

June 16, 2026

Reg Cap Fundamental Credit Trends

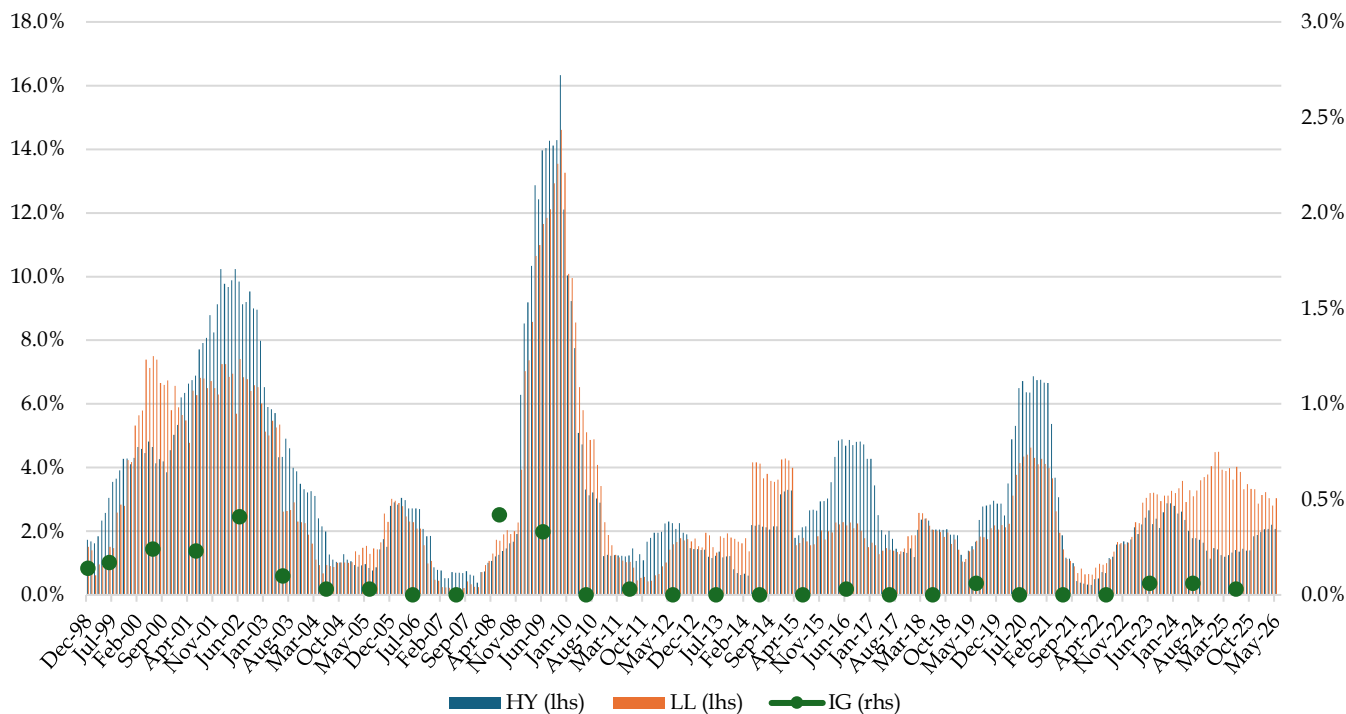
The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection criteria and originators, when selecting assets for a reference pool, are motivated to help ensure the success of their Reg Cap program on the most attractive terms. That said, we find it useful and important to track broad trends in asset performance in addition to deal-specific surveillance (which is non-public). Across the 42 investments that we own and track, referencing corporate, SME, middle market, CRE consumer, and auto loans in Europe, North America, and Asia, we are seeing continued strong credit performance almost across-the-board, with just a few positions that we are monitoring more carefully due to slightly higher negative credit migration and/or default trends. The indices we look at as broadly representative of some of the most common reference assets include US Corporate Debt, including Investment Grade, High Yield and Leveraged Loans; European Investment Grade Debt and High Yield; and US Prime auto loans. We would expect most reference asset pools to significantly outperform these publicly available benchmarks. The following is a brief update on current credit trends for each.

US High Yield and Leveraged Loans

Most corporate credits in referenced pools are investment grade quality. Defaults of investment grade obligors are rare. While Investment Grade ("IG") defaults have been only a small fraction of the defaults in leveraged credit (i.e. US High Yield "HY" bonds and Leveraged Loans "LL"), there is a strong correlation (~75%). Therefore, it is useful to track the (far more numerous) default activity in HY and LL as a possible bellwether for IG. Current default performance in HY and LL continues to be consistent with very low or no IG defaults.

While default activity, including distressed exchanges, was light in March and April, there were no defaults or distressed exchanges at all in the US HY and LL markets in May. The last time that happened was 93 months ago in August 2018. On a trailing 12-month basis, the default rate for US HY bonds fell by 18 bps MOM in May, to 2.02%, while the LL default rate fell 19bps MOM, to 2.62%. Both metrics continue to be stronger than the 25-year average HY and LL default rates, i.e. 3.2% and 2.9%. With softening macro trends resulting from the disruptions of war, and continued AI business disruptions, most analysts expect that this recent modest outperformance will be relatively short-lived. While credit performance has been strengthening on the margins, prices have risen as well. The share of credit that trades at "distressed" levels (i.e., trading at spreads over 1000 bps or dollar prices under 80), continues to mean revert from its March spike, when the distressed share reached a 3-yr. high. The combined distressed universe for HY and LL decreased 20bps MOM in May, to 6.9% of the leveraged credit universe.

Default Rates - US Credit*



Source: Standard & Poor's, JPMorgan Research, as of May 31, 2026.

* HY and LL on a trailing 12-month basis, dollar-weighted. Includes distressed exchanges. IG on an annual basis.

Reg Cap Fundamental Credit Trends (Cont.)

European High Yield

Historically, IG defaults in Europe have also been very low, with no defaults at all in most years. Our European HY default data goes back to 2005. Since 2005, the default rate for IG in Europe has been zero every year but two; in both 2008 and 2009 the IG default rate was 11bp per annum. Again, as with the US market, with so little default activity in IG, we turn to the HY market as a bellwether.

As expected, the trailing twelve-month (“TTM”) default rate in European high yield fell sharply MOM. May’s TTM was 1.85%, down from 3.31% in April. While May was quiet, the drop was largely due to base effects in the new reference period. As we noted last month, in May about €6 billion of older defaults (related to the French communications giant AltiCe) were no longer included in the traditional TTM 12-month calculation window for the default rate. Given visibility on several ongoing restructuring processes, analysts expect that default rates will rise back into the 3’s and continue to run at a pace moderately above their long-run historical average. However, market-implied default rates are more favorable. The best leading indicator of forward default rates is the distressed ratio (the share of bonds trading at spreads in excess of 1000bps). That ratio ended May at 4.9%. Historically, about one in four distressed credit defaults within a year. Ergo, using a market-based approach, the implied forward default rate is only 1.2% p.a. As in the US, default performance in European HY remains consistent with very low – if any – investment grade (IG) defaults. .

Default Rates - European High Yield

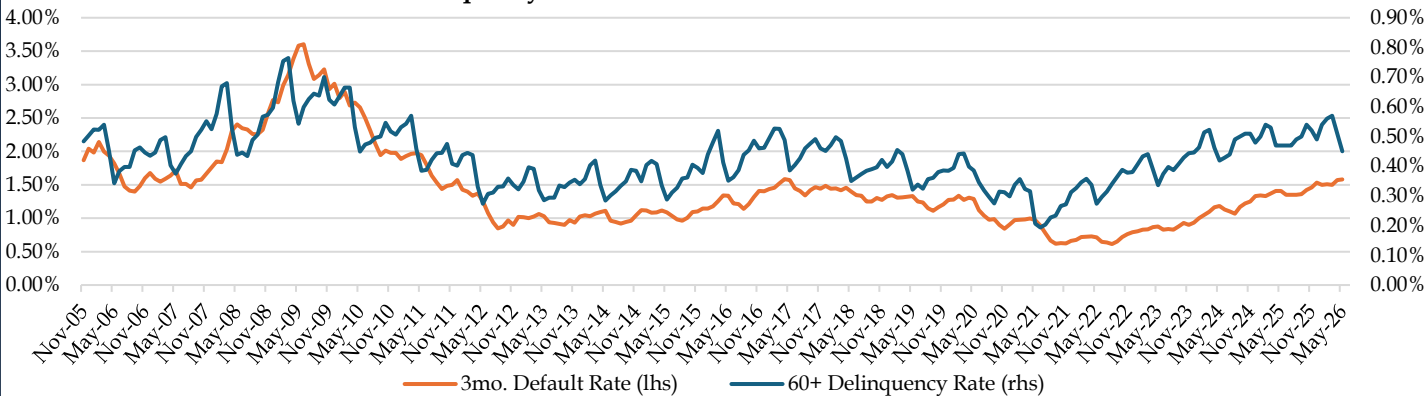


Source: JPMorgan Research, as of May 31, 2026. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

The 60+ day delinquency rate for securitized U.S. prime auto loans rose slightly in May, and was up 3bps MOM, to 48bps. The three-month default rate, however, fell 11bps MOM to 147bps. The consumer is under some stress, with higher inflation, rising debt levels, and lackluster wage growth. However, that stress is very unevenly distributed. We continue to see a notable divergence between the reliable performance of prime auto loans (the products referenced in SRTs) and subprime auto borrowers. For example, the default rate in subprime is nearly 9x the default rate in prime. Meanwhile another subprime auto lender is in the news and facing liquidity challenges. It is important to note that subprime auto lending is not part of the SRT market.

Delinquency and Default Rates - U.S. Prime Auto Loans



Source: Morgan Stanley, as of May 31, 2026

Reg Cap News

New Issue News:

Societe Generale Wraps Up SRT Tied to Over \$10 Billion of Loans (BN, 06/09/26)

Despite a “nervous geopolitical backdrop,” SRT issuance continues apace, with some deals that were put on hold at the onset of the war now coming to market. Societe Generale (“SocGen”) is completing an SRT transaction linked to approximately \$10.4 bn of corporate loans, while BNP Paribas is discussing at least two additional transactions with investors. The SocGen transaction is tied to corporate loans across multiple countries, including both France and the US and priced at a level comparable to recent market transactions. The Paribas deal is linked to ~€1.5 bn of mid-size corporate loans.

Deal activity in SRTs continues to grow. Banks transferred credit risk tied to more than \$1 trillion in loans as of the end of last year, up 26% YOY.

Lloyds Plans SRT Tied to \$4.2 Billion of Loans to Smaller Firms (BN, 06/11/26)

Lloyds Banking Group is working on an SRT transaction referencing a \$4.2 bn portfolio of loans to small and medium-sized businesses in its first deal of the year. The bank completed three SRT transactions last year across infrastructure, agricultural mortgage, and commercial real estate portfolios. While Lloyds had not issued any SRTs earlier this year, they had indicated that they expected to “remain active” in the market during 2026.

Raiffeisen Seals SRT Linked to €3.3 Billion of Corporate Loans (BN, 06/11/26)

Austria’s Raiffeisen Bank International completed an SRT transaction linked to €3.3 bn of corporate loans primarily located in Austria, Slovakia, Germany, and the Czech Republic. The bank indicated that it transferred “mezzanine credit risk” to institutional investors, implying that they retained a first loss tranche. Management said the deal is expected to improve the group’s CET1 ratio by approximately 16bps and optimize capital. Raiffeisen also noted that “trusted” investor relationships helped facilitate the transaction despite increased market uncertainty.

Deutsche Bank Is Arranging Debut SRT for Renewables Lender DKB (BN, 06/12/26)

Deutsche Kreditbank (“DKB”) is planning its first SRT transaction, linked to approximately \$2.3bn of renewable energy financing in Germany. Deutsche Bank, itself an active SRT issuer, is acting as arranger for DKB on the transaction.

The proposed deal would involve the sale of junior and mezzanine risk exposures and represents an expansion of SRT usage into renewable energy financing. DKB is a major lender to sustainability projects and had financed approximately €20 bn of renewable energy assets as at year-end 2025. The article also mentions a previous SRT that DKB’s parent, BayernLB, issued in 2022 referencing a €1 bn of corporate loan portfolio.

NatWest Weighs Landmark UK Mortgage Risk Sale to Insurers (BN, 06/15/26)

NatWest is evaluating an unfunded credit protection transaction tied to a portfolio of residential mortgages. NatWest is a regular issuer of SRTs, but this would be their first unfunded SRT issue, and among the first transactions of its type in the UK mortgage market.

In an unfunded SRT structure, insurers provide protection against losses in a reference portfolio without posting capital upfront. Funded SRTs, by contrast, often take the form of credit-linked notes, with investors paying cash upfront to purchase the notes, which pay a coupon. In an unfunded deal no capital changes hands, and the “buyer” of the SRT, typically an insurer, receives a premium in exchange for guaranteeing to cover an agreed amount in the event of default. Some regulators have looked less favorably on unfunded SRT formats because they entail credit risk exposure to the insurer.

However, major SRT issuers including Santander and UniCredit regularly use unfunded structures along with funded SRT structures. Banks recently bringing unfunded SRT include Erste Bank and Mitsubishi UFJ. Insurer participation in the SRT market has been growing, with the sector “investing the equivalent of €2.8 billion last year vs. €1.7 billion in 2022.”

NatWest has indicated that and that they expect to do more transactions in 2026 and 2027 as demand for SRT transactions remains strong. According to the article, banks including Intesa Sanpaolo, UniCredit, Banco, Santander and Goldman Sachs have all been discussing potential new SRT issues.

Reg Cap News:

Banks Offload \$1 Trillion Loan Risk to SRT Investors, IACPM Says (BN, 06/04/26)

The International Association of Credit Portfolio Managers, aka the “IACPM,” recently released a survey covering over 800 SRT transactions issued by 62 banks between 2016-2025.

Banks had transferred credit risk on more than \$1trn of loans through SRT transactions as of year-end 2025, according to the survey, up 26% YOY. The market continues to expand rapidly, supported both by strong investor demand and growing bank participation.

Reg Cap News (Cont.)

New issuance during 2025 included €30 bn of SRT transactions referencing €378 bn of underlying loans, a significant increase from the €25 bn of SRT transactions referencing €280 bn in 2024. Banks located in the EU and Western Europe referenced approximately €300 bn of assets in 2025, up 50% from the prior year. Asset managers, specialized credit funds, and insurers have become increasingly important sources of capital. Diversified asset managers significantly increased their participation over the past several years, investing €7.5 bn in 2025, up from €2 bn in 2022. While the variety of reference assets continues to grow, the underlying loan pool for SRTs is still “mainly made up of corporate lending and small and medium enterprise loans, which represented more than 70%” of the total according to the IACPM

The report duly noted that regulators are paying closer attention to potential systemic risks stemming from the growing use of SRT.

Global ABS 2026 in Barcelona (FT Live and AFME, 6/8-10/26)

Issuers, investors, lawyers, and service providers from across Europe and beyond convened for the largest annual event in European securitization. The conference focused on all areas of securitization and asset-based finance, but it seems like each year a larger share of the discussions are devoted to SRT. With so many people gathered in one place, many participants eschew the panel sessions in favor of back-to-back half-hourly meetings, and many issuers have a spiel about their plans on “autopilot”. This year it seemed like many SRT issuers had the same speech on autopilot—“we plan to expand the asset classes referenced in SRT beyond corporate loans and perhaps SMEs to specialized lending, consumer, and other areas; and to expand the applications of SRT from capital relief to limit relief, risk relief, and establishing capital markets pricing benchmarks for loans.” Some European banks are looking to increase true sale securitizations in which they place the full capital structure, as they seek an additional funding source as well as capital relief. Also present in force in Barcelona were various parties involved in providing leverage to SRT, including rating agencies, insurers and insurance brokers, and bank financing teams, who are showing renewed appetite to provide repo and NAV financing following some regulatory clarification. We did see a higher proportion of old friends and familiar faces in the SRT discussions this year, as some of the large new entrants from recent years, particularly from the private credit space, seem less eager to deploy capital in SRT. Indeed, a few issuers expressed concern as to how all of the planned SRT issuance will be absorbed by the market, a welcome change from recent years when demand appeared to outstrip supply.

Europe can double SRT market (Structured Credit Investor, 06/11/26)

A discussion paper from Paris Europlace argues that ongoing European securitization reforms could substantially expand the SRT market, particularly through greater use of residential mortgage portfolios, which the paper identifies as the largest untapped opportunity for future market growth.

According to the analysis, lower risk-weight floors on retained senior tranches would make mortgage SRT transactions economically viable for a significantly larger portion of European mortgage portfolios. The paper argues that this could increase bank lending capacity and support needed housing-related investment.

Specifically, the authors argue that “reducing the minimum risk-weight floor on retained senior STS tranches to 2% would allow banks to securitize around 40% of their residential mortgage books... the European Commission's proposed 5% floor would allow only around 10% of mortgages to be securitized, while the Council's proposed 6% floor would ... (allow) approximately 6%” to be securitized. In SRT transactions, banks replace the risk weighting of the underlying assets with the risk weighting of the retained senior tranche. Because mortgages have a low risk weighting, banks need to achieve a low risk weighting on the retained senior in order to make SRT issuance feasible. For more on SRT and bank capital regulations, see here: <https://seercap.com/wp-content/uploads/2021/02/Seer-Capital-Bank-Regulatory-Capital-Relief-White-Paper-Feb-2021.pdf>

The author also emphasizes the importance of insurers as providers of credit protection and warns that overly restrictive regulatory requirements could limit market growth, reduce liquidity, and concentrate risk among a smaller group of investors. According to the report. “...only two EU insurance companies would qualify under the current eligibility criteria,” a figure that is “insufficient” to support the SRT market.

Banking Industry News:

Sumitomo Mitsui Moves Beyond Traditional Lending for Returns (Bloomberg News, aka “BN,” 06/04/26)

Sumitomo Mitsui is shifting away from “providing relatively cheap loans on the back of its hefty balance sheet” as it pursues higher profitability and improved capital efficiency. Management is increasingly using tools such as synthetic risk transfers (SRTs), loan portfolio sales, and greater focus on fee-generating businesses to support returns without consuming as much regulatory capital.

Sumitomo Mitsui has set a goal of increasing return on tangible equity to 15% over the next five years, up from 11.4% last fiscal year. Slower deposit growth and a desire to avoid low-margin lending are driving a more selective approach to asset growth.

Reg Cap News (Cont.)

The bank is investing in talent across capital markets, structured finance, and wealth management while maintaining its core lending franchises in Asia, especially in project finance, where it leads. Sumitomo Mitsui completed its first Asian SRT last December, sized at a \$3.2bn.

About Seer

Seer Capital Management LP is a diversified, credit-focused investment firm founded by Phil Weingord in 2008 that primarily invests in structured credit and loans. We allocate capital opportunistically across all major asset classes within structured credit in the U.S. and Europe, including: bank regulatory capital risk transfer (SRT), residential and commercial mortgages, syndicated and SME loans, and a variety of consumer loans (personal, auto, credit card, student, housing). These investments are executed through active trading in both legacy and new issue securitizations, purchase and securitization of whole loans, and direct lending joint ventures.

Seer Capital believes it is well positioned to capitalize on opportunities in structured credit as a result of our highly experienced senior investment team, which has on average more than two decades of experience working in structured credit.

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