BANKERS EDGE
ADVISORY

Credit Market Update

APRIL 2026

Table of Contents

Executive Summary

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1

"**Real GDP growth** is stabilizing at **2% in Q1 2026**, comfortably above recessionary territory, with private domestic investment surging 8.7% on an **AI-driven capex cycle** that **accounted for 75% of Q1 growth**. The **Atlanta Fed's GDPNow** is already **tracking Q2 GDP at 4.0%**. The principal downside risk remains energy - persistently elevated oil prices feeding through to input costs, compressing margins, and eroding purchasing power. The key question is whether these pressures broaden from cyclical drag to structural headwind.

2

Corporate balance sheets remain healthy. **Delinquencies held steady at 1.3% in Q1 2026, well below levels that would signal meaningful credit stress.** Capital markets remain open, lenders are cautious but active, and private credit continues stepping in where traditional financing pulls back. The backdrop for deal-making remains firmly in place.

3

"**Dealmakers aren't waiting for certainty - they're already acting.** Global M&A surpassed $1.2 trillion in Q1 2026, **up 26% year-over-year** as megadeals accelerated. Sponsors and strategic buyers are deploying capital through the uncertainty, not sitting on the sidelines. The capital is available, the conviction is there, and from here, the winners will be defined by the discipline to avoid overpaying.

US GDP Breakdown

Q1 2026: Stable GDP Growth Despite Shocks

US Real GDP growth partially regained momentum in Q1 2026, with the latest estimate coming in at 2%. Despite the recent spike in geopolitical uncertainty and the shock to oil prices, personal consumption remains resilient, while increased government spending and domestic investment more than offset weaker exports.

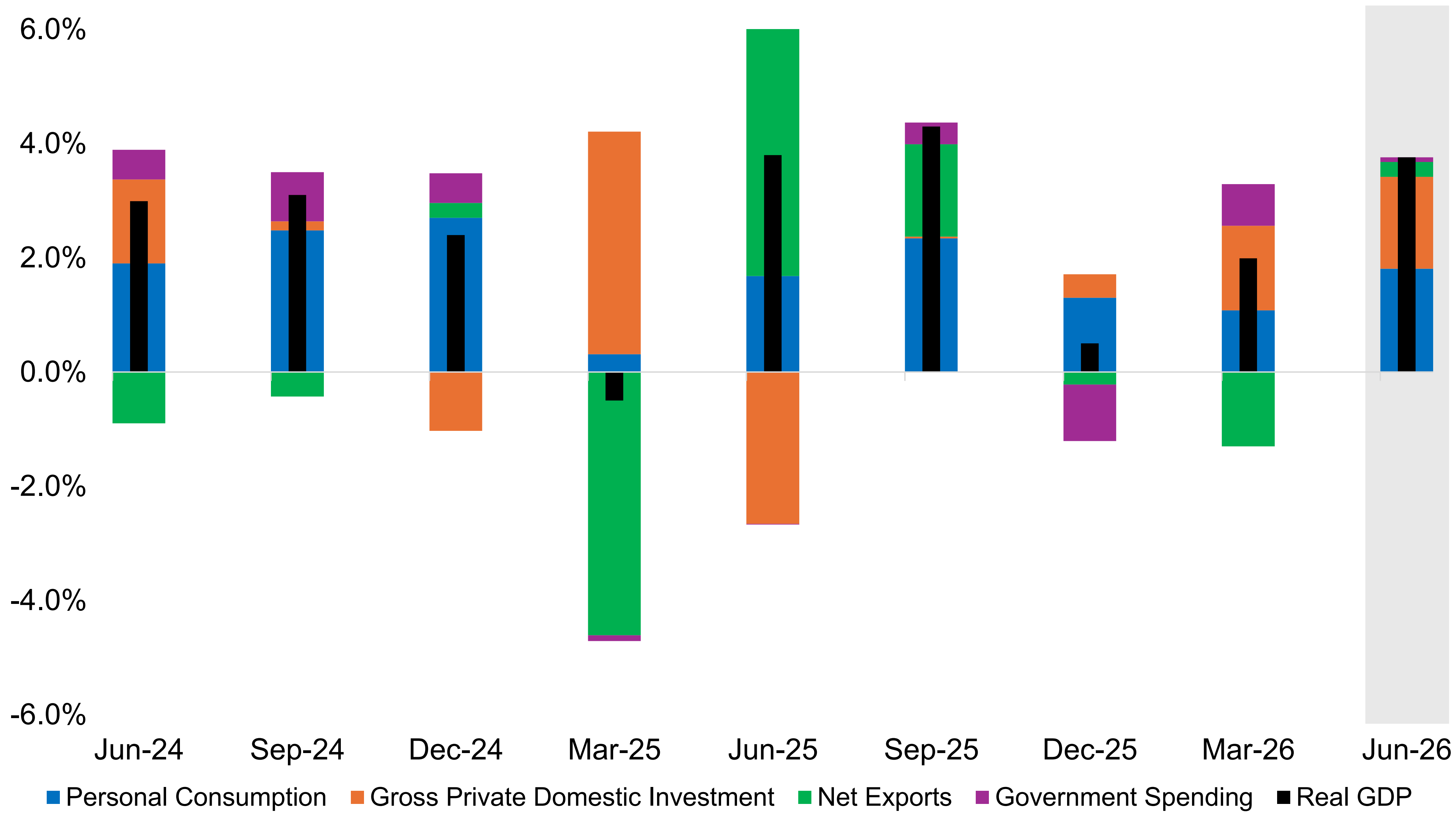
Private Domestic Investment: The AI-Driven Capex Cycle

The standout driver in the quarter was private domestic investment, surging 8.7% - led by a 21.4% jump in equipment spending. AI-related capex accounted for roughly 75% of Q1 GDP growth, with hyperscaler commitments tracking towards $440 billion for 2026. This cycle AI-driven capex cycle is projected to add 2.5% to GDP in 2026 and over 3% in 2027 - a generational productivity tailwind.

Q2 2026 GDP Nowcast: Momentum Building

The Atlanta Fed's GDPNow model is tracking Q2 GDP at 4.0% as of mid-May, driven by strengthening consumption and continued AI-driven capex. If it holds, Q2 would mark the strongest growth quarter since Q3 2025, further distancing the economy from any recession narrative.

Contributions to Percent Change in Real Gross Domestic Product



Shaded area denotes forecasts, Atlanta Fed GDPNow

Source: Atlanta Fed GDPNow, May 10th 2026.

US Productivity

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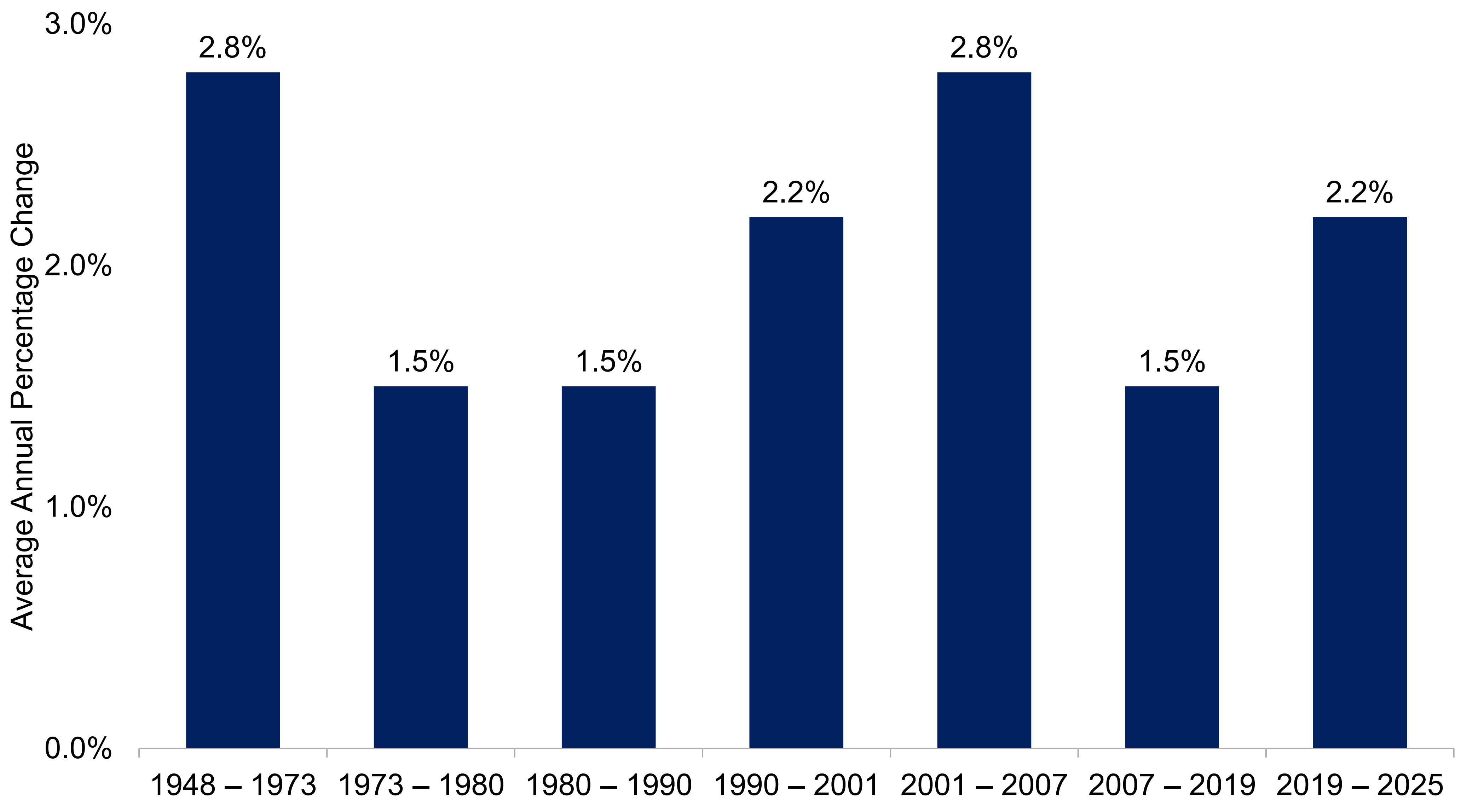
Productivity: Above Trend and Accelerating

U.S. nonfarm labor productivity rose 2.2% on an annual average basis in 2025, and Q1 2026 year-over-year growth accelerated to 2.9%. Since Q4 2019, the annualized pace has held at 2.0%, well above the 1.5% rate seen during the 2007–2019 cycle. The economy continues to produce more output per hour worked than it did throughout much of the last decade. Productivity remains the single most important driver of long-term growth, and the convergence of AI adoption and fiscal incentives for capital investment suggests this cycle has room to run.

The Bigger Story: A Structural Tailwind Is Building

The 2.0% annualized productivity trend from 2019–2025 provides a solid base, but the larger opportunity is ahead. The AI-driven capex cycle is not just boosting GDP; it is building the infrastructure for a step-change in enterprise productivity as these systems come online and scale across sectors. Layered on top, the One Big Beautiful Bill Act restores 100% bonus depreciation for qualifying capital investments, raises Section 179 expensing limits to $2.5 million, and reinstates immediate R&D expensing - directly incentivizing the PP&E investment that drives productive capacity.

Productivity Change in Nonfarm Business Sector (1947-2025)



JOLTS Employment Survey Data

JOLTS: Stable on the Surface, Strengthening Underneath

The March 2026 JOLTS report points to a labor market that remains steady - and may be firming. Job openings held at 6.9 million, total separations were little changed at 5.4 million, and layoffs remained contained at 1.9 million.

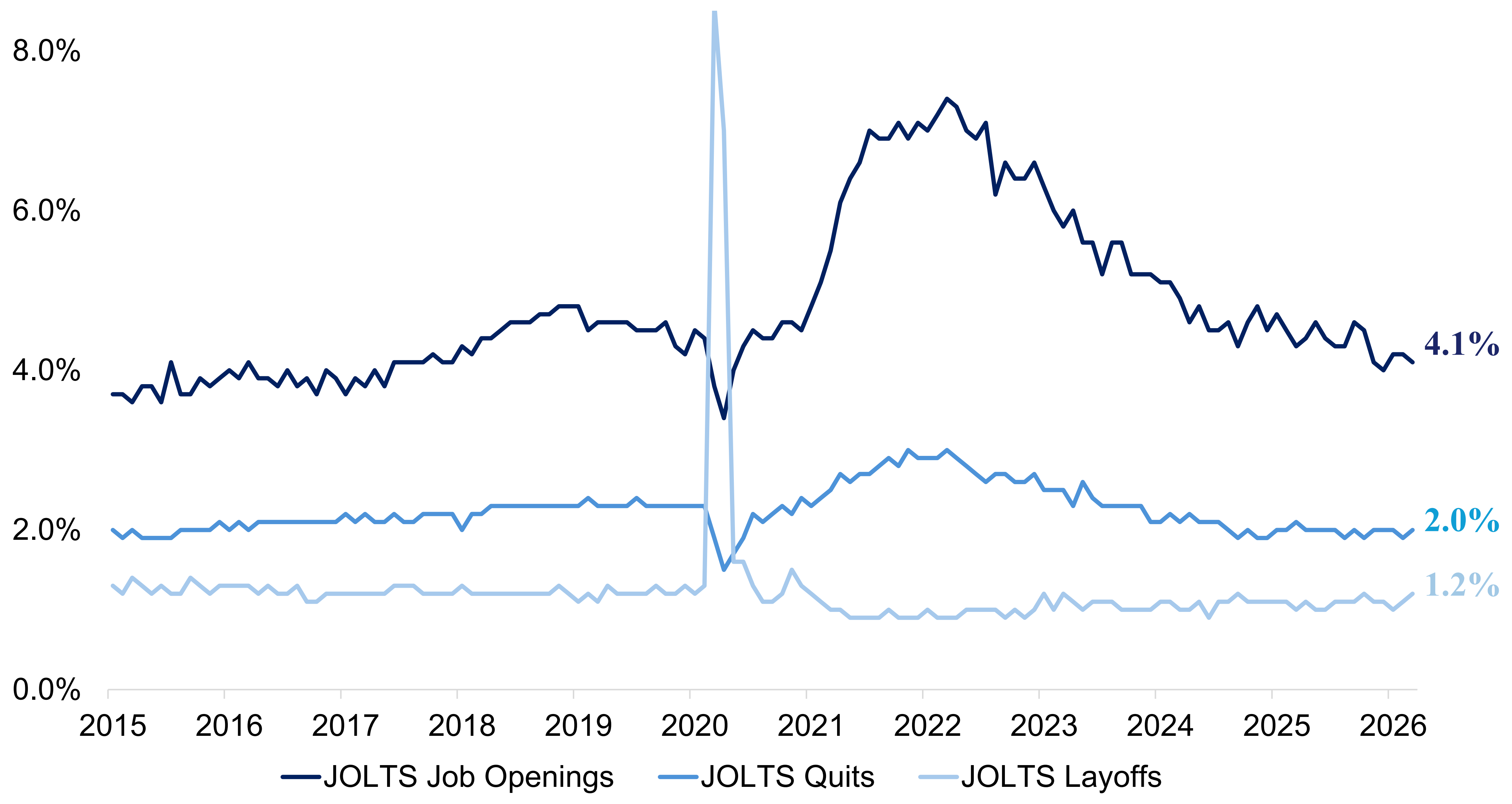
Hiring is Rebounding

After slipping to 3.1% in February - the lowest since April 2020 - the hires rate bounced back to 3.5% in March, with total hires jumping to 5.6 million. The February weakness now looks largely attributable to the government shutdown rather than a structural slowdown in private sector demand. The quits rate held at 2%, suggesting workers are still staying put rather than chasing new roles - the 'great stay' dynamic that replaced the 2022 resignation wave - but the pickup in employer hiring activity is a notable positive signal.

Bottom Line: Stead, With Improving Momentum

The labor market is not falling apart, and the latest data suggests it may be re-accelerating. Layoffs remain contained, hiring is recovering from its February trough, and the gap between posted openings and actual hires is narrowing. This is a labor market to monitor, not one flashing warning signs.

JOLTS Job Openings, Nonfarm Quits, and Nonfarm Layoff Rates



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

Unemployment & Wage Growth

Employment: Steady as She Goes

Unemployment held at 4.3% through Q1 and into April, with nonfarm payrolls adding 115,000 jobs in the latest report. The anticipated wave of AI-driven layoffs has yet to materialize - outside of government jobs, employers continue retaining workers despite economic uncertainty.

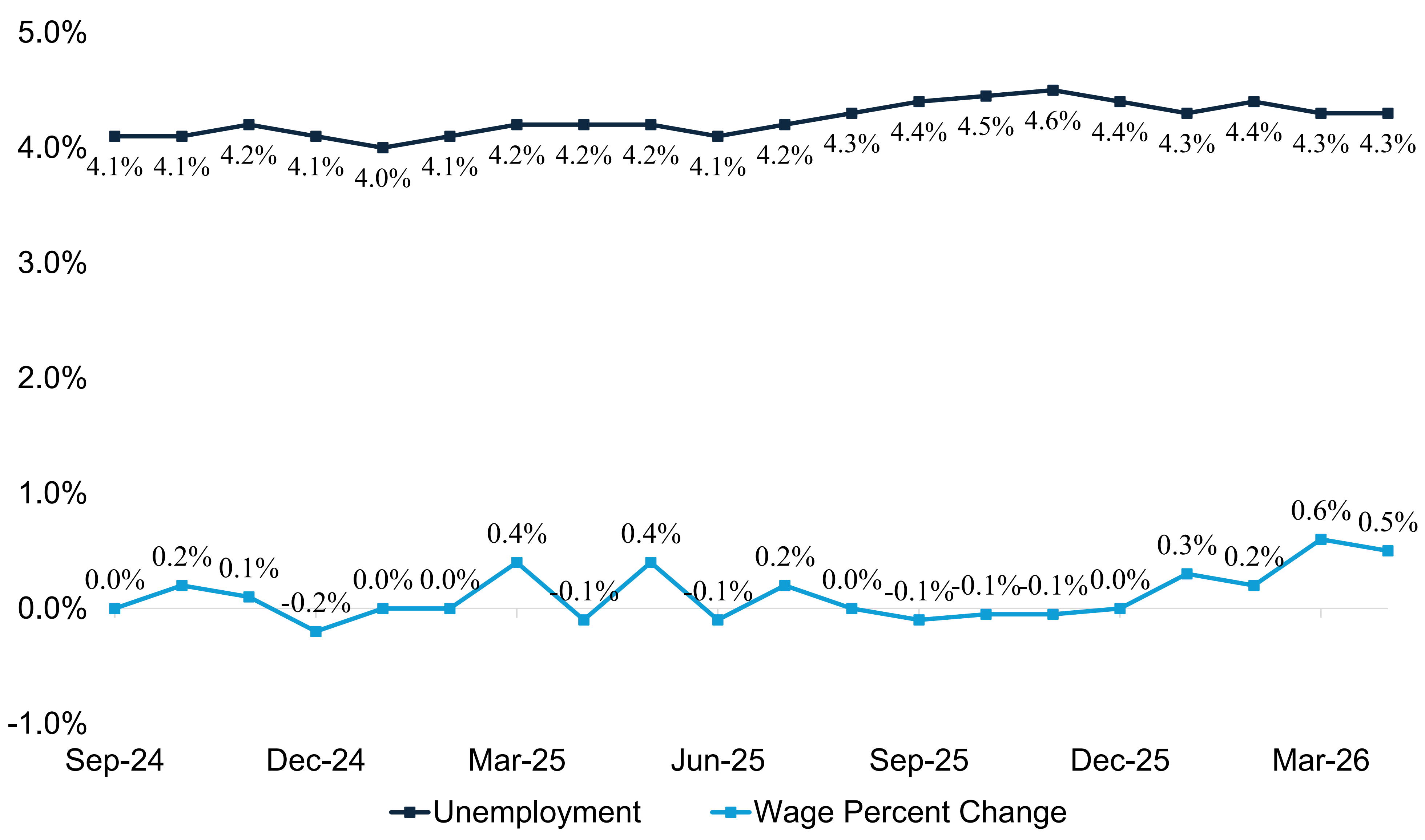
Wages: Cooling, Not Collapsing

Real average hourly earnings growth decelerated through Q1, with year-over-year gains slowing from +1.4% in February to +0.3% in March. Wage growth is moderating but remains positive - easing pressure on unit labor costs without signaling consumer distress. For the Fed, this is close to an ideal setup.

The Takeaway: Flexibility for Policymakers

Labor conditions remain balanced. Unemployment is low, wage pressures are contained rather than accelerating, 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, May 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 Health

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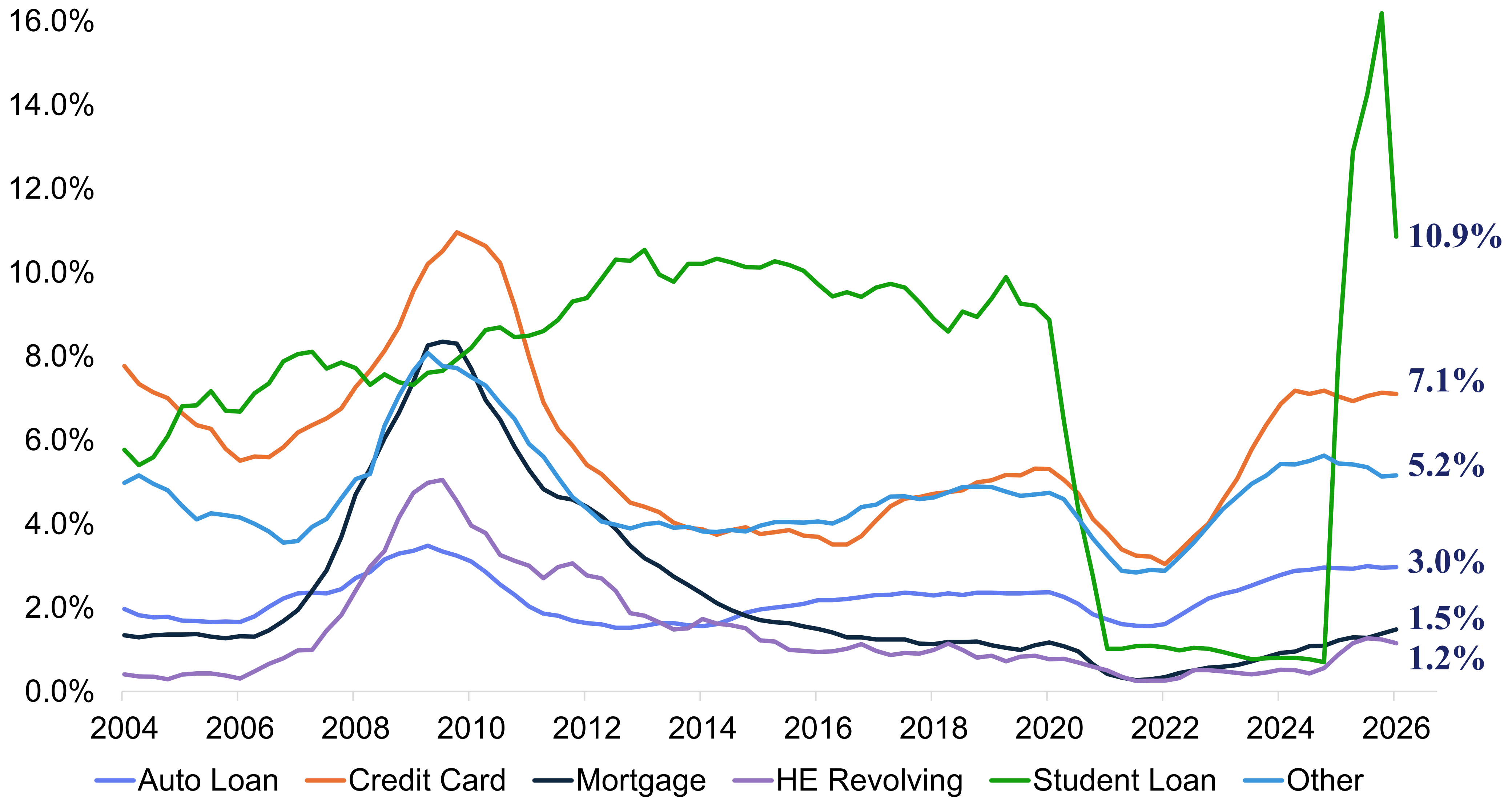
Consumer Credit: Manageable and Moderating

Aggregate consumer delinquency held steady at 4.8% of outstanding debt in Q1 2026. Credit card early delinquencies ticked down to 8.6% from 8.7%, extending a six-quarter improvement trend. Auto loan delinquencies remain elevated but the pace of deterioration is slowing - early delinquency flows fell to 7.7% from 8.0% a year earlier. Consumer credit is showing pressure at the margins, particularly among younger and lower-income borrowers, but remains well below breakdown-level conditions.

Student Loans: The Outlier Worth Watching

The pace of new student loan delinquencies moderated in Q1 2026, with the transition rate declining from 16.2% to 10.9%, as the initial post-forbearance default wave works through the system. However, the stock of seriously delinquent balances continued rising to 10.3%, and 2.6 million borrowers entered default in Q1 alone. This is stabilization, not recovery. Damaged credit among younger borrowers could delay homeownership, reduce discretionary spending, and weigh on consumer-facing industries tied to younger demographics.

Transition into Serious Delinquency by Loan Type (90+)



Source: Federal Reserve New York, Q4 2025.

Corporate Financial Growth

Margins: Record Profitability Holding

S&P 500 net profit margins reached 14.7% in Q1 2026, the highest level in over 15 years - up from 13.2% the prior quarter and well above the five-year average of 12.3%. While elevated energy costs are pressuring input-sensitive sectors, aggregate corporate profitability remains robust.

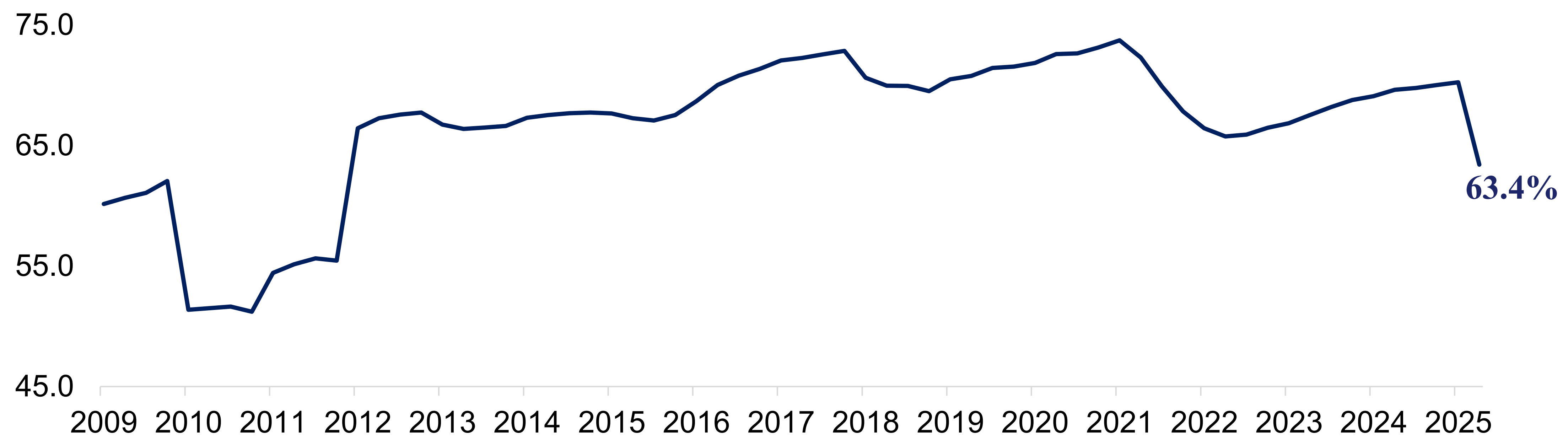
Credit: Edging Higher but Contained

Corporate credit metrics remain healthy. Business loan delinquencies were approximately 1.3% in late 2025, historically low and indicative of strong balance sheets and solid debt-servicing capacity. While some upward pressure is expected as slower GDP growth works through the system, delinquency levels remain well below prior cycle stress points. Most firms continue to operate with ample liquidity and reliable access to capital markets.

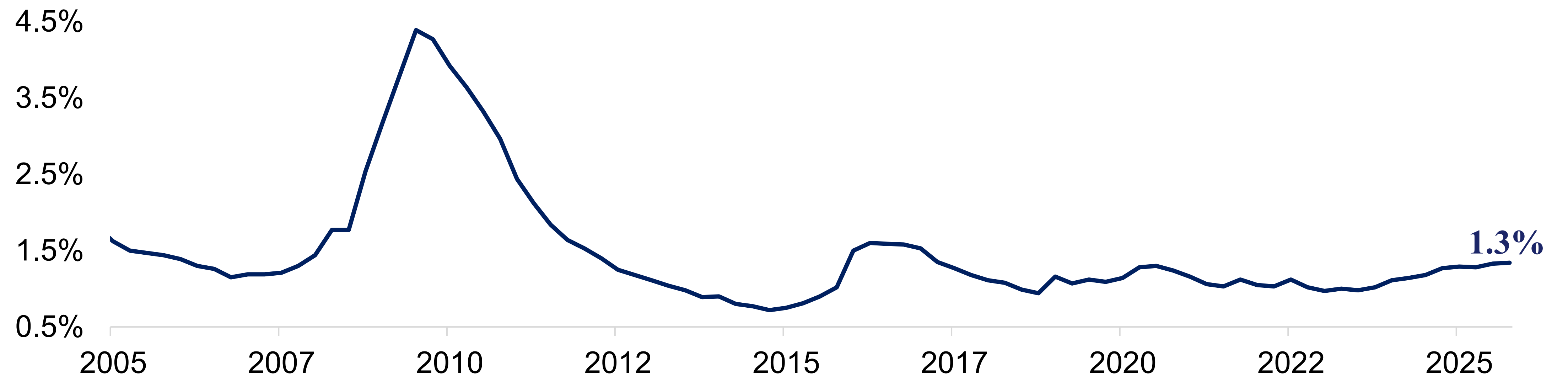
Capital Markets: Open and Active

The deal-making backdrop remains firmly intact. Global M&A surpassed $1.2 trillion in Q1 2026, up 26% year-over-year, with sponsors and strategic buyers deploying capital through uncertainty. Capital availability is strong, and the combination of record margins, contained credit stress, and active private credit markets continues to support transaction activity.

S&P 500 Gross Margins (%) Since 2010



Delinquency Rate on Business Loans, All Commercial Banks



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

Public Markets Rates

Inflation: Headline Picks Up, But Core Stays Controlled

April 2026 headline CPI printed 3.8%, up from 3.3% in March - the highest since May 2023, driven by energy and food prices amid Iran-driven supply disruptions. Core CPI held at 2.8%, suggesting demand-driven inflation remains contained. One month doesn't make a trend, but it underscores how quickly external shocks can complicate the disinflation path.

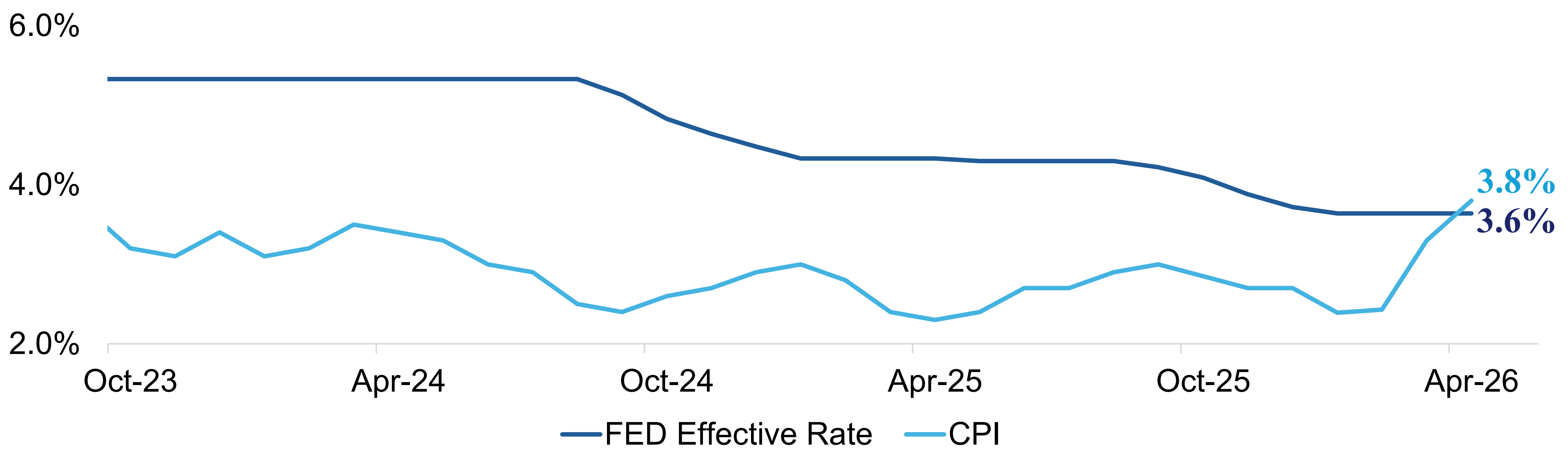
The Fed: On Pause, but Divided

The Fed held at 3.5%–3.75% for a third consecutive meeting, but the 8-4 vote was the most contentious in over three decades - one governor pushed for a cut while three objected to language suggesting eventual easing. Futures are now pricing out cuts entirely for 2026. The window for easing is narrowing as long as energy-driven inflation persists.

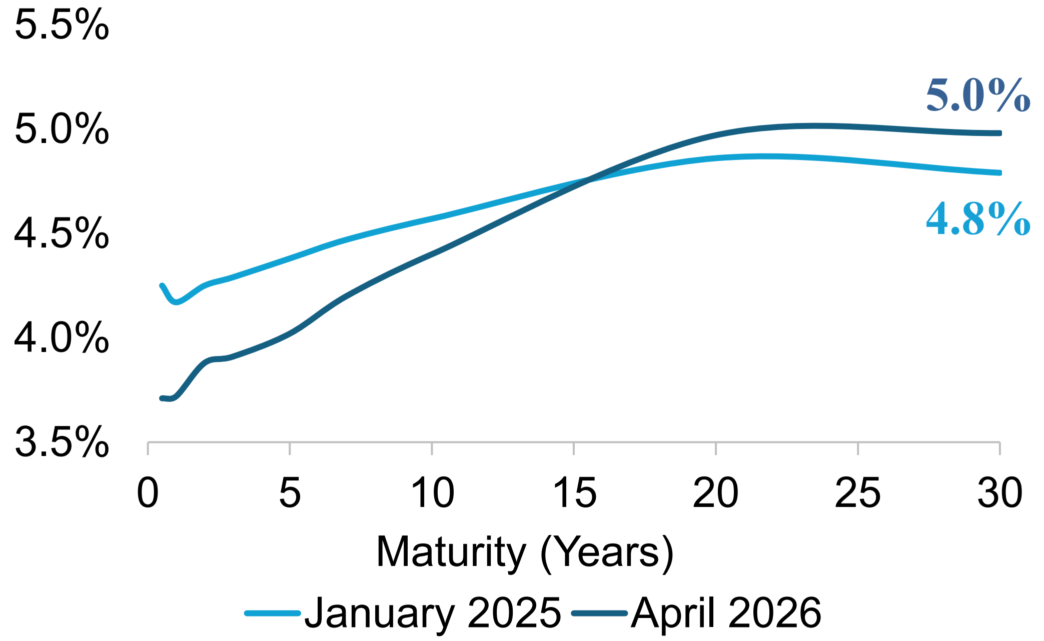
Yield Curve: Risk Premium for Duration Risk Increasing

The 10-year reached 4.59% and the 2-year 4.09% - both one-year highs - the 50-basis-point positive spread reflects a market demanding greater compensation for longer-term inflation, fiscal, and geopolitical uncertainty. This isn't pricing a recession - it's pricing a higher-for-longer rate environment where the cost of capital stays elevated and duration risk carries a real premium.

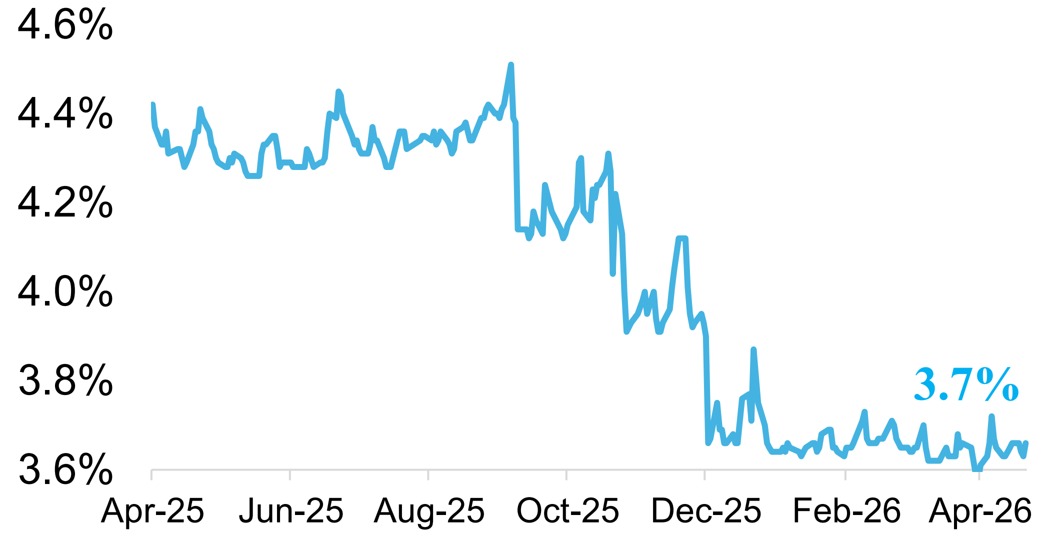
CPI vs. Fed Effective Rate



Treasury Yield Curve



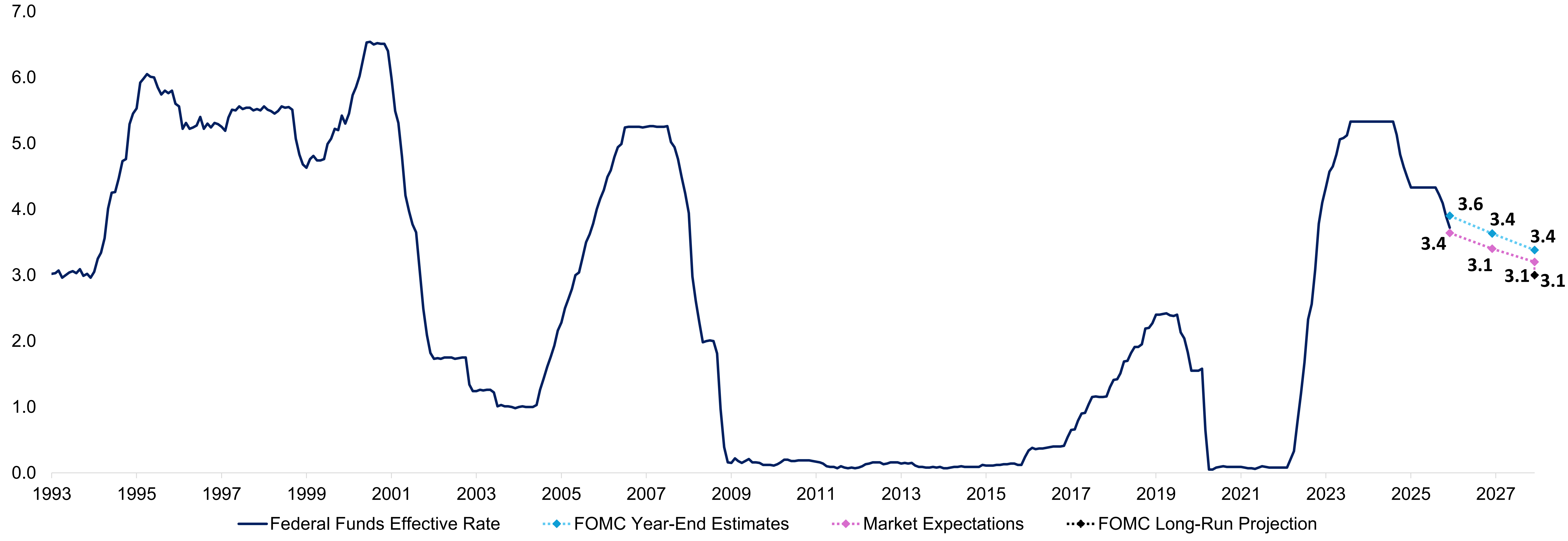
US SOFR Overnight Rate



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

Public Credit Markets

Spreads: Wider but Not Worrying

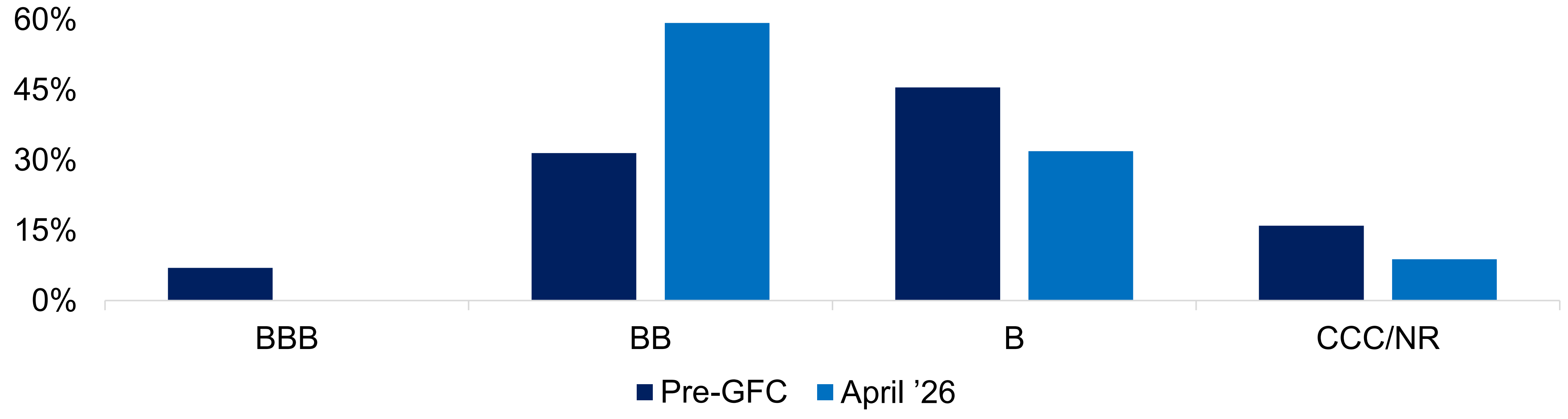
High-yield credit spreads edged up to around 3.3% in Q1 2026 from roughly 2.9%, but remain near the lower end of their post-crisis range. The widening reflects sector-specific repricing tied to geopolitical volatility rather than deterioration in broader credit fundamentals. Spreads in manufacturing, industrials, and chemicals remain comparatively resilient.

Credit Quality: A Structurally Stronger Index

The high-yield index is better positioned than in prior cycles. BB-rated bonds now account for 59% of the index, with CCC and below exposure at just 8.8% - meaningfully less tail risk than heading into the last two downturns. Corporate balance sheets remain healthy, debt-servicing capacity is intact, and the labor market continues to provide a floor under credit performance. That structural cushion provides meaningful downside protection if macro conditions soften.

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 Lending Markets

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Bank Balance Sheets: Flush but Cautious

Loan-to-deposit ratios remain stable near 72%, with an estimated $1 trillion in untapped lending capacity across the system. Tier 1 capital ratios hold above 14%, well in excess of regulatory minimums. Banks have the firepower to lend - the constraint is appetite, not ability.

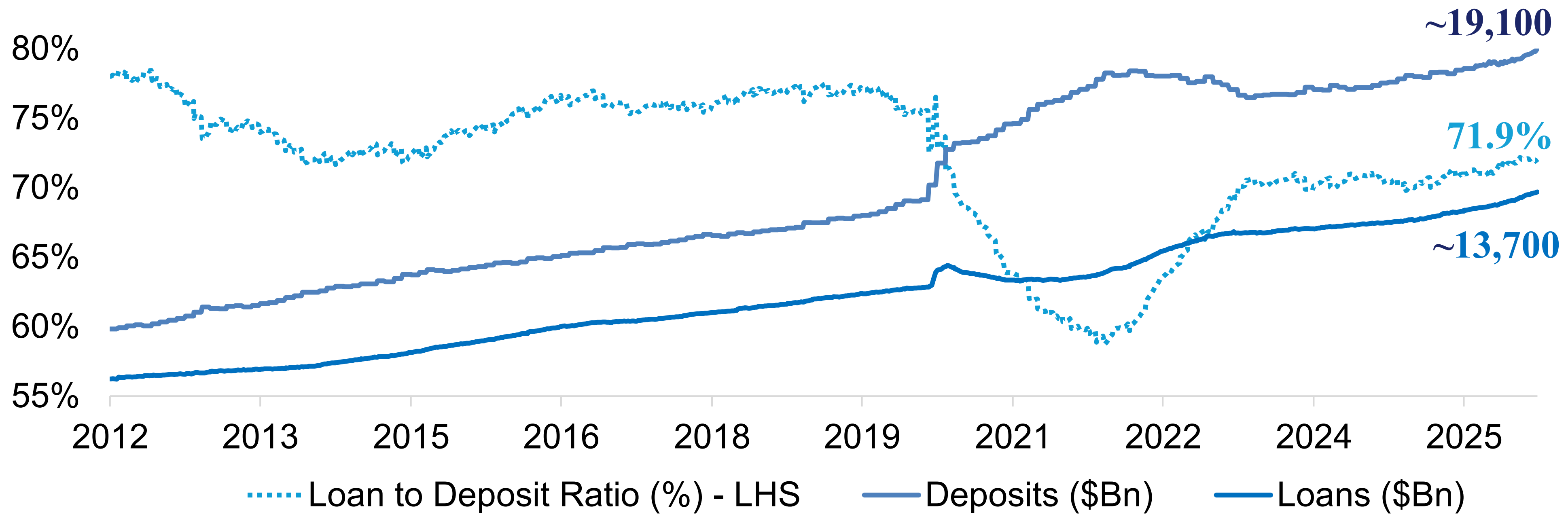
Lending Standards: Tightening at the Margins

The Fed's April 2026 Senior Loan Officer Survey showed banks tightening C&I lending standards on net, citing a less favorable economic outlook, industry-specific concerns, and reduced risk tolerance. CRE standards were broadly unchanged, while demand across both categories was flat to weaker. Notably, banks also tightened standards for loans to nondepository financial institutions - a signal that caution is extending beyond traditional corporate lending into the broader credit ecosystem.

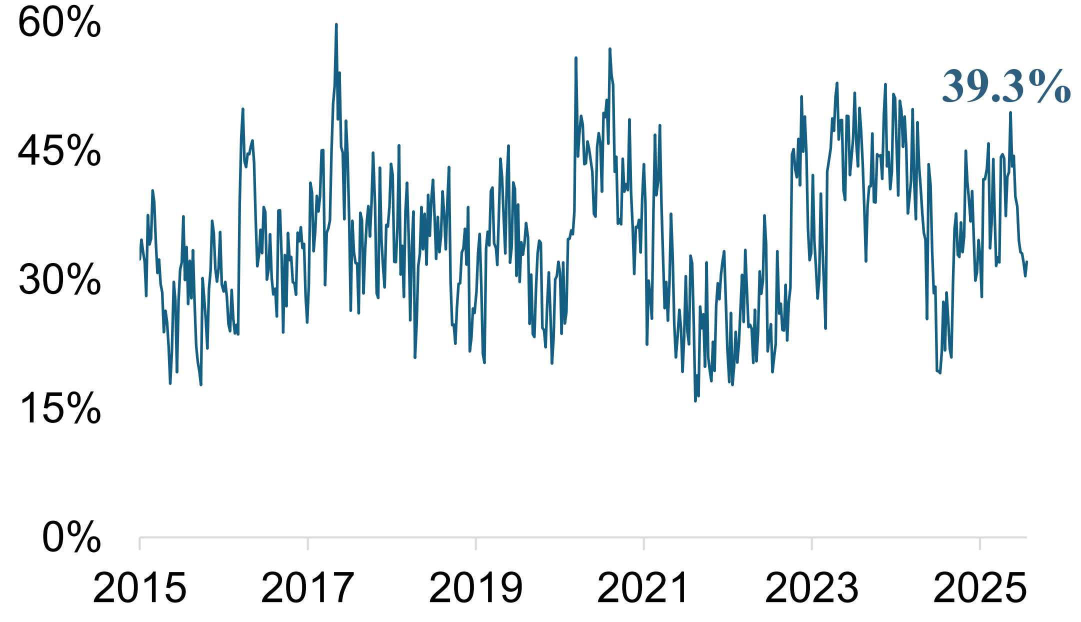
Sentiment: Improving, but Not Yet Bullish

Lending sentiment has improved, but remains moderate. Banks are positioned to deploy capital and are selectively doing so, particularly where credit quality is strong. The backdrop is one of cautious engagement - not retrenchment - which is consistent with a late-cycle environment.

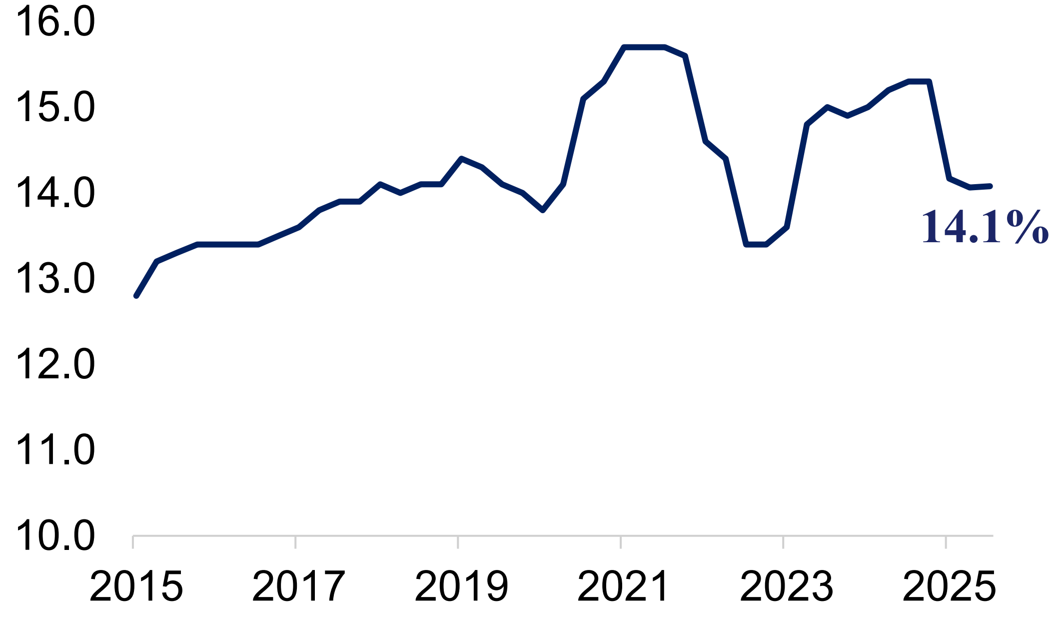
Loan to Deposit Ratio



Lender Sentiment Survey, % Bullish



Bank Tier-1 Capital as % of Assets



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

Private Credit Markets

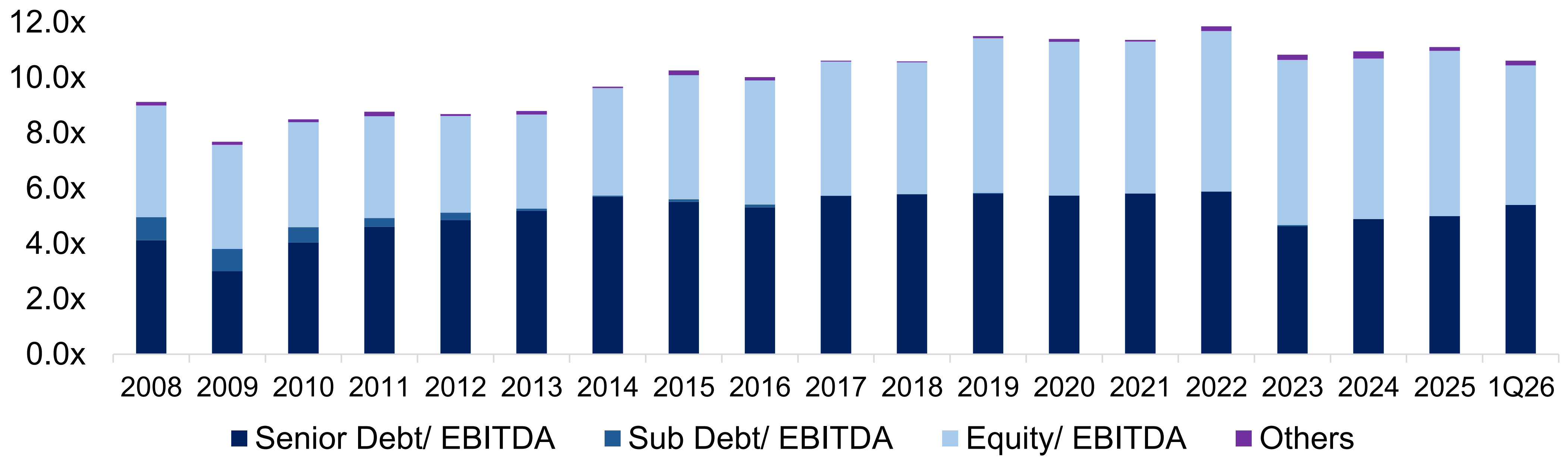
LBO Multiples: Holding Firm

Acquisition multiples have held in the 10.0–10.5x EBITDA range through 2024–2025 and into Q1 2026, steady despite a persistently elevated rate environment. Senior debt continues to account for roughly 4.5–5.0x of the capital stack, with sponsors bridging the gap through larger equity contributions - reflecting sustained conviction in underlying asset quality.

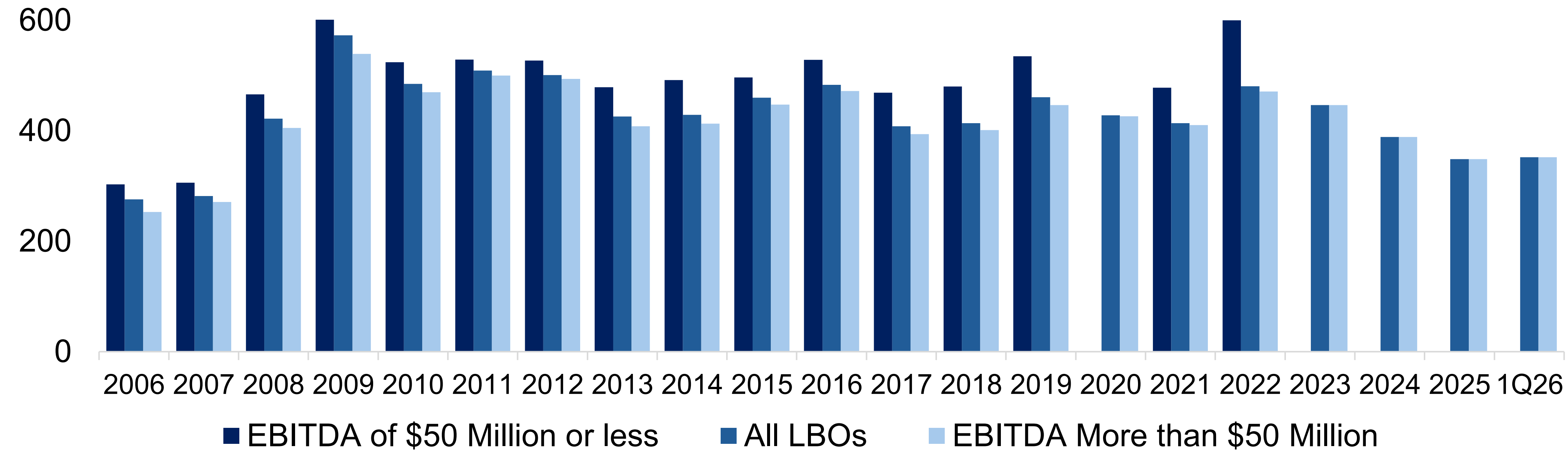
Spreads: Compression Continues, but Bifurcated

The broader compression trend remains intact, with all-in institutional spreads falling from roughly 600bp in 2022 to approximately 350bp in Q1 2026. Larger, higher-quality EBITDA borrowers have driven the tightening, with spreads declining from 446bp in 2023 to 352bp in Q1 2026 as lender competition intensified. However, the market is increasingly K-shaped: B-minus spreads widened nearly 70bp in Q1, and loan prices declined 184bp on the quarter as tariff uncertainty, geopolitical risk, and AI-driven repricing of software credits weighed on the lower end. M&A-related loan volume still reached $51.2 billion - its highest in four years - but overall institutional volume was down 23% year-over-year. Sponsor appetite for well-structured deals remains intact, but pricing discipline and credit selection are becoming market differentiators.

LBO Purchase Price Multiples (EBITDA Multiples)



LBO Institutional Spreads



Source: Pitchbook.

M&A Trends

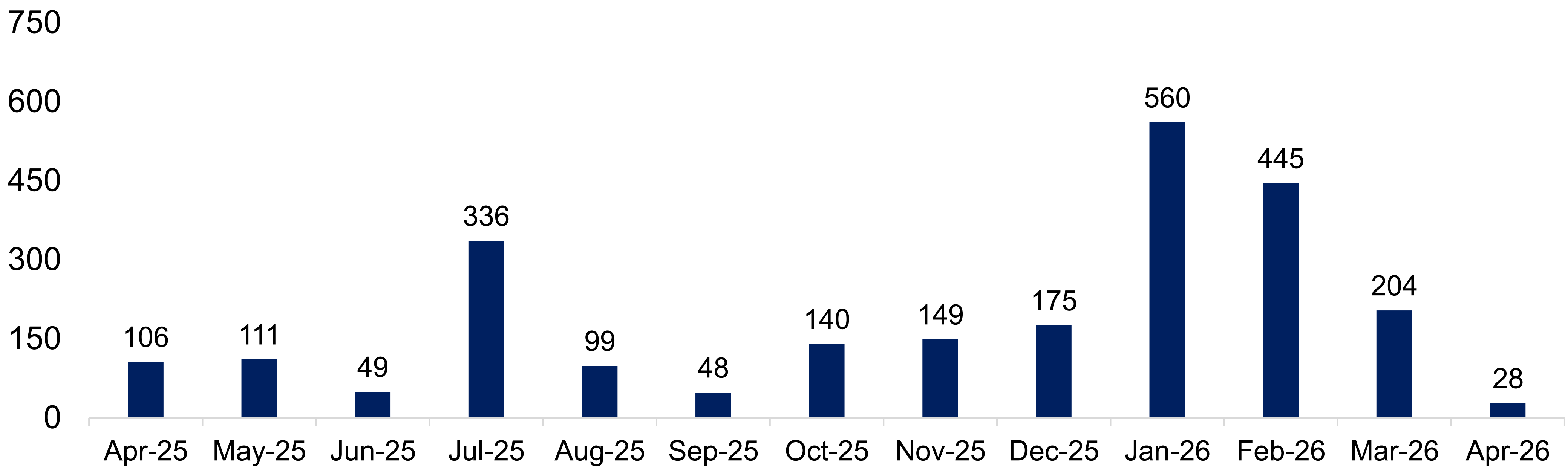
Deal Flow: Record Quarter, but Increasingly Selective

After monthly volume dipped below $50 billion as recently as September 2025, the market opened 2026 with force - peaking at $560 billion in January before easing to $445 billion in February and $204 billion in March. Global Q1 M&A reached an estimated $1.6 trillion, a new quarterly record and up over 50% year-over-year. April's sharp pullback to $28 billion in US capital invested reflects the pull-forward of megadeal closings into the first two months, compounded by renewed sponsor caution amid valuation uncertainty and financing selectivity. The broader picture is a market normalizing after an extraordinary start to the year - not a breakdown in deal appetite.

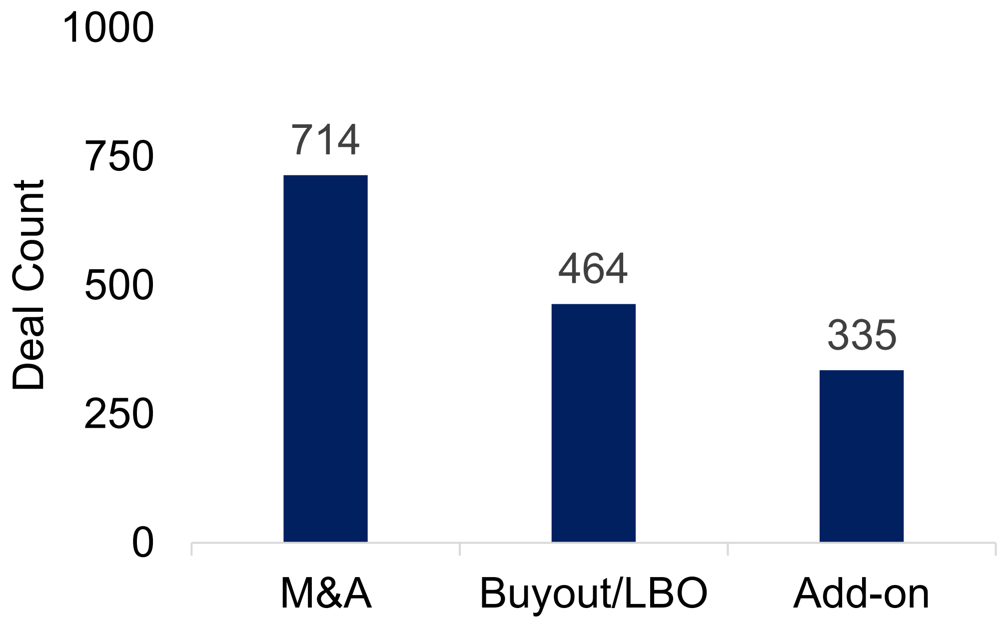
Deal Mix: Conventional, but Disciplined Deployment

The composition reinforces that capital is flowing through proven structures. M&A (714 transactions) and primary buyouts (464) account for the majority of volume, while 335 add-on acquisitions highlight sponsors' continued commitment to buy-and-build as a scaling strategy. Sponsor-backed buyers represented roughly 40% of global deal count and 50% of total value in Q1 - underscoring private equity's central role in the current cycle. This is a mature deployment environment, not a temporary opening.

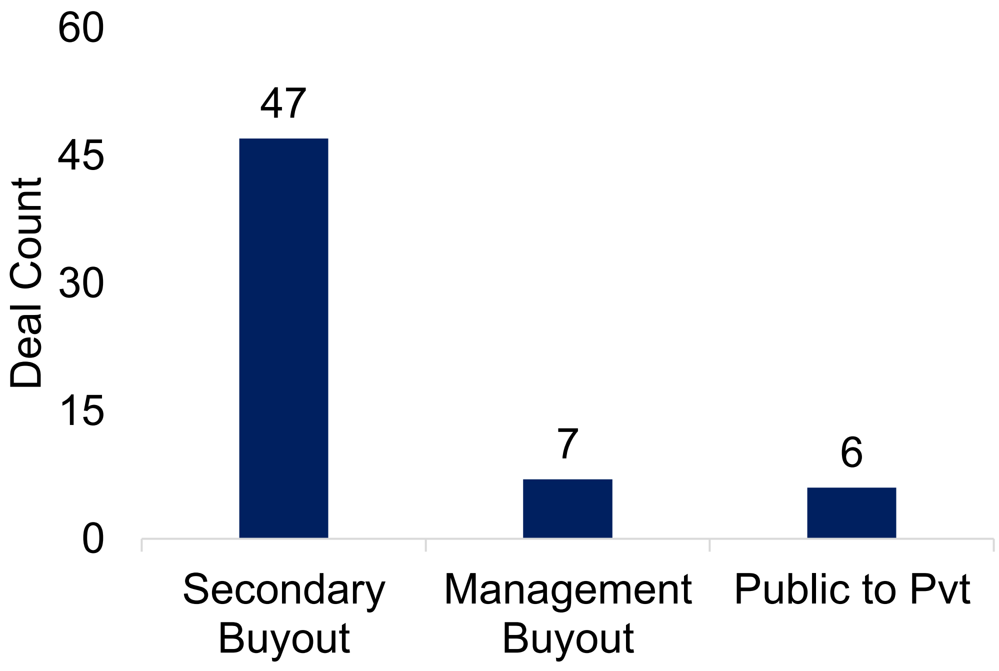
US Capital Invested ($B)



Core Deal Types by Count



Other Deal Types by Count



Source: Pitchbook.

Outlook

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H2 2026 Outlook: Economy and Deal Landscape Remain Constructive

The foundation heading into the second half of 2026 is stronger than the headline risks suggest. GDP growth is stabilizing with Q2 tracking at 4.0%, private domestic investment is accelerating on the back of a generational AI capex cycle, and corporate profitability is at record levels. The labor market is balanced, credit conditions are healthy, and capital markets remain open and active.

The primary wildcards are external. Energy prices remain the most direct threat to the inflation trajectory - and by extension, the Fed's timeline. If oil-driven headline CPI proves transitory and core inflation continues to moderate, the path to easing reopens and deal activity should re-accelerate in the back half of the year. If energy pressures persist and broaden into structural inflation, the higher-for-longer rate environment becomes entrenched, compressing multiples and tightening financing conditions further.

The base case remains constructive: a stable macro backdrop, a Fed that is on hold but not hostile, record levels of dry powder seeking deployment, and a deal pipeline that is paused - not broken. The pull-forward of Q1 megadeals creates a temporary air pocket, but the structural drivers of M&A activity - sponsor liquidity, corporate balance sheet strength, and the ongoing need to reposition portfolios around AI, energy transition, and supply chain resilience - remain firmly in place.

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.

raconsul@bankersedgeadvisory.com 248-953-5163

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.

mvermet@bankersedgeadvisory.com 313-670-3339

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