

Newsletter

Consider Credit—Fundamental Ratings Monthly Briefing July 2025

Morningstar DBRS
July 2025

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Credit Considerations

Sovereigns

- We had credit rating confirmations; although, we assigned a Negative trend to the credit ratings on the Republic of Austria. We assigned a new credit rating for Hungary.
- In terms of themes, we continue to assess the implication of tariffs and higher military spending on fiscal and government debt positions, as well as on economic growth.
- We see some near-term upside risks to inflation but mounting risks to growth are consequently likely to eventually spur central banks to lower rates.
- We do not expect a material impact on our portfolio of public sovereign credit ratings from events in the Middle East unless there is a prolonged regional conflict and the resulting strains on oil prices and global markets have a more lasting economic and fiscal impact.

Financial Institutions

- Positive credit rating actions continue to outweigh negative credit rating actions for financial institutions, with upgrades in global banks, insurance, and a business development company despite continued uncertainty around global tariffs.
- The credit profiles of UBS AG, Deutsche Bank AG, and Morgan Stanley have all benefited from stronger trading results, as well as building more durable and predictable revenues in businesses such as wealth management.
- We expect further positive credit rating migration, albeit at a slower pace, with European banks being the primary beneficiaries, as interest rates remain constructive, and balance sheets have strengthened.
- While the rapid growth of private credit raises some concerns for financial institutions and the broader economy, the risks related to private credit borrowers have an appropriate shelter (typically, longer-term funding is being used to fund these more illiquid assets). Looking forward, we believe the private credit market has ample room for further growth that can benefit banks, alternative asset managers and insurance companies, if managed prudently.

Diversified Industries

- Despite persistent uncertainties around the economic backdrop, particularly given a fluid tariff environment, credit rating actions over the last month continued to largely consist of confirmations. That said, there were credit rating actions that were not confirmations, notably upgrading Saputo Inc.'s Issuer Rating and upgrading Dollarama Inc.'s Issuer Rating.
- Despite the economic backdrop and the conflict in the Middle East, new credit rating assignments and issuances continued to be strong, including across different types of instruments.

- Looking ahead, as trends for most issuers in our portfolio remain Stable, we expect that most issuers will be able to continue to navigate the current environment within the context of their respective credit rating categories.

Energy, Utilities, and Natural Resources

- Despite the economic headwinds and volatility in energy and commodity markets credit rating actions taken over the past month were confirmations.
- The overall global crude oil supply/demand picture—excepting the Mideast-related angst—has not changed significantly in the past month or so. In sum, “sand in the gears” of the global economy from actual and potential additional tariffs plus steadily increasing OPEC+ supplies is tending to cap/weigh on oil prices.
- Liquefied Natural Gas (LNG) exports and potential demand from data centres is creating demand for new natural gas, electricity generation, and transmission infrastructure at regulated pipelines, regulated utilities and independent power producers.
- For the pipeline sector, this creates growth opportunities and projects that are usually backed by contracts and are generally positive for credit profiles.
- For regulated utilities, while this provides an opportunity to increase their rate base, it also necessitates large multi-year capital spending projects which in the absence of regulatory support could pressure credit metrics.

Asset Finance

- Credit rating actions over the last month largely remained stable with credit rating confirmations across most of the asset finance sectors, despite ongoing market uncertainty around the tariff environment and recent policy changes on clean energy investment under the Trump administration.
- On July 4, 2025, President Donald Trump signed into law the One Big Beautiful Bill Act (the Act). Under this new law, tax credits for most clean energy projects initially covered and available under the Inflation Reduction Act (2022) will be impacted. Exceptions include the phasing out of tax credits for wind and solar projects and termination of others, in addition to new clean energy projects having to meet tight foreign ownership restrictions.
- We are continuing to monitor the impact of the Act on renewable and energy transition investment; however, we do not expect the Act to have any credit impact on renewable projects in our rated portfolio currently in operation.

Private Credit

- The pace of downgrade activity within our middle market portfolio maintained its upward trend during the second quarter. The trailing 12-month ended June 30, 2025, ratio of downgrades to upgrades is at just under 3 times (x), compared with 2.5x in the first quarter and 2.4x at YE2024.
- Meanwhile, the trailing 12-month ended June 30, 2025, percentage of defaulted issuers is at 2.3%. The rate is up from less than 1% at YE2023 and slightly higher than 2.2% at the end of the first quarter.
- Some middle market private borrowers continue to face slowing revenue growth, lackluster operating margin momentum, and elevated borrowing costs, supporting an elevated risk of further weakness in credit quality across the lower-rated portion of the portfolio.

This Month's Featured Topics

Canada's 2025 Wildfire Season is Shaping up to be one of the most Destructive on Record

According to the Canadian Interagency Forest Fire Centre, more than 4.7 million hectares have burned this year as of July 7, 2025, materially above the 10-year average of 1.6 million hectares. Particularly intense fires in Manitoba, Saskatchewan, British Columbia and Alberta have resulted in large-scale evacuations and infrastructure damage. While the Canadian property and casualty (P&C) insurance sector remains well capitalized, the rising frequency and severity of wildfires are adding pressure to underwriting models, reinsurance strategies, and pricing assumptions.

Insured losses from weather-related catastrophes (including wildfires) reached a record CAD 8.5 billion in 2024. Despite earnings pressure, we maintain a stable credit outlook for Canadian P&C insurers, supported by strong capital buffers, prudent reserving, and robust regulatory oversight. However, insurers are increasingly retaining more risk due to higher reinsurance costs, which will likely heighten earnings volatility and add pressure to combined ratios.

The growing footprint of wildfires is also raising longer-term concerns about insurability and coverage gaps, particularly near wildland-urban interfaces. So far, Canada has avoided the dislocations seen in some markets like California, but early signs of tightening coverage are emerging. The industry will need to further adapt to a risk environment where climate-related catastrophes are no longer exceptional, but structural.

Province	YTD Fires			Area Burned YTD (Ha)		
	2024	2025	10 yr average	2024	2025	10 yr average
British Columbia	338	508	492	427,890	691,342	195,894
Yukon	135	123	80	76,153	98,806	61,689
Alberta	630	718	749	77,502	678,719	352,007
Northwest Territories	82	101	77	44,359	167,799	131,408
Saskatchewan	222	338	249	42,962	1,657,277	220,662
Manitoba	81	235	155	50,409	1,005,595	69,869
Ontario	127	314	296	9,802	387,112	85,329
Quebec	248	151	341	135,266	5,996	396,089
Newfoundland and Labrador	34	146	57	48,890	4,027	7529
New Brunswick	207	152	179	185	104	350
Nova Scotia	58	63	135	46	60	3,096
Prince Edward Island	0	0	3	0	0	5
Total	2,162	2,849	2,813	913,464	4,696,837	1,523,927

Source: Canadian Interagency Forest Fire Centre, Morningstar DBRS.

Note: Data as of July 7, 2025

Seasonal Peak in AC Demand and Expanding LNG Exports Help to Support North American Spot Gas Prices

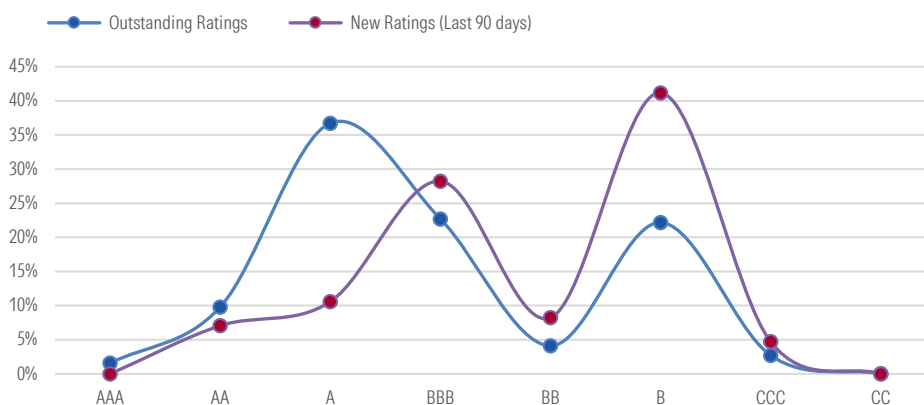
After a very warm June in North America, temperatures have cooled some, so that, the air-conditioning (AC) load on electricity generation has lessened. However, the brunt of AC demand—typically late July through August—on electricity generation remains ahead. The increase in U.S. LNG exports continues unabated, with Calcasieu Pass in Louisiana commencing commercial operations, the ramp-up of the new Plaquemines LNG facility in Louisiana, and the ongoing expansion of the existing LNG export terminal in Corpus Christi, Texas. Currently, the delivered cost of U.S. gas to Europe of \$8 per thousand cubic feet (mcf) to \$9/mcf is very competitive versus other global suppliers. Additionally, Canada recently shipped its first cargo of LNG to Asia from the LNG Canada export facility in British Columbia. With nearly one-half of Canada's natural gas production exported to the U.S. historically, LNG Canada will provide access to Pacific markets, helping to reduce dependency on the U.S. market. The reduced pipeline supply of Russian gas has increased Europe's reliance on seaborne LNG. Furthermore, Europe's gas storage level remains moderately lower than the historical average for this time of year, which will necessitate importing more LNG in 2025 compared with 2024.

Line of Fire: How Wildfires Threaten Utility Credit

The increase in wildfires from 2020 to 2024 poses a nonnegligible risk for utility companies. In what used to be considered a stable, low-risk industry, there has been a growing concern that wildfire-related losses, liabilities, and mitigation costs are straining utilities' finances and weakening their credit profile. Compounding the problem, insurance costs for utilities with exposure to wildfire risk have increased materially. That is, if insurance is even available, as private insurers are now retreating from wildfire-exposed markets. The utility industry is changing its practices to live with this new reality of frequent megafires. Utilities have responded with mitigation efforts and there are early signs that these changes—stronger infrastructure, smarter operations, and policy safety nets—are making a difference in reducing utility-caused ignitions and containing financial fallout. Regulators will be challenged to enable massive safety investments while keeping utilities financially viable and service reliable.

Credit Rating Actions Dashboard (up to July 2, 2025)

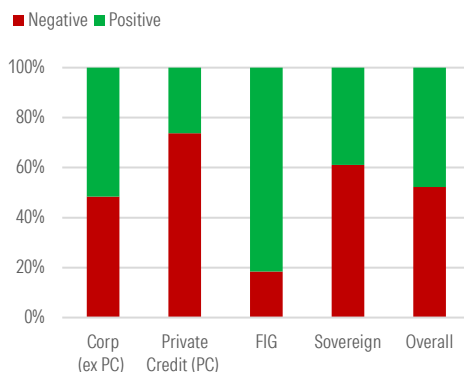
Outstanding Credit Ratings and New Credit Ratings Distribution



Source: Morningstar DBRS.

Note: Includes data for privately rated debt.

Credit Trend Bias by Sector

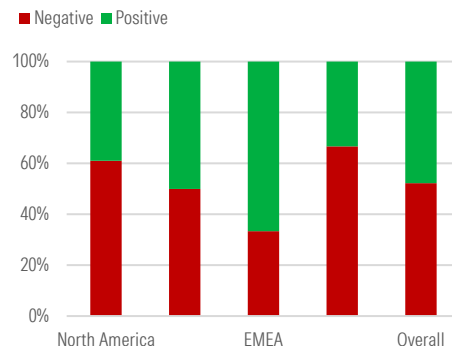


Source: Morningstar DBRS.

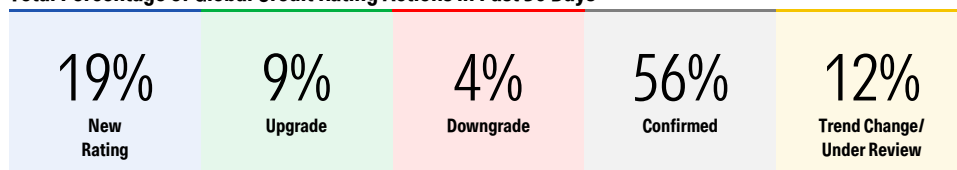
Note:

1. Includes data for privately rated debt; and
2. Above charts represent only credit ratings with a trend other than Stable; these represent only 3% to 17% of the overall credit ratings depending on the region and the sector.

Credit Trend Bias by Region



Total Percentage of Global Credit Rating Actions in Past 30 Days



Source: Morningstar DBRS.

Note: Includes data for privately rated debt. Excludes credit ratings that have been withdrawn.

Total Percentage of Credit Rating Actions Past 30 Days by Sector

	Corporate Finance	FIG	Sovereign	Overall
New Rating	28%	4%	20%	19%
Upgrade	3%	20%	13%	9%
Downgrade	6%	2%	0%	4%
Confirmed	52%	64%	53%	56%
Trend Change/ Under Review	12%	11%	13%	12%
Total	100%	100%	100%	100%

■ < 10%
 ■ 10 - 40%
 ■ > 40%

Source: Morningstar DBRS.

Note: Includes data for privately rated debt.

Total Credit Rating Actions Past 30 Days by Region

	North America	Central & South America	EMEA (Europe, the Middle East and Africa)	Asia-Pacific	Overall
New Rating	20%	0%	16%	50%	19%
Upgrade	5%	50%	16%	0%	9%
Downgrade	4%	0%	3%	0%	4%
Confirmed	60%	50%	51%	50%	56%
Trend Change/ Under Review	11%	0%	13%	0%	12%
Total	100%	100%	100%	100%	100%

■ < 10%
 ■ 10 - 40%
 ■ > 40%

Source: Morningstar DBRS.

Note: Includes data for privately rated debt.

Key Credit Rating Actions That Were Not Confirmations

Date	Action	Issuer	Industry	Country	To	From
02-Jun-25	Upgraded	Apollo Debt Solutions BDC	Non-Bank Financial Institutions	United States	BBB /Stable	BBB (low)/Positive
06-Jun-25	Trend Change	Austria, Republic of	Sovereigns	Austria	AAA /Negative	AAA/Stable
04-Jun-25	Upgraded	BPER Banca S.p.A.	Banking Organizations	Italy	BBB (high) /Stable	BBB/Positive
06-Jun-25	Upgraded	Catalonia, Autonomous Community of	Sub-Sovereign Governments	Spain	BBB (high) /Stable	BBB/Positive
05-Jun-25	Upgraded	Crombie Real Estate Investment Trust	Real Estate	Canada	BBB /Stable	BBB (low)/Positive
06-Jun-25	Trend Change	Definity Financial Corporation	Insurance Organizations	Canada	BBB (high) /Positive	BBB (high)/Stable
10-Jun-25	Trend Change	Società di Progetto Brebemi S.p.A.	Infrastructure	Italy	BB (high) /Positive	BB (high)/Stable
11-Jun-25	Upgraded	Dollarama Inc.	Consumers	Canada	BBB (high) /Stable	BBB/Stable
11-Jun-25	Upgraded	Institut Catala de Finances (ICF)	Banking Organizations	Spain	BBB (high) /Stable	BBB/Positive
11-Jun-25	Upgraded	Saputo Inc.	Consumers	Canada	BBB (high) /Stable	BBB/Positive
13-Jun-25	Trend Change	Grand Renewable Solar LP	Project Finance	Canada	BBB /Positive	BBB/Stable
12-Jun-25	Upgraded	Caixa Economica Montepio Geral	Banking Organizations	Portugal	BBB (low) /Stable	BB (high)/Positive
16-Jun-25	Trend Change	FC Barcelona	Sports and Stadium Finance	Spain	BBB /Positive	BBB/Stable
13-Jun-25	Upgraded	Morgan Stanley	Banking Organizations	United States	AA (low) /Stable	A (high)/Positive
19-Jun-25	Trend Change	Carleton University	Universities	Canada	AA (low) /Negative	AA (low)/Stable
19-Jun-25	Trend Change	UBS Group AG	Banking Organizations	Switzerland	A (high) /Stable	A (high)/Negative
24-Jun-25	Trend Change	Cooper Equipment Rentals Limited	Non-Bank Financial Institutions	Canada	BB /Negative	BB/Stable
25-Jun-25	Upgraded	Deutsche Bank AG	Banking Organizations	Germany	A (high) /Stable	A/Positive
26-Jun-25	Upgraded	Bermuda	Sovereigns	Bermuda	A (high) /Stable	A/Positive
26-Jun-25	Upgraded	Danske Bank A/S	Banking Organizations	Denmark	A /Positive	A (low)/Positive
26-Jun-25	Downgraded	FCT Olympique Lyonnais StadCo	Sports and Stadium Finance	France, Metropolitan	BBB (low) /Under Review - Negative	BBB/Stable

Source: Morningstar DBRS.

Note: Only publicly rated debt.

Notable Fundamental Credit Ratings Research

- [*Line of Fire: How Wildfires Threaten Utility Credit*](#), July 2, 2025.
- [*The Web of Private Credit Lenders and Where We See It Heading*](#), June 30, 2025.
- [*NATO Summit: Higher Defence Spending to Further Strain EU Countries' Public Finances*](#), June 24, 2025.
- [*Middle East Tensions Add Underwriting and Investment Risks for Global Insurers and Reinsurers*](#), June 24, 2025.
- [*Crude Spike From Israel-Iran War Likely Short-Lived as Supply Adjusts*](#), June 17, 2025.
- [*2025 FIFA Club World Cup: A Winning Goal for the U.S. Travel and Tourism Industry?*](#) June 13, 2025.
- [*Large Canadian Banks Q2 2025 Earnings Round-Up: Performing PCLs Ramp Up and Loan Demand Wanes as Tariff Uncertainty Persists*](#), June 11, 2025.
- [*Navigating a New Normal: 2025 Wildfires Renew Volatility of Natural Catastrophe Losses for Canadian Insurers*](#), June 10, 2025,
- [*Summer Heat Likely to Add to High LNG Export Demand, Tightening the North American Gas Market*](#), June 10, 2025.
- [*North America Macroeconomic Update: On-and-Off Tariff Policy Weakens the Outlook*](#), June 4, 2025.
- [*Ontario's Nuclear Outlook Brightens: Proposed Regulatory Amendments Seen as Credit Positive for SMRs and Refurbishments*](#), June 3, 2025.

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