Global Outlook 2024

Macro Weakness Maintains Pressure on Credit Environment

Fitch Ratings' 2024 global credit outlook is driven by four key inter-related themes. First, a continued feedthrough of ***sustained higher interest rates*** on demand, liquidity, funding and asset quality. Second, a ***sharp slowdown of the US economy***, driven by a loosening labour market, and credit and investment weakness as real interest rates rise. ***Global asset-quality deterioration*** linked to tight funding conditions, weak economic growth and structural weakness in key asset classes such as commercial real estate and Chinese property is the third theme. Finally, heightened ***financial market risks and cross-asset tail-risks*** driven by potential liquidity events, geopolitics and elevated leverage.

Higher for Longer Interest Rates Feedthrough Still to Come

The full effects of tighter borrowing conditions have yet to fully feed through to the global economy and credit even as central bank policy rates are at or near peak in every developed market except Japan. Fitch's base case sees monetary policy remaining restrictive in the US and eurozone. The general funding environment will continue to be challenging for credit with heightened refinancing pressures, default rates and asset-quality deterioration.

Lower-Rated Issuers and Pro-Cyclical Sectors Are at Greater Risk

Pressures on certain sectors and issuers that are more sensitive to higher rates and general economic conditions, especially more leveraged issuers at the lower end of the rating spectrum, are likely to continue. Lower-rated emerging market sovereigns are likely to see further defaults. Chinese property, commercial real estate and weaker/sub-prime borrowers in the US and Europe are also areas with deteriorating outlooks. Most structured finance asset performance outlooks are deteriorating. That said, the net rating Outlook balance for investment and sub-investment-grade issuers has continued to improve, suggesting that the risks of negative rating action at portfolio level have fallen.

What to Watch

- The effects of monetary tightening on funding conditions and growth will be felt more fully in 2024 and will contribute to a challenging global credit environment.
- Persistently tight financing conditions elevate the risk of a liquidity event with wider credit implications beyond our base case. Structural weakness and uncertainties in key asset classes including commercial real estate and China property also point to a negative risk bias.
- Progress in reducing core inflation and consumer resilience has reduced the likelihood of a US recession. A US scenario with faster-than-expected disinflation and rate cuts, and a recovery in China's property market would improve the global outlook.

Justin Patrie, CFA, Senior Director

"Sustained higher interest rates, a sharp US slowdown, global asset-quality deterioration and a heightened macro-credit risk environment are core factors that underpin the 2024 global credit outlook."

Deteriorating Sector Outlooks

Sector	Outlook (2024)	Outlook (2023)
NA Sovereigns	Deteriorating	Deteriorating
MENA Sovereigns	Deteriorating	Neutral
US Banks	Deteriorating	Deteriorating
EMEA Real Estate	Deteriorating	Deteriorating

Source: Fitch Ratings

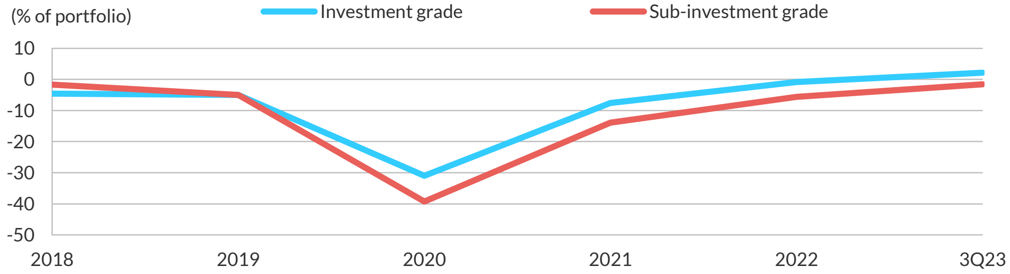
For a full list of all 321 sector and asset performance outlooks, please click here.

Improving Sector Outlooks

Sector	Outlook (2024)	Outlook (2023)
Global Aerospace & Defense	Improving	Improving
EM APAC Banks	Improving	Neutral
Global Reinsurance	Improving	Neutral
LatAm Real Estate	Improving	Neutral

Source: Fitch Ratings

Net Ratings Outlook Balance



Notes: Negative Outlooks accorded a negative value. End-year values.
Source: Fitch Ratings

Sharp US Slowdown Ahead

The monetary transmission on the US economy is beginning to take effect even as the strong fiscal impulse and resilient US consumer kept growth above 2% this year. A recession is likely to be avoided but full-year growth will fall to 1.2% in 2024. This is the main factor contributing to the above-average number of deteriorating US sector outlooks. Pro-cyclical sectors, such as retailing, building products, banks and a majority of US structured finance asset performance outlooks also have deteriorating outlooks.

China Property Remains Major Challenge

China's persistent property crisis and its effects on consumption and investment will remain a key theme in 2024. We forecast Chinese growth to fall back below 5% and maintain deteriorating sector outlooks for both Chinese banks and property developers. The sector outlook for local government financing vehicles has moved to neutral from deteriorating, but it is important to note that the outlook reflects our view of how a sector's performance will compare with the previous year.

European Rebound Unlikely After 2023 German Recession

The outlook in Europe is underscored by macroeconomic stagnation as a result of weakening global trade and the effect of tightening monetary conditions on demand, partially offsetting the benefits of the recent easing of the energy shock. We do not expect eurozone real GDP growth to significantly accelarate from its 0.5% estimated outturn in 2023. Most European sector outlooks are neutral, characterising our core expectation for macro-credit conditions to remain broadly the same.

Pockets of Emerging Market Strength

The 2024 global outlook is one of persistent challenges and risks, but there is a small number of sectors with improving outlooks. Life insurers in some regions will benefit from higher rates and improving margins while non-life insurers will see an improved environment from reduced inflationary pressures. India and Indonesia also remain as bright spots with both countries' banking sectors having improving outlooks.

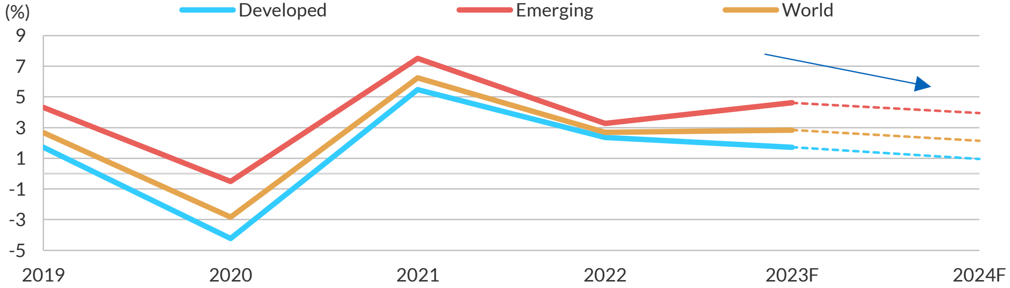
Risk Bias Weighted to the Downside

The most significant positive risk scenarios that would improve credit conditions on a large scale include faster US disinflation and rate cuts, and a recovery in China's property sector. However, the continued cautiousness of global central banks, tight funding conditions, weak or decelerating growth in most major economies and sector-specific pressures on key asset classes, such as real estate and structured finance asset performance, indicate a negative risk bias ahead. Geopolitical tail-risks, including the faultline between the US and China, also show no sign of abatement.

What Are Sector Outlooks?

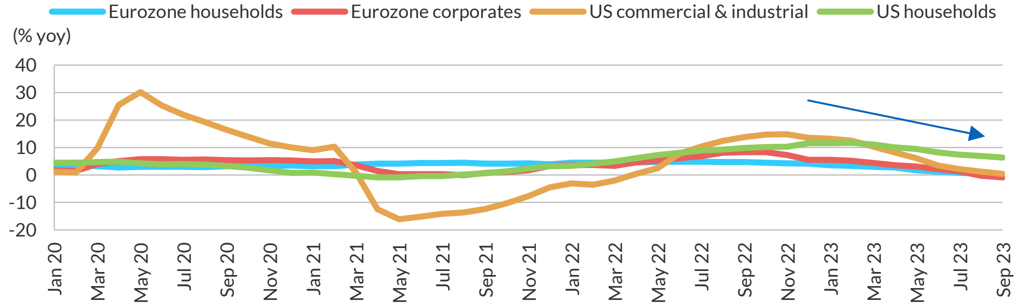
Sector outlooks are a general forward-looking assessment of the underlying operational and business conditions of the sector compared to the previous calendar year. A neutral outlook is an assessment that these conditions will remain mostly unchanged. Sector outlooks are distinct from rating Outlooks. A full list of 2024 outlooks can be found here.

Real GDP Growth



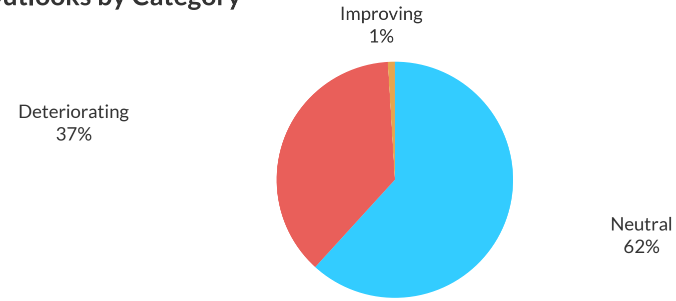
Source: Fitch Ratings

US and Eurozone Lending Growth



Source: Fitch Ratings, ECB, FRED, Haver

Sector Outlooks by Category



Note: Sectors weighted by US dollar value of issuance.
Source: Fitch Ratings

North America

Sharp Growth Slowdown Weighs on Outlook

Fitch expects US economic growth to slow sharply in 2024. While a recession will be avoided we forecast unemployment rising, deteriorating asset quality, and default rates continuing to increase. Multiple sectors will experience headwinds as a result and the region has the highest proportion of deteriorating sector outlooks. North American sovereigns, US banks, leveraged finance, retailing, REITs, and a majority of non-bank financial institution sector outlooks are deteriorating. Most structured finance asset performance outlooks are also deteriorating.

Consumer Deterioration Ahead in the US

We expect the growth slowdown to be driven by the delayed monetary transmission from rapid Federal Reserve rate rises in 2022 and 2023. The resilience of the US consumer and fiscal stimulus helped to keep growth robust in 2023. However, rising debt service costs, a reduction in the fiscal impulse and drawdown in consumer savings point to the unsustainability of current rates of growth.

Rising unemployment, a reduction in wage growth and cost-of-living pressures are headwinds for consumer-based industries and asset classes. A good example is ABS, where the weakening consumer is driving our expectations for worsening asset performance. It is also a notable factor in our expectations for continued headwinds and pressures on asset quality and operating profits for US banks.

Rates Feedthrough to Leveraged Borrowers, Asset Quality to Be More Pronounced

While we expect a material growth slowdown and the Fed to begin cutting its policy rate from mid-2024, funding conditions are likely to remain fairly tight, with only limited rate cuts by the end of the year. Higher leveraged borrowers are likely to face greater refinancing pressures and this is reflected in our forecasts for increased high-yield and institutional leveraged loan default rates. This will keep pressure on commercial real estate, although broader secular challenges in office also influence that sector's outlook.

What to Watch

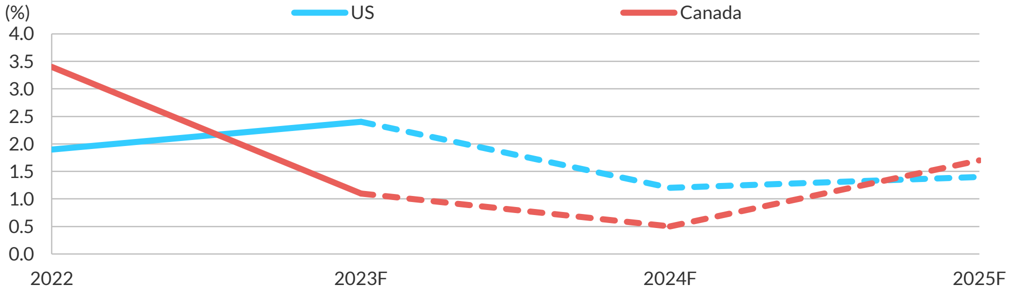
- A sharp slowdown in growth weighs on the outlook for some US sectors, including banks, non-bank lenders, real estate, consumer-oriented sectors and structured finance asset performance.
- More rapid disinflation and rate cuts than our base case would mitigate the main negative pressures on the outlook.
- Higher-for-longer interest rates will keep financing conditions fairly tight, maintaining pressures on bank and non-bank lenders, and raising the risk of deteriorating asset quality.

Selected North America Sector Outlooks

Sector	Outlook (2024)	Outlook (2023)
North America Sovereigns	Deteriorating	Neutral
NA Investment-Grade Corporates	Neutral	Neutral
US Banks	Deteriorating	Deteriorating
Canadian Banks	Neutral	Deteriorating
US Real Estate Equity REITs	Deteriorating	Deteriorating
US Retailing	Deteriorating	Deteriorating
North American RMBS	Neutral	Deteriorating
North American CMBS	Deteriorating	Deteriorating

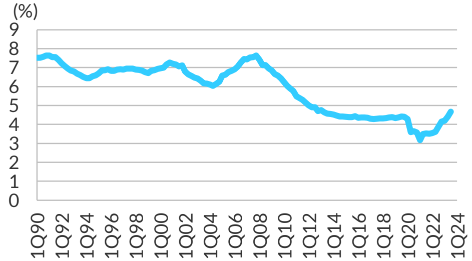
Source: Fitch Ratings

US and Canada Real GDP Growth



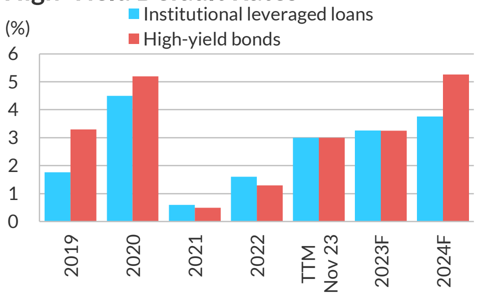
Source: Fitch Ratings, Statistics Canada, FRED

US Household Interest Payments as Percentage of Disposable Income



Source: Fitch Ratings, Federal Reserve, Haver Analytics

US Institutional Leveraged Loan and High-Yield Default Rates



Source: Fitch Ratings

Europe

No Quick Recovery after Weak 2023

The eurozone and UK were the weakest-performing major economies in the world in 2023 and Fitch does not expect a significant rebound in 2024. We forecast real GDP growth to rise slightly to 0.7% in 2024 for the eurozone and fall to 0.3% from 0.5% in the UK. As in other developed markets, the combination of high interest rates and inflation have driven a sharp slowdown in credit growth, although in Europe the reduction in global trade is having a larger effect than in the US, where the economy is less dependent on external demand.

There are some positive drivers for the credit outlook, including falling headline inflation and monetary policy loosening from 2H24. However, ECB rate cuts will not begin to have a meaningful impact on the real economy until 2025.

Challenges More Pronounced in Leveraged, Real Estate, NBFI and Structured Finance

The majority of European sector outlooks across both developed and emerging regions are neutral, reflecting the assessment that broad conditions for credit are expected to be the same in 2024. However, there are several sectors where we expect conditions and underlying credit drivers to continue to deteriorate. High-yield and leveraged finance default rates are forecast to continue to increase but remain well below prior peaks. Asset performance across most structured finance segments including ABS, CLOs, CMBS and UK RMBS should deteriorate. We also have deteriorating outlooks for EMEA real estate, homebuilders and building products to reflect the continuing challenging conditions in the residential real estate sector.

Emerging Europe

We forecast growth in emerging Europe to recover more quickly in 2024 than in developed Europe. Real GDP growth in the largest emerging European members of the EU, including the Czech Republic, Hungary, Poland and Romania, should exceed 2%. However, this remains well short of the pre-pandemic average. Turkiye will differ, with growth falling sharply to 2.5% from 4.1% in 2023 as the impact of monetary tightening feeds through.

What to Watch

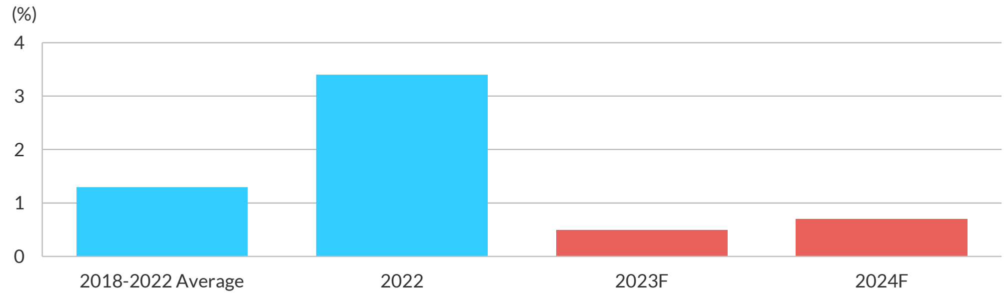
- Economic growth in the eurozone will only marginally improve.
- Real estate, non-bank lending, leveraged finance and structured finance asset performance are all expected to continue to see deteriorating conditions.
- Stronger-than-anticipated global demand would be positive for Europe's outlook.
- Geopolitical risk remains high for emerging Europe amid the continuation of the war in Ukraine.

Selected Europe Sector Outlooks

Sector	Outlook (2024)	Outlook (2023)
Western Europe Sovereigns	Neutral	Neutral
Emerging Europe Sovereigns	Neutral	Deteriorating
European Corporates	Neutral	Deteriorating
EMEA Leveraged Finance	Deteriorating	Deteriorating
Western Europe DM Banks	Neutral	Deteriorating
CEE Banks	Neutral	Deteriorating
EMEA CMBS	Deteriorating	Deteriorating
Eurozone RMBS	Neutral	Deteriorating

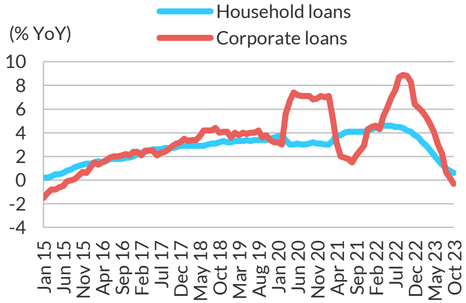
Source: Fitch Ratings

Eurozone Real GDP Growth



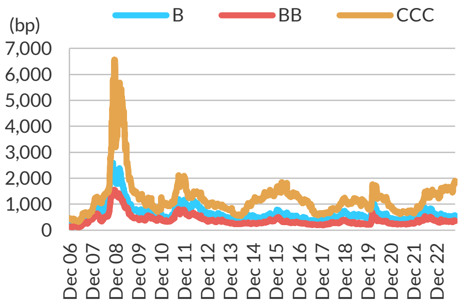
Source: Fitch Ratings

Eurozone Bank Lending Growth



Source: Fitch Ratings, ECB

European High-Yield Spreads



Source: Fitch Ratings, Factset

Asia-Pacific

Slower Growth in China to Weigh on Exposed Sectors

Problems in China's property sector will persist – the outlook for property developers remains deteriorating – weighing on economic growth. Weaker growth, lower rates and a shifting policy environment will also add to challenges for Chinese financial issuers. We have lowered the outlook for the China banking and leasing company sectors in 2024 to deteriorating from neutral. In contrast, we expect a pick-up in operating revenues and transfers from the central government to support the outlooks for China's local and regional governments and their financing vehicles, which both move to neutral from deteriorating. However, risks to these two sectors remain prominent.

Economic Tailwinds Remain Supportive for Sector Outlooks in Much of APAC

Despite China's slowing expansion, economic growth in the wider region will generally remain strong, supporting sector outlooks across the region. Real GDP growth should remain at or above 5% in India, Indonesia, the Philippines and Vietnam. This has contributed to a reduction in the number of deteriorating sector outlooks. For example, our expectation of a recovery in the semiconductor sector after a severe downturn in 2023 is reflected in our neutral outlook for the APAC technology sector, compared with the deteriorating outlook last year.

Diverging Prospects for Emerging and Developed Market Banking Sectors

Growth in APAC emerging markets should buoy loan demand and limit the potential adverse effects on asset quality from interest rates, which we believe have largely peaked across the region. We have moved the outlook for the emerging market APAC banking sector to improving from neutral, reflecting stronger prospects for banks in India, Indonesia, Sri Lanka, Thailand and Vietnam.

The peaking of the regional interest-rate cycle will tend to affect APAC developed market banking sectors more than emerging markets, the latter benefitting from broadly stable net interest margins (NIMs). We expect NIMs and non-performing loan (NPL) ratios to come under pressure in developed markets in 2024, but we expect the degree of weakening will generally be modest, with asset-quality deterioration being most marked in Australia and New Zealand. This is reflected in deteriorating outlooks for both the Australian and New Zealand banking sectors, and for structured finance asset performance in both countries.

What to Watch

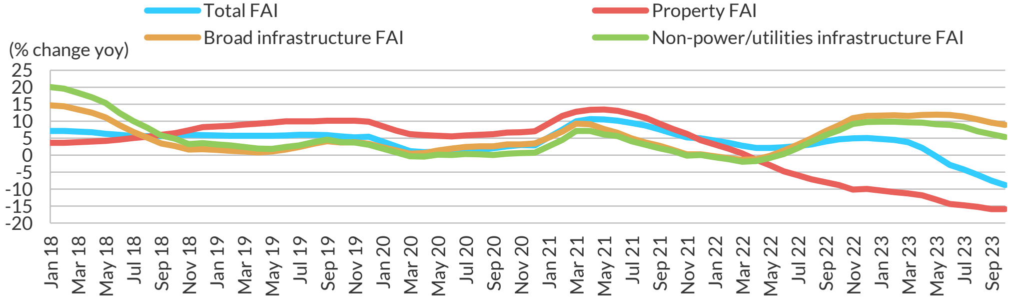
- The economic backdrop in much of APAC will remain mostly supportive for revenue growth and credit profiles in 2024, in contrast to other regions.
- A sharper slowdown in China's growth than we assume would pose significant risks for China-based issuers in multiple sectors and have adverse credit ramifications regionally.
- Sharper monetary policy easing in the US than we expect could also allow governments in APAC to cut rates faster, reducing interest burdens and easing pressure on credit profiles.

Selected Asia-Pacific Sector Outlooks

Sector	Outlook (2024)	Outlook (2023)
APAC Sovereigns	Neutral	Neutral
APAC Corporates	Neutral	Neutral
APAC Developed Market Banks	Neutral	Neutral
APAC Emerging Market Banks	Improving	Neutral
APAC Transportation, Airports	Neutral	Improving
Chinese Banks	Deteriorating	Neutral
Chinese Property Developers	Deteriorating	Deteriorating
Chinese LGFV	Neutral	Deteriorating

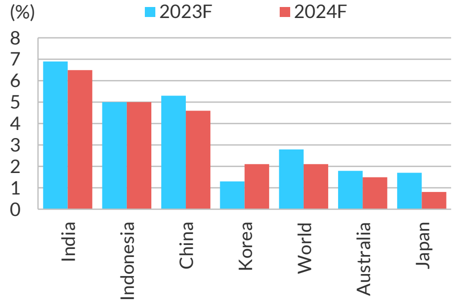
Source: Fitch Ratings

China's Fixed Asset Investment Growth



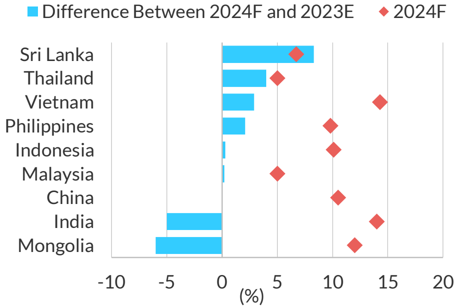
Note: yoy growth based on trailing 12-month investment data
Source: Fitch Ratings, National Bureau of Statistics of China

Fitch Economic Growth Projections



Source: Fitch Ratings

APAC EM Banks: Loan Growth



Source: Fitch Ratings, Fitch Solutions

Emerging Markets Excluding Europe and Asia-Pacific

Tight External Financing and Demand Conditions Remain in Focus

Emerging market credit in Latin America, the Middle East and North Africa, and sub-Saharan Africa will continue to face a challenging environment from weak growth and tight external financing conditions, with added challenges from a slowing global economy. However, it is unlikely that overall financing conditions will be more challenging in 2024, with both domestic and international policy rates falling. Declining inflation is also credit positive.

Latin America: Region Faces Economic Difficulties

Latin America will face headwinds with economic growth stagnant or declining in the largest economies. While most 2024 sector outlooks in the region are neutral, this is coming from a weak base year. As such, while the outlooks are broadly flat, the broad credit environment continues to be challenging. We expect some stabilisation in structured finance asset performance and for key bank metrics like asset quality and loan growth. Vulnerability to a negative risk scenario remains high for certain sectors and lower-rated issuers, especially if external financing conditions deteriorate beyond our base case.

Middle East and North Africa: Geopolitics Is a Negative Factor

The Israel-Hamas war is a key factor driving the deteriorating regional outlook for Middle East and North Africa sovereigns. While not our base case, an expansion of the war beyond Israel and Gaza would be a significantly negative development. A resolution or significant decline in tensions could be sufficient to move the regional outlook to neutral. Middle Eastern banks should continue to benefit from higher rates and oil prices supporting credit growth, especially in the GCC.

Sub-Saharan Africa: Risks to External Financing Remain

Macroeconomic conditions should be broadly stable in sub-Saharan Africa in 2024 but risks pertaining to financing challenges will persist. Constraints on international bond market access and foreign-exchange liquidity will remain particular pressure points. Sovereign debt distress will continue to be a major risk to African banks' credit profiles. Lower-rated sovereigns will be particularly at risk should financing conditions not improve marginally as anticipated.

What to Watch

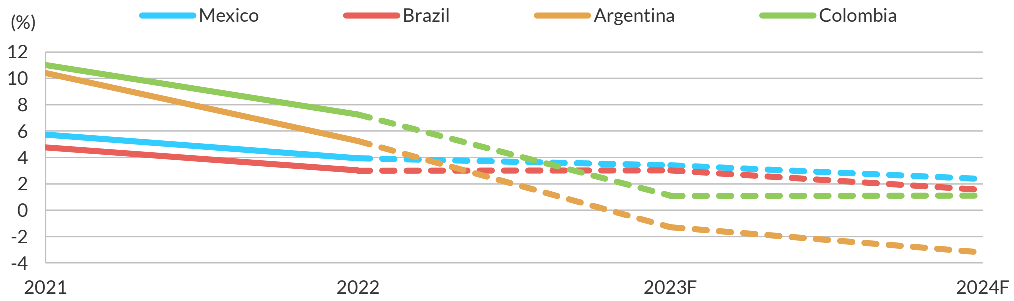
- A slowdown in global growth and continued tight financing conditions will contribute to an overall challenging environment for emerging markets.
- Geopolitical risk linked to the Israel-Hamas war remains a key negative development for the Middle East and North Africa.
- A renewed tightening of financing conditions, though not our base case, is a key negative risk scenario for emerging and frontier markets.

Selected Emerging Markets Sector Outlooks

Sector	Outlook (2024)	Outlook (2023)
Latin American Sovereigns	Neutral	Neutral
Latin American Banks	Neutral	Neutral
Latin American Utilities	Improving	Neutral
Middle East and North African Sovereigns	Deteriorating	Neutral
Gulf Cooperation Council Corporates	Neutral	Neutral
Middle East Banks	Neutral	Neutral
Sub-Saharan African Sovereigns	Neutral	Deteriorating
African Banks	Neutral	Deteriorating

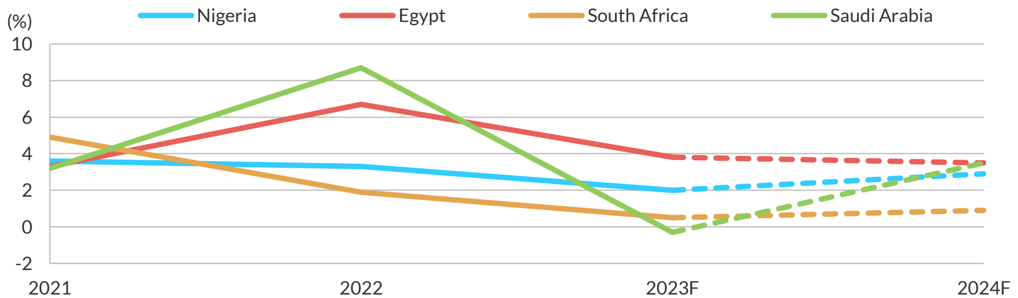
Source: Fitch Ratings

Latin America: Selected Countries' Real GDP Growth



Source: Fitch Ratings

Middle East & North Africa: Selected Countries' Real GDP Growth



Source: Fitch Ratings

Sovereigns

Weaker Growth and Persistent Fiscal Pressures

The deceleration in global growth, led by the US and China, combined with persistent fiscal pressures are key negative factors affecting the global sovereigns outlook. Balanced against those trends are expected reductions in policy rates and continued disinflation. Of eight regional sovereign outlooks, six are neutral, reflecting a balance of trends affecting the sovereign credit environment, and two, for North America and Middle East and North Africa, are deteriorating.

Growing Spending, Debt and Interest Service Burdens

Sovereigns in most regions enter 2024 with higher general government debt than pre-pandemic and rising interest burdens. Expansionary fiscal policies, in part resulting from the growth in Covid-related expenditures, have added to more challenging fiscal dynamics. This will limit fiscal flexibility in the event of a more severe economic downturn or other event risks.

Further Sovereign Defaults Likely

As in 2023, lower-rated sovereigns will be particularly at risk in this global macroeconomic environment, with 18% of emerging markets rated at 'CCC+' or below. Tight external financing markets will remain a key risk for emerging and frontier markets, with total financing needs of around USD1 trillion in 2024 remaining about the same as in 2023.

North America Sovereign Outlook Deteriorating

A sharp US economic slowdown, albeit without a full recession, including higher unemployment, a high federal deficit and rising debt, underpins a deteriorating outlook for North America. Fitch's base case includes continued disinflation and the beginning of monetary policy loosening at mid-year. However, with core inflation set to remain above the Fed's target, significant rate cuts by end-2024 are unlikely.

Politics and Geopolitics Remain Key Watch Items

The geopolitical risk environment remains elevated with the Russia-Ukraine and Israel-Hamas conflicts showing little sign of resolution. The strategic competition between the US and China also remains a key factor in global politics, weighing on trade and capital flows.

What to Watch

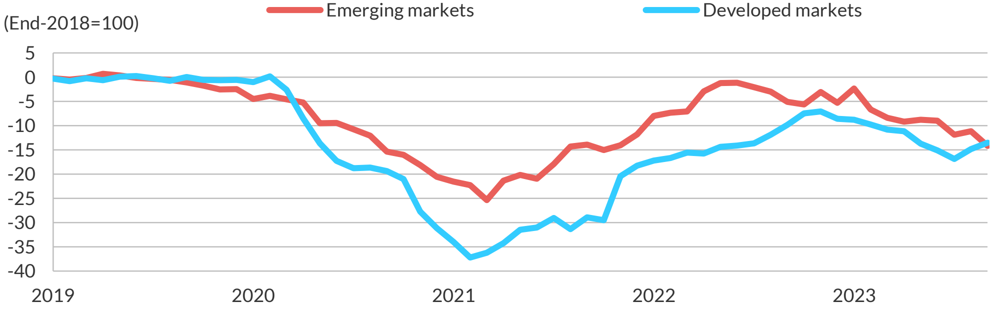
- Fiscal challenges in 2024 will centre on rising effective interest rates in the context of high debt, but new counter-cyclical stimulus is unlikely and some earlier stimulus will wind down.
- Higher real bond yields, especially if they are based on concerns around fiscal sustainability, could change the global sovereign sector outlook to deteriorating from neutral.
- The materialisation of geopolitical risks will affect economic growth, trade flows, sentiment and possibly inflation and fiscal outturns, complicating the policy environment.
- Some lower-rated emerging market sovereigns lack access to international capital markets and must either seek alternative sources of funding or undertake disruptive adjustments.

Regional Outlooks

	2024 Outlook	2023 Outlook
Global	Neutral	Neutral
Asia-Pacific	Neutral	Neutral
Greater China	Neutral	Improving
Western Europe	Neutral	Neutral
Emerging Europe	Neutral	Neutral
Middle East and North Africa	Deteriorating	Neutral
Sub-Saharan Africa	Neutral	Deteriorating
North America	Deteriorating	Deteriorating
Latin America	Neutral	Neutral
Supranationals	Neutral	Neutral

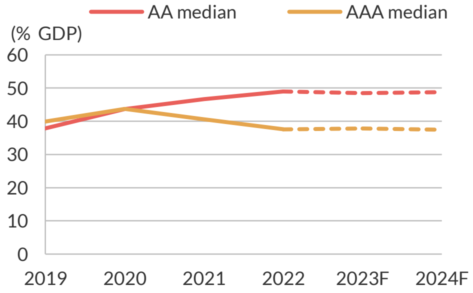
Source: Fitch Ratings

Nominal Fiscal Balance Medians



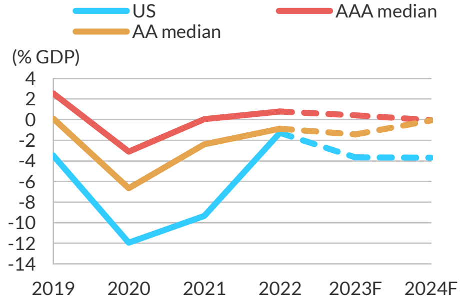
Source: Fitch Ratings, Haver Analytics

General Government Debt



Source: Fitch Ratings

General Government Primary Balance



Source: Fitch Ratings

Corporates

Credit Metrics to Be Stable to Improving Even as the Economy Remains Challenging

Fitch expects global corporate sectors to have generally stable to improving credit metrics, including revenue growth, profitability and leverage, in 2024. The slowdown in world economic growth will be a headwind, but lower inflation and interest rates will provide an offset. Most corporates sector outlooks, including aggregate outlooks for each region, are neutral.

Investment-Grade and Sub-Investment-Grade Divergence

The still-elevated interest rate outlook, weaker growth in the US and China, and only marginal improvement in Europe's economic outlook in 2024 will place disproportionate headwinds on sub-investment-grade credit and cyclical sectors. Fitch's outlooks for Chinese property developers, global shipping, EMEA and US leveraged finance, building products & materials, real estate, EMEA homebuilding and US retail are all deteriorating.

Fitch expects the divergence between investment-grade and sub-investment-grade ratings performance to continue, with the latter facing greater refinancing costs and higher risk from the slower growth environment due to less financial flexibility. We expect default rates for high-yield bonds and leveraged loans to rise. Our 2024 default rate forecast for European high yield and leveraged loans are both 4%, compared with 2.5% and 3%, respectively, in 2023. Our US default rate forecasts are 5%-5.5% for high yield, up from 3%-3.5%, and 3.5%-4% (3%-3.5%) for leveraged loans.

Mixed Expectations for Asian and Latin American Emerging Markets

In Asia-Pacific, continued weakness in Chinese property and a projected slowdown in the economy will continue to be an overhang. However, Fitch expects improvements in core credit metrics pertaining to revenue growth, margins and leverage for the region overall.

Economic growth in Latin America will be weaker than historical averages, with politics and policy risk being challenges for corporate issuers in some countries. All our sectors outlooks in the region are neutral except for telecommunications, which is deteriorating, and real estate and utilities, which are improving.

What to Watch

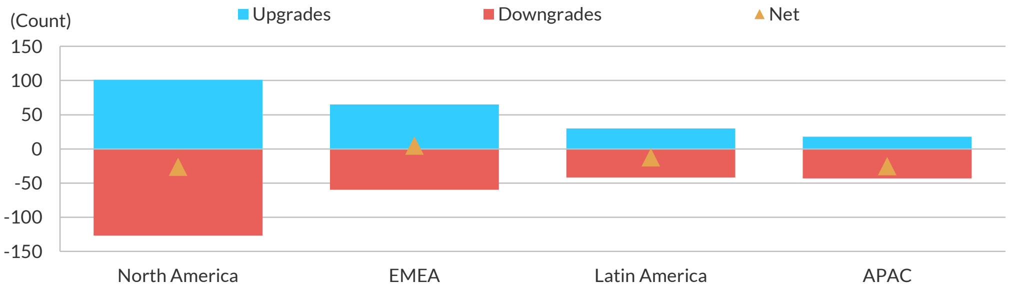
- The global corporates 2024 outlook is broadly neutral. Falling inflation and stabilised funding conditions will be key offsets to weakening global growth.
- Cyclical sectors and sub-investment-grade credits will be more exposed to the weak growth and high rates.
- An improved China growth outlook and US scenario where inflation and interest rates fall more quickly than our base case are upside factors.
- Volatile and tighter funding conditions and monetary policy loosening that is slower than our base case are downside risks.

Selected Corporates Sector Outlooks

Sector	Outlook (2024)	Outlook (2023)
Global Aerospace & Defence	Improving	Improving
Global Shipping	Deteriorating	Deteriorating
North America Investment Grade	Neutral	Neutral
US Leveraged Finance	Deteriorating	Deteriorating
Europe	Neutral	Deteriorating
EMEA Leveraged Finance	Deteriorating	Deteriorating
Asia-Pacific	Neutral	Neutral
Latin America	Neutral	Deteriorating

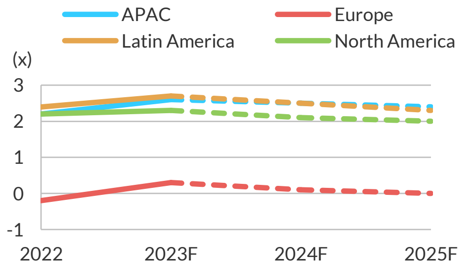
Source: Fitch Ratings

Corporates Rating Changes by Region (2023)



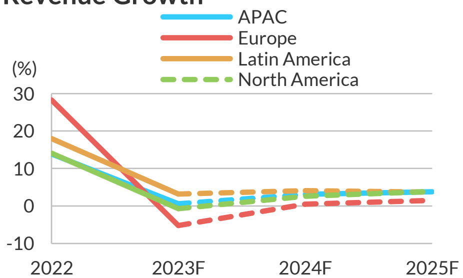
Source: Fitch Ratings

Net Leverage



Note: Median credit metrics for North America and Latin America; aggregate for Europe and APAC.
Source: Fitch Ratings

Revenue Growth



Note: Median credit metrics for North America and Latin America; aggregate for Europe and APAC.
Source: Fitch Ratings

Financial Institutions

Global Outlooks Mostly Neutral as Financial Institutions Adjust to Higher Rates

While higher rates have boosted net interest margins generally, the persistence of a higher-for-longer rates will continue to put pressure on asset quality and borrower balance sheets that were built when interest rates were lower. Our macro base case includes continued disinflation and the beginning of monetary easing in 2H24, and a global economic slowdown with sharp deterioration in US real GDP growth.

Banks: Adjusting to Higher Rates for Longer

A period of higher interest rates that persist for longer in developed markets will test business models. Fitch has maintained its US banks sector outlook as deteriorating for 2024 after a turbulent 2023. We expect asset quality and operating profit to remain under pressure, reflecting expected weaker economic growth and labour market pressure.

Our improving APAC emerging markets sector outlook reflects stronger growth prospects and increases to earnings from broadly stable NIMs. The main exception is China, where our deteriorating sector outlook reflects pressures on margins and asset quality.

Non-Bank Financial Institutions: Asset Quality and Funding Remain Headwinds

Developed market North American and EMEA finance and leasing companies (FLCs) sector outlooks are deteriorating whereas emerging market APAC and EMEA FLCs are neutral. This is primarily explained by potential macroeconomic challenges for developed market FLCs versus tentative recoveries for most emerging market FLCs, with China being a notable exception.

Insurance: Sector Remains Resilient in the Face of Elevated Rates

The bias of sub-sector outlooks has shifted positively as insurers adjusted to very sharp rises in interest rates and inflation. The bearish tilt for developed market non-life sectors has moderated to neutral and we see improving conditions from mid-2023 for a handful of sub-sectors.

What to Watch

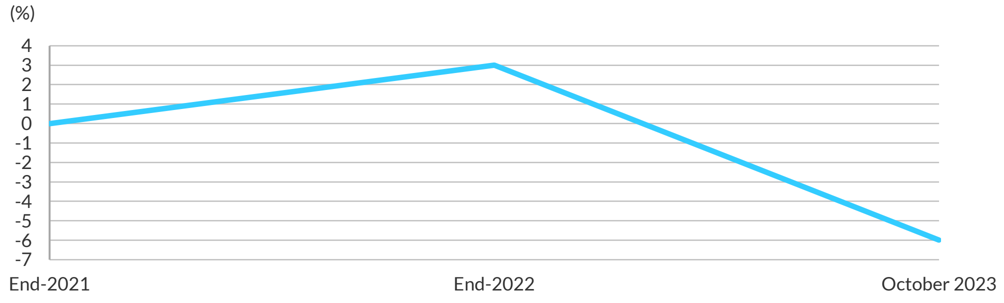
- Deteriorating global economic growth and persistently high interest rates will continue to challenge some financial sectors, with some notable 2024 outlooks deteriorating, including for US and Chinese banks.
- Some financial institution sectors will benefit from robust growth and improved pricing conditions, including emerging market APAC banks and some insurers.
- Asset-quality risks and financial market volatility are downside risks.
- A US macro scenario where inflation and rates fall without a significant deterioration in underlying economic conditions would be positive.

Selected Financial Institutions Sector Outlooks

Sector	Outlook (2024)	Outlook (2023)
APAC Developed Market Banks	Neutral	Neutral
APAC Emerging Market Banks	Improving	Neutral
Chinese Banks	Deteriorating	Neutral
Western European Banks	Neutral	Deteriorating
US Banks	Deteriorating	Deteriorating
Global Investment Managers	Deteriorating	Neutral
N American Finance and Leasing Companies	Deteriorating	Deteriorating
Global Reinsurance	Improving	Neutral
North American Life Insurance	Improving	Neutral

Source: Fitch Ratings

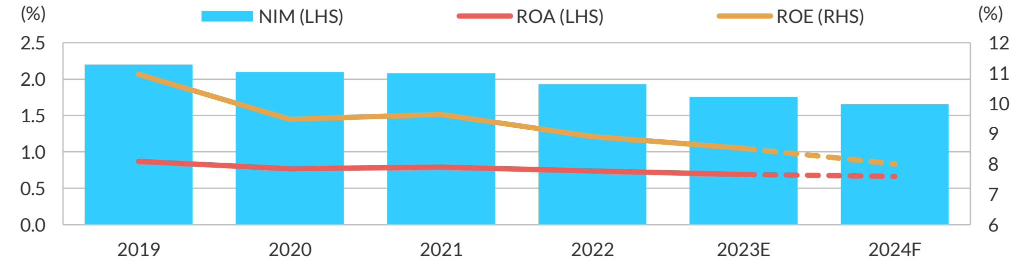
US Banks Net Rating Outlook Balance



Source: Fitch Ratings

China Banks: Key Performance Trends

Profitability ratios



Source: Fitch Ratings, Fitch Solutions, National Administration of Financial Regulation

Public Finance & Infrastructure

US Public Finance: Resilience Amid Economic Slowdown

Despite a sharp economic slowdown, overall conditions for US public finance sectors will for the most part be neutral in 2024. For US states and local governments, credit quality should be mostly stable. The weakening outlook for the US economy will moderate revenue growth as income, sales and property tax revenues are affected by the macroeconomic environment. However, the states and locals' 2024 outlook is balanced by financial resilience, strong underlying credit fundamentals and manageable expenditure growth as inflation recedes.

Three US public finance sectors have deteriorating outlooks: education and non-profits, not-for-profit hospitals and health systems, and not-for-profit life plan communities. Each face specific challenges pertaining to their sector, ranging from enrollment pressures for education, cost challenges from labour shortfalls in healthcare, and inflation and new regulatory requirements.

International Public Finance: Stabilisation for China and EMEA Public Finance

All of the international public finance 2024 sector outlooks are 'neutral', reflecting a balance of positive and negative trends. Notably, the sector outlooks for Chinese local government financing vehicles (LGFV) and local and regional governments (LRG) as well as for EMEA LRGs and government-related entities (GREs) have been moved to neutral from deteriorating. In China, we expect challenges pertaining to demand and limited policy headroom for LGFVs to be offset by gradual revenue stabilisation.

In EMEA, a marginal economic improvement in Europe and continued disinflation, especially from energy costs, will help to bolster credit trends for LRGS and GREs.

Infrastructure & Project Finance: Softer Economy to Drive Subdued Performance

Fitch expects broadly subdued performance for global infrastructure sectors amid softer or muted economic conditions in the US, Europe and China. Key negative risks would mostly result from a sharper than expected economic downturn in China and the US that would affect demand and global trade, sticky inflation sustaining cost pressures, and potential tail-risk events in geopolitics or financial markets volatility that would affect credit access and trade volumes.

What to Watch

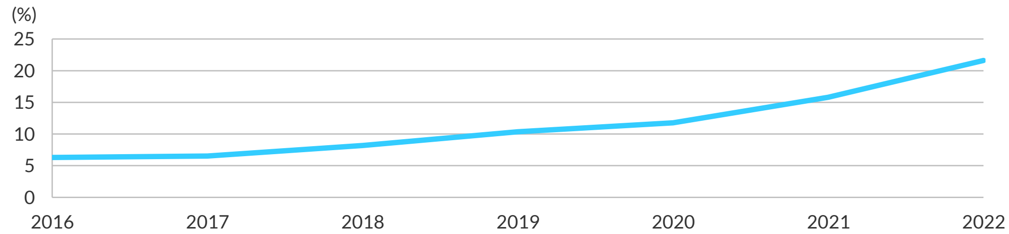
- The 2024 outlooks for global public finance and infrastructure sectors are mostly neutral, reflecting our expectation for stabilisation despite a muted global economic outlook.
- IPF sectors that had deteriorating 2023 outlooks, including China LGFVs and LRGs, and EMEA LRGs and GREs have neutral 2024 outlooks.
- The broadly neutral outlooks are predicated on softer economic conditions with disinflation and stable funding conditions. Any trend that would significantly materially reduce growth, and increase inflation and interest rates beyond our base case in 2024 would be a negative risk for public finance and infrastructure sectors.

Selected Public Finance and Infrastructure Sector Outlooks

Sector	Outlook (2024)	Outlook (2023)
US States and Local Government	Neutral	Deteriorating
China LGFVs	Neutral	Deteriorating
EMEA Local and Regional Governments	Neutral	Deteriorating
Latin American LRGs	Neutral	Deteriorating
North American Transportation	Neutral	Neutral
US Not-for-Profit Healthcare	Deteriorating	Deteriorating
Asia-Pacific Transportation	Neutral	Neutral
EMEA Transportation	Neutral	Neutral

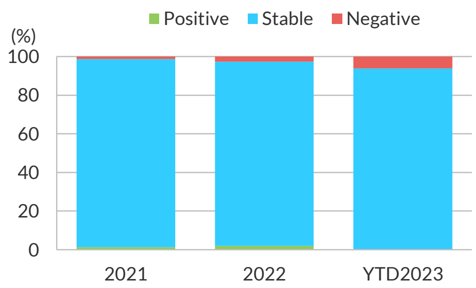
Source: Fitch Ratings.

US States: Median Available Fund Balance as a Percentage of Total Governmental Funds Expenditures



Note: Includes data for 46 Fitch-rated US states.
Source: Fitch Ratings, audited comprehensive financial statements

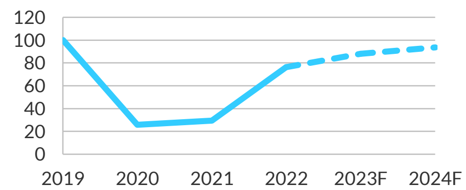
China LGFV - Rating Outlooks



Source: Fitch Ratings

Traffic Recovery of Fitch-Rated EMEA Airports

(% of 2019 level, aggregated for the portfolio)



Notes: 2019-2022 is based on companies' data, 2023-2027 is forecast under Fitch rating case.
Source: Fitch Ratings

Structured Finance

Deteriorating Asset Performance Expected Across Regions

Macroeconomic deterioration in the US and stagnation in Europe will underpin continued deterioration of asset performance across most structured finance sectors. In both the US and the eurozone, Fitch expects deterioration in CMBS, CLOs and ABS asset performance while RMBS should be broadly the same.

Weaker Growth, Inflation, Higher Rates Are Reducing Consumers' Ability to Pay

Fitch's base case includes a sharp slowdown in US economic growth in 2024, including a rise in unemployment and lower wage growth. In Europe, we do not expect a similar slowdown, and expect eurozone growth to be broadly the same, but from a much lower base of a forecast 0.5% growth in 2023. In both the US and Europe, the macroeconomic environment is leading to higher debt burdens and pressures on real incomes, with sectors most exposed to the weaker end of the borrower range facing the greatest risk.

Secular trends towards remote and hybrid working patterns combined with tight financial conditions will also continue to be a driver of worsening asset performance for CMBS in developed markets. We expect loan delinquencies for US CMBS to more than double to 4.5% in 2024.

Other Developed Markets Face Similar Pressures

Australia, Canada, New Zealand and the UK face similar challenges from a worsening consumer borrower environment. However, UK, Australian and New Zealand RMBS asset performance deteriorating outlooks reflect the greater feedthrough from higher rates on residential markets.

Ratings Resilience

Despite the broad-based pressures on asset performance, Fitch's global structured finance portfolio is mostly on Stable Outlook. As of November, 88% and 94% of the Outlooks on US and European were Stable, with only 5% and 3%, respectively, Negative. This reflects credit enhancement growth from deleveraging and robust structural protections for rated notes. However, we expect positive rating momentum in the US to decline, as reflected in the sharp decline in the structured finance net outlook balance.

What to Watch

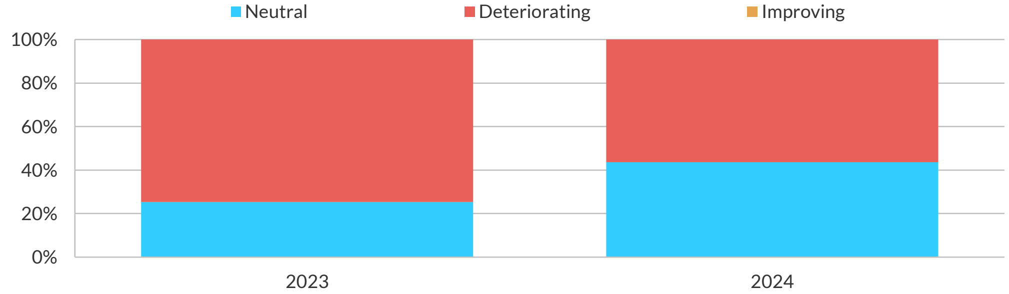
- We expect asset performance across the majority of US and European structured finance sectors to deteriorate as a result of slowing or stagnant growth and the continued impact of higher rates and cost-of-living stresses on borrowers.
- This is offset by credit enhancement and structural protections for rated notes, resulting in mostly Stable Outlooks.
- A more significant macroeconomic deterioration, including shock to labour markets and wages beyond our base case would increase asset performance and credit pressures, with unsecured consumer ABS, SME CLOs and RMBS transactions most at risk.

Structured Finance Selected Key Performance Indicators

	Indicator	2023 (%)	2024F (%)	2025F (%)
NA CMBS – Office	60 day + arrears	2.84	8.10	9.90
NA CMBS – Retail	60 day + arrears	4.82	8.60	7.80
NA CMBS – Hotel	60 day + arrears	3.51	5.90	5.70
NA RMBS – Prime	90 day + arrears	0.24	0.35	0.30
NA Credit Card – Prime	Charge-offs	2.35	2.75	2.70
Eurozone CMBS – Industrial	Prime 5-year 60% LTV yield	7.0	7.0	6.5
Eurozone CMBS – Office	Prime 5-year 50% LTV yield	7.5	7.5	7.0
Eurozone CMBS – Retail	Prime 5-year 60% LTV yield	9.0	9.0	8.0
Australia Conforming RMBS	90+ day arrears	0.53	0.65	0.55

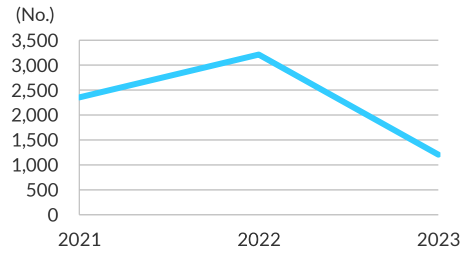
Source: Fitch Ratings

Global Structured Finance Asset Performance Outlooks Evolution



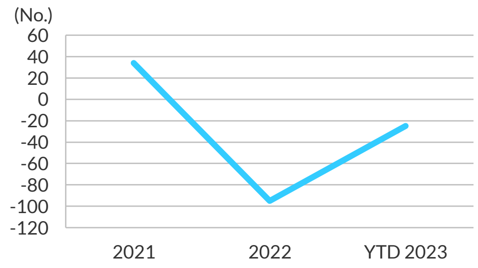
Source: Fitch Ratings

NA: Net Rating Outlook Balance



Note: All data as of 11 November 2023
Source: Fitch Ratings

EMEA: Net Rating Outlook Balance



Source: Fitch Ratings

Appendix: Macroeconomic Forecasts

Real GDP growth	2022	2023F	2024F	2025F
World	2.7	2.9	2.1	2.5
US	1.9	2.4	1.2	1.4
Eurozone	3.4	0.5	0.7	1.7
China	3.0	5.3	4.6	4.6
Japan	0.9	2.0	0.8	0.7
UK	4.3	0.5	0.3	1.8
India[a]	7.2	6.9	6.5	6.5
Developed[b]	2.4	1.7	1.0	1.5
Emerging[c]	3.3	4.6	3.9	4.1
Emerging excl. China	3.6	3.6	3.1	3.6

Inflation (end of period)	2022	2023F	2024F	2025F
US	6.5	3.3	2.6	2.4
Eurozone	9.2	2.9	2.5	2.0
China	1.8	0.0	0.7	1.5
Japan	4.0	3.5	2.5	2.0
UK	10.5	4.7	3.0	2.5
Germany	9.6	3.0	2.5	2.0
India[a]	5.7	5.5	4.7	4.5
France	6.7	4.1	2.6	2.0
Canada	6.3	3.0	2.5	2.0
Brazil	5.8	4.5	4.0	3.5

Unemployment (end of period)	2022	2023F	2024F	2025F
US	3.6	3.6	4.6	4.8
Eurozone	6.7	6.6	6.6	6.4
Japan	2.6	2.6	2.5	2.5
UK	3.7	4.2	4.6	4.2
Germany	3.1	3.0	3.1	3.0
France	7.3	7.3	7.5	7.4
Canada	5.3	5.4	6.4	6.1
Italy	8.1	7.7	7.6	7.5
Australia	3.7	3.7	4.2	4.5
Spain	12.9	12.1	11.9	11.9

Policy rates (end of period)	2022	2023F	2024F	2025F
US	4.50	5.50	4.75	3.50
US 10-Year Yield	3.88	4.60	4.30	4.00
Eurozone	2.50	4.50	3.75	3.00
China[d]	2.75	2.50	2.35	2.35
Japan	-0.10	-0.10	0.10	0.25
UK	3.50	5.25	4.50	3.50
India	6.25	6.5	5.75	5.75
Canada	4.25	5.00	4.00	3.00
Brazil	13.75	11.75	9.00	8.50
Korea	3.25	3.50	3.00	2.50

[a] India financial year to end-March
[b] Canada, Australia, Canada, France, Germany, Italy, Japan, Spain, Switzerland, UK and US
[c] Brazil, China, India, Indonesia, Korea, Mexico, Poland, Russia, South Africa and Turkiye
[d] One-year Medium-Term Lending Facility
Source: Fitch Ratings

Commodity price assumptions	2022	2023	2024	2025
Brent (USD/bbl)	99.0	82.0	80.0	70.0
WTI (USD/bbl)	94.3	78.0	75.0	65.0
Henry Hub (USD/mcf)	6.4	2.8	3.25	3.0
TTF (USD/mcf)	37.2	13.0	12.0	10.0
Copper (LME spot USD-t)	8,805	8,500	8,300	8,000
Gold (USD/oz)	1,800	1,900	1,800	1,600

Exchange rate	2022	2023F	2024F	2025F
USDEUR	0.94	0.93	0.93	0.93
USDCNY	6.99	7.15	7.30	7.30
USDJPY	132.7	150.0	145.0	135.0
GBPUSD	1.21	1.25	1.25	1.20

Source: Fitch Ratings, Global Economic Outlook – December 2023, Global Oil and Gas Price Assumptions, Metals and Mining Price Assumptions

Appendix: Global Housing and Mortgage Outlook Forecasts, Leveraged Loan and High-Yield Default Rate Forecasts

Market Forecasts

		Nominal Home Prices [a]		(% change)	Late-Stage Mortgage Arrears [b]		(%)	Mortgage Rates [c]		(%)
Country		2023 estimate	2024 forecast	2025 forecast	2023 estimate	2024 forecast	2025 forecast	2023 estimate	2024 forecast	2025 forecast
North America	US	6	0 to 3	2 to 4	1.40	2 to 2.2	1.9 to 2.1	7.50	6.5 to 7.5	6 to 7
	Canada	7	3 to 5	5 to 7	0.20	0.25 to 0.3	0.2 to 0.25	7.75	6 to 7	5 to 6
Europe	UK	-2	-1 to 1	2 to 4	1	1.25	1.40	5.20	4.50	4
	Germany	-5	1 to 3	2 to 4	0.40	0.50	0.40	4	3.75	3.50
	Netherlands	2	3 to 5	4 to 6	0.11	0.1 to 0.15	0.1 to 0.15	4.75	4.2 to 4.5	3.75 to 4.25
	France	-2	-4 to -2	-2 to 0	1	1 to 1.2	1 to 1.3	4.20	3.5 to 4	3.5 to 4
	Denmark	3.50	1 to 3	2 to 4	0.17	0.20	0.15	5.50	4.5 to 5.5	3.5 to 4
	Spain	3	0 to 2	2 to 4	3	3 to 3.5	2.75 to 3.25	4.75	4 to 4.5	3.5 to 4.5
	Italy	2.50	0 to 2	0.5 to 2.5	0.30	0.5 to 1	0.5 to 1	4.50	4	3.50
Asia-Pacific	Australia	9	4 to 6	3 to 5	0.55	0.65	0.55	6.25	5.65	4.90
	China	-3	-7 to -5	-5 to -3	0.5	0.5-0.55	0.5-0.55	4	3.90	3.90
	Japan	0	-2 to 0	-4 to -2	0.3	0.3 to 0.4	0.3 to 0.4	1.60	1.6 to 1.9	1.9 to 2.5
Latin America	Brazil	5.50	4 to 6	4 to 6	2	1.75 to 2.25	1.5 to 2	10.50	9 to 11	8 to 9
	Mexico	9.30	6 to 8	5 to 7	3	2 to 4	2 to 4	11.50	10 to 12	10 to 12
	Colombia	12	5 to 7	4 to 6	3	2.5 to 3.5	2.5 to 3.5	16	10 to 12	8 to 10

[a] Index of 70 largest cities in China.
[b] Canada, France, Spain, UK, US: Market-wide 90+d. Germany, Japan, Netherlands: Fitch-rated RMBS 3+m in arrears excluding default. Australia: Fitch Ratings Dinkum Index – 90+d (Prime). China: 12-month rolling average of annualised gross loss % from Chinese RMBS transactions, loss definition varies between 90+d and 180+d. Brazil, Mexico: 90+d arrears on bank loans. Italy: NPL/exposures plus bad debts. Denmark: 3.5m+ arrears. Colombia: Banks Index 4m+ arrears.
[c] Reference rates: US: 30-year fixed-rate mortgage. Canada: Five-year conventional mortgage lending rate. UK: Five-year & 75% LTV. Germany: 10-year fixed term. Netherlands: 10-year & 90% LTV. Denmark: Long mortgage bonds rate. Spain: Mortgages linked to 12M Euribor. Australia: New variable housing loans (75%/25% owner-occupied/investments). China and Brazil: Lending rate for individual housing loans. Japan: 35-year fixed rate. Mexico: Lending rate excluding insurance fees. Other countries' rates on new mortgages: weighted average of all tenors, rates and LTVs.
Source: Fitch Ratings, Global Mortgage and Housing Outlook 2024, US Leveraged Finance Outlook 2024, EMEA Leveraged Finance Outlook 2024

US & Europe High-Yield Default Rates

	High-Yield Default Rates (%)			
Country	2022	2023F	2024F	2025F
US	1.3	3.0-3.5	5.0-5.5	2.0-3.0
Europe (base case)	1.3	2.5	4.0	4.0
Europe (severe case)	1.3	4.0	6.0	6.0

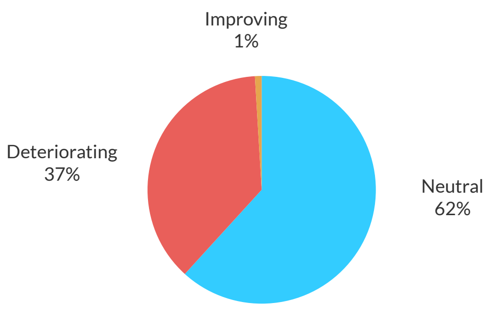
US & Europe Leveraged Loan Default Rates

	Leveraged Loan Default Rates (%)			
Country	2022	2023F	2024F	2025F
US	1.6	3.0-3.5	3.5-4.0	2.0-3.0
Europe (base case)	1.2	3.0	4.0	4.0
Europe (severe case)	1.2	4.0	6.0	6.0

Source: Fitch Ratings

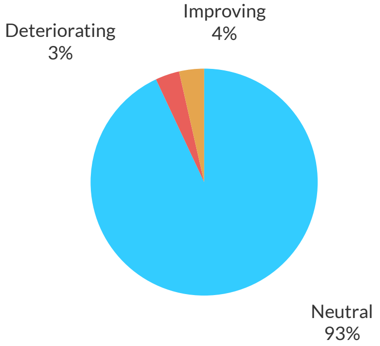
Appendix: Sector Outlooks by US Dollar Value Weighted by Region

2024 Outlooks by Category (Total)



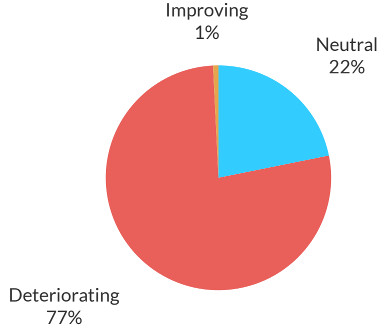
Note: Sectors weighted by US dollar value of issuance.

Latin American Outlooks by Category



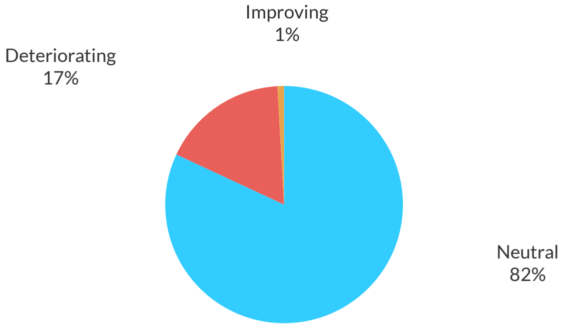
Note: Sectors weighted by US dollar value of issuance.
Source: Fitch Ratings

North American Outlooks by Category



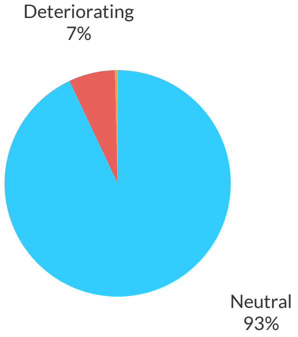
Note: Sectors weighted by US dollar value of issuance.

APAC Outlooks by Category



Note: Sectors weighted by US dollar value of issuance.
Source: Fitch Ratings

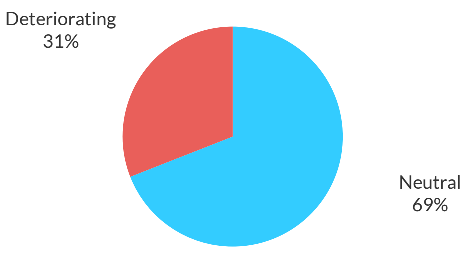
EMEA Outlooks by Category



Note: Sectors weighted by US dollar value of issuance.

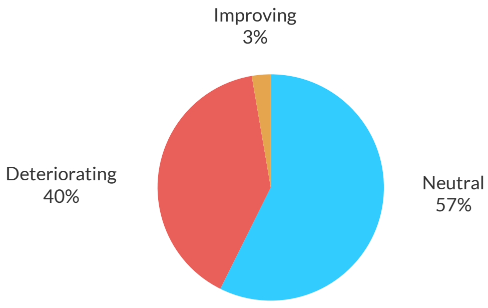
Appendix: Sector Outlooks by US Dollar Value Weighted by Sector

Sovereigns



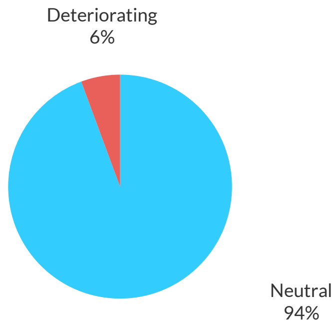
Source: Fitch Ratings

Financial Institutions



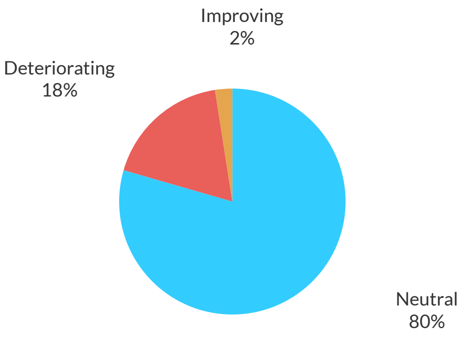
Source: Fitch Ratings

Public Finance



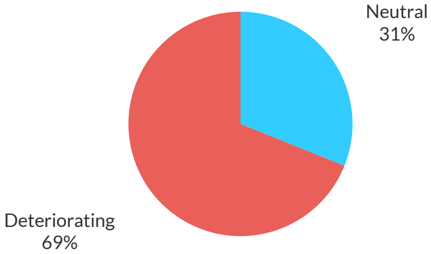
Source: Fitch Ratings

Corporates



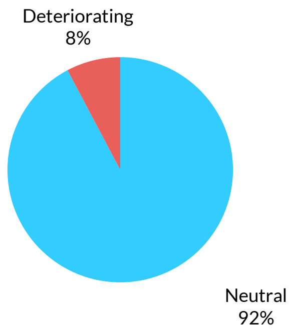
Source: Fitch Ratings

Structured Finance



Source: Fitch Ratings

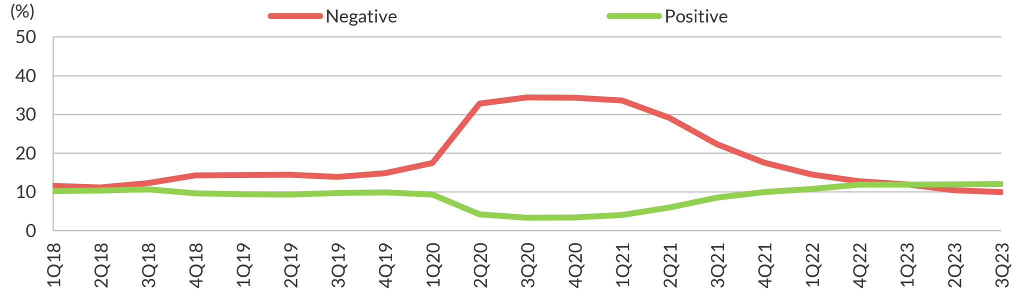
Infrastructure & Project Finance



Source: Fitch Ratings

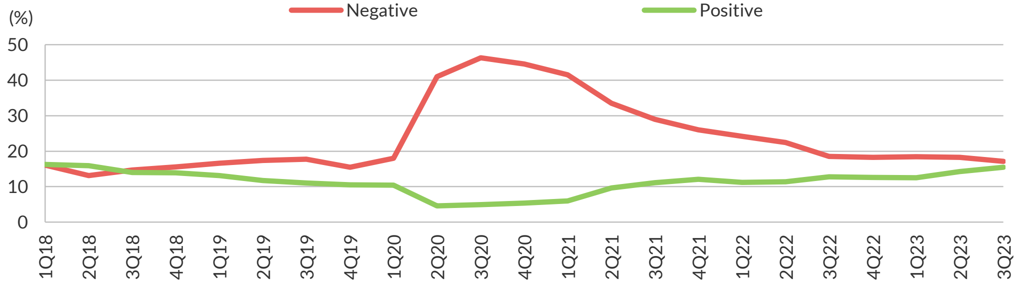
Appendix: Ratings Snapshot – Investment-Grade Versus Sub-Investment-Grade Performance

Total Investment-Grade Outlooks



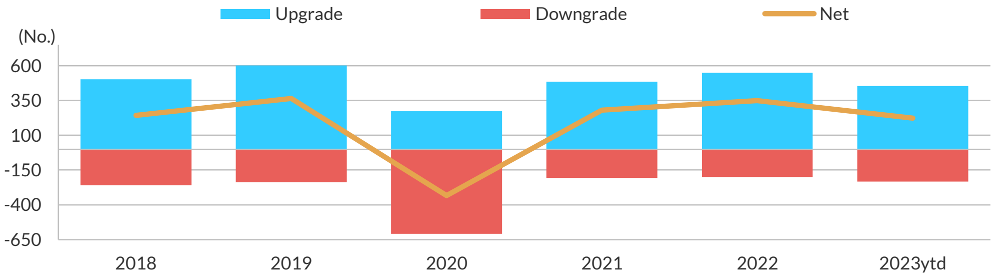
Source: Fitch Ratings

Total Sub-Investment-Grade Outlooks



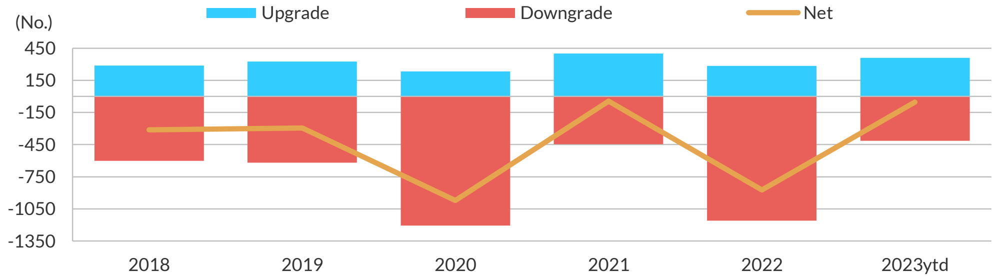
Source: Fitch Ratings

Global Investment-Grade Upgrades and Downgrades



Source: Fitch Ratings

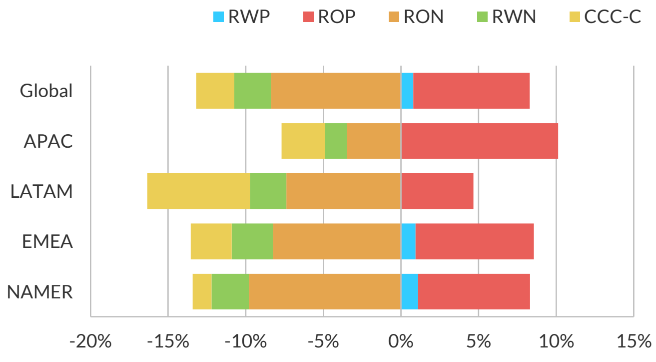
Global Sub-Investment-Grade Upgrades and Downgrades



Source: Fitch Ratings

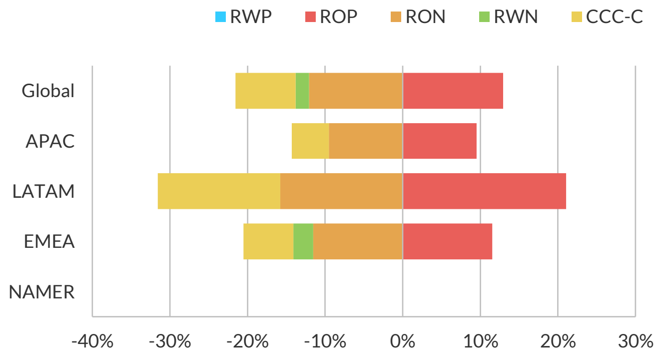
Appendix: Ratings Snapshot by Group

Corporates



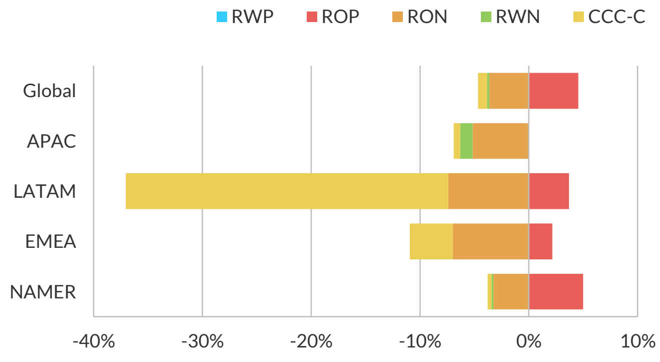
Source: Fitch Ratings

Sovereigns



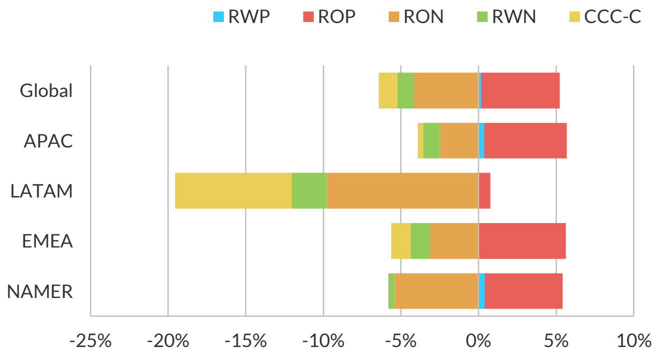
Source: Fitch Ratings

Public Finance



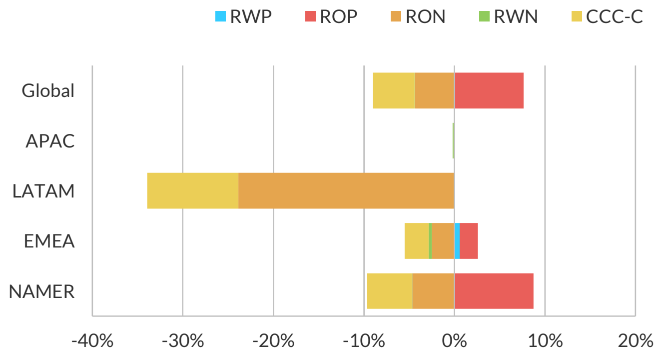
Source: Fitch Ratings

Financial Institutions



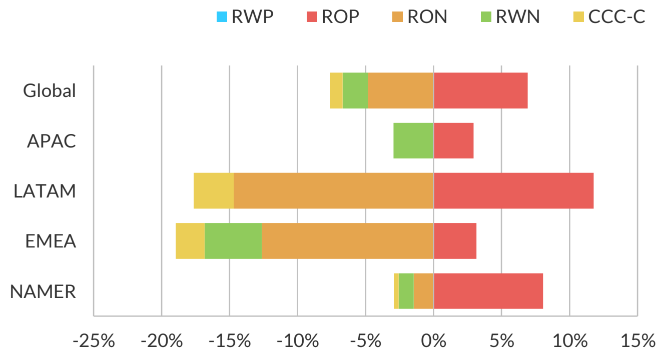
Source: Fitch Ratings

Structured Finance



Source: Fitch Ratings

Infrastructure & Project Finance



Source: Fitch Ratings

Outlooks and Related Research

2024 Outlooks
Global Economic Outlook
Risk Headquarters – November 2023
Global Housing and Mortgage Outlook 2024
Global Sovereigns Outlook 2024
Global Banks 2024 Outlook Compendium
Global Insurance 2024 Outlook Compendium
Global NBFI 2024 Outlook Compendium
North American Investment Grade Corporates Outlook 2024
European Corporates Outlook 2024
Asia-Pacific Corporates Outlook 2024
Latin American Corporates Outlook 2024
North America Structured Finance Outlook 2024
EMEA Structured Finance Outlook 2024
Latin America Structured Finance Outlook 2024

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