MARCUARD HERITAGE

ALTERNATIVE CREDIT LETTER

MAY 2026

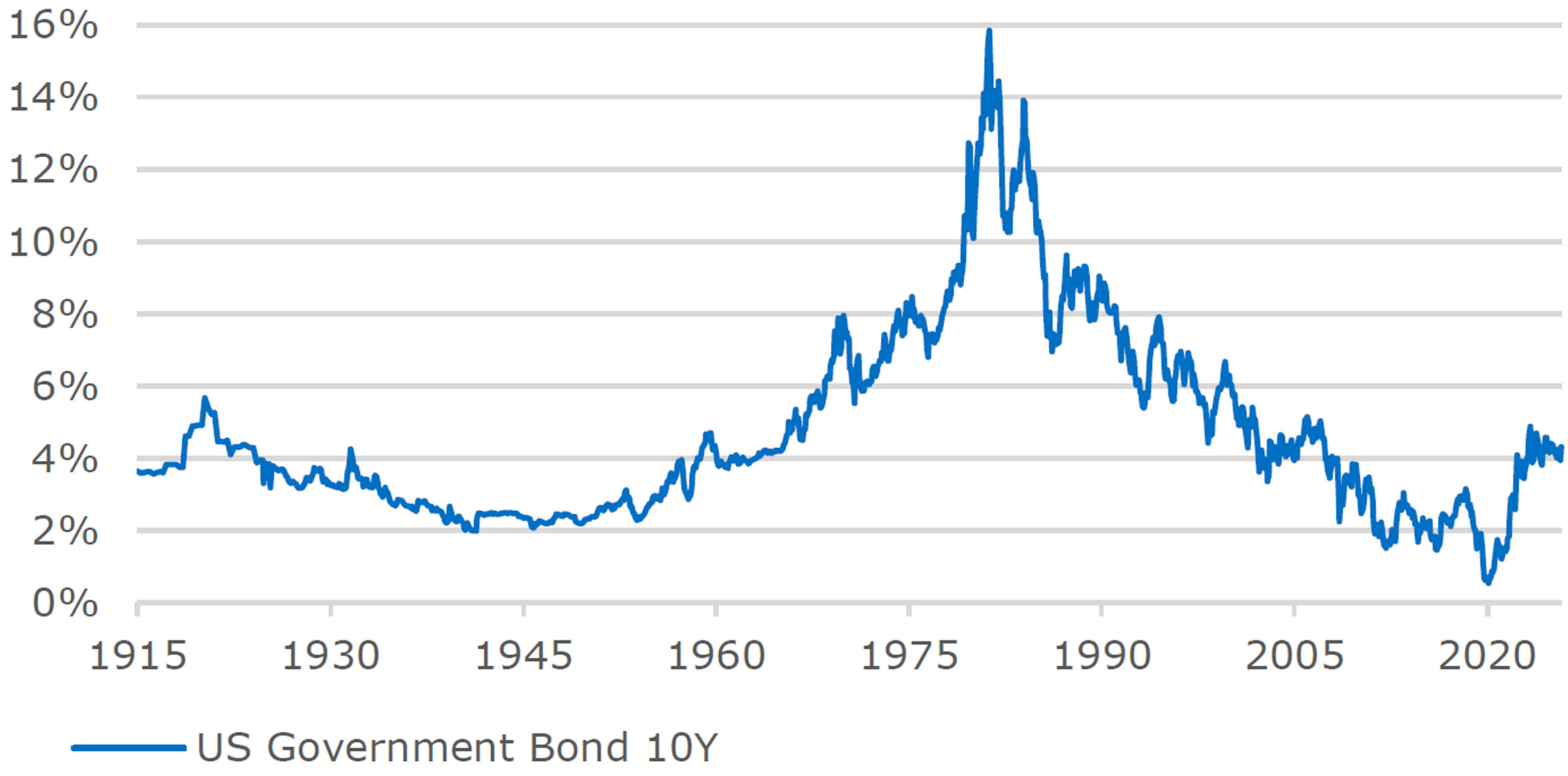
Continued Compression in Distressed Ratios

MONTHLY SPOTLIGHT

- Risk sentiment rose in May as the Iran ceasefire reduced geopolitical risk premium
- Stressed securities dropped to 3% of high-yield
- Distressed securities dropped to 2% high-yield
- Distressed spreads tightened by 47 bps
- 2026 distressed default rate is projected <3%, including Liability Management Exercises

RATES PERSPECTIVE

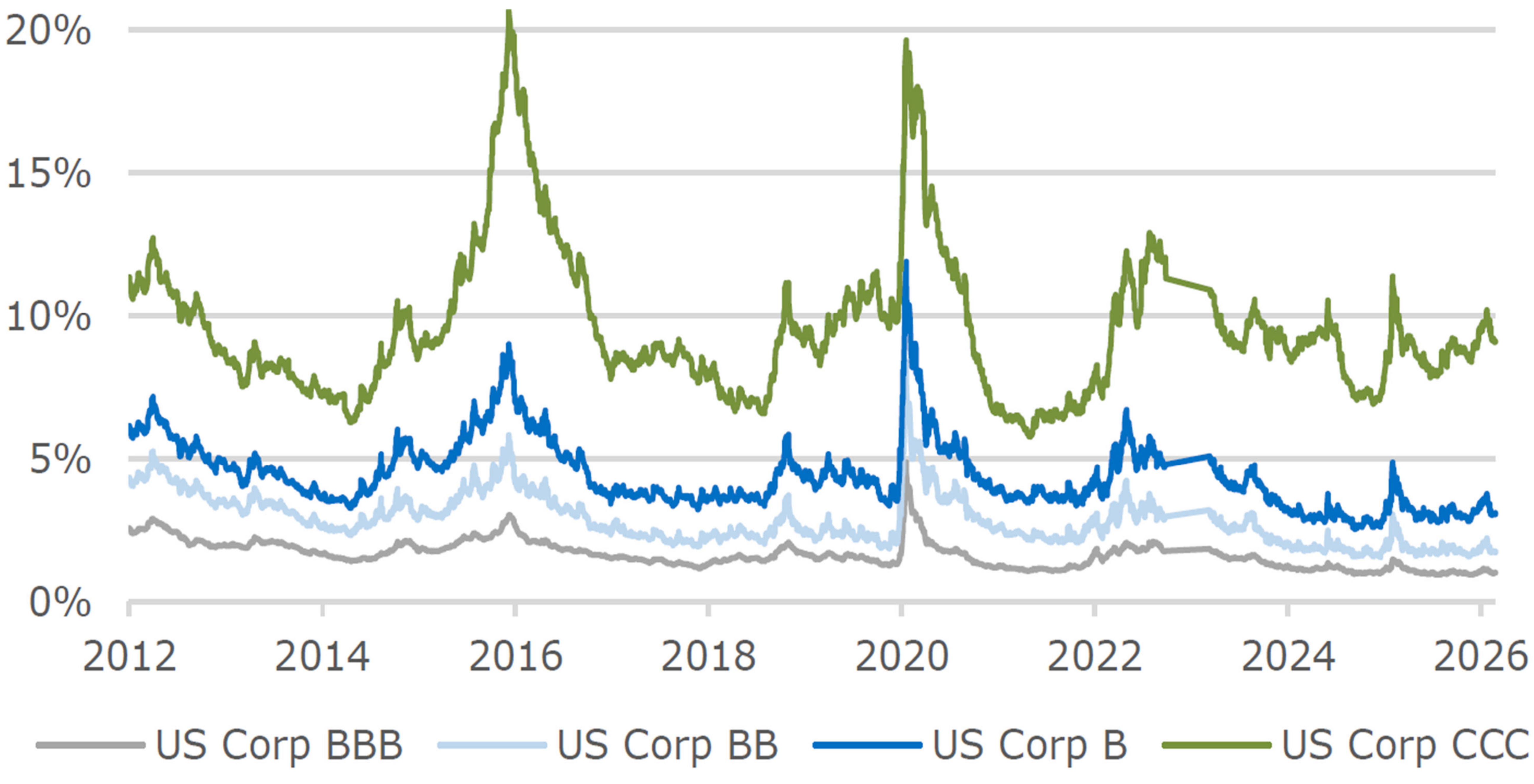
Historical US Treasury Yield: The 10-year US government bond yield reached its 100-year low in 2020.



Source: FRED – US Federal Reserve Economic Data

CORPORATE PERSPECTIVE

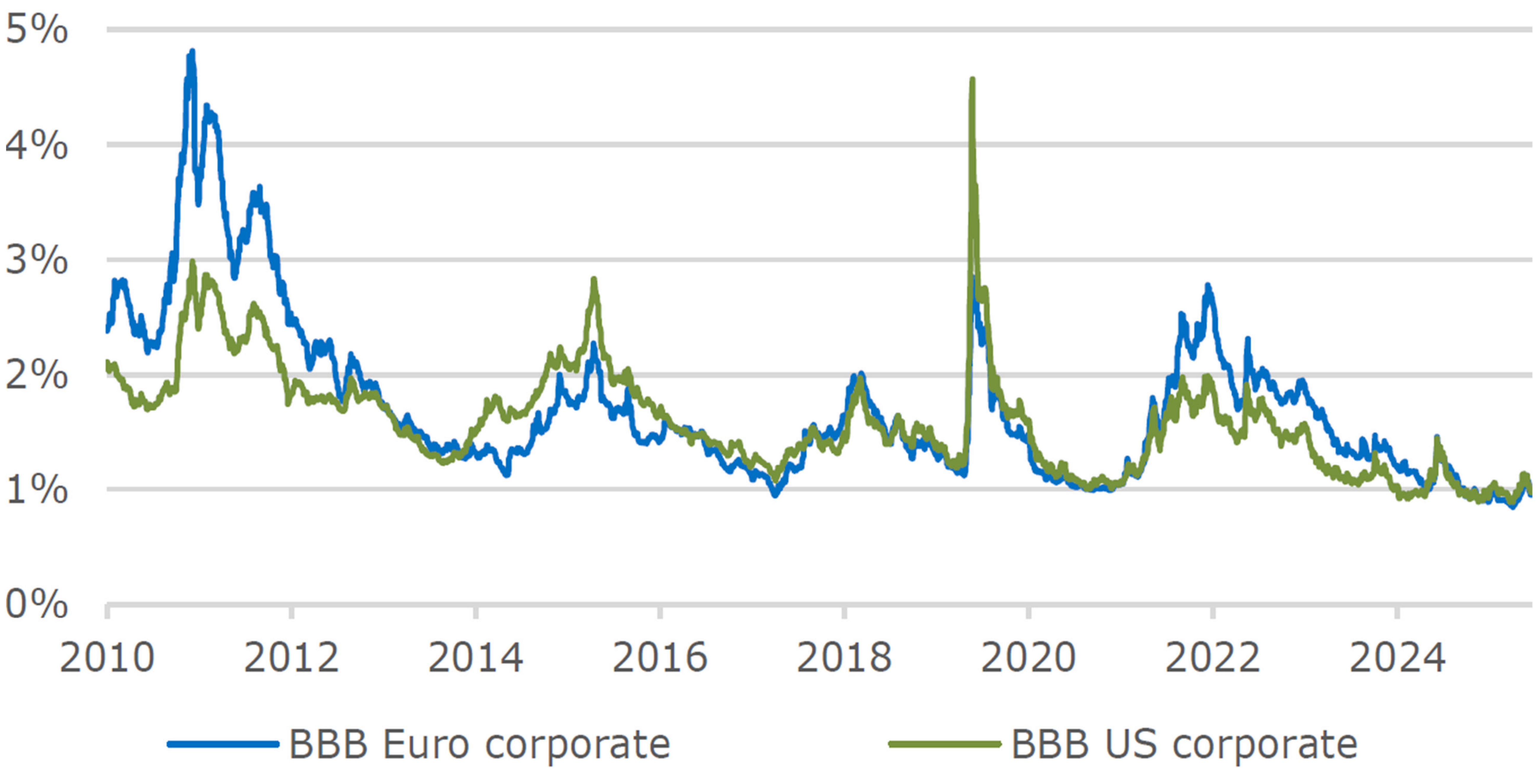
US Corp. Rating: Credit spreads (OAS) of lower rated high-yield bonds widened disproportionately.



Source: Ice Data Indices, LLC

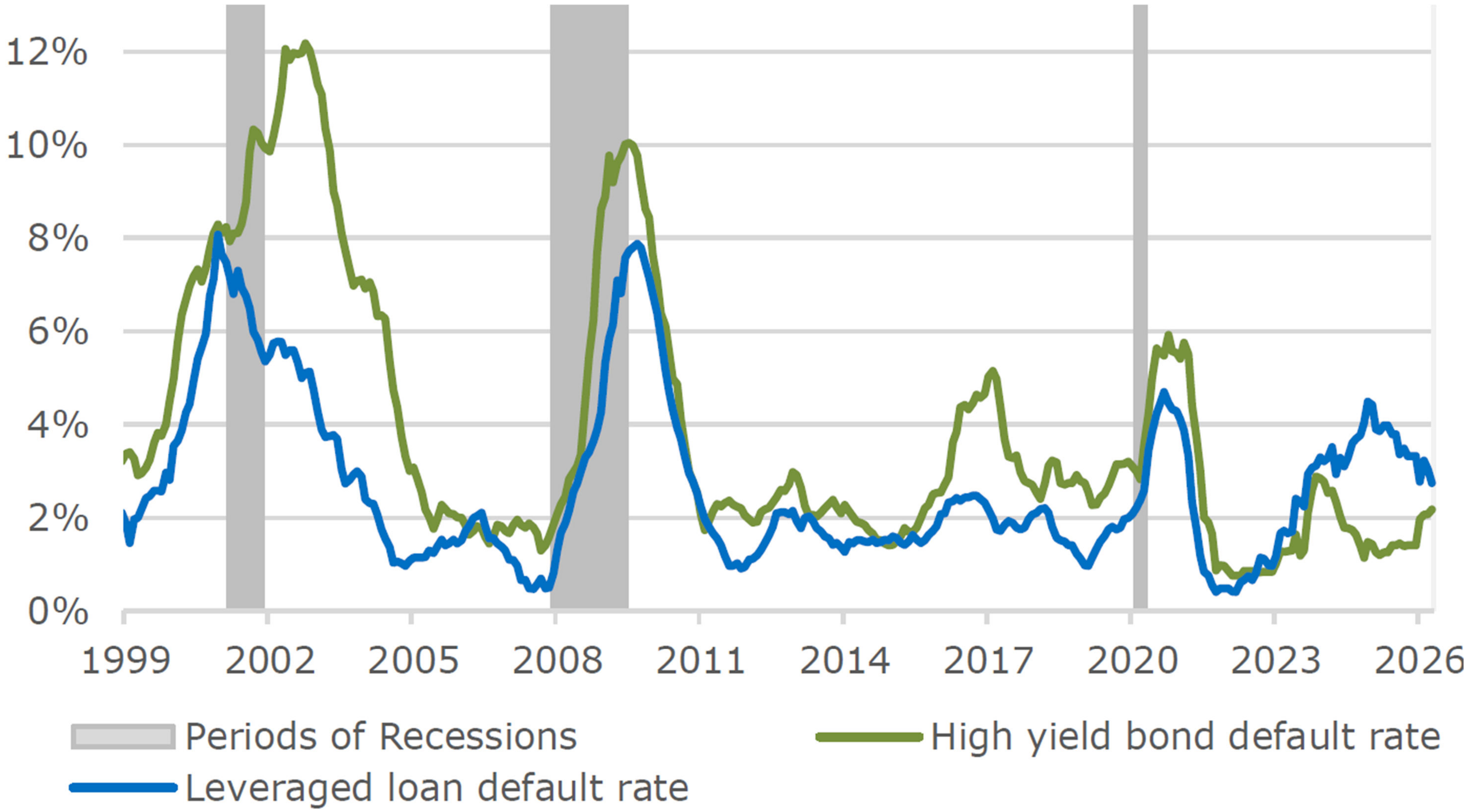
CORPORATE PERSPECTIVE

EU vs US: EU credit spreads (OAS) are now at similar levels to those in the US.



Source: Ice Data Indices, LLC

Default Rates: High-yield bond default rates are now lower than leveraged loan default rates.



Source: J.P.Morgan Default Monitor

OAS

OAS spread change overview across major credit asset classes – as of month end.

US corporates by rating (bps)

	curr	Δ month
AAA	37	-3
AA	52	-4
A	68	-7
BBB	102	-11
BB	174	-34
B	311	-50
CCC	909	-85

Global high yield (bps)

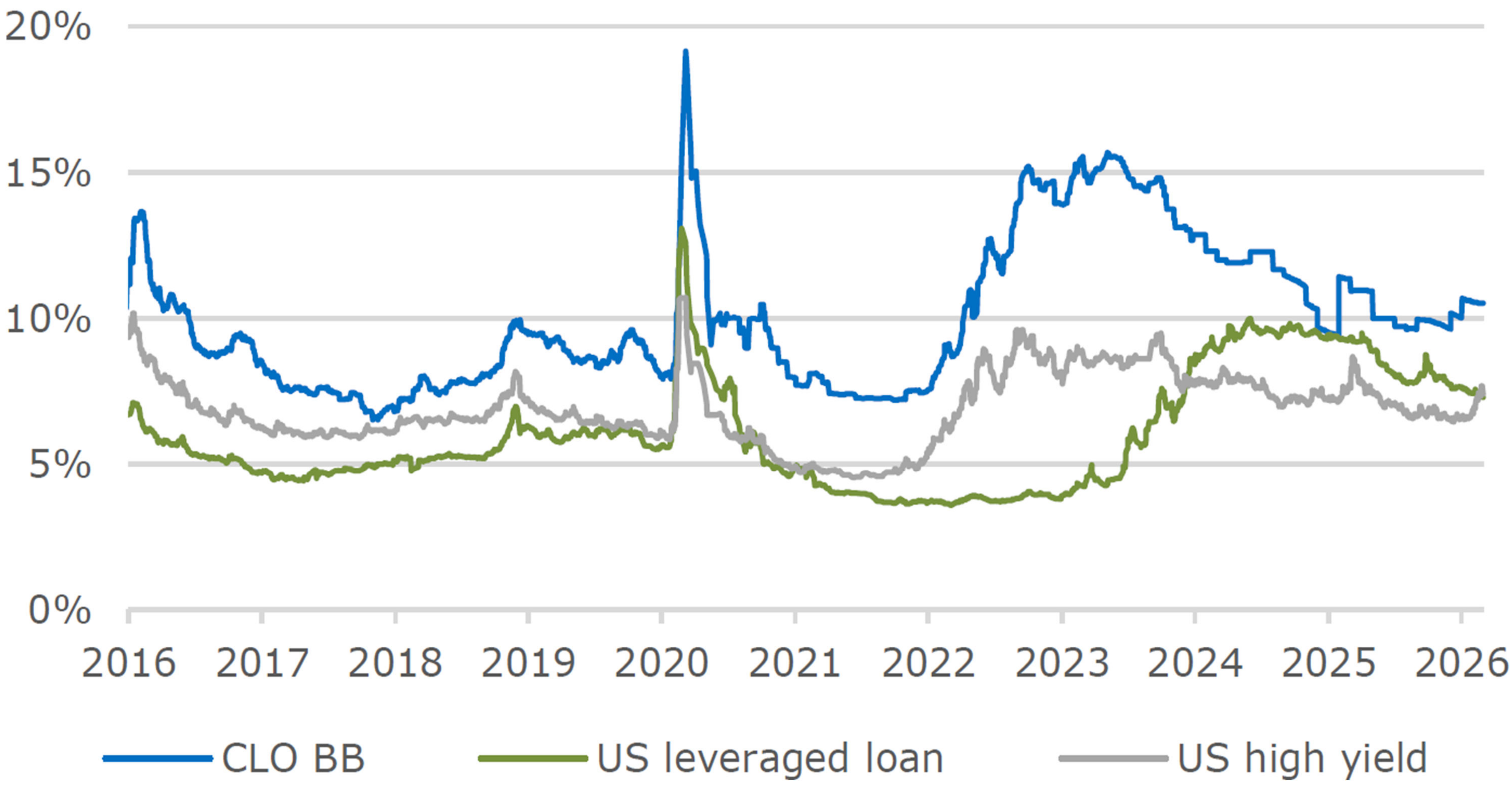
	curr	Δ month
US HY	283	-45
EU HY	280	-57
Asia HY	454	-56
EM HY	323	-65

spread tightening (positive price action)

spread widening (negative price action)

Source: Bloomberg

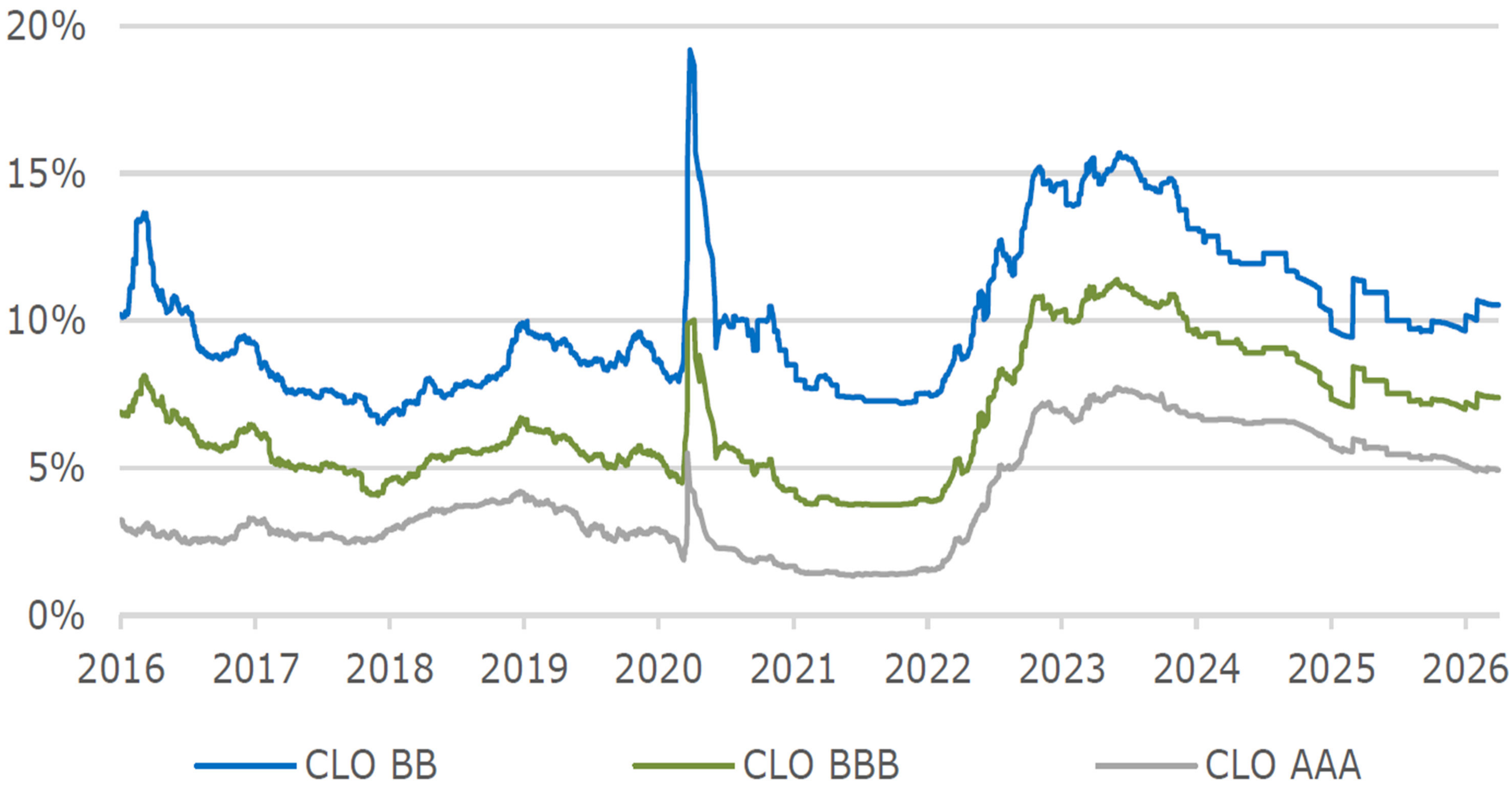
Loans vs. CLO vs. High-Yield: CLO BB yields are wider than those of loans and high-yield bonds.



Source: Bloomberg

ALTERNATIVE PERSPECTIVE

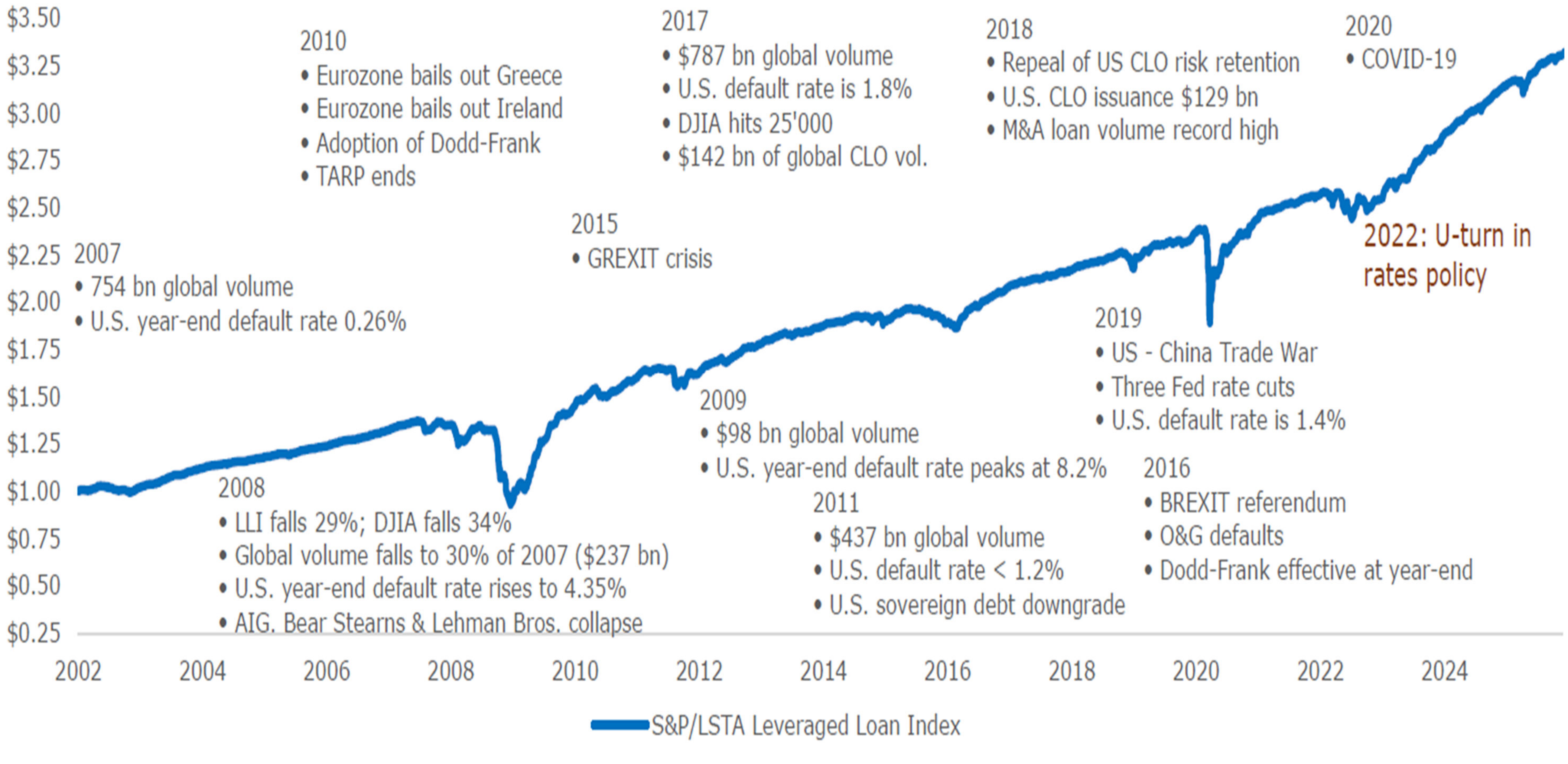
CLO Yields: CLOs offer an attractive yield premium over bonds and loans.



Source: Bloomberg

US LOAN INDEX TOTAL RETURN

Attractive Long-Term Yield Generation



Source: Bloomberg

EDUCATION CORNER

Private Credit

- Direct lending opportunities have improved
- Spreads widened, terms tightened, covenants improved amid concerns over AI exposure and redemption pressure on retail-focused BDCs
- Supply and demand are more balanced after 2023–2025 inflows compressed spreads

Private Credit

- In May, new sponsor-backed direct loans in the U.S. and Europe were priced 50–100 bps wider than in late 2025, at ~500 bps over the floating reference rate

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