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Q: What is the defining story for direct lending in 2026?

A: The headlines portray turbulence in the asset class, including retail redemption requests, softening marks, and rising credit pressure in software portfolios. These issues are real and worth taking seriously, but they describe impacts of loans made in 2021, 2022, and 2023, not what is happening in the market today.

Currently, direct lending has an enormous amount of firepower and is actively looking to put it to work. Institutional fundraising momentum has been strong through the year. Capital raised in the US has increased sharply even as the number of funds raising has fallen, with the largest platforms taking an increasing share. Importantly, the constraint on deployment is not capital but the supply of new lending opportunities. This is a very different problem from what the headlines describe, and for a borrower with the right profile, it is an unusually favorable moment.

What has changed is what lenders are looking for. For five years, the market was over indexed in enterprise software and technology. Now, it is deliberately rotating toward businesses with less AI disruption risk, less tariff and input-cost exposure, and cash flows that do not depend on multiple expansion. The capital has not gone away, it is just looking for a different kind of credit profile.

Q: Where is lender capital heading?

A: Lender capital is heading towards essential, non-discretionary services, such as infrastructure services, business services, environmental services, industrials, transportation, and logistics. These are businesses with contracted or recurring revenue, real assets or route density, regulatory or compliance-driven demand, and limited exposure to AI disruption and tariffs inflating the cost base, the two impacts that lenders are most worried about right now.

Stifel is currently in market syndicating a number of private credit transactions in infrastructure services, business services, and environmental services, and lender interest in those processes has

been significant. Lenders who spent the last several years underweight these sectors are now competing hard for them, and that competition is showing up in both pricing and structure for borrowers.

It is also a portfolio construction decision rather than a temporary preference. Private credit lenders are actively diversifying away from the software-heavy exposure already in their portfolios, and their institutional investors are asking for exactly that differentiation. We would expect this rotation to persist well beyond this cycle.

Q: Activity has been subdued. What is actually holding it back?

A: Buyout activity improved modestly in the third quarter but has remained subdued as market participants focused on geopolitical uncertainty and rising inflation. Direct lending volume backing leveraged buyouts totaled approximately \$10 billion in the third quarter, compared to approximately \$27 billion in the same quarter last year. That is a deal supply problem, not a capital problem.

The gap has been filled by refinancing and amend-to-extend activity. This is the valuable work that relieves pressure on the coming maturity wall, but it is not new money. An area of new activity has been the lower middle market, where lenders are looking specifically to industrials and non-software businesses to deploy capital and diversify away from technology. Competition there has been intense enough to compress spreads.

We would not read subdued volume as weakness in the financing market. When the M&A cycle turns, capital is available, the lender universe is broader than ever, and the appetite for the right credit is well ahead of what closed deal volume suggests.

Q: How concerned should borrowers be about redemptions, marks, and rising stress?

A: Borrowers should be aware of the risks, but recognize that they are not the primary constraint on new lending. On the retail side, redemption pressure at the large non-traded vehicles appears to be easing rather than building, with requests at several of the largest funds declining quarter over quarter or holding flat. Institutional fundraising has been the offset, and it has continued to show strength with one of the largest managers reported to be on track for a record year, with institutional investors representing more than 80% of gross inflows.

On credit, stress is increasing. Of approximately 5,000 companies held by business development companies a year ago, nearly 600 showed some degree of credit pressure as of the end of June, up approximately 25% from year-end 2025. But the distribution matters more than the headline. Deterioration is heavily concentrated at the small end, with approximately 12% of borrowers with less than \$20 million of EBITDA having loans marked below 90 cents, versus only 3% for larger companies. Additionally, contrary to the narrative, healthcare, rather than software, has been the only sector with elevated defaults on both a count and size-weighted basis.

The real dislocation to watch is the software loans written against 2021 and 2022 valuations that mature in 2027 and 2028. Recoveries on software assets that restructure are likely to look materially worse than the 70-80 cents that which lenders have historically expected on first lien paper. This is a legacy portfolio issue for lenders to work through. It does not reduce the capital available to good non-software credit today, and if anything, it increases the competition for one as lenders rotate out of tech.

Q: What has happened to pricing, and where does the syndicated market fit?

A: Pricing has tightened where lenders want exposure and has stayed wide where they do not want exposure. Competition for attractive non-software assets has pushed spreads on those deals below S+500, and approximately 60% of direct lending buyouts have printed below S+500 so far this year, up from 55% last year.

The syndicated market has not ceded ground either. Syndicated Term Loan B buyout spreads eased to an average of S+310 in the third quarter, from S+348 at the start of the year. Additionally, the Term Loan B market financed several large buyouts that could plausibly have been done in private credit. With so few new deals on offer, credit investors in both markets are competing for the same small pool of assets.

The base rate is the other half of the equation, and it has turned. With the Federal Reserve raising rates for the first time since 2023 with potential for further increases, the question for levered borrowers is how they absorb higher borrowing costs and higher input costs at the same time. Spread is the negotiable component and the all-in coupon is what has to be serviced, and every structure we are putting in front of clients now gets tested against a higher base rate than it would have six months ago.

Q: With capital abundant but selective, how should a borrower approach the market?

A: Borrowers should approach the market by testing it properly rather than assuming the answer. When the two markets are priced close together and lender appetite varies significantly by sector, the gap between a good outcome and an average one is narrow and easy to miss in a bilateral negotiation with an incumbent lender.

A broad, structured process makes lenders compete on price and terms rather than negotiating one-on-one, and it matters more than usual right now precisely because appetite is uneven. The lenders who are underweight a sector and want in will stretch further on leverage, covenants, and pricing rather than the incumbents who are already full, and you only find them by going out broadly. A typical process starts with more than 100 lenders contacted, and narrows through the data room and lender presentations to a selected group of 3 to 5 lenders. This process typically takes several weeks.

It matters most for complex credits, such as over-levered situations, carve-outs, restructurings, and cross-border deals. This includes first-time issuers with no established private credit relationships or in-house capital markets function and for teams already stretched by the underlying transaction. In each case, we find the cost of not running a process is usually far larger than the cost of running one.

Q: What does Stifel bring to borrowers in this market?

A: We are one of the few platforms that has advanced capabilities on both sides of the decision. We have agented more than \$9 billion of sole-managed private debt placements across more than 60 transactions, running a syndicated-loan-style process that is deliberately differentiated from both middle-market and bulge-bracket peers and that leverages Stifel's institutional sales force for a wide-reaching, coordinated lender outreach. On the syndicated side, we have underwritten and arranged more than 150 transactions since 2018. We are well-qualified to access both markets simultaneously, solicit market terms, and detail the pros and cons of each financing structure. Our deal teams are also integrated from a product and industry perspective, allowing us to leverage our deep industry experience to position the credit, anticipate and answer diligence questions, and drive competition throughout the syndication process.

We also commit our own capital. Our senior and direct lending business holds up to \$500 million on a take-and-hold basis, and the lending program we launched in 2024, now with 3 lending partners, has approximately \$700 million committed to date.

Most importantly for this market, we are active in exactly the sectors lenders are rotating into. The private credit transactions we are syndicating today in infrastructure services, business services, and environmental services are drawing significant lender interest, which gives us real-time visibility into where appetite actually sits.

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