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Reg Cap Recap

A biweekly update on the Regulatory Capital Relief/Significant Risk Transfer sector

July 21, 2026

SEER CAPITAL

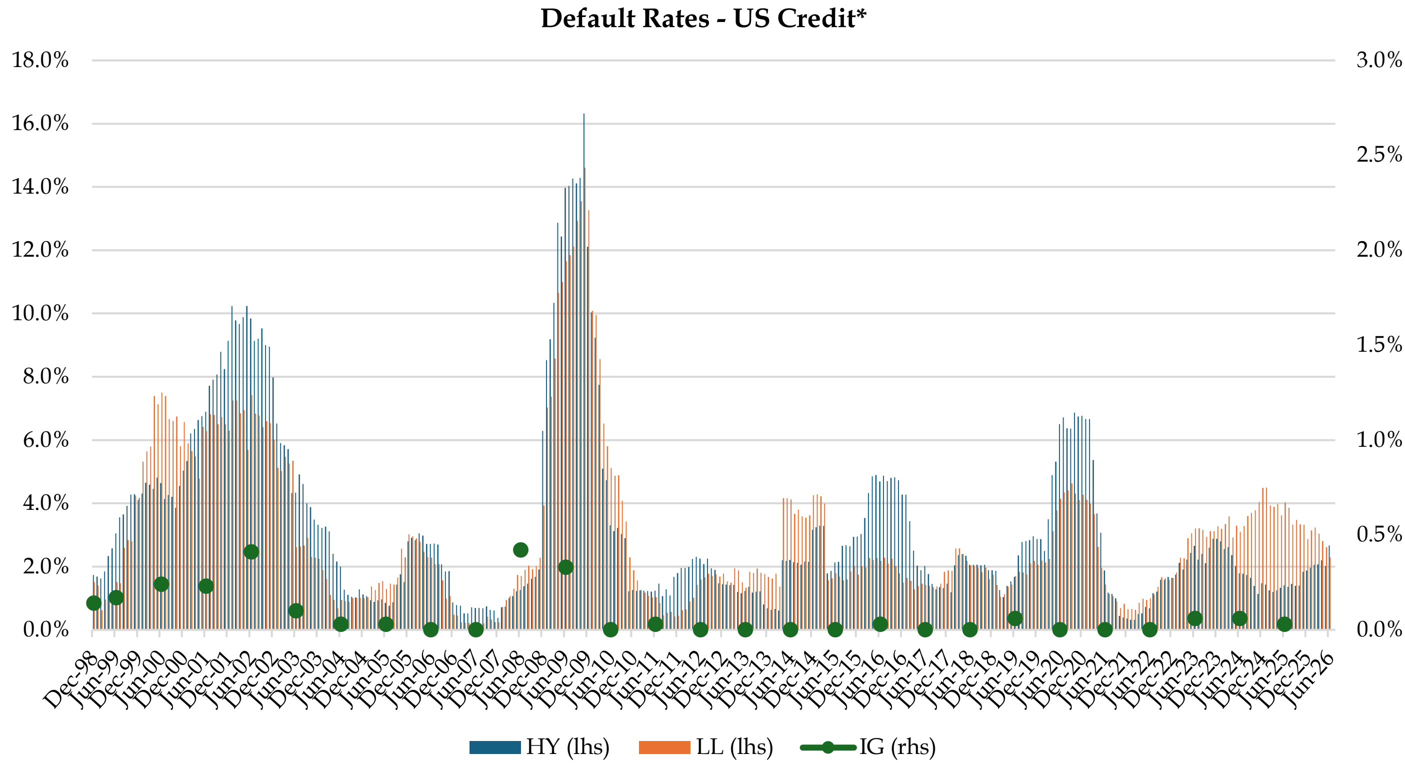
Reg Cap Fundamental Credit Trends

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.

After May's experience, with no defaults or distressed exchanges in either the US HY or LL markets, June defaults were at an 18-month high by volume (and an 8-month high by count). June activity included two payment defaults and four distressed exchanges, for a combined total of $13.1bn. On a trailing 12-month basis ("TTM"), the default rate for US HY bonds rose by 64bps MOM in June, to 2.67%, while the LL default rate fell 38bps MOM, to 2.29%. Leveraged-loan default rates are benefiting from refinancing activity and from older defaults now "rolling out" of TTM calculations. At the same time, a handful of large bond defaults have pushed HY default rates higher. Most notably, the Chapter 11 filing of satellite dish operator Dish DBS was the second largest default post pandemic, and affected nearly $10bn in HY bonds. That said, TTM default rates remain superior to the 25-year averages for both HY and LL, i.e. 3.2% and 2.9%, respectively. The share of credit that trades at "distressed" levels (trading at spreads over 1000bps or dollar prices under $80), increased 40bps MOM in June to 7.3% of the leveraged credit universe. Technology ($75bn, 35%) and Cable/Satellite ($24bn, 11%) account for the largest portion of the distressed cohort.



Source: Standard & Poor's, JPMorgan Research, as of June 30, 2026.
** HY and LL on a trailing 12-month basis, dollar-weighted. Includes distressed exchanges. IG on an annual basis.*

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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.

The trailing twelve-month ("TTM") default rate in European high yield was essentially flat MOM at 1.9%, despite two new defaults in June. We have now had seven default in 2026 YTD. Default activity compares very favorably to a year ago; in June 2025, the TTM default rate was 4.0%, more than double today's level. The decline is driven partly by the math; the credits that defaulted this year are smaller. To wit, the issuer-weighted TTM default rate is at 3.35%, down only 30bps YOY. With visibility on several ongoing restructuring processes, analysts expect that default rates will rise back into the 3's later this year and run at a pace just moderately above their long-run historical average. In particular the market is watching the UK's Thames Water, where political uncertainty could further delay restructuring of their massive debts. One of the best leading indicators of forward default rates is the distressed ratio (the share of bonds trading at spreads in excess of 1000bps). That ratio ended June at 5.4%, up 50bps vs. May. Historically, about one in four distressed credits default within a year. Ergo, using a market-based approach, the implied forward default rate is only 1.35% p.a. As in the US, default performance in European HY remains consistent with very low—if any—investment grade (IG) defaults.

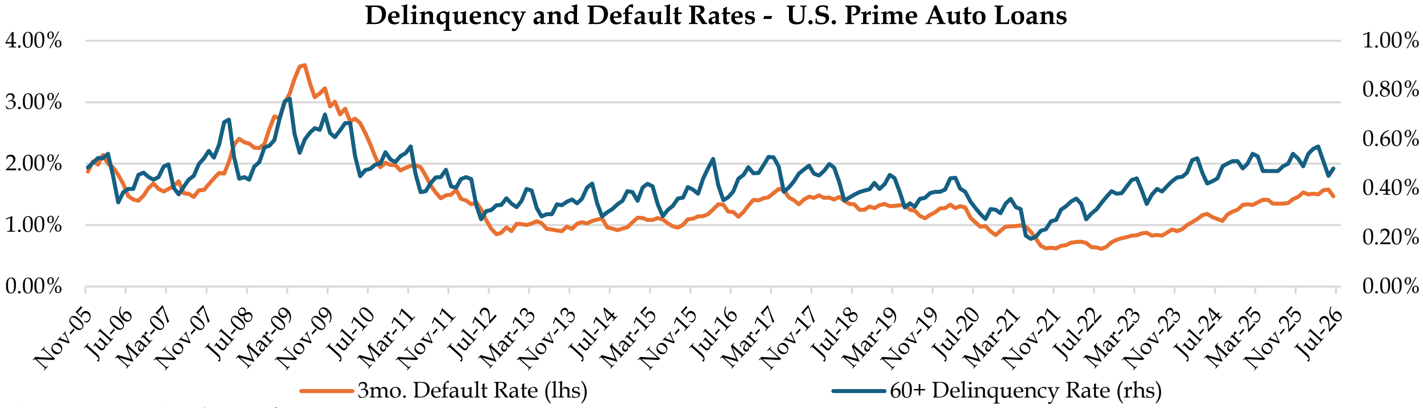
Default Rates - European High Yield

Source: JPMorgan Research, as of June 30, 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 was unchanged from May to June. The three-month default rate was also essentially unchanged, though technically down 1bp MOM. JPM's Securitized Products research team publishes a "Consumer Health Tracker" that consolidates a wide array of consumer data (including macro and behavioral factors as well as credit performance) into a single score that helps shed light on the current state of the US consumer. The current Consumer Health score is 1.79, up from a 12mo. rolling average of 1.70. A score of 1 is healthy, 2 is "caution" and 3 is "stress." The analysts noted that "higher-income households remain relatively resilient, while lower-income consumers are showing more stress," which has been the case for some time now. We continue to see a notable divergence between the reliable performance of prime auto loans (the products referenced in SRTs) and subprime auto borrowers (which, it bears noting, have not been used as reference assets in the SRT market to our knowledge).

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



Source: Morgan Stanley, as of June 30, 2026

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Reg Cap News

New Issue News:

BBVA Completes €2b Synthetic Securitisation (Bloomberg News, aka "BN,", 7/9/26)
BBVA completed a €2bn Reg Cap deal (aka "Regulatory Capital Relief" or SRT aka "Significant Risk Transfer") backed by a project finance portfolio, releasing nearly 80% of the initial regulatory capital associated with the exposures. The portfolio includes financing for digital infrastructure, renewable energy, transport infrastructure and other public services, mainly in the US and Europe. The transaction combines a funded first-loss tranche with an unfunded mezzanine tranche. BBVA also completed a separate securitization of €1bn of auto loans.

Klarna Completed A $518m Significant Risk Transfer (BN, 7/16/26)
Sweden's Klarna Bank completed a $518mn significant risk transfer designed to free up capital and support consumer demand for its buy-now-pay-later products. The 3-year agreement supports $12bn of additional lending and is part of a broader capital-efficiency program that combines SRTs with forward-flow and warehouse financing. The transaction is Klarna's second SRT. Klarna said "Demand for our products continues to grow and transactions like this let us fund it efficiently, while an existing investor returning for a second securitization is a real vote of confidence in the quality of our underwriting,"

BNP Explores SRT Deal to Hedge Data Center Loan Portfolio (BN, 7/17/26)
BNP Paribas is assessing investor appetite for an SRT tied to a concentrated portfolio of data center loans as more banks seek new ways to free up balance-sheet capacity for AI infrastructure lending. According to a recent report on AI Capex from JPM analysts, debt financing is expected to account for about three-quarters of AI-linked spending worth $5.5 trillion through 2030. Meanwhile, there are rumblings of growing concern from regulators and ratings firms about the credit risks associated with the buildout. Other banks are considering similar structures. Royal Bank of Canada and Toronto-Dominion Bank are exploring SRTs to support data center financing, while BBVA recently completed an SRT tied to $2.3bn of infrastructure loans, including digital infrastructure. At Seer we are cautious on SRTs referencing new lending areas that have grown significantly in recent years such as data centers and BDCs. We prefer to take exposure to bank's core lending to corporates, SMEs, and consumers, which are the assets traditionally referenced in SRTs. BNP Paribas has already completed four SRTs tied to almost €10bn of such assets in 2026, including its first deal linked to commercial real estate exposure.

SRT market update (SCI, 7/17/26)
Sumitomo Mitsui Banking Corporation completed two recent SRTs covering markedly different portfolios, highlighting Japanese banks' growing use of capital-relief transactions across international lending businesses. One referenced an approximately $4bn Latin American portfolio of around 80 corporate and sovereign obligors, with a mezzanine tranche covering losses between 10% and 18%. Market participants viewed the portfolio as relatively concentrated.
The second transaction referenced a predominantly European project finance portfolio of 37 loans with an average maturity of more than six years; about 91% of the exposures were in Europe. It was reportedly linked to an asset acquisition and structured to facilitate capital treatment before a June-end transfer deadline. Unlike many European SRTs, it did not include a traditional 5% retained vertical interest, reflecting Japanese regulatory requirements. Investors received extensive asset transparency and could review portfolio composition, with fund investors participating in equity and mezzanine tranches and insurers targeted for senior mezzanine risk. These transactions illustrate "the increasingly diverse approaches" being adopted by Japanese banks as they expand their use of Reg Cap.

SRT Sales Head for Fresh Record Even as War, Credit Risks Linger (BN, 7/20/26)
Banks are on pace for a sixth consecutive annual record in significant risk transfer issuance. First-half 2026 new issue activity is estimated at more than $18bn, up from about $15bn in the first half of 2025. This puts the market on track for roughly $45bn of issuance this year after $41bn in 2025 (issuance is concentrated in Q3 and Q4). Banks are using SRTs both to free up regulatory capital for new lending and to manage concentrations. Strong investor demand has allowed deals to price at attractive levels despite heightened geopolitical and credit risks. BNP Paribas priced a corporate-loan SRT in March at 750 basis points over Euribor and a similar deal in June at 775 basis points.
European and British banks accounted for about three-quarters of issuance, followed by US banks at 15%, Asian banks at 6% and Canadian banks at 4%. Recent activity includes Societe Generale marketing a deal tied to more than $10.3bn of corporate loans, Goldman Sachs sounding out investors on a transaction linked to loans to private-market funds, Toronto-Dominion assessing a data center SRT, and DBS completing its first SRT in June. Large-corporate and small- and mid-sized enterprise loans remain the dominant collateral, representing 59% and 15% of volume, respectively. Banks are also referencing leveraged loans, consumer financing and commercial real estate loans in SRT transactions.

Reg Cap News:

Securitisation Report Q1 2026 – Significant Risk Transfer (SRT) Securitisation (AFME, 6/8/26)
According to a recent report from AFME (the Association for Financial Markets in Europe) European SRT issuance totaled EUR 34.4bn in Q1 2026 by portfolio notional volume up 36.0% from EUR 25.3bn in Q1 2025. Corporate and SME loans remained the dominant asset class at EUR 24.4bn, followed by real estate/mortgage loans at EUR 5.7bn and consumer loans at EUR 3.9bn.

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Financial Stability Report – July 2026 (Bank of England, 7/7/26)
The Bank of England says SRTs can help banks manage credit risk, obtain capital relief and support additional lending. However, the BOE also continues to express concern that their growing use is deepening links between banks and non-bank financial institutions. Annual SRT issuance by major UK banks has more than doubled since 2017, although portfolios benefiting from SRT remain modest at around 4% of major banks' total loan books. Large-corporate loans still dominate, but use has expanded into SME loans, project finance, mortgages and personal loans, while the investor base has broadened to include credit funds, hedge funds, pension funds and insurers.
The report highlights several risks. Capital relief must remain commensurate with genuine risk transfer, and unfunded SRTs may create greater counterparty and liquidity risk because protection depends on a guarantor performing in stress. Banks may also face rollover risk if they cannot renew or replace maturing transactions during market stress, potentially reducing lending capacity.
The Bank also warns that SRTs can create channels for risk to flow back into the banking system through bank exposures to non-bank investors, particularly where those investors use leverage. It expects banks to manage these risks through internal limits, staggered maturities, diversified investor bases and robust stress testing, while the PRA will continue scrutinizing structures that appear more complex or less robust.

BoE backs SRT, warns on complexity (SCI, 7/20/26)
The Bank of England continues to support SRTs as a legitimate tool for transferring credit risk, freeing capital and supporting lending, but it is signaling closer scrutiny as structures become more complex. The Financial Policy Committee highlighted the rapid expansion of the market and growing links between banks and non-bank investors, while the PRA said it is testing proposed structures that appear less robust or more complicated.
Unfunded SRTs are a particular focus because protection depends on a guarantor rather than fully collateralized funds, creating greater counterparty and liquidity risk in stress. The Bank also flagged rollover risk if banks cannot replace maturing transactions during difficult markets and the possibility that losses at funds, insurers or other investors could feed back into banks. Supervisory emphasis is shifting toward transaction quality, diversified protection providers, maturity management and stress testing rather than questioning SRT as a capital-management tool.

Fitch Rates Furry Creek SRT (Fitch Ratings, 7/7/26)
Fitch assigned an A+sf rating with a Stable Outlook to the mezzanine tranche of Furry Creek SRT, a partially funded seven-year synthetic securitisation referencing credit facilities to business development companies ("BDCs") originated by MUFG. The senior and protected tranches are unrated and will be retained. Fitch describes the structures as follows: *The transaction will issue credit-linked notes from a newly formed SPV to fund the collateral supporting the credit default swap (CDS) on the protected tranche. This provides financing against the protection buyer's (MUFG Bank, Ltd.) balance sheet under the synthetic risk transfer structure. The cash collateral for the protected tranche will be held at MUFG Bank, Ltd. (MUFG), which will pay a CDS premium for the credit protection.*
The portfolio consists primarily of senior secured first-lien credit facilities to BDCs. The weighted-average rating of the reference entities is BBB/BBB-. However Fitch's look-through analysis of BDC collateral produced an underlying credit quality assessment of B-/CCC+. The structure has a two-year replenishment period, but no new reference obligations can be added. Fitch capped the mezzanine tranche at A+sf because its look-through approach does not fully capture additional risks such as BDC redemption and concentrations.

SRTs: Capital uplift increases, risks stay under control (Barclays, 7/8/26)
Barclays says European banks' use of SRTs continued to accelerate in 2025, with synthetic SRT stock up 27% YoY. Of 56 European/UK banks analyzed, 35 used synthetic SRTs, covering €579bn of assets, up from €460bn in 2024. Barclays estimates these transactions generated about €464bn of RWA savings and an average CET1 ratio benefit of 82 bps, up from 68 bps in 2024. SRTs represented an average 2.3% of total assets and 4.6% of total loans, among those banks using them. Santander is the biggest user of SRT by volume, while BAWAG leads by percentage of total assets.
The product is becoming more mainstream, particularly among non-GSIBs, and Barclays expects strong growth to continue in 2026 and beyond as banks seek balance-sheet efficiency and regulators streamline securitisation frameworks. Barclays estimates only about €500bn, or 2%-3%, of EU bank loans are currently protected by SRTs, leaving room for further adoption. The report estimates the market could grow by €82bn if the remaining banks in its sample adopted SRTs at the sector-average asset share, and by €282bn if covered banks below the average increased usage to that level. Reinvesting capital freed by SRTs could lift NII by an estimated 6% on average.
Barclays views SRTs as broadly positive for bank creditors because they support capital buffers and can reduce the need for AT1 and Tier 2 issuance; it estimates current RWA savings reduce net supply requirements by at least €7bn of AT1 and €9bn of Tier 2. Risks remain around rollover, counterparty exposure, concentrated investor bases, pricing and leverage-ratio constraints, and regulatory scrutiny is increasing. Even so, Barclays notes that recent EU and UK reform proposals aim to improve securitization efficiency, including for SRTs.
The report also discusses the Reg Cap investor base. It notes the growth in the investor base, whereby more and more private credit funds, hedge funds, and multi-strat asset managers have entered the market. Even so, it remains more concentrated than perhaps regulators would like; with the top 10 UK Reg Cap investors accounting for nearly 60% of issuance volumes.

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European banks 💗 synthetic risk transfers (Financial Times, 7/9/26)

The author begins by suggesting similarities between the Reg Cap market (SRT) and the "unsound structures" that led to the GFC. While some of the mechanics are not dissimilar, especially to those not steeped in the securitization sector, we believe the similarities stop there. The biggest contributor to the GFC was an originate-to-distribute model, whereby the makers of loans had no skin in the game once they had sold their loan production into a securitization. By contrast, SRT lending represents a slice of a bank's core business, one in which they remain heavily invested and very much exposed. This difference in mindset and motivations is categorical. and we believe it is why SRTs have such an excellent record of credit performance.

The article goes on to note that European banks continue to expand their use of synthetic risk transfers despite concerns from the IMF, Financial Stability Board and other supervisors. The author notes that Barclays estimated that 35 of 56 European and UK banks it analyzed used synthetic SRTs in 2025, with EUR 579bn of assets underlying the transactions, up 27% year over year. The transactions generated estimated RWA savings of about EUR 464bn and an average CET1 ratio benefit of roughly 82 bps, again according to Barclays (see above.)

SRTs allow a bank to keep loans on its balance sheet while transferring a defined layer of credit losses to outside investors, typically insurers, hedge funds and private credit funds. The resulting capital relief can create capacity for additional lending. AFME data showed European SRT issuance rose 36% year over year in Q1 2026, while Barclays estimated EU banks had protected about EUR 500bn of loans, equal to roughly 2%-3% of the European lending market.

Supervisors remain concerned that some structures may not transfer risk as effectively as intended, that bank financing of SRT investors could allow risk to flow back into the banking system, and that weaker monitoring incentives or adverse loan selection could create problems. Even so, regulators remain broadly supportive of SRT as a bank de-risking and capital-management tool, and the market is expected to continue expanding.

SRT and concentration risk (SCI, 7/14/26)

Industry groups are asking US regulators to revise the 2006 commercial real estate concentration guidance so eligible synthetic securitisations can reduce a bank's measured CRE concentration, not just its RWAs. Under the existing framework, banks with CRE exposure above 300% of total risk-based capital face heightened scrutiny. That calculation uses gross exposure even when credit risk has been transferred.

Supporters argue that recognizing SRT protection would give regional and community banks another way to manage CRE concentrations without selling loans, taking accounting losses or giving up customer relationships. One cited estimate shows roughly 350 US banks exceeded at least one CRE concentration benchmark at year-end 2025. Proposed approaches include adjusting the concentration numerator to reflect transferred risk or changing regulatory reporting treatment for protected CRE loans.

The potential regulatory change could materially expand the US SRT market, particularly for banks more focused on concentration management than capital relief. Views on the likelihood of change are mixed, however, because all three federal banking agencies would need to agree and revising the 2006 guidance would add another regulatory project to an already crowded agenda.

OSFI's buffer cut strengthens Canadian SRT case (SCI, 7/16/26)

OSFI's (Office of the Superintendent of Financial Institutions) reduction of Canada's Domestic Stability Buffer from 3.5% to 3.0% for the six domestic systemically important banks is not expected to undermine the case for Canadian SRT. The capital release may lower the immediate urgency for capital relief, but OSFI expects banks to deploy the additional capacity into growth areas such as commercial lending, infrastructure, defense and AI, where higher RWA intensity can make capital efficiency more valuable.

The buffer cut does not apply to mid-size banks, community banks or credit unions, leaving their capital constraints unchanged. The article argues that Canadian SRT is becoming part of the permanent regulatory framework even though issuance volumes remain cyclical. OSFI's draft 2027 capital rules would establish notification and reporting requirements for synthetic securitisations and allow the regulator to claw back capital benefits on non-qualifying transactions, which is viewed as evidence that SRT is becoming part of the permanent regulatory framework.

Credit unions could also become a new source of supply because they have fewer ways to raise capital and may need tools to manage concentration limits without selling assets or disrupting member relationships. A prospective transaction involving roughly C$200mn of commercial and industrial loans at an Ontario credit union is cited as an early example.

Southeast Asian banks favour traditional capital over synthetic risk transfers (ITN, 7/16/26)

Southeast Asian banks are expected to adopt SRTs only gradually, largely because most lenders have strong capital and liquidity positions and little immediate need to use complex synthetic structures for capital relief. Europe continues to account for about 60%-70% of global SRT issuance, while regional regulators remain focused on core Basel implementation and traditional Tier 1 capital buffers.

Singapore is the main regional exception. SMBC's Asia-Pacific hub completed a $3.2bn project-finance SRT in late 2025, followed by DBS's debut transaction in June 2026 referencing a $1.0bn diversified portfolio of high-grade corporate loans. These deals show how SRT can reduce concentration and free capital without changing client relationships, but broader ASEAN adoption is expected to remain limited so long as existing capital buffers remain strong and operational requirements for data, reporting and investor transparency remain substantial.

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SRT Risks and Rewards (Barclays, 7/16/26)
This webinar featured a number of market participants sharing perspectives on the SRT sector. Below are some of the insights shared.
Growth in the SRT market reflects a combination of strong investor demand, compelling capital-relief economics for issuers, and regulatory acceptance. All three are important: banks need an economic incentive to transfer risk, investors need to provide sufficient willing capital, and regulators need to recognize the resulting capital relief.
For issuers, the key question is whether the income given up through an SRT is less than the cost of the capital released. Roughly speaking, a bank might give up about half of the spread income on a portfolio in exchange for approximately 80% capital relief, although the economics vary significantly depending on portfolio risk and tranche thickness. Banks can improve profitability by redeploying the freed capacity and can also use SRT as a credit-management tool to address concentration risk and counterparty limits.
During periods of stress, such as COVID, equity markets may close while banks with strong assets can still access the SRT market. The process has also become considerably smoother for issuers, with some transactions now receiving approval in as little as eight business days versus as long as three months previously. Rating agencies generally place a soft cap on CET1 relief because SRT protection is portfolio-specific rather than permanent, entity-wide capital like equity.
Investors view SRT as fundamentally different from investing in bank equity or AT1 because they are underwriting a specific pool of assets rather than the entire bank. This helps explain why SRT can price inside a bank's overall cost of capital while still offering attractive investor returns. The economics work for both sides because banks are solving for capital efficiency across the institution, while investors are underwriting the risk and return of a specific portfolio. SRT is long-dated, highly levered and relatively illiquid, however, and requires specialized underwriting, monitoring and stress testing. Much of the investor base therefore consists of specialist funds with structures suited to the asset class. Investors generally continue to see attractive compensation relative to expected loss, in part because the buyer base remains limited. Some funds also use leverage because SRT tranches can be relatively thick and resilient, although leverage introduces additional market and liquidity risks.
From a financial-stability perspective, SRT offers both benefits and potential risks. The benefits include a more diversified and potentially more resilient financial system, greater lending capacity, lower capital costs and the potential for some of those economics to be passed on to borrowers. Lower capital costs can also make bank earnings less volatile and more resilient. Regulators retain substantial visibility because transactions require approval. Risks appear modest today but could increase as the market grows, particularly around unfunded protection, liquidity mismatches, leveraged investors, and rollover risk if banks are unable to execute new SRT transactions during periods of stress. Another concern would be banks originating loans that they would not otherwise make because an SRT investor is willing to take the risk. The healthier model is, of course, for investors to access banks' established underwriting capabilities rather than allowing investor demand for SRT to drive origination.

Danske Bank Eyes Joining Booming SRT Market, CEO Egeriis Says (BN, 7/17/26)
Danske Bank is evaluating SRT transactions as part of its capital-management strategy and would consider executing a deal when conditions are right, although management did not provide a timetable or potential size. The move would add Denmark's largest lender to a growing group of European banks exploring SRTs as pricing improves and the regulatory environment becomes more favorable; SEB and Belfius are also evaluating potential transactions.

<u>Banking Industry News:</u>
Spanish Banks' Balance-Sheet Trends (Bloomberg Intelligence, 7/8/26)
Spanish banks entered 2Q with €59bn of excess capital above regulatory requirements, but buffers are expected to face pressure from shareholder payouts, RWA growth and M&A, particularly Santander's TSB acquisition, which Bloomberg Intelligence estimates could reduce its CET1 ratio by 50-60 bps to 13.9-14%. Strong profitability, benign loan losses, cost efficiencies and capital benefits from significant risk transfers should absorb much of the pressure, while BBVA could benefit most from SRT-related capital relief.
Asset quality remains resilient, with average Stage 3 loans down 30 bps year over year in 1Q and the unweighted Stage 3 ratio at 2.4%. Spanish banks tend to have a stronger retail focus, and hence less exposure to challenged areas like private credit and CRE. Loan growth accelerated to 6% in 1Q, supported by stronger commercial demand, and is expected to continue in 2Q as mortgage volumes grow. Liquidity and deposit trends also remain healthy; Santander's expected 5% deposit growth is supported by the consolidation of TSB's roughly €38bn deposit book.

Bowman Says Fed Should 'Not Micromanage' Banks on Issues Like AI (BN, 7/14/26)
Federal Reserve Vice Chair for Supervision Michelle Bowman said banks should decide when and how to adopt AI and other innovations based on their customers, communities and risk appetite. She said the Fed should set clear expectations, be transparent and focus supervision on material risks rather than micromanaging individual business decisions. Bowman argued that clear, risk-focused regulation can support responsible innovation and financial inclusion, while unnecessary complexity or prescriptive requirements could limit innovation that expands access to financial services. Meanwhile, Bowman's predecessor Michael Barr warned that it is unclear whether AI will reduce or increase income and wealth inequality. In our view this is an important consideration, but not one that should be the focus of banking regulators.
The discussion came as regulators and banks assess AI-related cyber risks and the broader effects of the technology. In April, Treasury Secretary Scott Bessent and then-Fed Chair Jerome Powell brought together Wall Street leaders to warn them of the cyber risks raised by AI models.

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CLO Equity Faces Another Year of Losses as Leveraged Loans Rally (BN, 7/16/26)
Vanishing CLO Profits Are Sparking Infighting: Credit Weekly (BN, 7/18/26)

CLO equity may post a second consecutive year of losses as loan repricings compress asset yields faster than CLO funding costs. CLOs buy and bundle bank loans and then issue debt tranches in the bond market at a lower interest rate, reaping the difference, or arbitrage, as a profit. CLO tranches have varying levels of reward and risk. The riskiest tranches are known as CLO equity.

CLO equity lost more than 8% in 2025 and have been "non-trivially negative," in the first half. Funds with heavy CLO exposure to cut dividends and warn of further pressure. While credit risk is typically the biggest concern for CLO equity investor, "…oddly the bigger issue was the bull market and repricing of loans." A shortage of new loans from the M&A slowdown, losses tied to the software-debt selloff and continued strong demand for CLO securities have all cut into the CLO arb." Spread tightening on the CLO debt side was nowhere near as much as on the asset side," eroding the arbitrage that CLO equity relies on.

2Q US Banks Week 1: More Momentum Ahead? (Bloomberg Intelligence, 7/20/26)

US banks delivered another quarter of better-than-expected earnings, with broadening loan growth supporting a constructive outlook. Money-center and capital-markets banks benefited from strong equity trading and investment banking, while regional banks relied more on net interest income growth, commercial lending, fee gains and muted credit costs. Expectations were elevated heading into results, but even so, the group generally cleared the bar.

2026 guidance improved at JPMorgan, Bank of America and several regional banks as balance-sheet growth lifted net interest income outlooks and healthy capital-markets activity supported fees, although stronger activity also raised expense expectations. Banks continued to generate positive operating leverage, with a median of 350bps in the 2Q group, while net interest margin expansion remained constrained by deposit repricing. Loans rose 2% sequentially overall, led by commercial demand and some AI-related infrastructure financing, while deposit trends were mixed.

Credit quality remained stable, supported by resilient economic conditions and healthy employment. Goldman Sachs and Morgan Stanley led capital-markets performance, while JPMorgan maintained strong returns and improved its core net interest income outlook. Wells Fargo's margin trajectory, Citi's investment spending and efficiency, and deposit costs at several regional banks remain key pressure points, but management teams generally maintained constructive lending and credit outlooks.

Canada Bank Stocks Fall Back from Passing Energy as Leader (BN, 7/20/26)

Canadian financial stocks (a composite of banks, asset managers and insurers) paused after rising nearly 26% since the end of March, rivalling equity gains in the Energy sector. Bank shares fell as much as 2% on July 20 after softer inflation reduced expectations for additional rate hikes. Higher rates support bank margins, while strong capital markets, wealth management and personal and commercial banking have also helped results. A June reduction in capital requirements by Canada's banking regulator provided another tailwind. Canadian bank EPS is expected to grow about 9% on a blended forward 12-month basis.

Valuations are arguably elevated, with banks trading at an average 15.3 times projected earnings for the next 12 months, about 50% above the historical average. The Canadian bank index has gained nearly 30% this year versus roughly 27% for energy shares. Analysts remain constructive on earnings, but after gains of roughly 20-40% across the banks, further returns are expected to be more modest.

Private Credit, Data Center Wraps Are 2008 Redux (Bloomberg Opinion, 7/21/26)

The author starts by conceding "[i]t's easy to dismiss comparisons between finance today and the build up to the 2008 meltdown as exaggerated or overwrought." Based on the number of such comparisons that regularly appear in the press, including Bloomberg and the FT (see page 5), we agree. He notes that an insurance company, in this case Nationwide Mutual Insurance Co. as reported by Bloomberg News, is protecting investors from losses on bonds linked to private credit funds. In the structure to which he refers, Nationwide assumes the risk on a senior tranche of a portfolio of private credit investments, and other banks / investors fund the investment, taking the joint risk that i) losses on the private credit investments exceed the junior tranche, and ii) the insurer fails to pay the claims. The author states, "[t]he aim is to turn riskier assets into safer ones that more investors will buy"—incorrect, risky assets cannot be, turned into safer ones, rather, risks are being distributed among different parties who can most efficiently price and assume the risks. This is a fundamental tenet of a sophisticated and well-functioning financial system—risks must be divided among investors of different types with different risk appetites and return targets. The author appears a bit confused about the structure, stating, "there is a widening trend of repackaging private credit funds into rated bonds to help insurers get the best bang for their capital buck." In fact, in the structure described, the insurer is underwriting and assuming the risk on the tranche of private credit investments, without relying on a rating. The author further likens the structure to insurers covering defaults on mortgage linked bonds during the GFC. Leading up to the GFC most everyone, from the government, to banks, to investors, to insurers, to rating agencies wrongly estimated the likely defaults on mortgages, as Warren Buffet has famously observed. Indeed, financial speculation and excess is a feature of markets that is driven by human nature, rather than by instruments used to distribute risk. The tulip bubble of the 17th century, for instance, can hardly be attributed to financial sophistication. We are sorry to report that we agree with the author that excesses are likely to occur in financial markets in the future, leading to downturns, some of which will be severe, but we think it alarmist, if not a bit cynical, to see shades of the GFC in every use of financial technology.

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Reg Cap Recap

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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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