

Quarterly Money Market

CREDIT TRENDS BY SECTOR

October 2025

The most recent second quarter earnings season highlighted a broadly resilient global financial and corporate landscape amid ongoing tariff uncertainties and geopolitical tensions. Large US and Canadian banks reported solid earnings supported by revenue growth, improved credit quality and prudent capital and liquidity management, with regulatory changes expected to enhance capital flexibility. European, Japanese and Australian banks also showed stable performance with sound asset quality and cautious optimism for growth. Insurance companies delivered solid underwriting and investment results, though health insurers faced margin pressures from rising medical costs.

By sector, industrials experienced mixed results influenced by tariffs and supply chain adjustments, while energy companies maintained strong cash flows despite commodity price pressures. The technology sector benefited from AI and cloud growth, managing tariff impacts through supply chain shifts and cost discipline. Consumer and automotive sectors faced margin pressures from tariffs but showed resilience through pricing strategies and strategic adjustments.

Overall, global banks, insurers and corporates displayed cautious optimism supported by strong balance sheets, disciplined cost management and strategic responses to trade policy challenges.

GLOBAL BANKS

Global banks reported generally solid earnings supported by revenue growth, improved net interest income and stable asset quality. Efficiency initiatives and prudent capital management will likely remain priorities amid ongoing geopolitical and tariff uncertainties. While credit provisions vary by region, overall credit quality appears sound, and banks maintain strong liquidity and capital buffers. Regulatory changes and evolving capital requirements are expected to enhance capital flexibility and shareholder returns.

US Banks

Large US banks reported solid earnings driven by improved revenues, which were partly offset by higher provisions and expenses. Modest expense growth reflected ongoing efficiency efforts. Net interest income increased due to lower deposit costs, asset repricing and loan growth, especially in commercial and industrial lending. Non-interest income improved with stronger trading, investment banking and wealth management results. Credit quality remained strong, supported by fewer nonperformers, losses and delinquency rates, particularly in commercial real estate and credit cards, reflective of consumer resilience. Despite tariff and geopolitical risks, banks maintained optimistic 2025 guidance, likely anticipating benefits from regulatory

changes and improved sentiment. Balance sheets stayed robust with prudent liquidity and capital buffers well above requirements, but proposed regulatory adjustments could allow for greater capital flexibility.

Canadian Banks

Canadian banks reported solid results with higher revenues and significantly lower credit provisions offsetting increased operating expenses. Net interest income increased due to margin expansion and loan and deposit volume growth. Non-interest income improved, driven by strong fee-based wealth management and double-digit capital markets income from trading, advisory and underwriting fees. Asset quality remained strong with improving credit trends, fewer impaired loans, and low mortgage delinquencies likely supported by prudent underwriting and conservative loan-to-value ratios. Lower credit provisions reflected a slightly improved macroeconomic outlook despite ongoing tariff and geopolitical uncertainties. The banks maintain strong liquidity, stable funding and robust capital buffers well above requirements, which positions them well amid downside risks.

European Banks

European banks reported generally solid results in the second quarter of 2025, with resilient revenue driven by growing fee and commission income and stable net interest income despite a gradual decline from peak levels. Lending grew modestly, supported by rebounding housing markets and improved corporate confidence amid manageable US trade policy effects. Tariffs had limited impact, allowing banks to release some earlier provisioning overlays. Asset quality remained strong with below-average provisioning needs. Liquidity, funding and capital metrics stayed robust, well above requirements, though banks likely plan to reduce common equity **Tier-1 (CET1) ratios**¹ by returning excess capital to shareholders. Upgraded full-year guidance reflects confidence in continued solid performance in the second half of 2025.

Japanese Banks

Japanese banks posted strong results for their first quarter ending June 2025 driven by rising net interest income, fee growth and low credit costs. Performance was steady with no significant impact from US tariffs. Several banks raised full-year net income guidance amid improved business confidence. Profitability is expected to benefit further from the Bank of Japan's gradual rate hikes. Domestic consumer and commercial banking showed solid results supported by wider net interest margins and strong loan growth, especially to large companies. Capital markets and trading faced April volatility, leading to softer trading profits. Asset quality remained robust with controlled credit costs and manageable non-performing loans. Capital and liquidity positions stayed strong, maintaining ample buffers well above regulatory requirements.

Australian Banks

Australian banks reported strong earnings driven by volume growth in home and business lending and stable to slightly improved net interest margins despite deposit competition and funding cost pressures. Treasury and markets contributed positively amid market volatility. Rising expenses, mainly from technology investments, remediation and regulatory compliance remain a challenge. Asset quality stayed solid with mortgage portfolio stabilization and early signs of improvement in business lending, while consumer lending showed mild stress. Banks maintain ample liquidity, prudent funding and strong capital levels, as they are likely preparing to phase out additional **Tier-1 (AT1)**² capital instruments for simpler capital structures. We believe they are well-positioned to meet increased **Total Loss Absorbing Capacity (TLAC)**³ requirements effective January 1, 2026, having already front-loaded loss-absorbing capital issuance.

INSURANCE

The insurance sector showed resilience with strong underwriting results and investment income, particularly in life and property and casualty lines. Health insurers faced margin pressures due to rising medical costs but are adjusting plans and pricing. Across the sector, capital and liquidity remain robust, with growing allocations to alternative investments and private credit.

Life Insurance

Life insurance companies posted solid results driven by high interest rates and a strong equity market despite volatility. Growth was supported by equity-sensitive lines like asset management and retirement, along with increased sales of protection products and annuities. Investment income rose due to higher rates, and alternative investments—especially private equity—showed improving performance. Portfolios remained primarily in investment-grade fixed income with manageable exposure to lower-grade and commercial mortgage loans, though allocations to less liquid private and structured securities are growing. Insurers are expanding into private credit and alternative assets, leveraging regulatory changes for 401(k) plans. Strong credit ratings, capital, liquidity and sound asset-liability management position life insurers well to navigate economic uncertainty and market volatility.

Health Insurance

Health insurers faced earnings pressure in the second quarter due to higher-than-expected medical costs driven by increased health care service utilization, rising unit prices and greater use of expensive drugs across Medicare Advantage, Medicaid and individual exchange plans. To improve profitability, insurers are adjusting benefit designs, exiting certain plans and raising prices to reflect medical cost trends. Membership remained stable, with modest Medicare growth offset by slight declines in Medicaid and commercial plans. A notable positive was strong performance in health care services.

Property & Casualty Insurance

Property and casualty insurers posted strong second-quarter results driven by solid underwriting and lower catastrophe losses. They benefited from robust investment income and higher reinvestment yields. Personal auto lines saw improved profitability due to premium growth and fewer claims, while homeowners insurance profitability improved excluding catastrophe impacts, supported by price increases and better risk selection. Commercial lines gained from higher casualty premiums, though property rates declined. Balance sheets remained strong with adequate reserves, capital and modest leverage. Tariffs are expected to raise auto and home claims costs through higher parts and materials prices, with some cost likely passed to customers via increased premiums.

CORPORATES

Corporate sectors experienced mixed results amid macroeconomic challenges and tariff impacts. Consumer demand softened but remained stable with price-driven revenue growth. Industrials and automotive sectors faced headwinds from tariffs and weaker demand, while energy companies maintained strong cash flows despite commodity price declines. Technology, media and telecom firms outperformed expectations, driven by AI and cloud growth, along with ongoing cost discipline and supply chain adjustments. Corporate companies in general are actively managing costs, supply chains and capital structures to sustain performance.

Consumer

The consumer sector showed low single-digit revenue growth in Q2—driven mainly by price increases rather than volume—amid a challenging macroeconomic environment. Value-focused consumer behavior persisted, benefiting discount retailers, while higher-income groups remained selective. Profitability varied, with large staples firms maintaining margins through productivity and selective pricing, whereas some retailers faced margin pressure from shrinkage and wage inflation. Tariffs introduced in April had limited immediate impact but are expected to reduce sector profits by 4% to 5% in 2025, with some cost passthrough anticipated. Companies responded with price adjustments, packaging changes and supply-chain diversification. Overall, US demand softened but held up, with widening performance gaps based on tariff exposure, private-label competition, and input costs. Consumer health outperformed expectations, though margin pressures are expected in 2H25 due to increased promotions. Strong balance sheets supported M&A activity and corporate restructuring, with current shareholder activism appearing credit friendly.

Automotive

The US automobile market showed resilience in Q2, with volumes and pricing exceeding expectations due to strong consumer demand ahead of tariff-driven price hikes and expiring electric vehicle (EV) tax incentives. Tariffs compressed automakers' operating margins by 2 to 4 percentage points but remain manageable, aided by recent US trade agreements reducing tariffs with Korea, Japan and Europe. Automakers responded with pricing adjustments, shifting production to underutilized US plants and focusing on higher-margin vehicles,

though major restructuring has yet to occur. US EV production has been scaled back to prioritize sustainable profitability amid tariff pressures. Meanwhile, China's new energy vehicle market grew rapidly but faces intense competition and margin pressure from a price war, prompting increased EV exports to Europe. The European market faces challenges from provisional anti-subsidy duties on China-made EVs, likely complicating strategies for automakers exposed to both regions.

Pharmaceuticals

Large pharmaceutical companies posted strong Q2 results, driven by revenue growth and cost discipline that offset pricing pressures and supply chain challenges. Key growth areas included oncology, immunology, obesity/diabetes, and cardiovascular therapies supported by new product launches and expanded indications. Companies are increasing research and development (R&D) investment and pursuing strategic acquisitions to strengthen pipelines. Industry concerns include US regulatory efforts to lower drug prices and tariff impacts. We believe a recent deal by one leading pharmaceutical company to supply discounted drugs and expand US manufacturing may serve as a model for mitigating tariff effects. The sector remains defensive, supported by stable ratings, strong profitability, solid cash flow and moderate leverage.

Industrials

Industrials delivered mixed Q2 results. Companies exposed to aerospace and defense, data centers, process automation, power generation and commercial HVAC saw strong revenue growth and robust backlogs due to healthy demand. Conversely, firms focused on residential construction, automotive and agricultural machinery experienced lower revenues amid weak demand and dealer inventory buildups. Operating margins contracted for construction and agricultural equipment manufacturers due to lower production and sales volumes, pricing pressures and higher manufacturing costs from tariffs on inputs like steel and aluminum. Trade and tariff uncertainty remain key challenges, though many companies are mitigating impacts through pricing adjustments, local sourcing and improved operational efficiencies.

Energy

Major integrated energy companies reported lower earnings due to weaker commodity prices but maintained strong cash flows and disciplined capital spending. They are streamlining operations through cost reductions, efficiency improvements and divestitures of non-core assets. Balance sheets remain solid with manageable debt and ample liquidity. Tariffs have limited direct impact thanks to geographic diversification and regional supply chains. Overall, these companies retain financial flexibility and credit strength to withstand a challenging macroeconomic environment.

Technology, Media, Telecom (TMT)

Technology, media and telecom (TMT) companies largely met or exceeded Q2 expectations despite macroeconomic and tariff challenges. Growth was driven by artificial intelligence (AI) and cloud infrastructure, benefiting semiconductors and major tech firms. Hardware showed resilience, with cloud-focused companies outperforming traditional hardware firms facing budget constraints. Media and telecom results were mixed: streaming platforms grew while traditional TV declined; cable broadband remained weak amid competition, prompting consolidation; U.S. telecoms expanded fiber networks aggressively. In our view, tariffs had limited direct impact, with companies managing costs through pricing power, supply chain shifts and production restructuring. We believe policy risks around tariffs and chips reinforced localization, pre-buying and cost-cutting, supporting credit profiles. Restructuring, cost discipline, workforce reductions and AI focus remained central. Regulatory scrutiny continued, especially antitrust investigations in the US and Europe. Overall, the sector benefits from strong fundamentals and investment in next-generation technologies.

KEY TERMS

1. Tier-1 (CET1) ratio – Tier 1 (Common Equity Tier 1) is a key regulatory metric under the Basel III framework that measures a bank's core equity capital against its risk-weighted assets.

2. Tier-1 (AT1) capital – Tier-1 (Additional Tier 1) capital is the portion of a bank's regulatory Tier 1 capital that sits just below Common Equity Tier 1 (CET1) and is designed to absorb losses on a going-concern basis.

3. Total Loss Absorbing Capacity – a regulatory standard—set by the Financial Stability Board (FSB) under Basel III for global systemically important banks (G-SIBs)—that requires firms to hold a buffer of capital and bail-in debt sufficient to absorb losses in resolution, be recapitalized so critical functions can continue and avoid or minimize taxpayer-funded bailouts.

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