Tellaro Capital Partners
INSTITUTIONAL PRIVATE CREDIT · LOWER MIDDLE MARKET

WEEKLY MARKET MONITOR
CREDIT MARKET INTELLIGENCE

Weekly Market Monitor

WEEK ENDING 25 SEPTEMBER 2026

25 September 2026

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MM Credit Conditions Index™ **64 · Favourable**

TELLARO WEEKLY VIEW

The economy re-accelerated, and the bond market broke to twenty-year highs. A flash services PMI of 58.7, the strongest in nearly five years, and hawkish Fed commentary drove the ten-year to 5.16% and the thirty-year to 5.46%, levels last seen in 2007 and 2004. Markets now price a two-in-three chance of a second hike in October and a funds rate near 4.25% by year-end. Treasury buybacks again failed to clear, filling only $4.1bn of a $10.5bn offer. Strong growth cuts both ways: it underpins borrower revenue and holds defaults low, yet validates a higher rate path that lifts debt service and compresses enterprise value. Underwrite to a durable 5% long rate and a 4.25% base, and let credit selection, not spread, do the work.

CREDIT CONDITIONS DASHBOARD

LEVEL · W/W · CONTEXT

RATES & CURVE

Fed funds target	**3.75-4.00%**	on hold to 28 Oct
SOFR (overnight)	**3.90%**	EFFR 3.88%
2Y Treasury	**4.88%**	▲ +14 w/w; 2-year high
10Y Treasury	**5.16%**	▲ +16 w/w; 19-year high
30Y Treasury	**5.46%**	▲ +12 w/w; 2004 high
Oct-28 hike odds	**~67%**	▲ second hike priced

PUBLIC CREDIT

IG OAS	**82 bp**	still tight; growth supportive
HY OAS	**283 bp**	~flat; strong data offsets vol
HY index yield	**7.8%**	▲ with higher UST
BSL single-B new-issue	**S+385**	primary firm; inside 400 bp

DEFAULT & RECOVERY

Lev-loan default (amt)	**1.3%**	payment basis, LTM
Forecast (Sep-26E, count)	**1.5%**	LCD Default Predictor
First-lien recovery	**70 to 80c**	historical range

PRIVATE CREDIT / MIDDLE MARKET

Unitranche all-in yield	**9.4%**	resets off ~4.00% term SOFR
Direct lending spread	**S+525**	core MM unitranche
MM gross leverage	**6.1x**	median; steady
MM interest coverage	**1.6x**	pressured; second hike looms
MM EBITDA growth	**24%**	record q/q deceleration
KBRA MM default monitor	**3.3%**	2.4% by debt, record

ACTIVITY & TECHNICALS

US PE dry powder	**$1.1T**	deployment pressure building
PE fundraising (Q1)	**$54B**	2025 down 24% y/y
Direct lending issuance 26E	**$120B**	BofA, down ~15% y/y
CLO issuance 26E	**$200B**	MM CLO spreads widening
DL fund redemptions (Q1)	**$1.8B**	10 largest; ~5% gates tested
PE deal volume (Jun, y/y)	**-5.6%**	exits still constrained

THREE KEY OBSERVATIONS

01

Growth, not weakness, is driving the selloff

Fact: the flash services PMI hit 58.7, its highest in nearly five years, sending the 10-year to a 19-year high near 5.16%. **Why:** a re-accelerating economy validates the Fed's hawkish path. **Implication:** the higher long rate is a strength signal, not a stress signal. It supports revenue while raising the discount rate on value.

02

October is a live second hike

Fact: futures price roughly a two-in-three chance of another 25bp move in October and a funds rate near 4.25% by December. **Why:** sticky services inflation and firm activity leave the Fed room to continue. **Implication:** the base rate is not done climbing. Coverage tests should assume 4.25% to 4.50%, not today's 3.90%.

03

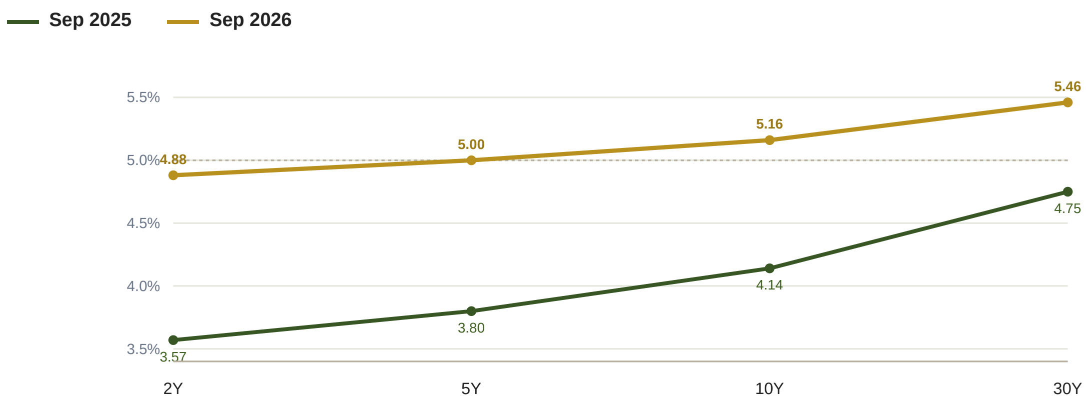
The long end still will not clear

Fact: Treasury's latest buyback filled only $4.1bn of a $10.5bn offer as the 30-year reached a 2004 high of 5.46%. **Why:** fiscal supply and an inflation premium overwhelm official demand. **Implication:** refinancing and exit math built on sub-5% long rates is stale. Reprice terminal-value assumptions across the book.

CHART OF THE WEEK

The curve, one year on: up roughly 120 basis points, long end at 20-year highs

How far has the rate regime shifted? Treasury yield curve, September 2025 versus September 2026.



Read: a year ago the curve sat below 5%. Today every maturity beyond two years yields more than 5%, with the 30-year at a two-decade high. The roughly 120 basis point shift is no recession signal; it reflects a re-accelerating economy, a hiking Fed and unrelenting Treasury supply. Entry multiples, refinancing costs and exit assumptions must all reset to a 5-handle long rate that is not receding.

WEEK AHEAD

CATALYSTS FOR PRIVATE CREDIT

Wed 30 Sep	**August PCE and Q2 GDP (final)**	The Fed's preferred inflation gauge, the first read after the hike, with BEA annual revisions. Core momentum frames the October decision.
Wed 30 Sep	**Government funding deadline**	A shutdown would delay data, including the jobs report, and add to the fiscal risk premium already lifting the long end.
Fri 3 Oct	**September jobs report**	Shutdown permitting, the labour read that, with PCE, decides October. Firm payrolls plus sticky inflation makes the second hike near-certain.
27 to 28 Oct	**Next FOMC**	A second consecutive hike is roughly two-in-three priced. The path beyond it sets coverage math across the direct-lending book.

Sources: S&P Global (Flash US PMI, September 2026); Federal Reserve (official commentary; SOFR, EFFR); U.S. Treasury (buyback operations) and FRED (DGS2, DGS10, DGS30); CME FedWatch; CNBC; TradingEconomics; University of Michigan; ICE BofA indices via FRED (HY OAS BAMLH0A0HYM2, IG OAS BAMLC0A0CM); KBRA Q2 2026 Middle Market Compendium; PitchBook LCD and the Morningstar LSTA US Leveraged Loan Index; Houlihan Lokey; Valuation Research Corp.; BofA Global Research; Preqin. Prior-year curve as of 19 September 2025; current levels to 25 September 2026; credit-spread levels are approximate.

The Weekly Market Monitor is the quantitative complement to the Tellaro *Quarterly CIO Perspective* and *Monthly Investment Committee Insights*. It does not duplicate the strategic positioning of the former or the transaction commentary of the latter.