

July 10, 2025

Global Credit Weekly:

Corporate resilience

BlackRock

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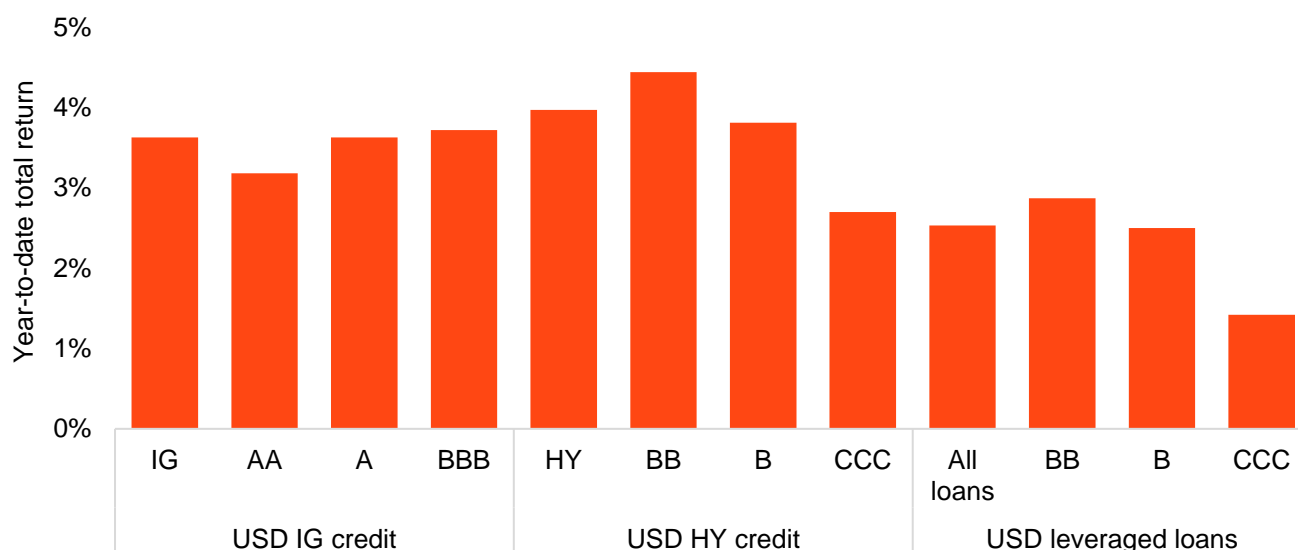
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Key takeaways

- The 2Q2025 earnings season – which begins next week – will be closely watched by market participants for incremental color on how firms are navigating the significant policy shifts announced in recent months. In this *Global Credit Weekly*, we take stock of the most recent signals from company-level commentary and provide an update on corporate fundamentals.
- The resilience of risk assets – including corporate credit – despite persistent uncertainty has been notable. As Exhibit 1 illustrates, this resilience has extended into the lower-rated portion of the corporate credit universe, as USD BBs have been the best performer, year-to-date, on a total return basis. We remain comfortable *selectively* moving down in credit quality – a view we first outlined on April 10th and reiterated again in our *3Q2025 Global Credit Outlook*.
- We believe the resilience in risk appetite is driven, in part, by the incremental clarity provided by companies on the myriad of operational levers management teams can use to help mitigate the impact of tariffs. For example, a range of retail and consumer-focused firms have highlighted a variety of internal efficiency initiatives to protect profitability. These include plans for a combination of: faster inventory turnover, changes to order timing, savings on shipping/logistic costs, vendor negotiations, sourcing diversification, price adjustments, shifts in product mix, divesting unprofitable business lines, productivity enhancements to SG&A (including using more digital tools), headcount reductions, using more automation in manufacturing, and supply chain organizational shifts. Some of these programs – which were originally planned to take place over time – are now being approached with more urgency and focus.
- Our colleagues in the *BlackRock Investment Institute* estimate that the current U.S. effective rate is just above 15%. They do not expect tariffs to return to the April 2nd peak, as so-called “immutable economic laws” somewhat bind policy shifts.

Exhibit 1: The high-end of HY has been resilient vs. its higher-rated peer group

Year-to-date total returns (%) for various USD corporate credit indices



Source: Bloomberg, Pitchbook LCD, BlackRock. As of July 8, 2025. The figures shown relate to past performance. **Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

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Corporate resilience

In our *3Q2025 Global Credit Outlook*, we highlighted the importance of navigating the “two-sided risks” presented by the macro environment. While we expect a more challenging growth-inflation mix in the U.S. ahead, we also remain attuned to the opportunity cost of being too defensive (and under-risked) in this environment. Indeed, after a volatile start to 2Q2025, a wide range of risk assets staged an impressive recovery through the remainder of the quarter – and this has largely extended into the early days of 3Q2025.

With the 2Q2025 corporate earnings season beginning next week, market participants will be watching for incremental color on how firms are navigating the significant policy shifts announced in recent months. In this *Global Credit Weekly*, we will take stock of the most recent signals from company-level commentary and provide an update on corporate fundamentals.

The macro backdrop: still generally solid, in the face of uncertainty

We’ll start by characterizing the U.S. macro backdrop, which is an important driver of U.S. corporate resilience, in our view.

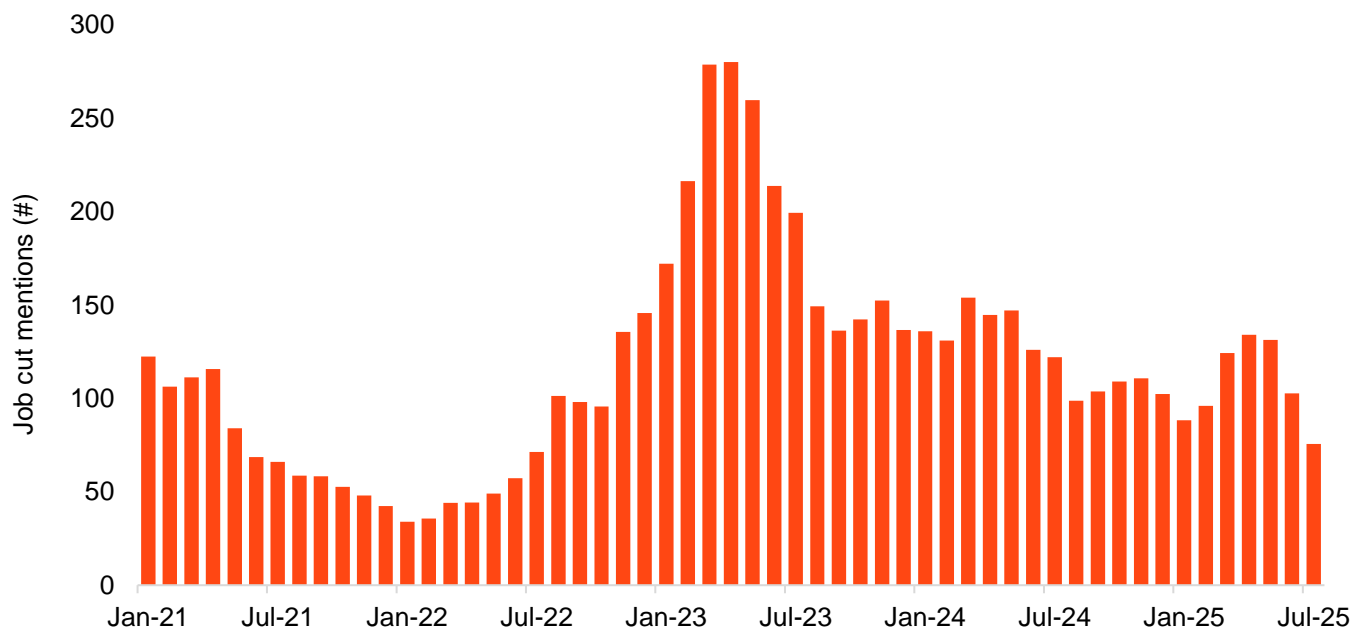
Traditional measures of U.S. growth, such as GDP, have been skewed by front-loading inventories. However, underlying measures of economic activity (such as private domestic final purchases, which exclude net exports, inventory investment, and government spending) are tracking at a solid pace of 2.5%, as Federal Reserve Chair Powell noted late last month. In our view, the ‘feedback loop’ between: (1) corporate margins, (2) the health of the U.S. labor market, (2) the strength of U.S. consumer spending, and (4) overall U.S. economic activity, will be key to watch.

We expect that sustained downward pressure on profit margins (from higher input costs, for example) would increase the risk that corporations use layoffs more aggressively to protect profitability. An increase in layoffs, coupled with a low hiring rate, could result in broad-based weakness in consumer spending (as it may take longer for laid-off workers to find employment and restore their income).

That said, recent hard data, including the June nonfarm payrolls report, has remained largely benign (albeit with some weakness in private payrolls). Further, U.S. corporate mentions of job cuts remain low, by recent historical standards, suggesting that most companies have not yet considered large-scale layoffs as a tool to improve resilience (Exhibit 2).

Exhibit 2: Mentions of job cuts have not increased sharply

Three-month moving average of artificial intelligence-identified mentions of job cuts in Russell 3000 transcripts



Source: Bloomberg, BlackRock. As of July 8, 2025.
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Corporates appear to be well-positioned to navigate uncertainty

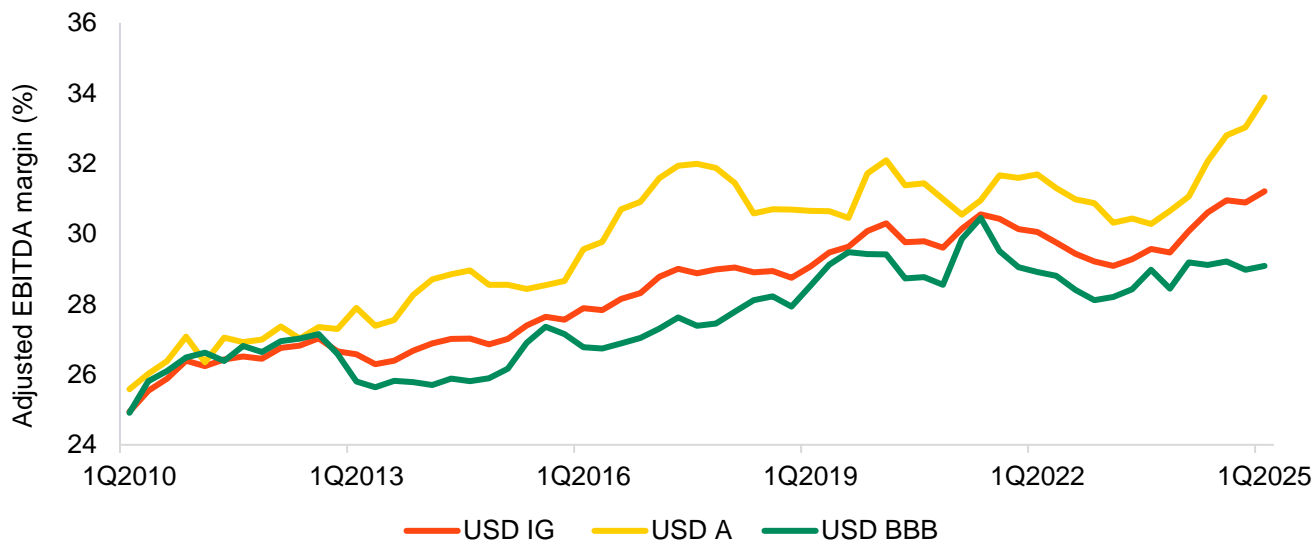
Early indicators of corporate performance have also signaled strength, through 1Q2025.

To start, corporate margins remain notably resilient. Exhibits 3 and 4 demonstrate this using 12-month trimmed mean EBITDA margins for borrowers in the Bloomberg USD IG and HY Corporate indices. Indeed, margins for borrowers in the USD IG index have grown over time and remain comfortably above longer-term historical averages. Levels for borrowers in the USD HY index have remained more range-bound and are broadly in line with historical averages. Beyond corporate credit, operating margins for S&P 500 companies remain comfortably above the average for the last ten years.

Resilient margins, in our view, suggest that companies may have a financial buffer to accommodate changes in the macroeconomic environment (such as higher input costs), should it be necessary.

Exhibit 3: EBITDA margins have improved over time for the USD IG Corporate Index...

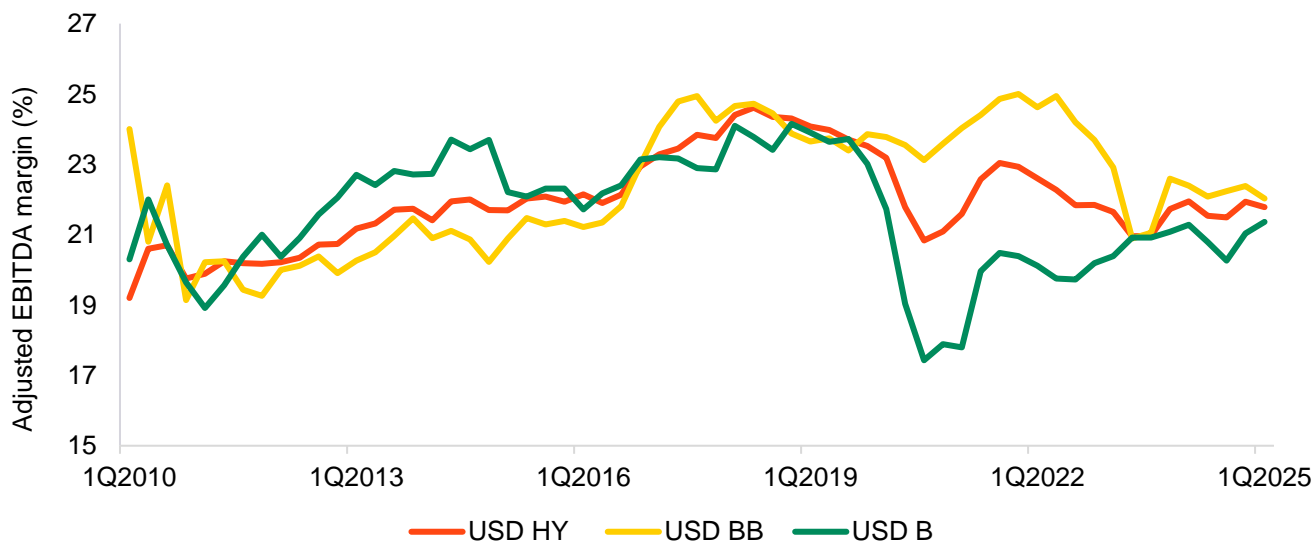
Trailing 12-month trimmed mean EBITDA margins for the Bloomberg USD IG Corporate Index, and the A and BBB rating cohorts



Source: Bloomberg Intelligence, BlackRock. As of 1Q2025 (most recent available as of July 9, 2025). Trimmed mean metrics exclude the top 10% and bottom 10% of observations.

Exhibit 4: ...while EBITDA margins for the USD HY Index remain in line with averages

Trailing 12-month trimmed mean EBITDA margins for the Bloomberg USD HY Corporate Index, and the BB and B rating cohorts



Source: Bloomberg Intelligence, BlackRock. As of 1Q2025 (most recent available as of July 9, 2025). Trimmed mean metrics exclude the top 10% and bottom 10% of observations.

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Recent trends in earnings revisions also suggest corporates are performing better than initially expected. For context, we view the S&P 500, an equity index capturing over \$52 trillion in market capitalization across 500 leading U.S.-listed companies, as a bellwether for investor sentiment.

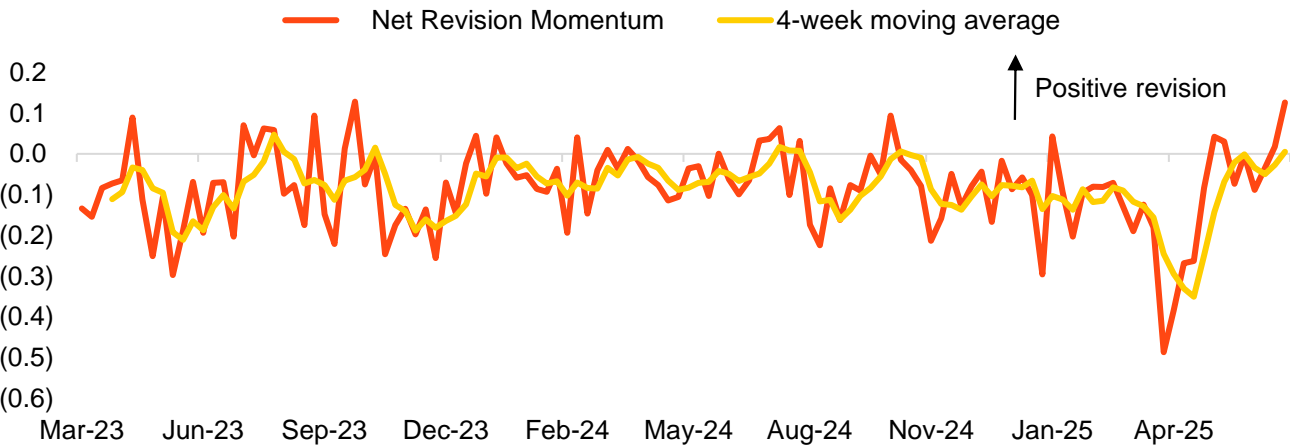
Earnings per share (EPS) net revision momentum for the S&P 500 has recovered after falling in the early weeks of 2Q2025 (Exhibit 5). In our view, this indicates that corporations may be better equipped to handle volatility, uncertainty, and potential policy implications than previously expected. (Note that this recovery likely also reflects, in our view, incremental clarity regarding the macro and policy backdrop).

That said, dispersion is evident under the surface, with each sector subject to a unique set of drivers. Exhibit 6 demonstrates EPS net revisions momentum for a select cohort of potentially policy-exposed sectors in the S&P 500. Notably, revisions vary across sectors and over time, as policy proposals have evolved. Echoing the theme of dispersion, a June 2025 report from Goldman Sachs Research found that companies with larger tariff cost exposure have announced more price hikes than the average.

This underscores the nuance and flexibility required in corporate actions amid such uncertainty. Indeed, the best course of action – and the tools available – for corporations building resilience will depend on factors such as the sector, size, product/customer focus, brand, and other company-level characteristics.

Exhibit 5: Revision momentum has moved to be more positive...

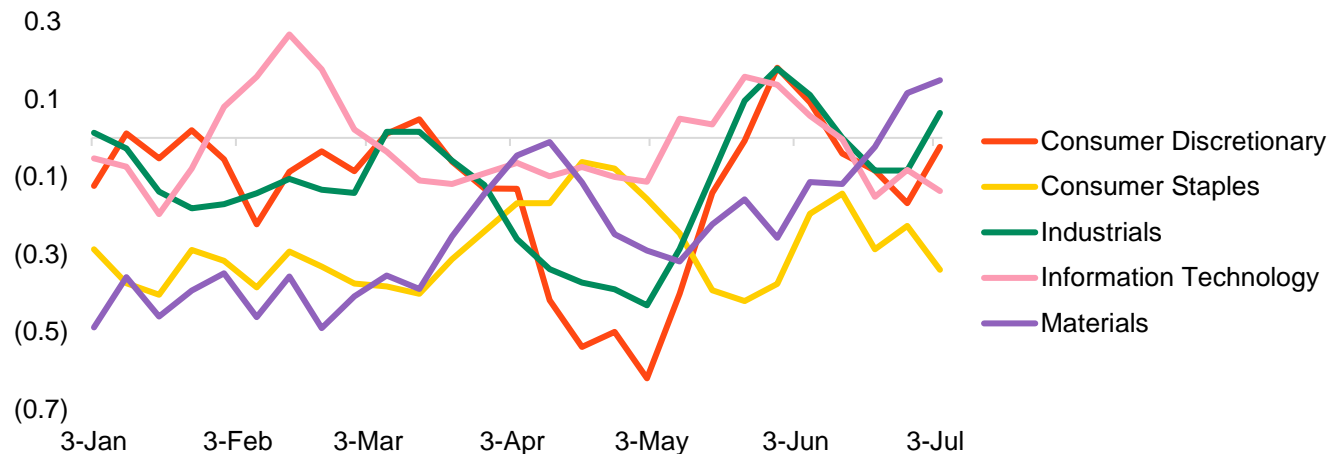
Net revision momentum of 12-month forward EPS for the S&P 500, as calculated by Bloomberg Intelligence, and the 4-week moving average



Source: Bloomberg Intelligence, BlackRock. As of July 3, 2025 (most recent available as of July 9, 2025). Net Revision Momentum = (Positive Revisions – Negative Revisions) / Total Revisions.

Exhibit 6: ...but varies considerably on a sector-level

4-week moving average for net revision momentum of 12-month forward EPS for the S&P 500, as calculated by Bloomberg Intelligence, for select sectors



Source: Bloomberg Intelligence, BlackRock. As of July 3, 2025 (most recent available as of July 9, 2025). Net Revision Momentum = (Positive Revisions – Negative Revisions) / Total Revisions.

A multitude of operational levers

We believe the resilience in risk appetite – across credit and equities – is driven, in part, by the incremental clarity provided by companies on the myriad of operational levers management teams can use to help mitigate the impact of tariffs.

For example, a range of retail and consumer-focused firms have highlighted a variety of internal efficiency initiatives to protect profitability. These include plans for a combination of: faster inventory turnover, changes to order timing, savings on shipping/logistic costs, vendor negotiations, sourcing diversification, price adjustments, shifts in product mix, divesting unprofitable business lines, productivity enhancements to SG&A (including using more digital tools), headcount reductions, using more automation in manufacturing, and supply chain organizational shifts.

Some of these programs – which were originally planned to take place over time – are now being approached with more urgency and focus, based on company commentary.

Recent surveys from two regional Federal Reserve Banks have provided additional detail on the potential for pricing shifts. For example, a May 2025 [survey](#) from the Federal Reserve Bank of New York found that most firms passed through some, or all, of tariff costs which were in place during the survey period (May 2 – 9) to consumers (Exhibit 7). For context, approximately 90% of manufacturers and about 75% of service firms surveyed said they imported some portion of goods. And in aggregate, the average share of imported inputs among all firms surveyed was approximately 30%.

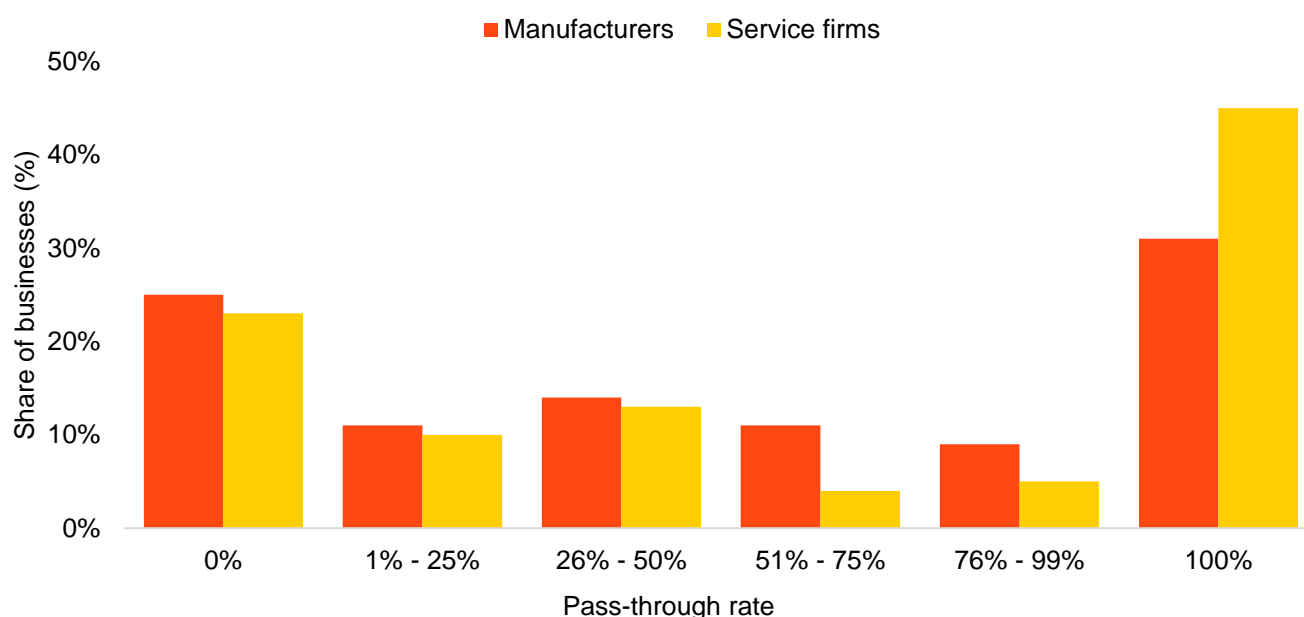
The April 2025 [Business Inflation Expectations](#) survey by the Atlanta Federal Reserve provided a similar takeaway: in aggregate, firms are confident in their ability to pass on some level of price increases to consumers, should it be required.

That said, the survey also provided more granularity into the scope of expected pass-throughs and underscored the theme of dispersion. For example, data suggests that firms' perceived ability to pass through price increases is somewhat dependent on consumer demand (Exhibit 8).

The survey found that firms reporting “above normal” sales revenue growth expected to pass through nearly two-thirds of a hypothetical 10% cost increase. By contrast, those reporting “below normal” sales growth expected to pass through only 46% of a 10% increase.

Exhibit 7: Businesses are taking different approaches

Share of businesses surveyed, grouped by the estimated pass-through rate of tariff costs



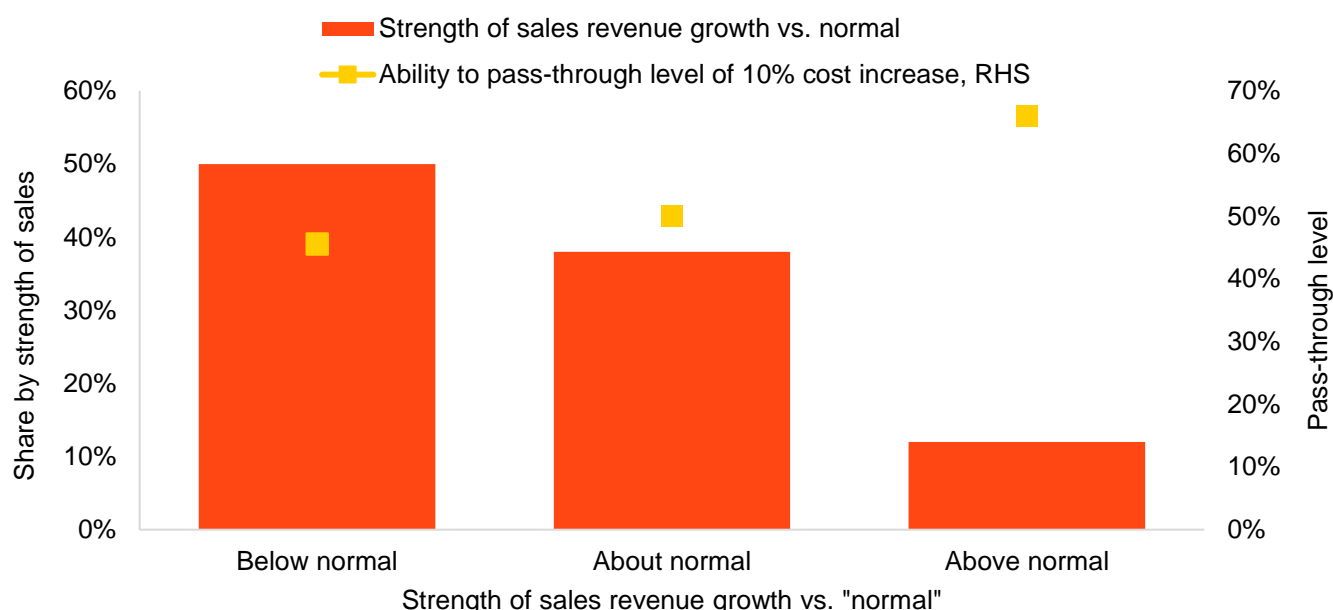
Source: Federal Reserve Bank of New York, Regional Business Surveys, BlackRock. As of May 2025. Note: Figures are based on businesses that reported an increase in the cost of their imported goods owing to tariffs over the past six months. The survey was conducted between May 2 and 9, notably before a wave of policy developments.

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Dispersion by company size is also evident. As illustrated in Exhibit 9, small and mid-sized businesses reported experiencing a larger sales gap compared to what is considered “normal” levels than large companies. This suggests that, at present, small and mid-sized firms are likely less able to pass on price increases to the end consumer. As we’ve highlighted previously, the size and scale of larger companies can often provide incremental flexibility to accommodate shifts in the macroeconomic environment.

Exhibit 8: Responses suggest that the strength of sales is correlated to the perceived ability to pass-through price increases

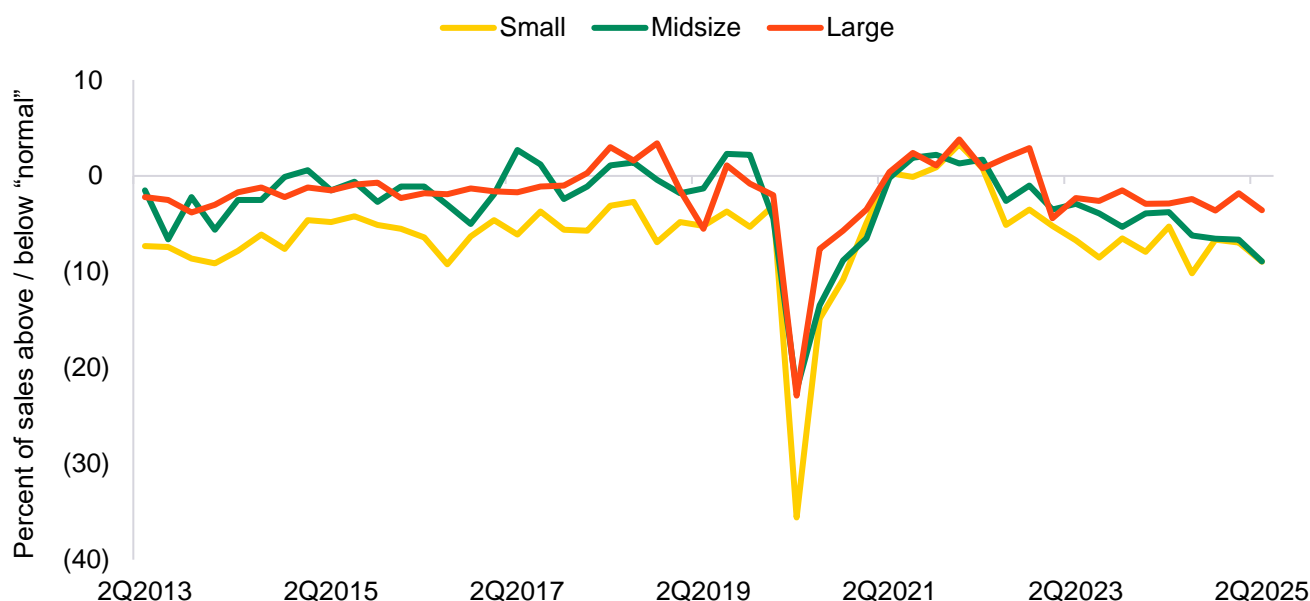
Share of businesses based on their perceived strength of sales revenue growth vs. “normal”, and their perceived ability to “pass-through” a 10% cost increase without reducing current levels of demand



Source: Atlanta Fed's Business Inflation Expectations survey, BlackRock. Survey as of April 2025, report as of June 5, 2025. Pass-through level represents estimation based on language included in the report.

Exhibit 9: Small and mid-sized firms reported sales levels were more “below normal” than large

Atlanta Federal Reserve survey responses, by firm size, to the question: By roughly what percent are your firm’s unit sales levels above/below “normal,” if at all? Zero marks “normal” level.



Source: Atlanta Federal Reserve's Business Inflation Expectations survey, BlackRock. As of 2Q2025. Small defined as 1-99 employees, midsize defined as 100-499 employees, and large defined as 500+ employees.

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The case for *selectively* moving down in credit quality

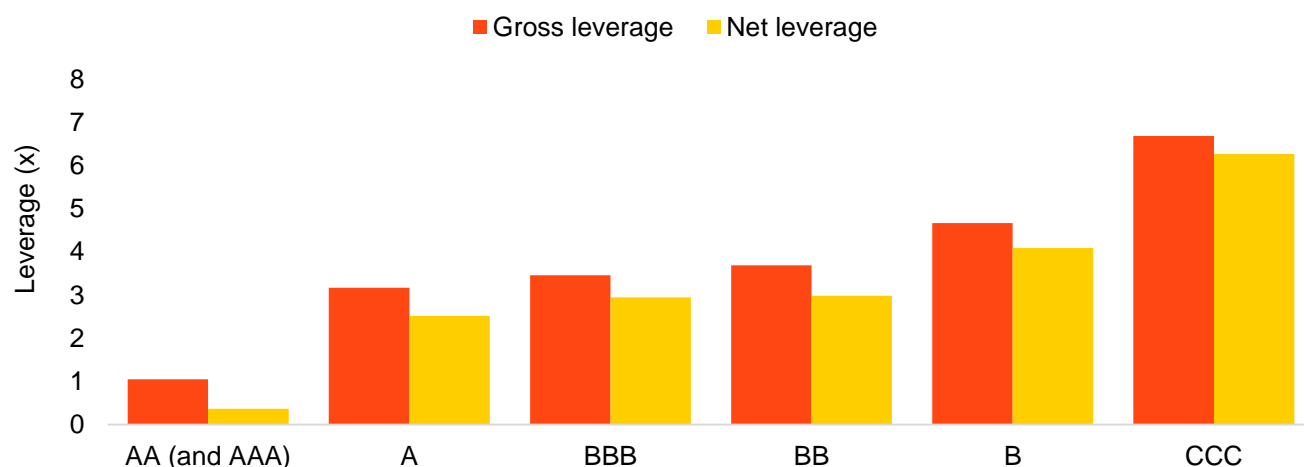
We remain comfortable *selectively* moving down in credit quality – a view we first outlined on April 10th and reiterated again in our 3Q2025 Global Credit Outlook. Relatedly, our colleagues in the *BlackRock Investment Institute* highlighted the theme of *Investing for the here and now* in their 2025 Midyear Investment Outlook, detailing that incremental clarity in the near term enables tactical risk-taking over a six-to-twelve-month horizon.

Year-to-date total return performance has been resilient across most rating cohorts in the USD IG and HY market, with BB and B rated bonds representing the two highest returning cohorts (Exhibit 1). That said, while strong performance has extended into most pockets of the HY index, total returns for the lowest-rated segment (CCCs) have lagged. This suggests, in our view, that while the markets’ “risk on” tone has recovered from volatility in early 2Q2025, investors remain largely focused on cohorts with still-solid fundamentals.

In our view, the BBB and BB cohorts represent a “sweet spot” for moving down in quality, offering some incremental spread premium, without compromising too much on credit fundamental strength (relative to higher rated peers; Exhibits 10 and 11). And with the potential for a somewhat more challenging growth-inflation mix ahead, we believe these cohorts are positioned to remain resilient.

Exhibit 10: Leverage for BBBs and BBs is similar, and modest

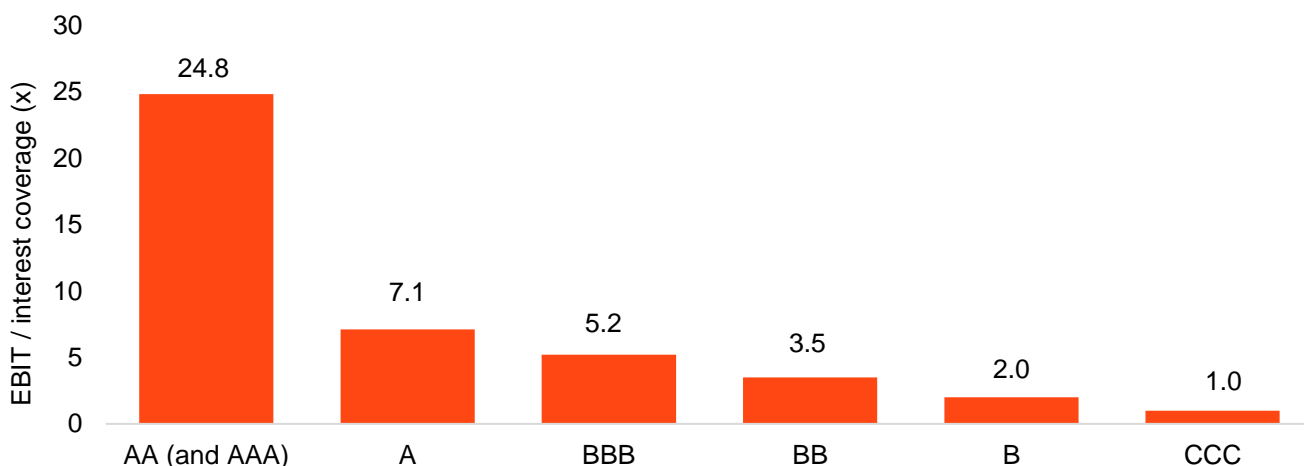
Trimmed mean (excludes top / bottom 10%) leverage metrics, for the last twelve months ended 1Q2025. Captures issuers in the Bloomberg USD IG and HY Corporate indices.



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 1Q2025 (most recent available as of July 9, 2025).

Exhibit 11: Coverage varies significantly, with CCC coverage currently at 1.0x

Trimmed mean (excludes top / bottom 10%) interest coverage metrics, for the last twelve months ended 1Q2025. Captures issuers in the Bloomberg USD IG and HY Corporate indices.



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 1Q2025 (most recent available as of July 9, 2025).

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