

The Ratings View

November 13, 2024

This report does not constitute a rating action.

Key Takeaways

- Economic implications of Trump's second term are uncertain, but higher inflation and interest rates are a risk. Tariff and tax policies will be a key factor for U.S. credit.
- Shifts in U.S. policy will shape Asia-Pacific's credit outlook for 2025.
- Germany's debt brake complicates post-election policy options.

How could a second Trump term affect U.S. credit? We believe a universal tariff and sharply higher tariffs on Chinese imports could mean an increase in U.S. inflation and a drag on GDP growth. Many industries, especially tech, could suffer from higher input costs and margin pressures as a result. Knock-on effects on trade could also hurt entities such as port operators and transportation leasing companies. As Congress revisits the tax code, it opens the door to negotiate provisions that could have credit implications, such as the corporate tax rate and the tax-exempt status of municipal bonds. From a sovereign perspective, policy that improves or worsens the nation's fiscal deficits and debt burden could most affect our unsolicited sovereign credit rating (AA+/Stable/A-1+), given the U.S.'s key credit weakness is its fiscal profile and the difficulties of garnering bipartisan cooperation to strengthen it.

Key credit issues to watch under a second Trump term



Nonfinancial Corporates: Future policies on tariffs and taxes will likely matter most for credit.



Financial Institutions: Material changes to prudential bank regulation are unlikely, but the supervisory approach could vary.



Public Finance: There could be pressure ahead for the tax-exempt status of municipal bonds—the sector's key foundation.



Insurance: We expect the biggest potential effects will be in health insurance—although any changes will likely be at the margins.



Structured Finance: The elections' impact is likely confined to certain products related to commercial credit (e.g., CLOs and transportation assets), and consumer credit ABS.

[U.S. Elections 2024: How Could A Second Trump Term Affect U.S. Credit?](#)

The economic implications of the Trump campaign's platform are highly uncertain and difficult to calibrate at this point. The Trump campaign laid out major policy proposals:

- A substantial increase in U.S. tariffs on imports (for example, a 10%-20% universal tariff excluding China, a 60%-100% tariff on China, and renewed threats of tariffs on Mexico);
- Immigration curbs (including mass deportations);
- Lower corporate taxes for companies that produce in the U.S. (to 15% from current 21%);
- Challenges to the Federal Reserve's long-held independence; and
- Incentives for greater use of fossil fuels through regulatory rollbacks and scaling back of renewable energy policies, including credits.

The ability to pass new legislation depends on the makeup of Congress and the extent of deficit fatigue among legislators. The president has more freedom with executive actions when it comes

Contacts

Gareth Williams

London
Head of Corporate Credit Research
+44-20-7176-7226
gareth.williams@spglobal.com

Gregg Lemos-Stein

New York
Chief Analytical Officer,
Corporate Ratings
+1-212-438-1809
gregg.lemos-stein@spglobal.com

Joe Maguire

New York
Lead Research Analyst
joe.maguire@spglobal.com

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to trade and immigration. We don't anticipate tax cuts will meaningfully lift the economy's long-run potential. Over the longer term, if spending cuts don't counterbalance tax cuts and our assumption of no increase in growth dynamics holds true, the federal budget deficit would likely increase. This would likely lead to reduced national savings and higher interest rates.

[After Trump's Win, What's Next For The U.S. Economy?](#)

U.S. President-elect Donald Trump's historic win will color Asia-Pacific's credit landscape.

Prospective trade and foreign policy could renew tensions between the U.S. and China, and that may hit trade-oriented Asia-Pacific. Higher tariffs on China's imports to the U.S. will hit export growth and exacerbate deflationary pressures. Although recent policy measures have provided some relief for property sales and prices, a large glut remains in lower-tier cities. Pressure on downstream sectors, such as building materials, construction and metals, remains tight. Should the Fed slow the pace of monetary easing, Asia-Pacific's central banks could follow suit amid concerns on capital outflows. All-in financing costs may stay elevated, hitting credit headroom. Entering 2025, the net rating outlook bias for Asia-Pacific issuers slipped to negative 3% as of end-October. The chemicals, real estate, building materials and retail sectors have the largest negative outlook percentages. With the credit landscape nuanced, a wedge between winners and losers is widening. Volatility is set to rise amid compounding headwinds from geopolitical tensions and financing challenges.

[Asia-Pacific Credit Outlook 2025: Cutting Through The Noise](#)

Germany's three-party coalition collapsed on Nov. 6, after a budget dispute over the debt

brake. The brake, enshrined in Germany's constitution in 2009, limits annual structural deficits to 0.35% of GDP plus a small counter-cyclical component, and could obstruct counter-cyclical measures. The collapse of the government followed months of disagreement among the previous coalition partners. Even if snap elections result in a stable government, policymaking will remain complex. Germany's political fragmentation has deepened over the past few years. Challenges that the next government will face include low economic growth, persistently subdued domestic demand, the effects of sluggish foreign trade on Germany's export-oriented economy, and the country's aging population.

[Germany Brief: Debt Brake Could Continue To Complicate Policymaking After Snap Elections](#)

We expect U.S. holiday sales growth will slow to about 3% in 2024 from 4.7% last year,

remaining below the 10-year average of 5.3%. Value perception will separate retailers, and we expect those with the right merchandise at the right price will emerge as winners this holiday season. Retailers that are exposed to discretionary spending are nearly 1.5x as likely to face a downgrade within the next one to two years than retailers whose sales rely on more stable nondiscretionary spending. We expect retailers' margins will remain steady because of broad cost-savings initiatives implemented throughout the year despite increased promotional activity.

[U.S. Holiday 2024 Sales Outlook: Consumers Will Trim Trees And Spending This Season](#)

High steel exports from China for the next two years will continue to depress steel spreads,

straining regional steel markets. Some nations are weighing antidumping tariffs to counter this pressure, but such measures will take at least 12-18 months to implement. The weak steel spreads will hit the profitability of our rated steelmakers; the credit implications remain neutral for most due to sufficient financial buffers and the competitive advantage of some in specialized steel products.

[Asian Steelmakers' China Strains Will Roll On](#)

Asset Class Highlights

Corporates

Notable publications include:

- [Asia-Pacific Credit Outlook 2025: Cutting Through The Noise](#)
- [U.S. Holiday 2024 Sales Outlook: Consumers Will Trim Trees And Spending This Season](#)
- [U.S. Elections 2024: How Could A Second Trump Term Affect U.S. Credit?](#)
- [Satellite Providers Pulled Into Starlink's Orbit](#)
- [Asian Steelmakers' China Strains Will Roll On](#)
- [Wildfire-Exposed U.S. Investor-Owned Utilities Face Increasing Credit Risks Without Comprehensive Solutions](#)

We took several rating actions:

- [Research Update: Sensience Inc. Downgraded To 'SD' On Amended Credit Agreement And Interest Paid In Kind](#)
- [Research Update: JAB Holding Outlook Now Negative On Limited Loan-To-Value Headroom, Low Percentage Of Listed Assets; 'BBB+' Affirmed](#)
- [Research Update: Franchise Group Inc. Downgraded To 'D' On Chapter 11 Bankruptcy Filing](#)

Financial Institutions

Over the past week, we took several rating actions and published some bulletins:

- [Research Update: Netherlands-Based Bank Knab Downgraded To 'BBB' After Acquisition By BAWAG; Outlook Stable](#)
- [Two Icelandic Bank Outlooks Revised To Positive On Potential ALAC Uplift](#)
- [Research Update: Hangzhou Finance And Investment Group Outlook Revised To Stable On Improving Leverage; 'BBB/A-2' Ratings Affirmed](#)
- [Research Update: Atlas Warehouse Lending Co. Assigned 'BBB-' Issuer Credit Rating; Outlook Stable](#)
- [Research Update: Safehold Inc. Assigned 'BBB+' Issuer Credit Rating; Outlook Positive](#)
- [Bulletin: China Bohai Bank Is On Track To Derisk](#)
- [Bulletin: ANZ To Maintain Robust Credit Profile](#)
- [Bulletin: Spanish Government And Insurance Consortium Will Take Most Of Flood Cost Burden; Impact On Banks Will Be Contained](#)
- [Bulletin: Bank Australia's AUB Acquisition Will Boost Scale, Stability](#)

We published several commentaries including:

- [Credit FAQ: How Are North American Banks Using Significant Risk Transfers?](#)
- [LatAm Financial Institutions Monitor Q4 2024: Asset Quality Pressures Persist](#)
- [Mandate To Widen Central Clearing Should Strengthen U.S. Treasury Market And Promote Competition, While Raising Trade Costs](#)

Sovereign

- [Research Update: Republic of San Marino Rated 'BBB-/A-3'; Outlook Stable](#)

Research Contributors

Financial Institutions

Matthew Albrecht

matthew.albrecht@spglobal.com

Mehdi El mrabet

mehdi.el-mrabet@spglobal.com

Structured Finance

Winston Chang

winston.chang@spglobal.com

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- [Research Update: Poland 'A-/A-2' Foreign Currency Ratings Affirmed; Outlook Stable](#)
- [Research Update: Andorra 'A-/A-2' Ratings Affirmed; Outlook Positive](#)
- [Research Update: Uruguay 'BBB+/A-2' Ratings Affirmed; Outlook Remains Stable](#)

Structured Finance

- **U.S. CLO:** Two commentaries were published regarding this sector.
 - Here is the first commentary titled "[U.S. BSL CLO And Leveraged Finance Quarterly: Cautious Optimism, But Still A Credit Pickers' Market \(Q4 2024\)](#)" published on Nov. 6, 2024.
 - Here are some credit metrics from the monthly CLO Insights 2024 U.S. BSL Index from the second commentary:

CLO Insights 2024 U.S. BSL Index*

'B-' category rated issuers	'CCC' category rated issuers	Nonperforming issuers	Avg. cushion at the junior O/C test	Weighted average price of portfolio	SPWARF	% of target par	'B-' on negative outlook
25.14%	6.65%	0.65%	3.84%	97.34	2692	99.35%	3.64%

Change during prior month

■ Risk increasing ■ Risk decreasing ■ Not applicable

*Through Oct. 22, 2024, update. SPWARF--S&P Global Ratings' weighted average rating factor. N/A--Not applicable.

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- This commentary is titled "[SF Credit Brief: CLO Insights U.S. BSL Index: Downgrades In CLO Collateral Pools Slow In Third Quarter; O/C Ratio Haircuts Decline](#)" and published on Nov. 6, 2024.

- **Japan RMBS:**

Assets backing apartment loan RMBS are performing well

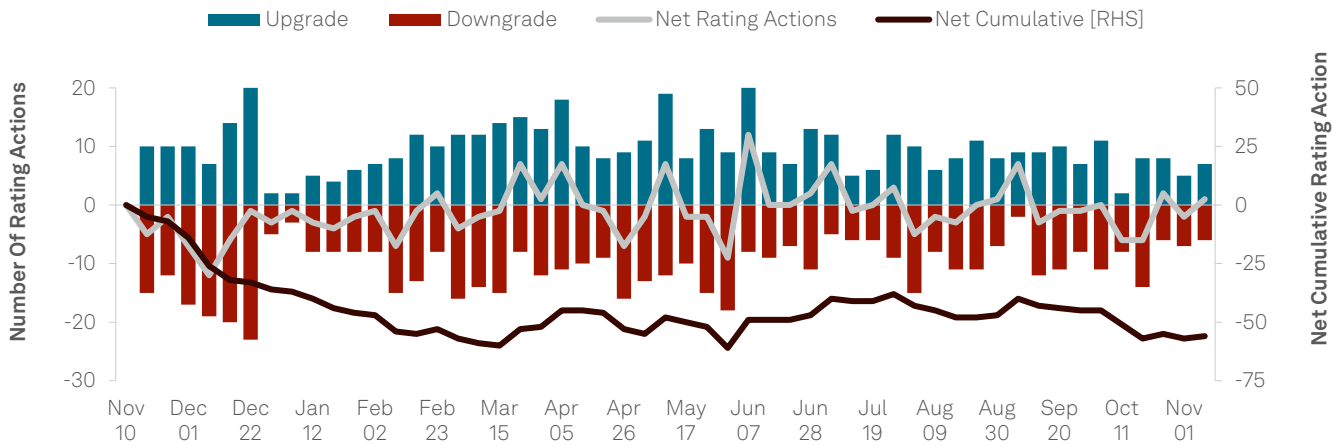


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- See commentary titled "[Japan Apartment Loan RMBS: Rent Income Is Keeping Defaults At Bay](#)" and published on Nov. 7, 2024.
- **Australian RMBS:** See the recent "[RMBS Arrears Statistics: Australia – September 2024](#)" published on Nov. 7, 2024.
- **Australian Auto ABS:** See the recent "[Auto ABS Arrears Statistics: Australia – September 2024](#)", published on Nov. 5, 2024

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Chart 1
Global Rating Actions (Rolling 52-Weeks)



Source: S&P Global Ratings. Net rating actions means downgrades minus upgrades. Net cumulative means total net rating actions. Data as of Nov. 8, 2024. Global rating actions include actions on both financial and non-financial corporates and sovereign issuers.

Table 1

Recent Rating Actions

Date	Action	Issuer	Industry	Country	To	From	Debt vol (mil. \$)
7-Nov	Downgrade	Veritas Holdings Ltd.	High Technology	Bermuda	CC	CCC+	7,350
7-Nov	Upgrade	AppLovin Corp.	Media & Entertainment	U.S.	BBB-	BB+	7,200
5-Nov	Upgrade	Government of Barbados	Sovereign	Barbados	B	B-	4,228
4-Nov	Downgrade	CMG Media Corp.	Media & Entertainment	U.S.	SD	CC	3,169
7-Nov	Upgrade	Encompass Health Corp.	Health Care	U.S.	BB	BB-	2,300
4-Nov	Downgrade	Pearls (Netherlands) Bidco B.V.	Chemicals, Packaging & Environmental Services	Netherlands	B	B+	1,637
5-Nov	Upgrade	VTR Finance NV (America Movil S.A.B. de C.V.)	Telecommunications	Netherlands	CCC+	CCC	1,560
6-Nov	Downgrade	Franchise Group Inc.	Retail/Restaurants	U.S.	D	CCC+	1,425
7-Nov	Upgrade	Mersin Uluslararası Liman İşletmeciliği A.Ş.	Transportation	Turkey	BB	BB-	600
4-Nov	Upgrade	Stericycle Inc.	Chemicals, Packaging & Environmental Services	U.S.	A-	BB	500

Source: S&P Global Ratings Credit Research & Insights. Data as of Nov. 8, 2024. U.S. means United States, U.K. means United Kingdom and U.A.E. means United Arab Emirates. NBFI - NonBank Financial Institutions (ex. Insurance)

For further credit market insights, please see our **This Week In Credit** newsletter.



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