

INVESTMENT BANKING

# Leveraged Finance Newsletter

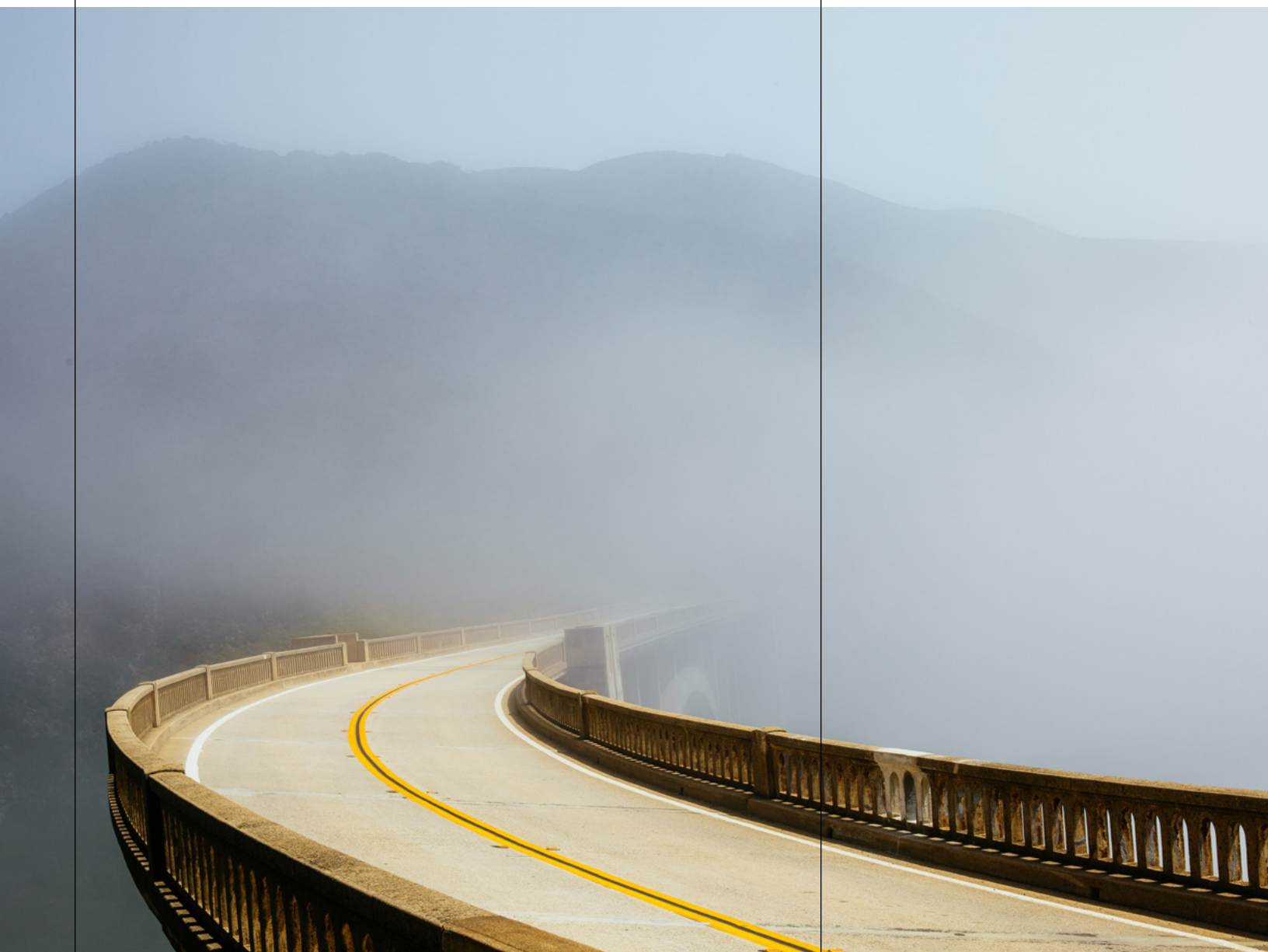
Q1 2026

**As a Strong Start Turns Sour,  
What's Next for the Leveraged  
Finance Market?**

**In This Report**

Analysis of Q1 Trends in Leveraged  
Finance

Highlights, Analysis, and Results  
From William Blair's Quarterly  
Leveraged Finance Lender Survey



## As a Strong Start Turns Sour, What's Next for the Leveraged Finance Market?

For a second consecutive year, credit markets began 2026 with a strong showing in January, only to see conditions worsen during the quarter amid newfound market volatility

Following a solid run of issuance in 2025 despite persistent concerns about tariffs and other macroeconomic factors, expectations for the leveraged finance market were high heading into 2026. January provided a strong start, but hopes for a banner year were tempered as multiple new factors triggered a spike in volatility across global markets. Concerns about AI-driven disruptions, particularly in the software sector, prompted retail investor outflows from the credit markets, as well as a reevaluation of underwriting standards and how to price risk by investors. In addition, geopolitical risks and associated energy volatility as a result of the war in Iran added to market concerns. How these factors play out in the coming months, and the ability of both borrowers and investors to manage these newfound risks, will likely influence whether markets can recover for the rest of the year.

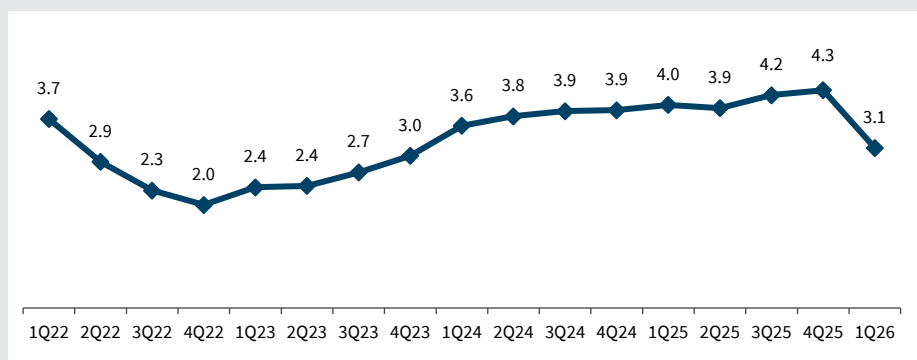
U.S. institutional loan volume totaled \$111.3 billion in the first quarter,

rebounding 57% from the prior quarter but trailing the start of 2025 by 23%. The year opened with strong momentum, as January ranked among the most active months since 2022. As the quarter progressed, February volume fell by 56% followed by a modest rebound in March. Despite the highly volatile environment, Q1's total volume was only 5% below the average of the last two years and 10% above the average quarterly level since 2021. Including repricings and extensions, first-quarter total activity finished at \$241.0 billion, a decrease of 32% from the same period last year, as secondary market weakness and widening spreads quieted opportunistic activity for much of the quarter.<sup>1</sup>

In contrast with the record levels of refinancing and repricing activity in the last two years, the first quarter was highlighted by an increase in M&A-related activity. Total volume related to M&A activity was \$51.2 billion in Q1, representing the highest level in four years. This quarter was also the first instance in which more than 45% of total volume was tied to M&A activity since the third quarter of 2022. While the uptick in M&A volume is a welcome sign, the multiyear high of this quarter was concentrated in five megadeals that accounted for more than 40% of all M&A-related activity.<sup>2</sup> Despite the top-heavy quarter, hope remains that the positive momentum drives a sustained return of M&A transactions for the rest of the year.

### Borrower-Friendly Conditions Wane Amid Market Volatility

Each quarter, we ask middle-market lenders to rate overall conditions in the leveraged finance market on a scale of 1 to 5, with 5 being the most borrower-friendly conceivable. The index decreased to 3.1, sinking to two-year lows as the market shifted to a more risk-off stance.



Source: William Blair Leveraged Finance Survey.

1. Source: [PitchBook, a Morningstar company](#).

2. Source: Ibid.

Opportunistic refinancing and repricing remained a meaningful contributor to activity, with refinancing volume totaling \$41.6 billion. While down 41% from Q1 2025, levels were closely in line with the quarterly average of \$40.5 billion over the last four years. Nearly half of that volume came in January, before market conditions soured amid the software sell-off and heightened geopolitical tensions. This dynamic was even more pronounced in regard to repricings, with \$108.2 billion of activity in January evaporating to \$5.8 billion in February and zero in March. Dividend recapitalization volume was \$13.7 billion during the quarter, well below the two-year average of approximately \$20 billion.<sup>3</sup>

Rising market volatility has tilted the playing field in favor of lenders. William Blair's Leveraged Lending Index decreased to 3.1 this quarter (scale of 1 to 5, with 5 being the most borrower-friendly), the lowest reading since the end of 2023. Caution driven by software/AI concerns and geopolitical volatility pushed spreads wider, with terms shifting into more lender-favorable territory. Sixty-nine percent of respondents to William Blair's lender survey reported not making borrower-friendly concessions to win a deal—the first instance since the end of 2023 in which most of respondents held firm on terms. Respondents also noted that pricing has widened 25-50 basis points from last year's historic lows. The trend was also evident in the broadly syndicated market, where spreads for B-minus-rated borrowers widened to 423 basis points, an increase of nearly 70 basis points during the quarter.<sup>4</sup>

### AI Risks Play Spoiler

Risk of AI disrupting the business models of traditional software companies dominated headlines in the first quarter. These concerns started in the public equity markets but soon manifested within the credit markets given the significant investment in software companies in recent years. Many publicly traded business development companies (BDCs) saw their stock prices trade down significantly, and non-traded BDCs received record levels of redemption requests, which are generally capped on a quarterly basis. The level of requests during the quarter led some managers to limit redemptions in excess of the cap or implement bespoke solutions in order to raise enough liquidity to meet requests in full. These concerns among retail investors come at an inopportune time for private credit managers, given the recent push into the retail market as a means to grow the asset class. While this source of capital has grown, the retail channel accounted for only about 15% of total private credit AUM at the end of 2025.<sup>5</sup> Firms that are more heavily skewed toward retail or have significant software exposure are likely to take a more risk-off approach in the coming months.

In response to AI-related risks to traditional software, lenders are taking a conservative approach to the sector. Eighty-five percent of respondents to William Blair's lender survey noted more caution toward software and technology businesses versus six months ago. They also noted less appetite for ARR loans, greater limits on software and tech-enabled deals, and a pricing premium on software loans. Lastly, respondents

highlighted that AI-related risks have become a standard part of all underwriting and a point of heightened due diligence that may be binary in evaluating a particular investment. Softer sentiment in the technology sector has shifted attention toward other industry verticals, with lenders indicating a more aggressive approach in aerospace and defense, healthcare, industrial and manufacturing, and distribution.

### Where Do Credit Markets Go From Here?

Despite the multifaceted volatility, both the private credit and broadly syndicated markets have remained open, albeit with a more conservative approach. Lenders anticipate the wider spreads seen during the quarter to continue for the balance of the year, with 68% expecting a modest or significant increase in pricing, as price discovery around AI risks and geopolitical tensions continues to take shape. On a positive note, private credit firms have a record level of dry powder and recently finished another healthy fundraising year, with over \$200 billion raised.<sup>6</sup> There remains a fundamental need for direct lenders to deploy capital, which should provide support to any uptick in M&A activity as deals are brought to market.

To learn more about these and other trends shaping the leveraged finance market, please don't hesitate to contact us.

3. Source: Ibid.

4. Source: Ibid.

5. Source: [PitchBook, a Morningstar company](#).

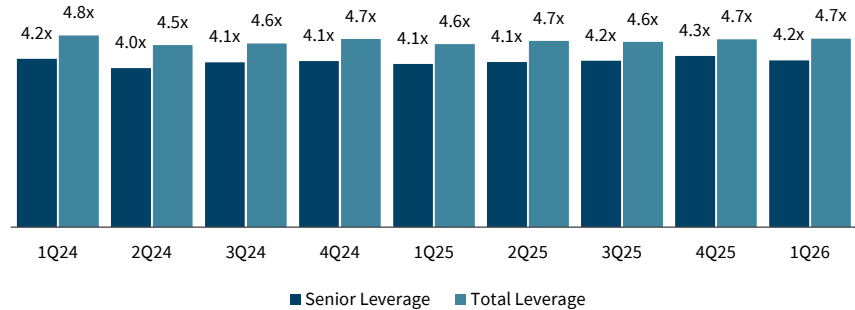
6. Source: Ibid.

## Market Analysis

Each quarter, we look behind the numbers to examine the market dynamics that are driving trends in pricing and volume in leveraged finance transactions.

### Leveraged Loan Multiples

Total leverage sustained an LTM high in Q1, remaining in line with prior quarters.

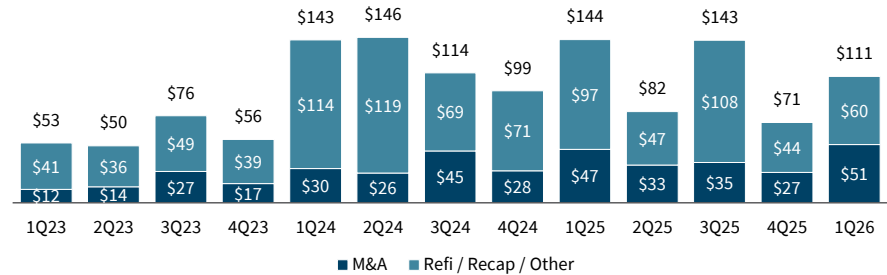


Source: [PitchBook, a Morningstar company.](#)

### Institutional Loan Volume

Total institutional loan volume rose to \$111 billion in Q1, increasing from depressed levels in Q4. Both M&A and opportunistic activity contributed to the recovery in volume.

(\$ in billions)

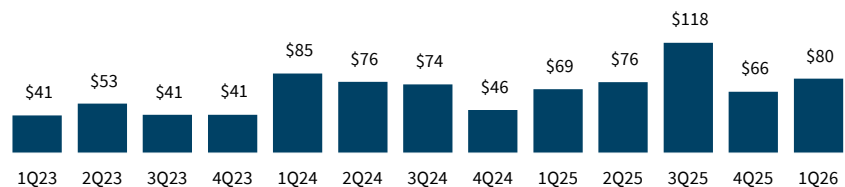


Source: [PitchBook, a Morningstar company.](#)

### High-Yield Bond Volume

High-yield bond volume increased to \$80 billion in Q1, up from an LTM-low amount of \$66 billion in Q4.

(\$ in billions)



Source: [PitchBook, a Morningstar company.](#)

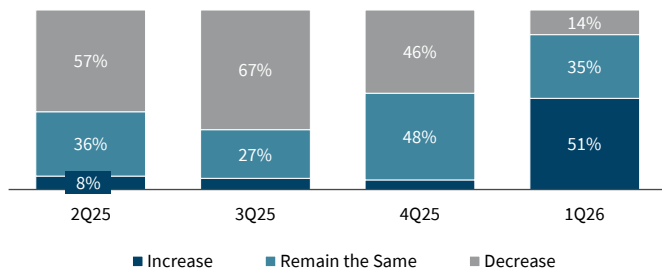
## Highlights From William Blair’s Q1 2026 Leveraged Finance Survey

Each quarter, William Blair surveys middle-market leveraged finance professionals representing leading credit funds, BDCs, commercial finance companies, commercial banks, and other credit providers to measure sentiment in the leveraged finance market.

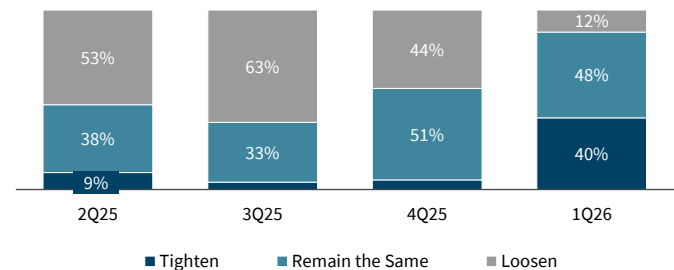
### A Shift to More Disciplined Lending

Borrower-friendly pricing, leverage, and terms diminished, as 51% of respondents indicated that pricing increased during Q1, and 40% of respondents indicated that leverage and terms tightened during Q1.

#### Pricing



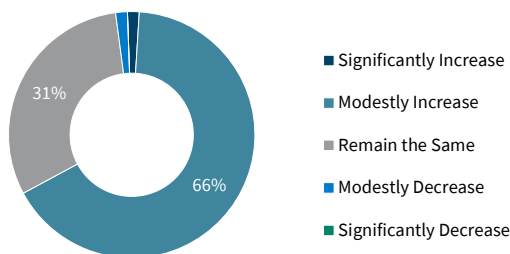
#### Leverage and Terms



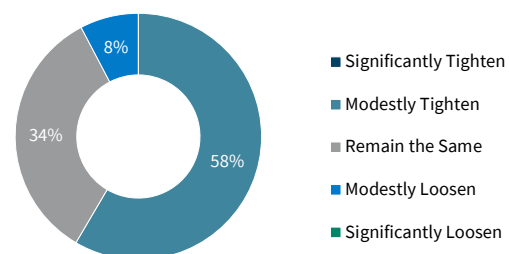
### Lending Expectations

Looking to the rest of 2026, survey respondents expect pricing, leverage, and terms to modestly increase, indicating a shift from the sustained borrower-friendly conditions of the prior few quarters, as lenders are trading cautiously amid geopolitical volatility, AI and software risk, uncertainty in the private credit markets, and fiscal policy headwinds.

#### Pricing Expectations



#### Leverage and Terms Expectations

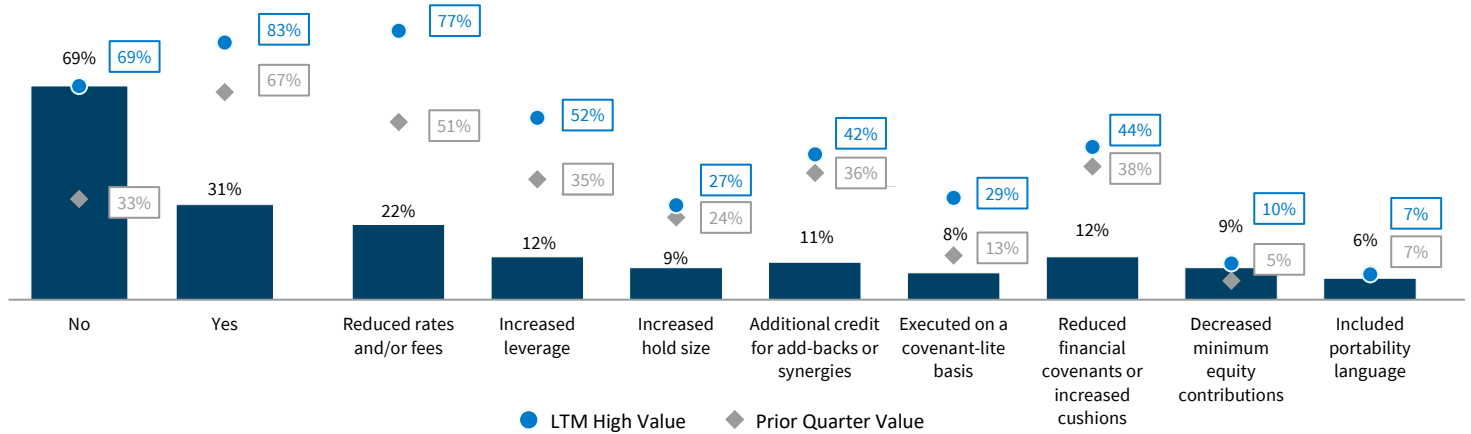


Note: Based on responses received from William Blair’s Leveraged Finance Survey.

## Lender Selectivity Increases

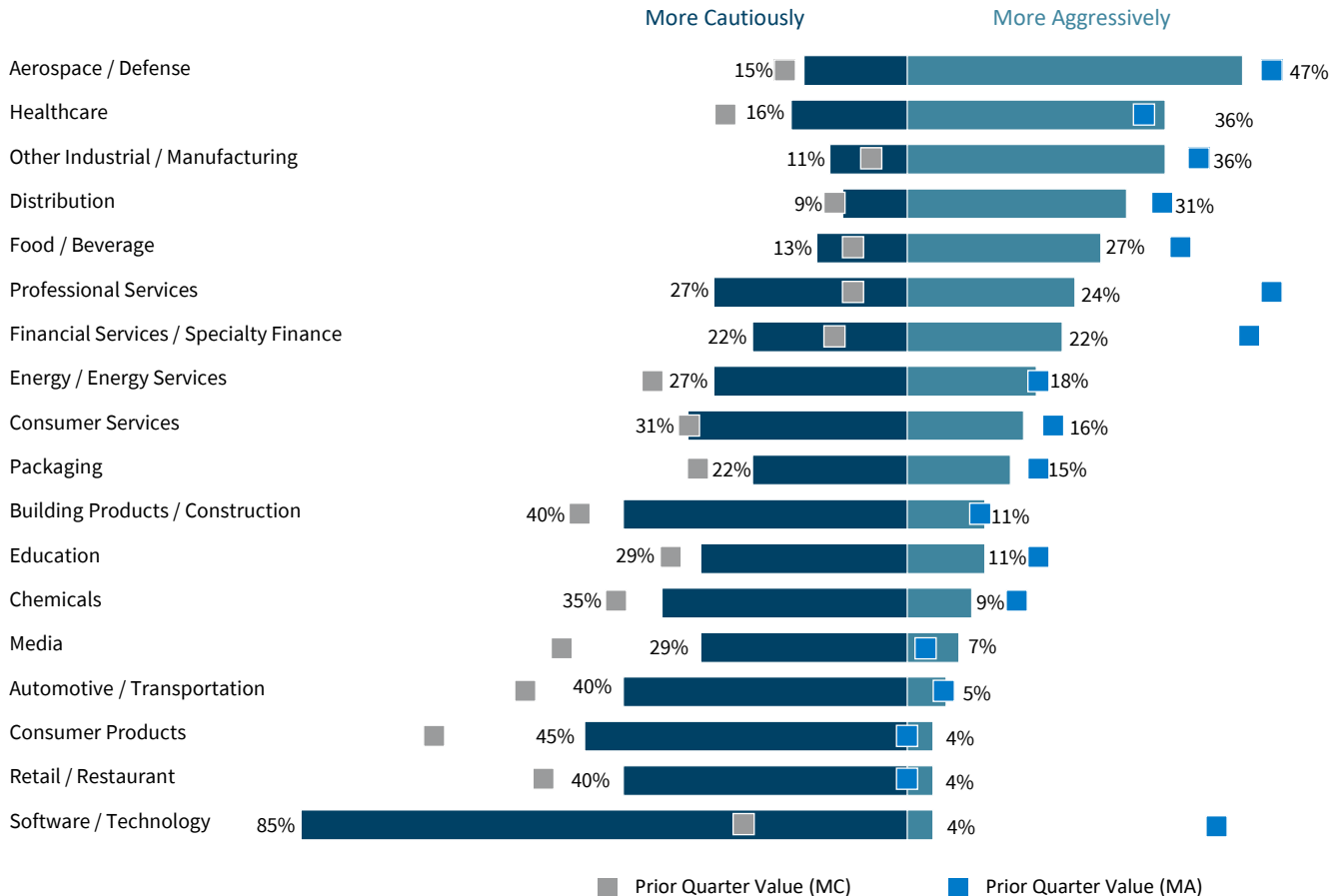
Down significantly from 67% last quarter, only 31% of respondents reported making borrower-friendly concessions to win a deal. This indicates a renewed focus on disciplined underwriting, as lenders exercise greater caution toward specific sectors, prioritize existing portfolio performance over new origination, and adopt a more conservative approach to leverage and structuring amid macroeconomic uncertainty.

### During Q1 2026, did you make borrower-friendly concessions you historically would not have to win a deal? If yes, what were the concessions?

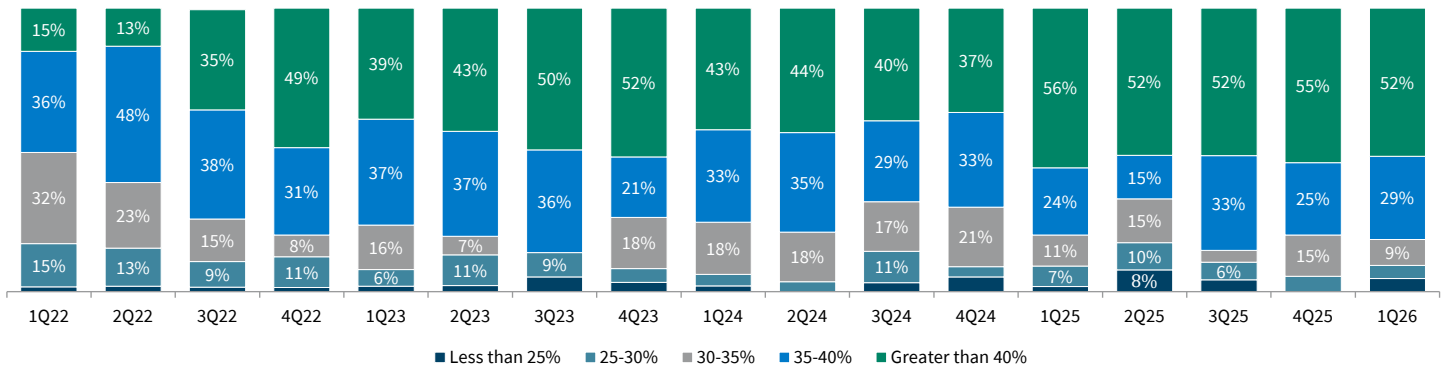


## Additional Highlights

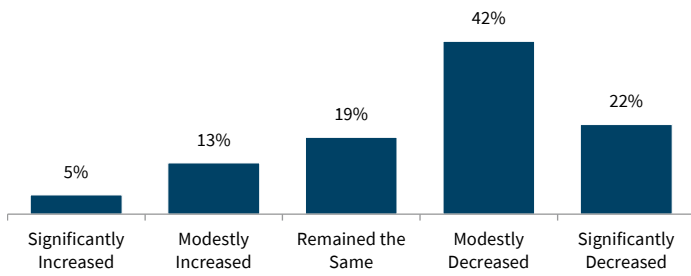
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with six months ago?



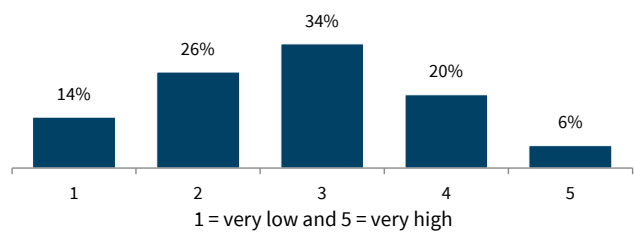
**For transactions involving a private equity sponsor, what is the minimum equity contribution you require?**



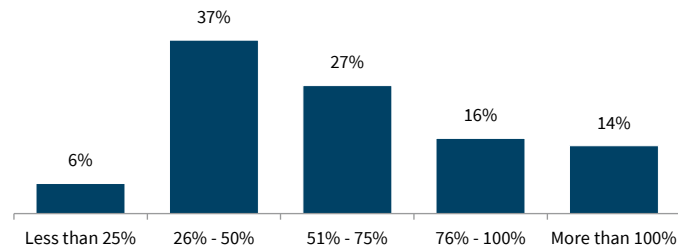
**During Q1 2026, how did new-issue loan volume compare to that in the previous six months?**



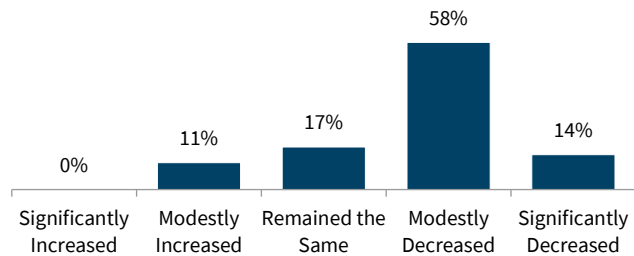
**What is your appetite level for supporting a dividend recapitalization transaction over the next six months?**



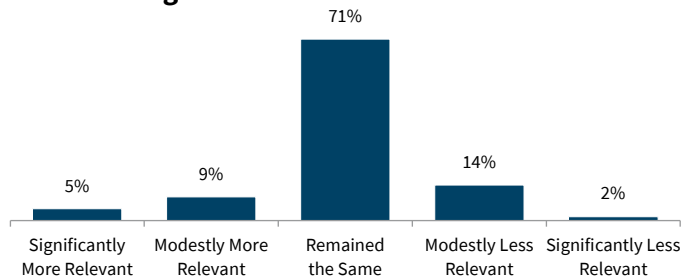
**For a dividend recapitalization transaction, what is the maximum percentage of cash equity returned to investors you would be comfortable with?**



**During Q1 2026, how have your expectations for M&A activity for the remainder of the year changed?**

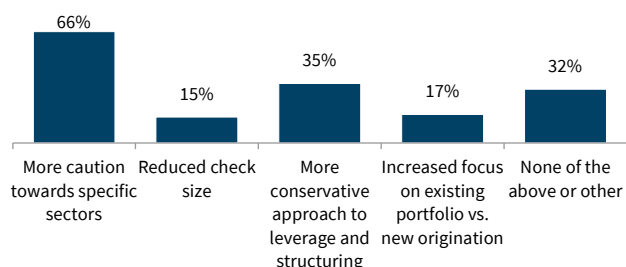


**Given the recent changes in tariff policy, including the Supreme Court ruling and the administration's continued push, the incorporation of tariffs into your underwriting have become?**



Note: Based on responses received from William Blair's Leveraged Finance Survey.

## With the recent headlines and investor concerns about private credit, what have been the impact(s) on your firm?



### Other Notable Impacts Mentioned by Lenders

- Lending remains steady, creating opportunities as other players pull back
- Fundraising is strong given no software or retail fund exposure, resonates with allocators favoring conservative, long-tenured GPs
- Underwriting standards tightening across the industry: higher spreads, less appetite for ARR loans, and greater limits on software exposure
- Pricing has widened 25-50 bps from the S + 450-475 levels seen a few months ago, particularly on software and tech-enabled deals
- Firm remains open for business, differentiating through disciplined portfolio construction relative to peers

## How are you evaluating the risk of AI in your underwriting process? What has been the impact of this risk on structure and terms?


- AI risk embedded in all underwriting and IC discussions across every sector
- Impact treated as binary: pass on existential disruption risk rather than mitigate through structure or terms
- Software broadly avoided except for deeply embedded products with high switching costs or clear long-term viability
- Heightened scrutiny on software, tech-enabled services, BPO, and platforms vulnerable to AI replication
- Diligence includes expert network calls, management discussions, portfolio insights, and third-party AI assessments
- Proprietary AI screening framework applied to new investments and existing portfolio to evaluate disintermediation risk, moat, and unit economics
- Differentiating between AI as a business tool vs. an existential threat, with businesses profiting from friction facing highest scrutiny
- Default to avoidance where AI impact is unpredictable; acute risk is a question of appetite, not structure
- Pricing wider on software and tech-exposed credits; higher spreads, lower hold sizes
- AI also viewed as operational opportunity with efficiency gains for portfolio companies and internal diligence/monitoring

## For the remainder of 2026, what factors or trends do you expect will have the most significant impact on the leveraged loan market?

- Early signs of M&A improvement, though activity remains muted; amend-and-extends delaying new money deployment
- High-quality assets remaining ultra-competitive regardless of broader dislocation
- Iran conflict, oil price volatility, and geopolitical instability driving risk-off behavior and inflation pressure
- Tariffs, fiscal policy, and midterm elections adding to recessionary headwinds and policy uncertainty
- Consumer sentiment weakening amid rising prices and geopolitical instability
- Rates expected to remain elevated with few or no cuts anticipated
- Smaller hold sizes and reduced DDTL commitments; institutionally backed lenders gaining market share
- AI and software uncertainty as a significant market overhang, with rising defaults among exposed borrowers
- Lenders with heavy software and 2020–2021 vintage exposure becoming more inward-focused, improving terms for others
- M&A volumes
- Retail investor outflows and accelerating redemptions across BDCs and private credit vehicles
- Increased scrutiny on offshore insurance and hedge fund-backed structures
- Liquidity consolidating into larger institutional platforms as smaller players retrench
- Private credit headline risk sustaining risk-off sentiment across markets
- Spread widening of 25-75 bps, depending on credit size and quality; spreads expected to remain elevated

Drawing on our deep product expertise and the strength of our relationships, William Blair has built a leading leveraged finance franchise. Sponsors and business owners turn to us for outstanding execution in support of their capital-raising objectives.

**Select Transactions**



**DUNLOP**  
AIRCRAFT TYRES  
a portfolio company of  
**LIBERTY HALL**  
Capital Partners

has completed a refinancing


2025



**Heathos**  
a portfolio company of  
**SHERIDAN**  
CAPITAL PARTNERS

Unitranche Credit Facility

2025



**HARROW**  
Your patients. Our purpose.

Senior Unsecured Notes

2025



**BioTouch**<sup>TM</sup>  
a portfolio company of  
**Atlantic Street Capital**

Unitranche Credit Facility


2025



**VARDIS**  
SWITZERLAND

Senior Secured Term Loan (Add-on)

2025



**unisys**

Senior Secured Notes

Financial Advisor

2025



**mapal**.os  
a portfolio company of  
**PSG**

has completed a dividend recapitalisation

2025



**VARDIS**  
SWITZERLAND

Senior Secured Term Loan

2025



**MEDVET**  
Leading Specialty Healthcare for Pets

Senior Secured Credit Facilities Preferred Equity

2024

**William Blair Leveraged Finance by the Numbers**

**175+**

*completed leveraged finance transactions since 2016*

**\$24B+**

*arranged financing since 2016*

**500+**

*lender and alternative credit provider relationships*

William Blair's Leveraged Finance team structures and arranges debt capital in support of acquisitions, recapitalizations, and growth through its well-established relationships with debt capital providers globally.

- Conflict-free advisory focused on delivering the best solution available in the market
- Proprietary 360-degree view of leveraged finance market from William Blair's global M&A and debt advisory practices; relationships with more than 500 lenders and significant transaction experience with alternative credit providers
- Experts at orchestrating competitive auctions to achieve optimal financing outcomes in complex engagements, including those requiring insightful credit positioning and the arrangement of multiple layers of capital
- Seamless integration with William Blair's sector coverage teams
- Turnkey financing teams able to deliver unparalleled speed, execution, and certainty to close

With more than 290 senior bankers around the world, William Blair has completed more than 1,450 advisory and financing transactions totaling over \$850 billion in value for our clients.\*

#### **Leveraged Finance Group Leadership**

Michael Ward  
+1 312 364 8529  
[mward@williamblair.com](mailto:mward@williamblair.com)

Darren Bank  
+1 312 801 7833  
[dbank@williamblair.com](mailto:dbank@williamblair.com)

Jackson Tworek  
+1 312 364 8587  
[jtworek@williamblair.com](mailto:jtworek@williamblair.com)

Ryan Stackhouse  
+1 312 364 8521  
[rstackhouse@williamblair.com](mailto:rstackhouse@williamblair.com)

\* In the past five years as of March 31, 2026

**Disclosure**

“William Blair” is a trade name for William Blair & Company, L.L.C., William Blair Investment Management, LLC and William Blair International, Ltd. William Blair & Company, L.L.C. and William Blair Investment Management, LLC are each a Delaware company and regulated by the Securities and Exchange Commission. William Blair & Company, L.L.C. is also regulated by The Financial Industry Regulatory Authority and other principal exchanges. William Blair International, Ltd is authorized and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom. William Blair only offers products and services where it is permitted to do so. Some of these products and services are only offered to persons or institutions situated in the United States and are not offered to persons or institutions outside the United States.

This material has been approved for distribution in the United Kingdom by William Blair International, Ltd. Regulated by the Financial Conduct Authority (FCA), and is directed only at, and is only made available to, persons falling within COB 3.5 and 3.6 of the FCA Handbook (being “Eligible Counterparties” and Professional Clients). This Document is not to be distributed or passed on at any “Retail Clients.” No persons other than persons to whom this document is directed should rely on it or its contents or use it as the basis to make an investment decision.