

Credit Research Foundation August Meeting

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A&M Presenters



Rich Newman
Managing Director

469.231.6780

rnewman@alvarezandmarsal.com



Conrad Ragan
Director

336.972.8910

cragan@alvarezandmarsal.com

Market Views

“We’ve all looked around, and we’ve seen that prices are too high. If there were people in the household, the business sector or the financial markets who thought this central bank was going to be comfortable with an inflation objective above 2%, well, I guess they’d be disappointed. We’re going to deliver price stability in the U.S.”

- Kevin Warsh, Fed Chair (7/1/26)

“We have seen a rise in the investment from banks into NBFIs in particular, but it’s been very difficult for us to have a clear understanding of where those funds have been flowing.”

- Michelle Bowman, Fed Vice Chair for Supervision (6/4/26)

“The amount of money being spent is huge. Will it in total pay off? Probably... Will it pay off the way you expect and the timetable you expect? Definitely not.”

- Jamie Dimon, CEO, JPMorgan Chase (7/21/26)

“Inflation has been too high, for too long, and does not appear to be on track all the way back to 2 percent, and the inflation risks are to the upside. I currently believe modestly higher interest rates would better balance the outlook and risks.”

- Lorie Logan, Dallas Fed President (7/16/26)

“It suggests the worst is over, we’re past the peak and inflation should moderate. The biggest threat is that things unravel and we’re back to full-blown war with the Strait [of Hormuz] shut down.”

- Mark Zandi, Moody’s Chief Economist (7/14/26)

Market Views

“The press conference damaged his credibility to some extent, (Warsh)” “His communications style appears to be backfiring, and the market is calling his bluff”

- Stephanie Roth, Chief Economist at Wolfe Research (7/29/26)

“In Warsh’s press conference, he once again failed to specify how he intended to achieve his stridently asserted inflation resolve” “Both of these points raise questions about the new chair’s credibility in delivering lower inflation”

- Michael Feroli, Chief U.S. Economist at JP Morgan (7/29/26)

“We will get some higher inflation readings because of gasoline prices. The key for the Fed, as all of them have said out loud is: Is it going to bleed through to core inflation?”

- Luke Tilley, Chief Economist at Wilmington Trust (7/21/26)

“Overall inflation is unquestionably too high at about 4 percent, well above the FOMC’s longer-run goal of 2 percent. It is imperative that we restore it to our 2 percent goal on a sustained basis.”

- John Williams, New York Fed President (7/15/26)

“I believe we are currently on the brink. The U.S. government currently spends \$7 trillion while only taking in approximately \$5 trillion, resulting in 40% overspending. We are entering a particularly risky period.”

- Ray Dalio, Founder, Bridgewater Associates (6/18/26)

Executive Summary

The following trends will influence bankruptcies in the second half of 2026 and 2027

#	Trend	Trailing Twelve Months Developments	Key Indicators
1	AI and Private Equity	Software loans have materially underperformed as worries that AI will render software businesses obsolete. The average performing loan bid prices are declining to ~85.6 compared to ~96.7 for performing loans excluding software	~\$40.6bn of outstanding software & Consulting debt is distressed - Wave of software bankruptcies expected in 2027 and 2028
2	Iran	Energy-led spike drove headline inflation to a two-year high earlier this year, but sticky core prices signal that underlying inflation pressures have not resolved	TD Economics projects WTI will remain prone to upward pressure within an \$80–\$90/bbl range in the near term as backlogs clear
3	LMEs	Failed LMEs continue to dominate the 2026 bankruptcy headlines including DISH, Trinseo and Saks	1/3 of all LMEs end up in bankruptcy
4	New Fed Chair Kevin Warsh	Warsh's era means less Fed signaling, more data-driven volatility, a smaller balance sheet over time, and a credibility test on whether AI truly unlocks the productivity dividend needed to justify eventual easing	Stock market traded down after Kevin Warsh's poor showing at first press conference
5	Macro Data – Impact to Consumer	- The U.S. economy remains on solid footing, with GDP forecast at 2.4% for 2026 (estimates range 2.0–2.8% across forecasters) and recession odds easing to 20–30%, - Interest rates remain higher than once expected. While inflation has moderated from its peak, it remains above the Federal Reserve's target - The low-income consumer remains highly stressed	- Subprime 60+ day delinquency: 6.9% — highest in 32 years of tracking (Fitch) 1.73 million vehicle repossessions last year — most since the Great Recession
6	Fiscal Policy	Ferguson Limit or Ferguson's Law states that when a great power's interest payments on its national debt exceed its defense spending, it does not remain a great power for long. This threshold preceded major declines or transformations in Hapsburg Spain, Ancien Régime France, Ottoman Empire, and the British Empire	The United States' interest payments on national debt exceeded defense spending in 2024

1. AI and Private Equity

Private Credit Pressure Signals Restructuring?

Recent Market Catalysts

Major liquidity stress is hitting retail-focused private credit funds:

- **Blackstone's \$82B BCRED** facing **7.9% redemption requests**.
- **Blue Owl permanently halted redemptions** in its retail fund OBDC II.

Software Sector Vulnerability: A structural reassessment of credit quality is underway, with **Apollo's leadership** warning of a prolonged market **shakeout** driven by AI disruption, especially for SaaS.

Managers: Share prices declined across alternative asset managers, and fundraising is expected to see negative effects as investors reassess risk.

Default Rate Projections: UBS forecasts that software loan defaults could surge from current 3-5% levels to **up to 15%**, exposing \$600-\$750B in sector-specific loan exposure to forced asset sales.

Broader Credit Market Implications

- **Market Bifurcation:** The crisis has highlighted the systemic risks of "semi-liquid" retail structures, potentially forcing industry consolidation that favors institutional managers demonstrating strict liquidity discipline.
- **Tightening Middle-Market Conditions and Refinancing Walls:** Middle-market credit conditions are tightening as the sector faces significant maturity walls, including \$12.7bn in 2026 debt maturities for BDCs.

- **Spillover Effects into High-Yield and Leveraged Loans:** The interconnectivity between private and public credit markets means that private credit stress does not remain isolated.
- **Default Normalization and Asset Quality:** Data from KKR shows that private credit stress is idiosyncratic and concentrated in the lower middle market with the default rate at an elevated 9.3%. According to CFRA's base case scenario, the market is pricing in default rates spiking to a 4% to 6% range.

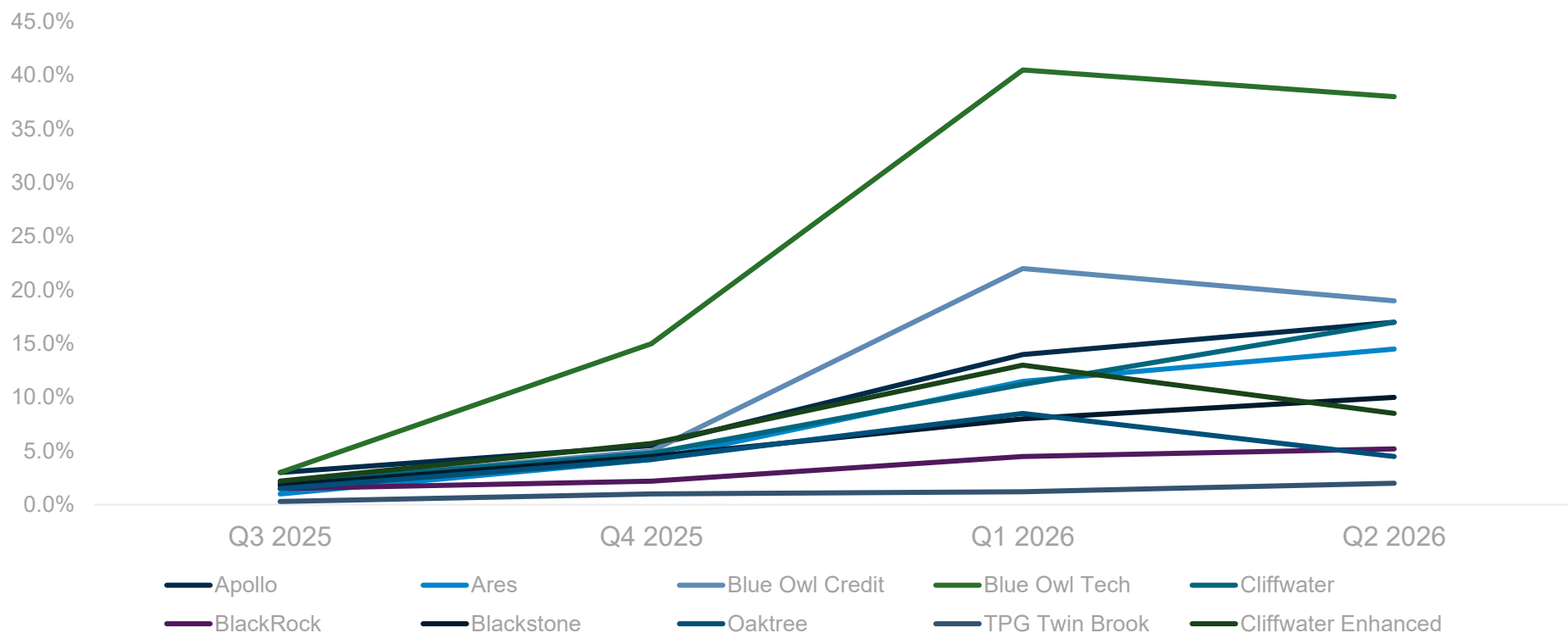
Restructuring Opportunities

- **Recovery Expectations:** Recent private credit restructurings show senior lenders averaging approximately 50% recoveries, with out-of-court transactions yielding slightly higher principal recoveries than in-court Chapter 11 cases.
- **Deal Mechanics:** Restructuring deal flow is heavily shifting toward out-of-court debt-for-equity exchanges and below-par debt exchanges that extend remaining maturities by two to seven years.
- **DIP Financing Battles:** As defaults normalize, restructuring professionals anticipate increased friction over non-consensual priming Debtor-in-Possession (DIP) loans, as incumbent private credit lenders fight to protect collateral in situations lacking sizable equity cushions.

Private Credit: Elevated Redemptions

Private credit redemption requests remained elevated in Q2'26, with over \$22bn of withdrawal requests across 20 tracked funds, while redemption limits continued to manage investor withdrawals

Quarterly Redemption Requests (% of NAV)



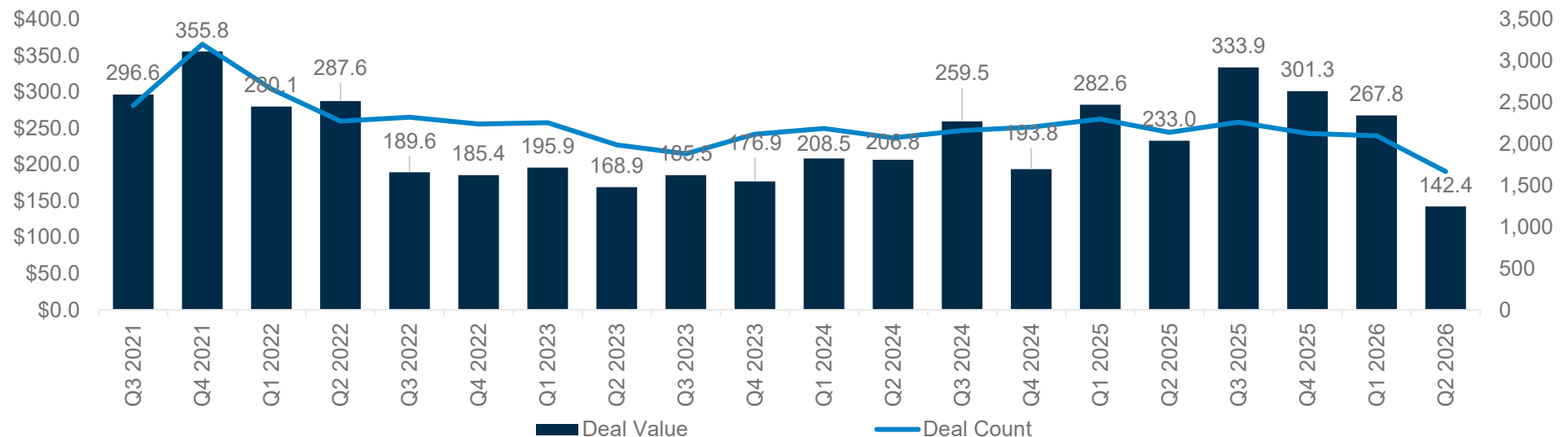
- Redemption requests remained elevated across major evergreen private credit funds through Q2'26
- Blue Owl Technology remained the highest-redemption fund (~38% of NAV), followed by Blue Owl Credit (~19% of NAV)
- Apollo, Ares and Cliffwater also reported elevated redemption requests relative to Q3–Q4'25 levels
- Median redemption requests across tracked funds increased to 8.7% of NAV in Q2'26 from 7.1% in Q1'26
- Redemption limits continued to restrict payouts, with less than 40% of withdrawal requests fulfilled across the sector

Source: FT, AlphaSense

Private Equity Performance and Trading Volume

In Q2 2026, the US PE market corrected sharply as rates and AI disruption drove selectivity, shifting capital toward AI-enabled infrastructure over software

US Quarterly PE Deal Activity
(\$ billion, Q3 2021–Q2 2026)



Source: Pitchbook – US PE Breakdown

- The US PE activity entered a sharp correction in Q2 2026, with deal volume falling 37.5% Q-o-Q as higher-for-longer rates, wider direct lending spreads, inflation uncertainty, and AI-driven business model disruption caused sponsors to pull back across sectors and deal types
 - Software was the largest casualty, with estimated deal value declining to \$10.7bn, down 65.7% Y-o-Y and 90.3% below its peak, as investors reassessed the durability of software margins and competitive moats under accelerating AI adoption
- Capital is rotating toward AI-enabling infrastructure themes, particularly energy, where YTD deal value increased 80.5% Y-o-Y as sponsors positioned for rising power demand linked to AI infrastructure buildout
- Going forward, PE allocation is expected to remain selective, with investors favoring energy and B2B/business services while reducing software exposure, as AI disruption becomes a key driver of underwriting, valuation gaps, and lender appetite
 - The market outlook is likely to be defined by a wider divide between AI beneficiaries and AI-exposed businesses, with future deal activity concentrated in sectors where AI creates infrastructure demand rather than threatens existing revenue models

Note: 1) The PE deals and counts used in this analysis exclude estimated deal values and counts for the period considered

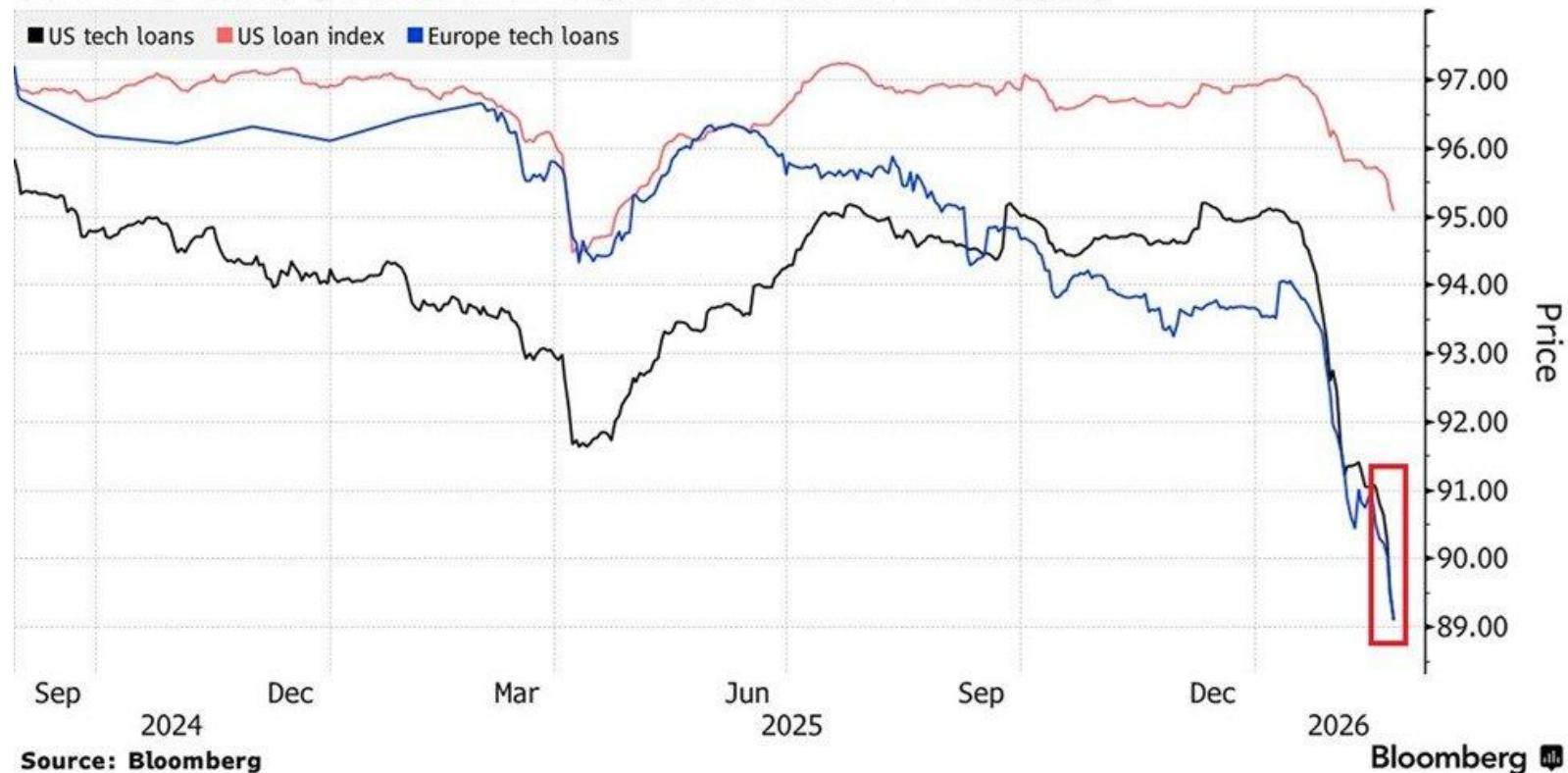
Source: Pitchbook – US PE Breakdown

Private Credit: Elevated Redemptions

The February "SaaSocalypse" triggered a repricing of the software sector and was catalyzed by the launch of autonomous AI agents (notably Anthropic's Claude Cowork) followed by a rapid valuation reset and credit concerns

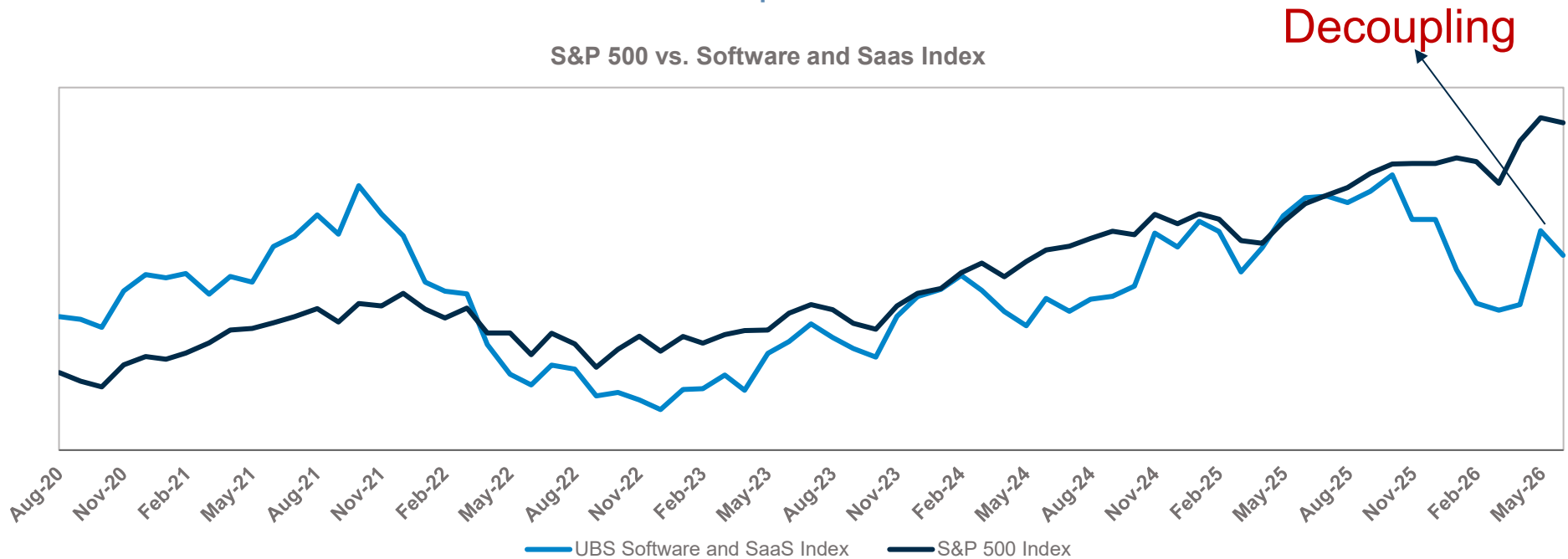
Tech Loans Plunge

Software-heavy portion of leveraged loan market is dropping



Equity – SaaS Performance

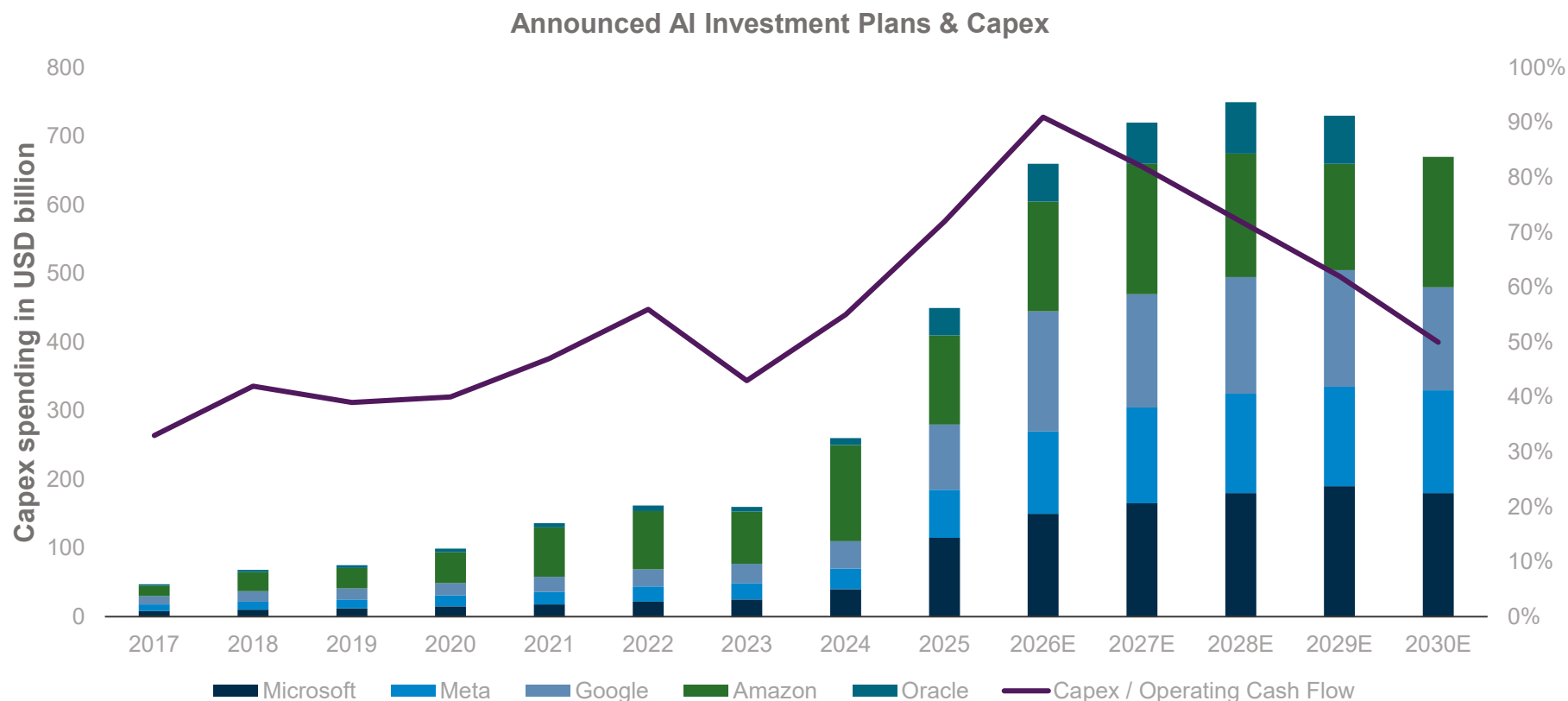
The contrast in returns between the broader market and the software sector reflects a massive shift in investor sentiment and capital allocation.



- SaaS significantly lagged the broader market in 2025, with the S&P 500 returning 17.9% while the Global X Cloud Computing ETF (CLOU) declined approximately 2.0%.
- Software sector momentum has weakened materially, with the S&P 500 software cohort declining 31.8% from its October 2025 peak through February 2026, even as the equal-weighted S&P 500 gained 6.4% YTD.
- The industry is navigating a fundamental business model transition, shifting from traditional seat-based licensing toward platform-based and outcome-driven pricing models, creating uncertainty around long-term revenue and valuation frameworks.
- AI infrastructure spending is crowding out broader enterprise software budgets, as hyperscalers are expected to invest nearly \$700 billion in AI capex during 2026, prompting CIOs to prioritize AI-related investments over conventional software upgrades.

AI Capex: Engine Powering US Growth & Equity Markets

Big Tech's AI investment is projected to reach \$754bn in 2026, supporting US economic growth and driving a significant share of S&P 500 earnings growth



- Major US technology companies announced a 50% increase in capex to around \$700bn, equivalent to 2.3% of US GDP
- Hyperscaler capex is projected to reach \$754bn in 2026 (+83% YoY), rising to \$905bn in 2027
- Total AI capital expenditure is projected to exceed \$1tn in 2027 as hyperscalers expand investment plans
- AI investment is expected to contribute ~40% of S&P 500 EPS growth in 2026

Private Credit: Emerging Risks

Market Shift

- Once a favored funding source, private credit now draws intense **investor scrutiny**
- Rates, slowing growth, geopolitics and **AI-valuation** concerns are exposing weaknesses
- **Refinancing risk** builds as borrowers reprice into higher capital costs

Key Credit Risks

- **Defaults expected to rise** among highly leveraged borrowers
- Far **less transparency** than public debt markets
- Aggressive EBITDA add-backs and **covenant-lite** terms mask deterioration
- **Hidden leverage** in supply-chain finance and off-balance-sheet debt

KEY TAKEAWAY

Private credit remains a major funding source — but today's market demands **significantly deeper credit diligence**.

Credit Professional Watch-Outs



Enhanced Due Diligence

- Obtain and review **private-company financials**
- Test adjusted EBITDA and true **cash-flow quality**
- Map all funded and **off-balance-sheet debt**



Liquidity & Capital Structure

- Scrutinize reverse factoring and supply-chain finance
- Run **UCC searches** for liens and secured creditors
- Track maturities, refinancing needs and **liquidity runway**



Governance

- Background-check **management and ownership**
- Probe **related-party** deals and working-capital practices

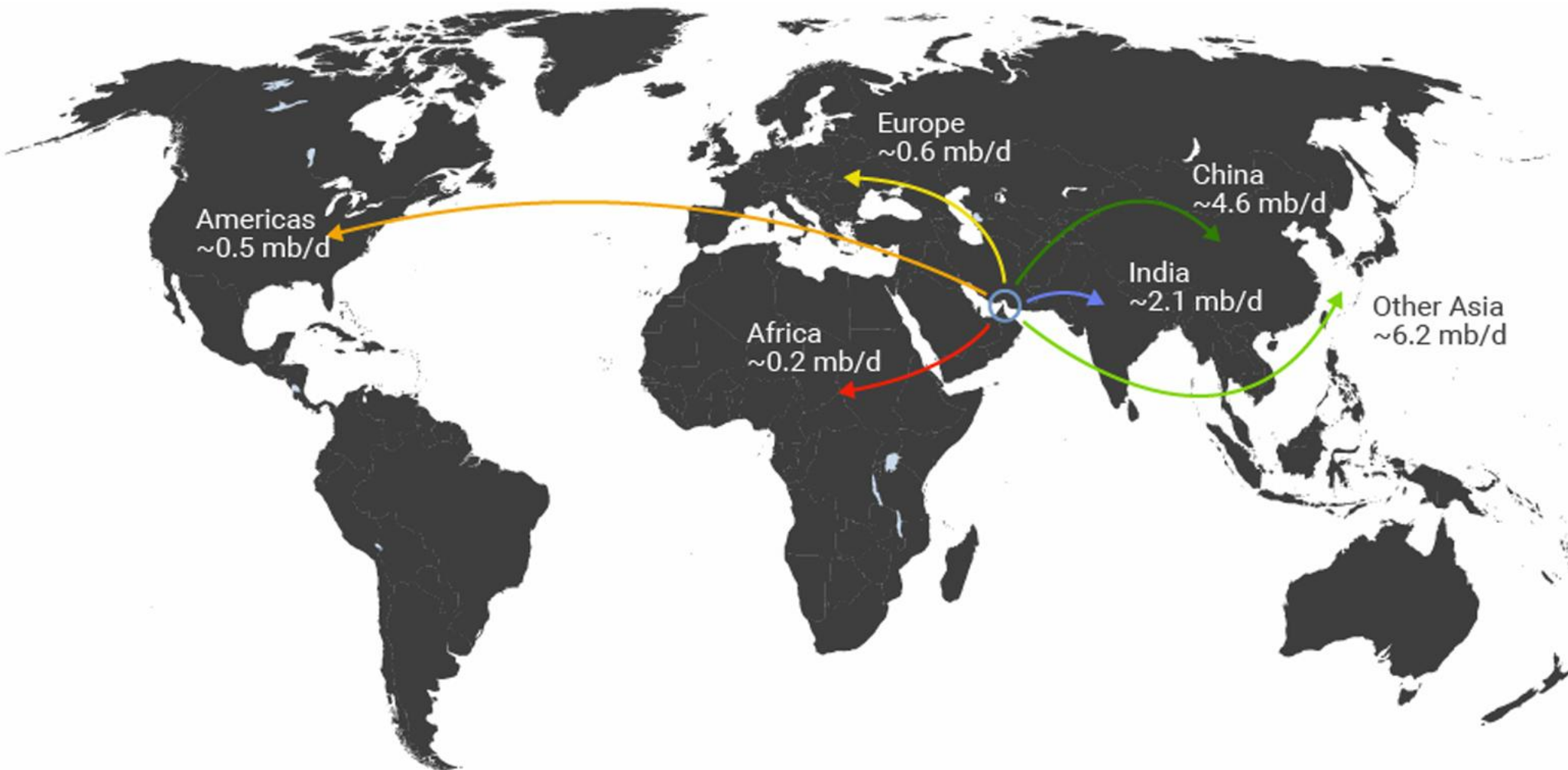
BOTTOM LINE

Know where you sit in the capital structure — hidden leverage and thin disclosure can raise risk **before you extend trade credit.**

2. Iran

Middle East Oil Flows, Mapped out

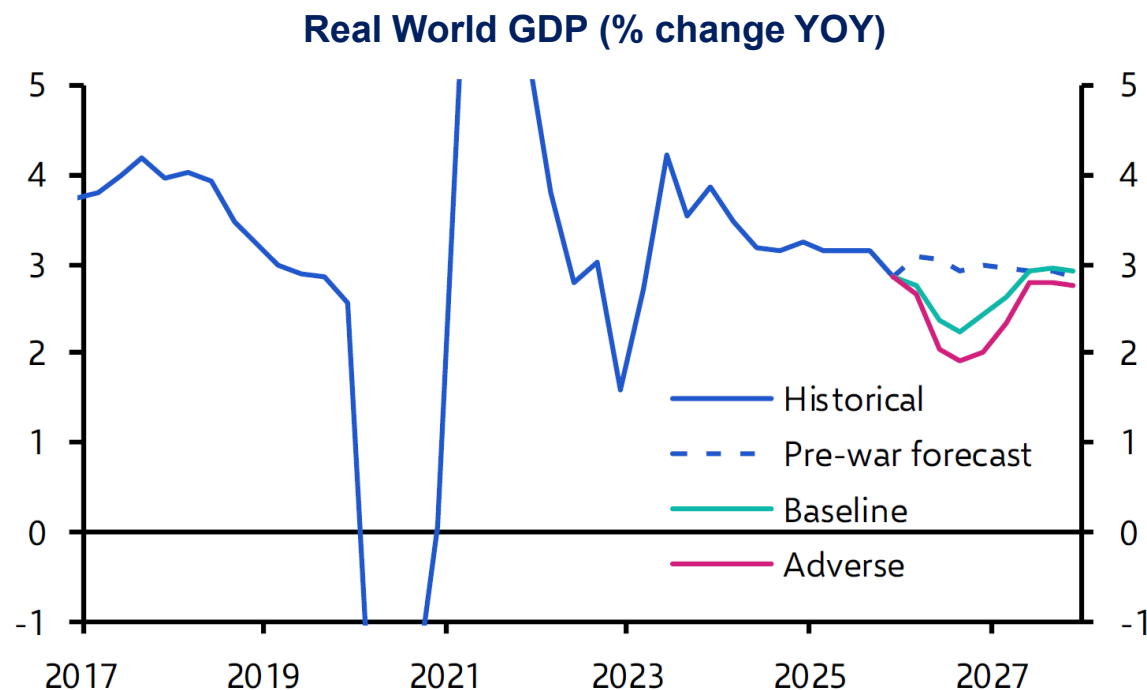
Crude oil exports transiting the Strait of Hormuz by destination (2025). Most crude oil flows east from Strait to Asia, China and India.



Iran Conflict: Forecasting the Fallout

Considerable Uncertainty Exists

- **Impacts to economic growth and inflation are dependent upon five factors:**
 1. Duration of conflict (disruption to shipping through Strait of Hormuz—how long?)
 2. Countries' net energy trade positions (are they net importers or exporters of energy?)
 3. Energy intensity of GDP (how much oil/gas required to produce output?)
 4. Extent to which governments shield households and firms from higher energy costs (strategic reserve)
 5. Response from central banks



Iran Conflict: How Energy Impacts Inflation

Oil and gas are most important – but other industrial inputs move through Strait: Helium (semiconductor manufacturing), sulfur (used in plastics) and fertilizer

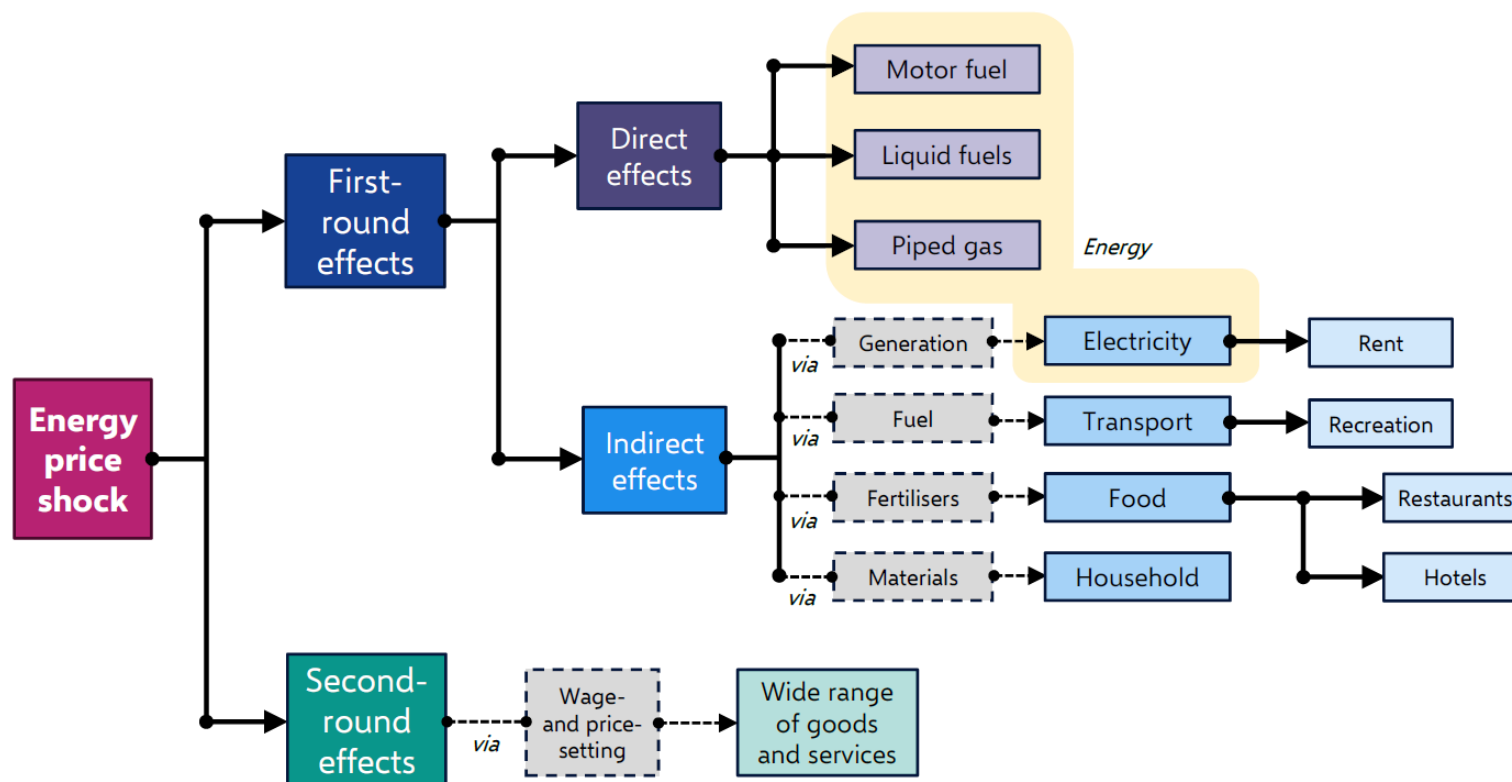
Key Supply Chains Exposure to Hormuz Disruptions

Supply Chain	Key Commodities & Hormuz Exposure	Downstream Sectors
 Agriculture & Fertilizers	Sulfur (50%), Urea (34%), Ammonia (23%), Phosphate Rock (23%)	Global food production, livestock & animal feed, food processing, biofuels
 Petrochemicals & Chemicals	Methanol (40%), Polyethylene (15%), Polypropylene (9%), LPG (29%)	Plastics & packaging, automotive components, consumer goods, textiles
 Metals	Aluminum (9%)	Aerospace, automotive, construction, power infrastructure
 Semiconductors	Helium (30%)	Semiconductor manufacturing, electronics, medical imaging

Iran Conflict: How Energy Impacts Inflation (Cont.)

- Inflation depends on import dependence and the weight of these items in CPI baskets
- After first impacting gasoline prices, higher energy costs will eventually feed through to household electricity and utility bills
- Second round impacts possible through wages and pricing behavior possible

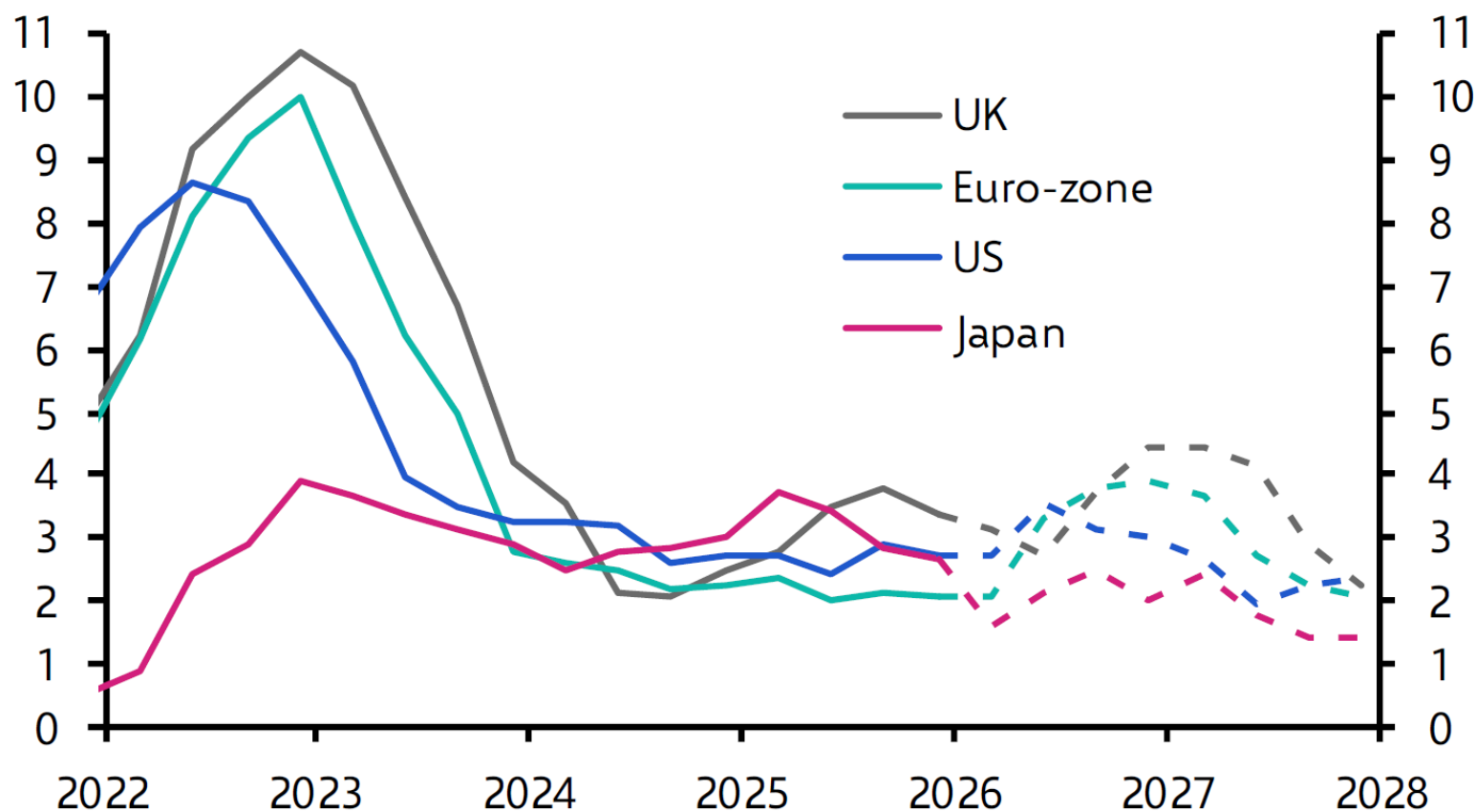
Where Higher Energy Prices Show Up in CPI



Iran Conflict: Forecasted Impacts to Inflation

- US inflation is likely to peak at 3-5%. Inflation in Europe and Asia could peak at 4-6% with the additional risk that inflation in Europe and Asia could remain elevated for longer as compared to US inflation
 - **US inflation hit 3.3% in April (highest since summer 2024)**
- The graph below is a baseline scenario: inflation could be much more severe depending upon length of conflict

Baseline Scenario Headline Inflation (%)



Oil Markets Normalize Following U.S.-Iran Memorandum of Understanding, Then Spiked Above \$100

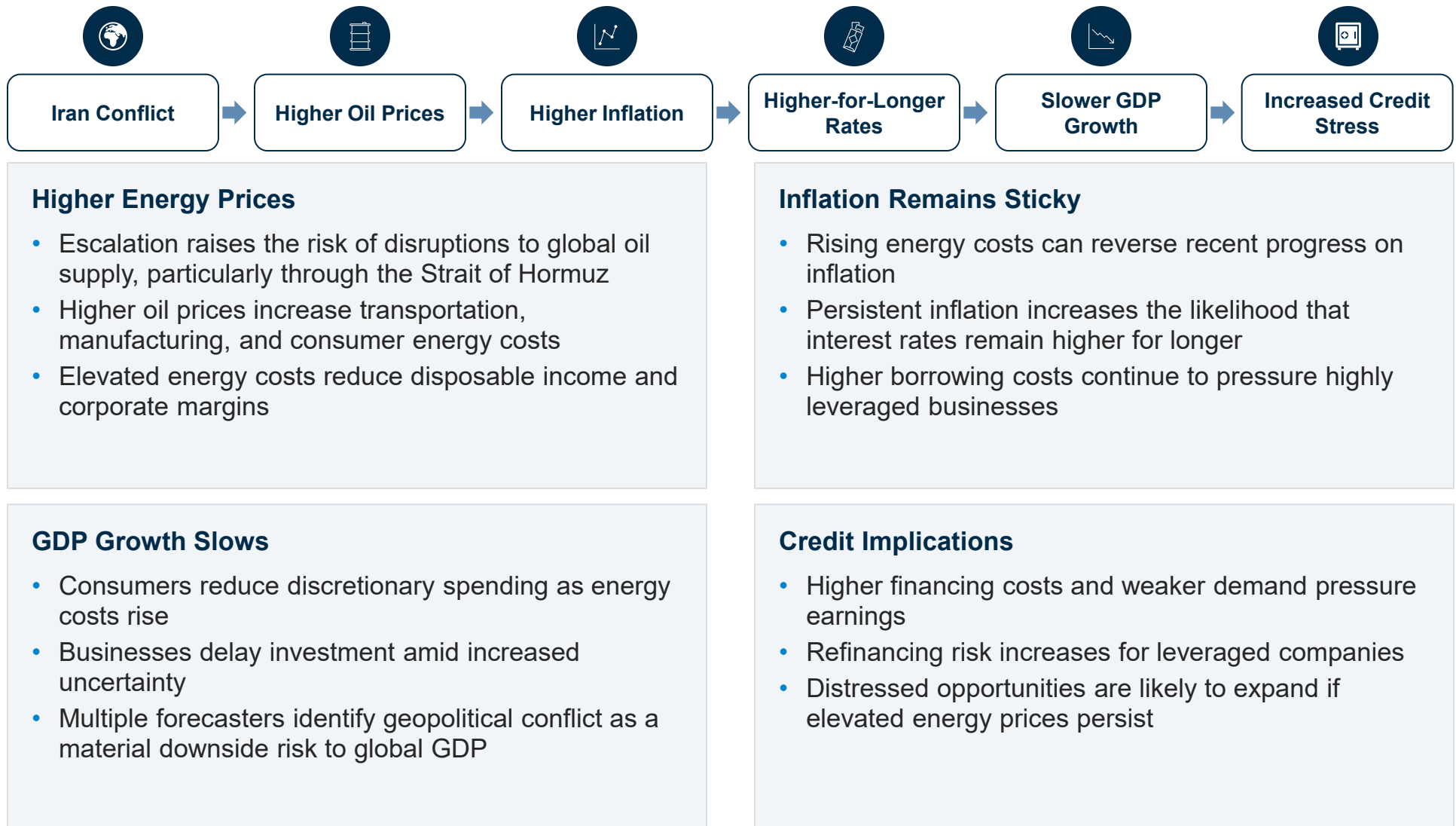
The crude oil market has shifted dramatically following the June 17, 2026, U.S.-Iran memorandum of understanding (MoU). After surging toward \$120 earlier this year, Brent and WTI prices have cooled to the \$70–\$80 range as Strait of Hormuz shipping routes begin a fragile recovery (but changes weekly)



The immediate effect of the oil shock is a significant rebound in headline inflation, though core measures remain more stable. While the surge in oil prices acts as a "tax" on consumers, the US economy is viewed as relatively resilient compared to other regions. JPMorgan Research notes that **every 10% rise in oil prices typically leads to 0.25% higher consumer prices, with an expected global CPI surge to a 5% annualized rate this quarter.**

Iran Conflict Increases Risks to U.S. GDP Growth

Escalating conflict in the Middle East threatens global growth by increasing energy prices, prolonging inflation, delaying monetary easing, and tightening financial conditions.



Forecaster consensus: Major forecasters including Goldman Sachs, the IMF, and the World Bank identify sustained energy price shocks as a meaningful downside risk to economic growth.

Adverse Macroeconomic and Credit Outcomes Escalate With Disruption Severity

Outcomes deteriorate across every dimension as conflict severity and duration increase — oil, inflation, GDP, and credit each worsen from left to right.

	Limited Conflict	Prolonged Regional Conflict	Major Supply Disruption
Oil Prices	Temporary increase	Elevated	Significant spike
Inflation	Minimal impact	Inflation reaccelerates	Material increase
GDP Growth	Little change	Growth slows	Downside recession risk
Credit Markets	Stable	Credit spreads widen	Defaults increase
Distressed / Restructuring Impact	Minimal activity	Restructuring activity rises	Distressed opportunities expand

Key takeaway: The probability of adverse macroeconomic outcomes increases with the duration and severity of supply disruptions.

3. LMEs

LMEs That Filed For Bankruptcy in 2026

Over a third of liability management transactions end up in Chapter 11 bankruptcies



LMEs That Filed For Bankruptcy in 2025

Over a third of liability management transactions end up in Chapter 11 bankruptcies



LMEs – Risk to Unsecured Creditors

LMEs that go bad and enter bankruptcy are harmful to unsecured creditors

- **Negative impacts to unsecured creditors**

- Lenders might secure unencumbered collateral that otherwise could fund recoveries to unsecured creditors
- Double-dip transaction potentially creates two secured claims which general unsecured creditors sit behind
- LME transactions that eventually end up in bankruptcy court are heavily litigated, which results in an increase in professional fees and less money available to pay postpetition trade
 - Recent LMEs that have been litigated include (i) Envision Healthcare, (ii) Robertshaw and (iii) Westco Aircraft
 - Lenders are increasingly using pro-rata deals that allow all lenders to partake. Will be interesting if 2025 / 2026 results in less LME litigation for deals that are pro-rata deals
- Secured lenders prior to the LME are more likely to be undersecured post-LME and therefore have a larger deficiency claim, which could swamp recoveries to unsecured creditors
- Trade vendors have no say in an LME / LMT

LMEs – Mitigate Risk

Unsecured creditors have options if a Company files for bankruptcy after completing an LME

- **Be Preemptive**

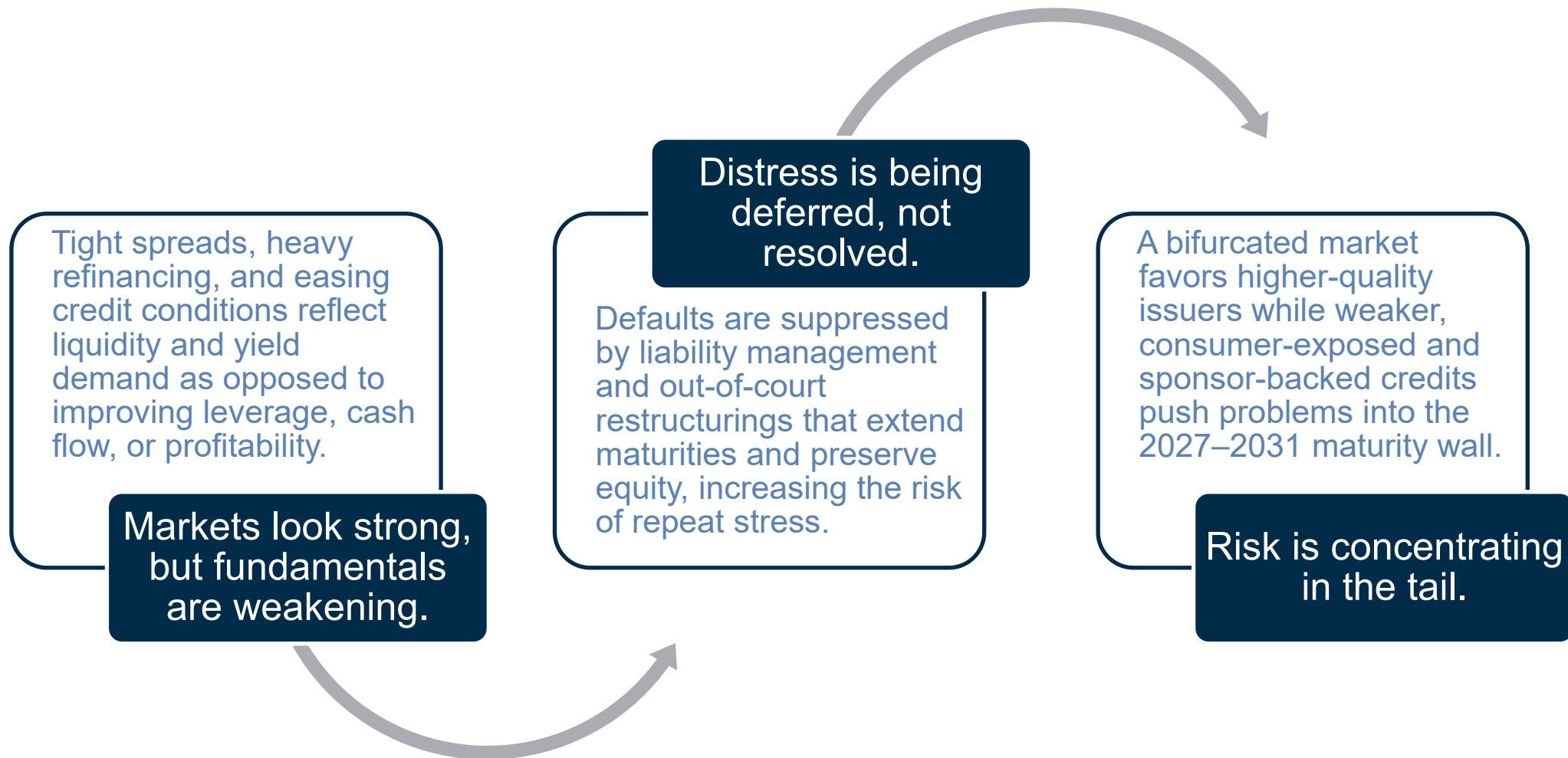
- As part of your credit review search for terms such as LME, LMT, double-dip, uptier transaction, drop-down and out of court restructurings for your distressed customers
- Know who owns your customer. LMEs have been used by private equity: Apollo, Bain, Platinum Equity, Crestview and TPG
- Strategics have used LMEs, Sinclair Broadcast Group did an uptier transaction as part of the Diamond Sports process, which primed existing term loan
- Understand terms of LME
 - Did the Company reduce leverage or kick the can?
 - Is the LME contentious, will lender on lender violence force the company into bankruptcy?

- **Unsecured Creditors Committee: Steps to Maximize Recoveries**

- **Fraudulent conveyance** – For any new loan or unencumbered collateral granted in an LME, unsecured creditors should investigate if transfers or transactions were for less than reasonably equivalent value
- **Waterfall Model** – LMEs involving complicated intercompany loans will necessitate the unsecured creditors committee to undertake a legal entity recovery analysis for all of the Debtors' legal entities to determine where value resides and where claims *sit*
 - *Oftentimes, if a lender creates a new subsidiary or takes collateral at a previously unencumbered subsidiary that lender is likely to be oversecured and trade creditors at that given subsidiary should be in the money*
- **Pick a Friend** – Unsecured creditors can leverage an LME if there is litigation / strife between two competing types of secured creditors groups

What Does It All Mean?

Near-term stability masks a structurally elevated restructuring cycle.



4. New Fed Chair Kevin Warsh

Macroeconomic Trends – Federal Reserve Leadership

Kevin Warsh became the 17th Fed Chair on May 22, 2026, bringing a distinct philosophy on inflation, balance sheet policy, and central bank communication

Attribute	Kevin Warsh – Profile
Role	17th Chair, Federal Reserve; sworn in May 22, 2026
Background	Stanford AB; Harvard Law JD; Morgan Stanley M&A; NEC (Bush WH); Fed Governor 2006–2011; Hoover Institution Fellow
Crisis Role	Fed liaison to markets in 2008 GFC; involved in Bear Stearns sale, Lehman bankruptcy, and AIG bailout alongside Bernanke
Confirmation	Senate confirmed 54–45 on May 13, 2026 – the most divisive confirmation vote in Fed history
Policy Model	Explicitly models leadership on Alan Greenspan: productivity-led growth, flexible policy, and restraint from premature hikes during tech booms
First FOMC	June 16–17, 2026: Unanimous 12–0 hold at 3.50–3.75%; median dot shifted to hike; 2026 PCE raised to 3.6%; Warsh abstained from dot plot

Warsh vs. Powell: Key Philosophy Differences

Forward Guidance

- **Powell:** Extensive dot plot use; pre-committed rate paths via press conferences and SEP projections
- **Warsh:** “*Forward guidance isn’t the business we should be in*” – abstained from own dot; shortened FOMC statement to ~130 words

Balance Sheet

- **Powell:** Presided over balance sheet expansion to ~\$9T peak; passive QT (allowing runoff); “ample reserves” regime
- **Warsh:** Favors active QT and a meaningfully smaller balance sheet; views QE as “fiscal policy in disguise” that distorts asset prices

Inflation Framework

- **Powell:** Core PCE as primary gauge; infamously committed to “transitory” inflation view in 2021–2022; symmetric 2% AIT framework
- **Warsh:** Prefers trimmed-mean PCE to strip transitory shocks; inflation viewed as a policy choice; data-dependent, not model-dependent

Rate Stance in Q2 2026

- Warsh enters as a structural dove on rates (AI = disinflationary productivity; “QT + rate cuts” combo), but Iran energy shock and sticky inflation at 3.3% core PCE force him to hold. No cuts signaled for 2026; rate hike probability rising

Source: Federal Reserve, Wikipedia, Britannica, J.P. Morgan, Nuveen, CNBC, Citadel Securities, Invesco, A&M Insight Center, June 2026

Macroeconomic Trends – Warsh’s Five Task Forces & Market Implications

At his June 2026 FOMC debut, Warsh launched five institutional reform task forces – the most consequential structural signal of the new Fed era, with broad implications for fixed income, equities, and credit markets

#	Task Force	Mandate & What to Watch
1	Communications	Reviews form/function of FOMC statements, dot plot, and press conferences. Already slimmed statement to ~130 words (vs. 300+ under Powell). Possible elimination or restructuring of SEP. Watch: Increased event volatility into FOMC dates as market signal supply diminishes
2	Balance Sheet Policy	Reviews optimal size and composition of the ~\$6.6T Fed balance sheet; evaluates whether active vs. passive QT better serves monetary transmission. Warsh’s thesis: QT + rate cuts in tandem (offset financial conditions). Watch: Upward pressure on long-end Treasury yields if active QT accelerates supply
3	Data Sources	Audits accuracy and timeliness of labor/inflation data inputs into Fed models; Warsh has publicly questioned official employment statistics and benchmark revision reliability. Includes non-traditional and real-time data sources. Watch: Policy reaction function becomes harder to model – data surprises carry more weight
4	Productivity, Jobs & AI	Central to Warsh’s thesis: AI drives disinflationary productivity gains that could justify easing without stoking price pressures – the Greenspan 1990s analog. If proven, provides intellectual cover for rate cuts despite above-target inflation. Watch: Key to timing of eventual rate cuts; equity AI valuations most sensitive
5	Inflation Framework	Re-examines whether the 2% AIT (Average Inflation Targeting) framework is optimal; explores trimmed-mean PCE and median CPI as better signal measures that look through supply-shock volatility (energy, tariffs). Reaffirms 2% goal but opens methodological debate. Watch: TIPS breakevens and real yield moves if inflation target interpretation shifts

What This Means for Markets

Fixed Income

- No 2026 cuts projected; 10-year at 4.6%; hike tail risk rising. Less guidance = wider distribution of outcomes at each FOMC. Front-end anchored but long-end vulnerable to supply increases from active QT. Favor short-to-intermediate duration

Equities

- Equity bull case intact if AI productivity thesis validated – rate cuts eventually justify higher P/E multiples. Near-term risk: elevated yields compress valuation; Warsh’s hawkish pivot adds downside risk to rate-sensitive sectors (utilities, REITs, small caps)

Private Credit & M&A

- Higher-for-longer rates sustain private credit’s floating rate advantage but raise default risk on overleveraged borrowers. M&A financing costs remain elevated; seller-buyer valuation gap persists. Deregulatory stance is broadly pro-deal

Bottom Line

- Warsh’s era means **less Fed signaling, more data-driven volatility, a smaller balance sheet over time, and a credibility test** on whether AI truly unlocks the productivity dividend needed to justify eventual easing

Source: Federal Reserve, CNBC, J.P. Morgan, Nuveen, Falco Insights, Competitive Enterprise Institute, Goldman Sachs AM, Charles Schwab, June 2026

5. Macro Data – Impact to Consumer

Multiple Geopolitical and Macro Headwinds Creating Risk (Including Potential Contagion Impacts)

Americas	Europe	AMESA	APAC
<i>Macroeconomic Stress</i>			
- Fed holds at 3.50–3.75%; hikes now more likely - Trade war escalating on new tariffs - High financing costs and input price pressures persist - Commercial real estate distress lingers Private credit and AI	- Labor markets tight, public debt has risen, and productivity is low in many countries - European Central Bank pivoted to tightening, raising its deposit rate to 2.25% in June 2026 amid renewed inflation pressure - Vulnerable to new EU-US tariffs (15% rate) effective July 2026	- Türkiye's disinflation stalled on Middle East energy costs; inflation eased only to 32.1% in June, rate held at 37% - Egypt inflation eased to 12.2% in June, though CBE lifted its 2026 forecast to 16–17% on conflict risk	- China data mixed; Japan's rate now 1.00% (highest since 1995), China's 5-year LPR holds at 3.5%. Japan hiking, China on hold - Trade war with US will significantly impact China's recently recovered GDP
<i>Geopolitical Volatility</i>			
- Political polarization to lead to market volatility and policy uncertainty (delays CAPEX) Escalating protectionist tariffs on Canada, Mexico and the EU continue to fan input-cost inflation - U.S. deportations could further pressure costs	Russia-Ukraine conflict persists – though the June 2026 U.S.-Iran ceasefire has eased immediate Middle East spillover risk - EU disciplined France, Belgium, Italy, Hungary, Malta, Poland and Slovakia for running excess budget deficits	Conflicts (Israel / Gaza / Red Sea) continue to disrupt supply chains, though the June 2026 U.S.-Iran ceasefire calmed the Strait of Hormuz but now over - New governments in Egypt, South Africa, and Türkiye confronting inflation and structural challenges	- Recent election outcomes across the sector underline shifting economic, trade and defense policies - Ongoing South China Sea confrontation weighs on business confidence CAPEX
<i>What Does The Future Hold?</i>			
- U.S. leveraged loan and high-yield default rates are trending toward 4.5–5% and 2.5–3%, respectively, by year-end 2026 (Fitch) - USMCA non-renewal and new 50% U.S. tariffs on Canada Cuba?	- Elevated risk of low growth from a myriad of headwinds - Few governments have sufficient fiscal space for counter-cyclical support for their economies	- Rising defaults in Egypt amid poor economy, high inflation, tight monetary policy, and depreciating currency - High borrowing costs remain a key risk, with potential for liquidity shortfalls	- Lenders could turn cautious, cut credit lines for weaker borrowers as credit stresses, recessionary obstacles mount - Trump tariffs are a lose-lose for most of Asia, especially China and emerging economies

Consumers Suffering From Economic Pressures

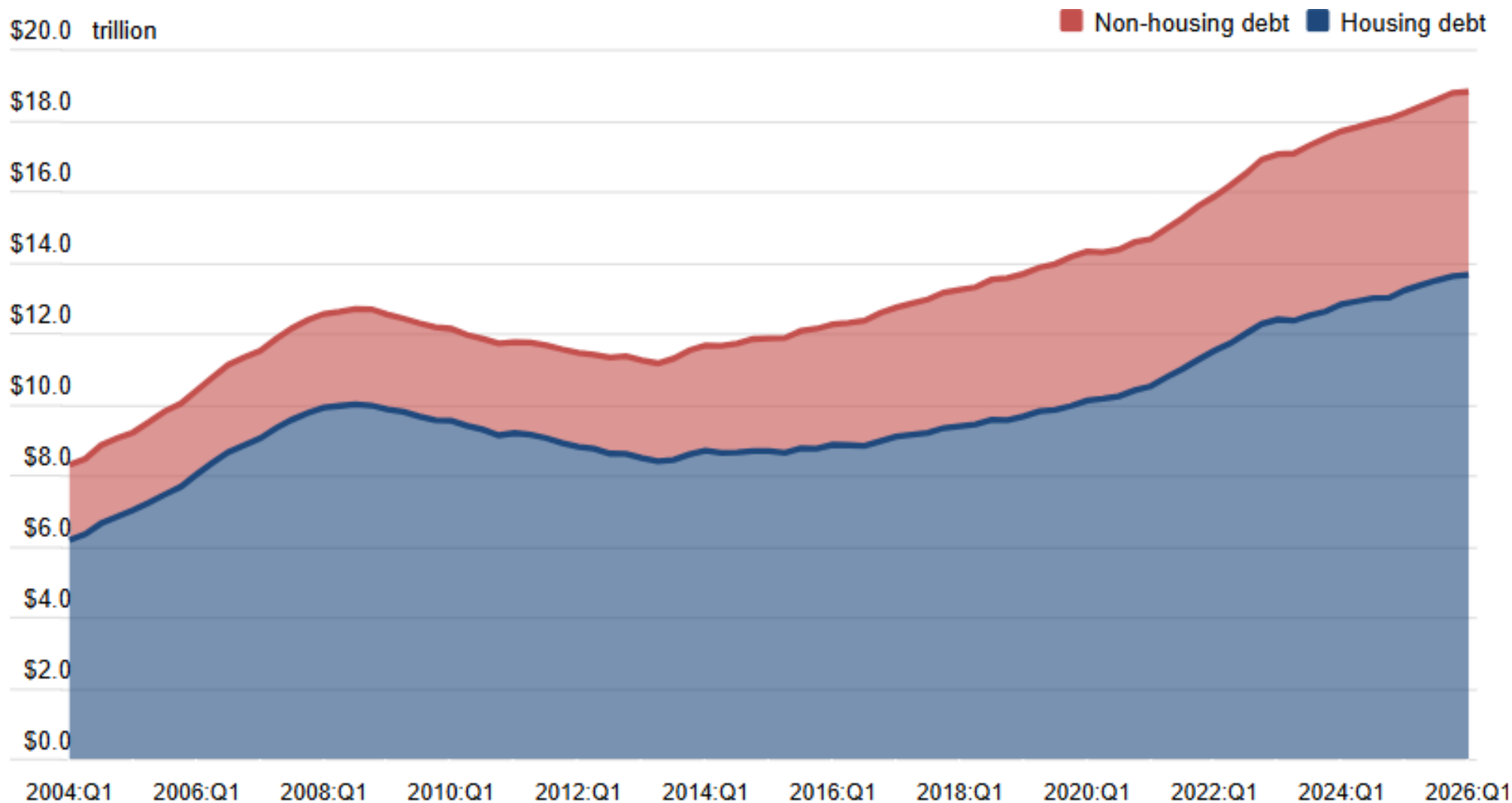
- **Prices stretched as inflation continues to linger**
 - **Overall US consumer price inflation eased to 3.5% YOY**, according to the latest CPI data for June 2026, after peaking at 4.2% in May
 - **Food prices (all food) increased 3.0% YOY in June 2026**, with grocery (food-at-home) up 2.7% YOY and food-away-from-home (restaurant menu) up 3.4% YOY
 - **Restaurant menu prices** continue to rise, with full-service menu inflation running ~3.7% and limited-service ~3.1% over the past year
- **Food cost pressures and consumer strain**
 - A recent survey finds **~50% of Americans say it's hard to afford food now**, with restaurant costs up 3.4% and grocery prices up 2.7% YOY, pushing many households to cut back
 - Grocery and food-and-beverage store prices remain elevated in CPI data, with YOY increases in the low-to-mid single digits for most categories, led by a 4.3% jump in egg prices
 - Wholesale (producer) price growth cooled unexpectedly in mid-2026 after an early-year spike, though pass-through to retail food prices continues

Consumers Suffering From Economic Pressures (Cont)

- **Americans' collective debt ↑ to ~\$18.8 trillion in Q1 2026**
 - **Total US credit card balances eased to \$1.25 trillion in Q1 2026**, down from a record \$1.28 trillion in Q4 2025
 - NY Fed data show the usual seasonal Q1 pullback in card balances, still up 5.9% YOY
 - **About 61% of cardholders carrying balances have been in debt for at least a year**, up from ~53% in late-2024
- **Savings rate and disposable income caution**
 - The **personal savings rate fell to 3.0% in May 2026**, down from ~4.5% early in the year and a low of 2.6% in April, as spending continues to outpace income growth
 - Real disposable income slipped in April before a rebound in May, while spending kept climbing — households appear to be drawing down savings to sustain consumption
 - Usage of “buy now, pay later” plans continues to increase and is being monitored as a **growing but still small part** of consumer credit that may signal strain among lower-income borrowers
 - **Consumer financial stress persists**, showing belt-tightening behavior and increased reliance on credit

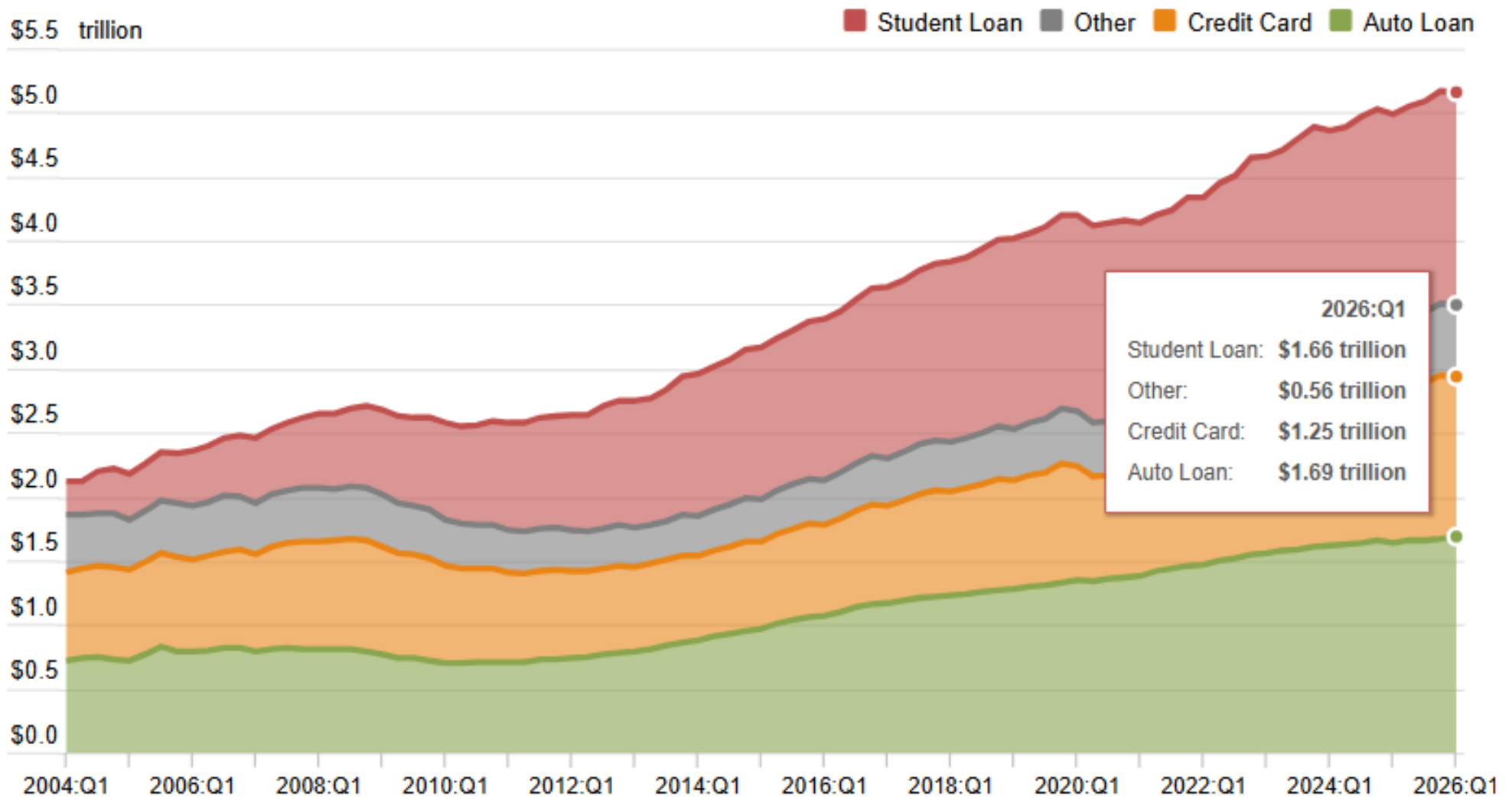
Household Debt at All Time Highs... And Climbing

- Total household debt up \$18B in Q1 (0.1% increase) to reach **\$18.8T**
- Mortgage balances up \$21B to \$13.19T, auto loans up \$18B to ~\$1.7T



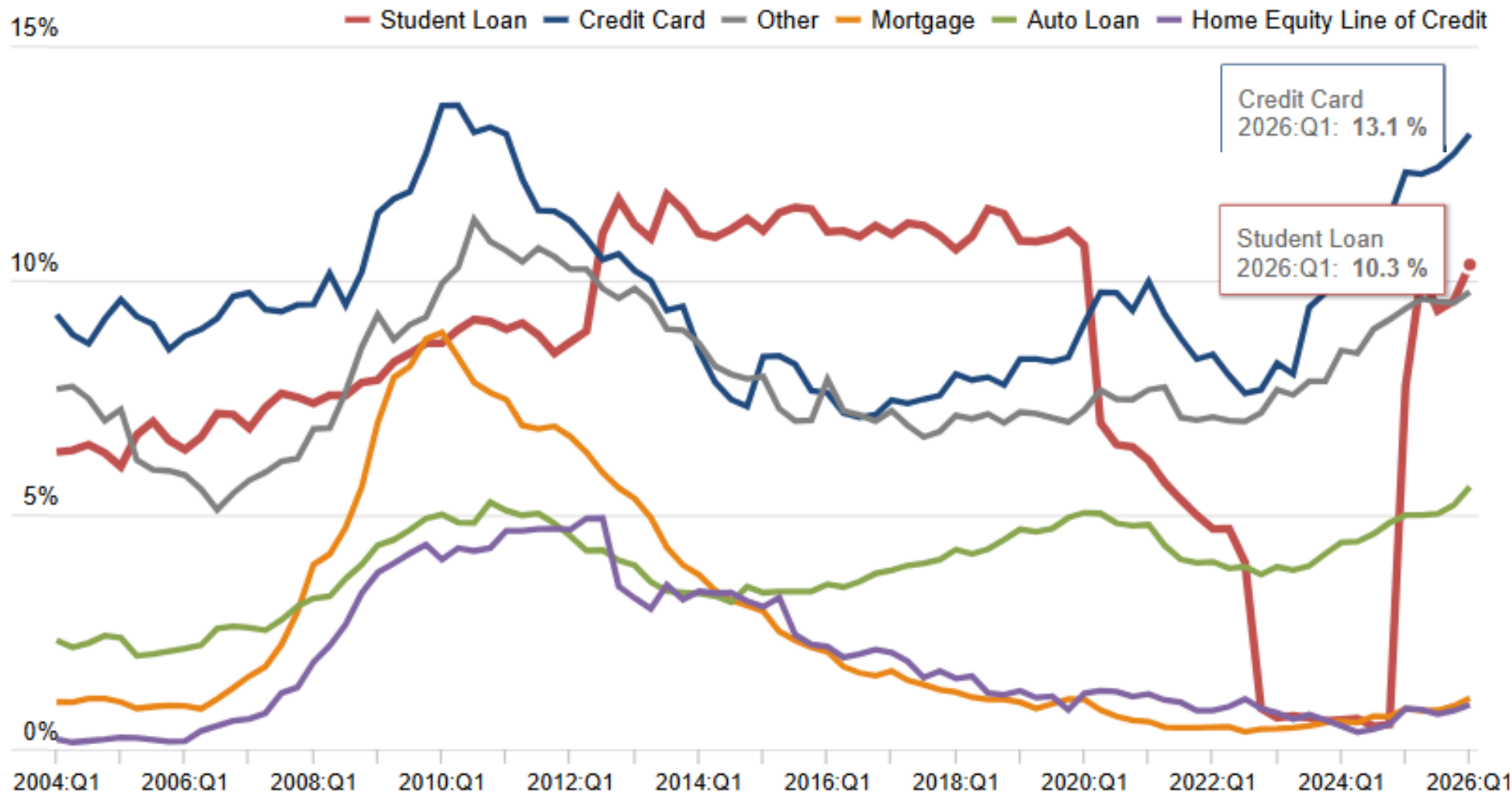
Non-Housing Debt Balances Near All-Time Highs

- Overall non-housing debt fell \$15B to \$5.16T
- Driven by credit card balances now \$1.25T, down \$25B in Q4 but ~5% higher vs prior year
- Student loan flat **and now stand at \$1.66T**



Percent of Balance 90+ Days... Climbing Fast

- **4.8%** of all household debt in **some stage of delinquency** (\$902.4B past due)
- 2.83% now seriously delinquent, or 90+ days (\$532B past due)
- 90+: 13.1% of \$1.25T Credit Cards and 10.3% of \$1.66T Student Loans

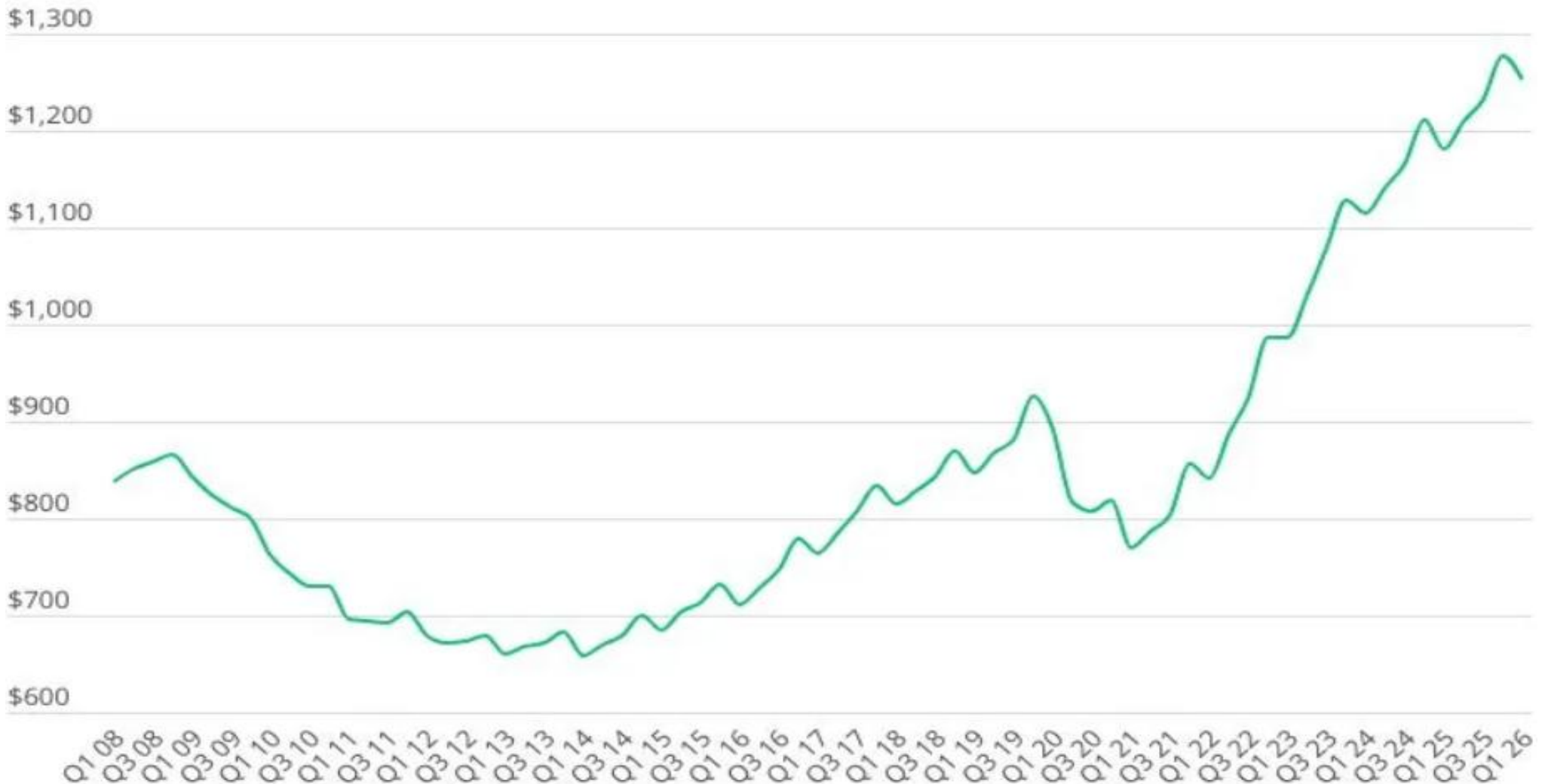


Credit Card Debt Has Grown Dramatically From Pre-Pandemic Levels

“There’s a growing K-shaped split in the consumer landscape, with subprime borrowers falling behind,” Tom O’Neill, market pulse advisor at Equifax

Total Credit Card Balances in the U.S.: Q1 2008 – Q1 2026

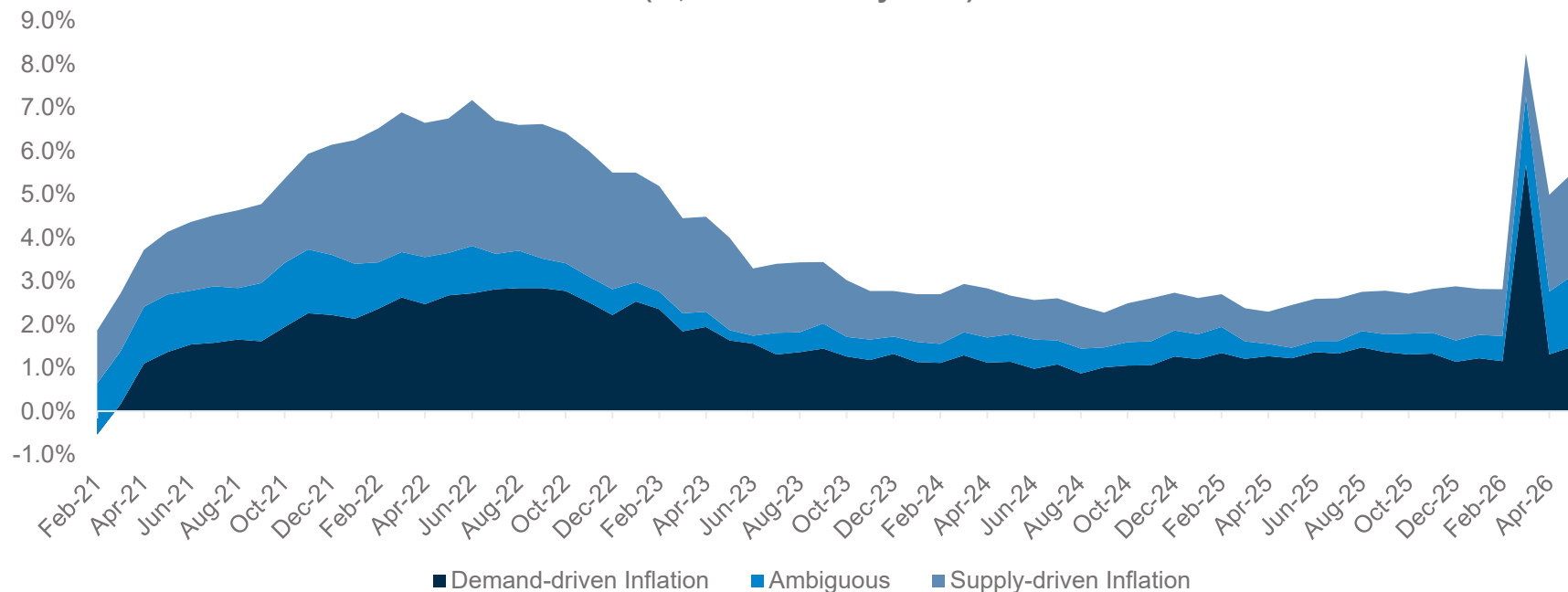
In billions; seasonally adjusted



Demand-driven Inflation Continues to Linger

Beneath the energy-driven headline spike, demand-driven inflation remains the dominant force, keeping rate policy restrictive as supply shocks complicate the outlook

Supply and Demand Driven Contributions to Y-o-Y Headline PCE Inflation
(%, Feb 2021–May 2026)

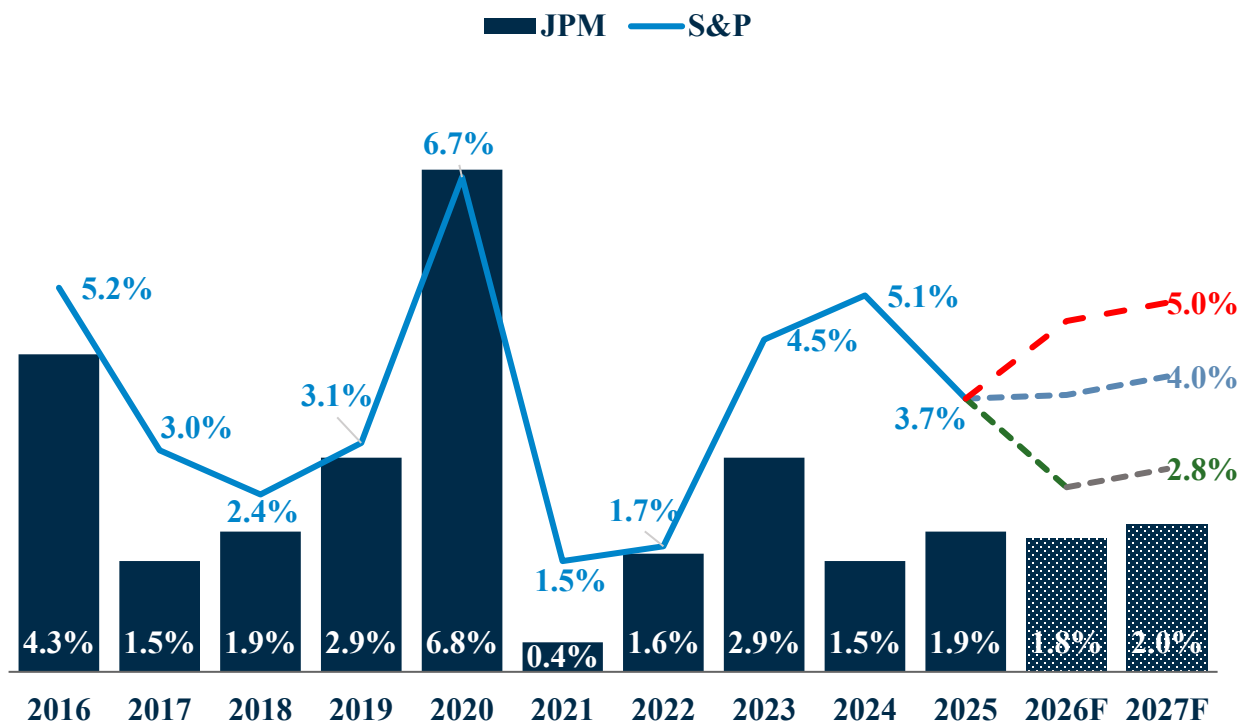


- The trajectory of Fed policy depends critically on whether underlying inflation pressures remain demand-driven
- San Francisco Fed data through May 2026 suggest inflation still reflects meaningful demand-driven pressure, even as overall price growth has eased from its 2022 peak
- In a demand-led inflation environment, restrictive interest rates are still necessary to moderate economic activity and rebalance conditions
- By contrast, supply-driven shocks such as higher energy prices could blunt the effect of rate hikes and complicate the case for policy easing
- Bottom line: the March spike reflects a supply shock, but with demand-driven pressures still dominant in the underlying data, the Fed has limited room to ease – energy volatility complicates the path but does not change the restrictive policy bias

Restructuring Outlook

Default rates are projected to rise through 2027 for high-yield bonds and loans as banks loosen lending standards

High-Yield Bond Default Rates



Pessimistic Scenario

Adverse consequences of geopolitical tensions lead to continued disruption in shipping and energy flows

Base Scenario

U.S. energy stores relatively shield the market from immediate conflict-related volatility seen in other areas of the world

Optimistic Scenario

Resilient growth and easing fears reopen primary markets along with quick resolution and minimal disruption leading to increased consumer sentiment

JPM forecasts high-yield bond and leveraged loan default rates to increase to 1.75% and 2.0% by 2026 and 2027, respectively. Importantly, these forecasts assume the Fed can narrowly navigate a soft economic landing.

Note: JPM has a wider, higher quality universe than S&P's Speculative Grade

As of Q2 2026

Source: J.P. Morgan, S&P Global Ratings Default, Transition, and Recovery; S&P Credit Conditions

6. Fiscal Policy

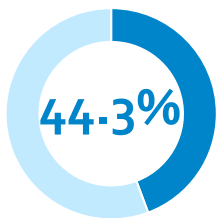
Debt Summary

The US debt and bond issuance rose sharply, while elevated Treasury yields reflected persistent inflation, resilient growth, and sustained government borrowing

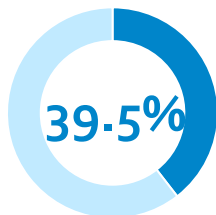
As of June 2026, the US national debt totaled \$31.7 trillion, \$2.7 trillion higher than June 2025, driven by higher entitlement spending and rising interest costs

As of July 21, 2026, the US Treasury yield curve remains normally upward sloping, with the 10-year yield at 4.6%.; expectations of unchanged Fed rates, resilient growth, persistent inflation, and elevated Treasury issuance support higher long-term yields, while upcoming inflation and labor data will guide future rate expectations

US fixed-income issuance reached \$6.4 trillion in H1 2026, up 11.7% Y-o-Y, driven by strong activity across Treasury, corporate, MBS, and municipal markets; corporate issuance surged 28.1% Y-o-Y, while there is elevated Treasury borrowing, robust MBS issuance, and a 26.8% Q-o-Q rise in municipal bonds



In H1 2026, **Refinancing** accounted for the largest share of US-sponsored new-issue loan volume at **44.3%**, followed by Acquisition and LBO deals



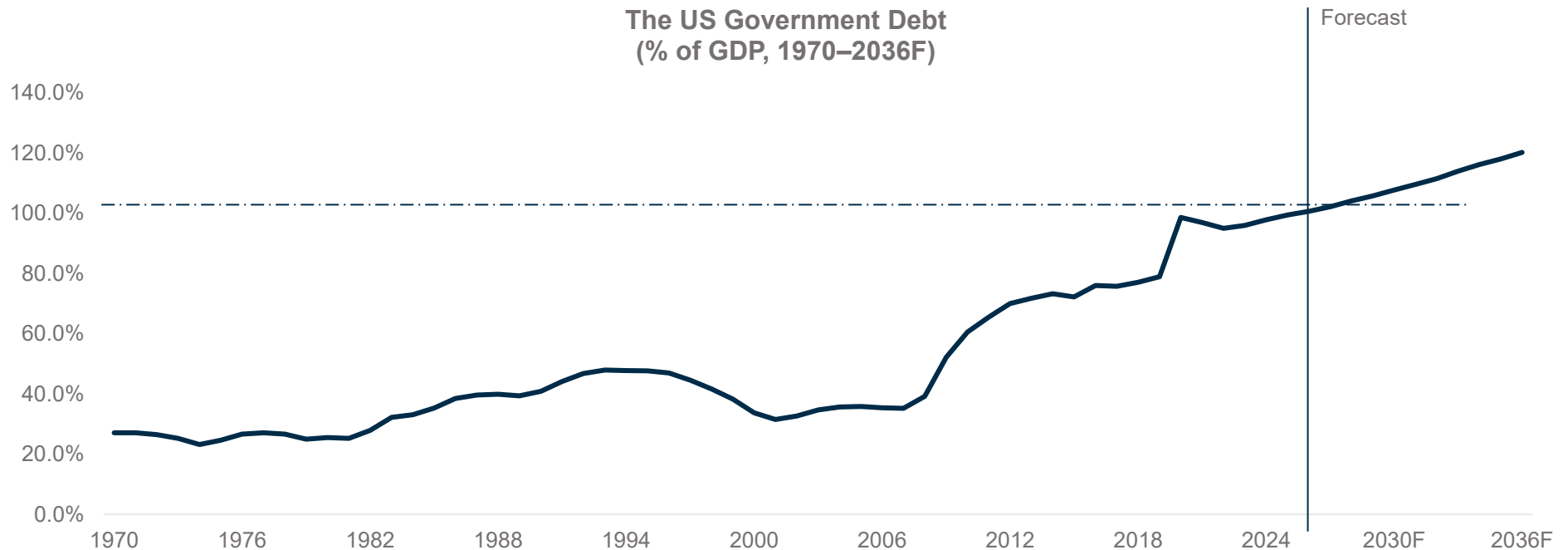
In H1 2026, **Refinancing** led the US-sponsored institutional loan issuance at **39.5%**, followed by Acquisition and LBO deals

The US leveraged loan market reached a record ~\$1.6 trillion by the end of 2025, supported by strong CLO demand; lower funding costs and active refinancing are expected to reduce speculative-grade defaults, sustain issuance, and support loan prices in 2026, although weaker-rated borrowers continue to face higher downgrade and default risks

June leveraged loan issuance remained strong at \$80.4 billion, while refinancing and PE-backed M&A supported growth; however, weaker CLO demand created a \$12.0 billion supply overhang

Debt – US Government Historical and Forecasted Debt

Rising deficits, debt, and borrowing costs indicate mounting fiscal pressure, with the US remaining a major contributor to developed market debt growth

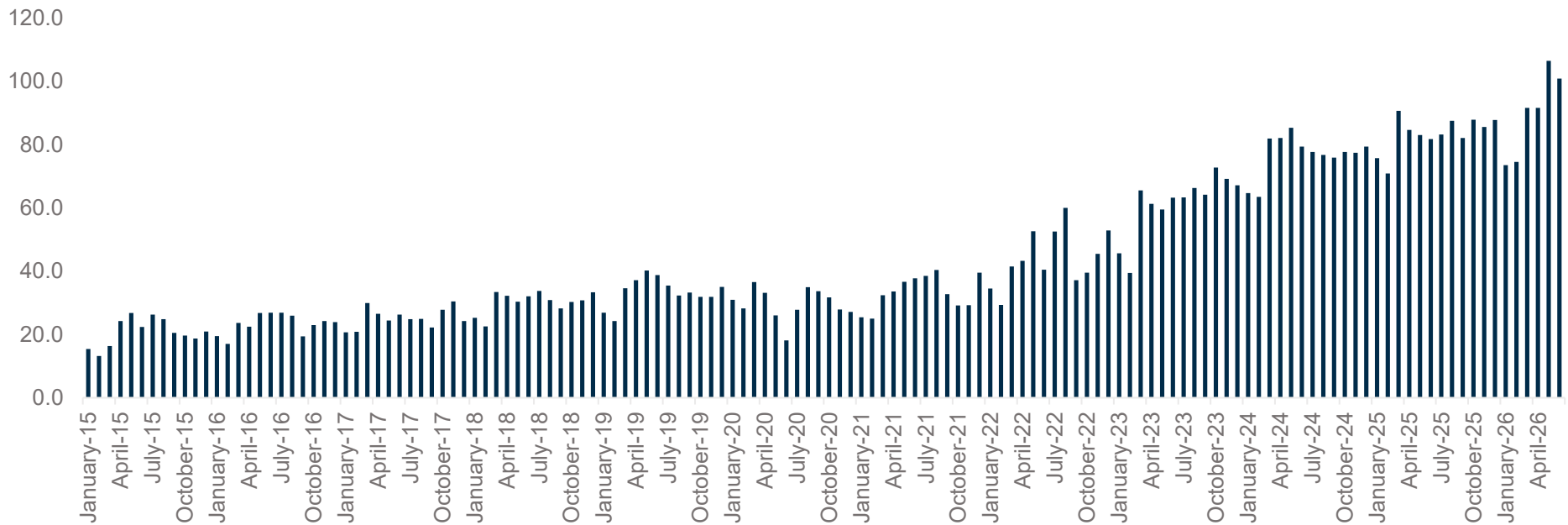


- In Q2 2026, the US fiscal position weakened as the FY2026 federal deficit (October–June) reached \$1.4 trillion, up \$29.0 billion Y-o-Y, while the national debt rose to \$31.7 trillion, \$2.7 trillion higher than June 2025, driven by higher entitlement spending and rising interest costs
- June 2026 recorded a \$120.0 billion budget deficit, representing a \$147.0 billion deterioration from the \$27.0 billion surplus in June 2025, reflecting \$31.0 billion lower revenues alongside \$117.0 billion higher spending, indicating accelerating fiscal pressure
- These trends support Fitch's expectation that the US will remain the largest fiscal deficit contributor among major developed economies in 2026, with a projected deficit of 7.8% of GDP (~\$2.5 trillion) amid persistent structural spending and elevated borrowing costs
- More broadly, developed market government debt is projected to reach a record \$75.8 trillion (104.0% of GDP) by end-2026, highlighting that the US's worsening fiscal trajectory is part of a broader increase in sovereign debt driven by sustained deficits, geopolitical shocks, and higher interest expenses

Debt – US Government Interest Expense

Rising federal debt and interest costs are intensifying fiscal pressure, limiting budget flexibility as debt servicing becomes increasingly expensive

Total US Government Interest Expense on Public Issues
(\$ billion, Jan 2015–Jun 2026)



- In Q2 2026, the US federal interest expense continued to rise as accumulated debt and higher borrowing rates increased the cost of servicing the national debt, with FY2026 cumulative interest payments reaching \$827.0 billion through June, a 10.5% increase Y-o-Y
- **Interest expense** has become a major fiscal pressure point, ranking as the **second-largest federal spending category in FY2026** behind Social Security, indicating reduced budget flexibility for other priorities
- The increase reflects the combination of federal debt reaching \$31.3 trillion in April 2026 and interest costs approaching historic highs, with annual interest expense projected to rise from \$1.0 trillion in 2026 to \$2.1 trillion by 2036
 - From a fiscal sustainability perspective, persistent deficits and rising interest obligations could accelerate debt growth, with interest costs projected to reach 3.2% of GDP in 2026 and 4.6% by 2036, **increasing pressure on future government spending decisions**

Appendix

Rich Newman

Managing Director | UCC Practice Co-Chair

- Rich Newman co-leads Alvarez & Marsal's Unsecured Creditors' Committee practice. Managing Director with Alvarez & Marsal Creditor Advisory in Chicago where he provides financial advisory services to creditors and focuses on representing official committees of unsecured creditors in bankruptcy proceedings. Specializes in 363 sales, liquidity management, business plan review, solvency, formulation of reorganization plans and litigation support
- With more than twenty years of restructuring experience, Mr. Newman has advised unsecured creditor committees, healthy and distressed companies in leveraged recapitalizations, mergers and acquisitions, and support of interim management roles
- Unsecured Creditor Committee assignments: Avaya, Boomerang Tube, Buccaneer Energy, Constar, Corsicana, Endeavour, Getty Petroleum, Global Aviation, Hollander Sleep Products, Keywell LLC, Kodak, LifeCare, NewPage, Orchids Paper, NORPAC Foods, Inc., Ryckman Creek Resources, LLC, SunEdison, Synergy Pharmaceuticals, Takata, Tintri, and Westinghouse
- Debtor financial advisory, bank advisory, or out-of-court deals: Appleton Coated, Chesapeake Corporation, Detroit Public Schools, Dresser, Inc., Kimball Hill Homes, Severstal North America, Inc., Tronox Inc., Union Carbide and Visteon Corp.
- Testimony experience includes (i) Orchids Paper Products Company Case No. 19-10729, (ii) TK Holdings Inc. (f/k/a Takata) Case No. 17-11375 (November 2017), and (iii) Deposition re: SGK Ventures, LLC (f/k/a Keywell, LLC) Case No. 13-37603 (August 2014), among others
- Mr. Newman received a B.S. in economics from George Washington University and a master's degree in business administration from The University of Texas. He passed all three levels of the CIRA exam and received the Kroll Zolfo Cooper / Randy Waits Award for excellence on the CIRA exam



Phone: (+1) 312 288 4056

E-mail Address:
rnewman@alvarezandmarsal.com

Conrad Ragan

Director | UCC Practice

- Conrad Ragan is a Director with Alvarez & Marsal's North American Commercial Restructuring practice, where he specializes in representing official committees of unsecured creditors in bankruptcy proceedings with a focus on implementing strategies to maximize creditor recoveries, the development and evaluation of financial models, business reviews and stakeholder negotiations. Mr. Ragan is a frequent speaker at industry events and serves on the Board of Trustees for the Credit Research Foundation as well as the Independent Standards Board governing U.S. commercial collections agencies through the CCA of A
- Mr. Ragan brings 20 years of corporate credit and lending experience in both large corporate and large financial institutions. Prior to Joining A&M, Mr. Ragan spent more than 10 years as a Director with PepsiCo, where he led PepsiCo's corporate risk management team. There, his group was responsible for end-to-end North America corporate credit risk, comprised of a ~\$70 billion annual portfolio with ~200 thousand customers across all PepsiCo business lines, including the ownership of sector bad debt reserves (CECL). Additionally, Mr. Ragan led supply chain risk covering all suppliers globally, encompassing ~\$40 billion in annual spend. At PepsiCo he regularly led multimillion dollar strategic finance actions, including M&A, contract negotiations, bankruptcy / insolvency management, CAPEX committee, Audit committee, and control / accounting policy writing
- Recent chapter 11 engagements include Inspired Healthcare Capital, Primalend, Luminar, Powin, DRF Logistics, as well as Northvolt AB. Notably, Mr. Ragan has served on and / or chaired a number of unsecured creditors' committees, including Caesars Entertainment, Red Lobster, 99 Cents Only Stores, Cineworld Group, Vital Pharmaceuticals, Marsh Supermarkets, Haggen, Tops Grocery, Dahl's, Gas Mart, Western Convenience, Alco, Quizno's, Markpol and Papa Gino's
- Before joining PepsiCo, Mr. Ragan spent over 10 years working at several large financial institutions where he specialized in capital markets and commercial lending
- Mr. Ragan graduated cum laude from North Carolina State University's College of Management with a bachelor's degree in Business Management and a minor in Economics. Additionally, Mr. Ragan has a Master of Business Administration from Wake Forest University where he was Dean's Scholar



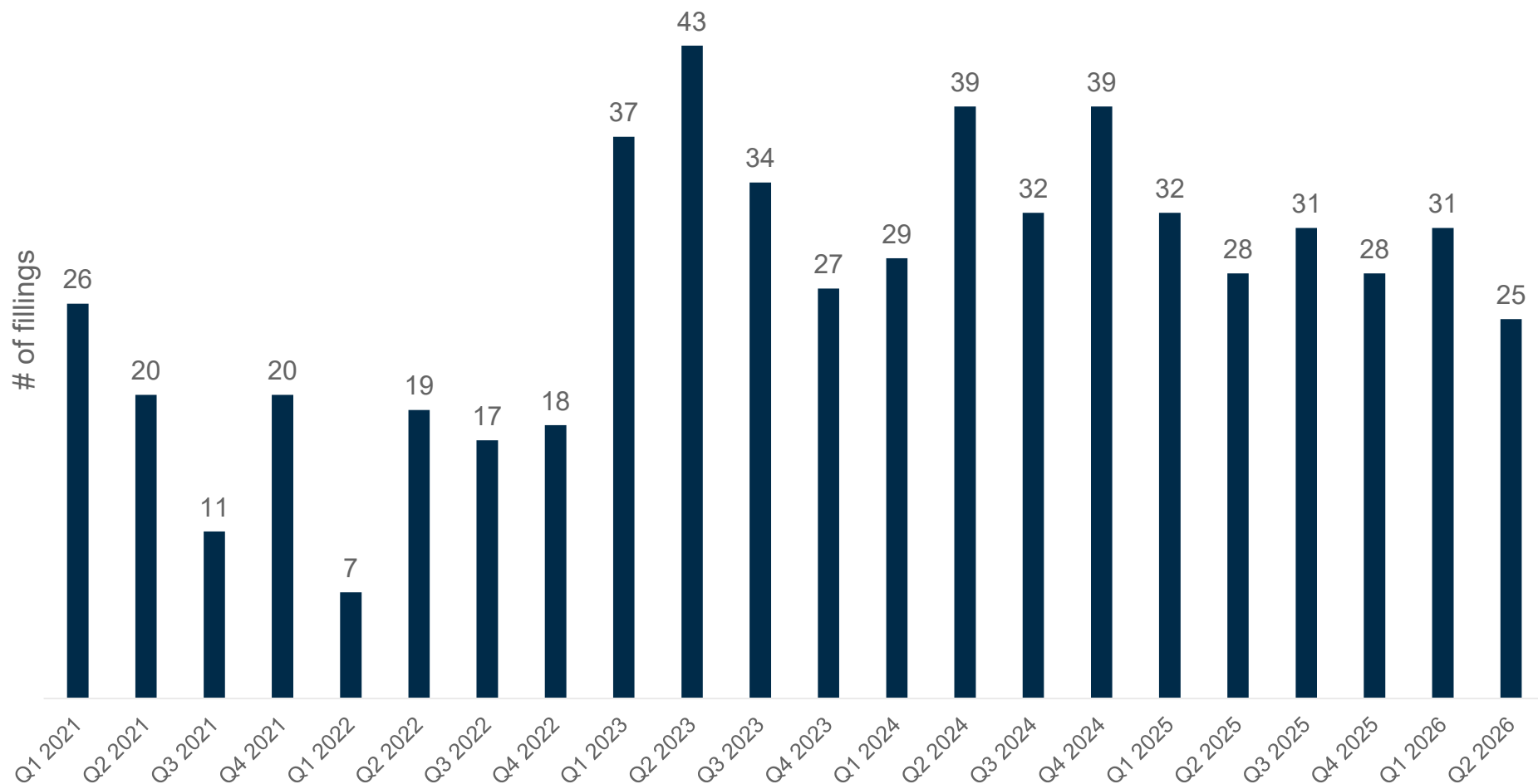
Phone: (+1) 336 972 8910

E-mail Address:
cragan@alvarezandmarsal.com

Macroeconomic Trends – Bankruptcies

Through the second quarter of 2026, 25 companies with liabilities exceeding \$100 million have filed for bankruptcy. We expect this total to increase in the third quarter, as July has already seen more bankruptcy filings than April, signaling a potentially accelerating pace of distress.

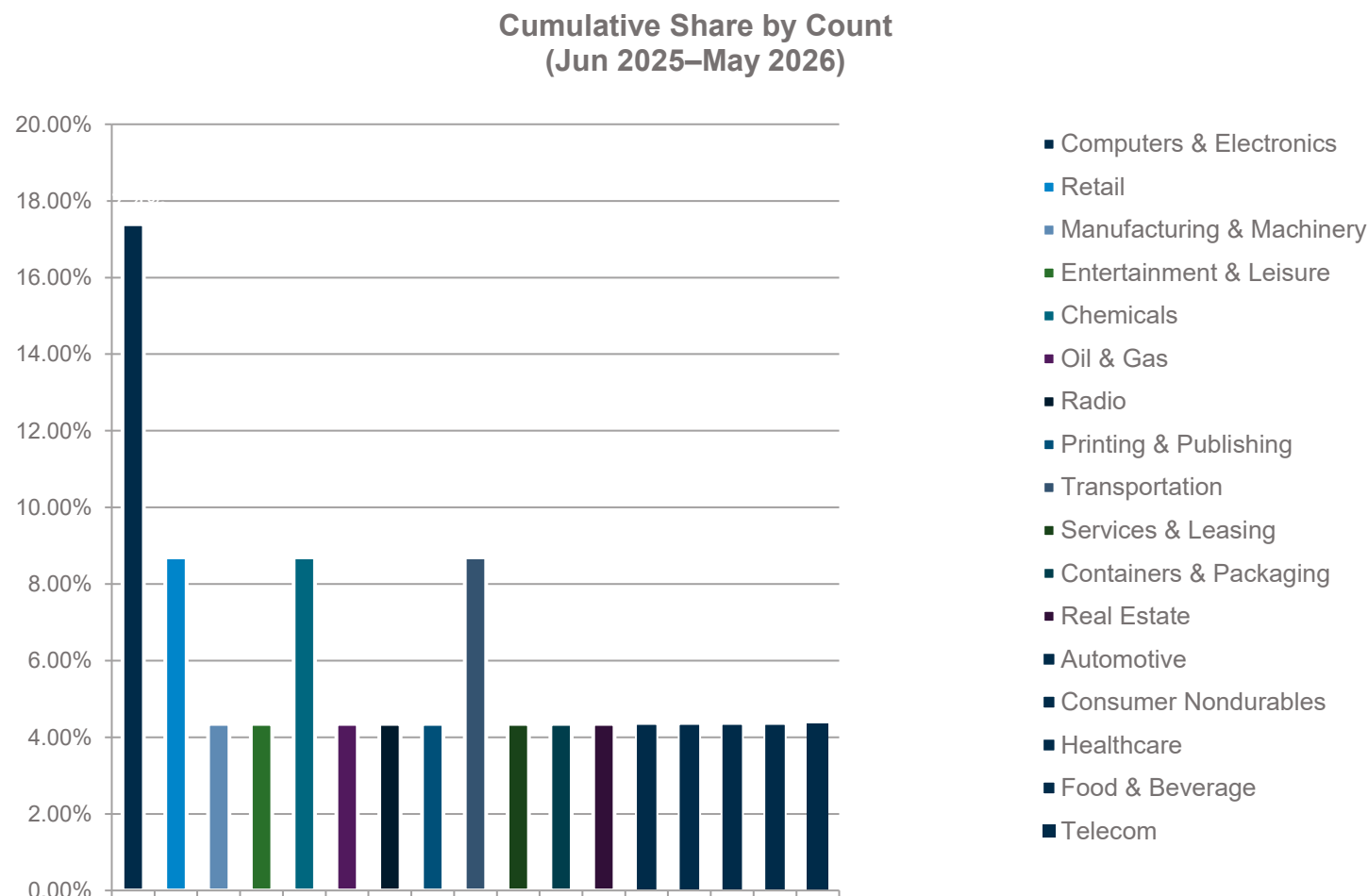
Company Bankruptcies with over \$100 million in Liabilities
(Q1 2021–Q2 2026)



Source: Octus

Debt – Defaults by Industry

As of May 2026, corporate defaults were concentrated in the computer electronics, retail, services and leasing, chemicals, and transportation sectors

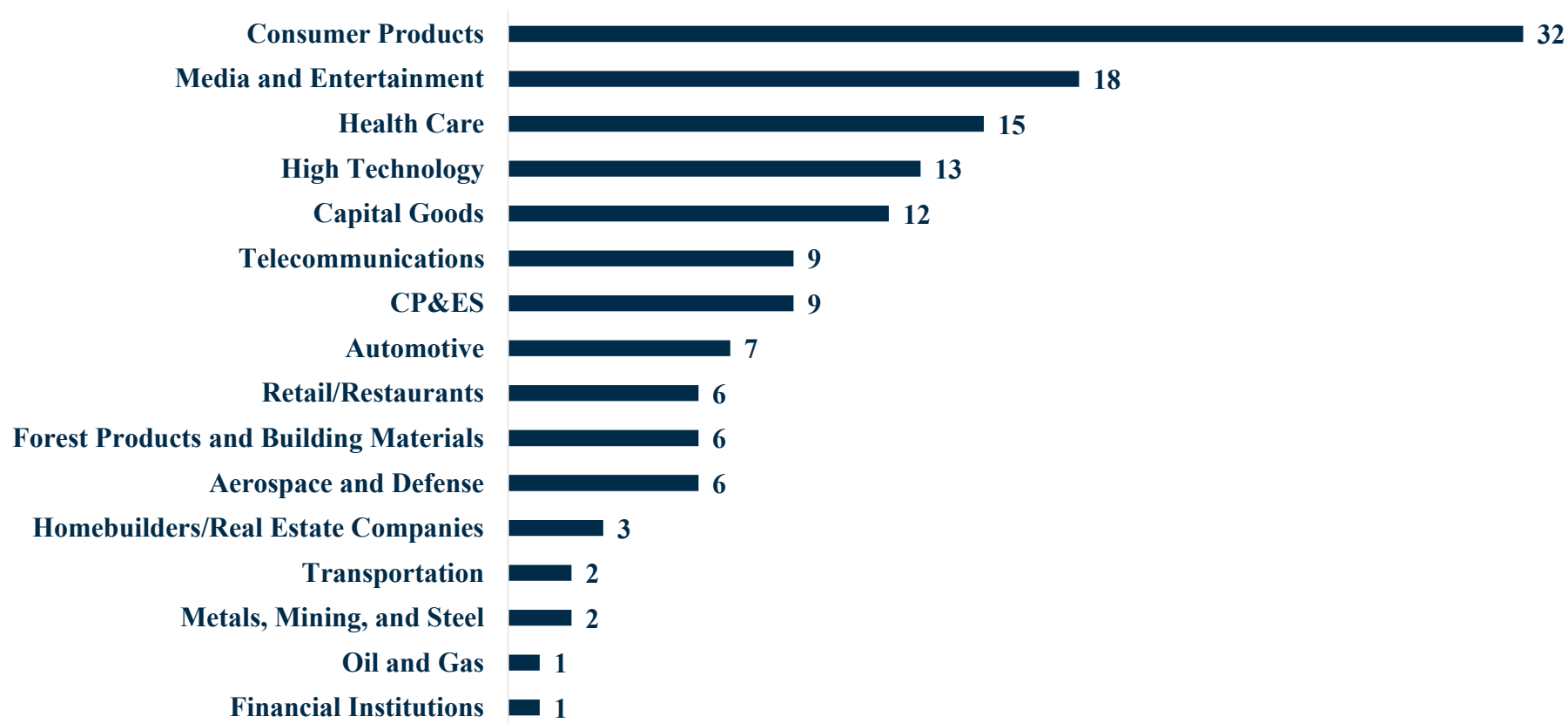


Source: US Leveraged Loan Defaults List, Pitchbook

Restructuring Outlook

Default volumes are also dominated by sectors with the highest exposure to consumer spending, a precursor to more restructuring and bankruptcies in non-essential, luxury, or durable goods

U.S. Weakest Links by Sector

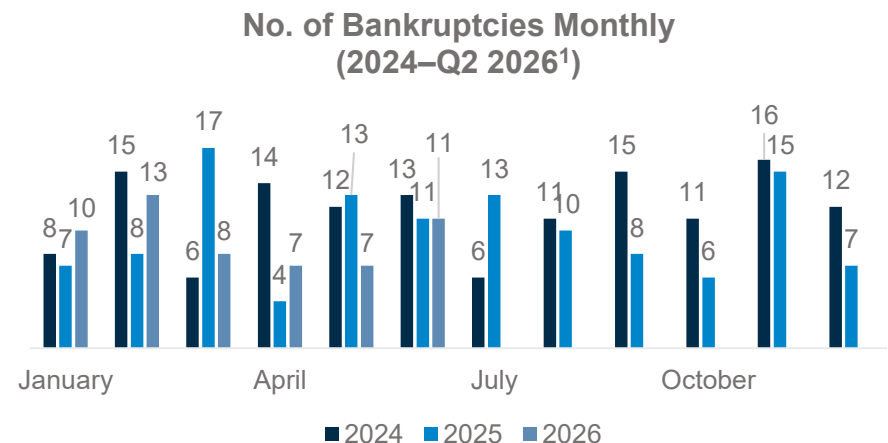
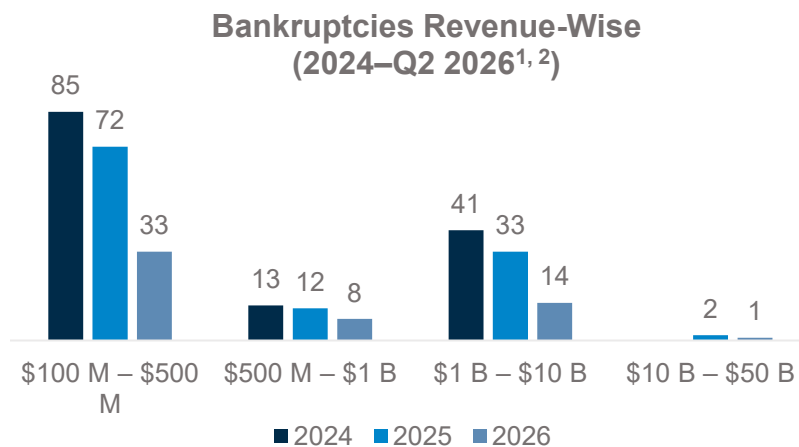
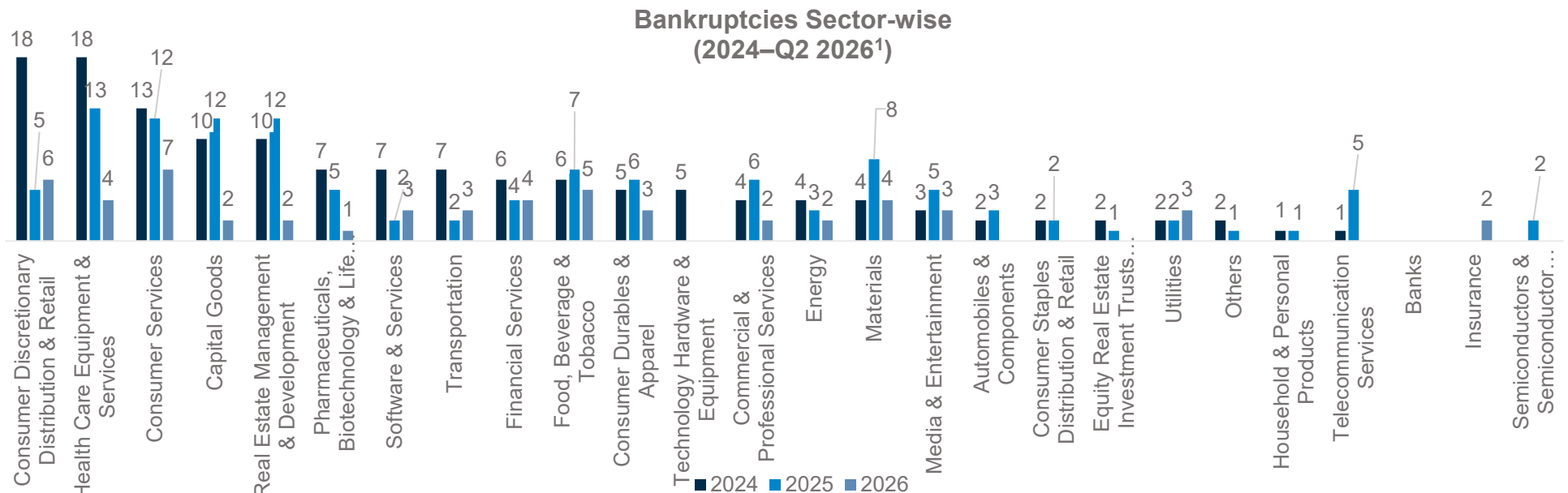


As of April 2026

Source: S&P Global Ratings Default, Transition, and Recovery

Private/Public – Bankruptcies

The bankruptcy landscape is being shaped by elevated distress among mid-market firms, particularly across consumer services and retail sectors



Note: 1) As of July 21, 2026; (continued in slide notes)
Source: Octus Intelligence Bankruptcies

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