SCOPE | Ratings

European corporate credit risk

US tariff increases to have uneven direct cashflow, credit impact on European corporates

Analyst
Sebastian Zank. CFA
+49 30 27891-225
s.zank@scoperatings.com

Supporting analyst
Hugo Dahlbom
+49 30 27891-081
h.dahlbom@scoperatings.com

Team Leader
Giacomo Barisone
+49 69 6677389-22
g.barisone@scoperatings.com

Editorial/Press
Matthew Curtin
+33 9 52 72 8685
m.curtin@scopegroup.com

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The protectionist tilt of US trade policy has unsettled investors, partly by clouding the outlook for global growth. But for European companies with US exposure, the impact of higher tariffs on cashflow and credit quality are mixed and case specific.

President Donald Trump's administration has imposed a baseline tariff of 10% on imported goods from its trading partners but unexpectedly suspended much higher extra levies on Wednesday, except in the case of China, which is now subject to duties of up to 145%. The implementation of trade measures has not been uniform, with no new tariffs applied to pharmaceuticals, whereas automotive imports now face a 25% tariff.

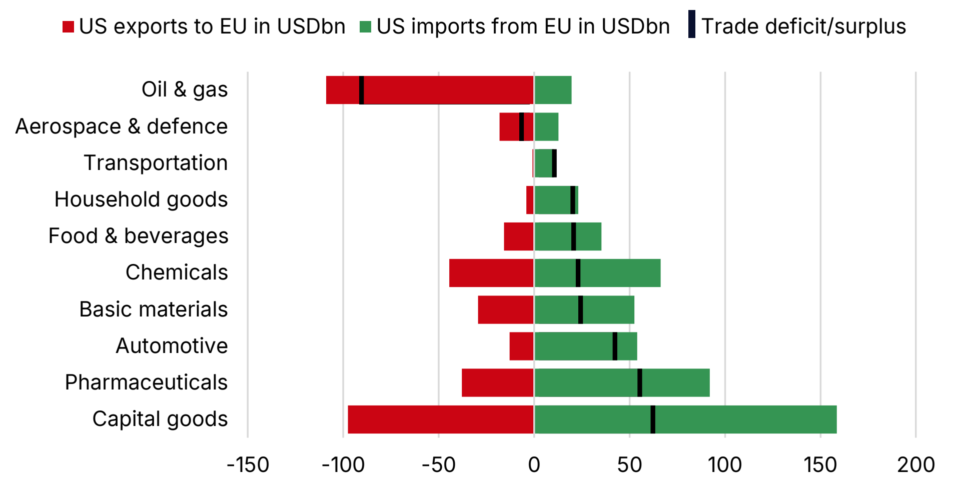
Should the temporary suspension of the so called "Liberation Day" tariffs be lifted after the current 90-day pause, US tariff levels could return to levels last seen in the early 20th Century. However, our current assessment is that even under this scenario, the direct cashflow and credit impacts for investment grade European corporates are likely to remain relatively moderate in the short term.

The extent of the impact is expected to vary significantly between companies, even within the same sector, depending on how dependent they are on US-based production and the composition of their supply chains.

To be sure, the longer the tariffs remain in place, and the higher they rise, the more significant their impact will be. Beyond direct impacts on corporates, there are broader macroeconomic concerns about the adverse impact of US trade policy on global growth, inflation and interest rates, risks to which European companies and households are exposed. These pressures are more pronounced for small and medium-sized, highly leveraged corporates than for larger investment-grade firms.

It is important to note that the US runs persistent trade deficits with Europe for structural reasons. American corporates and households rely on European suppliers for many products which will be hard to substitute in the short to medium term, hence the exclusion of pharmaceuticals from the tariffs so far (**Figure 1**).

Figure 1: US runs multi-sector trade deficit in goods with EU…
… but has surplus in oil & gas, aero-defence equipment



Source: Eurostat, Scope Ratings calculations

1. Second-degree tariff impacts extend beyond export-reliant companies

Rerouted trade flows pose second-degree challenge

Many European companies have previously invested heavily in the US, establishing local production lines and buying local suppliers, limiting their direct exposure to tariffs. In contrast, European companies serving US customers mostly through exports of lower-margin, commoditised or mass-market products remain highly vulnerable as tariffs make their goods uncompetitive.

Another challenge is that the imposition of tariffs will likely reroute global trade flows, as companies seek to avoid the cost burden of higher duties. This trade diversion will most likely affect other big exporters such as those in China and Vietnam which may shift focus to alternative markets, thereby creating more competition for EU-based goods producers.

In addition, higher US tariffs will have adverse consequences for companies along the supply chain, particularly SMEs, even those without direct exposure to exports to the US market. Companies exporting to the US will look to compensate for the higher tariffs by squeezing costs out of their supply chains as US demand shrinks, placing additional pressure on suppliers' production volumes and profitability.

SMEs in the value chains of large, US-focused exporters are likely to be particularly vulnerable due to their limited pricing power, narrow customer base and reduced financial flexibility, including weaker access to external finance. Overall, this will do little to alleviate the record high corporate default rates across Europe, concentrated among SMEs.

2. Expanding US-based production capacity feasible only medium term

Shifting production capacity not done over-night

Shifting production capacity to the US to skirt tariffs will come at a cost for all companies, not just European ones. Building and equipping factories from scratch is a multi-year process. Returns on the investment will take even longer to materialise, ensuring pressure on corporate balance sheets for some time.

Ultimately, companies confronted with weaker US demand or those that sacrifice profit margins to absorb the higher import duties to remain competitive, may push up prices in other markets to compensate.

In addition, while the prospect of a long US-led trade war is negative for corporate credit, investment-grade European companies have comparatively strong balance sheets as we indicated in Scope's 2025 corporate credit outlook.

3. Corporate tariff-impact varies by product, supply-chain geography

Tariff vulnerability far from uniform among US-exposed firms

To illustrate the varying degrees of exposure among Europe's blue-chip companies, we examined their US-revenue share as a percentage of their total revenues (**Figure 2, page 3**).

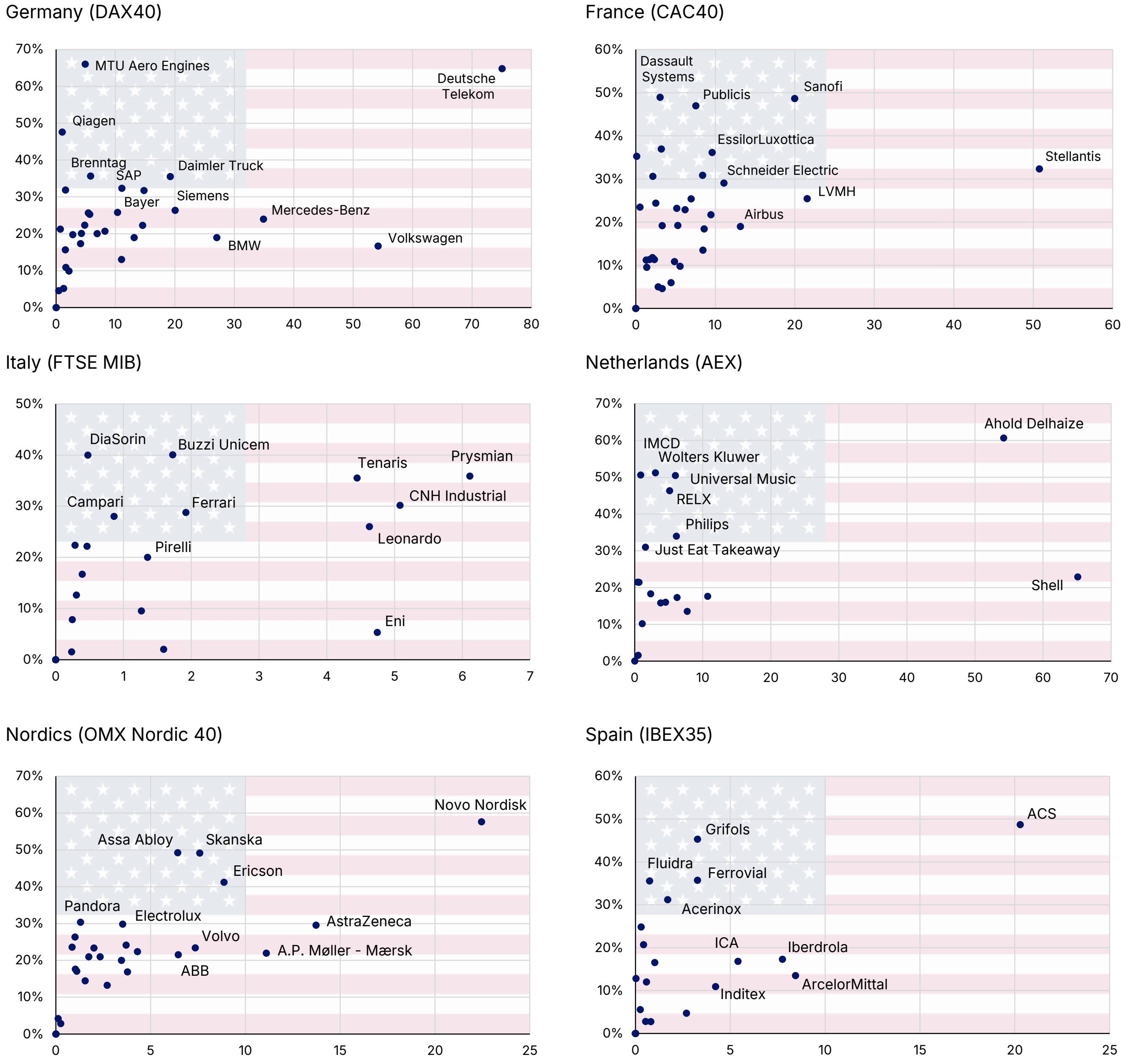
Corporates heavily exposed to the US appear in the top left and in particular the top right quadrants in the charts with the important caveat that each company's vulnerability to tariffs depends hugely on what goods, rather than services, that it makes and the geography of its supply chain.

Several companies listed in Europe's main stock-market indexes appear relatively resistant to higher US tariffs. Examples include: Qiagen AG, Deutsche Telekom, Brenntag SE (DAX40); Dassault Systems SA, Sanofi SA (CAC40); ACS SA, Iberdrola SA (IBEX), Buzzi Unichem SpA, Prysmian SpA (FTSE MIB); AstraZeneca PLC, Novo Nordisk (OMX Nordic 40); Ahold Delhaize, Wolters Kluwer (AEX).

The reasons for their resilience vary. The new US tariffs do not apply directly to services companies or to exempted goods sectors like pharmaceuticals. In other cases, the companies' US operations do not depend on international trade, such as those related to US construction and infrastructure.

Figure 2: US exposure varies widely among European blue-chip companies

Component companies of leading EU stock market indexes: estimated revenue exposure to the US (x-axis, EUR bn); estimated US percentage of total revenue 2024 (y-axis)



Source: 2024 company reports, Scope Ratings calculations. Note: revenues and revenue shares computed based on either explicit revenue disclosure for the US or estimated based on revenues in North America or the Americas.

Some European companies could even benefit from a more inflationary environment in the US, likely to be exacerbated by higher tariffs, when consolidating the cashflow from the US on their balance sheets. Moreover, tariff-exempt companies in the pharmaceutical sector could try to raise their margins by slightly increasing prices for US exports.

4. Capital goods, specialty chemicals corporates among tariff-resistant

For other European companies, the specialist nature of their exports to the US should ensure that demand holds up despite the tariffs because they supply materials and equipment that are difficult for US customers to source elsewhere in the same quality and quantity, if at all.

In addition, the lack of domestic manufacturing capacity for these products is unlikely to be resolved quickly, since companies may be reluctant to make the large, multi-year investments necessary without some assurance that tariffs will stay in place long term.

Table 1: Dodging the tariff bullet: specialty chemicals, capital goods corporates

Selected producers of hard-to-substitute goods for US households and industry

Specialty chemicals		Capital goods	
Product/s	Company	Product/s	Company
Active pharmaceutical ingredients	BASF, Clariant	Medical-imaging equipment	Siemens Healthineers
Chemicals for healthcare	Seppic (Air Liquide)	Optical equipment	Carl Zeiss
Natural, plant-based extracts (healthcare)	Naturex (Givaudan)	Photolithography (semiconductors)	ASML
Renewable-fuels additive	Arkema	Water-bond equipment for advanced packaging, electronics	EV Group

5. Auto makers among most tariff-vulnerable companies

Mass-market goods exporters vulnerable to Trump's trade war

The most vulnerable companies are those exporting more commoditised or mass-market products, typically made along global supply chains, from cars and jewellery to machinery and commodity chemicals.

Blue-chip goods exporters to the US in this category include Volkswagen AG (DAX40); Schneider Electric SE, Stellantis NV (CAC40); Inditex SA, ArcelorMittal SA (IBEX); Pirelli SpA, CNH Industrial SpA (FTSE MIB); Electrolux AS, Pandora AS (Nordics 40); Philips NV (AEX).

Auto sector in crosshairs of new US trade policy

Europe's car makers are particularly vulnerable due to the special 25% US tariff on automotive imports and prior investments in production capacity in Canada and Mexico to the supply the US, the world's second-largest car market after China.

Europe's automotive sector: a case study of selected companies with US tariff vulnerability

The US is the world's second largest auto market, after China, and a particularly important market for European original equipment manufacturers (OEMs), not least Stellantis, created over time by combining US, French, German and Italian manufacturers.

Stellantis – owner of the Chrysler, Jeep and RAM brands – faces the greatest impact due to its high exposure to the US market, which accounted for more than 30% of sales in 2024, and its substantial dependence on production in Canada and Mexico. Stellantis relied on Mexico for production of its RAM brand (a third of US revenue in 2024) and on Canada for Chrysler (10%) and Jeep (45%). Stellantis Canada paused Jeep production in 2024 due to factory retooling and an inventory management strategy, which has been continued in 2025 since the new tariffs were imposed.

Volkswagen, with 21% of revenues in the US, is less exposed than Stellantis. However, the company relies on production lines in Canada and Mexico for supplying the US with mass-market cars and trucks. In addition, sports-car unit Porsche supplies the US from factories in Europe. Volkswagen reported a 40% decline in Q1 operating profit as the company suspended shipments of some Canada-, Mexico-made models to the US.

BMW and Mercedes-Benz, as premium car makers, are potentially less vulnerable. The OEMs are better able to pass on tariff costs to customers through higher prices on their models for which there are fewer alternatives than for mass-market brands. Both OEMs are significantly exposed to the US market, accounting for around a fifth to a quarter of revenues, respectively, but with a significant proportion of locally made cars, at nearly 50% in the case of BMW.

Ferrari SpA has said it will increase prices due to the new tariffs on its Italian-made sports cars, high-end products for which demand is likely to prove inelastic.

It's worth noting that among consumer goods, a luxury-goods supplier like France's LVMH SA, Kering SA and Italy's Brunello Cucinelli SpA are likely to face uneven tariff pressures given demand for some products – high-end luxury goods – is sure to prove less elastic than others – champagne, cognac and apparel.

Mixed tariff impact on luxury goods suppliers

In addition, European governments may adjust regulatory frameworks and industrial policy to mitigate the impact on vulnerable exporters, by introducing measures such as relaxing the timetable for the introduction of zero-emission vehicles, as the UK is planning.

That said, should President Trump's tariffs tip the US economy into recession, the resulting demand shock would be felt widely across sectors, with adverse implications for all US-exposed European companies as well as for companies with little to no export exposure due to rising competition among European and non-European manufacturers in their core markets.

Related research:

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Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

Bloomberg: RESP SCOP
Scope contacts
scoperatings.com