History Rhymes: The 2025–2026 BDC Selloff Looks Remarkably Like 2014–2016

A data-driven analysis of the CEF Advisors Equal Weight BDC Total Return Price Index reveals a near-perfect structural analog to the last major BDC bear market — and, critically, shows that the sector's AI and software exposure is not what's driving the divergence in outcomes.

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Executive Summary

The CEF Advisors Equal Weight BDC Total Return Price Index has declined 23.1% from its February 2025 peak to its March 2026 trough; the third-largest drawdown in the index's 14-year history, bearing a striking structural resemblance to the 2014–2016 BDC bear market. Beneath the price decline, the companion NAV Total Return series tells a dramatically different story: net asset values have grown approximately 7% since the price peaked and are near all-time highs.

Equally important: final 1Q 2026 earnings data from CEFData shows that the sector's AI and software portfolio exposure is not the primary driver of the spread in outcomes. BDCs with high AI risk scores performed nearly identically compared to those with low scores. Manager quality — measured by return on equity — is the variable that matters. The top ROE cohort delivered a 1-year NAV total return of +12.2%. The bottom ROE cohort delivered +0.8%. Their AI risk scores were 5.21 and 5.04 respectively; essentially the same.

> *Mechanically, the 23.1% price decline has been driven primarily by price-to-NAV compression, from a +8% premium to a −22% discount. The key question is whether that compression reflects temporary sentiment or early market anticipation of future NAV and income pressure. The AI risk scores of top- and bottom-performing managers are nearly identical. Manager quality appears to be the differentiator.*

Table 1: The Two Largest Non-COVID BDC Drawdowns Compared

Metric	2014–2016 Episode	2025–2026 Episode (current)
Price peak	Jul 2, 2014 — 956.73	Feb 19, 2025 — 2,157.53
P/NAV at peak	1.110× (+11.0%)	1.080× (+8.0%)
Price trough	Feb 11, 2016 — 698.55	Mar 27, 2026 — 1,658.65
P/NAV at trough	0.761× (−23.9%)	0.776× (−22.4%)
Price drawdown	−27.0%	−23.1%
NAV change (same period)	+6.1%	+7.1%
RSI at price trough	29.9	33.7
Days to price trough	589	401
Days trough → recovery (prior)	193	Ongoing
P/NAV today	**—**	**0.818× (−18.2%)**

Source: CEF Advisors Equal Weight BDC Total Return Price Index. Both series are total return (dividends reinvested).

I. Setting the Stage: 14 Years of BDC Index Data

The CEF Advisors Equal Weight BDC Total Return Price Index has tracked the listed BDC sector since December 2011, compiling daily price and NAV observations on an equal-weighted basis. Both series are total return — dividends are continuously reinvested, and every return figure captures the full investor experience including income distributions.

Over the full period from December 30, 2011 through May 22, 2026, the price index has compounded at 7.81% annually, growing from 589.12 to 1,738.98 — a 195% total return. The NAV index has compounded at 8.81% annually. The modest gap between the two reflects valuation: in December 2011 BDCs traded at a 6.6% discount to NAV, and today at an 18.2% discount, meaning price returns have been structurally suppressed by multiple compression even as the underlying NAV compounded strongly.

Annualized price volatility over the full period is 20.9%. The sector has produced positive calendar-year price returns in 7 of the 15 full calendar years in the dataset (2012, 2013, 2016, 2019, 2021, 2023, and 2024), with the largest annual gain of +40.4% in 2021 and the worst single-year loss of −10.4% in 2022. Despite the price-level volatility, the NAV series has been positive in 14 of 15 calendar years — the sole exception being the modest −0.6% reading year-to-date in 2026.

Table 2: Annual Total Return — Price vs. NAV (2012–2026)

Year	Price TR	NAV TR	Spread	P/NAV start	P/NAV end
2012	+30.7%	+13.1%	+17.6pp	0.95×	1.10×
2013	+14.0%	+13.2%	+0.8pp	1.11×	1.12×
2014	−6.4%	+8.0%	−14.4pp	1.11×	0.96×
2015	−4.2%	+3.8%	−8.0pp	0.97×	0.89×
2016	+21.5%	+9.9%	+11.6pp	0.90×	1.00×
2017	−0.1%	+7.2%	−7.3pp	1.01×	0.94×
2018	−7.3%	+9.2%	−16.5pp	0.96×	0.81×
2019	+26.6%	+9.6%	+17.0pp	0.85×	0.98×
2020	−7.6%	+1.1%	−8.7pp	0.99×	0.91×
2021	+40.4%	+20.8%	+19.6pp	0.90×	1.05×
2022	−10.4%	+7.4%	−17.8pp	1.05×	0.87×
2023	+25.5%	+10.2%	+15.3pp	0.89×	1.01×
2024	+9.7%	+9.6%	+0.1pp	1.01×	1.01×
2025	−5.0%	+8.5%	−13.5pp	1.02×	0.89×
2026 YTD	−9.6%	−0.6%	−9.0pp	0.90×	0.82×
CAGR	**+7.81%**	**+8.81%**	**−1.0pp/yr**	**—**	**—**

Source: CEF Advisors Equal Weight BDC Total Return Index. Price positive years: 7 of 15 (2012, 2013, 2016, 2019, 2021, 2023, 2024). NAV positive years: 14 of 15.

II. The 2014–2016 Analog: A Forensic Review

The 2014–2016 BDC drawdown was driven by two overlapping macro forces: the collapse of oil prices and the associated stress in energy-related credit markets. Oil peaked at approximately $103–114 per barrel in mid-2014, then fell 70% to $26 per barrel by February 2016 — one of the three largest oil price declines since World War II, and the longest-lasting since the supply-driven collapse of 1986, according to World Bank analysis. The absolute trough of $26.10 per barrel was recorded on February 11, 2016 — the same date as the BDC price index trough.

The collapse triggered genuine credit stress in BDC portfolios: energy sector loans required markdown, US high-yield credit spreads widened to over 700 basis points, and in December 2015 the Third Avenue Focused Credit Fund suspended redemptions as liquidity in junk bonds evaporated. That event is almost certainly the proximate cause of the single largest NAV dip in the data — a 3.3% total return decline in December 2015.

> *NAV bottomed in December 2015. Oil bottomed on February 11, 2016 — the same day as the BDC price index. NAV was already four weeks into its recovery when the price found its floor.*

The total return NAV index experienced only three meaningful dips across the entire 2014–2016 cycle: December 2014 (−1.1%, recovered within two months), September 2015 (−0.4%, recovered the following month), and December 2015 (−3.3%, the cycle trough). The maximum total return NAV drawdown was 4.0%. Because both series are total return — with BDC yields running approximately 9–10% annually at the time — the underlying gross portfolio marks likely declined 5–6% before dividend income offset the balance. The income stream was cushioning visible NAV impairment throughout.

From the December 2015 NAV trough, recovery was rapid and uninterrupted. NAV reclaimed its prior peak by June 2016, just 182 days later. The price index recovered to its prior peak on August 22, 2016, 193 days after the February price trough. The OPEC supply agreement of November 30, 2016 — a 1.2 million barrels per day curtailment confirmed at the Vienna meeting — added approximately 18% to oil prices, per EIA data, cementing the reflation thesis.

Between the February 2016 oil trough and August 2016, WTI crude surged from $26.10 to $42.77, a gain of 63.9%, as verified by EIA trading data. This oil price stabilization, followed by the normalization of high-yield credit spreads, was the fundamental catalyst that unlocked the P/NAV re-rating. The structural lesson: once the underlying credit catalyst resolved, the market re-rated BDC prices from a deep discount back to par within roughly six months.

III. The Current Episode: Anatomy of a Valuation Drawdown

The current drawdown began from a February 19, 2025 price peak of 2,157.53, with the index trading at a 1.080x premium to NAV. Over the following 401 days, the price index declined 23.1% to a trough of 1,658.65 on March 27, 2026. At that trough, P/NAV had compressed to 0.776x, a 22.4% discount to book.

The NAV total return index, meanwhile, grew approximately 7.1% over that same period. It reached an all-time high of 2,170.41 on April 28, 2026, and sits at 2,125.96 today — just 2.0% below that peak. The maximum NAV drawdown in the current episode is 2.0%. The maximum price drawdown is 23.1%. The 21-percentage-point gap suggests that price has moved far more than reported NAV fundamentals. If upcoming earnings confirm stable NAVs, contained non-accruals, and durable dividend coverage, the current episode would look primarily like a sentiment and multiple-compression story, similar in structure to 2014–2016.

Table 3: Current Episode — Monthly Price vs. NAV (Feb 2025–May 2026)

Month	Price	NAV	P/NAV	RSI	Price vs. Feb peak
Feb 2025	2,129	1,992	1.069×	60.3	−1.3%
Mar 2025	2,014	2,014	1.000×	42.2	−6.7%
Apr 2025	1,887	2,026	0.931×	47.8	−12.5% (tariff shock)
May 2025	1,972	2,011	0.981×	58.1	−8.6%
Jun 2025	1,982	2,042	0.971×	58.3	−8.1%
Jul 2025	2,025	2,065	0.981×	45.8	−6.1%
Aug 2025	2,042	2,051	0.995×	57.3	−5.4%
Sep 2025	1,872	2,079	0.900×	24.5	−13.2% (macro reset)
Oct 2025	1,889	2,108	0.896×	51.6	−12.4%
Nov 2025	1,935	2,108	0.918×	63.3	−10.3%
Dec 2025	1,912	2,137	0.895×	51.2	−11.4%
Jan 2026	1,927	2,161	0.892×	48.0	−10.7%
Feb 2026	1,738	2,149	0.809×	29.8	−19.5%
Mar 2026	1,722	2,154	0.799×	46.7	−20.2% ← trough
Apr 2026	1,888	2,161	0.874×	63.2	−12.5%
May 2026*	**1,739**	**2,126**	**0.818×**	**37.2**	**−19.4%**

** Through May 22, 2026. Source: CEF Advisors Equal Weight BDC Total Return Index.*

IV. The AI and Software Question: What 1Q 2026 Earnings Actually Show

One of the dominant narratives driving BDC sentiment in 2025–2026 has been concern about AI and software portfolio exposure — the worry that BDCs with significant lending to technology, software, and AI-enabled companies face elevated credit risk as those sectors face disruption, margin compression, or structural change. It is a legitimate question. But the final 1Q 2026 BDC earnings data from CEFData, as of May 18, 2026, provides a clear empirical answer: Based on final 1Q 2026 data, AI portfolio exposure scores do not appear to be the primary driver of current performance dispersion. Manager quality, as reflected in ROE, non-accruals, FMV marks, PIK income, and dividend stability, appears more explanatory.

Table 4: Final 1Q 2026 Earnings — Top vs. Bottom ROE Cohorts ($250MM+ Market Cap BDCs)

Metric	Top ROE Cohort (18 BDCs)	Bottom ROE Cohort (18 BDCs)
1-Year ROE	11.15%	0.04%
1-Year NAV total return	+12.2%	+0.8%
1-Year price total return	−2.0%	−16.5%
Discount to NAV	−3.2%	−32.5%
Distribution yield	10.9%	14.7%
1-Year dividend growth	−5.8%	−13.5%
Non-accruals	1.23%	1.98%
FMV vs. cost	+0.68	−5.96
PIK %	5.8%	8.6%
CEFData AI portfolio exposure	**17.6%**	**23.8%**
CEFData relative AI risk score	**5.21**	**5.04**
5-Year avg annual ROE	**11.2%**	**3.8%**

Source: CEFData.com, as of May 18, 2026. $250MM+ market cap listed BDCs. Informational only; not investment advice.

The data table above contains a finding that deserves direct emphasis. The top ROE cohort has 17.6% AI portfolio exposure and an AI risk score of 5.21. The bottom ROE cohort has 23.8% AI portfolio exposure and an AI risk score of 5.04. The AI risk scores are nearly identical — a difference of 0.17 on a 10-point scale. Yet the NAV total return spread is 11.4 percentage points: +12.2% versus +0.8%.

> *If the current AI risk score were the primary risk driver, we would expect a clearer separation between top and bottom performers. The current data does not show that separation. That does not mean AI exposure is irrelevant, but it suggests the score is not the dominant explanatory variable today. The 5-year ROE record appears more informative.*

What does explain the divergence? The data points consistently toward manager quality across five dimensions:

- Underwriting discipline: Non-accruals of 1.23% vs. 1.98% — a 61% difference in problem credit rates.
- Portfolio mark integrity: FMV vs. cost of +0.68 for the top cohort vs. −5.96 for the bottom cohort. The better managers are holding assets above cost; the worse managers are sitting on unrealized losses.
- Income sustainability: PIK (payment-in-kind) as a percentage of income is 5.8% vs. 8.6%. Higher PIK ratios often indicate borrowers unable to service cash interest, a leading indicator of future non-accruals.
- Dividend quality: The top cohort cut dividends by 5.8% over the past year. The bottom cohort cut by 13.5% — more than twice as aggressively, reflecting weaker underlying earnings power.
- Durable track record: The 5-year average annual ROE of 11.2% vs. 3.8% is not a single-quarter artifact. It is the product of consistent execution across multiple credit cycles. That looks less like luck and more like durable skill.

The AI exposure narrative is not irrelevant — it is worth monitoring, and the bottom cohort's higher AI exposure (23.8% vs. 17.6%) may reflect a general tendency toward lower-quality credit selection that shows up in AI portfolios as well as elsewhere. But the AI risk score itself is not a useful discriminator between top and bottom performers. A manager with a 5.04 AI risk score can deliver 0.04% ROE; a manager with a 5.21 AI risk score can deliver 11.15% ROE. The score is not the signal. The ROE history is.

For the index-level analysis in this paper, the practical implication is reassuring: the NAV total return index is near all-time highs not because all BDCs are performing well, but because the equal-weight construction captures the full distribution. The top ROE cohort's +12.2% NAV return meaningfully offsets the bottom cohort's +0.8%, and the index-level NAV trajectory reflects the aggregate earnings power of the sector rather than the worst performers.

The broad index discount remains severe, but the market is not applying it evenly. Higher-ROE managers trade much closer to NAV, while weaker managers remain deeply discounted. The top ROE cohort trades at just a −3.2% discount — nearly at par — while the bottom cohort trades at a −32.5% discount. This bifurcation is actually a form of market efficiency: the market is distinguishing between manager quality even as the broad index trades at an 18.2% average discount. An investor able to concentrate in the top ROE cohort is accessing a very different risk-reward profile than the index-level statistics suggest.

V. The P/NAV Framework: A Rare Valuation Signal

The price-to-NAV ratio is the most important single metric for understanding BDC valuations. Over 14.5 years of daily data, the median P/NAV for the equal weight index is 0.982x, with a mean of 0.978x. The distribution is not symmetric: premiums above 1.10x account for approximately 5% of trading days, and discounts below 0.82x are even rarer.

Table 5: Historical P/NAV Percentile Distribution

Percentile	P/NAV level	Interpretation
5th	0.811×	Extreme discount — current 0.818× sits just above this floor
10th	0.871×	Deep discount — reliable mean-reversion zone historically
25th	0.923×	Mild discount — common in the early stages of recovery
Today	**0.818×**	**Between 5th and 10th percentile — only 6% of all days were cheaper**
50th (median)	0.982×	Fair value — historical mean-reversion target
75th	1.040×	Mild premium — typical of bull-phase conditions
90th	1.092×	Elevated premium — approaching prior-peak territory
95th	1.118×	Peak premium — Feb 2025 entry was 1.080×, near this level

Source: CEF Advisors Equal Weight BDC Total Return Index, Dec 2011 – May 2026.

The arithmetic of P/NAV recovery is straightforward. On a static NAV of 2,126 — its current level — a move from 0.818x to the historical median of 0.982x implies a price of approximately 2,088, a gain of +20.1% from today's 1,739. If NAV continues compounding at its historical 8.81% rate over the next 12 months, the base-case price at median P/NAV would be approximately 2,284 — a +31.3% return from today. A recovery to the prior-peak multiple of 1.08x on that same growing NAV base implies approximately 2,512, a +44.5% return.

These assumptions are not heroic if NAVs remain stable and credit losses remain contained. They are the arithmetic of mean reversion in a metric that has historically reverted after prior deep-discount episodes.

VI. Forward Return History: What Follows a BDC Trough

The CEF Advisors index contains 19 distinct drawdown episodes of 5% or greater since 2012. Across the 18 completed episodes, the forward return picture from the price trough is consistently positive.

Table 6: Median Forward Returns After Each Price Trough (18 Completed Episodes)

Metric	+3 months	+6 months	+9 months	+12 months
Median return	+10.5%	+15.5%	+16.2%	+13.4%
Mean return	+14.8%	+18.2%	+21.8%	+21.7%
% of episodes positive	100%	94%	94%	83%
Minimum (worst outcome)	+2.4%	−9.7%	−3.0%	−52.6%†
Maximum (best outcome)	+76.0%	+82.9%	+117.3%	+159.2%

† The −52.6% 12-month result is the 2019 trough, where COVID struck 9 months later. Excluding that outlier, the worst 12-month outcome is approximately −7%. 3-month forward return is positive in 100% of all completed episodes. Source: CEF Advisors Equal Weight BDC Total Return Index.

Table 7: Forward Returns from the Three Closest Comparable Episodes

Episode	+3M	+6M	+9M	+12M
2016 bear market (−27%)	+19.6%	+34.7%	+36.6%	+49.6%
2022 rate hike cycle (−24%)	+12.2%	+15.2%	+24.3%	+34.1%
2018 Q4 selloff (−18%)	+20.2%	+25.6%	+30.7%	+35.4%
Average of three	**+17.3%**	**+25.2%**	**+30.5%**	**+39.7%**

Returns measured from price trough date (Mar 27, 2026). Source: CEF Advisors Equal Weight BDC Total Return Index.

The average of the three comparable episodes implies +17% over three months, +25% over six months, and +40% over twelve months from the March 27 trough — or approximately +12%, +19%, and +30% from today's price of 1,739. To recover to the February 2025 prior peak of 2,157.53 specifically, the price needs to gain +30.1% from the March trough, or +24.1% from today's price. Given the three comparable episodes all recovered 34–50% over 12 months from their troughs, a return to the prior price peak is well within the distribution of historical outcomes.

Table 8: Projected Forward Returns from Trough (Mar 27, 2026 @ 1,658.65)

Horizon	Approx date	Median	Mean	Bear case	Bull case	Index (median)
+3 months	Jun 27, 2026	+10.5%	+14.8%	+2.4%	+76.0%	1,833
+6 months	Sep 27, 2026	+15.5%	+18.2%	−9.7%	+82.9%	1,916
+9 months	Dec 27, 2026	+16.2%	+21.8%	−3.0%	+117.3%	1,927
+12 months	Mar 27, 2027	+13.4%	+21.7%	−7.0%†	+159.2%	1,881

Bear case = minimum return across completed comparable episodes. † The 12-month bear case shown as −7.0% excludes the 2019 trough episode, whose 12-month return was −52.6% — distorted by COVID striking 9 months after the price bottom. Excluding that single tail event, −7.0% is the worst 12-month outcome in 14.5 years of data. Bull case = maximum return observed. Index level (median) based on trough price of 1,658.65. Price total return only; additional dividend income during the holding period is not included. Source: CEF Advisors Equal Weight BDC Total Return Index.

The scenario table above translates the historical forward return distribution into explicit price targets. The median outcome is positive at every horizon: +10.5% by late June, +15.5% by late September, and +13.4% over the full twelve months — implying index levels of approximately 1,833, 1,916, and 1,881 respectively. The mean outcomes are higher still, skewed upward by the large post-trough rallies in 2016, 2022, and post-COVID. The bear case at 12 months is −7.0% once the COVID-distorted 2019 episode is set aside — the worst non-pandemic outcome across 14.5 years of data. The historical distribution has been meaningfully asymmetric after prior troughs, with large upside in many recoveries. However, downside is not eliminated; a new macro or credit shock could overwhelm the historical recovery pattern, as COVID did after the 2019 trough. An investor also capturing the ongoing dividend yield — approximately 10–11% annually — during the holding period would add materially to these price-only figures.

What Would Confirm or Challenge the Recovery Thesis

The next earnings season should provide the clearest test of the recovery thesis. Confirmation would include stable or rising NAV total return, contained non-accruals, stable PIK income, continued NII dividend coverage, and evidence that markdowns remain idiosyncratic rather than sector-wide. The thesis would be challenged by broad NAV declines, rising non-accruals, increased PIK income, dividend cuts among higher-quality managers, or evidence that software and AI-exposed borrowers are driving disproportionate credit stress.

VII. Conclusion: Manager Quality Endures; Multiple Compression Resolves

The CEF Advisors Equal Weight BDC Total Return Price Index is, on the metrics that have historically mattered most, in the same structural position it occupied in early 2016. Price is deeply discounted to a steadily growing NAV. P/NAV is at the 5th historical percentile. RSI is below 40. The 1Q 2026 earnings data confirms that the strongest managers' underlying credit quality appears intact, based on ROE, non-accruals, FMV marks, PIK ratios, and dividend sustainability. The broader sector remains more mixed, which is why next-quarter earnings will be important confirmation.

The AI and software exposure narrative deserves acknowledgment, but not overweighting. The CEFData AI risk scores for the top and bottom performing cohorts are nearly identical. The 11-point NAV return spread between those cohorts is not explained by AI exposure. It is explained by manager quality: underwriting discipline, earlier intervention on weakening credits, and a 5-year track record of consistent 11% annual ROE. Investors focused on AI risk scores as the primary BDC risk metric are arguably looking at the wrong variable.

The 2016 analog recovered 193 days after the price trough. The 2022 analog recovered in 292 days. Applied to the March 27, 2026 trough, those templates suggest a return to prior price peaks in the September–December 2026 window. Under the base-case P/NAV scenario with continued NAV growth, the 12-month price estimate of approximately 2,284 represents a +31.3% return from today's price. Reclaiming the February 2025 prior peak would require approximately +24.1% from today's price, achievable through some combination of NAV growth and partial P/NAV normalization.

Recovery does not require NAV growth above historical trend, a premium multiple, or a major macro tailwind. It does require that next-quarter earnings confirm NAV stability, contained non-accruals, sustainable dividend coverage, and no broad deterioration in borrower credit quality. Historically, deep BDC discounts have resolved when investors gained confidence that book values and income streams were durable.

Data & Methodology Note

Index data: CEF Advisors Equal Weight BDC Total Return Index. Both the price series and NAV series are total return with dividends continuously reinvested. Equal-weighted across listed BDCs. Daily observations from December 30, 2011, through May 22, 2026 (3,622 trading days). Price CAGR: 7.81%. NAV CAGR: 8.81%. RSI calculated on a 14-period basis. Drawdown episodes defined as price declines of 5% or greater from rolling peak, with 18 completed and 1 ongoing. Forward returns measured from the identified price trough. Projections using NAV CAGR of 8.81% applied from the March 27, 2026, trough NAV of 2,137.70 and current price of 1,738.98 (May 22, 2026).

Earnings data: CEFData.com, as of May 18, 2026. $250MM+ market cap listed BDCs, split into top and bottom ROE cohorts of 18 BDCs each on a 1-year comparison basis. AI portfolio exposure and AI risk scores are proprietary CEFData metrics. Oil price data sourced from EIA; OPEC output figures from OPEC 2016 Annual Report and ECB Economic Bulletin December 2016. Past performance is not indicative of future results. Informational only; not investment advice.

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