S&P Global Ratings

The Ratings View

May 28, 2025

This report does not constitute a rating action.

Key Takeaways

- We expect the U.S. leveraged loan default rate to rise to 1.75% and the European speculative-grade default rate to fall to 3.6% by March 2026.
- U.S. policymakers' focus on drug prices bring rising risks for pharma companies.
- Recent cyberattacks on retail highlight vulnerabilities for issuers.

We expect the U.S. leveraged loan default rate to rise to 1.75% by March 2026, from 1.23% in April 2025, as economic uncertainty and market volatility weigh on highly leveraged borrowers. Unpredictable policy and results broaden potential outcomes, from a 3.5% default rate in our pessimistic scenario to 1.0% in our optimistic scenario. Favorable conditions in the first quarter enabled many borrowers to refinance, putting them on more solid footing. However, diminished liquidity and slower issuance may weigh on some borrowers, especially those susceptible to tariffs and supply chain disruptions.

The U.S. Leveraged Loan Default Rate Could Rise To 1.75% Through March 2026

We expect the European trailing-12-month speculative-grade corporate default rate to reach 3.6% by March 2026--down from 4.1% through March 2025. The default rate started to decline in the fourth quarter but remains historically elevated, largely as a result of increased use of distressed exchanges and debt restructurings. Recent 90-day tariff pauses have led to primary markets opening up again, though slowly. Speculative-grade entities in Europe are also benefiting from a modest amount of pending maturities, easing the need for widespread market access for refunding of debt. If the proposed tariff levels of April 2 are implemented after the 90-day pause or if the situation escalates through potential retaliatory tariffs by the EU, the disruption to economies could result in our pessimistic case for defaults ahead (5.25% through next March).

The European Speculative-Grade Default Rate Could Ease Slightly To 3.6% By March 2026

We expect U.S. policymakers will continue to craft laws and regulations to make drugs more affordable. The Trump administration has issued two executive orders outlining its priorities for reducing drug prices and has discussed extending tariffs to pharmaceuticals. If and how these priorities are translated into law and administrative actions will determine their credit impact. Given broad and bipartisan support for drug-price reform, our base case expectation is that some combination of initiatives will proceed into law, but we expect the combined impact to be only moderate. It is still unclear which companies may be most affected and whether this may pressure ratings. MFN (most favored nation) is not factored into our ratings or forecasts, and we believe that implementing a MFN pricing mechanism, as proposed, would be highly negative to the branded pharmaceutical industry's credit quality. Potential tariffs could put margin pressure on branded drugs and generic pharmaceutical companies, depending on how they are enacted and the company's footprint. Certain initiatives to spur more competition to branded drugs from generic drugs could be negative for generic companies' credit quality.
Global Pharmaceutical Companies Ratings Are Unlikely To Be Highly Disrupted By Rising Risks

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Cyber incidents are an increasingly prominent risk for retailers due to the continued growth of e-commerce and the digitalization of supply chains, operations, and customer-facing systems. U.K.-based supermarket and retailing chains Marks and Spencer PLC and the Co-operative Group Limited are the high-profile victims of recent cyberattacks in among our rated issuers in the retail sector. The events, and the companies' ongoing remediation efforts, raise questions about the susceptibility of retailers to cyber incidents and the efficacy of different responses and preventive strategies.

Credit FAQ: Retailers' Cyber Attack Recovery Is Slowed By Logistical Scale And Complexity

Trade conflicts, economic uncertainty, and market volatility will likely weigh on U.S. leisure and entertainment spending. Travel and entertainment spending decisions can be delayed or cancelled. This is already hurting hotel demand, particularly at the low end. The tariff impact on manufacturers may be more immediate, as discretionary spending on high-price leisure products such as boats, motorcycles, and powersports is already feeling the pressure from a strained consumer and high interest rates, and manufacturers will need to absorb higher costs. Several other leisure sectors including casinos, cruise, fitness, regional theme parks and live events will be sensitive to weakening consumer confidence. Those ratings with sufficient cushion in credit measures will be able to withstand a temporary hit to earnings, and a majority of our ratings outlooks in the sector are stable. However, those issuers with limited cushion, or liquidity and refinancing needs, will face downward ratings pressure.

Cracks In Consumer Confidence Amid Tariffs And Inflation Could Lead To Tighter U.S. Leisure Spending

European structured finance issuance has held up well during financial market volatility prompted by the U.S. administration's announcements on import tariffs and trading partners' reactions. Global trade shifts could have some direct effects on corporate-backed structured finance sectors, such as collateralized loan obligations (CLOs) and commercial mortgage-backed securities (CMBS), although these are likely to be idiosyncratic and limited in scale. The more negative macroeconomic backdrop could also cause indirect tariff effects that would be more widespread across European structured finance. Despite these downside risks, the overall ratings performance of the European structured finance sector is set to remain stable.

Tariff Effects On European Structured Finance Are Limited

The sustainable debt market has sufficient liquidity to meet near-term refinancing needs, even if issuance slows down in 2025. Rated issuance in each of the past five years was close to double the amounts scheduled to mature annually over the next five years. Sustainable bond maturities currently peak in 2026, at $389 billion, with medium-term debt issued in and around 2019 coming due along with recently issued shorter-term debt. Green bonds saw record issuance in 2024 and now represent 55% of the sustainable debt maturing through 2029. Their dominance in this market will persist.

Peak Near-Term Sustainable Bond Maturities Appear To Be Manageable

Causal AI aims to transform AI from a predictive tool to one that can explain events and solve problems by understanding the relationship between cause and effect, known as causality. Causal inference has its roots in philosophy (Aristotle, David Hume) and statistical methods (Robert Fisher), with significant contributions from Turing Prize winning computer scientist Judea Pearl. Causal AI has diverse applications across sectors and is expected to integrate with established AI models, playing a crucial role in the potential development of AI that is capable of human-level cognition, known as artificial general intelligence.

Causal AI: How cause and effect will change artificial intelligence

Asset Class Highlights

Corporates

Notable publications include:

- Credit Trends: European Risky Credits: Signs Of Stability Amid Sectoral Strain
- Select: Global Pharmaceutical Companies Ratings Are Unlikely To Be Highly Disrupted By Rising Risks
- Causal AI: How Cause And Effect Will Change Artificial Intelligence
- Credit FAQ: How We Calculate Selected European Telcos' Leverage
- China's LGFVs In Transition: Cutting Debt May Prove Easier Than Making Money
- Credit FAQ: Retailers' Cyber Attack Recovery Is Slowed By Logistical Scale And Complexity
- Default, Transition, and Recovery: The U.S. Leveraged Loan Default Rate Could Rise To 1.75% Through March 2026
- Default, Transition, and Recovery: The European Speculative-Grade Default Rate Could Ease Slightly To 3.6% By March 2026
- Cracks In Consumer Confidence Amid Tariffs And Inflation Could Lead To Tighter U.S. Leisure Spending
- U.S. Oil And Gas: Oil Price Drops Could Bore Into Producer Spending
- European Firms Navigate U.S. Trade Fog
- Tariff Uncertainty Could Weigh On U.S. Public Power Utilities
- Asia-Pacific Agrochemical Brief: U.S. Tariffs Will Reshape Trade Flows
- Sector Review: Top Philippine Developers Pursue Growth Despite Industry Strains

Financial Institutions

We published several commentaries on the U.S. banking sector over the past week. In the coming quarters, we project the industry's allowance-to-loans ratio and provisions will rise about 5 basis points and roughly 10%-15% respectively in 2025, reflecting an economic slowdown, but we still assume an industry return on equity of 10.0%-11.0%. In a more severe recession, some banks' earnings could be hit harder than others, resulting in potential negative rating actions. See "Are U.S. Banks Recession Ready?."

With the Trump administration planning to pursue changes to bank regulation and supervision, we released a credit FAQ that examines key questions and our views in "Credit FAQ: What Regulatory And Supervisory Reform Could Mean For U.S. Bank Ratings."

Finally, our content materials from our quarterly webinar on U.S. banking sector is available on "U.S. Banks Webinar Q2 2025 Slides: Relative Stability Despite Economic Concerns."

Other notable publications include:

- Indian Government-Owned Financial Institutions: In The Fast Lane
- Research Update: Shin Kong Life And Taiwan Shing Kong Commercial Bank Upgraded To 'BBB+' On Taishin FHC Merger
- Research Update: Motability Operations Group Downgraded To 'A-' On Slow Recovery And Higher Sensitivity To Market Swings; Outlook Stable
- Research Update: Griffin Global Asset Management Upgraded To 'BB' On Improving Scale And Steady Credit Metrics; Outlook Stable

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Sovereign

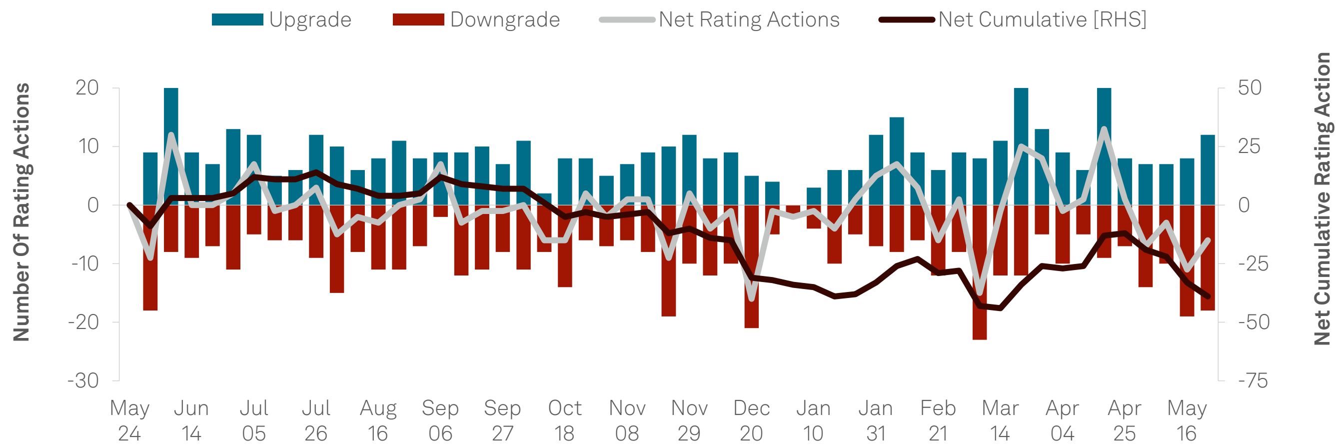
- Hong Kong 'AA+/A-1+' Ratings Affirmed; Outlook Stable
- Guatemala Upgraded To 'BB+' From 'BB' On Record Of Economic Resilience; Outlook Stable
- Bulgaria 'BBB/A-2' Ratings Affirmed; Outlook Remains Positive
- Uzbekistan Outlook Revised To Positive On Resilient Growth And Reform Momentum; 'BB-/B' Ratings Affirmed

Structured Finance

- **European Structured Finance:** Here are a few "Key Takeaways" from a recent commentary:
  - European structured finance issuance has held up well during a period of financial market volatility, which was prompted by the U.S. administration's announcements on import tariffs and trading partners' reactions.
  - Global trade shifts could have some direct effects on corporate-backed structured finance sectors, such as collateralized loan obligations (CLOs) and commercial mortgage-backed securities (CMBS), although these are likely to be idiosyncratic and limited in scale.
  - The more negative macroeconomic backdrop could also cause indirect tariff effects that would be more widespread across European structured finance.
  - Despite these downside risks, the overall ratings performance of the European structured finance sector is set to remain stable.
  - On May 23, 2025, we published a commentary titled "Tariff Effects On European Structured Finance Are Limited".
- **U.S and EMEA Structured Finance:** S&P Global Ratings published its round-up of the latest credit developments and underlying performance indicators observed across U.S. structured finance sectors (see "U.S. Structured Finance Chart Book: May 2025," published May 23, 2025). S&P Global Ratings published on May 23, 2025 its "EMEA Structured Finance Chart Book: May 2025". The report includes a roundup of the latest new issuance and credit developments that we have observed across structured finance sectors, along with data on issuance drivers, recent rating actions, and underlying performance indicators. We also highlight the key takeaways from our recent research publications.
- **U.S. Middle Market CLO:** Here are a few "Key Takeaways" from a recent commentary:
  - The U.S. middle market collateralized loan obligation market saw strength across all broad credit metric trends in first-quarter 2025, buoyed by active issuance and rising demand for private credit.
  - Selective and conventional defaults slowed amid improved market conditions.
  - Rating performance remained resilient through the first quarter, with downgrades slowing to the lowest level since 2023.?
  - Tariff-driven turmoil rocked credit markets globally. While first-order impacts appear limited, second-order effects could weigh more heavily on the middle market.
  - On May 22, 2025, we published a commentary titled "Pre-Tariff U.S. Middle-Market Collateralized Loan Obligation Rally Is Unlikely To Last".
- **European RMBS:** See the recent "European RMBS Index Report Q1 2025" published on May 22, 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 May 23, 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. $)
23-May	Downgrade	Motability Operations Group plc	NBFI	U.K.	A-	A	15,592
20-May	Downgrade	Warner Bros. Discovery Inc.	Media & entertainment	U.S.	BB+	BBB-	14,461
21-May	Upgrade	HUB International Ltd.	Insurance	U.S.	B+	B	11,797
23-May	Upgrade	Republic of Guatemala	Sovereign	Guatemala	BB+	BB	8,395
18-May	Upgrade	Discover Financial Services	Bank	U.S.	BBB	BBB-	8,373
19-May	Upgrade	Novo Nordisk A/S	Health care	Denmark	AA	AA-	7,752
20-May	Upgrade	Ryman Hospitality Properties Inc.	Media & entertainment	U.S.	BB-	B+	6,804
23-May	Upgrade	QBE Insurance Group Ltd.	Insurance	Australia	A	A-	4,893
22-May	Upgrade	Griffin Global Asset Management Holdings, Ltd.	NBFI	Cayman Islands	BB	BB-	2,500
20-May	Downgrade	Naked Juice LLC	Consumer products	U.S.	D	CC	2,375

Source: S&P Global Ratings Credit Research & Insights. Data as of May 23, 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**.**