

# Onex Credit Market Update & Sector Commentary

## Q3 2025

### Key Macro and Economic Themes

- ***Economic data showing signs of a slowdown but is yet to imply a recession***
  - Both the July and August jobs report surprised to the downside and led to sharp declines in Treasury yields. Due to the government shutdown, we don't have September payroll data as of the date of this update. U.S. nonfarm payrolls rose by just 73k in July and 22k in August, and particularly noteworthy in the July report was the sharp revision down over May and June, with a decrease of 258k taking estimated labor growth from +271k to +33k over the preceding three months.<sup>1</sup> The US Bureau of Labor Statistics released a preliminary report trimming job gains estimates by 911k for the 12-month period ending March 2025. Notably, this recent data indicates the labor market is materially weaker than previously anticipated, albeit still reasonably healthy – job growth still remains positive, unemployment remains low at 4.3%, and average hourly earnings grew 0.3% month-over-month and 3.7% year-over-year.<sup>2</sup> AI-uptake may pressure unemployment over the medium term.
  - Consumer confidence has rebounded from April lows, but remains weaker than the majority of 2024<sup>3</sup>. ISM PMI data continues to signal softness. The manufacturing PMI continues to indicate a contraction while the services PMI has rebounded to modest expansion.<sup>1</sup> While recent economic data points have been mixed, the overall picture points to a slowdown, particularly when viewed alongside employment data. However, the macro situation feels more contained than Q2'25, with left-tail downside risks having been tempered by the administration's apparent willingness to pivot policy in response to market pressures. Nonetheless, tariffs have risen substantially, and it will take time for their full impact to be felt in the economy; as a result, we continue to be watchful for inflationary pressure, consumer stress, and weaker economic conditions.
  - Powell's Jackson Hole speech on August 22 was widely interpreted as dovish by financial participants, triggering a sharp rally in risk assets, lower treasury yields, and a weaker US dollar.<sup>1,4</sup> The Federal Reserve (the "Fed") did indeed cut rates by 25 basis points in September, and the market is expecting further cuts over the next few months.<sup>4</sup> The dot plot showed a wide dispersion of Fed officials' expectations for the path interest rates could take, highlighting the uncertainty and diverging views on the path of employment and the economy.
- ***The consumer continues to feel pressure, but remains resilient while corporate sentiment has shifted towards cautious optimism as economic left-tail risks have decreased***
  - Corporate earnings have generally held up better than feared through Q2, with companies across our coverage universe demonstrating notable resilience even as tariffs began to weigh on performance. While management teams continue to cite uncertainty, overall sentiment is more optimistic as significant economic downside has not yet materialized. Industrial end markets remain soft but have so far avoided the severe impact feared after the announcement of the "Liberation Day" tariffs.
  - Visa and Mastercard pointed towards resilient consumer spending, with no meaningful deterioration or impact from tariffs.<sup>5</sup> Walmart reported a strong quarter but noted rising price sensitivity and decreasing volumes, particularly amongst low- and middle-income consumers.<sup>6</sup> These themes are consistent with what we've seen over the past several quarters, and we expect them to continue as the consumer is further squeezed by the pass-through of tariffs. Walmart indicated that the impact of tariffs has been "gradual", and Home Depot noted that tariffs are expected to further increase prices over H2'25.<sup>7</sup> Target also acknowledged they expect "short-term pressure" from tariffs that they expect to "move beyond" in 2026.<sup>8</sup> We expect the dynamic of a "stretched but resilient" consumer to remain as long as unemployment remains low; however sustained cracks in the job market could begin to challenge that resilience.
- ***The Federal Reserve is under increasing political pressure and the end of Powell's term as chair may bring more dovish policy***

<sup>1</sup> Source: Bloomberg. As of October 3, 2025.

<sup>2</sup> US Bureau of Labor Statistics. As of October 3, 2025.

<sup>3</sup> The Conference Board. Consumer Confidence Survey. As of October 3, 2025.

<sup>4</sup> Federal Reserve. As of October 3, 2025.

<sup>5</sup> Sourced from the relevant company's earnings reports and filings.

<sup>6</sup> See note 5.

<sup>7</sup> See note 5.

<sup>8</sup> See note 5.

- While President Trump seems to have stepped back from his earlier threats to fire Powell, the Fed Chair’s term still ends in May 2026, and the administration remains highly focused on pushing for lower rates.<sup>9</sup> Treasury Secretary Bessent stated in a Bloomberg interview he believes rates should be 150-175 bps lower.<sup>10</sup> Following the resignation of one Fed governor and efforts by the administration to remove another,<sup>11</sup> it is evident that the goal is to achieve a “majority” on the Fed to influence interest rate policy. Together with signs of softening economic data, it’s becoming increasingly clear that the direction of short-term rates in the US is lower.
- The Fed directly controls short-term rates, but longer-term treasuries yields are *typically* set by the market based on long-term growth and inflation expectations. We view the key debate in today’s bond market as whether the Fed cutting is likely to drive an economic re-acceleration, or if there is further economic downside. A further weakening economy will likely overshadow longer-term deficit concerns and questions on political independence of the Fed. But if the market narrative were to develop that rate cuts were unwarranted or politically driven, both long-term inflation expectations and term premium may rise (potentially along with growth expectations if lower rates stimulate the economy). Such an increase would normally lead to higher long-term rates even if short-term rates were to decline. Long-term rates have a significant impact on many sectors of the economy – for example, while Trump specifically called out housing as a beneficiary of lower rates, the 30-year mortgage is highly correlated to 10-year treasuries as opposed to the federal funds rate (we would note the 5-year Adjustable Rate Mortgages is more directly impacted by short-term rates).
- We used the term “*typically*” in the preceding paragraph because the Fed retains the ability to intervene in the treasury market through policies such as quantitative easing or yield-curve control. While we believe the present economic situation does not warrant such intervention, we must acknowledge the possibility since the administration is focused on bringing rates down for key sectors such as housing. The implications for FX markets and cross-border asset flows would be significant and these risks warrant close monitoring. This may be playing out with the rally in Gold and Bitcoin and other non-dollar based “safe havens”
- **Government policy continues to be very topical, but investors are increasingly looking past geopolitical risks**
  - Policy implications continue to be key economic considerations for investors. In response to Chinese export controls on rare earths, President Trump threatened to raise tariffs on China to 100% starting November 1. Two days later, he said “Don’t worry about China, it will all be fine”. Two weeks out from the stated date, we don’t have any clarity on whether they will be implemented. The headlines are fast and furious, but the challenge for investors is differentiating political optics from intended policy.<sup>12</sup>
  - Treasury Secretary Bessent discussed declaring a housing emergency to stimulate the housing market. Stimulating the housing market (particularly new construction) has been a key focus for this administration given its heavy weight in the Consumer Price Index (“CPI”). There has also been renewed talk about a public offering of the government sponsored enterprises.
  - President Trump announced 100% tariffs on imports of any branded or patented pharmaceutical unless the manufacturer is “breaking ground” on a US manufacturing plant by October 1<sup>st</sup>.<sup>13</sup> It appears that the EU and Japan are exempted, consistent with the trade frameworks they signed earlier with the US.<sup>14</sup> Importantly, it is not expected to impact generic drug imports, helping manage the direct impact to consumers. The US government also negotiated a deal with Pfizer to grant a three-year reprieve on drug import tariffs in exchange for a promise to reduce drug prices to Medicaid patients, to establish a direct to consumer channel, and to invest \$70 billion in domestic manufacturing.<sup>15</sup> Interestingly, Pfizer and many of its peers saw their stock prices trade higher following the announcement, as the market interpreted the deal to be largely optics rather than one with meaningful negative economic impact.
  - Beyond expanding protectionist policies such as tariffs, the US government has taken several unusual (at least outside of an economic crisis) actions. In many cases the government is arranging business deals, playing significant roles in capital allocation, and owning outright equity in businesses.
    - Investing \$8.9bn into Intel to acquire a 9.9% equity stake<sup>16</sup>
    - Negotiated (and recently exercised) a “golden share” in US Steel giving it veto rights of strategic decisions<sup>17</sup>

<sup>9</sup> Source: CNBC. ‘Trump considering 11 candidates for Fed chair, including David Zervos and Rick Rieder’. August 13, 2025.

<sup>10</sup> Source: Bloomberg Podcast. ‘Bessent Says Fed Rates Should Be 150-175 Basis Points Lower (Full Interview)’. August 13, 2025.

<sup>11</sup> Source: Bloomberg. ‘Trump Says He’s prepared for fight over Cook’s Ouster From Fed’. As August 26, 2025.

<sup>12</sup> Source: New York Times. ‘Trump-China Tariffs.’ As of October 14, 2025.

<sup>13</sup> Source: Reuters. ‘Bessent says Trump administration will tackle high housing costs with new measures’. September 1, 2025.

<sup>14</sup> Source: Politico. ‘Trump’s pharma tariffs are a partial reprieve’. September 29, 2025.

<sup>15</sup> Source: Bloomberg. ‘Drugmakers Buoyed as Trump Deal Eases Worst Fears on Pricing’. October 1, 2025.

<sup>16</sup> Source: BBC. ‘White House announces chipmaker Intel to give US government 10% stake’. August 22, 2025.

<sup>17</sup> Source: CNBC. ‘Trump now wields sweeping veto power over U.S. Steel. Here’s how the ‘golden share’ works’. June 26, 2025

- Received a 15% royalty on certain chip sales to China from Nvidia and AMD<sup>18</sup>
- Expected to receive a multi-billion fee for negotiating a TikTok deal with China<sup>19</sup>
- Negotiated trade deals stipulating foreign investment (with significant US control over allocation)<sup>20</sup>
- Invested \$400mm into MP Materials to “accelerate US Rare Earth Magnet Independence” and is rumored to be looking to convert its loan to Lithium Americas into an equity stake<sup>21</sup>

## Market Observations and Commentary

- ***The rapid unraveling of First Brands’ bankruptcy serves as a reminder that lax underwriting standards can be severely punished***
  - First Brands filed for Chapter 11 and the company’s loans collapsed more than 60 points in less than a month (down ~80 points if a lender didn’t participate in the roll-up financing). The company carried ~\$6.1bn of on-balance sheet debt, plus ~\$2.3bn of third-party factoring obligations and ~\$1.9bn of off-balance sheet lease financing through SPVs — structures that were highly unusual for a mainstream supplier and created significant hidden leverage. Jefferies had marketed a refinancing but then pulled the deal in August due to scrutiny over the company’s accounting practices and off-balance sheet receivable factoring facilities. As factoring providers pared back exposure, the company swiftly ran out of liquidity and had to raise a \$1.1 billion Debtor-in-Possession (“DIP”) financing to fund its operations through bankruptcy. The DIP was priced at S+1000, with a 5% upfront premium, a 10% anchor premium, a 5% exit fee exit fee, and included a punitive 3:1 roll-up of pre-petition claims to incent participation. Existing creditors were forced to choose between funding new money into a “black box” with only a “fraction of the diligence that would be done in the ordinary course” or watching their previously 1L claim get further primed by participating lenders.<sup>22</sup>
  - Through our diligence, we believe there were plenty of clues pointing to the scale of off-balance sheet financing. The company’s audit reports disclosed the existence of factoring agreements, and the approximate scale of the off-balance sheet factoring obligations could be estimated based on the disclosed fees paid to providers. Governance has been a long-standing concern from our perspective. Patrick James, the founder/owner of First Brands, has faced lawsuits in the past tied to fraudulent conduct and his level of control the company and lack of independent oversight has raised investor concerns for years.<sup>23</sup> What has only come to light more recently through the bankruptcy process is that James also directly controlled the SPVs used to raise billions in off-balance sheet financing — creating conflicts of interest and transparency issues. There are also potential allegations of double factoring, where the same receivables may have been pledged more than once. There is an ongoing investigation into the company’s practices and insider transactions as a part of its bankruptcy process that will ultimately shed more light on the details post-mortem.<sup>24</sup>
  - Notably, Onex Credit has never owned debt in the First Brands capital structure.<sup>25</sup> The aggressive financial policy, use of questionable off-balance sheet financing, poor earnings quality (from our perspective), compounded by the governance concerns gave us a plethora of reasons to consistently avoid the situation. Conversely, there are 100+ credit managers that have exposure to the name, likely due to the high spread on the loan being attractive relative value due to its high Single-B ratings. Certain investors even provided the company with a \$250mm pari-passu first lien loan in June 2025, less than three months before it filed for Chapter 11.<sup>26</sup>
  - The situation with First Brands is a reminder of why disciplined credit underwriting matters. Avoiding situations like this is as (if not more) important to performance as identifying upside opportunities — and reinforces why maintaining skepticism and discipline in credit selection is core to our investment philosophy.
- ***Enthusiasm around rate cuts and decreasing left-tail risks have contributed to strong rally across asset classes***
  - Most asset classes produced strong returns in Q3, a sharp contrast to the volatility endured in Q2. Equity markets continued to rally; notably, small cap equities outperformed during the quarter with the Russell 2000 outperforming the Nasdaq 100 and the S&P 500, gaining 12.39% versus 9.01% and 8.12% respectively. Equity markets in the third quarter were once again led by the AI-driven momentum in technology stocks. The AI-theme

<sup>18</sup> Source: BBC. ‘Nvidia and AMD to pay 15% of China chip sales to US’. August 11, 2025.

<sup>19</sup> Source: NPR. Trump’s TikTok deal payment criticized as ‘shakedown scheme’ by experts. September 26, 2025.

<sup>20</sup> Source: Axios. ‘U.S. trade agreement with Japan includes \$550 billion in unanswered questions’. July 24, 2025.

<sup>21</sup> Source: Politico. Trump administration seeks equity stake in lithium producer as loan hangs in balance’. September 26, 2025.

<sup>22</sup> Source: Octus. ‘First Brands Secures Interim DIP Approval Amid Unresolved Collateral Disputes; Evolution Previews Potential Request to Appoint Examiner, Ch. 11 Trustee to Address Financial Irregularities’. October 2, 2025.

<sup>23</sup> Source: Financial Times. ‘First Brands bankruptcy: the losers — and winners’. October 3, 2025.

<sup>24</sup> Source: Global Trade Review. ‘First Brands faces investigation into double financing of receivables, inventory’. September 30, 2025.

<sup>25</sup> The avoidance of investment in this credit does not guarantee the avoidance of investment in any given credit in the future, and losses from the investments in any such credits may be material. For additional information on Onex Credit’s business practices, please see the firm’s Form ADV.

<sup>26</sup> Source Pitchbook. ‘Leveraged loan default rate jumps as First Brands takes fast track to bankruptcy’. October 2, 2025.

continued to drive equity performance with technology stocks continuing to lead the market. Yet, enthusiasm over potential rate cuts extended the rally to homebuilding and autos, positioning them alongside technology and semiconductors as some of the strongest performing sub-sectors within the S&P for Q3'25.

- US corporate credit spreads tightened significantly in Q3 and are back to (and in some cases even more compressed) than the historically tight levels to begin the year. Cyclical were a theme common with equity markets, but telecom was notably strong on the back of the Dish spectrum sale transaction. Individual credit level dispersion remains high but we did see a more sustained rally in stressed cyclicals, reflecting optimism around rate cuts and potential macro improvements. Some participants seem to be positioning for a cyclical re-acceleration as speculation grows that the administration intends to run the economy hot.
- The rising tide of strong index performance has not lifted all boats, several higher risk situations have been driven by highly idiosyncratic factors, both to the upside and downside.<sup>27</sup> A number of weaker names continue to show deteriorating financial performance, downgrades are still pushing names lower as CCC buckets come under more pressure, and tariffs and other policy volatility is having disproportionate impacts on a few credits. According to BofA, year-to-date (“YTD”) performance of the Triple-C rated loan cohort is still underperforming Single-B and Double-BB rated loans. Triple-C dispersion remains elevated near peak YTD levels, with 95% trading 300bps outside of Triple-C spreads, while dispersion across Single-B and Double-BBs has declined from April highs.<sup>28</sup>
- CLO liabilities saw significant compression during Q3, with Triple-A spreads interestingly being somewhat of a laggard to more junior tranches for most of the quarter. New issue spreads have just about retraced to the tights set in February of this year despite continued stress in the bottom cohort of loans. There is a growing basis in the credit curve for CLO transactions with higher quality portfolios versus those with lower quality portfolios, particularly experienced in the pricing for Double-B rated tranches in CLO restructurings.<sup>29</sup>
- **Credit markets continue to experience a tight supply / demand balance, particularly in direct lending**
  - Supply-demand dynamics continue to be challenging in credit as year-to-date buyout activity has continued to lag previously lofty expectations of a rebound. We did see a noticeable uptick in deal volume post-Labor Day, and our conversations with sponsors and banks indicate expectations for continued activity through year end. More clarity around tariffs, expectations of Fed cuts, increased optimism on the economy, and broadly higher asset prices are creating a better market for dealmaking compared to earlier this year. September saw \$62bn in new issuance (another \$50bn in repricings), the most since January, split evenly between new money and refinancings.<sup>30</sup> Deals, such as Dayforce, came to market in September, and we continue to see a flow of large deals being announced that will bring prospective supply.<sup>31</sup> Specifically, the Electronic Arts buyout should provide \$20bn of supply to the leveraged finance markets.<sup>32</sup>
  - While there are signs the supply-demand imbalance may be moderating a touch, risk premiums remain compressed. There remains a deep bid for higher quality loans, particularly those rated B2/B and higher. We continue to see signs of aggressive capital markets behavior from some participants, particularly in direct lending where lenders are underwriting higher leverage points and offering PIK toggles and portability to win deals.
  - The equilibrium across the broadly syndicated loan (“BSL”) vs. direct lending markets has been consistent with prior quarters. Sponsors continue to dual-track processes, leveraging competition between the two markets to secure optimal terms and execution. The syndicated loan market has generally captured the cleaner, higher-quality deals, benefiting from its lower cost of capital, while direct lending providers are the clear choice for borrowers with ratings constraints or need for more flexibility. We saw several high-profile takeouts of near-term maturities BSLs by private credit including Leaf Home, Kroll, Flexera, Digicert, and Vantage Specialty Chemicals, while names such as Duck Creek, Finastra, Cooper Machinery Services and KnowB4 went to the syndicated market to refinance an existing private deal.
- **AI is becoming increasingly topical as a source of downside risk to credit investors**
  - AI is still a nascent technology with huge growth potential and we are in the early days of understanding its impact on all facets of the economy. Hundreds of billions of capex dollars are being spent, a host of VC-backed startups are being created to take advantage of the potential opportunity, and new ideas and technologies are constantly evolving. These companies largely operate outside of leveraged finance markets, but that isn’t to say they can be ignored. Markets are forward-looking and are attempting to price-in future impacts, both positive and negative,

<sup>27</sup> Source: See note 5.

<sup>28</sup> Source: BofA Leveraged Finance Q3 Update. As of October 3, 2025.

<sup>29</sup> Source: JPM CLOIE Index. As of October 3, 2025.

<sup>30</sup> Source: BofA. As of October 3, 2025.

<sup>31</sup> Source: Bloomberg. ‘Dayforce \$5.5 Billion Loan Set to Be Year’s Biggest for LBO’. September 24, 2025.

<sup>32</sup> Source: Reuters. ‘“Battlefield” maker Electronic Arts to go private in record-setting \$55 billion LBO’. September 29, 2025.

across a wide range of industries that we lend to. Several industries may have limited first order impacts such as building materials or chemicals, but the impact could be significant in other sectors such as media, education, business services, and software.

- Unlike equity markets, which capture upside potential from growth and, overall, have been a large net beneficiary from excitement around AI, credit is chiefly taking the downside convexity from potential disruption. Even if AI were to benefit the incumbent players, the potential benefits of revenue growth or margin expansion will accrue to the equity owners without improving the credit return (it ironically may lead to a lower return if the debt is repriced). But secular disruption risks can have severe negative consequences for creditors. Using an options analogy, credit investing is like selling a put and disruptive technologies are raising the volatility of the underlying business. The true impact of AI is in many ways still unknown, but what is clear is the risks and range of outcomes are wider. Therefore, if risk has gone up, then the market often demands more compensation in the form of wider spreads and lower prices.
- Growing concerns around potential AI-driven disruption have triggered selloffs in certain segments of the market. For now, the market remains focused on first order risks where AI may disintermediate or erode competitive positions. Examples being business process outsourcing providers such as call centers, outsourced staffing, legal services that may lose volume to AI, internet and media companies that may be displaced by AI, and content libraries that are being commoditized by AI. There are likely to be more examples over coming months as the market continues to process this risk, and we may see the market start to price additional second order impacts.
- We have developed a framework to help us analyze the competitive threats to business models from AI and are using it to evaluate risk across our portfolio. We have integrated it into our underwriting and risk management process and are repositioning the portfolio wherever appropriate. We believe proactively managing this risk will be an important contributor to performance over the medium term.
- ***Sponsors are focused on refinancing near-term maturities to extend runway in the most salvageable investments and reserving the more aggressive tactics for the most challenged situations***
  - The third quarter saw a number of refinancings of 2027 maturities, with cyclical business particularly topical. Despite the strong market rally, sponsors appear mindful of the uncertain macroeconomic outlook and are prioritizing execution certainty over pricing, opting to refinance early even at a premium. We expect this theme to continue for other 2027 and 2028 maturities.
  - Extending runway remains most valuable in credible operational turnarounds or more cyclical businesses operating at depressed conditions, as long as there is a credible path to recovery that would result in a par credit and equity value to the sponsor. In secularly challenged situations where the equity is likely out-of-the-money in a base case, the sponsor may be more inclined to take a harder negotiating stance to capture discounts and preserve value.
  - Even in more dire liability management exercise (“LME”) situations, we have continued to see the trend towards more consensual deals where the aim is to foster 100% consents and there is a lower gap between in-group vs out-group. LME appears to have found more of an equilibrium – each side is well aware of the negotiating points, and there is a more established template for deals. Interestingly, creditor groups have started using co-ops to play offense, with the concept of different tiers of creditor treatment being built into the co-op, often in 3 tiers – i) the steering committee, ii) the in-group, and iii) the out-group.

## Sector and Earnings Commentary

### ***Technology: Software continues to be resilient despite slower sales cycles, while hardware is benefiting from AI capex***

- Infrastructure software continues to perform well, though growth rates aren’t immune from macro challenges. Even bellwether public companies such as SAP called out a slowdown in deal closure velocity.<sup>33</sup> We estimate this marks the fourth consecutive quarter of decelerating new logo growth; however, retention rates across the sub-sector remain resilient, with no meaningful signs of deterioration.
- While point solutions are not deemed to be as mission-critical compared to infrastructure names, once these tools are incorporated into workflows, they can be quite sticky nonetheless. The growth slowdown has been more noticeable across point-solution providers, yet overall performance has held up better than expected, with most of our coverage universe still tracking at or near budget levels through Q2.

<sup>33</sup> See note 5.

- Consistent with prior quarters, enterprise cybersecurity remains characterized by intense competition in the backdrop of a growing end market. Consumer end markets on the other hand have shown less competitive intensity, though facing modest growth headwinds from consumer pressure and the indirect impact of slower hardware sales.
- The outlook for hardware is highly dependent on the end market served. Any part of the hyperscaler buildout value chain is demonstrating explosive growth, with Goldman Sachs estimating 2025 AI capex to be an astonishing \$368bn.<sup>34</sup> A notable transaction during the quarter was Amphenol's \$10.5 billion cash acquisition of CommScope's CCS business, marking a dramatic turnaround for a borrower whose debt was trading in the 30s just over a year ago.<sup>35</sup> Outside of AI, demand has been much choppier in more traditional cyclical end markets like autos and industrials.
- IT services spending remains subdued so far in 2025 with earlier hopes of a near-term rebound proving premature. Bellwethers such as Accenture point to weaker bookings negatively impacted by macro uncertainty and headwinds on government contracts.<sup>36</sup>
- AI implementation contracts is a potential bright spot but also pose a competitive risk as businesses must pivot and adapt. Investors are grappling with the longer-term impacts of AI on software business models, with there being a wide range of hotly debated views. In August, Open AI CEO Sam Altman suggested we're entering the "fast fashion era" of software with increasing competition as AI coding lowers the barriers to entry.<sup>37</sup> In such a world, "cost curve" for software is rapidly declining, which may create a proliferation of new software that commoditizes existing SAAS businesses. We think there is some merit to this thesis, but the practical considerations are more nuanced. We think most of our investments in the sector should be defensive and relatively insulated but are continuing to build and further evaluate our frameworks. At recent meetings such as OpenAI DevDay 2025, the theme has pivoted a bit to show that ChatGPT is seeking to sit on top of, and strengthen, existing entrenched enterprise software platforms. Ultimately, these existing vendors control the "clean" data that LLM's need to perform at their best. A partnership approach seems to be most likely over the short to medium term, versus head-to-head competition.<sup>38</sup>
- Many of the higher quality infrastructure software platforms aren't simply basic stacks of code – they've been built based on decades of process and testing pain-points of customers to develop a functional solution that is deeply embedded in the customer's internal processes. We think many of these ERP or HCM type infrastructure solutions are going to be sticky, and unlikely to face disintermediation from a "vibe code" AI startup. AI also needs good quality data to perform at a high level, and we think software tools that are combined with proprietary datasets are likely to be more insulated. That being said, low complexity point solutions that are hosted in AWS or Azure and coded in Java or Python with data that is not proprietary, we believe will be more at risk to a new competitor developing a better mousetrap. We believe this is likely to drive further bifurcation in SAAS; as a result, underwriting processes will become even more important. There is also the potential for per/seat models to be pressured if AI leads to higher structurally lower employment, particularly amongst back-office focused tasks that are viewed as an internal "cost center" in an organization. We also have the view that software providers that have good value propositions will be able to shift their revenue models towards "use" tied to data, allowing them to capture most of the economics.

***Healthcare: Clarity on Medicare/Medicaid policy changes have provided some stability for healthcare services, while policy uncertainty remains an overhang for other segments of the value chain such as pharmaceuticals and medical devices***

- Healthcare reform became clearer after President Trump signed the One Big Beautiful Bill Act on July 4, 2025. The law implements several reductions to Medicaid spending that could lead to lower volumes and lower pricing for providers. Work requirements will start in 2027 and there is a state provider tax reduction phased out starting in 2028. Also in 2028, state directed payments to providers will be reduced annually until rates approach Medicare rates or 110% of Medicare rates, depending on whether that state expanded Medicaid or not.<sup>39</sup> To offset these spending reductions, Congress increased funding for rural providers by 10 billion dollars annually from 2026 to 2031.<sup>40</sup> Overall, these reforms will be a protracted headwind to revenue and profitability for companies that serve Medicaid recipients but should be manageable given the delayed start and gradual phase in of the spending reductions.<sup>41</sup>
- Hospital and healthcare services companies have reported a sequential slowdown in volume growth in Q2.<sup>42</sup> Management teams do not have a tangible reason for the slowdown but have noticed fewer visits from Medicaid

<sup>34</sup> Source: Goldman Sachs. 'Powering the AI Era'. September 2025.

<sup>35</sup> Source: Amphenol's Website. 'Corporation to Acquire Connectivity and Cable Solutions Business From CommScope'. August 4, 2025.

<sup>36</sup> See note 5.

<sup>37</sup> Source: Cerillion. 'Cut from a different cloth: the "fast fashion era of SaaS'. September 3, 2025.

<sup>38</sup> Source: The Verge. 'OpenAI will let developers build apps that work inside ChatGPT'. September 6, 2025.

<sup>39</sup> Source: American Medical Association. 'Changes to Medicaid, the ACA and other key provisions of the One Big Beautiful Bill Act'. September 11, 2025.

<sup>40</sup> Source: Congress.gov. 'Health Coverage Provisions Beautiful Bill Act'. September 2025.

<sup>41</sup> Source: Sheppard Mullin. 'Healthcare Law'. September 1, 2025.

<sup>42</sup> See note 5.

recipients and to a lesser extent Medicare recipients. One management team attributed the slowdown to weak consumer confidence in the quarter which led to fewer elective surgeries. Consumer confidence has since rebounded modestly, and teams have generally indicated belief that volumes will improve in the remainder of the year. Providers are still able to obtain reimbursement increases, leading to decent revenue growth and stable costs, leading to strong profit growth. That said, more discretionary categories, such as veterinary services and dental procedures, are expected to remain sluggish and have negative demand readthroughs for their supply chains.<sup>43</sup>

- The Department of Commerce initiated a Section 232 Investigation into Medical Devices, Equipment and PPE. They are seeking information around demand for these products, the extent domestic production can meet domestic demand, the role foreign supply chains play, the feasibility of increasing domestic capacity, and any concentration of imports from a small number of suppliers or nations. Healthcare consultant Marwood believes that this investigation is likely to conclude with a higher tariff rate than current country-specific tariffs. Currently, these products are already largely subject to the existing IEEPA tariff rates instituted by the Trump Administration with little to no exclusions.<sup>44</sup>
- Healthcare IT continued to perform positively amid continued pricing and volumes growth. The strong topline trends are driven by continued adoption of digital solutions to improve outcomes for patients, providers, and insurers. Increasing complexity of the health system and continued labor pressure will drive demand for these HCIT products. These companies are defensively positioned against the broader macro backdrop and should be insulated from macro-economic weakness as well as policy change in the US.<sup>45</sup>

***Financial Services: Operating performance continues to be strong, positive secular trends remain intact, and the sector has been relatively insulated from tariff or supply chain risks***

- Insurance brokerage platforms’ organic growth rates remain healthy but are expected to moderate as pricing, particularly in property, decelerates. Insured values, or underlying exposures, are expected to be resilient given GDP growth & inflation. Specialty lines on insurance have demonstrated particularly robust organic growth, benefitting from policy growth away from the admitted market to the excess & surplus market. We have seen continued “consolidation of consolidators” with large scale M&A such as Gallagher and Assured in addition to Brown & Brown and Risk Strategies.<sup>46</sup>
- RIA platforms benefited from equity markets hitting new all-time highs while continuing to attract positive inflows given growth in the independent channel. Independent broker dealers are increasingly investing in RIA practices as the hybrid affiliation model becomes more prevalent for independent wealth managers. Client cash levels that they earn interest income on have remained stable and these platforms have increasingly hedged the balances into fixed rate contracts to create multi-year earnings visibility.<sup>47</sup> Growth across RIAs has provided tailwinds for the turnkey asset management providers supporting them.
- Recent performance across the fund administration sub-sector performance has been stable due to their essential, non-discretionary services and the growing demand for outsourcing amid complex regulations. However, the secondary trading prices of certain loans have displayed modest volatility as fears of AI disruption permeate the market. We would certainly acknowledge potential for AI to improve workflows, and over the longer-term, effective integration and execution will be important to maintain a company’s competitive position.
- Fintech and payments results showed continued strength across our coverage universe. We remain constructive on digitization of SMB and payment adoption trends. We are closely monitoring macro and policy trends which could start to drive a broader weakness in payment volumes and economic activity, but commentary has been constructive and supportive of continued growth. The legacy on-prem SMB segments of our companies remain a more challenging sub segment, but the low-single digit decline in this part of the market is more than offset by payment adoption and E-commerce trends driving mid/high-single digit growth overall for these businesses. Fintech companies continue to cross sell payment solutions on top of software products, which is driving incremental revenues and margin gains.

***Telecom: Recent trends persisted with cable continuing to cede subscribers to fixed wireless and fiber***

- Fiber providers remain committed to spending capital to upgrade legacy infrastructure (copper/dsl) to fiber in order to drive broadband net adds and average revenue per user (“ARPU”) growth. The ABS market has opened up as a key

<sup>43</sup> See note 5.

<sup>44</sup> Source: FederalRegistration.gov. ‘Notice of Request for Public Comments on Section 232 National Security Investigation of Imports of Personal Protective Equipment, Medical Consumables, and Medical Equipment, Including Devices’. September 26, 2025.

<sup>45</sup> See note 5.

<sup>46</sup> Source: Bloomberg. As of October 3, 2025.

<sup>47</sup> See note 5.

funding source for fiber assets and is providing the incremental capital to support large capital expenditures plans. We also saw another valuation market in strategic interest for fiber when AT&T acquired Lumen’s consumer fiber business for \$5.75bn. Overall, ABS support and strategic M&A has provided a valuation floor and has vastly improved investor sentiment around fiber over the past year. On the policy front, the extension of bonus depreciation in the recent spending bill will benefit the industry and add incremental cash flow.

- Cable operators continue to feel pressure from multiple angles, with fiber players spending capex to target the higher value customers and fixed wireless access offerings from mobile providers at the low/value end. Charter stock sold off over 20% following its release of Q2 numbers.<sup>48</sup> Larger cable companies are able to fight back somewhat with their own mobile service to provide a converged offering, but competition and fewer gross addition opportunities weigh on growth. Cable M&A has also returned with Charter announcing its purchase of Cox, a theme we think is likely to continue as smaller players need scale to compete.
- Within enterprise communications, legacy services remain under pressure but there are some potential tailwinds from connectivity needs from AI and data center deployments. Large operators have also tapped the ABS market to support network buildout and upgrades. Zayo has priced 3 ABS debt issuances in 2025 so far and was able to negotiate an A&E with its corporate creditors to extend debt maturities.<sup>49</sup>
- Wireless spectrum was a central theme during the third quarter, with EchoStar (formerly DISH) announcing a slew of spectrum deals within weeks. Under mounting political pressure from FCC Commissioner Brendan Carr, EchoStar announced transactions with AT&T (~\$23bn)<sup>50</sup> and Starlink (~\$17bn)<sup>51</sup> and is reportedly nearing an agreement with Verizon for remaining licenses (est. \$10bn+).<sup>52</sup> These monetizations mark the culmination of DISH’s decades-long, highly scrutinized spectrum accumulation strategy and effectively close the door on the possibility of a fourth national carrier - a key condition of T-Mobile’s 2020 acquisition of Sprint. Beyond the political considerations, the deals underscore healthy demand and strong valuations for wireless spectrum from both incumbent carriers and new entrants such as Starlink.

**Gaming/Lodging/Leisure: Discretionary spending in these categories is largely holding up despite pressure on the consumer.**

- Las Vegas gaming assets continue to feel pressure from lower end consumer pull back, fewer international travels due to political uncertainty, and a reduction in airline capacity into the city due to Spirit Airline’s bankruptcy. We expect continued visitation softness in Vegas through year-end which should then rebound in 2026 on the back of a strong convention calendar.<sup>53</sup> While visitation and RevPAR are down double-digits, gross gaming revenue is still up low single-digits.<sup>54</sup>
- Regional gaming markets remain very resilient and markets appear to be absorbing new supply in stride. 2Q gross gaming revenue across multiple states was up 2% y/y on a same-store basis as reported by various state gaming boards. In addition, through August, same-store gaming revenue is tracking up 2.5%, suggesting continued strength.<sup>55</sup>
- Online sports books (“OSB”) and iGaming operators continue to see double digit revenue growth and improving margins, especially for the scaled players such as Flutter and DraftKings.<sup>56</sup> We expect continued industry growth on the heels on new markets coming online in the U.S. and internationally, in addition to continued consumer adoption. We are monitoring the rise of prediction market betting, which utilizes a loophole in forward contracts to make wagers on sporting events. While there’s likely some overlap with the customer bases, we view the scaled OSB operators in an advantageous position to either provide a similar offering or benefit from legislation further down the road.
- Cruise companies continue to put up solid results with booking curves for the remainder of 2025 and early indications on 2026 ahead of prior year and at higher prices. Company commentary remains positive with companies saying they aren’t seeing any real slowdown, especially with onboard purchases which are a better real time indicator.<sup>57</sup>
- Lodging revenue growth has started to moderate with RevPAR in the U.S. coming in flat to slightly down year-over-year through June. Luxury continued to outpace economy on the chain scale and overall growth is expected through net unit expansion and strength in international markets. We would expect overall RevPAR growth to be +/- flat for

<sup>48</sup> See note 5.

<sup>49</sup> Source: Zayo. ‘Closes Amend and Extend Transaction Backed by Broad Investor Participation’. September 29, 2025.

<sup>50</sup> Source: AT&T. ‘AT&T to Acquire Spectrum Licenses from EchoStar’. August 26, 2025.

<sup>51</sup> Source: EchoStar. ‘Announces Spectrum Sale and Commercial Agreement with SpaceX’. September 8, 2025.

<sup>52</sup> Source: Reuters. ‘Verizon in talks to buy EchoStar wireless spectrum, Bloomberg News reports’. September 29, 2025.

<sup>53</sup> See note 5.

<sup>54</sup> See note 5.

<sup>55</sup> Source: JPM High Yield Bond and Leveraged Loan Monitor. As of September 30, 2025.

<sup>56</sup> See note 5.

<sup>57</sup> See note 5.

the full year. Companies saw some hesitation around liberation day but recent commentary suggests that has started to “thaw” with corporate and group demand returning.<sup>58</sup>

**Aerospace and Defense: Demand is strong, supply-constraints and operational execution appears to be improving**

- Demand for new aircraft remains robust with both Boeing and Airbus having long backlogs. Boeing reported 26 new orders and 2 cancellations in August. Airbus reported 99 new aircraft orders and 0 cancellations in August. Both appear to be focused on improving production cadence as supply chains have continued to recover post-pandemic. Boeing in particular is making progress in improving its operations post the 737 Max crashes. The FAA restored Boeing’s authority to perform final safety checks on its 737 Max jets and is expected to raise the production cap to 42 planes a month, up from a cap of 38.<sup>59</sup>
- Despite the potential for tariffs continues to loom with an outstanding section 232 review regarding issues of national security in progress, we think the industry should be relatively insulated due to the domestic nature of much of the supply chain as well as the USMCA-compliant nature of the industry. We expect the industry to mostly pass on any additional costs to OEMs or Commercial customers, given the supply constrained environment and have levers to offset potential short-term impacts.
- Defense order/demand has been muted due to the changing administration and the increased focus on streamlining the Justice Department. For the suppliers selling spares and equipment, procurement has been challenging but most view this as dynamic timing as the new normal settles in. In the longer run, the FY26 budget points to improving spending on focus projects like Modernization, which is seeing a 20% increase in the face of a 13% overall increase, as DOGE reviews, so far, have had minimal impact to the primes/GovtIT.

**Airlines: We continue to see softness, but performance has stabilized and Q2 earnings were viewed somewhat positively**

- After previously withdrawing guidance in April, the legacy carriers reported more positive Q2 results. They largely outperformed Q2 expectations and reported a stabilized operating environment following the headwinds that emerged after the April tariff announcement. A clear improvement in customer demand overall, beginning in the early summer, provided enough comfort for a broad re-instatement of full-year guidance; however, all forecasts were below expectations for the industry provided back in January due to uncertainty in policy and a slower-than-expected first half. Performance in low-end leisure and main-cabin performance remains relatively weak, but this was offset by growth in premium.<sup>60</sup>
- Capacity discipline remains solid as August and September are expected to witness flat scheduled domestic capacity at the industry level. United Airlines highlighted that 2025 was shaping to look a lot like 2024 as oversupply peak summer demand has led to a fall correction, which will support ramping margins.<sup>61</sup>
- Low-cost carrier performance continues to lag behind that of the legacy carriers. The lack of premium cabin options has left them overexposed to the soft low-end leisure end market, while their cost structures ballooned in the aftermath of the pandemic. Spirit Airlines filed another Chapter 11 petition in August, less than a year after its previous bankruptcy. The first restructuring was largely focused on addressing its balance sheet, but now it intends to use the process to effectuate a more fulsome operational restructuring as well.<sup>62</sup>

**Business Services: Last-Twelve-Months (“LTM”) earnings have broadly held up well, but AI narratives are creating dispersion and volatility in some parts of what was a historically defensive sector**

- Professional services have continued to perform well with 2Q25 performance coming in line or above market expectations. While M&A volumes remain soft, volumes have improved sequentially. Countercyclical work such as restructuring and bankruptcy has continued to do well in the quarter. The level of recurring work for many of our businesses (audit, valuations, etc.) continue to provide comfort in this period of continued uncertainty. Although we have not seen recent mega buyouts in the space, add-on activity and smaller transaction volumes have remained robust.
- Environmental and waste services have been performing in line with expectations. Toplines have generally been stable given insulation from tariffs and overall macro volatility. We believe environmental services should continue to serve

<sup>58</sup> Source: Cushman & Wakefield. ‘Q2 2025 Hospitality Key Trends’. September 30, 2025.

<sup>59</sup> Source: Wall Street Journal. ‘Boeing Clears Key Hurdle From 737 MAX Crashes’. September 26, 2025.

<sup>60</sup> See note 5.

<sup>61</sup> See note 5.

<sup>62</sup> Source: Spirit. ‘Spirit Airlines Takes Action to Build a Stronger Foundation and Future for America’s Leading Value Airline’. August 29, 2025.

as a relatively stable sector to invest in during times of macro and tariff uncertainty given structural limitations and capacity of existing assets and the must-have nature of the services provided.

- Companies servicing industrial end markets have generally been resilient despite macro and tariff uncertainty. After several years of elevated wage pressure, companies are now starting to see some relief as inflationary pressures moderate. Businesses with direct consumer exposure such as auto services are under more pressure. Areas such as collision repair and tire retailers continue to experience volume headwinds, with consumers looking to trade down and defer purchases where they can.
- Business process outsourcing providers have come under pressure with AI related fears on the current business and revenue models. We've seen limited impact to LTM financials, with several names beating expectations, but the market is generally forward-looking and is usually quick to price in potential threats of new competition and disruption. Onex Credit has been focused on evaluating names at risk and taking actions accordingly.

**Media and Education: Digitization of advertising spend continues while AI is already having an impact on content businesses**

- The divergence between legacy media (TV, radio, newspaper) and digital media (web, social media, search) continues as legacy media has continued to lose share, a trend we don't see reversing. Recent de-regulation effort from Federal Communications Commission ("FCC") revived investor hope in the TV broadcasting space. Interestingly, perhaps the two strongest broadcasters are merging with Nexstar Media buying Tegna, which puts the smaller broadcaster in a more precarious position. Overall, we still believe fundamentals of the broadcasters remain challenged, and M&A won't save the industry especially the smaller players that are already struggling.
- 2025 has been a challenging year for the education sector, particularly in the K-12 space. Ongoing uncertainty around federal funding, tightening state and local budgets, and the expiration of Elementary and Secondary School Emergency Relief ("ESSER") funding have created significant headwinds for school spending and purchasing behavior. In this environment, vendors with strong brand recognition, entrenched school relationships, and robust product portfolios are best positioned to succeed.
- AI is already having an impact on any content driven sector. We're still in the early stages of adoption, but it is already changing how content is created, distributed, and consumed. Generative AI enables rapid production of articles, videos, and imagery at scale, compressing production costs but also intensifying competition and raising questions around authenticity and quality. The roll-out of Google AI reduces the need for users to click through to third party websites, compressing page views and ad impressions. Companies that can leverage proprietary data, trusted brands, and differentiated content are more likely to withstand disruption, while those slow to adopt risk margin compression and audience erosion. Within education, AI has the potential to provide more personalized learning experiences, automating administrative tasks, and expanding access to high-quality content at scale. Generative AI tools can help improve Adaptive learning platforms can analyze student performance data in real time and provide adaptive assessment and supplemental products to individual needs, improving engagement and outcomes. Longer-term winners and losers will be driven by those companies that can adapt and execute in a changing environment.

**Industrials: End markets have held up reasonably well as the tariff impact has largely been manageable so far, but we remain cautious of significant risks over the next 6-12 months**

- Volumes remained weak across industrials, with pricing growth providing less of an offset. Manufacturing PMI data has been weak, with potential macro concerns and policy upheaval creating uncertainty across the industrial supply chain. Q2 2025 hasn't had the full tariff impact due to inventories, and we expect that impact to be felt more accurately in H2 2025. The broader industrials space will feel direct tariff impact given raw material and component sourcing, as well as in many cases complex global supply chains. Any manufacturer or service provider related to the AI datacenter value chain has been a bright spot, though there are some questions around the longer-term sustainability of this breakneck spend.
- Q3 2025 was the best quarter of auto sales so far in 2025, though the data was impacted by a surge in battery electric vehicle sales ahead of the September 30 consumer EV tax credit expiration.<sup>63</sup> Full-year SAAR<sup>64</sup> expected to be ~16mm, implying some deceleration into Q4 and a weaker year-over-year print. Automakers have so far managed the impact of tariffs better than expected. OEMs like GM and Ford are absorbing more of the cost to protect volumes, putting pressure on margins and accelerating vehicle de-contenting.<sup>65</sup> Suppliers have been relatively insulated due to USMCA

<sup>63</sup> Source: S&P. "September 2025 US auto sales mark a solid end to Q3". As of September 30, 2025.

<sup>64</sup> SAAR is an industry prediction for total annual vehicle sales.

<sup>65</sup> See note 5.

exemptions, but broader uncertainty around trade policy remains a headwind. The “Big Beautiful Bill” has triggered a shift in electric vehicle (“EV”) strategies, with many OEMs scaling back EV targets and shifting focus to hybrids. Strategic reshoring of production is underway, but will take time to materialize, and currently favors suppliers with an established U.S. footprint

- Chemical companies continue to operate near trough conditions, particularly in the commodity chemical space. With demand/volume trends remaining weak in several key end markets such as construction, automotive, and broad industrial applications, an ongoing supply glut driven by Chinese overcapacity weighed on pricing.<sup>66</sup> Within the chemical space, the narrative of “lower for longer” became more pronounced and reflected in company guidance through 2026. Recently, we’ve seen several announcements for capacity closures in Europe, bellwether company downgrades, and dividend cuts that reflect overall market stress. That said, specialty chemical company performance has been better, driven by lower raw material costs and more idiosyncratic sources of demand.
- Housing and building materials operating performance have underperformed through Q2 largely on affordability challenges from stubbornly high mortgage rates. Despite the Fed cutting rates three times, 10-year treasuries and mortgage rates have not declined significantly for most of the year.<sup>67</sup> The weaker employment data in the past several months and the anticipated wave of Fed cuts have reignited optimism that lower interest rates will unlock the existing home sales market and provide a boost to new construction into next year’s selling season. There remains too much uncertainty to make a cycle call, and we prefer to maintain our focus on credits that we believe have strong mid-cycle earnings potential and requisite liquidity to navigate the downcycle.

**Food and Packaging: *Continued pressure on volumes amidst de-stocking and a softer consumer***

- Packaged Food earnings in 2Q remained soft with companies reporting underwhelming results and lowering guidance. A combination of factors (high prices, impact of GLP-1 drugs on consumption, trade down to private label brands) is continuing to pressure volumes. For example, large packaged food companies like Smuckers, General Mills and Hormel Foods recently reported weak results blaming weak demand, softer snacking and a cautious consumer. Lower demand for middle aisle packaged food products such as cereals, snacks and frozen dinners continue to be headwinds. A bright spot in packaged food remains yogurt which as a category is seeing consistent double-digit growth. Spices and condiments is another resilient category with leader McCormick reporting stable to positive results, and expectations that more food consumption at home is likely to drive an increase in spice, condiments and sauce demand. Rest of the year will likely continue to see lower margins as food companies face higher promotional costs, increased spend on innovation and R&D and some impact from certain commodities (e.g. cocoa, coffee, beef).<sup>68</sup> Food M&A continues to be a catalyst with Kraft Heinz considering a breakup<sup>69</sup>, renewed talks between US Foods and Performance Food Group, fairly robust, with Ferrero agreeing to acquire WK Kellogg (at a relatively healthy multiple of ~11x EV/EBITDA).<sup>70</sup>
- Packaging company performance was mixed depending on company execution amid a weak end market backdrop. Generally, food, beverage, and household/personal care volume declined low-single digit percentage, pressuring volume for the packaging companies while construction/industrial end markets also remained weak. In turn, pricing power should remain more challenging. That said, several of our companies have been able offset lower volumes with cost savings and productivity; this, combined with a benign raw material cost environment, has led to profitability growth for some producers despite a topline decline.

**Consumer and Retail: *The consumer remains resilient yet increasingly discerning***

- Consumer credits reported soft 2Q earnings, with companies clearly delineating between a higher-end consumer that is still spending and lower end which is significantly cutting back. Underlying consumer consumption trends are choppy month-to-month and we are seeing pantry stocking/destocking variances based on weather, seasonality and consumer confidence concerns. Tariffs remain a headwind with many companies drawing down pre-tariff inventory and choosing not to pass on full cost of tariffs to consumers (so far). While consumption in personal care and household categories are holding up, consumers are pulling back on items that are not an absolute “must” or stretching out their repeat purchases. Personal care has been more stable for the daily essentials, but the more discretionary cosmetics and fragrances have been mixed. Discretionary categories - apparel, footwear, home and outdoor - are increasingly having to promote driving traffic. Overall, the themes we have highlighted previously

<sup>66</sup> Source: S&P. ‘Chemical Trends H1 2025’. September 30, 2025.

<sup>67</sup> Source: Bloomberg. As of October 3, 2025.

<sup>68</sup> See note 5.

<sup>69</sup> Source: Morningstar. “Kraft Heinz is reportedly weighing a breakup. Some analysts have already said it ‘should slim down.’ July 11, 2025.

<sup>70</sup> See note 5.

continue to persist – the consumer is very discerning, and value is key, trade down to private label and shift to club and mass retailers continues.

- Retail performance was better than feared in Q2 as consumers continued to spend, while the impact from tariffs are yet to show up in numbers. Most companies noted they expect to see impact from tariff costs in Q3, with the most significant impact expected in Q4. Inventory remains clean despite some pull forward of buying ahead of full tariff implementation in August. Retailers continue to focus on mitigating the tariff impact from a combination of continued shift of sourcing away from high-tariff countries such as China, negotiating with vendors to share cost increase, and possibly passing some of the tariffs onto consumers
- Restaurants and specifically quick service restaurants (“QSRs”) recovered somewhat in 2Q25 after a weak and weather impacted 1Q25 earnings season. Generally speaking, for QSRs, value wars are back in vogue with McDonald’s highlighting a new slate of menu value offerings in September 2025 in a bid to improve traffic and same-store sales (“SSS”).<sup>71</sup> Other QSR chains are following suit. While SSS for the industry were sequentially better in 2Q vs 1Q, traffic remains challenged, particularly for the lower end consumer. Restaurant CEOs highlighting that the lower end consumer potentially skipping some meals (e.g. breakfast) in a bid to conserve spend. Heading into the third quarter, we expect promotions to continue, with value driving wallet spending. Casual dining chains (like Chili’s)<sup>72</sup> continue to do very well with a more attractive offering vs QSRs, and we even saw weakness in fast casual (Sweetgreen, Chipotle, Cava)<sup>73</sup> which has recently done well with a higher end consumer. Beef is a significant headwind for margin with limited cattle herd supply.

***Commodities, Power, and Utilities: Weak demand and supply increases are a dual headwind for oil prices and outlook for natural gas and power is constructive, while mining is mixed***

- The challenging backdrop for oil remains, with dual headwinds from OPECs decision to increase supply into an otherwise weak demand backdrop. A temporary rise in geopolitical risk premium pushed prices briefly higher in June, but have largely rolled back to muted levels over the past several months.<sup>74</sup> This temporary bounce provided producers the opportunity to hedge and lock in capex budgets, but has not materially improved activity levels. Rig and frac spread counts remain anemic and continue to drive expectations for flattish production levels in the US for the balance of the year.
- Power credits have continued to trade well and sentiment remains strong across both debt and equity markets.<sup>75</sup> Expectations for substantial power demand growth driven by AI, electrification, and tightening supply and demand balances supporting both power and capacity prices have driven a number of recent M&A transactions. To name a few, Blackstone buying Hill Top Energy Center, Constellation’s agreement to buy Calpine; Vistra’s agreement to buy Edgewater Generation; Capital Power’s acquisition of assets from Thunder Generation; NRG Energy’s agreement to acquire LS Power assets including Lightning Power and the remainder of Thunder Generation; Talen’s agreement to acquire two CCGTs in Ohio and Pennsylvania.<sup>76</sup> Further supporting sector fundamentals and sentiment, capacity prices for the 2026/2027 PJM capacity auction cleared at the cap (+22% vs 2025/2026 auction), which represented record high pricing and will drive substantial earnings and cash flows for generation assets with exposure.<sup>77</sup> We remain constructive on the sector and outlook, but we note that improving valuations, earnings, and industry fundamentals have begun to incentivize incremental capacity builds, restarts of recently idled/retired assets, and disincentivized retirements of some aging assets pushing out shutdown plans. Political consternation over high power prices is also a key risk factor to monitor as power markets are highly regulated and the structure is always subject to change under political pressure. For example, electricity prices have emerged as a key issue in the New Jersey gubernatorial race. While politicians and regulators cannot make capacity overnight, they have a number of tools to incentivize and accelerate the supply response to help control prices.<sup>78</sup>
- Metals commodity prices largely recovered from the selloff in the aftermath of the April tariff announcement. Gold prices continue to hit new highs as expectations of a Fed rate cut grow and global central banks continue to add to their reserves. Copper prices increased after the Grasberg mine accident is creating a supply disruption through 2026.<sup>79</sup> We typically try to avoid taking direct mining commodity exposure by investing in businesses with volumes-

<sup>71</sup> See note 5.

<sup>72</sup> See note 5.

<sup>73</sup> See note 5.

<sup>74</sup> Source: Reuters. ‘Tariff uncertainty and rising OPEC+ supply weigh on oil prices: Reuters poll’. July 31, 2025.

<sup>75</sup> See note 5.

<sup>76</sup> Source: Bloomberg. As of October 3, 2025.

<sup>77</sup> See note 5.

<sup>78</sup> Source: ClimateWire. ‘New Jersey gubernatorial race tightens as power bills jolt voters’. September 29, 2025.

<sup>79</sup> Source: Reuters. ‘Grasberg mine accident tightens global copper supply estimates’. September 30, 2025.

driven revenue models. They will be insulated from direct pricing volatility, though price moves will have indirect impacts on production volume decisions. We could potentially start to see some margin pressure on higher costs due to facility location positioning around the US markets. We remain constructive on this sub segment of the metals and mining industry but will remain focused on macro-economic conditions and the health of China which is a key driver of demand globally.

## DICLAIMER & RISK DISCLOSURE

THE INFORMATION CONTAINED IN THIS PRESENTATION (THIS "PRESENTATION") IS PROVIDED FOR INFORMATIONAL AND DISCUSSION PURPOSES ONLY AND IS NOT, AND MAY NOT BE RELIED ON IN ANY MANNER AS, LEGAL, TAX, REGULATORY, ACCOUNTING AND/OR OTHER INVESTMENT ADVICE OR AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY OR ANY INTEREST IN ANY PRIVATE CREDIT FUND OR OTHER INVESTMENT VEHICLE (TOGETHER WITH ITS PARALLEL INVESTMENT ENTITIES, EACH AN "ONEX FUND") MANAGED OR ADVISED BY ONEX CORPORATION, ONEX CREDIT PARTNERS, LLC ("OCP"), ONEX CREDIT ADVISOR, LLC ("OCA") OR ONEX CREDIT MANAGEMENT LLC (TOGETHER WITH ONEX CORPORATION, OCP AND OCA, "ONEX").

RECIPIENTS OF THIS PRESENTATION AGREE THAT ONEX, ITS AFFILIATES AND THEIR RESPECTIVE PARTNERS, MEMBERS, EMPLOYEES, OFFICERS, DIRECTORS, AGENTS AND/OR REPRESENTATIVES SHALL HAVE NO LIABILITY FOR ANY MISSTATEMENT OR OMISSION OF FACT OR ANY OPINION EXPRESSED HEREIN. THIS PRESENTATION IS NOT INTENDED FOR ANY GENERAL DISTRIBUTION OR PUBLICATION AND IS STRICTLY CONFIDENTIAL. THIS PRESENTATION AND THE INFORMATION CONTAINED HEREIN CONSISTS OF CONFIDENTIAL PROPRIETARY INFORMATION AND IS THE SOLE PROPERTY OF ONEX. EACH RECIPIENT FURTHER AGREES THAT IT WILL (I) NOT COPY, REPRODUCE, OR DISTRIBUTE THIS PRESENTATION, IN WHOLE OR IN PART, TO ANY PERSON OR PARTY (INCLUDING ANY EMPLOYEE OF THE RECIPIENT OTHER THAN AN EMPLOYEE DIRECTLY INVOLVED IN EVALUATING AN INVESTMENT IN AN ONEX FUND) WITHOUT THE PRIOR WRITTEN CONSENT OF ONEX; AND (II) KEEP PERMANENTLY CONFIDENTIAL ALL INFORMATION CONTAINED HEREIN THAT IS NOT ALREADY PUBLIC.

IN CONSIDERING ANY PERFORMANCE OR TARGETED INFORMATION CONTAINED HEREIN, PROSPECTIVE INVESTORS SHOULD BEAR IN MIND THAT PAST OR TARGET PERFORMANCE IS NOT A GUARANTEE, PROJECTION OR PREDICTION AND IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS, AND THERE CAN BE NO ASSURANCE THAT THE APPLICABLE ONEX FUND WILL ACHIEVE COMPARABLE RESULTS, THAT TARGET RETURNS, IF ANY, WILL BE MET OR THAT ANY ONEX FUND WILL BE ABLE TO IMPLEMENT ITS INVESTMENT STRATEGY AND INVESTMENT APPROACH OR ACHIEVE ITS INVESTMENT OBJECTIVES. IN ADDITION, THERE CAN BE NO ASSURANCE THAT UNREALIZED INVESTMENTS WILL BE REALIZED AT THE VALUATIONS SHOWN, AS ACTUAL REALIZED RETURNS WILL DEPEND ON, AMONG OTHER FACTORS, FUTURE OPERATING RESULTS, THE VALUE OF THE ASSETS AND MARKET CONDITIONS AT THE TIME OF DISPOSITION, ANY RELATED TRANSACTION COSTS, AND THE TIMING AND MANNER OF SALE, ALL OF WHICH MAY DIFFER FROM THE ASSUMPTIONS ON WHICH THE VALUATIONS CONTAINED HEREIN ARE BASED. ACCORDINGLY, THE ACTUAL REALIZED RETURNS ON UNREALIZED OR PARTIALLY REALIZED INVESTMENTS MAY DIFFER MATERIALLY FROM THE RETURNS INDICATED HEREIN. UNLESS OTHERWISE NOTED, THE IRRS AND MULTIPLES PRESENTED ON A "GROSS" BASIS DO NOT REFLECT ADJUSTMENT FOR ANY MANAGEMENT FEES, CARRIED INTEREST, TAXES AND ALLOCABLE EXPENSES BORNE BY INVESTORS, WHICH IN THE AGGREGATE MAY BE SUBSTANTIAL. THE IRRS AND MULTIPLES PRESENTED ON A "NET" BASIS ARE CALCULATED AFTER FUND-LEVEL EXPENSES INCLUDING MANAGEMENT FEES, CARRIED INTEREST AND OTHER EXPENSES PAYABLE BY THE APPLICABLE ONEX FUND. IN CERTAIN INSTANCES, ONE OR MORE PRIOR ONEX FUNDS MAY HAVE USED A FUND LINE OF CREDIT TO FUND THE INITIAL PURCHASE OF A PORTFOLIO INVESTMENT WHICH MAY CAUSE FUND RETURNS TO BE DIFFERENT THAN ACTUAL PORTFOLIO INVESTMENT RETURNS. NOTHING CONTAINED HEREIN SHOULD BE DEEMED TO BE A PREDICTION OR PROJECTION OF FUTURE PERFORMANCE OF AN ONEX FUND.

EXCEPT WHERE OTHERWISE INDICATED HEREIN, THE INFORMATION PROVIDED HEREIN IS BASED ON MATTERS AS THEY EXIST AS OF THE DATE OF PREPARATION AND NOT AS OF ANY FUTURE DATE AND WILL NOT BE UPDATED OR OTHERWISE REVISED TO REFLECT INFORMATION THAT SUBSEQUENTLY BECOMES AVAILABLE, OR CIRCUMSTANCES EXISTING OR CHANGES OCCURRING AFTER THE DATE OF PREPARATION.

STATEMENTS CONTAINED IN THIS PRESENTATION (INCLUDING THOSE RELATING TO CURRENT AND FUTURE MARKET CONDITIONS AND TRENDS IN RESPECT THEREOF) THAT ARE NOT HISTORICAL FACTS ARE BASED ON CURRENT EXPECTATIONS, ESTIMATES, PROJECTIONS, OPINIONS AND/OR BELIEFS OF ONEX. SUCH STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, AND UNDUE RELIANCE SHOULD NOT BE PLACED THEREON. IN ADDITION, NO REPRESENTATION OR WARRANTY IS MADE WITH RESPECT TO THE REASONABLENESS OF ANY ESTIMATES, FORECASTS, ILLUSTRATIONS, PROSPECTS OR RETURNS, WHICH SHOULD BE REGARDED AS ILLUSTRATIVE ONLY, OR THAT ANY PROFITS WILL BE REALIZED. CERTAIN INFORMATION CONTAINED HEREIN CONSTITUTES "FORWARD-LOOKING STATEMENTS," WHICH CAN BE IDENTIFIED BY THE USE OF TERMS SUCH AS "MAY", "WILL", "SHOULD", "EXPECT", "PROJECT", "ESTIMATE", "INTEND", "CONTINUE", "TARGET" OR "BELIEVE" (OR THE NEGATIVES THEREOF) OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. DUE TO VARIOUS RISKS AND UNCERTAINTIES, ACTUAL EVENTS OR RESULTS OR THE ACTUAL PERFORMANCE OF ANY ONEX FUND MAY DIFFER MATERIALLY FROM THOSE REFLECTED OR CONTEMPLATED IN SUCH FORWARD-LOOKING STATEMENTS. AS A RESULT, INVESTORS SHOULD NOT RELY ON SUCH FORWARD-LOOKING STATEMENTS IN MAKING THEIR INVESTMENT DECISIONS. NO REPRESENTATION OR WARRANTY IS MADE AS TO FUTURE PERFORMANCE OR SUCH FORWARD-LOOKING STATEMENTS.

THE RECEIPT AND USE OF THIS PRESENTATION IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY APPLICABLE LAWS, RULES OR REGULATIONS. ACCORDINGLY, THE INFORMATION PROVIDED HEREIN IS NOT INTENDED FOR DISTRIBUTION TO, OR USE BY, ANY PERSON IN ANY JURISDICTION WHERE SUCH DISTRIBUTION OR USE WOULD BE CONTRARY TO LAW OR REGULATION OR WOULD SUBJECT ONEX, THE ONEX FUNDS OR THEIR RESPECTIVE AFFILIATES TO ANY LICENSING, NOTIFICATION OR REGISTRATION REQUIREMENTS UNLESS OTHERWISE AGREED BY SUCH PERSON.