Credit Currents:

Insights across public and private credit

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BlackRock

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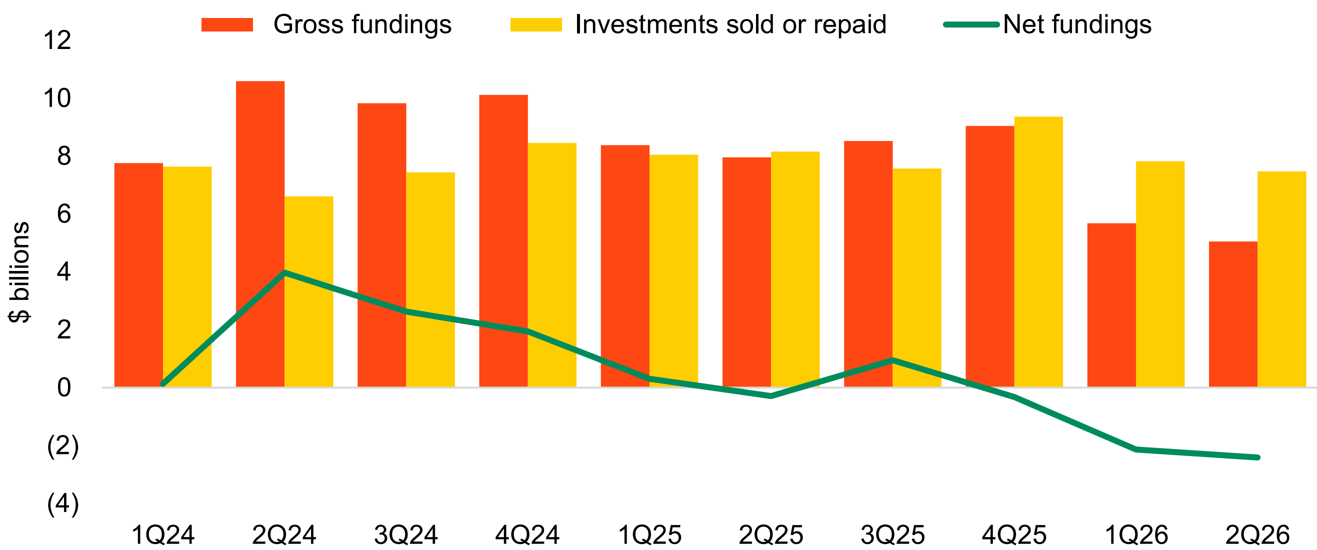
Earnings season brings private credit into focus

1. **BDC credit markets have recovered meaningfully from the stress seen earlier this year.** BDC spreads have tightened 85bps from their March peak to 178bps, while YTD excess returns have reached 1.35%. Even so, BDC spreads remain broadly in line with lower-rated BB HY, suggesting investors continue to demand a premium for sector-specific risks.
2. **The deal environment remains subdued, but early signs point to improving activity and lending economics.** Net fundings for a subset of BDCs were negative for a third consecutive quarter in 2Q2026, though management teams have cited stronger activity early in 3Q. Looking ahead, wider new-issue spreads could support asset yields, while a sustained recovery in deployment could boost transaction-related fee income.
3. **Aggregate borrower fundamentals remain resilient, but dispersion is increasingly important.** Interest coverage improved for a ninth consecutive quarter, while 64% of companies reported positive adjusted EBITDA growth in 2Q, above the 12-year average of 57.5%. Still, dispersion is evident. Smaller borrowers continue to lag larger ones, and two-thirds of 2025 and 2026 foreclosure activity is concentrated in 2021 and 2022 vintage loans, reinforcing the importance of disciplined asset selection and diversification.

Exhibit 1: Net funding remained negative in 2Q2026 for the largest publicly traded BDCs
Quarterly gross fundings and investments sold or repaid across the 12 largest publicly traded BDCs



Source: Pitchbook LCD, BlackRock. As of 2Q2026.

Earnings season brings private credit into focus

Private credit has remained an active area of investor discussion in recent months, with attention spanning redemption activity in semi-liquid vehicles, software-sector exposure amid potential AI-related disruption, and trends in borrower health. With business development company (BDC) earnings season nearly complete, recent disclosures from these vehicles, which are a common investor access point to private credit, offer a useful window into how the broader asset class is evolving.

The picture is mixed but constructive: BDC credit markets have recovered, and private credit borrower fundamentals remain resilient, while weaker equity performance and dispersion across borrowers and vintages reinforce the importance of selectivity.

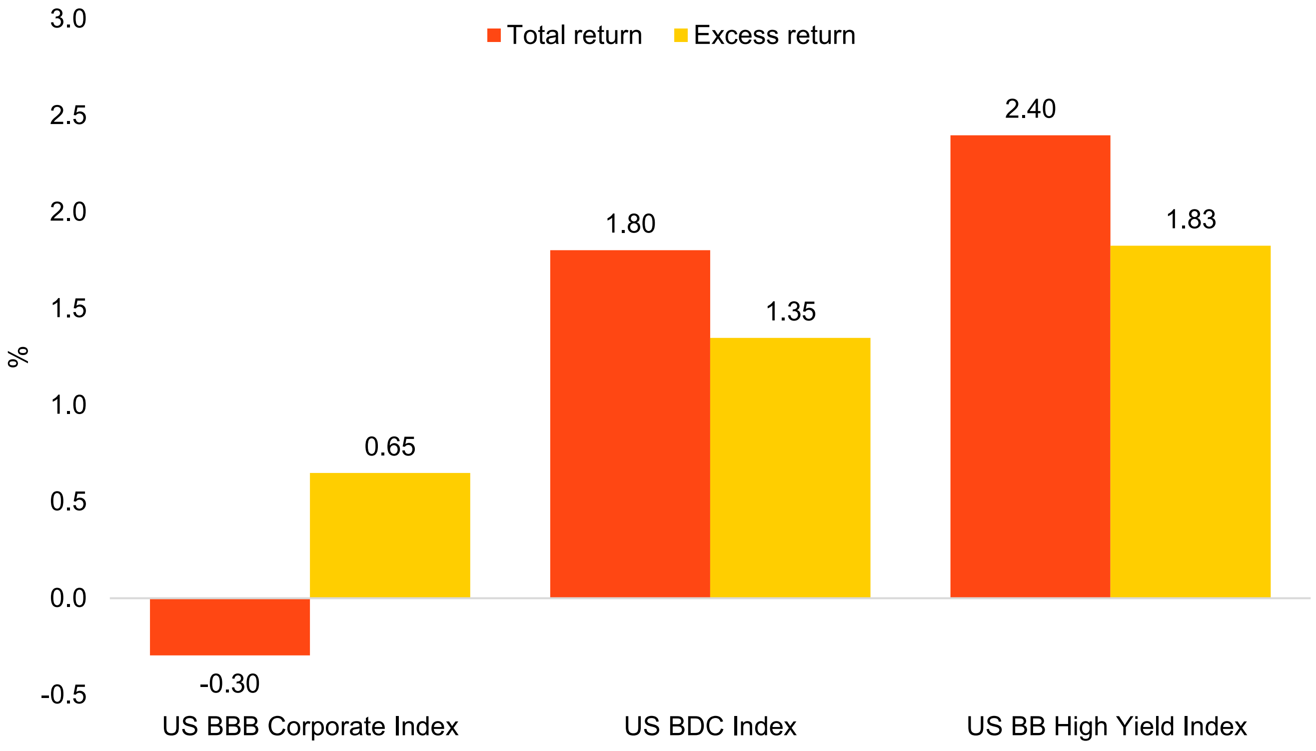
BDC credit has recovered, but the risk premium remains elevated

The Bloomberg US BDC Index, which tracks investment-grade (IG) fixed-rate bonds issued by BDCs, returned 1.80% year-to-date (YTD), outperforming comparable Treasuries by 1.35% and placing YTD returns between the US BBB corporate and BB high yield (HY) indices (Exhibit 2). Spreads on BDC bonds, which can provide a market measure of their cost of debt financing in the USD syndicated bond market, have tightened 85 basis points (bps) from a local high of 263 basis points in March to 178 bps as of August 18, 2026 (Exhibit 3 – next page).

The March spread widening reflected several overlapping concerns, in our view, including heightened macro uncertainty, concern around software-related borrower exposure and heightened redemption activity among select BDC types. As visibility into borrower fundamentals and BDC balance sheets improved, spreads retraced much of that move. Though even after the recovery, BDC bonds trade at spreads broadly in line with the BB-rated HY market and at a wider premium to BBB corporates than the 2024-2025 average. While differences in maturity and index composition limit direct comparisons, the premium to BBB spreads suggest investors continue to require additional compensation for BDC-specific risks.

Exhibit 2: BDC Index returns sit between BBB and BB corporate indices YTD

Year-to-date total and excess returns for the Bloomberg US BBB Corporate Index, Bloomberg US BDC Index and Bloomberg US BB High Yield Index



Source: Bloomberg, BlackRock. As of August 17, 2026. Excess return measures performance relative to comparable Treasuries.

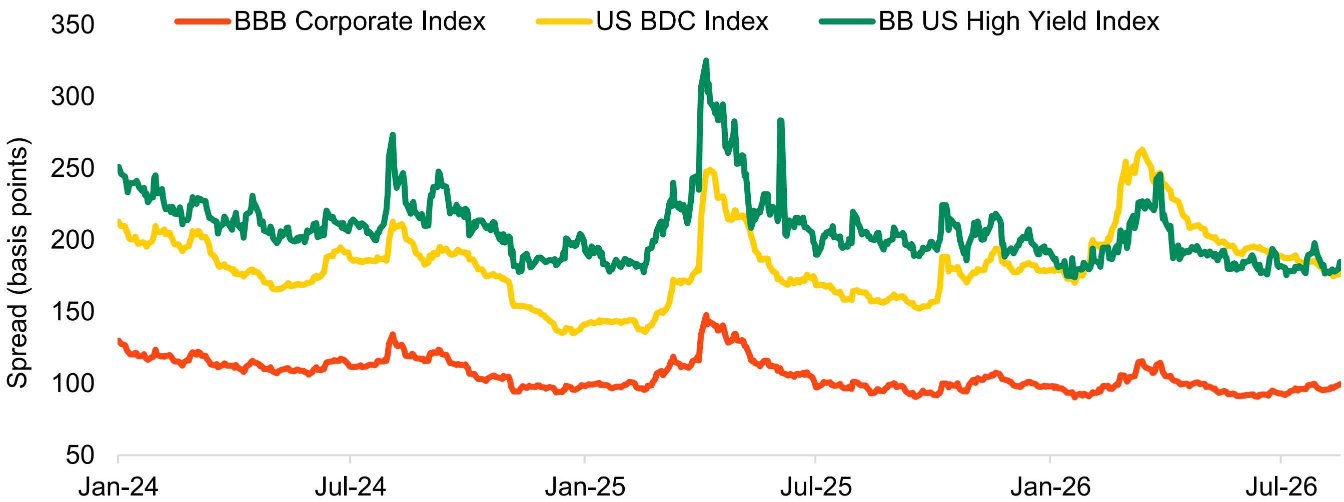
Looking ahead, we expect further clarity around private credit borrower health, BDC portfolio health, and BDC structures could help sustain the recovery. If tighter spreads persist, they should result in lower marginal borrowing costs. This, combined with reliable access to capital for BDCs, would generally be constructive for BDC funding profiles.

BDC equities tell a more cautious story

That improvement in BDC debt has not been fully reflected in publicly traded BDC equities. The Cliffwater BDC Index remains negative on a total-return basis YTD, as income has been more than offset by weaker price performance (Exhibit 4). The divergence likely reflects a range of factors, including the lower policy-rate environment relative to 2024 and 2025, ongoing caution around portfolio health, and index-specific dynamics, such as the more seasoned nature of many publicly-traded BDC portfolios. Indeed, because many BDC assets carry floating-rate coupons, lower policy rates can reduce portfolio yields and alter the sector's income profile.

Exhibit 3: BDC spreads have tightened, but the premium to BBB corporates remains elevated

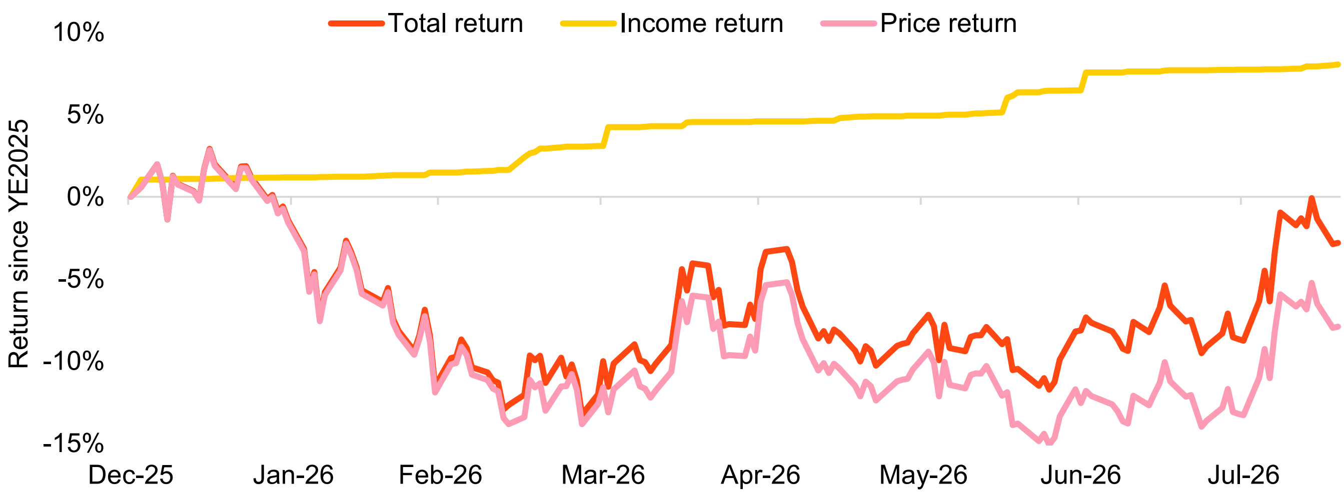
Spread to benchmark for the Bloomberg US BBB Corporate Index, Bloomberg US BDC Index and Bloomberg US BB High Yield Index



Source: Bloomberg, BlackRock. As of August 18, 2026. US BDC Index captures universe of BDC borrowers with index-eligible debt.

Exhibit 4: Price movements have driven BDC equity returns YTD

Cliffwater BDC Index total return and its price and income components since YE2025



Source: Bloomberg, BlackRock. As of August 18, 2026. Cliffwater BDC Index is a capitalization-weighted index that measures the performance of lending-oriented exchange-traded BDCs, subject to certain eligibility criteria. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged, and one cannot invest directly in an index.

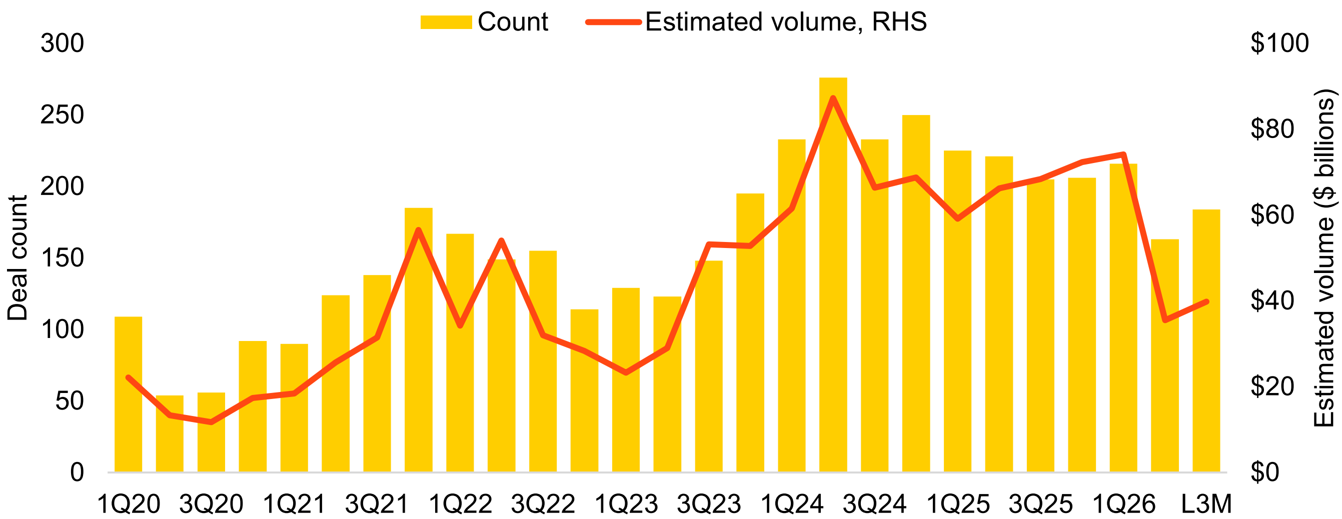
Deal activity remains subdued, but conditions are improving

PitchBook LCD's analysis of the 12 largest publicly traded BDCs provides additional context around the recent earnings season. Net fundings were negative for the third consecutive quarter in 2Q2026, as repayments and asset sales outpaced new investment activity (Exhibit 1).

That trend was broadly consistent with management commentary. Many BDCs described 2Q as a slow underwriting quarter, with activity concentrated largely among existing portfolio companies. Management teams attributed the slowdown to macroeconomic and geopolitical uncertainty, while noting that conditions stabilized as the quarter progressed. More recently, several have pointed to stronger activity early in 3Q, consistent with the modest pickup in US direct lending activity over the last three months (L3M; Exhibit 5).

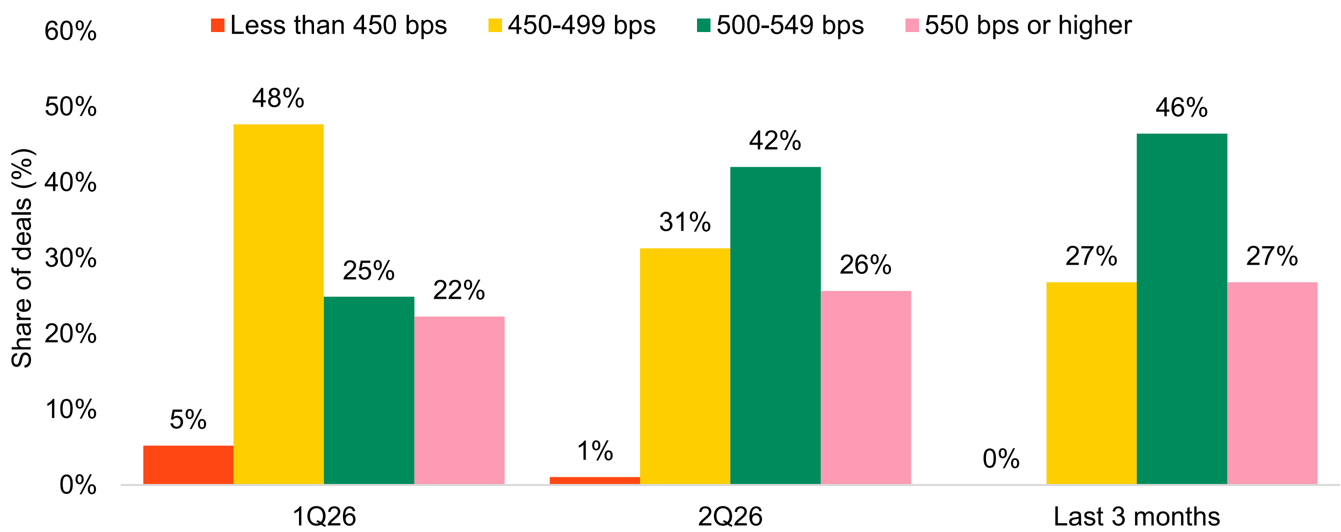
The opportunity set may also be improving. Recent transactions have shifted toward wider spreads, with a greater share of deals pricing above 500 basis points over the L3M (Exhibit 6). For BDCs, more new-money activity at wider spreads could support fee income and asset yields, though higher borrowing costs would likely weigh on borrower refinancing activity.

Exhibit 5: Direct lending activity shows early signs of improvement after a slow 2Q
US direct lending deal count and estimated volume, RHS, in $ billions



Source: Pitchbook LCD, BlackRock. As of July 31, 2026. Deal count is based on transactions covered by LCD News.

Exhibit 6: More direct lending deals are pricing above 500 bps
Share of US direct lending deals by spread range for PE-backed borrowers



Source: Pitchbook LCD, BlackRock. As of July 31, 2026.

Borrower fundamentals remain resilient, in aggregate

Aggregate data continue to point to resilience across private credit borrowers. Lincoln International's dataset, which covers more than 7,000 quarterly valuations and ~30% of the private equity-backed borrower universe, shows continued improvement in both debt service capacity and earnings growth.

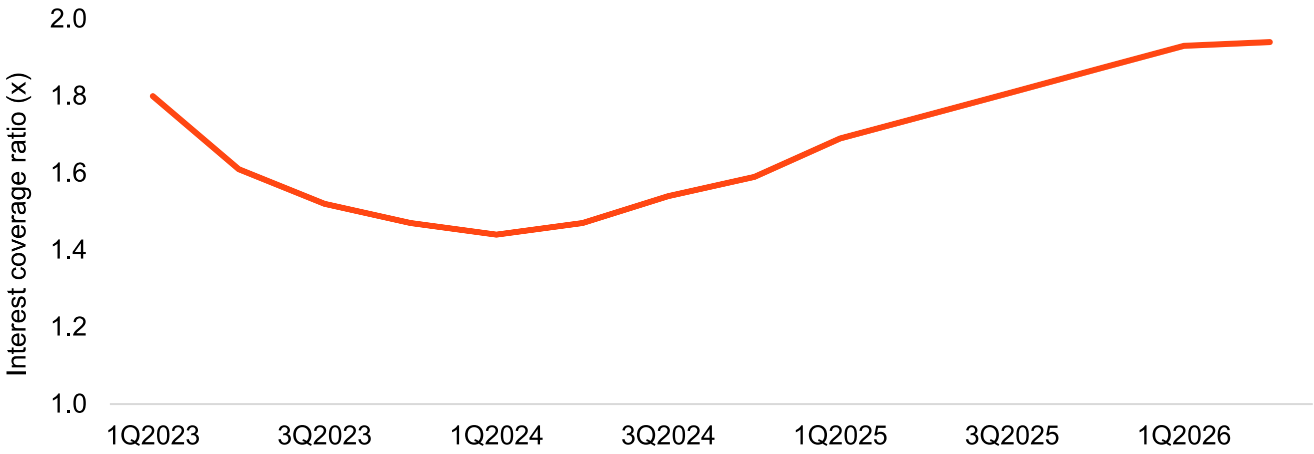
Interest coverage improved for the ninth consecutive quarter in 2Q2026, extending the recovery from 2024 lows, although the pace of improvement moderated during the quarter (Exhibit 7).

Earnings trends have also remained constructive. Approximately 64% of companies reported positive adjusted EBITDA growth in 2Q, above the 12-year average of 57.5%, while average EBITDA growth reached 5.6%, compared with a long-term average of 3.3% (Exhibit 8).

Even as aggregate fundamentals remain resilient, pockets of pressure are visible in portfolio valuations. Net asset values (NAVs) declined across a number of BDCs during the quarter, reflecting in part wider credit spreads and borrower-specific performance. Lincoln International notes that 10.5% of first-lien and unitranche loans were marked below 90% in 2Q, up from 8.2% in 1Q2026 and 6.8% at YE2025. While lower marks do not necessarily signal fundamental deterioration, they point to pockets of pressure beneath otherwise resilient aggregate data.

Exhibit 7: Interest coverage continues to improve from 2024 lows

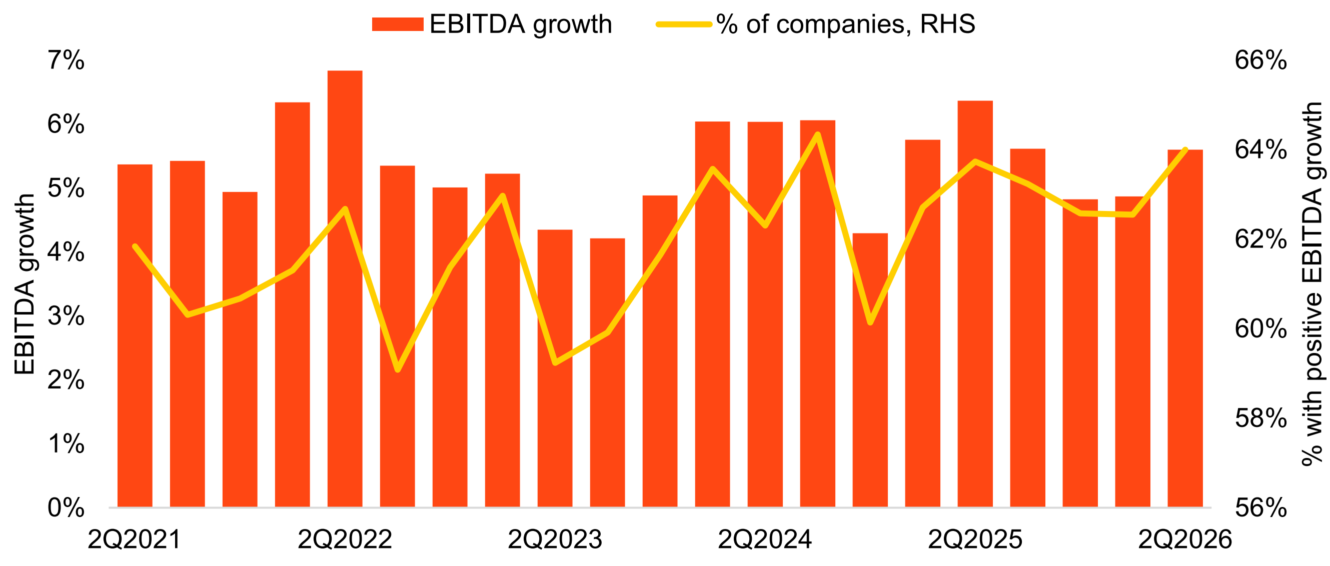
Size-weighted interest coverage ratio across private credit borrowers



Source: Lincoln Lens, BlackRock. As of 2Q2026.

Exhibit 8: Private credit borrower earnings growth remains resilient

Year-over-year adjusted EBITDA growth and share of borrowers reporting positive EBITDA growth, RHS



Source: Lincoln Lens, BlackRock. As of 2Q2026.

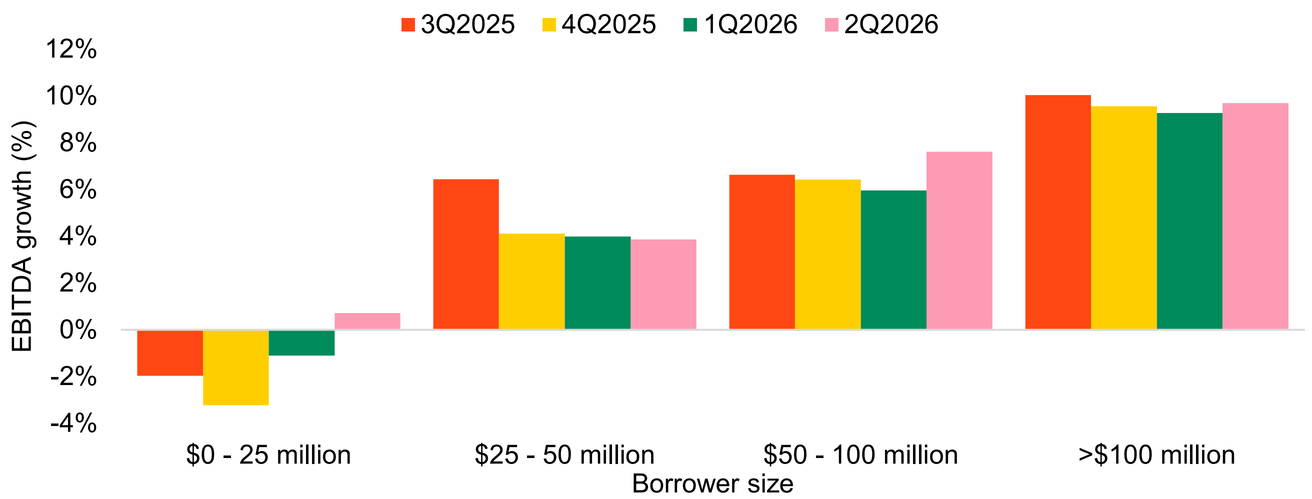
But resilience is uneven, including across borrowers and vintages

Lincoln's data also demonstrates a relationship between company size and earnings growth, with smaller borrowers continuing to grow more slowly than larger companies (Exhibit 9). This may reflect a variety of factors, including a less diversified revenue bases, lower pricing power and more limited financial flexibility among smaller businesses.

Performance also varies meaningfully by vintage. Through 2Q2026, foreclosure activity, which captures situations where lenders have taken control or are expected to do so imminently, reached $22.3 billion. That is approaching the $24.2 billion recorded in full-year (FY) 2025 and more than double the $10.7 billion reported in FY2024. Importantly, roughly 70% of foreclosure activity is concentrated in loans originated in 2021 and 2022 (Exhibit 10). Many of these loans were underwritten before the sharp rise in base rates, often against higher valuations, leaving borrowers more exposed as debt service costs increased and valuation support weakened.

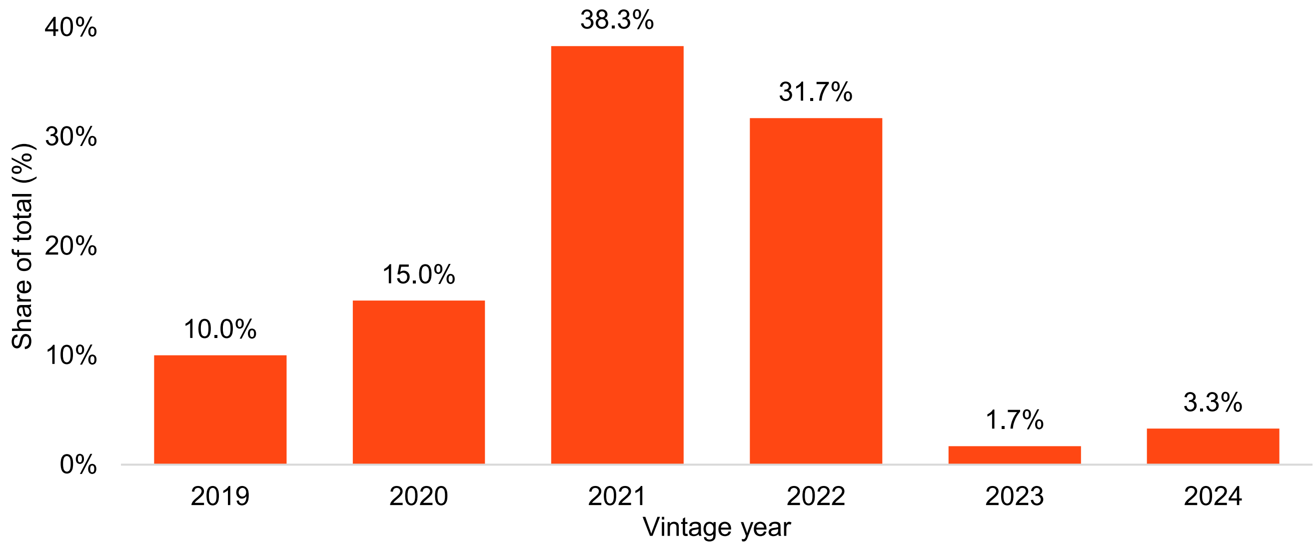
The pattern reinforces that private credit outcomes are likely to vary considerably across borrowers and vintages. As such, we view diversification and disciplined asset selection as central to navigating this dispersion.

Exhibit 9: EBITDA growth remains stronger among larger borrowers
Year-over-year adjusted EBITDA growth by borrower size



Source: Lincoln Lens, BlackRock. As of 2Q2026.

Exhibit 10: Foreclosure activity remains concentrated in 2021 and 2022 vintages
Share of debt foreclosed in 2025 and 2026 by vintage year



Source: Lincoln VOG Proprietary Private Market Database, BlackRock. As of 2Q2026. Captures companies in which lenders had either taken control or were imminently expecting to take control from the sponsor.

Unless otherwise stated, all reference to $ are in USD.

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Cliffwater Direct Lending Index (CDLI) is an index that assists investors to better understand private credit as an asset class. The CDLI seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. Eligibility is set as all assets held by BDCs that (1) are regulated by the SEC as a BDC under the Investment Company Act of 1940; (2) have a substantial majority (approximately 75%) of reported total assets represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater's discretion, and (3) file SEC form 10-Q (or 10-K, as applicable) within 75 (or 90) calendar days following the current Valuation Date. If a BDC meets the eligibility criteria, but has not filed its report on Form 10-K or 10-Q with the SEC at the time the index is reconstituted, asset information from its report will be included in the index at the time of the next reconstitution. This information is derived from sources that are considered reliable, but BlackRock does not guarantee the veracity, currency, completeness or accuracy of this information.

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