Newsletter

Consider Credit—Fundamental Ratings Monthly Briefing August 2026

Morningstar DBRS
August 2026

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Credit Considerations

Sovereigns & Public Finance

- In July, there were no upgrades or downgrades to our sovereign credit ratings. However, we changed the trends on the Kingdom of Belgium's credit ratings to Negative from Stable. The trend change reflects a worse fiscal outlook, with the debt-to-GDP ratio expected to rise to over 115% of GDP by 2028. Given political and institutional constraints, we consider a sizable fiscal adjustment to be unlikely. In addition, we confirmed our credit ratings on the Commonwealth of Australia, the Swiss Confederation, the European Stability Mechanism, and the European Financial Stability Facility, all at AAA with Stable trends.
- In the sub-sovereign space, we confirmed the credit ratings on both the City of Montréal and Société de transport de Montréal at A (high), Stable. We confirmed the Province of Newfoundland and Labrador at "A," Stable and the Province of Saskatchewan at AA (low), Stable. We confirmed the City of Calgary at AA (high), Stable. Lastly, we confirmed and discontinued our credit ratings on the Government of Nunavut.
- In other public finance credit ratings, we confirmed Canada Post Corporation and other Canadian Crown Agents at AAA, Stable. In addition, we confirmed the MaRS Development Trust's Senior Secured Bonds and University Health Network at AA, Stable. We also confirmed our credit ratings on Caisse d'amortissement de la dette sociale (CADES) at AA, Stable.

Financial Institutions

- In July, there were primarily confirmations, but we changed the trend on one bank, Kommunalkredit Austria AG, to Negative from Stable, reflecting our view that its risk profile has weakened following a material deterioration in asset quality, mainly driven by sector-specific stress in fiber/broadband exposures. In addition, we assigned credit ratings to U.S.-based ServBanc Holdco, Inc., including a Long-Term Issuer Rating of BBB with a Stable trend.
- Banks across geographies continue to report strong results, especially those banks with capital markets businesses that have benefited from artificial-intelligence (AI)-related financing needs, robust initial public offering issuance, improving mergers and acquisitions sentiment, and elevated client trading activity. Meanwhile, asset quality metrics at most banks remain relatively stable and are performing better than our original expectations.
- Already widely used in Europe, the recent Basel III Endgame revisions and earlier Federal Reserve guidance have improved execution certainty and reduced operational hurdles, positioning synthetic risk transfers in the U.S. as an increasingly important tool for managing credit concentration risk while preserving lending capacity and customer relationships.
- The European Commission recently outlined a broad agenda to deepen the banking union through regulatory simplification, greater proportionality, stronger cross-border integration and renewed work on the European Deposit Insurance Scheme (EDIS). Remaining barriers to a deeper

union arise from the interaction between incomplete European risk-sharing arrangements, particularly in deposit insurance and crisis management, and residual legal fragmentation across national prudential, insolvency, and other frameworks. National authorities continue to bear many of the domestic consequences of a bank failure, while some European crisis management mechanisms, including EDIS and a sufficiently robust euro area framework for liquidity in resolution, remain incomplete.

- We expect the wildfires in Spain and France to have negative but manageable credit implications for large, diversified European insurers. Indeed, strong capitalization and favorable reinsurance conditions should limit near term credit effects. However, repeated wildfire losses could erode annual catastrophe budgets, increase reinstatement costs, and slow the recent decline in European catastrophe reinsurance prices.
- For life insurers, demographic changes present both compelling opportunities and complex challenges. The aging population is fueling demand for retirement income solutions, annuities, wealth transfer products, and financial planning services designed to help individuals manage longer retirements. However, longer life expectancy, lower birth rates, and changing consumer expectations are also placing pressure on traditional insurance business models. Insurers must adapt their product offerings, pricing strategies, distribution channels, and risk management frameworks to address shifting customer needs to ensure long-term profitability.
- The solid operating performance of the credit card portfolios of the five largest U.S. general-purpose credit card issuers reflected resilient consumer spending, continued loan growth, and favorable credit trends. Across the peer group, management highlighted stable labor market conditions and higher tax refunds that kept consumer balance sheets healthy.
- While the European locomotive leasing sector remains relatively small, we see the potential for solid investment-grade credit ratings for those European locomotive lessors with the appropriate scale to compete effectively, resulting in good financial performance, while maintaining prudent balance sheet fundamentals and effective risk management.
- We remain concerned about geopolitical risks, particularly in the Middle East, and pressure on lower-income consumers from inflationary forces. Nonetheless, we still expect positive credit rating actions to outweigh negative actions, as Positive trends are more prevalent, especially for U.S. and European banks. Moreover, we expect most of our financial institutions coverage universe to demonstrate resiliency even if the Middle East conflict escalates once again.

Diversified Industries

- In July, there was one upgrade and one downgrade. Specifically, we upgraded Metso Oyj's Issuer Rating to BBB (high) from BBB with a Stable trend, reflecting the improved Comprehensive Financial Risk Assessment and our expectation that Metso Oyj will continue to deleverage over the next three years. Meanwhile, we downgraded Volkswagen AG’s Issuer Rating to BBB (high) from A (low), reflecting several significant industry challenges confronting the company, including profitability levels, that, cumulatively, have negatively affected its Comprehensive Business Risk Assessment. Moreover, we expect these challenges to continue to undermine margin recovery prospects. The remaining credit rating actions were confirmations, underscoring the rated issuers’ generally resilient operating performance, solid liquidity, and disciplined financial management amid continued macroeconomic uncertainty and tariff-related headwinds.
- We assigned an Issuer Rating of BBB (low) with a Stable trend to Apotex Health Corp (Apotex), reflecting the company’s meaningful scale, diversified pharmaceutical portfolio, and conservative

financial policies. The assigned credit rating follows Apotex's recently completed initial public offering, generating approximately CAD 800 million in net proceeds, which will be used toward debt repayment.

- New issuance activity remained constructive across the broader corporate debt market, as issuers continued to take advantage of favorable market access and relatively stable credit conditions. Notable issuances included:
    - Sleep Country Canada Inc.: USD 400 million Senior Unsecured Notes, rated BB (low) with a Stable trend.
    - WELL Health Technologies Corp.: CAD 150 million Senior Unsecured Notes, B (high) with a Stable trend.
- With the majority of issuers in our portfolio maintaining Stable trends as we move into August, we expect rated companies to continue navigating the current operating environment in line with their respective credit rating categories. Nevertheless, evolving trade policies, tariffs, geopolitical developments, and broader macroeconomic conditions remain key areas of focus.

Energy, Utilities, and Natural Resources

- In July, we had only credit rating confirmations.
- The price of crude oil remains volatile with sharp price swings, driven by shifting market sentiments on developments in the war between the U.S. and Iran.
- The memorandum of understanding signed by the U.S. and Iran on June 17 to wind down the war has proved meaningless, with renewed fighting between the two sides and a widening of the arena of conflict by Iran and its regional proxies.
- Tanker traffic through the Strait of Hormuz (the Strait) remains suppressed, and shipping routes in adjacent waterways, including the Red Sea, are now also threatened.
- Despite that, there is hope that new diplomatic efforts will result in a deal to reopen the Strait and ease the global crude oil shortage.
- Until there is an enduring resolution to the conflict, we expect crude oil prices to remain volatile.
- As we move into the latter half of 2026, we expect crude oil prices to remain volatile even after an enduring resolution to the conflict. However, we expect credit profiles to remain relatively stable.

Asset Finance

- Surveillance credit rating actions remained stable through the month of July with mostly credit rating confirmations across our global project finance and infrastructure portfolio, but we did have one trend change. Specifically, we changed the trends on FC Barcelona to Stable from Positive, reflecting our view that its deleveraging profile has been delayed relative to previous expectations. We previously did not anticipate the issuance of an additional EUR 210 million of Senior Secured Notes during 2026.
- We are seeing increasing activity in North America in liquefied natural gas (LNG) project financings. Notably, construction and expansion execution risk is increasingly becoming our key area of focus in our assessments of these projects.
- Energy supply disruptions stemming from the Russia–Ukraine war and ongoing tensions in the Middle East have caused countries in Europe and Asia to reassess their energy security. These vulnerabilities have been positive for North American exporters. As demand grows for diversified and flexible LNG supply, the U.S. has established itself as the world's largest exporter, backed by a well-developed export infrastructure and ongoing significant capacity expansion. Canada has

also entered the market with LNG Canada, providing a Pacific export route that improves access to Asian markets while avoiding key geopolitical chokepoints.

- Growth in North American LNG production is supported by a strong pipeline of projects and a shifting financing landscape. We believe that project finance remains the primary mode of financing because of the high capital cost and leverage as well as long-term contracted cash flows. In Canada, growing Indigenous equity participation is also shaping project ownership and financing structures. Overall, we believe that North America's political stability, cost advantages, and evolving financing strategies position the region to remain a reliable and competitive LNG supplier.

Private Credit

- For the year to date (YTD) through August 4, the ratio of downgrades to upgrades for private credit borrowers, excluding upgrades associated with prior defaults, has declined to 2.9 times (x) from 3.8x at YE2025. We attribute the improvement to a 16% increase in upgrade volume (excluding prior defaults) relative to 20% growth in downgrades over the most recent 12-month period.
- We have recorded no new defaulted borrowers over the past 10 weeks. The trailing 12-month default rate is at 4.5% of active credit ratings, down from a May 2026 peak of 5.0%. We have downgraded 11 borrowers to D (default) or SD (selective default) YTD, with most classified as distressed exchange transactions.
- Meanwhile, the proportion of distressed borrowers (CCC (high) through C credit ratings) remains elevated at 19% of active borrowers, compared with 13% a year ago. We attribute most of the increase in the distressed mix YTD to downgrades to D or SD following loan restructuring, with no significant new inflow coming from higher credit rating categories. We estimate this percentage would be 15%, excluding borrowers that were re-rated after default and restructuring events. We continue to observe EBITDA margin compression for many borrowers. The recent increase in acquisition activity may come at a longer-term cost to leverage if acquisitive borrowers are unable to sustain organic profit growth.

This Month's Featured Topics

Hungary Public Finances: Repair Requires Structural Change to Fiscal Policy

The new Hungarian government, which took office in May 2026, faces important fiscal challenges. The budget deficit is projected to be close to 7% of GDP in 2026 and to remain elevated in the coming years because of the previous government's structural spending increases and tax cuts. While the new Tisza government has announced a strong commitment to broad-based governance reforms, the future path of fiscal policy remains unclear. Bringing down the fiscal deficit in a lasting manner requires a large consolidation effort both on the revenue and the expenditure sides such as broadening the income tax base both for households and corporates and streamlining public expenditure. While the Tisza party aims to lower the fiscal deficit to 3.0% of GDP by 2030, we view the announced fiscal measures thus far as insufficient for reaching this goal.

The Tisza party's election manifesto singles out public procurement reform and a reduction in interest spending as the two main levers for narrowing budgetary pressures. In terms of public procurement, there is scope for achieving budgetary savings, as public spending on purchases of goods and services in Hungary exceeded the EU average in 2025 by more than two percentage points of GDP. However, the timeline and magnitude of budgetary savings from potential public procurement reforms are uncertain. In our view, this weak predictability makes public procurement reforms a somewhat imperfect anchor for a credible medium-term fiscal consolidation plan.

In a similar vein, the Hungarian government's interest spending is affected by a range of factors outside of government control, such as a shift in global financial conditions. While the recent decrease in Hungarian bond yields after the April 2026 election, if maintained, would gradually narrow the Hungarian government's interest burden, public finances remain vulnerable to a potential future reversal in interest rate dynamics because of a comparatively short average maturity of government debt. Moreover, even if government borrowing costs remain lower for longer, fiscal adjustment needs are still large. Considering the post-election decrease in government bond yields as well as currently legislated fiscal measures, we estimate that the primary balance would need to improve by between 2.0 and 2.5 percentage points of GDP for stabilizing the public debt ratio.

Growing Opposition to Data Center Construction and Its Impact on Project Finance Credit Ratings

The U.S. energy industry has long experienced wide and coordinated opposition to the construction of critical infrastructure, including pipelines and electrical transmission lines. Even renewable energy projects have faced local pushback over issues ranging from wildlife impacts to visual pollution. The technology industry, often viewed as intangible, has been less accustomed to the challenges of permitting physical infrastructure until now. In our view, the intense development activity related to AI has tightly linked one of the biggest drivers of the technology industry to the energy industry, intersecting at the data center, and exposed tech to the challenges of building physical infrastructure.

In our view, the trend of moratoriums and other forms of resistance to development may produce stronger demand fundamentals for existing assets through reduced supply growth, though data center leases for issuers that we currently rate tend to be in the early years of leases that are often 15 years to 20 years in term. Some of our rated issuers have debt terms shorter than the underlying data center leases with the debt anticipated to be refinanced periodically over the lease life. These nearer maturities and subsequent refinancings may be made easier with the development of new data centers being constrained. From a permitting and construction perspective, our rated data center-related financings tend to be already operational or fully permitted and partially constructed, making the moratoriums and permitting challenges less directly relevant. Nevertheless, the growing trend of data center opposition reinforces the need for careful analysis of permits and local opposition for future transactions that may be earlier in the development process.

Outside of data centers, the trend of opposition may have a mixed impact on the power sector, with a limited immediate impact on energy project finance credits. A deceleration in data center development could imply a commensurate dampening in demand for power capacity growth, but the power sector has already been facing headwinds with respect to growth ranging from transmission bottlenecks to shortages in electrical equipment like transformers. Our portfolio of rated project finance credits is largely contracted under long-term fixed power purchase agreements (PPAs), but when such PPAs reach maturity, the projects will be exposed to spot energy, renewable credit, and capacity prices. A lower growth trajectory for electricity demand driven by decreased data center construction could dampen these future uncontracted prices. Overall, while political and community opposition may slow the pace of data center deployment, we continue to expect significant data center demand growth and see challenges for the power sector to keep up and thus do not view this as a significant risk currently.

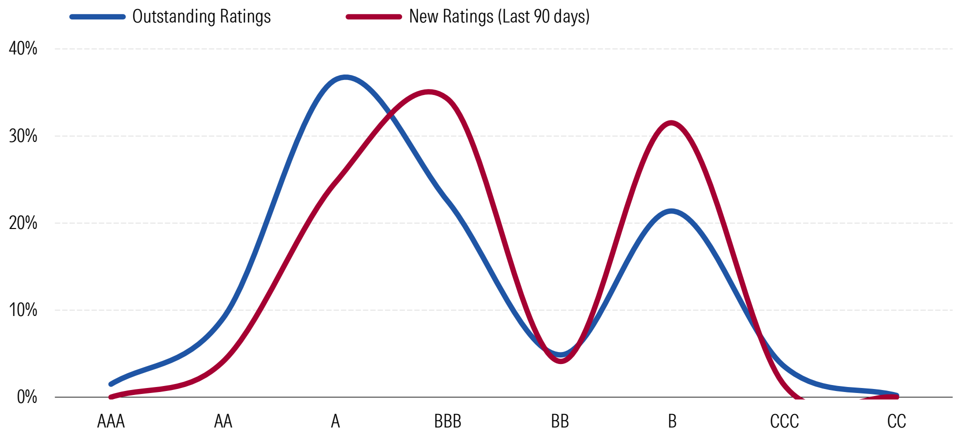
As Smoke Sweeps Across Canada, Insurers Remain Relatively Unscathed

Wildfires continue to emerge in northwestern Ontario and, more recently, in British Columbia, bringing Canada's YTD area burned to 3.8 million hectares as of August 5, exceeding the comparable 10-year average of 3.3 million hectares. While wildfires continue to trigger evacuation orders, disrupt transportation networks, and contribute to widespread smoke and related air-quality issues across several Canadian provinces and parts of the U.S., we believe that the Canadian insurance industry remains well positioned to absorb wildfire-related losses under the current loss scenario. Overall, most wildfire activity remains concentrated in relatively remote areas, where insurance penetration, property values, population density, and commercial activity are comparatively low.

Canadian insurers entered the 2026 wildfire season well positioned to absorb potential losses. The 2025 and H1 2026 financial results of major publicly traded Canadian property and casualty insurers (Intact Financial Corporation, Definity Financial Corporation, and Fairfax Financial Holdings Limited) demonstrate their pricing discipline, with combined ratios below 95%. Strong earnings have also enabled insurers to increase or maintain high capital buffers to absorb potential catastrophe losses. Reinsurance conditions became more favorable over the last few years as a result of abundant global reinsurance capacity giving primary insurers greater flexibility to reduce earnings volatility and improve reinsurance program terms.

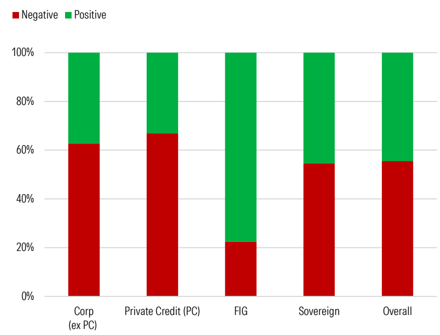
Credit Rating Actions Dashboard (up to August 3, 2026)

Outstanding Credit Ratings and New Credit Ratings Distribution

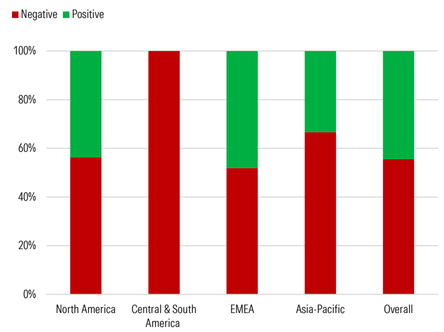


Source: Morningstar DBRS.
Note: Includes data for privately rated debt.

Credit Trend Bias by Sector



Credit Trend Bias by Region



Source: Morningstar DBRS.
Notes: (1) Includes data for privately rated debt; and (2) Above charts represent only credit ratings with a trend other than Stable; these represent only 5% to 20% of the overall credit ratings depending on the region and the sector.

Total Percentage of Global Credit Rating Actions in the Past 30 Days

10%	4%	9%	65%	12%
New Credit Rating	**Upgrade**	**Downgrade**	**Confirmed**	**Trend Change/ Under Review**

Source: Morningstar DBRS.
Note: Includes data for privately rated debt. Excludes credit ratings that have been withdrawn.

Total Percentage of Credit Rating Actions in the Past 30 Days by Sector

	Corporate Finance	FIG	Sovereign	Overall
New Credit Rating	14.5%	5%	0%	10%
Upgraded	6%	2%	0%	4%
Downgraded	10%	9%	0%	9%
Confirmed	52%	81%	92%	65%
Trend Change/ Under Review	17.5%	3%	8%	12%
Total	**100%**	**100%**	**100%**	**100%**

< 10% 10% - 40% > 40%

Source: Morningstar DBRS.
Note: Includes data for privately rated debt.

Total Credit Rating Actions in the Past 30 Days by Region

	North America	Central & South America	EMEA (Europe, the Middle East and Africa)	Asia-Pacific	Overall
New Credit Rating	11.8%	0%	6%	20%	10%
Upgraded	3.6%	0%	6%	0%	4%
Downgraded	3.6%	0%	19%	20%	9%
Confirmed	69%	100%	56%	60%	65%
Trend Change/ Under Review	12%	0%	13%	0%	12%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

< 10% 10% - 40% > 40%

Source: Morningstar DBRS.
Note: Includes data for privately rated debt.

Key Credit Rating Actions That Were Not Confirmations

Date	Action	Issuer	Industry	Country	To	From
July 9, 2026	Trend Change	FC Barcelona	Sports and Stadium Finance	Spain	BBB/Stable	BBB/Positive
July 10, 2026	Trend Change	Kommunalkredit Austria AG	Banking Organizations	Austria	BBB/Negative	BBB/Stable
July 24, 2026	Trend Change	Belgium, Kingdom of	Sovereigns	Belgium	AA/Negative	AA/Stable
July 21, 2026	Upgraded	Metso Oyj	Industrials	Finland	BBB (high)/ Stable	BBB/Stable
July 30, 2026	Downgraded	Volkswagen AG	Autos & Auto Suppliers	Germany	BBB (high)/ Stable	A (low)/Negative

Source: Morningstar DBRS.
Note: Only publicly rated debt.

Notable Fundamental Credit Ratings Research

- *Leveraged Finance Spotlight: Private Credit Market Remains Overshadowed by Negative Investor Sentiment* (July 30, 2026)
- *Fire at Europe's Urban Edge: Wildfires in Spain and France Test Insurers' Secondary Peril Defences* (July 27, 2026)
- *As Smoke Sweeps Across Canada, Insurers Remain Relatively Unscathed* (July 22, 2026)
- *Growing Opposition to Data Center Construction and Its Impact on Project Finance Credit Ratings* (July 20, 2026)
- *Private Credit Rating Actions Chartbook* (July 15, 2026)
- *Private Consumer Credit Performance Diverges Across Staples and Discretionary Categories* (July 14, 2026)
- *Canadian Life Insurers' Private Credit Portfolios: More Traditional Than Feared, Less Comparable Than Needed* (July 8, 2026)
- *Sponsor Exits to Strategic Buyers a Growing Source of Private Rating Discontinuations* (July 8, 2026)
- *Major Australian Banks H1 2026 Results: Strong Fundamentals Amid Slower Growth and Heightened Uncertainty* (July 6, 2026)
- *Hungary Public Finances: Repair Requires Structural Change to Fiscal Policy* (July 1, 2026)

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