



# Credit Markets Report

Q1 2026





Dinan is a premier global investment bank, with proficiency in mergers and acquisitions, capital markets, financial restructuring, and financial and valuation advisory.

We are the trusted partner to hundreds of middle market companies.

Dinan & Company was founded with the singular purpose of providing the highest standards of professionalism, sophistication, and execution expertise in merger and acquisition and capital raising transactions for middle market companies comparable to that afforded to the Fortune 500 at full-service Wall Street investment banks.

The Dinan brand, representing both Dinan & Company and its subsidiary, Dinan Capital Advisors, unites deep institutional knowledge and collaborative resources to deliver a tailored, client-focused experience.

Creating \$70B+ in value through 900+ transactions closed since 1988, we would like to say thank you for your trust along the way.

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### PRIVATE CAPITAL MARKETS

### FEATURED TRANSACTIONS\*

**AAI**  
APPLIED ACoustICS  
OF ENGINEERING

a portfolio company of

**ANGELES**  
EQUITY PARTNERS

has acquired

**V-Tech**

with debt financing provided by

**usbank**

**ZCG**

has acquired

**DRF**

with debt financing provided by

**KAYNE ANDERSON**

**image one**

a portfolio company of

**Innovating**  
CAPITAL

has received financing from

**midcap**  
FINANCIAL

**CATALUR**  
CAPITAL

An affiliate of

**NEXUS**  
CAPITAL

has raised a credit facility from

**CERBERUS**  
CAPITAL MANAGEMENT, L.P.

to acquire certain assets of

**PTD**

under §363 of the Bankruptcy Code

**ProSmile**

a portfolio company of

**TRISPAN**

raised a credit facility from

**BankUnited**

**TRAJUS**

a portfolio company of

**WHITE OAK**

has closed a new asset-based credit facility

\*Includes transactions completed by senior professionals while at prior firms

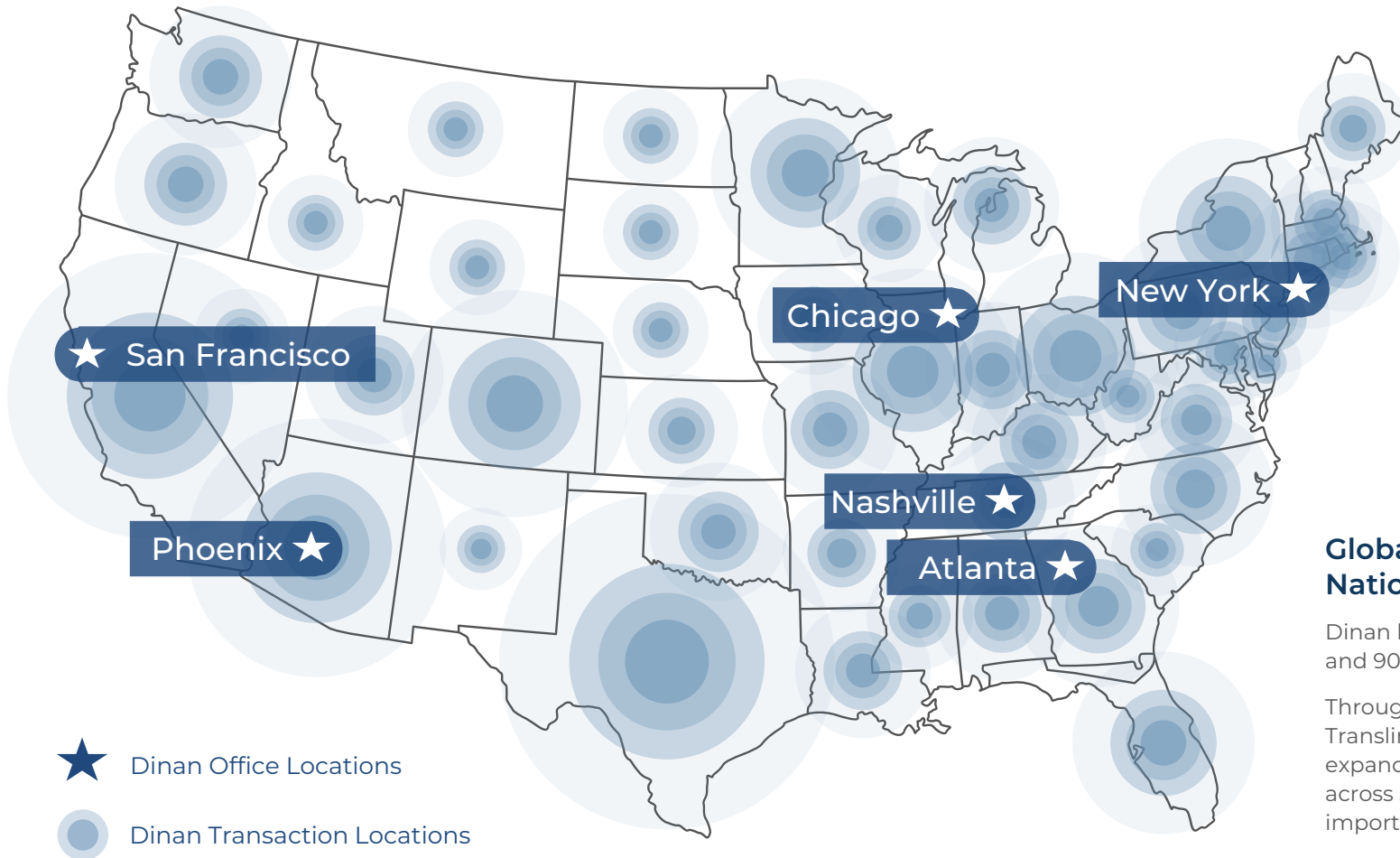
### Contact Us

Please reach out to us to schedule a call to discuss this quarter's market update or to explore how we can serve your business needs.



## Our Nationwide Footprint

# Transactions Across the U.S.



### Global Reach, Nationwide Expertise

Dinan has over 35 years of experience and 900+ completed transactions.

Through our international partner, Translink Corporate Finance, we have expanded our reach to over 35 countries across some of the world's most important economic regions.



# Credit markets

## MARKET COMMENTARY

Markets opened the year cautiously as investors reassessed elevated valuations following a third consecutive year of double-digit S&P 500 gains in 2025. AI and semiconductor names faced renewed scrutiny, with markets beginning to price in risks that AI disruption could compress margins across software-heavy borrowers, a core cohort of private credit portfolios.<sup>1</sup>

Amid this volatility, M&A dealmaking remained cautious and financing-driven. The default rate among U.S. corporate borrowers of private credit rose to a record 9.2% in 2025.<sup>2</sup> Global uncertainty added further noise, keeping companies focused on extending runway and improving capital structures. Private credit continued to serve as the most reliable source of flexible capital for sponsors navigating an uncertain macro environment.

<sup>1</sup> CNBC, <sup>2</sup> Fitch PMR default rate, <sup>3</sup> IMF, <sup>4</sup> Reuters  
Graph Sources: S&P Global, data extracted as of 3/18/26

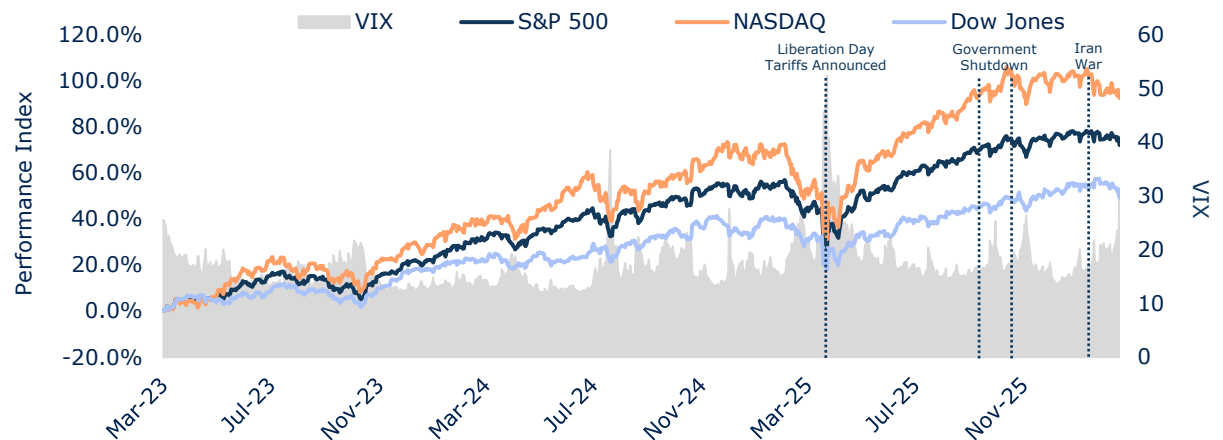
# increasingly focus on issuer quality

## Major Indices Performance

Equity indices began Q1 under pressure as investors backed away from elevated valuations, and contemplated a more cautious rate cut outlook. Markets pulled back from year-end highs in early January as investors rotated out of crowded AI-linked trades coming off an outsized rally in 2025.

The decline was emblematic of broader macro uncertainty. Investors remained cautious as the Federal Reserve signaled a higher-for-longer rate environment, while renewed tariff discussions added volatility for multinational and export-sensitive sectors. By late February, markets appeared to have partially stabilized. The International Monetary Fund noted the U.S. economy is set to remain a global growth engine, backed by record corporate capital expenditure, though index returns are expected to be more modest relative to 2025.<sup>3</sup>

Unexpectedly, in March, armed conflict broke out in the Middle East, leading Iran to unilaterally close the Strait of Hormuz. This action has pushed oil prices sharply higher, and the ensuing price volatility has disrupted energy as well as downstream markets globally.<sup>4</sup>



	Index Change (9/30/25 - 12/31/25)	Index Change (12/31/25 - 3/18/26)	P/E Ratio (12/31/25)	P/E Ratio (3/18/26)
VIX	-1.33	+10.14	-	-
S&P 500	+4.01	-5.64	23.01x	21.31x
NASDAQ	+5.01	-9.37	28.89x	25.1x
Dow Jones	+5.23	-5.77	21.04x	19.51x



# Credit markets

## POLICY CATALYSTS

Persistent inflation above the Fed's 2% target defined the Q1 policy backdrop. The Fed held rates within the 3.5% to 3.75% bound at its January meeting, pausing any further rate changes after three consecutive cuts in late 2025. Several Federal Reserve members indicated it could be appropriate to keep rates unchanged for some time, with a few noting that hikes could not be ruled out if inflation failed to continue declining.<sup>1</sup>

Against this backdrop, markets largely rule out near-term easing – futures markets predict no cuts in the first half of 2026. Non-bank lenders remained the primary source of liquidity as borrowers continued to seek execution certainty.

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## April 29, 2026 Meeting Fed Rate Probabilities<sup>2</sup>



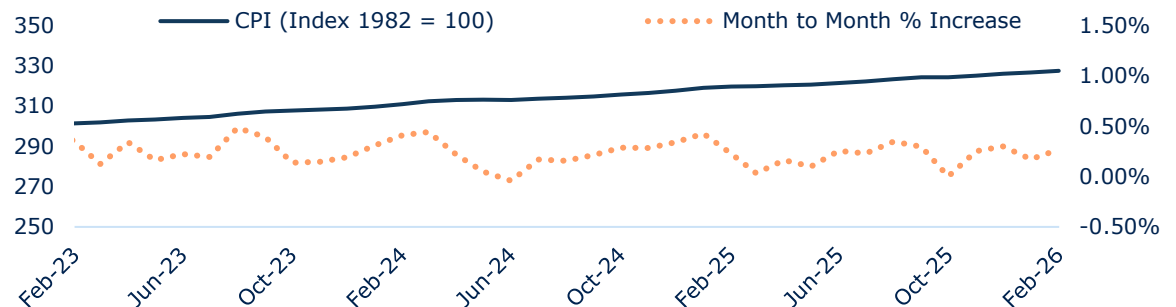
Target Rate	Effective Rate Change	April Meeting Probabilities %		June Meeting Probabilities %	
		Current Probabilities	Previous Week	Current Probabilities	Previous Week
3.25 - 3.50	-25 bps	0.0%	9.8%	3.6%	26.8%
3.50 - 3.75	0 bps	93.6%	90.1%	92.3%	71.4%
3.75 - 4.00	+25 bps	6.4%	0.0%	4.1%	0.0%

The Fed held its benchmark rate at 3.50% to 3.75% at its March 2026 meeting, extending the pause after three consecutive cuts in 2025. Chair Powell acknowledged that the ongoing oil price shocks likely have not yet been fully captured, and signaled that the Fed is monitoring inflation closely.

Futures markets are pricing in no cut imminent rate cuts, with ~25% odds of a cut by the end of the year.

## Consumer Price Index Trends<sup>3</sup>

The January CPI report showed inflation rising 2.4% year-over-year, slightly below expectations and marking a further step toward the Federal Reserve's 2% target. The softer-than-expected reading initially reinforced market expectations that the Fed could begin easing policy as early as June,<sup>4</sup> but has since been eclipsed by recent developments in the armed conflict in the Middle East.



<sup>1</sup> iShares, <sup>2</sup> CME FedWatch, <sup>3</sup> FRED, <sup>4</sup> CNBC  
Fed Rate Sources: CME, data extracted as of 3/18/26



# Credit markets

## MACRO HEADWINDS

In Q1 2026, the Treasury yield curve maintained its steepening bias as short-term yields drifted lower on softening labor data and inflation under control. The front end remained the primary driver of the curve, though the ongoing Middle East conflict and upcoming Fed Chair transition make the timing of the next cut uncertain.

Longer-dated yields initially held firm, anchored by elevated Treasury supply and persistent fiscal deficits,<sup>1</sup> but rose sharply in March as conflict in the Middle East unfolded and oil prices skyrocketed. Apart from rising gas prices at the pump, Americans are also expecting elevated inflation in everyday goods if oil prices remain at all-time highs, significantly reducing consumer discretionary income.

<sup>1</sup> Reuters  
 Note: Secured Overnight Financing Rate ("SOFR")  
 Graph Sources: S&P Global, data extracted as of 3/18/26

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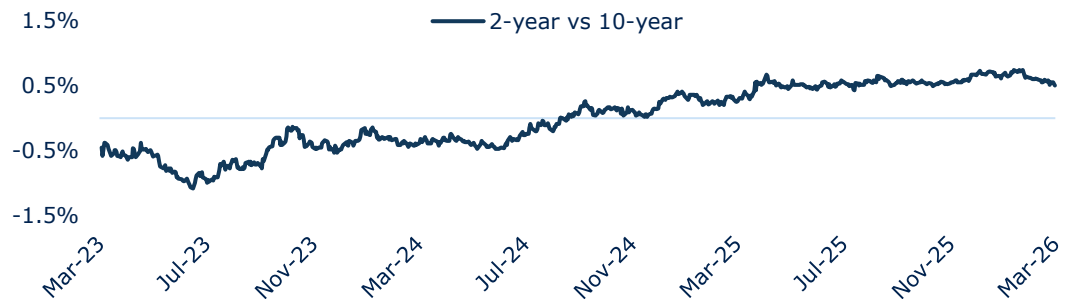
## SOFR and Treasury Yields

Rate dynamics in Q1 showed a continued split between short and long-term yields. Front-end rates moved lower as markets absorbed the three 2025 rate cuts, while long-end yields rose as elevated fiscal spending and persistent above-target inflation kept upward pressure on longer maturities. The Middle East conflict and ensuing oil supply shock led to a sharp backup in long term rates.

Market-based policy rate expectations indicate a decreasing probability of cuts in 2026, with markets now starting to price in hikes amid economic uncertainty. This combination continued to favor floating-rate private credit, as borrowers position to lock in lower front-end costs while retaining flexibility amid an uncertain central bank and policy outlook.



## Yield Curve Differential



	3/18/23	3/18/24	3/18/25	3/18/26
2-year vs 10-year	-0.45%	-0.39%	+0.25%	+0.50%



# Credit markets

## A SELECTIVE MARKET

Q1 2026 remained largely issuer-friendly, but increasingly selective among industries. Lender focus shifted decisively toward non-cyclical businesses with predictable cash flows and strong sponsor backing.

A series of high-profile stress events reignited debate over valuation and liquidity risk across private credit vehicles<sup>1</sup>, exemplified by bellwether Blue Owl (alongside other blue-chip names in the space) restricting quarterly redemptions from its retail-focused BDC fund after withdrawal requests exceeded the standard quarterly cap. This came after a failed merger that would have left some investors facing losses of roughly 20%.

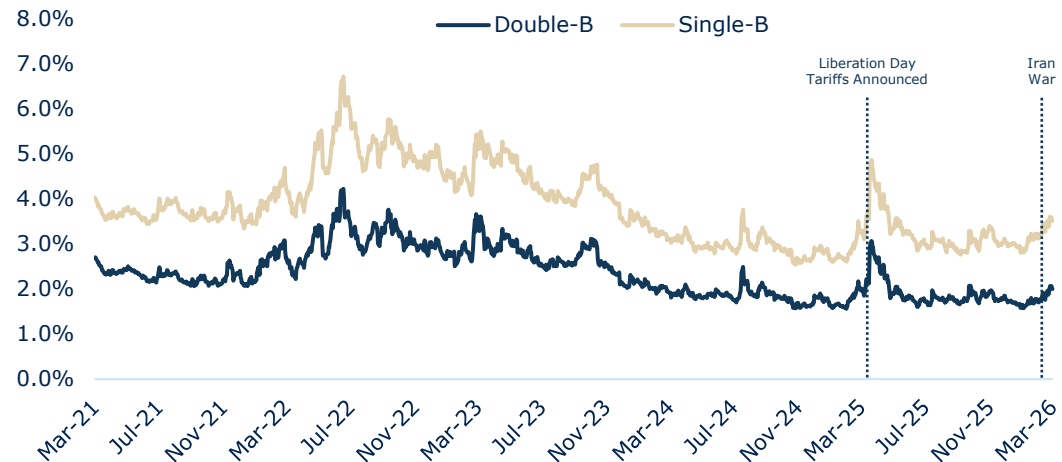
Meanwhile, UBS raised its worst-case private credit default scenario to 15%,<sup>2</sup> citing heavy portfolio concentrations in software companies viewed as exposed to AI-driven disruption.

<sup>1</sup> NYT, <sup>2</sup> Financial Post, <sup>3</sup> Bloomberg  
Graph Sources: FRED, S&P Global, data extracted as of 3/18/26

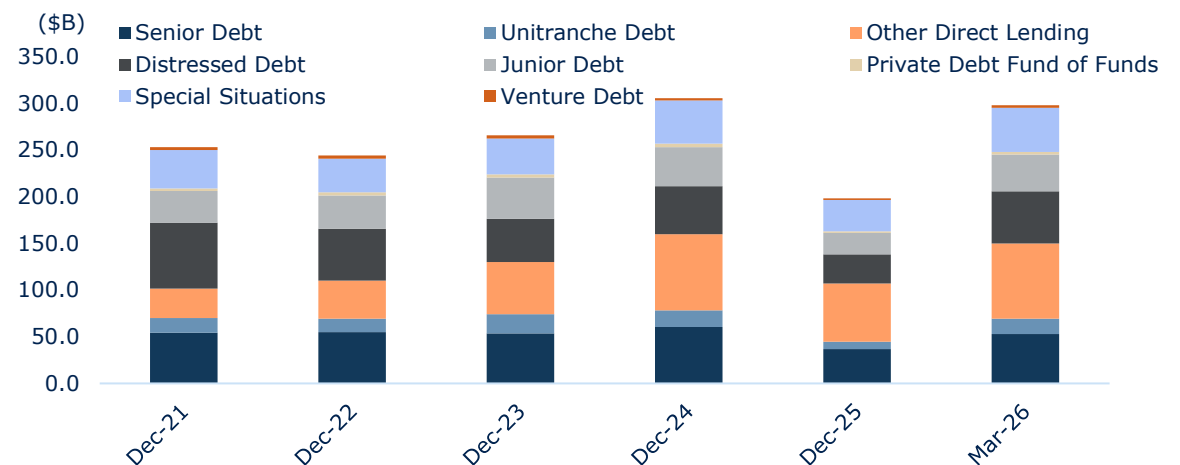
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## US High Yield Index Option-Adjusted Spread

Spreads had already started widening before recent macro headwinds, eventually rising by half a percentage point from January lows as investors grew increasingly concerned that AI-driven disruption will erode earnings among heavily indebted companies.<sup>3</sup>



## US Dry Powder Trends



# Credit markets

## A SELECTIVE MARKET

New-issue loan supply remained uneven in Q1 2026 as financing markets adjusted to a wave of large strategic transactions rather than a broad-based recovery in deal volume. Global bulge-bracket M&A activity saw continued growth after a strong 2025, with megadeals driving volume.<sup>1</sup> Notably, Paramount's roughly \$110 billion bid for Warner Bros. Discovery is backed by \$54 billion in new debt, underscoring resilient appetite for transformational deals.<sup>2</sup>

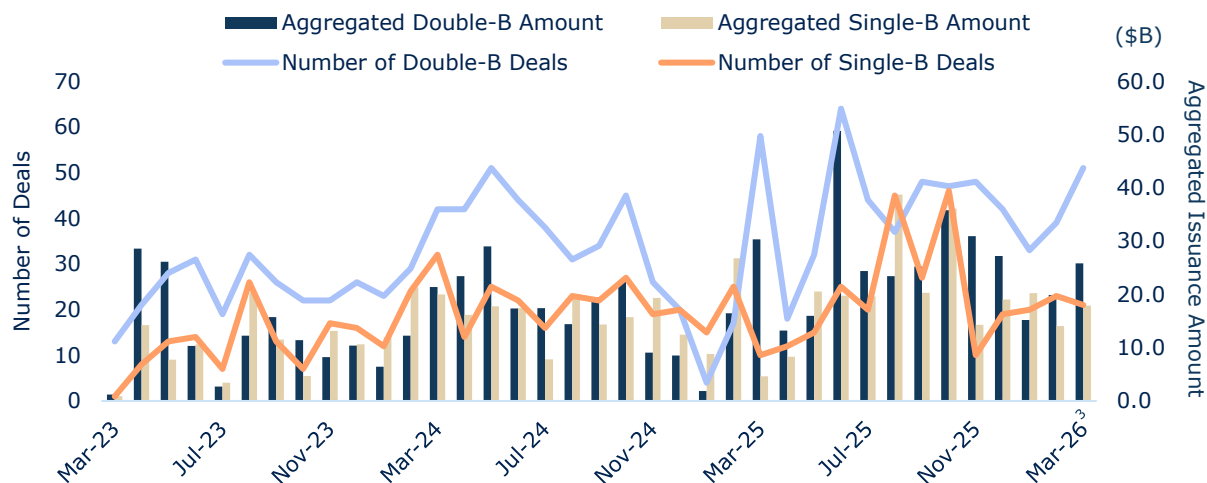
Meanwhile, strong demand for floating-rate credit continued to keep pricing low for higher-quality borrowers. CLO formation and private credit dry powder remained concentrated in well-positioned issuers, reinforcing favorable financing conditions despite rising default expectations and widening credit dispersion in the broader credit market.

<sup>1</sup> CNBC, <sup>2</sup> Reuters, <sup>3</sup> Estimated

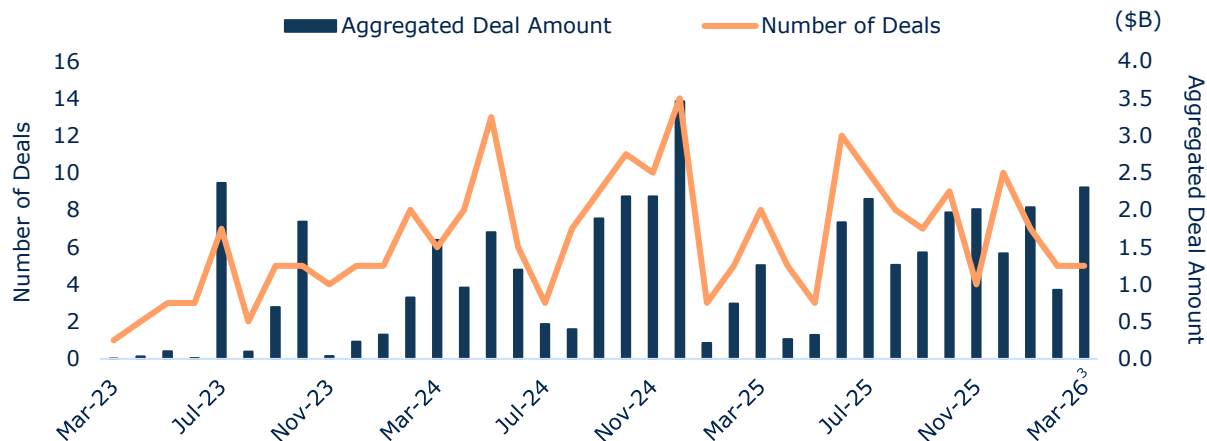
Note: Deal volume aggregated by transaction close dates  
Graph Sources: S&P Global, data extracted as of 3/18/26

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### US High Yield Bond Issuance Volume

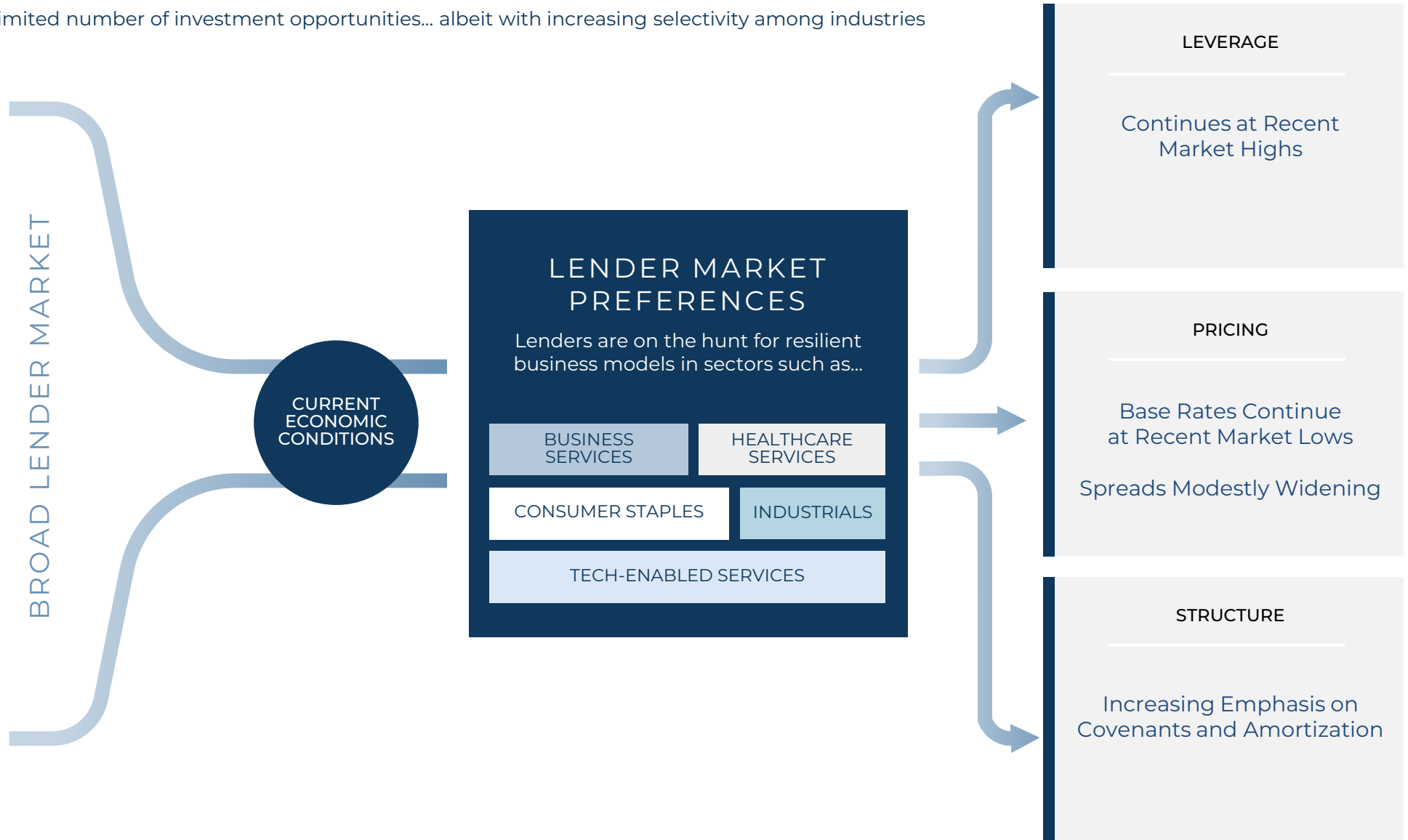


### US LBO Deal Volume (<\$1B Transaction Value)



# The Bottom Line...

Private debt markets continue to strongly favor issuers as a result of a buildup of dry powder chasing a limited number of investment opportunities... albeit with increasing selectivity among industries





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