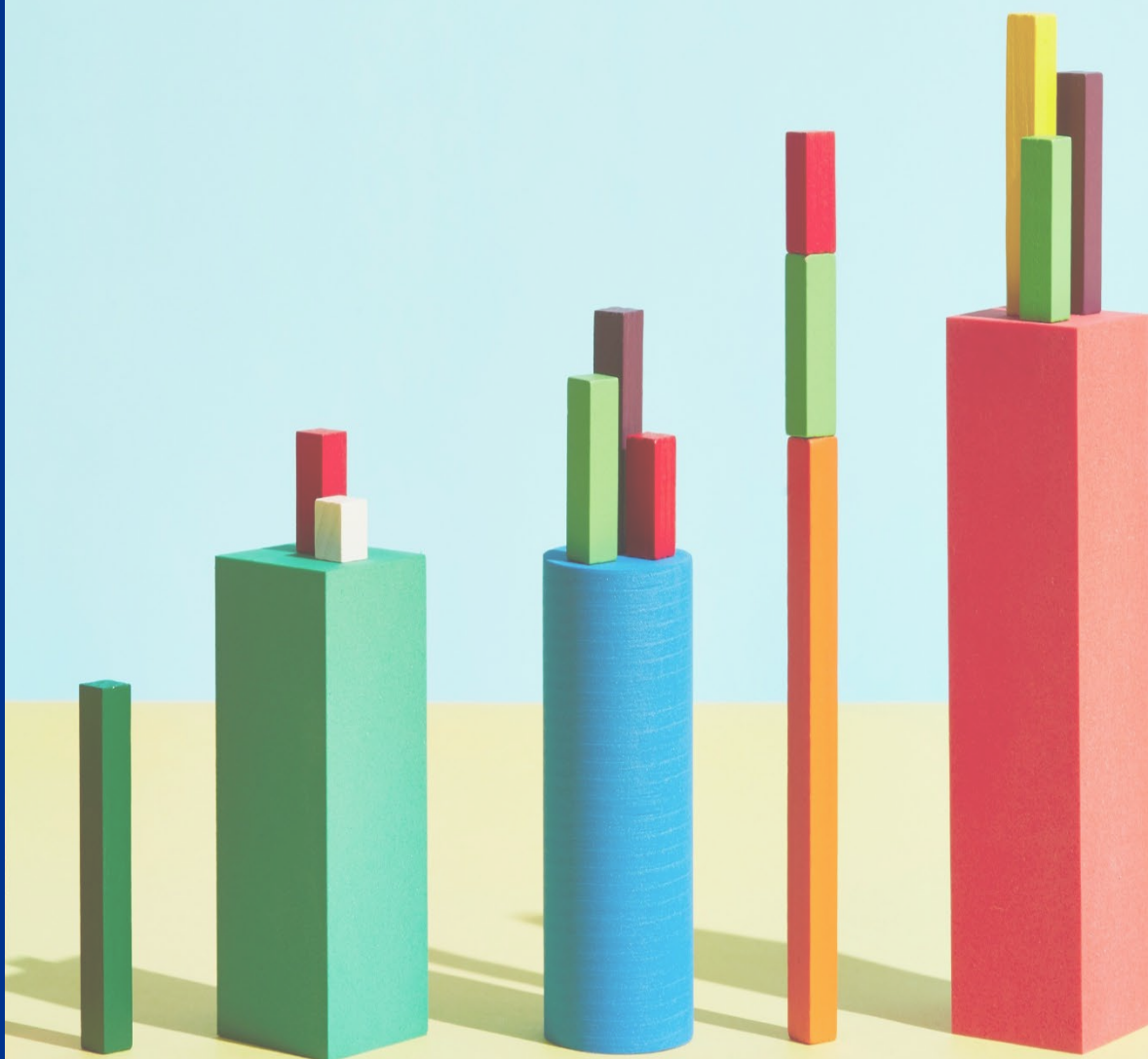


# Credit Markets Update

March 31, 2026



# Credit Markets Commentary

**A strong start to 2026, riding on increased M&A-backed issuance, turned significantly weaker in March as investor sentiment deteriorated due to war in the Middle East and diminishing rate cuts expectations.**

## War Driving Volatility and Uncertainty as Q1 Closed



- New-issue volume slowed after a strong start to 2026 as investor sentiment deteriorated through the first quarter as the war in the Middle East commenced
  - Volume reached \$173.3 billion, up from \$138.1 billion in the preceding quarter, but down from \$195.1 billion in the same period of 2025
  - Refinancing issuance and maturity extensions both moderated, with the refinancing share falling to 37% of institutional loan volume from 49% in the same period of 2025
  - M&A-backed institutional loans accounted for 46.0% of institutional loan volume during the quarter, totaling \$74.6 billion, the highest level since \$94.4 billion during the first quarter of 2022
- Direct lenders continued to edge out broadly syndicated lenders, despite increased selectiveness over software sector exposure, owing to their capability to clear the deals at higher risk premiums
- High-yield bond market started the year strong before volumes softened in March due to the Middle East conflict; the issuance totaled \$79.7 billion for the quarter with an average yield of 7.08%
- The combined default rate declined to 3.48% for LTM March 2026, with liability management exercises (LMEs) remaining the preferred restructuring tool, accounting for 59% of total default activity
- The FOMC paused rate cuts in 2026 and will continue to monitor an uncertain macroeconomic outlook with the spike in key input prices. Ongoing war in the Middle East and resulting oil-price volatility continue to weigh on overall risk sentiment

### Tailwinds...



- M&A-driven issuance continues to support primary-market activity, with mega-deals sustaining deal flow despite broader volatility
- Market access remains open for high quality issuers across leveraged loans, high yield, and direct lending, enabling borrowers to raise capital for acquisitions and growth
- High-yield issuance is supported by a continued demand for CapEx and expansion financing tied to AI/data-center-related investments

### ...Risks on the horizon



- Refinancing and maturity-extension activity is slowing, even as near-term maturities skew heavily toward B- and lower-rated borrowers, raising rollover and default risk
- Geopolitical shocks, oil-price volatility, and persistent uncertainty could continue to disrupt risk appetite and drive episodic market pauses
- Inflation remains sensitive to energy and commodity price moves; continued price pressure will influence the path of monetary policy, which could lead to a halt in rate cuts and even rate increases that would rattle the markets

Source: PitchBook | Leveraged Commentary & Data, KPMG Market Research.



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# Credit Markets Update

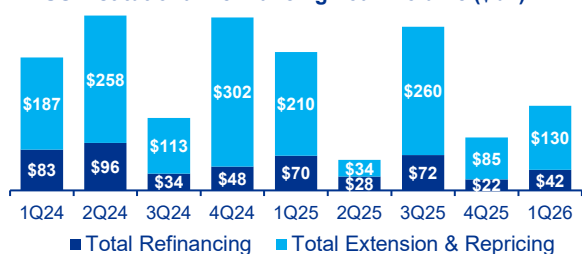
**A strong start to 2026, riding on increased M&A-backed issuance, turned significantly weaker in March as investor sentiment deteriorated due to war in the Middle East and diminishing rate cuts expectations.**

- First quarter new-issue leveraged loan volume reached \$173.3 billion, up from \$138.1 billion marked in the preceding quarter, but down from \$195.1 billion during the same period in 2025
  - The investor sentiment deteriorated throughout the quarter due to software sector headwinds and the war in the Middle East; however, M&A drove the volume during the quarter featuring a handful of megadeals
- Refinancing issuance and maturity extensions both have slowed in the first quarter, with refinancing share falling to 37% of institutional loan volume, down from 49% in 2025
  - Extension and repricing activity, not recorded in new-issue volume, plummeted from a strong January to a near freeze in March, reaching a quarterly volume of \$171.3 billion in 2026, well below the \$280.3 billion recorded a year ago
- M&A-backed issuance described 46.0% of the institutional loan volume in the first quarter, amassing \$74.6 billion, the highest total since \$94.4 billion for the first quarter of 2022, trying to fill the gap left by fading opportunistic demand
- Direct lenders continue to edge out broadly syndicated lenders despite being more selective amid AI-exposed software headwinds, capturing the share in larger deals with their capability to clear the deals at higher risk premiums
  - BSL remains active through larger M&A issuance, even with widened spreads across the credit spectrum
- Liability management exercises accounted for 59.0% of total default activity during LTM March 2026, remaining a key restructuring tool despite gradually coming down from 73.0% in LTM February 2025
  - Combined default rate has come down to 3.48%, declining consistently from peak of 4.70% with lowering fed rates

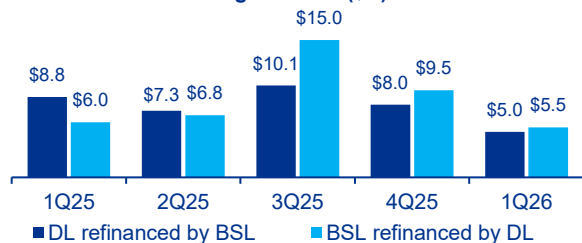
**New-Issue Leveraged Loan Volume (\$bn)**



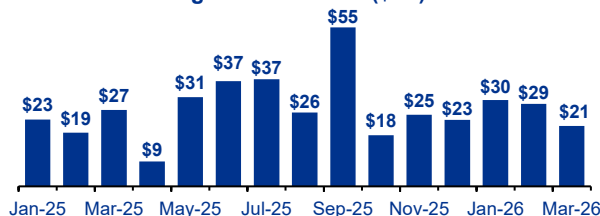
**US Institutional Refinancing Loan Volume (\$bn)**



**Broadly Syndicated Loans and Direct Lending takeouts (\$B)**



**High Yield Volume (\$bn)**



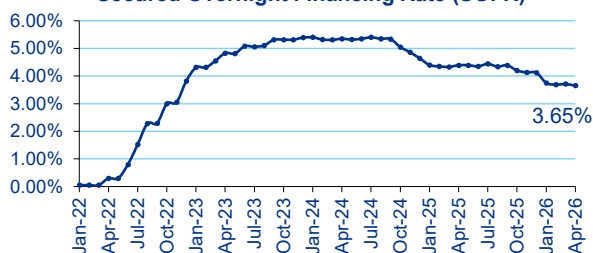
**High-yield market started strong in the first quarter 2026, before softening in March due to uncertainties triggered by the war in the Middle East**

- First quarter high-yield volume came in at \$79.7 billion, up from \$65.9 billion last quarter and \$68.5 billion printed a year ago
  - New issuance during the quarter was dominated by deals supporting M&A / LBO and AI-related growth investments
- The average quarterly yield for the first quarter of 2026 was at 7.08%, flat from the last quarter, but down from 7.67% recorded a year ago

**The Federal Reserve paused the rate cut in 2026, as economic outlook remained uncertain**

- The FOMC kept the benchmark rates steady between 3.50% and 3.75%, and will continue to monitor the economic outlook
  - Job gains softened, inflation remains somewhat elevated; however, the oil and commodity price surge could threaten the rate cut plans, and could even result in rate increases

**Secured Overnight Financing Rate (SOFR)**



Source: New York Fed; 90-day Term SOFR rate

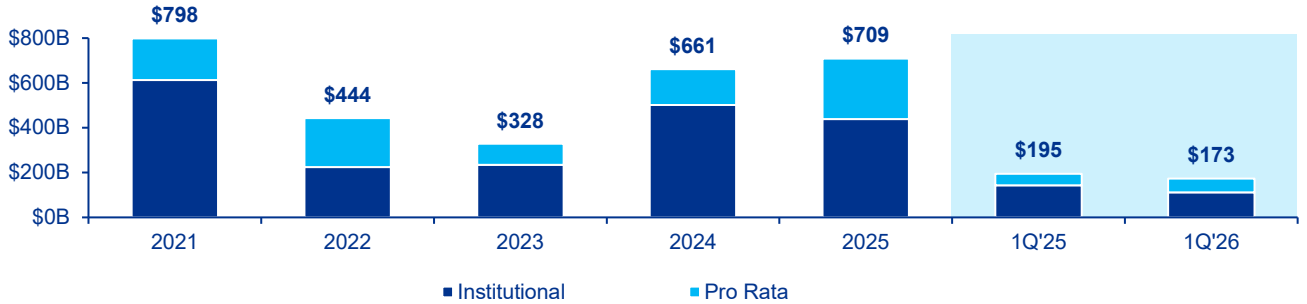
Source: PitchBook | Leveraged Commentary & Data, KPMG Market Research.



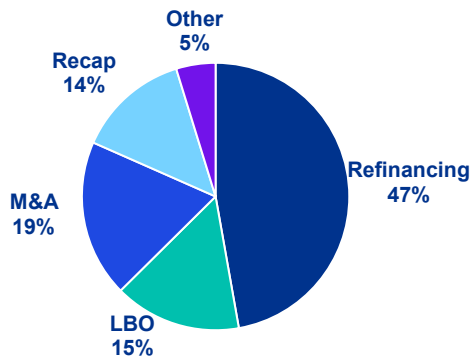
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# Leveraged Loans

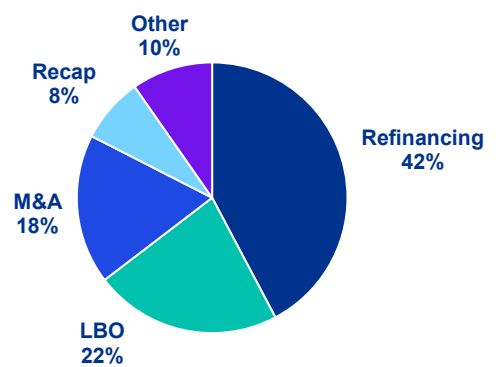
### New-Issue Leveraged Loan Volume (\$bn)



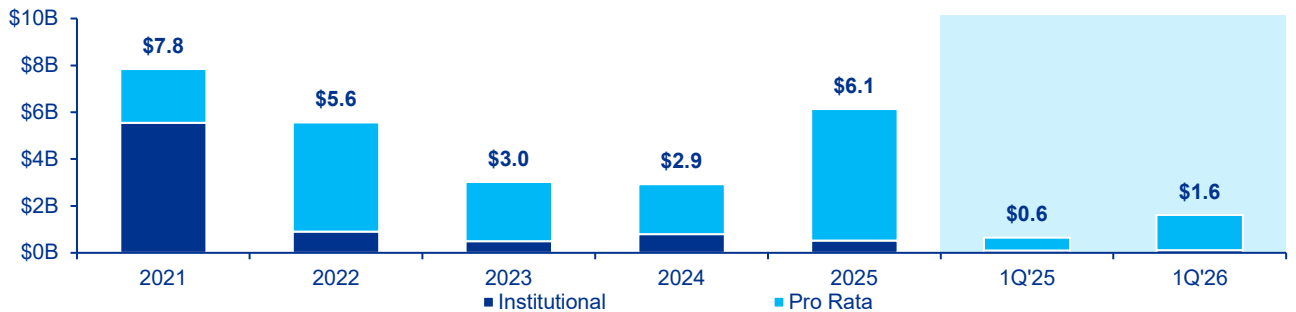
### Leveraged Loan Issuance by Purpose - 1Q'25



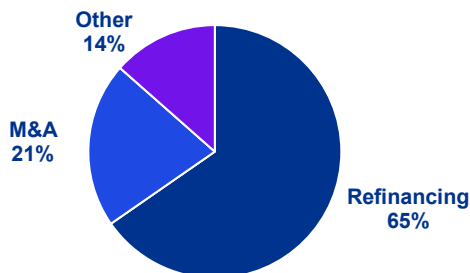
### Leveraged Loan Issuance by Purpose - 1Q'26



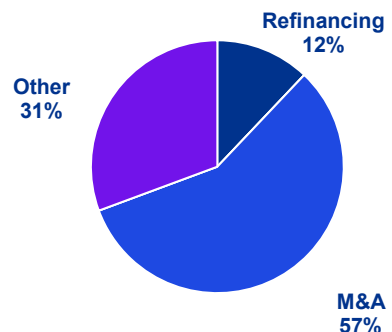
### Middle Market Leveraged Loan Volume (\$bn)



### Middle Market Leveraged Loan Volume by Purpose - 1Q'25



### Middle Market Leveraged Loan Volume by Purpose - 1Q'26



Source: PitchBook | Leveraged Commentary & Data.

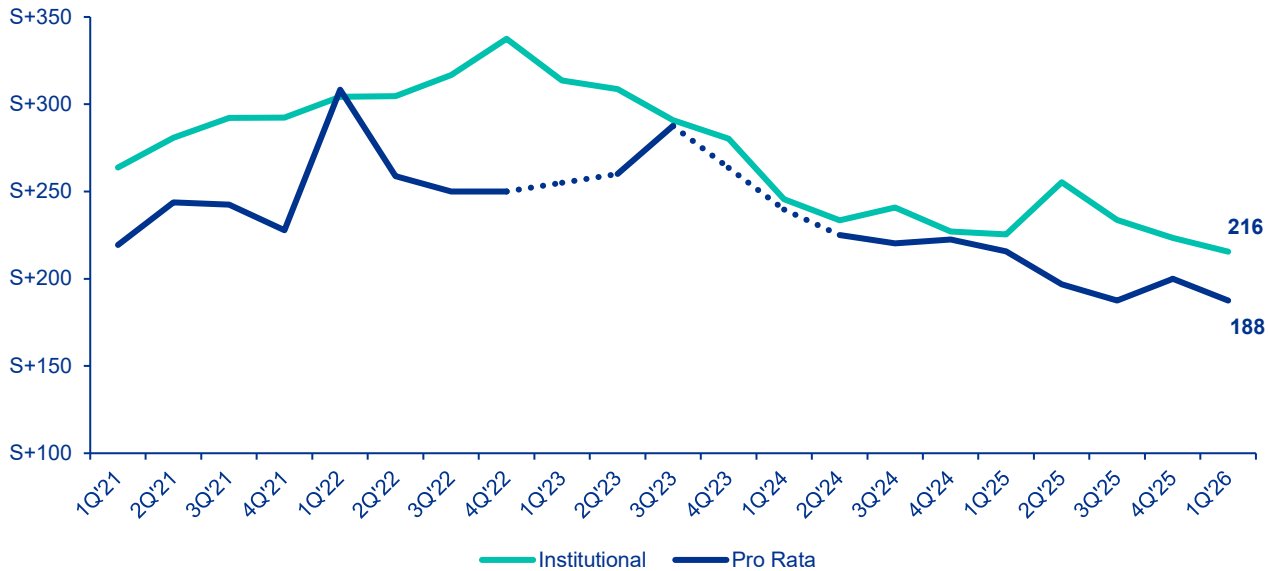
Note: Middle market refers to companies with EBITDA of \$50 million or less.



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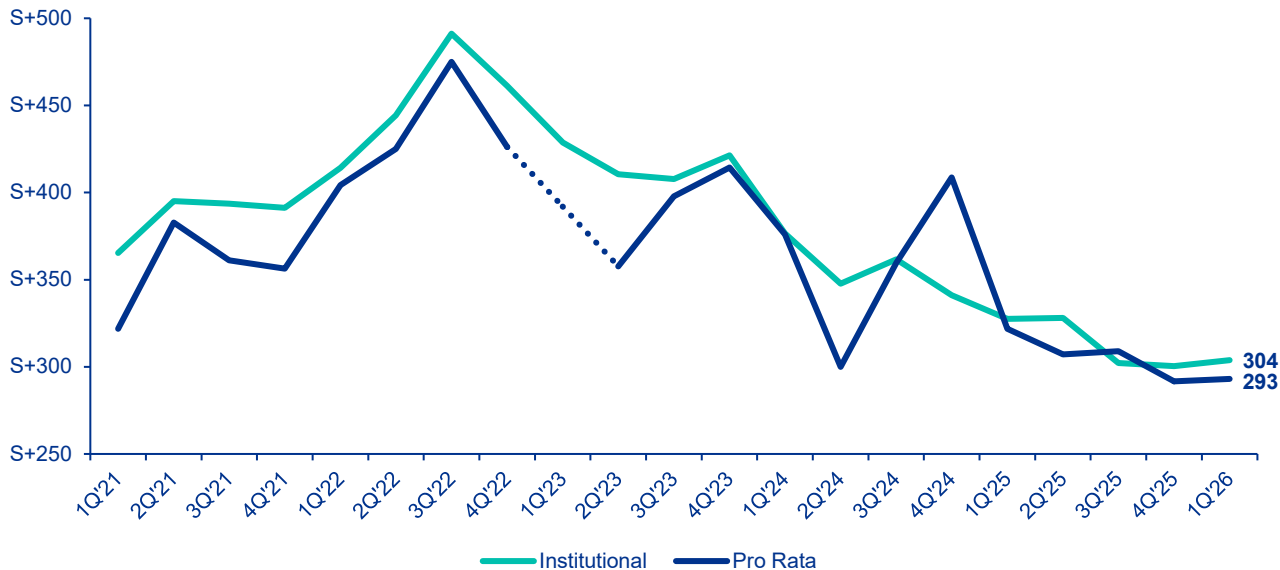
# Leveraged Loans (continued)

New Issue First Lien Spreads BB/BB- - Quarterly



Note: 1Q'23, 4Q'23 and 1Q'24 data not available

New Issue First Lien Spreads B+/B - Quarterly



Note: 1Q'23 data not available

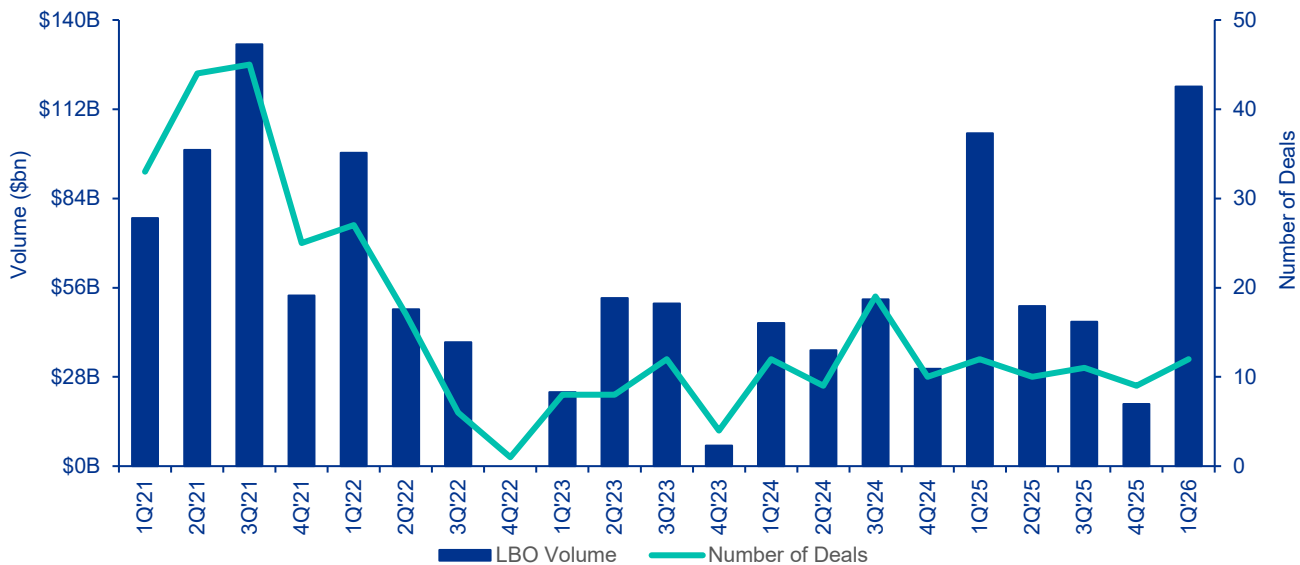
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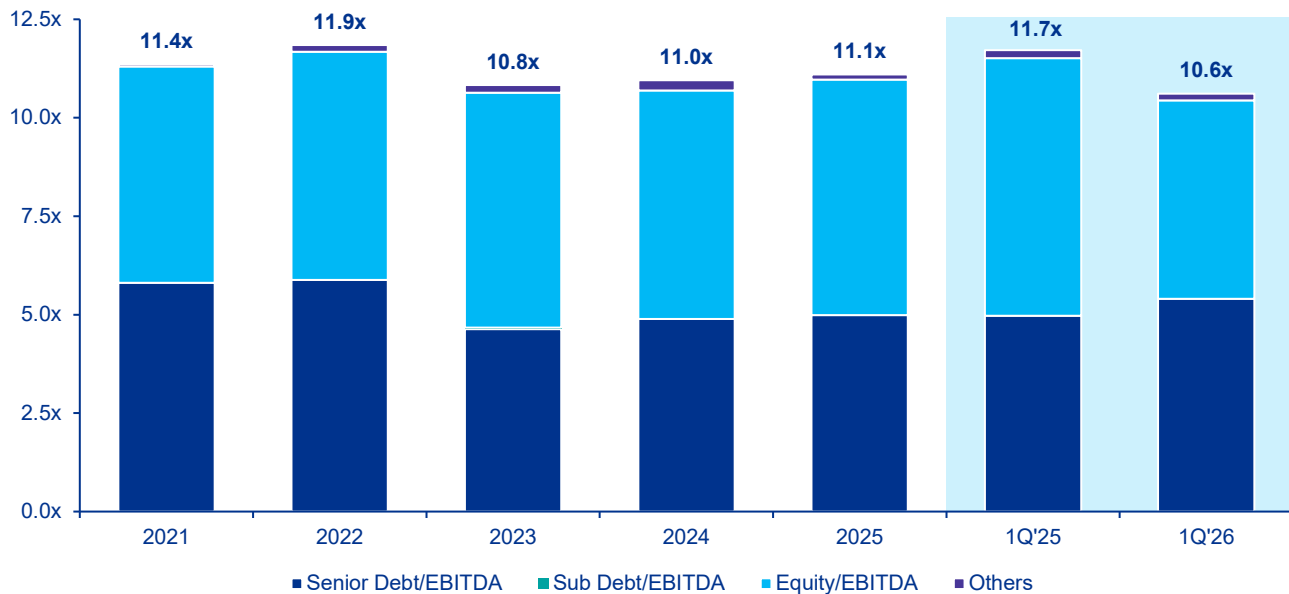
# LBO Summary

## LBO Transaction Volume - Quarterly (\$bn)



Note: 4Q'22 LBO volume data not available

## Average Purchase Price Multiple - All LBOs



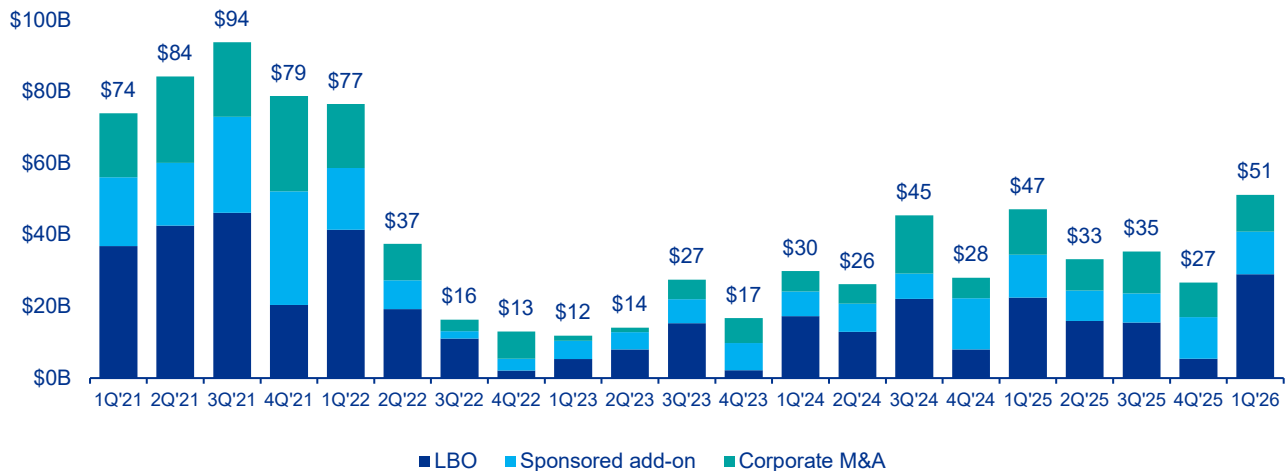
Source: PitchBook | Leveraged Commentary & Data.



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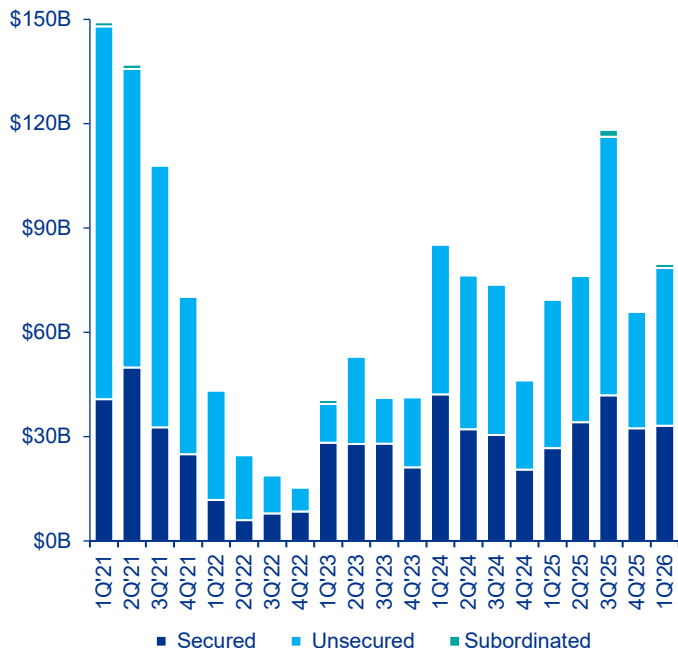
# M&A Related Loan Volume

US M&A related New Issue Institutional Loans(\$bn)



# High Yield Bonds

High Yield Bond Issuance – Quarterly (\$bn)



New issue High yield Bond yield to Maturity



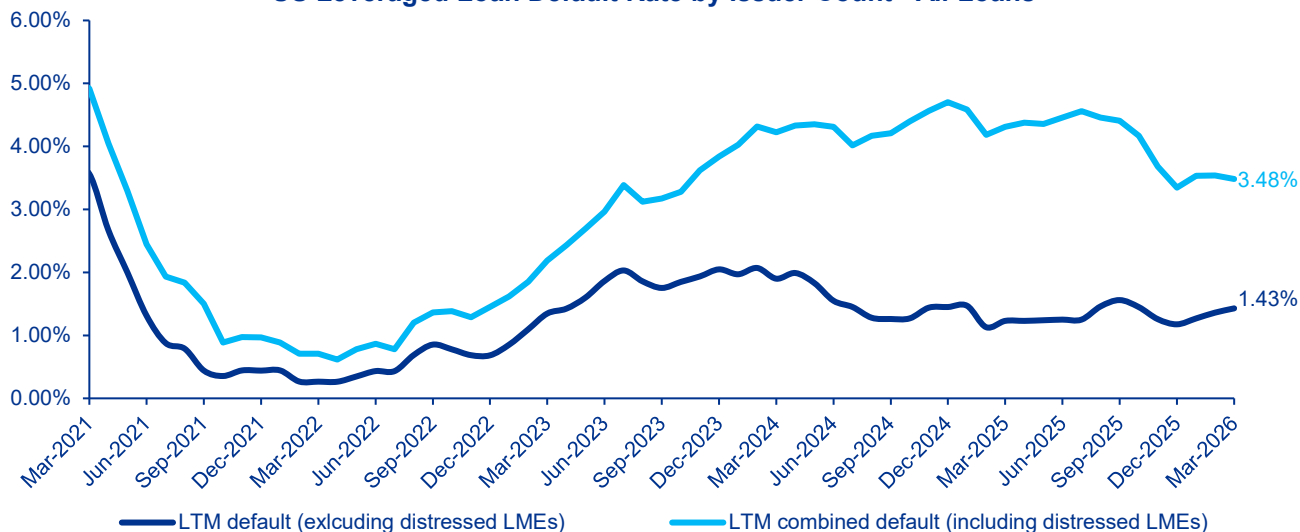
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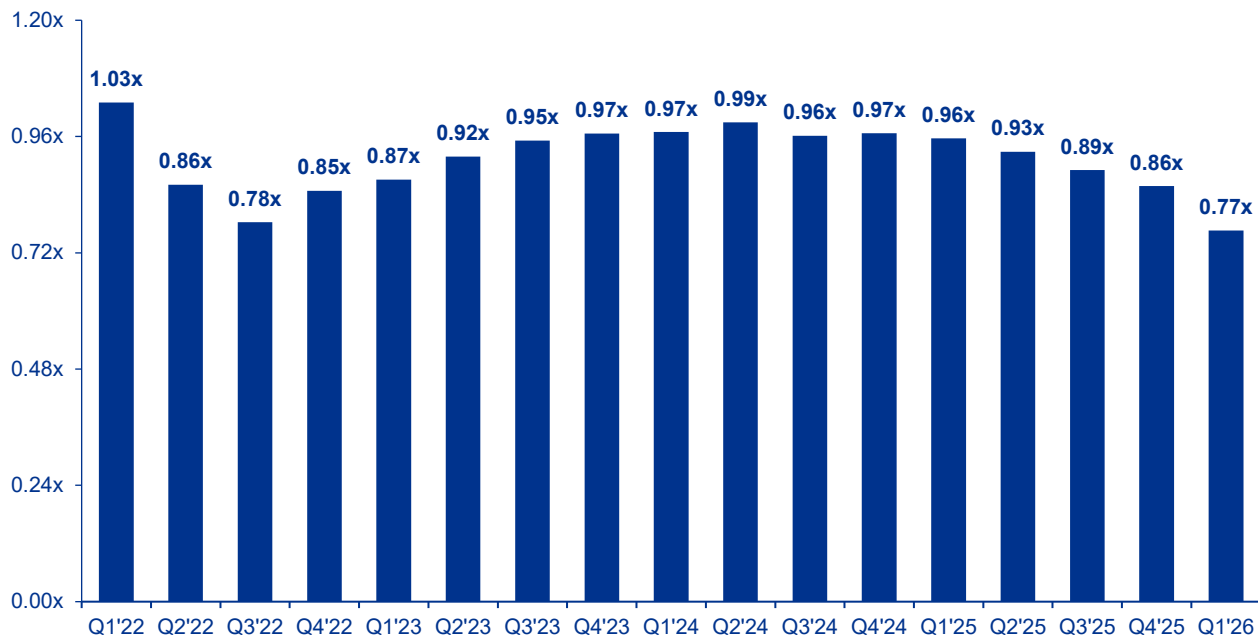
# Distress and Defaults

### US Leveraged Loan Default Rate by Issuer Count - All Loans



# Price to Book Value

### Public BDCs - Price to Book Value Multiple - Quarterly



Source: PitchBook | Leveraged Commentary & Data; KPMG Market Research



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# KPMG Investment Banking – Capital Markets Advisory

## Capital Markets Practice

We are a leading global financial advisor with real time knowledge of the capital markets. We advise on a wide range of transactions involving both debt and equity, including raising financing for acquisitions, buyouts, dividend recapitalizations, growth capital, special situations and DIP and exit financing in bankruptcies

We maintain close relationships with debt, mezzanine and equity capital providers, including banks, BDCs, specialty finance companies, insurance companies, family offices, credit and equity funds and other private investors

## Primary Service Offerings

Debt and equity capital raises


- Senior debt financing, refinancing or amendments
- Acquisition and growth capital
- Dividend recapitalizations and minority buyouts
- Mezzanine/junior subordinated financing
- Structured and minority equity
- Project financing
- Capital for special situations, including bankruptcies

## Value Added Advisor

- Unbiased and objective advice
- Local market insight with strong relationships across all tranches of capital
- Experienced deal team
- Flexible and innovative approach
- Fully integrated service offering
- KPMG global advisory network

## Selected Capital Markets Transactions

**KPMG**



**Debt Advisory**  
Acting as the exclusive financial advisor to a commercial point-of-purchase solution provider in connection with raising debt

**Not Disclosed**

**KPMG**



**Debt Advisory**  
Acted as the exclusive financial advisor to Fortem Holdings in connection with securing debt for the acquisition of C&TDG Management LLC

**Not Disclosed**


**KPMG**



**Debt Advisory**  
Acted as the exclusive financial advisor to Nextlink in connection with securing a new credit facility

**Not Disclosed**

**KPMG**



**Debt Advisory**  
Acted as financial advisor to Smartlink in connection with raising credit facilities

**Not Disclosed**

**KPMG**



**Debt Advisory**  
Acted as the exclusive financial advisor to Tidewater Fleet Supply in connection with securing a new credit facility

**Not Disclosed**

**KPMG**



**Debt Advisory**  
Acted as financial advisor to AgXplore in connection with raising credit facilities used for a recapitalization

**Not Disclosed**

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