S&P Global
Ratings

Credit Conditions North America Q1 2025

Policy Shifts, Rising Tensions

Dec. 12, 2024

S&P Global Ratings' North America Credit Conditions Committee took place on Nov. 21, 2024
This report does not constitute a rating action

Contents

Key Takeaways

- The potential that higher tariffs will reignite inflation and slow—or reverse—the descent in policy interest rates is a key concern 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 slow.

Source: S&P Global Ratings. Credit Conditions North America Q1 2025: Policy Shifts, Rising Tensions, Dec. 3, 2024.

S&P Global Ratings

Top North American Risks

RISK 1 **Tariffs reignite inflation, threaten credit quality**

Risk level: High **Risk trend:** Worsening

Trade tensions between the U.S. and its trading partners (e.g., China, Mexico, Canada) add uncertainty and pose a renewed threat to businesses. Materially higher tariffs suggested by President-elect Trump could increase input prices for U.S. sectors exposed to imports and cross-border supply chains at a time when they are grappling with high costs and a more difficult passthrough environment. Any retaliatory measures could also hurt those relying on key components and foreign markets. All this could result in more margin pressure for corporates, weighing on credit quality.

RISK 2 **Escalating geopolitical tensions impede trade and investment, weighing on growth**

Risk level: High **Risk trend:** Unchanged

Amid the U.S. political transition, any further worsening of the U.S.-China relationship regarding trade/tariffs or tensions over the South China Sea could disrupt supply chains and hamper sentiment, investment, and capital flows. While North American borrowers have had limited direct exposure to the Russia-Ukraine war, the recent escalation somewhat raises the risk of a broader conflict, potentially involving NATO allies, which could deepen the effects on markets and credit. The potential for the Middle East conflict to widen is also a concern.

RISK 3 **Interest-rate descent disappoints, underpinning burdensome borrowing costs**

Risk level: Elevated **Risk trend:** Worsening

The descent in the Federal Reserve's policy interest rate could be slower than markets expect, and could even stall, or reverse, if inflation returns in earnest. The tariffs and immigration controls that President-elect Trump has suggested implementing would likely be inflationary and act as a drag on GDP growth. Investors could demand higher risk premiums amid slowing economic expansion, rising policy uncertainty, and increasing market volatility. As a result, the cost of debt service and/or refinancing may be overly burdensome for some borrowers.

RISK 4 **Falling asset values and cash flows, plus elevated financing costs, exacerbate CRE losses**

Risk level: Elevated **Risk trend:** Worsening

Elevated financing costs are pressuring asset valuations and raising refinancing risk for most types of CRE. Lower demand for office space continues to weigh on valuations and cash flow dynamics. Certain segments and regions in the multifamily sector are also facing challenges as rent growth softens. All this may lead to more broad-based, and in some cases severe, loan losses for debtholders such as U.S. banks (with regional lenders having higher exposure to CRE than larger lenders do), insurers, REITs, and CMBS. Higher office vacancy rates continue to affect cities' tax revenue.

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.

Moderate	Elevated	High	Very high

Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Improving	Unchanged	Worsening

Source: S&P Global Ratings.

Top North American Risks

RISK 5

The U.S. economy's soft-landing is derailed

Risk level: Elevated **Risk trend:** Unchanged

Policy uncertainty, the prospect of stickier-than-expected inflation, as well as a slower-than-forecast drop in borrowing costs could cause companies and consumers to pull back spending, as Americans' financial cushions and purchasing power continue to erode. Such pressure is particularly acute for lower-income cohorts, especially if unemployment rises measurably. More subdued business investment and/or a sharper pullback in spending could lead to a deeper slowdown in growth or a recession, causing more credit stress.

RISK 6
Structural risk

Climate risks intensify, energy transition adds to costs

Risk level: Elevated **Risk trend:** 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 increasingly difficult for property owners in certain parts of the country to find affordable insurance, if they can get coverage at all. This could dampen housing prices and local economic growth in the longer run. Climate events also threaten to disrupt supply chains (such as for agriculture and food) and logistics. Moreover, the global drive toward a net-zero economy heightens transition risks across many sectors, requiring significant investments.

RISK 7
Structural risk

Accelerating tech transformation disrupts business models, cyberattacks threaten operations

Risk level: Elevated **Risk trend:** Worsening

Cyberattacks pose a systemic threat and significant single-entity event risk as new targets and methods emerge—with geopolitical tensions raising the prospect of major attacks. 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. 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.

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.

Moderate	Elevated	High	Very high

Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Improving	Unchanged	Worsening

Source: S&P Global Ratings.

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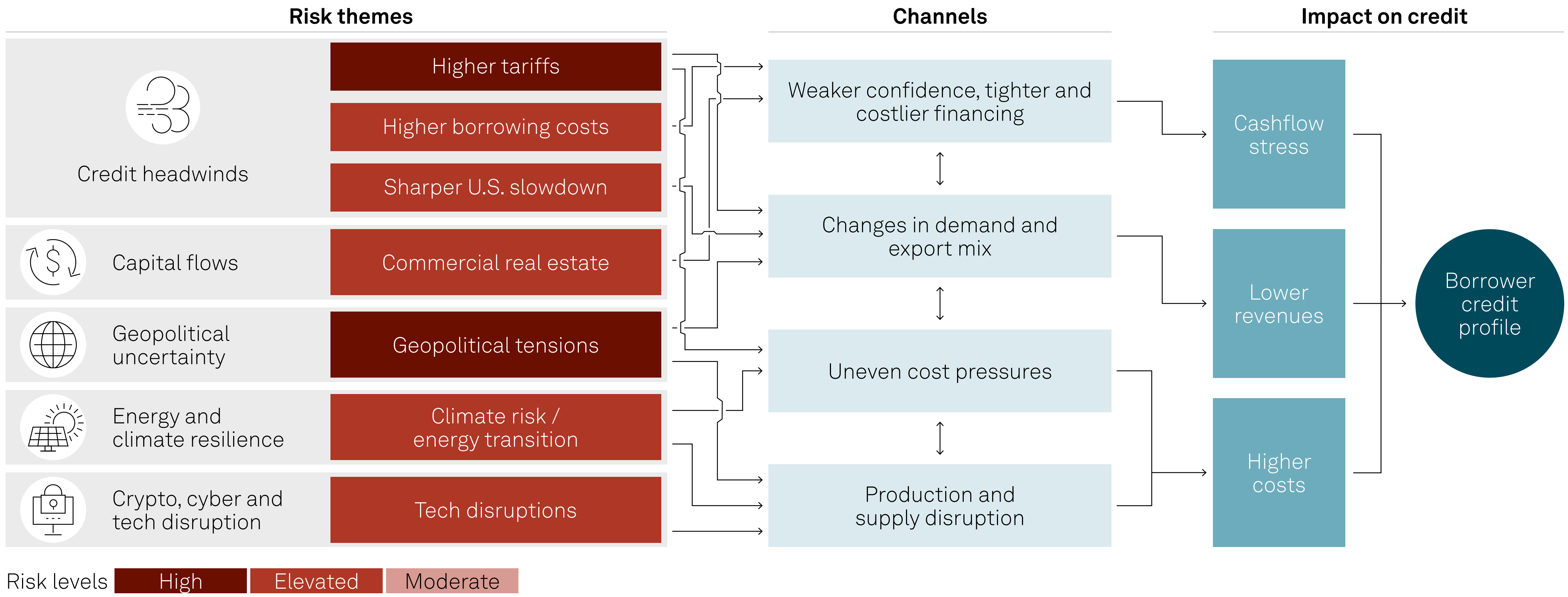
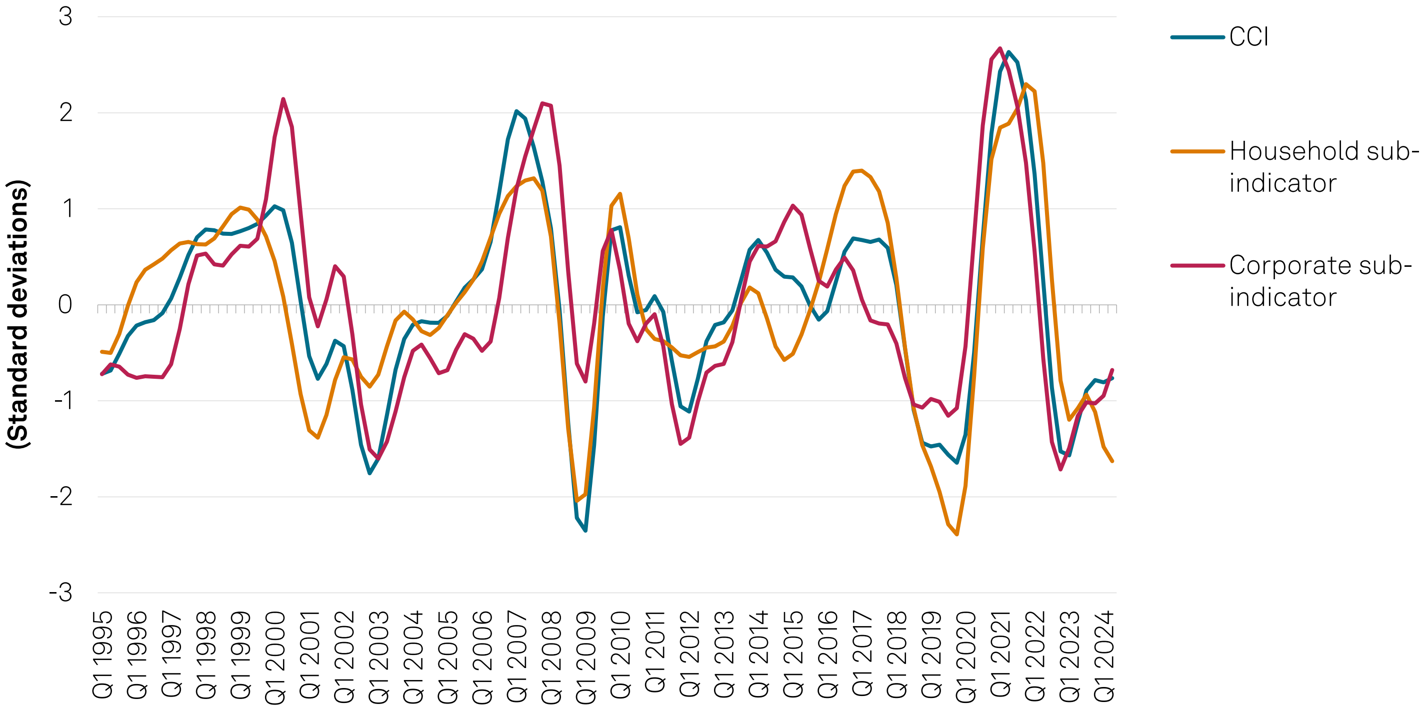
Top North American Risks | How These Risks Affect Borrower Credit



Not all relationships are displayed. The risks are discussed in Credit Conditions North America Q1 2025: Policy Shifts, Rising Tensions, Dec. 3, 2024.
Source: S&P Global Ratings.

Credit Cycle Indicator | Uneven Credit Recovery Prospects In 2025

North America Credit Cycle Indicator (CCI)

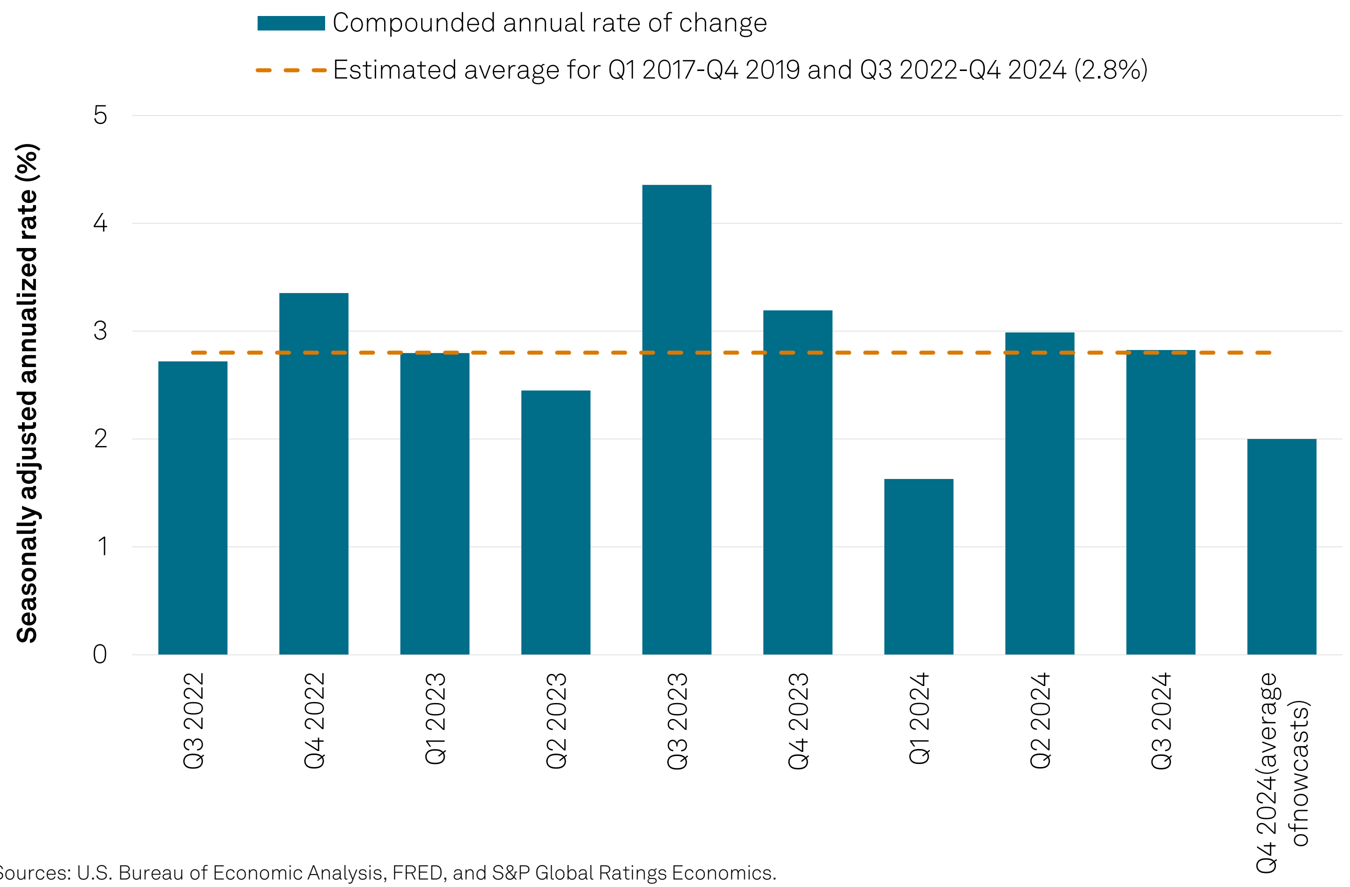


Peaks in the CCI tend to lead credit stresses by six to 10 quarters. When the CCI's upward trend is prolonged or the CCI nears upper thresholds, the associated credit stress tends to be greater. Sovereign risk is not included as a formal part of the CCI. The North America CCI includes Canada and the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

- **Potential credit upturn in 2025.** North America CCI resumed its climb, albeit slowly, from the trough reached in early 2023. This signals a gradual credit upturn in 2025. However, sector divergence is widening.
- **Corporates' recovery in sight.** The corporate sub-indicator increased steadily—corporate debt-to-GDP seemed to have bottomed out, and equity prices continued to rise. Projected earnings growth and supportive market conditions will likely pave the way for corporate credit to improve.
- **Households' credit correction continues.** The household sub-indicator declined further. High prices, the lagged effects of the previous rate hikes (e.g., mortgage renewals in Canada), and cooling labor markets weigh on households' financial health, especially that of lower-income cohorts, and could delay the sector's credit recovery.

U.S. Economic Outlook | Steady Growth, Significant Policy Uncertainty

Quarterly annualized U.S. real GDP growth (Q3 2022-Q4 2024)

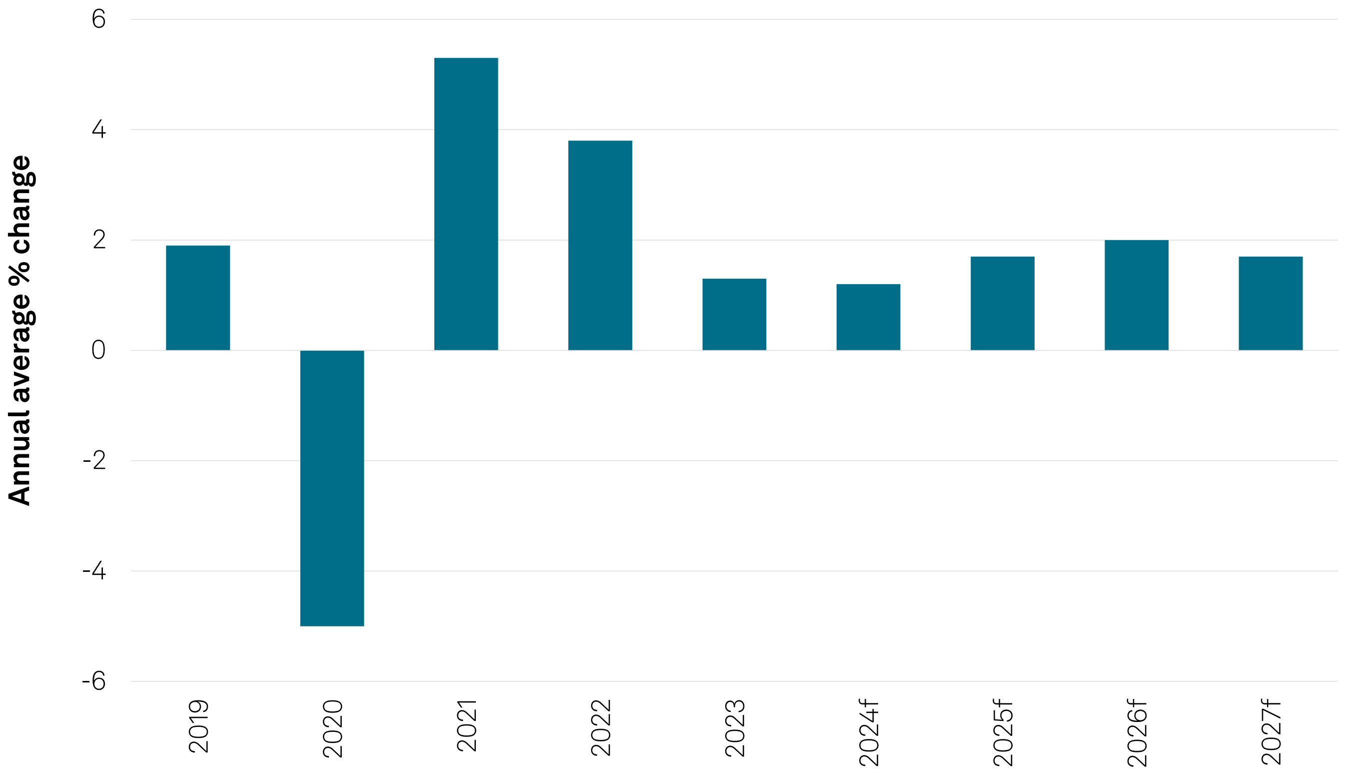


Sources: U.S. Bureau of Economic Analysis, FRED, and S&P Global Ratings Economics.
Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty, Nov. 26, 2024.

- S&P Global Ratings expects the U.S. economy to expand 2.0% in 2025 and 2026–incorporating partial implementation of President-elect Trump's proposed policies–following 2.7% growth this year.
- We expect the Federal Reserve to reduce the federal funds rate more gradually than we did in our September forecast and reach an assumed neutral rate of 3.1% by fourth-quarter 2026.
- Uncertainty around our forecasts is high given unknowns about how many of Trump's campaign promises will materialize.
- Trump's policy proposals from his campaign, at face value, could result in higher inflation in the near term and lower growth in the medium to long term. And the probability of a disruption to the Fed's easing bias over the next two years has risen.

Canada Economic Outlook | Immigration Policies Hamper Growth Expectations

Canada real GDP forecast

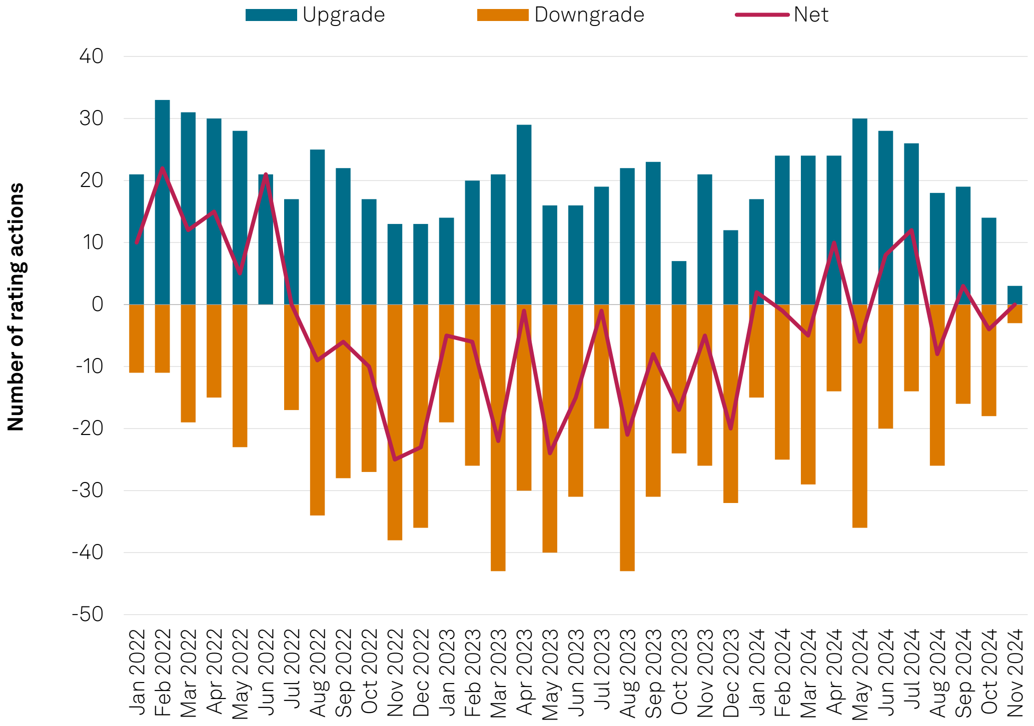


- We expect GDP will grow 1.2% in 2024 (unchanged from previous forecast) before accelerating to 1.7% in 2025 (was 2.0%).
- A substantial deceleration in population growth next year as new immigration curbs take effect will counter any boost to the economy from lower borrowing costs. Stalling population growth will simultaneously reduce aggregate demand and the labor supply.
- We anticipate the Bank of Canada will remain on course to steadily cut rates until it reaches 2.25% by the middle of next year.
- The key risk for Canada's economy from the U.S. presidential election is that a Trump Administration could pull out of the U.S.-Mexico-Canada Agreement, leaving Canada subject to any U.S. import tariffs.

f--Forecast. Source: S&P Global Ratings Economics. Economic Outlook Canada Q1 2025: Immigration Policies Hamper Growth Expectations, Nov. 26, 2024.

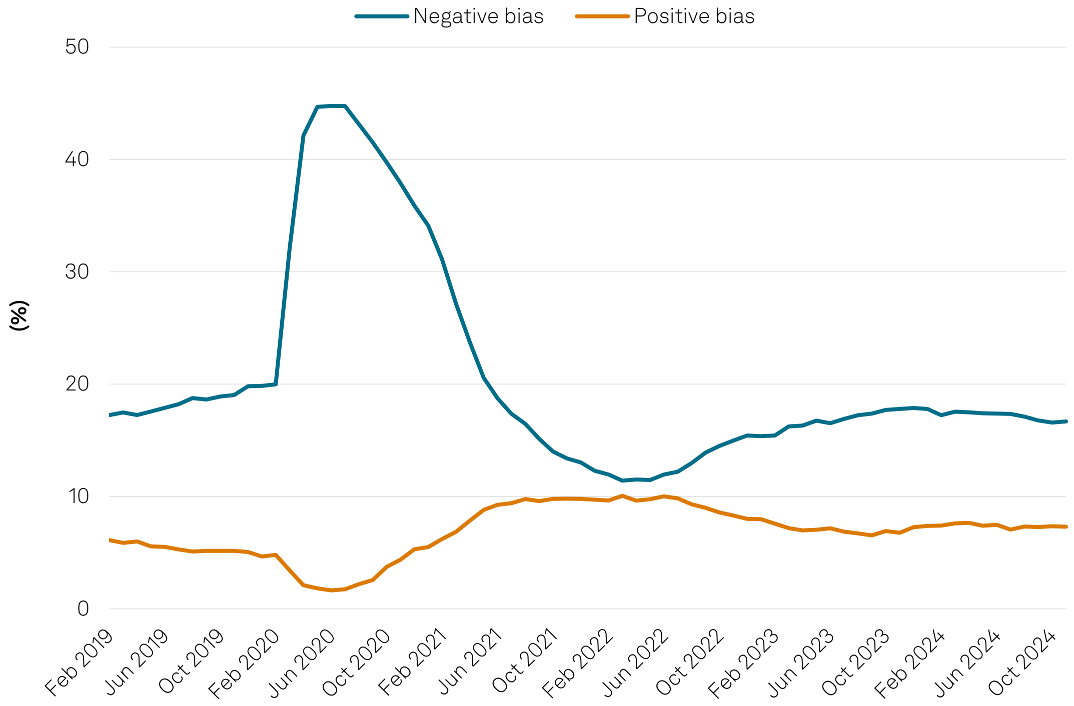
Ratings Trends | Positive Rating Momentum Will Likely Continue In 2025

Rating trends neutral in Q4 but net positive on the year
North American rating actions



Monthly data through Nov. 8, 2024, and covers financial and nonfinancial corporate rating actions.
Source: S&P Global Ratings Credit Research & Insights.

Net outlook bias narrowed to negative 9.4%
North American ratings outlook bias

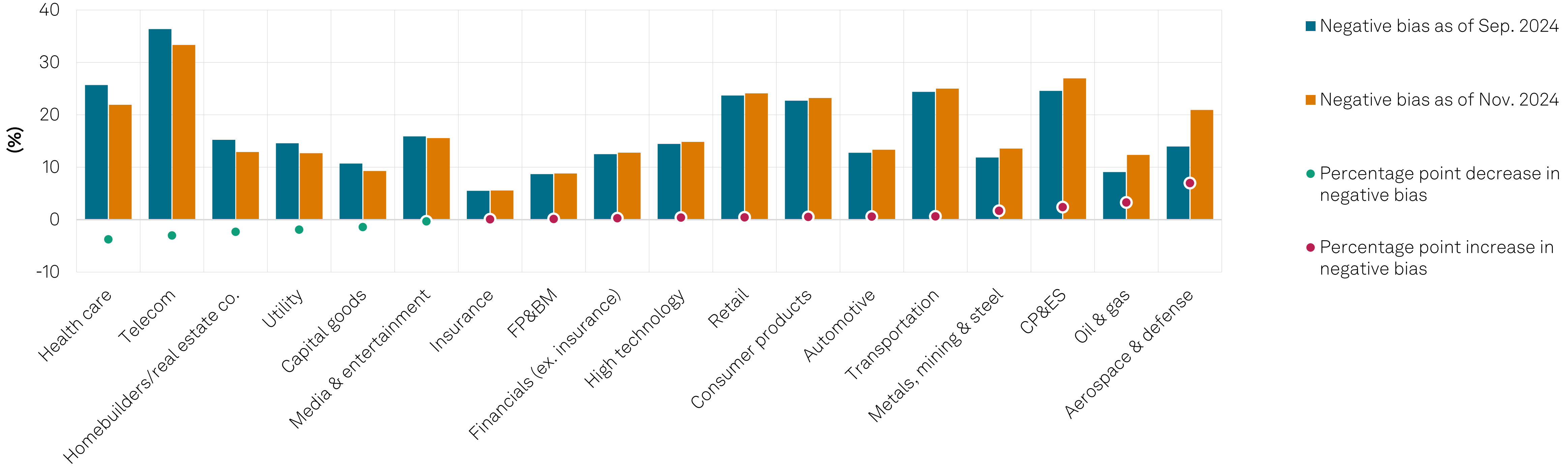


Monthly data through Nov. 8 , 2024 and covers financial and nonfinancial corporates. Negative bias--Percentage of issuers with a negative outlook or CreditWatch. Positive bias--Percentage of issuers with a positive outlook or CreditWatch. Includes U.S. and Canada. Excludes Sovereign and SPV. Source: S&P Global Ratings Credit Research & Insights.

Ratings Trends | Telecom Leads Negative Bias

- Telecom and chemicals, packaging and environmental services (CP&ES) have the highest negative bias—close to or more than 30% of issuers in these sectors have a negative outlook or are on CreditWatch with negative implications.
- Aerospace and defense and oil and gas saw the largest increases in negative bias from September to November 2024.

Negative bias by sector

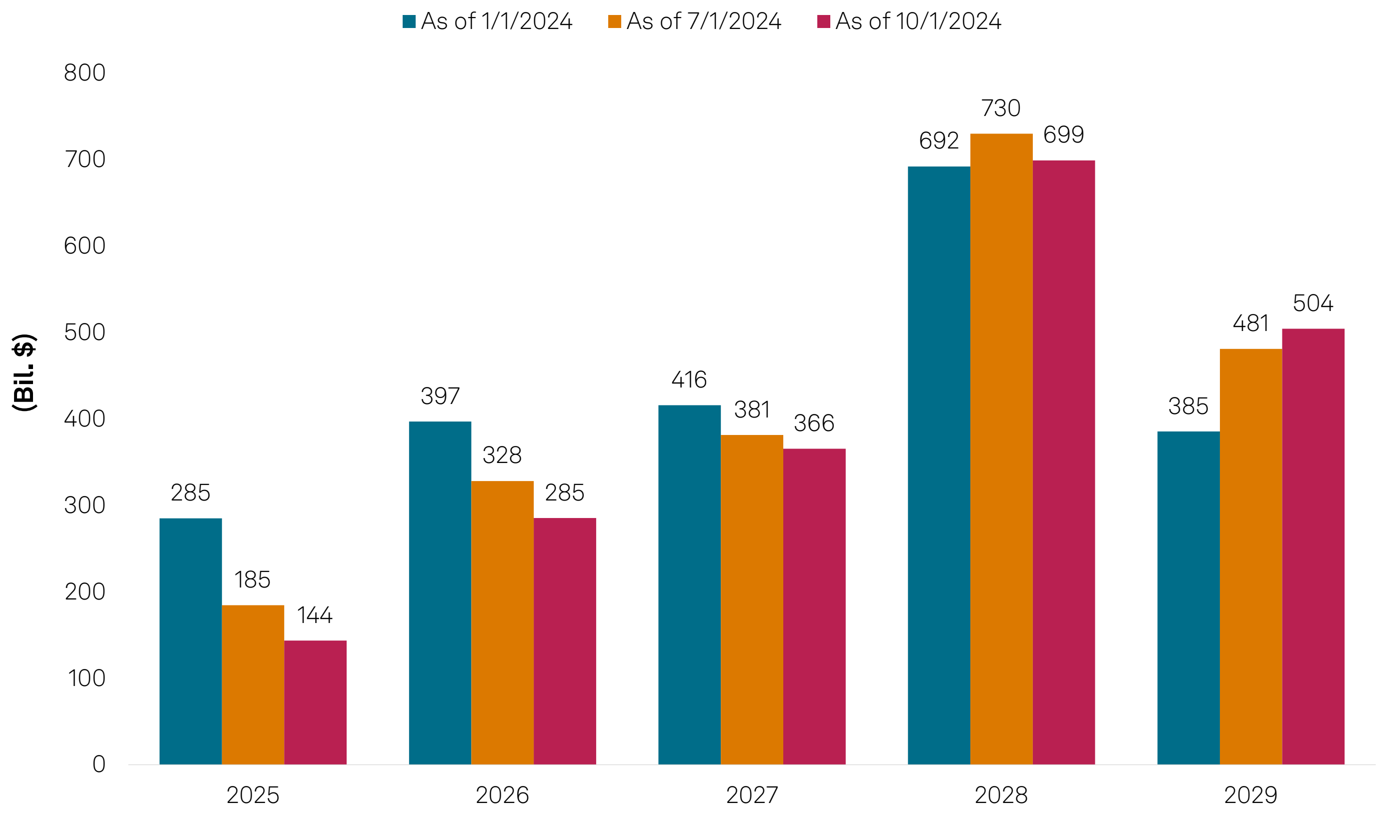


Data as of Nov. 8, 2024 and Sept. 30, 2024. CP&ES--Chemicals, packaging & environmental services. FP&BM--Forest products and building materials. Negative bias--Percentage of issuers with a negative outlook or CreditWatch. Includes U.S. and Canada. Excludes Sovereign and SPV. Source: S&P Global Ratings Credit Research & Insights.

S&P Global Ratings

Refinancing | Maturities Reach A Peak In 2028

U.S. speculative-grade nonfinancial corporate maturities

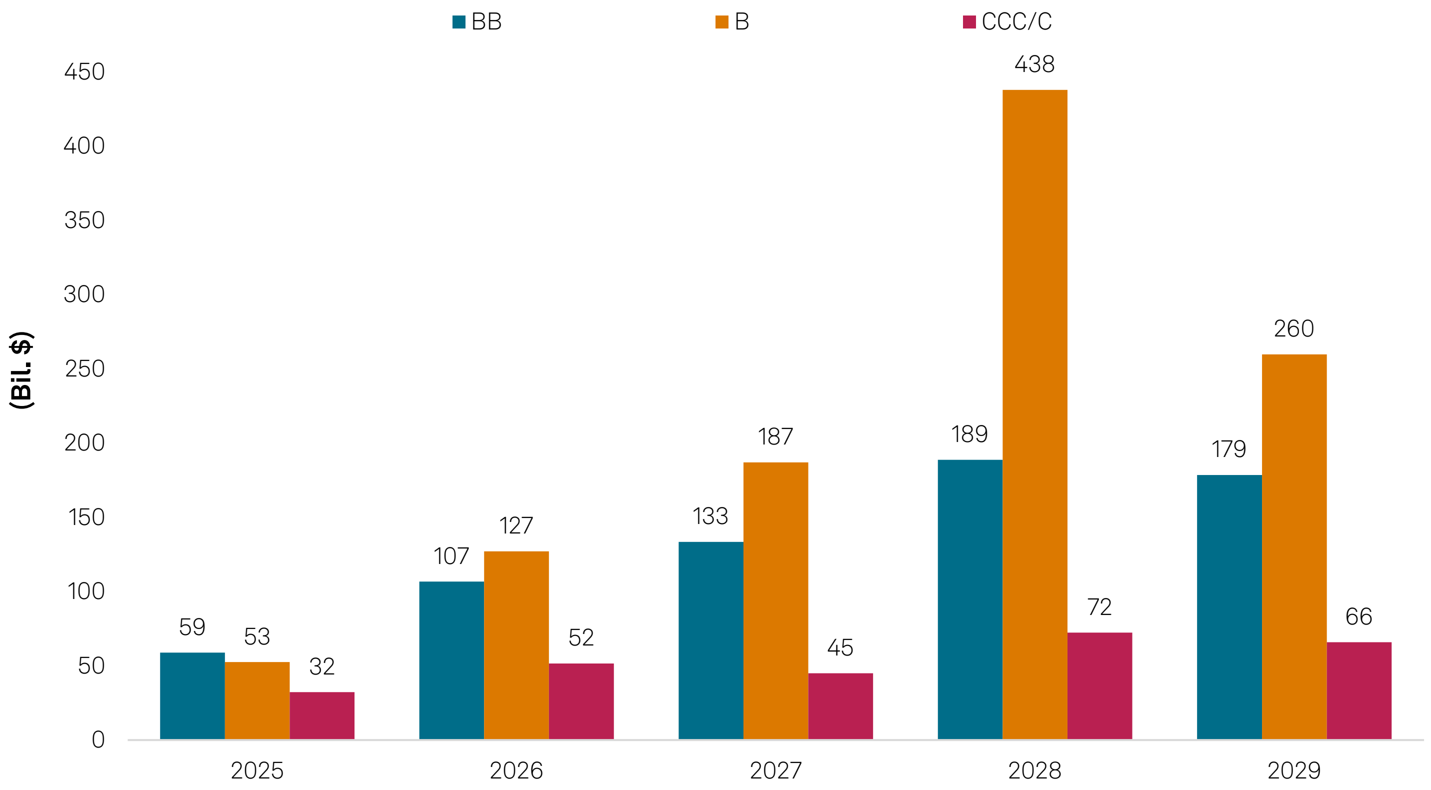


Includes nonfinancial corporate issuers' bonds, loans, and revolving credit facilities that are rated 'BB+' or lower by S&P Global Ratings from U.S.-based issuers.
Source: S&P Global Ratings Credit Research & Insights.

- Issuers have taken steps to address near-term maturities, reducing speculative-grade corporate debt due in 2025 by 50% during the first three quarters of this year.
- Speculative-grade maturities reach a peak near $700 billion in 2028, but borrowers already began making progress chipping away at these maturities as well in the past three months.
- 2028 is the first year speculative-grade nonfinancial maturities will exceed investment-grade, and this could add pressure on lower-rated borrowers if financing conditions become challenging.

Refinancing | Maturing Lower-Rated Debt Adds Credit Stresses

U.S. speculative-grade nonfinancial corporate maturities

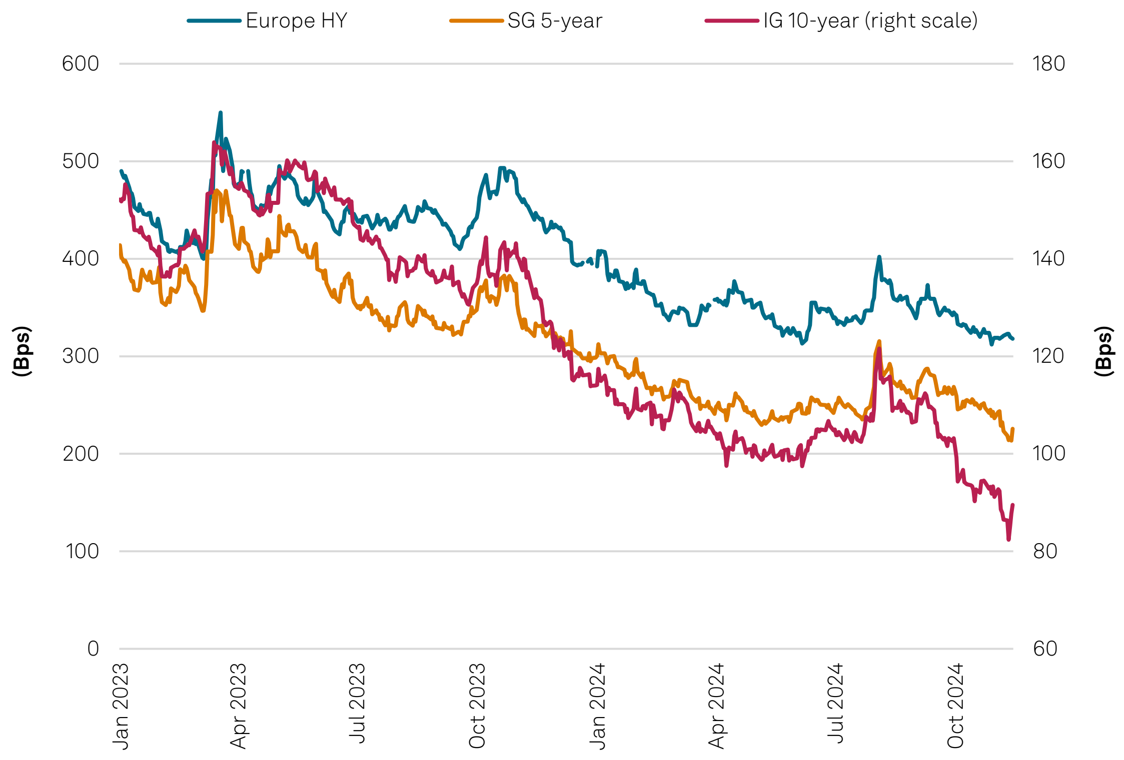


Data as of Oct 1, 2024. Includes nonfinancial corporate issuers' bonds, loans, and revolving credit facilities that are rated 'BB+' or lower by S&P Global Ratings from U.S.-based issuers. Source: S&P Global Ratings Credit Research & Insights.

- Higher-for-longer rates are adding to debt-servicing costs, pressuring cash flows and interest coverage of lower-rated borrowers.
- The lowest-rated ‘CCC’ category debt accounts for about 13% of the speculative-grade nonfinancial debt maturing through 2028. Although this represents a small share of the debt, this category likely faces the most refinancing risk, particularly if financing conditions turn more challenging.
- The ‘B’ category debt represents the majority of speculative-grade maturities over the next five years, with maturities escalating in 2028. Issuers have a window of opportunity over the next few years to refinance this debt.

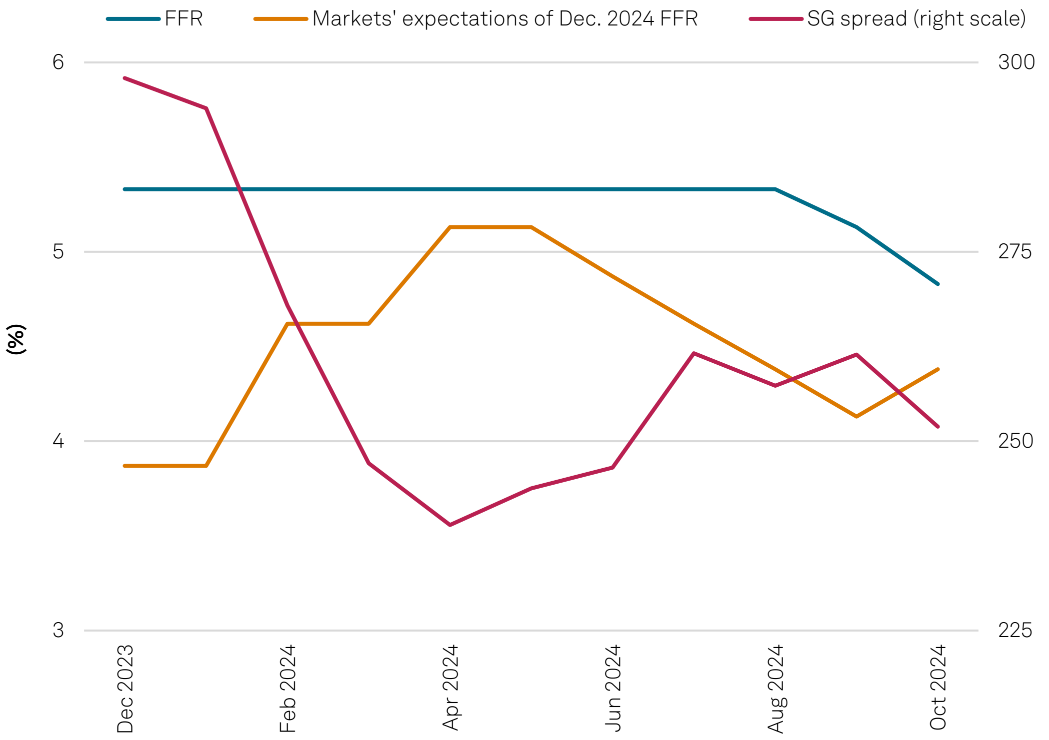
Financing Conditions | Remain Supportive Despite High Nominal Rates

U.S. bond spreads reach historical lows



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

Who's disappointed? Markets shrug off scuttled expectations

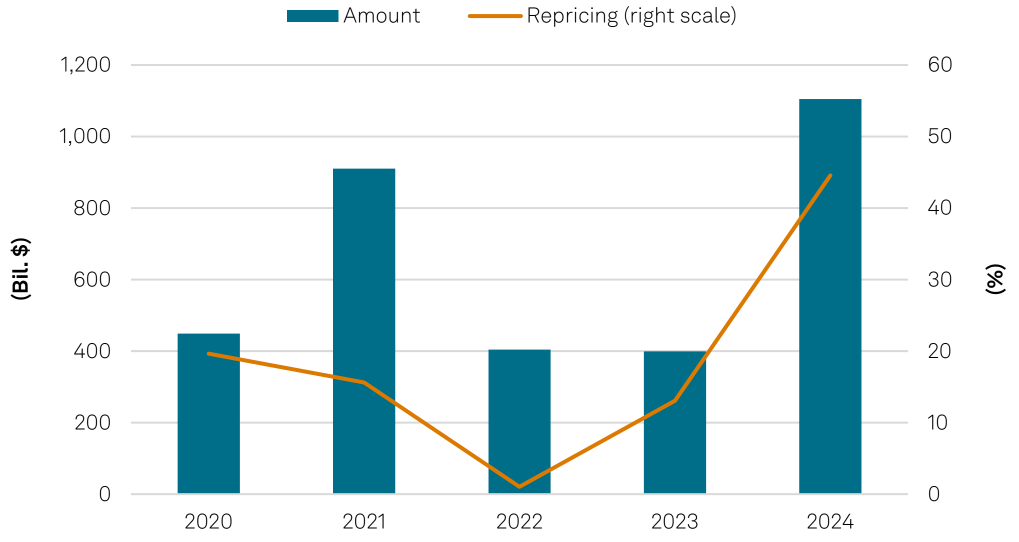


FFR--Fed funds rate. Data through Nov. 15, 2024. Sources: CME Group, S&P Global Market Intelligence, and S&P Global Ratings Credit Research & Insights.

Financing Conditions | Prudence And Selectivity

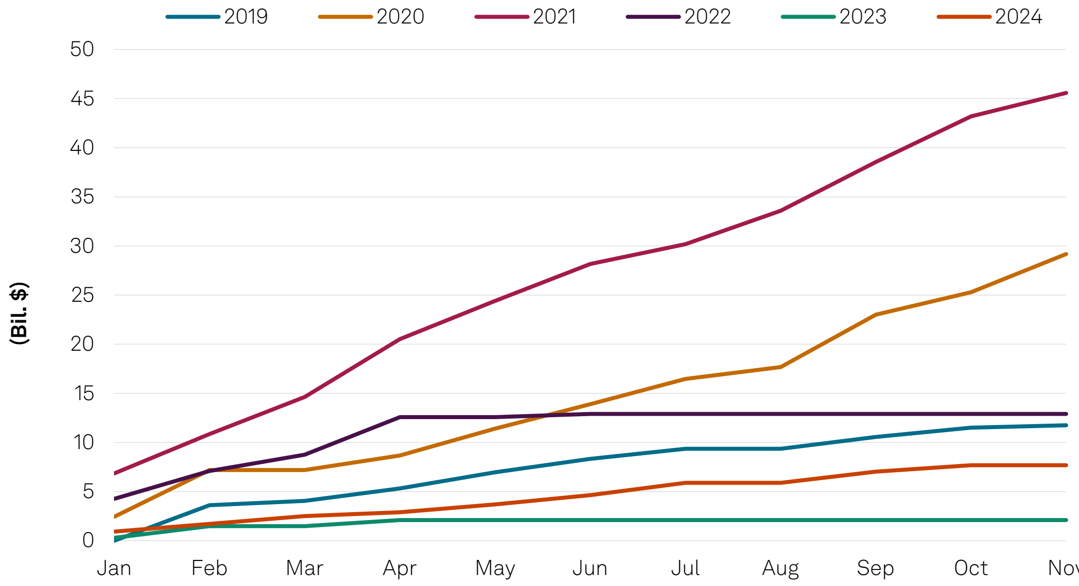
- Loan issuers locked in lower spreads via a surge of repricing activity in 2024, more than one-third of the $1.2 trillion market.
- Roughly 75% of speculative-grade debt issuance in 2024 has been for refinancing.
- Investors have shown some discernment—'CCC/C' bond issuance is still 34% below pre-pandemic level in 2019, while 'B-' is up 16%.

Loan issuers largely focused on easing debt burdens as much as possible



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

'CCC/C' bond issuance remains limited

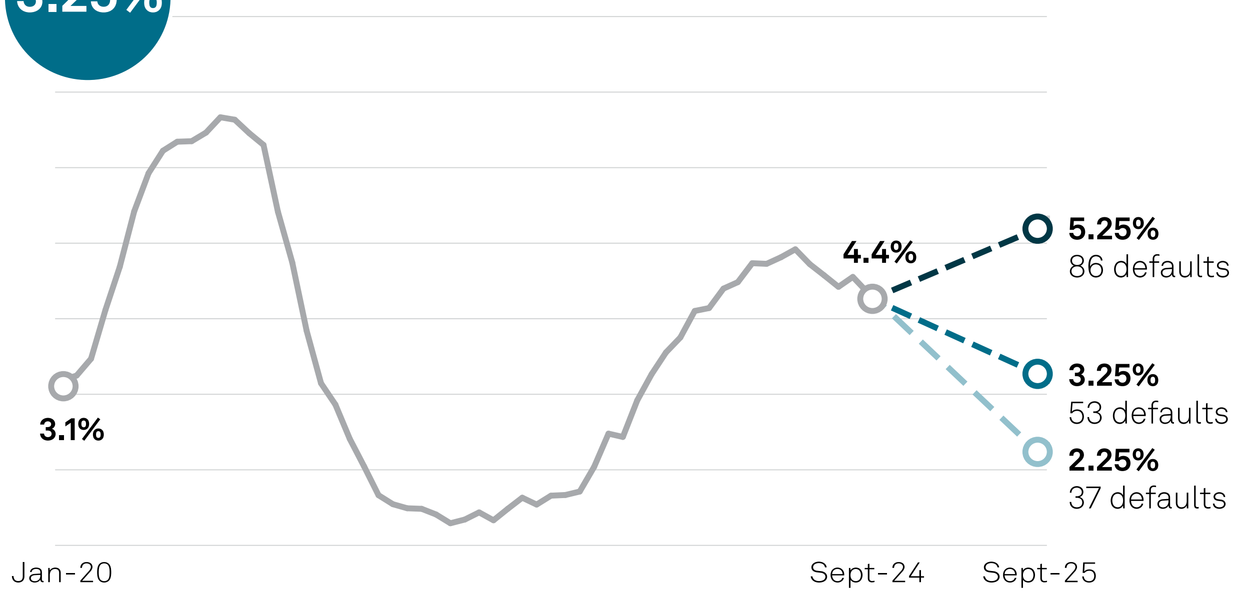


Data through Nov. 15, 2024. Sources: Refinitiv and S&P Global Ratings Credit Research & Insights.

Defaults | U.S. Spec-Grade Default Rate Could Fall To 3.25% By September

- With lower locked-in spreads in 2024 and declining interest rates expected next year, we expect the U.S. trailing-12-month speculative-grade corporate default rate to decline to 3.25% (53 defaults) by September, from 4.4% in September 2024.
- The proportion of 'CCC/C' ratings is historically large, with many firms already seeing negative cash flow and large maturities due in 2025. This signals a high level of sensitivity to a drop in growth or a further rise in interest rates, which could push the default rate to our pessimistic scenario of 5.25%.
- Consumer-facing sectors such as consumer products and media and entertainment, along with health care, are likely to continue leading among defaults as these remain sectors with high leverage and strained cash flow.

3.25% September 2025 baseline U.S. speculative-grade corporate default rate forecast



As of September 2024, S&P Global Ratings rated 1,644 U.S. speculative-grade corporate issuers.

Pessimistic scenario: Since the results of the U.S. election, we feel there's an increased likelihood of more tariffs and changes to immigration policy, with the potential for subsequent inflation and a possible slower pace of rate cuts.

Base scenario: We expect growth to slow but remain strong enough to sustain a soft-landing, with more rate cuts ahead. Market rates have been falling, albeit more slowly than they rose, but spreads remain close to the all-time lows of earlier this year. We feel this backdrop implies the default rate will continue to decline.

Optimistic scenario: Interest rates would fall faster than anticipated. This would need to offset the slowdown in growth that we expect in the coming quarters--although growth could also always surprise to the upside, as it has in the last year or more.

Data as of Sept. 30, 2024. Sources: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence's Credit Pro©.

U.S. Sovereign | New Administration's Fiscal Policy Key To Creditworthiness

- As President-elect Trump and a Republican-majority House and Senate are set to assume office, policy uncertainties persist. The broad direction of trade, immigration, and foreign policy appear clear, but specifics remain to be articulated as does implementation.
- Fiscal initiatives and execution are most relevant for sovereign creditworthiness; we assume high deficits will persist and debt-to-GDP to approach 100% amid challenges in garnering political cooperation to strengthen the U.S. fiscal profile.
- In the near term, we expect the current Congress to push the fiscal year (FY) 2025 December funding deadline forward to March 2025, avoiding a partial government shutdown in December, thus enabling the next Congress to focus on approving new cabinet officials.
- The suspension of the debt ceiling expires in early January, but we only expect timely Congressional action later in 2025—closer to the date at which the Treasury runs out of space to deploy extraordinary measures to remain below the debt ceiling.
- At the end of 2025, various tax cuts under the 2017 Tax Cuts and Jobs Act (TCJA) expire, which require Congress to revisit the tax code. We expect the Republican Congress to use Reconciliation to pass a FY 2026 budget, with instructions for tax and spending initiatives, impacting the deficit trajectory.
- The government aims to reduce spending with increased efficiencies: it's not clear (1) whether the administration will touch aspects of mandatory spending that account for 70% of the budget, (2) the order and magnitude of defense or nondefense discretionary spending cuts, and (3) whether there will be a full extension of the TCJA, or broader changes to the tax code.
- The U.S. high general government debt burden reflecting substantial annual increases in the general government's net debt are supported by its diversified and resilient economy, extensive monetary policy flexibility, and unique status as the issuer of the world's leading reserve currency.

Nonfinancial Corporates | Tariff Risk Heightens

Sharply higher tariffs suggested by the Trump campaign could affect sectors differently

	Global supply chain with material dependency on China	Less competitive cost structure with sizable domestic market
Engineered / High value add products	**NEGATIVE** Technology Renewable energy	
Commodity products	**SOMEWHAT NEGATIVE** Consumer products Retail and restaurants Health care	**SOMEWHAT POSITIVE** Chemicals Metals and mining

- We expect higher tariffs will be a somewhat negative factor for most sectors. However, certain sectors with less competitive cost structures and a strong domestic customer base may benefit.
- Supply chain changes are underway but building the necessary capacity will take time. Highly engineered products requiring more advanced manufacturing processes will be hardest to move. Where national security is a factor, there may not be an easy way around trade restrictions.
- Retaliatory actions remain hard to predict.
- Tariffs can also hamper potential growth opportunities.

Note: For more sector-level details, see U.S. Elections 2024: How Could A Second Trump Term Affect U.S. Credit?, Nov. 7, 2024.
Source: S&P Global Ratings.

Nonfinancial Corporates | Megatrends Unfold

Evolving risk – North America Corporates

Impact of risk: magnitude x clarity

Positive | Neutral | Some risk | More risk

	Artificial intelligence	Cyber	Climate change: transition risk	Climate change: physical risk	Block chain and digital assets	Supply chain
Aerospace and defense	Neutral	Some risk	Some risk	Neutral	Neutral	Some risk
Agribusiness	Neutral	Some risk	Some risk	Some risk	Neutral	Some risk
Autos	Neutral	Some risk	Some risk	Neutral	Neutral	Some risk
Business and technology services	Neutral	Some risk	Neutral	Neutral	Neutral	Neutral
Capital goods	Positive	Some risk	Neutral	Neutral	Neutral	Some risk
Chemicals	Neutral	Neutral	Some risk	Some risk	Neutral	Neutral
Consumer products	Neutral	Some risk	Neutral	Neutral	Neutral	More risk
Health care	Positive	More risk	Neutral	Some risk	Neutral	Some risk
Hotels, gaming and leisure	Neutral	Some risk	Neutral	Some risk	Neutral	Neutral
Media and entertainment	Some risk	Some risk	Neutral	Neutral	Neutral	Neutral
Metals and mining	Positive	Neutral	More risk	Some risk	Neutral	Positive
Oil and gas	Positive	Some risk	More risk	Some risk	Neutral	Positive
REITs, homebuilders and building materials	Neutral	Neutral	Some risk	Some risk	Neutral	Neutral
Retail and restaurants	Neutral	More risk	Neutral	Neutral	Neutral	More risk
Technology	Positive	Some risk	Neutral	Neutral	Neutral	More risk
Telecommunications and cable	Positive	More risk	Neutral	Neutral	Neutral	Neutral
Transportation cyclical	Neutral	Some risk	Some risk	Some risk	Neutral	Some risk
Unregulated power	Positive	Some risk	Some risk	Some risk	Neutral	Neutral
Utilities	Positive	Some risk	Some risk	More risk	Neutral	Neutral

Note: For more details, see Evolving Risks In North American Corporate Ratings: An Overview, Oct. 29, 2024.

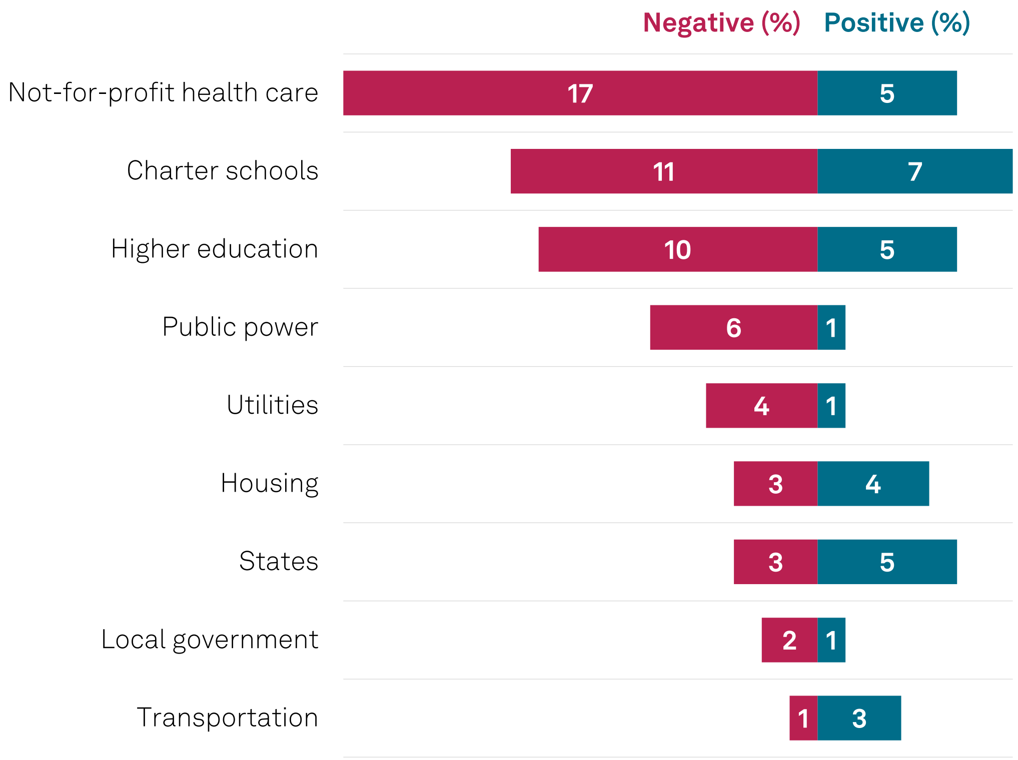
Source: S&P Global Ratings.

- We believe it is important to monitor long-dated megatrends because they can eventually transform industries and business processes in fundamental ways and create short-term event risk.
- We assess the potential impact of each megatrend and provide an overall view on how they may influence credit quality on a continuum of positive, neutral, some risk, or more risk.
- We base our assessments on the magnitude of the megatrend combined with the clarity of its impact as determined by exploring various transmission channels.

Public Finance | The 2025 Landscape

Rising inflation, falling GDP, and elevated interest rates will exacerbate any financial or economic pressures

Current outlook distribution (out of 100%)



Data as of Nov. 26, 2024. Source: S&P Global Ratings.

Our expectations for 2025

- We expect credit strength and stability for much of the sector, although some instability remains, particularly in health care, higher education, and utilities.
- Strong management and planning will be key to maintaining credit quality amid a broader economic slowdown, persistent cost pressures, and the end of stimulus funds.
- Higher inflation and slower GDP growth in the new Trump administration will erode recent gains, make balancing budgets more difficult.

Key risks around the baseline

- Challenges related to uncertainty about the direction and timing of Federal policy changes, and how the outcomes could affect programs and funding.
- In a Federal administration focused on deficit reduction, meaningful cuts to entitlement programs like Medicaid could have a notable effect on states, locals and not-for-profit health care providers.
- Policy shifts that slow growth or speed up inflation could have an out-sized effect on issuers already struggling to maintain balanced operations in the current economic environment.

Public Finance | Key Issues Affecting Credit Quality And Stability In 2025

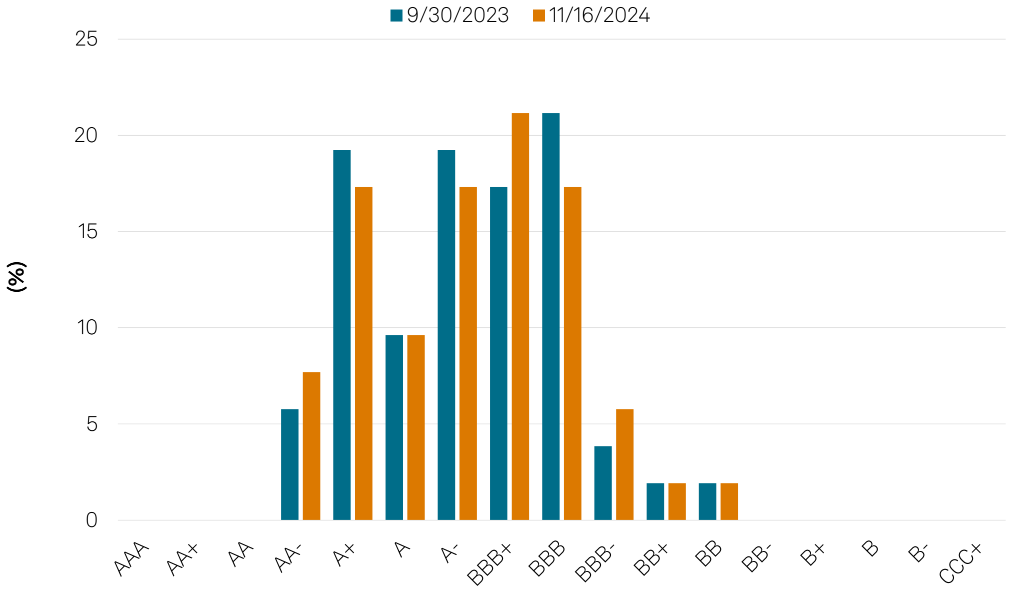
Key issue	Effects
Immigration	Lower immigration will slow consumption and shrink the workforce, leading to higher costs of labor in some sectors; it could also lower service costs and, potentially, revenue for some governments serving immigrant populations.
Tariffs	Rising prices for goods, particularly to operate and build facilities, will pressure budgets.
Medicaid	Formula or eligibility changes could negatively affect operating dollars for governments and not-for-profit health care providers.
Regulatory	Weaker environmental regulations will likely slow the pace of spending to meet federal requirements.
Climate	More frequent and damaging weather-related events will test local governments' preparedness; the price tag for disaster recovery and resilience will continue to grow.
Tax policy	The 2025 expiration of the Tax Cuts and Jobs Act will likely require extensive negotiations and compromises around federal budget; will muni tax exemption be on the chopping block again?

Source: S&P Global Ratings.

U.S. Banks | Ratings Outlooks Remain Largely Stable

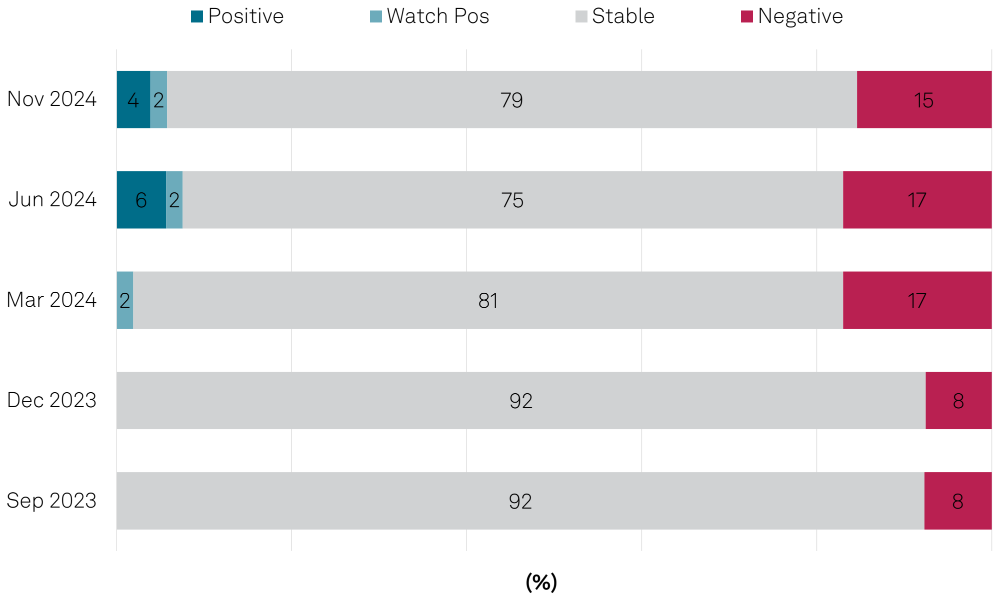
- While our outlooks on most banks remain stable, reflecting continued good performance, the proportion of negative outlooks has risen with five CRE-related revisions this year and several negative actions last year.
- There also have been some positive actions this year. We raised our rating on JPMorgan Chase and revised outlooks on OFG Bancorp and American Express to positive. We also placed Discover on CreditWatch positive after it agreed to be acquired by Capital One.

Operating company rating distribution



Note: Includes banks domiciled in Puerto Rico. Data as of Nov. 16, 2024. Source: S&P Global Ratings.

Outlook distribution



Note: Includes banks domiciled in Puerto Rico. Data as of Nov. 16, 2024. Source: S&P Global Ratings.

U.S. Bank Forecast | Resilient Earnings Amid Continued Economic Growth

Worsening | | Neutral | | Improving

Revenues	Net interest income may fall modestly in 2025 as asset yields drop more quickly than funding costs. Fee income growth may offset that, with lower rates supporting mortgage and investment banking along with wealth and asset management.
Expenses	Investments in technology and perhaps some increase in business activity may push expenses somewhat higher in 2025, notwithstanding banks' continued focus on cost controls.
Profitability	The banking industry should generate a return on common equity of 10%-11% in 2025, down only modestly from 2024, assuming an economic soft landing. A greater-than-expected slowdown could pull returns into the single digits.
Credit quality	Provisions and net charge-offs will likely incrementally worsen, driven especially by CRE, commercial and industrial, and credit cards. However, an economic soft landing, if achieved, should prevent a substantial decline in asset quality.
Capital	While some banks may increase capital ratios further, many others are unlikely to boost their ratios until regulators indicate how they will implement the Basel III Endgame. Lower rates may also lead to a drop in unrealized losses, relieving some pressure on adjusted capital ratios.
Funding and liquidity	Deposits have stabilized and we expect limited growth in 2025 as the Fed eases monetary policy. That could also support liquidity. While banks have good contingent liquidity, many still have relatively low cash balances.

Note: Forecast for next 12 months. Source: S&P Global Ratings.

U.S. Banks | Key Risks

Soft versus **hard landing**

Uncertainty with **monetary policy** and its impact on **asset prices**

Tariffs and other economic policies **add to inflation**

CRE and broad asset quality **deterioration**

Declines in deposit costs **lag asset yields materially with rates falling**

Geopolitical risks

Substantive **deregulation**

Challenges from nonbanks, fintech, and cybersecurity

Source: S&P Global Ratings.

Nonbank Financial Institutions | Areas Of Concern Will Vary By Subsector

- **Finance companies:** We expect U.S. finance companies to largely report stable operating performance in 2025 based on expected economic growth, expected decline in interest rates, ability to access funding markets based on investor risk appetite and tighter credit spreads, offset by possible worsening in asset quality. Subsectors we remain concerned about or have negative rating pressure are CRE lenders, CRE services, and residential mortgage originators/servicers. While other subsectors such as BDCs, consumer and auto lenders are expected to experience modest level of strain in asset quality, we don't anticipate that it will trigger a lot of negative rating actions. For BDCs, we expect PIK income to increase in 2025 as select borrowers continue to face liquidity pressures and that interest rate cuts will only marginally make an impact on PIK albeit with a lag in our opinion. Aircraft lessors continue to benefit in the demand significantly exceeding supply environment.
- **Asset managers:** Markets have trended up year to date, helping some asset managers' revenue and assets under management. However, some traditional asset managers continue to experience outflows and some smaller scale asset managers remain challenged by still elevated funding costs and liquidity pressures. Alternative assets managers are also not immune with an expected decline in performance fees and investment income; however, this has been more than offset by growth in private credit. Wealth managers are similarly vulnerable to market movements, but their asset base is stickier, and they offer other fee-based services, resulting in more stable earnings. We expect M&A across all three sub-sectors—if debt financed—could pressure ratings.
- **Securities firms:** Mostly stable outlooks based on solid capital and liquidity. Favorable equity market conditions support continued growth of client assets and trade activity for retail firms. Generally more favorable market conditions, including rising U.S. equity markets, have boosted underwriting volumes and advisory revenue; some are predicting full-year investment banking revenue for the industry to be up 30% vs. 2023. While relatively modest market volatility is typically a headwind to tech-driven trading firms' profitability, this has been much less so far in 2024 as many rated firms have posted very strong, even record results.
- **Financial market infrastructure:** FMIs for the most part reported good performance in 2024 due to robust fixed income trading volumes and very strong index options trading volumes still support equity trading revenues. We expect payment processing companies to post moderately slower revenue growth from payments this year as spending normalized, and inflation is slowing down.

Structured Finance | CMBS And Consumer ABS Asset Classes In Focus

North America structured finance sector trends (12-month outlook) Q1 2025

	Collateral performance outlook	Rating trends
Residential mortgages (RMBS)		
RMBS	Stable	Stable to positive
RMBS - servicer advance	Stable	Stable
Commercial mortgages (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 to negative
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	Stable	Stable
ABS - Non-traditional		
Timeshares	Somewhat weaker	Stable
Small business	Somewhat weaker	Stable
Tobacco	Somewhat weaker	Stable to negative
Transportation - aircraft	Somewhat stronger	Stable to positive
Transportation - container	Stable	Stable to positive
Transportation - railcar	Stable	Stable to positive
Whole business	Somewhat weaker	Stable
Triple net lease	Stable	Stable

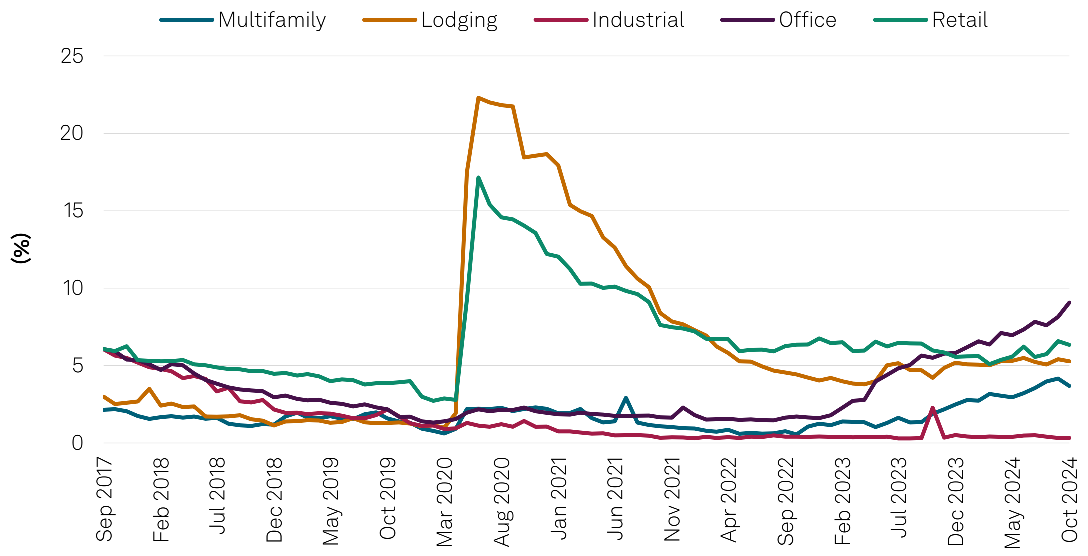
Note: FFELP—Federal Family Education Loan Program. Source: S&P Global Ratings.

- Our base-case expectations for overall rating trends remain relatively benign (stable), albeit with some deterioration in collateral performance in certain areas.
- CMBS backed by office loans remain a concern. With respect to conduits, pools that have paid down to include class B offices and regional malls may lead to downward rating actions.
- We see bifurcation amongst consumers. Robust asset valuations and low fixed-rate mortgages for homeowners that locked in prior to 2022 lend some buffer to borrowers in higher income/wealth strata. Those sectors with exposure to obligors with relatively lower FICOs are most susceptible to deteriorating collateral credit quality. There are some signs in auto data that some portion of prime borrowers are starting to feel the pinch.
- One risk to our base case is if inflation returns. This would directly impact the consumer/consumer ABS transactions and indirectly impact commercial real estate and CMBS through higher interest and capitalization rates. In addition, this would create a headwind for highly leveraged companies and some downstream impact to CLOs.

Structured Finance | Drilling Into CMBS And Auto Loan ABS Collateral Data

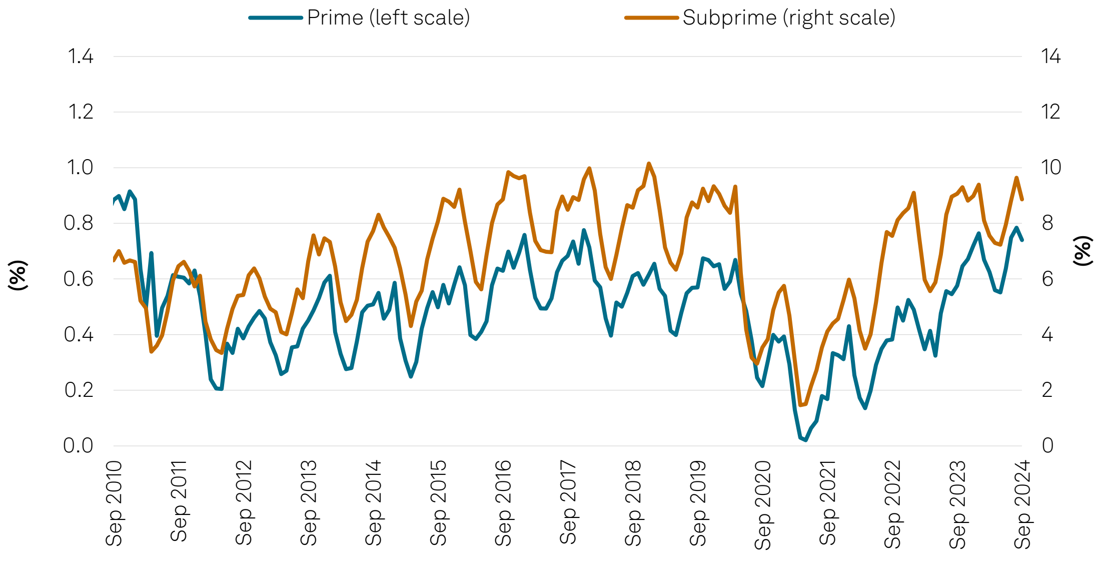
- The office delinquency rate sharply increased during the past 18 months and numerous single-borrower CMBS transactions backed by offices experienced downgrades in 2024. This trend is likely to continue into 2025.
- Auto loan ABS annualized prime sector net losses for September 2024 were at their highest September level since 2010. Subprime losses remain elevated, though 2023 and first-quarter 2024 vintage static pool cumulative net losses are trending lower than the 2022 highly elevated levels and are on par with 2016's and 2017's levels. Delinquencies increased to the highest September level since 2010 for prime and the highest ever September level for subprime.

CMBS delinquency rate by property type*



*Includes CRE CLOs. Source: S&P Global Ratings.

Auto loan ABS net loss rates



Monthly net loss rates are annualized. ABS—Asset-backed securities. Source: S&P Global Ratings.

S&P Global Ratings

Insurance | Balance Sheet Strength Continues To Underpin Credit Quality

North America insurance sector trends Q1 2025

	Current business conditions	Business conditions outlook	Sector outlook
Life insurers	Satisfactory	No change	Stable
Health insurers	Satisfactory	No change	Stable
Property and casualty 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. *Indicates changes since Q4 2024. Property & casualty sector outlook was revised to stable from negative in late November 2024.

Source: S&P Global Ratings.

Our expectations for 2025:

- Limited ratings activity (less than 10% of portfolio)
- Average financial strength rating for the core portfolio (life, health, property/casualty) likely to stay in the upper half of the strong ('A') category
- Broad access to capital across the sector
- Key rating factors: pricing, interest rates, capitalization, medical utilization, claim cost development

Key risks around the baseline:

- CRE: valuation shock, especially for office properties, compounded by extension to related classes
- Catastrophic events: elevated frequency / severity
- Slowing economy leading to heightened defaults/ downgrades in the corporate bond market
- Inflation: reversal of the declining trend

Appendix | Economic Data And Forecast Summaries

U.S. – S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP (year % ch.)	2.9	2.7	2.0	2.0	1.7
Consumer spending (year % ch.)	2.5	2.6	2.3	2.0	2.3
Equipment investment (year % ch.)	3.5	3.7	4.2	4.3	2.8
Nonresidential structures investment (year % ch.)	10.8	3.4	0.1	2.4	0.3
Residential investment (year % ch.)	(8.3)	3.9	0.8	2.6	2.3
Core CPI (year % ch.)	4.8	3.4	2.6	2.4	2.3
Unemployment rate (%)	3.6	4.0	4.2	4.2	3.9
Housing starts (annual total in mil.)	1.42	1.35	1.36	1.41	1.46
Fed funds rate (%)	5.0	5.1	3.9	3.4	3.1
10-year Treasury (%)	4.0	4.2	4.0	3.6	3.5

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

Canada – S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP (year % ch.)	1.3	1.2	1.7	2.0	1.7
Consumer spending (year % ch.)	1.7	2.1	2.0	2.0	2.0
Nonresidential fixed investment (year % ch.)	(0.9)	(1.2)	3.5	2.8	2.0
Residential investment (year % ch.)	(10.3)	0.4	3.0	0.9	0.0
Core CPI (year % ch.)	3.9	2.6	2.1	2.2	1.8
Unemployment rate (%)	5.4	6.3	6.5	6.0	5.8
Housing starts (annual total in thousands)	240.8	243.6	228.9	215.2	215.9
Exchange rate per US$	1.35	1.36	1.38	1.33	1.30
Bank of Canada policy rate (year-end %)	5.00	3.25	2.25	2.00	2.25
Government of Canada 10-year bond yield (%)	3.4	3.3	2.8	2.6	2.6

Note: All percentages are annual averages, unless otherwise noted. Core CPI is consumer price index excluding energy and food components. f--Forecast.
Sources: Statistics Canada, Bank of Canada, S&P Global Market Intelligence, and S&P Global Ratings Economics' forecasts.

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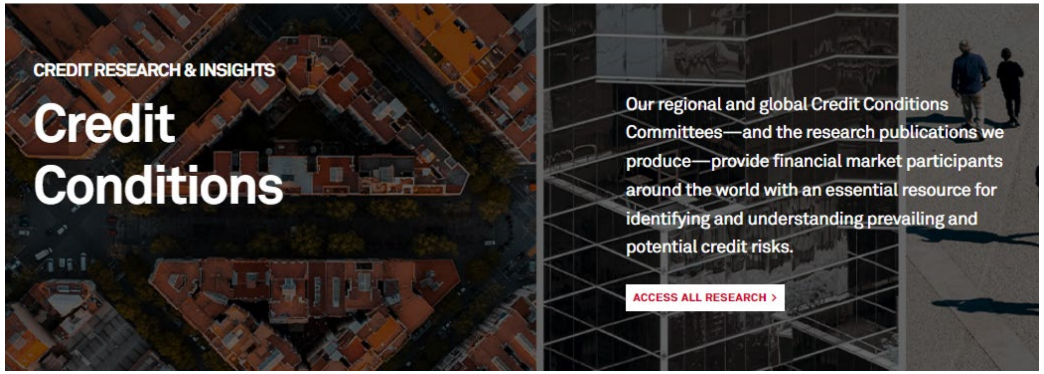

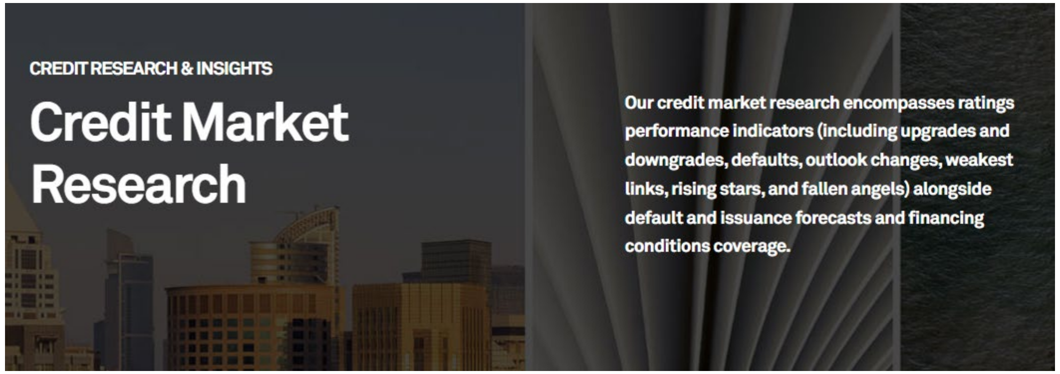

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