Standard & Poor's: U.S. Corporate Default Rate To Reach All-Time High

Standard & Poor's expects the default rate in the U.S. corporate speculative-grade segment to catapult to 13.9% by December 2009 - an all-time high.

The Standard & Poor's research reports says that this is a sizeable increase from their 7.6% base-case third-quarter projection, based on a substantial worsening of the economy and the financial environment.

The baseline projection of 13.9% would result in an unprecedented trough-to-peak increase of almost 13%, outstripping the rate of increase observed in any prior default-rate cycle since the start of our series in 1981.

"The year will be marked by greater differentiation on the basis of risk, which implies that funding will be rationed toward more creditworthy borrowers at the expense of those at the lowest end of the credit spectrum," noted Diane Vazza, head of Standard & Poor's Global Fixed Income Research Group.

The continued high stress level in the financial system--which has wrought changes unprecedented since the Great Depression--is expected to ripple through more broadly, materially affecting the number of defaults.

"Although aggressive government intervention in the U.S. and elsewhere has somewhat countered the turmoil, we now expect it to take its toll on already vulnerable corporations and the economy in general," Ms. Vazza added.

In 2008, the number of corporate casualties in the U.S. rose sharply--in line with expectations--to 94 issuers, nearly six times the number recorded a year earlier.
This is the highest number of defaults since 2002, when defaults reached 129 issuers. The count of defaulting issuers increased at a steady clip during the course of the year, with December's total of 17 defaulters constituting the maximum recorded in any month of 2008, and the highest monthly tally since December 2001 when the same number of issuers defaulted.

Nevertheless, expressed as a share of the rated universe, the U.S. corporate speculative-grade default rate finished the year at 4.02%, a fourfold increase from the 25-year low of 0.98% in 2007.

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ISSUED BY: FDBeachhead
Grant Henry
(011) 214 2406/082 561 7172/ grant.henry@fd.com

ON BEHALF OF: Standard & Poor's

For further information please contact:

Konrad Reuss
Standard & Poor's
Managing Director for South Africa & Sub-Saharan Africa
Tel: (011) 214 1991
C: 082 290 8374

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Grant Henry
Managing Partner
Johannesburg

1st Floor, Lumley House, Rosebank Office Park
177 Jan Smuts Avenue, Parktown North
Johannesburg, 2193

T +27 11 214 2406
F +27 11 214 2405
M +27 82 561 7172
www.fd.com
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