

News Release

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New IACPM Survey Finds Iran War Has Increased Risk of Rising Defaults and Wider Credit Spreads but Respondents Say Liquidity is Strong and Credit Markets Remain Open with Greater Due Diligence

New York, NY –The war in the Middle East has unquestionably heightened concerns regarding the potential for wider credit spreads and rising defaults. The Credit Spread Index in the latest IACPM Outlook Survey is minus -46.2, the most negative reading since March of last year. The Credit Default Index is minus -64.3, the most negative score in almost three years.

But headline risk only tells part of the story. Credit portfolio managers, who responded to the survey, say liquidity is currently under control with no major stresses. They are not seeing substantial drawdowns or revolving credit facilities being targeted by corporations trying to hold on to cash.

“Are banks advising some clients to be a bit more patient? Yes,” said Som-lok Leung, the Executive Director of the International Association of Credit Portfolio Managers. “In some cases, banks are trying to help clients choose the best window to present a new project or a loan amendment.”

Secondary loans are certainly more difficult to close and are sometimes disappearing. It depends on the asset and origination circumstances. However, the market for investment grade credits is open. Companies need to issue debt, it is just a matter of finding the best way to do it.

“Transactions are getting done,” noted Mr. Leung. “For example, the market for SRTs remains open. Terms and pricing may require more negotiation but new deals are

being completed.”

The good news is that fixed-income markets remain open for now but survey respondents note there are other problems worth watching. In a list of the biggest macro concerns, respondents cited inflation as the second biggest worry, after geopolitics. Potential market instability was third, followed by reduced energy security and slower economic growth, even possible recession.

“As one of our respondents put it, however,” said Mr. Leung, “if you look through the current geopolitical situation and focus on its economic impact, inflation pops to the top.”

Respondents further agree that inflation, driven mostly by higher energy costs, is not going to disappear quickly. One firm’s energy analysts expect prices to be disrupted until at least October. Other observers say, in addition to current bottlenecks, infrastructure damage to Middle Eastern oil wells, refineries and other production facilities is so extensive, it will probably take tens of billions of dollars to repair and years to recover.

“It’s hard to see how that cannot have an inflationary impact,” commented Mr. Leung. “And further, over the medium term, say the next few years, the damage will cause interest rates to remain elevated.”

The Credit Outlook Survey is conducted among members of the IACPM, an association of 165 financial institutions in 30+ countries around the world. Members include portfolio managers at many of the world’s largest commercial banks, investment banks and insurance companies, as well as a number of asset managers. Members are surveyed at the beginning of each quarter.

Survey results are calculated as diffusion indexes, which show positive and negative values ranging from 100 to minus -100, as well as no change which is in the

middle of the scale and is recorded as “0.0.” Positive numbers signify an expectation for improved credit conditions, specifically fewer defaults and narrower spreads, while negative numbers indicate an expectation of deterioration with high defaults and wider spreads.

About IACPM

The IACPM, with over 165 member institutions located in 30+ countries, is a professional association dedicated to the advancement of credit portfolio management. The organization’s programs of meetings, studies, research and collaboration are designed to increase awareness of the value and the function of credit portfolio management among financial markets worldwide, and to discuss and resolve issues of common interest to its members.