

August 14, 2025

Global Credit Weekly:

More signs of
dispersion in the U.S.
consumer

BlackRock

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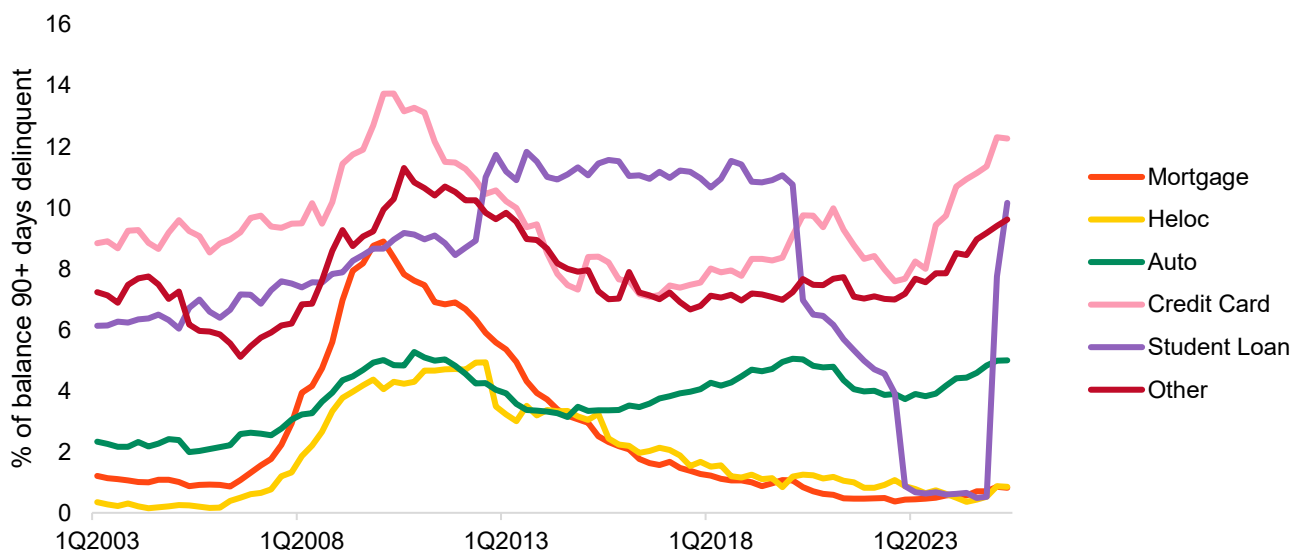


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Key takeaways

- A mix of events in recent weeks have further sharpened market participants' focus on the financial health of the U.S. consumer. These trends are important to monitor for two reasons, in our view. First and foremost is the relevance to overall economic activity, as consumer spending represents two-thirds of U.S. GDP. Second is the opportunity to drive increased dispersion in fundamentals and performance across liquid and private credit markets, as some consumer cohorts (i.e., younger and lower-income) are continuing to experience outsized pressure.
- Recent developments related to the U.S. consumer are consistent with the somewhat more challenging growth-inflation mix we have been expecting since early April. Moreover, the softening in aggregate consumer fundamentals and the moderation in economic activity are taking place following a period of *above trend* growth, which was in place in 2023-2024. This, combined with supportive supply and demand technicals, as well as solid fundamentals, still leaves us comfortable *selectively* moving down in quality within the credit market to capture incremental yield – a view we have held since April 10th.
- For the past few months, our base case has been that the next Federal Reserve rate cut of this cycle – and the first of 2025 – would occur in 4Q2025. The signs of labor market weakening evident in the July nonfarm payrolls report, coupled with this week's relatively benign CPI inflation data, have increased the probability of a rate cut in September, in our view. That said, as outlined within, we believe the *drivers* of the next rate cut are more important than the *timing*.
- Chair Powell's commentary at the upcoming Jackson Hole Economic Policy Symposium may provide incremental insight on how the FOMC is weighing the risks to its dual mandate of price stability and maximum employment.

Exhibit 1: Student loan delinquencies have inflected higher, following grace period expiration
Percent of balance 90+ days delinquent, by loan type



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 2Q2025 (most recent as of August 11, 2025). The Other category includes Consumer Finance (sales financing, personal loans) and Retail (clothing, grocery, department stores, home furnishings, gas etc.) loans.

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More focus on the U.S. consumer

A mix of events in recent weeks have further sharpened market participants' focus on the financial health of the U.S. consumer, including:

- **the weaker than anticipated July non-farm payrolls report** – which included downward revisions to prior months, but an unemployment rate (4.2%) that remains low by historical standards (due to lower labor supply);
- **the New York Fed's most recent data on U.S. consumers' debt balances** – which highlighted an ongoing trend of normalizing (higher) delinquency rates, to levels closer to the pre-pandemic period (Exhibit 2);
- **several earnings reports from the Consumer Discretionary sector** – which flagged more selective spending from the lower-income consumer cohort (although there were some exceptions)

In this *Global Credit Weekly*, we unpack each of these factors. In our view, these developments are consistent with the somewhat more challenging growth-inflation mix we have been expecting since early April. Moreover, the softening in aggregate consumer fundamentals and the moderation in economic activity are taking place following a period of *above trend* growth, which was in place in 2023-2024.

This, combined with supportive supply and demand technicals, as well as solid fundamentals, leaves us comfortable *selectively* moving down in quality within the credit market to capture incremental yield – a view we have held since April 10th. Since that time, the total return on the Bloomberg USD HY index is 7.08%, compared to 5.03% for USD IG¹.

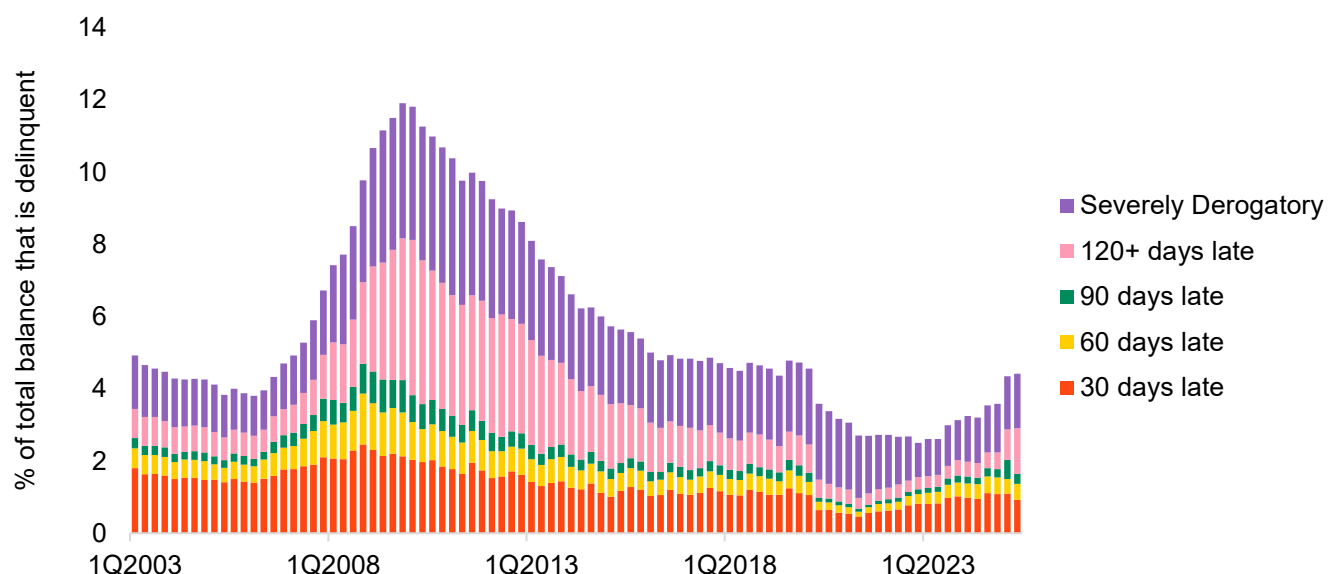
The relevance for corporate credit investors

Trends related to the U.S. consumer are important to monitor for two reasons, in our view. First and foremost is the relevance to overall economic activity, as consumer spending represents two-thirds of U.S. GDP.

Second is the opportunity to drive increased dispersion in fundamentals and performance, across liquid and private credit markets, as some consumer cohorts are continuing to experience outsized pressure. For this reason, sector and issuer selection, company specific characteristics, and solid underwriting should gain increased importance in an environment where the consumer remains bifurcated.

Exhibit 2: Delinquent debt balances are back to pre-pandemic levels

Total debt balances for U.S. consumers, and the percentage in delinquent status



Source: New York Fed Consumer Credit Panel/Equifax, Blackrock. As of 2Q2025 (most recent as of August 11, 2025).

¹ As of August 12, 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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The next Fed rate cut: *drivers* are more important than *timing*

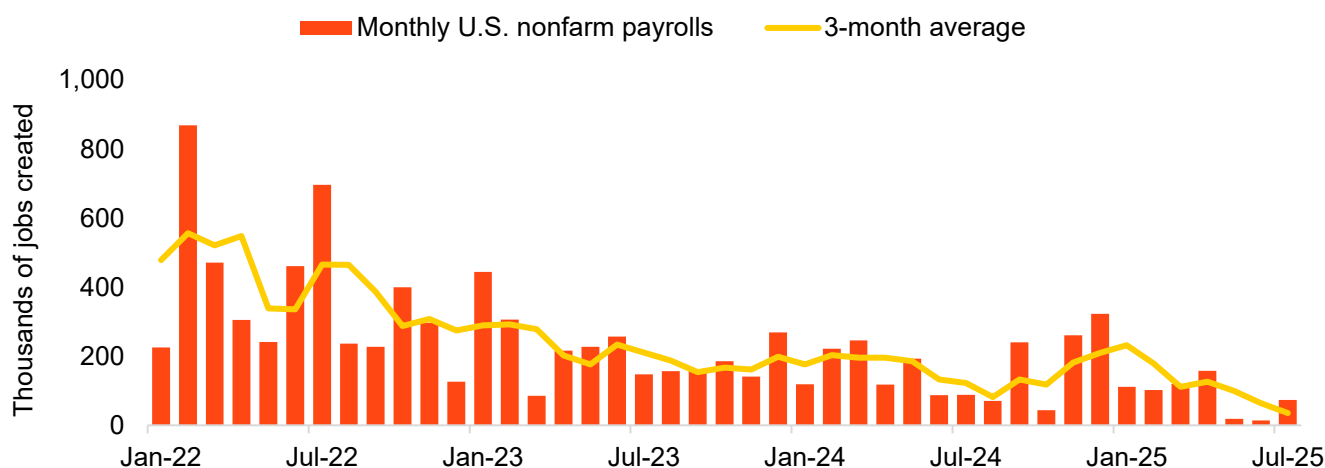
For the past few months, our base case has been that the next Fed rate cut of this cycle – and the first of 2025 – would occur in 4Q2025. The signs of weakening in the labor market evident in the July nonfarm payrolls report (Exhibit 3), coupled with this week's relatively benign CPI inflation reading, have increased the probability of a rate cut in September, in our view.

Chair Powell's commentary at the upcoming Jackson Hole Economic Policy Symposium (August 21-23) may provide incremental insight on how the FOMC is weighing the risks to its dual mandate of price stability and maximum employment (Exhibit 4). We will be watching for any departure from the messaging at the July 30th FOMC press conference, where Chair Powell placed more emphasis on the unemployment rate (which remains low by historical standards) vs. the pace of job creation.

That said, the *drivers* of the next rate cut are more important than the *timing*, in our view. Further normalization of the monetary policy rate (above and beyond the 100bp of cuts already delivered for this cycle) driven by moderating inflation would be the most supportive outcome for risk assets. Cutting rates into accommodative territory because of a sharp deterioration in the labor market would be a much less constructive outcome for risk assets, in our view.

Exhibit 3: The July payrolls report included sharp downward revisions to May and June 2025

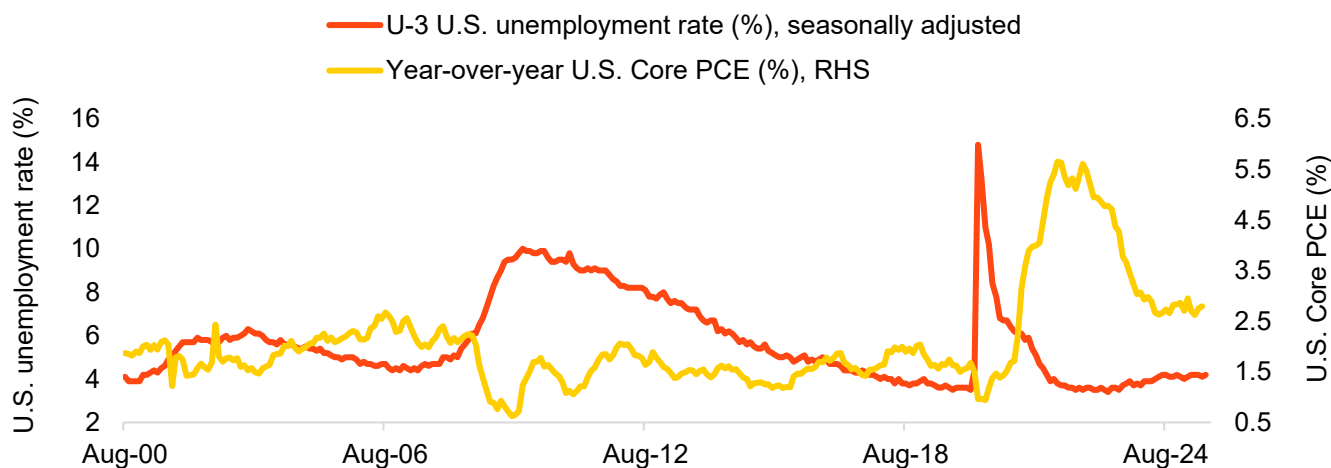
Monthly change in U.S. nonfarm payrolls and the three-month moving average pace of job creation



Source: BlackRock, Bloomberg, Bureau of Labor Statistics. Captures data through July 31, 2025 (most recent available).

Exhibit 4: Monitoring tension in the Fed's dual mandate

U-3 U.S. unemployment rate (%) seasonally adjusted, and year-over-year U.S. Core PCE inflation (%) seasonally adjusted, RHS



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, BlackRock. Captures data through July 31, 2025 for the unemployment rate and June 30, 2025 for core PCE inflation (both most recent available as of August 13, 2025).

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The U.S. consumer: bifurcation is increasingly evident

The New York Fed's most recent data on U.S. consumers' debt balances highlighted an ongoing trend of normalizing (higher) delinquency rates to levels closer to the pre-pandemic period (Exhibit 2).

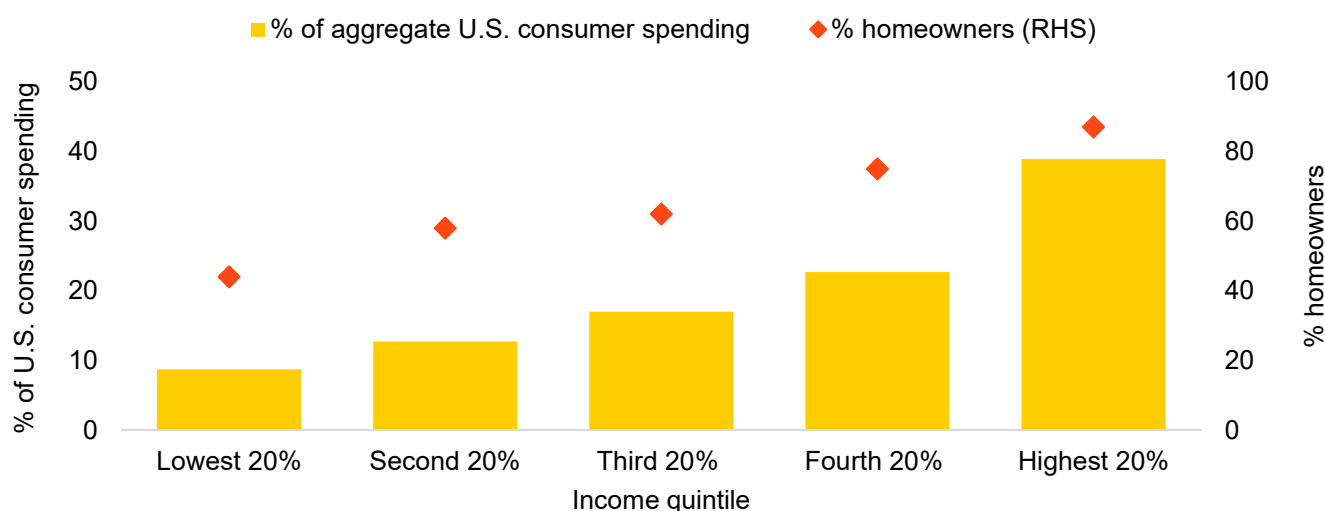
The increase in delinquency rates which began in 1Q2025 – and extended into 2Q2025 – was largely driven by the expiration of the grace period on federal student loan payments in late 2024. As Exhibit 1 illustrates, 10.2% of aggregate student debt was reported as 90+ days delinquent as of 2Q2025.

While bifurcation among income cohorts in the U.S. consumer is not a new concept (Exhibit 5), we continue to believe that it matters more in the current market backdrop of higher interest rates and home price appreciation. For example, consumers in a *net borrower* position are encountering higher debt service costs while not participating in gains from home ownership over the past few years.

Student loans represent 28% of aggregate debt balances for the 18- to 29-year-old cohort of U.S. consumers (Exhibit 6). This helps explain, in our view, why delinquency rates for this age cohort have further decoupled from other age groups in recent quarters (Exhibit 7).

Exhibit 5: Home ownership – and spending contributions – vary across income cohorts

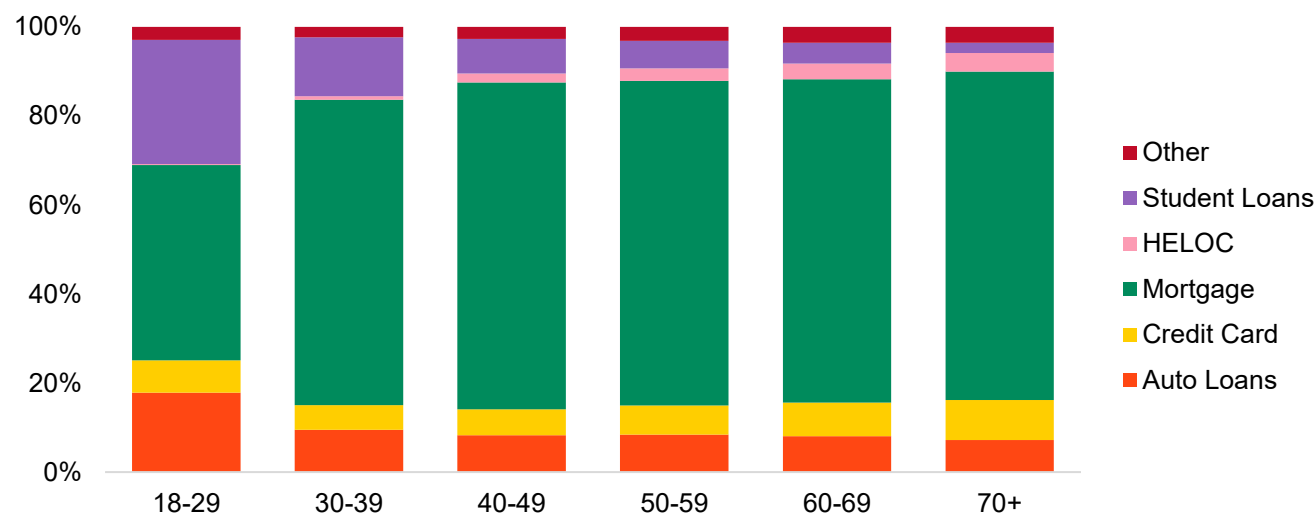
U.S. annual aggregate expenditures by consumer income quintile, and the share of consumers in each cohort that are homeowners (RHS)



Source: BlackRock, U.S. Bureau of Labor Statistics Consumer Expenditure Survey (September 2024, most recent available).

Exhibit 6: Student loans represent 28% of younger consumers' total debt balances

Debt balances by type and age

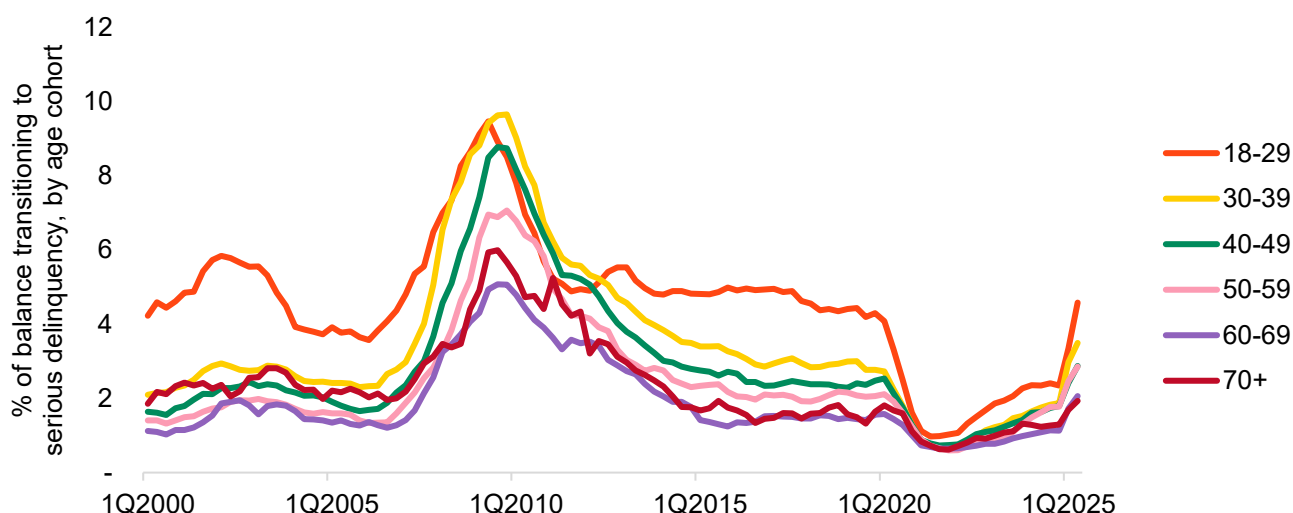


Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 2Q2025 (most recent as of August 11, 2025).

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Exhibit 7: Younger consumers are generating higher delinquency rates

Percentage of balance transitioning into serious (90+ day) delinquency, by age cohort. Based on a four-quarter moving sum.



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 2Q2025 (most recent as of August 11, 2025).

This underscores the trend of bifurcation and dispersion we have been highlighting for the past several quarters – and has direct implications for credit investors given the different customer end markets served by various sectors.

We are closely monitoring the ‘feedback loop’ between corporate profit margins, the labor market, consumer spending, and overall economic activity. A key downside risk is the potential for sustained downward pressure on profit margins (from higher input costs, for example), which would likely increase the risk that corporations use layoffs more aggressively to protect profitability. An increase in layoffs, coupled with the current 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).

Exhibit 8: Consumer exposures vary across rating and region cohorts in credit markets

Market value percentage weightings of the Bloomberg USD and EUR IG and HY Corporate indices

	USD IG	EUR IG	USD HY	EUR HY
Banking	23.0	31.5	0.2	6.5
Consumer Non-Cyclical	15.0	13.0	11.5	13.0
Electric / Natural Gas / Other Utility	9.6	9.1	3.0	6.7
Technology	9.6	3.0	7.7	2.6
Communications	7.3	6.7	15.6	19.6
Energy	7.2	3.0	10.6	1.5
Consumer Cyclical	7.1	9.2	19.3	22.7
Capital Goods / Other Industrial	6.0	5.5	11.8	10.0
Insurance	4.9	5.0	3.0	1.0
REITs	2.7	2.9	2.1	0.7
Basic Industry	2.5	2.6	6.4	5.2
Transportation	2.1	3.6	2.2	4.5
Finance Companies / Other Financial	1.6	3.8	5.4	5.7
Brokerage / Asset Managers / Exchanges	1.5	0.9	1.2	0.4
Local Authority	0.0	0.1	0.0	0.0

Source: Bloomberg, BlackRock. As of August 13, 2025.

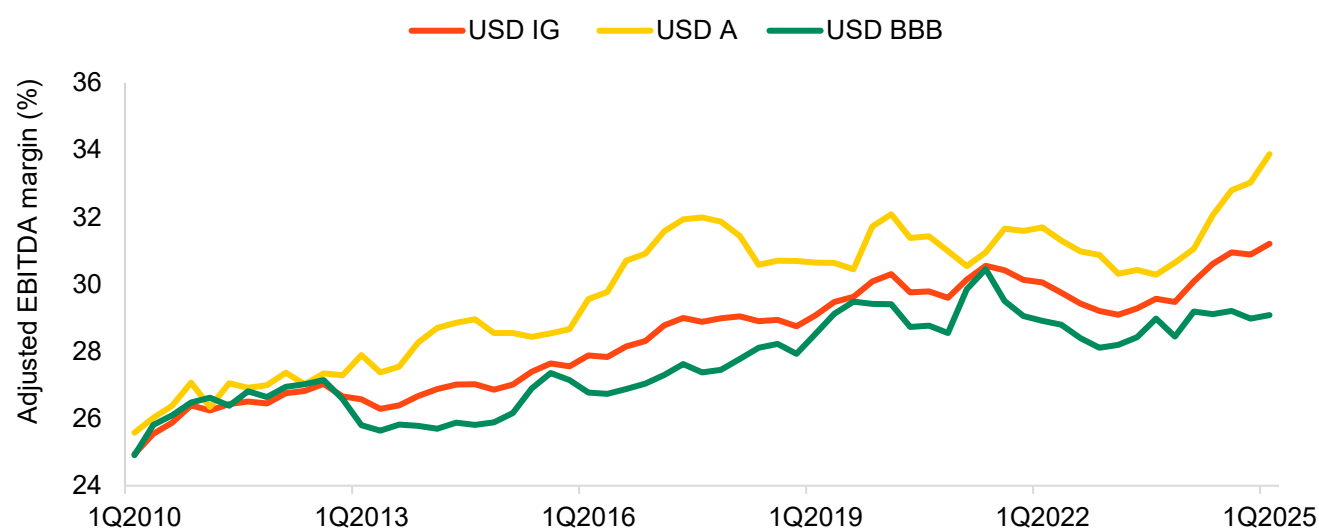
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That said, we are also attuned to the opportunity cost of being too defensive (and under-risked) in this environment. Indeed, after a volatile start to 2Q2025, a wide range of risk assets staged an impressive recovery through the remainder of the quarter – and this has extended into 3Q2025, with some U.S. equity markets reaching new all-time highs and credit spreads trading at the low-end of the post global financing crisis range.

Exhibits 9 and 10 show 12-month trimmed mean EBITDA margins for borrowers in the Bloomberg USD IG and HY Corporate indices. Notably, 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.

Exhibit 9: EBITDA margins have improved over time for the USD IG Corporate Index...

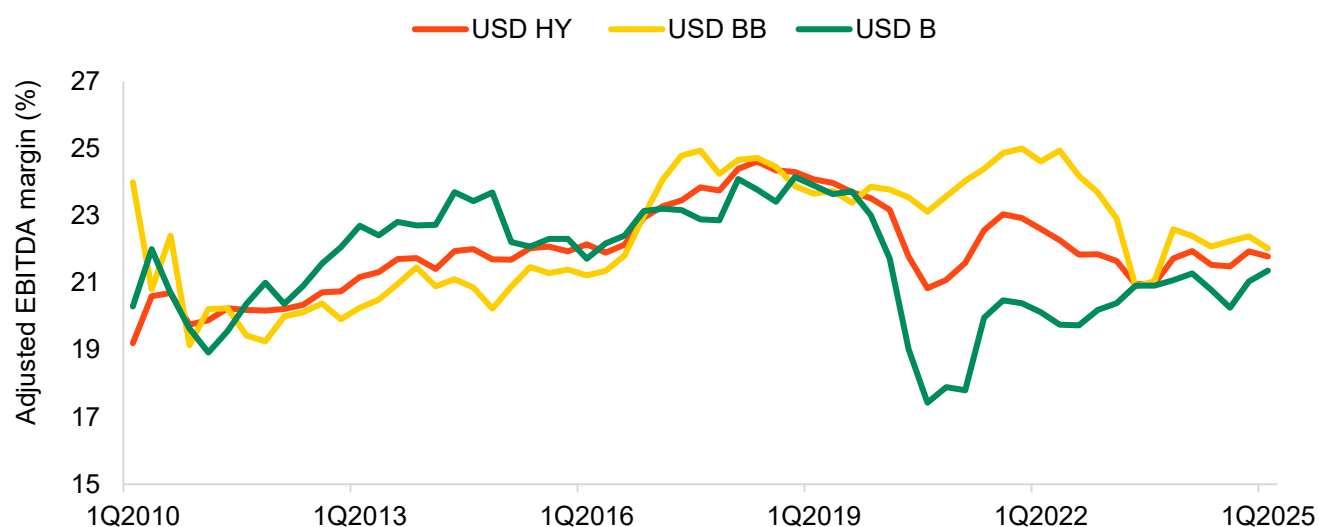
Trailing 12-month trimmed mean EBITDA margins for the Bloomberg USD IG Corporate Index, and the A and BBB rating cohorts



Source: Bloomberg Intelligence, BlackRock. As of 1Q2025 (most recent available as of August 13, 2025). Trimmed mean metrics exclude the top 10% and bottom 10% of observations.

Exhibit 10: ...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 August 13, 2025). Trimmed mean metrics exclude the top 10% and bottom 10% of observations.

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