Capital Markets Trends

Q2 2026

CAPITAL MARKETS TRENDS

Chartwell is a national leader in financial advisory, serving the unique needs of privately held middle-market companies. Our capital markets practice helps clients maximize their operating flexibility and ensure optimal capital structure.

This newsletter focuses on current capital markets trends, covering key insights on debt, leveraged loan issuance, credit spreads, secured financing, lending dry powder, private placement, and junior capital.

Chartwell's expertise across the finance spectrum provides us the unique ability to provide comprehensive, unbiased, solutions-based advice.

CHARTWELL CORPORATE FINANCE SERVICES

CAPITAL MARKETS

- Debt and equity placement agent
- Capital arranged from bank/non-bank investors

MERGERS & ACQUISITIONS

- Sell-side transactions
- Buy-side transactions

ESOP TRANSACTIONS

- Equity sales to new and/or existing ESOPs
- Complex ESOP structures

STRATEGIC ALTERNATIVES

- Evaluation of ownership alternatives against status quo and in contrast to other options

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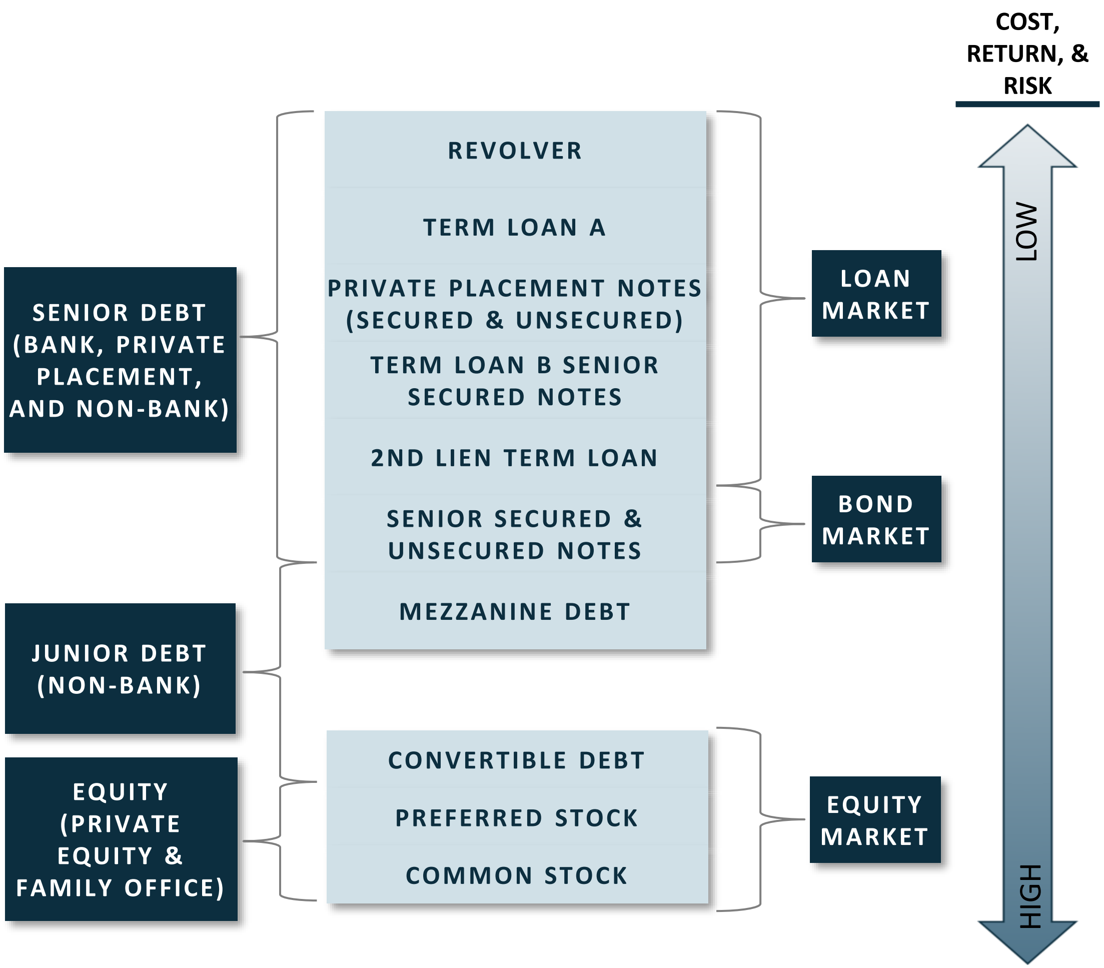
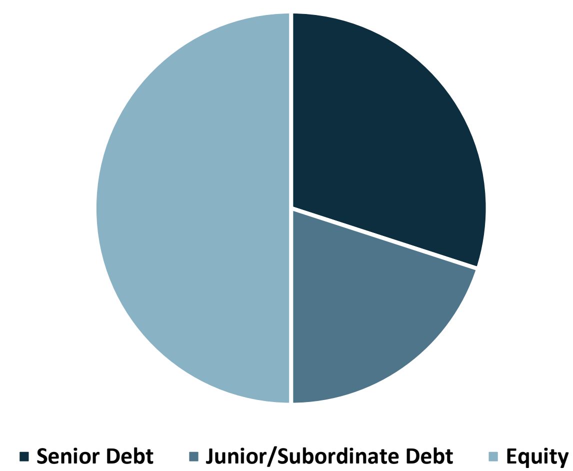
CAPITAL ALTERNATIVES & RISK SPECTRUM

CAPITAL ALTERNATIVES



"TYPICAL" CAPITAL STRUCTURE

- Private credit/private equity investors can provide a variety of securities, tailored to individual business's needs
- The ideal capital structure for any business is dependent on a range of factors including size, industry, growth objectives, and ownership structure. However, many businesses with free cash flow of $10.0+ million seek a capital structure with the following capital breakdown, as a percent of enterprise value:
  - **Senior Debt**: ~30% - 40%
  - **Subordinated Debt**: ~15% - 20%
  - **Equity Ownership**: ~45% - 50%

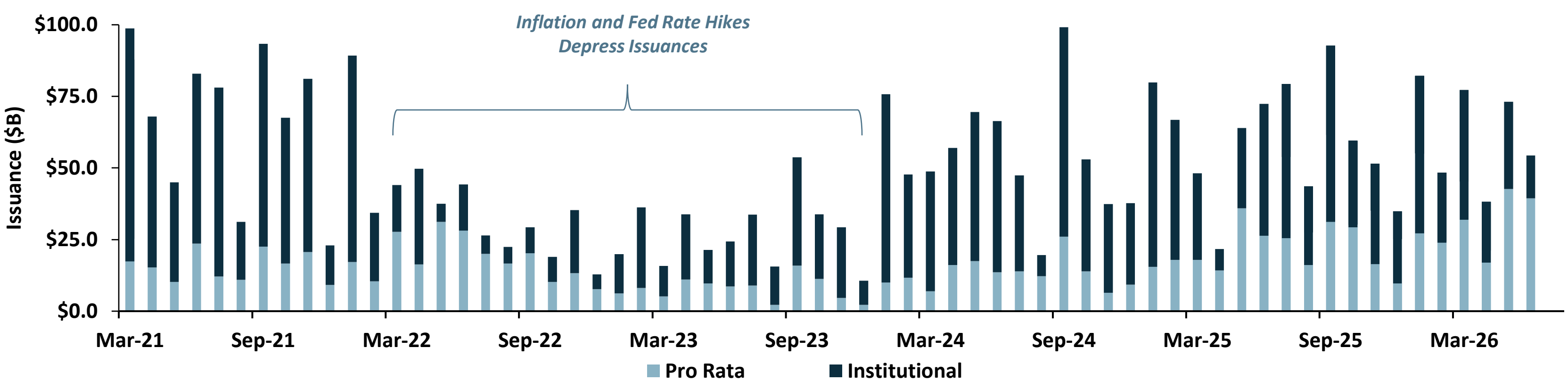


CURRENT DEBT CAPITAL MARKETS

Despite a confluence of headwinds – potential Fed rate hikes, energy price surges, and AI disruption threats – leveraged loan markets remain active, buoyed by strengthened corporate demand.

- Heading into 2026, the consensus in the U.S. leveraged loan market held that repricing would fade and M&A would gradually take over as the primary volume driver. The anticipated M&A resurgence has run into stiff headwinds: tariff and trade policy uncertainty, AI-driven concerns about software credit, geopolitical tensions including the Iran conflict and its effect on oil prices, and diminished expectations for rate cuts
  - PE dealmaking collapsed to near-historic lows in Q2. Overall, total PE deal volume was down 38%, resulting in a sponsored loan issuance drop of 33% quarter-over-quarter
  - Corporate demand offset the decline in sponsor lending, limiting the quarter-over-quarter drop in total issuance volumes to just 7%
- For borrowers, credit availability remains strong, but underwriting is becoming more conservative as lenders focus on downside protection amid macro uncertainty
- Pricing looks borrower-friendly on spreads, but all-in economics are increasingly influenced by fees and ancillary revenue

LEVERAGED LOAN ISSUANCE VOLUME[1]



Data and Commentary Per PitchBook LCD | Data as of June 30, 2026

1. "Leveraged Loans" are U.S. dollar, syndicated leveraged loans—generally institutional term loans to non-investment grade borrowers and/or loans that meet leveraged pricing (S+125 and above) and leveraged profile criteria. It is first structured, arranged and administered by one or several commercial or investment banks, known as arrangers. It is then sold or syndicated to other banks or institutional investors. Pro rata loans consist of revolving credits and amortizing term loans. Institutional debt consists of term loans structured specifically for institutional investors, including CLOs

IN THE NEWS

Rising defaults and AI-related threats to software borrowers have weighed on private credit returns over the prior year.

PRIVATE CREDIT BOOM

- During the pandemic, private lenders stepped up to supply credit to borrowers when others were pulling back, earning strong returns for doing so. That was followed by a dealmaking frenzy that further drove up demand for borrowing
- When the regional-banking crisis hit in 2023 and banks pulled back on this lending, private-credit firms took more share
- Software was previously an industry of interest given predictable recurring revenue, resulting in high leverage points (sometimes as a multiple of annual recurring revenue)

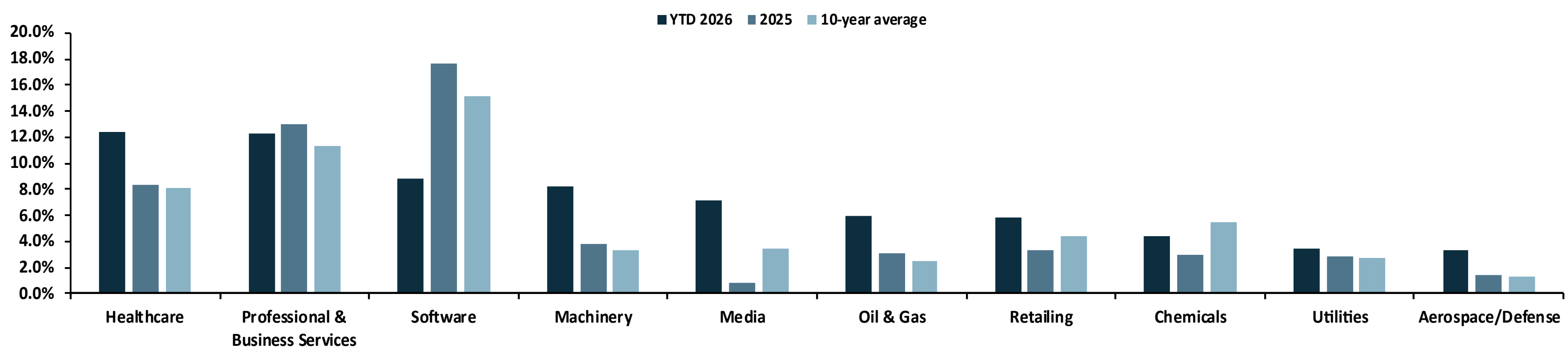
TODAY'S MARKET CONCERNS

- Aggressively levered loans, priced during the low-interest rate lending boom, create strained borrowers today. Non-payment and default rates have risen over the past two years
- Further compounding the broader market trends is the threat of AI on software companies, a formerly favored borrower of private credit. Investors are concerned AI-driven replacement or downward valuation pressure could potentially impair these loans
- The default of First Brands Group has forced lenders to revisit underwriting standards and risk appetites across industries

WHAT HAPPENS NEXT?

- As private credit funds mature and begin returning loan principal to investors, the market will intently watch for signs of non-payment or other underlying weaknesses
- Going forward, lending to AI-impacted industries such as software will face stringent underwriting requirements and a clear competitive moat
- Despite market volatility, spreads remain tight, providing attractive pricing to high-quality borrowers seeking the advantages of privately-funded debt

NEW-ISSUE LEVERAGED LOAN VOLUME: TOP 10 SECTORS

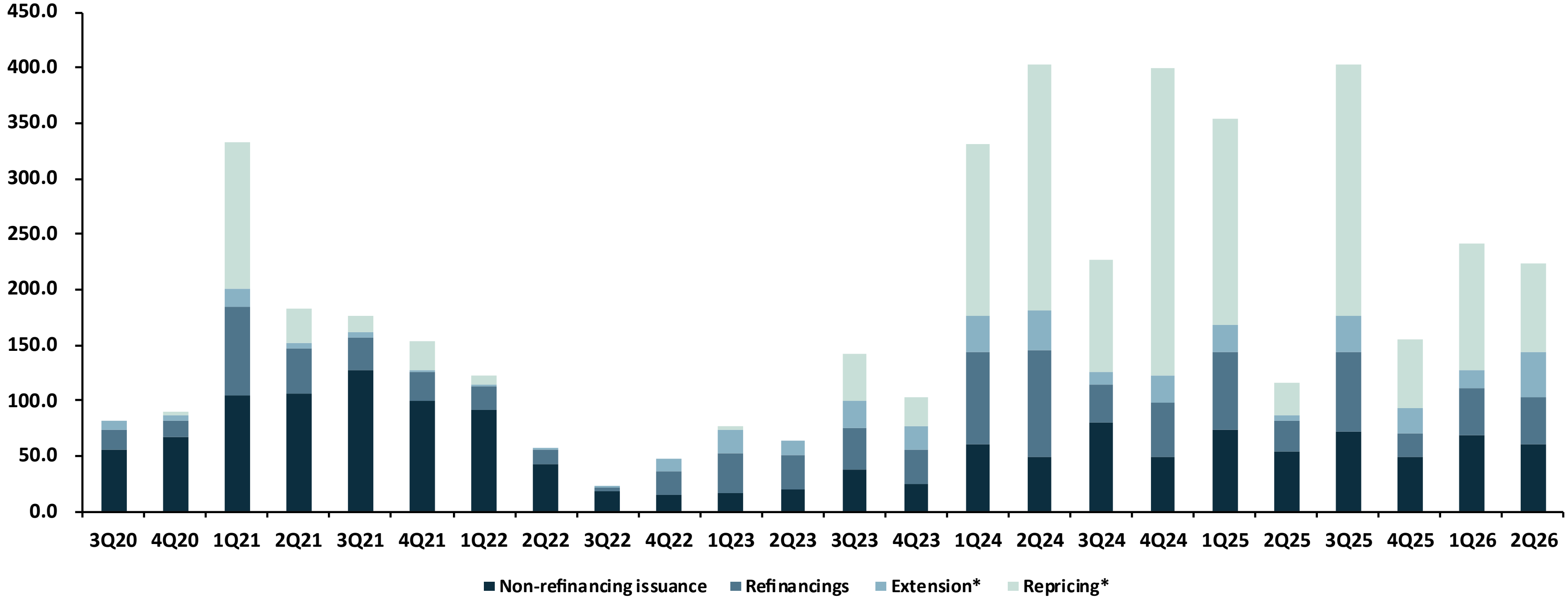


PitchBook LCD | Data as of June 30, 2026

LEVERAGED LOAN ISSUANCE LEVELS

U.S. leveraged loan markets held their ground, proving resilient against a pullback in private equity as corporate borrowers stepped up to fill the void — keeping activity comfortably above historical norms.

QUARTERLY ISSUANCE VOLUMES



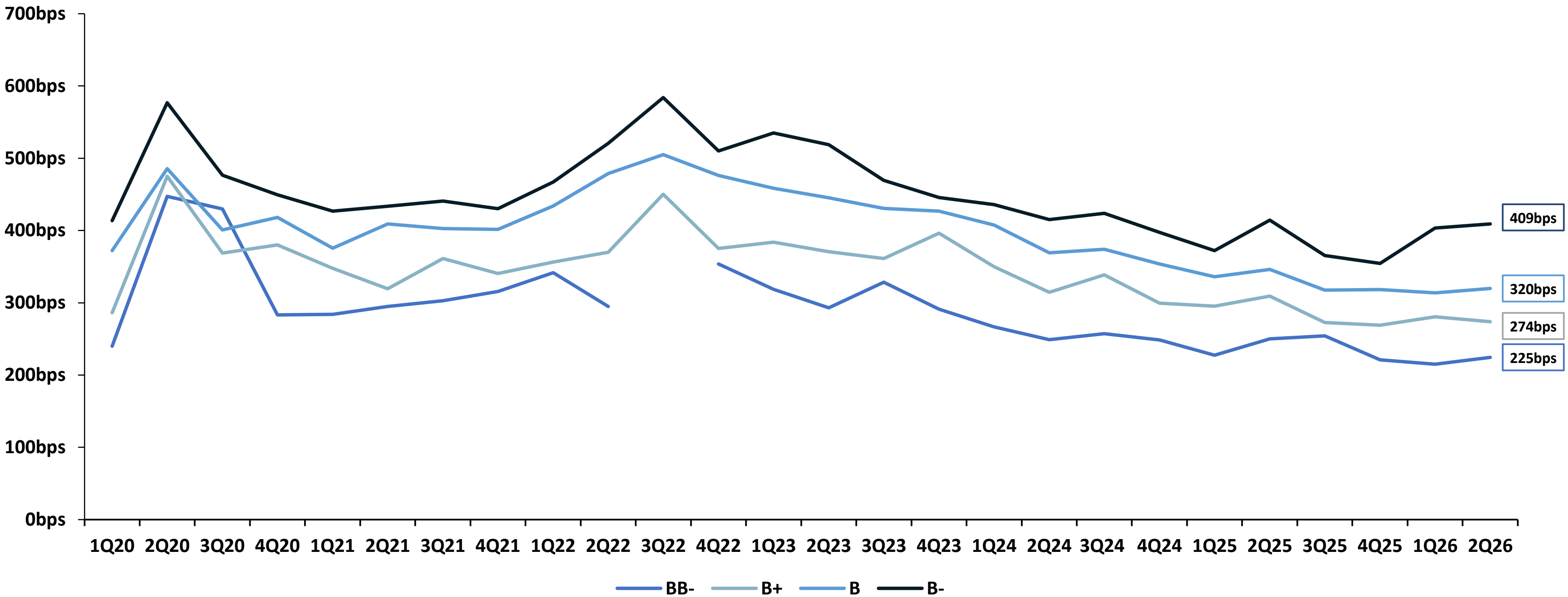
- Q2 2026 volume declined 7% quarter-over-quarter, though the quarter was notably absent of the higher-risk, higher-return transactions that syndicated loan investors have come to expect. The pullback was largely driven by a sharp 54% contraction in sponsored M&A activity. Conversely, corporate borrowers stepped in aggressively, more than doubling their issuance relative to the prior quarter
- Among sponsor-backed deals that did get done, the playbook was decidedly defensive. Sponsors prioritized shoring up existing balance sheets through repricings, refinancings, and extensions rather than putting fresh capital to work. New-money activity was a fraction of what it once was, with most first-half deal flow tied to liability management rather than growth, a stark contrast to the more balanced market that preceded the Fed's 2022 hiking cycle

PitchBook LCD | Data as of June 30, 2026
*Reflects repricings and extensions done via an amendment process only
$ in Billions

CREDIT SPREADS

Spreads widened sharply across the credit spectrum in February and March, reflecting a market grappling with software sector stress, geopolitical uncertainty, and deteriorating macro sentiment.

NEW ISSUE TLB SPREADS[1] BY RATING



- Following a brief spike in 2Q25 due to the tariff policy uncertainty associated with Liberation Day, market conditions normalized and new-issue spreads resumed downward trends in 2H25 and into 2026 (except for B-minus ratings)
- Borrowers rated BB-minus or better represented 40% of Q2 volume, double the 20% average that this cohort has represented over the past 10 years and the highest since the Global Financial Crisis. The increase implies a notable flight to quality by lenders
- Lenders are drawing sharp lines at the bottom of the credit spectrum: B-minus spreads have widened 55 bps since Q4 2025, to S+409, while BB-minus and B-plus spreads have remained relatively unchanged

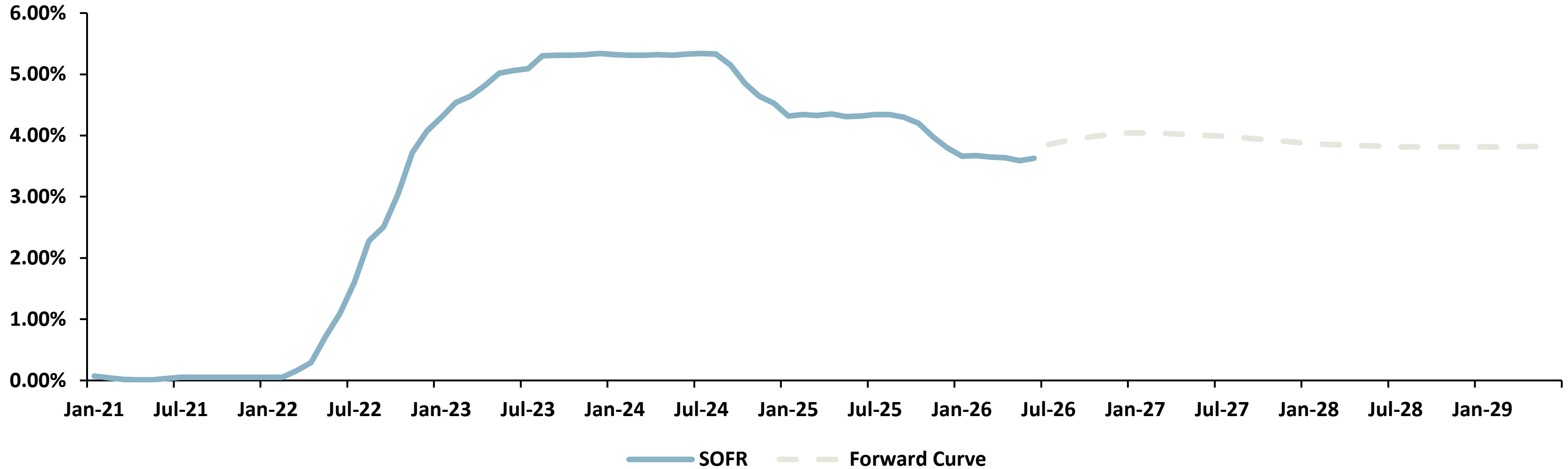
PitchBook LCD | Data as of June 30, 2026

1. Institutional debt consists of term loans structured specifically for institutional investors, though there are also some banks that buy institutional term loans. These tranches include first- and second-lien loans, as well as pre-funded letters of credit. Traditionally, institutional tranches are referred to as TLBs (Term Loan Bs) because they are bullet payments

HISTORICAL AND PROJECTED 30 DAY SOFR

The 30-day SOFR curve declined throughout 2025 but is projected to increase slightly in 2026, based on guidance from Fed officials.

30-DAY AVERAGE SOFR



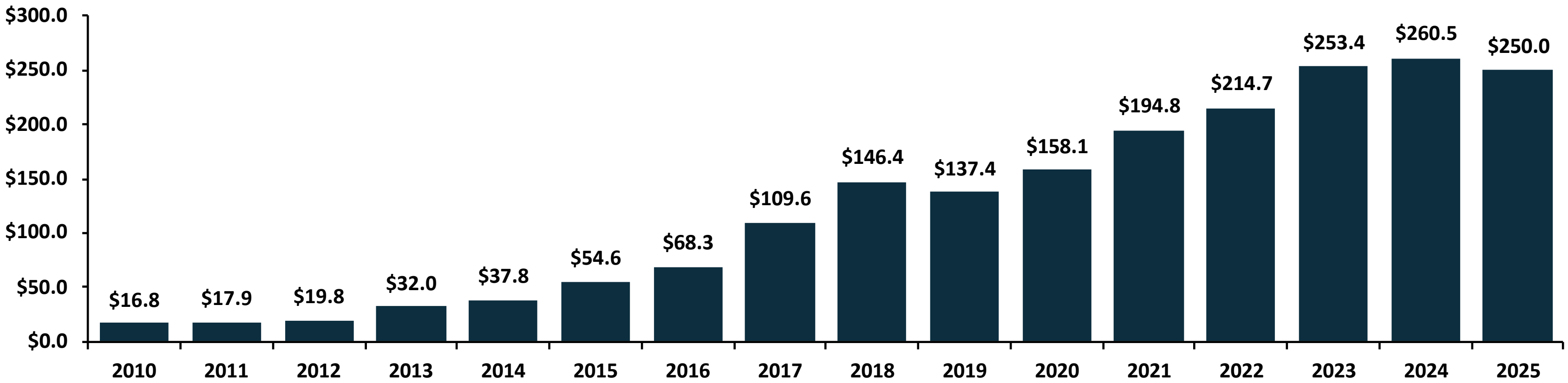
- The 30-day SOFR average emerged from a near-zero rate environment in 2021 (~0.05%), reflective of the Fed's accommodative post-pandemic monetary posture, before embarking on one of the most aggressive tightening cycles in modern central banking history. Beginning in March 2022, the FOMC executed 525 basis points of cumulative hikes through mid-2023, propelling the 30-day average SOFR to a cycle peak of approximately 5.30%–5.35% by late 2023/early 2024
- The Fed began a measured easing cycle in September 2024, cutting rates by 100 bps through year-end before pausing. The federal funds rate currently stands at 3.50%–3.75%, still above the long-run neutral rate of 3.1%. The latest dot plot reveals a split FOMC: 9 officials see at least one hike this year (with 6 expecting two or more) while the remaining 9 anticipate rates on hold or moving lower
- Despite White House calls for rate cuts, market pricing remains anchored to current Fed guidance. Meanwhile, new Fed Chair Kevin Warsh’s emphasis on inflation control will be a key focus for investors going forward

Federal Reserve Bank of New York, Bloomberg | Data as of July 7, 2026
Note: No rate change was announced following the June 16-17 FOMC meeting

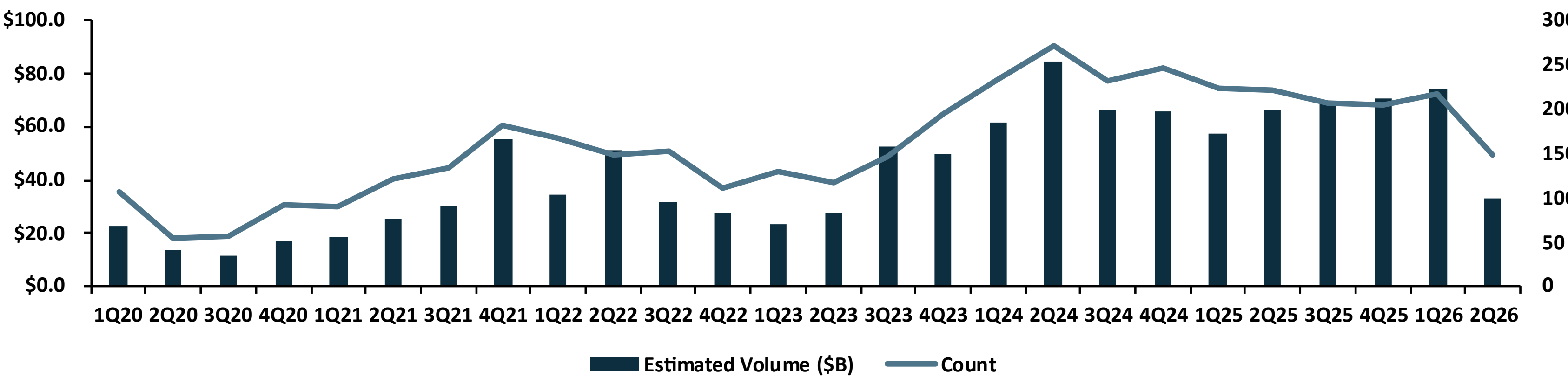
DIRECT LENDING DRY POWDER LEVELS

Direct lending dry powder remains near all-time highs, driving the need for continued deployment in 2026 and beyond.

U.S. DIRECT LENDING DRY POWDER



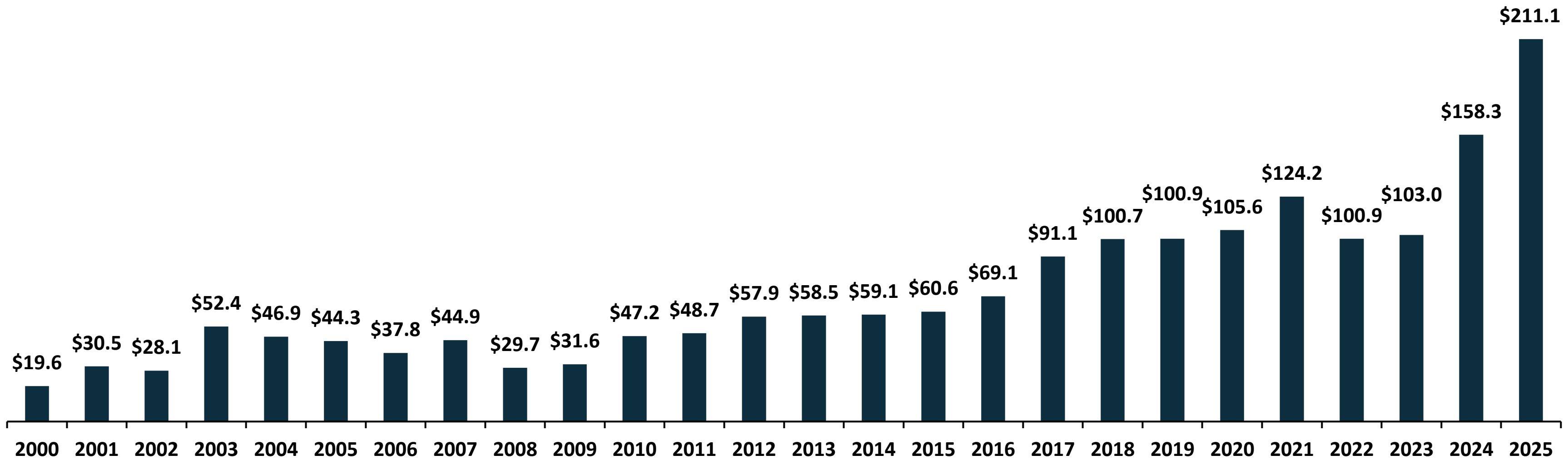
DIRECT LENDING DEAL COUNT & ESTIMATED VOLUME



PitchBook LCD | Data as of June 30, 2026
$ in Billions

PRIVATE PLACEMENT MARKET UPDATE

PRIVATE PLACEMENT GLOBAL VOLUME



PRIVATE PLACEMENT MONITOR USPP SPREAD MATRIX

A/L	NAIC-1		NAIC-2		NAIC-3	
	Jun-26	Jun-25	Jun-26	Jun-25	Jun-26	Jun-25
3	70-95	100-120	105-140	125-150	250-300	220-240
5	75-110	100-125	110-145	130-155	275-350	225-300
7	90-115	110-130	120-150	115-165	275-350	250-300
10	100-120	110-135	125-175	130-170	275-375	250-325
12-14	115-130	115-140	140-185	140-180	275-375	250-325
15	120-140	130-145	150-190	130-185	300-375	250-300

Private Placement Monitor | Data as of June 30, 2026
$ in Billions

JUNIOR CAPITAL: SUBORDINATED DEBT/MEZZANINE

OVERVIEW

INVESTOR
- Mezzanine funds, finance companies

SIZE
- Based on cash flow and enterprise value

AMORTIZATION
- Bullet at maturity

PRICING/RETURNS[1]
- Cash: 10.00-12.00%
- PIK: 2.00-4.00%
- Warrants: 1.00-5.00%
- All-in Return: 10.00-15.00%

Subordinated Debt — Average Coupon and Spreads ($10M–$250M TEV)

TEV	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	N =
10-25	11.6%	11.4%	12.1%	12.0%	12.1%	11.5%	11.9%	12.6%	52
25-50	11.6%	12.0%	11.7%	NA	12.4%	12.3%	11.8%	12.0%	43
50-100	11.7%	12.0%	12.2%	11.0%	11.9%	11.2%	11.3%	10.3%	42
100-250	11.5%	10.5%	11.0%	10.0%	NA	12.0%	10.0%	11.5%	17
Total	**11.6%**	**11.5%**	**11.9%**	**11.4%**	**12.1%**	**11.6%**	**11.5%**	**11.8%**	
N =	**21**	**21**	**31**	**7**	**21**	**17**	**22**	**14**	**154**

ADVANTAGES

- Bullet amortization/low amortization and non-cash value increases interim free cash flow
- Looser/almost no covenants increase operating flexibility
- Long-term capital capable of supporting the business over an extended period or with creative solutions
- Maximizes leverage while limiting equity dilution

CONSIDERATIONS

- Higher cost of capital relative to other debt providers
- Prepayment penalty or make whole required to achieve all-in return requirements
- Put/call provisions may force transactions to return capital to investors
- Board observation rights or board seats allow outside parties greater involvement in operations
- Subordination agreements required with existing creditors
- Synthetic or true equity dilution will impact current ownership structure

GF Data Leverage Report | Data as of June 30, 2026
1. Estimated and projected based upon size and credit profile of issuer

For more information about Chartwell's capital markets services, contact one of our experts today.

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RECENT CAPITAL STRUCTURED AND PLACED: $5B+

SME INDUSTRIES
Financing in Support of a 100% ESOP Transaction
Syndicated Senior Secured Credit Facility

nwe
Refinancing & Growth Equity
Senior Secured Revolving Credit Facility
Non-Bank Term Loan Minority Convertible Preferred Equity

SouthWorth Capital Management
Financing in Support of an Acquisition
Non-Bank ABL Credit Facility
Structured Equity

R.S. HUGHES SINCE 1954
Financing in Support of a Corporate Recapitalization
Senior Secured Credit Facility

MHS LIFT
Financing in Support of a 100% ESOP Transaction
Senior Secured Credit Facility

CHALLENGE MANUFACTURING
Refinancing
Syndicated Bank ABL Credit Facility
Subordinated Notes

HYPERTHERM ASSOCIATES
Acquisition Financing
Syndicated Senior Secured Credit Facility
Senior Notes

Ames Construction
Financing in Support of a 100% ESOP Transaction
Syndicated Senior Secured Credit Facility

Ascend Health
Acquisition & Recapitalization Financing
Senior Secured Credit Facility
Structured Seller Notes