Credit Outlook November 2018: Top Global Risks

Escalating trade tensions

Risk level
- Very low
- Moderate
- Elevated
- High
- Very high

Risk trend
- Improving
- Unchanged
- Worsening

Trade uncertainties and the looming threat to global supply chains amid an expanding use of retaliatory tariff and non-tariff barriers remain a downside risk. But notably, China got a 90-day reprieve from U.S. tariff hikes as talks to resolve U.S.-China differences on market access and technology trade continue.

Global Trade Volumes Ease


Emerging market vulnerabilities resurface

Risk level
- Very low
- Moderate
- Elevated
- High
- Very high

Risk trend
- Improving
- Unchanged
- Worsening

Emerging market vulnerabilities are being exposed by external pressures from rising U.S. rates, higher foreign currency borrowing costs, an uncertain outlook for global trade, geopolitical tensions and weaker commodity price expectations. Capital outflow pressures and weaker currencies reflect fragile sentiment.

Tentative Investor Sentiment Eases Demand For Emerging Market Securities

Source: Institute of International Finance.

Populist sentiment erodes international cooperation

Risk level
- Very low
- Moderate
- Elevated
- High
- Very high

Risk trend
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Nationalistic agendas are undermining multilateral institutions and political relations are becoming more confrontational. It's evident in most regions amid a rise in protectionist trade policies, hurled in the way of an orderly transition for the U.K. to leave the EU, and a risk that populism weakens mainstream political parties, or policy cohesion going into European Parliament elections in 2019.

The Two Most Important Issues Facing The EU

Source: European Commission, Spring 2018 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.

Financing squeeze could end a mature credit cycle

Risk level
- Very low
- Moderate
- Elevated
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- Very high

Risk trend
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The build-up in nonfinancial corporate debt and leveraged lending in the U.S. and elsewhere could become a source of instability if tighter financing conditions and wider credit spreads squeeze debt affordability, or a decline in credit and equity prices reduce borrowers' access to capital markets funding.

U.S. Leveraged Loan Growth A Sign Of Late Cycle Behaviour

Source: S&P/LSTA LLI*

China’s leverage

Risk level
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Past policy tightening combined with a more uncertain external environment, has slowed growth a bit more than expected. Policymakers are taking moderate steps to boost activity, bank funding costs are down but declining credit quality is curbing lenders so credit growth continues to fall.

Nonfinancial Corporate Debt


Cybersecurity threats to business activity

Risk level
- Very low
- Moderate
- Elevated
- High
- Very high

Risk trend
- Improving
- Unchanged
- 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: Lycera.