

Trick or Treat: It's a chilly Halloween this year for the riskiest of borrowers. In a rising rate environment, lenders are handing out candy selectively, preferring higher quality issuers. LBO volume is down materially for those with weaker credit stories, however the actual risk premium in lower middle market private credit is holding steady...for now.

- **Spooked Lenders:** B- issuers now represent the smallest percentage of the leveraged loan market since 2022, reflecting a more risk-averse lending environment and a flight to quality.
- **Fewer Treats to Go Around:** Private credit issuers (who are typically non-rated) are also seeing financing challenges, with Q3 middle market LBO volumes down ~60% year-over-year.
- **Same Costumes as Last Year:** Interestingly, while B- leveraged loans spreads widened ~76bps over the past 12 months, lower middle market private credit spreads are relatively flat vs Q3 2025. Prospective issuers may find it prudent to lock in today's spreads.

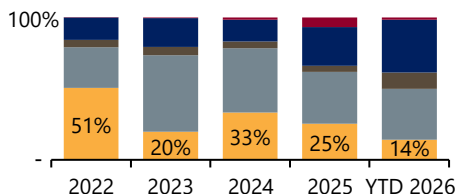


Casting a Spell on Credit Markets

Low-Rated Leverage Loans are Losing Market Share

U.S. M&A/LBO Leveraged Loan Volume Share

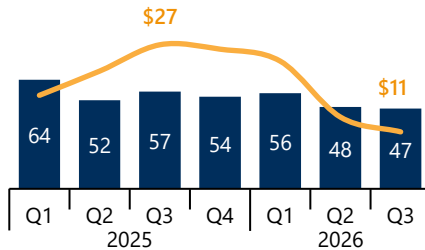
■ B- ■ B/B+ ■ Split B/BB ■ BB- or higher ■ NR



Private Credit M&A Activity is Slowing Down

Middle-Market Direct Lending LBOs

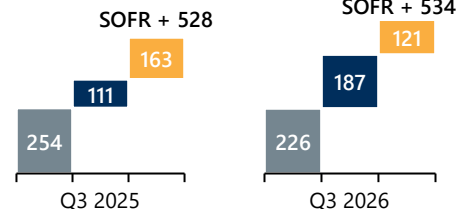
■ Deal Count ■ Estimated Volume (\$B)



Private Credit LMM Spreads Remain Steady

Credit Spreads over SOFR

■ BB- ■ B- ■ Private Credit (Lower MM)



Source: PitchBook LCD, KBRA DLD

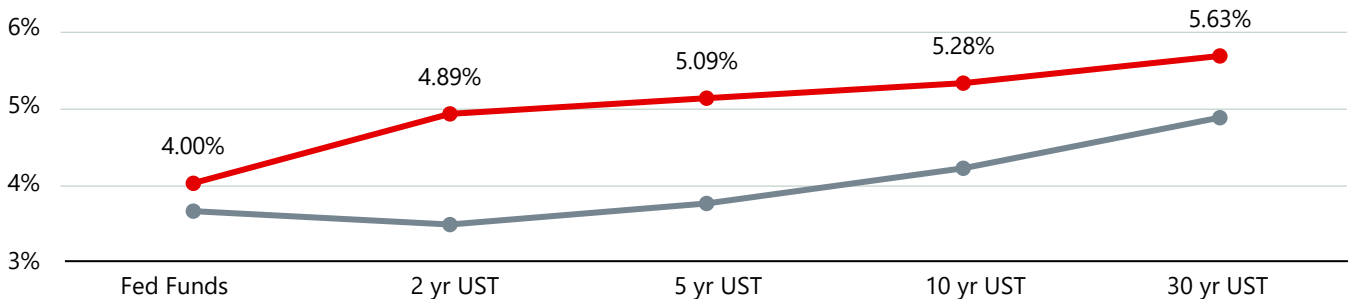


Key Insights from Our Colleagues at MUFG

The Treasury curve repriced sharply higher in Q3, with yields rising across every maturity. The 10-year added 82 bps to finish the quarter at 5.28%, while the 30-year reached 5.63%. With the Fed funds rate at 4.00% and the 2-year at 4.89%, borrowers face a higher base rate on new financing, even as credit spreads for stronger issuers stayed resilient.

UST Curve Repriced Higher

— As of Jan 1, 2026 — As of Sep 30, 2026



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