Recent trends in corporate direct lending 1H26

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Executive summary

Fundraising: Global private debt fundraising totaled ~$133 billion so far in 2026, which represents one of the strongest historical fundraising periods, as institutional investors continue to allocate large amounts of capital to the asset class. For retail-oriented evergreen vehicles, the story has inflected: after robust net inflows through 2025, redemptions have risen steadily since late 2025 and BDC net flows turned negative in the first half of 2026. However, there are significant differences between managers and funds.

Volume: Direct lending deal activity stayed subdued and slipped below long-term averages with US sponsored middle-market volume down to ~$46 billion in 1H26 and middle-market M&A volume at ~$25 billion. Looking more broadly at use of proceeds, new-platform LBOs and add-on acquisitions remained the largest drivers of activity in 1H26, despite an overall slowdown in transaction volume. Meanwhile refinancing and recapitalizations continued to supplement volumes. Overall, the AI scare and geopolitical uncertainty continue to weigh on private equity activity, and thus direct lending deal flow.

Return drivers: The direct lending trailing 12-month total return declined to 8.1% in March 2026, while income returns only slightly decreased to 9.9%. This was largely due to an increase in unrealized losses. New transactions' gross asset yields stabilized and marginally increased above 9% as primary spreads and OIDs widened modestly in the first half of 2026.

Credit risk: Fundamentals at underwriting remain resilient and, if anything, more conservative. Total leverage at underwriting has declined over the past year across regions, with the IT sector seeing the biggest decrease. Meanwhile, interest coverage ratios have noticeably improved. Payment defaults also remain contained and below their long-term averages.

Relative value: Despite a narrower premium, direct lending continues to offer an attractive value proposition as public markets remain firmly risk-on despite the uncertain macroeconomic environment. Public market performance is also increasingly concentrated on AI, which could lead to significant volatility and drawdowns if AI-related expectations fail to materialize. In this environment, direct lending can provide downside protection and portfolio diversification, acting as a safe haven during periods of volatile moves in public markets.

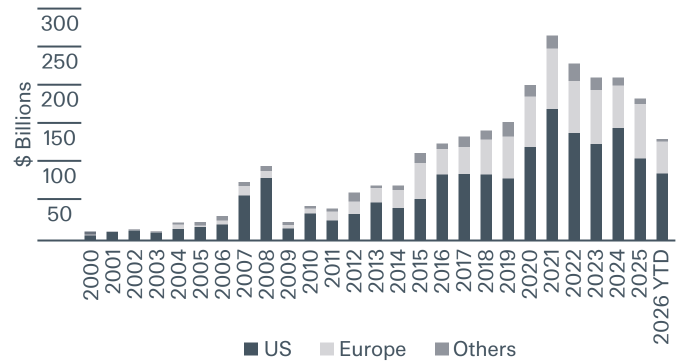
Direct lending fundraising and deal volume

Fundraising remains healthy; evergreen net flows turn negative

Closed-end private debt fundraising reached approximately $133 billion in 2026 YTD through July, representing one of the strongest fundraising periods in the history of the asset class. This compares with $186 billion for 2025 and $213 billion in 2024 (**Figure 1**). In 2026, the US accounted for approximately $88 billion and Europe for $42 billion. Europe therefore continued to benefit from investors' willingness to diversify their regional exposure. These figures reflect strong fundraising momentum for institutional investors who continue to allocate large amounts of capital to the asset class despite negative headlines.

Evergreen vehicles remain a structural growth channel for private debt, but 1H26 marked a meaningful change in flow momentum. Across BDCs, subscriptions fell from $8.7 billion in 4Q25 to $7.5 billion in 1Q26 and $3.6 billion in 2Q26, while redemptions rose to $8.4 billion and $6.4 billion, respectively (**Figure 2**). Net flows consequently turned negative, with several vehicles reaching their 5% quarterly redemption limits and implementing redemption gates. These gates functioned as intended, helping to manage liquidity during a period of elevated redemption activity while protecting the interests of remaining investors.

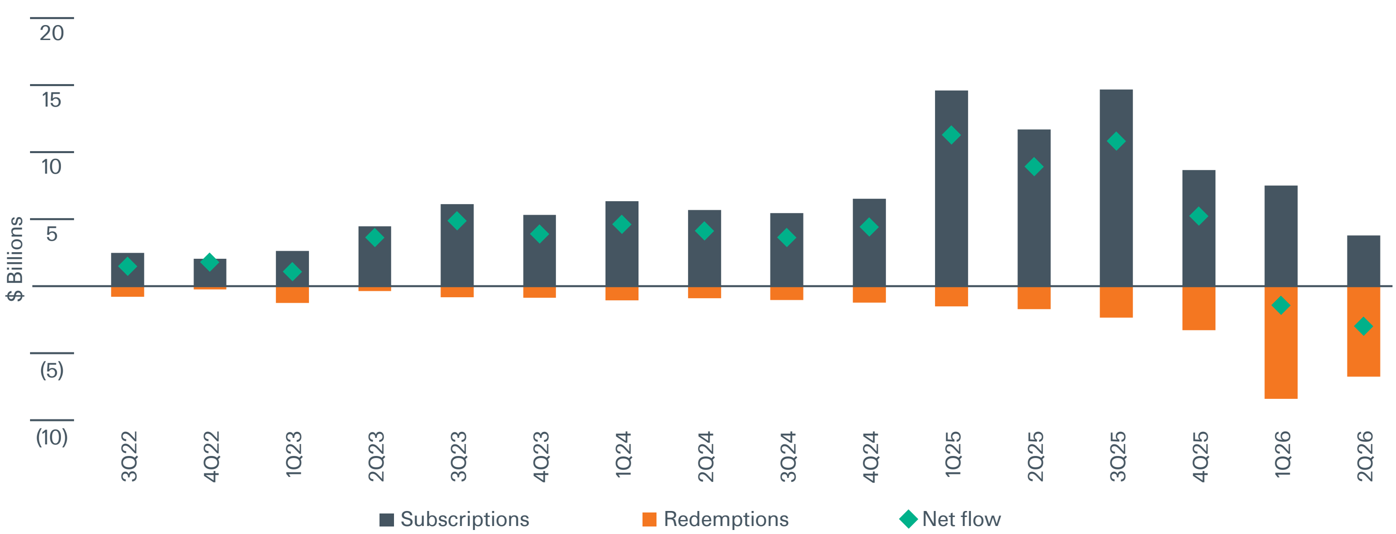
FIGURE 1: GLOBAL PRIVATE DEBT FUNDRAISING



Source: Preqin, as of July 2026. 2026 values subject to revisions. Does not include evergreen funds.

Global private debt fundraising in 2026 indicates strong momentum from institutional investors, as they continue to allocate large amounts of capital to private debt.

FIGURE 2: BDCS NET FLOWS

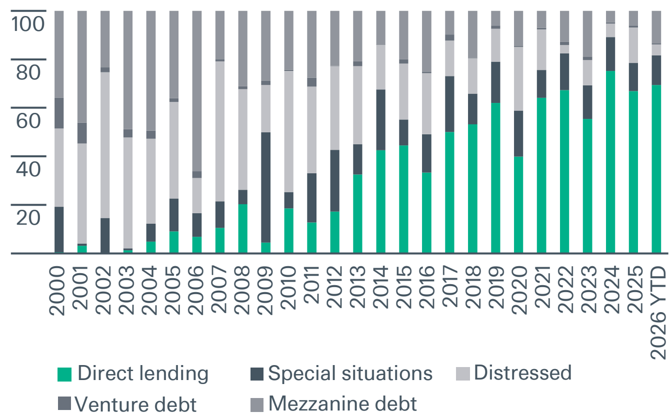


Source: BDC Filings, as of June 2026. For illustrative purposes. 2Q26 based on available data and might still evolve as funds close their redemption window.

Outcomes varied materially across managers: vehicles relying on institutional capital generally recording positive net flows, while more retail-oriented funds experienced net outflows (**Figure 3**). In addition, many BDCs are concentrated in the upper middle market, where slower fundraising and constrained capacity in that segment could reduce lender competition. This dynamic may support wider spreads, stronger documentation, and more selective underwriting in the coming quarters.

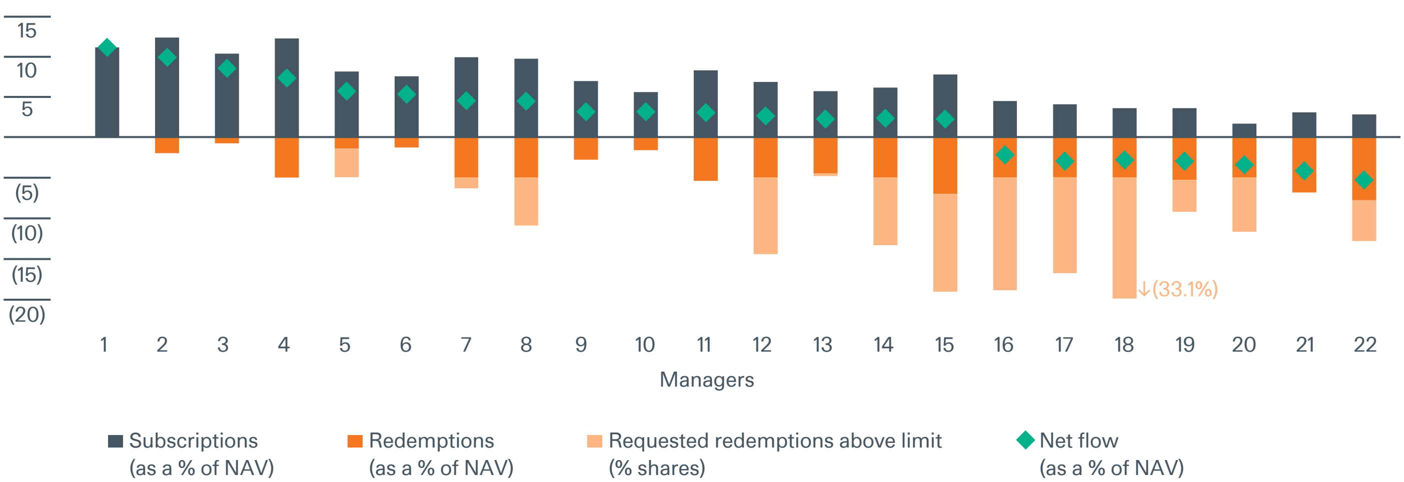
Direct lending remained the dominant private debt strategy, representing 69% of 2026 YTD fundraising, fairly stable when compared with 67% in 2025 (**Figure 4**). The strategy therefore continues to anchor private debt allocations, although investors are increasingly adding specialty credit exposures to diversify away from pure EBITDA-based lending. Overall, fundraising concentration in direct lending remains supportive of loan demand, but the reversal in retail evergreen flows could lower the deployment pressure under which some managers were operating in 2025. A pickup in M&A activity could materially improve capital deployment and help rebalance loan supply and demand, easing the capital overhang that followed several successful fundraising cycles for direct lenders in 2025.

FIGURE 4: GLOBAL PRIVATE DEBT FUNDRAISING SHARE BY STRATEGY (%)



Source: Preqin, as of July 2026. 2026 values subject to revisions. Does not include evergreen funds.

FIGURE 3: BDCS REDEMPTIONS BY MANAGERS (%)

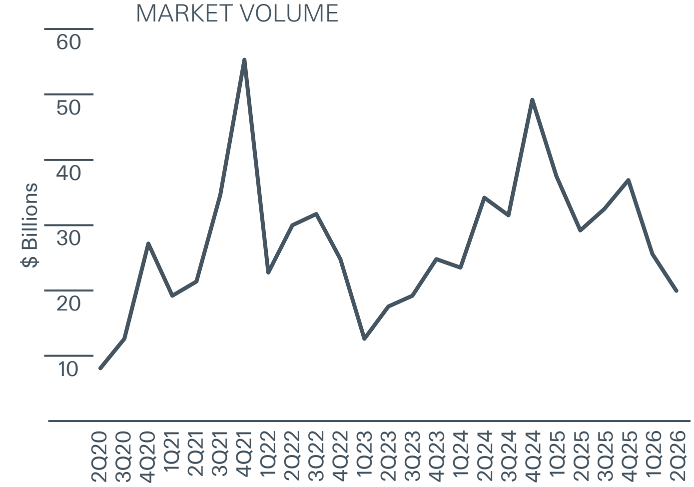


Source: BDC Filings, as of June 2026. For illustrative purposes. 2Q26 based on available data and might still evolve as funds close their redemption window.

Direct lending volume declined in 1H26

US middle-market direct lending volume totaled approximately $46 billion in 1H26, down from $66 billion in the first half of 2025. Quarterly activity fell from $26 billion in 1Q26 to $20 billion in 2Q26, below the ~$22 billion long-term quarterly average (**Figure 5**). Policy uncertainty, the US-Iran conflict, and concerns around AI-related software exposure weighed on sponsored deal flow and limited new-platform activity. Nonetheless, activity began to recover in late June and continued to improve through July, suggesting a stronger pipeline heading into the second half of the year.

FIGURE 5: US DIRECT LENDING SPONSORED MIDDLE-MARKET VOLUME



Source: Refinitiv LPC, as of June 2026. Only middle-market transactions.

M&A-related direct lending volume also weakened. Sponsored middle-market LBO and add-on volume fell to approximately ~$12 billion in 2Q26 from ~$14 billion a year earlier and remained below its ~$14 billion long-term quarterly average (**Figure 6**). Add-ons continued to represent a large share of activity as sponsors prioritized buy-and-build strategies over new platforms, while limited exit visibility and elevated uncertainty constrained broader transaction flow.

A sustained recovery in M&A remains the principal supply-side catalyst for a more balanced direct lending market. While a recovery in M&A deal flow did not materialize in 1H26, conditions on the demand side have begun to improve, with large BDC redemptions and a more difficult retail fundraising environment reducing capital availability among some lenders. Should uncertainty abate and transaction activity rebound in 2H26, the combination could result in a more lender-friendly market with wider pricing and stronger credit documentation.

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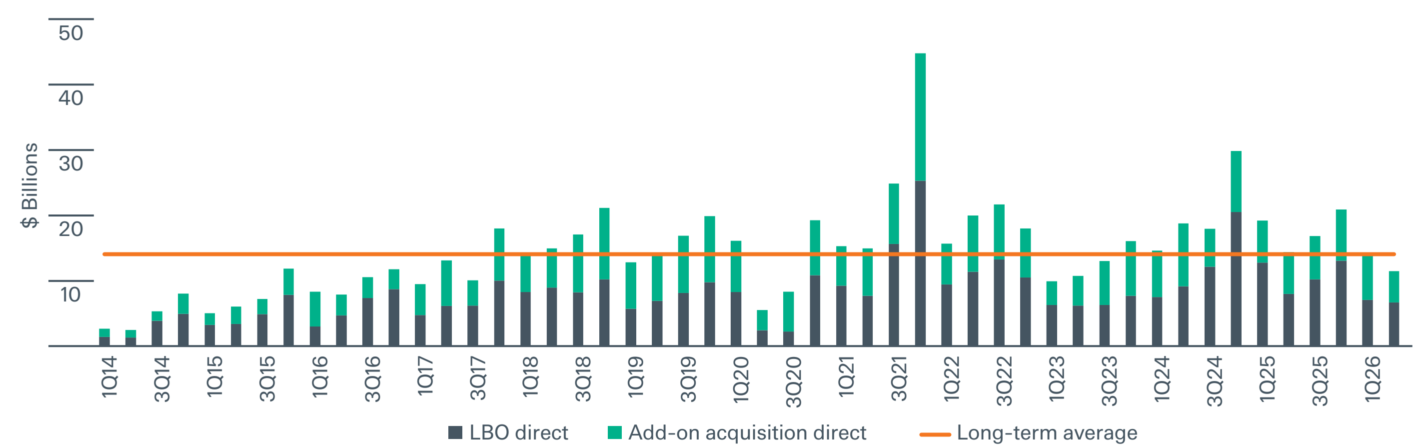
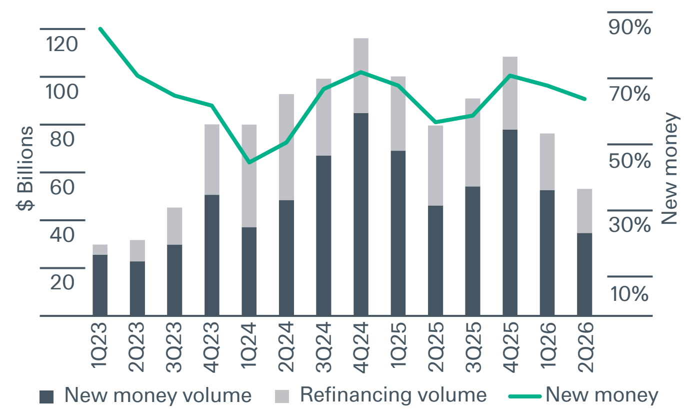
FIGURE 6: US SPONSORED MIDDLE-MARKET M&A VOLUME



Source: Refinitiv LPC, as of June 2026. Only middle-market transactions.

Refinancing remained one of the major uses of proceeds in terms of volume, although it moderated compared with the repricing cycle of early 2024 and 2025. Refinancing volume totaled approximately $42 billion in 1H26, including $18 billion in 2Q26 (**Figure 7**). New-money transactions still represented between 65%–70% of the volume in the first half of the year, compared with 55–60% a year earlier, indicating that the market mix has shifted gradually towards more new money transactions in direct lending.

FIGURE 7: US SPONSORED DIRECT LENDING REFINANCING VOLUME

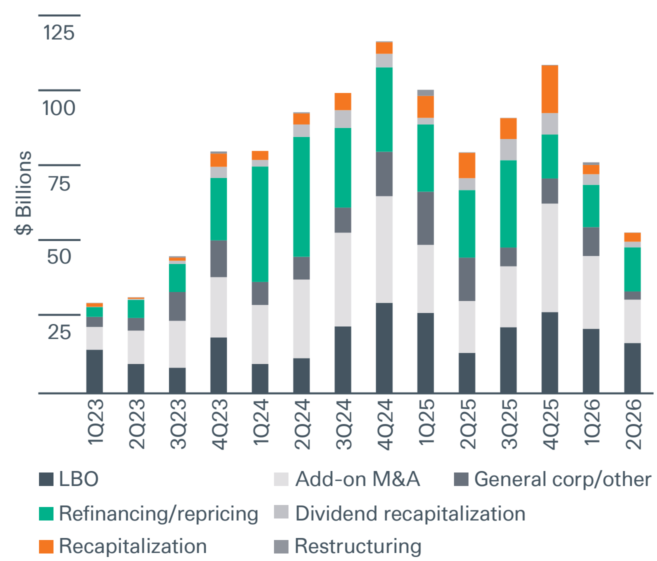


Source: Refinitiv LPC, as of June 2026. Includes large cap and middle market DL transactions.

Further repricing activity is likely to be more selective. Many eligible borrowers were refinanced or repriced during 2024–25, while primary spreads and OIDs widened modestly during 1H26. With limited economic incentive for further repricing and less pressure on lenders to deploy capital, refinancing activity should remain supported by upcoming maturities and amendment-driven transactions but is unlikely to account for the same share of market activity as it did over the past two years.

Looking more broadly at use of proceeds, new-platform LBOs and add-on acquisitions remained the largest drivers of activity in 1H26, despite an overall slowdown in deal volume. Refinancings, repricings, and recapitalizations continued to provide meaningful support to issuance volumes (**Figure 8**). Dividend recapitalization volume declined to approximately $2 billion in the first half of the year, down from $3 billion in the same period a year earlier. Even so, activity remained well above levels observed before the central banks' tightening cycle. Continued constrained volumes on private equity exits should sustain demand for dividend recaps and NAV financing from private equity sponsors in the second half of 2026.

FIGURE 8: US SPONSORED DIRECT LENDING VOLUME BY PURPOSE

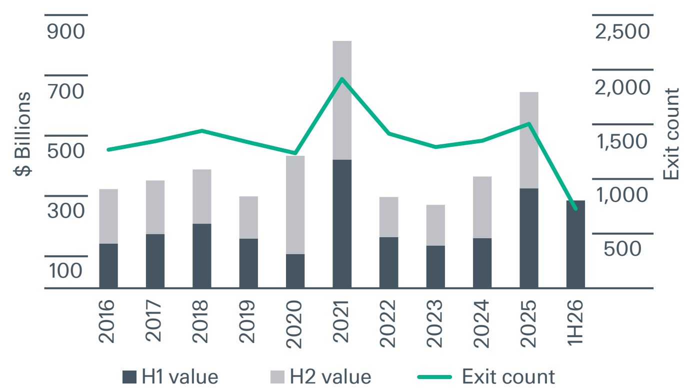


Source: Refinitiv LPC, as of June 2026. Includes large-cap and middle-market direct lending transactions.

Private equity exits stable with continuously low distributions

US private equity exit value reached approximately $294 billion in 1H26, below the $334 billion recorded in the first half of 2025 but well above the muted 2022–24 first-half levels (**Figure 9**). The improvement indicates that high-quality assets can still transact, although activity remains far below the 2021 peak and has not yet generated a broad-based reopening of sponsor liquidity. The uneven exit backdrop continued to limit new buyout activity and contributed to the subdued direct lending deal flow.

FIGURE 9: US PRIVATE EQUITY EXITS



Source: PitchBook, as of June 2026.

Distributions remained exceptionally low. Global private equity distributions were approximately 4.40% of prior-year NAV through 1H26, slightly below the 5.57% recorded in the same period of 2025 and far below the ~21% long-term average (**Figure 10**). Persistently weak cash realizations have constrained LP capital recycling, driving greater use of continuation funds, NAV facilities, GP-led secondaries, and dividend recapitalizations. A sustained recovery in exits and distributions will be critical to restoring a healthier cycle of fundraising, capital deployment, and M&A activity.

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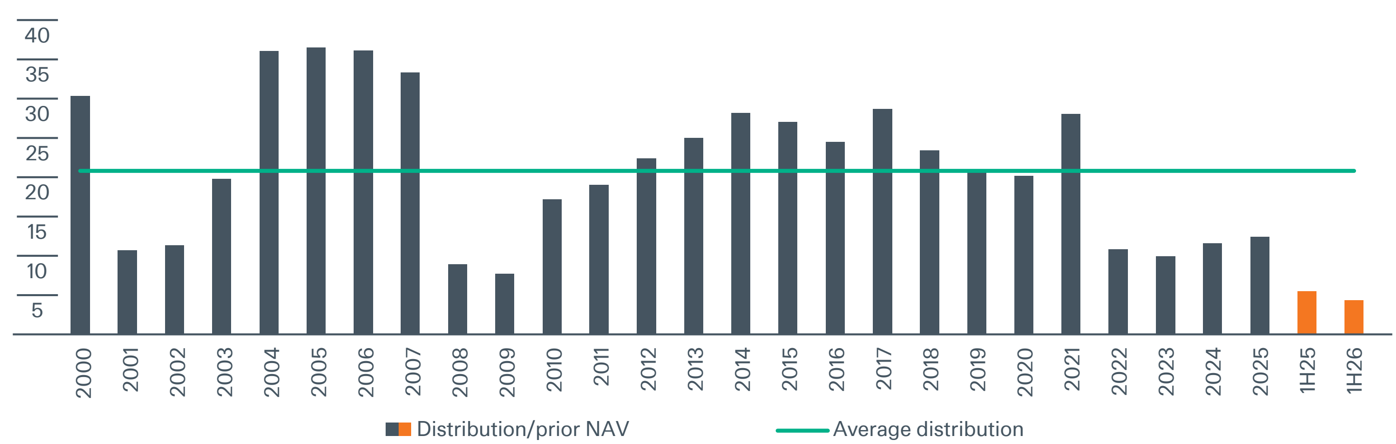
FIGURE 10: PRIVATE EQUITY DISTRIBUTIONS (%)



Source: SPI by StepStone. Full dataset and average annual distributions calculation covers 4Q99 to 2Q26. Dataset includes 4,021 global private equity funds. Notes: Data is continuously updated, and historical values are subject to change. Distributions % of NAV calculated as annual global private equity distributions as a percentage of total NAV from the prior year. YTD distributions are divided by the NAV at the end of the prior year. Distributions include buyouts, VC and growth.

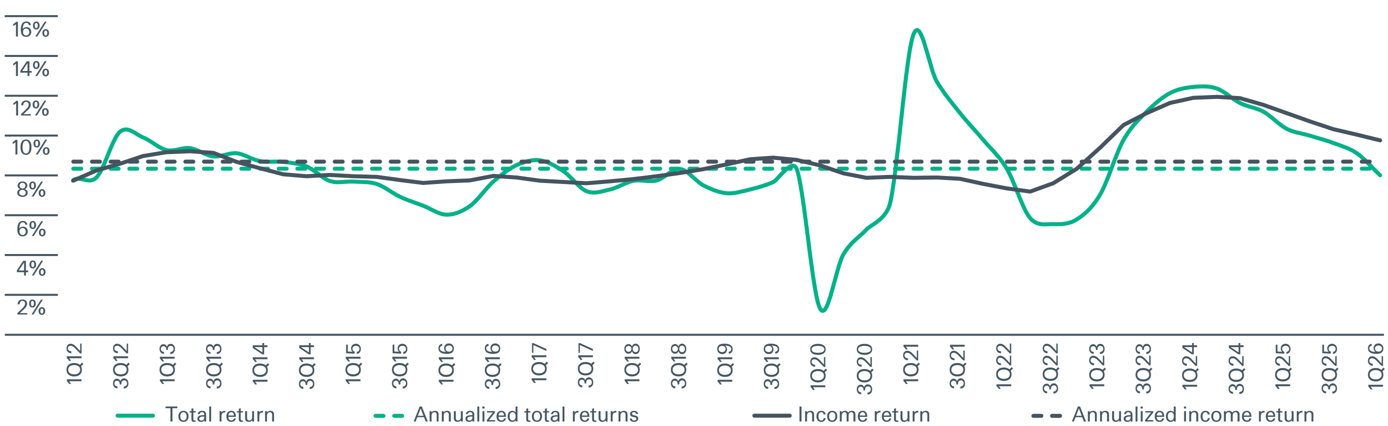
Direct lending returns drivers

Direct lending returns supported by high income return

Direct lending returns moderated in the first quarter of 2026. The Cliffwater Senior Direct Lending Index posted a trailing four quarter total return of 8.1%, down from 10.5% a year earlier. Income returns remained more robust at 9.9%, thanks to more stable gross asset yields (**Figure 11**). The decline was primarily driven by lower portfolio income relative to the 2023–2024 peak, when both base interest rates and credit spreads were wider, and by higher unrealized losses (i.e., impairments), rather than by a material increase in realized credit losses. Nonetheless, with total returns remaining close to the long-term average of 8.4%, direct lending continues to demonstrate resilience despite an uncertain macroeconomic environment.

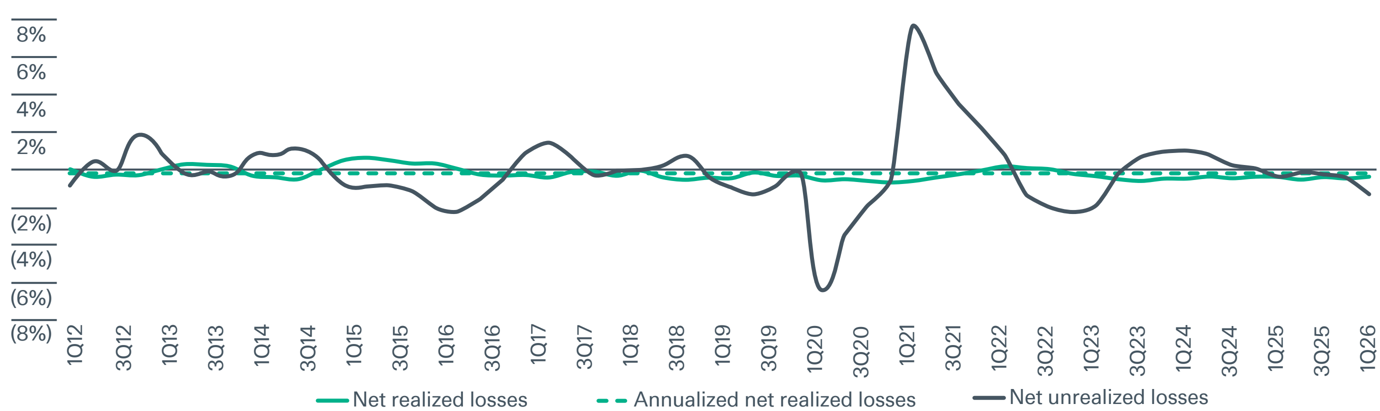
Net realized losses remained contained at -0.37% over the past year, broadly unchanged from March 2025. In contrast, net unrealized losses increased to -1.28% up from -0.36% a year earlier (**Figure 12**). These markdowns indicate more conservative valuations of weaker credits and sectors exposed to disruption, particularly software, where concerns intensified significantly in 2026. While the increase in unrealized losses does not, in itself, imply an imminent wave of large realized losses, it underscores the importance of active portfolio management and close monitoring to identify pockets of vulnerability.

FIGURE 11: US DIRECT LENDING 4-QUARTER TRAILING RETURNS (CDLI-S)



Source: Cliffwater, as of March 2026.

FIGURE 12: US DIRECT LENDING 4-QUARTER TRAILING LOSSES (CDLI-S)

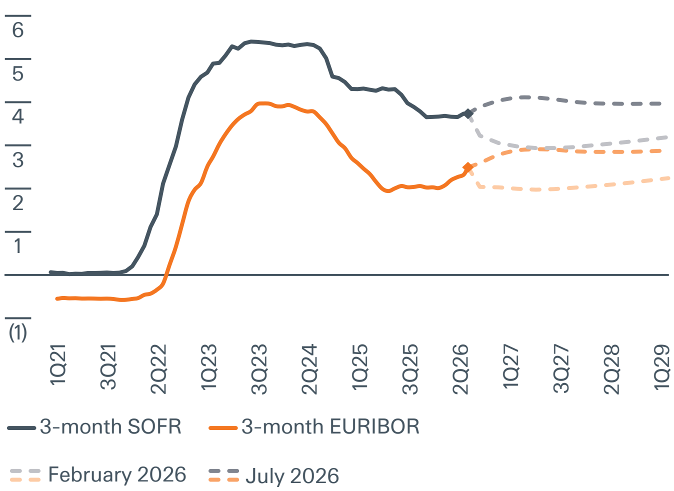


Source: Cliffwater, as of March 2026.

Markets expect higher-for-longer base rates after repricing

The base rate outlook changed materially during 1H26. By July, 3-month SOFR and Euribor stood at approximately 3.7% and 2.5%, respectively, while forward curves had shifted materially higher than expected in February as the conflict in the Middle East and the resulting energy shock lifted inflation expectations (**Figure 13**). Rather than additional monetary easing, markets are now pricing a higher-for-longer rate environment. Forward curves imply approximately one further 25 bps increase from both the Federal Reserve and the ECB by the end of 2026, with rates expected to remain elevated thereafter. The outlook remains highly dependent on the duration of the Middle East conflict, the trajectory of energy prices, and the extent to which higher energy costs feed through core inflation. For lenders, this creates a more supportive near-term yield backdrop than was anticipated at the start of the year, but it may also slow the expected recovery in borrower interest coverage ratios.

FIGURE 13: SPOT AND FORWARD BASE RATES (%)

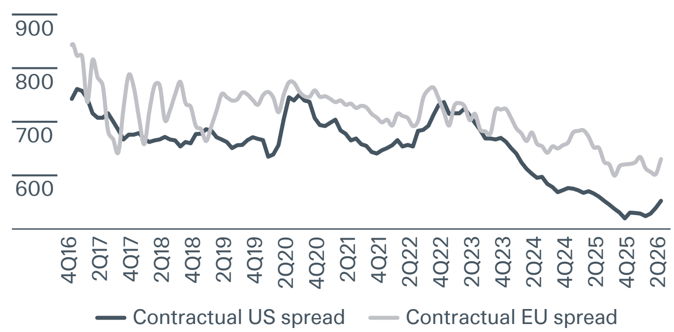


Source: Bloomberg, as of July 2026.

Contractual spreads & OIDs widened slightly

Pricing in the primary market remained tight relative to the 2023 peak, reflecting continued competition among lenders, although conditions eased modestly in 2Q26. On a 90-day rolling window basis, median US first-lien contractual spreads increased to 510 bps in June from 489 bps in March, while European spreads rose to 558 bps from 551 bps. OIDs also widened, reaching 111 bps in the US and 187 bps in Europe. As a result, gross spreads (i.e., contractual spreads + 1/3*OID) increased to approximately 554 bps in the US and 632 bps in Europe by June, up from 525 bps and 615 bps, respectively, in March 2026 (**Figure 14**).

FIGURE 14: MEDIAN DIRECT LENDING 1ST-LIEN LOANS GROSS SPREADS (BPS)

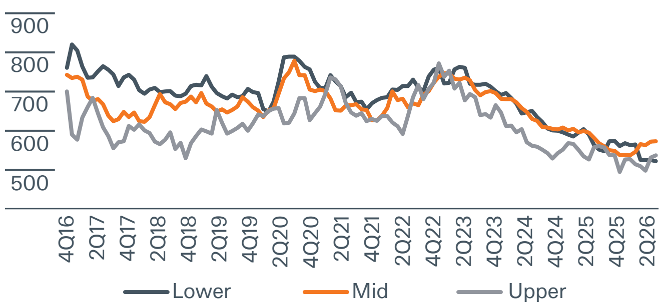


Source: Kroll StepStone Private Credit Benchmarks, as of June 2026. Gross spread defined as spread + OID*3.

The widening was sufficiently broad-based to suggest the early stages of a market inflection, although it was most pronounced in selected segments, particularly the Information Technology sector and the upper middle market. This reflects a combination of heightened uncertainty around AI-related investments and reduced deployment pressure among some BDCs, strengthening lenders' negotiating power and allowing for better lending terms.

Pricing dispersion across US market segments remained limited and is now showing signs of an "upside-down" market where pricing for upper-middle-market companies is wider than for lower-middle-market borrowers. In June 2026, gross spreads were approximately 525 bps in the lower middle market, 575 bps in the mid middle market and 539 bps in the upper middle market (**Figure 15**). Thus, the historical lower-middle-market premium is currently gone, while mid-middle-market transactions offer the best risk adjusted compensation.

FIGURE 15: US DIRECT LENDING 1ST-LIEN GROSS SPREADS BY MIDDLE-MARKET SEGMENTS (BPS)



Source: Kroll StepStone Private Credit Benchmarks, as of June 2026.

Meaningful spread tightening appears unlikely in the second half of 2026. Existing portfolios no longer face the same repricing pressure seen in 2024–2025, while lenders have limited room to tighten new-issue pricing further without eroding the relative value of direct lending versus public markets. At the same time, further spread widening would likely require a sustained increase in deal flow, most likely driven by a spur in M&A activity, which appears unlikely in the current environment. In the coming months, therefore, spreads are expected to remain broadly consistent with current levels.

Gross asset yields remain attractive

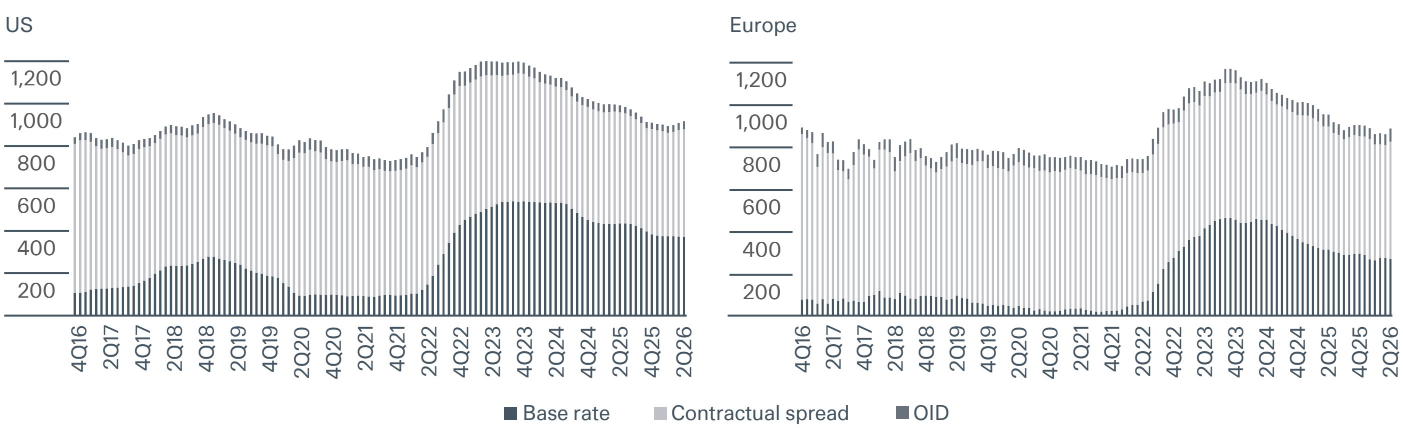
Gross asset yields stabilized above 9% and increased modestly in June 2026. US first-lien primary yields rose to approximately 9.17% from 8.99% in March, although they remained below 9.91% a year earlier, reflecting both lower base rates and tighter spreads. European yields increased to 8.85% from 8.59% in March but likewise remained below the 9.52% recorded a year earlier (**Figure 16**). Higher forward base rates and modestly wider spreads should continue to support income generation in the near term.

Direct lending credit risk

New transactions credit metrics at underwriting continue to improve

Underwriting metrics remained broadly resilient in 1H26, but regional and sector dispersion increased. New-issue interest coverage improved versus a year earlier, while leverage was lower year-over-year in the US and broadly stable in Europe. The strongest improvement appeared in sectors

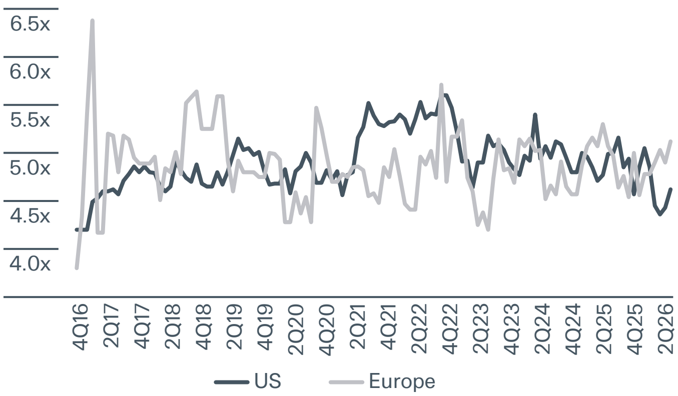
FIGURE 16: DIRECT LENDING 1ST-LIEN GROSS ASSET YIELDS (BPS)



Source: Kroll StepStone Private Credit Benchmarks, as of June 2026. OID is amortized over 3 years.

subject to greater scrutiny, including Information Technology, where lower leverage and higher coverage indicate more conservative underwriting. US total leverage was 4.62x in June 2026, up from 4.45x in March but down from 4.99x a year earlier (**Figure 17**). European leverage was at 5.12x, compared with 4.90x in March and 5.07x in June 2025.

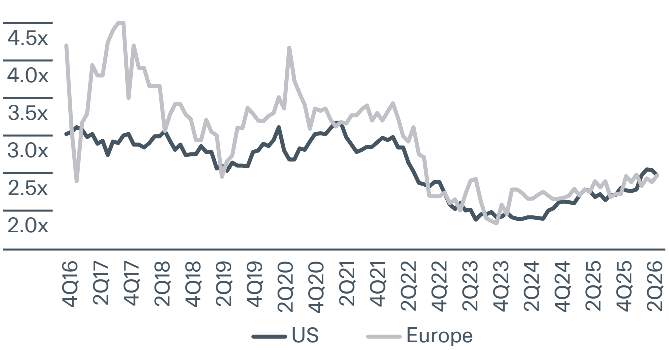
FIGURE 17: DIRECT LENDING 1ST LIEN NEW TRANSACTIONS TOTAL



Source: Kroll StepStone Private Credit Benchmarks, as of June 2026.

Interest coverage ratios were close to 2.5x for new US and European transactions in June 2026 (**Figure 18**). US coverage improved from 2.18x a year earlier, while Europe increased from 2.39x. The recovery reflects both stronger and cautious underwriting and lower base rates, although the renewed higher-for-longer rate path may limit further improvement. Lower-middle-market borrowers continue to face tighter underwriting standards with lower leverage levels and higher interest coverage ratios at underwriting than their bigger counterparts.

FIGURE 18: DIRECT LENDING 1ST LIEN NEW TRANSACTIONS INTEREST COVERAGE RATIOS

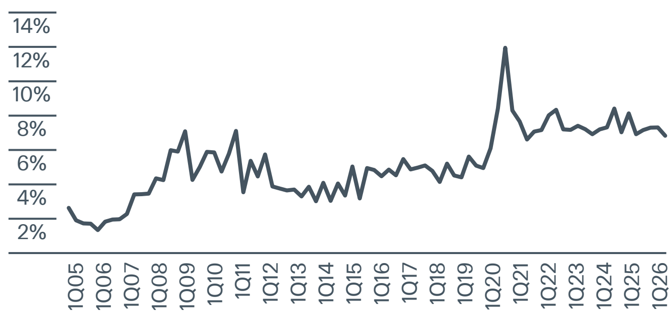


Source: Kroll StepStone Private Credit Benchmarks, as of June 2026.

Selectivity as a first line of defense

Borrower-friendly documentation remained relevant, but PIK metrics showed a mixed picture. PIK income declined to 6.83% of BDC income in 1Q26 from 7.31% in 4Q25, while remaining above the 5.22% long-term average (**Figure 19**). Average marks on PIK term loans also fell, indicating that the market continues to be cautious about such loans by booking impairment charges ahead of potential underperformance.

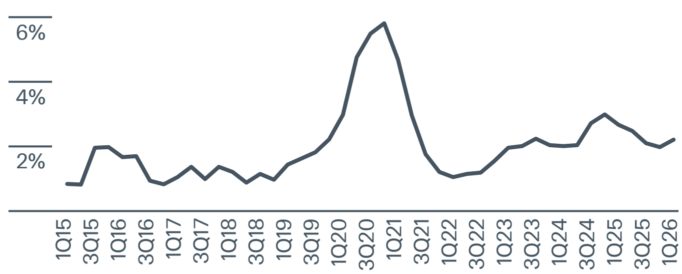
FIGURE 19: US DIRECT LENDING PIK AS % OF TOTAL INCOME



Source: Cliffwater, as of March 2026.

PIK amendment activity rose modestly in the first quarter of 2026. The trailing four-quarter share of transactions converted to PIK rose to 2.21% in 1Q26 from 1.98% in 4Q25, slightly above its long-term average of 1.99% but well below the peaks observed in 2024 and during the Covid pandemic (**Figure 20**). Overall, this is consistent with lenders continuing to use the tools at their disposal to support weaker borrowers via PIK amendments, covenant holiday, and maturity extensions, often in exchange for new sponsor liquidity injections and higher spreads.

FIGURE 20: US DIRECT LENDING AMENDED PIK RATE IN BDCS



Source: Cliffwater, as of March 2026.

More generally, the 2025 supply-demand imbalance is not yet fully resolved and continues to influence documentation through cov-lite structures, PIK toggles, delayed-draw features, and other more borrower-friendly lending terms, particularly for larger, healthier, and highly sought-after borrowers. Early spread and OID widening in 2Q26 suggests negotiating leverage may be starting to rebalance, but high-quality transactions still attract substantial lender demand.

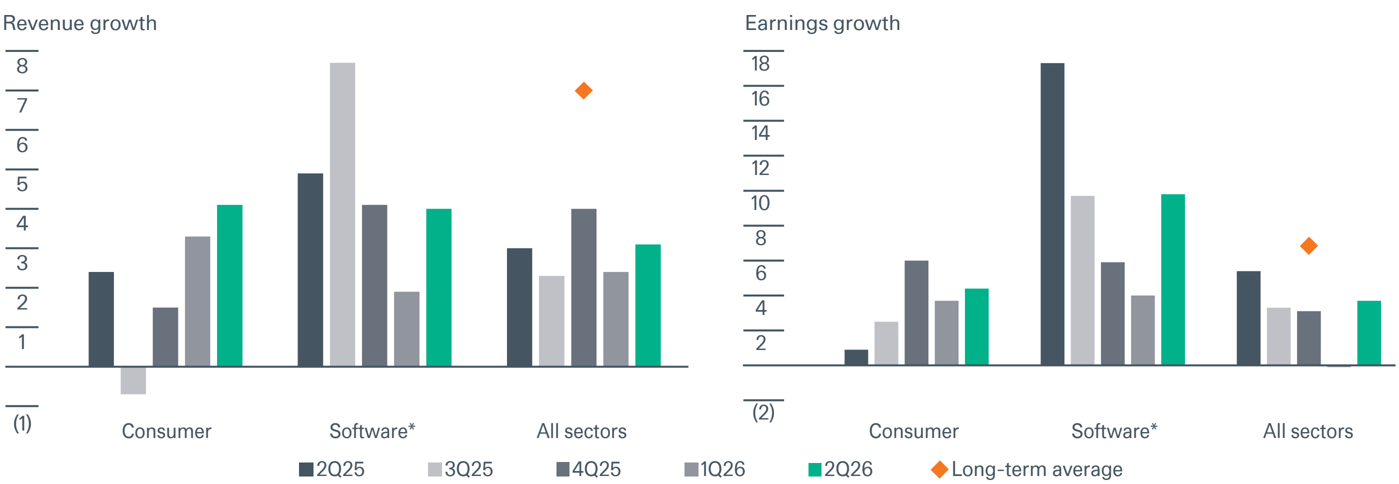
Outstanding borrowers' financial health improved in 2Q26

Middle-market companies' operating performance improved in 2Q26 after a weak first quarter. Across the Golub Capital Altman Index, year-over-year revenue growth increased to 3.1% from 2.4%, while earnings growth rebounded to 3.7% from -0.1% (**Figure 21**). Both measures remained below their long-term averages of approximately 7.0% and 6.8%, indicating a recovery from the first-quarter trough rather than a return to trend growth. Upside risks to input costs, together with the potential for weaker growth stemming from the conflict in the Middle East, could delay a more meaningful recovery in earnings growth.

Nonetheless, the improvement was broad-based. Consumer revenue and earnings grew 4.1% and 4.4%, respectively, while software revenue increased 4.0% and earnings rose 9.8%. The software result is encouraging after the sharp increase in AI-related uncertainty, but sector dispersion remains high and headline growth does not eliminate business-model disruption risk. Higher input costs and geopolitical uncertainty could also pressure margins in the second half of the year.

Overall, borrowers entered 2H26 with positive but below-trend earnings growth. The second quarter rebound reduced near-term concerns that the first quarter earnings contraction would become broad-based, although the outlook remains dependent on greater policy clarity, resilient demand, and the duration of the energy shock. Companies with limited pricing power, high fixed charges, or exposure to disrupted software models remain most vulnerable.

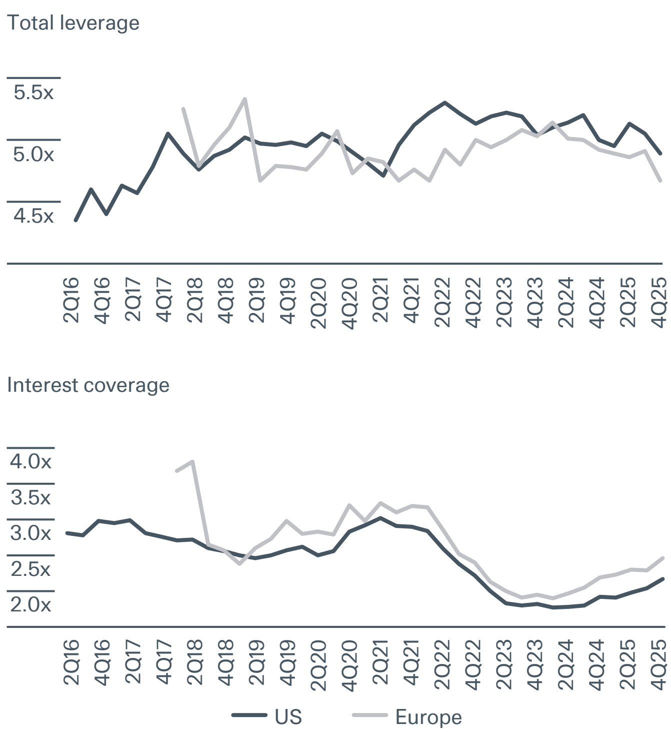
FIGURE 21: US MIDDLE MARKET REVENUE AND EARNINGS GROWTH (%)



Source: Golub Capital Middle Market Report 2Q26. The Golub Capital Altman Index measures the median revenue and earnings growth of more than 150 private US companies in the loan portfolio of Golub Capital, a leading middle market lender. Industrials sector breakdown has been discontinued since 2Q25 with healthcare discontinued starting 1Q26 due to low sample size, but borrowers in those sectors are still present in the overall index.
*Information technology replaced by software starting 1Q26.

Outstanding borrower data also points to a gradual improvement in balance sheet quality (**Figure 22**). In the US, leverage declined to 4.89x from 5.00x a year earlier, while interest coverage improved to 2.17x from 1.92x. In Europe, leverage fell to 4.67x from 4.92x and interest coverage rose to 2.46x from 2.19x. These trends are consistent with a gradual improvement in overall portfolio health, although higher forward rates may slow further progress. If sustained, they should support a gradual reduction in credit risk over time. Nevertheless, prudent portfolio diversification and disciplined asset selection remain essential to managing downside risk.

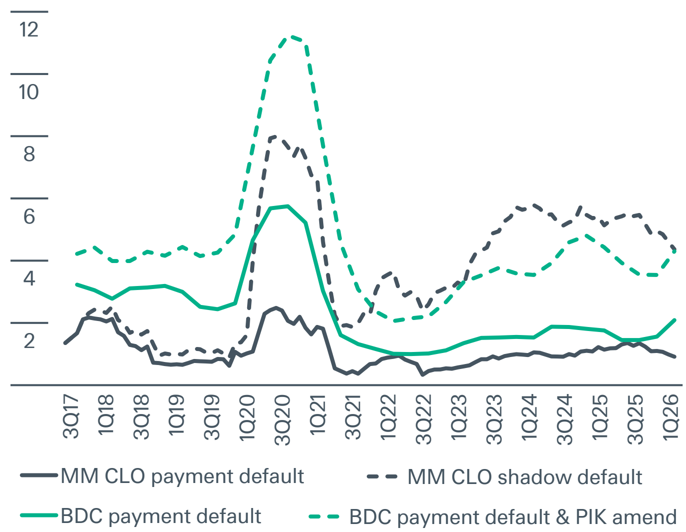
FIGURE 22: OUTSTANDING BORROWERS TOTAL LEVERAGE AND INTEREST COVERAGE RATIOS



Source: Kroll StepStone Private Credit Benchmarks, as of December 2025.

Payment defaults also remained broadly contained (**Figure 23**). In March 2026, the BDC payment default rate stood at 2.1%, while the broader measure including PIK amendments was 4.3%. Middle-market CLO payment defaults were lower at 0.9%, but the broader "shadow" default rate, which also includes PIK and maturity extensions, reached 4.4%. The gap between these measurements suggests that while outright payment defaults remain contained, lenders continue to manage pockets of borrower stress through amendments and other liability measures.

FIGURE 23: US DIRECT LENDING DEFAULT RATES (%)



Source: S&P Global & Cliffwater, as of March 2026. Underperformers broaden the scope of default to include PIK, payment deferrals, and extensions.

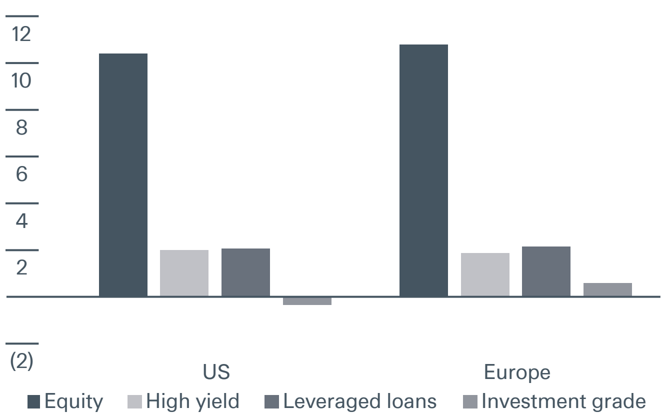
Some normalization toward historical default rates remains likely as weaker pre-tightening vintages, more highly levered borrowers, and companies dependent on PIK adjust to a higher-for-longer rate environment. For diversified senior direct lending portfolios, the impact should remain manageable in the absence of a recession, although dispersion is likely to increase. In this environment, selectivity, diversification and active portfolio management remain the primary defenses.

Relative value of direct lending

Financial markets remain "risk-on"

Public markets remained risk-on through mid-2026 despite sharp episodes of volatility around AI concerns and the US-Iran conflict. The 2026 year-to-date total returns show US and European equities up approximately 10%, while high yield and leveraged loans returned roughly 2% and investment-grade credit was slightly negative in the US and just above 50bps in Europe (**Figure 24**). Performance in 2H26 will remain highly dependent on consumer resilience and continued confidence in AI-related productivity gains.

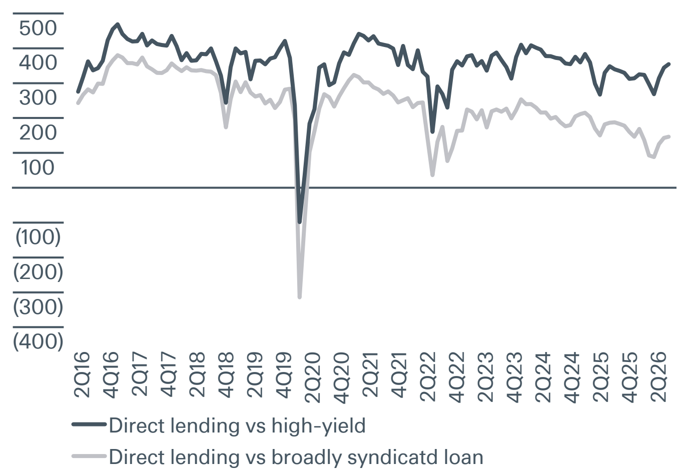
FIGURE 24: 2026 YTD PUBLIC TOTAL RETURNS (%)



Source: Leveraged loans: LCD Morningstar Leveraged Loans Indices; High yield: Bloomberg High Yield Indices; Investment grade: Bloomberg Investment Grade indices; Equity: S&P 500 and MSCI Europe, as of July 21st 2026.

Despite this positive 1H26, risks remain elevated, with limited margin for error as valuations across both equity and credit markets appear stretched. While spreads in direct lending have materially tightened versus the previous peak, spread compression has also been pronounced in the leveraged loan and high-yield bond markets, where spreads are now close to historical lows. In this context, direct lending continues to offer an attractive relative value proposition and a meaningful spread premium within credit portfolios (**Figure 25**).

FIGURE 25: US DIRECT LENDING SPREAD PREMIUM (BPS)



Source: Kroll StepStone Private Credit Benchmarks, PitchBook LCD & Bloomberg, as of June 2026. US BSL uses the Morningstar US Leveraged Loan B- and Above index. The US High Yield uses the Bloomberg B and BB High Yield Indices, weighted by Total Market Value.

Looking ahead to the second half of 2026, direct lending is expected to continue delivering returns broadly in line with long-term averages, supported by gross asset yields near 9%. The combination of a higher-for-longer base rates outlook and slightly wider gross spreads should continue to underpin income generation, while a relatively benign default environment should limit credit losses. These dynamics position the asset class well to continue providing stable and attractive risk-adjusted returns that have characterized direct lending over the past 15 years while also providing portfolio resilience should elevated AI expectations or geopolitical risks trigger renewed volatility in public markets (**Figure 26**).

FIGURE 26: HISTORICAL TOTAL RETURN ACROSS ASSET CLASSES

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Ann.	Volatility
			EU HY 84.4%																		
			US LL 51.6%																		
			EU LL 43.4%														US EQ 26.3%				
		GFC	EU EQ 32.6%		EUROZONE CRISIS							TRUMP 1.0 TARIFFS	US EQ 31.5%			RATE RAISE	EU EQ 16.6%				
			US EQ 26.5%			EU HY 27.9%							EU EQ 26.9%				EU LL 13.5%				
			US IG 18.7%			EU EQ 18.1%							US IG 14.5%	US EQ 18.4%			US HY 13.4%				
EU EQ 20.2%		US IG -4.9%	EU IG 15.5%			US EQ 16.0%	US EQ 32.4%			US HY 17.1%	US EQ 21.8%		US HY 14.3%	US IG 9.9%	US EQ 28.7%		US LL 13.3%		EU EQ 20.1%		
US EQ 15.8%		EU IG -5.6%	US DL 13.2%			US HY 15.8%	EU EQ 20.5%	US EQ 13.7%	EU EQ 8.8%	US EQ 12.0%	EU EQ 10.9%		EU HY 11.4%	US HY 7.1%	EU EQ 25.8%		EU HY 12.3%	US EQ 25%	US EQ 17.9%	US EQ 10.6%	
US DL 13.7%	**US DL 10.2%**	**US DL -6.5%**	**US DL 13.2%**	**US DL 15.8%**	**US DL 9.8%**	**US DL 14.0%**	**US DL 12.7%**	**US DL 9.6%**	**US DL 5.5%**	**US DL 11.2%**	**US DL 8.6%**	**US DL 8.1%**	**US DL 9.0%**	**US DL 5.5%**	**US DL 12.8%**	**US DL 6.3%**	**US DL 12.1%**	**US DL 11.3%**	**US DL 9.3%**	**US DL 9.5%**	**US DL 3.3%**
US HY 11.8%	USEQ 5.5%	US HY -26.2%		EU HY 15.3%	US IG 8.1%	EU IG 13.7%	EU HY 10.2%	EU IG 9.1%	EU LL 5.5%	US LL 10.2%	US HY 7.5%	EU LL 1.3%	US LL 8.6%	EU IG 3.7%	US HY 5.3%	US LL -0.8%	US IG 8.5%	EU EQ 9.3%	US HY 8.6%	EU EQ 7.2%	EU IG 5.1%
EU HY 11.0%	EU EQ 3.2%	US LL -29.1%		US HY 15.1%	US HY 5.0%	US IG 9.8%	EU LL 8.6%	US IG 7.5%	EU HY 1.7%	EU HY 9.0%	EU HY 6.8%	US LL 0.4%	EU IG 6.7%	US LL 3.1%	US LL 5.2%	EU LL -3.5%	EU IG 8.2%	EU LL 9.2%	US IG 7.8%	US HY 6.6%	US IG 6.6%
US LL 6.7%	US IG 4.6%	EU LL -30.0%		US EQ 15.1%	EU IG 2.6%	US LL 9.7%	US HY 7.4%	EU EQ 7.4%	US EQ 1.4%	US IG 6.1%	US IG 6.4%	EU IG -1.6%	EU LL 4.9%	EU LL 2.4%	EU LL 5.2%	EU EQ -8.9%		US LL 9.0%	US LL 5.9%	EU HY 6.3%	US LL 9.2%
EU LL 6.4%	US LL 2.1%	EU HY -32.1%		EU EQ 11.7%	US EQ 2.1%	EU LL 9.7%	US LL 5.3%	EU HY 5.7%	EU IG -0.3%	EU IG 5.9%	US LL 4.1%	US HY -2.1%		EU HY 2.3%	EU HY 3.5%	EU HY -10.7%		EU HY 8.4%	EU HY 5.3%	US LL 5.0%	EU LL 9.7%"
US IG 4.3%	US HY 1.9%	US EQ -37.0%		US LL 10.1%	US LL 1.5%		EU IG 2.1%	EU LL 4.5%	US IG -0.7%	EU LL 3.8%	EU LL 3.6%	US IG -2.5%		EU EQ -2.8%	US IG -1.0%	US HY -11.2%		US HY 8.2%	EU LL 4.1%	EU LL 4.3%	US HY 10.1%
EU IG 0.1%	EU IG -0.3%	EU EQ -43.3%		EU EQ 9.8%	EU LL 0.7%		US IG -1.5%	US HY 2.5%	US LL -0.7%	EU EQ 3.2%	EU IG 2.7%	EU HY -3.6%			EU IG -1.5%	EU IG -14.6%		EU IG 4.1%	EU IG 3.3%	US IG 4.2%	EU HY 12.6%
	EU LL -0.6%			US IG 9.0%	EU HY -2.8%			US LL 1.6%	US HY -4.5%			US EQ -4.4%				US IG -15.8%		US IG 2.1%		EU IG 2.7%	EU EQ 15.4%
	EU HY -3.0%			EU IG 5.5%	EU EQ -7.5%							EU EQ -10.0%				US EQ -18.1%					US EQ 15.8%

Sources: Bloomberg and Cliffwater, as of March 2026. For illustrative purposes only.
Notes: The chart shows annual index total returns in USD for the following indices: US DL - Cliffwater Direct Lending Index, US EQ – S&P 500, EU EQ - MSCI Europe Index, US HY - Bloomberg US High Yield Index, EU HY - Bloomberg Pan-European High Yield Index, US IG - Bloomberg US Corporate Index, EU IG - Bloomberg Pan-European Corporate Index, US LL – Morningstar LCD US Leveraged Loan Index, EU LL – Morningstar LCD EU Leveraged Loan Index.

Conclusion

Direct lending in 1H26 was shaped by a partial rebalancing rather than a fundamental shift in market conditions. Institutional fundraising remained healthy, with direct lending retaining a 69% share, although retail-oriented BDC flows turned negative as redemptions accelerated. At the same time, sponsored middle-market deal volume declined from 2025 levels and M&A activity remained below its long-term pace. Together, these developments eased lender deployment pressure, contributing to the early stages of spread and OID widening, although competition for high-quality assets remained intense.

Returns remained resilient but moderated. The CDLI-S twelve-month trailing return stood at 8.1% in March 2026, with a 9.9% income return partially offset by greater unrealized markdowns. Meanwhile, the interest rate outlook shifted back toward a higher-for-longer path, supporting gross asset yields of around 9%. Combined with reduced repricing activity and modestly wider new-issue spreads, this has improved the prospective return environment relative to late 2025.

Credit fundamentals also remained broadly supportive. Both interest coverage and total leverage improved for new issuance and outstanding borrowers, while payment defaults stayed contained. That said, broader measures of borrower stress, including PIK amendments and impairment charges, continue to point to greater performance dispersion. As a result, investment outcomes in 2H26 are likely to depend increasingly on manager selectivity, disciplined underwriting, robust documentation, and portfolio diversification.

All data is as of August 2026 unless otherwise noted.

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