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What You Own and What You Don't: Credit Selection in 2026

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Featured Views and Insights

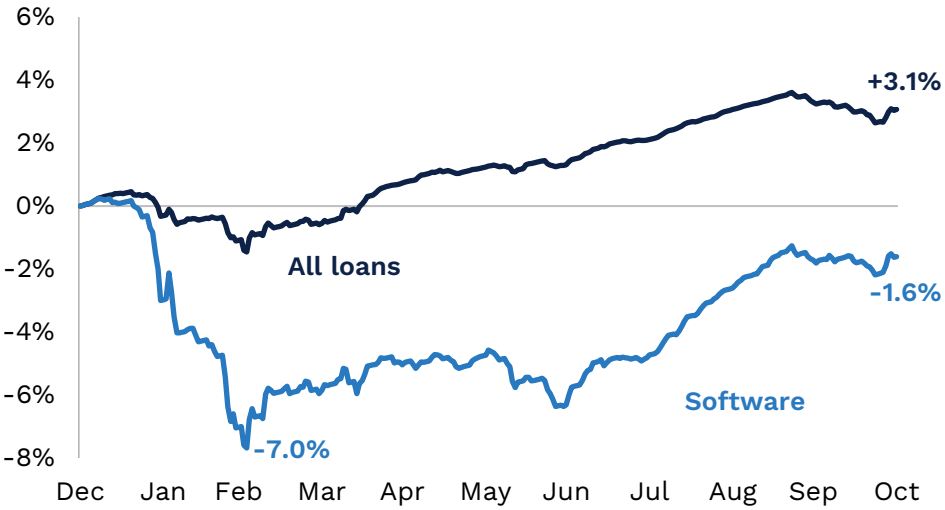
In benign markets, the consequences of initial underwriting decisions can take years to emerge. Weaker credits can generally refinance, as liquidity is abundant and incremental spread is in demand. Differences in credit selection are often obscured by this favorable backdrop. Conditions in 2026 have made the distinction easier to observe.

The evidence arrived twice this year, and both times the weakness concentrated in select sectors and issuers, rather than spreading across the market. The first, in software, asked whether the business would endure. The second arrived when the rate path turned, and it asked whether the balance sheet could carry the debt, settling on the borrowers with the least capacity to absorb higher funding costs. In our view, that concentration is why credit selection, more than the direction of the market, has driven the difference in outcomes.

Dispersion Permeated the Credit Markets

In 2026, dispersion within the credit markets was most visible in software. The dislocation began at the start of the year, and by the end of February, software loans were down roughly 7%. Much of that has since recovered; through October, the sector is down 1.6%, approximately five points behind the +3.1% return of the broader index.[1]

Year-to-Date Total Return: Software & U.S. Leveraged Loans[1]



Please refer to Endnote 1 for additional information.

Part of that divergence reflects the technical backdrop. CLO issuance slowed materially in the second quarter, reducing an important source of demand for broadly syndicated loans. Given that CLOs represent approximately 60% of the buyer base for the asset class,[2] changes in issuance can exert an outsized influence on sectors already facing heightened investor scrutiny.



Ira Ginsburg
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Mr. Ginsburg is Deputy Chief Investment Officer and Senior Portfolio Manager for Corporate Bank Loans and Global Co-Head of CLO Portfolio Management at CIFC. He has served as Vice Chairman of the Firm's Investment Committee since 2018 and has 35 years of experience in corporate lending, credit analysis and portfolio management. In these positions, Mr. Ginsburg plays a central role in setting investment strategy and risk positioning across CIFC's credit platform, spanning the Firm's CLO vehicles and corporate loan funds. Mr. Ginsburg has managed leveraged loan portfolios through multiple credit cycles, at CIFC since 2011 and previously as a Principal and Portfolio Manager at Callidus Capital Management, a New York-based credit manager. He began his career in 1991 at J.P. Morgan, where he most recently served as Vice President in the High Yield Finance group. Mr. Ginsburg holds a B.S. in Finance and Management from New York University and is a CFA charterholder.

However, technicals alone do not explain the magnitude of the repricing. Software sits at the center of a broader debate now taking place across credit markets: how artificial intelligence may affect competitive dynamics, growth trajectories, and long-term business durability across a wide range of companies.

For credit investors, that debate is narrower than it is for equity holders. The question is not who wins, but whether a company's cash flows remain durable enough to support its leverage and preserve refinancing flexibility across a range of outcomes. Software, viewed that way, is less a single theme than a collection of businesses facing varying opportunity and risk. In our view, fundamentals remain intact for the vast majority of software issuers, and the selldown overshot. A common industry classification can conceal a wide range of credit outcomes. The work lies in distinguishing between them, one credit at a time.

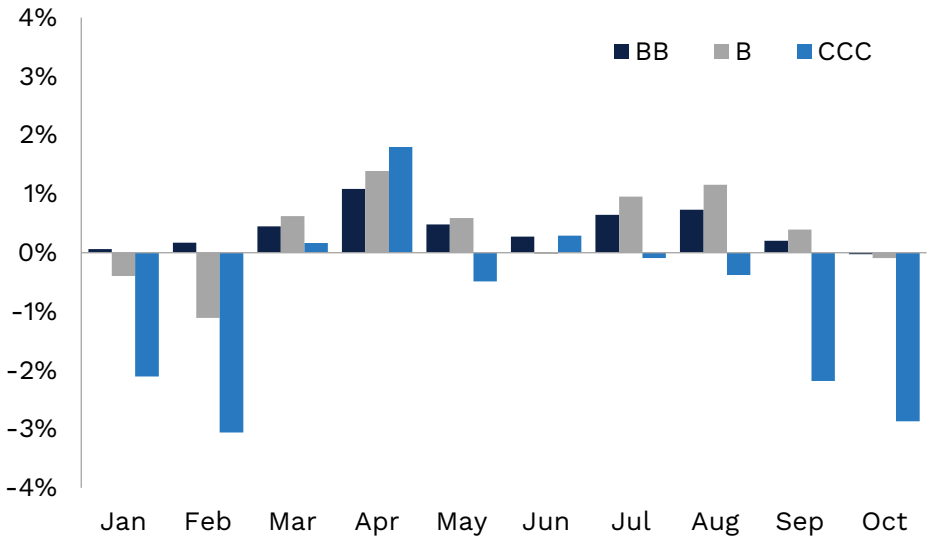
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When Rates Reversed[3]

The year also began with markets expecting up to three Fed rate cuts and the central bank itself guiding toward two. Instead, as the conflict in Iran dragged on and pushed inflation higher, the rate path reversed: the Fed raised rates in September. Its own projections point to further increases, as Treasury yields have reached multi-decade highs.

The weakness has concentrated in the lowest-rated credits. Through the end of October, loans rated BB and B returned roughly 4.1% and 3.5%, respectively, while loans rated CCC declined approximately 8.7%. CCC credits took sharp losses early in the year, alongside the software repricing, and the gap widened again in September and October, as the Fed hiked and higher-rated loans continued to outperform. With CCC loans at only about 5% of the U.S. Leveraged Loan Index, the index's 3.1% year-to-date gain masks two very different experiences: one for borrowers the market still trusts to refinance, and one for those it increasingly does not.

Monthly Returns by Facility Rating: U.S. Leveraged Loans[3]



Performance Has Diverged Across U.S. Leveraged Loans

Facility Rating	YTD Total Return[3]
BB	4.1%
B	3.5%
CCC	-8.7%

Please refer to Endnote 3 for additional information.

Conviction, Tested

CIFC entered 2026 with a fundamental overweight to select software issuers, reflecting a conviction, built on years of credit work, that certain business models were positioned to withstand increased scrutiny of the sector. That conviction was tested when the sector repriced earlier in the year, and performance across our portfolios was not immune to it.

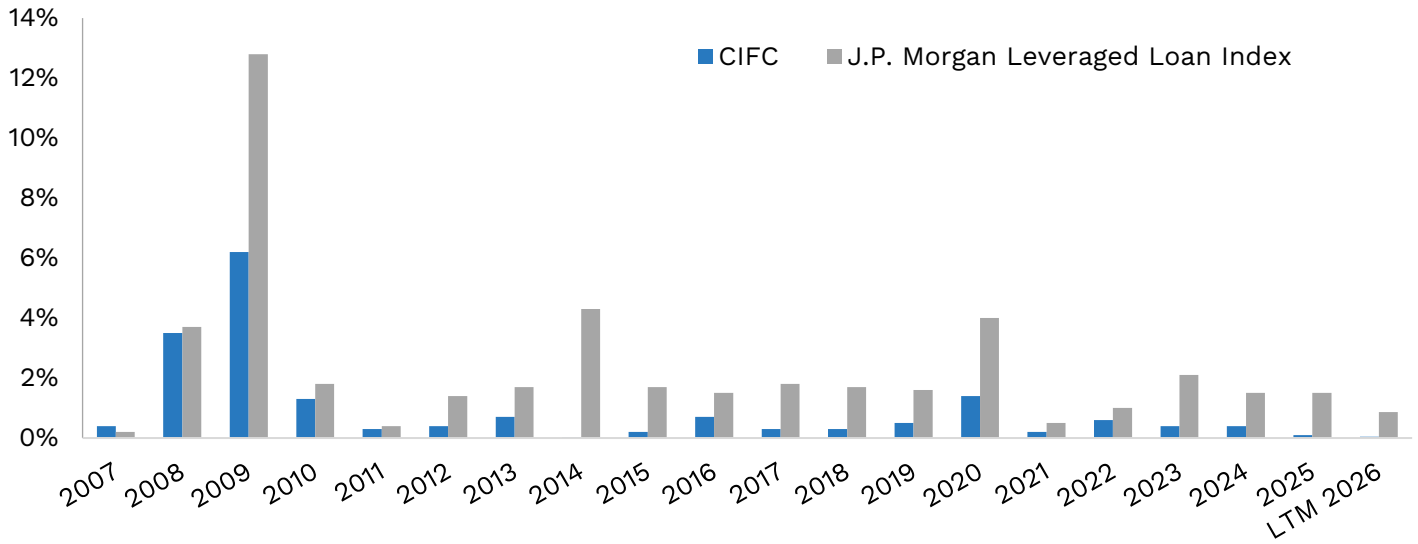
The response was neither to abandon the thesis nor to hold the position static. The work shifted from the sector to the borrower: how recurring and sticky each company's revenue is, analyzing its cash conversion, how much runway it has before its maturities, reassessing the enterprise value, and whether its interest burden is covered at today's base rates. Where those answers held up, conviction was maintained and added to selectively. Where the risk dynamics weakened, positions were reduced or exited. And as the sector recovered, exposure was trimmed into strength to reduce volatility.

That sequence says more about our experience and process than any single decision. Avoiding a weak credit shows competent underwriting. Holding a good one through volatility shows conviction. Recognizing, in real time, which is which and acting on it, instead of defaulting to inertia, is a separate discipline, and it is the one investors have the hardest time seeing from the outside.

The same discipline applies to what we chose to avoid. Across our portfolios, we have been structurally underweight CCC-rated loans, and more so this year as the gap to the rest of the market widened. That is not a call on any single borrower. It reflects our view that compensation for owning the weakest credits has too rarely justified the refinancing and recovery risk, particularly when financing costs rise and funding windows narrow. Overweight software and underweight CCC are two expressions of the same approach: take risk where the underwriting supports it and decline it where it does not. That approach is not new: since 2006, CIFC's default rate has remained below the historical default rate of the J.P. Morgan Leveraged Loan Index on average, and the difference has been most pronounced in periods of elevated stress, including 2008-2009 and 2020.[4]

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CIFC vs. J.P. Morgan Leveraged Loan Index Default Rate[4,5]



Please refer to Endnotes 4 and 5 for additional information.

What This Means for Manager Selection

The lessons of 2026 extend beyond any single sector or rating tier. When liquidity is abundant and market conditions are supportive, differences in underwriting can remain difficult to observe.

Periods of greater dispersion change that dynamic. They expose differences between issuers, challenge broad assumptions, and increase the consequences of individual investment decisions. Because outcomes are decided long after the purchase, the more useful question for allocators evaluating a credit manager is not only which credits were avoided, but whether the manager can separate what the market is doing from what the borrower is doing, and act accordingly. In our experience, successful credit investing is not defined by an ability to predict every market development, but by a consistent process for evaluating business durability, downside risk, and value across a range of outcomes. Periods of dispersion do not change that discipline; they simply make its results easier to see.

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Endnotes

1. Source: PitchBook | LCD; Morningstar; S&P Dow Jones Indices. Data through October 31, 2026. Please see Index Definitions below for a description of the index.
2. Source: J.P. Morgan. As of December 31, 2025.
3. Source: PitchBook | LCD; Morningstar LSTA U.S. Leveraged Loan Index. Data through October 31, 2026. Please see Index Definitions below for a description of the index.
4. CIFC Data and J.P. Morgan Leveraged Loan Index as of October 31, 2026. CIFC default data includes CIFC Senior Secured Loan Strategies and all outstanding CLOs originated by CIFC from 2006 through October 31, 2026. Past performance is not indicative of future results. Index default rates include all defaults, while managed fund default rates may exclude distressed assets sold prior to default. Default rates are spot indicators and may not be indicative of fund quality or performance. See Index Definitions below. Data shown represents the earliest publicly available data.
5. Last Twelve Months ("LTM") as of October 31, 2026.

Index Definitions

Morningstar LSTA U.S. Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market based upon market weightings, spreads and interest payments.

J.P. Morgan Leveraged Loan Index is designed to mirror the investable universe of USD institutional leveraged loans, including U.S. and international borrowers.

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