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From tariffs to geopolitics: A year of changing risks and financial resilience

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Abstract

Last spring, US equity markets were reacting to the sharpest tariff escalation in decades. On April 8, the S&P 500 pulled back meaningfully (19%) from its February 19 all-time-high, and scenario-conditioned early warning signals pointed to broad-based vulnerability across sectors and firm sizes. A year later, the immediate tariff shock has receded, but the uncertainty has not. If anything, it has increased, driven by ongoing questions about the durability and enforceability of the tariff regime, as well as the escalation of military tensions with Iran.

This paper compares Financial resilience (FR) —a forward-looking measure of whether a firm's current financial condition is likely to remain stable or deteriorate under alternative macroeconomic scenarios—for S&P 500, Russell 1000, and Russell 2000 constituents on April 8, 2025, versus April 8, 2026, holding the portfolios and methodology constant, but against a very different macro backdrop. Because the April 2026 results already incorporate the conflict-driven environment, the focus is not on whether firms simply recovered from the tariff shock, but whether underlying financial resilience has strengthened as the risk landscape has fundamentally evolved.

We find that resilience improved overall, but unevenly: large caps remain overwhelmingly resilient, small caps recovered but still retain elevated fragility, and sector outcomes diverged sharply, with banks and energy improving while consumer-facing and media sectors remained under pressure. At the same time, scenario conditioning reveals latent vulnerabilities that point-in-time signals can miss, as some firms' forward paths deteriorate even as current metrics improve. This reinforces that financial resilience is best interpreted as a living, scenario-conditioned measure, designed to track how risk evolves—not just where it stands today.

Key takeaways:

1. **Financial resilience improved, but the size divide persists.** Large caps remain overwhelmingly resilient — 98% of S&P 500 constituents and 93% of Russell 1000 constituents — while small caps in Russell 2000 showed meaningful recovery (average FR score rising from 4.62 to 5.12) yet still have a precarious share above 21%.
2. **Sector trajectories are diverging: banks and energy strengthened; consumer-facing and media sectors remain under pressure.** Banks improved across all three indices, with FR score gains as large as +0.89 in the Russell 1000. Energy benefited from balance-sheet discipline and elevated crude oil prices. In contrast, consumer-facing sectors declined in both the S&P 500 and Russell 1000, and media & communication remains the weakest Russell 2000 sector at an average score of 3.46.
3. **Scenario conditioning surfaces overlooked risks that point-in-time signals can miss.** Relying only on unconditional early warning signals can miss latent fragility: **American Airlines** is a clear example—its unconditional early warning signals (EWS) has improved year-on-year, yet the scenario-conditioned projections deteriorate enough to breach the early warning signals (EWS) trigger even under Baseline, shifting the firm from Resilient to Vulnerable.
4. **Financial Resilience should be treated as a living tool, not a one-time label.** The risk mix rotates continuously; by keeping the framework constant while refreshing scenario inputs, FR provides a consistent way to track resilience migration, monitor concentrations of fragility, and reassess exposure as conditions evolve.

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Introduction

In May 2025, we published “Assessing Financial Resilience with Scenario-Conditioned Early Warning Signals,” which introduced a framework for measuring a company's Financial Resilience (FR) by combining unconditional early warning signals (EWS) with scenario-conditioned forward projections.¹ We applied it to listed companies in the S&P 500, Russell 1000 and Russell 2000. That analysis, anchored to the April 8, 2025, tariff-escalation date, revealed significant heterogeneity in resilience across company sizes and sectors.

This follow-up examines the same question one year later, comparing FR scores on April 8, 2025, against April 8, 2026. To ensure a like-for-like comparison, we restrict the analysis to entities that appear in both April 2025 and April 2026 scoring universes for each index. By holding the methodology constant while allowing the economic environment to evolve, we isolate the degree to which corporate financial health has shifted in the intervening twelve months.

The twelve months between April 8, 2025, and April 8, 2026 have been anything but calm. The tariff escalation that defined early 2025 was partially unwound, and equity markets staged a strong recovery — the S&P 500 gained approximately 36% year-on-year, buoyed in part by record cloud-computing demand and AI-driven revenue growth at the largest technology firms.

Figure 1. S&P 500 Index: April 2024 – April 2026. Highlighted points mark the two Financial Resilience scoring dates



But equity-market gains do not automatically translate into improved financial resilience. By early 2026, a military conflict with Iran had shut down the Strait of Hormuz, sending Brent crude above \$110 per barrel. Defense spending also accelerated, supporting some defense-adjacent industries while reinforcing upward pressure on prices. These dynamics have introduced a new inflationary impulse — this time driven by energy costs and fiscal expansion rather than tariffs — that now weighs on the forward outlook. The April 2026 macroeconomic scenarios used in this analysis incorporate these dynamics, meaning the FR scores presented here reflect not a “return to normal” but a forward projection under a new set of risks.

¹ Broadly, FR assesses the capacity of an entity to withstand adverse economic conditions. Section 1 recaps the Financial Resilience framework and explains how FR grades and scores are constructed.

Financial resilience: A brief recap of the framework

Financial Resilience asks a simple question: **how likely is a company's current financial condition to remain stable as the macroeconomic environment evolves?** It answers that question by combining the current early warning signal with scenario-conditioned projections one year ahead, allowing us to distinguish firms whose condition is expected to remain stable from those likely to deteriorate under stress.

For any given reference date, the Early warning signals (EWS) yields an unconditional assessment based on the entity's 1-year probability of default (PD) and its risk position within its peer group and the peer-driven trigger.² The Financial resilience framework tracks how that signal is expected to evolve under baseline, upside, and downside scenarios,³ translating the resulting paths into three resilience grades (**Table 1**).

Figure 2. Unconditional and scenario-conditional early warning signals – the foundation of the financial resilience framework

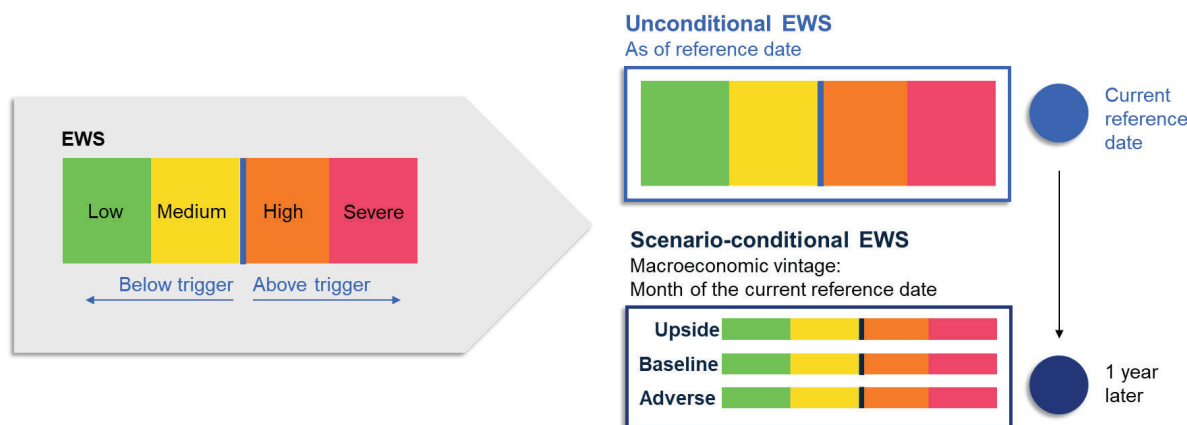


Table 1. Three financial resilience grades

Grade	Current signal	Projected signal (1 yr.)	Interpretation
Resilient	Below trigger	Remains below trigger	Maintains stability under stress
Vulnerable	Below trigger	Moves above trigger	At risk under adverse scenarios
Precarious	Above trigger	Any	Already elevated risk

Why do these grades matter? The framework is not just descriptive; the grades map meaningfully to realized credit outcomes. Performance evaluation on public rated companies demonstrates strong discriminatory power. The realized one-year default rate rises monotonically from 0.11% for Resilient entities to 3.11% for vulnerable and 7.86% for precarious — a 70-fold increase from the best to worst category. 76.1% of observed defaults were concentrated in the Precarious grade. Moreover, when we revisit our April 2025 classifications with the benefit of hindsight, they agree with a 'perfect-foresight' benchmark 93–99% of the time across the three indices (see appendix),

² We are leveraging EDF-X EWS for this analysis.

³ Matching last year's analysis, the results shown on this paper use Moody's Analytics' S1 as the Upside scenario and S2 as the Downside scenario. S2 represents a plausible adverse scenario with moderate severity (75th percentile); S3 and S4 embody progressively more extreme tail events that are less likely to materialize within a one-year horizon (10th and 4th percentile, respectively). Similarly, S1 represents a more plausible (10th percentile) upside scenario than S0 (4th percentile).

even though the risks that ultimately materialized looked nothing like the scenarios in place at the time.

Within each grade, a score from 1 to 8 provides additional granularity by rank-ordering the specific signal transitions, enabling portfolio-level aggregation and trend analysis over time. Later in the paper, we will rely on these scores to compute year-on-year financial resilience gains and losses at a portfolio level, across sectors and at an entity level.

Table 2. Financial resilience scores can offer additional granularity to Financial resilience grades

Financial Resilience Grade	Current Unconditional	Conditional Signals			Financial Resilience Subgrade	Score
		Upside	Baseline	Adverse		
Resilient	Green	Green	Green	Green	Ultra resilient	8
	Green	Green	Green	Yellow	Very resilient	7
	Green	Green	Green	Yellow	Moderately resilient	6
	Yellow	Yellow	Yellow	Yellow	Mildly resilient	5
Vulnerable	Green	Green	Green	Orange	Sensitive	4
	Yellow	Yellow	Yellow	Red		
Precarious	Green	Yellow	Red	Orange	Emerging risk	3
	Yellow	Green	Orange	Red		
	Orange	Yellow	Yellow	Red	Resurgent	2
	Red	Green	Green	Orange		
Distressed	Orange	Orange	Orange	Orange	Distressed	1
	Red	Red	Red	Red		

Aggregate financial resilience: Improvement amid new uncertainty

Leveraging the scores described in Table 2, we see that financial resilience improved across all three indices over the past year, but from very different starting points and with very different implications. The largest year-on-year gain occurred in the Russell 2000, where the average FR score rose from 4.62 to 5.12, lifting the index into the resilient grade. Even so, the Russell 2000 remains the weakest of the three at the aggregate level, with a Precarious share still above 21%. By contrast, the S&P 500 and Russell 1000 started from much stronger positions and improved more modestly. Importantly, all these results reflect the state of the world as of April 2026, including the new inflationary pressures embedded in the macroeconomic outlook.⁴

⁴ A description of the economic scenarios produced by Moody's Analytics can be found here: <https://www.economy.com/products/alternative-scenarios/standard-scenarios>. A detailed description of the narrative of each scenario is offered monthly to subscribers.

Table 3. Aggregate Financial Resilience: April 2025 vs. April 2026⁵

	S&P 500 Apr-25	S&P 500 Apr-26	YoY Change	R1000 Apr-25	R1000 Apr-26	YoY Change	R2000 Apr-25	R2000 Apr-26	YoY Change
Avg. FR Score	6.36	6.39	+0.03	6.01	6.15	+0.14	4.62	5.12	+0.50
Avg. FR Grade	Resilient	Resilient		Resilient	Resilient		Vulnerable	Resilient	
% Resilient	97.2%	98.3%	+1.1pp	92.0%	93.2%	+1.2pp	65.7%	70.8%	+5.1pp
% Vulnerable	1.3%	1.1%	-0.2pp	3.2%	3.3%	+0.1pp	6.1%	7.8%	+1.7pp
% Precarious	1.5%	0.6%	-0.9pp	4.8%	3.5%	-1.3pp	28.2%	21.4%	-6.8pp

S&P 500: Steady strength, marginal gains

The S&P 500 was already overwhelmingly resilient a year ago, and it has reinforced that position. The equal-weighted average FR score edged up from 6.36 to 6.39. The share of resilient entities rose from 97.2% to 98.3%, while the Precarious share more than halved, falling from 1.5% to 0.6%.

These numbers suggest that, for the largest US. companies, the tariff shock of April 2025 has been largely absorbed. Balance-sheet strength, pricing power, and diversified supply chains have enabled most large-caps to weather the disruption and emerge with credit profiles at least as strong as — and in many cases stronger than — a year ago. However, the current environment is not a benign one: the resilience of these firms is now being tested against the backdrop of energy-price volatility, and the risk that conflict-driven fiscal pressures reignite inflation. That large caps remain overwhelmingly resilient even under these conditions speaks to genuine strength, but the durability of that strength will depend on how the geopolitical situation evolves.

Russell 1000: Broad-based improvement

The Russell 1000 shows a similar pattern, though with a clearer middle-market recovery dynamic than the S&P 500. The average FR score rose from 6.01 to 6.15, the Resilient share edged up from 92.0% to 93.2%, and the Precarious share fell from 4.8% to 3.5%. This suggests that one year after the tariff shock, most upper-mid-cap and large-cap firms have improved their resilience even under a more inflationary and geopolitically fraught backdrop. As we will show in the sectoral analysis below, Russell 1000 sits between the two endpoints of the analysis: more robust than Russell 2000, but with more visible pockets of differentiation than the S&P 500.

Russell 2000: Material recovery, but elevated fragility persists

The Russell 2000 tells a more dynamic story. The average FR score rose from 4.62 to 5.12, a half-point improvement that represents meaningful migration up the scale, into Resilient grade. The share of Resilient companies climbed from 65.7% to 70.8%, while the precarious share fell from

⁵ Unless otherwise stated, all index- and sector-level averages in this paper are equal-weighted across covered constituents.

28.2% to 21.4%. However, the vulnerable share edged up from 6.1% to 7.8%, suggesting some entities improved enough to exit precarious but not enough to reach full Resilience.

The persistence of elevated precarious and vulnerable shares in the Russell 2000 deserves particular attention given the current macroeconomic environment. With over 21% of Russell 2000 constituents still classified as precarious, this cohort represents a materially elevated credit-risk pocket. With new inflationary pressures emerging from conflict-related defense spending and energy disruptions, these already-fragile small caps may face headwinds that the current FR assessment does not yet fully capture. Notable names in the Russell 2000 precarious cohort include AMC Entertainment, JetBlue Airways, Teladoc Health, and MARA Holdings — firms spanning media, transportation, healthcare, and crypto mining that face distinct but compounding structural headwinds. These are not abstract categories — they carry tangible implications for portfolio credit quality and loss expectations.

Sector-level analysis: Divergent trajectories

While the aggregate picture is one of broad improvement, sector-level analysis reveals meaningful divergence. The dumbbell charts below plot the average FR score per sector in April 2025 (lighter dot) versus April 2026 (darker dot) for each index.

What matters is not just that sectors moved, but that they moved for different reasons: some benefited from the new macro environment, while others remain exposed to the same cost and demand pressures that made them vulnerable a year ago.

S&P 500: Sector highlights

The S&P 500 shows remarkable stability across sectors. Nearly every sector maintains an average FR score above 5.5, and most saw modest improvements.

Improving Sectors

Travel, entertainment & leisure recorded the most notable improvement among S&P 500 sectors, rising from 5.68 to 6.21 (+0.53). The Precarious share dropped from 5.3% to zero, reflecting a recovery in leisure spending and easing travel disruptions.

REITs and Banks — both already 100% Resilient a year ago — saw further within-grade strengthening, with mean scores rising from 7.12 to 7.54 (+0.42) and 7.35 to 7.53 (+0.18), respectively. Technology & IT Services improved from 5.56 to 5.86, reflecting the AI-driven revenue expansion across large-cap tech.

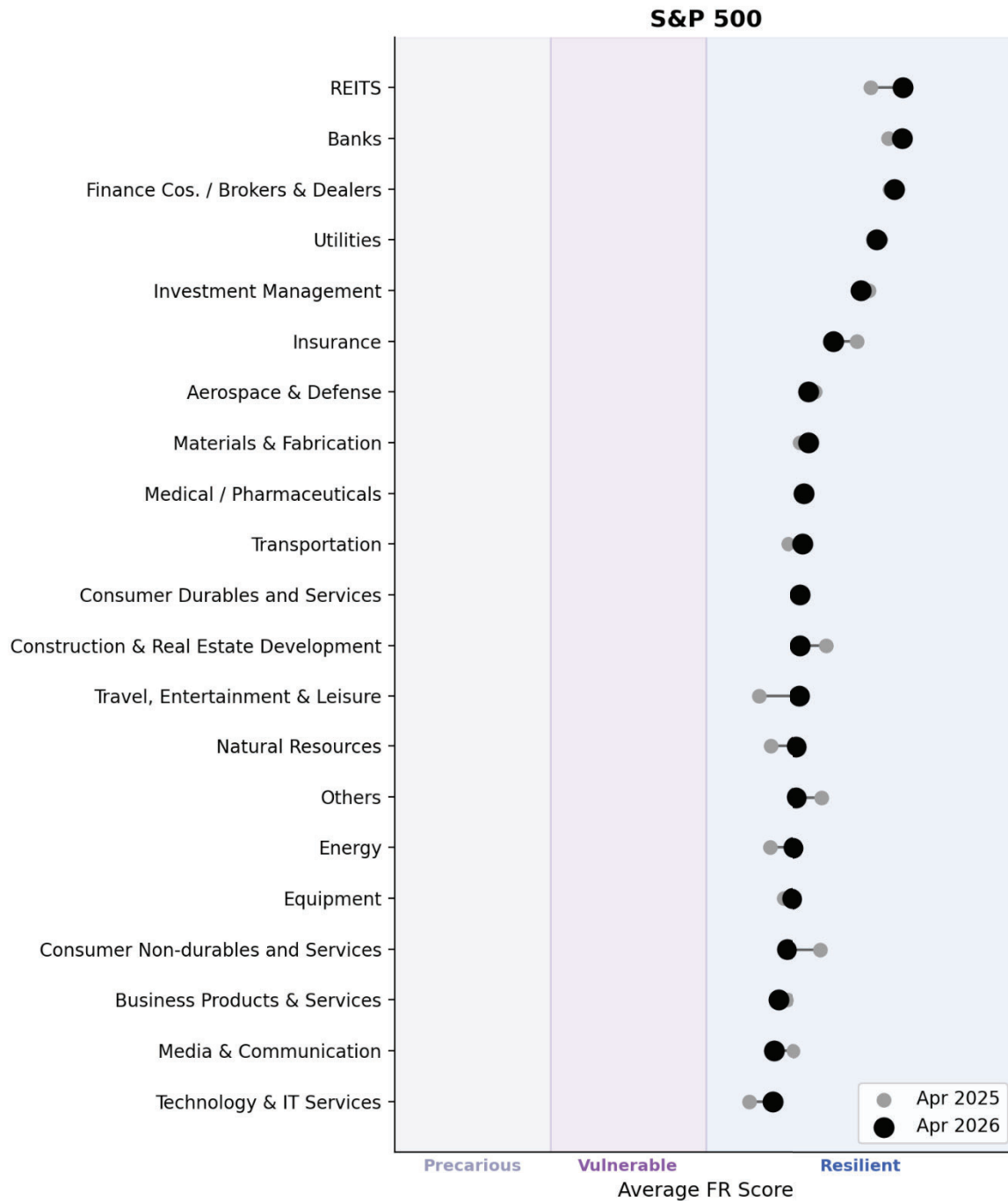
Energy improved from 5.82 to 6.12, with all companies now Resilient (up from 94.1%). Balance-sheet discipline and conflict-elevated energy prices have strengthened the sector's forward outlook.

Declining Or stable-weak Sectors

Consumer non-durables and services saw the largest decline, from 6.48 to 6.04 (−0.43). Rising input costs and re-emerging inflationary pressure are weighing on forward-looking resilience. Insurance declined modestly from 6.95 to 6.65, though it retains 100% Resilient classification.

Construction & real estate development edged down from 6.56 to 6.22, consistent with the broader pressure on rate-sensitive sectors as renewed inflation risk and tighter financing conditions weigh on forward-looking resilience.

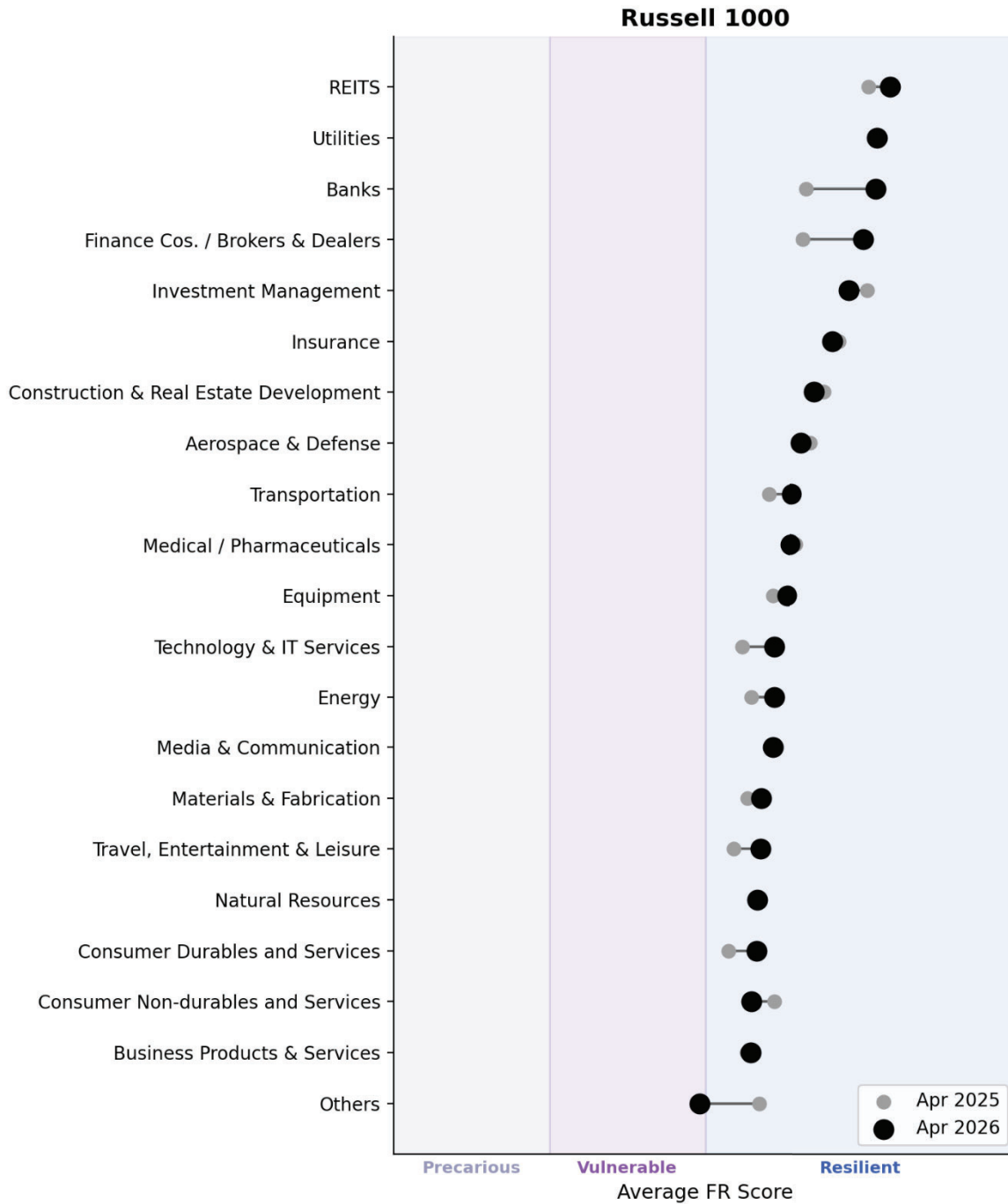
Figure 3. S&P 500: Average FR Score by Sector (April 2025 vs. April 2026)



Russell 1000: Sector highlights

The aggregate improvement in the Russell 1000 understates meaningful variations at the sector level, particularly within financial sub-sectors. All major sectors remain in the Resilient grade, but the magnitude and sources of improvement differ materially across industries.

Figure 4. Russell 1000: Average FR Score by Sector (April 2025 vs. April 2026)



Financial sub-sector divergence

Banks recorded the most dramatic improvement across all Russell 1000 sectors, surging from 6.31 to 7.19 (+0.89). The Precarious share fell from 8.3% to 2.8%, with 97% of banks now Resilient. Finance Cos./Brokers & Dealers rose similarly from 6.26 to 7.04 (+0.78), with 100% now

Resilient. These improvements reflect rate stabilization, improved deposit confidence, and strengthening net interest margins.

In contrast, **investment management declined from 7.09 to 6.85, with a small vulnerable share (2.9%) emerging where none existed before.** Insurance held broadly steady at 6.72–6.64. This divergence underscores the importance of examining financial sub-sectors separately rather than treating them as a single group.

Other notable moves

Technology & IT Services improved from 5.47 to 5.89 (+0.41). **Travel, en tertainment & leisure improved** from 5.37 to 5.71, though its vulnerable share increased from 7.3% to 12.2%, indicating bifurcation within the sector: airlines faced rising fuel costs and elevated leverage, while hospitality and gaming operators benefited from strong consumer demand.

Consumer non-durables and services declined from 5.89 to 5.59, with vulnerable entities doubling from 3.4% to 6.9%. The weakening reinforces the broader pressure on consumer-facing sectors discussed below.

Russell 2000: Sector highlights

Figure 5. Russell 2000: Average FR Score by Sector (April 2025 vs. April 2026)



The Russell 2000 exhibits the widest sector-level dispersion, with average FR scores ranging from 3.46 (Media & Communication) to 7.22 (Banks). The improvement story is broad-based but uneven.

Improving sectors

Energy staged the most dramatic recovery, with the average FR score jumping from 3.48 to 4.69 (+1.21). The precarious share fell from 45.8% to 20.4%. The combination of improved balance sheets, reduced production costs, and conflict-elevated energy prices has materially improved the outlook for small-cap energy firms.

Equipment improved from 3.80 to 4.76 (+0.96), with the Resilient share rising from 54.2% to 69.0%. The improvement is consistent with firmer demand in energy services and related industrial segments, where higher capital spending has supported several small-cap equipment firms. **Banks** recorded the strongest absolute score, improving from 6.38 to 7.22 (+0.83), with 93.1% now Resilient — reflecting the particularly strong recovery of community banks and smaller regional lenders.

Persistently weak sectors

Media & communication remains the weakest sector at 3.46 with no improvement (–0.07). The Precarious share increased from 39.3% to 42.9%. Small-cap media and telecom firms continue to face structural headwinds from digital disruption and high fixed costs.

Business products & services improved only modestly from 3.73 to 4.11, with the Precarious share still at 32.1% (down from 38.3%). **Travel, entertainment & leisure**, despite marginal improvement, retains 39.1% Precarious. **Finance Cos./brokers & dealers** in the small-cap space also remains challenging at 4.81, with 34.6% Precarious. Taken together, these sectors have stabilized somewhat, but they remain exposed to business models that are still highly sensitive to weak demand, financing conditions, or both.

Consumer durables & services (3.36 to 3.99) and **consumer non-durables** (4.00 to 4.41) show modest improvement but remain below the 5.0 threshold that separates Vulnerable from Resilient sub-grades. The improvement suggests some recovery from deeply stressed starting points, but these sectors remain exposed to the consumer-facing headwinds discussed in the cross-cutting themes below. Nearly one in four entities is still Precarious.

Cross-cutting themes

1. Size still matters, but the gap is narrowing

Last year's analysis highlighted the significant financial resilience gap between large- and small-cap firms. That gap persists, but it has narrowed. The S&P 500's average FR score of 6.39 is 1.27 points above Russell 2000's 5.12. However, the gap shrunk, as small caps experienced a larger absolute improvement (+0.50 vs. +0.03). Small caps were hit harder by the 2025 tariff shock and had more room to recover, but they also remain more exposed to the new set of challenges: smaller firms typically have less pricing power to pass through inflation, thinner liquidity buffers to absorb energy-cost spikes, and less access to the capital markets when uncertainty is elevated. No S&P 500 sector averages below 5.5, whereas eight Russell 2000 sectors remain below 5.0.

2. Banks, energy, and AI-driven tech lead the recovery

Banks improved across all three indices, with the most dramatic gains in the Russell 1000 (+0.89) and Russell 2000 (+0.83), reflecting a more stable rate environment and improved deposit confidence. Energy firms have benefited from balance-sheet discipline and conflict-driven pricing

support, though the same elevated energy prices that strengthen these companies introduce cost headwinds elsewhere in the economy. The AI investment cycle has been a powerful differentiator among large Technology & IT Services firms; cloud and semiconductor companies are riding unprecedented demand for compute infrastructure, translating record revenues into improved credit metrics.

3. Consumer-facing sectors are under renewed pressure

Consumer Non-durables and Services declined in both the S&P 500 and Russell 1000, while Consumer Durables remains one of the weakest Russell 2000 sectors. The risk here is compounding: tariff-driven cost increases from 2025 have not fully unwound, while the conflict with Iran has layered on a new wave of inflationary pressure through energy-price pass-through and defense-driven fiscal expansion. Consumers already fatigued by the cumulative price increases of recent years face the prospect of further erosion in purchasing power if oil-linked costs continue to feed through supply chains. For consumer-facing firms without the pricing power or scale to absorb these headwinds, the result is margin compression and weakening credit metrics — precisely the dynamic captured by the FR framework's forward projections under the adverse scenario.

4. Financial sub-sectors tell different stories

Despite broad improvement, Banks and Finance Cos./Brokers & Dealers still maintain meaningfully different profiles in the Russell 2000 (7.22 vs. 4.81). REITs (6.55) and Insurance (6.58) have converged to similar headline scores, because REITs showed clear improvement while Insurance held flat. Investment Management actually declined, with a small Vulnerable share emerging where none existed before. Finance Cos./Brokers & Dealers improved in the Russell 1000 but remain challenged in the Russell 2000, where more than a third of entities are still Precarious. The recovery in banking — driven by rate normalization and restored deposit confidence — has not extended uniformly across the broader financial sector.

5. Defense-adjacent sectors may benefit further, but rate-sensitive ones face headwinds

Defense spending has already risen materially — with overall national defense funding reaching roughly \$1 trillion in FY2026 — and the proposed FY2027 budget of \$1.5 trillion signals a sustained expansion as the military works to replenish munitions stockpiles depleted by the Iran conflict. This fiscal impulse could provide an additional tailwind to Aerospace & Defense and related industrial supply chains; the S&P 500 Aerospace & Defense sector already maintains a strong average FR score of 6.33, and expanding government procurement pipelines may further bolster the outlook. Conversely, sectors sensitive to interest rates — such as Construction & Real Estate Development and certain financial sub-sectors — could face renewed headwinds if defense-driven fiscal expansion forces the Federal Reserve to maintain a tighter monetary stance than markets currently anticipate.

6. The nature of risk has shifted, but the need for vigilance has not

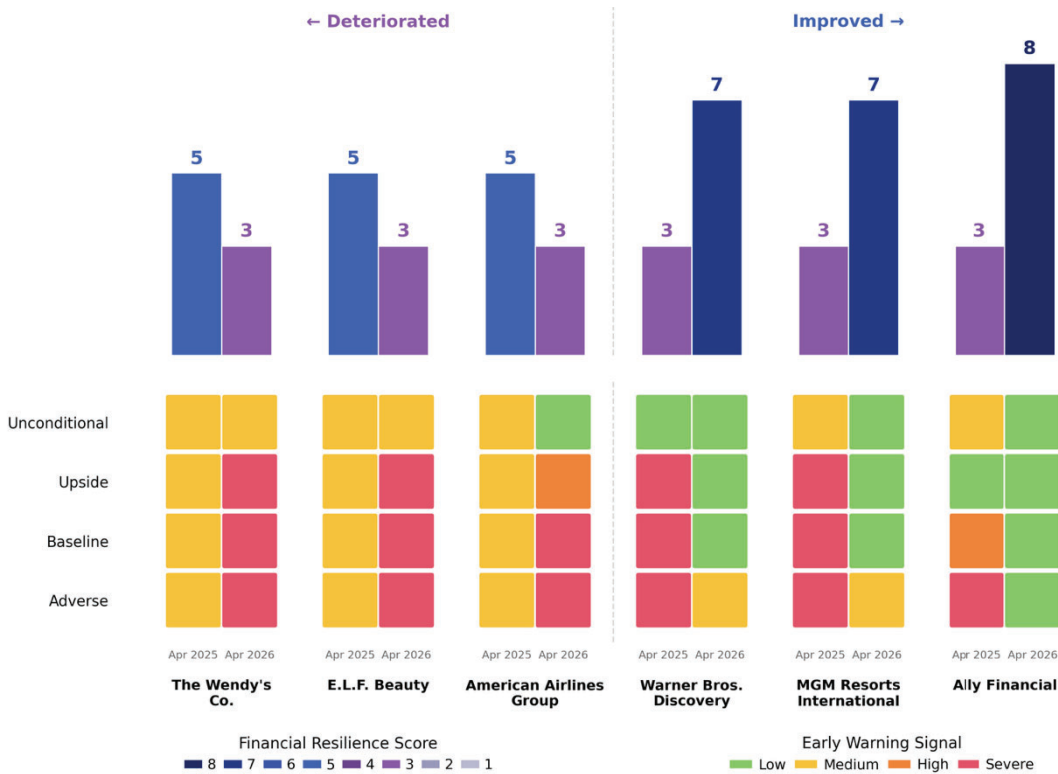
Perhaps the most important takeaway is that risk has not resolved — it has compounded. The tariff uncertainty of April 2025 has not disappeared; it has been joined by geopolitical conflict, defense-driven fiscal expansion, and the specter of re-emerging inflation. Financial resilience

scores have generally improved, but those improvements were earned against last year's threats. Whether they hold against the current — and broader — constellation of risks is the critical question, and precisely the kind of question that scenario-conditioned analysis is designed to answer.

Entity-level case studies illustrate divergent trajectories

While aggregate and sector-level patterns reveal broad trends, individual entity outcomes bring these dynamics into sharp focus. Below we highlight notable **resilient** ↔ **vulnerable** transitions across the indices; the appendix complements these migration stories with a separate review of entities that were labeled in April 2025 as **precarious (FR score =1)** that **subsequently defaulted or required rescue transactions**.

Figure 6 Entity Case Studies: FR Score and early warning signals (EWS) transitions (Apr 2025 vs. Apr 2026)



Deteriorated: From resilient to vulnerable

The Wendy's Co. (Russell 1000) dropped from Resilient (score 5) to Vulnerable (score 3). The deterioration reflects a familiar squeeze in quick-service restaurants: maintaining value credibility while food and labor costs remain elevated. Wendy's has faced a sharp demand shock—US. same-restaurant sales declined 11.3% in Q4 2025, and management characterized 2026 as a “rebuilding year,” with a turnaround plan that includes closing 5%–6% of US. restaurants and resetting the brand's value posture. Competition has been especially intense in the value tier, where peers have sustained traffic while Wendy's has struggled to convert promotions into durable momentum—prompting a shift toward everyday value (including the January launch of Biggie Deals) and operational initiatives aimed at restoring customer experience. Against that

backdrop, Wendy's leveraged financial profile limits the cushion available for margin compression: public financial statements show multi-billion-dollar debt and lease obligations, which amplifies sensitivity to setbacks in traffic and same-store sales. In the FR lens, this combination—price-sensitive demand, heightened value competition, and limited balance-sheet flexibility—makes the forward stress path meaningfully less forgiving than the current signal alone would suggest.

E.L.F. Beauty (Russell 1000) declined from Resilient (score 5) to Vulnerable (score 3). E.L.F. has been one of the fastest-growing names in US cosmetics, gaining market share through an affordable price point and viral social-media marketing. Yet the FR framework's deterioration highlights a tension that revenue growth alone cannot resolve: the company's aggressive expansion — including international market entry, new product lines, and increased marketing spend — has stretched its balance sheet. Under adverse scenarios, the elevated operating leverage and thinner cash buffers that accompany rapid scaling become liabilities. E.L.F.'s heavy reliance on China-sourced manufacturing also exposes it to tariff risk that persists from the 2025 trade-policy regime; the company has noted that approximately 80% of its products are manufactured in China. This case demonstrates that high revenue growth does not immunize firms from scenario-conditioned stress, and that the FR framework captures forward-looking vulnerabilities that surface-level performance metrics may overlook.

American Airlines Group (Russell 1000) moved from Resilient (score 5) to Vulnerable (score 3) because the scenario-conditioned path is projected to breach the trigger—with the early warning signals (EWS) deteriorating from Low to Severe by April 2027, even under the Baseline scenario. At the same time, the airline's unconditional signal improved from medium to low, meaning point-in-time credit metrics looked better even as forward-looking stress worsened. This is exactly the situation financial resilience is designed to surface: vulnerability that is not obvious from the current signal alone. American carries the highest debt load among US legacy carriers (over \$30 billion, much of it incurred during the pandemic). Strong travel demand has supported near-term cash flows, but the Iran conflict and resulting rise in jet-fuel costs create a direct earnings headwind. Under adverse conditions, high fixed-cost leverage, fuel sensitivity, and potential disruption to international routes combine to leave the firm structurally exposed—despite the near-term improvement in unconditional metrics.

Improved: From vulnerable to resilient

Warner Bros. Discovery (S&P 500, Russell 1000) improved from Vulnerable (score 3) to Resilient (score 7), with unconditional early warning signals (EWS) low in both periods. On the surface, Warner Bros. Discovery appeared healthy throughout — its unconditional early warning signals (EWS) never left the Low band. Yet in April 2025, the FR framework correctly identified it as vulnerable based on scenario-conditioned stress, reflecting the company's heavy debt load and uncertain streaming economics. Between April 2025 and April 2026, management accelerated deleveraging through non-core asset divestitures and achieved sustained profitability at the Max streaming platform. A pivotal development came in February 2026, when Paramount Skydance announced a definitive agreement with WBD — a deal that reshaped the competitive landscape and signaled renewed strategic confidence in the combined asset base. Together with substantial free-cash-flow improvement, these developments materially strengthened the balance sheet and moved the company to resilient by April 2026. This case underscores the incremental value of scenario conditioning: unconditional signals alone would have missed both the 2025 vulnerability and the subsequent recovery, while the FR framework captured each transition in real time.

MGM Resorts International (S&P 500, Russell 1000) rose from vulnerable (score 3) to resilient (score 7). MGM's recovery illustrates how the travel and entertainment sector's post-pandemic

normalization has translated into genuine credit improvement for well-positioned operators. Record Las Vegas Strip revenues — driven by convention business, premium hospitality demand, and the continued build-out of the Formula 1 and sports-event calendar — have materially strengthened MGM's cash-flow generation. The company has also reduced net debt substantially and renewed its focus on capital discipline after years of pandemic-era liquidity management. Its international expansion, particularly through BetMGM in online sports betting and iGaming, provides revenue diversification. The shift from medium to low unconditional early warning signals (EWS) confirms that the improvement is visible not only under stress scenario projections but also in the unconditional risk assessment — a consistent strengthening signal across both dimensions of the FR framework.

Ally Financial (Russell 1000) recorded the largest vulnerable-to-resilient score gain in the Russell 1000, moving from score 3 to score 8. As the largest publicly traded digital auto-lender in the United States, Ally was heavily exposed to the used-vehicle credit cycle that deteriorated sharply through 2023 and into 2024, with rising net charge-offs and delinquency rates pressuring the portfolio. By April 2025, these credit headwinds placed Ally firmly in the vulnerable category under scenario-conditioned stress. Over the following year, however, credit losses peaked and began normalizing, used-vehicle values stabilized, and a more favorable interest-rate environment improved net interest margin. Ally's deposit franchise — one of the largest online deposit platforms in the US. — provided stable, low-cost funding through the cycle. The five-point FR score improvement to the maximum score of 8 reflects a comprehensive credit recovery: improving asset quality, stronger capital ratios, and a rate backdrop that has shifted from headwind to tailwind. Ally's trajectory powerfully illustrates the banking-sector recovery theme and demonstrates the FR framework's ability to capture both the depth of vulnerability and the speed of recovery.

Conclusion

One year after the April 2025 tariff shock, **financial resilience across major US. equity indices has broadly improved**. Large-cap companies have consolidated their already-strong positions, with 98% of S&P 500 constituents and 93% of Russell 1000 constituents classified as resilient. Small-cap firms in the Russell 2000 have experienced a more pronounced recovery, though more than one in five still qualifies as precarious — a fact that carries real weight given the historical default rates associated with that classification.

At the sector level, **banks and energy have led the recovery**, while **consumer-facing sectors face renewed headwinds that could worsen if inflation re-emerges**. Within financial services, banks improved sharply while Investment Management declined and Finance Cos./Brokers remain challenged in small caps. Among the smallest firms, media & communication and travel, entertainment & leisure have stagnated or deteriorated, reflecting structural headwinds that no macro recovery can easily reverse.

Yet this is not a story of resolution. The tariff uncertainty that dominated April 2025 persists in the background, while a new and arguably more consequential set of risks has moved to the foreground: a military conflict with Iran, a rapidly growing defense budget, elevated energy prices, and growing fears that fiscal expansion will reignite inflation. The Financial Resilience improvements documented here were built during the twelve months between these two very different stress events. Whether those gains prove durable in the face of the current challenges remains to be seen.

These findings underscore the value of scenario-conditioned financial resilience analysis as a living, dynamic tool. The risks that dominate one year's assessment — tariff shocks and trade-

policy uncertainty in 2025 — may give way to entirely different vulnerabilities the following year: geopolitical conflict, fiscal overextension, and inflationary pressure in 2026. By maintaining a consistent analytical framework while updating inputs, organizations can track the evolution of credit risk and identify emerging pockets of fragility before they crystallize into material losses. In an environment where the only constant is uncertainty, the ability to project financial resilience under alternative scenarios is not a luxury — it is a necessity.

Appendix: Realized financial resilience: Did 2025 FR work out as expected?

The April 2025 classifications were produced in a macro environment dominated by tariff escalation and trade-policy uncertainty, with oil prices falling on expectations that the trade war would weigh on global demand. The Moody's Analytics scenario narratives at the time explicitly noted that the Israel-Hamas conflict was “not expected to spread to other parts of the Middle East, including Iran.” Twelve months later, we find ourselves in that situation. The dominant risk in April 2026 was a military conflict with Iran that produced one of the largest disruptions to global oil supply since the 1970s energy crisis, sending Brent crude above \$110 per barrel — up more than \$40 — after the Strait of Hormuz was shut down.

The dominant source of stress this April shifted: in 2025, cost-push pressure came from tariffs on imported goods; in 2026, it comes from oil and energy prices. But the tariff regime has not been fully dismantled — it adds a persistent background drag on import-dependent sectors even as the new energy-driven inflation takes center stage. The underlying economic channels are strikingly similar — inflationary pressure, supply-chain disruption, and policy uncertainty — but the combined effect of both is potentially more severe than either alone.

To evaluate how well the 2025 Financial Resilience (FR) classifications held up, we construct a “perfect foresight” benchmark for each entity. This applies the same classification framework (Table 1) but replaces the projected signal with the realized April 2026 unconditional EWS. Under this framework, an entity classified as Resilient in 2025 is considered “confirmed” if its realized 2026 EWS remains in the Low or Medium range; it is effectively reclassified as Vulnerable if the realized EWS shifts to High or Severe.

Table 4. Perfect-Foresight FR Grade Definitions

Perfect-Foresight Grade	Unconditional EWS Date 1 (April 8, 2025)	Unconditional EWS Date 2 (April 8, 2026)
Resilient	Below trigger	Remains below trigger
Vulnerable	Below trigger	Moves above trigger
Precarious	Above trigger	Any

High classification agreement across all indices

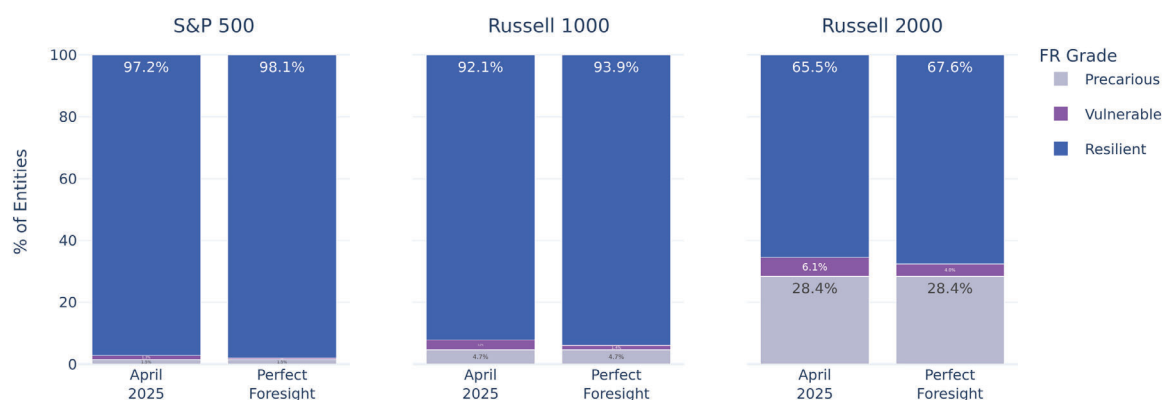
Table 5 shows the agreement rate between the Financial Resilience grades we issued back in April 2025, versus the perfect-foresight grade. The agreement rates are highly reassuring. The April 2025 FR grades match the perfect-foresight grades **98.7%** of the time in the S&P 500, **96.5%** in the Russell 1000, and **92.8%** in the Russell 2000 (Table 4). Most classifications made under tariff-driven uncertainty would have been unchanged even with full knowledge of what materialized, under a very different set of risks.

Table 5. Classification agreement: April 2025 FR grade vs. perfect-foresight grade

Index	Agreement rate
S&P 500	98.7%
Russell 1000	96.5%
Russell 2000	92.8%

This is not a validation of the macroeconomic scenarios themselves. The S2 downside scenario used in April 2025 did not anticipate a military conflict with Iran or an oil-price shock. What the agreement validates is the **FR framework's ability to identify structural credit resilience** — the balance-sheet strength, earnings stability, and risk buffers that allow firms to absorb stress regardless of its specific origin.

Figure 7. FR grade composition: April 2025 vs. perfect foresight



Sector-level projected versus realized FR agreement

Table 6. Perfect-Foresight Agreement by Sector (All Indices Pooled)

Sector	Agreement rate
Utilities	100.0%
Natural Resources	100.0%
Insurance	98.8%
REITS	98.1%
Construction & Real Estate Dev.	97.1%
Consumer Durables and Services	96.2%
Medical / Pharmaceuticals	95.8%
Consumer Non-Durables and Services	95.8%
Aerospace & Defense	95.0%
Investment Management	94.7%
Business Products & Services	94.4%
Banks	94.2%
Technology & IT Services	93.9%
Materials & Fabrication	93.4%
Energy	92.2%

Media & Communication	92.2%
Finance Cos. / Brokers & Dealers	91.5%
Equipment	91.2%
Travel, Entertainment & Leisure	89.6%
Transportation	89.4%

Agreement rates are high and consistent across all sectors (Table 5). Even in the lowest agreement sectors, the framework correctly classifies nine out of ten entities. These findings confirm the FR framework's credibility as a forward-looking classification tool.

Erring on the side of caution

Among the small share of misclassified entities, roughly two-thirds (68%) were cases where the 2025 grade was vulnerable but the perfect-foresight grade turned out to be resilient. The vulnerable-to-resilient cases are most common in banks, technology & IT services, and equipment, where entities genuinely faced elevated risk under the 2025 scenario assumptions but subsequently improved as conditions evolved and firms adapted.

- **Banks:** Regional and mid-cap banks — Zions Bancorporation, Comerica, Webster Financial, Synovus, Valley National Bancorp — strengthened as rate-driven profitability improved and post-SVB deposit concerns faded, moving to Low EWS by April 2026.
- **Technology & IT Services:** Firms such as Dayforce, Semtech, and Vishay Intertechnology benefited from sustained enterprise software spending and semiconductor demand recovery.
- **Equipment:** Energy services and industrial firms such as NOV, Kodiak Gas Services, Solaris Energy Infrastructure benefited from elevated capital spending in the energy and defense-adjacent industrial sectors, where infrastructure investment surged over the past year.

Only about one-third (32%) went in the opposite direction — classified as resilient in 2025 but reclassified as vulnerable under perfect foresight. In this comparison window, the framework's misclassifications leaned toward caution rather than complacency. From a risk-management perspective, flagging vulnerability that subsequently resolves is a preferable error to missing it altogether — though this directional pattern is sample-specific and should not be assumed to hold universally. The resilient-to-vulnerable misclassifications were concentrated in Medical/Pharmaceuticals, Business Products & Services, and Technology & IT Services — sectors where rapid shifts in competitive dynamics, patent cliffs, or AI-related spending can quickly alter credit trajectories. These reclassifications also reflect the broader macroeconomic shifts and firms' own strategic adjustments throughout the year — including cost restructuring, capital reallocation, and balance-sheet optimization — which interact with sector dynamics in ways the point-in-time framework cannot fully anticipate.

Precarious classifications, realized defaults and acquisitions

The strongest test of a forward-looking risk framework is whether its most severe classifications correspond to actual credit events. Among the companies flagged as precarious with a distressed subgrade (FR score =1) in April 2025, seven filed for Chapter 11 bankruptcy protection within the following nine months.

These seven companies span five sectors — Energy, Technology & IT Services, Equipment, Medical/Pharmaceuticals, and Consumer Durables & Services — and two indices. All carried the Distressed subgrade (FR score=1), the most severe classification within the precarious tier.

Several additional precarious/distressed companies avoided outright bankruptcy only through distressed acquisitions that explicitly cited imminent default risk. **Bluebird Bio** warned of

“significant risk of defaulting on its loan agreements” and “bankruptcy or liquidation” absent its June 2025 acquisition by Carlyle and SK Capital. **Adverum Biotechnologies** disclosed that failure to complete its Eli Lilly merger would “likely result in bankruptcy.” **Denny’s**, carrying an Altman Z-Score of 1.37 (firmly in the distress zone), was taken private in a \$620 million leveraged buyout in January 2026. **In each case, the FR framework’s Precarious classification anticipated the credit distress that subsequently materialized — whether it resolved through formal bankruptcy, distressed sale, or rescue acquisition.**

These outcomes reinforce the practical value of the Precarious classification. As mentioned above, Precarious entities carry a realized one-year default rate of 7.86%, roughly 70 times that of Resilient firms. **The concentration of actual defaults and near-defaults among the Distressed subgrade confirms that the framework’s most severe signal is not merely a statistical artifact — it identifies companies whose financial fragility is acute and imminent.**

TABLE 6. Companies Classified as Precarious (FR score =1) in April 2025 that Filed for Chapter 11 by April 2026

Company	Index	PD (Apr 2025)	Filing Date	Outcome
SUNNOVA ENERGY	Russell 2000	50.0%	June 8, 2025	Assets sold; plan confirmed Nov 2025
WOLFSPEED	Russell 1000	50.0%	June 30, 2025	Emerged Sept 2025; 70% debt reduction (\$4.6B eliminated)
TPI COMPOSITES	Russell 2000	45.3%	Aug 11, 2025	Still in Chapter 11 proceedings
MODIVCARE	Russell 2000	50.0%	Aug 20, 2025	Emerged Dec 2025; 85% debt reduction (\$1.1B eliminated)
IROBOT	Russell 2000	31.7%	Dec 14, 2025	Emerged Jan 2026; acquired by Picea Robotics, equity cancelled
LUMINAR TECHNOLOGIES	Russell 2000	30.6%	Dec 15, 2025	Liquidation plan confirmed April 2026; equity wiped
ZYNEX	Russell 2000	13.6%	Dec 15, 2025	Emerged March 2026; all equity cancelled

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