Global Credit Weekly:

M&A and tariffs: the impacts for credit

BlackRock

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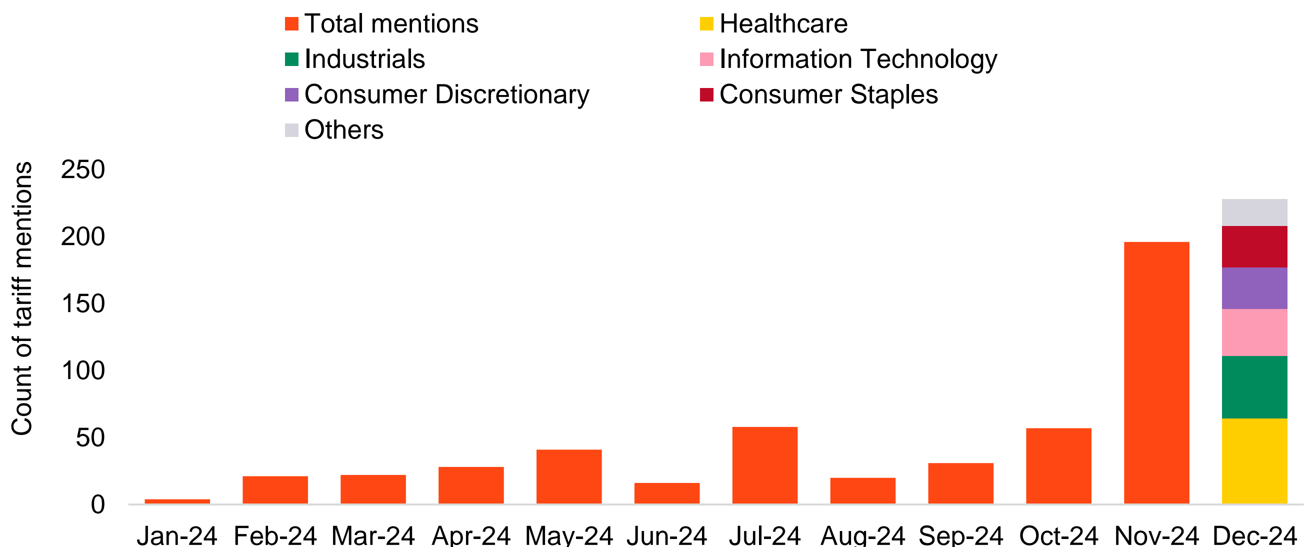
Key takeaways

- As we highlighted in our *1Q2025 Global Credit Outlook*, we see scope for the momentum behind strategic M&A to extend into 2025. For corporate credit investors, this activity warrants close monitoring. For one, it has the potential to catalyze significant shifts in already-sizeable capital structures, depending on a given deal's funding mix and company-specific capital management priorities. M&A is also a tool corporates can use to diversify their businesses and add new capabilities (including those related to technology advancements).
- As we have outlined previously, we believe balance sheet strength will remain a key differentiator in the context of future strategic M&A activity. Corporates with strong funding options – especially cash-rich and highly-rated IG firms with ample debt capacity – will have opportunities to grow and diversify their businesses. Meanwhile, higher financing costs might render those same opportunities as uneconomic for financially stretched firms. In certain instances, we also see a role for the private markets to participate in the financing of strategic buyers' M&A ambitions. This dynamic around access to funding is likely to be yet another driver of dispersion – albeit over a long-term trend – in the corporate credit market, in our view.
- Tariffs are also top of mind for corporates and investors, ahead of the January 20th inauguration of President-elect Trump. But while the incoming administration's intention to implement tariffs has been well-telegraphed directionally, there is significant uncertainty related to their timing, scope, and magnitude. For corporate credit investors, the obvious question remains: "is the risk of an escalation in trade tensions priced into current valuations?". Our analysis suggests USD corporate credit spreads have not priced in a material risk of across-the-board tariffs. Absent additional clarity on the policies, we believe the more likely manifestation of any tariff-related concerns will be at the macro level (interest rates, inflation expectations, term premium, etc.).

Exhibit 1: Tariffs have been referenced by a wide range of U.S. companies, as of late

Count of artificial intelligence-identified mentions of tariffs in S&P 500 conference call transcripts



Source: Bloomberg, BlackRock. As of December 31, 2024. "Others" category includes 9 mentions from Financials, 8 from Materials, 2 from Energy and 1 from Communication Services.

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The case for a (continued) rebound in strategic M&A

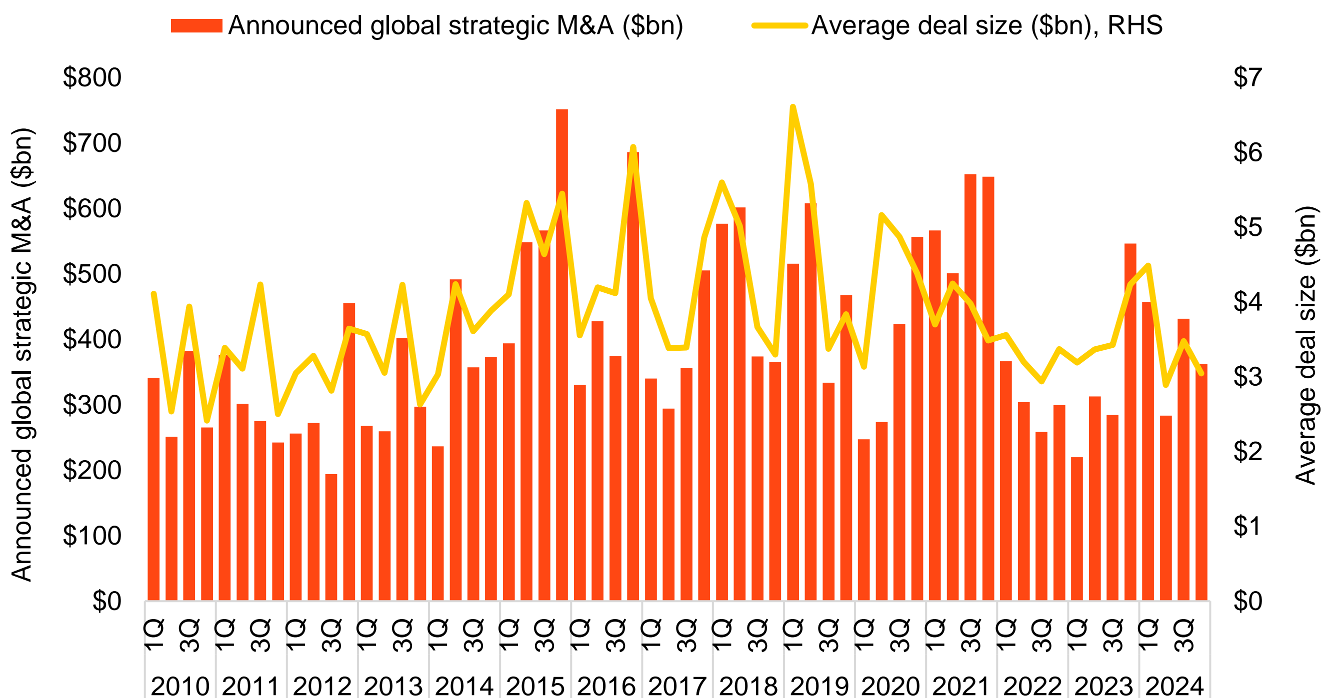
After a lull in strategic M&A activity for much of 2022 and 2023, volumes sharply rebounded in 4Q2023, and that momentum largely extended through year-end 2024 (Exhibit 2). As we highlighted in our *1Q2025 Global Credit Outlook*, we see scope for the momentum surrounding strategic M&A to extend into 2025 and expect the recovery in financial sponsor-related M&A volumes to further "catch up" to this corporate-focused, strategic peer group (Exhibit 4).

We continue to view this reacceleration of strategic M&A as a "re-start" of the wave of M&A that took hold immediately following the onset of the pandemic, when corporates were laser focused on filling strategic gaps in their business models. In many instances, these voids – whether by product, customer, channel, or geography – were magnified by the sudden stop in the economy which accompanied the onset of the pandemic. Since that time, resulting structural shifts in the way consumers live and work in the post-pandemic era have likely catalyzed another wave of corporate development activity. And of course, other long-term "mega forces" such as the ongoing build out of artificial intelligence (AI) capabilities have likely laid the foundation for more deal-making.

As we highlighted in June, an April 2024 Ernst & Young survey of 1,200 CEOs also pointed to increased receptivity for deal making, motivated in part by a desire to obtain new technological capabilities. And a November 2024 survey conducted by Goldman Sachs (in the weeks following the U.S. election) – also revealed a focus on adding new capabilities. This survey included responses from 1,894 investment banking clients across corporates, financial sponsors, sovereign entities and non-profits. 47% of these respondents identified strategic growth and the addition of new capabilities as the primary drivers of 2025 M&A decisions. For private corporates, this figure was 60%.

Of course, ultra low interest rates also helped propel the strategic M&A wave of 2020-2021. But higher debt financing costs have not deterred acquisition activity in recent quarters. This is consistent with our long-standing view that *clarity* on the macro and financing backdrop (not necessarily a *favorable* backdrop) is key for CFO and Treasurer confidence to move forward with large M&A. That said, corporates with strong financial positions and swift access to financing are unquestionably in a much stronger position to compete for attractive assets in the current elevated interest rate environment.

Exhibit 2: We see scope for the strategic M&A recovery to extend through 2025
Global announced strategic M&A volumes, and average deal sizes (RHS). Captures deals valued at $1 billion or more, at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. Captures quarterly data through year-end 2024, and as of January 8, 2025.

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Framing the 2024 activity

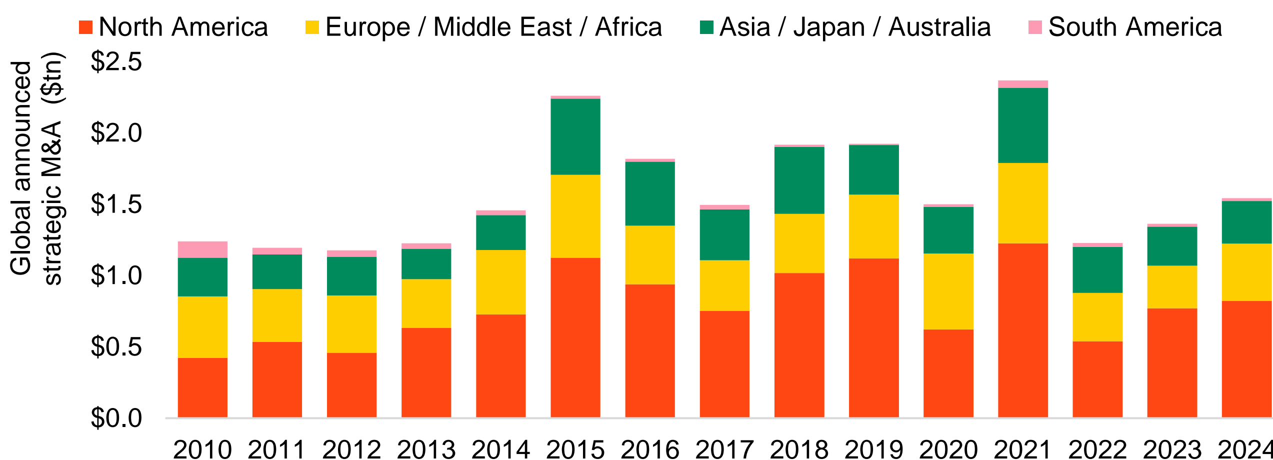
Announced global strategic M&A volumes increased 13% year-over-year in 2024, to $1.54 trillion. This was the second consecutive annual increase, following 2023's 11% gain. Still, 2024 strategic M&A volumes remain below the pre-pandemic trend (Exhibit 3). And when isolating North American strategic M&A volumes, corporate activity has failed to reflect the above-trend pace of U.S. real GDP growth that was a consistent theme for 2023 and 2024. Meanwhile, sponsor-related announced M&A experienced its first year-over-year increase in 2024, after two years of notable declines in activity (Exhibit 4).

As we highlighted in our *1Q2025 Global Credit Outlook*, we see scope for *both* forms of M&A activity to accelerate into 2025, owing to a combination of factors. For sponsor-related volumes, an anticipated rebound in private equity (PE) exits should support more activity and present an opportunity for deployment of dry powder on the private credit side.

For strategic volumes, one of the most important factors, in our view, is the rebound in CEO confidence. For example, the Business Roundtable CEO Economic Outlook Index rose to 91 in 4Q2024 – the highest level in over two years and above the historical average of 83.

Exhibit 3: We expect a continued recovery in strategic M&A volumes in 2025

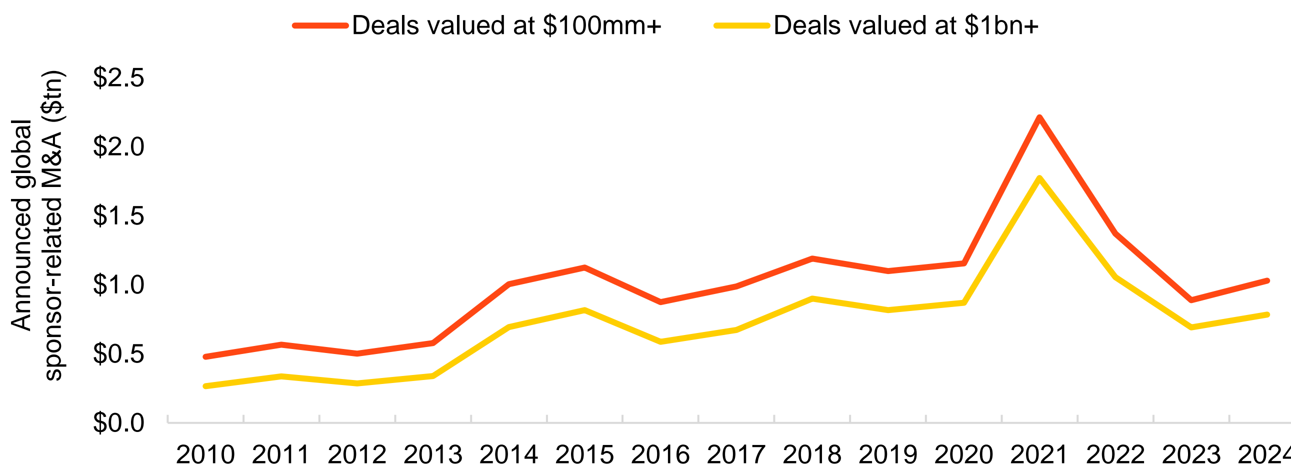
Global announced M&A volumes, by calendar year and region, for strategic buyers. Captures deals valued at $1bn or more at announcement. Excludes cancelled or withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. Captures data through year-end 2024, and as of January 6, 2025.

Exhibit 4: Financial-sponsor related M&A should recover alongside higher PE exits

Announced global sponsor-related M&A, for two cohorts of deal sizes (at announcement): $100 million or larger, and $1 billion or larger. Excludes cancelled or withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. Captures data through year-end 2024, as of January 7, 2025. A sponsor-related transaction is one that involves a financial sponsor (such as a private equity firm) on one or both sides of the transaction (i.e., buyer and/or seller).

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Implications for corporate credit investors

We expect other macro factors to support deal making in 2025. These include normalizing monetary policy in the U.S. and Europe, incremental clarity on fiscal priorities (at least directionally) following the U.S. election, and longer-term structural shifts in the global economy such as the build-out of AI.

For corporate credit investors, strategic M&A activity can have meaningful implications for investment performance and warrants close monitoring. This is because these types of transactions can catalyze potentially significant shifts in already-sizeable capital structures – depending on the deal's funding mix and company-specific capital management priorities.

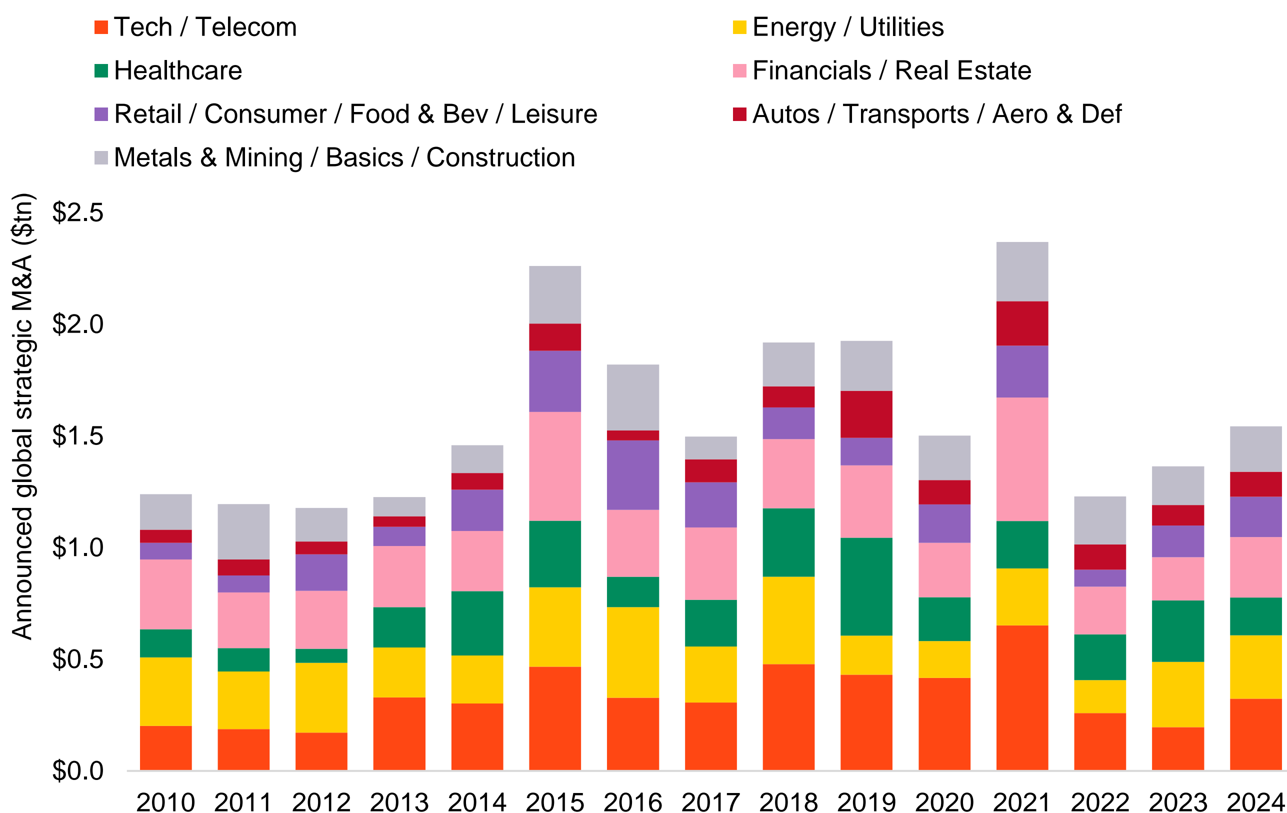
For example, deals slated to be funded with cash can meaningfully reduce existing liquidity cushions, and those requiring additional debt typically result in new bond offerings at a wider spread "concession" to existing debt in the secondary market. Even in the example of "cash funded" strategic M&A transactions, often the cash utilized for deal-making ultimately gets "replaced" with a new debt issue, based on anecdotal experiences over a longer-term history. On the more positive side for bondholders, equity-funded deals can often *improve* leverage metrics (or at least keep such measures stable).

As we have outlined previously, we believe balance sheet strength will remain a key differentiator in the context of future strategic M&A activity. Corporates with strong funding options – especially cash-rich and highly-rated IG firms with ample debt capacity – will have opportunities to grow and diversify their businesses. Meanwhile, higher financing costs might render those same opportunities as uneconomic for financially stretched firms.

In certain instances, we also see a role for the private markets to participate in the financing of strategic buyers' M&A ambitions. This dynamic around access to funding is likely to be yet another driver of dispersion – albeit over a long-term trend – in the corporate credit market, in our view.

Exhibit 5: The sector mix of 2024 M&A was broad based, albeit with a slightly lower contribution from Healthcare vs. the historical pattern

Announced global strategic M&A volumes, by calendar year and deal sector. Captures deals valued at $1 billion or more at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. Captures data through year-end 2024, and as of January 7, 2025.

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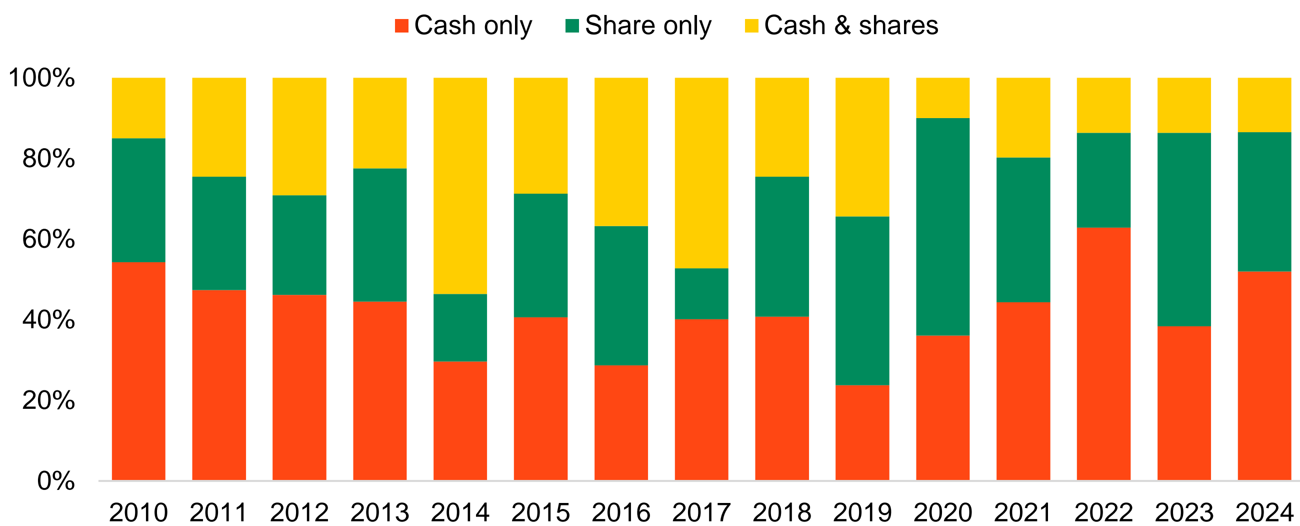
The funding mix over time, and across regions

Exhibits 6 and 7 provide some perspective on how the strategic M&A funding mix has trended over time, and across geographies. With the important caveat that there is a wide degree of variation at the sector and company levels, we nonetheless find the directional trend informative as a gauge on corporates' capital management postures toward leverage.

For example, 52% of strategic deals by North American acquirers in 2024 were funded entirely with cash – a level that ranks at the higher end of the post-financial crisis range (Exhibit 6). 35% of deals were funded entirely with equity – a decline vs. 2023 (48%) and also below the five-year average of 41% (2019-2023). And relative to North American acquirers, those in Europe / Middle East / Africa (EMEA) tend to rely even more on cash-funded transactions, as opposed to equity-funded deals (Exhibit 7).

Exhibit 6: As strategic M&A rebounded in 2024, the funding mix shifted to be less favorable for bondholders

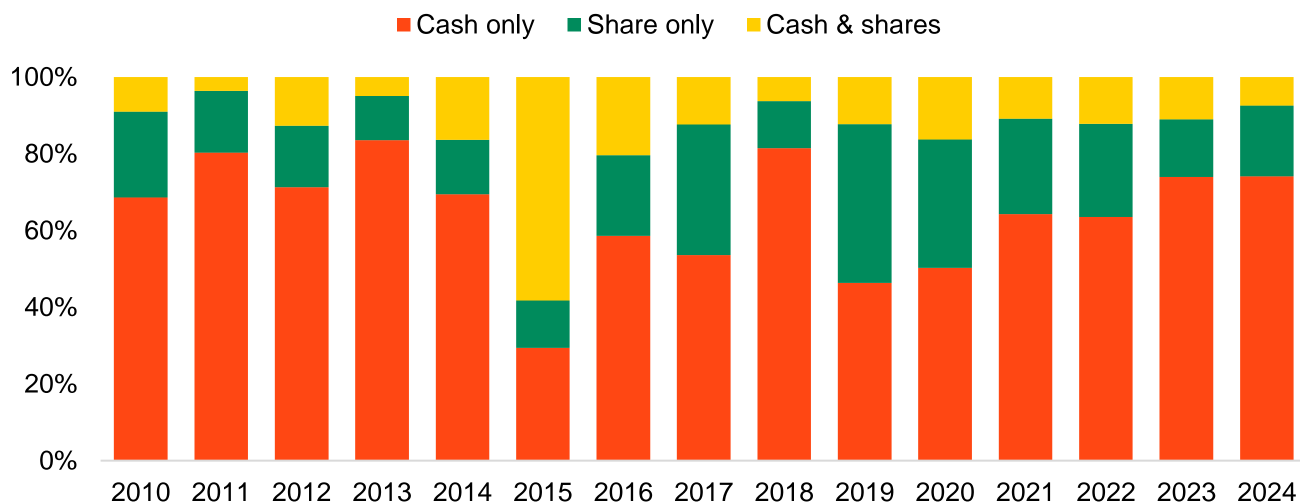
Funding mix of announced M&A, by calendar year, of North American strategic acquirers. Captures deals valued at $1bn or more at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. Captures data through year-end 2024, and as of January 6, 2025.

Exhibit 7: The strategic M&A financing mix among EMEA acquirers has tended to be even less bondholder-friendly, relative to North American acquirers

Funding mix of announced M&A, by calendar year, of EMEA strategic acquirers. Captures deals valued at $1bn or more at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. Captures data through year-end 2024, and as of January 6, 2025. The large share of "cash & share" deals in 2015 was driven by two sizeable transactions in the Food & Beverage and Oil & Gas sectors.

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Navigating tariff, supply chain uncertainty

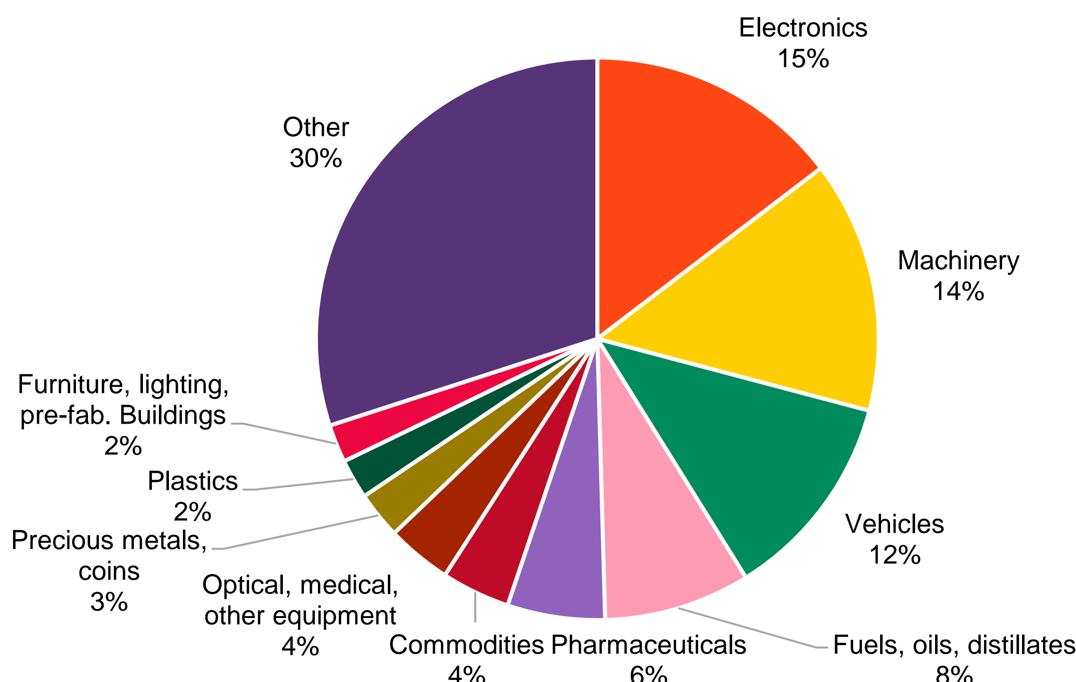
President-elect Donald Trump is broadly expected to enact significant policy shifts in 2025, and tariffs rank among the top priorities of the incoming administration. But while the intention to implement tariffs has been well-telegraphed *directionally*, significant uncertainty remains related to their timing, scope, and magnitude (as Federal Reserve Chair Powell has noted). It also remains to be seen whether there will be retaliation from other countries, in response to any tariffs imposed by the U.S.

Unsurprisingly, corporates have also been addressing the topic much more frequently. Exhibit 1 illustrates this by showing the number of 'tariff' mentions in S&P 500 conference call transcripts, which has increased significantly in recent months, according to data compiled by Bloomberg. A few weeks ago, we conducted a micro-level analysis and explored how dozens of individual management teams – across a range of industries – are preparing for potential tariffs. In this *Global Credit Weekly*, we expand upon this analysis and take a broader view, assessing how uncertainty related to tariff policy is impacting sector level performance. The takeaway: with the exception of very modest widening in a few HY sectors, USD corporate credit spreads are not reflecting the risk of a material increase in trade tensions.

We start by recapping the current stance (as of the time of this writing). During his campaign, President-elect Trump has proposed various tariff policies, including a 10-20% across-the-board tariff and a 60% tariff on all Chinese imports. In late November, Mr. Trump proposed other tariffs, including a 25% tariff on all products imported from Mexico and Canada. Most recently, a Jan. 6th report from The Washington Post suggested that the Trump administration is considering more targeted tariffs focused on "critical imports" in sectors relevant to national or economic security, such as defense industrial supply chains, critical medical supplies, and energy production. This report was followed by a response from Mr. Trump, noting that the report "incorrectly states" that his policies "will be pared back." And on Jan. 8th, another press report suggested Mr. Trump's team is considering utilizing the International Economic Emergency Powers Act (IEEPA) to enact a new tariff program.

Exhibit 8 demonstrates the largest goods import segments for the U.S. As we've noted previously, even once additional visibility into tariff policy implementation is available, understanding borrower exposure to tariffs will be nuanced, owing to company-specific factors such as supplier arrangements, supply chain locations, degree of pricing power, and potential for substitutions.

Exhibit 8: U.S. import exposure skews to electronics, machinery, and vehicles
The $3.2 trillion of U.S. goods import volume in 2023, by category



Source: United Nations COMTRADE, BlackRock. Other includes 87 other categories. Data as of year end 2023.

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The downside risks to corporate credit

With the January 20th U.S. Presidential Inauguration approaching, we look for incremental clarity on the timing, scope and magnitude of the incoming administration's tariff plan.

As we recently explored, heightened trade policy uncertainty, as demonstrated by Exhibit 9, can weigh on economic growth by influencing consumer and business investment behaviors. A 2019 paper by Federal Reserve Board economists[1] found that the rise in trade policy uncertainty in 1H2018 (a period of escalating U.S.-China trade tensions and implementation of new tariffs) accounted for a 0.8 percentage point decline in the level of global GDP in 1H2019. Investment activity in Europe is especially vulnerable to trade uncertainty, as a recent analysis from the European Commission showed.

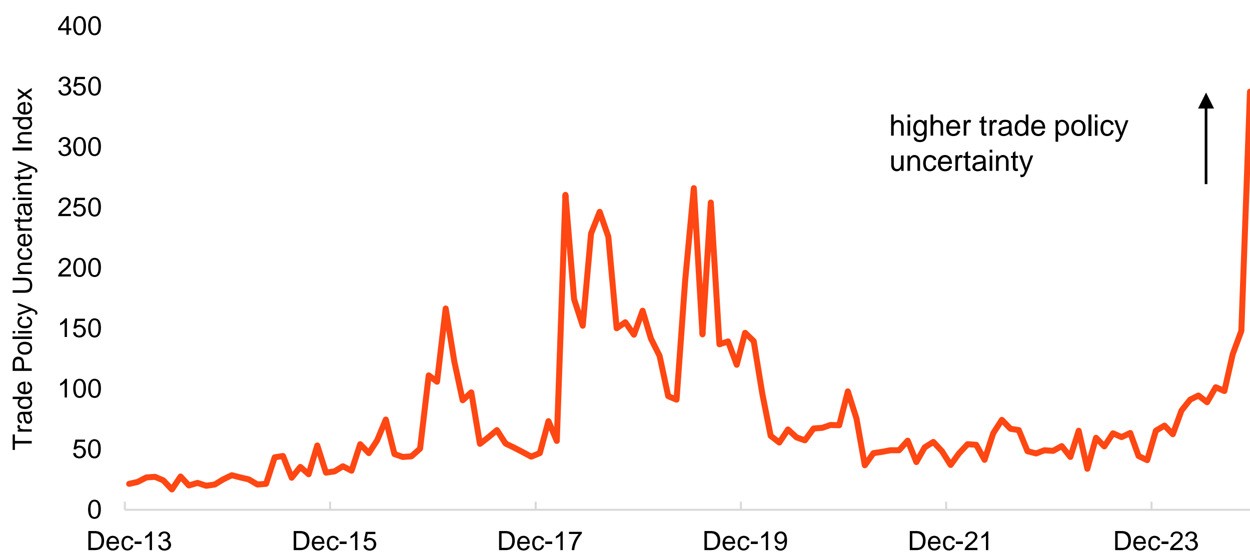
A potential downside risk to global growth is a meaningful consideration for corporate credit, which is an economically-sensitive asset class – especially for lower-quality portions of the market which tend to have more limited financial flexibility and scale.

Over the longer term, we expect the impacts of implemented tariff policies will vary meaningfully based on (1) the scope of the policies, including the breadth, depth, and duration, and (2) borrower characteristics, including sector, size, and geographic exposures. Ultimately, we expect these impacts to cause further dispersion at the aggregate index, sector, and borrower levels, underscoring the importance of active credit selection.

We continue to see the most risk to credit fundamentals in an across-the-board tariff scenario (i.e., not targeted to specific countries or products), which may be accompanied by retaliatory tariffs. To the extent that such a scenario materializes, it has the potential to weigh on corporates' input costs and profit margins, beyond a "one time" upward price level shock. It may also shift consumer consumption patterns, based on the elasticity of the good. Depending on the severity of any input cost pressures, corporates may look to reduce headcount as tool to protect margins. So far, U.S. corporate layoff activity has been muted, as characterized by an unemployment rate which remains low by historical standards (4.2%, through the November 2024 report) alongside similarly contained levels of jobless claims. This has been a key ingredient in the financial resilience of the U.S. consumer.

Exhibit 9: Trade policy uncertainty remains elevated vs. history

Trade Policy Uncertainty Index (measured monthly)



Source: Haver Analytics, BlackRock. Captures data through December 31, 2024 (most recent as of January 8, 2025). The Trade Policy Uncertainty (TPU) Index is based on automated text searches of the electronic archives of seven newspapers: Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal, and Washington Post. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is then normalized to a value of 100 for a one percent article share. Developed by Dario Caldara, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo.

1 Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2019). "Does Trade Policy Uncertainty Affect Global Economic Activity?," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 4, 2019, https://doi.org/10.17016/2380-7172.2445.

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Tariff-related risks are not reflected in current valuations

For corporate credit investors, the obvious question remains: "is the risk of an escalation in trade tensions priced into current valuations?". Our analysis suggests that USD corporate credit spreads have not priced in a material risk of across-the-board tariffs, with the exception of modest moves in a small number of HY sectors.

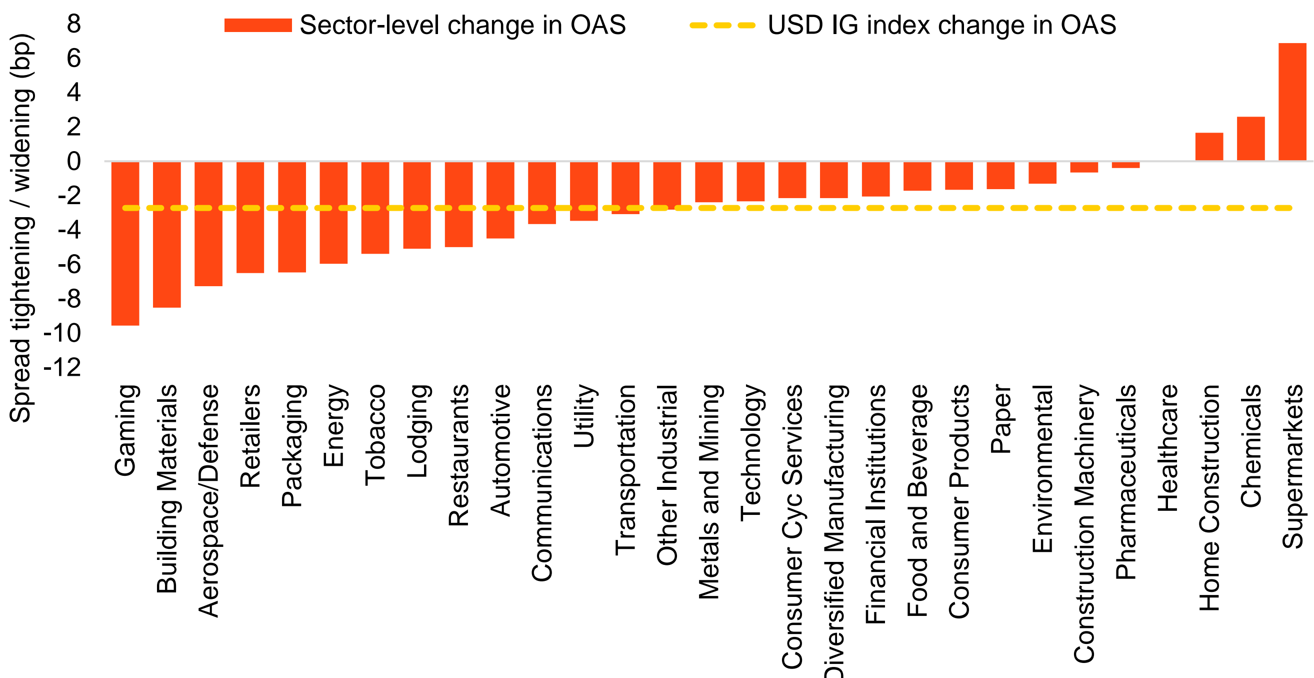
For example, Exhibits 10 and 11 isolate index-level spread tightening/widening for the Bloomberg USD IG and HY Corporate indices, since the U.S. election. For the USD IG universe, the vast majority of sectors have *tightened* – including for sectors exposed to imports such as Retailers, Automotive, Metals and Mining, Building Materials, Pharmaceuticals, Consumer Products, and Technology. For the USD HY universe, the sector spread moves are a bit more mixed, with some wider and others tighter since the U.S. election. But even for sectors which have widened, the moves are moderate, and, in some instances, have been influenced by idiosyncratic developments. Furthermore, the overall USD IG and HY indices continue to trade near historically tight levels (even after the modest widening of recent weeks).

Moreover, potential tariffs aren't the only source of trade and supply chain-related uncertainty. We are also monitoring for a potential U.S. port strike. In early October, a partial agreement was met between dockworkers and the U.S. Maritime Alliance, ending a 3-day strike that impacted ports across the U.S. East and Gulf coasts. This partial agreement extended negotiations until January 15, 2025. Bloomberg reported on Jan. 9th that a tentative deal was reached, which is subject to ratification.

If no agreement is finalized by this time, there is a possibility of another round of strikes among dockworkers. The potential strike would again shut down major ports across the U.S. East and Gulf coasts, which account for roughly half of U.S. container volume, per the American Association of Port Authorities. Borrowers exposed to import and export activity may face potential supply chain disruptions and inflationary pressures should a prolonged strike materialize. Anecdotally, some borrowers have proactively frontloaded orders or diversified suppliers to mitigate the risk of exposure to potential supply chain disruptions.

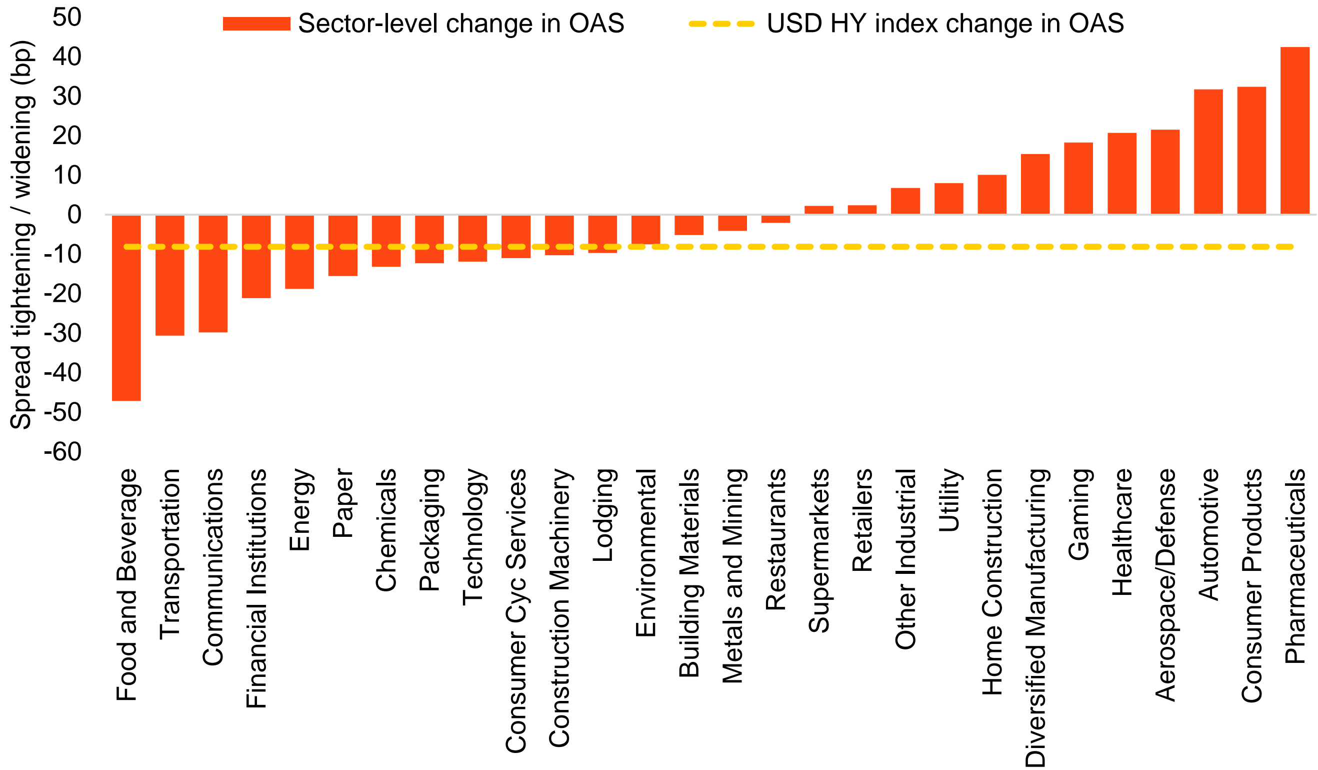
Exhibit 10: Post-election spread tightening suggests USD IG credit has not priced in a material risk of across-the-board tariffs

Change in option-adjusted spread (OAS) across sectors vs. the overall index for the Bloomberg USD Investment Grade (IG) Corporate index, from Nov. 4, 2024 (before the U.S. election) to Jan. 7, 2025



Source: Bloomberg, BlackRock. Spread tightening is calculated by finding the difference between spreads as of January 7, 2025 vs. November 4, 2024. **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.

Exhibit 11: Sector-level spread performance in USD HY has been mixed since the U.S. election
Change in option-adjusted spread (OAS) across sectors vs. overall index change for the Bloomberg USD High Yield (HY) Corporate index, from Nov. 4, 2024 (before the U.S. election) to Jan. 7, 2025



Source: Bloomberg, BlackRock. Spread tightening is calculated by finding the difference between spreads as of January 7, 2025 vs. November 4, 2024. **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. Excludes the Tobacco sector due to its small size and outlier spread move during the period.

Exhibit 12: Sector spread levels in the USD IG and HY Corporate markets

Aggregate and sector-level option-adjusted spread (OAS) for the Bloomberg USD IG and HY Corporate indices, as of January 7, 2025

	OAS (bp)
USD IG index OAS	**80**
Construction Machinery	40
Consumer Products	53
Retailers	54
Environmental	60
Other Industrial	63
Restaurants	64
Technology	65
Pharmaceuticals	65
Diversified Manufacturing	65
Consumer Cyc Services	68
Food and Beverage	69
Home Construction	74
Lodging	74
Transportation	75
Building Materials	76
Financial Institutions	82
Utility	83
Packaging	86
Aerospace/Defense	87
Healthcare	88
Tobacco	88
Metals and Mining	89
Automotive	91
Supermarkets	92
Chemicals	92
Energy	92
Paper	98
Communications	99
Gaming	116

	OAS (bp)
USD HY index OAS	**271**
Environmental	129
Lodging	132
Aerospace/Defense	145
Supermarkets	165
Utility	177
Restaurants	185
Tobacco	186
Food and Beverage	194
Diversified Manufacturing	197
Home Construction	202
Other Industrial	207
Construction Machinery	207
Gaming	212
Metals and Mining	223
Financial Institutions	225
Energy	228
Building Materials	232
Technology	252
Automotive	262
Chemicals	263
Healthcare	263
Transportation	276
Consumer Cyc Services	278
Paper	281
Retailers	321
Consumer Products	336
Packaging	353
Communications	440
Pharmaceuticals	569

Source: Bloomberg, BlackRock. As of January 7, 2025.

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