S&P Global Ratings

Chemicals

The clouds aren't clearing yet

January 14, 2026

This report does not constitute a rating action.

What's changed?

Uncertainty persists. Prolonged weak demand and global oversupply across many chemical value chains are a key challenge for 2026, after a new earnings' trough in 2025.

Negative rating actions continue to accelerate, spanning the entire rating scale for commodity and specialty chemicals.

Commodity capacity rationalization is accelerating. However, a sustained improvement in operating rates and margins is unlikely before 2028.

What are the key assumptions for 2026?

Modest volume increase, mainly in China, amid limited economic growth. The gap between chemical volume growth and GDP growth will not narrow quickly, particularly in Europe

Modest improvements in margins, due to somewhat better operating leverage and restructuring benefits, easing some pressure on credit metrics.

Resilient market conditions for fertilizers. Solid demand and cost-saving initiatives should sustain fertilizer profitability, despite affordability challenges.

What are the key risks around the baseline?

Prolonged weakness in end markets such as auto and construction could hinder demand and credit recovery.

Severe petrochemical overcapacity beyond 2027, exacerbating competition risks from cheap imports, especially in Europe.

Cash flow strain. Impaired cash flow generation could lead to a surge in debt restructuring, particularly for lower-rated companies.

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Industry Outlook

Ratings trends and outlook

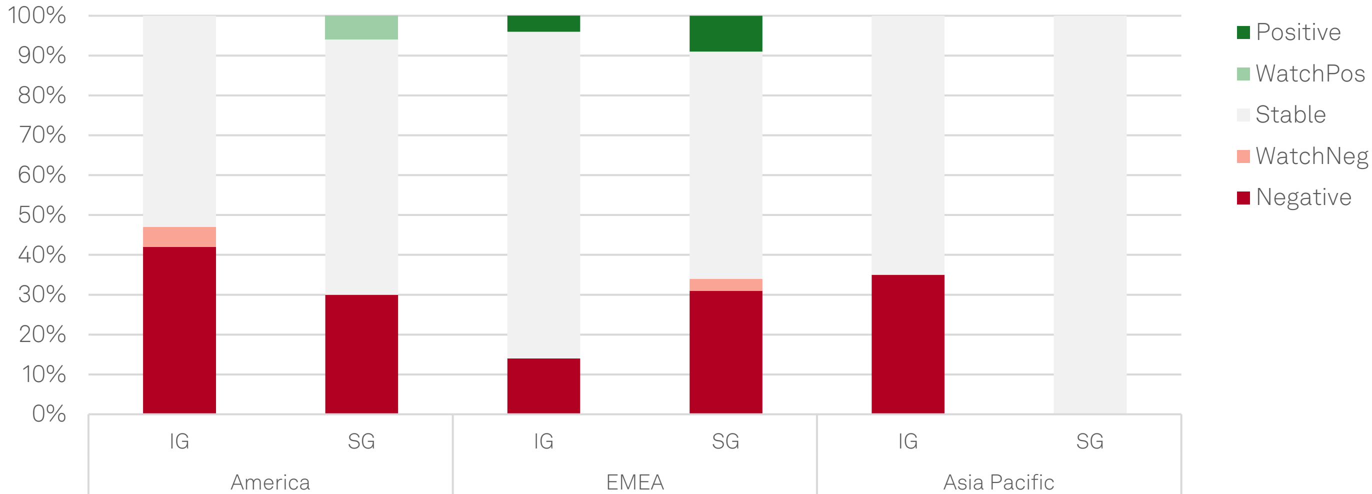
Negative rating actions are accelerating in North America, spanning the rating scale for commodity and specialty chemical producers. Over one third of our ratings have a negative outlook or are currently on CreditWatch negative, signaling potential downgrades over the next one to two years. About 47% of our ratings on investment-grade companies have a negative outlook or are on CreditWatch negative, compared to 29% of ratings on speculative-grade issuers. The disparity is driven by U.S. petrochemical companies, which tend to be larger and investment-grade and are grappling with unprecedented oversupply. In 2025, downgrades outnumbered upgrades nearly six to one, impacting investment-grade and speculative-grade companies in commodity and specialty chemicals, including several fallen angels such as Huntsman Corp. and FMC Corp.

About a quarter of companies we rate in Europe, the Middle East, and Africa (EMEA) have negative rating outlooks, reflecting persistent credit weakness. In 2025, downgrades outnumbered upgrades by three to one, with the commodity chemical segment experiencing the most downgrades. The negative outlook bias particularly affected speculative-grade companies (34% as of Dec. 31, 2025), which are highly exposed to economic uncertainty, concentrated supply chains, volatile end markets, and margin swings due to limited diversification, scale, and pricing power. Negative outlooks also increased for investment-grade ratings (14% as of Dec. 31 2025), due to poor operating performance and limited flexibility to reduce shareholder remuneration. Demand in EMEA has been weak since 2022, with capacity utilization at 75%--well below the long-term average of 81.4%, according to the European Chemical Industry Council. High energy costs, intensifying trade frictions, and currency headwinds contributed to shrinking margins and downward guidance revisions across most subsectors in 2025. Rating headroom has eroded for most of our chemical issuers, and prospects of improvement are limited to a few niche areas. We anticipate further downgrades in the next few quarters without near-term relief.

Over a third of our ratings in Asia Pacific (APAC) have negative outlooks, particularly in the petrochemicals sector, which our rated portfolio is heavily exposed to. There were 16 negative rating actions in across the APAC chemical sector in 2025, concentrated among Taiwanese and Korean companies that were exposed to profitability and leverage risks. High export dependence and increasing competition from mainland China's new large-scale integrated facilities, many of which also have feedstock flexibility, could pose further challenges. Rating buffers for most commodity chemicals companies in APAC remain narrow considering the extended downcycle. Continued capacity additions amid weak petrochemical product spreads and a weak Chinese economy suggest at least two tough years ahead, despite supply control measures and industry consolation. Higher-than-expected leverage and a weak recovery in profitability could drive negative rating actions in 2026, particularly in the case of a longer downturn. Liquidity for most companies should be manageable, given their leading market positions and stable funding channels. Over 80% of companies we rate in APAC are investment-grade (see chart 1).

Chart 1

Outlook distribution by rating category



Source: S&P Global Ratings.

Main assumptions about 2026 and beyond

1. Modest economic growth will drive some revenue recovery.

We forecast 2% GDP growth in the U.S. and 1.3% in the eurozone in 2026-2027. Growth of 4.3% in APAC will stem from robust GDP growth in India and weaker but steady growth in China. This should lead to modest but positive revenue growth for chemicals companies globally in 2026-2027, largely reflecting modest volume recovery. The agrichemical and specialty chemical segments should see a more pronounced recovery. However, the gap between GDP growth and chemical volume growth accumulated over the past three years is likely to persist and will not narrow quickly, particularly in Europe.

2. Commodity capacity rationalization is set to take center stage.

Aggressive capacity additions in China combined with weak demand growth have kept utilization rates well below the mid-cycle level, putting pressure on petrochemical companies' profitability, particularly in Asia and Europe. This is testing the viability of aged and less integrated facilities in those regions. Announcements of permanent capacity closures and strategic reviews of assets have accelerated in 2025, and we anticipate further actions in 2026 to balance the industry supply and demand. However, a sustained improvement in operating rates and margins is unlikely before 2028.

3. Margins will improve modestly.

A limited improvement in EBITDA margins in 2026 will be driven by better operating leverage and the benefits from restructuring undertaken during the downturn, particularly in the commodity and specialty segments. However, absolute EBITDA in 2026 will remain well below the 2021 peak for much of the sector. Low utilization rates are likely to persist for most commodity chemicals companies, keeping profitability below mid-cycle levels.

North American commodity chemical producers continue to face significant oversupply, with petrochemical companies among the hardest hit. 2025 marks the fourth consecutive year of sequential EBITDA declines for U.S.-based petrochemical companies, following record profits in 2021. Visibility remains limited but earnings expectations have sharply decreased, with 2025 EBITDA down about 50% on average compared to earlier forecasts. We do not expect a recovery before at least 2028. Achieving cost savings is crucial for improving EBITDA from 2025 lows, but excess new capacity and subdued demand are depressing operating rates and margins. We think much more capacity rationalization is needed to balance supply and demand. The location of companies' assets will separate the winners from the losers; we expect companies in the U.S. and the Middle East to maintain their cost advantage.

The European petrochemical sector is poised to remain in a cyclical trough in 2026, absent a sustained improvement in demand. However, conditions appear to be stabilizing at current lows. The supply and demand balance remains the central constraint: consumption across major derivatives shows no meaningful improvement, with cautious customer buying behavior expected to persist in 2026, while low-priced imports continue to challenge local production. With no demand recovery in sight, we expect pricing to largely follow feedstock dynamics. A weaker Brent outlook implies lower naphtha and liquefied petroleum gas (LPG) costs, and ample LPG supply relative to naphtha will allow flexible crackers to benefit from feedstock optimization, though this won't be enough to restore historical spreads, in our view (see charts 2 and 3). Operating rates will likely edge higher as rationalization accelerates, but will likely remain compressed and below mid-cycle levels (see chart 4). While over 5 million metric tons per year of European ethylene capacity is slated to close, including ExxonMobil’s Mossmorran cracker in early 2026, the impact on cracker utilization rates will be limited due to some plants already being offline and others closing as late as 2027. Still, this accounts for a significant portion of the 24 million metric tons per year of current ethylene capacity and represents the loss of nine of the fewer than 50 olefin crackers by the end of 2027.

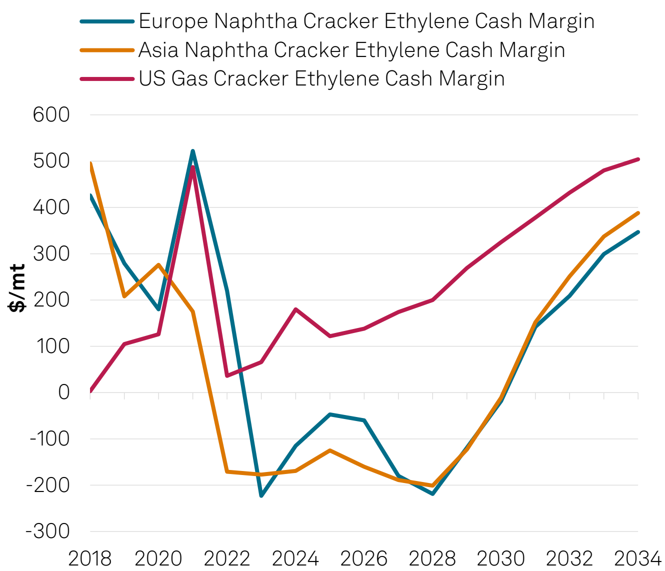
Credit profiles should stabilize rather than meaningfully recover in 2026, supported by cost control, disciplined capital expenditure (capex), and selective closures of assets that sit high in the global cost curve, rather than volume growth. However, softer-than-expected North American demand could increase competitive U.S. derivative exports into Europe, and there is limited near-term policy support. EU decarbonization initiatives and state-aid flexibility may ease longer-term investment burdens but are unlikely to materially bolster 2026 earnings.

Overcapacity in Asia's commodity chemicals market will persist in 2026, driven by continued capacity expansion and weak demand growth in China amid a sustained property market downturn. Global trade risks and a weak Chinese economy could outweigh economic support policies by the Chinese government, keeping chemicals demand growth weak in Asia except for the resilient emerging economies. Utilization rates for most commodity chemicals in Asia are likely to remain weak (about 75%-76% for ethylene in 2026-2027) and materially below those of U.S. and Middle East companies with lower costs, due to significant capacity additions in China (see chart 4). We expect the Chinese government to accelerate supply-side control, including controlling capacity additions and retiring aged, smaller, and inefficient capacity in its anti-involution efforts. Capacity rationalization will also accelerate in Korea, Japan, and Taiwan, with weakened competitiveness in Korea and Japan due to older facilities and limited vertical integration. The Korean government plans to cut the country’s ethylene capacity by about 25% by providing incentives to its major chemical companies. Japan’s cracker shut down by 2028 could also reduce the country’s current ethylene capacity by about 20%.

Net capacity additions will continue over the next two years but at a slower pace from the 2020-2023 peak. It will take time for material capacity reductions to materialize and for capacity expansion in China to meaningfully slow down. Many aged facilities in China will be replaced by larger new facilities (see table 1). S&P Global Energy forecasts a material slowdown in China's ethylene capacity additions over 2028-2029. Persistently weak product spreads for most commodity chemicals will keep companies' profitability well below mid-cycle levels in 2026-2027, despite lower crude costs and efficiency and operational improvement measures (see charts 2 and 3).

Chart 2

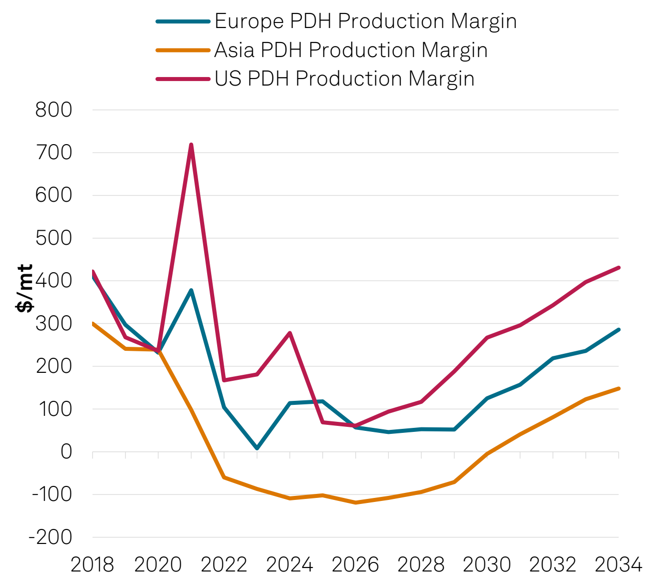
Ethylene margin by region



Source: S&P Global Energy.

Chart 3

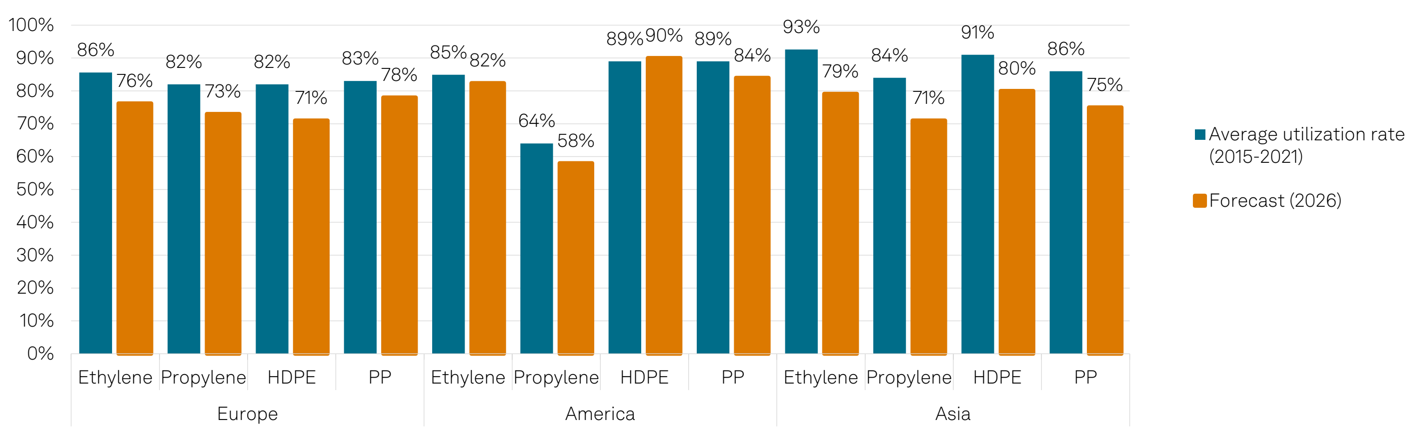
Propylene margin by region



Source: S&P Global Energy.

Chart 4

Commodity chemical utilization rate by region



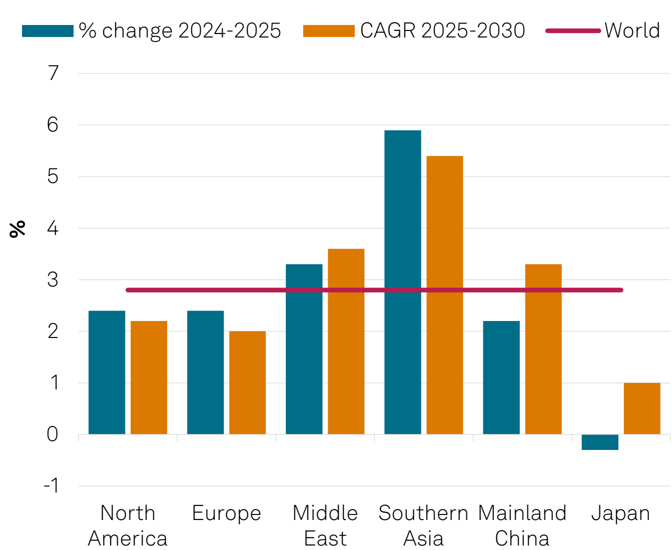
Source: S&P Global Energy.

Credit quality among specialty chemicals issuers in North America is mixed. Some mainly investment-grade issuers have sufficient ratings headroom, resilience, or especially strong market positions that offset the pressure on credit quality in the sector. We anticipate stable or favorable credit trends in 2026 across subsectors such as paints and coatings, agricultural seeds, and industrial gases, which benefits these companies. Conversely, investment-grade specialty chemical producers with a commodity component in their portfolio face varying degrees of credit pressure from overcapacity, increased competition, or weak demand. These companies operate across subsectors such as agriculture, petrochemicals, and intermediate chemicals. Speculative-grade specialty chemical companies, often owned by financial sponsors and catering to niche markets, have limited room for setbacks in their operating performance.

European specialty chemicals will enter 2026 amid persistently weak demand, subdued operating rates, and a delayed recovery. Heightened trade tensions and broader economic uncertainty continue to suppress market sentiment, keeping volumes depressed across most end markets, particularly construction and auto. As a result, European chemicals production and capacity utilization remain well below the average of the past decade, constraining operating leverage and pressuring margins. Against this backdrop, sector performance is likely to remain challenging in the near term, with a slow and uneven recovery expected. Demand should be muted through most of 2026, with a gradual easing in the second half of the year as Germany's fiscal stimulus slowly takes effect. We expect sales growth in European specialty chemicals to lag that of other regions, particularly Asia and the Middle East, where market momentum and investment activity are comparatively higher. Overall, we expect specialty chemicals companies to experience modest volume growth at best in 2026, relying on disciplined pricing, cost reductions, and a focus on more profitable products to sustain margins in a structurally low-utilization environment (see charts 5 and 6).

Chart 5

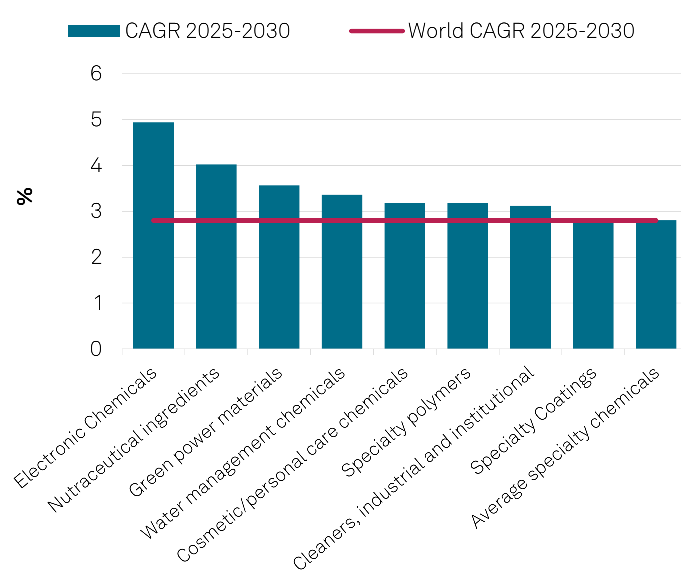
Specialty chemicals growth forecast by region



Source: S&P Global Energy.

Chart 6

Specialty chemicals growth forecast by product



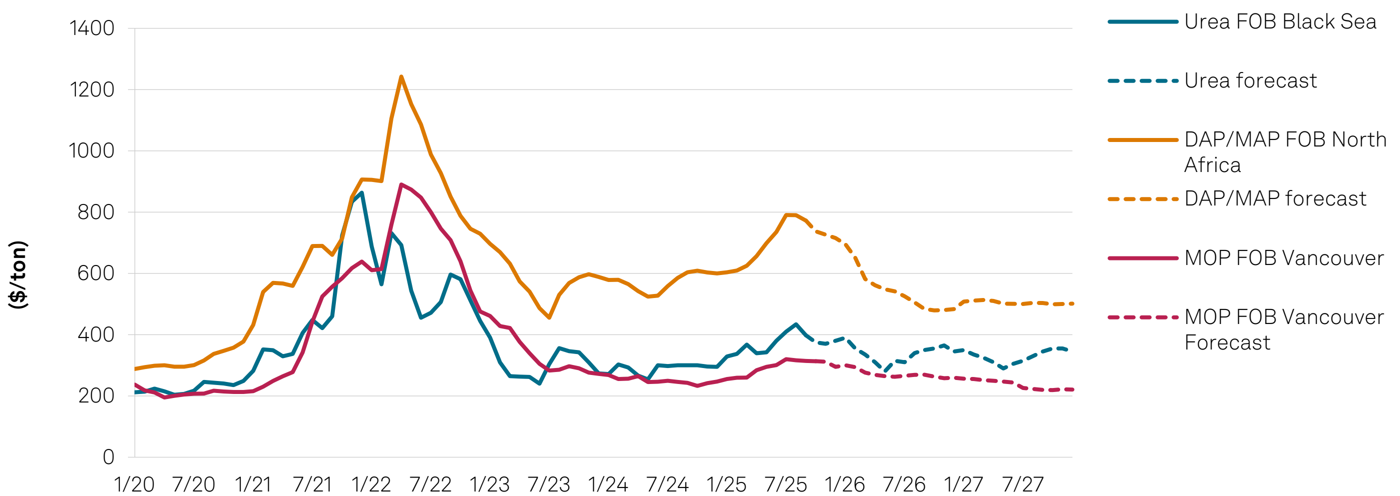
Source: S&P Global Energy.

Most of our ratings on fertilizer companies have stable outlooks, reflecting our anticipation of resilient market conditions in 2026 following solid performance in 2025. Despite near-term affordability challenges, we expect solid demand for fertilizers and cost-saving initiatives should at least sustain profitability for most companies, which will outperform the broader chemical sector. We anticipate stable leverage in 2026 for fertilizer companies that we rate, supported by higher EBITDA, though some issuers undergoing capacity expansion may experience lower cash flow generation. Limited future production growth for nitrogen, combined with strong demand, suggests a tightening market and potentially improved profitability, especially for European producers benefiting from lower gas prices.

Global phosphate markets are expected to remain balanced in the near term, driven by robust demand from key agricultural regions like the U.S. and Brazil, record crop production, and limited new capacity, while feedstock dynamics remain generally tight. We project continued strong demand for potash in 2026, supported by strong crop yields, low inventories, and limited capacity additions globally. We expect fertilizer prices to moderate from 2026, primarily due to declining affordability for farmers amid falling crop prices and capacity additions, particularly for potash (see chart 7). Tariffs on fertilizers in the U.S. may support fertilizer prices for producers to some extent but exacerbate affordability for farmers. The introduction of the Carbon Border Adjustment Mechanism in the EU in 2026 (with payouts expected in 2027) could also ultimately add to affordability-related demand risks.

Chart 7

Trend for key fertilizer benchmark prices, US$/ metric ton



Source: S&P Global Energy.

Our ratings on crop protection producers have a high proportion of negative outlooks relative to the overall chemical sector, reflecting ongoing risks related to weak demand in some instances and increasing competition from low-cost producers in China. Pricing pressure should persist in 2026 across most regions, despite measures by the Chinese government to curb overcapacity amid anti-involution efforts. China will remain the largest producer and exporter of generic crop protection products globally, with continued high exports, given its cost advantage and a global recovery in demand. China has exported 84%-90% of its output over the past three years. Despite some short-term challenges and market volatility, we maintain a positive long-term outlook for the agrochemical sector, underpinned by key trends such as shrinking arable land and a growing global population. S&P Global Energy projects a compound annual growth rate of about 2% for the global seed and crop protection market over 2025-2035, partly driven by the commercialization of genetically modified corn in mainland China. Biologicals' share of the total crop science sector was limited to about 12% in 2025, although we project growth in this sector will outpace that of the seed and crop protection industry, driven by robust demand and supportive agricultural policies.

Chemical distributors remain affected by the current downcycle, marked by uncertainty and cautious buying behaviors. We anticipate volumes and margin pressures will remain closely linked to issuers' exposure to commodity chemicals. We assume a progressive, mild improvement in business conditions but no strong rebound in activity in 2026. We expect margins will continue to reflect these market pressures but will remain much less volatile than on the manufacturing side. We anticipate at least some margin stability in 2026 amid cost initiatives and a generally more resilient margin profile for specialty chemicals distributors. Relative EBITDA weakness and prudent management of cash flows will continue to drive financial leverage. We note the capital light business models of distributors, and we expect management to maintain prudent cash flow policies, including those related to working capital management, capex, and to bolt-on acquisitions, which are a key growth driver for distributors. Mergers and acquisitions (M&A) will remain selective in 2026, in our view. We will closely monitor inventories, supply chain conditions, and competition trends across regions, including the impact of tariffs or protective measures.

The industrial gases segment should benefit from a high proportion of long-term contracted revenue, offering earnings and cash flow predictability in the current weak market. We expect EBITDA performance to remain resilient, supported by further cost saving measures and demand for gas from decarbonization and green energy adoption, which most industrial gas companies have been heavily investing in. We expect these trends to continue in the coming years, resulting in good visibility over free cash flows. Strong recurring free cash flows at Linde and L'Air Liquide are expected to support very comfortable balance sheets despite sizable shareholder distributions. Conversely, we expect material investments at Air Products to pressure free cash generation and discretionary cash flows. We anticipate that financial policies and capital allocation strategies will be key drivers of credit quality in this segment.

Credit metrics and financial policy

We expect modest earnings growth in 2026, driven by cost-cutting measures and potential mild improvements in demand, somewhat reducing the gap with manufacturing activity. However, some companies' balance sheets may lack the flexibility to withstand another year of trough industry conditions at current ratings.

In North America, we expect some improvement in credit metrics over 2026, partly due to expected cost savings and demand improvements. M&A may contribute to this improvement in some cases. Credit metrics for some companies in 2025 are likely to be weaker than the range commensurate with our ratings. We forecast an improvement in total debt to EBITDA by less than 0.5x to about 2.3x for investment-grade issuers, and by slightly more than 0.5x to about 5.4x for speculative-grade issuers. While the overall average improvements might not appear meaningful, they could be significant at the company level. Companies are increasingly responding to a multi-year slump in operating performance by cutting shareholder remuneration, including dividends, reflecting an adaptation of financial policy to changed circumstances. These measures can provide temporary and modest support to credit metrics, though in some cases they may not be sufficient, contributing to the negative outlook bias.

Credit metric headroom has narrowed in Europe for the leading chemical companies, though we expect a modest improvement in 2026. Several companies reduced their guidance for 2025 and are cautious for 2026. Rating headroom has narrowed for most companies, with few exceptions among industrial gases and fertilizers (see chart 8). We expect credit metrics to restore to levels commensurate with our current ratings only by the end of 2026. Most companies in the specialty and commodity segments have further tightened capital allocation, and a few of them have cut expansion capex amid weakened cash flow. They have also limited M&A to bolt-on and niche acquisitions. The balance of acquisitions and disposals for leading European chemical companies will likely be modestly cash positive in 2025 and 2026. Dividend strategies are more closely aligned with underlying cash flows and strategic objectives, while share buybacks remain opportunistic and subordinated to growth investments and deleveraging, in order to protect credit quality and financial flexibility.

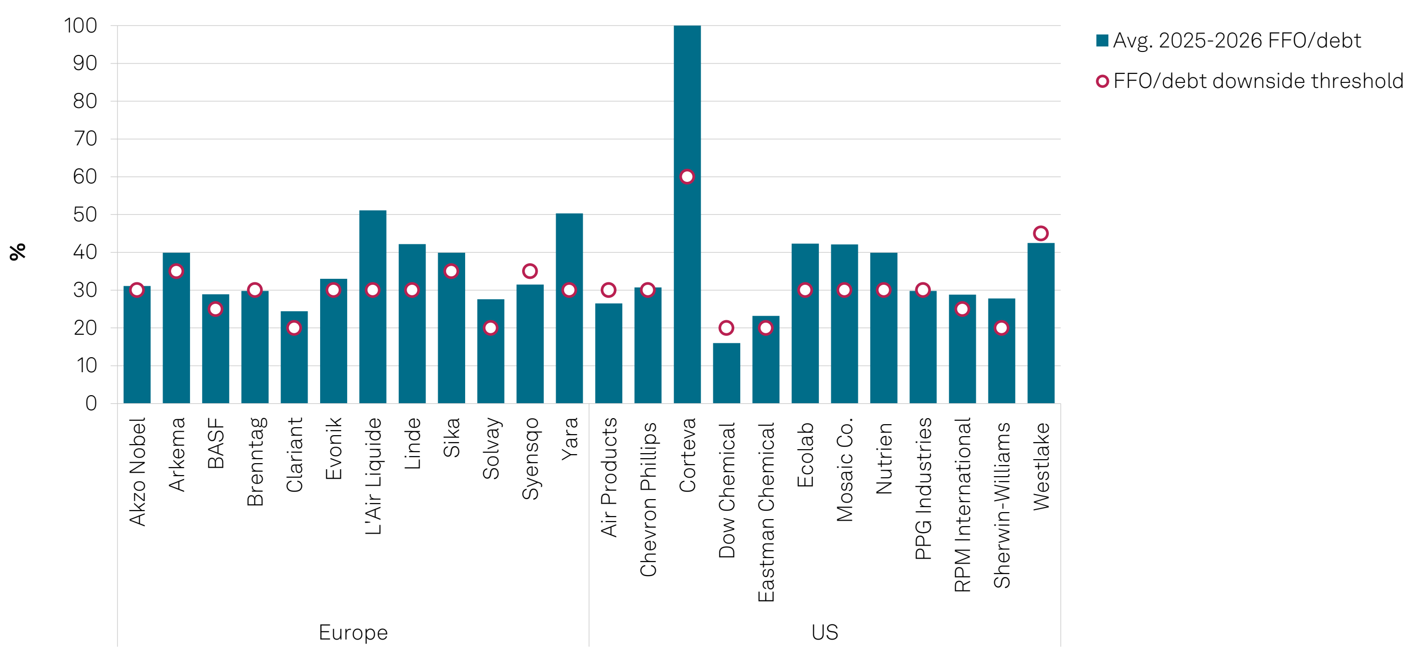
We forecast an improvement in the median S&P Global Ratings-adjusted leverage for European chemical companies across the rating scale in 2026, reflecting some volume rebound and the benefits of business restructuring undertaken in 2024-2025, along with the associated costs. For issuers with a rating in the 'B' category, median leverage would improve to 5.8x in 2026, from 6.5x in 2025. However, the quartile with the highest leverage still has adjusted leverage of above 8.0x in 2026, making companies in this quartile vulnerable to negative rating actions. Companies' ability to keep or turn their free operating cash flow (FOCF) positive will be key to easing pressure on credit metrics. We anticipate that 33% of 'B-' rated companies will display negative FOCF in 2026, down from 67% in 2025.

In APAC, tough industry conditions will keep credit metrics at historically weak levels, with thin rating buffers for most commodity chemicals companies. Still, we expect some improvement in rated companies' profitability and EBITDA over the next two years from trough levels, driven by new projects, efficiency or product mix improvements, and some exposure to niche products and specialty chemicals. Amid a challenging, uncertain market, we anticipate companies will seek to enhance their financial and operational health and quality, including through product upgrades toward more specialized and differentiated chemicals, market diversification, shutdowns of inefficient plants, and cost and cash controls such as capex cuts. We expect companies to maintain operational profit in 2026-2027, with few exceptions. Slight improvements in FOCF could enable modest debt reductions .

The median debt to EBITDA ratio will likely improve modestly to about 4.2x in 2026, from about 4.8x in 2025. Companies with larger, newer, integrated operations, input advantage and flexibility, exposure to higher-end and specialty products, and market diversity should have more resilient performance in the prolonged downturn.

Chart 8

Rating headroom for large investment-grade chemical companies



Source: S&P Global Ratings.

Key risks or opportunities around the baseline

1. A delayed rebound in volume.

A slowed recovery in demand, particularly in auto and construction, beyond 2026 due to unexpected macroeconomic challenges would directly affect sales volume, and most likely prevent an improvement in credit metrics. In Europe, Germany's €500 billion infrastructure fund is a tailwind for the chemicals industry, but the near-term effects could be muted due to rollout times and limited visibility on allocations.

2. Severe overcapacity beyond 2027.

The risk of petrochemical overcapacity persisting beyond 2027 is significant, and challenges may continue until at least 2028-2029. This could be driven by slower-than-anticipated demand growth, especially if plastics regulations in developed countries become tighter and consumer preferences shift, or due to delays in announced closures. Such conditions would likely keep prices down, squeeze profit margins, and potentially further pressure credit metrics. Oversupply exacerbates competition risks from cheap imports, notably in Europe.

3. A surge of debt restructurings.

The prolonged nature of the downturn has impaired earnings and cash generation, placing renewed pressure on companies at the lower end of the rating scale. About half of issuers in the 'CCC' rating category have negative FOCF, indicating limited capacity for self-funding and reliance on external liquidity. Debt restructurings could surge in 2026, particularly in Europe, among those issuers with near-term maturities, elevated leverage, and constrained market access.

Our demand outlook for 2026 embeds significant risk. Customers remain cautious about rebuilding inventory amid low economic growth and limited visibility due to persisting uncertainty. We expect the global auto market outlook--an important end market for chemicals--to remain muted over 2025-2027. Moderately lower sales in China in 2026 and the end of prebuying in the U.S. will keep sales of light vehicles at a pre-pandemic level of about 90 million units. Global vehicle sales rose 4.5% in the first half of 2025, largely due to China's 11% surge in sales ahead of government stimulus. While the Chinese government extended the subsidies into 2026, auto sales momentum is likely to be weak this year, as demand was significantly pulled forward into 2025. Europe faces mounting competitive pressure and regulatory uncertainty, and the global electrification outlook remains diverging.

Construction, another key end market for chemicals, is also facing demand uncertainty. In the U.S., we anticipate housing starts to remain largely flat over the next few years. In Europe, construction output grew by 0.3% in 2025 after two years of contraction, followed by 2.4% growth in 2026 as financing conditions ease and civil engineering drives recovery, supported by investments in transport, energy transition infrastructure, climate adaptation, and EU-funded programs. However, Germany, the largest construction market in Europe, is expected to experience growth of just 0.5% in 2026, and visibility on project-specific allocations of the €500 billion infrastructure fund remains limited.

Overcapacity in petrochemical could persist beyond 2027. Global total ethylene capacity is projected grow faster than demand until 2027, as China seeks to increase self-sufficiency ratios, while North America and the Middle East explore their feedstock cost advantage. At the same time, capacity rationalization is gathering momentum. Closures have been announced for over 8 million metric tons of global capacity--mainly in Northeast Asia and Europe. We expect capacity additions to peak in 2027 and operating rates to recover toward the end of the decade, as ethylene demand growth starts to outpace capacity additions and overcapacity is progressively absorbed. However, slower-than-anticipated demand growth as well as delays in announced closures or new capacity coming online could extend the trough beyond 2027.

Table 1

Capacity rationalization in the petrochemical sector

Company	Location	Shutdown	Ethylene capacity (kta)	Propylene capacity (kta)	Feed notes
SABIC	Wilton, U.K.	Down since Sept. 2020	865	400	Naphtha
SABIC	Geleen, Netherlands	April 2024	575	325	Naphtha
ExxonMobil	Notre Dame de Gravenchon, France	2025	425	310	Naphtha
ExxonMobil	Mossmoran, Scotland	Feb. 2026	830		Ethane
Versalis	Brindisi, Italy	April 2025	490	230	Naphtha+
Versalis	Priolo, Italy	July 2025	490	230	Naphtha+
Dow	Bohlen, Germany	Q4 2027	565	310	Naphtha
TotalEnergies	Antwerp, Belgium	End of 2027	550	280	Naphtha+
Orlen	Plock, Poland	2030	340	170	Naphtha+
Europe subtotal			**5,130**	**2,255**	
PetroChina Fushun	Fushun, China	2025	160	90	Naphtha+
Sinopec Qilu	Zibo, China	2025	800	400	Naphtha+
PetroChina Jilin	Jilin, China	Q2 2026	150	140	Naphtha+
PetroChina Lanzhou	Lanzhou, China	Q2 2026	700	230	Naphtha+
Sinopec Maoming	Maoming, China	H2 2027	360	180	Naphtha+
Maruzen	Chiba, Japan	H2 2026	490	278	Naphtha
Mitsui/Idemitsu Kosan JV	Ichiihara City, Chiba, Japan	2027	374	400	Naphtha
ENEOS	Kawasaki, Japan	2028	460	273	Naphtha+
Oneos	Altona, Australia	Oct. 2024	120	42	Ethane
Sinopec Beijing Yanshan	Beijing, China	Nov. 2025	820	410	Naphtha+
Asia subtotal			**4,434**	**2,443**	
Total			**9,564**	**4,698**	

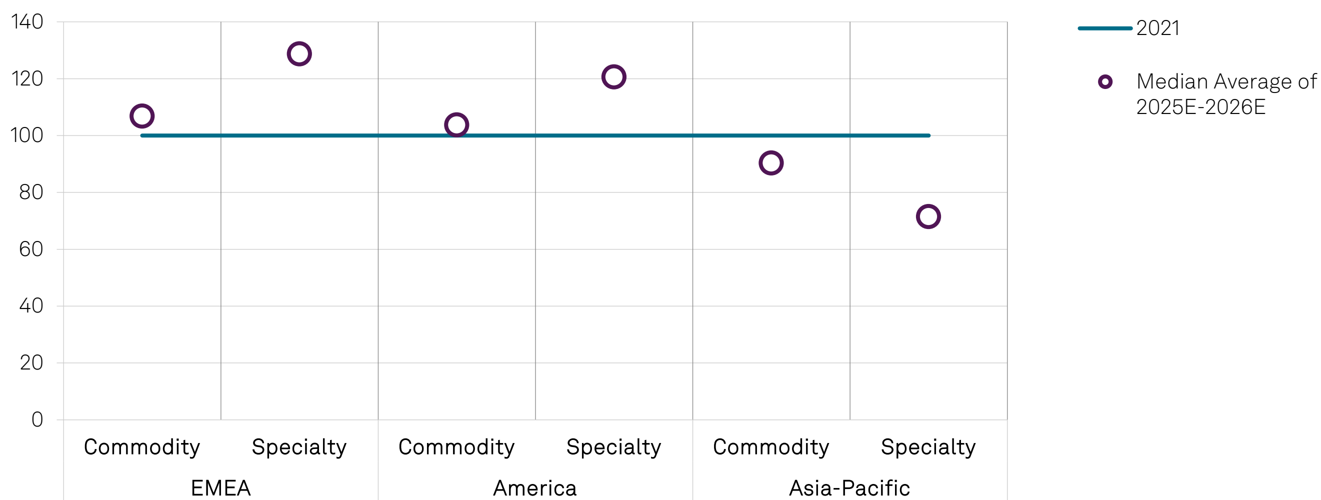
Source: S&P Global Ratings. kta--Kilotons per annum.

Capex in 2026 should remain prudent given depressed market conditions (see chart 9). We expect investments in commodity chemicals to remain constrained, if not contracting, due to exposure to low demand and overcapacity-driven price pressure and some large projects like Ineos Project ONE being completed. We expect average capex over 2025-2026 for commodity chemicals in North America and Europe to remain very close to 2021 levels. We anticipate companies in APAC will reduce capex in 2025-2026 to weather the downturn, after the completion of several large projects and following a high in 2021-2023. Companies will prioritize existing projects and be selective over new ones, focusing on growth prospects or integration with their existing businesses, such as Wanhua Chemical Group Co. Ltd.'s integrated ethylene project and its expansion of methylene diphenyl diisocyanate production, which has high barriers to entry, and Formosa group companies' specialty products project .For most other segments, we expect capex above the post-pandemic level, particularly in specialty chemicals in EMEA and

America, mirroring the expansion in faster-growing segments such as electronic chemicals. This will be driven by investments in decarbonization, energy efficiency, innovation, and digitalization.

Chart 9

Capex growth 2025-2026 by segment (index, 2021=100)



Source: S&P Global Ratings.

The EU Chemical Action Plan could support recovery in Europe in 2026-2027, but details on its implementation remain limited. In July 2025, the European Commission presented an action plan with the aim of strengthening the competitiveness of the EU chemical sector. The plan introduces measures to address key challenges for the chemicals and fertilizers industry, namely high energy costs, unfair global competition, and weak demand, while promoting investments in innovation and sustainability. The plan was accompanied by a simplification omnibus to further streamline and simplify key EU chemicals legislation, alongside a proposal to strengthen the governance and financial sustainability of the European Chemicals Agency. Among the most relevant actions, the plan envisages:

- Identifying critical chemicals and production sites requiring modernization or decarbonization support;
- Securing affordable energy supply;
- Updating the Emissions Trading Scheme state aid guidelines to address indirect cost compensation for additional products such as fertilizers;
- Supporting the shift to a circular economy by promoting chemical recycling, resource efficiency, and bio-based alternatives to fossil-based inputs;
- Assisting the sector on its decarbonization by supporting EU critical chemical sites for innovation, high-quality jobs, and investments; and
- Saving at least €363 million per year by reducing administrative burden for companies with simpler but equally protective rules.

In our view, the plan is a positive move for the chemicals industry in Europe because it includes actions that set a strategic direction for European policymakers to reduce energy costs, ease regulatory complexity, and support the transformation of the sector. We understand the plan would be implemented in 2026, however we still lack details on concrete actions, such as measures to ensure fair competition with other regions. We think that coordination across the EU countries will be key to ensure a swift efficacy.

M&A will drive rationalization and portfolio optimization. We expect capital allocation to remain dictated by the current challenging operating environment. Disciplined financial policies are a key driver for M&A activity, which we think will become increasingly selective, including highly strategic bolt-on, portfolio optimization-driven, and consolidation-driven acquisitions. Strategic-driven acquisitions include ADNOC and Covestro's €14.7 billion deal, which has received final regulatory approval. Consolidation-driven M&A include the announced merger of Borealis, Borouge, and Nova Chemicals in the commodity petrochemicals space, and the announced merger of Akzo Nobel and Axalta in the paints and coatings. We expect these deals to help rationalize the industry and support profitability in the medium term, through footprint optimization and cost synergies. We do not exclude asset disposals, for strategic or balance sheet management. We expect the current depressed cycle conditions and its impact on valuations may stimulate acquisition opportunities.

Table 2

M&A deals announced in 2025

Announcement Date	Buyer/merger partner	Seller/merger partner	Target	Sector / segment	Deal size (€ equiv.)	Status
Oct. 2025	ADNOC (XRG)	Covestro shareholders	Covestro AG	Polymers, polyurethanes, engineering plastics	~14,700	Closed
March 2025	ADNOC (XRG) + OMV	Nova Chemicals shareholders	Merger Borealis + Borouge PLC	Polyolefins (PE/PP)	~34,000 combined revenue target	Announced (closing 2026)
March 2025	ADNOC (XRG) + OMV	Nova Chemicals shareholders	Nova Chemicals Corp	Polyolefins (PE/PP)	~12,300	Announced (closing 2026)
Oct. 2025	Carlyle + Qatar Investment Authority	BASF SE	60% of BASF Coatings	Coatings, surface Treatments	~5,800	Announced
Oct. 2025	Berkshire Hathaway	Occidental Petroleum	OxyChem	Chlor-alkali, vinyls, commodity chemicals	~9,000	Announced
Sept. 2025	Advent International (via Envalior)	Lanxess AG	40.94% stake in Envalior	Engineering plastics, polyamides	~1,200	Announced (closing 2026+)
Nov. 2025	Akzo Nobel NV	Axalta Coating Systems Ltd.	Merger	Coatings, refinish	~14,600 combined revenue target	Announced (closing end 2026/2027)
Aug. 2025	Air Liquide	Macquarie Asia-Pacific Infrastructure Fund 2	DIG Airgas	Industrial gases	~2,850	Announced (H1 2026)
March 2025	KPS Capital Partners	Ineos Enterprises	Ineos Composites	Composite resins, gelcoats	~1,700	Closed
Feb. 2025	Sherwin-Williams	BASF SE	Brazil decorative paints	Paints, coatings	~1,000	Closed

Source: S&P Global Ratings.

The risk of further debt restructurings among European speculative-grade chemical issuers will remain elevated in 2026, in our view. This is despite a projected improvement in credit metrics and the fact that a few restructurings have already occurred. The prolonged nature of the downturn continues to weigh on earnings and cash generation, placing renewed pressure on weaker credits. At the lower end of the rating scale, credit metrics in Europe remain weaker than in the U.S., reflecting structurally higher costs, muted demand, and a more challenging operating and refinancing environment. Median leverage in EMEA is forecast to decline, while the share of companies with negative FOCF is expected to fall, particularly for the 'B' and 'B-' categories. Nevertheless, absolute metrics remain weak, and FOCF stress persists, especially among lower-rated issuers. About half of issuers in the 'CCC+' and below categories are expected to maintain negative FOCF, indicating limited self-funding capacity and a continued reliance on external liquidity. As a result, we anticipate further debt restructurings in European chemicals in 2026, concentrated in issuers with near-term maturities, elevated leverage, and constrained market access.

Table 3

Selected metrics for companies in the 'B' and 'CCC' rating categories

	'B'		'B-'		'CCC+' and below	
	2025	2026	2025	2026	2025	2026
EMEA						
Median leverage (X)	6.5	5.8	8.7	8.0	15.5	12.6
Negative FOCF (%)	64%	18%	67%	33%	75%	50%
North America						
Median leverage (X)	5.2	5.0	7.3	6.5	10.0	9.7
Negative FOCF (%)	21%	14%	25%	0%	67%	44%

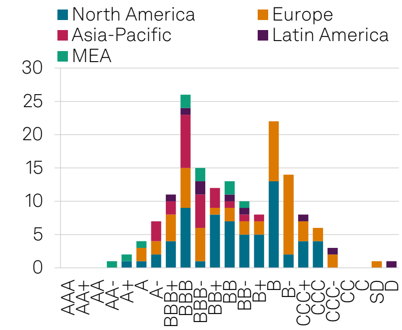
Source: S&P Global Ratings. FOCF--free operating cash flow.

Related Research

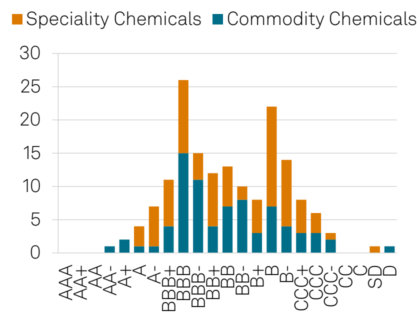
- First China, Now India: Self-Sufficiency Goals Will Add To Petrochemicals Supply, Oct. 2, 2025
- European Chemical Sector Outlook: Recovery is stalling, with growth not expected until 2026, Sept. 24, 2025
- European Chemical Sector Pulse: Recovery Stalls, Divergence Increases, Aug. 28, 2025
- Industry Credit Outlook Update Europe: Asia-Pacific, July 16, 2025
- Industry Credit Outlook Update Europe: Chemicals, July 16, 2025
- Industry Credit Outlook Update North America: Chemicals, July 16, 2025
- China Inc.'s Capex Tightening To Fortify Financials, Sept. 10, 2025
- Credit FAQ: Is It All Doom And Gloom For The Global Chemical Industry?, Aug. 21, 2025
- Chain Reaction: China’s Overcapacity Corroding Global Chemical Sector Profitability, July 21, 2025
- Asia-Pacific Agrochemical Brief: U.S. Tariffs Will Reshape Trade Flows, May 22, 2025
- Korean Petrochemical Companies Face A Deeper Downcycle, May 7, 2025
- Asia-Pacific Chemical Sector Outlook: The Downturn Is Too Deep To Exit In 2025, Jan. 22, 2025
- 2025 Outlook -- China Commodities Watch: Commodity Chemicals Face A Tougher Road Back Than Agrochemicals, Jan. 6, 2025

Ratings Trends

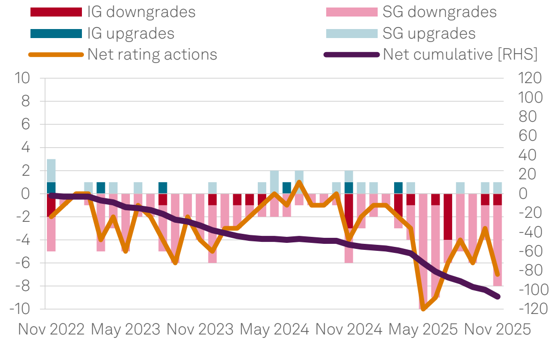
Ratings distribution by region



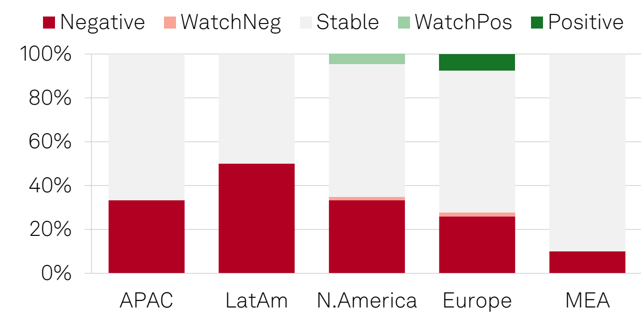
Ratings distribution by subsector



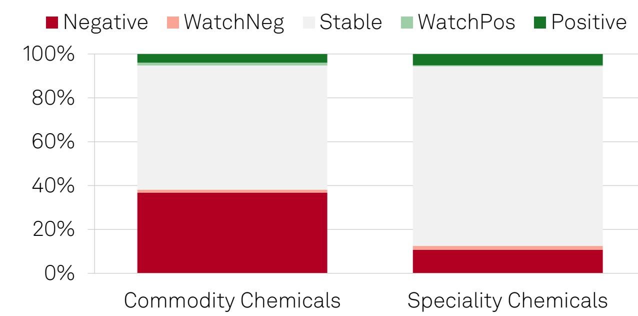
Ratings actions



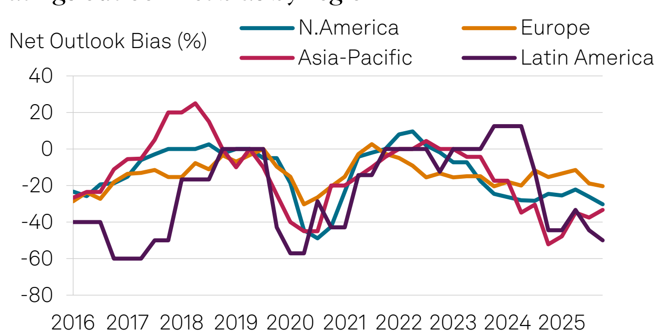
Ratings outlooks by region



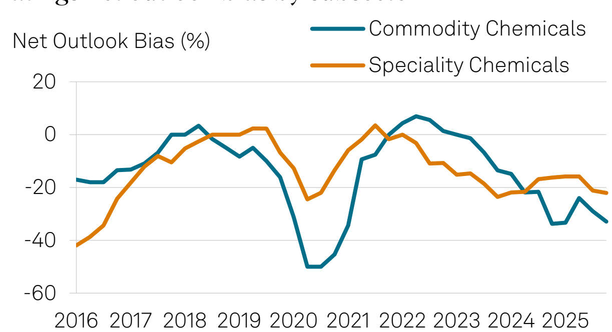
Ratings outlooks by subsector



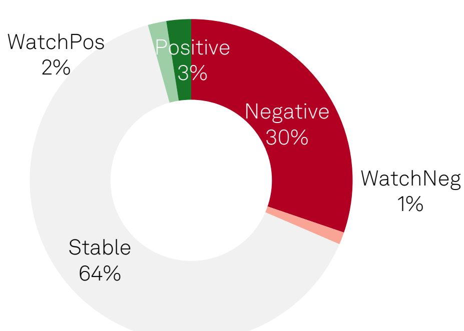
Ratings outlook net bias by region



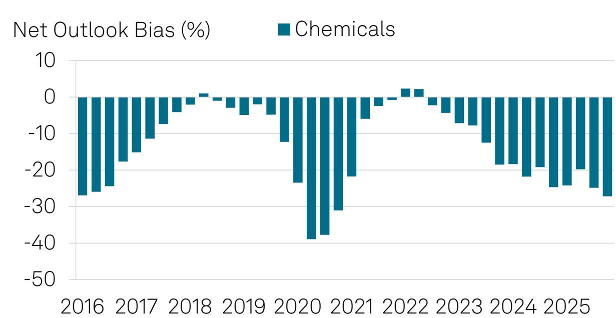
Ratings net outlook bias by subsector



Ratings outlooks



Ratings net outlook bias

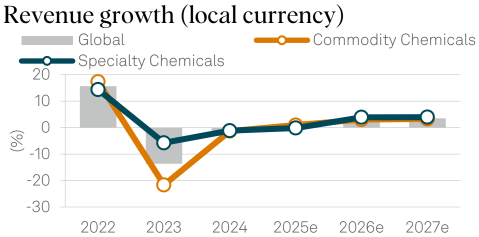


Source: S&P Global Ratings. Ratings data measured at quarter-end, except for ratings actions which are shown monthly.

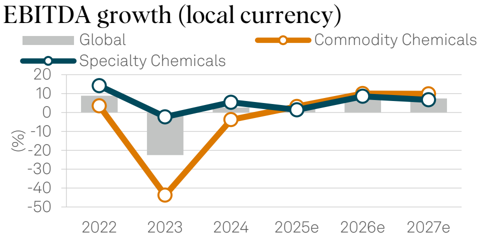
Industry Forecasts (Medians)

		All				Investment Grade				Speculative Grade			
		2024	2025e	2026e	2027e	2024	2025e	2026e	2027e	2024	2025e	2026e	2027e
Revenue growth, local currency (Y/Y%)	**Global**	**-1.1**	**0.1**	**3.6**	**3.5**	**-2.1**	**-1.1**	**2.9**	**3.3**	**0.1**	**1.0**	**3.9**	**4.0**
	Commodity Chemicals	-1.3	1.0	3.0	3.3	-2.0	-0.9	2.0	2.7	-0.4	2.9	3.4	3.4
	Specialty Chemicals	-1.1	-0.2	3.9	4.0	-2.3	-1.4	3.2	3.5	0.8	0.4	4.0	4.1
EBITDA growth, local currency (Y/Y%)	**Global**	**2.6**	**2.4**	**9.1**	**7.4**	**-1.8**	**0.7**	**9.0**	**6.6**	**5.8**	**2.8**	**8.8**	**7.7**
	Commodity Chemicals	-3.8	3.2	10.0	9.9	-12.8	2.4	9.5	9.7	1.9	0.8	12.7	9.9
	Specialty Chemicals	5.4	1.4	8.6	6.7	3.9	-1.5	7.3	5.7	8.7	3.6	8.6	7.3
EBITDA margin (%)	**Global**	**16.3**	**16.7**	**17.3**	**18.4**	**15.6**	**15.5**	**17.0**	**18.0**	**16.6**	**17.3**	**17.3**	**18.4**
	Commodity Chemicals	14.3	13.4	15.2	16.1	14.1	14.5	16.3	17.0	14.8	12.9	13.5	14.3
	Specialty Chemicals	18.0	19.1	20.0	20.3	17.6	17.0	18.1	18.7	18.9	19.5	20.2	20.8
Capex growth, local currency (Y/Y%)	**Global**	**-0.6**	**2.7**	**0.0**	**0.0**	**-2.7**	**0.0**	**0.0**	**0.0**	**0.4**	**4.0**	**0.0**	**0.0**
	Commodity Chemicals	-6.9	0.9	0.0	0.0	-11.4	1.4	0.0	0.0	-4.3	-4.4	0.0	0.0
	Specialty Chemicals	2.3	4.0	0.0	0.0	3.7	-7.2	0.0	0.7	1.4	8.4	0.0	0.0
Debt/EBITDA (reported, x)	**Global**	**4.5**	**4.4**	**3.8**	**3.4**	**2.2**	**2.5**	**2.3**	**2.3**	**6.0**	**5.5**	**5.1**	**4.6**
	Commodity Chemicals	3.8	4.0	3.5	3.0	2.2	2.7	2.3	2.4	5.9	5.9	4.8	4.4
	Specialty Chemicals	5.1	4.7	4.1	3.6	2.3	2.5	2.3	2.1	6.1	5.5	5.1	4.8
FFO/Debt (%)	**Global**	**10.7**	**13.1**	**16.6**	**19.0**	**29.4**	**27.7**	**29.0**	**30.7**	**7.5**	**8.2**	**10.8**	**12.2**
	Commodity Chemicals	12.0	13.8	16.8	21.5	24.7	24.1	26.6	29.6	9.8	8.0	11.9	13.7
	Specialty Chemicals	9.3	11.7	13.8	18.0	31.6	29.6	33.4	36.5	6.4	8.7	10.5	11.8
FOCF/Debt (reported, %)	**Global**	**3.4**	**2.7**	**6.2**	**7.8**	**9.5**	**9.2**	**11.6**	**13.1**	**0.9**	**1.0**	**3.9**	**5.1**
	Commodity Chemicals	1.2	1.6	5.1	7.5	3.9	6.5	10.5	10.6	0.4	0.3	3.8	5.5
	Specialty Chemicals	4.9	3.9	7.3	8.5	12.7	12.2	13.2	15.0	1.3	1.4	3.9	5.0

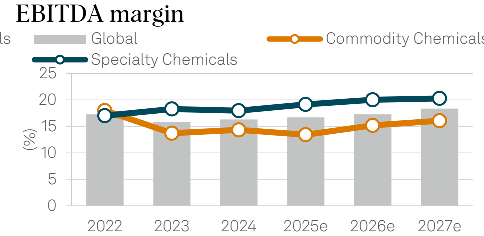
Revenue growth (local currency)



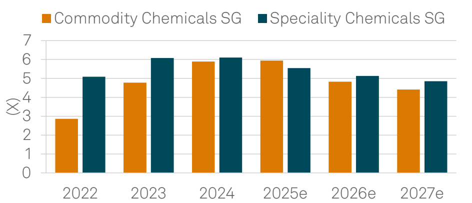
EBITDA growth (local currency)



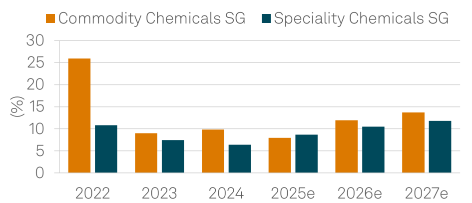
EBITDA margin



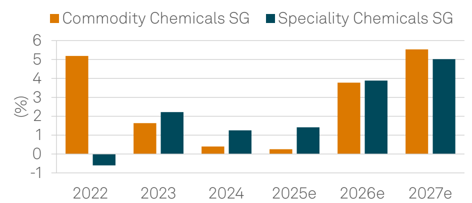
Debt/EBITDA



FFO/Debt



FOCF / Debt



Source: S&P Global Ratings. e--estimate. FFO—Funds from operations. FOCF—Free operating cash flow. Data as of Dec. 31, 2025.

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