

Credit Markets Report

Q3 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.

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.

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
a portfolio company of
ANGELES
EQUITY PARTNERS
has acquired
Vista
with debt financing
provided by
usbank

image one
a portfolio company of
Innovating
CAPITAL
has received
financing from
midcap+
CATALUR
CAPITAL

An affiliate of
NEXUS
CAPITAL
has raised a credit
facility from
CERBERUS
CAPITAL MANAGEMENT, L.P.
to acquire certain
assets of
FTD
under §363 of the
Bankruptcy Code

ProSmile
a portfolio company of
TRISPAN
raised a credit facility from
BankUnited

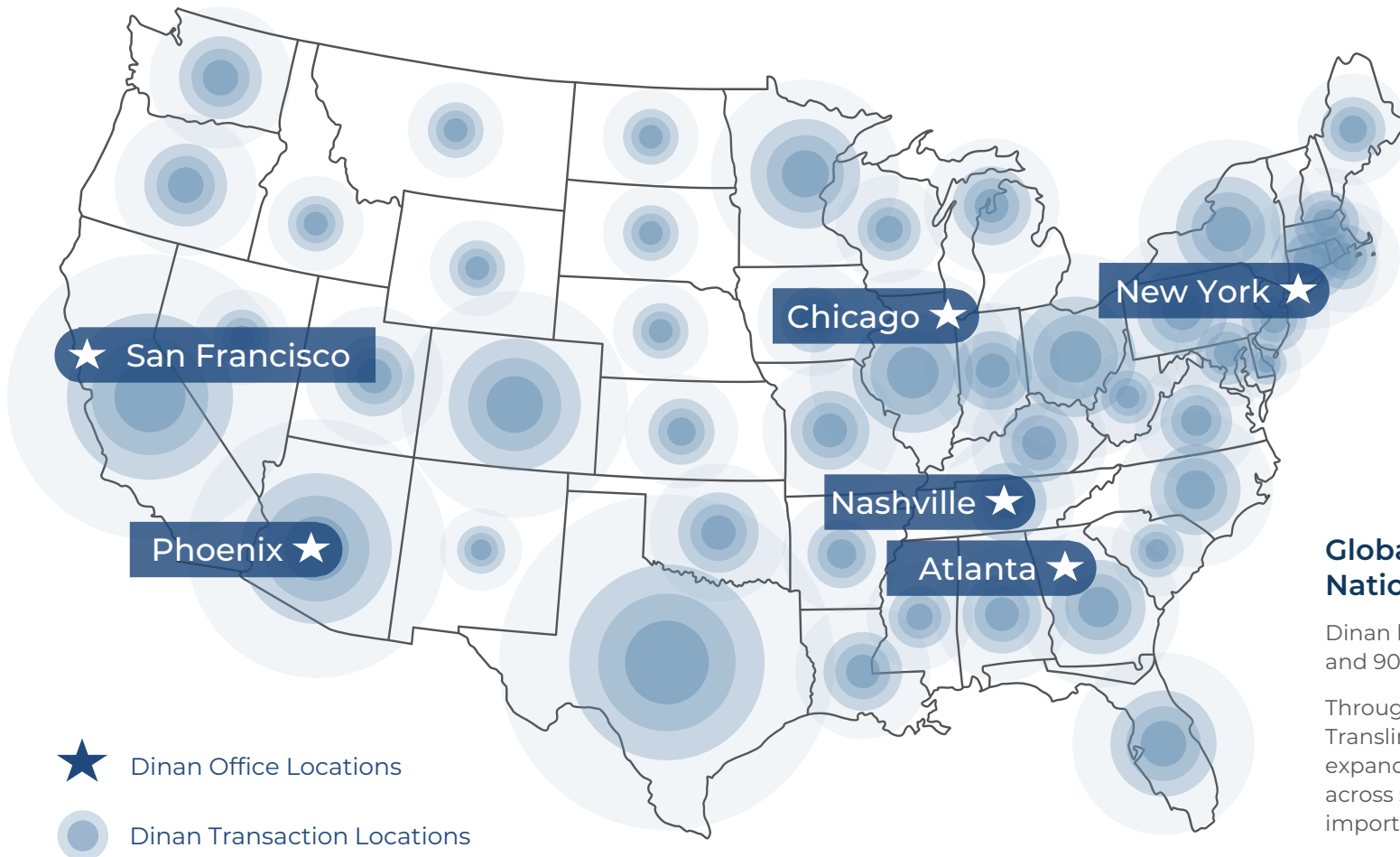
TRAJUS
a portfolio company of
WHITE OAK
has closed a new
asset-based
credit facility

ZCG
has acquired
DRF
with debt financing
provided by
KAYNE ANDERSON

*Includes transactions completed by senior professionals while at prior firms

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.



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MARKET COMMENTARY

Q3 left the US capital markets at a crossroads. Equity indices largely held the spring's recovery and volatility moderated.

The calm in aggregate data, however, was not matched underneath. Growth decelerated, real consumer spending stalled,¹ and wage gains again trailed consumer prices,² even as corporate profits and business investment remained relatively strong.

The quarter's arguably defining geopolitical event came in July, when the Strait of Hormuz truce collapsed and crude retraced its entire Q2 decline in a matter of weeks. The inflation channel reopened just as the Federal Reserve was weighing whether policy was restrictive enough.

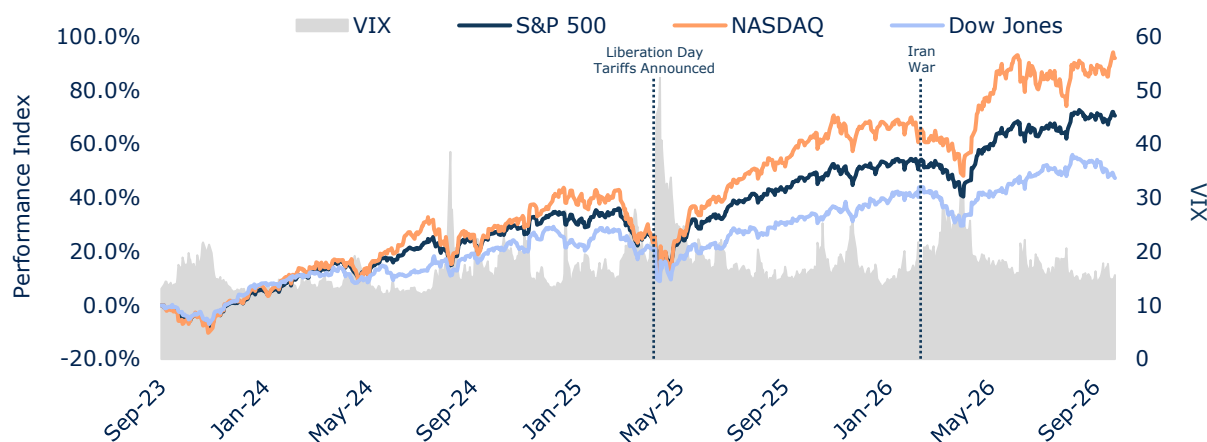
higher credit quality issuance

Major Equity Indices Performance

U.S. equity indices entered Q3 near highs for the year and, despite the collapse of July's Middle East truce and the sharp rebound in crude that followed, declined to give those gains back. Benchmarks ground modestly higher through the quarter while implied volatility drained steadily away.

The Fed's mid-September decision to raise the federal funds rate by 25bp, and to signal further hikes, had little market impact as the quarter progressed, though the action arguably averted the negative reaction that inaction would have provoked.

As in Q2, investors chose to look through the geopolitical noise to corporate fundamentals. Profits expanded sharply, margins held near elevated levels, and business investment continued to run well above trend, with a substantial share of that growth tied to AI-related buildout.



	Index Change (4/1/26 - 6/30/26)	Index Change (7/1/26 - 9/24/26)	P/E Ratio (4/1/26)	P/E Ratio (9/24/26)
VIX	-8.09	-0.92	-	-
S&P 500	+20.46%	+4.90%	20.04x	20.37x
NASDAQ	+31.17%	+6.41%	23.92x	25.57x
Dow Jones	+16.52%	-2.74%	19.62x	19.35x

¹ Bureau of Economic Analysis, ² Bureau of Labor Statistics
Graph Source: S&P Global, data extracted as of 9/24/26



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POLICY CATALYSTS

The Federal Reserve raised its target range for the Federal Funds rate to 3.75% – 4.00% at its September 2026 meeting by unanimous vote, the first increase since 2023. The Committee pointed to economic activity expanding at a solid pace and a labor market in which job gains have kept pace with the workforce, while noting that inflation remains elevated.¹

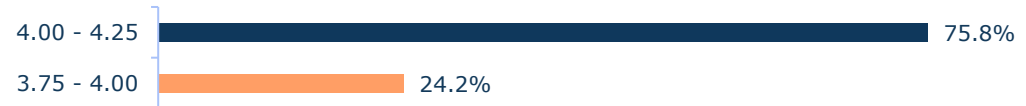
New Fed Chair Kevin Warsh, who was initially expected to adopt a more dovish policy stance, instead delivered the first hike of his tenure. The Committee's updated projections show the benchmark rate edging higher by 25 to 50bp through year-end and largely holding steady through 2027, thereby removing the cuts penciled in as recently as June.²

¹FOMC Statement, ²CNBC

Graph Sources: CME, Bureau of Labor Statistics data extracted as of 9/24/26

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Fed Rate Probabilities – October 28, 2026 Meeting

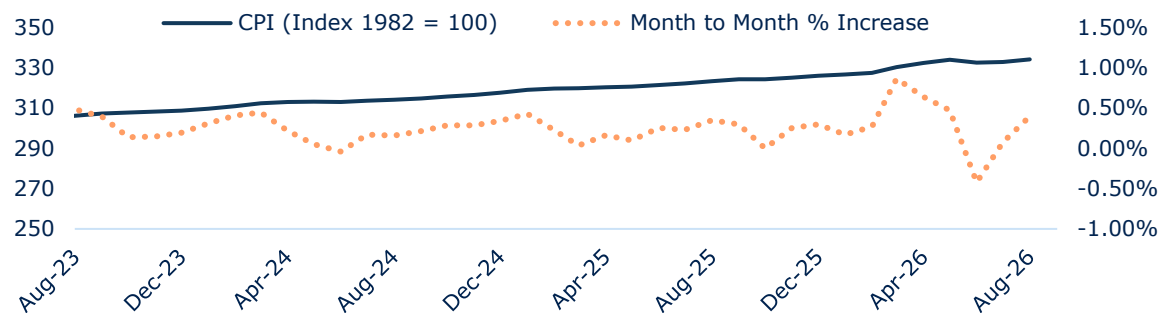


Target Rate	Effective Rate Change	10/28/26 Meeting Probabilities %		12/09/26 Meeting Probabilities %	
		Current Probabilities	Previous Week	Current Probabilities	Previous Week
3.75 – 4.00	+0 bps	24.2%	42.6%	5.3%	12.2%
4.00 – 4.25	+25 bps	75.8%	57.4%	35.6%	46.8%
4.25 – 4.50	+50 bps	-	-	59.0%	41.0%

September's Fed Funds rate increase takes the target range to 3.75% – 4.00% and shifts the question to whether further hikes follow. Futures markets now assign a 59.0% probability to two additional increases by the December meeting, with the odds of no further move having narrowed to a small fraction.

Consumer Price Index Trends

The August CPI report showed inflation holding at 3.4% year-over-year, still above the Federal Reserve's 2% target, as rising gasoline prices offset progress elsewhere. Core inflation (which excludes food and energy) eased to 2.4%, its lowest reading since March 2021, though consumers have seen little relief as wage gains again trailed price increases.



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MACRO HEADWINDS

As Q3 progressed, the long end of the Treasury curve corrected sharply, reflecting concerns about inflation, the "crowding out effect" of higher sovereign deficits and AI borrowing,¹ and geopolitical risks. The 10-year pierced 5%, reaching levels not experienced since before the Great Financial Crisis.² Conversely, the front end of the curve held steady until Fed actions became clearly anticipated, resulting in considerable curve flattening.²

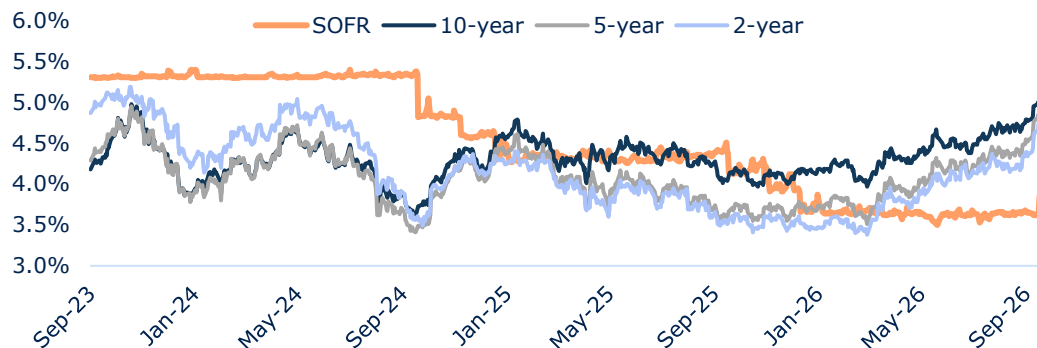
Notably, US federal debt reached a record high \$40 trillion this quarter, representing roughly 123% of GDP.³

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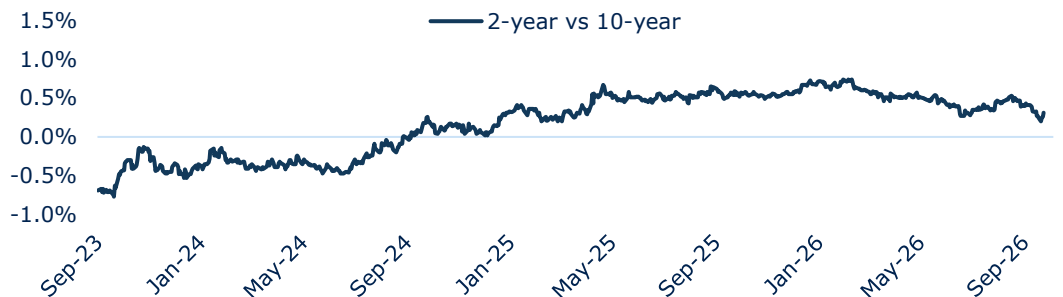
SOFR and Treasury Yields

Rate volatility in Q3 was dominated by the long end until the final weeks, when the front end caught up largely in anticipation of monetary policy actions. The 10-year yield rose to its highest level since 2007, while the 2-year yield climbed sharply going into the September Fed meeting, at which the Committee raised its benchmark rate for the first time in three years.

SOFR held steady through most of the quarter and resets higher following the September decision, raising the all-in cost of every floating rate facility without renegotiation and without any change in credit quality.



Yield Curve Differential



	9/24/2023	9/24/2024	9/24/2025	9/24/2026
2-year vs 10-year	-0.66%	+0.25%	+0.59%	+0.21%

¹ World Economic Forum ² Treasury.gov, ³ CBS News
Graph Sources: S&P Global, data extracted as of 9/24/26



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SELECTIVE MARKET

Pricing and structuring terms in the private credit market very much reflect the crossroads we are experiencing across the credit market spectrum. Spreads and structure held and even tightened modestly among in-favor sectors and by deep pocketed issuers.¹ The relative dearth of such issuance, owing largely to a sluggish middle- and lower-middle market M&A environment, contributed to the tight pricing.²

Conversely, issuance among borrowers tied to the consumer, or perceived to be at risk of AI substitution, have encountered lender demand for risk premia. Such premia are reflected in pricing and arguably more so in covenants and structure.

¹FRED, ²PitchBook

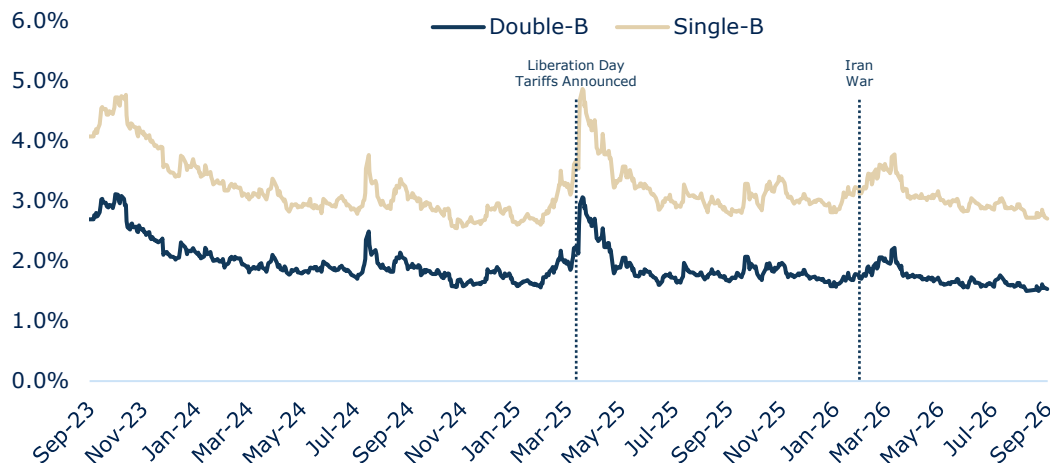
Note: "RoY Estimate" annualizes funds announced year to date to project remaining 2026 activity

Graph Sources: FRED and PitchBook data extracted as of 9/24/26

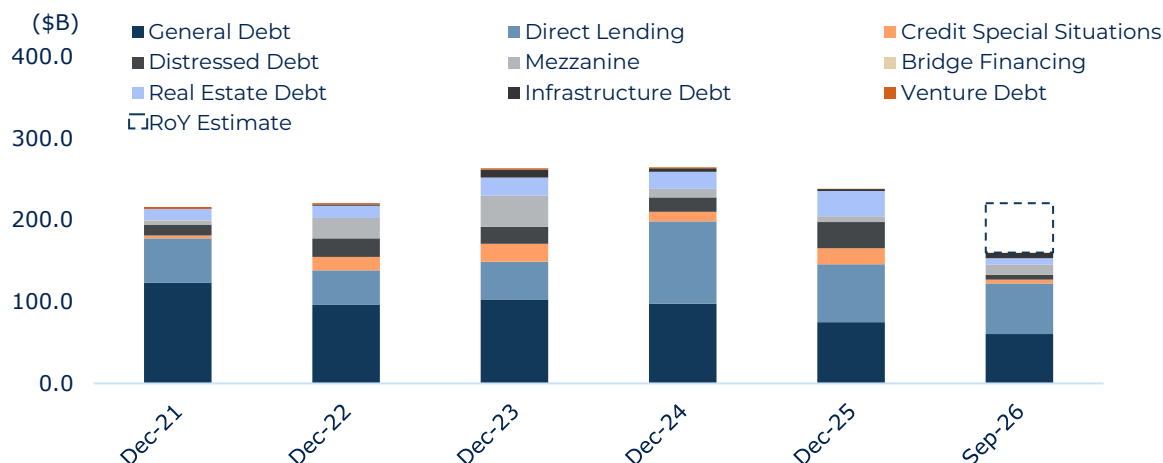
higher credit quality issuance

US High Yield Index Option-Adjusted Spreads

High Yield spreads in Q3 ground tighter to the year's lowest levels, arguably driven by a shortage of new issue supply rather than by any improvement in fundamentals, with single-B credits recovering considerably more ground than double-B.



US Fundraising Activity



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SELECTIVE MARKET

High yield issuance was the exception to this year's volume story, running well ahead of 2025 as issuers took advantage of persistently tight spreads. Double-B borrowers led both by amount and by deal count, while demand arrived increasingly through exchange traded funds rather than traditional mutual funds, a shift in the composition of the buyer base as much as its size.¹

LBO volume remained subdued through Q3, constrained less by financing availability than by a shortage of transactions to finance. With sponsors unable to exit existing positions, activity has shifted toward add-on acquisitions by existing platforms, while leveraged recapitalizations are somewhat constrained by the cost of capital. The majority involve healthy credits, alongside a discernible increase in distressed situations.

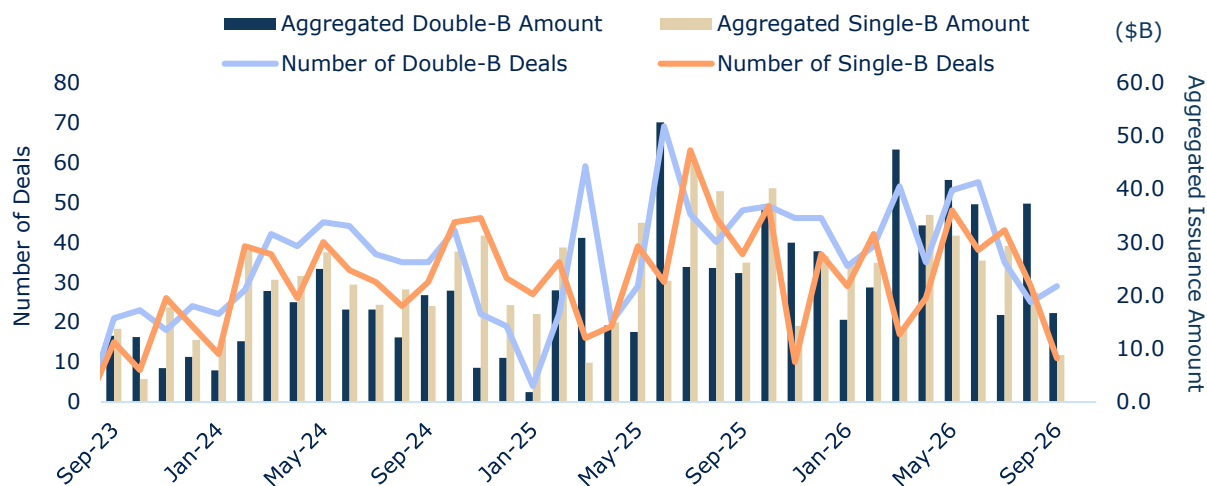
¹ PitchBook

Note: Deal volume aggregated by transaction close dates

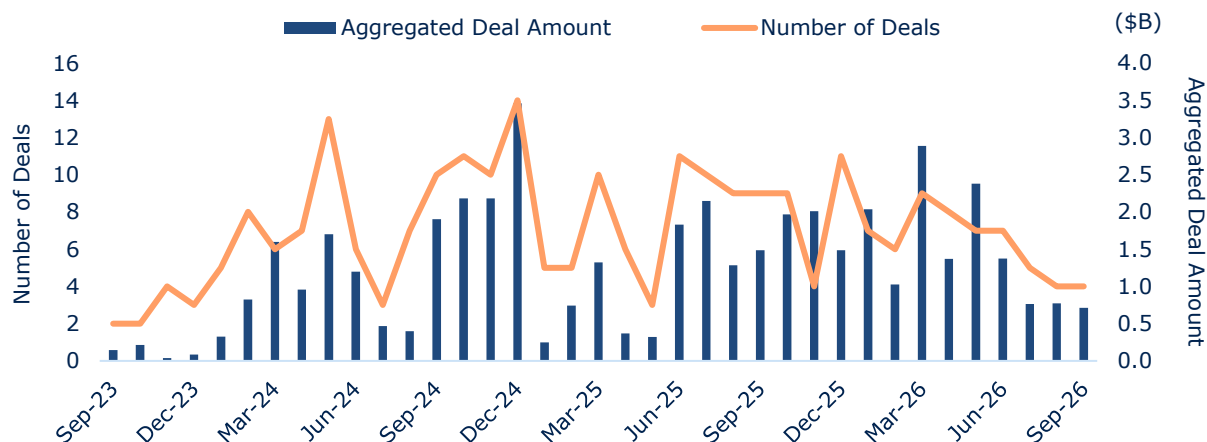
Graph Sources: S&P Global, data extracted as of 9/24/26

higher credit quality issuance

US High Yield Bond Issuance Volume

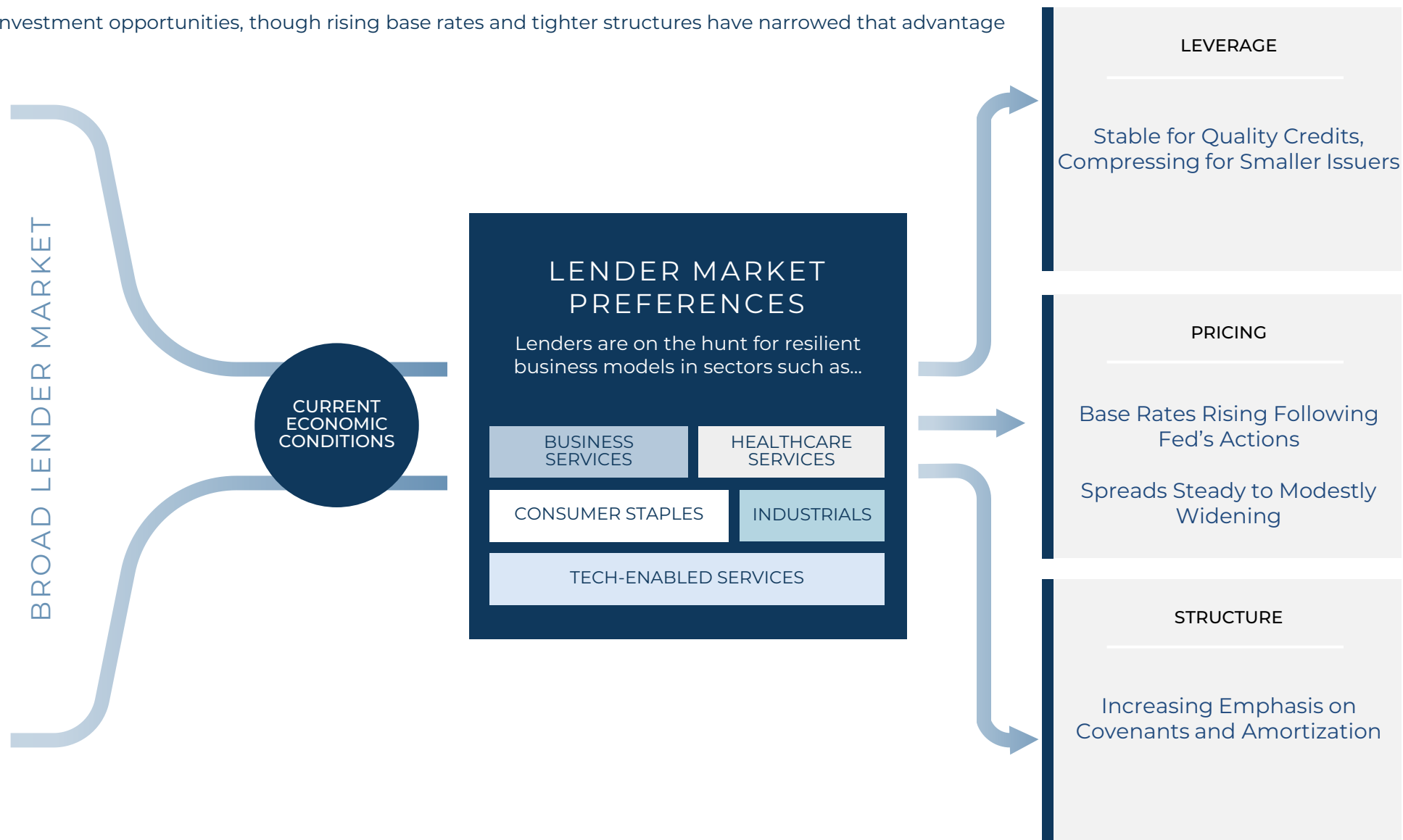


US LBO Deal Volume (<\$1B Transaction Value)



The Bottom Line...

Private debt markets continue to favor quality issuers as a buildup of dry powder chases a limited number of investment opportunities, though rising base rates and tighter structures have narrowed that advantage





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