

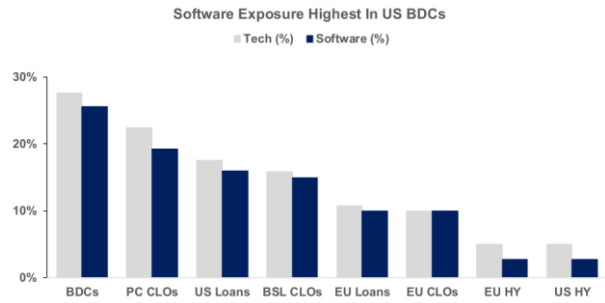
A Closer Look at BDCs Amid Software Stresses

WEEKLY VIEW FROM THE DESK | March 30, 2026

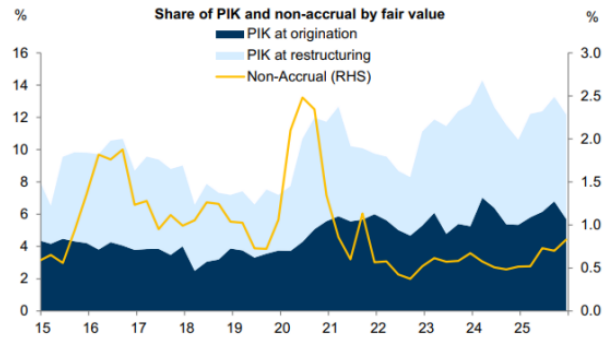
[LINK TO WEEKLY RETURNS TABLE](#)

MACRO

- Amid the growing number of negative headlines around private credit, we take a closer look at the sector, underlying credit health, and whether risks could become systemic. Focusing specifically on the BDC space, software exposure appears to be the main fault line, with estimates that software currently accounts for nearly 30% of sector exposure. With concentration risk at these levels a concern, other broad indicators of overall credit health (i.e. returns, defaults, and interest coverage) remain relatively intact. While systemic risk appears manageable (as the migration from banks to institutional capital has likely reduced system-wide leverage), we foresee future stresses driven more by investor psychology, reputational risks, and higher refinancing risk should base rates remain elevated.
- While estimates vary, BDCs account for approximately 37% of the \$1.3T private credit market (or \$1.8T including dry powder). Although statistics around default metrics vary, headline default statistics mask significant underlying differences across market caps, with higher EBITDA companies displaying significantly lower default rates than their lower EBITDA peers. Despite low headline default rates, by combining the share of “bad PIK” investments (i.e. those that were amended to included PIK after origination) with the share of loans on non-accrual, we estimate a current “shadow default” rate of around 5%, with the expectation that that number could rise to the mid- to high-single digits throughout the cycle as refinancing risk among software credits builds in 2027-2029.
- As for “gating,” we believe this is more of a feature than a flaw as managers have generally met the 5% minimum redemption requirement and most funds can generate sufficient quarterly cash flow under normal conditions. Asset coverage remains a critical metric within the space, with most perpetual non-traded BDCs currently operating with asset coverage of around 200% and public BDCs generally operating with asset coverage of around 180%. For context, asset coverage of less than 167% is likely to trigger a rating agency downgrade and asset coverage of 150% is the regulatory minimum. While risks are real, we believe they are contained with outcomes varying sharply by BDC structure, leverage, software exposure, and funding mix.



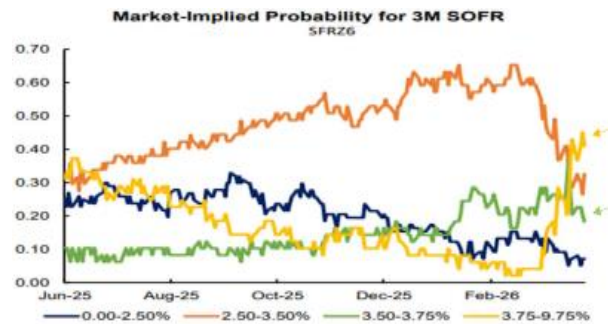
Source: Bloomberg, Pitchbook LCD, Morningstar, S&P Global, ICE BofA, Morgan Stanley Research. As of March 2026.



Source: Pitchbook LCD, Goldman Sachs Global Investment Research. As of March 2026.

DEVELOPED MARKET RATES

- U.S. Treasuries ended the week little changed despite an almost 20 bps range in the U.S. 10-year Treasury yield. The U.S. Treasury auctioned two-, five-, and seven-year maturities, all of which were poorly received as all three tailed, adding to overall volatility. More generally, rate volatility has risen sharply, with Europe showing even higher front-end volatility than the U.S. in a notable shift.
- While longer-term inflation expectations (as measured by five-year, five-year inflation expectations) remain anchored and the market is neither signaling runaway inflation or loss of Fed credibility, the market has now effectively priced out all expected Fed rate cuts for the remainder of the year. Current pricing (see chart) shows a wide distribution of outcomes, with a meaningful probability of no change and a growing probability of hikes. A similar dynamic is playing out in Europe, with higher rate volatility, a rising probability of ECB rate hikes, and a declining probability of cuts.
- U.S. MBS spreads continued to cheapen amid the recent rate volatility, with higher coupons (and shorter duration profiles) outperforming into the selloff. With the market feeling oversold, we prefer adding back some exposure using production and lower coupons as needed. We remain underweight 30-year 6% coupons and higher.



Source: PGIM. As of March 2026.

IG CORPORATES

- Within the IG space, BDCs are too small of a component to pose systemic risk. While their growth has been dramatic, the sector still represents less than 1% of the IG market. Meanwhile, markets don't seem to be pricing in any contagion risk in the 'Big 6' banks as spreads there remain well behaved. More generally, the macro and fundamental backdrop continues to be satisfactory, and ratings trends remain positive.

- In Europe, the ongoing conflict in Iran continues to dominate headlines and steer the market. However, headline fatigue is starting to erode the market-calming effect of Trump's de-escalatory statements. Brent consistently above \$110/barrel is having an adverse impact on European rates, as the biggest importers of LNG (U.K. and Italy) see the largest swings.

LEVERAGED FINANCE

- U.S. HY bond yields rose (reaching a high since June of last year) and returns were negative. Despite this, the high yield market technical has remained strong and spreads tightened throughout most of the week. All credit tiers saw negative returns, with BBs outperforming Bs and CCCs. By sector, performance was mixed, with air transportation (+0.45%), paper (-0.02%), and chemicals (-0.06%) performing the best. Containers (-1.43%), consumer products (-0.83%), and home builders & materials (-0.81%) underperformed.
- High yield funds posted their seventh consecutive weekly outflow totaling -\$2.0B (-\$478M from ETFs). Notably, outflows have totaled nearly \$7B over the past three weeks. The primary market was concentrated on two large issuers (Nexstar and Electronic Arts) in a week that saw five deals price for \$10.5B.
- As it pertains to private credit, BDCs are not meaningfully present in the market but we believe any spillover into HY would be manageable given the strong technical backdrop. With single-B risk having largely migrated to the leveraged loan space in recent years, the HY market is now largely dominated by BB issuers and HY investors are likely willing and able to finance single-B and CCC risk again.
- U.S. bank loans were stable last week but are slightly negative for the year. BBs are up modestly, Bs are down modestly, and CCCs are down sharply. YTD, software is the clear underperformer, down approximately 6% while higher-quality, non-tech sectors have largely been resilient.
- European high yield bond spreads widened last week amid continued macro and geopolitical risk. Recent weakness in loans have largely been driven by technology-related issuers. However, the European market generally has lower technology exposure than the U.S. market, comprising just 10-11% of the loan index and just 2-3% of the high yield index.

EMERGING MARKETS

- Uncertainty around the Iran war, including its duration and impact on energy and supply chains, continued to shape the backdrop for EMs. EM hard currency sovereign spreads moved wider, primarily in the CCC category—along with some single-Bs—with dispersion. Weaker oil importers and issuers that could be more vulnerable if external financing windows close were underperformers. Outperformers included GCC, Egypt, Argentina, and Brazil. Some of this was a function of local buying, recent performance, and the election outlook. As the conflict persists, the market will increasingly price in second-order effects. EM is vulnerable to additional spread widening, but somewhat mitigating downside risk is that yields are at a more attractive level when compared to 2022.
- The EMFX index was down last week with higher oil, higher rates, and the Iran conflict controlling broad price action. LatAm FX outperformed and remains a strong outperformer YTD. Europe was also up, while Asia lagged. The theme where oil exporters outperform and importers underperform continues to play out. BRL and COP were the top performers last week. Within Europe, HUF gained on headlines that opposition Tisha may get a super majority. The worst performers in Asia were MYR (this is an oil exporter which had outperformed, but de-risking seems to have impacted it last week) and oil importers like INR and PHP.
- In a risk-off week with intraweek moves in oil over 10%, the GBI-EM index yield rose to a one-year high of 6.37%. A higher USD and higher U.S. Treasury yield, plus a selloff in U.S. stocks, continued to put pressure on EM rates. But there was some dispersion last week. The main outperformers were Colombia, Mexico, and Hungary. Underperformers were Turkey, Thailand, and India. In the five-year swap space, energy importers Korea, India, and Thailand were wider. In Mexico, both swap and bonds benefited from a 25 bp rate cut, and a partial commitment to cut another 25 bps helped the curve to bull steepen. Overall, we are in an extremely uncertain and volatile period in which headlines rather than valuation continue to affect price action. If we were to see weak data in the U.S. and signs of demand destruction due to energy shortages, the market's narrative could easily swing to "lower growth."
- EM corporate spreads widened last week, with HY underperforming and growth-sensitive sectors like consumer and metals & mining weaker. Oil & gas was resilient. Regionally, Asia is still holding and the Middle East stabilized at wider levels. We cut some growth-sensitive names but kept our EM corporate rating unchanged given the relative outperformance of spreads versus developed markets, as well as potential deterioration in fundamentals if global growth is impacted.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were modestly wider in the primary market last week. Subordinate tranches were 5-10 bps wider, with single-As in the low- to mid- +200's and BBB-'s approaching +500. SASB spreads were wider in the secondary market. Top-tier AAA floaters are pricing in the +135 area. Fixed-rate seniors are pricing at +105-110. CRE CLO spreads were wider, with AAA new issue in the +150 area, while tier-two issuers were 5-25 bps wider. Seven deals priced—three SASB, one CRE CLO, and one agency.
- In RMBS, Non-QM spreads continued to widen last week, with new issue AAAs clearing at T+140-150 depending on issuer tier. Elevated macro volatility and heavy supply kept demand muted and mezzanine tranches required additional widening to get placed. Second-lien spreads widened alongside Non-QM and we expect CES to face greater pressure given its weaker liquidity profile. Issuance continued, with 14 deals totaling \$5.4B pricing.
- U.S. CLO spreads softened broadly. Primary spreads widened across the capital structure, with AAA spreads mixed and mezz tranches finding some support as buyers stepped in, particularly for clean portfolios. Dispersion across mezzanine tranches widened as investors increasingly differentiate based on underlying collateral quality. European CLOs widened across the capital structure, with mezz tranche widening beginning to slow as buyers stepped in at these wider levels.
- ABS spreads were 0-5 bps wider at the top of the stack, with new issuance remaining light. Secondary activity picked up, with a fair amount of BWIC activity and capital stepping in to "buy the dip."

MUNICIPALS

- Munis rates underperformed over the week with higher treasury rates and wider corporate spreads.
- With the seasonally weak period upon us and fading inflows into the market, we remain cautious over the next couple of months – leading to our negative short-term outlook.
- The technical backdrop is also weakening, with technicals expected to be seasonally softer until mid-year.

THE RETURNS TABLE AS OF MARCH 27, 2026

	Duration	YTM	OAS	WTD	Yield / OAS change (bps)				Total return (%)				
					MTD	QTD	YTD	Prior year	WTD	MTD	QTD	YTD	Prior year
Sovereign rates													
U.S. 2-Year	1.91	3.91	---	1	54	44	44	-8	0.05	-0.71	-0.01	-0.01	3.47
U.S. 5-Year	4.50	4.07	---	6	57	34	34	-2	-0.12	-2.08	-0.58	-0.58	3.90
U.S. 10-Year	7.98	4.43	---	5	49	26	26	7	-0.28	-3.44	-1.07	-1.07	3.86
U.S. 10-Year Breakeven	--	2.32	---	-7	6	7	7	-8	---	---	---	---	---
U.S. 10-Year TIPS	4.43	2.11	---	11	43	21	21	15	-0.85	-3.17	-1.06	-1.06	3.74
U.S. 20-Year	12.67	4.99	---	2	44	20	20	25	-0.12	-5.07	-1.52	-1.52	0.96
U.S. 30-Year	15.59	4.97	---	3	35	12	12	24	-0.27	-4.97	-0.83	-0.83	0.35
U.S. SOFR	---	---	---	1	-5	-24	-24	-73	0.07	0.28	0.88	0.88	4.23
UK 10-Year	7.39	4.97	---	-2	74	50	50	19	0.23	-4.36	-1.98	-1.98	3.81
Germany 10-Year	8.41	3.09	---	5	45	24	24	32	-0.31	-3.29	-1.01	-1.01	0.70
Switzerland 10-Year	8.98	0.39	---	2	21	12	12	-22	0.06	-1.65	-0.56	-0.56	2.64
Japan 10-Year	7.86	2.38	---	11	27	32	32	80	-0.87	-1.78	-1.73	-1.73	-3.76
Australia 10-Year	7.95	5.10	---	7	45	36	36	59	-0.32	-2.86	-1.58	-1.58	0.55
Canada 10-Year	8.13	3.58	---	2	45	15	15	48	-0.09	-3.07	-0.32	-0.32	0.18
Major fixed income multi-sector indices YTW													
Global Aggregate Unhedged	6.29	3.87	32	1	4	4	4	-2	-0.49	-3.58	-1.59	-1.59	4.31
Global Aggregate Hedged	6.29	3.87	32	1	4	4	4	-2	-0.23	-2.32	-0.70	-0.70	3.47
U.S. Aggregate	5.95	4.69	30	1	2	3	3	-4	-0.12	-2.49	-0.79	-0.79	4.39
Euro-Aggregate (Unhedged)	6.24	3.43	52	3	11	9	9	-1	-0.48	-3.15	-1.28	-1.28	1.04
Japanese Aggregate	8.17	2.17	0	0	0	0	0	0	-0.84	-1.80	-1.56	-1.56	-4.77
Major fixed income credit indices YTW													
Mortgage-Backed (Agency)	5.53	4.99	26	1	5	4	4	-11	-0.08	-2.53	-0.49	-0.49	5.70
Global IG Corporate Bonds	5.94	4.86	93	3	7	13	13	-1	-0.36	-3.47	-1.90	-1.90	5.69
U.S. IG Corporate Bonds	6.86	5.27	89	2	5	12	12	-1	-0.23	-2.86	-1.43	-1.43	4.56
European IG Corporate	4.59	3.79	96	4	13	18	18	3	-0.37	-2.61	-1.34	-1.34	1.66
U.S. High Yield Bonds	3.49	7.68	331	19	40	65	65	9	-0.47	-1.97	-1.29	-1.29	5.81
European High Yield Bonds	3.34	6.43	334	11	38	53	53	4	-0.31	-2.26	-1.35	-1.35	2.52
U.S. Leveraged Loans	0.3	8.92	513	5	-13	58	58	25	0.02	0.55	-0.54	-0.54	4.56
European Leveraged Loans	0.3	8.49	534	3	10	60	60	49	0.02	-0.10	-0.83	-0.83	1.98
EM Hard Currency Sovereigns	6.32	7.32	279	6	21	26	26	-56	-0.42	-3.55	-1.55	-0.94	10.13
EM Corporates	4.32	6.74	245	5	2	7	7	-10	-0.42	-2.06	-0.44	-0.44	5.86
EM Currencies	---	6.84	---	0	1	1	1	-1	-0.25	-2.84	-0.47	-0.47	9.01
EM Local Rates	5.27	6.37	6	0	1	0	0	0	-0.14	-2.40	-1.23	-1.23	5.47
CMBS	3.75	4.78	70	0	2	-5	-5	-16	-0.07	-1.79	-0.19	-0.19	5.40
ABS	2.81	4.51	50	2	2	-2	-2	-8	-0.03	-1.10	0.00	0.00	4.64
CLOs	3.97	5.05	135	-2	6	3	3	-10	0.18	0.13	0.96	0.96	5.39
Municipal Bonds	6.43	3.83	---	16	54	23	23	-8	-0.81	-2.72	-0.58	-0.58	4.34

	Total return (%)						Change (%)						
	Level	WTD	MTD	QTD	YTD	Prior year	Spot	WTD	MTD	QTD	YTD	Prior year	
Equity / volatility indices													
S&P 500 Index	6,369	-2.1	-7.3	-6.7	-6.7	13.3	FX / commodities						
DAX	22,301	-0.4	-11.8	-8.9	-8.9	-1.7	EUR / USD	1.2	-0.5	-2.6	-2.0	-2.0	6.6
Stoxx 600	575	0.6	-8.8	-2.2	-2.2	8.9	USD / JPY	160.3	0.7	2.7	2.3	2.3	6.1
Nikkei 225	53,604	0.0	-9.3	6.1	6.1	43.9	GBP / USD	1.3	-0.6	-1.7	-1.6	-1.6	2.4
Shanghai Composite	3,914	-1.1	-6.0	-1.2	-1.2	19.0	EUR / CHF	0.9	0.9	1.2	-1.2	-1.2	-3.4
MSCI ACWI Index	966	-1.5	-8.4	-4.4	-4.4	16.8	USD / CHF	0.8	1.4	3.9	0.8	0.8	-9.4
FTSE 100	9,967	0.6	-8.1	1.3	1.3	18.9	USD (DXY)	100.2	0.5	2.6	1.9	1.9	-4.0
MOVE Index	112	2.9	52.6	75.0	75.0	23.0	Oil	99.6	1.3	48.7	73.5	73.5	42.5
VIX Index	31	15.9	56.3	107.7	107.7	66.1	Gold	4494.1	0.0	-14.9	4.0	4.0	47.0

Past performance is not a guarantee or a reliable indicator of future results. Sources: Bloomberg except EMD (J.P. Morgan), HY (ICE BofAML), Bank Loans (S&P), and CLOs (Palmer Square). European returns are unhedged in euros unless otherwise indicated. An investment cannot be made directly in an index.

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Source(s) of data (unless otherwise noted): PGIM as of March 2026.

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