BANKERS EDGE
ADVISORY

Credit Market Update

August 2026

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Executive Summary

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The Economy Is Stronger Than It Looks: The American economy is accelerating. GDPNow has Q3 tracking at 5.82% as consumers stepped up and the AI capex surge normalized into a broader, more durable expansion. Corporate margins have reached a record 70.9%, unemployment sits at 4.1%, layoffs are pinned at 1.1%, and headline CPI has retreated from its 4.17% May peak to 3.3% in September. The feared deterioration has not materialized. The foundation is solid, the momentum is building, and the back half of 2026 is set up to be strong.

2

The Fed Is Back on Offense: Rate hike at the last meeting, another one signaled. The Fed has decided patience is no longer enough. With CPI still running well above the 2% target and core services staying sticky, the FOMC has made its position clear: it will lead inflation down, not follow it. For deal teams, the message is straightforward. Financing costs are moving higher and underwriting needs to reflect that reality. Structures that rely on cheap debt will struggle. But transactions built on strong cash flows, disciplined equity contributions, and conservative leverage remain executable. The market is not closed. It is simply more selective.

3

Credit Is Accessible and Available: The data could not be clearer. Default rates are low, credit spreads have held firm despite materially higher Treasury yields, and lenders are actively expanding availability into a fundamentally sound environment. Business loan delinquencies sit at just 1.34%, well below any historically meaningful distress threshold, and LBO spreads have compressed steadily from 446 bps in 2023 to 332 bps today as non-bank lender competition intensifies and quality borrowers retain real pricing power. Banks are flush, lending standards are easing selectively, and capital is moving toward expansion rather than defense. For sponsors and strategic buyers with the right assets and the right structures, the credit window is wide open.

US GDP Breakdown

Q2 2026: A Softer Headline, A Stronger Mix

Q2 2026 real GDP came in at 1.25%, down from 1.63% in Q1, but the composition tells a better story than the number. Growth rotated away from the front-loaded investment cycle and back toward the consumer, where a durable expansion is built. Net exports at -1.31% were the primary drag, a trade-flow headwind rather than a sign of underlying weakness.

Personal Consumption: The Consumer Takes the Wheel

Consumer spending contributed 1.32% to Q2 real GDP, up from 0.95% in Q1, reclaiming its place as the largest positive driver of growth. The foundation is solid: unemployment at 4.1%, layoffs pinned at 1.1%, and households spending is supported by increasing real wage growth.

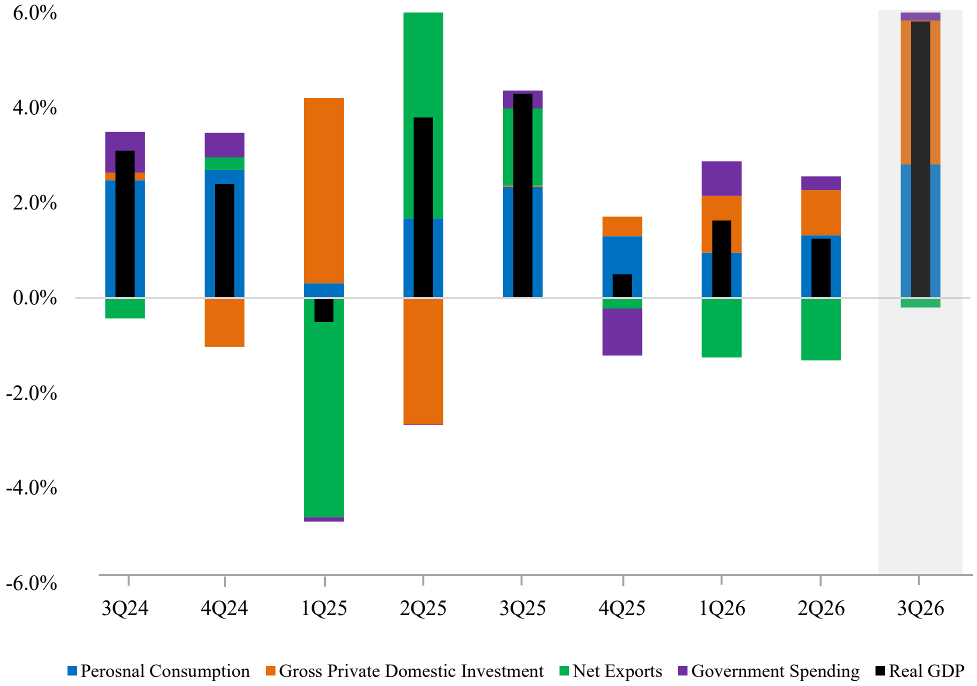
Private Investment: Normalizing After the Capex Peak

Gross private domestic investment added 0.95% in Q2, easing from 1.20% in Q1 as the AI and data-center build-out moved past its peak intensity. This is orderly deceleration, not reversal. Government spending contributed a steady 0.29% alongside.

Q3 Outlook: GDPNow Points to a Breakout Quarter

The Atlanta Fed's GDPNow model has Q3 2026 real GDP tracking at 5.82%, a sharp reacceleration that puts the recent moderation firmly behind us. Consumer spending and business investment are leading the charge, and the trajectory points to a strong finish to the year.

Contributions to Percent Change in Real Gross Domestic Product



Shaded area denotes forecasts, Atlanta Fed GDPNow

Source: Atlanta Fed GDPNow, September 10th, 2026.

US Productivity

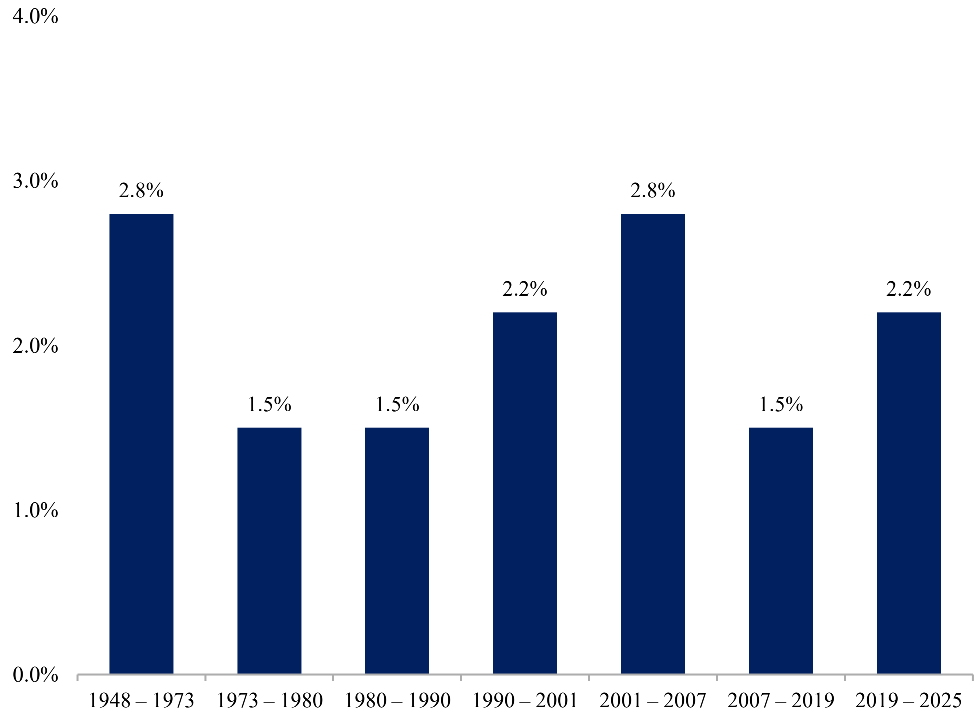
Productivity: Running Above Trend and Accelerating

Nonfarm business labor productivity has grown at a 2.2% annualized rate over the 2019–2025 period — comfortably ahead of the 1.5% logged during the 2007–2019 expansion and matching the pace of the 1990–2001 boom. This is not a pandemic distortion. The efficiency gains are real, they are holding, and they are the single most important buffer against elevated unit labor costs in the current rate environment.

The Bigger Story: The Best Is Still Ahead

A 2.2% baseline is strong. What makes it compelling is what's coming. The AI build-out is laying the infrastructure for a step-change in enterprise productivity as these tools move from deployment to scale. Policy is aligned: the One Big Beautiful Bill Act permanently restored 100% bonus depreciation, raised the Section 179 cap to $2.5 million, and reinstated immediate R&D expensing — a tax code engineered for capital formation. For credit investors, the message is straightforward: sustained productivity growth is what lets margins absorb higher financing costs without touching coverage. The structural tailwind is building, not fading.

Productivity Change in Nonfarm Business Sector (1948-2025)



Source: Nonfarm Business Sector: Labor Productivity

JOLTS Employment Survey Data

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JOLTS: Demand Holds, Churn Stays Quiet

The June 2026 JOLTS report confirms the labor market is exactly where you want it. Job openings held at 4.4% after back-to-back 4.6% prints firms are still actively hiring, but the frenzy of 2022 has given way to a disciplined, sustainable baseline.

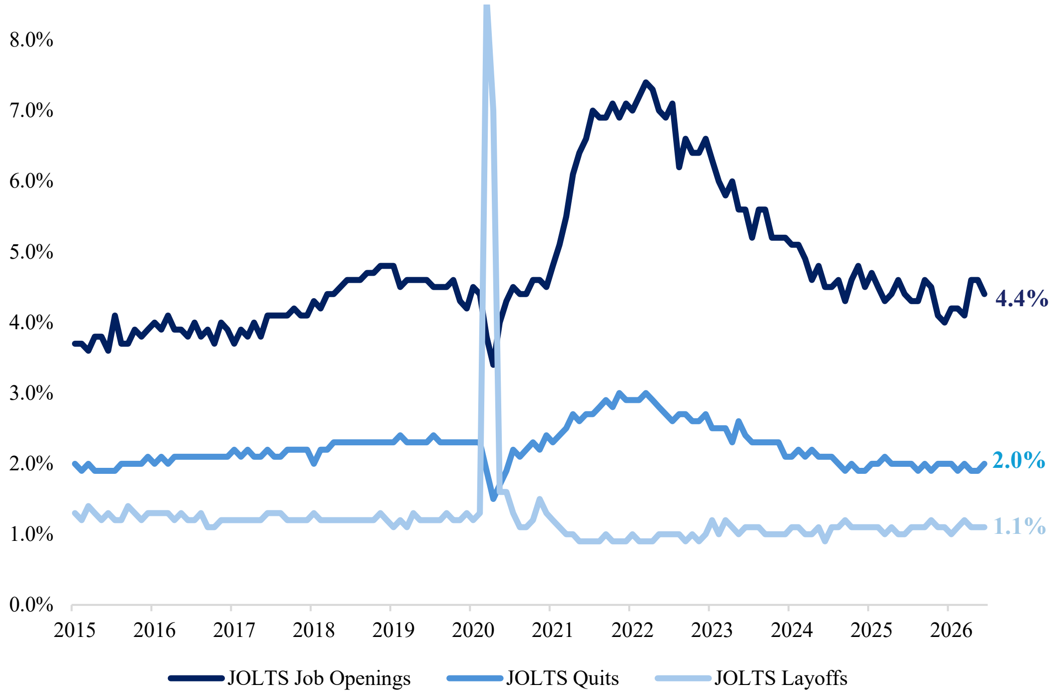
Hiring Normalizes, Workers Stay Put

Placement rates have eased in line with openings, widening the gap between posted positions and monthly hires. This is a sign of selectivity, not distress. Workers are reading the same signal: the quits rate held at 2.0% in June, flat from a year ago and well below the churn that defined the post-pandemic labor wars.

Bottom Line: Stable Footing, With Upside Building

The number that matters most for credit is the layoffs rate and at 1.1%, it is effectively flat for over a year and near the lowest level ever recorded. Firms are holding their workforce despite restrictive policy and higher financing costs. That stability flows directly into household income, consumer credit quality, and deal underwriting confidence. The labor market is not breaking. It is holding firm.

JOLTS Job Openings, Nonfarm Quits, and Nonfarm Layoff Rates



Source: US Department of Labor Data, September 5th, 2026.

Unemployment & Wage Growth

Employment: The Labor Market Is Improving

The feared wave of layoffs never came. After peaking at 4.6% in late 2025 and drifting near 4.3% through the spring, unemployment has moved in the right direction 4.2% in June, 4.1% in July. Employers across core sectors are adding and holding workers despite restrictive policy and elevated capital costs. This is a labor market with structural legs, not one living on borrowed time.

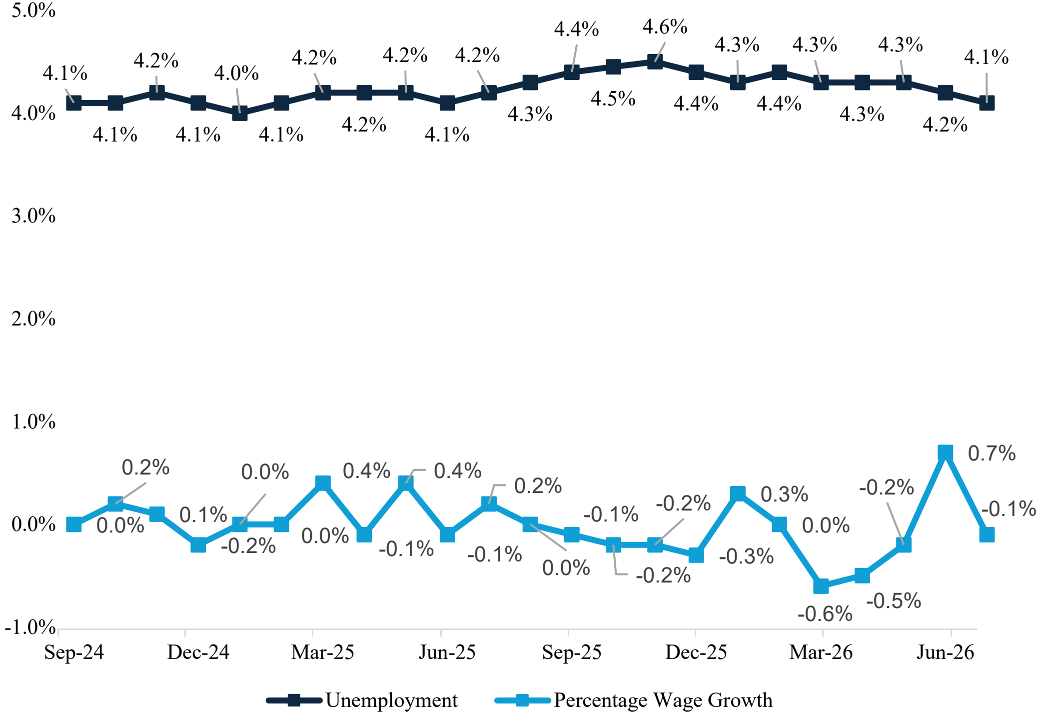
Wages: The Worst Is Behind Us

The real wage squeeze of early 2026 was sharp with monthly real wage growth contracting -0.6% in March and -0.5% in April. But that pressure is easing. Growth bounced to +0.7% in June and has stabilized near flat in July. Consumer purchasing power took a hit in the first half; the trajectory now points toward recovery, not further erosion.

The Takeaway: The Fed Is Back on Offense

The data has handed the Fed a clear mandate, and they've acted on it. With unemployment holding at 4.1% and no signs of labor market distress, the FOMC raised rates at its last meeting and is signaling another hike ahead. Stabilizing wages are keeping consumer demand firm and core inflation sticky, and the Fed is not waiting around for that to change. Higher for longer is no longer just a posture. It's an active policy direction. Deal teams need to underwrite to that reality.

US Unemployment Rate and Wage Growth Rate



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

Consumer Financial Health

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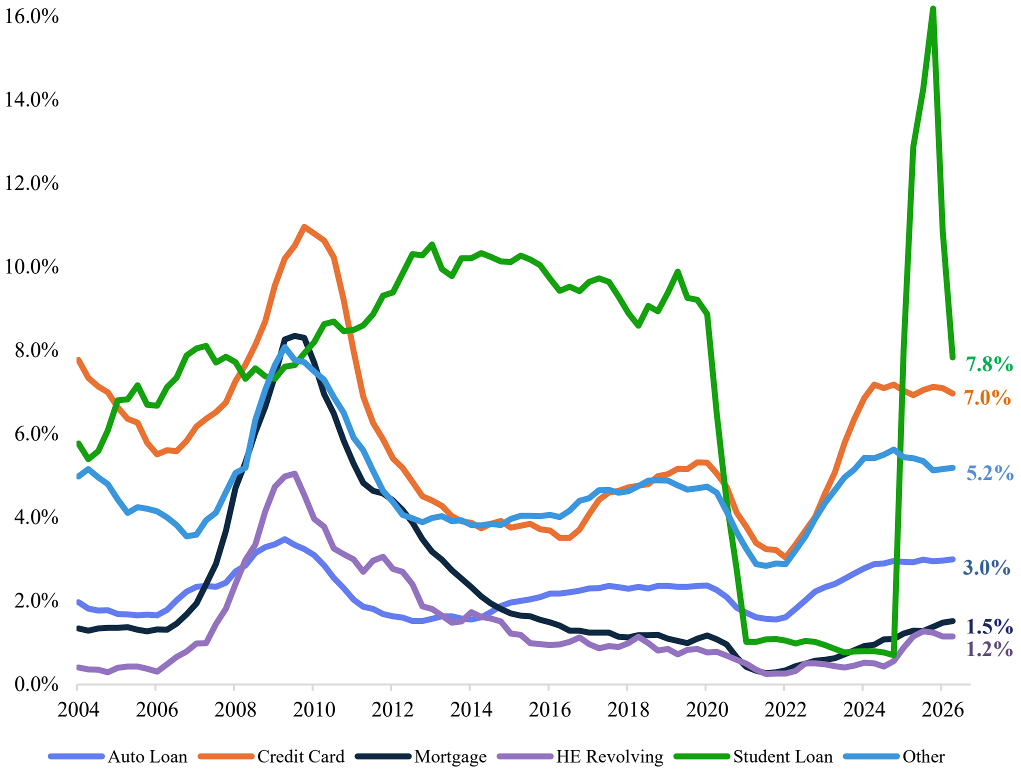
Consumer Credit: Consumer Stress Narrative Is Overstated

The data tells a straightforward story: consumer credit is improving. Credit card serious delinquencies (90+ days) eased to 7.0% in Q2 from 7.1% in Q1, a modest but meaningful step in the right direction. Auto loan delinquencies held at 3.0%, other consumer credit at 5.2%, but the foundation of household wealth remains firmly intact with mortgage serious delinquencies at just 1.5% and HE Revolving at 1.2%. The feared consumer credit unraveling has not materialized.

Student Loans: The Corner Has Been Turned

The sharpest improvement is where the stress was most acute. Student loan serious delinquencies fell to 7.8% in Q2 from 10.9% in Q1 and a 16.2% peak in Q4 2025. The post-forbearance shockwave has cleared, the acute default surge is behind us, and the trajectory is unmistakably positive. At nearly 8%, student loans remain the most elevated category on the consumer balance sheet, but the direction of travel is what matters, and it is firmly downward.

Transition into Serious Delinquency by Loan Type (90+)



Source: Federal Reserve New York, Q2 2026, September 11th, 2026

Corporate Financial Growth

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Margins: Corporate Profitability Keeps Grinding Higher

S&P 500 gross margins reached 70.9% in Q2 2026, the highest level in the series and the eighth consecutive quarterly improvement from 69.6% a year ago. Scale advantages, AI-driven efficiency, and durable pricing power have transformed what began as a cost-pressure cycle into a sustained margin expansion story. Corporate America is not just surviving a higher-rate environment, it is thriving in it.

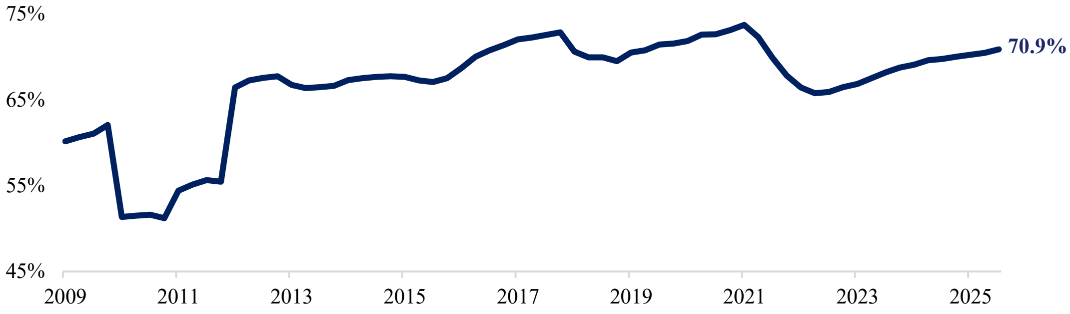
Credit: Corporate Balance Sheets Are Clean

There are no stress signals anywhere in the credit data. Business loan delinquencies across all commercial banks sit at 1.34%, unchanged from the prior quarter and nowhere near any historically meaningful distress threshold; a series that ran at 6.8% in the late 1980s and above 4% post-financial crisis. Balance sheets are healthy, covenants are holding, and the long-anticipated wave of credit deterioration has simply not arrived.

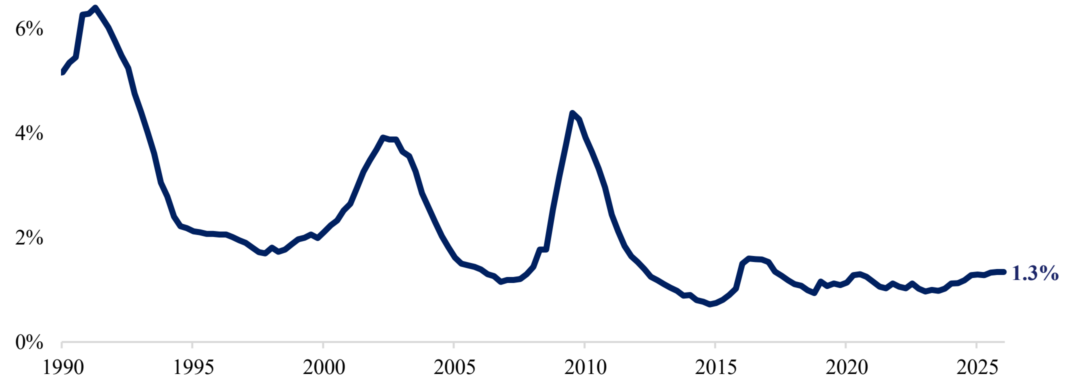
Capital Markets: The Conditions for Deals Are Intact

Record margins and near-zero credit distress are a powerful combination. Strategic buyers and private credit funds are deploying into a fundamentally sound environment, underwriting to cash flows that are demonstrably improving. Capital is moving toward expansion, not defense. The deal market is open, and the fundamentals justify it.

S&P 500 Gross Margins (%) Since 2010



Delinquency Rate on Business Loans, All Commercial Banks



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

Public Markets Rates

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Inflation: Retreating From the Peak, But Not at Target Yet

Headline CPI peaked at 4.17% in May 2026 and has pulled back to 3.46% in June and 3.30% in September as energy prices eased and goods disinflation resumed. The direction is right, but at 3.3% inflation remains well above the Fed's 2% target, and core services continue to exert upward pressure. Inflation is coming down on its own timeline but the Fed is not willing to wait.

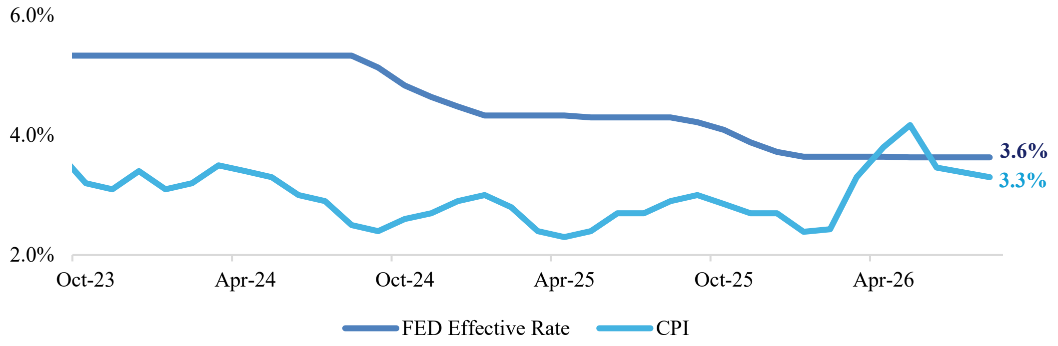
The Fed: Back on Offense

The Federal Reserve raised its target range at the last meeting and is signaling another hike ahead. With headline CPI still running 130 basis points above target and core services sticky, the FOMC has concluded that holding was no longer enough. The Effective Fed Funds Rate ended August at 3.63% and is moving higher. The market has gotten the message.

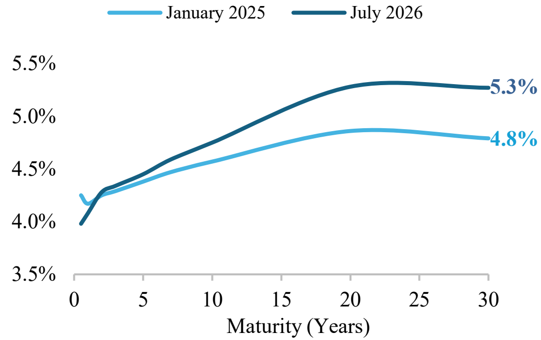
Yield Curve: The Long End Is Pricing the New Reality

The Treasury curve is confirming what the Fed is telegraphing. The 10-year sits at 4.75% and the 30-year has extended to 5.27%, up roughly 50 basis points from January 2025 levels of 4.57% and 4.79% respectively. SOFR printed 3.62% on September 12th, anchored near the policy rate but with upward pressure building. Every basis point at the long end tightens the math on leveraged transactions and the long end is not done moving.

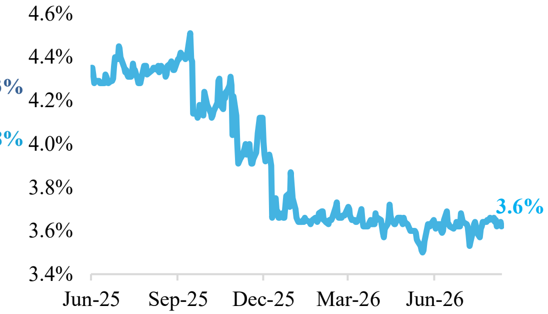
CPI vs. Fed Effective Rate



Treasury Yield Curve

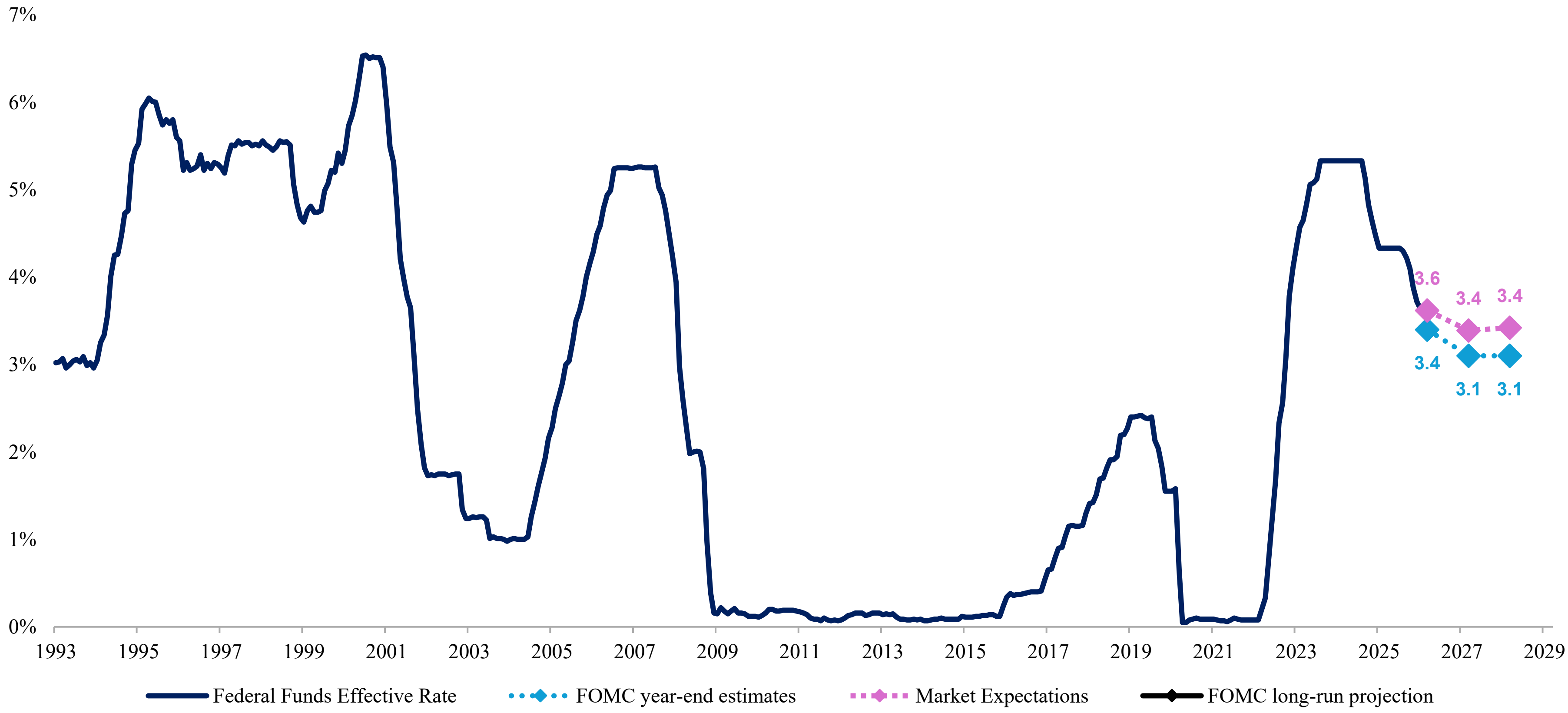


US SOFR Overnight Rate



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

Fed Funds Rate Expectations



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

Public Credit Markets

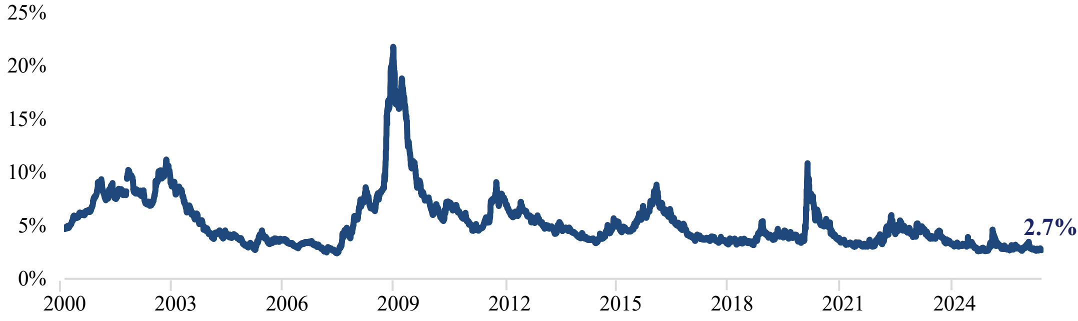
Spreads: Holding Firm in a Rising Rate Environment

High-yield spreads are telling a compelling story. Option-adjusted spreads opened July at 2.70%, briefly widened to 2.87% on July 29th, and have retraced to 2.71% as of September 12th a swing of just 17 basis points across five weeks, against a backdrop of materially higher Treasury yields. Base rates moving up while spreads stay anchored is the market's clearest signal that credit fundamentals are doing the pricing, not liquidity. Credit is being judged on its own merits, and the verdict is confidence.

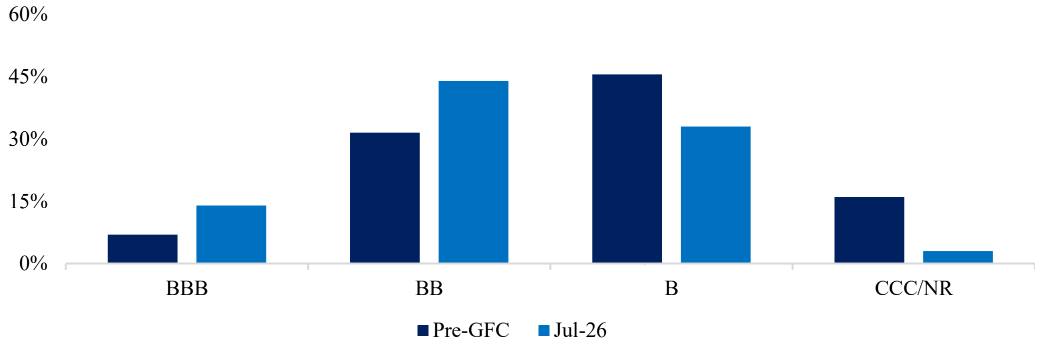
Credit Quality: Structurally Stronger Index

The composition of today's high-yield index should give investors real comfort. The index is dominated by BB-rated bonds up sharply from pre-GFC levels, while highly distressed CCC/NR exposure has been reduced to a fraction of what the market carried into the financial crisis. BBB crossover paper adds another layer of quality at the top. This is not the same high-yield market that wobbled in prior late-cycle environments it is structurally cleaner, better rated, and better positioned to absorb macro softness without a meaningful deterioration in debt-servicing capacity. The tail risk is narrower than the headlines suggest.

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

The banking system has capacity to spare. Total deposits of approximately $19.4 trillion against $13.9 trillion in loans puts the loan-to-deposit ratio at 71.9%; ticking up from 71.6% last quarter as loan growth slightly outpaced deposit growth, but still leaving substantial dry powder on the sidelines. The constraint on faster credit growth is appetite, not capital or liquidity.

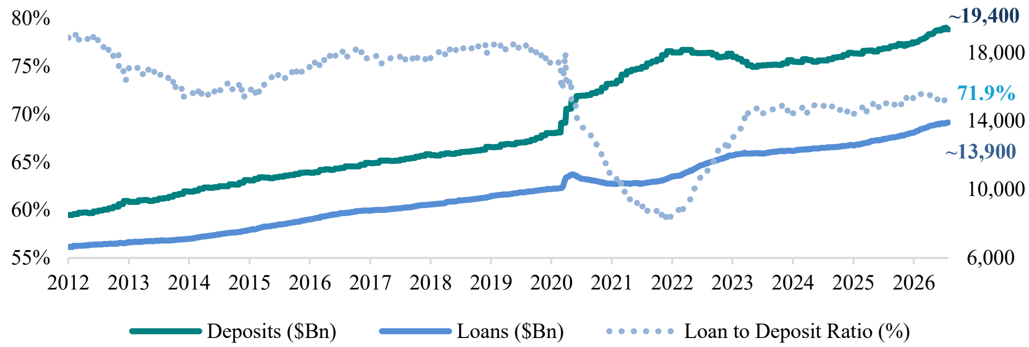
Lending Standards: The Door Is Open

The latest SLOOS (Senior Loan Officer Opinion Survey) survey confirms lenders are leaning in. C&I standards held essentially unchanged for firms of all sizes and remain easier than historical midpoints across most categories a quiet green light for deal financing. Commercial real estate standards eased selectively for nonfarm, nonresidential and multifamily properties. Large and middle-market firms are showing renewed appetite for C&I loans, reversing the softness of earlier quarters. The lending environment is constructive and getting more so.

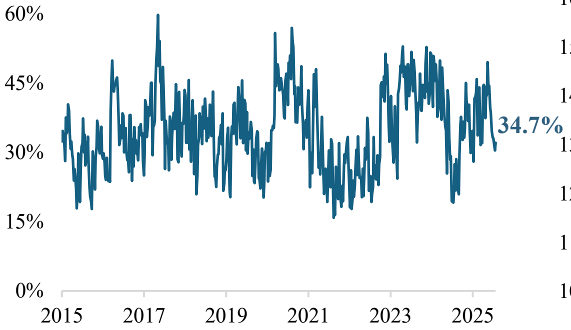
Sentiment and Capital: Measured, Not Complacent

Lender sentiment is exactly where you want it engaged but not euphoric. AAII bullish readings sit at 34.7%, below the long-run average and well off the 44.9% spike in mid-July. Optimism has not curdled into complacency. Bank Tier-1 Capital holds at 13.9% of assets, comfortably above regulatory minimums and ready to be put to work. The system is disciplined, well-capitalized, and open for business.

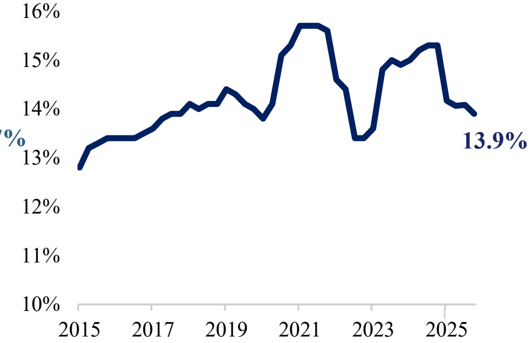
Loan to Deposit Ratio



Lender Sentiment Survey, % Bullish



Bank Tier-1 Capital as % of Assets



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

Private Credit Markets

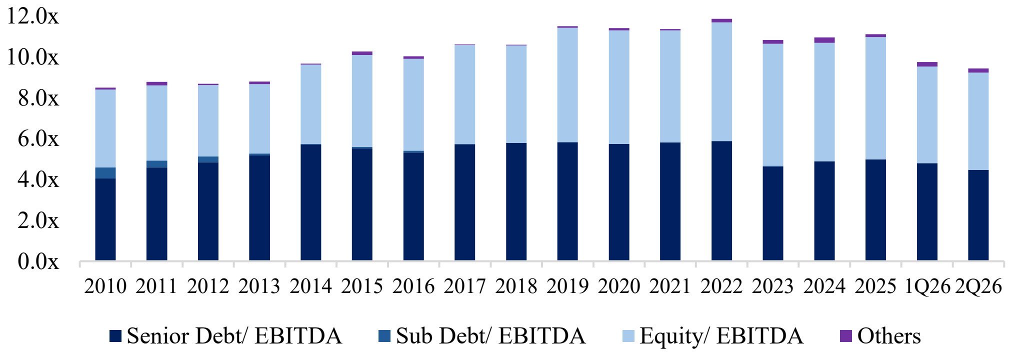
Valuations: Disciplined Structures, Clear Conviction

LBO purchase price multiples moderated through H1 2026, from 9.75x EBITDA in Q1 to 9.43x in Q2 but the number that matters is what sits underneath. Equity contributions held firm at 4.75x, marginally above Q1's 4.72x, even as senior debt pulled back from 4.80x to 4.47x. Sponsors are not stretching to get deals done. They are writing bigger equity checks and clearing transactions on conviction rather than leverage. That is a healthy market, not a desperate one.

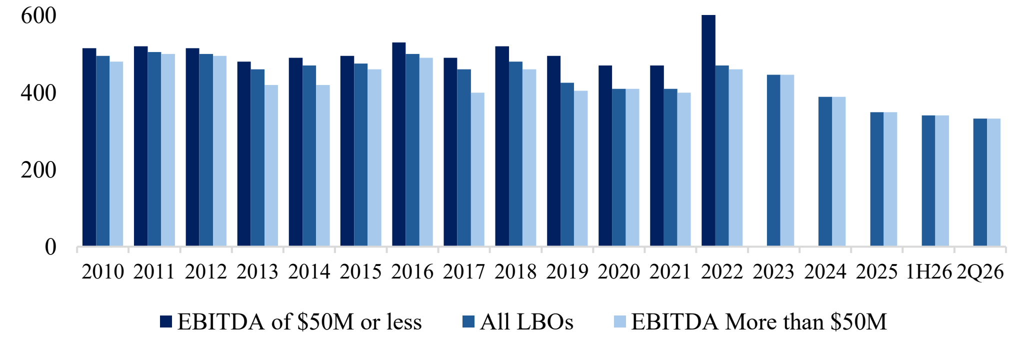
LBO Spreads: The Cost of Capital Keeps Falling

Institutional spreads compressed to 332 bps in Q2 2026, extending a multi-year tightening trend from 446 bps in 2023, 389 bps in 2024, and 349 bps in 2025. The trend holds equally across middle-market deals and large-cap LBOs this is not a size-driven dynamic. The driver is structural: private credit supply is abundant, non-bank lender competition is fierce, and quality borrowers hold real pricing power. The cost of capital is falling even as base rates rise, a striking divergence that reflects the depth and competitiveness of today's lending market.

LBO Purchase Price Multiples (EBITDA Multiples)



LBO Institutional Spreads



Source: Pitchbook.

M&A Trends

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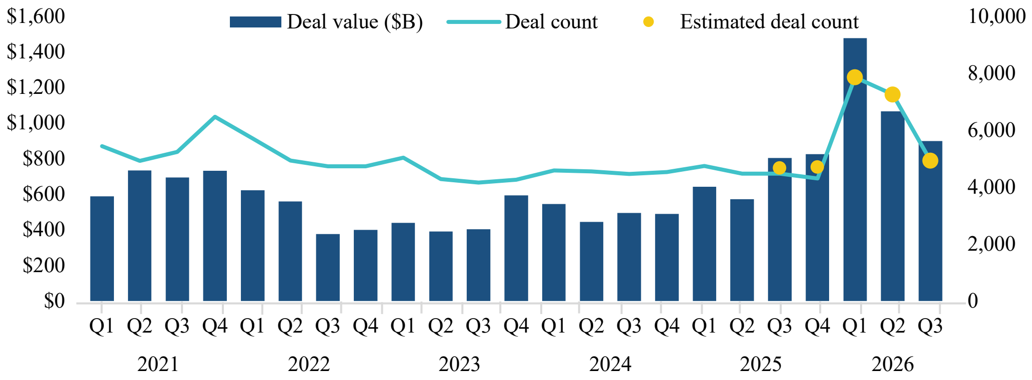
Deal Flow: A Record First Half, Then a Quarter Still in Flight

North American M&A delivered an exceptional first half of 2026, with $1,476.4 billion of capital invested across 7,855 transactions in Q1 and $1,064.7 billion across 7,249 transactions in Q2. Q3-to-date, measured through the September 10th PitchBook export, shows $898.8 billion across 4,931 deals. That figure will be revised upward as reporting lags close, and even as an incomplete read it already runs well ahead of the 2024 quarterly cadence of roughly $500 to $825 billion.

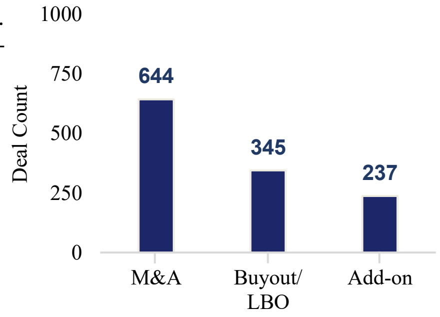
Deal Mix: Strategic Buyers Lead, Sponsors Stay Disciplined

The September deal-type breakdown reveals a market running on fundamentals. Core M&A leads by count at 644 transactions, with strategic acquirers deploying capital into durable consolidation plays. Buyout and LBO activity logged 345 deals, as sponsors opted for discipline over velocity, writing larger equity checks on fewer, higher-conviction opportunities. Add-on activity recorded 237 transactions, confirming that buy-and-build remains a primary playbook for scaling platforms. Secondary buyouts at 30, management buyouts at 13 and public-to-private transactions at 2 round out the remainder.

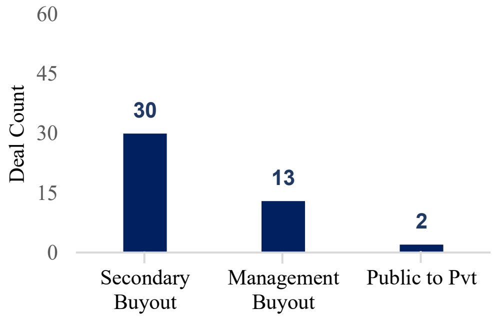
North America M&A Activity



Core Deal Types by Count



Other Deal Types by Count



Source: Pitchbook.

Outlook

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

The Economy: Strengthening, Not Retreating

Q2 real GDP of 1.25% looks soft until you understand the composition. The AI capex cycle gave way to a consumer-led expansion; personal consumption accelerated to 1.32% in Q2 from 0.95% in Q1, and GDP now has Q3 tracking at 5.82%. S&P 500 gross margins have reached a record 70.9%, unemployment holds at 4.1%, layoffs are pinned at 1.1%, and headline CPI has retreated from its 4.17% May peak to 3.3% in September. The economy is not losing steam. It is finding a healthier gear.

Fed Policy: Tightening With Purpose

The FOMC raised rates at its last meeting and is signaling more to come. With CPI still well above the 2% target and core services sticky, patience is no longer the right posture. The rate path is now known and underwritten, and a higher-rate environment built on strong corporate fundamentals is entirely workable for transactions grounded in real cash flow.

Credit Markets: Open, Competitive, and Constructive

High-yield spreads sit at 2.71%, essentially flat from early July even as Treasury yields moved materially higher. Business loan delinquencies are modest at 1.34%, LBO spreads have compressed to 332 bps, and $19.4 trillion in deposits against $13.9 trillion in loans leave the banking system flush with capacity. The constraint on deal flow is conviction, not access. The market is open, and the fundamentals support it.

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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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**

70+ Years of Experience

$37.5 M Average Deal Size