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CVC

Credit Perspectives

Q3 2026



Rising Rates & Rising Dispersion

Executive Summary:

Developments during Q3 2026 reinforced the importance of credit selection as risks and opportunities increasingly varied across geographies, sectors and borrowers, with rising interest rates, persistent geopolitical tensions and fears of AI disruption shaping the macro backdrop. Central banks raised rates as higher energy prices and supply disruption fed through to the real economy, while conflicts in the Middle East and Ukraine showed little sign of resolution. Software issuers remained under pressure from AI disruption fears. Credit performance was mixed: the government bond sell-off weighed on duration-sensitive assets and widened high yield spreads, but rising stars outpaced fallen angels, higher base rates supported floating-rate income, and acquisition financing regained momentum through jumbo syndicated deals and stronger sponsor-backed M&A for European direct lenders. With sector dispersion increasingly apparent, selectivity is the key driver of alpha, and volatility an opportunity for experienced, active managers.

CVC Market Update:

CVC's Liquid and Private Credit teams remained active during the quarter, pursuing opportunities, actively managing portfolios and delivering strong capital returns to investors.

Key highlights:

- **CLO Activity:** The Liquid Credit team focused on optimising portfolios amid challenging equity arbitrage conditions that constrained new issuance. Year to date, the team has executed 13 resets, three refinancings and five new issues. The team also continued to realise investments in CLO Equity Fund I, completing eight exits so far in 2026, which we view as a strong result for a 2017 vintage that has navigated a number of macroeconomic shocks over recent years.

- **Private Credit:** The European Direct Lending platform executed several new transactions during the quarter. This included financing a sponsor's acquisition of a leading UK flavours and seasonings business that benefits from a niche market position, non-cyclical market, longstanding customer base and consistent record of earnings growth and cash conversion. The investment drew on the sector experience of our liquid and private credit platforms, demonstrating the value of the wider CVC Network. Within Capital Solutions, the team continues to see a healthy pipeline with prospects for higher rates to increase demand for flexible hybrid capital from sponsors and companies seeking to manage cash interest burdens.



Market Update Q3 2026 continued

No clear path to peace
Conflicts in the Middle East and Ukraine continued to intensify during the quarter, with little sign of an imminent resolution. Tensions between the U.S. and Iran remained high, while negotiations made little headway. The Strait of Hormuz remained closed, and Houthi military action near the Bab el-Mandeb Strait added to concerns over global supply chains. Saudi-backed Yemeni forces have since pushed the Houthis out of the strait, but the situation remains highly fluid. The Houthis have also targeted strategic sites in Saudi Arabia, including international airports, military bases and oil refineries.

Commodity prices remained volatile, as supply disruption led many analysts to forecast a higher-for-longer oil price scenario. Rising energy prices are starting to impact the real economy in both the U.S. and Europe. Europe is particularly exposed, given its ongoing efforts to reduce reliance on Russian energy. European natural gas prices are now up approximately 66%, adding to price pressures facing consumers and businesses.[1]

Equity markets continued to reach record highs despite the challenging macroeconomic backdrop. Strong earnings supported a 2.3% quarterly gain on the S&P 500, bringing its year-to-date return to 12.7%. The Magnificent Seven acted as a key performance driver, returning approximately 11% during the quarter.[2]

Rising rates – up, up and away?
Government bonds sold off late in the quarter as investors reassessed the outlook for interest rates and inflation. U.S. 10-year and 30-year Treasury yields reached their highest levels since 2002, rising 116 bps and 87 bps, respectively, from a year earlier.[3] Yields also rose across Europe and the UK, further constraining fiscal headroom in economies that already face stretched public finances.

Rising yields weighed on duration-sensitive assets, with U.S. and European investment grade credit each returning -3.5% for the quarter.[4] By contrast, floating-rate products, including leveraged loans, may benefit from higher interest rates. Meanwhile, corporate balance sheets remain broadly resilient, with limited deterioration in credit quality to date.

Calls for AI regulation increase, as capital expenditure soars
Competition among OpenAI, Anthropic and xAI shows little sign of abating, even as messaging from industry leaders has shifted. Early in the quarter, Anthropic CEO Dario Amodei called for stronger global leadership and regulation, suggesting companies may need to slow development voluntarily to avert potential catastrophe. Support from peers, including OpenAI and xAI, points to growing consensus around stronger guardrails, despite opposition from some political figures.

AI-related capital expenditure remains substantial. Hyperscaler spending may reach $1 trillion in 2026, while global AI investment is estimated at c.0.9% of GDP. This will require significant issuance, particularly in investment grade credit.[5]



Concerns about AI disruption continue to weigh on software issuers. Issuance has largely been limited to refinancing, with little appetite for new paper, while loan prices remain under pressure, particularly in the more software-exposed U.S. market. AI is unlikely to render these businesses redundant overnight, but competition from AI-based entrants is growing. Refinancing may therefore become more difficult, especially for businesses with less resilient models.

Rising dispersion puts selectivity at a premium
As the macroeconomic environment becomes more complex, dispersion across credit markets is increasing. Higher rates will exert pressure on some issuers, while volatility is likely to favour higher-quality names. Although a surge in defaults is not expected, the coming quarters could see more challenges. At the same time, higher rates may benefit floating-rate products, but analysts continue to emphasise selectivity over broad market exposure. Manager selection is therefore critical, with experienced, cycle-tested teams likely to be better positioned to navigate volatility and preserve capital.

1 Source: Deutsche Bank. As at 30 September 2026.
2 Source: Bloomberg. As at 30 September 2026.
3 Source: Bloomberg. As at 30 September 2026.
4 Source: Bloomberg. As at 30 September 2026.
5 Source: Goldman Sachs Research. As at August 2026.

Liquid Credit

Rates driving performance & activity
High yield and leveraged loan returns diverged during the quarter. September's government bond sell-off weighed on high yield and investment grade credit, while leveraged loans received a modest boost from their floating-rate structure.

High yield widened by 33 bps in the U.S. and 23 bps in Europe, respectively, over the quarter.[6] Spreads in both markets remain wider year to date but have tightened from their Q1 peaks by 20 bps and 43 bps, respectively. By region, Europe's lower software exposure provided some support. Performance also varied by rating, with CCC-rated credits under particular pressure from elevated financing costs.

Software remains under scrutiny and trades materially below the wider index. U.S. software names now trade in the high 80s, compared with the high 90s for the rest of the Morningstar Leveraged Loan Index. Pressure is also evident elsewhere, with Middle East supply chain disruption and higher oil prices contributing to a 41.9% fall in U.S. airlines' Q2 EBITDA.[7] By contrast, European chemicals companies benefited from reduced imports from the Middle East and China. For active managers, rising market volatility can create opportunities to generate alpha.

Resilient fundamentals, growing divergence
Default rates were broadly unchanged from last quarter and remain inline with historical averages, but sector divergence is increasing.

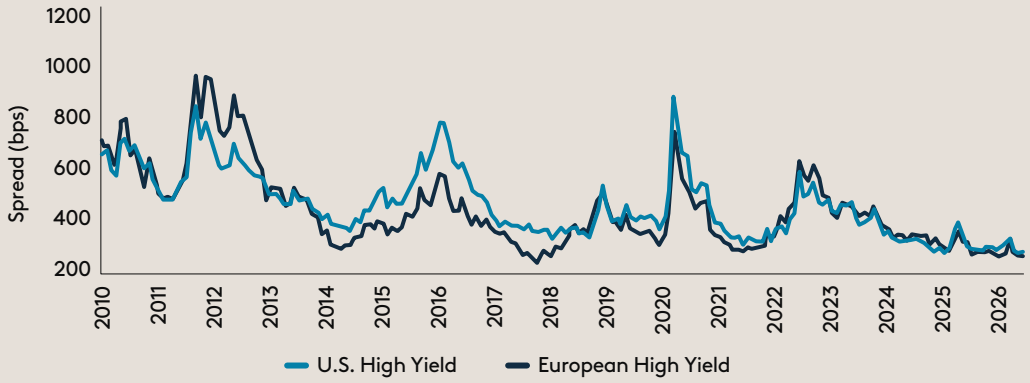
In September, U.S. high yield and loan default rates were 1.7% and 0.6%, respectively, compared with 1.0% and 2.1% in Europe.[8] Loan market distress remains concentrated in software and building products in particular, owing to high mortgage rates and tariffs on materials. Building products account for c.7% of distressed loan volume despite representing only 1.2% of the overall market.[9] Most issuers in the sector are rated B- or lower.

Higher rates are likely to increase credit dispersion further, with European borrowers potentially more exposed, given weaker interest coverage and greater sensitivity to higher energy prices.

Interestingly, the proportion of distressed exchanges has dropped to 59% from c.73% last year.[10] Many issuers have already completed an initial restructuring, which may partly explain the reduction in liability management exercises.

U.S. high yield saw a healthy number of rising stars in the quarter, with $10bn of paper upgraded to investment grade. The total for 2026 now stands at $51bn, far above 2025's total of $38bn. Fallen angel activity was relatively muted, with four issuers representing $6bn downgraded to high yield. The year-to-date total of $37bn remains broadly in line with the $39bn recorded over the same period in 2025.[11]

Exhibit 1
European and U.S. High Yield Spreads Remain Close to Historic Tights Despite Recent Volatility



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



6 Source: Bank of America.
7 Source: CVC Credit.
8 Source: Bank of America, PitchBook.
9 Source: Deutsche Bank.
10 Source: Deutsche Bank.
11 Source: Bank of America.

Liquid Credit continued

Return of the jumbo deal
U.S. loan issuance has fallen 24% year to date compared with the same period in 2025, while European volumes were broadly flat.[12] However, headline figures tell only half of the story. Falling repricing and refinancing activity drove the overall total lower, but net new supply and opportunistic transactions have started to account for a growing share of issuance.

Rising M&A activity has become a key driver of issuance. In September, a dozen jumbo term loans were issued to support acquisitions, which brought total issuance to $30.6bn in the month. In Europe, monthly volume reached €13.5bn, 71% of which supported M&A. High yield also saw record placements in the quarter, including deals from SoftBank and Paramount Skydance.

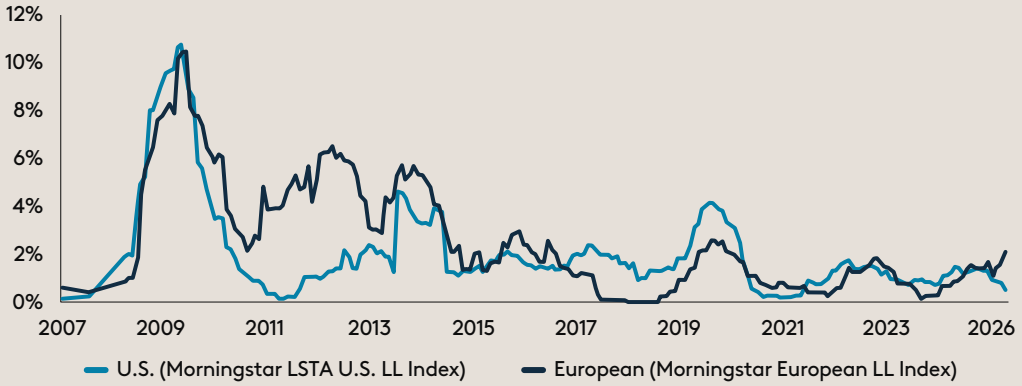
Elsewhere, European refinancing volumes declined by c.70% quarter on quarter, as rates rose and spreads widened among lower-rated borrowers.

Geographic Rotation – Outlook & Positioning
Over the last few months, we have reduced Global Yield Fund exposure to Europe and increased exposure to the U.S. Rising French government yields as a result of the political uncertainty could weigh on the European economy. Europe is also going into winter with lower than average natural gas storage, which could result in higher energy costs over the coming months. The U.S. should be more insulated from this, and growth is considerably higher than in Europe. The Fund has limited exposure to fixed rate high yield, although we have been increasing this asset allocation over the last few weeks after material underperformance in the U.S. high yield market. With a new Fed Chairman and reduced forward looking guidance on interest rates, we would expect high yield to become more volatile, especially in an environment where inflation is still running well ahead of the Fed's longer term target.

We maintain our long-term underweight view on software. Software loans have bounced back during the quarter and issuers have used this opportunity to refinance some of their shorter dated maturities which has meant Fund performance has been more muted vs. the index, but we remain cautious on the sector and believe AI disruption continues to be a potential headwind.

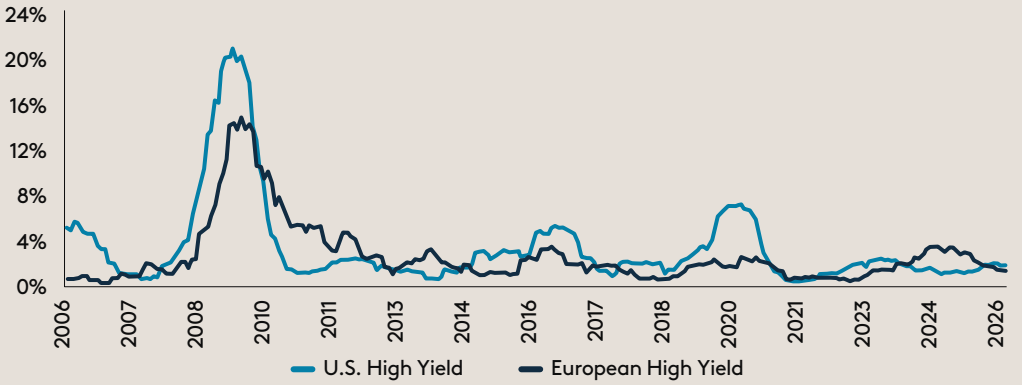
As mentioned earlier, new issuance is running at higher levels than previous quarters and this should allow the Fund to participate in some higher spread loans to increase the yield on the portfolio.

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 September 2026.

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



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

12 Source: PitchBook.

Private Credit

Acquisition activity drives the rebound
European direct lending strengthened in Q3, as sentiment improved and acquisition financing accelerated after software concerns and macro volatility had slowed activity in H1 2026. Deal volume reached its highest quarterly levels of the year, as sponsors returned to the market. Estimated year-to-date direct lending volume for sponsor-backed transactions has caught up and now trails the 2025 pace by only c.7%, compared with a c.20% shortfall at the end of Q2.[13]

Buyouts led the recovery, with volumes rising 58% QoQ to their highest level since Q2 2025.[14] This suggests growing sponsor confidence and a cautious return to dry powder deployment. Although jumbo deals dominated BSL volumes, direct lending financed materially more transactions. Market divergence is now clearer than ever: BSL leads on volume, while direct lending's lead on deal count underscores the depth of the core middle market for private credit managers. The syndicated markets are starting to be hesitant financing select new issues due to raw material price increases and rates rising.

Increasing deal activity saw European direct lending average spreads widen modestly to 526 bps.[15] However, the median spread tightened, pointing to growing dispersion as the credit cycle matures and financing solutions become more bespoke. Deals are typically pricing at 450-525 bps, with OIDs of around 150 bps. Recent European rate hikes should also lift all-in yields on floating-rate transactions, providing a modest tailwind for returns.

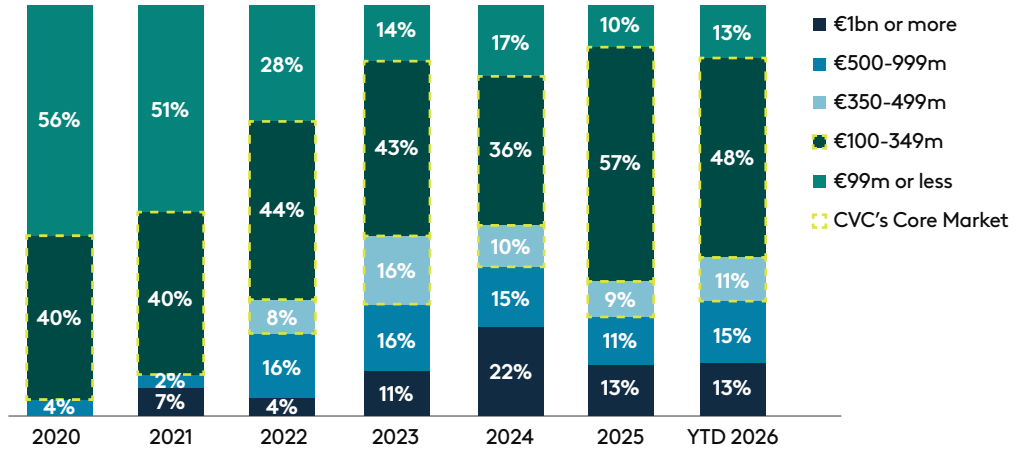
The spread premium over BSL has widened to 159 bps from c.135 bps in 2025, partly reflecting the BSL market's increasing focus on jumbo deals, which price significantly tighter than the middle market. Middle market borrowers' lack of ready access to public markets creates demand for the bespoke, reliable and flexible financing that private credit provides.

AI & rising rates present headwinds
Rising rates and AI remain the principal headwinds for private credit. In our view, neither is likely to trigger a sudden deterioration in borrower performance, although managers with conservative investment strategies will be better positioned to navigate these pressures.

Higher-for-longer rates will test more highly levered capital structures, with potentially higher sensitivity in Europe given their exposure to energy price volatility. We nevertheless expect a modest impact, as many CFOs have hedged more of their interest rate exposure following the 2022/23 hiking cycle. Moreover, we do not anticipate a repeat of that period, which saw aggressive central bank action in response to the inflation shock following Russia's invasion of Ukraine. The market is currently pricing around 100 bps of total rate increases in Europe, significantly below the 400 bps rise over Q3 2022 to Q3 2023. Many analysts also suggest that the ECB may only hike once more, and that current market pricing is exaggerating the extent to which rates will rise. Even so, vigilant underwriting remains essential to identify vulnerabilities before credits come under stress, while sufficient interest coverage ratios are also critical as rates continue to rise.

The AI landscape is evolving rapidly with long-term implications that are difficult to predict. This has prompted growing debate around regulation and the pace of innovation. Although BSL pricing implies some software issuers will face severe distress, we expect the more vulnerable borrowers to experience gradual credit erosion rather than widespread business-model obsolescence. Issuers that successfully integrate AI into their products are best placed to benefit, while those more exposed to substitution risk are likely to face greater pressure.

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



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

13 Source: PitchBook | LCD. As at 30 September 2026.
14 Source: PitchBook | LCD. As at 30 September 2026.
15 Source: PitchBook | LCD. As at 30 September 2026.

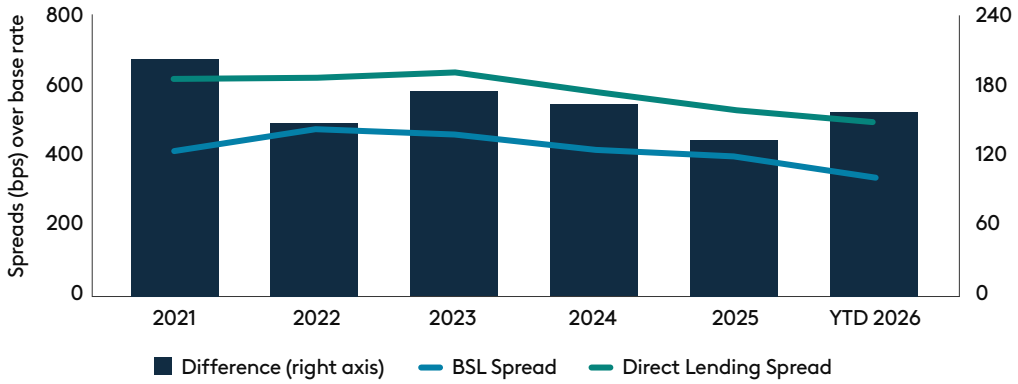
Private Credit continued

Maturing & competitive market
Fundraising has become increasingly competitive, with capital raised so far in 2026 at just 41% of the 2025 total. Fewer new managers enter the market, and LPs appear more reluctant to back new strategies. New managers account for only 4.5% of capital raised year to date, down from 32.9% in 2020.[16] As the market matures, investors are increasingly focused on platforms that have the capabilities to source, originate and manage transactions throughout the cycle, and have experience doing so over a number of years.

Alongside consolidation among European direct lending managers, the investor base shows signs of broadening. PitchBook reports that many managers have seen increased demand from North American and Asian LPs this year, as Europe's appeal grows amid U.S. private credit's recent headwinds.

Taken together, these dynamics point to a more demanding environment for private credit. Rising rates, AI-driven disruption and greater competition for capital and deals all place a premium on rigorous underwriting, disciplined portfolio construction and strong origination capabilities. In our view, managers with scale, an established local presence and experience across cycles may be well positioned to navigate this environment and capture the opportunities it creates.

Exhibit 5
The direct lending spread premium has widened vs. broadly syndicated loans



Source: PitchBook | LCD. As at 30 September 2026. Direct lending spread data reflects senior secured first-lien loans and unitranche facilities.
BSL data reflects loans issued to all leveraged borrowers.
As of July 2026, direct lending spread data includes private lender-submitted values alongside data from LCD News and other public sources.

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



Plot Points The story in data

Market Environment

Rates have repriced which should provide a tailwind for floating rate products. Duration sold off, hitting investment grade credit hard.

Liquid Credit

We are seeing increasing dispersion within credit markets. Spreads remain tight for higher-rated names, but lower-rated names have widened materially.

Private Credit

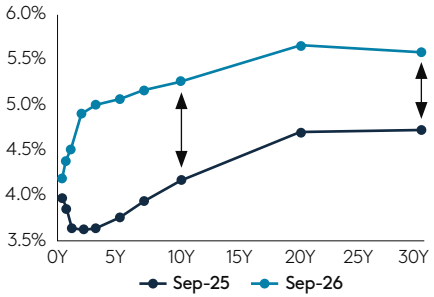
Acquisition financing remained the main driver of direct lending activity. Amid market volatility, investors are favoring experienced managers, who took 95% of capital raised in H1 2026.

Oil prices remain volatile, while rates are repricing

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



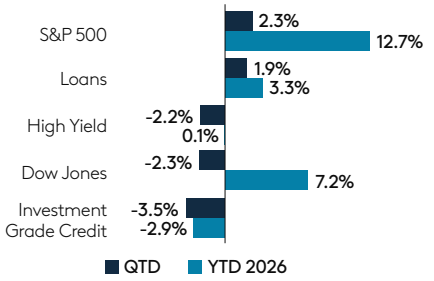
U.S. Treasury Curve[2]



Sources: U.S. EIA; Bloomberg. As at 30 September 2026.

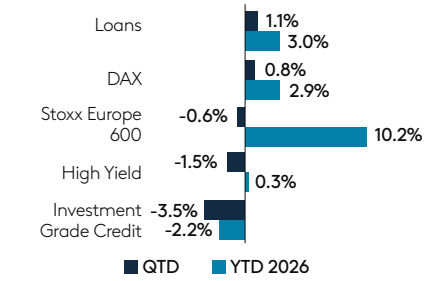
Performance Across Markets[3]

U.S.



Source: Bloomberg. As at 30 September 2026.

Europe



Source: Bloomberg. As at 30 September 2026.

Robust credit fundamentals

Rising stars continue to outpace fallen angels

Rising stars

▲ $50.6bn

▲ +63% YoY

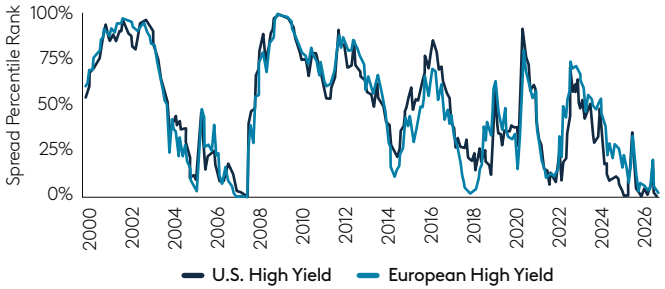
Fallen angels

▼$37.0bn

▼ -4% YoY

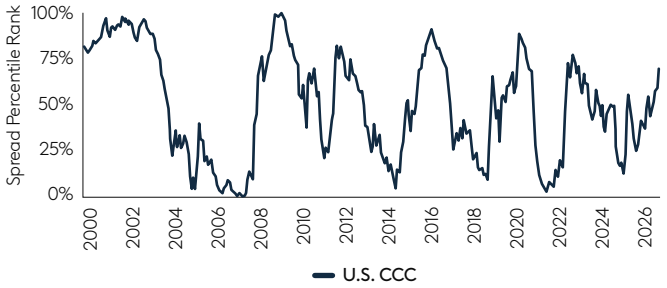
Source: Bank of America. As at 30 September 2026.

While spreads look tight on an index level...



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

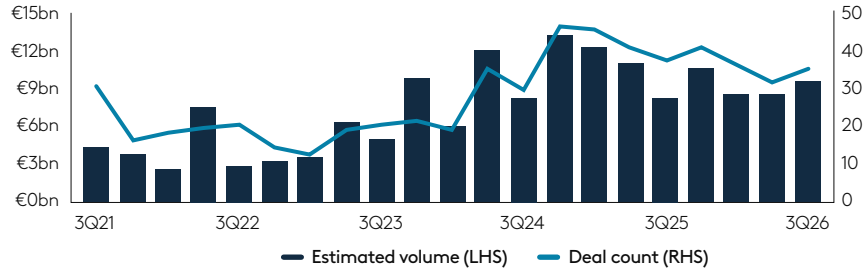
Lower-rated credit is widening materially



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

European direct lending deals rebounded in Q3

Quarterly deal count and estimated volume (€bn)



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

Investors are prioritizing experience in their allocation decisions

Share of European private debt capital raised, H1 2026

95% Experienced Managers

5% New Managers

Source: PitchBook. As at 30 June 2026.

Acquisition-related financing leads deal activity

65% Acquisition-related

27% Refinancing

8% Recapitalization

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

2 Source: Bloomberg. As at 29 September 2026.

3 QTD shows quarter to 30 September 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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