THE WEIL EUROPEAN DISTRESS INDEX

OCTOBER 2025

EXECUTIVE SUMMARY

Macro view

The latest Weil European Distress Index (WEDI) indicates a fall in corporate distress across Europe as of August 2025, softening to 3.4 from 3.7 in the previous quarter. Over the last two years, distress levels across the total index have been trending at a consistent level.

Across all markets measured (UK, Germany, France, Italy/Spain), distress has fallen on the previous quarter, with the exception of Italy/Spain.

Eight out of ten industry groups experience lower levels of distress compared with the previous quarter, indicating an improvement in general conditions. However, distress worsened across retail and consumer, which remained the most distressed sector.

Germany

- Distress across German corporates has slowed on the previous quarter and year, however it remains at elevated levels. Germany remains the most distressed market.
- The country continues to face the weakest growth prospects among G7 economies, with GDP expected to grow just 0.1% in 2025 following a 0.2% contraction in 2024. A modest expansion of 0.3% in the first quarter was offset by a 0.3% decline in the second.
- Looking ahead, there are tentative signs of improvement. The newly elected government's commitment to significantly boost infrastructure and defence spending may support growth over the medium term, although near-term challenges are likely to persist.

France

- Levels of distress in France rose above the UK in the latest quarter, as distress across French corporates was driven higher by weakening liquidity, squeezed profitability and lower levels of support from market fundamentals compared with other markets.
- Economic conditions have continued to deteriorate. Despite easing inflation, domestic consumption remains subdued as households adopt a cautious stance (the savings rate is now at its highest level in 45 years).

Weil European Distress Index Movements

Index value in Aug 2025	QoQ trend	YoY trend
+3.4	↓ **Distress falling from +3.7 in May 25**	↑ **Distress rising from +2.2 in Aug 24**

- Investment activity remains constrained by heightened uncertainty, elevated long-term interest rates, and increased tax burdens. At the same time, fiscal consolidation is putting pressure on public expenditure - a trend expected to persist into 2026.
- The French bond market has remained muted amid ongoing political realignment, with a key source of risk stemming from uncertainty around the scale and scope of forthcoming austerity measures.

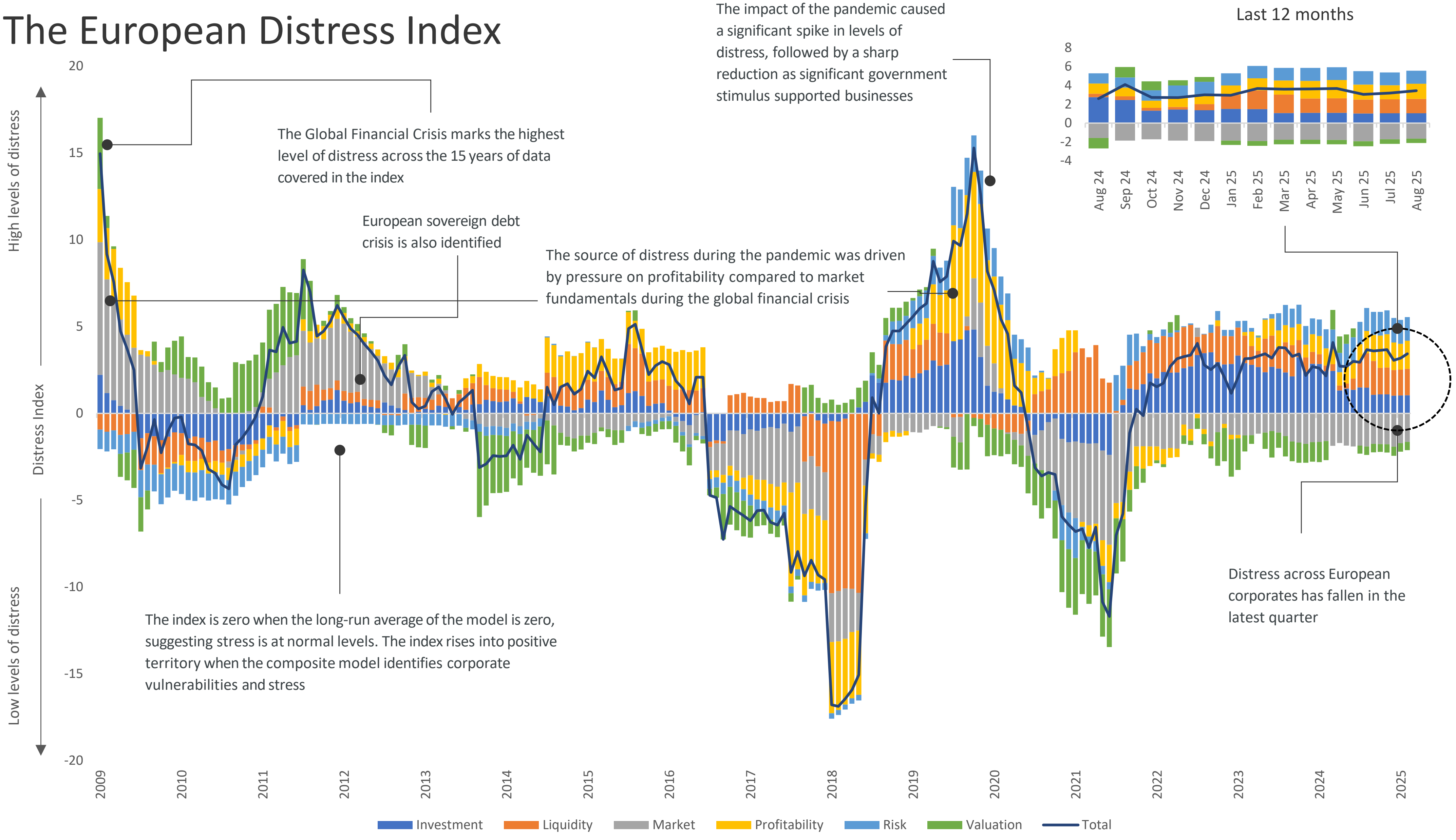
United Kingdom

- Distress across UK corporates has fallen on the previous quarter but remains higher than the previous year. Overall distress remains above the long run average, driven by squeezed liquidity and profitability, offsetting any support from market fundamentals.
- Economic activity stalled in July, underscoring the challenge facing policymakers in revitalising growth. Uncertainty remains over the fiscal measures that may be introduced in the upcoming Budget to address the widening gap in public finances.

Sector view

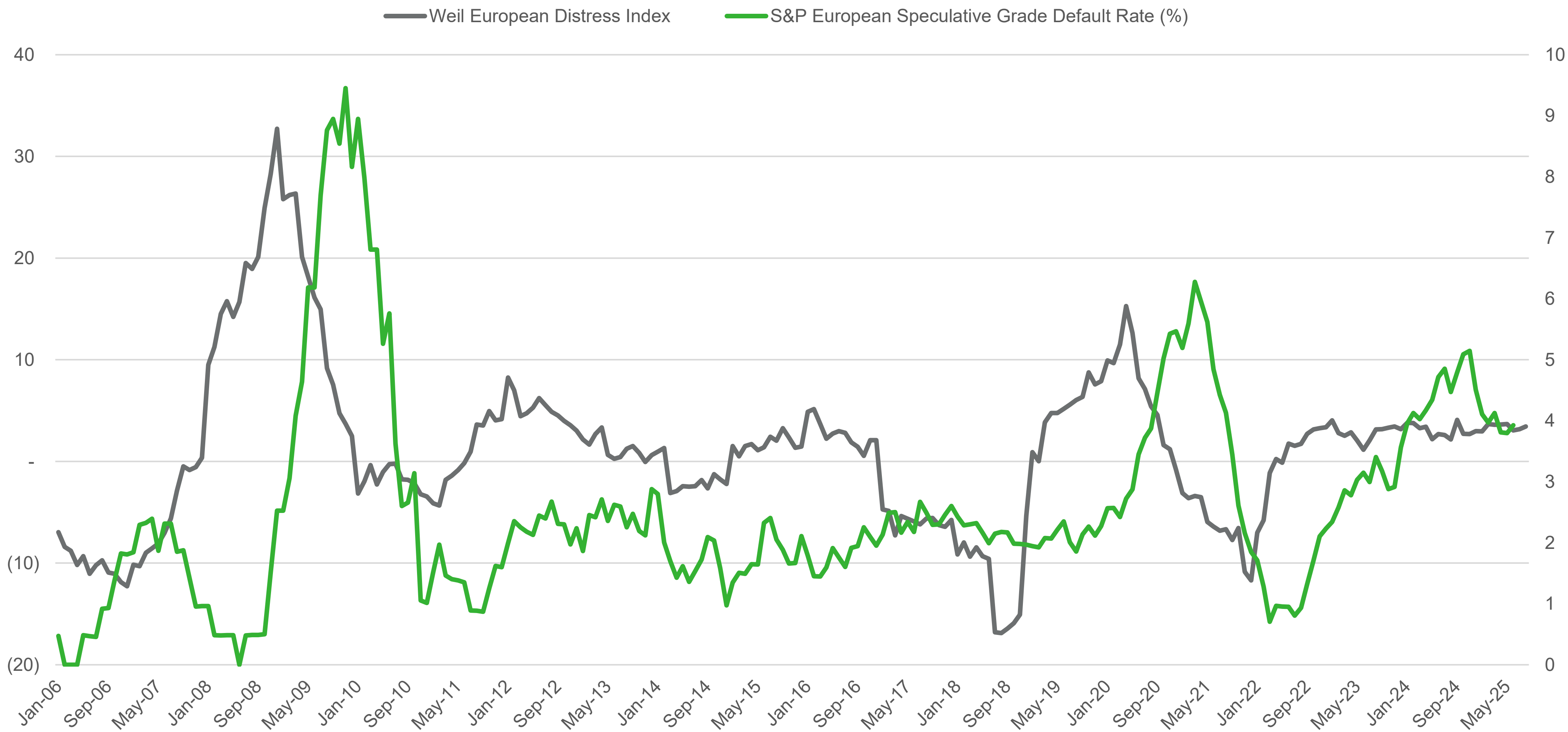
- Retail and Consumer remains the most distressed sector in the WEDI index and is one of only two to see conditions worsen over the quarter. Distress has risen sharply, driven by weak discretionary demand, margin pressure, and tighter credit conditions. Levels remain above those seen during the global financial crisis in September 2009. Ongoing uncertainty around tariffs has further disrupted supply chains and weighed on exporters to the US.
- Industrials holds its position as the second most distressed sector. Persistent input cost pressures, weak demand for capital goods, and restricted financing continue to challenge firms across the manufacturing supply chain, with Germany being a key drag on the sector outlook.
- Real Estate now ranks as the third most distressed sector. While the pace of deterioration has slowed since early 2024, refinancing pressures remain significant. Signs of stabilising valuations and renewed institutional interest in distressed assets are helping to limit further declines.

The European Distress Index



The Weil European Distress Index vs Default Rates

- In the two most major recent crises, the Global Financial Crisis and Covid pandemic, we have observed that the WEDI peaks in advance of the S&P European Speculative Grade Default Rate.
- The WEDI tracks the deterioration in financial markets conditions and company performance which occurs in advance of a default wave to provide an early warning indicator.



THE WEIL EUROPEAN DISTRESS INDEX

OCTOBER 2025

INDUSTRY ANALYSIS

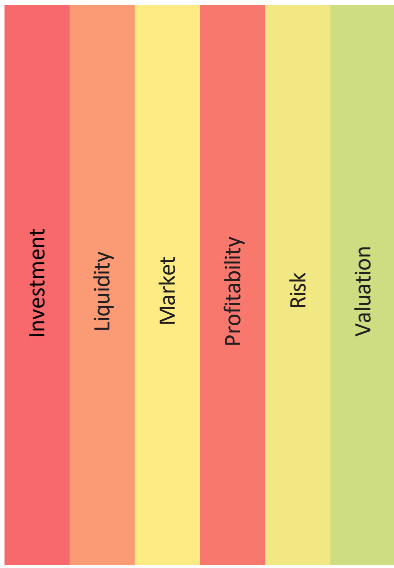
COUNTRY ANALYSIS

Distress Index (as of August 2025)

Most distressed | Least distressed

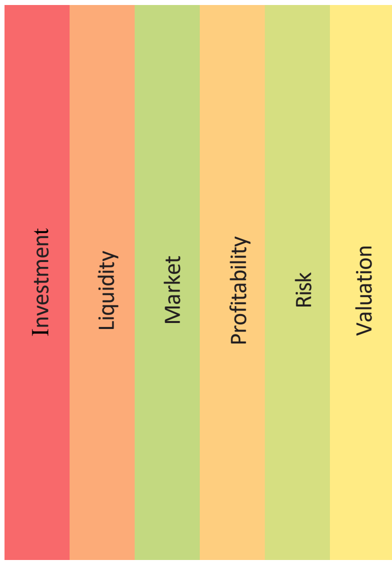
Retail and Consumer Goods

Distress ranking	Index value	YoY trend
1	+7.9	+0.4 Aug 25



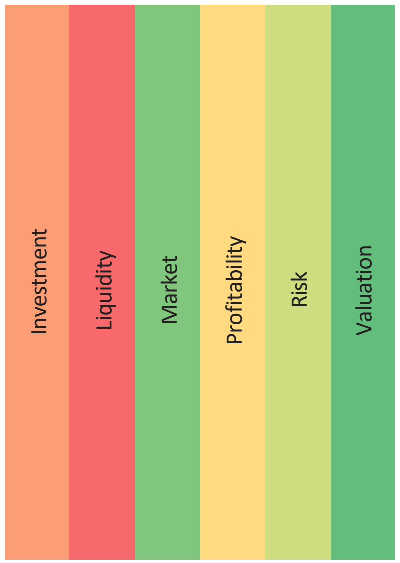
Industrials

Distress ranking	Index value	YoY trend
2	+6.9	+3.4 Aug 25



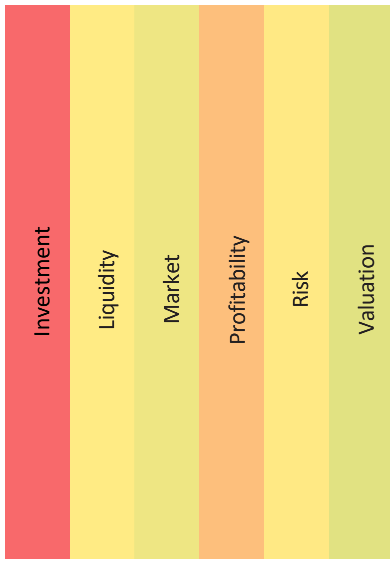
Real Estate

Distress ranking	Index value	YoY trend
3	+3.1	+4.5 Aug 25



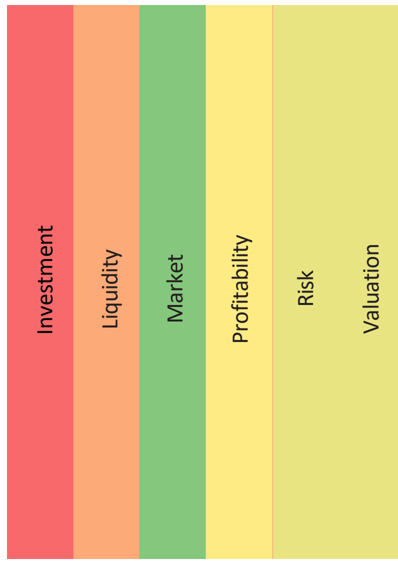
Healthcare

Distress ranking	Index value	YoY trend
4	+1.4	+6.7 Aug 25



Infrastructure

Distress ranking	Index value	YoY trend
5	-0.7	-4.2 Aug 25



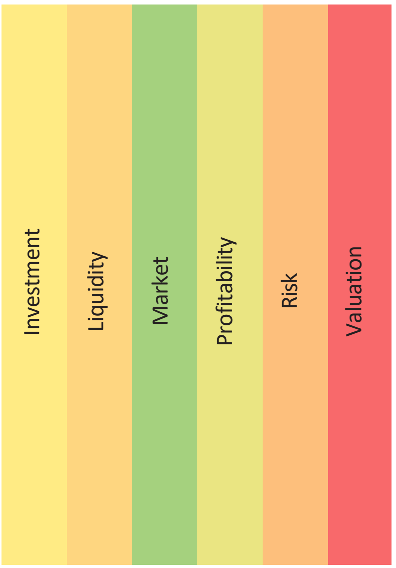
Distress Index (as of August 2025)

Most distressed

Least distressed

Financial Services

Distress ranking	Index value	YoY trend
6	-0.9	↑ -2.2 Aug 25



Technology, Media and Telecoms

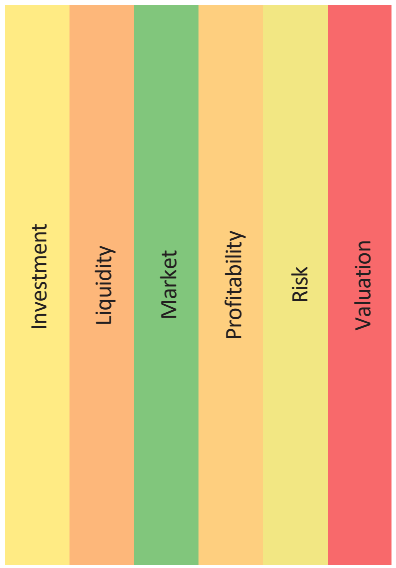
Distress ranking	Index value	YoY trend
7	-3.4	↑ -3.5 Aug 25

Oil and Gas

Distress ranking	Index value	YoY trend
8	-3.9	↓ -3.3 Aug 25

Travel, Leisure and Hospitality

Distress ranking	Index value	YoY trend
9	-4.6	↓ -1.7 Aug 25



Commodities and Natural Resources

Distress ranking	Index value	YoY trend
10	-9.4	↓ -6.8 Aug 25

Retail and Consumer Goods

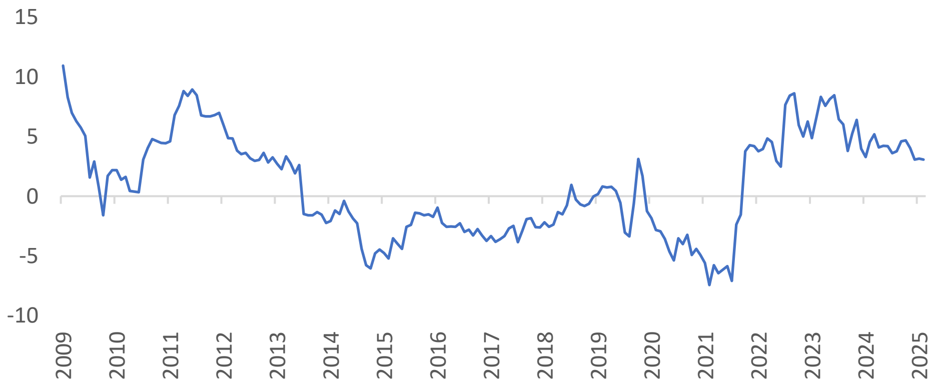
The sector remains the most distressed in the WEDI index, with conditions deteriorating further over the quarter. Distress has risen sharply on both a quarterly and annual basis, surpassing levels seen during the global financial crisis in 2009. The latest increase reflects weaker discretionary demand, margin compression, and tighter credit conditions, alongside fragile consumer confidence amid persistent cost-of-living pressures.

Industrials

Industrials remains the second most distressed sector in the WEDI index, with distress easing marginally on the previous period. Persistent input cost pressures, weakening demand for capital goods, and constrained access to financing are weighing heavily on businesses across the manufacturing supply chain. Germany's faltering export performance continues to affect the sector, compounding pressures on investment and liquidity.

Real Estate

Real Estate remains the third most distressed sector in the WEDI index. While conditions have eased compared with the acute pressures of 18 months ago, distress levels remain elevated relative to historical norms. Stabilising yields and selective asset repricing have slowed the pace of deterioration, and institutional investors are beginning to show renewed interest in distressed opportunities.



Healthcare

Healthcare remains the fourth most distressed sector in the WEDI index. Distress has eased compared with both the previous quarter and the same period last year. Nonetheless, levels remain elevated relative to the long-run average. Persistent cost inflation, rising wage pressures, and limited access to private capital continue to strain cash flow, while subdued investment appetite and tighter regulatory scrutiny present additional headwinds.

Infrastructure, Utilities and Power

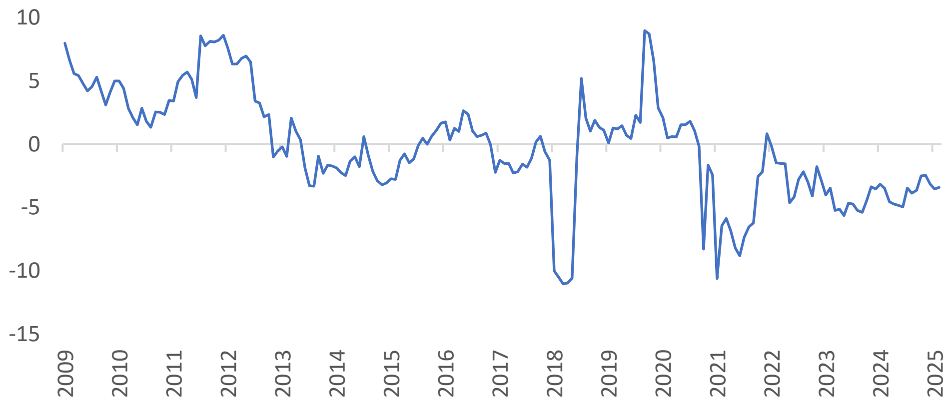
Infrastructure, Utilities and Power is now the fifth most distressed sector in WEDI. Distress has eased slightly compared with the previous quarter but remains above the long-term average and is higher than a year ago. Persistent pressure on asset valuations, driven by elevated real interest rates, continues to weigh on the sector.

Financial Services

Distress has increased again this quarter, making Financial Services one of only two sectors where conditions worsened, with levels sitting significantly above those recorded a year ago. The rise reflects sustained pressure on valuations, alongside growing concerns over credit quality, tighter margins, and heightened default risk.

Technology, Media and Telecoms

Technology, Media and Telecoms ranks as the seventh most distressed sector. Distress has edged lower compared with the previous quarter and is broadly unchanged from a year ago. Despite market volatility, the sector remains resilient, supported by strong cash reserves, scalable profit margins, and sustained investor interest in AI-driven growth.



Oil and Gas

Oil and Gas ranks eighth in WEDI and remains among the least distressed sectors. Distress declined on both a quarterly and annual basis, supported by relatively strong balance sheets and cash flow resilience. Nonetheless, volatility in crude prices, weakening global demand, and rising geopolitical uncertainty continue to weigh on sentiment and investment appetite.

Travel, Leisure and Hospitality

Travel, Leisure and Hospitality ranks ninth, with distress levels declining on both a quarterly and annual basis. The sector continues to benefit from a sustained post-pandemic recovery, supported by strong summer booking trends, solid pricing power, and improved profitability across airlines and hotel operators.

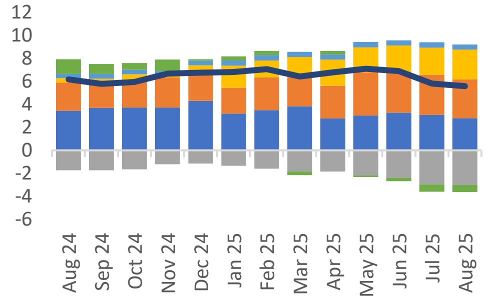
Commodities and Natural Resources

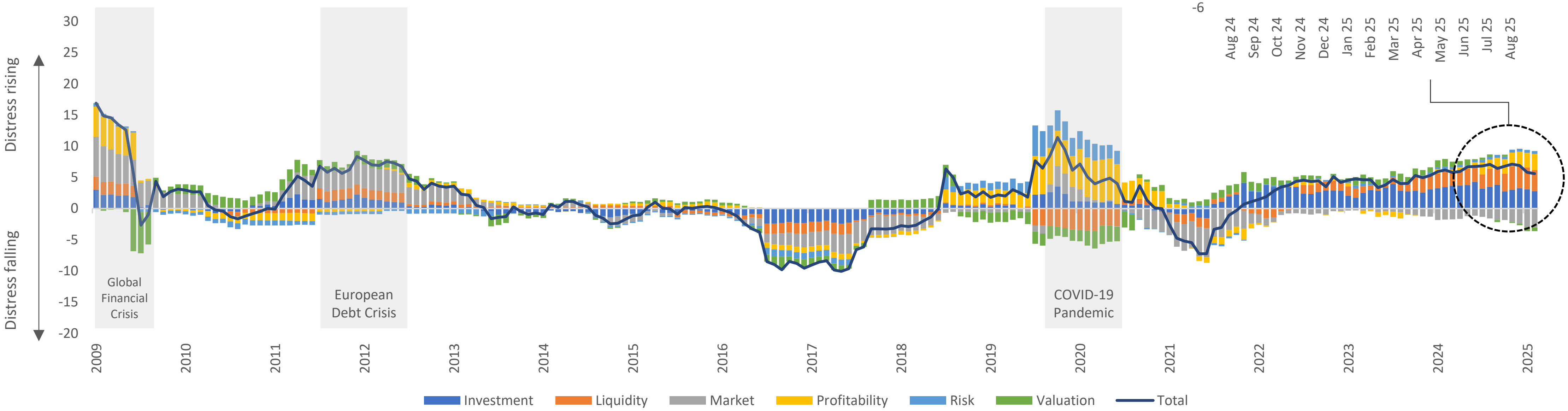
Commodities and Natural Resources remains the least distressed sector. Distress has declined on both a quarterly and annual basis, supported by resilient pricing in key metals and agricultural inputs. Gold has reached record highs in recent months as investors sought safe-haven assets amid heightened market volatility, further bolstering sector resilience.

Distress Ranking	Aug 2025	QoQ Trend	YoY Trend
1	+5.6	+7.1 May 25	+6.2 Aug 24

Germany Distress Index

- German corporates continue to face elevated distress, with the WEDI index still ranking the highest among major European markets. However, levels of distress have eased on the previous quarter and previous year, falling from recent highs.
- GDP fell by 0.3% in Q2 2025, following a brief period of growth in the first quarter as demand was pulled forward ahead of changes in tariffs. It was the steepest quarterly decline since Q2 2024, driven by a fall in fixed capital formation (-1.4% in Q2 vs 0.3% in Q1), reflecting weaker investment in both construction and equipment, primarily machinery and vehicles.
- By sector, output shrank in manufacturing, construction, trade, transport, hospitality, and financial and insurance services.
- Germany's GfK Consumer Climate Indicator rose to -22.3 in October 2025 from -23.5 in the previous month, beating expectations. The improvement was driven by a sharp rebound in income expectations, marking a second consecutive month of gains on stronger wage growth prospects.
- By contrast, the Ifo Business Climate Index fell 1.2 points to 87.7 in September, the lowest since May and the steepest monthly decline in over a year, highlighting growing pessimism among firms.
- In response, policymakers have announced a €46 billion corporate tax reform to encourage investment and a €500 billion public infrastructure programme to be deployed over the medium term.
- However, the Bundesbank has cautioned that economic growth is likely to remain flat through 2025, with a more sustained recovery delayed until 2026 or 2027.

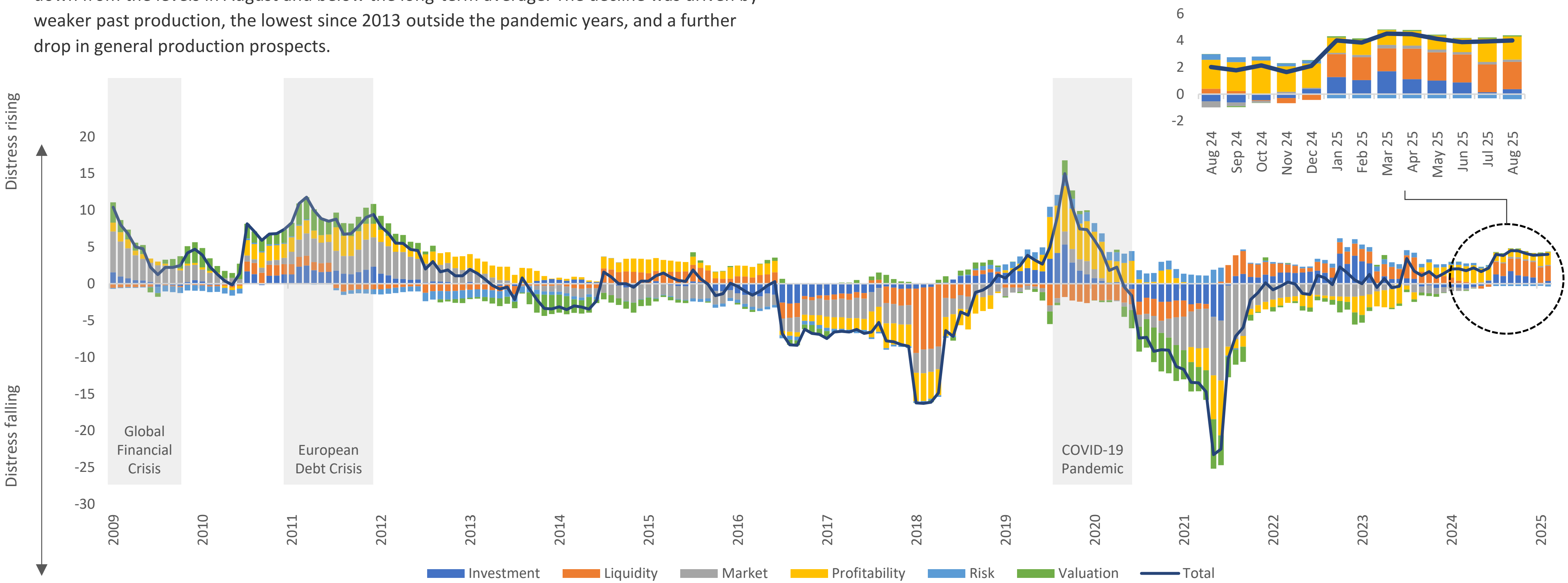




Distress Ranking	Aug 2025	QoQ Trend	YoY Trend
2	+4.0	+4.1 May 25	+2.0 Aug 24

France Distress Index

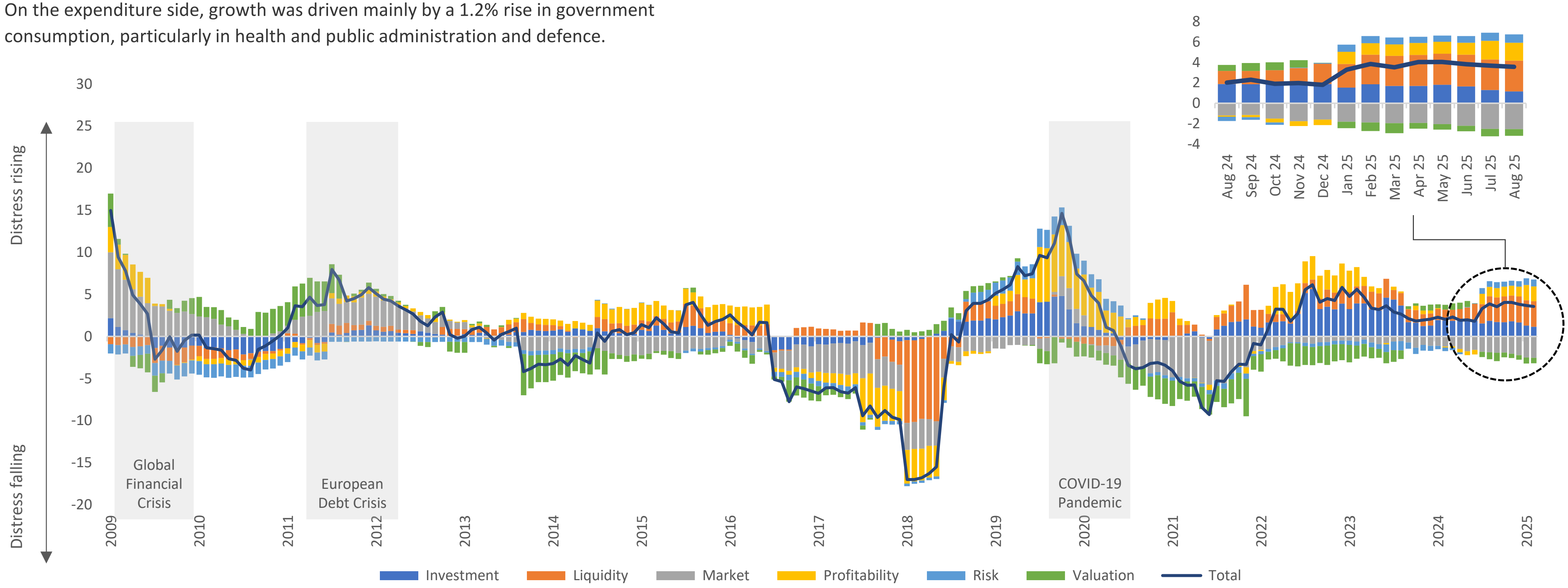
- Distress levels in France have risen compared with the previous year and remained on an upward trajectory, placing the country as the second highest across the WEDI. Key sources of stress include liquidity constraints, elevated financing costs and subdued investment.
- The French economy grew 0.3% quarter-on-quarter in Q2 2025, in line with preliminary estimates, picking up from 0.1% in Q1 and marking the strongest pace in three quarters. Final domestic demand made a modest contribution with household consumption stagnating after a 0.3% drop previously.
- France's manufacturing climate indicator fell in September 2025, matching expectations, down from the levels in August and below the long-term average. The decline was driven by weaker past production, the lowest since 2013 outside the pandemic years, and a further drop in general production prospects.
- Consumer confidence in France held steady in September 2025, unchanged from August's two-year low and in line with expectations. Views on major purchases deteriorated further, underscoring continued caution in household spending.
- On a more positive note, households were marginally less pessimistic about their future financial situation, while both expected and current saving capacity improved, and saving intentions edged higher.
- Ongoing political turmoil in France has deepened uncertainty, weighing on investor confidence and complicating the government's fiscal consolidation agenda.



Distress Ranking	Aug 2025	QoQ Trend	YoY Trend
3	+3.6	+4.9 May 25	+2.0 Aug 24

United Kingdom Distress Index

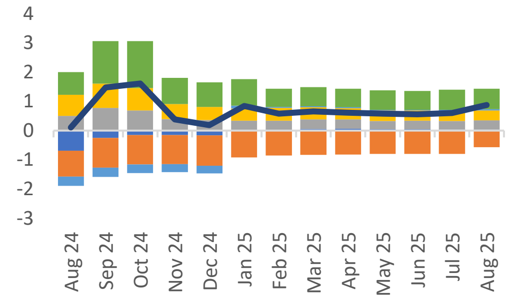
- The UK has become the third most distressed market in the WEDI, with levels down from the previous quarter but elevated on the previous year. Distress has been driven by a combination of squeezed profitability, liquidity and a faltering appetite towards risk.
- The UK economy grew 0.3% quarter-on-quarter in Q2 2025, slowing from a 0.7% expansion in Q1 but surpassing forecasts of just 0.1%, according to preliminary estimates.
- In Q2, growth was fuelled by a 0.4% rise in services, led by computer programming and consultancy (+4.1%). Construction climbed 1.2%, while production fell 0.3% due to utilities (-6.8%) and mining (-0.3%), partly offset by a 0.3% increase in manufacturing.
- On the expenditure side, growth was driven mainly by a 1.2% rise in government consumption, particularly in health and public administration and defence.
- The UK's unemployment rate stood at 4.7% from May to July 2025, unchanged from the previous period and in line with market expectations. The rate remained at its highest since June-August 2021, reflecting increases in unemployment for both 6-12 months and over 12 months compared with the prior period.
- The GfK Consumer Confidence Index for the UK slipped to -19 in September 2025 from -17 in August, undershooting expectations of -18 as worries over looming tax hikes weighed on sentiment. All five measures of confidence deteriorated, while a separate indicator of savings intentions posted a sharp decline.

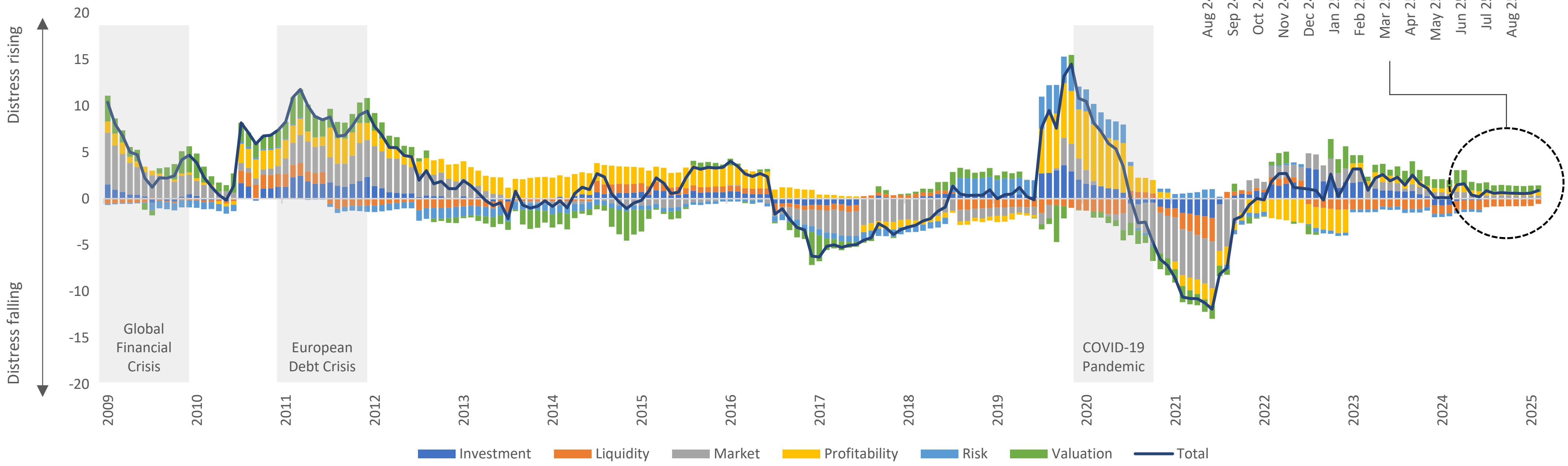


Distress Ranking	Aug 2025	QoQ Trend	YoY Trend
4	+0.9	+0.6 May 25	+0.1 Aug 24

Spain and Italy Distress Index

- Distress in Spain-Italy have remained above the long-term average but continued to rank as the least distressed in Europe.
- The Spanish economy grew 0.8% quarter-on-quarter in April-June 2025, up from a preliminary estimate of 0.7%, marking the strongest expansion in a year and following a 0.6% rise in the first quarter. Domestic demand contributed 0.8 percentage points to growth, while external demand made virtually no contribution.
- Italy's GDP slipped by 0.1% in Q2 2025, reversing the 0.3% growth seen in Q1 and marking the first contraction since mid-2023. The decline was driven by weaker net exports, as US tariff threats and volatile commodity prices weighed heavily on trade flows.
- The consumer confidence index in Spain rose to 82.9 in July of 2025 from the 19-month low of 76.1 in the previous month, marking the strongest reading since January of this year.
- The Italian consumer confidence index rose to 96.8 in September 2025 from 96.2 in the previous month, surpassing market expectations of 96.5.





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How do we define 'distress'?

The Weil European Distress Index (WEDI) provides a measure of the level of corporate distress by aggregating company fundamentals and financial market indicators across key European countries.

Corporate distress can be defined as uncertainty about the fundamental value of financial assets, volatility and increase in perceived risk. It also refers to the disruption of the normal functioning of company financial performance, including their ability to fulfil their debt requirements.

The definition is purposefully broad as corporate distress can manifest in different ways, and no two stress events are identical for each company.

Although stress events differ in composition, there are several common characteristics of corporate distress ranging from pressure on liquidity, reduced profitability, rising insolvency risk, falling valuations and reduced return on investment. These company indicators are also set against a backdrop of market conditions that can also indicate levels of distress (e.g. business confidence, rising volatility and rising levels of perceived market risk).

Methodology

The WEDI is a univariate time series that distils information embedded in more than 16 indicators into a summary measure of corporate distress. It can then be decomposed into five markets (Total Europe*, UK, Germany, Spain-Italy and France), size of company (based on market cap) and 10 industry groups:

- Retail and Consumer Goods
- Travel, Leisure and Hospitality
- Industrials
- Healthcare
- Technology, Media and Telecoms
- Financial Services
- Oil and Gas
- Infrastructure, Utilities and Power
- Commodities and Natural Resources
- Real Estate

The WEDI is constructed using data from over 3,750 listed European companies and a range of financial market indicators. 16 indicators have been used to construct the WEDI which reflect one or more symptoms of corporate distress based on comprehensive academic and desk-based research.

The WEDI uses a Dynamic Factor Model, a statistical approach that captures the variability across the 16 indicators in a single composite index using key company fundamentals going back to 2005 and incorporates over five million data points.

Data for the WEDI model are updated on a quarterly basis, incorporating newly available historical observations for each variable included in the analysis. With each refresh, previous estimates of distress are revised in light of the latest information, ensuring that the model's outputs remain accurate and reflective of evolving trends. This iterative revision process enhances the reliability of the model by continuously incorporating the most recent data.

METRIC	DEFINITION
Liquidity	Contains measures of liquidity such as the current ratio, quick ratio and operating cashflow metrics which are used to determine a company's ability to pay off current debt obligations without needing to raise external capital.
Profitability	Contains measures such as return on equity, net profit margins and return on assets to assess the business's ability to generate earnings relative to its revenue, operating costs, balance sheet and shareholders' equity over time.
Risk	Contains measures such as debt to equity ratio and interest cover to assess a company's capital structure and current risk levels, often in terms of debt levels and risk of default or bankruptcy.
Valuation	Contains measures such as price to earnings, price to book value and enterprise value to EBITDA multiples, used to assess the relative valuation of a company over time.
Investment	Contains measures such as dividend per share and dividend yield used to assess the potential attractiveness of a business as an investment opportunity.
Financial markets	Contains measures such as index market capitalisation, market volatility, risk, credit default swaps and business confidence which are used to track levels of distress across broader financial markets in key European markets.

*Total Europe includes UK, France, Germany, Spain, Italy, The Netherlands, Republic of Ireland, Belgium, Norway and Portugal