S&P Global
Ratings

Credit Conditions North America Special Update

Tariff Turmoil

April 17, 2025

This report does not constitute a rating action

Editor's Note: This commentary is a special Credit Conditions report in response to escalating trade tensions, which reflects views discussed in the North America Credit Conditions Committee on April 8, 2025. 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).

Key Takeaways

- The intensifying global trade tensions—including the escalation in trade conflict between the U.S. and China—are weighing on credit conditions in North America amid slowing economic activity and heightened investor risk-aversion.
- Sharply higher tariffs are a top concern for corporate borrowers, threatening to hurt profits for those exposed to imports and international markets.
- We estimate the chance of a U.S. recession at 35%, as price pressures and tariff uncertainty erode business and consumer sentiment and outlays. A sharper-than-expected economic downturn in the region could cause more severe credit stress.

The intensifying global trade tensions are weighing on credit conditions for borrowers in North America, as recession prospects amplify and investors become more risk averse.

Trade tensions have flared up and significant uncertainty remains. The April 2 tariffs announced 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. While President Trump's 90-day pause of most of the tariffs and the exceptions made for certain electronics and tech products have provided some reprieve, the universal 10% tariff baseline remains, with most Chinese goods now subject to additional 145% tariffs. These current levies put the effective tariff rate on all U.S. imports at 26.4% (versus 2.3% in 2024; see chart 1). Meanwhile, significant uncertainty lingers regarding any trade resolutions that can be achieved during the pause, further tariff actions signaled by the U.S. administration, and trading partners' countermeasures.

While we haven't revised our March baseline forecast, the balance of risks to our growth forecasts are decidedly to the downside. Based on our what-if scenario exercise, the tariffs announced on April 2, if fully implemented and remaining in place for our forecast horizon, would weigh on GDP growth globally and for many countries. We project the global economy would expand just 2.7% this year and next—about 0.3 percentage point (ppt) lower than our most recent forecast (note that these figures don't fully account for the post-April 2 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 (Q4 2025 versus Q4 2024), with 1.6% growth this year and 1.5% next year—both down 0.4 ppt from our March forecast. This would also influence our expectations of future rate cuts and currency movements.

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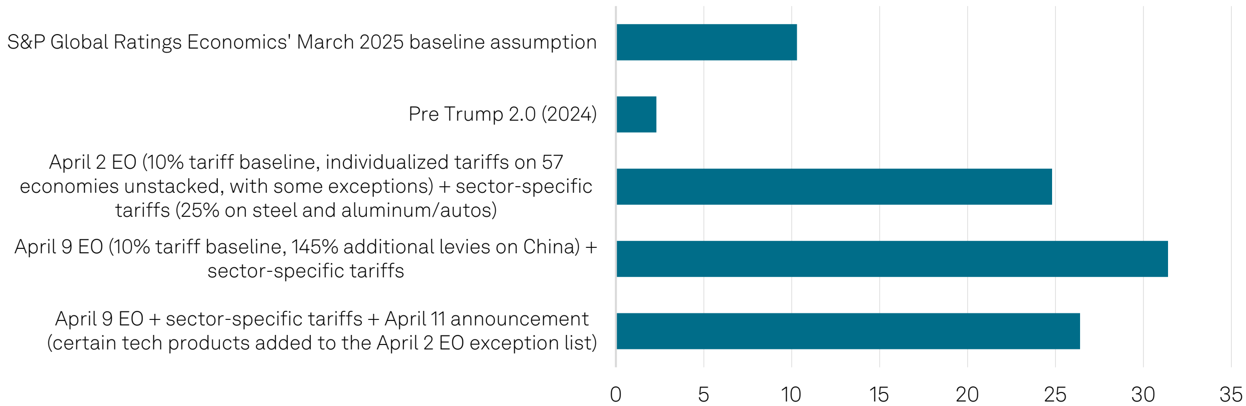
We see an increased chance of a U.S. recession in the next 12 months, at 35%. The prevailing uncertainty will likely further undermine business and consumer confidence, heightening concerns about corporate investment, employment, and consumer spending.

Chart 1

U.S. average effective tariff rate in different scenarios (%)



EO—Executive order. Sources: USITC, S&P Global Ratings Economics calculations.

Sharply higher tariffs are a top concern for U.S. corporate borrowers, given they would lift input prices as companies are grappling with already-elevated costs, diminished ability to pass those costs through, and fewer supply chain mitigants. Key U.S. 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.

As the U.S. reshapes historical alliances, which will likely have long-lasting effects on geopolitics, **the trade tussle between the U.S. and China marks a significant escalation in tensions between the two largest economies.** In response to the latest U.S. tariff hikes, China raised levies on U.S. imports to 125%, maintained export curbs on rare earth minerals, and ordered a halt of Boeing jet deliveries. For now, the situation remains tense and dialogue between the two sides appears limited despite Chinese authorities signaling they will no longer match further U.S. tariff increases and U.S.'s exclusion of certain tech products from the April 2 tariffs. Any worsening of the strained U.S.-China relationship could further disrupt supply chains and hamper sentiment, investment, and capital flows for both and other economies.

Financing conditions could worsen for North American borrowers. Many borrowers took advantage of historically low spreads to push out maturities last year and in the early part of 2025. However, the rapidly shifting tariff policies have pushed up financing costs and sent the primary credit markets to an unseasonable chill—with no new speculative-grade bond or leveraged loans coming to market for the first two weeks of April. 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. Moreover, some lower-rated issuers may be shut out of the capital markets.

Given the potential for continued market volatility, sharp declines in equities could force market participants to sell safer assets to raise liquidity to post 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.

Nonfinancial Corporates

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Tariff policies remain fluid and subject to sudden changes and revisions. In certain cases, the current tariff levels are prohibitively high and perhaps unsustainable because they preclude the possibility of trade. In others, the tariffs seem to be a starting point for further negotiations. Additionally, since the 90-day partial pause on the April 2 tariffs, the escalating trade conflict between the U.S. and China has been front and center. That said, the choppy tariff policy over the past few months provides some room to make assumptions around the sector-based tariffs since they are more universal and tend to hold after they are enacted. On the other hand, the country-specific tariffs are likely to continue changing as negotiations unfold. In this regard, China may be an exception in both its trajectory and negotiation schedule.

As such, we focus on sectors that have been or could be targeted by specific tariffs including steel and aluminum, autos, technology, and pharmaceuticals. We also zoom in on issuers with outsized exposure to China, and lower-rated ones that need to tap the market over the next year as financing conditions become more volatile.

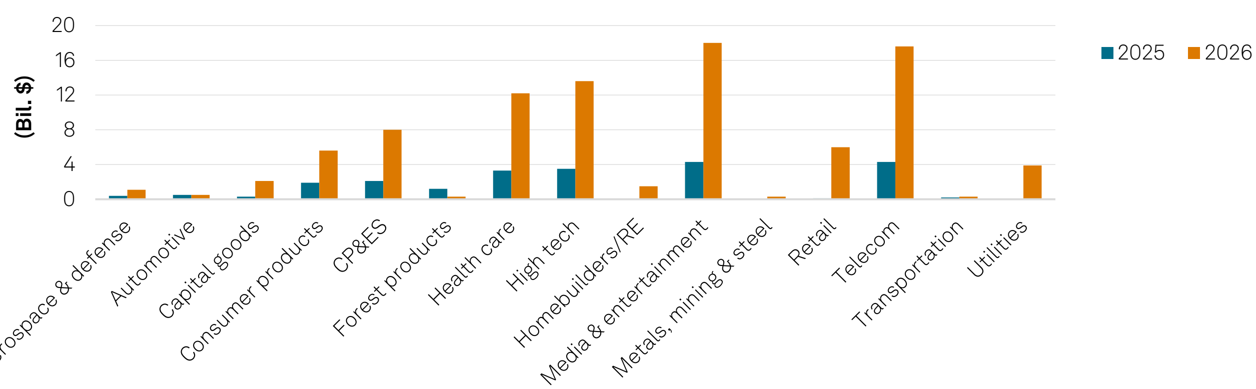
We continue to monitor key sectors with meaningful exposure to specific inputs and countermeasures. Rare earth elements and magnets are key inputs in the production of electric motors and other electric vehicle (EV) components and have a wide range of applications including the commercial and defense aerospace industries. China's export restrictions of rare earth elements force large importers including Tesla, GM, and Rivian to rely on dwindling inventories, with limited alternatives for suppliers.

For technology, lingering tariff uncertainty and a weakening macroeconomic environment weigh on our global IT spending outlook. Key U.S. exports to China may also be at risk over the long term should tariff disputes continue. Nevertheless, we don't expect immediate rating actions given the still-evolving negotiations. Regarding specific subsectors, hardware tariff exposure, as of now, is partially mitigated by the industry's supply chain expansion out of China and into Southeast Asia and Mexico, although those for smartphones and laptops are more difficult to relocate. Semiconductors, while exempt from tariff for now, will feel the second-order impact of weakening hardware demand if consumers delay PC and phone upgrades and enterprises slow their hardware spending.

Liquidity and refinancing are central risks for the lowest rated issuers. The marked increase in maturities rated 'B-' or lower in 2026 across many sectors implies that if markets don't stabilize by then, conditions will be challenging for deep speculative-grade issuers (see chart 2).

Chart 2

U.S. maturities rated 'B-' or lower by sector



Data as of April 1, 2025. Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. CP&ES—Chemicals, packaging & environmental services. RE—Real estate. Source: S&P Global Ratings Credit Research & Insights.

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Banks

Policy uncertainty, particularly around the effect of tariffs, has become a key risk for U.S. banks. Although U.S. banks don't have the same direct exposure to tariffs as some other industries, they are exposed to the companies affected by those tariffs.

More substantially, banks' performance and portfolio credit quality are highly correlated to the path of the economy. As the economy slows, credit quality has been deteriorating, with charge-off levels above the historical median. Credit quality will likely continue to incrementally deteriorate, mainly driven by commercial real estate (CRE), credit cards, and commercial loans. Still, we believe banks are well placed to absorb this deterioration. Most banks increased their allowances for credit losses as a percent of loans in 2023 and kept them roughly flat last year. We expect provisions and allowances to rise somewhat this year, even assuming relatively muted 2% loan growth.

With stronger balance sheets and relatively solid earnings, roughly 90% of U.S. banks we rate have stable outlooks. That said, uncertainty about the economic outlook has increased. We project the industry will generate a return on common equity (ROE) of 10.0%-11.0% this year, compared with 11.3% last year. That assumes U.S. economic expansion slows substantially but the country avoids recession. In a scenario in which the economy enters a moderate downturn, we believe the banking industry's ROE could fall into the high-single-digit range, depending on the duration and severity of the slump.

A slowdown in the economy would curtail bank profitability for several reasons. First, loan growth could slow more than we expect, which in turn would weigh on banks' net interest income (NII). Further rate cuts by the Fed would also likely lower NII, as most banks are asset-sensitive (meaning they benefit from rate hikes).

Moreover, a prolonged slump in financial markets would likely hurt banks' fee income from wealth and asset management. Within capital markets revenue, investment banking activity (advisory and underwriting), will likely be subdued as long as market uncertainty remains. That said, trading revenue, which makes up the bulk of banks' capital market revenue that participate in this space (largely the GSIBs), should be strong due to elevated volatility as investors look to reposition and hedge their portfolios.

Deposit levels have risen for four of the past five quarters, easing funding pressure. Notably, deposits rose in the fourth quarter of last year even as banks lowered their offering rates following Fed rate cuts. We believe deposit levels will further increase somewhat, particularly if loan growth picks up. Positively, the runoff in noninterest-bearing deposits seems to have stabilized, which should support net interest margins (NIMs).

We expect banks to prudently manage their capital ratios. The path of the yield on 10-year Treasury notes, which has been volatile of late, will help shape the amount of unrealized losses in banks' securities portfolio. This is important, as large regional banks may ultimately have to count unrealized losses on available-for-sale securities in their capital ratios, depending on how regulators ultimately implement the final components of Basel 3 capital rules.

We recently modestly lowered our earnings forecast for Canadian banks as tariffs could more significantly hurt the Canadian economy. We now expect Canadian bank net income could fall, with ROE of 8%-11% this year, versus 12% last year. That said, the high degree of uncertainty could lead to a variety of outcomes, including the possibility of market support by the Canadian government, which could ease some of the impact from tariffs.

Finance companies

While the proposed tariffs don't directly affect finance companies (fincos) we rate, the second-order effects on GDP growth, unemployment, consumption, and inflation will be more widespread. This could result in investors seeking higher premiums, which in turn could create liquidity challenges as markets may become inaccessible to lower-rated fincos. A rise in unemployment along with stubbornly high inflation would reduce subprime consumers' purchasing power and weigh on credit quality for consumer finance companies. That said, we have stable outlooks on about 82% of the North American fincos we rate; those with diversified revenue streams and sound balance sheets are best positioned to meet these challenges.

Publicly rated business development companies (BDCs) may not see direct first-order effects from tariffs as they lend to middle-market companies with domestic focus. Asset quality will likely deteriorate, and liquidity needs could rise for perpetual, nontraded BDCs. So far, refinancings have primarily driven originations and we could see deployment opportunities decline as M&A remains muted.

At current credit spreads, we expect NII will remain pressured as older vintages (2021-2022) underwritten at higher spreads roll off and capital is redeployed at tighter spreads. This could create challenges for BDCs to cover their dividend payments. BDCs could also see increasing levels of nonaccruals and payment-in-kind (PIK) income in the next few quarters as borrowers continue to face liquidity pressures in sectors that struggle to pass through rising costs, constraining those borrowers' ability to service debt.

With recent dips in the financial market, we could see a spike in investor redemptions. This could lead to increased liquidity needs for perpetual, nontraded BDCs. For our rated universe, we expect them to maintain adequate liquidity to meet these requests in addition to their operational needs.

Meanwhile, CRE services companies are at an inflection point. We still expect asset-quality strains will persist from older vintages for CRE lenders. Secular changes in the office market will remain a major challenge for CRE fincos. A Fed rate cut would likely support CRE values as cap rates decline. Having said that, CRE fincos will, in our view, remain selective with originations and focus on preserving liquidity. Many CRE lenders prudently addressed their refinancing risk last year and have no material corporate maturities in 2025.

Asset managers

Economic uncertainty and the slump in global equities markets has weakened investment performance, assets under management (AUM), and revenues—elevating downside risks for asset managers. That said, the vast majority (92%) of asset managers we rate have stable outlooks as they benefited last year from higher AUM on positive net flows and valuation gains across most asset classes.

While traditional asset managers' earnings are particularly exposed to market downdrafts, alternative asset managers are vulnerable to knock-on effects of sharper-than-expected economic and market slumps. Private equity (PE) realizations will likely be limited as long as valuations remain pressured and markets are unreceptive to IPOs. This leads to delayed capital returns to PE fund investors from prior vintage funds, ultimately constraining fundraising efforts for PE strategies. We also could see stress emerge in asset managers' credit strategies if borrower defaults drive loan losses higher.

Asset managers have some levers to pull to absorb revenue compression due to their variable cost structures. Most began the year with solid liquidity through cash on balance sheet and access to largely undrawn credit facilities. We expect asset managers to take responsive actions if the market downdraft persists.

Asset managers we rate have adequate liquidity and few near-term debt maturities. However, access to debt markets is choppy and challenging, and sustained volatility could lead to wider spreads. If benchmark interest rates remain higher for longer, this would raise the weighted average cost of capital and compress interest coverage.

Insurance

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Prolonged market weakness could impair North American insurance companies' balance sheets. In particular, equity market volatility raises asset risk for insurers. However, the (re)insurers we rate know the importance of strong capitalization, as they've endured previous financial market crises. Capital is a bedrock for credit fundamentals, and we believe capital strength among rated North American insurers is on solid footing. Coming into 2025, capital was at an all-time high for the industry.

S&P Global Ratings believes rated insurers will largely be able to withstand market turmoil without an immediate effect on ratings or outlooks. While insurers have historically performed to our expectations even in times of distress, the tenor and pace of prolonged stress, combined with other insurance industry market challenges, will define credit quality.

Structured Finance

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Consumer-based structured finance asset classes would be among the most affected due to the anticipated strain on affordability connected with tariff-related inflation. CRE sectors are already under stress and would likely continue to struggle. Collateralized loan obligations (CLOs) have some exposure to export- and import-reliant leveraged companies and could therefore be affected by tariffs. To a lesser extent, certain smaller sectors, such as transportation asset backed securities (ABS; e.g., container, aircraft, and railcar) could see some ramifications from tariffs as the flow of goods is reduced.

Higher unemployment would somewhat amplify the risk to consumer ABS, weakening collateral performance. In the case of CRE, weakening economic conditions would further strain the office and retail property sectors, and may be a headwind for the lodging and multifamily sectors.

Because the tariffs are far-reaching across companies in different sectors, the risk of reduced industry revenue and profitability could weaken certain CLOs and increase the level of 'B-' and 'CCC' category credits as the risk of defaults would be elevated.

The impact of tariffs on transportation ABS may be limited in the near-term because of the minimal spot market exposure (leases tend to be long term). Nevertheless, the broadly disruptive effects on international trade and logistics render these sectors susceptible if tariffs remain in place for an extended period.

Under our economic base case, **the ratings performance for U.S. structured finance (excluding CMBS) would remain relatively stable, with certain sectors seeing limited negative rating movements.** While collateral performance may weaken in certain sectors, the direct impact of tariffs upon ratings is expected to be limited. In the case of commercial mortgage-backed securities (CMBS), we continue to expect negative rating actions across the capital stack with single-borrower single-asset (SASB) transactions exposed to distressed office and retail assets. In addition, though conduit transactions benefit from diversified pools, they may also suffer negative rating actions to the extent they have notable exposure to such assets.

Sovereigns

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The Trump administration has issued more than 100 executive orders and advanced a pronounced shift in trade, immigration, energy, and other foreign and domestic policies. Back and forth on much higher country-specific tariffs (besides sector-specific tariffs) heightened market volatility over the last several weeks. We expect intense bilateral negotiations over the next few months amid continued market volatility.

Congress has taken a more prominent role in fiscal policy articulation. In March, it passed a continuing resolution to avoid a government shutdown and to fund the government through September, with bipartisan support in the Senate. Congressional Republicans then shifted to negotiating a budget resolution, which sets the broad fiscal policy framework for the Trump administration. The final resolution reinforces uncertainty around the magnitude of future deficits. It enabled a permanent extension of the Tax Cuts and Jobs Act (TCJA) and provides space for additional tax cuts, however, the minimum spending cuts it signals are much lower than initially proposed by the House. The broad configuration thus far points to a higher deficit in coming years. A clearer picture should emerge amid the reconciliation negotiations, but that legislation doesn't capture the potential for higher tariff revenue or the effects of President Trump's federal cost-cutting efforts. Finally, the administration has yet to release its budget for fiscal-year 2026 that will lay the foundation for subsequent requisite Congressional action on next year's budget. The president and Congress also plan to increase the debt ceiling, which became binding in January, as part of the reconciliation process to avoid relying on Democratic votes.

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Tariffs and other policy shifts that slow economic growth or worsen inflation could have an outsized effect on government entities, particularly those who are struggling to maintain balanced operations. However, there is less direct impact to most public finance sectors beyond the rising risk of recession and slower economic growth. Sectors with the potential for more targeted effects on costs from tariffs include public utilities that source essential inputs like chlorine from Canada and Mexico, and for U.S. ports where tariffs could weigh on volume and revenue.

Some regions, particularly those with auto manufacturing, may be more susceptible to the economic effects of tariffs. For example, in and around the state of Michigan, a weaker economy could challenge all issuers to maintain balanced operations if revenues fall and operating costs rise. In addition, **higher tariffs that slow economic growth for Canadian provinces will compound existing fiscal pressure arising from elevated costs and Canadian federal policy changes.** Under a scenario analysis for Mexican states, the economies in 10 of Mexico's 32 states—including those in four states we rate—are highly exposed to the potential implementation of an across the board 25% tariff given the industries that dominate local production. We believe most public finance issuers can adjust to short-term budget disruptions caused by tariffs. However, the duration of the shock and resulting uncertainty will meaningfully inform the level of credit pressure that issuers experience.

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 affected 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 capex, and households may become more reluctant to spend, especially as their financial strength and purchasing power continue 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 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 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.

Related Research

- Tariffs Take The Wheel: Higher Prices, Lower Sales, Greater Risks For The North American Auto Sector, April 14, 2025
- U.S. Fiscal Trajectory Hinges On Budget And Policy Outcomes, April 14, 2025
- Global Credit Conditions Special Update: Ongoing Reshuffling, April 11, 2025
- Capital Markets Could Support Bank Revenue In 2025, But Uncertainty Due To Tariffs Is High, April 9, 2025
- Robust Capital Supports North American Insurers Amid Market Volatility, April 9, 2025
- Economic Research: "Liberation Day" Tariff Announcements: First Take On What It Means For U.S. And Global Outlook, April 3, 2025

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