

# Capital Markets Update 1<sup>st</sup> Quarter 2026

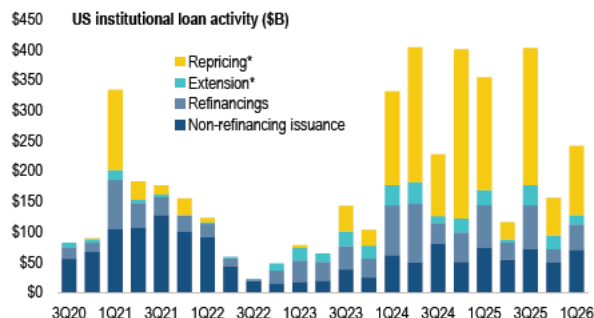
April 2026

# Capital Markets Update – 1<sup>st</sup> Quarter 2026

## SC&H Insights & Observations

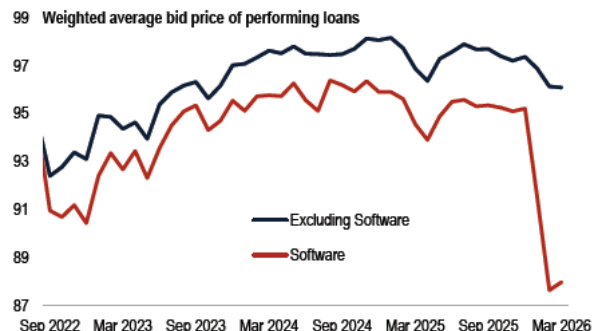
### Capital Markets Themes

Loan activity is running 32% behind last year's pace.



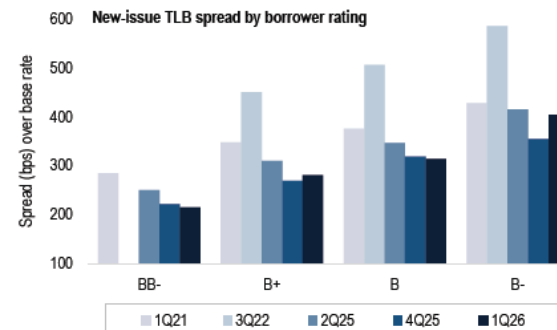
Source: PitchBook | LCD - Data through March 31, 2026  
\*Reflects repricings and extensions done via an amendment process only

Prices have stabilized, but the road back is long.



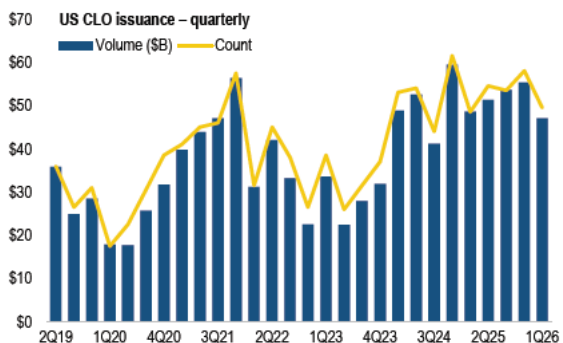
Source: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index - Data through March 31, 2026

The market stayed open — but spreads widened sharply.



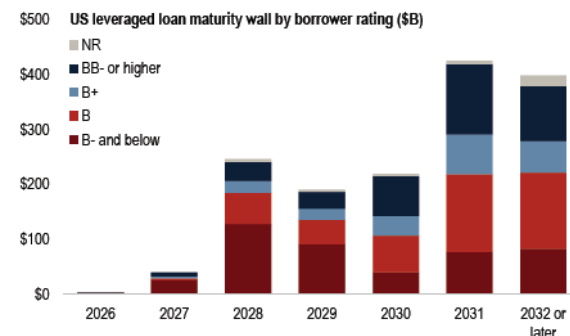
Source: PitchBook | LCD - Data through March 31, 2026

CLO managers pull back to weigh software, macro risks.



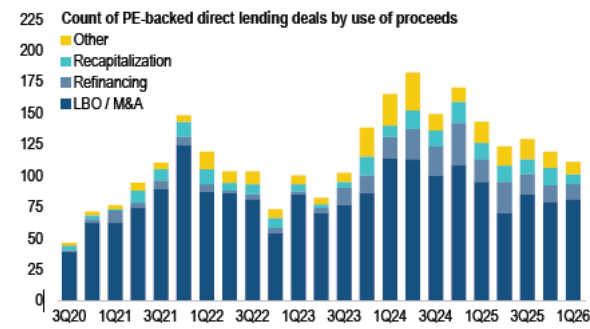
Source: PitchBook | LCD - Data through March 31, 2026

Lower-rated borrowers still face an uphill climb...



Source: PitchBook | LCD - Data through March 31, 2026

...as weak sentiment weighs on private credit deal activity.

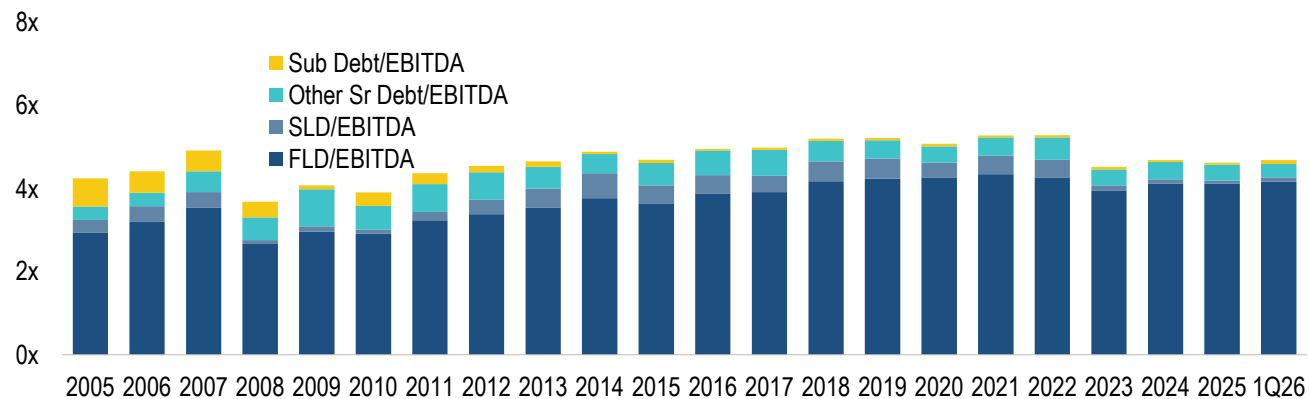


Source: PitchBook | LCD - Data through March 31, 2026  
Direct lending analysis is based on transactions covered by LCD News

- 1Q26 marked a clear shift from the issuer-friendly technicals of 2025:** Total institutional loan activity fell to about \$241B, 32% behind last year's pace, as repricings and refinancings slowed sharply. New-money issuance held up better than the headline decline suggests: Non-refinancing issuance reached \$69.7B, just 5% below Q1 2025, and M&A/LBO loan volume rose to \$51.2B, the strongest opening quarter since 2022.
- Investor demand became more selective as the quarter progressed:** CLO issuance remained resilient at \$47B, but negative loan-fund flows pulled measurable demand down to \$39.6B and contributed to a broader risk-off tone.
- Market access remained available, but pricing moved against issuers:** Software/AI concerns, geopolitical volatility, and fading rate-cut expectations widened spreads sharply in February and March, especially for B-rated borrowers.
- Near-term maturity management remains a key issuer priority:** Borrowers chipped away at the 2027 and 2028 walls, but progress was slower than a year ago and lower-rated issuers made the least headway.
- Private credit and high yield both stayed open, though on more discriminating terms:** Direct lending volume held up, while HY issuance started strong before March volatility interrupted momentum.

### Average Debt Multiples of Large Corporate Loans

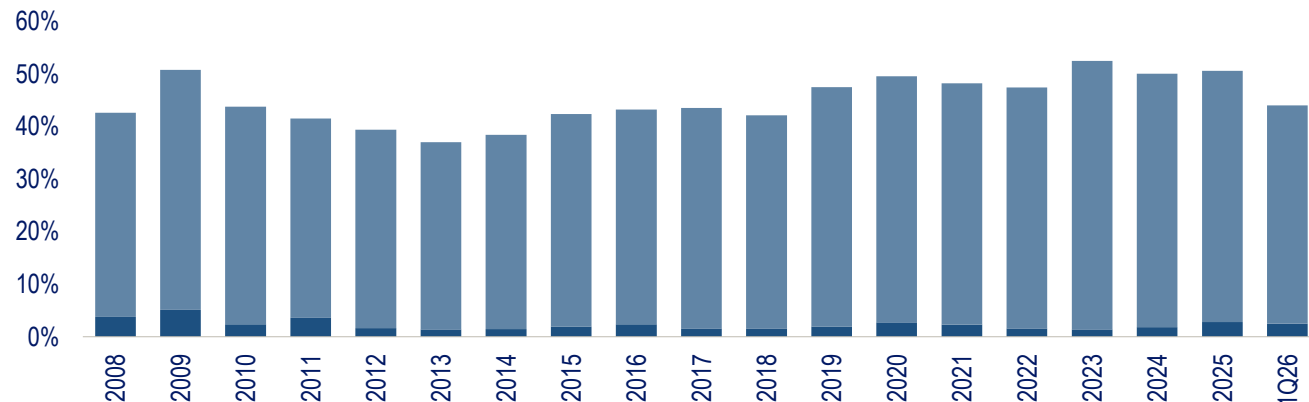
Shows leverage in large corporate financings over time, breaking total debt to EBITDA into first-lien, second-lien, and other subordinated components.



Source: PitchBook | LCD • Data through Mar. 31, 2026

### Average Equity Contribution to Leveraged Buyouts

Tracks equity contribution in LBOs over time, split between new sponsor equity and rollover equity, showing how purchase structures have shifted across cycles.

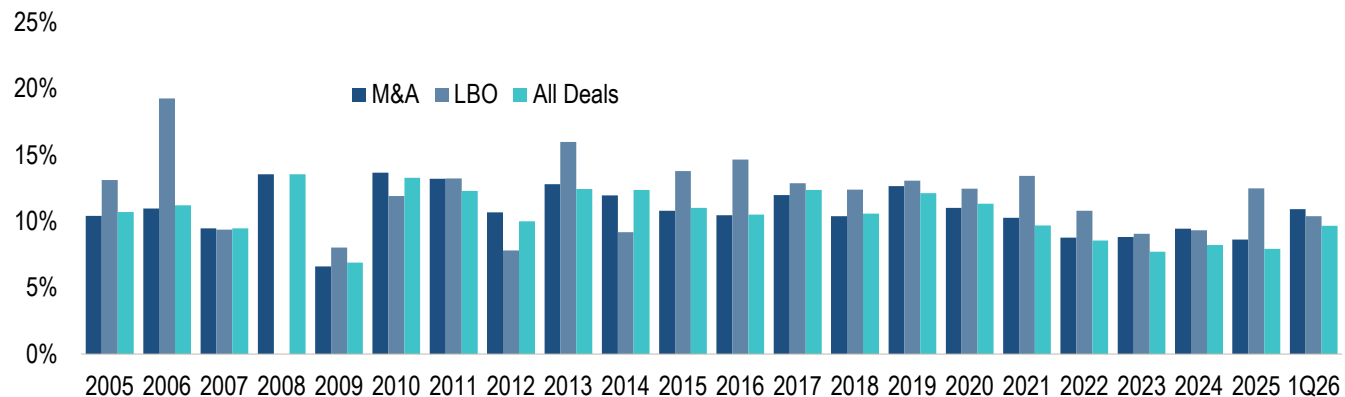


Source: PitchBook | LCD • Data through Mar. 31, 2025

- **Large corporate leverage remains above long-term pre-2015 levels, but the market is not releveraging aggressively.** After peaking above 5.2x in 2021-2022, total debt leverage moderated and has largely stabilized in the high-4x range, landing at roughly 4.7x in 1Q26.
- **First-lien debt remains the dominant component of the capital structure.** Junior layers continue to represent a relatively small share of total leverage versus earlier-cycle peaks, consistent with more disciplined underwriting and less tolerance for aggressive layering.
- **The last several quarters suggest stability rather than expansion in risk appetite.** Lenders are still supporting larger issuers, but structure and debt composition remain more conservative than the headline reopening of markets might imply.
- **Issuer takeaway:** Scale borrowers still have access, but the best execution continues to favor cleaner credit stories, durable cash flow, and limited reliance on junior capital.
- **After running around the 50% level through 2023-2025, total equity contribution stepped down to roughly 44% in 1Q26.** Even with that pullback, equity checks remain above most pre-2020 norms and still reflect a market that requires meaningful sponsor support.
- **Contributed equity continues to make up the vast majority of total equity, while rollover equity remains a smaller and relatively stable component.** The 1Q26 mix suggests sponsors were able to lean modestly more on debt where markets were open, but not enough to signal a return to prior-cycle leverage tolerance.
- **Takeaway for deal underwriting:** Buyouts remain more equity-supported than in looser markets, reinforcing lender protection and sponsor alignment even as financing conditions improve for better assets.

### Adjustments as a Percent of EBITDA

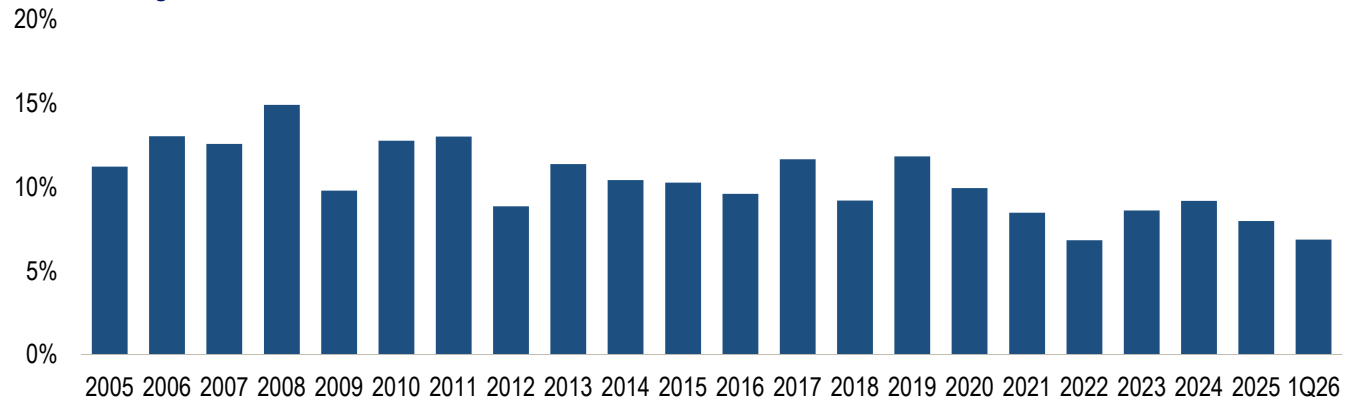
Tracks EBITDA “adjustments” as a percent of reported EBITDA, highlighting how much credit metrics rely on add-backs and pro forma assumptions across vintages.



Source: PitchBook | LCD • Data through Mar. 31, 2025

### Avg. Synergies/EBITDA Ratio for Acq.-Related Transactions

Tracks average projected synergies as a percent of EBITDA in acquisition financings, showing how much deal underwriting depends on cost saves and integration benefits.

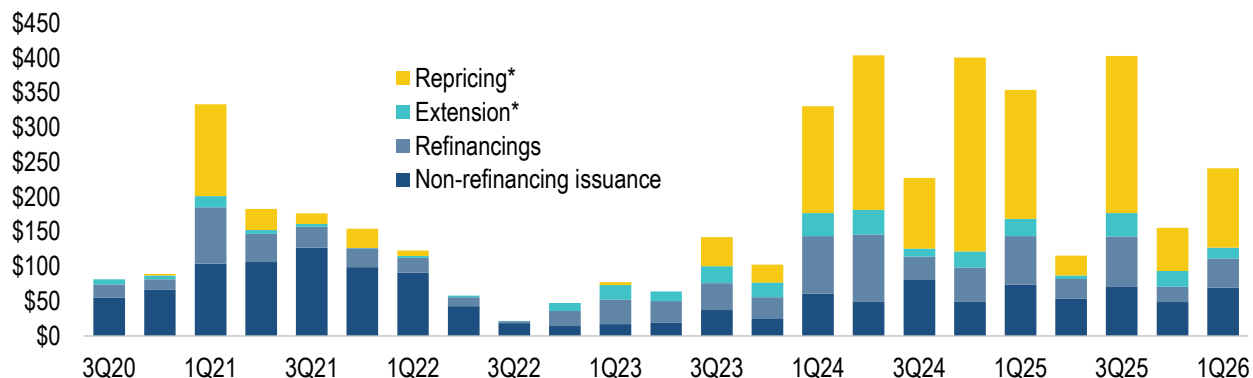


Source: PitchBook | LCD • Data through Mar. 31, 2025

- **Adjustments remain a meaningful part of underwriting, with all-deal adjustments at roughly 9.7% of EBITDA in 1Q26.** That is above 2025’s level, suggesting some re-expansion in pro forma adjustment use as M&A activity returned, but still within the broader post-2022 range rather than a reversion to the most aggressive prior-cycle behavior.
  - **The mix matters.** M&A-related transactions moved higher in 1Q26, while LBO adjustment levels moderated versus 2025, reinforcing that aggressiveness remains deal-type specific rather than broad-based.
  - **Lender tolerance is still selective.** Cleaner, better-supported add-backs continue to matter more in a market that has become more discriminating on quality and proof points.
- 
- **Synergy reliance moderated further in 1Q26, with average projected synergies falling to roughly 6.9% of EBITDA from about 8.0% in 2025 and about 9.2% in 2024.** That points to more conservative acquisition underwriting as risk appetite cooled and investors demanded clearer paths to realization.
  - **Synergies are still a meaningful part of M&A credit stories, but recent deals are relying less on future execution to justify leverage and pricing.** The quarter-to-quarter moves also suggest mix effects from a smaller number of large transactions rather than a broad reopening of aggressive underwriting.
  - **Execution takeaway:** Well-supported synergy cases still help, but lenders are putting greater weight on timing, achievability, and evidence rather than headline add-back potential.

### Quarterly US Institutional Loan Volume (\$B)

Tracks quarterly leveraged loan refinancing and amendment activity, a key indicator of issuer ability to reduce borrowing costs and extend maturities.

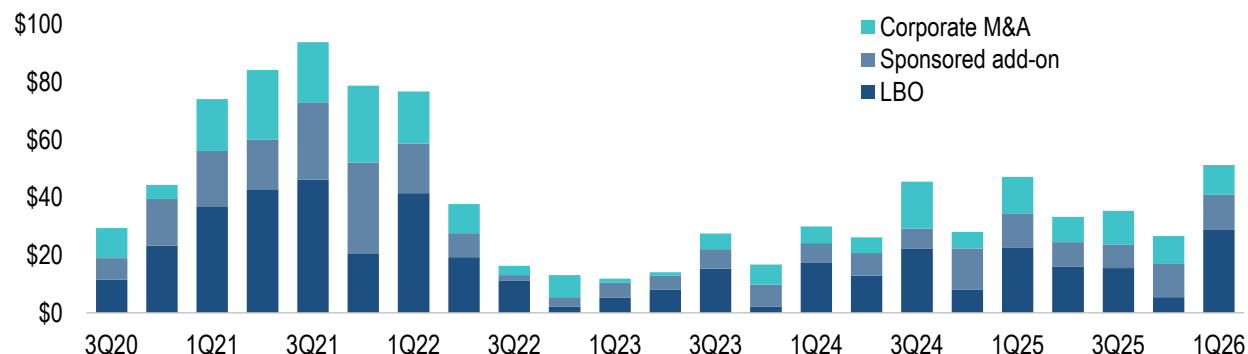


Source: PitchBook | LCD • Data through March 31, 2026  
\*Reflects repricings and extensions done via an amendment process only

- **1Q26 volume reflects a market moving from repricing-led activity to a more selective new-money environment.** Total institutional loan activity was about \$241B, down 32% from Q1 2025, as repricings and refinancings no longer offset softer market tone.
- **The repricing engine has largely exhausted itself. Repricing volume fell to roughly \$114B from \$186B a year earlier, while refinancing volume declined to \$41.6B from \$70.1B.** New-money issuance held up better than the headline decline suggests. Non-refinancing issuance reached \$69.7B, only about 5% below last year and above the quarterly average of 2024-2025 combined.
- **Issuer takeaway for 2026 planning:** Windows remain open, but execution is increasingly sensitive to timing, credit quality, and market backdrop rather than simply technical demand.

### M&A-Related Loan Volume

Tracks quarterly leveraged loan volumes used to finance M&A, sponsor add-ons, and LBOs, reflecting the pace of deal activity and availability of acquisition financing.

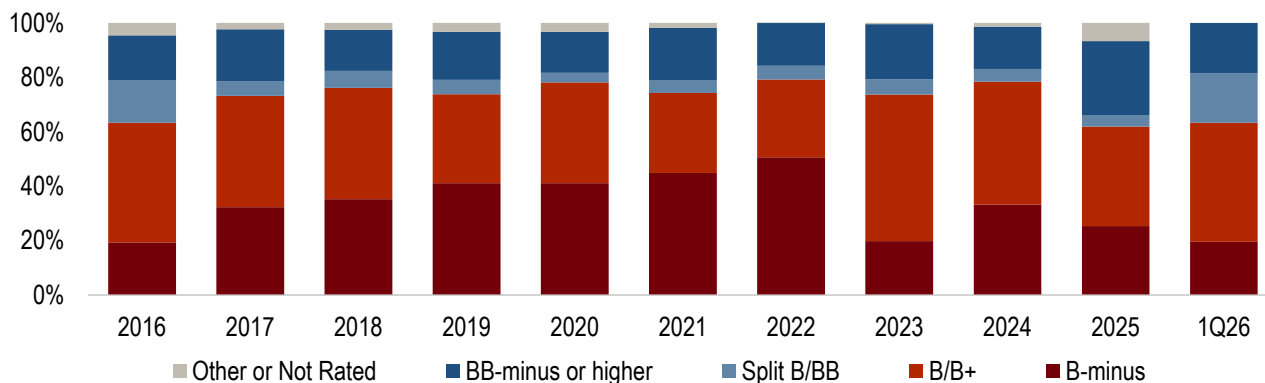


Source: PitchBook | LCD • Data through March 31, 2026

- **Acquisition financing was the relative bright spot in 1Q26.** Institutional M&A/LBO loan volume reached \$51.2B, the strongest opening quarter since 2022 and up 9% from Q1 2025. LBOs were again the largest driver at \$29.0B, with sponsored add-ons contributing \$11.9B and corporate M&A about \$10.3B. That said, the headline strength was not broad-based: More than 40% of first-quarter M&A/LBO loan volume came from just five mega-deals.
- **There is also a timing effect in the numbers.** Several of the largest financings were tied to transactions announced in late 2025, so 1Q26 issuance still reflects a pipeline built in a stronger dealmaking environment.
- **Takeaway:** The BSL market can still absorb large strategic and sponsor-backed deals, but breadth remains limited and sustained recovery depends on healthier underlying M&A flow.

### M&A/LBO Loan Volume by Borrower Rating (\$B)

Tracks the credit quality mix of leveraged loan issuance over time, highlighting how market windows shift financing toward higher or lower rated borrowers.

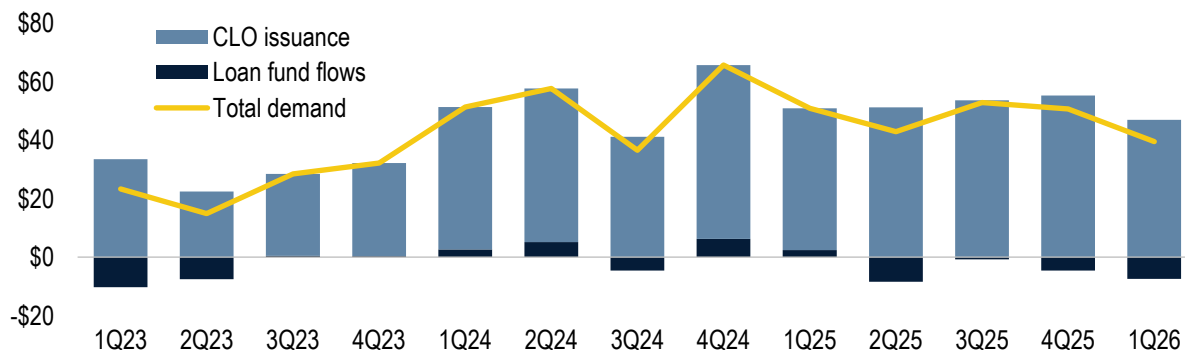


Source: PitchBook | LCD • Data through March 31, 2026

- **1Q26 issuance skewed toward better-quality borrowers even as headline M&A volume improved.** Roughly 37% of first-quarter M&A/LBO loan volume carried at least one BB-minus rating, the highest share for an opening quarter in years.
- **B/B+ borrowers still represented the largest single bucket, at about 44% of volume.** By contrast, B-minus issuers were only about 20% of first-quarter volume, tying recent lows and underscoring how selective investors remain at the riskier end of the market.
- **The mix shows that the market reopened first for stronger credits and larger, cleaner transactions.** Lower-rated borrowers can still access capital, but the bar for execution is materially higher than the headline recovery in deal volume suggests.
- **Implication for issuers:** Credit tiering has become more pronounced, with the best execution concentrated in higher-rated names and better-supported business models.

### US Leveraged Loan Market – Measurable Investor Demand (\$B)

Tracks the main sources of institutional demand for leveraged loans, showing that CLO formation has been the primary driver while retail loan funds have been a smaller, sometimes negative, swing factor.

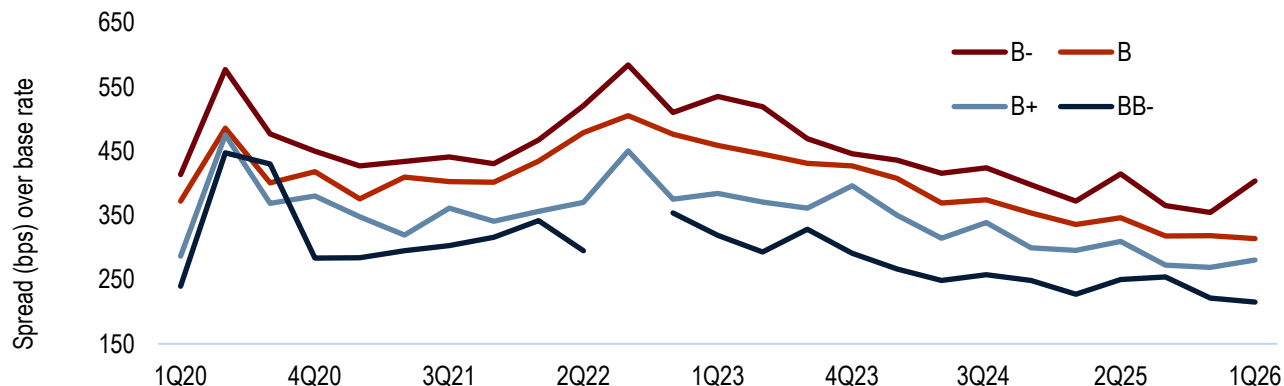


Sources: PitchBook | LCD; Morningstar Direct • Data through March 31, 2026  
Fund flows data includes monthly reporters.

- **CLO issuance remained the anchor bid in 1Q26, but overall demand cooled.** New CLO formation totaled about \$47.0B, down from \$55.3B in 4Q25 but still well above the weaker periods of 2022-2023.
- **Retail loan-fund flows were the bigger problem.** Outflows deepened to about negative \$7.5B in 1Q26, pulling total measurable demand down to roughly \$39.6B and contributing to the quarter's more risk-off tone.
- **At the same time, the asset class contracted as repayments exceeded new supply,** so technicals were not outright broken — just less supportive than they had been in late 2024 and 2025.
- **Issuer implication:** CLO demand still underpins market access, but weaker retail sentiment now matters more at the margin for pricing and deal confidence.

### New Issue Term Loan B Spread by Borrower Rating

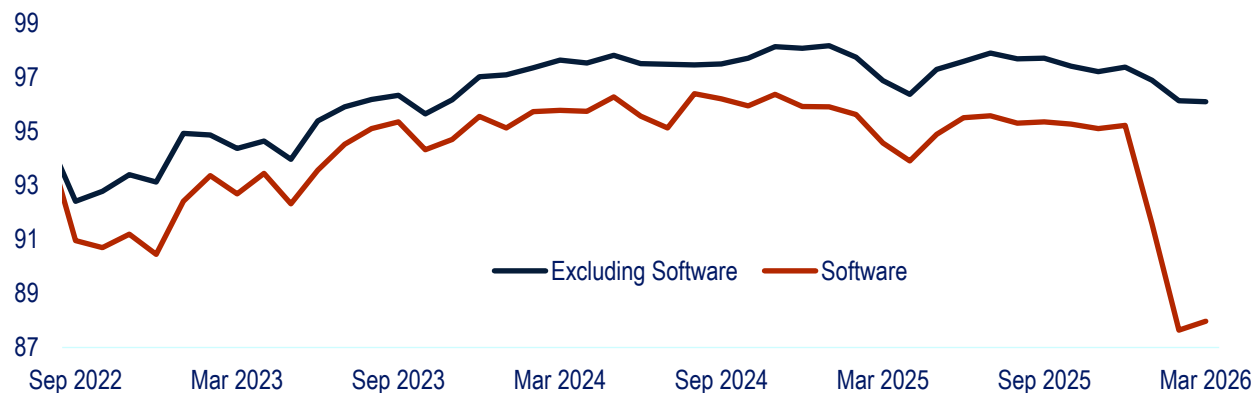
Tracks leveraged loan spreads by credit rating, showing how issuer pricing tightened materially through 2024 and 2025, with persistent premium for lower-rated borrowers.



Source: PitchBook | LCD • Data through March 31, 2026

### Weighted Average Bid Price of Performing Loans

Tracks secondary-market pricing for performing leveraged loans, separating software credits from the rest of the market to show how sector-specific pressure shaped 1Q26 sentiment.

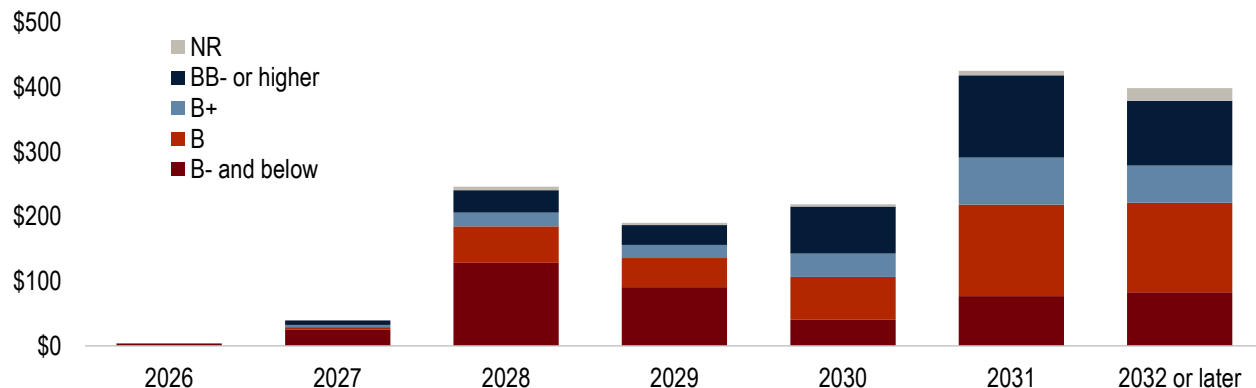


Sources: PitchBook | LCD: Morninastar LSTA US Leveraged Loan Index • Data through March 31, 2026

- **Spreads widened materially across the rating spectrum in February and March after a still-constructive January.** The biggest move was in the B bucket, where average new-issue spreads widened from about S+288 in January to about S+389 by quarter-end.
- **Higher-quality borrowers also paid up, though less dramatically.** BB-minus widened to about S+240 and B-plus to about S+332, while B-minus moved to roughly S+423. The quarter reinforced that credit tiering remains intact even when the market stays open. Stronger borrowers can still finance, but weaker credits saw a sharper repricing of risk and less consistent access.
- **Issuer takeaway:** After the exceptionally issuer-friendly 2025 technicals, 1Q26 reminded borrowers that timing and quality matter again, especially outside the top end of the rating stack.
- **Loan prices weakened across the market during the quarter,** but the decline was far more severe in software, where AI-driven concerns and broader skepticism around recurring-revenue business models triggered a sharp selloff.
- **Outside of software, prices also moved lower, but the decline was much more measured, underscoring that the broader loan market turned cautious while software became the clear focal point for risk aversion.** The chart highlights that 1Q26 was not simply a general spread-widening quarter — it was also a quarter of pronounced sector divergence.
- **Takeaway:** market access remained open, but investor sentiment became much more discriminating, with software at the center of the quarter’s repricing.

### US Leveraged Loan Maturity Wall (\$B)

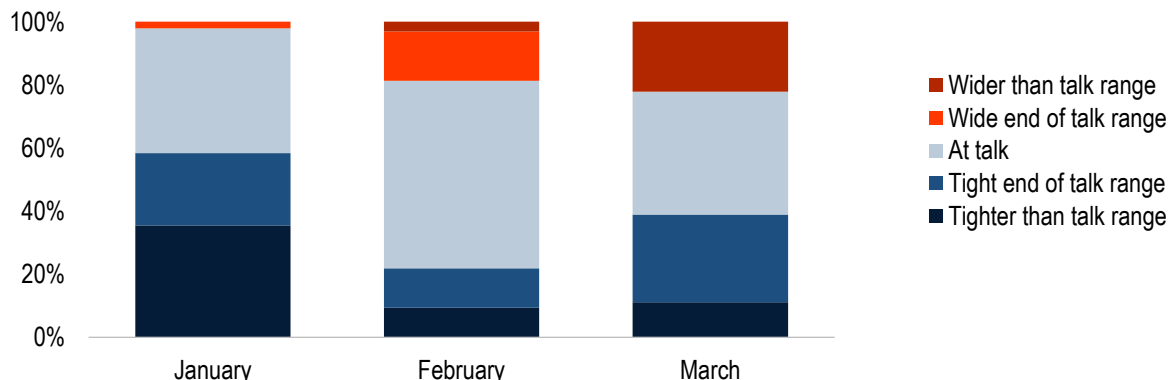
Shows the leveraged loan maturity schedule by year and rating, highlighting where refinancing needs concentrate and which credit tiers face the heaviest near-term pressure.



Source: PitchBook | LCD • Data through March 31, 2026

### US Institutional Loan Pricing Activity, YTD 2026

Tracks how institutional deals priced relative to talk through the quarter, providing a real-time read on syndication conditions and borrower execution risk.



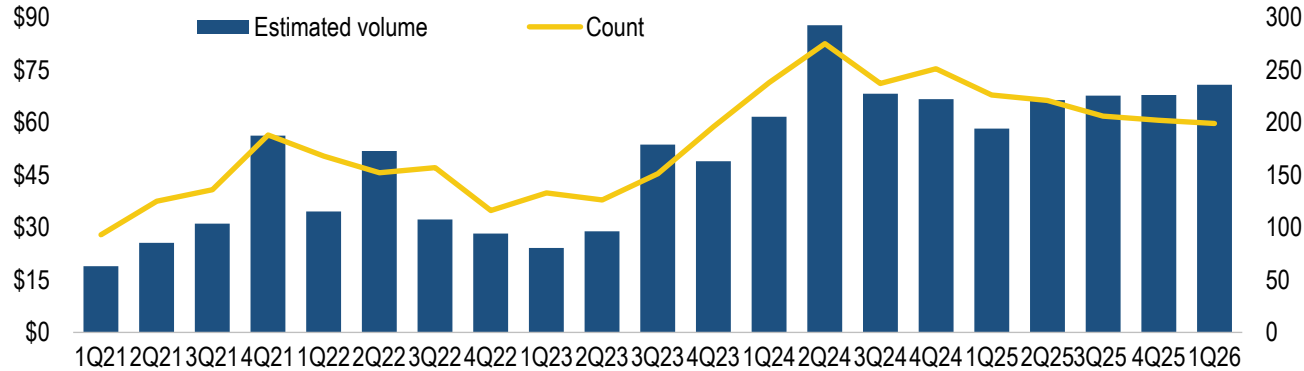
Source: PitchBook | LCD • Data through March 31, 2026  
Analysis excludes repricing and extension amendments.

- **The maturity wall remains concentrated in 2028 and the outer 2031-2032+ years.** Borrowers reduced the wall through 2027 to about \$43.4B and trimmed the 2028 bucket to about \$246B in 1Q26, but progress was slower than a year earlier.
- **The credit split matters.** Among B-minus-and-below borrowers, 29% of loans mature in 2028, versus only 12% for B-flat-or-higher issuers. That leaves the weakest borrowers with the most front-loaded refinancing burden.
- **The outer years are sizable but generally more manageable for stronger credits with broader market access.** By contrast, the large 2028 cohort bears watching if risk-off sentiment persists and spreads remain wide.
- **Issuer implication:** Maturity management should begin well ahead of the wall, especially for weaker credits that may need more time, more structure, or alternative capital sources to refinance.

- **January remained issuer-friendly, with more than half of deals pricing at or below the tight end of talk, but the tone deteriorated meaningfully in February and March.** By March, a much larger share of deals was clearing at or beyond the wide end of talk, underscoring that lenders had regained leverage even though the market never fully shut.
- **The chart captures the key 1Q26 execution theme:** the BSL market stayed open, but borrowers increasingly had to pay for certainty.
- **Takeaway:** the market remained functional, but execution became more selective and pricing power shifted back toward lenders.

## Direct Lending Deal Count and Estimated Volume (\$B)

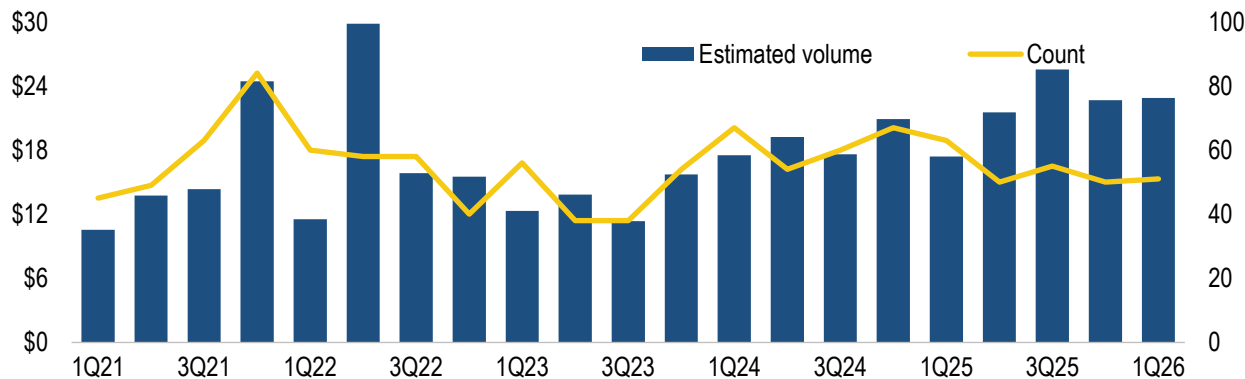
Tracks US direct lending activity by quarter, showing how estimated volume and deal count have evolved as private credit absorbed larger financings.



Source: PitchBook | LCD • Geography: US • Data through March 31, 2026

## Direct Lending Deal Count and Estimated Volume, LBOs (\$B)

Tracks direct lending activity for LBO financings by quarter, showing how private credit has supported sponsor deal flow through changing market conditions.



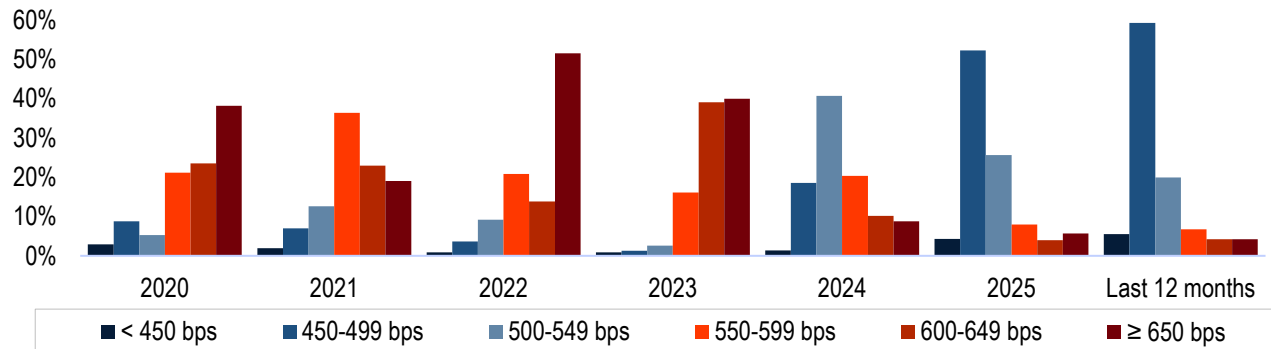
Source: PitchBook | LCD • Data through March 31, 2026  
Direct lending analysis is based on transactions covered by LCD News

- **Private credit volume held up better than sentiment in 1Q26.** Estimated direct lending volume rose to about \$70.8B from \$67.9B in 4Q25 and \$58.2B in Q1 2025, even as total deal count slipped to 199 from 202 last quarter and 226 a year ago.
- **That mix implies another quarter of larger average deal sizes rather than a broad-based expansion in transaction activity.** The market remains scalable for sizable transactions, but deal flow is less diffuse than it was at the 2024 peak.
- **At the same time, software and ARR concerns made investors more selective** and pushed the market toward greater scrutiny of sector exposure and downside protection.
- **Takeaway into 2026:** Private credit remains a credible execution path, but lender selectivity has risen even while aggregate volume stays solid.

- **LBO direct lending was resilient in 1Q26.** Estimated volume held essentially flat sequentially at about \$22.9B, versus \$22.7B in 4Q25, and remained meaningfully above Q1 2025's \$17.4B.
- **Deal count was stable at 51 versus 50 last quarter, but still below the 63 deals seen a year ago.** As in the broader direct lending market, volume is being sustained by larger-ticket sponsor deals rather than a broad-based increase in buyout count.
- **That pattern fits a market where top sponsors and larger assets still find deep private-credit demand,** while middle-tier or more controversial transactions face more scrutiny.
- **Takeaway:** Direct lending remains highly relevant for sponsor financings, but outcomes are increasingly driven by sponsor quality, sector, and structure rather than pure market liquidity.

## New-Issue Spread Distribution of LBOs Financed in Direct Lending Market

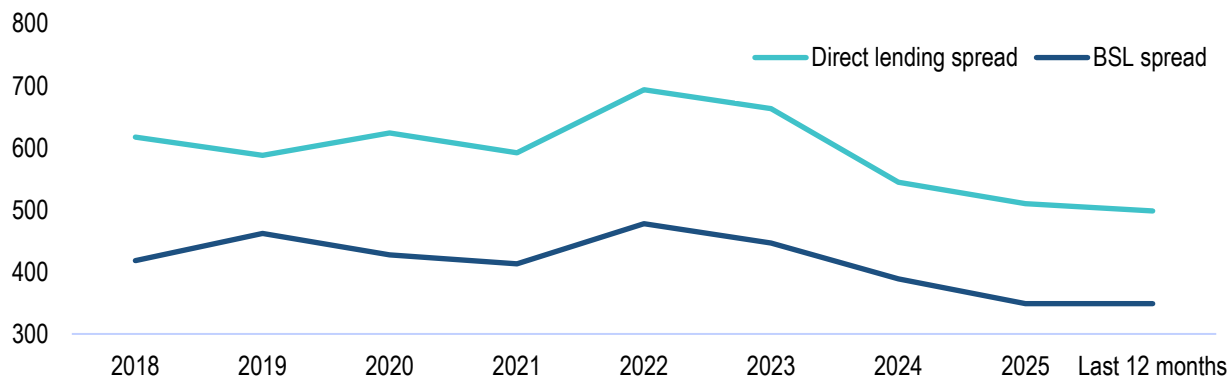
Tracks where direct-lending LBO spreads have cleared over time, showing how private-credit pricing has shifted as lender selectivity increased.



Source: PitchBook | LCD • Data through March 31, 2026

## Spread of LBOs Financed in BSL vs Direct Lending Market (bps)

Compares average LBO financing spreads in the BSL and direct lending markets, highlighting the trade-off between price and execution certainty.



Source: PitchBook | LCD • Geography: US • Data through March 31, 2026

- **In 1Q26, the distribution moved toward the wider end of the market**, with fewer deals clearing below S+500 and a greater share landing in the S+500-plus range.
- **That shift is consistent with the broader private-credit tone in the quarter:** lenders remained active, but demanded more compensation for risk amid weaker sentiment, software concerns, and a less forgiving backdrop for underwritten deals. The result is a market that is still open for sponsor-backed financings, but on more disciplined economics.
- **Takeaway:** private credit remains a viable execution path, but sponsors should expect wider pricing and greater scrutiny than in 2024-2025.

- **The direct-lending premium to BSL has narrowed meaningfully from prior peaks**, but private credit still commands a spread premium in exchange for speed, flexibility, and certainty of close.
- **In the last 12 months, both markets show lower average spreads than in 2022-2023**, though the BSL market remains the cheaper option when it is fully open.
- **The chart reinforces the central 1Q26 takeaway for sponsors and issuers:** capital markets are increasingly dual-track, and the right venue depends on the balance between economics, certainty, and deal complexity at the time of launch.
- **Takeaway:** issuers should continue to run a true dual-track process, because the relative value between BSL and direct lending can shift quickly with market tone.

# About SC&H Capital

SC&H Capital is an investment banking advisory firm focused on delivering outstanding results to leading middle market and growth companies.

Our solution-driven approach combines creativity and industry experience to help founder and sponsor owned businesses navigate M&A and financing processes and achieve their goals.

- SC&H Capital has completed 1,000+ M&A advisory, financing, and ESOP transactions with an aggregate economic value of over \$500 billion\*
- Senior banking team professionals have an average of over 20 years of experience in transaction advisory services
- Recognized by clients for providing relevant market and industry insights to help unlock their full strategic value
- Deep expertise across specialty distribution, manufacturing, consumer, food & bev, etc.



## Our Solutions

 Mergers & Acquisitions

 Capital Solutions

 ESOP Transactions

 Special Situations

 Business Valuations

Click to learn more about our services



SC&H Capital brings deep expertise and extensive experience in capital solutions engagements, consistently delivering exceptional outcomes for our clients.

## Industry Coverage Overview

Downstream Energy

Consumer

Manufacturing

Business Services

Specialty Distribution

Industrials

Healthcare

Multi-Unit

Government Contracting

Food & Bev

Technology & Software

And More...

1,000+

Completed Transactions\*

\$500B+

in Deal Value Since Inception\*

40

Seasoned Investment Bankers

## SC&H's Capital Solutions Experience

Below is a sample of our Capital Solutions transactions\*



**G&M OIL COMPANY**

Received a \$425,000,000 Senior Secured Credit Facility

SC&H Professionals Served as Sole Placement Agent

Downstream Energy | Multi-Unit

One of California's largest independently owned fuel retailers with over 200 locations

**WATERSHED**

Executed a recapitalization

SC&H Professionals Served as Sole Placement Agent

Consumer | Multi-Unit

Portfolio of over 30 carwash locations in Texas and Oklahoma

**ARBORIS**  
pine tree extracts

Received a Strategic Investment from

SC&H Professionals Served as Sole Placement Agent

Manufacturing

Leading manufacturer of plant sterols

**College AVE**  
STUDENT LOANS

\$1,000,000,000 Lending Services Agreement

Firsttrust Bank Served as Administrative Agent

SC&H Professionals Served as Sole Placement Agent

Consumer Finance

Fintech originator of private student loans.

**TruFood**

Received a \$36,000,000 Senior Secured Credit Facility

SC&H Professionals Served as Sole Placement Agent

Food & Bev | Manufacturing

Contract manufacturer of snack foods

**SARATOGA**  
CASINO · HOTEL

Received Financing to Support the Acquisition of

**MAGNOLIA BLUFFS**  
CASINO · HOTEL  
NATCHEZ, MS

SC&H Professionals Served as Sole Placement Agent

Gaming | Consumer

Hotel and casino that was executing a strategic acquisition

**Marcal**

Received a \$125,000,000 Private Placement

SC&H Professionals Served as Sole Placement Agent

Manufacturing | Consumer

Manufacturer of recycled paper products including tissues, napkins, and paper towels

**Aphena**  
Pharma Solutions

Refinanced its Existing Credit Facility

SC&H Served as Sole Placement Agent

Manufacturing | Healthcare

Contract manufacturing and packaging of OTC and Rx liquid and topical products

**ComfortResearch**

Refinanced its Existing Credit Facility

SC&H Served as Sole Placement Agent

Manufacturing | Consumer

Manufacturer of durable household goods such as bean bags and pool furniture

\*Includes experience from SC&H professionals at prior firms

# Contact Us For More Information

## Capital Solutions Team



**John Whalen**  
Managing Director



**Ryan Weir**  
Principal



**Rick Zytkowicz**  
Principal



**Michael Grabenstein**  
Sr. VP



**Brady Richardson**  
Vice President



## Special Situations Team

Ken Mann, Managing Director  
kmann@schgroup.com

Matt LoCascio, Principal  
mlocascio@schgroup.com

Michael Fixler, Managing Director  
mfixler@schgroup.com

Michael Gorman, Principal  
mgorman@schgroup.com

Michael Alessi, Principal  
malessi@schgroup.com

Hank Waida, Principal  
hwaida@schgroup.com

## M&A Team

Greg Hogan, Managing Director  
ghogan@schgroup.com

Matt Roberson, Managing Director  
mroberson@schgroup.com

Craig Bowden, Managing Director  
cbowden@schgroup.com

Matt Everett, Principal  
meverett@schgroup.com

**Guided by our values — for our clients, colleagues, and communities. Driven by results.**

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We pursue excellence through continuous learning, expanded expertise, and proactive exploration of new opportunities.

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We deliver timely, high-value outcomes by actively listening, honoring our commitments, and exceeding expectations.

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Integrity guides everything we do. We value collaboration, accountability, and a commitment to our clients, colleagues, and communities.

### Results Driven

We take ownership of outcomes and innovate continuously to achieve measurable, lasting success for our clients.