Tellaro Capital Partners
INSTITUTIONAL PRIVATE CREDIT · LOWER MIDDLE MARKET

WEEKLY MARKET MONITOR
CREDIT MARKET INTELLIGENCE

Weekly Market Monitor

WEEK ENDING 18 SEPTEMBER 2026

18 September 2026
Vol. 3 · No. 38

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

TELLARO WEEKLY VIEW

The Fed hiked, and signalled it is not finished. A unanimous 12-0 vote lifted the funds rate to 3.75% to 4.00%, the first increase since 2023, and the dot plot put 16 of 18 members behind at least one more move this year. Warsh was explicit that underlying inflation is not falling to target fast enough. The floating base rate has stepped up: overnight SOFR now prints near 3.90% and unitranche coupons reset roughly 25 basis points higher, with another increment likely by December. That income tailwind arrives with its mirror image. Borrower debt service rises in lockstep, compressing coverage that already sits at 1.6x. Underwrite the next vintage to a 4% base rate and defend fixed-charge headroom. Seniority and structure carry the book.

CREDIT CONDITIONS DASHBOARD

LEVEL · W/W · CONTEXT

RATES & CURVE

Fed funds target	**3.75-4.00%**	▲ +25bp; first hike since 2023
SOFR (overnight)	**3.90%**	▲ +25 w/w; new range
3M Term SOFR	**4.00%**	base rate; prices one more hike
2Y Treasury	**4.74%**	▲ +11 w/w
10Y Treasury	**5.00%**	▲ back above 5%
30Y Treasury	**5.34%**	near 2007 high

PUBLIC CREDIT

IG OAS	**82 bp**	little changed; still tight
HY OAS	**282 bp**	~flat; relief rally offset widening
HY index yield	**7.6%**	▲ with higher base rates
BSL single-B new-issue	**S+390**	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%**	▲ +25bp; steps up with hike
Direct lending spread	**S+525**	core MM unitranche
MM gross leverage	**6.1x**	median; steady
MM interest coverage	**1.6x**	compresses as base rises
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

A hiking Fed, not a one-off

Fact: the 12-0 vote to 3.75% to 4.00% came with a dot plot showing 16 of 18 members expecting another hike this year and four seeing two. **Why:** Warsh judged disinflation too slow. **Implication:** base rates trend toward a 4% handle into 2027. Model coupons and debt service to the higher path, not the single hike.

02

Income up, coverage down, in the same move

Fact: overnight SOFR reset near 3.90% and unitranche all-in yields step toward 9.4%. **Why:** floating assets and floating liabilities both reprice. **Implication:** portfolio yield rises while borrower fixed-charge cover, already 1.6x, tightens further. The net effect is dispersion. Reward accrues to credits with genuine free cash flow.

03

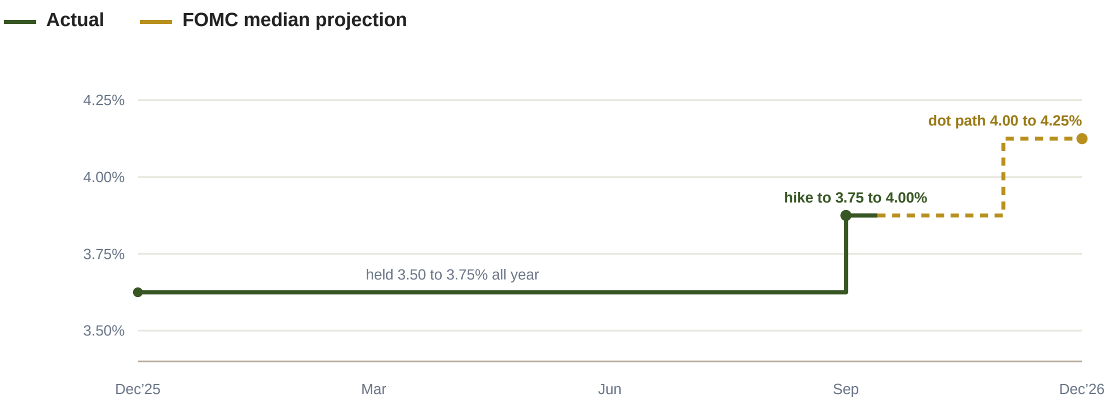
The long end will not settle

Fact: the 10-year closed the week back above 5.00% and the 30-year held near a 2007 high, though the hike was fully priced. **Why:** fiscal supply and an energy-driven inflation premium persist. **Implication:** the discount rate on enterprise value stays elevated. Entry multiples and exit assumptions must reflect a durable 5% long rate.

CHART OF THE WEEK

From holding to hiking: the funds rate and the dot-plot path

Where does policy go now? Federal funds target midpoint, actual and FOMC-projected.



Read: the Fed held at 3.50% to 3.75% for all of 2026, then lifted the range 25 basis points and signalled one more increase by year-end. For floating-rate lenders the pass-through is immediate: coupon income steps up now, with a second increment likely by December. The same path raises borrower debt service, so the vintages underwritten today must clear a 4% base rate to hold their coverage.

WEEK AHEAD

CATALYSTS FOR PRIVATE CREDIT

Mon 22 Sep on	**Fedspeak resumes**	With the blackout lifted, officials frame the path to the October and December meetings. Any signal of an October move reprices the front end again.
Tue 23 Sep	**S&P Global flash PMIs**	First post-hike read on activity. A soft services print tests whether a 4% base rate is starting to bite demand.
Fri 25 Sep	**August PCE**	The Fed's preferred gauge and the first inflation read framing the next hike. Watch energy pass-through into core.
27 to 28 Oct	**Next FOMC**	The dot plot points to one more hike by year-end. The base-rate path from here sets coverage math across the direct-lending book.

Sources: Federal Reserve (FOMC statement, Summary of Economic Projections and dot plot, Warsh press conference, 16 September 2026); Federal Reserve Bank of New York (SOFR); U.S. Treasury and FRED (DGS2, DGS10, DGS30); CME FedWatch; CNBC; Charles Schwab; U.S. Bureau of Labor Statistics; 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. Yield changes are week-over-week to 18 September; 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.