

CAPITAL MARKETS

Monthly Loan Market Update

October 2026

Capital Markets Summary

At any given moment, markets can appear to be operating at the edge of a breaking point, poised either to collapse or break out. Retrace the last fifteen years and you will find a succession of seemingly precarious moments: the fragile post-Financial Crisis recovery -- highlighted by the U.S. debt downgrade, a stimulus response widely criticized as insufficient, unprecedented political gridlock, and fears of "secular stagnation" -- followed by the upheavals of the Trump and Biden eras, including contested elections, Covid, inflation, global conflicts, and tariffs. Woven throughout the same period were powerful forces that propelled markets forward and counterbalanced the pessimism of the day: the shale revolution, the initial optimism surrounding the "Trump trade" of deregulation and tax reform, and the emergence of artificial intelligence with all its transformative promise. Genuine reasons for concern have consistently coexisted with compelling reasons for optimism, each threatening to tip the economy in a different direction.

The current moment offers a perfect microcosm of this dynamic. Bearish and bullish signals appear to be scaling in parallel as we approach the end of the year. In September, the Federal Reserve resumed tightening, inflation readings remained elevated, long-term rates moved higher, and oil prices drifted back over \$100 / barrel. Meanwhile, President Trump is now threatening escalation in Iran after the mid-term elections. Market commentators have once again begun discussing the prospect of recession with a seriousness largely absent in recent years. And yet the economic data simultaneously support a very different narrative. Revised GDP figures point to steady, and perhaps accelerating, growth. Employment remains strong, investment activity is healthy, and consumer spending has proven resilient. Even the interest-rate outlook contains competing interpretations: inflation can be viewed either as the consequence of higher energy prices and geopolitical uncertainty or as evidence of an economy that remains surprisingly robust. The AI story presents its own version of this tension. Recent model releases have demonstrated remarkable advances in reasoning and agentic capabilities, reinforcing expectations of substantial productivity gains. At the same time, concerns regarding safety, alignment, and cybersecurity vulnerabilities have intensified, fueling a broader public debate about the risks accompanying rapid technological progress. Once again, breakdown and breakout narratives exist side by side.

It can feel as though we are racing toward some climactic resolution, with recession and perhaps even an AI apocalypse hanging in the balance. We've been here before. Only a few years ago, the question of whether the Fed could engineer a "hard" or "soft" landing had the market holding its collective breath. At the time, the stakes seemed high while the outcome seemed imminent. And yet no definitive victory or defeat was ever declared. The economy just

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Capital Markets Summary – *Continued*

sort of muddled through without the Fed reaching its 2% inflation target nor triggering a recession. The “hard or soft landing” language slowly and unceremoniously faded from the conversation. It’s possible that the current moment is similarly more an illusion of climax than a genuine inflection point.

The loan market, meanwhile, tends not to trade on the latest geopolitical headline or inflation print. Instead, it primarily proceeds in accordance with underlying economic activity. While the dramas of the last 15 years caused equity markets to surge and sink, the lending markets have generally enjoyed a steady advance. Direct lending, bank lending, and liquid credit have all expanded with remarkably few disruptions. Competition among these lender groups remains intense, but the overall lending pie has continued to grow. Viewed through this lens, GDP growth may be the single best predictor of loan market performance. Bank lending in particular has grown in lockstep with GDP. From 2010 to today, nominal GDP and commercial bank lending have each roughly doubled. In 2026, GDP appears to be tracking to a ~2.8% growth rate through the third quarter (based on last week’s revised first half GDP data and the current Atlanta Fed third quarter estimate). It’s not surprising then that loan investors continue to attract capital and deploy aggressively. There are pockets of caution and portfolio softness, particularly within software, but overall credit demand remains robust and largely unimpeded by the anxieties of the moment. Bank market pricing continues to hover near historical lows, while single-B liquid loan primary pricing has remained essentially unchanged.

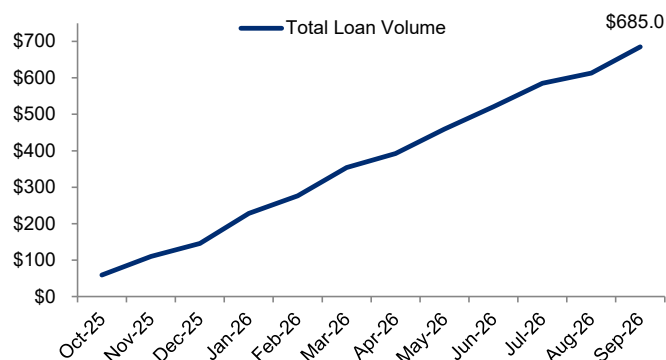
Public markets, however, remain fixated on the next potential breaking point. Developments in the fourth quarter, ranging from geopolitical events and inflation data to the midterm elections, could just as easily trigger an equity correction as propel markets to new highs. The loan market’s trajectory feels less dependent on any single headline. Ultimately, it may take an actual recession, rather than the fear of one, to meaningfully disrupt its advance.

Loan Market Dashboard



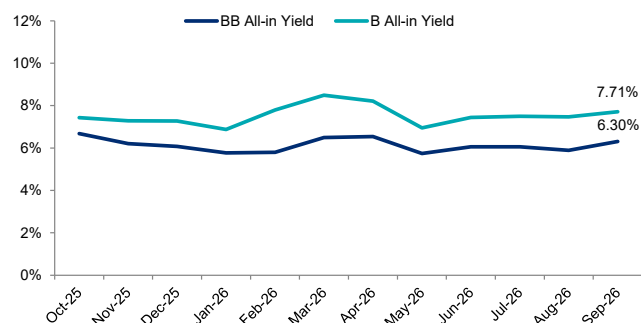
Deal Volume (\$ in billions)

Category	YTD 2026	YTD 2025
Total Loan Volume	\$540.5	\$578.6
Pro Rata Volume	\$212.6	\$207.2
LBO-and-M&A Volume	\$202.3	\$165.4



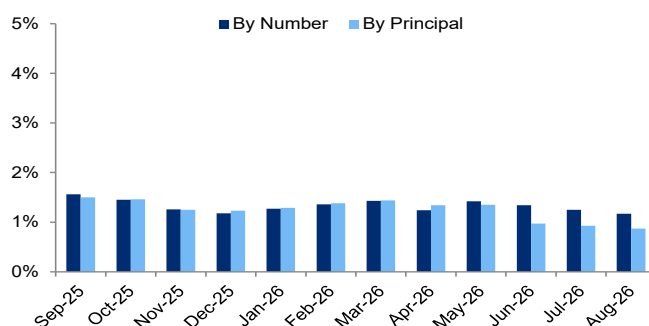
Primary Pricing

Credit Rating	Average Spread	Average All-in Yield
BB	S+2.20%	6.30%
B	S+3.43%	7.71%



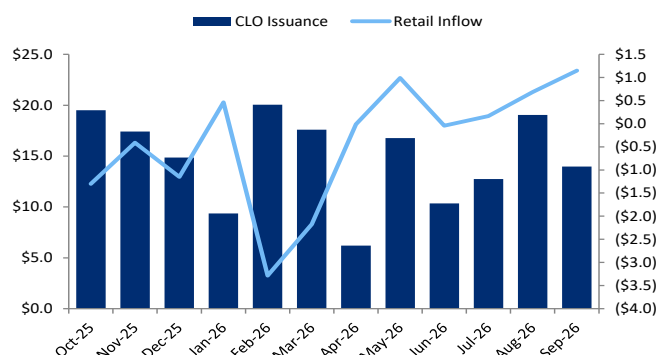
Asset Quality

Lagging 12-Month Default Rate	Aug. 2026	Sep. 2025
By Number	1.17%	1.56%
By Principal	0.87%	1.50%



Capital Formation (\$ in billions)

Category	YTD 2026	YTD 2025
CLO Issuance	\$126.6	\$154.5
Net Retail Fund Inflows	(\$2.4)	(\$4.3)



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