating Type)	Rating	Regulatory Identifier	Rating Date	Last Review Date	Action	CreditWatch/Outlook	CreditWatch/Outlook Date
Issuer Credit Rating (Local Currency LT)	CCC+	EE UKE	Nov-23-2022	Nov-23-2022	Downgrade   CreditWatch/Outlook	Negative	Nov-23-2022
Issuer Credit Rating (Foreign Currency LT)	CCC+	EE UKE	Nov-23-2022	Nov-23-2022	Downgrade   CreditWatch/Outlook	Negative	Nov-23-2022

'Last Review Date' indicates the date on which an Issue/Issuer Credit Rating was last formally reviewed within a twelve-month period or when a Credit Rating Action was last published. For certain dependent instruments, the 'Last Review Date' will only be updated in the event of a Credit Rating change of the linked organization.

# Thank You