

THE WEIL EUROPEAN DISTRESS INDEX

JANUARY 2026

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OUTLOOK FOR 2026

EXECUTIVE SUMMARY

Distress forecast for 2026

- The outlook for corporate distress in 2026 remains uncertain and nuanced. While the global economy has managed to avoid a sharp downturn, persistent structural weaknesses, a complex geopolitical landscape and tighter financial conditions continue to weigh on sentiment and corporate fundamentals.
- The latest IMF forecasts point to global GDP growth of just 3.1% in 2026, with the Euro Area economies expected to lag with growth of just 1.1%, down on the previous year.
- Within Europe, performance remains uneven. Germany is expected to see output rise 0.9% in 2026, improving on the previous year but remaining weak and boosted by government spending focused on infrastructure and defence. Spain is expected to continue to outperform with growth near 2.0%, albeit cooling from 2.9% in 2025.
- In the UK, businesses continue to face an ongoing impact from measures announced in the Budget in 2024 and 2025. Past rises in National Insurance Contribution, National Living Wage and a reduction in business rates support have eroded profit margins. Meanwhile, in the latest budget, the freeze to income tax thresholds will act as a drag on spending power in the coming years, while changes to Gambling Duty will also impact gaming businesses considerably.

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The outlook for Europe's largest economies in 2026 is defined less by a single trajectory and more by pervasive uncertainty. In particular, the challenges around structural shifts – from the adoption of GenAI, rapid increase in defence spending, debt burdens at sovereign level, US-EU relations and climate transition – alongside general geopolitical and policy uncertainty, are weighing heavily on investment decisions.



Andrew Wilkinson
Partner, Restructuring
London

Weil European Distress Index Movements

Forecast index value for Nov 2026	Index value in Nov 2025 (for comparison)	Distress forecast change
+3.7	+2.6	 Distress rising

- The evolving trade environment continues to cast a shadow on global supply chains, as a realignment of trade relationships and elevated tariffs rewrite international trade. The average U.S. tariff rate jumped from 2.5% to nearly 14% by mid-2025, adding significant cost to imports and curtailing consumer demand for finished goods.

“

A modest easing in the aggregate index at the end of 2025 should not be mistaken for a broad-based recovery. Distress remains persistent and increasingly uneven, driven by pressure on liquidity and investment. That divergence is most pronounced in Retail and Consumer Goods, which is set to be the most challenged sector in 2026.



Neil Devaney
Partner, Restructuring
London

- In our forecast, risks remain on the downside:
 - **U.S. trade policy** has become increasingly protectionist under the current administration. Rising tariffs and the dismantling of long-standing exemptions will increase costs for European exporters.
 - **Geopolitical instability** persists, particularly in Eastern Europe and the Middle East. Tensions have intensified around key global trade routes, including the Red Sea, threatening supply chain stability and energy markets.
 - **Financial market fragility** remains a concern. Although monetary policy has loosened, borrowing costs remain high, and refinancing challenges are acute.
 - **The disruptive potential of GenAI** is beginning to reshape business models across sectors. While it brings productivity potential, it also introduces near-term volatility and could impact labour markets.

EXECUTIVE SUMMARY

As with all forecasts, there is a degree of uncertainty therefore why we present a base case scenario, our median and most likely outlook, alongside pessimistic and optimistic scenarios to account for potential risks and opportunities.

Base Case

- Corporate distress is expected to rise slightly in 2026. This modest deterioration reflects ongoing economic headwinds facing the Euro Area and bleaker economic forecasts for the UK.
- Ongoing uncertainty around international trade policy, financial market volatility and geo-political tensions continue to constrain business investment.
- However, loosening of monetary policy is likely to support business and consumer confidence, contributing to a stabilising outlook.

Pessimistic Scenario

- Corporate distress increases materially in 2026, driven by worsening macroeconomic headwinds, market volatility and heightened geopolitical tensions. International trade relations become more strained, leading to an escalation of protectionist trade, supply chain disruption and higher inflation.
- Central banks continue to enforce tight monetary policy in response to persistent inflationary pressures, undermining economic growth and damaging business and consumer confidence.
- Advances in GenAI occur faster and are more disruptive than many anticipate, unsettling operating models, impacting labour markets and polarising growth.

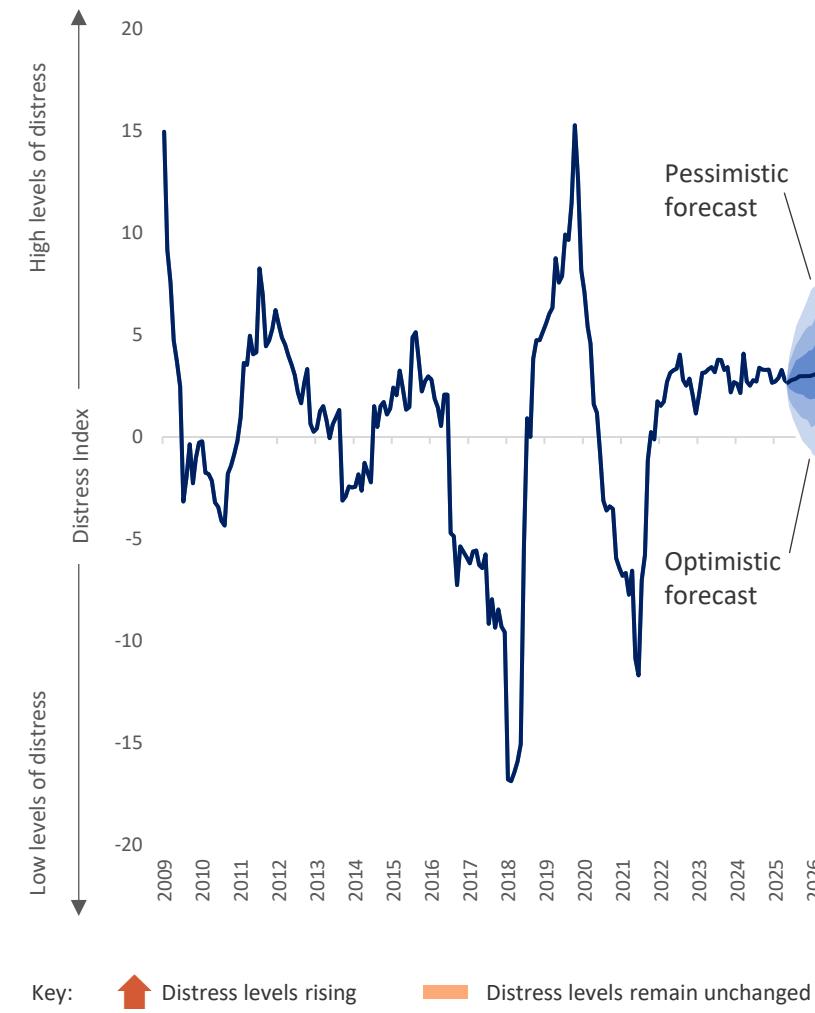
Optimistic Scenario

- Economic conditions in Europe improve more quickly than anticipated, supported by a more stable geopolitical environment.
- Inflation continues a gentle and predictable deceleration, enabling central banks to cut interest rates steadily, improving confidence and certainty. This enables businesses to rebuild profit margins, bolster liquidity and strengthen balance sheets.

Weil European Distress Index Forecast

Forecast index value for Nov 2026	Index value in Nov 2025 (for comparison)	Distress forecast change
+3.7	+2.6	 Distress rising

Total Europe – Distress Forecast

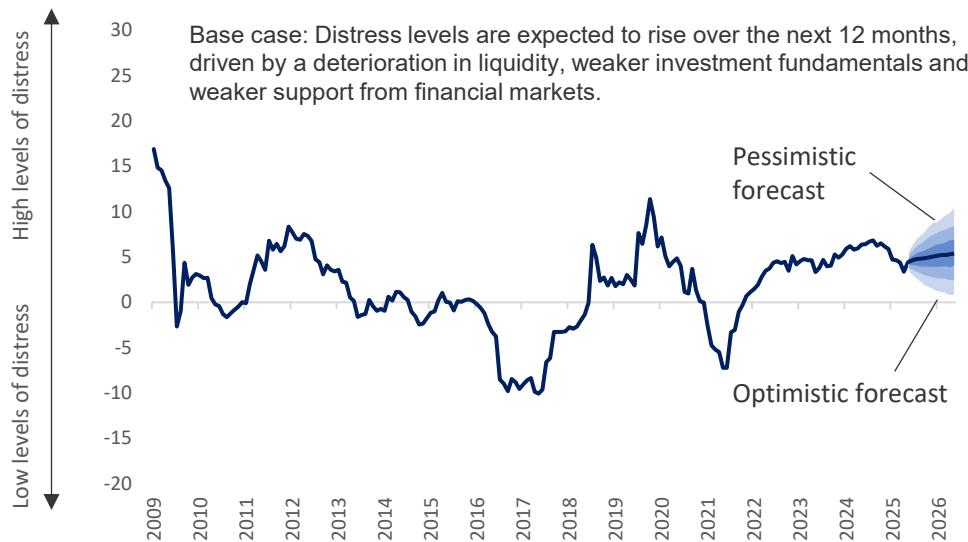


Distress ranking	Distress driver	YoY Trend
1	Liquidity	
2	Profitability	
3	Risk	
4	Investment	
5	Valuation	
6	Market	

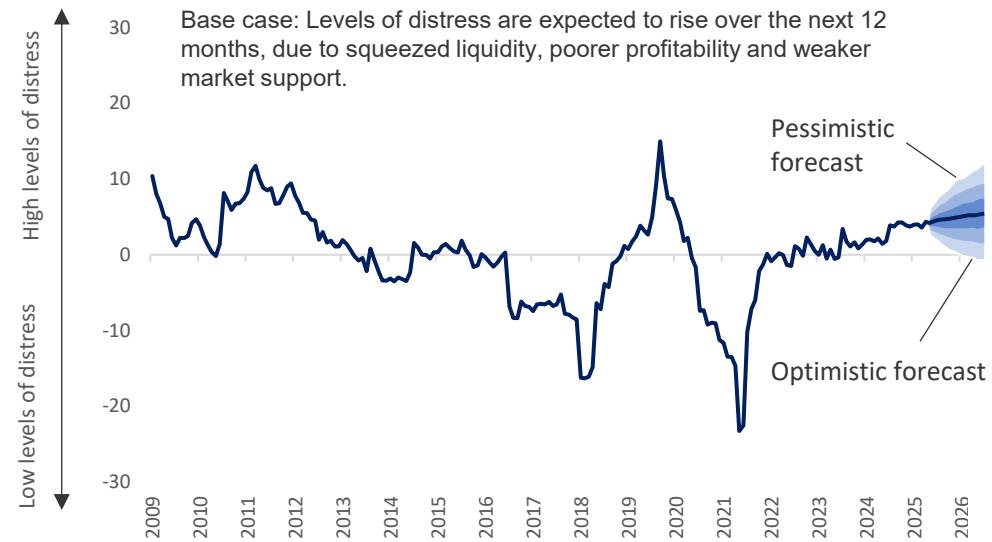
 Distress levels falling

DISTRESS FORECAST 2026 BY COUNTRY

Rank 1: Germany



Rank 2: France



Distress ranking	Distress driver	YoY Trend
1	Liquidity	↑
2	Investment	↑
3	Market	↑
4	Profitability	↓
5	Risk	↓
6	Valuation	—

Key: ↑ Distress levels rising

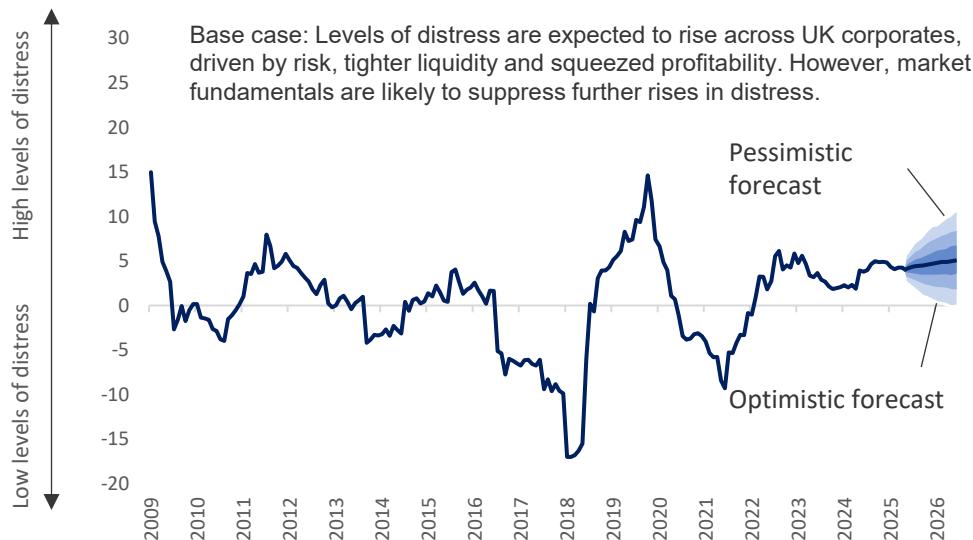
— Distress levels remain unchanged

↓ Distress levels falling

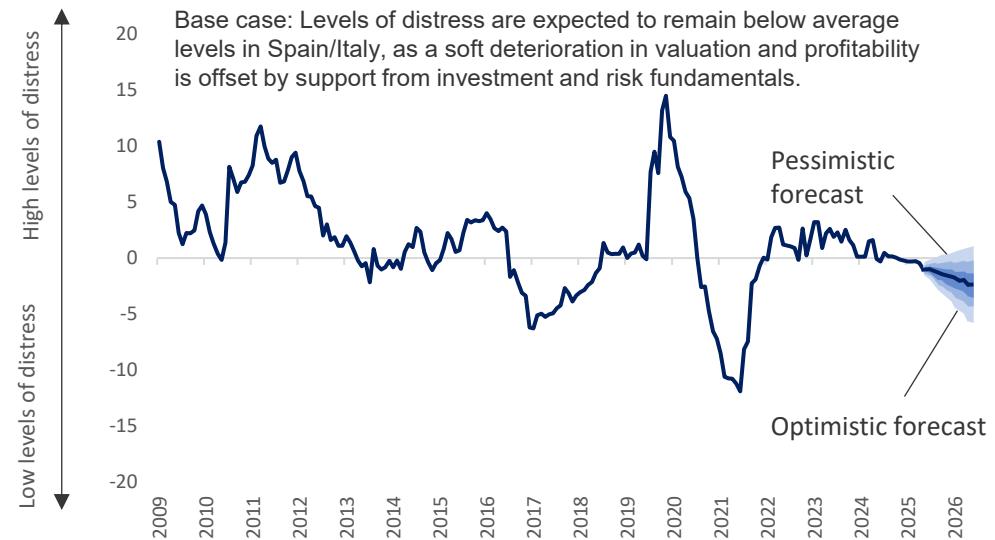
Distress ranking	Distress driver	YoY Trend
1	Liquidity	↑
2	Profitability	↑
3	Market	↑
4	Valuation	—
5	Investment	↓
6	Risk	—

DISTRESS FORECAST 2026 BY COUNTRY

Rank 3: United Kingdom



Rank 4: Spain/Italy



Distress ranking	Distress driver	YoY Trend
1	Risk	↑
2	Liquidity	↔
3	Profitability	↑
4	Investment	↔
5	Valuation	↓
6	Market	↓

Key: ↑ Distress levels rising

↔ Distress levels remain unchanged

↓ Distress levels falling

Distress ranking	Distress driver	YoY Trend
1	Valuation	↑
2	Market	↔
3	Investment	↓
4	Risk	↓
5	Profitability	↑
6	Liquidity	↔

Industry Distress Ranking

Distress ranking	Industry	YoY Trend
1	Retail and Consumer Goods	
2	Industrials	
3	Infrastructure	
4	Healthcare	
5	Real Estate	
6	Technology, Media and Telecoms	
7	Commodities and natural resources	
8	Oil and gas	
9	Travel, leisure and hospitality	
10	Financial services	

Key:  Distress levels rising

 Distress levels remain unchanged

Top 3 Distress Sectors for 2026

	Retail and Consumer Goods	<ul style="list-style-type: none"> Retail and consumer goods companies are expected to remain under sustained pressure through 2026, as the lingering impact of higher interest rates continues to ripple through household finances. While headline inflation may have peaked, the cost of core household essentials remains high, while muted real wage growth will weigh on consumer demand across key European markets. Retailers will continue to face profitability challenges as they absorb higher input costs although a polarised performance between pure online and omnichannel can be expected. Primary distress drivers – Liquidity Profitability Investment
	Industrials	<ul style="list-style-type: none"> The Industrials sector is expected to face deepening distress through 2026. Elevated financing costs, political uncertainty and weak economic growth prospects hold back investment, particularly for large capital-intensive projects. Declining valuations reflect investor caution amid subdued global demand, geopolitical volatility, rising competition and a deteriorating outlook for Europe's manufacturing base. Primary distress drivers – Investment Risk Valuation
	Infrastructure	<ul style="list-style-type: none"> Distress across the Infrastructure, Utilities, and Power sector is forecast to rise through 2026 as financial and operational pressures mount. A tightening in public and private capital flows is expected to constrain new investment, particularly for long-duration projects that are sensitive to rising funding costs and regulatory uncertainty. Primary distress drivers – Investment Risk Liquidity

 Distress levels falling

LOOKING BACK AT Q4 2025

EXECUTIVE SUMMARY

Macro view

The latest Weil European Distress Index (WEDI) shows corporate distress across Europe remains elevated, falling modestly on the previous quarter and continuing to track above the long-term average.

Although aggregate levels have remained relatively stable over the past two years, pressure has become increasingly uneven across countries and sectors, with liquidity, investment and profitability indicators now the most widespread sources of distress.

- Distress remains elevated due to a complex mix of persistent macroeconomic pressures. Although interest rates are believed to have peaked, they remain historically high, and continue to weigh on borrowing, refinancing and investment decisions.
- Inflation has moderated from its peak but remains above central bank targets in many economies and has stayed higher for longer than many were expecting.
- Tariff uncertainty and trade friction, particularly linked to US-China and EU-US policy shifts, are also disrupting global supply chains, adding further cost pressure. At the same time, fiscal headroom remains limited, and policy uncertainty has increased.
- Against this backdrop, global growth is slowing. The IMF expects global GDP to grow by 3.2% in 2025, softening to 3.1% in 2026, while advanced economies are forecast to expand by just 1.6% in both years.
- Germany, after contracting in 2024, is forecast to grow only 0.2% in 2025, with similarly modest outlooks for France (0.7%), Italy (0.5%) and the UK (1.3%). Spain remains the standout performer with growth expected at 2.9% in 2025, although this is set to ease to 2.0% the following year.
- Overall, the picture is one of persistent fragility. Corporate balance sheets are being tested by high interest rates, weaker global demand, and increased operational costs - while the rapid pace of technological disruption is creating both strategic opportunities and execution risk.

Weil European Distress Index Movements

Index value in Nov 2025	QoQ trend	YoY trend
+2.6	 Distress falling from +2.9 in Aug 25	 Distress rising from +2.5 in Nov 24

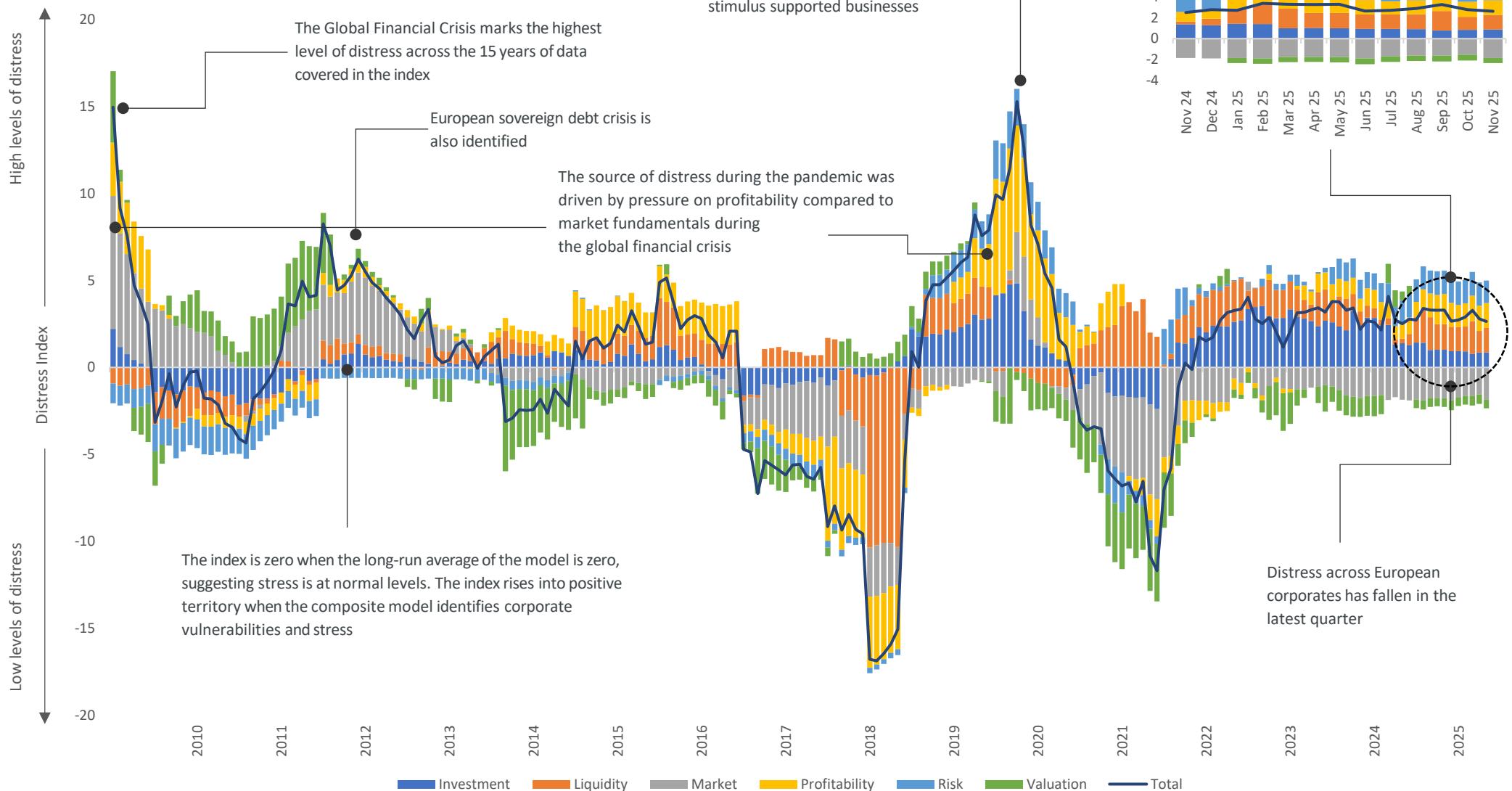
Country view

- Germany remains the most distressed market, where companies face a challenging mix of squeezed liquidity, subdued investment appetite and rising profitability pressures. Economic growth remains lacklustre, with the IMF forecasting growth of just 0.2% in 2025, following a contraction in the previous year.
- France follows closely behind, with distress rising on the quarter, driven by worsening cashflow positions and ongoing pressures on profitability.
- The UK holds its place as the third most distressed market, but with a more uneven profile. While profitability remains under pressure, underlying weakness in economic growth, rising unemployment and slowing wage growth is weighing heavily on confidence. Liquidity distress is now the highest in the index.
- Italy and Spain continue to report the lowest levels of distress, supported by more stable fundamentals and stronger GDP performance, particularly from Spain.

Sector view

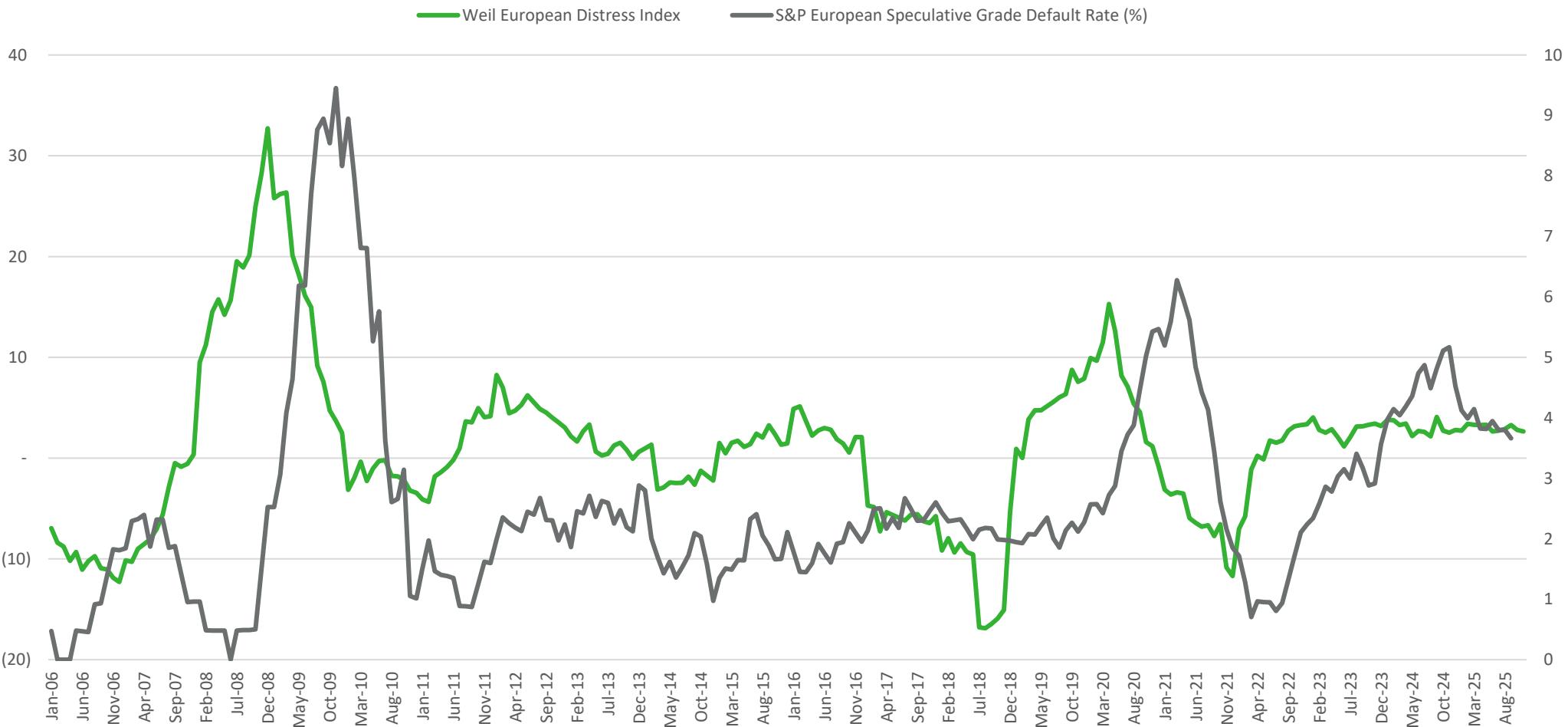
- Key sectors such as Retail and Consumer Goods, Industrials, and Healthcare report the highest levels of distress, all sitting above the long-term average.
- Retail and Consumer Goods remains the most distressed industry sector, with levels at the highest since the global financial crisis. This rise reflects acute pressure on liquidity and profitability, as companies face soft demand, persistent cost pressures and tighter consumer spending.
- Industrials remains the second most distressed sector, driven by weak investment conditions and ongoing liquidity strain. Broader pressure reflects delayed capital spending, lacklustre demand and an uncertain global trade environment.
- Healthcare also appears in the top three most distressed sectors. Poorer investment metrics are being offset by market support, but the outlook shows more stabilising conditions.

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.



Distress Index (as of November 2025)

Most distressed

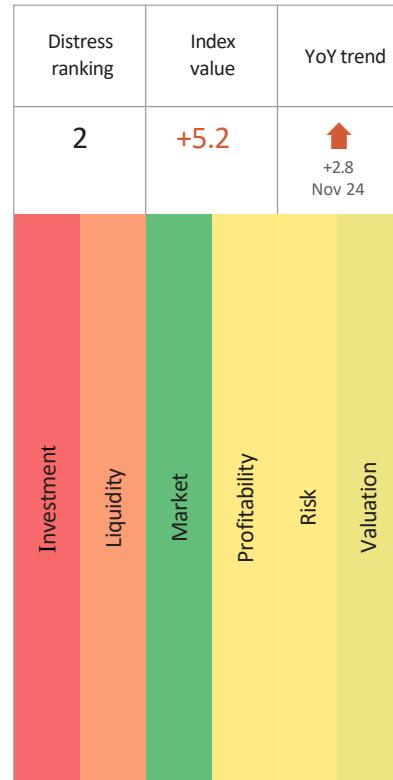
Least distressed



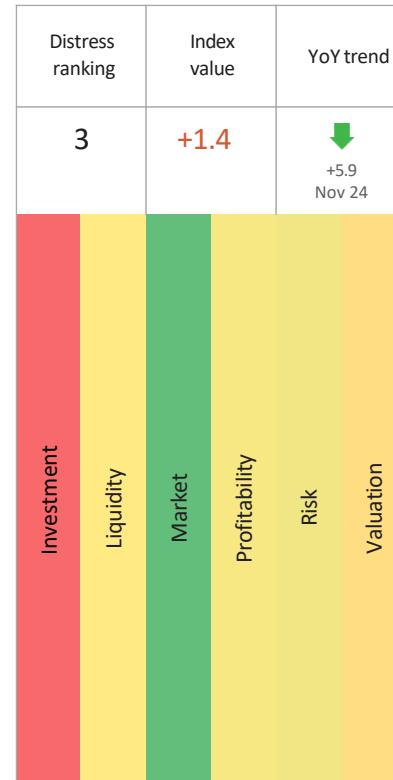
Retail and Consumer Goods



Industrials



Healthcare



Real Estate



Infrastructure



Key: Distress levels rising

Distress levels remain unchanged

Distress levels falling

Distress Index (as of November 2025)

Most distressed

Least distressed



Technology, Media and Telecoms



Financial Services



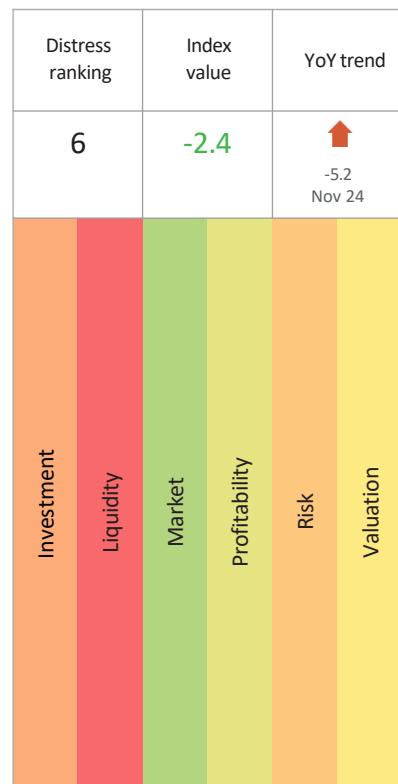
Oil and Gas



Travel, Leisure and Hospitality



Commodities and Natural Resources



Key: ↑ Distress levels rising

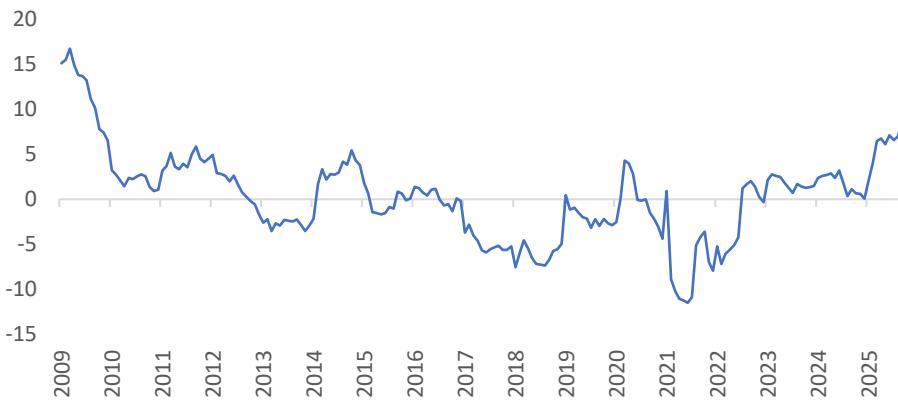
■ Distress levels remain unchanged

↓ Distress levels falling

LOOKING BACK AT Q4 2025 – INDUSTRY ANALYSIS

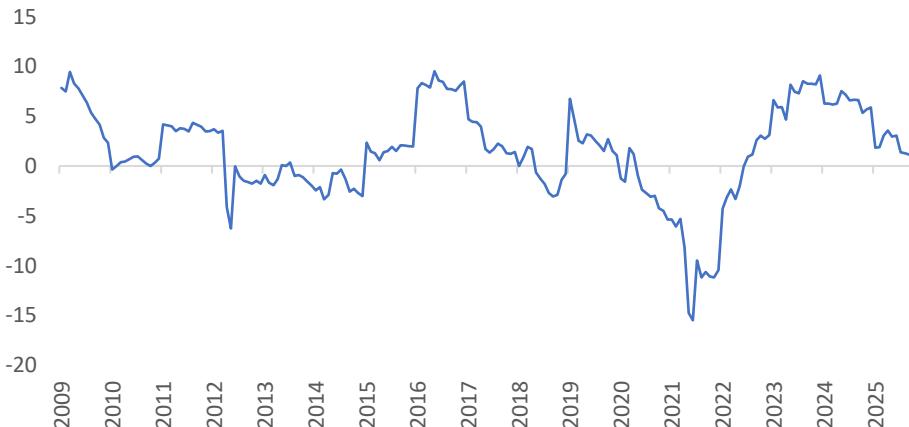
Retail and Consumer Goods

The Retail and Consumer Goods sector remains the most distressed in the index, with levels rising significantly this quarter to the highest across all industry groups. Liquidity and profitability remain the most acute sources of pressure, as firms grapple with tighter margins amid rising wage costs, weakening demand, and higher borrowing expenses.



Healthcare

The Healthcare sector is the third most distressed sector, but distress eased slightly on the previous quarter and remains on a downward trajectory. Weaker investment metrics in the Healthcare sector reflect a cautious stance, shaped by high operating costs, tighter public funding, and a slowdown in private capital inflows. Many firms remain focused on margin preservation rather than expansion.



Industrials

The Industrials sector is the second most distressed in the index, although pressures have eased in the second half of 2025. A combination of weaker global economic growth, softer business confidence and a volatile international trade environment has held back spending and investment. Poorer levels of business confidence reflect a continued reluctance to commit capital amid high borrowing costs and economic uncertainty.



Real Estate

The Real Estate is the fourth most distressed sector and continues positive momentum which has gained traction since 2023. The latest data shows total distress falling to the lowest level since early 2022, buoyed by market fundamentals and stronger valuations. A real estate market recovery is expected to accelerate from 2026 onwards, driven by falling interest rates and increased infrastructure spending.

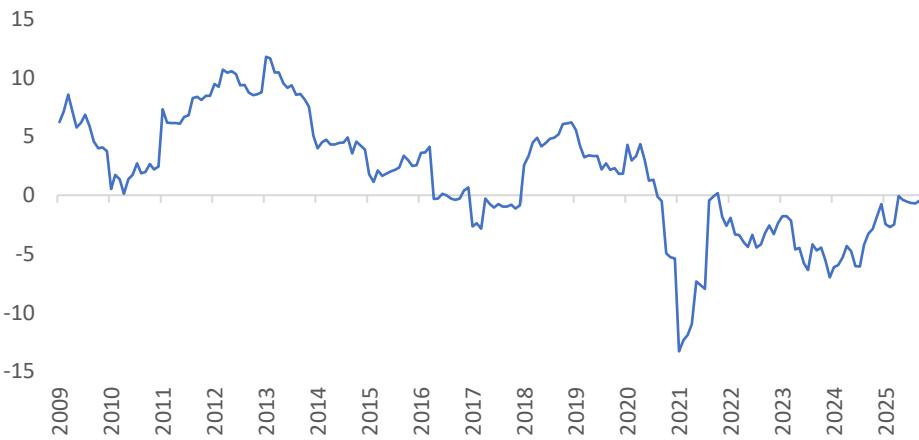


LOOKING BACK AT Q4 2025 – INDUSTRY ANALYSIS



Infrastructure, Utilities and Power

Distress in the Infrastructure, Utilities, and Power sector has continued to rise this quarter, moving into positive territory for the first time since late 2021. High debt servicing costs, delayed project pipelines, and constrained public funding are reducing available capital and dampening investor appetite.



Technology, Media and Telecoms

Distress in the TMT sector remains below its long-run average, reflecting continued resilience across key fundamentals. Positive market sentiment and steady profitability are helping to underpin overall conditions, supported by ongoing demand for digital services, cloud infrastructure, and investment in AI.



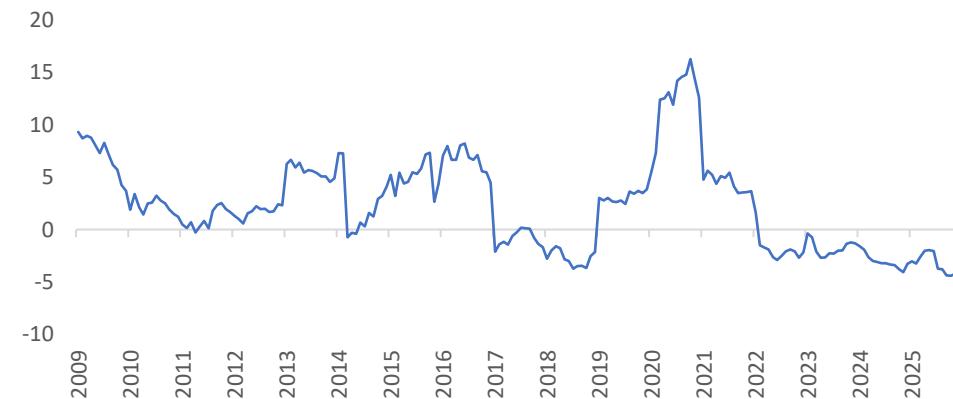
Financial Services

Distress levels in Financial Services remain below long-run averages, supported by healthy market fundamentals and resilient profitability. Elevated interest rates have widened lending margins, while strong capital buffers and robust risk controls continue to underpin sector stability.



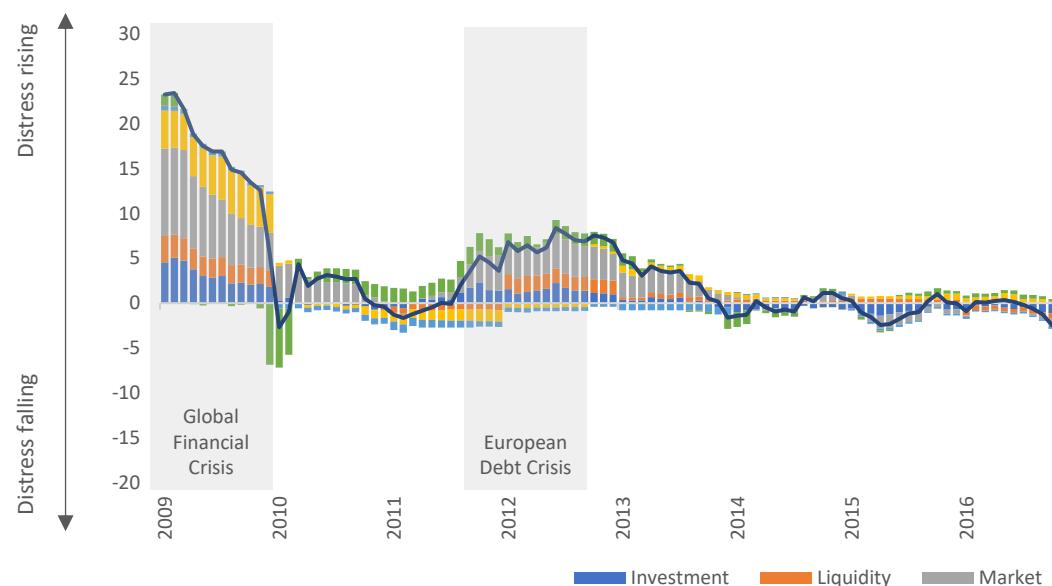
Oil and Gas

Distress levels in Oil and Gas remain below the long-run average, having eased slightly this quarter. Sector performance is supported by stable profitability and firm market fundamentals, underpinned by resilient energy prices. Nonetheless, investment appetite remains subdued, with capital deployment held back by geopolitical uncertainty, and an unclear outlook for long-term demand.



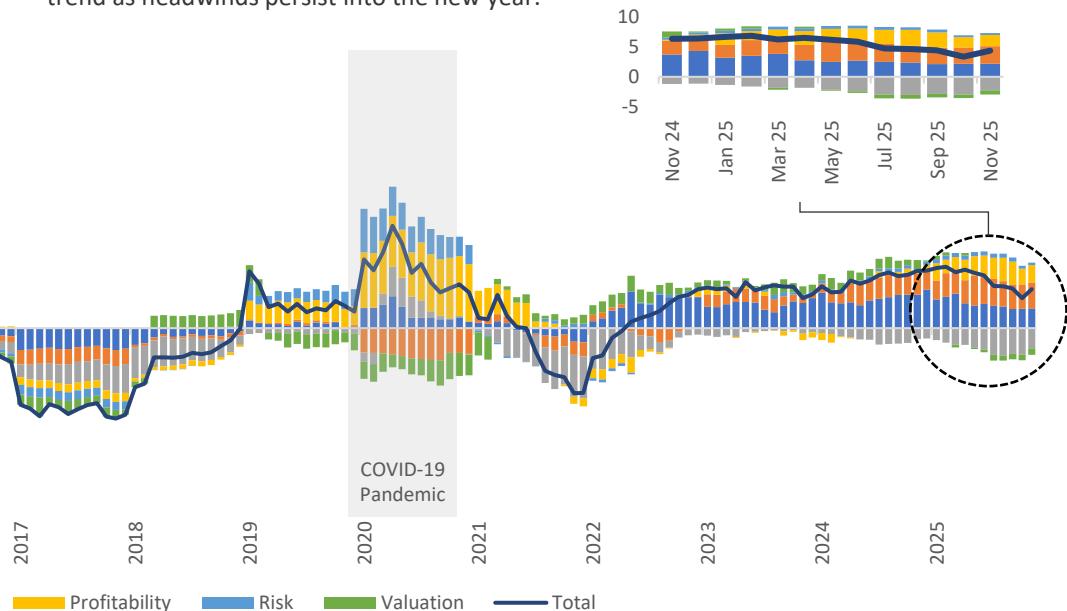
Germany

- Corporate distress in Germany remains the highest among the major European markets tracked in the index, although conditions have improved since the second half of 2024. While overall distress has stabilised, the underlying pressures facing German corporates remain acute and markedly higher than the long run average.
- Distress in Germany reached its highest level in over four years at the start of 2025, followed by a sharp rise in corporate failures. Nearly 24,000 German businesses filed for insolvency over the course of the year, marking an 8.3 percent increase from 2024 and the highest annual total in more than a decade (Creditreform).
- Weak investment, tight liquidity, deteriorating profitability and eroding market confidence continue to define the financial environment for businesses.



Distress Ranking	Index value in November 2024	QoQ Trend	YoY Trend
1	+4.3	Distress falling from +4.7 in Aug 25	Distress falling from +6.4 in Nov 24

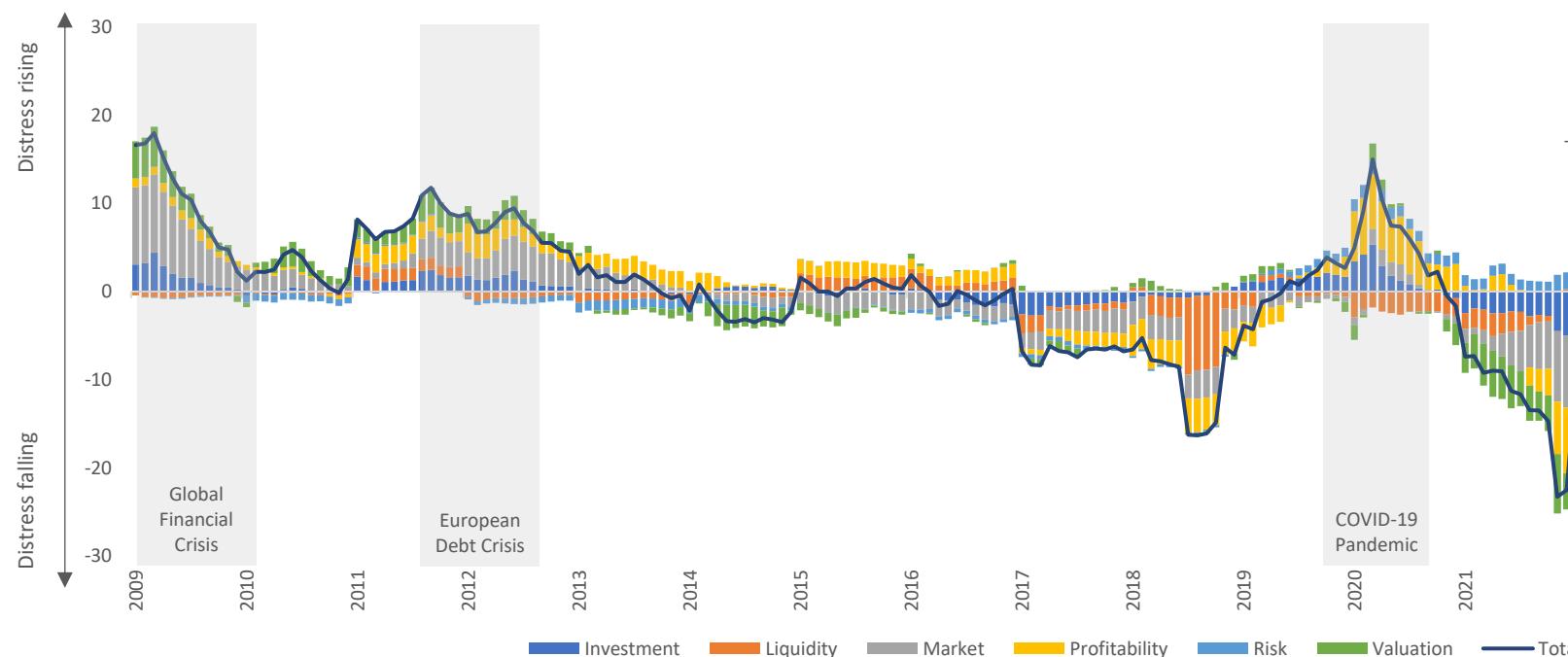
- Germany's reliance on industrial exports and consumer spending will continue to be challenged. Fierce competition in the automotive industry, coupled with weaker global demand, and a fundamental restructuring of global supply chains and trade relationships will continue to undermine business confidence.
- Looking ahead, prospects remain muted. The IMF forecasts GDP growth of just 0.2 percent in 2025, followed by a modest recovery to 0.9 percent in 2026.
- Recent moves in long-term German bond yields, which reached their highest levels since 2011, reflect both firmer industrial data and hawkish signals from the European Central Bank. For corporates, this has reinforced expectations of tighter financial conditions, adding to liquidity pressures as refinancing becomes more costly and capital markets remain volatile.
- Against this backdrop, corporate distress is likely to remain elevated into 2026. While some easing was observed over the past year, indicators suggest a potential reversal in trend as headwinds persist into the new year.



LOOKING BACK AT Q4 2025 – COUNTRY ANALYSIS

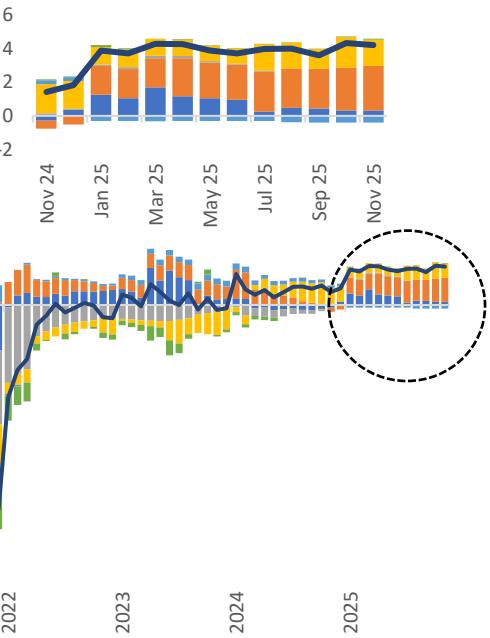
France

- Corporate distress in France has risen again this quarter, making it the second most distressed market in the index behind Germany. Conditions have deteriorated across several pillars, with the sharpest pressures coming from liquidity and profitability, as firms contend with rising costs, weak demand, and a lack of clarity around future investment conditions.
- While the French economy avoided recession earlier in the year, momentum remains fragile. Growth has been supported by a modest rebound in services, but underlying demand remains soft.
- Public consumption also supported growth, while private domestic demand stagnated, held back by economic and political uncertainty, both domestically and on a global level.



Distress Ranking	Index value in Nov 2025	QoQ Trend	YoY Trend
2	+4.2	Distress rising from +4.0 in Aug 25	Distress rising from +1.4 in Nov 24

- Consumer demand has shown signs of fatigue, particularly in discretionary categories, with retail sales having fallen for five consecutive months in October (year-on-year).
- Consumer confidence remains soft, having fallen back in November as households remain cautious about their personal finances and job security. Political uncertainty around future budget consolidation is contributing to a more cautious outlook from business leaders.
- The IMF projects GDP growth of just 0.7 percent in 2025 and 0.9 percent in 2026, pointing to a slow and uneven recovery. In this environment, distress levels in France are expected to remain high, with investment, liquidity and profitability challenges likely to persist well into next year.

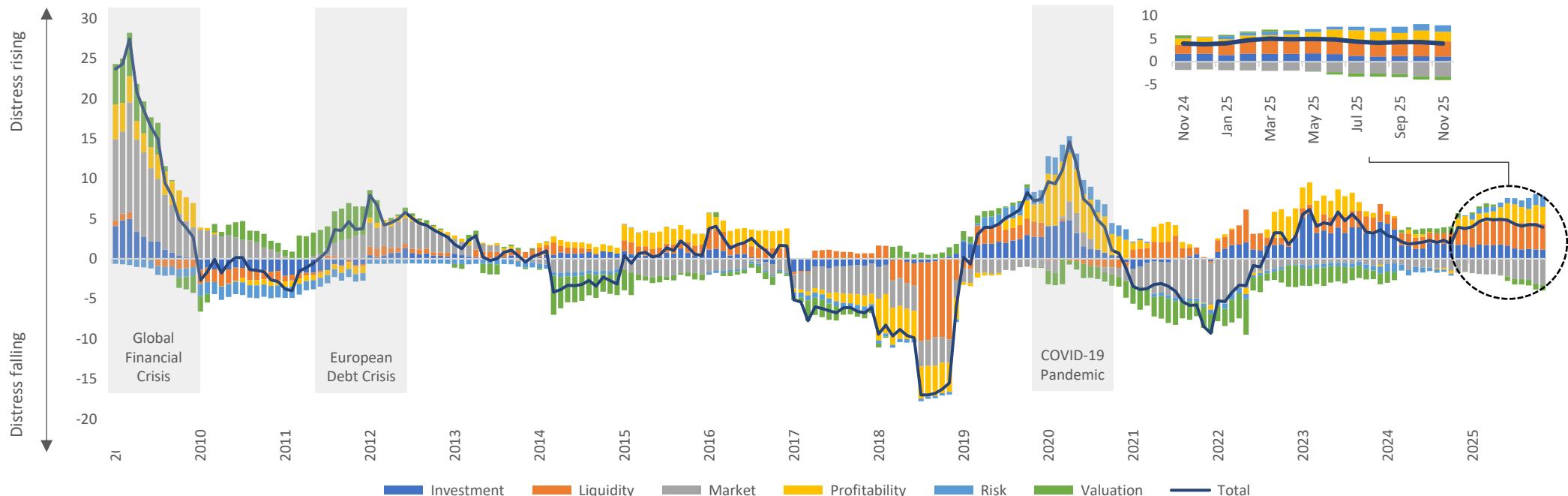


United Kingdom

- Corporate distress in the UK remains elevated, and broadly flat compared with the previous quarter and the previous year. The UK is ranked the third most distressed market covered in the WEDI, with pressure centred on liquidity, profitability, and risk.
- Recent data from the Bank of England shows that UK business sentiment shows subdued confidence, cautious investment, and flat employment intentions. Running up to the Budget (Nov 2025) there was also high uncertainty causing firms to delay investment.
- While headline interest rates are no longer rising, they remain high by historical standards, and the cost of capital is still acting as a brake on expansion. Investment-related distress is particularly evident among mid-sized companies, which face tighter credit conditions and limited access to equity funding.

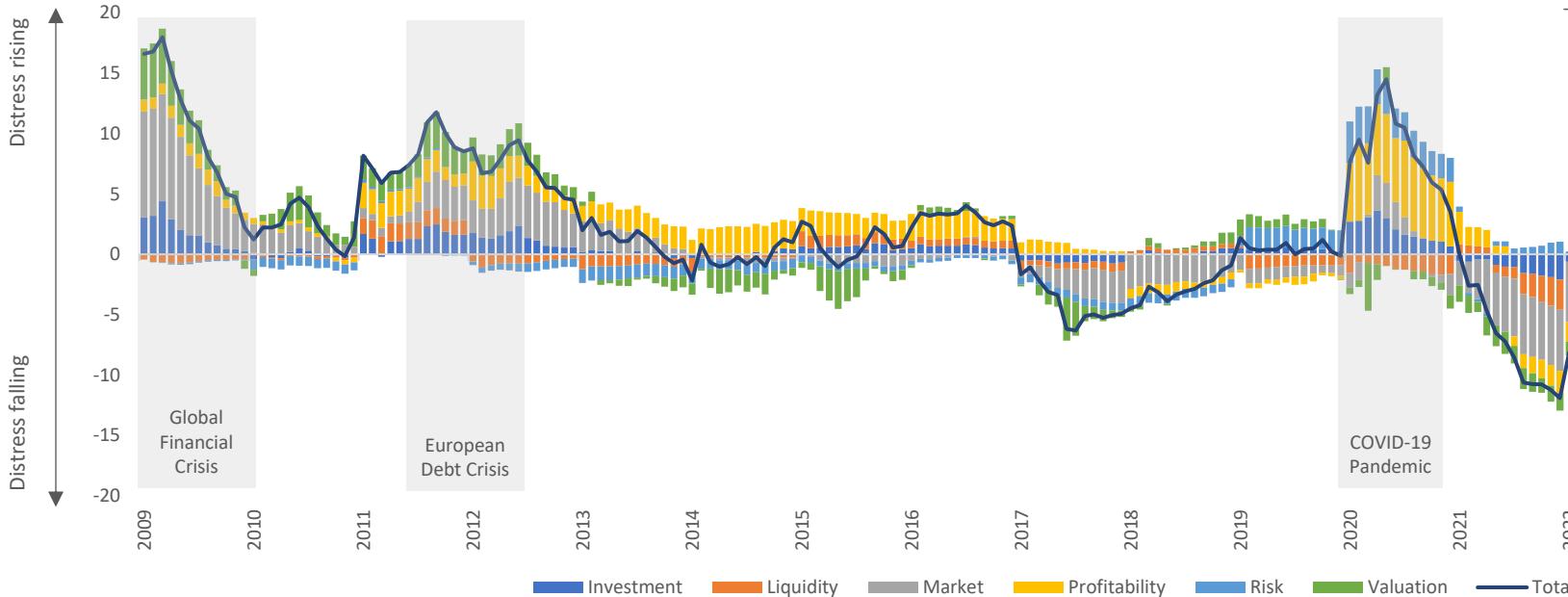
Distress Ranking	Index value in Nov 2025	QoQ Trend	YoY Trend
3	+3.9	Distress falling from +4.1 in Aug 25	Distress stable from +3.9 in Nov 24

- The impact of the Budget continues to affect business and consumer confidence. April's rise in National Insurance thresholds and increases in National Living Wage will continue to squeeze profit margins for many businesses, while the announcement to freeze income tax thresholds in November 2025, which could remain in effect until April 2031, will erode spending power in future years.
- Monetary policy remains restrictive, and although markets are pricing in potential rate cuts in the first half of 2026, there is limited near-term relief for borrowers.
- The IMF forecasts UK GDP growth of 1.3 percent in both 2025 and 2026. While this is broadly in line with other advanced economies, the recovery remains shallow, and productivity growth continues to lag. Against this backdrop, corporate distress in the UK is likely to remain elevated, with financial pressure most acute among firms with weak pricing power, constrained access to capital, or high exposure to consumer demand.



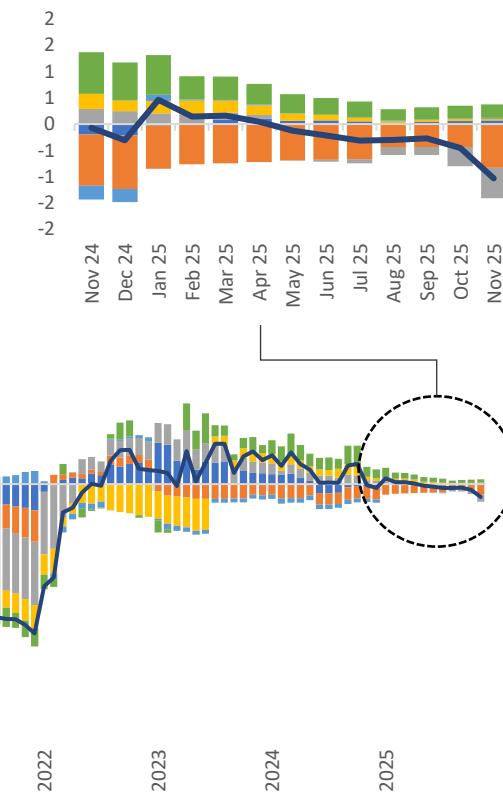
Spain and Italy

- Levels of corporate distress in Italy and Spain remain the lowest across the WEDI countries, with distress continuing to ease during the latest quarter.
- In Spain, economic growth continues to outperform regional peers. The tourism sector remains a key driver of expansion, alongside elevated levels of foreign investment and government-backed infrastructure programmes.
- However, early signs suggest that the pace of growth may moderate in the coming quarters. The IMF expects GDP growth of 2.9 percent for Spain in 2025, easing to 2.0 percent in 2026. For Italy, growth is forecast at 0.5 percent in 2025 and 0.8 percent the following year.



Distress Ranking	Index value in Nov 2025	QoQ Trend	YoY Trend
4	-1.0	⬇️ Distress falling from -0.3 in Aug 25	⬇️ Distress falling from -0.1 in Nov 24

- In Italy, economic momentum has slowed over the course of 2025. Business investment has been held back by elevated borrowing costs and weak external demand, particularly in key export sectors such as machinery and automotive.
- Economic growth in Spain is expected to remain highest for major European economies, but rising cost pressures, fragile consumer sentiment, and uneven recovery across sectors may weigh down Italy's contribution.



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Methodology

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) and 10 industry groups:

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

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

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. overall expected to rise by 0.9% this year and 1.7% in 2025.

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.

Methodology

Forecast

Our forecasting methodology employs a Bayesian Structural Time Series forecasting approach, which offers several key advantages over traditional forecasting methods.

The advantages of this framework include:

- Ability to more flexibly handle structural changes in data
- Incorporation of external economic predictors to improve long term forecasts
- Better uncertainty quantification, and
- Improved long-term forecasting due to the ability to incorporate flexible trends

The core of this Bayesian approach uses a flexible trend approach, which is particularly well-suited for long-term forecasting as it allows both persistent trends and temporary fluctuations in the data to be captured, whilst preventing any unrealistic trends to be extrapolated. Crucially, the Bayesian model provides a robust assessment of forecast uncertainty, accounting for both model parameter uncertainty and inherent market volatility.

We employed a two-pronged forecasting approach:

- A top-level forecast of the aggregate distress index, utilising lagged market prices as a leading indicator
- Component-level forecasts that provided granular insights into the expected evolution of individual distress factors

Combining model forecasts and insights from both approaches allowed us to build a stronger, more reliable long-term view of distress than would otherwise be possible.

Further, the decision to incorporate market price signals with a 12-month lag structure was selected through rigorous comparison of models and economic indicators with the sole goal of optimising predictive performance. The resulting approach allows us to capture leading market signals while avoiding overfitting to short-term fluctuations.