S&P Global
Ratings

The Ratings View

April 16, 2025

This report does not constitute a rating action.

Key Takeaways

- Trade tensions threaten global credit conditions and China-U.S. relations.
- Automakers could be hit hard by prolonged tariffs.
- We lowered oil price assumptions for 2025 and looked at progress to decarbonization.

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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.

Global Credit Conditions Special Update: Ongoing Reshuffling

The recent escalation in China-U.S. relations and uncertain U.S. trade policy are hitting growth and confidence in Asia-Pacific. With market volatility persisting, tighter financing conditions will compound liquidity strains. Taken together, these developments are negative for Asia-Pacific credit. The region's dependency on exports with China and the U.S. will have an outsized hit on manufacturers and small economies. Should the tariffs announced on April 2, 2025 resume for economies ex-China, the geopolitical and economic fallout will be deep. In a flight to safety, lenders are demanding higher-risk premiums and turning selective. Riskier assets are seeing tighter financing access. Should sharp asset-repricing occur, it could worsen market volatility and constrict capital raising (even for investment grade issuers).

Credit Conditions Asia-Pacific Special Update: U.S.-China Ties In Uncharted Territory

Prolonged tariffs on all auto imports into the U.S. along with tariffs on steel and aluminum will have a multi-billion-dollar impact on the earnings of North American automakers and suppliers. As a result, we expect higher vehicle prices (in the 5%-10% range) for consumers and reduced domestic demand (in the 15.2 million-15.5 million range for 2025 and 14.8 million-15.1 million range through 2026 compared to our prior estimates of 15.7 million-16.0 million), which increases the likelihood of negative ratings actions in coming quarters. We expect margin declines for most issuers along with high cash flow volatility in 2025 and 2026 for U.S. auto issuers, leading to credit deterioration particularly for some lower-rated auto suppliers. Over the next few weeks, we will further fine-tune our issuer-specific forecasts to reflect these downside risks after incorporating likely mitigating actions, most notably the sustained ability and willingness to pass through costs to the end-consumer relative to peers.
Tariffs Take The Wheel: Higher Prices, Lower Sales, Greater Risks For The North American Auto Sector

Korea's leading auto group will be hit hard by the U.S.'s 25% tariff on imported cars and auto parts. The tariffs will hurt the profitability of Korea's Hyundai Motor Co. Ltd. (HMC) and Kia Corp. Slightly more than 60% of their U.S. sales volume come via imports from Korea and Mexico. We expect HMC-Kia's strong overall profitability and solid sales performance in the U.S. will help the group manage the risks. The group has some buffer, although that will inevitably narrow. If the tariff stays for longer, the company's margins may be under more sustained pressure until its new U.S. plant ramps up fully. Its plan to increase local production in the U.S. via a recently opened plant in Georgia, should help mitigate the tariff risks more structurally.

Korea's Automakers Have Some Buffers Against Their High Exposures To U.S. Tariffs

We lowered our Brent and West Texas Intermediate (WTI) oil price assumptions by US$5 per barrel for the rest of 2025 on our view that the oil market could be oversupplied. Our assumptions per barrel for Brent and WTI remain the same for 2026 through 2028. Our assumptions for Henry Hub, AECO, and TTF remain unchanged for 2025-2028. At this time, we don't believe there will be many rating actions directly resulting from our price deck revisions for this year.

S&P Global Ratings Lowers Its Oil Price Assumptions On Potential Oversupply; Natural Gas Price Assumptions Unchanged

There are long term hurdles to decarbonizing oil and gas production. Rated oil and gas producers should be able to deliver on short-term greenhouse gas reduction targets for their own operations, but achieving net zero requires technological advancements and supportive policy. In our view, cutting emissions now will put oil and gas producers' credit profiles in a better position should carbon regulations tighten further. The sector's improved balance sheet strength over recent years should help it absorb the near-term costs of decarbonization. Nevertheless, oil and gas will be part of the energy system for decades to come; and though certain regulations have eased recently, we anticipate that pressure to decarbonize over the long term will remain, posing additional challenges for the sector.

Sustainability Insights: Research: Decarbonizing Oil And Gas Production Faces Long-Term Hurdles After Short-Term Gains

China has made consumer stimulus its top economic objective. Recently announced Chinese measures to support consumer spending, while vaguely defined, will likely be meaningful for goods and services firms in the sector. We assume the government will roll out further details of the stimulus over the year and make adjustments to step up the program should consumer demand start to flag. Growth in demand for services will likely outpace that of goods for the next one-two years with consumers becoming more inclined to spend more on experiences rather than products.

China Consumer Outlook: A Pressing Policy Initiative Takes Shape

China’s private credit market is shrinking. China's private credit market has significant structural differences from those in the U.S. and Europe. It lacks alternative investment funds and direct lending, is heavily regulated, and banks remain key players. We estimate the China market has shrunk to RMB21 trillion as of Dec. 31, 2024, nearly half its size since 2017. The decline comes on the back of new regulations, increased competition from local bond markets, and compressed margins. A combination of softening demand and disruption in supply from lenders will likely lead the overall size of the private market to further contract.

Credit FAQ: The Contraction Of China's Private Credit Market

Asset Class Highlights

Corporates

Notable publications include:

- China Consumer Outlook: A Pressing Policy Initiative Takes Shape
- Credit FAQ: The Contraction Of China's Private Credit Market
- Sector Review: Saudi Retail Real Estate: Cautious Optimism In An Evolving Landscape
- Korea's Automakers Have Some Buffers Against Their High Exposures To U.S. Tariffs
- Credit FAQ: Calculating Leverage For Selected U.S. Telecommunications And Cable Companies (2025 Update)
- Tariffs Take The Wheel: Higher Prices, Lower Sales, Greater Risks For The North American Auto Sector
- U.K. Telecom Outlook: Consolidation In Mobile, Fragmented Fixed, And Broadly Stable Ratings
- Ratings Performance Insights Q1 2025: A Solid Start
- S&P Global Ratings Lowers Its Oil Price Assumptions On Potential Oversupply; Natural Gas Price Assumptions Unchanged

Financial Institutions

Notable publications include:

- Private Markets Monthly, March 2025: Identifying Potential Systemic Risks In Global Private Credit Markets
- Private Markets Monthly (EMEA Edition), April 2025: Unique Characteristics Of European Private Credit May Better Insulate Market From Shocks
- Capital Markets Could Support Bank Revenue In 2025, But Uncertainty Due To Tariffs Is High
- Comparative Statistics: U.S. Banks (April 2025)
- European Bancassurers Are On The Offensive
- China Brokerage Brief: Equity Investments Signal Increased Risk Appetite
- Taiwan Banking Update: Banks Remain Resilient Amid Uncertainties In 2025
- Research Update: Cushman & Wakefield Outlook Revised To Stable From Negative On Improved Credit Metrics; 'BB-' Ratings Affirmed

Sovereign

- Korea 'AA/A-1+' Ratings Affirmed; Outlook Stable
- Hungary Outlook Revised To Negative From Stable On Fiscal And External Risks; 'BBB-/A-3' Ratings Affirmed
- Egypt Outlook Revised To Stable; 'B-/B' Ratings Affirmed

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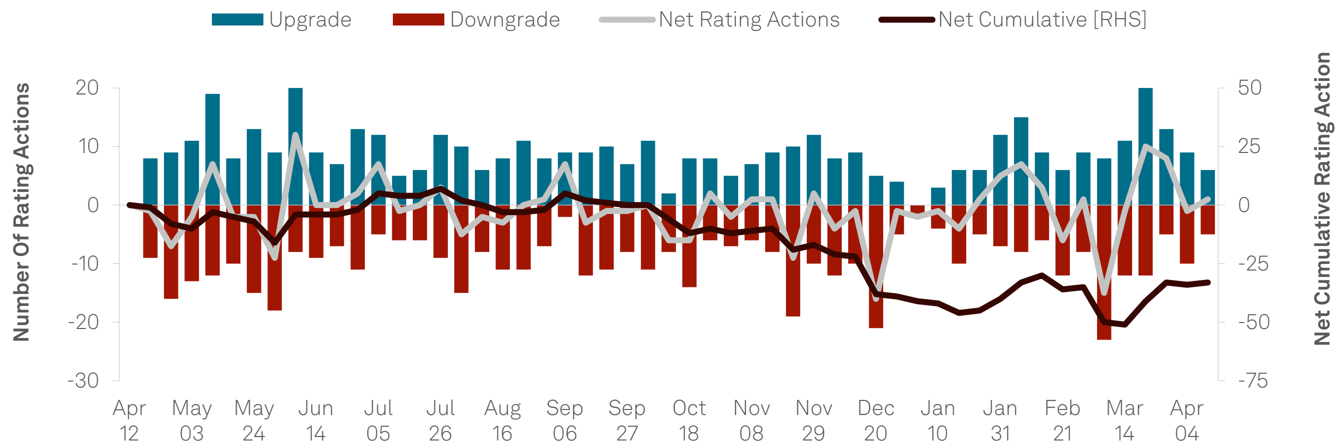
- Italy Rating Raised To 'BBB+' On External Buffers And Monetary Flexibility; Outlook Stable; 'A-2' Rating Affirmed

Structured Finance

- **U.S. CMBS:** Here are a few "Key Takeaways" from a recent commentary:
    - Overall U.S. CMBS delinquency levels fell in the first quarter, though office distress remains high and multifamily delinquencies have been steadily rising.
    - Market issuance was off to a very active start, especially for SASB, with total issuance doubling year over year. Leverage rose for conduits and remains elevated for SASBs.
    - Our surveillance rating actions continue to trend negative, with a growing proportion affecting conduits that have more concentrated pools of loans facing challenging refinancing conditions.
    - We forecast combined SASB and conduit private label issuance reaching $110 billion this year.
    - On April 10, 2025, we published a commentary titled "U.S. CMBS Update Q1 2025: Issuance Remains Robust Amid Rising Leverage And Lingering Credit Issues".
- **European CLO:** On April 8, 2025, we published a commentary titled "European CLO Monitor Q1 2025".
- **EMEA RMBS and ABS:** On April 7, 2025, we published a commentary titled "EMEA RMBS and ABS Monitor Q1 2025".
- **Australian Auto ABS:** See the recent "Auto ABS Arrears Statistics: Australia February 2025" published on April 8, 2025.
- **Canadian Credit Card ABS:** We published the "Canadian Credit Card Quality Index: Monthly Performance-February 2025" on April 7, 2025. The CCQI is a monthly performance index that aggregates performance information of securitized credit card receivables in key risk areas.

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 April 11, 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. $)
7-Apr	Upgrade	Global Atlantic Financial Group	Insurance	Bermuda	BBB	BBB-	9,400
8-Apr	Upgrade	Permian Resources Corp.	Oil & gas	U.S.	BB+	BB	4,450
11-Apr	Upgrade	Bath & Body Works Inc.	Consumer products	U.S.	BB+	BB	4,397
11-Apr	Downgrade	E.W. Scripps Co. (The)	Media & entertainment	U.S.	SD	CC	3,111
7-Apr	Downgrade	Aeroporti di Roma SpA (Mundys SpA)	Utilities	Italy	BBB-	BBB	1,867
7-Apr	Upgrade	Alfa S.A.B. de C.V.	Consumer products	Mexico	BBB	BBB-	1,600
11-Apr	Downgrade	Ferrellgas Partners L.P.	Oil & gas	U.S.	CCC+	B	1,475
7-Apr	Upgrade	China General Nuclear Power Corp.	Utilities	China	A	A-	600
8-Apr	Downgrade	Canacol Energy Ltd.	Oil & gas	Canada	CCC+	B-	500
7-Apr	Downgrade	Lune S.a.r.l	Chemicals, packaging & environmental services	France	CCC	CCC+	494

Source: S&P Global Ratings Credit Research & Insights. Data as of April 11, 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**.**