

THE WEIL EUROPEAN DISTRESS INDEX

Q3 2026

EXECUTIVE SUMMARY

Macro view

- The latest Weil European Distress Index (WEDI) showed that corporate distress across Europe remains above the long-run average but eased on the previous quarter. This reversed some of the deterioration recorded between February and May. Overall distress is broadly unchanged from a year earlier.
- The latest data suggests that European corporates have absorbed some of the initial shock from the conflict in the Middle East better than feared. Economic activity has remained resilient and financial markets have been relatively supportive.
- Euro Area GDP increased by 0.6% in the second quarter, following no growth in Q1, the strongest quarterly performance since Q2 2022. However, the operating environment remains challenging as higher energy prices continue to feed through to inflation and input costs. Euro Area inflation increased to 3.3% in August from 2.9% in July, the highest since September 2023. Producer prices were 5.8% higher year-on-year in July, indicating continued cost pressure, suggesting further inflationary pressure is in the pipeline.
- Stronger economic activity, improving confidence and relatively resilient financial markets have provided some relief, particularly in Germany and the UK. Stock markets across Europe have performed relatively robustly from June to August (FTSE All-Share +4.3%; STOXX Europe 600 +4.0%; DAX +4.6%; CAC +1.8%).
- The IMF has lowered its 2026 French GDP growth forecast to 0.6% from 0.9% in April, while its 2027 forecast remains unchanged at 0.9%. This was the largest downward revision across countries covered in the WEDI.
- While the overall index has shown signs of improvement, underlying conditions remain fragile. Profitability, investment and liquidity remain elevated sources of distress, while higher energy costs, restrictive borrowing conditions and rising insolvencies continue to place pressure on corporate balance sheets.
- Distress in Germany fell on the previous quarter, now the second most distressed market. The improvement reflects a stronger cyclical backdrop, with business confidence increasing in August, alongside stronger manufacturing and export activity. However, profitability remains the largest source of distress and corporate insolvencies and restrictive lending conditions continue to weigh on businesses.

Weil European Distress Index Movements

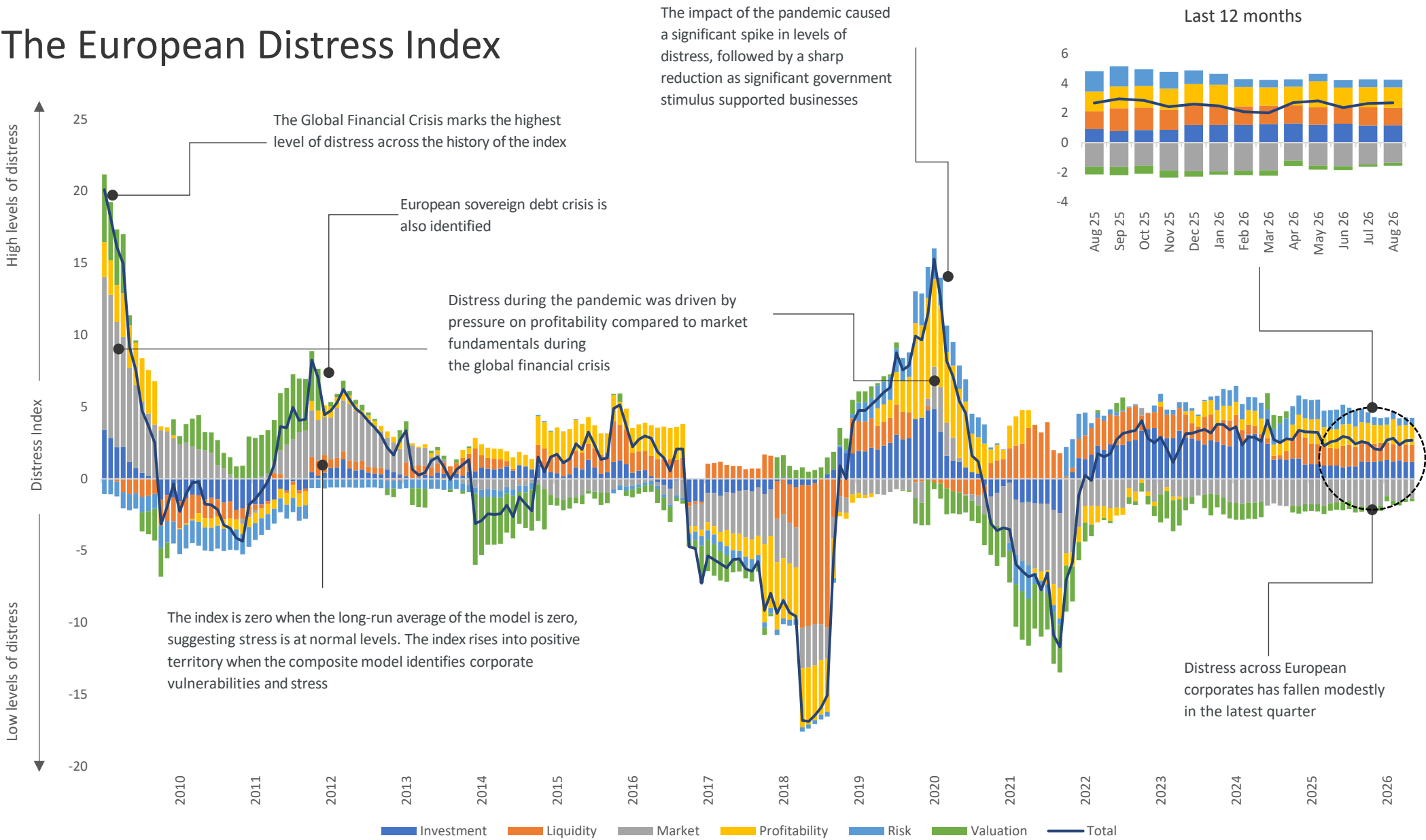
Index value in Aug 2026	QoQ trend	YoY trend
+2.7	 Distress fell from +2.8 in May 26	 Distress unchanged from +2.7 in Aug 25

- Corporate distress in the UK also eased, although it remains higher than a year earlier. The economy has proved more resilient than expected, with GDP growing by 0.4% in Q2 and business investment increasing by 1.7%. The IMF has consequently raised its 2026 UK growth forecast from 0.8% in April to 1.0% - the third fastest growth in the G7.
- Spain and Italy remain the least distressed market covered by the WEDI. Distress fell marginally on the previous quarter and is lower than a year earlier.
- Spain continues to provide the stronger economic backdrop, while Italian growth remains more subdued. The IMF expects Spain to grow by 2.1% in 2026 and 1.8% in 2027, unchanged from its April forecasts, compared with growth of just 0.5% in both years for Italy.

Sector view

- The sector picture remains uneven. Higher energy and transport costs continue to squeeze margins, while elevated financing costs weigh on investment and liquidity. Stronger market conditions have, however, provided some relief across parts of the corporate sector.
- These pressures remain particularly relevant for retail and consumer goods, industrials, infrastructure, real estate and travel and leisure, while technology, financial services, commodities and oil and gas remain less distressed.
- Retail and consumer goods remains by far the most distressed sector. Distress rose on both the quarter and the year, driven primarily by profitability, investment and liquidity.
- Elevated levels of inflation, ongoing pressure on personal finances and fragile consumer confidence continue to undermine discretionary spending. Against the backdrop of rising operating costs, the industry remains under acute pressure.

The European Distress Index

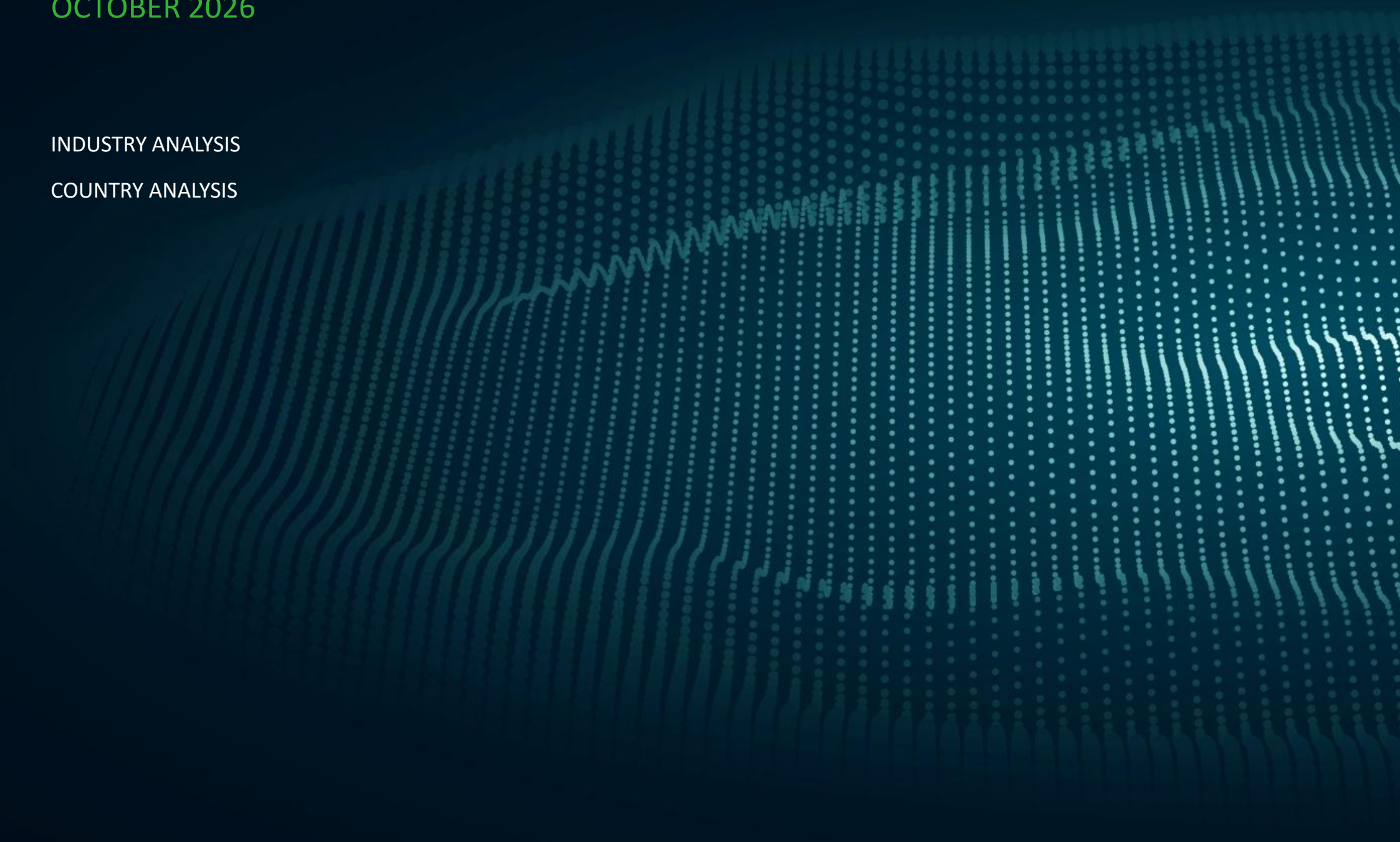


THE WEIL EUROPEAN DISTRESS INDEX

OCTOBER 2026

INDUSTRY ANALYSIS

COUNTRY ANALYSIS



Distress Index August 2026



Retail and Consumer Goods

Distress ranking	Index value	YoY trend
1	+8.1	↑ +6.0 AUG 25
Investment	Liquidity	Market
		Profitability
		Risk
		Valuation

Industrials

Distress ranking	Index value	YoY trend
2	+5.1	↑ +4.7 AUG 25
Investment	Liquidity	Market
		Profitability
		Risk
		Valuation

Infrastructure

Distress ranking	Index value	YoY trend
3	+3.8	↑ -0.5 AUG 25
Investment	Liquidity	Market
		Profitability
		Risk
		Valuation

Real Estate

Distress ranking	Index value	YoY trend
4	+2.6	↓ +3.2 AUG 25
Investment	Liquidity	Market
		Profitability
		Risk
		Valuation

Healthcare

Distress ranking	Index value	YoY trend
5	+1.7	↓ +2.9 AUG 25
Investment	Liquidity	Market
		Profitability
		Risk
		Valuation

Key:  Distress levels rising  Distress levels remain unchanged  Distress levels falling

Distress Index August 2026



Travel, Leisure and Hospitality

Distress ranking	Index value	YoY trend
6	+1.2	▲ -2.1 AUG 25
Investment	Liquidity	Market
Profitability	Risk	Valuation



Technology, Media and Telecoms

Distress ranking	Index value	YoY trend
7	-4.4	▼ -3.8 AUG 25
Investment	Liquidity	Market
Profitability	Risk	Valuation



Financial Services

Distress ranking	Index value	YoY trend
8	-4.7	▼ -2.0 AUG 25
Investment	Liquidity	Market
Profitability	Risk	Valuation



Commodities and Natural Resources

Distress ranking	Index value	YoY trend
9	-5.5	▲ -7.4 AUG 25
Investment	Liquidity	Market
Profitability	Risk	Valuation



Oil and Gas

Distress ranking	Index value	YoY trend
10	-6.8	▼ -3.7 AUG 25
Investment	Liquidity	Market
Profitability	Risk	Valuation

Key:

▲ Distress levels rising

■ Distress levels remain unchanged

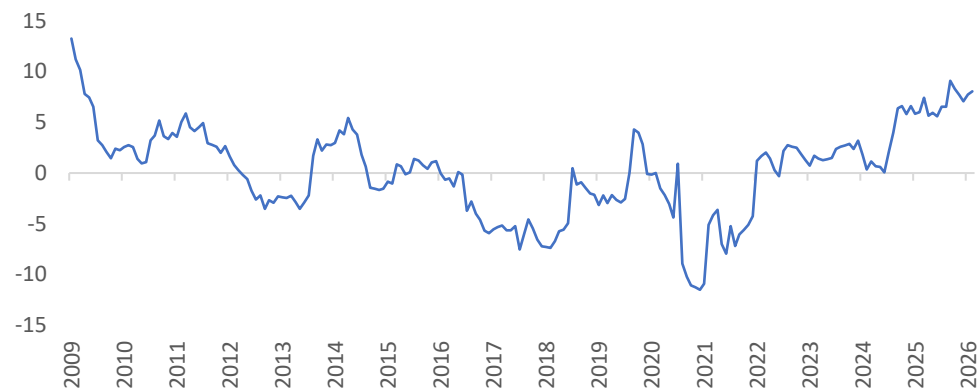
▼ Distress levels falling

INDUSTRY ANALYSIS



Retail and Consumer Goods

Retail and consumer goods remains the most distressed sector in the WEDI, with distress rising on both the quarter and the year. The latest data points to continued pressure across profitability, investment, liquidity and valuation. Although consumer confidence has improved in parts of Europe, discretionary spending remains uneven, while higher energy, transport and financing costs continue to weigh on margins and cash flow.



Infrastructure, Utilities and Power

Infrastructure, utilities and power remains among the most distressed sectors. Distress eased on the previous quarter but remains materially higher than a year ago. Investment and risk remain the main pressure points, with profitability and liquidity also elevated. Capital-intensive operators continue to face challenging financing conditions, higher project costs and uncertainty around delivery.



Industrials

Industrials remains one of the most distressed sectors, although distress eased slightly on the previous quarter. However, levels are higher than a year ago, suggesting that underlying pressures remain persistent. Profitability and investment are the main pressure points, with liquidity and risk also elevated. Stronger manufacturing activity and export demand have provided some support, but energy costs and tighter credit conditions continue to weigh on the sector.



Real Estate

Real estate conditions have continued to stabilise. Distress eased on both the quarter and the year, supported by improving transaction activity and a more constructive investment backdrop. Profitability, investment and liquidity nevertheless remain under pressure. Higher borrowing costs and restrictive lending conditions continue to constrain refinancing.



INDUSTRY ANALYSIS

+ Healthcare

Healthcare remains above the long-run average, but distress has eased further on both the quarter and the year. Investment remains the main pressure point, with profitability, liquidity and risk also elevated. Funding constraints and operating-cost pressures nevertheless continue to weigh on more leveraged businesses.



Financial Services

Financial services remains below the long-run average and has improved on both the quarter and the year. Profitability, valuations and market conditions remain supportive, although liquidity is a notable pressure point. Overall, the sector continues to appear comparatively resilient.



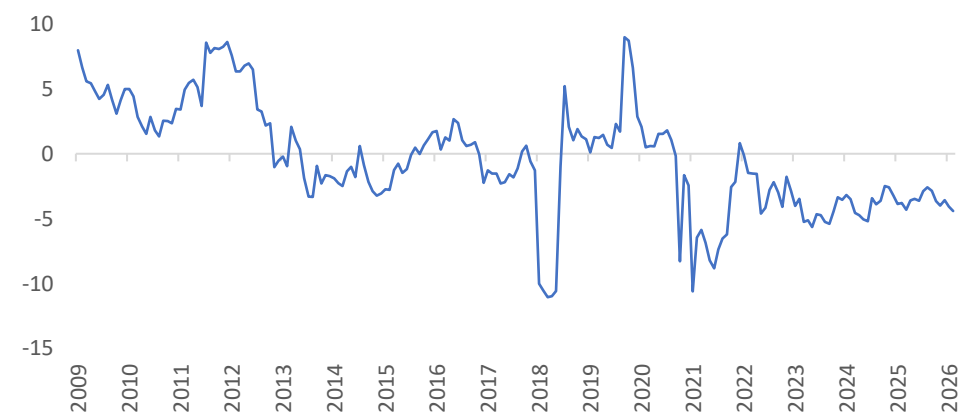
✈ Travel, Leisure and Hospitality

Travel, leisure and hospitality has moved above the long-run average, with distress rising sharply on both the quarter and the year. Liquidity and profitability remain the key pressure points, despite resilient demand across travel and accommodation. Higher fuel, wage, energy and operating costs are increasingly weighing on margins, while geopolitical disruption continues to create uncertainty.



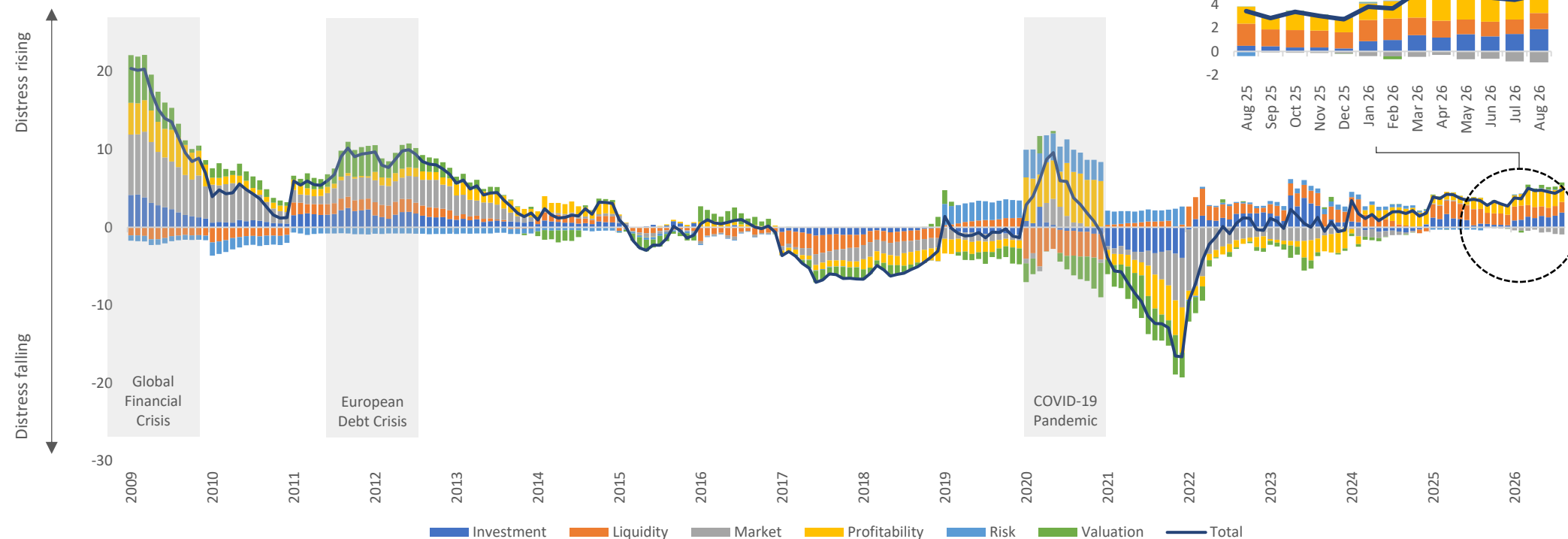
☁ Technology, Media and Telecoms

TMT remains below the long-run average and has improved on both the quarter and the year. The latest data suggests that distress is not broad-based, with liquidity, profitability and market conditions providing support. Strong demand around AI, cloud and digital infrastructure is helping the sector, although refinancing and valuation sensitivity remain concerns for smaller or loss-making firms.



France

- Corporate distress was unchanged in France, placing it as the most distressed market covered in the WEDI, overtaking Germany. Profitability remains the largest source of distress, followed by investment and liquidity.
- The macroeconomic backdrop has stabilised but remains weak. GDP was flat in Q2 after contracting 0.2% in Q1. Household consumption rose 0.3% following a 0.3% decline in the previous quarter, while exports increased 2.9% having fallen 3.0% in the previous period. However, fixed investment fell 0.3%, while the unemployment rate rose to 8.3%, its highest level since 2020.
- Retail sales in France fell 0.2% in May, compared with the previous year. Retail sales have now declined in eight of the last 12 months.



Distress Ranking	Index value in Aug 2026	QoQ Trend	YoY Trend
1	+4.8	Distress unchanged from +4.8 in May 26	Distress rising from +3.4 in Aug 25

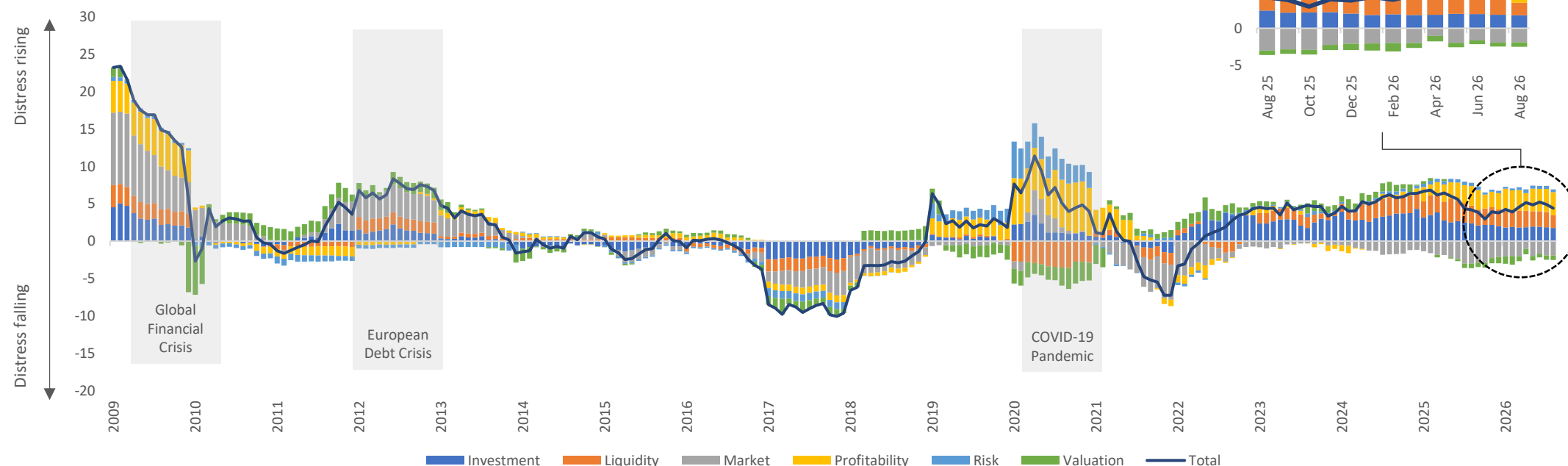
- The outlook remains subdued. The IMF now expects French GDP to grow by 0.6% in 2026, down from 0.9% forecast in April, while its 2027 forecast remains unchanged at 0.9%.
- Corporate insolvencies remain a significant source of pressure. Banque de France recorded 70,605 business failures over the 12 months to July. This was slightly below June, but 4.6% higher than a year earlier and 19% above the 2010-19 average.
- Financing conditions are also mixed. Access to investment loans remains strong, with 96% of SMEs and 98% of mid-sized firms obtaining at least three-quarters of the amount requested.

Germany

- Corporate distress in Germany eased during the latest quarter, meaning it is now the second most distressed market covered by the WEDI, behind France. However, distress remains elevated and higher than a year earlier.
- Profitability remains the largest source of distress, followed by investment and liquidity. The quarterly improvement was driven mainly by lower liquidity and investment distress, which was partly offset by a small rise in profitability distress. However, financial markets and valuation indicators continue to provide some support.
- Germany's economic backdrop has improved since the May report. GDP rose by 0.3% in the second quarter, following 0.4% growth in Q1, with exports increasing by 2.0%. Business sentiment has also strengthened, according to the ifo Business Climate Index, as companies reported better current conditions and more optimistic expectations.

Distress Ranking	Index value in Aug 2026	QoQ Trend	YoY Trend
2	+4.4	↓ Distress falling from +4.8 in May 26	↑ Distress rising from +4.2 in Aug 25

- Nevertheless, the recovery remains fragile. The IMF now expects German GDP to grow by 0.7% in 2026, down from 0.8% forecast in April, while its 2027 forecast has been reduced from 1.2% to 1.0%. Investment also remains weak, while higher energy costs continue to pressure margins in Germany's manufacturing-heavy economy.
- Corporate insolvencies remain a significant source of risk. The IWH recorded 4,996 corporate insolvencies in Q2, 9% higher than Q1 and the highest quarterly level since 2005. July insolvencies remained 7% higher than a year earlier.
- Financing conditions also remain challenging. A net 10% of German banks tightened corporate lending standards in Q2, citing higher credit risk, with particularly restrictive conditions in manufacturing, real estate and wholesale and retail.
- Meanwhile, inflation rose to 2.9% in August, with energy prices 10.5% higher year-on-year, reinforcing pressure on corporate costs.

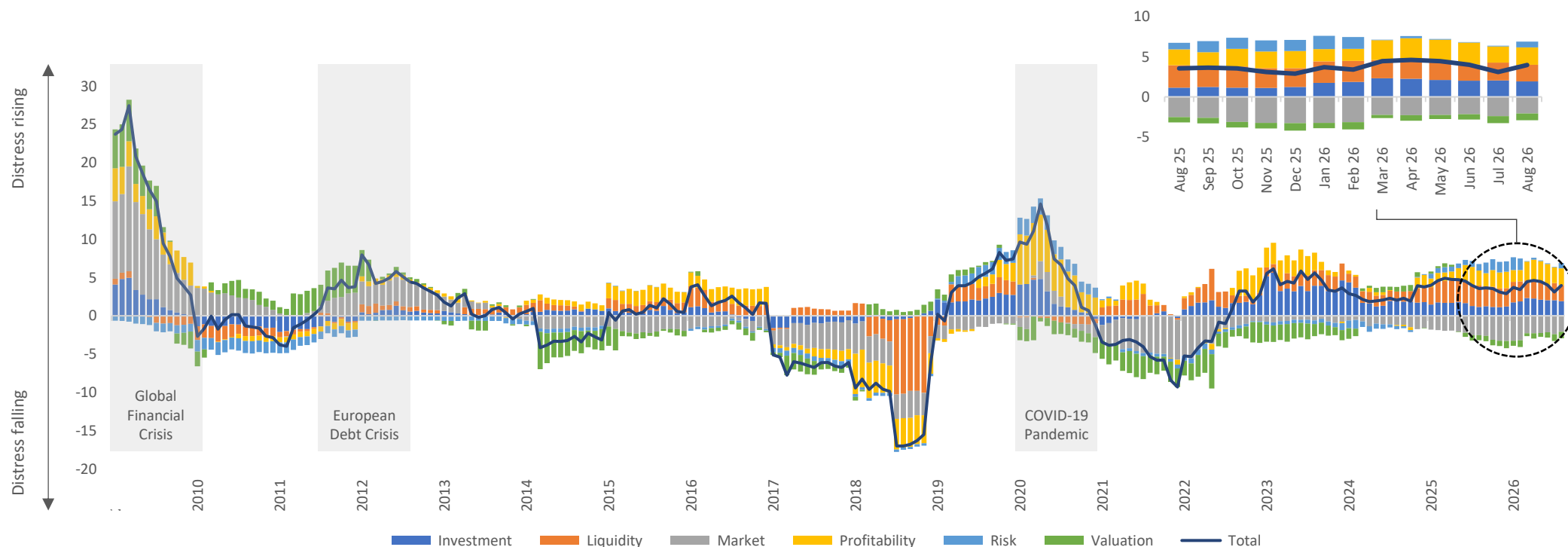


United Kingdom

- Corporate distress in the UK eased during the latest quarter. The UK remains the third most distressed market, however, distress remains higher than a year earlier.
- Profitability remains the largest source of distress, followed closely by liquidity and investment. The quarterly improvement was driven by lower profitability, liquidity, investment and valuation distress. This was partly offset by a rise in risk distress and a smaller increase in financial market pressure.
- The economic backdrop has been more resilient than expected. GDP grew by 0.4% in the second quarter, following 0.6% growth in Q1, with services expanding by 0.5%. Services output rose 0.5% (vs 0.8% in Q1), led by information and communication, which increased 2.7%, and professional, scientific and technical activities, which grew 1.7%.

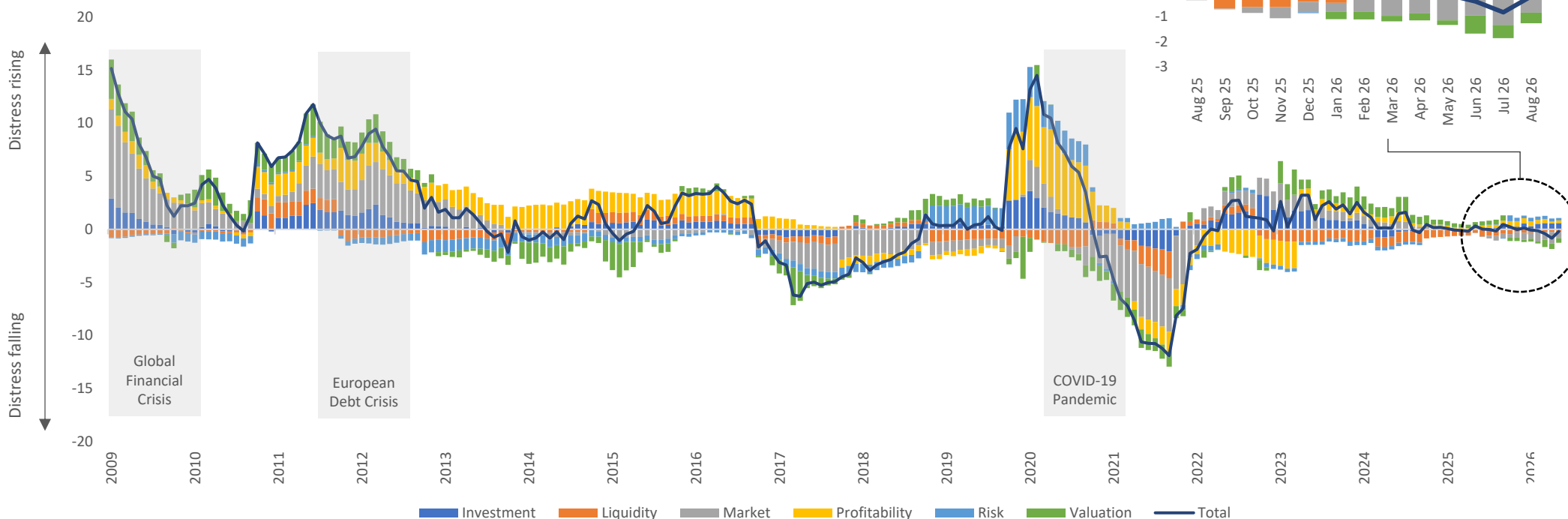
Distress Ranking	Index value in Aug 2026	QoQ Trend	YoY Trend
3	+4.0	↓ Distress falling from +4.4 in May 26	↑ Distress rising from +3.6 in Aug 25

- The outlook has also improved. The IMF now expects UK GDP to grow by 1.0% in 2026, revised up from 0.8% in April, while its 2027 forecast remains unchanged at 1.3%. However, financing costs continue to constrain the recovery.
- Corporate insolvency data have become more supportive. There were 1,931 company insolvencies in England and Wales in July, 5% higher than in the previous month, but 5% lower than a year earlier. The rolling insolvency rate fell to 50.3 per 10,000 companies from 52.5 a year earlier.
- Financing conditions remain a key source of pressure. The effective rate on new corporate bank loans rose to 5.62% in July, while the rate for SMEs increased to 6.61%. Bank of England lenders also reported that credit availability fell slightly for small and medium sized businesses in Q2.



Spain and Italy

- Corporate distress across Spain and Italy remains the lowest of the markets covered by the WEDI. The combined index fell modestly in August 2026 and remains lower than a year earlier.
- Investment remains the largest source of distress, followed by profitability. These pressures continue to be offset by supportive liquidity, valuation and financial market conditions.
- The combined index continues to mask a divergence between the two economies. Spain's GDP expanded by 0.7% quarter-on-quarter and 2.7% year-on-year in Q2, supported by domestic demand, while Italy recorded more modest growth of 0.2% quarter-on-quarter and 1.0% year-on-year.



Distress Ranking	Index value in Aug 2026	QoQ Trend	YoY Trend
4	-0.2	↓ Distress falling from -0.1 in May 26	↓ Distress falling from 0.3 in Aug 25

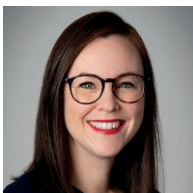
- The latest IMF forecasts reinforce this gap. Spanish GDP is expected to grow by 2.1% in 2026 and 1.8% in 2027, unchanged from the April forecasts. Italy is forecast to grow by just 0.5% in both 2026 and 2027, also unchanged. Business confidence has nevertheless improved in both markets, rising by 3.2% quarter-on-quarter in Spain in Q3, while Italy's business confidence also increased according to the ISTAT.
- Inflation remains an important source of pressure. Spanish inflation rose to 4.3% in August from 3.6% in July, the highest since February 2023. Italian inflation increased from 2.9% to 3.3%, driven largely by renewed energy-price pressure and the highest since September 2023.

KEY RESTRUCTURING CONTACTS

London



Andrew Wilkinson
Partner
+44 20 7903 1068
andrew.wilkinson@weil.com



Jenny Davidson
Partner
+44 20 7903 1438
jenny.davidson@weil.com



Mark Lawford
Partner
+44 20 7903 1050
mark.lawford@weil.com



Gemma Sage
Partner
+44 20 7903 1419
gemma.sage@weil.com

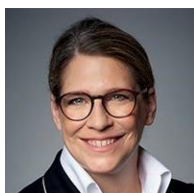
Paris



Jean-Dominique
Daudier de Cassini
Partner
+33 1 4421 9797
jean-dominique.
daudierdecassini@weil.com



Céline Domenget-Morin
Partner
+33 1 4421 9797
celine.domengetmorin
@weil.com



Britta Grauke
Partner
+49 69 21659 664
britta.grauke@weil.com

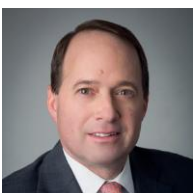


Matthias Eiden
Partner
+49 69 21659 641
matthias.eiden@weil.com

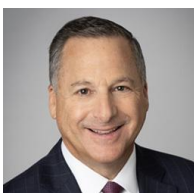
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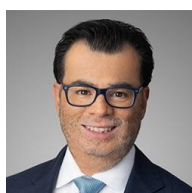
Matt Barr
Partner
+1 212 310 8010
matt.barr@weil.com



Gary Holtzer
Partner
+1 212 310 8463
gary.holtzer@weil.com



Jeffrey Saferstein
Partner
+1 212 310 8330
jeffrey.saferstein@weil.com



Sunny Singh
Partner
+1 212 310 8525
sunny.singh@weil.com

Asia



Kathleen Aka
Partner
+852 3476 9118
kathleen.aka@weil.com

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 an 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
- 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.