First Citizens Bank

CAPITAL MARKETS

Monthly Loan Market Update

January 2026

Capital Markets Summary

As we start a New Year, the capital markets appear to be brimming with optimism. A strong bull case for the economy, built on a solid corporate earnings outlook, ongoing GDP growth, moderating inflation, and falling interest rates, remains intact. The existential fears of the last half decade ─ i.e. COVID, a potential “hard” landing for the economy, metastasizing Middle East hostilities, the uncertain U.S. election cycle ─ have largely subsided. You could argue that the landscape for investors hasn’t been this unobstructed since 2019. Add to this the continued emergence of artificial intelligence, which promises to radically transform industry and corporate productivity, and there’s a temptation for investors to slip into irrational exuberance. To be sure, no market is ever devoid of worries and blemishes. The first week of 2026 greeted us with a new U.S. military action in Venezuela, increasing signals about a U.S. annexation of Greenland, and corresponding escalation of tensions with NATO, Russia and China. Also, we don’t yet have a picture-perfect soft landing, as middling inflation and employment numbers threaten to break in the wrong direction and weaken the economic outlook. But the overarching market sentiment remains quite strong, with equity market advancing in the first full week of the year.

The liquid loan market had a solid year in 2025, with issuance and capital formation that met or outpaced the levels of 2024 (see next page). Notably, LBO-and-M&A volume increased moderately year-over-year, which has raised expectations for a genuine surge in deal activity in 2026. Loan market participants have been reporting of increased M&A financing opportunities hitting their desks over the last few months. Any upswing in volume should be readily absorbed by the market given both the continued demand overhang and the stability of loan portfolios. The long-awaited credit cycle has not yet materialized ─ despite the best efforts of Covid, inflation, and global conflicts to bring it about ─ with defaults rates currently hovering around historic lows. While concerns about an AI bubble and a softening consumer sector percolate, there does not appear to be any kind of broad investor anxiety about an imminent recession.

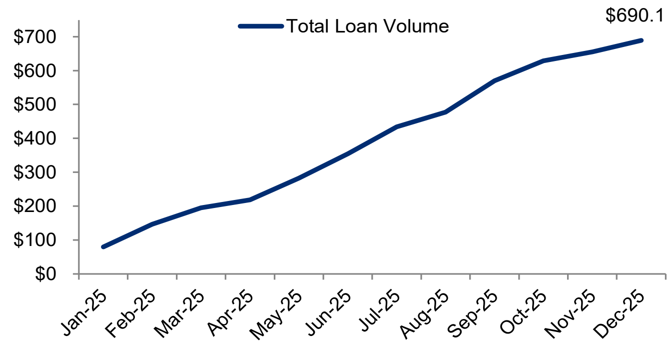
The bank lending market is robust as we’ve seen it in some time. Over the last couple of years banks have been eager to build assets following generally stagnant loan growth that attended the Regional Bank Crisis and its immediate aftermath. Fortunately, the massive investment cycle underway for AI infrastructure (both digital and power) has been a boon for banks, which are well-positioned to provide the project-oriented financing that this build-out requires. Beyond this secular trend, however, the availability for new lending has been somewhat scarce. The muted deal environment (and ongoing encroachment of Private Credit) has curtailed the supply of traditional C&I loans, sending banks into a frantic competition for each new opportunity. We believe that this C&I loan supply deficit may be ebbing. Over the last week, bank lenders have been telling us that they are much busier now than they were at this point in 2025 ─ and expressing strong conviction about the year ahead. They do not appear to be deterred about geopolitical events or tariffs and hopeful that an M&A renaissance is on the immediate horizon. Moreover, the announced roll-back of Leveraged Lending Guidelines in December presumably gives banks even more latitude to lean in.

All told, it looks like a possible break-out year for the loan market in 2026 (if the black swans can keep their distance).

Loan Market Dashboard

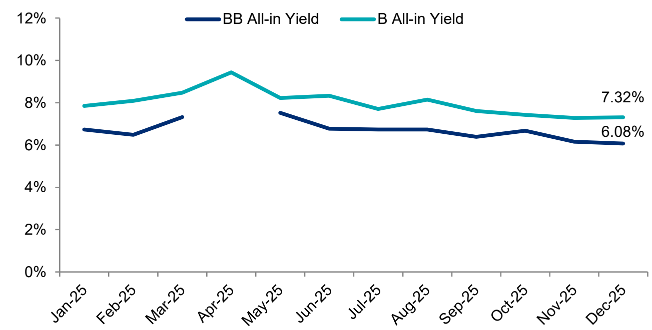
Deal Volume *($ in billions)*

Category	FY 2025	FY 2024
Total Loan Volume	$713.8	$661.5
Pro Rata Volume	$274.6	$159.3
LBO-and-M&A Volume	$200.1	$176.3



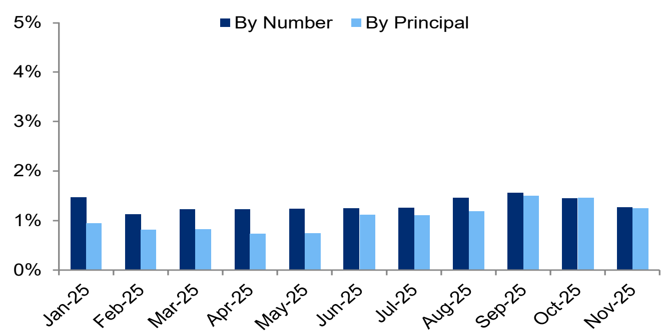
Primary Pricing

Credit Rating	Average Spread	Average All-in Yield
BB	S+2.18%	6.08%
B	S+3.24%	7.32%



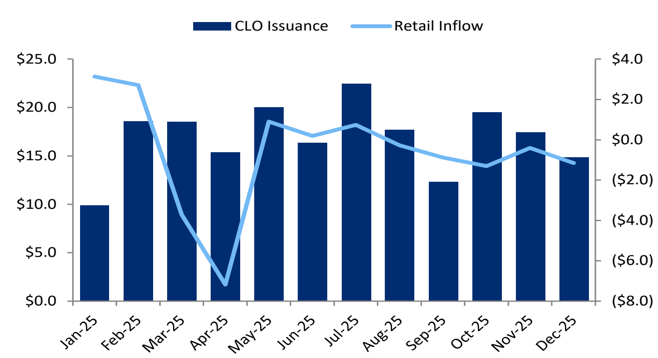
Asset Quality

Lagging 12-Month Default Rate	Nov. 2025	Jan. 2025
By Number	1.26%	1.47%
By Principal	1.25%	0.94%



Capital Formation *($ in billions)*

Category	FY 2025	FY 2024
CLO Issuance	$203.0	$186.4
Net Retail Fund Inflows	($7.2)	$9.8



Source: PitchBook Data, Inc.

FCB Capital Markets Contacts

11 West 42nd Street, 11th Floor, New York, NY 10036

Michael Young
Managing Director
Head of Capital Markets
michael.young@firstcitizens.com
212-771-9655

Andrew Huggett
Managing Director
Real Estate
andrew.huggett@firstcitizens.com
212-461-5737

Andrew Marciani
Managing Director
Healthcare
andrew.marciani@firstcitizens.com
212-771-9625

Bob Wood
Managing Director
Global Fund Banking
rowood@svb.com
704-773-8847

Dipika Sharda
Managing Director
Life Sciences, Corporate C&I
dsolanki@svb.com
650-855-3051

Drew Carleton
Managing Director
Energy
drew.carleton@firstcitizens.com
212-771-9615

Jennie Bartlett
Managing Director
Technology
jbartlett@svb.com
415-764-4741

John Tamburro
Managing Director
TMT, C&I
john.tamburro@firstcitizens.com
212-771-6031

Thomas Ficca
Managing Director
Equipment Finance
thomas.ficca@firstcitizens.com
973-597-2160

Gabe Schneider
Director
Technology, Life Sciences
gschneider@svb.com
617-913-4597

Jake Bayliss
Director
Technology, Life Sciences
jbayliss@svb.com
775-315-2846

Nick Lukenovich
Director
Energy
nick.lukenovich@firstcitizens.com
631-576-6911

Scott Tatay
Director
TMT, C&I
scott.tatay@firstcitizens.com
212-461-5143

Trung Le
Director
Energy
trung.le@firstcitizens.com
917-717-8991

Wiktor Rozwalka
Director
Technology, Life Sciences
wrozwalka@svb.com
650-441-5004

William Fairey
Director
Global Fund Banking
wfairey@svb.com
803-260-3279

Ashton Roth
Vice President
Global Fund Banking
asroth@svb.com
215-764-9219

Philip Marx
Vice President
Real Estate
philip.marx@firstcitizens.com
212-461-7930

Welena Wallace
Vice President
Generalist
welena.wallace@firstcitizens.com
212-461-5415

Brian Kittredge
Assistant Vice President
Equipment Finance
brian.kittredge@firstcitizens.com
973-597-2161

Daniel Berger
Assistant Vice President
Generalist
daniel.berger@firstcitizens.com
212-771-6010

Isaac Hernandez
Associate
Global Fund Banking
ishernandez@svb.com
505-577-5289

Kevin Connolly
Associate
Generalist
kevin.connolly@firstcitizens.com
212-771-1060

Kenny He
Associate
Generalist
kenny.he@firstcitizens.com
212-771-1744

Olivia Huminski
Associate
Technology, Life Sciences
ohuminski@svb.com
952-239-6658

Scott McMahon
Associate
Energy
scott.mcmahon@firstcitizens.com
831-264-3512

Lauren Salley
Senior Analyst
Generalist
lauren.salley@firstcitizens.com
212-461-5684

Conor Murphy*
Senior Analyst
Generalist
conor.murphy@firstcitizens.com
212-461-5580

Jared Rodi*
Senior Analyst
Generalist
jared.rodi@firstcitizens.com
973-535-3520

Luke Winters
Analyst
Technology, Life Sciences
lukwinters@svb.com
301-980-4342

Key: TMT – Technology, Media & Telecom

**Denotes key contact for Leveraged Loan Market presentation, please reach out to one of the individuals above if you no longer wish to receive the presentation*

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