

# Credit Currents:

## Insights across public and private credit

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**Topics in this piece:**

- Defaults
- USD Leveraged Loans
- USD High Yield

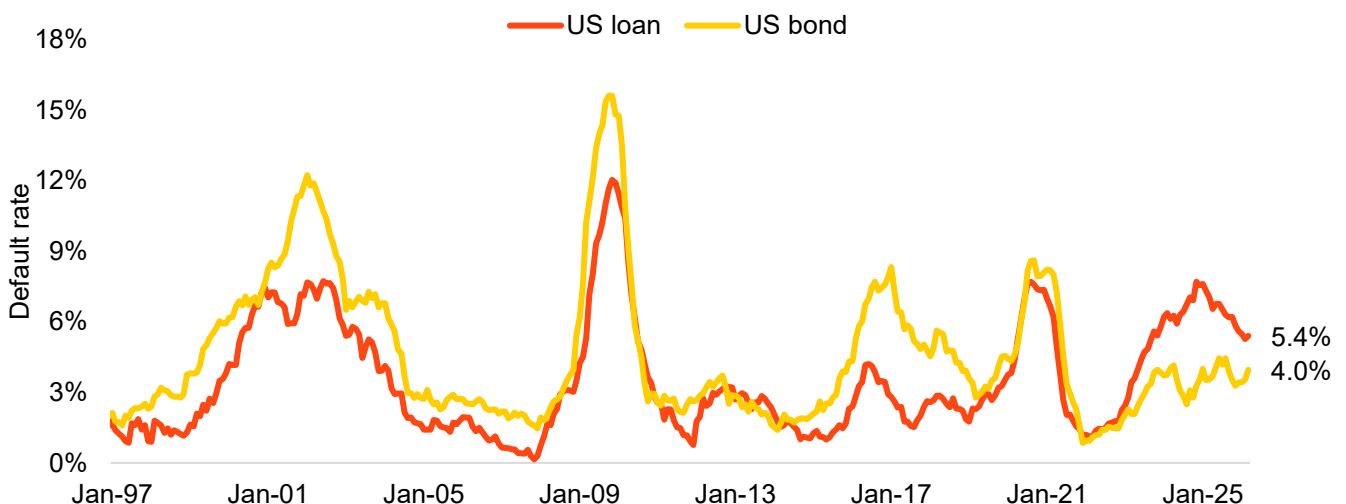
Estimated read time: 10 minutes

### Tracking default activity across credit markets (part I)

- 1. This two-part series examines recent default activity across credit markets.** Part I focuses on syndicated markets, including USD leveraged loans and USD high yield bonds (HY). Part II will focus on private credit.
- 2. Default activity remains somewhat elevated,** though stress is skewed toward floating-rate borrowers, smaller issuers, and prior defaulters.
- 3. The composition of defaults has shifted more toward distressed transactions, shaping outcomes.** While this shift may support near-term recoveries, elevated repeat default activity points to a more iterative and less durable workout cycle.
- 4. Investor outcomes are shaped not only by default levels, but also by recoveries and asset selection.** Despite elevated defaults, total returns have remained supported by carry and contained losses, reinforcing the importance of underwriting discipline and careful credit selection.

### Exhibit 1: Defaults remain elevated but have fallen from recent highs in the loan market

Issuer-weighted trailing 12-month default rates for the universe of USD leveraged loans and HY bonds tracked by Moody's



Source: Moody's, BlackRock. As of March 31, 2026.

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## Tracking default activity across credit markets (part I)

Credit markets remain broadly resilient, though the macro backdrop has become more complex. In this environment, investor focus has shifted toward the more stressed segments of the corporate credit universe.

This two-part series examines recent default activity across credit markets. Part I focuses on syndicated markets, including USD leveraged loans and USD high yield bonds (HY), where definitions, pricing, and recovery data are broadly comparable. Part II will focus on default activity in private credit.

Default activity remains elevated, though it has moderated from recent peaks. Beneath the surface, trends point to uneven borrower performance, with stress concentrated among a narrower set of issuers. While defaults are an important signal of underlying credit conditions, their impact on investor outcomes depends on recovery rates, which ultimately determine realized losses.

In this *Credit Currents*, we examine recent default trends in USD syndicated markets and their implications for investor outcomes.

### Dimensions of dispersion in default activity

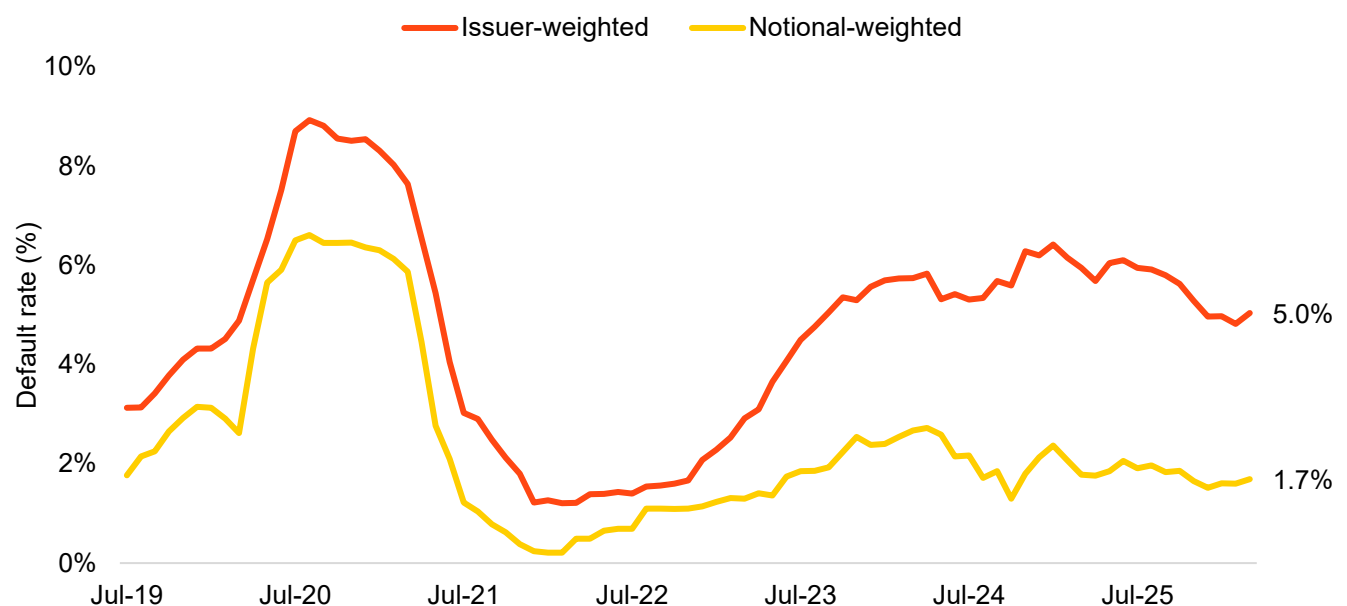
Exhibits 1 and 2 highlight two dimensions of dispersion among syndicated borrowers.

Exhibit 1 highlights the divergence in default trends between floating-rate leveraged loans and fixed-rate high yield bonds. For loans, borrowing costs adjusted rapidly as policy rates moved higher in 2022 and 2023, driving an earlier and sharper increase in defaults. By contrast, bonds were more insulated due to their fixed-rate structure, and default activity lagged. More recently, however, this gap has narrowed, suggesting that the initial rate-driven adjustment in the loan market has largely run its course.

Exhibit 2 compares issuer-weighted (i.e., by issuer count) and notional-weighted (i.e., by issuer size) default rates. The persistent gap between the two indicates that defaults have been concentrated among smaller borrowers. This points to a more enduring trend in which smaller borrowers have been somewhat more challenged in recent years, with the dynamic macro backdrop favoring those with scale and greater operational and financial flexibility.

### Exhibit 2: Smaller borrowers continue to default at a higher rate, though the issuer vs. notional gap has somewhat narrowed

Issuer-weighted and notional-weighted trailing 12-month default rates, for the universe of USD leveraged loans and HY bonds tracked by Moody's



Source: Moody's, BlackRock. As of March 31, 2026.

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## Defining defaults and why it matters for outcomes

Importantly, what constitutes a “default” is not always consistent, and that variation can influence investor outcomes. In syndicated markets, defaults can include missed payments and, in some cases, distressed transactions, including liability management exercises (LMEs) and distressed exchanges, where creditors may agree to revised terms outside of court.

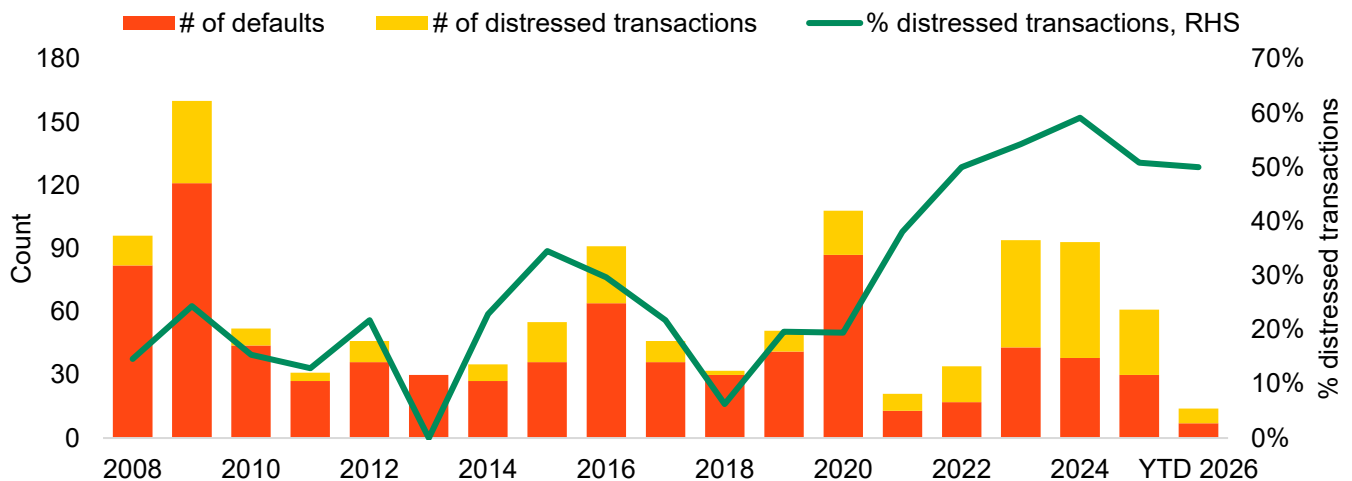
Such distressed transactions have become a defining feature of the current cycle. As shown in Exhibit 3, they have accounted for a growing share of total default activity across the syndicated markets. And while historically, distressed transaction activity has been more prevalent in the HY bond market, it has shifted toward the leveraged loan market in recent years, according to J.P. Morgan data.

Exhibit 4 demonstrates the recent rise in LME activity within the USD leveraged loan market, with the count of LMEs outpacing payment defaults over the last two years.

The rising share of distressed transactions matters given their implications for recovery outcomes and the resolution of credit stress, which we discuss on the next page.

### Exhibit 3: The share of distressed transaction activity has increased over recent years

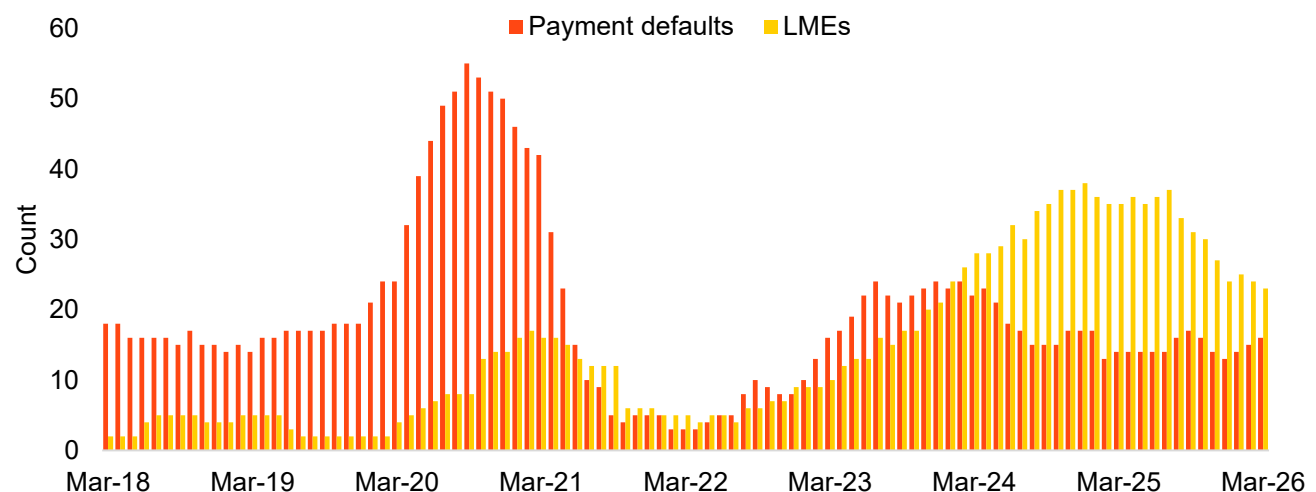
Count of total default activity by type (payment default, distressed transaction) and distressed transactions share of total, RHS, for USD leveraged loans and high yield bonds



Source: J.P. Morgan, PitchBook, Bloomberg, S&P/IHSMarkit, BlackRock. As of March 31, 2026.

### Exhibit 4: LMEs have outpaced payment defaults in the leveraged loan market over the last two years

Count of trailing 12-month defaults for USD leveraged loans, by default type



Source: Pitchbook LCD, Morningstar LSTA US Leveraged Loan Index, BlackRock. Data through March 31, 2026.

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## Distressed transactions, repeat defaults, and the evolving workout cycle

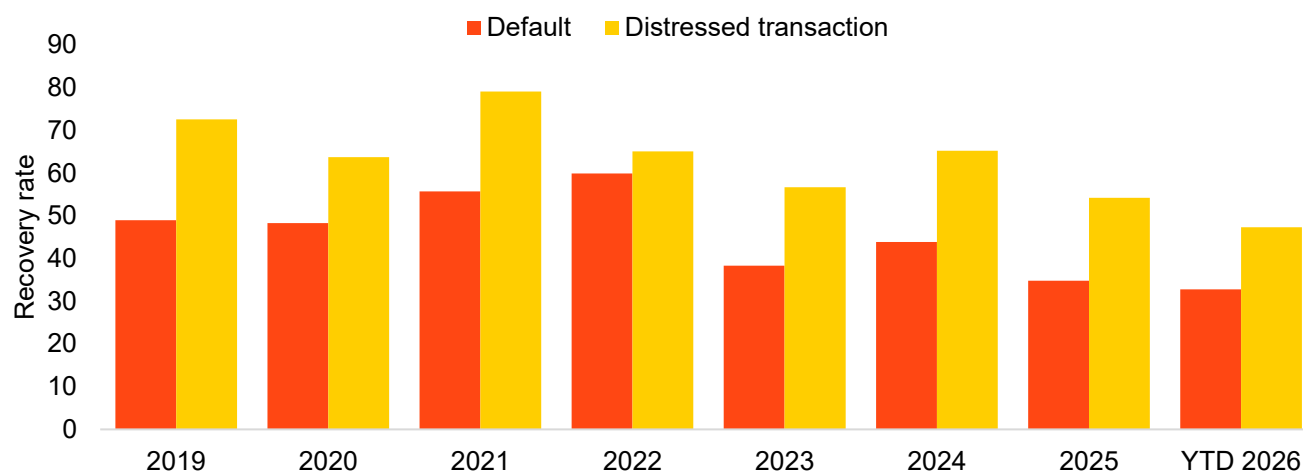
As noted previously, this evolution matters because it reflects how stress is being managed within credit markets. Distressed transactions can, in some cases, preserve value by avoiding the costs and disruption associated with more formal restructuring processes, including in-court bankruptcies. Consistent with this, recovery rates for distressed transactions have generally exceeded those for payment defaults in the USD leveraged loan market in recent years (Exhibit 5).

However, the rise in distressed transaction activity has been accompanied by an increase in repeat defaults, suggesting that while these transactions may provide near-term relief, they do not always resolve underlying balance sheet pressures. Exhibit 6 highlights this dynamic, with year-to-date repeat defaults (across all default types) at 50%, well above the longer-term average of 21%. Focusing in on distressed transactions, J.P. Morgan finds that approximately 50% of transactions from 2010 through 2023 were followed by another default event.

Taken together, these trends suggest a more iterative workout cycle, where initial restructurings are less likely to result in durable improvements in credit quality. For investors, we believe this underscores the importance of credit selection, ongoing credit monitoring, and active portfolio management.

### Exhibit 5: Recovery rates have been higher for distressed transactions in recent years

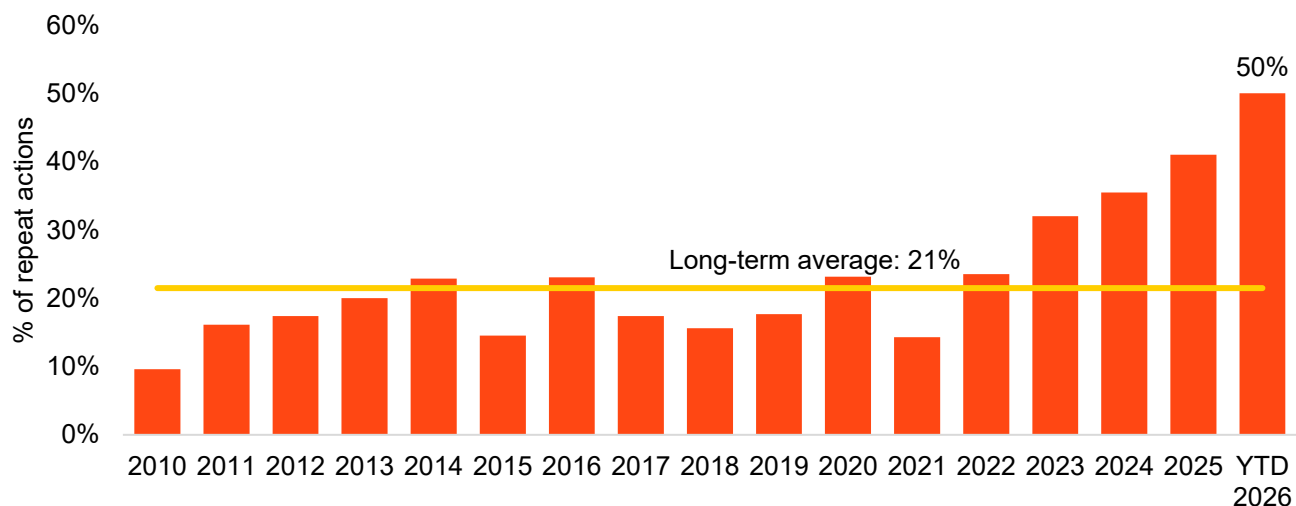
Average USD leveraged loan recovery rates by default type (payment vs. distressed transaction), per \$100 par



Source: J.P. Morgan, PitchBook, Bloomberg, S&P/IHSMarkit, BlackRock. YTD 2026 as of March 31, 2026.

### Exhibit 6: Repeat defaults have been on the rise

Repeat default actions as a share of total (by count) for the USD leveraged loan and HY bond markets



Source: J.P. Morgan, PitchBook, Bloomberg, S&P/IHSMarkit, BlackRock. As of March 31, 2026.

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## Decoupling defaults from investor outcomes

While default activity has remained elevated, total returns across USD investment grade (IG), HY, and leveraged loans have remained broadly positive, supported by carry and relatively contained realized losses (Exhibit 7 and 8).

This underscores a key point: defaults alone do not determine investor outcomes. Instead, realized losses reflect not only the *volume* of defaults, but also (1) their *underlying composition*, including issuer characteristics (e.g., size, capital structure), and importantly, (2) the proportion of value ultimately recovered.

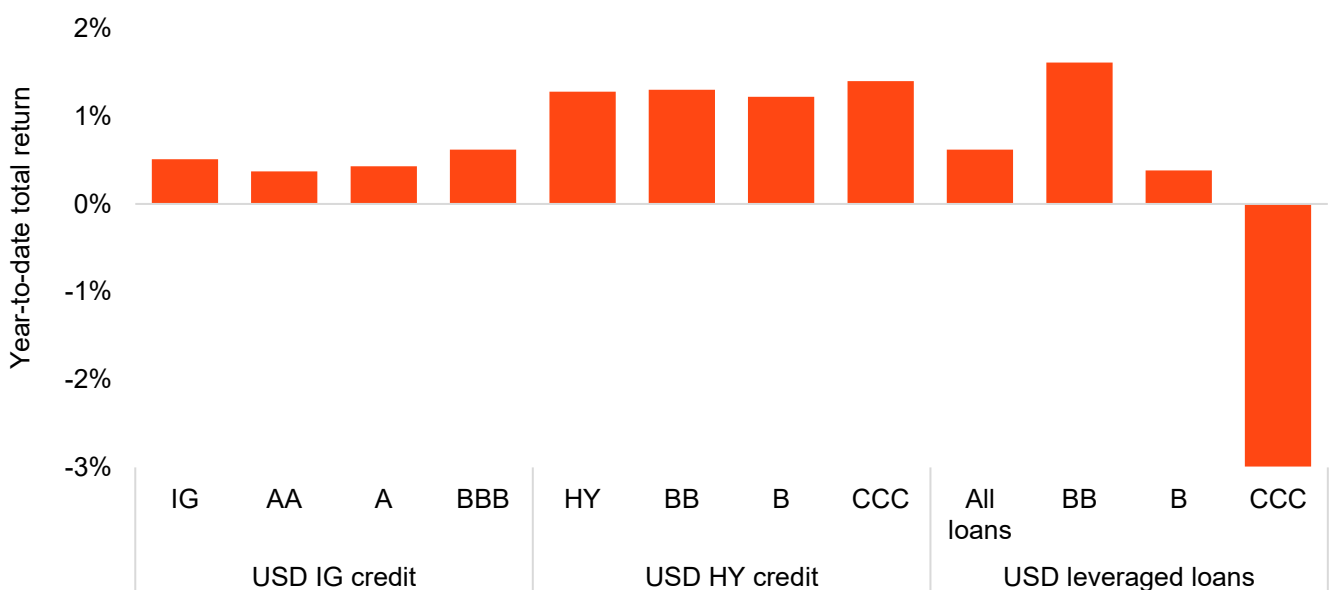
As such, we view recovery rates as a key transmission mechanism between defaults and investor outcomes. As shown in Exhibit 9, first-lien loans continue to recover at higher levels than senior unsecured bonds, reflecting their more senior and secured position in the capital structure. Note that the data capture prices 30 days post-default and therefore may not fully reflect ultimate restructuring outcomes. Even so, we believe the signal is directionally informative.

But importantly, recoveries are not static. For both loans and bonds, recovery levels moderated toward the lower end of recent ranges, likely increasing the sensitivity of outcomes to default activity. At the same time, dispersion has widened between the two recovery rates, per Moody's data.

We view defaults as a signal of credit stress that *informs* investor outcomes, rather than defines them. In that context, positive total returns alongside persistent dispersion in both defaults and recoveries reinforces that outcomes are increasingly driven by security selection, capital structure positioning, and underwriting discipline.

### Exhibit 7: Total returns reflect multiple drivers

Year-to-date total returns (%) for various USD corporate credit indices

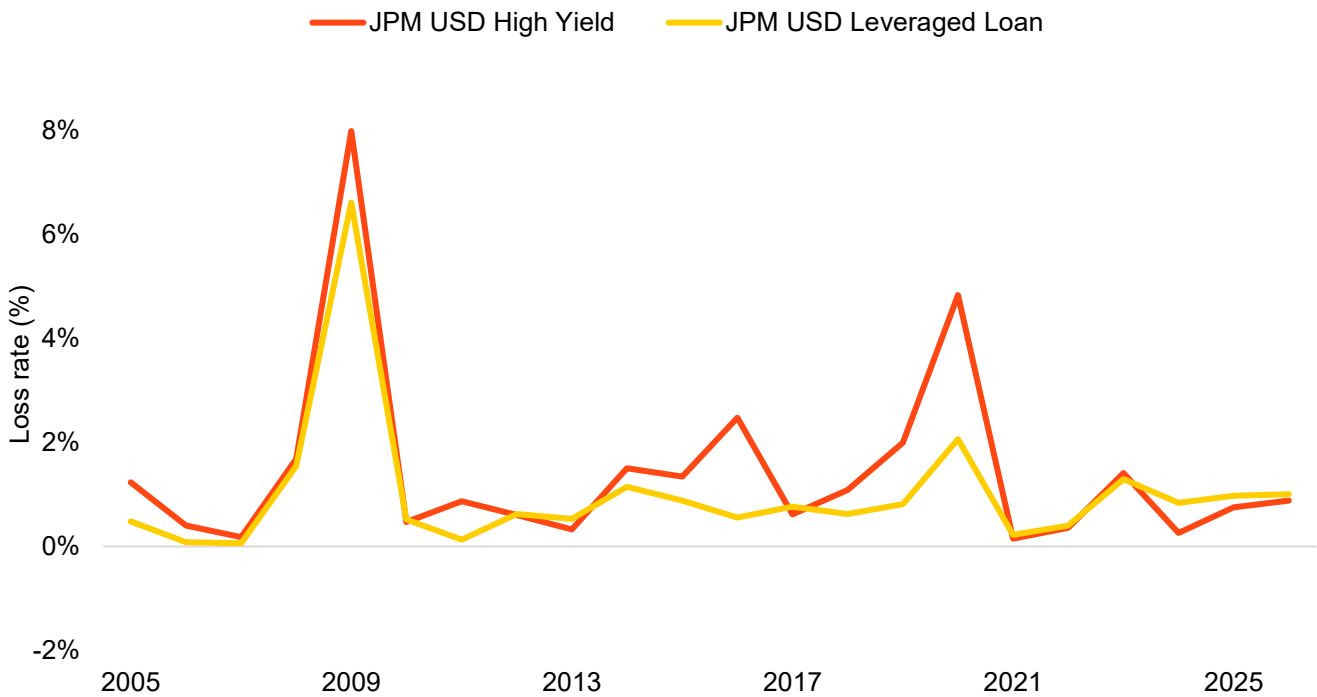


Source: Bloomberg, Pitchbook LCD, BlackRock. As of April 24, 2026. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

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**Exhibit 8: Losses remain contained across the USD HY bond and leveraged loan market**

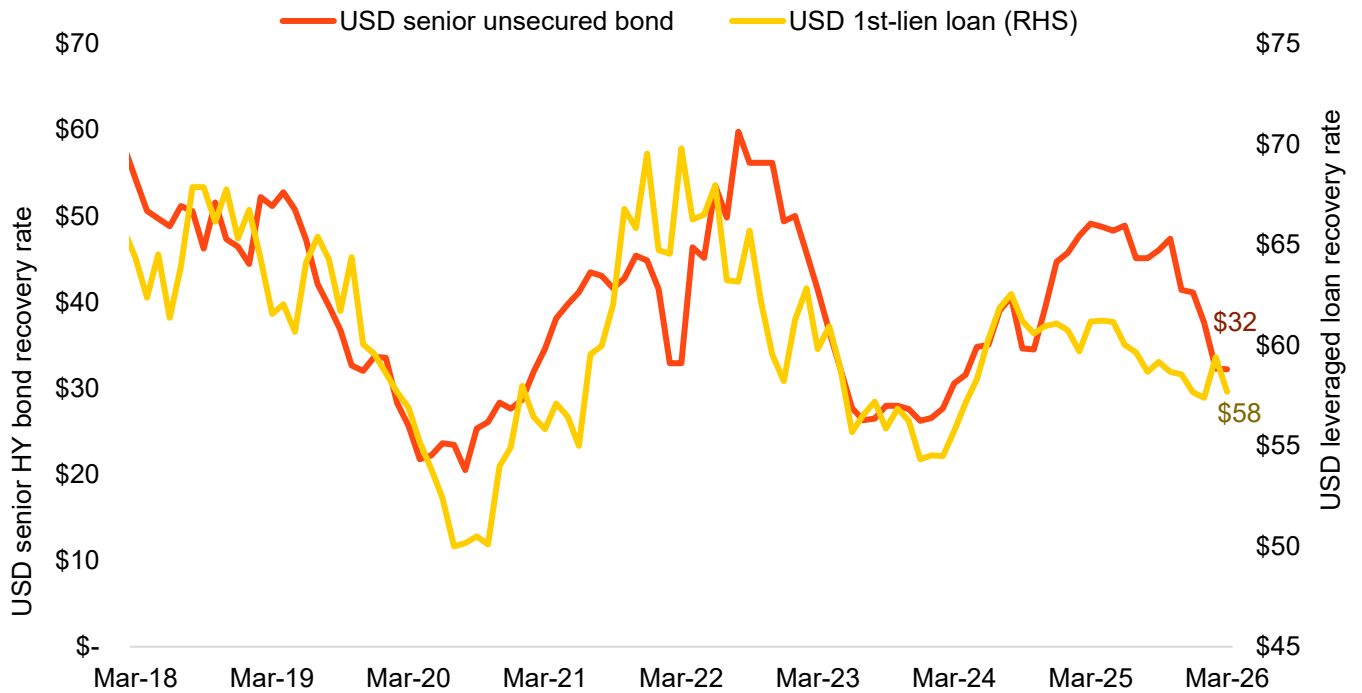
Realized annual and trailing 12-month loss rates for the universe of USD leveraged loans and HY bonds tracked by JP Morgan



Source: JP Morgan, BlackRock. As of 1Q2026. For USD leveraged loans and high yield, we show implied loss rates based on JPM's actual par-weighted default rate, which excludes distressed exchanges. Recovery rates are issuer-weighted and based on price 30 days after default date. 2009 Adj. recoveries are based on year-end prices.

**Exhibit 9: Recovery rates vary across instruments and over time**

Trailing 12-month USD senior unsecured bond vs. first lien loan (RHS) recovery rates (per \$100 par)



Source: Moody's, BlackRock. As of March 31, 2026. Measured by debt prices which are taken immediately prior to distressed exchanges or 30 days after non-distressed exchange defaults.

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