

# Onex Credit Market Update & Sector Commentary

## Q4 2025

### Key Macro and Economic Themes

- **While macroeconomic data still looks stable, the sparse data provided during the government shutdown has made it more challenging to interpret.**
  - The longest government shutdown in US history (43 days)<sup>1</sup> limited access to and lowered the quality of key economic data. The Bureau of Labor Statistics did not collect or release inflation and employment data for October.<sup>2</sup> This left the Federal Reserve (the “Fed”) in an information vacuum leading into their December meeting, during which they ultimately decided to cut rates by another 25bps. Further, certain data released in November required more assumptions than normal to interpret and response rates were lower with a higher standard error. For example, since the Bureau of Labor Statistics was not able to collect data on October rents, it simply carried forward previous numbers unchanged rather than estimating an increase<sup>3</sup>, essentially assuming a zero contribution from housing to CPI.
  - December non-farm payrolls rose 50k during the month, demonstrating stabilization relative to the summer choppiness. The unemployment rate remained largely unchanged month-over-month at 4.4%, higher relative to the prior few years but still low in absolute terms. Average hourly earnings grew 3.8% year-over-year, indicating reasonable economic performance.
- **Soft macroeconomic indicators appear weaker than the hard data, though the overall signal remains mixed.**
  - The University of Michigan Consumer Sentiment Index reading is worse than even in 2008 and near the historic lows reached in 2022.<sup>4</sup> Despite year-over-year inflation having seemingly stabilized, the cumulative increase of prices relative to pre-pandemic levels is weighing on consumer sentiment. The percentage of consumers citing high prices as the primary driver for poor personal finances remains near the highs set in 2022.
  - Recent levels of the ISM Manufacturing Purchasing Managers' Index has been notably weak, ending the year with the lowest reading of the year of 47.9, marking the 10<sup>th</sup> consecutive month of contraction (and 36 of the past 38 months)<sup>5</sup>. Severe challenges in chemicals and weak housing demand have been meaningful contributors, but the softness is broad-based. Consumer and electronics products remain a lone bright spot, largely supported by the data center buildout. The potential silver lining is that the broader economy has held up despite this weakness, suggesting that any improvement in manufacturing health could serve as a broader tailwind.
  - Conversely, US services data has remained firmly in expansion territory. December ISM services reading came in at 54.4, marking its 10<sup>th</sup> consecutive month of expansion and its highest level of the year.<sup>6</sup> As services account for a significantly larger share relative to manufacturing in terms of GDP contribution, these readings are consistent with an overall resilient economy.
- **Despite mounting challenges, consumer resilience continues to support the US economy.**
  - Despite the weak sentiment indicators and ongoing affordability challenges, the US consumer has remained highly resilient. Mastercard reported that US Black Friday retail sales were up 4.1% year-over-year<sup>7</sup>, noting that consumers are showing “incredible savviness” – shopping earlier, leveraging promotions, and prioritizing wish-list items.
  - There has been considerable discussion around a “K-shaped” economy<sup>8,9</sup>, with even Fed Chair Powell acknowledging that it is “clearly a thing”.<sup>10</sup> We are seeing clear evidence of this dynamic in the earnings reported by our borrowers. Companies targeting the higher income consumer are outperforming, as are those geared towards the value segment, while businesses positioned in the “middle” has faced the greatest

<sup>1</sup> Source: Reuters. As of November 13, 2025.

<sup>2</sup> Source: U.S. Bureau of Labor Statistics. As of January 20, 2026.

<sup>3</sup> Source: The Wall Street Journal. As of December 30, 2025.

<sup>4</sup> Source: University of Michigan. As of January 20, 2026.

<sup>5</sup> Source: PR Newswire. As of January 5, 2026.

<sup>6</sup> Source: Institute for Supply Management. As of January 7, 2026.

<sup>7</sup> Source: Mastercard. As of November 29, 2025.

<sup>8</sup> Source: The New York Times. As of December 19, 2025.

<sup>9</sup> Source: Quartz. As of January 8, 2026.

<sup>10</sup> Source: Yahoo Finance. As of December 11, 2025.

challenges. Wealthier consumers are benefiting from elevated asset prices and greater savings and discretionary income, providing greater flexibility to absorb rising costs. Delta recently highlighted that premium cabin revenue is on track to overtake coach.<sup>11</sup> Lower-income consumers, by contrast, have limited equity market exposure and are not benefiting from rising prices to the same extent. While they continue to spend, pressure is evident as necessities crowd out discretionary income, driving trade-down and value-seeking behavior.

- ***The economic outlook remains murky, with risks skewed to both the upside and downside.***
  - While our base case assumes a continued deceleration of growth in H1'26, a natural bias to be more bearish for credit investors, we acknowledge there are potential positive tailwinds. Low unemployment and rising income continue to provide a solid foundation for the US economy. Consumers are also expected to benefit from fiscal support via tax, which is projected to increase by 18% (\$65 billion) in 2026<sup>12</sup>, with the potential for additional measures to follow.
  - Geopolitical and policy developments remain wildcards, with the recent US actions in Venezuela<sup>13</sup> and threats against Iran<sup>14</sup> serving as a clear reminder of the latent risks. While financial markets have generally proven resilient to headlines, the sharp selloff in April 2025 following “Liberation Day” remains in the back of investors’ minds.
  - Trade policy uncertainty remains an overhang, as the US Supreme Court could rule that President Donald Trump’s trade tariffs are illegal, which would throw up another hurdle for his plan to acquire Greenland.<sup>15</sup>
- ***The “policy put” is likely back in play if we see signs of substantial economic deterioration.***
  - The Fed retains tools to support the economy through lower rates and potentially even quantitative easing. Jerome Powell’s term as the Chair of the Fed ends in May. President Trump announced he is nominating Kevin Warsh to be the new Chair.<sup>16</sup> The announcement drove a sharp correction in precious metals given some of Warsh’s previously articulated views on the Fed balance sheet. Despite this, the President has indicated many times his preference for lower rates, and we think it’s unlikely he picked Warsh without having alignment on the issue. While the Chair will still need to build consensus across a divided Fed board, we believe the Federal Funds Rate is likely to continue trending lower if inflationary pressure eases. We are still not convinced that inflationary pressure is behind us, which will impact the longer-term direction of rates.
  - President Trump and the Republican-controlled congress should be highly incentivized to prevent significant economic weakness ahead of the midterms. In addition to the stimulative effects of tax refunds related to the “One Big Beautiful Bill Act”, President Trump has stated a desire to pay out a “tariff dividend”.
  - The administration appears increasingly focused on “affordability”, with major policy actions targeting housing.<sup>17</sup> The President ordered Fannie Mae and Freddie Mac to buy \$200 billion in mortgage backed securities to lower mortgage rates by boosting demand, a policy mechanism with similarities to Fed quantitative easing programs, though, unlike the Fed, these government-sponsored enterprises do not control the money supply. This news comes the day after President Trump announced his goal of preventing institutional investors from buying single-family homes. Similar policy action ahead of the midterm elections would be supportive to the consumer and could provide upside.

## Market Observations and Commentary

- ***The recent selloff in software is a risk to credit markets and will likely create opportunities in 2026.***
  - Equity market pricing in software has been a notable underperformer to begin 2026, with the software ETF (IGV) lagging the S&P 500 by ~16% in January alone.<sup>18</sup> Software stocks had already underperformed in 2025, and the release of Claude Cwork was the latest negative catalyst to impact sentiment.<sup>19</sup> The selloff has been broad-based rather than company specific, impacting a wide range of software names. To us, this drawdown feels meaningfully different than in 2022, with valuations now implying more significant secular concerns on software. For example, a bellwether software company, such as Salesforce, is trading at ~11x 2026 Bloomberg

<sup>11</sup> Source: CNBC. As of October 9, 2025.

<sup>12</sup> Source: BofA Securities. As of November 19, 2025.

<sup>13</sup> Source: BBC. As of January 4, 2026.

<sup>14</sup> Source: The Wall Street Journal. As of January 30, 2026.

<sup>15</sup> Source: Fortune. As of January 19, 2026.

<sup>16</sup> Source: The Wall Street Journal. As of January 30, 2026.

<sup>17</sup> Source: Fox News. As of January 5, 2026.

<sup>18</sup> Source: Bloomberg. As of January 30, 2026.

<sup>19</sup> Source: The Wall Street Journal. As of January 17, 2026.

consensus EBITDA, despite ~10% revenue growth in both 2026 and 2027.<sup>20</sup> This raises broader valuation concerns across the sector – particularly given that many private equity transactions were executed at richer multiples for companies with lower growth and weaker cashflow profiles.

- We see several key concerns weighing on the sector: i) AI is crowding out incremental software spending within IT budgets, leading to decelerating growth rates, particularly for new logo wins, ii) AI is lowering barriers to software creation, potentially eroding the competitive moats around existing SAAS providers, iii) AI-driven labor displacement could create a headwind for per-seat models, and iv) structural workflow shifts toward AI agents may reduce reliance on traditional software applications.
- The first concern aligns with what we are hearing from our management teams today, though we view this as largely an equity-holder issue for most companies. Slowing growth is unlikely to impair otherwise performing credits, with the impact more punitive for “ARR” loans and borrowers that can’t service interest expense in cash. We have not seen evidence that AI is cannibalizing existing software spend; however, there appears to be a higher bar for onboarding new vendors. The second risk is plausible, but outcomes are likely to vary widely across companies. The level of integration into workflows, cost of failure, cost/complexity to rip and replace, risk tolerance of the buyer, and control of existing customer data are several factors that will likely influence ultimate customer decisions. We continue to believe that embedded infrastructure software carries lower displacement risk, while more simple point solutions without data control are most likely at risk of disruption. On the third point, we view this as a modest potential headwind as AI drives efficiencies, but we are not anticipating a large-scale decline in seat counts and the resultant widespread unemployment. The fourth point lacks clear evidence today, though the pace of technological change increases uncertainty around long-term outcomes.
- Taken together, we continue to believe the credit case for most software remains sound. However, the investment framework must be adapted given the valuation moves we are seeing in public markets. Equity markets are indicating that the longer-term risk to the business model has gone up and the range of outcomes is wider, which requires higher credit risk premiums. It also necessitates greater selectivity around LTVs, particularly for buyouts completed in a materially different valuation environment. As a result, stress is increasing for those issuers that are highly levered, reliant on valuation support, and/or are unable to service their interest burdens without PIK features or capital markets access.
- These risks are compounded by the sheer size of software within the loan market. BAML research estimates 20% of private credit and 14% of the broadly syndicated loan market is “technology”.<sup>21</sup> This likely understates true exposure, as it excludes vertical software serving end markets such as insurance or healthcare IT, implying indirect exposure is even larger. Some of these issuers in the direct lending market are “ARR” loans, where lenders underwrote the stability of recurring revenue, as opposed to more traditional EBITDA or cash flow metrics.
- ***Demand for credit remains voracious, driving significantly tight spreads and challenging technicals.***
  - Credit indices performed well in 2025 with the JPM Loan and High Yield indices returning +6.0% and +9.0%, respectively.<sup>22</sup> Spreads for the majority of credit asset classes, including investment grade, high yield, leveraged loans, and CLO liability spreads, are near multi-decade tights.<sup>23</sup> The recent decline in Treasury yields and SOFR forwards has pressured all-in yields, which in many cases now sit below historical averages across asset classes. This dynamic is not unique to just credit, as global asset prices are generally high, and risk premiums are broadly low.
  - CLO formation in 2025 remained strong and exceeded the 2024 record. Notably, new broadly syndicated loan CLO issuance totaled \$168.9 billion in the US and €59.3 billion in Europe, surpassing 2024 records of \$163.2 billion and €48.2 billion, respectively.<sup>24</sup> Loan issuance ex-refinancings and recapitalizations improved in 2025 relative to 2024, but continued to trail CLO issuance during the year. Ongoing loan downgrades continued to drive net migration towards the Triple-C rated bucket, further shrinking the investible universe for CLOs. The loan market remains starved for higher quality loans, reinforcing tight technicals. While the primary loan calendar has been very active to start the year, it remains to be seen if buyout activity and new supply will significantly tick up in 2026.

<sup>20</sup> Source: Bloomberg. As of January 30, 2026.

<sup>21</sup> Source: BofA Securities. As of January 29, 2026.

<sup>22</sup> Source: J.P. Morgan. As of January 5, 2026.

<sup>23</sup> Source: Goldman Sachs Research. As of January 8, 2026.

<sup>24</sup> Source: J.P. Morgan. As of January 27, 2026.

- 2025 was a very strong year from a gross issuance standpoint, generally a solid year from a performance perspective across most asset classes, with the notable exception of tail credits, which in turn resulted in mixed performance for CLO equity. For the CLOs that had to contend with both i) spread repricing on most of their portfolio and ii) losses on the bottom stressed portion of their portfolios, equity suffered the most. As we have consistently cautioned, discipline in credit selection has become increasingly critical as the margin for error has narrowed. We entered the year expecting, and are now observing, an elevated level of CLO liquidations. A volatile 2025 backdrop, combined with a persistently strong bid for higher quality, performing loans and a meaningful subset of CLO equity trading at discounts to NAV in the secondary market, is driving this dynamic. CLO liquidations return loan supply to the open market while also releasing cash back to CLO investors. Liability spreads have rallied to start the year off the back of i) a cooling in expectations for the amount of rate cuts, ii) the Trump Administration’s measures for improving home affordability, highlighted by the purchase of \$200 billion mortgage bonds, and iii) sufficiently strong economic data that has helped stabilize the macro outlook. CLO liability spreads are now broadly in line with where they were in Q1 2025. Importantly, however, the loan market has lost almost 40bps of spread since that time<sup>25</sup>; therefore, we believe there’s still some “wood to chop”. Taken together with a building private equity / M&A pipeline, we expect CLO arbitrage to improve in the medium term, while acknowledging that we will likely see loan spreads reprice tighter again in the near term.
- **Market remains highly bifurcated between the “haves” and “have nots”.**
  - Despite the solid index-level performance, this has not felt like a market characterized by unleashed animal spirits or indiscriminate risk-taking. Rather, market technicals appear to be relentlessly pushing the average performing credit tighter but leaving behind a large tail of more challenged credits. As of mid-January 2026, just under 65% of broadly syndicated loans were trading above par, a fresh 11-month high, even as the distressed leveraged loan universe has risen to a 25-month high.
  - Dispersion has been a common theme in the loan market for several years, but the return divide between higher- and lower-rated credits significantly widened in 2025. Specific to 2025 performance of the JPM Loan Index, split B/CCCs returned -2.7% and lagged BBs by almost ~900 bps.<sup>26</sup> The spread between split-B/CCCs & Bs is at its highest since the 2020 pandemic and well beyond the levels seen during the 2022 inflation shock.
- **Investors have to choose between maintaining underwriting standards and preserving portfolio yields.**
  - We continue to view credit as an attractive asset class, particularly relative to other asset classes suffering from similarly compressed risk premiums. While lower base rates and tighter credit spreads will definitionally compress forward returns, we continue to source compelling opportunities across performing, structured and private credit markets and expect volatility to persist in 2026, underscoring the importance of an actively managed, disciplined approach to portfolio management.
  - Aggressively reaching for credit risk, materially increasing portfolio leverage, or investing in unproven products that have not demonstrated through-cycle resiliency in order to artificially sustain the yields of the last few years do not appear prudent. Credit investment managers who suggest otherwise are likely to suffer if the credit cycle turns.
  - Despite our concerns around underwriting standards in certain segments of the market, we do not see systemic risk (although continued pain in Software / Tech is raising our concern level). Private credit, as a concept, is generally healthy – shifting risk to investors and away from levered bank balance sheets enhances the overall resilience of the financial system.
- **Sometimes accepting the upfront pain to achieve a clean break may be the right long-term answer.**
  - We discussed some of the red flags and challenges with First Brands in our prior Q3’25 quarterly credit commentary. Despite these challenges, investors funded \$1.1 billion DIP financing into what their own lawyers called a “black box”<sup>27</sup> in order to defend their existing positions. Unfortunately, the business failed to stabilize following the capital infusion and the company now may require another \$800 million of capital to fund operations. The legacy term loan is trading near zero, and the new money DIP is quoted near ~15 cents on the dollar.<sup>28</sup> This liquidity need will likely be funded by priming the existing DIP and will likely be highly dilutive to investors who don’t participate. Lenders now face the same decision they had a few months ago, continue to fund a deeply challenged situation, or walk away and crystalize a heavily impaired outcome.

<sup>25</sup> Source: S&P UBS Leveraged Loan Index. As of January 23, 2026.

<sup>26</sup> Source: J.P. Morgan. As of January 5, 2026.

<sup>27</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>28</sup> Source: Bloomberg. As of January 30, 2026.

Selling the loans at cents on the dollar was hardly a desired outcome but appears prudent relative to the negative implied value for the lenders who participated in the DIP. The Company announced it had commenced a wind down of several business units, indicating that creditors seem to be willing to crystallize at least some losses.

- Beyond First Brands, we’ve recently seen distress within a number of DIP or super priority new money financings, such as Ascend, Trinseo, Saks, and Empire Today. These names have traded down significantly despite being marketed as low-risk rescue financing. These examples serve as a stark reminder to avoid throwing good money after bad names and underscore the importance of business quality in lending – a senior position on the balance sheet matters little if a business isn’t performing.
- **Mispriced or hidden risks are more dangerous to a portfolio than well-understood, known risks.**
  - In a market starved for spread, we are seeing anecdotal signs that some market participants are more focused on perceived risk than actual risk. Price dispersion is exceptionally low in higher-rated performing credits, even if there may be significant fundamental differences in relative quality. At the same time, performing but highly levered companies and subordinated segments are being bid up in an effort to preserve yields, while other areas of the market exhibit heightened risk aversion. Second lien loan discount margins are close to their 10-year lows, but the spread between Split B/CCC rated loans versus B rated loans is near a 10-year high. We would argue that both segments are risky, but only one appears to be priced appropriately.
  - Technical pressure on CCC-rated loans is likely to intensify in the near term, but this dynamic may create opportunities for ratings-unconstrained funds. A significant number of CLO resets—and potentially liquidations—are expected in 2026. Managers often seek to clean up portfolios ahead of resets to improve execution on liabilities, which can lead to price insensitive sales of riskier credits. Dispersion is naturally higher in this segment of the market, creating real potential to add value for managers who can successfully pick credits.
  - While we continue to advocate caution in an exceptionally tight market, we also see emerging opportunities in discounted loans to higher-quality businesses with levered balance sheets that are facing technical selling pressures from ratings actions. This is not a contradiction, but rather an acknowledgement that a known investment risk can present an opportunity if it provides adequate (or better than adequate) compensation for those risks. The first wave of stress in 2022/2023 flushed out the weakest business models, while relatively higher quality names were afforded more time by rating agencies, particularly when expectations at that time were for rates to come down relatively quickly. As the downgrade cycle now extends to these credits, their comparatively stronger business quality may represent a compelling source of opportunity.
- **AI disruption risks are real, even if they are not yet visible in today’s numbers.**
  - In late Q3/early Q4 of last year, we saw an AI contagion spread through the market, with a number of names trading down several points on fears of business model disruption or disintermediation. Outside of a few names with more “obvious” AI risks, this selloff was relatively short-lived and quickly bought, as the market shifted its focus to more immediate risks.
  - Jeff Bezos has referred to the AI boom as a “good” kind of bubble.<sup>29</sup> We do not have a strong view on whether we are currently in an AI “bubble”, but the volume of investment—across capex intensity, venture capital fundraising, and corporate spend—is simply massive. It feels highly likely that this level of investment will have a significant impact on the global economy and wide-ranging implications for many business models. Our focus is less on whether a bubble exists (which in itself would likely have limited direct impact on our investments) and more on the tangible, longer-term consequences. It’s entirely possible to simultaneously have i) the development of highly impactful technologies and ii) a large investment bubble that ultimately destroys value for those investing in it.
  - As we touched on this dynamic in more depth in our Q3 credit commentary, we continue to view AI as largely a source of risk rather than opportunity for credit. By nature of the credit asset class, we are typically lending to more mature businesses that are providing value in today’s industry structure. AI startups and technological advancements can present challenges to legacy business models that are difficult to analytically map out and project. Managing these risks is more of an art than a science and requires a degree of imagination – traditional leverage and cash flow metrics have limited usefulness to this type of risk. By the time these risks are fully reflected in the numbers, it will likely be too late to react.

<sup>29</sup> Source: Financial Times. As of October 3, 2025.

## Sector and Earnings Commentary

**Technology: AI is crowding out new software spend with embedded providers being prioritized based on “necessity”. Retention rates have not declined materially, but new logo growth is slowing significantly.**

- A key continuing theme is deal elongation, with the trend appearing to have worsened marginally in H2’25. AI-related spending is crowding out other capex/IT spend, and companies across our coverage have noted increased cost. Morgan Stanley conducted a recent survey across a universe of CIO’s and found that AI/machine learning is the top spending priority, followed by cyber software, digital transformations, enterprise resource planning, and BI/analytics.<sup>30</sup> Even in a more discerning tech spending backdrop, maintained operational IT environments remain critical, and we have seen limited impact to retention rates. The impact to mission critical infrastructure has largely been limited to slower new logo wins, while discretionary point solutions have experienced more mixed performance. Cybersecurity continues to grow as a category, but remains highly competitive with best-of-breed solutions taking share.
- Outside of software, IBM mainframe computer sales were strong this quarter, up +61% year-over-year and have remained robust over the past two quarters.<sup>31</sup> In Q2’25, IBM Z revenue was up +70% year-over-year<sup>32</sup> – further evidence that the mainframe is not “dead.” Hardware equipment performance varied by end market. Semiconductor equipment demand was strong, driven by AI-related use cases like memory, networking and computing. Industrials were mixed, with autos still challenged, but offset by stronger demand from life sciences and aerospace/defense markets. Demand improvement seems to be continuing in IT services driven by a combination of better demand and sustained spending trends in hardware and public cloud. That said, there have been some mixed signals over the past two quarters, with certain AI-related purchasing activity shifting from on-premises to the cloud.

**Consumer and Retail: The “K” shaped economy is evident, but the consumer has proven more resilient and retail earnings have largely held up better than previously feared.**

- Broad discretionary consumption continues to face pressure. Bath & Body Works, for example, saw contraction across all core categories and guided to sustained weakness until holiday discounts take effect.<sup>33</sup> Energizer also reported soft sales, with consumers delaying purchases of batteries and trading down to private label.<sup>34</sup> The bifurcation between higher- and lower-income consumers increasingly clear. Entertainment venues, such as Dave & Buster’s and TopGolf, provide a useful illustration: TopGolf, which skews toward higher-income consumers, has been able to turn traffic around after launching better promotions and deals, while Dave & Buster’s, with a more value-oriented customer base,<sup>35</sup> has struggled to retain traffic despite heavier promotional activity. Overall, consumers still want to go out and spend on experiences – venue services provider, Aramark, posted strong organic growth and record client retention levels.<sup>36</sup> In sum, Q3’25 results are indicative of a consumer that is filtering purchases through perceived necessity and value. Essentials and program-driven categories are demonstrating structural durability, while discretionary categories continue to experience uneven demand.
- Retail earnings have largely been more resilient than feared, particularly given concerns around tariffs and consumer softness. Consumers are being choiceful and value-oriented, but when retailers offer compelling price points, demand has held up well. Walmart beat expectations again in Q3 by emphasizing value and attracting higher-income cohorts.<sup>37</sup> In contrast, big ticket categories remain soft as reflected in Home Depot’s results.<sup>38</sup> Value retailers, including dollar and discount stores, continue to outperform.<sup>39</sup> We expect the value segment to continue leading in 2026 amid a volatile, headline-driven macro environment.
- Tariffs had a more pronounced impact in Q3 compared with the first half of 2025. While margins were pressured, retailers generally managed the cost headwinds effectively by shifting sourcing away from higher-tariff regions such as China, negotiating shared cost burdens with vendors, and selectively passing price increases through to consumers. Most retailers expect tariff impacts to become more pronounced in Q4. While we are not overly concerned at this stage, we are monitoring developments closely.

<sup>30</sup> Source: Morgan Stanley. As of July 18, 2025.

<sup>31</sup> Sourced from the relevant company’s earnings reports and filings.

<sup>32</sup> See note 19.

<sup>33</sup> See note 19.

<sup>34</sup> See note 19.

<sup>35</sup> See note 19.

<sup>36</sup> See note 19.

<sup>37</sup> See note 19.

<sup>38</sup> See note 19.

<sup>39</sup> Source: Dollar Tree, Savers Value Village and Walmart earnings reports and filings.

***Food and Packaging: “Value” seeking behavior remains the dominant theme with consumer-packaged goods (“CPG”) volume headwinds weighing on packaging.***

- The CPG landscape remains characterized by sustained volume softness as consumers continue to trade down to private label, extend replenishment cycles, and reduce discretionary grocery spend. Entering Q3’25 earnings, expectations were for some improvement as lapping effects eased, and while this did result in marginally better unit trends across several categories, the quarter ultimately reaffirmed that core demand remains structurally weak. Consumers’ increasing focus on value continues to constrain branded growth in favor of private-label and suppress merchandising intensity. CPG service provider, Advantage Sales, recording a 12.8% year-over-year decline in its branded service segment is an indication of the weakness in the CPG eco-system.<sup>40</sup> At the same time, health, wellness, and protein-based categories have maintained structural demand despite a stretched consumer, defying broader center-store softness throughout the year, as evidenced by yogurt’s strong topline growth. Food service remains broadly resilient with distributors (e.g., US Foods, Sysco)<sup>41</sup> continuing to post moderate—albeit slowing—case volume growth, and suppliers to QSRs and restaurants in our portfolios reporting stable earnings as value offerings help offset soft traffic trends.
- Q3’25 earnings reflected a continuation of recent trends, with consumers still spending but increasingly discerning, and traffic remaining anemic across the broader quick service restaurant (“QSR”) and restaurant industry. Value offerings continue to resonate; for example, McDonald’s aggressively expanded value meals in Q3 and was rewarded with positive and sequentially improving same-store sales.<sup>42</sup> Amid heightened value competition, operators are navigating a terrain of unpredictable input costs, particularly for proteins. Elevated beef and cocoa costs compressed margins for several chains during the quarter. Consistent with consumer sector commentary, brand resonance has emerged as a key differentiator, with concepts that have strong positioning and menu relevance continuing to gain share despite weak traffic. Taco Bell remains the standout performer, delivering consistently strong results across franchise operators and reaffirming that value-forward innovation can still drive healthy volumes.<sup>43</sup> Concepts such as Wingstop are sustaining their top-line growth through aggressive unit expansion<sup>44</sup>, betting that strong brand equity will further embed them in the consumer ecosystem. Overall, Q3 reaffirmed a soft demand backdrop for restaurant spending, with winners skewing toward value (e.g., McDonald’s, Chilli’s) or brands offering consistent newness (e.g., Taco Bell).<sup>45</sup>
- Packaging trends were consistent with the soft environment seen in recent quarters, though modest sequential improvement was evident in Q3. Sector-wide volumes remain weak, particularly in food and beverage end-markets, as consumers remain cautious and are trading down. The raw materials backdrop remains stable, supporting improved incremental unit margins, but not enough to fully offset volume headwinds. Given generally leveraged balance sheets, we are selective in our positioning within the sector, favoring names that have idiosyncratic tailwinds such as market share gains, tangible cost-savings execution, or strong pricing power.

***Industrials: Overall performance has been more resilient than many expected. Pricing continues to offset sluggish volumes and tariffs have largely been passed through. Notable strength within AI-exposed markets is offset by broad-based weakness in other manufacturing segments. Housing and Chemicals remain notable areas of weakness.***

- The combination of elevated interest rates, trade policy uncertainty, and tariffs has kept customer demand choppy across both the US and Europe. End markets such as commercial vehicles and non-residential construction have shown improvement, agricultural remains mixed, while industrial automation, electronics, and machinery continue to be weak. Against a backdrop of softer volumes and cost increases from tariffs, companies have focused on optimizing their cost structure. Moderating raw material prices and lower operating costs have driven EBITDA improvements despite the soft demand environment. Most of our manufacturing investments provide critical components/products for end customers, enabling pricing power to largely pass through or mitigate tariff impacts. The majority of companies we lend to are either breakeven on price versus cost inflation or expect to be by year-end.
- Industrials exposed to the data center supply chain tailwinds have experienced meaningful valuation expansion and increased deal activity. A notable M&A transaction in Q4 was Eaton’s \$9.5 billion acquisition of Boyd Thermal’s business. Subsequent to Schneider Electric investing in Motivair in late 2024, the company in Q4 2025 signed \$2.3

<sup>40</sup> See note 19.

<sup>41</sup> See note 19.

<sup>42</sup> See note 19.

<sup>43</sup> See note 19.

<sup>44</sup> See note 19.

<sup>45</sup> See note 19.

billion in supply agreements.<sup>46</sup> GE Verona expects to end 2025 with an 80GW gas turbine backlog that stretches into 2029 and anticipates turbine reservations through 2030 to be sold out by the end of 2026.<sup>47</sup> While we expect these tailwinds to persist near term, we have less conviction around long-term demand durability. As a result, we are more cautious on business models that are solely tied to new data center buildouts as long-term credit investments, favoring instead recurring and service-based businesses that will face more durable tailwinds from this buildout.

- Housing experienced a sequential step down versus 1H, driven primarily by lower housing starts as builders are slowing the pace of construction amid elevated inventories in the new and existing home markets. Product mix also remains a headwind as builders offer smaller home footprints and basic materials in new home designs. Results declined on a year-over-year basis broadly, with profitability deteriorating faster than sales as operating leverage pressures intensify given the prolonged downturn.
- Chemicals continue to face a challenging combination of weak demand (from housing and industrial end markets) and oversupply, particularly from new Chinese capacity. Specialty and downstream producers generally exhibit greater pricing power and gross margin stability, though these credits can still show volatility from volume declines and the associated operating leverage. Commodity chemicals typically lack pricing power and can be subject to heightened volatility on realized prices alongside volume pressure and negative operating leverage. European-exposed chemical producers remain challenged by elevated energy costs, though these pressures have moderated relative to prior years.
- Both housing and chemicals stand out as the weakest areas, though we selectively see opportunity in housing and specialty chemicals, while remaining particularly cautious on commodity chemicals. Demand issues faced in this sector typically rebound over time once the macro conditions driving weakness improve, whereas excess capacity / oversupply is often a much more painful and drawn-out recovery cycle. Many current challenges in commodity chemicals stem from significant capacity additions in China during the previous boom cycle, compounded by high shutdown costs and zero-sum capacity dynamics. We are focused on identifying companies with adequate liquidity to weather through conditions and defensible competitive positions. We favor businesses that have been able to demonstrate relatively gross margin stability, or even improvement, in this current environment and that are well positioned to participate in an eventual recovery.

***Autos and Consumer Durables: Demand trends remain mixed across consumer-exposed end markets, though management teams have indicated cautious optimism for 2026.***

- Trailer manufacturers and related suppliers continue to operate in a sluggish environment, though management teams highlighted sequential stabilization, disciplined production, and self-help initiatives across procurement and manufacturing footprints as key levers to protect earnings into year-end 2025. Most expect a more meaningful recovery as interest rates ease and consumer and housing demand improve in 2026. Automotive-exposed names with truck/SUV exposure and a heavy ICE mix generally delivered solid Q3 results and raised or tightened full-year guidance. For example, Garrett Motion outperformed light-vehicle production on turbo share gains, while American Axle delivered good margin expansion on flat sales, supported by strong North American pickup and SUV production, a shift toward higher-margin truck programs and ongoing performance initiatives.<sup>48</sup>
- Across transportation and cyclical exposures, forward-looking commentary has been broadly consistent, with volumes expected to track roughly in line with current trends—reflecting normal seasonality alongside some OEM and freight volatility. Margins are expected to remain stable as pricing discipline, productivity, AI-enabled network optimization and moderating capex continue to offset wages, tariff and input cost pressures and support free cash flow generation. Looking into 2026, management teams are cautiously constructive on a gradual upcycle, particularly in industrial and truck end-markets, supported by an extended ICE tail, reshoring and onshoring activity, tariff-driven localization, data-center build-out, and richer content per vehicle. Key risks include a slower-than-hoped macro recovery, prolonged freight downturn in the near term, and execution risks related to footprint optimization, restructuring and large integrations
- In a typically defensive sub-sector, automotive aftermarket companies exhibited surprising volatility in 2024. While 2025 remains subdued overall, recent results point to early signs of stabilization in operating trends. Although the recovery remains in its early stages, management commentary and volume and pricing trends show incremental improvement across most names. Tariffs remain a headwind for some of these businesses, though our exposure to certain US-focused manufacturers and United States-Mexico-Canada Agreement (“USMCA”) compliant products helps mitigate these risks. Although we see better operating metrics, the macro themes remain similar overall with tepid

<sup>46</sup> Source: PR Newswire. As of November 19, 2025.

<sup>47</sup> Source: Utility Dive. As of December 11, 2025.

<sup>48</sup> See note 19.

consumer spending patterns and a continuation of delayed maintenance that has subdued any meaningful inflection in performance. The tone from management teams has been cautiously optimistic heading into 2026, expecting a gradual rebound from historically low demand levels over the past several years.

**Healthcare: Policy risks remain top of mind across both the US and Europe.**

- Following the signing of the One Big Beautiful Bill Act at the start of third quarter in 2025, investor attention shifted focus to another key area of US health policy: premium tax credits, or subsidies, for people purchasing health insurance through the federal or state exchanges. These tax credits are scheduled to expire at the end of 2025. Without them, the costs of insurance would become prohibitively expensive for many consumers, potentially forcing a meaningful portion to forego coverage. Some experts estimate that 4.0-4.8 million Americans, roughly 16-20% of health exchanges participants, will not seek coverage, with a greater impact in states that have not expanded Medicaid. Management teams of healthcare service providers have been optimistic that government will resolve this issue, but thus far, government has fallen short after several attempts. While the lack of subsidies could reduce the number of people purchasing insurance through the health insurance exchanges in the near term, the volume headwinds are likely manageable for the credits we own across our portfolios. Hospitals are likely the most exposed, though exchange participants typically represent only a mid-single-digit percentage of revenue, suggesting any volume decline would have a modest financial impact. Other healthcare service providers would be even less affected. As affordability concerns rise in importance in the US, we ultimately expect the government to provide some form of remedy to address the cost of purchasing health insurance through the exchanges.
- The European healthcare landscape reflects similar pressures. Southern European economies, such as Spain, continue to lead in growth, while providers with Northern European exposure (Germany, the UK, and France) face greater margin pressure. For example, in France, budget deficits have promoted discussions around healthcare expenditure for the coming year, casting concerns over the level of reimbursements received by medical providers and ultimately, the profitability of said companies as they struggle with cost inflation from procurement and wages. Cost mitigation remains the key theme for companies to retain margins.
- Healthcare software results in Q3 remained solid across the sector, though growth is beginning to moderate following several years of strong performance. Growth profiles vary by sub-sector, with outsourced RCM providers showing double digit performance on strong outsourcing trends, while third-party software RCM vendors exhibit more of a mid- to high-single-digit growth profile among higher-quality operators. All sub sectors continue to see volume growth as well as pricing power as we have yet to see pricing pressure impact the space, but given the competitive nature of the industry this remains an area of focus. Management teams continue to highlight the increasing demand for products and solutions as the complex healthcare system becomes more dependent on these vendors to improve operating efficiency amid ongoing profitability pressures and workforce constraints.

**Pharmaceuticals and Life Sciences: Performance has been resilient despite tariff-related headlines, and underlying end markets are showing signs of improvement.**

- Management commentary across pharmaceutical services pointed to gradual improvement in key end-markets, with large pharma R&D and clinical activity showing meaningful improvements from beginning of 2025, while early-stage biotech remains a modest drag. Tools vendors highlighted mid- to high-single-digit growth in pharma/biopharma and bioprocessing consumables, though demand for equipment and academic or government spend remains muted. Contract research organizations (“CROs”) reported stronger RFP flow, healthier win rates, and normalizing cancellation/burn rates, with book-to-bill ratios above 1x across most names and solid near-term backlog visibility.
- Policy remains a focus point, though risks related to Most Favored Nation policy, tariffs, and IRA-related pricing pressure are largely digested by both the market and pharma customers, who are increasingly confident in sequential improvements in spending. We are monitoring a developing change to FDA policy around the number of required clinical trials, though the majority of drugs are already approved following a single trial. Looking ahead, we expect the market to return to mid-single digit growth in 2026. Pricing is likely to remain competitive and AI implementation will increasingly separate product offerings for the large- and mid-tier CROs vs smaller competitors.
- In Europe, pharmaceutical performance year to date has been impacted by idiosyncratic issues with specific drugs and / specific manufacturing sites, as well as heightened competition from Chinese producers in commodity pharmaceuticals and APIs. Key winners have been issuers with scale and diversification, especially players with portfolio exposure to over-the-counter and specialty.

***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 continue to moderate as pricing, particularly in property, decelerates. More underwriting capacity is coming into market given more attractive returns from lower catastrophe losses after a softer hurricane season. Non-property casualty lines, including liability, continue to see rate increases, while insured values and underlying exposures remain resilient, supported by GDP growth and inflation. Canadian brokers are experiencing softer growth given the impact of tariff on the economy, particularly in travel and transportation sectors. Slowing pricing momentum has contributed to equity underperformance among public brokers in 2025, though valuations remain at low double-digit multiples. M&A activity remains robust, with several \$1 billion+ transactions announced, including Baldwin/CAC Group<sup>49</sup> and Navacord/Acera.<sup>50</sup>
- RIA platforms benefited from equity markets hitting new all-time highs while continuing to attract positive inflows given growth in the independent channel. We continue to see platform RIAs integrate and standardize their advisor teams. Increasingly, more RIAs are acquiring and investing in retirement and consulting businesses that serve the institutional market. Independent broker dealers are increasingly investing in RIA practices as the hybrid affiliation model becomes more prevalent for independent wealth managers.
- Recent performance across the fund administration sub-sector performance has been stable, reflecting the essential and non-discretionary nature of these services and rising demand for outsourcing in an increasingly complex regulatory environment. 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 company results showed continued strength across our coverage universe. We remain constructive on secular trends around digitization of SMB and payment adoption. While we are closely monitoring macro and policy trends that could pressure payment volumes and activity, e-commerce growth has provided a secular tailwind. We continue to think these payment companies will be insulated from stablecoin adoption, as existing card-based infrastructure already performs well from both a real-time functionality and regulatory (KYC/AML) perspective. Stablecoin impact has been more centered on international remittances and B2B payments. Companies continue to cross sell payment solutions on top of software products, which is driving incremental revenues and margin gains.

***Business Services and Education: Generally insulated from near-term macro and tariff risks. AI remains a longer-term source of both risk and opportunity.***

- Industrial-focused business services have largely avoided direct tariff implications, but there is a divergence in performance dependent on end market exposure. Areas that continue to remain favorable given their tie to the US infrastructure and non-residential investment are HVAC, fire safety, and security services. All of these segments are seeing mid-single-digit to high-single-digit growth, driven by a combination of volume and price growth. These industries are extremely fragmented, with significant white space for expansion. We view this growth as sustainable in the near-term, although we do expect moderation into 2027. We remain cautiously optimistic and have skewed our investments into established platforms versus newly formed roll-up strategies. In contrast, auto services remained muted, pressured by a weakened consumer (trading down and deferring where applicable), along with stable used car prices leading to volumes declining at a mid-single-digit pace. While early green shoots have emerged, such as positive same-store-sales for select credits in Q3, we do not see an immediate catalyst for improvement in 2026. For an industry that has a long-term track record of mid-single-digit growth, 2025 is shaping up to be flat to modestly declining, with slow improvement expected in 2026 and a return to normalized growth in 2027.
- Professional services performance has been broadly stable, benefiting from diversified revenue models in which softer activity in cyclical lines (e.g., M&A and consulting) has been offset by steady demand in core, acyclical offerings such as audit, valuation, and critical data subscription services. Margins have been impacted by varying degrees driven by high labor costs, reflecting inflation and lower attrition, and additional spending on growth initiatives amid a more competitive environment. While generally insulated from direct tariff impacts, companies across our credit portfolios have noted a more cautious spending and decision-making environment by their customers as they assess the impact of the tariffs to their businesses or the legislative priorities of the current administration.
- Q3 was a critical billing season for education companies, coinciding with the start of the school year. While there had been expectations for a rebound in the K-12 sector as budget finalized, the recovery was further delayed. Purchasing behavior remains cautious, with continued reluctance to enter into multi-year commitments, a stark contrast to the

<sup>49</sup> Source: The Baldwin Group. As of January 2, 2026.

<sup>50</sup> Source: Navacord. As of December 3, 2025.

COVID-era funding environment supported by Elementary and Secondary School Emergency Relief (“ESSER”) programs. Management teams are now guiding to a recovery in 2026 driven by larger adoptions in key states including Texas, California and Florida, alongside a more stable funding environment compared to 2025. AI remains a dominant theme across education earnings calls, with adoption increasingly viewed as critical to long-term competitiveness in an increasingly crowded market.

***Gaming/Leisure/Lodging: Operating performance remains strong, positive secular trends remain intact, and the sector has been relatively insulated from tariff and supply chain risks.***

- Brick-and-mortar casinos showed bifurcated performance, with weakness in Las Vegas offset by stability and resilience in US regional markets. Las Vegas suffered from significantly lower RevPAR during the already slow summer period as international visitation dried up and the lower-end of the leisure customer pulled back on spend and destination travel. In contrast, the higher-end consumer, both in Vegas and regionally, remained resilient. Similar dynamics should support growth in 2026 as companies focus on recapturing some of the lost visitation.
- In Digital gaming, operators were negatively impacted during the quarter by customer-friendly NFL outcomes, which pressured sports betting hold rates. This dynamic extended into October but normalized in November and the early part of December. Despite the weaker sports betting win rates, volume and handle trends remained strong, growing double digits. iCasino growth remains a tailwind despite approval in just a small subset of states. Prediction markets (e.g., Kalshi, Polymarket) emerged as a major area of focus given their potential impact on established online sports betting (“OSB”) platforms. Notably, FanDuel and DraftKings announced their own prediction market offerings, expanding access to customers in states without legalized online sports betting (e.g., California, Texas, Florida).<sup>51</sup> Given ongoing legal uncertainty, we expect continued volatility and headline risk in the near term. Over time, we believe scaled online sports betting operators retain competitive advantages in user experience, product breadth, and brand strength. Tax rate changes remain a key sector risk; the U.K. recently implemented higher-than-expected gaming taxes as part of its 2026 budget, though we expect low- to mid-single-digit impacts for U.K.-exposed issuers, largely offset by diversified operations.
- Lodging results were relatively mixed in Q3 with a clear delineation between luxury and economy. Total company RevPAR growth was flattish compared to the prior year and at the lower end of most companies' guidance ranges.<sup>52</sup> RevPAR expectations for Q4 and 2025 full year were also lowered to reflect the normalization of leisure travel and the uncertain economic outlook pressuring the lower income consumer. Majority of companies are now expecting LSD growth in RevPAR for 2025 with the US lagging international markets.<sup>53</sup>
- Leisure categories were similarly mixed. Destination and experience-focused parks, like Disney and Universal, outperformed regional and drive-to locations, like Six Flags/Cedar Fair and Sea World, during the quarter.<sup>54</sup> While poor weather and holiday timing negatively impacted results at the regional operators, the more fragile consumer demand backdrop was a key focal point for the market which resulted in a decent amount of equity volatility. On the other hand, cruise lines continued to report record revenue and positive booking commentary. While forward guidance was mixed across operators, the industry is still expecting growth and credit metrics will continue to improve.

***Airlines, Aerospace, and Defense: Airlines performance has held up better than expected despite pressure on the consumer, with demand remaining strong and supporting a tight aerospace supply backdrop. Intermediate-defense spending tailwinds remain intact.***

- Performance for airlines has generally exceeded expectations. Demand remained resilient, with the “Big Three” and Alaska Airlines, highlighting strength in corporate travel, even as main-cabin pricing and certain long-haul leisure routes remained soft.<sup>55</sup> The “Big Three” continued to outperform; in contrast, Jet Blue’s Q3 earnings remained weak, with its performance inflection increasingly pushed into 2026.<sup>56</sup>
- There remains a clear performance separation between premium and corporate travel versus mass leisure, as well as a structural divergence between legacies and low-cost carriers (LCCs), which we expect to persist in the next year. Alaska Airline faced headwinds from one-time IT and fuel shocks from West Coast refining cost increases. Despite near-term volatility from FAA shutdowns, weather-related disruptions, and the A320 software issue over the

<sup>51</sup> Source: Bloomberg. As of December 22, 2025.

<sup>52</sup> Source: See note 19. As reported by large C-Corp hotel companies (including Marriott, Hyatt and Hilton).

<sup>53</sup> Source: See note 19. As reported by large C-Corp hotel companies (including Marriott, Hyatt and Hilton).

<sup>54</sup> See note 19.

<sup>55</sup> See note 19.

<sup>56</sup> See note 19.

Thanksgiving period, we maintain conviction in the “Big Three’s” path back to investment-grade ratings and improving credit spreads over time. In contrast, the LCC model remains under pressure.

- Aerospace and defense (A&D) credits benefited from another quarter of improving demand and incremental progress on supply chain normalization. Narrowbody OEM production was up, though Airbus experienced a setback in November related to issues with fuselage panels which will likely result in production falling short of its 2025 guidance.<sup>57</sup> Widebody production remains more constrained, but continues to thaw gradually as backlogs remains elevated. Engine availability remains the primary constraint on production levels. Aftermarket demand has been more resilient than expected despite persistent supply chain issues, supported by longer-in-life usage for legacy assets.
- M&A in the segment was robust, with 90+ announced private-market transactions in the US. Heavy investments in both the public and private markets were focused on hypersonics, missile defense, and other golden dome-related technologies ahead of anticipated program deployment in 2026.
- Defense order activity improved materially for both the contractors and among the component manufacturers as the sector emerged from a period of budget uncertainty over the summer related to OBBB and DOGE. A brief period of robust order flow followed before the November shutdown. Book-to-bills ratios were generally above 1x for the majority of public names in the sector. We expect more muted demand in Q4 as certain awards have been pushed into 2026.

**Telecom and Media: M&A and transaction activity remains active amid a competitive and challenging backdrop.**

- Cable broadband continues to lose share to fiber-to-the-home (“FtTH”) at the high end and fixed wireless access (“FWA”) at the low end. Larger companies have been able to partially offset these declines through growth in mobile offerings. FtTH operators continue to overbuild legacy copper networks and are steadily gaining broadband subscribers at the expense of cable and legacy DSL. FWA remains an effective, low-cost, easy-to-install solution for lower bandwidth needs and more price sensitive consumers. While the product is constrained by wireless spectrum availability, we expect continued growth largely at the expense of cable.
- Wireless mobile remains a highly competitive market with the “Big Three”, Verizon, AT&T, and T-Mobile, primarily competing on price, mobile phone subsidies, and bundled product offerings (including FWA). Given the relative maturity of the US market, growth expectations continue to moderate. Dish’s exit as a potential fourth carrier is a near-term positive, though longer-term uncertainty remains regarding SpaceX’s ultimate ambitions in wireless mobile.
- With telecom fundamentals under pressure and balance sheets stretched, we continue to see a heightened environment for liability management exercises (“LME”), asset sales, and other restructuring activities. M&A remains active with large wireless operators, including Verizon, AT&T, and T-Mobile, continuing to roll up attractive fiber markets. While Altice France’s LME was relatively lender-friendly, its affiliates, Altice USA and Altice International, surprised lenders with asset drop down transactions following weaker Q3 earnings.<sup>58</sup> As a result, we expect both processes to be highly contested and drawn out.
- The major development in Q4 was SpaceX’s purchase of 50Mhz of S-Band and H-Block spectrum from Echostar/Dish for \$17 billion in cash and stock.<sup>59</sup> SpaceX plans to leverage the spectrum alongside a new low-earth-orbit constellation to offer direct-to-device (“D2D”) cellular service. Expected to close by year-end 2027, this transaction has the potential to disrupt the mobile and satellite services industries, making ongoing developments critical to monitor.
- The bidding war among Comcast, Paramount and Netflix for Warner Brother Discovery reinforces the view that “content is king”. We expect companies with strong content libraries to continue commanding premium valuations. This large-scale acquisition may drive consolidation among smaller and independent content creators such as LION, Sony, Legendary, A24, Blumhouse, and NEON.
- Sentiment in Hollywood is muted as the transition to streaming, labor strikes, and ongoing M&A fuel concerns about a more challenging operating environment. There are also rising concerns around AI-driven content creation and its implication for traditional media companies. In the near term, we view AI as a source of efficiency—reducing costly re-shoots, enhancing visual effects and animation, and improving marketing efforts (e.g., DIS’s OpenAI partnership). That said, we continue to monitor potential longer-term impacts closely.

<sup>57</sup> Source: Bloomberg. As of December 3, 2025.

<sup>58</sup> See note 19.

<sup>59</sup> Source: TechCrunch. As of September 8, 2025.

**Power and Utilities: Load growth tailwinds remain strong, though policy risks are becoming increasingly topical.**

- Utilities are reporting significant volumes of large load interconnection requests from an accelerating number of AI-related data center projects. This is being matched by both current and planned capex spend by hyperscalers on data center buildouts. The magnitude of required power demand has led hyperscalers to pursue co-location datacenters with generation assets, enter into (or disclose discussions around) long-term power supply agreements and form partnerships to fund the reactivation of retired nuclear power plants and other retired generation assets. In addition, hyperscaler have announced agreements to directly support the construction of new-build generation capacity. Utilities are also receiving large load interconnection requests from manufacturing and industrial customers for re-shoring projects and manufacturing facilities supported by industrial policy (e.g., semi-conductors, batteries). This demand growth is additive to the expected demand growth from electrification in the coming years. As a result, utilities and RTOs continue to upwardly revise their load growth forecasts for the coming years (e.g., 2025 preliminary PJM load forecast<sup>60</sup>).
- We expect demand growth to be supportive of both capacity prices (as evidenced by the recent PJM '25/'26 auction) and spark spreads near-to-medium term thereby supporting the financial performance and credit profiles of issuers with existing firm, dispatchable generation assets. While elevated prices should eventually incentivize new generation capacity, we expect existing dispatchable generation capacity to benefit for an extended period of time due to: i) ongoing retirements of dispatchable generation to meet environmental requirements and regulations (e.g., coal), ii) a limited pipeline of new-build dispatchable generation resources under development and entering service in the near-term, and iii) long lead times for permitting and construction, elevated construction costs, extensive interconnection queue backlogs, and widespread supply chain constraints, all of which delay the addition of material incremental capacity through new builds, reactivations, or uprates.
- While free market economics suggest we are significantly undersupplied and prices must rise to incentivize new construction, policy and regulatory responses warrant close monitoring, particularly given affordability concerns to ratepayers. These concerns have prompted a number of proposals at the local, state, RTO/ISO, and federal levels. Notably, the Trump administration, alongside a coalition of PJM-state governors, has proposed requiring data centers to self-supply or fund their own generation and to participate in a 15-year auction among data center developers to backstop new-build capacity, shifting the burden away from ratepayers. In response, PJM responded with a counterproposal incorporating some elements of this framework, though notably excluding the long-term auction component.<sup>61</sup> While final policies, regulations, and market structures remain uncertain, affordability considerations and funding mechanisms for new-build generation are likely to have significant medium-to-long-term impacts for power markets. Power has historically been a cyclical industry with commodity exposure, and these proposals increase the risk of overbuilds, non-market funding sources and capital allocation, and price distortions that may negatively impact existing generation sources and issuers over the long-term.
- Overall, we remain positive on the sector short- to medium-term, favoring higher-quality credits with near-term deleveraging potential, solid visibility into balance sheet improvement, competitive baseload operations, and resilient credit profiles through the cycle.

**Energy and Commodities: M&A and transaction activity remains active amid a challenging macro and commodity backdrop.**

- Metals markets were volatile in Q3, driven by some plant outages in the US aluminum market in late September that disrupted automotive supply chains into Q4, as well as ongoing shutdowns at Cobre Panama in the copper market, which tightened supply and pushed prices higher across both commodities. Our exposure in this space remains limited to volatility in commodity pricing, with a preference for businesses supported by stable, volume-driven revenue models and durable end-market demand. Reporting has generally been stable among issuers with these characteristics, though demand from auto, construction, and certain other end markets has softened modestly at the margin. US steel manufacturers saw a rebound in Q3 as tariffs and pricing recovered from depressed 2024 levels. While 2025 pricing remains weak relative to historical levels, we continue to see incremental improvement in Q3, which we expect to persist into year-end.
- We remain cautious around oil price and volume growth dependent credits given the current commodity price environment. Oil prices remain subdued following several years of elevated price levels, reflecting global supply additions, the risk of OPEC+ spare capacity returning to the market if cooperation falters, and modest demand growth amid subdued global economic growth outside the US. Developments surrounding US engagement in Venezuela

<sup>60</sup> Source: PJM. As of December 9, 2024.

<sup>61</sup> Source: The Associated Press. As of January 16, 2026.

remain fluid, with evolving implications for global energy markets. In the near term, a resumption of exports and the return of US and other international oil field services firms and large E&Ps/super-majors is likely to add incremental supply to an already oversupplied global oil market in 2026. That said, the near-term impact is likely to be relatively minor with the potential for several hundred thousand barrels-a-day of growth (less than 1% of global supply in a 100mm+ bbl/d market) with timelines to restore several million barrels per day likely spanning multiple years, if not a decade. US refiners stand to benefit from increased availability of heavy crude barrels, and international oilfield services companies may see meaningful opportunities to participate in the rebuilding of Venezuela's infrastructure and productive capacity. Longer term, the structural improvement in issuer credit profiles and the evolution of ongoing high-grading of the issuer universe in both loans and bonds has positioned the sector to weather commodity price volatility far better than in prior cycles. We are more constructive on the natural gas macro, in both the US and globally, supported by LNG export capacity growth driving demand and weaker oil prices reducing associated gas growth. Consistent with this view, we continue to favor credits with firm revenues from contracts with high-quality counterparties or where volumes are demand-pull and less dependent on drilling activity and fluctuations in production levels.

## DISCLAIMER & 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.