Market Moments That Matter

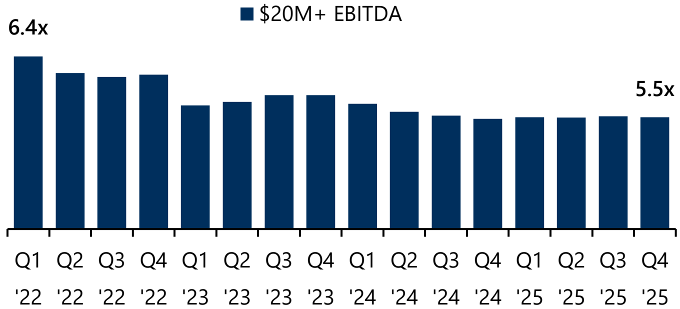
January 2026

New Year, Same Credit Rigor: Just as leverage in high-yield bonds is expected to hover near long-term averages, middle-market borrowers continue to maintain relatively steady leverage profiles supported by disciplined underwriting, resilient cash flows, and lender selectivity that has become a structural feature in the space. After recalibrating through the 2022–2023 rate spike, coverage ratios in the middle-market have normalized toward long-run levels and are positioned to remain firm in 2026 as rate stability and healthy margins anchor performance.

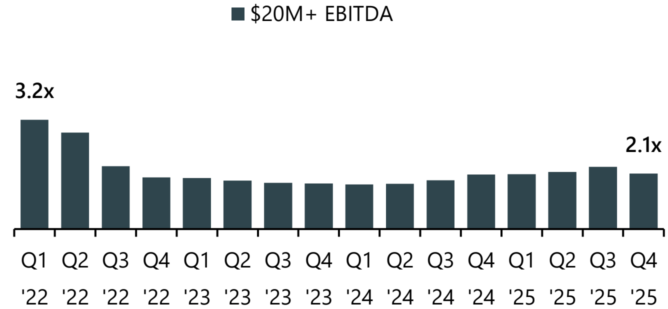
- **Leverage is Holding Steady:** Starting 2026 with the same disciplined, middle-market balance that refuses to break its long-run resolutions
- **Interest Coverage Staying Strong:** Coverage ratios are sticking to their routine, keeping cushions firm and consistency front and center for another cycle

Stability Remains in the Middle-Market Mirroring the Broader High-Yield Bond Market

Unitranche Total Leverage



Interest Coverage Ratio



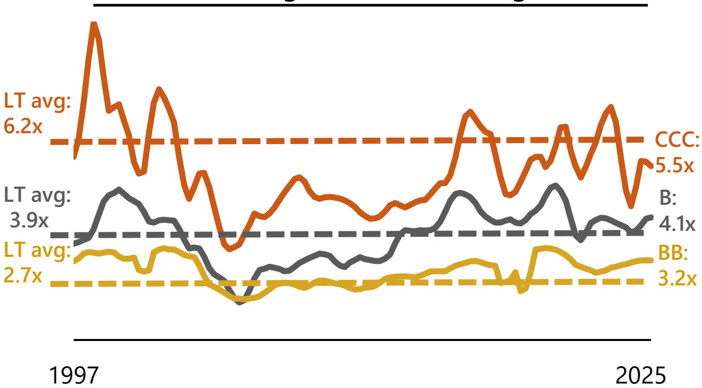
Source: KBRA DLD through December 2025

Key Insights from Our Colleagues at MUFG

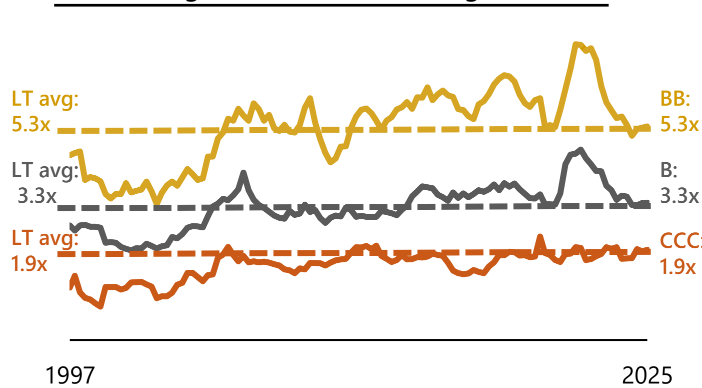
"Corporate balance sheets in the multi-trillion USD bond markets have remained strong by historic standards, with variance starting to emerge by sector. Look for leverage to remain relatively stable over the course of next year, albeit slightly above long-term historic averages for several ratings categories."

"Globalization, higher profit margins and low interest rates drove a 40-year cyclical uptrend in corporate interest coverage ratios. As rates rose during the global tightening cycle of 2022-2023, coverage ratios migrated closer to LT averages. Looking ahead, coverage ratios are expected to remain stable and strong in 2026."

USD High-Yield Net Leverage



USD High-Yield Interest Coverage Ratio



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