US TARIFFS AND GLOBAL DEFAULT RISK: 9 MONTHS ON

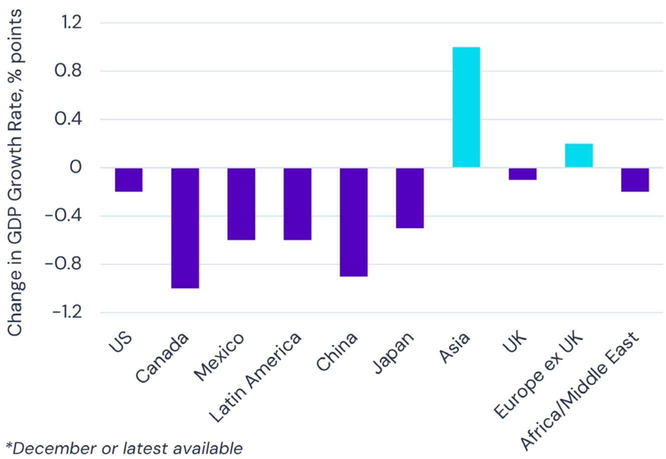
Equity markets adapted quickly to US tariffs, but Credit Benchmark consensus data shows material and uneven shifts in global default risk.

US Tariffs announced on 2nd April 2025 were, briefly, a major shock to equity markets; but after multiple amendments, investors are less sensitive to new announcements. However, Credit Benchmark consensus default risk estimates show material shifts in underlying credit quality, which are at least partly due to the negative and positive impacts of tariff changes.

GDP, Credit and Equity Markets

The two charts below show GDP growth rate changes since April 2025 (first chart), and default risk changes vs. relative equity market performance (second chart).

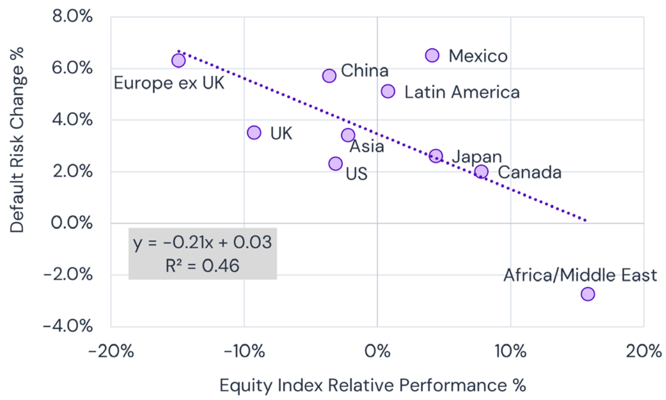
Changes in GDP Growth Rate Apr-Dec* 2025



*December or latest available

Source: Economist

Default Risk vs. Equity Performance



Source: Economist, Credit Benchmark

GDP growth rates have slowed in US, Canada, Latin America, China, Japan, UK and Africa / Middle East. They have accelerated in Asia and Europe - the latter from a low base. Asian growth rates are higher in multiple medium sized economies, despite tariffs – possibly due to Chinese production shifts.

Since April 2025, there is a modest inverse relationship between credit risk changes and relative equity performance for the economies plotted here. This is mainly due to European equity underperformance with rising credit risk, versus strong Africa / Middle Eastern markets with improving credit. There is a similar but weaker relationship in some of the other major economies over this period.

Global Industry Changes

The table below shows changes in default risk and average net downgrades by global sector (ex US) in 2025, based on Credit Benchmark's consensus data:

Average Default Risk Changes, Global Industries ex US

Industry	Jan-Mar 25	Apr-Dec 25
Basic Materials	3.0%	7.3%
Consumer Goods	1.1%	4.3%
Consumer Services	0.8%	2.7%
Financials	-0.7%	-2.7%
Health Care	-0.9%	1.5%
Industrials	1.0%	1.7%
Oil & Gas	2.8%	3.1%
Technology	-0.1%	2.0%
Telecommunications	0.7%	3.5%
Utilities	1.1%	-0.4%
	correlation pre/post:	0.69

Average Credit Risk Index (CRI – Net Downgrade %), Global Industries ex US

Industry	Jan-Mar 25	Apr-Dec 25
Basic Materials	2.1%	1.9%
Consumer Goods	1.1%	1.4%
Consumer Services	1.1%	0.9%
Financials	-0.1%	-0.5%
Health Care	0.2%	0.3%
Industrials	0.9%	0.6%
Oil & Gas	0.8%	1.0%
Technology	0.1%	0.4%
Telecommunications	0.8%	0.8%
Utilities	-0.3%	0.5%
	correlation pre/post:	0.86

Since tariffs were announced, Basic Materials have deteriorated by more than 7%, followed by Consumer Goods, Telecommunications, and Oil & Gas in the 3% to 4.3% range. Consumer Services, Technology, Industrials, Health Care run from 1.5% to 2.7%. Financials and Utilities are the only sectors to see an improvement.

Industry rankings are similar in the first three months of 2025, and the pre/post correlation is almost 0.7 – implying that the impact of tariffs was anticipated by major banks.

Net Downgrades show a very similar pattern although Utilities show some deterioration since April 2025.

Corporate Changes by Country

For Corporates by country, the same metrics and time periods show some dramatic differences:

Average Default Risk Changes, Corporates

Country	Jan-Mar 25	Apr-Dec 25
Australia	1.9%	2.8%
Belgium	0.1%	3.0%
Bermuda	-3.8%	-8.0%
Brazil	2.4%	3.0%
Canada	3.8%	2.3%
Cayman Islands	-4.3%	-6.5%
Chile	-0.5%	5.7%
China	2.3%	7.9%
Finland	-0.6%	2.3%
France	1.0%	1.9%
Germany	-0.1%	15.9%
Hong Kong	-2.2%	3.6%
India	-3.4%	-3.0%
Ireland	1.2%	2.3%
Japan	0.2%	0.9%
Korea, Republic of	3.2%	11.1%
Luxembourg	2.2%	10.6%
Mauritius	-0.4%	-5.9%
Mexico	1.1%	5.7%
Netherlands	-0.1%	1.4%
New Zealand	3.6%	3.9%
Norway	3.1%	-0.7%
Philippines	1.3%	8.6%
Poland	-1.4%	0.1%
Singapore	0.3%	-1.2%
South Africa	1.4%	-1.8%
Spain	-1.3%	-2.1%
Sweden	2.0%	3.9%
Switzerland	0.1%	6.0%
Taiwan	1.2%	15.7%
United Arab Emirates	-5.1%	-5.3%
United Kingdom	0.9%	2.6%
United States	0.8%	2.3%
	correlation pre/post:	0.55

Average Credit Risk Index (CRI – Net Downgrade %), Corporates

Country	Jan-Mar 25	Apr-Dec 25
Australia	0.6%	1.3%
Belgium	0.3%	1.5%
Bermuda	-2.2%	-2.4%
Brazil	1.8%	0.6%
Canada	2.1%	0.5%
Cayman Islands	-1.7%	-2.5%
Chile	-0.2%	0.9%
China	0.6%	1.0%
Finland	2.3%	1.9%
France	1.8%	1.9%
Germany	0.7%	3.5%
Hong Kong	0.2%	1.0%
India	-0.4%	-1.4%
Ireland	0.5%	0.9%
Japan	-0.3%	0.5%
Korea, Republic of	2.8%	2.9%
Luxembourg	0.4%	2.3%
Mauritius	0.1%	-1.8%
Mexico	1.1%	1.3%
Netherlands	0.0%	0.9%
New Zealand	2.8%	1.5%
Norway	2.2%	1.5%
Philippines	-4.9%	3.7%
Poland	0.0%	0.7%
Singapore	0.4%	-0.2%
South Africa	1.3%	-0.1%
Spain	-2.0%	-1.1%
Sweden	2.5%	1.1%
Switzerland	0.5%	2.1%
Taiwan	1.4%	3.0%
United Arab Emirates	-3.7%	-0.3%
United Kingdom	0.9%	0.8%
United States	0.5%	0.6%
	correlation pre/post:	0.30

Most offshore centres have done very well, but Luxembourg has deteriorated by more than 10% in the post-tariff period. Germany, Taiwan and Korea have also been badly affected, with double-digit increases in default risk – and in some cases these were not anticipated in the first few months of the year. Apart from offshore domiciles, the only countries to show default risk improvements are India, Norway, Singapore, South Africa and Spain. All other countries, including the US, show some deterioration. Poland, Japan, Netherlands and France have only been marginally affected so far.

The CRI (net downgrade) table shows a similar overall pattern, but more countries record average net downgrades in the post-tariff period. The CRI captures broad-based deterioration, so there is a risk of further rises in default risk over coming months even in countries that have so far seen stable or improving PDs.

Country / Sector Highlights

The next table shows the Country/Sector detail (including Financials) highlighting the top 25 largest increases and decreases in default risk:

Largest Increase in Default Risk Apr-Dec 25

Largest Increase in Default Risk Apr-Dec 25	% Change
EU Industrial Metals & Mining	42.9%
Europe Iron & Steel	32.8%
Latin America Specialty Chemicals	30.1%
Germany Automobiles	29.3%
Germany Specialty Chemicals	27.3%
Latin America Automobiles & Parts	26.7%
Republic of Korea Specialty Chemicals	26.3%
Latin America Chemicals	24.5%
Hong Kong Real Estate Investment & Services	24.1%
Latin America Integrated Oil & Gas	23.9%
Switzerland Consumer Goods	23.5%
Africa Oil & Gas	22.8%
Asia Clothing & Accessories	22.6%
Republic of Korea Basic Materials	22.6%
United States Trucking	22.0%
Germany Basic Materials	21.1%
EU Food Retailers & Wholesalers	20.7%
United States Recreational Services	20.4%
Global Iron & Steel	19.9%
China Basic Materials	19.5%
EU Food & Drug Retailers	19.3%
Latin America Oil & Gas Producers	19.3%
EU Basic Materials	18.4%
Canada Farming, Fishing & Plantations	17.6%
Mexico Banks	17.6%

Largest Decrease in Default Risk Apr-Dec 25

Largest Decrease in Default Risk Apr-Dec 25	% Change
Middle East Utilities	-15.7%
Africa Automobiles	-15.6%
United States Reinsurance	-15.2%
Global Gold Mining	-14.7%
United States Property & Casualty Insurance	-14.6%
South Africa Financial Services	-13.4%
South Africa Automobiles	-13.3%
Africa Conventional Electricity	-12.9%
United States Publishing	-12.9%
Turkey Banks	-12.8%
United Kingdom Aerospace & Defense	-12.6%
Africa Financial Services	-12.4%
North America Publishing	-11.9%
Africa Farming, Fishing & Plantations	-11.6%
South Africa Industrial Machinery	-11.5%
United States Oil Equipment & Services	-11.4%
North America Retail REITs	-11.4%
North America Computer Hardware	-11.4%
Asia Auto Parts	-11.4%
Turkey Financials	-11.2%
Hong Kong Banks	-11.2%
United Kingdom Aerospace	-11.2%
North America Oil Equipment & Services	-11.1%
Singapore Industrial Suppliers	-10.5%
United States Computer Hardware	-10.4%

The largest risk increases are concentrated in Basic Materials, including Chemicals, Non-Precious Metals, Autos, Retailers, and some Oil & Gas producers. The geographic spread is wide, although the US impact is limited to Trucking and Recreational Services. Asia is also patchy, with Basic Materials as the only sector where China features directly.

Credit risk improvements are widespread in Africa and the Middle East, which reflects some shifts in the balance of global financial power as well as the importance of African commodities to the global Technology sector. Autos also appear (in Asia and Africa) and UK Aerospace / Defence reflects rising geopolitical tensions. Financials, especially Insurance, are a major beneficiary since April 2025 in multiple countries. Gold Mining is also an unsurprising strong performer.

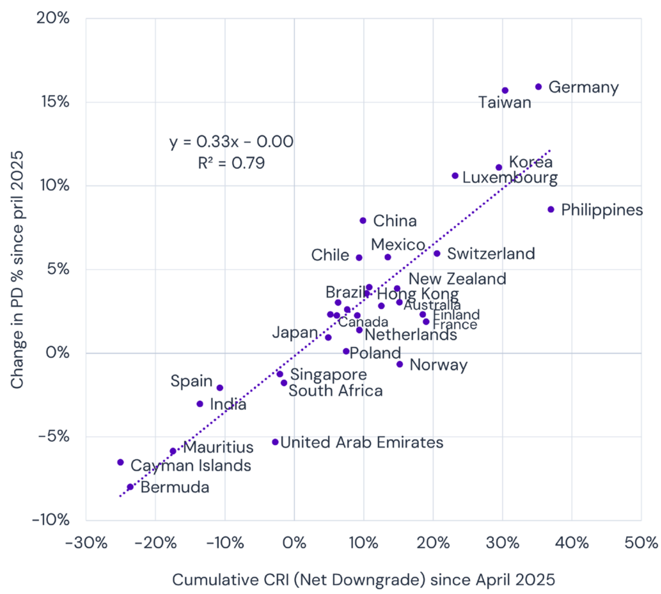
PD and CRI Changes Since April 2025 by Country

Credit Benchmark launched the US Private Obligor Credit Risk Index ("CRI") in Q4 2025, to track the monthly pattern of net credit downgrades across Corporates and Financials for medium and large borrowers without an equity market listing. The same metric can be used for any universe of obligors.

This report covers a turbulent period for underlying credit risk in the global economy. While changes in the average consensus PD are used here to show the direct impact on credit, the CRI can be used to assess the breadth of that impact. Since it counts all downgrades net of upgrades (however small) it can show when credit is broadly deteriorating in multiple countries or sectors which may have a strong bearing on portfolio management decisions.

The chart below plots the relationship between cumulative CRI since April 2025 and PD change for Corporate credit universes in the countries listed in this report:

Cumulative CRI vs PD Changes in Corporates by Country, Apr-Dec 2025



The fitted line shows a strong positive relationship with a slope of 0.33 – in other words, over this period, a 10% increase in CRI is associated with a 3.3% increase in PD.

There is some evidence in preliminary Credit Benchmark research that the CRI might have some predictive value in anticipating future PD changes, although the strength of any effect and the prediction lag may be variable.

Countries that do not lie close to the fitted line (e.g. Germany, Norway, Taiwan, UAE) may experience broad-based downgrades – a small change in CRI and a large change in PD probably implies that the PD change is concentrated in a few obligors or a single sector.

Conclusions

Global corporate credit deteriorated moderately in 2025, although some geographies bucked the trend. The main losers were Basic Materials including Chemicals and Non-Precious Metals, as well as Autos and Retail in many regions. Financials broadly improved along with Precious Metals.

Tariffs have clearly had an impact, but some of the moves noted here are due to general credit shifts, interest rate cycles and geopolitics. Medium sized Asian countries shrugged off tariffs, probably because of Chinese production relocating. Europe has struggled but that is partly due to the need to increase defence spending, and generally sluggish growth in Germany.

So far, tariffs have not brought the US any obvious net credit benefit – it has deteriorated in line with Canada, although outperforming China and Europe.

Global supply chains are shifting, benefitting medium sized Asian countries; while the scramble for raw materials has been a major positive for Africa and the Middle East.

Tariffs clearly have an impact, exposing concentration risk and other pockets of risk. But the global economy has been swift to adapt so the impact may not be what was intended. If current trends continue and global manufacturing demand softens, Germany, Taiwan and Korea may see additional deterioration. Conversely, Financials-heavy countries would remain net beneficiaries, as would countries benefitting from relocation of manufacturing.

Clients can use Credit Benchmark's Consensus Credit Ratings and sector- and country-level analytics to track how tariff impacts, supply-chain shifts, and macro pressures are translating into real changes in default risk across global portfolios.

Get in touch to learn more.