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# Credit Market Update

July 2026

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# Executive Summary

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**The Economy: Rebalancing, Not Retreating:** Q2 2026 real GDP came in at 1.5%, a deliberate rotation from Q1's AI capex surge toward consumer-led growth. Corporate earnings grew at the fast pace in five-years during Q2, with S&P 500 gross margins reaching 15-year highs. The labor market holds firm at 4.1% unemployment, headline CPI has retreated from its 4.2% May peak to 3.5% in June, and GDP Now has Q3 tracking near 4.3%. The economy is not slowing down. It is finding a more durable gear.

2

**Fed Policy: Patient, Restrictive, and Holding:** Chair Warsh and a divided FOMC held the federal funds rate at 3.50–3.75% at the July meeting, and the posture is correct. With headline CPI now below the effective policy rate of 3.63%, the Fed is in genuinely restrictive territory with no immediate pressure to move in either direction. Core inflation at 2.5% is trending toward target but not fast enough to justify cuts. The 30-year Treasury at 5.25% confirms the market sees no near-term easing. Rates are higher for longer, and deal markets are adapting accordingly.

3

**Credit: Open, Competitive, and Constructive:** Capital markets are fully open and lenders are actively competing for quality paper. High-yield spreads held at 2.70% through August 10th despite materially higher Treasury yields, a clear signal that credit fundamentals are driving the market. Business loan delinquencies sit at 1.34%, LBO institutional spreads have compressed to 332 bps, and the July SLOOS confirms C&I lending standards remain easier than their long-run midpoints. Private credit is well-capitalized and aggressively seeking deployment. The constraint on deal activity is not access to capital. It is quality deals.

# US GDP Breakdown

**Q2 2026: Moderating Expansion Led by Consumer Spending**

Q2 2026 real GDP grew at 1.5%, a moderation from Q1's capex-dominated expansion. The primary engine of growth shifted back toward the consumer, with personal consumption emerging as the dominant contributor while private investment pulled back from its Q1 peak.

**Personal Consumption: Households Rebound as Primary Growth Engine**

Consumer spending regained momentum in Q2 2026, contributing 1.32% to real GDP, a notable acceleration from the soft 0.95% recorded in Q1. This rotation reflects resilient household balance sheets and firm labor demand, reassuring analysts of underlying economic strength despite cooling global trade dynamics.

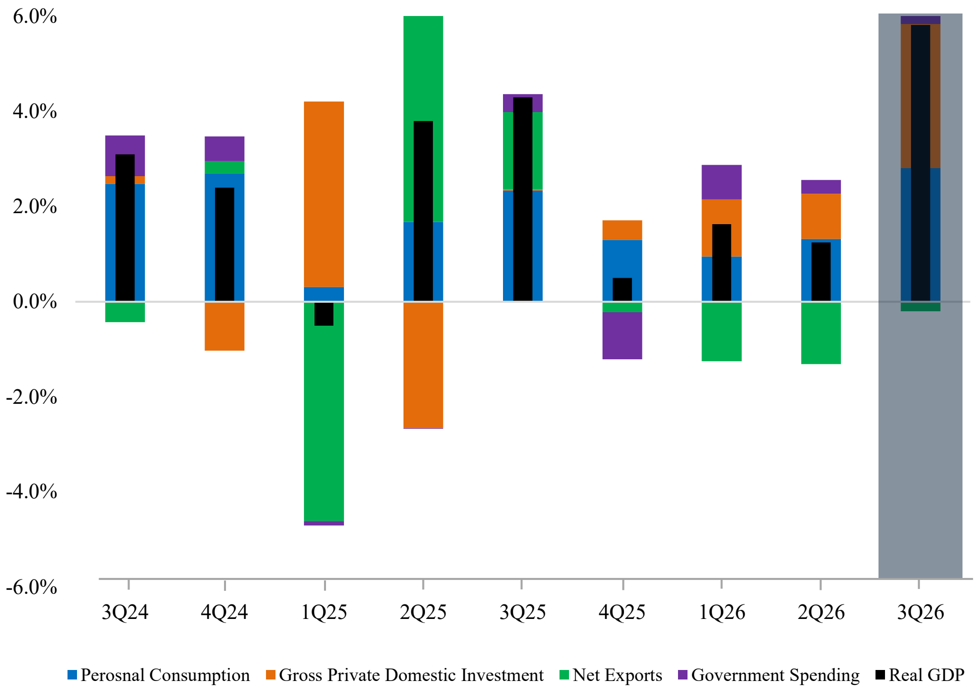
**Private Investment: Post-Peak Capex Stabilizes**

Gross Private Domestic Investment moderated to a 1.20% contribution to GDP in Q2 2026, pulling back from the AI-fueled capex peak of 3.03% recorded in Q1. This deceleration reflects the front-loaded nature of data center and infrastructure build-outs, though investment remains positive and the long-term floor for corporate capital spending appears intact.

**Q3 Outlook: GDP Now Points to Reacceleration**

The Atlanta Fed GDP Now model is currently tracking Q3 2026 real GDP at 5.82% as of July 26th, a significant reacceleration from Q2. Personal consumption leads the component breakdown at 2.81% and private investment at 3.03%, suggesting the Q2 moderation may prove transitory.

**Contributions to Percent Change in Real Gross Domestic Product**




Shaded area denotes forecasts, Atlanta Fed GDPNow

**Source:** Atlanta Fed GDPNow, August 10th, 2026.

# US Productivity

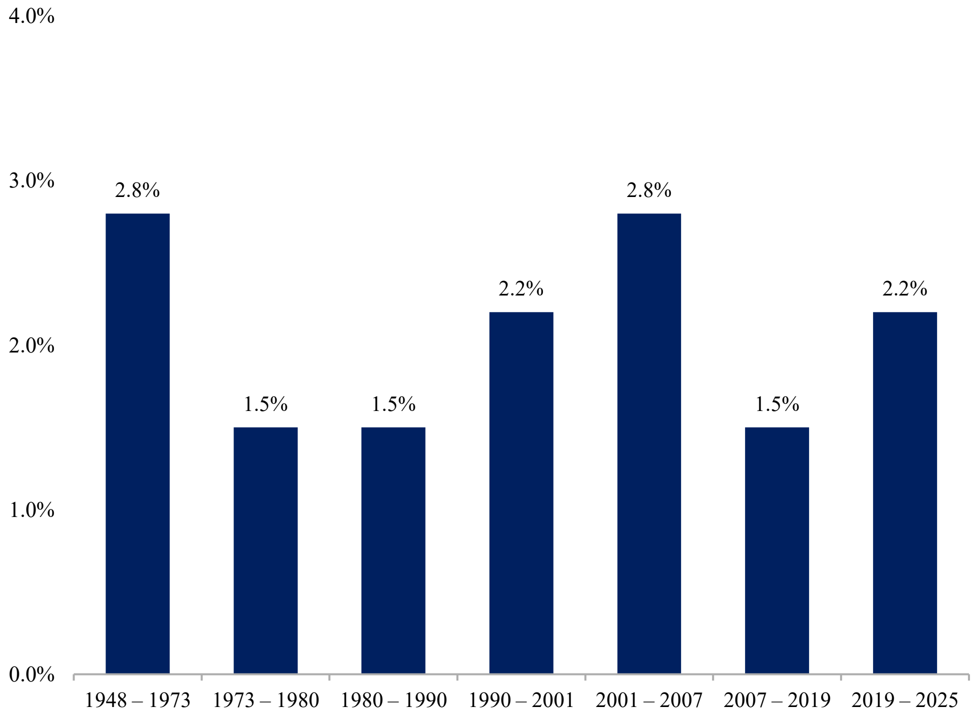
### Productivity: Above Trend but Growth Pace Decelerates

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 2.0% in 2025 on an annual-average basis, and year-over-year growth remained a solid 2.8% in Q1 2026. However, the Q2 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 2.0% annualized growth rate since Q4 2019 stays well above the 1.5% average observed during the 2007–2019 expansion cycle, confirming that efficiency gains remain intact.

### The Bigger Story: A Structural Tailwind Is Building

Today's 2.0% annual growth rate 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

**JOLTS: Openings Hold Firm, Churn Remains Contained**

The June 2026 JOLTS data confirms continued resilience in labor demand, with the job openings rate holding steady at 4.4%. While this signals that companies remain actively looking to expand headcount, overall labor market churn stays relatively subdued compared to the peak volatility of prior years. Employers are maintaining a steady post-pandemic baseline, keeping postings elevated without destabilizing workforce composition.

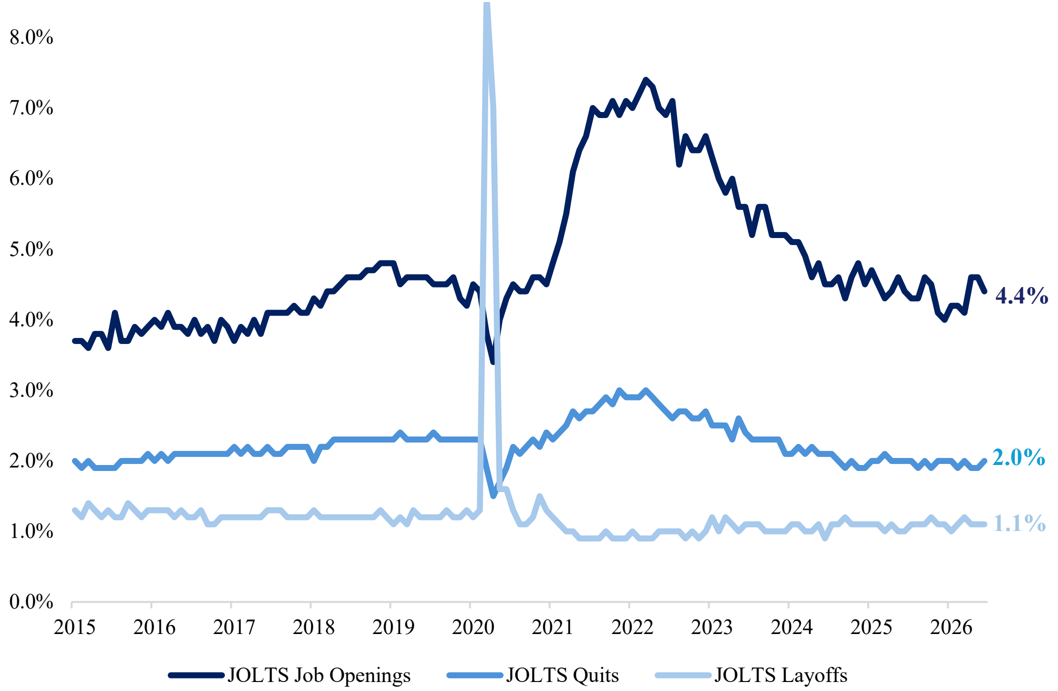
**Hiring Eases as the Openings-Hires Gap Widens**

As the openings rate remains robust, actual hiring paces have shown signs of normalization, widening the gap between unfilled positions and monthly placements. Worker sentiment mirrors this pattern, with the quits rate holding steady at 2.0%, suggesting employees are selective rather than restless — a deliberate labor market rather than a complacent one.

**Bottom Line: Stable Footing, With Upside Building**

The most reassuring signal in the release is how contained the downside remains: the layoffs rate sits remarkably low at 1.1%, indicating that firms are largely holding onto their current staff despite broader macroeconomic crosswinds. 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, August 5th, 2026.

# Unemployment & Wage Growth

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**Employment: Labor Market Firms Up Heading into Summer**

The labor market is demonstrating renewed structural strength rather than merely holding steady. After peaking at 4.6% in late 2025 and hovering at 4.3% through the spring, the unemployment rate ticked down to 4.1% in July 2026. The widely anticipated wave of macroeconomic layoffs has failed to materialize — employers across core sectors continue to add and retain workers, sustaining a tight labor market despite persistent restrictive policy headwinds.

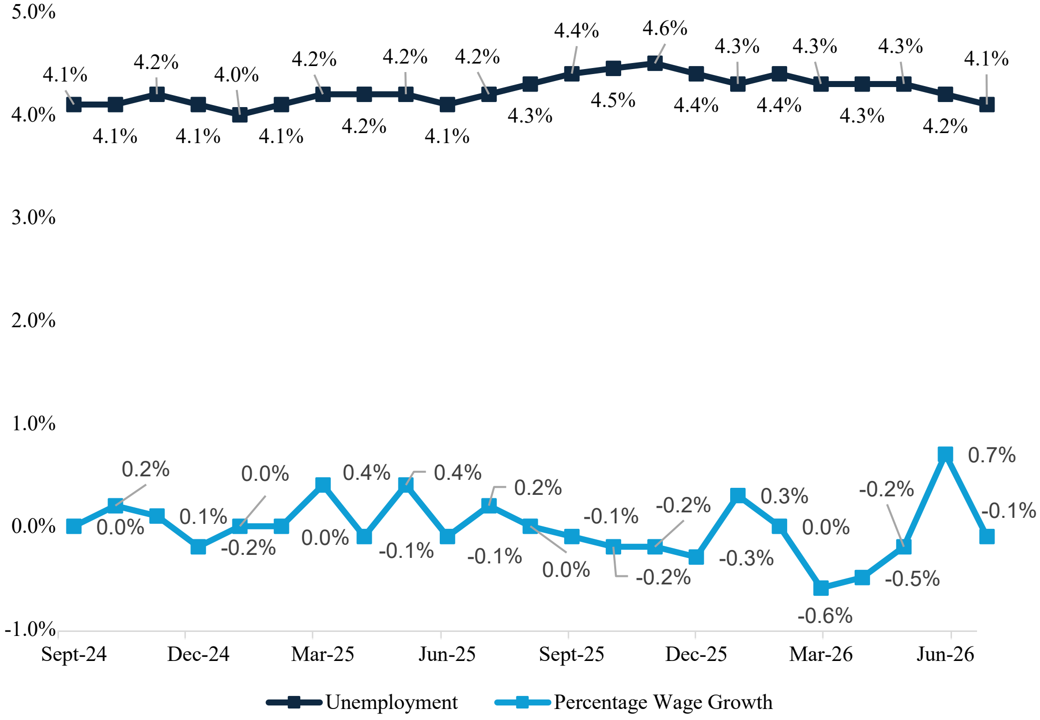
**Wages: Real Income Pressures Begin to Stabilize**

The painful stretch of negative real wage growth that defined early spring — with monthly wage changes plummeting to -0.6% in March and -0.5% in April — is finally running its course. Nominal wage growth has since adjusted toward equilibrium, landing at a mild -0.1% contraction by early summer. Consumer purchasing power absorbed a meaningful hit in the first half of the year, but the trajectory is clearly flattening, suggesting the worst of the real-income erosion is now behind us.

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

The latest data complicates the path for monetary policymakers. With unemployment at 4.1% and no signs of employment distress on the horizon, there is no compelling case for an emergency rate cut. At the same time, the stabilization of the wage spiral keeps consumer demand firm enough to sustain sticky core inflation — reinforcing the case for an extended higher-for-longer rate environment. The Fed has room to hold, and every reason to use it.

## US Unemployment Rate and Wage Growth Rate




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

# Consumer Financial Health

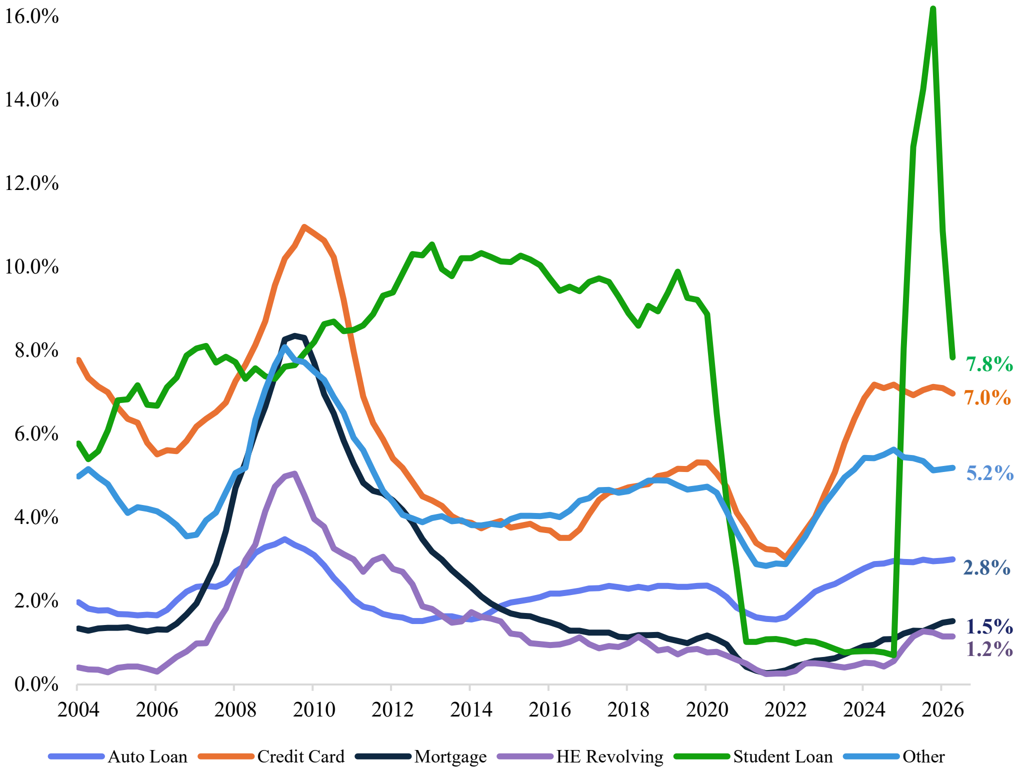
**Consumer Credit: Stress Is Real, but Systemic Risk Is Not**

The headline is containment. Serious delinquencies (90+) for credit cards held essentially flat at 7.0%, confirming the revolving debt stress that defined 2024 and 2025 is plateauing rather than accelerating. Auto loan delinquencies ticked up to 3.0% — worth watching, but not alarming. The real anchor of household credit health remains intact: mortgage serious delinquencies sit at just 1.5% and HE Revolving at 1.2%, keeping the core of household wealth well-insulated. The consumer is stretched in pockets, not broken at the foundation.

**Student Loans: The Outlier Worth Watching**

Student loan serious delinquencies held near 7.8% in Q2, with the New York Fed flagging that re-reporting of defaulted debt is creating some distortion in the reads. What is clear: the post-forbearance shockwave has largely cleared the system, and the acute default surge is behind us. But at nearly 8%, student loans remain the single most stressed category on the consumer balance sheet. A persistent headwind on discretionary spending and wealth-building for younger cohorts that isn't going away quietly.

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




**Source:** Federal Reserve New York, Q2 2026, Augist 11th, 2026

# Corporate Financial Growth

**Margins: Corporate Profitability Is Breaking Out**

S&P 500 companies aren't just holding the line — they're expanding it. Gross margins reached 71.0% while net profit margins are tracking toward 16% in Q2 2026, the highest level in over 15 years. Earnings growth came in at 50.4% year over year — the strongest print since Q2 2021 — with 86% of companies beating estimates by an average of 29.2%, the widest positive surprise on record. Scale, AI-driven efficiency, and sustained pricing power have turned a cost-pressure cycle into a margin expansion story.

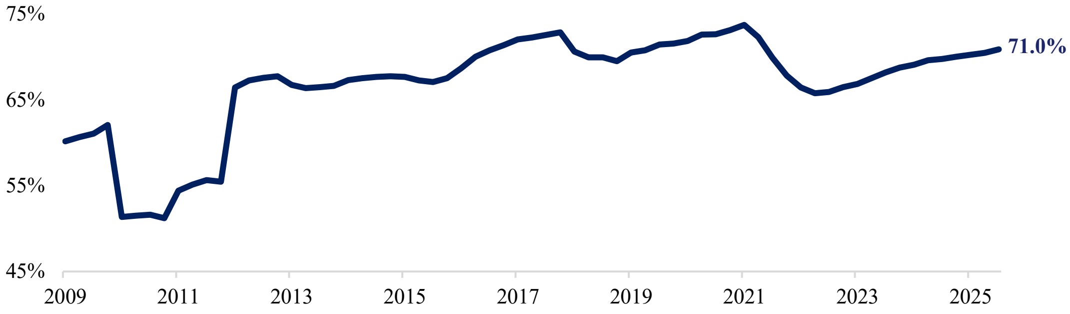
**Credit: Corporate Balance Sheets Are Clean**

No stress signals in the credit data. The delinquency rate on business loans across all commercial banks sits at 1.34% — effectively flat from prior quarters and well below any historically meaningful distress threshold. Elevated borrowing costs haven't broken corporate debt-servicing capacity. Balance sheets are healthy, covenants are holding, and the feared wave of credit deterioration hasn't arrived.

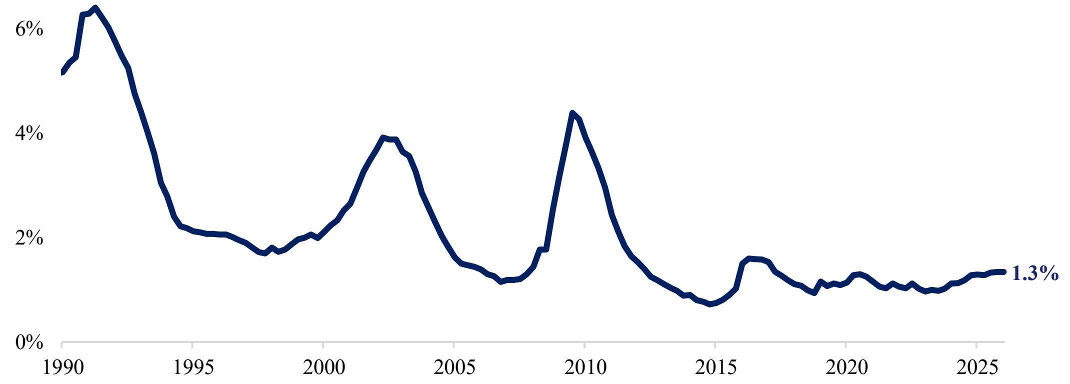
**Capital Markets: The Conditions for Deals Are Intact**

Record margins and near-zero credit distress are the backbone of an active deal market. Strategic buyers and private credit are deploying aggressively into a fundamentally sound environment. With earnings surging, defaults contained at 1.34%, and financing markets open, capital is moving toward expansion — not defense.

## S&P 500 Gross Margins (%) Since 2010




## Delinquency Rate on Business Loans, All Commercial Banks




**Source:** Federal Reserve St. Louis, Macrotrends Data as of August 7th, 2026.

# Public Markets Rates

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**Inflation: Retreating From the Peak, But Not There Yet**

Headline CPI peaked at 4.2% in May and has since pulled back to 3.5% in June as energy prices eased meaningfully. The direction is right, but at 3.5% inflation remains well above the Fed's 2% target, and core services continue to exert upward pressure. Inflation is slowing on its own timeline.

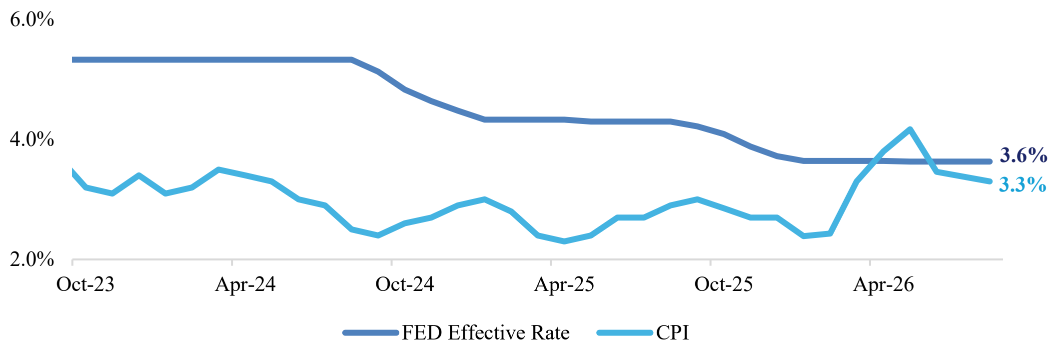
**The Fed: On Hold With a Watchful Eye**

The Federal Reserve held its target range at 3.50–3.75% at the July 28–29 FOMC meeting, with the Effective Fed Funds Rate sitting at 3.63%. With headline CPI below the policy rate, the Fed is technically in restrictive territory a position it will defend until the data gives a clear all-clear. No cuts are imminent. No hikes are needed. The Fed is waiting, and the market knows it.

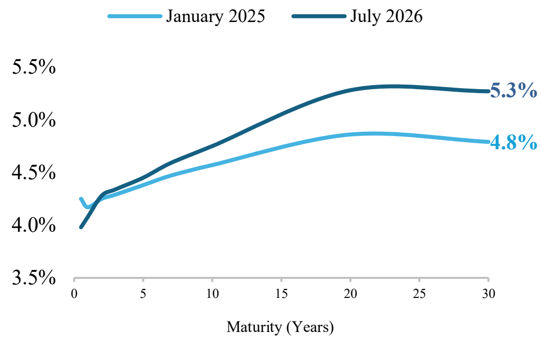
**Yield Curve: Long End Pushes Deeper Above 5%**

The Treasury curve is sending an unambiguous higher-for-longer signal. The 10-year sits at 4.72% and the 30-year has extended to 5.25% a level that meaningfully pressures long-duration assets and deal financing costs. SOFR holds at 3.64%, keeping short-term borrowing anchored near the policy rate. The curve is steepening, and every basis point at the long end tightens the math on leveraged transactions.

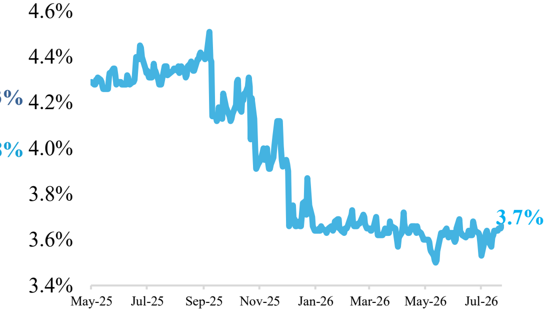
## CPI vs. Fed Effective Rate




## Treasury Yield Curve




## US SOFR Overnight Rate




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

# **Fed Funds** Rate Expectations

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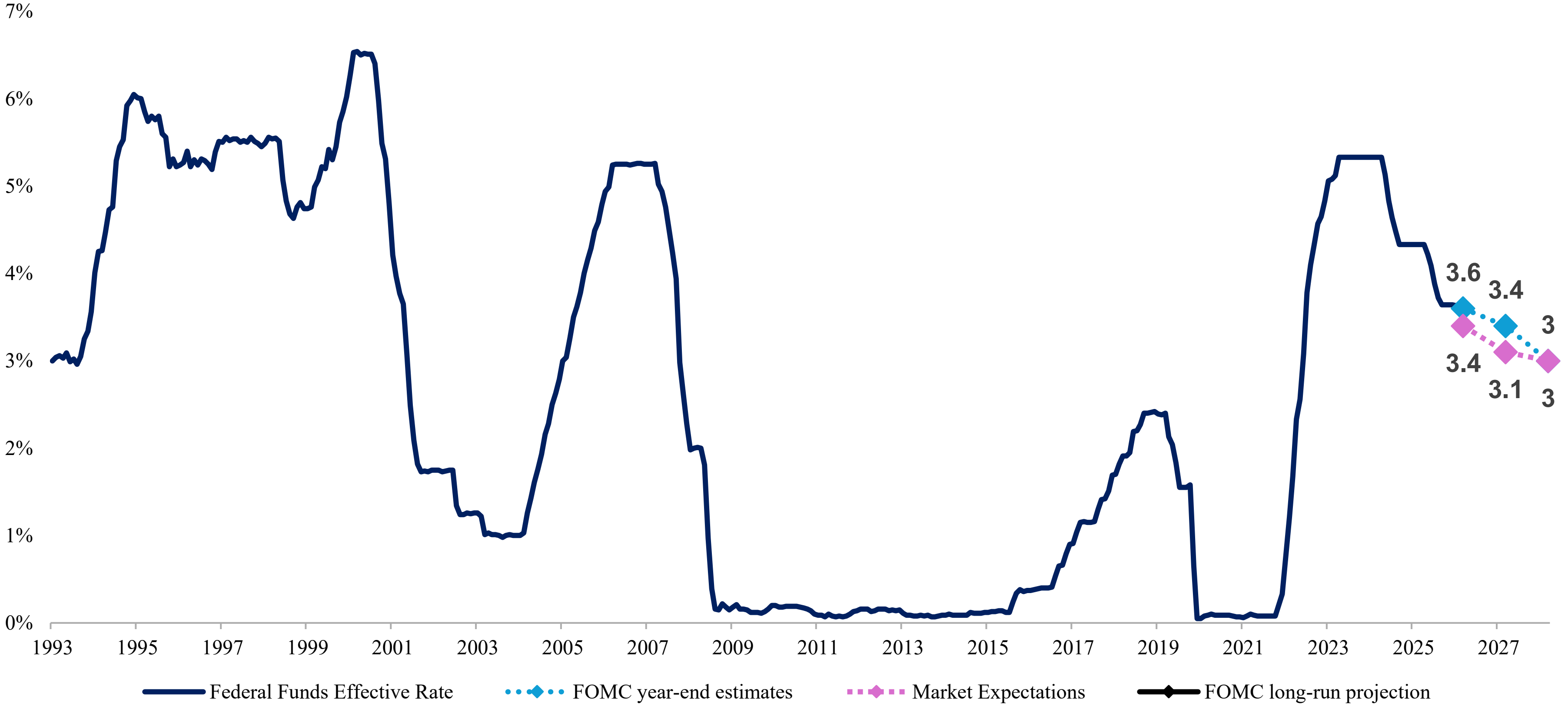


**Source:** Federal Reserve St. Louis, Bloomberg, August 10th, 2026.

# Public Credit Markets

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**Spreads: Holding Firm in a Rising Rate Environment**

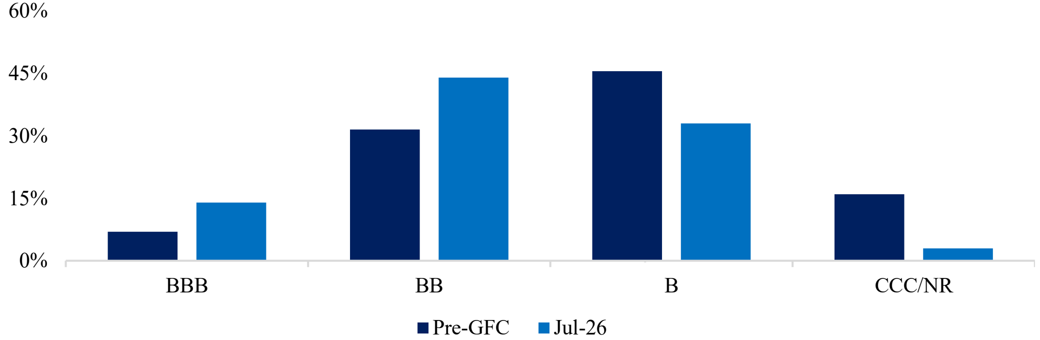
High-yield credit spreads have proved remarkably durable. After compressing from a Q1 high of 3.16%, spreads closed Q2 at 2.75% on June 30th, tightened to 2.70% by July 8th, and held that exact level through August 10th — a 33-day stretch of stability against a backdrop of materially higher Treasury yields. That combination of base rates moving up, spreads unmoved is the market's clearest signal that credit fundamentals are doing the work. Corporate credit is being priced on its own merits, and the verdict is confidence.

**Credit Quality: A Structurally Stronger Index**

The composition of the high-yield index provides additional comfort. BB-rated bonds now account for 44% of the index, up from just 32% pre-GFC, while B-rated allocations have compressed to 33% from 46%. Highly distressed CCC/NR exposure sits at just 3% — a fraction of what entered prior downturns. The index that exists today is structurally cleaner than anything the market has seen heading into a late-cycle environment. That quality cushion keeps debt-servicing capacity intact and meaningfully narrows the tail risk even if macro conditions soften 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 Lending** Markets

**Bank Balance Sheets: Flush but Disciplined**

Banks remain well-capitalized with substantial untapped lending capacity. Total deposits reached approximately $19,500 billion against total loans of $14,000 billion, holding the loan-to-deposit ratio steady at 71.6%. The system has liquidity. The constraint on faster credit expansion is not capacity — it is lending appetite.

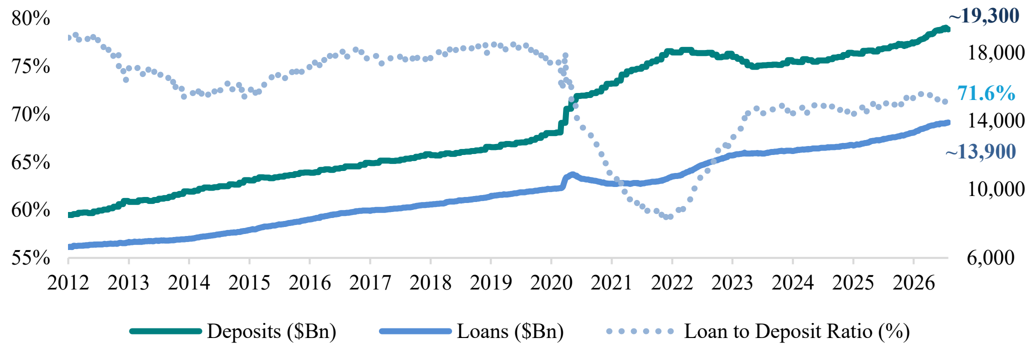
**Lending Standards: Selectively Easing**

The July 2026 SLOOS tells a more nuanced story than prior quarters. C&I standards held basically unchanged for firms of all sizes and remain easier than their historical midpoints across most categories — a quiet green light for deal financing. Commercial real estate standards showed selective easing for nonfarm, nonresidential and multifamily properties, while construction and land development remained unchanged and continue to sit at the tighter end of historical ranges. On the demand side, large and middle-market firms showed a stronger appetite for C&I loans, reversing prior softness — a signal that corporate borrowers are leaning back in.

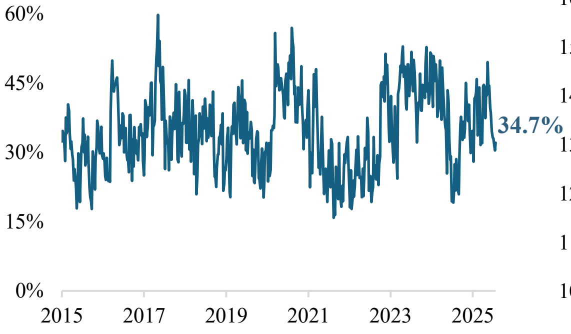
**Sentiment and Capital: Steady, Not Exuberant**

Lender sentiment remains measured, with AAII bullish readings at 34.7% — below the long-run average of 37.5%, confirming that optimism has not yet turned to complacency. Bank Tier-1 Capital holds at 13.9% of assets through Q1 2026, well above regulatory minimums and positioned for deployment rather than defense.

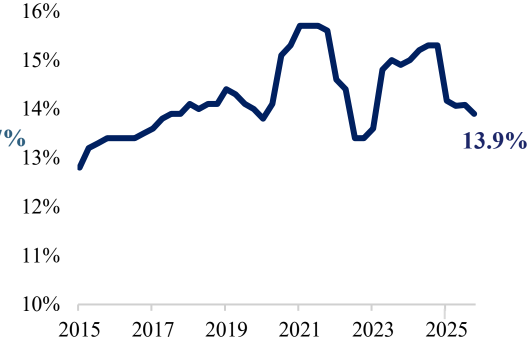
## Loan to Deposit Ratio




## Lender Sentiment Survey, % Bullish




## Bank Tier-1 Capital as % of Assets




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

# **Private Credit** Markets

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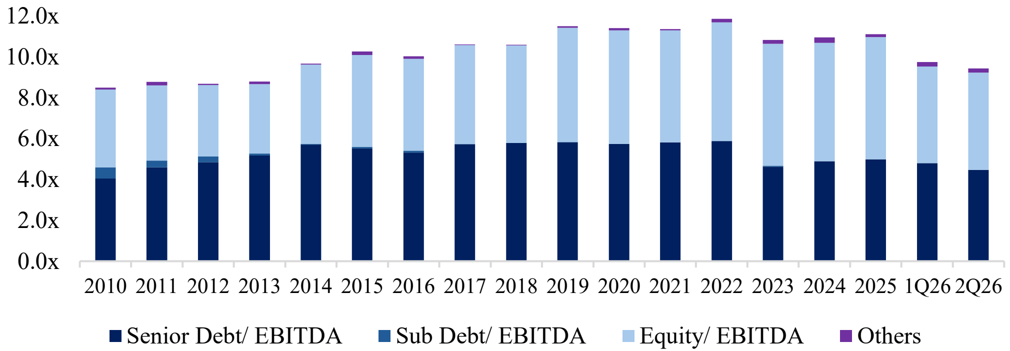
**Valuations: Disciplined Structures, Clear Conviction**

LBO purchase price multiples moderated through H1 of 2026 from 9.75x EBITDA in Q1 to 9.43x in Q2, but the telling number is what's underneath. Equity contributions held firm at 4.75x EBITDA even as senior debt capacity pulled back from 4.80x to 4.47x. Sponsors are not stretching to get deals done. They are writing bigger equity checks, maintaining clean capital structures, and clearing transactions on conviction rather than leverage. That's not a stressed market. That's a disciplined one.

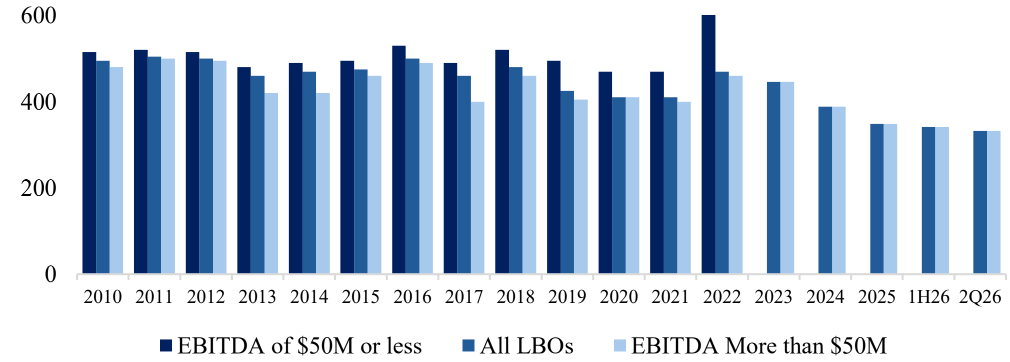
**LBO Spreads: The Cost of Capital Keeps Falling**

Institutional spreads compressed to 332 bps in Q2 2026, extending a multi-year tightening trend that has run from 389 bps in 2023 to 349 bps in 2024 to 332 bps today applicable equally to middle-market deals ($50M EBITDA or less) and large-cap LBOs. The driver is structural: private credit fund supply is abundant, non-bank lender competition is fierce, and borrowers have pricing power. The financing environment for buyouts is as favorable as it has been since the pre-rate-hike era.

## LBO Purchase Price Multiples (EBITDA Multiples)




## LBO Institutional Spreads




**Source:** Pitchbook.

# M&A Trends

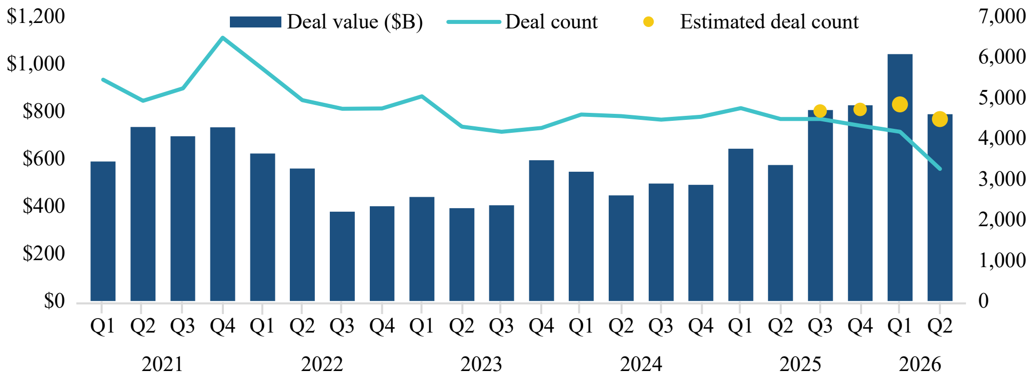
**Deal Flow: Largest Quarter on Record, Then a Deliberate Reset**

North American M&A opened 2026 with its strongest quarter on record — $1,039.5 billion in Q1 across 4,830 transactions, driven by a concentration of megadeals that accounted for 54% of total deal value. Q2 moderated to $787.0 billion across 4,476 transactions, a 24% pullback that reflects normalization rather than retreat. Deal volume remained exceptionally strong by any historical measure, and the pipeline is intact.

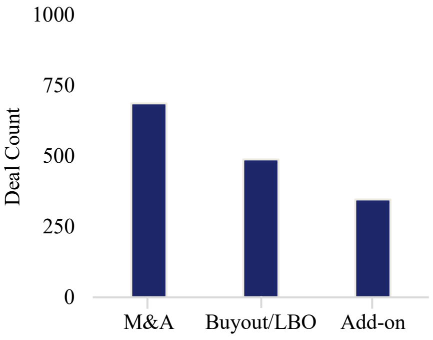
**Deal Mix: Strategic Buyers Lead, Sponsors Stay Disciplined**

The Q2 deal mix reveals a market running on fundamentals. Core M&A leads volume at 714 transactions, with strategic acquirers deploying capital into durable consolidation plays. Buyout and LBO activity logged 464 deals but saw its share of total value dip to a five-year low, as sponsors opted for discipline over velocity  writing larger equity checks on fewer, higher-conviction opportunities. Add-on activity held firm at 335 transactions, confirming that buy-and-build strategies remain a primary playbook for scaling platform investments. Secondary buyouts, management buyouts, and public-to-private transactions round out the remainder. Capital is moving through proven structures, and strategies.

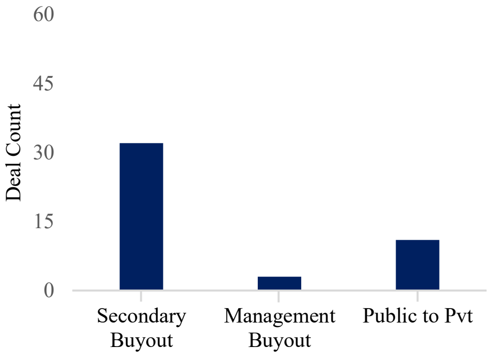
## North America M&A Activity




## Core Deal Types by Count




## Other Deal Types by Count




**Source:** Pitchbook.

# Outlook

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**H2 2026 Outlook: The Setup Is Better Than the Headlines Suggest**

**The Economy: Rebalancing, Not Retreating**

Q2 GDP of 1.5% looks soft until you understand what drove it. The AI capex surge that powered Q1's 2.1% print gave way to a consumer-led expansion, and GDP Now has Q3 tracking near 5.6%. Corporate earnings are growing at the fastest pace in five-years. Unemployment holds at 4.1%, layoffs are contained, and headline CPI has retreated from its 4.2% May peak to 3.5% in June. The economy is not retreating. It is rotating.

**Fed Policy: Patient, Restrictive, and Holding**

Chair Warsh and a divided FOMC are holding at 3.50–3.75%, and the posture is correct. Headline CPI is now below the policy rate, putting the Fed in genuinely restrictive territory with room to hold without forcing a credit event. Core at 2.5% is moving in the right direction but not fast enough to justify cuts. No easing is coming soon, and none is needed. Stability at current levels is entirely workable for deal execution.

**Credit Markets: Open, Competitive, and Constructive**

High-yield spreads held at 2.70% through August 10th while Treasury yields moved materially higher. That tells you everything about where credit fundamentals stand. Business loan delinquencies are at 1.34%, LBO spreads have compressed to 332 bps, and the July SLOOS confirms C&I lending standards remain easier than their long-run midpoints. Private credit is competing hard for quality paper. Capital is available, pricing is favorable, and the constraint on deal flow is conviction, not access.


## 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**

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