



STRATEGY UPDATE

JUNE 2026





REVIEW

THE FINANCIAL MARKETS IN MAY

The Development of Global Equity Markets Over the Past Month. At first glance, the development of global equity markets over the past month appears contradictory. While headlines are dominated by geopolitical tensions, wars, and political uncertainty, stock markets continue their upward trajectory undeterred. For many observers, the obvious question arises: how do these two things fit together?

One straightforward explanation is the strong performance of the technology sector. Yet even this observation falls short. The true drivers of current market dynamics lie considerably deeper — and they are far more concentrated than the broad market might suggest.

A look at the numbers makes this clear: the MSCI All Country World Index, which tracks the largest publicly listed companies worldwide, has gained 11.9% year-to-date. What is striking, however, is the distribution of this value creation: the ten largest winners within the index alone account for approximately 6.3 percentage points of total performance — more than half.

These winners are almost exclusively companies from the semiconductor sector. Producers and suppliers of high-performance chips — for AI applications in particular — stand at the center of this development. Market dynamics are thus being driven by a very narrow segment, while large portions of the market are contributing significantly less.

This concentration becomes even more striking in the case of South Korea: the benchmark KOSPI index has risen approximately 96% year-to-date. Yet here too, the rally is anything but broadly supported. Roughly two-thirds of this move can be attributed to just two companies — Samsung Electronics and SK Hynix.

The current market phase is therefore less a broadly supported upswing than the result of an extremely focused value creation. Beneath the surface, a frequently underestimated mechanism is intensifying: the interplay between the equity and options markets. Among the 35 largest S&P 500 companies, notable tensions are evident: stocks with very high implied volatility (above 50) account for 8.7% of the index, implying expected daily swings of more than $\pm 4.2\%$ — a level more commonly associated with speculative small-caps than with companies averaging \$735 billion in market capitalization. At the same time, approximately 32.5% of the index consists of mega-caps with implied volatilities between 30 and 50. These companies — averaging over \$2 trillion in size — are pricing in daily moves of around $\pm 2.4\%$. What is normally reserved for periods of stress is becoming the new normal.

Particularly extreme is Micron Technology, with an implied volatility of around 91 and a market capitalization of \$875 billion. The options market is effectively pricing the risk of this heavyweight similarly to that of a highly speculative growth stock.

This dynamic feeds back into the equity market. High options volumes force continuous hedging by market makers, which in turn amplifies price movements further. A self-reinforcing cycle emerges: the options market drives the equity market — and vice versa.

In an already highly concentrated market, this mechanism increases fragility considerably. The indices appear stable, but are more vulnerable to abrupt moves than the surface would suggest.

Marktüberblick 28.05.2026		Wertentwicklung		
		Aktueller Wert	Mai	YTD
Währungen	EUR/CHF	0.91	-0.35	-1.87
<i>Performance in %</i>	USD/CHF	0.78	0.33	-1.09
	EUR/USD	1.16	-0.68	-0.81
	USD/JPY	159.29	1.69	1.61
Geldmarkt - Zinsen	CHF Saron 3M	0.0	0.01	0.04
<i>Differenz Zinsen</i>	EUR Euribor 3M	2.2	0.03	0.21
	USD SOFR 3M	3.7	0.00	0.01
Staatsanleihen - Zinsen	CH Govt 10Y	0.4	0.03	0.11
<i>Differenz Zinsen</i>	DE Govt 10Y	3.0	-0.08	0.11
	US Govt 10Y	4.4	0.08	0.28
Unternehmensanleihen - Zinsen	EU Corp	3.5	-0.10	0.28
<i>Differenz Zinsen</i>	US Corp	5.2	0.01	0.34
Spreads	US Zinsgefälle (10Y-2Y)	0.43	-0.08	-0.27
	EU Zinsgefälle (10Y-2Y)	0.40	0.01	-0.33
	CH Zinsgefälle (10Y-2Y)	0.33	0.11	-0.04
	Kreditaufschlag Italien (zu DE)	0.72	-0.10	0.02
Aktien	SMI	13'580	3.10	4.78
<i>Performance in %</i>	SPI Extra	6'343	2.07	4.62
	EuroStoxx 50	6'079	3.95	6.72
	DAX	25'104	3.29	2.46
	S&P 500	7'564	5.03	11.00
	NASDAQ 100	30'224	10.17	20.01
	TOPIX	3'957	4.69	15.72
	MSCI EM	1'725	7.98	23.76
Rohstoffe	GOLD	4'514.9	-2.65	4.07
<i>Performance in %</i>	Erdöl WTI	87.5	-15.39	54.82
Gehandelte Volatilität	VIX (Volatilitätsindex S&P 500)	15.8	-6.81	5.28

NAME	Gewicht im Index	Total Return (YTD)	Contribution (YTD)
iShares MSCI ACWI	100.0	11.9	
ALPHABET	2.0	24.7	0.9
MICRON TECHNOLOGY	0.5	223.7	0.8
NVIDIA	4.8	14.9	0.7
TAIWAN SEMICONDUCTOR	1.6	48.5	0.6
APPLE	4.1	15.2	0.6
SK HYNIX	0.4	239.9	0.6
SAMSUNG ELECTRONICS	0.7	141.7	0.6
ADVANCED MICRO DEVICES	0.4	141.9	0.5
AMAZON.COM	2.3	18.7	0.5
INTEL	0.3	227.6	0.4
	17.2		6.3



OUTLOOK

RALLY ON THIN ICE:

ENERGY, INFLATION, AND A GREAT DEAL OF OPTIMISM

The market is currently pricing in a swift political easing around the Persian Gulf while simultaneously anticipating a rapid normalization of energy prices; together, these assumptions form the foundation of the prevailing risk appetite. This premise is vulnerable, because what ultimately matters is not rhetoric but real energy flows. As long as key corridors remain fragile, the risk of recurring supply disruptions persists — disruptions that could support prices or push them higher once again.

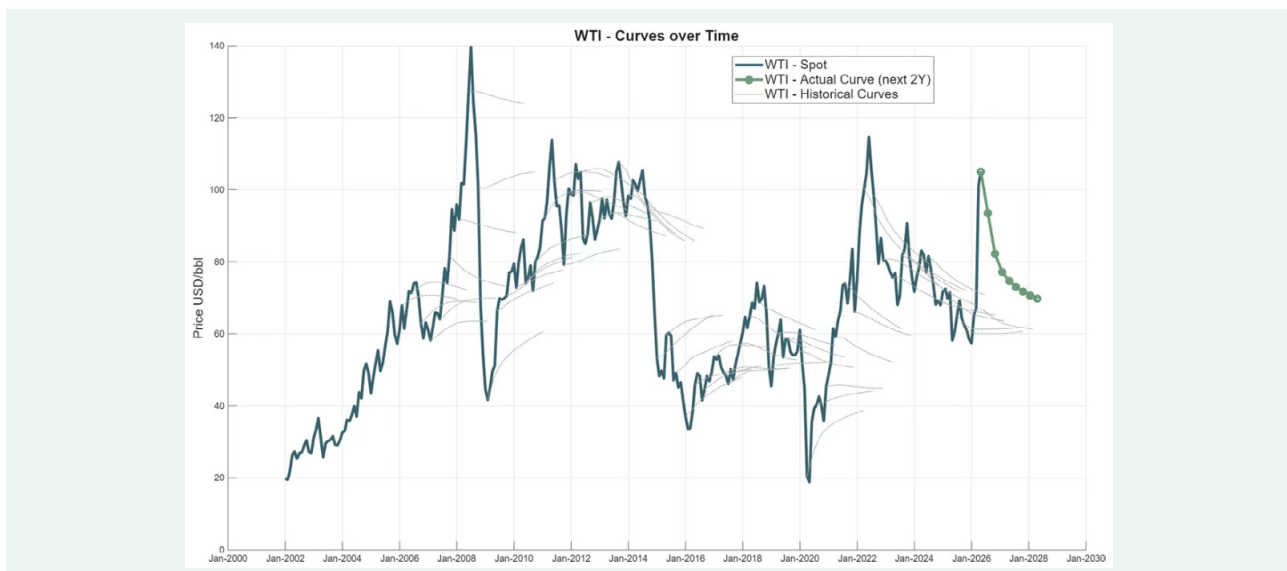
The forward curve for crude oil (WTI) points to an expected decline toward the mid-double-digit USD range, yet historical comparisons make one thing clear: fast, sustained pullbacks following major shocks are rare and typically accompanied by significant uncertainty. In parallel, what interest rate markets are currently signaling does not appear fully consistent: the implied expectation of rate adjustments varies across regions, and a renewed energy shock would rapidly reprice those expectations — with tangible consequences for valuations and carry strategies.

A second, less widely discussed channel runs through second-round effects: energy drives production and transportation costs, which feeds directly into agricultural prices and, in turn, food costs. Agricultural components have so far shown little reaction to rising energy prices, and their correlations with energy have in fact fallen noticeably of late — this raises the risk of persistent inflation even if spot oil prices decline in the near term. A sustained inflationary impulse would force either longer or higher real interest rates, lifting risk premia and reducing the relative attractiveness of growth-oriented risk assets.

At the same time, market breadth is running counter to index performance: revenue expectations and earnings are concentrated among a handful of winners, particularly in AI infrastructure and semiconductors. The AI economy is highly selective — monetization and cost advantages are only clearly visible in specific use cases and among a small number of players. This makes the rally more fragile, as it is focused on narrow themes and few individual names.

- ◆ Near term: Markets remain dependent on news around geopolitical de-escalation and energy market data; volatility stays elevated.
- ◆ Rates & duration: If energy pressures persist, the probability of higher rates increases; long-duration positions are more vulnerable should normalization be delayed.
- ◆ Commodities/inflation: Commodity and agricultural exposure, as well as gold, retain tactical value as inflation hedges.
- ◆ Hedging: Tail hedges are costly, but in an environment of concentrated risk drivers and unclear energy markets, they improve the asymmetric protection profile.

From a fundamental perspective, the outlook is divided: structural risks — energy, second-round effects, rate inconsistencies — stand against a focused growth and AI theme that may continue to carry markets in the near term. For investors, this means staying selective and not neglecting hedges.





FOCUS

THE CASCADE EFFECT: WHEN PRIVATE CREDIT CRASHES, 30,000 PRIVATE EQUITY FUNDS DIE WITH IT

Artificial intelligence is transforming the world at breathtaking speed — and many investors have suddenly begun to fear that they could lose their private credit investments. Massive redemption requests at major funds, withdrawal restrictions, and a sudden collapse in capital inflows are fueling concerns that the market could be heading for a breakdown.

AI IS CHANGING THE WORLD

Artificial intelligence is transforming the world at breathtaking speed — and investors in private debt funds are now feeling the effects. These funds primarily extend loans to companies owned by private equity investors. The loans are typically illiquid and barely tradeable on public markets.

With AI's rapid advance, investors are suddenly questioning the future of entire software business models: will AI render these companies obsolete? What happens if they can no longer repay their loans? This scenario is spreading fear — and many investors have begun unwinding their positions in private debt funds.

The consequences are measurable: at large, ostensibly liquid private credit funds, capital flows are reversing sharply. Blue Owl saw redemption requests amounting to roughly 22% of shares in one of its major retail funds within a single quarter — a massive strain on liquidity. At the same time, monthly net inflows at Blue Owl have collapsed by approximately 90–95% compared to a few months ago. Apollo and KKR are responding in similar fashion with redemption restrictions, shielding their funds from sudden cash outflows.

SEMI-LIQUID FUNDS

But wait — private debt funds invest in illiquid loans. Why should investors be able to sell their holdings at any time?

This is precisely one of the core problems: a classic liquidity mismatch. Illiquid assets are packaged through financial engineering into a supposedly semi-liquid structure. The promise to investors is: access to attractive private market returns — with liquidity available on demand. Yet this promise rests on shaky ground.

As we highlighted in the Finanz und Wirtschaft back in November, the market for semi-liquid private market funds is growing rapidly. Volumes of around \$4 trillion are expected by 2030. Asset managers are actively driving this development — not least due to high fees and the ability to tap new investor segments. The structural problem, however, remains unresolved: investors can often redeem their shares monthly, while the underlying capital is locked up for seven to ten years. At the same time, valuations are opaque, and the behavior of these products under genuine stress conditions has barely been tested.

Semi-liquidity is no longer merely a structural feature — it has become a risk factor in its own right. During the 2008 financial crisis, default rates rose first — at times exceeding 10% — and only then did investors begin retreating from the asset class. Today the dynamic is reversed: capital is flowing out before actual defaults have even fully materialized.

The Alternative Asset Managers Leading in Semiliquid Funds

Firm	Semiliquid Fund Assets (USD Billions)	Semiliquid Market Share	No. Funds
Blackstone	66	19%	3
Cliffwater	31	9%	3
Blue Owl Capital	21	6%	4
Partners Group	16	5%	3
Apollo Global Management	16	5%	5
Ares Management	11	3%	5
HPS Investment Partners	9	3%	2
Alkeon Capital Management	9	3%	1
Affiliated Managers Group	5	2%	4
Pimco	5	2%	7

Net Flows Into the 10 Largest Semiliquid Funds by Asset Class





The trigger is not a single shock but a sharp rise in default expectations. The anticipation that private credit markets will be put to the test is driving investors to hastily secure access to a narrow liquidity window that may soon close. Just a few months ago, many estimates placed market-wide default rates below 2%; expectations have since shifted to somewhere between 5% and 8%, depending on the fund and segment. A reliable aggregate figure for the overall market barely exists, as the private credit market is opaque and only partially captured in public data. Anyone seeking to understand the situation must examine the major funds individually — and that is precisely where it becomes clear: the dispersion is wide, and not all vehicles are equally robust.

GROWTH

The private credit market has experienced remarkable expansion in recent years. Compared to 2008, the market is today roughly eight to nine times larger. Assets under management for 2025 are estimated at approximately \$1.8 trillion (Preqin data). Around 65% is invested in the United States, with a further 27% in Europe — the remainder spread across other regions.

An interesting shift is also visible on the supply side: the number of funds actively raising capital has declined significantly. While 2022 marked a peak with 509 vehicles, only 221 funds were in market in 2025.

Total capital raised over the same period, however, has fallen less sharply.

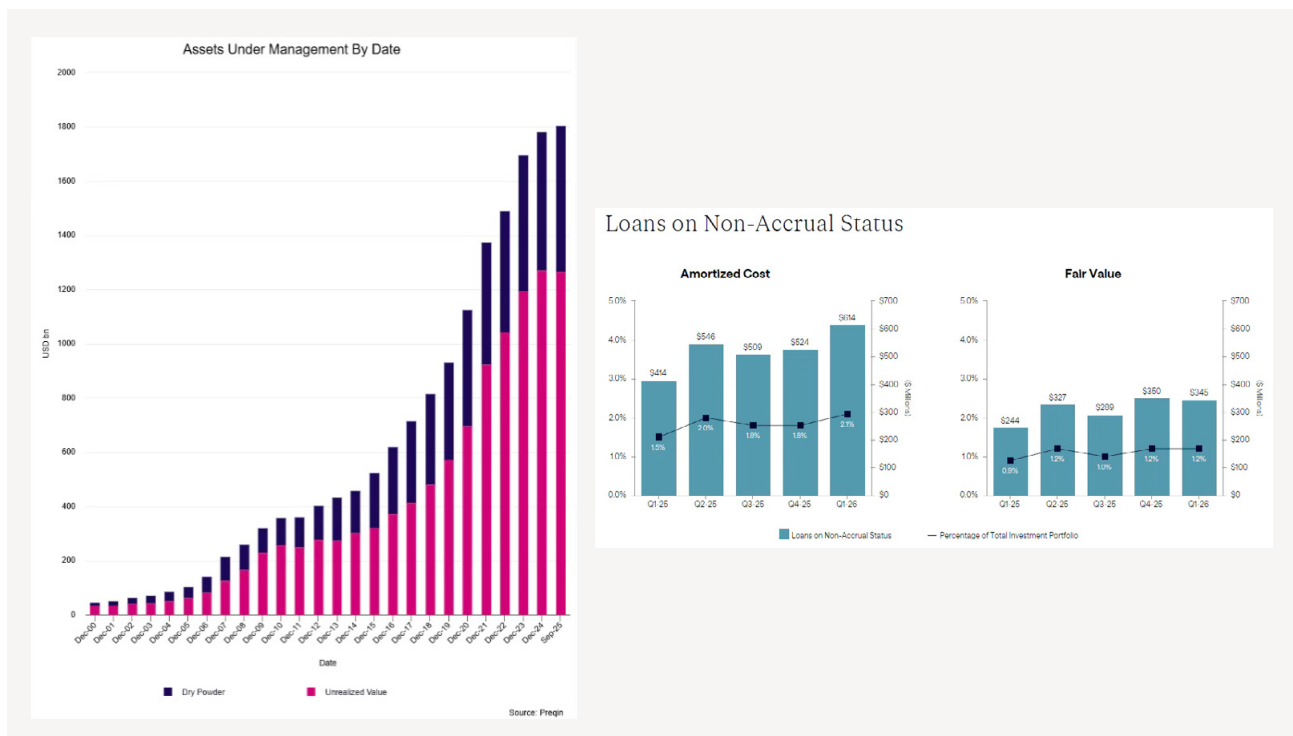
This points to growing concentration: fewer funds are capturing a large share of capital inflows — and are growing correspondingly faster. Average fund size is rising, as is the market power of the leading managers.

CONCENTRATION

Increasing market concentration is intensifying a central structural problem: fewer but significantly larger funds must deploy ever greater amounts of capital. The pressure is building continuously. While so-called dry powder stood at around \$202 billion a decade ago, over \$537 billion must now be put to work in loans within a foreseeable timeframe.

This is changing investment behavior. Smaller transactions are losing relevance, as they barely make a dent in the deployment backlog of large funds. At the same time, selectivity is declining: large managers are increasingly compelled to allocate capital to less attractive opportunities — effectively assuming a market-maker role in the private credit market.

A striking homogeneity is also evident in the portfolios of leading managers such as Ares, Main Street, Blackstone, and Blue Owl.





Capital allocation is heavily concentrated in software and services, followed by healthcare, financial services, and consumer sectors. Structures are similarly uniform: net loan-to-value ratios typically hover around 45%.

DEFAULTS

Default rates appear to have peaked: in the US leveraged loan market, the rate currently stands at around 5.1% (down from a peak of 7.4%), while Europe's rate is meaningfully lower at approximately 3.3%.

Yet beneath the surface, the nature of defaults has changed. Roughly 70–90% of all defaults today occur through so-called Liability Management Exercises (LMEs) — out-of-court restructurings. These preserve value in the short term but lead to re-defaults in approximately 50% of cases within a few years. The default is not resolved; it is deferred.

Notably, however, the widely discussed AI disruption of the software sector is barely visible in actual default data so far. Defaults continue to be concentrated in classic cyclical sectors such as industrials and consumer. Nevertheless, software remains a central risk factor — less through real defaults than through valuation pressure and rising uncertainty.

CONCLUSION

Most major direct lending and private credit fund providers operate BDCs. A Business Development Company (BDC) is a publicly listed US investment company

that deploys capital into small and mid-sized businesses — primarily through direct lending. BDCs are considered a good proxy for the private credit market, as they lend to the same or similar companies. Unlike private credit funds, BDCs are tradeable daily and must report quarterly to the SEC, which significantly increases transparency.

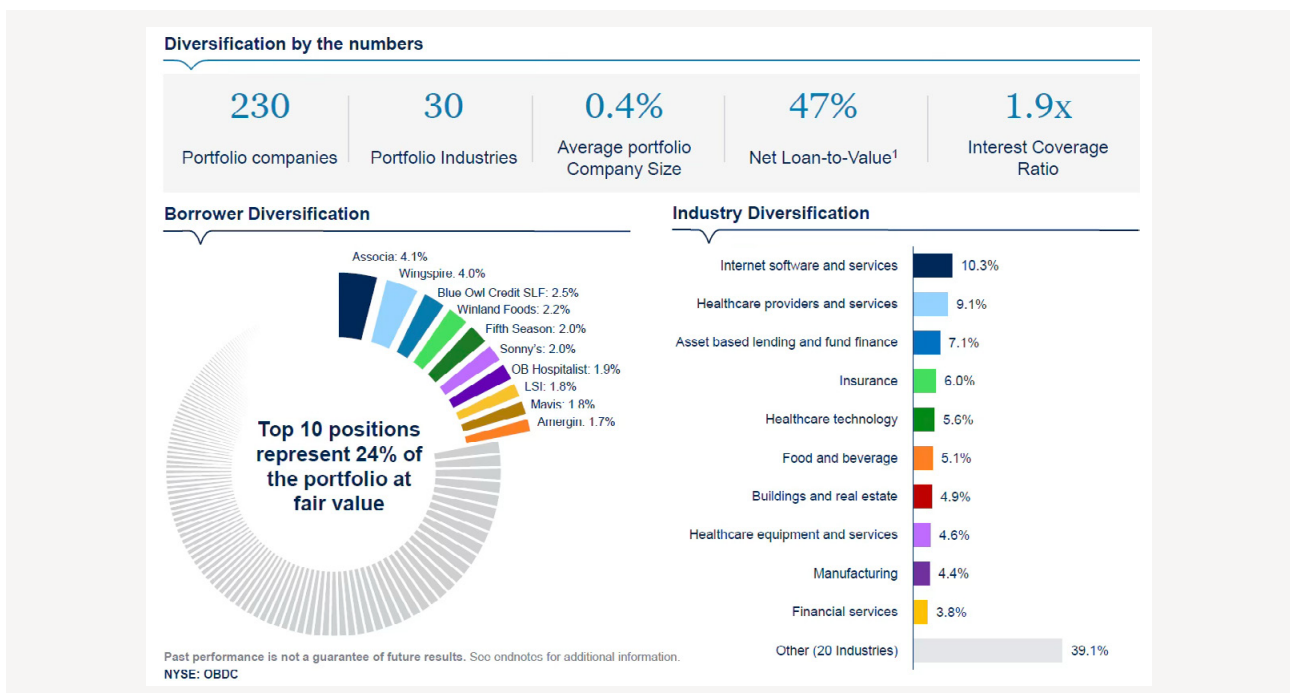
BDCs are particularly useful as a proxy for software risk: the US has a significantly higher density of software companies, which means all observations tend to look more favorable for Europe — owing to lower software exposure.

The largest BDC is that of Ares Capital, with total assets of approximately \$28 billion. Blue Owl Capital's BDC — which has received considerable media attention — holds assets of \$15 billion, making it number two.

The Blue Owl BDC extends loans to 230 companies across 30 industries. The ten largest loans account for roughly 24% of the portfolio. Looking at the share of companies that have not paid interest for more than 90 days (non-accrual), this stood at 1% as of end of March 2026 (fair value). Ares looks similar, with a non-accrual rate of 1.2%.

Things get interesting when the current figures are stress-tested. The prevailing yield on Blue Owl's BDC is around 9.5%. Embedded in this yield are existing default expectations — the fair value sits at 95.4%, implying expected losses of approximately 4.6% according to the valuation methodology.

Now assume that no software company is included in this figure and that software defaults come on top.





Since Blue Owl has roughly 10% of this BDC invested in software companies, an additional 10% in losses would be added. These additional losses would consume the entire yield — but no more than that.

Furthermore, a portion of the companies will carry some recovery value. Admittedly, for software companies this is likely considerably lower than the historical average of 60–70%, but any recovery value at all would leave some yield intact — or allow losses to be avoided entirely for investors with the staying power to remain invested over the long term.

Also noteworthy: much is said about rising default rates in private credit, yet little is said about total write-offs in private equity investments. According to the Preqin database, of approximately 77,000 private equity funds worldwide, more than 30,000 active funds — nearly half of all funds — have partial exposure to the IT industry.

If private credit default rates rise on account of software, severe dislocations within the private equity industry are likely to follow. Assets under management stand at roughly \$12.8 trillion according to Preqin (including dry powder). Against that backdrop, the \$1.8 trillion private credit market looks small — but the leverage effect on the far larger private equity universe could be considerable.

CONTACT



Eriya AG
Schiffplände 22, CH-8001 Zurich
info@eriyach.ch
+41 43 544 11 90
www.eriyach.ch

Disclaimer

This e-mail may contain confidential and/or privileged information. It is intended for the sole attention and use of the intended recipient. If you have received this message in error, please notify the sender by e-mail and delete this message from your system immediately. Any unauthorised copying, distribution or disclosure of this e-mail or the information contained herein is strictly prohibited. Eriya AG's privacy policy can be found at www.eriyach.ch. This email does not constitute an offer to sell or a solicitation of an offer to invest. It is neither an offer nor investment advice. This message as well as the information contained therein are provided for information purposes only. It does not constitute an invitation to buy or sell. The information contained in this e-mail is based on or derived from generally available information from sources believed to be reliable. The accuracy and completeness of the information cannot be assured or guaranteed. The products referred to in this message qualify as structured products and the investor should be aware of the risks associated with these products, in particular solvency and price risks.