

News Release

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First Brands, Tricolor: Canaries in the Coal Mine? Respondents to the IACPM Credit Outlook See Rising Defaults but Also Winners as Well as Losers

New York, NY –A majority of respondents to the latest quarterly IACPM Credit Outlook survey expect rising defaults in North American and European corporate credits. A number of survey respondents also forecast higher defaults over the next 12 months in Asia and Australia or, at least, default rates remaining near current levels. A key question for survey respondents, though, is whether recent bankruptcies, such as First Brands and Tricolor, is a harbinger of a coming surge in defaults or something more modest.

“People are asking whether we have we seen a canary in the coal mine, especially regarding private credit, and what are the chances for more stress in the future,” asked Som-lok Leung, the Executive Director of the International Association of Credit Portfolio Managers, or IACPM.

A common theme for survey respondents is that, like a K shaped economy, they are seeing both winners and losers among corporations. One respondent noted that, after looking at some of his documentation for loans originating in 2021 to 2022, he is seeing some deterioration in the credits three years later. At the same time, though, he is also seeing some corporations that are succeeding.

“One particular area our members are closely watching is the adaptation of artificial intelligence,” said Mr. Leung. “There are certainly concerns about AI but the likelihood is that we will see both winners and losers and not just a flat outcome. Inves-

tors will need strong credit picking skills to be successful.”

While there are credit default concerns for both North American and European corporate debt, there are some key differences between the regions. Europe is rearming itself in the wake of global retrenchment and that is driving quite a bit of investment. Inflation in Europe has also moderated close to the European Central Bank’s target of two percent, with energy prices, among other costs, remaining reasonably under control.

Inflation is a bit higher in the United States but lower than it was at the beginning of last year. One major area of concern, though, is the US retail sector. Europe has similar challenges, but the US appears to be under more stress. Overall, half of survey respondents expect defaults to rise in the retail/consumer mortgage sector globally.

“Lurking in the background, though, is the threat of some sort of geopolitical development,” commented Mr. Leung. “The problem is it’s almost impossible to say when or if something is going to happen and that makes planning much more difficult.”

Survey respondents also forecast defaults to either stay at current levels or rise in Asia and Australia but these expectations are noticeably lower than elsewhere. In Asia, respondents point out both banks and the Chinese have reduced their exposure to problematic loans and that Asia is awash in liquidity, giving people the ability to meet continuing challenges.

The general expectation for global credit spreads is that they will either widen or at least not narrow any further. Spreads have significantly tightened and they can not go much lower. As one survey respondents said, the only place to go is wider.

The Credit Outlook Survey is conducted among members of the IACPM, an association of 162 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 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 162 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.