

Investment Committee Insights

September 2026

Institutional Private Credit | Senior Secured Lending



Rising, Not Merely High

For three years the question about rates was only when they would fall. On September 17 the Federal Reserve answered by raising them, the first hike since 2023 and, on its own projections, not the last. For a floating-rate asset class, a rising cost of capital is a different test from one that is merely high.

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

3.75-4.00%**FED FUNDS TARGET**

Raised 25bp on 17 September, the first hike since 2023, with another signaled.

~9%**ALL-IN FIRST-LIEN YIELD**

Rising with the base rate. A higher cash coupon for every floating-rate borrower.

\$138bn**LBO DEBT PIPELINE**

Buyout financing heading to market, the largest such supply since 2007.

2.5-6%**PRIVATE CREDIT DEFAULTS**

The gap between the narrow and broad measures is strain quietly deferred.

MARKET THESIS

On September 17 the Federal Open Market Committee raised the federal funds rate by a quarter point to 3.75% to 4.00%, its first increase since 2023, and signaled one more before the year is out. The chair called the move a removal of a dose of accommodation, language that tells a lender the Federal Reserve does not regard policy as restrictive even now. The base rate beneath every floating-rate loan is no longer merely high; it is rising.

Underwriting comes down to three judgements: where a loan attaches, whether its cash flow is defensible rather than merely recurring, and whether its structure will hold what the borrower cannot. A rising rate presses hardest on the second. For three years borrowers carried an elevated coupon on the expectation that it would fall; that expectation has been withdrawn, and a coupon that climbs consumes cash flow in real time. The question is no longer who can refinance, but whose cash flow can be defended against a cost of capital that is still going up.

The timing is awkward. The hike lands as the largest pipeline of buyout debt since 2007, some \$138bn, prepares to reach the market, asking lenders to fund at the top of the cost-of-capital cycle. Strain is already present and already disguised: payment defaults sit near 2.50% against a broader measure approaching six, the gap between them filled by amendments and payment-in-kind that defer a reckoning a rising rate will force. Accordingly, Tellaro treats the path the Federal Reserve is now signaling, not the cut the market spent three years awaiting, as the rate every new loan must be underwritten to survive.

CREDIT SIGNALS

Three patterns in the month's transactions, read as evidence of where the strain is building.

Signal 1: The first hike in three years changes the test, not merely the level.

Evidence. The Federal Reserve raised rates to 3.75% to 4.00% on 17 September in a unanimous vote, and its projections implied a further quarter point by year-end, to 4.00% to 4.25%. Term SOFR, near 3.65% to 3.85% through the summer, reset higher into quarter-end, carrying all-in first-lien yields toward 9.00%.

Interpretation. A high but stable rate is a burden a borrower can plan around; a rising rate erodes coverage with each reset. Leverage put on over three years was underwritten to a glide path of eventual cuts, and that path has turned

upward. The exposure sits with borrowers whose cash flow cannot be raised to meet a coupon that will not stop climbing.

Read-through: *underwrite to a coupon that rises, not one that holds; a model that needs the rate to stop climbing is a rate view, not a credit.*

Signal 2: A record pipeline of buyout debt meets the rising rate head-on.

Evidence. Roughly \$138bn of buyout-related debt is heading for US and European credit markets, the largest such pipeline since 2007, with much of the supply due between late September and early October. Leveraged loan funds recorded their strongest weekly inflows since January, and banks, wary of underwriting too much too quickly, are releasing deals in measured size.

Interpretation. Supply and the cost of capital are rising together. A wall of issuance gives a lender more to choose from, but the pressure to deploy arrives precisely as each loan costs the borrower more to carry. Heavy supply is a reason to be selective, not a license to relax.

Read-through: *let a crowded calendar sharpen selection, not loosen it; more to choose from is a reason to decline more, not less.*

Signal 3: Strain is already here, and already being deferred.

Evidence. Measured narrowly, payment defaults across senior and unitranche loans ran near 2.50% in the second quarter; measured broadly, a record of about six. The difference is not noise. It is amendments, maturity extensions and payment-in-kind, which convert a cash problem into a larger balance and a later date. One large semi-liquid vehicle held its quarterly redemption limit at 5.00% as requests pressed against it.

Interpretation. A low headline default rate in a rising-rate world measures how much strain is being postponed rather than resolved. Payment-in-kind relieves a coupon by capitalizing it, and a rising base rate makes that balance compound faster. The deferred interest accumulating now is the real state of the cycle.

Read-through: *read the gap between narrow and broad defaults as deferred loss, and price the next loan for a borrower who cannot lean on payment-in-kind to carry it.*

WHAT CHANGED IN UNDERWRITING

The change in September was in the base rate, not the spread. Unitranche spreads held in the familiar range of roughly 4.75% to 6.50% over SOFR, with a median near 5.37%, but the base beneath them rose and is set to rise again, carrying all-in first-lien yields toward 9.00%. The lender's compensation did not improve; the borrower's burden did.

The arithmetic is plain. A typical middle-market unitranche carries a minimum interest-coverage covenant near 2.5x. A business levered at five turns of EBITDA, paying an all-in rate that has climbed from roughly 8.00% to nearly 9.00% since the spring, sees its coverage fall by close to a tenth from the base rate alone, before any operating disappointment. For credits bunched just above their covenant, a second hike is the difference between compliance and breach, and a lender should know today which of its borrowers sit in that band.

The response is to underwrite coverage to the rate the market now projects, not the one the sponsor hopes for, and to reserve the most caution for borrowers whose only route to compliance is a cut that is not coming. How far the Federal Reserve will go is unknowable, and a lender is not paid to forecast it; a lender is paid to ensure a borrower survives the path being signaled, which is upward.

TELLARO READ-THROUGH

Size new debt to the rate the Federal Reserve is signaling, not the one a sponsor is hoping for, and reduce exposure to any borrower whose coverage clears only if the base rate falls. A loan that passes its covenants solely on a cut that is not coming was mispriced the day it was written.

SECTOR ROTATION

Sorted by whether cash flow can keep pace with a rising coupon, the month's sectors separate cleanly.

Software

Software is the most exposed. A floating-rate loan against a recurring-revenue line is pressured on the coupon by a rising rate and on the retention behind it by the spread of artificial intelligence. A subscription that renews is not the same as a cash flow that can be repriced, and a rising rate is least forgiving where revenue cannot be raised to meet it.

Insurance and financial services

Capital-light, fee-based businesses wear a rising rate best. Specialty broking, the subject of this month's case, earns commissions that scale with premium rates, which tend to rise with the same inflation keeping the Federal Reserve hawkish; the revenue leans into the force lifting the coupon. These are the credits a rising rate rewards.

Healthcare services

Healthcare sits in between. Demand is steady, but labor-intensive roll-ups face wage inflation and a higher coupon compressing the same margin from both ends, and a platform assembled on a blended multiple has little room for either. Pricing power and local density, not acquisition pace, decide which platforms can carry a rising rate.

Industrials and energy infrastructure

Tangible, cash-generative assets with real pricing power carry a rising coupon comfortably, and the collateral is real rather than a going-concern assumption. Here a rising rate does the least damage, provided leverage was modest to begin with.

TELLARO READ-THROUGH

Concentrate new lending in businesses that can reprice, insurance distribution, tangible industrials, defensible services, and step back from asset-light borrowers whose revenue is fixed or whose multiple a higher cost of capital will compress.

INVESTMENT COMMITTEE CASE STUDY

Each issue examines one transaction as Tellaro's investment committee would, using public information only. This month: EQT's agreement, announced on 4 September 2026, to acquire a majority stake in specialty insurance and reinsurance broker McGill and Partners from Warburg Pincus at an enterprise value of \$2.0bn, with the founder and management reinvesting. The business was founded in 2019 and generates revenue above \$250m across more than 600 staff and over 1,000 clients; the price is roughly double the guidance floated at the start of the year. Financing terms were not disclosed.

Business quality. Specialty broking is among the better models a lender meets: capital-light, intermediary rather than risk-bearing, earning recurring commissions for placing complex risks between clients and insurers. Revenue above \$250m from more than a thousand clients reflects a genuine franchise rather than a single relationship.

Revenue durability. Broking commissions are recurring and defensible: they scale with insurance premium rates, which rise with the inflation keeping the Federal Reserve hawkish, so the revenue line leans into the same force lifting the coupon. Unlike a software subscription, this cash flow can reprice.

Cash conversion. Asset-light broking converts well, with limited capital expenditure and modest working capital. The qualification is growth: a business compounding organically and by acquisition will reinvest, so a lender sizes debt to the cash left after that reinvestment, not before it.

Customer concentration. More than a thousand clients across seven countries makes commercial concentration low. The concentration that matters is human: in broking the client relationships travel with the brokers, and the loss of a senior team is the real analogue to customer loss.

Capital structure and purchase multiple. At \$2.0bn against revenue above \$250m, the business is valued at roughly 8.0x revenue and a high multiple of earnings, double the early guidance. The rich multiple is the principal caution: a large equity cheque and management reinvestment support the attachment point, but the attachment should be set against a sober view of earnings rather than the headline.

Collateral. As with most services businesses the collateral is intangible: contracts, relationships and the enterprise value of a going concern. Recovery depends on the franchise and its people remaining intact.

Sponsor. EQT is a large, capable owner acquiring through its flagship fund and partnering with a founder who is reinvesting rather than exiting. Warburg Pincus built the business over seven years and is selling in full, a clean, well-advised process that sets a genuine price.

Recovery analysis. Recovery rests on the recurring commission base. A senior lender attaching beneath a deep equity cheque, against cash flow that rises with premium rates and converts well, is unusually well placed for this market, provided it has not mistaken the high multiple for a thick cushion. The build is to size to earnings rather than revenue and to protect against the one event that would impair the franchise, the loss of its people.

Primary risks. First, the rich entry multiple, which thins the equity beneath the loan. Second, key-person and team-retention risk in a founder-led, talent-based firm. Third, a debt-funded acquisition appetite that could lever the platform faster than it deleverages. Fourth, a softer insurance-pricing cycle, which would slow the repricing that makes the revenue durable. Fifth, ordinary integration risk.

Structural mitigants. Debt sized to earnings rather than revenue, with coverage headroom for a further rate rise; retention and non-compete protections for the senior team, treated as covenants; limits on debt-funded acquisitions until the base business deleverages; a cash sweep; and information rights on organic revenue and broker retention, which turn before the income statement does.

INVESTMENT COMMITTEE VERDICT

Would Tellaro lend? Yes, and more readily than to almost any credit this month, because the cash flow is recurring, non-cyclical and able to reprice with the inflation lifting the coupon. The reservations are the rich multiple and the dependence on people, not the durability of the revenue. The decision: lend senior, attach low against a sober view of earnings rather than the \$2bn headline, carry explicit coverage headroom for a further hike, and protect the senior team in the documents. In a month when the cost of capital turned up, the credits worth owning are the ones whose cash flow can turn up with it.

DOCUMENTATION WATCH

In a rising-rate month the covenant that earns its keep is the one that tests cash coverage, and the term that quietly undoes it is the payment-in-kind toggle.

A rising coupon pushes an interest-coverage covenant toward its floor without any change in the business, which is precisely why the covenant is worth holding: it tells a lender, early and in cash terms, that a borrower is struggling to carry its debt. The payment-in-kind toggle is the mirror image. It lets a borrower stop paying cash and capitalize interest, relieving the ratio by hiding the strain the covenant exists to show, and a rising base rate makes the capitalized balance compound faster.

Concede the coverage covenant, or write a generous payment-in-kind option, and a lender gives up its earliest warning in the one environment where it is certain to be needed. These are not terms to trade for spread while the cost of capital is climbing.

Coverage covenants and payment-in-kind limits have been competed away across much of the market, and their absence will be felt only as the rate does its work. The documents signed this month will be read back under a higher rate than the one at which they were written.

TELLARO READ-THROUGH

Hold the maintenance cash-coverage covenant and refuse open-ended payment-in-kind on new deals, even at the cost of spread. In a rising-rate market the early-warning covenant is worth more than the incremental yield a lender gives up to win the loan without it.

TELLARO UNDERWRITING VIEW

September does not change how Tellaro underwrites; it sharpens the test. A rising cost of capital shows which credits were underwritten to the rate as it is and which to the rate a borrower hoped for, and it applies that test every quarter, to every floating-rate loan at once.

In practice, that means lending lower in the capital structure, against equity marked at a sober view of earnings rather than a re-rated multiple, since a rising rate compresses valuations and thins the cushion a lender counted on. It means preferring borrowers whose revenue can be repriced as their costs rise to those whose revenue is fixed, and declining any structure that balances only on a rate cut.

The clearest measure of a loan this year is not the spread it earned but the rate it can survive. A credit that clears its covenants at 4.00% and breaches them at four and a quarter was never really a loan; it was a bet that rates would fall.

Accordingly, Tellaro continues to lend to businesses that can service debt from operating cash flow rather than from the next refinancing, and to price every new loan for a rate that is still going up.

CONCLUDING OBSERVATIONS

September settled the long argument about rates in the wrong direction. For three years the market debated when the Federal Reserve would cut; on the seventeenth it raised instead, the first hike since 2023, and signaled another. For an asset class that lends floating, that is a change of test, not of degree. A high rate is a burden a sound borrower can carry; a rising one is a question put again at every reset, and it is already being answered with amendments and capitalized interest rather than cash. Spread compensates a lender for the loss it expects; whether the loss occurs is decided by where the loan attached and by whether the business can carry its coupon from its own cash flow. Accordingly, Tellaro continues to lend to businesses that service debt from operations rather than refinancing, to attach below equity marked at a sober view of earnings, and to price every new loan for a rate that is still going up. Readers will not remember this month's figures; they will remember that a loan is worth owning only when its cash flow can answer the rate each time it resets.

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	3.75-4.00%	3.75-4.00%	Raised 25bp on 17 September; first hike since 2023
Year-end 2026 rate (dot plot)	4.00-4.25%	4.00-4.25%	One more hike signaled; no cuts until 2028
Term SOFR (3-month)	~3.95%	~3.95%	The floating base reset higher into quarter-end
All-in first-lien yield	~9%	~9%	Rising with the base rate, not the spread
Unitranche spread	SOFR + 475-650	SOFR + 475-650	Median near 537; compensation for risk unchanged
LBO debt pipeline	~\$138bn	~\$138bn	Largest buyout-debt supply since 2007
Payment default rate (narrow)	~2.5%	~2.5%	Senior and unitranche, Q2 measure
Broad default / distress rate	~6%	~6%	The gap to the narrow figure is deferral
PIK and amend-and-extend	Elevated	Elevated	Capitalized interest compounds faster as rates rise
Min interest-coverage covenant	~2.5x	~2.5x	A rising coupon pushes borrowers toward the floor
Typical MM leverage	4.0-5.5x	4.0-5.5x	Most dangerous where coverage is already thin
Semi-liquid redemption cap	5% held	5% held	Requests pressing the limit; some capital is hot
Private credit AUM	~\$2tn+	~\$2tn+	Scale rising as the cost of capital rises with it
Est. recovery (private credit)	~50c	~50c	Decided at origination, not in the workout

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