

Turning Rock Partners

Q1 2026 Market Commentary



“The Only Thing Certain Is That Nothing Is Certain” ⁽¹⁾

Q1 2026 MARKET COMMENTARY

Market Backdrop

It’s a bit of a mess out there. Feels like a round of Whac-A-Mole. Between blockades in the Strait of Hormuz, China’s increasing threats toward Taiwan, and ongoing trade tensions and tariffs, the world is tumultuous. Through the May 15, 2026 market close, government bonds have sold off, with implied yields rising as markets begin to price in the risk that a war-driven price shock could force central banks into a more hawkish posture.

In the United States, headlines continue to be dominated by the AI boom, which seems to overshadow the grim reality on the ground for most companies. Earnings growth for the IT sector is projected to be up 21% in the second half of 2026, but that optimism stands in contrast to a more cautious tone in consumer and corporate spending.⁽²⁾ At the same time, shifting immigration policies have constrained labor supply and are beginning to weigh on output levels. U.S. GDP growth is expected to slow to approximately 2% in real terms through 2026, while recent tensions in Iran and the resulting spike in crude prices are pushing inflation higher than expected.⁽³⁾ Stagflation is no longer just a tail risk.

The Fed is caught in the middle of it. A weakening job market toward the end of last year would typically argue for easing, but tariff-driven inflation and rising energy costs are pulling policy in the opposite direction. That tension was evident in the April FOMC meeting, where four members dissented - the most divided vote since 1992. There isn’t a clean answer here.

Credit markets are trying to make sense of this backdrop. During the first quarter, U.S. high yield spreads moved wider, with the ICE BofA High Yield Index OAS increasing from approximately 2.83% at the start of 2026 to around 3.17% by early April.⁽⁴⁾ Escalating global tensions, however, could not put a damper on credit spreads. By the end of the month, spreads had tightened nearly 50 bps, with European high yield following a similar path, tightening approximately 55 bps.⁽⁵⁾ It doesn’t feel like credit spreads are reflective of true risks today.

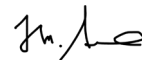
Private credit took a beating in Q1 2026 as the publicly traded BDC market sold off dramatically. Many of these issuers elected to return cash to shareholders through redemption provisions or to pursue asset sales to generate liquidity. The cost and complexity of managing these vehicles is high and could lead to several opportunistic trades. Portfolios in publicly traded BDCs severely contracted in Q1, as many lenders took a more conservative approach to deployment. Heightened geopolitical volatility and macroeconomic uncertainty stifled deal flow. Several lenders declared that handing cash back to shareholders while their stocks traded below NAV was more attractive than funding new loans.

Confounding variables are everywhere. Markets in Q1 generated a significant amount of noise, to very little signal. Times like these remind us all that protecting the downside is just as important as playing for the upside. We remain hyper-vigilant and ready to provide liquidity in opportunities that will likely arise amid ongoing market chop.

Organizational Update

We are thrilled to announce the Turning Rock family is growing. Turning Rock welcomes Francesca Hamilton, John’s newest daughter, to the extended family. Mom, sister, John and team Hamilton are healthy and happy.

Respectfully,



Turning Rock Partners

ENDNOTES

- 1) Proverb: Pliny the Elder, "Naturalis Historia."
- 2) FactSet: S&P 500 Earnings Season Update, April 24, 2026.
- 3) Peterson Institute for International Economics: "War, uncertainty slow 2026 growth across advanced and emerging economies," April 9, 2026.
- 4) ICE BofA U.S. High Yield Index Option-Adjusted Spread, Percent, Daily, Not Seasonally Adjusted.
- 5) ICE BofA U.S. High Yield Index, ICE BofA European Currency Developed Markets High Yield excluding Subordinated Financials Constrained Index, as of April 30, 2026.

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