LEVERAGED FINANCE™

DAVID N. DEUTSCH & COMPANY OCTOBER 1, 2026

SUMMARY: Q3 2026 was a quarter of rising rates. Stubborn inflation and higher oil prices tied to the Iran conflict pushed the Fed to raise rates for the first time since 2023, and the 10-year Treasury yield climbed 85 bps to 5.29%. Loan activity slowed to its lowest level of 2026 as repricings dried up, and high-yield spreads widened sharply in late September. M&A financing picked up at quarter-end, with September posting the most M&A-related loan issuance of any month since January 2022.

$128B	$40B	~310 bps
Loan Volume (Inst.)	**M&A Loan Issuance**	**HY OAS (Sep. '26)**
–4% YoY | total activity ~$195B	*$31B in Sept.; most since Jan. '22*	*Widened from ~275 bps at end of Q2*

LEVERAGED LOANS

Total institutional loan activity reached about $195B in Q3, the lowest quarter of 2026, leaving the year-to-date total 24% behind 2025. Fewer repricings and opportunistic refinancings drove most of the decline.

- Loans for buyouts, acquisitions, recapitalizations and general corporate purposes totaled about $192B through September, in line with 2025 levels.
- M&A-related issuance reached $39.9B, with $30.6B in September alone, including 12 acquisition term loans above $1B (eight for LBOs).
- Lenders stayed selective: nearly half of M&A volume went to BB- or better borrowers, the largest share since the financial crisis; B-minus took only 14%.
- Software fell to about 10% of new issuance as investors favored healthcare, media and other less AI-exposed sectors.

PRIVATE CREDIT

Private credit has plenty of capital but fewer large deals to fund. Direct lending for LBOs totaled about $10.7B in Q3, below both Q2 and Q3 2025, as the syndicated market won back larger financings.

- The BSL market refinanced a record ~$12B of direct-lending loans in Q3, more than in all of H1 2026; nearly all of those borrowers were rated B/B2 or better.
- Redemption requests at the largest non-traded BDCs eased only slightly, to an average of about 13% of shares vs. ~14% in Q2, still well above typical 5% quarterly caps.
- Default measures diverged: Fitch put its private credit default rate at 6.3% in August, while KBRA reported 2.5% by count.

HIGH YIELD BONDS

HY spreads widened late in the quarter as rising Treasury yields and a heavy September calendar tested demand. The ICE BofA High Yield Option-Adjusted Spread, which ended June around 275 bps, rose to around 310 bps by quarter-end, almost all of it in September.

- The Fed raised rates 25 bps to 3.75–4.00% on September 16, its first hike since 2023, with oil ~50% above pre-Iran-conflict levels and inflation still elevated.
- September issuance of ~$38.5B was the busiest month of 2026, led by SoftBank's $10B deal, even as Q3 volume fell 15% YoY.
- Lower-rated credits took the hit: the CCC spread widened from about 9.7% to 11.8% over the quarter, while BBB spreads moved less than 10 bps.

OUTLOOK: Q4 2026

The market enters Q4 with a stronger M&A pipeline but higher funding costs: September's run of large acquisition financings points to more deal activity, while rate hikes and wider spreads for weaker credits keep lenders selective.

- Borrower quality decides access. BB and stronger single-B names can refinance and fund acquisitions; B-minus and CCC credits face wider spreads.
- The 2028 maturity wall is the next test; lower-rated issuers have made the least progress, so expect more extensions, LMEs and rescue deals.
- 69% of LCD survey respondents expect defaults to rise over the next six months (58% in Q2); de-escalation with Iran could ease the pressure.

CLOS

CLO formation remained below 2025's record pace but steadied through the quarter. U.S. BSL and middle-market issuance passed $111B year-to-date through August, about 20% behind last year, as thin loan supply and tighter arbitrage held back new deals.

- AAA CLO spreads ended the summer slightly tighter than late-May levels, and KBRA expects recent and potential rate hikes to keep demand for floating-rate CLO debt strong.
- Refinancings continued to outpace resets as managers worked to lower liability costs; 2026-vintage CLOs report only about 2% Caa exposure.

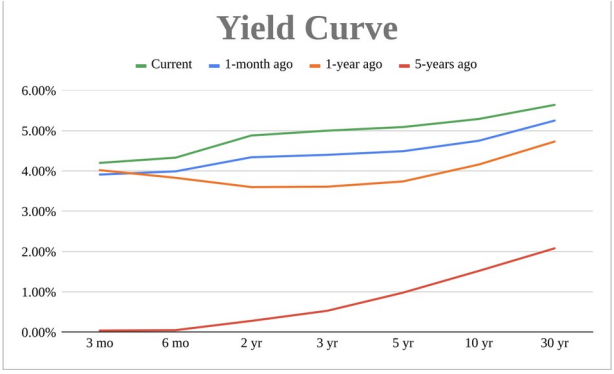
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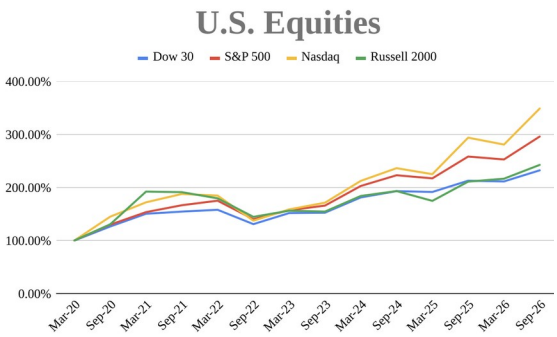
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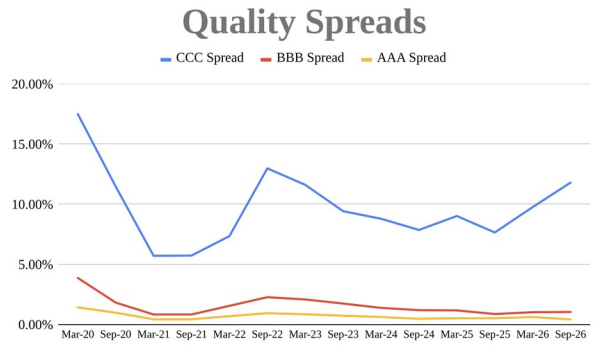
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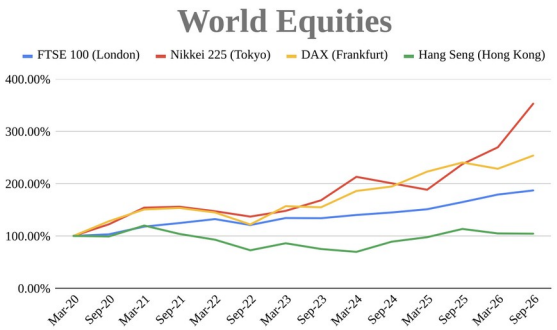
CREDIT MARKETS OVERVIEW

EQUITY MARKETS OVERVIEW









Sources include: PitchBook/LCD, Sikich, Valuation Research Corporation, KBRA, Fitch Ratings, Kpler, BigGo Finance, Through the Cycle, ICE BofA indices via FRED, U.S. Department of the Treasury, Associated Press, Investing.com

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