



2026 Leveraged Loan Market Survey Executive Summary

Lenders Sound Caution Following Another Solid Year for Leveraged Credit

Leveraged credit markets enjoyed a second consecutive year of strong issuance volumes, further yield compression and tolerable levels of loan defaults in 2025. Leveraged loan spreads for BB and B rated corporate credits narrowed further and ended the year near their lows for this century. Nonetheless, it wasn't exactly an idyllic year for leveraged lenders: Loan default volumes remained above average, Liability Management Exercises ("LMEs") kept coming, heightened fraud concerns became a topic of conversation, new issuance volumes were still dominated by refinancing activity and leveraged M&A activity (including Leveraged Buy Outs ("LBOs")), though much improved thanks to some large value deals, didn't meet lofty volume expectations going into the year.

There were also some harrowing moments along the way, namely around reciprocal tariff rates posted by the Trump administration in 2Q25, when financial markets sold off fiercely amid concerns that proposed U.S. tariffs would trigger trade wars and derail the global economy. Such dire concerns proved to be overblown as tariff rate compromises were reached with major trading partners while retaliatory trade measures didn't materialize. Financial markets resumed their rallies once that threat had passed and never looked back even as geopolitical tensions escalated, the labor market weakened, inflation concerns lingered and the cryptocurrency ecosystem buckled. Through it all, equity and credit markets were undaunted as the year drew to a close.

Positive market momentum has carried into 2026 as most financial investors and market watchers fear being left behind more than they do very stretched valuations and unfavorable risk/return profiles for many speculative-grade credits. Market memory has only reinforced investors' belief that every pullback or correction over the last decade triggered by economic, financial or geopolitical concerns has been a profitable entry point that has rewarded those willing to put more capital at risk, and 2025 was no exception.

This was the backdrop against which we fielded our 8th Leveraged Loan Market Survey in late 2025. Overall, respondents were reasonably cautious in their outlooks and had measured expectations for leveraged lending and the broader economy in the year ahead, despite two consecutive years of outperformance and an upbeat tone in financial markets since 3Q25. For leveraged lenders and credit investors, the easiest returns have been made since 2023 and perhaps there is a recognition that fundamentals are not as favorable going into 2026. Moreover, this year's survey produced some notable differences in responses between traditional lender and private credit respondents, which would be indicative of some divergent views for these two distinct groups that inhabit the world of leveraged credit.

Some noteworthy responses include:

- **Leveraged Loan Yields Unlikely to Decrease Further:** Given the degree to which leveraged loan spreads have contracted since 2024, it is not surprising that most respondents expect loan yields to *widen slightly* (50%) or *materially* (7%) in 2026 compared to 43% of respondents who said yields will *contract slightly* (41%) or *materially* (2%) this year. There is little historical precedent for leveraged loan spreads to tighten further, so a decline in all-in yields will likely depend on a lower SOFR base rate.
- **Fed Funds Rate Cuts Expected to Moderate:** Expectations of more rate cuts by the Fed have diminished following six rate cuts totaling 175 bps since September 2024. Nearly three-quarters of respondents (73%) expect the targeted Fed Funds rate to end the year between 3%-4%, implying no more than two rate cuts in 2026, while just 20% expect a Fed Funds rate below 3% by year end. Consequently, most respondents don't believe that recent calls for aggressive rate cuts from the Trump administration will materialize.
- **Loan Defaults Will Remain Elevated:** More than three-quarters of respondents expect loan defaults and workouts will *increase slightly* (58%) or *increase substantially* (19%) in the year ahead compared to 2025 levels while just 23% said default and workout activity would *remain the same* (18%) or *be lower* (5%). This response is measurably more bearish than a year ago when 50% of respondents expected default activity to *increase slightly* (45%) or *substantially* (5%).
- **Recession is Unlikely But Not Improbable:** While 68% of respondents said the likelihood of a recession this year was *minor* (55%) or *negligible* (13%), nearly one-third of respondents said the chance of a U.S. recession in the next 12 months was *material* (28%) or *likely* (4%). This response pattern was consistent across bank and non-bank respondents and is notably more pessimistic than a year ago when just 15% said a recession was *material* or *likely*.
- **Most Expect Weak GDP Growth:** About 40% of respondents expect real domestic economic growth (GDP) to be *stagnant* (28%) or *negative* (12%) in 2026, while just 24% expect real GDP growth to exceed 2.0%. This response is much more pessimistic than last year when 62% of respondents expected GDP growth of at least 2.0% while just 12% expected economic *stagnation* (6%) or *contraction* (6%) in 2025.
- **Fraud Concerns Have Become More Prevalent:** The alleged mass frauds at First Brands and Tricolor have elevated lender concerns about fraud incidents and detection. Only 21% of respondents said they were *strongly confident* in the current level of fraud risk oversight in the leverage credit market, while 60% were *somewhat confident* and 19% were *not confident*. Interestingly, non-bank respondents (mostly private credit) were much more confident than bank lenders that such fraud instances were isolated incidents and that fraud risk oversight was sufficient.
- **Views on Private Credit Differ Materially by Respondent Groups:** Traditional bank lenders are more likely than non-bank lenders (which includes private credit respondents) to believe that private credit is most attractive to borrowers seeking aggressive loan terms and conditions that bank lenders often won't provide (37% vs. 17%), while non-bank lenders are more likely to believe that private credit has moved beyond middle market lending and competes with BSLs on many deals (31% vs. 17%). It's unsurprising that private credit respondents view themselves differently than traditional bank lenders view them. But can both these perspectives be accurate?
- **Underestimated Financial Market Risks Have Changed from a Year Ago:** Fewer respondents are concerned about inflation compared to a year ago (16% vs. 23%) and geopolitical events (14% vs. 34%), but more are concerned about overly aggressive earnings expectations (22% vs. 13%). Moreover, 21% of respondents said an AI investment crash was the most underestimated market risk for 2026 while 19% cited worsening political division and extremism.
- **New Federal Reserve Chair Likely to be a Politicized Choice:** A vast majority of respondents (81%) expect President Trump's selection of a new chairperson for the Federal Reserve will be an unconventional choice likely to weaken Fed independence while just 19% expect the new Fed Chair will be an institutional insider.
- **AI Impacts are Coming to the Restructuring Market:** A majority (53%) of respondents said AI impacts over the next few years will improve information flow to involved parties, though traditional bank lenders were more likely to cite that than non-bank lenders (61% vs. 42%). Furthermore, 45% of respondents said AI impacts will result in restructuring industry job cuts.

— Distress by Industry Sector: Respondents are clearly concerned about the consumer economy. Once again, Retail & Consumer Products was cited as the industry sector most likely to experience distress in 2026, but with more respondents naming it first this year than last year. Restaurants/Dining surged into second place followed by Healthcare, a perennial top industry of concern for respondents. Notably, Real Estate/Real Estate Investment Trusts (“REITs”) fell to seventh place this year compared to second place last year, suggesting that respondents believe the worst is over for that sector.

Survey Methodology

FTI Consulting surveyed large bank and non-bank lenders between November 18, 2025 and December 19, 2025, including commercial banks, investment banks, private credit platforms, CLOs and BDCs. Respondents included Chief Credit Officers, Workout Group Leaders, Managing Directors, Senior Vice Presidents, Executive Directors, Directors and Vice Presidents.

Survey Authors

CHUCK CARROLL

Leader, Senior Lender Advisory
+1 214.397.1603
charles.carroll@fticonsulting.com

DAVE KATZ

Senior Managing Director
+1 832.667.5215
dave.katz@fticonsulting.com

JOHN YOZZO

Managing Director, Research
+1 212.499.3624
john.yozzo@fticonsulting.com

JULIJA SIMIONENKO KOVACS

Senior Director, Research
+1 202.714.7976
julija.simionenko-kovacs@fticonsulting.com

The views expressed herein are those of the author(s) and not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, its affiliates, or its other professionals. *FTI Consulting, Inc., including its subsidiaries and affiliates, is a consulting firm and is not a certified public accounting firm or a law firm.*

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political and regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. ©2026 FTI Consulting, Inc. All rights reserved. fticonsulting.com



Additional Team Members

CLARK ANSEL

Senior Managing Director

BOB DEL GENIO

Senior Managing Director

CHUCK GOAD

Senior Managing Director

CHAS HARVICK

Senior Managing Director

PETER HEINZ

Senior Managing Director

ERIC HOULE

Senior Managing Director

CHRISTINE KIM

Senior Managing Director

DANIEL KOKINI

Senior Managing Director

JORDAN KRASNE

Senior Managing Director

LARRY MANNING

Senior Managing Director

BOB MEDLIN

Senior Managing Director

TANYA MEEROVICH

Senior Managing Director

JONATHAN MILLER

Senior Managing Director

JAN NAIFEH

Senior Managing Director

CHRIS NICHOLLS

Senior Managing Director

BILL NOLAN

Senior Managing Director

CHRIS PIZZO

Senior Managing Director

CHRIS POST

Senior Managing Director

ADAM RAUCH

Senior Managing Director

ANDY SCRUTON

Senior Managing Director

MICHAEL TUCKER

Senior Managing Director

DAN WIKEI

Senior Managing Director

BEN GOREN

Executive Vice President

CAITLIN APPLING

Managing Director

MEGAN HYLAND

Managing Director

MORGAN MCCASKEY

Managing Director

RONAK PATEL

Managing Director

CHRIS PIERCE

Managing Director

MAPLE ZHAO

Managing Director

ALLISON HUFNAGEL

Senior Research Analyst