

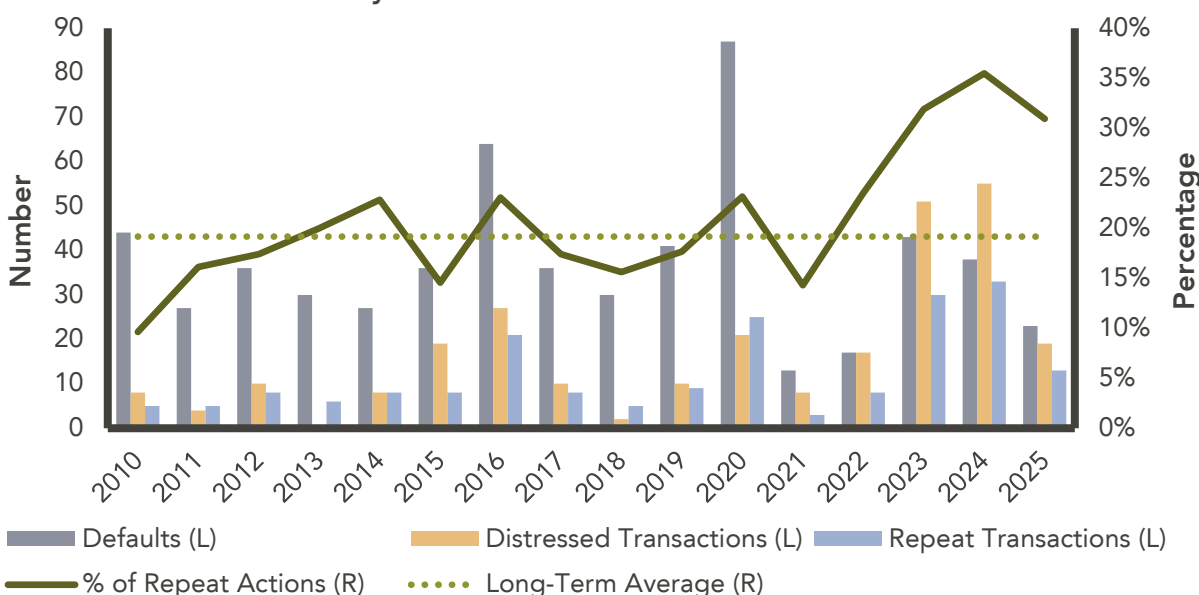
Chart of the Week

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Don't Make Me Repeat Myself

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Despite resilient fundamentals, a surge in repeat actions highlights mounting pressure on borrowers and the risk of delayed defaults



Source: J.P. Morgan as of September 30, 2025. Averages are based on data from 2008–2025.

To paraphrase a quote from former President George W. Bush: “Fool me once, shame on... shame on you. Fool me — you can’t get fooled again.” This botched attempt at quoting the common phrase aside, the below-investment grade market shows that it can, in fact, get fooled again. High-profile defaults from subprime auto lender Tricolor and auto parts manufacturer First Brands have recently made waves, but additional default trends exist below the hood (automotive pun intended) and are currently flying under the radar.

This week’s chart shows a meaningful increase in the percentage of leveraged credit borrowers conducting repeat distressed and default actions. A repeat action is defined as when a borrower that has previously undergone a distressed transaction or default undergoes either another distressed transaction, defaults after a distressed transaction, or defaults again. Since 2008, an average of 19% of borrowers who underwent either a distressed transaction or default went on to conduct a repeat action according to J.P. Morgan. This figure has increased meaningfully to 33% since the beginning of 2023. There are many factors fueling this increase, including a sustained environment of higher interest rates and the increased desire of lenders to recoup portions of their investments. However, repeat actions don’t have favorable outcomes for all parties, as approximately 72% ultimately end in the borrower defaulting. While a repeat transaction can serve as a lifeline to a stressed borrower, it typically just ends up “kicking the can” on the eventual default.

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Broadly, headline defaults remain below or near long-term averages within leveraged credit, even when incorporating distressed transactions. Additionally, leveraged credit fundamentals remain resilient. The high yield bond market is now of significantly higher quality than it has been historically, as some of the lowest quality borrowers in the space have opted to transact in private markets. Additionally, interest costs should begin to ease for borrowers as the Federal Reserve continues its easing cycle. However, the increase in repeat actions shows that the most stressed borrowers remain under pressure and are trying to delay defaults as long as possible. This is a dynamic that certainly bears monitoring. Going forward, while additional defaults like First Brands may generate headlines, idiosyncratic developments likely won't offset a fundamental environment that has not shown broad-based deterioration. Some may get fooled, but the key is to not get fooled again. ■

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