The Ratings View

March 19, 2025

This report does not constitute a rating action.

Key Takeaways

- We think there's a 25% probability of a U.S. recession starting in the next 12 months.
- Tariff uncertainty is clouding the outlook for corporate earnings.
- Companies may be underestimating their exposures to physical climate risks.

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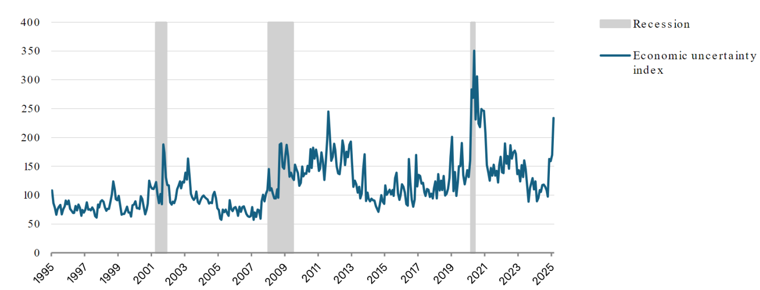
S&P Global Ratings Economics now believes there's a 25% probability of a U.S. recession starting in the next 12 months. There's an increasing risk that supply-side shocks from tariffs, decelerating immigration growth trends, and curbs on the federal government workforce will create a lasting negative feedback loop that weakens aggregate demand. Consumer sentiment and equity market sentiment have soured since February, and the manufacturing sector--which had seen early signs of a cyclical rebound--took a step back. The evolution of the hard data, by itself, points to low risk of a U.S. recession this year. However, given the rising risk of persistent supply shocks and negative sentiment, our subjective assessment is that there's a 25% probability of a U.S. recession starting in the next 12 months.

Economic uncertainty index



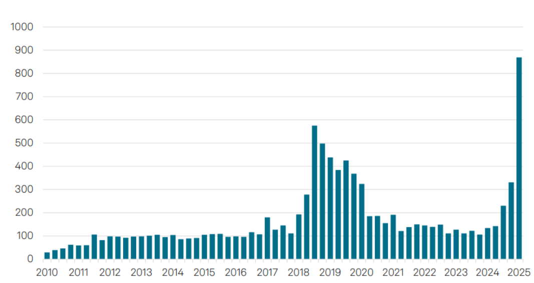
Data through February 2025. Sources: Economic Policy Uncertainty and S&P Global Ratings Economics.

U.S. Business Cycle Barometer: Increasing Likelihood Of A Slowdown

Tariffs are clouding corporate earnings prospects. Uncertainty around the timing, scope, and duration of U.S. tariffs and retaliatory measures from other countries makes it difficult for companies to assess potential impacts. Earnings calls from 533 rated companies reveal that corporate guidance largely does not reflect tariff impacts, so worst case outcomes will cause substantial earnings revisions. Companies appear broadly sanguine and believe price increases, supply chain localization, and inventory movement will soften the impact of higher tariffs. The greatest risks are likely in sectors with deep supply chain integration across North America, such as autos and aerospace. The near universal intent to pass through higher tariffs via prices means either inflation will result or, if the pricing environment is more resistant, corporate profit margins will begin to feel pressured.

Reference to tariffs in earnings calls have surged

Count of earnings calls for rated nonfinancial corporates referencing tariffs by calendar quarter

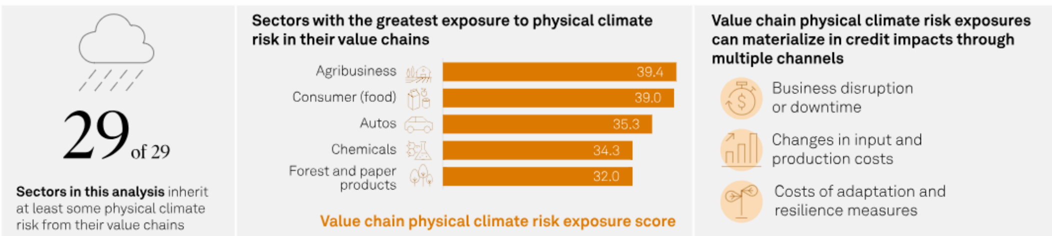


Source: S&P Global Market Intelligence, S&P Global Ratings. Data as of March 14, 2025.

Tariffs Cloud Corporate Earnings

Companies may be underestimating their exposures to physical climate risks if they fail to consider value-chain exposures in their risk analyses. In turn, they may also be underestimating potential operational and financial impacts. All sectors inherit at least some physical climate risk exposures from their value chains, including those with relatively limited direct risk exposure - but most exposed are those that rely on climate sensitive upstream sectors. Whether physical climate risks embedded in value chains have material credit impacts depends on many issuer specificities.

Companies inherit physical climate risk exposures through their value chains



Source: S&P Global Ratings.

Sustainability Insights: Executive Summary: How Value Chains Compound Sector Exposures To Physical Climate Risks

The number of global corporate defaults fell to seven in February, down from 10 in January and below the five-year monthly average of 20. European monthly defaults exceeded those in the U.S., both by number and defaulted debt amount, for the first time in over two years. By sector, 57% of the defaults in February occurred in the consumer products and media and entertainment sectors, with two each, while two-thirds of the defaulted debt came from the utilities sector. Distressed exchanges continue to be the primary reason for defaults, accounting for six in February.

Regional default insights

(No. of defaults)	February 2025	2025*	2024*	Leading sectors
U.S.	3 ↓	10	17	Consumer products
Europe	4 ↑	6	8	Financial institutions
Emerging markets	0 ↓	1	3	Transportation
Other developed	0 →	0	0	--

Data as of Feb. 28, 2025. *Captures year-to-date default tally. Direction of arrow indicates month-over-month change. Other developed includes Australia, Canada, Japan, and New Zealand. Default counts may include confidentially rated issuers. Sources: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence's CreditPro®.

Default, Transition, and Recovery: Europe Leads February Defaults

Downside risks for emerging market (EM) economies are increasing given the high level of unpredictability in U.S. trade policy and rising concerns over U.S. growth. While more tariff announcements are expected in the coming weeks, the uncertainty alone is likely to dampen investment. The macroeconomic impact of U.S. tariffs on aluminum and steel imports starting March 12 on most economies is likely to be limited, although certain sectors and firms will be affected. Aluminum prices rose in February due to pre-tariff stockpiling; however, we expect the rise in prices to be temporary. Reciprocal tariffs are expected to take effect on April 2. Asian EMs, with trade surpluses and wider tariff differentials with the U.S. face greater risk, while most of Latin America (LatAm) and EM Europe, the Middle East, and Africa (EMEA) are less exposed due to trade deficits and smaller tariff gaps.

Emerging Markets Monthly Highlights: U.S. Policy Shifts Dampen Investor Sentiment

Asset Class Highlights

Corporates

Notable publications include:

- Corporate Results Roundup Q4 2024: Growth accelerates and sentiment improves
- Transparency Of Supplier Finance Arrangements Has Room To Improve
- Steel And Aluminum Tariffs Boost Prices For U.S. Metal Producers, Costs For Manufacturers
- North American Airlines Patient Ahead Of Looming Debt Maturities
- Sector Review: China's Steelmakers Face 15%-20% Tariff-Driven Slump In Exports

Financial Institutions

Notable publications include:

- Tariff Uncertainty Could Strain Large Canadian Banks' Profitability
- European Banks Power Through Uncertainties
- China Brokerages: More Mergers, Still Fragmented
- Sector Review: Taiwan Fincos Won't See Credit Metrics Improve Until 2026

- Various Rating Actions Taken On Four Portuguese Banks On Sovereign Upgrade And Easing Economic Risks
- Research Update: Abu Dhabi Commercial Bank Upgraded To 'A+' On Improving Asset Quality; Outlook Stable
- Ratings On Three Saudi Banks Raised Following Sovereign Upgrade; Outlooks Stable
- Research Update: Saudi Real Estate Refinance Co. Upgraded To 'A' Following Sovereign Upgrade; Outlook Stable
- Research Update: Haitong Bank S.A. Upgraded To 'BB+' On Stronger Parent Following Merger; Off CreditWatch Positive; Outlook Stable
- Various Rating Actions Taken On Large Indian Finance Companies On Improving Regulatory Environment
- Research Update: FTAI Aviation Ltd. Outlook Revised To Positive On Improving Credit Metrics; 'B+' Ratings Affirmed

- Bulletin: Klarna's Planned IPO Backs Its Growth Ambitions
- Bulletin: Grenke AG's Modest Profit Outlook For 2025 Underlines The Cyclical Increase In Credit Losses
- Bulletin: Euronext N.V.'s Acquisition Of Admincontrol Furthers Its SaaS Ambitions

Sovereign

- Botswana Outlook Revised To Negative From Stable On External And Fiscal Pressures; 'BBB+/A-2' Ratings Affirmed

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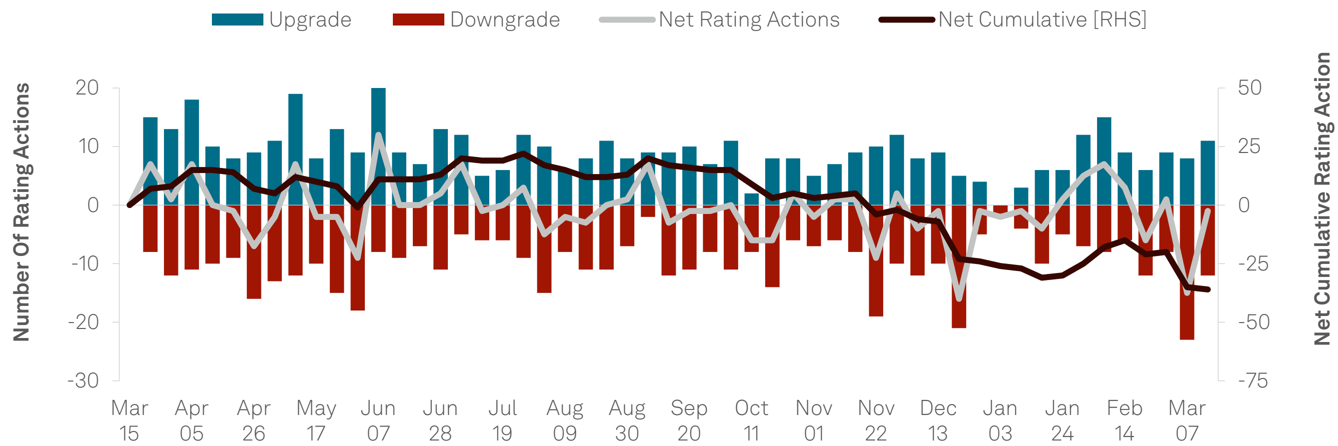
- Spain 'A/A-1' Ratings Affirmed; Outlook Stable
- Saudi Arabia Ratings Raised To 'A+' On Sustained Socioeconomic And Capital Market Reforms; Outlook Stable
- Sovereign Brief: Public Protests Could Derail Serbia's Investment And Growth Prospects

Structured Finance

- **U.S. Auto ABS:** Here are a couple "Key Takeaways" from a recent commentary:
    - In January 2025, U.S. prime auto loan ABS losses declined slightly (76 bps) relative to December (80 bps) thanks to a higher recovery rate (51.31%, up from 49.85%). In addition, losses were stable with year-ago levels. While 60-plus-day delinquencies declined slightly from the prior month and prior year, at 60 bps, they are at their second-highest January level since 2011.
    - Subprime auto loan ABS losses increased (9.44%) relative to December (9.22%) despite a higher recovery rate (33.30% versus 30.41%). On a year-over-year basis, losses were nearly stable. Similar to prime, 60-plus-day delinquencies finally retreated to 6.22% from 6.40% for December 2024 and 6.31% a year earlier; they remained at their second-highest January level in our database going back to January 2006.
    - On March 10, 2025, we published "U.S. Auto Loan ABS Tracker: January 2025 Performance".
- **Australian RMBS:** See: "How Will Ex-Tropical Cyclone Alfred Affect Australian RMBS?" (published March 11, 2025).
- **Dutch Covered Bonds:** Here are a few "Key Takeaways" from a recent commentary:
    - Dutch covered bond issuance in 2024 exceeded the past decade's average and outpaced the growth of European benchmark issuances.
    - Asset-liability mismatch continues eroding excess spread in Dutch programs, but the overcollateralization buffer provides a safe cushion around the 'AAA' ratings on the covered bonds.
    - The key challenge for Dutch residential housing is unchanged: the supply side struggles to keep up with rising demand, thereby keeping homes at increasingly hard-to-afford levels.
    - On March 11, 2025, we published "Dutch Covered Bond Market Insights 2025".
- **Australian and New Zealand Small-Ticket Commercial Real Estate Assets:** Small-ticket commercial mortgage-backed securities are gaining attention as small commercial property lending becomes a growing segment for the nonbank lending sector. For these lenders, securitization serves as a crucial source of funding. In this report, we explain its analytical approach to assessing the small commercial property loans included in collateral pools backing Australian and New Zealand structured finance transactions and answers some frequently asked questions. See the recent "Credit FAQ: How We Analyze Small-Ticket Commercial Real Estate Assets In Australian And New Zealand Structured Finance" published March 12, 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 Mar. 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. $)
13-Mar	Upgrade	Carvana Co.	Automotive	U.S.	B	B-	9,919
13-Mar	Upgrade	Uber Technologies Inc.	High technology	U.S.	BBB	BBB-	9,711
14-Mar	Upgrade	Abu Dhabi Commercial Bank PJSC	Bank	U.A.E.	A+	A	7,180
14-Mar	Upgrade	Kingdom of Saudi Arabia	Sovereign	Saudi Arabia	A+	A	6,400
13-Mar	Downgrade	Valeo S.E.	Automotive	France	BB	BB+	4,480
12-Mar	Upgrade	Viking Cruises Ltd. (Viking Holdings Ltd.)	Media & entertainment	U.S.	BB	BB-	3,270
14-Mar	Downgrade	E.W. Scripps Co. (The)	Media & entertainment	U.S.	CC	B-	3,111
11-Mar	Downgrade	Citycon Oyj	Homebuilders/real estate co.	Finland	BB+	BBB-	2,935
13-Mar	Upgrade	International Consolidated Airlines Group, S.A.	Transportation	Spain	BBB	BBB-	2,664
12-Mar	Upgrade	Banco Comercial Portugues S.A.	Bank	Portugal	BBB+	BBB	1,896

Source: S&P Global Ratings Credit Research & Insights. Data as of March 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**.**