Allianz

Allianz Trade

Sector Atlas 2025:

Trade war is a sector war after all

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Allianz Research

Content

Executive summary

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- **US tariffs are reshaping supply chains, prompting retaliation and heightening uncertainty. Companies will continue to adapt as the trade war is here to stay.** Ongoing trade tensions, coupled with the need for fiscal consolidation in many countries, will continue to weigh on the economy and affect sectors differently. Despite deals and moratoriums over the summer, competition for manufacturing capacity remains a high priority for governments across the US, Europe and Asia. Moreover, geopolitical tensions in Ukraine and the Middle East continue to increase volatility in commodity and energy markets. The result is a global economy in which tariffs, cost competitiveness, fiscal and monetary policy and trade policy are pulling some sectors upward while pushing others downward.

- **The global sector risk picture remains cautious, and firms will continue to reduce cross-border risks.** Most sector ratings are clustered in the medium (45%) and sensitive (43%) categories. Only 9% of sectors are rated low risk, which is well below the pre-pandemic share of 15%. There are clear regional disparities: Asia is the safest region, while Latin America is the riskiest, with Central and Eastern Europe also under pressure. Allianz Trade's sector risk ratings deteriorated slightly in Q2, with the majority of the weakness concentrated in the automotive sector. Tariffs, soft demand, rising operating costs, shrinking subsidies and intense price competition are squeezing the profitability of Japanese, South Korean, Mexican and European automakers in particular. Beyond the automotive sector, downgrades affected several others, including agrifood, electronics, machinery, paper, metals and pharmaceuticals, primarily shifting from medium to sensitive risk. Upgrades were more scattered and led by transport equipment and IT services.

- **The good: IT services and pharma remain safe havens through solid demand and relocation strategies that circumvent tariffs.** Information technology services continue to thrive amid the digitalization and AI waves. Revenues are growing rapidly, driven by substantial corporate investment in cloud computing and automation. The sector is proving both profitable and resilient to broader economic turbulence thanks to recurring contracts and healthy margins. The pharmaceutical industry also offers stability. Demand is anchored by aging populations and the prevalence of chronic diseases. Meanwhile, high barriers to entry and strong pricing power for patented drugs provide robust cash flows. Despite some uncertainty surrounding US tariffs, the pharmaceutical sector remains one of the most resilient in the current climate. Furthermore, both sectors are likely to circumvent US tariffs by increasing capacity in the US – a step that many firms have already taken.

- **The bad: A second cluster of sectors benefits from positive structural trends but are vulnerable to policies, geopolitics and trade tensions.** Demand for agrifood is steadily expanding as populations grow. However, climate shocks, high input costs, protectionism and immigration policy continue to create volatility in the sector. Strong demand for electronics and semiconductors is

driven by AI and automation. However, their globalized supply chains remain highly exposed to the US-China rivalry and tariffs. The energy sector is in transition. Record investments in renewables are occurring, but rising costs, overcapacity in some segments and a reversal of policies in the US are hurting the sector. Oil and gas are profitable for now, but they face declining demand in the next decade. Automation, Industry 4.0 and the reshoring trend are buoying machinery and equipment producers, yet the sector's cyclicality and capital intensity make it sensitive to slowing global growth. After years of heavy investment in 5G, telecoms are finally seeing accelerated revenues and margins, though high debt and new competition from hyperscalers limit the upside.

- **The ugly: for a wide group of sectors (highly cyclical, capital intensive and protectionist; limited coping), profitability is under pressure. Costly supply-chain diversification and rerouting is underway: In July, more than 60% of imports from China into the US were rerouted through India and ASEAN.** Automakers are facing slowing sales, costly electrification, new Chinese and Tech expert competitors, and tariffs that are disrupting their supply chains and are difficult to adjust to in the short term. Retailers are enjoying a rebound in consumer demand, thanks to disinflation. However, rising import costs and shifting consumer habits are compressing their margins. Textile firms are restructuring supply chains away from China while adapting to consumer preferences for sustainability and resale. Manufacturers of household equipment are experiencing a tentative recovery as interest rates fall; however, they remain vulnerable to housing cycles and Asian supply dependencies. The construction industry is still reeling from rate shocks and remains high risk, with only infrastructure spending providing relief. The chemicals industry is constrained by high energy costs and weak demand. Meanwhile, metals producers face volatile prices and underinvestment, despite booming long-term demand for green minerals. The transport equipment sector is clearing post-pandemic backlogs, yet it remains burdened by high debt. For most of these sectors, profitability is being squeezed by tariffs, costly rerouting and investments in the US.

- **Transatlantic update: the corporate earnings gap between Europe and the US looks intact.** In the US, S&P 500 profits surged +12% year over year in Q2 2025, driven by mega-cap tech and AI-linked stocks, as well as strong gains in financials. However, this strength masks the looming impact of tariffs, which has already put pressure on the energy and consumer sectors. In contrast, Europe achieved only about 4.3% earnings growth, hindered by a strong euro and tariff headwinds. Banks, Defense and healthcare were bright spots, but exporters and consumer-facing firms struggled. All major European banks surpassed forecasts, but luxury and auto companies reported rising costs and fragile demand. US earnings are still bolstered by tech and pre-tariff resilience, while Europe's growth depends on a few sectors (e.g. tech, financials and pharma). With tariffs now taking effect, the next few quarters will reveal whether US momentum can endure, given the impending demand shock and shrinking margins. They will also reveal whether Europe can strengthen as we approach better prospects in 2026.

Country and Sector Matrix

		Automotive manufacturers	Automotive suppliers	Construction	Transportation	Chemicals	Pharmaceuticals	Agrifood	Textiles	Paper	Electronics	Metals	Retail	Machinery & Equipment	Transport equipment	Software & IT Services	Household equipment	Computers & Telecom	Energy
North America	US	🟠	🟠	🟡	🟡	🟡	🟢	🟡	🟠	🟡	🟡	🟡	🟡	🟡	🟠	🟡	🟠	🟡	🟡
	Canada	🟠	🟠	🟡	🟡	🟡	🟢	🟡	🟠	🟡	🟡	🟡	🟠	🟡	🟠	🟡	🟠	🟡	🟡
Latin America	Brazil	🟠	🟠	🟠	🟠	🔴	🟢	🟠	🔴	🟠	🟠	🟠	🟠	🟠	🟠	🟡	🟠	🟠	🟡
	Mexico	🔴	🔴	🟠	🟡	🟠	🟠	🟡	🔴	🟠	🟡	🔴	🟡	🟠	🟠	🟡	🟠	🟡	🔴
	Colombia	🟠	🟠	🔴	🟠	🟡	🟠	🟡	🔴	🟠	🟠	🟠	🟡	🟠	🟡	🟡	🟡	🔴	🟠
	Peru	🟠	🟠	🔴	🟡	🟡	🟢	🟡	🟠	🟡	🟠	🟡	🟡	🟡	🟠	🟡	🟡	🟠	🟡
	Ecuador	🟠	🟠	🔴	🟠	🟠	🟡	🟠	🟠	🟠	🟠	🟠	🟡	🟠	🟠	🟡	🟡	🟡	🔴
	Uruguay	🟡	🟠	🟠	🟠	🟡	🟡	🟠	🔴	🟡	🟠	🟠	🟠	🟠		🟡	🟠	🟡	🟡
	Panama	🟠	🟠	🟠	🟡	🟡	🟢	🟠	🟠	🟡	🟡	🔴	🟡			🟡	🟡	🟡	🟡
	Chile	🟠	🟡	🔴	🟡	🟡	🟢	🟡	🟠	🟠	🟠	🟡	🟡	🟠	🟡	🟡	🟠	🟡	🟡
	Costa Rica	🟠	🟠	🟠	🟠	🟡	🟢	🟡	🟠	🟠	🟡	🟠	🟠	🟠		🟡	🟠	🟡	🟡
	Dominican Republic	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟠	🟠	🟠	🟠	🟠	🟡		🟡	🟠	🟡	🟡
	Guatemala	🟠	🟠	🟠	🟠	🟡	🟢	🟡	🟠	🟠	🟡	🟠	🟠	🟠		🟡	🟠	🟡	🟡
Western Europe	France	🟡	🔴	🟠	🟠	🟡	🟢	🟡	🔴	🟠	🟠	🔴	🟠	🟡	🟡	🟡	🟠	🟠	🟠
	Germany	🟠	🟠	🟠	🟠	🟠	🟡	🟠	🟠	🟠	🟡	🟠	🟠	🟠	🟠	🟡	🟠	🟡	🟠
	Spain	🟠	🟠	🟡	🟠	🟡	🟢	🟡	🟠	🟡	🟡	🟠	🟡	🟠	🟠	🟡	🟠	🟡	🟠
	Italy	🟠	🔴	🟠	🟠	🟡	🟢	🟡	🟠	🟡	🟡	🟠	🟠	🟡	🟡	🟡	🟠	🟡	🟠
	UK	🟠	🔴	🔴	🟠	🟡	🟢	🟡	🟠	🔴	🟠	🟠	🟠	🟠	🟠	🟡	🟠	🟡	🟠
	Netherlands	🟠	🟠	🟠	🟠	🟠	🟢	🟠	🟠	🟠	🟡	🟠	🟠	🟠	🟠	🟡	🟠	🟡	🟠
	Switzerland	🟠	🟠	🟠	🟡	🟠	🟢	🟡	🟠	🟠	🟡	🟠	🟡	🟡	🟡	🟡	🟠	🟡	🟠
	Sweden	🟡	🟠	🟠	🟠	🟡	🟢	🟡	🟠	🟡	🟡	🟡	🟠	🟡	🟢	🟢	🟠	🟢	🟢
	Norway	🟠	🟠	🟠	🟡	🟡	🟢	🟢	🟡	🟠	🟡	🟡	🟠	🟡	🟡	🟢	🟠	🟢	🟢
	Belgium	🟠	🟠	🟠	🟠	🟠	🟢	🟠	🟠	🟠	🟠	🟠	🟠	🟠	🟠	🟡	🟠	🟡	🟠
	Austria	🟠	🟠	🟠	🟠	🟡	🟢	🟠	🟠	🟠	🟡	🟠	🟠	🟠	🟠	🟡	🟡	🟡	🟠
	Denmark	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟠	🟠	🟡	🟡	🟡	🟠	🟡	🟢	🟠	🟡	🟡
	Greece	🟡	🟠	🟠	🟠	🟡	🟢	🟡	🟠	🟠	🟡	🟠	🟠	🟠	🟠	🟡	🟡	🟡	🟡
	Finland	🟠	🟠	🟠	🟡	🟡	🟢	🟡	🟠	🟡	🟡	🟠	🟠	🟡	🟠	🟢	🟠	🟡	🟡
	Portugal	🟠	🟠	🟠	🟠	🟡	🟢	🟡	🔴	🟡	🟡	🟠	🟠	🟡	🟠	🟡	🟠	🟡	🟡
	Ireland	🟠	🟠	🟠	🟠	🟡	🟢	🟡	🟠	🟠	🟡	🟠	🟠	🟡	🟠	🟢	🟠	🟡	🟡
	Luxembourg	🟠	🟠	🟠	🟡	🟡	🟢	🟡	🟠	🟠	🟠	🟠	🟡	🟠	🟡	🟡	🟡	🟡	🟠
Central & Eastern Europe	Turkey	🟠	🟠	🔴	🟠	🟠	🟢	🟠	🔴	🟠	🔴	🟠	🟠	🟡	🟠	🟡	🟡	🟡	🔴
	Poland	🟠	🟠	🔴	🔴	🟠	🟢	🟡	🟠	🟠	🟠	🟠	🟠	🟠	🟠	🟢	🟠	🟡	🟠
	Czech Republic	🟠	🟠	🟠	🟠	🟠	🟡	🟡	🟠	🟡	🟡	🟠	🟠	🟠	🟠	🟢	🟠	🟢	🟡
	Romania	🟠	🟠	🔴	🟠	🟠	🟢	🟡	🟠	🟡	🟠	🟠	🟠	🟠	🟡	🟢	🟠	🟡	🟡
	Hungary	🟠	🟠	🟠	🟠	🟡	🟡	🟡	🟠	🟡	🟠	🟠	🟠	🟠	🟠	🟡	🟠	🟡	🟠
	Croatia	🟠	🟠	🟠	🟠	🟡	🟠	🟠	🟠	🟠	🟠	🟠	🟡	🟠	🔴	🟡	🟠	🟡	🟡
	Bulgaria	🟠	🟠	🟠	🟠	🟠	🟡	🟡	🟠	🟡	🟡	🟠	🟠	🟠	🟠	🟢	🟠	🟡	🟡
	Slovenia	🟠	🟠	🟠	🟠	🟡	🟠	🟠	🟠	🟠	🟠	🟠	🟡	🟠	🟡	🟡	🟠	🟡	🟡
	Lithuania	🟠	🟠	🟠	🟠	🟠	🟢	🟡	🟠	🟡	🟡	🟠	🟠	🟠	🟠	🟢	🟠	🟢	🟡
	Latvia	🟡	🟡	🟠	🟠	🟠	🟠	🟡	🟡	🟡	🟡	🟠	🟠	🟡	🟠	🟢	🟠	🟡	🟡
	Estonia	🟡	🟡	🟠	🟠	🟡	🟡	🟡	🟡	🟠	🟡	🟠	🟠	🟡	🟡	🟡	🟠	🟢	🟡
	Slovakia	🟡	🟠	🔴	🟠	🟠	🟡	🟡	🟠	🟠	🟡	🟠	🟠	🟠	🟠	🟢	🟠	🟠	🟠
Africa & Middle East	Algeria	🟠	🟠	🟠	🟡	🟡	🟡	🟡	🟠	🟡	🟡	🟠	🟠	🟠	🟠	🟡	🟠	🟡	🟢
	Morocco	🟡	🟡	🟠	🟠	🟡	🟢	🟢	🟠	🟡	🟡	🟠	🟡	🟡	🟡	🟢	🟡	🟢	🟡
	Saudi Arabia	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟠	🟡	🟠	🟠	🟡	🟠	🟠	🟡	🟡	🟡	🟢
	UAE	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟠	🟡	🟠	🟠	🟡	🟠	🟡	🟡	🟡	🟡	🟢
	Israel	🟡		🔴	🟠	🟡	🟡	🟢	🟠	🟡	🟡	🟡	🟠	🟡		🟢	🟠	🟠	🟡
	Qatar	🟡	🟡	🟠	🟡	🟡	🟢	🟢	🟠	🟡	🟡	🟠	🟡	🟠	🟠	🟡	🟡	🟡	🟢
	Kuwait	🟡	🟡	🔴	🟠	🟡	🟢	🟢	🟠	🟡	🟠	🟠	🟡	🟠	🟠	🟡	🟡	🟠	🟡
	Oman	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟠	🟡	🟠	🟠	🟡	🟠		🟡	🟡	🟡	🟢
	Bahrain	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟠	🟡	🟠	🟠	🟡	🟠		🟡	🟠	🟡	🟡
	South Africa	🟡	🟠	🔴	🟠	🟡	🟢	🟡	🔴	🟠	🟠	🔴	🟠	🟠	🟠	🟡	🟡	🟡	🔴
Asia Pacific	Japan	🟠	🟠	🟠	🟡	🟡	🟢	🟢	🟡	🟡	🟡	🟠	🟠	🟡	🟡	🟢	🟡	🟡	🟡
	Australia	🟡	🟡	🟠	🟡	🟡	🟢	🟢	🟡	🟠	🟡	🟡	🟡	🟡	🟡	🟢	🟡	🟢	🟡
	China	🟡	🟡	🔴	🟡	🟡	🟢	🟡	🟠	🟠	🟡	🟠	🟠	🟡	🟡	🟢	🟡	🟡	🟠
	India	🟡	🟡	🟡	🟠	🟡	🟢	🟡	🟠	🟡	🟡	🟠	🟠	🟡	🟡	🟢	🟡	🟡	🟡
	Indonesia	🟡	🟡	🟠	🟠	🟡	🟢	🟡	🔴	🟡	🟡	🟠	🟠	🟡	🟡	🟢	🟡	🟡	🟠
	Malaysia	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟠	🟡	🟡	🟠	🟡	🟡	🟡	🟢	🟡	🟡	🟡
	Singapore	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟡	🟡	🟡	🟠	🟡	🟡	🟡	🟢	🟡	🟡	🟠
	Philippines	🟡	🟡	🟡	🟠	🟡	🟢	🟡	🟠	🟡	🟡	🟡	🟡	🟡	🟡	🟢	🟡	🟡	🟡
	Korea (South)	🟠	🟠	🟠	🟠	🟡	🟢	🟢	🟡	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟡	🟡	🟡
	New Zealand	🟡	🟡	🟠	🟡	🟡	🟢	🟢	🟠	🟠	🟡	🟡	🟡	🟡	🟡	🟢	🟡	🟢	🟢
	Thailand	🟠	🟠	🟠	🟠	🟡	🟢	🟡	🟠	🟡	🟡	🟠	🟠	🟡	🟡	🟡	🟡	🟡	🟡
	Taiwan	🟡	🟡	🟡	🟡	🟡	🟢	🟢	🟠	🟠	🟡	🟡	🟡	🟡	🟡	🟡	🟡	🟡	🟡
	Vietnam	🟡	🟡	🟡	🟠	🟡	🟢	🟡	🟠	🟡	🟡	🟠	🟡	🟡	🟠	🟢	🟡	🟢	🟠
	Hong Kong	🟡	🟡	🟠	🟡	🟡	🟢	🟡	🟠	🟠	🟡	🟠	🟡	🟡	🟡	🟡	🟡	🟡	🟢

🟢 Low risk: sound fundamentals; very favorable or fairly good outlook.
🟡 Medium risk: signs of weaknesses; possible slowdown.
🟠 Sensitive risk: structural weaknesses; unfavorable or fairly bad outlook.
🔴 High risk: imminent or recognised crisis.

Agrifood

Resilience tested by climate, inflationary pressures and geopolitics

Sector rating

M Medium risk for enterprises

Strengths & weaknesses

- Growing demand, especially in emerging and middle-income countries
- Despite inflation and cost pressures, pricing power remains intact
- Technology tailwind supports both productivity and demand through new products

- Climate disruptions and related extreme weather events are triggering disruptions and price volatility
- From fertilizers to logistics, input cost pressures are still strong
- Supply-chain vulnerability is high: beyond climate and geopolitics, the sector is also vulnerable to policy (trade barriers, regulations etc.) and diseases (e.g. bird flu outbreaks)

Sector overview

What to watch?

- Policies & trade: Food security and trade policies are back on the forefront of most countries' agendas. Domestic subsidies, export curbs, trade deals (e.g. UE – Mercosur) and key legislation (e.g. US Farm bill etc.) introduce new compliance costs, market dynamics and trade patterns.
- Workforce: Labor shortages persist in key farming regions due to urban migration and aging demographics. In the US and other countries that have been enacting stricter immigration policies, labor markets are likely to experience significant tensions. Filling these gaps in the short term is critical challenge for the sector as deployment of automation and technology is likely to take a few years.
- Supply-chain diversification: Post-Covid and Ukraine supply disruptions have accelerated the shift from lean, single source models toward diversified regional networks and nearshoring. Companies are building buffer capacity and multi-supplier platforms, and leveraging predictive analytics to ensure continuity. This increases resilience but might also pressure margins.

The agrifood sector remains fundamentally robust, driven by demand and pricing power resilience. The global agrifood system produces nearly 11bn tonnes of food annually and employs about 1.2bn people worldwide. The global market is expected to grow at around +7% CAGR over 2025-2030 and is expected to reach about over USD21trn by 2030 for agriculture alone while the food and beverage processing could reach another USD10trn. Commodity price dynamics offer a mixed picture as food price indices are higher in 2025 than in 2024 but remains below the 2022 peak. Cereal prices are consolidating due to strong output: global cereal production is projected to hit a record 2.925bn tons in 2025, with maize and rice supplies especially robust, while meat and dairy prices remain elevated, with the meat price index at record highs.

Despite elevated costs in energy, logistics and fertilizers, agrifood firms kept gross margins around 30% in 2024, with revenues and earnings expected to remain steady through 2025. Food processing manufacturers are benefiting from lasting pricing power, and the beverage segment continues to record revenue growth of about +10%, although downstream inflation is squeezing net margins.

Beyond core agriculture, agrifood technology continues to scale meaningfully. The smart agriculture market was valued at USD25.4bn in 2024, with projections to grow at over +10% over the coming years. Similarly, the overall agrifood technology market (including hardware, ICT, biotech) is expected to expand by about +8% per year over the next five years. The adoption of IoT, AI, drones, robotics and blockchain is reshaping efficiency, traceability and yield optimization across the supply chain.

Overall, the agrifood sector is in robust health. Abundant harvests are keeping staple prices in check, even as meat and dairy stay high. Firm consumer demand enables companies to sustain profitability despite cost pressures. Meanwhile, strong investment in digital and precision technologies is enhancing long-term resilience and productivity. But the sector faces ongoing risk from extreme weather, geopolitical disruptions and input inflation. Success in the next five years will hinge on investing in innovation and building counter-cyclical supply chains.

Subsectors

Upstream: This includes growers and producers of foundational agricultural goods (i.e. cereals, oilseeds, fresh fruits, vegetables, livestock and aquaculture).

Downstream food products: Firms in this segment convert raw agricultural commodities and animal products into edible, packaged goods. Their operations span processing, packaging, logistics, transformation and retail-ready products.

Beverages: Encompassing both non-alcoholic (juice, soda, coffee, tea, bottled water) and alcoholic (beers, wines, spirits) categories..

Agri tech & biotech: A segment that cuts across all upstream and downstream segments, leveraging frontier science and digital innovation such as synthetic biology & microbial inputs, nano material sensors and smart packaging and cultured & alternative proteins

Automotive

Storm after storm

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- Declining inflation & policy rates to underpin a new consumption cycle
- Political influence due to its economic weight
- Accommodative fiscal policy in Europe and China favouring a further car-fleet electrification
- Declining battery prices to reduce car retail prices
- Vehicles becoming more high-tech favoring new registrations
- Rise of international partnerships/JV investment projects to share technology and mutualize costs

- Risk of rare earth shortage, given China's dominant position in the supply chain
- US sectoral trade tariffs could raise inflationary risks
- Diverging political directives worldwide on carbon policy (tighter in Europe/looser in the US)
- Persisting consumer concerns over the range and charging network for electric vehicles
- Higher maintenance costs and increaisng recalls of vehicles hurt consumer confidence
- Increasing competition with newcomers from the tech industry

Sector overview

What to watch?

- Trade deals and new tariffs to impact the whole supply chain and cost policy
- Legal framework on carbon emittances, data collection & privacy and autonomous driving
- Margin squeeze as inventory and general costs are rising
- Supply-chain disruption risk if China does not ease its curbs on rare earth exports
- Public and private investment into battery production and recycling
- Rising international competition from Chinese brands and new joiners from the software and telecom ecosystem

After a strong rebound in 2022 (+11%), global sales of new vehicles slowed down substantially in 2024 (+3%), driven by underperformance in Japan (-7%) and mild growth in the US (+2%) and Europe (+1%). However, strong momentum in China (+7%) but also in some emerging regions, notably Eastern Europe and Latin America, mitigated downward effects on global sales. This illustrates the heterogeneous picture across the globe as the industry copes with multiple challenge amid a changing trade, technology and legal framework.

The introduction of a new 25% US tariff on cars and 50% on steel imports, coupled with the ongoing threat of reciprocal tariffs of at least 10% for each US trade partner, is reshuffling cards across the industry, raising inflationary risks on costs for manufacturers assembling vehicles and suppliers producing parts outside the US. These tariffs should affect the whole industry as the US is the second-largest market behind China but by far the most internationalized. The temporality of tariffs will be key in the direction of sales but also industrial investments in the near and medium future. A strong and lasting hike of tariffs in the US could inevitably force manufacturers and suppliers to explore relocation and higher pricing strategies to mitigate a rise in costs and a deterioration of margins. In the absence of a clearer view on the global picture and potential changes in the trade environment, corporates might be inclined to pursue a wait-and-see approach and accept to absorb temporary higher costs.

At the retail level, the 90-days reprieve on reciprocal tariffs offered some relief to the sector in the first half of 2025 as tariff-driven purchases boosted sales. However, sales of new vehicles in the US and other developed countries could start flattening or even contracting as a tighter trade environment might hammer demand. With snowball effects, the second-hand market could also witness an inflationary environment on the back of strong demand from households looking for cheaper alternatives and a stronger representation of EV vehicles.

In Europe, beyond the tariff turbulence, the automative industry also has to manage additional challenges, including the tightening of carbon regulations, which is forcing carmakers to speed up the pace of electrification ahead of the ban on internal combustion engines in 2035, and also soft domestic demand due to a lagged recovery in the region, lower incentives and weaker fiscal stimulus to support new energy vehicle purchases and rising competition from Chinese brands. In the meantime, the rigid regulatory framework in the region (on carbon emittance, data collection and sourcing origins) that aim at promoting customer and environment protection is another hurdle to overcome for both automakers and suppliers. The strong deterioration of profitability among European carmakers and suppliers (margin around 5% or below) is a warning signal that a broad and deep overhaul of industrial and operating practices is likely necessary to adapt to the changing paradigm of customer usage, regulatory framework and market environment.

In China, local brands have recently taken the upper hand on foreign players, notably German and Japanese rivals, that previously dominated sales in 2010-2020s. As the number of brands has skyrocketed over the past decade, leading to tough competition and a downward price spiral in the domestic market, Chinese manufacturers have recently targeted Europe to sell their surplus stuck and improve margins. Though gradual, the penetration of Chinese brands in Europe is expected to continue to increase and could approach 10% by the next three years in the absence of any major trade restrictions. The monopolistic position of China in the rare earth/magnets processing supply chain is a prominent risk for the whole industry, whose downside effects might be more damaging than the chip shortage episode in 2022 as large-scale production disruption could spark significant losses for the whole industry.

The emergence of new competitors from the IT and software industry is another trend to monitor as new vehicles are more and more connected and software-driven. Rising demand for autonomous features should support newcomers since they have the capability to provide advanced technology and more cash in hand to invest and absorb any shocks in a weak macroeconomic environment, compared to established players.

2025 looks to be a painful transition period to manage for the automotive industry as global rules (trade, regulation, fiscal, technology drivers, international competition) are changing and companies needs to adapt despite lower leverage amid a profitability squeeze, limited cash reserves and oversized output capacities.

Subsectors

Manufacturers: This includes firms that assemble all the parts to produce a vehicle and oversee second-hand distribution and marketing through their own channels or via an external network of suppliers.

Suppliers: This includes all firms that collaborate with manufacturers by supplying them raw materials, parts, tyres, batteries, software...etc that will be incorporated in the final composition of the vehicle.

Retailers: This includes firms that buy cars from OEMs before redistributing to the retail market.

Chemicals

Slow recovery ahead

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- Diversified end-markets across and within sub-segments reduce reliance on any single sub-industry, providing a natural hedge against sector-specific downturns.
- Companies in specialty chemicals, food-related chemicals and pharmaceutical chemicals benefit from stronger pricing power, supported by the specificity of their product offerings and more resilient demand through periods of economic uncertainty.
- The global shift toward sustainability and decarbonization is fueling demand for lithium (for EV cars), biofuels and green chemicals (transportation) and sustainable packaging materials (pulp transformation), creating structural growth opportunities across multiple sub-sectors.
- Large players maintain robust global supply chains and R&D capabilities, enabling product innovation, fast adaptation to shifting markets or regulatory conditions and high barriers to entry for new players.

- The sector requires substantial capital investment in both capital expenditures and research & development, creating high fixed costs.
- As a highly energy-intensive industry, the chemicals sector is particularly vulnerable to fluctuations (and spikes) in energy prices, which can significantly impact operating margins.
- The sector faces significant reputational risks and ESG challenges related to decarbonization (petrochemicals), sustainable water and soil management and safeguarding employees and customers' health and safety (accidental leaks, air pollution, toxicity etc).
- The petrochemical sub-segment's future revenues are at risk due to growing regulatory restrictions and shifting consumer preferences aimed at reducing plastic use, threatening traditional product demand.

Sector overview

What to watch?

- Persistent geopolitical risks: The ongoing conflict in Ukraine continues to disrupt chemical production in Europe, where gas prices remain above pre-conflict levels. Meanwhile, the US and China maintain competitive cost advantages, also capturing the market share lost by Russia. In parallel, tensions in the Middle East also put at risk the supply of crude oil and oil derivatives to Asia (China being highly dependent).
- US trade tensions: The ongoing trade tensions between the US and major economies like China and the EU are set to disrupt the global chemicals sector by increasing costs and redirecting trade flows. Indeed, higher tariffs and retaliatory measures should inflate raw material prices and squeeze profit margins, particularly for companies reliant on cross-border supply chains.

- Central bank divergence shaping financing conditions: Still-restrictive credit conditions in developed markets like the US and the UK will continue to challenge chemical companies' ability to refinance debt and fund expansion plans. In contrast, European firms may enjoy greater financial flexibility as the European Central Bank (ECB) maintains its trajectory of interest rate cuts.
- China's dominant role: China holds a dominant 45% share of global chemical sales, being both the largest producer and consumer in the industry. As such, China's economic performance in the short-term and its push for greater chemical self-sufficiency will play a critical role in shaping price trends and defining the sector's overall outlook.
- Accelerated innovation through capex and R&D: Big players with increased capital investment and research budgets should drive sector innovation. The integration of artificial intelligence and machine learning is also expected to accelerate product discovery and optimize production efficiencies, enhancing competitiveness.
- Re-industrialization efforts: Government policies supporting onshoring and supply-chain resilience, combined with strategic corporate decisions, will be critical in shaping sector trajectories throughout the coming years. In this regard, Europe is boosting its chemical sector through strategic alliances, innovation incentives and streamlined regulation to drive re-industrialization.
- Decarbonization-driven growth opportunities: Some sub-sectors stand to benefit from rising demand tied to energy transition initiatives. Biofuels production is set to grow, lithium producers will see surging demand fueled by EV manufacturing and chemicals supporting sustainable packaging (paper and cardboard) will continue gaining momentum amid growing environmental regulations.

The global chemicals industry is a vast and diverse sector encompassing a wide range of products, from basic chemicals and petrochemicals to specialty chemicals and consumer products, serving virtually every major industrial sector worldwide. It is structured around a few key segments, including bulk chemicals, agrochemicals, plastics, polymers, coatings and pharmaceutical ingredients. Asia-Pacific, led by China, has become the largest producer and consumer of chemicals, accounting for around 50% of both, driven by rapid industrialization and growing domestic markets. Europe and North America remain significant hubs, with strong innovation in specialty chemicals, although Europe lately faces challenges from higher energy costs and regulatory pressures. The US is one of the largest exporters and consumers, with a well-developed petrochemical industry supported by abundant shale gas resources. Overall, China is the world's biggest exporter and consumer, leveraging economies of scale and government support to expand capacity rapidly. The global chemicals market is valued at several trillion dollars, with steady long-term growth driven by rising demand in emerging economies, increasing applications in sectors like automotive, construction and electronics and ongoing innovation in sustainable and high-performance chemicals. Yet, the short-term outlook is still negative as the previous challenges (Covid-19 pandemic and the conflict in Ukraine) have been exacerbated by persistent geopolitical tensions, the still weak global economy and the trade war initiated by the new Trump administration.

The chemical sector experienced a marked deterioration in 2023, followed by a resilient 2024. Global chemicals sales fell by almost -8% y/y in 2023 – a contraction never seen before – explained by decelerating demand for chemical products around the world amid high economic uncertainty. In Europe the drop was even worse (-12% y/y), given the region's significant loss of competitiveness as energy prices soared, as well as the very low output levels (with some European firms closing production plants) and overall weak demand. In 2024, the overall performance improved but the sector's capacity continued to outpace demand, which made it difficult for companies to raise prices as much as they would have liked to. China, which dominates this market, had weaker-than-expected GDP growth (+5.0% in 2024 vs +5.4% in 2023), while the global economy grew only by +2.8% last year, slowing the recovery. The worst is already behind for European players: EU chemicals production rose by +2.5% y/y in 2024 after two consecutive years of declines (-5.9% in 2022 and -9.0% in 2023), with the highest output increases recorded in Poland (+7.0%) and Belgium (+6.2%). EU chemicals exports remained stable in 2024, increasing only by +1.0% y/y, up by EUR2.3bn. In parallel, the EU's weak demand for chemicals led imports to fall by EUR9.6bn, which generated a chemicals trade surplus of EUR47.1bn in 2024. According to Eurostat, the biggest extra-EU suppliers of the region in 2024 were China and the US, which together sold EUR63bn of chemicals products to the EU. The biggest clients of EU firms were the US and the UK, to which the region exported EUR66.8bn. Although the worst is over, the recovery is slow and depends

greatly on the evolution of the economy in the remainder of 2025. The European chemical sector is still significantly less competitive than pre-crisis levels (due to the combination of relatively weak demand and still-high energy costs), especially in the commodity chemicals and petrochemical segments where China benefits from lower production costs. Compared to the US, Europe's gas prices were 3.3x higher in early 2025, confirming its disadvantages position against American peers since the start of the conflict in Ukraine. This gap in natural gas prices between Europe and its competitors is projected to persist in the short-term, which will continue to affect companies' margins if chemicals prices fail to increase and/or if other costs fail to decrease.

The outlook for 2025 remains cautious, with demand still limited. Weak business and consumer sentiment is expected to keep revenues subdued throughout the year. With the global economy projected to grow by approximately +2.5% y/y in 2025 (+1.5% in the US and +1.2% in the EU), chemical sales are forecasted to increase modestly by +1.0% to +2.0% y/y, followed by a stronger improvement of around +4% to +5% y/y in 2026. On one hand, leading indicators such as sector PMIs remain in contraction in some regions or hover near the 50 mark. On the other hand, business and consumer confidence indices, though stabilized, are not showing the desired improvement. Continued uncertainty over trade policies is likely to discourage investment in long-term chemical projects. Overall, a full recovery in the sector remains distant. Demand growth is expected to face ongoing challenges throughout the year due to persistent trade tensions, which could fragment global chemical markets, reduce efficiencies and disrupt established supply chains.

Subsectors

Basic or commodity chemicals: Chemical substances used as a starting material for the production of a wide variety of other chemicals. Examples include chlorine (used as a disinfectant and for water treatment), sulfuric acid (used in metallurgy, for refining petroleum products or the production of explosive materials), vinyl chloride (used to produce PVC for wall coverings, houseware and automotive parts), aluminum sulfate (used for water treatment, in agriculture and in paper production), sodium carbonate (used in the manufacture of detergents, soaps and paper), acetone (commonly used in pharmaceuticals) and titanium dioxide (used in the cosmetic and food industries), among others. Under this sub-sector, we find another distinction – petrochemicals - when looking to the origin of the raw material. Petrochemicals are also organic chemicals, but they are made from crude oil and natural gas. Examples include olefins, methanol, butadiene, benzene, ethylene glycol, polyethylene, etc. They are used as raw materials in the manufacture of polymer products such as plastic, detergent, adhesive, rubber, tires, food packaging and elastic bands.

Specialty chemicals: Specialty chemicals are a range of compounds that are produced in smaller quantities when compared to basic chemicals as they are high-value products that are sold based on functionality, and following certain formulations that make them "special". Under this sub-sector we can find a variety of classifications according to the end-market, such as antibiotics, adhesives, pesticides, fertilizers, cleaners, inks, paints and coatings, fragrances, chemicals for the food & beverage industry (food additives and flavors) etc. In terms of commercial applications, producers within the specialty chemicals sub-sector cater to the needs of their customers on an individual level (production is tailor-made under certain specifications), and because of this these chemicals can be sold at very high prices.

Construction

Housing under pressure and tailwinds for infrastructure

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- Robust infrastructure investment pipelines in major economies (e.g. US, EU, India) are fueling construction order books.
- High-growth segments are driving the sector (i.e. demand for data centers, logistics etc.).
- Stabilizing input costs are improving project economics. After sharp rises in 2021–2022, construction-material cost inflation has eased sharply.

- Righ interest rates and tighter financial conditions are still weighing on demand in interest-sensitive segments (i.e. residential and commercial).
- Lower productivity and slow innovation adoption remain chronic problems for the sector.
- Persistent labor shortages and skills gaps are hampering construction globally, while tighter immigration policies in many economies are also weighing on the sector.
- Regulatory risks remain high as norms and permits are still hurdles in many markets.

Sector overview

What to watch?

- Financing costs and interest rates: Monetary policy shifts will heavily influence construction. Any interest rate cuts could stimulate residential construction by easing mortgage costs, whereas renewed tightening would further dampen real estate investment.
- Public policy & infrastructure programs: The rollout of major government funding initiatives will be key for the sector. The implementation of the US infrastructure plan and the roll out of the remaining funds from Europe's NextGeneration EU program will drive civil construction activity.
- Workforce: How the industry addresses its labor mismatch will be critical for project completion as well as economics. In the US and other countries that have been enacting stricter immigration policies, addressing potential gaps in the short term is a critical challenge for the sector.
- Sustainability and climate policies: The growing impact from green building standards and decarbonization efforts will be key for the sector. Regulations on construction emissions (e.g. cement and steel production) and incentives for energy-efficient buildings are increasing.

The global construction sector reached roughly USD14.7trn in total spending in 2024 and is projected to grow to USD15.6trn in 2025. This represents about +3-6% annual growth in nominal value. However, in real volume terms, the industry is nearly flat: construction output will contract by about -2% in 2025 before returning to growth in 2026. The slight dip reflects significant headwinds in specific markets (notably China), partly offset by expansion elsewhere. Notably, infrastructure construction now accounts for about one-third of all construction activity by value and it remains the fastest-growing segment globally. Residential building has been the weakest segment recently. Ongoing housing downturns in China and some Western markets mean global residential construction is expected to fall about -4% in 2025. Outside of China, some housing markets are stabilizing (for instance, Europe's residential sector may see a mild rebound in 2025 after a deep slump). Non-residential building (encompassing commercial real estate, offices, retail, industrial facilities and institutional projects) is also under pressure – worldwide, non-residential construction is forecast to decline -5% in 2025. High office vacancies (in a post-Covid/work-from-home era) and higher financing costs for developers are contributing to a slowdown in new commercial projects. In contrast, civil infrastructure is a bright spot: global infrastructure/civil engineering work is projected to grow roughly +3% in 2025. This growth is driven by big increases in government investment in transport, power grids, water systems and other public works – a trend observed across both advanced and emerging economies. Large-scale national programs (from the US highway and clean energy funds to India's rail and highway initiatives) are underpinning this infrastructure boom.

Regionally, the US remains one of the largest and most dynamic construction markets. In 2024, US construction activity was buoyed by public and industrial projects – federal initiatives spurred a wave of infrastructure upgrades and new manufacturing facilities (e.g. EV battery and chip plants) – even as high mortgage rates cooled the housing sector. In contrast, Europe has been in a mild construction recession. However, lower rates and better affordability should support the sector in the region in 2025-2026. Meanwhile, the Middle East is experiencing a construction boom – flush with oil revenues, Gulf countries are investing heavily in mega-projects and urban development. In Asia, the situation is mixed. China is still shaking off its real estate turmoil. China's overall construction output is likely to remain sluggish into 2025 but could bottom out going into 2026. India and other emerging Asian economies are rapidly expanding their construction activity, propelled by both public and private investment.

Net profit margins in the construction industry tended to stand in the low-single digits in 2024. This is in stark contrast to many other industries, but it reflects the highly competitive, project-based nature of construction contracting. Homebuilding firms (residential developers) typically earn 10-12% operating margins, with strong returns on capital around 21%. Companies supplying building materials and construction products fall in between, with margins often in the low teens. Despite thin margins, construction companies can generate reasonable returns on equity due to high asset turnover. Industry-wide, revenue growth is expected to be modest in the near term and profit margins to only mildly improve in a challenging environment.

Subsectors

Residential construction: This segment includes the construction of new homes and apartments, as well as the renovation and repair of existing ones.

Non-residential construction: The construction of commercial buildings (offices, retail), industrial buildings (factories, warehouses, data centers) and public buildings (schools, hospitals etc.).

Infrastructure construction: Construction of large-scale public projects such as highways, bridges, railways, airports and utilities.

Construction materials: Products, inputs and materials related to construction.

Construction services: Services related to construction, such as architectural and engineering services, project management etc..

Electronics

Caught between AI hype and geopolitical pitfalls

Sector rating

M Medium risk for enterprises

Strengths & weaknesses

- Strong public and private interest for AI-powered technology and data centers
- Rising interest in automation and digitization of industrial processes for productivity gains
- Declining size and increasing calculation capacities of new cutting-edge chips
- Easy access to private capital market
- High patent activity (strong academic research)

- High vulnerability to geopolitical tensions (national security stakes)
- Fragmented supply chain and strong footprint in Asia for raw materials, fab and packaging stages
- Capital- and energy-intensive sector leading to technology exclusion for some countries/firms
- Low ROI delivery from AI specialists
- Limited interest from consumers to pay an extra cost for AI features in electronic products

Sector overview

What to watch?

- China-US tensions and the "semiconductor war"
- Emerging technologies such as AI that could boost demand and drive further innovation in the sector
- Increasing focus on automation and control systems for Industry 4.0, which will require more semiconductors and electronic components
- Purchasing-power crisis and households' intentions to make large purchases (e.g. computers, smartphones etc.)

Over the recent years, semiconductors have been crucial drivers of the global economy, playing a pivotal role as the building blocks of modern electronics, from smartphones, computers and automobiles to industrial machinery and advanced medical equipment. The side effect of this strong economic footprint is the geopolitical scrutiny over the industry, mostly resulting from the high level of fragmentation. The sector's upstream activities are mostly located in the US (design, R&D, equipment), and to some extent in Europe (equipment), while downstream activities are mostly located in Asia, and more specifically in China, Taiwan, South Korea and Japan for manufacturing (over 75% of wafer production capacities). Since the emergence and rapid development of AI technology and large language models (LLMs), the political status of the semiconductor industry has intensified, and national interests get the upper hand over business ones. Hence the multiplication of direct or indirect (via rare earths) bilateral trade curbs announced over the past 12 months between the US and China, which is threatening to deteriorate the sector outlook if tensions intensify further. It is also important to keep a close eye on the geopolitical relationship between China and Taiwan, which is home to the world's biggest foundry (TSMC), which produces over 90% of the most cutting-edge chips intended for AI technology.

We expect semiconductor revenue to post a CAGR of +5% over the next three years, led by Asia-Pacific (+6%), America (+6%) and China (+5.5%) as both regions are engaged in a race for technology leadership to enhance not only their economic performance but also their political influence in a more complex trade environment where national preferences and security protection dominate industrial policy. The slightly less rosy outlook in EMEA (+4%) is in part due to the moderate growth outlook for the region but also because of lower corporate density and an under-sized private investment market able to underpin the development of the industry, exposing the region to negative externalities in case of supply-chain disruptions.

In term of industries, massive investment for building up data center hubs, private or public, will significantly drive the demand for semiconductors, and hence the revenue outlook. However, the prospect of multi-billion dollar capital investments into that segment could be halted, or partially downsized, by technical issues as the national grid network could quickly come under pressure, given that AI is a very power-intensive technology. The expansion of cloud services alongside the ongoing digitalization of the global economy and the spread of connectivity features across multiple sectors will also be a strong driver of revenue for the electronics industry (+12% CAGR for 2026-2028 at the global level). Other sources of growth include the manufacturing industry, where the deeper automatization and integration of robotic tools to improve productivity and solve labor shortages will require a large quantity of chips. The integration of robotic technology across the manufacturing supply chain is expected to be more marked in China, Europe and the US. We expect a quite similar +5% CAGR over the next three years in both the computing and consumer segments amid increasing integration of cutting-edge chips into AI-powered machines in the near future. However, growth should be gradual as we still see some hurdles in convincing corporates and households to pay a premium for a technology that is still under development and still needs to prove its core benefits to justify a premium fee.

Beyond geopolitical and energy capacity aspects, we see another potential downside risk for the industry in the short and mid run in case of investor fatigue following a slow delivery of AI-related profits. The high expectations regarding AI's growth potential imply a disappointment risk if the ROI turns out smaller than expected, or the benefits take longer to materialize. This could force companies to cut capex programs and could lead to capital outflows from retail/ institutional investors..

Subsectors

Electronic components can be loosely divided into semiconductor designers, manufacturers and companies specialized in assembly and testing services.

Semiconductors serve different purposes (computing, storage, power management, communication etc.) and are nowadays found in a large range of products used on a daily basis, such as cars, electronic devices, electric home appliances and video displays. More recently, the component has also been integrated into other "non-conventional" industries like agriculture, health care, transportation or utilities (grid network, waste management), creating a whole ecosystem based on data and connectivity features, known as the "internet of things" (IoT). Semiconductors are also a key component of artificial intelligence technology, which needs powerful calculation capacities for the training and inference of large language models (LLMs). Beyond chips, the electronic industry also includes manufacturers that produce everything from printed circuit boards to electronic displays through to resistors, capacitors and switches.

Energy

Oil & gas flowing, renewables stalling

Sector rating

M Medium risk for enterprises

Strengths & weaknesses

- High investments in energy transition are a tailwind for renewables.
- Traditional oil and gas companies continue to benefit from robust cash flows and entrenched market dominance.
- Solar and wind continue to achieve cost reductions through scale and innovation.
- Natural gas is viewed as a "transition fuel" and leading producers are positioning to supply gas to increasing larger markets.

- The oil & gas sector faces high volatility and long-term uncertainty.
- Regulatory and ESG pressure mounting on oil & gas.
- Profitability remains a key issue in the renewables space.
- Intermittency combined with low storage capacity and grid issues is hurting renewables.
- High financing requirements for both renewables and oil & gas.
- Oil & gas highly exposed to geopolitical risk.

Sector overview

What to watch?

- Peak fossil fuel demand: The impending peak in demand for oil & gas, projected to happen in the next decade, is prompting oil & gas companies to reassess long-term strategies, balancing near-term expansion with diversification into low-carbon businesses.
- Geopolitical tensions in the Middle East: Increasing military tensions between Israel and Iran are posing a risk to global oil & gas supply as well as price stability.
- Deployment of renewables: As both the wind and solar industry are going through various challenges, the rate/ speed of deployment of renewables is going to be a key support factor of the renewable sector.
- Technological and cost evolution in renewables: After a period of supply-chain-driven cost inflation, the levelized cost of renewable energy is decreasing but this comes with near-term margin pressures.
- Grid integration and energy infrastructure: Many regions are seeing bottlenecks in connecting and developing new projects.

TThe global energy sector in 2025 is at an inflection point, characterized by both record fossil fuel use and record clean energy growth. Total world energy demand continues to rise, driven largely by emerging economies, and all major energy sources - from coal and oil to renewables - hit high consumption levels in 2024. The world remains in "energy addition" mode rather than a pure transition; new renewables are meeting incremental demand but have not yet substantially displaced fossil fuels.

North America has re-emerged as a major oil & gas supplier: the US is the world's top oil & gas producer and LNG exporter. Since 2023, it has also become a top destination for solar manufacturing, EV gigafactories and wind farm development due to policy incentives. Nevertheless, the Trump administration's recent policies could bring the renewables push to a halt. Europe, driven by climate goals and the urgency to replace Russian gas, is pushing forward on renewables. Asia, led by China and India, is the biggest growth engine for energy demand. China in particular represents almost half of global energy demand growth and is investing heavily in both fossil and renewable capacity. It installs renewables at world-leading rates (China is on pace to add well over 100 GW of solar PV in 2025 alone) but it also consumes half the world's coal and is expanding gas use. India and Southeast Asia are similarly expanding solar and wind, but coal and oil use are still rising to fuel their growing economies. In the Middle East, oil-rich states are capitalizing on high oil revenues.

In financial terms, the dichotomy between the oil & gas industry and the renewables sector remains pronounced. Oil and gas companies have enjoyed a windfall in recent years: 2022 saw extraordinary profits on the back of very high oil & gas prices, and although prices moderated in 2023–2024 (Brent crude oscillating in the 70–90 USD/bbl range), companies maintained healthy earnings and shareholder payouts. By contrast, many renewables firms have faced tighter margins and investor scrutiny.

Subsectors

Fossil fuels: This includes oil, gas, and coal operations. Firms can be involved in upstream or downstream processes.

Renewables: Firms in the production/installation of renewable energy/projects.

Power: Firms in electricity generation, whether through fossil fuels, nuclear, solar, wind, hydro or other forms of renewable energy.

Grids and storage: This includes firms managing and building infrastructure needed to distribute and store energy.

Household Equipment

Stronger recovery momentum amid higher purchasing power and innovation adoption

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- Stronger purchasing power under deflationary pressures, declining interest rates & high savings
- Development of IoT ecosystems and smart home devices to generate new needs
- Public incentive programs for recycling home appliances in Europe (trade-in options)
- Stronger urbanization rate in emerging countries (new demand)
- Greater energy optimization thanks to technology innovation

- High supply-chain rreliance on Asia for domestic appliances and consumer electronics
- Cyclical industry strongly connected to level of household confidence
- Sluggish real estate activity (moderate traction for "new home" spending)
- Higher concentration of diffusion networks due to dominant position of global marketplaces
- Technology innovation extends product lifespans, and in turn replacement cycles

Sector overview

What to watch?

- The evolution of consumer confidence amid potentially higher tariffs and retail prices
- Evolution of public demand-driven incentive programs
- Pace of household adoption of smart home devices and apparatus
- Health of the residential building and real estate market
- Volatility of electricity prices and stability of the grid network

After two consecutive years of zero-growth in 2022-2023, 2024 marked the start of a recovery for the industry, with global revenue up by +5%, driven by an easing of energy prices and stabilization of geopolitical tensions in Ukraine. Improving household confidence drove new demand for consumer durables, underpinned by stronger purchasing power as inflationary pressure abated worldwide. In the main developed markets, and more specifically in Europe, households have strong spending capacities due to high savings accumulated during the energy crisis (the savings ratio in the EU reached 15% in Q1 2025). We expect the recovery to continue in 2025/2026 as consumer prices continue going down in Europe, driven in part by the export of deflationary pressures from China, and declining interest rates should ease credit access for households. This will also help shore up real estate activity, which matters for the sector as low home turnover generally comes with low demand for new equipment.

The recent development of the new generation of home appliances, incorporating new connectivity and generative AI technology, is another positive catalyst that is expected to boost demand as new functionalities should spark households' interest. However, to transform interest into mass consumption, households still need to be convinced not only of the lasting benefits of AI technology but also about the security of their personal data. As a result, we expect a gradual spread of the positive effects of the "connectivity" boost. Stronger growth could materialize around 2030 and afterwards (resp. 2026-2028 CAGR of +4% for domestic appliances and +3% for consumer electronics). A high innovation-driven price premium and the longer lifespan of this new generation of equipment could also mitigate revenue expansion. While consumer electronics and home appliances are better positioned to benefit from the higher connectivity footprint in global economy, furniture is the segment with stronger growth potential (+7% CAGR over 2026-2028) due to a lag in the recovery process and a stronger boost potential in the short term, coming from a likely real estate revival.

However, risks to the recovery include the deterioration of the trade environment caused by the new US tariff regime and resurging geopolitical tensions in Middle East, which could potentially cause disrupt some supply chains that are mostly located in Asia, notably for domestic appliances and consumer electronics. Higher volatility of raw material, energy, transportation or containership prices could inflate retail prices for home equipment, and more generally hurt households' willingness to spend.

Despite a substantial deterioration of revenue in 2022-2023, home appliance specialists limited damages and stabilized their profit margins around 6% against 7-8% on average during Covid-19 and the post-Covid recovery period. This is a good signal underlining an efficient management of costs but also the industry's strong resilience against headwinds. While there was no major margin improvement in 2024, we expect a modest recovery in 2025 that could maintain the momentum in 2026-2028, provided no economic or geopolitical risks materalize that hurt global demand or disrupt international supply chains.

Subsectors

Household Equipment comprises different industries involved in the design and manufacturing of domestic equipment for households. While companies exhibit very different profiles between segments, they have in common a strong sensitivity to consumer spending and a reliance on Asia-Pacific, mostly China, for their manufacturing activities. Mature economies still make up the vast majority of demand.

- **Consumer electronics:** Audio and video equipment, computers, mobile phones etc. Product markets are now largely mature and driven by replacement sales. A handful of companies generally dominates their markets and focus on design, R&D, marketing etc. while outsourcing manufacturing to contract manufacturers. Asia-Pacific concentrates over 80% of global turnover. Mexico is the only significant manufacturer outside of the region.
- **Household appliances:** Small appliances (home care, personal care, cooking aids) and large appliances (refrigerators, ovens, dishwashers, washing machines). Much like for consumer electronics, product markets are largely mature and dominated by a few large global players and smaller niche, regional competitors. Asia-Pacific's share of global turnover stands at about 80%. Other manufacturing countries include Germany, Italy, Turkey and the US.
- **Furniture and furnishings:** A highly fragmented industry dominated by small- and medium-sized companies working closely with designers and retailers. While Asia-Pacific still catches a substantial share of revenue (almost half), North America (18%) and few western European countries like Germany and Italy (20%) have a significant presence in the industry.

IT Services

A Goldilocks period driven by broad-based automation and digitalization

Sector rating

L Low risk for enterprises

Strengths & weaknesses

- Stronger public and private demand for automation and digital solutions
- Higher interest from corporates to materially increase IT spending after a temporary freeze during inflationary period
- Large and very diversified B2B customer base and missions (recurring revenue and strong risk diversification)
- Low infrastructure costs and high margin capacity in some segments (cloud, AI LLM, software)

- Low learning curve on AI weighs on the pace of technology integration into business processes
- Tightening of regulatory framework on data privacy and protection in Europe (albeit not in the US)
- Strong concentration of talent and technology in both US and Chinese hyperscalers, generating dependency risks
- Tense competition due to low entry barrier reverberates on price and quality of services
- Higher technology/climate/energy risks strengthen odds of disruption events

Sector overview

What to watch?

- Corporate capex policy in IT spending (and implicitly interest rate environment)
- AI penetration and integration in business processes and daily operating tasks
- Trade regulation on semiconductors as AI development relies on high-performing calculation capacities of GPU/CPU
- Regulatory framework update on data protection and privacy for consumers and corporates
- Immigration regulation tightening to potentially generate skill shortage among IT workers
- Disruption risks amid higher climate/technology breach events
- National capacities in energy/natural resources to support AI expansion

Despite the trade and geopolitical uncertainties, the current environment is quite favourable for the IT industry, and notably B2B services. The industry is enjoying Goldilocks conditions with the impulse of AI technology, which is only at an early stage of its development and far from having unlocked its full potential in terms of efficiency and productivity benefits, but also a broad-based digital update of the manufacturing industry, including an increasing reliance on data-driven operations and software-enhanced processes. The stars are perfectly aligned as lower interest rates in key developed countries should encourage companies to increase their investments while the rapid development of so-called "disruptive" technology such AI is expected to drive capital into IT spending. We expect the average annual growth of global IT spending at 5-7% over 2025-2027, but we see a higher demand in both the US and Europe due to an expected catch-up in the capex cycle after the temporary freeze during the 2022-2023 inflationary period. We expect a slightly more moderate demand in Asia as the tightening of trade conditions between the US and the rest of the world and overall concerns over technology transfers between the US and China, which are both competing for AI leadership, threaten to weigh on IT spending.

Services are expected to collect most of the incremental increase in IT spending in the short and mid run as low maturity and expensive costs of AI-powered machines should curb heavy corporate investment into hardware. As a result, software and to a lesser extent advisory services are expected to take the lion's share of the likely IT investment boom in the coming years, and should expand annually by over +10% on average in major markets by 2027. The steep learning curve for corporates on digital and AI solutions that not only increase their efficiency but for some of them materially change their operating models assume a strong and sustainable demand for IT expertise and training. Paradoxically, the recent inflationary period turns out to have had positive side effects for the industry as higher operating costs and tighter cash management requirement should force companies to focus further on profitability and efficiency, and as a result resort more to automation and digital solutions to reach that goal. This is clearly a growth leverage that software and AI specialists will benefit from.

The ongoing digitalization of the global economy puts personal data as a key input to increase efficiency, reduce operating and logistic costs, improve business processes and anticipate risks, but also to gain B2C market share by developing more custom-tailored products and services. The outstanding expansion of data across the globe and its increasing strategic role should ensure a bright outlook for cybersecurity software and also cloud services, under the condition of a ramp-up of data center capacities worldwide as expected.

Amid potential pitfalls, the industry will have to monitor closely the regulatory framework that is being tightened by national governments and sub-sovereign administrations, notably in Europe where data privacy and protection is a key priority for political forces. Looser regulations in the US for AI and cloud services should inversely favour a deeper integration of those technologies in the economy, although this could bring about a higher disruption risk due to technology breakage and/or cyber-attacks. The high concentration of cutting-edge semiconductor conception and production capacities, as well as the most efficient AI technology, amid a couple of US and Chinese hyperscalers is another source of risk for the industry, specifically in Europe where technology dependency is elevated. The digital step-up of the economy should also come along with an incremental increase of infrastructure and power capacities to limit shutdown risks.

Industry leaders should continue to secure very attractive margins near or above 20% and the gradual penetration of highly profitable AI-related businesses is expected to incrementally shore up profits. Inversely, smaller players could suffer from tense competition and widening divergences in terms of technology specialization into software and advisory segments. The programming segment could also suffer from a deterioration of profits (5-10% margin) due to the increasing performance of AI-inferred platforms.

Subsectors

The industry can be divided into five main subsegments - companies generally operate across many segments. While IT consulting and programming is a fragmented activity , the managed services, software and data processing segments are far more concentrated with regional and global players.

- **Consulting** is about helping organisations make the best possible use of digital technologies to operate more efficiently.y.
- **Programming** is about developing custom digital tools to help organisations reach their business objectives.
- **Managed services** is about outsourcing the management of the IT infrastructure to a third-party company.
- **Software** are complex, generic programmes that can are made available to a variety of corporate customers.
- **Data processing,** including cloud computing, is about collecting and treating large quantities of data for corporate customers.

Machinery and Equipment

Stabilizing amid caution, with growth driven by technology, policy support and electrification

Sector rating

M Medium risk for enterprises

Strengths & weaknesses

- High barriers to entry: substantial investments in advanced technology and capital expenditures to stay competitive.
- Robust long-term growth potential: The increasing adoption of robotics, AI, and process automation is driving sustained growth.
- Pricing power through technological differentiation.
- Revenue diversification: The sector serves a wide array of industries, regions, and end markets, providing companies with a diversified revenue base that mitigates risks
- Strategic role in industrial digitalization: the sector supports its customers in their digital transformation journeys, strengthening long-term client relationships.
- After-sales service opportunities: recurring revenue streams through maintenance, upgrades, and spare parts, enhancing customer retention.

- Highly sensitive to economic cycles.
- Complex and fragmented supply chains that make the sector vulnerable to disruptions, delays, and bottlenecks.
- High upfront investments in machinery, infrastructure, and ongoing R&D expenditures are required to maintain competitiveness and innovation.
- Exposure to commodity price volatility, as the sector depends heavily on metals such as aluminum, copper, steel, and nickel.
- Sales processes and delivery timelines are often lengthy, which can slow cash inflows and reduce agility in responding to market changes.
- Stringent safety, environmental, and industry-specific regulations increase compliance costs and can slow product development or market entry.
- Rapid technological advancements require continuous adaptation. Companies that fail to innovate quickly risk losing market share vs more agile competitors or disruptive startups.

Sector overview

What to watch?

- Global economic outlook: Macroeconomic conditions continue to weaken. Following modest growth of just +2.9% in 2023 and +2.8% in 2024, global GDP growth is projected to remain sluggish in 2025 and 2026. This prolonged slow recovery could constrain sector growth in the near term, particularly given its sensitivity to economic cycles.
- Evolving industrial policies: Major economies like the US, China, India, Germany and Brazil are ramping up industrial policies and subsidies. Governments are increasingly shaping industrial priorities and strategically supporting innovation and technology adoption, which could reshape competitive dynamics and investment flows within the sector.
- Business confidence & manufacturing activity: Key indicators such as business confidence and Purchasing Managers' Indexes (PMIs) serve as vital barometers for sector health. Over 2024 and the first half of 2025, these indicators have showed a relatively flat evolution, with no clear sign of improvement.

- Supply-chain normalization: The severe supply-chain disruptions of 2020-2022 have notoriously eased throughout 2023 and 2024, aided by a slowdown in global trade volumes. This relief has been particularly beneficial for machinery manufacturers, who depend heavily on a global network of parts suppliers.
- Commodity price volatility: Metal prices remain volatile. While steel and nickel prices have softened, aluminum and copper prices continue showing upticks. These fluctuations present ongoing margin risks for manufacturers reliant on these raw materials.
- Disinflation and better financial conditions: Inflationary pressures have eased, with global inflation expected to moderate. Thanks to this, financing conditions should continue easing throughout the year in Europe particularly. However, companies in the US should remain cautious as the trade war could increase prices in the country.
- Accelerating AI adoption: Leading firms are rapidly integrating AI and machine learning into production, driving efficiencies and enabling the development of advanced machinery. The ongoing wave of industrial automation presents substantial growth opportunities and productivity gains.
- Sustainability and regulatory pressures: Increasing global focus on environmental regulations and sustainable manufacturing practices is driving demand for greener machinery and energy-efficient equipment. Compliance costs and the pace of adopting sustainable technologies will be crucial factors to monitor.
- Geopolitical tensions and trade policies: Ongoing geopolitical uncertainties and evolving trade policies may disrupt supply chains and market access. Machinery producers need to stay agile in navigating higher tariffs, export controls and shifting alliances.

The global machinery and equipment sector is valued at approximately USD715bn in 2025. North America accounts for the largest share of the market at 31%, followed by Europe at 29% and Asia-Pacific (APAC) at 24%. The remaining 16% is divided between South America and other regions.

Over the past two years, new orders in the global machinery and equipment sector have exhibited mixed performance. In 2023, orders softened notably due to recession fears, tighter financial conditions and heightened geopolitical uncertainty. Despite this, companies maintained the output levels by drawing down elevated backlogs accumulated during the post-pandemic recovery and periods of supply-chain disruption. This trend continued throughout 2024, with backlogs declining steadily as production consistently outpaced incoming orders. In the first half of 2025, new orders have remained relatively muted, reflecting cautious investment behavior across key end-markets such as construction and agriculture. However, a gradual recovery in global business confidence and rising demand from technology-driven sectors (particularly those linked to automation and AI infrastructure) is expected to support a moderate rebound in order intake by the second half of 2025. As a result, backlog levels should begin to stabilize after two consecutive years of decline.

In terms of output, the cyclical machinery and equipment sector continues to experience the ripple effects of a complex global environment. Following a sharp pandemic-driven production contraction in 2020 (-11% year-on-year), the sector rebounded strongly with growth of +12% in 2021 and +15% in 2022 as end-markets resumed operations and increased orders. However, this momentum slowed considerably in 2023 (+3.1%) and reversed slightly in 2024 (-2.0%). For 2025, the outlook is cautiously optimistic, with global sector growth projected at +2.2%, supported by easing inflation, stabilizing interest rates and relatively increasing investment in infrastructure and digital transformation across key regions.

Geographically, although the machinery and equipment sector in Europe has underperformed relative to Asia and the US over the past two years, 2025 has shown steady month-on-month improvement in the region. This gradual recovery reflects easing inflation and supply pressures. Nevertheless, despite this positive trend, the sector remains below the strong performance levels seen in 2021-2022 following the pandemic.

To sum up, the global machinery and equipment sector entered 2025 in a cautious but stabilizing position. While certain end-markets such as construction and agriculture remain under pressure, the sector is supported by renewed industrial policies, technology-driven demand (including robotics) and a steady shift toward electrification and automation. Long-term fundamentals remain solid, though geopolitical uncertainty and still-elevated financing costs continue to challenge business confidence.

Subsectors

The machinery & equipment sector includes the following sub-sectors: construction machinery, agricultural & farm machinery, industrial machinery and equipment, mining equipment and robotics.

Metals

From boom to capital discipline

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- Surging long-term demand, especially for metals critical to clean energy and electric vehicles.
- Prices of some key metals still trade above historical averages, supporting industry profitability.
- Policy tailwinds for critical materials as governments prioritize critical minerals security.
- Solid balance sheets provide resilience against market fluctuations.

- Geopolitical exposure and supply-chain fragility
- Ongoing conflicts and tensions can quickly result in export restrictions on key inputs or metals, threatening supply continuity.
- Intensifying ESG and regulatory pressures on land use, water management and carbon emissions, which can lead to project delays and higher operating costs.
- High capital intensity and long lead times.
- Commodity price volatility complicates planning and can swiftly erode profitability for high-cost operators.

Sector overview

What to watch?

- High interest rates and financing costs: Elevated rates increase borrowing costs and make investors more risk-averse, raising the hurdles for new project financing.
- Climate and green regulations: Evolving climate policies present both opportunities and risks. On one hand, government mandates for clean energy and electric vehicles are boosting demand for copper, nickel, lithium and other green-transition metals. On the other, stricter environmental regulations (from carbon pricing to biodiversity protection) are raising compliance requirements for miners.
- Resource nationalism: Critical minerals have become a strategic priority for governments, leading to new policies and some protectionist moves.
- Exploration trends: Despite favourable long-term fundamentals, miners have been cautious in ramping up capital spending. Any change in industry capex signals will be important to watc

The global metals and mining sector supplies the key raw materials from iron and steel to copper, gold and lithium that are essential to industrial development and the energy transition. In 2024, the broader metals & mining industry (including minerals like iron ore, steel, coal, base metals and precious metals) generated over USD3.5trn in revenue globally. Asia-Pacific, led by China, dominates both production and consumption – accounting for over two-thirds of the global market. Europe was a distant second at about 10%. This regional skew reflects China's position as by far the largest producer and consumer of metals, from steel and aluminium to rare earths.

Base metals (such as copper, aluminium, zinc, nickel, lead) form the backbone of modern infrastructure and manufacturing. The base metal mining market alone was valued around USD550bn in 2024 and is expected to reach USD750bn by 2030, while the global base metal market is projected to reach USD1.1trn by 2030. Iron ore and steel is another massive segment: the global steel market was estimated at over USD1trn in 2024 and continues to expand steadily. Among precious metals, gold in particular has seen robust prices, trading near all-time highs in 2024 as investors sought inflation hedges and safe havens amid economic uncertainty. Critical or strategic minerals including lithium, cobalt, nickel, graphite, manganese, rare earth elements are experiencing strong demand growth as they are needed for electric vehicle motors, wind turbine generators, semiconductors and many other applications.For example, lithium demand has been rising exponentially (+30% growth in 2023 alone) and is projected to be eight times higher by 2040 under net-zero goals.

After enjoying windfall profits in the 2021 commodity upswing, the metals and mining sector saw a normalization in financial performance in 2023–2024. Commodity prices for many base metals and bulk materials retreated from their peaks, while input costs (energy, acid, explosives, labour) remained high. As a result, profit margins compressed. The average EBITDA margin for the global mining sector fell to around 22% in 2024, down from well above 30% during 2021's boom. This illustrates how quickly the sector went from exceptional conditions back to a more sustainable (but still profitable) baseline. Cash flows across the industry remained positive, and companies generally exercised capital discipline: much of the excess cash from the boom was returned to shareholders or reserved rather than poured into new mines. This discipline kept balance sheets strong. It also means that, despite robust long-term demand signals, the industry has not significantly ramped up spending, a cautious stance that could constrain future supply.

Subsectors

Steel production: This is a significant segment of the metals sector, with steel being a critical material in construction, automotive and many other industries.

Metal processing and manufacturing: Firms involved in the processing of raw metals into finished products or components used in various industries (other than steel).

Iron-ore mining: Mining of iron ore for steelmaking industries

Base-metal mining: Mining of non-ferrous metals such as aluminum, copper, zinc and lead.

Precious-metals mining: Mining of gold, silver, platinum etc, mostly used for jewelry and as a form of investment.

Paper

Navigating transformation: strategic agility and sustainability will be key drivers for success

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- E-commerce growth will continue driving demand for durable, paper-based packaging
- Population growth supports long-term demand for paper products.
- Increasing consumer and regulatory focus on reducing plastic waste is boosting the shift toward recyclable and biodegradable paper packaging
- The sector benefits from a mature and expanding recycling ecosystem, which reduces raw material costs and environmental impact, enhancing its circular economy credentials.
- Diverse product portfolio that serves multiple sectors, adding market resilience.

- Digitalization is reducing demand for traditional paper products.
- Environmental concerns pose reputational and regulatory risks.
- Being an energy-intensive sector, high energy and chemical prices impact the profitability of companies.
- Increasingly stringent environmental laws and sustainability standards require continuous investment in cleaner technologies and process upgrades.
- Vulnerable to disruptions in the supply of sustainable timber and recycled fibres due to geopolitical factors, climate change, or market imbalances.

Sector overview

What to watch?

- volution of e-commerce: The packaging segment is strongly tied to the growth of online retail as e-commerce continues to be the primary driver for demand in cardboard boxes and corrugated cartons. This segment is expected to continue driving sales up.
- Emerging packaging regulations: Governments, particularly across Europe, are increasingly promoting the replacement of plastic packaging with sustainable alternatives such as paper and cardboard, especially in the food sector, which will shape market dynamics and product development.
- Ongoing energy fluctuations: After Europe's energy crisis in 2022-2023, electricity and natural gas prices remain higher than usual, eroding the region's competitive position relative to counterparts in North America and Asia, impacting production costs and profitability.
- Rising demand for paper-based sanitary products: Growth in the population across developing markets combined with government initiatives in developed countries aimed at expanding access to essential household hygiene products is driving increased consumption in this category.
- Continued digitalization: The accelerated shift toward digital communication and remote work is expected to further reduce demand for printing and writing papers, challenging traditional revenue streams.
- Trends in housing and construction: Fluctuations in the housing markets and construction activity in major wood-consuming economies such as the US and China,

alongside building renovation trends in Europe, will influence demand for wood-based products, including paper and packaging.

The global pulp and paper industry remains a vital sector in the global economy, with an estimated market value ranging between USD340bn and USD380bn. This industry is characterized by its broad product portfolio, including packaging materials, printing and writing papers and hygiene products, serving diverse end markets from e-commerce to consumer goods. As of today, wrapping and packaging is the biggest segment (53% of market share), printing & writing paper is the second (23%), sanitary is third (12%), while newsprint is fourth (5%), followed by others (7%). By region, Asia-Pacific (notably China and Japan) dominates the landscape, accounting for over 45% of the global market share, driven by rapid industrialization and growing demand for sustainable packaging solutions. Other top producers of pulp and paper are the US, Canada, Germany, Sweden and Finland.

The outlook for the global pulp and paper is marked by transformation. Despite challenges such as digitalization reducing demand for traditional paper products, the sector is undergoing a significant transformation fueled by technological innovation, rising paper recycling rates and increasing regulatory support for eco-friendly alternatives. This dynamic evolution positions the pulp and paper industry for sustained, tech-driven growth well into the coming decade. Companies must adapt to remain viable in a rapidly evolving landscape. Players that fail to modernize operations, diversify offerings and respond to global trends (such as e-commerce growth, packaging innovation and carbon reduction) risk losing relevance, market share and long-term competitiveness.

In terms of financial performance, the past two years were tough for the sector. Revenues fell by around -14% y/y on average in 2023 and timidly recovered by +4% y/y in 2024. The sector had a five-year historical compound annual growth rate of sales of +6%. This drop was driven by a contraction of both prices and volumes due to the weakening of the global economy. Indeed, paper (together with other commodities) lost a lot of pricing power last year amid increasing economic uncertainties. In parallel, the pulp & paper sector is energy- and raw-materials-intensive, notably dependent on chemicals and natural gas for transforming raw wood into pulp and then into other derived sub-products. Therefore, companies have seen margins squeeze in the past years. As a fact, operating margins moved from a five-year historical average of 8.8% to only 6.2% in 2024. The sector's margin deterioration was particularly exacerbated in Europe, where energy prices increased the most. Nevertheless, operating conditions started to improve gradually since Q4 2024 and throughout 2025, indicating that the worst is already behind, even if geopolitical tensions persist. For 2025, we expect revenues to recover by around +4.3% y/y, supported by the fact that destocking in many end-markets has ended and the belief that consumer e-spending should gradually start to improve as inflation has receded.

Subsectors

Paper packaging: Paper packaging: Despite softness across most paper sub-sectors in 2024, packaging remained resilient, with global capacity rising modestly by 3–4% y/y, and with demand increasing around +2% y/y. In 2025, the paper and paperboard packaging sub-sector is expected to continue growing, fueled by the rapid expansion of e-commerce and the ongoing transition from plastics in the food packaging segment. While pricing power remains limited across the industry, the packaging segment stands out with stronger margin protection, backed by steady demand and its eco-friendly positioning**.**

Freesheet, newsprint and printing & writing paper: The printing and writing sub-sector is a fragmented market that has been shrinking in size due to digitalization. Both supply and demand of printing and writing paper have declined by about -25% from the levels recorded a decade ago, especially in North America, where the drop has been sharper (-55%). In 2024, global demand for printing and writing papers contracted by nearly -6% y/y, coated woodfree fell by -7%, uncoated by -6% and mechanical grades by -5%.

Pulp: The pulp market is more consolidated than other subsectors, characterized by high capital intensity and significant chemical consumption. Key producers are located in the US, Brazil, Chile, Canada and Northern Europe, while China leads both in production and consumption. In 2024, the market faced challenges, including declining revenues and prices, due to oversupply, reduced demand and trade disruptions, leading to decreased profitability. However, as supply and demand dynamics begin to rebalance, pulp prices are anticipated to stabilize and modestly recover in the latter half of 2025.

Forest, wood and timberlands: Lumber, a key processed wood product primarily used in construction and manufacturing, is a critical commodity closely tied to housing and infrastructure cycles. In 2024, lumber and wood product prices continued their downward trajectory, declining by approximately -14% y/y. This sustained softness was driven by weak housing demand, persistently high interest rates and market oversupply, factors that collectively weighed on pricing across the entire value chain. The lumber and wood market is expected to stabilize in 2025, with prices likely to level off or experience a modest recovery as housing markets are gradually adjusting.

Pharmaceuticals

Balancing innovation, regulation and market expansion

Sector rating

L Low risk for enterprises

Strengths & weaknesses

- Large global industry with a broad product range and strong market presence.
- Relatively low market fragmentation: top 10 firms control around 50% of revenues.
- High entry barriers due to R&D costs and specialized talent needs.
- Pharmaceuticals use to generate a robust cash flow from operations that supports sustained innovation.
- Rising chronic disease rates fuel steady demand.
- Improving access to healthcare, particularly in emerging markets, is expanding the potential customer base and driving sector growth.
- Patented drugs offer strong pricing power that allows higher margins vs generics.
- Strict regulations uphold safety, quality, and consumer trust.

- Strict global and local regulations (to ensure the safety, efficacy, and quality) increase compliance costs and complexity.
- Increasing competition from generics and biosimilars pressures margins and demands innovation.
- Lengthy drug approval processes delay market entry and revenue growth. In parallel, patent expirations cause revenue drops.
- Market dominance by US and European firms limits accessibility and affordability of many medicines in developing regions.
- High R&D needs and drug development failures pose financial challenges.
- Dependence on complex global supply chains can expose the sector to production and distribution risks.

Sector overview

What to watch?

Aging population: Global life expectancy has steadily increased, currently averaging 73.2 years (75.6 years for women and 70.8 years for men), up from 67.1 years at the beginning of the century. This demographic shift is expected to drive sustained demand for chronic disease treatments and age-related healthcare products.

Growing global population: The world population has reached 8bn and is projected to rise to 8.5bn by 2030. A larger population increases the incidence and spread of infectious diseases, presenting ongoing challenges—and opportunities—for pharmaceutical companies focused on developing new drugs and vaccines. Significant investments in capital and human resources will be essential to maintaining global health stability.

Acceleration of drug approval processes: The FDA has increased the pace of drug approvals, supported by initiatives to streamline and improve efficiency. In 2023, 55 new drugs were approved, compared to an average of 49 annual approvals between 2018 and 2022, and just 36 per year between 2013 and 2017. This trend could speed up market entry for innovative therapies.

Boom in anti-obesity drugs: The launch of innovative drugs targeting obesity and diabetes has created significant consumer demand and exponential revenue growth for leading pharmaceutical companies, forming an emerging oligopoly. With nearly half the global population expected to be overweight or obese by 2030, this segment is poised for continued rapid expansion.

Intensifying rivalry with generic drug makers: The number of expiring patents will rise in 2024, increasing competition from

generic manufacturers. Since patents typically last around 20 years, ongoing investment in R&D and innovation is critical for branded drug companies to maintain market exclusivity. The introduction of generic alternatives can slash branded drug revenues by 70–80%.

Growing competition from specialty and biopharmaceuticals: Biopharmaceuticals (drugs derived from biological sources such as living cells) command higher production costs and prices but offer treatments for previously untreatable conditions. While demand for these products is growing, they also face competition from biosimilars, which are near-identical versions of original biopharmaceuticals, mirroring the generic-versus-branded dynamic.

Incorporation of Artificial Intelligence (AI): AI technologies are beginning to play a crucial role in pharmaceutical research and development by automating clinical trials and accelerating drug discovery, development, and commercialization. This will improve efficiency across the entire pharmaceutical production chain and could reduce time-to-market for new treatments.

The pharmaceutical industry plays a vital role in global health by researching, developing and producing medicines that prevent, treat and cure diseases. It is a highly innovative and capital-intensive sector, driven by scientific advancement, strict regulation and rising healthcare demand—especially in aging and expanding populations. While dominated by a few large multinational firms, the industry is also shaped by emerging biotech companies and dynamic R&D partnerships. Key growth areas include oncology, immunology and metabolic disorders, with innovation and access remaining central to long-term sustainability. In terms of consumption, the world's top five importers of pharmaceutical drugs are the US, Germany, Switzerland, Belgium and China. In terms of production, the US and Europe are and will continue to be the industry leaders by far. American Big Pharma generated USD453bn of revenues in 2024, which was 1.2x higher than that of European peers and 4.8x higher than that of Asian companies.

Having proved its prowess to the world during the pandemic crisis of 2020-2022, business activity in this industry expanded significantly, with the top 30 pharmaceuticals in the world consolidating revenues of USD900bn in 2022, a peak never seen before, given the record speed at which laboratories managed to create new Covid-19 vaccines and related treatments. With the health crisis behind, revenues in 2023 declined by -5.1% y/y, but then in 2024 they recovered again (+6% y/y) mainly thanks to the explosive success of new weight-loss drugs, strong demand in emerging markets and the launch of several high-value innovative treatments (particularly in oncology). For 2025 we expect revenues to jump again by around +5.5% y/y (USD980bn), with increases of +3% and +5% in the US and Europe, respectively, and of +8.0% y/y in APAC. This improvement should again be supported by new drugs that have been recently launched in the market addressing untreated diseases and the steadily growing population.

In the short-term, the pharmaceutical sector faces three major risks with significant potential impacts globally: First, although there is still no clear announcement on how and when potential higher tariffs could be implemented on the pharmaceutical sector, their impact could be huge, representing a notable threat, particularly for generic drug makers. The healthcare system in the US is also highly vulnerable to this because the US has the highest per capita spending on prescription drugs in the world and it has also become very reliant on imported generics (particularly from India and China). Any tariff increases could reduce supplier willingness to compete in the American market since generics companies compete at very low margins. Second, the administration's aggressive push to reduce drug prices through an Executive Order mandates cuts between 30% and 80%. Large US and European firms, heavily exposed to US revenues, have responded by committing substantial investments (over USD230bn so far this year) to build new production facilities domestically, aiming to strengthen their negotiating position and comply with potential regulatory demands. Lastly, the industry faces the ongoing risk of patent expirations, with over USD350bn in revenue at risk from generics competition as more than 130 drugs will lose exclusivity by 2030. This threat is more pronounced for US companies, which stand to lose a larger share of sales to generics. With relatively few groundbreaking drug discoveries recently, the inability to replenish market share through innovation could exacerbate revenue declines, putting further pressure on pharmaceutical firms. Together, these factors create a complex and uncertain environment for pharma players in the near term.

For the long-term, the main pillar for the industry to remain relevant is innovation. As of today, there are still hundreds of diseases that cannot be fully prevented or cured, which means there is a lot of room for science exploration and growth potential. M&A is, for instance, an efficient and common way in this industry to generate greater synergies and boost innovation. Therefore, we can expect this strategy to be strongly deployed in the years to come. Oncology will continue to be, without a doubt, the focus of R&D, as it is still the number one source of income for pharmaceuticals. As of today, there are around 16,000 different cancer-related drugs in the pipeline, of which 43% are in the preclinical phase

and 18% in the discovery phase. Immunology has the second place with 5,775 drugs in the pipeline, while diabetes is third with 1,400.

Subsectors

Drugs manufacturers:

a. **Active Pharmaceutical Ingredients (API):** API is the part of any medication that produces the intended health effects. They are produced from raw materials with a specified strength and chemical concentration. Examples of APIs include: ibuprofen, loratadine, omeprazole and acetaminophen. All drugs are made up of two core components (APIs and excipients). The excipients are chemically inactive substances, such as lactose or mineral oil in the pill, which are used to help the medication remain stable and to control its absorption.

b. **Patented drugs (also known as branded or original drugs):** Original drugs refers to drugs that have been approved for marketing after many tests and rigorous clinical trials (there are four phases before the post-market monitoring). This takes about 15 years of R&D and millions of dollars of investments. Only large multinational pharmaceutical firms are able to develop original drugs, which benefit from a patent period of 20 years. But once the patent expires, other manufacturers can start to produce generic versions of the drug.

c. **Generic drugs:** Drugs that are not branded but that are very similar to a branded drug in terms of dosage, administration, safety and performance. Generic drugs tend to be cheaper and therefore more accessible, since their manufacturers did not have to invest in discovering/creating a new formula but only replicate an existing one.

d. **Biotechnology:** This is the merging of biology and technology, refering to the branch of applied science that uses living organisms and molecular biology to produce healthcare-related products. Today, approximately 17% of total drug revenue is derived from biopharmaceuticals, which are mostly used in oncology, metabolic disorders and infectious diseases. The term biopharma describes companies that use both biotechnology and chemicals in their R&D.

Contract Research and Manufacturing Services (CRAMS): The field encompasses those services in the pharmaceutical and biotechnology industries that require extensive R&D and large-scale manufacturing facilities. It is a clinical term used for referring to outsourcing and it is one of the fastest-growing segments in the sector today.

Drug marketing: This refers to the marketing of drugs and medical devices by private and public organizations to doctors, clinicians and consumers as drugs/treatments need to adopt particular marketing strategies to be sold effectively.

Retail

A shifting global framework

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- Loosening monetary conditions in developed countries to underpin growth recovery
- Stronger purchasing power under disinflationary cycle to boost consumption
- Growing potential of digital sales (end of exclusive brick-and-mortar model)
- Integration of AI technology to help in reducing costs and improving supply-chain efficiency
- Lower savings inclination of newer generations & higher purchasing power of the "grey" generation (rising proportion)

- Trade tensions force rethinking of sourcing and supply-chain policies
- Inflation perception remains high and continues to influence purchasing behaviour
- Evolution of consumer behavior, favoring a seamless experience, customization and brand engagement
- Rising costs and lower pricing power amid tight competition and a disinflationary regime (margin squeeze)
- Lower brand engagement from new generations, while older generation has limited luxury spending and prefers services (travel, health) over goods

Sector overview

What to watch?

- Inflation outlook under a tightening of trade rules
- Macroeconomic outlook to impact saving/spending decisions
- Regulatory framework to impact sourcing policy and supply chains
- Geopolitical risks in the Middle East might impact the Asia/Europe maritime connexion
- Evolving consumption behavior and spending specificities for each age group
- AI integration into internal (logistics) and external (customized offer) processes
- Solvency situation of retailers amid already thin margins being squeezed and volatile and still price-sensitive customers

After a tough 2022-2023 period dominated by inflation, the retail sector started its recovery in 2024 and was initially expected to shift into higher gear in 2025, considering the better macroeconomic outlook, including stronger growth, lower inflation and lower interest rates in most developed countries, besides the extension of a consumption-friendly subsidy program in China. However, the tightening of trade conditions caused by substantial tariff hikes and the end of the tax-exemption rule on small package (de minimis rule) in the US now threatens the outlook for retailers. The changing rules question the efficiency and business legitimacy of traditional supply chains. If operating costs rise substantially, some retailers could be forced to modify their sourcing policies and look for new partners to dodge tariff hikes, and/or pass-through some charges on customers by rising prices to protect already razor-thin margins. A drastic change of sourcing policy could imply massive investment and a multi-year transition period for retailers before being fully operational. Large companies with ample cash reserves will be best positioned to navigate the stormy waters, while smaller corporates could face some solvency issues.

Bankruptcy risks are high in Europe, where the retail market is particularly vulnerable because of tight competition between local and international players and also a noticeable shift of consumer behaviour since the pandemic.

In term of revenue growth, however, Europe shows the highest potential – a little bit stronger in Eastern Europe (2026-28 CAGR at +10%) compared to Western Europe (+7%) – as the high savings ratio implies strong purchasing power, though it will need a trigger to be unlocked. Still highly price-sensitive, European households could benefit from some positive side effects of trade tensions as China could decide to target Europe to absorb its industrial output surplus, flooding the region with discounted manufacturing products. Consumer confidence remains fragile and still strongly sensitive to global inflation newsflow as the energy crisis in 2022 let some indelible marks. In the US, the outlook for retailer looks less rosy (+4%) as new tariff policy threatens slower growth and higher prices for households, and extra costs to absorb for retailers. International companies that used to source from Mexico or China may need to overhaul their sourcing strategy to focus on local businesses and/ or nearby trade partners. In China, domestic consumption remains deeply subsidized by the government but despite the stimulus we do not expect much more medium single-digit growth for the next three years as some pitfalls persist (weak real estate market, deflationary pressures). Among emerging countries, Latin America looks relatively less attractive (+3%) for retailers as we expect a negative economic shock in the region due to new US tariff policy.

Beyond the macroeconomic environment, retailers are also facing a total shift in framework and need to reconsider their core business strategies as consumer preferences, demography and spending behaviors change. Indeed, aging societies in the main developed economies will force retailers to adapt their value proposal to the older age group that has larger purchasing power but is less inclined to splurge. In the meantime, Gen-Z has a drastically different approach, favoring a seamless experience, digital channels and more personalization of products, while also being more selective and more volatile. Despite their limited purchasing power, Gen-Z is more predisposed to impulsive purchases and holds significant influence via their social networks that companies cannot overlook.

Subsectors

Fast-moving consumer goods (food, personal care, house care, etc.): Traditionally the most resilient segment of the industry with little volatility in consumer spending and high industry concentration. The main challenge for retailers is to adapt their store mix to address changing consumer preferences.

Furniture, electronics, appliances, hobby and leisure: Segments with generally higher profit margins but greater volatility as they sell discretionary consumer goods. Fierce competition from e-commerce specialists. Uncertain transition from a brick-and-mortar to click-and-mortar business model.

Apparel and accessories: Much like other discretionary spending, apparel and accessories see reduced consumer spending when the economy decelerates.

Beauty and cosmetics: Very dynamic sales globally pushed by the retail expansion of luxury companies.

Department stores: Department stores face very strong competition from online stores. The segment is cutting capacities in North America and is starting to adapt in Europe, but still growing in other regions of the world.

E-commerce specialists: Buoyant top line growth but still elusive profitability for the vast majority of players.

Telecom

A glimpse of light ahead, thanks to stronger 5G monetization and digitalization

Sector rating

M Medium risk for enterprises

Strengths & weaknesses

- Strong entry barrier
- Declining interest rates to enhance capex capacities and reduce debt leverage cost
- Massive public and private investments for stronger digitalization
- Rising revenue streams from investments into the 5G network
- Rising profit margins & stable debt profile

- Capital intensive industry woth a long business cycle
- Low pricing power in a fragmented market
- New competition from hyperscalers within he wireless network segment
- Persistant deficit in fiber adoption in some mature developed markets
- Strong regulation limiting M&A operations

Sector overview

What to watch?

- Ficceleration of 5G monetization
- Pace of digitalization projects across industries
- Growing investment into wireless network expansion under AI technology boom
- Tightening of data/AI regulatory framework in Europe to hurt expansion projects
- Declining interest rate to unlock capital for long-term investments into “high-growth potential” segments (6G, space connectivity...)
- Strong growth expansion of fiber and 5G network in emerging countries

Between 2023 and 2025, telecom has experienced a period of consolidation marked by a broad-based expansion of fiber and 5G networks in North America, Europe and some top Asian economies like China, South Korea and Japan. But despite strong investments by telecom carriers, this has not yet translated into the balance sheet, given a strong deficit in the uptake in some mature markets (1/3 of EU27+UK households still did not have access to fiber in 2024) but also a slow monetization of 5G technology as tough competition hampers pricing power. After a mild +3% over the past three years, the growth rate is expected to more than double and reach 7% on average over the next three years under the impulse of stronger returns from 5G investment as the user volume is expected to outpace 4G users by 2026 and become broadly dominant by 2030. A stronger push from both public and private investors in favor of a deeper digitalization and connectivity of business applications and equipment in diverse sectors such energy, mining, logistics, transportation and agriculture will also paint a brighter picture for the industry in the short/mid run.

Asia-Pacific is expected to keep its role of the growth locomotive, with an over +10% CAGR of revenue expected over the next three years, consolidating its dominant position (42% market share estimated in 2028). China and South Korea (+12% three-year CAGR for both) are both expected to drive the revenue upside in the region, thanks to the support of their internationally renowned mobile equipment specialists. Under the impulse of the Asian market, the market share of telecom services in emerging countries is expected to outpace the share of developed markets for the first time by 2028. Beyond Asia, we also see strong growth potential in Africa (+9%) and the Middle East (+10%) as fiber connections and the 5G network are not as well developed.

While the development of wireless networks is expected to continue under the impulse of a stronger demand for robots, remote applications and IoT devices, telecom companies are facing new external competition from tech blue chips that are splurging to build up their own networks of data centers and cloud infrastructure to support the ongoing transition toward an AI-powered economy. There is a double opportunity for telecom carriers to take part in the AI boom via the higher demand for high-speed connectivity solutions but also the urgent need to upgrade the grid network to cope with increasing power consumption.

Though high fragmentation and tight competition weighed on the industry during the recent period of high inflation and interest rates, they did not reverberate negatively on corporate leverage, which remained steady. Improving double-digit margins, driven by higher revenue growth and declining interest rates, could trigger a rise of capex to fund 6G and space connectivity projects, as well as potentially some takeover offers, though regulators in Europe and the US have been reluctant to support mergers within the telecom industry in the recent past.

Subsectors

Landline and mobile telecommunications. The biggest players operate in both segments, but it is not the case in emerging economies.

Consumer and business telecommunications. Some niche players focus on the specific needs of corporates.

Cable companies.

Satellite telecommunications including New Space.

Mobile Virtual Network Operators (MVNO) are companies focusing on marketing mobile services while renting network capacity to traditional operators.

Textiles

Towards a reshuffling of cards?

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- Improving outlook to underpin a stronger demand for non-essential goods
- Strong digital positioning from international brands
- Lower competition from Chinese marketplace under a targeted tightening of the regulatory framework against fast-fashion actors
- Development of smart clothing segment to potentially create new customer needs
- Robotic and AI technology to help in reducing costs, managing inventory and anticipating demand

- Sihift in consumer behaviour to focus on quality over quantity (slow fashion trend)
- Tight competition between brands as entry barriers are low and customer loyalty weak
- Supply-chain vulnerability to trade tensions could force a potential overhauling of current trade relationships
- Lower attraction towards luxury brands due to a deepening price/quality discrepancy
- Expansion of the second-hand market and stronger penetration of fake items

Sector overview

What to watch?

- Potential supply-chain disruption and reshoring debate under the new tariff framework
- Developments and customer interest in the new smart clothing segment
- Growing success of the second-hand market and fake items to impact demand for luxury goods
- Customers turn more selective: quality and sustainability commitment favored
- Digital revenue to compete with physical revenue over the mid-term
- Further customization of items as differentiation leverage in a competitive market
- Integration of AI-powered tools in the design, manufacturing and marketing process

The textile industry is facing a revolution amid a more complex trade environment, which is affecting established supply chains, and a drastic change of consumption behaviour, with customers favoring quality over quantity, and local over international production, as well as a strong sustainability commitment from brands.

China's monopolistic position as a manufacturing hub for international textile brands is being called into question by the new tariff framework with the US. The application of a substantial more than 50% tariff on imports of Chinese goods (as of June 2025) and the scrapping of the tax exemption for small and low-value packages (de minimis rule exemption applying to packages below USD150) would imply a substantial rise in costs that international brands will have to bear, and by snowball effects their customers as well. To counter tariff effects, we expect a likely geographical transfer of manufacturing production capacities from China (+2% CAGR of revenue for 2026-2028) to the profit of some of its neighbours with a well-identified know-how in the textile industry, such as Cambodia, India and Vietnam (revenue upside of over 10%). While Asia remains the most favourite region among international textile corporates for manufacturing tasks, thanks to its strong cost/efficiency profile, we do see room for some nearby reshoring in Eastern Europe (+3%) and/or Latin America (+4%) to reduce supply-chain vulnerability to global trade and geopolitical conflicts.

In Europe, the textile outlook looks bleak as luxury brands are short of new growth levers as demand from China stumbles. Moreover, the deterioration of quality in recent years has called into question the strong inflation of prices observed since the pandemic. The rising popularity of the second-hand market and well-made fakes among younger generations also hurt the luxury industry, as much in terms of lost revenue as in reputation. To break the downward spiral, luxury brands could decide to refocus further on the "grey" generation to catch opportunities from the aging population trend, while diversifying revenue sources by investing further in the Middle East, which is the region with higher growth potential over the next three years (CAGR +9%). Amid downward catalysts, we also see a gradual shift in consumer behaviour in Europe – supported by European authorities – whose purchase decisions are now more driven by ethical and sustainability aspects. The choice to favor quality and to buy less but better is also expected to impact selling volumes in the region in the upcoming years, leading to a negative outlook for revenue (-2% CAGR over 2026-2028).

We also expect a negative outlook in the US (-1%) that mostly results from the deterioration of the trade relationship with China, and the extra-cost to bear for the industry due to higher import tariffs. The tightening of the regulatory framework on low-value shipping will temporarily hamper the penetration of online Chinese marketplaces specialized in fast-fashion items, or at least hurt their competitiveness against local brands. Even though not substantially material, the rising inflation perception might also weigh on textile demand in North America.

At the industry level, to cope with a very likely rise of costs resulting from a relocation of production capacities closer to end markets, and an overhaul of sourcing and inventory strategy, we will likely witness a stronger push of marketing investment into the digital channel whose revenue could slowly compete with that recorded by physical stores. The implementation of new technology and specifically AI-powered tools should help the industry to improve cost management and logistics efficiency by detecting in advance new purchasing trends and identifying top customer preferences.

Amid potential industry trends to monitor, we expect the sneaker market to continue slowing down, to be replaced by a growing interest in smart clothing but also accessories that both help in fulfilling customer needs for a stronger personalization of products. The quiet luxury movement could remain popular among the 35-50 age group, but also increasingly among the 50+ segment that has distanced itself from brands that have been targeting younger customers. Within the new complex trade framework, we see opportunities for new joiners with strong local roots and innovative products to emerge, thanks to a deficit of strong barriers to entry in the industry and customer loyalty toward historical brands.

Subsectors

Textiles: about 55% of industry turnover. Textile manufacturers mostly serve the needs of the clothing and home improvement industries, and to a lesser extent other industries (automotive, etc.)

Apparel: about 30% of industry turnover. Apparel manufacturers are mostly contractors to which large fashion retailers outsource the actual manufacturing of their clothes and accessories.

Leather and shoes: about 15% of industry turnover. Leather goods and shoes generally have distribution channels that are distinct from apparel.

Asia Pacific concentrates 80% of the industry's turnover, with China's share itself standing almost 65%, the remainder being split between Cambodia, India, Indonesia, Bagladesh and Vietnam. Excluding Asia, Turkey (3%) and Brazil (1%) also have sizeable textile industries exporting to the European and US markets, respectively. Some countries producing high-end or technologically advanced fabric have kept a significant manufacturing base (Italy, France, Germany, South Korea and the US in particular).

Transport Equipment

Facing headwinds: Economic and geopolitical forces reshaping the industry's dynamics

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- Strong pricing power thanks to the limited number of players capable of designing and producing highly specialized transportation equipment
- Substantial long-term growth opportunities
- Stable client base through government contracts, which provides greater assurance of payment reliability and long-term revenue stability, particularly in capital-intensive projects.
- Long production cycles (extended construction timelines) that facilitate financial planning

- Substantial upfront investment, both in research and development and in capital expenditures
- High leverage and working capital requirements
- Exposure to commodity price volatility:
- Stringent quality and safety standards: the market demands exceptionally high standards for engineering precision, product quality, and operational safety.
- Cyclical demand patterns: The sector is closely tied to broader economic cycles.

Sector overview

What to watch?

- Tightening environmental regulations: As global awareness around climate change intensifies, the transport sector (responsible for approximately 20-25% of global CO_2 emissions) is increasingly subject to stricter international regulations. In response, manufacturers must accelerate investment in R&D to develop cleaner technologies, such as hydrogen-powered and electric aircraft or ultra-low-emission vessels. These innovations are expected to disrupt the market landscape (although not in the short-term), potentially increasing competition in traditionally oligopolistic segments like aviation.
- Supply-chain stabilization: Supply-chain disruptions that plagued the industry after the pandemic have eased significantly, enabling faster equipment deliveries and improved cash-flow generation as order backlogs are converted into revenue more efficiently. However, challenges persist in the aviation segment, where overstretched suppliers continue to miss delivery deadlines, hindering production targets for aircraft manufacturers.
- Volatile commodity prices: After peaking in 2022 until mid-2023, the price of key metals such as steel and nickel declined through 2024 amid the weakened global economic outlook. However, volatility remains elevated, with recent upward pressure on aluminum and copper prices so far in 2025. These fluctuations pose a short-term risk to profit margins, particularly in fixed-price contract environments.

- Labor market dynamics: Labor shortages and hiring challenges observed in 2022–2023 gradually eased in 2024, particularly in engineering and skilled manufacturing roles. Nonetheless, the aviation sector now faces rising wage pressure, as companies are compelled to increase compensation to attract and retain specialized talent—a trend that could weigh on operating margins throughout 2025 and 2026.
- Central bank divergence shaping financing conditions: Inflationary pressures have moderated, but still-restrictive credit conditions in developed markets like the US and the UK will continue to challenge companies' ability to refinance debt and fund expansion plans. In contrast, European firms may enjoy greater financial flexibility as the European Central Bank (ECB) maintains its trajectory of interest rate cuts.
- The new space race: Competition in the space transportation domain is accelerating, fueled by geopolitical ambition and technological advancement. Emerging players, particularly from China, are joining established powers such as the US, Europe and Russia in the push to develop space-capable transport systems, including reusable rockets and lunar transport solutions. This segment could represent a major innovation frontier for aerospace manufacturers.
- Expansion of the defense market: Demand for defense-related transport equipment (such as fighter jets, military helicopters, submarines, aircraft carriers, and combat vehicles) is rising amid growing geopolitical tensions. Aviation and maritime manufacturers are increasingly capitalizing on this trend, with the US, China and Russia leading global military expenditure. Defense contracts often provide stable, long-term revenue streams and may help offset cyclical volatility in the civilian segment.

Challenges influencing market dynamics: Overall, the transport equipment sector's performance in 2025 is being influenced by a combination of regional dynamics, strategic investments (notably in defense) and broader economic factors. While certain regions and companies report strong order backlogs, indicating sustained demand, others face challenges such as declining new orders due to the economic uncertainties. Indeed, persistent policy uncertainties and rising costs, particularly related to higher tariffs, should lead businesses to delay or scale back investment plans, reducing demand for some types of equipment.

Aviation: Since 2024, the aviation industry's supply chains have been grappling with persistent disruptions in sourcing critical components amid geopolitical tensions and fluctuating raw material prices. Safety issues, strikes and other industry-linked difficulties such as the push for greener technologies (straining existing supply chains to adapt swiftly) have also heightened output constraints. New aircraft delivery rates continue to disappoint the market. Only 1,266 aircraft were delivered in 2024, a -8.1% decline from 2023. For 2025, 1,692 aircraft are expected to be delivered globally, an increase of +33% y/y (the highest level since 2019: 1,407 planes). Yet this is almost -26% lower than the estimates initially made a year ago. Indeed, downward revisions have been occurring on a continuous basis and should remain given that supply-chain issues should persist in 2026.

Shipbuilders: From mid-October 2025, the US will be imposing fees on Chinese-built or Chinese-owned vessels calling at US ports. These are poised to significantly reshape global shipbuilding demand by effectively penalizing reliance on Chinese construction for vessels serving US trade routes. As operators look to avoid the added costs, there will likely be a strategic shift away from Chinese shipyards (currently dominant in sectors like dry bulk and container ships) toward builders in South Korea, Japan and emerging markets, particularly for vessels intended for transpacific or US-bound services, while potentially reducing China's share of newbuilding contracts despite its cost advantages. As a result, the global shipbuilding landscape may enter a new phase of competitive realignment driven by geopolitics as much as by economics. Although demand remains evident (driven in part by decarbonization efforts), vessel prices have declined in 2025, particularly for ships transporting commodities. On average, tanker prices have dropped by -14% y/y, while bunker ship prices have decreased by -4%. In contrast, containerships continue to see price growth, with average values rising by +10% y/y so far this year.

Commercial vehicles: Commercial vehicle manufacturers are grappling with a mix of economic uncertainty and shifting regulatory demands. Slower global growth is dampening demand, while ongoing supply-chain issues are causing production delays and cost increases. At the same time, tougher emissions and safety regulations are accelerating the push toward electrification and alternative fuels, requiring significant investment in new technologies. Rising material costs and geopolitical tensions further complicate operations, making it challenging to balance innovation, compliance

and profitability. The EU commercial vehicle market is facing significant declines in van, truck and bus sales. For instance, in Q1 2025, new van sales dropped -12%, primarily impacted by Italy (-15.2%), France (-10.7%), and Germany (-10.7%), while Spain bucked the trend with a +12.6% increase. Truck registrations fell -16%, largely due to steep declines in heavy trucks (-16.6%) and medium trucks (-12.5%), with Germany (-25.4%) and France (-17.6%) hit hardest. Bus sales dipped slightly by -1.8%, with Germany and Italy seeing declines but France showing marginal growth and Sweden and Greece experiencing strong increases. Overall, the market environment remains uncertain across key EU regions..

Subsectors

Aircraft manufacturers (aeronautics): Companies involved in the design, engineering and assembly of any kind of vehicle that is manufactured to fly in the air, including planes (commercial and cargo planes, private jets, military jets and propeller planes) and helicopters (civil and military). The US and France are the world's largest producers of aircraft.

Shipyards: Companies that build and repair any type of water-transport vehicle, such as yachts, cruise ships, container and dry bulk vessels, military vessels, oil and chemical tankers, ferries, ice-breakers etc. By revenue, this market is vastly dominated by South Korean, Chinese and Japanese companies, followed by European companies.

Rolling-stock manufacturers: Companies involved in the entire process of designing, manufacturing, assembling and testing rolling stock. Wagons/trains can be used for both passenger and cargo transport and can be high-speed or not. This market is lead by China and Europe.

Trucks OEMs: Manufacturers of trucks or camions, which are normally used for cargo transportation, for carrying other vehicles or dry-bulk commodities. Trucks vary in size, power and configuration. While most are still powered with diesel fuel today, electric trucks are gradually being introduced to the market.

Transportation

Global mobility in transition: navigating geopolitics, greening pressures and technological change

Sector rating

S Sensitive risk for enterprises

Strengths & weaknesses

- Transportation is a vital enabler of economic activity across all countries, facilitating trade, creating jobs, allowing tourism, and the daily movement of people.
- In several countries, parts of the transportation sector are structured as monopolies or oligopolies. This market concentration provides companies with significant pricing power.
- In the cargo segment, maritime shipping enjoys two key competitive advantages: 1) bunker fuel is cheaper when comparing to car-diesel or jet-kerosene; and 2) superior capacity - modern containerships can carry up to 24,000 containers.
- Rail transport is rarely privatized and is often managed by state-owned enterprises. This typically grants railway companies easier access to public financing and subsidies.

- Fuel prices volatility, significantly impacting profit margins as fueling constitutes one of the largest operating costs for transportation companies.
- Reputational risk: the sector faces growing criticism due to its environmental footprint, harming particularly airlines.
- Transportation is a capital-intensive industry, requiring companies to invest heavily in renovation and acquisition of expensive fleets. These assets also require substantial maintenance costs.
- Many companies in this sector carry high levels of debt, relying extensively on bank-leveraging to finance their capex needs, which increase financial vulnerability during periods of higher interest rates.
- The maritime freight segment has become very cyclical, with volumes and freight rates closely tied to global economic activity and world trade patterns.
- Airlines face intense competition, both between them but also with rail companies for short-haul trips, which is compressing margins and challenging legacy operators.
- Road transportation suffers from relatively higher labor costs that are not proportional to the limited cargo capacity of trucks. On top of this, the truck driver shortage is forecast to get much worse in the coming years.
- Road investment relies on government budgets; poor networks and high tolls limit growth and raise costs

Sector overview

What to watch?

- Geopolitics and trade tensions reshaping the sector: Ongoing geopolitical conflicts and rising trade tensions are poised to disrupt the global transportation sector. Supply-chain routes are being reshaped as companies seek to reduce dependence on politically volatile regions, leading to longer, more complex logistics networks or increased regionalization of trade. Maritime shipping faces particular risks, with key chokepoints such as the Suez Canal and the Strait of Hormuz increasingly vulnerable to conflict-related disruptions, resulting in delays, rerouting and higher insurance and fuel costs. Air mobility is also affected by restricted airspace and sanctions. For instance, 20% of European airspace has been closed and most Western airlines no longer have overflight rights for Russian airspace, requiring the

rerouting of long-haul flights to Asia. These pressures not only increase operational costs but also incentivize a strategic shift toward more resilient, diversified and digitally optimized transportation systems. In the longer term, the sector may see accelerated investment in alternative trade corridors, nearshoring and greener, more autonomous transport technologies as companies and nations seek to bolster economic and environmental security.

- Stricter environmental regulations: Transport is responsible for approximately 24% of global CO_2 emissions, with road travel accounting for 3/4 of these emissions. We anticipate that international regulations targeting greenhouse gas (GHG) reductions will become increasingly stringent, affecting all modes of transportation. Among these, the aviation and maritime industries present the greatest challenges for decarbonization due to the significant capital required to modernize fleets and the relatively slow pace of technological advancement. Furthermore, the widespread adoption of alternative sustainable fuels will depend on their availability and cost competitiveness. For instance, sustainable aviation fuel (SAF) is roughly three times more expensive than conventional kerosene.
- Carbon pricing power: Transportation companies that successfully decarbonize their fleets ahead of the curve will gain a significant competitive advantage, including greater pricing power and stronger positioning relative to peers slower to adopt greener solutions. According to the Greenhouse Gas Protocol, companies across all sectors are expected to measure and reduce their greenhouse gas (GHG) emissions. A substantial portion of Scope 3 emissions (those that arise indirectly across the value chain) often originates from transportation and logistics services, making low-carbon transport a critical lever for meeting corporate climate targets.
- Energy prices and fuel volatility: The ongoing volatility in oil and oil-derivative prices, fueled by geopolitical conflicts and dynamic market fluctuations, will persistently exert upward pressure on operational costs across road, maritime and air transportation sectors.
- Labor shortages and workforce shifts: Widespread labor shortages, ranging from truck drivers and maritime crew to aviation personnel, including ground operations staff, are straining capacity, and undermining the reliability of transportation networks. Simultaneously, labor unrest is escalating, with strikes over wages, working conditions and job security becoming increasingly common across multiple regions. At the same time, the rapid adoption of automation and digital technologies is reshaping workforce demands, creating a growing need for tech-literate professionals capable of operating and maintaining advanced, data-driven logistics systems. Together, these dynamics highlight the sector's urgent need for strategic workforce planning and labor modernization.

Airlines: The outlook for airlines continues to improve following the pandemic shock but demand is stalling in 2025. In 2024, global air passenger traffic surged by +10.6% y/y, drove by a strong demand in key regions and robust growth in emerging economies, proving that traveling is no longer discretionary but has become a staple in people's budgets. Airlines in APAC and Europe were the largest contributors to industry-wide passenger traffic growth, accounting for over 74% of the net increase in revenue passenger kilometers (RPK) for the year. This growth was driven primarily by an increase in international traffic in both regions and by significant expansion in the largest domestic markets of APAC, which was the last region to recover from the pandemic. In 2024, the total airline seat capacity across the industry, measured by available seat kilometers (ASK), increased by +8.8%. This growth was surpassed by the rise in passenger demand. Consequently, the passenger load factor (PLF) hit a record peak of 83.5% last year. However, global passenger growth has decelerated in 2025 compared with the peaks observed in the aftermath of the pandemic. Several factors explain this, such as the slowdown of the global economy, the persistent inflation in some countries, consumers' lower confidence amid rising economic concerns and the geopolitical and trade tensions that also somewhat tourism. On the other hand, air cargo demand, measured in cargo tonne kilometers (CTK), grew by +11.3% in 2024, reaching an all-time high. The increase in air cargo demand spanned all regions. Yet, the monthly growth slowed, decreasing from double to single digits as the year progressed. APAC led air cargo demand, with a +14.6% increase in CTK, followed closely by the Middle East, at +13%, and by Latin America, at +12.8%. North America, saw a more modest growth in CTK at +6.5% y/y. Like passenger traffic, air cargo is also recording more modest growth in 2025.

There are four factors that will continue threatening airline margins in the short term: 1) higher wages, as personnel from pilots to ground airspace controllers have more bargaining power via strikes; 2) higher than pre-pandemic jet-fuel prices (which represent 30% of operational costs), and stricter requirements to adopt sustainable aviation fuels, which are even more expensive than conventional jet fuels; 3) higher ground charges such as airport fees, which have become particularly more expensive in Europe and 4) higher maintenance costs as the average fleet age continues to mount and demand for after-market services continues to soar because of the still-limited production capacity for brand new aircraft. Indeed, delivery rates of new planes continue to disappoint the market as the shortage of parts supplies disrupts production. The issues are expected to persist in 2025 and beyond. Only 1,266 aircraft were delivered in 2024, a -8.1% decline from 2023. For 2025, 1,692 aircraft are expected to be delivered globally (the highest level since 2019). Yet, this almost 26% lower than the estimates initially made a

year ago (downward revisions have been occurring on a continuous basis). Globally, industry-wide revenues totaled nearly USD970bn (+6.2% y/y) in 2024, while airlines recorded net profits of USD32.4bn, with EBIT margins averaging 6.4%. For 2025, we expect revenues to grow only by +1.5% y/y given the recently observed deceleration in demand for air travel, with the global economy expected to grow by only +2.5% this year (from +2.8% in 2024).

Maritime: Disruptive events in recent years have underscored the vulnerability of global trade to maritime chokepoints, including the still ongoing Red Sea crisis, which is impeding transit through the Suez Canal; the severe drought-induced restrictions at the Panama Canal in 2023 and 2024 and the recent tensions in Iran reducing traffic flow at the Strait of Hormuz. As a result, so far in 2025, containership traffic through the Suez Canal remains -76% below the usual level with no signs of recovery. Conversely, sea traffic over the Cape of Good Hope (the southern tip of South Africa) is still +268% above 2023's level. This shift has contributed to rising shipping costs due to increased fuel consumption, extended transit times and higher insurance premiums. Furthermore, the diversion has placed additional pressure on global supply chains and led to the emergence of alternative logistics strategies, including increased demand for air freight and expanded use of overland transport corridors. In an increasingly uncertain geopolitical landscape, other maritime chokepoints may come under greater scrutiny. Roughly 30% of the world's seaborne oil transits hrough the Strait of Hormuz, for instance, which is also currently blocked, complicating oil trade and threatening oil supply to big oil importing nations such as China. Besides, the Strait of Malacca handles 25–30% of global trade, and an estimated 40% of the world's containerships pass through the Taiwan Strait, all areas where rising tensions could present new risks to supply-chain continuity.

US shipping patterns are shifting amid trade policy uncertainty. Across the US, smaller and secondary ports are experiencing reduced trade volumes as shippers prioritize larger ports like Los Angeles (+15% increase in handled volume since "Liberation Day") to expedite deliveries ahead of August tariff deadlines. This shift has led to decreased container traffic and scheduled services at ports such as Oakland, Jacksonville and New Orleans. This increase in big seaports on the West coast reflects frontloading rather than sustained growth. Uncertainty over the Trump administration's trade policies remains high and while some sectors anticipate increasing inventories, others are still in "wait and see" mode.

Amid ongoing geopolitical uncertainty and tariff speculation, shipping costs, especially for containers, remain volatile. While average prices (World Composite Container Index) have surged by +17% since "Liberation Day", they have receded by -32.8% since the start of 2025, being now (August 2025) at around USD2,517 per forty-foot container (FEU), with Shanghai to New York currently the most expensive route at USD4,210 per FEU.

Global warming will continue to be a risk factor for the maritime industry. While in some areas droughts are intensifying (making the passage of vessels difficult, as seen in the Panama Canal and in some navigable rivers in Europe, for example), in other areas there are floods that prevent passage under bridges near ports or that simply disrupt the logistics of certain low-lying seaports.

The challenge of greening an aging fleet: Although shipping currently accounts for only around 3% of global greenhouse-gas emissions, this share could rise to 17% by mid-century if decisive action is not taken. Decarbonization presents both a significant challenge and a market opportunity, as companies leading in fleet greening are poised to benefit from increasing demand for clean transportation and carbon pricing advantages. Currently, 15 of the world's 30 largest shipping firms have set net-zero targets by 2050, driving continued growth in sector capital expenditures. However, achieving climate goals will require sustained investment of at least USD23bn annually. At the same time, the global fleet faces aging concerns, with an average vessel age of 22 years, nearing the typical 25-30 lifespan. Over half of the fleet exceeds 15 years in age, and least developed countries (and small islands) tend to own the oldest ships while lacking the needed resources to accelerate greening efforts.

Rail: Europe is home to one of the world's most advanced rail networks, thanks to its compact geography, seamless cross-border travel within the Schengen Area and decades of significant public investment. Traditionally dominated by state-owned operators, such as SNCF (France), Deutsche Bahn (Germany) and Trenitalia (Italy), the sector has long been central to national mobility strategies. In 2021, the EU implemented the Fourth Railway Package, a major step toward liberalizing the long-distance passenger rail market. This reform is now allowing private and foreign operators to compete alongside national incumbents, with the goal of boosting service quality, innovation and efficiency across the continent, with regional demand expected to continue rising as people become more aware of their carbon footprint. Indeed, the liberalization aligns with broader EU climate goals as rail is among the most sustainable modes of transport. Investments in high-speed corridors and cross-border projects like Rail Baltica and the Trans-European Transport Network (TEN-T) aim to enhance connectivity and shift more travelers from road and air to rail.

While Europe places strong emphasis on rail as a mode of passenger transport, other major economies such as the

US, China, India and Japan also rely heavily on rail, but with differing priorities and characteristics. In the US, the rail network is predominantly freight-oriented. It is one of the largest and most efficient cargo rail systems in the world, playing a vital role in the movement of goods across vast distances. Passenger rail, by contrast, remains limited outside a few corridors, such as the Northeast Corridor served by Amtrak. China has invested heavily in both freight and high-speed passenger rail. It now operates the world's largest high-speed rail network, covering over 40,000 kilometers, and has transformed domestic travel with affordable, efficient service between major cities. At the same time, China's conventional rail lines continue to support one of the world's busiest freight systems. India, with one of the oldest and most extensive rail networks globally, primarily uses its system for long-distance passenger travel and essential freight movement. Indian Railways serves millions of passengers daily, although challenges remain in terms of modernization and congestion. Japan is renowned for its pioneering high-speed rail system (the Shinkansen) which has set global standards for punctuality, safety and efficiency in passenger transport. While freight plays a more modest role in Japan's rail sector, the country has long demonstrated how advanced rail infrastructure can drive urban development and regional connectivity.

Road: The 2020–2022 global health crisis significantly disrupted public investment in road and transport infrastructure, particularly in developing regions such as Asia, Latin America and Africa. In these areas, insufficient infrastructure has long been a structural barrier to the sector's growth, and the pandemic further delayed essential upgrades and expansions. The lack of sustained investment in roads, logistics corridors and urban mobility systems continues to limit connectivity, regional integration and access to markets. In contrast, developed economies, most notably the US and Europe, used infrastructure spending as a tool for economic recovery during the crisis. Governments launched or accelerated large-scale road and transport projects, aiming to stimulate job creation, enhance competitiveness and transition toward more sustainable mobility systems. In Europe, one of the flagship initiatives is the TEN-T, a strategic program aimed at improving cross-border mobility and harmonizing infrastructure standards across the EU. The network plans to connect 424 major cities with high-capacity transport links, including roads, rail and multimodal hubs, and mandates a minimum operational speed of 160 km/h for passenger transport on core corridors. Full implementation is targeted for 2040, with intermediary milestones set for 2030.

For intercity road transport operators, especially those managing bus and coach fleets, the shift toward electrification presents both opportunities and challenges. Europe is currently the most advanced region in terms of financing mechanisms, regulatory support and incentives for fleet decarbonization. However, one major barrier remains: the insufficient deployment of charging infrastructure. To enable a large-scale transition from diesel to electric vehicles, substantial investment is still needed in both highway and urban charging networks. Globally, the outlook for road transportation hinges on a combination of public policy, private investment and technological readiness. While advanced economies are moving steadily toward decarbonization and digital infrastructure integration, many emerging markets remain focused on basic road access, rural connectivity and the rehabilitation of aging networks.

Subsectors

The transportation sector encompasses all kind of companies providing the means for transporting people and goods from one geographical place to another.

Air transport: Companies that use aircraft (owned or leased fleet) as a means of transportation, regardless of the distance (short or long-haul).

a. Traditional airlines.

b. Low-cost airlines: They offer the same transport facility of traditional airlines but with a reduced offer of services that enables lower costs, and therefore lower air-ticket prices.

Maritime transport: All kind of transportation services through boats, including:

a. Cruise ships: large passenger ships used mainly for vacationing purposes.

b. Vessels: container ships, oil tankers, chemical tankers, gas and LNG tankers, dry bulk carriers, car carriers (ro-ro ships).

c. Ferries: mainly for short trips across rivers, harbors and channels or between islands.

Rail/train transport: Another way for moving people and goods over short and long distances (both underground and over the surface). Train systems run on metal rails, which allows the rolling stock to benefit from lesser frictional resistance and therefore to attach more load in terms of wagons or carriages. Besides being the means of transport that emits the least CO2, it is also the one that is less affected by weather turbulence.

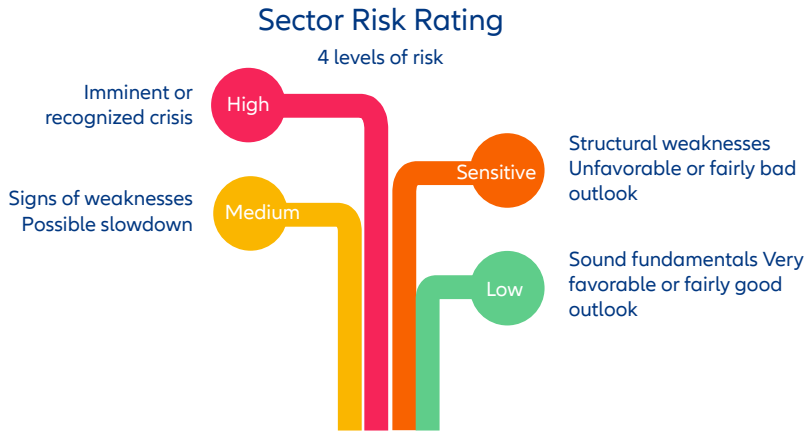
Road transport: This segment includes companies that offer the movement of people and goods through trucks, buses, coaches and taxi-cabs, both in urban perimeters and on highways.

Sector risk methodology

The Sector Risk Rating by Allianz Trade Economic Research assesses the risk of non-payment by companies in 17 sectors across 70 countries around the world. It is measured on a four-level scale from Low to High.

Sector risk assessments are based upon the forward-looking evaluation of four key determinants – demand, profitability, liquidity and business environment – using Allianz Trade internal data and expert judgments, as well as hard data from secondary sources.

Our grading system uses a unique methodology which combines data and expert judgments to assess the risk of nonpayment at a sector level across the top 70 countries of the world.



4 levels of risk based on 4 key components

The Sector Risk Rating is based on the evaluation of four components that are analyzed globally for each sector

Demand: Outlook for companies' turnovers based on the organic growth, fundamentals and price competition of the sector

Profitability: Outlook for companies' margins and profits depending on the evolution of prices in raw materials/ commodities, on labor costs and fluctuations in supply and capacity

Liquidity: Outlook for companies' cash positions and financing risks, based on access to financing and payment performance, and

Business environment: Any technological innovations, new government subsidies and changes in legal framework that can alter business models and companies' strategies.

A quantitative and qualitative grading system

Our grading system is a unique combination of indicators and expert judgements dedicated to assessing the short-term outlook of the four sub-components of our sector risk ratings.

The indicators are based on Allianz Trade internal data and hard data from secondary sources.

The expert judgments capitalize on the microeconomic expertise of Allianz Trade credit analysts, who closely monitor risk in companies all over the world, and the sector advisors of the Economic Research team, who analyze industry trends globally.

These judgments are collected using a standardized and consistent quarterly questionnaire.

Sector risk ratings are designed to complement Allianz Trade' Country Risk ratings and individual buyer risk assessments.

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