Intrepid
Capital Advisory Group



Market Moments That Matter
November 2026

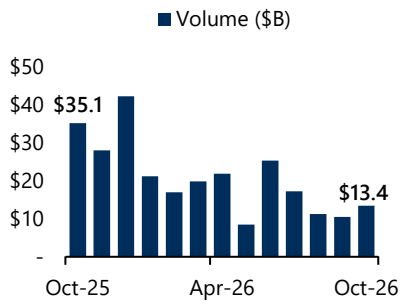
This Thanksgiving, Quality Borrowers have Reasons to be Grateful. While direct lending activity remains subdued, lower middle-market ("LMM") credit health seems to be improving at the margins. And with many funds under deployed, quality borrowers are driving friendlier terms and higher leverage for the <$20M EBITDA market segment.

- **Fewer Deals on the Menu:** Direct lending volume reached $13.4B in October, up 28% from September but still down 62% year-over-year. With fewer deals to fund, lenders are competing more aggressively for the best assets.
- **Defaults are Cooling Off:** LMM defaults over the past 12 months ticked down to 1.8% in October and are now below the average (2.1%) for the overall direct lending market.
- **Room for Seconds:** Average spreads for LMM borrowers tightened by 10 bps to S+524 in October, while average leverage rose to 4.1x vs 3.8x in September, representing the largest month-over-month increase of 2026 – providing a guiding light for deals hoping to close before the holidays in December.

Sweeter Deals in the Lower Middle Market

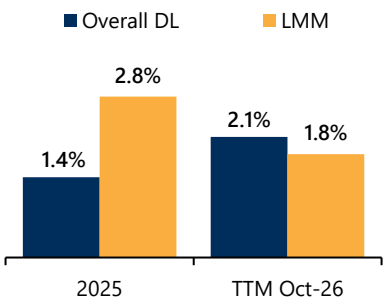
Direct Lending Jumps in October, but Remains Below 2025 Levels…

U.S. Direct Lending New Issuance



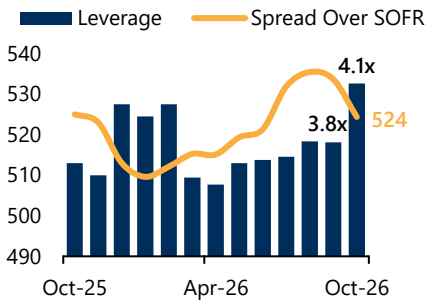
…while LMM Performance Improves on a Relative Basis…

U.S. Direct Lending Default Rate by Segment



…and Deal Terms Reflect a Higher Quality Borrower Pool

LMM Spreads and Senior Leverage



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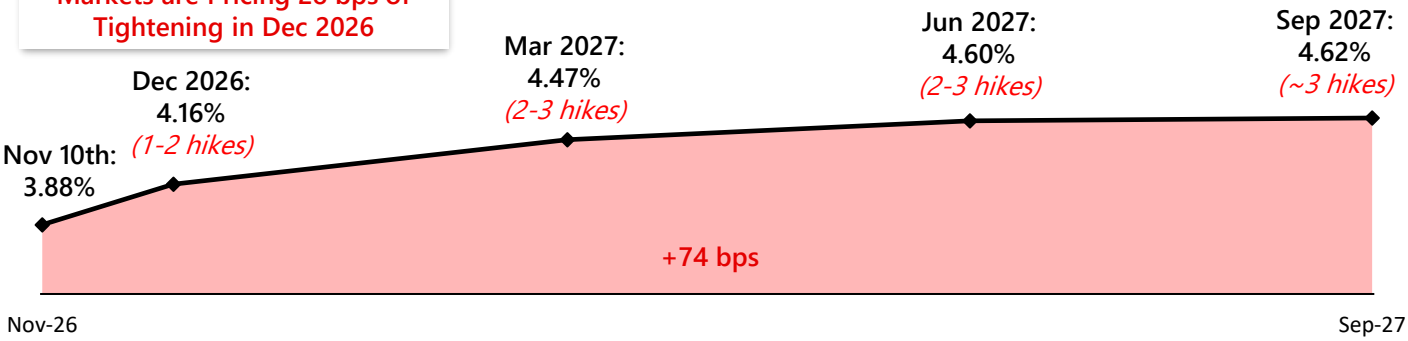
Key Insights from Our Colleagues at MUFG

Market Implied Federal Funds Rate

Markets are Pricing 28 bps of Tightening in Dec 2026



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