S&P Global Ratings

The Ratings View

November 27, 2024

This report does not constitute a rating action.

Key Takeaways

- The incoming U.S. administration will shape global economic prospects for 2025.
- Private credit could play a significant role in infrastructure financing.
- Record high health care defaults will likely moderate next year.

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The policies of the incoming Trump Administration will shape of the global economic outlook for 2025, and it remains unclear how much policy reality will differ from election rhetoric. Our preliminary assessment incorporating partial implementation of President-elect Trump's proposed policies is that growth effects will be minimal, inflation pressures will rise, and the Federal Reserve is likely to stop cutting rates earlier. This will lead to tighter financial conditions, a stronger dollar, and a more complicated macro picture elsewhere. Asia-Pacific growth will be impeded by slower global demand and U.S. trade policy. But lower interest rates and inflation should ease their drag on spending power. In Europe, we anticipate the European Central Bank will cut rates more quickly than we had previously expected due to persistently weak confidence and better visibility on the disinflation trajectory. For the U.K., fiscal stimulus will boost growth, but monetary policy will likely be more restrictive as a result. In emerging markets, robust domestic demand growth is buoying growth, but a likely increase in trade protectionist policies among major economies will emerging market growth in the next couple of years.

GDP growth forecasts
In annual percent

	Actual	Forecast				Change			
	2023	2024	2025	2026	2027	2024	2025	2026	2027
U.S.	2.9	2.7	2.0	2.0	1.7	0.1	0.1	0.1	-0.1
Eurozone	0.5	0.8	1.2	1.3	1.2	0.0	-0.1	-0.1	-0.1
Germany	-0.1	-0.1	0.9	1.1	1.1	-0.2	-0.3	-0.2	0.0
France	1.1	1.1	1.0	1.2	1.1	0.0	-0.2	-0.3	-0.1
Italy	0.8	0.5	0.9	1.1	1.0	-0.4	-0.2	-0.1	-0.1
Spain	2.7	3.1	2.5	2.0	2.0	0.4	0.4	0.0	0.0
U.K.	0.4	0.9	1.5	1.6	1.5	-0.1	0.3	0.0	-0.2
Asia-Pacific									
China	5.2	4.8	4.1	3.8	4.3	0.2	-0.2	-0.7	-0.2
Japan	1.7	-0.3	1.3	1.0	1.0	-0.3	0.0	0.1	0.1
India*	8.2	6.8	6.7	6.8	7.0	0.0	-0.2	-0.2	0.0
Emerging economies									
Mexico	3.2	1.5	1.2	1.9	2.2	-0.1	-0.3	-0.3	-0.1
Brazil	2.9	3.1	1.9	2.1	2.2	0.3	0.1	0.0	0.0
South Africa	0.7	1.0	1.6	1.4	1.3	0.0	0.1	0.1	0.1
World	3.5	3.3	3.0	3.1	3.2	0.0	-0.1	-0.2	-0.1

*Fiscal year, beginning April 1 in the reference calendar year. Sources: S&P Global Market Intelligence and S&P Global Ratings (Forecasts).

Global Economic Outlook Q1 2025: Buckle Up
Economic Outlook Asia-Pacific Q1 2025: U.S. Trade Shift Blurs The Horizon
Economic Outlook Emerging Markets Q1 2025: Trade Uncertainty Threatens Growth
Economic Outlook Eurozone Q1 2025: Next Year Will Be A Game Changer
Economic Outlook U.K. 2025: Monetary Policy And Trade To Offset Fiscal Impetus
Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty

Private credit is seizing the opportunity to meet rapid growth in demand for funding the infrastructure projects, ranging from the energy transition to data centers. We expect this funding will complement commercial banks as a central source of funding for project finance. While borrowers may turn to private credit for flexibility, speed, and certainty of funding, investors are drawn to the potential for alpha, asset liability matching, credit resilience, and diversification. We currently rate project finance and infrastructure transactions mostly at an investment-grade level. But the need for investment in new types of projects demands new investors and sources of funding, and this may bring investors with larger appetites for risk.

Private Credit Could Bridge The Infrastructure Funding Gap
Private Credit Casts A Wider Net To Encompass Asset-Based Finance And Infrastructure
The Opportunity Of Asset-Based Finance Draws In Private Credit

We expect U.S. health care sector defaults will moderate in 2025, given continued interest rate relief and lessening inflationary pressures, improving free cash flow. This likely improvement comes after defaults among for-profit health care issuers in North America reached double digits for the second consecutive year, with 14 so far in 2024 after 15 in 2023. This is consistent with the overall ratings deterioration in the industry, largely concentrated among low speculative-grade entities. Defaults will remain higher than they've been historically, with elevated labor costs on a more permanent basis and cost of capital higher than when capital structures were first put in place, allowing less cushion for other operational setbacks.

Record-High Health Care Defaults Will Moderate In 2025, Though Higher Than Normal

This golden quarter (Black Friday, Christmas) will be crucial for European retailers' prospects for 2025. Retailers' hits and misses this festive trading season will not only determine their financial performance for the 2024 fiscal year, but will also shape their strategies, operating plans, and investment budgets for next year. Although inflation has moderated, higher wages will continue to constrain the recovery in many retailers' profit margins. Food-service companies, restaurants, and pubs will need to actively manage their fixed cost bases to preserve margins.

Retail Brief: European Retailers Set Out Their Stalls For The Golden Quarter

Red Sea rerouting is boosting container shipping companies' profits. Container shipping freight rates have surged in 2024. Rerouting away from the Suez Canal (due to attacks on commercial ships in the Red Sea), stronger-than-anticipated trade volumes, and port congestion have combined to support rates and offset capacity expansion from record-breaking containership deliveries. We expect earnings at Maersk, CMA CGM, and Hapag-Lloyd to exceed our initial expectations for 2024, though remain wary of significant additions of new tonnage continuing into 2025, when our base case anticipates a moderate decline in rates and normalization in container liners' EBITDA.

Red Sea Rerouting Is Boosting Container Shipping Companies' Profits

Greenhouse-gas emissions didn't reduce from 2016-2022, but the intensity of emissions declined for most industries. The utilities, materials, energy, and transportation industries still exhibit distinctly higher scope 1 emissions and emissions intensity than other industries and remain most exposed to climate transition risks. Although the relationship between greenhouse gas emissions and economic growth is complex, we also see that over that period scopes 1 and 2 emissions correlated positively with world real GDP. Importantly, reduced emissions intensity does not necessarily translate into reduced absolute emissions, notably because increasing economic activity can offset emissions intensity improvements.

Greenhouse Gas Emissions Trends: Most Global Industries Haven't Reduced Emissions, Only Their Intensity

Asset Class Highlights

Corporates

Notable publications include:

- Corporate Japan's Thirst For Acquisitions Risks Creditworthiness
- SLIDES: Italian Corporate Outlook 2025
- Spanish Telecoms Outlook: Consolidation Unlikely To Reduce Competitive Pressures
- U.S. Transportation Infrastructure Consolidated Rental Car Facility Report Card: Rebound Complete, Airport Rental Car Sector Credit Quality Remains Stable
- Corporate Results Roundup Q3 2024: Ex-commodity EBITDA growth accelerates, but still driven by margins not revenues
- China's Long Dairy Boom Starts To Fade
- Greenhouse Gas Emissions Trends: Most Global Industries Haven't Reduced Emissions, Only Their Intensity
- Retail Brief: European Retailers Set Out Their Stalls For The Golden Quarter
- Data Centers: U.S. Not-For-Profit Electric Utilities Explore Ways To Mitigate Risks From Load Growth
- Default, Transition, and Recovery: Spotlight On U.S. Defaults In October
- Record-High Health Care Defaults Will Moderate In 2025, Though Higher Than Normal
- SLIDES: North American Regulated Utilities
- Code And Care: Navigating Private Credit Risk In The Software And Health Care Services Industries

We took several ratings actions:

- United Airlines Holdings Inc. Upgraded To 'BB'; Outlook Stable
- Brazilian Electric Utility CEMIG Outlook Revised To Positive On Stronger Credit Metrics; 'BB-' Ratings Affirmed
- Health And Happiness Outlook Revised To Negative On Revenue Weakness; 'BB' Ratings Affirmed
- Bharti Airtel Outlook Revised To Positive On Earnings Strength; 'BBB-' Rating Affirmed
- Various Rating Actions Taken On Five Adani Group Entities On U. S. Indictment
- China Vanke Downgraded To 'B+' On Shrinking Balance Sheet, Weakening Liquidity; Outlook Negative
- Teva Pharmaceutical Industries Ltd. Upgraded To 'BB' On Deleveraging And Improved Growth Prospects, Outlook Positive
- Vedanta Resources Ratings Placed On CreditWatch Positive; Proposed Guaranteed Notes Assigned Preliminary 'B-' Rating
- Berry Global Group Ratings On CreditWatch Positive On Acquisition Agreement With Amcor Plc
- Dish Network Corp. Upgraded To 'CCC+' From 'SD' After Distressed Exchange; Outlook Negative; Debt Rating Raised

Financial Institutions

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

- Bulletin: Discover Financial Services' Delayed Quarterly Filing Not Expected To Impact Merger Completion

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- Bulletin: CEO's Commerce Secretary Nomination Not Expected To Create Material Risk For Cantor, BGC, And Newmark
- Jane Street Group LLC Outlook Revised To Positive On Expected Business Position Strength; 'BB' Rating Affirmed
- Nasdaq Inc. Outlook Revised To Positive On Advanced Integration Of Adenza And Fast Deleveraging; Ratings Affirmed
- Bulletin: UniCredit Opens Another Door For Inorganic Growth With Launch Of Offer For Italian Banco BPM
- Outlook On Irish Banks AIB And BOI Revised To Positive On Better Risk-Adjusted Profitability; Ratings Affirmed
- Ratings On Mizuho Financial Group And Core Banks Affirmed On Improving Stand-Alone Creditworthiness; Outlooks Stable
- South African Banks Outlooks Revised To Positive On Similar Sovereign Action
- Intermediate Capital Group Upgraded To 'BBB+' On AUM Growth And Reduced Leverage; Outlook Stable

We published several commentaries including:

- Banking Industry Country Risk Assessment Update: November 2024
- European Banks Will Pull Multiple Levers To Protect Operating Performance In 2025-2026
- Comparative Statistics: Top 25 U.K. Banks
- Risks Are Reducing For Turkish Banks Amid Economic Rebalancing
- Digital Assets Brief: Crypto's Trump Card

Sovereign

- Panama Ratings Lowered To 'BBB-/A-3' On Higher Interest Burden; Outlook Stable
- Philippines Outlook Revised To Positive On Improved Institutional Assessment; 'BBB+/A-2' Ratings Affirmed

Structured Finance

- **Asset-Backed Finance – Private Credit:** Here are a few "Key Takeaways" from a recent commentary:
    - In today's market, financial innovation continues to drive change as private funding expands into a market for asset-based finance (ABF), which is enormous and largely untapped.
    - With securitization already heavily used in the leveraged loan space, private credit firms are looking further afield at other types of assets.
    - The potential market for private funding in ABF includes more than $5 trillion in consumer credit, along with the proliferating array of collateral in the esoteric asset-backed securitization space that stretches from intellectual property to hard assets.
    - Benefits of the expansion of private credit into ABF include differentiated sources of capital available to borrowers and the potential for higher alpha for investors.
    - While the potential for higher returns and broader diversification from ABF may be enticing investors, this alpha stems from the lesser-understood and more complex nature of the assets.

See commentary titled "The Opportunity Of Asset-Based Finance Draws In Private Credit" and published on November 20, 2024.

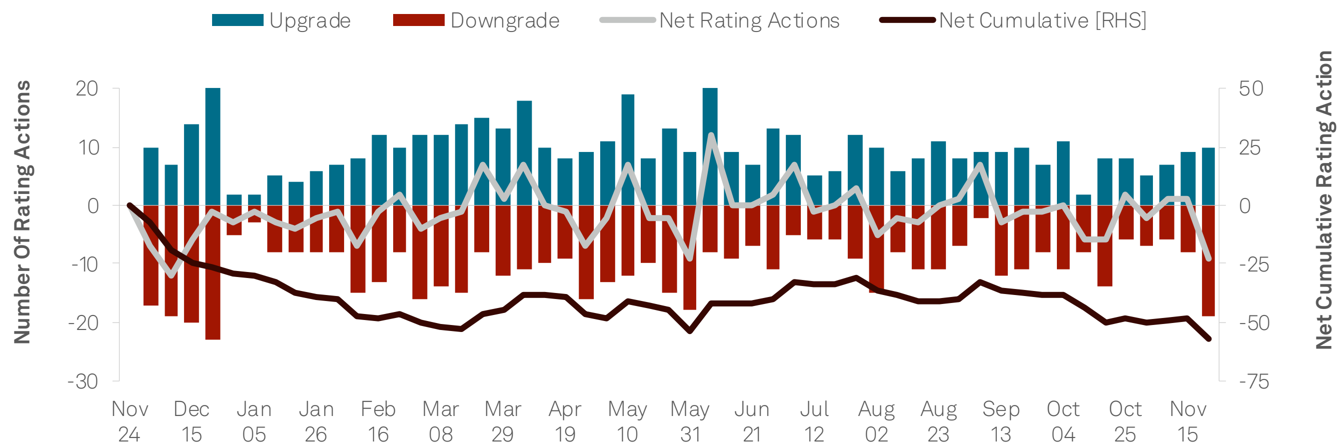
- **Canadian Covered Bonds:** See recent commentary titled "Credit FAQ: How We Rate Canadian Covered Bonds" and published on November 22, 2024.
- **Scenario Analysis – North American Corporate Securitizations:** Here are a few "Key Takeaways" from a recent article:
    - With a wave of corporate securitization debt maturing over the next few years, and an uncertain level of rates despite recent and projected Fed easing, S&P Global Ratings assessed the potential rating impact of hypothetical increases to refinancing rates for our portfolio of investment-grade, publicly-rated corporate securitization notes.
    - Our analysis indicates that our ratings are mostly resilient to a potential increase in debt service costs.
    - This scenario analysis does not include or imply any rating action.

    See commentary titled "Scenario Analysis: How North American Corporate Securitizations Fare Amid Higher Refinancing Rates" and published on November 20, 2024.
- **Scenario Analysis – Triple-Net Lease Securitizations:** Here are key takeaways from the recent commentary titled: "Scenario Analysis: Refinancing Prospects For Triple-Net Lease Securitizations If Higher Interest Rates Persist" (published November 22, 2024):
    - Given the current higher interest rate environment, and considering uncertainties around the timing and the magnitude of rate cuts, we assessed how rated triple-net securitizations would fare in a hypothetical scenario of elevated interest rates.
    - Our hypothetical scenario analysis tested 51 triple-net ABS notes from four master trusts that have anticipated repayment dates within the next 12 months to see if they have sufficient cushion to absorb elevated refinancing rates at their current rating levels with their existing collateral pools. The results show that 29 out of 51 notes, or three out of four master trusts, do not have sufficient cushion to absorb the higher interest rates without additional collateral or equity injection.
    - Triple-net lease securitizations are typically structured with ARDs that motivate issuers to refinance before rapid amortization kicks in. As of October 2024, approximately $2.8 billion, or 15.2% by outstanding balance of rated notes, have anticipated repayment dates over the next 12 months.
    - This scenario analysis does not include or imply any rating action.
- **Australian Auto Loan ABS:** Here are a few "Key Takeaways" from a recent article:
    - Australia's auto financing market is becoming more competitive as nonbank financiers enter, prompted by banks divesting noncore assets.
    - Australia's auto ABS transactions have a greater diversity of asset types than larger securitization markets, a smaller share of electric vehicles, and more nuanced products, like novated leases.
    - Higher interest rates and inflation are making debt serviceability harder. The stable rating outlook for the auto loan and mixed equipment ABS sector is likely to persist, supported by deleveraging and shorter transaction tenors.

    See commentary titled "A Primer On Australian Auto Loan ABS" and published on November 17, 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. 22, 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. $)
19-Nov	Upgrade	Teva Pharmaceutical Industries	Health care	Israel	BB	BB-	13,903
21-Nov	Downgrade	Medical Properties Trust Inc.	Homebuilders/real estate co.	U.S.	CCC+	B-	12,931
18-Nov	Downgrade	iHeartCommunications Inc. (iHeartMedia Inc.)	Media and entertainment	U.S.	CC	CCC+	6,051
19-Nov	Downgrade	Great Outdoors Group, LLC	Retail/restaurants	U.S.	BB-	BB	4,666
22-Nov	Upgrade	Marathon Oil Corporation	Oil and gas	U.S.	A-	BBB-	4,000
18-Nov	Downgrade	Icade S.A.	Homebuilders/real estate co.	France	BBB	BBB+	3,739
18-Nov	Downgrade	Xerox Holdings Corporation	High technology	U.S.	B+	BB-	3,550
22-Nov	Downgrade	H-Food Holdings LLC	Consumer products	U.S.	D	CCC-	2,422
19-Nov	Downgrade	China Vanke Co. Ltd.	Homebuilders/real estate co.	China	B+	BB-	1,794
19-Nov	Downgrade	Cumulus Media Inc.	Media and entertainment	U.S.	CCC+	B-	1,646

Source: S&P Global Ratings Credit Research & Insights. Data as of Nov. 22, 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**.**