Seahawk Investments Quarterly Note 2026/03



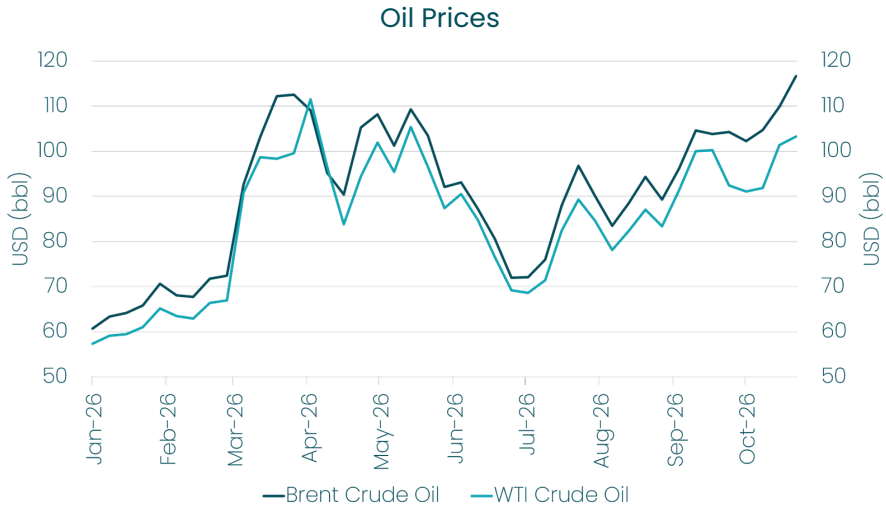
Credit Absolute Return

Present Interest Rate Environment

The Iran war's oil shock has been a meaningful contributor to inflation in 2026, but it was not the sole driver of the higher inflation rates observed.

According to a recent Bank for International Settlements working paper, the conflict is estimated to add roughly 1.5 to 2.0 percentage points to cumulative inflation during 2026-2027 in the U.S., euro area, and the UK, with most of the increase stemming from higher energy costs and second-round effects on goods and services prices.

Oil prices rose sharply after disruptions to production and shipping routes in the Gulf. Brent crude briefly moved above $100-115 per barrel, compared with roughly $60-70 before the conflict.



Source: Bloomberg. As of October 2026

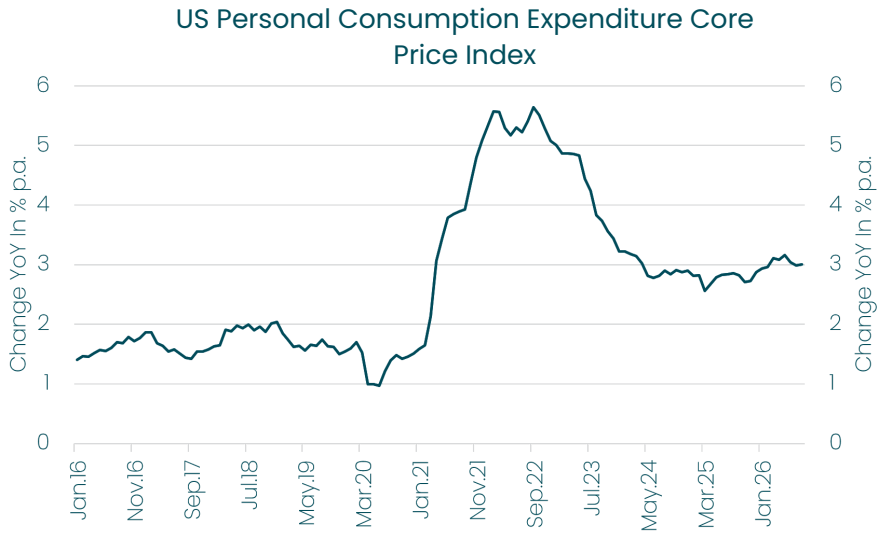
Higher fuel and transportation costs increased the cost of producing and distributing goods.

Energy-intensive sectors such as chemicals, fertilizers, aviation, and logistics passed part of these increases on to consumers.

Some increase in inflation expectations led firms and workers to seek higher prices and wages, amplifying the initial shock.

For the U.S., the pass-through appears more moderate than in many energy-importing economies. Energy accounts for a smaller share of household spending than in many emerging markets.

Core inflation has remained driven largely by services, housing, and labor-market factors.



Source: Bloomberg. As of September 2026

The US Personal Consumption Index (excluding food and energy prices) has remained elevated during 2026. Its latest readings for the month of August stood at 3.0%

So while the Iran-related oil shock has clearly contributed to inflation, the rise in U.S. Treasury yields cannot be attributed solely to oil prices. Investors have also been demanding compensation for persistent fiscal deficits and the possibility that the Federal Reserve may keep rates higher for longer.

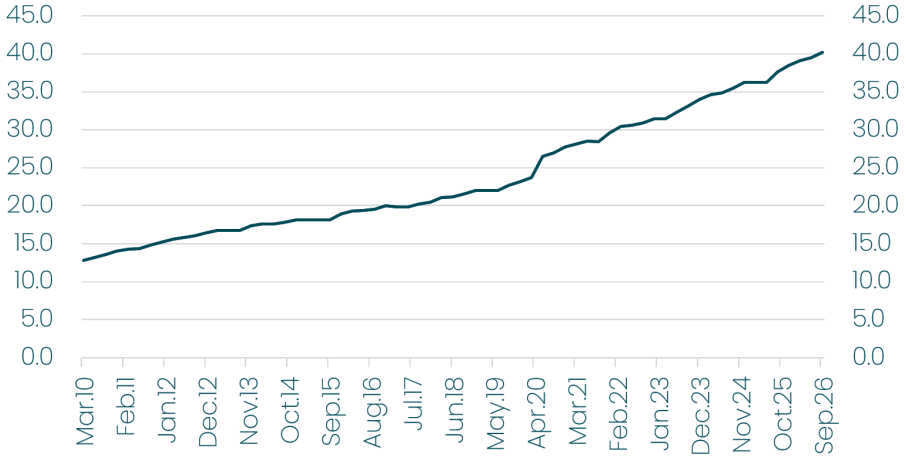
In the US, fiscal deficits have widened significantly compared with the pre-pandemic period.

Fiscal Year	Deficit (% of GDP)	Approx. Deficit ($ Tn)
2018	~3.8%	~$0.8 tn
2019	~4.6%	~$1.0 tn
2020	~14.9%	~$3.1 tn (pandemic)
2021	~12.4%	~$2.8 Tn
2022	~5.4%	~$1.4 Tn
2023	~6.3%	~$1.7 Tn
2024	~6-7%	~$1.8-1.9 tn
2025-2026	~6½-7½% (est.)	around $2.0 tn+

Source: Bloomberg. As of September 2026

Unlike previous cycles, the U.S. has continued to run deficits near recessionary levels despite relatively strong economic growth and low unemployment. Historically, a deficit above 6% of GDP would often be associated with a recession, a financial crisis, or a major war. Today, deficits remain elevated even in a reasonably healthy economy.

US Government Debt (in tn. $)



Source: Bloomberg. As of September 2026

The gross federal public debt-to-GDP ratio in the US is now approx. 125-130%% of GDP. Debt held by the public relative to GDP is in the area of 100-105%. The US has failed to reduce debt ratios after the pandemic, despite continued economic growth. Among major developed nations, the US has a debt burden similar to Italy but still lower than Japan (200% of GDP)

Development of Government Bond Yields

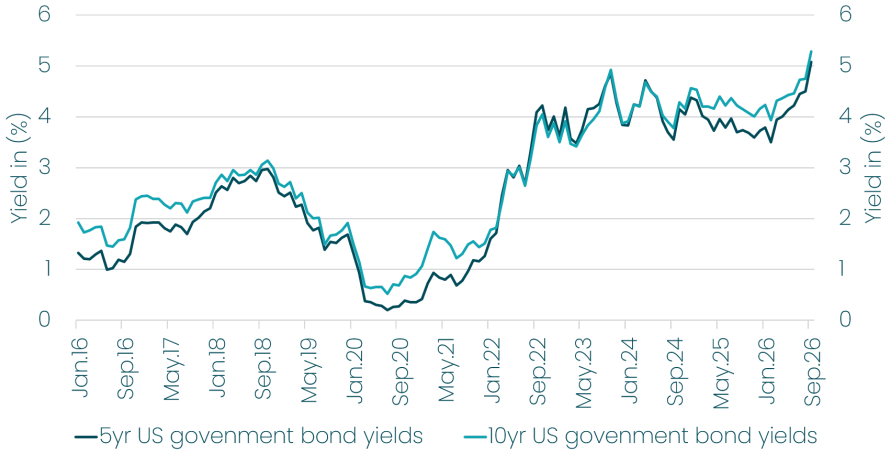
A deficit of roughly 7% of GDP implies continuous issuance of large quantities of Treasury securities. Combined with Federal Reserve balance-sheet reduction (quantitative tightening), private investors must absorb a growing supply of Treasury debt.

From a bond-market perspective, many investors now view the combination of above 100% debt-to-GDP and persistent 6-7% annual deficits as one of the main reasons why 10-year Treasury yields remain around 5%, alongside inflation and Federal Reserve policy.

The development of 5-year and 10-year U.S. Treasury yields in 2026 is best understood as a transition from a monetary-policy-driven market to one increasingly influenced by fiscal and structural factors.

Both the 5-year and 10-year Treasury yields moved higher during 2026, reaching levels that were among the highest sustained yields seen since before the Global Financial Crisis.

U.S. Treasury Yields: 5-Year / 10-Year



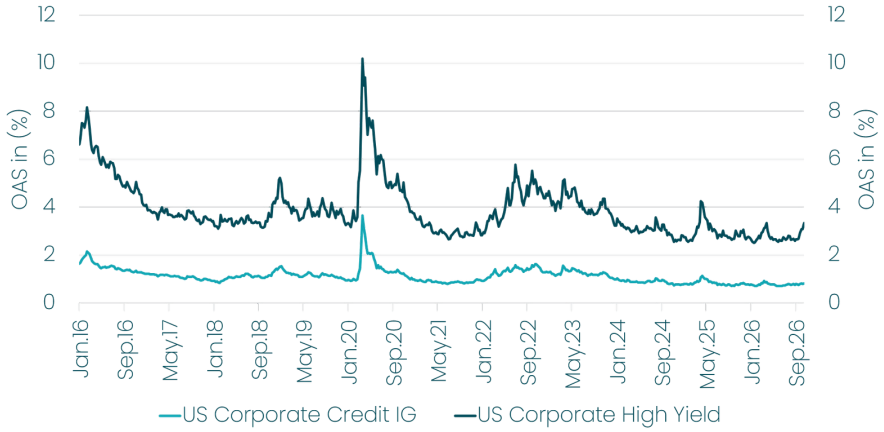
Source: Bloomberg. As of September 2026

The result was a generally steeper yield curve, reversing much of the inversion observed in 2022-2024. The 5-year Treasury yield in 2026 primarily reflected expectations that the Federal Reserve would keep rates higher for longer because Core PCE remained stuck above target. The 10-year Treasury yield reflected those same factors but was additionally pushed higher by rising fiscal deficits, increased Treasury supply, and a higher term premium. As a result, 10-year yields approached or exceeded 5%, levels not seen on a sustained basis for many years.

Development of Credit Spreads

For credit investors, 2026 has been somewhat surprising. Despite higher Treasury yields and concerns about fiscal deficits, credit spreads remained relatively tight for much of the year, reflecting resilient economic growth, low default rates, and solid corporate fundamentals.

US High-Yield and Investment-Grade Corporate Bond Spreads
Option-Adjusted-Spreads



Source: Bloomberg. As of September 2026

U.S. investment-grade corporate spreads generally traded in the 80-110 bps range over Treasuries during 2026, which is tight by long-term historical standards. Key drivers were: Strong corporate balance sheets, large cash holdings among many issuers, continued demand from pension funds and insurance companies, and falling expectations of a near-term recession.

Importantly, the increase in corporate bond yields during 2026 was driven much more by the rise in Treasury yields than by widening credit spreads. High-yield spreads were also relatively contained, generally trading around 300-400 bps, as default rates remained below stressed levels, corporate earnings proved more resilient than expected, economic growth slowed but did not contract materially, and investors continued to search for income in a high-yield environment.

The defining feature of 2026 has been that higher yields were mostly a rates story, not a credit story. Treasury yields rose because of sticky inflation, higher-for-longer Fed expectations, and fiscal concerns, while both investment-grade and high-yield spreads remained relatively compressed because investors continued to view the U.S. economy as resilient and corporate credit fundamentals as sound. This combination produced some of the highest all-in corporate bond yields seen since before the Global Financial Crisis while avoiding a meaningful widening of credit spreads.

Challenges in the present Credit Markets

The main challenge facing credit markets is the disconnect between interest rate markets and credit markets.

While Treasury yields appear to be pricing in a more challenging macroeconomic environment, credit spreads continue to reflect a relatively benign growth outlook. Historically, such divergences rarely persist indefinitely.

Refinancing Risk

The most direct risk stems from corporate refinancing.

Many issuers refinanced debt between 2020 and 2021 at exceptionally low borrowing costs. Those issuers now face significantly higher refinancing rates:

Issuer Type	Old Funding Cost	New Funding Cost
Investment Grade	2-3%	5-6.5%
BB High Yield	3-5%	6.5-8%
Single-B High Yield	5-7%	8-11%

Source: Bloomberg. As of September 2026

As debt is refinanced, higher interest expense will increasingly pressure free cash flow, leverage ratios, and interest coverage metrics.

To date, markets have largely looked through this deterioration due to low default levels. However, a sustained weakening in credit metrics could trigger a broader widening in spreads.

Leveraged and Private Equity-Owned Issuers

Particular attention should be paid to highly leveraged companies and private equity-sponsored issuers.

Many leveraged buyouts completed between 2020 and 2022 were structured on the assumption of exceptionally low financing costs and ambitious growth projections. Elevated interest rates increase refinancing risk and reduce equity valuations.

Historically, signs of stress first emerge in:

- Leveraged loans.
- Single-B-rated issuers.
- CCC-rated credits.

Before spreading into the broader high-yield market.

Competition from Risk-Free Assets

Another important technical factor is the attractiveness of government bonds.

With investors able to earn approximately:

- 5.0% in U.S. Treasuries, and
- 5.8%–6.2% in investment-grade corporate bonds,

the additional compensation for taking credit risk has become less compelling.
As a result, investors may eventually demand wider spreads, potentially moving investment-grade spreads toward 120–150 basis points and high-yield spreads toward 450–550 basis points, even without a significant deterioration in default expectations.

Hyperscaler CDS Spreads as an Early Warning Indicator

One of the most noteworthy developments during 2026 has been the widening of credit default swap (CDS) spreads among major technology and hyperscaler issuers.

Five-year CDS spreads for companies such as Meta, Nvidia, and Oracle have increased significantly over the course of the year. Oracle's five-year CDS spread, for example, widened from approximately 150 basis points to 250 basis points. In the high-yield segment, CoreWeave's CDS spread increased from around 600 basis points to nearly 900 basis points.

While spreads remain relatively low in absolute terms, these developments merit attention because hyperscalers have become systemically important constituents of investment-grade credit markets.

Today, mega-cap technology companies represent:

- A significant share of global equity market capitalisation.
- An increasing share of investment-grade debt issuance.
- Some of the largest and most liquid corporate bond issuers.

A key concern among investors is the unprecedented scale of AI-related capital expenditure programmes. Major technology companies are now committing tens of billions of dollars annually to data centre construction and AI infrastructure investments.

While investors have thus far supported this expenditure because revenues and cash flow remain robust, concerns could emerge regarding:

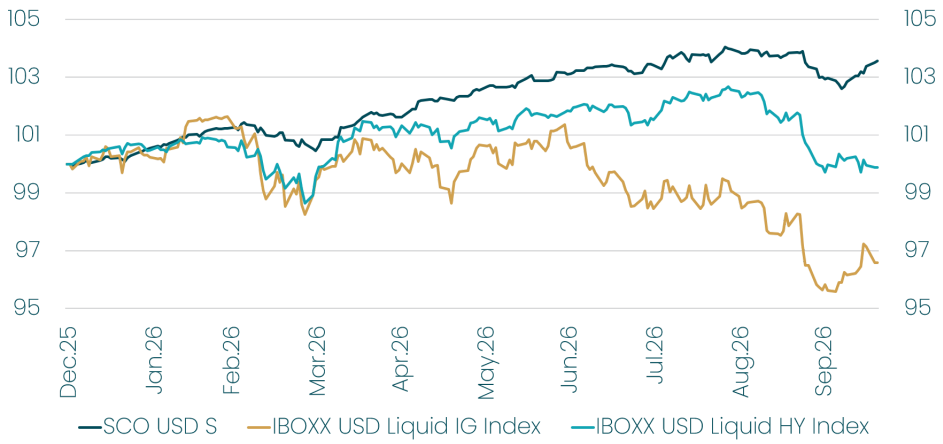
- Return on AI investments.
- Monetisation timelines.
- Margin sustainability.
- Competitive pressures.

Should CDS spreads continue to widen, investors may interpret this as an early indication that the market is reassessing the risk profile of companies previously viewed as near risk-free credits. Because these issuers represent a substantial share of investment-grade indices, any repricing could ultimately spread to the broader corporate bond market.

For absolute return credit managers, developments in hyperscaler CDS markets may therefore serve as an important early-warning indicator for broader credit repricing.

Absolute Return Credit in the current environment

Absolute return credit strategies were among the better-positioned parts of the fixed-income universe in 2026 because they were less dependent on declining bond yields than traditional long-only bond funds. As credit spreads remained relatively tight, but dispersion between issuers increased, managers were able to generate alpha through security selection in both the secured and unsecured high-yield bond markets. As an example, we would like to highlight the performance characteristics of the Seahawk Credit Opportunities Fund during the current calendar year and since inception. During the current calendar year, the fund has outperformed both the IBoxx USD Liquid IG Index by 698 bps and the IBoxx USD Liquid HY Bond Index by 367 bps.



Source: Bloomberg. As of October 2026

Also, in the longer term, Absolute Return Strategies can provide attractive risk-adjusted returns, as the following example of the Seahawk Credit Opportunities Fund since inception shows.

	Period: 06.11.2024 – 30.09.2026		
	SCO Fund - USD S	Iboxx USD Liquid HY	Iboxx Liquid IG Index
Return p.a.	4.62%	4.84%	1.96%
Volatility	1.57%	3.27%	5.84%
Risk Free Rate	4.03%	4.03%	4.03%
Sharpe Ratio	0.38	0.25	-0.35
Max Draw-Down	-2.03%	-4.56%	-6.25%
Calmar Ratio	2.28	1.06	0.31

Source: Bloomberg. As of September 2026

Key takeaways

The Iran-related oil shock contributed meaningfully to higher inflation but was not the sole driver of rising prices. Core inflation remains elevated, supported by services, housing, and labour market pressures.

U.S. Treasury yields have risen due to a combination of inflation concerns, persistent fiscal deficits, and increasing government debt. Credit spreads remained unexpectedly resilient despite higher interest rates.

The defining feature of 2026 has been that higher yields were primarily driven by interest rates rather than worsening credit fundamentals.

Refinancing risk, elevated leverage, and competition from high-yielding government bonds could create pressure for wider credit spreads in the coming months.

Widening CDS spreads among hyperscaler technology companies may provide an important early signal of broader repricing in the credit market.

Absolute return credit strategies remain well positioned to exploit issuer-specific opportunities in an environment characterised by high yields and increasing dispersion.

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