S&P Global
Ratings

Credit Conditions North America Q3 2025

Still More Clouds Than Clarity

June 25, 2025

This report does not constitute a rating action

Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Emerging Markets, Europe, and North America). Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the North America committee on June 18, 2025.

Key Takeaways

- Tariff-related concerns continue to cloud the outlook for North American credit conditions, with the reconciliation bill working its way through Congress adding to uncertainty. U.S. involvement in the Israel-Iran conflict—and the fragility of a ceasefire—heightens the risk that tensions will escalate and disrupt the capital and global energy markets, and economic activity.
- The volatility that swept through financial markets in the first months of the Trump administration could return amid heightened geopolitical strife, the approaching end of U.S. tariff pauses, and the fate of the tax and spending bill.
- For now, spreads on corporate debt remain narrow—well off the highs reached in the aftermath of the White House's April 2 announced tariffs.

Tariff-related uncertainty and ongoing trade tensions continue to color the picture for North American borrowers, threatening to derail the recent stabilization of credit conditions. At the same time, U.S. strikes on Iran's nuclear facilities—and the fragility of a ceasefire—raise the risk that the conflict in the Middle East will intensify further, with a possible retaliation from Iran (perhaps through its proxies) against U.S. assets and other targets.

Heightened geopolitical strife could disrupt global energy markets and economic activity. The threat of terrorism could curb travel and tourism, and the possibility of cyberattacks on critical U.S. infrastructure adds downside risk for an economy that is already slipping below trend growth. Further clouding the issue is that Israel's initial strikes on Iran killed several senior military personnel—leaving leadership in flux. But Iran could rely on Houthi rebels to attack commercial ships in the Strait of Hormuz (through which more than one-fifth of the world's oil passes) as they did after the Israel-Hamas war began in October 2023.

Against this backdrop, market volatility could return and push investors into a "risk-off" stance that would raise borrowing costs and disrupt the typical flow of capital.

At home, the reconciliation bill working its way through Congress adds another layer of uncertainty that could curb companies' capital expenditures and consumer spending, with the fate of several of the administration's initiatives up in the air.

A material effect on credit from the bill's proposed corporate-tax policy is unlikely. However, the potential undoing of clean energy tax credits (and expansion of fossil-fuel development) would have ramifications for related industries, and the boost in funds for President Trump's border

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security agenda could further slow immigration, which has been an engine of economic growth. Additionally, Section 899 of the bill would give the Treasury the discretion to tax certain U.S.-earned income flowing to investors in countries with tax systems deemed "unfair," potentially increasing the U.S. tax liability of some foreign taxpayers—with the potential to affect cross-border capital flows and foreign investment in the U.S.

The volatility that swept through financial markets in the first months of the Trump administration could soon return amid the escalating geopolitical strife, the approaching end of President Trump's tariff pauses and elusiveness of bilateral trade deals, and the fate of the U.S. domestic policy bill.

Borrowers at the lower end of the credit spectrum have the most to lose in the event of an economic slowdown. Refinancing risk among issuers rated 'B-' and below is most pronounced in the media and entertainment, telecommunications, and tech sectors, which together face more than $60 billion in debt maturing through 2026.

For now, though, spreads on corporate debt remain narrow. As of June 20, the secondary-market spread on U.S. speculative-grade debt was at 253 basis points (bps)—well off the high of 381 bps it reached on April 9, a week after the White House announced tariffs on all countries. That's also significantly below our preliminary estimate of the May daily average spread of 471 bps, indicating spreads could widen materially—and suddenly—if investor risk-aversion returns, especially toward assets at the lower end of the ratings ladder.

Tariffs remain a top concern for many corporate borrowers we rate, given the levies lift input prices at a time when companies are dealing with already-elevated costs and a finite ability to pass them through to inflation-weary customers and consumers.

We've already seen a modest effect of the tariffs on corporate ratings, mostly at the end of April and in early May. Among the tariff-driven rating actions in North America (through June 13), there have been six downgrades, three placements on CreditWatch with negative implications, and 13 negative outlook revisions (see chart 1). Also, the region's net outlook bias—indicating potential ratings trends—widened to negative 9%, from negative 7% in April (see charts 2 and 3).

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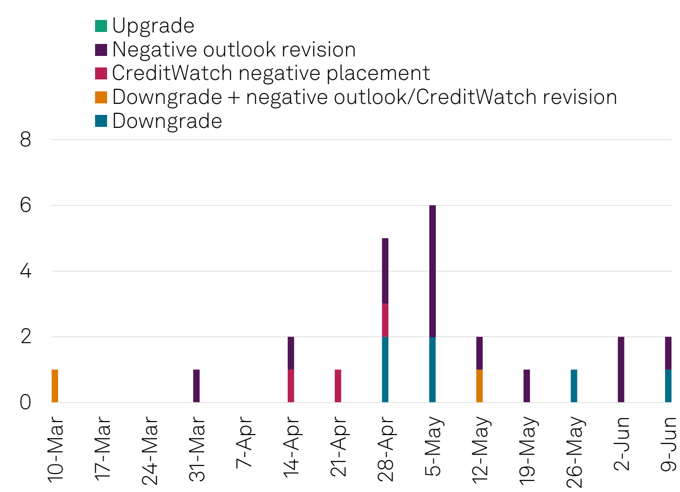
Chart 1

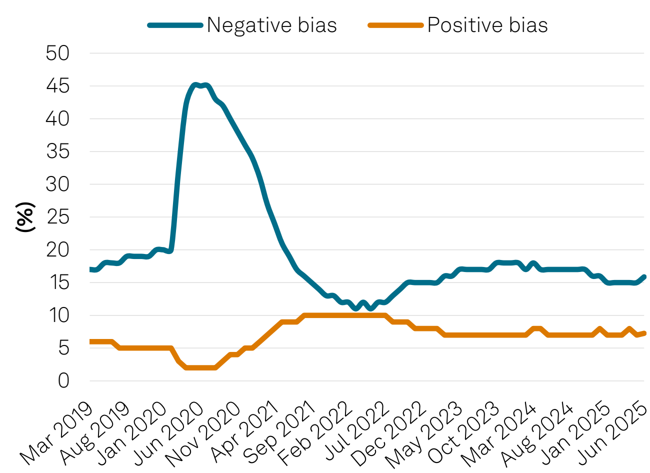
North America tariff-driven rating actions



Data as of June 13, 2025. Data includes rating actions on nonfinancial and financial corporates, sovereigns, U.S. public finance, international public finance issuers. Source: S&P Global Ratings Credit Research & Insights.

Chart 2

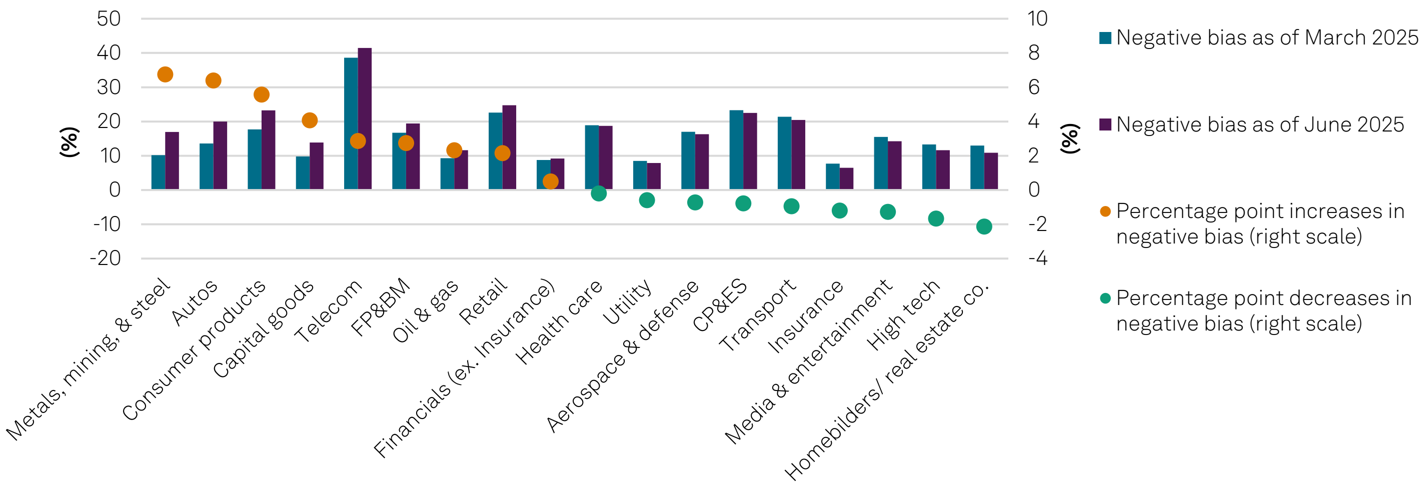
North American ratings outlook bias



Monthly data through June 16, 2025, and covers financial and nonfinancial corporates. Negative bias—Percentage of issuers with a negative outlook or CreditWatch. Positive bias—Percentage of issuers with a positive outlook or CreditWatch. Source: S&P Global Ratings Credit Research & Insights.

Chart 3

Negative bias by sector



Data as of March 31, 2025, and June 16, 2025. CP&ES—Chemicals, packaging & environmental services. FP&BM—Forest products & building materials. Negative bias—Percentage of issuers with a negative outlook or CreditWatch.
Source: S&P Global Ratings Credit Research & Insights.

Meanwhile, we think U.S. banks will be able to absorb potential increases in credit losses if economic growth slows more than we expect, but policy uncertainty could weigh on asset quality, business activity, and loan growth. Moreover, the effects of any changes to bank regulation and supervision are unclear and will depend on how they balance efficiency and effectiveness versus simply easier oversight.

For U.S. public finance borrowers, the good news is that the tax exemption for municipal bonds remains untouched in the reconciliation bill working its way through Congress. And we think **most governments, public utilities, and other not-for-profit enterprises will suffer less direct effects from tariffs**, beyond the economic and revenue uncertainty they create. However, other proposed provisions could affect economic growth and revenues across public finance sectors. For example, potentially significant cuts to Medicaid would likely have a notable impact on states and not-for-profit health care, particularly if implementation is immediate rather than phased in.

The prospect of tariff-fueled inflation—especially if combined with weakness in the labor market—is also clouding the horizon for Federal Reserve monetary policy. We now forecast 50 bps of easing late in the year, as demand weakness outweighs inflationary pressures.

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, magnified by ongoing regional geopolitical conflicts. 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).

Top North American Risks

Tariffs and trade tensions hurt borrower profitability and credit quality

Risk level	Moderate	Elevated	High	**Very high**	Risk trend	Improving	**Unchanged**	Worsening

As U.S. tariffs take hold, sectors exposed to imports and cross-border supply chains could face materially higher input prices. This comes as companies struggle with a finite ability to pass along higher costs to customers and consumers, given limited supply chain substitutions. At the same time, uncertainty about further levies persists, and countermeasures imposed by U.S. trading partners will compound the stress by hurting American companies relying on key components and foreign markets. This could cause U.S. corporates to curb spending, along with more severe margin and earnings pressures, weighing on credit quality. 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.

Intensifying geopolitical strife weighs on energy markets, economic activity

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	Unchanged	**Worsening**

The U.S. military strike on Iran's nuclear facilities—and the fragility of a ceasefire between Israel and Iran—raises the risk of a more volatile Middle East conflict, which could disrupt global energy markets, major trading routes (e.g., Strait of Hormuz), and economic activity. The increasing threat of terrorism could affect sectors involved in travel and tourism, with the possibility of cyberattacks on U.S. infrastructure potentially adding to economic headwinds. At the same time, the fragile U.S.-China relationship and heightened global trade tensions could further disrupt supply chains and hamper sentiment, investment, and capital flows. And 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.

The U.S. and Canada suffer sharper-than-expected economic slowdowns

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

Trade tensions and the uncertainty surrounding them could weigh heavily on commercial, consumer, and investor sentiment in the U.S. and Canada. Businesses may cut back on hiring and sharply curb capex, and households may become more reluctant to spend, especially as their purchasing power continues to erode from protracted price pressures and elevated interest rates. Consumer delinquencies are rising. 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.

Burdensome financing costs and diminished liquidity strain borrowers

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

The prospect of resurgent inflation (amid higher tariffs, possible rising energy costs, 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 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, continued U.S. government deficits could underpin Treasury yields, in turn affecting U.S. corporate yields. And 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. We expect this will lead some borrowers to the private credit market, where transparency and liquidity are more limited. A material shock could expose vulnerabilities as public and private markets are increasingly interconnected.

Refinancing challenges for office and regional malls, and rising multifamily delinquencies, could boost CRE losses

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

Relatively high financing costs have been pressuring asset valuations and raising refinancing risk for most types of commercial real estate (CRE), although there have been signs of stabilization in overall property prices (excluding office). Lower demand for office space continues to weigh on valuations and cash flow dynamics for all but the highest-quality properties in the top markets. Certain segments in the multifamily sector are seeing slower rent growth, and the U.S. CMBS multifamily delinquency rate has increased. All of this could lead to more broad-based loan losses for debtholders such as U.S. banks (with regional lenders having higher proportional exposure to CRE than larger lenders do), insurers, REITs, and CMBS. High office vacancy rates and weak downtown economic activity continue to affect some cities' tax revenue; federal workforce cuts could further damp revenue growth.

Structural risks

Intensifying cyber threats pose risks to markets and economies

Risk level Moderate | **Elevated** | High | Very high — **Risk trend** Improving | Unchanged | **Worsening**

U.S. involvement in the Israel-Iran conflict raises the possibility of cyberattacks, which already pose a systemic threat and significant single-entity event risk as new targets and methods emerge. Organizations lagging on adapting to current and emerging technologies or lacking well-tested cybersecurity playbooks are more vulnerable, while adopting technological advances means more costs. Technological advancements, particularly in generative AI, are altering business environments and regulatory frameworks. Innovations in various fields can improve productivity and operational efficiencies but also introduce complexities and potentially higher management 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.

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 difficult for property owners in certain regions to find affordable insurance, if they can get coverage at all. This could hurt housing prices and local economic growth in the longer run. And proposed changes to federal disaster-relief policy mean states and municipalities could bear a higher share of funding for recovery. Climate events also threaten to disrupt supply chains and logistics. Moreover, the splintering global policy drive toward a net-zero economy complicates transition risks across many sectors.

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.

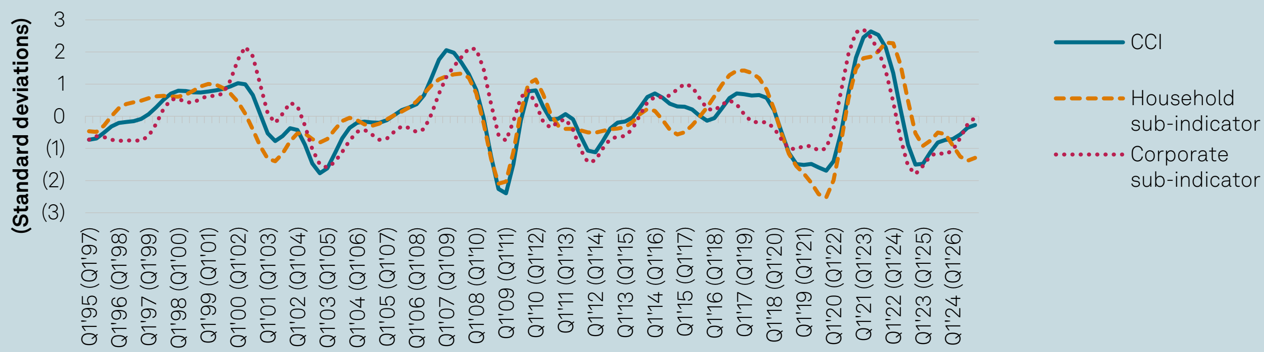
Credit Cycle Indicator

Blurred policymaking restricts credit revival

While the CCI signals a credit recovery, although nominal, ongoing policy uncertainty around trade, deregulation, fiscal policy, geopolitics, and immigration limits the economic trajectory and raises the risk of a downturn. In this context, certain segments—such as lower-income, highly indebted households, and lower-rated corporates with more exposure to policy-related disruptions—could be further stressed and lead to more credit deterioration.

Chart 4

North America CCI



Peaks in the CCI tend to lead credit stresses by six to 10 quarters. When the CCI's upward trend is prolonged or the CCI nears upper thresholds, the associated credit stress tends to be greater. Sovereign risk is not included as a formal part of the CCI. The CCI period ends in Q3 2024. Q1—First quarter. Q2—Second quarter. Q3—Third quarter. Q4—Fourth quarter. The North America CCI includes Canada and the U.S. Sources: Bank for International Settlements, Bloomberg, S&P Global Ratings.

Corporates. The corporate sub-indicator rose marginally, underpinned by strong equity gains though offset by decline in corporate debt-to-GDP levels for both the U.S. and Canada in Q4 2024. Downside risks are still high, as tariff uncertainty threatens to hurt earnings for corporates exposed to cross-border supply chains and international markets.

Households. The household sub-indicator is still in search of bottom. Consumer distress in the U.S. is evident through the rise in the aggregate delinquencies in Q1 2025. In Canada, too, consumer sentiment is sour, and households' spending on big-ticket items such as houses, autos, and major appliances has been tepid. That said, consumer credit stress could be even more pronounced if their purchasing power erodes further, unemployment jumps materially, and wealth effects wane.

Macroeconomic Outlook

- We forecast U.S. real GDP growth of 1.7% this year and 1.6% in 2026, reflecting our assumptions about tariffs, taxes, immigration, and public sector growth.
- Net immigration growth in the U.S. has slowed to a trickle, and the eventual effect on labor supply is almost certain to be a significant drag on economic activity.
- While headline economic expansion in Canada looked fairly strong in the first quarter, underlying conditions suggest weakness in domestic demand. We expect annual average GDP growth of 1.5% this year and the next.

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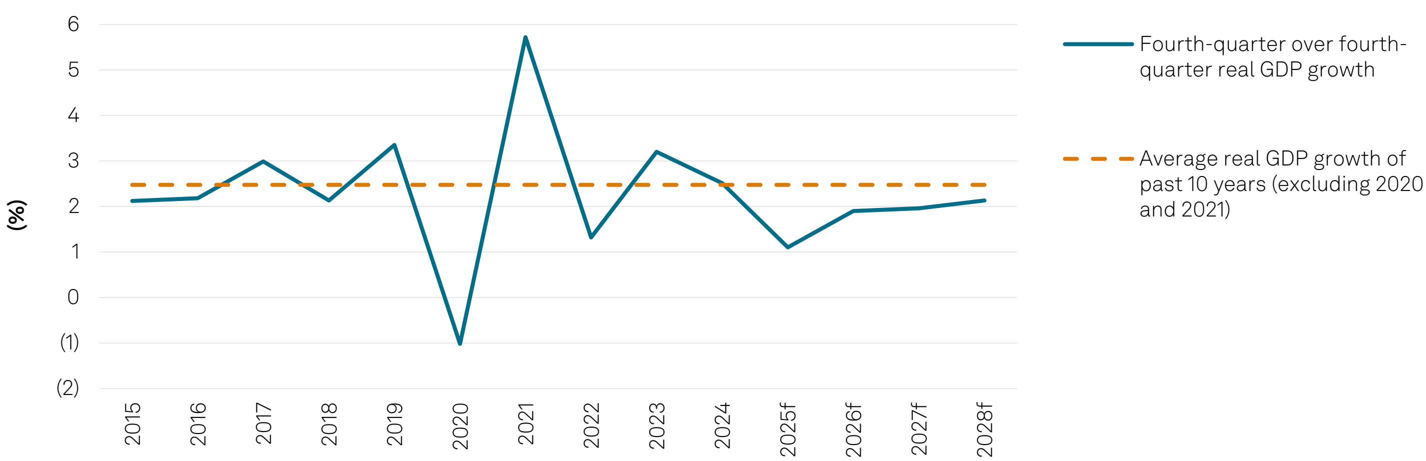
U.S.

U.S. economic growth looks set to slow through year end—a deceleration likely to be exacerbated by the drag from effective tariffs and a pullback in commercial and consumer spending amid trade uncertainty. In addition to tariff-related increases in domestic prices and business uncertainty, sharply slowing immigration growth and cost-savings initiatives at the federal level (including shrinking the government workforce) could create a negative feedback loop that weighs on overall demand, as well as supply. The likely extension of personal income-tax cuts in the 2017 Tax Cuts and Jobs Act (TCJA) will help avoid a household spending cliff, but also won't add to growth since it doesn't represent additional stimulus.

We forecast quarterly real GDP growth to slow to 1.1% by year end, before picking up to 1.9% by year-end 2026 as cuts to interest rates and business growth friendly taxes and regulations take hold just as the uncertain tariff dynamics fade (see chart 5). In our base case, we assume the U.S. avoids recession in the near term, but we think the risk of a downturn is elevated even after the world's biggest economy entered the year with solid growth momentum.

Chart 5

U.S. economic expansion will slow sharply in 2025 and remain below the long-term average



f—Forecast. Source: S&P Global Ratings Economics.

The exact scale and timing of the tariff shock, and its repercussions through global production networks, remain uncertain. It isn't clear what kind of agreements will emerge from the 90-day pause for negotiations. Additional sectoral tariffs are still looming (particularly on semiconductors, pharmaceuticals, copper, and lumber, which are currently exempt) and further increases on sectors already affected can't be ruled out (such as the doubling of tariffs on steel and aluminum, to 50%, announced on June 3).

The uncertainty surrounding all of this is arguably just as disruptive to the business environment in the near term as the actual sticker shock from tariffs, if not more so. Our subjective assessment is that there's a 30%-35% probability of a downturn starting in the next 12 months—notably higher than the post-World War II unconditional recession probability of 13%.

There are already signs that trade tensions and the uncertainty surrounding them are weighing on commercial and consumer sentiment in the U.S. and Canada. A deep dive into first-quarter corporate results shows that average estimates for full-year capex in North America declined 0.1%. Meanwhile, the University of Michigan consumer sentiment index has trended sharply downward since the start of the year, with May's reading boosted in the latter half of the month only after the pause in tariffs on some goods from China.

At the same time, net immigration growth in the U.S. has slowed to a trickle, with the southern border essentially closed and deportations intensifying; the eventual effect on labor supply is almost certain to be a drag on economic activity (while also underpinning wages, thus further fueling inflation). Also, roughly 59,000 federal government jobs have been cut this year, with many more to come. We also expect hiring by state and local governments, the health care sector, and universities to slow as they brace for declines in federal grants.

Except for the sharp rise in household inflation expectations and a marked upturn in input prices in business sentiment surveys, inflationary pressures have yet to show up in the hard data. We suspect companies may be agreeing to accept lower margins for the moment to preserve market share as tariff rates bounce around temporarily. The effective tariff hikes put in place have so far been far less than first threatened, although they have nonetheless been significant, especially with respect to China.

May tariff revenues suggest the effective tariff rate (estimated 6%-7%) was approximately three times higher than a year ago. Looking ahead, the process of passing on tariff increases to consumer prices will likely take longer than we previously anticipated, thus spreading out the upward impact on inflation over time.

This puts the Fed in a bind regarding monetary policy. A combination of slowing economic activity (and rising unemployment) with persistent price pressures puts policymakers in a difficult position to meet their dual mandate of ensuring stable prices and maximum sustainable employment. For now, we continue to anticipate 50 bps of policy rate cuts in the fourth quarter as unemployment rate begins to deviate higher from longer-run steady state and the Fed chooses to look through tariff-related inflation as temporary. That said, if the recent mix of tamer consumer price inflation and softer consumption growth continue, policy makers may lean more heavily on their risk management playbook to cut 25 bps earlier in the second half to provide cushion to the economy.

Canada

While headline economic expansion in Canada looked fairly strong in the first quarter—with GDP growth at a 2.2% annualized rate—underlying conditions suggest weakness in domestic demand. Small business confidence has begun to recover from tariff-induced collapse but remains relatively weak. With the higher U.S. tariff on Canada's auto exports, and with consumers' and businesses' ongoing concerns about future U.S. trade policy, we believe Canada's economy is still set to slip into below-potential GDP growth in the near term (even as it avoids a recession). We expect annual average GDP growth of 1.5% this year and the next.

The higher tariffs that the U.S. has imposed on most other countries means Canada is no longer at the competitive disadvantage it appeared to be in before April. Tariffs on specific "strategic" products, including steel and aluminum, energy products not qualified under CUSMA, and the non-U.S. content of finished motor vehicles, remain subject to significant U.S. tariffs ranging from 10%-50%. However, it appears a broader duty-free exemption for U.S. imports from Canada since early March (under the USMCA free trade pact) will likely be in place for the foreseeable future, cushioning most Canadian exports.

Assuming 85% of Canadian exports to the U.S. would get certified duty free under current rules, the import weighted average tariff on U.S. imports from Canada is likely to settle around less than 10%, much lower than the 25% feared in March but still more than 4X higher than 2024 tariff rate. Nonetheless, companies will likely keep major investment projects on hold ahead of the renegotiation of the United States–Mexico–Canada Agreement.

The pace of job gains has slowed significantly this year, with businesses pausing their hiring plans. The unemployment rate has risen to 7% but job openings as indicated by Indeed Job Postings stabilized following a downward trend. We think Canada's unemployment rate will stay at roughly 7% through the end of the year, up from the 6.4% average for last year.

The scrapping of the carbon tax has helped keep a lid on headline inflation this year, but the underlying core inflation (CPI mean and CPI median) has been rising recently, toward 3%. Still, we project the Bank of Canada will make two more 25-bps interest-rate cuts before year end, taking the policy rate to 2.25%. This should provide more support to growth in the second half of 2025 as the economy heads into 2026.

Financing Conditions

- Borrowers are benefitting from favorable market conditions, with spreads historically narrow and primary markets resuming a normal pace.
- Investors are still tuned into relative risks, with borrowing costs comparably elevated for weaker borrowers and the resumption in issuance highly correlated to credit quality.
- Risks remain, specifically regarding the outcomes of tariff negotiations.

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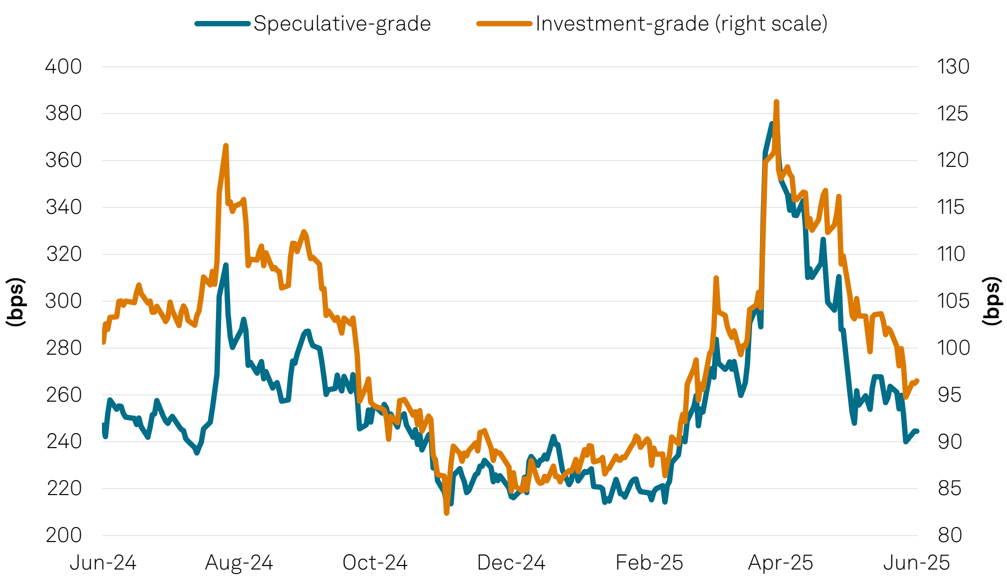
U.S. financial markets have shrugged off the turbulence that began on April 2, with secondary-market bond spreads falling back to levels last seen in late February (see chart 6) and the benchmark S&P 500 equities index within shouting distance of its record high.

Chart 6
U.S. bond spreads retreat from April high



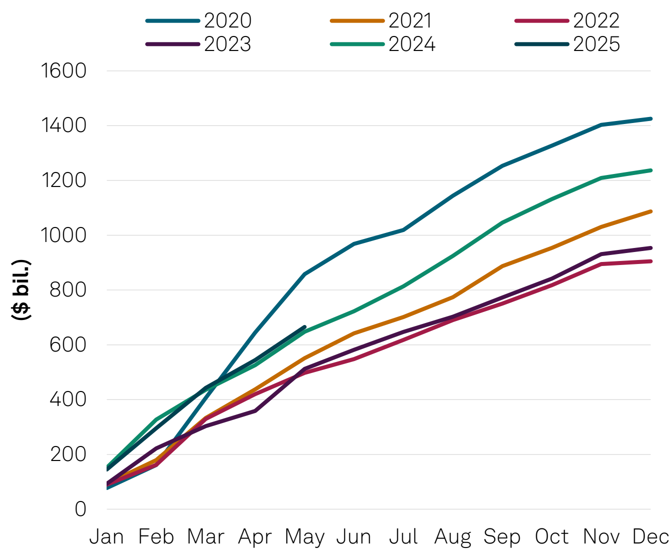
Source: S&P Global Ratings Credit Research & Insights.

Some risk-aversion remains. Lower-rated borrowers are still facing proportionately elevated borrowing costs, even after the announced tariff pauses. While the yield on 'BBB'-rated corporate bonds has fallen slightly this year (through June 11) the yield on 'B'-rated corporate bonds has widened 68 bps.

Bond issuance has largely returned to normal, but the momentum is tied to credit quality. Similar to bond yields, issuance momentum has been tied closely to credit quality, with year-to-date investment-grade corporate bond issuance reaching $665 billion through May—almost $20 billion more than a year earlier. But speculative-grade corporate bond issuance tallied $88.6 billion through May, which was nearly $30 billion less than through May 2024, and with much of the total rated 'BB' (see charts 7 and 8). This translates to investment-grade issuance heading toward its second-highest annual total (after 2020), despite plenty of lingering uncertainties, but speculative-grade bond issuance falling back to roughly the same pace as 2023.

Chart 7

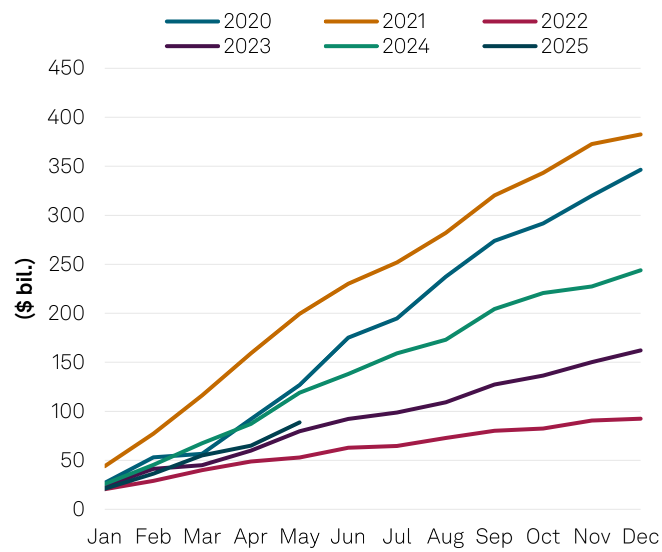
Investment-grade bond issuance is running ahead of last year



Source: S&P Global Ratings Credit Research & Insights.

Chart 8

Speculative-grade bond issuance still lags amid lingering risks to sentiment



Source: S&P Global Ratings Credit Research & Insights.

Uncertainties remain, both in the near term and beyond. Until tariff and trade agreements are finalized, there is potential for more market disruptions and additional waves of minimal (or non-existent) bond issuance, which could pressure some borrowers if the timing of market swings comes at a time when they need financing to service existing debt and expenses.

Further afield are the potential risks posed by the growing U.S. Treasury debt, coupled with the possibility of a pullback by foreign buyers of many U.S.-dollar based assets. The relative supply of Treasuries has grown more than 71% since the end of 2019, with very large amounts carrying less than 12-month maturity lengths at issuance. The Fed has been pulling back on its purchases as well, leaving proportionately more buyers from the private sector or overseas, who are demanding higher yields, particularly in the face of growing uncertainties around U.S. policy.

Sovereigns

- The Trump administration continues to advance a pronounced shift in trade, immigration, energy, and foreign policies.
- The House and Senate are negotiating a reconciliation bill that would be the hallmark of the administration's tax and spending policies and will likely keep deficits high.
- The deadline to address the debt ceiling appears to be in August, and Congress must act to avert a government shutdown by Sept. 30, most likely with a short-term continuing resolution.

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The administration is shifting foreign, trade, immigration, and domestic government policies via executive orders. Uncertainty around the exact level and contour of tariffs on a country-by-country and sector-by-sector basis persists. However, it's clear the administration is determined to raise the effective tariff rate, which will likely rise to more than 10% from 2.5% last year.

The use of the International Emergency Economic Powers Act (IEEPA) to enact many tariffs is being challenged in the courts, with cases likely to reach the Supreme Court in autumn. There are multiple other channels available to keep tariffs in double digits in the meantime and afterward should a ruling pose a setback to the use of IEEPA. We expect 10% universal tariffs to remain in place as the administration negotiates deals with trading partners beyond its July 9 deadline. Stepped-upped border security and deportations have essentially halted immigration inflows.

Congress is negotiating and aims to enact what will be the hallmark budget legislation of the administration this summer. The House passed its version of a reconciliation bill, which requires a simple majority—hence only Republican votes—in May by a thin margin. That margin reflects the balancing act around the magnitude of politically challenging spending cuts to offset extension of various tax cuts. It's unlikely to pass without changes in the Senate, including on politically sensitive and carefully negotiated tax and spending initiatives. If changes can be pre-negotiated with the House, it will limit how often the bill needs to be revoted in both chambers.

There appears to be broad support for extending key expiring provisions of the TCJA and some, but not all, additional tax cuts. Changes to the state and local tax (SALT) caps and cuts in Medicaid could be politically challenging sticking points. The administration sent a $9 billion rescission package to Congress in June (with 45 days to pass) aimed at codifying some cost-cutting initiatives led by the Department of Government Efficiency, predominately those at the U.S. Agency for International Development (USAID). Workforce-reduction plans follow a directive from the Office of Budget and Management. Savings from a smaller federal work force aren't expected to hit the fiscal accounts until fiscal year 2026. The administration also released a skinny budget for FY2026, with a 23% cut in nondefense discretionary spending. This sets the foundation for subsequent requisite Congressional action on funding for that year, which will likely need Democratic support.

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. The so called "X date," when Treasury runs out of space to deploy extraordinary measures, is estimated to be in August. We expect Congress to act in a timely manner as it has done in the past. The path for the general government budget deficit will be informed by the outcome of reconciliation process, cuts waste/fraud/workforce, and tariff revenues. We don't expect a meaningful decline in the deficit and the U.S.'s net general government debt will likely approach 100% of GDP in the next couple of years.

Financial Institutions

- Our outlooks on almost all U.S. banks are stable.
- We think banks are well-positioned to absorb potential increases in credit losses should the economy slow more than expected, but policy uncertainty could weigh on asset quality, business activity, and loan growth.
- The impact of potential changes to bank regulation remains uncertain and will depend on how they balance efficiency and effectiveness versus simply easier oversight.

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Banks

Our outlook on almost all U.S. banks we rate are stable, reflecting our expectations that stable performance will continue after many banks strengthened their balance sheets in the last two years or so. We're projecting the industry will generate a return on common equity (ROE) of 10.5%-12.0% this year, versus 11.3% in 2024, assuming the economy continues to grow. However, the economic outlook remains uncertain, partially due to tariffs, with elevated downside risks. In a scenario in which the economy slows further or enters a recession, we believe the banking industry's ROE could fall to the high-single-digit range.

As the economy slows, credit quality could deteriorate incrementally, but we believe banks are well-placed to absorb higher losses. CRE, credit cards, and commercial loans have driven charge-offs above historical medians, and we expect some further deterioration. However, a stress analysis we recently ran suggests rated banks would largely remain profitable even if they had to substantially build their allowances for credit losses amid a recession.

We also believe the downside risks related to CRE have become more manageable. CRE valuations have shown signs of stabilizing after material declines in some asset classes, and banks have generally shown a manageable level of credit deterioration. CRE delinquencies and nonaccrual loans rose to about 1.7% of CRE loans in the first quarter, up only about 10 bps from the prior quarter, with relatively modest loan modifications. Banks have also strengthened their balance sheets and maintained market confidence. In February, we revised the outlooks on six regional banks to stable from negative to reflect our belief they had reduced their CRE-related risks. Notwithstanding this, we still consider CRE a key risk for the banking sector this year.

Deposit levels have risen for four of the past five quarters, easing funding pressure even as banks have cut the rate they pay on deposits. We believe deposit levels will increase somewhat in the rest of the year.

We expect capital ratio trends to be mixed. Banks' capital actions will partially depend on the amount of capital they built above regulatory requirements. The amount of unrealized losses in their securities portfolio also plays a part, particularly for regional banks. Regional banks of a certain size may ultimately have to count unrealized losses on available-for-sale (AFS) securities in their regulatory capital ratios, depending on how regulators ultimately implement the final components of the Basel 3 capital rules.

Policy uncertainty, particularly around tariffs, has become a main focus for U.S. and Canadian banks due to the potential effects not only on asset quality but also business activity. Although we think banks are well-placed to absorb asset quality deterioration, higher-than-expected provisions for credit losses could weigh on earnings. Tariffs and an economic slowdown may also continue to affect investment banking activity and other fee income, as well as loan growth.

Separately, we 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 from 8%-11% in 2025, versus 12% last year. Indeed, in the March results many Canadian banks increased their allowances in anticipation of more difficult economic conditions.

The path ahead for U.S. bank regulation remains uncertain. We don't expect a significant rollback of key prudential regulatory guardrails, particularly for large banks, but we do expect review and rationalization. The Trump administration has nominated or appointed new leadership to several regulatory bodies, who have discussed an extensive list of regulatory and supervisory areas they may review, such as the Basel 3 and other capital requirements and liquidity rules. The focus of bank supervision could also change. The impact of any changes will depend on how they balance efficiency and effectiveness versus simply easier oversight.

Finance companies

An anticipated economic slowdown, rising unemployment, and higher-for-longer interest rates will likely pressure asset quality for finance companies (fincos). 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 fincos. 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.

A prolonged economic downturn would likely pressure asset quality for publicly rated business development companies (BDCs). We expect strains on asset quality will remain manageable. BDCs' levels of nonaccruals and payment-in-kind (PIK) income could increase 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. Recently, credit spreads have tightened and BDCs have accessed the unsecured debt markets to address upcoming maturities and raise liquidity.

At current credit spreads, we expect net investment income (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. Base rate declines and competition from the broadly syndicated loan market have contributed to borrowers looking to lower their funding costs. So far, refinancings have primarily driven originations and deployment opportunities could decline as mergers and acquisitions (M&A) remain muted.

In choppy financial markets, 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 fincos are at an inflection point. We don't expect to see the same degree of systemic pressure on CRE portfolios. 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. A rise in troubled multifamily loans could hit asset quality since most CRE lenders have increased their exposure to multifamily since 2020 to offset office exposure. Having said that, we believe CRE fincos will 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

A prolonged downturn in financial markets would likely hurt asset manager earnings. That said, the vast majority (more than 90%) of asset and wealth managers we rate have stable outlooks as they benefited last year from higher assets under management (AUM) on positive net flows and valuation gains across most asset classes as well as year-to-date market gains.

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 remain 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 likely take responsive actions in a persistent market downdraft scenario.

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.

Nonfinancial Corporates

- Rating actions where tariff policy was a contributing factor began to ramp up in April and quickened in May. Well over half of the related rating actions so far occurred in the consumer products and retail sectors.
- We expect the highest level of exposure to tariffs among issuers with limited passthrough ability and a high share of inputs coming from foreign sources.
- Earnings call transcripts show a sharp deterioration in corporate sentiment.

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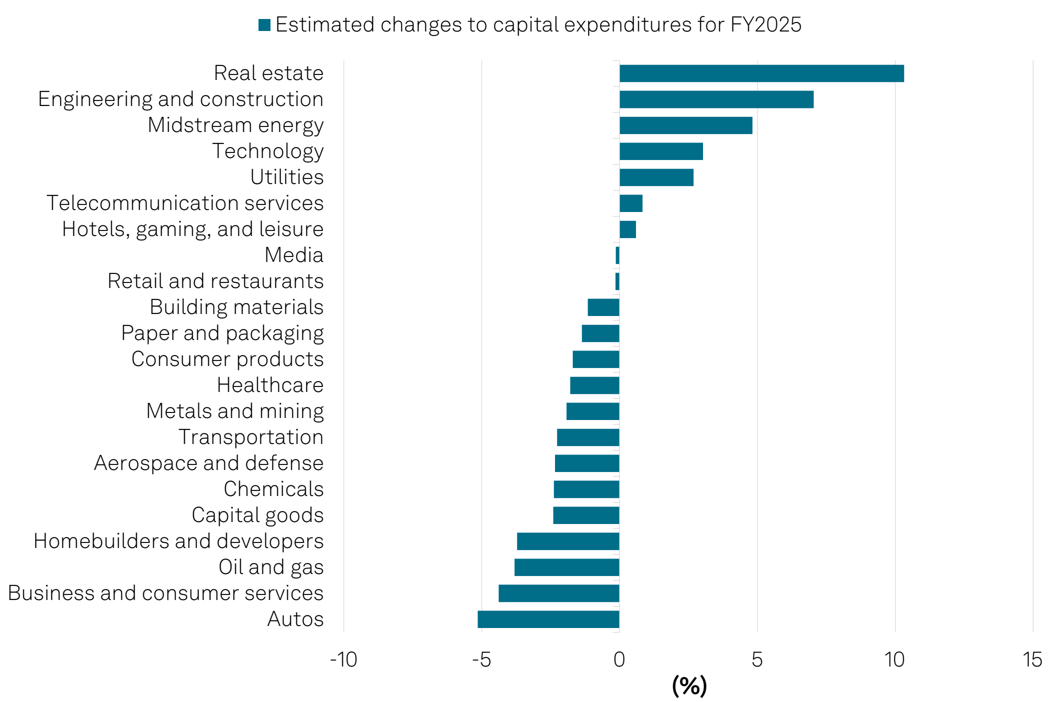
Tariff uncertainties have begun to affect some ratings. Following a relatively muted start to the year, rating actions where tariff policy was a contributing factor ramped up in April and quickened in May. Well over half of the related rating actions occurred in the consumer products and retail sectors, where certain issuers have a substantial share of cost of goods sold expenses from Chinese suppliers. When coupled with narrow gross margins, and the potential for significant tariffs on Chinese goods, such an operating environment leads to a great deal of credit pressure.

Mitigating strategies include cost cutting, shifting product mixes, and exploring alternative suppliers in the region—though final tariffs for other countries also remain unclear. About 70% of rating actions have been limited to outlook revisions, indicating that a great deal of uncertainty remains. These rating actions have largely been limited to speculative-grade issuers.

Earnings call transcripts for first-quarter results show deteriorating corporate sentiment. North American corporate sentiment has been more positive than other regions for the last several years, but tariff tensions have sharply eroded this differential. We're seeing signs that this erosion of sentiment could result in U.S. corporates pulling back on spending—specifically, average estimates for full-year capex have declined 0.1% in North America (see chart 9).

Chart 9

Most of U.S. corporate sectors delay capital spending



Source: S&P Capital IQ Pro, S&P Global Ratings. Data as of June 1, 2025.

Tariffs (and other policy moves) will affect various sectors

U.S. tariffs will have a significant effect on certain corporate sectors, particularly those with high exposure to imported goods. Sectors most at risk include consumer goods, durable goods, and apparel, which will face significantly higher tariffs on imports from China. This will lead to higher costs, likely reduced profit margins, and potentially negative rating actions. Borrowers with strong credit buffers and pricing power are better-positioned to manage these risks.

Consumer goods. We estimate that 10%-15% of issuers could face negative rating actions because of tariff exposure. Durable goods, apparel, and consumer staples that rely on imported inputs will be most affected.

Leisure. Cracks in consumer confidence could curb U.S. leisure spending. Trade conflicts and market volatility may continue to weigh on consumer and business sentiment, and Americans may delay or cancel travel and entertainment spending.

Tech. The sector faces significant trade policy uncertainty due to tariffs on imports from China and other levies on the rest of the world. We expect global IT spending growth will slow to 5%-7% this year, with PCs and smartphones most affected. Tariffs will affect consumer-focused products, with enterprise-focused hardware less affected.

Capital goods. We think about 15% of issuers in this sector in the U.S. are at risk of negative rating actions. We estimate that the current effective tariff rate of 24% in the U.S. will increase total costs in the sector by 8%-10%.

Pharmaceuticals. The Trump administration has issued two executive orders outlining its priorities for reducing drug prices. The president has also discussed extending tariffs to pharmaceutical products. If and how these priorities are translated into action will determine their effects on pharma companies and credit quality.

Given broad and bipartisan support for drug-price reform, our base case expectation is that some combination of initiatives will come to fruition, but we expect the combined impact to be only moderate. Tariffs could put margin pressure on branded drugs and generic drug makers, depending on how they are enacted and the company's footprint. Certain initiatives to spur more competition to branded drugs from generic drugs could hurt generic companies' credit quality.

Media. While unlikely to proceed at face value, we believe President Trump's social media post calling for 100% tariffs on movies made outside the U.S. could lead to higher costs for the film industry and result in the release of fewer films. However, the president's focus on the film and TV industry could lead to the consideration of other approaches to reinvigorate domestic film production. In our view, tax incentives would be more effective in helping the film industry than the proposed tariffs.

Steel and aluminum. On June 4, President Trump signed an executive order to double the steel and aluminum tariffs, to 50%. In our view, this could have wide-ranging downstream effects for the many industries that rely on these metals. It will take significant time and investment for domestic supply to approach demand, and in the meantime the shortfall purchases by domestic companies would be subject to these tariffs significantly raising input costs. Furthermore, it is unclear if the inputs necessary to produce these metals (particularly electricity for aluminum) can be competitively sourced domestically. Notably, the U.K. is exempt from the tariff hike and its rate remains 25%.

Public Finance

- Although the tax exemption for municipal bonds remains untouched in the House reconciliation bill, other proposed provisions could affect economic growth and revenues across public finance sectors.
- Economic uncertainty continues to weigh on revenue growth, and greater clarity will take time. As these factors play out, we expect issuers will continue to find ways to balance budgets, but a slower economy makes it more difficult.
- With the summer storm season upon us, the looming possibility of marked changes in Federal Emergency Management Agency (FEMA) funding for disaster recovery could make a significant difference in how disaster clean up and recovery are paid for.

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Economic and/or fiscal pressures go beyond tariffs. Most governments, public utilities, and other not-for-profit enterprises will experience less direct impact from tariffs beyond the economic and revenue uncertainty it creates. However, other policy shifts at the federal level continue to affect the sector. For higher education issuers, research funding cuts, changes to international enrollment rules, and the proposal to tax endowments all have the potential to create budgetary imbalances. Changes to grant funding, plus reductions in federal employment and military realignments, are creating uncertainty for public finance issuers across the country; depth and duration of the changes will be key to the level of impact on credit stability.

Medicaid cuts could have a major effect on public finance issuers. Looming, potentially significant cuts to Medicaid would have a notable impact on states and not-for-profit health care, particularly if implementation is immediate rather than phased in over time. Although states have significant flexibility to cut any programs the feds stop funding, the magnitude and timing of any Medicaid cuts could still be significant. In addition to pressuring the budgets of states and not-for-profit health care providers, Medicaid cuts that increase uncompensated care could also exert expenditure pressure on local governments.

Changes to FEMA funding could influence credit stability for the hardest-hit governments. Ongoing proposals regarding major changes at FEMA create additional uncertainty for governments susceptible to negative impacts from major disasters. FEMA has historically provided a reliable funding source for post-storm recovery and rebuilding efforts. Should this critical funding source be delayed or significantly diminished, it could affect credit quality for state and local governments.

Lower immigration exacerbates the challenges of slow revenue growth. By slowing consumption and constricting the workforce, labor costs—already a pressure point for governments—will rise even higher. While tighter border policies could relieve some costs for governments that experienced higher social-services spending to support new arrivals entering the U.S., public service costs related to pro-immigration demonstrations could quickly create additional budgetary pressure.

Amid a wide range of credit pressures across public finance, the transportation infrastructure sector continues to normalize. The sector, as measured by aviation passengers, port container volumes, vehicle miles traveled, and transit ridership, continues to tick up although projections are weaker given slower economic growth. We expect average annual growth from 2025-2027 of about 2% for enplanements, 4% for transit ridership, and 2% for vehicular traffic. In contrast, we believe ongoing trade disputes will adversely affect port container volumes, which we forecast will decrease about 4% in 2025 and 2% in 2026, followed by 3% growth in 2027.

Structured Finance

- CMBS classes continue to experience rating downgrades across the capital stack.
- We've seen signs of consumer distress in several areas, including auto loan and student loan ABS.
- Credit conditions for U.S. CLOs have seen some signs of deterioration.

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The outlook for North American structured finance rating trends remains relatively stable, outside of stress within certain CRE assets weighing on CMBS ratings, and an accumulation of corporate rating downgrades affecting some ratings on subordinate collateralized loan obligation (CLO) tranches. On the collateral performance side, we are also observing some weakness in consumer-related sectors, despite low levels of unemployment. We expect this trend to continue in the near-term amid broader policy and geopolitical uncertainty.

CMBS classes continue to experience rating downgrades across the capital stack, largely related to struggling office assets, or class B/C regional malls that have struggled to find long-term refinancing. To a lesser degree, we are also seeing some softness in certain multifamily markets and some lodging segments (limited/extended-service), which likely reflects, at least partially, the aforementioned consumer weakness. The residential mortgage—and residential mortgage-backed securities (RMBS)—sector has a more positive outlook due to supply constraints and many borrowers retaining their low fixed-rate mortgage loans.

We've seen signs of consumer distress in several areas, including our auto loan and student loan asset-backed securities (ABS) data. For subprime auto, collateral performance, particularly for the 2022 and 2023 vintages, will continue to be exposed to exogenous factors—macroeconomic, which hurts affordability, and wholesale recovery value, which will affect loss severity—that will influence performance and ratings stability, particularly for subordinated classes. However, given the sequential nature of the transactions and positive impact of deleveraging on the senior classes (along with the sheer number of series outstanding) any downgrades are likely to represent a small proportion of outstanding ratings.

Federal Family Education Loan Program (FFELP) student loan-backed deals are seeing significant declines in bond payment rates due to a decrease in prepayments, as borrowers have fewer options to consolidate out of their FFELP loans. Consolidation options have been primarily affected by changing priorities within the Department of Education. We expect downgrades in isolated cases primarily within bonds maturing within the next 10 years. For ABS overall, the aforementioned conditions result in our expectation of somewhat weaker collateral performance, but still stable rating trends, for covered sectors (see table below). An unforeseen increase in the unemployment rate could result in more significant negative effects to consumer credit, given the already existing stress from the factors noted above.

On the esoteric ABS side, we expect somewhat weaker collateral performance in whole business, small business, timeshare, solar, tobacco settlement, and triple net lease, as the underlying obligors are affected by weaker consumer discretionary spending while businesses face continued inflationary pressure and higher operating costs. However, most portfolios benefit from asset diversification. Among those, only solar maintains a stable-to-negative rating trend outlook, with the rest remaining stable. For transportation sectors, prolonged tariff uncertainty could have an impact on asset utilization in the medium to long term, although we expect short-term implication to be limited given mostly multi-year leases in place. Nevertheless, aircraft have a somewhat positive rating trend bias, driven by growing demand and supply constraints supporting lease rates and asset valuation.

Credit conditions for U.S. CLOs have shown some signs of deterioration. Speculative-grade corporate downgrades outpaced upgrades in the 12 months ended March 31. In addition to corporate rating downgrades, BSL CLOs have also seen a reduction in some key metrics, including weighted average recovery rate (WARR) and weighted average spread (WAS) over the past year. We think these factors, combined with par loss, will lead to an increase in 'BB' tranche CLO rating downgrades this year, with most of the impact falling on CLOs originated pre-2021. Some of these are already showing signs of stress.

Excluding CMBS, we expect stable or somewhat negative structured finance rating trends over the next 12 months, with a majority of the rating actions in the noninvestment-grade space. Distress may be more acute for sectors that are more sensitive to a higher-for-longer interest rate environment. The structured finance outlook by asset class is depicted in the chart below.

Table 1

12-month North America structured finance outlook – Q3 2025

	Collateral performance outlook	Rating trends
Residential mortgage-backed securities (RMBS)		
RMBS	Stable	Stable to positive
RMBS – servicer advance	Stable	Stable
Commercial mortgage-backed securities (CMBS)		
CMBS - N.A. conduit/fusion	Weaker	Stable to negative
CMBS - large loan/single borrower (retail)	Weaker	Stable to negative
CMBS - large loan/single borrower (lodging)	Somewhat weaker	Stable
CMBS - large loan/single borrower (office)	Weaker	Negative
CMBS - large loan/single borrower (all else)	Somewhat weaker	Stable
Asset-backed securities (ABS)		
ABS - prime auto loans	Somewhat weaker	Stable
ABS - subprime auto loans	Somewhat Weaker	Stable
ABS - auto lease	Stable	Stable
ABS - auto dealer floorplan	Stable	Stable
ABS - credit cards	Somewhat weaker	Stable
ABS - unsecured consumer loans	Somewhat weaker	Stable
ABS - FFELP student loan	Somewhat weaker	Stable
ABS - private student loan	Somewhat weaker	Stable
ABS - commercial equipment	Stable	Stable
Asset-backed commercial paper	Stable	Stable
Structured credit		
CLOs	Somewhat weaker	Stable to negative
ABS - Esoteric		
Corporate securitization	Somewhat weaker	Stable
Data center	Somewhat stronger	Stable
Small business	Somewhat weaker	Stable
Solar	Somewhat weaker	Stable to negative
Timeshare	Somewhat weaker	Stable
Transportation - aircraft	Somewhat stronger	Stable to positive
Transportation - container	Stable	Stable
Transportation - railcar	Stable	Stable
Triple net lease	Somewhat weaker	Stable
Tobacco settlement	Somewhat weaker	Stable
Utility-related securitization	Stable	Stable

FFELP—Federal Family Education Loan Program. Source: S&P Global Ratings.

Insurance

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- The outlook for the health sector is negative, while all other outlooks are stable.
- We believe there to still be broad access to capital for this mostly investment-grade portfolio.
- Our view on the U.S. property/casualty, life, and global reinsurance sectors is stable, and we believe the sectors are operating from a position of strength.

In the insurance industry, the outlook for the health sector is negative (since January) while all other outlooks are stable. There are also no changes to our assessments of current business conditions or outlook. Nonetheless, there have been a mix of rating actions in the sector with two upgrades of American International Group and Global Atlantic Financial Group; three downgrades, including United Services Automobile Association (USAA), Dearborn Life Insurance, and Health Care Services Corporation (HCSC); and one outlook change, for Equitable Holdings. Each revision was company specific and not reflective of broader industry trends.

Overall, the average financial strength rating for the core North American insurance portfolio (life, health, property/casualty) is at the upper half of the strong ('A') category with a relatively high percentage of stable outlooks. Major rating considerations include pricing, interest rates, capitalization, CRE/private credit exposure, legislative/regulatory risk, medical utilization, elevated catastrophic risk, economic volatility and geopolitical/macro-economic tension.

We believe there is still broad access to capital for this mostly investment-grade portfolio of companies that in general aren't highly leveraged. Balance-sheet strength continues to underpin credit quality.

Table 2

North America insurance sector trends – Q3 2025

Sector	Current business conditions	Business conditions outlook	Sector outlook
Life insurers	Strong	No change	Stable
Health insurers	Satisfactory	No change	Negative
P/C insurers	Satisfactory	No change	Stable
Global reinsurers	Strong	No change	Stable
Bond insurers	Satisfactory	No change	Stable
Title insurance	Satisfactory	No change	Stable
Mortgage insurers	Satisfactory	Somewhat weaker	Stable

Note: Business conditions and sector outlook are for the next 12 months. Source: S&P Global Ratings.

Life insurance

The macroeconomic landscape appears largely favorable for North American life insurers. While we expect market fundamentals to enhance their profitability, we don't anticipate these improvements to significantly influence the overall ratings. Some risks, such as interest rates, corporate bond defaults, and potential recession, remain a concern.

We are monitoring several trends that have the potential to affect life insurers either positively or negatively in the medium to long term. Increased investments in private credit may enhance yields but also elevate credit risk. The growing use of offshore reinsurance can improve capital efficiency by attracting third-party capital, though it may reduce transparency for stakeholders. Additionally, exposure to CRE, especially office properties, is likely to result in some investment losses, though we expect these to be manageable. We're also closely tracking other sources of uncertainty, including geopolitical tensions, regulatory changes, and advancements in AI, as their effects on the industry continue to evolve.

The growth of private-credit investments, including loans to small and medium enterprises and asset-backed finance, has especially been notable, as part of an overall shift in life insurers' portfolio toward less liquid assets. This is partly demonstrated by the increase in privately rated bonds, although it is important to emphasize that not all privately rated bonds represent investments in these asset types. Private-credit allocations constitute a small fraction of life insurers' portfolios; however, as the private investment markets expand, we anticipate these allocations will grow, reflecting the industry's ongoing adaptation to changing market conditions.

Health insurance

We revised our U.S. health insurance sector view to negative from stable in January, to reflect our view of recent and projected strain in operating performance, predominantly in the Medicare Advantage and Medicaid segments, as well as the commercial segment in certain geographic markets. Moreover, the sector faces elevated legislative and regulatory risks, potentially affecting multiple health insurance and pharmacy-related segments.

Eight of the 20 insurance groups we rate have a negative outlook, driven by either the revised capital adequacy criteria or operating performance stress. Since we revised our sector view to negative, we downgraded one company (Health Care Service Corp.) and revised our outlook to negative on two, UnitedHealth Group Inc. (UNH) and BCBS of Rhode Island.

We anticipate the health insurance sector will achieve overall revenue growth this year. However, earnings will remain pressured by factors such as negative Medicare Advantage rates, elevated medical utilization, and inadequate Medicaid rates. Additionally, some not-for-profit and mutual companies are reporting earnings pressure in their commercial business due to geographic-specific competitive and medical cost risks.

We believe stress on the sector's operating performance will be temporary. Regulatory restrictions and the sector's status as a "price taker" in Medicare and Medicaid will limit the sector's ability to reprice its products in those segments. In the commercial group market, companies can raise premium rates, though this can also take time to implement. Overall, we expect the sector's earnings improvement will be incremental.

The legislative and regulatory outlook remains fluid but is becoming increasingly negative. Congress may let the enhanced Affordable Care Act (ACA) subsidies (in place since 2021) expire at the end of the year, which could lead to a 20%-30% drop in ACA enrollment. At the same time, the budget reconciliation bill [likely lead to moderate to severe ACA and Medicaid enrollment losses, as well as new PBM regulations. The rating implications, if any, of these changes in 2025 (affecting future years) will depend on the scope and timing of the changes, as well as company-specific exposures, mitigation strategies, and key credit ratios.

Property/casualty

S&P Global Ratings' view on the U.S. property/casualty (P/C) sector is stable and the sector is operating from a position of strength. Supporting our opinion is a significant improvement in underwriting profitability for personal auto and homeowners' insurance, plus the expectation that commercial lines will continue to deliver strong underwriting results. The industry delivered record results last year posting a 96.6% combined ratio, which is the lowest combined ratio in the last five years, and the best since 2013. Capital adequacy remains a strength to the sector with about 95% of our rated insurers that have capital redundancy at the severe stress level—which is the second-highest level of our new capital model.

Cumulative rate increases in personal lines over the last several years is showing results, with personal lines writers posting underwriting profits. Strong rate momentum for most commercial lines continues to stay ahead of loss cost trends and most are expected to maintain their underwriting margins.

We are monitoring natural catastrophe losses, including their prevalence and severity, as it relates to overall profitability, especially in light of the California wildfires and other severe convective storms over the last few months which could create earnings pressure later, especially if this year proves to be above average for natural catastrophes; ongoing geopolitical tensions and proposed trade policy could weigh on market sentiment; how social inflation impacts profitability and reserve adequacy, and the adoption of digital technology.

Policy uncertainty related to trade/tariffs will likely have an impact on U.S. P/C insurers, however it won't be even for all. We think, overall, it will be manageable for our rated insurers as these insurers entered this phase from a position of strength with generally solid credit fundamentals. While the imminent risk that we monitor is credit market volatility, these tariffs could undermine consumer business and consumer confidence—which could weaken investment, employment, and consumer spending, and overall economic activity.

We continue to perform stress testing to gauge issuer-specific exposures and sensitivities and recently completed a stress test of U.S. P/C insurers to assess capital resilience to factors such as a significant decline in the equity market alongside weather-related losses that exceed their annual catastrophe budget. The test concluded that a portion of our rated insurers could experience capital pressure this year based on the stress parameters applied, however insurers would be able to recover over our forecast horizon.

Global reinsurance

Global reinsurers have significantly enhanced their operating performance in recent years. Despite global insured natural catastrophe losses surpassing $125 billion annually in 2023 and 2024, the sector has generated strong earnings. This success stems from structural changes introduced in early 2023, which enabled reinsurers to assume a lower share of losses driven by frequency rather than severity. This year, reinsurers are in a position of capital strength, supported by strong underwriting performance in short-tail lines in 2023-2024, robust net investment income, and recovering asset values over the past two years. As a result, our view of the global reinsurance sector remains stable.

Adverse developments in certain U.S. casualty loss reserves remain a key risk. We expect reinsurers will need to closely monitor casualty reserves amid ongoing challenges from economic and social inflation. According to PCS, the Los Angeles wildfires in the first quarter resulted in an insured industry loss of $36 billion. Reinsurers have absorbed a substantial portion of these costs within their annual earnings, reducing the catastrophe budget for the remainder of the year. Despite this, reinsurance demand is increasing, and although pricing is moderating particularly in the upper layers of reinsurance towers, we expect the industry to post strong results in 2025.

Bond, title, and private mortgage insurers

In the U.S. public finance market, the majority insured par exposure for the bond issuers, overall new issue insured penetration has consistently averaged 8%-9% over the past four years. Macroeconomic and political conditions are creating economic uncertainty at the same time municipal issuers have increased their new-issue sales activity to support capital plans. Potential credit stress caused by reduced federal funding and market uncertainty have produced a favorable environment for bond insurance.

This environment bodes well for the bond insurers as analysts anticipate another record issuance volume in the USPF market for 2025 driven by continued strong investment in local capital plans. Further supporting business growth has been a strong demand and better pricing in the secondary market due to inflation worries related to tariff policies and the negative impacted credit spreads. From an underwiring credit quality perspective, insured issues within the USPF market have an underlying credit quality of 'A/A-', with some 'AA-' issues also being wrapped. While pressures related to inflation or the potential for lower consumer spending could affect collections of economically sensitive revenues, the bond insurers' underwriting strategies and conservative capital management plans are supportive of the potential growth in exposure.

Mortgage demand is at historically low levels, as high mortgage rates and home prices continue to weigh on affordability. Policy uncertainty related to trade/tariffs, immigration, and federal workforce present near-term challenges for residential mortgage originations. The overall profitability and financial strength of the **title insurers** is dependent on their ability to manage operations throughout the mortgage and economic cycles. Given the level of expected home purchase originations and low levels of refinance volume due to elevated interest rates, we expect modest revenue growth for the sector. However, the average revenue per direct title order has increased, primarily due to an increase in the average revenue per order for residential purchase transaction stemming from higher home prices. Going forward margins may improve due to ongoing investments in data and innovative technologies to improve underwriting efficiencies. Capitalization in the title sector remains robust, benefiting from low losses and a profitable business. Title insurance results have remained strong across all rated insures, with each proving successful at expense control with a solid set of risk tolerance standards including oversight of agents and we expect this trend to continue.

While the U.S. economy and labor markets have remained resilient, policy uncertainty related to trade/tariffs, immigration, and federal cost-cutting initiatives presents near-term challenges. As per our revised base-case scenario, our economists expect the U.S. GDP growth to slow down, the unemployment rate to rise, mortgage rates to remain elevated, and housing starts to remain flat. As a result, we think housing affordability issues to persist. While the borrowers are adjusting to higher mortgage rates, and homebuilders are providing incentives to manage inventory, new business volumes for private mortgage insurers (PMIs) remains tepid. However, continued high persistency (lower lapse rates) has allowed the in-force book to grow modestly.

Despite the limited near-term growth opportunities (in underlying loan book), PMIs continue to maintain strong underwriting discipline and loan quality remains robust, with minimal risk layering. Mortgage delinquencies have ticked up in the second half of 2024, and they are slightly higher than the pre-pandemic levels. We expect the delinquency rates will continue to rise in the near term, partly driven by loan seasonality, and continue to believe the sector's combined ratio in 2025-2026 will average around 50%-55%. Combating these uncertainties include PMIs robust capitalization and continued benefit from significant embedded home equity, which serve as a buffer against potential losses. Though not immediately, but in the medium term, PMIs may also face regulatory uncertainty considering the signaled intentions to end the GSEs conservatorship, PMIs largest customer. However, the timelines and expected impact to the mortgage insurance industry is highly uncertain.

Related Research

- Global Economic Outlook Q3 2025: Unpredictable U.S. Policy Clouds Global Growth Prospects, June 25, 2025
- Economic Outlook U.S. Q3 2025: Policy Uncertainty Limits Growth, June 24, 2025
- Economic Outlook Canada Q3 2025: U.S. Tariff Uncertainty And Slower Population Growth Weigh On Momentum, June 24, 2025
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Appendix 1: Nonfinancial Corporate Sectors Outlook

For analytical contacts, please see Appendix 3.

Table 3

North America nonfinancial corporate sectors outlook

Sector	Comment
Aerospace and defense	Commercial aerospace market conditions remain strong, with supply tightness persisting amid continuing robust demand. Original equipment manufacturer (OEM) backlogs have extended into the next decade, and we don't anticipate any appreciable impact on sector cash flows from the recent slowing in passenger air travel and delivery deferrals by certain airlines. Similarly, demand for maintenance, repair and overhaul (MRO) and replacement parts is also showing no signs of easing, The need to keep older aircraft in service longer than previously anticipated persists—mainly due to constrained supply (i.e. aircraft deliveries continue to ramp-up, engine reliability issues that are being addressed). Boeing continues to receive the most attention mainly related to the improving pace of 737 MAX output in recent months amid well-documented production challenges, regulatory oversight, and pending variant certifications. Inflationary pressures remain a potential headwind, but not to an extent that is expected to pressure ratings. For defense companies, we expect continued stability as defense budgets are likely to be well funded. Elevated global security risks and active conflicts could translate into higher spending in the next several years. The $1 trillion presidential budget request for fiscal 2026 reflects ambitions to implement a layered missile defense for the continental U.S. is noteworthy. Moreover, strong international demand (in the EU, for example, namely intended to address threats posed by Russia) presents potential upside to sector prospects. We believe that most commercial aerospace and defense issuers are well positioned to manage tariff-related uncertainty in the next 12 months.
Autos	Our revised forecasts for the North American auto industry incorporate narrowing cushions at households to absorb the back-to-back macroeconomic shocks of high vehicle prices, ongoing inflation, rising unemployment, and high monthly payments for auto loans and leases. We now expect that auto sales will remain at or below 15.5 million units (40-year median) through 2027. Incremental downside to our base-case stems from China's export restrictions on seven rare earth elements, effective starting April 4, which will have a significant impact on automotive supply chains. The U.S. auto industry will also adjust to a slower growth environment for battery electric vehicles and plug-in hybrids in 2025-2026 per revised S&P Global Ratings estimates Prolonged tariffs on all auto imports into the U.S. along with tariffs on steel and aluminum will have a multibillion-dollar impact on the earnings of North American automakers and suppliers. We expect margin declines for most issuers along with high cash flow volatility this year and next, leading to credit deterioration particularly for some lower-rated auto suppliers. The first-order impact for suppliers will be manageable (passthroughs to OEMs for Tier 1s); and USMCA-compliant parts aren't tariffed. But the second-order impact is negative—lower volumes and a weaker mix if consumers trade down or OEMs reduce content to avoid price increases.
Building materials	Elevated interest rates and a cautious consumer will continue to be a drag on revenue growth. First-quarter operating performance was somewhat below our expectations and the impact from tariff increases is likely to pressure margins further in the coming quarters. Still, we expect issuers to take measures to temper the impact of tariffs, including price increases, supply chain adjustments, and cost actions. Demand softness in construction end markets may persist longer than previously expected due to a combination of slower than expected interest rate declines, persistently high material costs, and weakening consumer confidence. We expect the negative rating bias to grow as we expect lower-rated issuers could face thinning credit metrics cushion from margin pressure and higher refinancing costs.
Business and technology services	The sector's ratings outlook bias is shifting increasingly negative, mostly due to the preponderance of highly leveraged capital structures burdened by persistently high cash interest payments amid weak earnings growth for more narrowly focused businesses and unhedged interest rate obligations. Ongoing pressure on mortgage origination due to higher interest rates has hurt cash flows for several issuers. Smaller tech service providers are facing IT spending headwinds, project delays, and pricing pressures. Despite tightened client budgets and elongated sales cycles, we expect steady revenue growth for most issuers rated 'BB+' or above as they remain committed to conservative financial policies. For most larger tech issuers and value-added resellers, we assume global IT spending growth will slow to 5%-7% this year compared to our previous forecast of 9%. Demand recovery is strong in areas such as digital transformation, public cloud migration, cybersecurity, and automation. A lot of large clients have optimized costs through automation and vendor consolidation, which frees up budgets for executing more digital transformational projects in cloud and AI. First-order tariff effects are less pronounced (largely passed through to their clients, many of them form a smaller share of wallet for the clients). Our focus is more on indirect effects, such as inflation, volatile working capital, supply chain disruptions, and fluctuating customer demand, will be more prominent over time, especially for industries tied to SMBs or those with global exposure. Sub-sectors such as IT service providers, cybersecurity firms, and payroll processors are less affected by tariffs, as their revenue is primarily service-based. Sectors with significant exposure to cross-border goods (logistics, distribution) will feel more direct impacts.

	The bigger risk across all sectors comes from inflationary pressures, slowed demand, and liquidity challenges. These impacts are more noticeable in industries reliant on SMB customers, such as IT solutions providers with lower-tier clients or those tied to discretionary spending.
Capital goods	Credit quality in global capital goods looks steady and robust, with the negative outlook bias nearing a decade low of 5%. Most of the negative bias, however, remains among the smaller, highly leveraged issuers, which represent about 20% of the rated debt in the portfolio. Yet, caution prevails in anticipation of a second-half rebound in revenue after two years of destocking. Capital spending in utilities and technology supports steady demand overall, but large investments in other industries are proceeding more cautiously because of economic uncertainty, changing capital costs, and higher interest rates, all of which affect the returns for multi-decade investment horizons. We estimate that the current 14% effective tariff rate in the U.S. could push up total costs in the sector by 5%-7% in the next year. Based on that, we expect price increases of 3%-4% will be necessary to hold profits steady. Risk to ratings appears modest overall in U.S. capital goods, given expected pricing actions, muted direct exposure to tariffs, and generally good credit buffer. In a worst-case scenario, EBITDA in the sector could drop 15%-20% for tariff costs, which would approximate a normal cyclical profit downturn. Most issuers rated 'BB' and higher have built good credit buffers with steady earnings and little new debt. In contrast, the capital goods portfolio we rate has a large cohort of financial-sponsor-owned companies that face rising maturities this year and next, which is taking a toll on credit quality. We have a negative rating outlook on almost one-third of those 50 issuers despite good industry conditions, mostly because these companies underperformed profit expectations for several years. Refinancing these issuers' $60 billion of debt at higher rates in the next year or two will be daunting and is already contributing to defaults and debt restructuring.
Chemicals	Demand at chemical producers will get a small boost as the negative effects of destocking subside. Still, it's too early to definitively conclude on the extent of the recovery following two years of weak demand, especially in subsectors such as crop-protection chemicals. The potential for tariff-led challenges to global trade and attendant demand weakness in key chemical end markets such as auto, and cost increases for some chemical producers, remain risks. Our base case continues to be for EBITDA increases for most subsectors this year, as destocking is less of a factor. An important contributor to any gradual EBITDA improvement, would be cost-reduction initiatives to combat the challenging market conditions. Some subsectors like petrochemicals face capacity buildups that will depress earnings not just this year but in 2026-2027, extending a trough in this subsector that is unprecedented in its duration. A large minority of ratings continue to have negative outlooks or are on CreditWatch negative. This reflects in part the uncertainty related to the pace and extent of earnings recovery.
Consumer products	We expect negative rating trends to continue. Through the first five months of the year, our downgrade to upgrade ratio exceeded 2x. Tariffs and lingering inflation fatigue continue to weigh on discretionary spending. Tariffs are impacting all consumer subsectors, but primarily durables goods. Year-to-date we have taken tariff-related negative rating actions on 7% of consumer issuers. Overall, speculative-grade credits remain the most pressured given the weaker consumer and higher interest rate environment. Consumer has 13% of issuers in the 'CCC' category, indicating greater default risk. Consumers are spending their savings and adding credit card debt, and the wealth and income gap is widening. These factors along with higher costs for essentials such as shelter, food, and services have pressured discretionary spending. Demand remains weak in discretionary categories and retailers and manufacturers are more cautious with their pricing actions. Demand for large-ticket durables such as household appliances and mattresses hasn't recovered. Volumes for consumer staples such as packaged food remain weak, and consumers have traded down to private label. Higher interest rates will pressure consumers who use credit card debt and lower turnover in the housing market will delay recovery in demand for durables or home-related categories.
Containers and packaging	U.S. containers and packaging issuers have been slowly climbing out of a hole following massive customer destocking that began in 2023, as a sudden drop in demand coincided with high excess customer inventory. They emerged from the destocking issues this year only to run into a tariff war, which casted further uncertainty on the industry. As some of the tariff impacts are becoming clearer, we believe most packaging issuers won't be directly affected by tariffs, as most operations are run at a local level and pass-throughs have proven effective in the past. Can producers may feel some impact from the aluminum tariffs, but this is expected to be minimal and be passed through to customers. Still, packaging issuers are contending with a low-growth economy, effects of previous inflation, diminished consumer purchasing power and consumer confidence, unsteady labor markets. Tariffs could further lower consumer buying power, and the indirect impact of lower demand could be impactful to cash flows, and ultimately ratings, particularly on the lower end of the ratings spectrum. Borrowing costs remain elevated, which greatly hinders the lowest speculative-grade issuers with high debt leverage.
Health care and pharmaceuticals	Our outlook on healthcare services industry remains stable, after having revised it from negative near the beginning of this year, on the return to largely normalized volumes and acuity and expectations of stable EBITDA margins and improving cash flow generation. However, there are wildcards for the industry, including potential cuts to Medicaid in the budget reconciliation bill, H.R. 1 and health insurers are reporting elevated medical cost ratios and are looking to lower reimbursement rates and/or utilization. Inflationary costs, on labor and supplies, have moderated, though remain elevated and the tariff costs on medical supplies will increase pressure on providers efficiency efforts. Our rated universe is also heavily populated by highly leveraged private-equity-owned healthcare service providers and the persistent elevated interest rate environment is also hurting cash flow performance. While we may see more negative ratings actions in the sector for the second half, we still expect the ratings deterioration we saw in the sector to moderate from 2024 levels. While our outlook for pharma remains stable, there is a high level of legislative risk for the industry, elevating uncertainty. Specifically, the threat of U.S. tariffs on the industry and the various executive orders on drug pricing including a call for most favored nation (MFN) pricing. Ongoing changes and cuts to the FDA and NIH is adding to the longer-term

	uncertainty on R&D spending and new drug approval timelines. Still, we think the likelihood of major change to the industry in the near term remains low, and the industry has the capacity and mitigants to absorb and blunt the financial impact, at least initially, should some of these game changing legislations be implemented. In the meantime, we continue to expect the industry to benefit from solid mid-single digit growth and continued high margins, especially in GLP-1 weight-loss drugs and new classes of oncology treatments. Pharmaceutical companies continue to demonstrate adequate pricing power, patent expirations are relatively moderate over the next couple of years, and we expect mid-single-digit and higher growth in 2025-2026. The Medicare drug price negotiation feature of the Inflation Reduction Act goes into effect next year, though based on feedback from companies, negotiations have been reasonable thus far and the drag on growth manageable.
Homebuilders	The housing market is cooling as mortgage rates remain elevated and economic growth slows. We're seeing waning demand from first-time home buyers as affordability challenges worsen. Resale home supply is rising and, in some markets, specifically Florida and Texas, that supply outweighs demand. This supply-demand imbalance is having an impact on pricing as house prices decelerate and incentives continue to increase in some of these communities. As the builders' expectations for the spring selling season is now slower than expected, we assume the level of incentives will remain elevated heading into the second half as builders will need to move inventory as they prioritize pace over price. Builders were lowering new starts in the first quarter, and we expect that to continue through midyear. This reduced level of activity will continue to pressure gross margins throughout the year. Still, we expect revenues and deliveries to be modestly higher year-over-year. However, declining gross margins will hurt EBITDA, and we now forecast that EBITDA for our rated homebuilder universe will be modestly lower this year.
Hotels, gaming, and cruise	Heightened economic uncertainty, persistent policy unpredictability, ongoing trade conflicts, and market volatility may continue to weigh on consumer and business sentiment, and travel and entertainment spending decisions can be delayed or canceled. This is already hurting hotel demand, particularly at the low end. We believe tariffs present a near- to medium-term indirect risk to the lodging industry related to potential incremental weakness in consumer and business demand primarily driving lower leisure and business travel volumes, and we recently lowered our 2025 U.S. revenue per available room (RevPAR) forecast range by 100 basis points (bps), to flat to up 2%. 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 with limited pass-through ability. Several other leisure sectors including casinos, cruise, fitness, regional theme parks and live events will be sensitive to weakening consumer confidence. However, the impact of tariffs could be mitigated for some entertainment options if consumers choose to spend on value drive-to-entertainment options compared to expensive air travel and land-based vacations. In addition, solid forward bookings for 2025 in the cruise industry strongly suggest any potential negative revenue impact from a slowing consumer is unlikely until next year, at the earliest. 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.
Media and entertainment	Secular pressures and the ongoing transition to digital distribution continue to hurt many legacy media sectors and companies, but our outlook on the sector is stable as these trends are already incorporated into our ratings. Continued healthy demand for content—including film, episodic TV, music, video games, sports leagues, concerts, books, newspapers, magazines, and even consumer-generated content—underlies our stable view on the sector. After years of overspending on content, the industry reset content budgets. Content creation will never be a stable, predictable business but it may have moved toward being a more rational one. The landscape for streaming continues to evolve as the fight to grow subscribers at all costs has dissipated and all major industry players have shifted their strategies to improving profitability. Several legacy media companies have crossed the breakeven profitability line for their streaming services and are now faced with the next challenge: to build subscriber and advertising scale and improve profitability. This is an important year for these companies to prove that streaming can be sustainably profitable. The rate of improvement will be important for media companies to improve credit metrics and to offset the secular challenges in the linear side of the business. Near-term U.S. advertising remains weak as advertisers pulled back or paused advertising plans in the face of economic uncertainty, driven by changing tariffs, and weakening consumer confidence. The long-term structural impact to legacy media platforms, such as TV, is more uncertain as recent history shows that economic weakness has led to permanent shifts in ad spending away from legacy platforms. National TV advertising may be most vulnerable to this trend. There remain subsectors within media that face an uncertain future. Five years of secular pressures, including two years of a global pandemic, have left some segments of the media sector a shell of their former selves. Consumption has become so fragmented that media's cultural impact is weakened. And the quality difference between certain professionally produced and user-generated content is shrinking. AI is accelerating this.
Metals and mining	Steel and aluminum prices in the U.S. jumped with tariffs, with indications of lower volumes being pulled through by weaker demand. Metal buyers faced higher input costs than global competitors, even before tariffs got implemented, so profitability downstream depends on higher prices for fabricated products. Steel tariffs in the U.S. have supported the credit quality of American steel producers since 2018 with higher domestic prices, volume gains at the expense of imports, and stronger profitability. Aluminum tariffs boost the profitability of the four smelters operating in the U.S., but limited capacity for more domestic output has pushed the U.S. Midwest aluminum premium to an all-time high. The U.S. has significant resources of iron, coal, scrap, and spare capacity to make more steel profitably. Aluminum smelters, on the other hand, have been closing for decades and need huge amounts of electricity before increasing output. In mining, flexible shareholder-return policies are kicking in, preserving cash and supporting credit quality after prices and cash flows weaken from cyclical highs. Financial discipline has reduced the capacity or willingness to deploy cash for large

	corporate development and provides some balance sheet protection for projects underway through lower dividends. Total debt in the sector is lower than five years ago, and profits are about 20% higher since the 2021-2022 inflation spike.
Midstream energy	The North American midstream energy industry's credit quality continues to be resilient, with strong balance sheets and excess cash flow after capital spending and dividends in most cases. Demand from North American LNG and the growth of AI datacenters will continue to provide a tailwind for future natural gas infrastructure development. However, grid constraints and the hurdles of completing new pipeline infrastructure could place the credit benefits for the industry beyond our current ratings outlook of two to three years. Given the policy focus of the Trump administration, we expect an acceleration in development of traditional energy infrastructure to move natural gas and natural gas liquids to export centers around the Gulf Coast. While renewable development will continue, we believe it will slow given the uncertainty with tax incentives from the IRA and lack of substantial support from the administration. Cash flow generation remains robust, with a focus on infrastructure development in West Texas to increase egress to the Gulf Coast for export markets. The lack of egress from regions like the Marcellus Shale, and the inability to build new pipeline infrastructure in many areas could limit production growth, which would ultimately affect midstream companies that rely on new well development. The larger, diversified companies are at a distinct advantage; stronger balance sheets, more financial flexibility, and more bolt-on opportunities in their vast geographical footprints. In the same regard, we view the smaller more regional peers at a distinct disadvantage. We expect modest capital spending increases, primarily among the large, diversified companies that are finishing multiyear growth initiatives or bolt-on organic growth projects.
Oil and gas	Oil prices rapidly increased following the start of the conflict between Israel and Iran. The current price of WTI/Brent reflects a meaningful political risk premium and belies the weak underlying supply and demand fundamentals that were pressuring prices before the conflict. Oil prices were on a slow decline following the OPEC+ implementation of reintroducing the 2.2 million bbl/d of production it had been keeping offline to support the oil markets. This impact has been magnified due to concerns about global demand and the impact of tariffs. After two years of demand growth outstripping supply, we were expecting oil markets to shift into oversupply conditions for the next two years. Growth from non-OPEC production, particularly from North America, Brazil, and Guyana was likely to outstrip slowing demand particularly from China as it rapidly moves toward an EV society and converts its diesel truck fleet to compressed natural gas. What will determine the direction of oil prices is just how long this conflict will last and the extent. But for now, producers are getting a bit of reprieve. The Henry Hub has entered a period of tighter fundamentals brought on by a cold winter and producers laying down rigs and lowering production. Indeed, buoyed by exceptionally strong demand due to the cold weather, the storage surplus that has existed in the past two years and kept a lid on prices has now been eliminated. It appears the U.S. lower 48 gas inventories may be entering a prolonged period of tightness as Standard & Poor's Commodity Insights is projecting LNG feedgas demand will increase by more than 6 billion cf/d from October of last year through March 2026, which will keep the storage levels below the five-year averages and keep gas prices elevated. We assume production will continue to lag demand given the six-month lag between drilling and production, and as producers focus on generating cash flow and returning value to shareholders. We remain sanguine on the long-term lower 48 prospects for natural gas prices as SPCI forecasts a 95% increase or a 12.5 billion cf/d increase in gas demand related to LNG feedgas demand in 2029 to 25.7 billion cf/d.
Oil refineries	The performance of North American refiners will likely be flat to slightly positive this year. The industry came off a particularly weak fourth quarter with margins squeezed due to excess inventory and weaker demand. We believe refining margins have moderated and are reverting to more of a midcycle average, which in some cases could be 40%-50% lower than the past several years. The main drivers of lower margins are excess supply and somewhat lower demand for gasoline and diesel. We also expect utilization to dip to the low 90% area. We expect refiners to continue to focus on rewarding shareholders, mostly through buybacks and higher dividends, while keeping higher cash balances for additional liquidity. Balance sheets still have significant cushion in credit ratios and will likely be able to absorb lower cash flow, the margin correction, and shareholder rewards. Refineries continue to explore conversions of conventional capacity to renewable fuels such as renewable diesel and sustainable aviation fuel. Renewable margins have been weak due to lower prices for credits in California and renewable identification number (RIN) prices.
REITs	Operating performance remained in line with expectations in the first quarter with improving leasing momentum across most property types. The recovery in the office sector remains mixed as the West Coast office market remains subdued while East Coast and Sunbelt regions are showing stronger signs of recovery. Still, we're seeing net effective rents recovering in most markets despite still-high incentives as demand is rebounding, particularly for higher-quality assets. Retail REITs remain resilient despite concerns around the impact of rising tariffs on tenants as retailers focus on growing the more profitable store channel vs e-commerce while supply remains low. Fundamentals for rental housing remains resilient as renting is still more affordable than buying a home in many markets due to the elevated mortgage rates. We expect occupancy for rental housing to remain stable and for move-outs to remain low in most markets, supporting low single-digit revenue growth for most multifamily REITs. Demand for industrial real estate could soften amid slowing economic growth and uncertainties related to tariffs, delaying tenant leasing activity or new development ramp up. Still, we believe industrial REITs can maintain stable credit metrics, supported by mark-to-market rent opportunities and tenant retention of 70%-80%. Positive rating actions have outpaced negative ones so far this year, with three upgrades compared to two downgrades. The negative rating bias has moderated to 15% of ratings compared to 11% of ratings with positive outlook.
Regulated utilities	Our sector outlook remains negative, reflecting the high percentage of utilities with a negative outlook (more than 20%). Last year was the fifth consecutive year that downgrades outpace upgrades, demonstrating the challenges affecting credit quality. The industry faces rising physical risks from climate change and high cash flow deficits that may not be sufficiently funded in a credit-supportive manner. Furthermore, we expect that capital spending and cash flow deficits

	will continue to grow, primarily reflecting the expansion data centers, which should boost the sector's electricity sales growth by about 1% after decades of flat to negative sales growth. However, if this transformative growth isn't funded in a credit supportive manner, credit quality could be further negatively impacted.
Retail and restaurants	We expect negative rating trends to continue. Through the first five months of the year, our downgrade-to-upgrade ratio was 1.8x. About 25% of the portfolio has negative outlooks, and 10% of ratings are in the 'CCC' category. Tariffs and lingering inflation fatigue continue to weigh on discretionary spending. Retailers with the tariff exposure are ones with higher proportions of private label offerings or directly source from suppliers and sell more hard goods, apparel, and discretionary products. Small, narrowly focused retailers will suffer more. They will have less negotiating power with suppliers and less pricing power with consumers. Industry leaders such as Walmart, Amazon, and Costco have negotiating power with their suppliers and will attempt to mitigate as much as they can before passing along the costs to consumers. They also have pricing power given their scale and unique value propositions. Walmart indicated that it will raise prices for consumers due to tariffs, especially in nonfood categories. We expect other retailers will strategically raise prices as necessary to mitigate tariff effects.
Technology	Our bear-term expectations for the tech sector overall remain unchanged to modestly lower. Although trade related uncertainties remain, the tariff rate of 10% (lower than the tariffs introduced in April) and the temporary exemption of U.S. import tariffs for major tech products significantly lowers the negative effects on the tech sector. Meanwhile, we modestly lowered our IT spending growth expectation for the year to 5%-7%, from 9% established in the beginning of the year, in anticipation of slightly weaker buying patterns in the second half in the face of continued economic uncertainties while factoring from likely pulling forward of demand in the first half. AI and cloud computing-driven demand continues to boost data center IT spending, and we expect growth to remain solid, albeit modestly decelerating, over the coming years and we expect the significant IT spending to broaden from data center investments to enterprises and consumers. A deteriorating economic environment and lower inflation would present revenue and margins headwind to tech vendors and service providers. A declining interest rate trajectory and a favorable debt capital market would be important for the sector's large number of rated issuers in the 'B' category or lower as they tend to have significant variable-rate debt outstanding, lower free cash flow-to-debt ratios and, for some, dwindling liquidity.
Telecom	We expect earnings to increase 3%-5% this year for U.S. telcos due to solid wireless service revenue growth of around 3%, low handset upgrade rates, and increasing penetration of fiber to the home (FTTH) broadband service and greater economies of scale. That said, we don't expect meaningful leverage improvement as most of the carriers have reached or are approaching their leverage targets following several years of elevated capex to fund spectrum deployments. As such, we expect the carriers to allocate more money to shareholder returns. At the same time, telcos with dense fiber networks should benefit from increasing data demand associated with AI, although this could result in higher capex. In cable, we have tightened thresholds for several operators due to broadband subscriber losses and earnings pressure because of increasing competition from fixed wireless access and FTTH. At the same time, cable providers are upgrading their networks to offer faster data speeds, which will increase capex and contribute to lower levels of free cash flow. While the wireline operators are improving top line trends and earnings, capex to support FTTH deployments, high interest rates and elevated debt burdens are hurting free cash flow and leverage. Some of these issuers are looking at alternative financing sources, such as asset-backed securities, to fund their fiber builds.
Transportation	Our transportation outlook is predominantly stable, with pockets of pressure. For airlines, the recent emergence of weaker domestic demand has tempered our expectations for earnings across the sector. There is a high degree of uncertainty regarding prospective industry fundamentals, though we believe visibility will improve as we progress through the strong summer travel season. For now, we assume modest capacity growth by U.S. airlines this year, with relatively flat average fares and higher unit costs. For the larger carriers, growth in earnings and the pace of deleveraging will be constrained. For the smaller players with limited exposure to higher-margin premium, loyalty, and international revenue, continuing margin and cash flow pressure are key risks to liquidity. Our outlook for railroads is generally unchanged, and we assume ratings to remain stable. Slowing economic growth is the main headwind to freight volumes, but not to an extent that materially affects our cash flow estimates. We assume adherence to well-established financial policies will persist, and expect railroad issuers would temper share repurchases, if necessary, to limit downside to credit measures. New strategic initiatives announced by the larger package express players remain topical and add a degree of uncertainty to prospective earnings, but our ratings outlooks remain stable. Alternatively, excess trucking capacity has persisted much longer than we envisioned. Subdued pricing continues to pressure a large share of ratings in the trucking and logistics sectors.
Unregulated (merchant) power	Secular increase for data centers, electrification of heating, electric vehicles, large loads (onshoring of manufacturing), and hydrogen production has lifted power prices, especially for 2026-2027. Power prices in regions like Texas are $10-12/MWh higher for 2027 compared with what they were in 2024. However, we expect volatility to be higher too, and regions like PJM and ERCOT will be tested in the summer. We also registered a significant increase in capacity prices in PJM for delivery year 2025- 2026 and expect more of the same for delivery year 2026-2027. Meanwhile, in California, resource adequacy (RA) payments continue to remain strong, albeit they have come off their record highs. We see the current phase of tariff and IRA uncertainty as broadly unfavorable, especially for the competitive renewable sector's credit quality. While a slowdown affects equity valuations more, it would eventually affect credit quality in the form of reduced EBITDA, or from an increase in the cost of debt for companies that have to refinance. For some companies we don't see a slowdown as necessarily unfavorable. In order to claim bonus credits allowed by the IRA, many companies have elevated capital spending without concomitant equity financing. That had resulted in a deterioration in financial thresholds. For these companies, a slowdown would improve financials measures. For generators that own conventional dispatchable generation (gas fired and nuclear), we see the environment as supportive of credit quality.

Appendix 2: Economic Data and Forecast Summaries

Table 4

U.S. – S&P Global Ratings economic outlook

	2024	2025f	2026f	2027f	2028f
Real GDP (year % ch.)	2.8	1.7	1.6	2.0	2.0
Real consumer spending (year % ch.)	2.8	2.4	1.9	2.1	2.4
Real equipment investment (year % ch.)	3.4	4.5	1.6	4.4	4.3
Real nonresidential construction (year % ch.)	3.5	(0.7)	1.2	1.1	1.4
Real intellectual property investment (year % ch.)	3.9	2.5	2.7	3.1	3.5
Real residential construction (year % ch.)	4.2	(0.7)	0.8	2.4	2.1
Consumer price index (year % ch.)	3.0	2.9	2.8	2.4	1.9
Core CPI (year % ch.)	3.4	3.0	3.1	2.4	2.4
Unemployment rate (%)	4.0	4.3	4.6	4.2	4.0
Housing starts (annual total in mil.)	1.37	1.32	1.35	1.38	1.44
Federal funds rate (%)	5.1	4.2	3.4	3.1	3.1
10-year Treasury note yield (%)	4.2	4.3	3.7	3.7	3.8

Note: All percentages are annual averages, unless otherwise noted. Core CPI is consumer price index excluding energy and food components. f—forecast. Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, the Federal Reserve, S&P Global Market Intelligence Global Link Model, and S&P Global Ratings Economics' forecasts.

Table 5

Canada – S&P Global Ratings economic outlook

	2024	2025f	2026f	2027f	2028f
Real GDP (year % ch.)	1.6	1.5	1.5	2.0	2.3
Real consumer spending (year % ch.)	2.4	2.4	1.8	2.3	2.1
Real nonresidential fixed investment (year % ch.)	(2.4)	1.0	(0.8)	1.8	1.4
Real residential investment (year % ch.)	(0.6)	2.4	2.1	1.8	1.9
Consumer price index (year % ch.)	2.4	2.2	1.9	2.0	2.1
Core CPI (year % ch.)	2.6	2.6	2.3	2.2	2.1
Unemployment rate (%)	6.4	6.9	6.8	5.8	5.5
Housing starts (annual total in thousand)	244.3	226.0	221.0	224.0	222.0
Bank of Canada policy rate (% year-end)	3.25	2.25	2.25	2.75	2.75
Government of Canada 10-year bond yield (%)	3.3	3.0	2.9	2.9	2.9
CAD/USD exchange rate (per US$1, period average)	1.37	1.39	1.35	1.32	1.26

Note: All "year % ch." are annual averages percent change. Core CPI is consumer price index excluding energy and food components. f—forecast. Sources: Statistics Canada, Bank of Canada, S&P Global Market Intelligence Global Link Model, and S&P Global Ratings Economics' forecasts.

Appendix 3: List Of Analytical Contacts

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