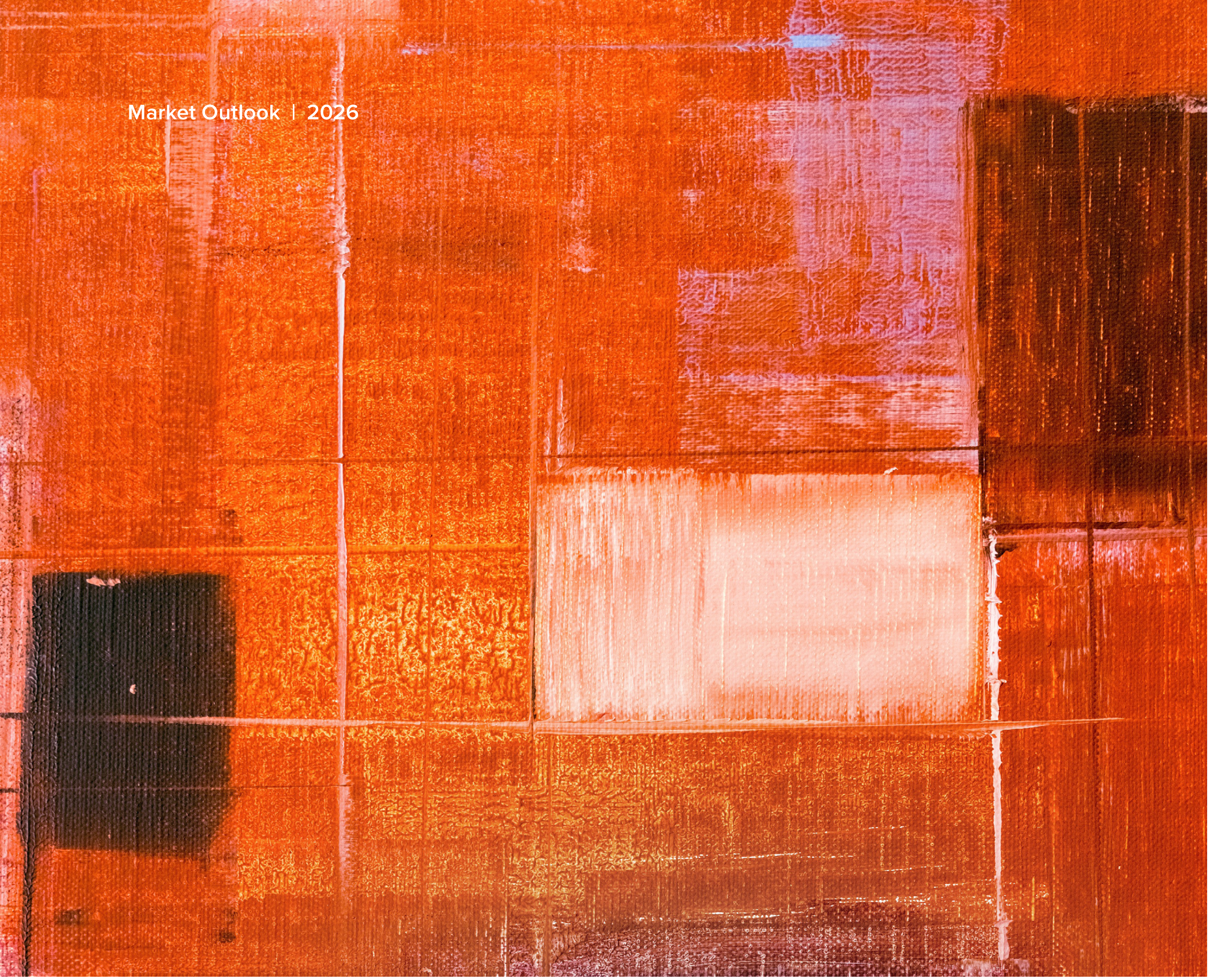


European Senior Loans in 2026: Coupons Expected to Anchor Returns

Amid a backdrop of positive technicals and emerging late-cycle behavior, high starting yields should anchor returns once again in 2026.

Mohamed Basma, CFA
Head of Bank Loans and Global CLOs

Floris van den Berg, CFA
Portfolio Manager,
European CLO and Team Lead

Voya Investment Management

Executive summary

Positive absolute returns, relative laggard in 2025

On a relative basis, senior loans trailed other credit sectors in 2025. Thematically, loans were subject to an uncertain macro backdrop, developing sectoral themes, and increased issuer bifurcation, even as technical conditions remained supportive and underlying fundamentals largely healthy. However, the asset class still delivered strong absolute returns for a third consecutive year, driven by coupons that remain historically elevated despite the continuation of rate cuts.[1]

Key trends in 2025:

- **Periodic volatility** triggered episodes of secondary-market weakness, most notably during the tariff-driven sell-offs in March and April.
- Wide **performance dispersion** at both the single name and industry level was the major theme of European loan performance in 2025.
- Technicals buoyed performance, driven by **record-breaking CLO issuance** that underpinned investor demand.

2026 outlook

Senior loans continue to offer attractive starting yields and against a backdrop of solid macroeconomic conditions, stable corporate fundamentals, elevated coupons, muted repricing expectations, and only modest projected default activity. Conditions would need to deteriorate meaningfully beyond our base case to generate negative total returns in 2026.

- **Technicals** should continue to be a tailwind, but could moderate due to stronger M&A activity
- **Defaults** are expected to remain modest, but pockets of stress will continue to persist
- **The macroeconomic environment** should remain supportive, but risks are elevated and warrant careful monitoring.

Our performance outlook for 2026

While future performance cannot be guaranteed, we forecast potential total returns for loans in the 4.5–5.5% range in 2026, broadly in line with the asset class's long-term historical track record.[2]

Components of return	Base assumption (%)
Spread	3.7
Base rate	1.75 to 2.0
Repricings	-0.1
Price change	-0.5 to 0.5
Default loss	-1.0 to -0.5
Total return outlook	**~4.5 to 5.5**

[1] Source: Bloomberg, Morningstar.
[2] Please see Exhibit 12 for more detail.

Review of 2025

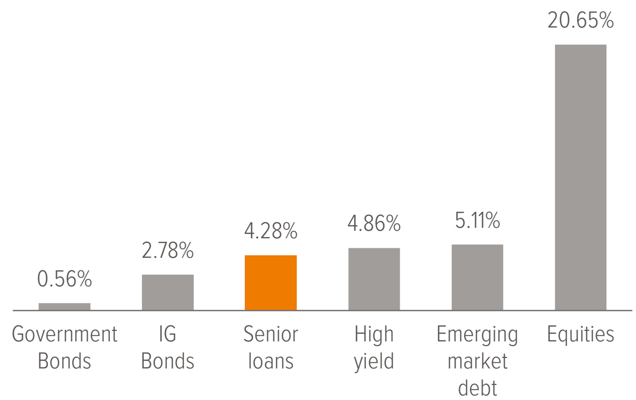
Looking back on 2025, global financial markets were resilient despite a growing list of challenges. Some notable headlines throughout the year included tariff and policy uncertainty, heightened geopolitical conflicts, a record-long US government shutdown that limited the availability of important economic indicators, and a heightened scrutiny in credit markets. Early in the year, European risk assets were supported by easing monetary policy in addition to strong fiscal spending from Germany, which boosted relative performance versus U.S. markets. However, sentiment soured on "Liberation Day" in early April, as the unexpected announcement of reciprocal tariffs in the US triggered a sharp spike in volatility. This prompted a rapid sell-off in risk assets across both sides of the Atlantic, widening in credit spreads, and a temporary lull in primary issuance as investors reassessed global growth, inflation, and policy risks.

In the weeks that followed, markets mounted a gradual recovery as fears of a sustained trade shock receded, supported by a pause in tariffs and de-escalation in trade tensions between US China, and other major partners within Europe. Improved clarity around policy implementation, alongside resilient economic data and solid corporate earnings, boosted investor sentiment. Global credit markets rebounded, with spreads retracing much of their earlier widening as conditions normalized and primary issuance resumed. The momentum continued in the subsequent months, as spreads grinded tighter. However, volatility increased heading into the last quarter as investor focus shifted on credit markets given increased negative idiosyncratic events and worries over an AI valuation bubble and the scale of debt issuance required to fund the growing AI capex cycle.

While these concerns dominated headlines and resulted in periodic volatility, it was short lived whereby financial markets ultimately recovered in every period and remained on a strong footing. A key catalyst behind strong performance within European markets was easing financial conditions, as the European Central Bank (ECB) delivered 100 basis points (bps) in rate cuts during the year. European equities delivered robust returns, while fixed income markets demonstrated resilience, with most sectors delivering positive excess returns versus government bonds (Exhibit 1). Corporate credit sectors continued their strong streak of recent performance, as constructive technicals and stable fundamentals buoyed spreads.

Exhibit 1. European risk assets delivered another solid year of performance

2025 returns



Data as of 12/31/25. European government bonds represented by the Bloomberg Euro-Aggregate Treasury Index. Emerging market debt represented by the Bloomberg Emerging Markets Pan-Euro Aggregate Index. European investment grade bonds represented by the Bloomberg Pan-Euro Corporate Index. European equities represented by the STOXX Europe 600 Index. European high yield bonds represented by the Bloomberg Pan-European High Yield. European loans represented by the Morningstar European Leveraged Loan ex-Currency Index. **Past performance is no guarantee of future results.**

Spotlight on European Loans: Increased bifurcation, deeper supply/demand imbalance and a record wave of repricing transactions

Despite ongoing headlines, the European loan market remained resilient throughout the year, marking a third consecutive year of positive returns. However, the return fell short of historical averages for the asset class and below consensus expectations heading into the year. Spread compression from strong pace of repricings and falling base rates eroded coupon income, which was a key factor behind consecutive returns of 8%+ in the prior two years.[1]

While coupon income was only one aspect of returns, market value also detracted from performance, with price returns totaling -1.99% for the year, reflecting declines in average secondary trading levels.[1] For the year, the average bid price of the index declined by 135 basis points (bps), ending the period at 96.66. Periodic volatility triggered episodes of secondary-market weakness, most notably during the tariff-driven sell-offs in March and April, with the index bid price reaching a low water mark of 95.54 (the lowest level since 2022).[1] While prices recovered during the summer months on the back of a significant supply/demand imbalance and a stable fundamental backdrop, they weakened again in the final three months of the year amid heightened idiosyncratic

[1] Source: Bloomberg, Voya IM.

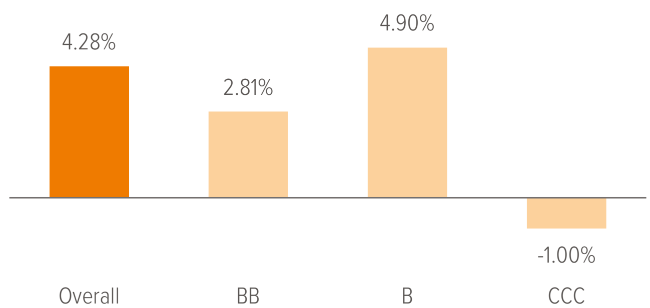
challenges that were highlighted by First Brand's collapse, which also significantly impacted the U.S. loan market and generally weakened the tone in global below-investment grade credit markets.

Increased volatility and the overhang of single-name risk created increased dispersion. This was evidenced by the growing difference in loans trading at par or higher versus 90 and below. For reference, share of loans trading above par grew to over 64.5% (from 52.9%), while the percentage of loans trading below 90 also increased to 10.3% (from 6.4%). Across ratings, similar bifurcation was evident, as investor preference for higher quality was well entrenched when looking at the performance scorecard by ratings quality (Exhibit 2). Single-Bs, which make up the bulk of the European loan market, outperformed in 2025, followed by BBs which delivered a positive, albeit more modest return. Although not a meaningful component of the European loan market, CCCs delivered a negative return and lagged their higher-rated counterparts for a second consecutive year, reflecting a more cautious outlook for lower-rated names and growing concern for heightened tail risks.

Sector performance also reflected dispersion trends given some developing sectoral themes. On one hand, building products, healthcare equipment, and professional services were the most notable outperformers. In contrast, autos underperformed amid pronounced idiosyncratic challenges that weighed on the entire sector, while chemicals lagged due to excess supply and sustained pricing pressure.

One of the defining themes of the recent years has been an exceptionally strong technical backdrop, driven by a pronounced supply/demand imbalance. 2025 was no exception; in fact, it marked the most notable supply shortage on record (Exhibit 4). This imbalance was fueled by record-breaking demand from the loan market's dominant buyer base, CLO investors, now estimated to account for approximately 70% of the asset class. CLO issuance significantly exceeded expectations and surpassed the prior year's record, reaching €60 billion in 2025, an increase of roughly 25% year over year. A key catalyst for this acceleration was the tightening in CLO liability spreads, underpinned by robust demand for AAA-rated tranches from banks and other institutional investors. Consistent with this strength, the number of open European warehouses increased materially, signaling sustained investor appetite for the CLO market. Furthermore, refi and rest activities were robust in 2025, with aggregate volume reaching €66 billion.

Exhibit 2. Returns by ratings were relatively dispersed, with single-Bs faring the best



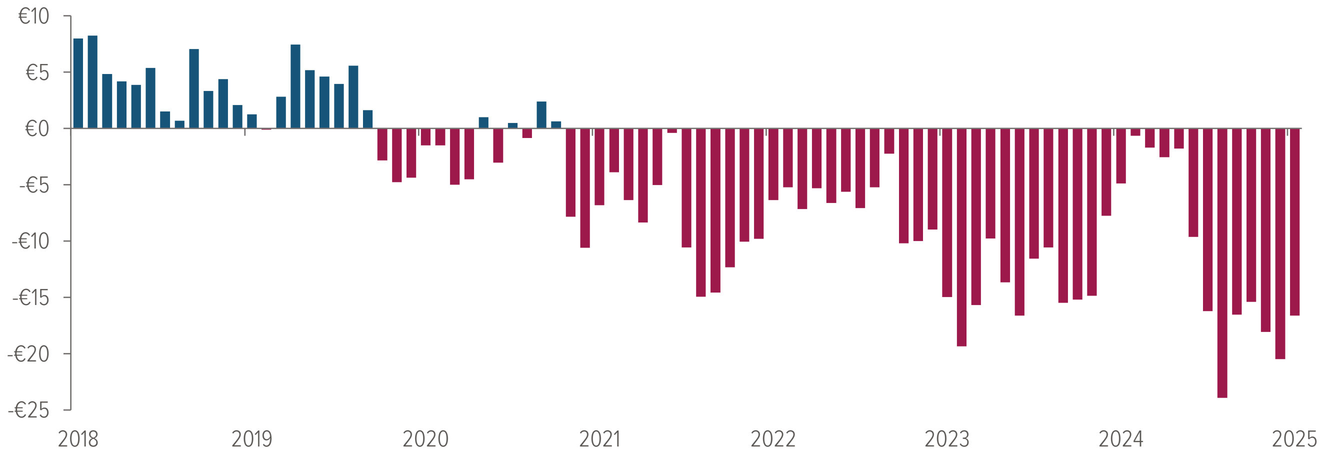
As of 12/31/25. Source: Pitchbook/LCD. See endnotes for index definitions and additional disclosures.

Exhibit 3. Sector performance also showed wide dispersion
(%)

Top 5 performers		Bottom 5 performers	
Building Products	9.73	Automobile Components	-10.89
Health Care Equipment & Supplies	8.04	Chemicals	-4.26
Professional Services	7.75	Containers & Packaging	-1.27
Specialty Retail	7.61	IT Services	3.40
Diversified Telecommunication Services	6.86	Health Care Providers & Services	3.50

As of 12/31/25. Source: Pitchbook/LCD. See back page for index definitions and additional disclosures. Industry table includes only sectors that have at least a 1% market weight in the Index.

Exhibit 4: Rolling-6-month European institutional loan issuance shows a deep imbalance
(€ billions)



Sources: PitchBook | LCD; Morningstar European Leveraged Loan Index • Data through Dec. 31, 2025
* CLO issuance minus new issues tracked by the index minus repayments.

Primary markets were open to address financing needs of borrowers. Given the strong technical environment, as supported by robust CLO demand over the past few years, issuers become increasingly opportunistic in accessioning the market to reduce interest expenses on their term loans. These repricing transactions—which do not constitute new-money issuance—exceeded €100 billion over the year and drove nominal credit spreads to their tightest levels since 2017. As a result, 2025 marked a post-GFC record for repricing activity, with approximately one-third of the outstanding loan market repriced.

Repricing activity—together with maturity extensions and traditional institutional issuance via refinancings, M&A, and dividend recapitalizations—pushed total loan market activity to a record €250 billion (Exhibit 5). Excluding repricings, institutional issuance increased meaningfully versus 2024, reaching €96 billion (up 22% year over year). While this fell short of the €100 billion-plus levels that were achieved on only three prior occasions, it represents the highest annual total since 2021. The increase was primarily driven by M&A and dividend recapitalizations, as refinancing volumes remained broadly flat.

Exhibit 5. The primary market was busier in 2025 given increased repricing transactions and M&A activity
(€ billions)

Total volume	2025	2024	YOY change
Non-refi issuance (M&A, dividend recaps, and other)	55.3	40.3	37%
Refinancing	40.7	38.2	7%
Total institutional volume (ex-repricings and extensions)	**96.0**	**78.6**	**22%**
Total repricings via amendment	109.0	79.0	38%
Total extensions via amendment	45.4	49.5	-8%
Total repricing and maturity extension volume	154.3	128.5	20%
Total volume (including repricings and extensions)	**250.3**	**207.1**	**21%**

As of 12/31/25. Source: Pitchbook/LCD.

What are the main performance drivers and themes in 2026?

Looking ahead, we identify several key themes that we expect to drive performance in the European loan market. Broadly, we anticipate a continuation of recent dynamics: elevated yields should remain supportive of returns, demand is likely to continue outpacing supply, and market bifurcation will remain a key dynamic. While overall credit fundamentals are expected to stay healthy, we anticipate pockets of idiosyncratic stress and a further gradual increase in defaults. The macro backdrop should remain stable in the Eurozone area, boosted by increased fiscal and defense spending, while central bank policy is expected to stay on hold and therefore not expected to further detract from loan coupons.

Nonetheless, several evolving dynamics could alter expectations. These include the risk of deteriorating trade negotiations between the U.S. and Europe, a more pronounced escalation in U.S.-China trade tensions, and ongoing geopolitical uncertainty. Additionally, if loan supply materially surprises to the upside, the weaker technical could weigh on the secondary loan market. With that said, the asset class is positioned relatively well to start the new year, underpinned by supportive technicals, stable fundamentals, and still elevated yields that will continue to attract investors. Taken together, these factors should help sustain the market's strong performance into a fourth consecutive year.

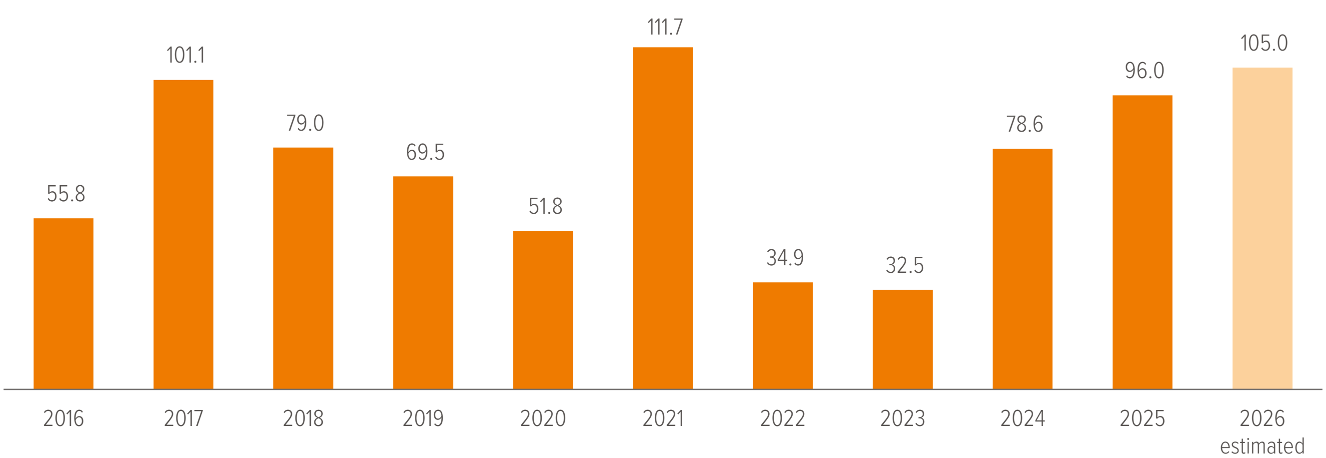
Heading into the new year, the technical balance of the European loan market remains firmly skewed in favor of borrowers, as robust demand – driven by strong CLO formation – has continued to outpace issuance net of repayment activity. The meaningful absence of new-money transactions has encouraged opportunistic borrower activity, primarily through repricing transactions. While this dynamic is likely to persist in 2026, we expect technical conditions to become modestly more balanced as net supply gradually increases.

Technicals will remain underpinned by strong CLO formation, but we expect net issuance to increase, resulting in modestly more balanced market

Issuance supporting acquisitions had steadily increased over the past few years but remains well below the peak in 2021. With the growth outlook in Europe and corporate earnings remaining stable, and funding costs declining in the past year, M&A activity is expected to accelerate in 2026. In addition, the loan market has recently become the preferred channel for sponsored transactions relative to both direct lending and the public high yield bond market. Refinancings should remain prevalent again, but a relatively benign near-term maturity wall will limit the pace from materially increasing. However, one potential catalyst for an uptick is more refinancings out of private credit markets into the broadly syndicated loan market, particularly if volatility and defaults increase in the former. For 2026, we project total institutional issuance, net of repricings, to increase to €100-110 billion (Exhibit 6). On the repricing front, the universe of eligible loans has shrunk following the substantial volume in 2025. Nevertheless, if supply remains materially constrained relative to demand alongside a continued stable macro backdrop, the market could experience another strong year of repricings and tighten nominal credit spreads further.

Exhibit 6. Issuance should expand due to higher expected M&A activity

(€ billions)



As of 12/31/25. Source: Pitchbook/LCD. See endnotes for index definitions and additional disclosures.

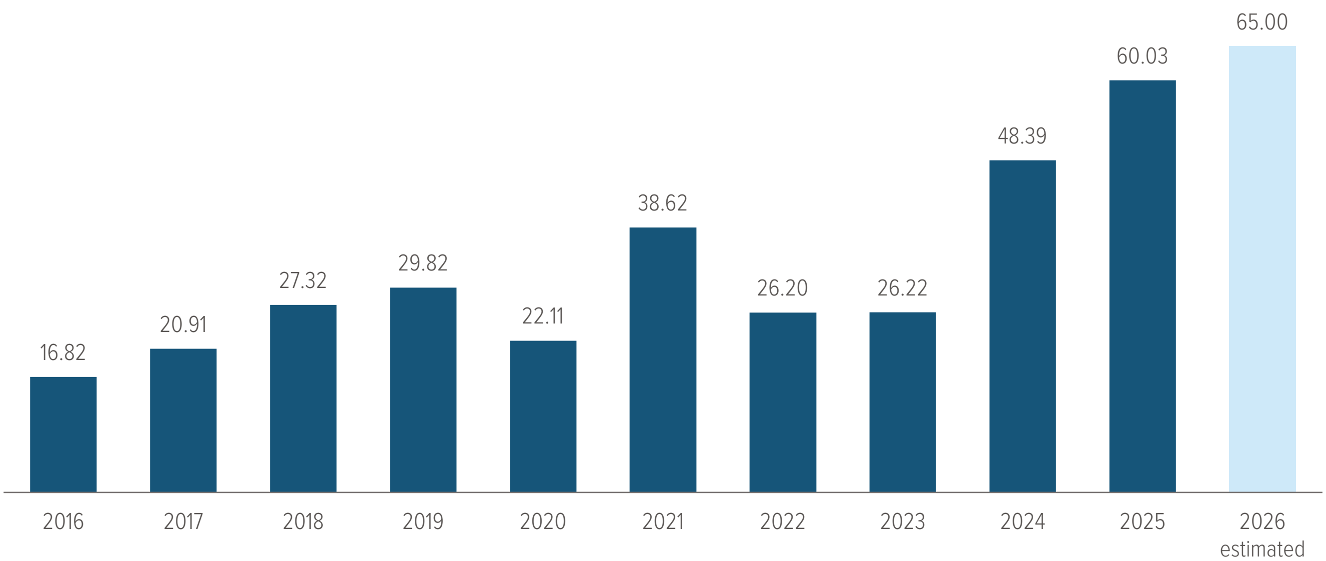
Despite tighter spreads and lower overall coupons amid falling base rates, global demand for CLOs has remained robust in recent years. We believe this dynamic is likely to persist in 2026, as a near-record number of open European warehouses and the ongoing creation of captive equity funds continue to support issuance. At the same time, net loan supply is projected to increase, potentially slowing the pace of spread compression and improving arbitrage conditions. For 2026, we project European CLO issuance to set another record, with the total volume in the range of €60-70 billion (Exhibit 7). The asset class continues to offer an attractive yield and spread pick-up relative to other similarly-rated assets in European fixed income markets, alongside other benefits such as its floating rate structure and historically low default risk. Demand for AAA tranches is expected to remain strong, underpinned by a diversified investor base that includes banks, insurance companies and traditional asset managers.

Fundamentals unlikely to deteriorate absent a material slowdown in growth

Credit fundamentals enter the new year on relatively solid footing, supported by stable earnings trends and generally healthy leverage and interest coverage ratios. However, there has been increased stress and idiosyncratic pressure in the "right tail" of the market. Although total downgrades were modestly higher in 2025, the aggregate volume of upgrades came in at a lower pace. As a result, the rolling 12-month downgrade-to-upgrade ratio rose to 2.76x, which is the highest reading since the Covid-induced downgrade wave of 2020 (Exhibit 8).

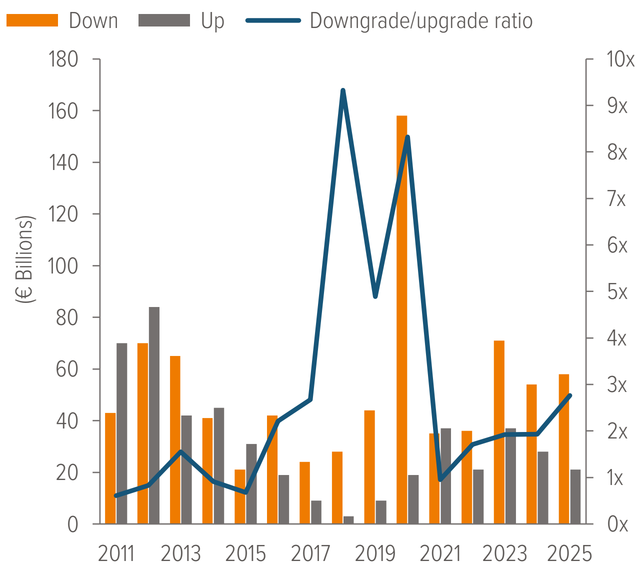
Given the increased downgrade activity, the share of riskier CCC credits has more than doubled since the start of 2024, with the percentage of CCC paper in the market increasing to 5.51% (Exhibit 9). Downgrades have been concentrated in more cyclical sectors, such as autos, packaging and chemicals. While the increased pace of downgrades and CCC concentration aren't indicative of broader fundamental deterioration, they highlight an increasingly bifurcated market and underscore the need for careful credit selection.

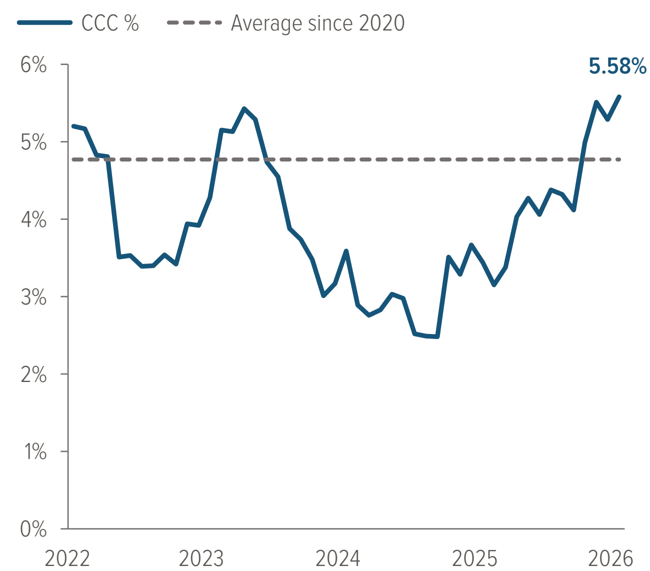
Exhibit 7. European CLO issuance to remain robust in 2026
(€ billions)



As of 12/31/25. Source: Pitchbook/LCD. See endnotes for index definitions and additional disclosures.

Exhibits 8 and 9: Percentage of CCCs has picked up due to downgrades



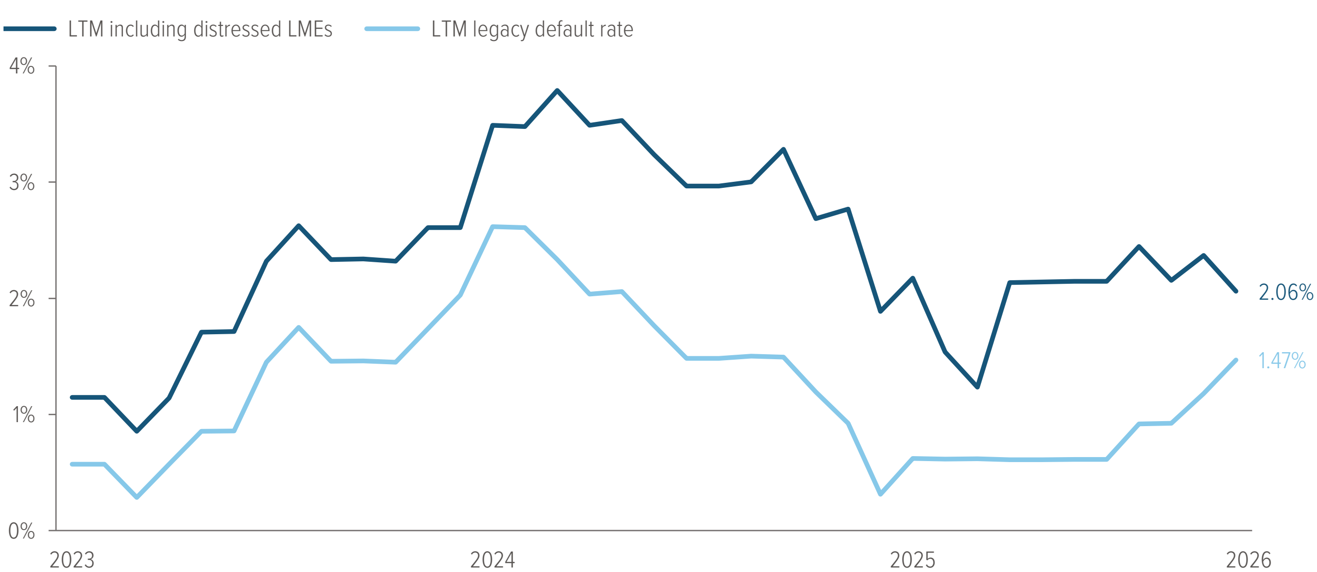


Data as of 12/31/25. Source: Pitchbook/LCD. See endnotes for index definitions and additional disclosures.

Default activity should increase but remain modest overall

Traditional payment default activity picked up sharply in 2025, as a few large issuers in the index (First Brands and Altice France) filed for bankruptcy. As a result, the trailing 12-month payment default rate by principal amount spiked by more than 100 bps, ending the year at 1.44%. While this represents a meaningful increase year over year, the trailing rate remains well below the historical average of roughly 2.9%. A notable dynamic over the past few years has been the increased use of liability management exercises (LMEs) by both US and European issuers. Looser documentation, quicker restructuring times, and a growing need to address higher interest burdens have all contributed to the rise in LME activity. However, this trend moderated in 2025, as LCD's combined default rate of traditional payment defaults and LMEs ended the year at 2.06%, which is down significantly from the peak of 3.79% observed in March 2024 (Exhibit 10).

Exhibit 10: The increased pace of defaults was driven by traditional payment defaults, as LMEs eased



Data as of 12/31/25. Source: LCD. See endnotes for index definitions and additional disclosures.

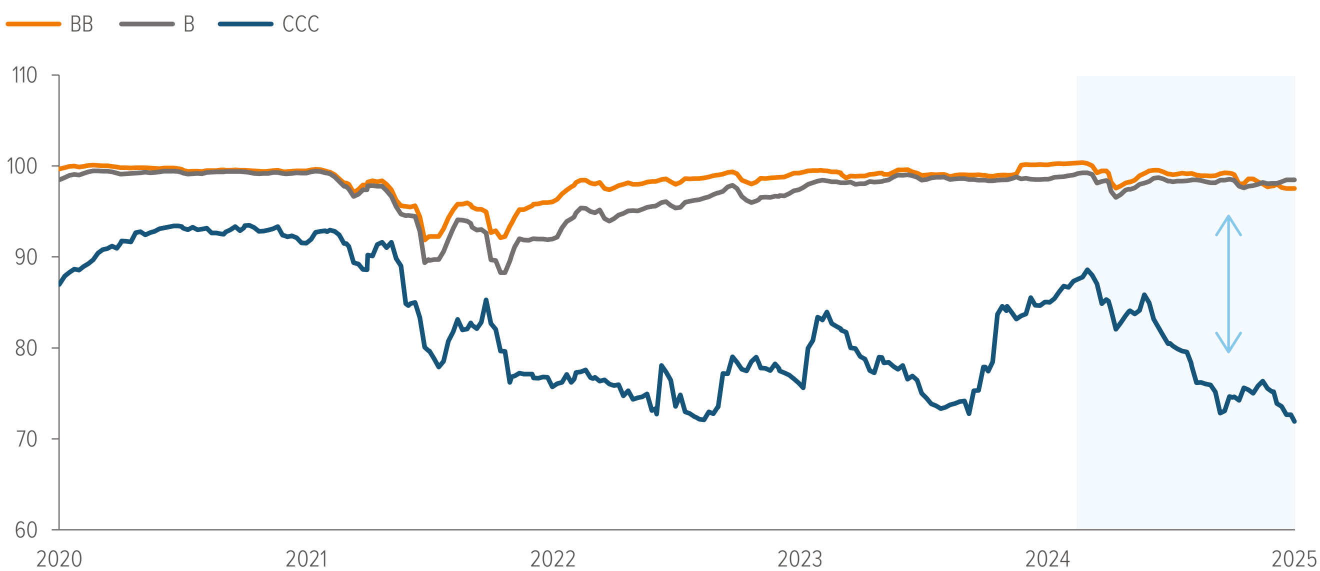
Looking ahead, we expect defaults to continue to tick higher in 2026, as the distressed cohort of issuers (i.e., loans trading below 80) has increased recently to 5.22%. However, the stable economic backdrop, solid overall corporate fundamentals, and a relatively benign maturity wall will limit defaults from going materially higher. Furthermore, we expect defaults will continue to be driven by idiosyncratic or sectoral risks. When factoring distressed exchanges, LMEs will likely remain an option to solving unsustainable capital structures versus the more expensive bankruptcy route. With LMEs dominating the default landscape in this cycle, the number of 'repeat offenders' has also increased. Often, these out-of-court restructuring arrangements do not yield positive outcomes in improving the company's long-term viability, with an eventual return to some form of bankruptcy filing. As such, we continue to expect a protracted, but importantly, modest default cycle going forward.

Bifurcation should remain a prominent theme across both issuers and sectors. Credit selection will be key to outperformance in 2026

When observing the investable European loan universe, we believe 2026 will favor credit picking, as meaningful alpha opportunities will come from individual credit selection. Given strong CLO buyer demand, we expect most B-rated loans to remain well bid, as they are the dominant category within the European loan market, but bifurcation will remain a prominent theme. BBs offer decent relative value, with their average bids at a rare discount relative to Single-Bs heading into the year. Even with the notable underperformance in 2025 (Exhibit 12), we believe CCC-rated loans will remain highly sensitive to major macro drivers in either direction or to company-specific developments. Therefore, careful credit selection within this cohort remains paramount.

Exhibit 11: A divergence between CCC and higher-rated credits was evident in 2025

Weighted average bid price



Data as of 12/31/25. Source: Pitchbook/LCD.

Across sectors, we enter 2026 with a bias towards industries that we believe are better positioned to withstand any broader economic pressure from the impact of tariffs, most notably insurance, food & beverage, and energy. We also continue to like financial services issuers with flexible cost structures that benefit from scale, with further valuation support given the prospects of further consolidation within some of the sub sectors. Conversely, we remain cautious on chemicals due to China over-supply issues, cyclicals, and industries directly impacted by tariffs, most notably autos. Other areas where we have a selective stance include media and broadcasting given structural risks, and certain software issuers that could see reduced demand based on productivity enhancements at customer operations as AI deployment further proliferates. On single name basis, we'll continue to be cautious on consumer-reliant issuers with weaker credit profiles, particularly those with discretionary offerings and exposure to the low to mid-tier consumer, as well as "cuspy" issuers that we view as susceptible to secular challenges.

Coupon to anchor returns once again

While future performance cannot be guaranteed, we forecast potential total returns for European loans in the 4.5–5.5% range (Exhibit 12), broadly in line with the asset class's long-term historical track record. After a year in which nearly 65% of the market finished above par, the potential for broad-based price appreciation appears limited. That said, selective convexity opportunities remain for investors willing to navigate elevated idiosyncratic risks and ongoing LME activity.

However, price upside is only one part of the return equation, as loans continue to offer attractive starting yields versus similarly rated credit alternatives while carrying minimal duration risk. Against the solid economic backdrop, stable corporate fundamentals, elevated coupons, muted repricing expectations, and only modest projected default activity, conditions would need to deteriorate meaningfully beyond our base case to generate negative total returns in 2026. As always, a wide range of potential outcomes could shift return expectations in either direction.

Exhibit 12: The European loan market is projected to deliver stable returns in 2026, driven by the coupon component

Components of return	Base assumption (%)
Spread	3.7
Base rate	1.75 to 2.0
Repricings	-0.1
Price change	-0.5 to 0.5
Default loss	-1.0 to -0.5
Total return outlook	**~4.5 to 5.5**

As of 12/31/25. Source: Pitchbook/LCD, Bloomberg. Loans represented by the Morningstar European Leveraged Loan Index. Loan rate represented by a Euribor; loan spread is LCD's nominal credit spread for the loan index. **Past performance is no guarantee of future results. Investors cannot invest directly in an index.**

A note about risk

Principal risks for senior loans: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. Voya's senior loan strategies invest primarily in below investment grade, floating rate senior loans (also known as "high yield" or "junk" instruments), which are subject to greater levels of liquidity, credit and other risks than are investment grade instruments. There is a limited secondary market for floating rate loans, which may limit a strategy's ability to sell a loan in a timely fashion or at a favorable price. If a loan is illiquid, the value of the loan may be negatively impacted and the manager may not be able to sell the loan in order to meet redemption needs or other portfolio cash requirements. The value of loans in the portfolio could be negatively impacted by adverse economic or market conditions and by the failure of borrowers to repay principal or interest. A decrease in demand for loans may adversely affect the value of the portfolio's investments, causing the portfolio's net asset value to fall. Because of the limited market for floating rate senior loans, it may be difficult to value loans in the portfolio on a daily basis. The actual price the portfolio receives upon the sale of a loan could differ significantly from the value assigned to it in the portfolio. The portfolio may invest in foreign instruments, which may present increased market, liquidity, currency, interest rate, political, information and other risks. These risks may be greater in the case of emerging market loans. Although interest rates for floating rate senior loans typically reset periodically, changes in market interest rates may impact the valuation of loans in the portfolio. In the case of early prepayment of loans in the portfolio, the portfolio may realize proceeds from the repayment that are less than the valuation assigned to the loan by the portfolio. In the case of extensions of payment periods by borrowers on loans in the portfolio, the valuation of the loans may be reduced. The portfolio may also invest in other investment companies and will pay a proportional share of the expenses of the other investment company.

Index definitions

An investor cannot invest directly in an index, and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations, as volatility and other characteristics may differ from a particular investment. The S&P 500 Index is an unmanaged index that measures the performance of securities of approximately 500 of the largest companies in the United States. The Nasdaq Composite Index measures all domestic and international common stocks listed on the Nasdaq Stock Market. The Bloomberg U.S. Treasury Index is an unmanaged index that includes public obligations of the U.S. Treasury. Treasury bills and certain special issues, such as state and local government series (SLGS) bonds, as well as U.S. Treasury TIPS and STRIPS, are excluded. The Bloomberg U.S. Corporate Index measures the performance of investment grade, USD-denominated, fixed-rate, taxable corporate bond market securities. The Morningstar LSTA Leveraged Loan Index is an unmanaged total return index that captures accrued interest, repayments and market value changes. The Bloomberg U.S. High Yield Index covers the universe of fixed-rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets are excluded, but Canadian and global bonds of issuers in non-EMG countries are included. The Bloomberg Corporate High Yield Index is an unmanaged index that measures the performance of fixed income securities generally representative of corporate bonds rated below investment grade. Bloomberg® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). Bloomberg or Bloomberg’s licensors own all proprietary rights in the Bloomberg Indexes. Bloomberg does not approve or endorse this material, nor guarantee the accuracy or completeness of any information herein, nor make any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, shall not have any liability or responsibility for injury or damages arising in connection therewith.

Past performance does not guarantee future results. This market insight has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain statements contained herein may represent future expectations or other forward-looking statements that are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults, (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities. The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Fund holdings are fluid and are subject to daily change based on market conditions and other factors.

©2026 Voya Investments Distributor, LLC • 200 Park Ave, New York, NY 10166
All rights reserved.

Not FDIC Insured | May Lose Value | No Bank Guarantee | Not a Deposit

IM5212286 • 222978 • 021626 • 2026-2-5546450

Investment Management