CVC

Credit Perspectives

Q1 2026

Volatility, Dispersion and Opportunity

Executive Summary:

The first quarter of 2026 was marked by significant dislocation, with war breaking out between the U.S., Israel and Iran, and markets becoming increasingly unsettled over concerns around AI disruption. Despite geopolitical volatility and a sharp repricing in software, credit markets have shown resilience, particularly given that oil prices increased significantly over the quarter and software stocks within the S&P 500 fell by over 20% on a total return basis. Recent concerns regarding software exposure in the public and private credit markets reinforce the importance of manager selection, rigorous underwriting and portfolio diversification. While AI-driven disruption within technology appears inevitable, it is too early to assess its ultimate extent, and the adjustment process may prove evolutionary rather than revolutionary. CVC remains cautious towards the sector and is underweight across the platform.

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:

- **Awards & Recognition:** CVC Credit was recently named Private Debt Investor's Global CLO Manager of the Year,[1] following record-breaking activity for the firm in 2025, and strong performance across the CLO equity funds.
- **CLO Activity:** CVC remained active in the CLO market despite a volatile environment. During the quarter, the team priced one new U.S. issuance, executed four resets and one partial refinancing, globally. The pricing of Apidos 56 was a notable achievement, delivering strong execution despite broader market widening in CLO liabilities. The portfolio was c.70% ramped at pricing, enabling the investment team to continue to selectively deploy capital in a dislocated market. Existing CLO performance remained resilient throughout the period of market stress. Through disciplined, active portfolio management, the CVC Liquid Credit platform entered 2026 underweight software exposure, which has been advantageous as AI-related concerns drove spread widening in affected credits.
- **Private Credit:** The platform continued to find attractive opportunities across Europe during the quarter, completing transactions in several markets, including the UK and Switzerland. The European Direct Lending platform has remained resilient despite recent noise around private credit, with borrowers continuing to report strong underlying performance. Our Capital Solutions strategy is also seeing an uptick in opportunities linked to recent market dislocation, including failed sale processes and refinancing needs. CVC was also underweight B2B software relative to many peers and continues to favour diversified, defensive portfolios designed to remain resilient in more unpredictable market conditions.

1 The Private Debt Investor ("PDI") Awards recognise the managers, institutional investors and advisory firms considered by their peers to have been the standard bearers of the private debt class during the year under review. The winners are decided by a poll of PDI's readers, who include a broad audience of both investors and managers as well as other industry professionals including fund administrators, custodians, accountants and auditors, law firms, consultants and fund distributors. More information about these awards can be found on PDI's website (www.privatedebtinvestor.com). The winners were announced on 2 March 2026. CVC Credit was selected as Global CLO Manager of the Year.

Market Update Q1 2026 | Markets largely flat amid geopolitical turbulence

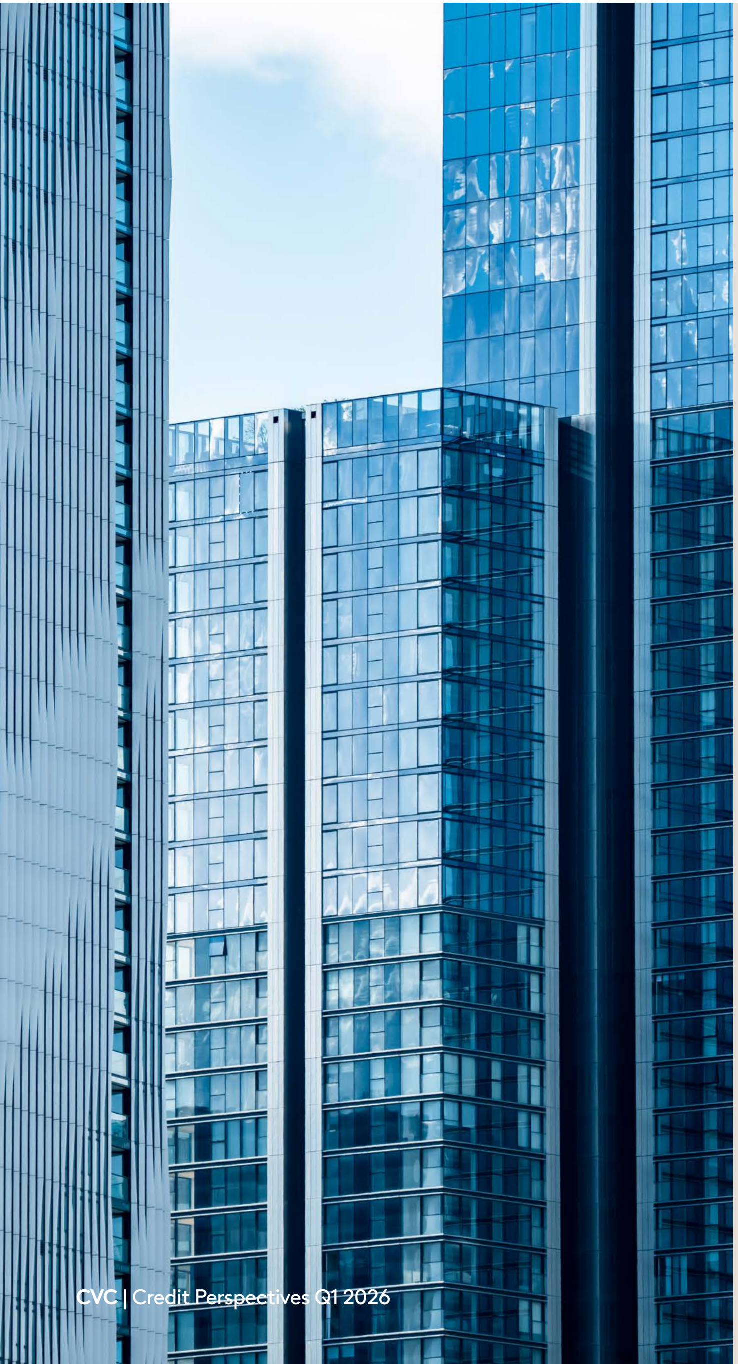
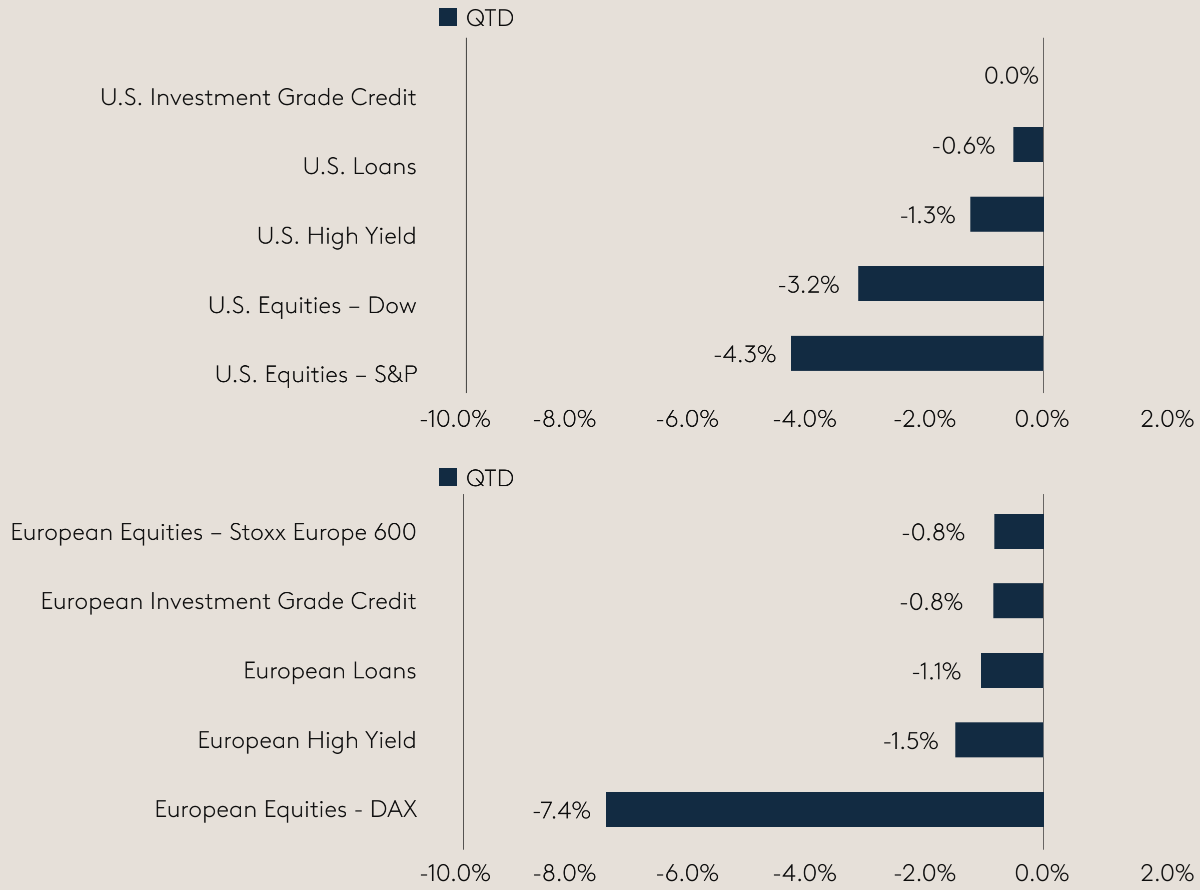


Exhibit 1
Performance Across Asset Classes

Performance was challenged across asset classes as markets assessed the impact of conflict in the Middle East, AI disruption and possible new tariffs from the U.S.



Past performance is not indicative of future results. QTD shows quarter to 31 March 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.

Market Update Q1 2026 | Markets largely flat amid geopolitical turbulence continued

Oil Returns to the Centre Stage
Conflict in the Middle East escalated in late February as the U.S. and Israel took military action against Iran. Missile strikes across the region have resulted in significant human and economic losses. As a result, commodity markets have been highly volatile: oil prices have swung sharply on a near-daily basis, while gas prices have moved higher following damage to critical infrastructure in Qatar, a key energy supplier to Europe.

The closure of the Strait of Hormuz, a vital shipping route for c.20% of global oil supply, represents a significant escalation with broader inflationary implications. Oil prices could move materially higher unless the situation is quickly resolved. Markets currently appear to be pricing in a relatively swift resolution, but the situation remains highly fluid.

Consequently, the macro outlook remains fraught with complexity. During late 2025, investors expected the U.S. Federal Reserve to begin a meaningful rate-cutting cycle in 2026. At the same time, the European Central Bank, having already delivered multiple cuts, appeared likely to enter a prolonged pause as inflation inched closer to target. The conflict has put this outlook in doubt, leaving the path for inflation and interest rates more uncertain.

The escalation has been abrupt and severe, limiting visibility on the near-term macro trajectory. If the conflict is resolved within weeks and the Strait of Hormuz reopens, the inflationary impact should remain manageable. However, a sustained increase in oil prices would have more severe consequences for both Europe and the U.S. Federal Reserve. Officials continue to signal that rate cuts remain possible in 2026, but this will largely depend on how the conflict evolves.

AI Disruption Comes Into Focus
The first quarter has been so frenetic that it is easy to forget how recently software stocks sharply repriced amid fears of AI-driven disruption. New model releases by leading players such as Anthropic have intensified debate on the extent to which AI may reshape the technology sector, particularly software.

Technology stocks suffered significant declines over the quarter and credit spreads for software issuers widened. Despite the pronounced repricing in public markets, it appears unlikely that recent AI developments will trigger an immediate sector-wide transformation. Even so, it's already clear that businesses failing to adapt to this new norm risk being left behind.

Credit assessment will now increasingly focus on the sustainability of business models, rather than historical performance and liquidity alone. CVC Credit benefits from the power of the whole CVC platform, including the expertise of the Private Equity business, for diligence purposes and underwriting. As part of our investment process, CVC also have dedicated scorecards to assess AI disruption risk.

Portfolio Construction Matters More Than Ever
Recent headlines regarding AI disruption in the software space have percolated through to the private credit market, particularly for managers with concentrated exposure to the sector. This has contributed to higher redemptions at select U.S. BDCs, which are generally more exposed to the sector, as investors reassess risk. These concerns reiterate the importance of portfolio diversification across names and issuers to prevent concentration risk.

Despite this, private credit fundamentals appear resilient. Many U.S. managers report that underlying fundamentals among software issuers remain solid. CVC Credit has limited exposure to B2B software and has not been materially affected. CVC-CRED, our European direct lending evergreen vehicle, reported strong inflows during the quarter and remains well supported by both private wealth and institutional investors.

Liquid Credit

Spreads Widen, Dispersion Deepens
High yield and leveraged loan markets repriced materially in Q1 2026, as investors assessed the impact of the Middle East conflict and AI-driven disruption in technology.

Spreads started 2026 at tight levels but widened significantly, particularly in March following the outbreak of the Middle East conflict. AI-related concerns largely impacted software and technology names, rather than the broader market. Loans underperformed high yield in the first two months, before reversing in March as rates repriced amid geopolitical tensions and stagflation concerns.

U.S. high yield and leveraged loan spreads widened by 65bps and 50bps, respectively, over the quarter; European spreads widened by 64bps and 54bps. Even so, high yield spreads remain tight relative to longer-term averages since 2000.

Dispersion increased meaningfully, particularly in the U.S. leveraged loan market, where software loans traded well below par, finishing the quarter at 87.97.[2] CVC Liquid Credit remained underweight software across CLOs and commingled funds. The Liquid Credit Investment Team completed an initial AI impact assessment approximately a year ago and proactively reduced exposure to credits deemed more vulnerable. The team has also leveraged the broader CVC Network, including the Private Equity Technology team, to refine underwriting, quantify risk and support portfolio management.

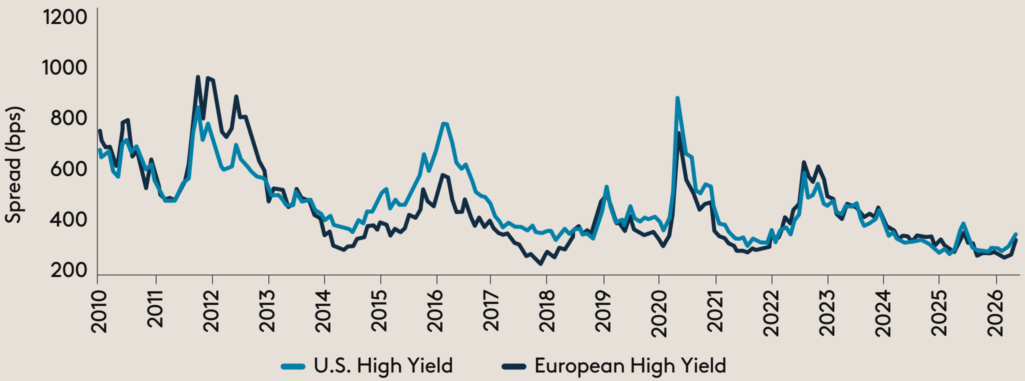
Europe also saw a sharp repricing. At the end of 2025, ~65% of the European Leveraged Loan Index traded at or above par. By the end of Q1 2026, this had fallen to just 6%.[3] While the Middle East conflict raises risks, particularly for sectors more exposed to volatile commodity prices, the repricing has created selective buying opportunities in a market previously characterised by extremely tight technicals. In volatile environments such as this, manager selection becomes increasingly critical.

Fundamentals Hold, Outlook Less Certain
Expectations in 2026 for defaults to continue to fall from current low levels have been challenged by recent macro developments. The consensus had been for high yield and leveraged loan default rates to remain near historical averages, with scope for modest improvement as U.S. policy rates declined. These expectations are now being revised amid higher inflation risk, elevated oil and gas prices, and potential supply disruptions, likely to be felt most acutely in Europe.

At the time of writing, the Strait of Hormuz remains closed, but the situation is fluid and the full economic impact may take several months to materialise. The conflict's duration will be a key determinant of the shock ultimately felt by consumers.

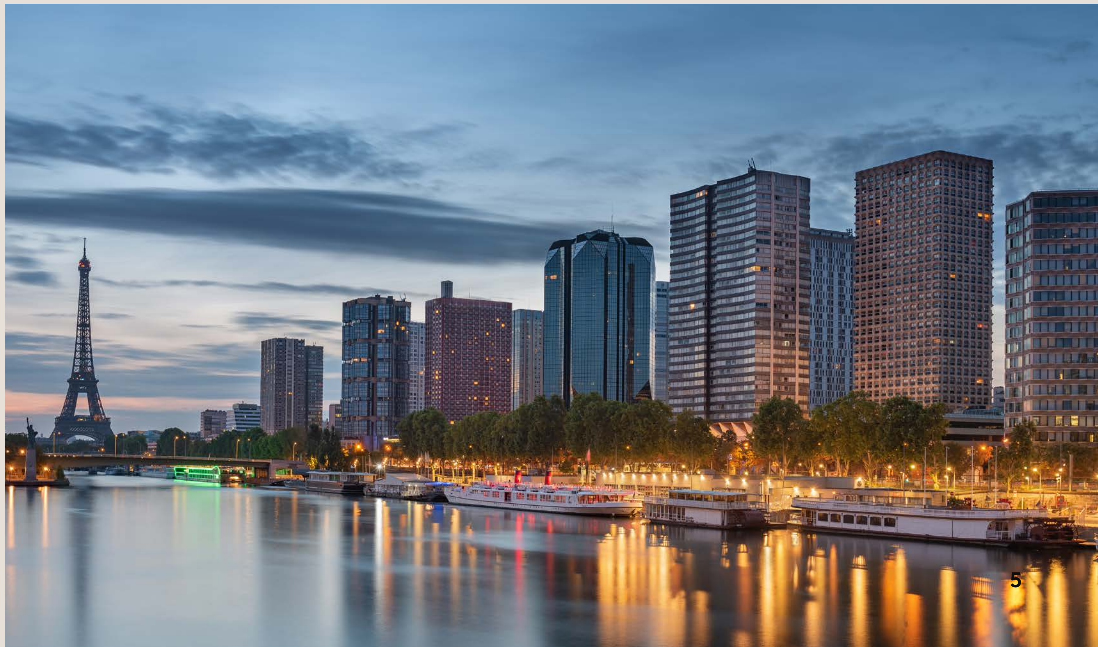
While software issuers have historically operated with higher leverage, we do not foresee recent AI developments triggering a near-term surge in defaults. Some issuers may face pressure, but many software applications should remain resilient, particularly vertical, mission-critical platforms with high switching costs and entrenched market positions.

Exhibit 2
European and U.S. High Yield Spreads Widened in Q1 But Remain Tight



Source: Bank of America Global Research. As at 31 March 2026.

2 Source: Pitchbook | LCD
3 Source: Pitchbook | LCD



Liquid Credit continued

Defaults remained modest over the quarter. In both Europe and the U.S., par-weighted high yield default rates stood at 1.7%, while leveraged loan default rates were 1.4%, indicating that realised stress has so far remained contained.

Rising stars enjoyed a strong start to the year in U.S. high yield, with nine names, representing $26bn of paper, upgraded to investment grade. Fallen angels totalled $16bn, heavily skewed by the Paramount downgrade, which alone accounted for $12bn. Looking ahead, credit metrics will be closely watched as software companies contend with AI disruption, with highly levered issuers potentially more exposed if disruption proves greater than currently anticipated.

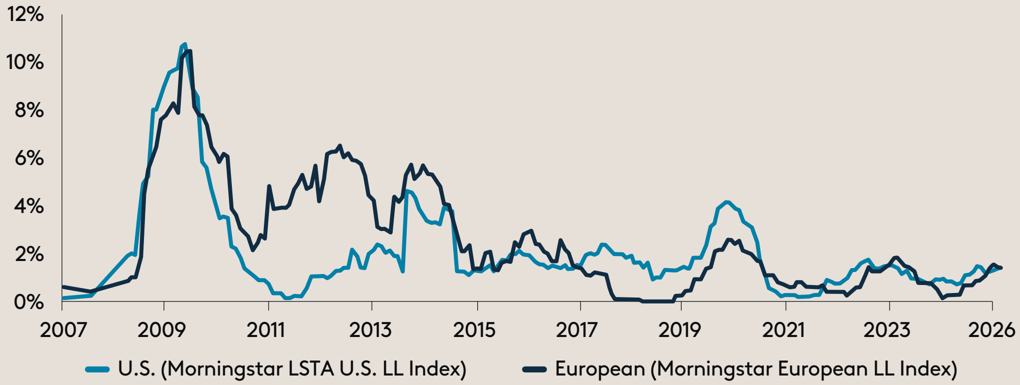
Issuance Moderates as Volatility Rises
Issuance became more uneven as macro volatility increased through the quarter. While the M&A pipeline remains concentrated in a handful of mega-deals, it appears stronger than in recent years and continues to improve. U.S. institutional loan volume totalled c.$110bn for the quarter, down c.25% versus 2025, primarily driven by a decline in refinancings (down 41% YoY). Encouragingly, LBO-related issuance rose c.30% YoY to sit at four times the 2023 trough.[4]

The Middle East conflict weighed on European loan issuance, with 82% of volume completed before the conflict began at the end of February, after which the market effectively shut for three weeks.[5] Even so, M&A and LBO activity remained relatively healthy, with c.€10bn of new issuance during the quarter, albeit concentrated in a limited number of larger deals.

There remains a significant technical imbalance across the high yield and leveraged loan markets. Normalisation will likely require a sustained recovery in M&A and LBO activity with sufficient new issuance coming to market.

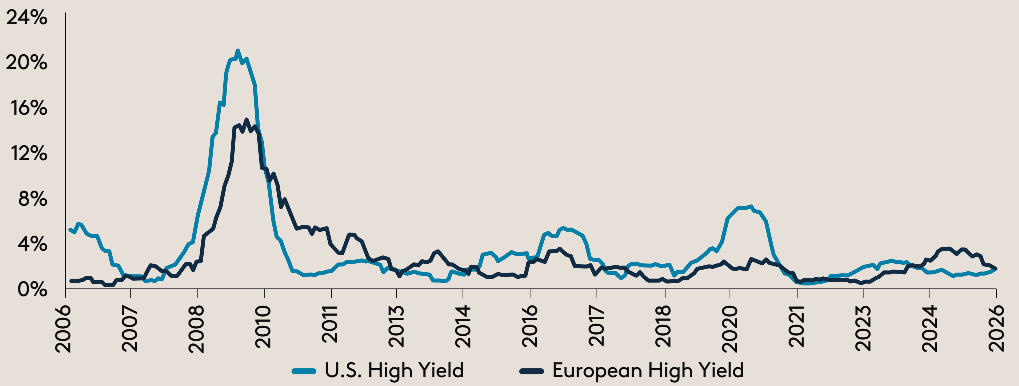
Defensive Rotation – Outlook & Positioning
Global Yield Fund started the year underweight software at 6% versus 17% and 9% in the U.S. and European leveraged loan indices, respectively.[6] On the back of the escalation in the Middle East and the closure of the Strait of Hormuz, we reduced our exposure to Europe and increased our U.S. position. In the scenario of a prolonged closure of the Strait, the U.S. economy should outperform Europe given the latter's energy dependence on the region. We also continue to closely monitor the secondary and tertiary impacts of a longer conflict, as inflation is likely to rise and consumer confidence to fall. We are likely to see broad-based inflation across food (rising fertilizer costs), travel (jet fuel) and consumer goods (higher transportation costs). It is unclear how central banks will respond to this combination of higher inflation and lower growth, with some already hinting at rate hikes or a pause in cuts. As a result, we have further reduced our fixed rate high yield exposure, as high yield spreads screen tight versus loans even after adjusting for the software exposure in both markets.

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 March 2026

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



Source: Pitchbook | LCD; Morningstar LSTA US Leveraged Loan Index; Morningstar European Leveraged Loan Index. Does not include LMEs. As at 31 March 2026

4 Source: Pitchbook | LCD
5 Source: Pitchbook | LCD
6 Source: CVC Credit. U.S. leveraged loans represented by the S&P UBS Leveraged Loan Index and European leveraged loans represented by the S&P UBS Western European Leveraged Loan Index. Software exposure represented by Information Technology exposure.

Private Credit

Selectivity Defines the Opportunity
European direct lending continues to offer a compelling opportunity set, underpinned by conservative underwriting, strong lender protections and a predominantly institutional investor base.

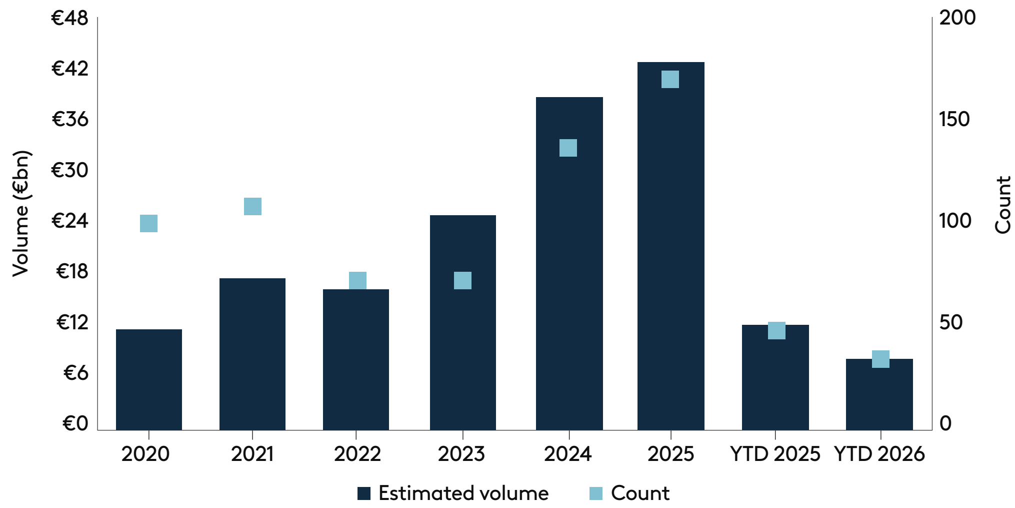
Recent headlines have highlighted pockets of stress, notably in software linked to AI-related concerns, elevated redemption activity at select U.S. BDCs and heightened geopolitical risk. These pressures have been uneven, with stress concentrated in specific segments and geographies, rather than across the broader asset class. Against this backdrop, Europe remains a distinct market with attractive underlying characteristics, reinforcing its role as a core allocation for long-term investors.

Software In Focus
Software has dominated the market narrative for private credit this quarter. U.S. private credit BDCs hold aggregate software exposure of c.21%, rising to c.40% including the wider technology sector and business services – notably higher than leveraged loans and high yield.[7] Europe has structurally lower exposures, though we see wide ranges between lenders. Our software exposure in private credit is modest and underweight market levels, reflecting our conservative underwriting and diversified portfolios.[8] As with liquid credit, recent AI advancements by leading developers such as Anthropic and OpenAI have driven significant uncertainty and widescale repricing. We view this as sector-led repricing rather than the onset of a broader default cycle. AI is likely to drive wider dispersion between winners and losers over time. Current volatility reflects changing investor sentiment more than it does a step-change in automation capability and may serve as a catalyst for a sector reset. Traditional moats such as proprietary code are weakening, while advantages linked to domain-expertise, mission-criticality, regulatory complexity, data ownership and trust are becoming more important.

CVC Credit continues to maintain a highly selective approach to the sector. Exposure is focused on business-critical, enterprise platforms embedded in core customer operating processes, often within financial or regulated activities. We favour business products that benefit from low error tolerance, long implementation cycles and high switching costs that reinforce customer retention and revenue visibility. AI is an integral consideration for both underwriting and ongoing portfolio management.

Activity Moderates, Pipeline Builds
Deal activity moderated in Q1, with estimated European direct lending volumes down 33% by volume and 24% by deal count YoY.[9] Direct-lending-backed LBOs also fell, reflecting increased sponsor cautiousness. However, we view this as delayed activity rather than a deterioration in the medium-term opportunity set. Sponsors continue to hold record dry powder and are increasingly seeking capital solutions to provide liquidity to investors while retaining prized assets. CVC Credit continues to see attractive opportunities, supported by a strong local presence, which recently expanded to six local Credit offices across Europe. The forward-looking pipeline remains healthy, and is predominately in M&A and LBO-related financings.

Exhibit 5
Annual European direct lending deal count and estimated volume



Source: Pitchbook | LCD. As at 31 March 2026. Deal count is based on transactions covered by LCD News.

Sponsors also continue to tap direct lending markets, favouring the flexibility it offers. The BSL-DL spread gap on sponsored acquisition debt widened to 168bps at quarter-end (versus 88bps in Q4 2025), supporting relative value for investors.[10] Spreads have largely been anchored in the ~500bps range, though recent transactions point towards widening on the back of macro volatility, both on spread and OID, a premium that further enhances the forward-looking return potential for the asset class.

7 Source: J.P. Morgan Private Bank, March 2026.
8 Source: Pitchbook | LCD.
9 Source: Pitchbook | LCD.
10 Source: Pitchbook | LCD.

Private Credit continued

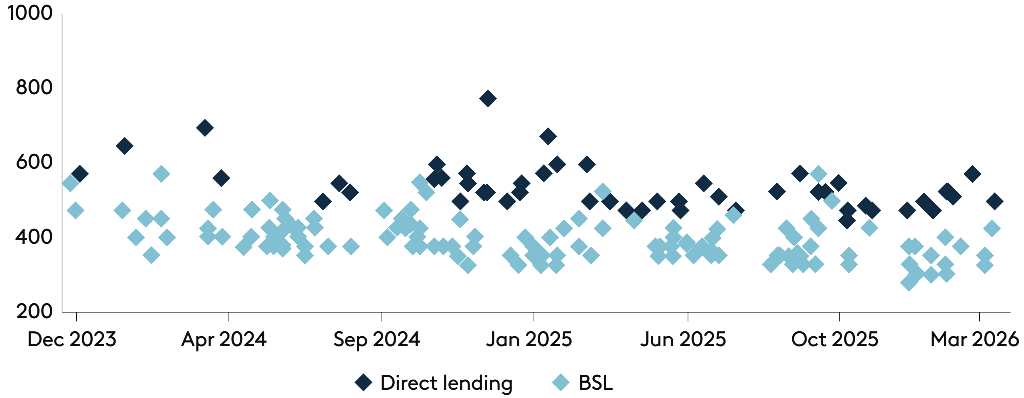
Opportunities Await for Disciplined Managers
The outlook for European direct lending remains constructive but will increasingly reward discipline. The M&A pipeline continues to build, and we expect deal activity to gradually improve through the year. Modest spread widening has improved deal economics for lenders, a dynamic we had seen in previous periods of market volatility like 2022/23, when well-positioned managers were able to deploy capital selectively into high-quality businesses on favourable terms amid public market volatility.

Structural features of the European market continue to underpin the investment case. Underwriting has historically been more conservative, with lower starting leverage and bespoke documentation. For instance, average LBO equity contributions are notably higher in Europe than the U.S. (45.4% vs. 42.8%), alongside stronger interest coverage ratios (3.6x vs. 3.0x).[11] Pricing also remains attractive, with a substantive premium over public credit.

Europe remains a fragmented and complex market, with local sourcing and sector expertise key differentiators. CVC Credit's position as a scaled manager, operating across the region and successfully deploying capital across market cycles means we are in a distinct position as investors navigate the current macroeconomic situation.

These qualities continue to resonate with allocators. We see sustained appetite for European direct lending across the institutional and private wealth channels, reflecting the structural value on offer in the region. In an environment defined by rising dispersion, we believe returns will increasingly be driven by selectivity, structural protections and access to proprietary opportunities, combined with portfolio construction and management, rather than broad market beta, conditions that should reward experienced managers with scale, discipline and local sourcing depth.

Exhibit 6
The Spread Premium For Sponsor-backed European Direct Lending Deals vs. Broadly Syndicated Loans Is Widening



Source: Pitchbook | LCD. As at 31 March 2026. Deal count is based on transactions covered by LCD News

11 Source: Pitchbook LCD, CVC as at December 2025. Data to calculate average is from 2010 to 2025. Interest Coverage Ratio defined as EBITDA / Cash Interest. Note, US data only includes issuers with EBITDA of more than $50m. Prior to 2011 media and telecom loans are excluded.

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