

News Release

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Jon Teall 212 317-8296



Clouds of Risk Hang Over Financial Markets and Global Economies But IACPM Outlook Survey Respondents Say A Trigger Leading to Losses or a Downturn is Still Unknown

New York, NY – Credit risk managers certainly do not have any trouble seeing risk in current financial markets but, as respondents to the latest IACPM Credit Outlook Survey, they are considerably more nuanced in their forecasts. The new survey shows respondents are evenly split between calling for rising corporate credit defaults over the next 12 months or expecting them to remain at the same levels. Just six percent of respondents think the number of defaults will decrease. Taken together, these responses produce a Corporate Default Index score of minus -40.1, meaning there is a consensus view that defaults will rise. Three months ago, the Corporate Index stood at negative -67.8, which means there was an even larger consensus that defaults would rise.

Similarly, survey respondents are negative regarding credit spreads but at roughly the same levels as they were three months ago in the last survey. The Credit Spread Outlook Index for North American Investment Grade Debt is minus -40.0 in the newest survey, the same as it was in the previous one. The forecast for European Investment Grade spreads is negative -36.1 compared to minus -35.5 previously. A negative reading means respondents are expecting wider credit spreads over the next three months.

“Risk managers have no trouble seeing considerable risk in the credit markets and in the global economy” commented Som-lok Leung, Executive Director of the International Association of Credit Portfolio Managers, or IACPM. “But when or where

a trigger will lead to losses is much more difficult to forecast. Nobody wants to say the sky is falling when it hasn't."

Survey respondents point to several areas of concern. Among the biggest are continuing geopolitical risks, private credit and the future of Artificial Intelligence. At this point, no one knows when the Iranian war will end but, as long as it continues, survey respondents, who are members of the IACPM and credit risk managers of corporate loan portfolios at banks, insurance companies and asset managers, will be concerned about energy supplies, as well as the impact on different industry sectors and inflation.

"Bear in mind, there is no one correct answer to what happens if hostilities end or they do not," noted Mr. Leung. "We've seen the effects of continuing war but what happens when it ends? There will be winners, to be sure, but credit managers will also need to know what an end to the conflict will mean to the losers as well, across industry sectors, financial markets and global and regional economies."

Private credit ranks as the top emerging concern for credit portfolio managers as they acknowledge it is top of mind and they spend a considerable amount of time every day reviewing that portion of their portfolios. AI ranks second on the list, with concern over a potential bubble, a close third.

"A number of different models have been developed and pursued, leading to a substantial wave of capital being invested into AI," noted Mr. Leung. "Risk managers are concerned a significant portion of these investments will amount to lost money."

Another major concern regarding AI is its impact on pre-existing technology companies, especially software firms. Many of these companies are seeing solid revenue increases this year but the ongoing concern is when will AI do significant damage to these businesses.

“Lenders are looking several years ahead at software companies and focusing on firms’ upcoming loan maturities and refinancing needs,” said Mr. Leung. “Triple C rated companies are already having trouble and, as banks look to the future, they’re seeing potential refinancing waves in ’28 and ’29 which could start even earlier, forcing lenders to be prepared.”

In addition to the tech sector, survey respondents are also concerned about the chemical sector, which faces the possibility for further losses and higher insurance premiums, as well as continuing threats to global supply chains. Respondents are also worried about subprime consumers, especially in the United States, who are coping with affordability issues, affecting their potential purchase of cars, housing and other products.

The Credit Outlook Survey is conducted among members of the IACPM, an association of 165 financial institutions in 31 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 several 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 higher defaults and wider spreads.

About IACPM

The IACPM, with 165 member institutions located in 31 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.