

News Release

July 10, 2025

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New Tariff Threats Aside, Outlook for Credit Defaults and Spreads Improves Globally in Latest IACPM Survey With Notable Exception of North American Corporate Defaults Which Are Seen As Rising

New York, NY – Despite new tariff threats, which are mostly aimed at Asia, the credit outlook has improved globally, according to the latest IACPM Credit Outlook survey. Most of the tariffs announced by US President Donald Trump in early April were paused before the new survey was conducted in late June and early July. During the intervening three months, the outlook for credit defaults improved in Europe, including the United Kingdom, Asia, and Australia. The forecast for European Corporate defaults is still negative but improved, moving from an index score of minus -64.4 to a negative -36.8. When index scores are less negative, it means the outlook for rising defaults is lower.

While several countries like Japan and South Korea are facing new threats, North American countries, including the US and Canada, continued to face head winds during the whole period since so-called Liberation Day. The outlook for corporate defaults in the region increased from negative -60.0 in the previous survey to minus -65.0 in the latest reading. Canada faces significant troubles from the ongoing tariff threat, but the US has its own share of difficulties, with some respondents putting chances of a recession at more than one-third.

“Survey respondents, who manage the risk in corporate loan portfolios, report they are already seeing additional defaults in North America but, as you might expect, they’re mostly among riskier borrowers,” commented Som-lok Leung, the Executive Director of the International Association of Credit Portfolio Managers, or IACPM.

“Nevertheless, the most important question for respondents, perhaps even more so now, is what will be the ultimate impact of new tariffs? When and where will they be imposed and what will be the impact?”

Survey respondents are still worried about the effect of US tariffs on Europe but tempering this concern are several factors which are helping improve the overall credit outlook. Interest rates are still relatively low, inflation is largely contained, oil prices are down, and respondents see at least some room for growth in the region. They point to increased defense and infrastructure spending, especially in Germany, and the growth impact of private equity funds investing in European corporations, including AI.

“Europe is a bit up and down,” commented Mr. Leung. “As noted, several things are working in its favor but other factors are less favorable. The region faces nearby geopolitical challenges, anemic long-term growth and continuing demographic issues. The near-term outlook has improved but it’s not entirely rosy either.”

Responding to the IACPM survey before Trump announced his latest round of tariffs on South Korea and Japan, as well as other countries, respondents largely forecast an improvement in the outlook for corporate defaults in Asia and Australia. Asia, as a region, dropped from negative -58.6 last April to minus -30.8 in the latest reading. Australia also dropped from negative -43.5 in the first quarter to minus -30.0 now. Respondents say China is retrenching and injecting new liquidity where needed. Australia corporate credits continue to perform satisfactorily.

The outlook for commercial real estate has also improved, somewhat surprisingly. The index score for defaults has declined from negative -49.7 in the last quarterly reading to minus-26.3 this quarter. Respondents note refinancing is proceeding reasonably well and, on the demand side, many workers are returning to their office

buildings.

The outlook for credit spreads has improved somewhat as well. Overall, survey respondents are negative about both investment grade and high yield spreads over the next three months but not as much as previous surveys. The credit spread index is negative -37.8 this quarter versus -57.3 last quarter.

The Credit Outlook Survey is conducted among members of the IACPM, an association with over 150 financial institutions in more than 30 countries around the world. Members include portfolio managers at many of the world's largest commercial banks, investment banks and insurance companies, as well as a number of asset managers. Members are surveyed at the beginning of each quarter.

Survey results are calculated as diffusion indexes, which show positive and negative values ranging from 100 to minus -100, as well as no change which is in the middle of the scale and is recorded as "0.0." Positive numbers signify an expectation for improved credit conditions, specifically fewer defaults and narrower spreads, while negative numbers indicate an expectation of deterioration with high defaults and wider spreads.

About IACPM

The IACPM, with over 150 member institutions located in more than 30 countries, is a professional association dedicated to the advancement of credit portfolio management. The organization's programs of meetings, studies, research and collaboration are designed to increase awareness of the value and the function of credit portfolio management among financial markets worldwide, and to discuss and resolve issues of common interest to its members.