

Onex Credit Market Update & Sector Commentary

Q1 2026

Key Macro and Economic Themes

- ***The Iran conflict makes macro projections increasingly unreliable.***
 - The duration of the conflict and path to fully reopening the Strait of Hormuz remain highly uncertain. Markets appear to be taking significant comfort from the reoccurring headlines suggesting we are in the “final stages” of a deal, but it is challenging to underwrite that outcome until we see it implemented and sustained over a period of time.¹
 - Even if the conflict were resolved tomorrow, the damage already inflicted on infrastructure coupled with shut-in production resulting from storage limitations will likely have medium-term implications for global energy markets. Oil and natural gas prices have sharply increased and, while curves remain backwardated (higher spot than future price), are still expected to remain elevated over the intermediate term.² This has disrupted global supply chains, sending prices of various other commodities like steel, aluminum, and chemicals soaring. Negative impacts to the supply chain will linger.
 - April inflation prints, including CPI³ and PPI⁴, reinforce concerns that inflationary pressures may be reaccelerating. Gold has sold off while global bond yields have risen sharply as the market is now pricing in Fed rate hikes^{5,6}. The energy shock is even more acute for countries importing oil, prompting rapid repricing toward a broader global rate-hike cycle, with the ECB, BoJ, and BoE all expected to tighten further.^{7,8} Global yields have risen across markets, with JGB at their highest since the 1990s⁹ and the U.S. 30-year treasury yield reaching levels not seen since 2007¹⁰.
 - In an environment of elevated commodity prices and a more hawkish Fed, our bias would be to expect continued pressure on consumers, particularly lower- and middle-income households that are disproportionately sensitive to increases in the cost of living.
- ***AI capex is growing exponentially and a key driver of U.S. economic growth.***
 - Hyperscalers capex estimates continue to move meaningfully higher, with spending projected to reach ~\$800bn in 2026 and over \$1.1tn in 2027, compared to \$135mm in 2023 and \$261mm in 2024, and \$449mm in 2025. Morgan Stanley estimates AI related capex to contribute over 1% to real GDP growth, while non-AI related capex is expected to decline year-over-year.¹¹ Even this may understate the broader economic impact, as it is difficult to fully capture downstream supply chain benefits and the associated wealth effects.
 - Strong AI capex is helping offset weakness in other segments of the economy such as residential investment, resulting in relatively solid headline economic data but increasingly bifurcated outcomes across sub-sectors. Despite overall solid GDP expectations, parts of the economy such as consumer durables and housing are exhibiting conditions more consistent with a recessionary environment.
- ***Employment continues to be resilient, though wage growth is slowing and uncertainty remains.***
 - The U.S. labor market remained resilient in April 2026, with nonfarm payrolls increasing by 115,000, ahead of expectations, while the unemployment rate held steady at 4.3%. Wage growth continued to moderate, with average hourly earnings rising 0.2% month-over-month and 3.6% year-over-year, suggesting easing, but still positive income gains for workers.¹²
 - Job growth was concentrated in healthcare, transportation and warehousing, and retail trade, while federal government employment continued to decline. Overall, the report points to a labor market that is slowing from the rapid pace seen in prior years but remains relatively stable despite broader economic uncertainty.

¹ Source: NY Times. As of May 20, 2025.

² Source: JPM Global Markets Strategy. May 5, 2026

³ Source: Bloomberg. As of May 12, 2026

⁴ Source: Bloomberg. As of May 13, 2026.

⁵ Source: Bloomberg. As of May 22, 2026.

⁶ Source: Yahoo Finance. As of May 15, 2026.

⁷ Source: Financial Times. As of April 30, 2026.

⁸ Source: Wall Street Journal. As of May 20, 2026.

⁹ Source: Bloomberg. As of May 22, 2026.

¹⁰ Source: Yahoo Finance. As of May 15, 2026.

¹¹ Source: Morgan Stanley economic outlook. May 12, 2026.

¹² Source: U.S. Bureau of Labor Statistics. Employment Situation Summary. May 8, 2026.

The latest JOLTS survey showed job openings continuing to trend lower, while the quits rate remained subdued at 2.0%.¹³

- **Headline consumer spending has continued to be relatively resilient, but we are seeing signs of fatigue.**
 - Consumers have thus far appeared to weather the commodity shock stemming from the Iran conflict. Total credit/debit card spending in April increased 4.8% year-over-year, and 4.0% after excluding gas-related purchases. Most spending categories outside of consumer durables remained positive, though there was a notable divergence in discretionary spending growth between lower- and higher-income households.¹⁴
 - According to BofA, the wage growth gap between higher- and lower-income households remained at its widest margin since the series began in 2015.⁴ For lower-income consumers, wage growth was barely sufficient to offset the increase in gasoline spending in April. Higher income cohorts are still benefiting from strong growth, possibly due to a disproportionate benefit from tax cuts, and are also benefiting from rising stock prices. This increasingly K-shaped dynamic is becoming more evident across consumer discretionary categories such as travel and entertainment.
 - University of Michigan consumer sentiment has fallen to new lows of ~48, well below trough levels reached during the 2008 crisis.¹⁵ About one-third of consumers spontaneously mentioned gasoline prices as weighing on sentiment. Real income expectations are continuing to decline, likely keeping a lid on discretionary consumer spending.
 - According to JPM, 13% of credit card balances in the U.S. are now 90+ days delinquent, the highest since 2011 and 5.6% of auto loan balances are 90+ days delinquent, the highest level on record.
- **The path for Fed policy support has become murkier while fiscal policy is a wildcard.**
 - The Fed policy “put” is likely on hold amid a backdrop of higher inflation. Warsh is increasingly viewed as a more conservative potential policy leader given his historical preference to shrink the Fed balance sheet.¹⁶ The inflation shock from the Iran conflict likely limits the Fed’s flexibility in the short term, with markets increasingly pricing the next policy move as a hike rather than a cut.¹⁷
 - Trump’s approval rating has continued to decline, hovering in the low-40% range, increasing pressure on Republicans ahead of the midterm elections.¹⁸ Despite significant rhetoric around “affordability”, we have yet to see concrete actions that will have a near term impact. If anything, Iran-related disruptions are eroding affordability and largely offsetting any benefits from tax refunds. Further, we have yet to see any substantive policy that addresses housing affordability. Given upcoming the midterm elections, it remains to be seen what stimulus (if any) President Trump and the Republican-controlled congress can muster.

Market Observations and Commentary

- **Credit markets have been resilient despite AI disruption fears, the Iran energy shock, and a more hawkish Fed.**
 - Leveraged loans are up year-to-date 1.12%, and 1.92% excluding software.¹⁹ Loan technicals continue to be unbalanced with ~42% of the market trading above par, fueling another repricing wave. In some cases, new deals are attempting to price inside CLO cost of capital, yet continue to receive support from the high yield market and, at times, the TLA market.
 - CLO issuance is tracking below last year’s pace²⁰, as AI disruption concerns and the Iran conflict temporarily widened liability spreads before largely retracing. Elevated repricing activity and secondary loan prices trading above par continue to create challenging primary issuance conditions²¹, yet deals are still getting done, likely supported by managers with captive equity funds.
 - The “yield versus spread” argument continues to be the key debate in credit markets, with all-in yields continuing to outweigh concerns around historically tight credit spreads. While spreads are near post-crisis tightness, all-in yields are broadly in the upper 50% percentile due to higher base rates.²² From a credit investor’s perspective, the setup is far from ideal; however, from an allocator’s standpoint, the relative value argument is understandable. With equity markets at all-time highs and dominated by the AI thematic, private assets

¹³ Source: U.S. Bureau of Labor Statistics. Job Openings and Labor Turnover Survey. April 31, 2026.

¹⁴ Source: Bank of America. Consumer Checkpoint, April Showers. May 12, 2026.

¹⁵ Source: Surveys of Consumers University of Michigan. May 2026.

¹⁶ Source: Wall Street Journal. ‘The Economy Kevin Warsh Is Inheriting Is Not the One He Wanted’. May 18, 2026.

¹⁷ Source: Bloomberg. As of May 20, 2026.

¹⁸ Source: JPM Global Markets Strategy. May 5, 2026.

¹⁹ Source: UBS Leveraged Loan Index. As of May 20, 2026.

²⁰ Source: JPM. As of May 20, 2026.

²¹ Source: JPM. As of May 15, 2026.

²² Source: JPM. As of May 20, 2026.

facing significant questions around transparency and valuation, perhaps credit assets yielding 5-8% are attractive on a relative value basis despite historically tight spreads.

- Bifurcation remains a key theme within credit markets, with CCC loans still down ~3% YTD.²³ The distressed loan universe has still grown +\$62.6bn over the past 7 months (+85%).²⁴ There are now 151 leveraged loan issuers trading below 80 cents, an increase of 30 issuers year-over-year. Of loans classified as distressed, 45% are Technology, 14% Services, and 9% Healthcare.²⁵ The universe of loans trading below 60 cents and sub 70 cents grew by \$4.5bn and \$7.1bn to \$46.1bn (or 3.1%) and \$82.8bn (or 5.5%), respectively.²⁶ Notably, the sub-70 universe is now at its highest level since May 2020. Liquidity in this cohort of loans feels very poor, and we have seen gappy price action on low volume. Several factors may be contributing to this dynamic, including fatigue around liability management exercise (LME) risk, limited disclosure within the loan market, private equity sponsors using disqualification (“DQ”) lists to constrain the buyer universe away from distressed investors, weak CCC technicals, price-insensitive CLO selling activity during resets and refinancings, and a shrinking pool of secondary stressed and distressed buyers. While underlying fundamentals are challenged in parts of this market, the resulting technical pressure may present attractive opportunities for investors with long-term capital that can take advantage of volatility.
- **AI has become the singular dominant equity market theme.**
 - Headline equity indices appear to be performing well with the S&P 500 up ~8% year-to-date, but there is extreme bifurcation beneath the surface. Over 50% of the S&P 500 gain has been driven by just five semiconductor stocks, and the total industry contribution is even larger.²⁷ The SOX index is up ~64% year-to-date, and chip stocks now make up 18% of the S&P 500, a more than two-decade high. The broader AI contribution is even more pronounced when including the wider ecosystem of AI “picks-and-shovels” beneficiaries across the industrial and infrastructure complex. This exuberance pales in comparison to Korea, where the two large memory stock players – SK Hynix and Samsung – have gone up ~800% and 400% in the past one year respectively and now comprise over half of the Kospi Index.²⁸
 - Outside of the AI thematic, several other bellwether sectors including healthcare, banks, homebuilding, and software are negative performers year-to-date. Industrials are bifurcated depending on exposure to AI-related end markets. Semiconductor businesses have historically been cyclical and highly volatile industries, making the current magnitude and pace of equity appreciation notable, even if near-term fundamentals remain exceptionally strong. The degree of market concentration is increasingly difficult to ignore and an equity market so heavily reliant on a single thematic becomes inherently more vulnerable to any disruption in that narrative. When combined with the growing concentration to mega cap technology that is driving the AI capex cycle, it begs the question if the S&P 500 is no longer the diversified investment it once was.
- **Private equity sponsors remain under pressure to return capital.**
 - In all the noise around direct lending, it is important to remember who these funds are lent to – private equity. Much of the pain that could be felt across private credit will be even more impactful for private equity funds, particularly those sponsors over indexed to AI-affected sectors such as software or business services, or heavily reliant on cheap debt / capital markets to fund aggressive roll-up strategies and addbacks.
 - After a generational bull market run through 2021, many private equity firms have struggled to return capital on investments made during the inflated pandemic environment. A common mistake across many 2020–2021 vintage funds was the capitalization of temporary pandemic distortions into perceived durable run-rate earnings. While the specifics vary by investment, examples include assuming low rates over the long-term, capitalizing goods spending that was diverted from services during lockdowns, a stimulus induced bump in consumer discretionary spending, and software growth rates that were pulled forward in a remote environment. Emerging AI risks will further stress software and services, an important part of the private equity market and further challenge exits given increasing uncertainty around terminal values.
 - This cohort of pandemic-era deals is now approaching maturity, contributing to a sizable maturity wall in 2027, 2028, 2029 that may prove increasingly difficult to address. Private credit had previously been the release for cuspiers or overlevered broadly syndicated loan deals – that route looks more challenging,

²³ Source: UBS Leveraged Loan Index. As of May 20, 2026

²⁴ Source: JPM. As of May 9, 2026.

²⁵ Source: JPM. As of May 1, 2026

²⁶ Source: JPM. As of May 1, 2026

²⁷ Source: Bloomberg. ‘Volatile Chipmaker Stocks Emerge as Key Driver of S&P 500 Rally’. May 17, 2026.

²⁸ Source: Wall Street Journal. May 2026. ‘The Furious Chip Rally Was Petering Out. Now Wall Street Turns to Nvidia.’ May 20, 2026.

particularly for software and services businesses that many investors are now actively seeking to reduce exposure to.

- We expect stressed amendments, extensions, and defaults to increase across these cohorts. At the same time, questions remain around whether sponsor marks fully reflect the underlying challenges facing certain portfolio companies. As maturities approach, it will become more difficult to maintain the appearance that underperforming investments remain sound. As the prospect of incentive carry evaporates from these vintages, and existential questions are raised, we expect to see more aggressive behavior and LMEs from sponsors – cornered animals are at their most dangerous.
- ***Dispersion in how managers value Level 3 assets is hurting investor confidence in private funds.***
 - Year-to-date, AI driven concerns about software and numerous headlines around private credit, redemptions and mark-downs have crushed retail sentiment on direct lending. Much of the scrutiny has been tied to valuations on Level 3 assets (illiquid, mark-to-model, no transparent market pricing). That is not to say these assets are inherently bad, but market concerns seem to be driven by fears around the opacity and the risk of future write-downs. Most listed BDCs (permanent capital with no redemption mechanics) share prices have declined significantly and are trading at large discounts to NAV (with some vehicles exceeding 40%), indicating investor skepticism around such valuations, and concerns on the outlook. By contrast, Level 1 and Level 2 assets tend to provide greater transparency given their reliance on observable market inputs and more active price discovery.
 - We have seen Q1'26 reporting from several BDCs which has highlighted meaningful dispersion in how managers are valuing assets. Across the public BDC universe, we have observed instances where second-lien and preferred securities are marked at valuations that we view as more appropriate to pricing of the first-lien debt issued by the same borrower. Further, we've also observed examples of public BDCs carrying equity positions at valuations that appear inconsistent with the pricing implied by the debt stack. First-lien debt is actively traded and therefore Level 2 inputs are used to value these securities, while second-lien, preferred, and equity securities are not actively traded and therefore rely on Level 3 valuation methodologies. Under normal circumstances, if first-lien debt is trading at a meaningful discount, one would generally expect second-lien securities to trade at an even steeper discount, with preferred and equity tranches reflecting primarily option value. Given the opacity and lack of public information available surrounding private borrowers, we suspect these types of valuation discrepancies may be fairly widespread.
- ***Not all software lending is the same and we believe it will drive dispersion in outcomes.***
 - We believe first-lien senior secured lending to cash flow generative established software platforms with a moat, remains a defensible strategy. Our greatest concern lies with Annual Recurring Revenue Loans ("ARR loans") which have historically lent to higher growth but not profitable companies, and subordinated/mezz investments that relied exclusively on enterprise value/loan-to-value coverage to justify the investment case.
 - Uncertainty has increased and public market valuations in software have compressed significantly. The "halo" around software and the historical stability of recurring revenue models is being called into question. In an environment where there are now terminal value questions on software, being able to service debt from cash flow and deleveraging through organic growth and excess cash flow will be important to preserving credit quality.
 - ARR loans often underwrote the recurring, historically stable nature of software revenue, as opposed to underwriting to traditional EBITDA or cash flow metrics. Many of these loans were PIK due to the borrower being unable to service the debt from internally generated cash flow. Second-lien or unsecured loans usually have elevated loss given default due to their subordinated profile and appear to be significantly exposed to the valuation re-rating in software.

Sector Views and Earnings Commentary²⁹

Financial Services

- Operating performance remains strong, with positive secular trends intact. The sector has been relatively insulated from tariffs, supply chain disruptions, and broader geopolitical risks.
- Insurance brokerage growth is moderating as pricing, particularly in property, softens. Moderate growth is expected in 2026 with increasing dispersion in performance across firms, prompting more hiring and a greater focus on integration over M&A. Specialty commercial brokers are viewed as more resilient to AI disruption than personal lines.
- RIA platforms continue to benefit from inflows driven by growth in the independent channel, with increasing integration and standardization of advisor teams. Independent broker-dealers are investing more heavily in RIA capabilities as the hybrid models become more prevalent. Firms serving higher-net-worth clients are viewed as more resilient to AI disruption, consistent with prior robo-advisory trends.
- Fund administration growth has slowed due to weaker fundraising but remains firm. Companies are leveraging AI to enhance service quality rather than compete on prices and the sector continues to command premium valuations.
- Fintech and payments performance remains stable, with SMB digitization and e-commerce growth helping to offset consumer weakness.

Energy

- While Middle East disruptions have driven a surge in energy prices, pushing oil markets into a near-term supply deficit and improving economics for U.S. producers, producers remain disciplined and focused on cash flow over growth. The sector's stronger financial position supports attractive investment opportunities, with a preference for less commodity-sensitive midstream and LNG export players, which are benefiting from global supply disruptions.

Utilities and Power

- Independent power producers remain strong performers, benefiting from AI-driven data center demand and a resurgence in power consumption. Robust M&A activity and rising asset valuations reflect tight supply and increasing build costs. Supportive capacity pricing and regulatory developments are expected to sustain earnings and cash flow visibility in the coming years.

Gaming/Lodging/Leisure

- Leisure demand remains generally healthy, particularly at the high end, though we have reduced our exposure due to geopolitical risks and higher fuel costs. Gaming and online betting show stable to growing performance with a focus on profitability, while lodging and cruises remain strong, supported by premium demand and pricing power. Overall, the sector is resilient but faces potential headwinds from fuel prices, regulation, and geopolitical uncertainty.

Aerospace & Defense

- Commercial aerospace ended 2025 on a strong footing, led by the aftermarket (especially engines), with demand driven by aging fleets and ongoing maintenance needs. Original Equipment Manufacturer ("OEM") production improved but remains constrained by supply chain issues. Defense remained solid, with strong demand for munitions, missiles, shipbuilding, and advanced electronics, while services and government IT lagged. The H1'26 outlook remains positive; however, risks are increasing from higher fuel prices and geopolitical factors, which could temper aftermarket growth. Civil contracting is still weak but has stabilized after prior cuts.

Airlines

- Large carriers continue to perform well, driven by a "K-shaped" demand environment where premium and corporate travel are leading. Meanwhile, leisure demand is more mixed, particularly at the lower end, with some softness tied to geopolitical factors. Overall demand is resilient but clearly bifurcated. Rising jet fuel prices now present a major risk, putting pressure on margins as fare increases are unlikely to fully offset costs, especially for lower-cost carriers with less premium exposure.

²⁹ Sourced from the relevant company's earnings reports and filings.

Telecom/Cable

- The telecom/cable sector remains stable but highly competitive, with cable operators facing subscriber pressure from fiber and wireless alternatives. Our focus is on larger, lower-leverage players with strong networks and pricing power, while ongoing consolidation is expected to drive M&A activity.

Healthcare

- In an effort to strengthen drug pipelines, several pharmaceutical companies pursued acquisitions, financing through leveraged markets at attractive pricing. While healthcare earnings were generally strong, softer demand in certain areas (e.g., OTC drugs, hearing aids, and elective procedures) reflected pressure on lower- and middle-income consumers. Looking ahead, affordability concerns and policy changes may weigh on volumes, prompting companies to focus on productivity improvements to support growth.

Life Sciences

- Contract research organizations have shown improved performance, supported by strengthening demand trends. Biotech funding and pharmaceutical activity have stabilized, bookings have improved, and companies are signaling a stronger 2026 outlook, despite some revenue pressure from mix and pass-through headwinds. That said, AI disruption remains a key concern and has contributed to a significant drop in forward multiples. However, management teams generally view AI as a productivity enhancer, with cost savings likely re-invested into R&D. Firms with stronger data and platforms are better positioned, while more narrowly focused or highly levered players face greater long-term risk.

Healthcare Tech

- Healthcare technology has performed strongly, with solid growth driven by pricing, cross-sell, and new customers. While AI disruption is a concern, our focus remains on defensively positioned companies with high switching costs. The sector outlook is positive, supported by demand for efficiency tools, amid rising costs and staffing shortages.

Services

- Industrial business services remain relatively resilient, supported by pricing pass-throughs, aging infrastructure, and limited exposure to AI disruption. M&A activity is increasing amid stable valuation multiples, and a preference for established platforms over newer roll-ups. However, auto services face downside risks due to weaker volumes and potential declines in miles driven by higher energy costs.
- Professional services firms are performing steadily, with modest growth expected. AI remains a key focus, with larger, more diversified firms favored given their greater ability to invest in and adapt to evolving AI technologies.

Technology

- *General Software:* A more challenging macro environment over the past year, combined with several major AI announcements from Anthropic has increased negative sentiment across the sector. Investors are concerned that AI could both enable new, superior software products and reduce workforce needs, potentially lowering demand for software licenses and pressuring traditional Software as a Service (“SaaS”) business models. Specific to technology sub-sectors, we’ve shifted away from narrow point-solution providers, focusing instead on companies with entrenched data advantages, mission-critical products, less exposure to AI disruption, and business models tied to usage rather than seat-based pricing. Software companies are responding to the AI threat by leveraging existing customer relationships, embedding AI into their products, and offering usage-based contract structures (vs. per seat contracts). The ultimate impact is unlikely to be clear for another three to five years, given the duration of existing customer contracts and the general reluctance to switch software vendors.
- *Cyber Security:* AI is generally seen as a tailwind for cybersecurity vendors, as it increases both the volume and sophistication of attacks, with a preference for best-in-class providers in specific niches. However, new emerging AI tools, such as Anthropic’s Glasswing and Mythos, are creating uncertainty about whether they will disrupt existing solutions or further expand cyber risks. On the consumer side, rising threats such as identity theft and deepfakes are driving demand for enhanced protection tools, with companies like Gen Digital and McAfee positioning their offerings as comprehensive whole family cyber and ID protection.³⁰

³⁰ Sourced from the relevant company’s earnings reports and filings.

- **Hardware:** AI-driven data center expansion has boosted hardware demand, particularly in semiconductors, networking, and memory, benefiting companies like MKS, Ciena, and Coherent.³¹ Growth is driven by large tech firms building infrastructure for AI models, alongside an ongoing shift to the cloud. Strong demand has also driven up memory prices, impacting device costs across servers, PCs, and smartphones.
- **IT Services:** IT services companies are performing well, although AI remains a concern, particularly for headcount-based contracts. In response, companies are positioning AI as a demand driver while shifting toward fixed-price, outcome-based models and using AI to manage costs and protect margins.

Industrials

- Q4'25 results were broadly in line with expectations, with modest volume declines offset by pricing gains, partly driven by tariff pass-throughs. While certain end markets remain strong, others continue to face pressure into 2026. Growth expectations have softened due to geopolitical risks, with a delayed recovery now anticipated. Rising costs, capex delays, and softer European demand present additional headwinds.

Media

- U.S. advertising remains strong and is expected to benefit from major events in 2026. Media M&A activity is robust, with large deals highlighting demand for high-quality content and IP, which are viewed as relatively resilient to AI disruption. The sector has limited exposure to Middle East tensions, with only minor and temporary impacts on event-driven revenues.

Education

- AI presents both an opportunity and a disruption risk, but many incumbents are strengthening their positions by launching their own AI products. Companies like McGraw³² are benefiting from strong adoption, leveraging proprietary data, customer relationships, and trust to stay competitive against newer AI-native entrants.

Retail

- Retail performance has remained resilient, with strong holiday spending and effective cost management despite tariffs. However, pressure on lower-income consumers is growing, while potential tariff relief could provide some support. Middle East tensions pose a risk mainly through higher oil prices and potential impacts on consumer confidence.

Food

- Food volumes remain weak due to inflation, consumer trade-down, and the impact of GLP-1 drug adoption. Packaged food companies continue to face challenges, relying on promotions and M&A to support demand, while health-focused products are outperforming. Quick Service Restaurants face flat traffic and heavy competition for value-conscious consumers, with stronger players benefiting from targeted offerings. Overall, our focus is on higher-quality, diversified companies less exposed to consumer pressure.

Consumer

- Consumer performance was mixed in Q4'25, driven by tariffs, soft sentiment, and uneven spending patterns. While essentials remain stable, consumers are cutting back on discretionary items, trading down, and seeking value. Promotional activity is increasing to support demand, and a broader slowdown in big-ticket spending is expected, although tax refunds are providing a temporary boost.

Metals & Mining

- Metals and mining results were stable, but volatility and higher prices amid geopolitical tensions are increasing, particularly in aluminum. We favor companies with strong pricing power and demand-driven exposure, which should benefit from higher prices. There is a risk that downstream industries will be negatively impacted by metal price inflation.

³¹ Sourced from the relevant company's earnings reports and filings.

³² Sourced from the relevant company's earnings reports and filings.

Auto / Industrial

- Demand in aftermarket auto and industrial sectors remains soft, with consumers delaying purchases and trading down. OEM-related businesses are more resilient, though headwinds from supply disruptions and rising costs persist. Growth in 2026 is expected to be modest, with gradual improvement over time despite near-term margin pressure and macro uncertainty.

Packaging

- Volumes have remained weak due to post-COVID normalization, consumer pressure, and softer economic conditions. Performance is mixed, with diversified, consumer-focused players holding up better than more cyclical segments. Rising oil prices are testing cost pass-through mechanisms, with timing delays posing near-term margin risks despite expectations of eventual cost recovery.

Housing

- Housing results remain weak amid macro uncertainty, high rates, and geopolitical impacts, leading to reduced construction activity and low consumer confidence. A recovery in 2026 now appears less likely. Rising costs and limited affordability are expected to further pressure demand, with relatively better positioning for vertically integrated players and distributors with pricing power.

Chemicals

- Chemical markets weakened in late 2025 due to soft demand and low-cost Asian supply, but post-Iran War disruptions have temporarily boosted U.S. based producers, who have been able to raise prices amid limited competition and access to low-cost natural gas. However, higher energy costs risk dampening demand in key end markets in autos, industrials and construction. We favor specialty chemical companies with pricing power and distributors who will benefit from rising prices and supply chain challenges.

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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.