S&P Global
Ratings

Global Credit Conditions Special Update

Ongoing Reshuffling

April 11, 2025

This report does not constitute a rating action

Key Takeaways

- Trade tensions are threatening what has been a favorable credit conditions environment for most borrowers. The April 2 tariff announcements by the U.S.—and the subsequent escalation in the trade conflict between the U.S. and China—went far beyond what financial markets had imagined and exceeded our previous assumptions. If the paused U.S. tariffs are ultimately implemented in full, the economic fallout would be broad and deep.
- Market volatility and increasing investor risk aversion pose the most imminent risks to credit in this environment. Borrowers are having to pay up for financing and, worse, some lower-rated borrowers could be shut out of the capital markets.
- President Trump's 90-day pause of most tariffs didn't remove the uncertainty around what could ultimately occur. Unresolved trade tensions as the partial pause approaches its end could have a visible impact on credit quality.

Editor's note: This commentary is a special Credit Conditions report in response to escalating trade tensions. S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses—specifically with regard to tariffs—and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

Intensifying global trade tensions are weighing on global credit conditions and threaten what has been a favorable environment for most borrowers until lately. The April 2 tariff announcements by the U.S.—and subsequent countermeasures announced by China—went far beyond what financial markets had imagined and exceeded our previous assumptions (see "Global Credit Conditions: Puzzling Reshuffling," published March 31, 2025). If the paused U.S. tariffs are ultimately implemented as initially announced, the economic fallout would be broad and deep.

Either way, the pause is for 90 days, and the prevailing uncertainty is likely to further undermine business and consumer confidence, heightening concerns about corporate investment, employment and consumer spending, and overall economic activity. This lack of clarity is illustrated by this week's further escalation in trade tensions between the U.S. and China.

The most imminent risk to credit in this environment is market volatility and increasing investor risk aversion. Investors have already driven down the price of comparatively risky financial assets and are demanding higher premiums for the risks they assume. The VIX volatility index, which gauges market fears, spiked to above 60 on April 7, up from around 15 in mid-February (and remains around 40). Furthermore, secondary-market spreads on U.S. speculative-grade debt have jumped above 300 basis points (bps) for the first time since November of 2023. Market volatility also included an intraday sell-off in U.S. Treasuries on April 9 and swings in the value of the dollar.

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Sharp declines in equities could force market participants to sell safer assets to raise liquidity to meet higher margin requirements. This, in turn, could set off a decline in prices for a broader set of assets, including Treasuries. The inability of a counterparty to post margin could also lead to major market disruption, leading to contagion and concerns about the creditworthiness of a broader set of counterparties, particularly in the banking space.

On the brighter side, **borrowers entered this period with solid credit fundamentals,** having benefited from a stretch of supportive conditions. Rating actions have been balanced, refinancing activity has been robust, and the net negative outlook bias—indicating potential ratings trends—has overall been well below five-year averages. Also, many speculative-grade borrowers took advantage of historically tight spreads and strong investor appetite last year to push out maturities. But the capital markets have essentially been closed to these borrowers since the April 2 announcement and may remain unwelcoming until more clarity appears.

If tariffs slow economic activity and reignite inflation, this will muddy the waters for central bank monetary policy. As it stands, we expect the Federal Reserve will lower its policy interest rate by just 25 basis points this year. Also, widening spreads could keep all-in financing costs elevated.

Unresolved trade tensions as the partial pause nears its end could have a visible impact on credit quality. The breadth and depth of the effects will depend on the duration of tariffs, countermeasures by the U.S.'s trading partners, and any stimulus that governments put in place to offset the economic impact. In the short term, the effects will be on credit conditions, with many borrowers having to pay up for financing (or, worse, find themselves shut out of the capital markets). Also, certain intermediaries could be caught by asset-valuation swings or limited liquidity. In the longer term, the effects will likely slow economic activity, further disrupt global supply chains, and fracture geopolitical relationships.

For corporate borrowers, we would expect both direct and indirect effects to weigh on ratings. Companies that derive a significant portion of earnings from exports will clearly suffer direct effects, as will sectors and companies most exposed to global supply chains (e.g., automakers, generic-drug manufacturers, retailers), with rising input costs chipping away at profit margins. To the extent that companies can pass along these costs, they will. But for many, this pass-through capability is finite, given the diminished purchasing power of inflation-weary customers and consumers. At the extreme end, some businesses will lose substantial revenues if the products they export have local substitutes not subject to tariffs. More generally, the hit to business confidence and greater uncertainty around the trading environment may erode previously improving momentum in profits growth and pause investment, hiring, and acquisition plans.

Financial institutions must first navigate near-term market volatility, which has heightened counterparty risk. Over the longer term, the effects are likely to reflect the overall economic direction, since financial institutions haven't yet been directly affected by tariffs. We expect the overall slowing of global economic activity to weigh on the growth of financial institutions, particularly in countries targeted with the most severe levies, which would weaken business and consumer confidence. Also, the depth and duration of any economic impact will influence credit quality across the spectrum, with the earliest potential effects on institutions that have outsized exposure to the directly targeted sectors and countries.

For sovereigns, the key risks over the next quarter emanate from the secondary effects of trade instability. The impact of the expected slowdown in economic activity and investment on commodities prices, for example, could add negative pressures for some emerging- and frontier-market sovereigns that aren't the most severely affected by tariffs. In addition, global geopolitical tensions are, in our view, at the worst level in decades, posing a serious risk of economic disruption. In Europe, we are already seeing the fiscal effects, as many nations embark on a process of re-armament not seen since World War II. Finally, funding costs remain elevated for

the asset class, more so for lower-rated sovereigns, which in such an unstable context increases event risks and adds pressures on refinancing.

For structured finance, the short-term effects of the ongoing uncertainty will continue to be seen in primary spreads on transactions that make it to market—wider across the credit spectrum and especially on the lower end of the capital stack. The ultimate effect will most likely result in the consumer sector seeing affordability challenges, starting from the weakest credit cohorts, and a general squeeze in household finances. On the corporate side, the impact will filter through as refinancings become more onerous.

The insurance sector is exposed to uncertainty, as well. The most direct link might be insurers' investments in equity and bond markets. While insurers' asset allocation is generally prudent, they are exposed to market risk. Typically, this exposure is higher for life insurers, and less so for other insurance subsectors and re-insurers. Still, capital adequacy is a key rating strength for European and North American insurers. While risk-management practices in this highly regulated sector support a well-balanced risk appetite, a prolonged, material downturn in capital markets might impair insurers' balance sheets.

Our Macroeconomic Assumptions

We haven't yet revised our most recent macroeconomic forecasts (see "Global Economic Outlook Q2 2025: Spike In U.S. Policy Uncertainty Dampens Growth Prospects," published March 27, 2025). Excluding the effects of escalating U.S.-China trade tensions, we believe the partial pause announced by the Trump administration on April 9 (which still includes 10% blanket tariffs for all trading partners apart from China), will lead to a moderate overall impact compared with the assumptions we have used.

In China, current tariff levels, if sustained for a prolonged period, would lead to a major disruption of trade flows, a direct economic hit, and spill over into confidence, investment, and consumption. Although China may boost fiscal and monetary stimulus, this is unlikely to fully offset the growth hit. GDP growth would be materially lower than the 4.1% for 2025 and 3.8% for 2026 in our March forecast.

The tariffs, if fully implemented as per the April 2 announcement and remaining in place for our forecast horizon, would weigh on GDP growth, both globally and for many countries. We project the global economy would expand just 2.7% this year and next—about 0.3 percentage point lower than our most recent forecast. (Note that these figures don't fully account for the recent escalation between the U.S. and China.)

In such a scenario, we think U.S. GDP would expand just 0.9% in the fourth quarter (annualized), with full-year growth of 1.6% this year and 1.5% next year—both down 0.4 percentage point (ppt) from our March forecast. This would also raise the likelihood of recession in the world's biggest economy. This would also influence our expectations of future rate cuts and currency movements. We project such a scenario would also shave about a quarter percentage point off eurozone GDP growth in the next two years, with Germany hurt most among major economies.

The Asia-Pacific region's biggest economies—China, Japan, and India—would likely see reductions of 0.2 ppt-0.4 ppt in growth in 2025 and 2026, respectively. In emerging markets, the smaller, more open Asia-Pacific countries (Vietnam, Thailand, and Taiwan) would see the biggest impact to GDP growth. The decline in growth could range from 1.0 ppt-1.8 ppt in 2025 and 0.6 ppt–1.2 ppt in 2026. Growth in Mexico could decrease by about 0.4 ppt per year.

This simulation accounts for both the direct and indirect effects of the tariffs. The former considers the openness of an economy (its reliance on external demand for growth) as well as its exposure to the U.S. as a trading partner. The indirect effects would be slower growth in all trading partners, as well as uncertainty and the drag on business and consumer confidence.

Regional Credit Conditions

Intensifying global trade tensions are weighing on credit conditions for borrowers in North America, as economic activity materially slows and investors become more risk-averse. The fracturing of historical alliances will likely have long-lasting effects on geopolitical and trade relationships, capital flows, and economies and supply chains.

Sharply higher tariffs are a top concern for U.S. corporate borrowers, given they would lift input prices at a time when companies are grappling with already-elevated costs, the diminished ability to pass them through, and fewer supply-chain mitigants. Key sectors to watch include autos, tech, oil and gas, capital goods, consumer products and retail, pharma and health care, and utilities and power. **Heightened trade tensions with the U.S. could hurt many Canadian companies as well,** leading to operating inefficiencies, supply chain disruptions, and reduced competitiveness in the U.S. export market. If a sharper-than-expected downturn materializes in North America, there could be more severe and broader credit stress across asset classes.

For Asia-Pacific, the U.S.-China dispute seems to be unfinished. As it stands, there are no obvious tariff levels we can reasonably rely on as assumptions for a forecast. Furthermore, at such high tariff levels we anticipate non-linear effects across trade elasticities and the behavior of businesses and households. We will need more time to assess the impact. This entails going beyond the existing suite of macro-data. Meanwhile, credit conditions in Asia-Pacific are likely to deteriorate amid still uncertain trade and financing conditions.

If current U.S. tariff levels on China remain for a prolonged period, China's export engine faces significant disruption—dragging on economic growth and confidence. Although China may scale up fiscal and monetary stimulus substantially, that is unlikely to fully offset the hit to growth.

For the rest of Asia-Pacific, the partial tariff reprieve broadly cushions current growth assumptions. However, downside risks remain significant as the 10% universal tariffs would dent confidence. For small and trade-centric economies (such as Vietnam, Thailand, Singapore, and Taiwan), we could see weaker growth. In addition, locally produced goods in Asia-Pacific and outside the U.S. could face more intense price competition as Chinese exporters scout new markets and cut prices to accelerate sales.

For Europe, the 90-day pause doesn't alleviate the fundamental problem—namely the heightened uncertainty that will weigh on consumer and business confidence. European businesses still face 25% tariffs on steel, aluminum, and autos and auto parts, with the pharmaceutical sector likely to be targeted soon. In our view, the duration of these tariffs is problematic because it disrupts complex and long-established supply chains without providing the necessary clarity to make alternative long-term investment decisions.

Overall, **financing conditions in Europe have become more challenging**. While refinancing is again a more relevant rating constraint as public market liquidity shrinks, we believe weakening coordination between public authorities is a risk if a systemic global shock materializes.

Credit conditions in emerging markets (EMs), too, will deteriorate amid increasing trade protectionism in the U.S. We anticipate that investment in key EMs will be subdued until there is greater clarity regarding the effects of protectionism on economic growth, inflation, and interest rates. Some damage has already occurred, and we expect slower economic activity to weigh on credit fundamentals and market sentiment. Financing conditions for EMs may deteriorate; volatile market conditions are likely to increase borrowing costs and restrict market access for sectors affected by tariffs and for lower-rated issuers.

The U.S and China are the epicenters of trade, with the largest consumer markets. Both countries are also key manufacturing hubs with supply chains largely integrated with key EMs. If the U.S.-China tariffs hold, EMs that export goods to the U.S. and that use Chinese intermediate

inputs will have to rethink their models; there is a material risk that many sectors could become unprofitable and cease operations. Furthermore, we would expect a shift in trade flows (as we have seen with Chinese exports), and cheap goods could overflow EMs, which could pressure local manufacturers' margins.

Overall, President Trump's 90-day pause of most tariffs (with the caveat that across-the-board 10% levies will remain in place) offered a reprieve to financial markets and many of the countries that have trade surpluses with the U.S. But even with the removal of some tariffs, the large increase on China still pushes the U.S.'s overall effective tariff weight above 20%, versus 2.5% in 2024.

Moreover, the pause didn't remove the uncertainty around what could ultimately occur. This lack of clarity will likely continue to hurt business and consumer confidence, with companies cutting capital expenditures (capex) and consumers becoming more reluctant to spend, especially given their diminished purchasing power. All of this will act as a drag on economic activity and weigh on credit conditions.

Top Global Risks

Tariffs escalate in number and severity, hurting economies and supply chains

Risk level	Moderate	Elevated	High	**Very high**	Risk trend	Improving	**Unchanged**	Worsening

Tariffs between the U.S. and its trading partners are still far from finalized, but have the power to upend economies and capital markets, as illustrated by the market turmoil that preceded the announcement of a partial pause on April 9. If tariff levels announced on April 2 are implemented in full, 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.

Increased volatility amid historically elevated rates could see much tighter financing conditions

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

Escalating tariffs and threats acutely raised market volatility and losses between the April 2 announcements and the partial pause on April 9. Market liquidity concerns were illustrated via large, intraday swings in U.S. Treasury yields. Though the 90-day pause on most tariffs have been met with optimism, these prior swings may be exposing systemic vulnerability points for global markets and could re-emerge if the larger tariff situation deteriorates again. A recent "freeze" in the global speculative-grade bond market could continue or return later alongside any deterioration on the tariff front. Market volatility in general could also affect the liquidity of certain financial intermediaries, for instance due to margin calls. Weakened global cooperation in the event of a market stress event is a risk, and any policy actions in the U.S. that disrupt or limit access for banks and investors to U.S. dollar liquidity would be particularly detrimental to global financing conditions. Depending on how tariffs ultimately play out, they could both dampen economic growth and raise inflation, complicating central banks' approaches to monetary policies.

Geopolitical tensions threaten supply chains, market sentiment, and budgets

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

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 risks that the ceasefire may not prove permanent. Meanwhile, if tensions intensify in the Middle East, higher energy prices could ensue. This could drag market sentiment in the 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	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**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, we expect growth will 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.

Global real estate markets are facing multiple challenges

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

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	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**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 cyberattacks—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	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**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.

Sources: S&P Global Ratings.
Risk levels may be classified as very low, moderate, elevated, high, or very high, 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.
Risk trend reflects our current view on whether the risk level could increase or decrease over the next 12 months.

Top North American Risks

Higher tariffs and intensifying trade tensions hurt corporate profits and credit quality

Risk level	Moderate	Elevated	High	**Very high**	Risk trend	Improving	**Unchanged**	Worsening

As global trade tensions drag on, U.S. sectors exposed to imports and cross-border supply chains could face materially higher input prices. This comes as companies struggle with a diminished ability to pass along higher costs to customers and consumers, with fewer supply chain mitigants available given the broad range of trading partners impacted by higher tariffs. Further countermeasures imposed by U.S trading partners (in the form of tariffs or other restrictions) will compound the stress by hurting American companies relying on key components and foreign markets. All this could result in more severe margin and earnings pressure for U.S. corporates, weighing on credit quality, especially if tariffs remain in place for an extended time. Canadian companies, too, could suffer from operating inefficiencies and reduced competitiveness in the U.S. market, while grappling with the needs to reassess their supply chains and seek alternative markets.

The U.S. and Canada suffer sharper-than-expected economic downturns

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	Unchanged	**Worsening**

Escalating trade tensions and the uncertainty surrounding them could weigh heavily on commercial, consumer, and investor sentiment in the U.S. and Canada. Government spending will likely slow, businesses may sharply curb capital expenditures (capex), and households may become more reluctant to spend, especially as their financial strength and purchasing power continues to erode from protracted high prices and restrictive interest rates. All of this could lead to a deeper slowdown in growth—or recession and/or stagflation—causing broader and more severe credit stress across asset classes.

Escalating geopolitical tensions impede trade and investment

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

President Trump's policies are reshaping the U.S.'s role in the global order, with the potential for wide-ranging effects at home and abroad—including ramping up the pressure on other NATO countries to bear more of the burden of their own security. Negotiating a resolution in the Russia-Ukraine war remains challenging, and the risk of a continued conflict persists. At the same time, any worsening of the U.S.-China relationship regarding trade or tensions over the South China Sea could further disrupt supply chains and hamper sentiment, investment, and capital flows. Fighting in the Middle East continues, raising the risk of a wider conflict, which could disrupt the global oil market.

Burdensome financing costs and diminished liquidity strain lower-rated borrowers

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

The prospect of resurgent inflation (amid higher tariffs and tighter immigration controls, which could drive up labor costs) along with slowing economic activity puts the Fed in a bind regarding monetary policy. Increased investor risk-aversion amid heightened policy uncertainty and market volatility could result in higher risk premiums, making the cost of debt service and/or refinancing overly burdensome for some borrowers (even as many have pushed out maturities). Moreover, borrowers at the lower end of the ratings ladder may find it difficult to tap the capital markets to refinance maturing debt or for working capital as investors seek out safer assets.

Depressed asset values and cash flows, plus elevated financing costs, exacerbate commercial real estate (CRE) losses

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

Elevated financing costs have been pressuring asset valuations and raising refinancing risk for most types of CRE. Lower demand for office space continues to weigh on valuations and cash flow dynamics. Certain segments and regions in the multifamily sector are also facing challenges as rent growth softens. All this may lead to more broad-based, and in some cases severe, loan losses for debtholders such as U.S. banks (with regional lenders having higher exposure to CRE than larger lenders do), insurers, REITs, and commercial mortgage-backed securities (CMBS). Higher office vacancy rates and weaker downtown economic activity continue to affect some cities' tax revenue; federal workforce cuts could further dampen revenue growth in more exposed places.

Structural risks

Climate risks intensify and add to costs, as policy shifts complicate the energy transition

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

More frequent and severe natural disasters increase the physical risks that public and private entities face, adding to costs. For example, extreme weather events are making it increasingly difficult for property owners in certain parts of the country to find affordable insurance, if they can get coverage at all. This could hurt housing prices and local economic growth in the longer run. Climate events also threaten to disrupt supply chains (such as for agriculture and food) and logistics. Moreover, the splintering global policy aim toward a net-zero economy complicates transition risks across many sectors.

Accelerating tech transformation disrupts business models; cyberattacks threaten operations

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

Cyberattacks pose a systemic threat and significant single-entity event risk as new targets and methods emerge—with geopolitical tensions raising the prospect of major attacks. Organizations lagging in adapting to current and emerging technologies or lacking well-tested cybersecurity playbooks are more vulnerable, though adopting technological advances means more costs. The accelerating digitalization of business and economic activity—particularly the ability to influence market sentiment and shift capital rapidly and widely—also adds potential market volatility. The U.S. administration's push to expand digital assets such as bitcoin and stablecoins could carry novel risks for investors.

Source: S&P Global Ratings.
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.
Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Top Asia-Pacific Risks

Global trade: Intensifying trade tensions risk larger disruption in supply chain, weighing down growth and confidence

Risk level	Moderate	Elevated	High	**Very high**	Risk trend	Improving	**Unchanged**	Worsening

The step-up in tensions between the U.S. and its trade partners, following from the Trump administration's tariff announcement on April 2, is spiraling into a wider trade conflict and disrupting supply chains. For trade-centric Asia-Pacific, slower global demand will dent revenue and weigh down manufacturing activities and labor needs. Furthermore, drags from weak confidence could amplify recessionary pressure. A protracted imposition of tariffs will exacerbate second-round drags on growth, risking a sharper slowdown. Meanwhile, the formation of trade blocs outside the U.S. to counteract tariffs could expedite needs to relocate supply sources and production, causing businesses to incur higher costs. Businesses may delay capex and investment plans, as they reassess the trade landscape. To offload excess production, exporters may seek new markets and embark on price cuts. For some economies, locally made products may not be able to compete against the influx of these competitive exports. In a bid to insulate local industries, affected economies might impose protectionist measures, escalating trade tensions further. Similarly, governments may implement economic stimulus to reduce the hits to businesses and households, which would worsen fiscal balance sheets. Small and trade-dependent economies are particularly vulnerable, as they face risks of capital outflows and currency devaluation amid growth drags from reduced global trade and foreign direct investment.

China's economy: Falling exports, sticky property weakness and subdued domestic confidence risk sharper slowdown

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	Unchanged	**Worsening**

China's economic growth is seeing rising downside risk amid rising trade tensions with the U.S. as its export engine falters from weaker global demand. The country's domestic growth engine remains subdued, given the lingering real estate crisis, which is dragging confidence. For the manufacturers, revenue and profit compression is weighing down capital expenditure and labor needs. Cautious spending among households could intensify amid rising unemployment risks and a gloomier global backdrop. A slower China economy could spill over into Asia-Pacific, hurting countries that rely on Chinese demand (including tourism) or face greater competition brought about by Chinese exports. Meanwhile, further strain on U.S.-China relations will have a knock-on effect on Asia-Pacific economies, given the very close trade ties with the world's two largest economies.

Financing: Intensifying risk aversion could trigger sharper risk-repricing and narrower funding access for borrowers

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

The intensifying trade tensions between the U.S. and its trade partners are compounding capital market volatility and risk-off sentiments. Investors' flight to quality had kept investment-grade spreads tight. However, rising contagion risk from widening spreads (on speculative-grade assets) could reverberate across the credit spectrum. If a sharp risk-repricing of assets occurs, market volatility could intensify and constrict capital raising activities. Rising U.S. recession odds and uncertain trade landscape could prompt lenders to demand higher risk premia. This means all-in financing costs could stay high, despite lower policy rates. Risk aversion across lenders could result in capital outflows from emerging markets, causing sharper devaluation of domestic currencies. Cost of offshore financing will spike, affecting borrowers who are reliant on offshore financing. For the weaker credit cohorts, they could face protracted closure of US$ funding access. Concurrently, banks and investors could become more selective and tighten lending standards. Credit strain on borrowers could intensify given tight liquidity and higher borrowing costs, raising the specter for more defaults. Meanwhile, narrowing interest rate differentials between the Bank of Japan (BOJ) and the Federal Reserve could unwind yen carry trades. Sudden capital inflows to Japan could increase foreign exchange volatility and that would affect the rest of the region.

Geopolitics: Escalating geopolitical tensions could hinder policy predictability and increase financial market volatility

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

Geopolitical challenges are likely to impact the Asia-Pacific region through fluctuations in energy and commodity prices, as well as declines in confidence and industrial production. Key issues include ongoing conflicts in the Middle East and the unstable situation surrounding the Russia-Ukraine war, along with rising diplomatic tensions between China and the U.S. and its allies. Uncertainty from U.S. policy could disrupt business activities and contribute to a global economic slowdown. Potential conflicts in the South China Sea could severely disrupt supply chains. Additionally, investment outflows from the region may lead to significant financial market volatility and currency depreciation, increasing interest costs for borrowers. In response, governments may increase defense spending, which could hinder efforts for fiscal consolidation.

Real estate: Negative equity and shrinking demand to exacerbate property devaluation and liquidity strains on developers

Risk level	**Moderate**	Elevated	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

High mortgage and financing costs, coupled with changing demand for office and retail space, are negatively impacting commercial real estate valuations. Slower sales volumes and occupancy rates, particularly in Hong Kong, China, and Korea, are increasing liquidity strains on property developers. Additionally, declining rental income or a knock to the employment outlook may lead to write-downs in real estate investment trusts (REITs) and structured finance markets. If banks become more selective with real estate borrowers, limited funding access could lead to a rise in defaults.

Structural risks

Climate change: Extreme weather and energy transition to pose business challenges and raise costs

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

Changing weather patterns are increasing physical risks globally, with a more significant financial impact on developing markets. Climate-related disruptions in agriculture and energy supply could lead to inflation and social unrest. Meanwhile, the global push to reach net-zero emissions by mid-century could lose momentum, following the U.S. exit from the Paris Accords, the withdrawal of major financial institutions from net-zero alliances, and Europe's shifting political priorities. Similarly, higher tariffs targeting some green products—such as Chinese electric vehicles—could cause the clean energy transition to falter and undermine the economics of past investments in low-carbon technologies. The rising frequency and severity of natural disasters could lead to higher insurance premia, putting pressure on households and enterprises. In extreme cases, some regions may become uninsurable, prompting a recalibration of asset prices.

Technology: Accelerating technological advancement and mounting cyber-attacks to disrupt business operations

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

Technological advancements, particularly in generative artificial intelligence, are altering business environments and regulatory frameworks. Innovations in various fields, including biological and material sciences, can improve productivity and operational efficiencies but also introduce complexities and higher management costs. Businesses may need to invest more to continuously adopt and adapt to new technologies. Additionally, the growing interconnectedness of economic activities and technology networks increases the risk of cyberattacks. This could pose systemic threats and significant risks to individual entities, especially critical infrastructure and issuer operations.

Source: S&P Global Ratings.
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.
Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Top European Risks

Expanding trade conflict engulfs Europe

Risk level	Moderate	Elevated	High	**Very high**	Risk trend	Improving	**Unchanged**	Worsening

The U.S. imposition of punitive and uniform trade tariffs, factoring in certain non-tariff barriers, and 25% sectoral tariffs on steel, aluminum, and autos (with potentially further measures to be announced on pharmaceuticals, semiconductors, and lumber) severely complicates efforts to negotiate new agreements. The EU, and to a lesser extent the U.K., are preparing measured and targeted retaliation, if required, that could extend to services. This burgeoning trade conflict and policy uncertainty are undermining the economic outlook, and, if extended, risk damping/shifting investment, disrupting complex supply chains, and raising working capital, all to the detriment of corporate earnings and credit quality.

Transatlantic security rift

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

The lack of collaboration between the U.S. and Europe over securing Ukraine's future has broader implications for trust in the transatlantic relationship and the U.S. commitment to NATO's deterrence capability in Europe. The risks center around a potential new Cold War with Russia, Europe materially ramping up defense expenditure over the longer term, requiring difficult expenditure decisions for fiscally constrained governments. In the Middle East, the status of Iran's nuclear program remains an issue where any military action would risk potentially severe disruption in the global oil market.

Tighter financing conditions in Europe

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

Underlying financing conditions in Europe remain sound, with European banks still well placed to continue lending, although U.S. trade uncertainties and heightened market volatility have eroded risk appetites and raised risk premiums in public markets. Tighter credit conditions could result from an increase in long-term yields, further material widening of credit spreads, unexpected increases in margin calls, and (potentially most damaging of all) U.S. policy action that disrupts or limits banks' and investors' access to U.S. dollar liquidity and markets. Weakened cooperation between public authorities during a material market event would be a potential risk to financial stability. These conditions could be credit negative for borrowers needing to refinance and for vulnerable issuers exhibiting weak cash flows and excessive leverage.

U.S. hard landing amid policy uncertainty creating a strong headwind for Europe

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

The challenges presented by the U.S. trade and security stance have triggered a significant fiscal policy response, led by Germany following its recent election. The fiscal boost to growth announced by Germany and the European Commission (which is factored into our baseline) supports a steeper growth path compared to the U.S., yet that growth impulse will take time to materialize. In the meantime, the European economy remains sensitive to U.S. trade uncertainty and contagion spreading through financial market channels, particularly in the event of policies that results in a hard-landing scenario in the U.S.

Real estate risk to the broader economy remains

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

A material escalation of political and geopolitical risks could disrupt the European commercial real estate (CRE) sector's recovery by hindering CRE companies' ability to dispose of assets quickly, stabilize valuations, increase rents, or maintain occupancy levels. Moreover, any sustained expansion in government bond yields could derail the recovery in real estate valuations. Adverse developments could spill over to the broader economy and impair consumer confidence, spending, employment, and European banks' asset quality.

Structural risks

Disruptions linked to climate change will increase as weaker policy slows the transition

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

Investment in the energy transition is being scaled back amid evolving political priorities in Europe and abroad, resulting in slower progress towards net-zero emissions. This reduced commitment translates into a higher likelihood that climate targets and regulations could be amended. That could derail business plans and deter investment in the decarbonization of key industries, particularly in hard-to-abate sectors that still need policy support and pressure to change production processes (e.g., building, cement, steel, and chemicals).

Cyber and digital transformation risks are gaining momentum

Risk level	Moderate	Elevated	High	Very high	Risk trend	Improving	Unchanged	Worsening

The pace of digitalization—including advancements in AI—and heightened geopolitical discord expose corporates and countries to increasing cyber risks, with attack targets including utilities, insurers, and government agencies. These risks are exacerbated by threats to intelligence sharing, even among allies (e.g., the Five Eyes alliance). Despite advanced cyber defenses, this cyber arms race can still result in business disruption, monetary loss, reputational damage, weigh on credit quality, and undermine public confidence in critical infrastructure.

Source: S&P Global Ratings.
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Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Top Emerging Markets Risks

Increasing protectionism leads to an escalated trade conflict

Risk level	Moderate	Elevated	High	**Very high**	Risk trend	Improving	**Unchanged**	Worsening

The risk for a full-blown trade conflict has increased sharply following the recently announced tariffs by President Trump. These tariffs will have a significant impact on global growth and key economic prices; conditions could further worsen if countries decide to take retaliatory measures against the U.S. Some countries like China have already taken significant countermeasures, imposing tariffs and curtailing key mineral exports to the U.S. The short-term impact of global trade disruption would be felt in capital and investment flows, a substantial economic slowdown, and potential for resumed inflationary pressures. Long-standing U.S. tariffs and respective countermeasures from other countries would likely result in supply-chain disruptions and accelerate relocation efforts. In such a scenario, EMs would probably search for new trade partners, which might prove effective over the medium term, but the short-term impact would be significant for many sectors and the overall economies.

U.S. unilateralism drives geopolitical fragmentation and undermines credit fundamentals

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	Unchanged	**Worsening**

The Trump administration is taking a significant departure with respect to global cooperation and support for historical allies. The potential for a U.S. withdrawal from global bodies such as the UN and NATO could result in a substantial disruption of economic prospects and capital flows. A sudden suspension of U.S. aid to Ukraine would require a significant effort from Europe, demanding major resources to continue defending Ukraine's territory. The fallout could trigger risk aversion and a flight to quality; EMs would be the most vulnerable to a risk-off environment. The conflict in Gaza between Israel and Hamas has resumed, and risks for escalation are growing. The key factor would be if Iran steps in to support the Houthis or its other proxies, and if the U.S. decides to directly attack Iran.

Volatile market conditions trigger a risk-off environment, restricting market access for EM issuers

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

The magnitude and scope of the Trump administration's announced tariffs are beyond the markets' expectations, sparking volatile conditions and undermining investor sentiment. We expect these conditions will linger over the coming quarters, despite the announced pause, given the difficulty in measuring the announced measures' full impact on credit conditions and economic growth. The Fed's interest-rate path remains uncertain, given the opposing forces stemming from tariffs—inflationary pressures and the impact on demand. For EMs, we expect the shock in demand will prevail over the inflationary pressures. Therefore, our forecast incorporates additional rate cuts during 2025. The threat, however, is for a risk-off environment to materialize, restricting market access for EM issuers, boosting borrowing costs, and making capital markets inaccessible for riskier issuers.

China's economy: Falling exports, sticky property weakness, and subdued domestic confidence risk sharper slowdown

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

China's economic growth is grappling with the rising downside risk, amid escalating trade tensions with the U.S., as its export engine falters from weaker global demand. The country's domestic growth engine remains subdued, given the lingering real estate crisis, which is dragging down confidence. For the manufacturers, revenue and profit compression is weighing down capital expenditure and labor needs. Less spending among households could intensify amid the rising unemployment risk and a gloomier global backdrop. China's slower economic performance could spill over to EMs, hurting countries that rely on Chinese demand (including tourism) or face greater competition from Chinese exports.

U.S.'s shifting stance toward development assistance

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

The Trump administration is reviewing and, in many cases, canceling funding allocated to EMs and frontier economies (FMs) for development and health programs through the USAID agency and other assistance initiatives. The administration is also reviewing its participation in multilateral lending institutions, which are key to funding development projects across EMs and FMs. Some countries may struggle to replace U.S. assistance, potentially putting pressure on their domestic finances.

Structural risks

Climate change and more frequent natural disasters

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

Larger, more frequent natural disasters increase physical risks for public- and private-sector entities and threaten to disrupt supply chains such as for agriculture and food production in some EMs. Ongoing La Niña phenomenon could be favorable for some regions hit by El Niño, because they tend to receive more rainfall. However, this phenomenon increases the possibility of tropical storms in the Atlantic.

Source: S&P Global Ratings.
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Related Research

- S&P Global Ratings Lowers Its Oil Price Assumptions On Potential Oversupply; Natural Gas Price Assumptions Unchanged, April 10, 2025
- CreditWeek: What Do Global Trade Tensions Mean For Already-Beleaguered Consumers?, April 10, 2025
- Capital Markets Could Support Bank Revenue In 2025, But Uncertainty Due To Tariffs Is High, April 9, 2025
- Asia-Pacific Credit Conditions To Deteriorate Amid Tariff Fallout, April 7, 2025
- CreditWeek: How Much Will Credit Conditions Deteriorate As Global Trade Tensions Heat Up?, April 3, 2025
- Economic Research: "Liberation Day" Tariff Announcements: First Take On What It Means For U.S. And Global Outlook, April 3, 2025
- Global Economic Outlook Q2 2025: Spike In U.S. Policy Uncertainty Dampens Growth Prospects, March 27, 2025

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