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ADVISORY

Credit Market Update

June 2026

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Executive Summary

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Q1 2026 real GDP firmed to 2.1%, led by private investment, before rotating toward the consumer in Q2. The Atlanta Fed's GDP Now points to a more moderateQ2 near **1.3%**, suggesting the late-2025 softness reflects a rebalancing rather than a turn. The primary downside risk remains energy—persistently high oil prices feeding into input costs, squeezing margins, and eroding household purchasing power.

2

S&P 500 gross margins expanded to 70.5%, while bank loan delinquencies held near historical lows at 1.3%. Capital markets remain open, lenders are selective but active, and private credit continues filling gaps left by cautious banks. **High-yield credit spreads tightened to 2.7%**, confirming that the backdrop for financing and completing transactions remains intact.

3

Global M&A deal value surged to a record $1.6 trillion in Q1 2026, up 50.6% year-over-year, driven by a resurgence in megadeals and strategic consolidation. **LBO purchase price multiples held firm at 10.62x EBITDA with institutional spreads compressing to 320 bps**. Both sponsors and strategic acquirers are actively deploying capital.

US GDP Breakdown

Q2 2026: Moderating Expansion Led by Consumer Spending

The Atlanta Fed GDP Now model nowcasts Q2 2026 real GDP at 1.25% (Jun-26), a moderation from Q1's capex-dominated growth. The primary engine of the economy shifted back toward household spending, with Personal Consumption contributing 1.32% to the headline expansion. This robust domestic demand effectively offset a persistent -1.31% drag from Net Exports, while Government Spending added a modest 0.29%.

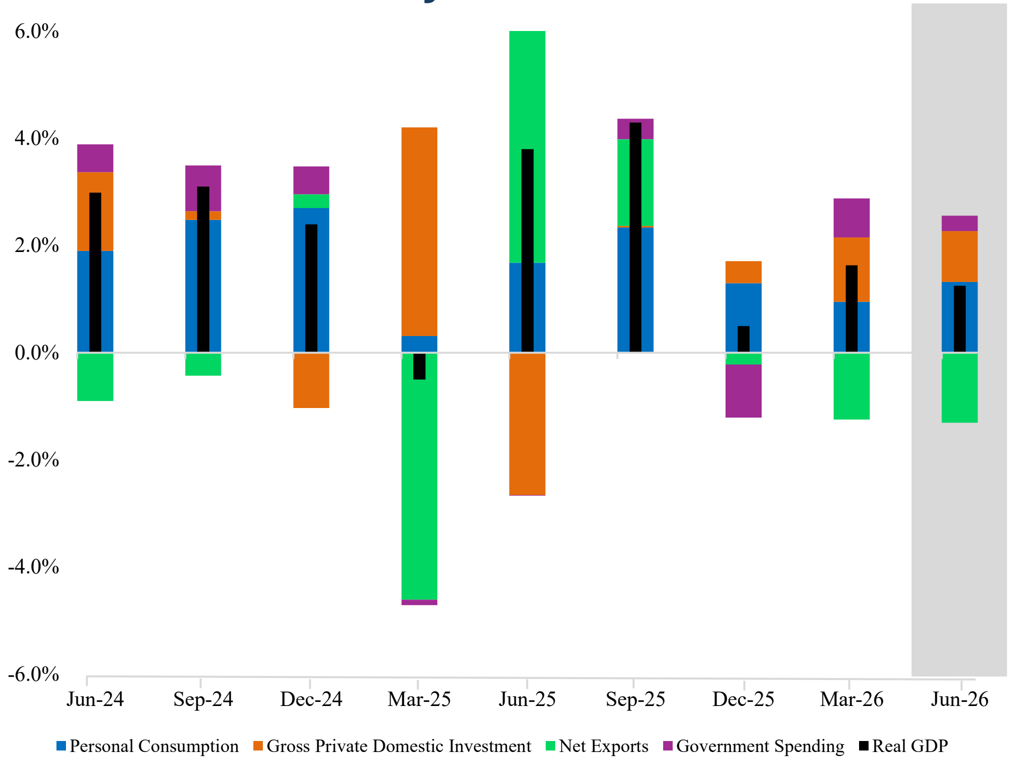
Personal Consumption: Households Rebound as Primary Growth Engine

Consumer spending regained its momentum in Q2 2026, contributing1.32% to real GDP, a notable acceleration from the soft 0.95% recorded inQ1 2026. This rotation reflects resilient household balance sheets and firm labor demand, reassuring analysts of underlying economic strength despite cooling global trade dynamics.

Private Investment: Post-Peak Capex Stabilizes

Gross Private Domestic Investment contributed 0.95% to GDP in Q2 2026.While this represents a moderation from the rapid, AI-fueled capex peak of 1.20% in Q1 2026, it remains a healthy expansion well above the volatile contractions of 2025. The steady pace indicates that corporate infrastructure and data center build-outs are finding a long-term floor.

Contributions to Percent Change in Real Gross Domestic Product



Shaded area denotes forecasts, Atlanta Fed GDPNow

Source: Atlanta Fed GDPNow, June 10th 2026.

US Productivity

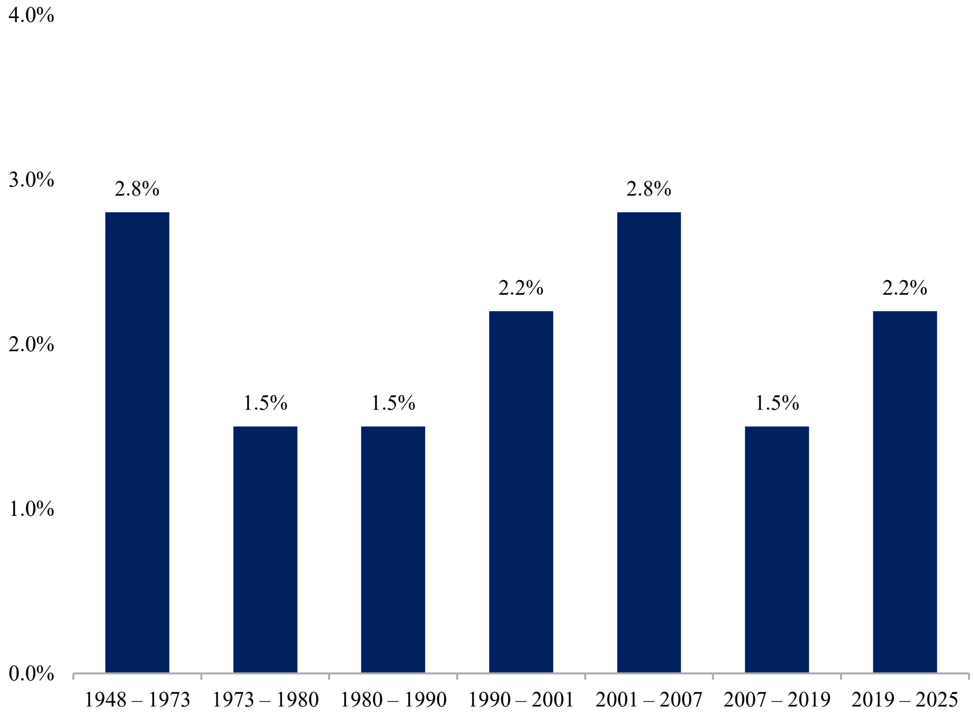
Productivity: Above Trend but Growth Pace Decelerates

Worker productivity continues to run ahead of its longer-run trend, though the breakneck pace seen in recent quarters has cooled. Nonfarm labor productivity rose 2.2% in 2025 on an annual-average basis, and year-over-year growth remained a solid 2.8% in Q1 2026. However, the quarterly annualized pace slowed significantly to 0.3% as output expansion modulated to 1.0% against a 0.7% increase in hours worked. Despite this quarterly deceleration, the 2.1% annualized growth rate since Q4 2019stays well above the 1.5% average observed during the 2007–2019expansion cycle, confirming that efficiency gains remain intact.

The Bigger Story: A Structural Tailwind Is Building

The compelling story is what comes next. Today's 2.1% macro trend is a respectable base, but the AI build-out is laying the physical infrastructure for a more durable, broad-based lift in enterprise productivity as these tools scale across industries. Policy is pushing the same way: the One Big Beautiful Bill Act permanently restored 100%bonus depreciation, lifted the Section 179 expensing cap to $2.5 million, and brought back immediate expensing of R&D, a tax code deliberately tilted toward the capital and equipment spending that expands productive capacity. The setup for a multi-year productivity step-up is arguably the strongest in a generation.

Productivity Change in Nonfarm Business Sector (1947-2025)



Source: Nonfarm Business Sector: Labor Productivity

JOLTS Employment Survey Data

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JOLTS: Openings Surge, but Churn Stays Low

The May 2026 JOLTS data shows resilience in labor demand, with the job openings rate holding strong at 4.6%. While this indicates that companies are still actively looking to expand headcount, overall labor market churn remains relatively subdued compared to the peak volatility of previous years. Employers are maintaining a steady post-pandemic baseline, keeping postings elevated without triggering talent across sectors.

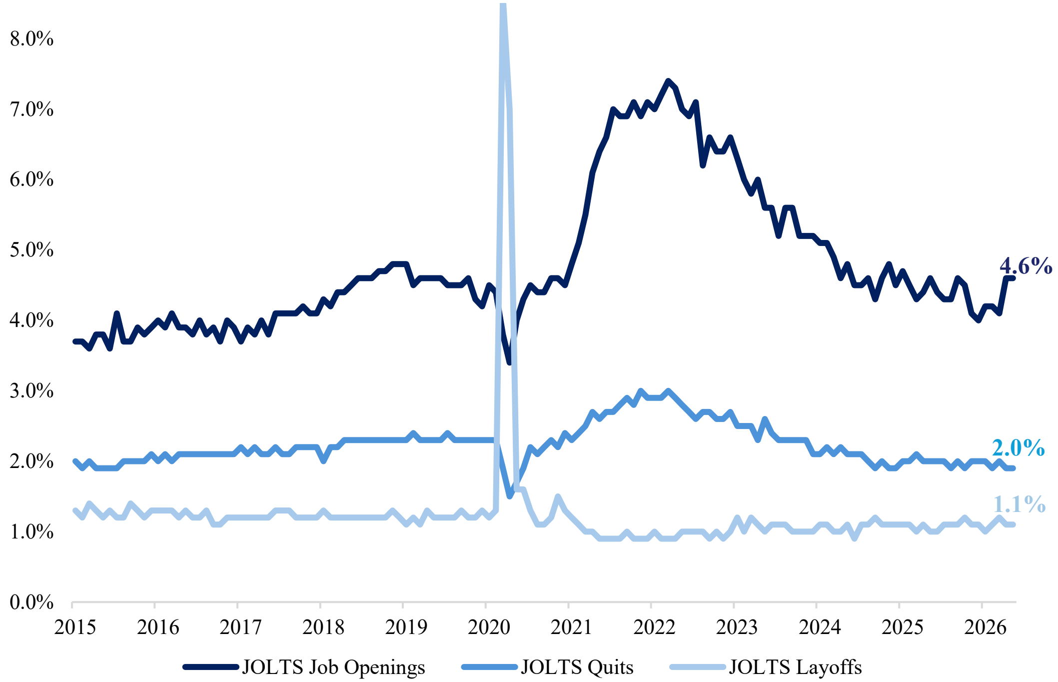
Hiring Eases as the Openings-Hires Gap Widens

As the openings rate remains robust, actual hiring paces have shown signs of normalization, widening the gap between unfilled positions and monthly placements. This gap is further reflected in worker confidence, as the quits rate settled at 1.9%. This suggests that while employees are not completely locked into their current roles, the frantic "Great Resignation" era of job-hopping has firmly transitioned into a more calculated and deliberate labor market.

Bottom Line: Stead, With Improving Momentum

The most reassuring takeaway from the latest release is the stability of the downside risk: the layoffs rate remains remarkably low and well-contained at 1.1%. This indicates that firms are largely holding onto their current staff despite broader macroeconomic adjustments. Combined with a stable openings rate, the current environment points to a healthy, balanced expansion rather than a labor market under stress.

JOLTS Job Openings, Nonfarm Quits, and Nonfarm Layoff Rates



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

Unemployment & Wage Growth

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Employment: Labor Market Firms Up heading into Summer

The labor market is showing renewed structural strength rather than merely holding steady. After peaking at 4.6% in late 2025 and hovering at 4.3% throughout the spring, the unemployment rate ticked down to 4.2% in June 2026. The anticipated wave of massive macroeconomic layoffs has failed to materialize; employers across core sectors continue to add and retain workers, maintaining a tight labor market despite broader restrictive economic crosswinds.

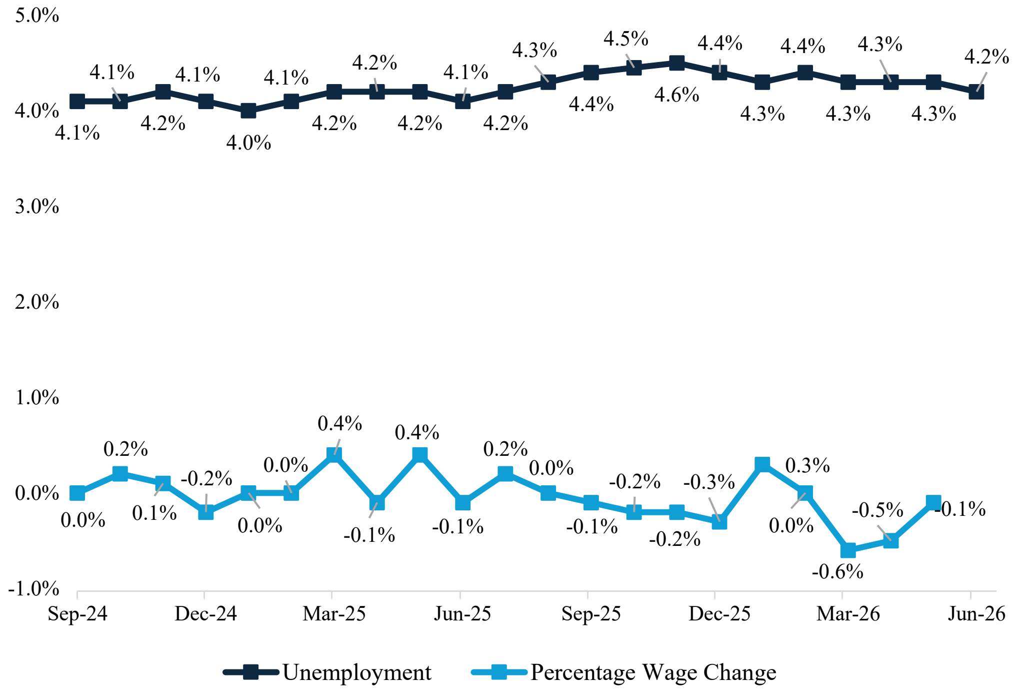
Wages: Real Income Pressures Begin to Stabilize

The painful streak of negative real wage growth seen in early spring, where monthly wage changes plummeted to -0.6% in March and -0.5% in April, is finally running its course. Nominal wage growth adjusted toward an equilibrium point by early summer, landing at a mild -0.1% contraction. While consumer purchasing power absorbed a notable hit in the first half of the year, this rounding out indicates that the worst of the sudden real-income erosion is now behind us.

The Takeaway: A Tougher Trade-off for the Federal Reserve

The latest print complicates the narrative for monetary policymakers. With the labor market showing resilience and unemployment descending to 4.2%, there are no immediate signs of employment distress that would force an emergency rate cut. Concurrently, because the sharp negative wage spiral has leveled off, consumer demand is likely to remain stable enough to keep core inflation sticky, signaling an extended period of "higher-for-longer" interest rates.

US Unemployment Rate and Wage Growth Rate



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

Consumer Financial Health

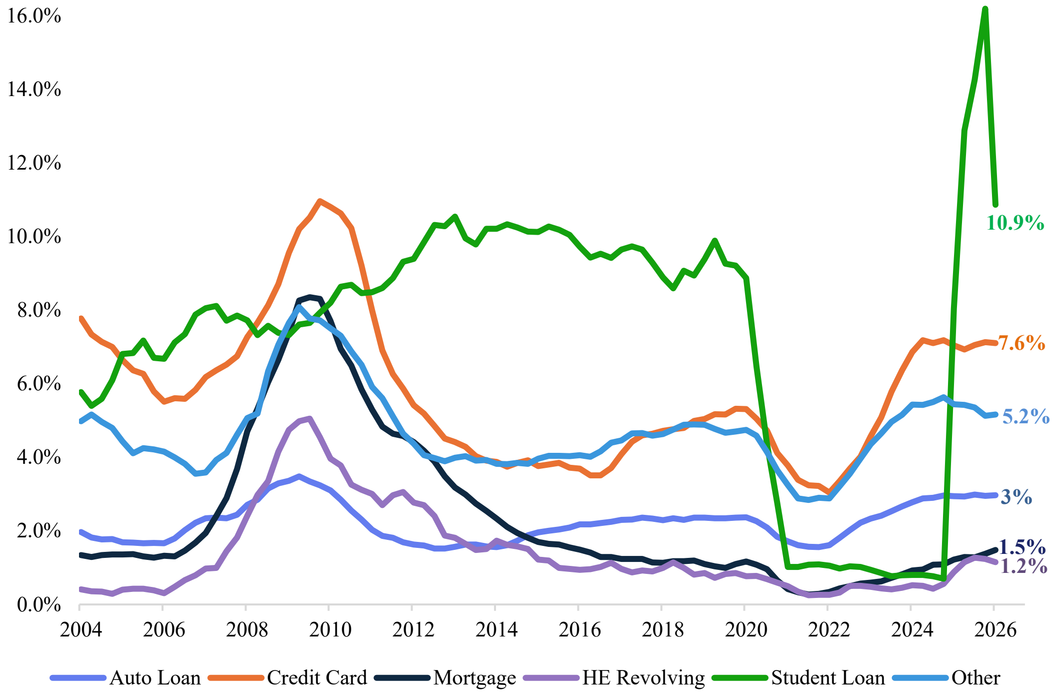
Consumer Credit: Serious Delinquencies Showing Signs of Stabilization

While pockets of pressure remain, household credit overall is holding well short of systemic distress. The transition rate into serious delinquency (90+) for credit cards flattened at 7.6%, suggesting that the aggressive run-up in revolving debt stress is beginning to plateau. Auto loan serious delinquencies are holding stable at 3.0%, while the core of household wealth remains highly secure, with Mortgages and HE Revolving serious delinquencies exceptionally low at 1.5% and 1.2% respectively. Aside from "Other" consumer loans ticking up to 5.2%, the credit landscape shows a consumer base that is managing its leverage in a high-rate environment.

Student Loans: The Outlier Worth Watching

The transition rate into serious student loan delinquency experienced a sharp downward correction, falling from its post-forbearance peak of over 16.0% down to 10.9%. This massive drop indicates that the initial shockwave of borrowers defaulting after the restart of payments is beginning to clear the system. However, at nearly 11%, student loans remain the single highest delinquency category by a wide margin. This stabilization prevents a broader credit crisis but continues to act as a significant drag on discretionary spending and wealth accumulation for younger and lower-income cohorts.

Transition into Serious Delinquency by Loan Type (90+)



Source: Federal Reserve New York, Q1 2026.

Corporate Financial Growth

Margins: Profitability and Cost Efficiency Reaching New Heights

S&P 500 gross margins demonstrated exceptional structural resilience, climbing steadily to a high of 70.5% by the end of the recent reporting period. This marks a clear departure from previous margin compression, indicating that large-cap companies have successfully navigated input cost pressures. By leveraging scale, technological efficiencies, and sustained pricing power, corporate profitability remains robust, providing a strong buffer against restrictive macroeconomic conditions.

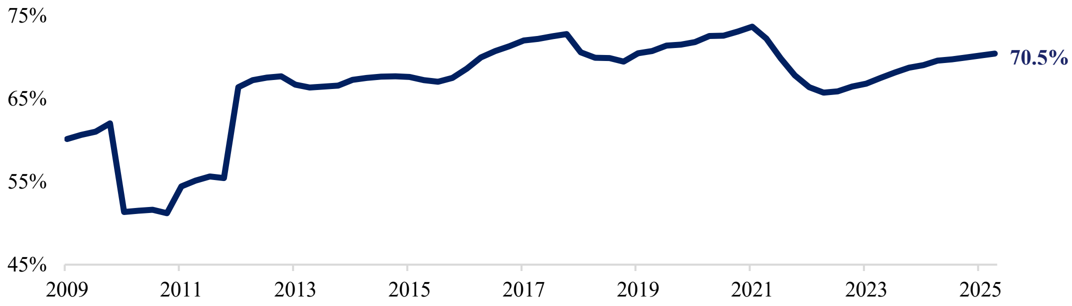
Credit: Low Delinquencies Confirm Corporate Balance Sheet Health

Corporate credit conditions remain stable with no signs of stress. The delinquency rate on business loans across all commercial banks is a low 1.3%, a minor tick up from recent cyclical lows, but well below historical stress levels. This indicates that despite elevated borrowing costs and tighter lending standards, corporate balance sheets remain well-capitalized and businesses are managing their debt service obligations.

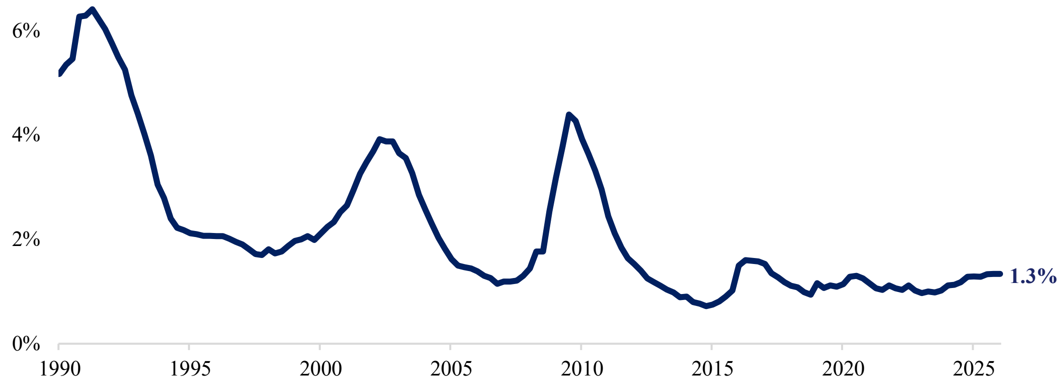
Capital Markets: Open and Active Supported by Strong Fundamentals

Expanding profit margins and exceptionally low credit distress have kept the corporate deal-making backdrop firmly intact. Global M&A and financing activity remain highly resilient, as strategic buyers and private credit markets actively deploy capital into a fundamentally sound environment. With gross margins holding at 70.5% and defaults capped at 1.3%, the capital market ecosystem continues to support transactional expansion rather than defensive positioning.

S&P 500 Gross Margins (%) Since 2010



Delinquency Rate on Business Loans, All Commercial Banks



Source: Federal Reserve St. Louis, Macrotrends Data as of June 2026.

Public Markets Rates

Inflation: Headline Pressure Builds Again

Headline CPI rose to 4.2% in May 2026, marking a sharp step up from previous months and a clear move away from the prior disinflationary trend. The acceleration was mainly driven by sticky core services alongside energy and food price volatility tied to geopolitical developments. This spike leaves the market highly sensitive to upcoming prints, as participants debate whether the breakout is a temporary blip or a sustained trend that could force the Fed to reconsider its path.

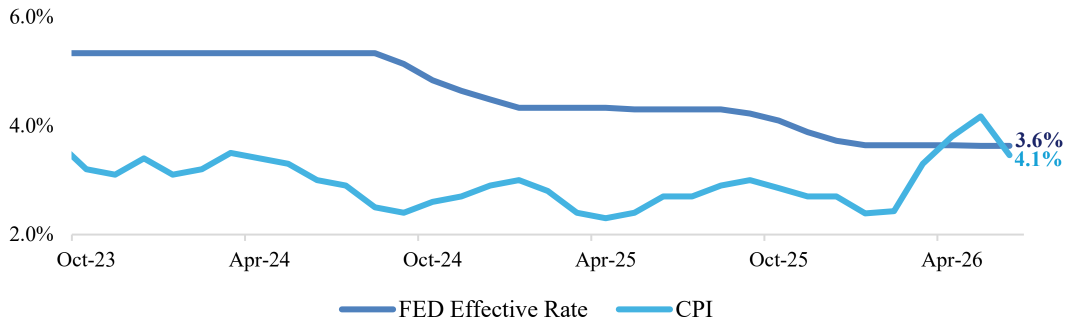
The Fed: Still on Pause, With Less Room to Ease

With inflation moving higher to 4.2%, the Federal Reserve has kept its Effective Fed Funds Rate flat at 3.6% heading into mid-2026. This restrictive stance has significantly limited its flexibility to cut rates near term. The market is no longer just debating the timing of an initial cut; participants are questioning whether easing is appropriate at all while headline inflation remains well above the 2.0% target.

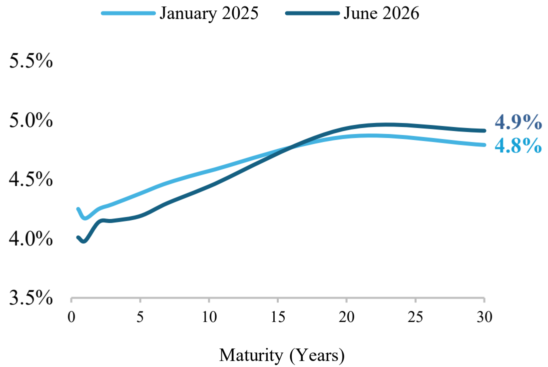
Yield Curve & Short-Term Rates: Higher-for-Longer Fully Priced In

The Treasury yield curve continues to price in an extended high-rate environment, with the June 2026 configuration steepening and peaking at 4.9% across medium-to-long maturities. Short-term funding pressures remain firm, with the US SOFR Overnight Rate hovering at 3.7%. This synchronized elevation across short-term benchmarks, and the broader term structure underscores an economy adjusting to prolonged high capital costs rather than signaling an impending recessionary plunge.

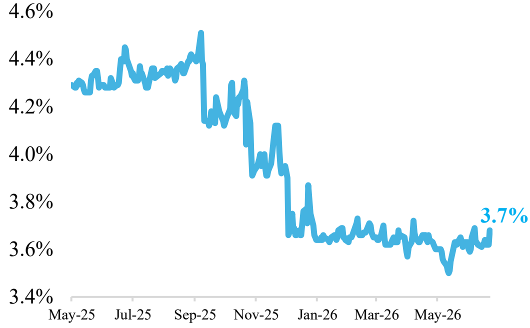
CPI vs. Fed Effective Rate



Treasury Yield Curve

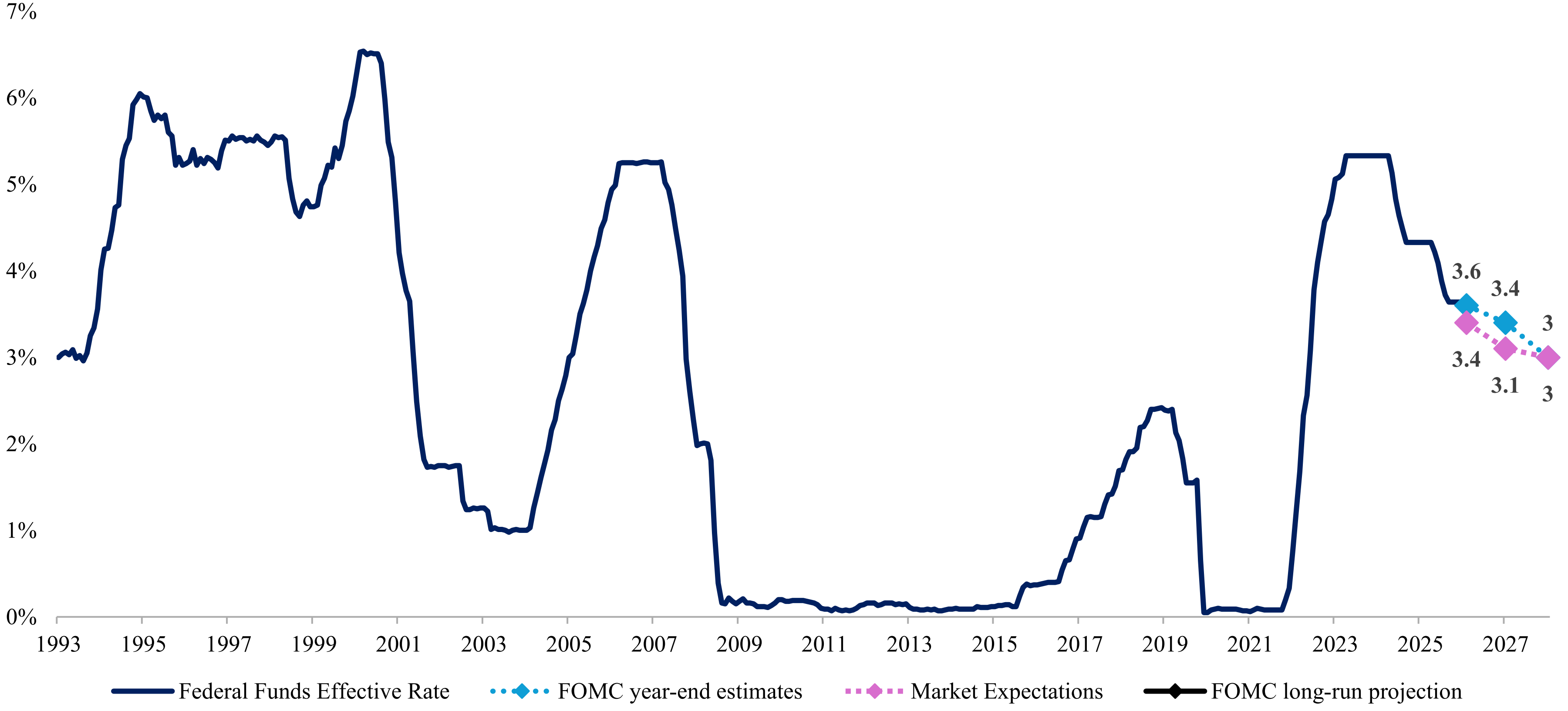


US SOFR Overnight Rate



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

Fed Funds Rate Expectations



Source: Federal Reserve St. Louis, Bloomberg, June 10th 2026.

Public Credit Markets

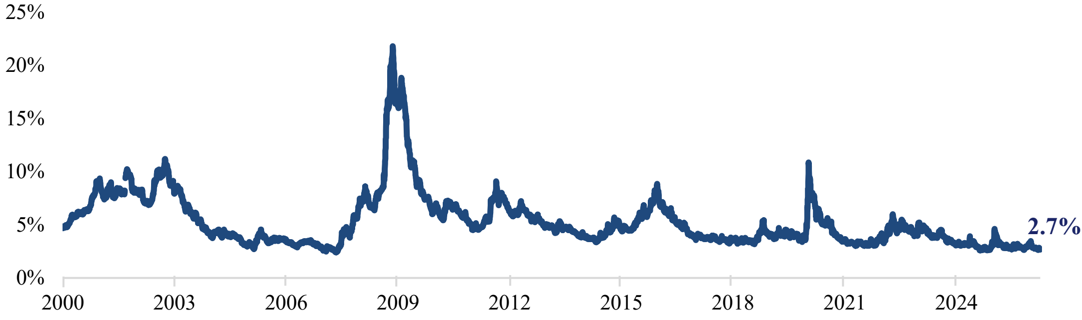
Spreads: Tight and Resilient, Defying Restrictive Pressures

High-yield credit spreads have continued to compress through the end of June and into early July 2026, extending their drop from the 3.16% high seen in Q1. The finalized data shows spreads closing out the second quarter at 2.75% on June 30th and tightening even further into the summer to touch 2.70% by July 8th. This steady downward trajectory deep into the low end of their historical post-crisis range underscores the fading of previous geopolitical risk premiums and highlights corporate credit fundamentals, with key sectors remaining highly resilient.

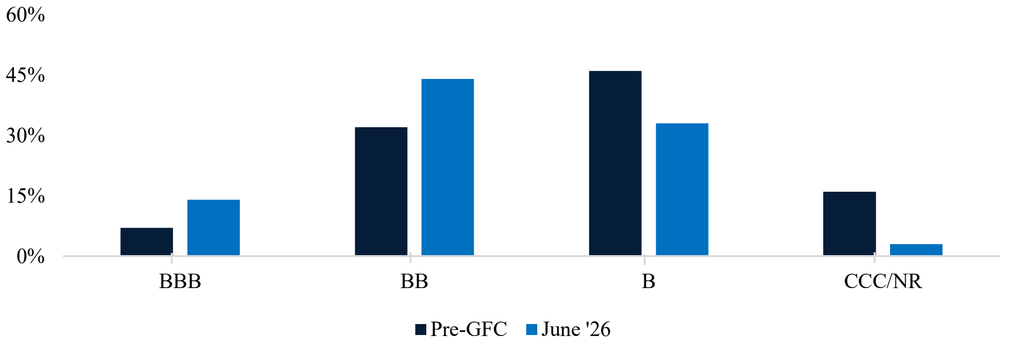
Credit Quality: A Structurally Stronger Index

The high-yield index is better positioned than in prior cycles, with the current composition reflecting a far superior quality profile compared to historical standards. As of June '26, high-quality, BB-rated bonds account for the largest share of the index at 44%, up from just 32% in the pre-GFC era. Concurrently, B-rated allocations sit at 33% (compared to 46% pre-GFC), while highly distressed CCC/NR exposure has been cut down to just 3%, providing significantly less systemic tail risk than heading into past economic downturns. This structural cushion keeps corporate debt-servicing capacity intact and provides meaningful downside protection even if macroeconomic 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

Bank Balance Sheets: Flush but Cautious

Banks remain well-capitalized and liquid, with the loan-to-deposit ratio holding steady below its historical peaks. Total bank deposits reached approximately $19,300 billion, while total loans rose to $13,800 billion, settling the ratio at 71.5%. This leaves substantial untapped lending capacity across the system. With plenty of liquidity available, the primary constraint on faster credit expansion remains cautious corporate risk appetite rather than structural capacity.

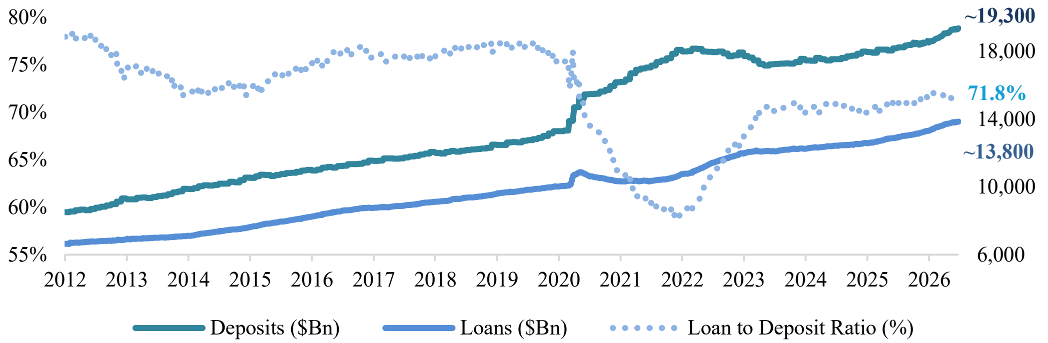
Lending Standards: Tightening at the Margins

The latest Senior Loan Officer Opinion Survey indicates that commercial banks are tightening C&I standards on net, pointing to a softer economic outlook, industry-specific headwinds, and lower risk tolerance. Commercial real estate standards remain stringent, and loan demand has trended flat-to-weaker. Banks have also tightened terms on credit lines to non-depository financial institutions, signaling risk aversion is spreading into the wider funding ecosystem.

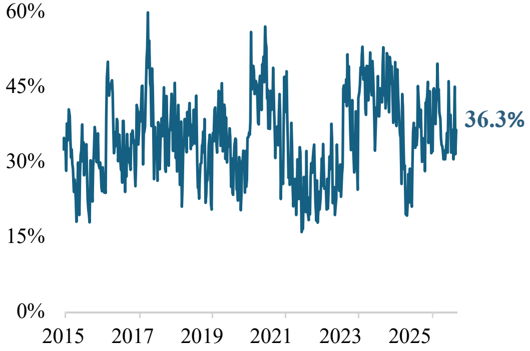
Sentiment and Capital: Sound but Subdued

Lender sentiment reflects a stabilizing but measured outlook, with bullish responses at 36.3%. Conditions are improving, but a broader pivot to optimism has not yet taken hold. Capital cushions remain robust; Bank Tier-1 Capital as a percentage of assets has consolidated slightly to 13.90%. This marks a shift toward efficient capital deployment while keeping the cushion well above regulatory minimums.

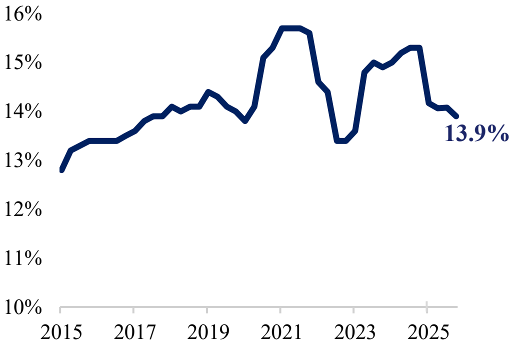
Loan to Deposit Ratio



Lender Sentiment Survey, % Bullish



Bank Tier-1 Capital as % of Assets



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

Private Credit Markets

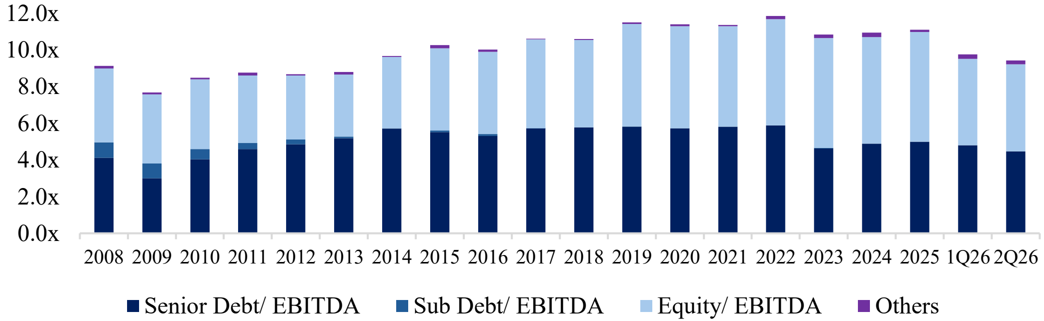
Deal Flow: Loudest Quarter on Record

In Q1 2026, global M&A dealmakers powered through geopolitical headwinds, trade policy uncertainty, and macro crosswinds to drive a historic level of activity. Total deal value reached an estimated $1.6 trillion, up 8.8% QoQ and 50.6% YoY, marking a new quarterly high in our data series. The total was heavily weighted toward the upper end of the market, driven by megadeals and scaled strategic acquisitions. Deal count on a TTM basis came in at an estimated 13,877 transactions, up 18.3% YoY and maintaining the record-breaking momentum established late last year, underscoring the profound cyclical recovery of the M&A market.

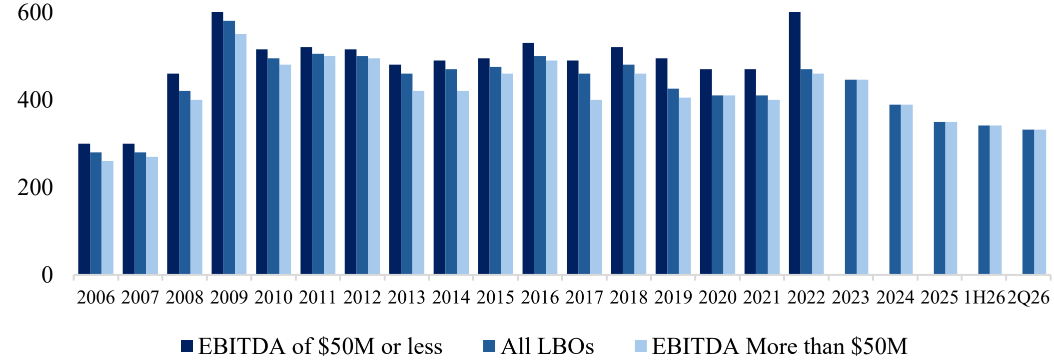
Deal Mix: Conventional, but Disciplined Deployment

The deal mix for the recent tracking period highlights capital moving through stable, tried-and-tested structures rather than chasing speculative plays. Core M&A leads the volume with 714 transactions, closely followed by 464 Buyout/LBO deals, while 335 add-on deals underscore a sustained commitment by sponsors to buy-and-build strategies to achieve operational scale. Other deal types remain a minor component of the overall volume, led by 47 secondary buyouts, 7 management buyouts, and 6 public-to-private transactions. This breakdown reflects a highly mature, deliberate corporate finance environment focused squarely on core credit and value segments.

LBO Purchase Price Multiples (EBITDA Multiples)



LBO Institutional Spreads



Source: Pitchbook.

M&A Trends

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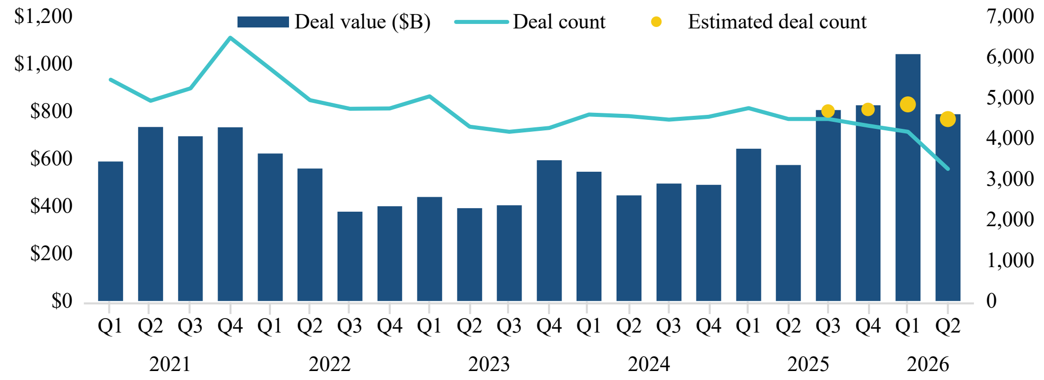
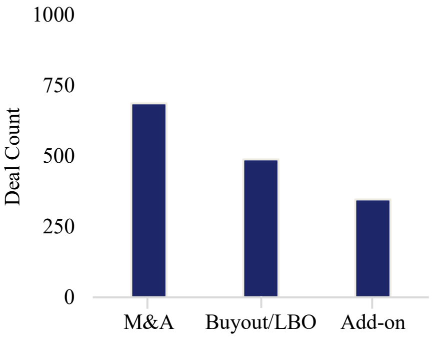
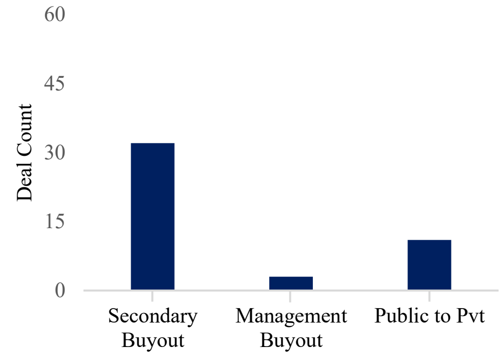
Global M&A Activity



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 firmer than the headline risks imply. Growth is steadying, GDPNow has Q2 tracking near 1.3% after a 2.1% Q1 with a generational AI capex cycle driving private investment and corporate profitability still robust. The labor market is balanced, credit conditions are sound, and capital markets are open.

The main wildcards are external, and energy is the biggest. Oil's surge is the most direct threat to the inflation path and therefore to the Fed's timeline. Headline CPI has climbed to 4.2%, a three-year high, even as core inflation stays contained near 2.9%, still above the 2% target. If the energy shock proves transitory and core continues to behave, the door to easing reopens and deal activity should reaccelerate later in the year; if energy pressures persist and bleed into structural inflation, a higher-for-longer regime gets entrenched, compressing multiples and tightening financing further.

The base case stays constructive: a stable macro backdrop; a Fed that is on hold but not hostile, now under new chair Kevin Warsh and a sharply divided committee; record dry powder is hunting for deployment; and a deal pipeline that is paused, not broken. The pull-forward of Q1 megadeals leaves a temporary air pocket, but the structural engines of M&A—sponsor liquidity, strong corporate balance sheets, and the need to reposition portfolios around AI, the energy transition, and supply-chains 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.

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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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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 M Average Deal Size