S&P Global Ratings

# The Ratings View

**April 23, 2025**

This report does not constitute a rating action.

## Key Takeaways

- Trade tensions are weighing on North American credit conditions, and we stress-tested 'B-' rated North American corporates for vulnerability to downgrades.
- Global airlines are bracing for tariff uncertainty.
- Tariff hits won't land evenly on global financial institutions.


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**Trade tensions are pressuring North American credit conditions**. 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.

Credit Conditions North America Special Update: Tariff Turmoil

**We are monitoring the mounting vulnerability of 'B-' rated North American corporate issuers** amid rising uncertainty, slowing growth, and what is likely to be an extended transition period as President Trump's fiscal and economic policies take shape. While the proportion of speculative-grade companies we rate 'B-' has declined to about 22% of the portfolio from a peak of 29% in mid-2021, we believe this cohort is particularly exposed to a slowing economy and potentially weaker consumer and business demand. We estimate that over 42% of these companies are at risk of a downgrade under a moderate revenue and EBITDA margin stress scenario. However, this doesn't account for company-specific actions—such as cost-cutting, refinancing, or asset sales—that could mitigate the impact, suggesting the actual at-risk rate would likely be lower. Among the largest sectors by issuer count, commercial and professional services and consumer services appear to be the most vulnerable under various downside stress scenarios.

Scenario Analysis: Stress Tests Reveal Likely Cracks In Credit Profiles Of 'B-' Rated North American Corporate Issuers

**Diverging trends are emerging across the global airline industry given heightened geopolitical and macroeconomic uncertainties** amid intensifying trade conflicts and market volatility. The U.S. airline market is reporting weaker-than-expected demand, particularly for domestic travel, compared to other regions, and we are seeing signs that inbound air travel bookings to the U.S. are down overall. We think downside risks have materially increased for the wider sector as softer global economic growth could weigh on consumer confidence and cut down demand for air travel. Most of our rated issuers have built up a ratings buffer to withstand some pressure on earnings and cash flow this year, but we can't rule out potential negative rating actions for airlines with tighter headroom.

Credit Trends: Global Airlines Brace For Tariff Uncertainty

**Intensifying trade tensions and policy uncertainties are weighing on global credit conditions and will shift the landscape for financial institutions (FIs).** Global FIs are entering this phase from a position of strength. But higher market volatility, increased investor risk-aversion, lower economic growth, and accelerating global fragmentation are negative credit developments. The impact on FIs will differ across regions and business models. Weaker nonbanks relying on short-term wholesale funding are vulnerable to immediate credit damage, while banks with outsized exposure to directly targeted countries could see the most asset-quality deterioration.

Global Financial Institutions: The Tariff Hits Won't Land Evenly

**The number of year-to-date global corporate defaults rose by nine, to 26, in March**, but the count is below the 37 in the same period last year and the five-year average of 29. Re-defaulters accounted for five defaults in March or 56% of monthly defaults. The share of re-defaulters reached 42% in first-quarter 2025, the highest level since first-quarter 2019 when it was at 48%. Market volatility and increasing investor risk aversion due to rising trade tensions pose the most imminent risks to credit in this environment. While we have not updated our base-case default projections yet, defaults could trend closer to our downside scenario if tariffs remain elevated.

Default, Transition, and Recovery: Trade Tensions Could Reverse Decline In Corporate Defaults

**Our EBITDA addback study continues to reveal a clear correlation between the magnitude of addbacks at deal inception and the severity of management projection misses.** Our latest study indicates a decrease in addbacks as a percentage of management-adjusted EBITDA for the most recent two cohorts (transactions originated in 2022 and 2023), which may signal an encouraging trend. After peaking at 32% of management-projected EBITDA in 2021, addbacks decreased to 26% in 2023, reflecting a 19% reduction. The 2021 cohort data reveals a substantial 56% improvement in earnings projection accuracy, with an average EBITDA miss of only 14%, compared to the 36% average miss of the 2015-2020 cohorts. However, ongoing addbacks remain elevated. Actual leverage continues to significantly exceed management projections from deal inception, with reported median leverage for the 2021 cohort 2.1 turns and 2.2 turns higher than the forecasts for 2022 and 2023, respectively.

EBITDA Addback Levels Remain High Despite Some Easing

**Credit rating actions related to environmental, social, and governance (ESG) factors increased 12% in the first quarter of 2025** versus the fourth quarter of 2024, partially due to an uptick in the number of ESG-related rating actions involving corporate issuers (to five, from zero the previous quarter). Rating actions related to physical risks also contributed to the increase. There were 19 in the first quarter, and 17 of those were in the U.S. public finance (USPF) sector mostly related to the January wildfires in Los Angeles. Negative rating actions outnumbered positive ones by 18 to 1, as there were just three positive rating actions in the first quarter. USPF was the dominant sector in terms of ESG-driven rating activity—it saw an 11% quarter-over-quarter increase. Governance factors continued to drive ESG-related rating actions in the first quarter, though their share fell to 65% from 67% in the fourth quarter. Risk management, culture, and oversight was the most common underlying governance factor, narrowly outpacing physical risks.

ESG In Credit Ratings Q1 2025: As Rating Activity Picks Up, Negative Actions Continue To Dominate

# Asset Class Highlights

## Corporates

Notable publications include:

- Credit Trends: Global Airlines Brace For Tariff Uncertainty
- ESG In Credit Ratings Q1 2025: As Rating Activity Picks Up, Negative Actions Continue To Dominate
- Japan Autos: A Creditworthiness Chasm Among Majors Will Persist
- Credit Conditions North America Special Update: Tariff Turmoil
- EBITDA Addback Levels Remain High Despite Some Easing
- Scenario Analysis: Stress Tests Reveal Likely Cracks In Credit Profiles Of 'B-' Rated North American Corporate Issuers
- Emerging Markets Monthly Highlights: U.S. Tariffs Cast A Cloud Over Economic Growth
- Credit FAQ: What's In Store For Large European Building Materials Issuers
- Default, Transition, and Recovery: Trade Tensions Could Reverse Decline In Corporate Defaults

## 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

- Ratings On Taiwan Affirmed At 'AA+/A-1+'; Outlook Stable
- Togo Upgraded To 'B+' On Solid Economic Prospects; Outlook Stable
- Greece Upgraded To 'BBB/A-2' On Unwavering Fiscal Discipline; Outlook Stable
- Global Sovereign Rating Trends First-Quarter 2025

## Structured Finance

- **U.S. Structured Finance:** Here are a few “Key Takeaways” from a recent commentary:

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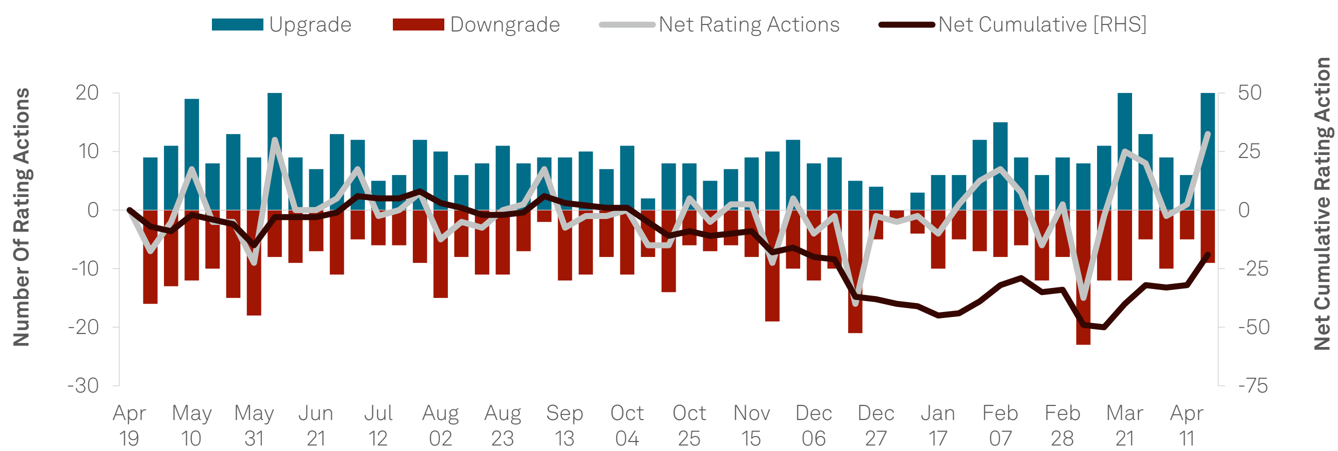
  - Tariff impacts will vary by sector in U.S. structured finance, based largely on whether the effects are direct or more indirect in nature, among other factors.
  - Despite some deterioration in collateral performance, overall ratings performance for U.S. structured finance (excluding CMBS) under the current economic base case should remain relatively stable, with certain sectors having limited negative rating movements.
  - On April 17, 2025, we published a commentary titled "Tariff Impacts Will Vary By Sector In U.S. Structured Finance".
- **ABS Frontiers – Sharia-Compliant Mortgages and RMBS:** On April 14, 2025, we published a commentary titled “Credit FAQ: ABS Frontiers: Sharia-Compliant Mortgages And RMBS Explained". Sharia-compliant mortgages are common in Islamic finance core countries and increasingly common in other countries. There is also potential scope for Sharia-compliant securitizations, backed by these arrangements. Here, S&P Global Ratings presents responses to frequently asked questions from market participants. In the appendix, we set out the main features of Sharia-compliant mortgages in the U.K. and Saudi Arabia. This article exclusively covers high-level risks that are common among Sharia-compliant mortgages and Sharia-compliant residential mortgage-backed securities (RMBS) structures. Other risks may exist and may differ by jurisdiction.
- **U.S. CLO:** See the recent "U.S. CLO Newsletter First Quarter 2025" published on April 17, 2025.
- **Irish RMBS:** Here are a few “Key Takeaways” from a recent commentary:
  - Total arrears in Irish reperforming loan (RPL) residential mortgage-backed securities (RMBS) increased to 25.7% in December 2024 from 8.4% in January 2022, whereas prime arrears increased to 1.1% from 0.8% within the same period. The weighted-average one-month conditional prepayment rate (CPR) in Irish RPL RMBS increased to 6.0% from 4.7% over the same period, while prime CPR levels also increased to 14.9% from 6.9%.
  - Within a sample of prime RMBS that we rate, 44% of borrowers refinance their mortgage before the end of their fixed rate term, while another 24% are granted a product switch to re-fix with their existing lender. For remaining borrowers, their loan rolls onto a variable rate product. Refinancing activity has increased prepayments in prime RMBS and accelerated deleveraging of their pools. RPL RMBS mainly comprise more seasoned collateral originated pre-2008, with most borrowers on variable rate mortgages.
  - There appears to be no material difference in prime RMBS arrears, regardless of whether borrowers take a product switch or not. Our analysis shows 1.3% of loans which exited a fixed-rate mortgage are in arrears, compared with 1.1% that did not.
  - On April 15, 2025, we published a commentary titled "Explaining Irish RMBS Diverging Performance".
- **U.S. Corporate Securitization:** On April 14, 2025, we published a commentary titled “U.S. Corporate Securitization Newsletter April 2025".
- **Esoteric Structured Finance:** On April 17, 2025, we published a commentary titled "Structured Finance Esoteric Quarterly Roundup Q2 2025".

Chart 1

## Global Rating Actions (Rolling 52-Weeks)




Source: S&P Global Ratings. Net rating actions means downgrades minus upgrades. Net cumulative means total net rating actions. Data as of April 18, 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. $) |
|---|---|---|---|---|---|---|---|
| 18-Apr | Upgrade | Hellenic Republic | Sovereign | Greece | BBB | BBB- | 172,109 |
| 18-Apr | Upgrade | Intesa Sanpaolo SpA | Bank | Italy | BBB+ | BBB | 92,224 |
| 18-Apr | Upgrade | UniCredit SpA | Bank | Italy | BBB+ | BBB | 46,921 |
| 18-Apr | Upgrade | Mediobanca Banca di Credito Finanziario S.p.A | Bank | Italy | BBB+ | BBB | 24,479 |
| 16-Apr | Upgrade | Gilead Sciences Inc. | Health Care | U.S. | A- | BBB+ | 19,750 |
| 17-Apr | Downgrade | TenneT Holding B.V. | Utilities | Netherlands | BBB+ | A- | 16,474 |
| 15-Apr | Upgrade | SNAM SpA (Cassa Depositi e Prestiti SpA) | Utilities | Italy | A- | BBB+ | 13,313 |
| 17-Apr | Upgrade | Autostrade per l'Italia SpA | Transportation | Italy | BBB | BBB- | 12,593 |
| 15-Apr | Upgrade | Terna SpA | Utilities | Italy | A- | BBB+ | 10,636 |
| 18-Apr | Upgrade | Ferrovie dello Stato Italiane S.p.A | Transportation | Italy | BBB+ | BBB | 8,352 |

Source: S&P Global Ratings Credit Research & Insights. Data as of Apr. 18, 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**.**