S&P Global
Ratings

The Ratings View

December 4, 2024

This report does not constitute a rating action.

Key Takeaways

- We published our global credit outlook for 2025.
- President-elect Trump's re-election will likely intensify auto industry headwinds.
- We expect the U.S. leveraged loan default rate to fall to 1% by September 2025.

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Global credit conditions look set to remain supportive in 2025. With policy rates continuing their descent and soft landings materialize for many major economies, the economic backdrop will likely be favorable. However, there will likely be regional- and country-specific divergence, and a backdrop of geopolitical uncertainty that threatens to reignite risk-aversion among investors and affect capital flows. We forecast global economic expansion of 3% in 2025 as growth slows in the U.S. and China, the eurozone continues to recover, and emerging markets find their footing. We expect a decline in corporate defaults but, again, at a slower pace than the rise. Companies have made good progress in pushing out maturities, and earnings growth is steadily improving. The lowest rated borrowers continue to face the strains of still-elevated borrowing costs, the lingering effects of permanently higher prices on consumer purchasing power, and heightened geopolitical uncertainty—most notably, increasing protectionism that will weigh on global trade.

Global credit conditions: Key highlights

Slower GDP growth in 2025

Global
3.0%

U.S.	Eurozone	China
2.0%	1.2%	4.1%

Federal funds rate forecast

2025 average
3.9%

ECB refi rate (end-2025)
2.65%

'B-' and below corporate debt outstanding

Global
$1.3 trillion

U.S.	Europe	ROW
$875.0 bil.	$308.8 bil.	$89.8 bil.

Net outlook bias

As of Nov. 15, 2024

IG	SG	'B-' and below	'CCC' and below
-9.6%	-17.6%	-31.6%	-66.8%

Trade vulnerability

Imports and exports as a % of GDP

U.S.	China	ROW
27.0%	38.4%	62.5%

Global Credit Outlook 2025: Promise And Peril

Donald Trump's re-election will likely intensify the headwinds the global auto industry will face in an already challenging 2025. We estimate a 20% tariff on U.S. light vehicle (LV) imports from the EU and the U.K., and a 25% tariff on imports from Mexico and Canada could cost affected European and U.S. carmakers up to 17% of their combined annual EBITDA in a worst-case scenario. Particularly exposed to potentially higher tariffs are premium original equipment manufacturers (OEMs) Volvo Cars and JLR--given their high reliance on European production--and GM and Stellantis due to the volume of cars they assemble in Mexico and, partly, Canada. The risks for BMW and Mercedes are more contained. That said, we expect mitigating actions will make potentially higher tariffs manageable, but the combined effects of tariffs, tighter CO2 regulation in Europe from 2025, and earnings pressure from stronger competition in China and Europe could increase the risk of downgrades.

Auto Industry Buckles Up For Trump's Proposed Tariffs On Car Imports

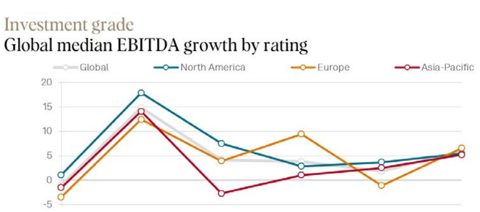
We expect the U.S. leveraged loan default rate to fall to 1% by September 2025, from 1.26% in September 2024. Lower benchmark interest rates will mean lower funding costs, and this will benefit issuers' coverage ratios and free operating cash flows. Favorable financing conditions this year have enabled borrowers to refinance most of next year's maturities, further reducing default risk. While default risk over the next 12 months appears to be moderating, the prospect of policy shifts on tariffs, trade, and immigration heighten uncertainty. In our pessimistic scenario, we project that the leveraged loan default rate will nearly double (to 2.5%).

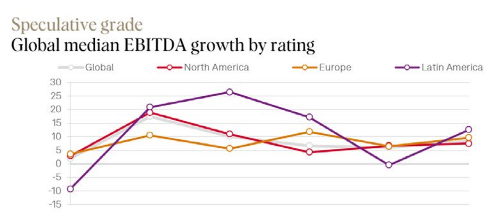
Default, Transition, and Recovery: The U.S. Leveraged Loan Default Rate Is Set To Fall To 1% By September 2025

South Korea's brush with martial law may have lingering effects. The introduction and swift revocation of martial law in the Republic of Korea has is very unexpected for a sovereign at the ‘AA’ rating level. However, S&P Global Ratings sees the negative impact on market sentiments as being contained within Korea’s current credit metrics and unlikely to trigger a rating change in the next year or two. The developments likely undermined perceptions of political stability among investors. Nevertheless, the swift revocation of the martial law order and the return to relative stability without serious violence showed that checks and balance in the political system are functioning. We believe this will likely mitigate the damage to investor confidence. In our view, the quick return to normalcy also reflects the capacity of institutions in Korea (AA/Stable/A-1+) to stabilize credit factors in the face of a negative shock.

Bulletin: Effects Of Korea's Brush With Martial Law May Linger

Our global nonfinancial corporate medians history and outlook report suggests a positive outlook for corporate credit fundamentals in 2025, although vulnerabilities are still apparent in the weaker part of the credit spectrum. Following a relatively weak 2024, we anticipate revenue and EBITDA growth will accelerate in the year ahead. This improvement is expected across the board, with almost all regions, ratings categories, and industries expected to see faster growth. Profit margins will likely expand further, and stronger growth and improving profitability will see leverage continue to fall. With rate pressure easing, interest coverage is starting to recover. Macro and geopolitical risks – notably trade and conflict - appear the greatest risks to relatively benign prospects for the nonfinancial corporate sector.





Source: S&P Global Ratings. Calculated as of Dec. 1, 2024. All units are USD. Global and regional aggregates exclude utility and real estate entities. See 'Definitions' for more.

Global Nonfinancial Corporate Medians History And Outlook 2025: A positive outlook for corporate credit fundamentals

This is the last Ratings View for 2024. We will resume in January 2025. We wish our readers a happy festive season.

Asset Class Highlights

Corporates

Notable publications include:

- Global Credit Outlook 2025: Promise And Peril
- The Health Care Credit Beat: Republican Red Wave A Net Negative For Health Care
- Auto Industry Buckles Up For Trump's Proposed Tariffs On Car Imports
- Korean Corporate Credit Trends: An Uphill Climb In 2025
- Default, Transition, and Recovery: The U.S. Leveraged Loan Default Rate Is Set To Fall To 1% By September 2025
- Credit Trends: Mexico's Corporate Sector Faces Low Refinancing Risk Of Near-Term Maturities
- Red Sea Rerouting Is Boosting Container Shipping Companies' Profits
- Retail Brief: China Heads For A Consumption Hangover

We took several ratings actions:

- Delta Air Lines Inc. Upgraded To 'BBB-' On Expectation For Stronger-Than-Forecast Credit Measures, Outlook Stable
- PG&E Corp. Outlook Revised To Positive On Stronger Balance Sheet And Wildfire Fund Payments; Ratings Affirmed
- The Walt Disney Co. Upgraded To 'A' On Improved Leverage And Expectations For Healthy Growth In Fiscal 2025
- OCI N.V. Downgraded To 'BB+' From 'BBB-' On Completed Disposal Of Fertiglobe; Ratings Remain On CreditWatch Negative
- Transnet SOC Ltd. Ratings, Including 'BB-' Issuer Credit Rating, Placed On CreditWatch Negative On Elevated Leverage

Financial Institutions

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

- American Express Upgraded To 'A-' On Strength Of Its Franchise And Stellar Risk-Adjusted Profitability; Outlook Stable
- Erste Outlook Revised To Positive On Strengthened Capitalization And Resilient Performance; Affirmed At 'A+/A-1'
- Skandinaviska Enskilda Banken Outlook Revised To Positive On More Predictable Earnings; 'A+/A-1' Ratings Affirmed
- Outlook On KBC Group And Core Entities Revised To Positive On Resilient Performance; Ratings Affirmed
- Crelan S.A. Outlook Revised To Positive From Stable On Expected Merger Synergies; 'A-/A-2' Ratings Affirmed

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- Banco de Credito Social Cooperativo And Cajamar Caja Rural Upgraded On Stronger Capitalization; Outlook Stable
- Banconal Downgraded To 'BBB-' On Same Action On Panama; Banco General Outlook Revised To Stable From Negative
- Bulletin: Uruguay's Banking Industry Risk Enhanced By Regulatory Track Record That Supports Financial Sector's Stability
- Ares Capital Corp. Upgraded To 'BBB' On Long Operating History And Strong Financial Flexibility; Outlook Stable
- PODS LLC Outlook Revised To Negative On Weaker-Than-Expected Performance; 'B-' Rating Affirmed

We published several commentaries including:

- Nordic Banks: Resilient Profitability And Ample Capitalization Continue To Support Financial Performance

Sovereign

- Bulletin: Effects Of Korea's Brush With Martial Law May Linger
- Uzbekistan 'BB-/B' Ratings Affirmed; Outlook Stable
- France 'AA-/A-1+' Ratings Affirmed; Outlook Stable

Structured Finance

- **CLO ETF Sector:** Here are a few "Key Takeaways" from a recent commentary:
    - The CLO ETF market has grown to over $19 billion as of late November 2024 from $120 million in 2020, fueled in part by investor appetite for exposure to floating-rate debt in a rising interest rate environment.
    - Individual funds can own substantial portions of CLO tranches. In the case of the largest player in the CLO ETF space, Janus Henderson's JAAA fund, this portion can be upwards of 90%. While most purchase activity across CLO ETFs occurs in the secondary market, primary acquisitions do take place, particularly with JAAA.
    - CLO ETFs are likely contributing to the current spread tightening and liquidity of CLO tranches. For now, CLO ETFs are unlikely to exacerbate volatility in the case of a distressed CLO market because of the inherent decoupling between ETF investor share sales and CLO sales from the ETF's portfolio.
    - If the CLO ETF market continues to grow at its current pace, it is possible that ETFs could increase CLO note price volatility in the case of a severe market dislocation.
    - See commentary titled "ABS Frontiers: How The Burgeoning CLO ETF Sector Could Impact The Broader CLO Market" and published on Nov. 26, 2024.
- **Blockchain - Covered Bonds:** See recent commentary titled "Blockchain Meets Covered Bonds" and published on Nov. 28, 2024.
- **U.K. RMBS:** Here are key takeaways from the recent commentary titled: "U.K. Legacy RMBS Arrears To Be Higher For Longer" (published Nov. 28, 2024):

  - Further U.K. interest rate cuts would reduce monthly instalments for existing borrowers on floating rates and should be positive for RMBS transactions backed by residential collateral. However, we don't anticipate a rapid material improvement in reported arrears.
  - While borrowers refinancing from fixed rates would suffer lower payment shock, reduced monthly payments would also lead to a rise in arrears, given that months in arrears are generally calculated as arrears balance divided by monthly payment.
  - If interest rates fall rapidly but collateral performance does not immediately improve, U.K. legacy RMBS transactions' common pro rata/sequential switch triggers may be breached, which may in turn affect payment priority.
- **Australian RMBS:** See the recent commentary titled: "An Overview Of Australia's Housing Market And Residential Mortgage-Backed Securities" published on Nov. 27, 2024 as well the recent "RMBS Performance Watch: Australia" published on Nov. 25, 2024. Here are a few key takeaways from "An Overview Of Australia's Housing Market And Residential Mortgage-Backed Securities":
  - Arrears remain low, underpinned by low unemployment, property price growth, and savings buffers.
  - State property price dynamics are diverging due to local economic factors, demographic trends, and property taxes, with downstream effects on investor and first-home owner participation.
  - "Higher for longer" interest rates will add to debt-serviceability pressures, but most households should navigate the challenges if unemployment remains low.
- **Japan Auto ABS:** Here are a few "Key Takeaways" from a recent commentary:
  - An increase in the proportion of auto loans backed by battery electric vehicles in auto loan ABS transactions in Japan could affect the creditworthiness of the underlying pools of assets.
  - Unlike hybrids and plug-in hybrid electric vehicles, the residual value of battery electric vehicles is lower than that of vehicles with internal combustion engines.
  - The key challenges to battery electric vehicles maintaining higher residual value will include the limited number of battery electric vehicles in the used car market and uncertainties over battery life and obsolescence.
  - See commentary titled "How Electric Vehicle Sales Growth Could Affect Japanese Auto ABS" and published on Nov. 27, 2024.
- **Portugal RMBS:** Here are a few "Key Takeaways" from a recent commentary:
  - Historically, Portuguese residential mortgages were almost exclusively floating rate, but this trend has changed in recent years, albeit more slowly than in other European countries.
  - Almost 74% of all newly originated residential mortgages now have an initial fixed rate lasting between one and five years, after which they switch to a floating rate. This should mitigate the impact on households from increasing interest rates.
  - Asset performance in Portuguese residential mortgage-backed securities (RMBS) transactions has been stable since 2020. Although historical asset

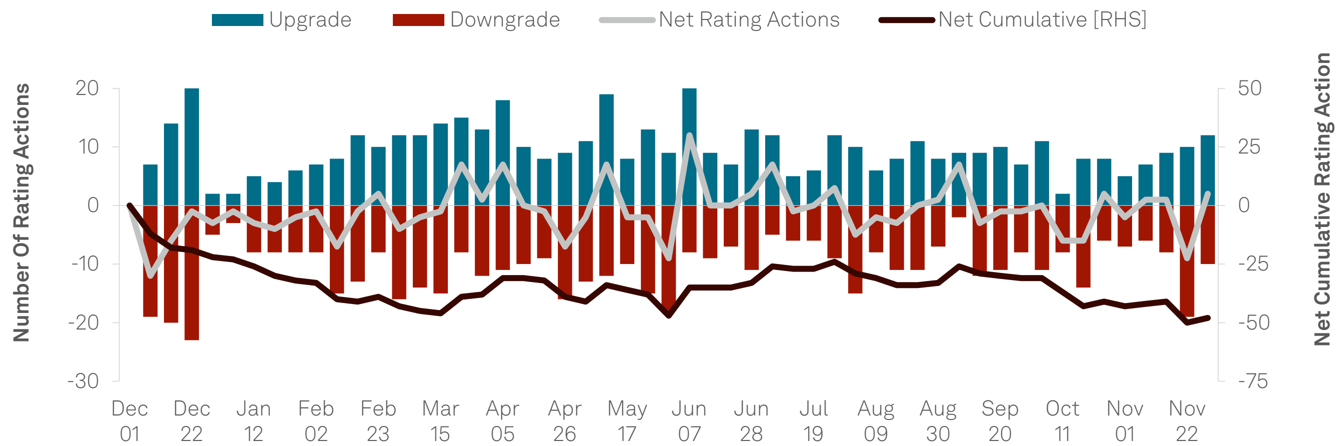
performance is worse than we have observed in some other euro-denominated RMBS markets, we view it in the context of sovereign and macroeconomic stress in the wake of the global financial crisis.

- Portuguese house prices have remained resilient in recent years. This reflects a combination of supply and demand factors, including homeownership rates that are among the highest in Europe, demand from nonresidents and foreign nationals, and a growing population.
- We view Portuguese banks' lending and underwriting standards as more prudent than before 2018.
- See commentary titled "A Primer On Portugal's RMBS Market" and published on Nov. 25, 2024.

- **Australian and New Zealand ABS:** See the recent "ABS Performance Watch: Australia and New Zealand Q3 2024" published on Nov. 28, 2024
- **Canadian Credit Card ABS:** We published the "Canadian Credit Card Quality Index: Monthly Performance--September 2024" on Nov. 27, 2024. The CCQI is a monthly performance index that aggregates performance information of securitized credit card receivables in key risk areas.

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. 29, 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. $)
26-Nov	Upgrade	American Express Company	Bank	U.S.	A-	BBB+	44,155
26-Nov	Downgrade	Republic of Panama	Sovereign	Panama	BBB-	BBB	34,570
26-Nov	Upgrade	United Airlines Holdings, Inc	Transportation	U.S.	BB	BB-	11,350
26-Nov	Upgrade	ARES Capital Corporation	Nonnank financial institutions (ex. insurance)	U.S.	BBB	BBB-	9,430
25-Nov	Upgrade	Leidos Holdings, Inc.	Aerospace & defense	U.S.	BBB	BBB-	5,475
28-Nov	Downgrade	Motion Midco Ltd	Media & entertainment	U.K.	B-	B	4,089
26-Nov	Upgrade	Howmet Aerospace Inc	Aerospace & defense	U.S.	BBB	BBB-	4,055
25-Nov	Upgrade	ZF Invest S.A.S	Retail/restaurants	France	B	B-	3,396
28-Nov	Upgrade	Banco de Credito Social Cooperativo S.A.	Bank	Spain	BBB-	BB+	2,464
29-Nov	Downgrade	OCI N.V.	Chemicals, packaging & environmental services	Netherlands	BB+	BBB-	2,262

Source: S&P Global Ratings Credit Research & Insights. Data as of Nov. 29, 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**.**