

## Cutting through the noise: What credit markets are actually telling us

Despite some negative headlines, credit markets are sending positive signals that the news simply isn't capturing. Amid geopolitical tensions, AI disruption fears and policy uncertainty, a team of Nuveen's leading credit experts came together to separate fact from noise. Here are their most important insights to help investors navigate today's environment.

### *Key takeaways*

- Credit fundamentals are stronger than the narrative suggests. We believe this environment calls for discipline, not a defensive stance.
- Volatility may be creating attractive entry points as sentiment-driven dispersion, reduced competition and improving deal structures are disconnecting prices from fundamentals across credit markets.
- This environment should benefit active managers who can distinguish between credits where negative sentiment rather than reality is driving pricing and those where fundamentals actually warrant concern.

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**Laura Cooper**

*Head of Macro Credit and  
Global Investment Strategist*

**Randy Schwimmer**

*Vice Chairman, Chief  
Investment Strategist,  
Churchill Asset Management*

**Himani Trivedi**

*Head of Structured Credit*

**Scott Caraher**

*Head of Senior Loans*

**Mattis Poetter**

*Partner and co-CIO, Arcmont  
Asset Management*

**Laura Cooper:** Is there still a “normal” credit cycle, or has something fundamentally changed?

**Randy Schwimmer:** It is hard to think of what we are in as a single credit cycle. What we are experiencing is more accurately a series of mini cycles, with market shocks arriving in rapid succession. I’ve been calling it the “gift of the month club.” What makes this moment distinct is that private credit is now large enough to influence broader capital markets rather than simply reacting to them.

That said, traditional macroeconomic indicators, including growth, interest rates, inflation and consumer spending, are generally in good shape. Spreads remain relatively tight, bond markets are open for business and, absent a significant wildcard like more prolonged oil price spikes or AI-related disruption, we don’t see materially elevated recession risk. For credit, a rates-on-hold environment is constructive.

**LC:** What are CLO and loan markets telling us about credit quality and investor appetite?

**Himani Trivedi:** The market is projecting what I would describe as valuation uncertainty rather than widespread credit deterioration. The loan and CLO market is approximately \$1.4 trillion, and it reflects real-time investor views on default risk. CLO portfolios with roughly 15% to 20% exposure to AI-centric names saw more volatility this year, while the remaining 80%, representing more visible, performing credit, have been trading near par.

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The market’s conclusion appears to be that this will be a traditional default cycle, with the exception of certain sectors still requiring reassessment. One data point

worth highlighting: The cumulative rate of impairment for investment-grade CLOs has been 0.2% over the past 25 years, versus approximately 2.1% for corporate credit. That structural resilience matters, and it makes today a compelling entry point, with a pickup of 100 to 150 basis points versus similarly rated corporate credit at the single-A level.

**LC:** How is AI disruption affecting the senior loan market?

**Scott Caraher:** What AI disruption has produced so far is dispersion and broad-based fear about what sectors might be affected next. In the first quarter, that fear drove significant underperformance in software credits. However, outside of software, sector-level returns were actually positive. More importantly, when we speak directly with companies and analyze earnings transcripts, we are not seeing fear translate into actual results. We are living in a market dominated by negative sentiment rather than evidence of actual credit stress.

At present, there is approximately \$250 billion in broadly syndicated loans maturing through 2028, primarily in software and technology. Many software companies we speak with describe AI as a net positive for revenue and EBITDA growth. Default rates today remain consistent with long-term historical averages of approximately 3%. The actively traded nature of senior loans is a meaningful advantage here. We can use price as a real-time proxy for default risk and manage positions before problems materialize.

**LC:** Are default concerns in private credit overblown?

**RS:** The narrative around private credit defaults has significantly outpaced the reality. Some late 2025 headline examples cited as private credit problems were in fact bank loans, and that conflation set a misleading tone. In the middle market specifically, we are not seeing elevated PIK ratios, meaningful non-accruals or default levels that correspond to the overly negative projections being circulated. Illiquidity in private credit is not a foe. It is

**“Illiquidity in private credit is not a foe. It is your friend.”**

your friend and institutional investors have understood that for years.

**Mattis Poetter:** Likewise, portfolio stress indicators in Europe have been improving steadily for four years. Default rates, PIK ratios and portfolio issues have all moved in a positive direction. For larger European direct lenders, portfolios are more robust and more diversified than they were even two years ago. The gap between public perception and underlying portfolio performance really couldn't be wider.

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**LC:** What is the opportunity in European direct lending?

**MP:** There is a misperception that European credit markets should be viewed negatively given that region's sensitivity to energy markets. But when the Russia/Ukraine war began four years ago, the same fears circulated, and European economies proved far more stable than predicted. GDP growth, while modest at roughly 1% to 2%, is now ticking upward with increased public investment across defense and infrastructure.

Approximately 97% of European private credit capital is institutional, meaning a more patient, reliable capital base than in the U.S. And volatile, emotional markets are productive for disciplined direct lenders. In the past eight weeks alone, we have seen better pricing, lower leverage and stronger documentation protections. Fewer financing sources and less competition from U.S. managers creates

genuine pricing power for those of us operating across European markets.

**LC:** Where are the most compelling opportunities for the rest of 2026?

**SC:** Dispersion and volatility create opportunity for active managers. We are positioning portfolios through a barbell approach: pairing high-conviction credits yielding approximately 7.5% with selective exposure to the roughly \$250 billion pool of loans trading at discounts in the 10% to 12% yield range. With rigorous credit selection, we are identifying names where the discount reflects negative sentiment rather than fundamental deterioration. And we believe the current backdrop offers one of the more attractive credit-picking environments we have seen.

**RS:** 2026 is shaping up as a genuinely strong vintage, potentially the best since the 2022 to 2023 period when interest rates were peaking. The core middle market, covering companies with \$25 million to \$75 million in EBITDA, offers several structural advantages. Loan-to-value ratios remain in the 35% to 40% range, deal flow is up 40% year to date and structures are improving. Investors rattled by recent headlines about redemptions from certain private credit funds risk missing that window entirely.

**“Dispersion and volatility create opportunity.”**

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