

BANKERS EDGE
ADVISORY

Credit Market Update

September 2026

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Executive Summary

BANKERS EDGE ADVISORY

1

The Economy Is Still Growing, Just Not as Fast as It Looked: The Atlanta Fed's GDPNow has Q3 tracking at 3.6% as of October 8th, well ahead of Q2's 2.2% but down from the 5.0% the GDPNow model forecasted at the start of the quarter. Business investment and consumer spending continue to propel economic growth, with business investment contributing 3.5 points and consumers adding 2.3. Unemployment is 4.2%, layoffs are 1.0%, and quits are steady at 1.9%. The soft spot: real wages fell 0.5% in September as prices picked up. Demand is holding, but consumer resilience in the face of higher-for-longer energy prices is a real concern.

2

The Fed Is Raising Rates, and It Says It Isn't Done: On September 16th the Fed raised rates a quarter point to 3.75%–4.00%, and 16 of 18 policymakers see at least one more hike this year. The effective rate averaged 3.75% in September and SOFR was 3.87% on October 8th. Inflation is the reason: headline CPI jumped to 3.7% in September on a 5.2% spike in energy, while core held at 2.6%. Our advice is simple. Price your next financing at forward-looking, higher SOFR rates, and expect lenders to size leverage more conservatively. Deals with steady cash flow, real equity, and sensible leverage are getting done. Deals that depend on cheap money are not.

3

Capital Is Available, and the Price Is Starting to Move: Lenders want good companies. Business loan delinquencies dipped to 1.27% in Q2, and spreads on leveraged buyout loans have tightened from 446 bps in 2023 to 332 bps in Q2 2026 as lenders compete for quality borrowers. Banks have plenty of room, with $19.7 trillion in deposits against $14.1 trillion in loans, a 71.7% loan-to-deposit ratio. The early warning is in public markets: high-yield spreads widened about 50 bps in under three weeks, from 2.7% on September 21st to 3.2% on October 8th. That's still well below long-run norms. If a raise is on your calendar for the next 12 months, now is the time to start the conversation.

US GDP Breakdown

Q3 2026: Faster Growth, Narrower Base

GDPNow has Q3 real GDP tracking at 3.6% as of October 8th, up from 2.2% in Q2 and 2.5% in Q1. Business investment has taken the lead from the consumer. The drag is trade: net exports are subtracting 2.7 points, up from 1.1 in Q2. Government is adding 0.5.

Consumers: Still Spending, No Longer Leading

Households are adding 2.3 points to Q3 growth, versus 2.5 in Q2, which makes them the number two driver behind private investment. Jobs are holding up, with unemployment at 4.2% and layoffs at 1.0%. But real wages slipped 0.1% in August and fell 0.5% in September, which will likely force customers to prioritize essentials over discretionary purchases in the near term.

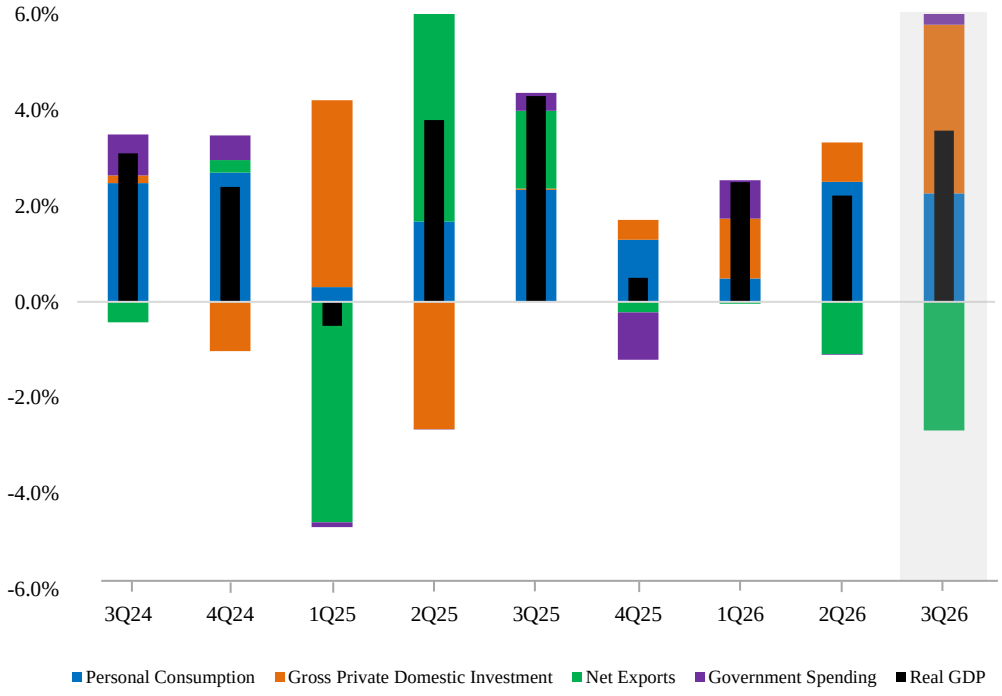
Investment: A Big Jump, Mostly Inventory

Private investment is adding 3.5 points in Q3, up from 0.8 in Q2 and 1.2 in Q1. About 2.0 of that is inventory restocking, with equipment at 1.0 and software and R&D at 0.4. Inventory builds usually unwind in later quarters, so don't read this as a durable trend. It could take a bite out of Q4.

Bottom Line: The Estimate Is Cooling

GDPNow has come down from 5.0% on July 30th and a 6.2% high on August 3rd. Growth is still better than Q2, but it leans on inventories and is offset by a wide trade gap. The government's first official read lands October 29th. For planning, we'd pencil in solid, not spectacular, growth.

Contributions to Percent Change in Real Gross Domestic Product



Shaded area denotes forecasts, Federal Reserve Bank of Atlanta GDPNow

Sources: U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta (GDPNow), October 8th, 2026.

US Productivity

Productivity: Running Ahead of Past Expansions

Output per hour has grown at a 2.2% annual pace from 2019 to 2025, well ahead of the 1.5% of the 2007–2019 cycle and on par with the 1990s boom. Q2 2026 productivity was up 2.2% from a year earlier, while unit labor costs rose just 1.4%. That gap matters. When productivity outruns labor costs, margins have room to breathe.

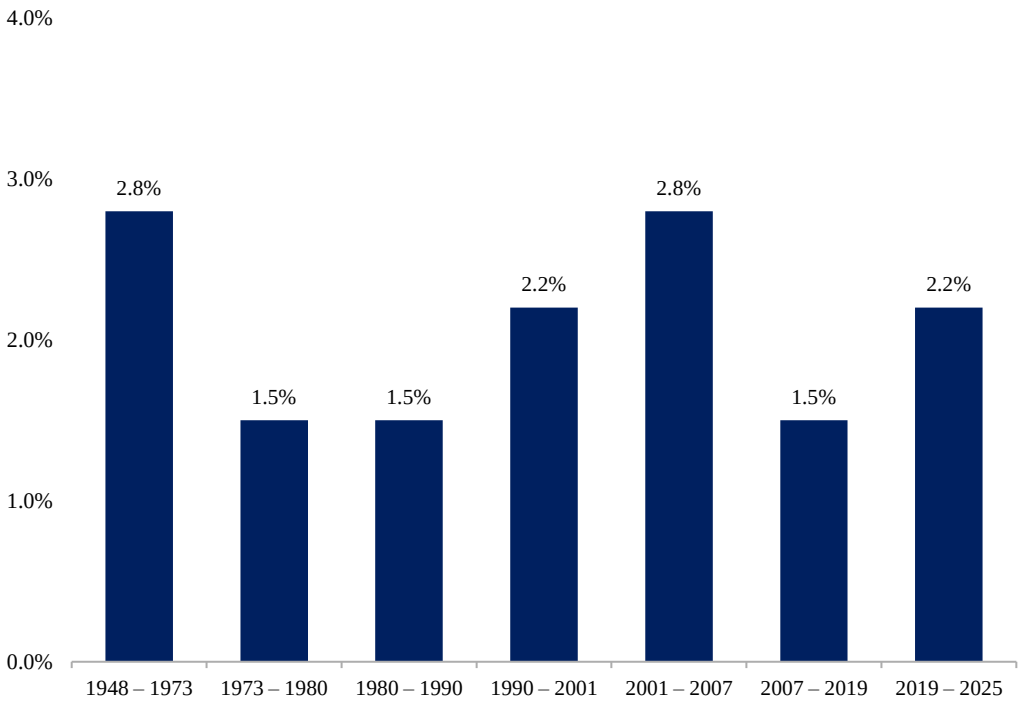
Outlook: Owners Have Real Tailwinds to Invest

Two forces could push productivity higher. AI is moving from pilot projects into everyday operations, and the infrastructure behind it is being built now. Tax policy helps too: the One Big Beautiful Bill Act made 100% bonus depreciation permanent, raised the Section 179 expensing limit to $2.5 million (indexed for inflation), and restored immediate expensing of domestic R&D. If you've been putting off an equipment or technology upgrade, the after-tax math is compelling. Stronger productivity also gives lenders confidence you can carry higher rates.

From Our Recent Piece: Who Really Benefits From AI?

"The bigger the productivity gain, the bigger the risk that the rewards go to capital providers instead of workers." For business owners, that's the opportunity: the companies that invest in AI now are the ones best positioned to capture the gains. Read more in our October 15th piece, *The AI Productivity Boom: Who Really Benefits?*

Productivity Change in Nonfarm Business Sector (1948-2025)



Source: U.S. Bureau of Labor Statistics, Nonfarm Business Sector: Labor Productivity, September 3rd, 2026.

JOLTS Employment Survey Data

JOLTS: Openings Ease, Workers Stay Put

The August JOLTS report shows a job market that is cooling, not cracking. The openings rate slipped to 4.3% from 4.4% in July and 4.6% in April. Companies are still hiring, just at a steadier pace than the post-2022 rush.

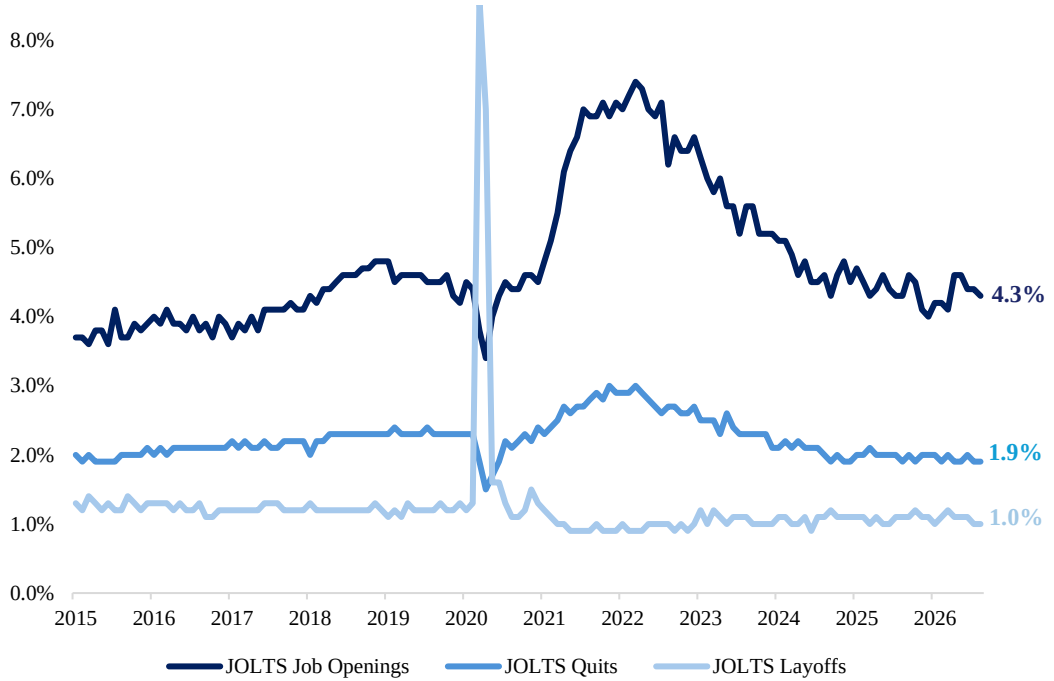
Slower Hiring, Steady Workforce

Hiring has slowed along with openings, which tells us employers are being selective. The quits rate held at 1.9% in July and August, flat from a year ago and well below post-pandemic highs. Fewer people are job-hopping, which eases wage pressure and turnover costs for owners.

Bottom Line: Layoffs Stay Low

For credit, layoffs are the number that matters most. The rate was 1.0% in August, inside its 1.0% to 1.2% range of the past year and near the series low of 0.9%. Employers are holding on to their people despite higher borrowing costs. That supports household income, consumer credit, and lender confidence.

JOLTS Job Openings, Nonfarm Quits, and Nonfarm Layoff Rates



Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, September 29th, 2026.

Unemployment & Wage Growth

Jobs: Bent, Not Broken

Unemployment topped out at 4.5% last November. Today it's 4.2%. Employers aren't cutting, even with money getting pricier. They're betting on their own order books, and so far that bet is paying off.

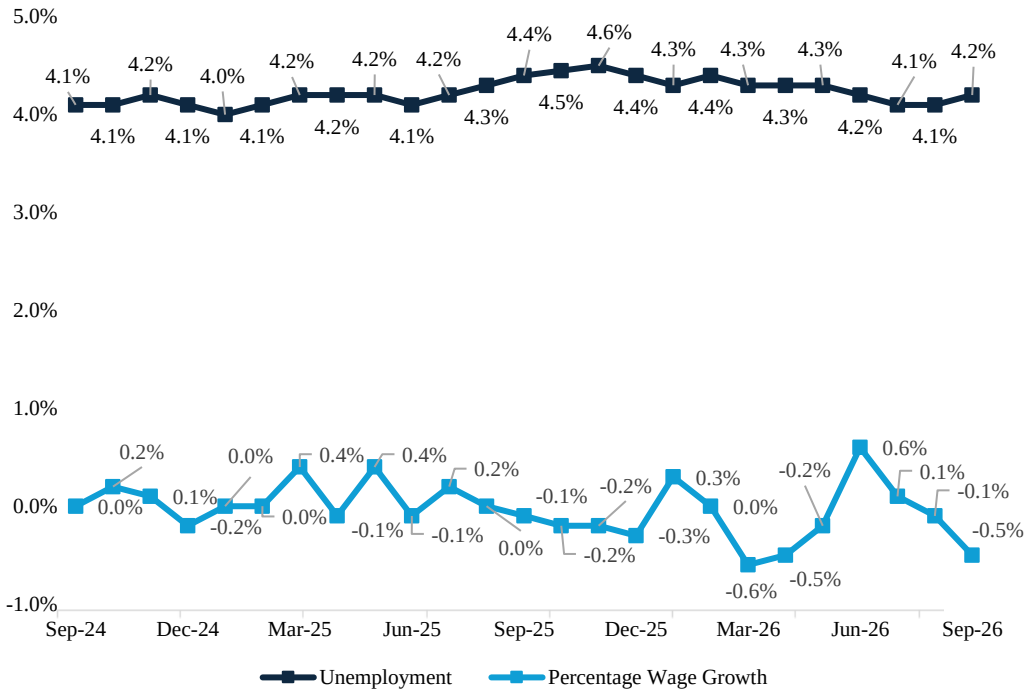
Wages: Your Customers Just Took a Pay Cut

Inflation is eating paychecks again. Real wages bounced 0.6% in June, then gave it all back, falling 0.5% in September as energy prices spiked. That summer boost to spending power? Gone. Expect customers to push back on price and stretch every dollar.

The Takeaway: The Fed Isn't Coming to the Rescue

A solid job market gives the Fed room to stay tough, and it's using that room. With inflation running hot and paychecks shrinking, rate cuts are off the table for now. Build your plan, and your capital structure, around higher-for-longer rates. Owners who plan for that will be ready to move when others hesitate.

US Unemployment Rate and Wage Growth Rate



Source: U.S. Bureau of Labor Statistics, Employment Situation and Real Earnings, October 14th, 2026.

Consumer Financial Health

Consumer Credit: Bills Are Getting Paid

Households are holding their own. New serious delinquencies on credit cards eased to 7.0% in Q2 from 7.1% in Q1. Auto loans held at 3.0%. Mortgages (1.5%) and home equity lines (1.2%) are barely registering. Americans now carry $18.8 trillion of household debt, and for now they're servicing it.

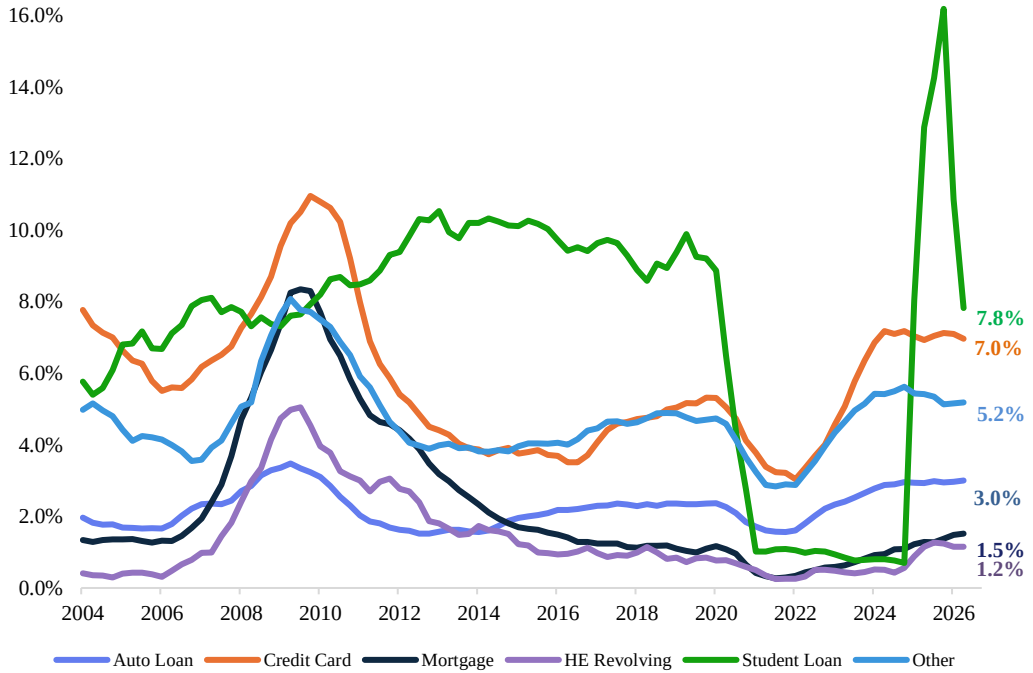
Student Loans: The Worst Is Behind Us

After the pandemic pause ended, student loan defaults surged, hitting a 16.2% peak in Q4 2025. They've cooled fast since then, to 10.9% in Q1 and 7.8% in Q2. The wave is working through, but student loans are still the most troubled category on the chart. Younger borrowers remain the most stretched.

The Takeaway: Watch November

These numbers run through June, before inflation reheated and real wages fell 0.5% in September. The New York Fed's Q3 report lands in November, and it's the first real test of whether shrinking paychecks are turning into missed payments. If your business sells to consumers, especially younger ones or on credit, keep a close eye on receivables and payment terms.

Transition into Serious Delinquency by Loan Type (90+)



Source: Federal Reserve Bank of New York, Household Debt and Credit Report, Q2 2026, August 11th, 2026.

Corporate Financial Growth

Margins: Eight Quarters and Counting

S&P 500 gross margins hit 70.9% in Q2 2026, up from 69.8% a year ago and the eighth straight quarterly gain. Companies have absorbed higher labor and financing costs and still widened margins, thanks to real pricing power and efficiency gains, AI included. Margins are still below the 73.7% peak of Q4 2021, so there's room left to run.

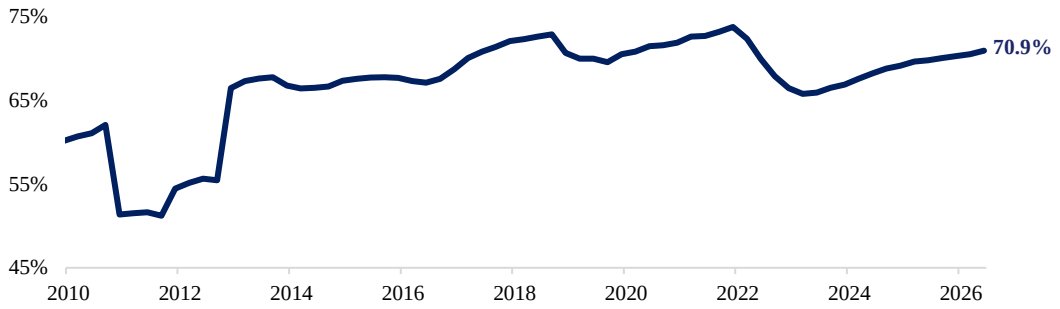
Credit: Business Borrowers Are Paying Their Bills

Delinquencies on business loans at U.S. commercial banks dipped to 1.27% in Q2 from 1.33% in Q1. For perspective, they hit 6.8% in the late 1980s and topped 4% after the financial crisis. Covenants are holding, balance sheets are sound, and the credit crunch many predicted simply hasn't arrived.

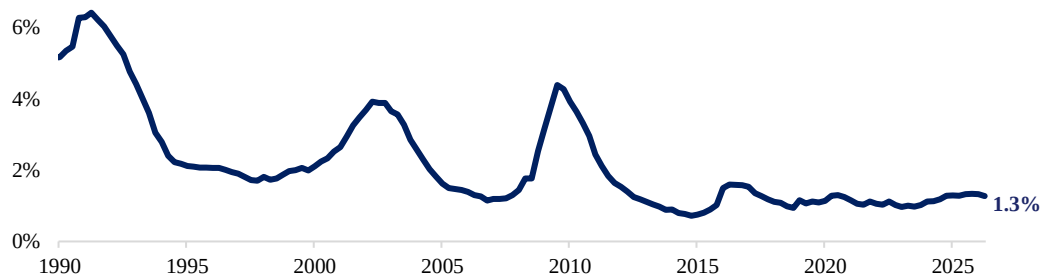
Capital Markets: Lenders Want This Story

Healthy margins plus clean credit is exactly what lenders and investors underwrite to. Strategic buyers and private credit funds are putting money to work behind improving cash flows, and banks are trimming loan spreads to win business. For an owner with a solid track record, that means more options, better terms, and a stronger hand at the negotiating table.

S&P 500 Gross Margins (%) Since 2010



Delinquency Rate on Business Loans, All Commercial Banks



Sources: Federal Reserve Bank of St. Louis, Macrotrends, September 7th, 2026.

Public Markets Rates

Inflation: The Fire Is Back

Inflation was cooling nicely, from a 4.2% peak in May to 3.4% in August. Then energy prices spiked 5.2% in a single month, and headline CPI jumped to 3.7% in September, 174 basis points above the Fed's 2% target. Core inflation is calmer at 2.6%, but the Fed isn't waiting to see whether energy settles down.

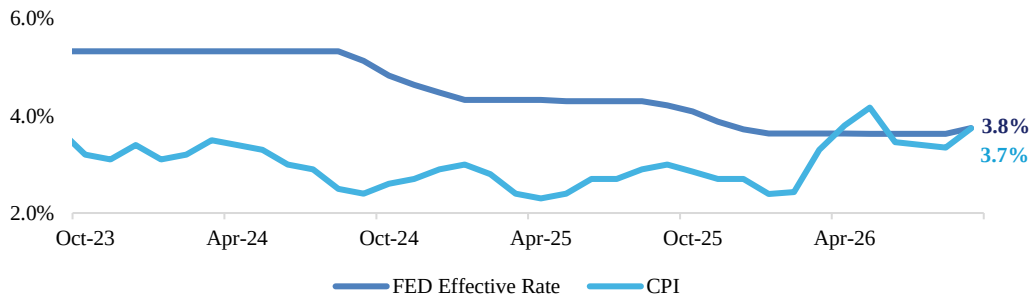
The Fed: One Hike Down, More Likely to Come

On September 16th the Fed unanimously raised rates a quarter point to 3.75%–4.00%. Its own projections show rates near 4.1% through the end of 2027, and as of October 7th futures markets put roughly 85% odds on another hike by December. Higher for longer isn't a forecast anymore. It's the Fed's stated plan.

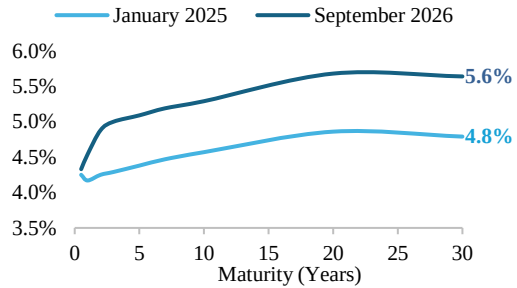
Yield Curve and SOFR: The Floor Just Moved Up

The 10-year Treasury ended September at 5.3% and the 30-year at 5.6%, 85 basis points above January 2025. SOFR, the benchmark behind most floating-rate loans, jumped from 3.62% to 3.85% the day after the hike and was 3.87% on October 8th. If your debt floats, your interest bill just went up. Now is the time to stress-test coverage and take a hard look at hedging.

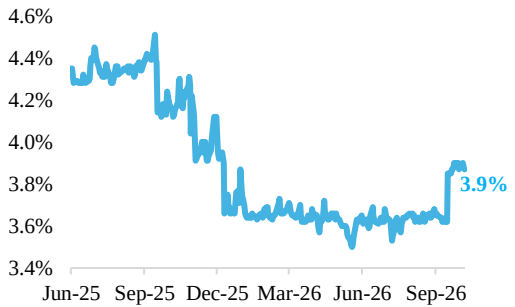
CPI vs. Fed Effective Rate



Treasury Yield Curve

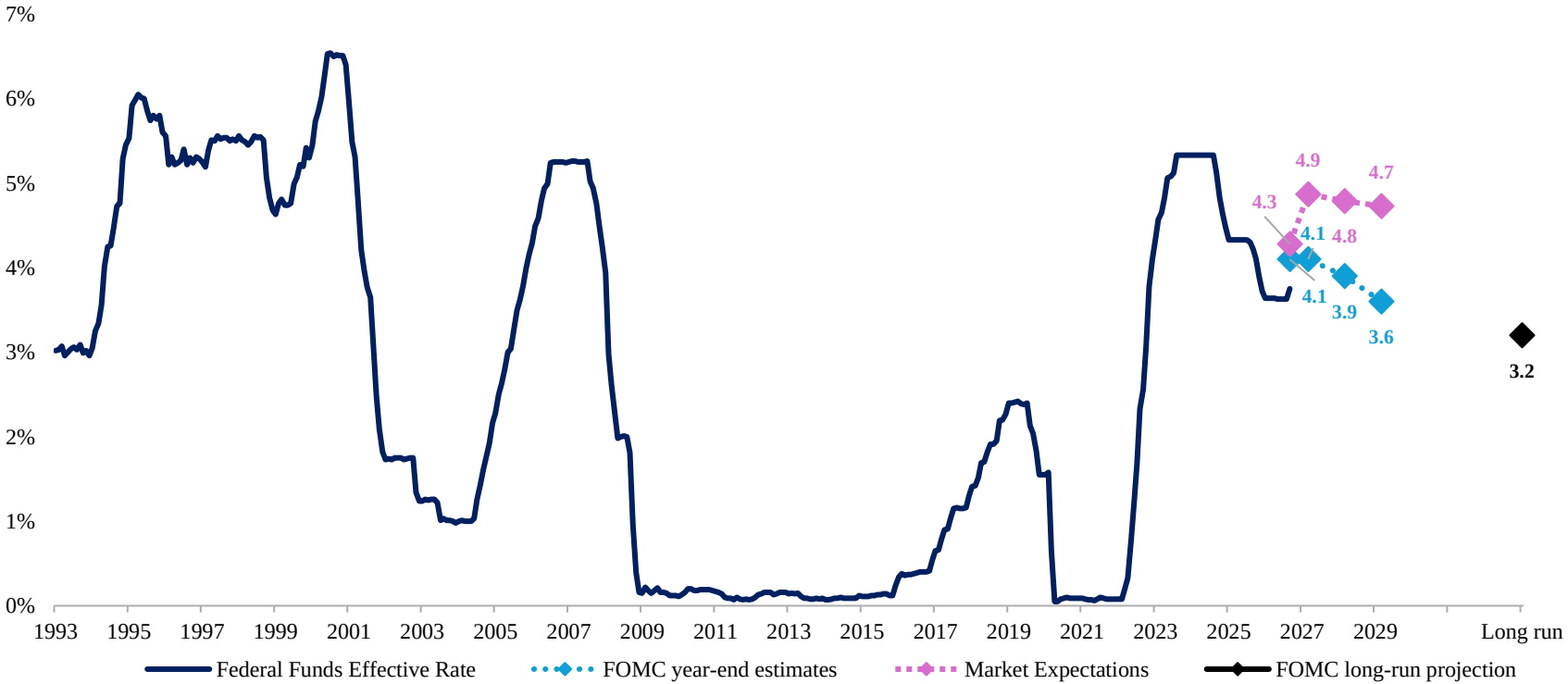


US SOFR Overnight Rate



Sources: Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics, U.S. Department of the Treasury, Federal Reserve Bank of New York, October 14th, 2026.

Fed Funds Rate Expectations



Sources: Federal Reserve Bank of St. Louis, J.P. Morgan Asset Management, Guide to the Markets, September 30th, 2026.

Public Credit Markets

Spreads: The First Ripple in Calm Waters

High-yield spreads, the extra yield investors demand to lend to riskier companies, hit a 2026 low of 2.60% on August 28th. Then the Fed hiked. Spreads jumped to 3.24% by October 1st and sat at 3.15% on October 8th, about 50 basis points wider in under three weeks. That's still below the 3.46% high of March 30th and well under the long-run average of roughly 5%, but base rates and risk premiums are now rising together.

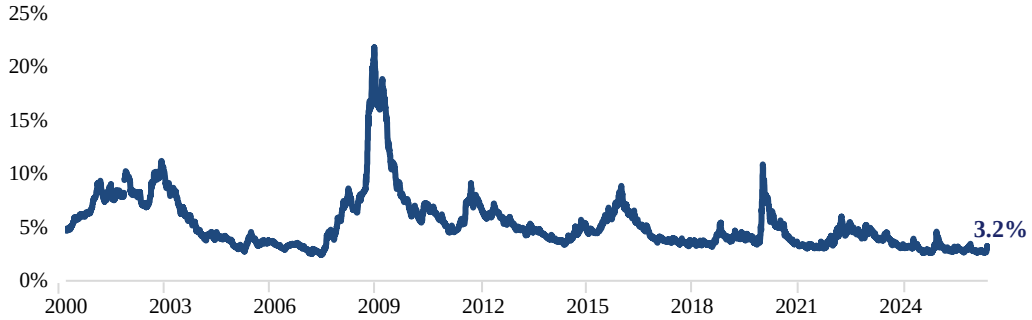
Credit Quality: Not Your 2007 Junk Bond Market

Today's high-yield market is built on better credit. BB-rated bonds make up 54% of the index, up from 32% in 2007. B-rated bonds fell to 38% from 45%, and the riskiest CCC and unrated debt is just 7%, less than half its pre-crisis weight. A stronger index can absorb a slowdown without a wave of defaults, and that keeps the market open.

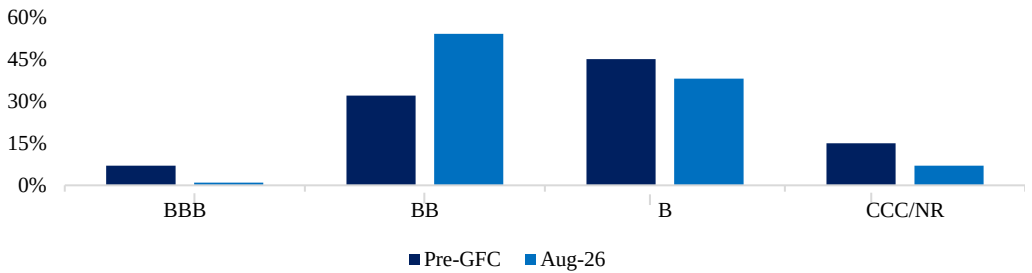
The Takeaway: Public Markets Move First

Bond investors reprice risk every day. Banks and private lenders follow, usually with a lag. Owners financing today are still pricing off a relatively calm market. If spreads keep widening, that window narrows.

US Corporate High Yield Average Option Adjusted Spreads (%)



Credit Rating Weights in US High Yield Index



Sources: ICE Data Indices via Federal Reserve Bank of St. Louis, October 8th, 2026; J.P. Morgan Asset Management, Guide to the Markets, September 30th, 2026.

Bank Lending Markets

Bank Balance Sheets: Dry Powder Everywhere

Banks hold about $19.7 trillion in deposits against $14.1 trillion in loans, a 71.7% loan-to-deposit ratio as of September 30th. That's $5.6 trillion more in deposits than loans. Capacity isn't the constraint. Appetite is.

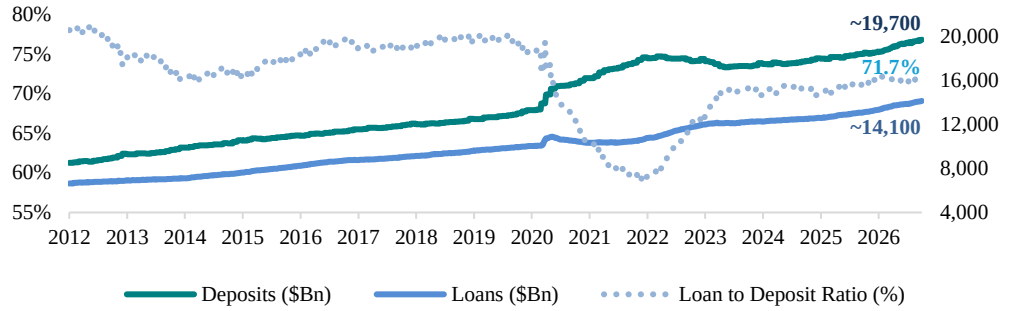
Lending Standards: Banks Want Your Business

The Fed's July Senior Loan Officer Survey shows business lending standards essentially unchanged for companies of every size and still looser than the historical midpoint in most categories. Banks trimmed loan spreads, eased terms on credit lines, and saw demand pick up from large and middle-market companies. More lenders chasing good companies means better terms for owners who shop the deal.

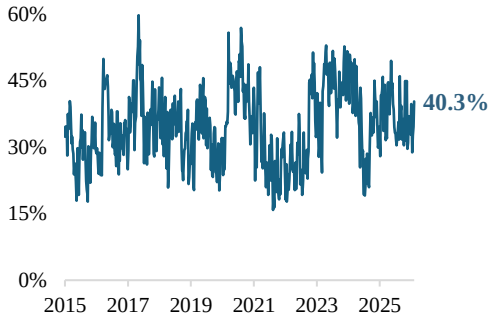
Sentiment and Capital: Confidence Is Back, Cushions Are Thick

Investor optimism is rebounding. AAII bullish readings jumped to 40.3% on October 7th from 34.6% a week earlier, above the 37.5% long-run average. Bank Tier 1 capital ratios sit near 13.7%, well above regulatory minimums. Strong capital and rising confidence keep the credit taps open.

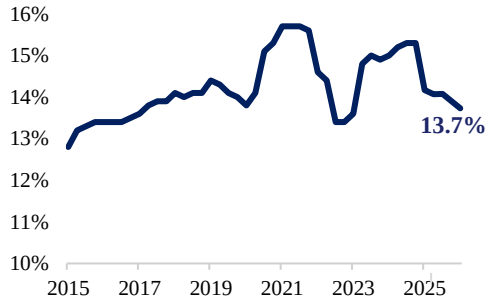
Loan to Deposit Ratio



Lender Sentiment Survey, % Bullish



Bank Tier-1 Capital as % of Assets



Sources: Federal Reserve Bank of St. Louis, Federal Reserve Board (SLOOS), S&P Capital IQ, AAII, October 7th, 2026.

Private Credit Markets

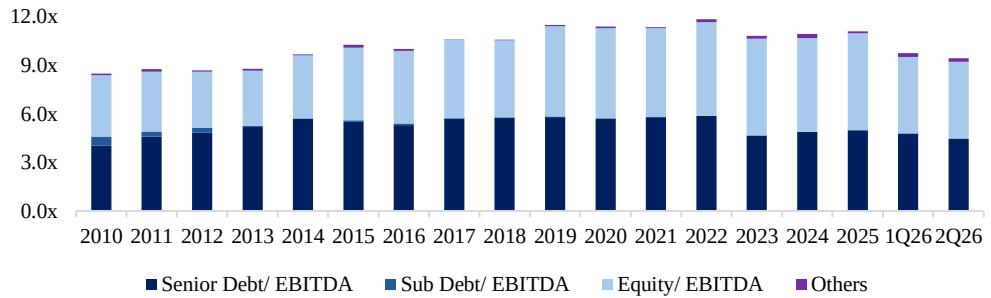
Valuations: Buyers Are Bringing More Equity

Buyout prices cooled a bit this year, from 9.75x EBITDA in Q1 to 9.43x in Q2. The bigger story is how deals are getting paid for. Sponsors are writing larger equity checks and leaning less on debt. That's a disciplined market, and it's good news for sellers: buyers with real skin in the game make better partners and more reliable closers.

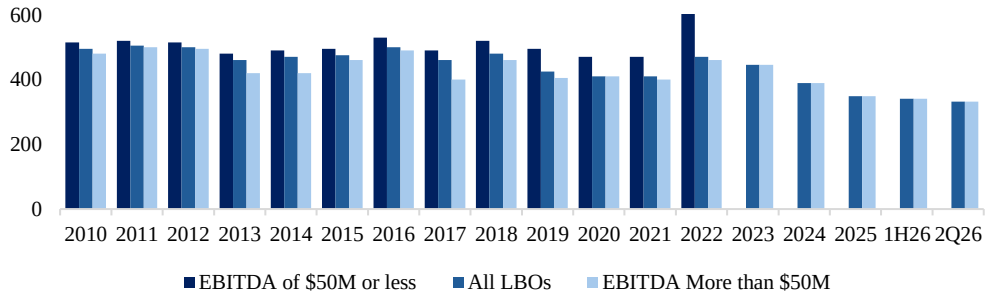
LBO Spreads: Lenders Are Fighting for Good Deals

Here's the twist. The Fed is raising rates, but lenders are cutting their margins to win business. Spreads on LBO loans have dropped from 446 bps in 2023 to 332 bps in Q2 2026. There's a lot of private credit money chasing a limited number of quality companies. If your business has steady cash flow, you have more pricing power with lenders than you might think. Use it.

LBO Purchase Price Multiples (EBITDA Multiples)



LBO Institutional Spreads



Source: PitchBook.

M&A Trends

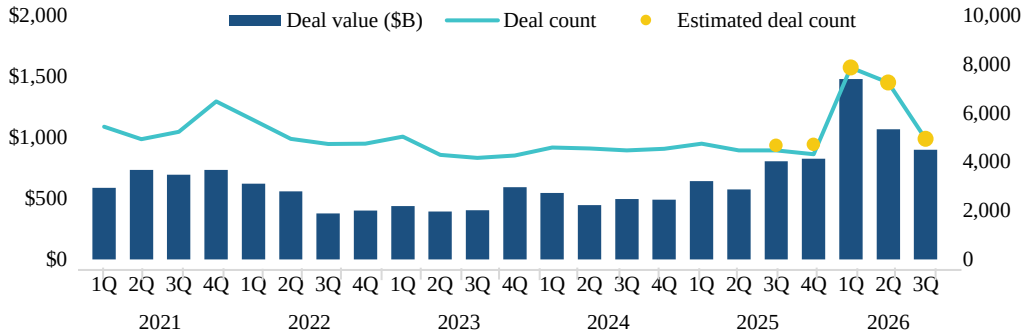
Deal Flow: The Market Is Wide Open

North American dealmaking had a monster first half, with more than 15,000 deals worth roughly $2.5 trillion. Q3 is already approaching $900 billion and will climb as late deals are reported. Even this early read beats any quarter of 2024. Buyers are active, capital is available, and good companies are getting looked at.

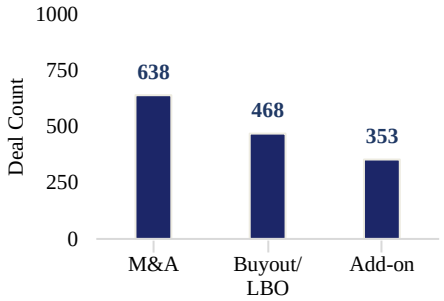
Deal Mix: Strategic Buyers Lead the Way

Corporate acquirers are the busiest buyers in the market, consolidating their industries one deal at a time. Private equity is close behind but pickier, putting more equity behind fewer, higher-conviction bets. Add-on acquisitions are still a go-to growth play. If you run a strong platform business or a great bolt-on, someone is looking for you right now.

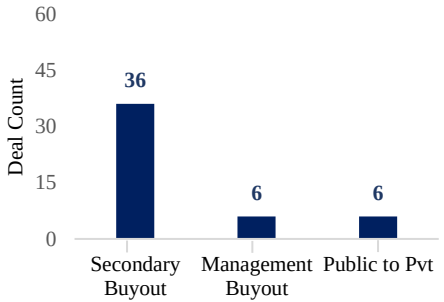
North America M&A Activity



Core Deal Types by Count



Other Deal Types by Count



Source: PitchBook.

Outlook

H2 2026 Outlook: Good Setup, Smaller Margin for Error

The Economy: Still Growing, Watch the Consumer

Growth is solid, jobs are holding, and companies are investing. The soft spot is the consumer. Energy-driven inflation is eating into paychecks, and that pressure will show up in spending. Plan for a steady economy, not a booming one.

Fed Policy: Higher for Longer Is the Plan

The Fed raised rates in September and has told us more is likely. Rate cuts aren't coming to the rescue. Price your financing off where rates are headed, not where they've been, and expect lenders to size leverage more conservatively.

Credit Markets: Open for Business, For Now

Banks have capacity, lenders are competing hard, and well-run companies are getting deals done on good terms. Public bond markets are the early warning system, and they've started to twitch. Our advice: if you'll need capital in the next 12 months, start the conversation now while the window is open. That's what we're here for.



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**

70+ Years of Experience

$37.5 M Average Deal Size