S&P Global
Ratings

Global Credit Conditions Q2 2025

Puzzling Reshuffling

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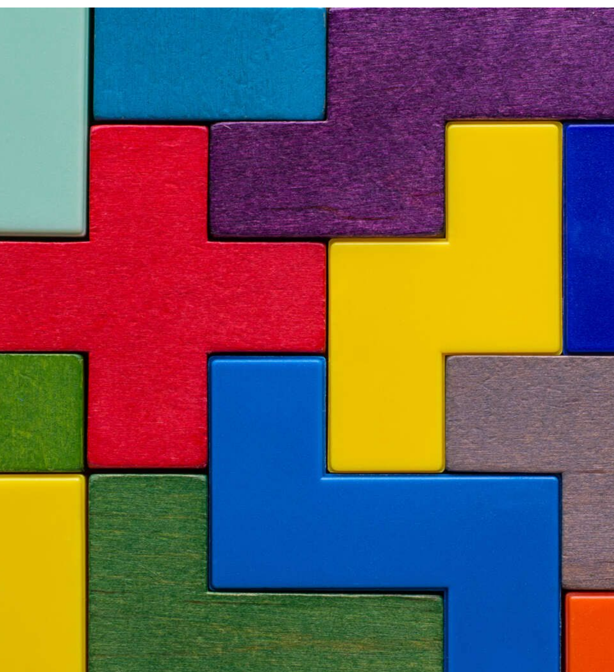
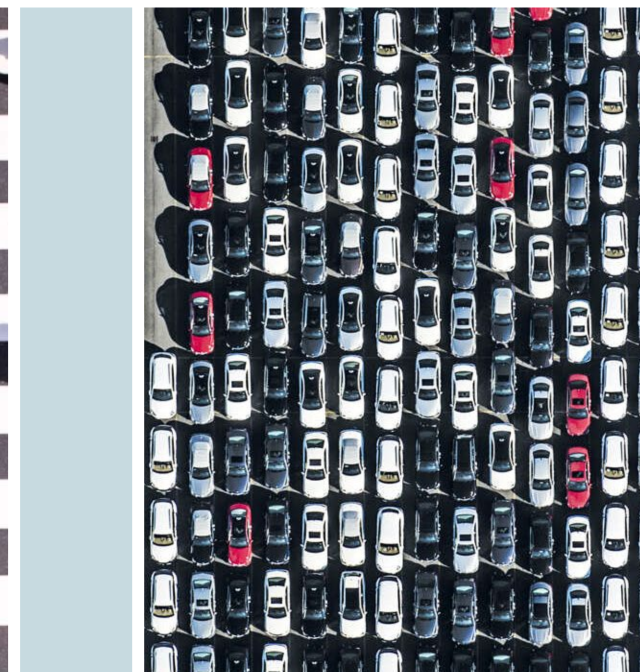
This report does not constitute a rating action





Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions: Asia-Pacific, Emerging Markets, Europe, and North America, which cascade into our global coverage. Discussions center on identifying credit risks and their potential rating impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the Global Committee on March 24, 2025. We believe there is a high degree of unpredictability around policy implementation by the U.S. administration. Consequently, our baseline forecasts carry a significant amount of uncertainty. As events evolve, we will gauge the macro and credit materiality of potential and actual policy shifts, and reassess our guidance (see our research here: www.spglobal.com/ratings).

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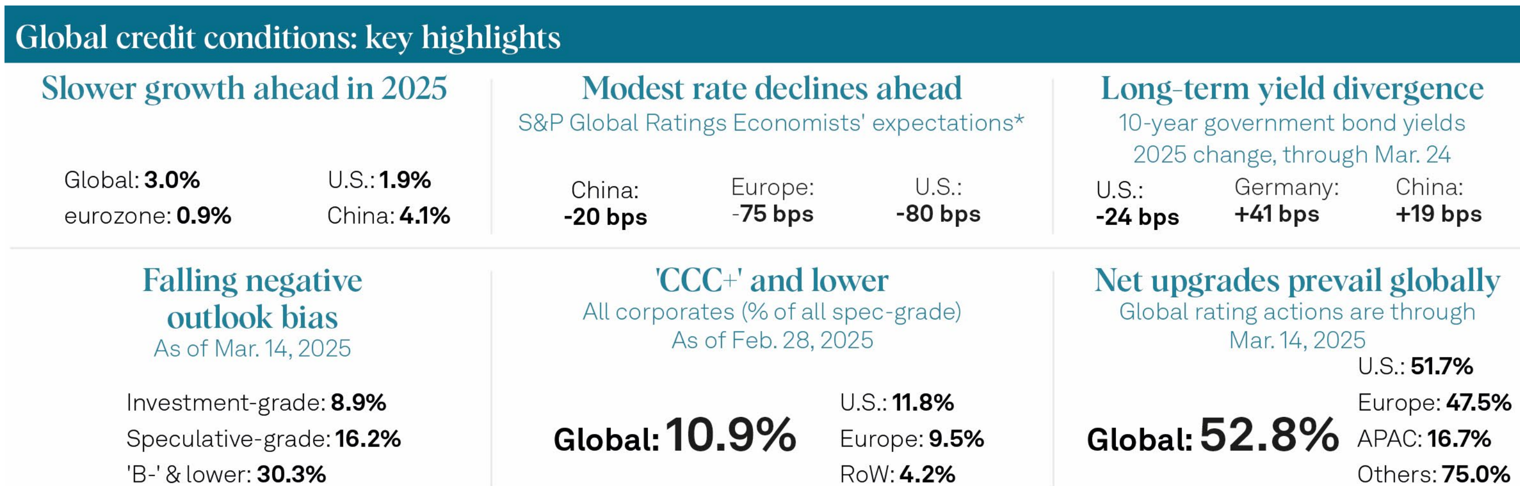
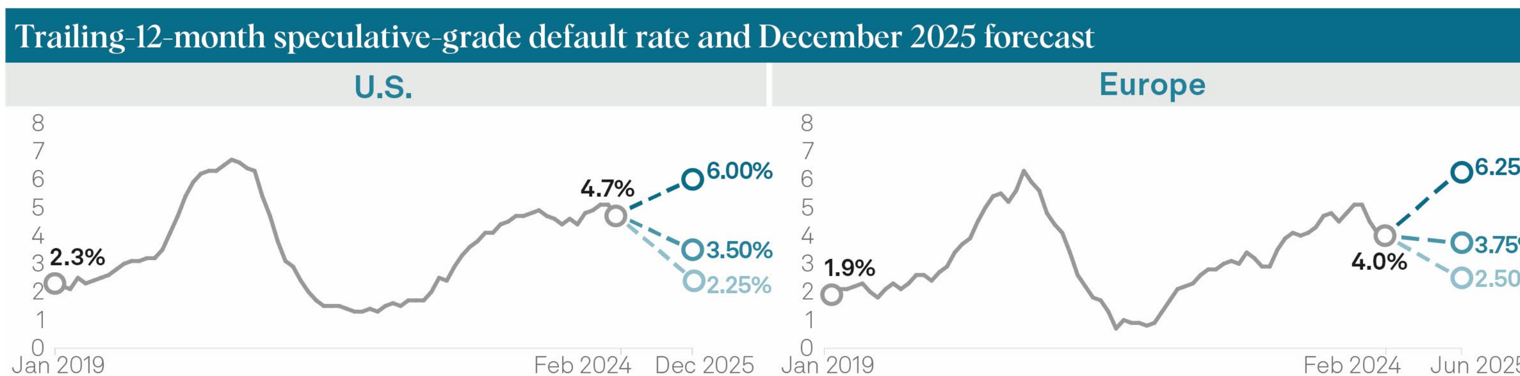
Key Themes

Towards a new global order: Tariffs imposed or mooted by the U.S. and countermeasures by other countries are moving apace in 2025. This has weakened investor sentiment, consumer confidence, and should weigh on economic growth this year. At the same time, global alliances and multinational institutions are being upended. The fundamental geopolitical changes at play will likely lead to material shifts in capital flows between regions, sectors, and asset classes.

Credit has remained resilient thus far: Some rating actions--including outlook revisions or CreditWatch placements--have occurred because of tariff-related uncertainties, but for the most part these have been limited. Through mid-March, global rating actions are largely balanced between upgrades and downgrades, and defaults have moderated so far this year, speaking to the larger tailwinds entering 2025 of resilient economic growth and favorable financing conditions.

Downside risks are building once again: Markets have reacted negatively to the unfolding global trade situation, but the responses have thus far been modest, keeping many equity indices, global benchmark interest rates, and corporate credit spreads on trajectories or within ranges they've occupied since the monetary tightening cycle started three years ago. This could reflect a blind spot by markets anchored in the belief that the tariff situation will improve. But should it worsen, further asset price declines may accelerate, tightening access to funding for issuers.





*For the Chinese one-year medium-term lending facility rate; ECB deposit rate, and effective Federal Funds Rate. ROW--Rest of world. YTD—Year-to-date.
Source: Worldbank, S&P Global Ratings. Most recent published default forecasts: "The U.S. Speculative-Grade Corporate Default Rate Could Fall To 3.5% By December 2025," Feb. 20, 2025, and "The European Speculative-Grade Default Rate Could Level Out At 3.75% By December 2025," Feb. 21, 2025.

Global Top Risks: Tariff Uncertainty Takes Center Stage

Growing protectionism threatens to spark a trade war

Risk level:	High	Risk trend:	Worsening

The anticipated Trump Administration tariffs have arrived but are far from finalized, thus far resulting in protectionist measures by other countries and increased market volatility. Should current tariff levels persist or increase further, we would expect greater strain on consumer sentiment, business planning and investments, and government budgets leading to a reduction in our already compromised expectations for global growth this year. Beyond the broader economic impact and in many cases more relevant for corporate credit risk, a reshuffling of global trade patterns would create outsized winners and losers at the individual company level. The impact on economies and sectors will vary. In many cases, firms' expectation to pass on the increased costs to households will be tested by consumer fatigue.

Geopolitical tensions threaten supply chains, market sentiment, and budgets

Risk level:	High	Risk trend:	Unchanged

The U.S. is currently distancing itself from many international alliances, particularly regarding organized defense efforts and institutions, such as NATO; forcing other countries to explore alternative alliances and increased defense spending plans. This shift in priorities could force reductions in other areas of fiscal spending, potentially leading to political unease, or require increased debt issuance, pushing up borrowing costs. The Russia-Ukraine conflict has entered a new phase characterized by ceasefire negotiations largely limited to between the U.S. and Russia, with questionable odds at any ceasefire proving permanent. Meanwhile, should tensions intensify within the Middle East, higher energy prices could ensue. This could drag market sentiment in EMEA region and drag external balances for energy importing economies in Asia-Pacific.

A sharper global economic slowdown would lead to greater credit stress

Risk level:	Elevated	Risk trend:	Worsening

With the onset of increased tariffs, sentiment indicators in the U.S. have been falling, raising our recession odds. Labor market resilience in many key markets buffer economic headwinds, but the state of the global consumer is showing some cracks, with increased delinquencies in the U.S. alongside still low and soft consumer confidence in China. In Europe, growth is expected to become challenged by the more hostile global trade environment, at least in the short term. The larger multiplier effect of planned defense spending, and infrastructure investments in Germany, are still unclear. In China, the challenge is to sufficiently restore confidence, but more aggressive fiscal policy may be required.

Interest rates could remain stubbornly elevated

Risk level:	Elevated	Risk trend:	Unchanged

We expect the Fed to cut by only 25 basis points this year given rising uncertainties over the evolving global tariff framework. But depending on how tariffs ultimately play out, they could both dampen economic growth while also raising inflation; complicating central banks' approaches to monetary policies. Similarly, volatility in long-term rates could occur as markets also balance potential growth and inflation risks. Any negative hit to economic growth would likely be worse for credit than stubborn inflation, causing lenders to pull back access and raise risk premia. In Europe, the extent to which additional defense spending and infrastructure investments in Germany will be able to reignite growth is a key consideration.

Risk levels may be classified as moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base case rating assumptions unless the risk level is very high.

Moderate	Elevated	High	Very high

Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Improving	Unchanged	Worsening

Source: S&P Global Ratings.

Global Top Risks (continued)

Global real estate markets are facing multiple challenges

Risk level:	Elevated	Risk trend:	Unchanged

Elevated interest rates, strained valuations and cash flow, hybrid work environments, high leverage among some countries' homebuilders, and the potential for continued selective market access and high financing costs have combined to present headwinds for both the commercial and residential real estate sectors globally. We see this most acutely in the U.S., Hong Kong, and China. Spillover effects from vulnerable real estate holdings could further affect many banking systems via falling asset values or increased write-downs. These pressures could also spill over to broader economies, through negative effects on consumer confidence, spending, employment, and tax revenues.

Structural risks

Cyber attacks and the potential for rapid technological change threaten global business and government infrastructure

Risk level:	Elevated	Risk trend:	Worsening

Amid increasing technological dependency and global interconnectedness, and a tense geopolitical backdrop, cyberattacks pose a potential systemic threat and significant single-entity event risk. Criminal and state-sponsored cyber-attacks--and their sophistication--are likely to increase, . Entities lacking well-tested playbooks (such as active detection and swift remediation) are the most vulnerable. Meanwhile, increased digitization and the introduction of AI by public and private organizations -- against a confrontational geopolitical and rapidly evolving technological backdrop -- will foster broader operational and business model disruptions. It could also entail increased market volatility or even pose greater economic adjustments.

Climate risks intensify; energy transition focus shifts

Risk level:	Elevated	Risk trend:	Worsening

More severe and more frequent natural disasters may increase the physical risks that public and private entities face and threaten to disrupt supply chains if left unaddressed. The impacts will be heterogenous, with lower income countries the most vulnerable and least ready to adapt. At the same time, climate transition risks are evolving. Geopolitical fragmentation, with increased focus on energy security, affordability and domestic industrial policies, raises the risk of abrupt, and potentially contradictory, changes in climate policies. The short-term outlook in the U.S. and Europe is increasingly uncertain following the Trump Administration's executive orders and the EU Omnibus proposal, with potential simplification or removal of climate-focused policies and incentives.

Risk levels may be classified as moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base case rating assumptions unless the risk level is very high.

Moderate	Elevated	High	Very high

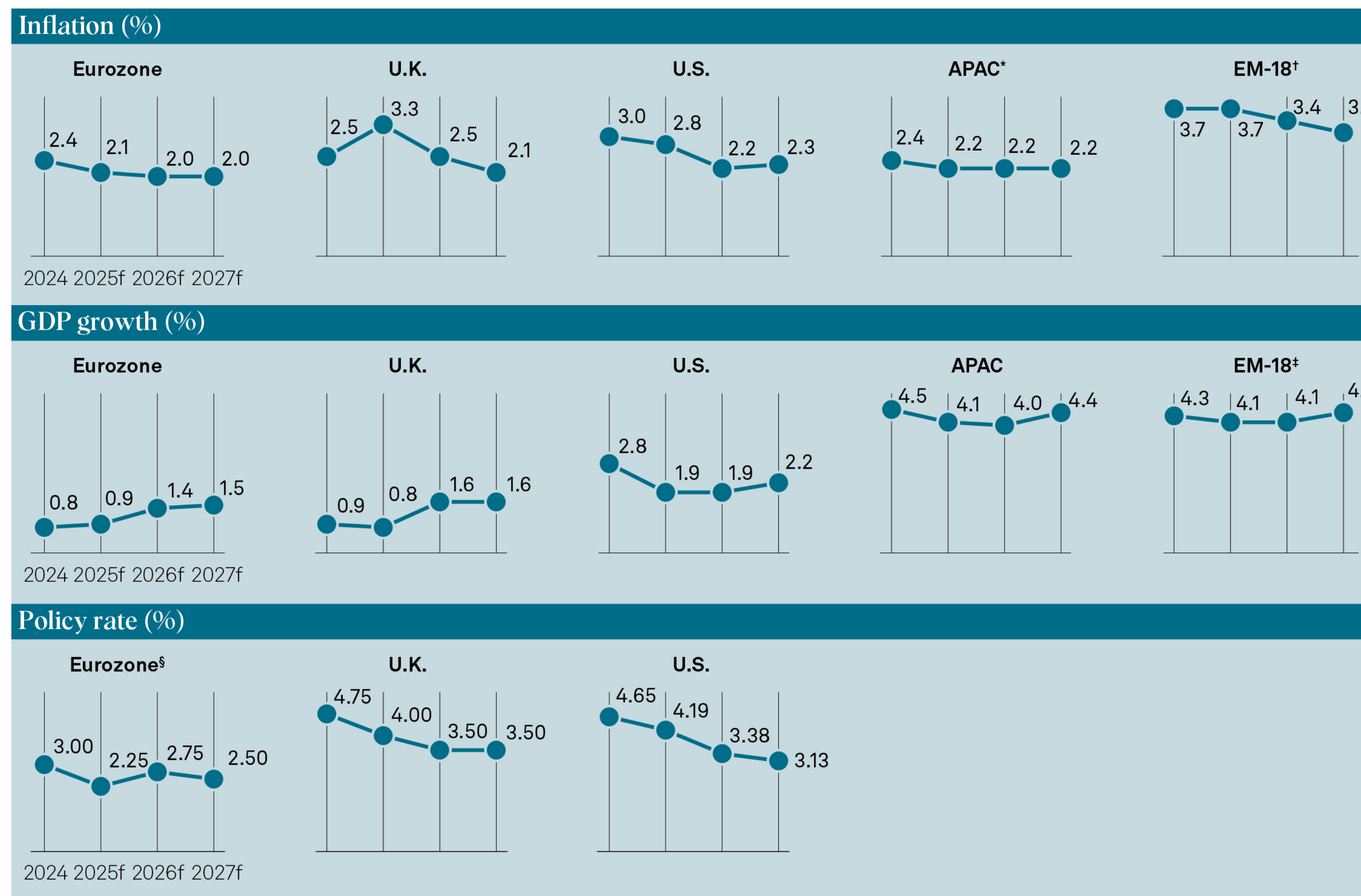
Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Improving	Unchanged	Worsening

Source: S&P Global Ratings.

Economic Conditions

Economic Growth Becomes Vulnerable Amid U.S. Policy Uncertainty



Data as of Mar. 2025. Policy rates as of Dec. 2024, and forecasts are for year-end values. §Deposit rate. *Simple average. †Median for EM 18 countries. ‡Weighted average based on purchasing power parity. Source: S&P Global Ratings.

- Heightened U.S. policy uncertainty, mainly related to tariffs, is dominating the global macro narrative.
- Soft data such as confidence and sentiment have plunged, and U.S. market valuations have retreated. Activity and the hard data have held up so far, but all eyes are on U.S. consumption and employment.
- Our GDP growth forecasts have fallen since our previous forecast. This is driven by U.S. tariff effects and spillovers from a steeper decline in U.S. sequential growth. European growth is lower this year but will improve from 2026 on higher defense and infrastructure spending. China's outlook is stable.
- The risks to our baseline are firmly on the downside. We are watching the effects on demand from protracted U.S. policy uncertainty. Should these materialize, the result would be a material slowdown in growth.

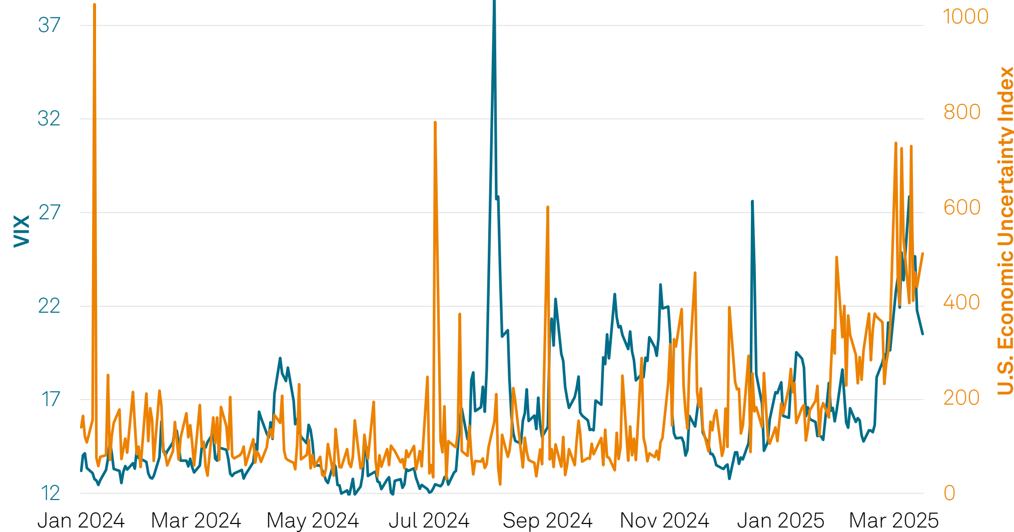
See "Global Economic Outlook Q2 2025: Spike In U.S. Policy Uncertainty Dampens Growth Prospects" Mar. 27, 2025.

Financing Conditions

A Bumpy Road Ahead For Markets

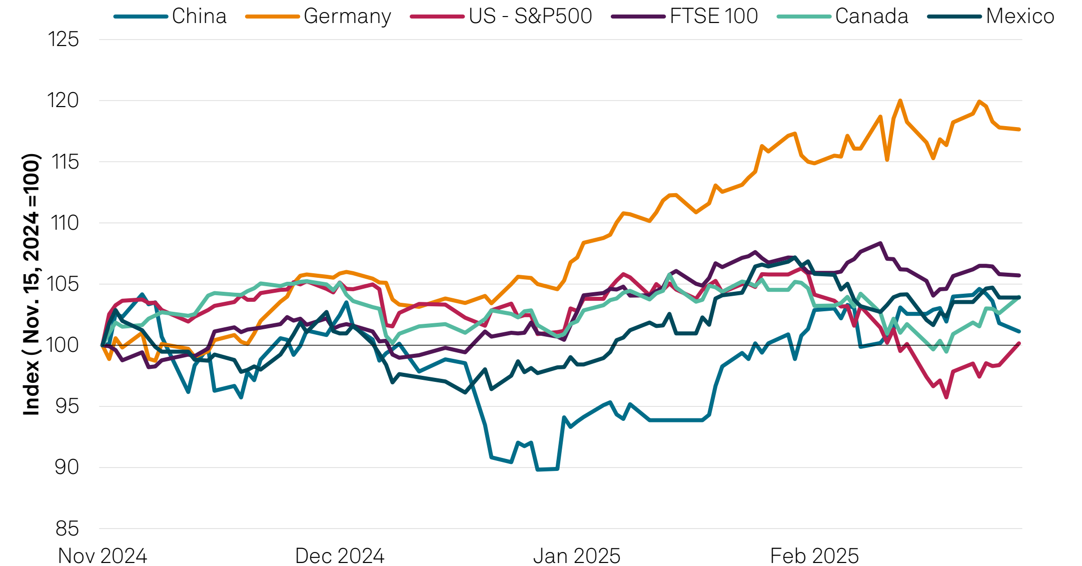
- Markets may not always respond immediately to surges in news coverage to political or economic events, but in recent weeks, as the unfolding global tariff story has deteriorated, market volatility has been increasing, and at a fairly steady rate.
- Despite the view of many that the relative impact of tariffs would be more keenly felt by U.S. trade partners, it is U.S. equities that have seen the largest declines recently. Germany stands in stark contrast, though their recent fiscal package could be boosting equities there.
- Downside risks remain high, and it appears that investors have only started to price in the possible impact of tariffs at their current or proposed levels. Many could be anticipating a long-drawn negotiation process or are simply waiting for more clarity.

Equity volatility and negative headlines sync-up in recent weeks



*The daily news-based Economic Policy Uncertainty Index is based on newspapers in the United States. Source: FRED; S&P Global Ratings Research & Insights.

U.S. equity performance trails major trading partners' since the election

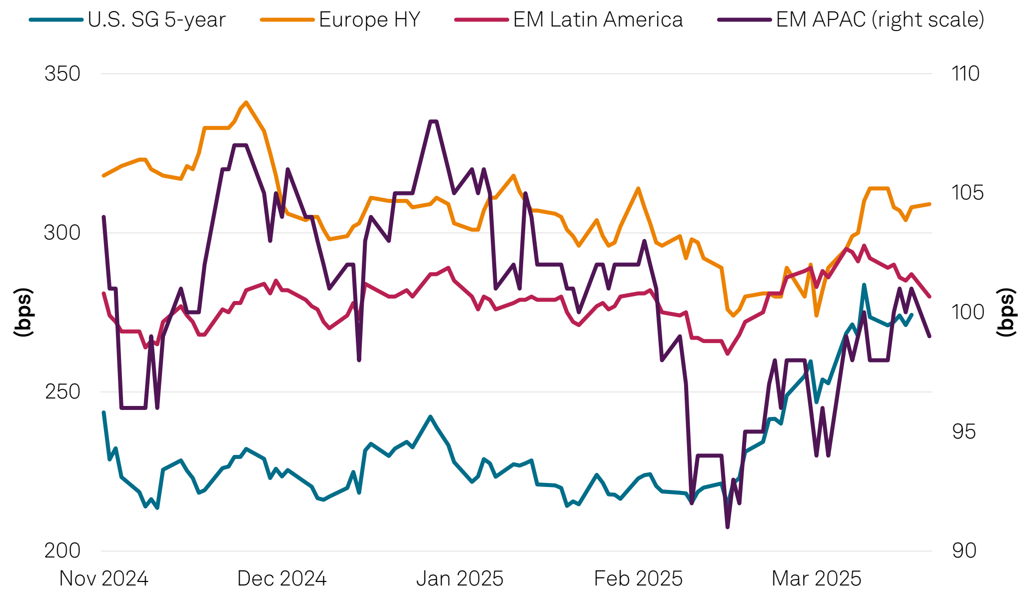


Equity indices, normalized. Nov. 5, 2024 = 100. Data through Mar. 24, 2025. Source: S&P Global Market Intelligence; S&P Global Ratings Research & Insights.

Recent Volatility Widens Spreads, But Issuers Find Funding

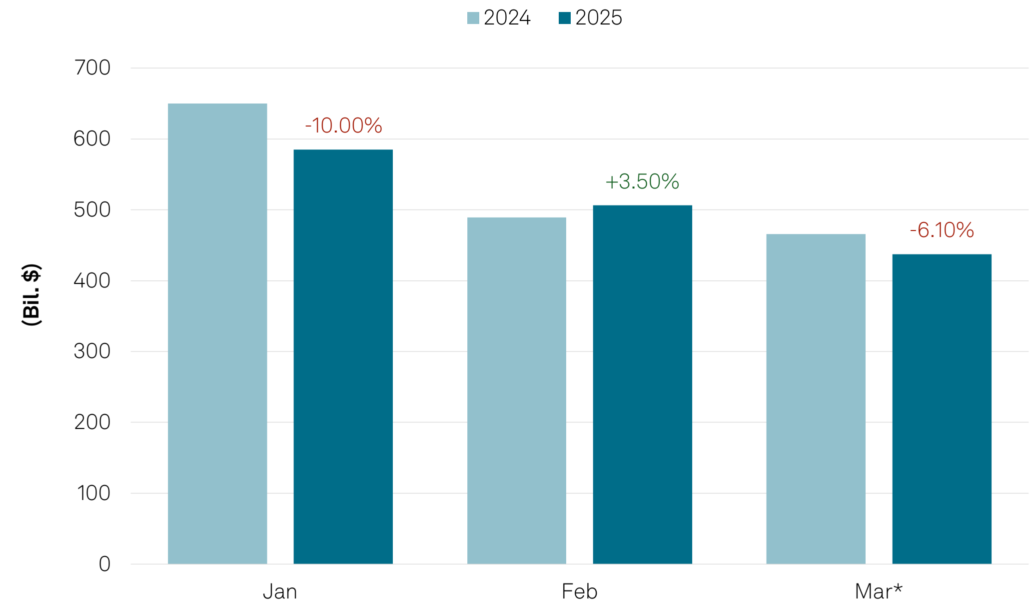
- Volatility has reached fixed-income markets as well, with corporate bond spreads widening quickly in mid-February across all major regions.
- Similar to global equity performance, U.S. spreads have widened the most in relative terms recently.
- Thus far, widening spreads have not materially stopped issuers from accessing bond markets--global corporate bond issuance remains robust through March 24, with $1.5 trillion in issuance from nonfinancial and financial services corporates, compared to $1.6 trillion at this time last year.

Corporate bond spreads widen as tariff situation deteriorates



Data through Mar. 24, 2025. SG—Speculative grade. HY--High-yield. EM--Emerging markets. Sources: BoA ICE Option-adjusted spread, retrieved from FRED, S&P Global Ratings Research & Insights.

Corporate bond issuance has been more sporadic, but still strong

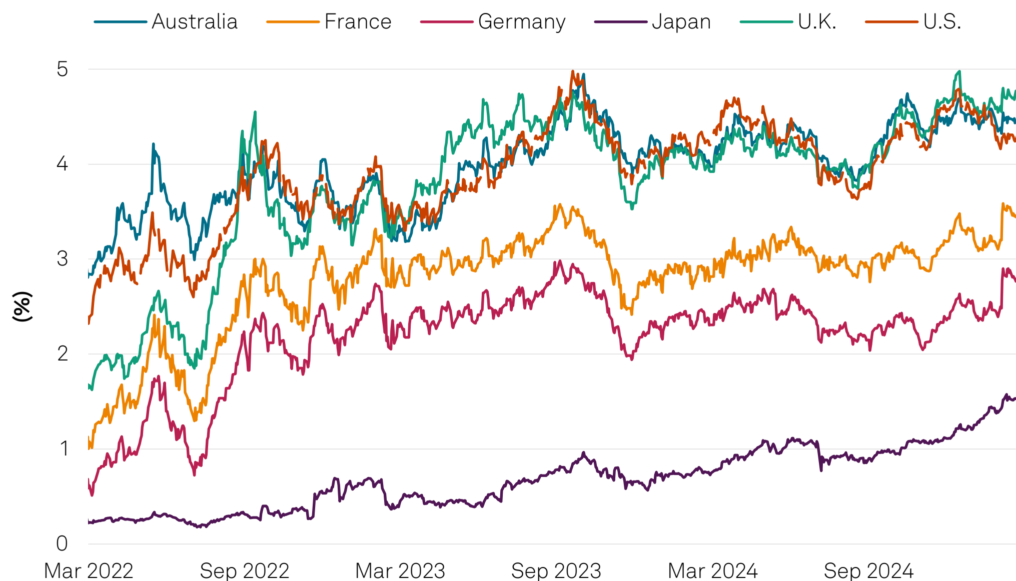


*Through Mar. 24. Source: Refinitiv; S&P Global Ratings Credit Research & Insights.

Yields Remain Range-Bound And Spreads Historically Tight

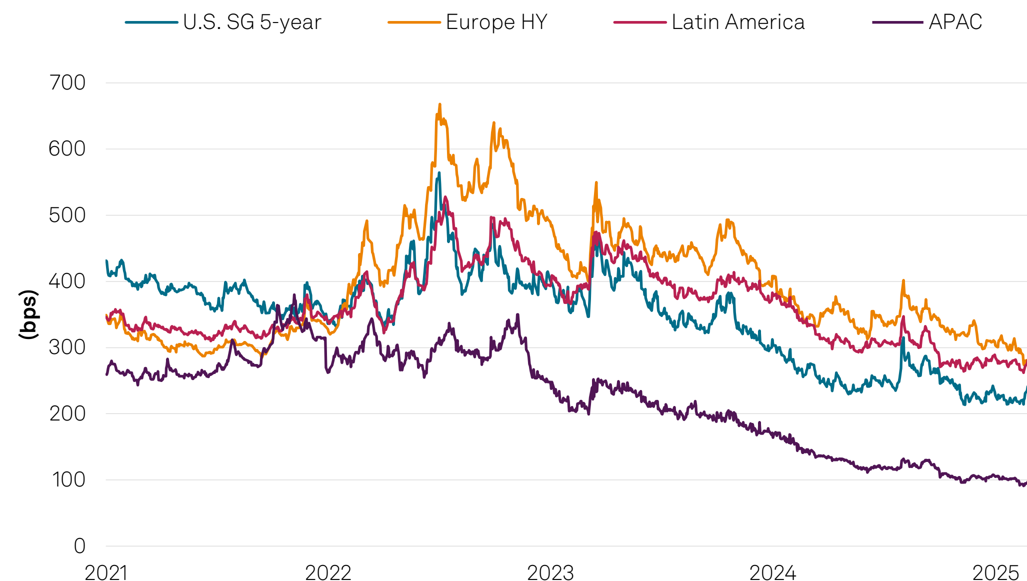
- Benchmark yields have diverged recently, with the U.S. Treasury yield falling roughly 20 bps, driven by fears over slowing growth ahead (along with technical factors).
- Meanwhile, European government yields have risen by roughly 30 bps, largely in response to increased defense spending and infrastructure proposals.
- The recent widening of corporate bond spreads has been swift but appears to be leveling off. And spreads remain near multi-year lows, with the U.S. speculative-grade bond spread still around 275 bps.

Sovereign yields diverge in 2025, but largely remain in ranges set by recent years' monetary tightening



Data through Mar. 24, 2025.
Sources: S&P Global Market Intelligence and S&P Global Ratings Credit Research & Insights.

Corporate bond spreads remain close to historical lows despite volatility



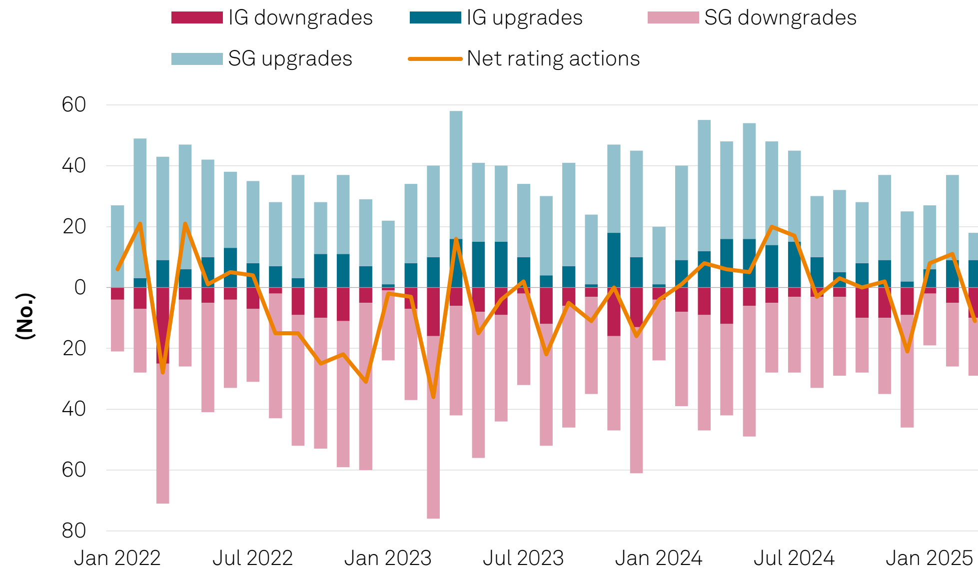
Data as of Mar. 24, 2025. SG--Speculative grade. HY--High-yield.
Sources: BoA ICE Option-adjusted spread, retrieved from FRED, S&P Global Ratings Research & Insights.

Rating Trends And Expectations

Rating Actions Have Been Net Positive So Far In 2025

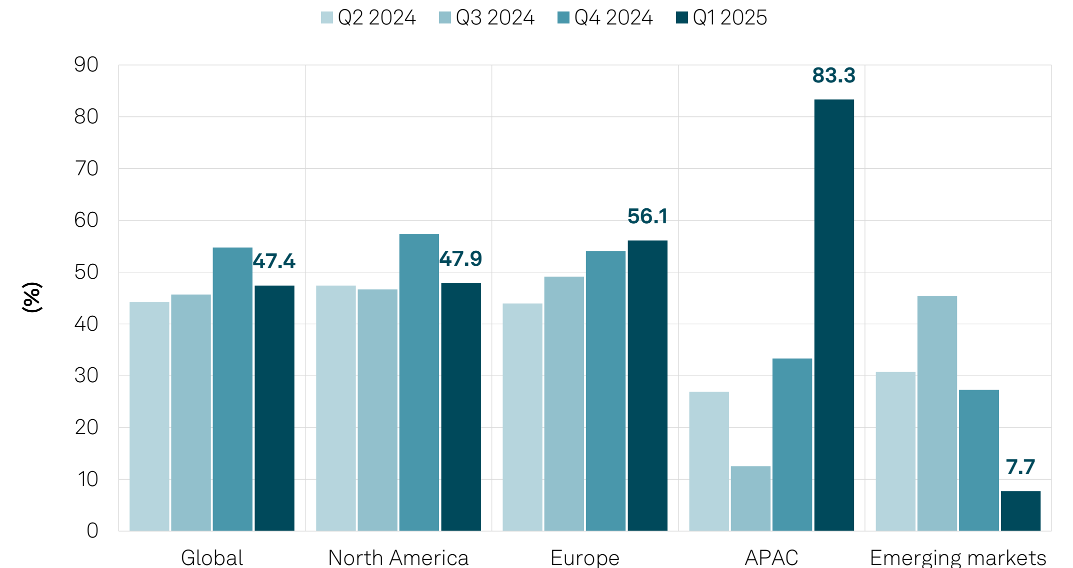
- Although slowing after a strong 2024, global net upgrades remain in 2025 thus far, despite recent developments. Nearly two-thirds of all downgrades (excluding defaults) through March 14 have occurred among issuers rated 'B+' through 'CCC+'.
- The U.S. typically leads in both upgrades and downgrades given its relative size, but Latin America helped contribute to the net upgrades in the first-quarter, with 11 upgrades and one downgrade. Over half of these upgrades came from Argentina, on Feb. 6, following our assessments that Argentine banks have lower risk to foreign currency access, and our improved transfer and convertibility risk assessments for several Argentine corporations and infrastructure entities.

Rating actions remain balanced in 2025



Data as of Mar.. 14, 2025. Downgrades exclude defaults. IG--Investment grade. SG--Speculative grade. Source: S&P Global Ratings Credit Research & Insights.

Emerging markets lead upgrade rate

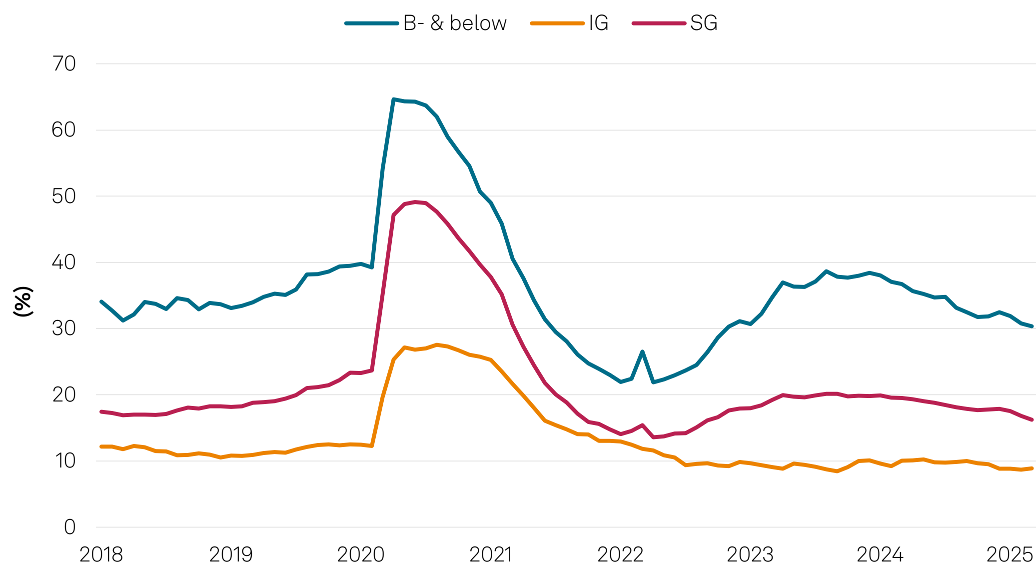


Data as of Mar. 14, 2025. Chart displays downgrade ratios excluding defaults. Downgrade ratios include financials and nonfinancials. Source: S&P Global Ratings Credit Research & Insights.

Downgrade Potential Continues To Slowly Ease, For Now

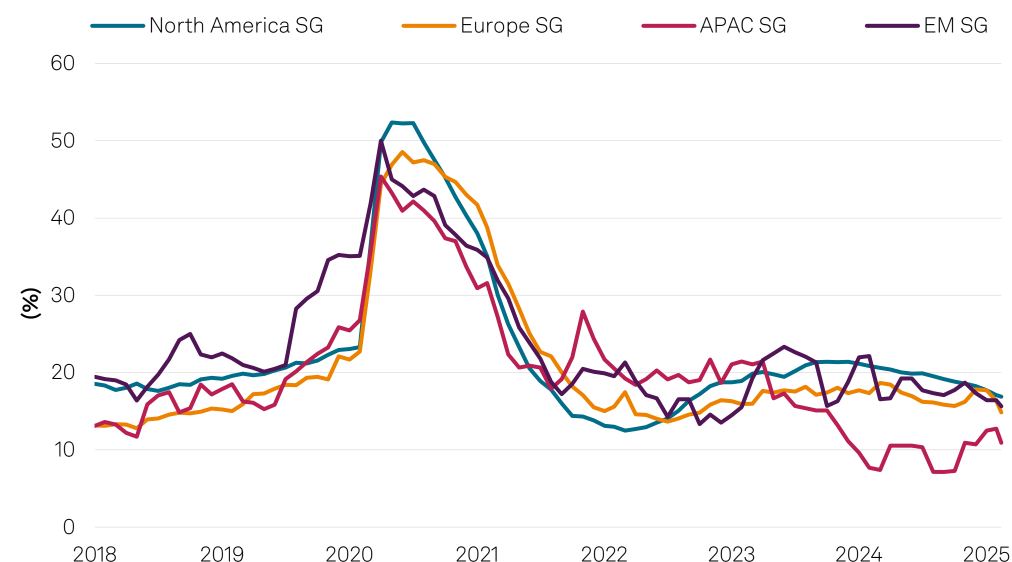
- Downgrade potential for speculative-grade issuers has continued to slowly decline since the start of 2024, with negative bias (the proportion of issuers with negative outlooks or ratings on CreditWatch negative) falling to 16.2% on March 14--its lowest level since September 2022.
- Speculative-grade negative bias has fallen slightly across nearly all regions in the last 12 months, though Asia-Pacific is an outlier subject to more statistical noise rather than a decisively deteriorating trend.
- These overall positive trends to our credit outlook could come under pressure depending on the course of global trade in the coming weeks and months.

Negative bias declines to multi-year lows through mid-March



Excludes sovereigns. Data as of Mar. 14, 2025. IG--Investment grade. SG--Speculative grade.
Source: S&P Global Research & Insights.

All regions expecting fewer downgrades ahead



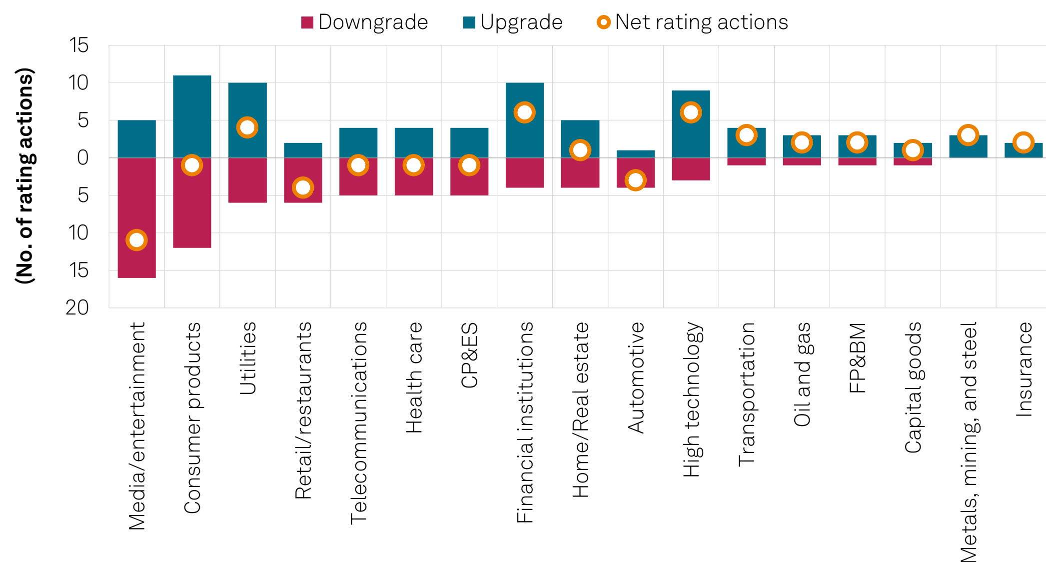
Excludes sovereigns. Data as of Mar. 14, 2025. EM--Emerging markets. IG--Investment grade.
SG--Speculative grade. Source: S&P Global Research & Insights.

Sector Actions See Modest Net Changes; Most Outlooks Currently Improving

- At a sector level, most saw very balanced numbers of upgrades and downgrades, though media and entertainment led with net downgrades of 11, offset the most by financial institutions and high technology with six net upgrades, each.
- Through March 14, there have been six rising start and four fallen angels. Among the rising stars, two were from the media and entertainment sector.
- The average negative bias across sectors has fallen over the last four quarters, to 13.9% from 14.9%. However, if more tariffs become reality, it is likely we may start to see a more negative shift in outlook, with potential credit implications.

Sector-level rating actions are also largely balanced

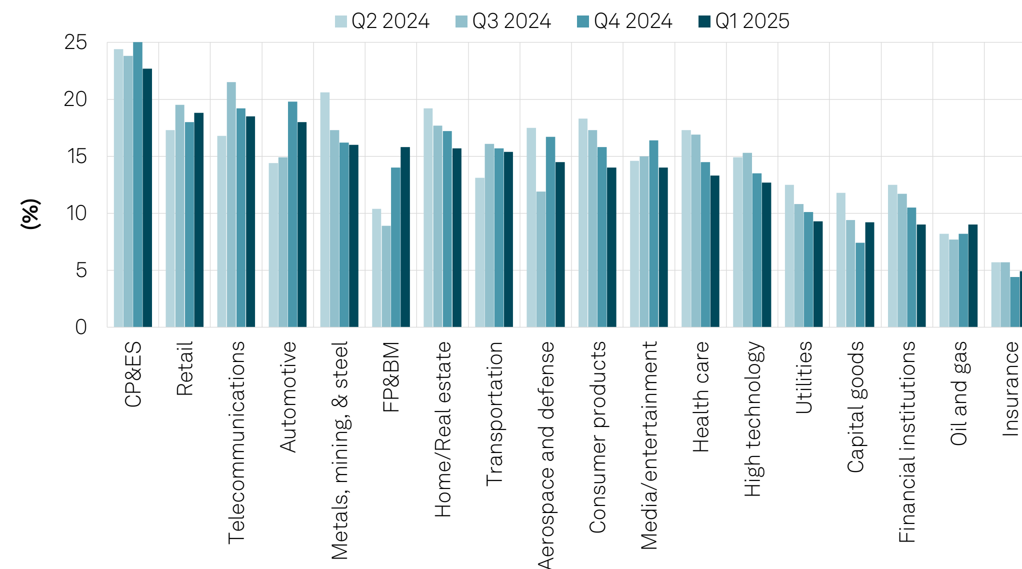
First-quarter 2025 rating actions by sector*



Excludes sovereigns. *Rating action data as through Mar. 14, 2025. CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials.
Source: S&P Global Research & Insights.

Forest products and building materials sees the largest increase in negative bias

Sector-level negative bias

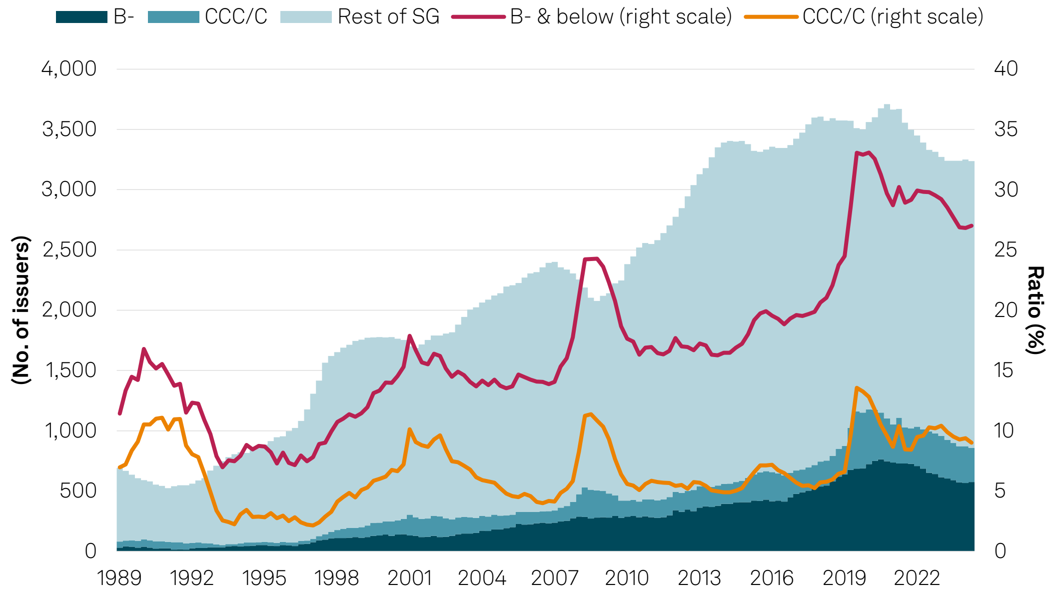


Excludes sovereigns. Bias data as of Mar. 14, 2025. CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials. Source: S&P Global Research & Insights.

Proportion Of Stressed Issuers Remains Elevated Among Familiar Sectors

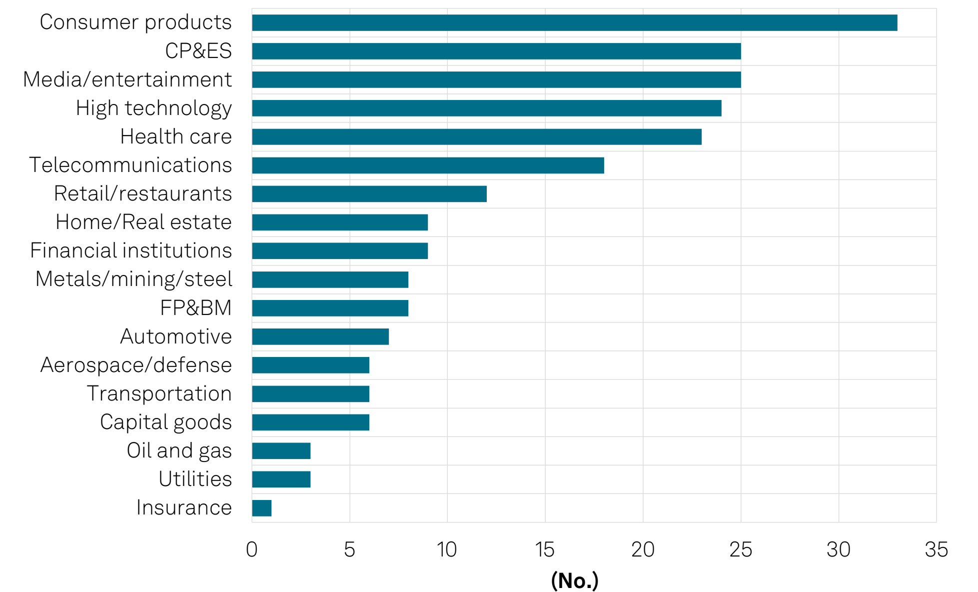
- Consumer-facing sectors, chemicals, and those with a high proportion of floating-rate debt continue to be the most vulnerable to downgrades or defaults.
- Weakest links tend to default at a rate of roughly 8x that of the overall speculative-grade population. These are issuers with a rating of 'B-' or lower, and who have a negative Outlook or ratings on CreditWatch negative. Similarly, the overall proportion of speculative-grade issuers who are rated 'CCC+' or lower has remained stubbornly high in the era of tighter monetary policy and increased use of distressed exchanges.
- The largest five sectors within the weakest links population account for over half of the total, some of which have elevated exposure to tariff implications.

Proportion of 'CCC's remains stable but elevated



Data as of Feb. 28, 2025. SG--Speculative grade.
Sources: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence's CreditPro.

31% weakest links are in consumer reliant sectors like media & entertainment, consumer products and retail/restaurants

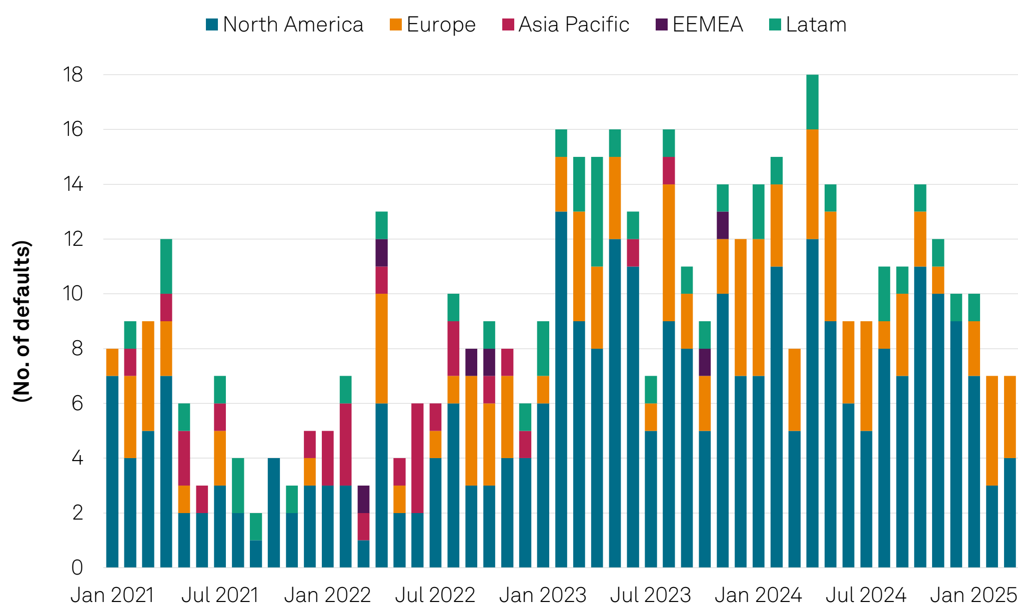


Data as of Feb. 28, 2025. CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials. RE--Real estate. Source: S&P Global Ratings Credit Research & Insights.

Global Defaults Decline Relative To Start Of 2024

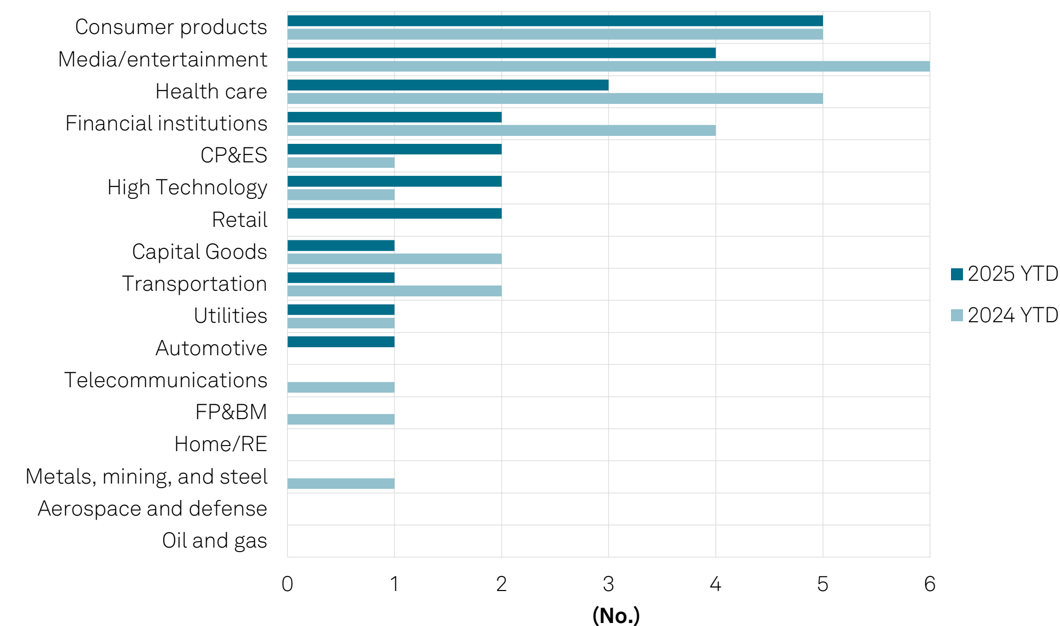
- As we previously expected, the pace of global defaults has started to decline in recent months, relative to the pace at the start of 2024.
- Some reduction in policy rates last year has helped push down floating-rate benchmarks like SOFR and Euribor, and many loan issuers locked in more favorable spreads amid a wave of repricing activity last year. Corporate earnings largely remain positive and economic growth has been resilient, all contributing to slightly fewer defaults thus far in 2025.
- Most of the leading sectors are the largest users of very low-rated, floating-rate debt in recent years. Despite some improvement in financing conditions, these sectors also lead among our population of 'CCC'/'C' issuers, which default at much higher rates than even 'B-' rated issuers.

Pace of defaults slows in 2025



Data as of Mar. 14, 2025. Source: S&P Global Ratings Credit Research & Insights.

50% of defaults through Mar. 14 belongs to Media & Entertainment, Consumer Products, and Healthcare sector

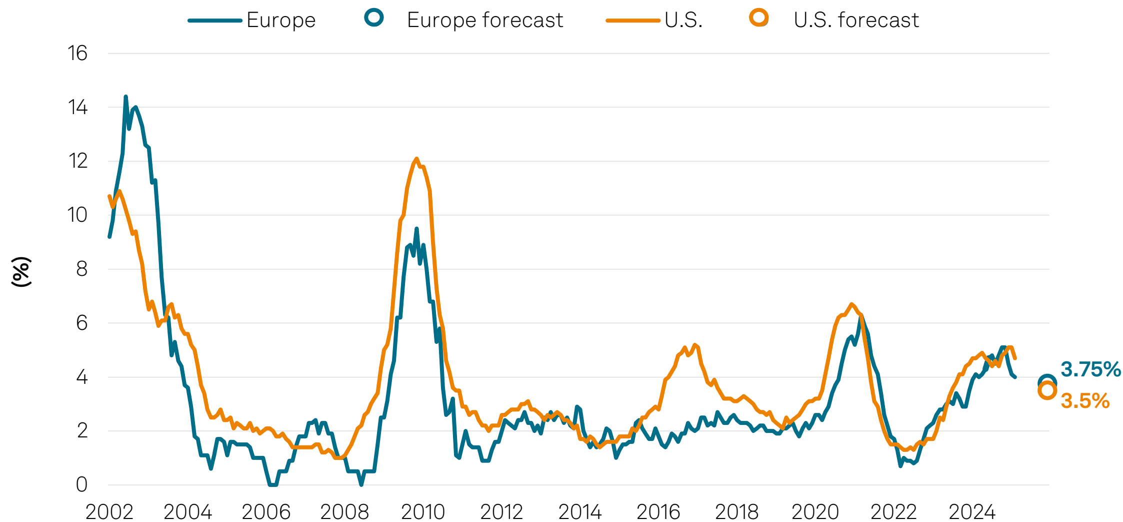


Data as of Mar. 14, 2025. CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials. YTD--Year-to-date. Source: S&P Global Ratings Credit Research & Insights.

Defaults To Gradually Decline, Still Dominated By Distressed Exchanges

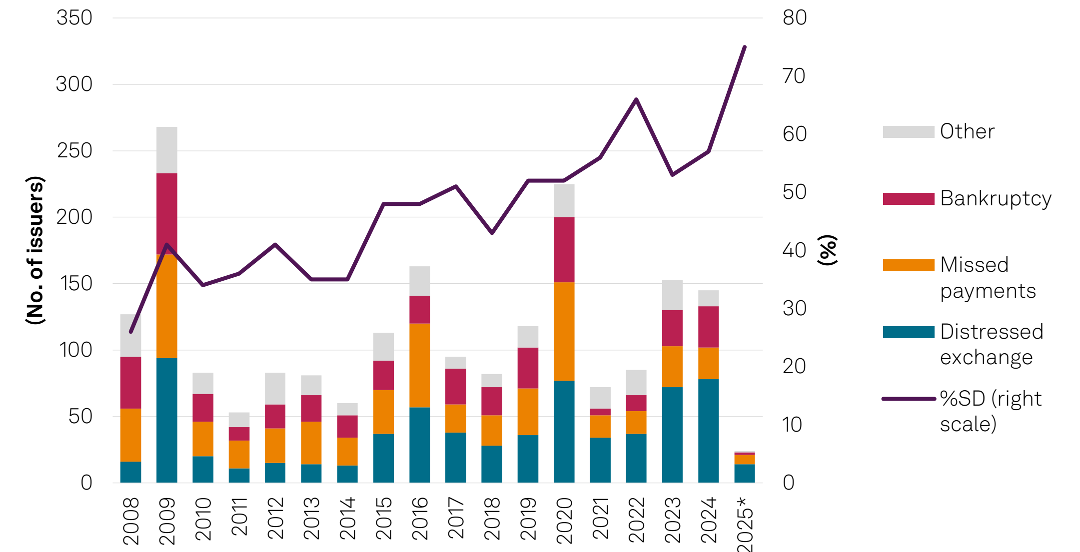
- Distressed exchanges have become a majority of global defaults since last year. This trend should continue in the near term as fixed-rate yields remain elevated for speculative-grade issuers, particularly if slower--but not contractor--economic growth is expected moving forward.
- Through February, the U.S. speculative-grade default rate was 4.7% and Europe was 4%. Both remain above their long-term averages but are declining, and we expect further declines ahead, even if more slowly than at the pace they rose to recent peaks.
- Growing trade uncertainties could negatively impact economic growth, provide a step-up in prices, or force businesses to consider readjusting their supply chains. This could push defaults up toward our pessimistic scenarios: 6% in the U.S. and 6.25% in Europe, through year-end. These stressors may complicate an already strained consumer backdrop, characterized by rising delinquency rates and quickly declining sentiment indicators.

Defaults are expected to decline in our base case



Data through Feb. 28, 2025. Source: S&P Global Ratings Research & Insights.

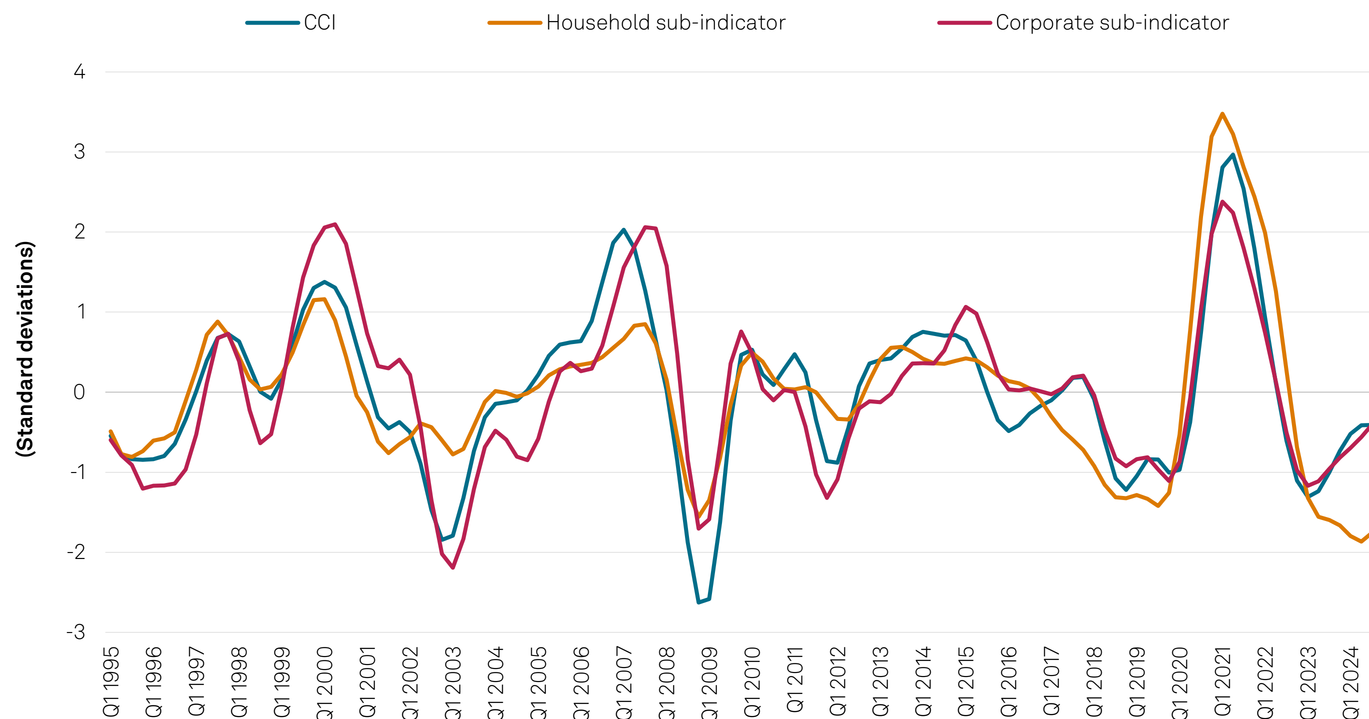
Distressed exchanges reach a new high proportion of defaults in 2025



*Through Mar. 14, 2025. SD--Selective default. Source: S&P Global Ratings Research & Insights.

Credit Cycle Indicator | Macro Headwinds Could Hinder Credit Recovery

Global credit cycle indicator



Peaks in the CCI tend to lead credit stresses by six to 10 quarters. When the CCI's upward trend is prolonged or the CCI nears upper thresholds, the associated credit stress tends to be greater. Sovereign risk is not included as a formal part of the CCI. The CCI period ends in the third quarter of 2024. For more details, see "Credit Cycle Indicator Q2 2025: Macro Headwinds Could Hinder Credit Recovery," published March 20, 2025, and "White Paper: Introducing Our Credit Cycle Indicator," published June 27, 2022.

Sources: Bank for International Settlements. Bloomberg. S&P Global Ratings.

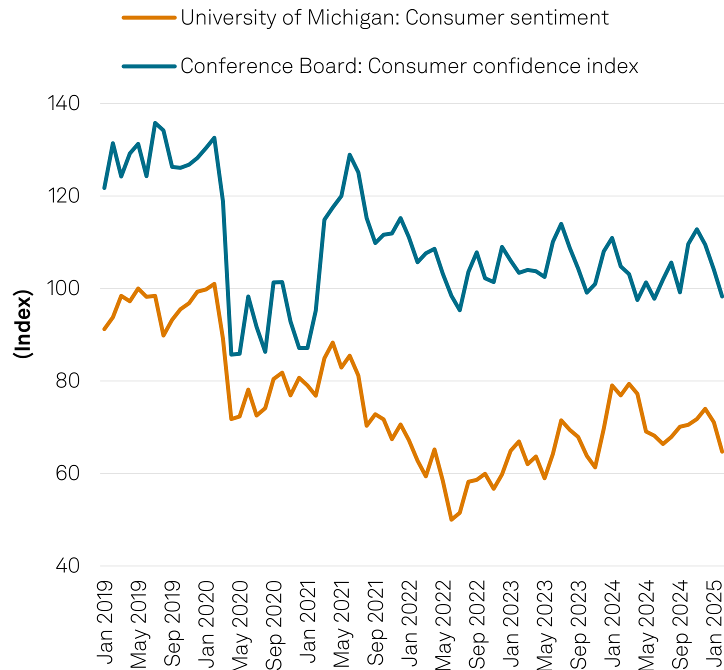
- Our global credit cycle indicator (CCI) continues to signal a credit recovery this year. However, geopolitical and trade tensions, and growth concerns amid increasing policy uncertainties could stall or derail the upturn.
- The corporate sector, thanks to supportive market conditions, has shown stronger upward credit momentum. Households continue to grapple with squeezed purchasing power and subdued sentiment.
- The credit story is playing out differently across regions. The North American CCI is still climbing. The eurozone CCI is rising as equity improves and house prices recover. The emerging markets and Asian CCIs are seeing signs of a reversal of their earlier credit recovery, amid a decline in household leverage in some of these markets.

Regional Credit Conditions

North America | Uncertainty Prevails

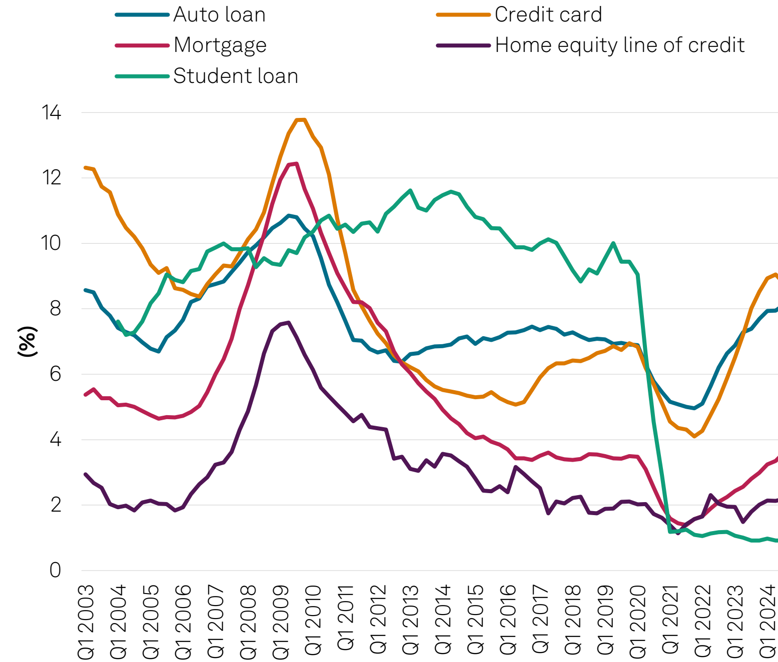
U.S. consumers' soured sentiment and eroding financial health risk stronger pull back

Consumer sentiment metrics fall recently



Data through February 2025. Sources: University of Michigan, The Conference Board, St. Louis FRED, S&P Global Ratings Economics.

New auto/credit card delinquencies at multi-year highs



Data shows percent of loan balance transitioning to 30+ day delinquency by loan type through Q4 2024. Source: New York Fed Consumer Credit Panel/Equifax.

- **Overall:** Amplified policy uncertainty, and accompanying near-term market volatility, pose a risk to an environment of favorable credit conditions for North American borrowers.
- **Ratings:** Ratings momentum has been positive, with upgrades outpacing downgrades in the first quarter, and the region's net outlook bias narrowing further. We expect the U.S. trailing-12-month speculative-grade corporate default rate to fall to 3.5% by December.
- **Risks:** Higher tariffs threaten to reignite inflation and weigh on credit quality for entities exposed to imports and international markets. Borrowing costs could remain high amid increased investor risk aversion, and businesses and consumers could pull back further, leading to sharper-than-expected economic downturns in the region.

North America | Higher Tariffs Are A Top Concern For Many Corporate Borrowers

Key North American sectors to watch amid tariff uncertainties

Potential credit impact — Somewhat positive impact | Minimal impact | Somewhat negative impact

U.S.

Sector	Key factors
Chemicals	In the near term, some chemicals subsectors could benefit from higher product prices if imports of competing products rise due to tariffs.
Metals and mining	Steel and aluminum tariffs support the credit quality of domestic companies with volume gains, higher prices, and ultimately stronger profitability.
Oil and gas	Limited pipeline options lock in trade relationship between Canada and the U.S., with both parties sharing higher costs. Higher tariffs could lead to investments in the supply chains to diversify customer bases.
Health care /pharmaceuticals	Generic drug manufacturers have narrow margins and are dependent on global suppliers. Commodity-like but critical medical supplies are sourced internationally, and therefore these companies are subject to rising input costs.
Technology	Highly engineered products employing advanced manufacturing processes are difficult and costly to relocate (e.g., semiconductors, complex electrical components).
Utilities/renewables	Highly engineered products employing advanced manufacturing processes are difficult and costly to relocate (e.g., solar panels, battery chemistries, wind turbines).
Automotive	Lower volumes would likely follow higher prices necessitated by supply shortages, increased production volatility, and the potential for increased capital spending to relocate production.
Consumers products /retail	Companies with domestic manufacturing and pricing power may fare better. However, consumers are increasingly sensitive to rising prices.

CANADA

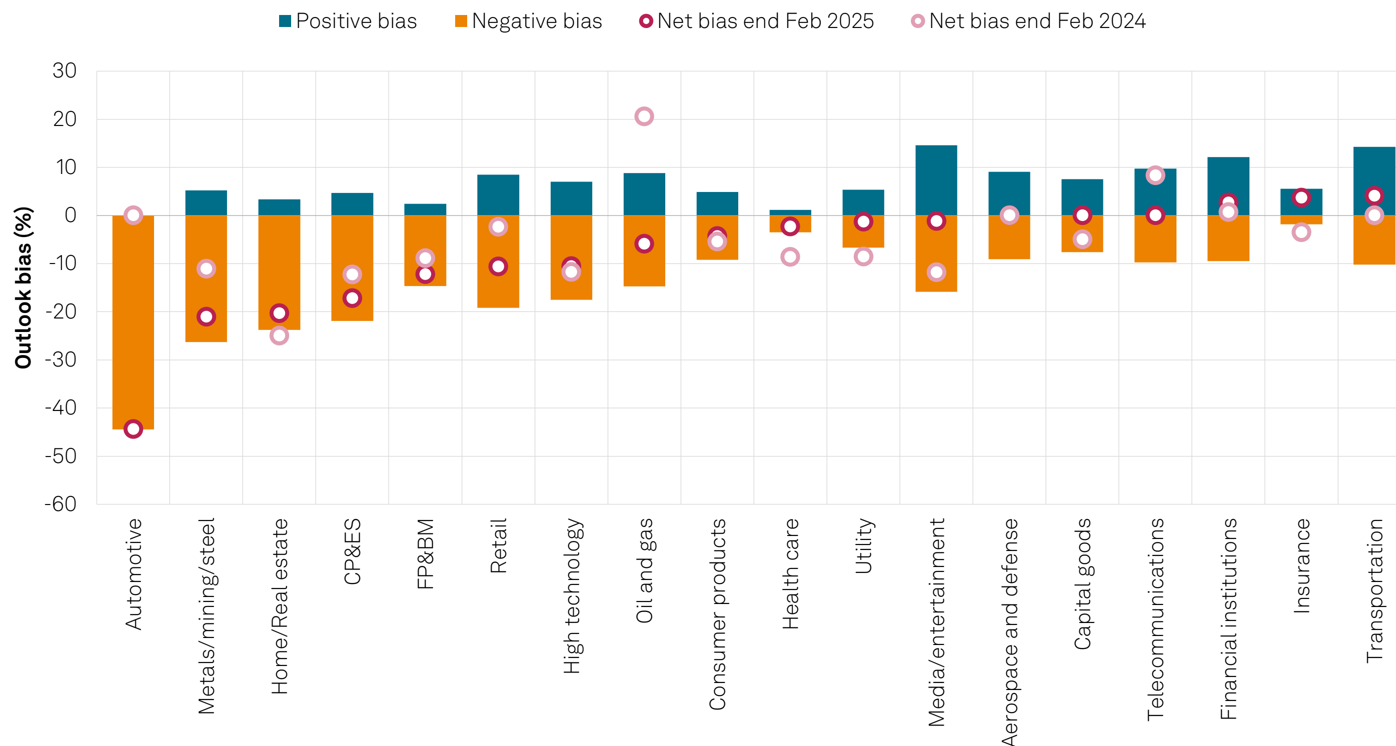
Sector	Key factors
Automotive	Auto suppliers with U.S. exposure may have initial success passing on costs but may suffer from falling demand due to higher end market prices.
Building materials	The sector already faces challenging market conditions and ~15% in antidumping and countervailing duties.
Consumers products /retail	Retaliatory tariffs and a weaker economy with rising prices will constitute long term headwinds, which are only partially mitigated by a relatively weaker Canadian dollar.
Oil and gas	Excess U.S. refining capacity and limited pipeline options locks in trade relationships between Canada and the U.S., with both parties sharing higher costs. In Canada's case, these exports represent a far larger share of their domestic economy magnifying tariff ripple effects.

This qualitative assessment reflects potential impact of President Trump's tariff measures as assumed in our current macroeconomic base case on North American nonfinancial corporate sectors. For our tariff assumptions, see "Economic Outlook U.S. Q2 2025: Losing Steam Amid Shifting Policies," published March 25, 2025. Source: S&P Global Ratings.

Europe | Plotting a new course

- **Base case:** Emerging U.S. unilateralism on security, trade, and finance has left European policymakers scrambling to coordinate a response. Positively, post election, the massive fiscal package for defense and infrastructure drawn up by Germany would put the EU on a stronger growth path from 2026 under our base case.
- **Credit:** Credit quality for financial institutions, insurance, and much of the rated corporate universe has strengthened in recent quarters, providing some buffers to protect against the economic costs involved in navigating the uncertain trading environment.
- **Risks:** Huge uncertainty around the unilateral trade tariffs and objectives pursued by the U.S. is potentially a bigger risk than the tariffs themselves. For fiscally constrained European NATO members (apart from Germany) the focus will be how far they can go to support the rearmament of Europe without compromising their creditworthiness.

Tariff-targeted and energy-intensive sectors in Europe have the highest net negative outlook bias



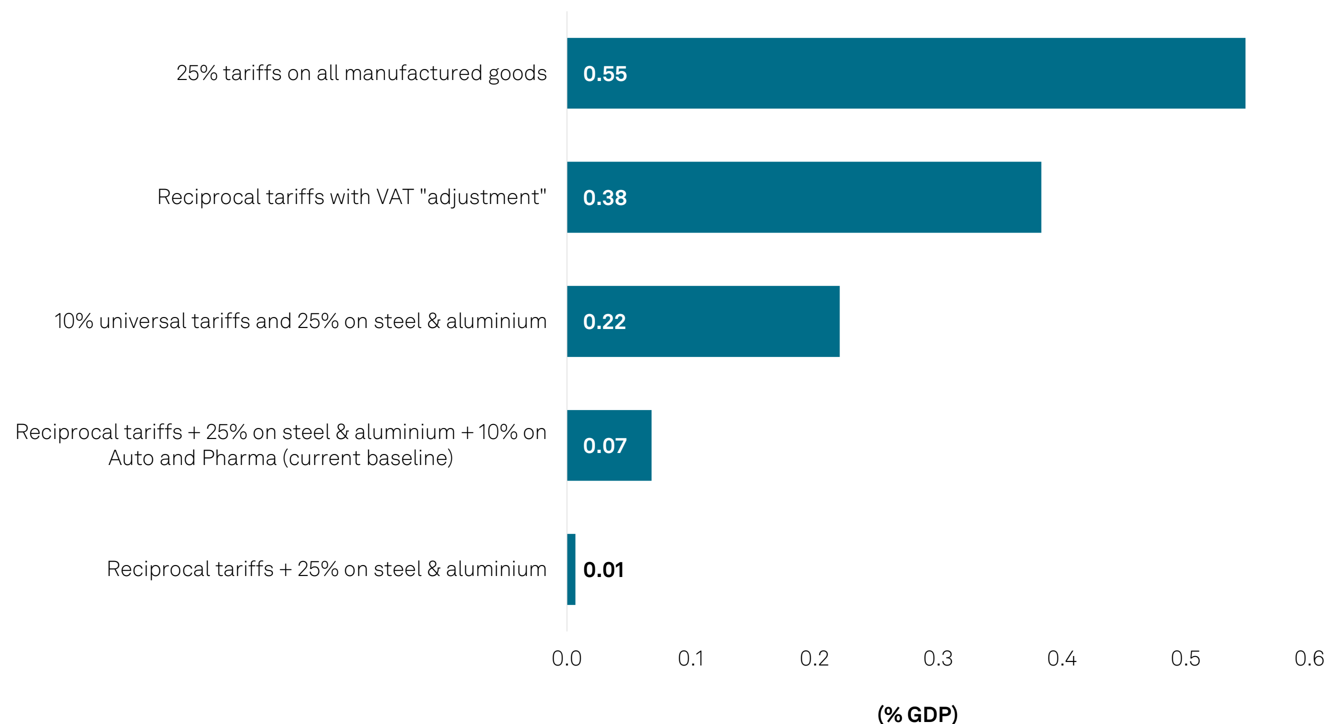
Data as of March 10, 2025. CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials.
Source: S&P Global Ratings.

Europe | Trade and security cast the longest shadows

- **Trade:** The EU goods trade surplus with the U.S. was €200bn in 2024. We estimate that U.S. unilateral tariffs could depress EU growth in the first year by between 0.1% (current base case) to as much as 0.6% in a more severe scenario.
- **Policy:** Uncertainty around U..S. priorities, objectives, and implementation risks having a bigger negative economic impact in Europe through confidence and market channels than the tariffs themselves.
- **Defense:** U.S. antipathy to NATO putting European NATO countries under pressure to ramp up defence. Germany has fiscal space, while other major sovereigns may be restricted to expanding defence by only 0.2-0.3% GDP per year from 2026 unless expenditure is cut elsewhere.
- **Ukraine:** While a temporary ceasefire is probable, a lasting peace remains highly doubtful, partly because of the Kremlin's maximalist objectives, but also because Europe will be unable to replicate the necessary deterrence capability that the U.S. has for a number of years.

Trade impact on EU GDP of different tariffs scenarios

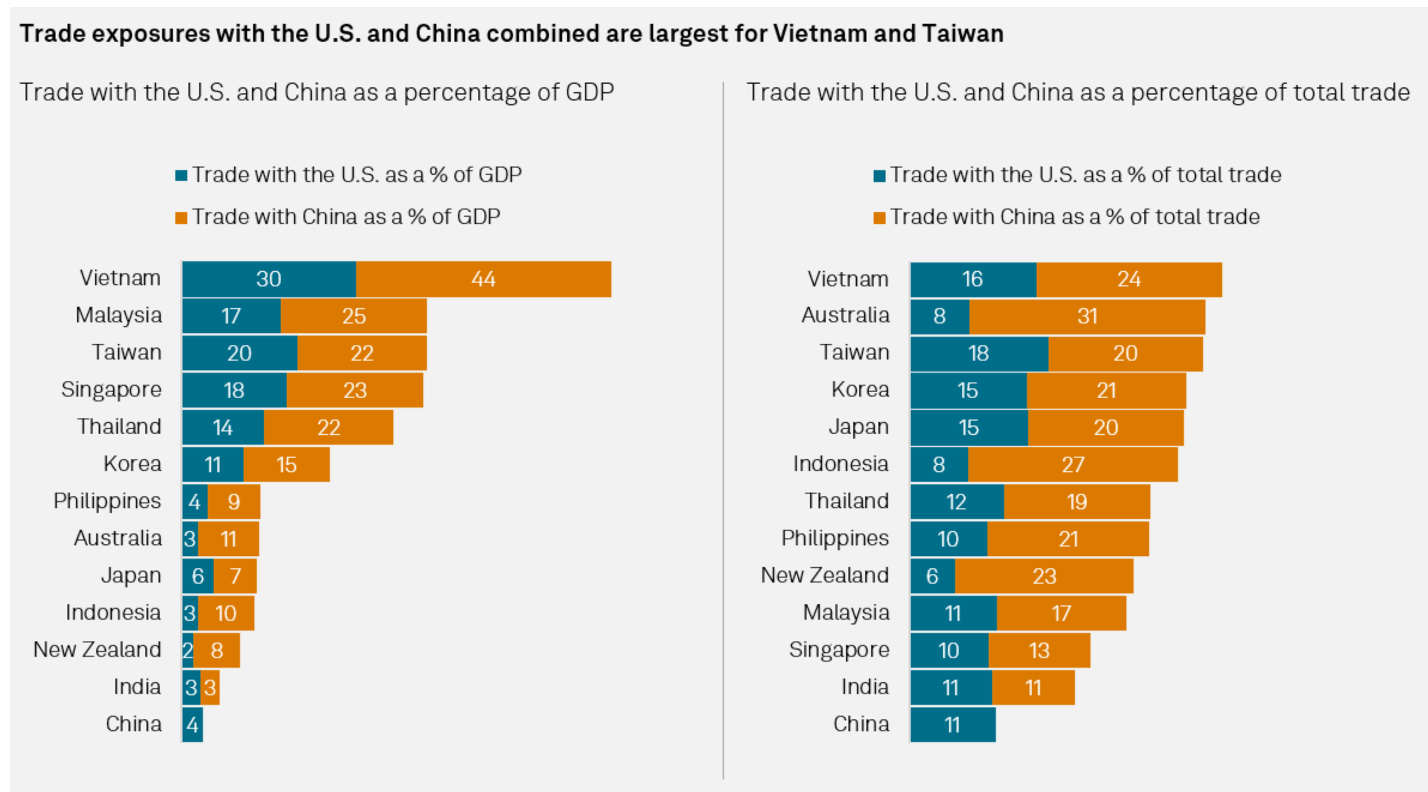
Percentage points of EU GDP



Source: S&P Global Ratings.

Asia-Pacific | Squeezed From Both Sides

Asia-Pacific economics to walk a tight rope amid a trade showdown



Based on annual trade data and nominal GDP data as of 2024, expect for Vietnam which is January-October 2024.
Data source: Trade date-S&P Global Market Intelligence; nominal GDP-CEIC.

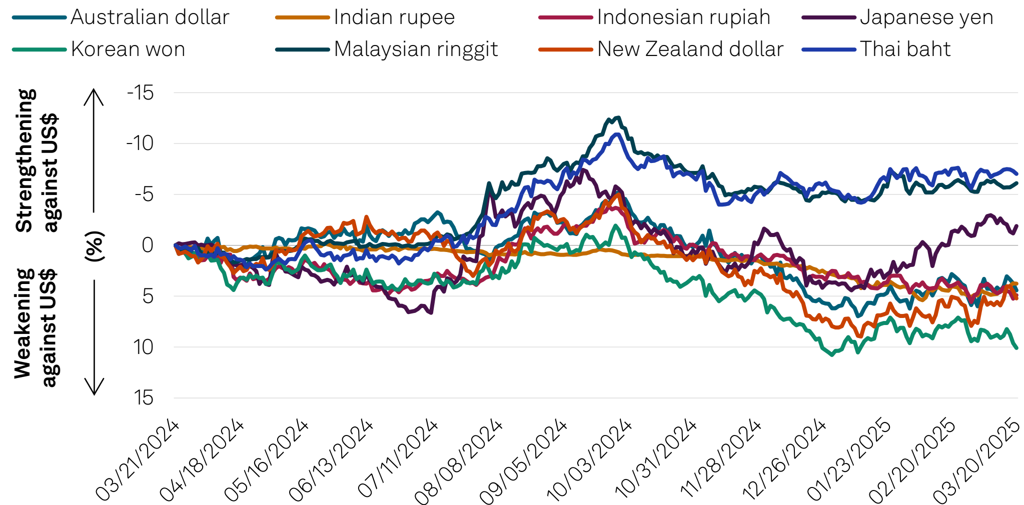
- **Benign for now:** Supportive financing conditions and domestic consumption are steadying Asia-Pacific credit conditions, but direct and indirect effects from trade policy and tensions could unwind the course.
- **Trade showdown:** Protectionist policies may disrupt supply chains and raise production costs. Retaliations could fan risks of a global trade war. Asia-Pacific's smaller, trade-centric economies are most vulnerable.
- **Double squeeze from China and the U.S.:** Higher tariffs and still-soft domestic demand could drag on China's economy, risking a deflationary spiral. There is also the possibility of a U.S. recession with broader knocks to global confidence.
- **Volatility and costs:** Geopolitical tensions could produce supply chain uncertainty and a sharp downturn. Rising volatility may crimp financing access. Reciprocal tariffs may spur outflows from Asia-Pacific, leading to weaker currencies and higher borrowing costs.

Asia-Pacific | Trade Complications Could Disturb Still Waters

- **Multifold pain.** A sharp slowdown could hit demand and bite into revenues for Asia-Pacific producers. In China, persistent overcapacity may weigh on prices and stiffen price competition. Weak cost pass-through spells margin squeezes. Meanwhile, weaker earnings and household income prospects could dent banks' asset quality, prompting tighter lending. If risk-off sentiment intensifies, lenders may demand higher risk premia, pushing up all-in financing costs.
- **Higher debt burdens.** To counter the economic drag from higher tariffs, the region's governments could enact stimulus and task their local and regional governments to undertake projects to support growth--exacerbating debt burdens. For instance, in China, trade escalations may deepen deflationary pressures and curtail growth; to cope, the government is raising more debt to drive policy initiatives and bolster confidence.

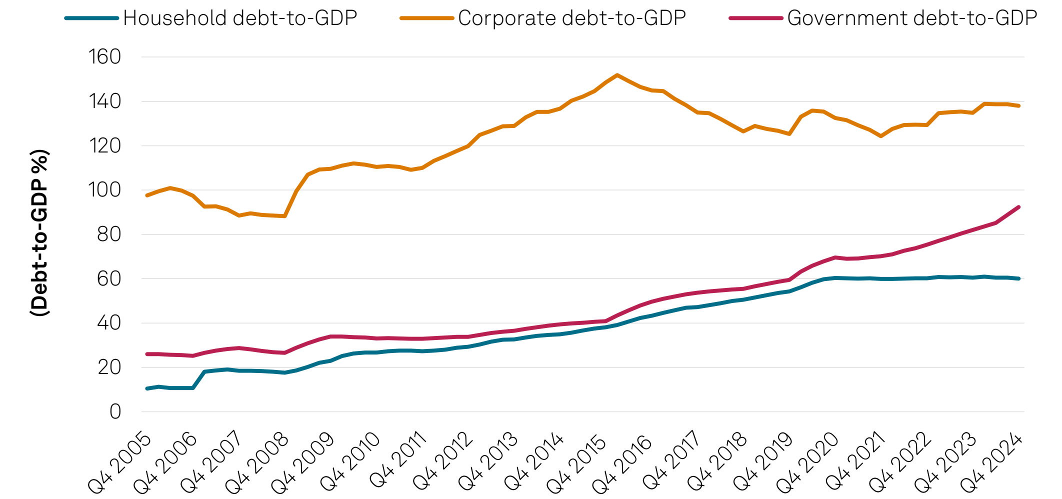
Asia-Pacific currencies have gained some ground

Percentage change since March 2024



Data as of March 20, 2025. Data source: S&P Global Market Intelligence.

China's tri-sector debt leverage has risen by one-fifth since end-2019

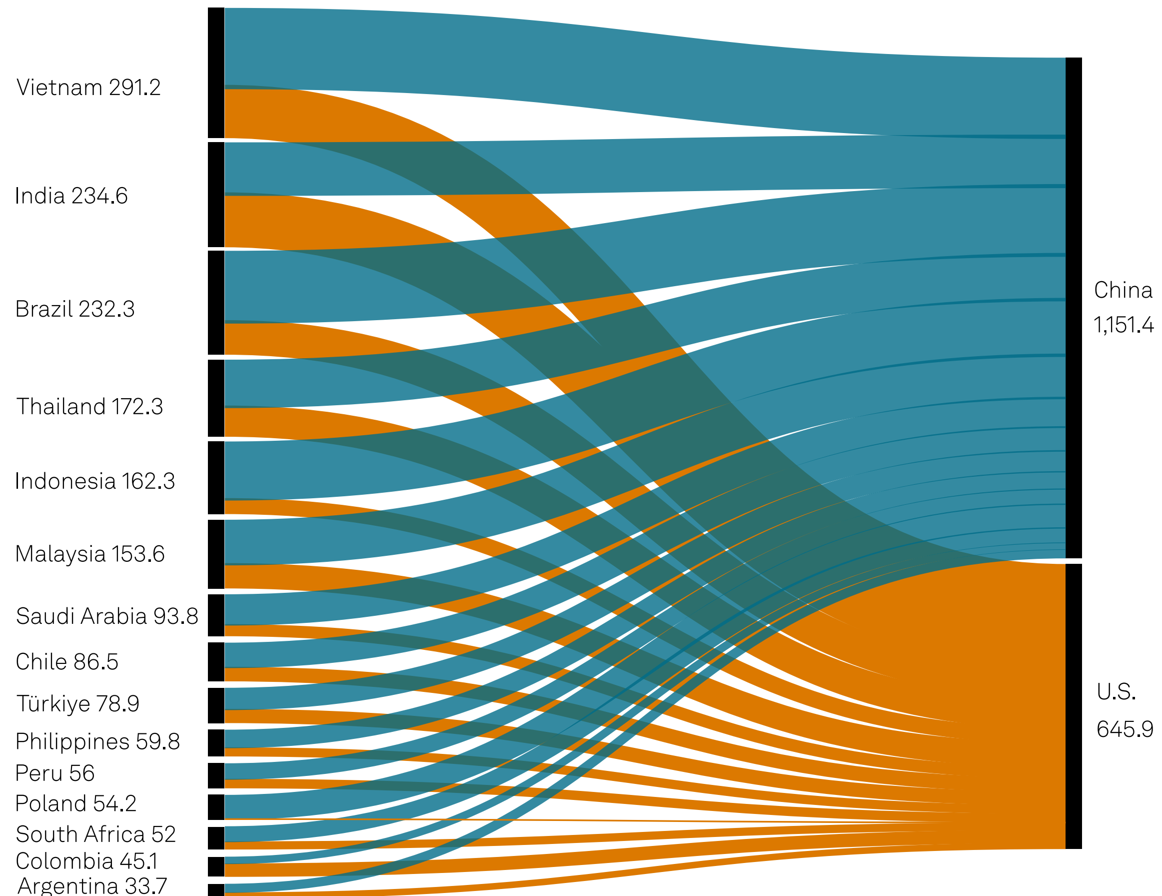


Data as of end-2024. Data source: Institute of International Finance.

Emerging Markets | The Tariff Storm

US and China are the main epicentres of EM trade

2023 total trade flows (exports plus imports in bil.$)*



- Emerging markets' (EMs') so far resilient credit conditions and rating performance are likely to be tested due to increasing trade protectionism in the U.S., potentially leading to a trade war.
- In the short term, global trade disruption could dent capital and investment flows, cause a significant economic slowdown, and reignite inflationary pressures.
- Long-standing U.S. tariffs and corresponding retaliatory actions from other nations may disrupt supply chains and accelerate relocation efforts. U.S. and China not only provide for the largest consumer markets, but they are also key manufacturing hubs for EM economies.
- A slower than expected growth in China could particularly impact Southeast Asia EMs, mostly exposed in terms of exports to China and displaying strong supply chains' integration.

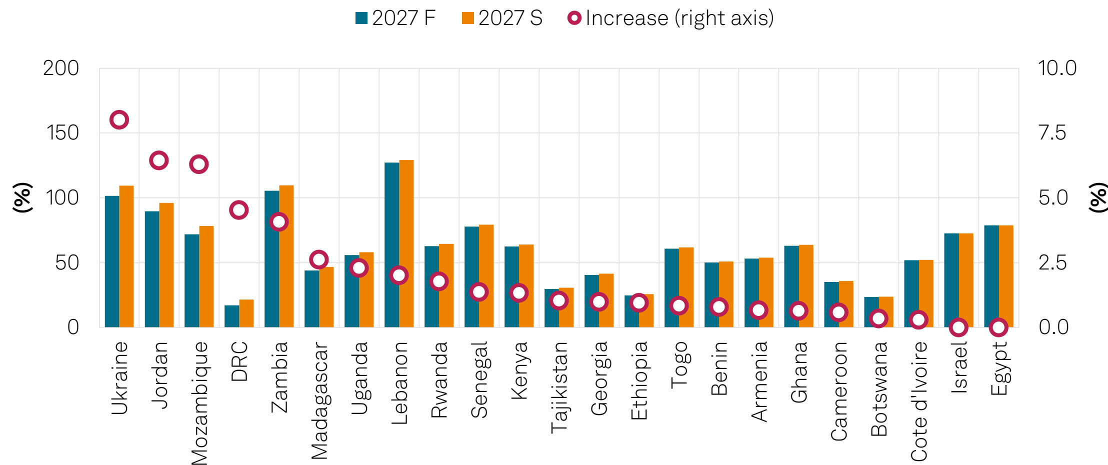
* Excluding Mexico, since it has the largest trade relation with the U.S. totalling $682.5 billion and exchanges relevant trade flows with China totalling $118.2 billion.
Source: S&P Global Market Intelligence.

Emerging Markets | Credit Conditions Will Likely Weaken Over The Coming Quarters

- The impact from U.S. progressive unilateralism could spill over to EMs from the perspective of reduced foreign assistance, heightened geopolitical risk in a context of Ukraine-Russia and Israel-Hamas unresolved conflicts and lower remittances flows stemming from immigration policies, especially across LatAm. Fallouts could trigger risk aversion and a flight to quality.
- The path for policy rates and financing conditions is unclear, with EM central banks cautious to preserve interest rate differentials to avoid capital outflows. This will influence exchange rates and borrowing costs: a delayed descent would erode corporate margins and undermine sovereigns' consolidation plans. Enhanced market volatility could limit market access for sectors targeted by tariffs and lower-rated issuers.

U.S. assistance is meaningful for many EMs and frontier markets

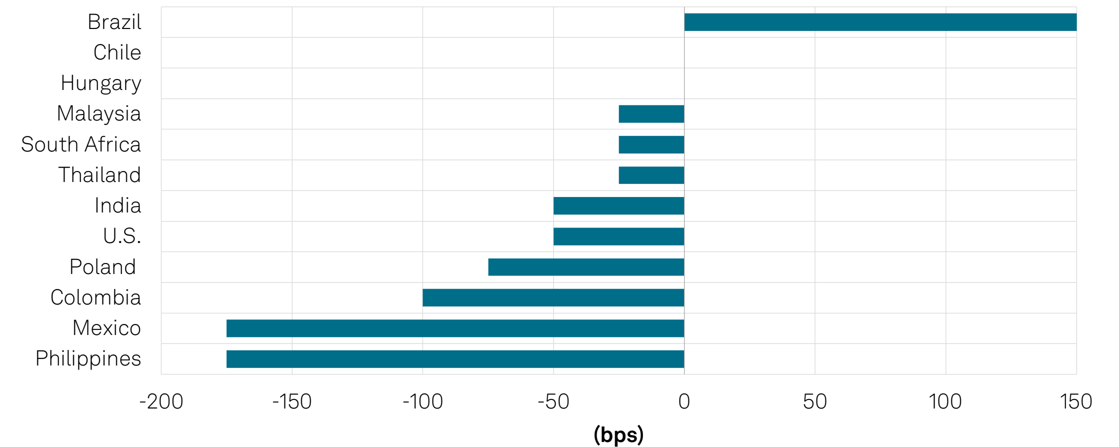
Debt to GDP



F--forecast. S—Scenario: assumes a permanent halt to U.S. foreign assistance, with each recipient country making up for the equivalent of promised 2024 US Foreign Assistance each year. Source: S&P Global Ratings.

A pause in the Fed's rate cuts could mean less cuts for EMs

Market-implied policy rate change in the next 12 months



Data as of March 19, 2025. Sources: Haver Analytics and S&P Global Ratings.

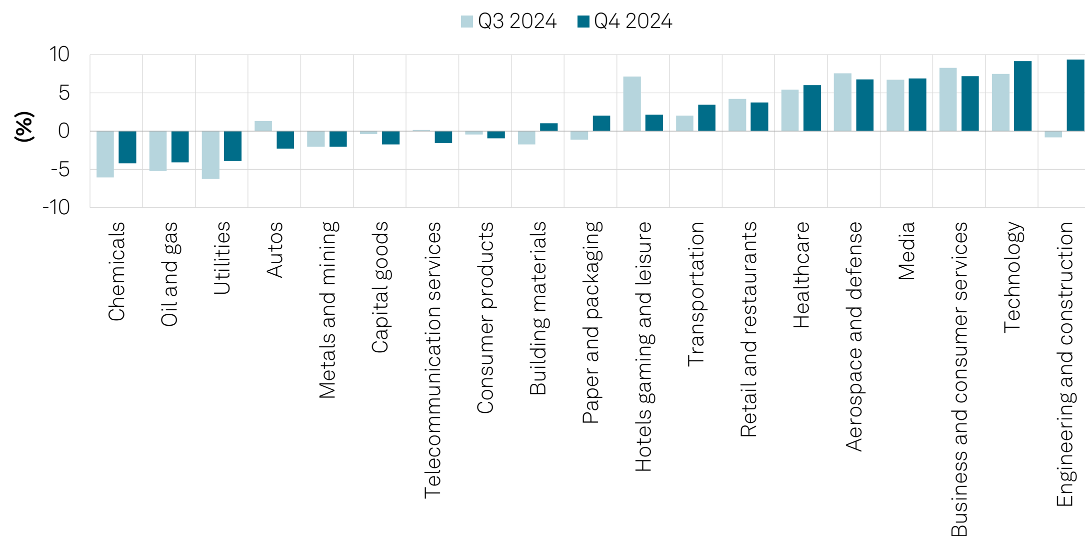
Sector Trends

Corporates | 2024 Results Indicate Positive EBITDA Growth Across Most Sectors

- In most sectors, fourth-quarter 2024 quarterly trailing EBITDA growth was positive, with technology and semiconductors showing the largest increases.
- The uncertainty in international trade created by the new Trump administration poses a risk to the continuation of this positive trend for corporates, increasing the risks of globally lower growth and higher inflation.
- The lack of visibility makes strategic planning and investment decisions more complicated.
- The auto and metal sectors reported negative EBITDA growth in 2024 and are both affected by the imposed or announced U.S. tariffs. We assume that tariffs impact is globally negative for the auto sector while the 25% global tariff imposed on steel and aluminum imported to U.S. may benefit U.S. metal manufactures.

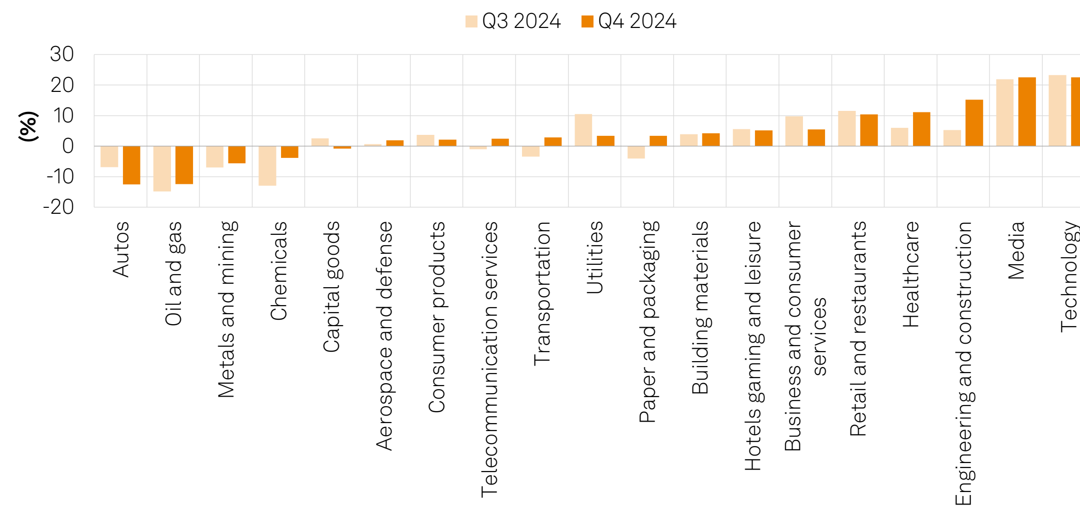
Rated nonfinancial corporates | Global industry growth*

Sales growth - trailing Q4, year-over-year



Data to March 19, 2025. *Measured in U.S. Dollars, at historic rates. Only includes companies reporting quarterly. Latest quarter only includes companies that have reported Q4 2024 results. Source: S&P Capital IQ, S&P Global Ratings.

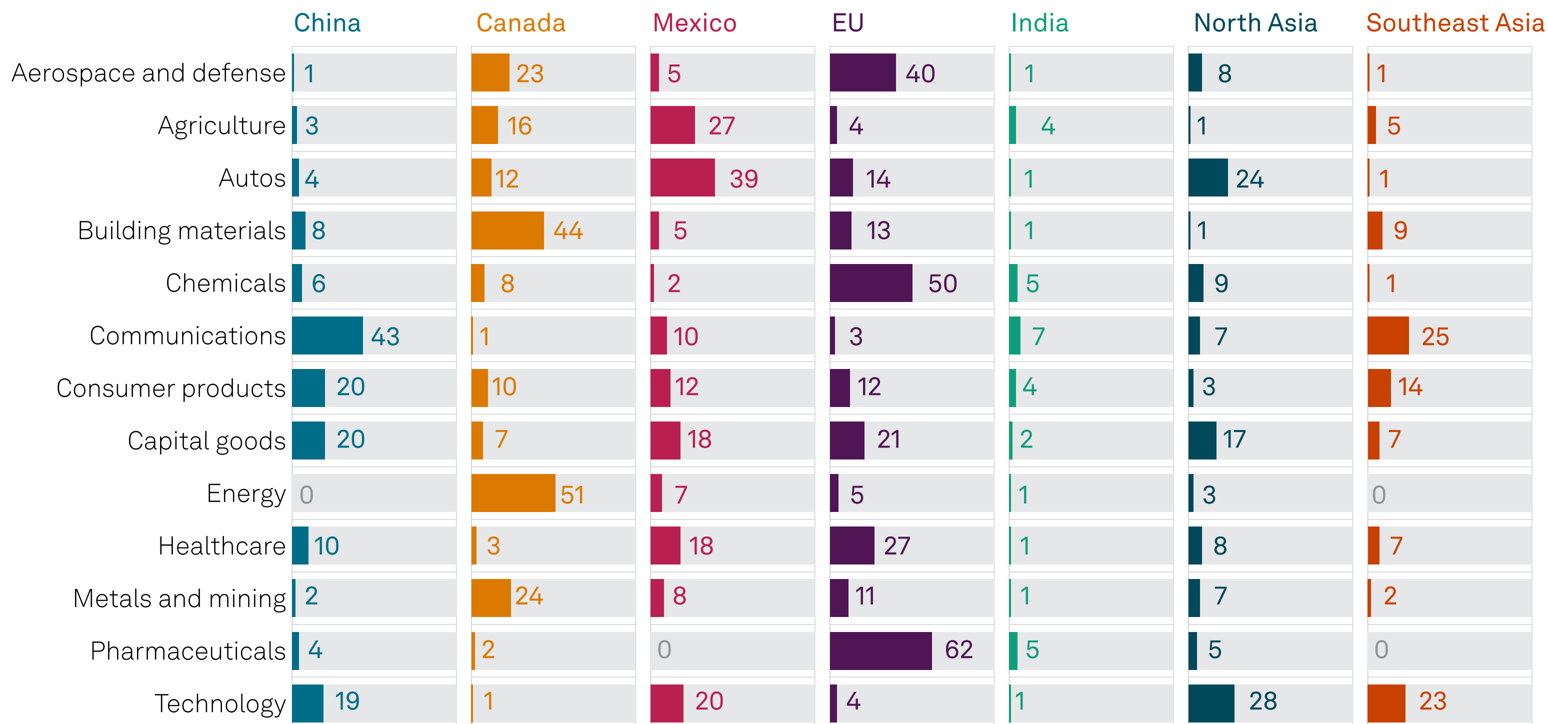
EBITDA growth - trailing Q4, year-over-year



Data to March 19, 2025. *Measured in U.S. Dollars, at historic rates. Only includes companies reporting quarterly. Latest quarter only includes companies that have reported Q4 2024 results. Source: S&P Capital IQ, S&P Global Ratings.

Corporates | U.S. Tariffs Impact On Corporates Can Be Reduced By Mitigants

Share of U.S. imports by product group and trading partner, 2024 (%)

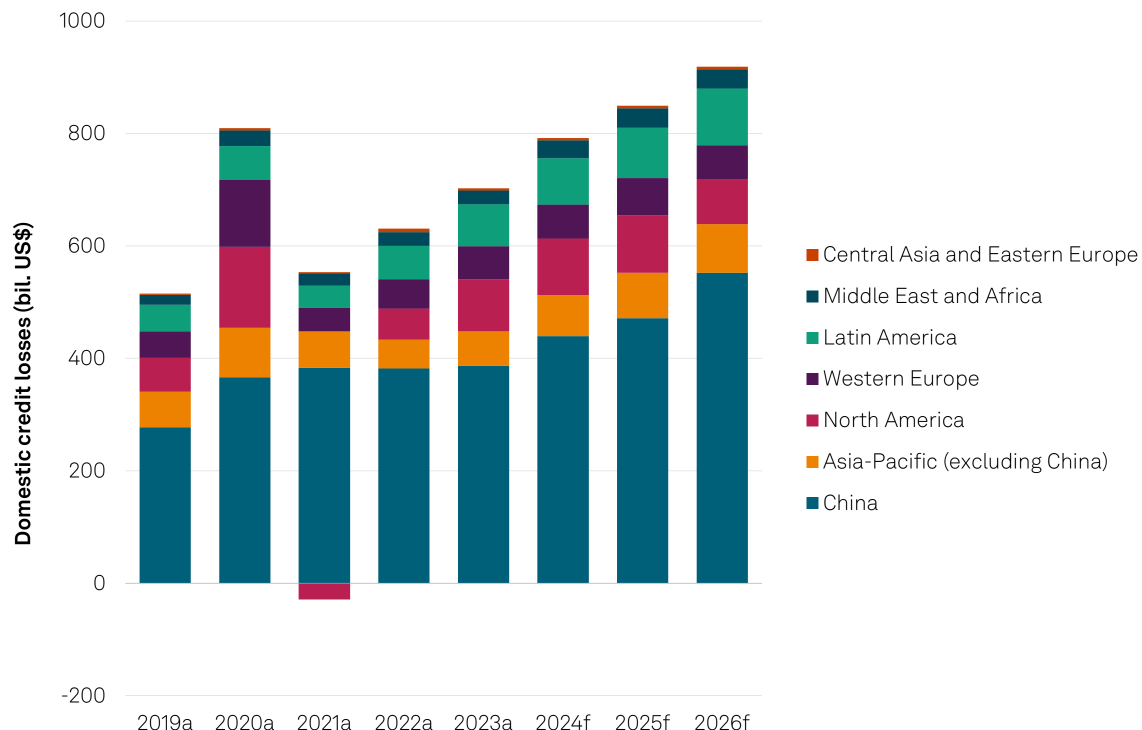


North Asian economies--Japan, Korea and Taiwan. Southeast Asian economies--Malaysia, Thailand and Vietnam. The percentages of each row don't necessarily add up to 100% given the incomplete list of trading partners. Sources: U.S. Census Bureau, S&P Global Ratings' calculations.

- U.S. companies are not immune to tariffs if they produce outside of the U.S.
- We note that the real impact of the new tariffs on the global portfolio of rated corporates is highly dependent on mitigants, which in many cases can significantly offset the potential negative effects.
- Local production is the strongest mitigant, U.S. and foreign corporates that produce within U.S. territory are avoiding tariffs. This is more common in sectors that produce heavy and difficult-to-move goods such as cement or cables.
- The second-best mitigant is the ability to pass tariffs entirely or partially to final customers. These goods typically lack substitutes, such as pharmaceutical covered by patents or certain specialty products in the chemical sector.

Global Banks | Higher Credit Losses Are Manageable At Current Rating Levels

We anticipate credit losses will increase by 7% in 2025



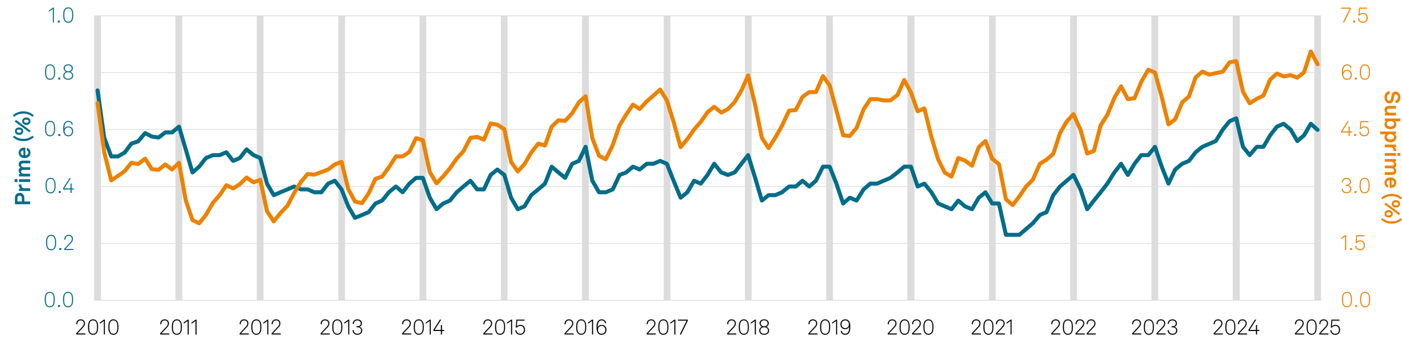
Data shown on a constant currency basis, based on 2023 year-end exchange rates. Data for China relates to commercial banks. a--Actual. f--Forecast. Source: S&P Global Ratings.

Our latest outlook

- Continuing ratings stability--currently about **80% of banking groups have stable ratings outlooks** and we envisage this trend continuing in 2025.
- We see **four key downside risks** to bank ratings:
  1. A global economic slowdown outside our base case;
  2. A worse-than-expected property sector deterioration;
  3. Still-high interest rates superimposed upon high government and corporate sector leverage; and
  4. Evolving risks including new technologies (such as AI), climate change and cyber that could widen credit differentiation, given that adaptation to such changes could prove positive or negative.
- Furthermore, **geopolitical risks are elevated** and pose a meaningful downside risk to ratings. Market turbulence could cause disruption considering the confidence-sensitive nature of the sector.
- We forecast **credit losses will increase globally by 7% to around US$850 billion in 2025.** This increase is within our base case at current rating levels.
- The new Trump administration, Congress, and new leadership of **regulatory bodies may consider revisions to supervision and several parts of regulations** proposed during the Biden term, though the details, feasibility, and timelines of any plans remains very unclear.

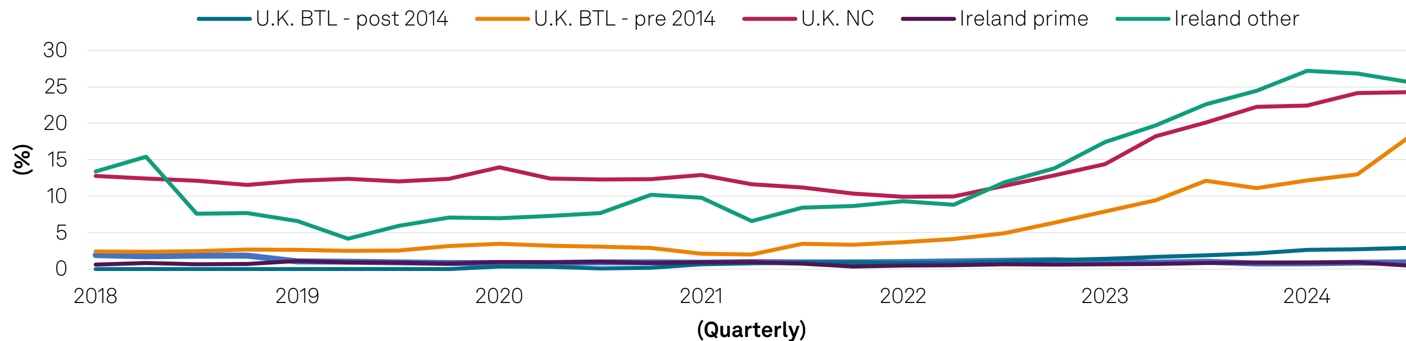
Structured Finance Ratings | Consumer Headwinds Emerging

U.S. auto loan ABS 60+ day delinquency rates*



*Based on auto loan ABS transactions rated by S&P Global Ratings. Source: S&P Global Ratings.

U.K. and Irish RMBS average arrears rate, by subsector

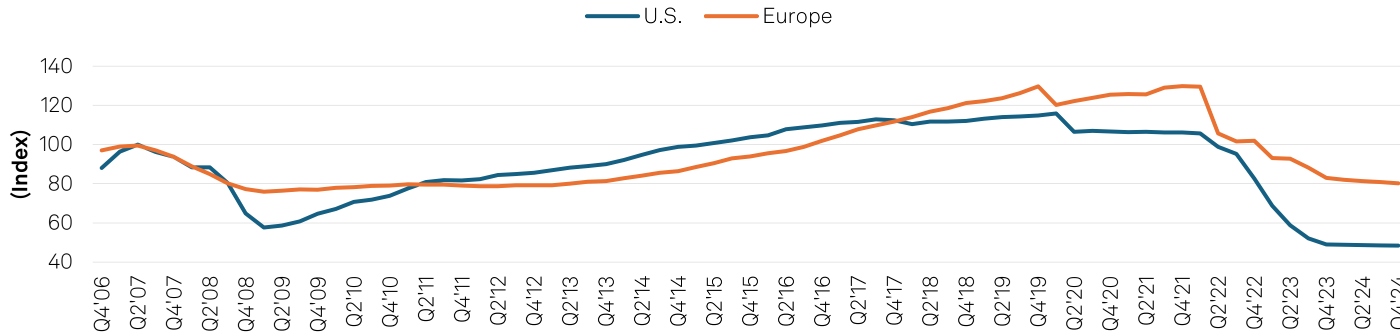


BTL--Buy-to-let. NC--Nonconforming. Source: S&P Global Ratings.

- Recent U.S. data indicate that consumer distress is spreading to higher credit score and income cohorts, despite a relatively low unemployment rate. This is happening amid higher debt levels: credit card balances have increased to a record $1.38 trillion (non-seasonally adjusted) as of end-2024. We attribute growing consumer distress to a combination of higher interest rates, higher debt, and inflation/affordability issues, along with the resumption of student loan payments. For now, we expect somewhat weaker collateral performance for covered sectors, while rating trends remain stable. While not our base case, an unforeseen increase in the unemployment rate could lead to further distress for consumers who are already facing a financial strain.
- In Europe, there are also some pockets of weakness in consumer-related securitizations, notably those RMBS backed by U.K. nonconforming, U.K. legacy buy-to-let, or Irish nonprime mortgage loans. Among other risk factors, these subsectors are disproportionately exposed to floating rate and interest-only loans, with more borrowers who have few refinancing options.

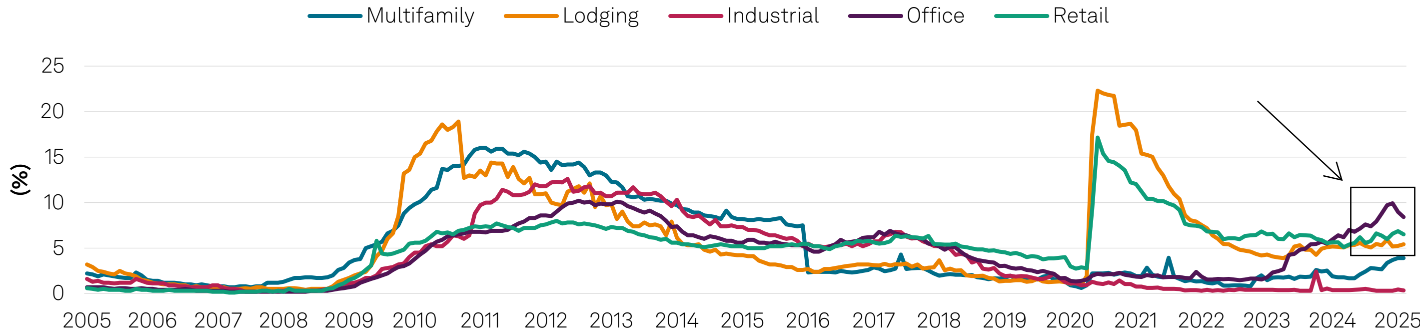
Structured Finance Ratings | CMBS Issues Remain

Green Street Office CPPI (B/B+ Quality) Q4 2006-Q4 2024



Source: Green Street, S&P Global Ratings.

U.S. CMBS delinquency rates by Property Type (2005-Present)



Source: S&P Global Ratings.

- U.S. CMBS continues to have the most bearish collateral performance and rating outlook among the major asset types (e.g., ABS, CLO, RMBS), mainly due to underperformance in certain subsectors, with ratings impacted across the entire capital stack. Stubbornly high benchmark interest and capitalization rates have weighed on asset valuations and heightened refinancing risk for most types of U.S. CRE. Specific to the office sector, relatively lower demand for space from both the private and government sectors are weighing on asset valuations via lower occupancy and rents. Class B/C regional malls continue to struggle to find long-term refinancing capital.
- In Europe, the CMBS sector has seen property value declines greater than during the GFC, while faring relatively better than the U.S. However, valuations now appear to be bottoming out. The overall ratings trend in European CMBS has been negative since mid-2024, although conditions are likely improving.

Related Research And Contacts

Related Research

Credit Conditions

- Credit Conditions Asia-Pacific Q2 2025: Squeezed From Both Sides, Mar. 26, 2025
- Credit Conditions Europe Q2 2025: Europe Plots A New Course, Mar. 26, 2025
- Credit Conditions Emerging Markets Q2 2025: The Tariff Storm, Mar. 26, 2025
- Credit Conditions North America Q2 2025: Uncertainty Prevails, Mar. 26 2025

Regional Credit Outlooks can be found here

Economic Outlook

- Global Economic Outlook Q2 2025: Spike In U.S. Policy Uncertainty Dampens Growth Prospects, Mar. 27, 2025
- Economic Outlook Asia-Pacific Q2 2025: U.S. Tariffs Will Squeeze, Not Choke, Growth, Mar. 26, 2025
- Economic Outlook Eurozone Q2 2025: A World In Limbo, Mar. 25, 2025
- U.K. Economic Outlook Q2 2025: Recovery In Consumption Slows As Inflationary Pressure Returns, Mar. 25, 2025
- Economic Outlook Emerging Markets Q2 2025: Trade Policy Unknowns Dampen Investment, Mar. 25, 2025
- Economic Outlook U.S. Q2 2025: Losing Steam Amid Shifting Policies, Mar. 25, 2025

Regional Macro Updates can be found here

Additional research

- Credit Cycle Indicator Q2 2025: Macro Headwinds Could Hinder Credit Recovery, Mar. 20, 2025
- Chilling Effects: Tariffs Hit Canadian Corporates, Mar. 5, 2025
- Asia-Pacific Corporates 2025: Who Can Take The Tariff Hit?, Aug. 27, 2024
- Steel And Aluminum Tariffs Boost Prices For U.S. Metal Producers, Costs For Manufacturers, Mar. 13, 2025
- U.S. Tariffs Aren't The Main Problem For European Chemical Companies, Mar. 6, 2025
- The U.S. Speculative-Grade Corporate Default Rate Could Fall To 3.5% By December 2025, Feb. 20, 2025
- The European Speculative-Grade Default Rate Could Level Out At 3.75% By December 2025, Feb. 21, 2025
- Corporate Results Roundup Q4 2024: Growth accelerates and sentiment improves , Mar. 19, 2025

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