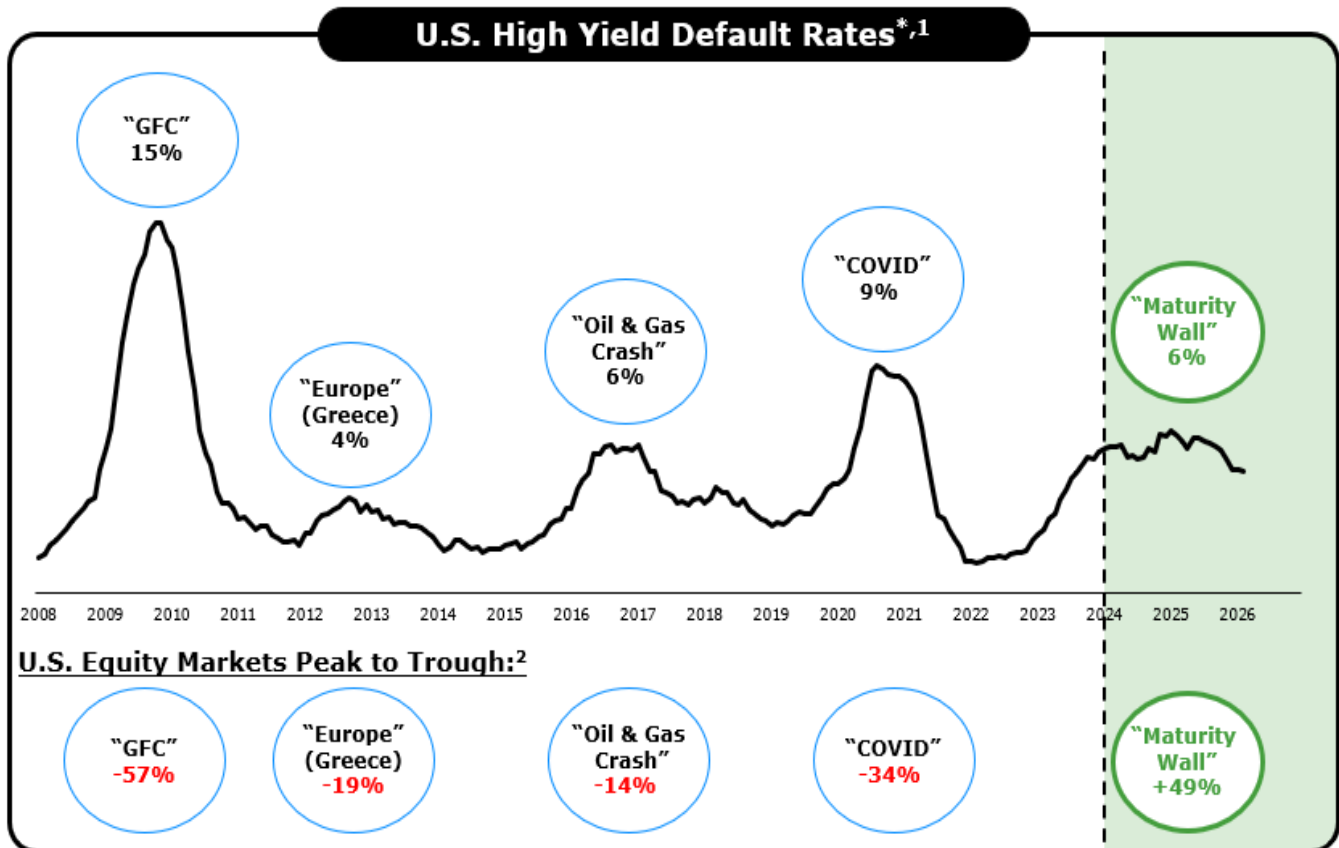


Market Update

April 2026

We have been living in a K-shaped economy in 2024 and 2025—a vibrant environment in technology with AI powering stocks and headline markets, and a slowdown in the real economy with large swathes of the high yield credit market under serious strain. The overall environment has degraded in 2026 with the US-Iran war, and high yield credit has taken another leg down, this time with pressure emanating from large software exposure.

I have been investing for 30 years in credit and never seen a dichotomy such as 2024 and 2025—reasonable economic growth, strong equity and credit markets—all co-existing with high yield default rates around 6 percent*¹ and deep problems in many sectors of the real economy (e.g. manufacturing, chemicals, consumer brands, homebuilding, large parts of real estate). The contrast is starkly visible in the graph below—the period since 2024 with 6% high yield default rates*¹ and a +49% move in stocks,² standing out versus previous default cycles, which came with steep declines in equities.



* Including distressed exchanges. Default rate callouts in the chart refers to peak rates.

To understand what got us here, we need to go back to the fed rate hikes in 2022. There were trillions of dollars of deals done pre-2022, many of them in real economy businesses, which have had sluggish growth over the last four years. As you know, credit documents gave sponsors room to drive debt extensions (A&Es), even grab discounts on debt (LMEs). But all that started to come to an end as sponsors could no longer service debt at the higher rates—and we saw defaults pick up in 2024 and 2025. The problems were especially acute in large parts of real estate where asset prices dropped and loans in “special servicing” today stand close to the levels we experienced after the GFC in 2008.³

“We believe we are experiencing the first deep sustained credit problems since 2008.”

Victor Khosla, Founder and CIO of SVP

2026 has seen another leg down in high yield credit. The economic backdrop has worsened with the US-Iran war and the oil shock now rippling across the global economy. The technology sector still has underlying strength, but valuations are more subdued this year. At the same time, a growing realization that software, which we estimate to be about 15-20 percent exposure across credit,^{*4} and historically a real pillar of strength in a typical loan portfolio, could be shaken with AI, has ignited a fire storm. Almost a third of the \$1.9 trillion private credit market is in Business Development Companies (BDCs) and interval funds,⁵ which offer quarterly liquidity (rather than long term lock-up structures)—and the stress here is starkly visible. BDCs are trading at 80 percent of NAV,⁶ the sort of levels you saw right around COVID. There is a line of redemptions in interval funds, that with few exceptions, are being gated. The lowest quality loan, CCC credits, have seen spreads gap out from 1400bps in summer 2025 to 2000 bps today—again coming close to what we saw in the depth of COVID.⁷

SVP View: We are now walking around with a fat tail of risk. Our base case is more of the same, perhaps a little slower growth, and reasonable equity markets co-existing with increasing troubles in the credit markets. The technology tail winds are powerful, and expected to continue to provide a boost to the US economy, just as they have done in the last few years. Europe is different, with natural gas costs doubling in March from the start of the year⁸ in echoes reminiscent of what happened with the Ukraine war in 2022. We expect software defaults to bite, but be a hiss not a pop, and take a few years to figure out the winners and the losers. But there are plenty of reasons for concern, i.e. the fat tail. A protracted return to full production of oil & gas and transit through the Gulf has the possibility of causing an oil shock with a level of severity we experienced in the 1990 Gulf war. If software losses come fast, you only need to look at the oil & gas crash of 2014, where the sector accounted for just 10 percent⁹ of the broad levered credit universe, but drove HY spreads wider by 500 plus basis points.⁺¹⁰

* SVP analysis includes U.S. and European issuers identified as software businesses but categorized under other industries.

† Based on U.S. market.

SVP Perspective: We believe that 2026 is an exciting time for opportunistic credit investing. We took advantage of the favorable valuation environment of 2024 and 2025 to monetize large parts of our portfolio. We were not market savants—did not see some huge problems on the horizon. In practice, we find that we work hard to buy AND improve assets and/or companies, and when you get a favorable market to sell these illiquid assets, you go even if you are leaving some money on the table. And we went. We have about \$21 billion in AUM today, \$15 billion invested and about \$6 billion in undrawn capital.¹¹ In a busy year, we invest about \$6 billion of capital. Over 2025, we invested only \$3.4 billion, much below that pace, and realized \$7.0 billion.* The realization numbers are even bigger if you look at them over the last 27 months (Jan 2024-Mar 2026), totaling \$13 billion, as we have turned over a substantial amount of the historic portfolio. At the same time, we are experiencing what we view as the first deep sustained set of credit problems since 2008, much deeper than the 2012 Greek crisis, which was confined primarily to Europe, and COVID, which was short—you blinked and it was gone. Our view of the opportunity set has expanded significantly, particularly across the middle market. It includes a wide spectrum of investments, from hybrid solutions to help asset owners extend out their runaway, to real assets (particularly power generation, real estate and infrastructure), debt-to-equity restructurings and special situations private equity. Europe is a substantial piece, at about 40 percent of what we are seeing, given the economic issues dogging the continent. We find this market opportunity plays to our strengths. There are many people who can invest in large cap traded debt—but very few with our skills to work out assets or improve (sometimes transform) middle market companies. As a result, we believe that we have the best opportunity **for us** since 2008.

* Includes SVP funds' full realization of OmniMax. SVP funds reached an agreement to sell OmniMax on November 17, 2025 and the sale was completed on February 2, 2026.

¹ US Issuer Weighted Speculative Grade Corporate Default Rate, Source: Moody's Ratings. Default rates used as a potential proxy for credit market stress. Inflection points in the chart (GFC, Europe/Greece, Oil & Gas, COVID, Maturity Wall) denote peak default cycles and are rounded to the nearest percentage of peak default rates for the applicable period. As of February 2026, 4.9% default rate.

² S&P 500 Index as of Apr 17, 2026 based on daily closes. Source: Bloomberg (SPX). "GFC" reflects October 9, 2007 to March 9, 2009, "Europe" (Greece) reflects April 29, 2011 to October 3, 2011, "Oil & Gas Crash" reflects May 21, 2015 to February 11, 2016, "COVID" reflects February 19, 2020 to March 23, 2020. "Maturity Wall" reflects December 31, 2023 through April 17, 2025.

³ CMBS Special Servicing rate. Source: Trepp. As of February 2026, 10.7% special servicing rate.

⁴ Software-tagged loans represent 13% of the S&P/Morningstar LSTA US Leveraged Loan Index and 7% of its European counterpart by amount outstanding. Sell-side research estimates place software exposure at approximately 25% of private credit portfolios. SVP's 15-20% range reflects our internal estimate, which supplements standard index classifications by identifying additional issuers whose business models we believe are fundamentally software-driven but are categorized under other industries. These names were identified through a combination of quantitative analysis of trading behavior and qualitative assessment of underlying business characteristics. Data as of February 2026. Sources: S&P/Morningstar LSTA US and European Leveraged Loan Indices; ICE BofA US and European High Yield Bond Indices; SVP internal research. All European figures converted to USD at the EUR/USD exchange rate on March 16, 2026.

⁵ \$1.9 billion private credit market reflects direct lending market size reflects Preqin's estimate of unrealized value across North American and European private debt strategy funds, excluding distressed, fund of funds, and special situations strategies, as of June 2025. BDC AUM 1/3 share of private credit as of 3Q 2025. Source: BDC Collateral, Morgan Stanley Research.

⁶ S&P BDC Index Price to Book Ratio history as of April 13, 2026. Source: Bloomberg.

⁷ J.P. Morgan Leveraged Loan Index S&P CCCs Spread to Maturity. Source: Bloomberg. 2011bps as of April 13, 2026. Reference to COVID levels refers to the period of March 16, 2025 to April 10, 2025, the most recent period to surpass 2000bps.

⁸ European natural gas strip prices quoted in USD per mega watt hour. Source: Bloomberg. Price on January 1, 2026 was \$32.0. Peak price was \$69.7 on March 2026. Current price as of April 13, 2026 was \$51.6.

⁹ Energy-tagged bonds represented 15% of the ICE BofA US High Yield Index (H0A0) and 8% of the ICE BofA European High Yield Non-Financial Index (HNE0) by face value as of February 11, 2016. The 10% oil and gas exposure figure is SVP's internal estimate, combining high yield bond energy market size with our estimated oil and gas exposure in the S&P/Morningstar LSTA US and European Leveraged Loan Indices as of February 2016.

¹⁰ ICE BofA US High Yield Index (H0A0) options adjusted spreads over US treasuries on Jun 23, 2014 and Feb 11, 2016. Source: ICE BofA

¹¹ Includes uncalled capital for all SVP managed funds and accounts that are in their respective investment period or harvest period and excludes funds and accounts in liquidation.