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HIGH YIELD

Anchored by Income: The Resilience of Broadly Syndicated Loans

INSIGHTS

Contractual income, a deep and stable institutional investor base and diversification benefits have helped loans deliver resilient performance across a wide range of market environments, reinforcing their role as a strategic portfolio allocation.



Chris Sawyer
Head of European High Yield

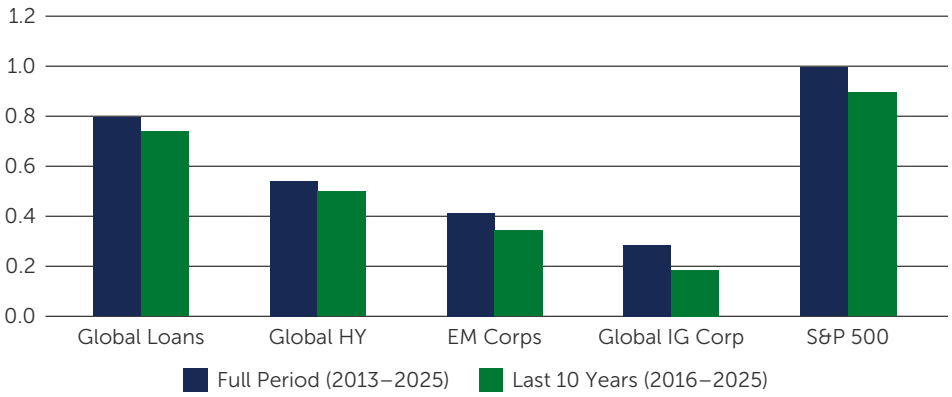


Amanda Koelzow
Senior Director, Client Portfolio Management

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Markets have navigated a challenging backdrop in recent years, shaped by geopolitical tensions, shifting trade policies and the evolving and uncertain implications of artificial intelligence. Yet amid these crosscurrents, the broadly syndicated loan market has remained notably resilient. Over the past decade, loans have delivered both positive returns and strong risk-adjusted performance relative to other liquid fixed income sectors **(Figure 1)**—driven by the asset class's contractual income, deep institutional investor base and lower volatility profile.

Figure 1: 12-Month-Return Sharpe Ratio by Asset Class



Source: S&P UBS Global Leveraged Loan Index, ICE BofA Non-Financial Developed Markets High Yield Constrained Index (HNDC), J.P. Morgan CEMBI Broad Diversified Index, Bloomberg Global Aggregate Index, S&P 500 Index. As of December 2025. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

Structural Advantages of Loans

There are several defining characteristics of the broadly syndicated loan asset class that have contributed to its strong performance over time, despite periods of market volatility and shifting macroeconomic conditions.

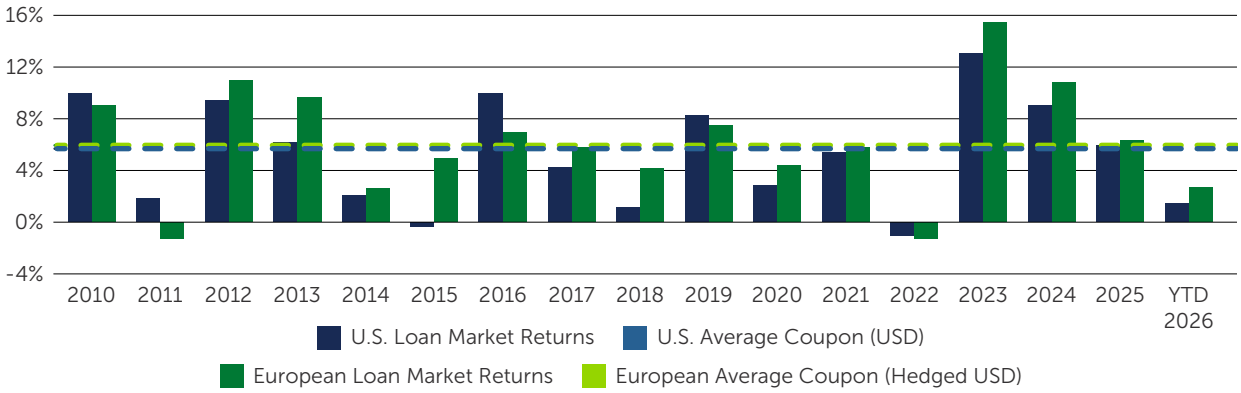
CONTRACTUAL INCOME

At the core of the asset class's resilience is its **contractual income**. The high level of income embedded in loan coupons provides a natural cushion against episodic and sentiment-driven volatility. Loans are priced at a fixed spread over reference rates. Notably, this spread has remained relatively stable—generally ranging between 300 and 400 basis points over the past decade—providing a durable and predictable income cushion that has anchored total return performance.

Looking ahead, this stable spread suggests that loan coupons are likely to remain above historic averages, regardless of the future path of interest rates.

Unlike many other fixed income asset classes, the majority of a loan's return comes from **floating-rate coupon** income being earned today rather than from future price appreciation—and this has resulted in a steadier return profile over time. Ultimately, it has been the level of support from the income component of a loan that has minimized the number of negative years of performance in the loan market. Specifically, over the past 25 years, there have been only three calendar years of negative total return in the U.S. and four calendar years in Europe.[1]

Figure 2: Income-Driven Return Profile of Loans (Post Financial Crisis)



Source: S&P UBS Leveraged Loan Index and the S&P UBS Western European Leveraged Loan Index (Non-USD). Returns and coupons in USD hedged terms using Bloomberg 3M EURSD Hedging Cost for coupon. J.P. Morgan for U.S. and Pitchbook LCD for Eurozone default rates. Default rates are for trailing 12-month period. As of June 30, 2026. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

DEEP AND STABLE INVESTOR BASE

The loan market is supported by **stable demand** from a broad institutional investor base. In particular, demand from collateralized loan obligations (CLOs) has grown notably over the years, with CLOs representing approximately 60–70% of the investor base for loans today.[2]

Importantly, CLOs represent locked-up, long-term demand for the asset class. They are not sensitive to daily fund flows, which helps to provide a very steady demand base for loans. At the same time, retail funds—which are sensitive to daily flows—are not a feature of the European loan market, and represent a very minimal portion of U.S. loan demand. As a result, loan market activity is supported by institutional investors, which can help mitigate outflows and provide some resistance to loan prices during periods of heightened volatility or market stress.

POTENTIAL FOR DIVERSIFICATION

Price behavior is another important consideration of loans. Given the floating-rate nature of the asset class, loans benefit from inherently **lower duration**, which results in lower price sensitivity to movements in government bond yields. This is a particular advantage during periods of interest rate uncertainty.

1. Source: UBS. As of June 30, 2026.
2. Sources: Barings and Barclays Research. As of October 17, 2025.

Historically, loans have also exhibited **lower volatility** compared to other asset classes. In the last 10 years, global loans have exhibited approximately two-thirds of the annualized volatility of global high yield bonds and one-third of the volatility of global equities.[3]

In addition, loans have historically exhibited **lower correlations to traditional fixed income and equity allocations**. Over the past 20 years, global loans have shown relatively low positive correlation to investment grade corporates and global equities **(Figure 3)**. Taken together, these characteristics can enhance portfolio diversification and support the case for a strategic allocation to the asset class.

Figure 3: Loans Have Exhibited Lower Correlation to Other Asset Classes

Historical Asset Class Correlations	Global Loans
Investment Grade Corporates	0.06
Global High Yield Bonds	0.84
Emerging Market Corporates	0.70
S&P 500	0.59

Sources: S&P UBS Global Leveraged Loan Index, ICE BofA Non-Financial Developed Markets High Yield Constrained Index, J.P. Morgan CEMBI Broad Diversified Index; Bloomberg Global Aggregate Index; S&P 500 Index. As of May 31, 2026.

Beneath the Surface: Fundamentals Remain Supportive

Loans are rated below investment grade and are typically issued by private companies. However, the loan market is also home to many large, established businesses with diversified operations and meaningful earnings, supported by a deep institutional market that has continued to mature over time.

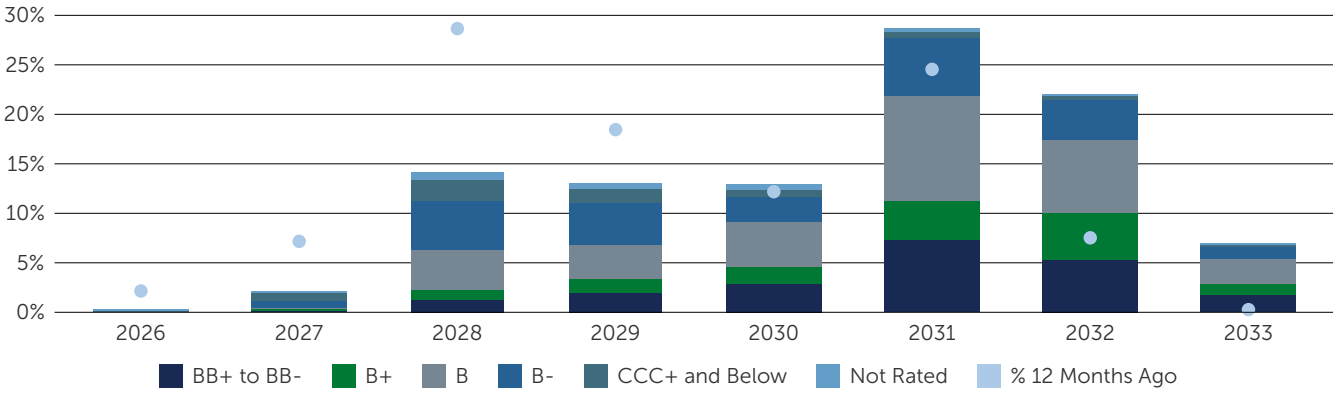
From a financial perspective, company management teams have largely remained disciplined. Average net leverage and interest coverage ratios remain broadly in line with trailing 10-year averages. In addition, private equity sponsors continue to demonstrate strong support for portfolio companies, as evidenced by equity cushions that remain elevated relative to a decade ago.[4]

The maturity profile of the loan market also remains favorable. Near-term maturities are limited, with less than 3% set to mature in 2027 **(Figure 4)**. Issuers have been proactive in dealing with 2028 maturities, reducing the proportion of loans due in 2028 to approximately 14%, compared to nearly 30% just 12 months ago. More broadly, borrowers have proactively engaged with lenders well in advance of maturity dates and have proven their ability to refinance through multiple market cycles.

3. Sources: S&P UBS Global Leveraged Loan Index, ICE BofA Non-Financial Developed Markets High Yield Constrained Index (HNDC); S&P 500 Index. As of September 2026.
4. Source: Pitchbook. As of June 30, 2026.

With fundamentals overall on a solid footing and near-term maturities limited, default expectations remain broadly stable. Current distress ratios suggest default rates in the next 12 to 24 months are likely to remain around the 2.0% to 2.5% range in the global loan market, in line with current levels and near long term averages. While an uptick in defaults cannot be ruled out, any increase would occur from a low starting point and is likely to be offset by current income levels.

Figure 4: Global Loan Market Maturities (As % of Market)

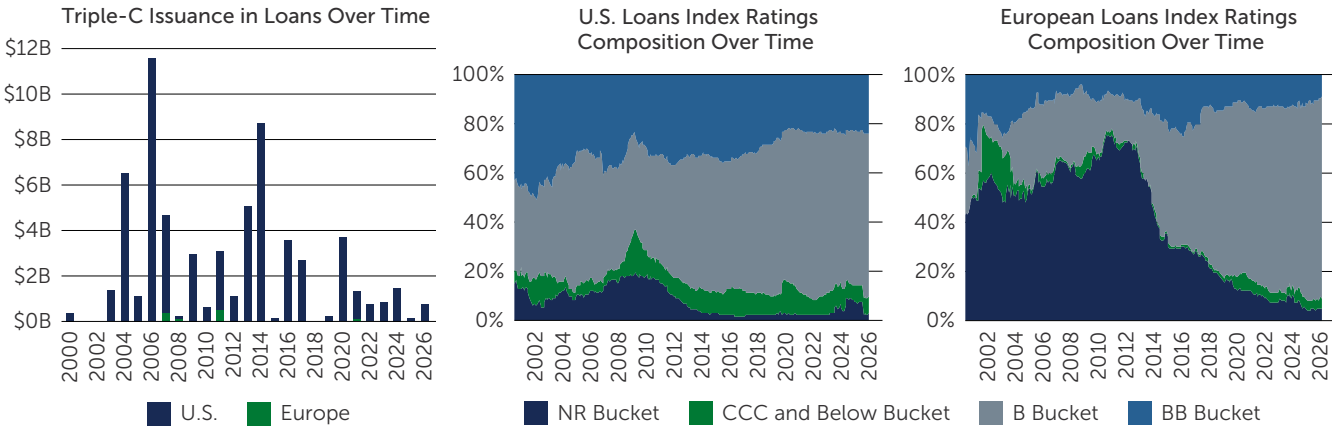


Source: S&P UBS Global Leveraged Loan Index. As of June 30, 2026.

Further, the composition of the institutional loan market has improved over time. Triple-C-rated issuance in the institutional loan market has noticeably declined in the last 10 years **(Figure 5)**, contributing to a reduction in overall lower-rated exposure. Today, triple-C and below rated loans account for approximately 7% of the U.S. loan market and 4% of the European market.[5]

That said, lower rated loans have historically provided attractive opportunities for alpha generation. However, given the increased performance dispersion within this segment in recent years, capturing those opportunities requires strong credit selection capabilities.

Figure 5: Triple-C Issuance and Exposure Have Declined Significantly in Loans



Sources: Pitchbook; S&P UBS. As of August 31, 2026.

5. Source: S&P UBS. As of July 31, 2026.

Key Takeaway: A Strategic Allocation Case

Periods of uncertainty often bring heightened scrutiny to the loan market. However, focusing solely on headline risks can obscure the asset class's demonstrated performance. Over the past decade—marked by repeated episodes of market stress—loans have consistently delivered resilient outcomes and served as a credible contributor to investor portfolios.

Looking ahead, loans remain well-positioned in an increasingly complex environment characterized by ongoing geopolitical uncertainty and sector-specific challenges—particularly with select software issuers remaining under scrutiny as the market works to price in potential AI-related risks to long-term business models. In addition, prolonged inflation has reinforced rate volatility across fixed income markets. Against this backdrop, loans remain attractive due to their senior secured position in the capital structure and floating-rate coupons, which have supported attractive levels of current income with lower volatility.

The combination of attractive income, favorable risk-adjusted returns and diversification benefits supports the case for a strategic allocation to loans. Additionally, the depth and liquidity of the secondary market have enabled broad access to the asset class, including through open-ended fund structures, making this higher-yielding segment of credit increasingly accessible to a wide range of investors.

KEY RISKS OF BROADLY SYNDICATED LOANS

Investing in broadly syndicated loans involves certain risks, including credit, liquidity and market risk. As below-investment-grade investments, loans may be more vulnerable to changes in economic conditions and borrower fundamentals than higher-rated securities.

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The S&P UBS Leveraged Loan Index tracks the investable market of the U.S. dollar-denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest-rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. The Index does not reflect any fees, expenses, or taxes and cannot be purchased directly by investors.

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