



BANKERS EDGE
— ADVISORY —

Credit Market Update

MARCH 2026

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Executive Summary

1

Growth isn't stalling, it's recalibrating. Q4's GDP print of 0.5% was ugly on the surface, but strip out the shutdown noise and the economy held together. Full-year 2025 delivered 2.1%, and Q1 2026 is tracking 1.3%, not inspiring, but not recessionary. The foundations are there if the economy can find a second gear before geopolitical headwinds and tariff uncertainty grind momentum down further?

2

Corporate balance sheets are clean, full stop. **Delinquencies at 1.3%, high-yield spreads at 3.3% - there's no credit stress story here despite the GDP slowdown.** Capital markets are open, lenders are selective but active, and private credit continues to fill the gaps. The foundation for deal-making remains intact.

3

Dealmakers aren't waiting for clarity; they're moving. Global M&A topped \$1.2 trillion in Q1 2026, **up 26% year-over-year** on a surge in megadeals. Sponsors and strategics are deploying through the noise, not sitting on the sideline. The capital is there, the conviction is there, the discipline to not overpay is what separates the winners from here.

US GDP Breakdown

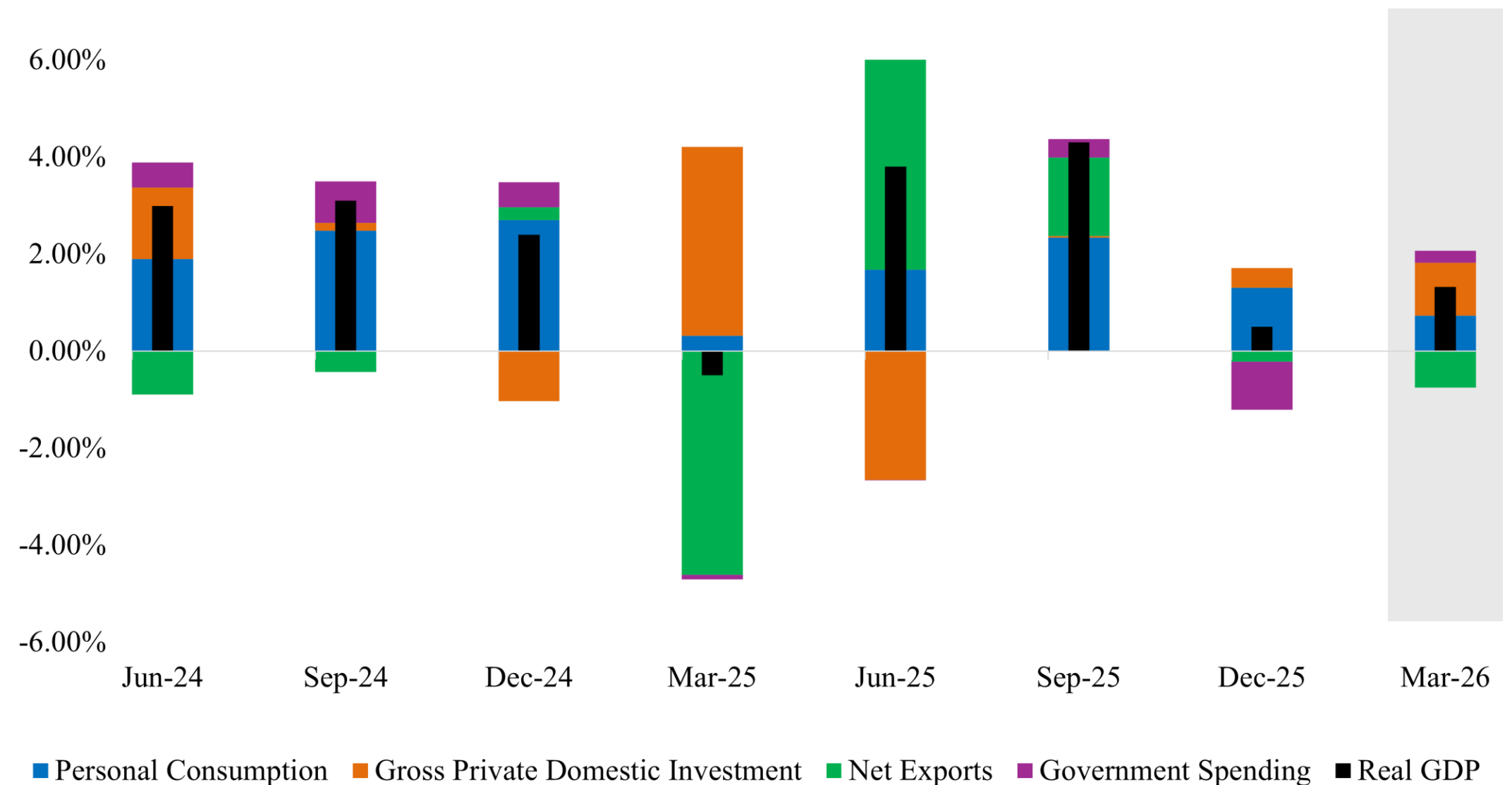
GDP: A Soft Quarter, Not a Structural Shift

U.S. economic momentum cooled in Q4 2025, with the final estimate coming in at 0.5% annualized real GDP growth, down from 4.3% in Q3. The deceleration looks worse than it is. A partial federal government shutdown from October 1 through November 12 subtracted an estimated full percentage point from the quarter on its own, and export weakness reflected timing rather than a fundamental demand problem. Strip out the shutdown drag and the underlying economy performed closer to trend. Full-year 2025 GDP came in at 2.1%, following 2.8% in 2024, a step down, not a stall out.

Q1 2026: Softer, but With Room to Reaccelerate

The Atlanta Fed's GDPNow model currently estimates Q1 2026 growth at 1.3%, revised down from 3.1% in February on softer consumption and weaker private investment. Elevated energy prices from the Iran conflict, with WTI crude above \$110, are creating a near-term drag on real spending and complicating the inflation picture. But the economy has absorbed oil shocks before without tipping over, and the underlying fundamentals. If geopolitical pressures ease and energy markets stabilize, the second half of 2026 has the ingredients for a meaningful reacceleration.

Contributions to Percent Change in Real Gross Domestic Product



Shaded area denotes forecasts, Atlanta Fed GDPNow

Source: Atlanta Fed GDPNow, March 10th 2026.

US Productivity

Productivity: Above Trend and Accelerating

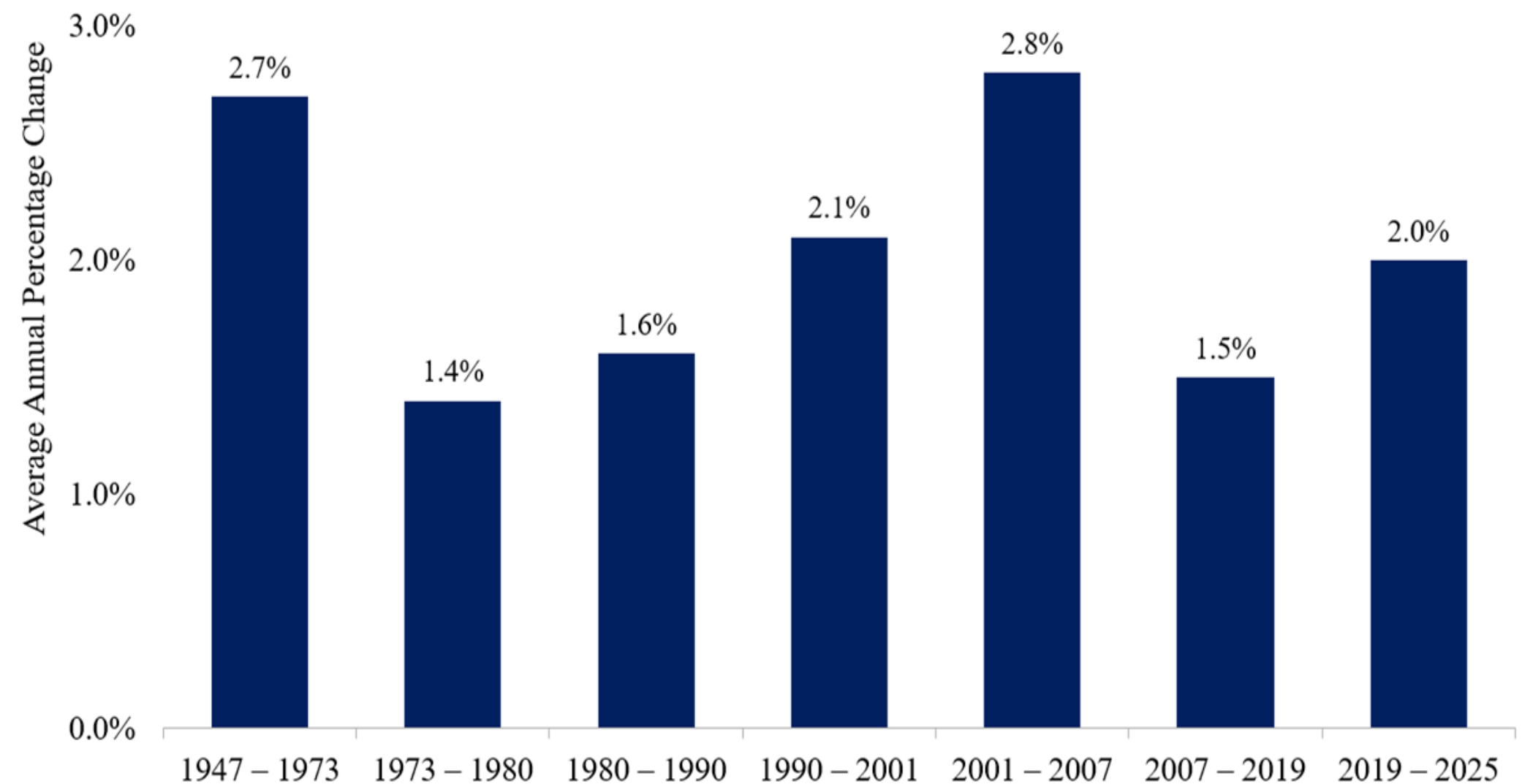
U.S. nonfarm business sector labor productivity grew 2.1% on an annual average basis in 2025. Since Q4 2019, the annualized rate has held at 2.0%, comfortably above the 1.5% pace of the prior 2007–2019 cycle. The economy is simply producing more per hour worked than it did last decade.

The Q4 2025 headline deserves context, not concern. The revised estimate came in at just +1.8% annualized, well below the preliminary +2.8% reading, but the downward revision was driven almost entirely by lower output tied to the government shutdown, a one-off disruption, not a structural deterioration. As government operations normalize and output rebounds, productivity growth should snap back toward its rising trend.

The Bigger Story: A Structural Tailwind Is Building

A 2.0% annualized trend across the 2019–2025 cycle is the foundation, but the real upside lies ahead. Accelerating AI adoption across industries and a potential wave of capital expenditure in property, plant, and equipment, codified by the investment provisions in the "Big Beautiful Bill" could sustain or even lift the economy's productive capacity in the years ahead. Productivity is the single most important driver of long-term growth, and the current trajectory suggests this cycle has room to run.

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



JOLTS Employment Survey Data



JOLTS: Stable on the Surface, Softer Underneath

The February 2026 JOLTS release offers a surface reading that gives little cause for concern. Job openings held steady at 6.9 million, total separations were flat at 5.0 million, and layoffs remained anchored at 1.7 million. By these measures, the labor market looks stable.

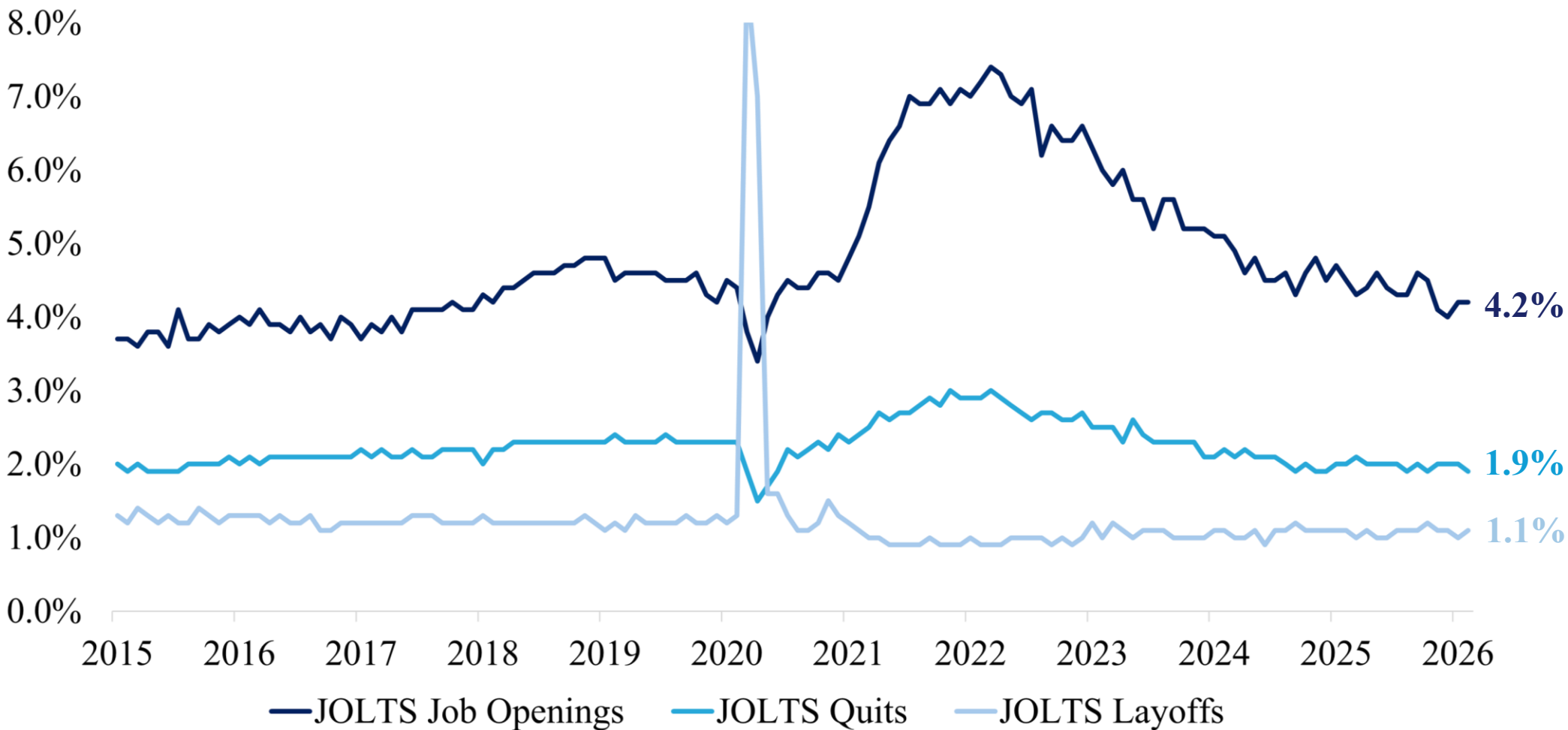
But Hiring Tells a Different Story

The headline figures mask a more telling shift underneath. The hires rate fell to 3.1% in February, its lowest reading since April 2020, with hires down 387,000 year-over-year to just 4.8 million. Employers are posting openings but not filling them at the same pace - a disconnect that raises questions about the true depth of labor demand. The quits rate of 1.9% reinforces the picture: workers are staying put rather than voluntarily moving, a continued "great stay" dynamic and the inverse of the 2022 resignation wave.

Bottom Line: Watch, Don't Worry

The labor market is not breaking down. Layoffs remain contained, and the hiring slowdown may partly reflect distortions from the government shutdown rather than a broad-based pullback in private sector demand. This is a trend worth monitoring, not a red flag.

JOLTS Job Openings, Nonfarm Quits, and Nonfarm Layoff Rates



Source: US Department of Labor Data, March 10th 2026.

Unemployment & Wage Growth

Employment: Steady as She Goes

The U.S. labor market remained steady through 2025, with unemployment holding in the low-to-mid 4% range. Job creation kept pace with labor force growth, volatility was minimal, and employers retained workers despite slowing momentum - signaling confidence in underlying demand. The feared wave of AI-driven job displacement has yet to materialize, with firms appearing to absorb new technology alongside their existing workforce rather than substituting it.

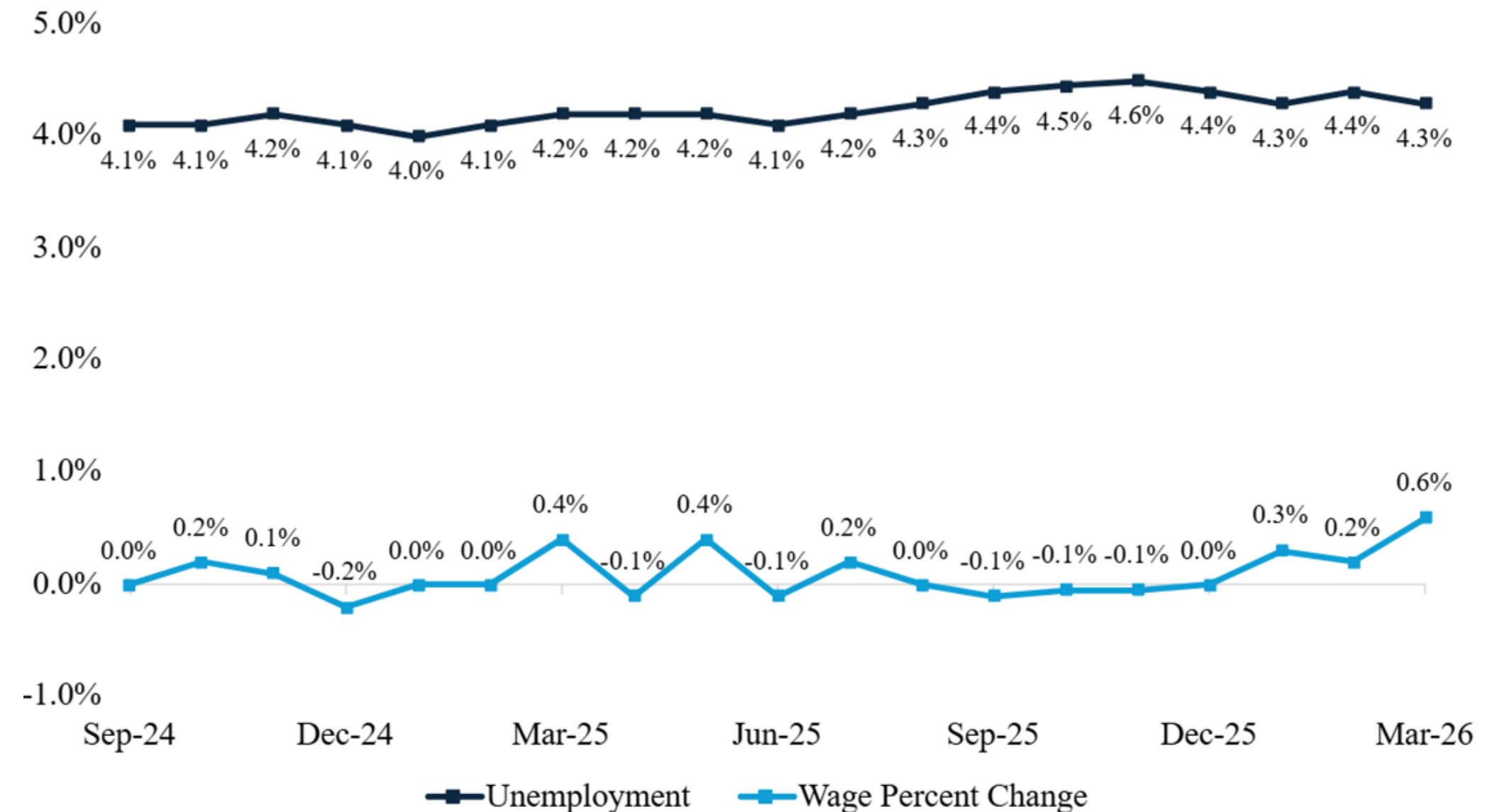
Wages: The Goldilocks Zone

Real average hourly earnings fluctuated between -0.2% and +0.4% for most of the year, with recent readings pointing to modest wage growth enough to support household incomes but not enough to reignite inflationary pressures. A labor market that is neither overheating nor weakening is exactly the backdrop the Fed needs.

The Takeaway: Flexibility for Policymakers

Labor conditions remain balanced. Unemployment is low, wage pressures are contained, and there are few signs of broad-based stress. This gives policymakers meaningful flexibility to manage the inflation-growth trade-off without the urgency of labor-driven price spirals.

US Unemployment Rate and Wage Growth Rate



Source: U.S. Department of Labor Data, March 10th 2026.

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

Consumer Financial Growth

Consumer Credit: Manageable and Moderating

Consumer balance sheets heading into 2026 remain in manageable territory. Transitions into serious delinquency (90+ days past due) have climbed back from pandemic-era lows but sit well below prior cycle peaks. Household credit stress is elevated, not alarming, by historical standards.

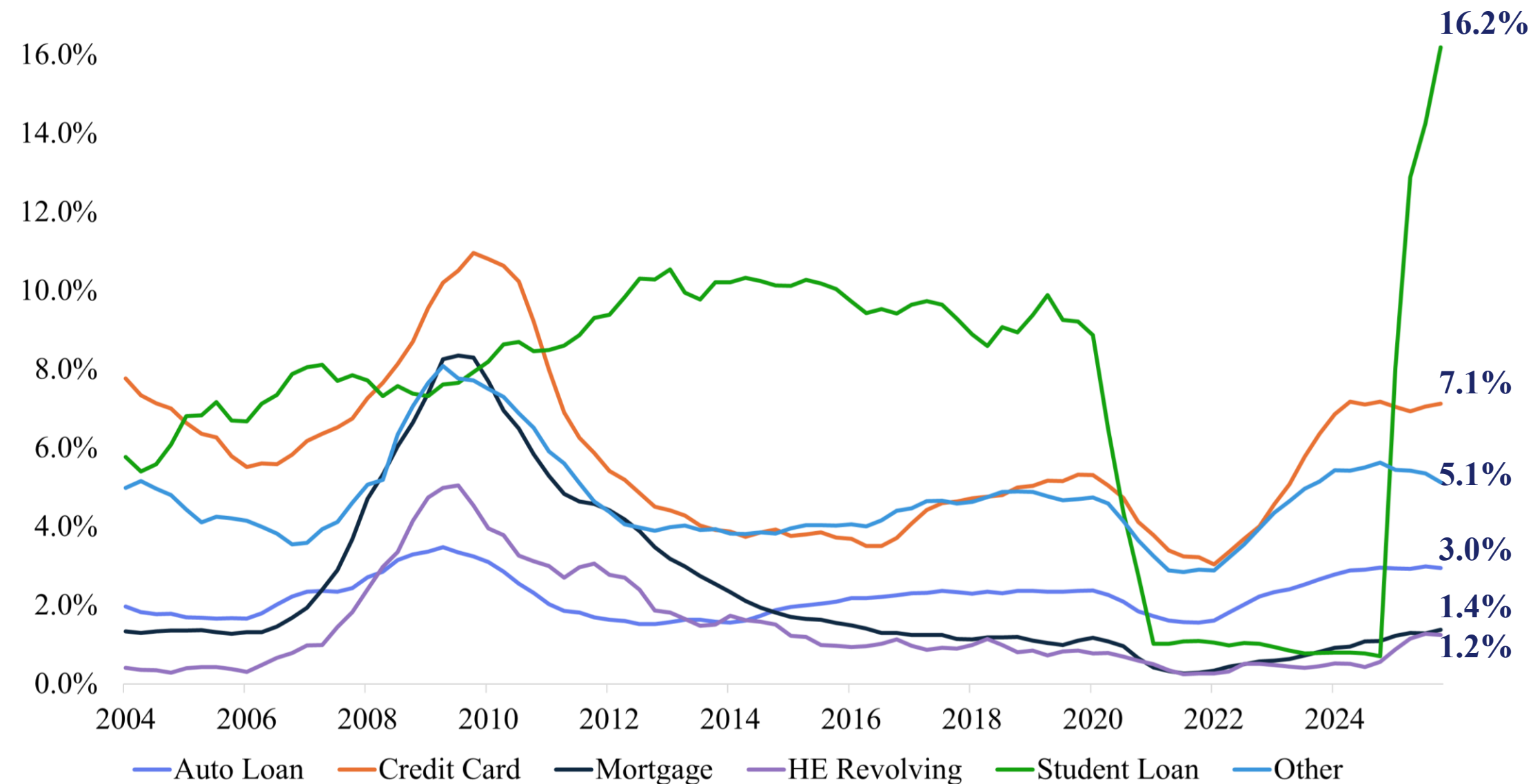
Student Loans: The Outlier Worth Watching

Student loan delinquencies have spiked to 16.2%, driven largely by the expiration of Biden-era forbearance and forgiveness programs. But even adjusting for that policy rollback, defaults have hit all-time highs, pointing to genuine stress among recent graduates that extends beyond the administrative reset. These borrowers represent near-term household formation demand, and damaged credit will delay homebuying, compress discretionary spending, and weigh on consumer-facing sectors dependant on youth demographics.

The Read-Through: Intact but Uneven

Consumer spending resilience looks intact heading into 2026, but pressure on credit-sensitive segments, especially amongst younger and lower-income borrowers. Not a systemic risk, but a drag on the margins that could widen if labor conditions soften or borrowing costs stay elevated.

Transition into Serious Delinquency by Loan Type (90+)



Corporate Finance Growth



Margins: Durable and Near Cycle Highs

Five years after COVID, corporate fundamentals remain strikingly resilient. S&P 500 gross margins have recovered to 70.3%, near recent peaks and well above long-term averages. This reflects sustained pricing power, disciplined cost control, and real efficiency gains, particularly in sectors that have leaned into automation and digital transformation.

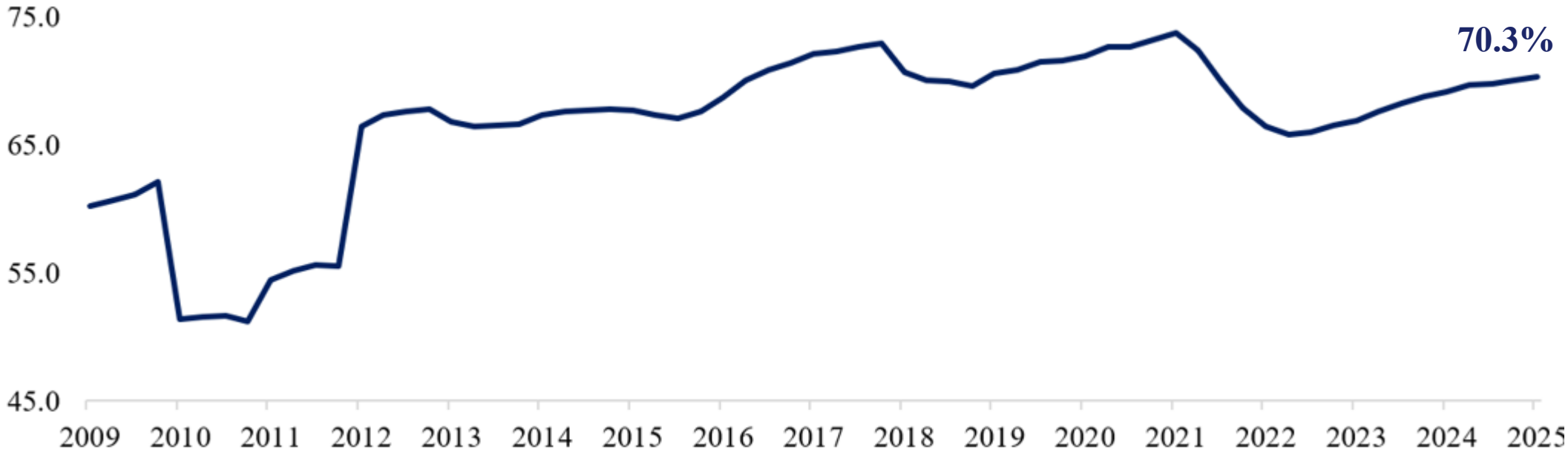
Credit: Clean Books, Low Stress

Corporate credit conditions tell the same story. Business loan delinquency rates sit at roughly 1.3% in late 2025, historically low and underscoring strong balance sheets and prudent financial management. Most firms are comfortably servicing debt, supported by ample liquidity and continued access to capital markets.

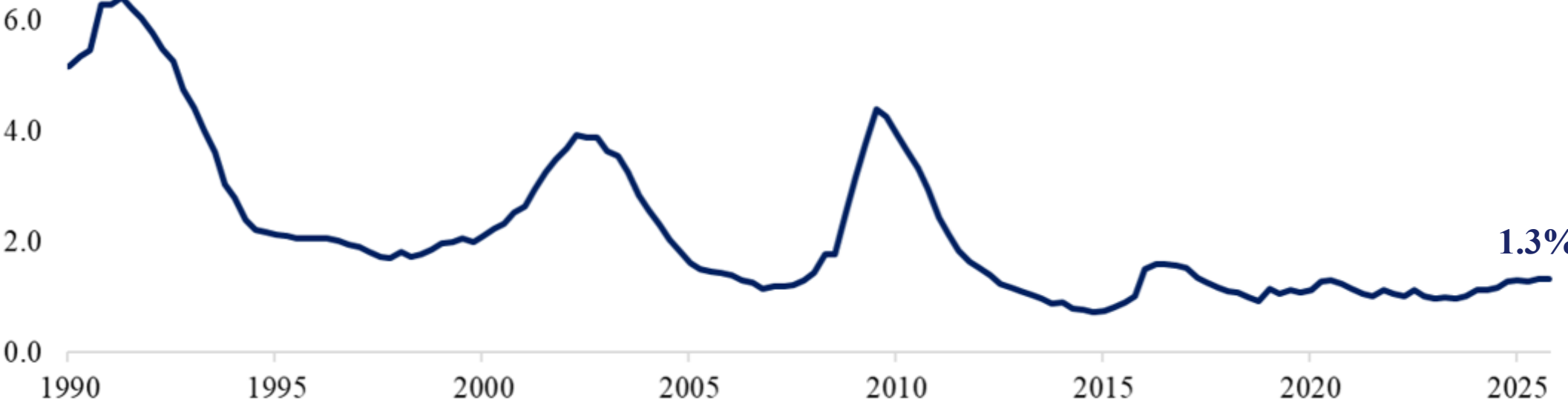
Capital Markets: Open for Business

Earnings durability and low delinquency rates are fueling confidence across credit markets, sustaining robust demand for both investment-grade and high-yield issuance. This backdrop continues to support M&A activity - strategic consolidation, opportunistic deal-making, and a bias toward sectors with strong cash-flow visibility and balance-sheet flexibility. Capital is available, and boards are deploying it.

S&P 500 Gross Margins (%) Since 2010



Delinquency Rate on Business Loans, All Commercial Banks



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

Public Rates Growth

Inflation: Geopolitics Just Complicated the Story

After months of steady deceleration, geopolitical shocks have reasserted themselves as a complicating force. March 2026 CPI printed 3.3%, up from 2.4% in February - a sharp reversal driven not by domestic demand pressures but by supply-side disruptions tied to escalating trade tensions and Iran driven energy market volatility. One month doesn't make a trend, but it underscores how quickly external risks can derail an otherwise clean disinflation path.

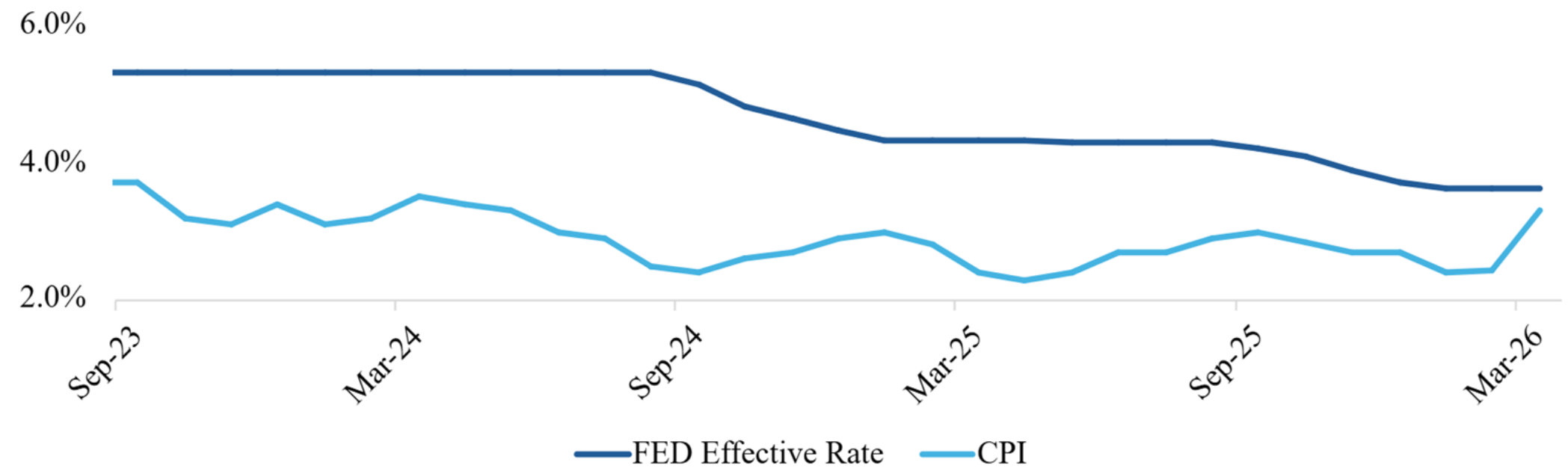
The Fed: Easing on Pause, Not Reversed

The federal funds effective rate stands at approximately 3.6% in March 2026. Following a period of easing, the Fed has signaled a pause in rate adjustments, though market pricing still reflects expectations of additional cuts later in the year.

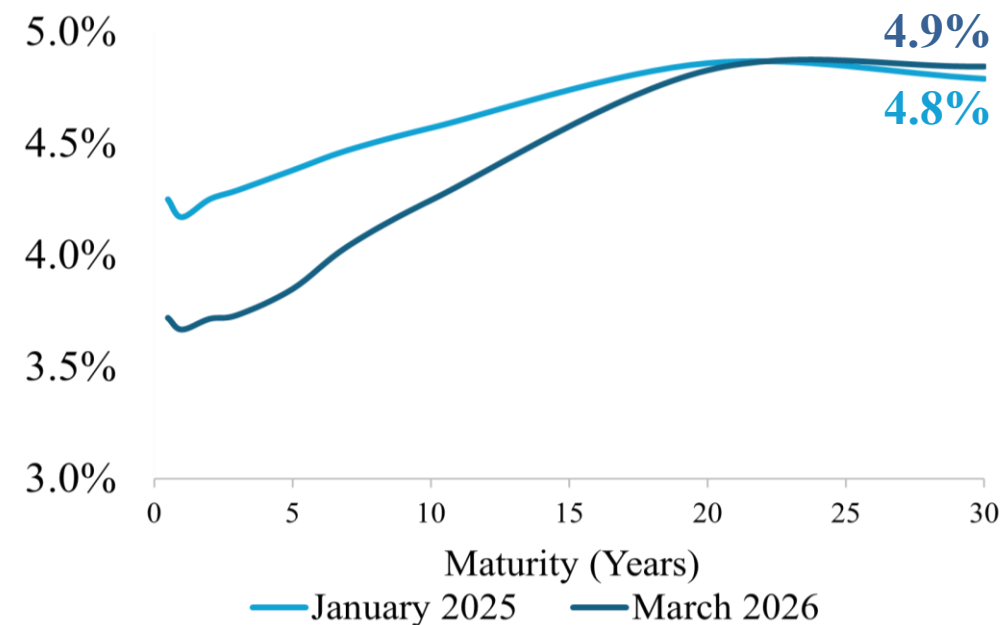
Yield Curve: Pricing a Shallow Cutting Cycle

The shape of the U.S. Treasury yield curve points to expectations of further monetary easing in the coming quarters, but elevated long-term yields tell a more nuanced story. Investors are positioning for a relatively shallow rate-cutting cycle, consistent with inflation that is moderating but not yet at target gives the long end reason to hold firm.

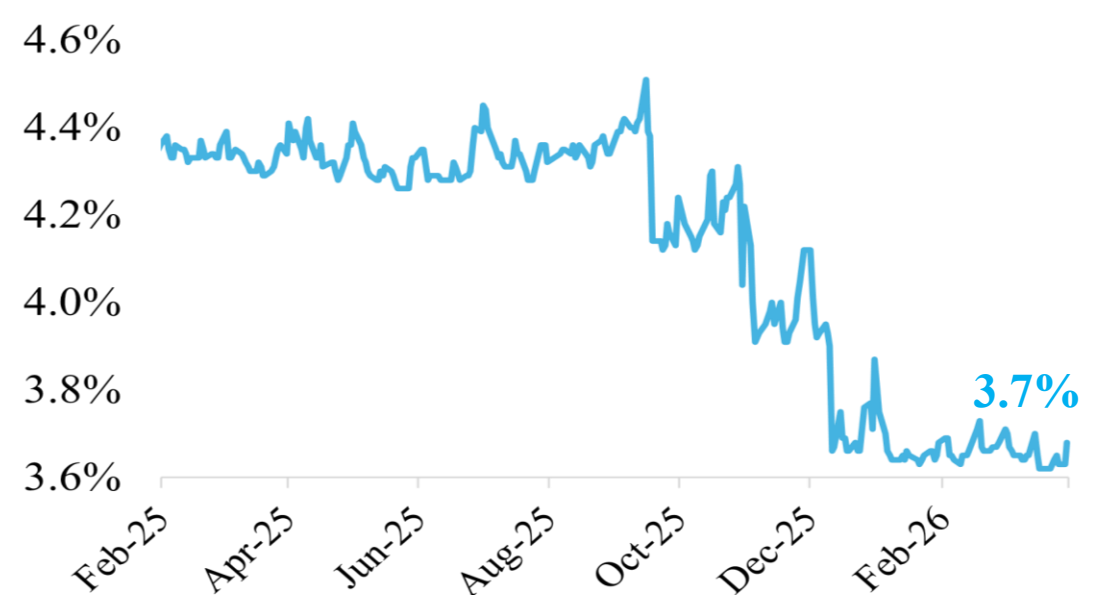
CPI vs. Fed Effective Rate



Treasury Yield Curve



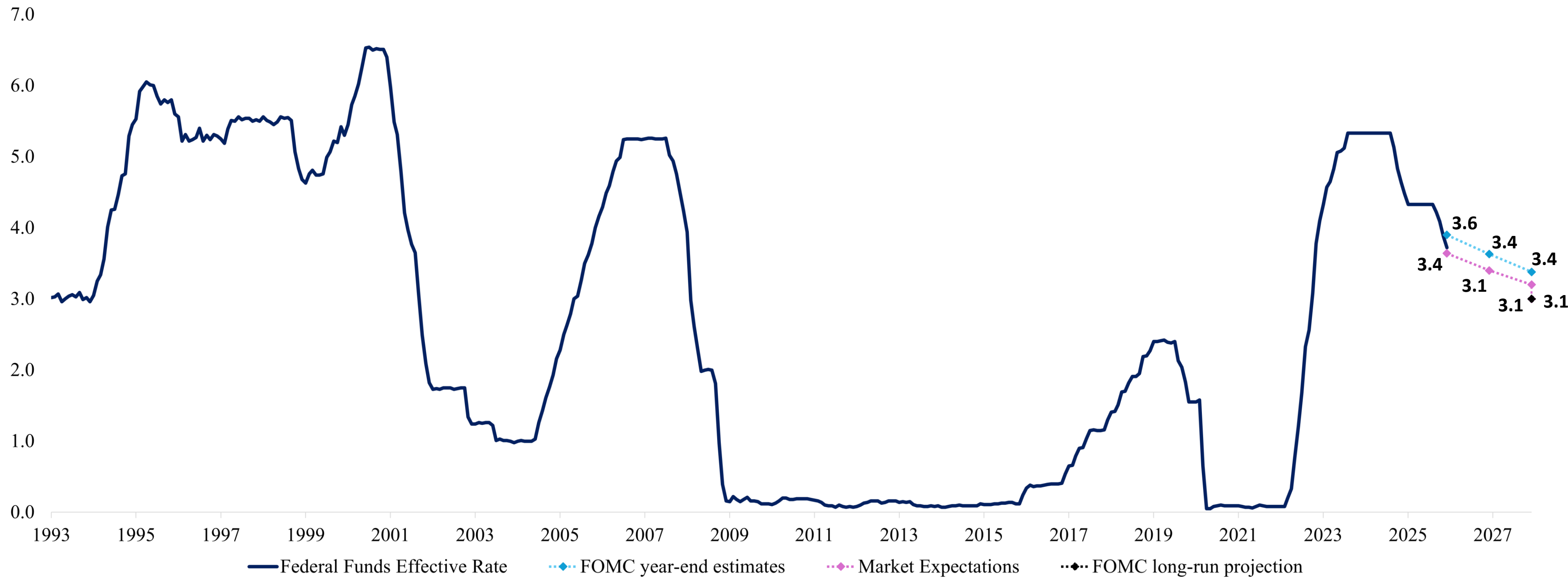
US SOFR Overnight Rate



Sources: Federal Reserve St. Louis, U.S. BLS, U.S. Dept. of Treasury, CME FedWatch, March 10th 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, March 10th 2026.

Public Credit Markets

Spreads: Wider but Not Worrying

High-yield credit spreads have edged up to around 3.3% from roughly 2.9%, but remain near the lower end of their post-crisis range. The widening is notable, not alarming - and it's being driven by sector-specific repricing rather than a deterioration in broader credit fundamentals. Lenders and private credit investors are reassessing exposure to industries vulnerable to AI-driven disruption, while geopolitical uncertainty, including developments in Iran, has added modest volatility at the margins. Spreads in manufacturing, industrials, and chemicals have held comparatively stable, reinforcing that this is a rotation story, not a contagion story.

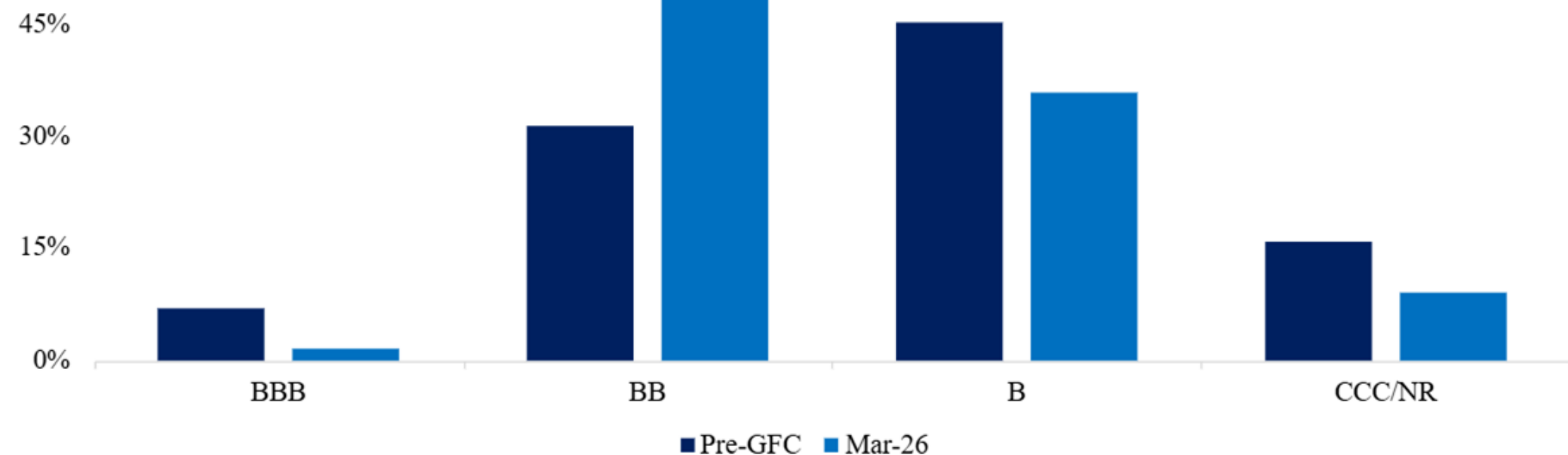
Credit Quality: A Structurally Stronger Index

Underlying fundamentals remain supportive. Continued labor market strength and steady job growth are underpinning corporate balance sheets and credit performance across the board. Just as important, the composition of the U.S. high-yield index is structurally stronger than in prior cycles. BB-rated bonds now account for just over half the index, up from roughly 30% pre-GFC, while exposure to B-rated and CCC/NR issuers has declined meaningfully. Today's high-yield market carries more cushion than it did heading into the last two downturns - and that matters if conditions deteriorate from here.

US Corporate High Yield Average Option Adjusted Spreads



Credit Rating Weights in US High Yield Index



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

Bank Leading Markets

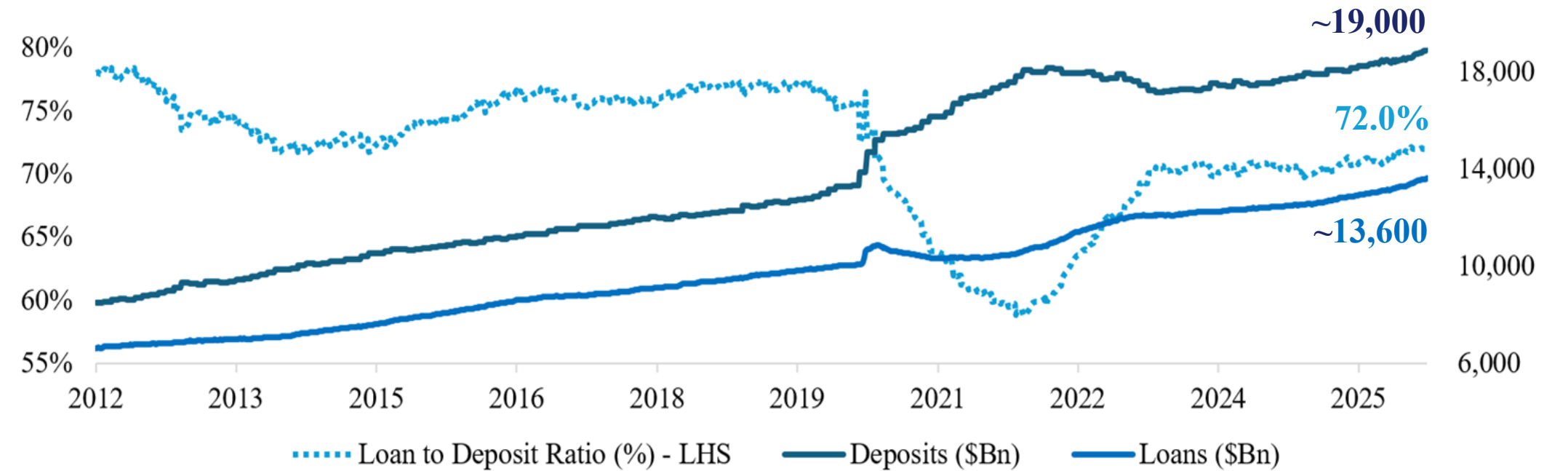
Bank Balance Sheets: Flush but Cautious

Loan-to-deposit ratios have stabilized around 72%, well below the pre-pandemic peak of 78%. That roughly seven-point gap represents nearly \$1 trillion in untapped lending capacity - dry powder that banks are choosing to hold rather than deploy, a posture shaped by the pandemic and the SVB failure. Tier 1 capital ratios at 14.1%, near post-GFC highs, reinforce the picture: balance sheets are built to lend, even if appetite hasn't caught up.

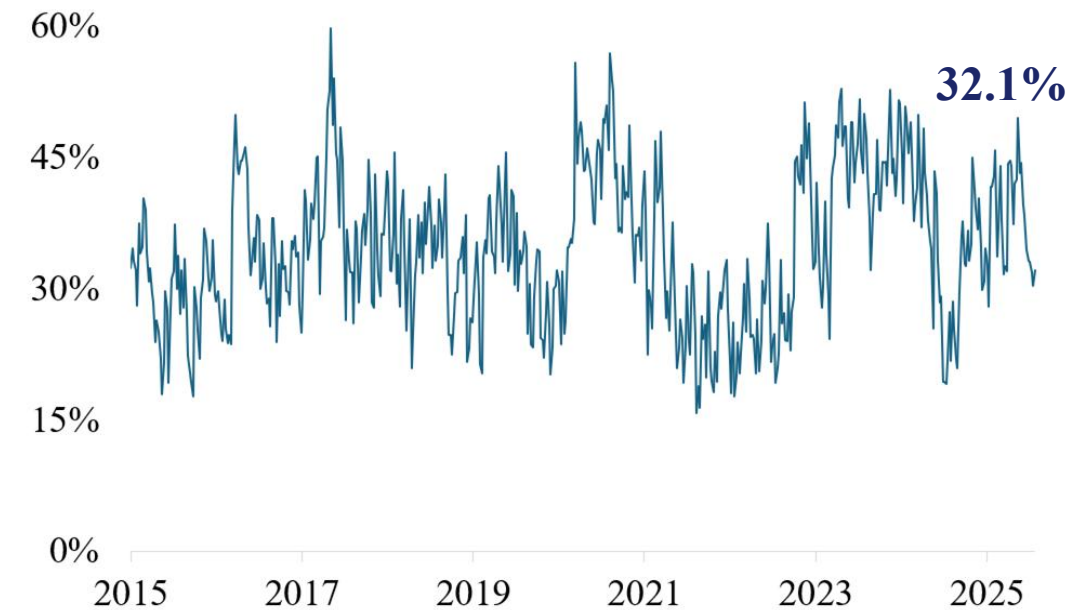
Sentiment: Capacity Without Conviction

Lender bullishness has cooled, with only 32.1% of respondents reporting a positive outlook as of early March. Banks have the capital buffers to support larger financings and absorb credit shocks - what's missing is the conviction to lean in. The capacity is there; the trigger isn't, yet.

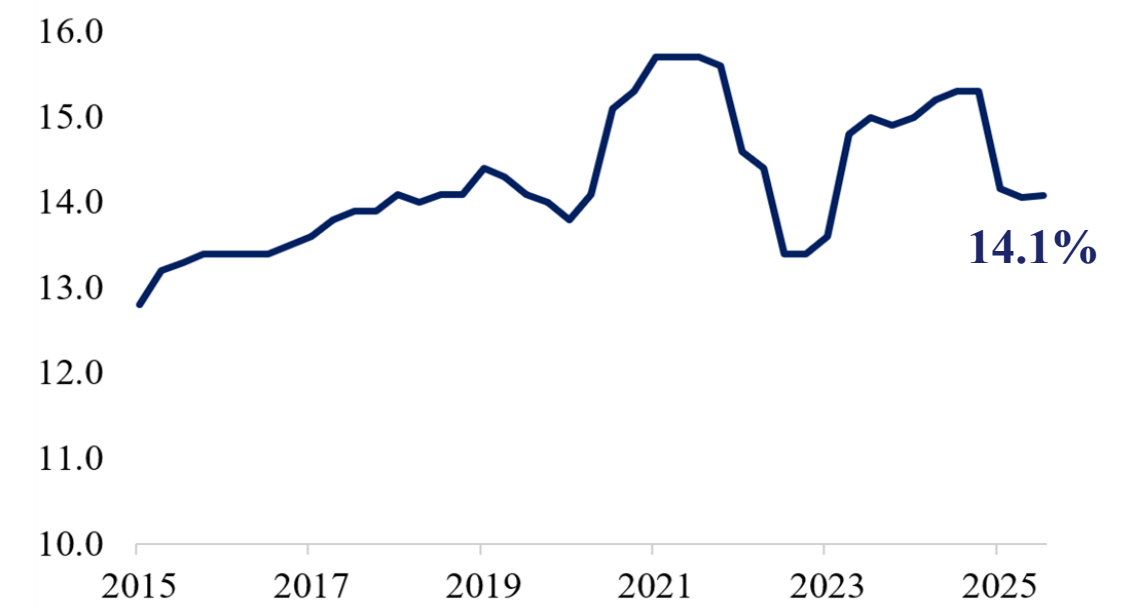
Loan to Deposit Ratio



Lender Sentiment Survey, % Bullish



Bank Tier-1 Capital as % of Assets



Private Credit Markets

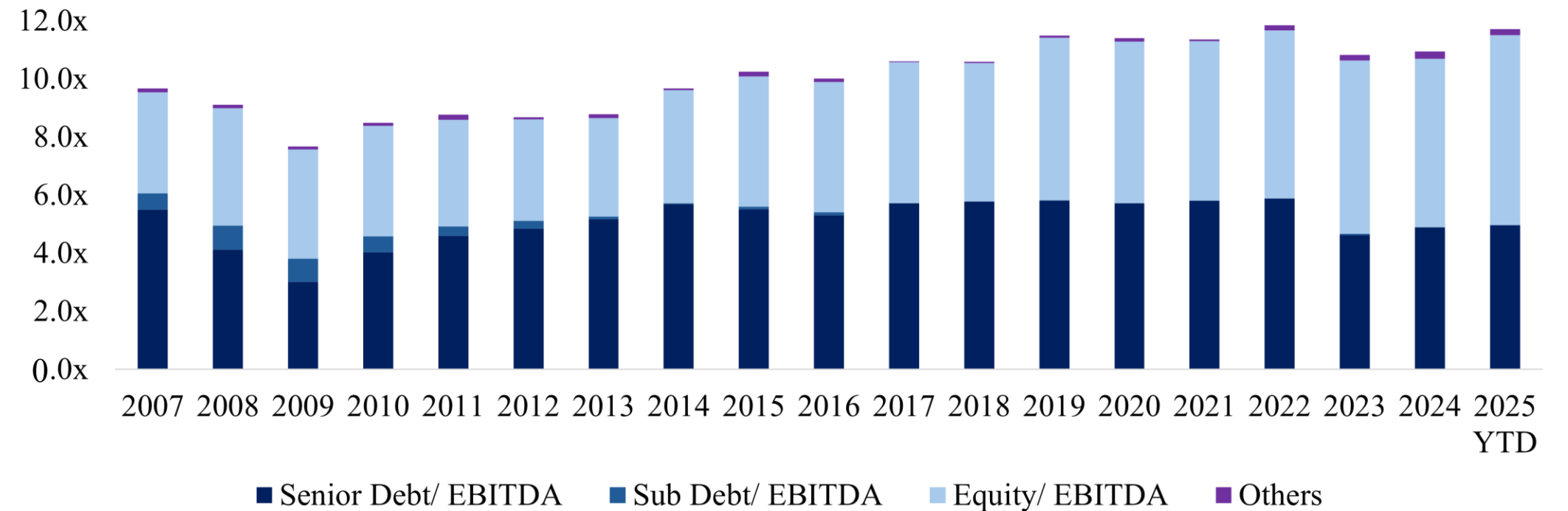
LBO Multiples: Holding Firm

Purchase price multiples have held near 10.0–10.5x EBITDA through 2024–2025 and into 1Q26, shrugging off elevated base rates. Senior debt contribution has stayed stable at roughly 4.5–5.0x, while sponsors have bridged valuation gaps with modestly higher equity checks - a sign of continued confidence in asset quality and exit visibility.

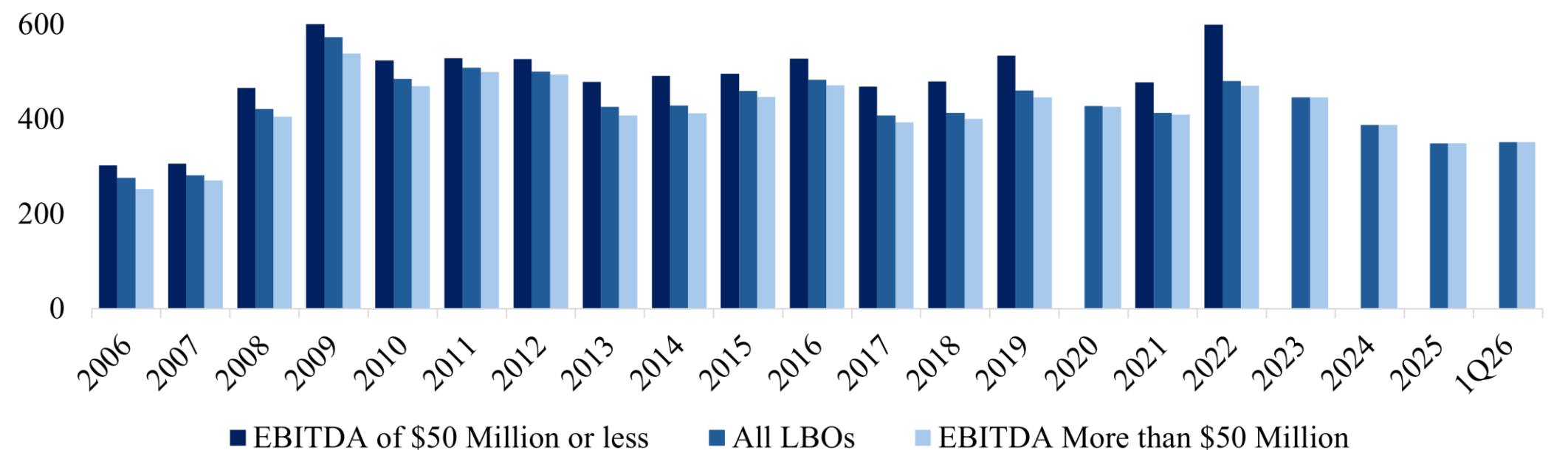
Spreads: Compression Intact

Institutional spreads tell the same story. After spiking to roughly 600 basis points in 2022 on rate uncertainty and risk-off sentiment, all-in pricing has compressed steadily to near 350 basis points in 1Q26. Larger EBITDA borrowers have led the tightening, with spreads declining from 446 basis points in 2023 to 352 in 1Q26 as lender competition has returned in force. Sponsor activity remains robust, and appetite for well-structured deals is broadly intact despite macro uncertainty.

LBO Purchase Price Multiples (EBITDA Multiples)



LBO Institutional Spreads



M&A Trends

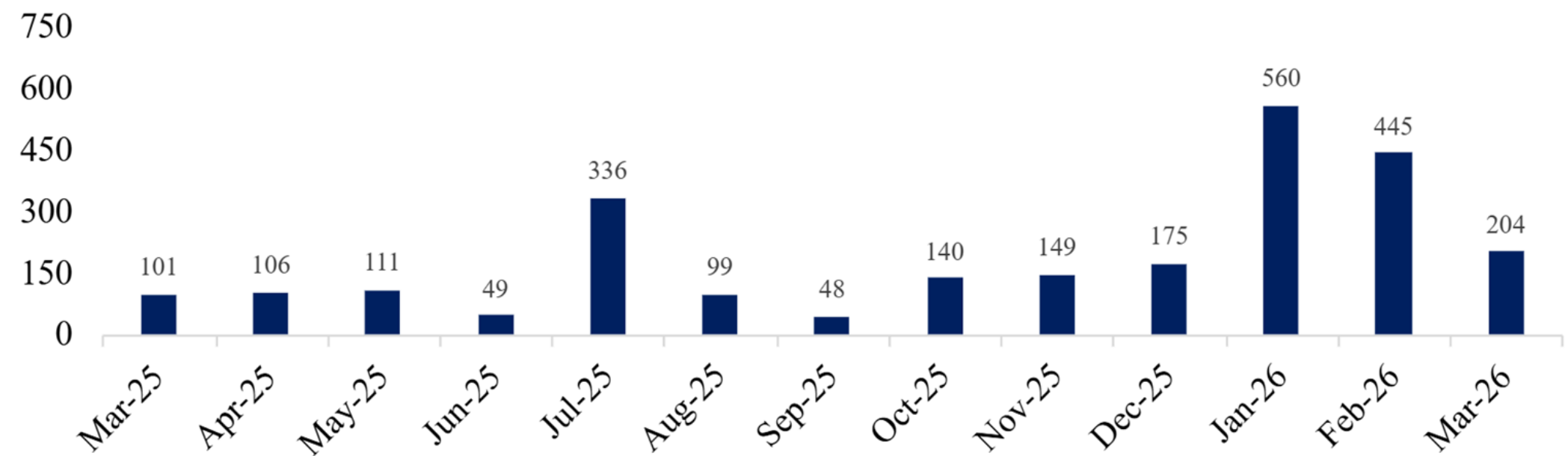
Deal Flow: Pent-Up Demand Unleashed

2025 experienced monthly volume declines below \$50 billion as recently as September, the new year opened with a liquidity surge. Activity moderated to \$445.2 billion in February and \$203.8 billion in March, but both figures sit well above prior-year averages - the market has reset to a materially higher baseline. The early burst reflects pent-up demand and the closing of mega-deals that had stalled during 2025's cautious stretch.

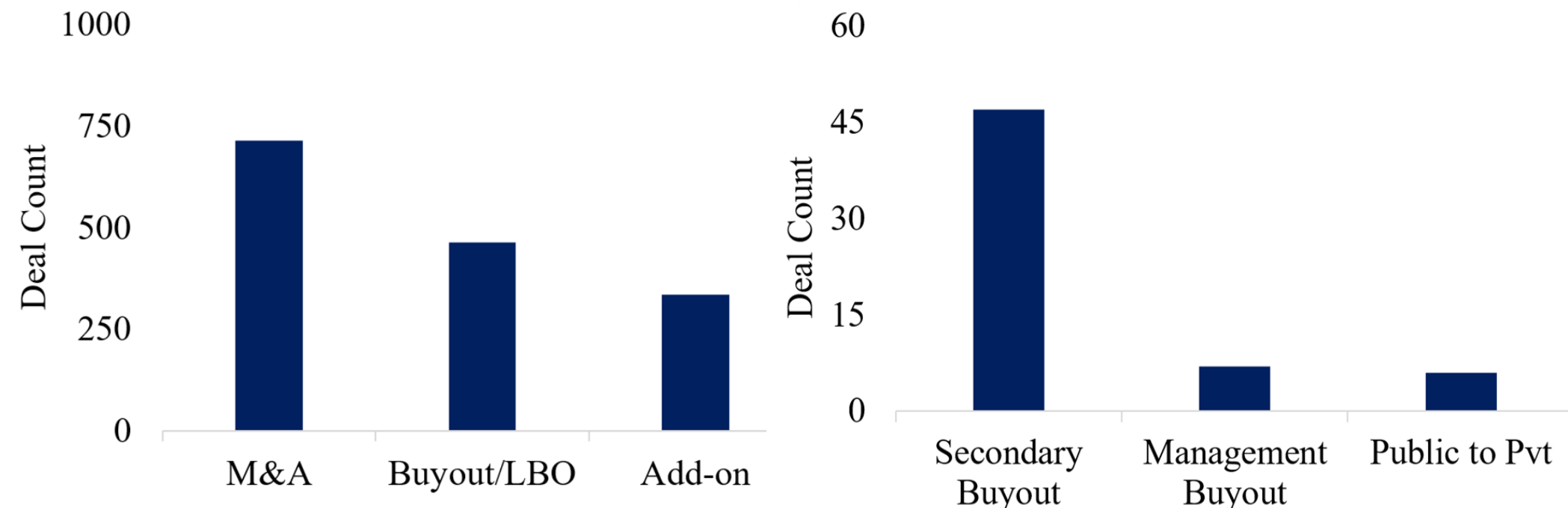
Deal Mix: M&A and Buyouts Leading

The composition confirms that capital is flowing through traditional channels. M&A (714 transactions) and primary buyouts (464) are driving the bulk of activity, with 335 add-on acquisitions underscoring sponsors' continued reliance on buy-and-build strategies to scale platform investments. March's data points to healthy stabilization after an extraordinary two-month sprint - a mature deployment environment, not a fleeting window.

US Capital Invested (\$B)



Financing Trends by Deal Type



Outlook

Overview: Funding Markets

Capital is abundant. Funding markets are open, liquid, and functional across the syndicated loan, high-yield, and private credit channels. The constraint in 2026 is not access to capital - it's finding opportunities worth deploying it into. Deal flow has recovered from last year's trough, but the quality of what's coming to market hasn't kept pace with the volume of dry powder chasing it. Escalating trade tensions, with tariff rates at their highest since 1943, and a geopolitical landscape that grows more volatile by the quarter are clouding underwriting assumptions and compressing the universe of conviction-level investments.

What Wins From Here

The playbook for the balance of 2026 comes down to three things: selective deployment as monthly volume continues to swing, disciplined underwriting as multiples show early signs of creeping off 2025 lows, and a tilt away from trade-exposed sectors where policy risk has become unmodellable. The capital and the deals are there. The question is whether sponsors can thread the needle between opportunity and an increasingly unpredictable policy environment.



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, and secondary market dynamics.

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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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About Bankers Edge

We offer tailored capital market solutions, for companies raising capital between **\$10 million and \$100 million.**

Founded **2023**

30+ Years of Experience

\$37.5 Average
Deal Size