S&P Global Ratings

The Ratings View

November 20, 2024

This report does not constitute a rating action.

Key Takeaways

- We anticipate lower corporate default rates, reflecting declining policy rates, inflation, and maturities.
- We assess the potential impact of the U.S. imposing a 60% goods tariff on China.
- Our global banking outlook for 2025 suggests a year of relative ratings stability.

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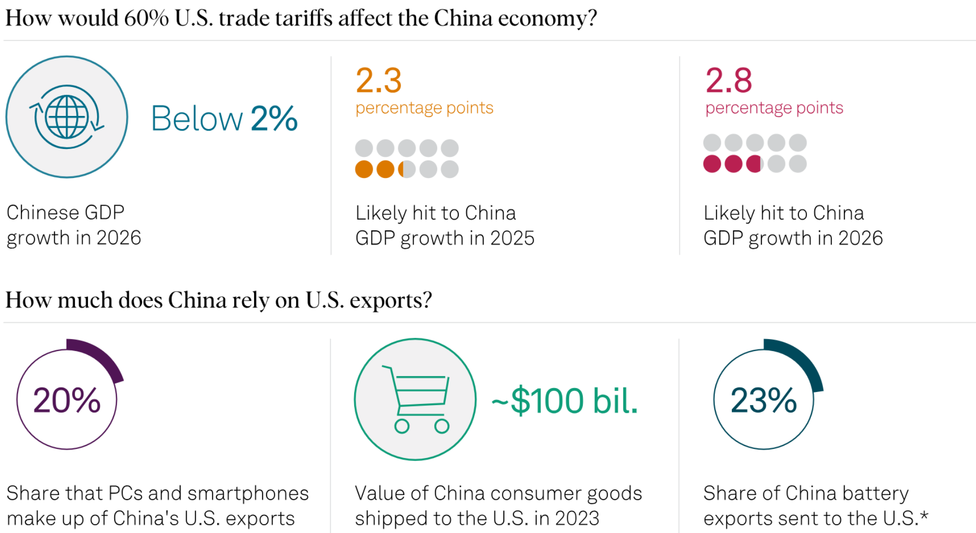
We expect the U.S. trailing-12-month speculative-grade corporate default rate to fall slightly to 3.25% by September 2025 from 4.4% in September 2024. This reflects an environment of falling rates, falling inflation, and lower upcoming maturities alongside a still-resilient economy and earnings growth. With policy rates declining, loan issuers are positioned to see their borrowing costs fall, but newer fixed-rate debt issued this year will carry higher coupons, potentially straining some issuers. We believe there is increased likelihood for more tariffs in the future, with the potential for subsequent inflation and a slower pace of rate cuts. However, default risk is relatively contained for now given that a high percentage of weaker issuers are in service industries, and less exposed to trade. However, changes to immigration policies--and subsequent uncertainties for labor--could affect some these sectors. With so much unknown regarding future policies, combined with a still historically weak rating distribution, our pessimistic case calls for a higher default rate ahead of 5.25%.

Default, Transition, and Recovery: U.S. Speculative-Grade Corporate Default Rate To Fall Further To 3.25% By September 2025

We expect a European trailing-12-month speculative-grade corporate default rate of 4.25% by September 2025, from 4.7% through September 2024. This is still elevated, largely because of increased distressed exchanges and debt restructurings, which we forecast will continue so long as interest rates remain high. Overall credit trends remain supportive, but 'CCC/C' issuers still face limited primary market access and sizable pending maturities, meaning targeted stress seen this year for the rating category will likely persist. Donald Trump's return as U.S. president in 2025 raises the possibility of increased tariffs from the U.S., which could push the default rate up to our pessimistic scenario of 6% if enacted alongside an economic slowdown in Europe.

Default, Transition, and Recovery: European Speculative-Grade Default Rate Should Fall To 4.25% By September 2025

President-elect Trump has proposed applying a 60% tariff on all Chinese goods imported to the U.S. We view this as an unlikely, maximalist scenario that would have steep consequences for the Chinese economy and an array of sectors. The stakes are large, with China exporting about US$500 billion of goods to the U.S. in 2023. In a thought exercise, we look at the consequences of an across-the-board 60% tariff, assuming no ameliorative or retributive actions from China. This scenario would involve heavy hits on the Chinese economy and on an array of Chinese industries that rely on U.S. exports. Our view is that it would be difficult for companies to pass on higher tariff costs to consumers, and that it would be hard for international firms to adjust supply chains away from China. Our report addresses FAQs around potential outcomes.



*By value; data for the first nine months of 2024. Sources: U.S. Census Bureau, China Industrial Association of Power Sources, Trading Economics, S&P Global Ratings.

Credit FAQ: How Would China Fare Under 60% U.S. Tariffs?

Global Banks Outlook 2025. Our base case is for relative ratings stability in 2025. Currently, about 80% of banking groups globally have stable rating outlooks and we see this trend continuing in 2025. We forecast global credit losses will increase by about 7% to US$850 billion in 2025. Higher credit losses are within our base case at current rating levels for most banks. We see four key downside risks to bank ratings:

- A global economic slowdown outside our base case;
- A worse-than-expected property sector deterioration;
- Still-high interest rates superimposed upon high government and corporate sector leverage; and
- Evolving risks including new technologies (such as AI), climate change and cyber that could widen credit differentiation, given that adaptation to such changes could prove positive or negative.

Positive rating movements will more likely be driven by idiosyncratic country and bank-specific factors. We don't envisage macro tailwinds that would be sufficient to strengthen the credit standing of banks. We expect the rated sector could generally adjust well to any second order impacts from higher global trade tariffs or other changes post the U.S. elections.

Global Banks Outlook 2025: Cautiously Confident

Following the U.S. elections, we are closely monitoring the potential effects of tighter financial conditions and a stronger dollar on emerging markets (EMs). Once the next administration takes office, potential policy changes may weigh on EM growth and heighten credit vulnerabilities. EM currencies have depreciated sharply after the U.S. elections, driven mainly by concerns over the Fed's potentially slower pace of rate cuts and increased tariffs risks. This may delay rate cuts in some EMs due to heightened currency volatility.

Emerging Markets Monthly Highlights: Uncertainty Looms After U.S. Elections

Asset Class Highlights

Corporates

Notable publications include:

- Default, Transition, and Recovery: Spotlight On U.S. Defaults In October
- Default, Transition, and Recovery: European Speculative-Grade Default Rate Should Fall To 4.25% By September 2025
- Sustainability Insights: Rising Curtailment In China: Power Producers Will Push Past The Pain
- Default, Transition, and Recovery: U.S. Speculative-Grade Corporate Default Rate To Fall Further To 3.25% By September 2025
- Credit FAQ: How Would China Fare Under 60% U.S. Tariffs?
- Emerging Markets Monthly Highlights: Uncertainty Looms After U.S. Elections
- Corporate Results Roundup Q3 2024: Incremental margin-led improvement continues, led by tech and North America
- Global Leveraged Finance Handbook, 2024

We took several ratings actions:

- Icade S.A. Downgraded To 'BBB' On Higher Leverage Amid Operating Stress And Health Care Disposal Delays; Outlook Stable
- Xerox Holdings Corp. Downgraded To 'B+' From 'BB-' On Transformation Plan Execution Challenges; Outlook Negative
- iHeartCommunications Inc. Rating Lowered To 'CC' From 'CCC+' On Announced Debt Restructuring; Outlook Negative
- Lumen Technologies Inc. Ratings Placed On CreditWatch Positive On Recent Contracts Wins With Hyperscalers
- Celanese Corp. Ratings Lowered One Notch To 'BB+' On Weak Demand, Slow Deleveraging
- Paints/Coatings Producer Akzo Nobel Outlook Revised To Negative On Sluggish Deleveraging; 'BBB' Ratings Affirmed

Financial Institutions

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

- JPMorgan Chase & Co. Upgraded To 'A/A-1' On Franchise Strength And Expected Continued Solid Performance; Outlook Stable
- JPMorgan Securities Japan 'A+/A-1' Ratings Affirmed After Upgrade Of Parent; Outlook Remains Stable
- Bulletin: Associated Banc Corp.'s Equity Offering To Modestly Improve Capital Ratios And Support Organic Growth
- CaixaBank S.A. Upgraded To 'A' From 'A-' On Stronger Subordinated Bail-Inable Debt Buffer; Outlook Stable
- Banco BPI S.A. Upgraded To 'A-' After Action On Parent; Outlook Revised To Stable
- Banco BPM Ratings Affirmed At 'BBB/A-2' On Anima Tender Offer And Equity Stake In Banca Monte dei Paschi; Outlook Stable

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- Bulletin: Greek Banks Build On Solid Earnings To Accelerate Amortization Of Deferred Tax Credits
- Oma Savings Bank PLC Ratings Downgraded To 'BBB/A-2' On Deteriorated Asset Quality; Outlook Revised To Stable
- Standard Chartered Bank Korea Upgraded To 'A+' On Increased Importance To The Group; Outlook Stable
- Bulletin: China Citic Financial's Investment Plan Signals Government Support, Will Enhance Regulatory Capital
- Bulletin: Mizuho's Rakuten Card Stake A Foothold For Retail Expansion

We published several commentaries including:

- Global Banks Outlook 2025: Cautiously Confident
- Global Banks Country-By-Country Outlook 2025: Cautiously Confident
- Credit FAQ: How Would China Fare Under 60% U.S. Tariffs?
- GCC Banking Sector Outlook 2025: Profitability And Asset Quality Boost Resilience
- Navigating Regulatory Changes: Assessing New Regulations On Brazil's Financial Sector

Sovereign

- Congo-Brazzaville Local Currency Rating Raised To 'CCC+' On Finalized Debt Exchange; FC Rating Affirmed; Outlook Stable
- Congo-Brazzaville Local Currency Rating Lowered To 'SD/SD' On Distressed Exchange; 'CCC+' Foreign Currency Affirmed
- South Africa Outlook Revised To Positive On Improved Reform And Growth Potential
- Republic Of Ireland Outlook Revised To Positive On Extraordinary Fiscal Overperformance; 'AA/A-1+' Ratings Affirmed

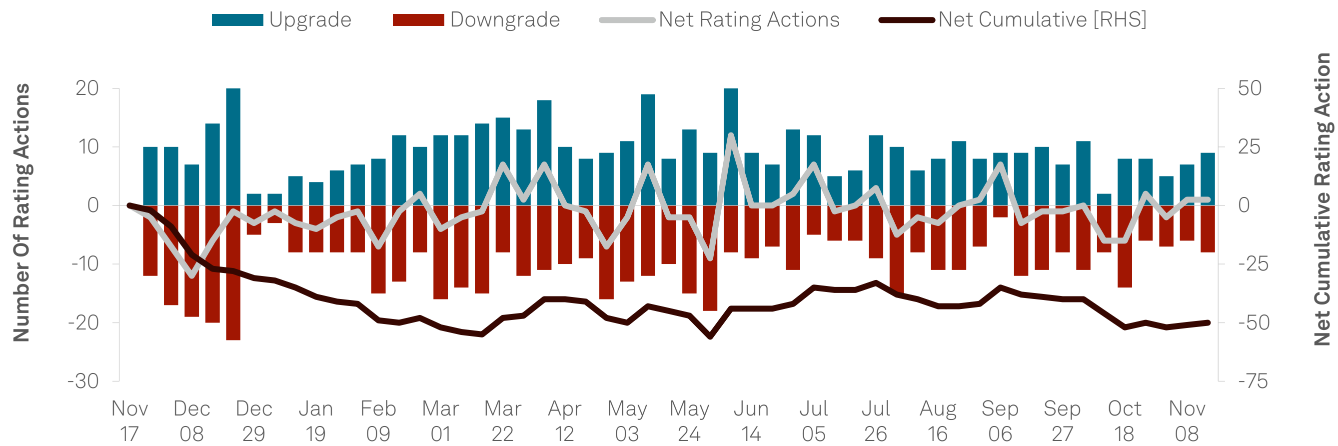
Structured Finance

- **U.S and EMEA Structured Finance:** S&P Global Ratings published its round-up of the latest credit developments and underlying performance indicators observed across U.S. structured finance sectors (see "U.S. Structured Finance Chart Book: November 2024," published Nov. 13, 2024). S&P Global Ratings published on Nov. 13, 2024 its “EMEA Structured Finance Chart Book: November 2024". The report includes a roundup of the latest new issuance and credit developments that we have observed across structured finance sectors, along with data on issuance drivers, recent rating actions, and underlying performance indicators. We also highlight the key takeaways from our recent research publications.
- **Spanish Securitizations:** Here are a few “Key Takeaways” from a recent commentary:
    - The recent devastating floods in Autonomous Community of Valencia, Castilla La Mancha, and Andalucía, are unlikely to have a material effect on the credit quality of the residential mortgage-backed securities (RMBS), asset-backed securities (ABS), and covered bond programs (CB) rated by S&P Global Ratings.
    - While the full impact of the floods on residential properties and displaced individuals remains uncertain, most financial damage resulting from the floods will be offset by Spain's compulsory catastrophic risk insurance consortium and the central government.

  - The majority of RMBS and ABS transactions and covered bond programs we rate have limited exposure to affected areas.
  - See commentary titled "Spanish Securitized Asset Credit Quality Unlikely To Suffer Following Floods" and published on Nov. 14, 2024.
- **European RMBS:** Here is a summary of the recent "European RMBS Index Report Q3 2024" (published Nov. 14, 2024):
  - Our European RMBS index tracks the collateral performance of the transactions we rate.
  - Quarter-on-quarter total delinquencies were stable in most indices, exceptions being an increase in U.K. BTL pre-2014 and U.K. nonconforming pre- and post-2014 transactions.
  - Prepayment rates vary and reflect local market specifics. Prepayment rates for most jurisdictions were broadly in line with Q2 2024.
  - For several sectors, arrears will likely continue to increase as borrowers refinance into the higher-rate environment, with increasing unemployment and decreasing wage growth on the horizon. However, proactive servicing and forbearance may increase collection rates for delinquent loans more than in prior stress periods.
- **U.S. Auto ABS:** Here are a few "Key Takeaways" from a recent commentary:
  - U.S. auto loan ABS performance was mixed for September 2024. While annualized losses improved for both the prime and subprime sectors month-over-month, on a year-over-year basis, prime losses rose significantly (subprime losses declined).
  - Further, 60-plus-day delinquencies increased to the highest September level since 2010 for prime and the highest ever September level for subprime. Beginning with the September 2024 report, we've added the 30-plus-day delinquencies metric, which is showing that both segments have generally incurred higher delinquencies than last year.
  - Recoveries declined as the prime segment recorded the lowest September recovery rate since 2008, and the subprime segment reported the lowest September recovery rate since 2007.
  - Cumulative net losses for the prime 2023 and first-quarter 2024 vintages are trending worse than for the 2016-2022 issuances. In contrast, cumulative net losses have improved for the subprime 2023 and first-quarter 2024 cohorts relative to 2022's high loss levels.
  - S&P Global Ratings reviewed 52 U.S. ABS auto loan transactions in October. Of these, we revised our loss expectations on 42 (raised 28 and lowered 14) and maintained 10. This resulted in 58 upgrades, no downgrades, and 131 affirmations. Additionally, we reviewed one Canadian ABS auto loan transaction, and lowered our loss expectations and affirmed the ratings on four tranches.
  - See commentary titled "U.S. Auto Loan ABS Tracker: September 2024 Performance" and published on Nov. 14, 2024.
- **European Auto ABS:** See the recent commentary titled "European Auto ABS Index Report Q3 2024" published on Nov. 13, 2024.
- **European and U.K. Credit Card ABS:** See the recent commentary titled "European And U.K. Credit Card ABS Index Report Q3 2024" and published on Nov. 13, 2024.
- **China Securitization:** See the recent commentary titled "China Securitization Performance Watch 3Q 2024: Same Direction; Different Drivers" and published on Nov. 10, 2024.

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. 15, 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. $)
15-Nov	Upgrade	JPMorgan Chase & Co.	Bank	U.S.	A	A-	292,878
14-Nov	Upgrade	CaixaBank S.A.	Bank	Spain	A	A-	43,543
14-Nov	Upgrade	EchoStar Corp.	Telecommunications	U.S.	CCC+	CCC-	27,519
14-Nov	Downgrade	Celanese Corp.	Chemicals, Packaging & Environmental Services	U.S.	BB+	BBB-	11,871
13-Nov	Upgrade	Pactiv Evergreen Inc	Chemicals, Packaging & Environmental Services	U.S.	BB-	B+	7,466
13-Nov	Downgrade	VF Corp.	Consumer Products	U.S.	BB	BBB-	4,779
13-Nov	Downgrade	GrafTech International Ltd.	Metals, Mining & Steel	U.S.	CC	CCC+	3,200
13-Nov	Upgrade	Ingram Micro Inc.	High Technology	U.S.	BB	BB-	3,160
13-Nov	Downgrade	Sandvik AB (publ)	Capital Goods	Sweden	BBB+	A-	1,969
14-Nov	Downgrade	CPM Holdings Inc.	Capital Goods	U.S.	B-	B	1,315

Source: S&P Global Ratings Credit Research & Insights. Data as of Nov. 15, 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**.**