PORTAGE POINT PARTNERS

Q2 2026 Credit Market Update

DISCUSSION PURPOSES ONLY

July 2026

Executive Summary

THE EXPECTATION

Credit markets entered Q2 expecting a gradual shift toward mergers and acquisitions (M&A)-led issuance, supported by strong liquidity and significant private credit dry powder

- Robust lender demand and competition for new-money transactions
- Credit spreads remaining near historically tight levels
- A persistent backlog of unrealized sponsor exits supporting M&A activity recovery
- Multiple execution alternatives across the broadly syndicated loan (BSL) and direct lending markets
- A more stable macroeconomic and rate backdrop supporting borrower activity

THE REALITY

Q2 activity remained weighted toward refinancings and liability management as the anticipated sponsor-led M&A recovery failed to materialize

- Total institutional activity reached $224 billion, down 7% quarter on quarter (QoQ) but nearly double Q2 2025 and 17% above the five-year quarterly average
- Repricings totaled $81 billion, extensions and amendments totaled $40 billion and net-new issuance represented only 27% of activity
- Sponsored M&A loan volume declined 54% QoQ, while sponsors represented only 45% of non-refinancing issuance
- Private credit volume fell to approximately $33 billion across 149 transactions from approximately $74 billion across 217 transactions in Q1 2026
- US private equity (PE) M&A volume fell 38% QoQ to $177 billion, the lowest-volume quarter in over two years

KEY OBSERVATIONS

Liquidity remained supportive, but activity and pricing are increasingly bifurcated by sponsor participation and credit quality

- Corporate borrowers raised a five-year high of nearly $54 billion in the BSL market, up 41% QoQ
- B- spreads widened to S+409, up 6 bps QoQ and 55 bps since Q4 2025, while the B- to B gap reached approximately 90 bps
- Direct lending and BSL leveraged buyout (LBO) spreads for the LTM period ended June 30, 2026, were S+497 and S+340, respectively, while the direct lending premium narrowed to approximately 140 bps YTD
- LTM sponsored extensions reached a record $93 billion, while the $208 billion 2028 maturity cohort remains the key refinancing risk watch item
- Looking ahead, a sustained recovery will depend on M&A and sponsor re-engagement, while amendments, extensions and refinancings remain elevated

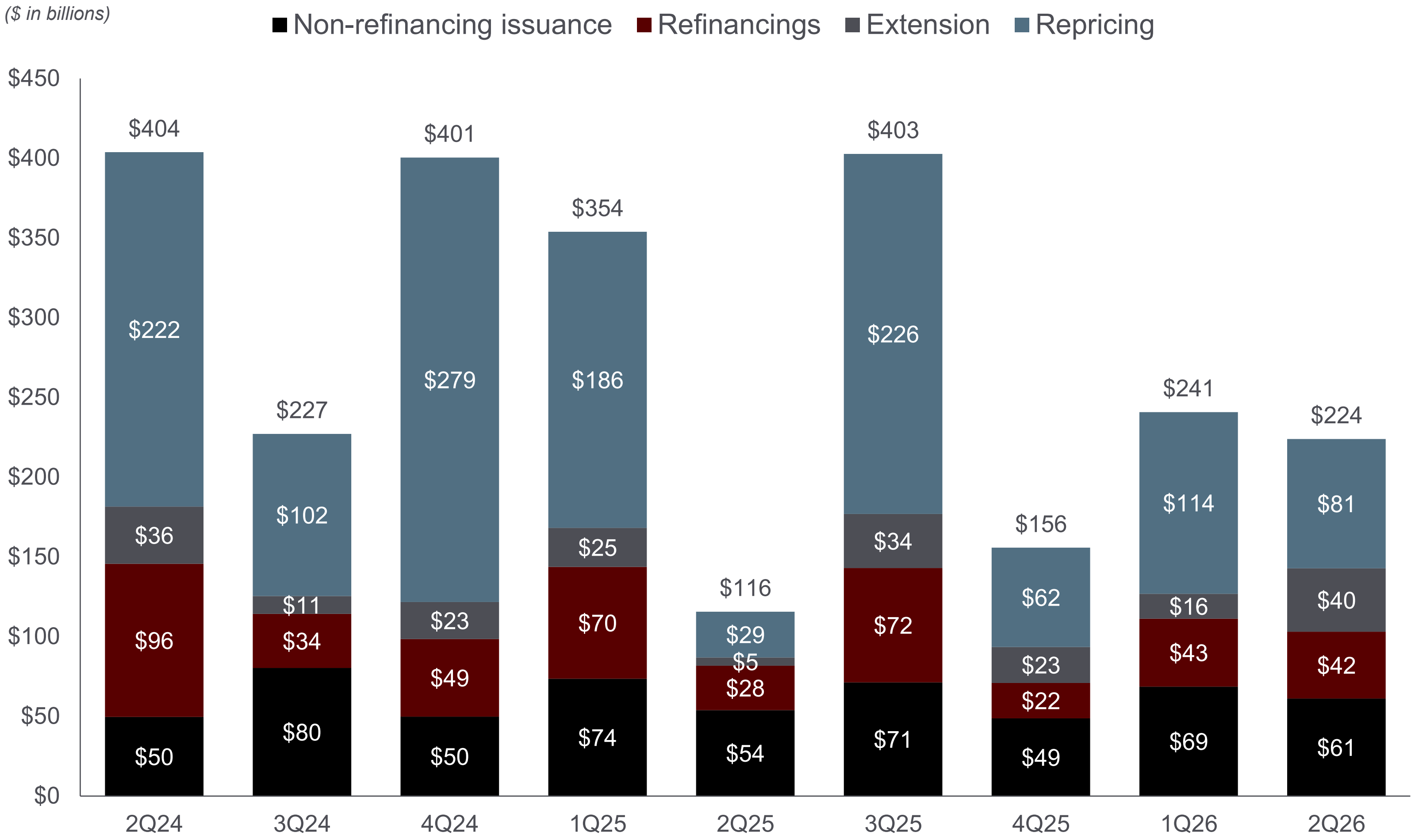
Source: PitchBook 2026 Data as of June 30, 2026

Repricings and Amendments Drove Q2 Volume

Institutional leveraged loan activity totaled $224 billion in Q2 2026, a 7% decrease from the $241 billion recorded in Q1, but nearly double the volume recorded in Q2 2025. Total Q2 2026 activity was approximately 17% above the five-year quarterly average

- Non-LBO activity remained the primary driver of Q2 volumes
  - Repricings totaled $81 billion and extensions and amendments totaled $40 billion as the repricing window reopened in May
  - Net-new issuance represented only 27% of activity as borrowers focused on managing existing liabilities
- Sponsor led M&A activity remained muted
  - PE dealmaking fell 38% and sponsored M&A loan volume declined 54%, while corporate M&A loan volume approximately doubled
  - Sponsors drove 74% of maturity-extension amendments but represented only 45% of new-money activity versus an approximately 70% five-year average
- Corporate borrowers filled the gap
  - Borrowers raised a five-year high of nearly $54 billion in the BSL market, up 41% QoQ

EXHIBIT 1 – TOTAL INSTITUTIONAL LEVERAGED LOAN ACTIVITY BY USE OF PROCEEDS (QUARTERLY)



Source: PitchBook 2026 Data as of June 30, 2026

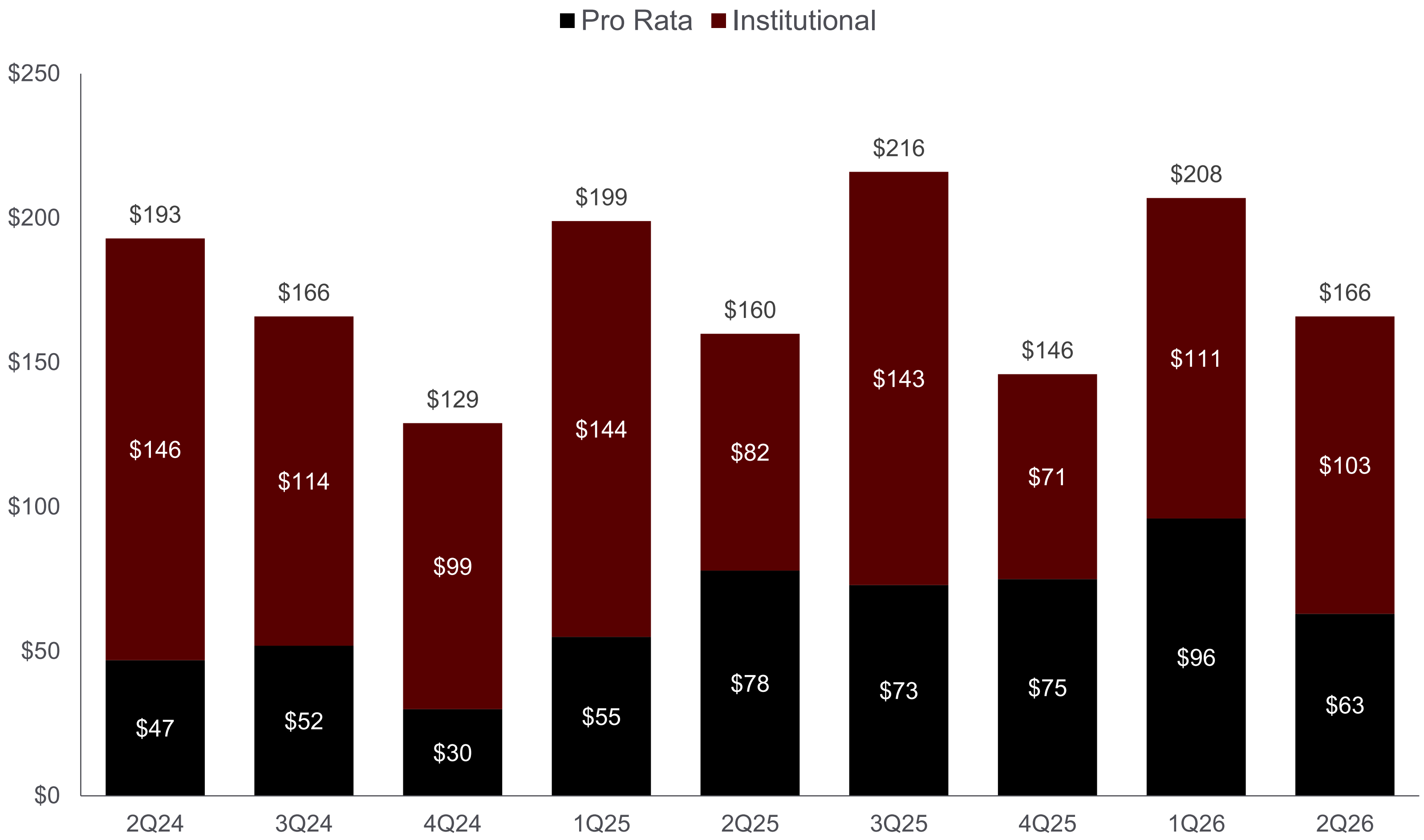
Corporate Issuance Fills the Gap as Sponsor Volume Retreats

Leveraged loan issuance (excluding repricings) totaled $166 billion in Q2 2026, down 21% from approximately $208 billion in Q1 and roughly flat versus Q2 2025

- Issuance declined across both channels
  – Pro rata issuance fell approximately 36% QoQ to $63 billion
  – Institutional issuance eased approximately 7% QoQ to $103 billion
- Corporate borrowers offset the sponsor pullback
  – Corporate borrowers set a five-year quarterly high in the BSL market as sponsor-backed volume declined

EXHIBIT 2 – LEVERAGED LOAN ISSUANCE VOLUME (QUARTERLY)

($ in billions)



Source: PitchBook 2026 Data as of June 30, 2026

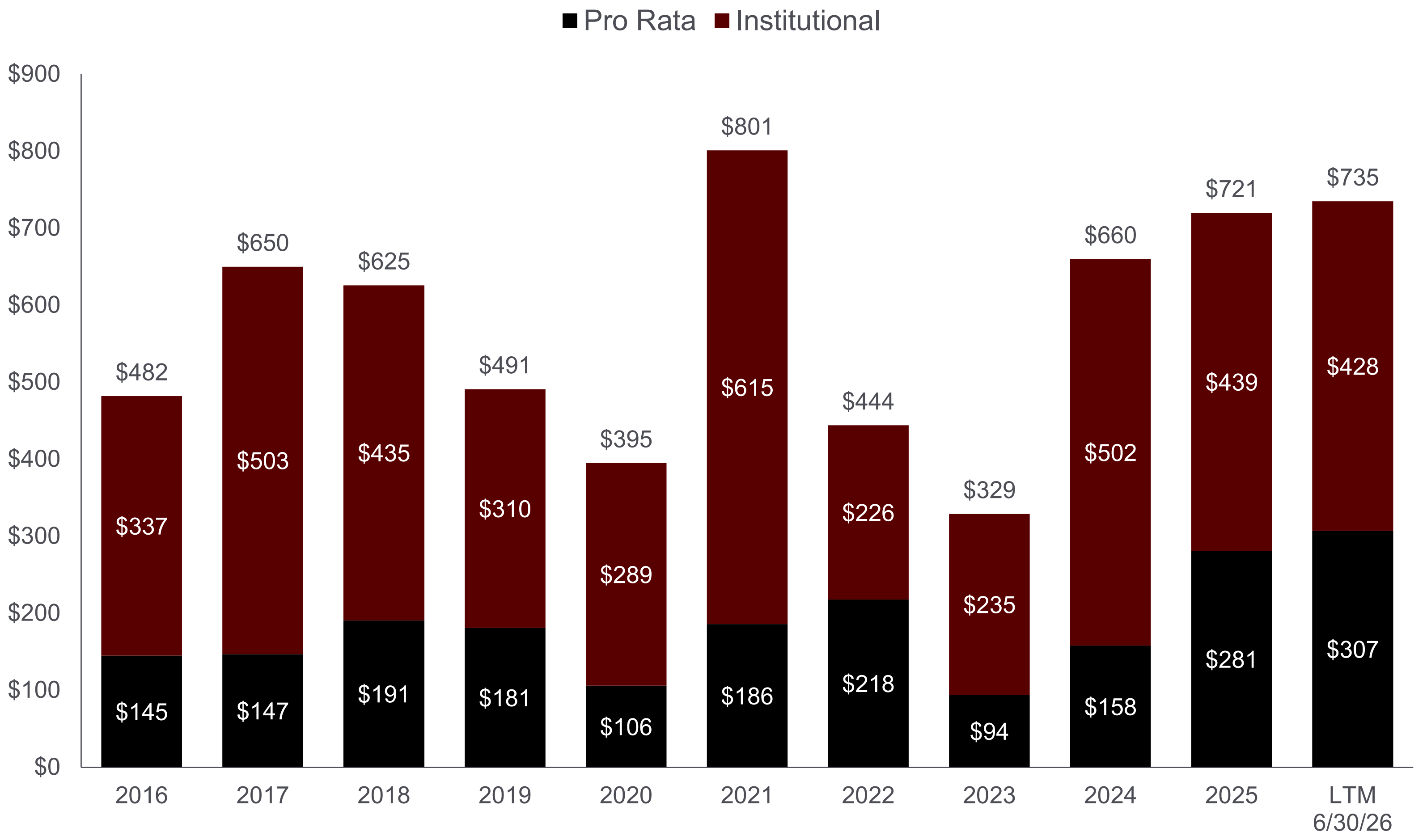
LTM Issuance Holds Steady as Mix Shifts Toward Corporate Borrowers

For the LTM period ended June 30, 2026, total leveraged loan issuance was $735 billion, up modestly from $729 billion for the LTM period ended March 31, 2026 and about 12% above the $654 billion of the prior-year period

- Pro rata financings eased to $307 billion, down from $322 billion for the LTM period ended March 31, 2026
- Institutional issuance was $428 billion, up modestly from $407 billion for the LTM period ended March 31, 2026
- Aggregate supply has remained resilient over the last twelve months, but mix has tilted toward corporate (non-sponsor) issuance driven in part by a slower sponsor-backed transaction environment

EXHIBIT 3 – LEVERAGED LOAN ISSUANCE VOLUME (ANNUALLY)

($ in billions)



Source: PitchBook 2026 Data as of June 30, 2026

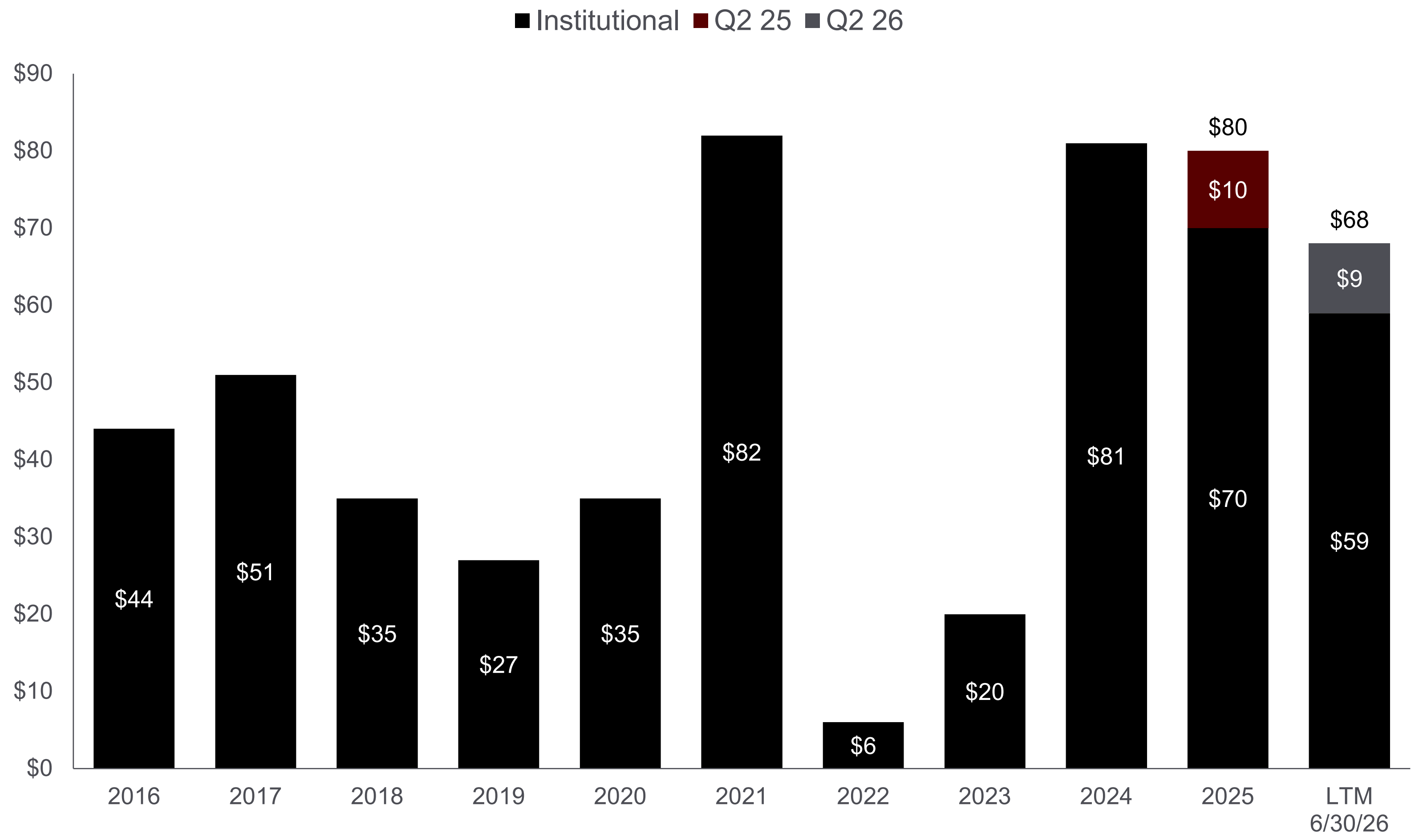
Dividend Recaps Remain a Go-To Liquidity Tool Despite Cooling Pace

Institutional dividend-recap volume remained robust in Q2, with volume reaching $68.2 billion for the LTM period ended June 30, 2026, but moderated slightly from the near-record pace of full-year 2025 ($80.1 billion) and full-year 2024 ($81.3 billion)

- Dividend-recap activity remained robust despite recent moderation
  - LTM volume reached $68.2 billion versus $80.1 billion in full-year 2025 and $81.3 billion in full-year 2024
  - Q2 2026 volume was $9.1 billion, down 13% from $10.4 billion in Q2 2025
- Sponsors continued to use debt-funded dividends as a liquidity source
  - M&A-led exits remained constrained and new-money supply was limited

EXHIBIT 4 – INSTITUTIONAL LEVERAGED LOAN DIVIDEND RECAP VOLUME

($ in billions)



Source: PitchBook 2026 Data as of June 30, 2026

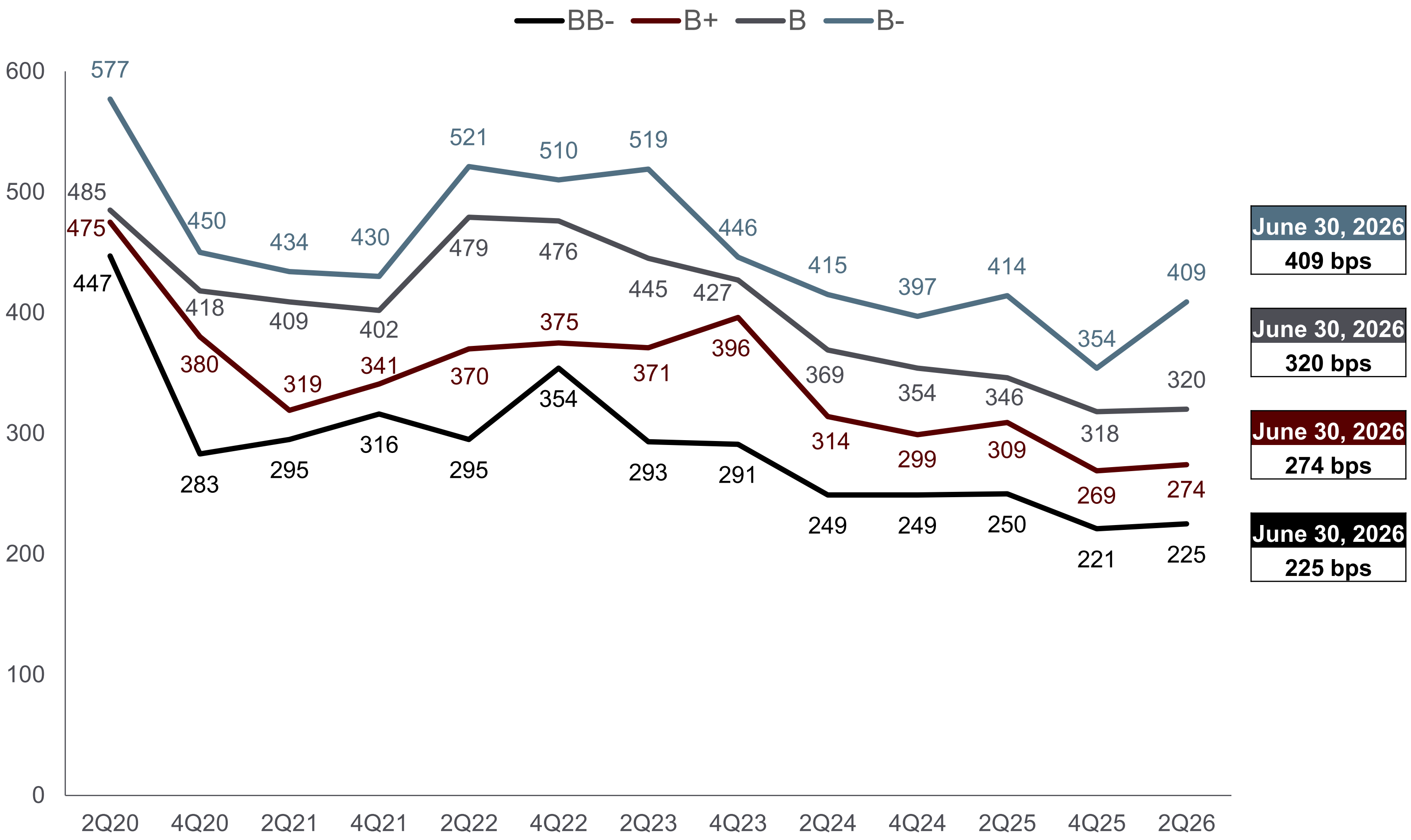
Spreads Hold Steady Overall, but Lower-Quality Credits Pay Up

Overall, leveraged loan credit spreads were stable in Q2 compared with Q1 2026

- New-issue spreads for B- credits reached S+409, about six bps wider than Q1 2026 and up 55 bps from Q4 2025, as lower-tier and software-exposed borrowers continued to experience wider pricing
- Higher-quality credits barely moved with B, B+ and BB- credit spreads hovering near 320 bps, 270 bps and 225 bps respectively as credit investors continued to prioritize credit quality over absolute yield
- The spread gap between B- and B-rated credits is approximately 90 bps, the widest recorded since COVID

EXHIBIT 5 – PRICING TRENDS BY RATING

(bps)



Source: PitchBook 2026 Data as of June 30, 2026

Private Credit Activity Cools Sharply After a Front-Loaded Q1

Private credit activity declined materially in Q2 following a very active Q1

- Direct lending volume fell to approximately $33 billion across 149 transactions from approximately $74 billion across 217 transactions in Q1
- LBO volume fell to approximately $10 billion across 38 transactions from approximately $22 billion across 56 transactions in Q1. H1 volume of approximately $32 billion is 16% below H1 2025 volume
- Sponsor exit constraints, economic uncertainty and geopolitical headwinds continue to weigh on new-money activity. Sustained recovery remains dependent on M&A and sponsor re-engagement

EXHIBIT 6 – DIRECT LENDING DEAL COUNT AND VOLUME

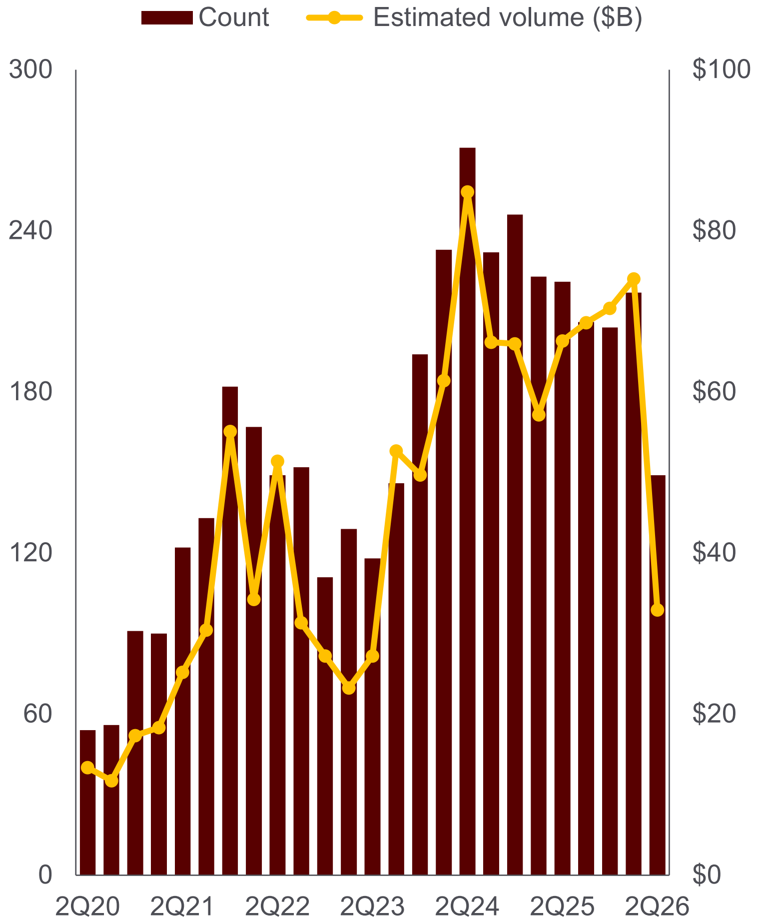
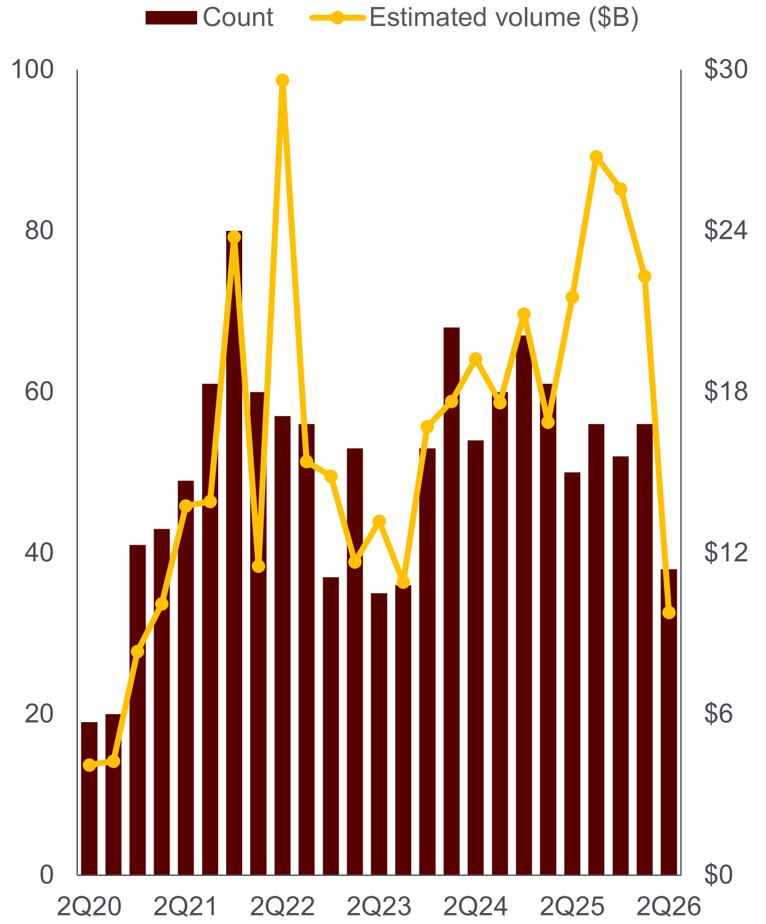


EXHIBIT 7 – DIRECT LENDING LBO DEAL COUNT AND VOLUME



Source: PitchBook LCD 2026 Data as of June 30, 2026

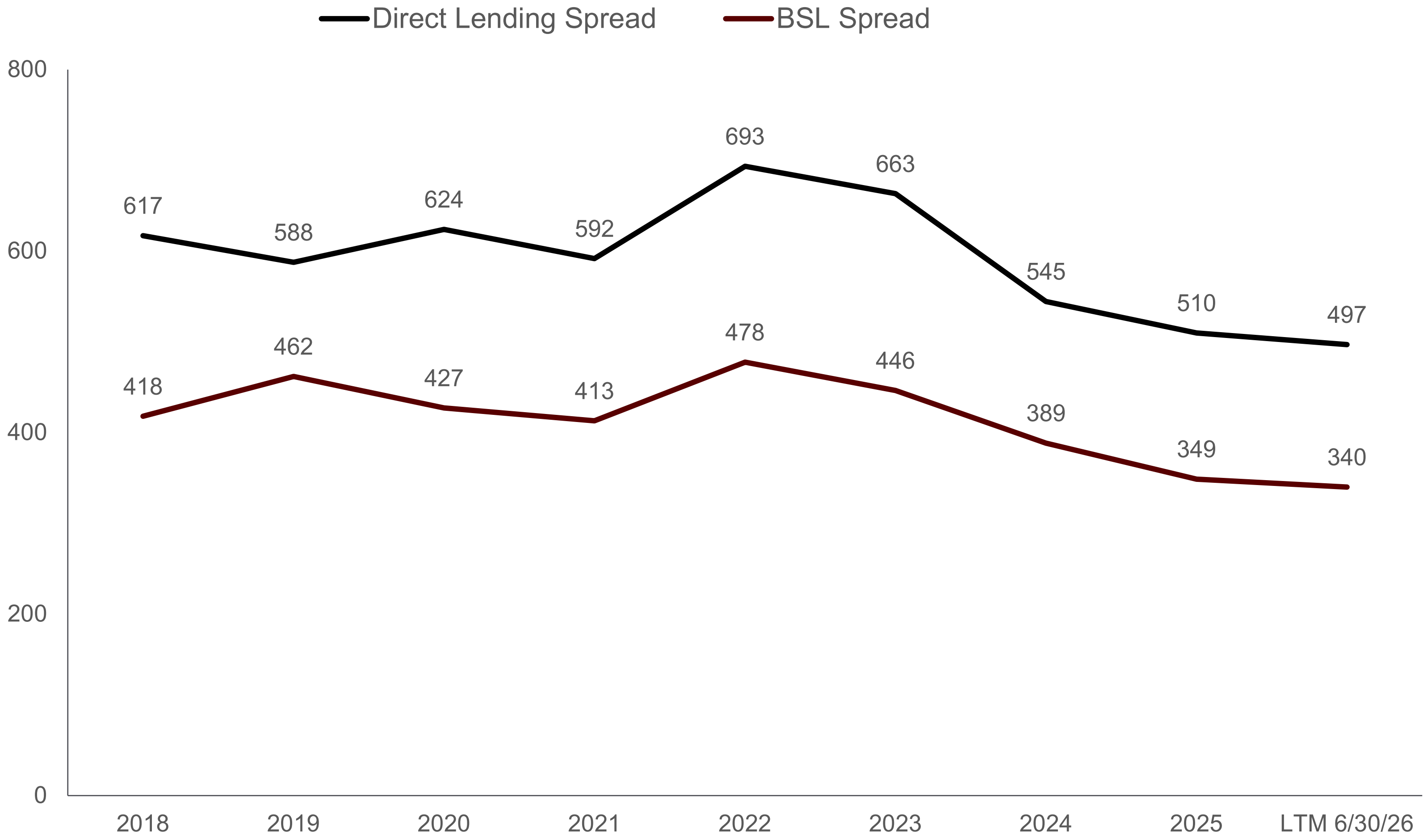
Direct Lending Premium Narrows to Tightest Level Since 2019

Direct lending LBO spreads continued to compress in Q2 2026, reaching 497 bps for the LTM period ended June 30, 2026, versus 510 bps for full-year 2025

- Similarly, LBO spreads in the BSL market tightened slightly to 340 bps from 349 bps over the corresponding periods
- The direct lending-to-BSL premium narrowed to roughly 155 bps on an LTM basis – and to about 140 bps year-to-date, the tightest since 2019 – as private credit competed aggressively for a limited deal pool
- With new-money LBO supply scarce, direct lenders sharpened pricing to win the few large financings available, extending the borrower-friendly conditions of recent quarters
- The structural story remains channel competition – the BSL market retained its volume edge in LBO financing this year, while direct lending kept its premium narrow to defend share

EXHIBIT 8 – LBO PRICING TRENDS PRIVATE CREDIT VS. BSL MARKET

(bps)



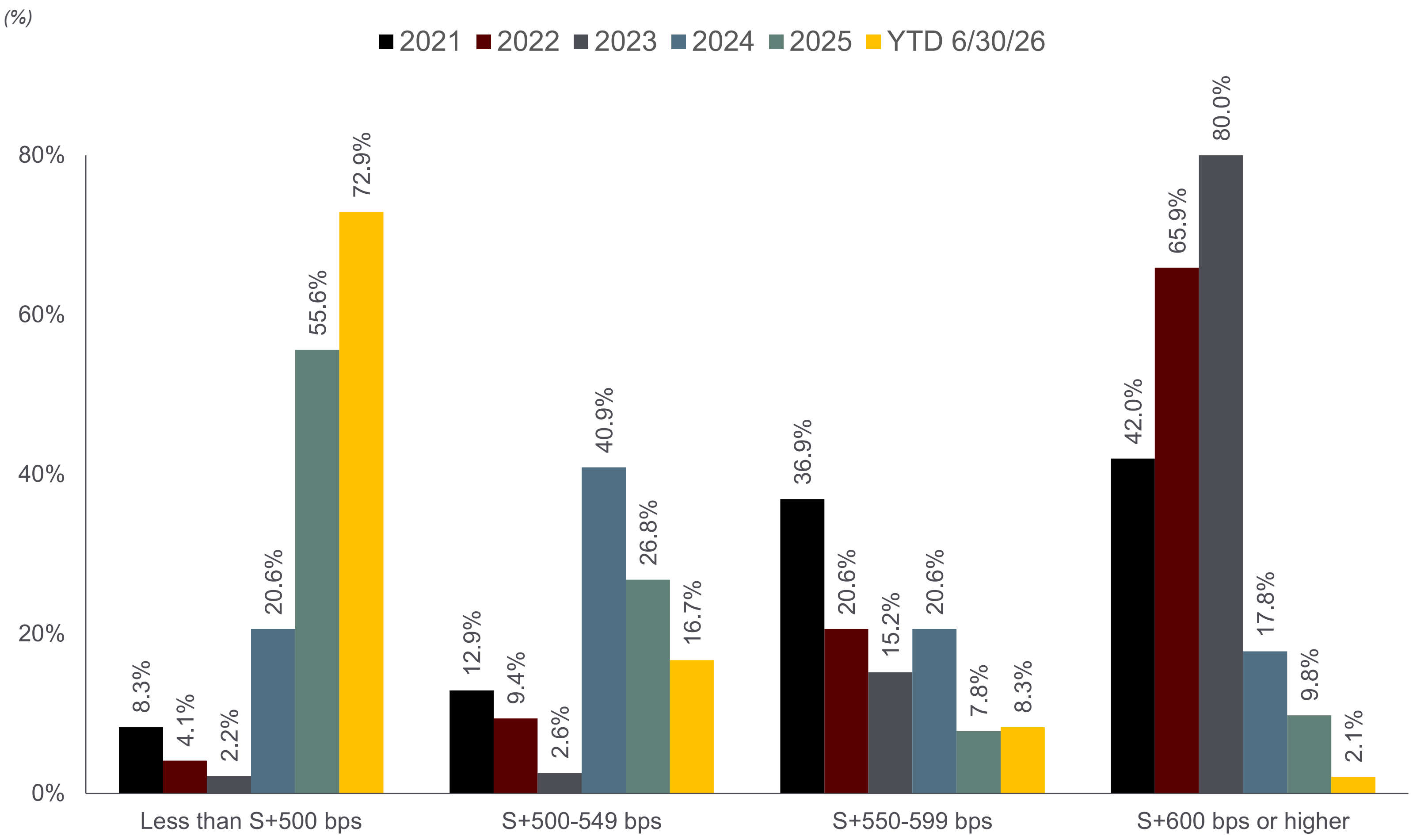
Source: PitchBook 2026 Data as of June 30, 2026

Record Share of LBOs Price Below S+500 as Competition Intensifies

Sustained competition to deploy capital, limited opportunities and lender preference for higher quality assets continue to drive tighter pricing for LBOs within the direct lending market

- In first half 2026, 73% of new-issue LBOs priced below S+500, a material increase from 56% of LBOs in 2025 and the highest level recorded since at least 2021
- Only 2.1% of new-issue LBOs priced at S+600 or higher in the year-to-date period through June 2026, a material decline from nearly 10% of LBOs in 2025
- Direct lending LBO issuance declined to an estimated $10 billion in Q2 2026 from approximately $22 billion in Q1, with the LBO deal count dropping to only 38 deals, near its lowest since 2023

EXHIBIT 9 – NEW-ISSUE SPREAD DISTRIBUTION FOR LBO TRANSACTIONS (DIRECT LENDING MARKET)



Source: PitchBook 2026 Data as of June 30, 2026

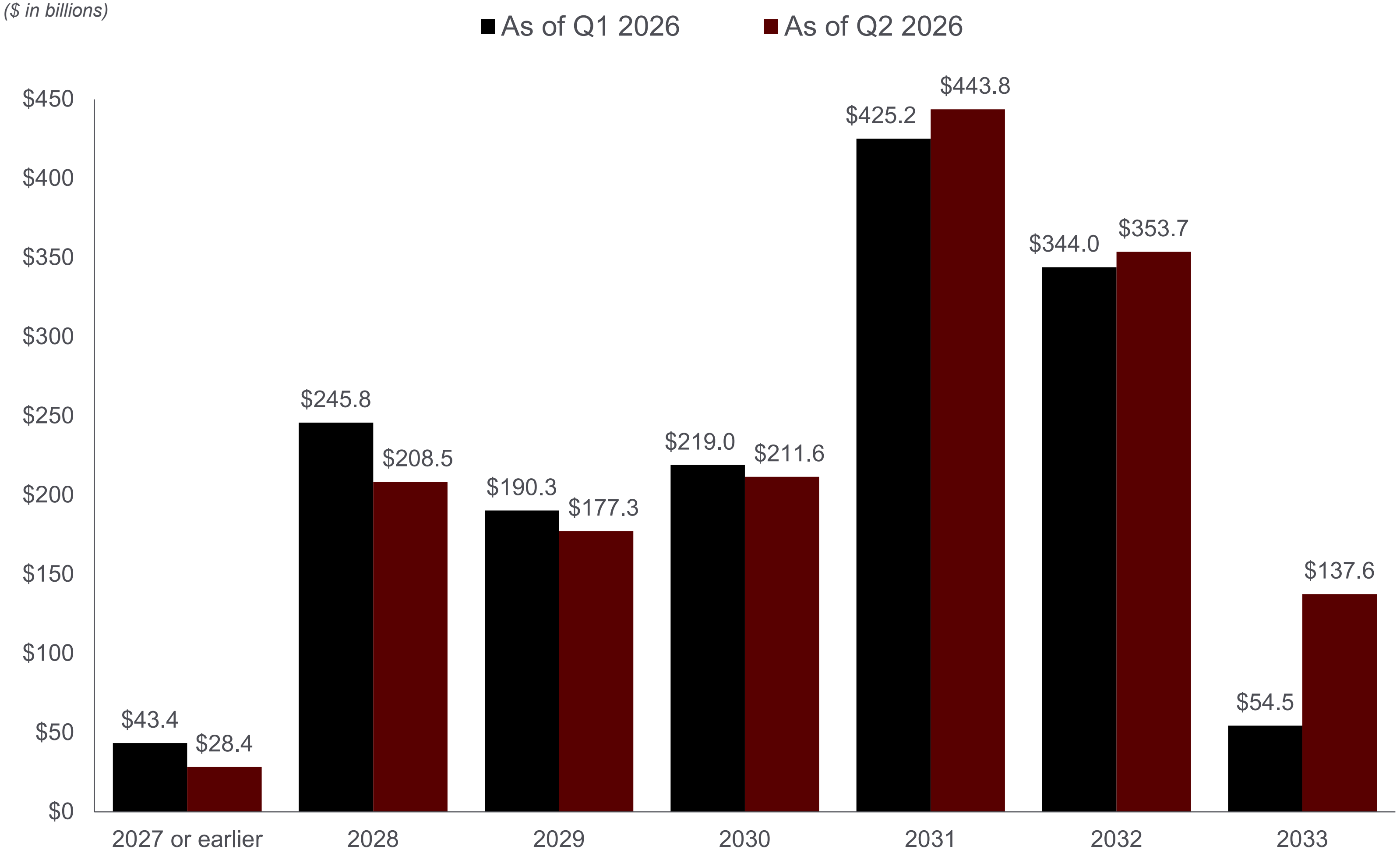
Sponsors Push Maturities Out, but the 2028 Wall Still Looms

Q2 2026 saw a record quarter of maturity-extension amendments as sponsors leaned into liability management, with trailing-twelve-month sponsored extensions reaching $93 billion, the most since 2010

- PE-backed borrowers drove 74% of institutional extension amendments as borrowers worked to address upcoming 2028 maturities
- Since March 2026, near-term maturities have been reduced, with outstanding loans maturing in 2027 or earlier falling to $28 billion (down 36% year-to-date) and the 2028 cohort falling to $208 billion
- Sponsored issuers account for the majority of outstanding maturities in every year, ranging from approximately 55% (2033) to approximately 75% (2027 or earlier). Acquisitions and bond-market takeouts continued to supplement refinancing
- Market participants continue to focus on the 2028 cohort, which carries material refinancing risk
  - – $117 billion of the $208 billion is rated B- or lower
  - – $40 billion of the $194 billion in outstanding software loans mature in 2028

EXHIBIT 10 – US LEVERAGED LOAN MATURITY WALL

($ in billions)



Source: PitchBook 2026 Data as of June 30, 2026

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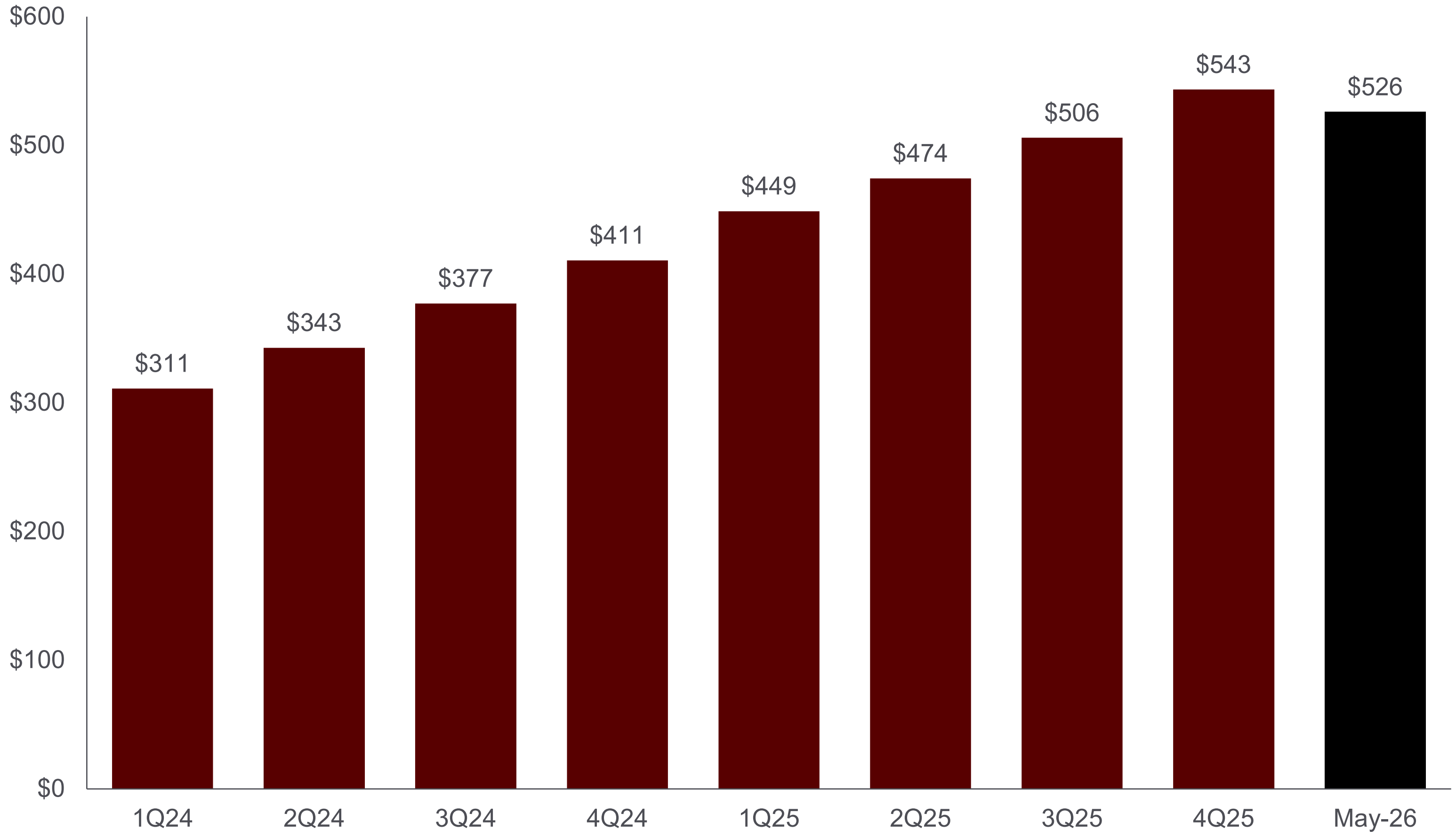
BDC AUM Growth Stalls as Redemption Requests Climb

Business development company (BDC) assets under management (AUM) expanded steadily through 2025, reaching $543 billion at year-end, before moderating to approximately $526 billion in May 2026

- May decline coincided with slower retail fundraising, higher non-traded BDC redemption requests and broader volatility across private credit markets
- Several non-traded BDCs received redemption requests above standard quarterly repurchase limits, increasing the focus on liquidity management
- Average redemption rates across the selected BDCs increased from approximately 1% in Q1 2025 to approximately 12% in Q1 2026. AUM growth may remain constrained until fundraising and redemption trends stabilize

EXHIBIT 11 – BDC ASSETS UNDER MANAGEMENT

($ in billions)



Source: PitchBook 2026 Data as of June 30, 2026

Portage Point Capital Advisory Team

In the constantly evolving private credit and middle market financing landscape, companies, financial sponsors and management teams require an experienced and trusted advisor to navigate this marketplace and secure required financing to fund business objectives. The Portage Point Capital Advisory team leverages years of transaction execution experience and deep lender relationships to execute a strategic process and craft thoughtful narratives that highlight attractive credit attributes and address key lender concerns. Contact a member of the team to learn more.

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Chris Sweet serves as Managing Director, Head of Capital Advisory at Portage Point Partners. As a member of the firm's investment banking leadership team, Chris delivers bespoke cash flow, asset-based and structured capital financing solutions to the firm's middle market clients. Chris's extensive market knowledge and expertise, coupled with deep senior-level relationships at capital providers, enable clients to achieve financing objectives on optimal terms and with maximum execution certainty.

With more than 20 years of investment banking experience, Chris has focused on raising capital across a myriad of industries, advising clients on debt and equity capital raises to support refinancings, recapitalizations, leveraged buyouts, acquisitions, growth initiatives and restructurings. Prior to Portage Point, Chris was a Managing Director in the Capital Markets Group at Houlihan Lokey and previously held senior-level capital raising positions at Sagent Advisors, LLC and UBS Investment Bank. Prior to commencing his career in finance, Chris played professional baseball for a minor league affiliate of the Anaheim Angels.

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Scott Thomas is a Senior Director focused on Capital Advisory on the Investment Banking team at Portage Point based in the Dallas office.

Scott has nearly 15 years of investment banking experience and has spent more than a decade in leveraged finance advising private, public and sponsor-backed clients on raising capital to support refinancings, recapitalizations, leveraged buyouts, acquisitions and other growth initiatives. His experience includes asset-based and cash flow financing as well as structured capital solutions.

Prior to Portage Point, Scott was a Senior Vice President in the Debt Capital Markets Group at Stephens Inc., where he provided debt advisory services to companies across a diverse range of industries including industrials, transportation and logistics, energy, media, technology and consumer. Before joining the Debt Capital Markets Group, Scott began his career at Stephens as an Analyst supporting the Industrial Distribution and Specialty Finance Teams across a variety of M&A and capital raising transactions.

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John Stine serves as a Director at Portage Point Partners in the New York office, where he focuses on providing structured debt and equity solutions.

With more than 10 years of investing and investment banking experience, John has worked on a wide range of transactions spanning public and private debt, equity and mergers and acquisitions.

Prior to Portage Point, John was a member of the investment team at 3ig Ventures making minority investments in early and growth-stage businesses. Previously, he served as a Vice President at Rothschild & Co, where he focused on equity and debt financings and mergers and acquisitions.

Disclaimer

Investing in securities involves risk, including the potential loss of principal. The value of investments can go down as well as up and investors may not get back the full amount originally invested. Past performance is not indicative of future results. All investments carry some degree of risk, including the potential for loss of principal.

Private credit typically refers to debt investments in privately negotiated loans or debt securities. Private credit offers potential benefits such as higher yields, customization of terms and a focus on steady income generation, but it comes with drawbacks like illiquidity and higher credit risk due to the nature of borrowers involved.

In contrast, broadly syndicated loans are large loans provided by a group of lenders to a single borrower. Broadly syndicated loans are typically rated and have standardized terms, making them more transparent and easier to benchmark. However, they may offer lower yields and less flexibility in terms compared to private credit.

Investing in debt securities is not suitable for all investors. Economic downturns, changes in interest rates and complex contractual terms further contribute to the risk profile of investing in debt. It is important to conduct thorough research and consider an investor's risk tolerance before making any investment decisions.

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There is no assurance that any investment strategy will achieve its objectives. All investing involves risk, including the possible loss of principal. Diversification does not guarantee a profit or protect against loss in declining markets.

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