

Turning Rock Partners

Q4 2025 Market Commentary



“Beware the Ides of March”⁽¹⁾

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Market Backdrop

Minds are heavy as we near April. The Middle East war zone leaves markets rattled. In the first wave of volatility, global equities declined while gold and oil prices moved higher. We see that markets are somewhat resilient and can digest volatility for a period of time. Markets will continue to price in a higher likelihood of inflation, disrupted or slower pace of global trade activity, and supply shocks in both dollar liquidity and energy commodities. As we pen this letter, the Dow is headed for its worst day since last spring while the U.S.-Iran conflict worsens. Prolonged or severe disruptions in the Strait of Hormuz could lead to an oil market crisis. The VIX is up ~115% since the start of the year.⁽²⁾ Reduced business confidence could erode spending plans entering Spring 2026. Fears about Middle East contagion are realistic, and stress on oil markets will have large systemic repercussions. We are scratching our heads on why this was a necessary intervention by the U.S., but we will refrain from further political commentary.

If supply chain disruptions persist, global logistics costs could become elevated, which might force companies to reassess supplier agreements and increase spending on safe shipping routes. An elevated fuel price backdrop means manufacturing and transportation costs for households and corporates can become more onerous. The glide path of interest rate easing, which felt more likely, is now on pause given inflationary pressures in the short run. The U.S. market historically has been viewed as resilient, but this market environment will test earnings, particularly as we just came through nine months of tariffs and a shifting regulatory framework. We saw a modest widening of credit spreads in March in response; we think further recalibration will continue.

Concurrent with Middle Eastern strife, markdowns and reduced liquidity in the U.S. BDC market, spurred by some of the larger traded players serving the retail market, started a wave of dislocation in late February which continued through March. The public listing for non-traded credit is proving a suboptimal structure for some vehicles which have reduced access to liquidity to either service redemption liabilities or maintain dividend payouts. Through Q1 2026, 89% of publicly traded BDCs are currently trading at a discount to Net Asset Value.⁽³⁾ Although BDCs represent a small portion of the overall U.S. credit complex,

recent markdowns, coupled with limited redemptions, strip asset sales, or outright liquidations, were a shot across the bow.

The broad exposure to software (roughly 20% of the BDC market from a sector weighting standpoint) led to a philosophical reflection on whether AI could displace these business models entirely.⁽⁴⁾ As investor sentiment took root on the AI disruption route, software companies saw selloffs in both the equity and loan markets, with the S&P North American Technology Software Index down (25%) year to date, and prices for loans in the LSTA US Software Loan Index down over 660 bps year to date, to an average bid of 88.⁽⁵⁾⁽⁶⁾ While we expect disruption in the software market, we think a complete rotation out of software-based solutions could take years and require substantial shifts in computing, security, and resource allocations.

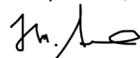
Within the U.S. market, we must remain cautious. 2026 is a year where growth is more expensive, operating margins are less certain and policies are volatile. This year will be tough.

We (as you know) stay away from super-cyclical areas. On new underwrites, we are stress-testing lower growth, re-underwriting asset values, and doubling down on substantial equity contributions. There will be opportunities amid dislocation. Measured and prudent deployment will be rewarded.

Organizational Update

Turning Rock welcomes its newest Vice President on the investment team, Yang Chen. We look forward to seeing many of you in the coming months as the weather turns warmer.

Respectfully,



Turning Rock Partners

ENDNOTES

- 1) The Tragedy of Julius Caesar: William Shakespeare.
- 2) FRED: CBOE Volatility Index: VIX (VIXCLS). Data as of March 30, 2026.
- 3) Raymond James: BDC Weekly Insight. Data as of March 26, 2026.
- 4) S&P Global: BDCs' Exposure To Software Stays High, Steady. Published March 17, 2026.
- 5) S&P North American Technology Software Index: SPGSTISO. Data as of March 30, 2026.
- 6) Pitchbook: Morningstar LSTA US Software Loan Index. Data as of March 29, 2026.

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