THE WEIL EUROPEAN DISTRESS INDEX

JUNE 2025

EXECUTIVE SUMMARY

Macro view

The Weil European Distress Index (WEDI) indicates a rise in corporate distress across Europe as of May 2025, increasing to 4.1 from 3.8 in February 2025, marking the highest distress level in nine months.

The total level of distress has climbed in seven of the past nine months and elevated across all markets measured compared to the same period last year.

Our WEDI forecast published in January 2025 correctly predicted the sharp rise in German corporate distress, with actual levels closely tracking the projected deterioration. By contrast, UK corporate distress has outpaced our projections, driven by a convergence of unforeseen shocks such as tariff disputes, a weaker growth outlook and mounting geopolitical tensions.

- Seven out of ten industry groups have experienced worse conditions compared with the previous quarter, indicating a broadening of distressed conditions.
- Germany remains the most distressed market, with levels rising on the previous quarter and year, reaching the highest point since May 2020 during the pandemic. With the exception of market fundamentals, distress worsens across all other pillars, in particular investment, liquidity and valuation.
- Distress among UK corporates has also risen on the previous quarter and year to its highest level since August 2023, driven by weak investment metrics, squeezed liquidity and faltering valuations.
- Elsewhere, corporate distress in France has risen on the previous quarter, while Spain/Italy is the only market to show more modest levels of corporate distress.
- The European macroeconomic environment remains challenging. Economic growth for the Euro Area as a whole was downgraded by the latest IMF projections. GDP is expected to rise by 0.8% in 2025, down from 1.0% in the previous estimate.

Weil European Distress Index Movements

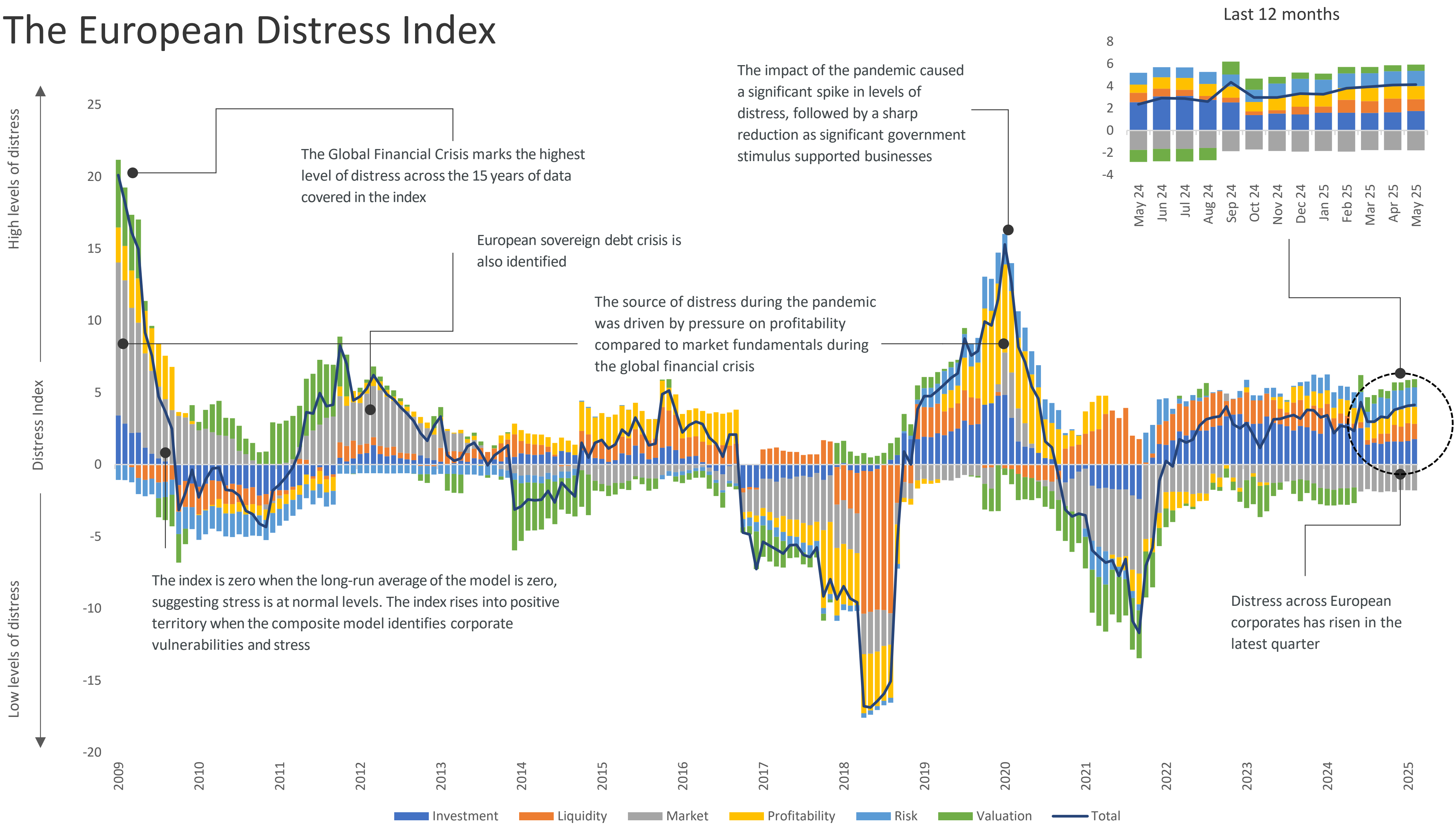
Index value in May 2025	QoQ trend	YoY trend
+4.1	⬆ **Distress rising from +3.8 in Feb 25**	⬆ **Distress rising from +2.2 in Feb 24**

- Geopolitical uncertainty remains elevated, with renewed tensions in EU-US trade relations following the re-imposition of targeted tariffs on electric vehicles and steel, raising concerns over potential retaliation and a broader shift towards protectionist policies.
- The Russia/Ukraine conflict and instability across the Middle East continue to pose risks to global energy markets and investor sentiment.
- Financial markets have remained volatile. The VIX index (a measure of market volatility) remains elevated, having risen to its highest point in April 2025 since the pandemic. This is driven by ongoing uncertainty around monetary policy, global demand, and geopolitical flashpoints continuing to drive erratic price movements.

Sector view

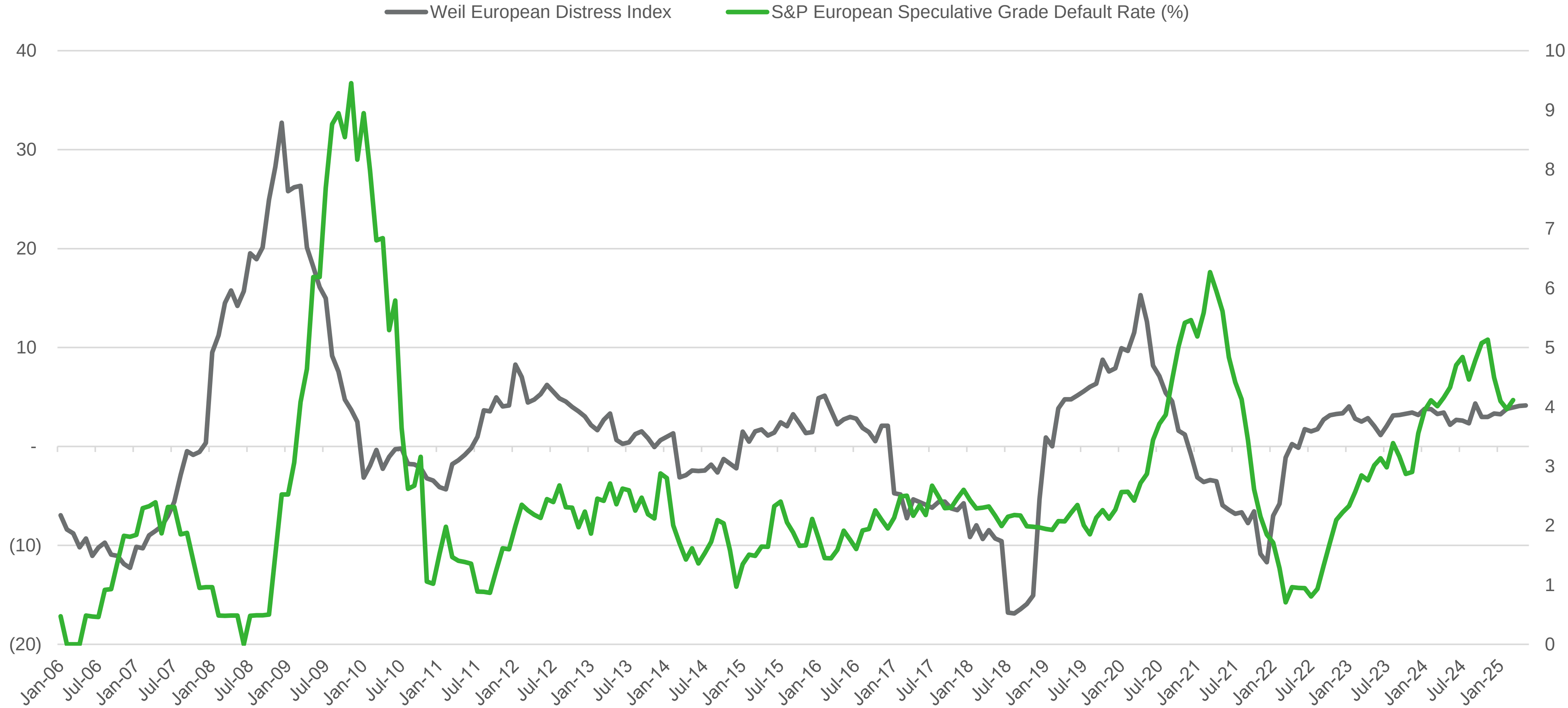
- Retail and Consumer Goods is now the most distressed sector in the WEDI index, overtaking Industrials and Real Estate. The sector has experienced a steep rise in distress over the past quarter, reflecting weak discretionary demand, margin compression and tightening credit conditions across the retail landscape. Distress has climbed to its highest level since the global financial crisis in September 2009.
- Ongoing uncertainty around tariffs has also impacted supply chains and negatively affected retailers exporting to the US.
- Industrials has moved into second place as the most distressed sector. Persistent input cost inflation, sluggish demand for capital goods and constrained access to financing continue to weigh on businesses throughout the manufacturing supply chain. Germany's weakened economy has continued to affect the sector's outlook.
- Real Estate now ranks as the third most distressed sector. While the pace of deterioration has eased compared to early 2024, refinancing challenges remain acute. Stabilising valuations and early signs of institutional interest in distressed assets are helping to cap further downside.

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.



THE WEIL EUROPEAN DISTRESS INDEX

JUNE 2025

INDUSTRY ANALYSIS

COUNTRY ANALYSIS

Distress Index May 2025

Most distressed

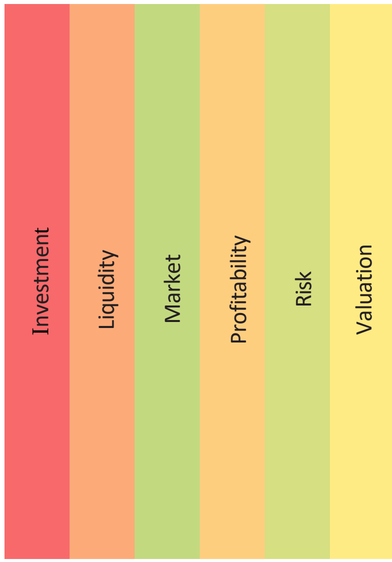
Least distressed

Retail and Consumer Goods

Distress ranking	Index value	YoY trend
1	+8.7	↑ +2.4 May 24

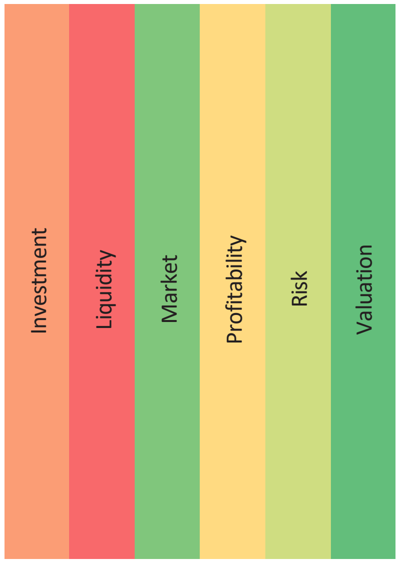
Industrials

Distress ranking	Index value	YoY trend
2	+8.0	↑ +1.9 May 24



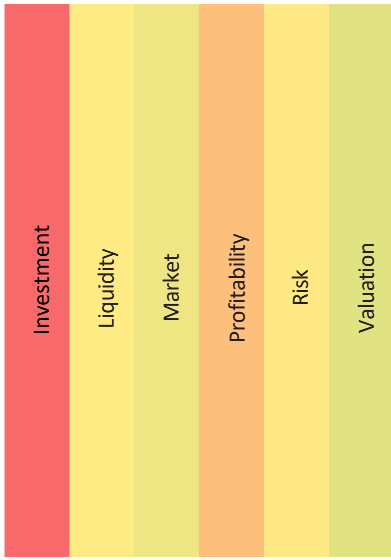
Real Estate

Distress ranking	Index value	YoY trend
3	+3.8	↓ +6.4 May 24



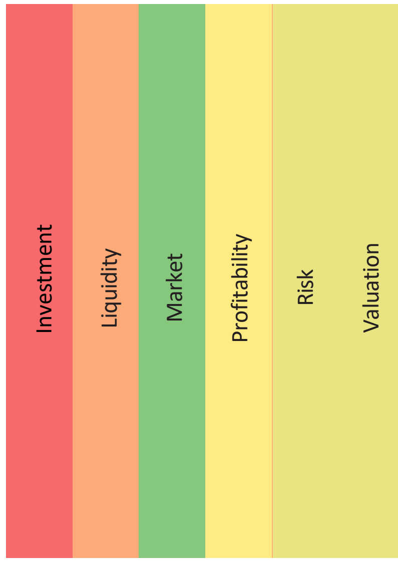
Healthcare

Distress ranking	Index value	YoY trend
4	+2.2	↓ +7.5 May 24



Infrastructure

Distress ranking	Index value	YoY trend
5	+0.3	↑ -4.8 May 24

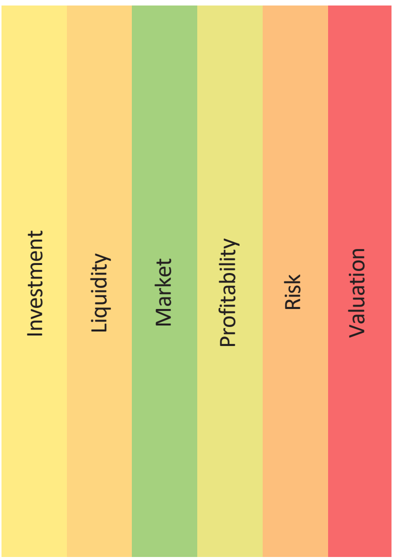


Distress Index May 2025

Most distressed | Least distressed

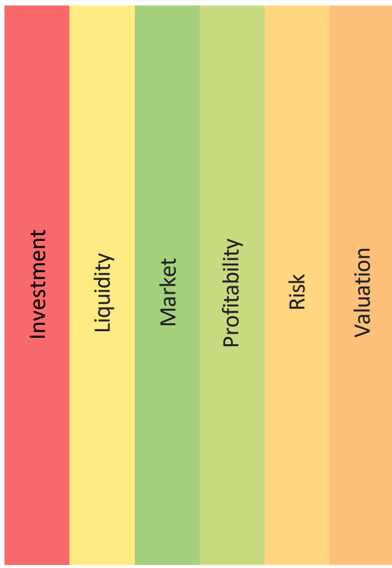
Financial Services

Distress ranking	Index value	YoY trend
6	-0.6	-5.8 May 24



Oil and Gas

Distress ranking	Index value	YoY trend
7	-2.3	-3.1 May 24

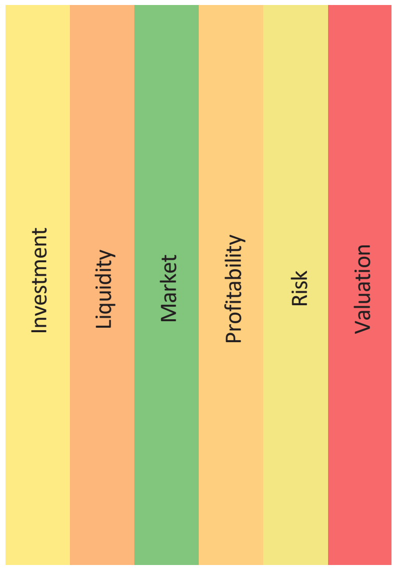


Technology, Media and Telecoms

Distress ranking	Index value	YoY trend
8	-2.5	-3.4 May 24

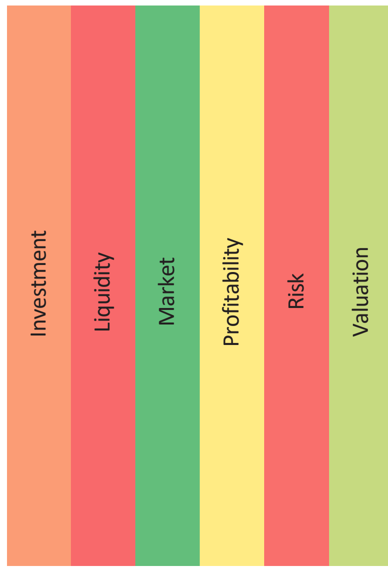
Travel, Leisure and Hospitality

Distress ranking	Index value	YoY trend
9	-4.0	-1.7 May 24



Commodities and Natural Resources

Distress ranking	Index value	YoY trend
10	-7.2	-7.2 May 24



Retail and Consumer Goods

Distress in the Retail and Consumer Goods sector has surged to become the highest across all industries in the index, rising sharply on both a quarterly and annual basis. The increase reflects weakening liquidity, declining profitability and tightening credit conditions. Consumer demand remains fragile amid ongoing cost of living pressures and low consumer confidence, all of which continue to suppress discretionary spending.

Industrials

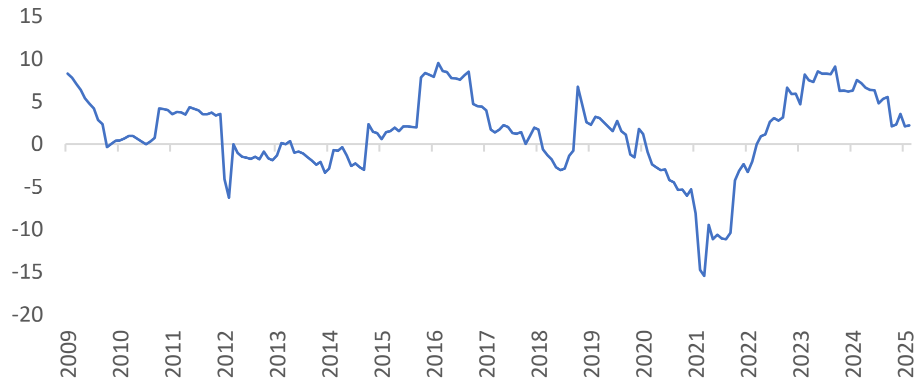
The Industrials sector continues to experience rising levels of distress. On a three-month rolling basis, distress has reached its highest point since September 2020. A combination of mounting cost pressures, weakening order books and shifts in global demand has contributed to this decline. Germany's deteriorating export performance has added further pressure on investment and liquidity.

Real Estate

Real Estate now ranks as the third most distressed sector, although fundamentals continue to improve compared with the intense pressures 18 months ago. Stabilising yields and selective asset repricing have slowed the pace of deterioration. Nevertheless, distress levels remain above the long-run average, with refinancing risks remaining acute for highly leveraged firms. Profitability continues to erode amid high vacancy rates and falling rental income in key commercial segments.

Healthcare

The Healthcare sector remains the fourth most distressed in the index, although conditions have shown signs of improvement over the past 18 months. Distress levels remain elevated compared to the long-run average, with providers facing persistent cost inflation and reduced access to private capital, both of which continue to strain operating cash flow.

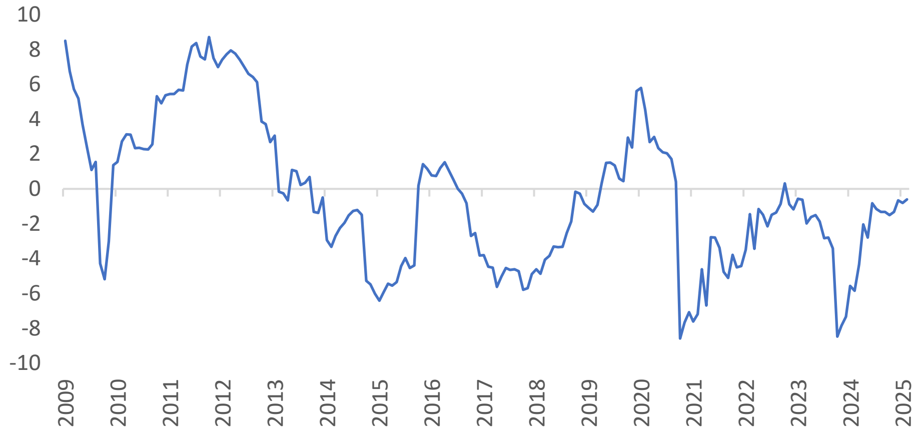


Infrastructure

Distress levels in the Infrastructure sector have continued to rise, now sitting slightly above the long-term average. The increase reflects sustained pressure on asset valuations driven by persistently high interest rates. Investor appetite has also weakened, affected by delays in infrastructure spending, rising project delivery costs and tighter funding conditions for capital-intensive assets.

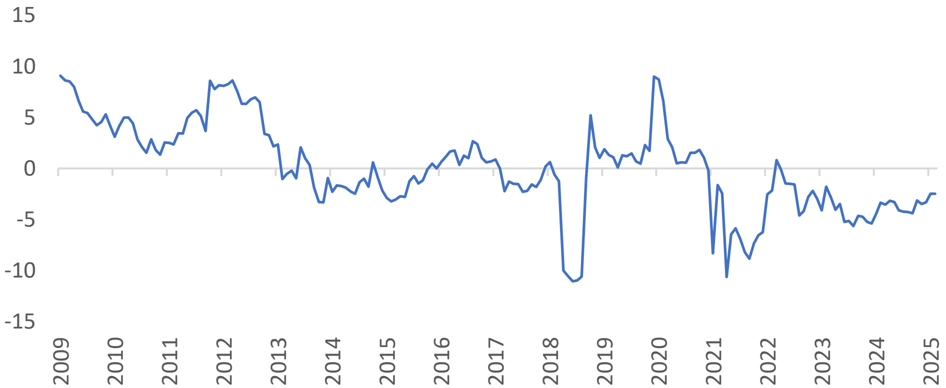
Financial Services

Although distress in the Financial Services sector remains below its long-term average, it has risen again this quarter and now sits significantly above levels recorded a year ago. The increase reflects pressure on valuations, combined with growing concerns over credit quality, tighter margins and heightened default risk.



Technology, Media and Telecoms

The Technology, Media and Telecoms sector remains one of the most resilient in the index, with distress levels continuing to track below the long-term average. Despite ongoing market volatility, the sector benefits from strong cash reserves, scalable profit margins and sustained investor interest in AI-driven growth. As a result, it continues to outperform capital-intensive and consumer-facing sectors.



Oil and Gas

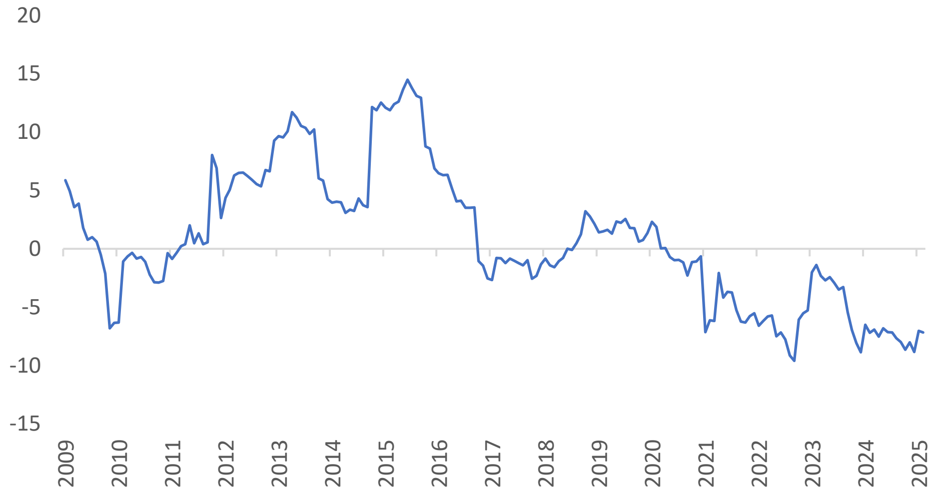
The Oil and Gas sector has experienced a slight rise in distress but remains one of the least affected industries. Volatility in crude prices, combined with weakening global demand and growing geopolitical uncertainty, has weighed on sentiment. Investor concerns have intensified in response to escalating tensions in the Middle East.

Travel, Leisure and Hospitality

Distress within the Travel, Leisure and Hospitality sector remains below the long-term average. Strong summer booking trends, solid pricing power and improved profitability across airlines and hotel operators have helped keep pressure contained. Although rising operating costs present some challenges, investor appetite and resilient consumer demand continue to underpin the sector's stability.

Commodities and Natural Resources

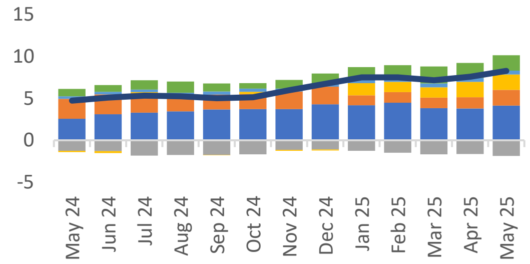
The Commodities and Natural Resources sector remains the least distressed across the index, with levels declining further over the past quarter. Resilience has been underpinned by robust pricing in key metals and agricultural inputs. Gold prices have soared to record highs in recent months, with investors seeking safer assets amid rising market volatility.

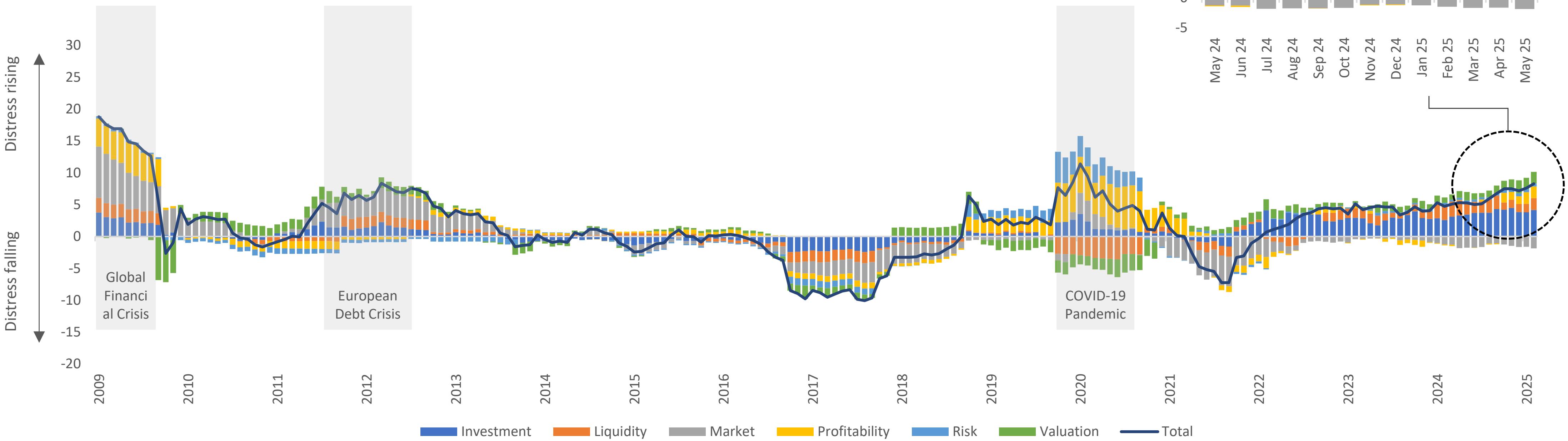


Distress Ranking	May 2025	QoQ Trend	YoY Trend
1	+8.3	+7.5 Feb 25	+4.7 May 24

Germany Distress Index

- German corporates continue to face elevated distress. Germany remains the most distressed in the WEDI index among major European markets, with distress levels rising on the previous quarter and year.
- GDP has grown modestly by 0.4% as of Q1 2025, marking a recovery from technical recession. However, output remains muted on a year-on-year basis, reflecting deeper structural stagnation.
- Industrial production and export activity weakened sharply in April. Output fell by 1.4% compared with March, while exports dropped by 1.7%, which represented an annual decrease of 2.1%.
- Factory orders showed a slight rebound in April, rising by 0.6% month-on-month. Despite this, sentiment remained subdued through May. The Composite Purchasing Managers' Index (PMI) fell to 48.5, while the Services PMI dropped to 47.1, marking the fastest decline in services activity in 2.5 years.
- Business confidence remains fragile with the Ifo Auto sector index falling further, reflecting concern over U.S. tariffs.
- A survey by the German Chamber of Commerce and Industry, covering 23,000 businesses, has found that 29% expect exports to fall further over the next 12 months, while only 19% anticipate a rise. This outlook supports their forecast of a 0.3% contraction in GDP for 2025, marking the third consecutive year of decline.
- In response, policymakers have outlined a €46 billion corporate tax reform package to stimulate investment. A €500 billion public infrastructure programme is also expected to roll out over the medium term. However, the Bundesbank has warned that growth could remain flat throughout 2025, with recovery to be delayed until 2026 or 2027.

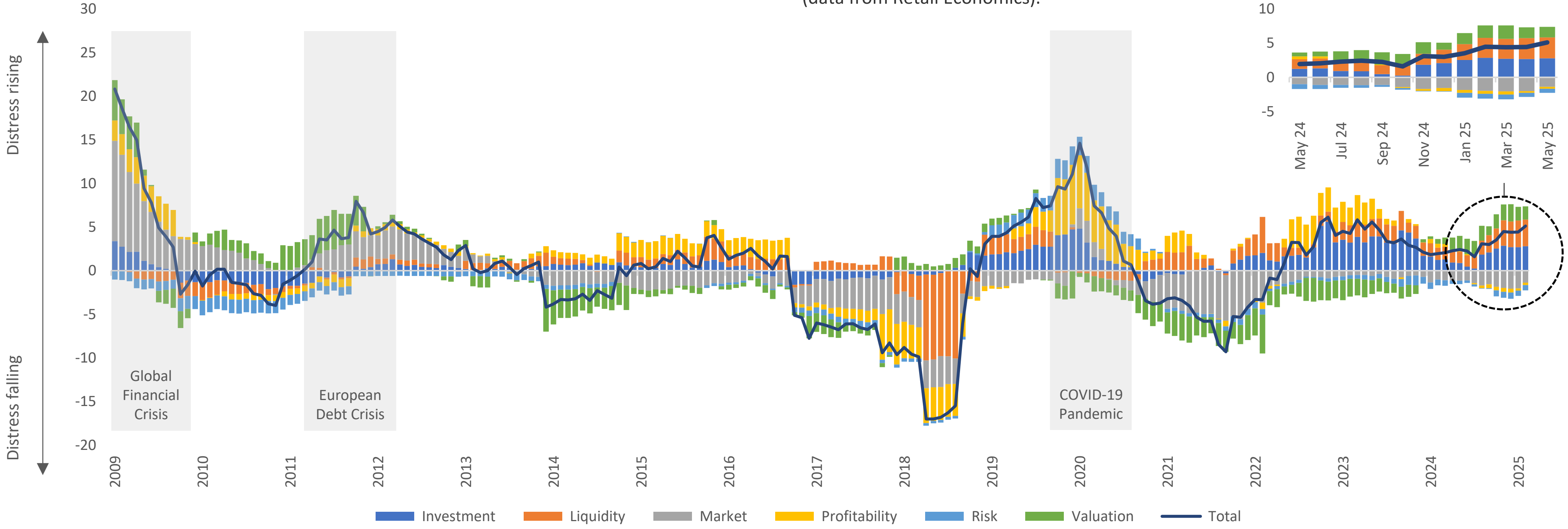




Distress Ranking	May 2025	QoQ Trend	YoY Trend
2	+5.1	+4.5 Feb 25	+1.9 May 24

United Kingdom Distress Index

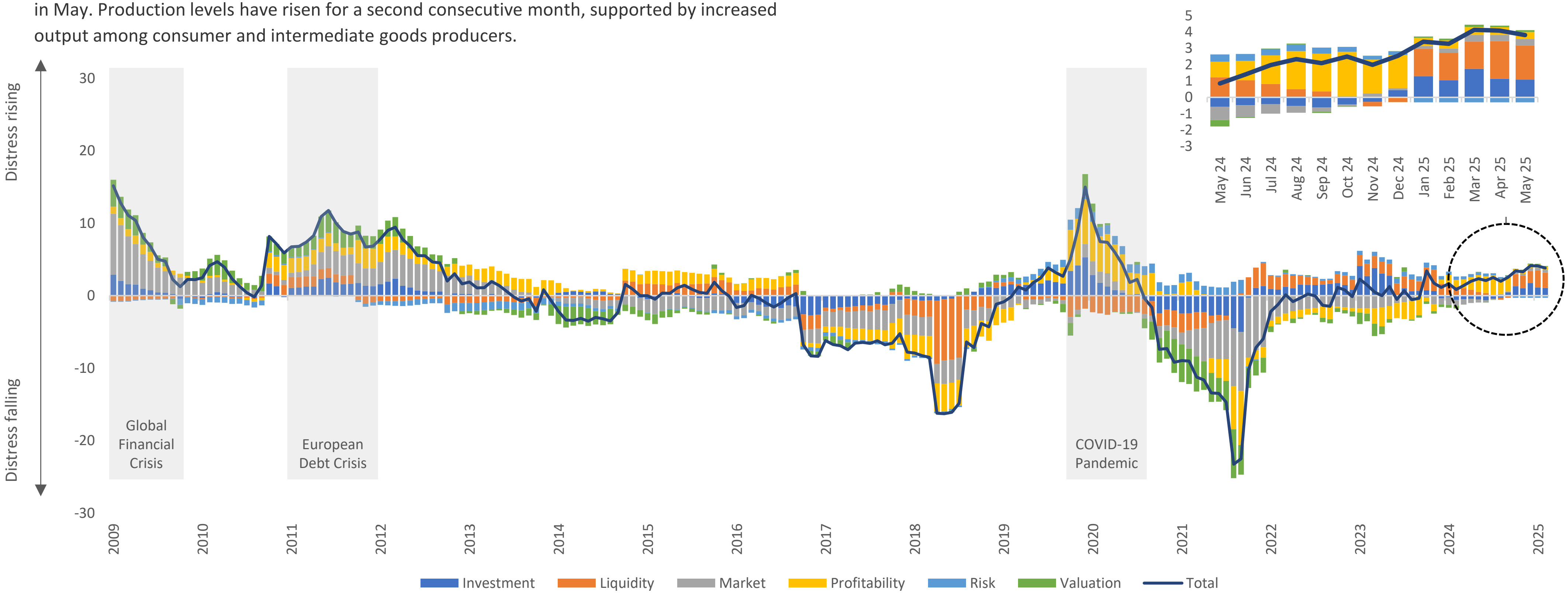
- The UK remains the second most distressed market in the WEDI, with levels rising both on the quarter and the year. Key pressures continue to stem from tightening investment, constrained liquidity and weakening corporate valuations.
- However, GDP posted strong growth in Q1 2025, with output rising by 0.7 percent – the strongest quarterly performance since early 2024. This rebound was driven by a sharp recovery in business investment (which rose by 5.9%) and robust export volumes (which rose by 3.5%). That said, the uplift may prove temporary, as businesses pulled forward demand and stockpiled goods in anticipation of tariff increases.
- The Bank of England has noted that underlying growth remains weak, with full-year output growth expected to reach just 0.5%. Any recovery is likely to be front-loaded rather than sustained over the longer term.
- The Bank Rate was cut by 25 basis points in May to 4.25%. However, the decision reflects the Monetary Policy Committee's caution, as persistent inflation means more evidence is needed before further easing can be justified.
- Consumer confidence improved modestly in May, with the GfK index rising from minus 23 to minus 20. Retail sales were supported by warm spring weather and a slight easing in trade-related anxiety.
- Despite this, the cost of living remains the primary concern for UK consumers, who have seen an estimated 20% rise in product prices since July 2021, when inflation was last at the 2% target.
- Additional concerns are driven by fears over economic weakness and limited savings, with 80% of households feeling pessimistic about their personal financial situation in 2025 (data from Retail Economics).



Distress Ranking	May 2025	QoQ Trend	YoY Trend
3	+3.8	+3.3 Feb 25	+0.9 May 24

France Distress Index

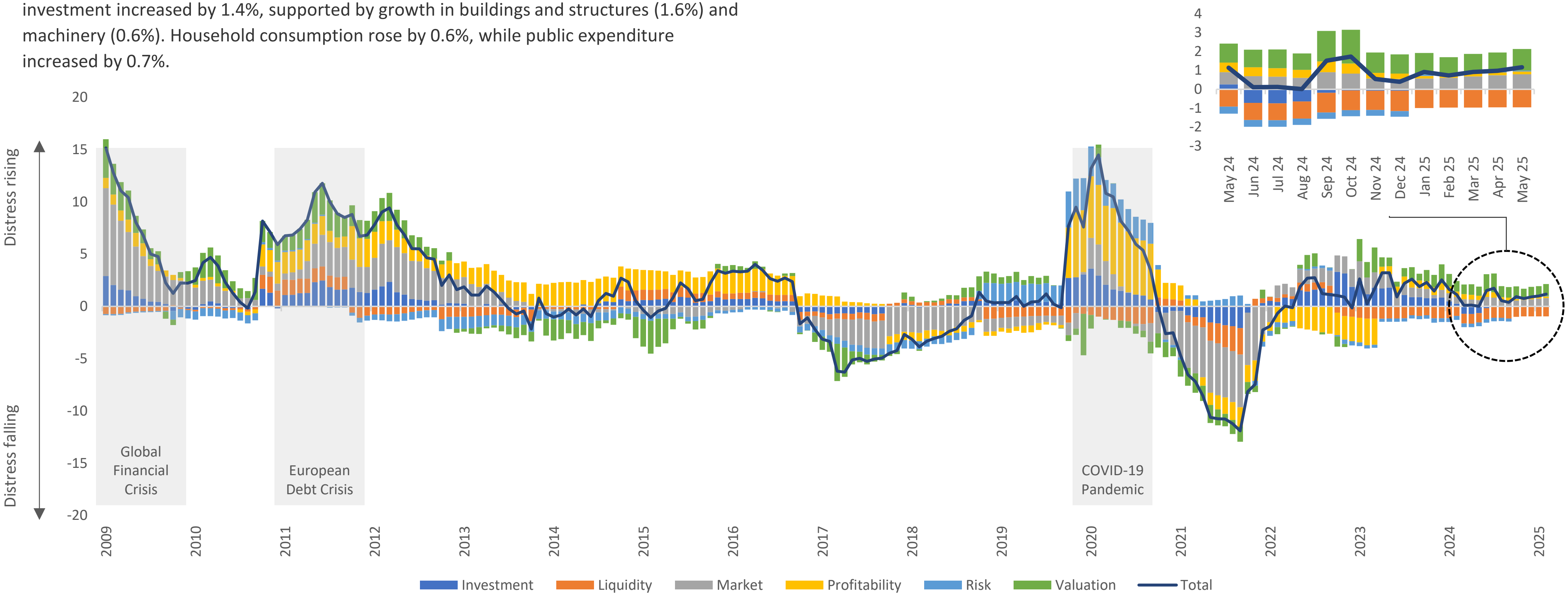
- Distress levels in France remain elevated, sitting above the long-run average, and have increased both quarter-on-quarter and year-on-year. Levels have now reached those last seen around August 2020.
- Key sources of stress include liquidity constraints, elevated financing costs, and subdued investment. GDP grew by 0.1% in Q1 2025, marking a modest recovery following a 0.1% contraction in Q4 2024. However, the improvement was entirely driven by inventory restocking and government spending, while private demand remained weak. Household consumption was stagnant, and gross fixed capital formation declined.
- The Manufacturing sector is showing signs of stabilisation, with the PMI rebounding to 49.8 in May. Production levels have risen for a second consecutive month, supported by increased output among consumer and intermediate goods producers.
- However, exports contracted by 5.9% in April compared with the previous month. The Bank of France has forecasted limited growth in the coming months. The outlook is being constrained by a combination of public holidays and rising trade tensions, including new U.S. tariffs affecting wine and aerospace exports.
- The IMF forecast real GDP growth at just 0.6% in 2025, rising to approximately 1.0% in 2026 as fiscal policy eases and monetary conditions remain supportive.
- Corporate fragility stems from funding cost sensitivities, weak demand and policy uncertainty, all reflected in WEDI's elevated distress score. The modest macro rebound has yet to alleviate pressures on liquidity, investment and valuation.



Distress Ranking	May 2025	QoQ Trend	YoY Trend
4	+1.2	+0.7 Feb 25	+1.1 May 24

Spain and Italy Distress Index

- Spain and Italy continue to record WEDI scores above the long-run average, but they remain the least distressed markets in Europe. Distress levels edge higher this quarter but remain notably below levels seen during the same period last year.
- In Spain, GDP grew by 0.6% quarter-on-quarter and 2.8% year-on-year in Q1 2025, outperforming most larger eurozone economies. The IMF forecasts 2.5% growth in 2025, slowing to 1.8% in 2026. Even so, Spain is expected to remain the fastest-growing advanced economy.
- In Italy, GDP rose by 0.3% in Q1 compared with the previous quarter. Gross fixed investment increased by 1.4%, supported by growth in buildings and structures (1.6%) and machinery (0.6%). Household consumption rose by 0.6%, while public expenditure increased by 0.7%.
- The IMF's latest forecasts suggest that growth of 0.4% can be expected in 2025, rising to 1.0% in 2026.
- PMIs reflect a divergent economy. Italy's Services PMI rose to 53.2 in May 2025 from 52.9 in the previous month, exceeding market expectations of 52.3. This marked the sixth consecutive month of expansion and the strongest reading since June 2024.
- The manufacturing PMI fell in May 2025, indicating a mild contraction in factory activity. Although output rose for the first time in over a year, new orders fell for the fourteenth consecutive month.



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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), size of company (based on market cap) 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

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.

Data for the WEDI model are updated on a quarterly basis, incorporating newly available historical observations for each variable included in the analysis. With each refresh, previous estimates of distress are revised in light of the latest information, ensuring that the model's outputs remain accurate and reflective of evolving trends. This iterative revision process enhances the reliability of the model by continuously incorporating the most recent data.

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.

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