RBC BlueBay Asset Management

Still waters but trouble brewing: selective opportunities in European stressed and distressed credit

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Key takeaways:

- Despite European high yield (HY) spreads trading close to multi-year tights, corporate distress – driven primarily by earnings weakness – has risen sharply to a four-year high, with 1,411 businesses across EMEA classified as distressed, up 18.4% over three years[1].
- Far from idiosyncratic, sector distress risks becoming systemic: geopolitical shock, trade disruption, subdued growth, supply chain pressures, inflation, higher borrowing costs, or fragile confidence – catalysts for distress are finding their way into company fundamentals.
- An overlay of country factors is also feeding into a deteriorating outlook, with distress evident across some of Europe's largest economies.
- For companies under pressure, the window for proactive restructuring might be narrowing, but for credit investors there could be opportunities to take, turning rising corporate distress today into the potential special situations of tomorrow.

Still waters for headline European HY indices, but trouble brewing beneath the surface

At first glance, European HY debt markets look becalmed, with index credit spreads trading close to multi-year tights (Exhibit 1). From this, it might seem that investors do not want very much compensation for taking on below-investment-grade corporate credit risk.

Exhibit 1: index spreads suggest still waters but headlines do not always tell the deeper story[2]

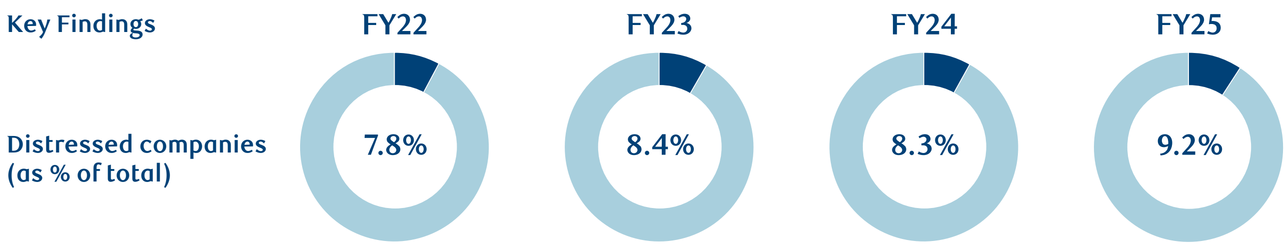
Source: Bloomberg, ICE BofA, as at 30 June 2026.

[1] Alvarez & Marsal (A&M): "The A&M Distress Alert" report, July 2026. EMEA denotes Europe, Middle East and Africa.
[2] ICE, Bank of America. HPC0 denotes the European Currency High Yield Constrained Index. Data to June 30, 2026.

But beneath the surface, headline index spreads do not always tell the deeper story. It might seem obvious, but the index in Exhibit 1 is not a stressed or distressed index, but one that reflects pricing and performance of a broad range of credits. This is a crucial point, because this and other similar European HY credit indices might at times mask a deteriorating credit picture.

The latest Alvarez & Marsal (A&M) Distress Alert report, published last month, shines a light on just such a risk scenario. For the full year 2025, corporate distress – driven primarily by earnings weakness – has risen sharply to a four-year high of 9.2%, with 1,411 businesses across EMEA classified as distressed, up 18.4% over three years (Exhibit 2).

Exhibit 2: a worrying deterioration in distress



Source: Alvarez & Marsal (A&M): "The A&M Distress Alert" report, July 2026.

Far from idiosyncratic, sector distress is being driven by systemic headwinds

In the A&M report, distress is greatest for businesses most exposed to discretionary spending and international supply chains: the fashion retail sector is showing the most distress, while the automotive and manufacturing sectors have seen the sharpest year-on-year increases in distress. More than that, however, these are not isolated pockets of distress: financial health has weakened in the vast majority of sectors analysed (Exhibit 3).

While this trend in rising financial distress predates the US war with Iran, the war could well make that trend worse. Indeed, the war has added unwelcome cost and supply-chain friction globally to an already tariff-trade disrupted, subdued growth and fragile consumer confidence picture. Alongside challenging sales volumes and margin pressure, the war has lifted inflation and rate expectations. Together, these existing and newer factors are creating headwinds that are filtering through into corporate earnings, balance sheets and company boardroom agendas – as a result, distress is expected to increase further in the next 18 to 24 months.[3]

Exhibit 3: a broad picture of sector distress[4]

Sector	% of companies in distress	Trend*
Fashion Retail	14.1%	+1.9ppt
Chemical & Other	12.0%	+1.7ppt
Media, Entertainment & Media Services	11.7%	-0.1ppt
Automotive	11.2%	+2.2ppt
Specialised Retail	10.6%	+1.8ppt
Manufacturing	10.5%	+2.0ppt
Energy & Utilities	9.9%	+1.7ppt
Heathcare	9.9%	+0.9ppt
Travel, Hospitality & Leisure	9.1%	+0.9ppt
Construction	9.1%	+0.6ppt
Business Services	6.7%	+0.1ppt
Consumer Food & Beverage	5.9%	+0.8ppt

***Change FY25 vs FY24** < -1ppt -1ppt to +1ppt < +1ppt

Source: Alvarez & Marsal (A&M): "The A&M Distress Alert" report, July 2026.

[3] A&M author findings, July 2026.
[4] A&M, July 2026. For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue.

An overlay of country factors is feeding into a deteriorating credit outlook

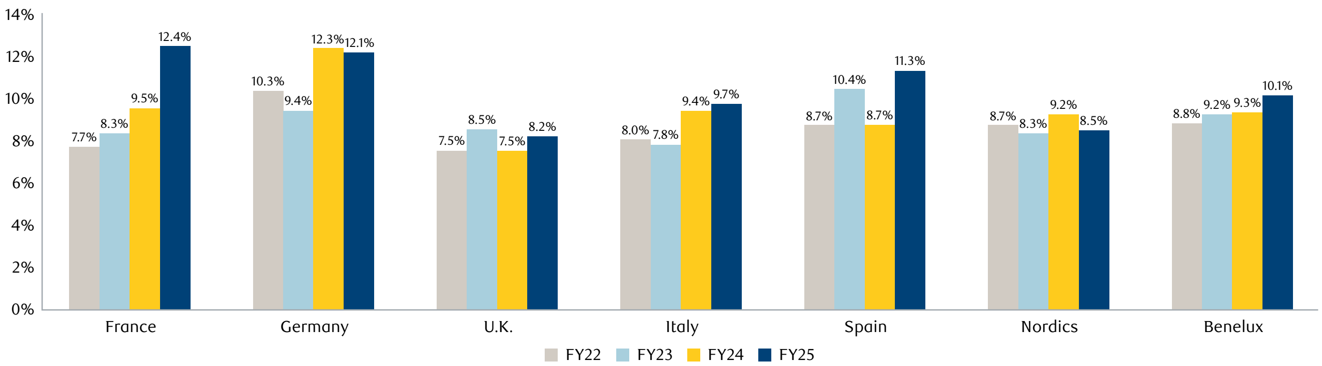
Overlaying the challenges that we can see at a sector level, country dynamics are also driving incremental distress to varying degrees, and notably for France and Germany, the first and second highest distressed markets, respectively, as recorded in the A&M report (Exhibit 4).

For France, a key concern is a repayment deadline this summer for the majority of State-Guaranteed Loans granted during Covid. This near-term maturity wall could accelerate financial distress for already-fragile companies, and potentially trigger a wave of restructurings and insolvency proceedings.

For Germany, the country's automotive suppliers continue to represent a strong German restructuring theme. Trapped in a deep crisis – characterized by weak order intake, rising operational costs and intensifying competitive pressure – the companies in this sector are especially challenged given that there is no clear near-term catalyst for recovery.

However, this distress is not unique to one or two countries: corporate distress is up across nearly all country and regional markets covered by the report.

Exhibit 4: A deteriorating distress picture across nearly all countries and regions in the report[5]



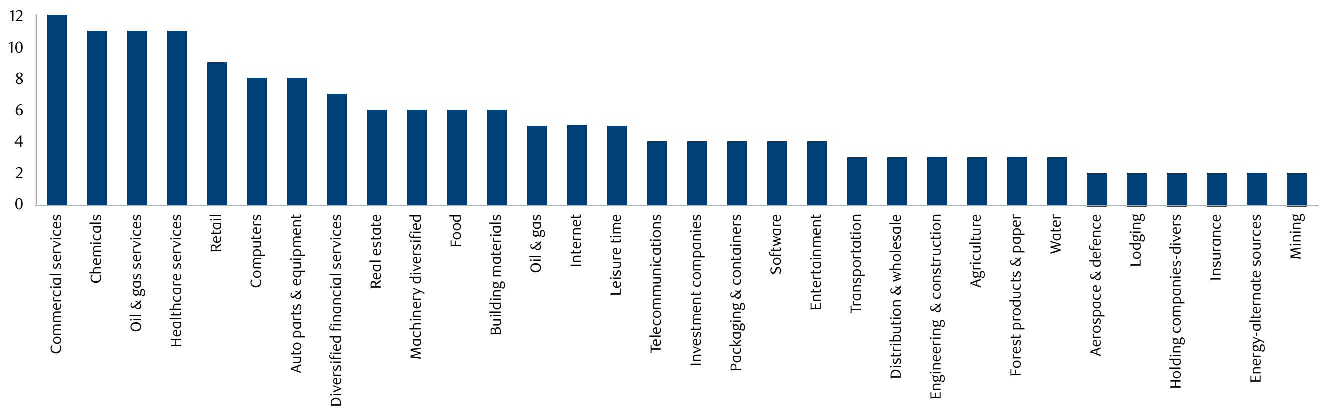
Source: RBC BlueBay Asset Management, Alvarez & Marsal (A&M): "The A&M Distress Alert" report, July 2026.

Out of corporate distress, we see a rich hunting ground of opportunities for credit investors

For those companies under pressure, the window for proactive restructuring might be narrowing, but for credit investors, the divergence between tight spreads at the headline index level and a deterioration in the underlying fundamentals – in our view – creates a rich hunting ground for future opportunities.

Indeed, the absolute number of investment opportunities on our watchlist has soared in the last year, and at three times the average size, is at a record high (Exhibit 5). Moreover, these opportunities are not confined to one or two sectors, but are diverse, spanning a broad range of industries. While previous downturns might have proved more sector-specific, today almost every sector is seeing some form of impact.

Exhibit 5: The absolute number of companies on our watchlist is at a record high[6]



Source: RBC BlueBay, February 2026. Selected industries shown for illustrative purposes – full breadth of industries is not shown.

[5] RBC Global Asset Management, A&M, July 2026.
[6] RBC BlueBay, February 2026. Selected industries shown for illustrative purposes – full breadth of industries is not shown. Taken from RBC BlueBay report "Special situations: opportunity out of uncertainty", July 2026.

To highlight the scope of opportunity, consider these three examples[7]:

- **Antolin** – a Spanish auto-parts company specializing in interior components – has been impacted by sustained weakness in European auto production volumes and Chinese competition. Weaker earnings have seen the leverage on the EUR1 billion+ debt climb higher with upcoming 2027 and 2028 maturities placing refinancing difficulties on the company. That has led to the company's debt trading at deeply discounted levels. A contested restructuring plan is due in Spanish courts in September or October 2026.
- **Reno De Medici** – an Italian manufacturer of cartonboard for packaging and one of Europe's leading producers – has suffered a sharp deterioration in earnings amid softer pricing power and higher raw material costs. The company missed its March 2026 coupon and entered into restructuring negotiations with lenders. The agreed restructuring will result in lenders taking a 50% write-off in the bonds and providing a EUR100 million new super-senior money facility, in exchange for 95% of the equity.
- **AD Education** – a French-headquartered higher education group – has been impacted by the French government's decision to drastically reduce funding across apprenticeship schemes in France. The company has a EUR700 million term loan which is currently trading at around 60 cents while investors await student enrolment numbers to determine the normalized run-rate earnings for the group.

For these and other companies that we are tracking, the current environment is one that our special situations capabilities have been built to operate in. As we monitor for signs of deteriorating earnings, falling covenant headroom, maturity walls, structural impairments and more besides, it is our belief that some of the companies that are showing distress today could well become the potential special situations of tomorrow.

[7] Case studies sourced from RBC BlueBay, July 2026. The information provided is for illustrative purposes only and should not be deemed a recommendation to buy or sell any security or financial instrument.

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