S&P Global
Ratings

The Ratings View

April 10, 2025

This report does not constitute a rating action.

Key Takeaways

- Shifts in climate policy don't necessarily mean less risk for corporates.
- Most European companies can manage the immediate effects of U.S. tariffs.
- Tariff-related pressures on China's economy will hurt the asset quality of banks.

Recent climate policy developments point to both changing investment priorities and easing pressures to decarbonize in the U.S. and Europe. S&P Global Ratings doesn't believe this necessarily means less financial risk for corporate entities. Policies still diverge between markets, and shifts generally decrease the visibility of investments, notably for long-term projects. We have taken few negative credit rating actions in the past five years due to increasing pressure from decarbonization policies and don't anticipate significant positive actions stemming from potentially easing regulatory pressures. On the contrary, we remain cautious about how companies may react and adjust their plans. We believe climate transition is a megatrend that will shape the economic landscape over the coming decades, despite whatever short-term impacts we may see.

Credit FAQ: How The Global Climate Policy Pendulum Influences Our Credit Ratings

Most European corporates can manage the immediate effects of U.S. tariffs. European-rated corporates benefit from important mitigating factors that should enable them to manage the immediate direct impact of the Trump administration's 20% and 10% tariffs on goods from Europe and the U.K., respectively. We expect the European auto sector will feel the greatest negative effect, with the imposition of a 25% tariff on vehicles imported to the U.S. likely to adversely affect European and other global automakers and their extensive supply chain networks. European aluminum and steel companies, which are also subject to a 25% tariff, are also likely to be negatively affected. The global actions and the strategic priorities of the U.S. administration signal a significant change to the global trading environment of recent decades. An evident shift toward greater volatility and uncertainty regarding future trade developments is likely to have negative implications for corporates. That is particularly relevant for the eurozone, which relies significantly on exports.

Most European Corporates Can Manage The Immediate Effects Of U.S. Tariffs

The drag on China's economy from higher tariffs will hurt the asset quality of banks. Strains will incrementally come from micro and small enterprises (MSEs) and unsecured consumer credit. In our base case, we forecast annual credit losses averaging Chinese renminbi (RMB) 2.5 trillion over 2025-2027, which assumes about 4% annual GDP growth over the period. Average annual credit losses could increase to RMB2.7 trillion in a downside scenario of tariffs hitting the economy harder; or decline from base case to RMB2.2 trillion in an upside scenario in which stimulus helps China reach its 5% growth targets.

China's Bad Loans Could Exceed 6% In A Tariff-Related Downside

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Asset Class Highlights

Corporates

Notable publications include:

- Corporate Japan's Hybrids: Issuers Will Keep Funding Channels Open
- EMEA Consumer Goods And Retail: U.S. Tariffs Will Hit Alcohol And Luxury Goods Hardest
- Australian Office Landlords To Shift Into Recovery Mode
- Most European Corporates Can Manage The Immediate Effects Of U.S. Tariffs
- Japanese Telecoms Majors Will Retain A Data Center Edge
- China's Bad Loans Could Exceed 6% In A Tariff-Related Downside

Financial Institutions

Notable publications include:

- China's Bad Loans Could Exceed 6% In A Tariff-Related Downside
- Credit FAQ: The Potential Rating Impact Of A Conservatorship Exit For Fannie Mae And Freddie Mac
- Debt Maturities For North American Nonbank Financial Institutions Will Remain Manageable Despite Economic Uncertainty
- Financial Inclusion In Emerging And Frontier Markets: Technology Is Delivering For Banks And Societies
- Ratings Component Scores For The Top 200 Banks Globally--April 2025

- Research Update: Rocket Mortgage LLC Outlook Revised To Positive On Potential Benefits Of Mr. Cooper Acquisition; 'BB' Ratings Affirmed
- Research Update: Mr. Cooper Group Inc. 'B' Ratings Placed On CreditWatch Positive On Announced Acquisition By Rocket
- Research Update: BRB – Banco de Brasilia 'B' And 'brA+' Ratings Placed On CreditWatch Developing On Planned Acquisition Of Banco Master

Sovereign

- Sovereign Ratings Score Snapshot

Structured Finance

- **U.S. CMBS:**

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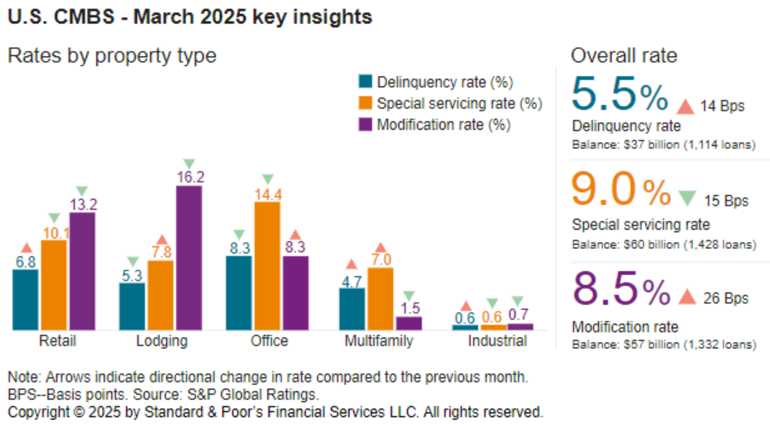
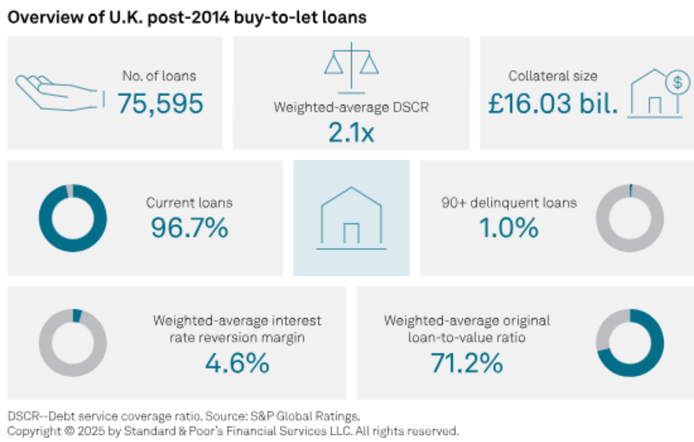


- See commentary titled "SF Credit Brief: U.S. CMBS Delinquency Rate Rose 14 Basis Points To 5.5% In March 2025; Multifamily Rate Climbs To 4.7%" and published on April 2, 2025.

- **U.K. RMBS:**



- See the inaugural U.K. buy-to-let (BTL) monitor titled "U.K. Post-2014 Buy-To-Let Monitor Q4 2024" published on April 1, 2025.

- **European RMBS and Covered Bonds:** Here are a few "Key Takeaways" from a recent commentary:

  - This publication has been updated to reflect S&P Global Ratings' recently revised assessment of house price overvaluation in the U.K. and Israel markets. We use our under- and overvaluation assessments for residential mortgage markets to calibrate our loss-severity assumptions for rating residential mortgage-backed securities (RMBS) and covered bonds. This publication includes assessments for other countries that were revised in January 2025; these have not been updated since then.

  - Compared with our previous assessments, overvaluation in the U.K. has moderated, which we mainly attribute to wage growth, exacerbated by declining house prices in some U.K. regions. In Israel, house price growth has outstripped wage growth, which accounts for the increase in our overvaluation estimate.

  - We updated our approach to determining under- and overvaluation for a specific mortgage market earlier this year. We now place each region or country in one of six categories, from undervalued to severely overvalued; these are detailed below.

  - Under the updated approach, our assessments also incorporate our forward-looking view of factors we consider likely to drive income and house prices, such as interest rates and house price forecasts.
  - On April 4, 2025, we published a commentary titled "House Price Overvaluation Moderates For Europe's RMBS And Covered Bond Markets".

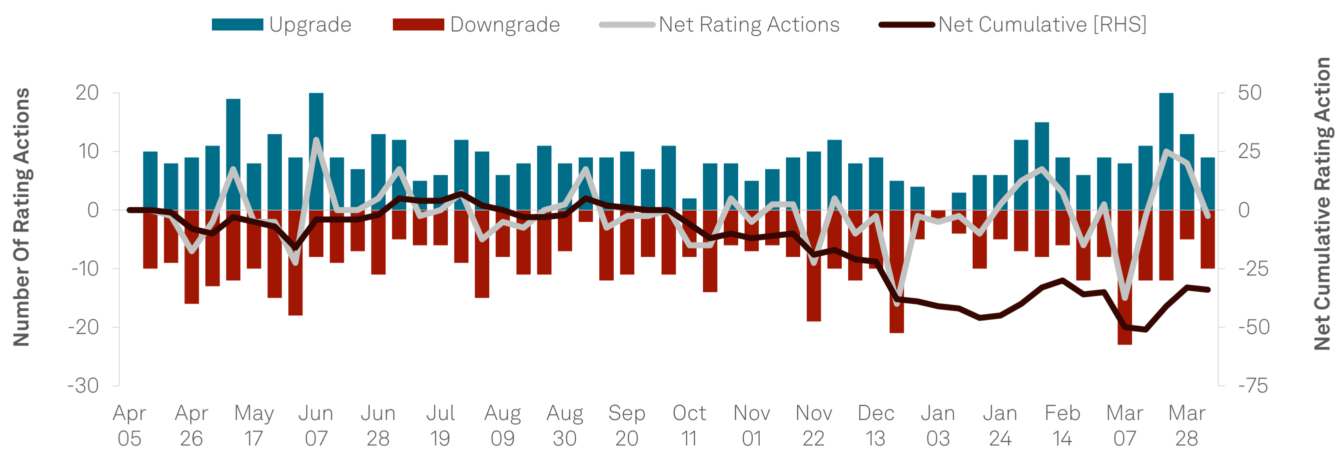
- **European CLOs:** Here are a few "Key Takeaways" from a recent commentary:
  - Analysis of historical new issue pricing for European collateralized loan obligations (CLOs) indicates that during economic shocks and subsequent recoveries, the coupon margins for investment-grade tranches at issuance are relatively more sensitive than for more junior tranches.
  - The data also suggests that speculative-grade CLO tranches generally pay a spread premium relative to the underlying collateral pool, while tranches rated 'A' (or higher) generally pay a lower spread than the collateral.
  - Increased competition and investor participation, reflecting CLOs' emergence as a mainstream asset class, could deliver more balanced pricing across the European CLO spectrum through 2025, though geopolitical risk could prompt CLO investors to reassess risks and put upward pressure on CLO margins.
  - On April 3, 2025, we published a commentary titled "European CLO Margins: Shocks And Recoveries Are Guides To The Future".

- **U.S. Auto ABS:** Here are a few "Key Takeaways" from a recent commentary:
  - In February 2025, U.S. auto loan ABS demonstrated normal seasonal trends, with month-over-month improvements in losses, recoveries, and delinquencies.
  - For the second month in a row, prime auto loan losses and 60-plus-day delinquencies declined and recoveries improved. Prime annualized losses declined seven basis points (bps) to 69 bps in February from 76 bps in January due to higher recoveries, which increased to 56.17% from 51.31%. At the same time 60-plus-day delinquencies inched downwards five bps to 55 bps from 60 bps. On a year-over-year basis, prime losses and 60-plus-delinquencies rose only slightly, while recoveries improved substantially from 51.94% last year.
  - Subprime annualized losses decreased substantially (74 bps) for the month to 8.71% due to higher recoveries of 36.60% (33.30%). Sixty-plus-day delinquencies declined for the second month, to 5.84% from 6.22% in January and 6.40% in December 2024, but remained higher than February 2024 (5.50%). Losses also remained higher than last year (8.10%) due to recoveries declining from 39.50% in February 2024.
  - Our March surveillance reviews resulted in 10 upgrades, no downgrades, and 10 subprime classes being placed on CreditWatch negative.
  - On April 2, 2025, we published a commentary titled "U.S. Auto Loan ABS Tracker: February 2025 Performance".

- **Australian RMBS:** See the recent "RMBS Arrears Statistics: Australia February 2025" published on April 4, 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 Apr. 4, 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. $)
4-Apr	Upgrade	DISH DBS Corp. (EchoStar Corp.)	Telecommunications	U.S.	CCC+	CC	11,000
2-Apr	Downgrade	Hilton Grand Vacations Inc.	Media & Entertainment	U.S.	BB-	BB	6,550
31-Mar	Upgrade	Compagnie Generale des Etablissements Michelin S.C.A.	Automotive	France	A	A-	6,062
31-Mar	Upgrade	Wayne-Sanderson Farms Holdings LLC	Consumer Products	U.S.	BB	BB-	5,800
3-Apr	Upgrade	Meituan	Consumer Products	Cayman Islands	A-	BBB+	4,500
4-Apr	Upgrade	VS Holding I Inc.	High Technology	U.S.	B+	B	3,250
1-Apr	Downgrade	Great Canadian Gaming Corp.	Media & Entertainment	Canada	B-	B	2,930
31-Mar	Upgrade	Brookfield Residential Properties ULC	Homebuilders/Real Estate Co.	Canada	B+	B	2,850
2-Apr	Downgrade	Kleopatra Holdings 2 S.C.A. (Kleopatra Holdings 1 S.C.A.)	Chemicals, Packaging & Environmental Services	Luxembourg	CC	CCC+	2,129
31-Mar	Upgrade	Xiaomi Corp.	High Technology	China	BBB	BBB-	1,800

Source: S&P Global Ratings Credit Research & Insights. Data as of Apr. 4, 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**.**