LEVERAGED FINANCE™

DAVID N. DEUTSCH & COMPANY JULY 1, 2026

SUMMARY: Q2 2026 was a market of haves and have-nots. A mid-June memorandum of understanding between the U.S. and Iran pulled oil and credit spreads back from their wartime extremes, but the relief did not reach everyone. Private equity dealmaking collapsed to near-historic lows as corporate borrowers filled the void. High-yield issuance accelerated on a wave of AI infrastructure financing, spreads retraced nearly all of the first-quarter widening, and collateralized loan obligation (CLO) formation slowed to its weakest pace since 2023.

$221B	$111B	$106B	~275 bps
Leveraged Loan Activity	**Loan Volume (Inst.)**	**High-Yield Issuance**	**HY OAS (Jun. '26)**
–9% vs. Q1 '26 | ~2x Q2 '25	*+57% vs. Q4 '25 | –23% YoY*	*Up from $80.9B in Q1 '26*	*Q1 widening erased; ~280 bps at YE '25*

LEVERAGED LOANS

Total U.S. leveraged loan activity reached $221B through June 24, down only 9% from Q1 despite the sponsor drought — roughly double the Q2 2025 level and 16% above the five-year average.

- New loan issuance by PE-backed companies fell 34% to $48.6B, the lowest since Q4 2023, as U.S. PE deal volume dropped 52% to $137B.
- Corporate borrowers raised $53.2B, a five-year high, including a $13B loan for Warner Bros. Discovery, the largest institutional loan since 2008.
- Amend-to-extend volume hit a post-crisis record $29.5B. Sponsors drove 74% of maturity extensions but just 44% of new-money activity.
- Software's BSL share fell to 9% year to date, the lowest since 2013; health care led at a

PRIVATE CREDIT

Direct lending entered a more disciplined phase. Deployment slowed alongside the private equity slowdown, lenders reset terms, and redemption pressure on non-traded vehicles intensified from an already elevated first quarter.

- No direct-lender LBO above $2B has closed since early March, and spreads on "down-the-fairway" deals widened 25 to 50 bps as lenders reset terms in a more cautious environment.
- Non-traded BDC redemption requests hit a record 12.4% of NAV, with only about 38% fulfilled and a $9.6B backlog; Ares capped its $10.7B income fund at 5%.
- BDC nonaccruals jumped 40% sequentially to $9.98B at cost, or 2.01%

record 12.4%. B-minus spreads widened to S+410.

HIGH YIELD BONDS

High yield was the standout. Gross issuance totaled roughly $106B, up sharply from $80.9B in Q1, and spreads retraced essentially the entire wartime widening as ceasefire momentum built through the quarter.

- The ICE BofA High Yield OAS finished June near 275 bps, erasing the first-quarter blowout and returning to where the year began.
- April alone produced about $40B of supply, the most since September 2025, as the ceasefire reopened issuance.
- AI is now a primary driver. High-yield borrowing for AI infrastructure reached $26.6B in the first four months of the year, nearly double the full-year 2025 total. Roughly 53% of Q2 supply was rated BB.

OUTLOOK: Q3 2026

The gap between strong and weak borrowers opened wide in Q2 and shows no sign of closing. Whether a company can raise debt now depends more on its rating and its sector than on what the Fed does next.

- The easing bias is gone. The June dot plot showed nine of 18 officials projecting at least one hike in 2026, with PCE inflation seen at 3.6% at year-end.
- The second half hinges on a PE recovery, with ~29,000 unsold companies and $3.6 trillion of unrealized value in global portfolios.
- The 2028 maturity wall is the next problem. Sponsors spent Q2 extending maturities instead of buying companies, and that should continue. Iran is the variable to watch: if the Strait of Hormuz stays open, oil prices ease and the inflation picture improves with them.

of reported debt investments, led by information technology.

CLOS

CLO formation slowed to its weakest pace since 2023. Loan spreads stayed tight relative to CLO liabilities, squeezing equity arbitrage and keeping managers on the sidelines pending better execution levels.

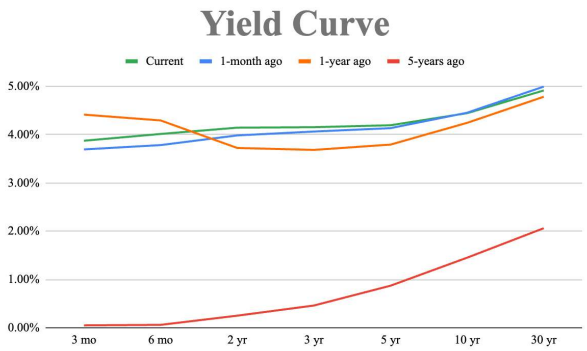
- BSL CLO issuance fell to $22.5B in Q2, a low since Q3 2023; year-to-date volume of ~$77B trails last year's pace by more than 20%.
- Only 88 unique managers had priced deals at mid-2026, versus 107 a year earlier. Forecasts cluster at $190–220B against 2025's record $209B.

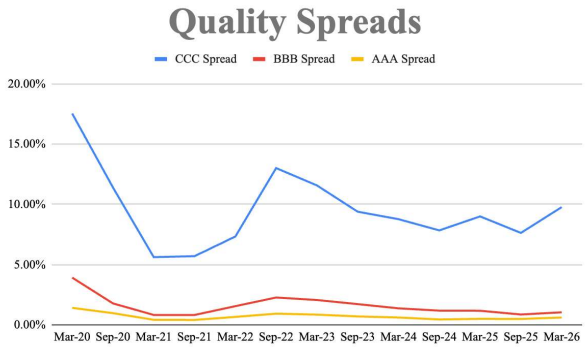
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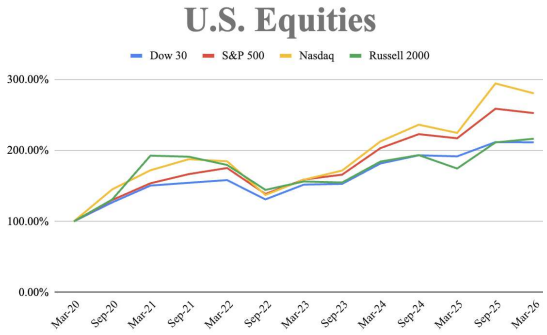
CREDIT MARKETS OVERVIEW

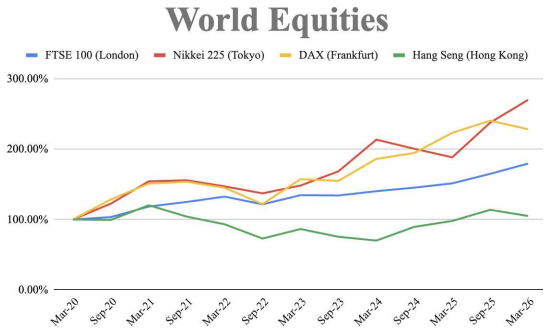




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EQUITY MARKETS OVERVIEW





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