

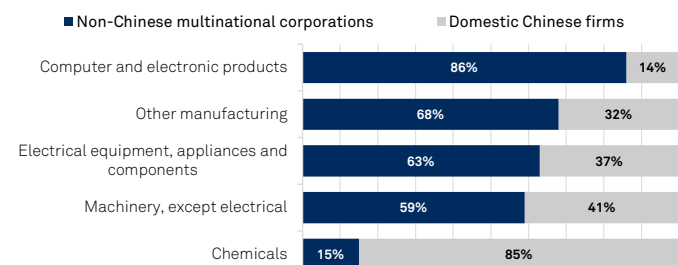
# Credit Outlook September 2018: Top Global Risks

## Trade and investment interruption

Risk level	Very low	Moderate	Elevated	High	Very high
Risk trend	Improving	Unchanged	Unchanged	Worsening	Worsening

The latest salvo in trade tensions will see tariffs hit an additional \$200 billion of U.S. imports from China. The growing list of products targeted in tit-for-tat retaliation -- some produced by multinationals through integrated supply chains -- expands the share of global GDP exposed to trade and investment disruptions.

### Share of Targeted U.S. Imports From China Produced By Chinese vs. Non-Chinese Firms



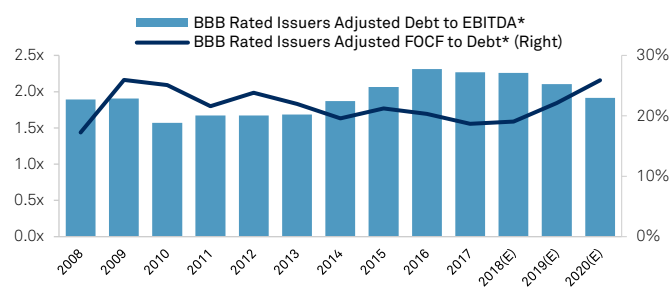
Source: Peterson Institute for International Economics.

## Benign U.S. credit cycle threatened by debt build-up

Risk level	Very low	Moderate	Elevated	High	Very high
Risk trend	Improving	Unchanged	Unchanged	Worsening	Worsening

Declining average credit quality along with a pick-up in U.S. leveraged lending and speculative-grade bond issuance since 2012 could amplify credit stresses if investor risk aversion unwinds still compressed credit spreads, or reduces share prices and reduces market access to debt, or equity financing.

### Median 'BBB' Rated Debt To EBITDA And FOCF To Debt



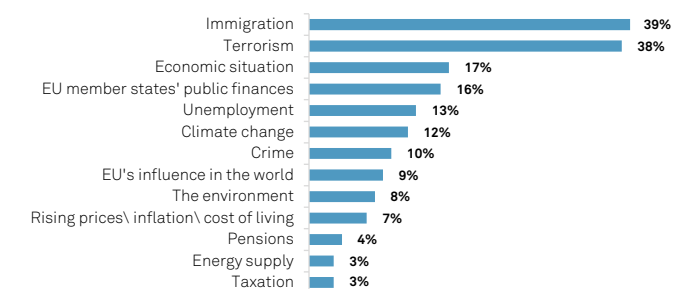
Total adjusted debt refers to balance sheet debt of BBB rated issuers. 2017 adjusted financials, may contain projected financials. F--forecasted financials. Source: S&P Global Ratings.

## Populism and anti-globalization sentiment

Risk level	Very low	Moderate	Elevated	High	Very high
Risk trend	Improving	Unchanged	Unchanged	Worsening	Worsening

A sizeable vote for nationalist parties in the 2019 European Parliamentary elections could derail any remaining momentum towards an ever closer union. It would be harder for the European Commission to object to social and economic policies that challenge EU regulations and solidarity. Immigration, still a highly divisive issue, may yet undermine free movement of labor in the Schengen area.

### The Two Most Important Issues Facing the EU?



Sources: European Commission, Autumn 2017 Eurobarometer Survey.

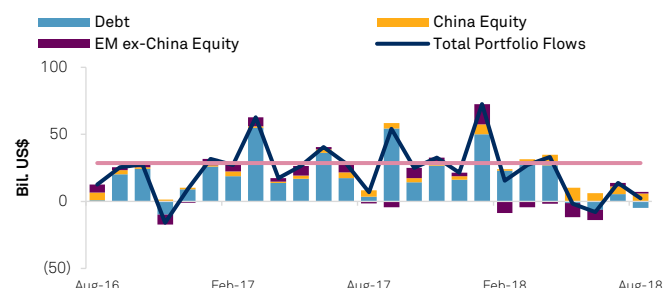
**Risk level** may be classified as very low, moderate, elevated, high, or very high. It is evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically these risks are not factored into our base case rating assumptions unless the risk level is very high. **Risk trend** reflects our current view on whether the risk level could improve or worsen over the next twelve months. Source: S&P Global Ratings.

## Asset price volatility and liquidity reversal

Risk level	Very low	Moderate	Elevated	High	Very high
Risk trend	Improving	Unchanged	Unchanged	Worsening	Worsening

Rising U.S. rates, a stronger USD, growing investor risk aversion and capital outflow pressures continue to squeeze emerging market borrowers. Industrial commodity prices (notably metals) are softening, and global trade tensions are adding to stresses for some emerging market borrowers.

### Net Non-Resident Flows to Emerging Markets



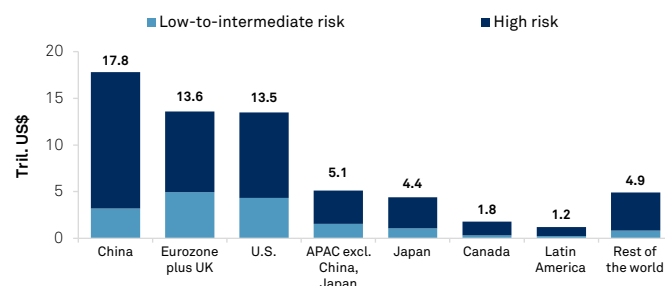
Sources: Institute of International Finance (IIF).

## China debt overhang

Risk level	Very low	Moderate	Elevated	High	Very high
Risk trend	Improving	Unchanged	Unchanged	Worsening	Worsening

China's corporate sector deleveraging trend is pausing amid decelerating earnings and notwithstanding ongoing expenditure restraint. While authorities are committed to deleveraging for state-owned enterprises (SOEs), they are fine-tuning financial-risk reduction measures to support corporate financing.

### Nonfinancial Corporate Debt



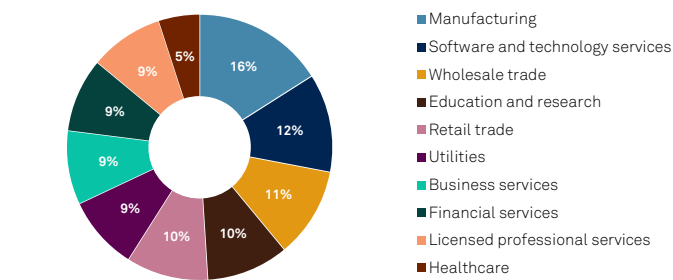
Sources: Bank for International Settlements, S&P Global Market Intelligence, S&P Global Ratings.

## Cybersecurity threats to business activity

Risk level	Very low	Moderate	Elevated	High	Very high
Risk trend	Improving	Unchanged	Unchanged	Worsening	Worsening

Increasing technological dependency, global interconnectedness and rapid technological change means that cyber risk has systemic dimensions.

### Widespread Cloud Usage Across Sectors Highlights Systemic Dimension Of Cyber Threat



Source: Cyence.