

Dispersion Returns: Credit Selection in the Age of AI

Executive Summary / Key Takeaways

- Rapid advancements in AI have driven significant repricing in software, particularly in the lower-rated segments of the leveraged loan and private credit markets, while concerns about technological disruption have spread to other potentially vulnerable sectors.
- Given the asymmetric risk profile for credit investors, we have avoided broad-based exposures to AI-sensitive sectors and instead favor investments that either benefit from technological change or are insulated against disruption, as a preferred path to generating alpha.
- With dispersion likely to persist, the current environment is beginning to create compelling opportunities in companies positioned to benefit from AI-driven efficiency gains.

Selective Risk in a Changing Technological Landscape

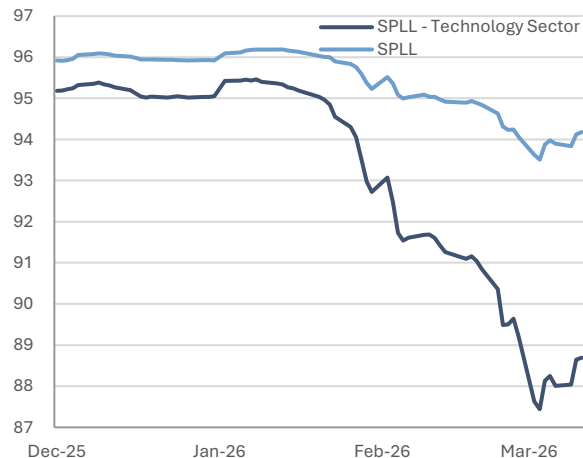
The pace of advancement in artificial intelligence continues to accelerate at an unprecedented rate. Concerns about potential technological disintermediation have begun to extend to other sectors perceived as vulnerable. Across the firm, we entered this period with limited exposure to software, as we viewed the relative value as more compelling in areas where AI-driven disruption is likely to be limited or potentially beneficial.

Currently, markets are attempting to differentiate between companies positioned to benefit from emerging technological trends, such as power and infrastructure businesses supported by data center buildouts, and those perceived to face disruption risk, particularly within software companies. Certain SaaS businesses and adjacent segments, such as insurance brokers, have come under increased scrutiny regarding the durability of their business models.

EXHIBIT 1: S&P 500 VS ISHARES EXPANDED TECH-SOFTWARE SECTOR ETF PERFORMANCE (SINCE 12/1/25)¹



EXHIBIT 2: S&P UBS LEVERAGED LOAN INDEX – AVERAGE PRICE²



For credit investors, this asymmetry is particularly important: upside participation is limited, while downside risk can be significant if fundamentals deteriorate. Accordingly, we have not yet sought to add exposure on broad-based weakness, preferring instead to await greater clarity before deploying capital where warranted.

As noted, the impact has been most pronounced in the software sector, particularly within the lower-rated segments of the broadly syndicated loan and private credit markets, where software comprises a meaningful portion of the investable universe. This dynamic has created incremental pressure on CLO managers, whose

structures limit exposure to lower-rated assets. In parallel, the concentration of software investments within certain BDC portfolios has drawn increased scrutiny, with some managers proactively reducing positions, potentially signaling emerging stress and challenging the perception of permanence within portions of the capital base.

EXHIBIT 3: TOP EXPOSURES BY SUBSECTOR – S&P UBS LEVERAGED LOAN INDEX ³

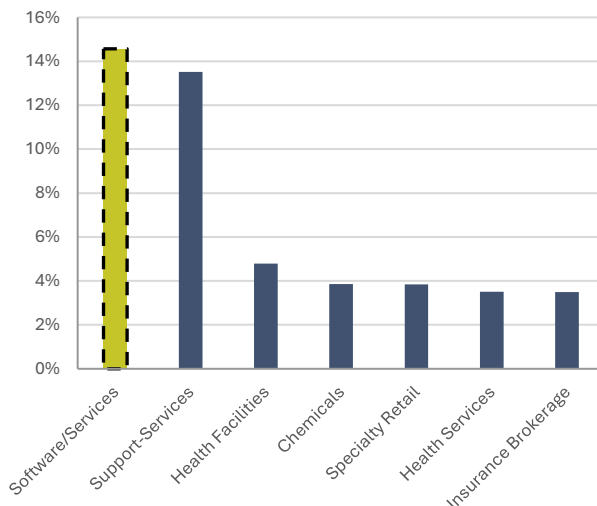
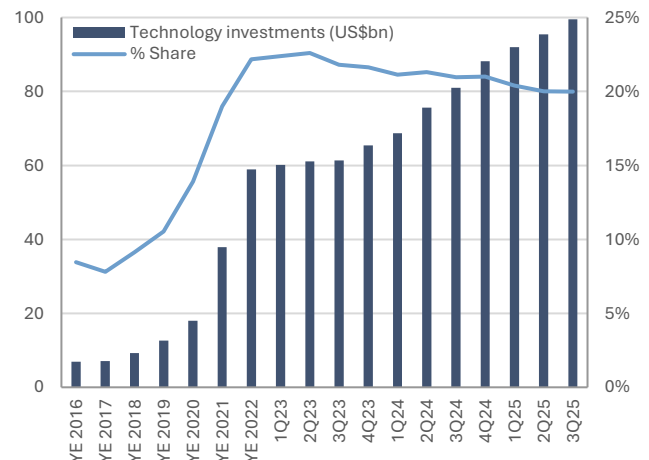


EXHIBIT 4: PROGRESSION OF BDC INVESTMENT IN TECHNOLOGY COMPANIES ⁴



Navigating Asymmetry in a Bifurcated Market

Entering the year, we anticipated elevated dispersion in leveraged finance markets following an extended period of tight credit spreads and subdued volatility. Recent market developments have begun to validate our view.

All else equal, we continue to favor areas of the market where AI's impact is likely to be limited over the near-to-medium term. While we remain conservatively positioned relative to historical norms, we have selectively added exposure to idiosyncratic opportunities to generate alpha independent of technological disruption.

As conditions in the most impacted segments of the market continue to evolve, we expect to capitalize selectively on companies that have been indiscriminately repriced within the broader selloff. Through a comprehensive re-underwriting of the sector, we are identifying businesses with durable competitive advantages and resilient cash flow profiles that we expect may ultimately benefit from AI-driven efficiency gains rather than being displaced by them.

Throughout Brigade's history, we have navigated many periods of sector-specific dislocations, during which disciplined fundamental research has enabled us to generate attractive risk-adjusted returns. The current environment is beginning to present similar opportunities as dispersion increases and fundamentals reassert themselves.

Conclusion

Artificial intelligence is beginning to reshape parts of the corporate landscape, introducing greater uncertainty and dispersion across credit markets. Entering this period with prudent positioning and limited exposure to the

most disruption-sensitive sectors has helped insulate our portfolios from the initial volatility in AI-exposed areas.

As markets work to distinguish between companies vulnerable to disruption and those positioned to benefit from technological change, we expect the opportunity set across leveraged finance to expand. In this environment, disciplined credit selection and rigorous underwriting will become increasingly important drivers of return, as the ability to differentiate between durable business models and those facing structural uncertainty will be critical to success.

About Brigade

Brigade Capital Management, LP (“Brigade”), founded in 2006 by Donald Morgan, is a global asset management firm with \$30.9 billion⁵ in assets investing across the full spectrum of credit. Our platform spans liquid credit, alternative credit, structured credit, private credit, and CLOs—all driven by a centralized, highly integrated team of 50 seasoned investment professionals applying one disciplined, research-driven process. Our integrated platform and disciplined credit research underpin our ability to navigate complex markets and identify opportunities across the credit spectrum.

¹ Source: Bloomberg. As of 3/11/2026.

² Source: Bloomberg. As of 3/11/2026.

³ Source: Brigade Internal Systems, Bloomberg. As of 3/11/2026.

⁴ Source: Morgan Stanley. As of Q3 2025.

⁵ As of March 1, 2026.

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