THE WEIL EUROPEAN DISTRESS INDEX

JANUARY 2025

CONTENTS

OUTLOOK FOR 2025

Distress forecast for 2025

- The outlook for corporate distress in 2025 suggests challenges ahead. Europe's economic outlook remains subdued, but growth is expected to improve slightly compared to 2024. The recovery will be uneven, with structural challenges and regional divergence limiting momentum.
- The combination of heightened geopolitical risks, fiscal and monetary headwinds and trade and manufacturing uncertainties create a complicated picture for corporate distress.
- On a positive note, corporate distress is forecast to ease throughout Europe over the next 12 months, but the recovery is likely to be modest and uneven across markets and industries.
- The industrials, real estate and retail and consumer goods sectors are expected to continue to experience significant challenges, with capital intensive and highly leveraged firms facing difficult conditions.
- In particular, distress in Germany is forecast to intensify in 2025, peaking in the summer before easing by the end of year. In our most pessimistic scenario, levels of distress could exceed those experienced during the height of the pandemic.
- There are some significant risks:
  - **The Russia-Ukraine conflict** continues to disrupt energy markets and global supply chains, weighing heavily on European industrial output and energy-intensive sectors.
  - **Growing tensions in the Middle East** threaten global trade, particularly through critical shipping routes like the Red Sea, exacerbating risks to supply chains and energy prices.
  - **Trump's presidency** in the United States raises concerns of renewed protectionist trade policies, particularly for Europe's export-driven economies. Any rise in tariffs or restrictions could further stifle trade growth and investment across the region.
  - **Fiscal tightening** remains a significant challenge for governments across Europe, particularly in highly indebted economies. Tight budgets limit opportunities for public investment, hindering growth potential and infrastructure spending.
  - **Elevated interest rates** continue to pose a challenge, with borrowing costs remaining high for corporates and households. While inflation has moderated, central banks are expected to maintain restrictive monetary policies into early 2025, delaying any substantial relief for businesses struggling to refinance debt.

Weil European Distress Index Movements

Forecast index value for Nov 2025	Index value in Nov 2024 (for comparison)	Distress forecast change
+3.2	**+3.6**	**Distress falling**

- As with all forecasts, there is a degree of uncertainty, which is why we present a base case scenario —our median and most likely outlook—alongside optimistic and pessimistic scenarios to account for potential risks and opportunities.

Base Case

- Corporate distress is expected to ease slightly in 2025. This improvement reflects a gradual stabilisation in macroeconomic conditions, against a backdrop of contained inflation and a potential loosening of monetary policy by the ECB and Bank of England in the second half of the year.
- Structural weaknesses, including fiscal tightening and trade uncertainty, will constrain the pace of recovery, but valuation and market conditions are expected to remain broadly supportive, contributing to a stabilising outlook.

Pessimistic Scenario

- Corporate distress increases materially in 2025, driven by worsening macroeconomic and geopolitical conditions. The Russia-Ukraine conflict and Middle East tensions could lead to significant supply chain disruptions, further elevating energy prices and eroding corporate margins.
- Additionally, protectionist trade policies could stifle European exports, particularly in manufacturing-heavy economies like Germany. Elevated interest rates persist for longer than expected, with central banks maintaining restrictive monetary policies to combat stubborn inflation.
- Tight credit conditions exacerbate liquidity challenges for heavily leveraged firms, particularly those in speculative-grade credit categories, driving higher default rates.

Optimistic Scenario

- Economic conditions in Europe improve more quickly than anticipated, leading to a notable reduction in corporate distress over 2025.
- Inflation remains steady, enabling central banks to begin cutting interest rates earlier and more aggressively. This accelerates improvements in corporate liquidity and reduces refinancing pressures, particularly for smaller firms.

DISTRESS FORECAST 2025

Total Europe – Distress Forecast

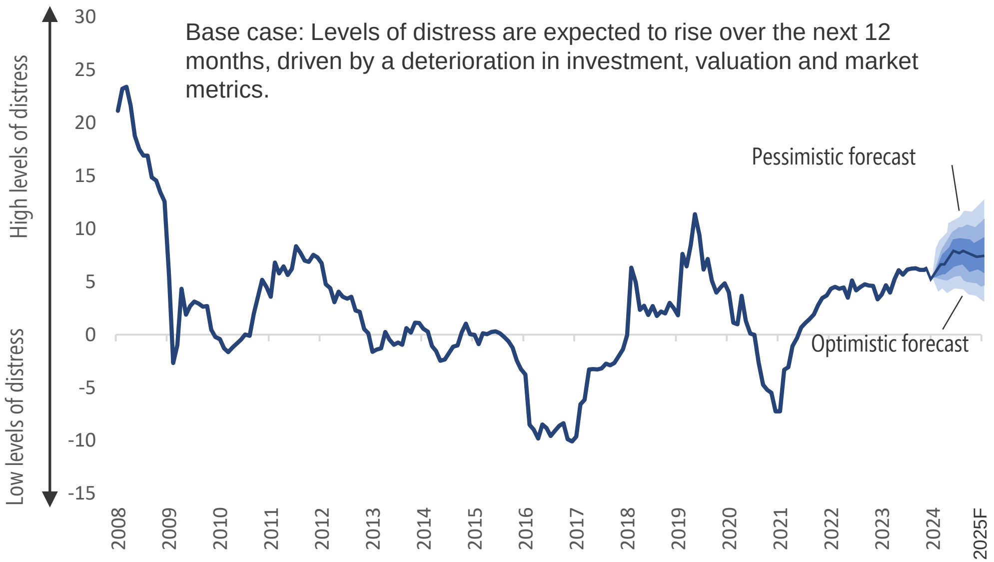
Weil European Distress Index Forecast

Forecast index value for Nov 2025	Index value in Nov 2024 (for comparison)	Distress forecast change
+3.2	+3.6	Distress falling

Distress ranking	Distress driver	YoY Trend
1	Investment	
2	Liquidity	
3	Profitability	
4	Risk	
5	Valuation	
6	Market	

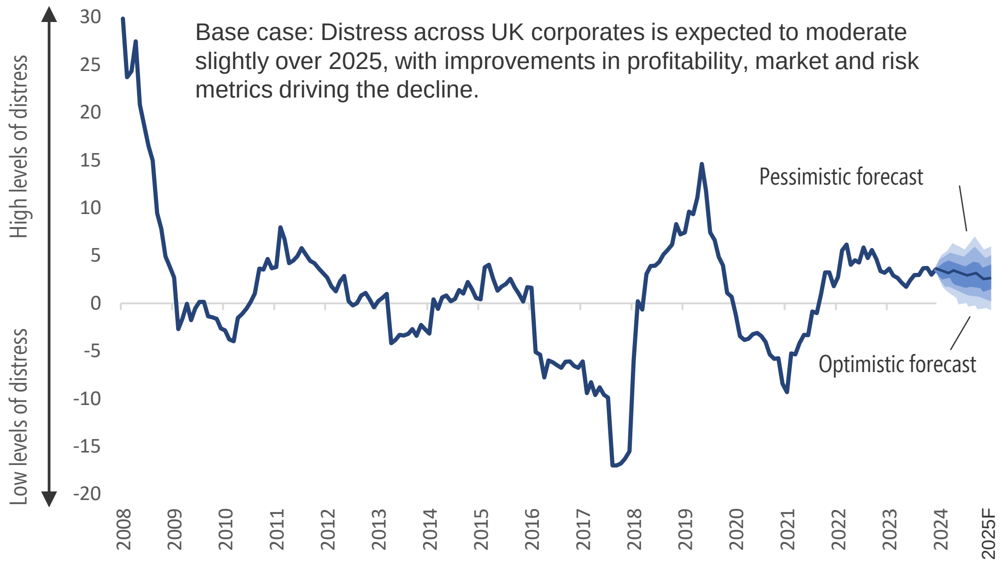
Key: Distress levels rising   Distress levels remain unchanged   Distress levels falling

Rank 1: Germany



Distress ranking	Distress driver	YoY Trend
1	Investment	↑
2	Valuation	↑
3	Market	↑
4	Liquidity	↑
5	Risk	–
6	Profitability	↓

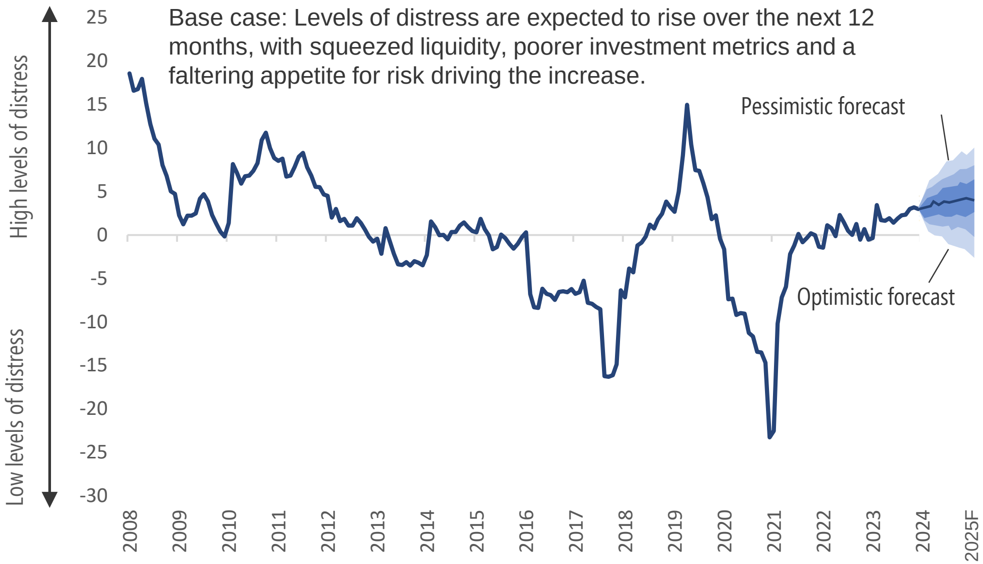
Rank 2: United Kingdom



Distress ranking	Distress driver	YoY Trend
1	Investment	↑
2	Liquidity	↑
3	Profitability	↓
4	Valuation	↑
5	Market	↓
6	Risk	↓

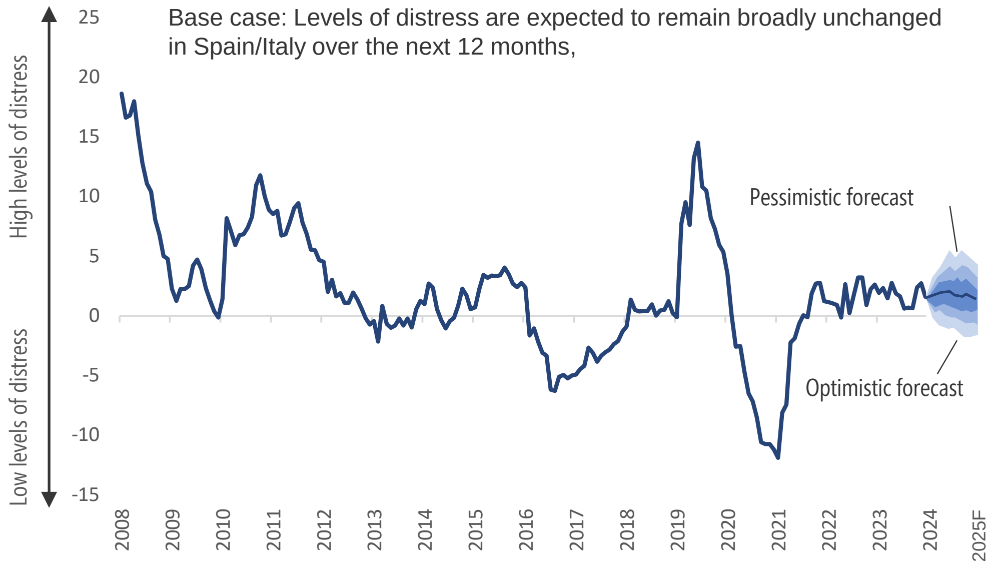
Key: ↑ Distress levels rising – Distress levels remain unchanged ↓ Distress levels falling

Rank 3: France



Distress ranking	Distress driver	YoY Trend
1	Liquidity	↓
2	Investment	↑
3	Risk	–
4	Market	↑
5	Valuation	↑
6	Profitability	↑

Rank 4: Spain/Italy



Distress ranking	Distress driver	YoY Trend
1	Investment	↑
2	Valuation	↑
3	Market	↓
4	Profitability	↓
5	Risk	↑
6	Liquidity	↑

Key: ↑ Distress levels rising – Distress levels remain unchanged ↓ Distress levels falling

Industry Distress Ranking

Distress ranking	Industry	YoY Trend
1	Industrials	↑
2	Real Estate	↓
3	Retail and Consumer Goods	↑
4	Healthcare	↓
5	Infrastructure	↑
6	Travel, leisure and hospitality	↑
7	Financial services	↑
8	Oil and gas	↓
9	Technology, Media and Telecoms	↓
10	Commodities and natural resources	↓

Key: ↑ Distress levels rising — Distress levels remain unchanged ↓ Distress levels falling

Top 3 Distress Sectors for 2025

Industrials

- Industrials face a critical turning point as investment paralysis weighs heavily on growth prospects. With elevated capital costs and uncertain demand, businesses are deferring large-scale projects, leaving the sector vulnerable to stagnation. Profitability is under siege from relentless input cost pressures, while declining valuations signal a loss of investor confidence. For many firms, efficiency gains and targeted cost management will be vital to weathering what remains a turbulent year.
- Primary distress drivers – Investment | Profitability | Valuation

Real Estate

- The real estate sector is navigating a storm of falling profitability, tight liquidity, and fragile market sentiment. Higher interest rates have stalled refinancing opportunities, putting leveraged players at risk, while softening valuations reflect a sector still searching for a bottom. With structural shifts such as remote working and cautious capital flows, the sector must adapt quickly to stabilise in a new reality.
- Primary distress drivers – Profitability | Liquidity | Market

Retail and Consumer Goods

- Profitability pressures are intensifying as cost-conscious consumers scale back discretionary spending, forcing retailers to absorb higher costs while maintaining competitive pricing. Investment in future growth is stalling, particularly for mid-sized firms, as liquidity weakens amid tight cash flow cycles. Navigating 2025 will require retailers to innovate, embrace efficiencies, and diversify offerings to counter economic headwinds and shifting consumer priorities.
- Primary distress drivers – Profitability | Investment | Liquidity

LOOKING BACK AT Q4 2024

Macro view

- The latest Weil European Distress Index (WEDI) indicated a marginal rise in the levels of corporate distress compared with the previous quarter but remained below the previous year.
- Overall levels of European corporate distress have remained above the long-term average but have resided at similar levels over the past two years.
- However, regional differences have continued to develop, with corporate distress in Germany remaining at elevated levels, reporting the highest levels of distress across all the markets covered in the WEDI.
- Indeed, in Germany, levels of distress are markedly higher compared with the previous year, driven by pressure on weaker investment fundamentals, squeezed liquidity and faltering valuation metrics.
- The UK is the second most distressed market, although levels fell marginally on the previous quarter. Sources of distress are similar to those experienced by German corporates, driven primarily by weaker investment, liquidity and profitability.
- Spain/Italy was the only market to show levels of distress easing on the previous year. However, distress has risen during the last quarter, driven higher by deteriorating valuation.
- The European macroeconomic environment remains subdued. The latest IMF projections (Oct 2024) show upgrades to the forecast for the United States offsetting downgrades to those for other advanced economies, in particular, the largest European countries.
- The Euro Area overall is expected to grow by just 0.8% in 2024, rising to just 1.2% in 2025. Germany is expected so see no growth in 2024, the weakest performing of all advanced economies.
- Prospects for growth in the United Kingdom appear more positive, with the IMF forecasting a 1.1% rise in 2024. However, the most recent data showed the UK economy unexpectedly shrank 0.1% in October, the second consecutive monthly contraction according to the Office for National Statistics (ONS).
- Spain remains the standout economy with GDP expected to rise 2.9% in 2024 followed by a rise of 2.1% in 2025, currently the strongest advanced economy according to the IMF.

Weil European Distress Index Movements

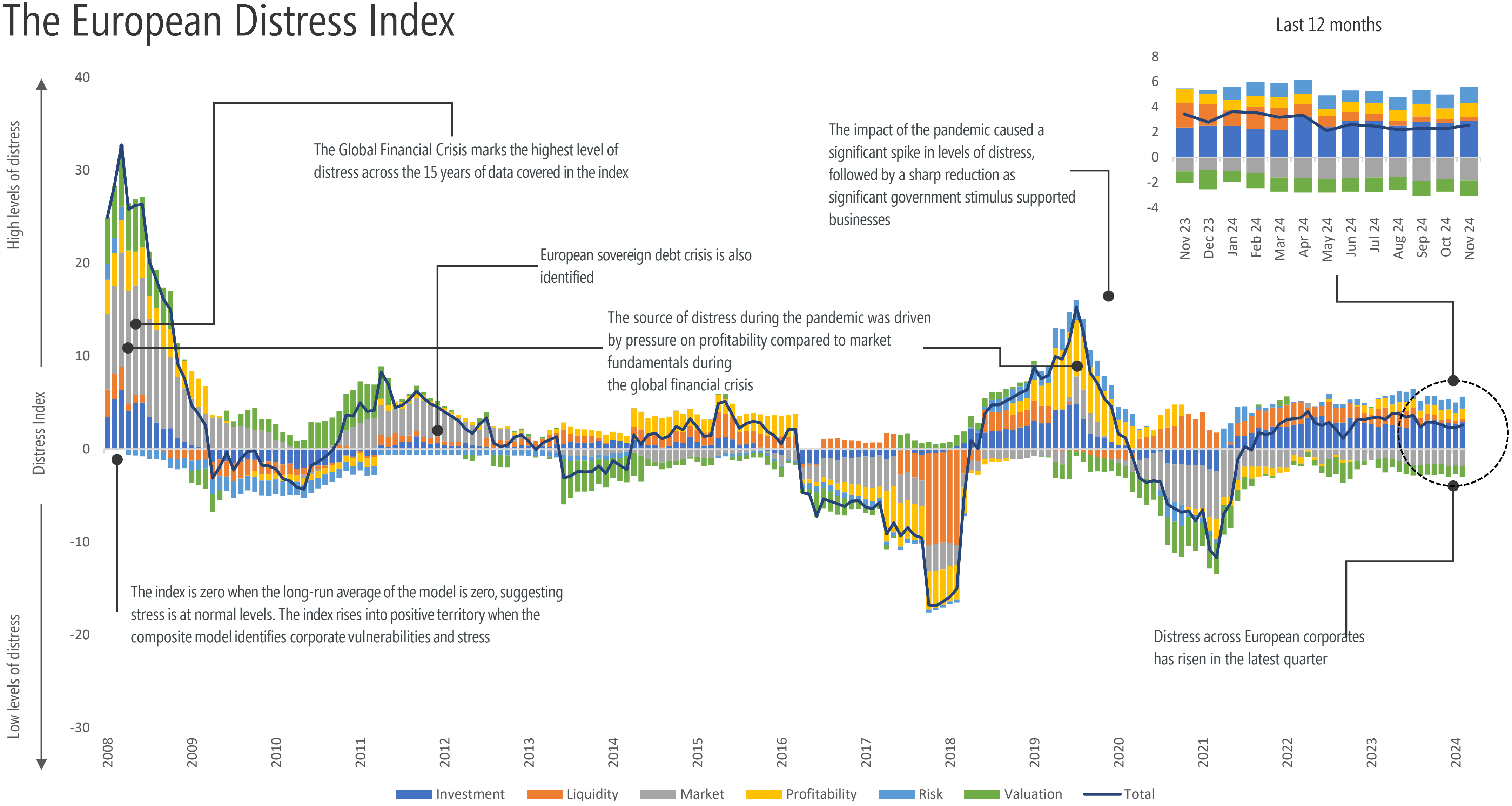
Index value in Nov 2024	QoQ trend	YoY trend
+2.3	⬆ **Distress rising from +2.2 in Aug 24**	⬇ **Distress falling from +3.4 in Nov 23**

- During the latest quarter, the European Central Bank (ECB) has reduced interest rates by 0.25 percentage points to 3%, marking its fourth cut since June.
- The latest reduction brings the central bank's rate to its lowest level since March 2023, highlighting the ECB's response to a weaker economic outlook across the Eurozone.
- In the UK, the Government unveiled its Autumn Budget which will see the fiscal burden on businesses rise in the coming months, primarily through changes to employer National Insurance Contributions (NIC).
- Meanwhile, the US presidential election resulted in Donald Trump's return to office in January 2025.

Sector view

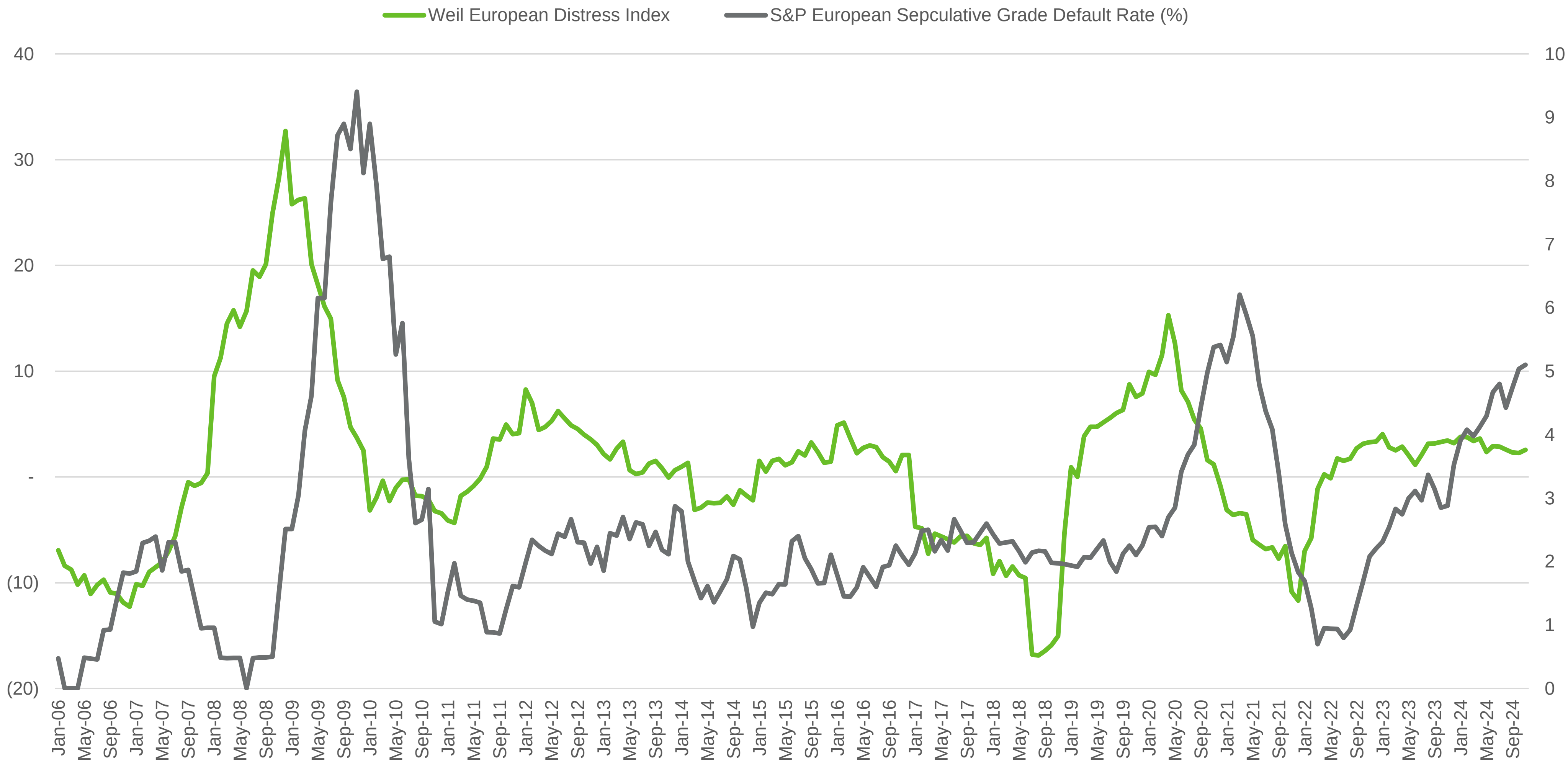
- Key sectors such as industrials, real estate and retail and consumer goods remain above long-term distress levels.
- In the latest period, industrials overtook real estate to become the most distressed sector, with levels of distress rising on the previous quarter and the previous year. On a rolling three-month basis, distress is now the highest since September 2020.
- Real estate is the second most distressed sector, although levels continue on a downward trajectory. Stabilising property valuations, adjustments to refinancing costs and greater levels of certainty have helped settle market conditions. Nevertheless, distress remains markedly higher than then long run average.
- Retail and consumer goods has seen levels of distress rise on the previous quarter and on last year's levels. Consumer confidence remains fragile with spending on discretionary purchases weak.
- Pressure on labour costs, international competition and ongoing pressure for digital investment continues to put margins under pressure.

The European Distress Index



The Weil European Distress Index vs Default Rates

- In the two most major recent crises, the Global Financial Crisis and Covid pandemic, we have observed that the WEDI peaks in advance of the S&P European Speculative Grade Default Rate.
- The WEDI tracks the deterioration in financial markets conditions and company performance which occurs in advance of a default wave to provide an early warning indicator.



Distress Index December 2024

Most distressed — Least distressed

Industrials

Distress ranking	Index value	YoY trend
1	+6.6	↑ +4.8 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Real Estate

Distress ranking	Index value	YoY trend
2	+5.7	↓ +8.1 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Retail and Consumer Goods

Distress ranking	Index value	YoY trend
4	+4.2	↑ +1.4 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Healthcare

Distress ranking	Index value	YoY trend
3	+3.4	↓ +8.2 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Infrastructure

Distress ranking	Index value	YoY trend
5	-0.6	↑ -5.5 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Key: ↑ Distress levels rising — Distress levels remain unchanged — ↓ Distress levels falling

Distress Index December 2024

Most distressed | Least distressed

Travel, Leisure and Hospitality

Distress ranking	Index value	YoY trend
6	-1.2	↓ -0.2 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Financial Services

Distress ranking	Index value	YoY trend
7	-1.5	↑ -2.8 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Oil and Gas

Distress ranking	Index value	YoY trend
8	-2.8	↓ -1.2 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Technology, Media and Telecoms

Distress ranking	Index value	YoY trend
9	-4.7	↑ -5.7 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Commodities and Natural Resources

Distress ranking	Index value	YoY trend
10	-8.9	↓ -3.3 Nov 23

Investment | Liquidity | Market | Profitability | Risk | Valuation

Key: ↑ Distress levels rising — Distress levels remain unchanged ↓ Distress levels falling

Industrials

The industrials sector has become the most distressed sector, with pressures intensifying in recent months. Elevated investment costs and liquidity challenges have been key drivers, as rising capital expenses and tighter financing conditions continue to weigh heavily on the sector. A softer demand outlook and subdued project pipelines further highlight the strain, reflecting broader economic uncertainty.

Real Estate

Real estate remains among the most distressed sectors, though conditions have stabilised compared to recent months. Modest improvements in investment and risk metrics have provided some relief, but liquidity and profitability pressures persist. Highly leveraged companies continue to face refinancing challenges in a high-interest-rate environment, keeping risks elevated.

Retail and Consumer Goods

The retail and consumer goods sector remains under pressure as distress levels have risen again this quarter. Higher interest rates continue to suppress household spending, keeping consumer confidence fragile. Liquidity pressures and low profitability remain primary drivers of distress, with borrowing and labour costs compounding the sector's challenges.

Healthcare

The healthcare sector has eased to the fourth most distressed, reflecting marginal improvements across liquidity and profitability metrics. However, weaker investment sentiment remain key contributors to distress. Elevated operating costs and persistent debt burdens continue to weigh on the sector's outlook.

Infrastructure, Utilities and Power

Distress in the infrastructure, utilities, and power sector has risen sharply in recent months, driven by pressure on valuations and perceived risk. For many firms, the combination of financing constraints and slowing project pipelines has created a challenging environment, pushing distress levels higher.

Travel, Leisure and Hospitality

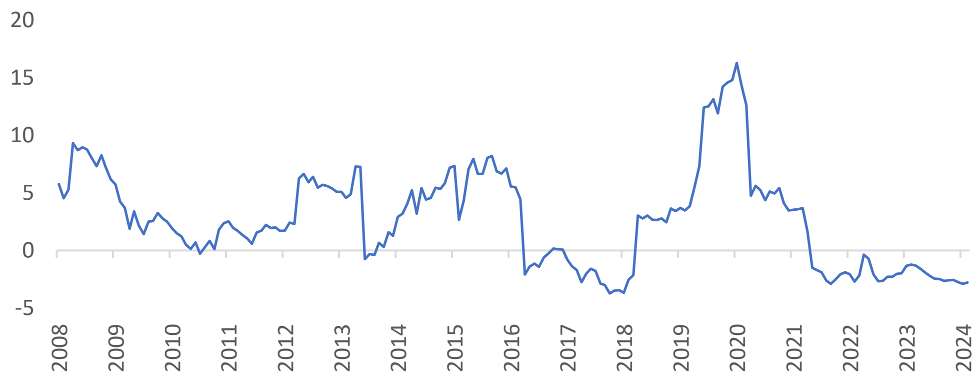
Distress in the travel, leisure, and hospitality sector remains stable, supported by steady demand for both business and leisure travel. Support from market fundamentals, investment and lower perceived risk has helped support the industry with distress levels remaining below the long-run average.

Financial Services

While still below the long-run average, distress in financial services has edged higher this quarter. Rising interest rates continue to provide some support through improved margins, but weaker market sentiment and growing risk exposures are adding pressure. Liquidity remains robust, helping to contain further deterioration.

Oil and Gas

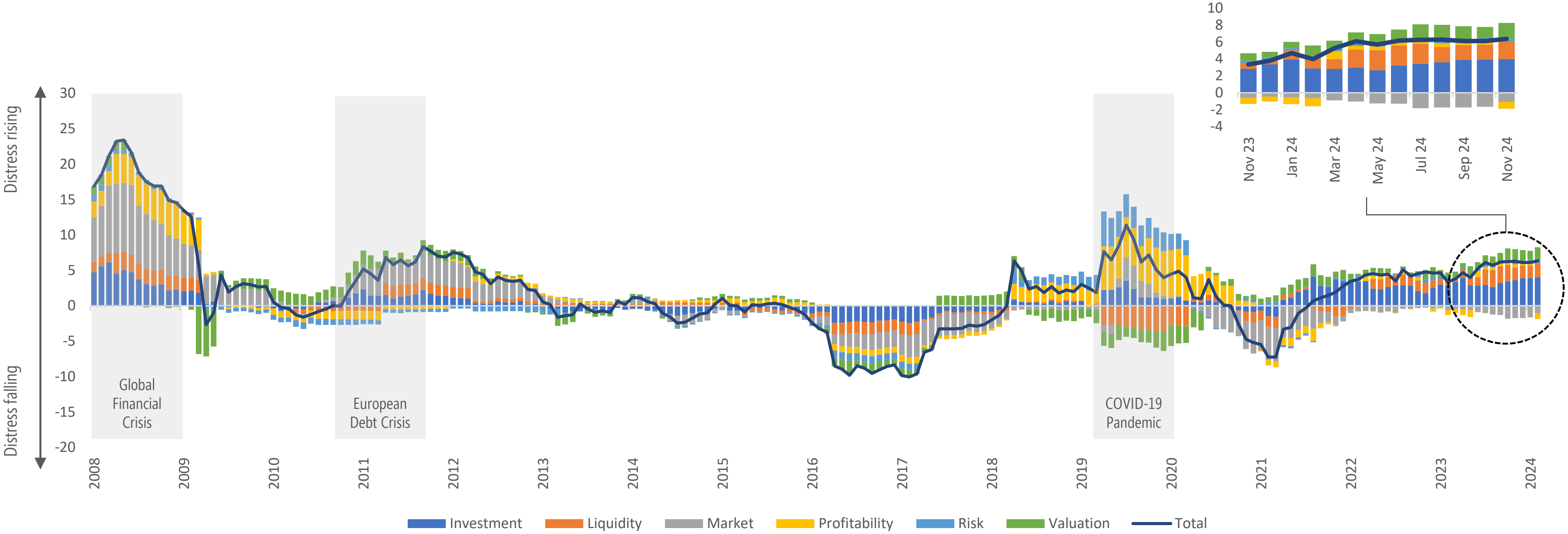
Distress in the oil and gas sector has declined marginally, keeping it among the least distressed industries. Stable oil prices and strong profitability continue to underpin performance, although lacklustre global demand and geo-political volatility poses a risk to the outlook.



Distress Ranking	Index value in November 2024	QoQ Trend	YoY Trend
1	+6.3	Distress level from +6.3 in Aug 24	Distress rising from +3.3 in Nov 23

Germany

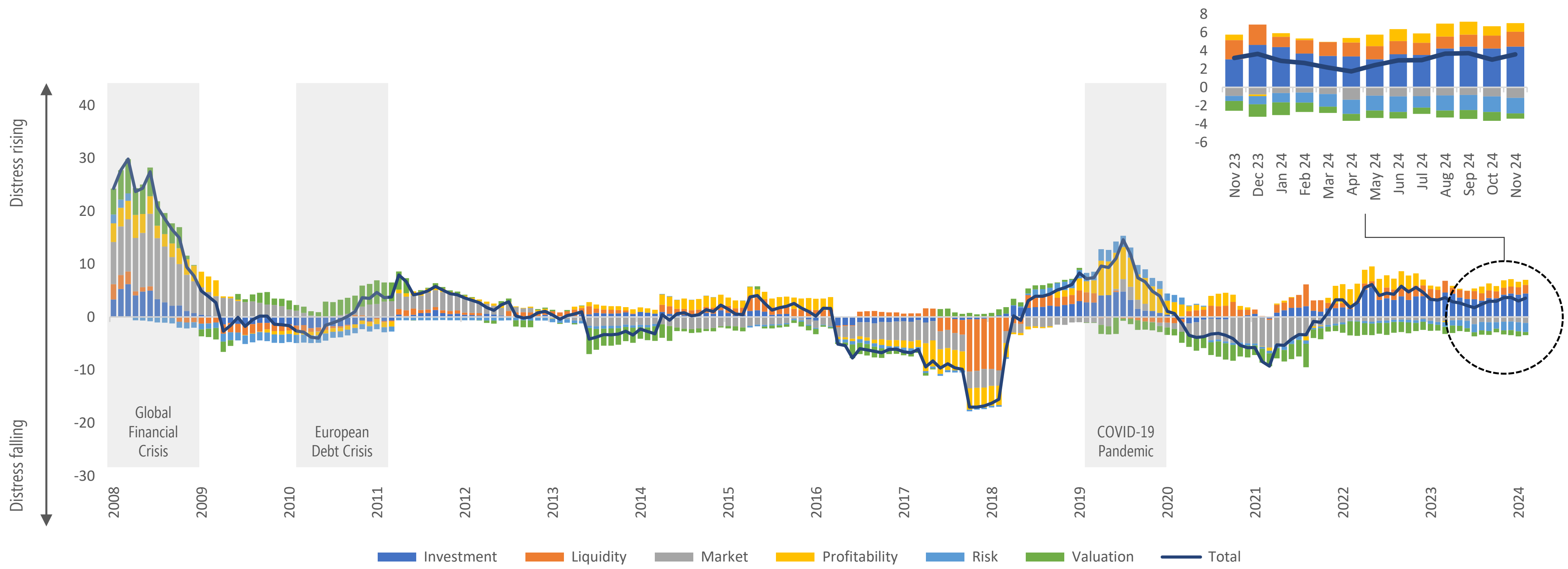
- Corporate distress in Germany remains elevated, with conditions stabilising over the latest quarter. Although distress levels are comparable to August 2024, they are significantly higher compared with the previous year, approaching levels not seen since mid-2020.
- Key drivers of distress include mounting pressures on investment and liquidity, as businesses grapple with higher financing costs and subdued capital deployment.
- German firms remain hesitant to invest amid ongoing economic uncertainty. Industrial production has continued its decline, down 4.5% in October, the 17th consecutive month of contraction according to Federal Statistical Office.
- This has been due to reduced global demand and ongoing struggles in energy-intensive sectors like manufacturing and automotive.
- The Bundesbank has warned that 2025 may bring further economic headwinds, as higher labour costs, elevated borrowing expenses, and lingering inflation continue to challenge recovery efforts.
- Profitability remains a significant concern, particularly for manufacturers, where margins are being squeezed by persistent input costs and declining export demand.
- Meanwhile, domestic consumption has softened, with retail sales falling by 1.5% month-on-month in October, reflecting weakened household confidence and tighter budgets.
- These pressures are unlikely to abate in the short term, as businesses face weak domestic demand and fragile global trade conditions.



United Kingdom

Distress Ranking	Index value in Nov 2024	QoQ Trend	YoY Trend
2	+3.6	Distress falling from +3.7 in Aug 24	Distress rising from +3.2 in Nov 23

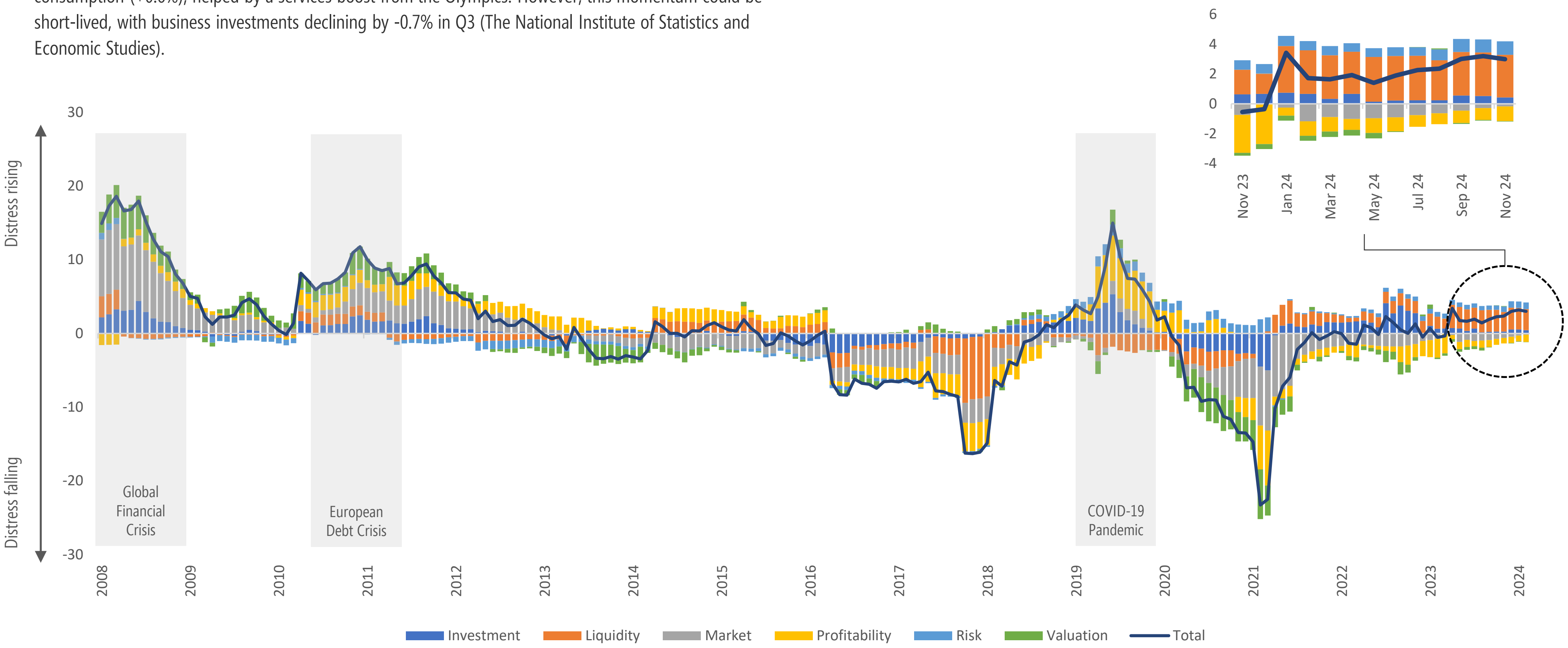
- Corporate distress in the UK has softened over the latest quarter, but remains higher than last year, driven by challenges in investment, liquidity, and profitability.
- Investment uncertainty remains a key driver of distress, as businesses delay capital expenditure amid elevated interest rates, while recent uncertainties around the Autumn Budget added further hesitancy to corporate decision-making.
- According to the latest GDP data, the UK economy unexpectedly contracted by 0.1% in October 2024, following stagnation over the summer months. It was the first consecutive drop in monthly GDP since March and April 2020.
- Weakness in the construction and manufacturing sectors, coupled with softer consumer demand, has weighed heavily on business activity.
- Profitability pressures remain acute, particularly for small and medium-sized businesses, as higher input costs and borrowing expenses continue to erode margins.
- The outlook for the UK economy remains mixed. Inflation has eased from its 2023 highs but remains above the Bank of England's 2% target, with many businesses warning of rising cost pressures as a result of announcements made in the budget.
- Nevertheless, the IMF forecasts 1.1% growth for the UK economy in 2024, rising to 1.5% in 2025.



France

Distress Ranking	Index value in Nov 2024	QoQ Trend	YoY Trend
3	**+3.0**	**Distress rising from +2.4 in Aug 24**	**Distress rising from -0.6 in Nov 23**

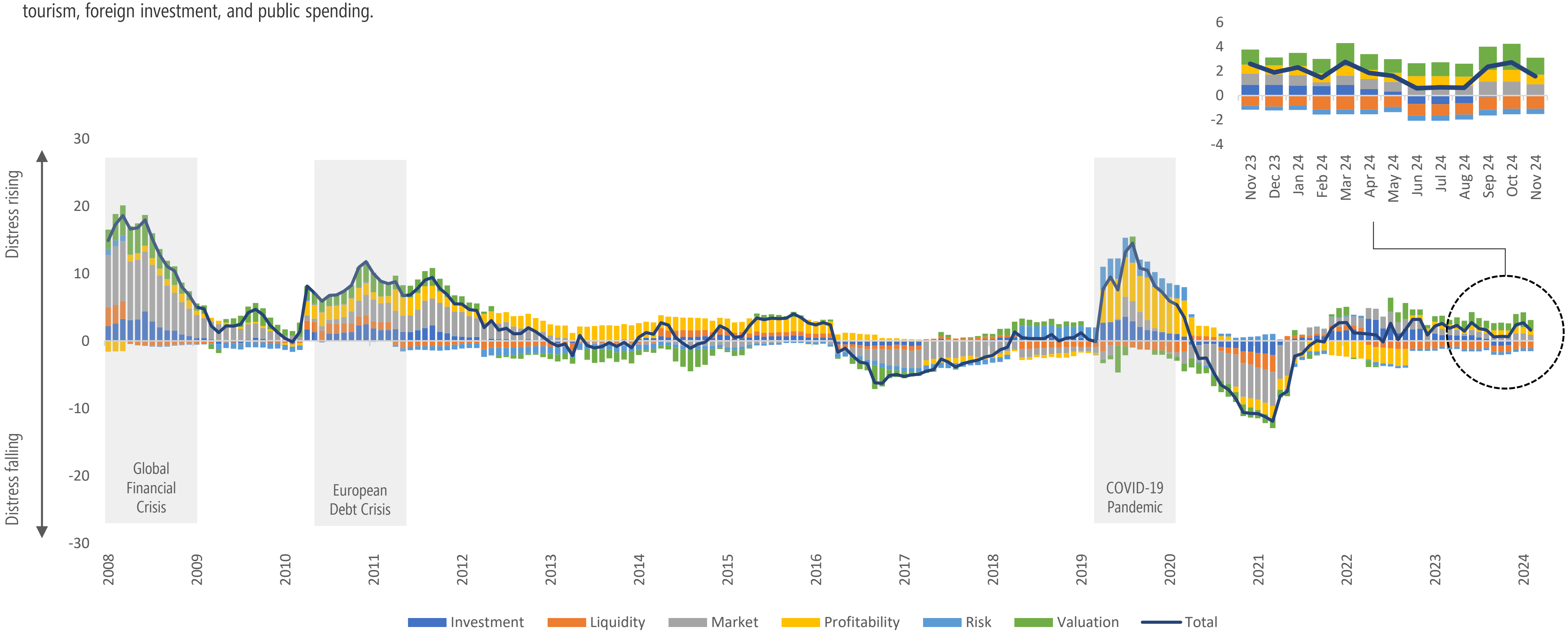
- Distress levels in France have risen further this quarter, remaining above the long-run average and back to levels seen at the beginning of 2024.
- The increase is driven by ongoing liquidity pressures, weaker risk appetite, and persistent investment challenges amid a fragile economic backdrop.
- GDP growth has shown some resilience, expanding by 0.4% in Q3 2024 after a 0.2% rise in Q2, marking the strongest performance in three quarters. Growth was primarily supported by a rebound in household consumption (+0.6%), helped by a services boost from the Olympics. However, this momentum could be short-lived, with business investments declining by -0.7% in Q3 (The National Institute of Statistics and Economic Studies).
- Challenges persist in manufacturing, with the HCOB France Manufacturing PMI falling to 43.1 in November 2024, its steepest contraction since January and its 22nd consecutive month of decline.
- Looking ahead, business confidence remains particularly weak towards the outlook for output over the coming 12 months, reflecting ongoing economic uncertainties, and wider geo-political volatility.



Distress Ranking	Index value in Nov 2024	QoQ Trend	YoY Trend
4	+1.6	Distress rising from +0.6 in Aug 24	Distress falling from +2.6 in Nov 23

Spain and Italy

- Corporates in Italy and Spain continue to experience levels of distress above the long-run average, though they remain the least distressed market in the WEDI.
- Nevertheless, levels of distress have risen marginally on the previous period but remain lower than a year ago.
- Areas such as profitability, valuation and markets have all contributed to overall levels of distress, keeping it above the long-run average.
- In Spain, GDP growth continues to exceed expectations, expanding by 0.8% in Q3 2024, boosted by tourism, foreign investment, and public spending.
- Spain remains one of the Eurozone's strongest performers, with the IMF projecting growth of 2.9% for 2024, an upwards revision from 2.4% previously.
- Italy's growth is more subdued. Following growth of 0.2% in Q2 2024, the economy flatlined in Q3. In its latest forecast, the Bank of Italy suggested that the economy is only likely to grow 0.5% in 2024, with the Economy Minister, Giancarlo Giorgetti, warning that the industrials sectors was the main cause of concern for the government.



KEY RESTRUCTURING CONTACTS

London

Andrew Wilkinson
Partner
+44 20 7903 1068
andrew.wilkinson@weil.com

Neil Devaney
Partner
+44 20 7903 1199
neil.devaney@weil.com

Matt Benson
Partner
+44 20 7903 1009
matt.benson@weil.com

Jenny Davidson
Partner
+44 20 7903 1438
jenny.davidson@weil.com

Lois Deasey
Partner
+44 20 7903 1702
lois.deasey@weil.com

Mark Lawford
Partner
+44 20 7903 1050
mark.lawford@weil.com

Gemma Sage
Partner
+44 20 7903 1419
gemma.sage@weil.com

Paris

Jean-Dominique Daudier de Cassini Partner
+33 1 4421 9797
jean-dominique.
daudierdecassini@weil.com

Céline Domenget-Morin
Partner
+33 1 4421 9797
celine.domenget-morin @weil.com

Germany

Gerhard Schmidt
Partner
+49 89 24243 101
gerhard.schmidt@weil.com

Britta Grauke
Partner
+49 69 21659 664
britta.grauke@weil.com

Matthias Eiden
Partner
+49 69 21659 641
matthias.eiden@weil.com

U.S.

Matt Barr
Partner
+1 212 310 8010
matt.barr@weil.com

Gary Holtzer
Partner
+1 212 310 8463
gary.holtzer@weil.com

Jeffrey Saferstein
Partner
+1 212 310 8330
jeffrey.saferstein@weil.com

Sunny Singh
Partner
+1 212 310 8525
sunny.singh@weil.com

Asia

Kathleen Aka
Partner
+852 3476 9000
kathleen.aka@weil.com

How do we define 'distress'?

The Weil European Distress Index (WEDI) provides a measure of the level of corporate distress by aggregating company fundamentals and financial market indicators across key European countries.

Corporate distress can be defined as uncertainty about the fundamental value of financial assets, volatility and increase in perceived risk. It also refers to the disruption of the normal functioning of company financial performance, including their ability to fulfil their debt requirements.

The definition is purposefully broad as corporate distress can manifest in different ways, and no two stress events are identical for each company.

Although stress events differ in composition, there are several common characteristics of corporate distress ranging from pressure on liquidity, reduced profitability, rising insolvency risk, falling valuations and reduced return on investment. These company indicators are also set against a backdrop of market conditions that can also indicate levels of distress (e.g. business confidence, rising volatility and rising levels of perceived market risk).

Methodology

The WEDI is a univariate time series that distils information embedded in more than 16 indicators into a summary measure of corporate distress. It can then be decomposed into five markets (Total Europe*, UK, Germany, Spain-Italy, and France) and 10 industry groups:

- Retail and Consumer Goods
- Travel, Leisure and Hospitality
- Industrials
- Healthcare
- Technology, Media and Telecoms
- Financial Services
- Oil and Gas
- Infrastructure, Utilities and Power
- Commodities and Natural Resources
- Real Estate

* Total Europe includes UK, France, Germany, Spain, Italy, The Netherlands, Republic of Ireland, Belgium, Norway and Portugal

The WEDI is constructed using data from over 3,750 listed European companies and a range of financial market indicators. 16 indicators have been used to construct the WEDI which reflect one or more symptoms of corporate distress based on comprehensive academic and desk-based research.

The WEDI uses a Dynamic Factor Model – a statistical approach that captures the variability across the 16 indicators in a single composite index using key company fundamentals going back to 2005 and incorporates over five million data points. overall expected to rise by 0.9% this year and 1.7% in 2025.

METRIC	DEFINITION
Liquidity	Contains measures of liquidity such as the current ratio, quick ratio and operating cashflow metrics which are used to determine a company's ability to pay off current debt obligations without needing to raise external capital.
Profitability	Contains measures such as return on equity, net profit margins and return on assets to assess the business's ability to generate earnings relative to its revenue, operating costs, balance sheet and shareholders' equity over time.
Risk	Contains measures such as debt to equity ratio and interest cover to assess a company's capital structure and current risk levels, often in terms of debt levels and risk of default or bankruptcy.
Valuation	Contains measures such as price to earnings, price to book value and enterprise value to EBITDA multiples, used to assess the relative valuation of a company over time.
Investment	Contains measures such as dividend per share and dividend yield used to assess the potential attractiveness of a business as an investment opportunity.
Financial markets	Contains measures such as index market capitalisation, market volatility, risk, credit default swaps and business confidence which are used to track levels of distress across broader financial markets in key European markets.

Forecast methodology

Our forecasting methodology employs a Bayesian Structural Time Series forecasting approach, which offers several key advantages over traditional forecasting methods.

The advantages of this framework include:

- Ability to more flexibly handle structural changes in data
- Incorporation of external economic predictors to improve long term forecasts
- Better uncertainty quantification, and
- Improved long-term forecasting due to the ability to incorporate flexible trends

The core of this Bayesian approach uses a flexible trend approach, which is particularly well-suited for long-term forecasting as it allows both persistent trends and temporary fluctuations in the data to be captured, whilst preventing any unrealistic trends to be extrapolated. Crucially, the Bayesian model provides a robust assessment of forecast uncertainty, accounting for both model parameter uncertainty and inherent market volatility.

We employed a two-pronged forecasting approach:

- A top-level forecast of the aggregate distress index, utilising lagged market prices as a leading indicator
- Component-level forecasts that provided granular insights into the expected evolution of individual distress factors

Combining model forecasts and insights from both approaches allowed us to build a stronger, more reliable long-term view of distress than would otherwise be possible.

Further, the decision to incorporate market price signals with a 12-month lag structure was selected through rigorous comparison of models and economic indicators with the sole goal of optimising predictive performance. The resulting approach allows us to capture leading market signals while avoiding overfitting to short-term fluctuations.