



CAPITAL
PERSPECTIVE

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Strength Across Equity and Credit: Penn Capital's 2025 Review & 2026

93%

of small-cap managers
underperformed from Liberation
Day through the third quarter

Despite volatility and shifting macro narratives, 2025 has been a powerful year for Penn Capital, both in our equity and credit strategies. Our ability to integrate bottom-up research with deep capital structure expertise continues to differentiate our complete capital structure approach—especially in a year when many managers faced significant headwinds.

Equities: Outperformance in a Difficult Peer Environment

Our small cap, smaller companies, and SMID-cap equity strategies have all outperformed their respective benchmarks in 2025. This stands in sharp contrast to industry trends.

According to Furey Research:

- 93% of small-cap managers underperformed from Liberation Day through the third quarter
- 70% lagged by more than 500 bps
- 40% trailed by over 1,000 bps

Penn Capital was one of the few managers to outperform both during this period and year-to-date, supporting our long-standing history of outperforming defensive managers during rising markets.

Importantly, we achieved this:

- While significantly underweight biotech, the year's strongest industry.
- With no direct exposure to AI companies, another leading area of performance.

Yet our results remain robust. As of this writing:

- All Penn equity strategies are outperforming their benchmarks.
- Our small-cap and smaller-company strategies are outperforming even the S&P 500 year-to-date.
- Multiple acquisition announcements have provided incremental upside across portfolios.



Penn Capital believes that in 2026, with the Fed poised to resume rate cuts, investment-grade issuers are expected to tap markets aggressively.

Our equity performance has also benefited from our capital structure experience, enabling us to identify companies improving leverage, refinancing efficiently, and reducing the cost of capital—factors especially important in 2025's environment.

Credit Markets: Quality Outperforms and Penn Benefits

As 2025 began, markets expected a supportive backdrop—rate cuts, deregulation, and accelerating M&A. Instead, tariff uncertainty and a Federal Reserve on pause reshaped expectations. From November 2024 through September 2025, the Fed did not cut rates, citing concerns that tariffs could reaccelerate inflation.

In this environment:

- Higher-quality credit outperformed, favoring Penn's long-standing focus on the BB/B segments of the high-yield market.
- The US high-yield market remained unusually high quality, with roughly half of the market rated BB.
- Quality issuers were able to refinance and extend maturities to 2028 and beyond with little change in borrowing costs.

Meanwhile, the low-growth economic backdrop did little to help highly levered companies, underscoring the importance of credit selection.

Looking Ahead to 2026: A Credit Inflection Point

As we enter 2026, we believe there may be a vital shift across the credit landscape:

Investment Grade Outlook

- We believe that in 2026, with the Fed poised to resume rate cuts, investment-grade issuers are expected to tap markets aggressively.
- Gross issuance could rise approximately 20% over 2025, potentially reaching record levels.
- Issuance will fund acquisitions, capital expenditures, and AI-related infrastructure buildouts.

High Yield Outlook

- We believe that in 2026, high-yield issuance will remain focused on refinancing, keeping credit quality elevated.
- We believe the market is well-positioned to fund buyouts, capital spending, and selective opportunistic borrowing.

Taken together, we believe 2026 is shaping up to be a year characterized by strong credit quality, active refinancing, and renewed corporate investment.

Penn Capital Positioned for a Strong 2026

With multiple catalysts across both equity and credit markets, we believe Penn Capital enters 2026 from a position of strength. Our disciplined credit framework, active equity approach, and deep capital structure expertise continue to seek to identify compelling opportunities—especially in small caps and higher-quality high yield.

The combination of improving fundamentals, rising M&A, and a more supportive rate environment, we believe, sets the stage for a strong year ahead.

Why Penn Capital Is Well-Positioned for What Comes Next

Despite a strong 2025, we believe both small-cap equities and credit opportunities are still early in their recovery cycles.

After 14 years of small-cap underperformance versus large caps, we see meaningful catalysts driving a long-awaited reversal:

- Lower interest rates
- Better earnings growth
- Deregulation
- A reinvigorated M&A landscape
- Economic support from the Big Beautiful Bill, boosting consumers and disproportionately benefiting small businesses

Historically, leadership in small caps is particularly beneficial for Penn. Over the past 30 years, the Russell 2000 has beaten the S&P 500 in 14 of those years. In those years, Penn's small-cap strategy delivered over 800 bps of excess return versus its benchmark.

When small caps lead, Penn Capital has historically led by even more.

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