

CAPITAL MARKETS

Monthly Loan Market Update

June 2026

Capital Markets Summary

May 2026 brought a cascade of unsettling economic data. Most notably, inflation pressure re-emerged after months of stabilization. CPI came in hotter than expected, while headline PCE climbed to its highest level in nearly three years. The employment picture, meanwhile, softened at the margin. Job growth decelerated and wage gains moderated, though both remain nominally positive and unemployment held steady at 4.3%. Elsewhere, the data skewed more “lukewarm” than outright weak. Retail sales were modest, housing activity remained soft, and forward-looking indicators such as factory orders pointed to slowing momentum. It all arguably points to an economy beginning to fracture, with a central bank on the precipice of pivoting to rate hikes and households facing the squeeze of rising costs and waning real income growth. Layer in the unresolved U.S. / Iran stand-off, and you had all the ingredients of a market correction.

And yet equities continued to soar. The S&P 500 lifted ~5.3% on the month, while the DOW increased ~2.0%. The saving grace for this market is robust corporate earnings and unrelenting investment in – and optimism about – artificial intelligence. Investors might now be correlating these two factors, with strong earnings (and expanded margins) signaling nascent A.I. – driven productivity improvement. In other words, A.I. could be evolving from a promising thought experiment to real-world validation. Several long-standing market truisms, such as “Don’t fight the Fed” and “Inflation erodes real returns”, would seem to argue for caution in the current environment. But investors are perhaps leaning on the even more profound iron law that productivity is the ultimate driver economic prosperity – and by extension, asset prices.

The loan market, too, appears largely unfazed by the softening economic backdrop. A pronounced demand overhang continues to define the liquid loan market, enabling issuers to fill the calendar with opportunistic refinancing activity amid still-muted M&A-driven supply. Average spreads for new-issue single-B loans fell 93bps in May, from 4.07% to 3.14%, reflecting the supply / demand mismatch. The bank market is exhibiting a similar theme. The persistent shortage of deal flow is driving competitive behavior among banks, with pricing being pushed to new lows across leveraged finance, CRE, and equipment finance. The primary exception to this trend may be the direct lending market. Over the past two months, some froth appears to have come out of private credit, with sponsors reporting modestly lower leverage levels and higher pricing indications relative to earlier in the year.

Banks are starting to eye an opportunity to gain share, as private credit’s historical structure / leverage advantage narrows and its pricing disadvantage widens. Since January bank pricing has compressed 25-50bps while Direct Lender pricing has gapped out 50-75bps, suggesting that the private credit pricing premium has widened by ~100bps. Multiple banks tell us that they are seeing more deals from Sponsors and that this change appears to be driven by Private Equity’s increasing desire to see a bank alternative (more than some kind of uptick in M&A). These new Sponsor looks for banks largely orient towards refi / recaps of deals previously financed by private credit.

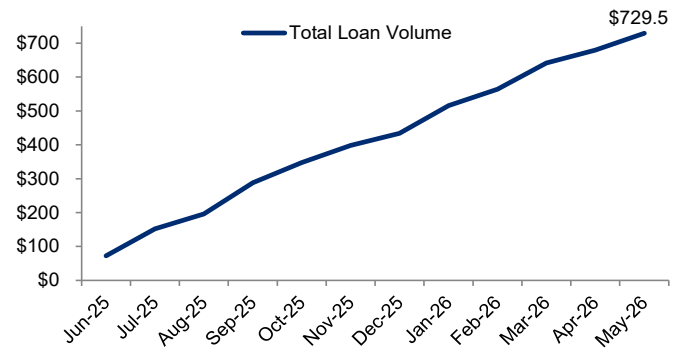
The capital markets are pushing aside—and in some cases charging through—the traditional constraints on risk. The remainder of 2026 should reveal whether this is foresight... or overreach.

Loan Market Dashboard



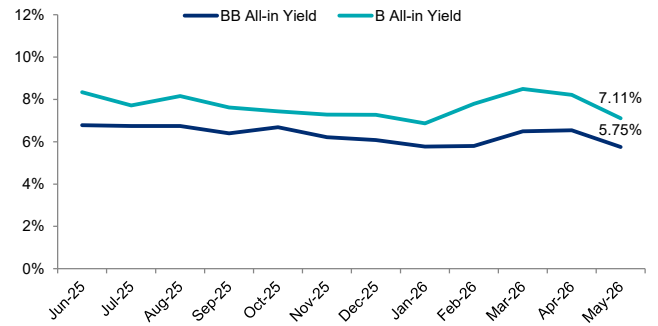
Deal Volume (\$ in billions)

Category	YTD 2026	YTD 2025
Total Loan Volume	\$299.1	\$278.2
Pro Rata Volume	\$123.4	\$99.1
LBO-and-M&A Volume	\$120.0	\$92.6



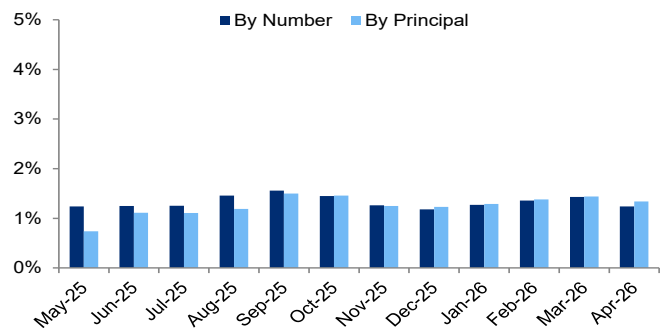
Primary Pricing

Credit Rating	Average Spread	Average All-in Yield
BB	S+1.95%	5.75%
B	S+3.14%	7.11%



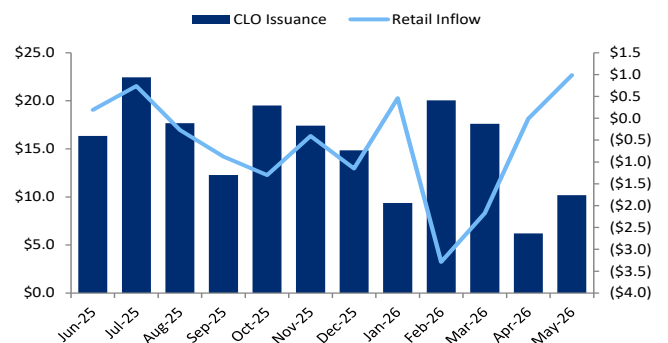
Asset Quality

Lagging 12-Month Default Rate	Apr. 2026	May. 2025
By Number	1.24%	1.24%
By Principal	1.34%	0.74%



Capital Formation (\$ in billions)

Category	YTD 2026	YTD 2025
CLO Issuance	\$63.4	\$77.1
Net Retail Fund Inflows	(\$4.7)	(\$4.2)



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

Scott Tatay

Managing Director
TMT, C&I

scott.tatay@firstcitizens.com

212-461-5143

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

Philip Marx

Director
Real Estate

philip.marx@firstcitizens.com

212-461-7930

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

Daniel Berger

Vice President
Generalist

daniel.berger@firstcitizens.com

212-771-6010

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

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

Associate
Generalist

lauren.salley@firstcitizens.com

212-461-5684

Jared Rodi*

Senior Analyst
Generalist

jared.rodidi@firstcitizens.com

973-535-3520

Luke Winters

Analyst
Technology, Life Sciences

lukewinters@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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