Global Risk Outlook: 4Q25

Market Buoyancy Obscures Deep Uncertainties

- A **simultaneous growth slowdown** in the US, China and emerging markets in 2026 points to a widening disparity between rising asset valuations and a shaky economic outlook.
- **US tariffs and trade policy** remain a high point of uncertainty, even as the overall effective tariff rate seems to have settled at 16%-18%. The inflationary feedthrough and negative effect on consumers and business investment is likely to be more pronounced in 2026.
- The **booms in AI-related capital investment and private credit** have increased the concerns that a shock from these sectors would have wider financial and sectoral effects.

Credit Risk Overview

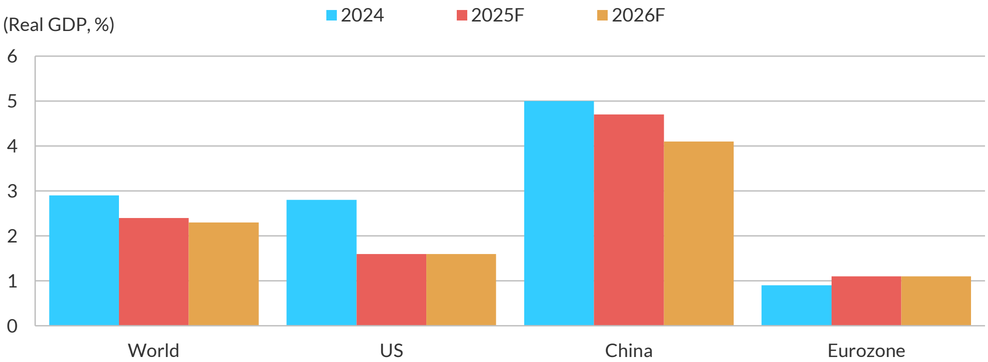
The global credit risk environment continues to be framed by deep uncertainties from fundamental disruptions, including a major reorientation of US trade and foreign policy; a technological revolution from AI development; a shift in lending with the continued growth of private credit; persistent geopolitical risks; and a sovereign fiscal environment where government indebtedness for many large developed markets is at or near its highest level in the modern era. That the global economy has likely reached a cyclical peak and entered a deceleration phase amplifies the risk of a shock to credit conditions.

Base Case: Economic Growth to Slow, Inflation to Rise, Rating Conditions Stable

The risk environment notwithstanding, Fitch Ratings' global credit base case is fairly benign even with the forecast deceleration in global economic growth in 2H25 and 2026 led by the US and China. We forecast US real GDP growth to fall to 1.6% for 2025 and stay at that level next year, while Chinese real GDP growth will fall to just above 4% in 2026. The eurozone's growth rate will remain more lacklustre at around 1% while EM excl. China will fall to 3.1% from 3.3%

Tariff effects will feed through to higher US inflation (rising above 3%) and slowing consumer demand growth. The sharp slowdown in US immigration is another important macroeconomic development and has probably supported a low unemployment rate in 2025 despite weaker job and payrolls growth. These could be factors that will help determine the pace of Federal Reserve rate cuts.

Global Growth to Slow as China and US Decelerate



Source: Fitch Ratings

Related Research

Global Economic Outlook (September 2025)

Global Corporates Sector Forecasts Monitor (September 2025)

Global Structured Finance Asset Performance and Forecast Monitor: 4Q25 (October 2025)

Developed Market Sovereigns: Debt Sustainability Monitor – 4Q25 (October 2025)

U.S. Effective Tariff Rate Monitor (August 2025)

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China's persistent real estate challenges and slowing capex resulting from its 'anti-involution' policies will also weigh on growth. The global economic outlook does not include a recession, however, with fiscal stimulus and the AI investment boom providing a positive offset for the US economy, and export growth and some fiscal easing supporting China.

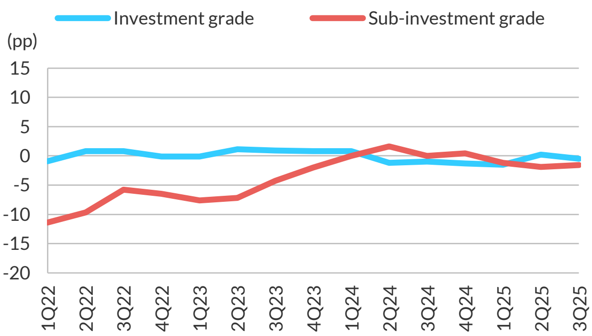
Fitch's non-financial corporate and banking sector forecasts, and structured finance asset performance forecasts reflect the underlying economic conditions, where there is a slowdown but not sufficient to cause a recession or macro dislocation. In general, corporate revenue, profitability and leverage forecasts remain broadly stable or even see a pick-up depending on region and sector next year. Structured finance asset performance should also marginally improve in some sectors in 2026 after deterioration in recent years, while key performance indicators for developed market banks will be broadly stable.

Rating Outlooks Mostly Balanced, No Significant Upgrade/Downgrade Bias Ahead

Ratings Outlooks are broadly balanced at the global portfolio level with the difference between Positive and Negative Outlooks for both investment- and sub-investment-grade credits at roughly zero, indicating no directional bias. There is an exception for sub-investment-grade structured finance transactions, where there remains a material negative bias, driven predominantly by CMBS. However, sub-investment-grade transactions only account for about a fifth of our global structured finance portfolio.

Net Outlook Balance

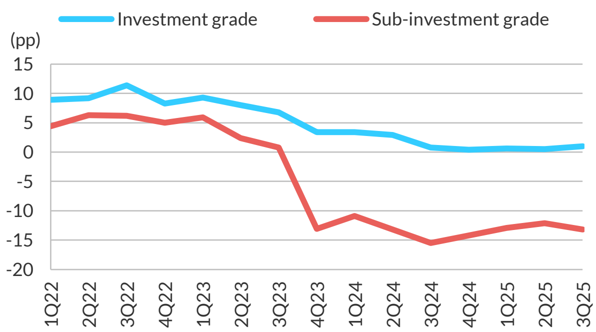
All sectors excluding structured finance



Note: Positive Outlooks minus Negative Outlooks as of 1 October 2025.
Source: Fitch Ratings

Net Outlook Balance

Structured finance



Note: Positive Outlooks minus Negative Outlooks as of 1 October 2025.
Source: Fitch Ratings

Rating actions so far this year have been slightly net positive, but with sovereign downgrades in China and France driving a larger scale of investment-grade downgrades in 2Q25 and 3Q25, respectively, owing to sovereign-linked or supported ratings. There was a disparity between investment grade and sub-investment grade ratings, with the former showing net upgrades across all sectors, barring corporates (largely owing to China's sovereign downgrade), while sub-investment-grade ratings had more downgrades than upgrades in several sectors including public finance, structured finance and corporates.

Notable Rating Actions in 3Q25

France (A+/Stable) **was downgraded** from 'AA-'/Negative owing to a high and rising debt ratio, deep political challenges to fiscal consolidation, a high deficit and weak fiscal record.

Italy (BBB+/Stable) **was upgraded** from 'BBB'/Positive due to improved fiscal resilience and outperformance, spending restraint, stable debt and medium-term policy anchors.

Spain (A/Stable) **was upgraded** from 'A-'/Positive as a result of economic outperformance and positive adjustments to its potential growth.

The US (AA+/Stable) rating **was affirmed**.

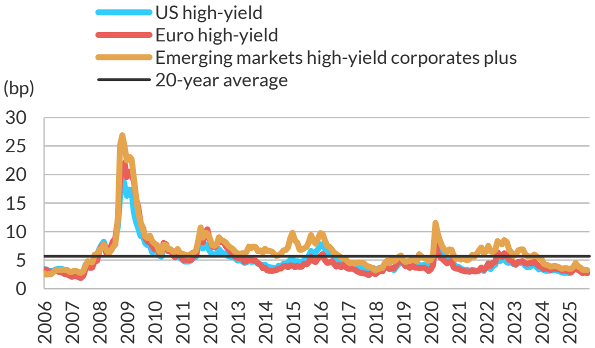
Direct support from the Mexican government helped boost the Issuer Default Rating (IDR) of state-owned oil major and fallen angel Pemex to **'BB+'/Stable**.

The IDR Outlooks on United Health (A/Negative), and Centene (BBB/Negative) and Insurer Financial Strength rating Outlook on Blue Shield of California (A/Negative) were revised to Negative as a result of likely earnings pressure from Medicaid cuts.

Disparity Between Shaky Outlook and Investor Risk Appetite Stretches Further

Ample liquidity and loose funding conditions have been key factors supporting global credit conditions. Asset valuations have bid up to historic cycle peaks as reflected in very tight credit spreads, low equity risk premia, high equity valuations and strong issuance. Corporate bond issuance in the US is on track to exceed USD2 trillion, well above long-run averages and exceeding 2024. US private credit lending also continues to grow and is likely to hit a new record.

Credit Spreads Near 20-Year Secular Lows



Note: Please see disclaimer on last page.
Source: Fitch Ratings, ICE BofA

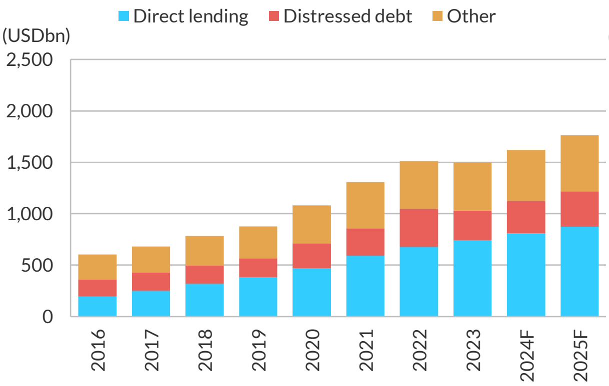
S&P 500 Risk Premium

Note: Earnings yield - US 10-year TIPS yield
Source: Fitch Ratings

The disparity between ebullient investor risk appetite and high valuations, and a soft economic base case with deep fundamental uncertainties underpinning the risk environment has been a noted theme among investors. As valuations rose further in 3Q25, the gap between market sentiment and the underlying economic outlook and risk profile widened.

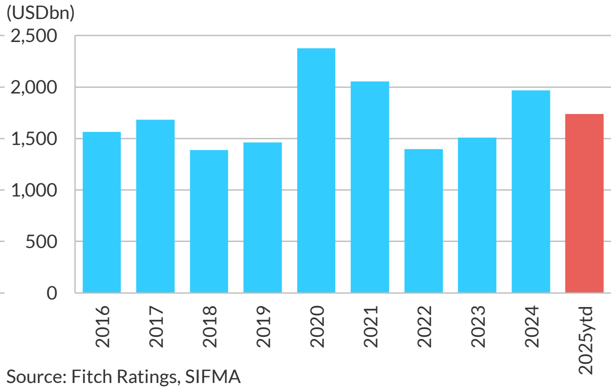
For investors, market conditions have seemed supportive owing to the strength of the AI investment boom, robust liquidity, the renewal of Fed rate cuts, and a 'good enough' macroeconomic environment. The failure of tail risks to materialise following the tariff policy shocks earlier in the year and from persistent geopolitical tensions have added to positive sentiment. The combination of tight credit spreads and high yields has also supported issuance.

US Private Credit Assets Under Management



Source: Fitch Ratings, Preqin

US Corporate Bond Issuance



Source: Fitch Ratings, SIFMA

Key Risks – New Sources of Uncertainty Emerge as Capital Plows into AI, Private Credit

The strength of the market and resilience of the macro-outlook does not mean that the risk profile for global credit has substantively changed or improved. Signs of an economic slowdown in the US are building, with the labour market starting to weaken and pockets of consumer-related credit performance indicators showing signs of deterioration. The feedthrough from tariffs, while taking time, should become more pronounced while rapid changes in the levels of tariffs and potential for retaliation remain significant risks as reflected in the passage of new trade restrictions and renewed tariff threats between China and the US in October. Core uncertainties pertaining to secular shifts in US policy, persistent geopolitical risks and rising sovereign debt also remain, while unknowns about a potential over-extension of AI-related investment and the growth of private credit exposures are emerging.

Fitch's Key Risks to global credit are broadly unchanged from the last quarter and include the following themes: trade and tariff volatility; capital market and funding instability; governance and policy; and geopolitics.

Global Credit – 4Q25 Key Risks Summary

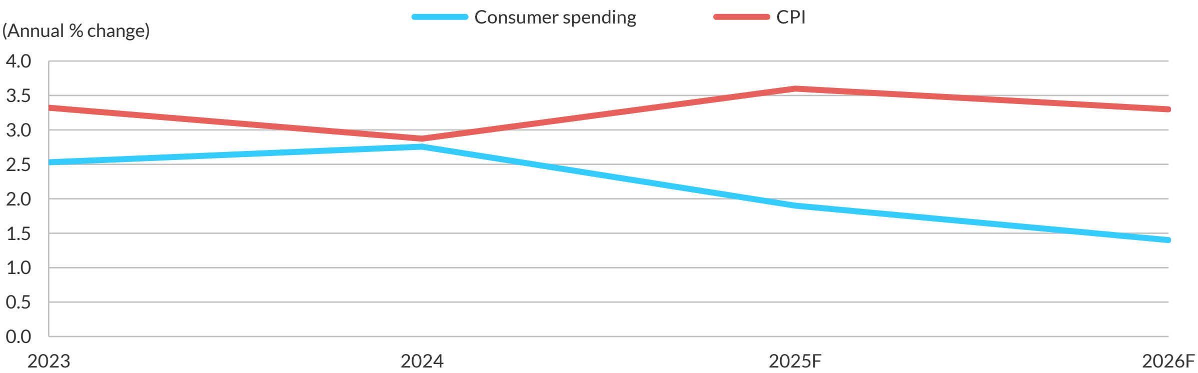
Key risk	Trend in 3Q25
Trade and Tariff Volatility	Neutral
Capital Market and Funding Instability	Improved
Governance and Policy	Neutral
Geopolitics	Neutral

Source: Fitch Ratings

Tariffs – How Businesses, Consumers Respond a Key Unknown

Our US effective tariff rate (ETR) assumption has settled at 16%-18%, as bilateral agreements with some of the US's key trading partners have given broad indications at what final settlements may look like. However, these trade agreements are still in flux, and final deals between the US and its largest trading partners including Canada and China have yet to be signed. Notably, the USMCA trade agreement between the US, Canada and Mexico, is due for renewal in July 2026 and the potential for major proposed changes from the US are likely. Mexico and Canada are the US's largest bilateral trading partners, conducting over USD1.6 trillion in bilateral trade annually with the two countries combined. In addition, the potential for a renewal of uncertainty with other trade partners and heightened sectoral tariffs remains significant as shown by announcements from both China and the US of new trade restrictions in October, including threats of significantly higher US tariffs. The direct effects of tariffs on US consumers and businesses will build as the front-loading of trade in 1H25 fades.

US Consumer Spending Growth and Inflation Forecasts



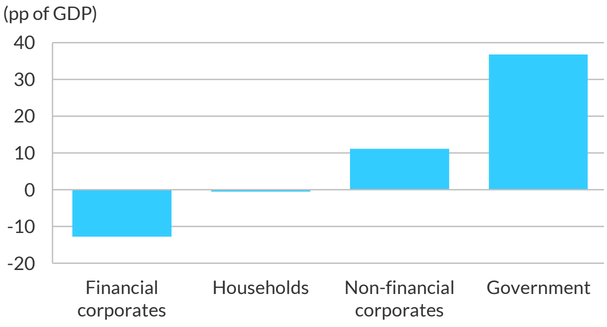
Source: Fitch Ratings, Bureau of Labor Statistics, Bureau of Economic Analysis

Fitch's economic outlook includes a rise in inflation and reduction in consumer spending growth beginning this year, to account for a feedthrough from tariffs on prices and commensurate effect on demand. How consumers and businesses will respond in this new trade and tariff environment remains a core uncertainty. The extent to which businesses can protect margins and pass on higher input prices on to US consumers, at a time when the labour market is weakening remains a major unknown. In addition, how businesses alter their investment strategies to account for the new tariff environment could have meaningful medium-term credit effects. Our base-case corporates sectoral forecasts do not reveal much pressure at the aggregate level, when assessing regional corporates as a portfolio. However, there are vulnerabilities at the sectoral level, such as for chemicals and autos, where revenue growth and margins are being squeezed and where vulnerability to further disruptions remains high.

Sovereign Debt – Fiscal Constraints Tighten Further

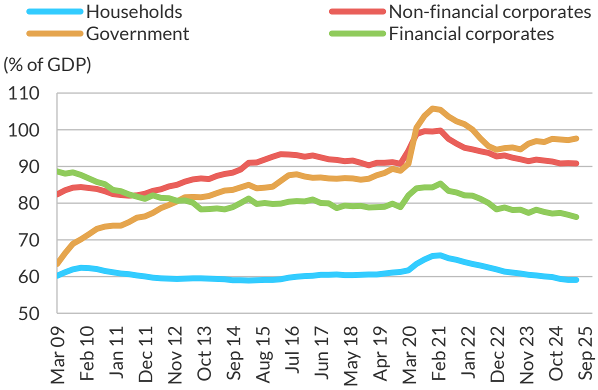
A material vulnerability for global credit remains the rapid growth in developed market government debt and, in some countries, a highly uncertain fiscal consolidation path underscored by deep political fragmentation. These were contributing factors in both September's downgrade of France and the August 2023 downgrade of the US. The potential for a sovereign bond rate shock in a large, highly rated developed market, while not our base case, remains high. The effects of a rise in government borrowing costs would be felt across capital markets and could be significant given already stretched valuations. A bond market shock that would see yields across the curve rising to where 30-year yields currently are would not likely lead directly to any sovereign downgrades. But it would add to existing pressures, underscoring negative ratings sensitivities related to fiscal consolidation and rising debt/GDP ratios. It would also have a broader negative economic growth effect.

Change in Global Debt by Sector
(2009-2025)



Source: Fitch Ratings, IIF Global Debt Monitor

Global Debt by Sector



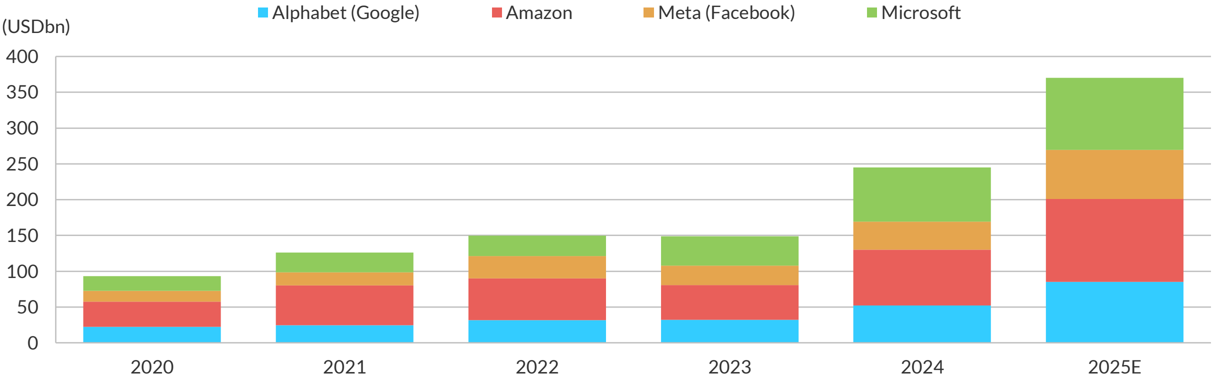
Source: Fitch Ratings, IIF Global Debt Monitor

The most recent Developed Market Sovereigns Debt Sustainability Monitor highlights the long-run growth trends in government debt including our projection that the value of developed market debt will hit 105% of GDP this year, up from 68% in 2007 prior to the global financial crisis. Interest costs are rising too with recent marked increases for France, Japan and the UK.

AI and Private Credit – Are New Bubbles Building?

The equity bull market and very tight credit spreads raise questions about the risks of investor exuberance and whether bubbles may be forming in parts of the economy, including from the rapid growth in AI-related capital expenditure and portfolio investment growth in AI-related firms, and the continued growth in the private credit market. Vulnerabilities could also be building in credit and equity markets owing to a potential mismatch between valuations and the heightened risk outlook.

Hyperscaler Capex Growth



Source: Fitch Ratings, Green Street company filings

AI investment has accounted for a majority of US GDP growth in 9M25, while AI-related companies have significantly outperformed the rest of the equity market. At the same time, there are emergent challenges for AI-related infrastructure, such as data centres, including increased costs and policy uncertainty.

The ability of data centre-related issuers and finance providers, including REITs, CMBS/ABS transactions, and project finance to absorb or pass through capex and power costs to tenants should mean that ratings are resilient to these emerging challenges. Cashflow durability and completion risk is already factored into our ratings. However, in the event of a sharp pullback in AI infrastructure spending, it would likely lead to significant revenue declines for hardware issuers, where we estimate that AI-related revenue could account for up to 75% of hardware companies revenues in 2026. The investment cycle could now exceed USD1 trillion worldwide, a scale such that an eventual pullback could have deep effects, with issuers with less-diversified operations and high capital intensity among the most exposed. We continue to include this in our 'Long-Term and Emergent Risk' category, noting the potential for unknown risks to emerge from the disruption of the rapidly evolving technology amid significant investment scale.

We continue to view private credit as not posing systemic financial risks owing to its small scale relative to the overall financial system and its characteristics, including committed capital, limited redemption risk and moderate fund-level leverage. However, private credit is emerging from being a niche product for institutional investors to a more significant asset class that is growing not only in scale but complexity. This is such that a financial shock event could reveal unexpected transmission channels. Vulnerabilities could include asset/liability mismatches, weak underwriting and layered risks.

Private Credit Market Risks and Mitigants

Key Rating Driver	Risks	Mitigants
Systemic Implications	• Less transparency and regulation versus bank lending. • Banks are often lenders to private credit, creating second-order exposure.	• Large banks have modest (albeit growing) direct exposures. • Private credit exposures for large US banks average less than 25% of equity.
Capitalisation and Leverage	• Borrower-level leverage continues to climb amid elevated competition.	• Lenders typically exhibit solid asset coverage cushions and low leverage.
Funding, Liquidity and Coverage	• Borrowers face looming maturity walls in 2026.	• Lenders exposed to limited liquidity transformation risk.
Asset Quality	• Outsized growth in an untested period. • Lack of through-the-cycle record for many lenders. • Deterioration in lending terms. Borrower credit risk rising. • Higher loan concentrations within lender portfolios/funds.	• Lenders focus on secured lending, with increasing equity cushions in transactions. • Lenders typically exhibit good alignment of interests.
Earnings and Profitability	• Elevated rates represent higher debt service costs for borrowers.	• Modest interest rate cuts underway in many advanced economies. • Elevated rates increase lenders' net interest income (absent asset quality deterioration).

Source: Fitch Ratings

The emergence of traditional 'bubble-like' characteristics, including growing retail participation and competition, spread compression, financial innovation and rising borrower leverage, further raise the potential for the spread of transmission channels to the financial system beyond private credit. Fund investors, private credit managers and leverage providers in the bank and insurance sectors could all have exposure during a risk event.

That said, each of these risks have mitigants, including limited direct exposures in the case of banks, limited liquidity risk for lenders and solid asset coverage. Our analysis of US and European leveraged finance indicators also does not point to a bubble developing in this segment. Investors are still showing discernment with regard credit quality with 'CCC' spreads remaining well above previous market peaks. In general, classic bubble signs are absent.

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