Credit Perspectives

Q4 2025

Navigating Volatility in a Maturing Global Credit Cycle

Executive Summary:

Markets continued to perform well in 2025 despite continued geopolitical headwinds, reflecting the underlying resilience of the European and U.S. economies. Global growth, while modest, remained positive and proved resilient in absorbing shocks from tariffs, AI-driven disruption and ongoing armed conflicts, with recessionary concerns largely receding. Across both Europe and the U.S., equities and credit delivered broad-based gains during the year; however, as the cycle has matured, dispersion has become increasingly evident at the individual security level.

CVC Market Update:

CVC's Liquid and Private Credit teams remained active throughout 2025, leveraging the full extent of the CVC Network to deploy across markets, achieve attractive realizations and seek to return capital to investors.

Key Highlights:

- **CLO New Issues:** CVC issued eight CLOs in 2025, deploying capital opportunistically while maintaining pricing discipline and strong deal structures.

- **CLO Resets & Refinancings:** Further resets and refinancings were completed across the U.S. and Europe in Q4, bringing total 2025 activity to 21 resets and 4 refinancings across the CVC CLO platform. Fund I continued to realise existing positions, including Apidos CLO XXXIV through a reset which resulted in a 17.1% net IRR and a 1.6x MoM for investors.[1]

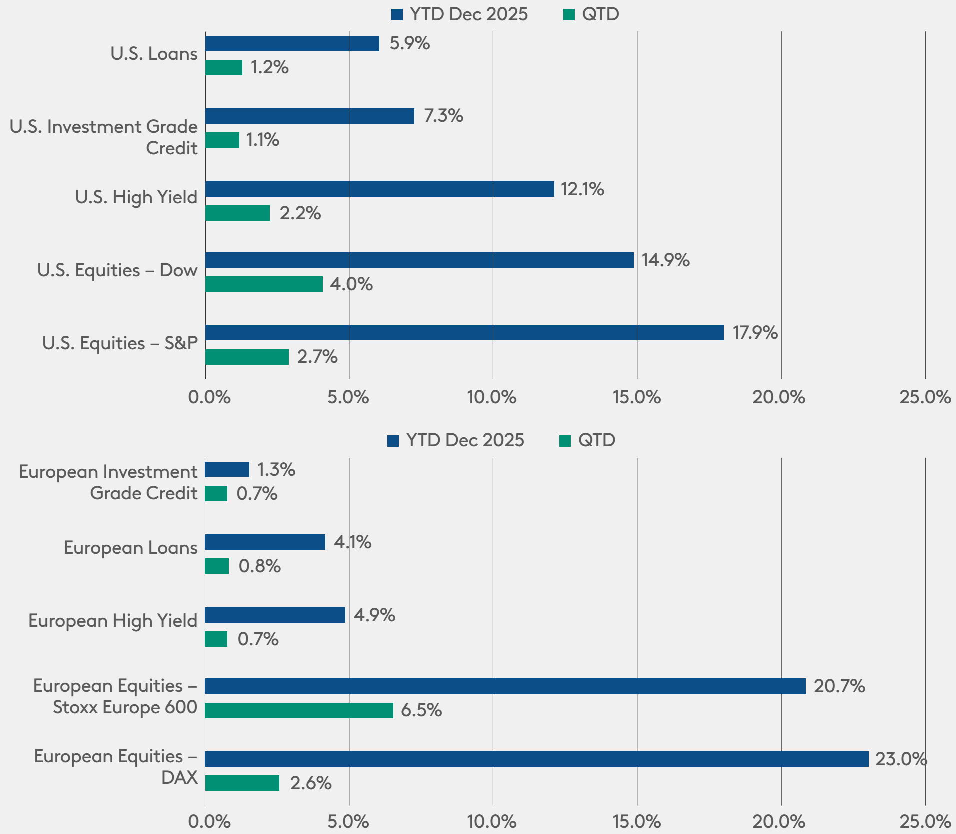
- **Private Credit:** 50 transactions were completed across the private credit platform in 2025, including in countries such as France, Belgium and Spain, spanning a range of industries such as Business Services and Healthcare. The CVC Network remained central to CVC Private Credit's origination and diligence process.

1 Past performance does not predict future returns. IRR and MOIC corresponding to CVC CLO Equity I's investment in the CLO Equity tranche. The redemption IRR reflected above is net of fees at the CLO level, but gross of fees applied at the CVC CLO Equity I level, which will reduce returns. The SEC net return (based on the application of a model fee that reflects the effective of fees at the fund level), is 15% / 1.5x. Performance has been calculated using the ratio method of gross/net for CVC Credit CLO Equity III fees and expenses and is 0.9x.

Market Update Q4 2025 | Broad-based gains despite geopolitical headwinds

Exhibit 1
Performance Across Asset Classes

European equities finished the year ahead of the U.S. as a result of tariff-related fears that emerged in April. Credit enjoyed another strong year of returns with spreads defying expectations and continuing to tighten.



YTD shows year to 31 December 2025. QTD shows quarter to 31 December 2025. Indexes or prices used are: U.S. Equities S&P 500 – S&P 500 Total Return Index, U.S. Equities Dow Jones – Dow Jones Industrial Average TR Index, U.S. Investment Grade Credit – Bloomberg U.S. Aggregate Total Return Index, U.S. High Yield – Bloomberg Global High Yield Total Return Index, U.S. Loans – Morningstar LSTA US Leveraged Loan TR USD, European Equities DAX – Deutsche Boerse AG German Stock Index DAX, European Equities Stoxx Europe 600 – STOXX Europe 600 Price Index EUR, European Investment Grade Credit – Bloomberg Pan-European Aggregate Total Return Index, European High Yield – Bloomberg Pan-European High Yield Total Return Index, European Loans – Morningstar European Leveraged Loan TR EUR.

Headline Risk, Fundamental Stability

Last year was marked by pronounced geopolitical volatility, but surprising macro resilience across the U.S. and Europe. While markets experienced bouts of risk-off sentiment, including DeepSeek's AI advances, conflicts in the Middle East and Europe, and, of course, the U.S. tariff announcements, these short-term market jilts did not disrupt the broad-based gains investors enjoyed. Inflation has gradually eased across Western economies, and labour markets have remained relatively strong. Although there have been pockets of weakness, with some high-profile Chapter 11 bankruptcies in recent months, these appear idiosyncratic rather than indicative of a wider downturn.

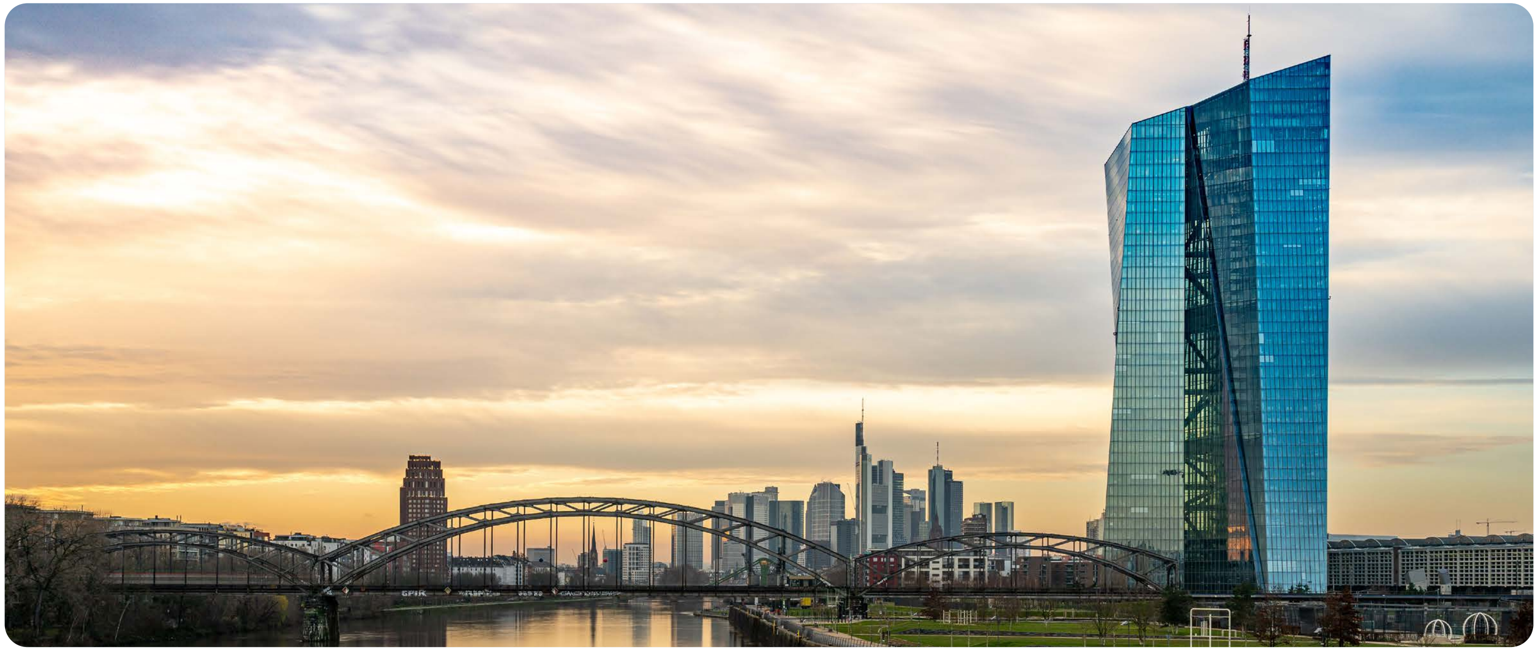
Central Banks Under the Spotlight

Monetary policy was a central driver of market dynamics in 2025, with a noticeable divergence emerging between Europe and the U.S.. The European Central Bank ("ECB") delivered multiple rate cuts throughout the year and is now signalling that 2026 may see a prolonged pause rather than further easing. By contrast, the Federal Reserve began its rate cutting cycle later, amid increasing pressure from the White House for a more expedient and aggressive response. Nonetheless, rates continued to fall in Q4 and further easing is likely. Recent political challenges to central bank independence have heightened tension and will be closely monitored throughout 2026.

Europe in the Spotlight

Europe emerged from 2025 with a stronger macro narrative than many had anticipated. Political risks, particularly in France and the UK, generated episodic volatility without inducing broader contagion. The region proved resilient to external tests such as U.S. tariffs and NATO spending commitments, fostering greater cooperation and a renewed sense of leadership and stability on the world stage.

Economically, the outlook remains constructive. ECB rate cuts should support businesses and help spur M&A activity by lowering financing costs. Real incomes continue to recover, supported by a labour market that remained robust throughout 2025. Renewed confidence in Europe is reflected in equity market performance, with European indices outperforming the U.S. despite the turbo charged advances of U.S. technology stocks. Germany's much-discussed fiscal stimulus also appears promising.



Global Tensions Remain Elevated

One persistent theme in 2025 was the slow pace of progress toward major conflict resolution. While advances were made in the Israel-Palestine conflict, the situation remains volatile. Prospects for peace in Ukraine look more favourable than a year ago, although it remains unclear how committed Russia is to a durable ceasefire. These conflicts did not have widescale repercussions for markets, and in Europe's case, prompted positive political action as several nations pledged higher defence spending that should stimulate economic growth.

However, signs of international unrest have persisted into 2026, most notably in Greenland, Iran and Venezuela, which could have pronounced market impacts. Although the Greenland dispute appears to be resolved for now, the nature of the episode is concerning. Furthermore, Iran and Venezuela are both OPEC members with significant oil reserves which could have global ramifications if supply radically changes.

Tight Spreads, High Dispersion: Liquid Credit

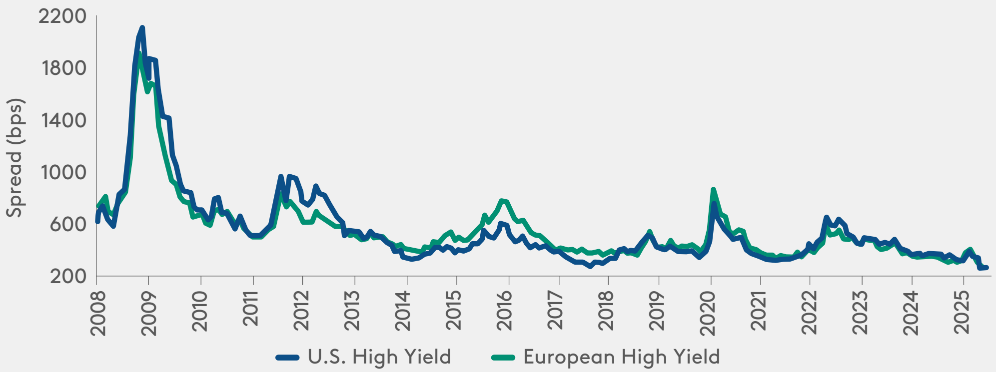
The dominant theme in liquid credit during 2025 was persistent tight spreads due to strong technical support. High yield spreads were already near record tights at the start of the year and defied many analysts' expectations by tightening further. U.S high yield and leveraged loan spreads tightened by 11bps and 21bps respectively over the course of the year, while European spreads tightened by 40bps and 31bps.[2]

As a result, both high yield markets now trade within the 10th percentile of historic levels when analysing data since 2000. Using post-2008 data, the picture is even starker: U.S. high yield is trading at its third and European high yield is at its first percentile. High yield and leveraged loans posted positive returns in both geographies this year at 12.1% and 5.9% in the U.S., and 4.9% and 4.1% for European equivalents.[3]

Despite this overall spread tightening, dispersion has increased meaningfully. In U.S. high yield, CCC spreads widened by 139bps in 2025, while the CCC–BB spread gap expanded by 156bps, underscoring a bifurcated market as the credit cycle matures. While performance remained positive, fundamentals softened over the year, with downgrades outpacing upgrades and fallen angels increasing materially.

In 2026, a benign macro backdrop should support constructive performance. However, we expect conditions to remain complex, with dispersion a defining feature. In this environment, we believe a bottom-up, fundamental approach is critical to navigating an increasingly differentiated market, an enduring tenet of CVC Credit's investment philosophy.

Exhibit 2
U.S. and European High Yield Spreads Tightened Further in 2025



Source: Bank of America Global Research, as at 31 December 2025.

2 Source: Bank of America Global Research & Pitchbook | LCD. As of 31 December 2025.

3 Source: Bloomberg. U.S. High Yield – Bloomberg Global High Yield Total Return Index, U.S. Loans – Morningstar LSTA US Leveraged Loan TR USD, European High Yield – Bloomberg Pan-European High Yield Total Return Index, European Loans – Morningstar European Leveraged Loan TR EUR. As of 31 December 2025.

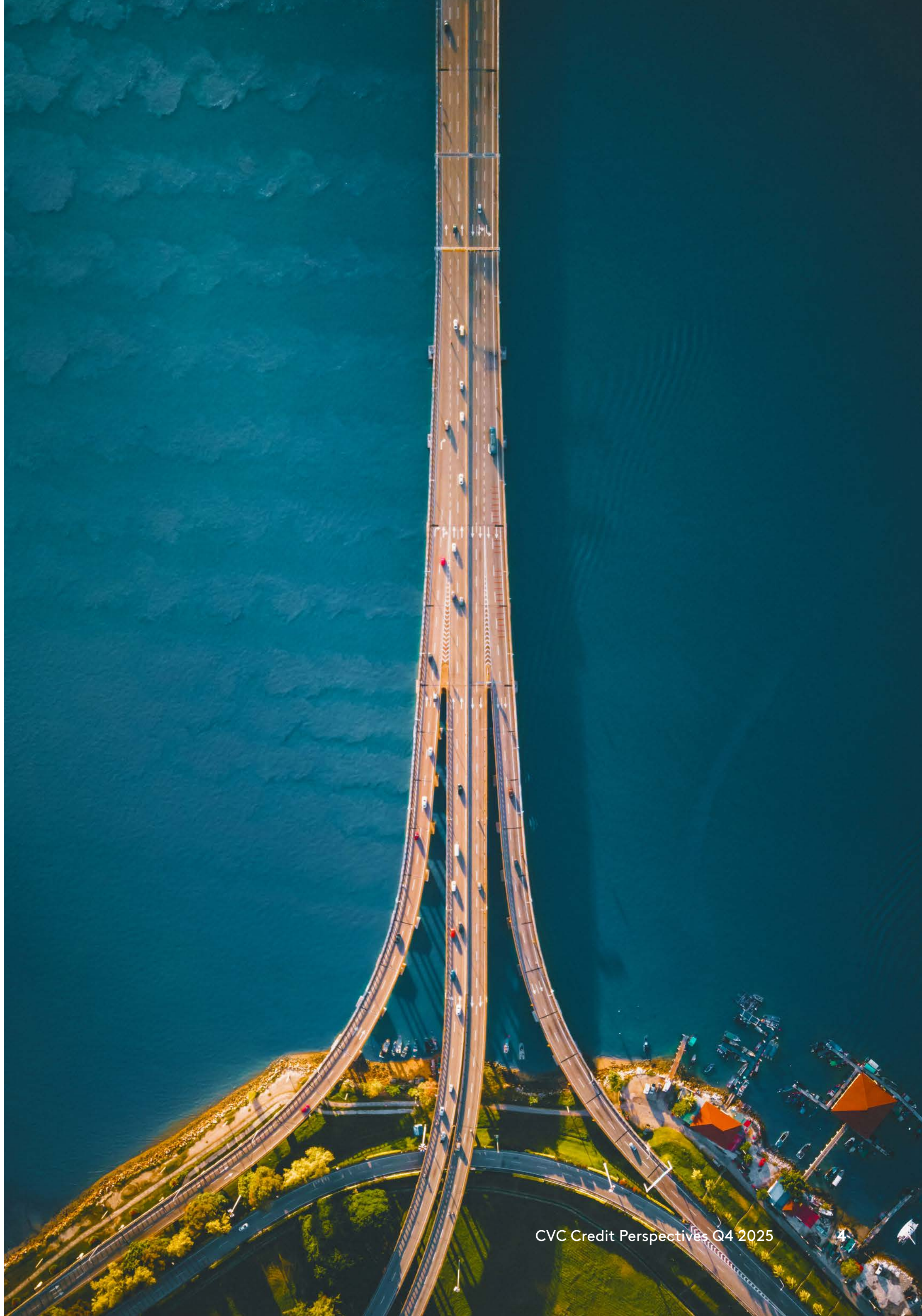
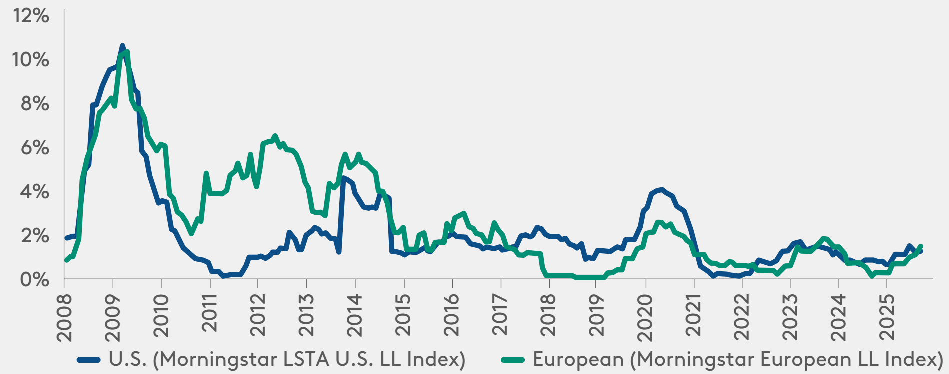
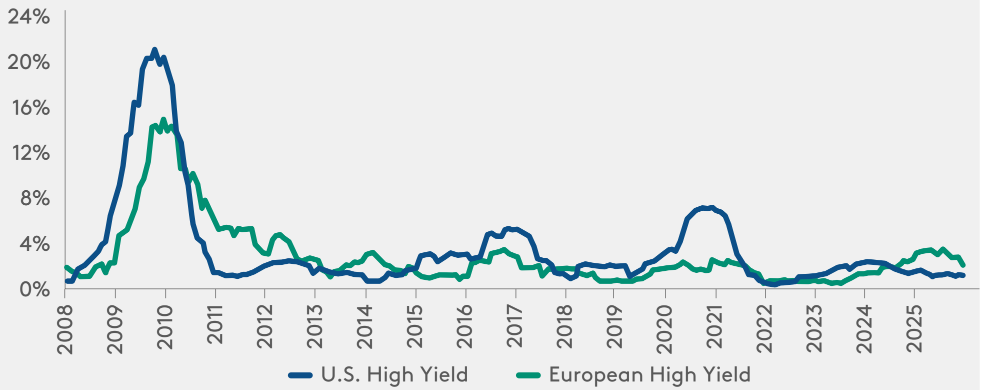


Exhibit 3
U.S. & European Leveraged Loan Last 12-Month Default Rate: Principal Amount



Source: Pitchbook | LCD; Morningstar LSTA US Leveraged Loan Index; Morningstar European Leveraged Loan Index. Does not include LMEs. As at 31 December 2025

Exhibit 4
U.S. & European High Yield Last 12-Month Par-Weighted Default Rate



Source: Bank of America Global Research, as at 31 December 2025.

Defaults Remain Well Contained

Defaults remained moderate in 2025, trending close to average levels. The U.S. high yield par default rate was largely unchanged from Q3 at 1.2% at year-end, while Europe's rate fell to 2.0% vs. 2.7% in the prior quarter. Leveraged loan defaults also remained close to long-term norms.

Credit quality trends were mixed but manageable. There were ten U.S. rising stars in Q4, with $38bn elevated to investment grade, matching the full-year volume of 2024. By contrast, there was only one fallen angel during the quarter. The total volume downgraded to high yield in 2025 exceeded $40bn, representing a material increase versus the prior year. However, this only resulted in a modest increase in net supply due to $38bn of rising stars.

Looking forward, recent rate cuts in both Europe and the U.S. should provide relief for issuers and result in defaults remaining close to current levels as the year progresses.

High Volumes, Limited Net Supply

Issuance remained strong throughout the final quarter of the year and was robust across both U.S. and European markets. However, most of this was driven by refinancing, which limited net supply growth and kept spreads tight. Total U.S. high yield issuance reached $328bn in 2025, a 17% YoY increase, while U.S. leveraged loan issuance totalled $439bn – below 2024 levels but still high historically. In Europe, high yield and leveraged loan issuance amounted to €125bn and €250bn, respectively, taking volumes beyond post-GFC records.

One notable trend has been the surge in recapitalisations over the past two years, as sponsors have sought to provide liquidity to LPs. Recap-related issuance totalled $161bn in 2024/2025, compared with $170bn over the prior five-year period. We expect this activity to moderate in 2026, as M&A markets continue to recover and sponsor-led activity increases.

More Micro, Less Macro – Outlook & Positioning

In our Global Yield fund, we have not changed our overall positioning materially. We continue to be overweight Europe vs. U.S. compared to our historical positioning as the spread pick-up remains compelling. Single name volatility remains elevated and weaker-rated names underperformed in the second half of the year, on the back of the events surrounding First Brands. We remain cautious on chemicals as the sector has been hit by both cyclical and structural headwinds, particularly in Europe. The combination of structurally higher energy costs and environmental regulation makes it difficult for the sector to compete in the global supply chain. As mentioned last quarter, AI will continue to be a disruptor for many years to come, its impact on every credit is discussed at length during Investment Committee discussions. Finally, geopolitical volatility will remain an important driver for credit spreads going forward.

Embedded and Enduring: Private Credit

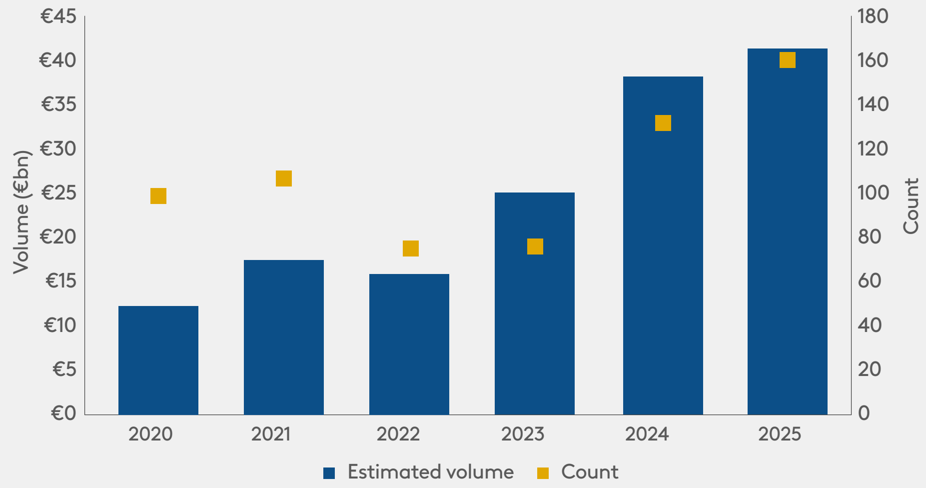
Private credit remained a critical source of financing throughout 2025, supported by structural demand drivers in Europe.

European direct lending recorded an estimated annual record on both a deal-count and volume basis. Total issuance reached an estimated €41bn for the year, increases of 8% and 66% versus volumes in 2024 and 2023, respectively.

The anticipated pickup in M&A activity at the start of the year did not materialise to the extent expected, with tariff volatility widely cited as slowing deal processes. While the deal count for new-issue, direct-lending-backed LBOs rose modestly, volumes were essentially flat year-on-year at c.€19bn.[4] This lack of net new supply has led to a technical imbalance. Private Debt Investor reported that global private credit fundraising reached a record $357bn, up marginally from $355bn in 2024. Elevated dry powder combined with limited net supply growth have kept spreads tight, with many deals now pricing close to or even within E+500 amid competition for high quality assets.[5] Nonetheless, the premium versus broadly syndicated loans remains attractive, with LBO-related direct loans in Europe pricing at a ~122bps premium to broadly syndicated loans.[6]

The uptick in recapitalisation activity seen in the broadly syndicated loan market, reflecting extended sponsor hold periods, was also evident in private credit. In total, €5.5bn of European direct lending deals were recapitalisation-related, materially higher than the previous record of €2.6bn in 2024. Indeed, Pitchbook recently reported that the median hold time for private equity owned companies has risen to 3.8 years, the highest level since 2011. This dynamic presents an opportunity for capital solutions providers who offer flexible financing for borrowers needing liquidity.

Exhibit 5
Annual European direct lending deal count and estimated volume



Source: Pitchbook | LCD as at 31 December 2025. Deal count is based on transactions covered by LCD News.

Resilience Beneath the Headlines

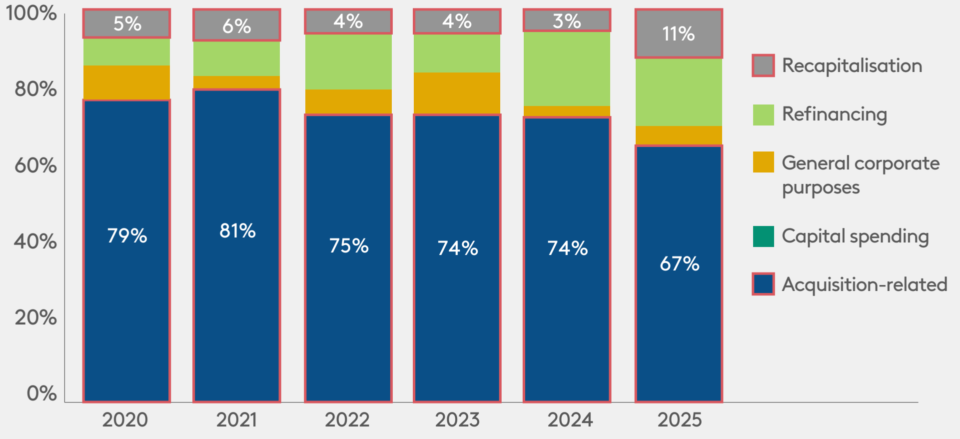
While the health of private credit has come under increased scrutiny recently, incidents of market weakness have been idiosyncratic rather than systemic. In fact, fundamentals have remained relatively resilient. Corporates not only exited 2025 with fairly sound balance sheets but enter 2026 with the prospect of declining interest rates, which points to further falls in financing costs. According to Fitch's analysis of the U.S. market, this is expected to lead to lower private credit defaults in 2026, as liquidity pressures ease for more levered issuers.[7] These issuers are largely related to COVID vintages and the period of rising rates experienced in 2022.

While Morningstar DBRS has noted a deterioration in credit quality in recent months, trends have varied meaningfully by region. European borrowers appear better positioned than their U.S. counterparts. They benefit from lower rates and have not seen cost inflation drive pronounced margin declines comparable to those in the U.S.. Credit metrics show European borrowers have enjoyed greater cash flow stability and interest coverage ratios versus the U.S., which should continue to support more resilient outcomes for the region in 2026.[8]

4 Source: Pitchbook | LCD, European Credit Markets Quarterly Wrap Q4 2025.
5 Source: Private Debt Investor Fundraising Report Full Year 2025.
6 Source: Pitchbook | LCD, European Credit Markets Quarterly Wrap Q4 2025.
7 Source: Fitch Ratings, 22 December 2025.
8 Source: Morningstar DBRS, 16 December 2025.

Exhibit 6

Recapitalisations increased significantly in 2025 while acquisition-related financing moderated – European direct lending deals by purpose



Source: Pitchbook | LCD. As at 31 December 2025. Deal count is based on transactions covered by LCD News

Local Reach, Global Opportunity

As mentioned, deal flow remained strong in 2025, despite muted M&A activity. This year's pipeline appears promising, with several large deals already underway in the U.S. and Europe, signalling an improvement in acquisition-related lending activity in 2026. Results from the LCD Global Private Credit Survey affirm this view. Respondents foresee deal flow increasing gradually, driven by lower borrowing costs, elevated levels of private equity dry powder and the need of private equity managers to distribute capital to investors. Improving economic conditions and earnings visibility should further support this trend.

CVC Credit remained highly selective and active throughout 2025, closing a number of junior and senior transactions across Europe. In 2025, CVC Credit committed to 50 private credit investments across more than 10 countries and 10 sectors, illustrating the scope and depth of the CVC Network.

Most of our transactions, such as the senior debt investment in Rentokil Workwear France, leveraged multiple teams across the CVC Network, and benefitted from CVC Credit's local presence. Today, CVC Credit has investment professionals in six local offices, allowing the firm to build local knowledge, cultivate relationships and be the first port of call for sponsors looking for financing solutions.

With strong realisations in the fourth quarter, returning capital remained a priority for the investment team. PIKs have received substantial media attention recently, however, they can be an effective tool for borrowers in a higher rate environment, supporting liquidity management while offering an attractive return profile for lenders. CVC recently exited a HoldCo PIK investment originated in 2023 to support the refinancing of a European industrial products and services provider. The company performed well despite a challenging macro backdrop, underpinned by the recurring nature of its MRO activities and a disciplined value creation plan. The group recently agreed to a highly synergistic acquisition to further its role as a market consolidator, which was financed entirely with equity. Following meaningful deleveraging, the sponsor elected to upsize the first lien facility to fully repay the HoldCo PIK, resulting in a 13% gross IRR return.[9] Transactions such as this demonstrate the merits of junior capital solutions when executed diligently and supported by robust and fundamental underwriting.

Outlook

With each passing year, private credit has become increasingly sophisticated and embedded in capital markets, providing sponsors with bespoke, flexible and reliable financing solutions across a range of market environments. Despite recent spread tightening, fundraising has remained strong as LPs continue to value the asset class's attractive income profile and low mark-to-market volatility that is designed to offer downside protection.

M&A volumes should incrementally increase this year as the cost of financing continues to fall and sponsors seek to realise DPI. That being said, evidence from 2025 shows that even in a muted M&A environment, deals were still executed, supported by refinancing and recapitalisation completions. As private credit becomes more institutionalised, differentiated sourcing, underwriting discipline, and active portfolio management underscore the importance of partnering with experienced managers.

9 Past performance does not predict future returns. The SEC net return (based on the application of a model fee that reflects the effect of fees at the fund level), is 11%. Performance has been calculated using the ratio method of gross/net for CVC Credit Capital Solutions Fund III fees and expenses and is 0.8x.