THE WEIL EUROPEAN DISTRESS INDEX

Q2 2026

EXECUTIVE SUMMARY

Macro view

- The latest Weil European Distress Index (WEDI) showed corporate distress across Europe remains above the long-run average and rose on the previous quarter. This reverses the modest easing recorded in February, with distress rising across all markets measured between February and May 2026.
- The geopolitical environment has become markedly more unstable since February. The IMF states that the global outlook "abruptly darkened" following the outbreak of war in the Middle East, citing the closure of the Strait of Hormuz and damage to critical energy infrastructure as the source of a major global supply shock.
- The implications for corporate distress are significant. Higher energy prices raise the cost of transport, heating, chemicals, fertilisers, food and other energy-intensive goods and services, directly pressuring profitability. At the same time, the risk of higher inflation expectations limits central banks' ability to ease monetary policy and if those expectations continue to drift higher, they may need to respond more forcefully, even at the cost of weaker growth.
- While the full impact will take time to feed through, these pressures mark a material shift from the conditions prevailing at the start of 2026. Rather than entering a period of falling inflation and easing monetary policy, corporates now face renewed uncertainty around energy costs, inflation and refinancing conditions, adding to already elevated distress.
- The latest data shows distress is primarily driven by profitability, investment and liquidity. Profitability is now the highest-ranked distress pillar, reflecting pressure on margins from elevated input costs, softer demand and renewed energy-price uncertainty. Even so, the overall picture continues to mask an uneven and fragmented environment.

Country view

- Germany remains the most distressed market with the main drivers coming from profitability, liquidity and investment, suggesting that German corporates remain exposed to weak demand, higher operating costs and constrained cashflow. The IMF lowered its GDP forecasts for Germany to 0.8% in 2026, down from 1.1% forecast in January, with growth of 1.2% expected in 2027 – revised down from 1.5%.
- Levels of distress among French corporates follow closely behind Germany, remaining the second most distressed market measured in the WEDI. France is the only market where distress has risen on the previous year.

Weil European Distress Index Movements

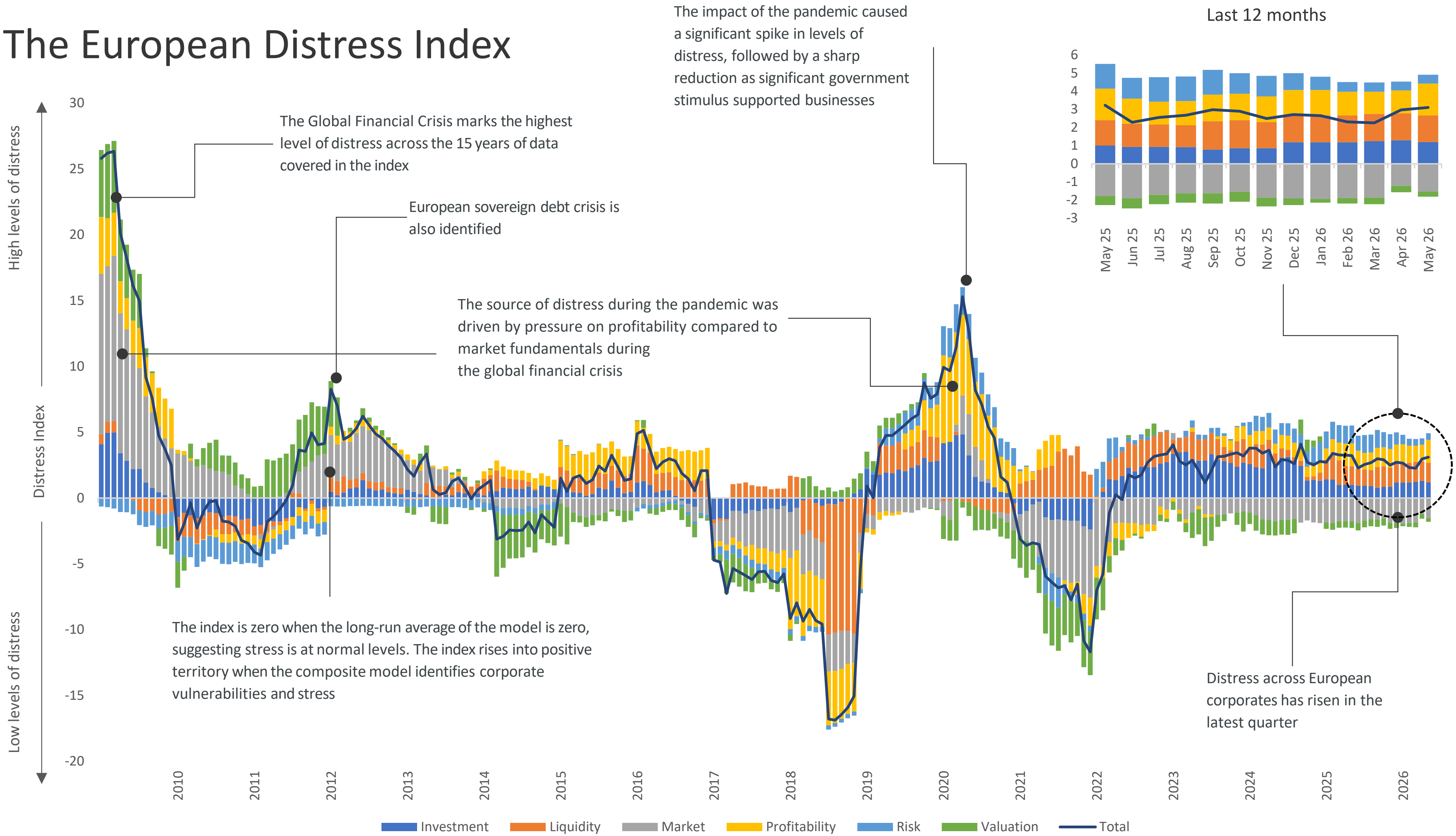
Index value in May 2026	QoQ trend	YoY trend
+3.1	▲ Distress rising from +2.3 in Feb 26	▼ Distress falling from +3.2 in May 25

- GDP growth expectations were also revised down, with output expected to rise 0.9% in 2026, lower than the previous forecast of 1.0%.
- The largest downward revision, however, is in the UK, where the IMF has cut its 2026 growth forecast from 1.3% to 0.8%, the sharpest downgrade across the markets measured in the WEDI. This reflects a softer domestic backdrop, with unemployment continuing to edge higher, wage growth cooling and soft consumer confidence.
- Across the Euro Area as a whole, GDP is now expected to rise by 1.1% in 2026, down from 1.3% in the previous forecast. Spain continues to have the strongest growth prospects, with forecast GDP growth of 2.1% in 2026, followed by 1.8% in 2027.
- Italy remains much weaker, with GDP forecast to grow by only 0.5% in both 2026 and 2027.

Sector view

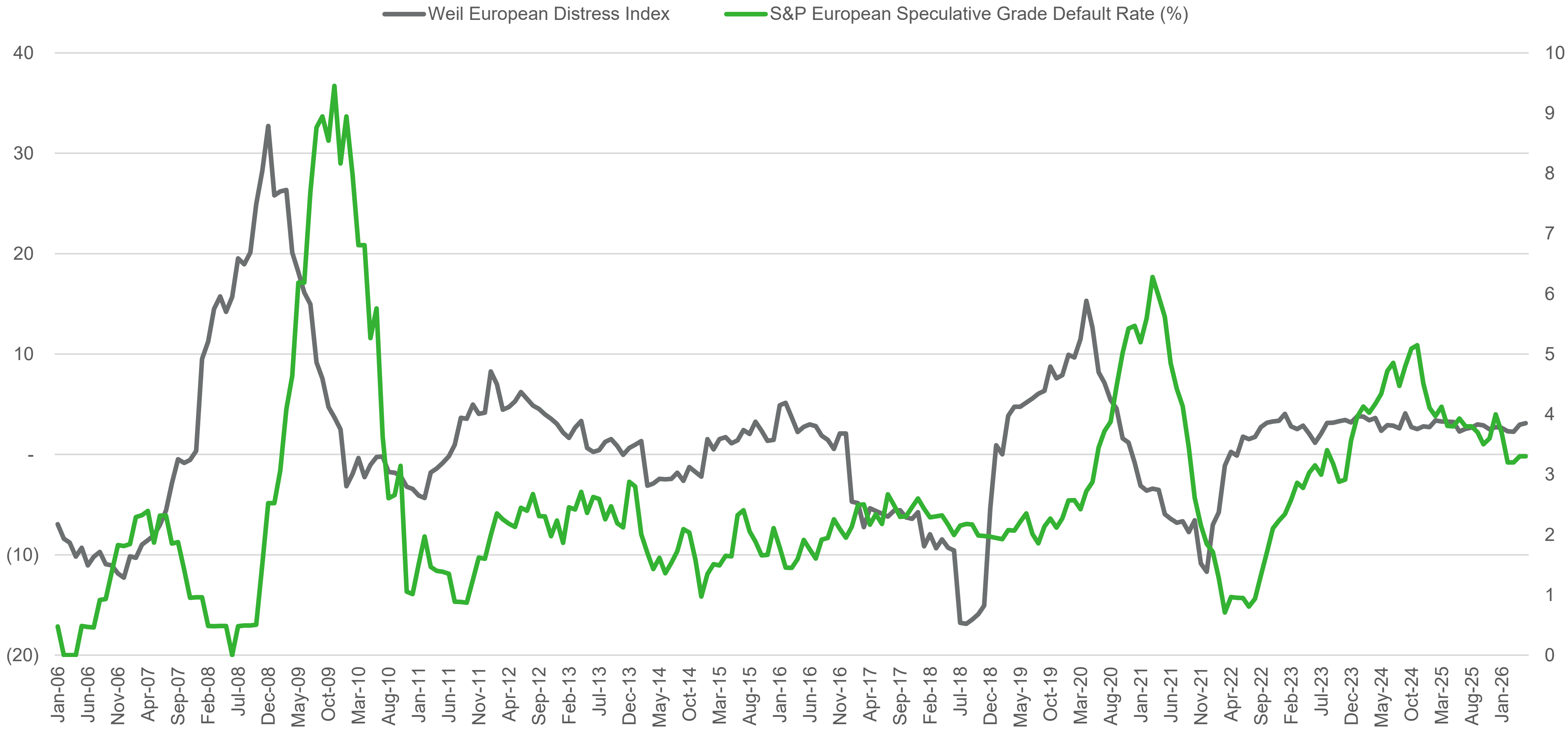
- The impact of the Iran war will be long-lasting. Higher oil and gas prices squeeze margins, disrupted shipping and air routes raise supply-chain costs, inflation uncertainty delays expected rate cuts, and weaker confidence weighs on investment decisions.
- These dynamics are particularly relevant for energy-intensive industrials, transport, travel and leisure, retail and consumer goods, real estate and highly leveraged businesses facing refinancing needs.
- Currently, retail and consumer goods, industrials, infrastructure and real estate report the highest levels of distress, all above the long-run average.
- Retail and consumer goods is by far the most distressed sector in the WEDI. Distress rose sharply on the previous quarter and is materially higher than this time last year, driven primarily by pressure on profitability.
- Industrials remains the second most distressed sector. Infrastructure has risen to become the third most distressed sector. Distress increased both quarterly and annually, driven by pressure on investment, risk and liquidity.

The European Distress Index



The Weil European Distress Index vs Default Rates

- In the two most recent major 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 market conditions and company performance which occurs in advance of a default wave to provide an early warning indicator.



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THE WEIL EUROPEAN DISTRESS INDEX

Q2 2026

INDUSTRY ANALYSIS

COUNTRY ANALYSIS

Distress Index Q2 2026

Most distressed — Least distressed

Retail and Consumer Goods

Distress ranking	Index value	YoY trend
1	+8.0	↑ +5.8 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Industrials

Distress ranking	Index value	YoY trend
2	+5.0	↓ +6.0 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Infrastructure

Distress ranking	Index value	YoY trend
3	+2.8	↑ -0.3 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Real Estate

Distress ranking	Index value	YoY trend
4	+2.7	↓ +4.1 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Healthcare

Distress ranking	Index value	YoY trend
5	+2.5	↓ +3.0 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Key: ↑ Distress levels rising — Distress levels remain unchanged — ↓ Distress levels falling

Distress Index Q2 2026

Most distressed — Least distressed

Travel, Leisure and Hospitality

Distress ranking	Index value	YoY trend
6	-1.0	↑ -2.8 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Financial Services

Distress ranking	Index value	YoY trend
7	-3.9	↓ -2.1 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Technology, Media and Telecoms

Distress ranking	Index value	YoY trend
8	-3.9	↓ -2.6 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Commodities and Natural Resources

Distress ranking	Index value	YoY trend
9	-5.8	↑ -8.5 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Oil and Gas

Distress ranking	Index value	YoY trend
10	-7.6	↓ -1.9 May 25

Investment | Liquidity | Market | Profitability | Risk | Valuation

Key: ↑ Distress levels rising — Distress levels remain unchanged ↓ Distress levels falling

Retail and Consumer Goods

Retail and consumer goods has moved further ahead as the most distressed sector in the WEDI, with distress rising sharply on both the quarter and the year. The latest data points to a broader squeeze across profitability, liquidity, investment and valuation. The sector is exposed to weaker real incomes, softer discretionary spending and limited pricing power, while renewed energy and transport cost pressures risk further margin erosion.

Industrials

Industrials remains the second most distressed sector, although distress is lower than a year ago. The quarterly rise suggests that the tentative improvement seen earlier in the year has become more fragile. Investment remains the main pressure point, with profitability and liquidity also elevated. The Iran war adds to existing concerns around energy costs, supply-chain disruption and export demand, particularly for manufacturers with high input-cost exposure or long working-capital cycles.

Infrastructure, Utilities and Power

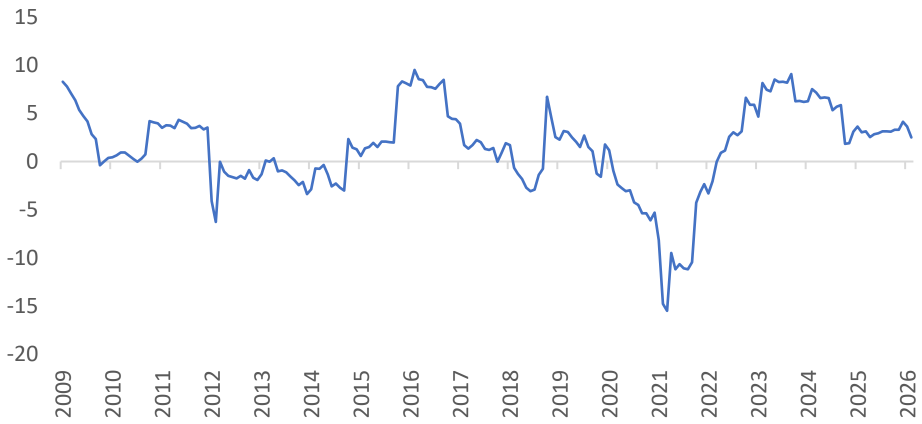
Infrastructure, utilities and power has seen one of the sharpest deteriorations in the index, rising to become the third most distressed sector. The data points to growing pressure from investment, risk and liquidity, suggesting that financing conditions and project fundamentals have become more challenging. Delayed procurement decisions and uncertainty around energy markets are likely weighing on capital-intensive operators.

Real Estate

Real estate remains among the most distressed sectors, but the picture is more nuanced than in previous reports. Distress has eased compared with last year, suggesting some stabilisation from the sector's earlier peak, but it rose again on the quarter. Profitability, liquidity and investment remain under pressure, and the renewed uncertainty around interest rates risks slowing any recovery in valuations, refinancing conditions and transaction activity.

Healthcare

Healthcare remains above the long-run average, but distress eased on the previous quarter. The sector is still showing pressure across profitability, investment, liquidity and risk, indicating that operating costs and funding constraints remain material. However, the quarterly improvement suggests that the sector is no longer deteriorating at the same pace as the more cyclical parts of the economy.

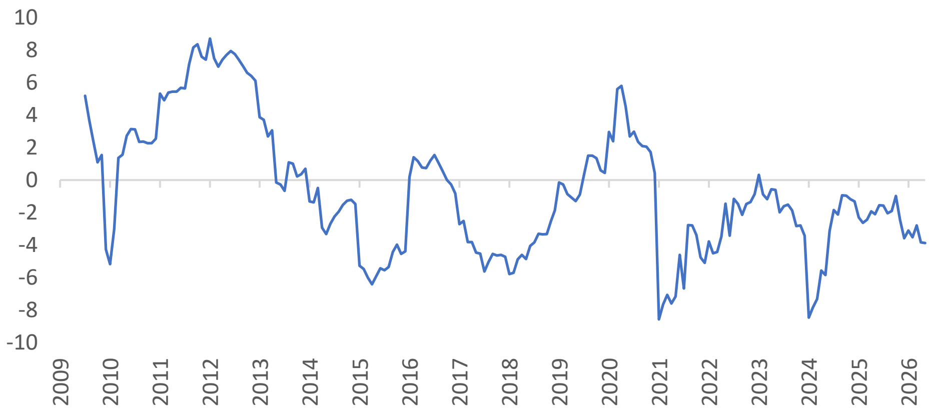


Travel, Leisure and Hospitality

Travel, leisure and hospitality remains below the long-run average, but distress has risen sharply on both the quarter and the year. This marks a clear change in momentum. Liquidity and profitability are now the key pressure points, reflecting higher wage costs, weaker consumer confidence and sensitivity to geopolitical disruption. As higher fuel costs trickle through to corporate results, distress is expected to continue to rise across this sector.

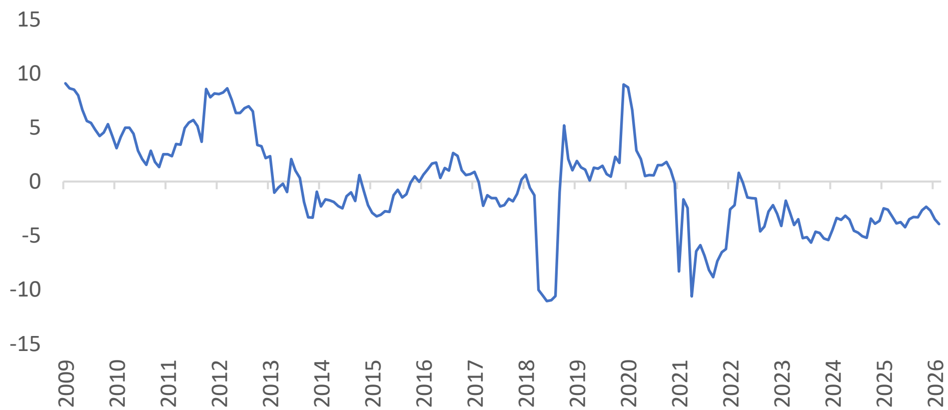
Financial Services

Financial services continues to show distress below the long-run average and has improved over both the quarter and the year. The sector remains comparatively resilient, supported by stronger balance sheets and less acute pressure on valuations.



Technology, Media and Telecoms

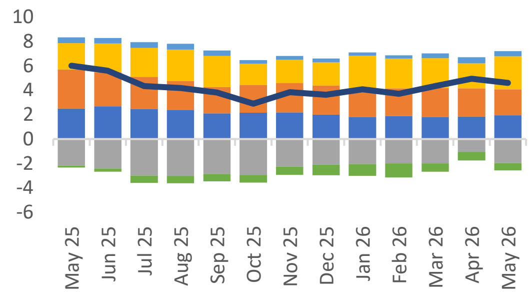
TMT remains below the long-run average and has improved on the quarter and the year. This suggests that the sector is not showing broad-based distress, despite tighter funding conditions and more selective investor appetite. However, the sector remains exposed to valuation sensitivity, weaker business investment and refinancing pressure among smaller or loss-making firms.

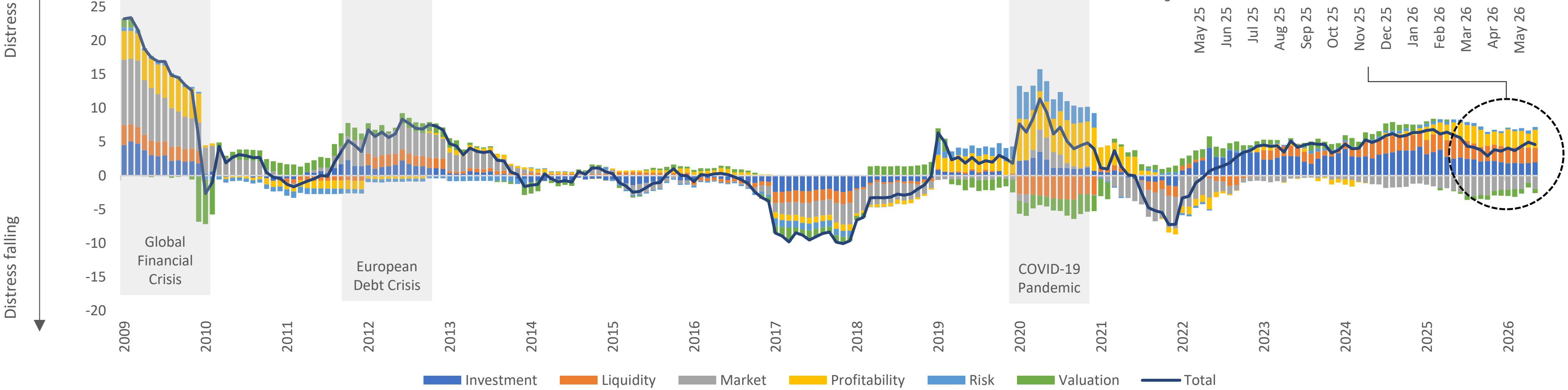


Germany

Distress Ranking	Index value in May 2026	QoQ Trend	YoY Trend
1	**+4.6**	**Distress rising from +3.7 in Feb 26**	**Distress falling from +6.0 in May 25**

- Corporate distress in Germany remains the most elevated among the major European markets covered by the WEDI, with distress rising on the previous quarter. Although levels remain lower than a year earlier, German corporates continue to face one of the most challenging operating backdrops in Europe.
- The latest WEDI data shows that distress is being driven primarily by profitability, followed by liquidity and investment. Pressure on profitability is now the strongest source of distress, reflecting the squeeze from higher energy and input costs, weaker demand and limited pricing power.
- Germany's economy has shown some signs of stabilisation. GDP rose by 0.3% in the first quarter of 2026, helped by a modest recovery in activity after a weak 2025. However, the recovery remains fragile and exposed to external shocks, particularly given Germany's reliance on manufacturing, exports and energy-intensive industry. The latest IMF forecasts now expect German GDP to rise by 0.8% in 2026 (revised down from 1.1% forecast in January), followed by 1.2% in 2027.
- The industrial backdrop remains uneven. Germany's manufacturing PMI slipped to 50.1 in May from 51.4 in April, leaving the sector only marginally in expansion. New orders and export sales fell for the first time since January, while input price inflation reached its highest level since June 2022, adding further pressure to margins.
- Reuters reported in March that German corporate insolvencies reached 24,064 in 2025, up 10.3% and the highest level since 2014. They also warned that insolvencies could rise further in 2026, particularly in sectors such as automotive and healthcare.
- The Iran war has added a further layer of uncertainty. German inflation was expected to stand at 2.6% in May, while renewed energy-price volatility linked to the Iran war has added to uncertainty around the inflation outlook.

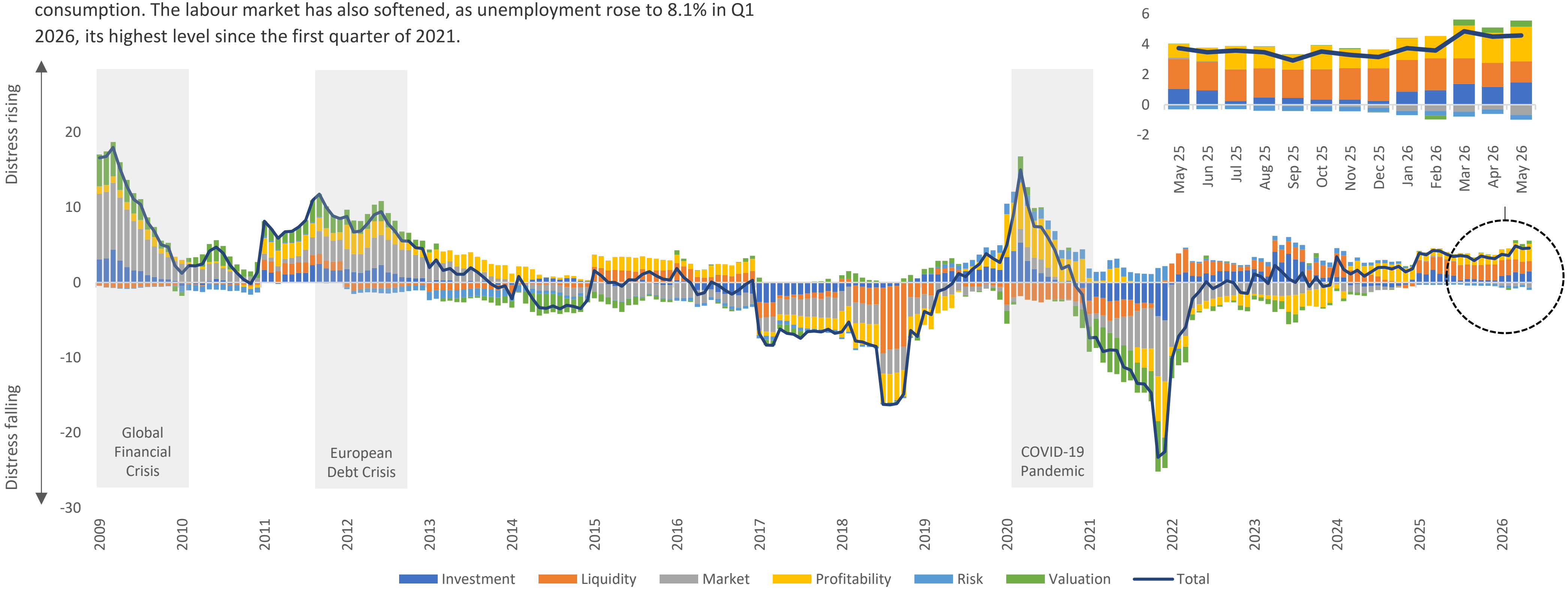




Distress Ranking	Index value in May 2026	QoQ Trend	YoY Trend
2	**+4.6**	**Distress rising from +3.6 in Feb 26**	**Distress rising from +3.7 in May 25**

France

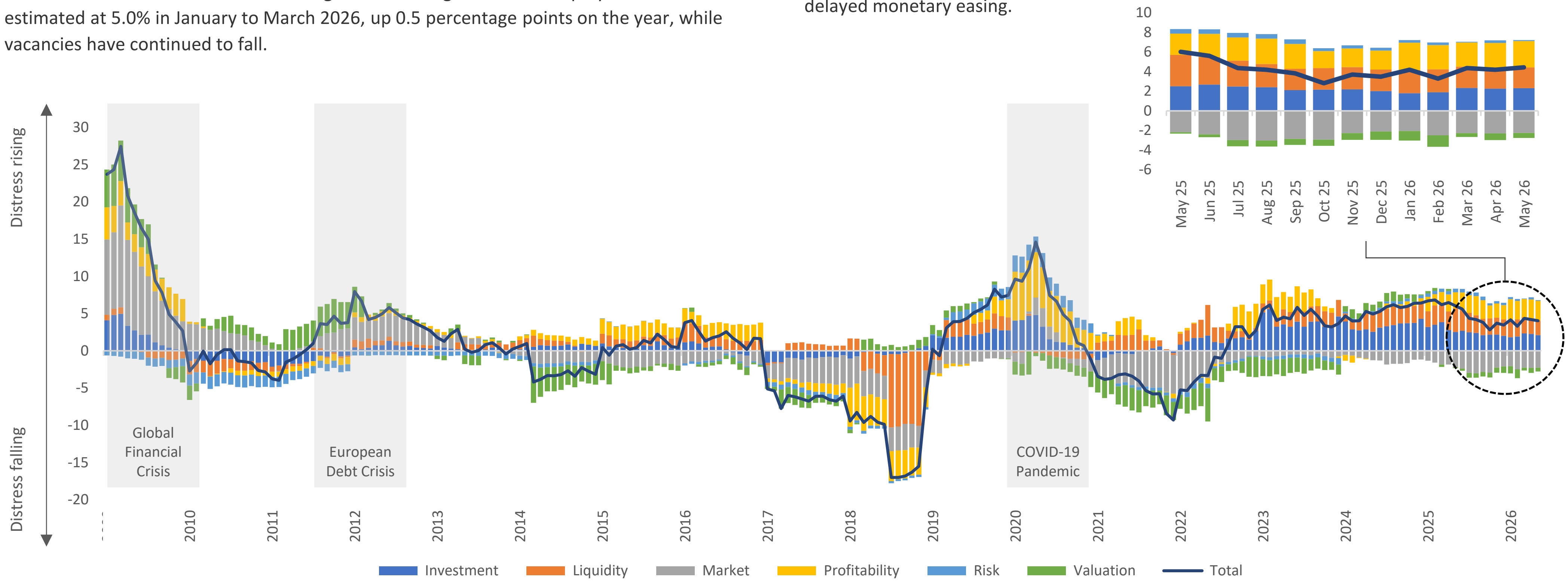
- Corporate distress in France remains highly elevated and has risen again in the latest quarter. France is now the second most distressed market in the WEDI. France is also the only market where overall distress is higher than a year earlier.
- The sharpest pressures continue to come from profitability, liquidity and investment, while valuation distress has deteriorated markedly on the previous quarter. This points to a more difficult operating environment for French corporates, with weaker demand, rising cost pressure and a less supportive backdrop for earnings expectations and investment.
- The macroeconomic backdrop has weakened. France's economy contracted by 0.1% in Q1 2026 (Source: INSEE), with the decline driven by weaker exports and a fall in household consumption. The labour market has also softened, as unemployment rose to 8.1% in Q1 2026, its highest level since the first quarter of 2021.
- Banque de France data show that corporate bankruptcies reached 69,938 over the 12 months to the end of March 2026, up from 69,435 in February, with the increase observed across most sectors and firm sizes. This is the highest since the early 1990s.
- Forward-looking indicators have also deteriorated. The S&P Global France services PMI fell to 44.3 in May from 46.5 in April, the weakest reading since November 2020, while the composite PMI fell to 44.9.
- Against this backdrop, corporate distress in France is likely to remain elevated. The Iran war has amplified existing vulnerabilities by raising energy and transport costs, weakening confidence and complicating the path for monetary policy.



Distress Ranking	Index value in May 2026	QoQ Trend	YoY Trend
3	**+4.0**	**Distress rose from +3.3 in Feb 26**	**Distress falling from +6.0 in May 25**

United Kingdom

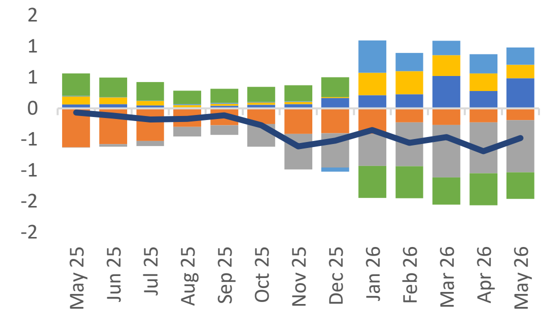
- Corporate distress in the UK remains elevated and has risen on the previous quarter. The UK continues to rank as the third most distressed market in the WEDI.
- The latest data shows that pressure is concentrated in investment, liquidity and profitability. Profitability distress remains high, reflecting pressure on margins from higher wage, energy and operating costs.
- Monthly GDP rose by 0.3% in March, following 0.4% in February and no growth in January. While this was a stronger start to the year than expected, it predates the full effect of the Iran war and associated energy shock.
- The labour market continues to show signs of softening. The UK unemployment rate was estimated at 5.0% in January to March 2026, up 0.5 percentage points on the year, while vacancies have continued to fall.
- The UK is particularly exposed to the energy and interest-rate channels. The IMF's April report cut its UK growth forecast to 0.8% for 2026, from 1.3% previously, reflecting the impact of the Iran war on energy costs and inflation. This was the largest downgrade across the markets covered in the WEDI.
- Corporate insolvency data also point to continued pressure. The Insolvency Service reported 2,085 registered company insolvencies in England and Wales in April 2026, 2% higher than March and 3% higher than April 2025.
- Against this backdrop, corporate distress in the UK is likely to remain elevated, driven by pressure from higher energy costs, softening labour conditions, weaker confidence and delayed monetary easing.

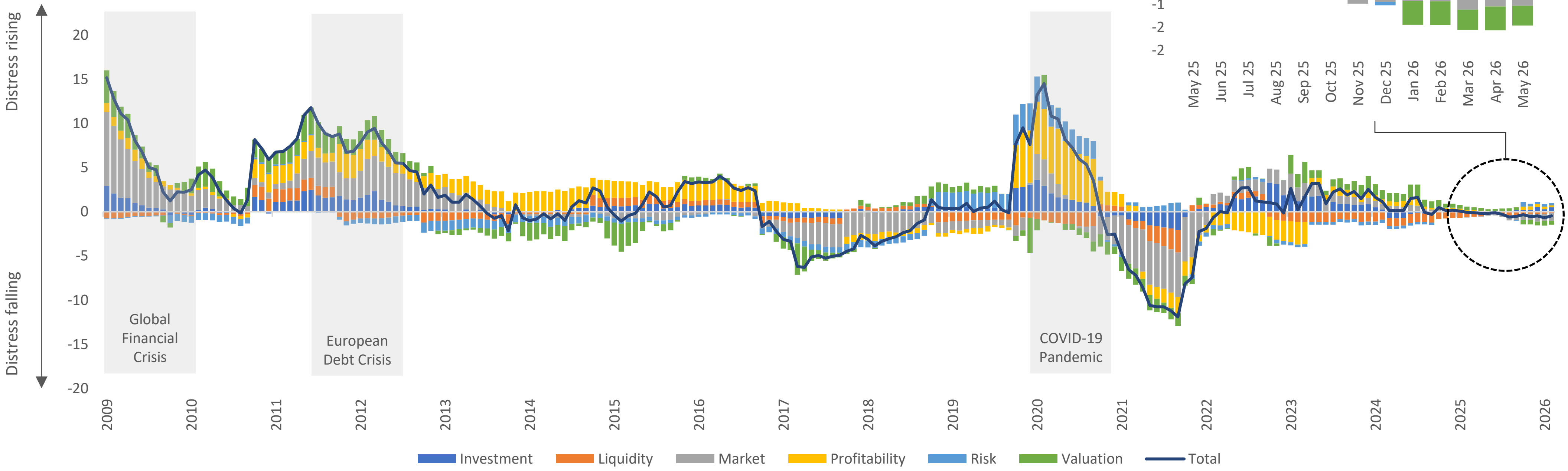


Spain and Italy

Distress Ranking	Index value in May 2026	QoQ Trend	YoY Trend
4	**-0.5**	**Distress rising from -0.6 in Feb 26**	**Distress falling from -0.1 in May 25**

- Levels of corporate distress in Italy and Spain remain the lowest across the WEDI markets. The combined Italy/Spain index remains below the long-run average, although distress has risen marginally since February. The latest data points to mild pressure across investment, profitability and risk, but this continues to be offset by stronger market, valuation and liquidity metrics.
- However, the combined index continues to mask a clear divergence between the two economies. Spain remains one of the strongest performers in Europe, while Italy's growth outlook is considerably weaker and more exposed to low productivity, fiscal constraints and softer external demand.
- Spain's economy grew by 0.6% quarter-on-quarter in Q1 2026, slowing from 0.8% in Q4 2025 but still outperforming the wider Euro Area. Italy's economy also expanded in the first quarter, but at a slower pace, with a preliminary estimate showed GDP rising by 0.2% quarter-on-quarter and 0.7% year-on-year in Q1 2026 (ISTAT).
- The latest IMF forecasts underline the gap between the two economies. The IMF expects Spanish GDP to grow by 2.1% in 2026 and 1.8% in 2027, compared with just 0.5% in both years for Italy. Inflation is also expected to rise in both markets in 2026, reaching 3.0% in Spain and 2.6% in Italy, reflecting the broader energy shock from the conflict in the Middle East.
- Italy remains more fragile. The European Commission also expects Italian GDP to grow by only 0.5% in 2026, with private consumption slowing as real disposable income is hit by higher inflation.





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 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
- 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

* 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.

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.