July 24, 2025

Global Credit Weekly:

Still climbing the 'wall of worry'

BlackRock

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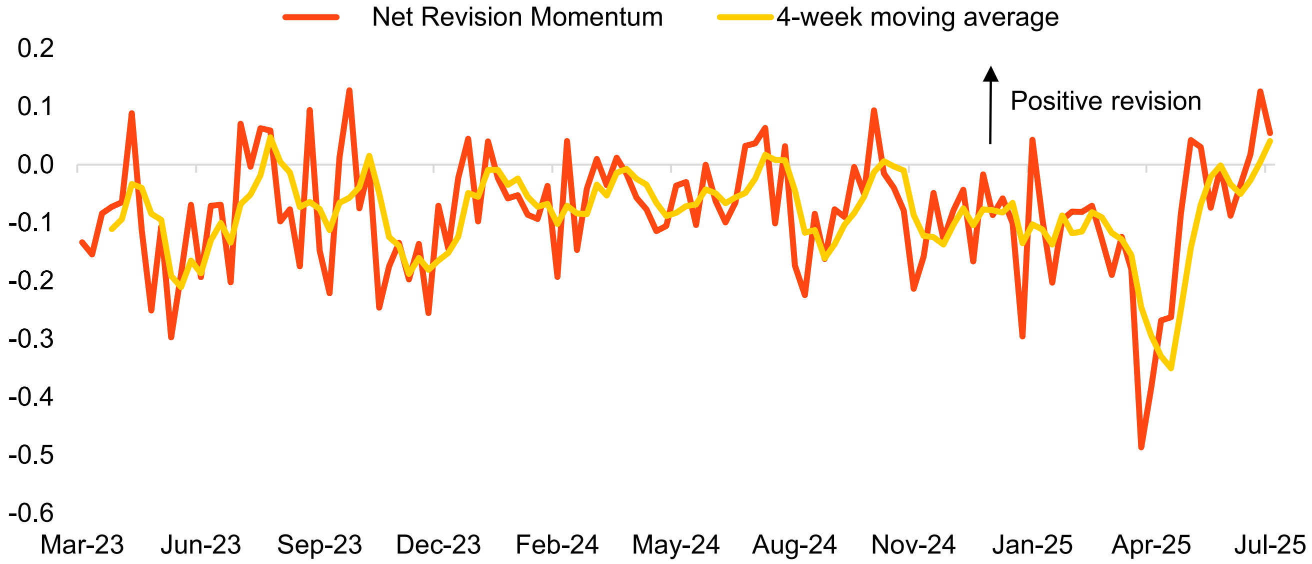
Key takeaways

- This week was characterized by two notable themes, in our view. The first was additional progress on trade developments, with a framework announced between the U.S. and Japan, and press reports that the U.S. and Europe were also moving closer to a potential agreement.
- The second was the signaling from 2Q2025 earnings reporting season, which has offered incremental color on how corporates are navigating policy shifts. While still very dynamic, management teams are continuing to highlight the various operational levers at their disposal to mitigate tariffs – extending the pattern of the past few weeks. And in some instances, companies have *lowered* the expected impact from tariffs (vs. what was communicated in 1Q2025).
- Beyond management teams' guidance, the numbers themselves have cleared market participants' generally low expectations heading into the quarter. 83% of S&P 500 earnings have surprised to the upside, per data compiled by Bloomberg (as of July 23, 2025, 29% of the S&P 500's market capitalization has reported).
- Against this backdrop, risk assets have been resilient, continuing to climb the so-called 'wall of worry.' The S&P 500 reached a new all-time high on July 23rd, and credit spreads have continued their grind tighter – hovering at the tight end of the post-financial crisis range.
- In this *Global Credit Weekly*, we once again unpack the ongoing theme of corporate resilience. Extending the analysis that we published two weeks ago, our review leaves us comfortable with our expectation for credit spreads to remain in their current tight range, largely driven by corporates' ability to adapt in this environment. That said, we expect the theme of dispersion to persist and continue to closely watch the 'feedback loop' between corporate margins, the labor market, and consumer spending.

Exhibit 1: Revision momentum has moved into positive territory
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 11, 2025 (most recent available as of July 23, 2025). Net Revision Momentum = (Positive Revisions – Negative Revisions) / Total Revisions.

More signs of corporate resilience

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While still in the early stages, results from a range of bellwether issuers – across a variety of industries – have laid the groundwork for what could be a solid quarter. This is especially notable given market participants' relatively low expectations heading into the quarter.

So far, earnings results have been solid, with 83% of S&P 500 earnings surprising to the upside, per data compiled by Bloomberg (as of July 23, 2025, 29% of the S&P 500's market capitalization has reported). Average year-over-year EPS growth is also tracking above expectations at 4.4%, compared to the pre-season market forecast of 2.8%, per Bloomberg. That said, this represents a considerable decline relative to the previous 10-year average of 9.6% (2Q2015-1Q2025).

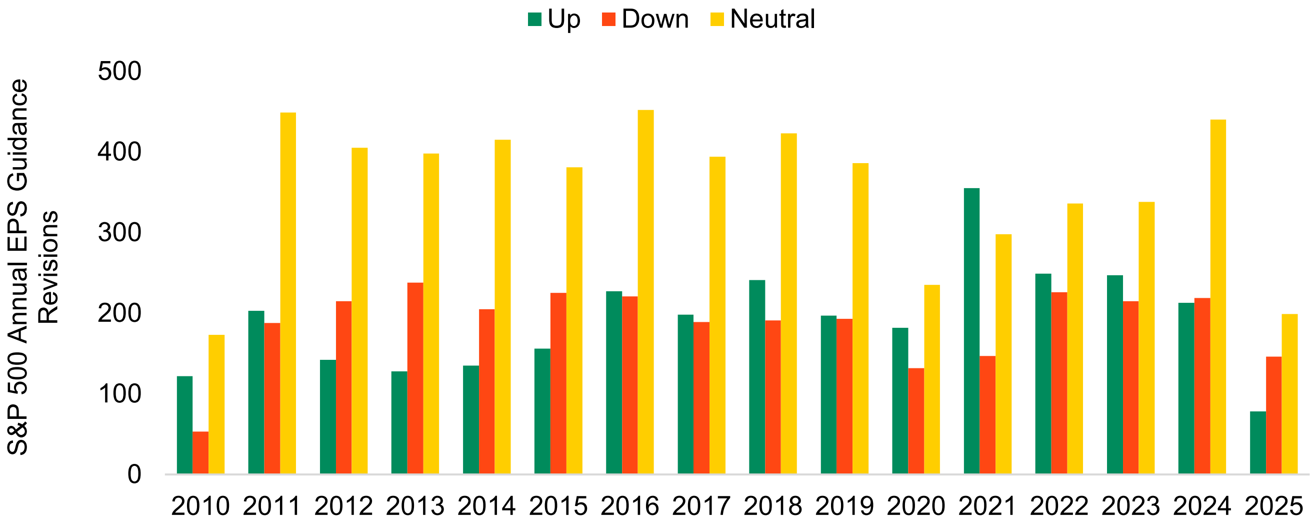
In this *Global Credit Weekly*, we once again unpack the persistent theme of corporate resilience, using recent earnings data and management commentary to understand how it's evolving, what's driving it, and what tools corporates are employing to adapt to an ever-changing landscape.

Revision momentum has inflected

2Q2025 began with significant uncertainty about the path ahead, from a policy and macroeconomic perspective, resulting in a steep decline in earnings revisions. Over the past few months, however, that uncertainty has given way to a more neutral backdrop and recent momentum appears to have inflected in a more positive direction (Exhibit 1).

That said, this reversal in recent momentum has not entirely outpaced the impact of a wave of negative revisions from earlier this year. Indeed, Exhibit 2 demonstrates year-to-date aggregate revisions. The takeaway? While positive revisions have increased as of late, they remain modest relative to negative revisions. While this is unusual relative to the history of the past several years., we believe it reflects the fundamental and performance dispersion evident across the landscape of corporates, given the significant policy shifts and residual uncertainty.

Exhibit 2: 2025 year-to-date downward revisions still outpace upward revisions
Annual EPS Guidance Revisions for the S&P 500, as captured by Bloomberg Intelligence



Source: Bloomberg Intelligence, BlackRock. As of July 18, 2025 (most recent available as of July 23, 2025.

The key signpost to watch

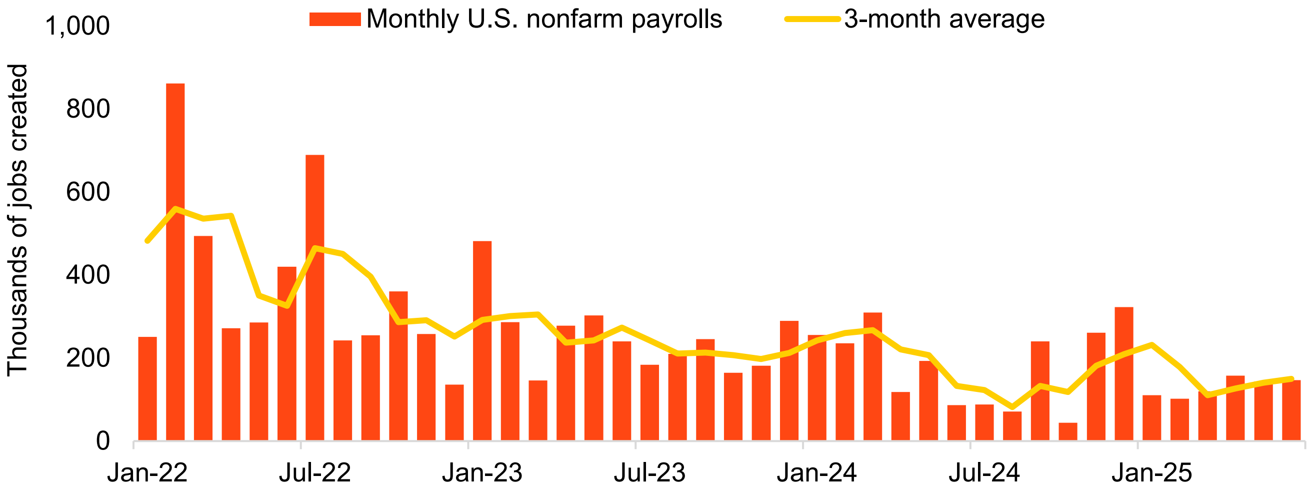
As the 2Q2025 reporting season progresses, we remain most focused on the 'feedback loop' between corporate margins, the labor market, and consumer spending. As of 1Q2025, corporate EBITDA margins were in solid territory: at 31% and 22% for the Bloomberg USD IG and HY indices, respectively[1]. And while the labor market has shown signs of cooling (in private payrolls growth, for example; Exhibit 3), the overall unemployment rate of 4.1% remains low by historical standards, as does the layoff rate (Exhibit 4).

That said, the key downside risk, in our view, is if margins are sufficiently pressured such that corporates use layoffs more aggressively to protect profitability. The current 'low hiring, low firing,' labor market may mean that it takes longer for unemployed workers to find new work. This could weigh on overall consumer spending, which accounts for roughly two-thirds of U.S. GDP.

As we discussed in late May, perceptions of 'mixed signals' have surrounded consumer data and commentary. But rather than reflecting any sort of inconsistency, we instead view it as indicative of the bifurcation that exists between consumer income cohorts – which we believe is exacerbated in the current market backdrop given elevated interest rates and the rally in housing and equity markets.

Exhibit 3: The pace of hiring has slowed somewhat, but remains solid

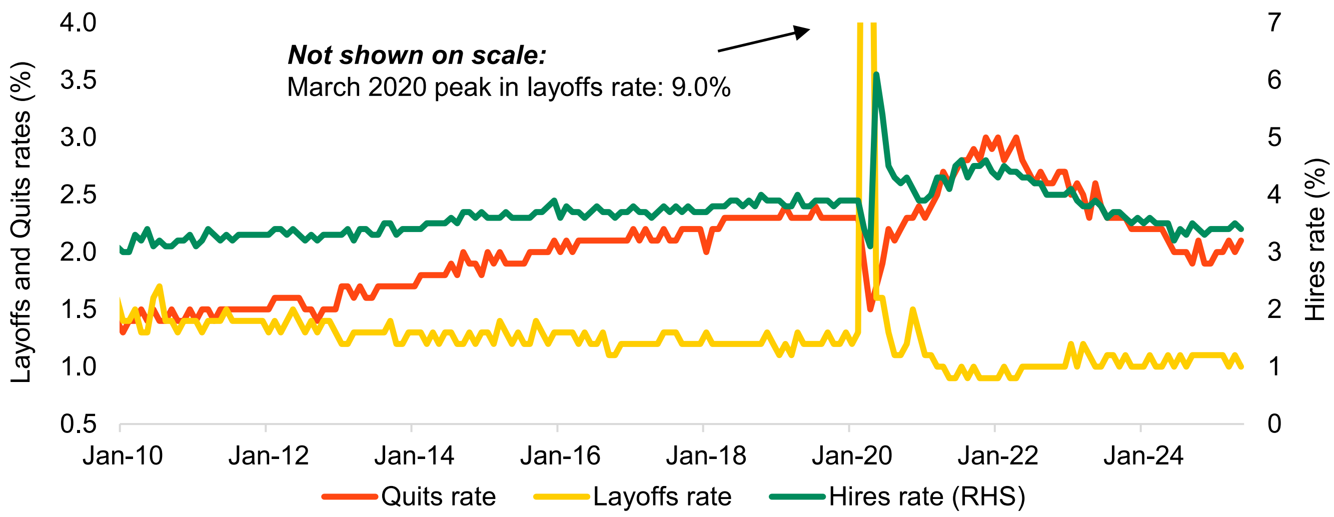
Monthly change in U.S. nonfarm payrolls and the three-month moving average pace of job creation



Source: Bureau of Labor Statistics, Bloomberg, BlackRock. Captures data through June 30, 2025 (most recent available).

Exhibit 4: A 'low hiring, low firing' labor market in the U.S.

U.S. Layoffs & Discharge Rate (%), the U.S. Quits Rate (%), and the U.S. Hires Rate (%, RHS), all seasonally adjusted



Source: Bureau of Labor Statistics, Bloomberg, BlackRock. Captures data through May 31, 2025 (most recent as of July 23, 2025). The Layoffs & Discharge Rate tracks involuntary job separations initiated by the employer; the Quits Rate tracks voluntary job separations initiated by the employee; the Hires rate tacks additions to the payroll. [1] Trimmed mean EBITDA margins for the Bloomberg Corporate indices.

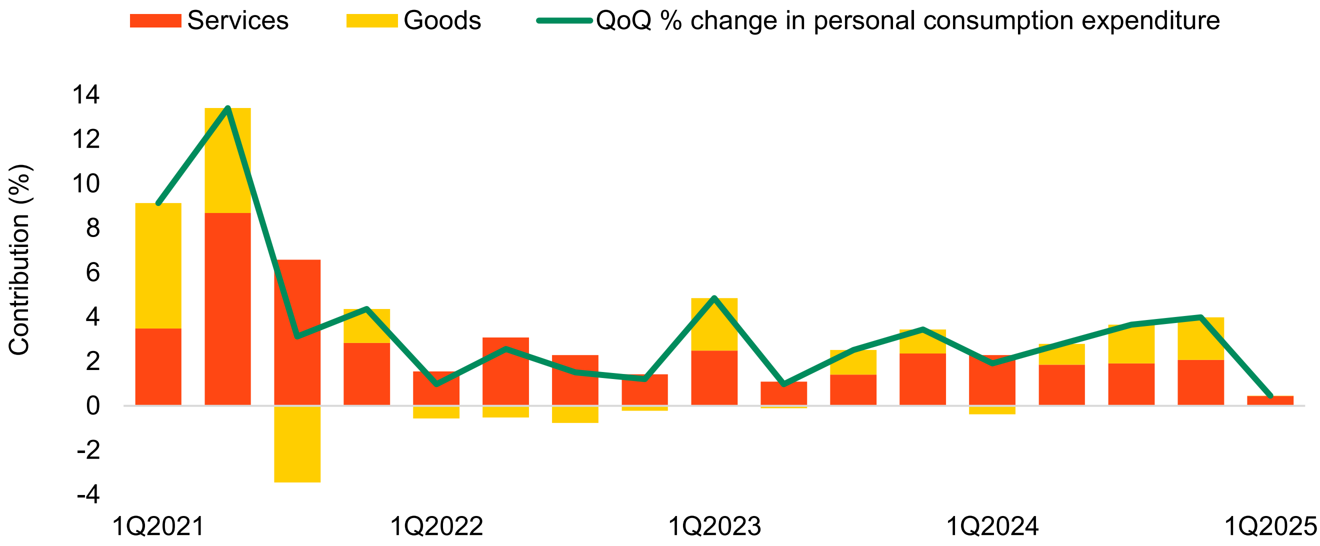
Consumer-related anecdotes from earnings

Exhibit 5 demonstrates the quarter-over-quarter change in real personal consumption expenditures over time, and by contribution from the two 'product types' (i.e., services and goods). There are two notable takeaways, in our view. First, real annualized consumer spending data as of 1Q2025 was considerably resilient, increasing 3% year-over-year (from 1Q2024 to 1Q2025). That said, *quarter-over-quarter* growth slowed considerably in 1Q2025. April and May consumer spending data suggest that consumption is continuing to moderate.

With that in mind, we look to commentary from the most recent earnings calls for color on how U.S. consumers are adapting in the face of uncertainty and market volatility. Notably, many of the themes outlined below echo those we have been flagging over the past few months:

- ***Resilient, in aggregate, but bifurcated:*** Many corporates characterized the consumer as resilient, in aggregate. For example, a credit card company noted improving delinquency rates, and a lack of "adverse signals" related to trade policy uncertainty – even in the most "leading-edge" data tracking credit performance. That said, some firms acknowledged a significant amount of bifurcation between consumers, with high-end consumer demand remaining resilient, and lower-end consumer demand softening. Some management teams noted that, at the beginning of the quarter, they had concerns around how the wealth effect would impact their customer base, but that these concerns subsided as equities rebounded.
- ***Some caution in large spending decisions:*** Corporates noted that consumers are waiting for further visibility before making large purchases, such as home furniture and electronics. Similarly, a travel company noted that consumers are booking travel closer to travel dates, likely in hopes of incremental visibility around the macroeconomic backdrop and various policies. That said, an airline commented that the "higher level of certainty has translated into a meaningful inflection point in demand" in recent weeks. And a (separate) credit card company flagged "very consistent spending," with some marginal slowing in certain pockets of air travel and lodging – but "resilient" spending on goods and services, especially from the Gen-Z and Millennial generations.
- ***Cost-conscious and value-seeking:*** Companies continued to underscore that while consumers are resilient, they are also cost-conscious and value-seeking. To accommodate this, corporations are adjusting various elements of their product offerings, such as pricing and packaging, to meet consumer demands.

Exhibit 5: Personal consumption expenditure growth was solid in 2024, but fell in 1Q2025
Percent change from preceding quarter in real personal consumption expenditures, at a seasonally adjusted annualized rate, in aggregate and by contribution from major product types



Source: Bureau of Economic Analysis, Bloomberg, BlackRock. As of 1Q2025.

Strong 'starting' fundamentals and demonstrated flexibility

Strong 'starting' fundamentals – a function, in our view, of the above-trend pace of U.S. growth in 2023-2024 – have continued to play a critical role in corporate resilience. We believe this has allowed corporates to be more flexible in navigating an uncertain macroeconomic backdrop.

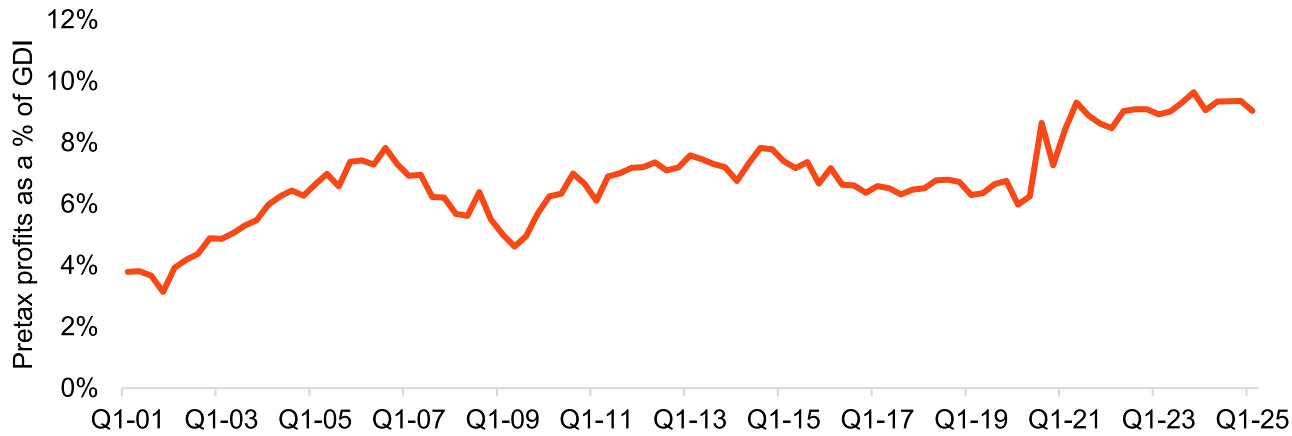
As shown in Exhibit 6, pre-tax profits in the non-financial corporate sector remain elevated as a share of gross domestic income. These strong profit levels suggest that corporations have considerable flexibility in navigating tariff-related costs, including in their ability to adjust margins to maintain consumer demand, if necessary.

Further, Exhibit 7 shows the inventory-to-sales ratio for retail trade businesses. Notably, the ratio dropped significantly in the wake of the COVID-19 pandemic, during a period of supply chain disruptions and elevated consumer demand. While this level has since normalized, it remains below pre-COVID levels, even despite some businesses front-loading inventory in anticipation of tariffs.

In our view, there are two notable takeaways from this shift. First, it demonstrates that businesses may be intentionally carrying less inventory relative to their sales volume and thus can operate more efficiently. This may present an opportunity to reallocate the previously tied-up balance sheet capital to other growth initiatives. Second, lean inventories also suggest that companies will need to replenish their stock of goods more frequently. As such, the flow-through of the more recent tariff costs into inventories may be evident over the coming months – further underscoring the importance of watching margin trends.

Exhibit 6: Corporate profits are still elevated by historical standards

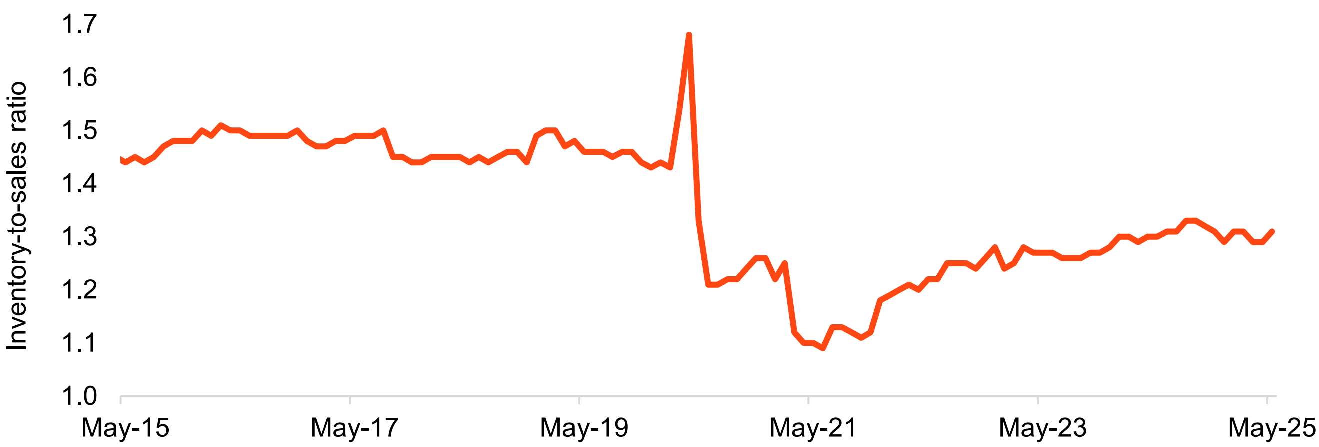
Pre-tax profits in the non-financial corporate sector, as a share of gross domestic income



Source: Haver Analytics, Bureau of Economic Analysis, Moody's, BlackRock. As of 1Q2025. The Bureau of Economic Analysis (BEA) defines gross domestic income (GDI) as a measure of the incomes earned and the costs incurred in the production of gross domestic product.

Exhibit 7: Retail trade inventories remain below pre-pandemic levels

Retail inventory-to-sales ratio based on seasonally adjusted data



Source: US Census Bureau, BlackRock. As of May 2025.

Unless otherwise stated, all reference to $ are in USD.

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