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CVC

Credit Perspectives

Q2 2026

Quality Prevails through the Noise

Executive Summary:

Q2 followed many of the same themes as the prior quarter, with market attention dominated by the conflict in Iran, sticky inflation, and AI-driven disruption. Even so, equities and credit markets performed resiliently, notably against a backdrop of volatile commodity prices and tightening financial conditions. Towards the end of the quarter, the deadlock in the Middle East appeared to have been broken; however, post quarter-end, the White House's declaration in early July that the ceasefire with Iran was over left markets facing renewed uncertainty. AI disruption within the software sector also remained a key focus, with some softening again in June as concerns resurfaced following a more subdued spell in April and May.

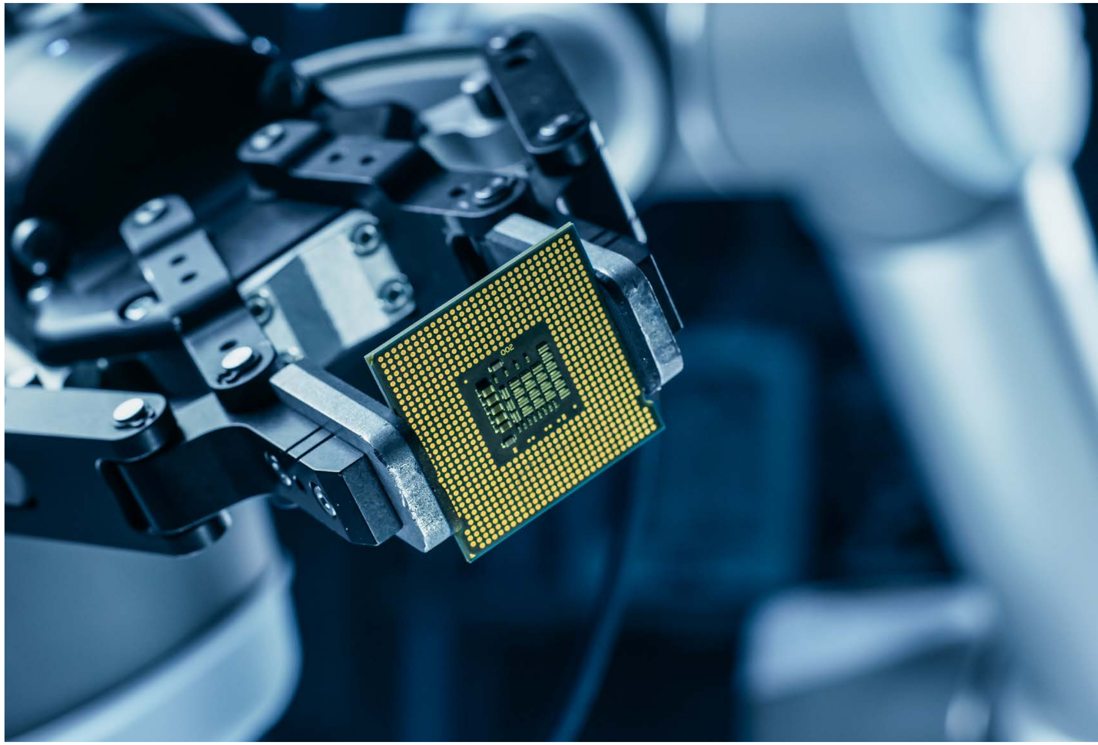
CVC Market Update:

CVC's Liquid and Private Credit teams remained active during the quarter, seeking attractive opportunities across both markets, while also delivering strong realisations as the platform continues to return capital to investors.

Key highlights:

- **CLO Activity:** The Liquid Credit Investment Team continued to find opportunities during the quarter, despite the challenging market environment. During the quarter, CVC priced one new issue in the U.S., Apidos LVII, and one new issue in Europe, Cordatus XXXVIII, as well as several resets in Europe and the U.S. While market volatility has made CLO activity more challenging, CVC continues to see strong appetite for its CLOs, with the debt for Apidos LVII being well syndicated and AAAs pricing at near market tights – highlighting CVC's established track record with investors.
- **Private Credit:** CVC's Private Credit origination process continued to source compelling opportunities across Europe. The European Direct Lending platform executed transactions across a variety of sectors and geographies during the quarter, including Spain, Italy and Benelux. The power of the CVC Network in supporting origination and due diligence remains clear, for example, as illustrated by our investment in a European provider of temporary traffic management systems, where we benefitted significantly from the local relationship the CVC Brussels office had cultivated with the sponsor, while the CVC Liquid Credit and CVC Infrastructure teams were able to support the due diligence process due to their familiarity with the sector and the target. The benefits of a local presence remain clear, allowing investors to develop relationships with fellow sponsors, track sectors and build strong local market knowledge, ultimately supporting better investment decisions and origination. In Capital Solutions, the team have an active pipeline and have executed transactions at attractive returns for M&A, refinancings and partial Private Equity company realisations during periods of temporary dislocation.

Market Update Q2 2026 continued



Peace still fragile
The conflict between the U.S., Israel and Iran has unravelled. A war the White House anticipated to last weeks has instead dragged on for months, with no clear path to a permanent ceasefire. The closure of the Strait of Hormuz, together with damage to energy infrastructure in countries such as Qatar, has hit global energy security hard. Combined with regularly changing headlines, this is resulting in daily oil price volatility.

Despite a breakthrough in negotiations in mid-June, when the U.S. and Iran signed a memorandum of understanding, the ceasefire proved short-lived and military action had resumed by mid-July.

The conflict's effects spilled over into the real economy in Q2, with inflation remaining stubbornly high in the U.S. and Europe. The ECB delivered its first rate hike since 2023, an increase of 25bps in June, while the Federal Reserve is now openly contemplating rate hikes of its own, a significant reversal from the start of the year, when expectations centred on a new Fed chair ushering in a rate-cutting cycle.

Despite rising stagflation fears, the global economy has once again shown resilience. The U.S. labour market remains robust and equities have continued to rally on a rebound from Q1, continued corporate earnings and tailwind for expected AI beneficiaries, with the S&P 500 posting its best quarterly performance since the post-pandemic rebound. Europe is more exposed to energy price volatility, and while growth forecasts have been revised down, the impact has so far been relatively modest, particularly compared with other recent shocks such as the war in Ukraine.

The AI Arms Race Accelerates
After a first quarter spent contemplating AI's potential disruption, the technology sector gathered significant momentum in Q2, marked by several landmark deals. SpaceX announced the largest IPO in history, with much of the valuation predicated on the AI side of the business. OpenAI and Anthropic also filed for IPOs, while major tech companies, including Meta and Alphabet, announced significant financing commitments for data centre capex. The AI arms race is taking hold, and markets have adjusted accordingly: chip stocks have performed well, while software companies vulnerable to disruption remain under pressure. Labour market disruption appears muted at this stage, though the technology's long-term impact remains hard to gauge.

Leveraged finance has felt this too. Software issuers in the leveraged loans remain under pressure following another bout of volatility in June, while high yield has recorded strong new issuance, partly driven by data centre related issuance, which now exceeds $30bn (above initial annual forecasts of c.$20bn).[1] There have also been several landmark private credit deals related to AI capital expenditure, although these have largely been investment grade-type.

Selectivity Separates the Field
The themes of Middle East conflict and AI disruption have persisted from last quarter, with both developing at breakneck speed, and the resulting volatility should not be underestimated. The economic outlook is more opaque than at the turn of the year, leaving investors to navigate an increasingly challenging environment. Manager selection has taken on renewed importance, with investors, particularly in U.S. BDCs, growing more cautious toward managers with large software exposures and limited portfolio diversification. Robust origination and due diligence remain vital. Managers with a consistent, conservative approach focused on cash-generative, defensive, non-cyclical issuers will stand out as the cycle matures, while less selective peers face harder times ahead.

1 Source: Bank of America, Pitchbook | LCD. As at 30 June 2026.

Liquid Credit

Resilience Amid Dispersion
High yield and leveraged loans performed well in Q2 2026 after a challenging start to the year, with spreads tightening and issuance rebounding despite higher volatility from the war in Iran and AI disruption fears.

High yield outperformed loans, with U.S. and European spreads tightening by 48bps and 64bps, respectively, now marginally tighter than at the start of the year. Spreads are close to all-time tights despite strong issuance amid a supportive technical backdrop. High yield also benefits from comparatively low software exposure, with the U.S. high yield market at ~3% vs. 16% for leveraged loans.[2]

Dispersion remained evident in June, particularly in loans, as software names came under further scrutiny, trading meaningfully below the rest of the market. Prices fell to 85.7 by quarter-end, while the broader U.S. leveraged loan index held at an average of 96.7.[3] CVC's Liquid Credit team remains cautious on software and was underweight the sector across the platform going into 2026, assessing issuers on a bottom-up fundamental basis that includes potential AI disruption risk.

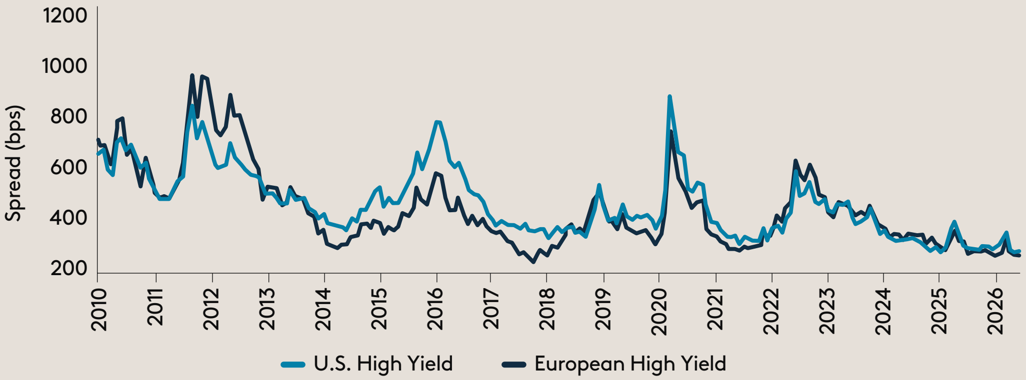
Steady Metrics, Robust Fundamentals
Issuers have benefited from strong starting points this year and appear to be weathering the macro storm despite sticky inflation. Defaults remain close to historical averages, and while the spillover effects of the war in Iran are now being felt, this has not caused noticeable erosion in credit quality. U.S. high yield defaults ticked up to 2.0% in Q2, with Europe easing to 1.4%, both within historical averages despite some signs of balance sheet softening. Loan defaults fell to 1.0% in the U.S. and 1.2% in Europe, again close to historical averages.

CVC's focus remains on non-cyclical businesses with defensive capital structures, many of which have recent experience operating in a c.4% interest rate environment. CFOs are therefore more attuned than ever to the importance of hedging interest rate exposure and managing leverage prudently.

While forecasting the future path of rates is difficult, current conditions are not a material concern in terms of sustained price pressures or meaningful credit deterioration.

Ratings data reflect this resilience. U.S. rising star volumes have already surpassed FY 2025's total, with over $40bn of paper upgraded to investment grade in H1 2026 across 14 names. Fallen angel volume has also been high, at over $30bn (up 40% YoY), though this is dominated by two names that total c.$27bn alone. Together, these trends support our view that credit weakness remains contained rather than systemic.

Exhibit 1
European and U.S. High Yield Rallied in Q2 and are Close to Historic Tights



Source: Bank of America Global Research. As at 30 June 2026.

2 Source: Bank of America, 1st July 2026.
3 Source: Pitchbook | LCD. As at 30 June 2026.

Liquid Credit continued

Issuance Rebounds, Composition Shifts
Issuance was strong in Q2, though sources of new supply varied by asset class. Leveraged loan activity was initially subdued following the Iran war and software volatility but recovered quickly, with issuance dominated by repricings and extensions amid subdued M&A. U.S. institutional loan volume totalled $103bn in the quarter. Although the volume of issuance was roughly flat versus Q1, sources of issuance differed notably. PE-backed volume fell by 33% QoQ, while corporate issuance rose 41% as management teams focused on strengthening balance sheets.[4] Sponsor priorities appear tilted toward refinancings, extensions and repricings for existing portfolio companies over putting new capital to work.

High yield issuance rose 27% QoQ and 33% YoY, easing some of the market's widely publicised technical imbalance, with activity driven by data centre capex and M&A. Issuance was dominated by higher-rated segments, with BBs comprising 44% of total volume, the largest share since LCD began tracking this data in 2011, and well above the 32% historical average.[5]

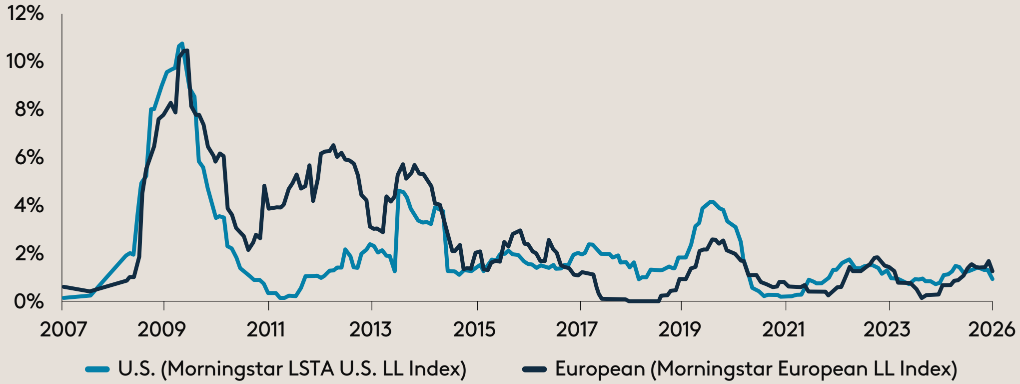
Defensive Rotation – Outlook & Positioning
The Global Yield Fund remains underweight software, a key source of dispersion within both the U.S. and European loan indices.

While average software loan prices have recovered to c.90, we do not believe current valuations adequately compensate for potential AI-related disintermediation risk. Relative performance is therefore likely to remain sensitive to shifts in sentiment towards the sector.

Beyond software, the economic impact of the Strait of Hormuz closure has so far been concentrated in a limited number of sectors. Early Q2 earnings have also remained resilient. At the time of writing, approximately 25% of S&P 500 companies had reported, with results on average exceeding already elevated expectations, led by technology and financials. This remains supportive of credit fundamentals and low default rates. However, the limited spread premium available for moving down in credit quality continues to favour a conservative positioning bias.

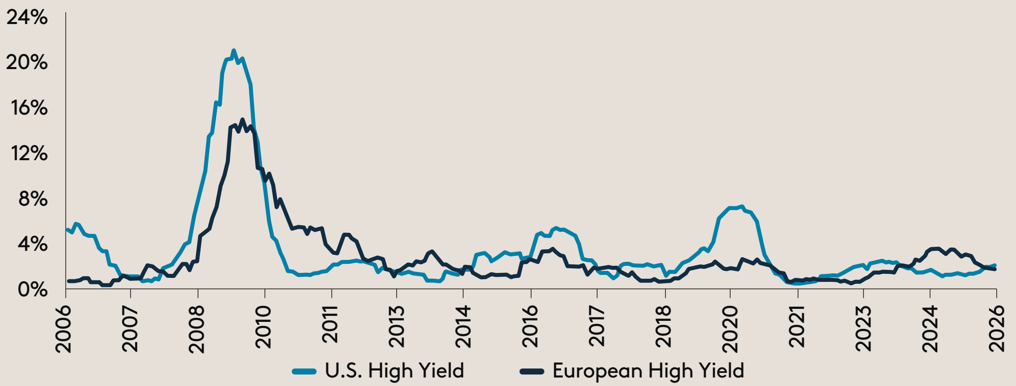
U.S. loan yields are currently around 100bps above those available in the U.S. high yield market, while markets are pricing further Federal Reserve rate hikes before year-end. We therefore continue to favour floating-rate loans over fixed-rate bonds. However, persistent refinancing and repricing activity, combined with limited call protection, has constrained loan returns and contributed to their underperformance relative to high yield during the first half of 2026.

Exhibit 2
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 30 June 2026.

Exhibit 3
U.S. & European High Yield Last 12-Month Par-Weighted Default Rate



Source: Bank of America Global Research. As at 30 June 2026.

4 Source: Pitchbook | LCD. As at 30 June 2026.
5 Source: Pitchbook | LCD. As at 30 June 2026.

Private Credit

Market Slows, Selectivity Rises
Overall European direct lending moderated in Q2 2026 due to continued macroeconomic volatility, though support for acquisition financing remained, with the core middle market remaining the driver of activity.

Volumes and deal count both fell, as private equity sponsors turned cautious amid the quarter's volatility. PE sponsors remain under pressure to create DPI for recent vintages, while buyers remain selective and cautious, with a strong preference for well-regarded assets amid market uncertainty and AI disruption concerns, resulting in lower deal activity. Still, managers with robust origination capabilities continue to demonstrate an ability to capitalise on emerging opportunities.

The core middle market remains the key hub of European direct lending activity, with the €100m-500m deal range accounting for 62% of the total transactions closed in the first half of the year.[6] This dynamic is more pronounced in Europe than in the U.S. Banks currently supply 85%+ of corporate lending across the continent,[7] but more stringent capital requirements under regulations such as Basel III/IV have curbed their lending capacity, particularly to mid-sized and sub-investment grade borrowers. As a result, the European middle market represents a distinct proposition for private credit lenders.

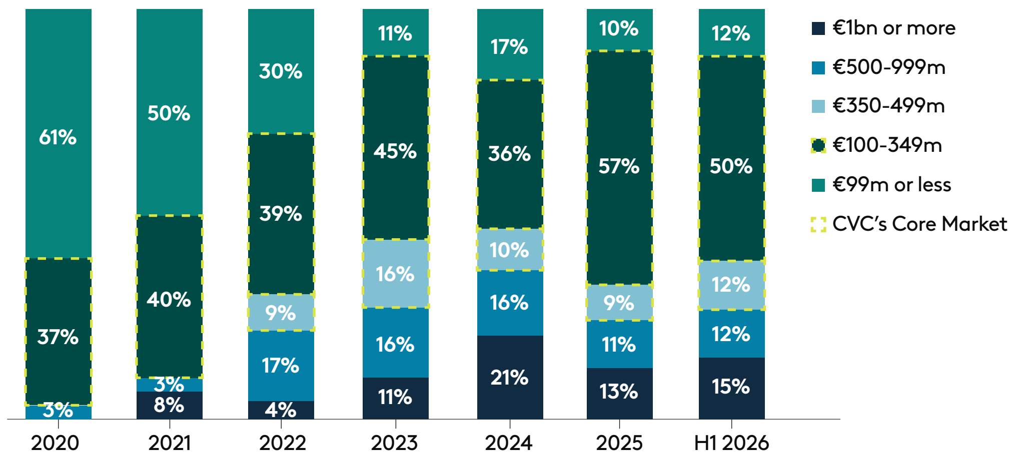
Larger transaction share remained largely stable, with deal count for €1bn+ transactions being 15% on a year-to-date basis, well below the 21% peak in 2024.

Cautious on Technology, Fundamentals Remain Sound
Underwriters have become more cautious, favouring more conservative deal structures and assets, rotating away from technology. Leverage for sponsor-backed transactions stands at 5.5x year-to-date, in line with the broadly syndicated loan market's average of 5.4x. Leverage ratios in direct lending have fallen over recent years from 2024's high of 6.2x, converging with broadly syndicated loans, where ratios have ticked up slightly. Professional & Business Services led deal count by sector, while technology's share fell from a high of 29% in 2025 to 22%, likely reflecting AI disruption concerns.

Transportation, in contrast, saw marked growth, as investors pivoted towards hard assets. CVC recently financed a leading European manufacturer of flight-critical systems for helicopters and fixed-wing aircraft, an opportunity sourced through a longstanding sponsor relationship, an established local presence and expert insight from CVC Private Equity's specialist Aerospace, Defence and Space team. The borrower benefits from strong revenue visibility through long-term contracts and supplier agreements with major OEMs that span the full aircraft lifecycle and cover both aftermarket parts supply and MRO services. High switching costs, strong revenue visibility and regulatory barriers can make credit assets like these defensive and resilient — qualities that investors often value. The deal illustrates the broader value of sponsor relationships, sector expertise and specialist investment teams in sourcing differentiated opportunities.

Spread compression has moderated, with many deals anchoring around 500-525bps. The BSL-DL spread premium, which widened in Q1, has persisted as strong loan issuance has contributed to further tightness in the BSL market.

Exhibit 4
Deal size diversification of European direct lending deals, by count



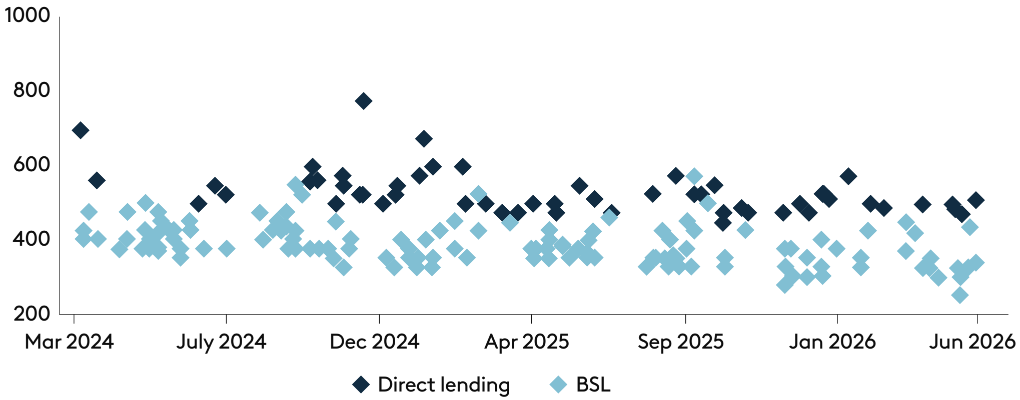
Source: Pitchbook | LCD. As at 30 June 2026.
Analysis based on transactions covered by LCD News; share calculated based on deals where size information is disclosed.

6 Source: Pitchbook | LCD. As at 30 June 2026.
7 Source: UBS. As at June 2025.

Private Credit continued

Record Fundraising Suggests Opportunities Await
Despite headline noise, fundamentals remain sound and the appetite for private assets remains robust. H1 data from Private Equity International and Private Debt Investor signal strong LP interest across both private equity and private credit, with institutional capital raising being stronger than ever. Private equity closed over $500bn in H1 2026, the second-largest total on record after the post-COVID boom of 2021. Private credit raised over $208bn, with consistent flows across both quarters. Senior direct lending accounted for c.60% of capital raised in H1 2026, up sharply from 42% in 2025, as investors prioritise senior capital positions over yield amid higher market volatility. European private credit fundraising remained steady compared with prior years, as investors continue to recognise the merits of an allocation within a diversified credit portfolio. These figures suggest that while deal activity may have been more muted this quarter, the outlook remains constructive for alternative assets, with volumes likely to improve as market conditions normalise.

Exhibit 5
The Spread Premium For Sponsor-backed European Direct Lending Deals vs. Broadly Syndicated Loans Continues to Widen



Source: Pitchbook | LCD. As at 30 June 2026. Deal count is based on transactions covered by LCD News.

Plot Points The story in data

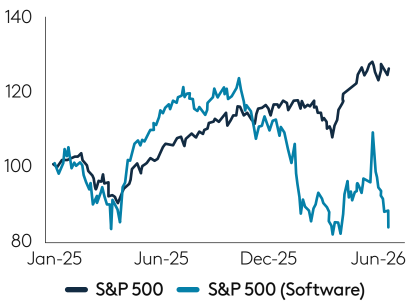
Market Environment

Credit made solid gains despite a trickier June due to another software-induced bout of volatility.

Unease over oil prices and software have yet to abate

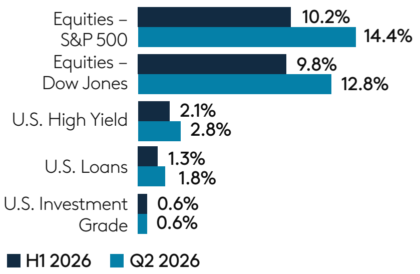
Brent crude spot price (US$/bbl)[1]

S&P 500 vs. S&P 500 Software[2]

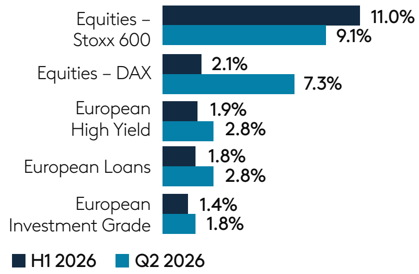


Sources: U.S. EIA; S&P Global Market Intelligence. As at 30 June 2026.

Performance Across Markets[3]



Source: Bloomberg. As at 30 June 2026.



Source: Bloomberg. As at 30 June 2026.

Liquid Credit

In an environment of higher dispersion, we believe selective managers with conservatively positioned portfolios may be better placed to confront future volatility.

Robust credit fundamentals

Rising star volumes in high yield outstrip fallen angels in H1 2026

Rising stars

▲ $40.6bn

▲ +40% YoY

Fallen angels

▼$30.6bn

▲ +41% YoY

Source: Bank of America. As at 30 June 2026.

Technical imbalances between markets

Issuance highlights

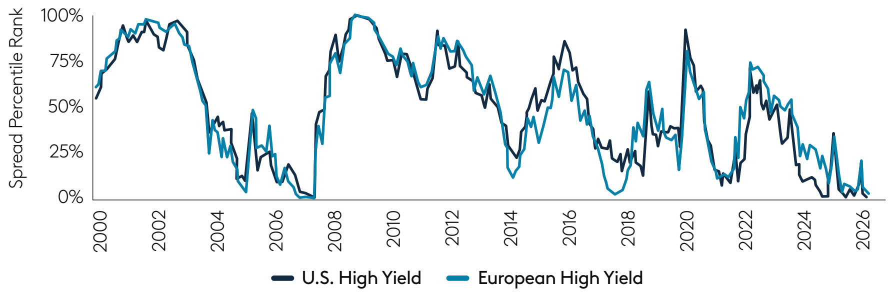
▲ +25% U.S. high yield

▲ +2% U.S. leveraged loans

▼ -19% European leveraged loans

Source: PitchBook | LCD. As at 30 June 2026. H1 2026 versus H1 2025.

Tightening HY spreads reflect strong investor appetite

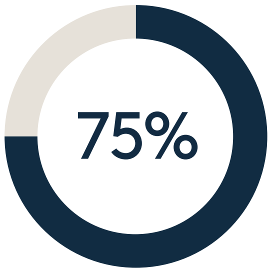


Source: Bank of America. Monthly percentile ranks since Jan 2000. As at 30 June 2026.

Private Credit

Acquisition financing remained a bright spot for dealmaking amid a wider fall in transactions during H1 2026 (-23%). With private equity dry powder near record highs, signs suggest opportunities for lenders remains strong ahead.

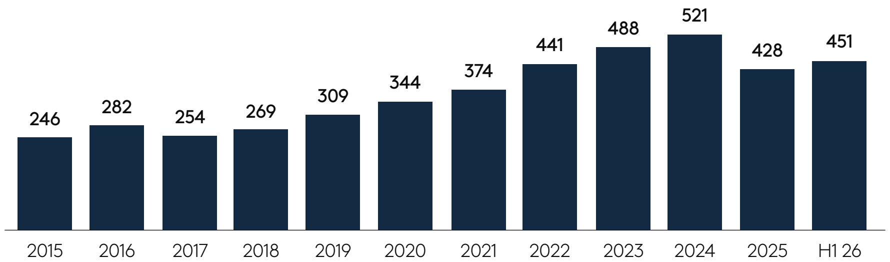
M&A drives deal flow



of European direct lending deals are acquisition related, year to date

Source: PitchBook | LCD. As at 30 June 2026.
Deal count per transactions covered by LCD News.

Private equity dry powder remains ample (€bn)



Source: Preqin. Year-end figures 2015-2025; H1 26 at 30 June 2026.

Private credit premium

Spread advantage

165bps

In Europe, direct lending has persistently offered an attractive premium over leveraged loans

Source: PitchBook | LCD. As at 30 June 2026.

Note: Past performance is not indicative of future results.

1 Brent crude is the weekly Europe Brent spot price FOB in U.S. dollars per barrel, to 26 June 2026.

2 S&P 500 and S&P 500 Software are rebased to 100 at January 2025.

3 QTD shows quarter to 30 June 2026. 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.

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