Corporates

Corporate Outlook 2025

Amid global challenges, Europe's corporate credit outlook is balanced except for automotive and chemicals, which face cyclical, structural challenges. Real estate financing has improved.

30 January 2025

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Non-financial corporate credit outlook | Overview

Main expectations

- **Credit outlook balanced:** robust finances in most sectors offset by uncertainty, fading tailwinds.
- **Strong corporate finances:** conservative policies have supported investment-grade companies.
- **Challenging environment:** higher-for-longer rates, uneven growth, political & trade tensions create uncertainty.
- **Refinancing pressures:** record debt due in 2025, though financing is accessible as rates ease from peaks.
- **Sector risks:** adverse cyclical, structural factors weigh on auto and chemicals. Small firms and high-yield borrowers face default pressures.

Sector highlights

- **Automotive:** structural challenges, cyclical downturn will squeeze sales and profits, compounded by tariff- and regulatory uncertainty. Outlook: negative (from balanced).
- **Chemicals:** weak demand in key markets like automotive and construction, along with high input costs, regulatory hurdles to weigh on sector. Outlook: negative (unchanged).
- **Oil & Gas/Power generators:** softer energy prices will weaken credit metrics but maintain overall quality. Outlook: balanced (from positive).
- **Real Estate:** easing financing conditions improve the sector's position. Outlook: balanced (from negative).

Downside risks

- **Geopolitical uncertainty:** second Trump presidency could reshape US energy, trade, and foreign policy, reversing global cooperation and potentially harming EU firms and suppliers. Likely negative overall.
- **Wildcard events:** rising risks of unexpected shocks which undermine credit quality of vulnerable sectors and companies.
- **Bankruptcies:** default rates remain high, mostly among micro- and small firms, with harmful knock-on effects; set to plateau only in H2.
- **Severe cyclical downturn**: Slower-than-expected recovery, or recession, would escalate credit tensions in some sectors.

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Macro outlook | Growth rebounds, but inflation sticky, interest rates high

Moderate growth expectations for Europe, persistent core inflation and higher constant cost of borrowing

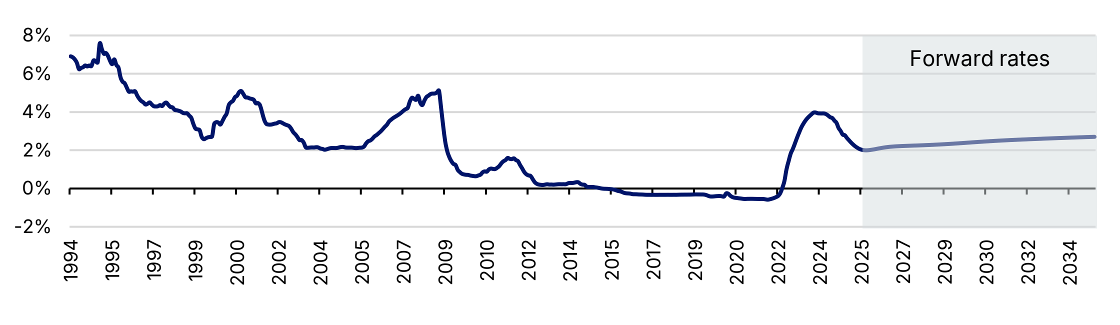
Current forecasts

Country/region	Real GDP growth (%)				
	2022	2023	2024E	2025F	2026F
Euro area	3.6	0.4	1.0	1.3	1.6
United Kingdom	4.8	0.4	0.9	1.5	1.5
World	3.6	3.3	3.2	3.3	3.3
	Headline inflation[1] (annual average, %)				
Euro area	8.4	5.4	2.4	2.2	2.0
United Kingdom	9.1	7.3	2.5	2.8	2.5
World	8.6	6.7	5.7	4.4	
	Unemployment rate[2] (annual average, %)				
Euro area	6.8	6.6	6.5	6.5	6.4
United Kingdom	3.9	4.4	4.4	4.4	4.4

[1] HICP headline inflation for euro-area Member States; otherwise, CPI headline inflation

[2] Unemployment rate data source is Eurostat for EU Member States; national unemployment series otherwise

3m Euribor (cut-off: 08/01/2025)



→ **Normalising economic fundamentals**

- Moderate global growth, but Europe's contribution significantly reduced
- Low and stable unemployment
- Inflation tamed for now and returning to target
- However, persistent core inflation may necessitate prolonged higher policy rates and some central bank divergence
- ECB may cut rates further, given Europe's weaker economic outlook and structurally lower euro area inflation rates

→ **Inverse yield curve to end**

- Investors price in up to three more rate cuts by ECB
- Interest rates to stay elevated, about twice pre tightening levels, but lower than the past 12-18 months.

Sources: Macrobond, Chatham Financial, ECB, Scope Ratings

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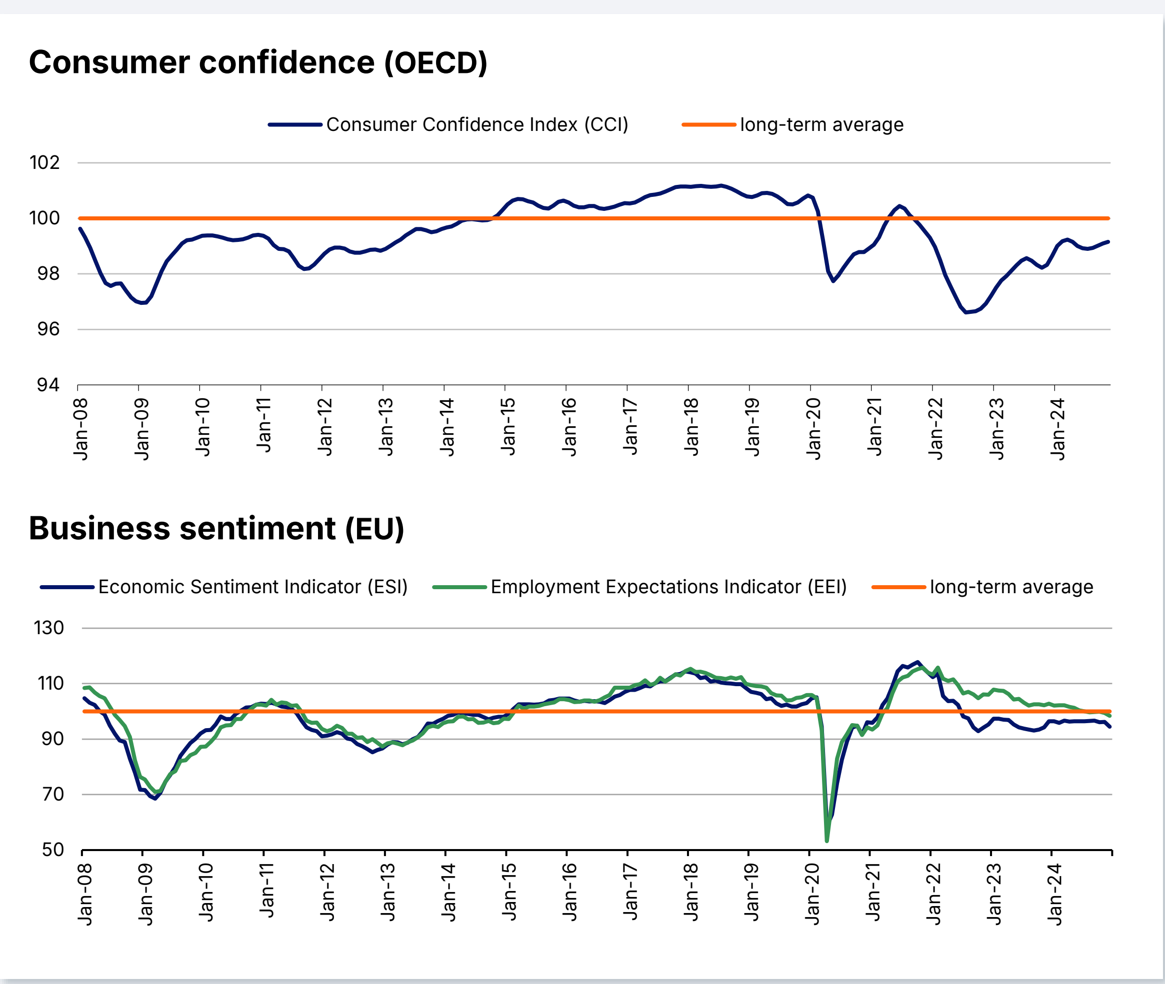
Macro outlook | Business and consumer sentiment recover slowly

Improving consumer confidence despite cautious business environment in Europe



→ **Recovering consumer confidence**

- Consumer sentiment is improving but still well below 10y average, as shown by the OECD Consumer Confidence Index.
- Easing inflation pressures and lower interest rates in 2024 supports further recovery.
- Household debt reduction, driven by economic slowdown and diminished purchasing power, slows demand recovery.

→ **Sluggish business sentiment in Europe**

- Businesses remains cautious due to weak demand, looming tariffs, heightened geopolitical tensions and high borrowing costs.
- Global sentiment is uneven, with US optimism contrasting with caution in Europe, particularly in Germany's subdued economy.

Sources: OECD, Eurostat, Scope Ratings

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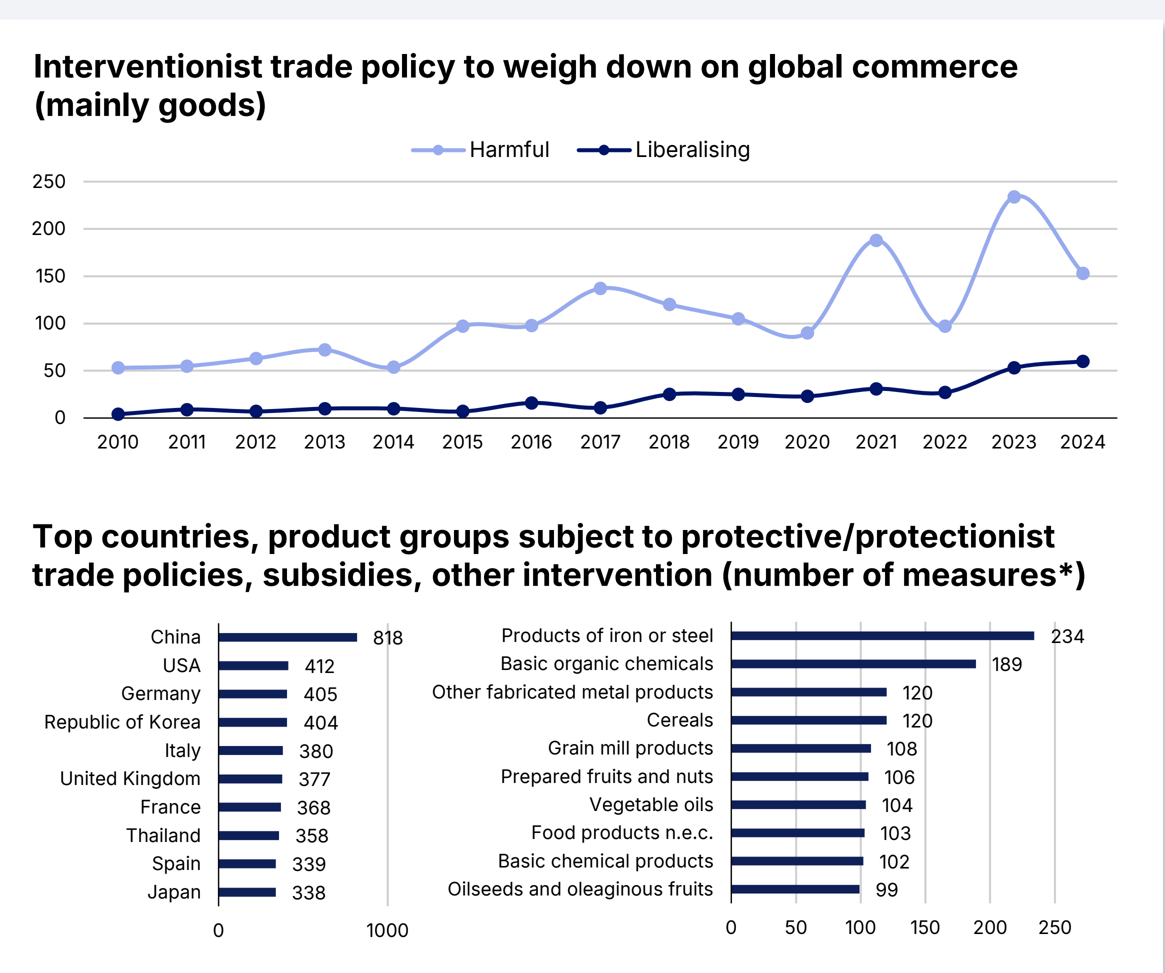
Macro outlook | Geopolitical tensions rise, questions grow over supply-chain weakness

Economic confrontation to gain momentum in 2025



→ **Geopolitical tensions cloud outlook for most sectors**

- Continuing conflict in Ukraine and the Middle East disrupts commodity supplies and trade flows, driving risk premiums.
- In 2025 rising economic confrontation led by the new US administration prompting retaliatory measures from other countries, blocs.
- Trade disputes are set to escalate among the world's three leading economic zones: China, EU and North America.
- Despite efforts to mitigate risks – such as relocating production facilities, adjusting supply chains – unforeseen events remain likely and could have a significant impact on the credit quality of vulnerable sectors and companies.

Sources: Global Trade Alert, Scope Ratings *Typical types of intervention includes tariffs, subsidies, contingent trade protection

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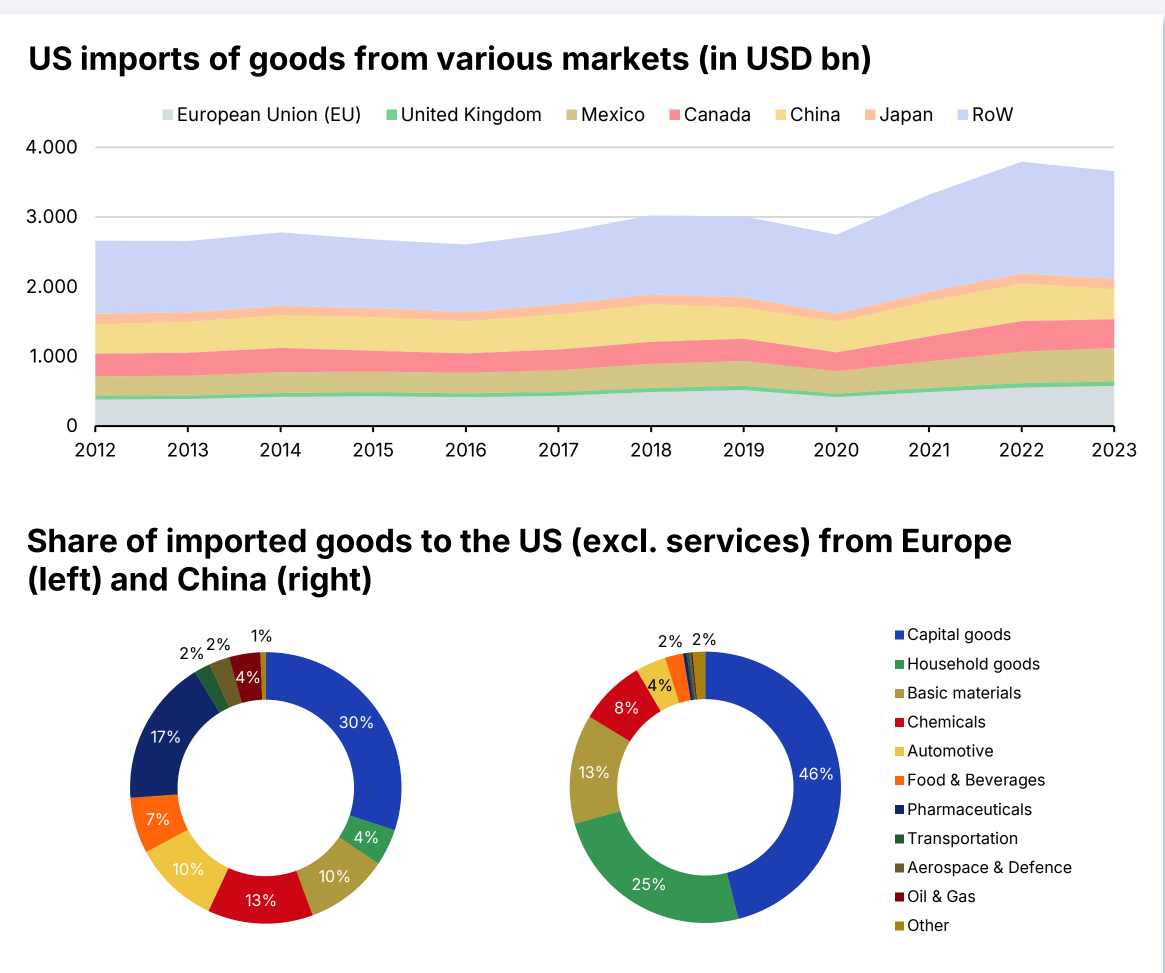
Macro outlook | Trump tariffs 2.0: hope for the best, prepare for the worst

Reinstatement of Trump-era tariffs poses substantial challenges for European companies... but there's no reason to panic



→ **Adverse effects on export-intensive countries and sectors**

- Exports of goods to the US represented ~3% of Europe's GDP in 2023
- European countries with largest US exposure: DE, UK, IT, IE, FR and NL (absolute) and IE, FI, AT and PT (relative)
- Disruption to global transportation and export routes, particularly from China (second- round effects)

→ **Partially offsetting factors**

- High share of non-commoditised products, e.g.: capital goods, chemicals, pharma which cannot be easily substituted
- Rising inflation in the US makes exports from European companies relatively more competitive.
- Significant value creation of European corporates in the US (natural hedges) support balance sheets.
- Second-round effects - e.g.: re-routing of supplies, tariff retaliation - could benefit European companies

Sources: Macrobond, Scope Ratings

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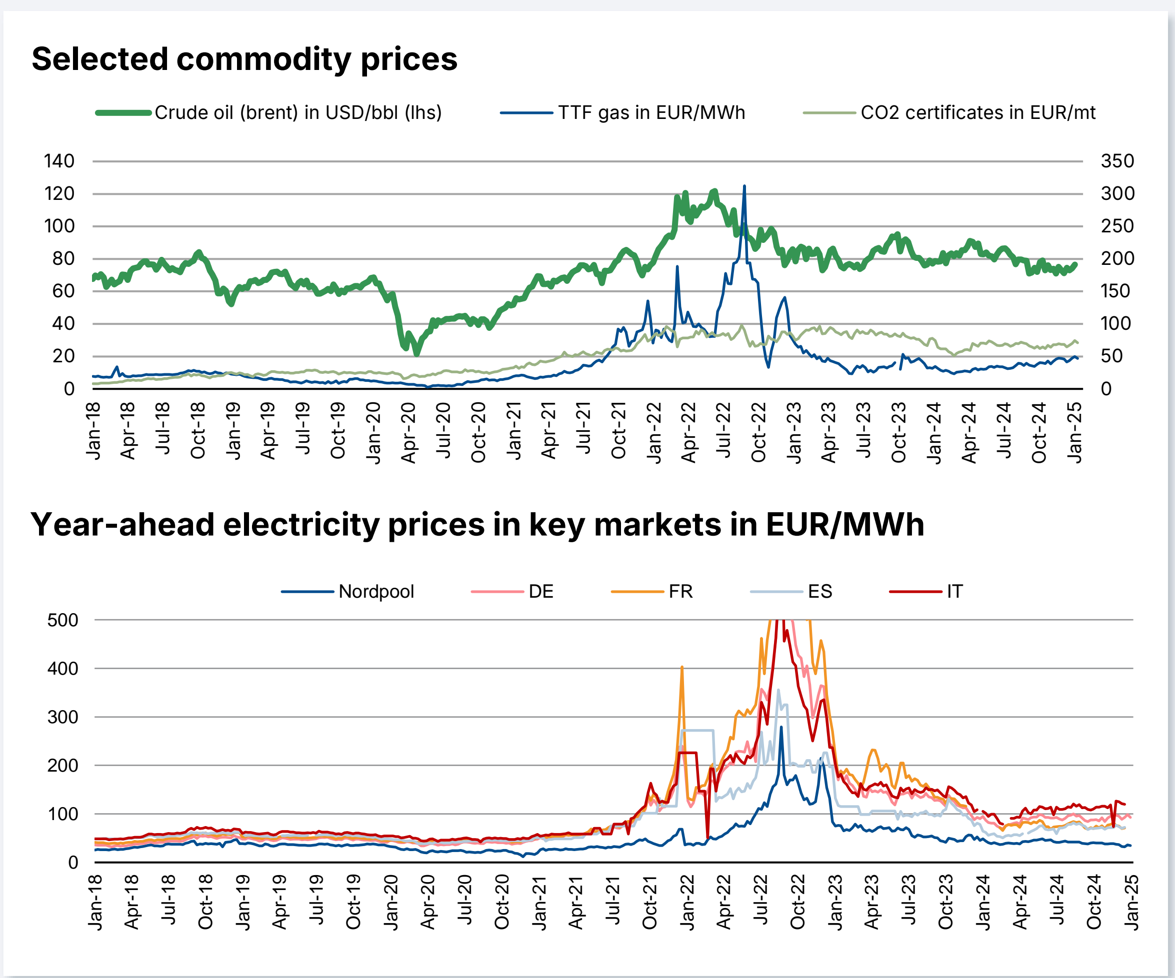
Macro outlook | Energy markets look less volatile

Oil prices to ease, gas prices to tighten



→ **The global oil market is expected to be well supplied in 2025 leading to a further moderation of oil prices**

- According to the International Energy Agency, world oil demand is expected to grow to 104.0 mb/d in 2025, oil output to reach 104.7 mb/d assuming an extension of production cuts by OPEC+
- Brent oil price will average USD 65 a barrel to USD 75 USD/bbl.

→ **The European gas market is likely to tighten in 2025, driven by some recovery in consumption and a further reduction in Russian supplies following the end of transit through Ukraine**

- TTF gas price to average between 40 and 45 EUR/MWh
- Higher gas prices to drive electricity prices across Europe
- Gas and electricity hungry industries (such as chemicals and metals) to suffer the most
- Low-carbon power generators (renewables and nuclear) to be among the few beneficiaries

Sources: Bloomberg, Scope Ratings

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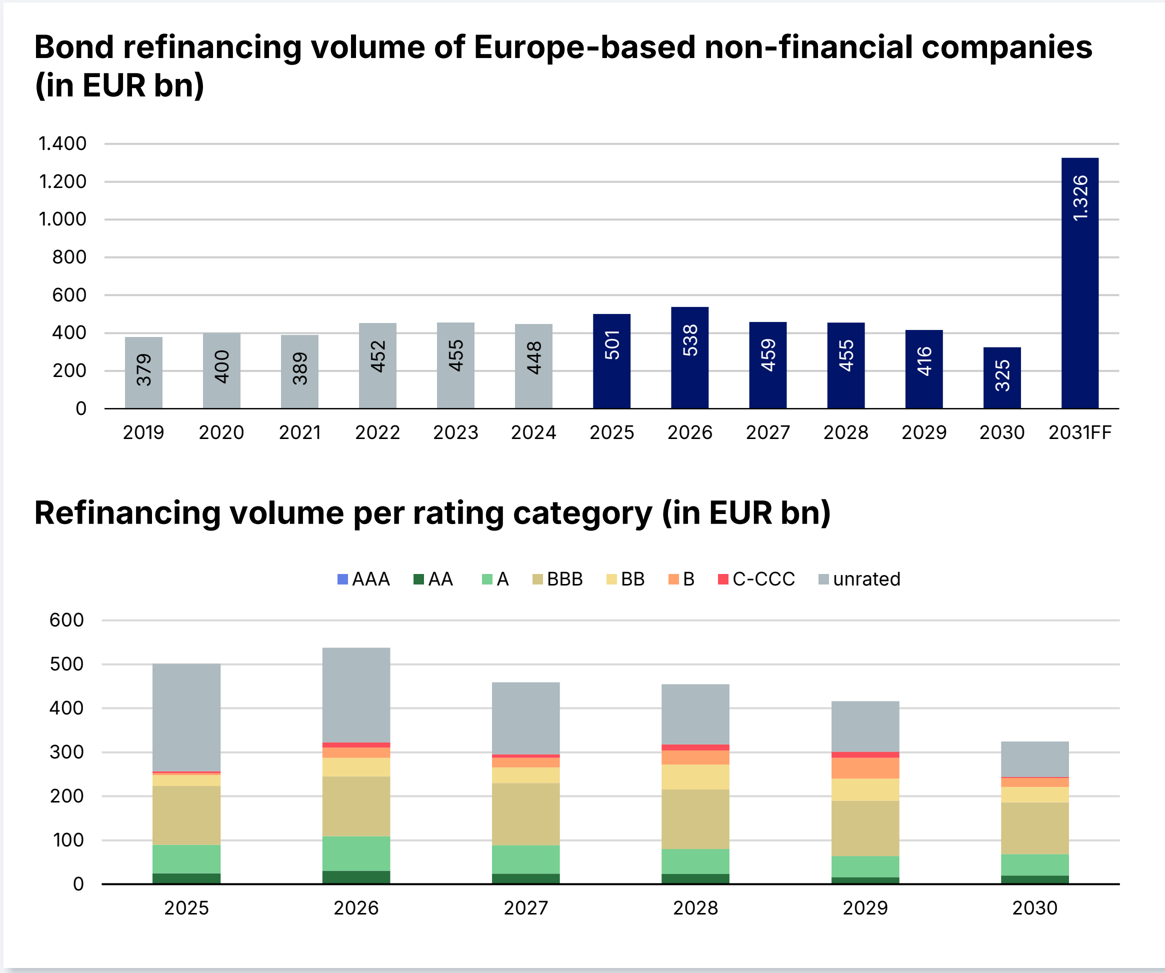
Financing | Refinancing heads for new peak

Refinancing challenge remains acute ... but more manageable than a year ago



→ **New record for bond refinancing in 2025 ... but less risky than in early 2024**

- Bond refinancing of European non-financial corporates is likely to reach a new peak at more than EUR 500bn.
- Companies will have to refinance bank debt equivalent to three to four times that amount.
- Further rate cuts and relaxed lending standards set to fuel more debt issuance for investment and refinancing.
- Debt market funding for real estate firms will recover some more.
- We expect a continued resurgence in hybrid debt issuance.
- One area of concern is the high proportion of unrated companies seeking refinancing.

→ **High-yield issuers can expect some funding relief**

- Access to traditional bank funding has improved significantly, providing hope for high yield companies.
- Bond market refinancing for high-yield issuers looks more acute in 2026 than this year.

Sources: Bloomberg, Scope Ratings

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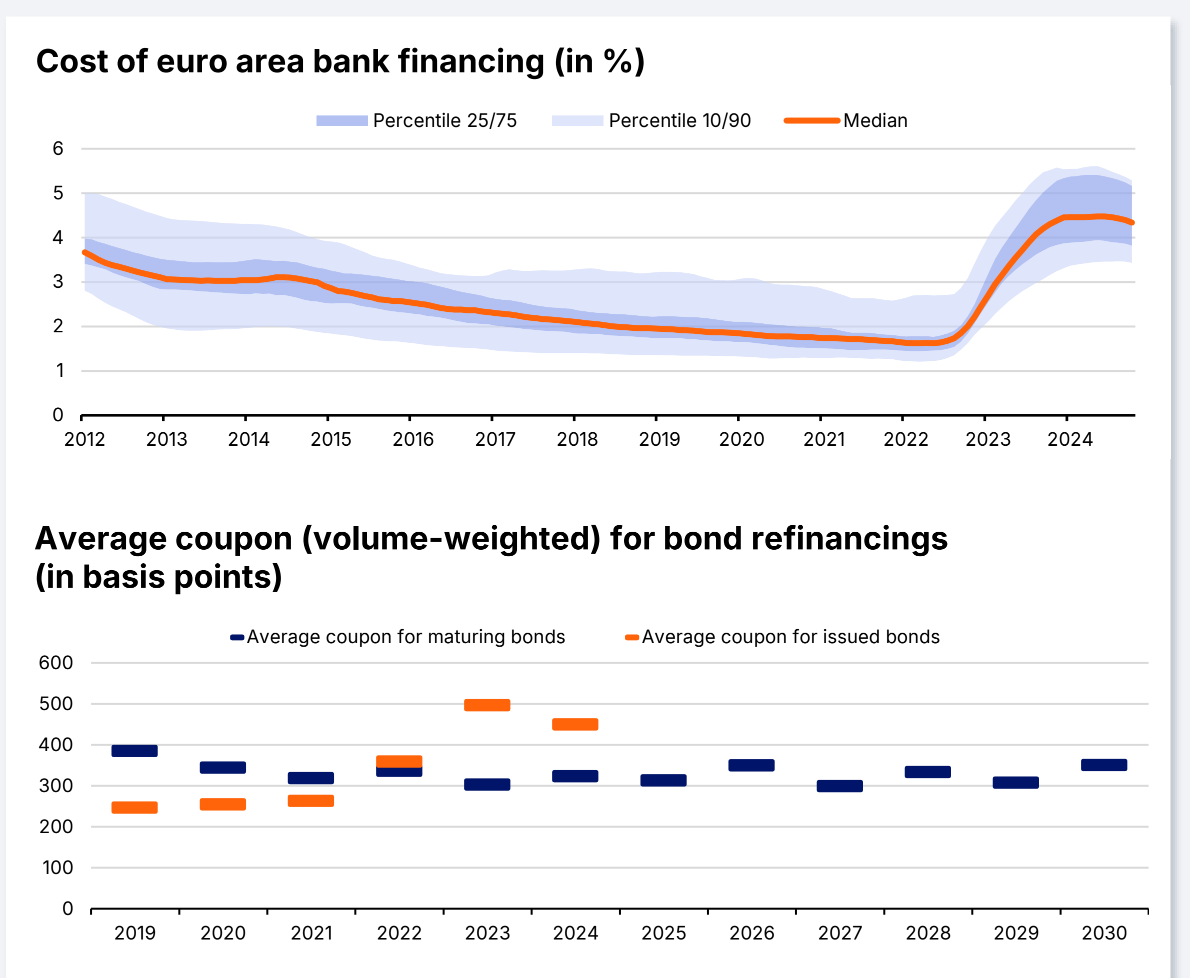
Financing | Debt service challenge eases as interest rates fall

Easing pressure for new debt funding … but burden on average effective interest and interest coverage to grow further



→ **Higher-for-longer interest rates continue taking their toll on balance sheets**

- Policy rate cuts will ease conditions for borrowers, particularly for companies with unhedged variable interest rate exposure …
- … but new debt issuances will further increase average cost of debt and total interest burden.
- Average volume-weighted coupon for new bond placements remains 60% higher than before 2023.
- While investment grade-rated corporates can comfortably absorb the higher relative and absolute interest burden, there is continued pressure on interest coverage of high-yield issuers which are sensitive to an increase of the average effective interest rate.

Sources: Macrobond, Scope Ratings

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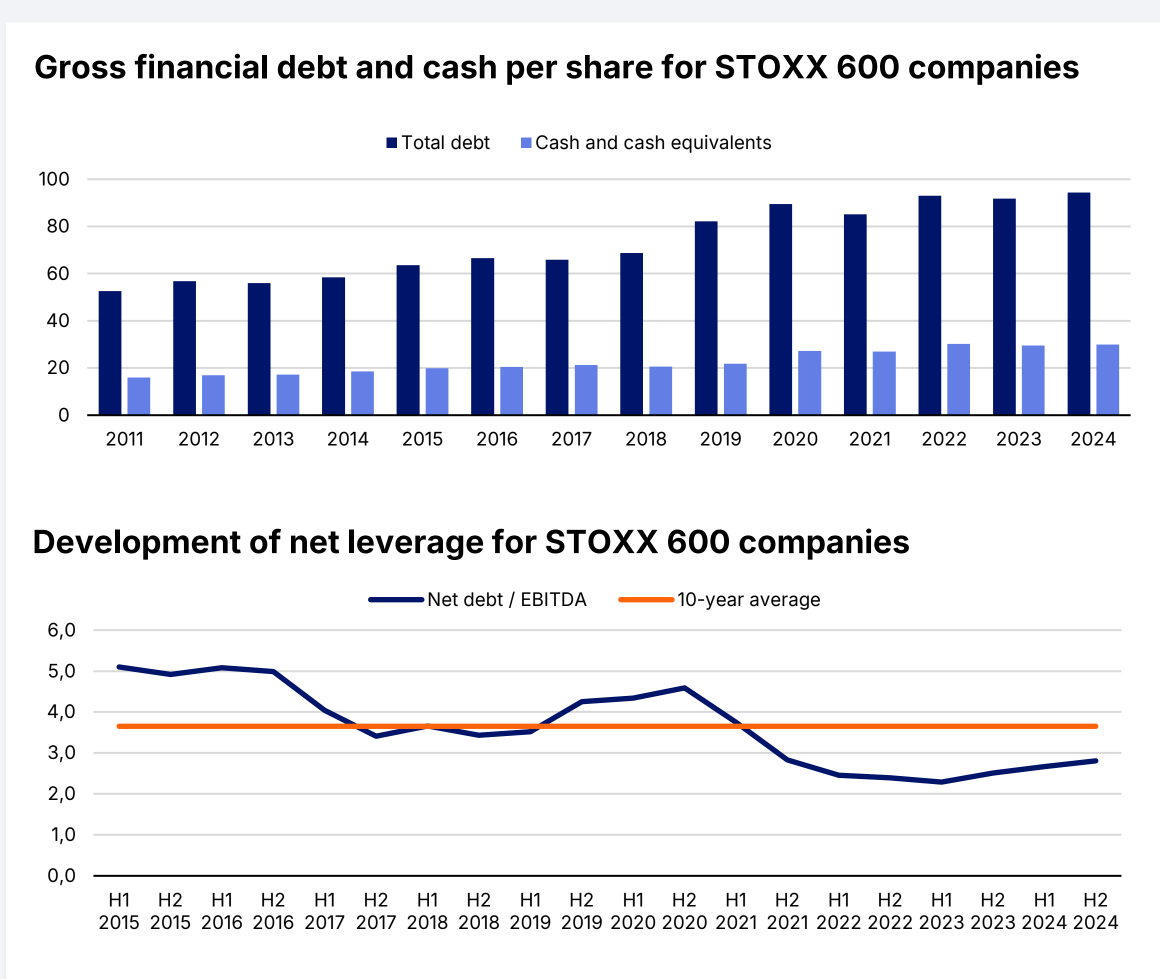
Financing | European companies retain financial flexibility through strong balance sheets

With strong balance sheets, non-financial firms look well positioned for sluggish growth if management stays alert



→ **Company balance sheets well prepared for fragile environment**

- Raised cash buffers post-Covid and amid increased interest rates ensures safety cushion for still fragile macroeconomic environment
- Growth in EBITDA and robust net indebtedness keeps down average leverage, ensuring it remains below historical average

→ **And management likely to protect cashflow, reduce debt through:**

- Increased focus on cost structures and productivity
- Scale back shareholder remuneration
- Rotate assets, increase scrutiny on capex plans

➢ **We expect no change in management's awareness of the importance of maintaining healthy credit profiles during times of higher interest rates.**

Sources: Bloomberg, Scope Ratings

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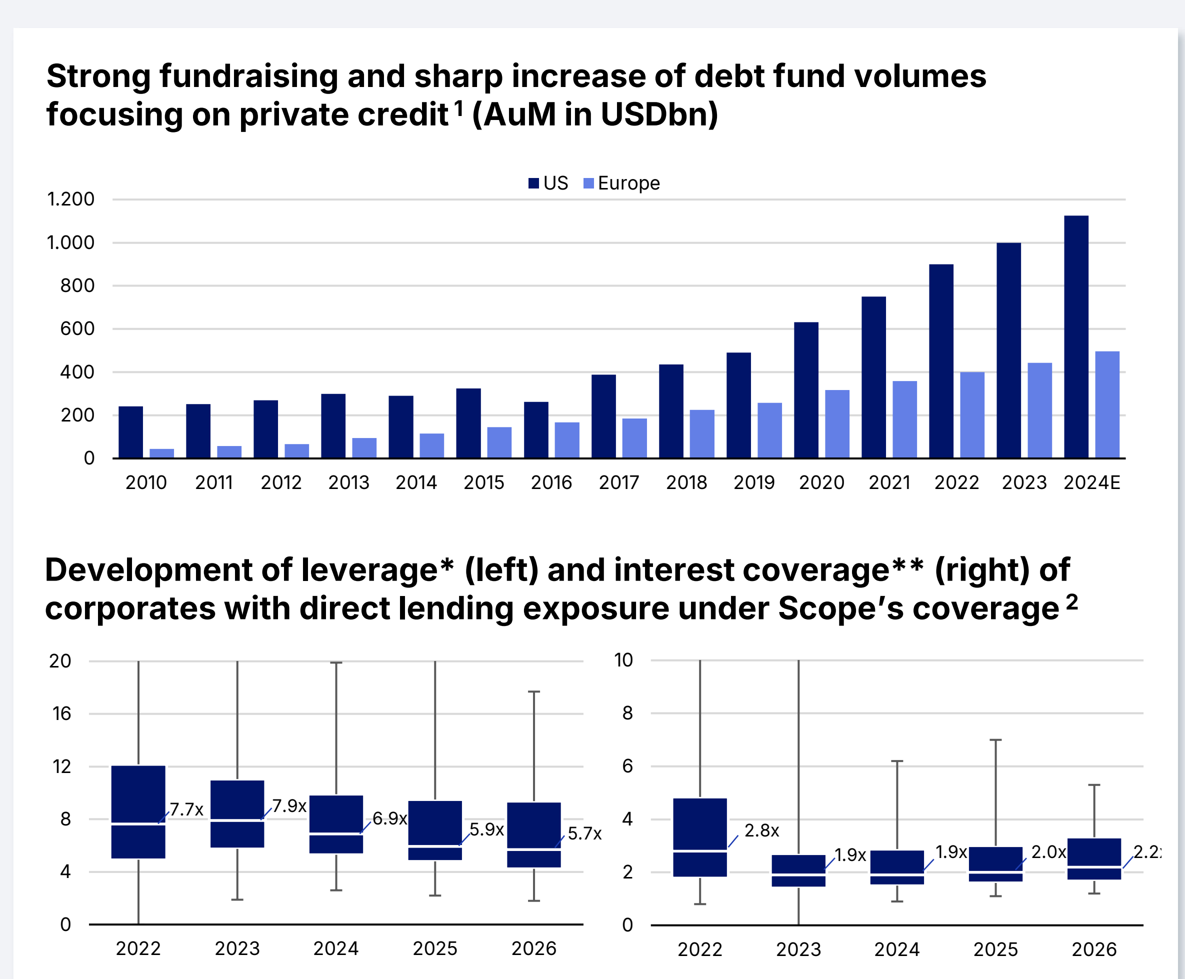
Financing | Direct lending remains on upward growth trajectory

Credit pressure from 2023/2024 to end, leading to continued growth of assets under management (AuM) n the debt segment



→ **Direct lending activities for European mid-market companies expected to rise steadily**

- Steady deal flow looks likely: annual flow of ~600-800 deals.
- Direct lenders have considerable dry powder: ~20-30% of AuM.
- Further tailwinds should ensure the expansion of the debt class.
  - Continued partial "debanking" among mid-market companies
  - Alternative Investment Fund Managers Directive (AIFMD II) and opening of asset class to retail investors
  - Catch-up of 'underdeveloped' segments (market/sector exposure)
- Scalability becomes a differentiator for debt fund managers.

→ **Ratings pressure expected to fade**

- Floating rate interest exposure has taken its toll in 2023/24 and ratings pressure from subdued development of operating results and partially missing returns from envisioned acquisitions.
- Ratings pressure will ease in 2025, primarily due to bottomed out interest coverage and improved cash flow predictability.

* Leverage = Scope-adjusted debt/EBITDA, ** Interest coverage = Scope-adjusted EBITDA/interest
[1] Sources: Preqin, Scope Ratings [2] Sources: companies covered by Scope

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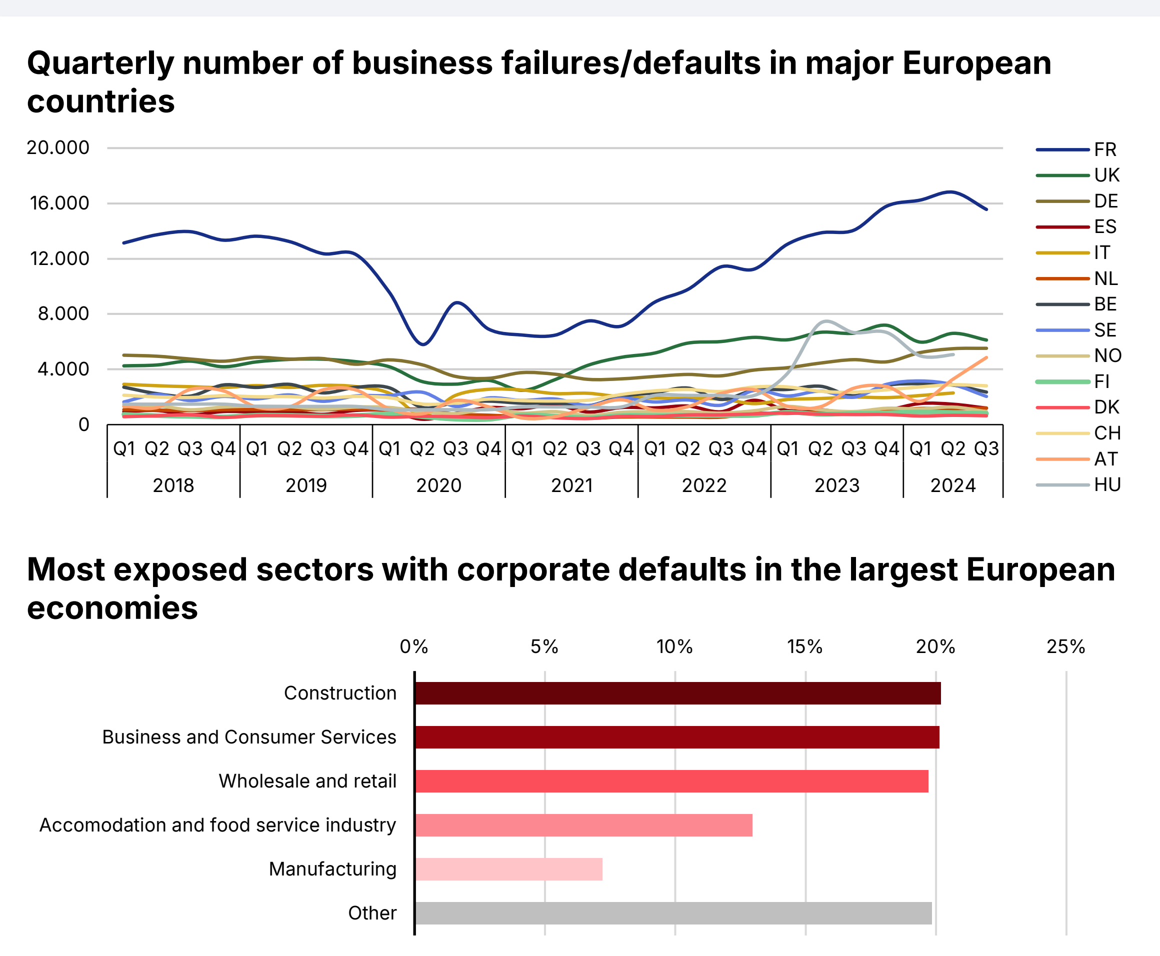
High-yield credit, default rates | Corporate defaults plateauing

Soft landing, eased pressure on financing and consolidation effects lead to slowdown in rising default numbers



→ **Still fragile environment and worst expected for H1 2025**

- Most countries have default levels well above pre-Covid times
  - Cost inflation, rising interest rates and partially constrained access to (re)financing strain balance sheets.
  - Larger insolvencies trigger knock-on effects for associated customers/suppliers.
  - Lack of support schemes a in previous years
- High default volumes are related to (i) most vulnerable sectors, (ii) micro-sized companies, and (iii) young, less well-established companies.
- Contrasting corporate failure rates point to Europe's uneven recovery.
- We see signs of a plateauing default rates in some countries with steepest recent growth, e.g. FR, UK, HU.
- Defaults remain concentrated in construction, retailing, services and accommodation sectors.

Sources: Macrobond, National Statistical Offices, Scope Ratings

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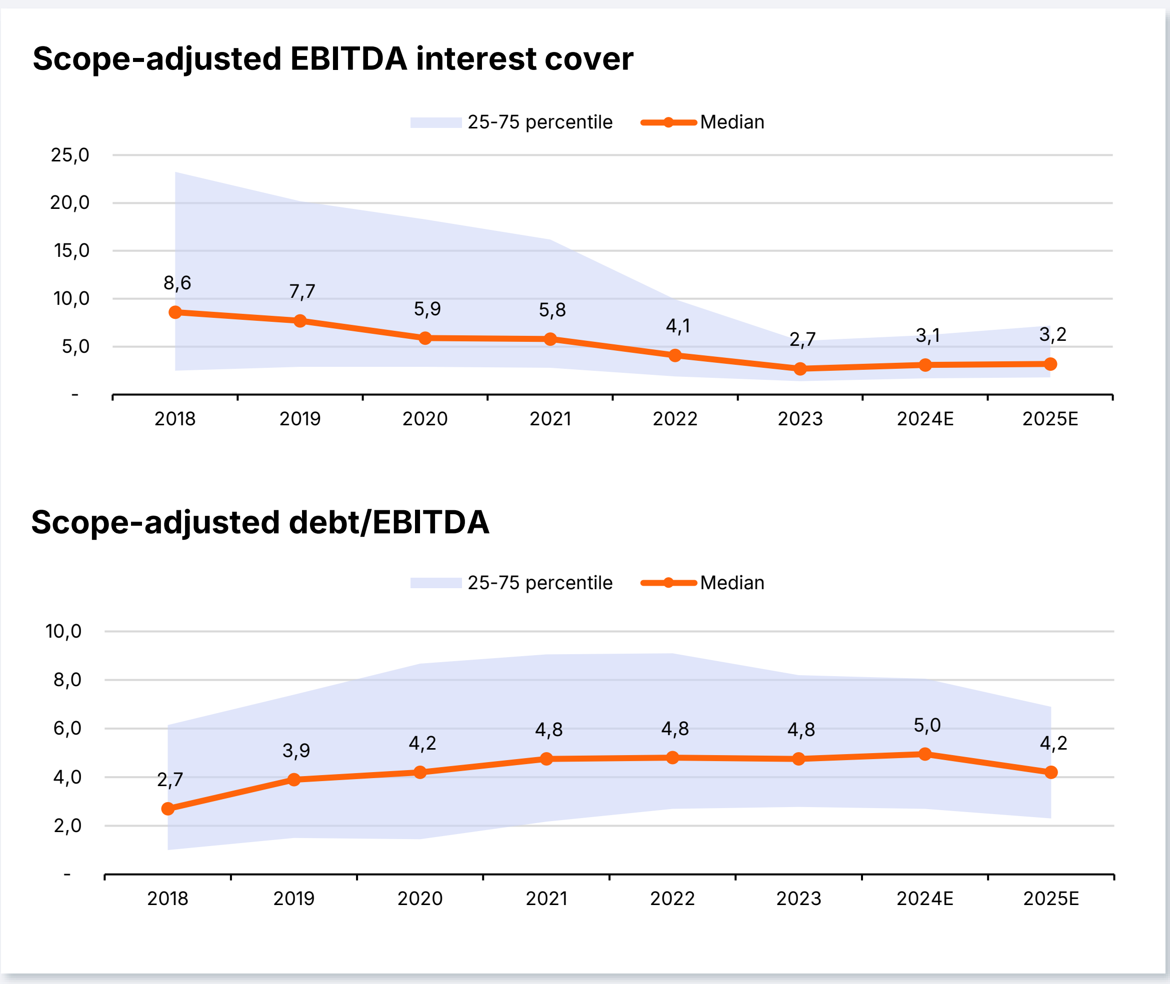
High-yield credit, default rates | HY issuers face still challenging financing conditions

Increased interest burden to weigh on credit quality despite some deleveraging



→ **After years of decline, interest cover will stabilise at a modest level, implying continued pressure from the high-interest rates**

- While financing conditions have eased recently, interest rates remain above those of some older instruments bearing low coupons, pointing to an increasing interest burden for companies as they refinance.

→ **This risk is partly addressed by deleveraging**

- Active deleveraging, partly through more selective capital spending, can help these firms address balance sheet strains.
- Firms will benefit from additional impact of inflation, which increases nominal EBITDA compared with “old” nominal debt.

Sources: Scope Ratings, company reports (based on Scope’s coverage of HY issuers)

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Sector comparison | Negative outlook for autos, chemicals; other outlooks balanced

Tough cyclical and structural trends facing automotive, chemicals sectors contrast with balanced outlook for other sectors in 2025

Credit forecast: cloudy with sunny intervals; risk of isolated storms

Sector	Operating trends	Capex	M&A	Issuance	Political & regulatory framework	Credit Outlook
Autos	↘	→	→	→	↘	↘
Chemicals	↘	→	→	→	→	↘
Construction	→	↘	→	↘	↗	→
Consumer Goods	↗	→	↘	→	→	→
Oil&Gas	↘	→	→	↗	→	→
Pharma	→	→	→	→	→	→
Real Estate	→	↘	→	↗	→	→
Retail	→	→	↘	→	→	→
Telecom	→	→	→	→	→	→
Utilities	→	↗	→	↗	→	→

Sources: Scope Ratings

Legend: arrows denote outlook trajectory Positive Negative Balanced

→ Autos

- Structural challenges that led to a decline in volumes and profitability in 2024 will continue into 2025.
- Potential US-led tariff increases would increase export costs for European, US, and Chinese-made cars.
- Regulatory pressures remain, e.g.: manufacturers face heavy EU fines if they miss carbon-dioxide reduction targets.

→ Chemicals

- Weak growth and demand fragility in automotive and construction.
- Regulatory and bureaucratic challenges remain.

→ Oil & Gas

- Changed Outlook to Balanced from Positive. Credit metrics will weaken in 2025 but remain strong, supporting overall credit quality.

→ Utilities

- Changed Outlook for generators/integrated utilities to Balanced from Positive based on fading support from hedged power prices

→ Retail

- Negative operating trend persist for automotive retailers.

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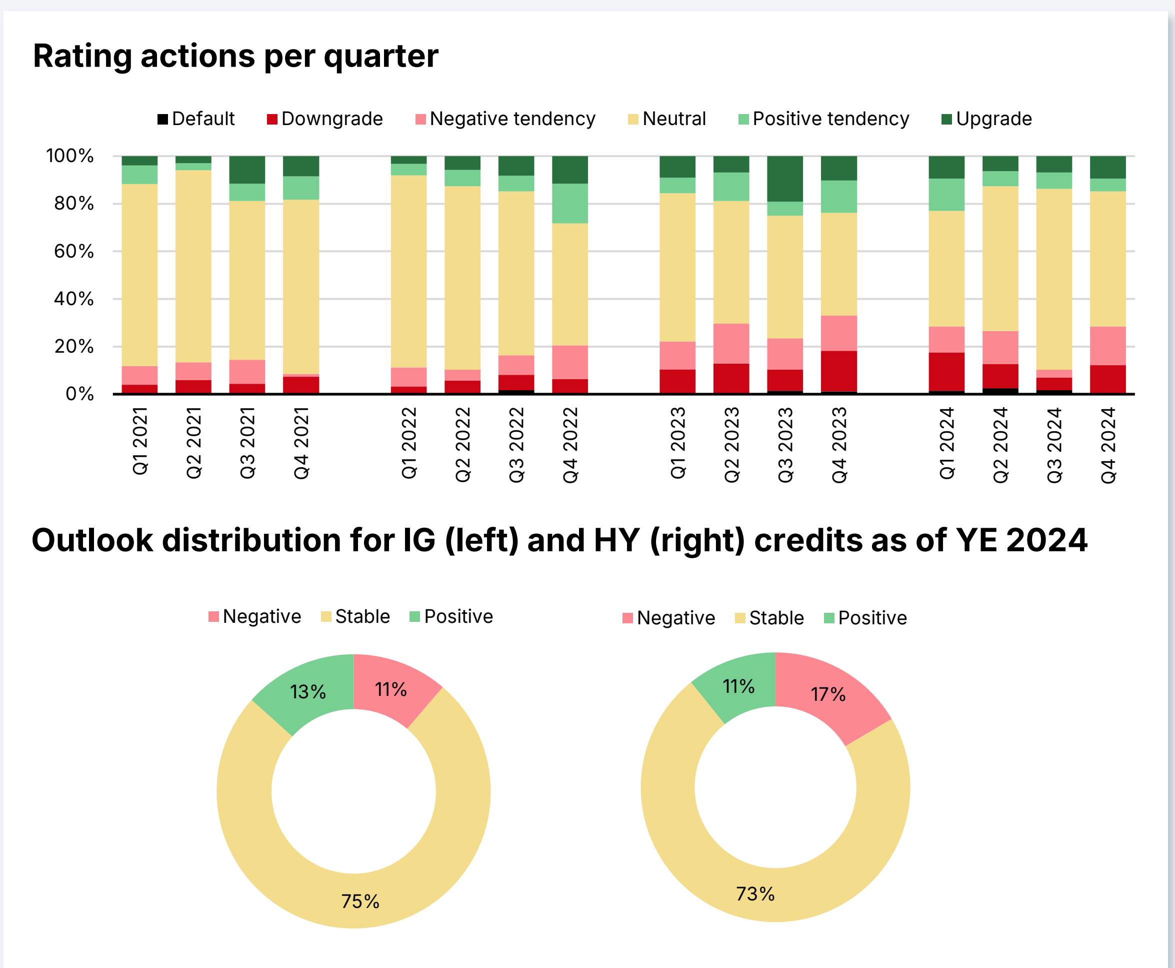
Rating migration | New credit tensions follow moderately negative 2024 rating trend

Negative rating pressure persisting in 2025 especially for HY issuers, after a challenging 2024



Sources: Scope Ratings

→ **Corporate rating migration in 2024 was moderately negative***

- The favourable impact of easing inflation and lower interest rates was partly captured in 2023, when rating migration showed a mixed picture but a slight tendency towards negative rating actions.
- Conversely, 2024 showed persisting credit pressure, with negative rating actions (around 20%) outpacing positive ones (overall 15%).
- Adverse macroeconomic conditions in Europe and geopolitical tensions played a key role, with some sectors characterised by negative rating actions (automotive, chemicals).

→ **High-yield (HY) issuers still facing challenging times**

- HY credits showing a weaker picture compared to IG credits, with a higher proportion of negative outlook and smaller portion of positive outlook
- The main reason is that, despite declining interest rates, HY credits are still burdened by elevated interest charges, with equilibrium rates remaining higher than pre-2022.
- On the other hand, IG credits are poised for a mild recovery, given the slightly higher portion of positive compared with negative outlooks.

* The rating migration trend reflects Scope's corporate portfolio composition in terms of geographical exposure, sectors and issuer size.

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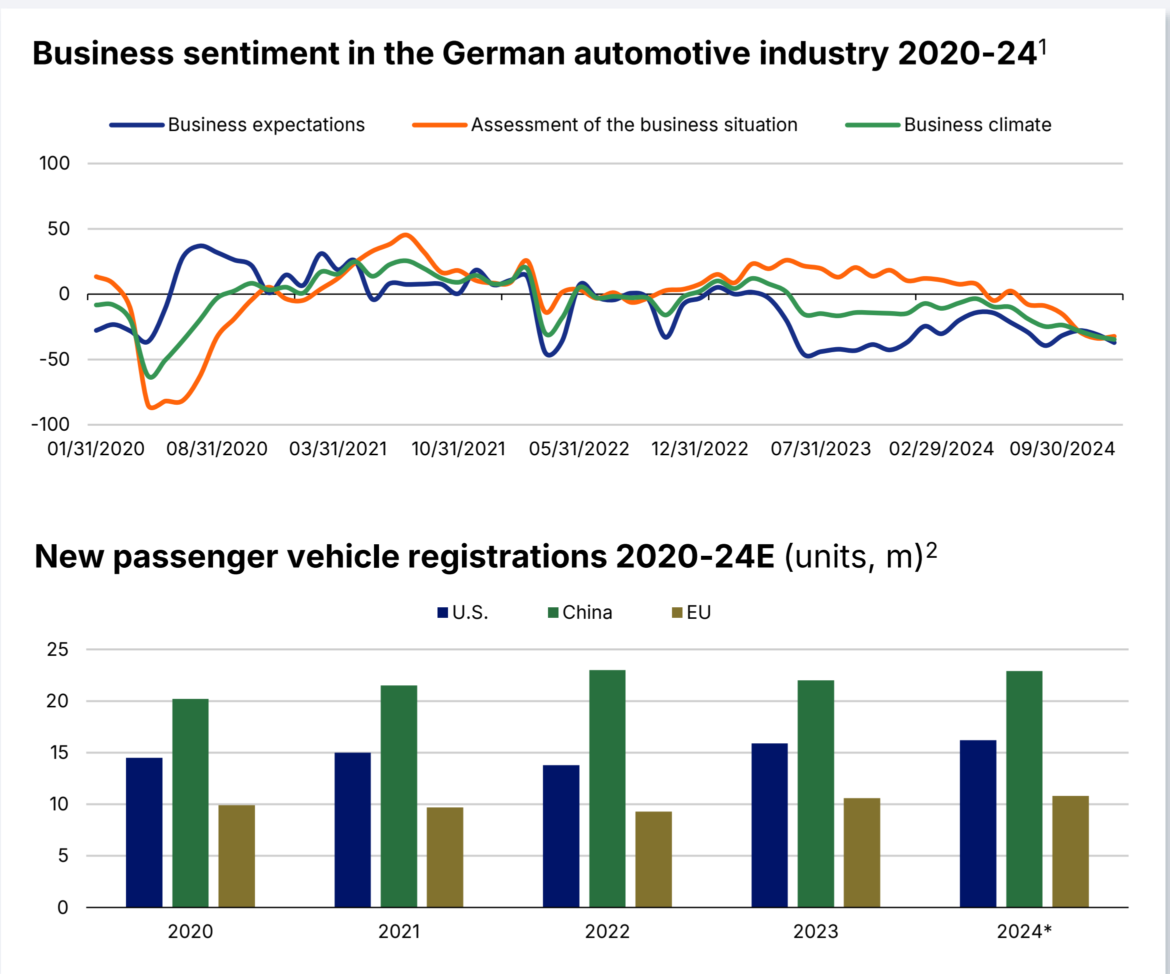
Sector credit outlook | Automotive turns Negative from Balanced

Tariffs, regulations cloud credit outlook amid cyclical, structural margin squeeze



→ Credit support in 2025 (+)

- The OEMs start the year with a solid net cash positions at their industrial operations due to strong cashflow in previous years.
- We expect lower payouts to shareholders.
- Luxury car manufacturer are in a relatively better position to absorb the additional costs by raising prices.

→ Credit risks in 2025 (-)

- Last year's cyclical downturn is set to continue, if not intensify, in 2025. The combination of rising capex commitments, weak sales, and falling profitability could weaken balance sheets.
- The prospect of a US-led rise in tariffs under the aggressive trade policy promised by President-elect Donald Trump is a concern.
- The structural challenges remain in the important Chinese market, such as the shift in demand towards cheaper e-vehicles produced by domestic manufacturers, which is exacerbated by the economic conditions.
- Regulatory pressure in Europe to meet the very ambitious targets for reducing CO2 emissions, could further squeeze profitability.

[1] Source: Ifo Business Survey, December 2024
[2] Sources: ACEA, Statista, S&P, NADA, CAAM/*2024 totals are estimates

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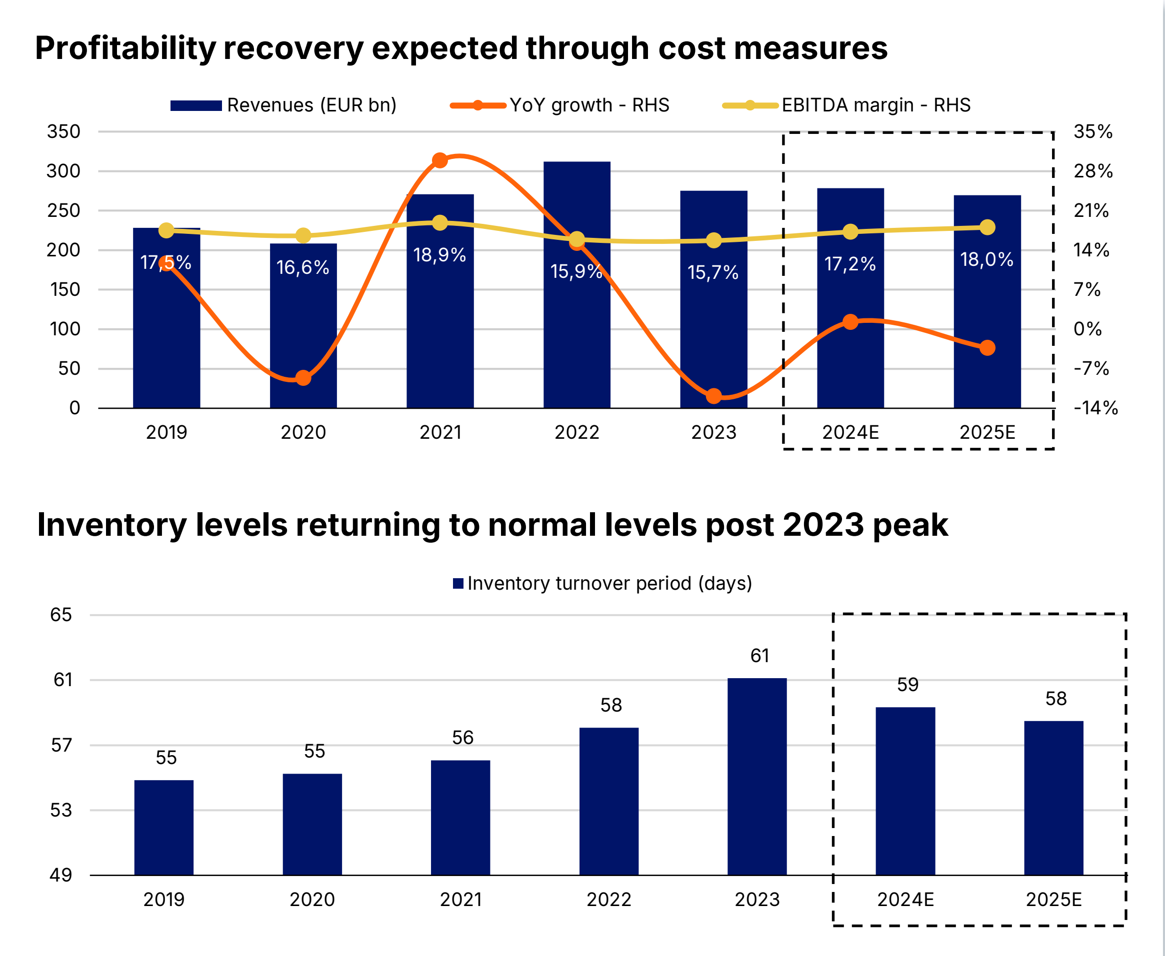
Sector credit outlook | Chemicals remains Negative

Economic stagnation and structural challenges weigh on recovery; pockets of resilience for firms in niche segments, exposed to dynamic markets



→ Credit support in 2025 (+)

- Resilience in niche segments like liquid gases, supported by medium- to long-term contracts with take-or-pay clauses and cost pass-through mechanisms.
- Dynamic market opportunities in the U.S. and Asia, driven by higher demand growth and natural hedges against tariff wars.
- Germany's still strong position as a global R&D leader, leveraging strong innovation potential despite growing competition.

→ Credit risks in 2025 (-)

- Persistent high energy costs and regulatory burdens in Germany and Western Europe, eroding profitability.
- Weak recovery in global demand, with client industries like automotive and construction continuing to struggle.
- Declining domestic R&D advantages as German firms shift investments to countries with lower costs and better funding environments.

Sources: Scope data based on covered chemicals companies

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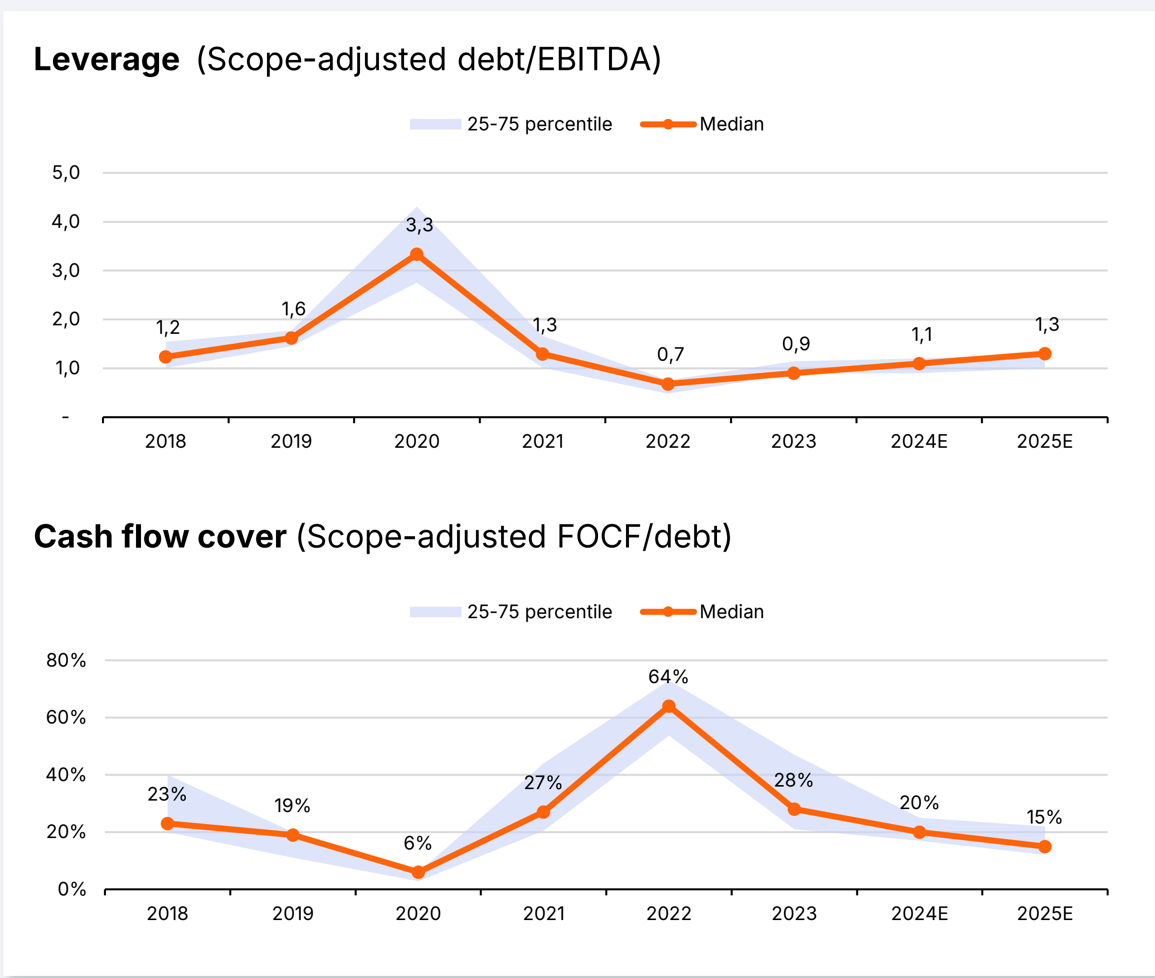
Sector credit outlook | Oil & Gas shifts to Balanced from Positive

Credit metrics will weaken in 2025 but remain strong, supporting overall credit quality



→ **Credit support in 2025 (+)**

- Cash generation to remain solid despite moderation of energy prices. This is supported by cost optimisation including M&A.
- Capex likely to remain largely flat as growing demand for hydrocarbons is balanced by pervasive spending discipline.
- Most IOCs will keep Scope-adjusted net debt relatively stable, so free operating cashflow will be distributed to shareholders.

→ **Credit risks in 2025 (-)**

- Larger-than-expected decline in energy prices, due to factors such as weak economic growth, US pressure on OPEC to increase output, or a potential break-up of OPEC+.
- While near term energy security concerns provide support, long-term risks intensify including physical, abrupt changes in regulation, and stranded assets risks.

Sources: Scope data based on nine covered oil and gas companies

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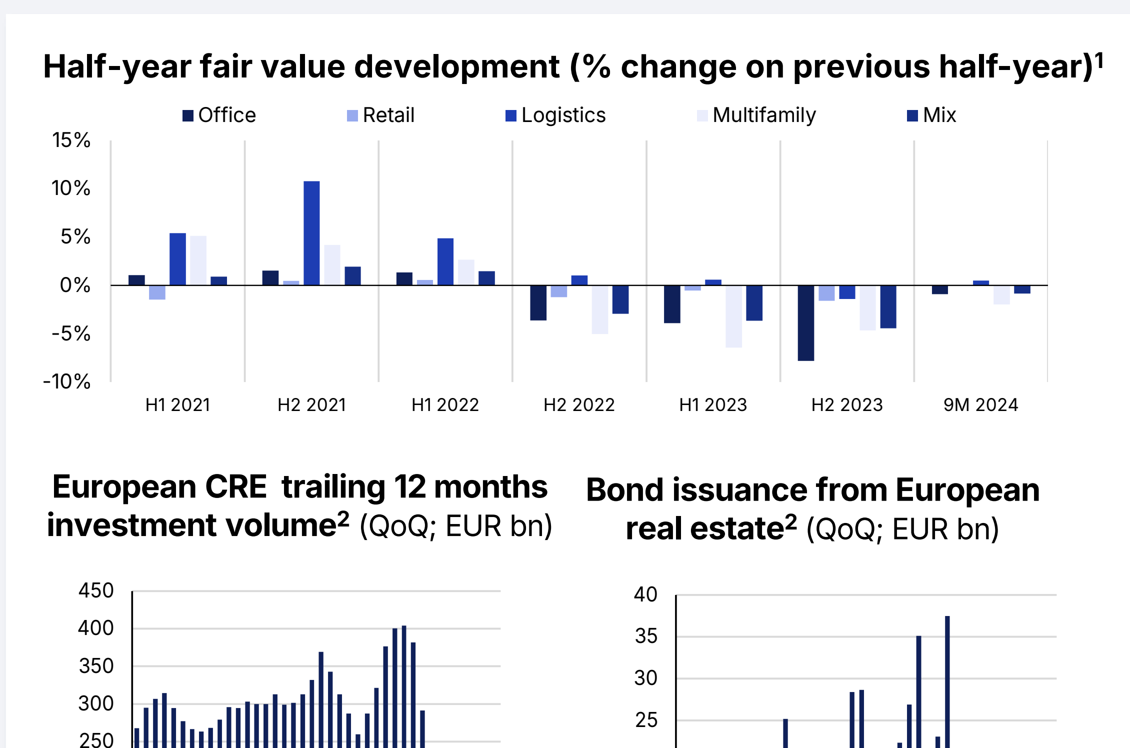
Sector credit outlook | Real Estate improves to Balanced from Negative

Europe's CRE sector is generally over the worst of the recent financing crunch but the credit outlook for many companies remains highly uncertain.



→ **Credit support in 2025 (+)**

- Stabilisation of risk-free yields reduces upward pressure on cap rates, leading to limited fair value adjustments
- Lower swap rates and lower margin expectations have led to a reduction in all-in financing rates.
- Falling financing costs are stimulating market activity:
  - Transaction volume up c. 20% (YoY) in 2024 thanks to positive spreads between prime yields and all-in financing costs
  - Bond issuance up c. 160% (YoY) in 2024; weak IG rated, strong non-IG rated and unrated peers return to debt capital markets

→ **Credit risks in 2025 (-)**

- EUR 120bn in capital market debt to be refinanced (2025-2027)
- Borrowing costs 2-3x higher than 2021; lower ICRs, some issuers priced out of capital markets
- Value adjustments not yet finalised (greater differentiation between prime and non-prime and high investment needs)
- Risk of covenant breaches (ICR, LTV, unencumbered asset ratio)

[1] Sources: public information, Scope Ratings // sample of 53 European property companies - Office: 13; Retail: 10; Logistics: 9; Multifamily: 12; Mix (mix of different commercial property classes): 9

[2] Sources: Savills, Bloomberg, Scope Ratings // Q1 2014 to Q4 2024

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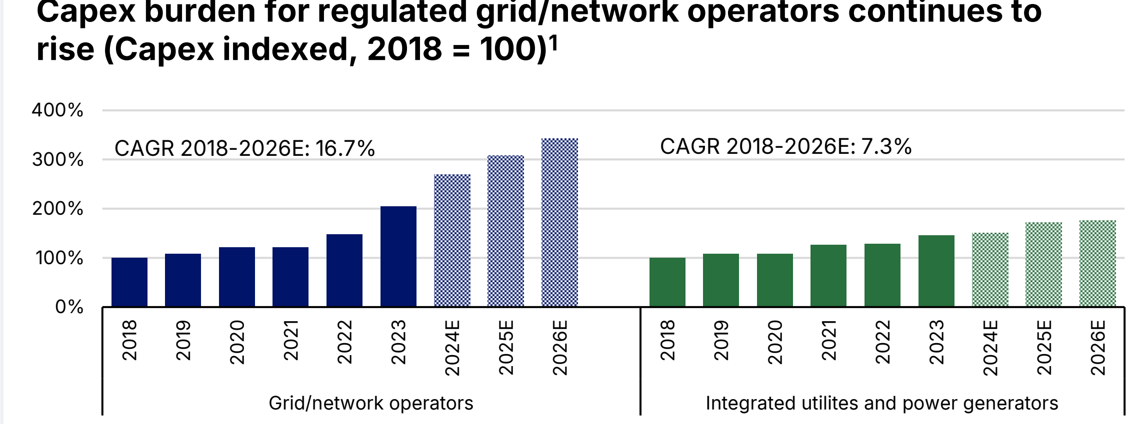
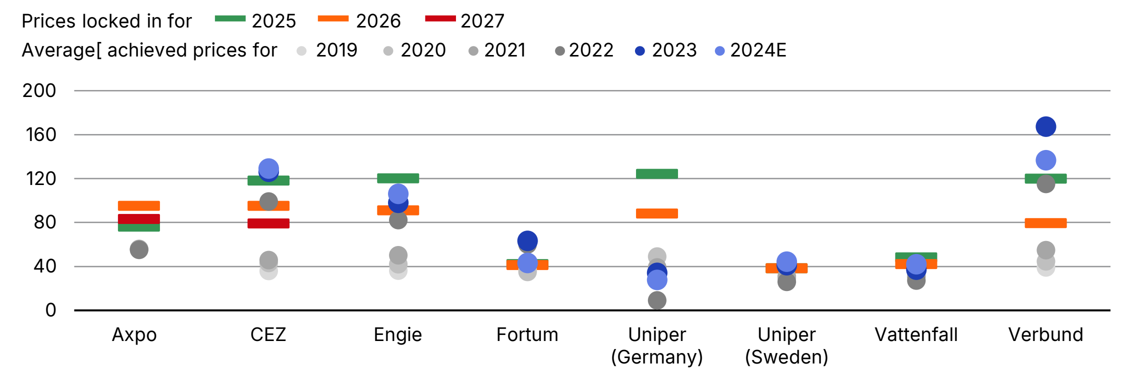
Sector credit outlook | Utilities shifts to Balanced from Positive

Fading tailwinds for power generators and integrated utilities, while pressure is rising again for grid operators

Capex burden for regulated grid/network operators continues to rise (Capex indexed, 2018 = 100)[1]



Hedged electricity prices for major European power generators well above historical prices (EUR/MWh)[2]



→ **Credit support in 2025 (+)**

- Power prices remain well above historical averages, benefitting utilities with low-cost generation capacity (early in the merit order system) but support is fading as high-priced contracts are phased out
- Continued volume growth driven by electrification and data centres
- Grid operators' system-critical importance to be recognised by regulators during major investment phases
- Grid operators benefit from continued expansion of regulated asset base, supporting margins and cash flows

→ **Credit risks in 2025 (-)**

- Total investment volume of more than EUR 110bn for European largest utilities and double-digit capex increase from 2024 to 2025
- Staggering capex needs for grid operators in particular continue to eat into free operating cash flow
- Interest rates reversal may pressure regulated asset remuneration, and leverage, but impact delayed by regulatory resets
- Renewed focus on redesigning the merit order system adds uncertainty

[1] Sources: Data for 50 utilities covered by Scope; reported data on historical capex, Scope estimates on forecasts
[2] Sources: Company presentations as per the last reporting date, Scope Ratings

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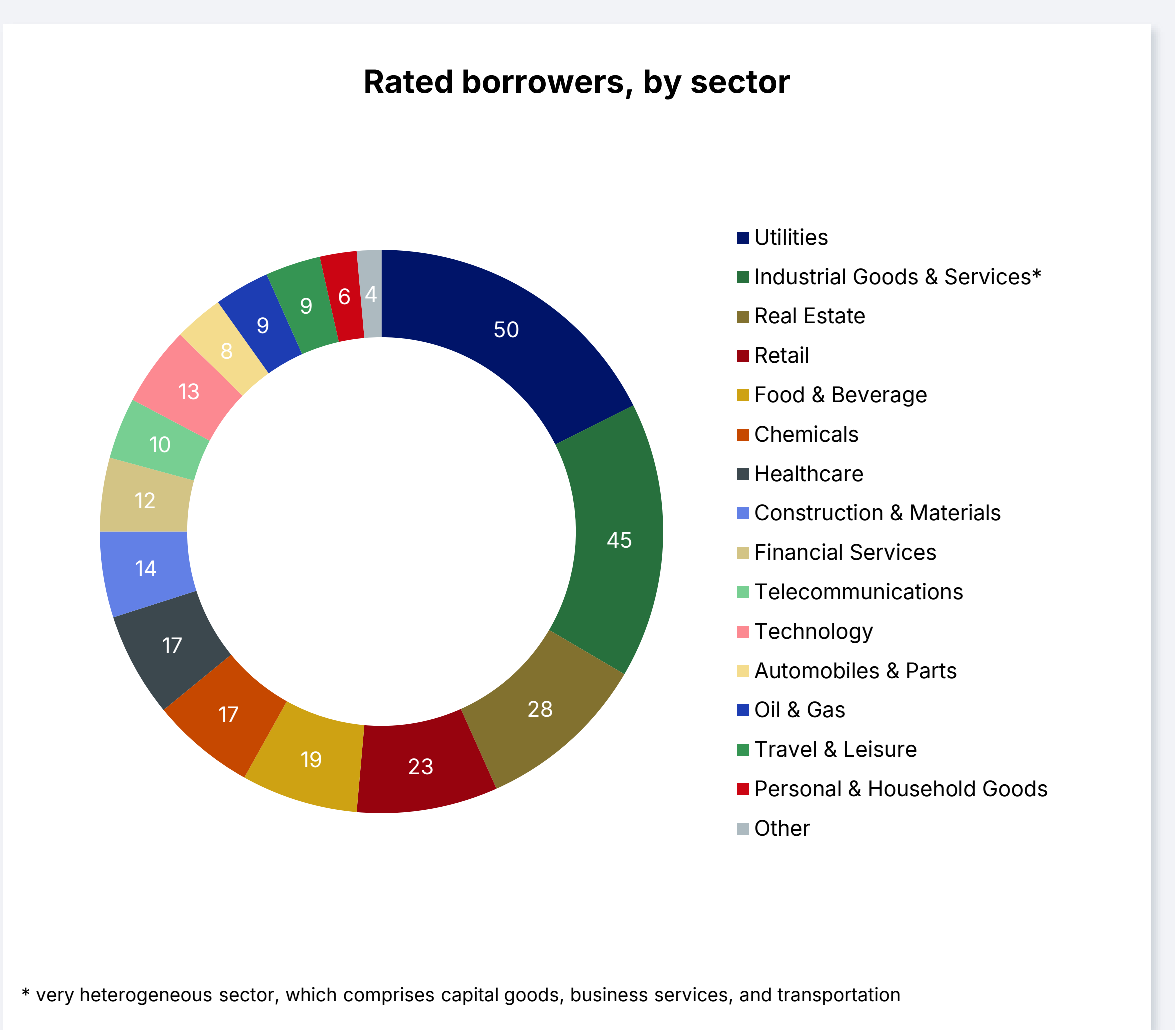
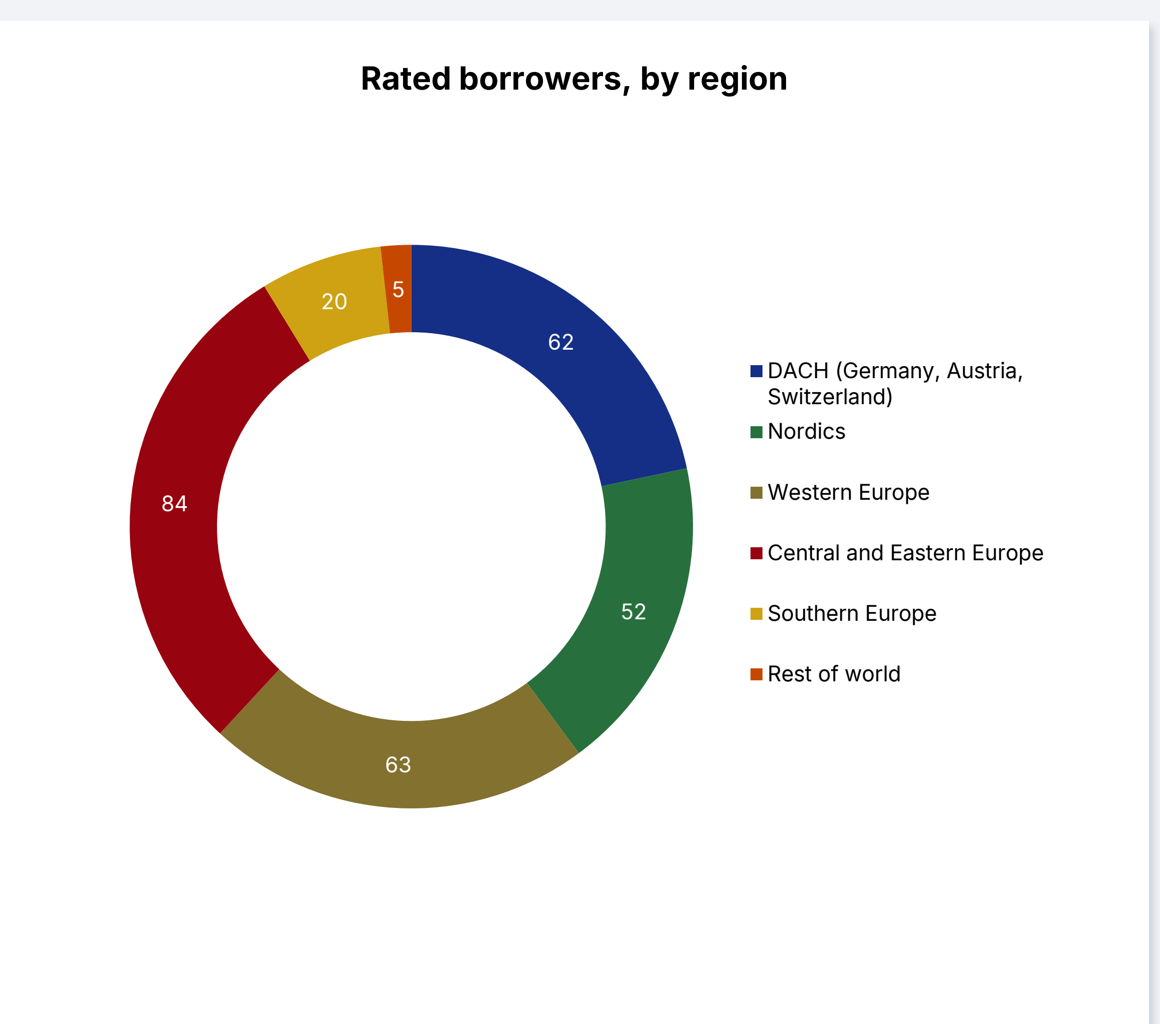
Sector exposure and team | Scope's rating coverage at end-December 2024





Sources: Scope Ratings

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Corporates Credit Production - who we are

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100+ years of combined rating experience at Scope

European analytical DNA
Our analysts are based in Scope offices in Paris, Oslo, Berlin, Frankfurt, Milan, Madrid, London and Poznan.

Diversity as a value added
Analysts come from a variety of personal and professional backgrounds: rating agencies, equity and credit analysis, fund management, business advisory.

Languages we speak

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