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Ratings

Global Credit Outlook 2025

# Promise And Peril

spglobal.com/ratings/Outlook2025

Dec. 5, 2024

*This report does not constitute a rating action.*

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# Agenda

- **Moderator**: Alexandre Birry, Global Head of Credit Research & Insights
- **Key Themes & Key Risks:** Gregg Lemos-Stein, Chief Analytical Officer, Corporate Ratings
- **Global Economic Outlook:** Paul Gruenwald, Global Chief Economist
- **Global Financing Conditions And Rating Trends:** Nick Kraemer, Head of Ratings Performance Analytics
- **Regional Credit Conditions:**
  - David Tesher, Head of North America Credit Research
  - Eunice Tan, Head of Asia Pacific Credit Research
  - Jose Perez-Gorozpe, Head of Emerging Markets Credit Research
  - Paul Watters, Head of EMEA Credit Research
- **Q&A**

# Key Themes

- **Supportive but complicated:** As economic soft landings materialize in many major economies and policy interest rates begin their descent, global credit conditions look set to remain supportive in 2025—with the caveats that there will be region- and country-specific divergence, and a backdrop of geopolitical uncertainty that threatens to reignite risk-aversion among investors and affect capital flows.
- **Solid economic growth for 2025:** With easing inflation, resilient labor markets, and sturdy consumer spending bolstering economic activity in most developed markets, we expect steady growth next year. We forecast global economic expansion of 3% in 2025 as growth slows in the U.S. and China (the world's two biggest economies), the eurozone continues to recover, and emerging markets find their footing.
- **But slower interest rate descent ahead:** At the same time, central banks have started lowering their key interest rates, and we expect more monetary-policy easing to come, albeit at a variable pace among jurisdictions. More importantly, the descent will be slower than the rise, with rates certain to settle at higher levels than we saw during the long stretch of cheap money after the global financial crisis.

## Global credit conditions: Key highlights

### Slower GDP growth in 2025

Global

**3.0%**

| U.S. | Eurozone | China |
| --- | --- | --- |
| **2.0%** | **1.2%** | **4.1%** |

### Federal funds rate forecast

2025 average

**3.9%**

ECB refi rate (end-2025)

**2.65%**

### 'B-' and below corporate debt outstanding

Global

**$1.3 trillion**

| U.S. | Europe | ROW |
| --- | --- | --- |
| **$875.0 bil.** | **$308.8 bil.** | **$89.8 bil.** |

### Net outlook bias

As of Nov. 15, 2024

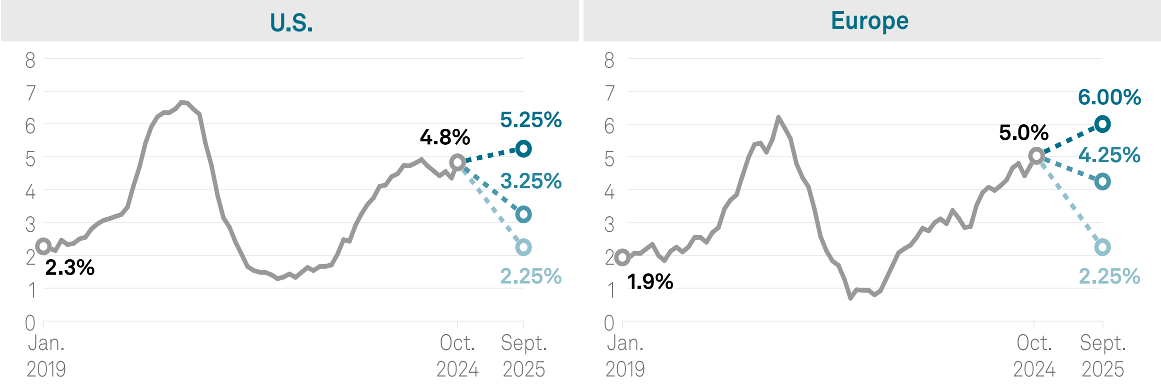
| IG | SG | 'B-' and below | 'CCC' and below |
| --- | --- | --- | --- |
| **-9.6%** | **-17.6%** | **-31.6%** | **-66.8%** |

### Trade vulnerability

Imports and exports as a % of GDP

| U.S. | China | ROW |
| --- | --- | --- |
| **27.0%** | **38.4%** | **62.5%** |

## Trailing-12-month speculative-grade default rate and September 2024 forecast




*ROW--Rest of world. YTD--Year-to-date. Sources: World Bank, S&P Global Ratings. Most recent published default forecasts: "U.S. Speculative-Grade Corporate Default Rate To Fall Further To 3.25% By September 2025," Nov. 15, 2024, and "European Speculative-Grade Default Rate Should Fall To 4.25% By September 2025," Nov. 18, 2024.

# Global | Top Risks

| | Risk level | Risk trend |
|---|---|---|
| Geopolitical tensions threaten supply chains, market sentiment, and budgets | High | Worsening |
| Growing protectionism threatens global trade | High | Worsening |
| The interest rate descent could disappoint | Elevated | Worsening |
| A sharper global economic slowdown would lead to greater credit stress | Elevated | Unchanged |
| Global real estate markets are facing multiple challenges | Elevated | Unchanged |
| **Structural risks** | | |
| Climate risks intensify, energy transition adds to costs | Elevated | Worsening |
| Cyberattacks and the potential for rapid technological change threaten global business and government infrastructure | Elevated | Worsening |

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.

Global Economic Outlook

# Buckle Up

**Paul Gruenwald**

Global Chief Economist

# Key Takeaways

- Even before taking office, a second Trump administration is already moving the macro-financial needle and raising downside risks. The degree of ultimate policy implementation is a key unknown.
- Our preliminary policy read on the new U.S. administration is that positive growth effects will be minimal, inflation pressures will rise, and the Fed is likely to stop cutting rates earlier. This will lead to tighter financial conditions, a stronger dollar, and a more complicated macro picture elsewhere.
- Owing to our "wait and see" approach, our GDP growth forecasts have not moved much since the previous round, other than incorporating changes related to base effects.
- Risks include the full implementation of the proposed U.S. agenda taxes, trade and immigration; the end of resilient consumer spending and labor demand; and bond market stress. AI is an upside.

# Big Three Economies | Further Divergence In Macro Stories

## U.S.

- **Economy still running a bit hot.**
- Q2, Q3, Q4 GDP growth 2½% to 3%
- Unemployment low at 4.1%
- Big wealth gains (housing, stocks)
- Productivity boost from AI and IRA
- Fed to ease gradually from now

## Eurozone

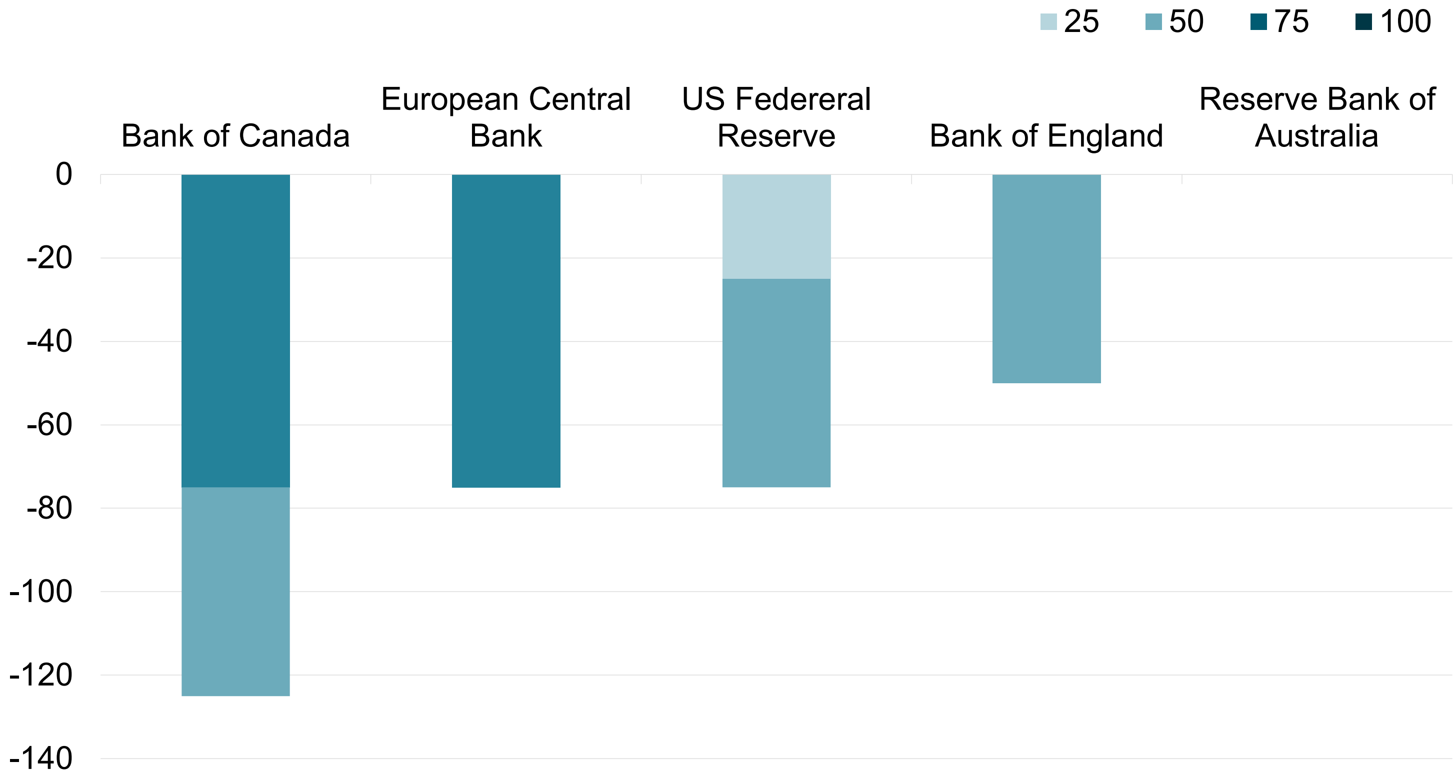
- **Recovering from a near recession**
- Growth climbing, Q3 above exp
- Germany weaker, Spain stronger
- Labor market (curiously) tight
- ECB cuts: June, Oct and Nov
- Competitiveness a key issue

## China

- **GDP growth target of 5% at risk**
- Property downturn still a drag
- Competitive in key sectors: solar, EV
- Latest policy moves too little
- Trade still closely linked to the U.S.
- Demographic challenges to growth

# Rate Cuts In Full Swing | Will Paths Change Post-U.S. Election?

Major central banks: rate cuts this cycle
Basis points



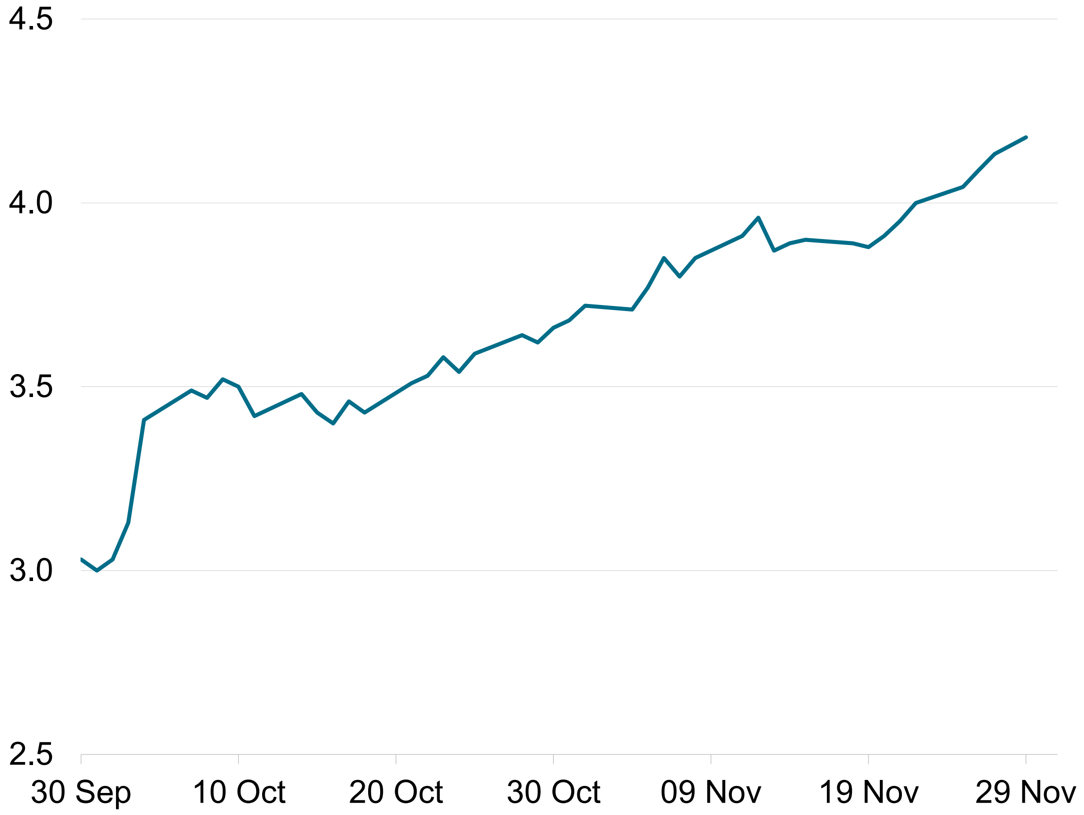

Source: Central banks.

**Advanced economy rate cuts began in mid-2024. So far:**

- 125 bps cuts from Bank of Canada
- 75 bps cuts from ECB
- 75 bps cut from U.S. Fed
- 50 bps cuts from Bank of England
- Fed cut provides policy space for EMs to cut more aggressively
- We still see mostly 25bps cuts this cycle in our baseline
- In a recession scenario, rate cuts will be larger and come faster

# Fed Funds Futures and USD Index | Moving Higher Post-Election

Fed Funds Futures: October 2025 meeting




U.S. dollar index (DXY)


Sources: CME (Fed Funds Futures), Wall Street Journal (DXY).

# Q1 2025 CCC | GDP Growth Forecasts

## GDP growth forecasts

Annual percent

| | Actual | | Forecast | | | Change | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2024 | 2025 | 2026 | 2027 |
| **U.S.** | 2.9 | 2.7 | 2.0 | 2.0 | 1.7 | 0.1 | 0.1 | 0.1 | -0.1 |
| **Eurozone** | 0.5 | 0.8 | 1.2 | 1.3 | 1.2 | 0.0 | -0.1 | -0.1 | -0.1 |
| Germany | -0.1 | -0.1 | 0.9 | 1.1 | 1.1 | -0.2 | -0.3 | -0.2 | 0.0 |
| France | 1.1 | 1.1 | 1.0 | 1.2 | 1.1 | 0.0 | -0.2 | -0.3 | -0.1 |
| Italy | 0.8 | 0.5 | 0.9 | 1.1 | 1.0 | -0.4 | -0.2 | -0.1 | -0.1 |
| Spain | 2.7 | 3.1 | 2.5 | 2.0 | 2.0 | 0.4 | 0.4 | 0.0 | 0.0 |
| **U.K.** | 0.4 | 0.9 | 1.5 | 1.6 | 1.5 | -0.1 | 0.3 | 0.0 | -0.2 |
| **Asia-Pacific** | | | | | | | | | |
| China | 5.2 | 4.8 | 4.1 | 3.8 | 4.3 | 0.2 | -0.2 | -0.7 | -0.2 |
| Japan | 1.7 | -0.3 | 1.3 | 1.0 | 1.0 | -0.3 | 0.0 | 0.1 | 0.1 |
| India* | 8.2 | 6.8 | 6.7 | 6.8 | 7.0 | 0.0 | -0.2 | -0.2 | 0.0 |
| **Emerging economies** | | | | | | | | | |
| Mexico | 3.2 | 1.5 | 1.2 | 1.9 | 2.2 | -0.1 | -0.2 | -0.4 | -0.1 |
| Brazil | 2.9 | 3.1 | 1.9 | 2.1 | 2.2 | 0.2 | 0.1 | 0.0 | 0.0 |
| South Africa | 0.7 | 1.0 | 1.6 | 1.4 | 1.3 | 0.0 | 0.2 | 0.2 | 0.1 |
| **World** | 3.5 | 3.3 | 3.0 | 3.1 | 3.2 | 0.0 | -0.1 | -0.2 | -0.1 |

*Fiscal year, beginning April 1 in the reference calendar year.

Sources: S&P Global Market Intelligence, S&P Global Ratings (forecasts)

- Only minor changes to our forecasts this round
- Most of these reflect base effects: higher than expected past growth
- U.S. soft lands, Eurozone regains potential, China continues to slow
- Reminder: We took a “wait and see” approach to Trump 2.0

# Global Macro-Credit | Main Risks To Our Baseline

## Downside

- U.S. policy on taxes, tariffs and labor; full implementation creates a host of macro/financial risks
- Sharply lower labor demand, would likely take us into a recession and accelerated rate cuts
- Spike in bond yields, would lead to higher volatility, dislocation and asset re-pricing
- Geopolitical risks: hard to define ex ante, likely to lead to risk aversion, safe haven flows, stronger dollar

## Upside

- Productivity related to energy transition plus AI provide possible upside risks to growth

We expect to get more clarity on U.S. policies in early 2025.

Global Financing Conditions & Ratings Trends

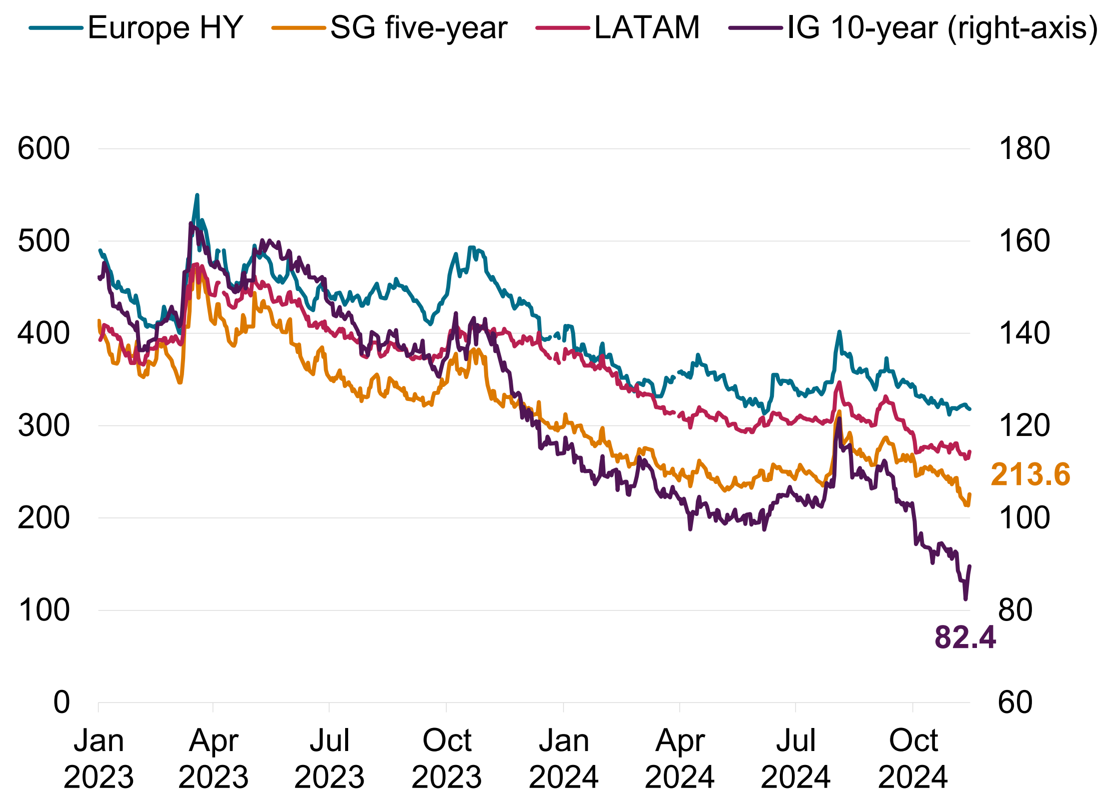
# The Optimistic And The Unknown

**Nick Kraemer**

Head of Ratings Performance Analytics

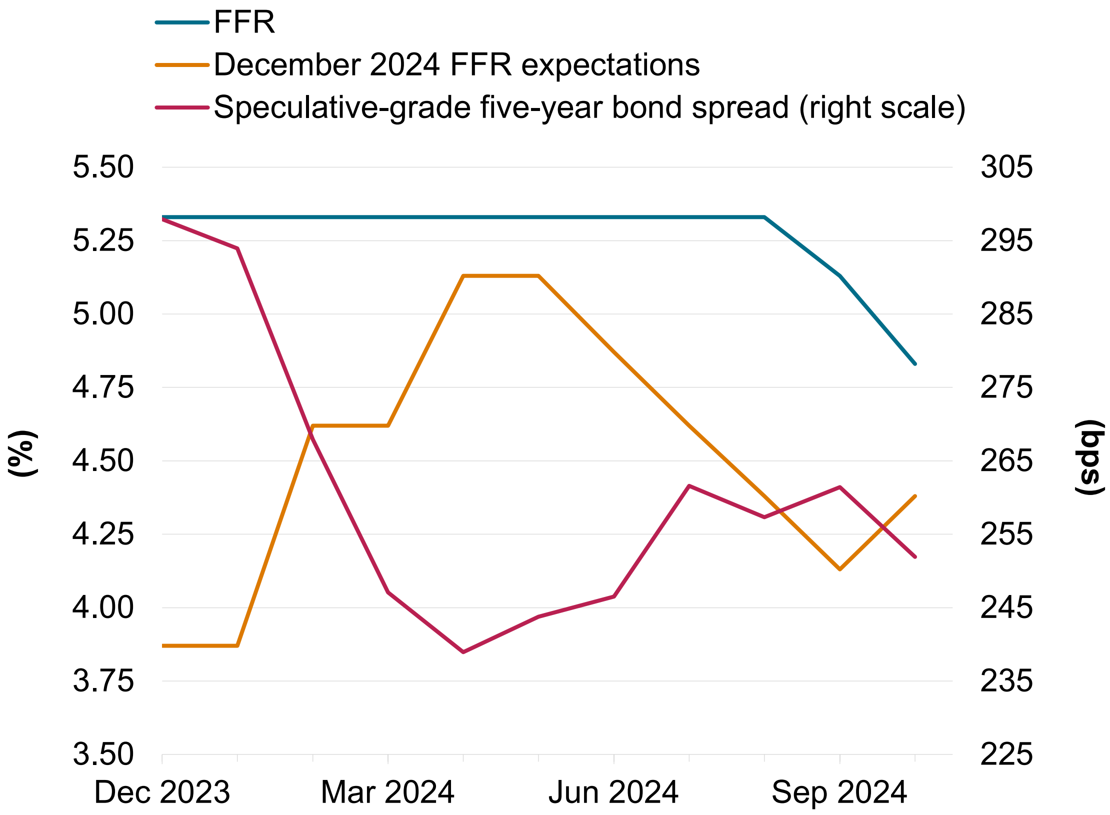
# Financing Conditions Remain Supportive Despite High Nominal Rates

## U.S. bond spreads reach historical lows




Data through Nov. 15, 2024. Sources: Refinitiv, S&P Global Ratings Research & Insights.

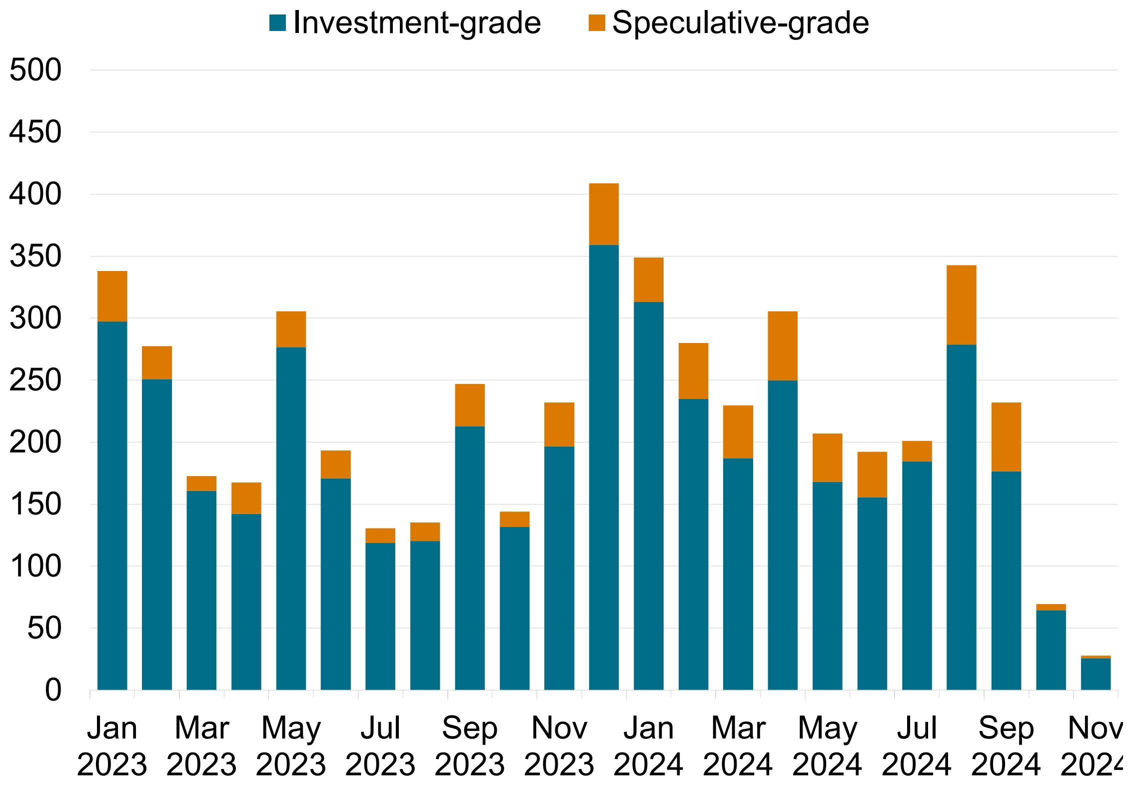
## Who's disappointed? Markets shrug off scuttled expectations



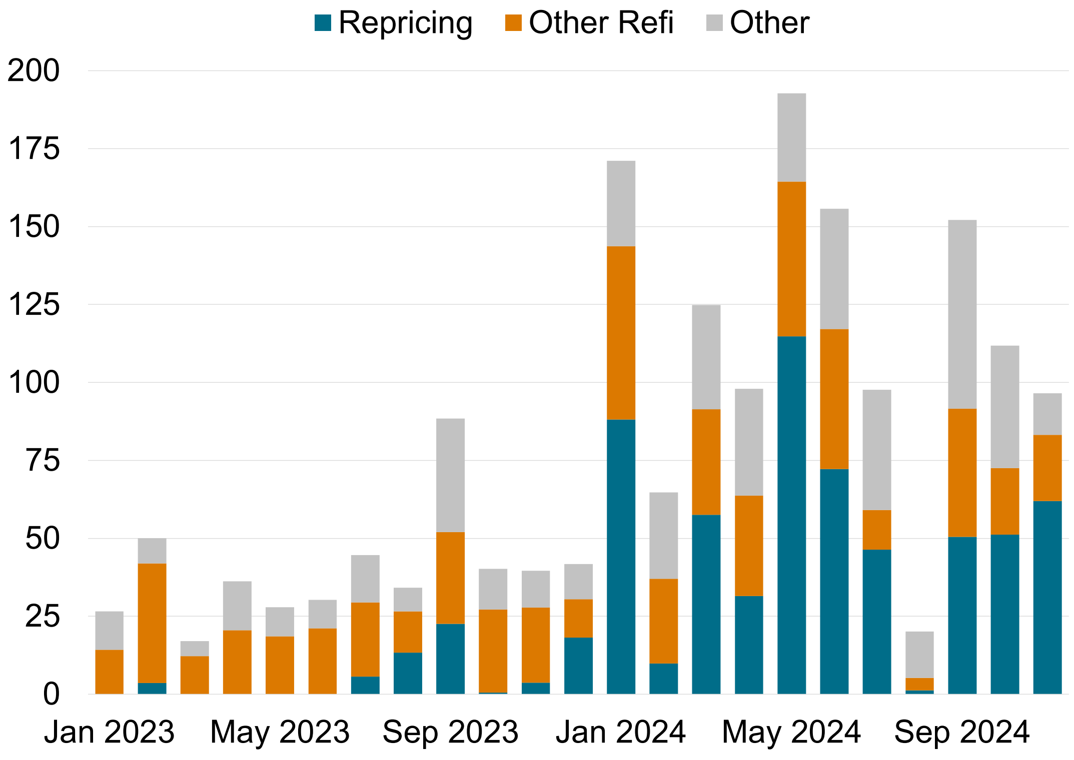

FFR--Effective federal funds rate.
Sources: S&P Global Market Intelligence, CME Group, S&P Global Ratings Research & Insights.

# Higher Rates Haven't Stopped Issuance This Year As Sentiment Remains Encouraging

Bond issuance up in 2024, but pace is slowing (bil. $)




Loan issuers lock in lower spreads in 2024 (bil. $)




Combined nonfinancial and financial services. Source: Refinitiv; PitchBook LCD; S&P Global Ratings Research & Insights.

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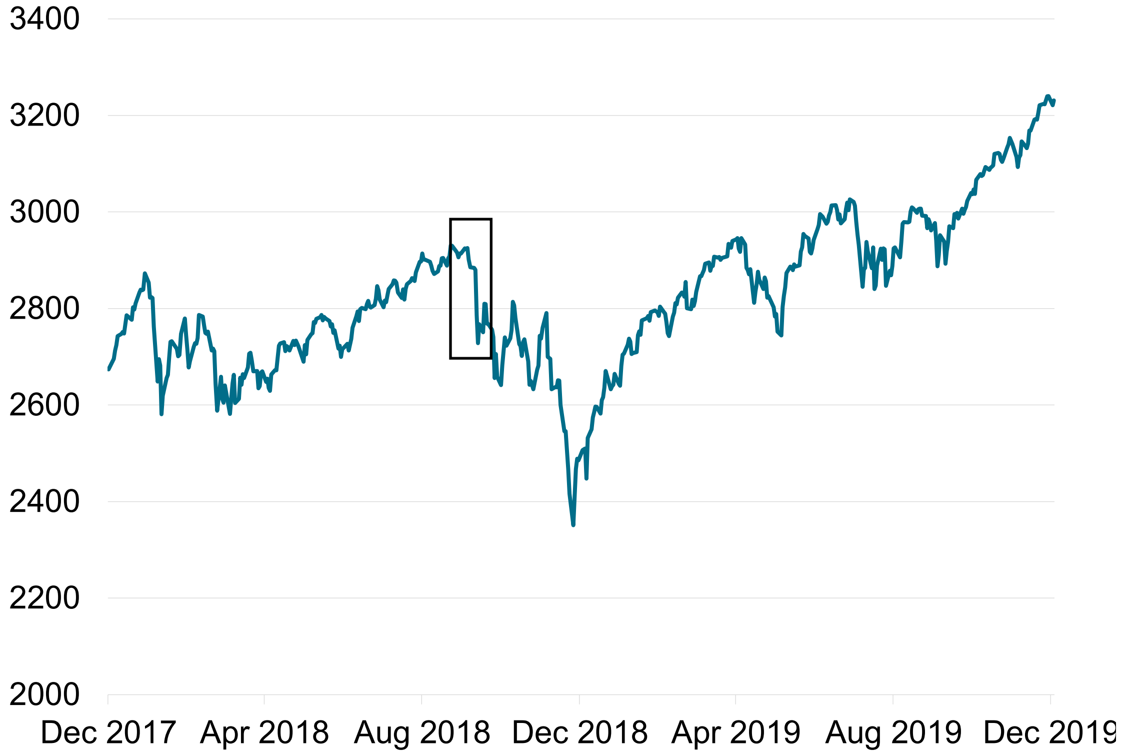
# Market Signals Then And Now

Market-based inflation expectations rise after fed lowered rates
Five-year breakeven inflation rate (%)


Don't push too far…past equity performance during tariff spat (and pullback)
S&P 500




Source: S&P Dow Jones Indices; FRED; S&P Global Credit Research & Insights.

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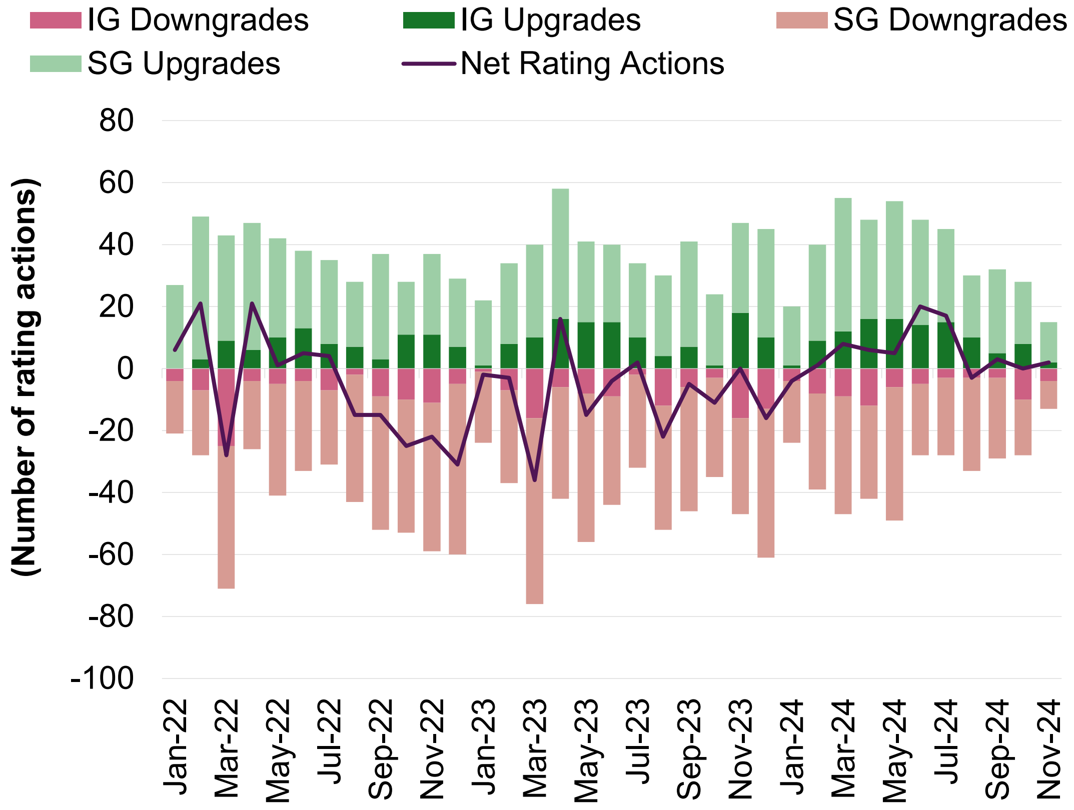
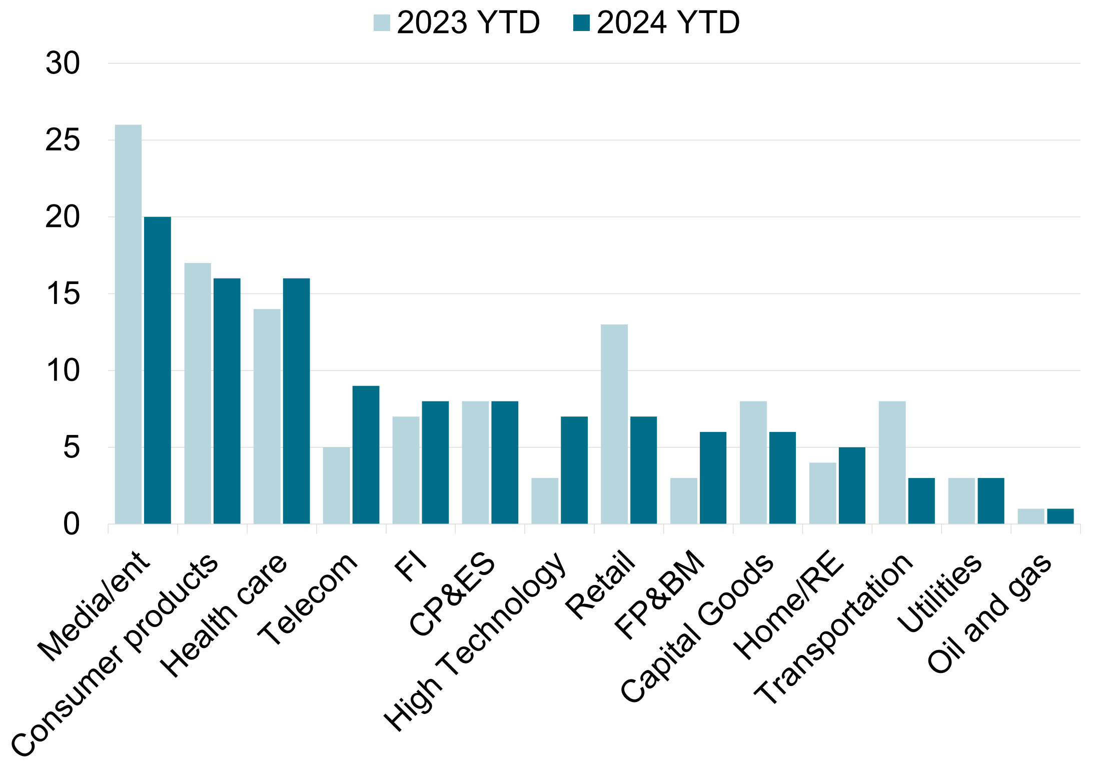
# Credit Quality Has Broadly Improved In 2024

Net rating actions remained positive in Q4




Defaults fall, but still dominated by recent leading sectors




Data as of Nov. 15, 2024. Downgrades exclude defaults. Source: S&P Global Ratings Credit Research & Insights.

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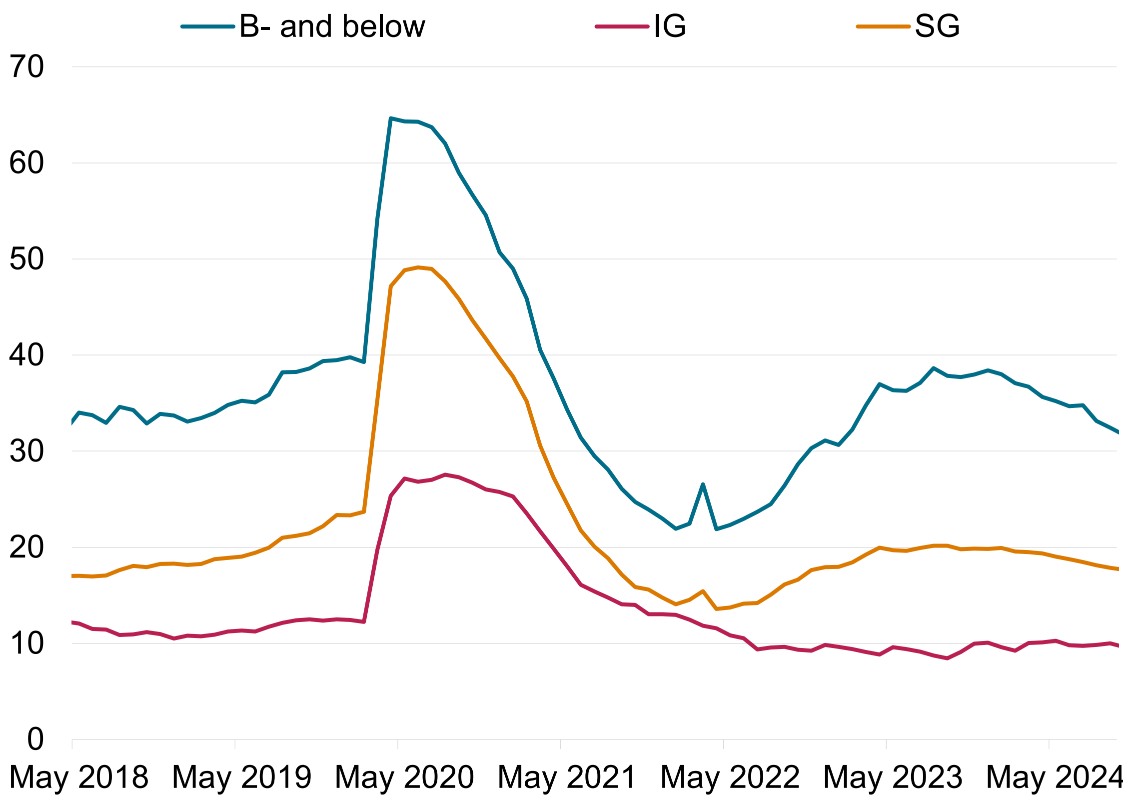
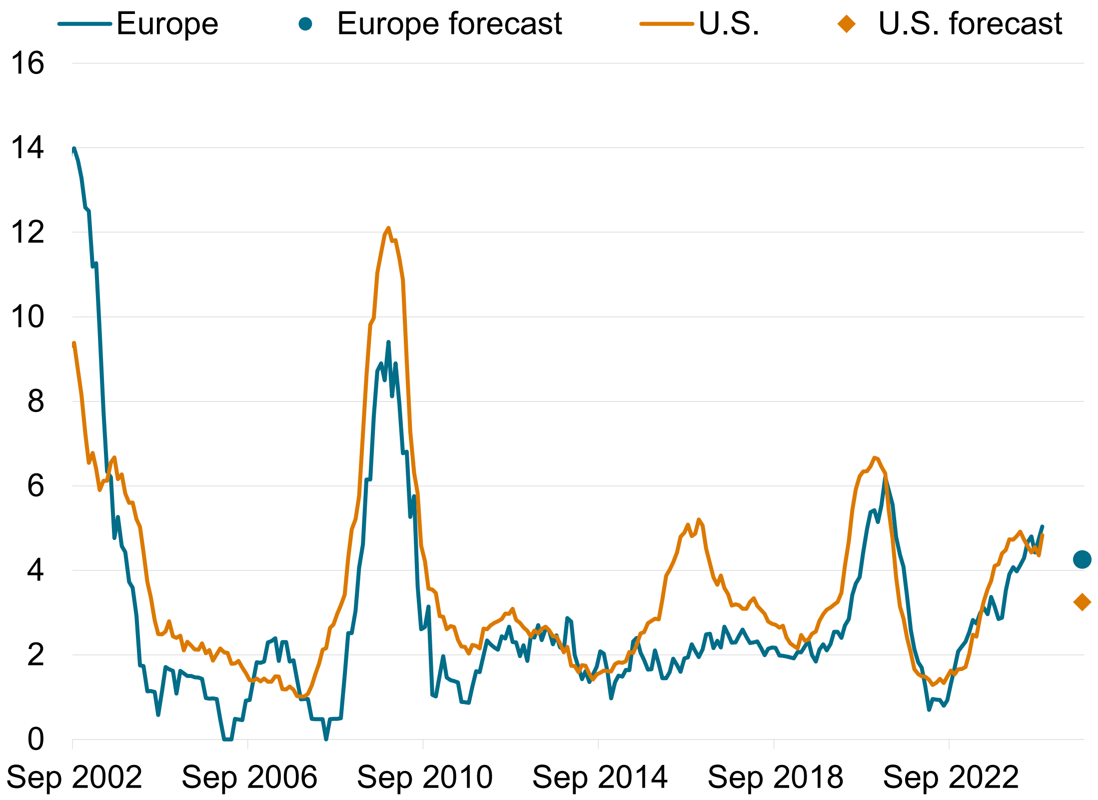
# Downgrades And Defaults Expected To Decline Ahead

Speculative-grade negative bias continues to decline (%)




Excludes sovereigns. Data as of Nov. 15, 2024. IG--Investment grade. SG--Speculative grade.
Source: S&P Global Research & Insights.

Defaults expected to decline gradually (%)




Sources: S&P Global Market Intelligence, S&P Global Research & Insights.

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Global Credit Outlook 2025

# Regional Credit Conditions

# North America | Policy Shifts, Rising Tensions

## Potential effects of President-elect Trump's campaign platform under a "red wave" scenario

President Congress

**SCENARIO'S EFFECT**

Negative | Somewhat negative | Neutral | Somewhat positive | Positive | Not applicable

| Sector | Trade/ tariff | Energy/ climate | Antitrust regulation | Immigration/ labor | Other sector-specific areas |
|---|---|---|---|---|---|
| Aerospace and defense | Neutral | Neutral | Neutral | Neutral | Defense spending (Neutral) |
| Autos | Neutral | Somewhat negative | Neutral | Neutral | |
| Building materials | Somewhat negative | Neutral | Neutral | Neutral | |
| Business and technology services | Neutral | Neutral | Neutral | Neutral | |
| Capital goods | Neutral | Neutral | Somewhat positive | Neutral | |
| Chemicals | Somewhat positive | Neutral | Neutral | Neutral | |
| Consumer products | Somewhat negative | Neutral | Neutral | Neutral | |
| Containers and packaging | Somewhat negative | Neutral | Neutral | Neutral | |
| Health care | Somewhat negative | Neutral | Somewhat positive | Neutral | Affordable Care Act (Somewhat negative) |
| Homebuilders and developers | Somewhat negative | Neutral | Neutral | Somewhat negative | Housing affordability initiatives (Somewhat positive) |
| Hotels, gaming and leisure | Neutral | Neutral | Neutral | Somewhat negative | Child tax credit (Somewhat positive) |
| Media and entertainment | Neutral | Neutral | Somewhat positive | Neutral | Social media regulation (Negative) |
| Metals and mining | Somewhat positive | Neutral | Somewhat positive | Neutral | |
| Midstream energy | Somewhat negative | Somewhat positive | Somewhat positive | Neutral | |
| Oil and gas | Neutral | Neutral | Neutral | Neutral | |
| Oil refineries | Neutral | Neutral | Neutral | Neutral | |
| Pharmaceuticals | Neutral | Neutral | Somewhat positive | Neutral | Drug pricing (Somewhat negative) |
| Regulated utilities | Somewhat negative | Somewhat negative | Neutral | Neutral | |
| REITs | Neutral | Neutral | Neutral | Neutral | |
| Retail and restaurants | Somewhat negative | Neutral | Neutral | Neutral | |
| Technology | Negative | Somewhat negative | Somewhat negative | Neutral | |
| Telecom | Neutral | Neutral | Somewhat positive | Neutral | Net neutrality / pricing (Neutral) |
| Transportation | Neutral | Neutral | Neutral | Neutral | |
| Unregulated power | Somewhat negative | Somewhat negative | Neutral | Neutral | Fossil fleet benefits (Somewhat positive) |

Note: These impact descriptors are our qualitative view of the potential first-order effect on sectors, as of November 2024. It doesn't directly translate to risk of rating actions. Source: S&P Global Ratings, U.S. Elections 2024: How Could A Second Trump Term Affect U.S. Credit?, Nov. 7, 2024.

- The potential that higher tariffs will reignite inflation and slow—or reverse—the descent in policy interest rates are key concerns for credit conditions in the region.
- Amid the strained relationship between the U.S. and China, and the escalation in the Russia-Ukraine war, intensifying geopolitical tensions could weigh on market sentiment, investment, and capital flows.
- Still, the U.S. economy remains resilient, and defaults look set to decline—albeit at a slower pace than the rise.

# North America | Key Credit Issues To Watch Under Trump 2.0

**Nonfinancial Corporates:** Future policies on tariffs and taxes will likely matter most for credit.

**Financial Institutions:** Material changes to prudential bank regulation are unlikely, but the supervisory approach could vary.

**Public Finance:** There could be pressure ahead for the tax-exempt status of municipal bonds—the sector's key foundation.

**Insurance:** We expect the biggest potential effects will be in health insurance—although any changes will likely be at the margins.

**Structured Finance:** The elections' impact is likely confined to certain products related to commercial credit (e.g., CLOs and transportation assets), and consumer credit ABS.

# Asia-Pacific | Trade And Geopolitical Tensions Complicate The Landscape

## Tariffs and trade tensions complicate Asia-Pacific's credit landscape

### Higher U.S. trade tariffs will squeeze China's export growth engine

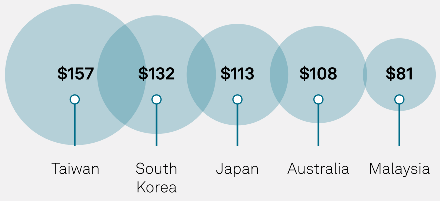
**China's exports to the U.S as a share of total exports**


**China's top export products to the U.S.**

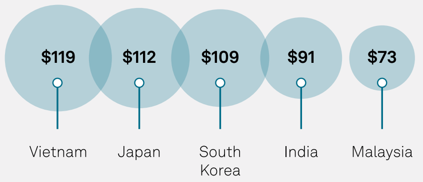
- **Telephones** US$30.1 bil.
- **Automatic data processing machines** US$30.6 bil.
- **Electric storage batteries** US$10.9 bil.

### Shifting trade picture affects China's trading partners in Asia-Pacific

**China's top Asia-Pacific importing partners**
Trade value in bil. US$*

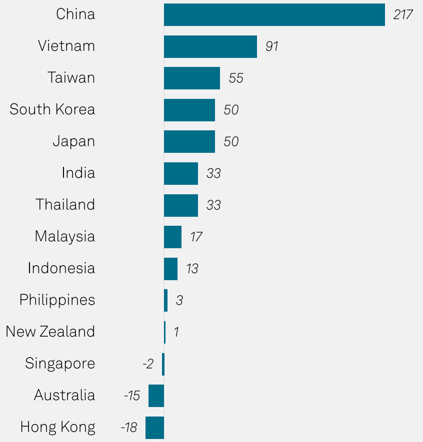



**China's top Asia-Pacific exporting partners**
Trade value in bil. US$*




### Risks of U.S. trade restrictions rising for Asian economies with a trade surplus with the U.S

**Asia-Pacific's trade balance with the U.S.**
Bil. US$




Trade data as of September 2024. *Includes re-exports to Hong Kong. Source: S&P Global Market Intelligence.

- **Trade complications.** Asia-Pacific's credit landscape is set for more volatility and slower growth in 2025, amid uncertain trade and foreign policies by the incoming U.S. administration. We anticipate more tariffs against Chinese exports are likely.
- **Some are more exposed.** Countries with a large trade surplus with the U.S. (Vietnam, Thailand, Malaysia, and India) are vulnerable to universal tariffs. Meanwhile, China's overproduction could suppress prices and squeeze margins for competing producers.
- **Growth at a crossroads.** The global trade slowdown could curb growth and exporters' revenues. The region's growth could slip to 4.2% in 2025 and 4.1% in 2026, even as domestic consumption in emerging Asia remains supportive.

# Asia-Pacific | China Outlook Shaped By U.S. Trade Policy And Stimulus

## U.S. trade tariffs could hit China's economy in a major way

How would 60% U.S. trade tariffs affect the China economy?

**Below 2%**
Chinese GDP growth in 2026

**2.3** percentage points
Likely hit to China GDP growth in 2025

**2.8** percentage points
Likely hit to China GDP growth in 2026

How much does China rely on U.S. exports?

**20%**
Share that PCs and smartphones make up of China's U.S. exports

**~$100 bil.**
Value of China consumer goods shipped to the U.S. in 2023

**23%**
Share of China battery exports sent to the U.S.*

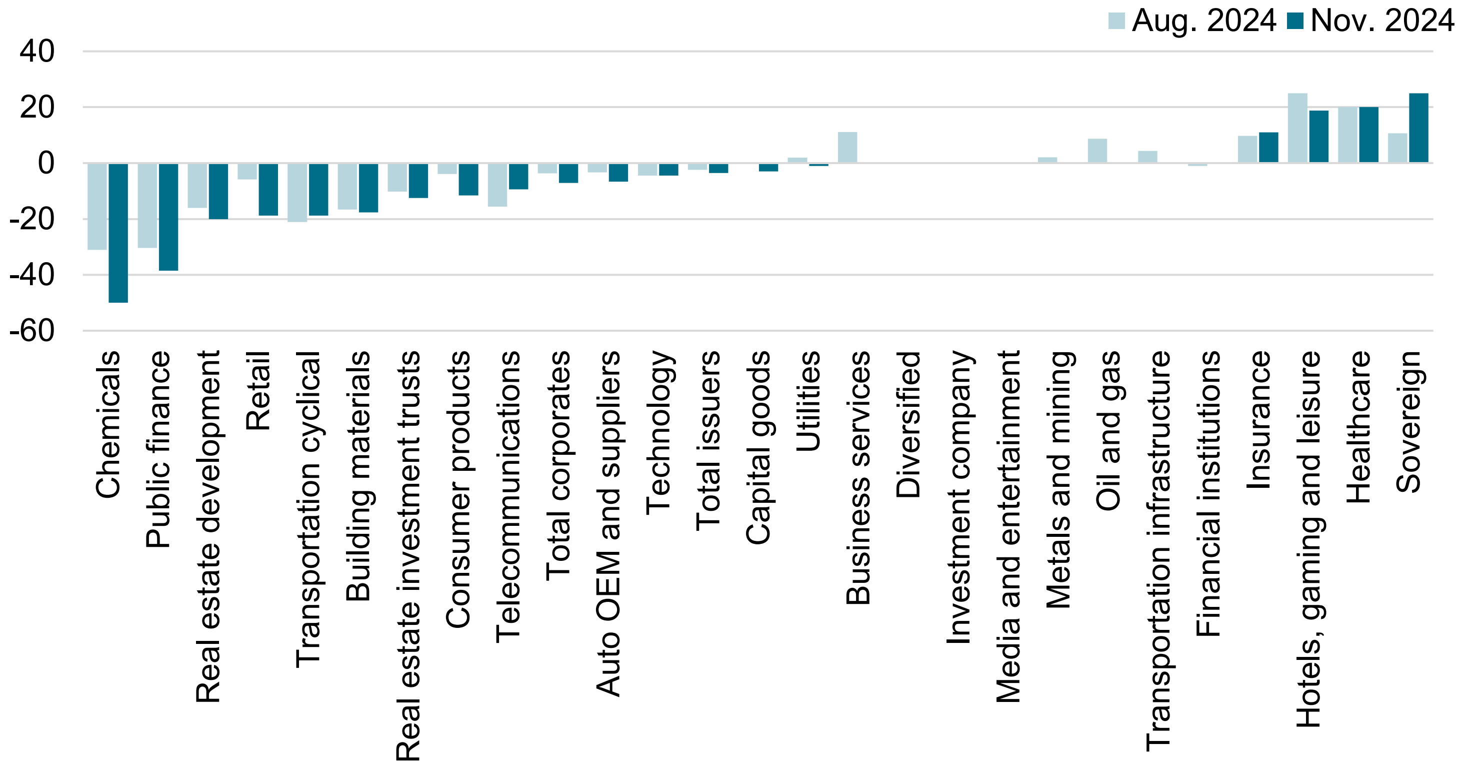
*By value; data for the first nine months of 2024. Sources: U.S. Census Bureau, China Industrial Association of Power Sources, Trading Economics, S&P Global Ratings.

- **Trade policy shifts.** Our base case factors in a rise in the effective U.S. tariff rate on Chinese imports to 25% from 14% from Q2-2025, and retaliation by China in kind.
- **Hit to growth.** While China's stimulus measures should support growth, U.S. tariffs will hit China's exports. Growth could slow to 4.1% in 2025 and to 3.8% in 2026, amid limited stimulus to bolster consumption.
- **LGFV debt pains.** The recently announced LGFV debt resolution plan will likely fall short of actual deleveraging. While this reduces hidden debt, LGFVs' debt increases still outpace revenue gains significantly.
- **60% tariff scenario.** In an across-the-board 60% tariff scenario, China's growth in 2026 could fall below 2%, and downward pressure on domestic prices and margins to intensify.

# Asia-Pacific Credit Conditions | Bracing For Volatility

Net rating outlook bias of Asia-Pacific issuers

Aug. 2024 versus Nov. 2024 (%)




We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter, and a positive figure, vice versa. OEM--Original equipment manufacturer. Source: S&P Global Ratings.

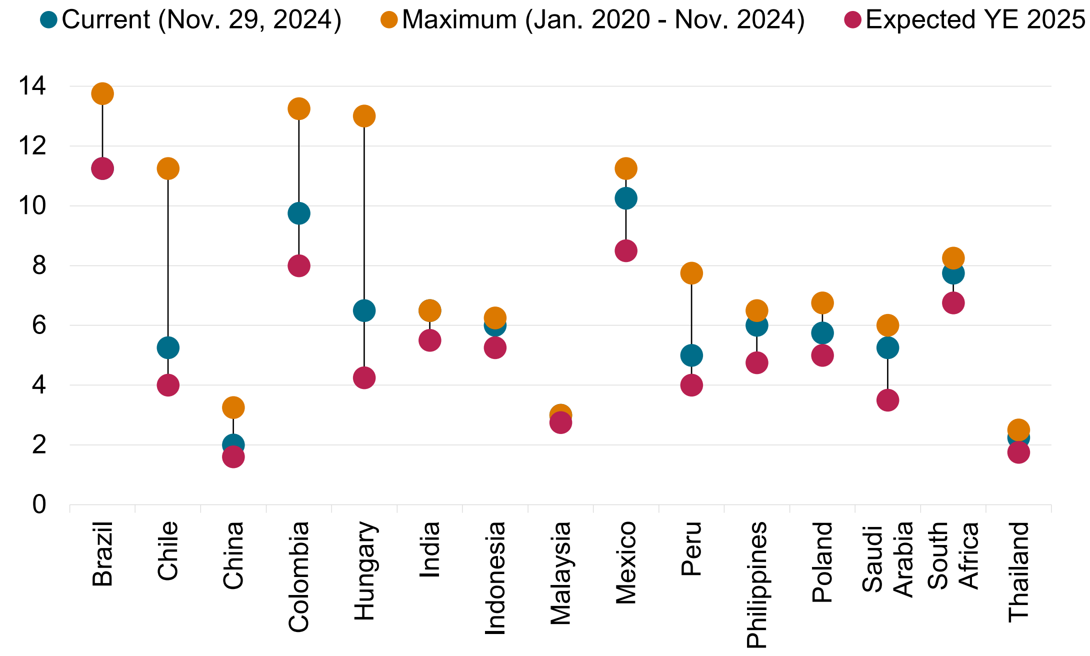
- **Net outlook bias deteriorates.** The net rating outlook bias of APAC issuers slipped to -4% in November. The distribution points to skewed conditions across sectors.
- **More uncertainty.** A slower China and softer global trade will hit revenue and growth for export-centric APAC. Wider tariffs and intensifying geopolitical tensions could hit energy prices and supply chains.
- **Volatility abound.** Should tariffs prompt U.S. inflation to resurge, the Fed may slow its monetary easing. APAC central banks could keep rates high to limit outflows. A strong USD, narrower offshore funding access, and costlier interest may strain credit further.
- **Uneven impact.** In face of energy and input cost shocks, the ability of companies to pass through costs is uneven. Margin pressures could vary across sectors.

# Emerging Markets | U.S. Protectionism Will Test Credit Conditions

EMs should be able to weather a scenario of moderate tariffs. EMs' credit conditions will remain resilient, bolstered by declining interest rates, and sustained--albeit slower--economic growth.

## EM rated issuers should benefit from ongoing monetary easing

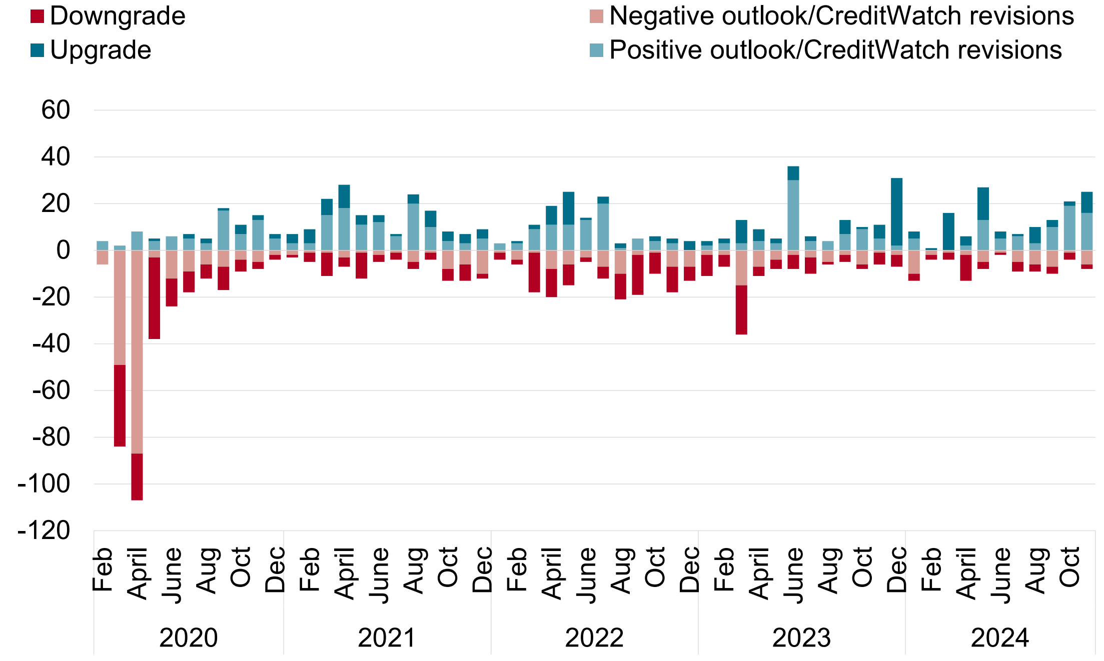
Policy rates (%)




For China, the one-year medium-term lending facility rate is shown. f--S&P Global Ratings forecast.
Source: S&P Global Market Intelligence.

## New tariffs may hinder positive rating momentum

Number of issuers




Data from Feb. 3, 2020, to Nov. 30, 2024. Includes sovereigns and rating actions on subsidiaries only if there was no rating action on the parent. Source: S&P Global Ratings Credit Research & Insights.

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# Emerging Markets | Increasing Protectionism Could Dent Growth

A likely increase in trade protectionist policies among major economies will hurt GDP growth in most emerging markets over the next couple of years. The magnitude of the impact will depend on the details of those policies, which will become clearer in the coming months.

## EMs with closer trade ties to China are more vulnerable

Exports to China (% of GDP)

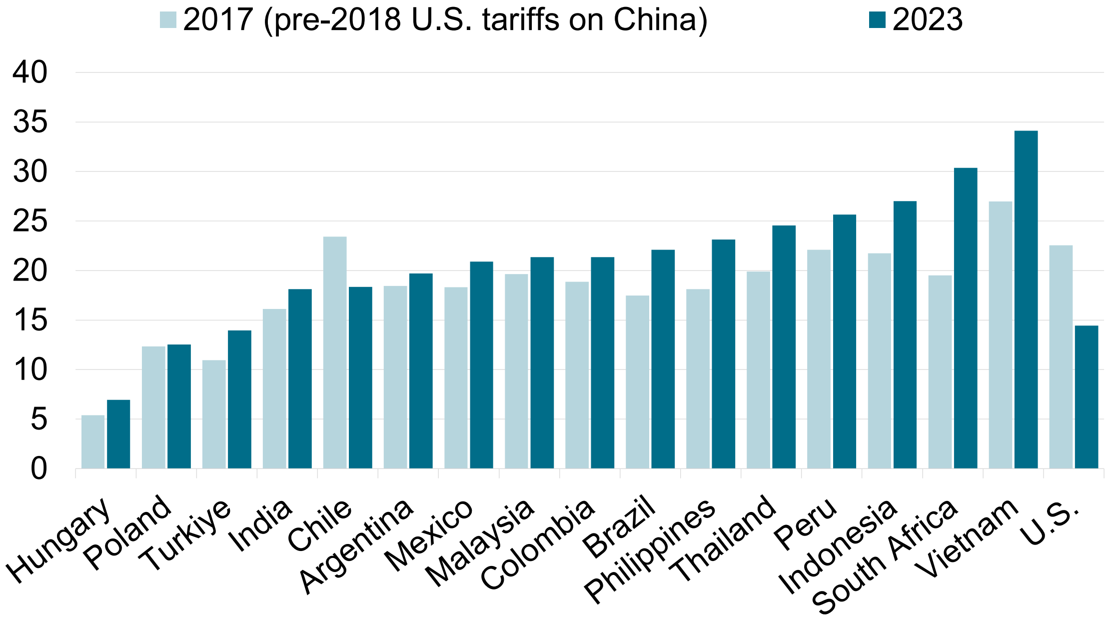
Lower → Higher

| | Raw materials | Intermediate goods | Consumer goods | Capital goods | Total |
|---|---|---|---|---|---|
| Vietnam | 1.4 | 2.5 | 1.6 | 8.6 | 14.1 |
| Chile | 6.8 | 4.3 | 0.1 | 0.0 | 11.2 |
| Malaysia | 0.7 | 2.8 | 2.2 | 4.8 | 10.5 |
| Peru | 7.6 | 0.9 | 0.1 | 0.0 | 8.7 |
| Thailand | 2.1 | 2.4 | 0.7 | 1.4 | 6.6 |
| Brazil | 4.3 | 0.4 | 0.0 | 0.0 | 4.8 |
| Indonesia | 1.4 | 2.6 | 0.7 | 0.1 | 4.7 |
| South Africa | 2.4 | 0.9 | 0.0 | 0.0 | 3.3 |
| Philippines | 0.6 | 0.3 | 0.3 | 1.2 | 2.4 |
| Hungary | 0.0 | 0.1 | 0.3 | 0.5 | 0.9 |
| Argentina | 0.6 | 0.1 | 0.0 | 0.0 | 0.8 |
| Colombia | 0.5 | 0.1 | 0.0 | 0.0 | 0.7 |
| Poland | 0.0 | 0.2 | 0.1 | 0.1 | 0.5 |
| India | 0.2 | 0.2 | 0.1 | 0.1 | 0.5 |
| Mexico | 0.3 | 0.0 | 0.0 | 0.1 | 0.4 |
| Turkiye | 0.2 | 0.0 | 0.0 | 0.0 | 0.3 |

Data as of 2022 for Vietnam, 2023 for the rest. Sources: WITS, Haver Analytics, and S&P Global Ratings.

## U.S. tariffs on Chinese exports may drive them to other markets

Share of goods imports coming from China (%)




Sources: WITS, Haver Analytics, and S&P Global Ratings.

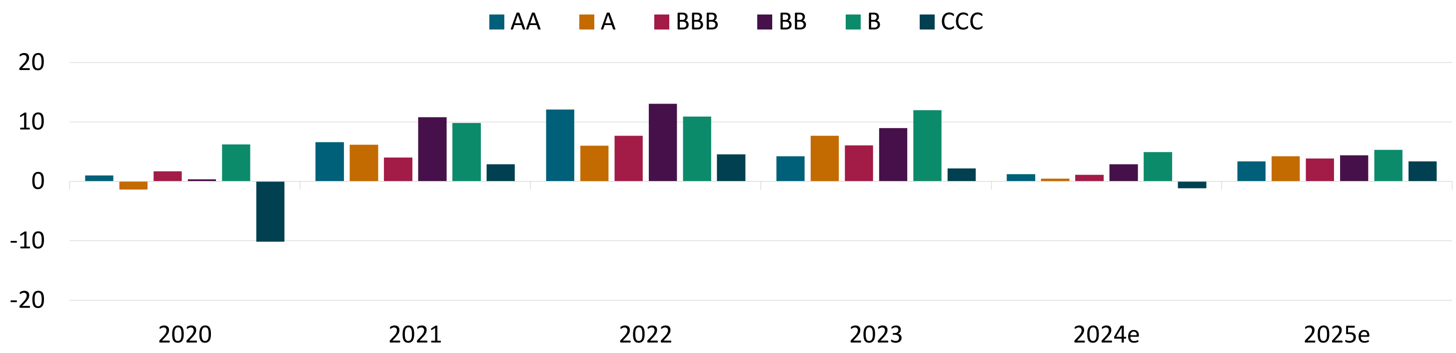
# Europe | Fusion or Fission?

- **Basecase:** The European economic and credit environment continues to strengthen gradually, despite increasing political and geopolitical uncertainty clouding the outlook
- **Credit:** Favourable financing conditions continuing to support liquidity together with the prospect of some further growth in corporate revenues and earnings (see chart) should underpin credit quality across the ratings spectrum. The outlook for banks remains stable and benefits from solid fundamentals
- **Challenges:** The scale of the challenges for Europe should not be underestimated. These include:
  - Improving competitiveness by increasing investment and digitizing the economy; drive the energy transition; beef up defence; and provide support for Ukraine.
  - Few major eurozone governments (Germany excepted) can boost investment and growth given lack of fiscal capacity due to high borrowing and debt  - key rating constraints.

**Any failure to rise collectively to these challenges could lead to further fragmentation across the continent.**

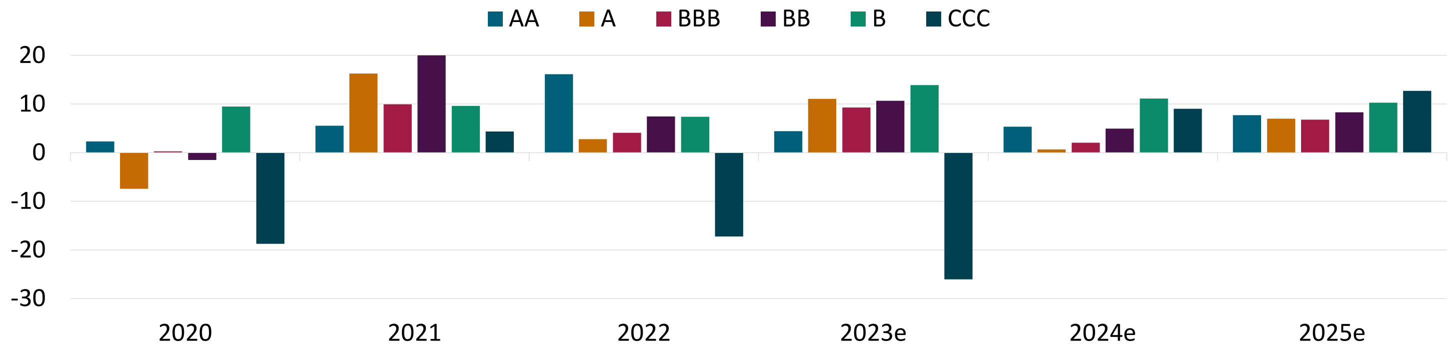
Revenue growth expected to pick up in 2025

European rated nonfinancial corporates ex utilities and real estate, median revenue growth (%)




…And Earnings Growth More Stable Across The Ratings Spectrum

European rated nonfinancial corporates ex utilities and real estate, median EBITDA growth (%)



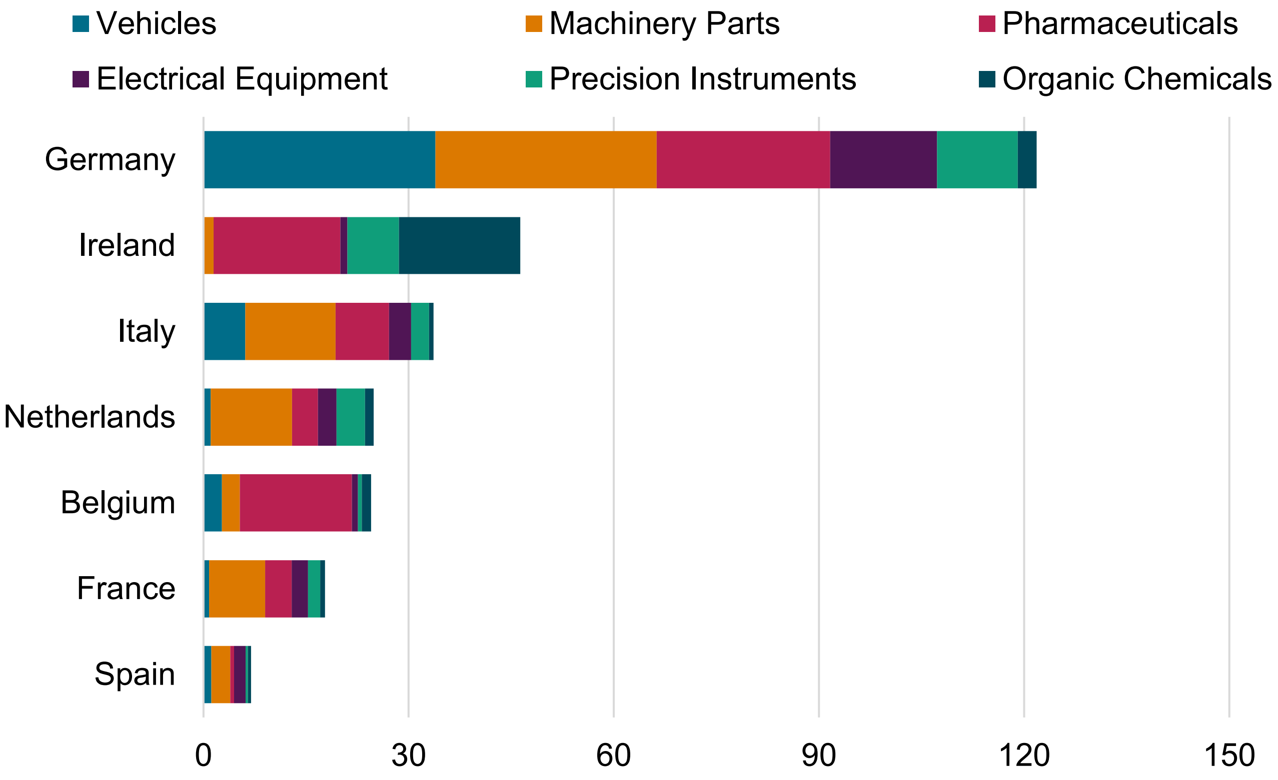

e--Estimate. Source: S&P Global Ratings.

S&P Global
Ratings

# Europe | Geopolitical Uncertainty Remains The Key Risk In Europe

- **Regional wars:** Geopolitical risk remains the key regional risk that could impact credit by disrupting supply chains (severe impact if oil supply is restricted), triggering risk aversion and a flight to quality, and shift governments' spending priorities.
- **Trade and tariffs:** The greater risk, beyond a uniform tariff of at least 10% on all European goods exports to the US, is that specific sectors--such as automotive, pharmaceuticals, and chemicals (see chart) --could be targeted with higher tariffs.
- **Macro:** The tail risks of interest rates not needing to fall to the terminal rate, or a protracted period of slower European growth if the regional economy remains weighed down by weak investment and an ageing workforce, are the two main identified macro risks .
- **CRE:** Despite improving financing conditions, certain segments, such as non-prime office, remain vulnerable to secular trends, a further economic slowdown, or disruption in financial markets. More adverse developments could be detrimental for the broader economy and impair European banks' asset quality.

Six sectors account for the bulk of EU goods exports to U.S. (bil. €)




Annual 2023 data. Source: S&P Global Market Intelligence.

# North America | Top Risks Q1 2025

| | Risk level | Risk trend |
|---|---|---|
| Tariffs reignite inflation, threaten credit quality | High | Worsening |
| Escalating geopolitical tensions impede trade and investment, weighing on growth | High | Unchanged |
| Interest-rate descent disappoints, underpinning burdensome borrowing costs | Elevated | Worsening |
| Falling asset values and cash flows, plus elevated financing costs, exacerbate CRE losses | Elevated | Worsening |
| The U.S. economy's soft-landing is derailed | Elevated | Unchanged |
| **Structural risks** | | |
| Climate risks intensify, energy transition adds to costs | Elevated | Worsening |
| Accelerating tech transformation disrupts business models, cyberattacks threaten operations | Elevated | Worsening |

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.

# Asia-Pacific | Top Risks Q1 2025

| | Risk level | Risk trend |
|---|---|---|
| **Global trade:** Widening tariffs to weigh down exports, confidence, and growth | High | Worsening |
| **China's economy:** Pressure on growth to intensify on higher trade tariffs, risking deflationary spirals | High | Worsening |
| **Geopolitics:** Escalating geopolitical tensions could hinder policy predictability and increase financial market volatility | High | Unchanged |
| **Financing:** Higher spreads amid market uncertainty could spike all-in financing costs | Elevated | Unchanged |
| **Japan's monetary policy:** A more aggressive rate hike than expected to trigger abrupt capital inflow and asset repricing | Moderate | Worsening |
| **Real estate:** Negative equity and shrinking demand to exacerbate property devaluation and liquidity strains on developers | Moderate | Unchanged |
| **Structural risks** | | |
| **Climate change:** Extreme weather and energy transition to pose business challenges and raise costs | Elevated | Worsening |
| **Technology:** Accelerating technological advancement and mounting cyber-attacks to disrupt business operations | Elevated | Unchanged |

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.

# Emerging Markets | Top Risks Q1 2025

| | Risk level | Risk trend |
|---|---|---|
| Geopolitical tensions erode credit fundamentals. | High | Worsening |
| Increasing protectionism disrupts global trade. | High | Worsening |
| A deepening property crisis, weak confidence, high debt levels, and trade tensions slow China's economic growth. | High | Worsening |
| Higher interest rates linger upon a sudden stop of monetary easing in the U.S. | Elevated | Worsening |
| A sharper-than-expected downturn in advanced economies weighs on global trade. | Elevated | Unchanged |
| **Structural risks** | | |
| Climate change and more frequent natural disasters. | Elevated | Worsening |

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.

# Europe | Top Risks Q1 2025

| | Risk level | Risk trend |
|---|---|---|
| Russia and Israel seek to press home their military advantage | High | Worsening |
| Material trade restrictions extend to Europe | Elevated | Worsening |
| European growth falters in an uncertain environment | Elevated | Unchanged |
| Financing conditions tighten as yield curves steepen in Europe | Elevated | Unchanged |
| Real estate risk to the broader economy remains | Elevated | Improving |
| **Structural risks** | | |
| Disruptions linked to climate change and the energy transition could increase | Elevated | Worsening |
| Cyber and digital transformation risks are gaining ground | Elevated | Worsening |

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.

# Questions & Answers

Submit your questions via the Q&A box
located on the left-hand side of your screen

# Related Research

## Credit Conditions

- Global Credit Outlook 2025: Promise And Peril, Dec. 4, 2024
- Credit Conditions North America Q1 2025: Policy Shifts, Rising Tensions, Dec. 3, 2024
- Credit Conditions Europe Q1 2025: Fusion Or Fission?, Dec. 3, 2024
- Credit Conditions Asia-Pacific Q1 2025: Bracing For Volatility, Dec. 3, 2024
- Credit Conditions Emerging Markets Q1 2025: The Tariff Trials, Dec. 3, 2024

All credit conditions coverage: spglobal.com/ratings/CreditConditions

## Economic Outlook

- Global Economic Outlook Q1 2025: Buckle Up, Nov. 27, 2024
- Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty, Nov. 26, 2024
- Economic Outlook Eurozone Q1 2025: Next Year Will Be A Game Changer, Nov. 26, 2024
- Economic Outlook Asia-Pacific Q1 2025: U.S. Trade Shift Blurs The Horizon, Nov. 26, 2024
- Economic Outlook Emerging Markets Q1 2025: Trade Uncertainty Threatens Growth, Nov. 26, 2024

All economic research: spglobal.com/ratings/EconomicResearch

## Additional research

- How Would China Fare Under 60% U.S. Tariffs?, Nov. 17, 2024
- U.S. Speculative-Grade Corporate Default Rate To Fall Further To 3.25% By September 2025, Nov. 15, 2024
- European Speculative-Grade Default Rate Should Fall To 4.25% By September 2025, Nov. 18, 2024
- Global Nonfinancial Corporate Medians History And Outlook 2025: A Positive Outlook For Corporate Credit Fundamentals, Dec. 4, 2024

# Thank you!

A replay of this webinar will be emailed to you.

**spglobal.com/ratings**