S&P Global Ratings

The Ratings View

February 5, 2025

This report does not constitute a rating action.

Key Takeaways

- Uncertain tariff policies pose significant market and economic risks.
- The corporate outlook is fundamentally healthy, but tariffs top the worry list.
- We believe global bond issuance will increase 3% and markets will have sufficient capacity to absorb refinancing needs in 2025.

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Tariff policies are creating a significant degree of market and economic uncertainty. The 25% tariffs by the U.S. that were set to go into effect on Feb. 4, on Mexican and Canadian imports have been paused for one month after agreements were reached on border control. A 10% tariff on Chinese imports (on top of existing levies) took effect. China immediately imposed tariffs of 10%-15% on certain U.S. goods, and China's antitrust regulator announced that it has opened an investigation into Google for alleged antitrust violations. We believe the longer the tariffs are in place, the longer-lasting the chilling effect on the macroeconomy could be. Should the suggested 25% tariffs become reality, for Canada, commodity-related processing sectors would come under the most pressure. It would also pose a significant challenge to corporate credit quality in Mexico, and we would incorporate the sector effects in our analysis. We think the most exposed rated corporate sectors in Mexico would be auto suppliers, metals and mining, oil and gas, agribusiness, durable goods, and alcoholic beverages.

Proposed Tariffs Could Hurt The Global Tech Sector If Levied Too Long
A 25% Tariff Would Create New Trade Challenges For Mexican Corporations
Which Sectors Would Be Most Vulnerable To U.S. Tariffs On Canada And Mexico?

The Federal Reserve left policy rate unchanged at 4.25%-4.50%, as expected. The pause follows three consecutive cuts, totaling 100 basis points (bps). The Fed moved even more toward an already established "current-data-dependent" stance from the "forecast-dependent" one. The Fed needs to see more sequence of inflation progress and/or deterioration in employment for further cuts. The Fed may get in one more 25-bp cut this year (in the first half), but if the Fed doesn't resume rate cutting in the next few months (mid-March or early May), we suspect the window will have closed. This is based on our own baseline assumption of immigration curbs and tariffs leading to inflation moving back up to 2.5%-3.0%. We now anticipate a longer pause before slower growth conditions force their hands to resume easing again in 2026.

The Fed Is In Limbo

The corporate outlook is fundamentally healthy, but anxieties loom large. We have gathered our 25 industry reports together into a single volume, along with our assessment of the common themes that emerge. The corporate outlook appears fundamentally healthy with broad-based growth, margins expanding, leverage falling, and interest coverage recovering. Anxiety around the potential for trade and tariff conflict is widespread, given the potential risks for demand, inflation, financial market volatility, and supply chains. AI, climate risks, and energy transition are the broader themes with most tangible credit risk and opportunity, given uncertain outcomes and substantial financial requirements.

Industry Credit Outlook 2025: Compilation and Key Themes

We expect a 3% increase in global bond issuance this year, a more modest pace than last year's 20% jump. Because of the recent uptick in interest rates and inflation expectations, we have lowered our issuance forecasts for most sectors. But most long-term interest rates are still in the ranges that they've generally been in since mid-2023. There's the potential for increased volatility this year, in our view--both positive and negative. Positive contributors could include more mergers and acquisitions, or stimulative, debt-supportive measures in China. Headwinds could include higher inflation from new tariffs, or persistently high benchmark rates.

Global Financing Conditions: A Mixed Picture As Uncertainty Builds, But The Issuance Forecast Remains Positive

Buoyant debt markets retain sufficient capacity to meet upcoming refinancing demands. Speculative-grade bond and loan issuance last year exceeded annual maturities for each year through 2028. Near-term maturities also appear manageable, especially as speculative-grade obligations in 2025 fell by 50% over the past year and as investors bid up the price of 'CCC' category bonds that are maturing this year. However, given the uncertainties around inflation and monetary policy, the easing in financing conditions for U.S. borrowers may have stalled. Borrowers with 'BBB' or 'BB' bonds in the U.S. and Europe stand to see funding costs rise by 170 bps-195 bps for those maturing in 2025 and 2026, if refinanced at recent new-issue yields.

Global Refinancing: Credit Market Resurgence Helps Ease Upcoming Maturities

DeepSeek's model could prove a material advancement in generative AI. DeepSeek grabbed global attention on January 27 when it unveiled its open-source R1 LLM, a rival to OpenAI's o1 model in terms of performance, cost, efficiency, and energy consumption. A resultant stock selloff, notably in U.S. tech, sent global equity markets down about 1.4% from January 25 to January 28. DeepSeek's performance is comparable to the most advanced LLMs but uses a fraction of their compute power and is supported by lower-cost and simpler graphics processing units (GPUs). We think that DeepSeeks's launch will have widespread for competition, democratization of innovation, engineering advancement, and market valuation and volatility. We expect some corporations, investors, and nations will re-assess genAI investments and expensive partnerships with established big tech companies, potentially shifting budgets to more affordable and open-source options instead of higher-cost and proprietary models.

AI Brief: DeepSeek Is A Catalyst For Innovation

The credit outlook for the global pharmaceutical industry is stable, reflecting our expectation for a balanced mix of upgrades and downgrades. Given the steady cadence of new products, we expect healthy revenue growth for branded pharma through 2027, despite various products losing exclusivity, headwinds from competition in the U.S., and pressures from Medicare price negotiation under the Inflation Reduction Act of 2022. We anticipate spending on M&A will moderately increase in 2025, supported by fewer regulatory constraints under the new U.S. administration albeit restrained by borrowing costs, still elevated leverage, and the limited need for M&A given healthy organic revenue growth for Big Pharma though 2027. In the more commodity-like generic drug industry, we expect mid-single-digit percent annual price erosion and modest organic revenue growth, in line with 2024, but a substantial improvement from trends in prior years.

Pharmaceutical Industry 2025 Credit Outlook Is Stable As Healthy Revenue Growth Mitigates Pressures

Asset Class Highlights

Corporates

Notable publications include:

- Industry Credit Outlook 2025: Compilation and Key Themes
- Credit Trends: Global Refinancing: Credit Market Resurgence Helps Ease Upcoming Maturities
- Health Care Services Credit Outlook Revised To Stable On Broadly Better Operating Performance
- Proposed Tariffs Could Hurt The Global Tech Sector If Levied Too Long
- AI Brief: DeepSeek Is A Catalyst For Innovation
- China Food And Beverage: Outdoor And Leisure To Prop Up Demand
- A 25% Tariff Would Create New Trade Challenges For Mexican Corporations
- Pharmaceutical Industry 2025 Credit Outlook Is Stable As Healthy Revenue Growth Mitigates Pressures
- Global Credit Markets Update Q1 2025: Have Positive Rating Performance Trends Peaked Or Plateaued?
- Private Markets Monthly, January 2025: S&P Global's Leaders On How We Serve The Scale Of Private Funding
- U.S. Leveraged Finance Q4 2024 Update: Outperforming Private Credits Thrive After BSL Transition
- Global Financing Conditions: A Mixed Picture As Uncertainty Builds, But The Issuance Forecast Remains Positive
- This Month In Credit: A Turn For The Worse? (January 2025)
- Investment-Grade Credit Check Q1 2025: Pockets Of Pressure

We took several ratings actions, including:

- Royal Caribbean Cruises Ltd. Ratings Raised to 'BBB-' On Favorable Bookings And Expected Sustained Credit Measure Improvement; Outlook Stable
- Vedanta Resources Upgraded To 'B+' On Easing Refinancing Risk; Removed From CreditWatch; Outlook Stable
- Edison International And Subsidiary SoCalEdison Outlooks Revised To Negative From Stable On Potential Risk For WildFire Fund Depletion: Ratings Affirmed
- Polaris Inc. Outlook Revised To Negative Due To Weakened Credit Metrics
- Raizen S.A. Global Rating Outlook Revised To Negative From Stable On High Leverage; 'BBB' Ratings Affirmed
- Israel Electric's 'BBB+' Ratings Affirmed And Removed From CreditWatch Negative On Improved Metrics; Outlook Negative

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Financial Institutions

Notable publications include:

- U.S. Securities Firms Outlook 2025: Uncertainty Could Cloud Otherwise Favorable Conditions
- Japan Banking Outlook 2025: Tailwinds And Tests Of Resilience
- North African And Eastern Mediterranean Banking Outlook 2025: A Mixed Bag
- Various Positive Rating Actions Taken On Greek Banks On Stronger Institutional Framework And Improving Capital Quality
- Research Update: Euronext N.V. Upgraded To 'A-' On Lower Leverage And Enhanced Earnings Capacity; Outlook Stable
- Bulletin: Jane Street Group LLC's Announced Term Loan B Upsizing Remains Consistent With Ratings Expectations
- Bulletin: Deutsche Bank's Fourth-Quarter Costs Pave The Way For Stronger 2025 Earnings
- Bulletin: ING Takes An Important Step In Reducing Russian Exposures
- Bulletin: SBI Shinsei Bank's Creditworthiness Depends On Public Funds Repayment Conditions
- Bulletin: Banco Safra S.A.'s Capital Reduction Will Not Hit Its Projected Metrics

Sovereign

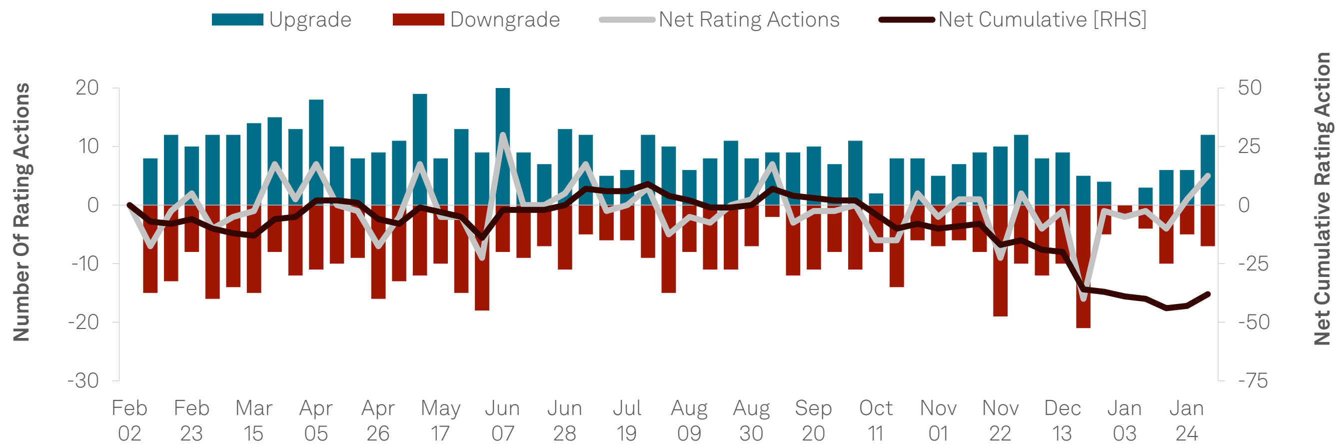
- Research Update: Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable

Structured Finance

- **U.S. CLO:** On Jan. 29, 2025, we published a commentary titled "U.S. CLO Newsletter Fourth-Quarter 2024 And Full-Year 2024".
- **Esoteric Structured Finance:** On Jan. 27, 2025, we published a commentary titled "Structured Finance Esoteric Quarterly Roundup: Q1 2025".

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 Jan. 31, 2025. 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. $)
28-Jan	Upgrade	Triton Water Holdings Inc., (Primo Brands Corp.)	Consumer products	U.S.	BB-	B	9,773
28-Jan	Upgrade	Primo Water Corp. (Primo Brands Corp.)	Consumer products	Canada	BB-	B+	7,973
31-Jan	Upgrade	Eurobank Ergasias Services and Holdings SA	Bank	Greece	BB+	BB-	4,428
27-Jan	Upgrade	PartnerRe Ltd. (Covea Group)	Insurance	Bermuda	A	A-	3,599
28-Jan	Downgrade	Intrum AB (publ)	NBFI	Sweden	SD	CC	3,102
31-Jan	Upgrade	Piraeus Financial Holdings S.A.	Bank	Greece	BB-	B+	2,969
28-Jan	Upgrade	Avinor AS	Transportation	Norway	A+	A	1,546
31-Jan	Upgrade	National Bank of Greece S.A.	Bank	Greece	BBB-	BB+	1,291
30-Jan	Downgrade	Corus Entertainment Inc.	Media & entertainment	Canada	CCC-	CCC	1,163
28-Jan	Downgrade	ModivCare Inc.	Health care	U.S.	CCC+	B-	1,100

Source: S&P Global Ratings Credit Research & Insights. Data as of Jan. 31, 2025. 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**.**