



Forward Thinking

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As we begin 2026, global credit markets are transitioning into a more normalized rate environment, even as policy uncertainty remains elevated.

Diverging credit fundamentals, sector-specific pressures, and shifting global sentiment underscore the importance of discipline and selectivity. While carry from both rates and spreads is expected to remain the primary driver of returns, the broad-based momentum that characterized the recent period is giving way to a market in which performance will increasingly depend on quality and rigorous credit evaluation.

In this outlook, Deputy CIO Stan Sokolowski highlights key themes shaping 2026: growth, easing inflation, geopolitical uncertainty, and structural shifts like AI-driven investment. While risks persist, disciplined risk management and robust credit selection can mitigate volatility.

Our commitment remains clear: navigate complexity with precision and deliver long-term value for our investors.

Steve Vaccaro
CEO and CIO, CIFC Asset Management



Quiet Strength Beneath the Noise – 2025 Review and 2026 Credit Outlook

The past year was yet another reminder that the U.S. economy and markets have an uncanny ability to confound forecasters, who once again showed that the prognostication business is rarely a fruitful enterprise. As a famous investor often says: “Being too far ahead of your time is indistinguishable from being wrong.”

Throughout the year, headlines were dominated by panic about tariffs, AI bubbles, government shutdowns, and geopolitical risks, among other worries. Yet growth stayed resilient, inflation cooled, and markets delivered a third consecutive year of strong returns. Against that backdrop, credit markets quietly did what they are supposed to do: provide an income alternative to traditional fixed income, absorb volatility, and compensate investors appropriately for taking measured risk.

Macro Review: Resilience With Anxiety

Economic activity again “beat the over”. Growth outpaced many early year forecasts, helped by solid consumer spending, healthy household and corporate balance sheets, and a powerful AI-and-tech driven CapEx cycle, while inflation undershot the more dire projections. Monetary policy shifted from restraint to gentle support as the Fed delivered another 75bps of rate cuts for a cumulative 175bps from the 2024 peak, helping ease financial conditions in combination with tighter credit spreads, higher equity prices, and lower oil in the back half of the year.

At the same time, volatility and anxiety remained elevated. Realized equity volatility stayed in the upper historical percentiles, with sentiment measures never fully embracing the good news, as investors spent the year juggling a new U.S. administration, “Liberation Day” tariff shocks and walk backs, a U.S. government shutdown, sticky inflation, a K-shaped economy, and constant debate about whether AI represents a productivity revolution or the next bubble. The industrial recession also continued, and bifurcation between good performers and the rest persisted. To quote David Zervos, of Jefferies, “not every company gets a participation trophy.” Yet the net result was a broadening equity rally, record corporate margins and free cash flow, one of the best years for buybacks, and the second-busiest year for global M&A activity – underscoring how much stronger the underlying system was than the headlines implied.

Credit Review: Quiet Strength Beneath the Noise

In credit, it was hard to find a bullish investor, but the tape told a constructive story. Default rates in high yield and leveraged loans remained below post-GFC averages, and J.P. Morgan estimates showed default activity declined by roughly half from the prior year. Liability management exercises (“LMEs”), helped to manage balance sheets and preserve some value. On the flip side, concerns surrounding erosion in underwriting standards and speed and scale of capital



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deployment caused some indigestion in certain pockets of the market. Additionally, although the M&A market was active, highly anticipated issuance usually associated with these deals did not fully materialize.

Regardless, fundamentals were broadly stable, leverage contained, and interest coverage improved as rates fell and spreads were repriced lower. Many issuers used strong markets to term out maturities yet again as capital markets remained open, even for lower-quality issuers. Tariff-sensitive sectors that were volatile in equities generally remained resilient in credit, reinforcing the message that it takes sustained earnings pressure, not just headline noise, to impact credit in a meaningful way. Credit markets also displayed more pronounced selectivity as both credit quality and industry dispersion showed investors differentiating risk.

Overall, the dynamics of the year left credit looking quietly resilient: far from euphoric, but fundamentally sound, well refinanced, and still compensating investors. In a year dominated by anxiety and headline volatility, credit served its intended purpose in portfolios.

Macro Outlook: More Non-Consensus Outcomes Ahead?

What has been striking in recent years is how little actually played out the way consensus expected, and we believe 2026 is unlikely to be different. Baseline views from across the street see a resilient U.S. economy with above-trend or at least trend-like growth, likely supported by pro-growth policies, One Big Beautiful Bill (“OBBBA”) related stimulus, larger tax refunds, and still healthy balance sheets, even as many households feel only a mediocre recovery. Labor markets are expected to stay relatively tight given constrained supply, even as hiring slows, while inflation is seen as remaining above the pre-COVID 2% norm in a somewhat higher and more volatile regime tied to elevated sovereign debt and deficit levels, as well as other structural shifts. Overall, the year is likely to bring more of the same – though not without the usual caveats and vulnerabilities that will inevitably rear their heads.

Uncertainty clusters around tariffs, immigration, AI, fiscal and monetary policy, and geopolitics. A new Fed chair, uneven global monetary policy, and the implementation details of the OBBBA will shape the macro path, as will the psychology of consumers and corporates – an always underappreciated but profound driver of cycles. Risks range from another U.S. government shutdown or policy shock to slower-than-expected rate cuts, lingering tariff effects, midterm elections, and a meaningful risk-off episode if high equity valuations decide to reset and wealth effects turn negative. Still, most baseline scenarios call for no recession in 2026, continued AI driven CapEx, and an environment where growth will be good for credit even if it never feels particularly comfortable, especially as it relates to the labor market. Lastly, the ever-lurking unidentified unknown remains a major disruption, crisis or downturn that could impact markets. Nevertheless, as the late, great Art Cashin observed, “never bet on the end of the world, because it only happens once.”

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Credit Outlook: Carry, Dispersion, and Convergence

For credit, we believe the setup remains constructive. Most issuers enter 2026 with better fundamentals than they had a few years ago, helped by earlier refinancings, easing policy, and ongoing GDP growth, while capital

markets access remains wide open, even for weaker borrowers. Spreads are expected to remain range-bound near the upper end of their recent bands as fundamentals hold up, and as history suggests they can stay tighter for longer. Defaults (including LMEs) are expected to remain contained, with demand robust due to historically high yields. Supply could be sluggish again and punctuated by bouts of feast and famine, all amid persistent dispersion. From a credit cost perspective, J.P. Morgan Private Bank's analysis suggests that at current yield levels default rates would need to exceed roughly 6%, with recovery rates falling below about 40%, for long run total returns to turn negative – an extreme outcome that J.P. Morgan's analysts (and we) view as unlikely.

Carry from both rates and spreads is likely to remain a meaningful driver of returns. With all-in yields still near multi decade highs and default expectations edging lower into 2026, investors are being paid equity like returns for senior, often first lien risk in many parts of the credit market. At the same time, risk is real, but we feel it is concentrated in the tails of weaker sectors, issuers, structures, and managers.

We also expect credit markets will further converge. The line between bonds, broadly syndicated loans, and private credit continues to blur as issuers ebb and flow across channels and as private credit evolves from an illiquid, tightly held niche into a larger ecosystem reminiscent of the broadly syndicated loan market of the 1990s but on a faster timeline. Additionally, as the traditional 60/40 portfolio has exhibited nearly double its pre-COVID volatility, we believe investors will continue to migrate to larger alternative credit sleeves to restore portfolio resilience and income.

Lastly, with roughly \$8 trillion parked in money market funds, any drift lower in short term rates could catalyze a renewed hunt for yield, with floating rate and high income credit strategies often the first “toe in the water” for income seekers.

Of course, a new year brings its share of uncertainties. In our opinion, key risks include a slowdown in the CLO machine, deteriorating credit sentiment, and a reversal in retail flows, but for now, the balance tilts toward opportunity for those prepared to embrace it.

Conclusion: Why Credit Now

Credit is both a market and an asset class that rewards discipline over drama. The macro backdrop is noisy, the list of risks is long, and anxiety remains high, but we believe fundamentals are broadly sound, default risk is manageable, and starting yields do a lot of work for investors willing to underwrite credit risk thoughtfully. In a world where equity indices are concentrated in a handful of mega-cap names and valuations are rich, investors have a chance to rotate into credit strategies that offer the prospect of long-run equity-like returns for senior secured risk, potentially de-risking the portfolio while keeping return targets intact.

For the year ahead, that means staying exposed across the spectrum of broadly syndicated loans, structured credit, and private credit. Emphasize quality and structure, embrace risk for which you are being compensated, and lean into dispersion opportunities where available – all while maintaining risk management and disciplined underwriting as guiding principles. Credit may not dominate the headlines the way AI or tariffs do, but in the prevailing environment, we strongly believe it remains a compelling place to compound capital.

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