S&P Global
Ratings

The Ratings View

February 19, 2025

This report does not constitute a rating action.

Key Takeaways

- The convergence of banks and nonbanks could bring systemic risks.
- We assess potential impacts of the latest U.S. tariff proposals on various sectors.
- Funding higher European defense spending will be a challenge.

Banks and nonbanks are competing and converging in the financial system, as they offer credit intermediation while also providing funding to each other. Private credit exposures, in particular, have grown rapidly on the balance sheets of insurance companies, funds, and nonbank financial institutions (NBFI). The plethora of direct and indirect funding and liquidity connections between banks and nonbanks could amplify and propagate systemic risk. Current relatively benign funding conditions limit imminent financial stability risks, but geopolitical shocks could trigger renewed turbulence.

Private Credit's Characteristics Can Both Exacerbate And Mitigate Challenges Amid Market Evolution
U.S. Banks' $1 Trillion In Loans To Nonbanks, Like Private Credit, Creates Risks And Rewards
Global Bank-Nonbank Nexus Could Amplify And Propagate Market Shocks
Global Nonbank Financial Institutions Press Ahead

President Trump announced plans for a flat tariff of 25% on all U.S. imports of steel and aluminum, including on trade partners that had been granted exceptions in the past. Currently, our baseline U.S. economic forecast does not include the planned tariffs, but our early estimate finds that the direct impact on consumer prices and GDP would likely be modest--less than a tenth of a percentage point. If the announced tariffs escalate into a broader trade war, economic conditions could suffer, and we could revise down our macroeconomic forecasts as a result. While the tariffs should be positive for domestic steel and aluminum industries, they risk larger knock-on negative effects on downstream users of these metals, such as automakers, can manufacturers, packaging, and construction projects.

Economic Research: Announced Steel And Aluminum Tariffs Would Mean Little Change For U.S. GDP And Prices, Bigger Risks For Downstream Users

A sustained 25% tariff on imports from Mexico and Canada proposed by President Trump could derail the North American auto industry. Such tariffs would slash billions from automakers' profits, triggering ripple effects across the broader supply chain due to potential production disruption and increasing auto prices. In addition, the proposed tariffs on steel and aluminum would also increase costs for the auto industry as it comprised 15% of net shipments of iron and steel in 2024. History suggests that the costs of tariffs have largely been borne by U.S. consumers. In past instances of new tariffs, almost all of the additional cost was passed through in the first year. We believe most company ratings would be unaffected if the tariffs were short-lived, but we expect the uncertainty around U.S. tariff policy to be ongoing.

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

For latest Sector and Industry Research **Click Here**

Uncertain Tariff Policies Could Create Ratings Risks For North American Automakers And Suppliers

Broad-based tariffs could hurt more U.S. consumer products and retail companies this time around than in the first Trump administration. Over 24% of retail credits and 19% of consumer credits have negative outlooks, indicating an above-average negative bias and little headroom for additional macroeconomic pressures. Precise tariff impacts require knowledge of each company's product, supply, and manufacturing mix. Subsector impacts vary widely depending upon this mix. Companies cannot rely solely on price increases to mitigate the extra costs imposed by tariffs and retailers will ultimately have to decide how much they can and will pass on to the end consumer. Price increases will be harder to pass along to the consumer this time around because of the recent inflation cycle and already weak consumer environment.

Tariffs Will Hurt U.S. Consumer And Retail And Restaurant Companies--To Varying Degrees, And Depending On The Subsector

Funding higher European defense spending will be a challenge. European nations on average still spend below NATO's 2% of GDP guidelines, while the U.S. finances nearly two-thirds of NATO's military budget. At the national level, fiscal constraints limit European sovereigns' capacity to boost military expenditure, pushing policymakers to explore alternative options to boost defense spending. Even traditionally fiscally restrained European sovereigns appear to favor collective bond issuance to support further hikes in EU defense spending. The European Union and the European Investment Bank as well as the European Stability Mechanism and the European Financial Stability Facility could present initial ways to provide additional funding for EU members. However, given its long-term nature, sustained defense spending will require additional resources, forcing European sovereigns to find offsetting budgetary savings during an era of weak growth, political fragmentation, and aging demographics.

European Defense Funding: What Are The Options?

Global corporate defaults amounted to 10 in January, the same number as in December. U.S.-based issuers accounted for 70% of defaults last month. Consumer products and health care companies contributed to 50% of defaults in January. With €4.98 billion, the health care sector accounted for 62% of the defaulted debt amount in January. Distressed exchanges, which remain the primary reason for defaults, caused six defaults in January.

Default, Transition, and Recovery: Consumer Products And Health Care Led Defaults In January

S&P Global Ratings revised its policy rate forecasts for nine key emerging markets following a recent change in its policy rate forecast for the U.S. Across those nine emerging markets--Brazil, Chile, Colombia, Hungary, Mexico, Peru, Saudi Arabia, South Africa, and Turkiye--the median shift in our rate forecasts (for the end of 2025 and the end of 2026) is a shift up by 50 basis points (bps). The interest rate differential between emerging markets and the U.S. is a key driver of capital flows, and we now expect just one 25-bp rate cut from the Federal Reserve this year, compared with three 25-bp cuts in our previous forecast. Central banks in many key emerging markets have been lowering their policy rates for more than a year. We now expect these central banks to be cautious about cutting rates, to prevent a rapid narrowing of their countries' interest rate differentials with the U.S.

Interest Rate Forecasts For Key Emerging Markets Revised Following Recent Change To The U.S. Rate Forecast

For our latest update on the global corporate results season, please see here: Corporate Results Roundup Q4 2024: Results point to accelerating growth

Asset Class Highlights

Corporates

Notable publications include:

- Corporate Results Roundup Q4 2024: Results point to accelerating growth
- Hong Kong Retail Landlords: A Choice Between Lower Rents Or Higher Vacancy
- Uncertain Tariff Policies Could Create Ratings Risks For North American Automakers And Suppliers
- Canadian Oil Producers Likely Resilient To Potential Tariffs
- Steel Brief: U.S. Tariffs To Hit Korean Producers Harder Than Regional Peers
- Credit FAQ: What The Creation Of JVs And Partial Disposal Of Subsidiaries Could Mean For A Group's Credit Quality
- Health Care Brief: German Hospital Reform Likely To Spur Market Consolidation
- Private Financings Gain In Popularity Among GCC Issuers
- Tariffs Will Hurt U.S. Consumer And Retail And Restaurant Companies--To Varying Degrees, And Depending On The Subsector
- Default, Transition, and Recovery: Consumer Products And Health Care Led Defaults In January
- China Renewables Brief: Market Pricing Will Make Sector More Volatile
- Hong Kong's Office Market: With Rents Down, Valuations Will Follow
- U.S. Tech Earnings: AI Spending Keeps Surging Despite DeepSeek's Efficiency Breakthrough
- U.S. Toy Manufacturers Look To Leverage A Heavier Entertainment Slate In 2025
- Emerging Markets Monthly Highlights: Increased Uncertainty Stemming From U.S. Trade Policy
- China Industrials: Policy Patches Will Ease Some Of The Strain

Financial Institutions

Notable publications include:

- Research Update: Taishin Financial Holding And Taishin International Bank Ratings Affirmed; Off CreditWatch On Protracted Merger Progress
- Research Update: Haitong Securities And Haitong International Securities Ratings Placed On Watch Positive On Merger Progress
- Research Update: KKR Real Estate Finance Trust Outlook Revised To Stable From Negative On Steady Asset Quality; 'B+' Rating Affirmed
- Bulletin: UniCredit Envisions Solid Performance Under Its 2025-2027 Strategic Plan
- Bulletin: Dutch Banks' 2024 Results Show Strong Performance For Consecutive Year
- Bulletin: Commerzbank Outlines Ambitious Financial Targets To Ward Off UniCredit
- Bulletin: Toronto-Dominion Bank's Sale Of Schwab Investment Boosts Capital In The Short Term; Usage Of Some Proceeds Is Uncertain
- Bulletin: Charles Schwab Corp.'s Announced $1.5 Billion Share Repurchase From TD Stake Sale Won't Affect Capitalization

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

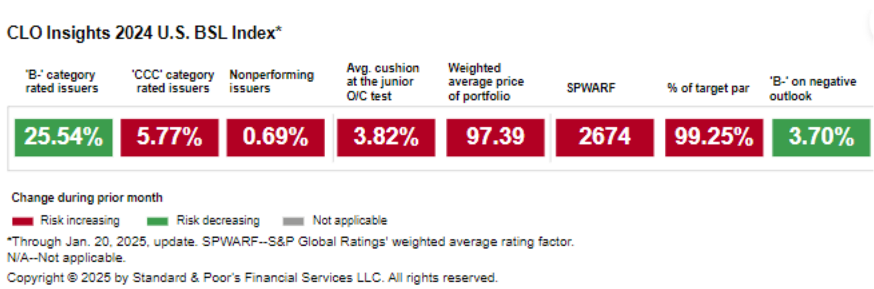
- Private Financings Gain In Popularity Among GCC Issuers
- Asia-Pacific Banking Country Snapshots: Most Banks Will Absorb U.S. Policy Volatility
- Asia-Pacific Financial Institutions 1Q 2025 Monitor: Most Banks Will Absorb U.S. Policy Volatility
- An Update On Securities Firm Anchors By Country (February 2025)
- Central Asia And Caucasus Banking Outlook 2025: Positive Momentum Continues
- Stablecoin Brief: cNGN Could Intensify Payment Competition In Nigeria

Sovereign

- Argentina Local Currency Sovereign Rating Lowered To 'SD' After Debt Exchanges; 'CCC' Foreign Currency Rating Affirmed
- Austria Outlook Revised To Stable From Positive On Fiscal And Economic Challenges; 'AA+/A-1+' Ratings Affirmed
- Angola 'B-/B' Ratings Affirmed; Outlook Stable
- European Defense Funding: What Are The Options?

Structured Finance

- **U.S. CLO:** On Feb. 13, 2025, we published a commentary titled "U.S. BSL CLO And Leveraged Finance Quarterly: Credit Fundamentals Mostly Sunny, But Some Clouds Linger (Q1 2025)". On Feb. 10, 2025, we also published another commentary titled "SF Credit Brief: CLO Insights 2025 U.S. BSL Index: Exposure To 'B-' Assets Ticks Up In Q4; 'BB's From New Issue CLOs And Refi CLOs Compared".



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
25.54%	5.77%	0.69%	3.82%	97.39	2674	99.25%	3.70%

Change during prior month
Risk increasing Risk decreasing Not applicable
*Through Jan. 20, 2025, update. SPWARF--S&P Global Ratings' weighted average rating factor.
N/A--Not applicable.

- **U.S. Auto ABS:** We recently published two U.S. Auto ABS commentaries. Here are the key takeaways from the first commentary titled: "U.S. Auto Loan ABS Tracker: Full-Year And December 2024 Performance" (published Feb. 13, 2025):
  - U.S. auto loan ABS volume rose approximately 6% to a record $126.0 billion in 2024, led by issuance growth in the below prime (nonprime and subprime) and bank segments.
  - Collateral performance weakened in 2024. Prime 60-plus-day delinquencies and losses reached their highest monthly averages since 2010, and the 2023 and quarterly 2024 vintages are reporting higher losses than 2022 and 2016 (the last vintages unaffected by COVID-19 stimulus). Meanwhile, subprime 60-plus-day delinquencies reached an all-time high and the highest average monthly losses since 2009, though the lenders' tighter credit standards are finally surfacing in the 2023 and 2024 vintage static pool data.

  - Rating actions remained largely positive with 313 upgrades and 11 downgrades, despite the worsened credit metrics. There would have been more downgrades and greater severity had certain issuers not increased their transactions' credit enhancement.
  - We expect issuance to increase 3% to approximately $130 billion in 2025, though auto sales and credit performance face headwinds from the uncertain impact of the proposed import tariffs on auto sales and the U.S. economy, persistently high interest rates, and consumers' growing debt levels, among other factors. Ratings should remain largely stable in the prime segment, while upgrades will likely continue to exceed downgrades in the subprime segment.

  Here are the key takeaways from the second commentary titled: "Credit Union Auto Loan ABS Issuance Growth Continued In 2024, Buoyed By New And Repeat Issuers" (published Feb. 12, 2025):

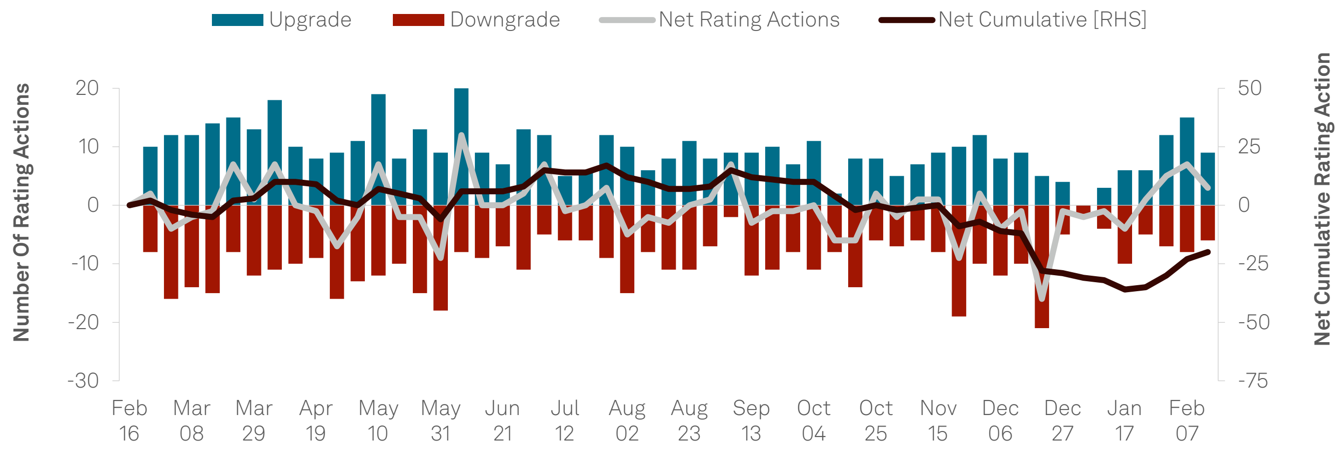
  - Auto loan ABS issuance from U.S. credit unions increased 20% to $2.07 billion in 2024, even though fewer credit unions accessed the market compared with 2023.
  - The absence of programmatic issuance on a regular, planned basis will continue to influence the credit unions' issuance volume and presence in the auto loan ABS market.
  - Issuance could reach or even exceed $2.25 billion in 2025, depending on the credit unions' securitization strategy. We expect a few repeat issuers and a limited number of new entrants to drive issuance.

- **U.S. Credit Risk Transfer transactions:** Here are a few "Key Takeaways" from a recent commentary:
  - As privatization of the GSEs has resurfaced as a potential policy objective, we are monitoring the effect it could have on CRT ratings.
  - While CRT note credit quality is largely dependent on the behavior of the reference mortgage pool, counterparty risk of the GSEs could become a constraining factor.
  - If a path to privatization takes form, we will need to factor in the extent to which transaction structures mitigate the counterparty risk of the GSEs, or any other forms of external support provided, such as a guarantor of GSE obligations.
  - See commentary titled "How GSE Privatization Could Impact Credit Risk Transfer Ratings" and published on Feb. 12, 2025.
- **European Auto ABS:** See the recent commentary titled "European Auto ABS Index Report Q4 2024" and published on Feb. 14, 2025.
- **European and U.K. Credit Card ABS:** See the recent commentary titled "European And U.K. Credit Card ABS Index Report Q4 2024" and published on Feb. 14, 2025.
- **China Securitization:** On Feb. 11, 2025, we published the "China Securitization Performance Watch 4Q 2024: Modest growth driven by burgeoning asset classes".
- **Japan Securitization:** On Feb. 10, 2025, we published the "Japan's 2024 Securitization Market: Issuance Returns To Growth".

Australian RMBS: See the recent "RMBS Arrears Statistics: Australia December 2024" published on Feb. 9, 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 Feb. 14, 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. $)
12-Feb	Upgrade	CommScope Holding Co. Inc.	High technology	U.S.	CCC+	CCC	8,600
10-Feb	Downgrade	Estee Lauder Cos. Inc. (The)	Consumer products	U.S.	A-	A	7,450
10-Feb	Upgrade	Amphenol Corp.	High technology	U.S.	A-	BBB+	5,900
11-Feb	Upgrade	SVP Holdings LLC	Health care	U.S.	B	B-	4,848
13-Feb	Downgrade	Newfold Digital Holdings Group Inc.	High technology	U.S.	CCC+	B-	3,585
13-Feb	Upgrade	DS Smith Plc (International Paper Co.)	Chemicals, packaging & environmental services	U.K.	BBB	BBB-	2,482
14-Feb	Upgrade	Griffon Corp.	Forest products & building materials	U.S.	BB-	B+	1,459
11-Feb	Upgrade	BCPE North Star Holdings, LP	Consumer products	U.S.	B-	CCC+	1,353
11-Feb	Downgrade	Sandy Holdco B.V.	Media & entertainment	Netherlands	B-	B	1,216
14-Feb	Upgrade	Unit4 Group Holding B.V.	High technology	Netherlands	B	B-	1,012

Source: S&P Global Ratings Credit Research & Insights. Data as of Feb. 14, 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**.**