S&P Global Ratings

# The Ratings View

**March 6, 2025**

This report does not constitute a rating action.

## Key Takeaways

- The potential impact of tariffs on U.S. and Mexican corporates are top of mind.
- Sovereign borrowing will continue to grow, fueled by deficits and spending pressures.
- Risky credits decreased in North America while rising in Europe and emerging markets.


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**U.S. tariff policies and the prospect of trade conflict remain top of mind and we continue to assess potential credit risks**. Higher tariffs are a top concern for many U.S. corporate borrowers we rate and would likely result in rising input prices at a time when companies are grappling with already-elevated costs and a more difficult passthrough environment. The prospect of tariff-fueled inflation is throwing a wrench into the Federal Reserve's monetary-policy easing, and any related economic disruption could dampen market sentiment; against this backdrop, the cost of debt service and/or refinancing may be overly burdensome for some borrowers. Amid tariff uncertainties, key U.S. sectors to watch include autos, metals and mining, tech, oil and gas, capital goods, chemicals, consumer products and retail, pharma and health care, and utilities and power.

What Looming Tariffs Could Mean For U.S. Corporates

If the U.S.'s announced 25% tariffs on imports from Mexico take effect and stay in place for months or quarters, we estimate the Mexican economy could contract in 2025. Such a hit to the economy--which is highly integrated with the U.S., considering that Mexican exports are around 36% of GDP, and 80% of them go to the U.S.--would add to the existing vulnerabilities that weigh on our sovereign credit ratings on Mexico. We think the tariffs would represent a significant challenge to corporate credit quality in Mexico--particularly for auto suppliers, metals and mining, and oil and gas. But some rated companies are insulated by company-specific factors and the possibility of passing through costs to consumers. We also anticipate negative impacts for rated entities across the infrastructure, financial services, structured finance, and local and regional governments sectors.

How U.S. Tariffs Could Hit Rated Mexican Entities Across Sectors

Should tariffs on oil from Canada and Mexico proceed as announced, costs for U.S. refined products will rise and some refiners' margins will likely diminish, partly due to high processing costs. Certain speculative-grade rated refiners with a concentration in the U.S. Midwest could see credit ratios and liquidity deteriorate if tariffs remain in place over a long period. Even if the tariffs don't proceed as announced, the lingering uncertainty around U.S. trade policy could derail any new pipeline expansions or new construction of crude oil pipelines crossing the border.

U.S. Tariffs On Canada And Mexico Would Squeeze Some North American Refiners' Margins

The effects of potential U.S. tariffs on European building materials issuers would be minor. This is particularly the case in heavy industry, where cross-continental trade is limited. We believe any direct effects on the profitability of European light-industry building materials producers would be temporary and moderate. Instead, indirect consequences--such as higher inflation and construction costs, reduced business confidence, and lower volumes--would be more relevant and could exacerbate the existing housing affordability crisis.

European Building Materials Issuers Could Withstand Potential U.S. Tariffs

**We estimate sovereigns' long-term borrowing will reach $12.3 trillion in 2025, continuing the steady increase of recent years**, fueled by high fiscal deficits and spending pressures, including on defense. The U.S. will account for 40% of global long-term issuance, raising its 2025 borrowing by $200 billion to a total of $4.9 trillion, with its fiscal policy likely to remain expansionary. China remains the second-largest sovereign issuer, with the equivalent of $2.1 trillion, posting the largest nominal increase amid efforts to stimulate the economy. Other major sovereign issuers, primarily G-7 countries, will keep their borrowing broadly flat and high, with ongoing discussions about how to (debt-)finance Europe's pressing defense spending needs. Sovereigns' interest bills will likely remain elevated as rates could stay higher than previously expected.

**2025 commercial debt stock by issuer: Total $77 trillion**
Bil. $


Source: S&P Global Ratings.

Sovereign Debt 2025: Commercial Debt Will Reach A New Record High Of $77 Trillion

**The number of risky corporate credits declined in North America but rose in Europe and emerging markets.** The number of 'CCC+' and below rated North American corporate issuers decreased to 149 in January 2025, from 155 in September 2024, marking a steady decline since first-quarter 2024. Despite the drop in numbers, issuers rated 'CCC+' and below continue to hold elevated debt--$86 billion over the five-year average--with six that remain on negative outlooks or CreditWatch holding over $10 billion outstanding each. In Europe, the risky credits cohort has increased by 10 since the end of September 2024. Five of these new additions resulted from refinancing concerns. The media and entertainment, chemicals, and consumer products sectors represented 35% of risky European credits by number, while the telecommunications, chemicals, and utilities sectors accounted for 52% of debt exposure. In emerging markets, the number of risky credits increased to 15 as of January 2025, adding two entities to the count as of the end of Q3 2024, representing 10.8% of all speculative-grade rated entities. Three of the 15 risky credits displayed a negative outlook.

Risky Credits: North American Risky Credits Continue Descent Into 2025
Risky Credits: European Cohort Increases Amid Refinancing Concerns
Emerging Markets Risky Credits: Refinancing Ahead Of Further Market Volatility

# Asset Class Highlights

## Corporates

Notable publications include:

- S&P Global Ratings Metal Price Assumptions: Holding Firm Through First Waves Of Tariffs
- Credit FAQ: Hong Kong Banks And Property: Mapping The Contagion Effects
- Auto Brief: Automakers Breathe Easier As $CO_2$ Sanctions Ease
- Credit FAQ: How Hybrid Capital Innovations Affect Our View Of Equity Content
- Issuer Ranking: North And South American Midstream Energy Companies, Strongest To Weakest
- Credit FAQ: On The Rise: How Government-Related Entities Are Shaping Project Finance In The Gulf
- U.S. Tariffs On Canada And Mexico Would Squeeze Some North American Refiners' Margins
- European Building Materials Issuers Could Withstand Potential U.S. Tariffs
- Risky Credits: North American Risky Credits Continue Descent Into 2025
- Emerging Markets Risky Credits: Refinancing Ahead Of Further Market Volatility
- Risky Credits: European Cohort Increases Amid Refinancing Concerns
- What Looming Tariffs Could Mean For U.S. Corporates
- LatAm Corporate And Infrastructure Credit Outlook 2025: Tariffs, Rates, And Commodity Prices Keep Entities On Their Toes
- How U.S. Tariffs Could Hit Rated Mexican Entities Across Sectors
- Turbulence At Temporary Health Care Staffing Companies In 2025 May Pressure Ratings On The Heels Of A Boom-Bust Cycle

## Financial Institutions

Notable publications include:

- Bulletin: French Bank Ratings Unchanged After Sovereign Outlook Revision Amid Weakening Economic Resilience
- Bulletin: London Stock Exchange Group Faces Strong Growth Prospects In 2025-2026, Leaving One-Off Headwinds In 2024
- Research Update: First Citizens Bancshares Inc. Outlook Revised To Stable From Negative On Reduced Operational Risks; Ratings Affirmed
- Research Update: mBank S.A. Upgraded To 'BBB+' On Improved Profitability And Capitalization; Outlook Stable
- Research Update: Jones Lang LaSalle Inc. Outlook Revised To Stable On Improved CRE Transaction Activity, Lower Leverage; Ratings Affirmed
- Research Update: Banco Original S.A. 'B-' And 'brBBB' Ratings Affirmed, Removed From CreditWatch Positive; Outlook Positive
- CreditWeek: What Systemic Risks Does Private Credit Pose To Financial Markets?
- Banking Brief: Europe's Leaner Investment Banks Have Stabilized Their Market Share
- U.S. Regional Banks: 4Q 2024 Update Earnings To Remain Resilient In 2025 Amid Changing Environment

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- Three Takeaways From U.K. Banks' Full-Year 2024 Results
- Fintech Brief: Chinese Banks Seeking Efficiency Via DeepSeek Could Bring Underwriting Risk
- Vietnam Banks To Grow Fast While Navigating Capital Constraints

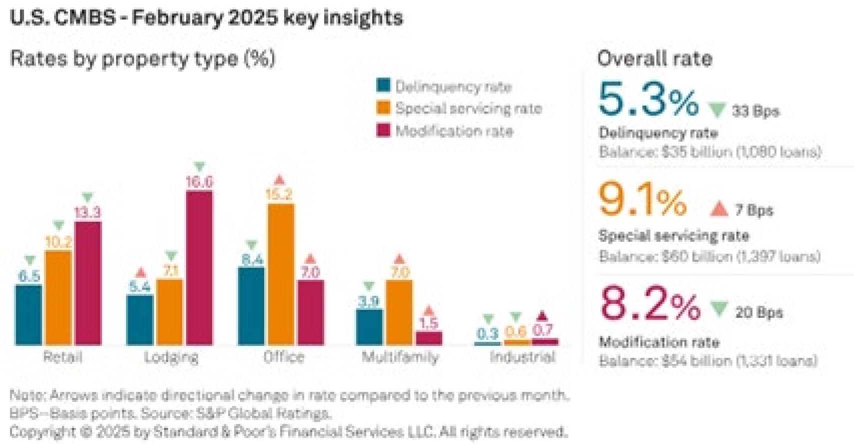
## Sovereign

- Sovereign Debt 2025: Up In The U.S.; Down In Latin America
- Sovereign Debt 2025: China Stimulus To Help Push Asia-Pacific Central Government Borrowing To US$4.2 Trillion
- Sovereign Debt 2025: EMEA Emerging Markets' Borrowings Will Remain Close To Peak At About US$624 Billion
- Sovereign Debt 2025: Developed European Governments To Borrow About $1.8 Trillion
- Sovereign Debt 2025: Commercial Debt Will Reach A New Record High Of $77 Trillion
- France 'AA-/A-1+' Ratings Affirmed; Outlook Revised To Negative On Weakening Public Finances
- Senegal Rating Lowered To 'B' On Large Fiscal And Debt Revisions; Outlook Negative
- Portugal Upgraded To 'A' On Ongoing External And Government Deleveraging; Outlook Positive

## Structured Finance

- **ABS Frontiers: Asset-Backed Finance Funds:** Here are key takeaways from the recent commentary titled: "ABS Frontiers: Asset-Based Finance Funds Are In Vogue" (published Feb. 24, 2025):
    - Private credit investment vehicles are diversifying beyond direct lending investments to include securitizations, fund finance facilities, and real assets, such as infrastructure and commercial real estate (CRE).
    - While similar securitization technology may be used for both public asset-backed securities (ABS) and private asset-based finance (ABF) transactions, the latter generally have more bespoke collateral pools and may benefit from enhanced structural protections.
    - There is growing interest in obtaining credit ratings for investment vehicles financing pools of ABF transactions, significant risk transfers (SRT), and fund finance facilities. Since the risk profile of individual transactions can vary widely across these exposure types, the investment vehicle's structural features and the manager's flexibility can influence our analysis.
    - Key differentiators of credit risk across investment vehicles include the creditor class subordination structure and security package, and principal coverage or portfolio investment tests.
- **EMEA Structured Finance:** S&P Global Ratings published on Feb. 26, 2025 its "EMEA Structured Finance Chart Book: February 2025". 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.

- **European CLO:** On Feb. 28, 2025, we published a commentary titled "Private Markets Monthly (EMEA Edition), February 2025: What Barings' Middle-Market CLO Means For The European Market". In this special EMEA edition of Private Markets Monthly, Global Head of Private Markets Analytics Ruth Yang interviews S&P Global Ratings' analytical and methodologies leaders about our criteria for rating middle-market CLOs and how we are adapting our ratings as the structured finance and private credit markets evolve. We also explore the idiosyncratic characteristics of the European middle-market CLO market and what the launch of this asset class means for the region moving forward.
- **U.S. CMBS:**

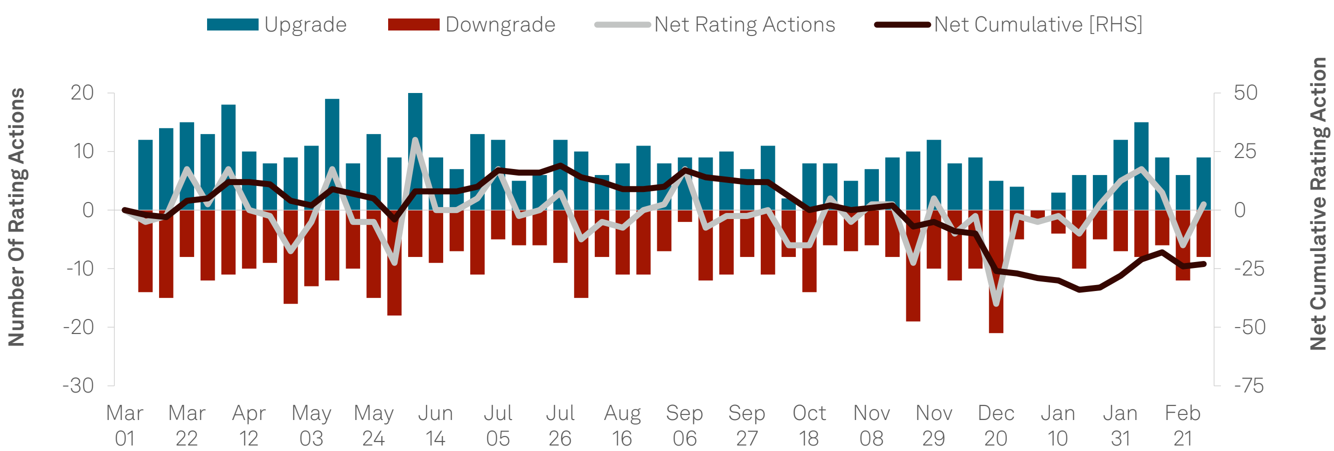



On Feb. 28, 2025, we published a commentary titled "U.S. CMBS Delinquency Rate Decreased 33 Bps To 5.3% In February 2025; Office Rate Fell To 8.4%".

- **Israel's RMBS:** See the recent "Credit FAQ: Israel's Public RMBS Market Takes Off" published on Feb. 25, 2025.
- **Australian and New Zealand ABS:** On Feb. 26, 2025, we published "ABS Performance Watch: Australia and New Zealand Q4 2024".
- **U.S. Residential Mortgage Servicing:** Here are a few "Key Takeaways" from a recent commentary:
    - Early-stage mortgage delinquency rates have increased from their lows in 2021, and the role of collectors will be critical for servicers as these delinquencies rise.
    - Loan delinquencies can result from borrower hardships related to inflationary pressures. These performance issues are often nuanced, idiosyncratic, and challenging to resolve.
    - Default management has evolved since the last economic recovery. As new technology and more streamlined solutions have emerged, collectors are at risk of becoming less dynamic in their approach to resolving delinquencies.
    - To manage delinquencies in this new era, servicers will need to assess and address any skill gaps in their collections staff.
    - On Feb. 24, 2025, we published a commentary titled "Servicers' Collection Skills Essential For Managing Delinquent Loans In A New Era".

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. 28, 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-Feb | Downgrade | Altice France Holding S.A. (Altice Europe N.V.) | Telecommunications | Luxembourg | CC | CCC- | 29,248 |
| 28-Feb | Downgrade | Viatris Inc. | Health care | U.S. | BB+ | BBB- | 19,219 |
| 27-Feb | Downgrade | Mars Inc. | Consumer products | U.S. | A | A+ | 10,000 |
| 24-Feb | Upgrade | Klepierre S.A. | Homebuilders/real estate co. | France | A- | BBB+ | 5,653 |
| 28-Feb | Downgrade | Republic of Senegal | Sovereign | Senegal | B | B+ | 5,015 |
| 25-Feb | Upgrade | Regency Centers Corp. | Homebuilders/real estate co. | U.S. | A- | BBB+ | 3,550 |
| 28-Feb | Upgrade | Latam Airlines Group S.A. | Transportation | Chile | BB | BB- | 2,950 |
| 27-Feb | Upgrade | Global Business Travel Group Inc. | Media  entertainment | U.S. | BB- | B+ | 2,610 |
| 27-Feb | Upgrade | mBank S.A. (Commerzbank AG) | Bank | Poland | BBB+ | BBB | 1,837 |
| 24-Feb | Downgrade | OT Merger Corp. | Capital goods | U.S. | SD | CCC+ | 1,150 |

Source: S&P Global Ratings Credit Research & Insights. Data as of Feb. 28, 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**.**