BANK LOANS

Loans Rebound, Dispersion Remains

This report is excerpted from the Third Quarter 2026 Fixed-Income Sector Views.

Supply remains defensive, market supportive of higher rated credits.

Following its first negative quarter in years in the first quarter, the leveraged loan market as measured by the S&P UBS Leveraged Loan Index staged a solid rebound in the second quarter, returning 1.85 percent. This was the index's best quarter in a year, although the dispersion that emerged in the first quarter largely remains. Primary activity was similar to the first quarter's in composition and volume and remains opportunistic.

Sector Commentary

- Consumer sectors led the way in the second quarter, with durables up 4.06 percent and non-durables up 2.79 percent. Technology was the weakest at just 0.04 percent, down 4.11 percent for the year. Isolating for software, the median price of the subsector was slightly higher, but dispersion remains extremely high.
- The average price of the index moved up a quarter point to 94.05. Three-year discount margins tightened by 14 basis points, finishing at an even 500 basis points.
- Only 28 percent of primary activity during the first half of 2026 supported transactions unrelated to refinancing, extension, or repricing. This level is in line with 2025 and remains suppressed: the pre-COVID level was around 50 percent.
- Second quarter volume was similar to the first quarter at $224 billion compared to $241 billion, heavily weighted toward opportunistic (non-M&A/LBO) activity at 73 percent.

Investment Themes

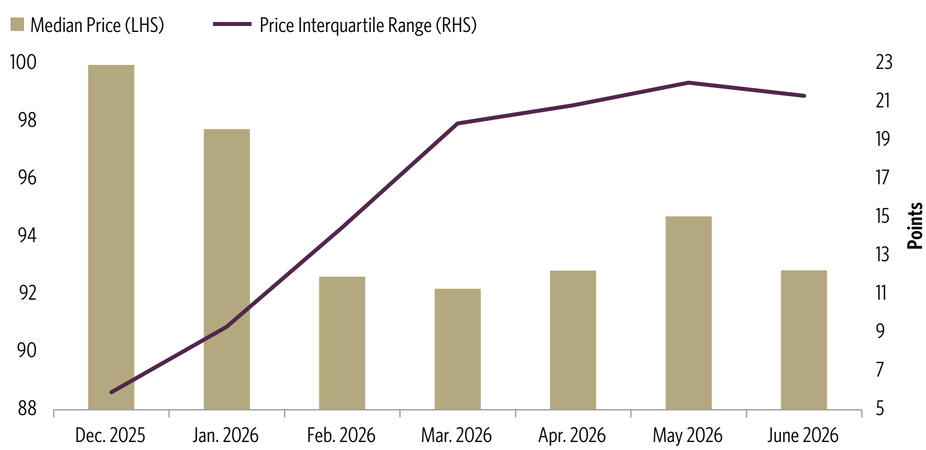
- Market participants continue to differentiate between high-rated and "AI-insulated" issuers, as evidenced by the 90 basis point new-issue spread premium between B- and B-flat issuers, the highest level since the outbreak of COVID. The dispersion seen in the tech sector also underlines this dynamic.
- Our base case is for volatility to persist as the market will need to work to refinance $140 billion of the lowest rated issuance maturing before the end of 2028 and as liability management exercises continue to erode first lien recoveries. Technology issuers make up more than half of this cohort.
- In terms of positioning, we maintain our up-in-quality bias given the tail risk in the market. For businesses we view as insulated from some of these risks with appropriate capital structures, we continue to look to add to positions on weakness.

By Thomas Hauser, Alastair McKeever, and Brian McAuliff

Technology loans have delivered the weakest performance this year, down 4.1 percent and essentially flat for the quarter. Within software, price dispersion remains extremely high even as the median price modestly improved quarter over quarter.

While the Median Price of Tech in Software Was Flat, Dispersion Is High

Leveraged Loan Index Software Median Price vs Interquartile Range



*Interquartile range is the difference between 3rd quartile and 1st quartile breakpoints. Source: S&P UBS Leveraged Loan Index. Data as of 6.30.2026.

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One **basis point** is equal to 0.01%.

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