

CAPITAL MARKETS

Monthly Loan Market Update

May 2026

Capital Markets Summary

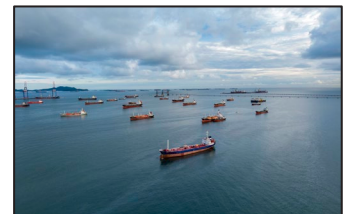
For the last month the Capital Markets have been both caught in an intractable predicament and breaking out to new heights. The Strait of Hormuz remained closed with untold consequences for oil, inflation, and economic growth. And yet in the face of that reality investors have turned bullish – arguably more so than at any time in the last few years. The S&P and DOW have breached into record territory while credit spreads have compressed to near all-time lows. There are grounds for bullishness for sure, including strong corporate earnings, solid first quarter GDP growth, and a stabilizing employment picture. But none of that fully explains how markets can remain undeterred amid such real and present dangers. The financial press is pointing to factors such as the U.S.’s diminishing reliance on foreign oil, the stability of the U.S. bond market, and the continuing expansion of Artificial Intelligence across the economy. But these are all just intelligent guesses. The direction of markets and economic activity, as any Economic 101 textbook tells us, is ultimately the domain of collective human behavior, which is unpredictable. That axiom has perhaps never been more apparent than it was in April 2026, when a market rally sprang out of a hardening war and global energy crisis.



Following a first quarter filled with anxieties over military operations, software, and tariffs, the liquid loan market has mostly returned to its previous form. Fund raising for both CLOs and loan funds was positive in April, while secondary levels are near their January highs. Deal flow, however, has been a bit slower to recover. Total primary issuance in April was \$36.7 billion, well below the 2025 average monthly volume of \$60.1 billion. The result is heightened demand overhang -- a persistent and recurring theme of these last few years. The long-awaited takeoff in M&A has only partially materialized, hampered by Liberation Day in 2025 and the Iran War in

2026. Deal making is by no means dormant, but clearly one soft spot in an otherwise robust market landscape. Meanwhile, Direct Lenders remain active despite the combined headwinds of geopolitical conflict, the AI software threat, and redemptions. Pricing for direct lenders deals appears to have increased by 50-100bps since February, but Direct Lenders (and private equity clients) are quick to point out that the back-up in pricing is more of a reversion to discipline on return than lack of demand. There remains plenty of competition for new deal opportunities, even if those opportunities are being bid at higher spreads.

The tone in bank lending hasn't missed a beat all year long. Bank lenders are eager to deploy capital and are in the midst of financing perhaps the most massive investment cycle in U.S. history – i.e. the AI infrastructure build-out. As the Magnificent 7 technology companies continue to announce ever-increasing CAPEX budgets, keep in mind that the upfront leverage for this program is coming from banks in a much greater degree than institutional capital, the private credit market, or the bond market. A global network of banks is stepping up to provide huge sums of debt for data center build outs and their related power projects. All of this – the resilient posture against the global anxieties of 2026, the massive debt capital deployment for AI - speaks to the health of the banking system and a remarkable resurgence following the Regional Bank Crisis of 2023. Outside of AI infrastructure, banks are hard pressed to find meaningful deal flow amid the restrained M&A environment. This supply / demand imbalance is driving more aggressive behavior. We are seeing banks increasingly willing to accept looser terms, both in instances of bank-on-bank competition and when defending against private credit. Structuring concessions observed include amortization (going as low as 1 to 2.5% in some years), use of proceeds (including a willingness to finance dividends) and leverage (increasing willingness to stretch beyond 3x / 4x for the right credits).



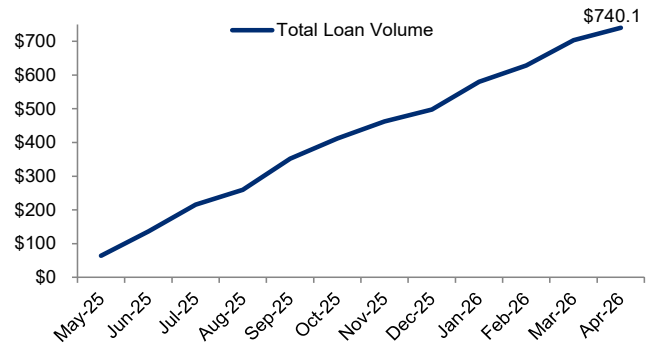
The investor community broadly – and loan investors specifically -- appear to have shrugged off the U.S - Iran stalemate. The question now is to what extent corporate deal makers will do the same.

Loan Market Dashboard



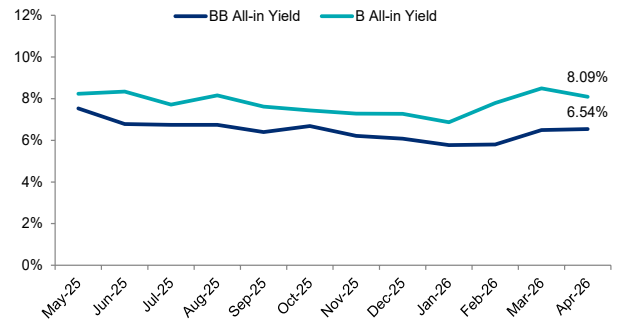
Deal Volume (\$ in billions)

Category	YTD 2026	YTD 2025
Total Loan Volume	\$240.3	\$222.6
Pro Rata Volume	\$109.6	\$71.3
LBO-and-M&A Volume	\$96.9	\$71.1



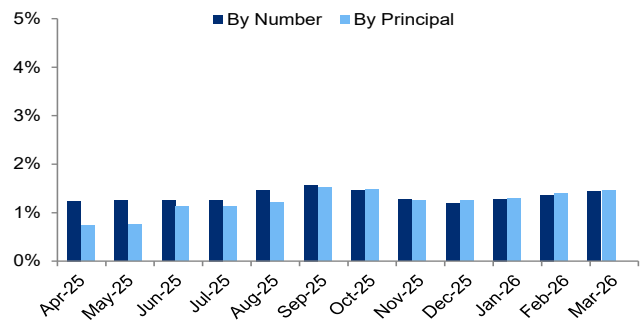
Primary Pricing

Credit Rating	Average Spread	Average All-in Yield
BB	S+2.61%	6.54%
B	S+3.92%	8.09%



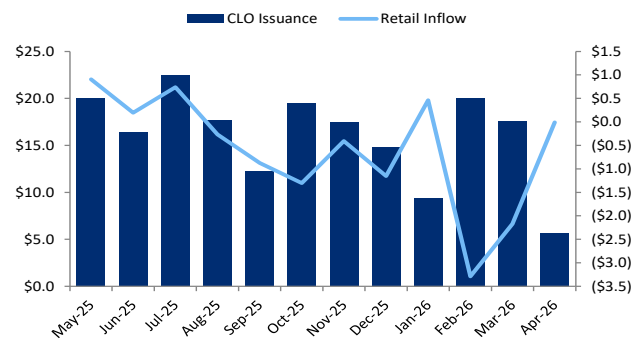
Asset Quality

Lagging 12-Month Default Rate	Mar. 2026	Apr. 2025
By Number	1.43%	1.23%
By Principal	1.44%	0.73%



Capital Formation (\$ in billions)

Category	YTD 2026	YTD 2025
CLO Issuance	\$54.2	\$64.9
Net Retail Fund Inflows	(\$5.7)	(\$5.1)



Source: [PitchBook Data, Inc.](https://pitchbook.com)

Bank Market Pricing

Overview

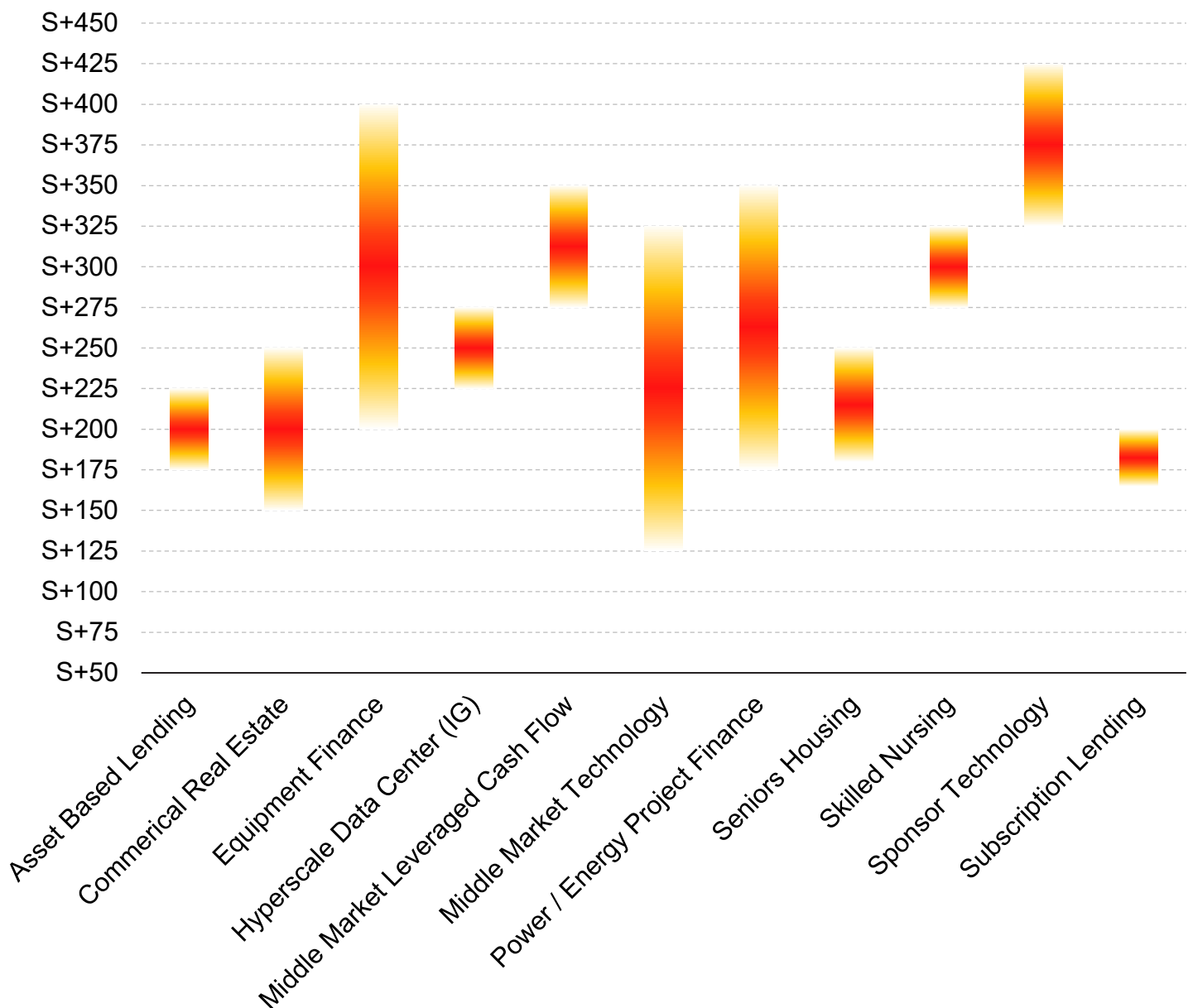
The Bank Loan Pricing Monitor provides a snapshot of new-issue loan spreads across key sectors. This analysis reflects private, middle-market bank lending activity and is intended to offer directional insight into current pricing dynamics.

Note: Data excludes Private Credit and CLO / Institutional market loan pricing.

Key Takeaways

- Pricing estimates are largely unchanged from last month, though fierce competition for new deals is keeping a downward bias on pricing.
- Software lending is the only exception to this trend, with pricing pressure to the upside.
- Leverage Finance spreads from banks are steady, in contrast to the expanding spreads in direct lending (see page 1). This widening pricing disparity to private credit accentuates the banks' one key competitive advantage in this sector.
- Just about all middle market bank lending sectors are pricing at a discount to the liquid single-B loan market. Asset-oriented sectors (ABL, CRE, Senior Housing) further price at a discount to the liquid double-B loan market

Bank Loan Pricing Distribution Monitor | April 2026



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