YANNE CAPITAL

INSTITUTIONAL RESEARCH

Q1 2026 Credit Markets Retrospective and Q2 Forward View

What the private credit repricing means for growth-stage founders raising into the second half of 2026

Yanne Capital Research

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Executive Summary

The first quarter of 2026 closed with private credit AUM at approximately 1.9 trillion dollars globally (PitchBook, H1 2026 Private Credit report), a figure that undersells what actually happened inside the quarter. Spreads compressed. Terms tightened. Direct lenders that had spent 2024 winning share from broadly syndicated loan desks began losing pricing power to those same desks as the leveraged loan market repriced through January and February. The gap between direct lender all-in yields and B rated syndicated loan yields, which peaked at roughly 380 basis points in Q3 2024, closed to approximately 210 basis points by the end of March (S&P LCD US Loan Comparable, Q1 2026).

What this means for growth-stage founders is straightforward and largely unwelcome. The private credit alternative to a dilutive equity round, which had been genuinely attractive for revenue-generating companies through most of 2024 and 2025, is becoming less attractive at the margin. Not because the product got worse, but because underwriting got tighter. The median EBITDA multiple accepted by direct lenders on new unitranche facilities dropped from 6.1x in Q4 2025 to 5.4x in Q1 2026 (PitchBook, H1 2026). DSR floors moved from 1.20x to 1.30x on the same product. Financial covenant frequency, which had drifted toward covenant-lite through 2023 and 2024, reversed. Roughly 62 percent of new middle-market unitranche facilities in Q1 2026 carried at least one financial maintenance covenant, up from 41 percent a year earlier (S&P LCD, Q1 2026).

Across our advisory work in the first quarter of 2026, we observed a specific pattern in how founders were reacting to this shift. Companies with contracted revenue and clean cap tables continued to clear debt facilities on workable terms. Companies with lumpy revenue, concentrated customer bases, or unresolved preference stacks began seeing indicative term sheets that priced the risk, and then began seeing fewer term sheets at all. The market did not close. It filtered.

The Q2 forward view depends on three variables that will resolve over the next 90 days. First, whether the Federal Reserve holds the current policy corridor through the September meeting or moves earlier, which will set the base rate against which every direct lender prices. Second, whether the BSL market continues repricing tighter, which determines how much pressure sits on direct lender spreads. Third, whether LP flows into private credit funds slow enough that new deployment pressure eases, which would let underwriters hold their new tighter standards without pressure to loosen.

Our base case is that the tightening holds through Q3 2026 and begins to ease in Q4 as fund vintages age and deployment pressure returns. Founders raising debt between now and October should assume the tighter environment is the operative one, not the 2024 environment, and structure their conversations accordingly.

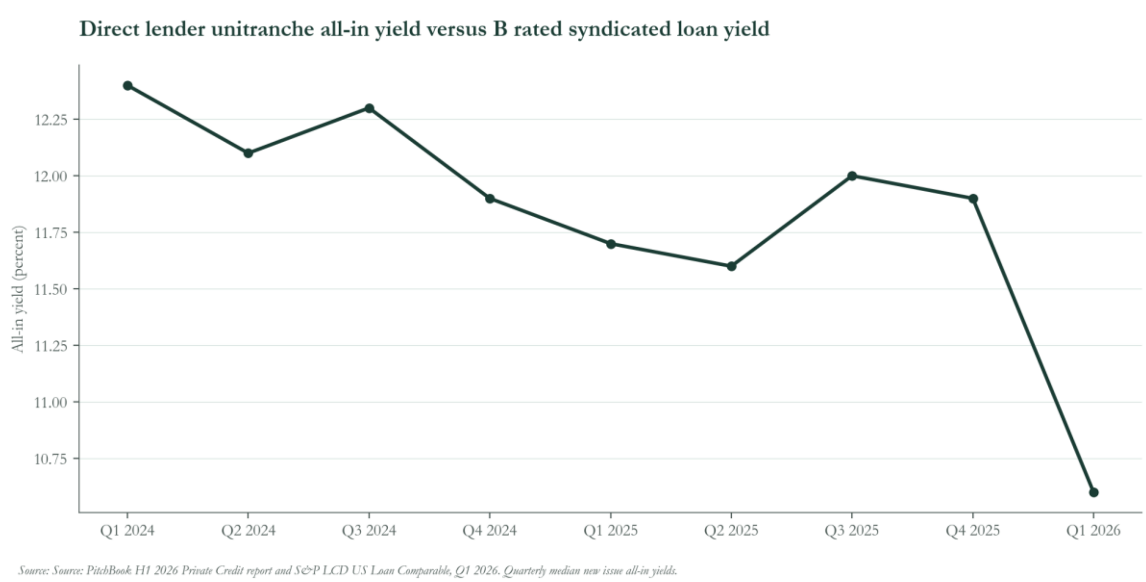
1. The setup: what actually happened in Q1 2026

The story of Q1 2026 in credit markets is the story of a repricing that started in the broadly syndicated loan market and worked outward. In the first two weeks of January, secondary prices on B rated leveraged loans traded back above par for the first time since Q1 2022 (S&P LCD, weekly loan trading report, January 2026). New issue clearing yields on B rated syndicated loans dropped from a Q4 2025 average of SOFR plus 425 basis points to SOFR plus 340 basis points by mid March.

That 85 basis point move is the number that matters. It reset the alternatives calculation for every corporate borrower with access to both the syndicated market and the direct lending market. For sponsors running LBO processes, the syndicated market suddenly offered pricing that had not been available for eighteen months. For growth-stage founders and their advisors, the shift arrived indirectly, because most growth-stage borrowers do not access the BSL market. The indirect route was through direct lender behavior.

Direct lenders responded to BSL repricing in two ways. On the largest end of the market, unitranche facilities in the 300 million dollar and above category compressed spreads by roughly 90 basis points quarter over quarter to hold share against renewed BSL competition (PitchBook, H1 2026). Below 100 million dollars in facility size, where BSL competition does not reach, direct lenders held spreads flat and tightened underwriting. That divergence, spread compression at the top of the market and underwriting tightening at the bottom, defined the quarter.

The growth-stage borrower typically sits in the second bucket. A revenue-based facility of 15 to 40 million dollars for a Series B or Series C company with 20 to 60 million dollars of ARR does not attract syndicated market interest. It sits inside the direct lending universe, and inside that universe it competes with sponsor-backed middle-market facilities where the credit profile is often cleaner. When underwriting tightens, the growth-stage borrower feels it first.



Source: PitchBook H1 2026 Private Credit report and S&P LCD US Loan Comparable, Q1 2026. Quarterly median new issue all-in yields.

2. The data: five evidence pillars

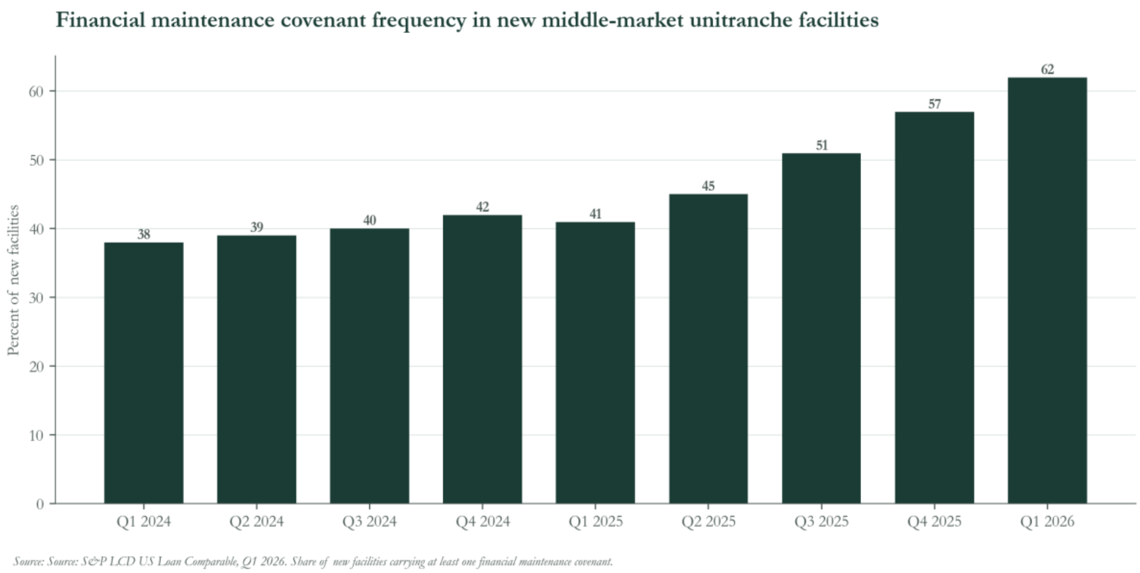
The first pillar is direct lender deployment pace. Private credit funds raised approximately 194 billion dollars globally in 2025 and entered 2026 with roughly 511 billion dollars of dry powder available for deployment (PitchBook, H1 2026 Private Credit). Deployment pace in Q1 2026, measured by committed capital across new facilities, ran at 68 billion dollars, roughly in line with the trailing four quarter average of 71 billion. Fund managers are deploying at pace, but they are choosing where.

The second pillar is spread and yield behavior. Median new issue direct lender unitranche yields dropped from 11.9 percent all-in in Q4 2025 to 10.6 percent in Q1 2026 (PitchBook, H1 2026). The 130 basis point drop was concentrated in the sponsor-backed segment. Non-sponsored borrowers, which includes most independent growth-stage companies, saw a smaller drop of approximately 55 basis points. The wedge between sponsored and non-sponsored pricing widened by 75 basis points across the quarter.

The third pillar is covenant behavior. Financial maintenance covenant frequency in new middle-market unitranche facilities rose from 41 percent in Q1 2025 to 62 percent in Q1 2026 (S&P LCD). DSR floors moved from a median of 1.20x to 1.30x. Total leverage covenants, which had largely disappeared from unitranche documentation through 2023 and 2024, appeared in roughly 34 percent of Q1 2026 facilities, up from 18 percent a year earlier. Documentation moved from borrower-friendly to lender-friendly across a single quarter.

The fourth pillar is the Federal Reserve overlay. The Fed held the target range at 3.75 to 4.00 percent through the January and March meetings (Federal Reserve H.4.1 releases, Q1 2026). SOFR closed March at 3.82 percent. Every direct lender floating rate facility is priced against SOFR, and every fixed rate facility is priced against the Treasury curve, which moved in a 30 basis point band across the quarter. The macro backdrop was stable. What moved was risk appetite, not the base rate.

The fifth pillar is the equity market context. Median growth-stage equity round pricing continued to trend flat quarter over quarter through Q1 2026 at revenue multiples of approximately 4.8x for growth-stage software and 6.2x for vertical AI (Carta State of Private Markets H1 2026). Down round frequency held at 21 percent of priced rounds, roughly consistent with H2 2025 (Cooley GO Q1 2026 Venture Financing Report). The equity market did not deteriorate. The debt market simply became harder to access on borrower-friendly terms, which shifts the equity-versus-debt calculation at the margin.



Source: S&P LCD US Loan Comparable, Q1 2026. Share of new facilities carrying at least one financial maintenance covenant.

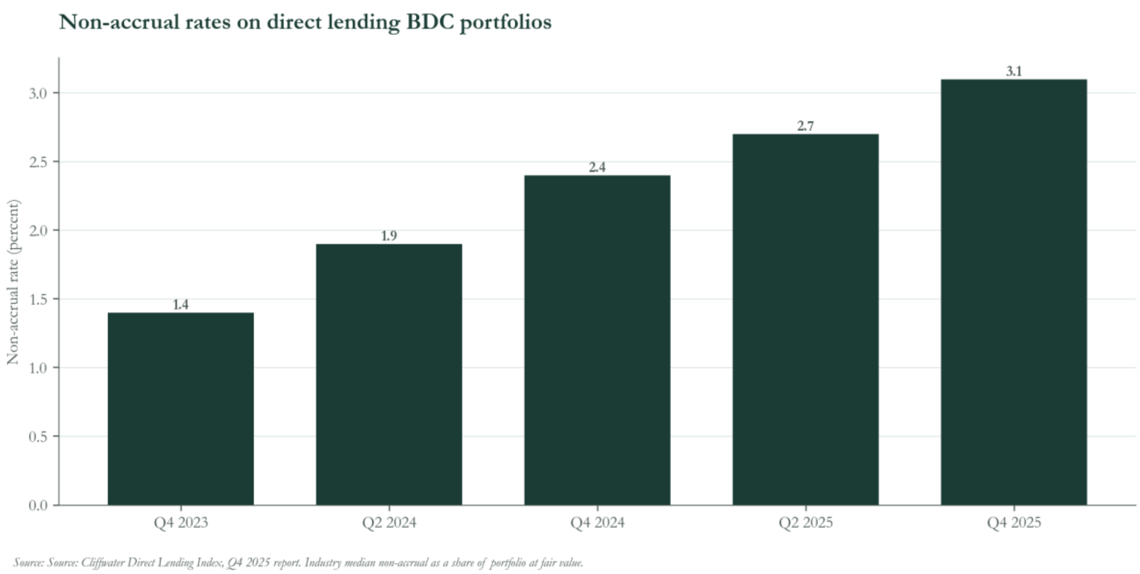
3. The analysis: why underwriting tightened when deployment pressure did not

The natural question is why underwriting tightened at all. Direct lenders are sitting on 511 billion dollars of dry powder. The typical fund has a five to seven year deployment window, and the average vintage in the current inventory is approximately 2.3 years old (PitchBook, H1 2026). Deployment pressure exists, and it is real. And yet in Q1 2026 underwriting moved tighter across the growth-stage borrower segment. Why.

The answer, based on the firm's advisory conversations across the quarter and on the underlying credit performance data, is that direct lender loss experience through 2024 and 2025 arrived. Non-accrual rates on direct lending BDC portfolios rose from a Q4 2023 industry median of 1.4 percent to a Q4 2025 median of 3.1 percent (Cliffwater Direct Lending Index, Q4 2025 report). The absolute level is not alarming by historical standards, but the trajectory is the fastest two year deterioration since the index began publication. Fund managers who ran through their first cycle of loss experience in the current portfolio adjusted underwriting on the next cycle of deployment.

Across our advisory work in 2025 and 2026, we observe that the borrowers who cleared debt facilities most readily in Q1 2026 shared three characteristics. They had contracted revenue that survived a customer concentration test, meaning no single customer above 15 percent of ARR. They had cap tables that resolved cleanly, meaning no unresolved preference stack from a prior round that would sit above the new debt. And they had management teams that could produce a rolling 13 week cash forecast on request. The third item sounds procedural. It is not. It is the single fastest way for a direct lender to distinguish a company that understands its cash cycle from one that does not.

The borrowers who did not clear in Q1 2026 were not fundamentally worse companies. They were companies where any one of those three characteristics was missing, and in the current environment direct lenders are declining to underwrite around a missing characteristic rather than pricing around it. That is the shift from 2024. In 2024, a company with concentrated revenue could get a facility priced 200 basis points wider. In Q1 2026, the same company gets a term sheet at the same pricing as the clean borrower or gets no term sheet at all.



Source: Cliffwater Direct Lending Index, Q4 2025 report. Industry median non-accrual as a share of portfolio at fair value.

4. The framework: how to evaluate a debt facility in the current environment

A workable framework for evaluating a debt facility in the Q2 2026 environment has four inputs, and the order matters. The first input is not price. The first input is covenant fit.

Covenant fit means running the company's actual rolling four quarter forecast against the covenant package the lender is proposing. If the DSR floor is 1.30x, the question is whether the forecast holds 1.30x through the trough quarter of the forecast period, not the average. If the total leverage covenant is 3.5x, the question is whether the forecast holds 3.5x through the peak leverage quarter. Facilities that price attractively but breach in the trough or peak quarters are not attractive facilities. They are landmines. Covenant breach in the current environment does not mean a repriced amendment. It often means the lender using the breach to renegotiate the entire facility on materially worse terms, because the borrower has no alternative.

The second input is capital structure fit. If the company has existing preferred equity with participation rights or a liquidation preference above 1x, the debt sits above that preference in the waterfall but the equity holders sit above the operating team in every consent decision. The question is whether the preferred equity holders will consent to the debt covenants, and specifically to any change of control or asset sale restrictions. Deals that get to signed term sheet and then die at the preferred equity consent stage are the most expensive deals to run, because the founder pays advisory fees on a dead process.

The third input is price, and price in the current environment has two components. The stated coupon, which is what most founders anchor on, is the smaller component. The all-in yield including original issue discount, commitment fees, prepayment penalties, and any equity kicker is the larger component. In Q1 2026, the median gap between stated coupon and all-in yield on non-sponsored unitranche facilities was approximately 240 basis points (PitchBook, H1 2026). Founders who negotiate the stated coupon without negotiating the all-in yield are negotiating the wrong number.

The fourth input is optionality. Prepayment terms matter more than founders typically believe. A facility with a hard call at par after month 24 and a soft call before that is a very different facility from one with a make-whole through maturity. In a rate environment that is likely to ease through 2027 and 2028, the ability to refinance at year two or three is worth a meaningful amount of stated coupon. Founders who accept restrictive prepayment terms to get a lower stated coupon are trading the wrong two variables.

5. Sector considerations: where the tightening bit hardest

The tightening did not distribute evenly across sectors. Three segments felt disproportionate pressure in Q1 2026.

The first is vertical AI application companies at Series B and Series C stage. Direct lenders continued to fund these companies through 2025 when the revenue profile was contracted and recurring. In Q1 2026, several major direct lending platforms began treating vertical AI revenue with a haircut for renewal risk, on the view that customer switching costs in AI-first workflow tools are lower than the retention data currently reflects. The result was that vertical AI companies at 20 to 40 million dollars of ARR that would have cleared 25 million dollar facilities in 2024 saw indicative facility sizes closer to 15 to 18 million dollars in Q1 2026, on tighter covenants.

The second is consumer subscription businesses. Cohort based churn analysis became a standard diligence request in Q1 2026 across the direct lending universe, not just the growth equity universe. Direct lenders that had underwritten consumer subscription facilities on aggregate net revenue retention began requesting month by month cohort tables going back 24 months. Facilities that had cleared in Q4 2025 on a NRR conversation did not clear in Q1 2026 without the cohort detail.

The third is capital-intensive climate and industrial technology. This segment is not typically a direct lending target, but a number of specialty lenders and infrastructure debt funds had been extending facilities in 2024 and 2025 against contracted project revenue. In Q1 2026, several of those specialty lenders pulled back from the growth-stage segment entirely, citing project completion risk and offtake counterparty concentration. The withdrawal was not dramatic in volume, but it removed a category of borrower option that had existed a year earlier.

The sectors where clearing remained closest to 2024 conditions were healthcare technology with contracted payer revenue, B2B software with net revenue retention above 115 percent and low customer concentration, and defense-adjacent technology companies with contracted government revenue backed by prime contractor pass-through. In each of these segments, the underlying credit profile continued to justify facilities on terms that would have been available in Q4 2024.

6. Case studies: three anonymized situations from the quarter

The three cases below describe situations we observed in the quarter. Details have been generalized to prevent identification.

The first involves a vertical software company at approximately 32 million dollars of ARR, growing 45 percent year over year, with net revenue retention of 118 percent and a customer concentration profile where the top ten customers represented 34 percent of ARR. In Q4 2025 the company had received indicative interest from three direct lenders on a 30 million dollar unitranche facility at approximately SOFR plus 725 basis points with a 1.20x DSR floor. The company delayed the process into Q1 2026 to pair the debt facility with a smaller equity extension. When the process restarted in February, the same three lenders returned with indicative terms on a 22 million dollar facility at SOFR plus 775 basis points with a 1.35x DSR floor and a new total leverage covenant of 3.25x. The company took the smaller facility on the tighter terms because the equity extension was no longer available on acceptable pricing. The lesson is that debt-equity sequencing matters, and the option to pair the two often has a shorter shelf life than founders expect.

The second involves a healthcare technology company with contracted payer revenue and approximately 48 million dollars of trailing revenue. The company ran a debt refinancing process in February and March. Six direct lenders returned term sheets. The dispersion in indicative pricing across the six was approximately 180 basis points from tightest to widest, and the dispersion in DSR floors was 0.25x. The lender that offered the tightest pricing offered the loosest covenants. This is not the pattern most founders expect. In the current environment, lenders with the strongest views on the credit are willing to compete on both dimensions simultaneously, and lenders with weaker conviction price wider and cover with tighter documentation. Running the full process with all six was worth several hundred basis points of implied cost over the life of the facility.

The third involves a consumer subscription company at approximately 55 million dollars of ARR that had received a soft indication from a direct lender in December 2025 on a 25 million dollar facility. When the diligence request in January expanded to require monthly cohort tables and the cohort data revealed a year two retention profile below the industry benchmark for the vertical, the lender declined. The company ran a second process in March with a specialty consumer lender that was familiar with the retention pattern in the vertical. The second lender cleared at a materially higher spread but with covenants that reflected the cohort profile realistically. The takeaway is that lender fit inside a sector is often narrower than founders assume, and the second best lender in a segment can produce a workable outcome when the first best lender has moved off the risk.

Case Studies

Vertical software, 32M ARR: debt-equity sequencing lost across the quarter turn

A vertical software company at approximately 32 million dollars of ARR, growing 45 percent year over year, with net revenue retention of 118 percent and top-ten customer concentration of 34 percent, delayed a Q4 2025 debt process into Q1 2026 to pair the facility with an equity extension. When the process restarted in February, indicative terms had moved from a 30 million dollar facility at SOFR plus 725 basis points and a 1.20x DSR floor to a 22 million dollar facility at SOFR plus 775 basis points, a 1.35x DSR floor, and a new 3.25x total leverage covenant. The equity extension was no longer available on acceptable pricing. The lesson is that debt-equity sequencing matters, and the option to pair the two often has a shorter shelf life than founders expect.

Healthcare technology, 48M revenue: running the full process paid

A healthcare technology company with contracted payer revenue and approximately 48 million dollars of trailing revenue ran a debt refinancing process across February and March. Six direct lenders returned term sheets. Dispersion in indicative pricing was approximately 180 basis points from tightest to widest, and dispersion in DSR floors was 0.25x. Contrary to the usual pattern, the lender offering the tightest pricing also offered the loosest covenants. In the current environment, lenders with the strongest views on the credit compete on both dimensions simultaneously. Running the full process with all six was worth several hundred basis points of implied cost across the life of the facility.

Consumer subscription, 55M ARR: cohort diligence changed the outcome

A consumer subscription company at approximately 55 million dollars of ARR received a soft December 2025 indication from a direct lender on a 25 million dollar facility. When the January diligence request expanded to require monthly cohort tables and the year-two retention profile came in below the vertical benchmark, the lender declined. A March process with a specialty consumer lender familiar with the retention pattern in the vertical cleared at a materially higher spread but on covenants that reflected the cohort profile realistically. Lender fit inside a sector is often narrower than founders assume, and the second-best lender in a segment can produce a workable outcome when the first-best lender has moved off the risk.

Forward Look: 12-Month Outlook

The base case for Q2 through Q4 2026 has three components. First, we expect the tightening in direct lender underwriting to hold through Q3 and begin to ease in Q4 as 2024 and 2025 fund vintages age and deployment pressure returns. Second, we expect the wedge between sponsor-backed and non-sponsored pricing to persist through year-end at roughly the current 75 basis point gap, because the underlying credit differentiation that opened the wedge in Q1 has not resolved. Third, we expect the Federal Reserve to hold the current policy corridor through the September meeting and, at earliest, a first cut of 25 basis points in Q4 2026, which would tighten the direct lender spread environment further as base rates ease but spreads compress by less. For growth-stage founders planning to raise debt between September 2026 and February 2027, the operative assumption should be that the current environment persists. Founders who need to raise on 2024 terms will find it easier to raise equity than to force debt on terms that do not exist. Founders whose credit profile fits the current lender preference for contracted revenue, resolved cap tables, and clean cash forecasting will find the market open and pricing rational.

Conclusion

If you are running a growth-stage debt process between now and February, or evaluating whether a debt facility can replace a portion of an equity round, reach out at contact@yannecapital.com. Yanne Capital is an independent boutique investment bank advising growth-stage companies on equity, debt, and M&A transactions across 26 sectors, with 240+ closed deals and relationships with 3,500+ institutional investors globally. We are your trusted filter between noise and signal.

Frequently Asked Questions

What happened in private credit markets in Q1 2026?

Private credit markets in Q1 2026 saw a repricing driven by the broadly syndicated loan market. Median new-issue direct lender unitranche yields dropped from 11.9 percent all-in in Q4 2025 to 10.6 percent in Q1 2026, but underwriting tightened simultaneously. Financial maintenance covenant frequency in new middle-market unitranche facilities rose to 62 percent, up from 41 percent a year earlier, and DSR floors moved from a median of 1.20x to 1.30x. The gap between direct lender all-in yields and B rated syndicated loan yields compressed from approximately 380 basis points in Q3 2024 to approximately 210 basis points by the end of March 2026.

Why did direct lender underwriting tighten when 511 billion dollars of dry powder was available for deployment?

The tightening was driven by loss experience arriving in fund portfolios. Non-accrual rates on direct lending BDC portfolios rose from a Q4 2023 industry median of 1.4 percent to a Q4 2025 median of 3.1 percent, the fastest two-year deterioration since the Cliffwater Direct Lending Index began publication. Fund managers who ran through their first cycle of loss experience adjusted underwriting on the next cycle of deployment. Deployment pace remained roughly in line with the trailing four-quarter average, but the criteria for what cleared shifted meaningfully toward borrowers with contracted revenue, resolved cap tables, and disciplined cash forecasting.

How should a growth-stage founder evaluate a debt facility in the current environment?

Evaluate in four steps and hold the order. First, covenant fit: run the company's rolling four-quarter forecast against the proposed covenant package through the trough and peak quarters, not the average. Second, capital structure fit: confirm existing preferred equity holders will consent to the debt covenants, particularly around change of control and asset sale restrictions. Third, price: focus on all-in yield including original issue discount, commitment fees, prepayment penalties, and equity kickers, not the stated coupon. In Q1 2026, the median gap between stated coupon and all-in yield on non-sponsored unitranche facilities was approximately 240 basis points. Fourth, optionality: prepayment terms matter more than founders typically believe in a rate environment likely to ease through 2027 and 2028.

Which sectors saw the most tightening in Q1 2026 private credit?

Three segments felt disproportionate pressure. Vertical AI application companies at Series B and Series C stage saw indicative facility sizes shrink by roughly one-third as direct lenders began haircutting AI revenue for renewal risk. Consumer subscription businesses faced expanded cohort-level diligence requests that killed facilities previously clearing on aggregate net revenue retention. Capital-intensive climate and industrial technology saw specialty lenders withdraw from the growth-stage segment entirely, citing project completion and offtake counterparty concentration risk. Sectors where clearing remained closest to 2024 conditions included healthcare technology with contracted payer revenue, B2B software with net revenue retention above 115 percent, and defense-adjacent technology with contracted government revenue.

What is Yanne Capital's Q2 through Q4 2026 outlook for private credit?

Yanne Capital's base case is that the Q1 2026 tightening in direct lender underwriting holds through Q3 2026 and begins to ease in Q4 as fund vintages age and deployment pressure returns. The wedge between sponsor-backed and non-sponsored pricing is expected to persist through year-end at roughly the current 75 basis point gap. The Federal Reserve is expected to hold the current policy corridor through the September meeting with the earliest cut of 25 basis points possible in Q4 2026. Founders planning to raise debt between September 2026 and February 2027 should assume the current tighter environment persists rather than 2024 conditions.

What is Yanne Capital?

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