SUMMARY OF LAST WEEK

Markets endured a turbulent week dominated by anxieties about the disruption caused by artificial intelligence and concerns about inflation, with the S&P 500 falling **0.44% ,** the Nasdaq **0.95% ,** and the Dow Jones **1.31** %. The highly anticipated earnings reports on Wednesday from technology leaders Nvidia and Salesforce, which initially sparked optimism, ultimately failed to sustain the gains. Nvidia reported better-than-expected fourth-quarter fiscal results, with earnings per share of $1.62 compared to the estimated $1.53 and revenue of $68.13 billion versus the estimated $66.21 billion, driven by a 75% increase in revenue from its core data center business, which reached $62.3 billion. However, shares fell 5.5% to $184.89, the biggest single-day drop since April, as the company's latest guidance failed to quell fears of an AI bubble. Salesforce reported strong fiscal fourth-quarter results, with adjusted earnings per share of $3.81 versus the $3.04 forecast and revenue of $11.2 billion versus the $11.18 billion forecast, representing the company's fastest growth rate in two years at 12%.

It announced a massive $50 billion share buyback authorization. The financial sector suffered its worst week ever, as the collapse of British mortgage provider Market Financial Solutions Ltd, amid fraud allegations, rattled banks, with Jefferies falling 10.7%, Barclays dropping 4.2% on potential losses of £600 million, and Santander falling 5%. Meanwhile, UBS strategists warned that private loan default rates could soar to 15%, up from 13% the previous month, if artificial intelligence causes aggressive disruption, noting that direct lenders hold 40% of sponsor-backed loans in the vulnerable software sector, fueling fears of contagion in credit markets. Thursday saw the most dramatic corporate announcement of the week, when Jack Dorsey's Block cut 4,000 jobs—nearly half its workforce, which shrank from over 10,000 to just under 6,000—explicitly citing productivity gains from AI on its internal "Goose" platform. The stock surged as much as 27% in after-hours trading as Dorsey predicted that "in the next year, most companies will come to the same conclusion and make similar structural changes," amplifying fears.

The displacement of white-collar jobs that had been accumulating since the layoff announcements by Amazon, Salesforce, and other tech giants in the marketplaces was compounded by the negative reaction to January's producer price index data, which showed a January. 2.9% year-over-year increase in basic wholesale prices , exceeding expectations of 2.9% and well above the Federal Reserve's 2% inflation target. This reinforced concerns that persistent inflation could delay the interest rate cuts planned for the end of 2026. Finally, geopolitical tensions escalated dramatically during the week when US Ambassador Mike Huckabee ordered embassy staff in Israel who wished to leave to do so TODAY, amid growing fears of imminent US military strikes against Iran following the inconclusive nuclear negotiations in Geneva. On Saturday, the United States and Israel began striking targets across Iran, and Trump urged Iranians to overthrow the government in a conflict that threatens to spread throughout the oil-rich Middle East.

Source: Sentosa; Co

MACROECONOMIC FLUCTUATIONS AND DATA

KEY DATES OF THE LAST WEEK

February 23

Industrial orders

Actual: -0.7% vs. survey: -0.7%

February 24th

Consumer confidence of Conference Board

Actual 91.2 vs. poll 87.1

February 27

Producer Price Index (PPI) Final Monthly Demand

Actual 0.5% vs. survey 0.3%

Year-on-year final demand producer price index (PPI)

Actual 2.9% vs. survey 2.6%

GLOBAL EQUITY INDICES	Last	5 Days	1 Month	YTD
MSCI WORLD	4,556.79	**0.04%**	ÿ 0.40%	2.85%
MSCI EM	1,610.70	**2.77%**	ÿ 7.82%	14.69%
MSCI EM LATIN AMERICA	3,236.54	**-0.77%**	ÿ 3.50%	19.46%
MSCI AC ASIA x JAPAN	1,045.15	**3.16%**	ÿ 8.60%	14.42%
USA				
S&P 500 INDEX	6,878.88	**-0.44%**	ÿ -1.40%	0.49%
NASDAQ COMPOSITE	22,668.21	**-0.95%**	ÿ -3.92%	-2.47%
DOW JONES INDUS. AVG	48,977.92	**-1.31%**	ÿ -0.87%	1.90%
RUSSELL 2000 INDEX	2,632.36	**-1.18%**	ÿ -0.30%	6.06%
EUROPE				
STXE 600 (EUR) Pr	633.85	**0.52%**	ÿ 2.68%	7.03%
Euro Stoxx 50 Pr	6,138.41	**0.12%**	ÿ 2.18%	5.99%
DAX INDEX	25,284.26	**0.09%**	ÿ 1.96%	3.24%
CAC 40 INDEX	8,580.75	**0.77%**	ÿ 4.88%	5.29%
FTSE MIB INDEX	47,209.89	**1.59%**	ÿ 2.62%	5.04%
IBEX 35 INDEX	18,360.80	**0.96%**	ÿ 1.36%	6.08%
SWISS MARKET INDEX	14,014.30	**1.12%**	ÿ 4.51%	5.63%
FTSE 100 INDEX	10,910.55	**2.09%**	ÿ 5.50%	9.86%
ASIA				
NIKKEI 225	58,850.27	**2.41%**	ÿ 11.77%	16.91%
HANG SENG INDEX	26,630.54	**0.82%**	ÿ -0.54%	3.90%
CSI 300 INDEX	4,710.65	**-0.19%**	ÿ 2.27%	1.74%
SENSEX	81,287.19	**-1.84%**	ÿ -0.46%	-4.62%
LATAM				
S&P/BMV IPC	71,405.77	**-0.04%**	ÿ 5.63%	11.04%
BRAZIL IBOVESPA INDEX	188,786.98	**-0.92%**	ÿ 3.28%	17.17%
MSCI COLCAP INDEX	2,222.92	**-8.06%**	ÿ -8.24%	7.49%
S&P/CLX IPSA (CLP) TR	10,877.74	**0.21%**	ÿ -5.27%	3.78%

EQUITIES SECTORS	Last	5 Days	1 Month	YTD
PHILA GOLD & SILVER INDX	470.37	**8.96%**	ÿ 23.52%	37.42%
MSCI WORLD/MATERIAL	476.92	**3.43%**	ÿ 10.80%	20.29%
MSCI WORLD/UTILITY	225.06	**3.37%**	ÿ 10.31%	12.93%
MSCI WORLD/ENERGY	326.41	**2.20%**	ÿ 10.59%	22.12%
MSCI WORLD/CON STPL	338.33	**2.07%**	ÿ 6.96%	13.82%
MSCI WORLD/HIGH CARE	414.70	**1.25%**	ÿ 2.27%	3.82%
MSCI WORLD/REAL EST	1,163.63	**1.12%**	ÿ 7.93%	10.41%
MSCI WORLD/INDUSTRIAL	571.47	**0.79%**	ÿ 6.36%	14.40%
MSCI WRLD/COMM SVC	167.15	**0.68%**	ÿ -4.39%	0.29%
MSCI WORLD/CONS DIS	486.87	**-0.23%**	ÿ -3.72%	-3.18%
MSCI WORLD/FINANCEVAL	186.33	**-1.12%**	ÿ -1.45%	0.36%
MSCI WORLD/INF TECH	927.77	**-1.91%**	ÿ -3.82%	-4.71%
MSCI WORLD BANK INDEX	193.50	**-2.11%**	ÿ -0.65%	3.14%

US RATES	Last	5 Days Close		12M Close	
2 and	3.37	3.48	-0.10	4.05	-0.68
5 and	3.50	3.65	-0.15	4.07	-0.57
10Y	3.94	4.08	-0.15	4.26	-0.32

BONDS CREDIT SPREAD	Last	5 Days Close		12M Close	
EM Bonds Spread	236.06	222.0	**14.0**	297.30	-61.2
HY Bonds Spread	277.00	248.0	**29.0**	291.00	**-14.0**
BBB 10yr Spread	184.25	167.7	**16.5**	153.44	30.8

FIXED INCOME	Last	5 Days	1 Month	YTD
US High Yield	2,934.74	-0.22%	ÿ 0.09%	0.69%
EM Bonds USD	1,408.81	0.17%	ÿ 1.21%	1.59%
EM Local Currency	157.56	0.65%	ÿ 1.76%	2.93%
CoCos USD	153.73	0.04%	ÿ 0.71%	1.64%
IG BBB 3-5yr USD	399.16	0.00%	ÿ 1.07%	1.59%
IG AA Corp USD	290.41	0.31%	ÿ 1.62%	1.46%

COMMODITIES	Last	5 Days	1 Month	YTD
CRB INDEX	312.67	0.53%	ÿ 2.47%	4.65%
WTI	67.02	0.95%	ÿ 7.42%	16.72%
Brent	70.83	-1.99%	ÿ 2.42%	13.43%
US Natural Gas	2.86	-6.17%	ÿ -58.89%	-22.44%
S&P GSCI Precious Metal	**7,109.71**	**4.35%**	**ÿ 13.78%**	**22.18%**
Gold	5,278.93	3.36%	ÿ 1.91%	22.22%
Silver	93.79	10.80%	ÿ -16.32%	30.87%
Platinum	2,369.00	9.74%	ÿ -10.75%	14.97%
Palladium	1,788.22	2.31%	ÿ -7.43%	10.38%
S&P GSCI Industrial Metal Index	**585.54**	**2.07%**	**ÿ 3.19%**	**6.01%**
Aluminum	3,140.00	1.21%	ÿ -2.09%	4.82%
Copper	13,294.03	3.21%	ÿ 2.95%	6.75%
Nickel	17,640.84	2.90%	ÿ -1.75%	6.91%
S&P GSCI Agriculture	**354.47**	**0.75%**	**ÿ 3.15%**	**0.59%**

CURRENCIES	Last	5 Days	1 Month	YTD
CHF vs USD	0.7693	0.82%	ÿ -1.05%	3.03%
JPY vs. USD	156.0500	-0.64%	ÿ -2.46%	0.42%
CAD vs. USD	1.3640	0.30%	ÿ -0.47%	0.62%
EUR vs. USD	1.1812	0.24%	ÿ -1.90%	0.56%
GBP vs. USD	1.3482	0.01%	ÿ -2.65%	0.05%
AUD vs. USD	0.7118	0.52%	ÿ 1.53%	6.67%
BRL vs. USD	5.1252	0.98%	ÿ 1.17%	6.82%
MXN vs. USD	17.2268	-0.54%	ÿ -0.58%	4.53%
COP vs. USD	3,751.64	-1.14%	ÿ -3.09%	0.69%
CNY vs. USD	6.8624	0.62%	ÿ 1.34%	1.83%
EUR vs. CHF	0.9085	0.58%	ÿ 0.92%	2.44%
DOLLAR INDEX	97.6080	-0.19%	ÿ 1.45%	-0.73%
BITCOIN	63,974.63	-0.91%	ÿ -18.19%	-27.01%

KEY DATES OF THE NEXT WEEK

March 2

S&P Global US Manufacturing

Survey 51.4

ISM manufacturing

51.5

March 4

S&P Global Services PMI in the U.S.

Survey 52.3

ISM Services Index

Survey 53.5

March 6

Advance retail sales intermonthly

Survey -0.3%

Variation in payrolls non-agricultural

Survey 60,000

Unemployment rate

Survey 4.3%

Source: Sentosa; Co

FOURTH QUARTER OF 2025: FINANCIAL RESULTS

Earnings Growth	Positive	Inline	Negative	%
S&P 500	**340**	**6**	**130**	**14.61%**
Materials	15	0	11	24.06%
Industrials	56	0	18	34.80%
Consumer Staples	16	1	12	2.95%
Energy	13	0	10	1.64%
Technology	54	1	4	32.67%
Consumer Discretionary	22	1	18	-1.07%
Communications	15	1	9	5.22%
Financials	68	1	10	16.26%
HealthCare	42	0	17	0.37%
Utilities	17	0	13	1.81%
Real Estate	22	1	8	1.88%

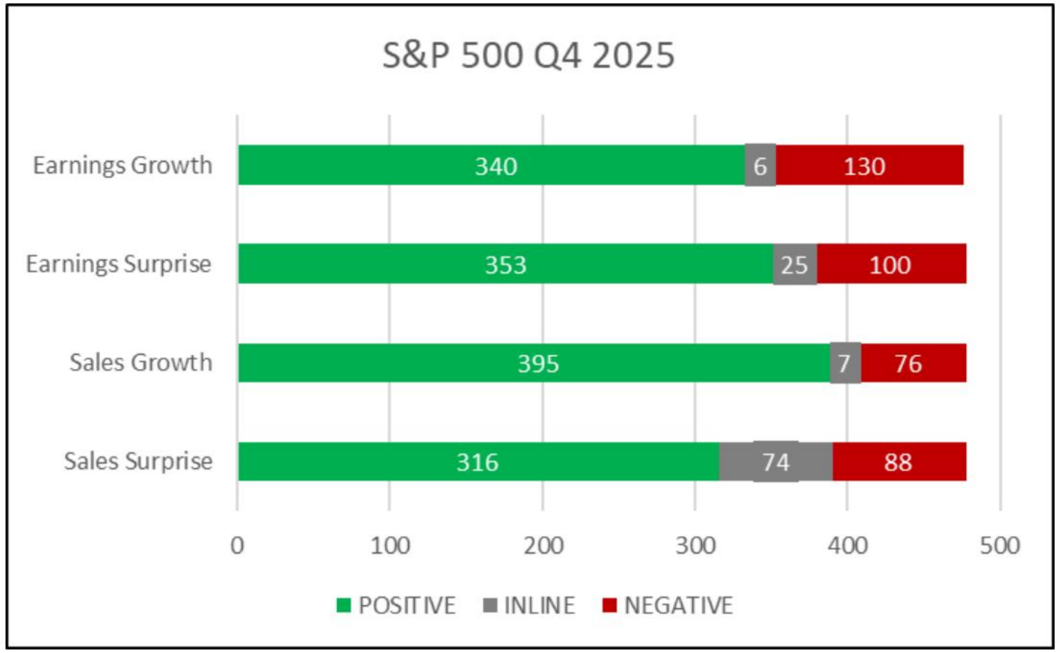
Earnings Surprise	Positive	Inline	Negative	%
S&P 500	**353**	**25**	**100**	**7.36%**
Materials	14	2	11	17.82%
Industrials	59	4	11	23.54%
Consumer Staples	26	0	3	2.92%
Energy	17	1	5	7.34%
Technology	56	2	2	7.95%
Consumer Discretionary	22	1	18	3.91%
Communications	17	0	9	4.61%
Financials	58	2	18	6.98%
HealthCare	48	2	9	5.07%
Utilities	20	4	6	-1.91%
Real Estate	16	7	8	0.90%

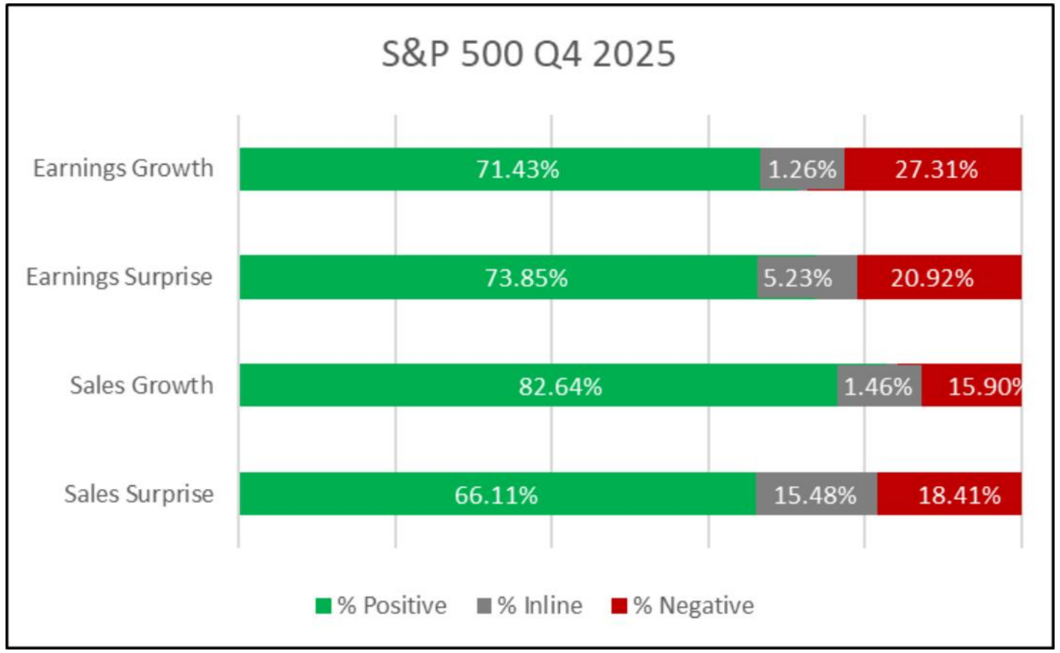
Sales Growth	Positive	Inline	Negative	%
S&P 500	**395**	**7**	**76**	**9.57%**
Materials	19	0	7	3.61%
Industrials	57	1	16	8.75%
Consumer Staples	20	0	9	5.71%
Energy	12	2	9	-0.74%
Technology	54	0	6	21.08%
Consumer Discretionary	30	0	11	6.32%
Communications	24	0	2	11.64%
Financials	71	2	6	9.66%
HealthCare	53	1	5	10.46%
Utilities	27	1	2	11.64%
Real Estate	28	0	3	8.27%

Sales Surprise	Positive	Inline	Negative	%
S&P 500	**316**	**74**	**88**	**1.96%**
Materials	15	3	9	0.97%
Industrials	43	13	18	2.43%
Consumer Staples	15	8	6	-0.11%
Energy	21	0	2	5.18%
Technology	47	9	4	3.03%
Consumer Discretionary	28	5	8	1.62%
Communications	19	5	2	1.71%
Financials	46	14	18	0.96%
HealthCare	45	7	7	1.22%
Utilities	19	1	10	8.34%
Real Estate	18	9	4	1.88%

Source: Sentosa; Co

THIRD QUARTER OF 2025: FINANCIAL RESULTS





Source: Sentosa; Co

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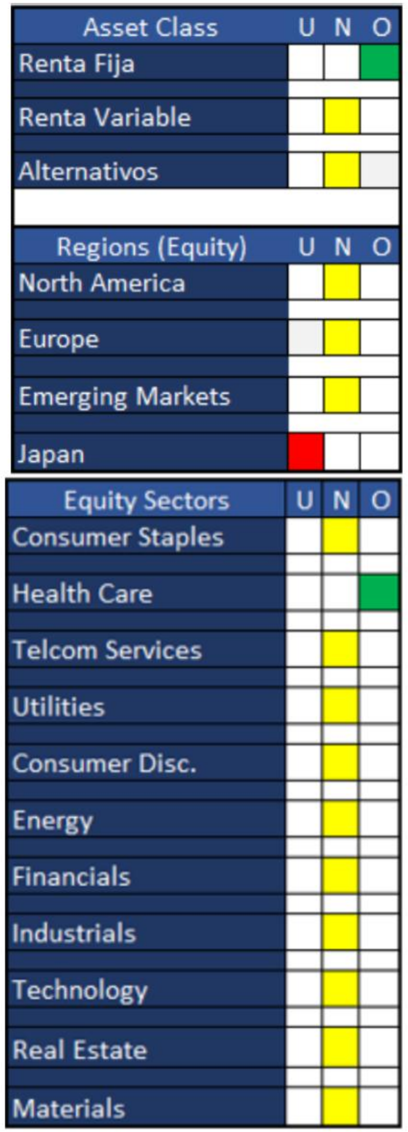


The global economy is facing increasing difficulties, as recent data confirm a sharp slowdown, with US GDP collapsing to just 1.4% in the fourth quarter of 2025, compared to expectations of 2.5%, largely attributed to the 43-day government shutdown. Annual growth for 2025 has slowed to 2.2% from 2.4% in 2024, amid core inflation of 3% and weakening labor markets. Global GDP growth is projected to be 2.6-2.7% for 2026, well below the pre-pandemic average of 3.2%.

Increased volatility is expected as the market grows increasingly concerned about contagion from the private credit market, on the one hand, and doubts about the sustainability of AI infrastructure spending, on the other, and now also about geopolitical tensions in Iran. We continue to see a high risk of market correction during the first half of 2026, but the Fed still has the necessary tools to support the economy and prevent full-blown contagion or a liquidity crisis.

Source: Sentosa; Co

Private credit: it's time to worry

In our various investment meetings, we often mentioned that the economy was performing well and that the Federal Reserve would be able to avert any potential recession with more aggressive monetary policy. We also mentioned that the market would avoid any long-term bear market by 2026, unless something specific derailed it—something that would be linked to the credit market and indirectly linked to interest rates in general. This specific risk is now before us; it's called the private credit segment. Two decades ago, private credit was barely recorded as an asset class. **Today, it has surpassed the $2 trillion mark, and the largest asset managers are US companies** (Chart 1), a milestone that underscores its remarkable rise from obscurity to widespread relevance. **In 2025, private credit funds raised approximately $225 billion globally, representing a 3.2% increase over 2024** (Chart 2).

However, what warrants attention is not only the magnitude of this growth, but also the degree to which private lending has displaced conventional bank financing as the primary channel of funding for businesses, particularly in the United States. If private credit providers were subject to the same rigorous regulatory framework imposed on commercial banks, this shift might be less worrisome. But they are not. The resulting supervisory gap has created fertile ground for excessive risk-taking, questionable lending practices, and a lack of transparency that, if left unchecked, could pose significant risks to overall financial stability.

Chart 1: Main private credit companies

Private Credit Company	Location	AuM in 2024 ($B)
Apollo Global Management Inc.	US	480
Blackstone Inc.	US	355
Ares Management Corp.	US	335
Ares SSG	HK	309
KKR & Co. Inc.	US	242
Guggenheim Funds Investment Advisors LLC	US	198
Carlyle Group Inc.	US	190
Neuberger Berman Group LLC	US	182
Oaktree Capital Management LP	US	129
Brookfield Asset Management Ltd.	Can.	124
Nuveen LLC	US	120
Goldman Sachs Asset Management LP	US	110
MetLife Investment Management LLC	US	105
HPS Investment Partners LLC	US	98
Blue Owl Capital Inc.	US	95
TPG Capital LP	US	80
Golub Capital LLC	US	70
UBS O'Connor LLC	US	58
CVC Capital Partners PLC	Jers.	46
SLC Management	US	40

Chart 2: Main collections in 2025

Private Credit Company	Funds	Fund raising in 2025 ($B)
Ares Management Corp.	Ares Capital Europe VI	20,01
Oaktree Capital Management LP	Oaktree Opportunities Fund XII	16,00
CVC Credit Partners LLC	CVC European Direct Lending IV	12,17
Neuberger Berman Group LLC	NB Private Debt V	7,30
Pemberton Asset Management SA	Pemberton Mid-Mkt Debt Fund IV / Senior Loan Fund II	7,14
Coller Capital Ltd.	Coller Credit Opportunities II	6,80
KKR & Co. Inc.	KKR Asset-Based Finance Partners II	6,50
TPG Angelo, Gordon & Co. LP	TPG AG Credit Solutions Fund III	6,20
HIG WhiteHorse	HIG WhiteHorse Middle Market Lending Fund IV	5,90
17Capital LLP	17Capital Strategic Lending Fund 6	5,50
Pantheon Ventures Inc.	Pantheon Senior Debt III	5,20
Apollo Global Management Inc.	Apollo Accord+ II	4,80
Diameter Capital Partners LP	Diameter Dislocation Fund III	4,50
PGIM Inc.	PGIM Senior Loan Opportunities II	4,20
Alpinvest Partners BV	Alpinvest Strategic Portfolio Finance Fund II	4,00
Thoma Bravo LP	Thoma Bravo Credit Fund III	3,60
Intermediate Capital Group SAS	ICG Europe Mid-Market II	3,51
Capital Four Inc.	Capital Four Private Debt V	3,51
Crescent Capital	Crescent European Specialty Lending III	3,51
Crestline Investors Inc.	Crestline Direct Lending Fund IV	3,50

Source: Sentosa & Co,

THE TOPIC OF THE WEEK

The Origins of Private Credit:

The expansion of private credit can be traced back to the aftermath of the 2008 global financial crisis. In response to the near-total collapse of the banking system, regulators significantly tightened capital requirements for major commercial banks, forcing them to reduce their exposure to higher-risk, capital-intensive lending activities. This regulatory rollback opened a substantial gap in corporate finance, which private credit funds rushed to fill. **These non-bank lenders captured an increasing share of U.S. corporate lending, channeling capital raised from institutional investors, such as pension funds, insurance companies, and high-net-worth individuals, to mid-sized and growing businesses** (Figure 3).

The prolonged era of near-zero interest rates only accelerated this trend, as yield-hungry investors flocked to the attractive coupon structures offered by private lending vehicles. In practice, this amounted to a migration of credit risk from the regulated banking sector to structures subject to far less oversight. The turmoil among US regional banks in 2023 further deepened this dynamic. **Institutions such as Silicon Valley Bank, overexposed to long-term bonds whose value had been eroded by the sharp rise in interest rates** (Chart 4), required emergency intervention from regulators to avert a broader systemic collapse. In the wake of that episode, regional lenders were forced to further tighten lending criteria, further reinforcing the role of private lending as an alternative funding channel. In some ways, this shift from a low interest rate environment to a high interest rate environment following COVID-19 is part of the risk and danger that has been accumulating in this sector.

Chart 3: Investors in private credit funds

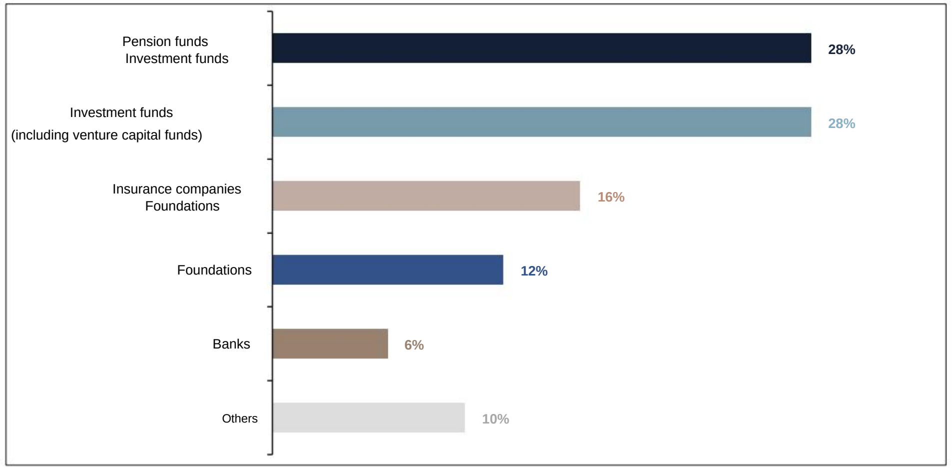
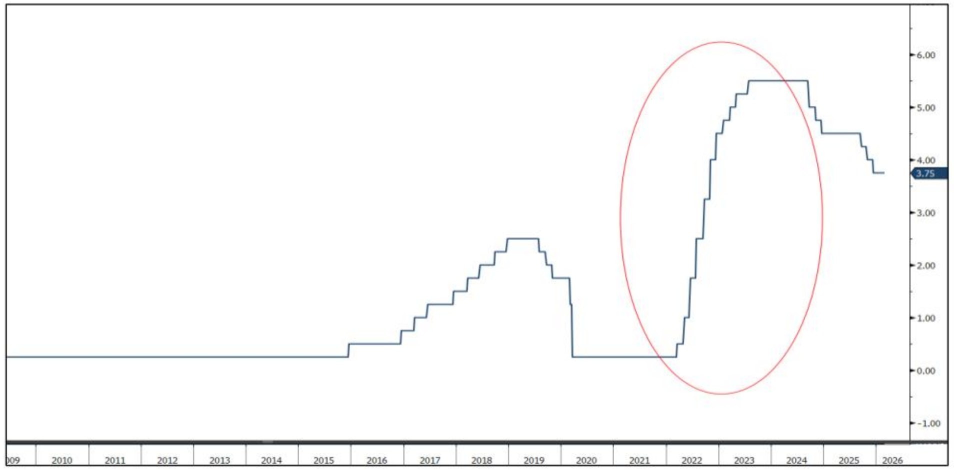


Chart 4: Upper band of federal funds interest rates (3.75%)



Source: Sentosa & Co,

THE TOPIC OF THE WEEK

Lack of regulation and higher rates at the root of the problem. Paradoxically, the very mechanism that made private credit so attractive to investors—its variable-rate structure—has become the source of its fragility. Private credit loans are typically indexed to a benchmark rate, such as the SOFR, to which borrowers add a spread that usually ranges from 450 to 600 basis points, depending on the credit profile and the structure of the transaction. During the era of near-zero interest rates, this arrangement was manageable: a company taking out a loan at SOFR + 500 basis points faced a total cost of approximately 5–6%. **However, when central banks embarked on one of the most aggressive tightening cycles in recent decades, pushing the SOFR above 5%, the same loan suddenly had a total cost exceeding** 10% (Chart 5). **Average interest coverage ratios for leveraged private credit operations have fallen to approximately 3.1 times, compared to more than 4.0 times recorded during the 2019-2022 period** (Chart 5).

Because private credit lacks strong regulation and transparency, fund managers have been able to hide the deterioration of credit for a long time. Since acknowledging a default would cause a sharp drop in the fund's performance and make it difficult to raise new capital from investors, managers have used various methods to avoid any reduction in the net asset value (Chart 6). Managers have the option to freely modify the loan terms in two ways: 1. Either by extending the loan in the event of an immediate inability to repay, hoping for a future commitment, and continuing to collect interest. 2. Or, if the borrower no longer pays the interest, by capitalizing it and adding it to the principal of the debt for later repayment. Both options are completely contrary to market norms and financial logic when compared to the public market. Ironically, if a bond issuer fails to pay a coupon, the market would immediately trigger a significant penalty in the bond's price, anticipating a potential default.

Chart 5: SOFR; credit spread; interest coverage ratio

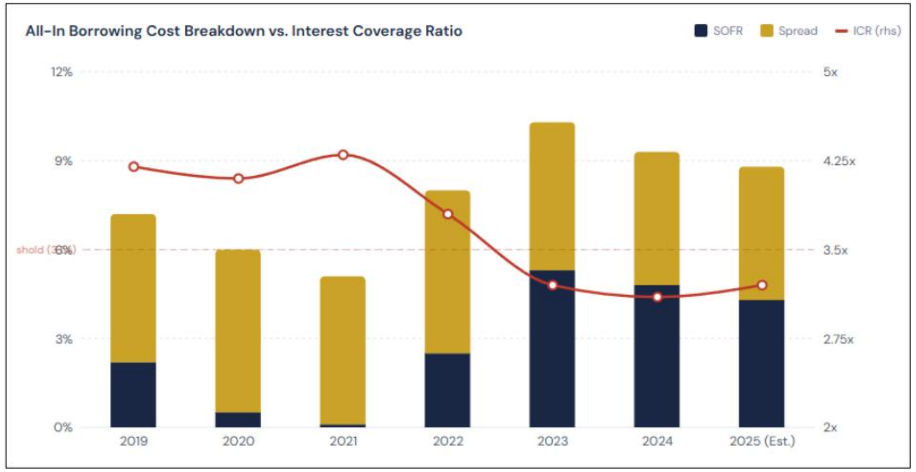


Chart 6: Declared NAV; Estimated Actual Value

THE TOPIC OF THE WEEK

The shadow banking system is once again a cause for concern. Despite the various concealment tactics employed by private credit managers, cracks are beginning to appear, and investors are taking notice. Liquidity conditions are tightening. In October 2025, the US auto loan sector showed the first signs of fracturing, as auto loan default rates rose sharply. Losses on private auto loans mounted rapidly, culminating in the bankruptcy of Tricolor Holdings. By early 2026, a new fault line had emerged: the software sector. The rapid rise of artificial intelligence is calling into question the viability of companies that have long been some of the most prized borrowers in the private credit market. These companies, once considered virtually bulletproof thanks to their recurring revenue streams and high operating margins, now face an existential threat, as AI-based alternatives offer comparable or superior functionality at a fraction of the cost, or even for free. Cash flow forecasts are being revised sharply downward, while the debt burden these companies carry remains unchanged . **As a result, private lending funds are once again exposed to borrowers whose underlying business models are eroding in real time.**

Although no formal insolvency has yet been declared, the market is increasingly talking about "silent bankruptcies" (Chart 7).

The banking sector could become the focus of all these concerns. **Commercial banks act as the backbone of private credit, providing the liquidity lines that are essential for the functioning of funds** (Figure 8). Potential losses would force banks to shrink their balance sheets and tighten their lending conditions. This would lead to a widespread contraction of credit to the real economy and a loss of profitability for the sector. Ironically, despite the heavy regulation of banks over the past 15 years, the risk has not disappeared from their balance sheets; it has simply changed form.

Chart 7: "Silent Bankruptcies": Indicators of Hidden Difficulties

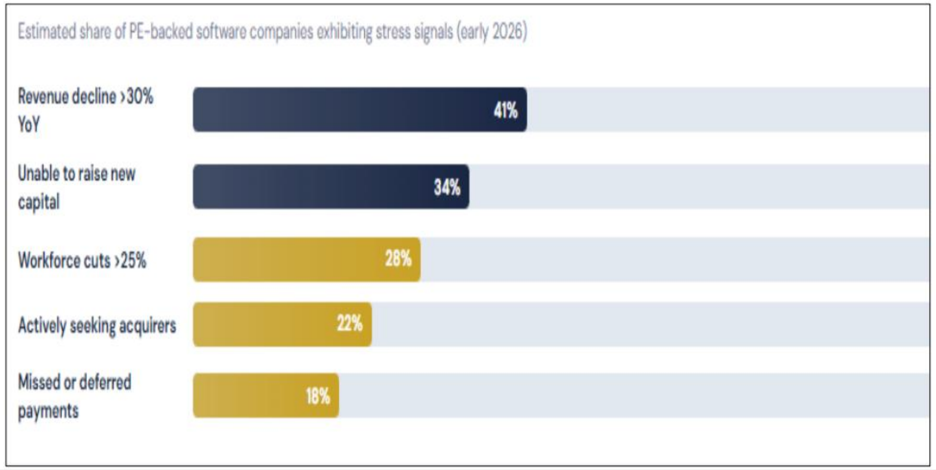
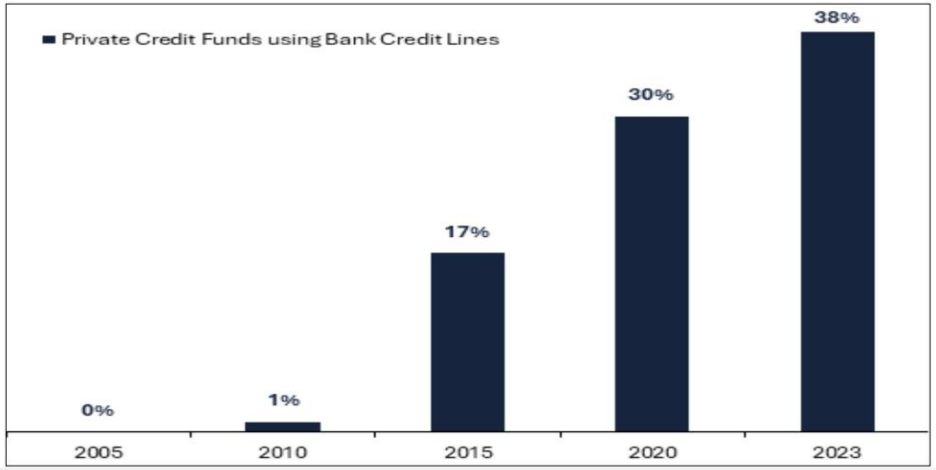


Chart 8: Private credit funds using bank credit lines



Source: Sentosa & Co,

THE TOPIC OF THE WEEK

European banks are less at risk than their US counterparts. Not all companies in the banking sector are exposed to this risk in the same way. Banks whose revenues are based primarily on financial flows and service fees will appear more resilient. Deposit-taking and asset-managing banks depend less on credit health than on the volume of financial flows. A form of geographical arbitrage appears to be organically taking shape. European banks today present a more resilient and better-calibrated risk profile compared to their US counterparts. Over the past decade, they have been subjected to considerably more stringent stress-testing regimes, while the European Central Bank's supervisory framework has acted as an effective barrier against excessive exposure to unregulated credit vehicles. In contrast, the US banking landscape remains more fragmented and is structurally more vulnerable to risky financial innovations. **The market is well aware of this, and European banks have largely outperformed both the market and their US counterparts** (Chart 9).

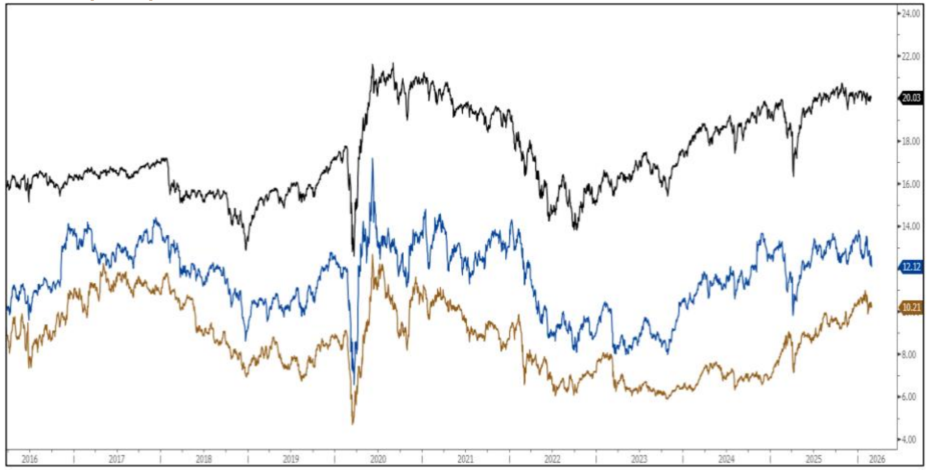
Paradoxically, the European sector offers lower valuations than its US counterpart (Chart 10), and dividend yields are typically higher and better protected by capital reserves. A private credit stress scenario would not leave the banking sector unscathed, but the impact would be highly asymmetric. US banks are more vulnerable due to their indirect exposure to non-bank lenders through credit lines, fund funding, and co-investment structures.

European banks, on the other hand, have been largely protected by a decade of strict ECB supervision, which has limited their involvement in shadow banking.

With a price of only 8-10 times future earnings, compared to 12-13 times for their US counterparts, European financial institutions are already reflecting significant pessimism in their pricing and, in fact, could benefit by capturing market share from the shrinking private credit funds as borrowers return to regulated balance sheets.

Chart 9: European banks vs. the Stoxx 600; US banks vs. the S&P 500

Chart 10: Future P/E ratios: MSCI World (20x); US banks (12.6x); European **banks (10.2x)**



Source: Sentosa & Co,

CONCLUSION With

nearly $3 trillion in assets under management, private lending may seem modest compared to the $60 trillion in corporate loans on global bank balance sheets or the $35 trillion in outstanding corporate bonds. But size alone is a misleading measure of systemic risk. The comparison to 2008 is tempting, but the situation looks somewhat different, and the distinction is important. In 2008, banks were trading at 12–15 times their earnings and were considered healthy; toxic exposure was hidden within the banking system itself. Today, the architecture is fundamentally different. Banks are trading at 8–13 times future earnings, which already reflects significant skepticism, and are far better capitalized after a decade of tight regulation. Risk has been deliberately shifted from the banking system to private lending vehicles, which is precisely what post-crisis regulation was intended to do. It did not eliminate the risk; it merely relocated it.

The threat stems from the hidden deterioration of credit within private funds that investors believed were safe, while banks remain relatively distant from the epicenter. The contagion would spread from private credit to the financial system through indirect channels, rather than from the banks' own balance sheets. This points to a slower and more prolonged revaluation, instead of a sudden systemic crisis: a liquidity crisis and forced downgrades for private credit investors, rather than a banking collapse.

However, central banks have always been there to support any liquidity crisis, and this time will be no different if a crisis arises. **The market knows this, which is why gold is soaring, the dollar is rising, and the US two-year yield is falling—anticipating further eventual action by the Fed in the future** (Chart 11).

Chart 11: Gold; Dollar Index; US Two-Year Yield

Source: Sentosa & Co,

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