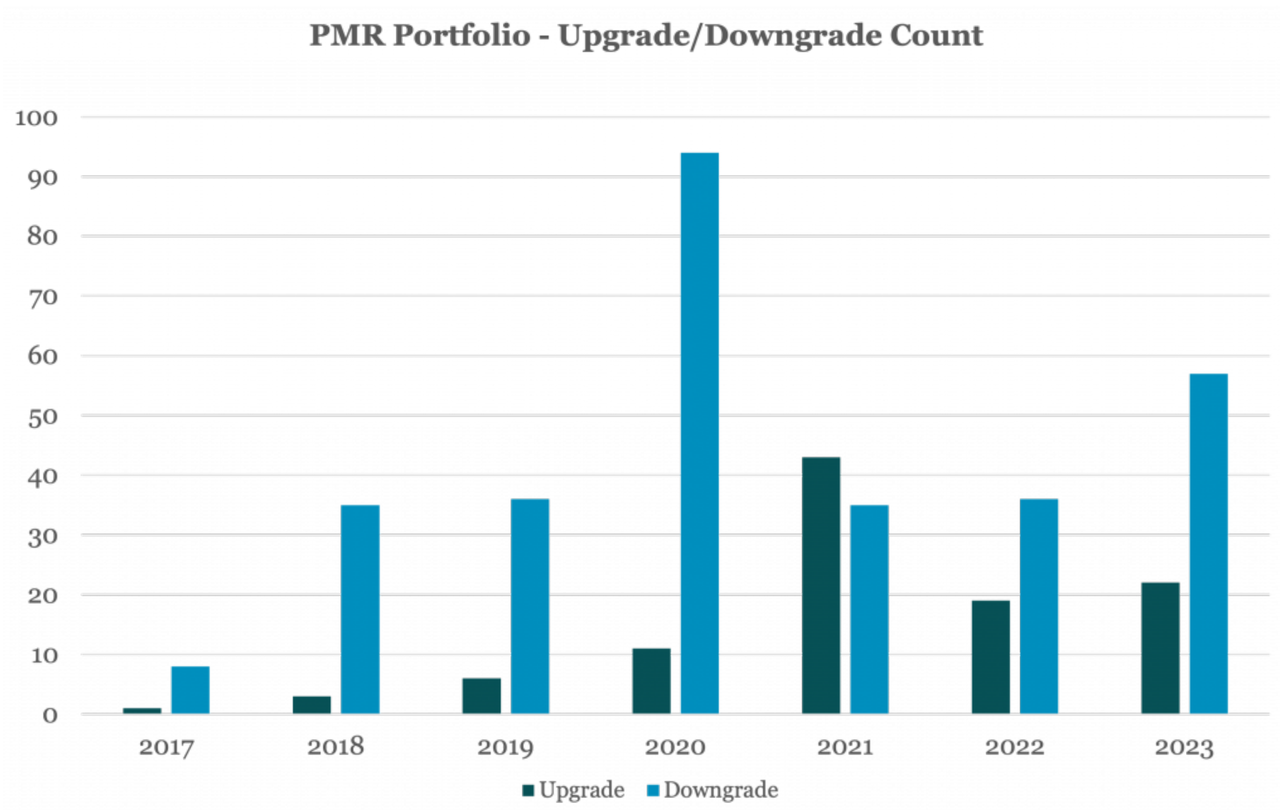
Fitch’s Private Middle Market Portfolio, Rating Activity

Fitch Ratings | February 20, 2024



Upgrades/downgrades in Fitch’s PMM portfolio are generally skewed toward downgrades, as issuer ratings can be constrained on the upside based on limited scale. Downgrades outpaced upgrades in 2023 as pressure from higher interest rates affected the FCF and financial flexibility of issuers in lower rating categories. Fitch downgraded 57 IDRs in 2023 compared with 22 upgrades. Within the downgrade cohort, 10 issuers defaulted while 17 issuers transitioned into ‘CCC’ or below categories. The downgrade-to-upgrade ratio increased to 2.6x for 2023 from 1.9x and 0.8x in 2022 and 2021, respectively, although considerably lower than 2020’s 8.5x. Fitch expects continued skew toward downgrades in 2024 given MM issuers’ higher sensitivity to a projected sharp slowdown in US GDP growth due to their smaller scale and highly variable rate debt structures.

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