HAVEN

COVE

IN FOCUS – March 2026

Private Credit & Software: Gathering Storm or Storm in a Teacup?

The narrative surrounding Private Credit and its exposure to the Software sector has become significantly more negative in the past weeks. As this builds momentum, we ask how relevant this is to liquid IG credit.

Whilst contagion into full-blown financial crisis is unlikely, this looks like an end-of-cycle problem that will not be resolved quickly, and will put widening pressure on credit spreads from here.

"GFC" or "Nothing to See"

A lot of headlines are comparing the current growing stress in Private Credit / Software debt markets to similar rumblings in ABS / Sub-Prime markets back in 2008 and the onset of the global financial crisis.

Other commentators are claiming the asset class is working exactly as it should, and credit stress issues are idiosyncratic – nothing to see here.

Some wildly different views, and we think these binary arguments miss the nuance.

The GFC was a 1 in a 100 year credit crisis, sparked by household (not corporate) lending i.e. mortgages, and then (most importantly) amplified by the very high leverage in the financial sector. This amplification mechanism is not there today (see Figure 1) so we see a broad banking crisis triggered by Private Credit / Software as an unlikely outcome.

Figure 1

Banking Sector Leverage	2000	2008	2015	2026
Investment Banks	20 x	30 x	11 x	16 x
All Banks	11 x	12 x	9 x	8 x

Source: FRB, Bloomberg

So why is it an important issue?

Establishing that Private Credit / Software is not going to cause GFC II due to better banking sector health does not mean it should be ignored – it still has many hallmarks of a sharp credit contraction in the making.

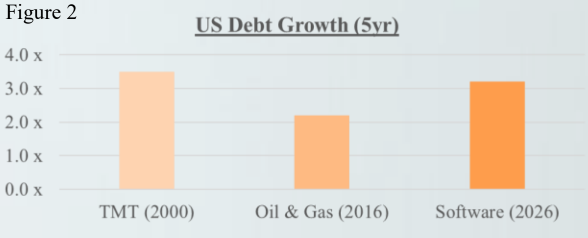
What shape could this one be then? Beyond the GFC there's a rich history of credit crises of smaller scales & different flavours which affect wider markets, notably IG credit spreads.

We think a few in recent times are worth looking at for analogies – characterised by: (i) explosive growth over multi-year period (Figure 2) > (ii) spread compression > (iii) industry disruption > (iv) unwind.

1) TMT "dotcom" boom & bust of 1999/2000

2) US shale oil boom & bust of 2015/2016

Figure 2



Source: Bloomberg, S&P Global

Haven Cove Capital Management Limited
23 Berkeley Square, London W1J 6HE
E: info@havencove.com
W: www.havencove.com

IN FOCUS – March 2026

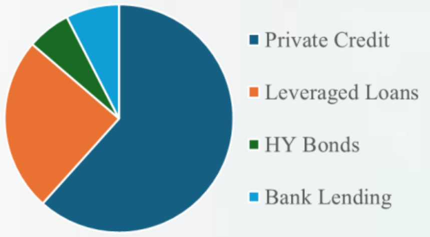
Private Credit & Software

Based on our analysis, the growth of Software debt over the last 5 yrs looks similar in significance to sector debt growth in these prior analogous credit boom/bust cycles. (Average 5yr corporate debt growth in the US is about 30%, with these sectors seeing 125 – 250%).

So is Software debt the problem or Private Credit? As Figure 3 shows, they are to a great extent linked.

Figure 3

Software Debt (US Speculative Grade)



Source: Bloomberg, S&P Global

Debt growth in past boom/bust cycles has turned up in the High Yield Bond market - in Software debt this has manifested in Private Credit.

What is the transmission mechanism to wider market stress?

I.e. if there's a default cycle in speculative grade Software debt, Private Credit funds (& their investors) take losses – how does stress in a specific sector transmit to wider risk assets?

If the banks are in good health, there might be some loan charge-offs & loss headlines, but this is usual end-of-cycle activity and will be absorbed by good capital ratios.

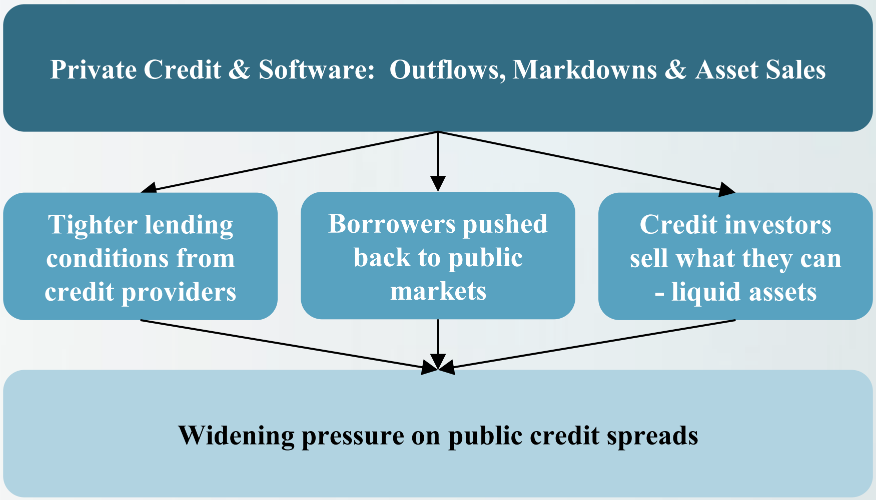
The transmission mechanism comes from lending conditions getting tighter across all pools of capital that provide credit – the banks as well as other capital market participants (pension funds, insurance companies, mutual funds) that invest across bonds, leveraged loans and private credit.*

And the technical strength in credit markets (demand greater than supply – which has been a significant supporting force for tight spreads over the last 3 years) going into reverse.

See Figure 4 below.

* A noteworthy link here is the concentration of private credit assets that has built up in life insurance portfolios, especially those owned by private equity – a question mark here on some of the structuring (rated note feeders) used to achieve this, and risk appropriateness.

Figure 4



Source: Haven Cove Capital Management

Haven Cove Capital Management Limited
23 Berkeley Square, London W1J 6HE
E: info@havencove.com
W: www.havencove.com

HAVEN

COVE

IN FOCUS – March 2026

What might this do to public IG spreads?

We operate in the liquid European investment grade space. We tend not to be concerned about defaults in our universe – historically European investment grade has downgrade cycles in a contraction, it's the "high yield" / "speculative grade" sector that has the default cycle.

But an end-of-cycle credit contraction often also brings a widening in investment grade spreads – something we **are** interested in.

You might expect that US Private Credit / Software sits fairly removed from the European investment grade market.

The fact is, US & European credit markets are closely correlated in terms of pricing & spreads even across the quality spectrum.

We can look at the history of spreads to get a clue as to how this could play out. Both historic instances we see as analogous to the current situation (i.e. TMT 2000 & US Shale Oil 2016) have featured a slow widening of spreads (see orange shaded areas in Figure 5).

In practice – ideas to monetise

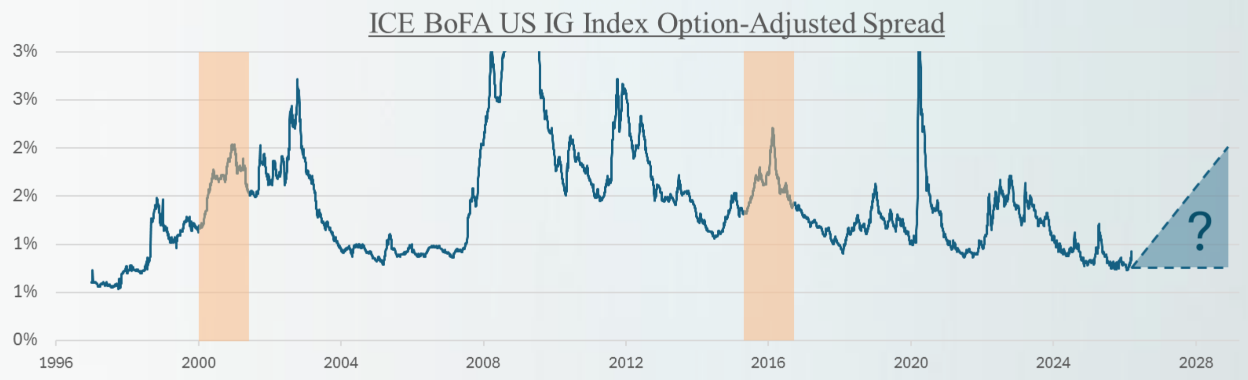
A slow widening of spreads is possibly easier to predict than a short sharp shock (e.g. Covid 2020), but harder to trade. You can be correct about the direction of travel, but holding Short risk has carry costs which can offset MtM gains.

At the start of 2026 we liked and added holdings in the iTraxx Main equity tranche 5yr instrument as a ***short*** risk position (i.e. owning protection). Geopolitical risk has driven recent spread weakness, but could Private Credit issues add to this, and take on the baton from here?

In our Active Directional strategy (which can go both long & short risk), we had built a 40% short position and have started to monetise this into recent weakness and spread widening.

In our flagship Dynamic Long strategy we had been underweight (15% long) at the start of the year, recently increasing to 30% long as spreads have widened. As more attractive entry points present themselves we will continue to build this long risk position and lock in an attractive runway of returns.

Figure 5



Source: ICE, FRED

Nick Greenwood
Co-Founder & CIO
Haven Cove Capital Management

Ashley Hudd
Co-Founder & CEO
Haven Cove Capital Management

Haven Cove Capital Management Limited
23 Berkeley Square, London W1J 6HE
E: info@havencove.com
W: www.havencove.com
Authorised and regulated by the FCA under FRN937821

DISCLAIMER, DISCLOSURES AND IMPORTANT INFORMATION

This document has been prepared solely for information purposes and is not an offering memorandum nor any other kind of an offer to buy or sell or a solicitation of an offer to buy or sell any security, instrument or investment product (together the “Securities”) or to participate in any particular trading strategy (each a “Strategy” and together the “Strategies”).

It is not intended and should not be taken as any form of advertising, recommendation or investment advice. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be solely relied on in making an investment or other decision.

This document has been prepared for the information of the person to whom it has been delivered, and may not be reproduced or used for any other purpose.

Recipient understands and acknowledges the following:

(a) it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits, risks and suitability of the Strategies and Securities mentioned herein for its purposes;

(b) is solely responsible for evaluating all information provided to it in respect of the Strategies and Securities;

(c) is solely responsible for deciding to purchase the Securities and pursuing the Strategies, is relying solely on its own advisers to determine the appropriate financial, legal, regulatory, tax and accounting treatment of its investment in the Strategies and Securities and the suitability of the Strategies and Securities for its investment purposes;

(d) based solely on its own independent review and such professional advice as it has deemed appropriate under the circumstances, has determined that purchase of the Securities is fully consistent with its financial needs, objectives and condition, complies and is fully consistent with all policies, guidelines and restrictions applicable to it, and is fit, proper and suitable for it, notwithstanding the clear and substantial risks inherent in investing in or holding the Strategies and Securities; and

(e) Haven Cove Capital Limited has not provided or will be deemed to have provided any legal, regulatory, tax or accounting advice, nor accepts any responsibility for the appropriateness of the Securities for the Recipient or for the performance of the Securities

Authorised and regulated by the FCA. Registered in England No. 12902478 .

Registered office: 23 Berkeley Square, London W1J 6HE UK.

Haven Cove Capital Management Limited
23 Berkeley Square, London W1J 6HE
E: info@havencove.com
W: www.havencove.com
Authorised and regulated by the FCA under FRN937821