S&P Global Ratings

The Ratings View

June 18, 2025

This report does not constitute a rating action.

Key Takeaways

- Conflict between Israel and Iran could bring a high-stress scenario for credit.
- Corporate defaults surged in May. We expect the global speculative-grade default rate to rise to 3.75% through March 2026.
- We present a framework for assessing tariff and trade risks across asset classes.

The sharp escalation of the Israel-Iran conflict tests our existing moderate-stress scenario and incorporates a material proportion of our high-stress scenario. Developments so far suggest attacks and counter attacks are seeking to avoid drawing in third countries, such as the U.S. or Gulf countries. The transmission channels that could pressure regional credit include disruption to key transportation routes, fluctuating energy prices, reduced tourism, capital outflows, higher security spending, and weaker consumer and investment confidence. Higher oil prices will only benefit the region if production continues, demand is sustained, and trade routes remain open.

Israel-Iran Escalation Stresses Geopolitical Risk Scenarios For Regional Sovereigns And Banks

Monthly corporate defaults surged to 19 in May. This is more than double the eight reported in April and is the highest monthly count since October 2020. The year-to-date total is 53, which remains lower than the 69 in 2024 and close to the five-year average of 54, with all major regions still under last year's levels. The number of defaulted issuers due to missed payments rose to eight, up from zero in April, while ten of the 19 were first-time defaulters. The latter primarily came from the media and entertainment, health care, and consumer products sectors, which collectively account for 43% of year-to-date defaults.

Corporate Defaults In May Reach Highest Level Since October 2020

We expect the global speculative-grade default rate to rise to 3.75% through March 2026, from 3.25% as of this March. This projection is based on our various regional default forecasts, which are all being influenced by the unfolding global tariff situation and the resultant risks and uncertainties. We believe that regardless of the outcomes of recent pauses, higher tariffs will be a staple of the global trade environment moving forward. For now, the main risk to our baseline assumptions is if current pauses ultimately result in noticeably higher tariff levels than are in place currently, which would have a significant direct and indirect impact on many speculative-grade borrowers and their industries.

Global Speculative-Grade Corporate Default Rate To Rise To 3.75% By March 2026
The Asia-Pacific Speculative-Grade Default Rate Could Rise To 2% By March 2026

Tariffs and trade tensions pose direct and indirect risks across multiple asset classes and geographies. We have developed a framework to analyze potential scenarios, outcomes, and identify areas of credit risk. Issuer-specific characteristics, rather than global sector trends, are likely to spur short- to medium-term shifts in creditworthiness that directly result from tariff policies. Issuers with complex global supply chains and revenues that depend on discretionary

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For latest Sector and Industry Research **Click Here** spending could come under pressure earlier than others from direct tariff effects. Entities exposed to U.S.-China trade or that have significant near-term refinancing needs could be most vulnerable to tariff-related impairments. The duration and levels of tariffs could result in weaker macroeconomic conditions that eventually weigh on more sectors, to varying degrees. We have identified asset classes that are likely to be first affected in that scenario.

Sectors and asset classes most likely affected

		Direct effects (short to medium term)			Indirect effects (medium to long term)		
	Credit pressure	Increasing cost of goods sold	Lower consumption/ trade volumes	Supply chain disruptions	Financial volatility/ weakened investor confidence	Slower growth or recession, with higher and more permanent inflation	Falling asset valuations
Corporates and infrastructure	Higher	• Global auto • Global chemicals • U.S. discretionary consumer goods • European metals	• Auto sector in North America • U.S. ports • Global shipping • European luxury goods and beverages • U.S. entertainment and leisure goods	• U.S. specialty retailers • U.S. tech hardware with consumer focus • Global auto • U.S. ports • Global shipping	• Corporates rated 'B' and below Private credit	• Global real estate • Homebuilders • Durable goods and apparel	
	Moderate	• U.S. building materials and construction • Chinese steelmakers	• U.S. midstream energy • U.S. airports • Global ports • Containers and packing • Rail freight	• Global ports • Containers and packaging • Rail freight • U.S. renewable power	• Utilities	• Leisure and entertainment	• Global real estate
Financial institutions	Higher						• Banks in emerging markets
	Moderate					• Banks with consumer loans and above-average commercial real estate exposure	• Nonbank financial institutions
Government and sovereign	Higher	• Canadian and Mexican states with a high share of exports to the U.S.	• Governments and sovereigns with goods exports to the U.S.		• Emerging markets	• Emerging markets	
Structured finance	Moderate		• Container ABS		• Collateralized loan obligations	• Consumer ABS, commercial ABS, and CMBS	• CMBS

ABS--Asset-backed securities. CMBS--Commercial mortgage-backed securities. Source: S&P Global Ratings.

Navigating Tariffs' Credit Implications Across Asset Classes

Private capital markets are attracting more regulatory scrutiny. Fast growth in relatively opaque private capital markets has raised regulatory concerns over risks and investor protection. Indicative of the regulatory trend is the 2024 consultation by the Financial Stability Board (FSB) on financial stability risks related to leverage in private capital markets. Better transparency, oversight, and reporting could strengthen confidence in these markets and head off potential problems. We believe some regulators will seek to balance the need for more oversight against the detriment of high regulatory burden.

Private Capital Funds: Global Regulatory Push Could Catch Problems Before They Happen

Public policies could affect pharmaceutical issuers' credit quality. Two Trump administration executive orders on reducing drug prices could be incrementally negative for our ratings on pharmaceutical companies; we don't factor most favored nation status into our ratings or forecasts; it could be highly negative for credit quality in the branded pharmaceutical industry. Directives to increase competition in the generics sector, those related to the Inflation Reduction Act, and reforms to the pharmacy benefit manager sector could all also affect creditworthiness to varying degrees. While not factored into our base case for ratings, President Trump has also discussed tariffs on pharmaceuticals, which could also put pressure on margins.

Reducing U.S. Drug Prices Will Likely Pressure Pharmaceuticals' Credit Quality
U.S. Health Care Access And Affordability: A Chronic Issue With Heightened Concerns For Credit

Asset Class Highlights

Corporates

Notable publications include:

- Corporate Defaults In May Reach Highest Level Since October 2020
- Navigating Tariffs' Credit Implications Across Asset Classes
- East Asia Wind Power Producers Confront Steep Execution Hurdles
- Global Speculative-Grade Corporate Default Rate To Rise To 3.75% By March 2026
- European Chemicals Sector Pulse: Financial Resilience Amid Demand Weakness
- Emerging Markets Monthly Highlights: Global Tensions, Local Resilience

Financial Institutions

Notable publications include:

- Israel-Iran Escalation Stresses Geopolitical Risk Scenarios For Regional Sovereigns And Banks
- Most China Banks Can Weather Tariff Strains
- What New World's Wobbles Mean For Hong Kong Developers, Banks
- Private Capital Funds: Global Regulatory Push Could Catch Problems Before They Happen
- Japan's Megabanks Building For New Growth
- Hypo Vorarlberg Bank AG Rating Lowered To 'A' On Weakened Profitability; Outlook Remains Negative On Asset Quality Risk
- Research Update: Saxo Bank Outlook Revised To Stable On Risk Management Enhancements; 'A-' Rating Affirmed
- Research Update: Bank of Ningbo Co. Ltd. Assigned 'BBB/A-2' Ratings; Outlook Stable
- Research Update: Distressed Debt Purchaser PRA Group Inc. Outlook Revised To Negative On Elevated Leverage; 'BB' Ratings Affirmed

Sovereign

- United Arab Emirates Assigned 'AA' Foreign And Local Currency Ratings; Outlook Stable
- Israel-Iran Escalation Stresses Geopolitical Risk Scenarios For Regional Sovereigns And Banks
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable
- Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable
- Global Aging Trends Are Catching Up To Southeast Asia

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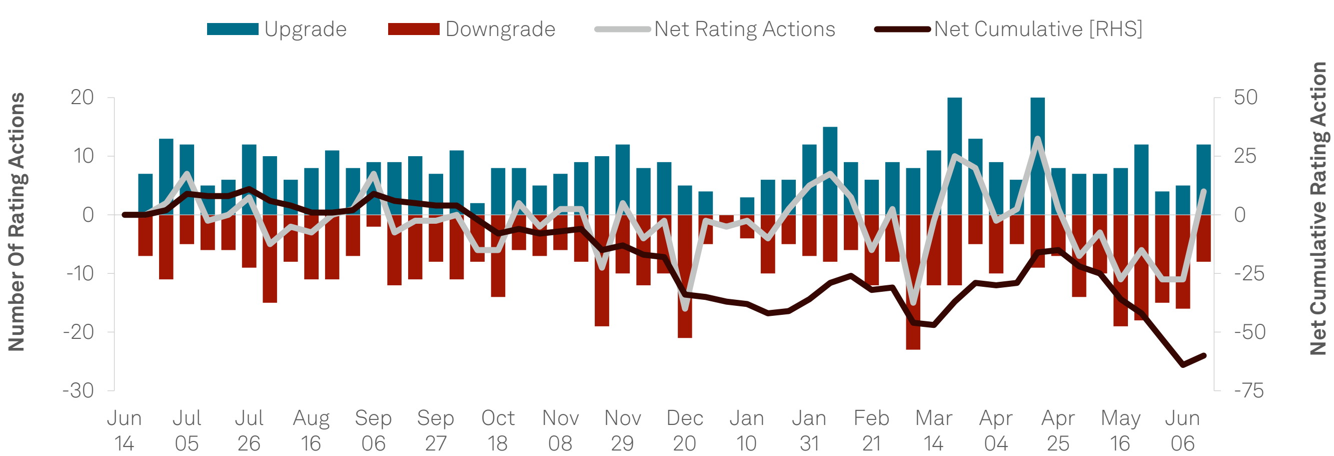
Structured Finance

- **ABS Frontiers - Ground Lease ABS:** Here are a couple "Key Takeaways" from a recent commentary:
  - Pooled ground lease securitizations are a novel approach involving a familiar asset (ground-leased properties), where the cash flow collateral would be the ground leases themselves, and not loans secured by liens on ground-leased properties.
  - The credit profile of a pooled ground lease securitization would center on legal risks, asset quality, and servicing considerations.
  - While the characteristics of the assets themselves in a pooled ground lease transaction--and our approach to analyzing the risks--will naturally share many similarities with those in a CMBS transaction, there are important distinctions.
  - On June 10, 2025, we published "ABS Frontiers: On The Ground With Pooled Ground Lease ABS".
- **Broadly Syndicated Loan CLO:** See the recent "BSL CLO Primer" published on June 9, 2025.
- **Project Finance CLO:** See the recent "Credit FAQ: How We Would Rate A Project Finance CLO In Asia-Pacific" published on June 12, 2025.
- **Covered Bonds:** We published the "Covered Bonds Brief: Bank And Sovereign Rating Actions Have Mixed Implications" on June 12, 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 June 13, 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. $)
11-Jun	Downgrade	Altice France S.A. (Altice Europe N.V.)	Telecommunications	France	D	CC	17,979
12-Jun	Upgrade	Republic Services Inc.	Chemicals, packaging & environmental services	U.S.	A-	BBB+	11,475
11-Jun	Upgrade	Fairfax Financial Holdings Ltd.	Insurance	Canada	A-	BBB+	10,590
9-Jun	Upgrade	ArcelorMittal	Metals, mining & steel	Luxembourg	BBB	BBB-	10,004
13-Jun	Upgrade	Tesco PLC	Retail/restaurants	U.K.	BBB	BBB-	6,453
11-Jun	Upgrade	HA Sustainable Infrastructure Capital Inc.	NBFI	U.S.	BBB-	BB+	4,000
11-Jun	Downgrade	Kronos Acquisition Holdings Inc.	Consumer products	U.S.	CCC+	B-	2,995
12-Jun	Downgrade	International Distribution Services PLC	Transportation	U.K.	BBB-	BBB	1,537
11-Jun	Downgrade	Medical Solutions Parent Holdings Inc.	Health care	U.S.	CCC+	B-	1,520
12-Jun	Downgrade	Signal Parent Inc.	Consumer products	U.S.	CCC+	B-	1,080

Source: S&P Global Ratings Credit Research & Insights. Data as of Jun. 13, 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**.**