

Research Update:

Barclays Outlook Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed

April 23, 2020

Overview

- Despite governments' and central banks' measures to contain the COVID-19 pandemic, global economies face an unprecedented challenge and there are substantial downside risks.
- We are revising our outlook on Barclays PLC and related entities to negative from stable.
- We are affirming our issuer credit and issue ratings because Barclays' diversified business profile, robust balance sheet, and proactive risk management are significant mitigants to the adverse operating environment.
- The negative outlook reflects potential asset quality and earnings pressures arising from the economic and market impact of the pandemic.

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Rating Action

On April 23, 2020, S&P Global Ratings revised its outlook on Barclays PLC and related entities to negative from stable. The related entities include Barclays Bank PLC, Barclays Bank UK PLC, Barclays Bank Ireland PLC, Barclays Capital Inc., and Barclays Execution Services Ltd.

At the same time, we affirmed our issuer credit and issue ratings on Barclays PLC, its related entities, and their respective debt instruments.

Rationale

The outlook revision reflects economic and market stress triggered by the COVID-19 pandemic. Our base-case expectation is that Barclays will perform resiliently, but we see increased downside risks to asset quality and earnings in the coming quarters.

In addition to the human cost, the pandemic has caused large parts of global economic activity to grind to a halt. With isolation strategies still very much in force, we expect a sharp economic contraction in 2020, with a 6.5% forecasted GDP decline in the U.K. and 5.2% in the U.S. (see "COVID-19 Deals A Larger, Longer Hit To Global GDP," published on April 16, 2020). We project a rebound in 2021, but risks remain to the downside, and the effects of COVID-19 will be evident for

long after the crisis subsides.

We have affirmed the ratings on Barclays because we think its credit strengths are significant mitigants to the adverse operating environment. They include its diverse business profile across consumer, business, and investment banking; its robust capital, funding, and liquidity metrics at the onset of the pandemic; and its proactive risk management, including a cautious approach to domestic credit underwriting since the 2016 Brexit referendum. We expect its first-quarter revenues and earnings will be resilient, and benefit from strong industrywide sales and trading volumes.

Nevertheless, Barclays has material exposures to market segments that may be particularly constrained by the current recession, including leveraged finance, corporate sectors that depend on discretionary spending, and unsecured consumer credit. We think its earnings will face a material increase in IFRS9 credit impairments, as well as margin compression from recent U.K. and U.S. interest rate cuts. Despite increased market volatility and drawdowns of corporate facilities, we expect its capitalization will remain strong, with our risk-adjusted capital ratio staying above 10%. The sectorwide suspension of ordinary share dividends and buybacks until year-end 2020 bolsters its capital generation through retained earnings.

Outlook

The negative outlook reflects increased downside risks to asset quality and earnings from the economic and market impact of the COVID-19 pandemic. Although we view positively Barclays' significant revenue diversity, robust balance sheet profile, and the unprecedented fiscal and monetary response, a deep and extended economic downturn could materially increase impairment losses and weaken revenues over our two-year outlook horizon.

Downside scenario

There is headroom at the current rating level to withstand a marked deterioration in earnings relative to 2019 levels. Nevertheless, we could lower the ratings if we think the deteriorating operating environment is likely to substantially weaken Barclays' asset quality, profitability, and capitalization. The likely trigger for us to consider a downgrade is a lowering of our Banking Industry Country Risk Assessments for the U.K. or U.S., which are Barclays' principal markets. In that scenario, we would consider the extent to which Barclays' intrinsic strengths may mitigate the adverse economic conditions in comparison with domestic and international peers.

Upside scenario

We could revise the outlook to stable if Barclays' earnings and balance sheet demonstrate resilience relative to similarly-rated peers, or if governments and central banks are successful in averting a deep, long-lasting recession.

Ratings Score Snapshot

Ratings Score Snapshot -- Barclays Bank PLC

	To	From
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1

Ratings Score Snapshot -- Barclays Bank PLC (cont.)

	To	From
Group SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	(+2)	(+2)
ALAC Support	(+2)	(+2)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)

Ratings for core operating entities including Barclays Bank PLC, Barclays Bank UK PLC, Barclays Bank Ireland PLC, and Barclays Capital Inc. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Outlooks Revised On Six U.K. Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- How COVID-19 Is Affecting Bank Ratings, April 22, 2020
- Europe's AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- COVID-19 Deals A Larger, Longer Hit To Global GDP, April 16, 2020
- Industry Report Card: U.K. Banks' Strong Balance Sheets Should See Them Through Another Difficult Stretch, March 12, 2020
- U.K. Banks Ease, Rather Than Roar Into The 2020s, Jan. 7, 2020
- U.K. Banks' Latest Stress Tests Confirm Balance Sheet Resilience, Dec. 17, 2019
- United Kingdom Outlook Revised To Stable; 'AA/A-1+' Ratings Affirmed, Dec. 17, 2019
- Banking Industry Country Risk Assessment: United Kingdom, Dec. 5, 2019
- Barclays PLC, Nov. 28, 2019

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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