

News Release

October 15, 2026

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Latest IACPM Survey Forecasts Rising Defaults and Wider Credit Spreads as Fiscal Concerns Spread Globally

New York, NY—Respondents to the latest IACPM Credit Outlook Survey forecast rising defaults globally, as well as wider credit spreads. More respondents expect higher defaults this quarter than last in every region surveyed, including North America, Europe, Asia and Australia. More respondents also expect rising defaults this quarter among retail and consumer credits, as well as commercial mortgages. The new survey further shows an expectation that credit spreads will widen in major markets.

“In some ways, global institutions and financial markets have held up pretty well of the past year,” said Som-lok Leung, Executive Director of the International Association of Credit Portfolio Managers, or IACPM. “Banks remain on solid footing and equity markets are trending higher. However, numerous risks persist that could create significant challenges.”

The Aggregate Credit Default Index dropped at the end of September to negative -62.5 from minus -37.1 at the end of June. The change reflects the fact that more survey respondents on average expect defaults to increase over the next 12 months. Similarly, the Major Markets Credit Spread Outlook Index dropped to negative -65.2 at the end of last month versus minus -42.3 at the end of June. This change means more survey respondents think spreads will widen over the next three months. Both rising defaults and wider spreads are indications of deteriorating credit conditions.

“Survey respondents, who manage the corporate loan portfolios at dozens of major financial institutions globally, are seeing some risk appetite among investors, but

they are also seeing a number of companies, which have so far managed to stay afloat, beginning to reach the end of the line,” commented Mr. Leung.

There is certainly no shortage of potential problems. On a macro level, respondents have strong concerns regarding geopolitics, inflation, interest rates, tariffs and energy security. In terms of industry sectors, almost half of respondents, or even more, expect defaults to increase in the retail sector, the auto sector and real estate, including data centers.

Not surprisingly, chief among stated concerns is AI. By a margin of more than double, survey respondents say AI will be the cause of the next financial market shock. Thirty six percent of respondents point to AI, followed by AI technology disruption at 15%. Geopolitical concerns, along with rising fiscal deficits, rank third with eleven percent.

Geographically, concerns are spread almost universally but, in some ways, are interconnected. China is facing slower domestic growth, which has helped push the country to increase exports. In fact, China has doubled the number of cars it sells in Europe this year which is also at least partly the reason Volkswagen has laid off workers in Germany. Higher energy prices, due largely to the ongoing war in Iran but also because of new fallout from the Ukrainian war which is seeing drone strikes on refineries, are hurting consumers and businesses globally.

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 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 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.