INVESTMENT BANKING

Leveraged Finance Newsletter

Q2 2026

Glass Half Full—Leveraged Finance Markets Stabilize in Second Quarter Capping a Resilient First Half

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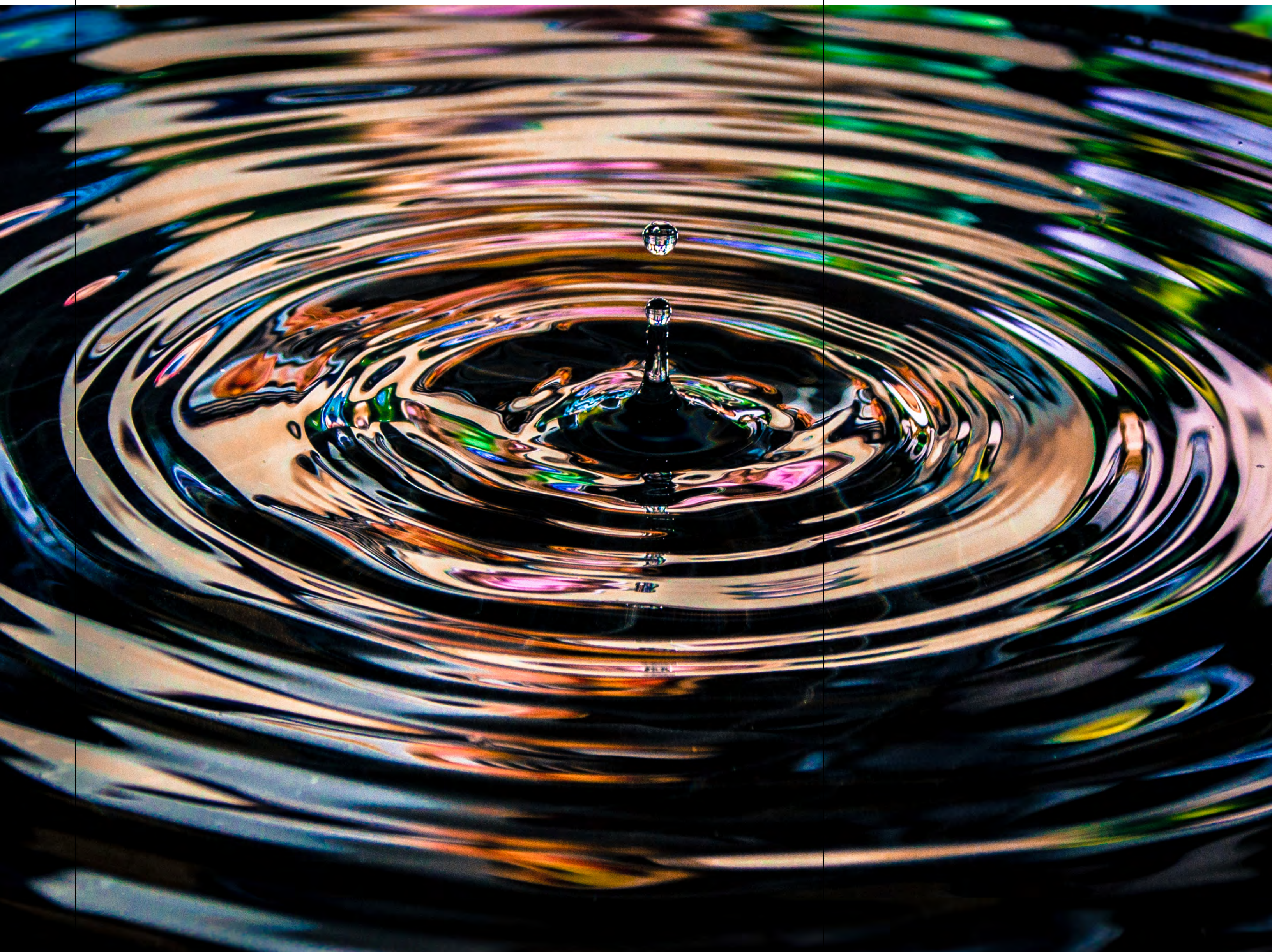


Glass Half Full—Leveraged Finance Markets Stabilize in Second Quarter, Capping a Resilient First Half

Credit markets navigated significant volatility in the second quarter to finish the first half of the year on solid footing

Another year of first-half headaches. Whereas 2025 opened with tariff-driven disruptions, this year was hit with a flurry of macro, geopolitical, and sector-specific headwinds. Luckily, the leveraged finance market remained resilient amid these challenges and ended on a solid second quarter of issuance, alongside a shift to more normalized, conducive conditions. The remainder of the year is likely to be a balancing act between any renewed volatility and significant demand from lenders and market participants to deploy capital. That said, optimism remains that a more meaningful pickup in M&A activity will drive a strong second half.

U.S leveraged loan volume totaled $103.2 billion in the second quarter, largely in line with the first quarter mark of $111.3 billion, as conditions stabilized following the multifaceted volatility in February and March. When accounting for repricings and extensions, second-quarter total activity was $224.0 billion, 23% below the average quarterly figure since 2024 but up more than 90% versus Q2 2025.

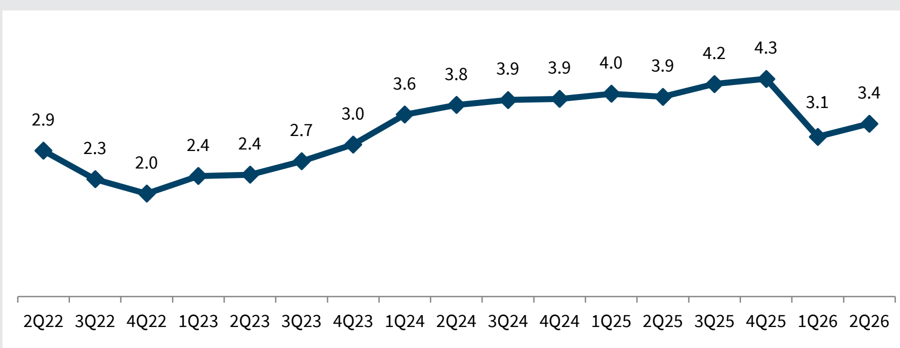
On a year-to-date basis, total institutional new-issue volume of $214.5 billion declined by 5% compared to the same period last year.[1]

Continuing last quarter's trend, M&A-related volume led the way for new money issuance. Year-to-date M&A-related activity reached $94.1 billion, up 17% versus last year, the highest first-half mark since 2022. Interestingly, nearly all of this increase was driven by corporate-related M&A, which rose 64% compared to flat LBO and sponsor-backed issuance. While year-to-date LBO and sponsor-backed issuance was flat, there was a significant split between a strong first quarter and a sharp drop-off in the second quarter, falling 54% to $18.7 billion. This year's geopolitical and macroeconomic volatility has shifted the market toward higher-quality corporate borrowers. Issuers with a credit rating of BB-minus or higher accounted for 40% of all M&A-related volume year-to-date, marking a post-global financial crisis high.[1] A rebound in sponsor-driven M&A activity would represent a critical tailwind for the market and accelerate the momentum so far this year.

On the opportunistic front, the second quarter closely mirrored the first—with refinancing volume of $42.0 billion, just 1% off the mark of the previous quarter. A similar story holds for repricing and extension activity of $120.8 billion, compared to $129.7[1] billion in Q1. While M&A activity led new money issuance in both quarters,

Conditions Stabilize Following Period of Increased 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 increased to 3.4, from the multiyear low of last quarter, as conditions stabilized following a period of market volatility.



Source: William Blair Leveraged Finance Survey.

1. Source: PitchBook, a Morningstar company.

borrowers remained broadly focused on opportunistically managing maturities and spreads as conditions allow. Year-to-date issuance mix has tracked similar to last year, with extensions and repricings accounting for just over 50% of all activity. On the flip side, non-refinancing activity accounted for less than 30% of activity through June.[2] Opportunistic transactions continue to dominate overall activity when compared to historical levels, as market participants hold out for sponsor-backed M&A to recover toward historical levels.

Leveraged finance market conditions stabilized in the second quarter following the jump in volatility to start the year, shifting the balance further in borrowers' favor. William Blair's Leveraged Lending Index rose to 3.4 in (scale of 1 to 5, with 5 being the most borrower-friendly), after dipping to a two-year low in Q1. This borrower-friendly shift is evident in private credit pricing, where spreads widened 25–50 basis points this year but have since leveled off, with more than 60% of respondents reporting that pricing held steady or even declined in the second quarter. Expectations for the remainder of the year echo this sentiment, with more than 75% of lenders surveyed expecting pricing to remain in line with current levels. Within the broadly syndicated market, similar trends emerged as the quarter progressed. For B-rated borrowers, spreads widened by approximately 70 basis points between the end of 2025 and the peak volatility seen in February and March but have since reversed and are now closely in line with year-end levels. This rapid rise and fall in pricing created a roller coaster for refinancing and repricing activity with recent levels more conducive to new issuance.

Sponsor-Driven M&A Holds the Keys

As noted above, 2026 was the second consecutive year in which first-half volatility disrupted the leveraged finance market, setting the stage for a second half that will rely on sponsor-driven activity to regain the momentum carried into the year. Recent disruption related to geopolitical uncertainty from the war in Iran, AI risk, private credit headlines, and a reemergence of interest rate risk combined to create 2026's tumultuous start for private markets. This compounding of uncertainties led to a pullback in aggregate private equity deal value, which fell to $177.3 billion, a 38% decline from the first quarter and the lowest level in over two years.[2] This pullback was evident in the broadly syndicated and private credit markets. In the BSL market, PE-backed issuance saw its second lowest quarterly reading since 2024 at $49.5 billion. In private credit, LBO volume year-to-date through June finished 16% below last year's pace.[2]

Demand from lenders to finance M&A has remained intact and expectations for the second half of the year have greatly improved as conditions have stabilized. Half of lenders in our most recent survey noted that their expectations for M&A activity for the remainder of 2026 significantly or modestly increased during the quarter, up from just 11% in the prior quarter. In addition, lenders continue to be aggressive across many key sectors such as healthcare, aerospace & defense, industrials, and services. The approach toward software continues to be cautious and worth monitoring with each successive quarter as more data emerges on artificial intelligence's impact on the sector.

Overall, market conditions have shown resiliency through the significant mix of volatility to start the year. Should the macroeconomic and geopolitical noise remain in check, the leveraged finance market stands ready to support greater momentum and activity in the second half of 2026.

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

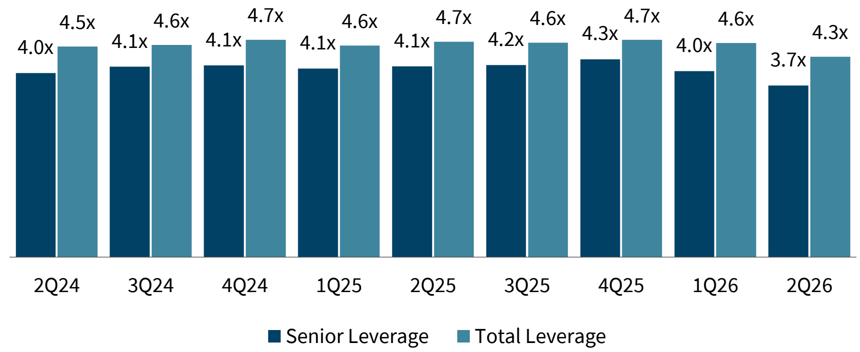
2. Source: PitchBook, a Morningstar company.

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 dropped in Q2 to the lowest levels seen since before 2Q24, amid a shift toward larger, higher-quality deals.

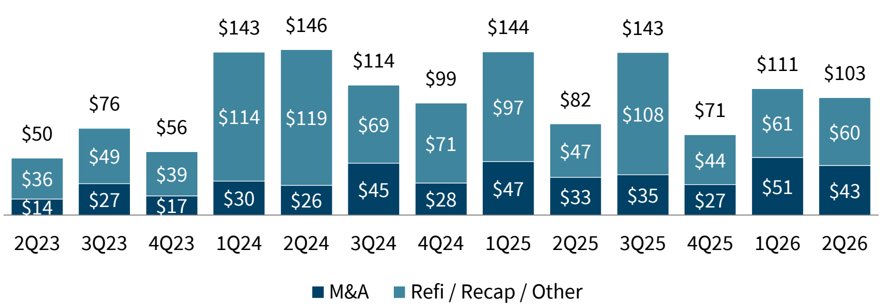


Source: PitchBook, a Morningstar company. The cited data has not been reviewed by PitchBook analysts and may be inconsistent with PitchBook methodology. Represents the rolling 90-day average leverage multiples from all loan activity.

Institutional Loan Volume

Total institutional loan volume fell slightly to $103 billion in Q2, decreasing by 7% from Q1.

($ in billions)

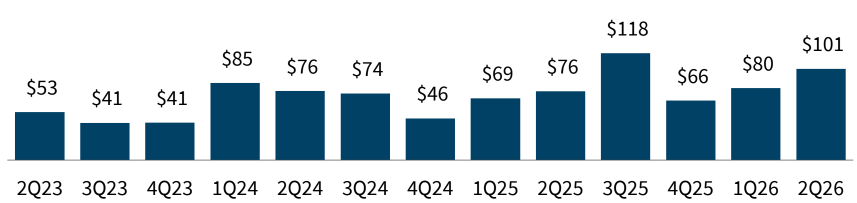


Source: PitchBook, a Morningstar company. The cited data has not been reviewed by PitchBook analysts and may be inconsistent with PitchBook methodology.

High-Yield Bond Volume

High-yield bond volume increased to $101 billion in Q2, up from $80 billion in Q1.

($ in billions)



Source: PitchBook, a Morningstar company. The cited data has not been reviewed by PitchBook analysts and may be inconsistent with PitchBook methodology.

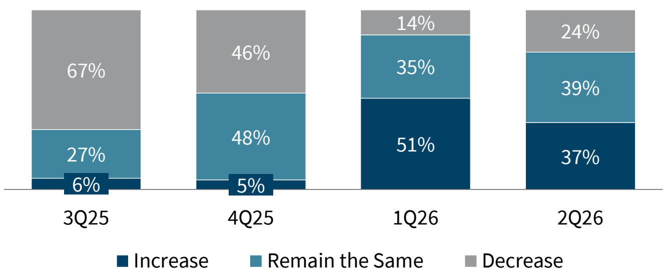
Highlights From William Blair's Q2 2026 Leveraged Finance Survey

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.

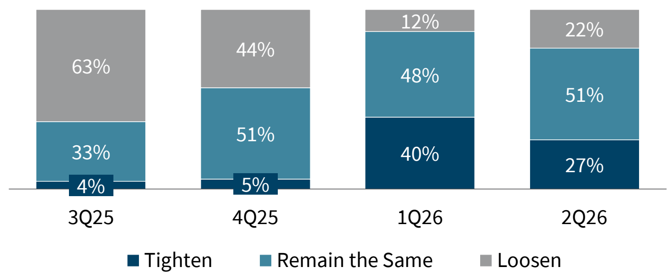
Lender Sentiment Holds Steady

Borrower-friendly conditions stabilized in Q2, as only 37% of respondents indicated that pricing increased and 27% indicated that leverage and terms tightened, while most reported no change quarter-over-quarter.

Pricing



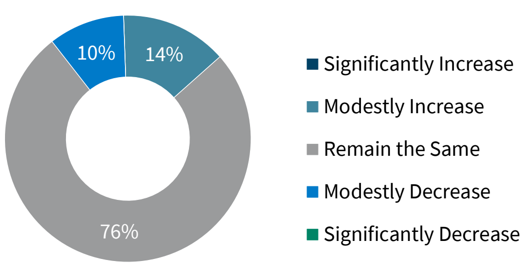
Leverage and Terms



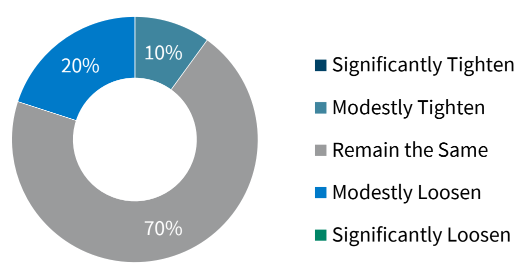
Lending Expectations

Looking to the rest of 2026, survey respondents expect pricing, leverage, and terms to largely remain the same, a stabilization from the widening of the quarter prior, as lenders continue carefully navigating geopolitical volatility, AI and software risk, private credit market uncertainty, fiscal policy headwinds, and M&A deal flow.

Pricing Expectations



Leverage and Terms Expectations

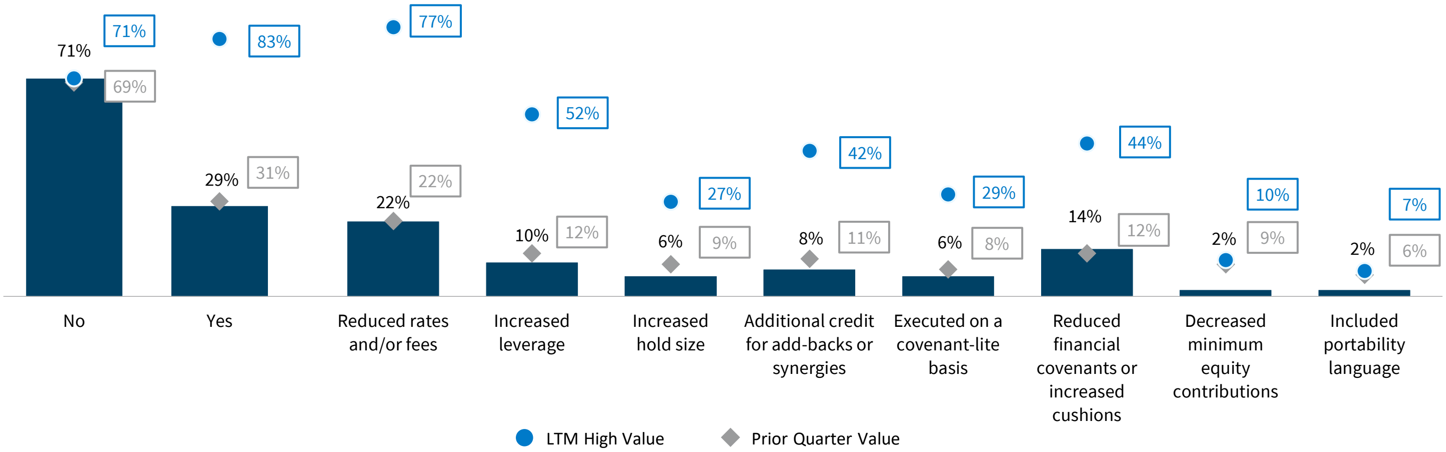


Note: Based on responses received from William Blair's Leveraged Finance Survey.

Lender Selectivity Increases

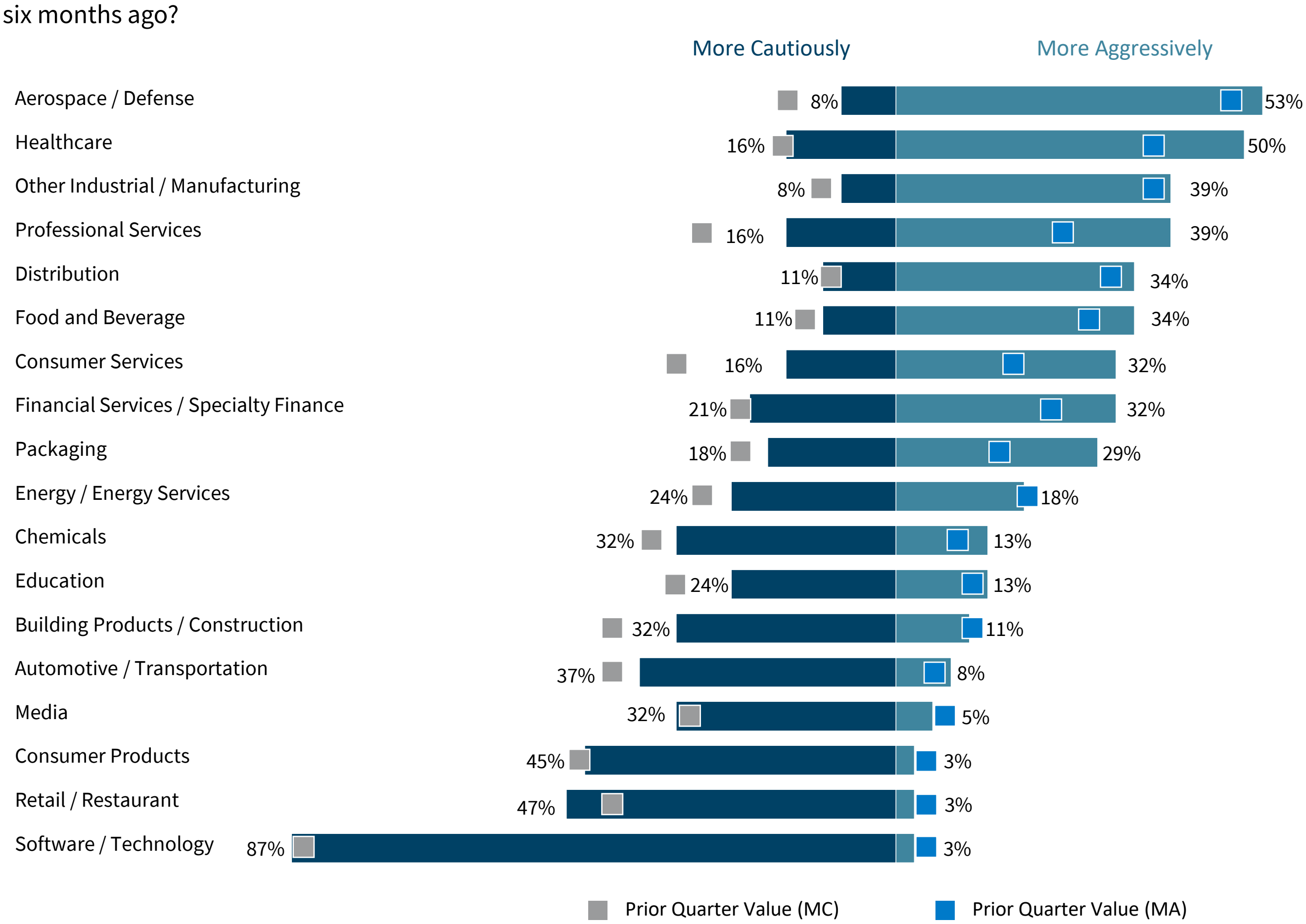
Holding near the low end of the trailing range, only 31% of respondents reported making borrower-friendly concessions to win a deal, roughly in line with last quarter's response of 29%. This reflects continued disciplined underwriting, with concessions concentrated in pricing (reduced rates and/or fees, 22%) rather than looser leverage or structural protections.

During Q2 2026, did you make borrower-friendly concessions you historically would not have made to win a deal? If yes, what were the concessions?

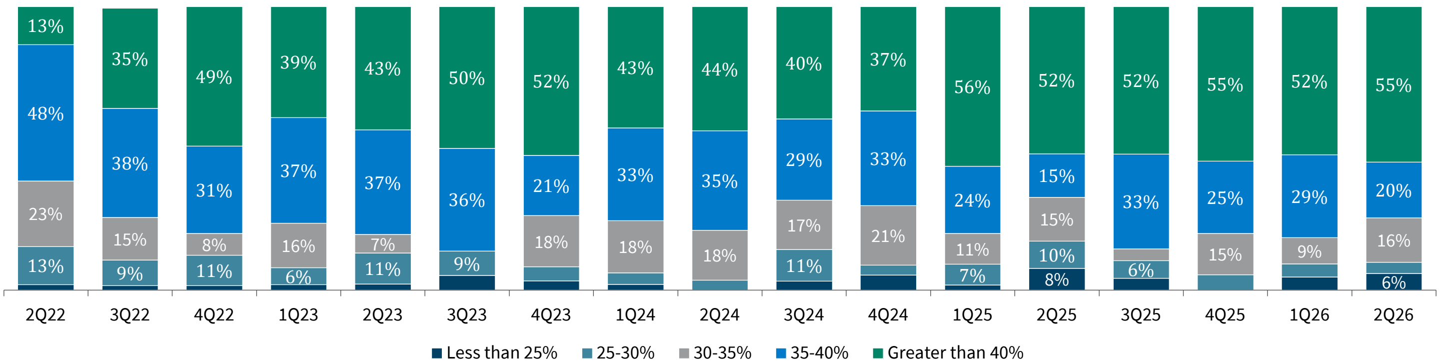


Additional Highlights

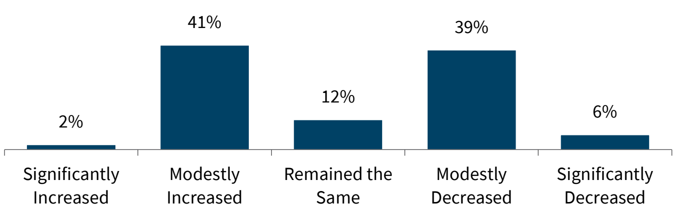
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with six months ago?



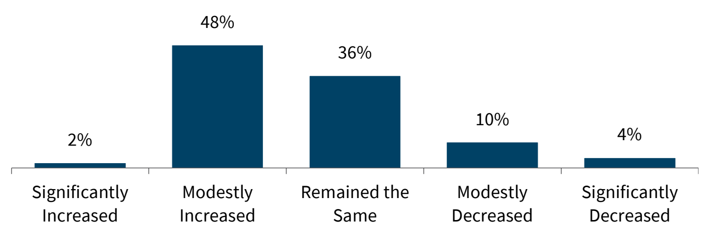
For transactions involving a private equity sponsor, what is the minimum equity contribution you require?



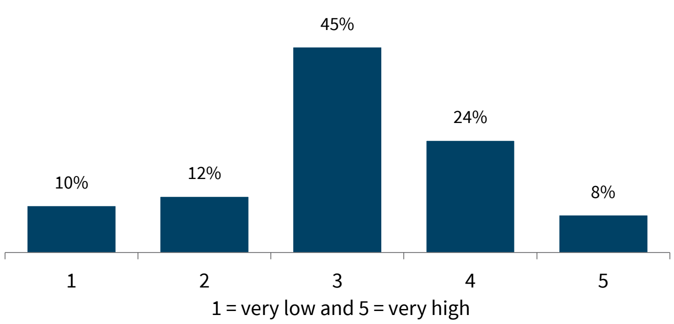
During Q2 2026, how did new-issue loan volume compare to that in the previous six months?



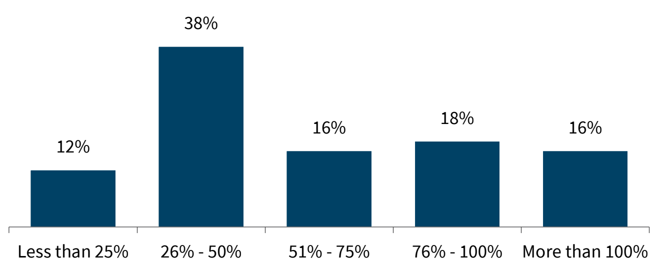
During Q2 2026, how have your expectations for M&A activity for the remainder of the year changed?



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

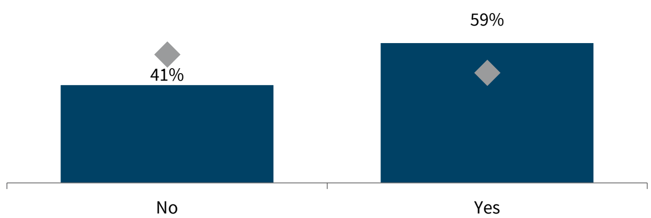


For a dividend recapitalization transaction, what is the maximum percentage of cash equity returned to investors you would be comfortable with?



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

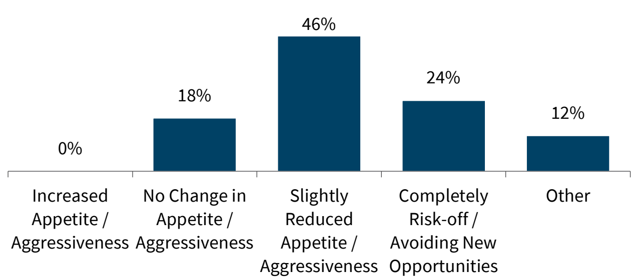
Is your institution ever willing to include portability mechanics in a new debt transaction?



If yes, what are the primary considerations or criteria when including portability?

- Strength of the credit, the industry, and the operating performance/durability of the business
- Minimum equity contribution, minimum cash equity cushion, and minimum percentage stake retained by the original sponsor
- Limited, approved buyer list of potential owners that is agreed at the outset and unalterable
- Buyer required to be a private equity firm meeting specific criteria such as minimum fund or sponsor size, or absence from an agreed disqualified list
- High quality business with valuation and deal size considerations (transactions typically in excess of $100M of EBITDA)
- Maximum pro forma leverage, LTV, and leverage attachment conditions
- Viewed as rare and non-standard term—permitted only in very narrow, highly selective circumstances
- Short availability window with a limited expiry, typically less than two years
- Desire to keep and maintain existing assets in the portfolio
- New sponsor, management team, and continued performance of the borrower, along with the terms of the credit facility
- Portability flex for known or likely continuation vehicle (CV) transactions, particularly to win a deal for a quality sponsor

If your firm has historically lent to software and SaaS businesses, how has that approach changed in the first half of 2026?



Other changes in approach

- Remains unchanged as it was never a focus or didn't historically lend to software and SaaS businesses
- Continue to screen for AI risk
- Must have compelling moat and EBITDA, otherwise risk-off
- Reviewing software transactions with moats around data to reduce risk of AI disruption

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

- Evaluated on nearly every deal regardless of industry
- Binary go or no-go credit decision; materially exposed names or those where AI risk cannot be boxed are a non-starter
- Standardized AI underwriting frameworks and scorecards, often a dedicated AI section in the memo
- Key test of whether a business can be disintermediated or replaced by AI
- Avoidance of software, SaaS, and tech-enabled models; those that proceed must pass a resilience framework
- Diligence via third-party AI reports, internal scorecards and AI experts, management and sponsor discussions, and internal AI tools
- Reduced appetite and greater selectivity, with more intensive diligence on the names still pursued
- Added caution on AI-adjacent white-collar sectors: legal, accounting / CPA, and professional services
- Mixed impact on terms, from no change (credit view only) to lower holds, reduced leverage, and wider pricing (~100–150 bps)
- Impact on customer base, margins, growth, capex, and top-line visibility, including the 5–7 year exit profile

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

- Geopolitical risk, particularly the Iran/U.S. conflict and stability in the Strait of Hormuz
- Pace of AI improvement and certainty around medium-term impacts, plus continued hyperscaler capex spend
- Retail private credit inflow/outflow trends and semi-liquid fund redemptions
- Midterm elections, White House/Trump policy uncertainty, tariffs, and fiscal policy
- Interest rate outlook and fed funds path, including an expected rate cut that may not materialize
- Private credit technicals and fund flows
- Oil price volatility and energy pricing, energy cost stability would be beneficial across many sectors
- Whether negative media headlines across private credit and BDCs subside
- AI themes and software/SaaS risk, including rising defaults among exposed borrowers
- Investor appetite to allocate to private credit
- Overall economic cycle and conditions, including employment and consumer spending
- Existing portfolio company distress and default rates
- M&A supply, deal flow, pace of the M&A market, and portfolio exit activity
- Persistent inflation keeping rates 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

BURGESS PIGMENT COMPANY
Unitranche Credit Facility
2026

RELAM
a portfolio company of
BASALT INFRASTRUCTURE PARTNERS
Asset-Based Revolving Credit Facility
2026

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™
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

William Blair Leveraged Finance by the Numbers

180+
completed leveraged finance transactions since 2016

$25B+
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
- Turn-key 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 1,400 advisory and financing transactions totaling over $875 billion in value for our clients.*

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* In the past five years as of June 30, 2026