MORNINGSTAR Indexes

Morningstar Leveraged Loan Index Monitor: Q2 2026

Leveraged loans rebound as spreads tighten, though US software sector weakness persists.

Morningstar
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Contents

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Executive Summary

This is the latest installment of the Morningstar Leveraged Loan Index Monitor, which is designed to help investors stay on top of the latest trends in the leveraged loan market through the lens of three Morningstar Leveraged Loan Indexes: the Morningstar LSTA US Leveraged Loan Index, the Morningstar European Leveraged Loan Index, and the Morningstar Global Leveraged Loan Index.

Key Takeaways

- In the second quarter of 2026, the Federal Reserve held the federal-funds rate steady amid persistent inflation, leaving leveraged loans sensitive to movements in credit spreads rather than base rates.
- The Bank of England maintained the Bank Rate at 3.75% at its June 2026 meeting, giving policymakers time to assess how the energy shock is propagating through the UK economy before committing to further action. The European Central Bank raised the key ECB rates to 2.25% in June in response to inflationary pressures.
- Second-quarter 2026 Treasury yields moved higher across the curve, led by the intermediate segment, where yields between two and seven years rose by an average of approximately 30 basis points. Longer-dated yields increased more modestly, resulting in a flatter yield curve as persistent inflation concerns and a cautious Federal Reserve stance kept upward pressure on front-end and belly rates.
- Declining spreads fueled a broad-based recovery across leveraged loans, resulting in positive returns during the quarter. The Morningstar European Leveraged Loan Index delivered the highest return at 2.90%, followed by the Morningstar Global Leveraged Loan Index at 2.13%, while the Morningstar LSTA US Leveraged Loan Index returned 1.88% in the second quarter.
- Credit spreads tightened during the quarter, putting downward pressure on yields. Spread to maturity decreased by 11 basis points in the US and 42 basis points in Europe.
- Leveraged loan issuance slowed in the US during the quarter, falling to USD 185 billion from USD 222 billion, while European issuance continued to strengthen, rising to EUR 62 billion from EUR 60 billion previously.
- B-rated credits led performance across both the US and European leveraged loan markets during the quarter, while CCC-rated credits also recovered following their weaker returns in the previous quarter.

Market Update

Federal Reserve Holds Rates Steady Amid Persistent Inflation and Geopolitical Uncertainty

The Federal Reserve maintained the federal-funds rate at 3.50%–3.75% in its June 2026 meeting, reflecting a cautious stance in response to ongoing inflationary pressures and elevated uncertainty stemming from global events, particularly the conflict in the Middle East. Policymakers highlighted strong productivity growth and capital investment, while noting that supply shocks—especially in energy—continue to drive price increases. The decision to keep rates unchanged underscores the Fed's commitment to anchoring inflation expectations and supporting financial stability, even as market participants remain attentive to the risk of further price pressures in the near term.

Recent GDP data from the Bureau of Economic Analysis shows real GDP annualized growth of 2.1% in the first quarter of 2026, a modest acceleration from the previous quarter[1]. Investment, exports, government spending, and consumer activity contributed positively, while increased imports had a negative impact. The Personal Consumption Expenditures Price Index rose 4.6%, and core PCE inflation registered 4.4%, both remaining above the Fed's longer-term target[2].

The integrated macro-outlook remains cautiously optimistic. While growth has stabilized and inflation expectations are well anchored, persistent supply-side disruptions and geopolitical risks pose challenges for the policy trajectory. The Fed's decision to hold rates signals a preference for stability as it monitors incoming data and global developments. Investors should expect continued vigilance from policymakers, with the potential for further adjustments if inflationary pressures intensify or growth falters. The balance of risks remains tilted toward inflation, but resilient economic fundamentals provide a buffer against downside shocks.

Bank of England Holds Bank Rate at 3.75% as Energy Shock Clouds Outlook

The Bank of England maintained the Bank Rate at 3.75% at its June 2026 meeting. The decision reflects a judgment that the tightening in financial conditions since the onset of the Middle East conflict is already providing meaningful restraint, giving policymakers time to assess how the energy shock is propagating through the UK economy before committing to further action.

CPI inflation held at 2.8% in May, unchanged from April but down from 3.3% in March, though the BOE now expects inflation to run a little under 3% in the third quarter and pick up to a little over 3.25% in the fourth quarter as higher energy costs continue to pass through[3]. On the growth side, UK GDP rose 0.6% in first quarter of 2026, marginally above the April projection, though business surveys point to weaker underlying momentum of around 0.2% per quarter, alongside a gradually loosening labor market.
The near-term policy path hinges on whether second-round effects in wages and prices materialize. With household inflation expectations having risen materially since the conflict began, the risk balance is tilted to the upside, but subdued demand and emerging economic slack argue for patience. Aside

1 GDP growth rates data source: Bureau of Economic Analysis, US Department of Commerce, released on June. 17, 2026.
2 Real GDP growth rates projections data source: FOMC Projection Material, Federal Reserve.
3 Real GDP growth rates and inflation projections data source: Bank of England June 2026 Monetary Policy Statement.

from a renewed spike in energy prices, the current hold is likely to persist, with the next move dependent on how quickly geopolitical pressures ease.

ECB Raises Rates as Middle East War Fuels Inflation Pressures

The European Central Bank raised its three key interest rates by 25 basis points at its June 2026 meeting, lifting the deposit facility rate to 2.25%, the main refinancing rate to 2.4% and the marginal lending facility rate to 2.65%. The move reflects the Governing Council's response to inflationary pressures stemming from the war in the Middle East, with the decision judged across a range of scenarios for how the shock could evolve. Updated projections now see headline inflation averaging 3.0% in 2026, 2.3% in 2027 and 2.0% in 2028, with core inflation at 2.5% in both 2026 and 2027 before easing to 2.2% in 2028. The 2026 and 2027 inflation forecasts were revised higher than in March on the back of a steeper energy price path feeding through to food, goods and services. Growth projections were cut to 0.8% in 2026 and 1.2% in 2027, before firming to 1.5% in 2028, reflecting the war's heavier toll on commodity markets, real incomes and confidence[4].

The rate hike signals that the ECB is prioritizing price stability over supporting a softer growth trajectory, against a backdrop of upside risks to inflation and downside risks to activity. With no precommitment on the path ahead, further tightening will hinge on the persistence of the energy shock and its second-round effects on the euro-area economy.

US Yield Curve and Interest Rate Movement Summary

In the second quarter, medium-term Treasury yields led the move higher, with maturities between two and seven years rising by an average of roughly 30 basis points. Short-term interest rates also drifted higher, with yields out to one year increasing by an average of about 17 basis points, though the very front end was mixed as the one-month yield edged 4 basis points lower. Longer-maturity yields were comparatively anchored, with the 10-, 20-, and 30-year points rising by only 14, 5, and 3 basis points, respectively. The quarter-over-quarter pattern reflects a flattening of the Treasury yield curve, as belly and front-end rates repriced more aggressively than the long end amid a cautious Fed stance and lingering inflationary pressures.

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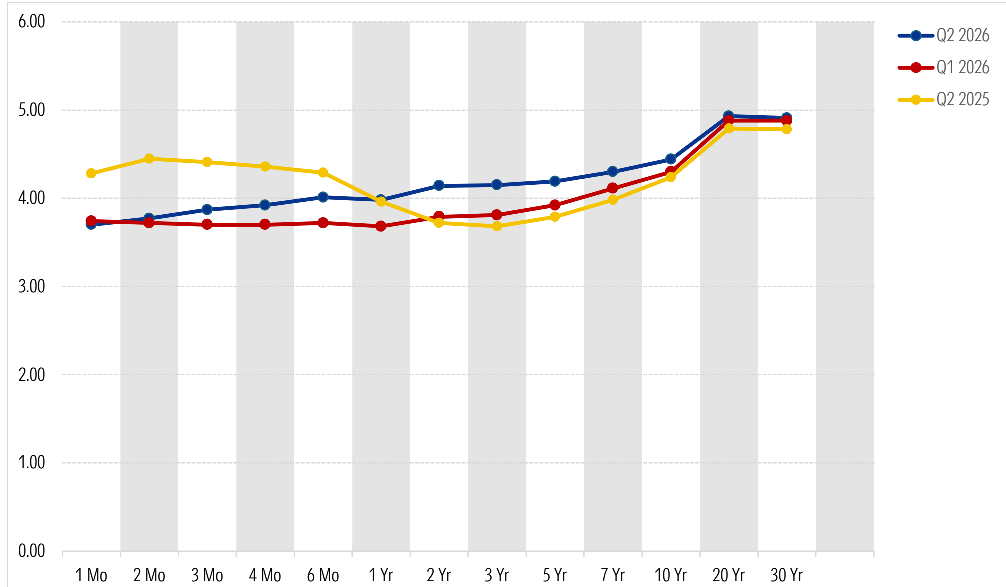
4 Growth, unemployment rate, and inflation data source: ECB June 2026 Monetary Policy Statement.

Exhibit 1 Yield Curve (%)



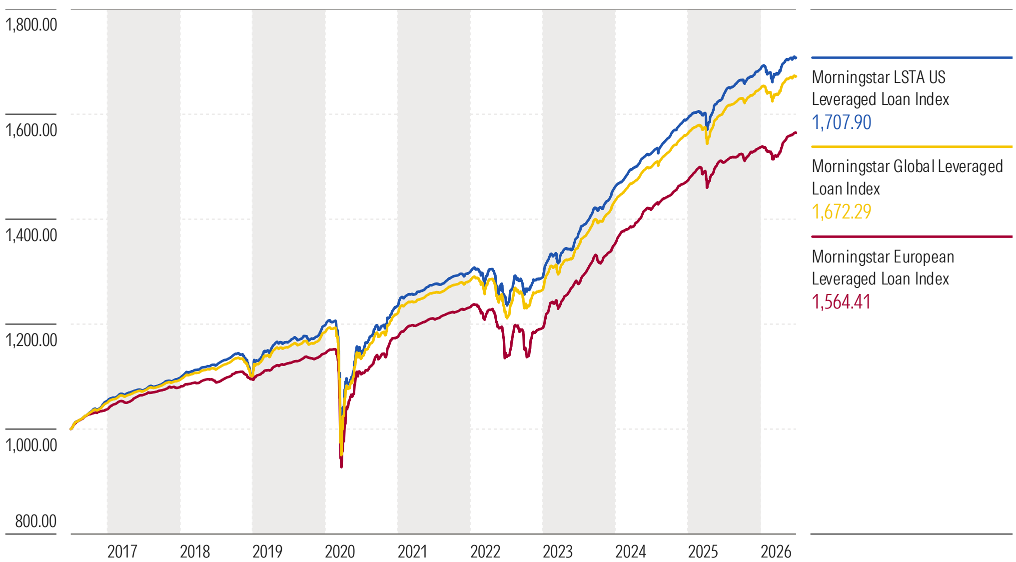
Source: US Department of Treasury. Data as of June 30, 2026.

Leveraged Loans Insights

Morningstar Leveraged Loan Indexes Performance Summary

Over the past 10 years, the Morningstar LSTA US Leveraged Loan Index has delivered the strongest overall returns, coupled with lower risk, as illustrated in Exhibits 2 and 3. The Morningstar Global Leveraged Loan Index, a fixed-weight composite comprising 75% from the Morningstar LSTA US Leveraged Loan Index and 25% from the Morningstar European Leveraged Loan Index, exhibits risk/return characteristics that closely mirror those of its primary component.

Exhibit 2 Performance Chart of Morningstar Leveraged Loan Indexes



Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL Variant.

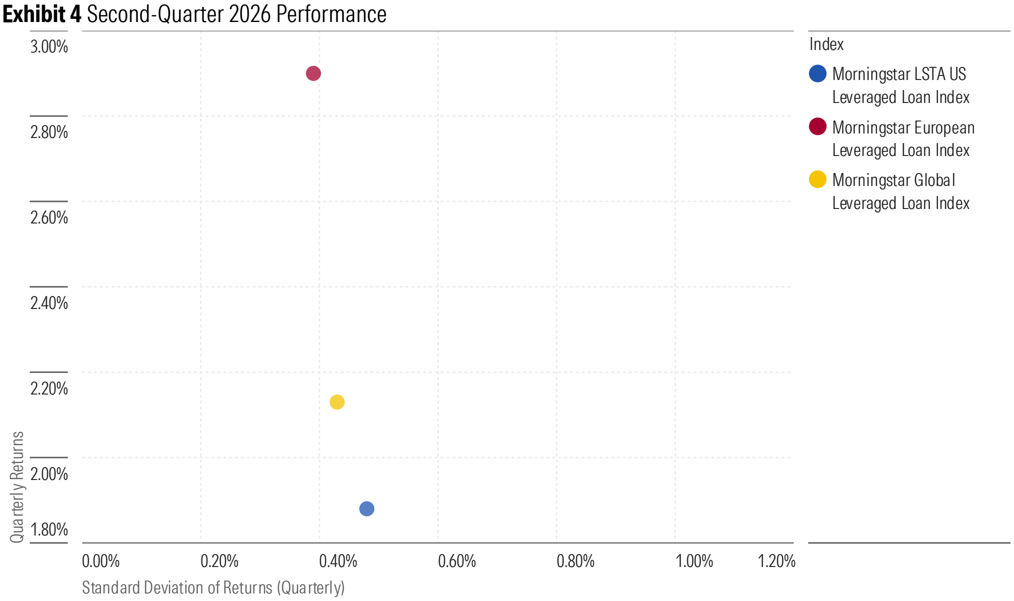
Exhibit 3 Risk/Return Characteristics

Parameters	Morningstar LSTA US Leveraged Loan Index	Morningstar European Leveraged Loan Index	Morningstar Global Leveraged Loan Index
Start Date	2016-06-30	2016-06-30	2016-06-30
End Date	2026-06-30	2026-06-30	2026-06-30
Return (%)	5.50	4.58	5.28
Risk (%)	5.30	6.35	5.49

Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL Variant.

The comparative risk/return performance of the Morningstar indexes over the second quarter is shown in Exhibit 4. The second quarter witnessed muted volatility compared with the first quarter of 2026. The Morningstar European Leveraged Loan Index delivered the strongest risk/return profile during the quarter, generating a return of 2.90%. The Morningstar Global Leveraged Loan Index followed with a return of 2.13%, while the Morningstar LSTA US Leveraged Loan Index returned 1.88%. This strength was driven primarily by a sharp compression in credit spreads, alongside a partial recovery in the software sector that had been sold off earlier in the year, together lifting secondary loan prices and total returns for the Morningstar European Leveraged Loan Index. By contrast, the US market's returns were held back by software's continued weakness and by spreads that failed to tighten to the same degree as in Europe.

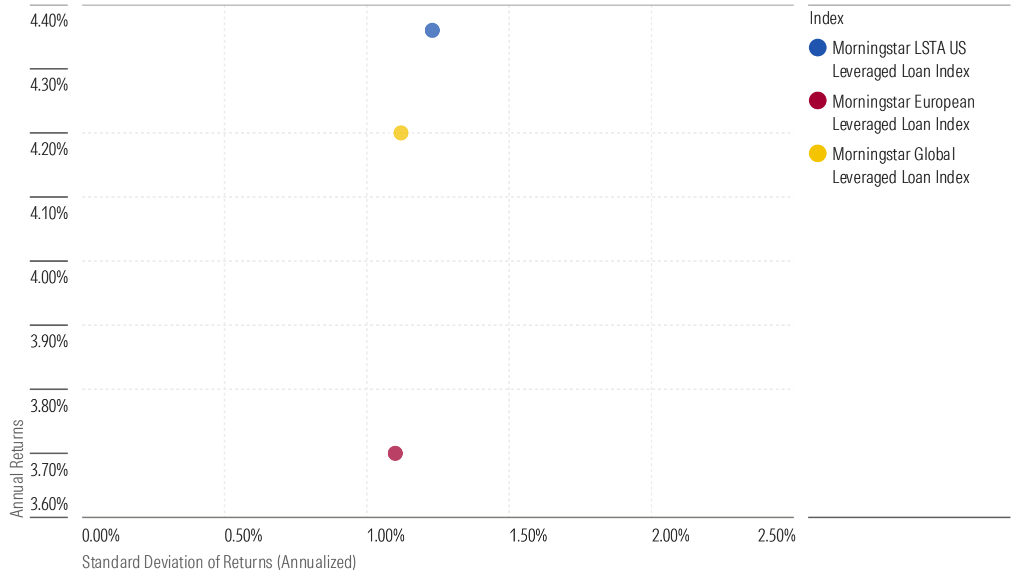
Exhibit 4 Second-Quarter 2026 Performance



Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL Variant.

Exhibit 5 highlights the comparative performance over the previous 12 months. The previous 12 months show the opposite story, with the Morningstar LSTA US Leveraged Loan Index having provided the best risk/return characteristics as comparatively higher base rates prevailed in the US. Over the past 12 months, European leveraged loans experienced similar volatility compared with their US counterparts, but provided far lower returns, putting the Morningstar European Leveraged Loan Index at the bottom in terms of risk/return. Meanwhile, returns of the Morningstar Global Leveraged Loan Index trailed the US, while exhibiting similar volatility, largely due to the influence of European loans.

Exhibit 5 12-Month Performance Ended June 30, 2026

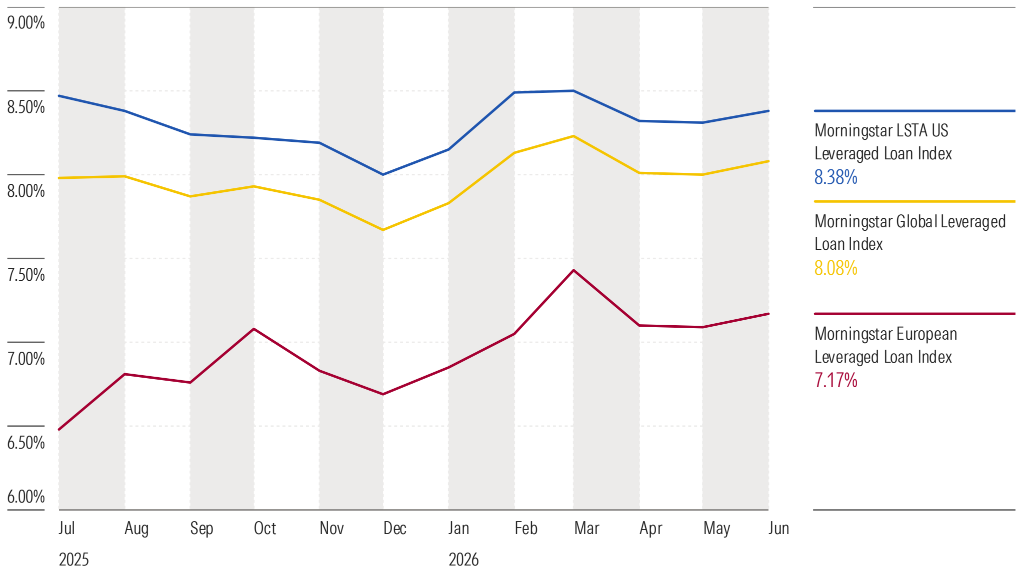


Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL Variant.

Leveraged Loan Yields Stay Flat After April Decline

As seen in Exhibit 6, the yield to maturity for leveraged loans remained flat during the second quarter, after witnessing a slight drop in April. The yield to maturity of the Morningstar LSTA US Leveraged Loan Index ended the quarter at 8.38%, representing a drop of 12 basis points from the last quarter. Similarly, the Morningstar European Leveraged Loan Index saw a more pronounced drop of 26 basis points because of higher secondary prices, with yields reaching 7.17%. The Morningstar Global Leveraged Loan Index reached yields of 8.08%.

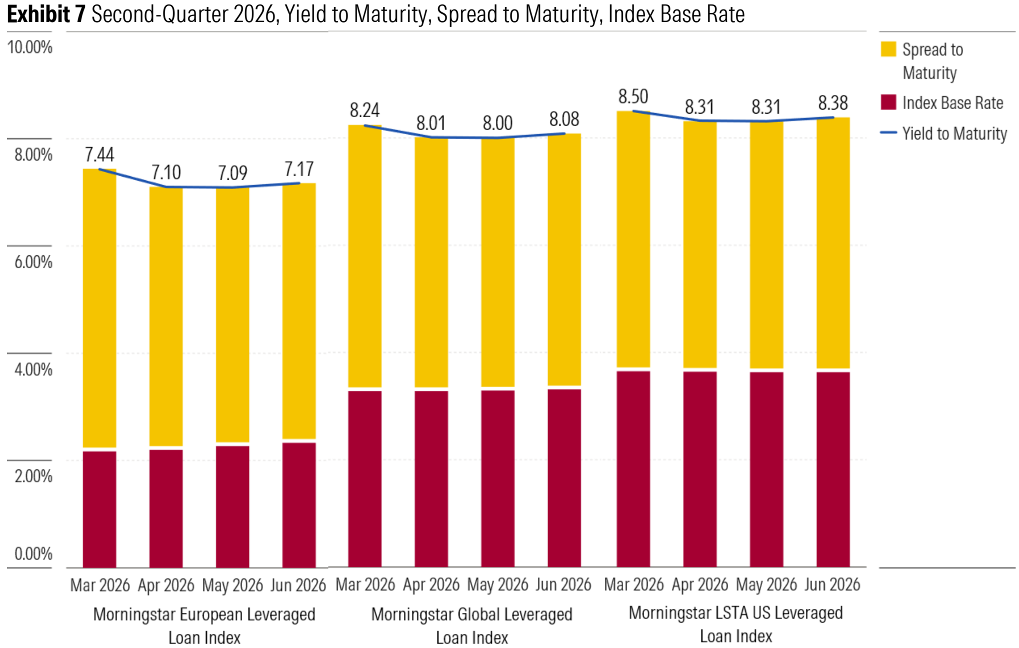
Exhibit 6 Yield to Maturity



Source: Morningstar Indexes. Data as of June 30, 2026.

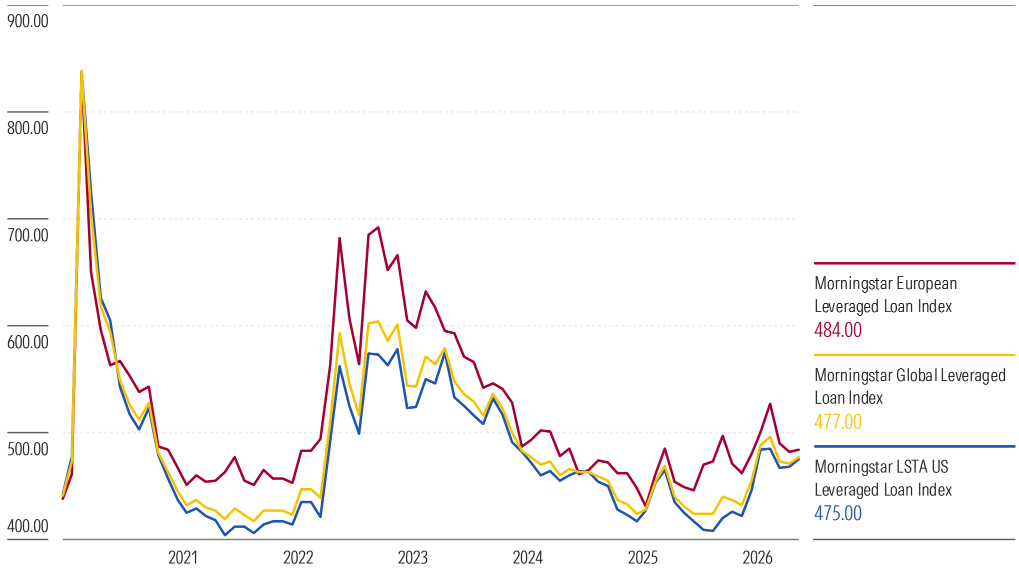
A significant drop in spreads was observed in April as shown in Exhibits 7 and 8. The Morningstar European Leveraged Loan Index witnessed the sharpest fall in spreads with a 36-basis-points drop in April 2026. This was followed by a 23basis-points drop in spread for the Morningstar Global Leveraged Loan Index, and a drop of 18 basis points in the Morningstar US Leveraged Loan Index. Since April, the spread to maturity remained stable, increasing marginally by 7 basis points in the US and declining by 6 basis points in Europe by the end of June 2026.

Exhibit 7 Second-Quarter 2026, Yield to Maturity, Spread to Maturity, Index Base Rate



Source: Morningstar Indexes. Data as of June 30, 2026.

Exhibit 8 Spread to Maturity for Morningstar Leveraged Loan Indexes (bps)

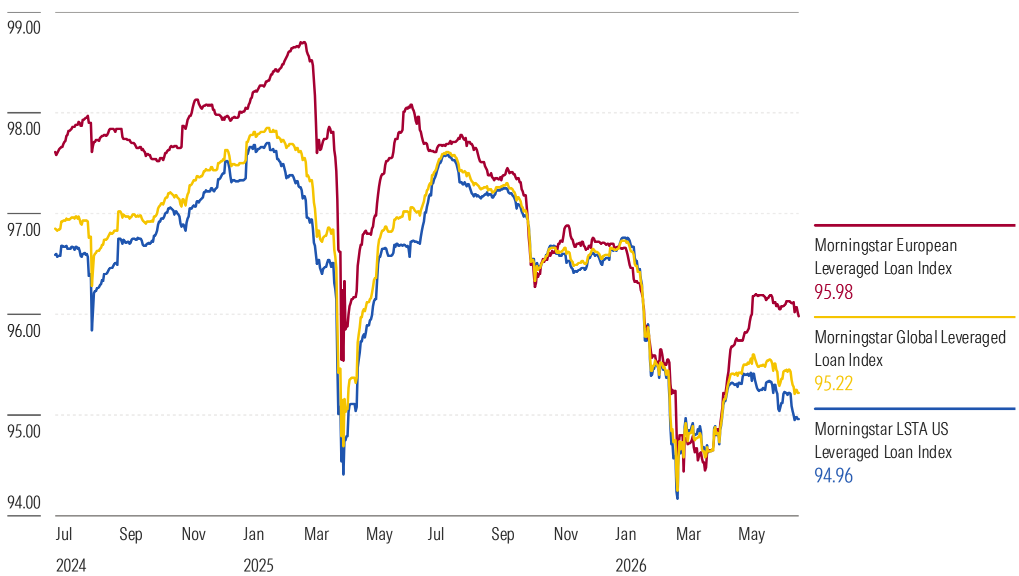


Source: Morningstar Indexes. Data as of June 30, 2026.

Spread Compression Drove Recovery in Leveraged Loan Prices in Second-Quarter 2026

Across both the US and European markets, leveraged loan prices recovered from the lows seen at the end of the first quarter, as illustrated in Exhibit 9. By quarter-end, prices had risen by 0.33 points in the US and 1.50 points in Europe.

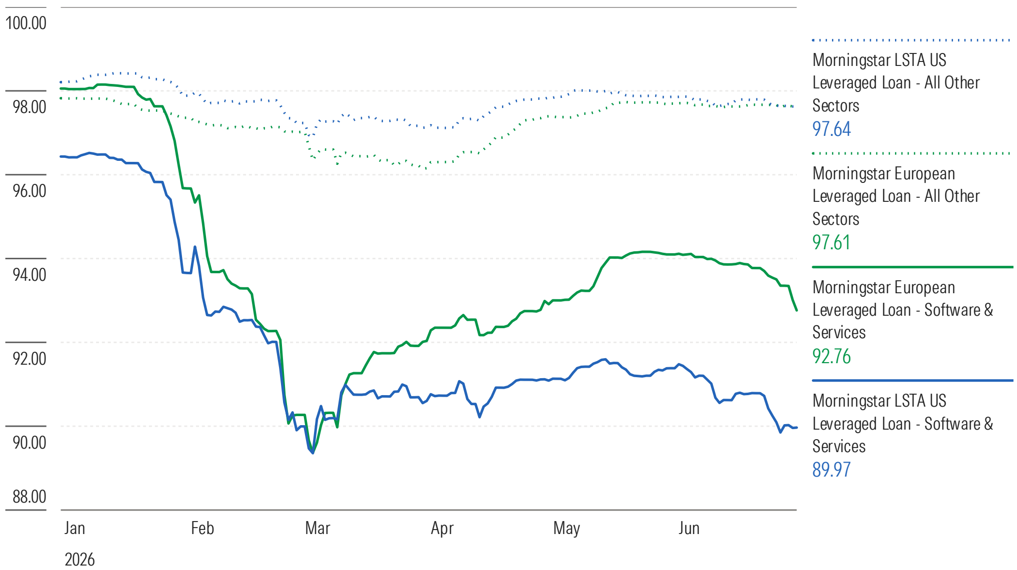
Exhibit 9 Weighted Average Bid Price



Source: Morningstar Indexes. Data as of June 30, 2026.

Exhibit 10 highlights the continued weakness in the software sector within the US leveraged loan market, where software loans remained a drag on overall prices. In contrast, the European software sector showed signs of recovery, with the weighted average price for software and services sector loans increasing to 92.76 in June 2026 from a low of 89.37 in March 2026.

Exhibit 10 Weighted Average Bid Price (Software and Services vs. Other Sectors)

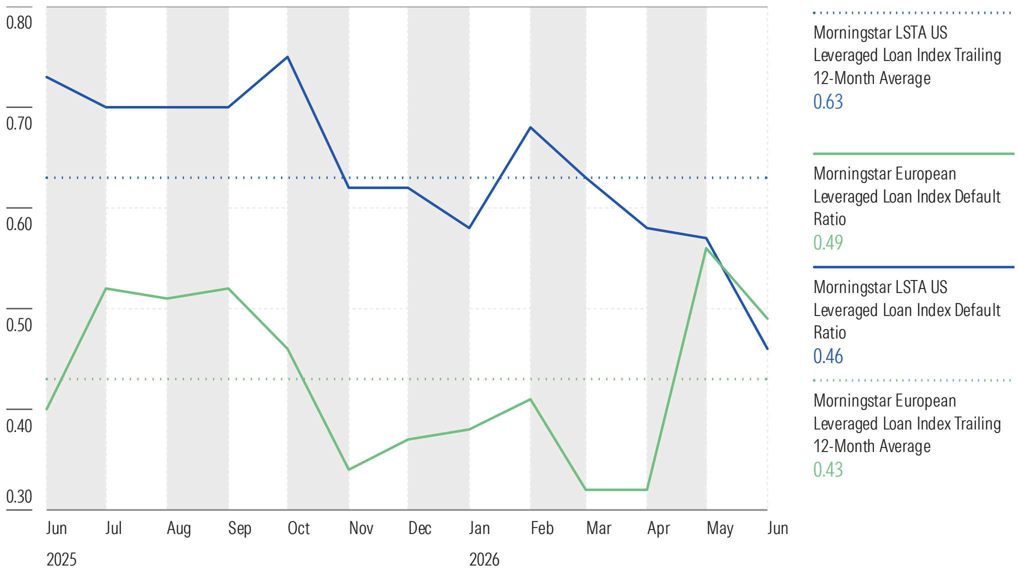


Source: Morningstar Indexes. Data as of June 30, 2026.

Ingenico Default Drove Higher European Default Ratio in Second-Quarter 2026

Exhibit 11 shows diverging default trends across the US and European leveraged loan markets. While the default ratio for the Morningstar LSTA US Leveraged Loan Index declined, the default ratio for the Morningstar European Leveraged Loan Index increased in May 2026, driven primarily by the default of Ingenico Group. The issuer defaulted on approximately EUR 1.1 billion of outstanding loans. By the end of June, the European default ratio remained above its trailing 12-month average, whereas the US default ratio stayed below its corresponding trailing 12-month average.

Exhibit 11 Default Ratio: Morningstar Leveraged Loan Indexes



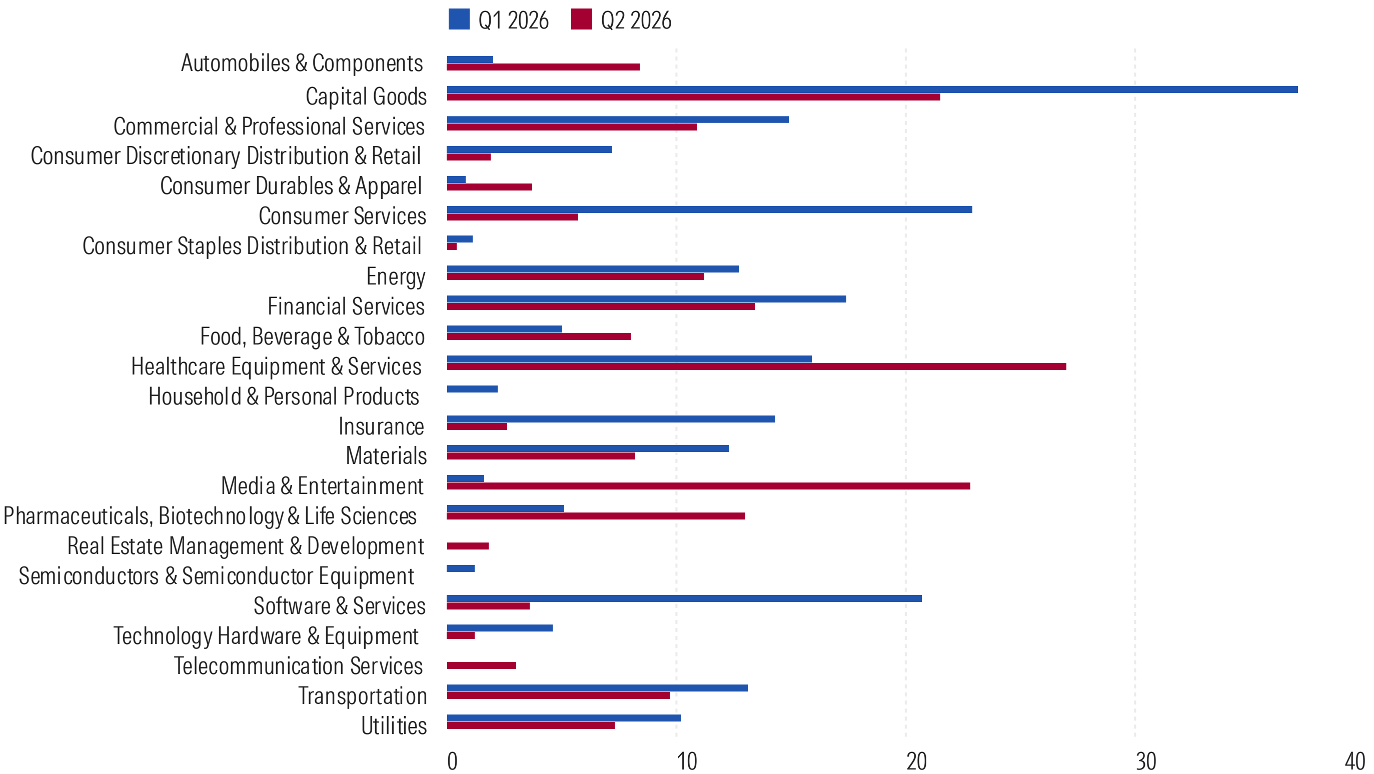
Source: Morningstar Indexes. Data as of June 30, 2026.

Sector Spotlight

Healthcare Leads Leveraged Loan Issuances in the US and Europe This Quarter

New loan activity moderated in the second quarter of 2026. According to the Morningstar LSTA US Leveraged Loan Index, USD 185 billion in new loan issuances was added, compared with USD 222 billion recorded in the previous quarter—a decrease of approximately 17%. The most active sectors shifted notably from the first quarter of 2026, as shown in Exhibit 12. Healthcare equipment and services emerged as the leading sector with USD 27.0 billion in issuances, followed by media and entertainment at USD 22.8 billion. Consumer services activity declined sharply from USD 22.9 billion in the first quarter to USD 5.7 billion in the second. Among the leading issuers were Discovery Global Holdings and Hologic, issuing USD 13.0 billion and USD 7.3 billion, respectively.

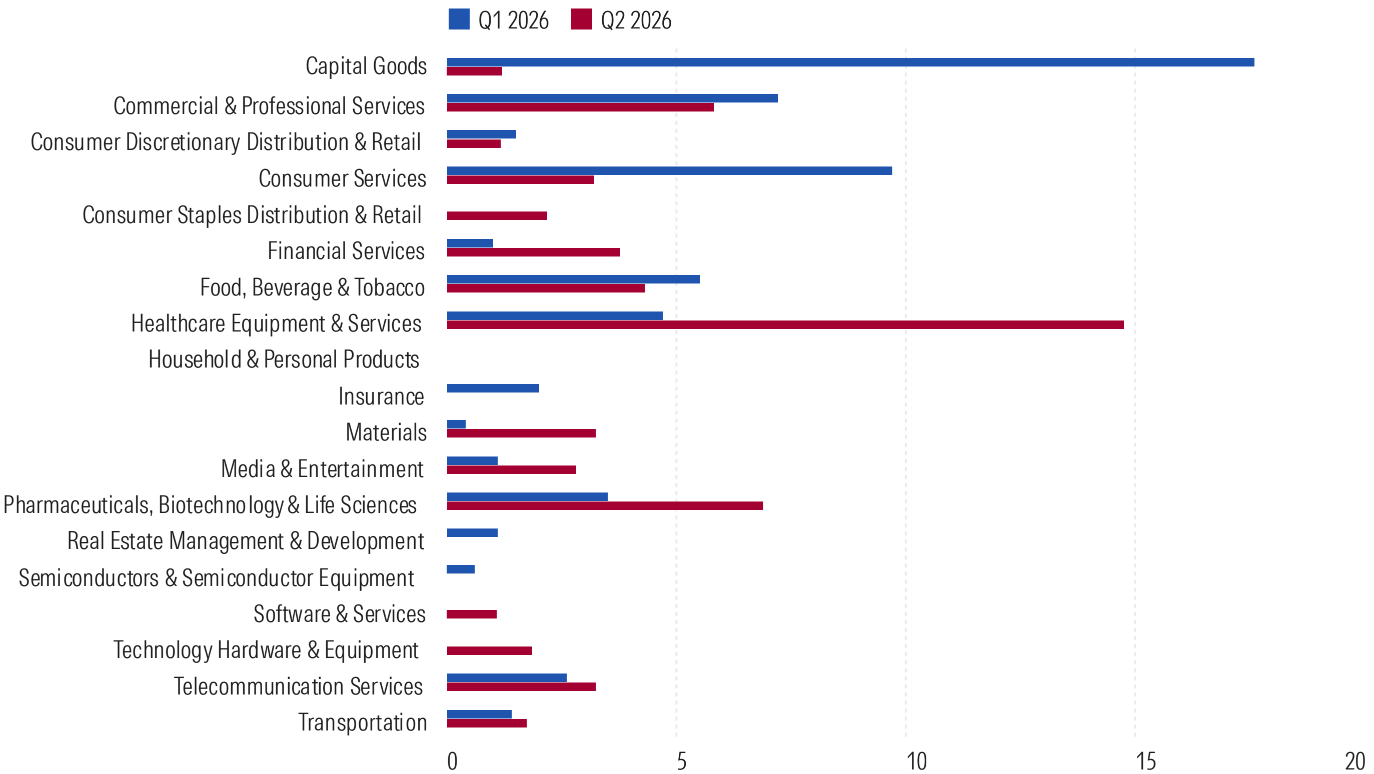
Exhibit 12 New Issuances: Morningstar LSTA US Leveraged Index (USD Billion)



Source: Morningstar Indexes. Data as of June 30, 2026.

Alternatively, the new loan activity increased slightly in the European leveraged loan market to EUR 62 billion from EUR 60 billion in the first quarter 2026. As shown in Exhibit 13, healthcare equipment and services led European activity with EUR 14.8 billion, a notable surge from no issuances in the first quarter. Pharmaceuticals, biotechnology and life sciences followed at EUR 6.9 billion, though down significantly from EUR 17.6 billion in the first quarter. Leading the momentum were Stada and IFCO Systems, issuing EUR 3.0 billion and EUR 2.5 billion, respectively.

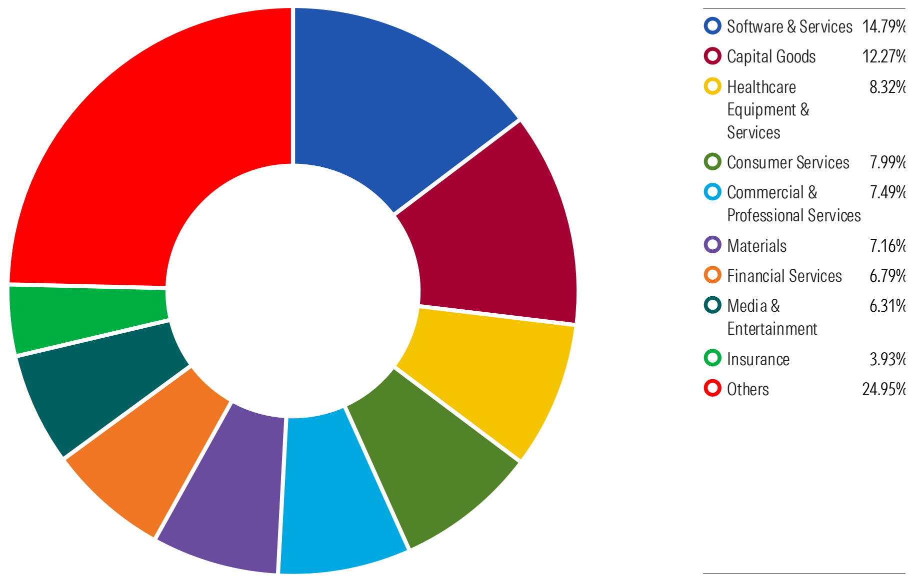
Exhibit 13 New Issuances: Morningstar European Leveraged Index (EUR Billion)



Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL variant.

As shown in Exhibit 14, the largest sector exposures within the Morningstar LSTA US Leveraged Loan Index include software and services, capital goods, healthcare, and consumer services, which collectively account for approximately 43% of the index's total market value.

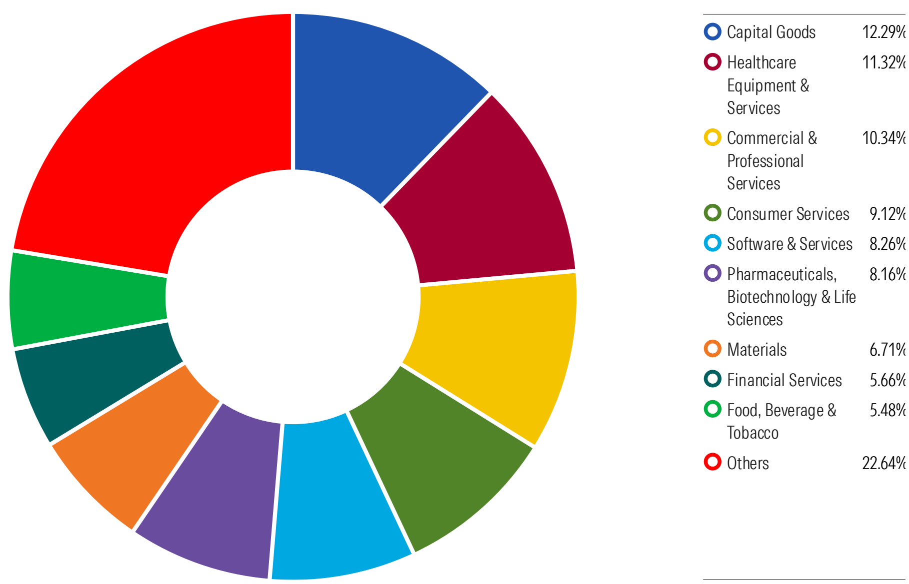
Exhibit 14 Morningstar LSTA US Leveraged Loan Index Sector Distribution



Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL variant.

As shown in Exhibit 15, the largest sector exposures within the Morningstar European Leveraged Loan Index include capital goods, healthcare, commercial and professional services and consumer services, which collectively account for approximately 43% of the index's total market value.

Exhibit 15 Morningstar European Leveraged Loan Index Sector Distribution

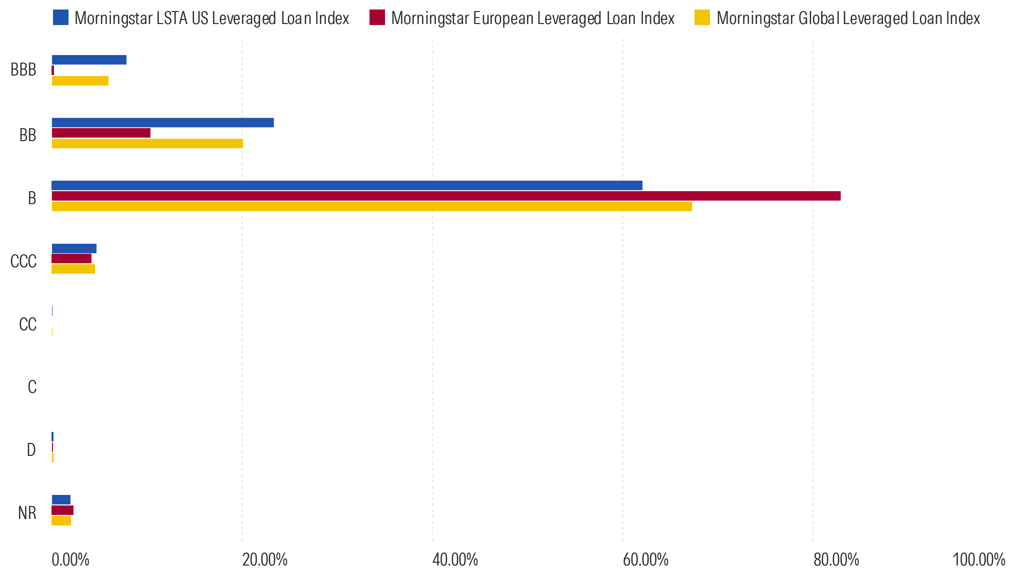


Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL variant.

Credit Ratings Radar

Exhibit 16 breaks down the credit-quality composition of the loan market, highlighting that B rated loans constitute the largest share across the Morningstar Leveraged Loan Indexes. This ratings cohort comprises 62% of the Morningstar LSTA US Leveraged Loan Index, 83% of the Morningstar European Leveraged Loan Index, and 67% of the Morningstar Global Leveraged Loan Index.

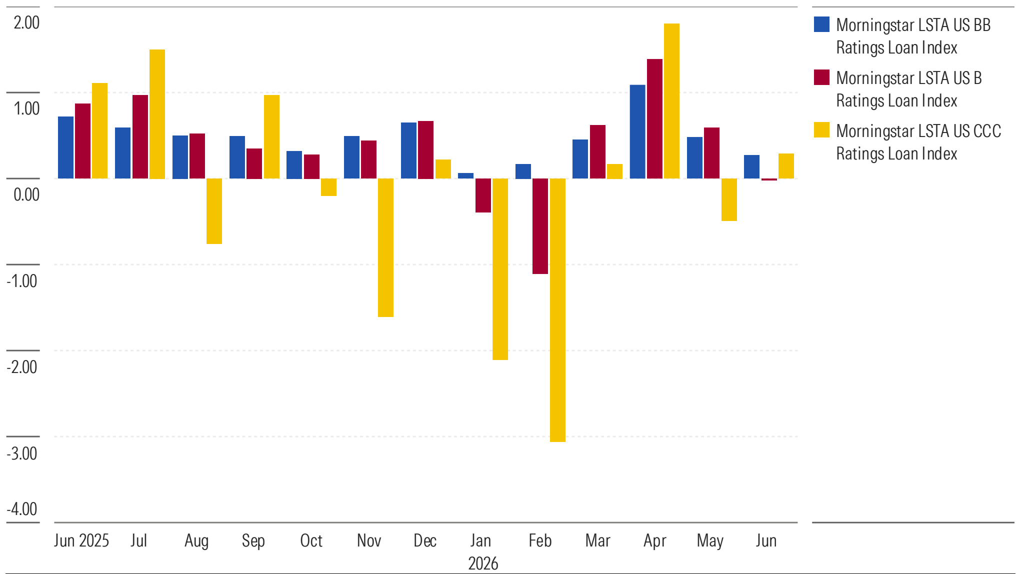
Exhibit 16 Morningstar Leveraged Loan Indexes Rating Distribution



Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL Variant.

As observed in Exhibit 17, returns across all rating cohorts in US leveraged loans were positive in the second quarter of 2026. B rated credits, as measured by the Morningstar LSTA US B Ratings Loan Index, led the quarter with a return of 1.97%. BB rated credits, as measured by the Morningstar LSTA US BB Ratings Loan Index, followed closely with a return of 1.85%, delivering positive returns in each month of the quarter. CCC rated credits, as measured by the Morningstar LSTA US CCC Ratings Loan Index returned 1.60% for the quarter, as a strong April gain was partly offset by negative performance in May.

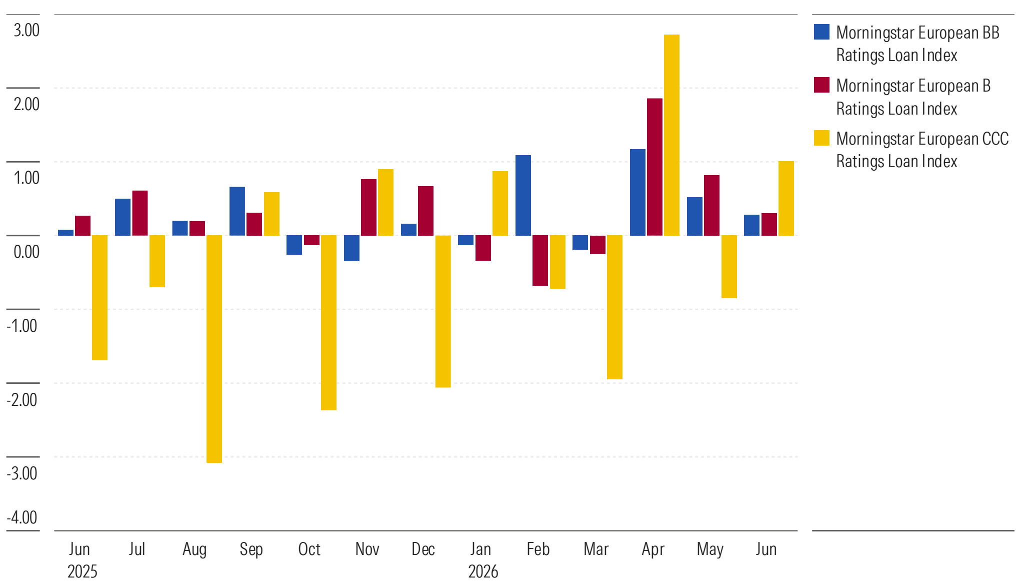
Exhibit 17 Morningstar LSTA US Leveraged Loan Index Monthly Returns by Loan Rating



Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL Variant.

As observed in Exhibit 18, lower-rated European leveraged loans outperformed higher-quality credits during the second quarter of 2026. B rated credits, as measured by the Morningstar European B Ratings Loan Index, led the quarter with a return of 2.98%. CCC rated credits, as measured by the Morningstar European CCC Ratings Loan Index, closely followed with a return of 2.86%, as strong gains in April and June more than offset weakness in May. BB rated credits, as measured by the Morningstar European BB Ratings Loan Index returned 1.98% for the quarter. The outperformance of lower-rated credits suggests improving risk appetite among investors as market conditions stabilized during the quarter.

Exhibit 18 Morningstar European Leveraged Loan Index Monthly Returns by Loan Rating



Source: Morningstar Indexes. Data as of June 30, 2026. TR LCL variant.

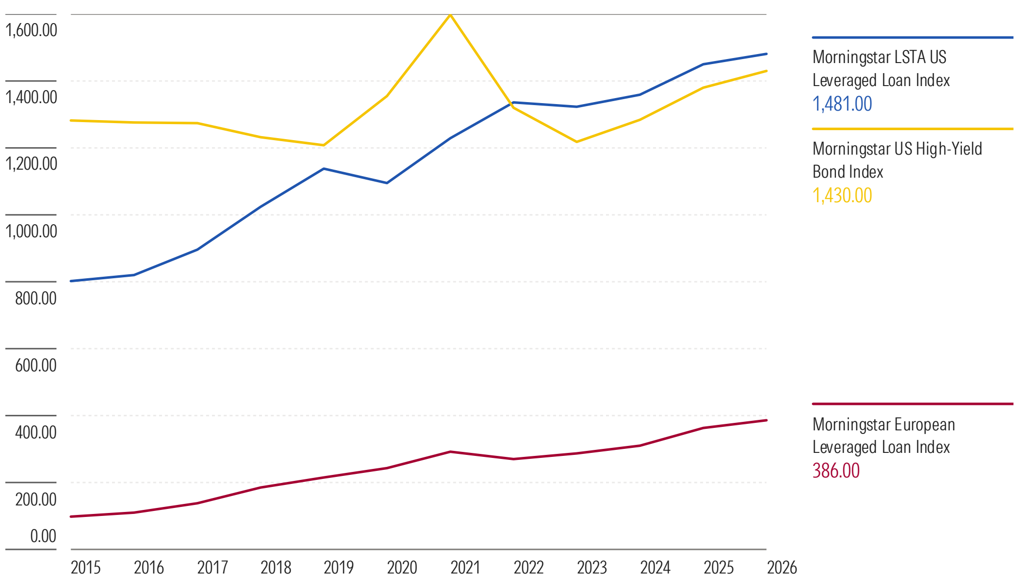
Comparison With Traditional Fixed-Income Benchmarks

Decadelong Evolution of Leveraged Loans and High-Yield Bonds

Exhibit 19 highlights market value trends for the US leveraged loan, US high-yield bond, and European leveraged loan markets from 2015 to 2026. The US leveraged loan market, represented by the Morningstar LSTA US Leveraged Loan Index, has shown consistent growth, reaching a market value of USD 1.48 trillion as of June 2026, up from USD 1.45 trillion at the end of 2025. In contrast, the US high-yield bond market, according to the Morningstar US High Yield Bond Index, experienced a sharp rise, peaking at USD 1.60 trillion in 2021, followed by a notable contraction to USD 1.22 trillion in 2023 before recovering to USD 1.43 trillion by the end of June 2026. The European leveraged loan market, while smaller in scale at USD 386 billion (EUR 331 billion), has shown a steady rise.

These trends showcase the relative resilience of the US loan market compared with the more cyclical nature of high-yield bonds, while also underscoring the steady development of the European loan market.

Exhibit 19 Market Value in USD Billion

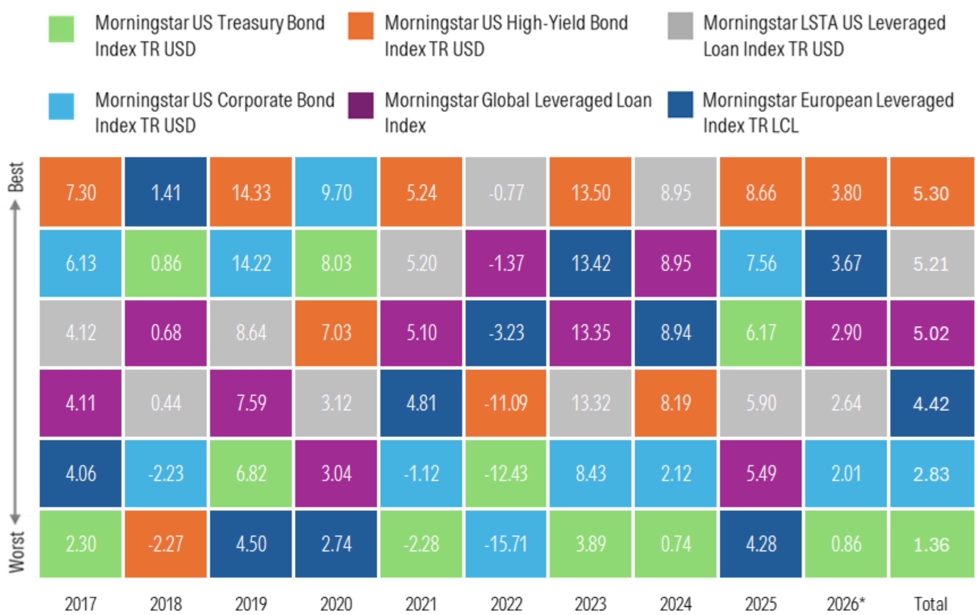


Source: Morningstar Indexes. Average daily market value for the year. Data as of June 30, 2026. USD.

Horizon Returns

Exhibit 20 compares the performance of traditional fixed-income asset classes with leveraged loans over the past decade. In the second quarter of 2026, declining spreads supported a broad recovery across fixed-income markets, resulting in positive returns for all leveraged loan and bond indexes after negative performance in the first quarter. Over the decade, while the Morningstar US High-Yield Bond Index delivered the highest overall returns, the Morningstar LSTA US Leveraged Loan Index, the Morningstar Global Leveraged Loan Index, and the Morningstar European Leveraged Loan Index closely followed.

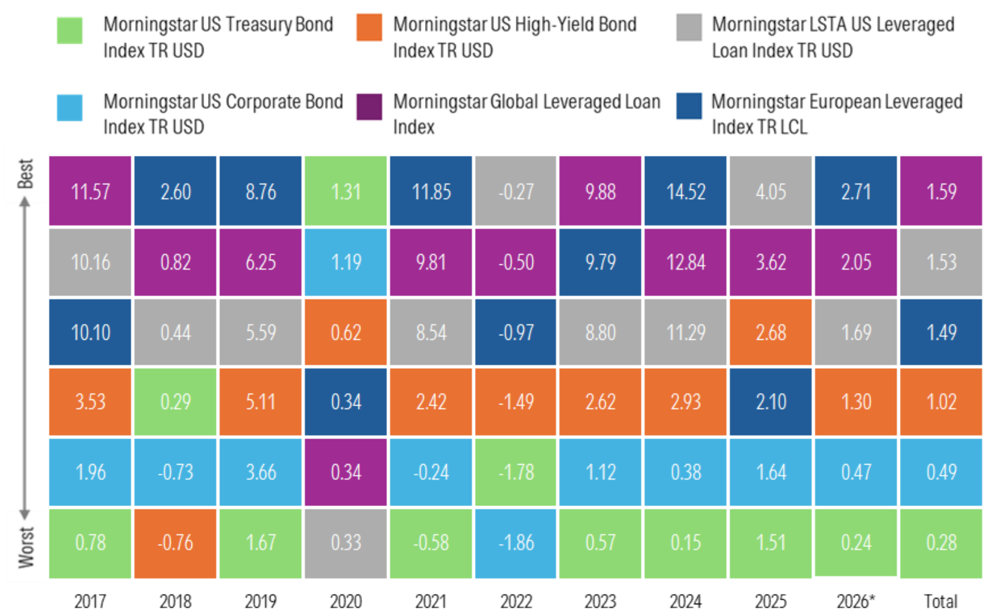
Exhibit 20 Horizon Returns (%)



Source: Morningstar Indexes. Data as of June 30, 2026.
*2026 Horizon—Annualized Returns (Date as of June 30, 2026).
Period for Total—Dec. 31, 2016, to June 30, 2026.

Although the Morningstar US High-Yield Bond Index demonstrates strong absolute returns, its performance is less compelling when volatility is considered. Exhibit 21 provides a risk-adjusted performance comparison between traditional fixed-income indexes and leveraged loans. Notably, the Morningstar Global Leveraged Loan Index emerges as one of the top performers, supported by its stable return profile and lower volatility because of the floating-coupon payment structure. The US and European Leveraged Loan Indexes also show favorable risk-adjusted results, outperforming traditional fixed-income benchmarks and reinforcing the relative resilience of the loan market.

Exhibit 21 Return/Risk Performance (%)



Source: Morningstar Indexes. Data as of June 30, 2026.
*2026 Horizon - Annualized Returns and Risks (Data as of June 30, 2026).
Period for Total - Dec. 31, 2016 to June 30, 2026.

Reliable Benchmarks in a Dynamic Credit Market

Amid shifting interest rate cycles and evolving credit conditions, the Morningstar Leveraged Loans Indexes continue to serve as a reliable benchmark for tracking performance across US, European, and global loan markets, now a significant component of the broader fixed-income universe. The indexes capture the nuances of credit quality, sector allocation, and regional risk premiums, enabling investors to analyze trends and manage exposures effectively. By providing consistent, transparent coverage, the index suite supports informed decision-making in one of the most dynamic segments of the fixed-income market. For more information, visit https://indexes.morningstar.com/leveraged-loan.

About Morningstar Indexes

Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating investment opportunities across major asset classes, styles and strategies. From traditional benchmarks and unique IP-driven indexes, to index design, calculation and distribution services, our solutions span an investment landscape as diverse as investors themselves.

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