



**BANKERS EDGE**  
— ADVISORY —

# Credit Market Update

FEBRUARY 2026

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# Executive Summary

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## Markets at a glance



U.S. GDP growth slowed to **0.7%** in **Q4 2025**, with Atlanta Fed GDPNow currently tracking **~3.7% for Q1 2026**, driven primarily by resilient consumer spending and a notable narrowing of the U.S. trade deficit. Household demand remains supported by steady job creation, real income gains, and a gradual easing in inflation pressures. While it's too early to draw definitive conclusions, recent trade data suggests that the administration's imposition of tariffs and the negotiation of global trade agreements may be contributing a material shift in trade flows, with increased domestic production and import substitution beginning to alter the composition of U.S. trade activity.



Corporate fundamentals remained robust, with **S&P 500 gross margins near 70.1%** and **business loan delinquencies at just 1.3%**; as a result, high-yield spreads remain well supported, climbing to 3.1%. While bank lender sentiment remains cautious, with only **33.0% of commercial lenders** reporting a bullish outlook, earnings resilience and low corporate delinquencies continue to support credit market growth, with private credit lenders increasingly filling the M&A financing gap left by traditional banks.



**Aggregate M&A deal value ended 2025 well above 2024**, fueled by a broad recovery in strategic and private equity transactions. After a mid-year lull, U.S. M&A rebounded at year-end, with **capital invested rising to \$703.8 billion in February**. Early-year momentum reflects growing sponsor confidence and signals continued investor appetite into early 2026, though stretched valuations may pressure acquirers' leverage and post-merger integration capacity.

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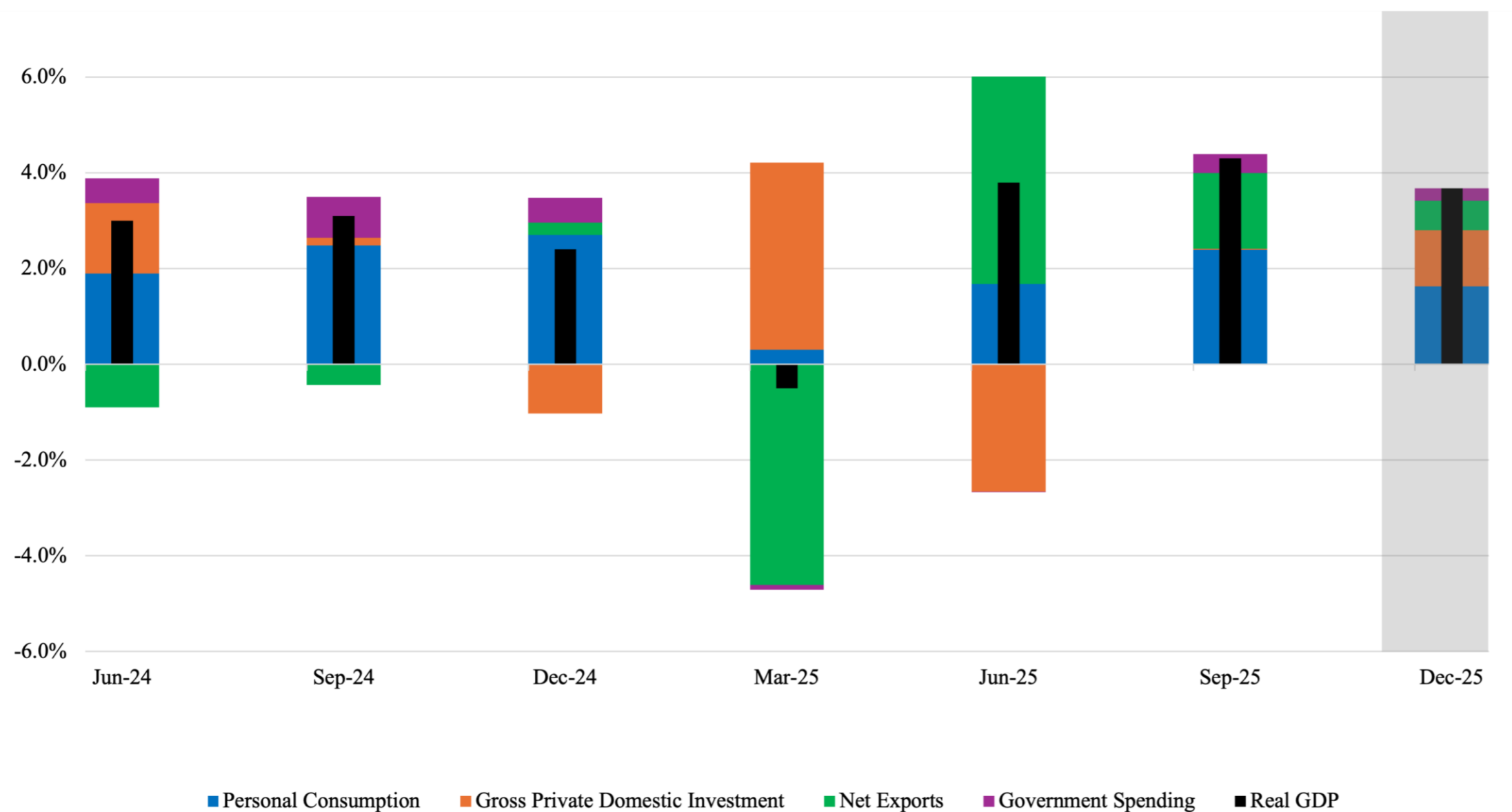
# US GDP Breakdown

U.S. economic momentum moderated in Q4, with **GDP growth slowing to 0.7%**, following robust **4.3% annualized growth in Q3**, driven by a turnaround in net exports and resilient consumer spending. Stable labor markets and moderating inflation continue to support household spending and services activity, confirming that domestic demand remains healthy and momentum remains constructive heading into 2026.

The sharp improvement in net exports suggests that recent tariffs and trade renegotiations are materially shifting trade flows, supporting increased domestic production and import substitution. These developments highlight the growing impact of trade policy on U.S. economic composition and reinforce the constructive backdrop for continued growth.

At the same time, surging productivity gains are boosting forward-looking growth prospects. Higher output per worker not only supports stronger corporate earnings and investment but also allows for more sustainable economic expansion without triggering excess inflation, enhancing the resilience of the U.S. economy in the year ahead.

## Contributions to Percent Change in Real Gross Domestic Product



Shaded area denotes forecast, Atlanta Fed GDPNow

Source: Atlanta Fed GDPNow, February 10th.

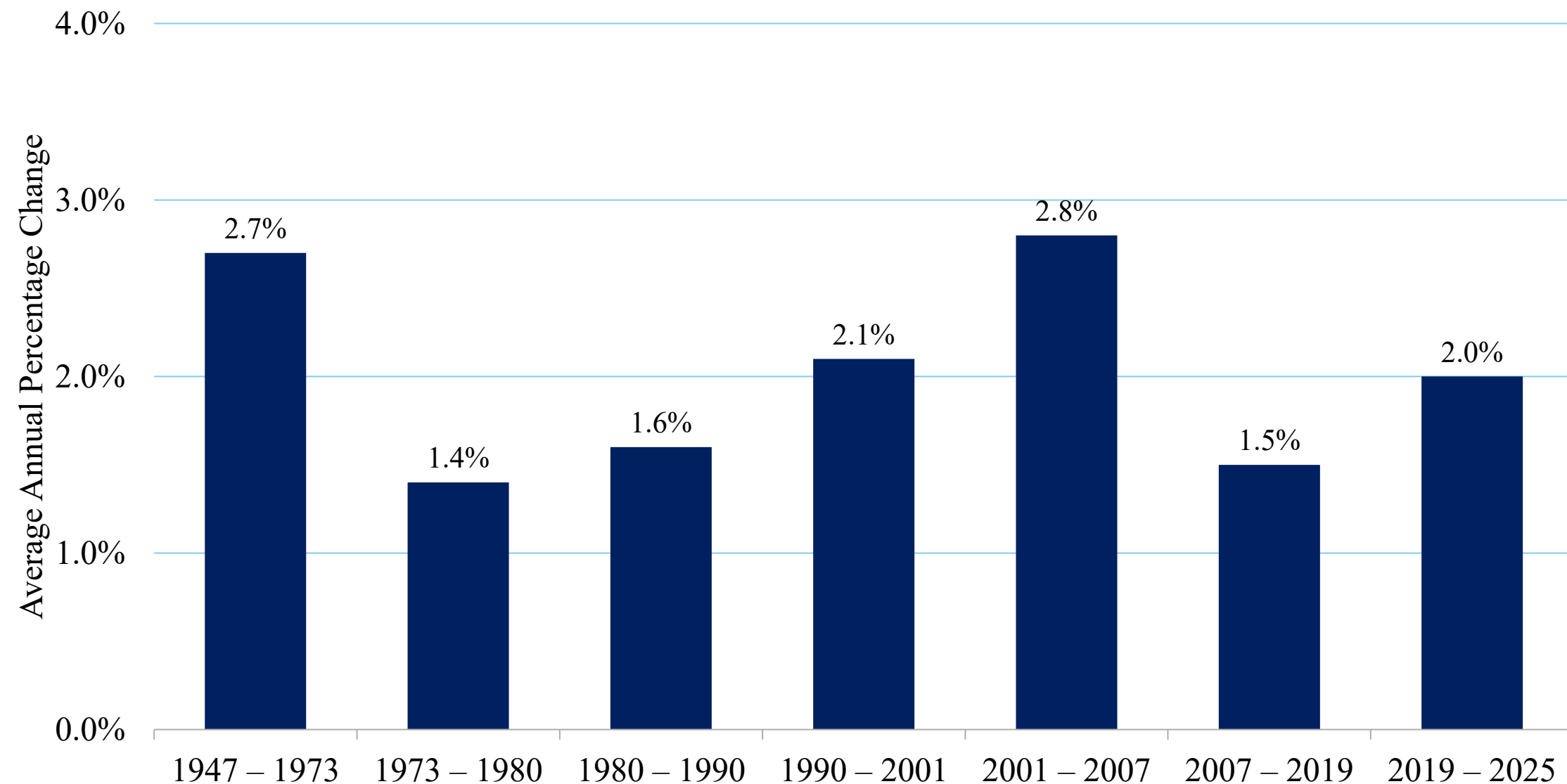
# US Productivity

U.S. labor productivity has shown a notable improvement in the post-pandemic period, rebounding from the protracted slowdown observed between 2007 and 2019. **Average annual productivity growth over 2019-2025 is estimated at approximately 2.0%**, reflecting a partial normalization following pandemic-era distortions and a reacceleration relative to the prior decade.

Recent gains appear to be driven by a combination of increased capital deepening, greater adoption of digital technologies, and improved labor allocation as participation and hiring dynamics stabilize. While some of the rebound reflects cyclical normalization, early evidence suggests that efficiency gains from automation, AI-enabled workflows, and process optimization may provide a more durable underpinning to productivity growth than the pre-pandemic expansion.

Sustained productivity improvements are constructive for the medium-term growth outlook, as higher output per worker supports real income growth and corporate margins without generating commensurate inflationary pressures. If maintained, this trend could allow the U.S. economy to sustain trend growth closer to historical norms while easing the trade-off between growth and price stability.

## Productivity Change in Non-Farm Business Sector (1947-2025)



# JOLTS Employment Survey Data

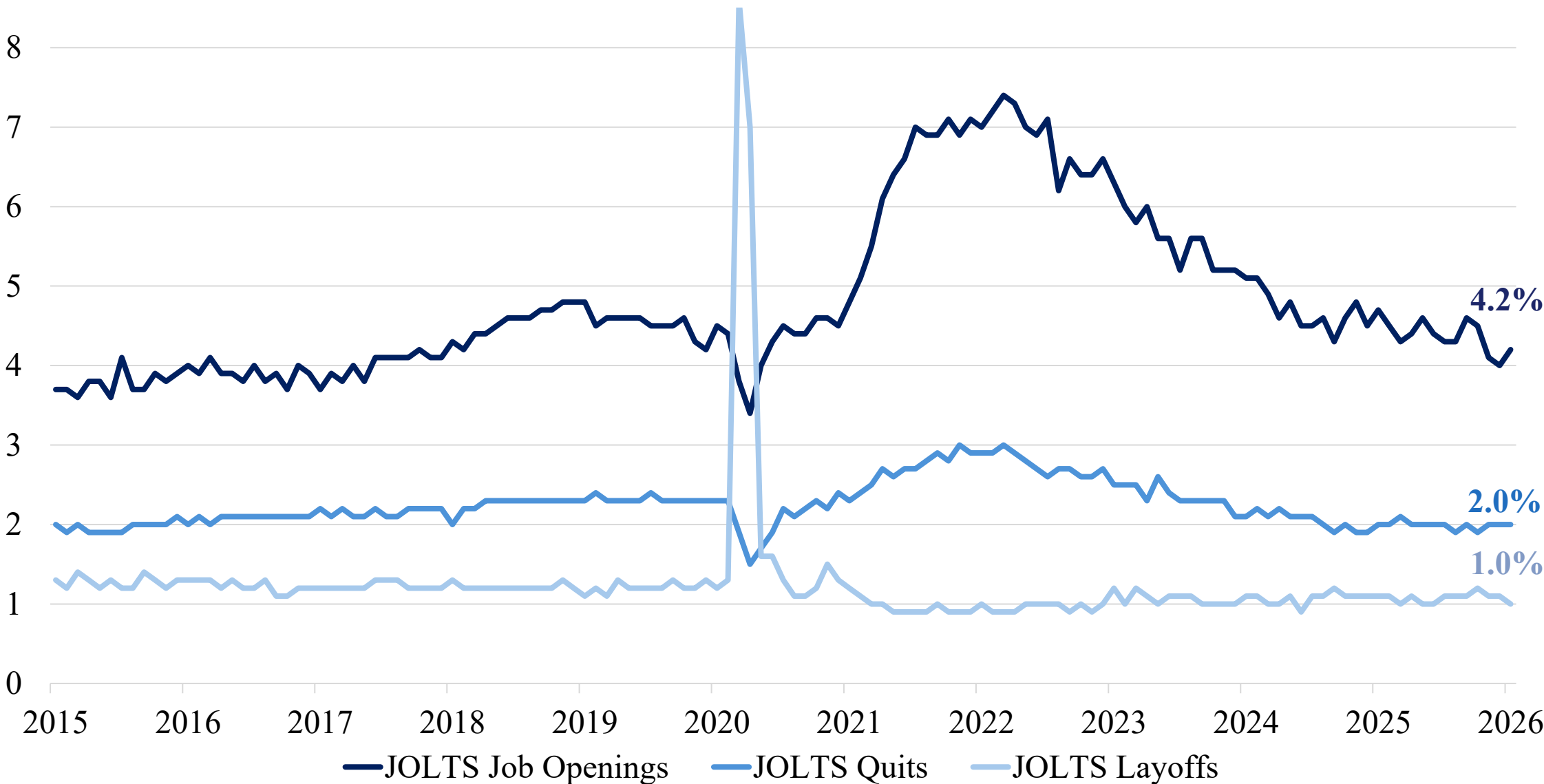


According to the November 2025 Job Openings and Labor Turnover Survey (JOLTS), the labor market remains healthy, with signs that tightness is easing and inflationary pressures are moderating. Job openings gradually increased to **6.95 million**, reflecting businesses maintaining hiring demand amid steady but slower economic growth. **Openings remain broadly in line with pre-2020 levels, suggesting that while labor demand has cooled from the post-pandemic peak, the employment environment remains relatively stable.**

Layoffs decrease slightly to 1.6 million but remain in line with long-term trends, while quits held steady at 3.1 million, signaling continued worker confidence. This balance between stable separations and moderating hiring points to a soft-landing dynamic, where labor demand slows without triggering large-scale job losses.

Wage pressures have eased as the market seems to be finding increasing supply demand equilibrium, giving the Fed more flexibility to consider further rate cuts without stoking inflation. Overall, the JOLTS data depict a cooling labor market that is nevertheless still structurally resilient: openings and hiring have softened from earlier peaks, but layoffs have not spiked and workers continue to transition between jobs without triggering widespread unemployment.

### JOLTS Job Openings, Nonfarm Quits, and Nonfarm Layoff Rates (%)



Source: US Department of Labor Data as of 9 February 2026

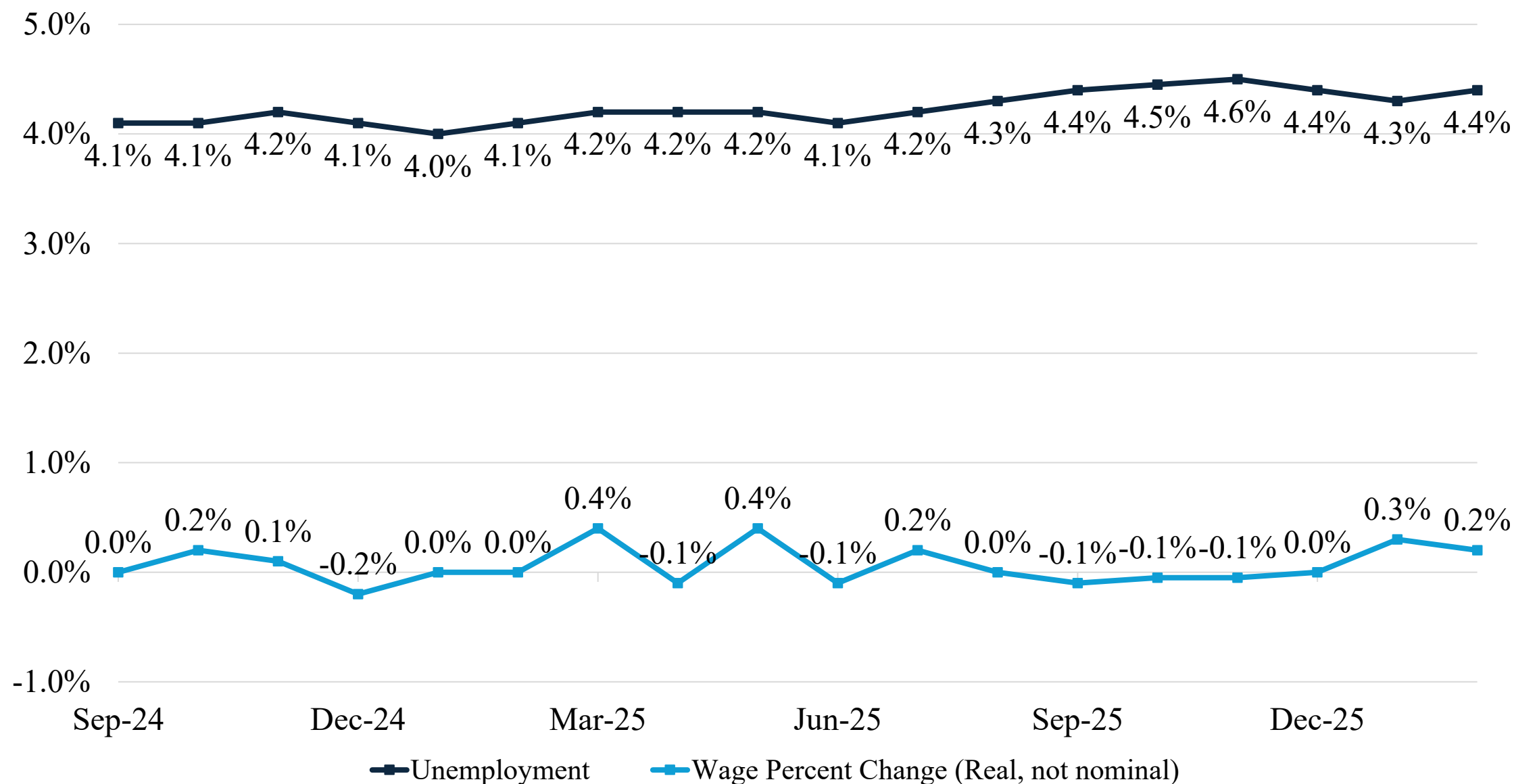
# Unemployment & Wage Growth

The U.S. labor market remained remarkably steady through 2025, with the unemployment rate holding in the low to mid-4% range throughout the year. This stability reflects a balanced employment environment, where job creation is keeping pace with labor force growth and month-to-month volatility has been minimal. Despite slowing economic momentum, employers have largely retained workers, signaling confidence in underlying demand and a reluctance to reintroduce hiring frictions.

Real average hourly earnings showed limited movement, fluctuating between -0.2% and +0.4% for most of the year. Recent readings month-over-month highlight modest wage growth, indicating a labor market that is neither overheating nor weakening and helping ease inflationary pressures.

**Bottom line:** labor conditions remain balanced. Unemployment is low, wage pressures are contained, and there are few signs of broad-based stress or overheating. This backdrop gives policymakers flexibility to manage inflation and growth trade-offs without the urgency of labor-driven price spirals.

### US Unemployment Rate and Wage Growth Rate



**Source:** US Department of Labor Data as of 11th March, 2026

**Footnote:** October and November data are estimated as the arithmetic mean of the adjacent months due to the unavailability of releases.

# Consumer Financial Health

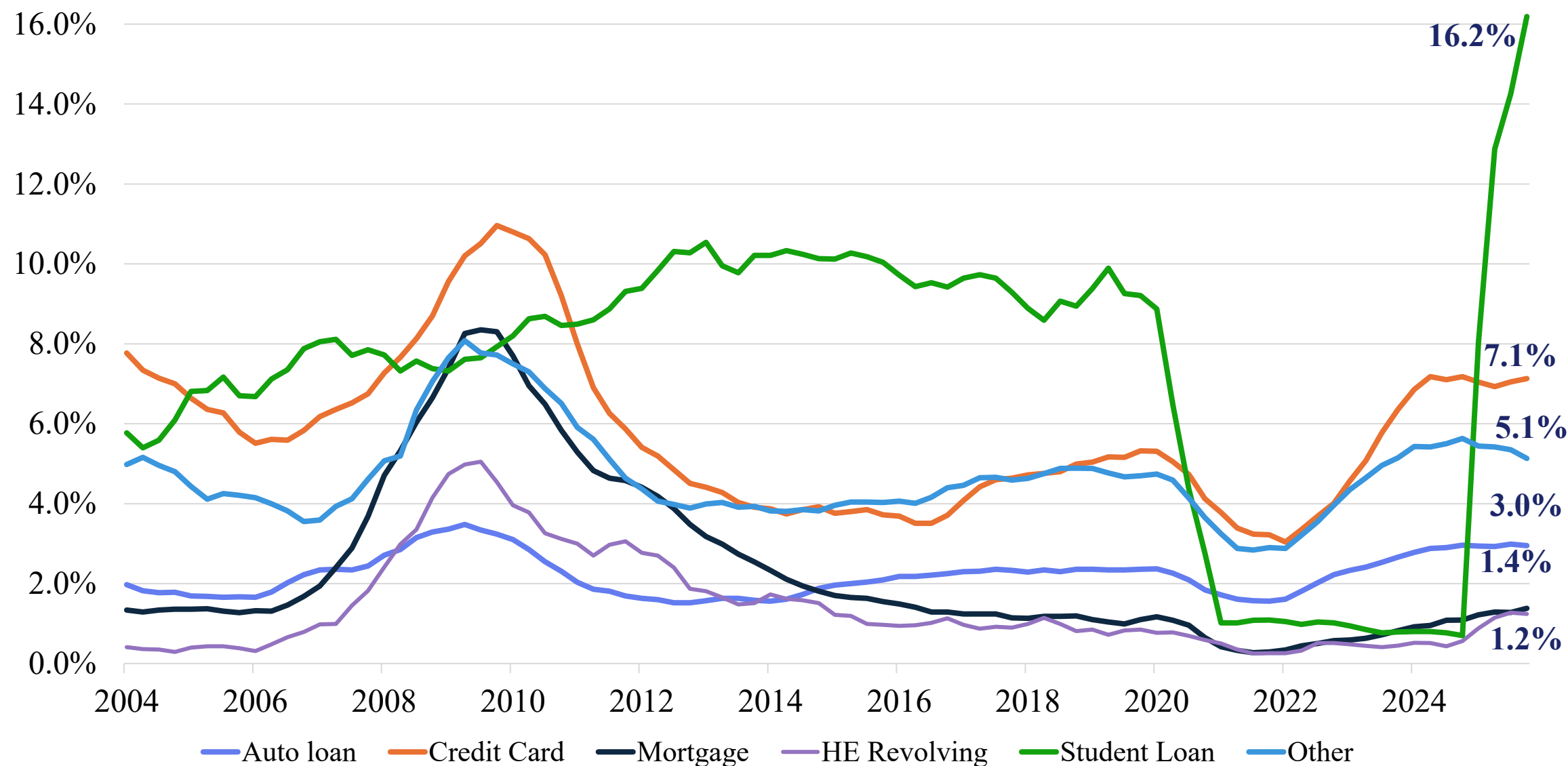


**Consumer balance sheets remain broadly within acceptable delinquency ranges as we enter 2026.** Transitions into serious delinquency (90+ days past due) have risen from pandemic-era lows, but remain below prior cycle peak, indicating that household credit stress remains contained by historical standards.

**The exception is student loan delinquencies, which have surged sharply to 16.2%.** Much of this increase reflects the expiration of Biden-era student loan forbearance and forgiveness programs. However, even after accounting for the program's expiration, student loan defaults have surged to all-time highs, suggesting additional sources of stress among recent graduates. While it is too early to fully explain the magnitude of this increase, these borrowers typically represent near-term household formation demand, and elevated delinquency rates—along with impaired credit scores—could delay broader household formation.

**Overall, these trends point to continued consumer spending resilience heading into 2026, but with mounting pressure on credit-sensitive segments, particularly younger and lower-income borrowers.** These pockets of vulnerability warrant close monitoring as we progress through 2026.

### Transition into Serious Delinquency by Loan Type (90+)



Source: Federal Reserve New York, Data as of Q4 2025

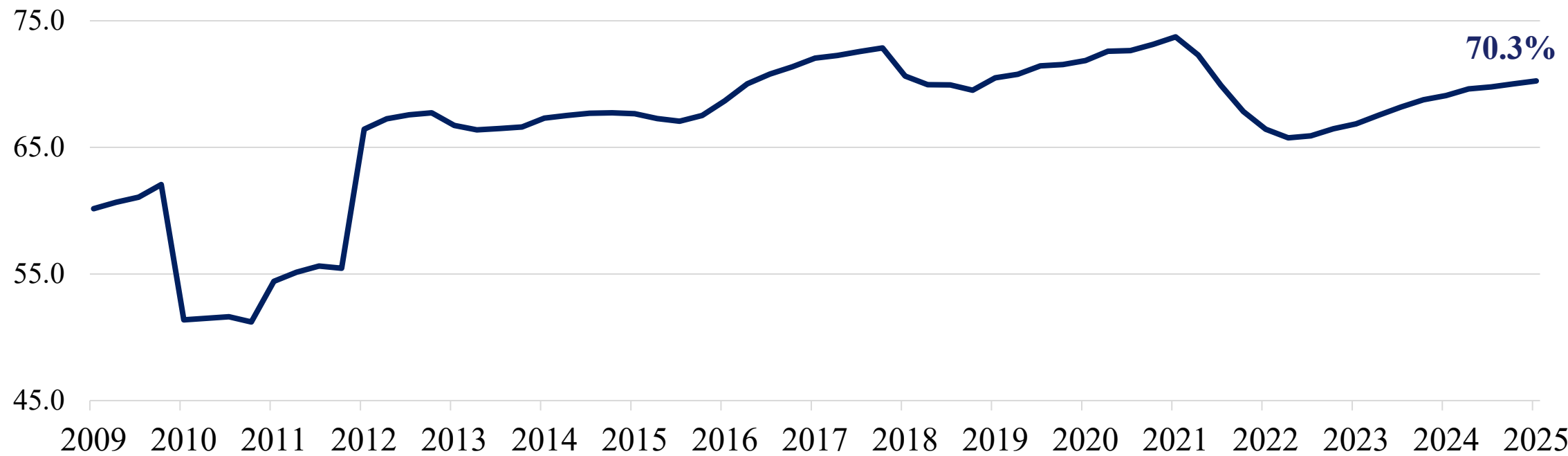
# Corporate Financial Growth



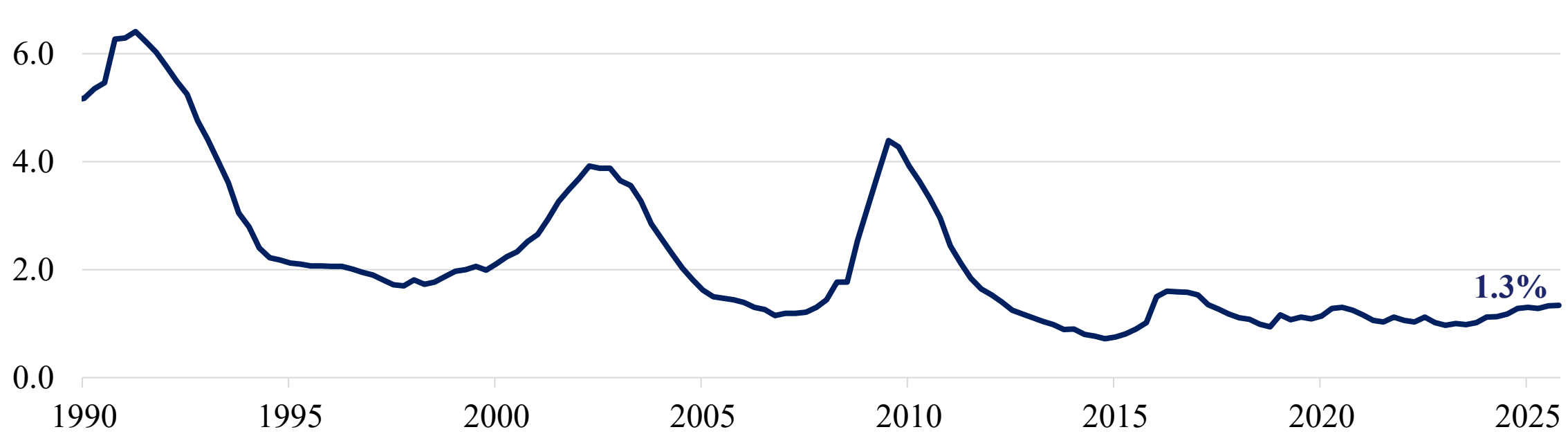
Five years after COVID, corporate fundamentals remain resilient. **S&P 500 gross margins have recovered to 70.3%, near recent peaks and well above long-term averages, following a brief anomaly in the prior release that temporarily suggested a sharper decline.** This durability reflects sustained pricing power, disciplined cost control, and ongoing efficiency gains, particularly in sectors that have embraced automation and digital transformation. Companies have largely preserved profitability despite volatile input costs and shifting demand.

Corporate credit conditions remain equally supportive. **Business loan delinquency rates are historically low, hovering around 1.3% in late 2025,** underscoring strong balance sheets and prudent financial management. This limited stress in bank loan portfolios suggests most firms are comfortably servicing debt, supported by ample liquidity and continued access to capital markets. In turn, banks benefit from solid asset quality, reducing the risk of broader financial contagion. Together, earnings resilience and low delinquency rates underpin confidence across credit markets, sustaining robust demand for both investment-grade and high-yield issuance. This favorable backdrop has supported M&A activity, driven by strategic consolidation and opportunistic deal-making, particularly in sectors offering strong cash-flow visibility and balance-sheet flexibility.

### Transition into Serious Delinquency by Loan Type (90+)



### Delinquency Rate (%) on Business Loans, All Commercial Banks



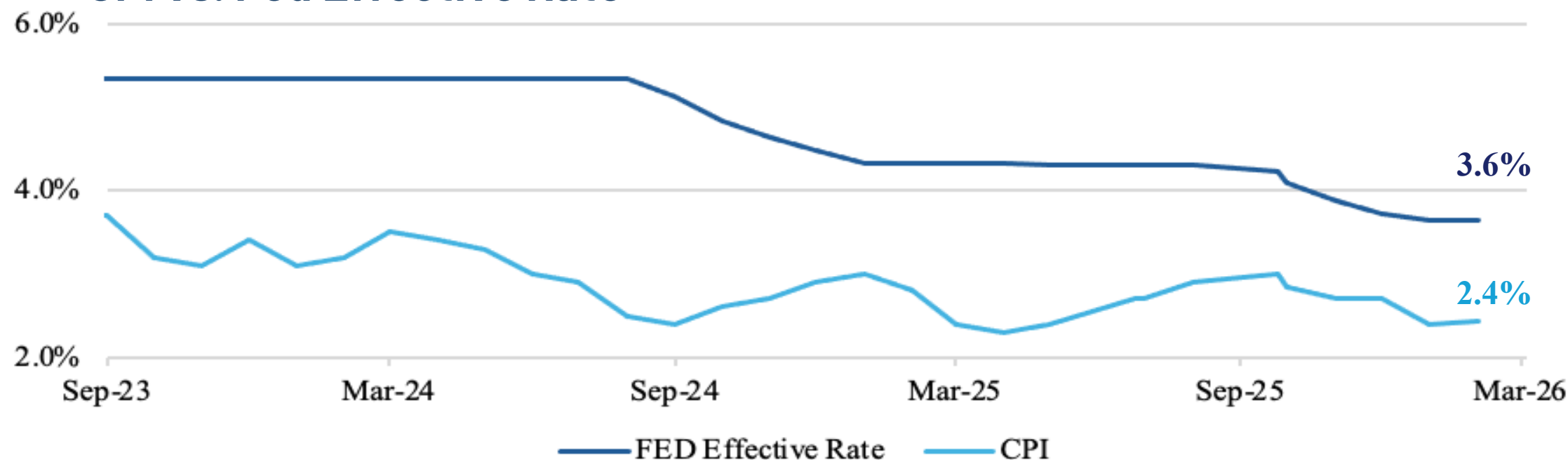
Sources: Federal Reserve St. Louis, Macrotrends Data as of February, 2026

# Public Rates Growth

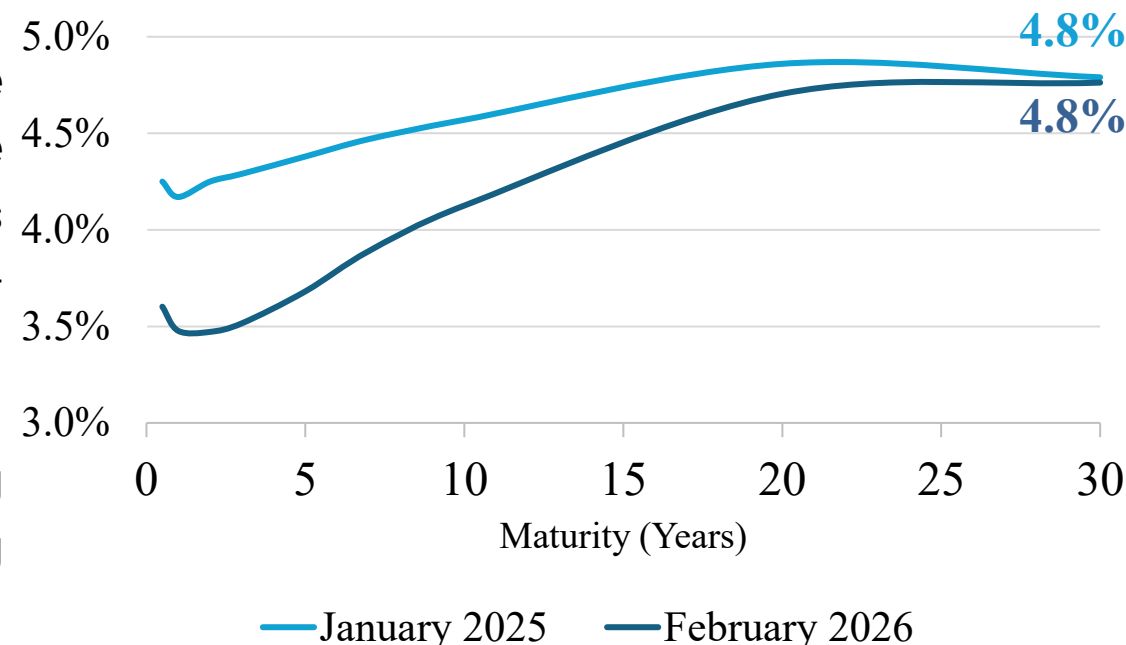
While February 2026 **CPI maintained 2.4%**, inflation continues to show a clear moderation from the elevated levels observed between 2022 and 2024. This sustained deceleration in price pressures has afforded the Federal Reserve greater policy flexibility. As of February 2026, **the federal funds effective rate still stands at approximately 3.6%**. Following a period of policy easing, the Federal Reserve has signaled a pause in rate adjustments as inflation continues to moderate. However, market pricing still reflects expectations of additional cuts later in 2026, depending on incoming data. This divergence between the Fed's current stance and forward market expectations contributes to the "kinked" shape of the yield curve, particularly across intermediate maturities.

Meanwhile, the **"kinked" shape of the U.S. Treasury yield curve points to expectations for further monetary easing in the coming quarters**. At the same time, elevated long-term yields suggest investors anticipate either a relatively shallow rate-cutting cycle or a potential reacceleration of growth and inflation over the longer term. The gap between short- and intermediate-maturity yields underscores growing expectations of policy easing, even as near-term funding dynamics continue to shape market conditions.

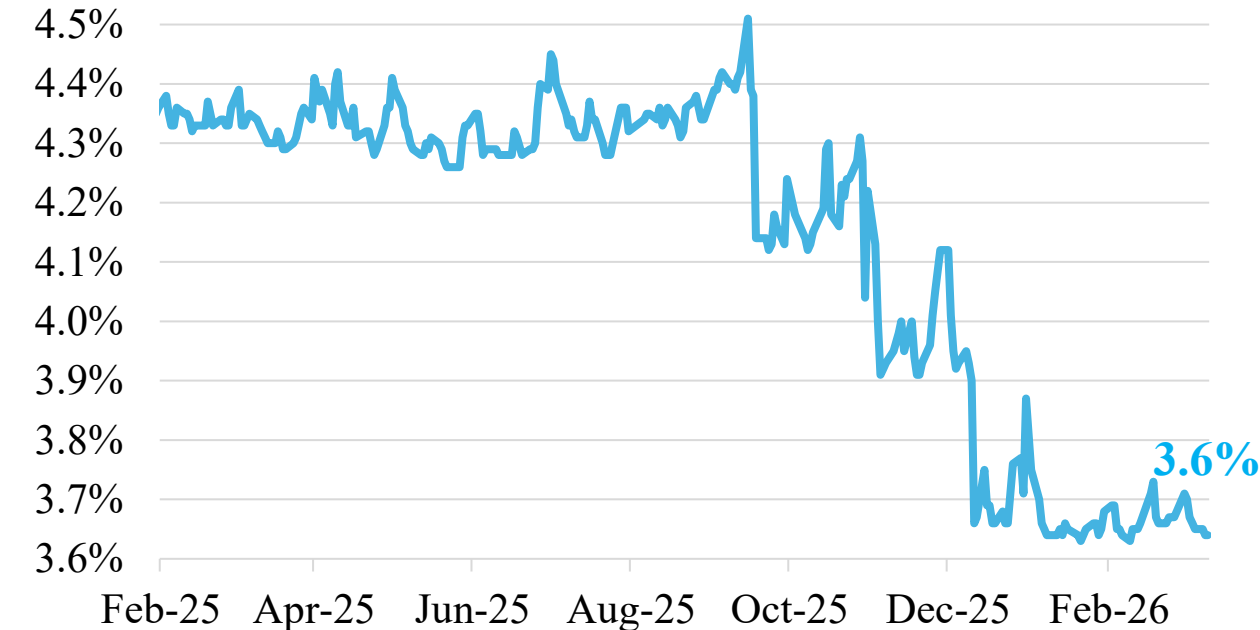
### CPI vs. Fed Effective Rate



### Treasury Yield Curve



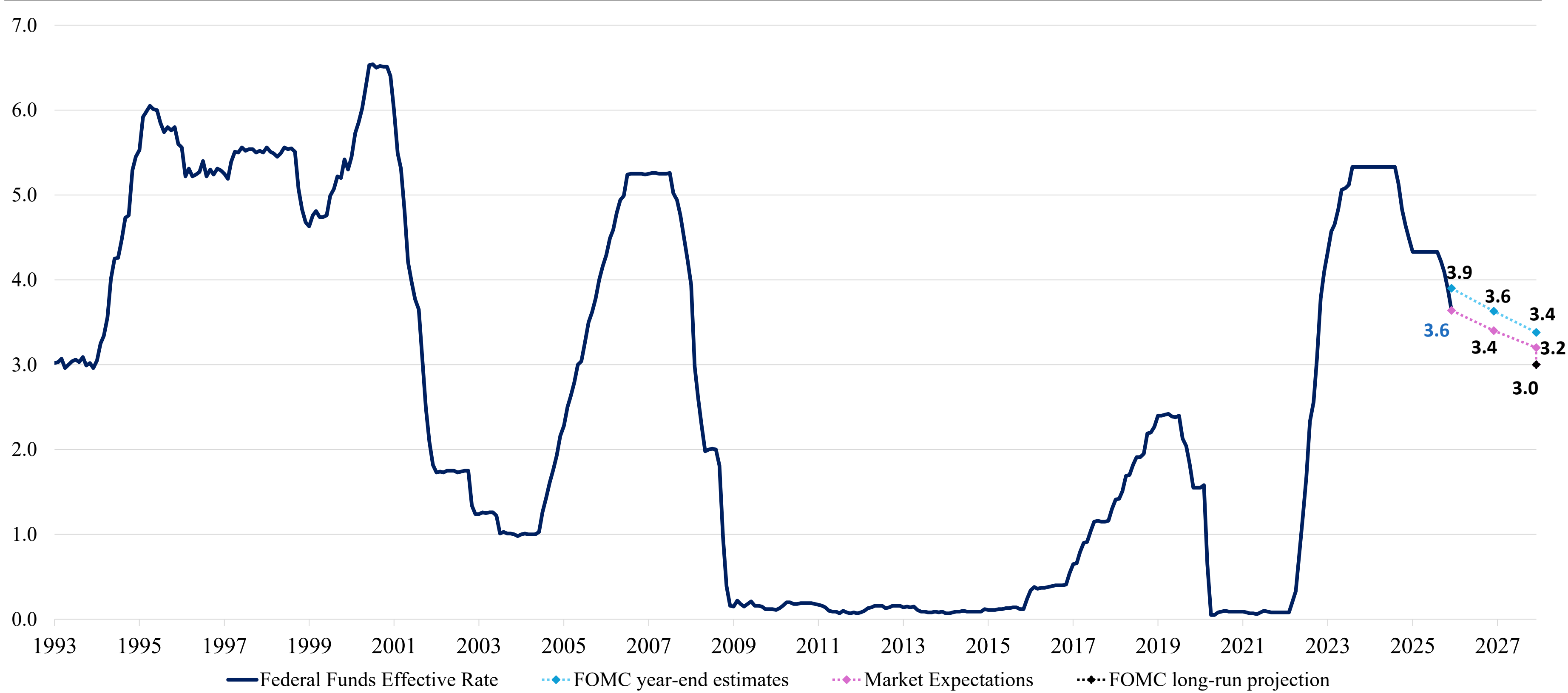
### US SOFR Overnight Rate



**Sources:** Federal Reserve St. Louis, US BLS, US Dept. of Treasury, CME FedWatch Data as of 12 March, 2026

**Footnote:** October data are estimated as the arithmetic mean of the adjacent months due to the unavailability of official releases.

# Fed Funds Rate Expectations



Sources: Federal Reserve St. Louis, Bloomberg Data as of 12 March, 2026

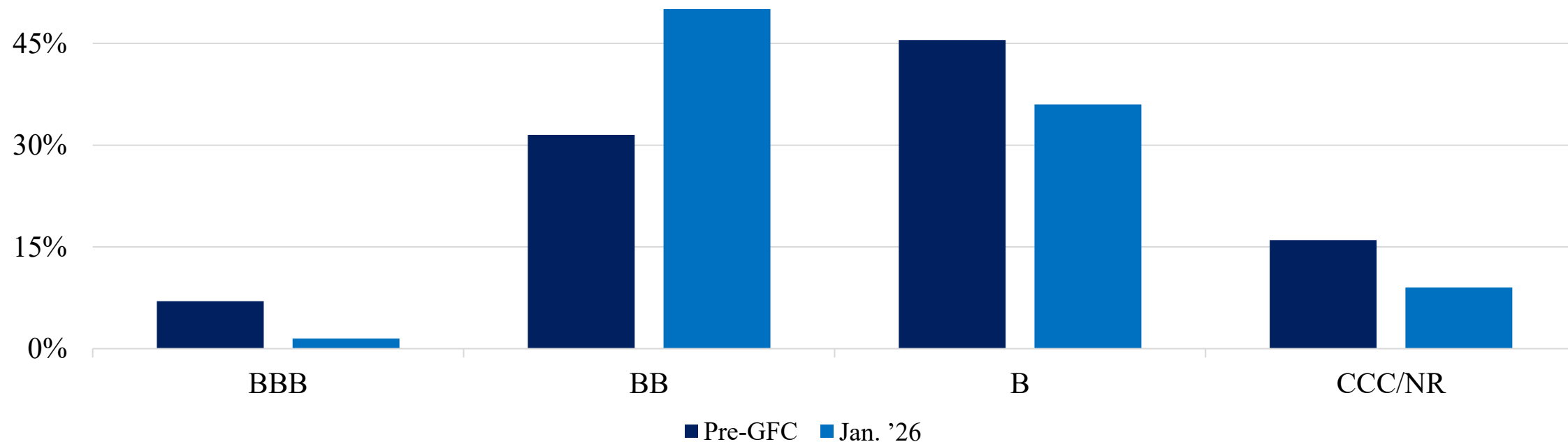
# Public Credit Markets

**High-yield credit spreads have edged modestly higher, rising to around 3.1% from roughly 2.9% previously, but remain near the lower end of their post-crisis range.** While spreads have widened slightly amid recent volatility, sector-specific uncertainty – particularly in industries more exposed to potential AI-driven disruption and geopolitical uncertainty – rather than a deterioration of broader credit fundamentals. Lenders and private credit investors reassess exposure to industries **more vulnerable to AI-driven disruption**, while spreads in manufacturing, industrials, and chemicals have remained comparatively stable. Simultaneously, **geopolitical tensions**, including developments in Iran, have contributed to modest volatility. Nonetheless, **U.S. economic fundamentals remain supportive**, with continued labor market strength and steady job growth underpinning corporate balance sheets and credit performance. **The composition of the U.S. high-yield index continues to reflect a higher-quality bias compared with the pre-Global Financial Crisis (GFC) period.** As of **January 2026**, BB-rated bonds account for **just over half of the index**, up from roughly 30% pre-GFC, while exposure to B-rated and CCC/NR issuers has declined meaningfully. This shift toward higher-rated credits points to improved balance sheet discipline, lower leverage, and a more cautious issuance environment over recent cycles.

## US Corporate High Yield Average Option Adjusted Spreads



## Credit Rating Weights in U.S. High Yield Index

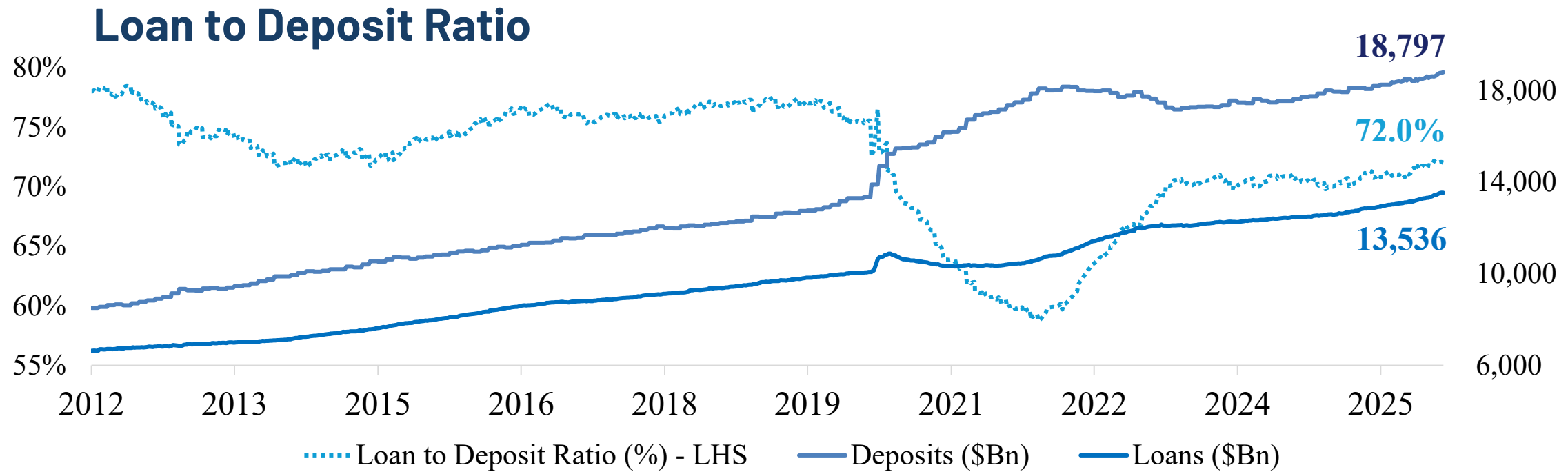


**Source:** Federal Reserve Bank of St. Louis, J.P. Morgan Domestic High Yield Index weights

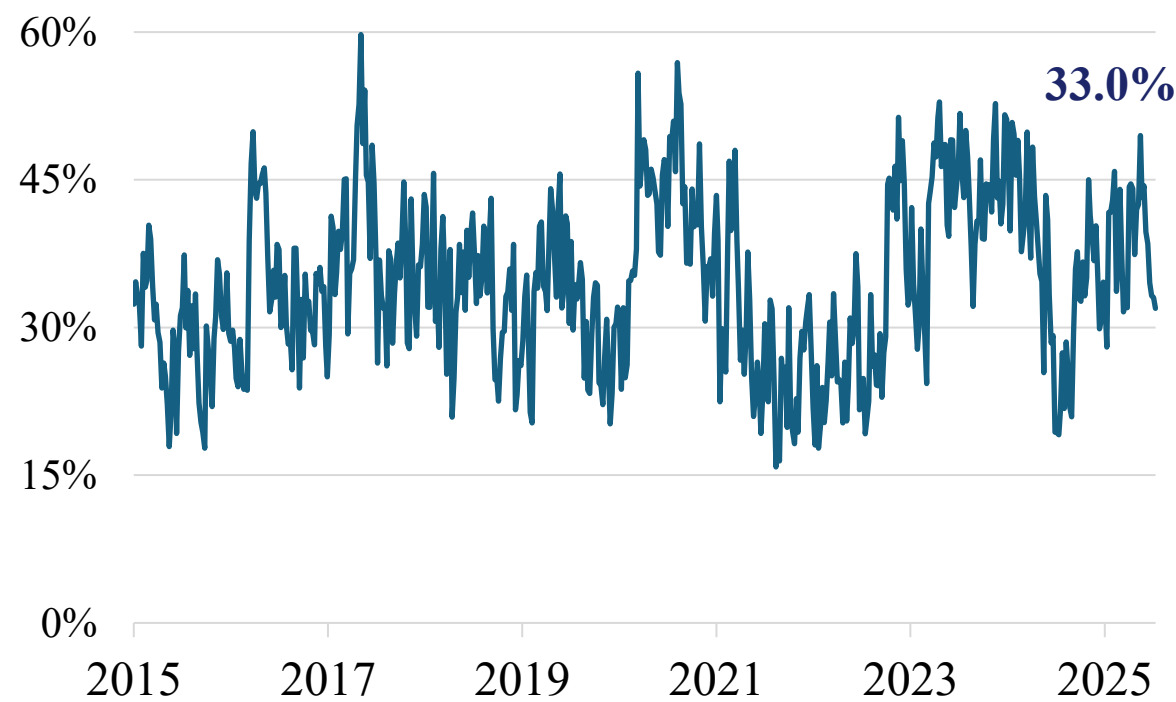
# Bank Lending Markets

Bank loan-to-deposit ratios have stabilized in the low-70% range, with the ratio currently around 72%, well below the pre-pandemic peak near 78%, reflecting continued caution across the banking sector following the pandemic and the Silicon Valley Bank failure. Banks remain highly selective and risk-averse, contributing to a roughly seven-point excess liquidity difference that—if redeployed—**could unlock nearly \$1 trillion in additional lending capacity**, highlighting significant untapped credit potential within the system.

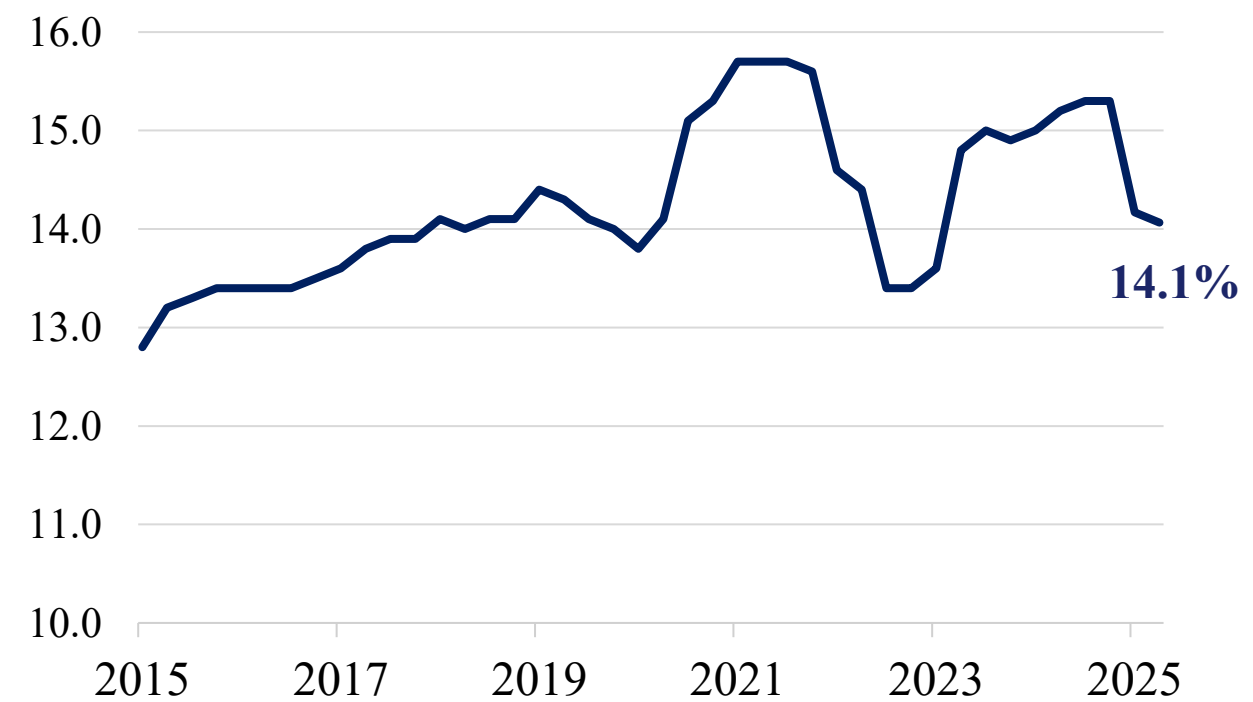
**Tier 1 capital ratios remain elevated at 14.1%, near post-Global Financial Crisis highs.** These robust capital buffers provide a strong foundation for both credit expansion and loss absorption, reinforcing banks' ability to support larger corporate financings even within a more conservative underwriting environment. **While overall lender sentiment remains subdued**, bullishness has eased from recent highs, with the share of respondents reporting a positive outlook at 33% as of early March. This moderation points to a more cautious lending stance despite supportive balance sheet conditions. Despite cautious sentiment, balance sheet strength across the industry suggests ample capacity to sustain lending activity and absorb potential credit shocks—without triggering a broad-based tightening of underwriting standards.



### Lender Sentiment Survey, % Bullish



### Bank Tier-1 Capital as % of Assets

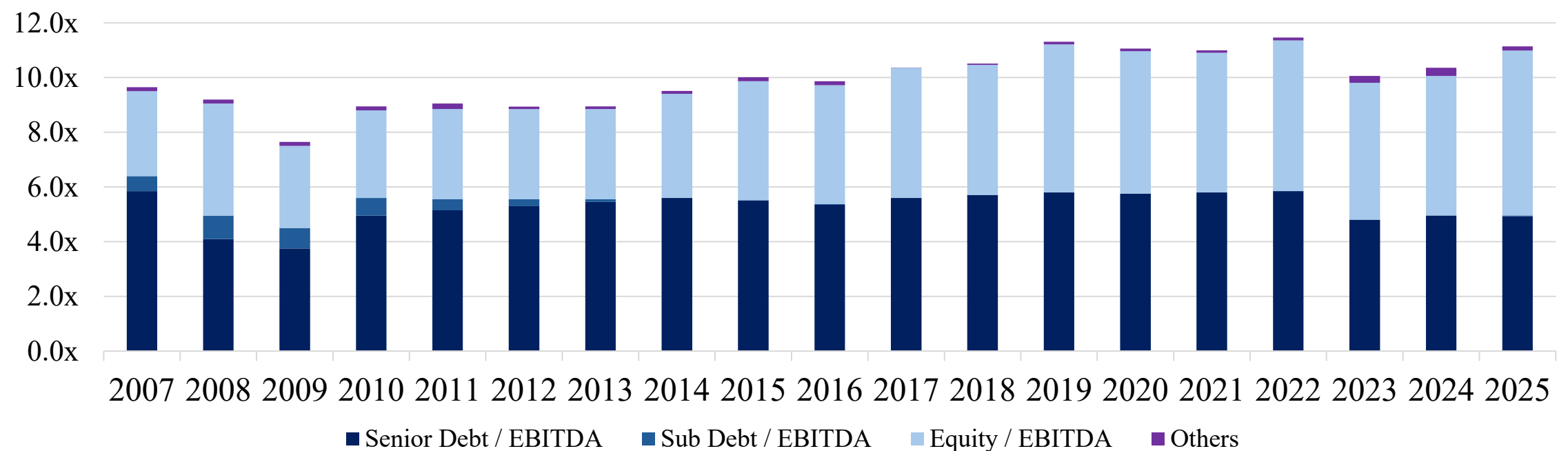


Sources: Federal Reserve St. Louis, S&P Capital IQ, AAll

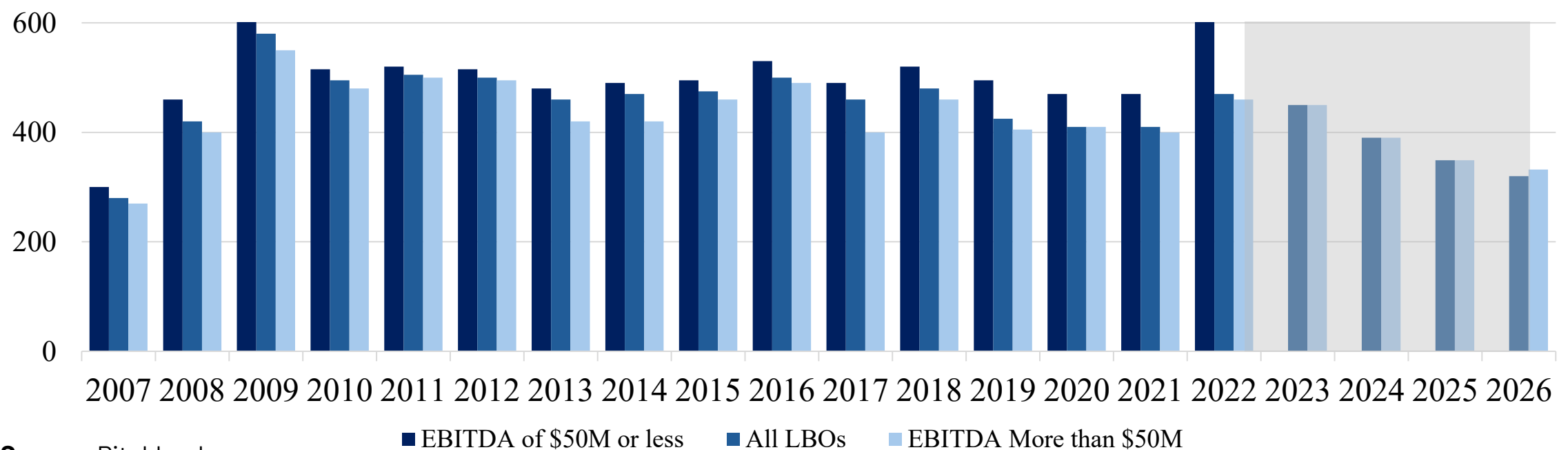
# Private Credit Markets

**LBO purchase price EBITDA multiples remain elevated, supported by strong sponsor activity and senior debt financing typically averaging 4.0x-4.5x EBITDA.** While modestly below 2021-2022 peaks, purchase price multiples have stabilized near 10x EBITDA, underscoring sustained competition among lenders and sponsors, with senior leverage remaining conservative amid widespread use of unitranche debt. **Institutional loan spreads have tightened in recent years following the widening observed in 2022.** Average spreads have declined from the ~600 basis point peak in 2022 to roughly **350-400 basis points by 2025**, reflecting improving lender sentiment, stronger liquidity conditions, and renewed competition among lenders. **Early indications in 2026 suggest spreads have continued to compress modestly**, supported by robust lender demand, stabilizing macro conditions, and sustained sponsor activity despite a higher base rate environment. Spreads remain broadly consistent with disciplined underwriting standards and solid underlying credit quality. **Overall, the leveraged finance market remains open and largely constructive for well-structured LBOs, anchored by steady leverage multiples and disciplined capital structures.** Should recent market volatility persist, lenders are likely to maintain conservative leverage profiles while demanding higher credit premiums, particularly for B-rated and lower-tier credits.

## LBO Purchase Price Multiples (EBITDA Multiples)



## LBO Institutional Spreads

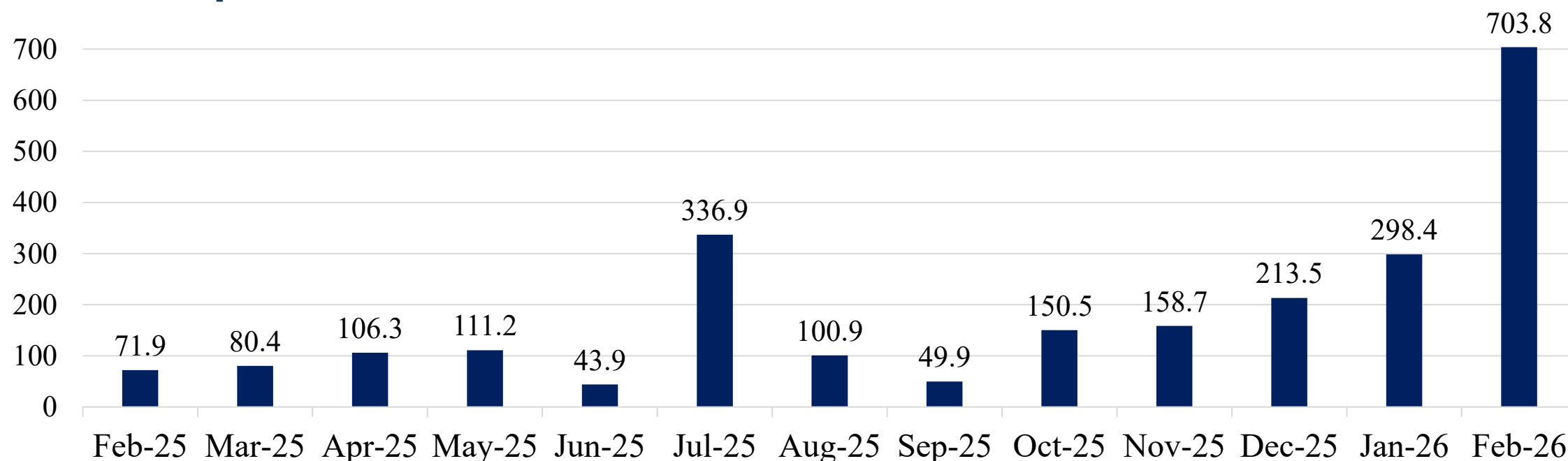


Source: Pitchbook

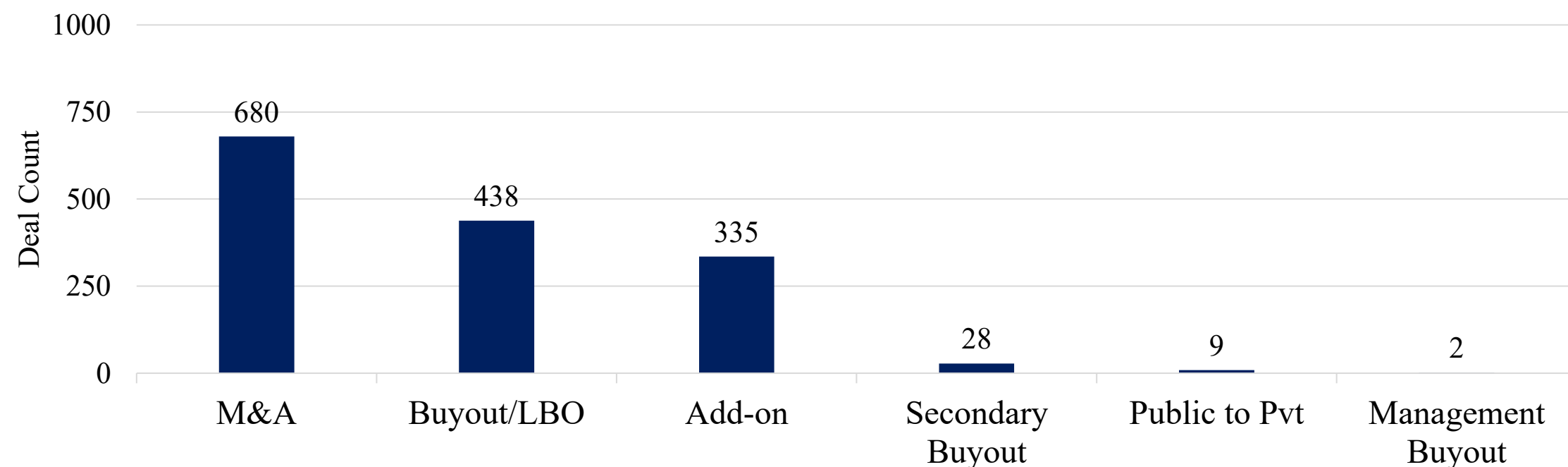
# M & A Trends

**U.S. M&A activity accelerated dramatically entering 2026, driven by a massive, unprecedented surge in capital deployment during the first quarter.** Following an uneven 2025—characterized by a singular mid-year spike in July (\$336.9 billion) and a steady, sequential build-up through the fourth quarter—deal value exploded early in the new year. Capital invested reached robust levels in January (\$298.4 billion) before skyrocketing to an exceptional \$703.8 billion in February. This remarkable momentum suggests a sudden release of pent-up demand and the likely execution of highly anticipated mega-deals, marking a stark departure from last year's more constrained environment. **Deal flow remains concentrated in traditional M&A and primary buyouts, while complex or sponsor-to-sponsor transactions see muted activity.** Broad M&A transactions lead the market with 680 deals, followed closely by primary Buyouts/LBOs at 438. Notably, Add-on acquisitions show robust volume (335 deals), indicating that financial sponsors continue to rely heavily on "buy-and-build" strategies to blend down entry multiples and drive inorganic growth in a cautious market environment. Overall, capital invested surged to an unprecedented \$704 billion in February 2026 despite relatively flat transaction volume. This indicates a market heavily driven by high-value mega-deals and large-cap consolidations rather than a broader increase in overall deal counts.

## US Capital Invested (\$B)



## Financing Trends by Deal Type



Source: Pitchbook

# Outlook

**The near-term macro backdrop remains firmly constructive, supported by resilient labor markets, contained inflation, and steady consumer spending.**

Ample liquidity across banks and private credit, combined with growing expectations for additional Fed rate cuts, point to easing financial conditions ahead. Meanwhile, the middle-class tax provisions of the “Big Beautiful Bill” should boost household cash flow and strengthening incentives for capital investment.

Improving policy clarity, fading trade uncertainty, and a more favorable tax environment are reigniting deal activity, with larger transactions leading the recovery. Credit spreads remain historically tight, providing a deep and reliable funding base.

While risks around trade and rate expectations persist, the overall tone is positive and supportive of continued transaction momentum.



## Richard Consul, CFA

**Founder & Managing Partner**

Mr. Consul brings more than 20 years of experience in domestic and international capital markets as a Senior Portfolio Manager and strategist across fixed income, currencies, and commodities. Most recently, he served on Victory Capital’s institutional fixed income team and investment committee, overseeing nearly \$7 billion in assets across Total Return, Short-Duration, and Convertibles strategies. Throughout his career, he has partnered with corporate, banking, and insurance clients to address complex challenges related to liquidity, risk management, asset-liability management (ALM), and secondary market dynamics.

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## Mitch Vermet, CFA, CAIA

**Partner & Managing Director**

Mr. Vermet brings nearly a decade of experience in institutional asset management and investment banking. He has been part of investment teams responsible for portfolio construction and tactical asset allocation of more than \$30 billion in institutional capital, supporting clients in managing balance sheets through strategic asset liability management solutions. As a trusted advisor, Mitch helps clients address immediate challenges while prudently managing risk and positioning portfolios to capitalize on opportunities across evolving macroeconomic environments.

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