

KKR

In Brief

Beyond the Roar

Credit & Markets | June 2026



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This quarter, we drew inspiration from the Roman arena to explore a dynamic we believe is reminiscent of today's credit market: the tension between fundamentals and the perception of them. In ancient Rome, the arena was rarely short of noise. The crowd roared loudest for the spectacle, but not usually for the disciplined gladiator who had the experience to survive. Credit markets entered the year under a similarly constructive surface that quickly gave way. An AI-driven software selloff, escalating geopolitical tension, and a persistent private credit narrative combined to test investor conviction in ways that felt both sudden and, for those paying close attention, desired. As seen with many bouts of volatility throughout history, the markets snapped back. But the quarter left something behind: a clearer picture of where structural strength ends and perception begins.

Against that backdrop, we felt it was important to do our part to separate signal from noise.

This edition of In Brief draws out the key themes explored in depth in our recent investor letter, **Beyond the Roar**:

/// The Arena

A review of Q1 credit markets, where dispersion has become bifurcation between quality and risk, and the same yield proved, once again, not to mean same risk.

/// Playing to the Crowd

A deeper look at the forces reshaping the private credit landscape, from software debt and AI disruption to retail flows and the questions investors should be asking.

/// Applause versus Outcomes

How we are positioning for what comes next, with an emphasis on credit selection, portfolio construction, and why a revived M&A cycle and the structural advantages of the bond market may catalyze a renaissance in high yield in the quarters ahead.

1

Dispersion has become bifurcation

Key takeaway: The gap between a good credit and a bad credit has widened, and in many sectors, there is clear bifurcation. The margin for error has narrowed, and with less incentive to take risk, selectivity, quality, and portfolio discipline are the defining differentiators this year. Portfolio construction remains paramount.

What Q1 made clear is that the same yield does not mean the same risk. Software and services loans had been quietly underperforming the broader leveraged loan index since mid-2022, averaging 20 to 50 basis points of monthly underperformance before Q1 made

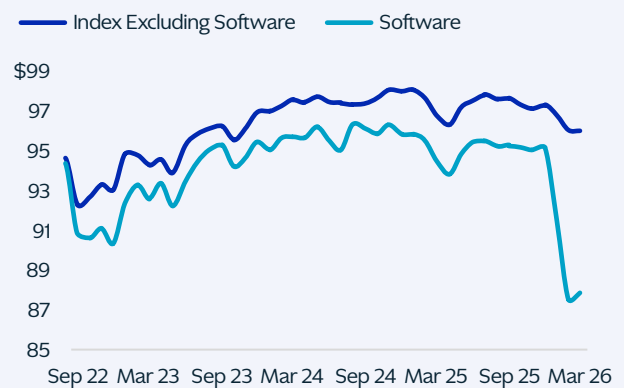
it impossible to ignore. By quarter-end, software loan bids had fallen to 87.97, the lowest in four years, while the rest of the leveraged loan market held within roughly a point of where it began the year. The gap between software and non-software loan bids widened to more than eight points, more than three times any spread observed since 2022.

Why it matters: When dispersion becomes bifurcation, the cost of being wrong rises sharply. For investors, that means the return on getting credit selection right has never been higher, and the penalty for complacency is more visible. We believe portfolio construction will be the differentiator in a market like this one.

EXHIBIT 1

Dispersion in Software & Services loans has been in effect since Q3 2022

Weighted Average Bid Price of U.S. Leveraged Loans



Source: PitchBook | LCD, Morningstar LSTA US Leveraged Loan Index as March 31, 2026

Software bonds held in materially better than their loan counterparts – a reflection of high yield’s lower software concentration, high credit quality and less LBO exposure

2

A deeper look at credit defaults

Key takeaway: History has taught investors that patience matters. Staying invested through stress, even during the GFC, was ultimately rewarded. In today’s environment, significant equity value would need to be destroyed before credit investors feel pain. That cushion is far more substantial than the current narrative suggests.

Even at the worst of the GFC, three-year rolling returns for both U.S. high yield and leveraged loans ended positive. The 2008 vintage was challenging, returning

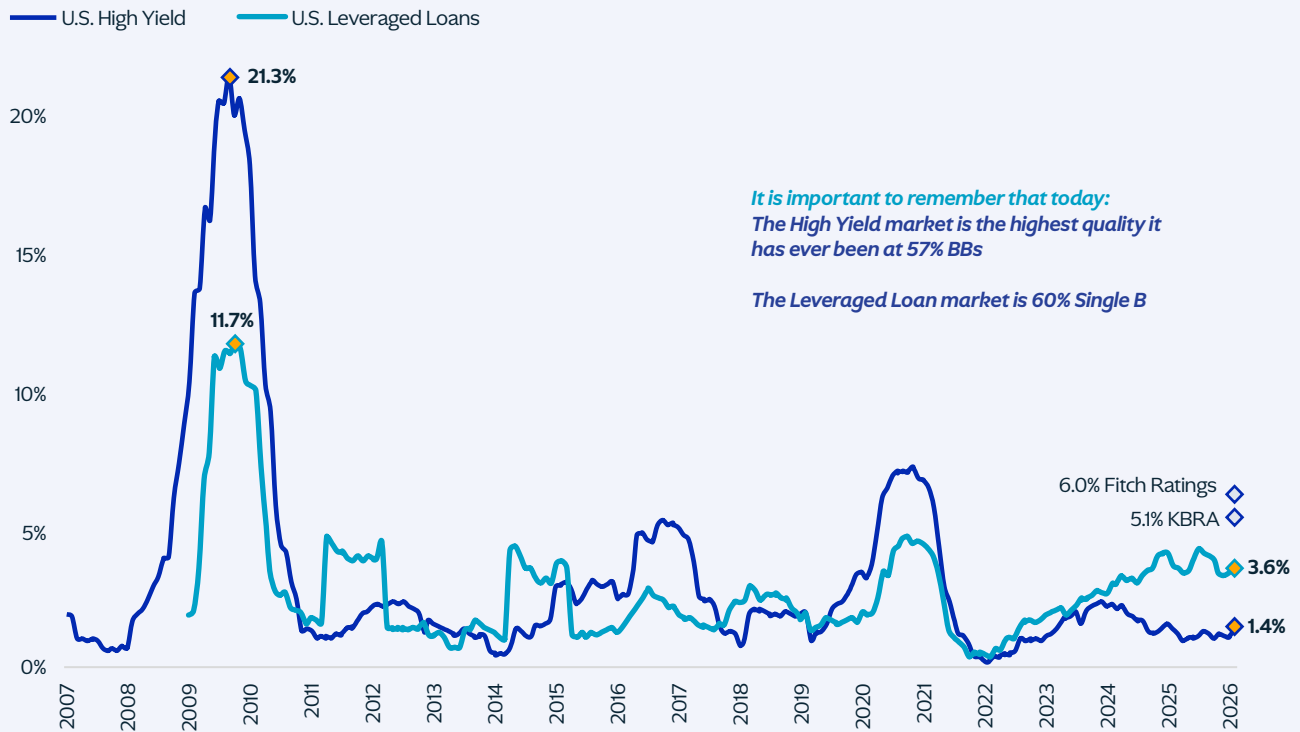
approximately -5.6% for high yield and -8.2% for loans, but the 2011 vintage, coming out the other side of the same cycle, returned +23.7% and +19.2% respectively. Today’s three-year cumulative default rates of 9.7% for loans and 5.1% for high yield sit well inside the historical cushion. In most situations under discussion, meaningful equity sits below the debt and that equity absorbs losses first.

Why it matters: Today’s environment looks more like a normalizing cycle than the beginning of a credit crisis. For investors, that distinction matters. Reacting at the bottom has historically been a costly decision. To the extent possible, staying invested, particularly in diversified portfolios with conservative senior secured positioning, has been a rewarding posture across cycles.

EXHIBIT 2

What Happened in the GFC vs. Today’s Market Plus Recent Data Points on Direct Lending

Trailing 12-Month Default Rate (% , Par-weighted)



Source: Fitch Ratings Private Credit Default Rate and KBRA DLD Direct Lending Index as of April 30, 2026. LCD Pitchbook, Morningstar, Bank of America Research, JPMorgan Research, U.S. High Yield ICE BofA Index, Morningstar LSTA US Leveraged Loan TR, and KKR Credit Analysis as of March 31, 2026. Default data is inclusive of distressed exchanges, LMEs for leveraged loans and for private credit non-accruals.

3

How you access private credit can shape the experience

Key Takeaway: The same underlying loans (credit risk) can produce materially different investor experiences depending on whether income is reinvested or distributed. In other words, the vehicle structure plays an important role in an investors' experience.

In a closed-end fund or separately managed account, the structures more commonly accessed by institutional investors, income accumulates (or is reinvested) inside the vehicle, building a buffer that absorbs losses and compounds over time. In a BDC or 40-Act vehicle, nearly all income must be distributed. That distributed

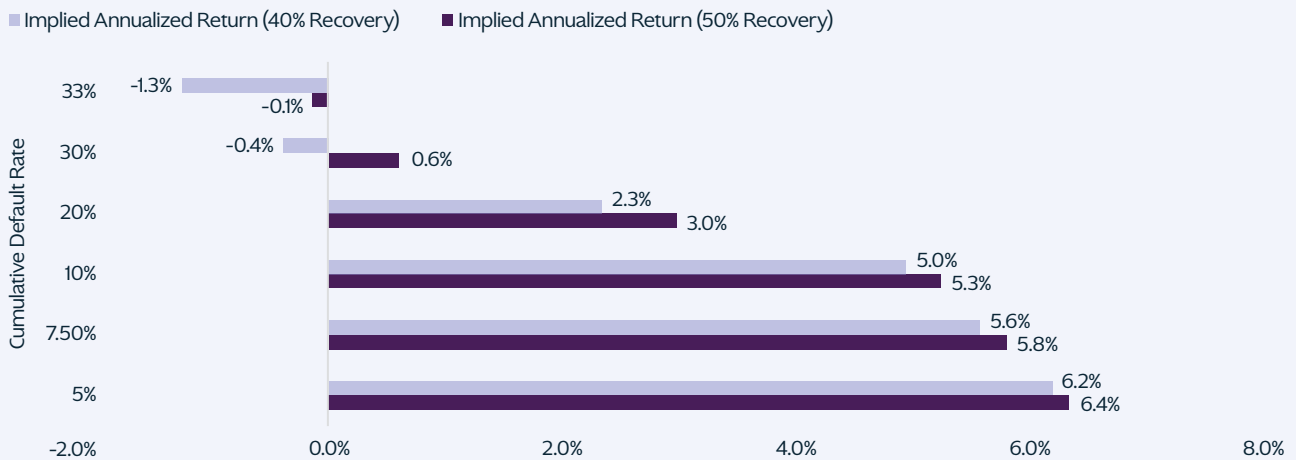
model can generate returns economically similar to one that reinvests all income while feeling meaningfully different to the holder given NAV volatility it can experience along the way. For example, at a 10% annual default rate with 40% recoveries, both the reinvested and distributed models deliver approximately ~1.2% and 1.1% annualized total return respectively, but the distributed model produces a 17% NAV decline along the way.

Why it matters: A distribution model can generate returns that are economically similar to a reinvested structure while feeling meaningfully different to the holder. And unlike an institutional closed-end fund where all investors enter at the same point and live the same experience together, BDC investors enter at different times across an open-ended window, meaning no two holders are experiencing the same vintage of the portfolio.

EXHIBIT 3

Direct Lending Returns Under Severe Default Scenarios

Implied Annualized Returns vs. Cumulative Default Rates



Historical Benchmarks

30.8%

Peak 3-year cumulative HY default rate, reached November 2010

17.5%

Peak 3-year cumulative loan default rate, reached June 2011

9.7% / 5.1%

Today's 3-year cumulative loan and HY default rate, inside the cushion

Note. For discussion purposes only. Historic market trends are not a reliable indicator of actual future market behavior or future performance. The statements and figures on this page relating to the impact of these market tailwinds are forward-looking statements. Our investment themes and strategies may incorporate these assumptions and expectations relating to these market tailwinds, but there is no guarantee they will be successful. Assumes unlevered fund with a 3-year weighted average life and 8% annual return. Past performance is no guarantee of future results. The above is for illustrative purposes only. The returns detailed herein are presented at asset-level only and are not indicative of the returns achieved by any existing investor in any KKR fund or account.

4

High yield may be entering a renaissance

Key takeaway: Structural advantages, lower software concentration, and issuers growing need for execution certainty are converging to make high yield a more compelling financing channel than it has been in years.

The high yield market carries roughly 3% software exposure versus 13% in leveraged loans and 20%+ in direct lending, making it structurally cleaner at a moment when software overhang is weighing on

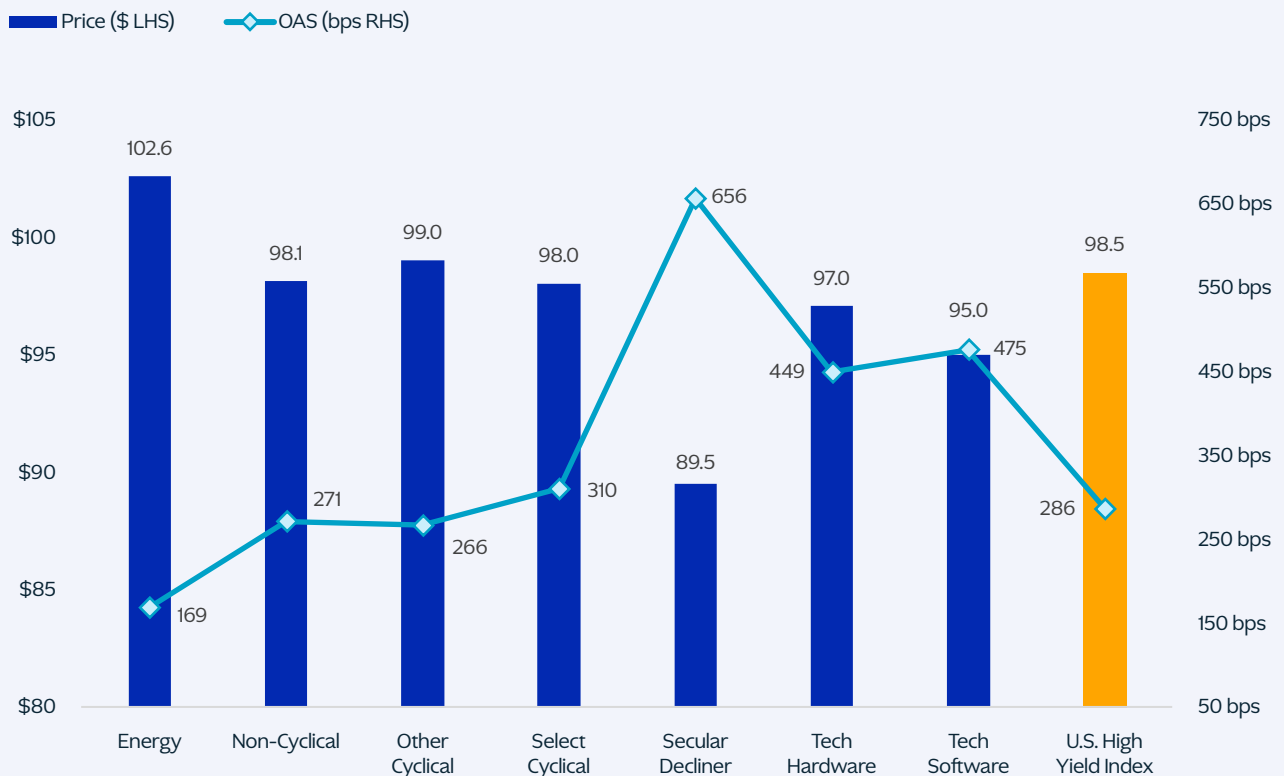
loan investor appetite. As CLO issuance has slowed and direct lending terms have tightened, issuers are increasingly finding that accepting call protection is a worthwhile trade for certainty of execution. Recent large acquisitions, such as Sealed Air and Electronic Arts, required bond market participation to complete a capital structure the loan market could not absorb alone.

Why it matters: High yield has not historically been the first call for many sponsors, but that calculus is shifting. For investors, that shift opens access to higher quality credit, lower software concentration, and the structural benefit of call protection at a moment when the asset class may be entering its most active period in years.

EXHIBIT 4

The U.S. High Yield market has lower exposure to software & services names compared to the loan market

U.S. High Yield Price by Sector Composition



Source: ICE BoA High Yield, Factset, Bloomberg and KKR Credit Analysis as of May 1, 2026

5

Software M&A is positioned to accelerate

Key takeaway: Strategic acquirers can rationalize costs, capture synergies, and buy down acquisition multiples over time. A consolidation-driven M&A cycle could be one of the most important catalysts for credit opportunity in the quarters ahead.

In software specifically, the strategic logic is increasingly about capability acquisition and cost structure rationalization rather than growth multiple expansion.

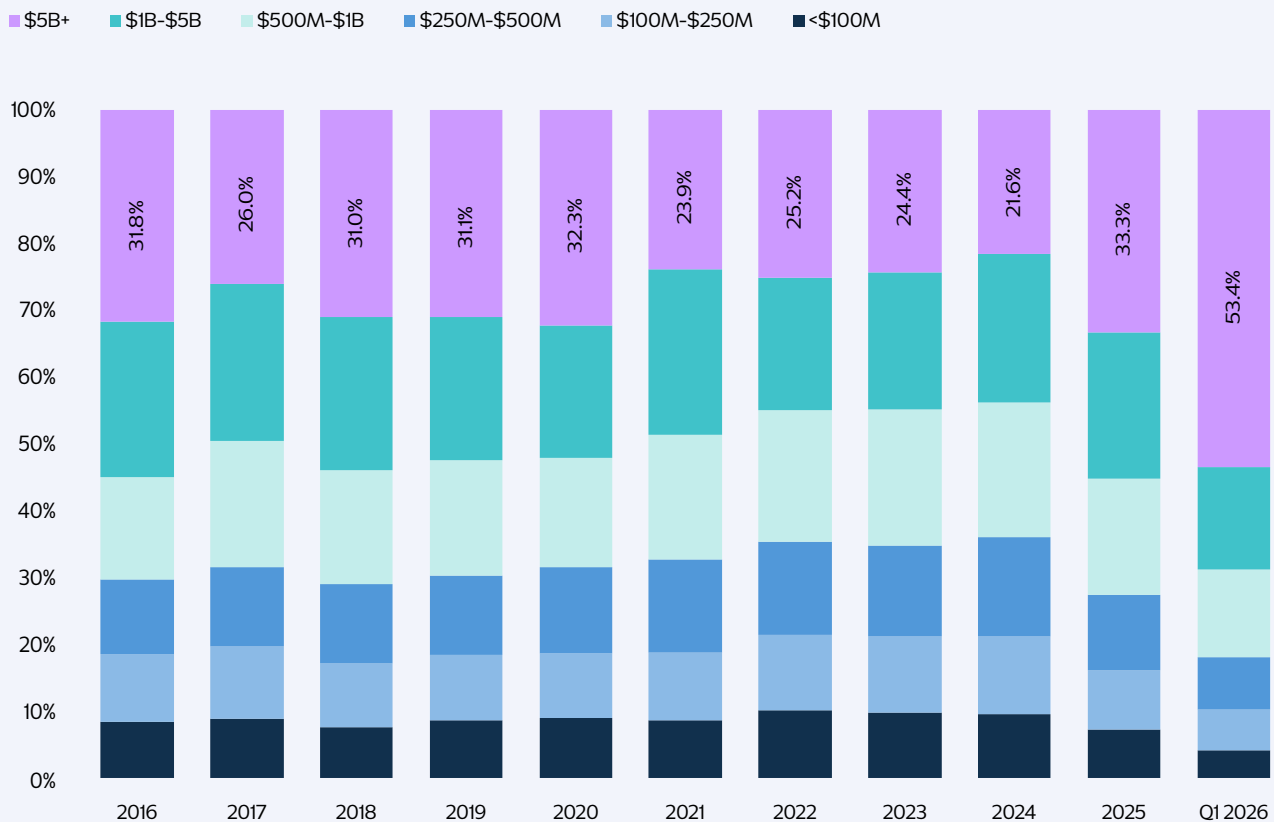
A buyer that can remove duplicative costs, integrate product suites, or apply AI across a combined operating model can effectively reduce the acquisition multiple over time. That changes the underwriting conversation. Assets with mission-critical platforms and clear synergy cases may still command premium multiples. Those with weaker growth durability or more fragile capital structures will face a more disciplined buyer universe, and credit investors will need to distinguish between the two.

Why it matters: M&A creates liquidity, exits, and refinancing opportunities. It will also test which software borrowers have real strategic value. For platforms with scale and origination depth, that testing is an opportunity.

EXHIBIT 5

The share of mega M&A deals continues to grow

Share of global M&A value by size bucket



Source: ICE BoA High Yield, Factset, Bloomberg and KKR Credit Analysis as of May 1, 2026

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