TELLARO CAPITAL PARTNERS

Investment Committee Insights

June 2026

Institutional Private Credit | Senior Secured Lending

Higher for Longer, Again

On 17 June the Federal Reserve held rates and, in the same breath, took the coming cuts away. The dot plot moved up, not down, and the easing thesis that underwrote three years of leverage quietly expired. Private credit floats; the bill now stays high.

Reporting period: calendar month ended 30 June 2026. Data and transaction information are derived from publicly available sources. Estimates and approximations are identified where applicable.

3.50-3.75%	~8.0-8.5%	5.2x	-67%
FED FUNDS TARGET	ALL-IN FIRST-LIEN YIELD	UPPER-MM LEVERAGE	H1 PE DEAL COUNT (YOY)
Held in June; the dot plot now points up. The cuts are not coming.	High income for lenders; a high, floating bill for borrowers.	The larger end underwrote to a rate cut that has been cancelled.	Fewer, larger, higher-conviction deals. The middle froze on price.

MARKET THESIS

June delivered the year's most consequential number, and it was not a deal. On 17 June the Federal Open Market Committee held the federal funds rate at 3.50 to 3.75 per cent and revised its projections upward, with officials now expecting the rate to end 2026 between roughly 3.6 and 4.1 per cent, up from 3.25 to 3.75, and the market beginning to price a possible increase. After three cuts in late 2025, the easing cycle has not merely paused; it has been called into question.

Tellaro begins every credit with the same three questions: where a loan attaches, what it would recover, and what its documentation is worth. June sharpened a consideration that lives inside the first two: can the borrower pay the interest in cash, at a rate that is no longer falling? Private credit is a floating-rate asset. Every loan written since 2021 to a forecast of lower rates now faces a base rate that has stopped cooperating, and the binding question returns from refinancing to the humbler matter of cash coverage.

The implication is a slow test, not a sudden one. A borrower does not default because the dot plot moved; it erodes, quarter by quarter, as a high cash coupon consumes the free cash flow that was meant to fund growth or repay principal. Payment-in-kind and amend-and-extend can defer the strain, but they do not reduce it; they capitalize it. The discipline that follows is unglamorous and decisive: underwrite to cash interest coverage at a rate that stays high, and treat the ability to service debt, not merely to refinance it, as the test a credit must pass.

CREDIT SIGNALS

Three patterns in the month's transactions, read not as events but as evidence of where the strain is building.

Signal 1: The dot plot cancelled the trade the whole market was running.

Evidence. The June meeting held rates and lifted the projected path: year-end 2026 expectations rose to a 3.6 to 4.1 per cent range, the committee penciled in a possible increase rather than a cut, and a new chair signaled less forward guidance and more patience with above-target inflation, citing a resilient labor market and a Middle East conflict. Futures repriced toward four per cent by year-end.

Interpretation. A great deal of leverage put on since 2021 was underwritten to a glide path of falling rates that would ease coverage over time. That glide path is gone. For a floating-rate lender the direct effect is welcome, income stays high, but the second-order effect is the one that matters: the borrower's cash interest burden stays high too, and the cushion between operating cash flow and debt service, already thin at the larger end of the market, stops widening on its own.

Read-through: *underwrite coverage to the forward curve as it is, not as sponsors wish it to be; the rate cut is not a mitigant you may assume.*

Signal 2: The strain is concentrated where the leverage is: the upper middle market.

Evidence. First-half data showed the market splitting by size. Median entry multiples reached 13.4 times for companies valued between $500m and $1bn, against 8.8 times at the small end, and median leverage ran 5.2 times versus 2.5. Overall private-equity deal count fell about 67 per cent year on year even as aggregate value rose, as sponsors concentrated firepower on fewer, larger, higher-conviction transactions.

Interpretation. Higher-for-longer does not fall evenly. A business bought at 13 times and levered above five turns of debt has little room to absorb a coupon that refuses to decline; a business bought at nine times and levered under three has ample room. The larger end of the market, which most resembles the syndicated market in price and leverage, is also where a persistently high base rate does the most damage to coverage. The middle froze this year not because credit was unavailable but because buyers and sellers could not agree a price in a world where the rate assumption had changed.

Read-through: *size is a risk factor now; the lower-middle-market credit at modest leverage is structurally better placed to survive a rate that stays high.*

Signal 3: Deferral is being mistaken for resilience.

Evidence. With exits scarce and a near-record nine years of portfolio inventory to clear, sponsors leaned on continuation funds, dividend recaptures where they could, and payment-in-kind features to bridge the gap, while software borrowers refinanced maturing debt into new private-credit facilities struck against recurring revenue rather than cash flow. Reported defaults stayed near 1.1 per cent.

Interpretation. A low default rate in a higher-for-longer world is partly an artefact of the tools used to avoid default. Payment-in-kind converts a cash problem into a larger balance; amend-and-extend converts a maturity problem into a longer one; a loan against annual recurring revenue lends against a number that is not cash. None of these is illegitimate, and each defers rather than resolves. The quiet accumulation of capitalized interest and extended maturities is the real state of the cycle, and it is not visible in the default rate.

Read-through: *read PIK and amend-and-extend as deferred loss until proven otherwise; capitalized interest is a bet that the future is easier than the present.*

WHAT CHANGED IN UNDERWRITING

Nominal loan terms barely moved in June, but their meaning did. Unitranche coupons near SOFR plus 475 to 550 basis points, over a base rate that will now sit near three and a half to four per cent rather than drifting toward three, produce an all-in cost of debt in the low-to-mid eight per cent range and, on the market's own forward projections, staying there.

Consider the arithmetic that decides the credit. A business bought at a mid-teens multiple and levered at five turns of EBITDA pays cash interest of roughly forty per cent of EBITDA at an eight per cent all-in rate, before a dollar of tax, capital expenditure or growth. The same business at three turns pays closer to a quarter. The difference is the whole of the safety margin. When the base rate was expected to fall, the five-turn structure was a bet that time would relieve the coverage; June removed the relief, and the coverage is now whatever the business can produce, not whatever the rate becomes.

The underwriting response is to make cash coverage the binding covenant rather than leverage, and to size debt to the interest a business can pay in cash today rather than to a multiple it might refinance tomorrow. It is too early to conclude that the labor market or inflation will keep rates elevated through the life of current loans. But underwriting is not forecasting; it is protecting against the forecast being wrong, and the prudent assumption in June is that the rate does not ride to the rescue.

> **TELLARO READ-THROUGH**
> The discipline is to underwrite the coupon the borrower must actually pay, at a rate that no longer falls, and to treat cash interest coverage as the covenant that matters most. Leverage measures the size of the obligation; coverage measures the ability to carry it, and only coverage is tested every quarter. Spread is what a lender earns; the base rate is what the borrower endures. In a higher-for-longer world the second decides which loans survive, and it is the one term neither party controls.

SECTOR ROTATION

Read through the lens of a rate that stays high, the month's sectors sort by how much of their cash flow the coupon consumes.

Software

Software felt the reset first. Platform buyouts fell to a decade low as a higher cost of debt met an artificial-intelligence threat to the retention behind recurring-revenue multiples, and borrowers refinanced maturing loans into new facilities at higher yields, several struck against annual recurring revenue rather than cash flow. Recurring revenue is not recurring cash flow, and a floating-rate loan against a revenue line is doubly exposed: to the rate on the numerator and to the retention under the denominator.

Healthcare services

Healthcare remained the most active deployment sector, but higher-for-longer bites the labor-intensive roll-up models hardest, because wage inflation and a high coupon compress the same margin from both ends. Payer diversification and genuine local density separate the credits that can carry their debt from those that were relying on cheaper refinancing to come.

Industrials and building products

Tangible, cash-generative industrials and building-products businesses, several changing hands this spring through carve-outs, wear a high rate better than most: real assets, real pricing power, and cash conversion that does not depend on a growth story. Where cash flow is steady and leverage modest, a high coupon is a headwind, not a solvency question.

AI infrastructure

Capital continued to pour into data-center and compute assets even as the rate rose, on the thesis that contracted demand justifies the leverage. The unresolved question is one of coverage: whether long-dated, capital-intensive assets financed at a high floating rate generate enough contracted cash to service the debt before their technology ages, or whether the model quietly relies on refinancing that a higher-for-longer world makes dearer.

> **TELLARO READ-THROUGH**
> Coverage is the organizing question. The discipline is to underwrite each sector to the cash it produces against the coupon it owes: asset-light software exposed on both the rate and its retention; labor-heavy healthcare squeezed from two sides; tangible industrials better placed; and AI infrastructure only as sound as its contracted cash is long. Where a high coupon consumes the cash flow, no growth story services the debt. The rate is the tide, and it has stopped going out.

INVESTMENT COMMITTEE CASE STUDY

Each issue examines one transaction as Tellaro's investment committee would, using public information only. This month: Hg's take-private of the corporate-performance-management software company OneStream at an enterprise value of roughly $6.4bn, with Hg sharing the equity cheque with General Atlantic and the growth-equity firm Tidemark, and a portion of the financing provided by private credit. Debt terms were not fully disclosed. The credit is a clean test of the month's thesis: a software buyout underwritten into a rate that will no longer fall.

Business quality. OneStream is a well-regarded provider of finance and corporate-performance-management software to large enterprises, a mission-critical, sticky application with strong retention and a defensible position. It is a genuinely good business, which is precisely why it is a useful case: quality does not exempt a credit from the arithmetic of coverage.

Revenue durability. Recurring subscription revenue is high-quality and sticky; finance software is deeply embedded and costly to replace. The qualification is the one the whole sector now faces: artificial intelligence raises the long-run question of whether the category's seat-based and module-based pricing holds, and recurring revenue is durable only while retention and pricing both hold. Recurring revenue is not recurring cash flow.

Cash conversion. Mature enterprise software converts well once growth investment moderates, but a company taken private to keep growing will spend on sales and product, and the cash available to service debt is what remains after that spend, not gross margin. The lender must underwrite free cash flow after the growth the sponsors intend to fund, not the steady-state margin the model projects.

Customer concentration. Enterprise customer concentration is moderate and diversified across large accounts; the more relevant concentration is thematic, a book of customers all making the same software-spending decisions as artificial intelligence reshapes their budgets at the same time.

Capital structure and purchase multiple. At roughly $6.4bn the equity was deliberately split three ways, which itself tells a lender something: even sophisticated sponsors chose to share the equity rather than lever harder into a high-rate environment. A portion of the debt was provided by private credit, in the pattern now common for software, measured against recurring revenue. The attachment point for a senior lender depends entirely on how much equity sits beneath the debt, and the three-way equity cheque is, from the lender's chair, a point in the credit's favour.

Collateral. As with all software, the collateral is intangible: contracts, code and the enterprise value of a going concern. There is no hard-asset floor, so recovery depends on the business surviving as an operating whole, which in turn depends on retention holding through whatever stress prompted the default.

Sponsor. Hg is among the most capable software investors in the market, and its operational depth is a genuine mitigant; this is a lender's preferred kind of sponsor for a software credit. Capability does not change the coupon, but it improves the odds that the business grows into it.

Recovery analysis. Recovery turns on two variables the June backdrop has made harder. First, coverage: at a high, floating all-in rate, cash interest consumes a large share of the free cash flow a growth-oriented software company would otherwise reinvest, and a revenue wobble converts quickly into a coverage problem. Second, retention: because recovery depends on the going concern, and the going concern depends on the recurring-revenue base, a fall in retention lowers repayment probability and recovery severity at once. Recovery is not an output of underwriting; it is the product of it, and in software it must be engineered through a low attachment point and cash-flow-based sizing, not a multiple of recurring revenue.

Primary risks. First, coverage risk at a base rate that no longer falls. Second, artificial-intelligence disruption to retention and pricing. Third, a growth plan that consumes the cash needed to service debt. Fourth, the sector-wide reliance on refinancing that a higher-for-longer market makes more expensive. Fifth, the absence of hard-asset recovery if the going concern falters.

Structural mitigants. Debt sized to cash-flow coverage rather than a multiple of recurring revenue; a maintenance leverage or coverage covenant with genuine teeth; a low attachment point beneath the substantial three-way equity cheque; limits on debt-funded acquisitions; and information rights granular enough to see net revenue retention turn before it reaches the income statement.

> **INVESTMENT COMMITTEE VERDICT**
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> Would Tellaro lend? Conditionally, and only at a genuinely conservative attachment point sized to cash flow rather than recurring revenue. The business is excellent and the sponsors are among the best, which is exactly why the case is instructive: neither quality nor sponsorship changes the coupon, and in a higher-for-longer world the coupon is the test. A senior position struck low beneath a large equity cheque, covenanted on cash coverage and monitored on retention, is underwritable. A revenue-multiple loan into the same business is a bet that rates fall and retention holds, and June removed the first half of that bet. The relevant question is not what OneStream is worth, but what it can pay in cash while the base rate stays high.

DOCUMENTATION WATCH

June's documentation lesson is that the most important covenant in a higher-for-longer market is the one that tests cash, not leverage.

A leverage covenant measures debt against a backward-looking earnings figure that management can influence and add-backs can flatter. A cash-interest-coverage covenant measures whether the business actually generates the cash to pay its coupon, which is the question the June rate path has made binding. The two can diverge for a long time, and in a market full of add-backs and adjusted earnings, the coverage test is the one that fails honestly and early.

The mirror image is the payment-in-kind toggle, the most dangerous term in a higher-for-longer world. A PIK feature lets a borrower stop paying cash and capitalize its interest, which relieves coverage precisely by hiding the problem the coverage covenant would reveal. It is an option granted to the borrower, valuable to the borrower, and worth most in exactly the states of the world where the lender most needs to see the truth. Value covenants as options; a maintenance coverage test is a call the lender holds, and a PIK toggle is a call the lender has written.

The honest qualification is that coverage covenants have been competed away across much of the market, and that their absence will be felt only when the rate has done its slow work. The documentation being signed today will be tested by a base rate that, on current projections, has no intention of falling.

> **TELLARO READ-THROUGH**
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> In a higher-for-longer market, documentation should test cash and limit deferral. We believe the maintenance cash-coverage covenant, paired with hard limits on payment-in-kind and add-backs, will prove one of the few reliable protections as a high base rate does its slow work on over-levered structures. A leverage covenant asks what a borrower owes; a coverage covenant asks whether it can pay. Only the second is tested every quarter, and only the second tells the truth on time.

TELLARO UNDERWRITING VIEW

June does not change Tellaro's method; it restores an old variable to the center of it. The same three questions, where a loan attaches, what it would recover, and what its documentation is worth, are now asked against a base rate that has stopped falling, which returns cash coverage to its proper place as the first practical test a credit must pass.

The first question governs the cushion: attach low, beneath real equity, and prefer businesses bought at multiples and leverage that leave room to carry a high coupon. The second governs the emphasis of the month: favor cash flows that service debt in cash today, tangible industrials, diversified healthcare, businesses at modest leverage, and treat with caution the credits that depend on a rate cut to make their coverage work, richly levered upper-middle-market buyouts, asset-light software lent against recurring revenue, and any structure leaning on payment-in-kind to bridge the gap. The third governs the defense: a maintenance cash-coverage covenant, hard limits on PIK and add-backs, and information rights on the operating metrics that turn before the income statement does.

One further discipline follows from the month. Size debt to the rate that exists, not the one the sponsor projects. A model that requires the base rate to fall to clear its coverage test is not a credit; it is a rate view wearing a credit's clothes. The lender who underwrites to the forward curve as it stands is protected whether or not the cuts arrive; the lender who assumes the cuts is exposed precisely when they do not.

Spread is what a lender earns for lending; coverage is what tells the lender it will be repaid. When the base rate stops falling, only the second still does any work.

CONCLUDING OBSERVATIONS

June was the month the rate cut stopped being a plan and became a hope. The Federal Reserve held, and its own projections turned the other way, and with them went the quiet assumption that had underwritten three years of leverage: that time and lower rates would ease whatever a structure could not. They will not, or at least a lender may no longer assume they will. The businesses are, for now, paying their coupons and the default rate is low, but a high floating rate is a slow test, and it is administered every quarter to every borrower at once. The response is not alarm; it is arithmetic. Underwrite the coupon the borrower must actually pay, size the debt to the cash it actually produces, and keep the covenants that test cash and limit deferral. Spread is what a lender earns; the base rate is what the borrower endures, and in a higher-for-longer world the second decides which loans come back. The rate is the tide, and June was the month it stopped going out.

MARKET DASHBOARD

The dashboard is arranged to read as evidence for the issue's thesis rather than as a data table. Figures are drawn from public market data and, where a precise monthly reading is unavailable, from the latest reported period; such cases are estimates.

Metric	Current	Prior	Signal
Fed funds target range	3.50-3.75%	3.50-3.75%	Held in June; dot plot revised up
Year-end 2026 rate (dot plot)	~3.6-4.1%	~3.25-3.75% prior	The cuts have been taken away
SOFR (overnight)	~3.6%	~3.6%	The floating base is not falling
All-in first-lien yield	~8.0-8.5%	Lower a year ago	High income; a high, floating bill
Unitranche spread (MM)	SOFR + 475-550	Stabilizing to wider	Spread steady; the base rate is the story
MM leverage (upper vs lower)	5.2x vs 2.5x	Gap wide	Coverage risk concentrated at the top
MM entry multiple (upper vs lower)	13.4x vs 8.8x	Gap wide	The larger end resembles large-cap
H1 PE deal count (YoY)	~-67%	Higher	Fewer, larger, higher-conviction deals
Software platform buyouts	Decade low	Falling	Higher rates meet AI-retention doubt
Payment default rate	~1.1%	~1.1%	Low, and partly an artefact of PIK and A&E
PIK and amend-and-extend	Elevated	Rising	Deferral, not resilience
PE inventory overhang	~9 years	Rising	Exits scarce; refinancing dearer
BDC price / NAV	~0.85x	Discount persists	The public market prices the strain
Est. recovery (private credit)	~50c	~70c assumed	Recovery, not spread, defines the vintage