CHARTWELL

Debt Capital Markets Trends

Q3 2026

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, private credit dry powder, private placement market, 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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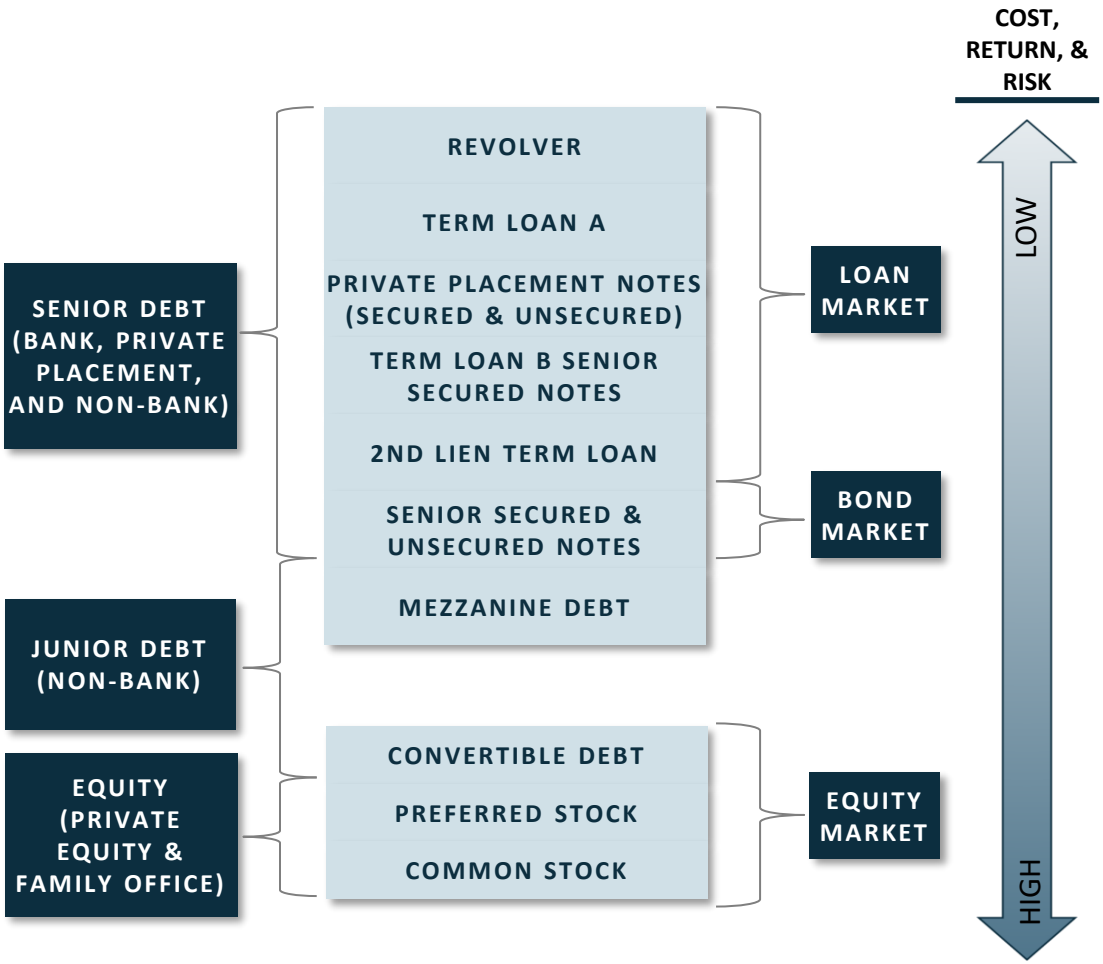
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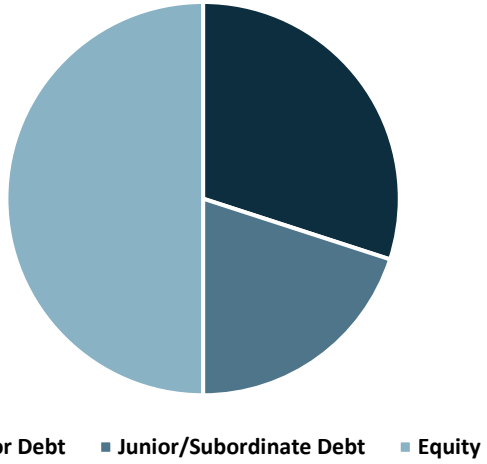
CAPITAL ALTERNATIVES & RISK SPECTRUM

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% - 55%

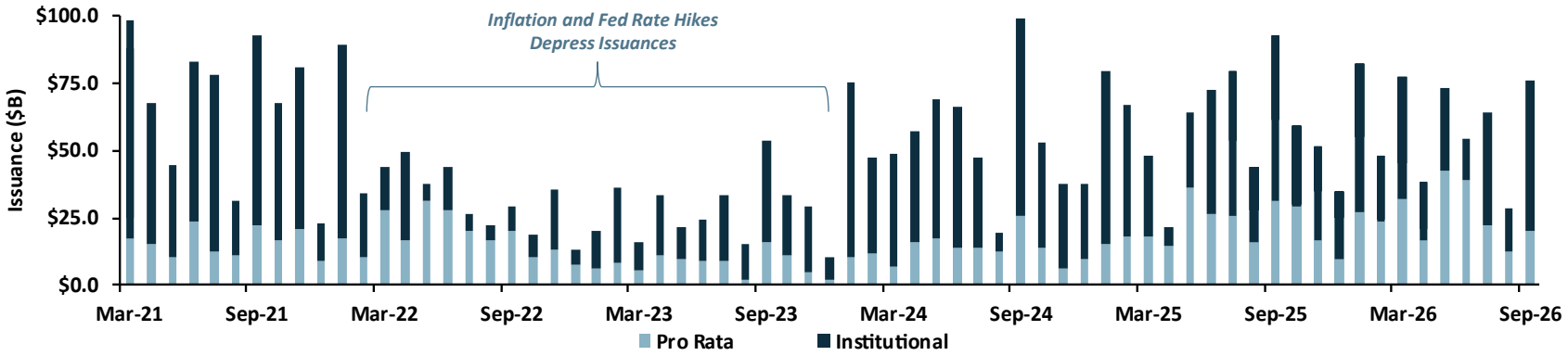


CURRENT DEBT CAPITAL MARKETS

Even with continued headwinds, including a Fed rate hike, renewed Iran-US hostilities that pushed oil prices higher, and AI disruption threats, leveraged loan markets remain active.

- As previously shared, the consensus in the U.S. leveraged loan market for 2026 held that repricing issuances would fade and M&A would gradually take over as the primary volume driver. That balance has improved: year-to-date, institutional repricing amendments are down 42% and refinancings down 20%, while institutional M&A-related volume is up 16%. Q3 issuance (excluding repricing amendments) totaled ~$164B, down 2% quarter-over-quarter and 24% year-over-year
  - Sponsor activity rebounded from a Q2 low: LBO loan volume rose 38% quarter-over-quarter to $23.4B, and September's $30.6B of institutional LBO/M&A volume was the highest monthly total since January 2022, led by a dozen $1B+ term loans, the most in five years
  - Non-LBO M&A softened, falling 22% quarter-over-quarter to $31.8B against a Q2 lifted by the $13B Warner Bros. Discovery loan, leaving total M&A-related volume of $55.3B down 4% quarter-over-quarter and up 3% year-over-year
- Credit availability remains strong for borrowers, but lenders are growing more cautious, with market participants expecting tighter credit terms and higher sponsor equity contributions amid macro uncertainty
- Pricing looks borrower-friendly for higher-quality credits competing for new money, but lower-rated borrowers refinancing ahead of the 2028 maturity wall are paying up

LEVERAGED LOAN ISSUANCE VOLUME[1]



Data and Commentary Per PitchBook LCD | Data as of October 7, 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

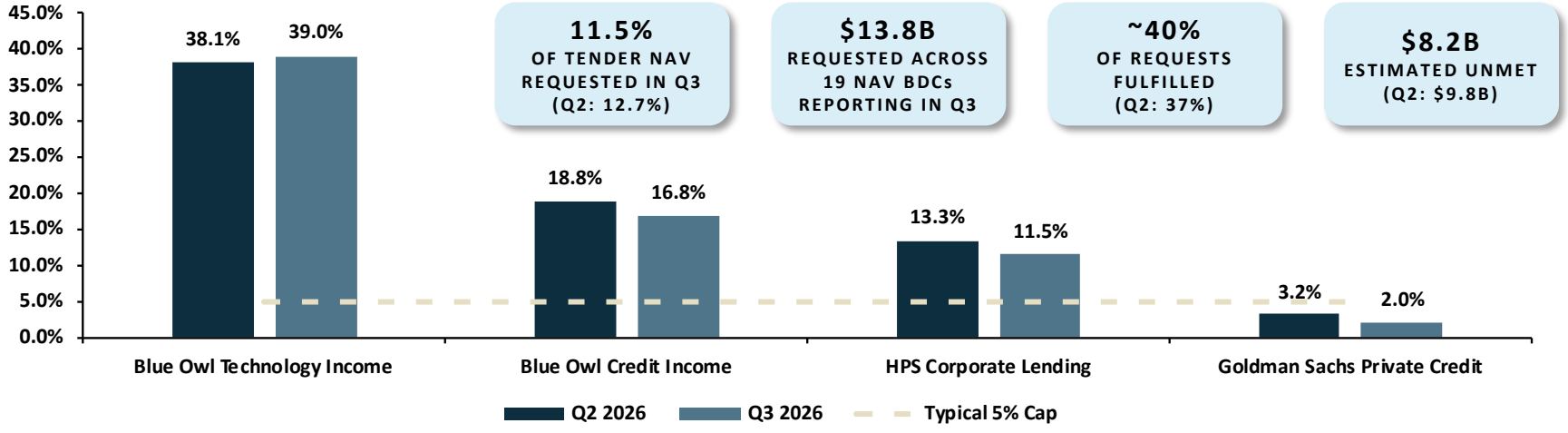
IN THE NEWS

Software exposure and macroeconomic uncertainty continue to give investors pause, keeping redemption requests at private credit funds well above the typical 5% cap.

REDEMPTION REQUEST DRIVERS: SOFTWARE/AI CONCERNS AND MACRO UNCERTAINTY

- Non-traded business development companies (BDCs) hold illiquid private loans that do not trade on an open market, so most cap quarterly withdrawals at about 5% of shares. When requests exceed the cap, investors receive a pro rata portion of what they asked for, and many re-submit the next quarter. Requests are easing but still run at more than twice the cap, leaving an estimated $8.2B of demand unmet. These demands are driven by a confluence of factors including:
  - **Software and AI:** A software sell-off early in the year raised concerns about software business models, and software remains the sector investors view least favorably. Blue Owl's technology-focused fund continues to see the highest redemption requests, near 39%
  - **Macro:** The Fed's first rate hike since 2023, elevated inflation and geopolitical uncertainty are raising borrowing and input costs for leveraged borrowers
- **Implication:** Continued redemption pressure could weigh on retail fundraising and, over time, overall private credit dry powder, though institutional fundraising has remained strong

REDEMPTION REQUESTS AT SELECTED NON-TRADED BDCs (% OF SHARES OUTSTANDING)

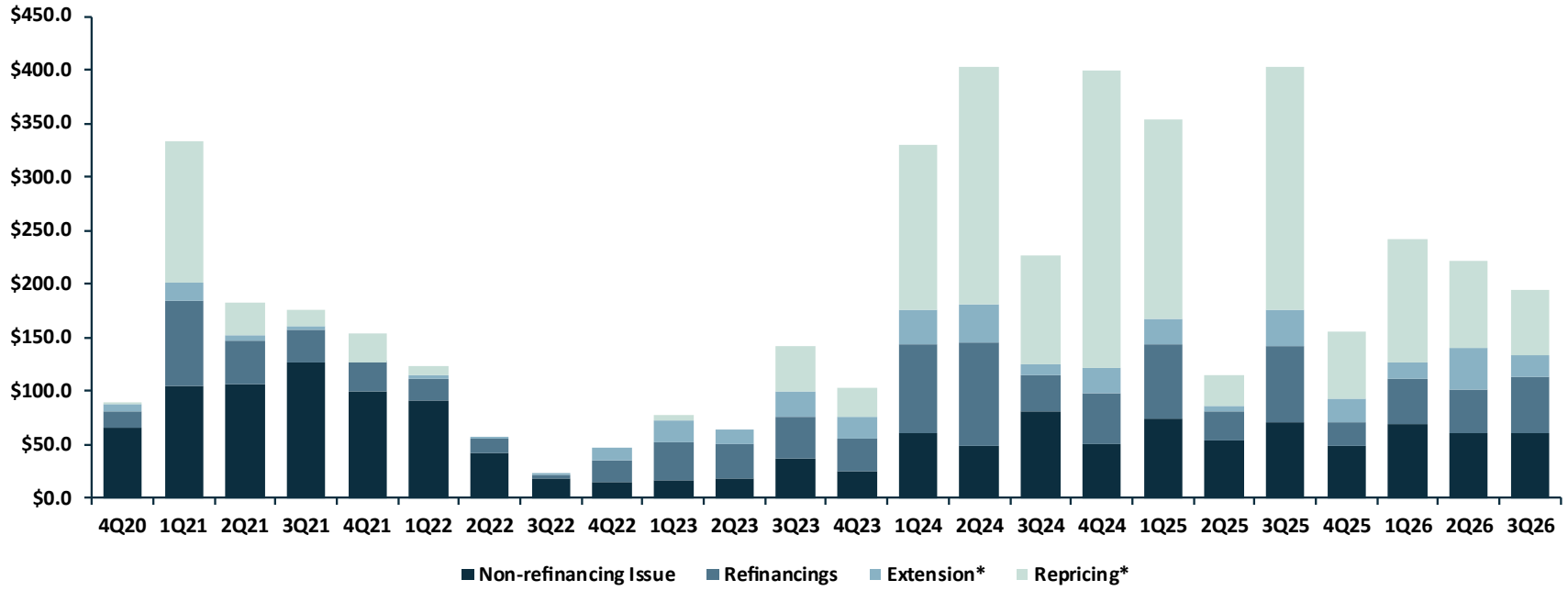


Robert A. Stanger & Co., PitchBook LCD, Company Shareholder Letters and SEC Filings | Data as of October 2, 2026

LEVERAGED LOAN ISSUANCE LEVELS

A September M&A revival and steady new-issue volume offset a pullback in repricing activity, leading to a 13% quarter-over-quarter decrease.

QUARTERLY ISSUANCE VOLUMES



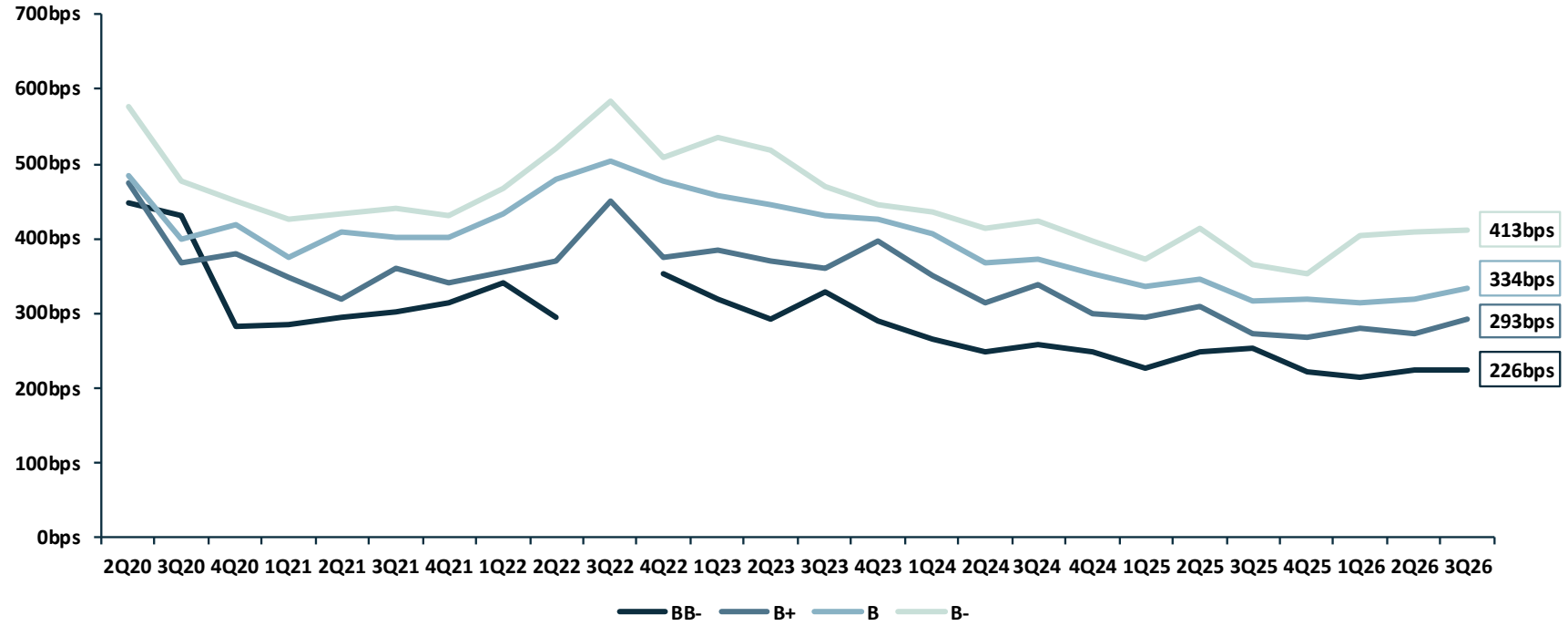
- Q3 2026 volume of $195 billion was down about 13% quarter-over-quarter and the year's lowest, but the pullback was driven entirely by fewer repricing and extension amendments, with new-issue volume steady. The mix shifted back toward sponsors: LBO volume rose 40% quarter-over-quarter while non-LBO M&A fell 32%, and September was the busiest month for LBO/M&A financings since January 2022
- Refinancing volume hit a four-quarter high of $52.1 billion as B-minus borrowers raced to address 2028 maturities, typically paying wider spreads. Even so, issuance not tied to a refinancing or amendment has kept pace with 2024 and 2025 year-to-date, and CLO issuance rebounded 37% quarter-over-quarter

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

CREDIT SPREADS

Spreads widened modestly in Q3, with lenders still pricing weaker credits far above the highest-quality borrowers.

NEW ISSUE TLB SPREADS[1] BY RATING



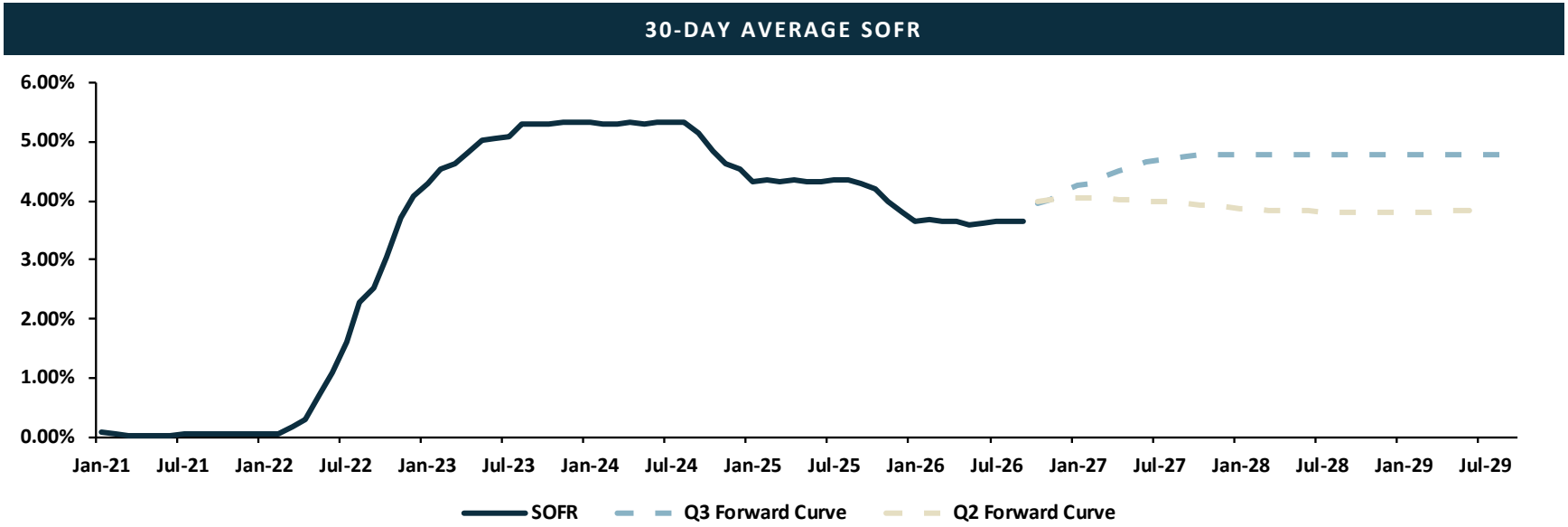
- New-issue spreads have widened moderately since hitting multiyear lows, with the lowest-rated borrowers seeing the biggest moves. B-plus deals averaged S+293 in Q3, up 24 bps from year-end, and B borrowers saw a similar increase
- Refinancing spreads converged with LBO pricing in Q3 as lower-rated borrowers turned to refinancing: roughly one-third of refinancings came from B-minus borrowers versus 12% of buyouts
- Weaker credits are paying more for access to the credit markets: B-minus spreads are up more than 50 bps since year-end, to S+413, while the gap between B and BB-minus spreads has widened from roughly 100 bps a year ago to nearly 190 bps

PitchBook LCD | Data as of September 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. Spreads are shown over SOFR, as reported by Pitchbook LCD

HISTORICAL AND PROJECTED 30 DAY SOFR

The 30-day SOFR curve turned higher following the Fed's September rate hike and is projected to rise further, based on guidance from Fed Officials.



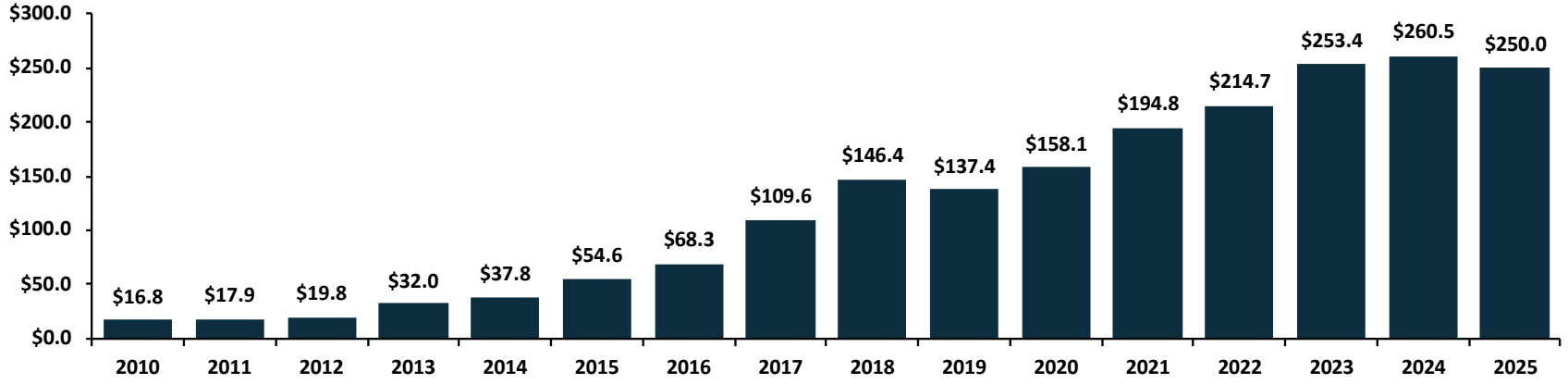
- The 30-day SOFR average emerged from a near-zero rate environment in 2021 (~0.05%), reflective of the Fed's accommodative post-pandemic posture, before one of the most aggressive tightening cycles in modern central banking history. Beginning in March 2022, the FOMC executed 525 basis points of cumulative 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 a cumulative 175 bps before pausing. It raised rates 25 bps to 3.75%–4.00% in September, its first hike since July 2023 and still above the long-run neutral rate of 3.2%, and 16 of 18 officials see at least one more hike this year
- Compared with the Q2 curve, the forward curve now implies higher 30-day SOFR, reaching roughly 4.8% by mid 2027 versus roughly 4.0% previously
- Markets are pricing in additional hikes with inflation still elevated, and the next FOMC meeting is October 27–28. New Fed Chair Kevin Warsh's emphasis on inflation control will remain a key focus

Federal Reserve Bank of New York, Bloomberg | Data as of October 8, 2026

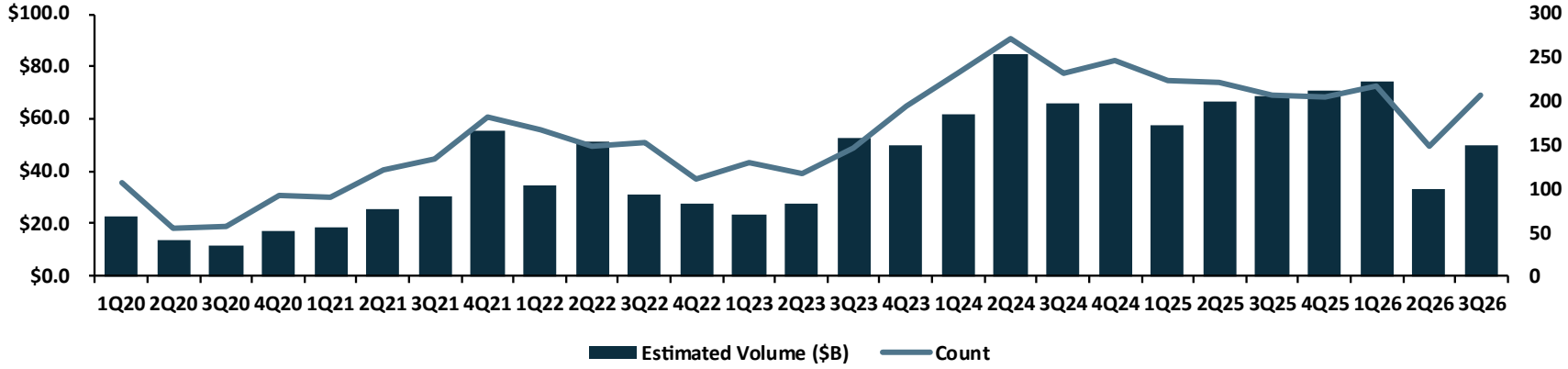
DIRECT LENDING DRY POWDER LEVELS

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



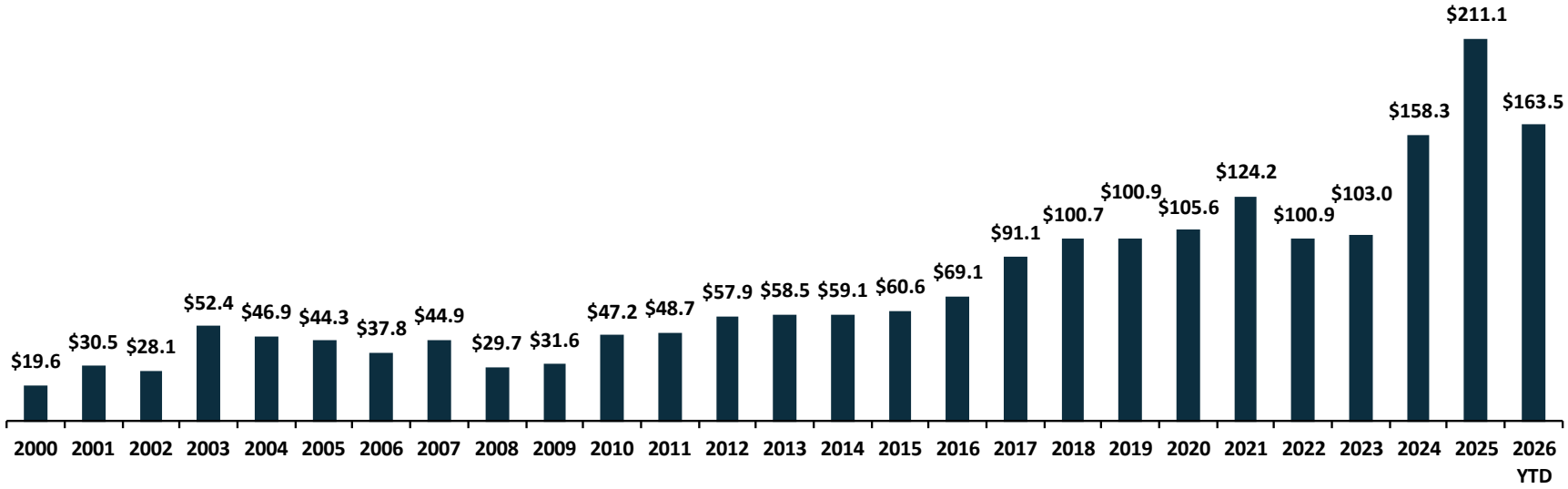
DIRECT LENDING DEAL COUNT & ESTIMATED VOLUME



PitchBook LCD | Data as of September 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	
	Aug-26	Aug-25	Aug-26	Aug-25	Aug-26	Aug-25
3	75-100	90-110	105-145	115-130	230-310	220-300
5	80-105	85-110	110-145	120-150	250-325	225-320
7	105-115	100-120	115-155	125-155	265-350	230-315
10	90-115	95-120	145-175	125-175	275-380	250-325
12-14	115-145	105-130	150-190	135-175	275-395	250-325
15	125-145	105-130	140-170	125-185	300-375	250-300

Private Placement Monitor | Data as of September 4, 2026
Note: 2026 YTD as of August 31, 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: 12.00-15.00%

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

TEV	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	N =
10-25	11.4%	12.1%	12.0%	12.1%	11.5%	11.9%	12.6%	12.1%	56
25-50	12.0%	11.7%	NA	12.4%	12.3%	11.8%	12.0%	12.4%	40
50-100	12.0%	12.2%	11.0%	11.9%	11.2%	11.3%	10.3%	10.9%	45
100-250	10.5%	11.0%	10.0%	NA	12.0%	10.0%	11.5%	11.5%	19
Total	**11.5%**	**11.9%**	**11.4%**	**12.1%**	**11.6%**	**11.5%**	**11.8%**	**11.8%**	
N =	**23**	**31**	**7**	**20**	**19**	**22**	**15**	**23**	**160**

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 senior 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

CHARTWELL CAPITAL MARKETS ADVISORY GROUP

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+

HYPERTHERM ASSOCIATES
Acquisition Financing
Syndicated Senior Secured Credit Facility
Senior Notes

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

CHALLENGE MANUFACTURING
Refinancing
Syndicated Bank ABL Credit Facility
Subordinated Notes

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

IRON SENERGY
Financing in Support of Working Capital and Growth Investments
Bank ABL Credit Facility

Ames Construction
Financing in Support of a New ESOP Formation and Acquisition
Syndicated Senior Secured Credit Facility

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

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

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