

A WORD FROM CHURCHILL

# Beyond the Noise: Finding Value in Middle Market Private Credit

**What are you seeing in US private credit activity as 2026 gets underway?**

US private credit activity has started 2026 on a strong footing, following a year characterized by uneven conditions and episodic volatility. Deal flow is being driven by several sources. Refinancings remain active as sponsors revisit capital structures established during a higher-rate environment. M&A pipelines are reopening as buyer-seller gaps narrow. Extended hold periods have constrained distributions to LPs, creating incentives for sponsors to transact as investment periods mature.

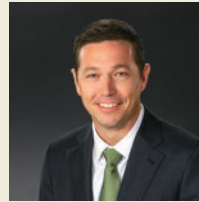
From our vantage point, this activity is tangible. Despite a pause following tariff announcements earlier in the year, 2025 concluded with a record Q4 for us, delivering a record year of investment activity at \$16 billion. Based on our robust pipeline through February, 2026 may be positioned for strong activity as well.

However, discipline remains essential. Recent years have reinforced that precise forecasting is an unreliable foundation for investment decision-making. Our focus remains on selectivity, structure, and consistent deployment in an environment where conditions can still shift.

**Where are you seeing the most compelling opportunities within US private credit today?**

Overall, private markets continue to expand, with alternatives AUM projected to grow from approximately \$20 trillion in 2025 to more than \$30 trillion by 2030. Growth at this scale is sustaining competition across parts of the market, reinforcing the importance of discipline.

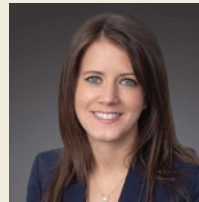
Yet dynamics vary meaningfully by segment. Despite overall growth in the US private credit market, the traditional middle market—companies with EBITDA below \$100 million—has arguably become less crowded in recent years. We have observed some participants shifting up the deal-size spectrum and dipping into public debt markets, while many smaller managers have moved downward. We continue to feel well-positioned in our market, which we expect to remain active based on recent trends and the fundamentals previously mentioned.



**Derek Fricke**  
*Senior Managing Director, Head of Direct Investments, Junior Capital & Private Equity Solutions*

Derek Fricke is a Senior Managing Director at Churchill and the Head of Direct Investments for the Junior

Capital & Private Equity Solutions investment team. He is responsible for capital raising, sourcing and underwriting investments, as well as portfolio management for the firm’s junior debt, structured capital and equity co-investment strategies.



**Jill White**  
*Managing Director, Head of Underwriting & Portfolio Management*

Jill White is a Managing Director and the Head of Underwriting & Portfolio Management at

Churchill, focused on the firm’s Senior Lending strategy. She is responsible for overseeing the screening, staffing and underwriting of new transactions as well as managing ongoing portfolio activity.

Traditional middle market lending spreads have stabilized in the 450 to 525 basis-point range, broadly in line with historical averages, while leverage levels have moderated. These fundamentals—moderate leverage paired with compelling all-in yields around 9%—may represent an area of opportunity for investors looking to complete their private credit exposure while maintaining disciplined underwriting standards.

We believe the traditional middle market is where sponsor relationships run deepest and where we seek to add the most value. Whether that’s senior lending for a new platform acquisition, junior capital to support a transformative add-on, secondaries, or co-investment, the depth of those relationships creates the potential for proprietary deal flow and repeat business.

The traditional middle market also offers strong diversification benefits, with nearly 200,000 middle market companies across varied industries and business models. This creates a far broader opportunity set than concentrated public markets. Our focus is to source and underwrite assets that have shown strength and resilience over the past several years and exhibit the mission-critical, non-deferrable characteristics that make great borrowers.

### **How do you think about yields in a declining rate environment?**

Lower interest rates naturally lead to lower base rates and yields on floating-rate investments, including middle market loans. However, direct lending has historically demonstrated value in both rising and declining rate environments, thanks to its interest rate floors and relative performance advantages. For example, investors who recently took exposure to junior capital, which tends to have higher fixed-rate exposure, may benefit from locking in attractive yields on paper put into recent vintages, helping mitigate yield compression within their portfolios.

What's critical to understand is that lower rates support credit fundamentals more broadly. They have the potential to enhance portfolio company cash flow, improve access to capital, and enable strategic reinvestment and growth. Lower rates have also historically catalyzed M&A activity, which we're seeing now. That tends to broaden the universe of new deals and creates refinancing opportunities within existing portfolios.

### **What sort of creative GP solutions does today's market environment require?**

Beyond senior lending, we're seeing sponsors increasingly need partners who can provide full-spectrum solutions across the capital structure.

Junior capital plays an important role in providing sponsors with enhanced flexibility. Bifurcated capital structures incorporating PIK-toggle features can allow borrowers to defer interest payments and amortization and reinvest capital into value-creation initiatives. For lenders, these structures may offer enhanced cash yields, illiquidity premiums, and potential equity participation through warrants, kickers, or conversion features, aligning borrower flexibility with lender risk-adjusted return objectives.

There's also growing demand for capital solutions—supporting existing portfolio companies through periods of dislocation. These generally aren't rescue capital situations, but rather

fundamentally sound businesses facing idiosyncratic challenges or capital structure constraints, where incremental capital may help extend runways and create time for value-creation plans to play out. When deployed with discipline, these situations can offer countercyclical entry points, enhanced downside protection, and opportunities to deepen sponsor relationships.

Extended hold periods have created pressure to return capital to investors while retaining high-performing assets. GP-led continuation vehicles have emerged as a mainstream response—they can offer LPs liquidity options while enabling GPs to continue building value in their best companies. GP-led transactions have become a significant part of the secondaries market and remain an important piece in portfolio management strategies.

The common thread across all these solutions is partnership. GPs want to work with capital partners they trust, who understand their portfolios, and who can move quickly when opportunities or challenges arise. The ability to deliver tailored solutions consistently, at scale, has become a critical differentiator.

### **As outcomes diverge, what should investors focus on when allocating to middle market lending over the long term?**

As markets normalize, differences in underwriting discipline, portfolio construction, and execution are becoming more visible, contributing to widening dispersion across middle market lending outcomes. While headline default rates have remained relatively modest, stress often emerges with a lag, reinforcing the importance of manager selection.

For investors, the focus increasingly centers on experience across cycles and the ability to remain disciplined as conditions evolve. Periods of volatility tend to act as a clarifying force, differentiating approaches built for durability from those optimized for scale during more benign conditions.

Equally important is pacing. Attempts to time the market can introduce unintended risk, particularly in an asset class where opportunities arise unevenly. Steady, programmatic commitment pacing across vintages can help smooth variability and maintain access to opportunities across different environments.

Taken together, these dynamics reinforce middle market lending's potential as a long-term allocation. We believe outcomes are significantly influenced by discipline, consistency, and manager selection rather than short-term macro precision.

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