

CAPITAL MARKETS

Monthly Loan Market Update

September 2026

Capital Markets Summary

There has been a rather strong impulse to compare the ongoing AI build-out to the internet boom of the late 1990's. The parallels are indeed striking: a revolutionary technology paradigm with promising prospects but still limited real-world impact, massive infrastructure development to support it, a bevy of both upstart and incumbent competitors chasing it. The lessons from the late 1990's – excessive optimism, enormous capital spending justified by speculative forward revenue projections, IPOs of pre-revenue companies – are well known, in active memory, and invoked routinely. This internet bubble PTSD may, in fact, be a stabilizing force in the current capital markets environment. Investors haven't exactly been indulging unchecked confidence and waving away potential concerns. The actual revenue generation attributable to AI services and compute is heavily scrutinized. The "circular" financing arrangements within the technology ecosystem have been dutifully flagged and questioned. Financing the purchases of one's own customers evokes comparisons to Lucent. Off-balance sheet obligations and commitments trigger Enron memories. The CAPEX spending and debt incurrence of the hyperscalers are prompting cautionary references to Worldcom. In July, most mega-cap tech names traded down despite posting record revenues and profits. Nvidia, the flagship company of the AI era, is now trading at ~20 times forward earnings, a healthy multiple but hardly a stratospheric one for a business growing earnings at well over a 50% clip. When you consider further that the totality of Nvidia's off-balance sheet commitments, while a legitimate source of concern, are a mere fraction of its cash-rich and minimally leveraged balance sheet, the industry's financial profile starts to feel less precarious. The debt community is not exactly over its skis on the AI sector either. Lenders have been willing participants in financing the unprecedented capital spending of the hyperscalers, but it is worth remembering that these companies remain substantially underleveraged and continue to generate enormous cash flows from their incumbent business models. Capital markets discipline is arguably holding; however bold this technology investment cycle may be.

**“Is the Flurry of Circular AI Deals a Win-Win – or Sign of a Bubble?”
– Wall Street Journal**

**“AI Investment Boom Puts Big Tech's Free Cash Flow Under Pressure”
– Wall Street Journal**

It is possible that the AI narrative could be headed for a period of disillusionment or recalibrated expectations. It seems less likely that such a development would mean financial implosion. From a

distance, the headlines about the potentially fragile financial underpinnings of the AI sector are alarming. But upon closer inspection, the system looks solvent: susceptible to turbulence, perhaps, but unlikely to crash and burn.

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Capital Markets Summary – Continued

A similar divide (between dire headlines and more mundane reality) has emerged in the loan market. Since February, the Direct Lender market has been under intense media focus due to its exposure to the

software sector and increase in redemption requests. Within the last month, Private Credit concerns resurfaced, with some reports showing an uptick in default / non accrual rates within Direct Lender portfolios. The reality is not quite as unsettling. Software loan portfolios remain sound, with no indication of widespread stress at this point. Few if any direct lenders have faced a liquidity crisis. Private credit lenders remain very active across all loan segments. Their default rates have ticked higher, yes, but are nowhere near prior cyclical peaks. There is perhaps even a degree of discipline emerging, with average leverage levels on new deals decreasing (marginally) and pricing increasing (slightly). Furthermore, across the broader loan market there is limited evidence of any kind of deterioration in asset quality. Defaults in the liquid loan market remain modest, and actually lower than at Year End 2025, while regional banks are reporting essentially unchanged past due / non-accrual percentages over the last year. In this context, the recent rise in Private Lender defaults amounts to a signal worth monitoring, not a conclusive verdict about the state of the credit cycle.

To be sure, there are market and economic threats that match the weight of their headlines. Most notably, we have two ongoing global wars, elevated inflation that remains well above the Fed's target, and upward pressure on long-term treasury yields. These factors, either together or separately, could decelerate or derail the economic expansion at some point. Investors appear attentive to these risks, with equities generally sliding in response to upswings in the 10- and 30-year Treasury yields, setbacks in U.S.– Iran negotiations, and unfavorable inflation prints. But these headwinds are weighed against very positive countervailing facts: robust corporate earnings, relatively full employment, strong business activity. The net result is an equity market that nudged higher into record territory in the last month.

In sum, the continued advance of this market does not necessarily imply that investors are mispricing risk or oblivious to threats. A measure of restraint is detectable amid all the bullishness. While indices are at all-time highs, P/E multiples are not. While the market is financing a massive tech spending cycle, this indebtedness is largely supported by existing cash flow. While leveraged lending is in full swing, credit structures are not quite maxed out. In a previous era, the phrase “irrational exuberance” captured the prevailing bullish vibe. The current mood might best be described as “guarded optimism”.

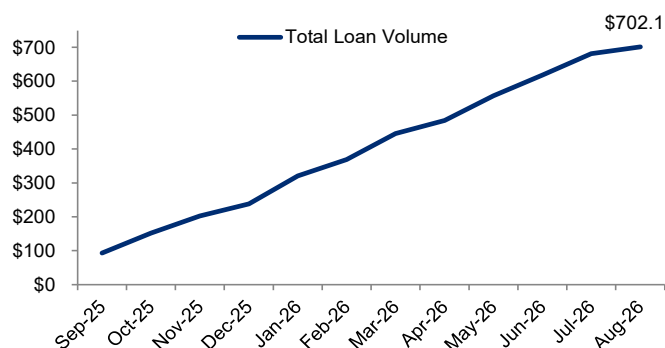
“Private Credit Faces ‘Alarming Surge’ in Selective Defaults”
- PitchBook

Loan Market Dashboard



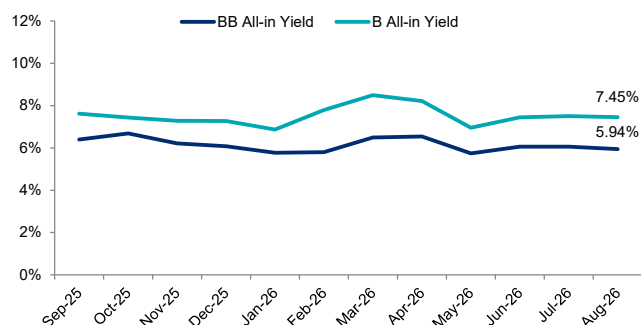
Deal Volume (\$ in billions)

Category	YTD 2026	YTD 2025
Total Loan Volume	\$460.9	\$478.4
Pro Rata Volume	\$191.5	\$171.7
LBO-and-M&A Volume	\$159.3	\$139.8



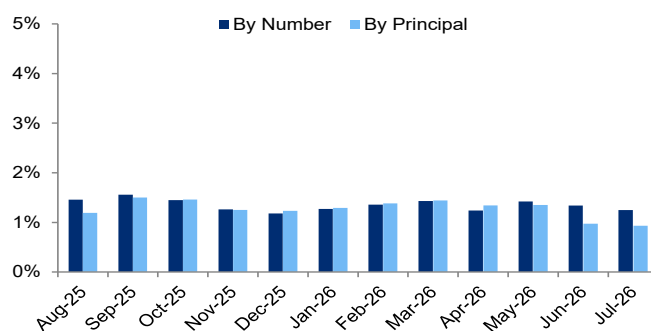
Primary Pricing

Credit Rating	Average Spread	Average All-in Yield
BB	S+2.00%	5.94%
B	S+3.30%	7.45%



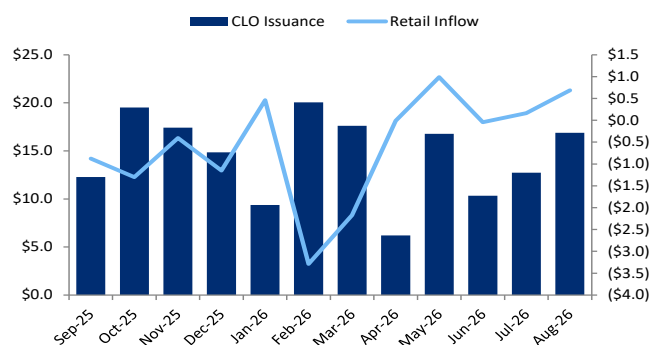
Asset Quality

Lagging 12-Month Default Rate	Jul. 2026	Aug. 2025
By Number	1.25%	1.46%
By Principal	0.93%	1.19%



Capital Formation (\$ in billions)

Category	YTD 2026	YTD 2025
CLO Issuance	\$110.0	\$140.6
Net Retail Fund Inflows	(\$4.2)	(\$3.3)



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