

# Morningstar Leveraged Loan Index Monitor: Q1 2026

## AI risk and geopolitical tensions widen spreads and push leveraged loans into the red

### Morningstar

April 2026

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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 first 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 policy rate at 3.75% at the January and February 2026 Monetary Policy Committee meetings. The European Central Bank kept the key ECB rates unchanged, maintaining the deposit facility rate at 2%.
- ▶ Short- and long-term Treasury yields rose marginally by an average of 8 basis points, while medium-maturity yields increased significantly by 24 basis points.
- ▶ Artificial Intelligence-related concerns in the software sector and heightened geopolitical tensions led to negative returns in the first quarter. The Morningstar LSTA US Leveraged Loan Index declined 0.55%, followed by the Morningstar Global Leveraged Loan Index with a loss of 0.67%, while the Morningstar European Leveraged Loan Index recorded the weakest performance, declining 1.05%.
- ▶ Credit spreads widened during the quarter, driving yields higher. Spread to maturity increased by 63 basis points in the US and 64 basis points in Europe, moving off from their long term lows.
- ▶ Leveraged loan issuance remained broadly stable during the quarter, with modest increases across both regions. US issuance edged up to USD 222 billion from USD 207 billion in the previous quarter, while European new issuance rose to EUR 60 billion, compared with EUR 54 billion previously.
- ▶ Higher-quality BB rated credits outperformed across both the US and European leveraged loan markets during the quarter, while CCC rated credits delivered the weakest performance, reflecting elevated risk aversion.

## Market Update

### Federal Reserve Maintains Rates Amid Persistent Inflation

In January and March 2026, the Federal Reserve held the federal-funds rate at 3.50%–3.75%, citing elevated inflation and continued growth in consumer spending and investments, despite slowing gross domestic product growth at the end of 2025. The US-Iran war has caused a significant increase in global energy and commodity prices, adding pressures on inflation.

Real GDP grew in the fourth quarter of 2025 by an annual rate of 0.7%, a significant drop from the 4.3% annual growth in the third quarter<sup>1</sup>. The fall in growth rates was mainly attributed to decreased government spending and exports. The projection for the annual real GDP growth for 2026 was kept steady at 2.4% compared with the previous projection of 2.3%. Personal consumption expenditures inflation projections for 2026 increased to 2.7%, a 30-basis-point increase from the previous projection<sup>2</sup>.

Elevated inflationary pressures, largely stemming from escalating tensions between the US and Iran, alongside steady economic forecasts, were key factors in the Federal Reserve's decision to keep interest rates unchanged.

### Bank of England Maintains Rates, With Eye on Inflation

The Bank of England maintained interest rates at 3.75% at the Monetary Policy Committee meeting in February and March 2026, intending to bring the Consumer Price Index inflation closer to the 2% target amidst the rising energy costs due to the Middle East war.

The UK's real GDP witnessed an increase of only 0.1% in the fourth quarter of 2025 similar to the previous quarter, highlighting subdued economic activity.

While CPI inflation fell in January to 3.0% from 3.4% in December, the increase in global energy prices elevated the March CPI projections to 3.5%. CPI inflation projections for the second quarter of 2026 also increased to 3.0% from the previous projection of 2.1%.<sup>3</sup>

### European Central Bank Keeps Rates Unchanged

The European Central Bank decided to keep the three key ECB rates unchanged in the February and March Monetary Policy Committee meetings. The deposit facility rate stands at 2.0%, the main refinancing operations rate at 2.15%, and the marginal lending facility rate at 2.4%.

The euro area's real GDP grew by 0.2% in fourth-quarter 2025 on the back of stronger domestic demand. The unemployment rate stood close to historical lows at 6.2% in December, showing robustness in the European labor market.

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<sup>1</sup> Data source for GDP growth rates: Bureau of Economic Analysis, US Department of Commerce, released on March 13, 2026.

<sup>2</sup> Real GDP growth rates projections data source: FOMC Projection Material, Federal Reserve.

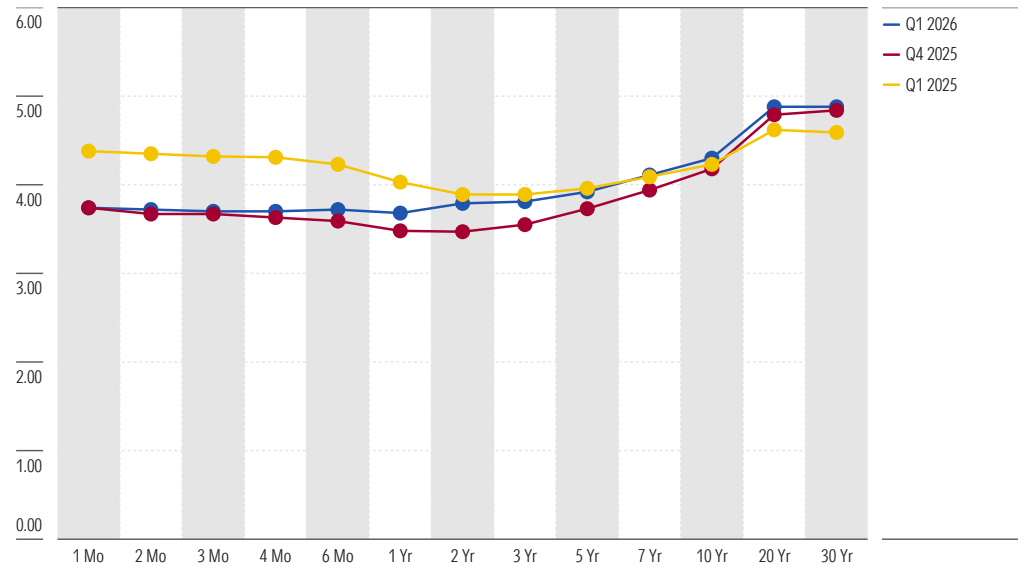
<sup>3</sup> Real GDP growth rates and inflation projections data source: Bank of England March 2026 Monetary Policy Statement.

Inflation remained within the ECB's 2.0% target, with the headline Consumer Price Index holding steady at 1.9% in February. European Central Bank projections, however, see inflation averaging 2.6% in 2026 compared with the previous projection of 1.9% on account of increased energy prices, while GDP growth projection for 2026 is expected to be 0.9%, down from the previous projection of 1.2%.<sup>4</sup>

**US Yield Curve and Interest Rate Movement Summary**

In the first quarter, short-term interest rates remained stable, with Treasury yields up to one year rising by an average of 8 basis points. Longer-maturity-term yields also saw a similar rise in yields, while medium-term maturities between two and seven years saw significant increases by an average of 24 basis points.

**Exhibit 1** Yield Curve (%)



Source: US Department of Treasury. Data as of March 31, 2026.

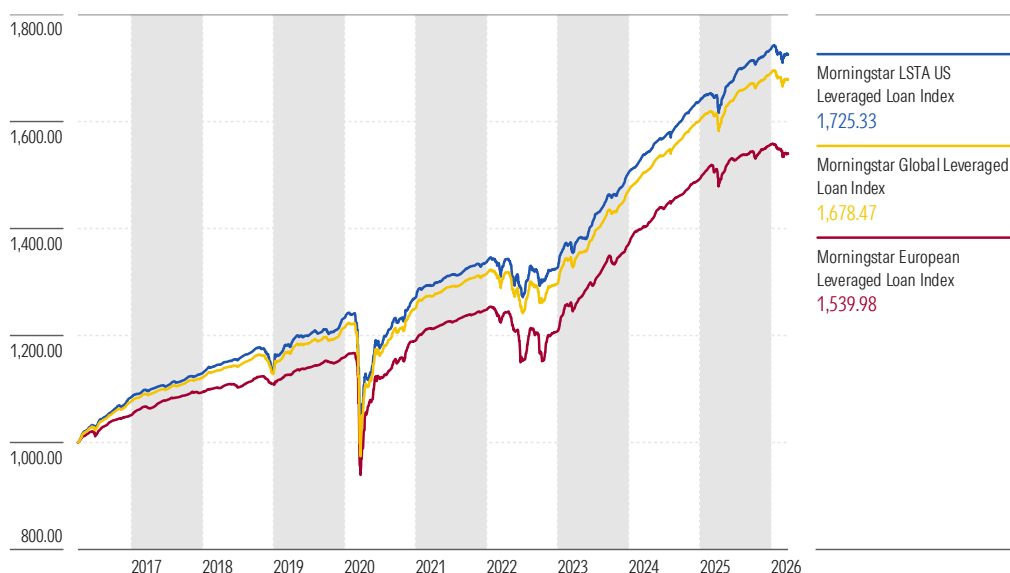
<sup>4</sup> Growth, unemployment rate, and inflation data source: ECB March 2026 Monetary Policy Statement.

## 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 March 31, 2026. TR LCL Variant.

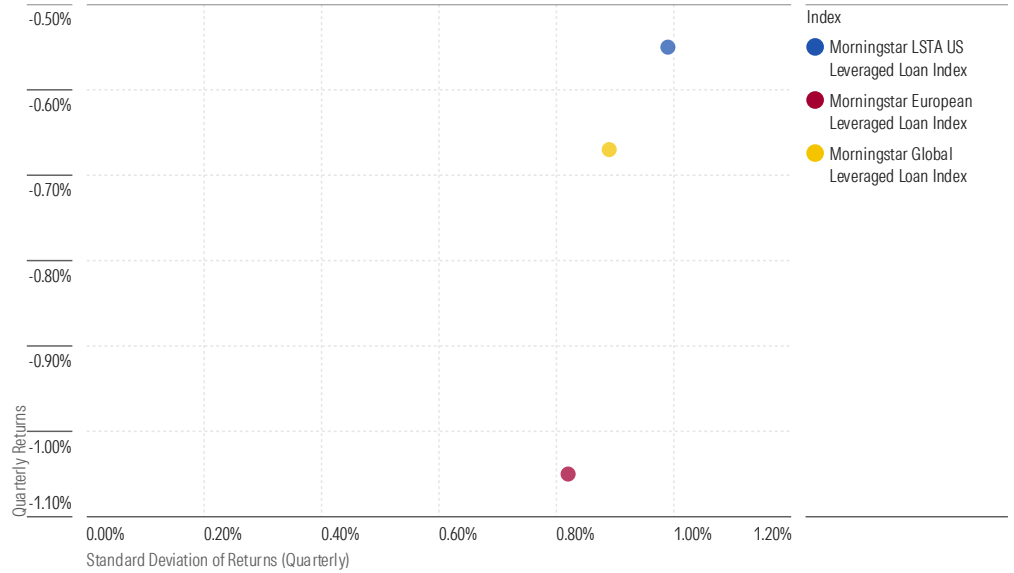
**Exhibit 3** Risk/Return Characteristics

Parameters	Morningstar LSTA US Leveraged Loan Index	Morningstar European Leveraged Loan Index	Morningstar Global Leveraged Loan Index
Start Date	03-31-2016	03-31-2016	03-31-2016
End Date	03-31-2026	03-31-2026	03-31-2026
Return (%)	5.61	4.41	5.32
Risk (%)	5.32	6.35	5.50

Source: Morningstar Indexes. Data as of March 31, 2026. TR LCL Variant.

The comparative risk/return performance of the Morningstar Indexes over the first quarter is shown in Exhibit 4. In the first quarter of 2026, market volatility increased relative to the fourth quarter of 2025, driven by AI-related concerns in the software sector and heightened geopolitical tensions, including the Iran war and its impact on oil prices. Against this backdrop, leveraged loans began the year on a weak footing. The Morningstar LSTA US Leveraged Loan Index returned negative 0.55%, followed by the Morningstar Global Leveraged Loan Index with a loss of negative 0.67%, while the Morningstar European Leveraged Loan Index recorded the weakest performance, declining negative 1.05% in the first quarter.

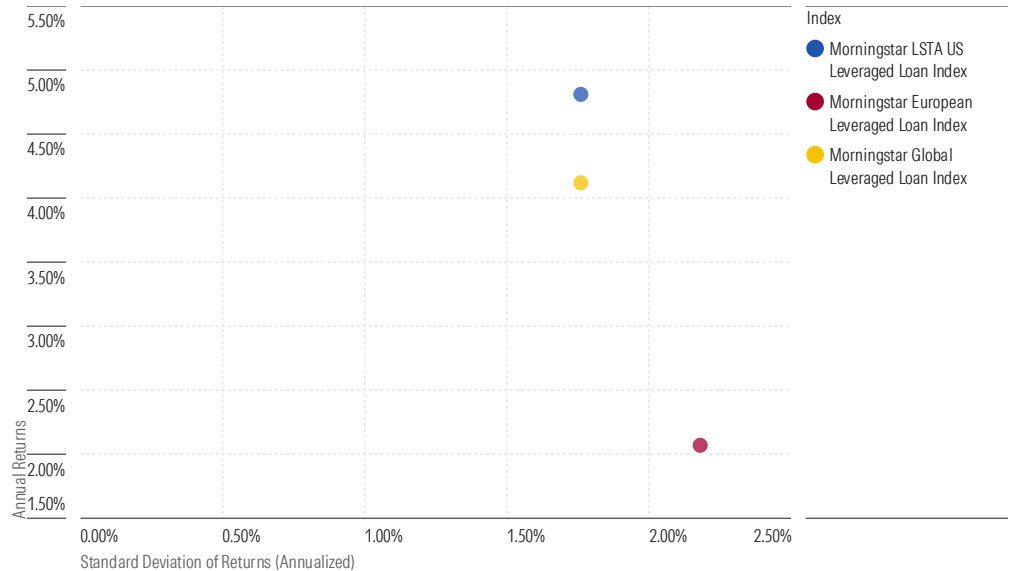
**Exhibit 4** First-Quarter 2026 Performance



Source: Morningstar Indexes. Data as of March 31, 2026. TR LCL Variant.

Exhibit 5 highlights the comparative performance over the previous 12 months. The Morningstar LSTA US Leveraged Loan Index provided the best risk/return characteristics because comparatively higher base rates prevailed in the US. Over the past 12 months, European leveraged loans experienced greater volatility, reflected in the higher risk and weaker returns of the Morningstar European Leveraged Loan Index. 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 March 31, 2026

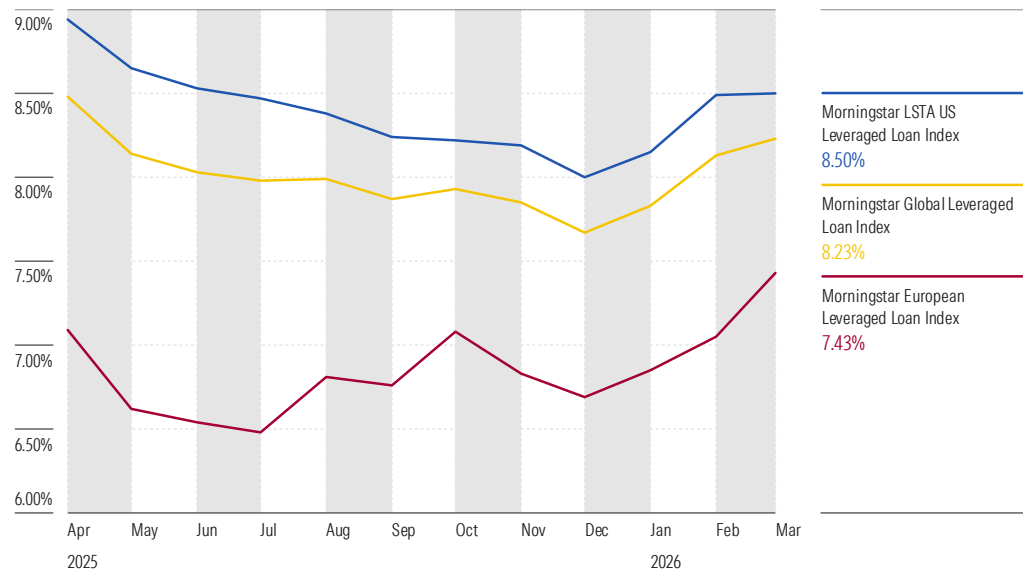


Source: Morningstar Indexes. Data as of March 31, 2026. TR LCL Variant.

### Leveraged Loan Yields Rise Amid the Middle East War

As seen in Exhibit 6, the yield to maturity for leveraged loans continued to rise during the first quarter, approaching the highs last observed in April 2025 amid tariffs-related concerns. The yield to maturity of the Morningstar LSTA US Leveraged Loan Index ended the quarter at 8.50%, representing a sharp increase of 50 basis points from the last quarter. Similarly, the Morningstar European Leveraged Loan Index saw a more pronounced rise of 75 basis points, with yields reaching 7.43%. This upward pressure on yields was primarily driven by heightened geopolitical uncertainty and deteriorating macroeconomic sentiment.

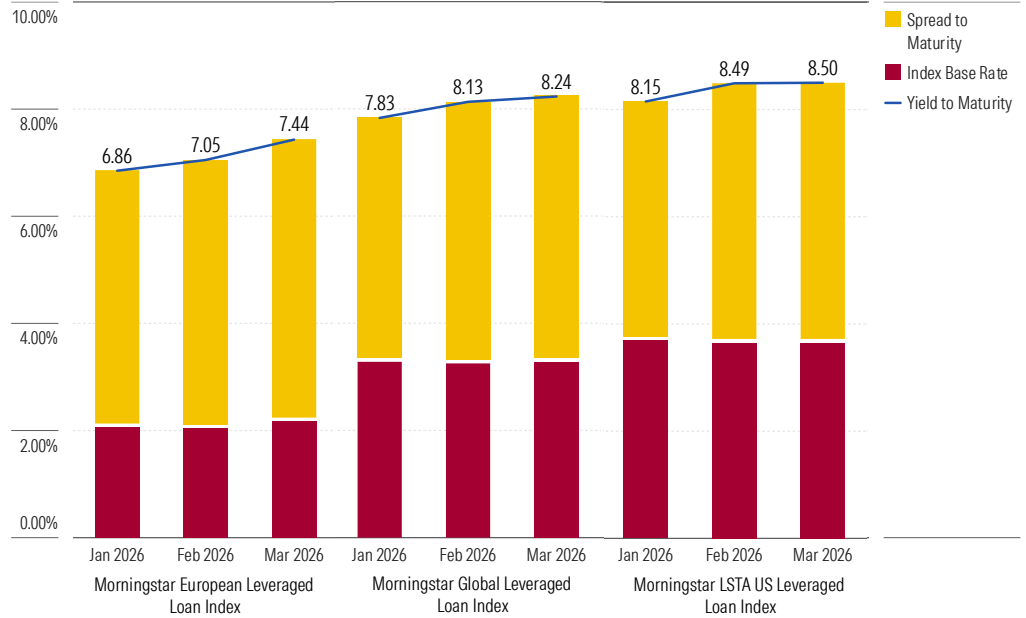
**Exhibit 6** Yield to Maturity



Source: Morningstar Indexes. Data as of March 31, 2026.

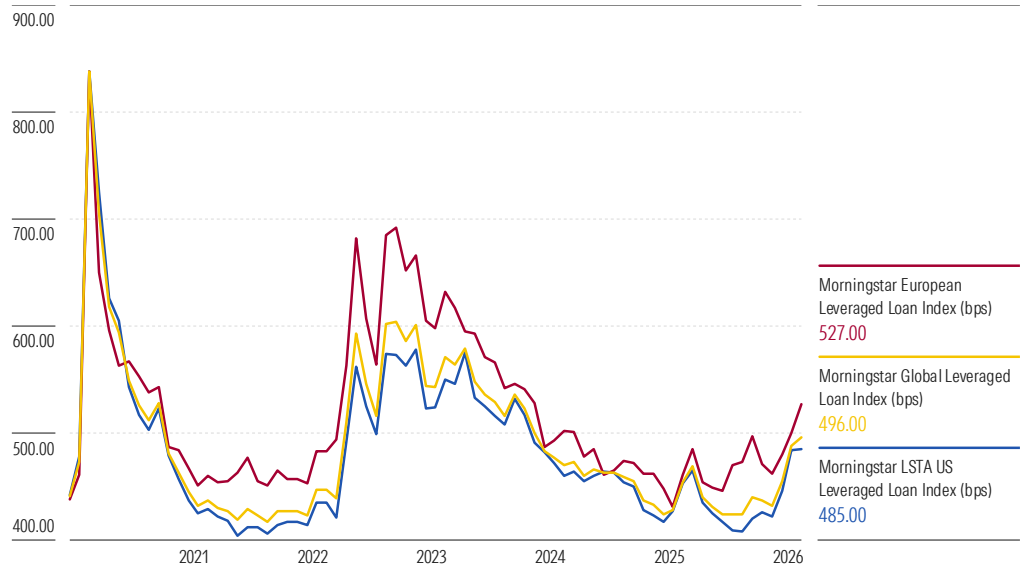
While base rates remained largely flat, credit spreads widened sharply across the credit spectrum during the first quarter as markets grappled with stress in the software sector, escalating Middle East war, and broadly deteriorating risk sentiment, as illustrated in Exhibit 7 and 8. Over the quarter, the spread to maturity increased by 63 basis points in the US and 64 basis points in Europe, contributing to the rise in overall yields.

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



Source: Morningstar Indexes. Data as of March 31, 2026.

**Exhibit 8** Spread to Maturity for Morningstar Leveraged Loan Indexes

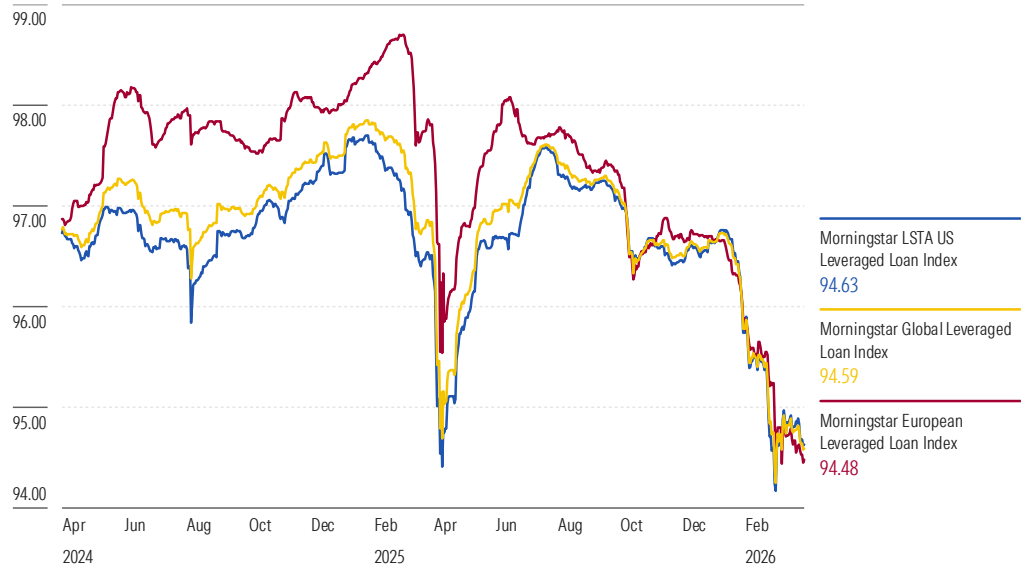


Source: Morningstar Indexes. Data as of March 31, 2026.

**AI-Related Stress in Software Sector Drives Leveraged Loan Prices Lower in First-Quarter 2026**

Across both the US and European markets, leveraged loan prices declined sharply during the first quarter, as illustrated in Exhibit 9. By quarter-end, prices had fallen by 2.01 points in the US and 2.19 points in Europe, moving closer to the lows last observed in April 2025.

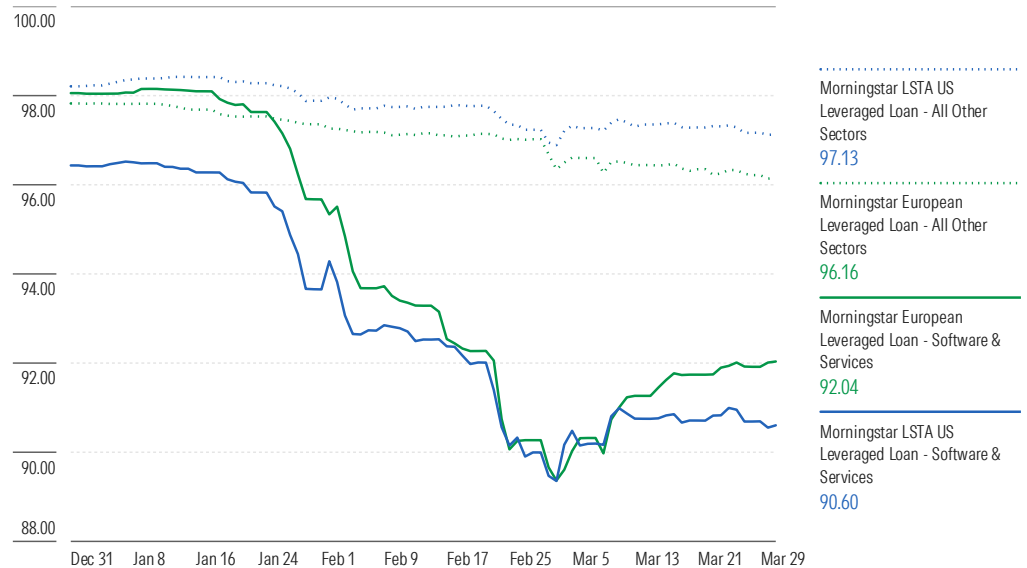
**Exhibit 9** Weighted Average Bid Price



Source: Morningstar Indexes. Data as of March 31, 2026.

Exhibit 10 shows that the fall in leveraged loan prices across both the US and Europe during the first quarter was driven primarily by sharp weakness in the software and services sector. Software-heavy leveraged loans experienced a pronounced sell-off through February, reaching their lowest levels toward late February before partially recovering. In contrast, non-software sectors were relatively resilient, though prices trended lower over the quarter. By quarter-end, software-linked loans remained meaningfully below levels observed at the start of the year, underscoring sector-specific stress.

**Exhibit 10** Weighted Average Bid Price

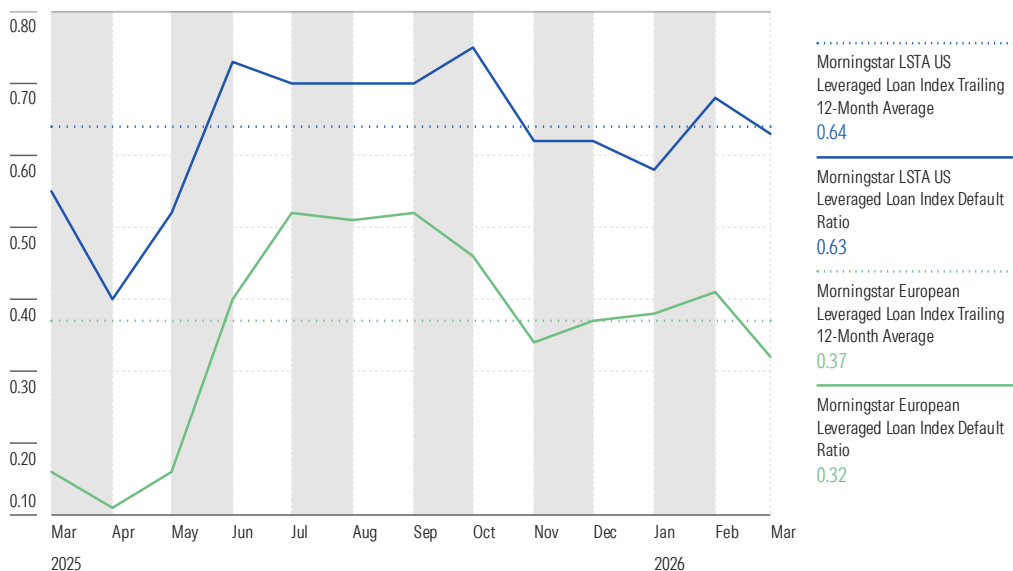


Source: Morningstar Indexes. Data as of March 31, 2026.

### Default Ratio Remains Close to Trailing 12-Month Average

Exhibit 11 shows the default ratio<sup>5</sup> for both the Morningstar LSTA US Leveraged Loan Index and the Morningstar European Leveraged Loan Index rose in February, driven primarily by the default of Multi-Color Corporation. The issuer defaulted on approximately USD 1.6 billion and EUR 0.5 billion of outstanding loans. By the end of March, default ratios declined to levels below their respective trailing 12-month averages.

**Exhibit 11** Default Ratio: Morningstar Leveraged Loan Indexes



Source: Morningstar Indexes. Data as of March 31, 2026.

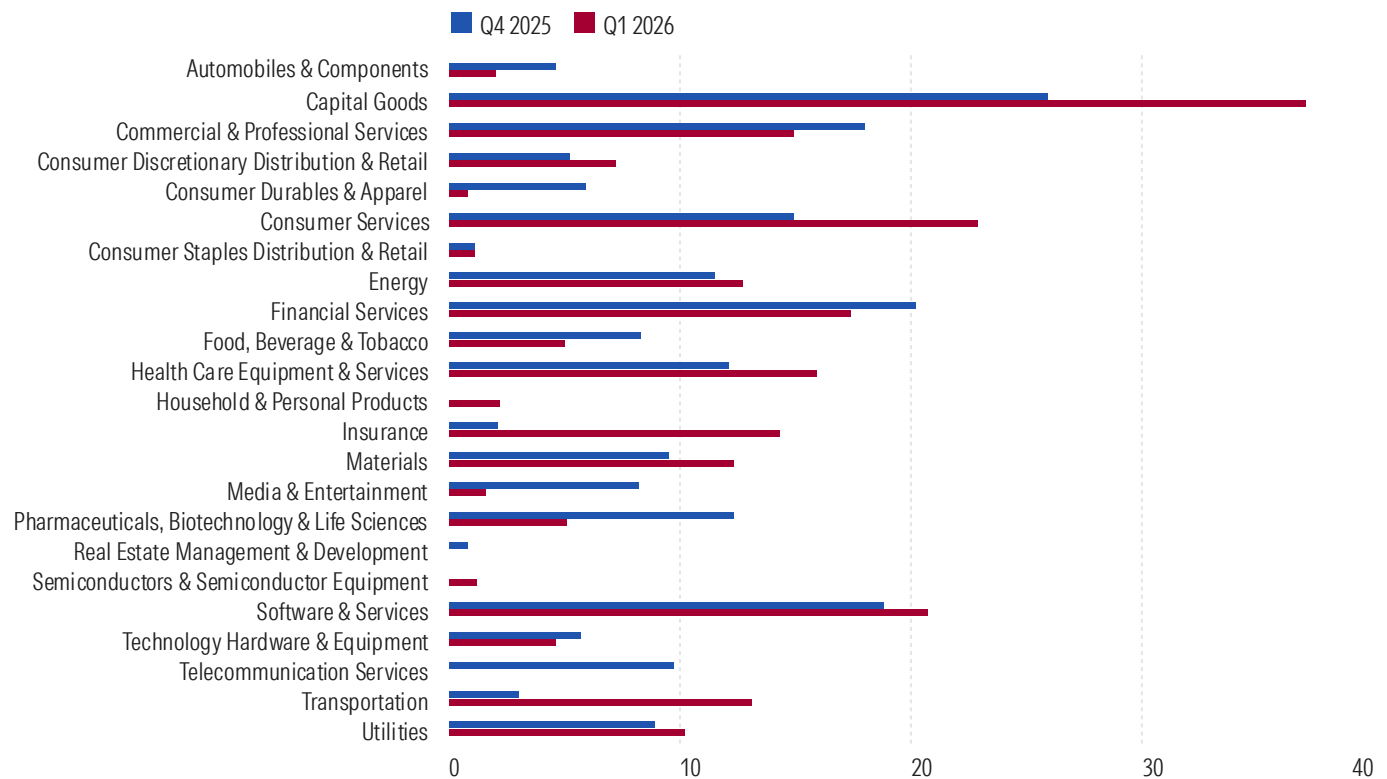
### Sector Spotlight

#### Capital Goods Lead Leveraged Loan Issuances in the US and Europe This Quarter

New loan activity remained relatively stable in the first quarter of 2026. According to the Morningstar LSTA US Leveraged Loan Index, USD 222 billion in new loan issuances was added as compared with USD 207 billion recorded in the last quarter. The most active sectors included capital goods and consumer services, as shown in Exhibit 12. Among the leading issuers were Dayforce and Culligan International, issuing USD 5.5 billion and USD 5.1 billion, respectively.

<sup>5</sup> The default ratio is calculated as the total amount outstanding of defaulted loans divided by the total amount outstanding of all the loans in the index on each effective date. Monthly default ratios are obtained by averaging the daily default ratios within each calendar month. The 12-month average default ratio is computed as the trailing 12-month average of these monthly ratios.

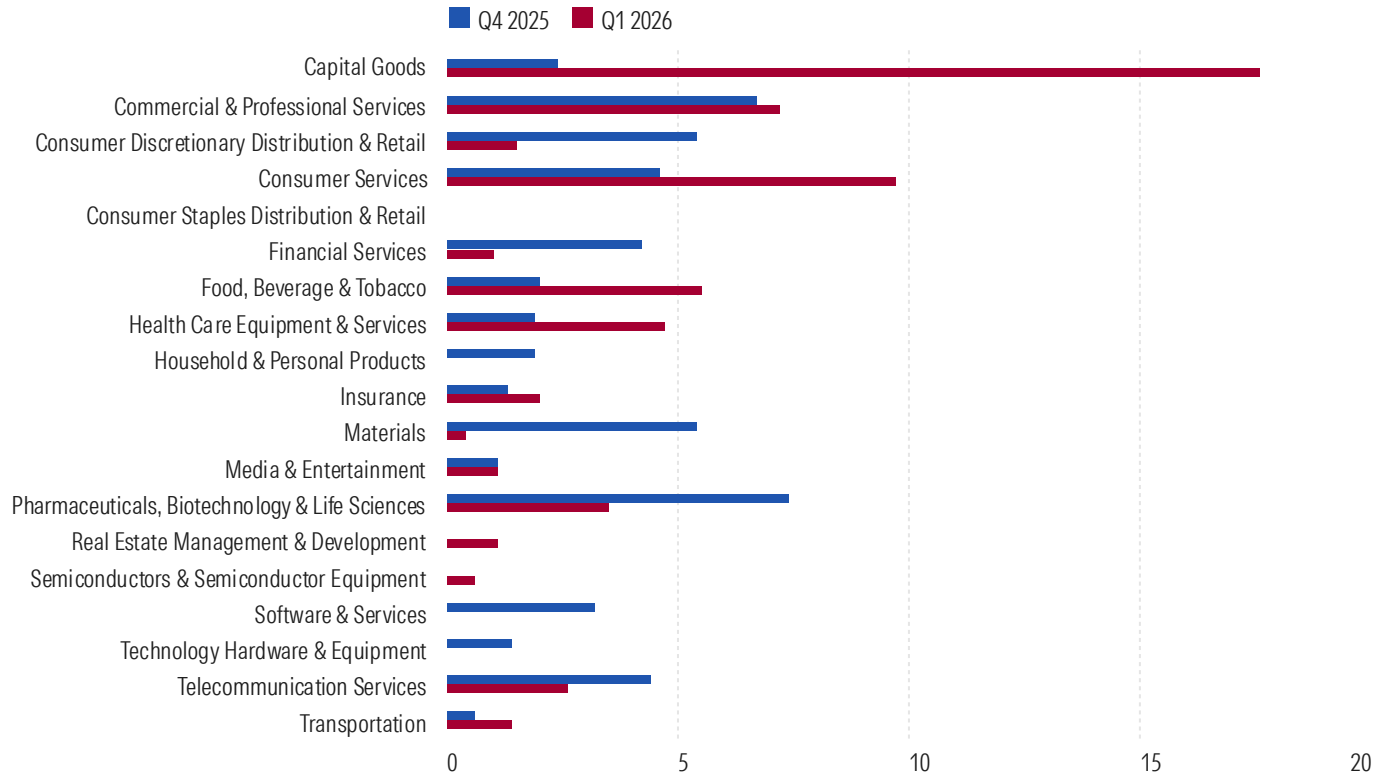
**Exhibit 12** New Issuances: Morningstar LSTA US Leveraged Index (USD Billion)



Source: Morningstar Indexes. Data as of March 31, 2026.

The European leveraged loan market also experienced stable loan issuance activity. According to the Morningstar European Leveraged Loan Index, new loan issuances in the first quarter totaled EUR 60 billion as compared with EUR 54 billion in the past quarter. The capital goods and commercial and professional services sectors led the activity, as illustrated in Exhibit 13. Leading the momentum were Ahlsell and Flora Food Group, issuing EUR 2.7 billion and EUR 2.5 billion, respectively.

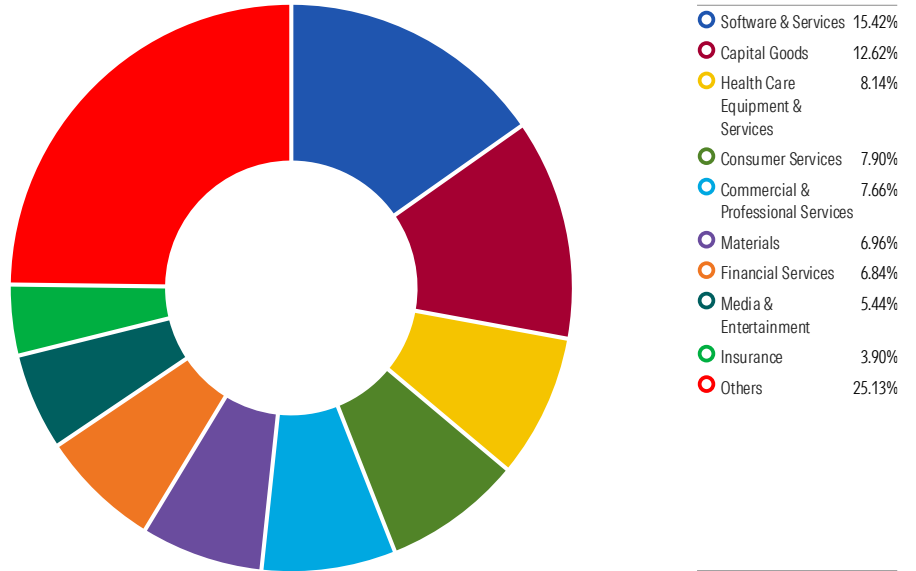
**Exhibit 13** New Issuances: Morningstar European Leveraged Index (EUR Billion)



Source: Morningstar Indexes. Data as of March 31, 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 44% of the index's total market value.

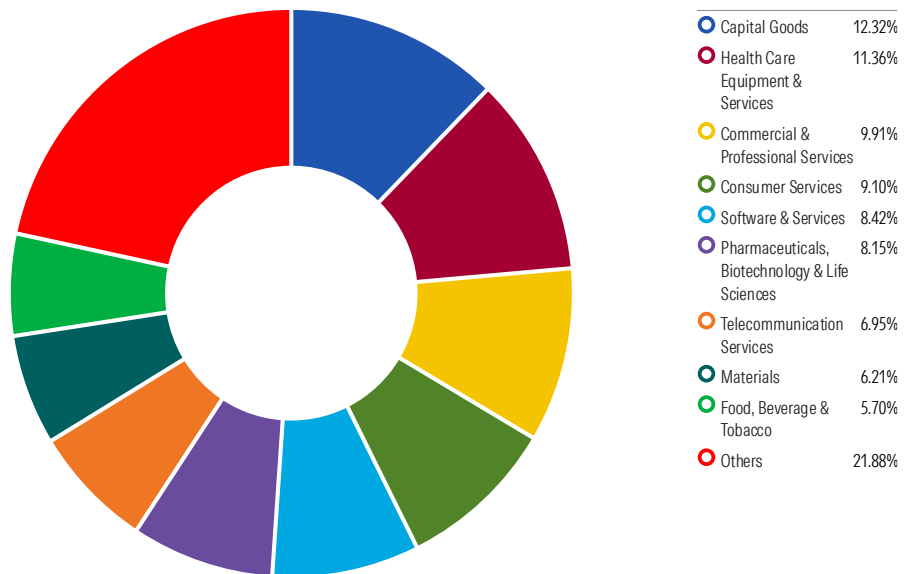
**Exhibit 14** Morningstar LSTA US Leveraged Loan Index Sector Distribution



Source: Morningstar Indexes. Data as of March 31, 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 sectors which collectively account for approximately 43% of the index's total market value.

**Exhibit 15** Morningstar European Leveraged Loan Index Sector Distribution

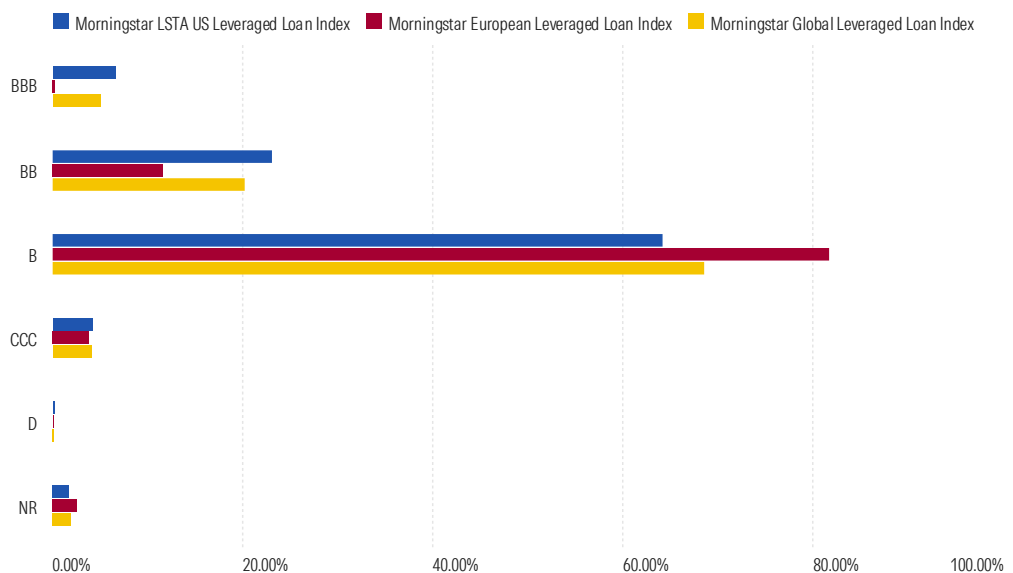


Source: Morningstar Indexes. Data as of March 31, 2026. TR LCL Variant.

### 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 64% of the Morningstar LSTA US Leveraged Loan Index, 82% of the Morningstar European Leveraged Loan Index, and 69% of the Morningstar Global Leveraged Loan Index.

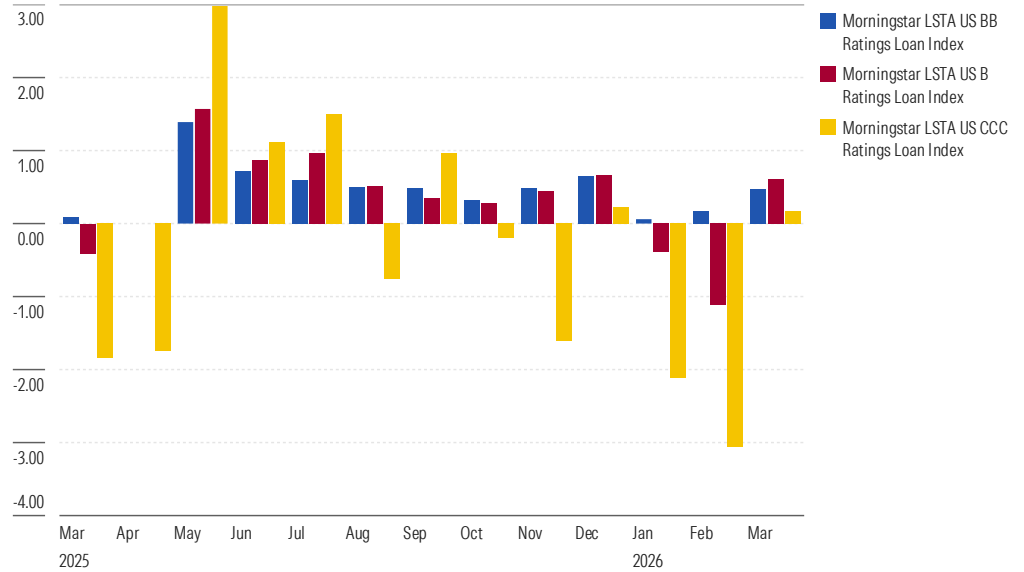
**Exhibit 16** Morningstar Leveraged Loan Indexes Rating Distribution



Source: Morningstar Indexes. Data as of March 31, 2026. TR LCL Variant.

As observed in Exhibit 17, the risk-off environment prompted a shift in investor focus toward higher-quality loans. In addition to broader risk aversion, rating-level performance was influenced by sector composition: Within the Morningstar LSTA US Leveraged Loan Index, the software sector accounts for approximately 27% of the CCC rated cohort, 19% of the B rated cohort, and only 7% of the BB rated cohort. As a result, The Morningstar LSTA US BB Ratings Loan Index, which tracks loans rated BB- to BB+, outperformed, with a return of 0.71%. In contrast, B rated loans, as measured by the Morningstar LSTA US B Ratings Loan Index underperformed with a negative return of 0.90%. The weakest performance came from CCC rated credits, tracked by the Morningstar LSTA US CCC Ratings Loan Index, which declined 4.94% for the quarter.

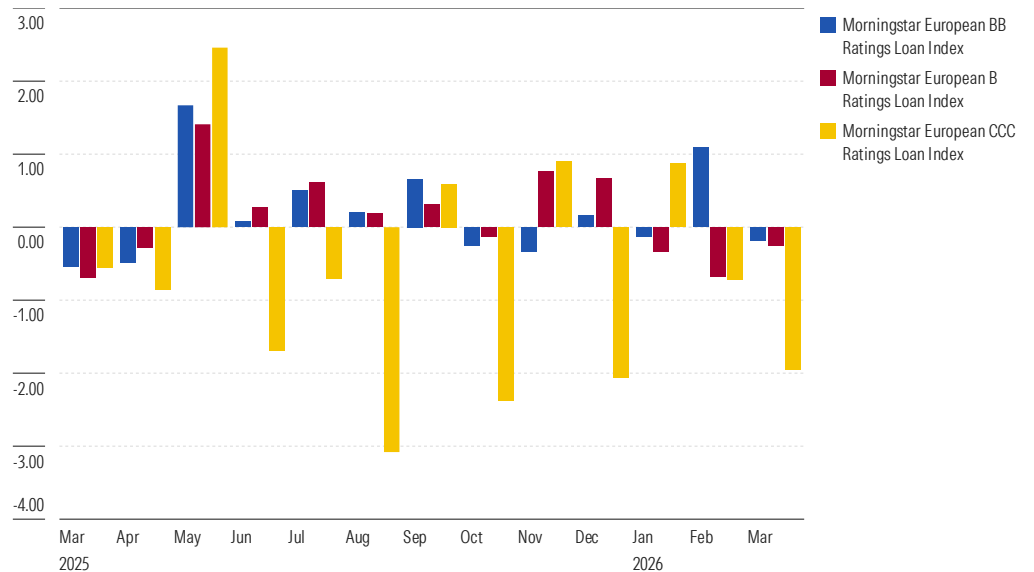
**Exhibit 17** Morningstar LSTA US Leveraged Loan Index Monthly Returns by Loan Rating



Source: Morningstar Indexes. Data as of March 31, 2026. TR LCL Variant.

A similar quality differentiation was observed within the Morningstar European Leveraged Loan Index during the risk-off environment. With the software sector accounting for approximately 11% of the CCC rated cohort and 10% of the B rated cohort, while having no representation in the BB rated cohort. Consequently, higher-quality European leveraged loans outperformed, with BB rated loans, measured by the Morningstar European BB Ratings Loan Index delivering a positive return of 0.78% for the quarter. In contrast, B rated credits, tracked by the Morningstar European B Ratings Loan Index declined 1.27%, and CCC rated credits, according to the Morningstar European CCC Ratings Loan Index, underperformed, posting a negative return of 1.81%.

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



Source: Morningstar Indexes. Data as of March 31, 2026. TR LCL Variant.

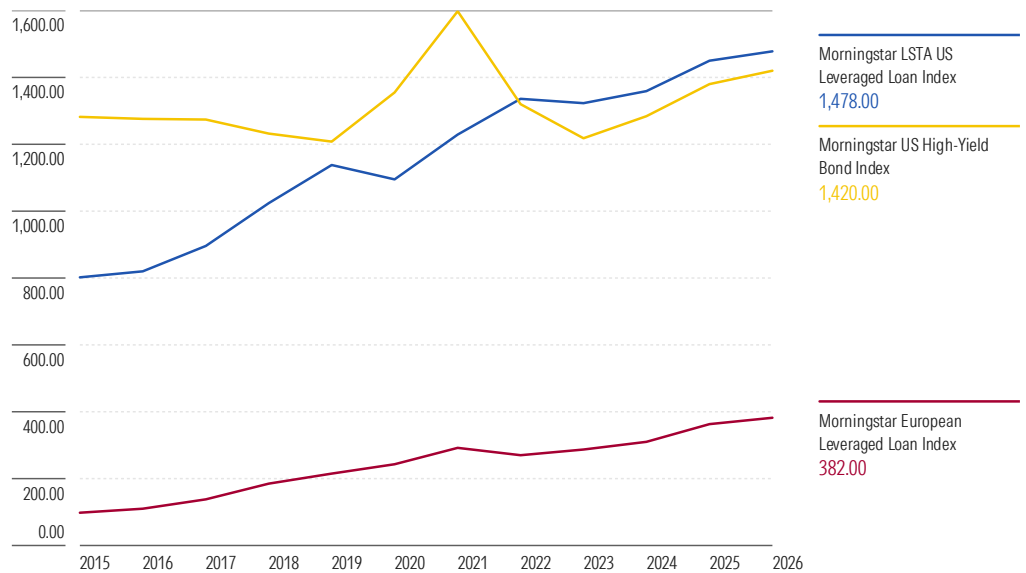
### Comparison With Traditional Fixed-Income Benchmarks

#### 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 March 2026. In contrast, the US high-yield bond market, according to the Morningstar US High Yield Bond Index, experienced a sharp rise, peaking at USD 1.62 trillion in 2021, followed by a notable contraction and eventual stabilization at USD 1.42 trillion by the end of March 2026. The European leveraged loan market, while much smaller in scale at USD 382 billion (EUR 332 billion), has demonstrated steady growth since 2014.

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

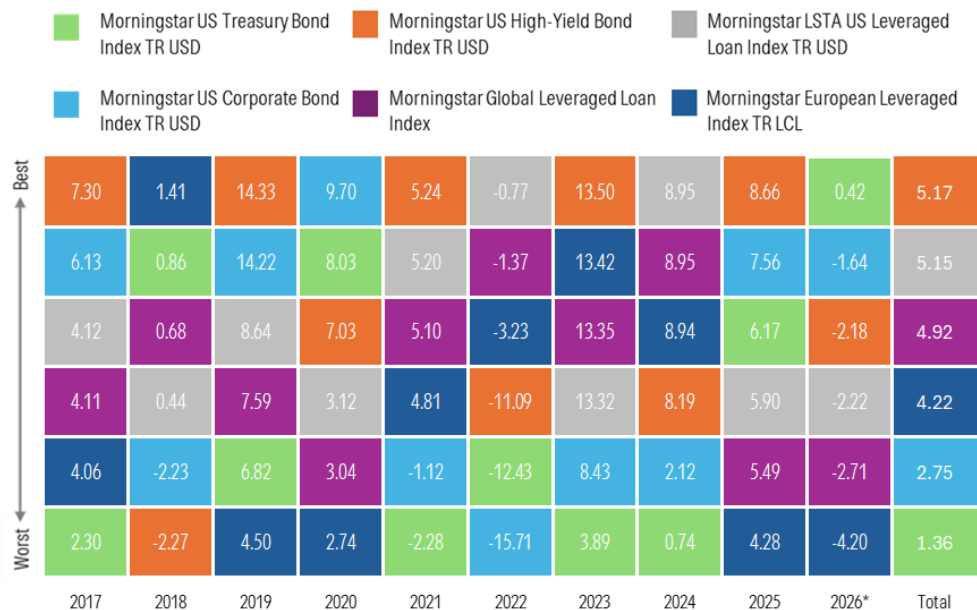


Source: Morningstar Indexes. Average daily market value for the year. Data as of March 31, 2026. USD.

#### Horizon Returns

Exhibit 20 compares the performance of traditional fixed-income asset classes with leveraged loans over the past decade. In the first quarter of 2026, as credit spreads widened, US Treasuries were the only asset class to post positive returns, while relatively riskier segments including US investment-grade bonds, high-yield bonds, and leveraged loans delivered negative returns for the 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 (%)



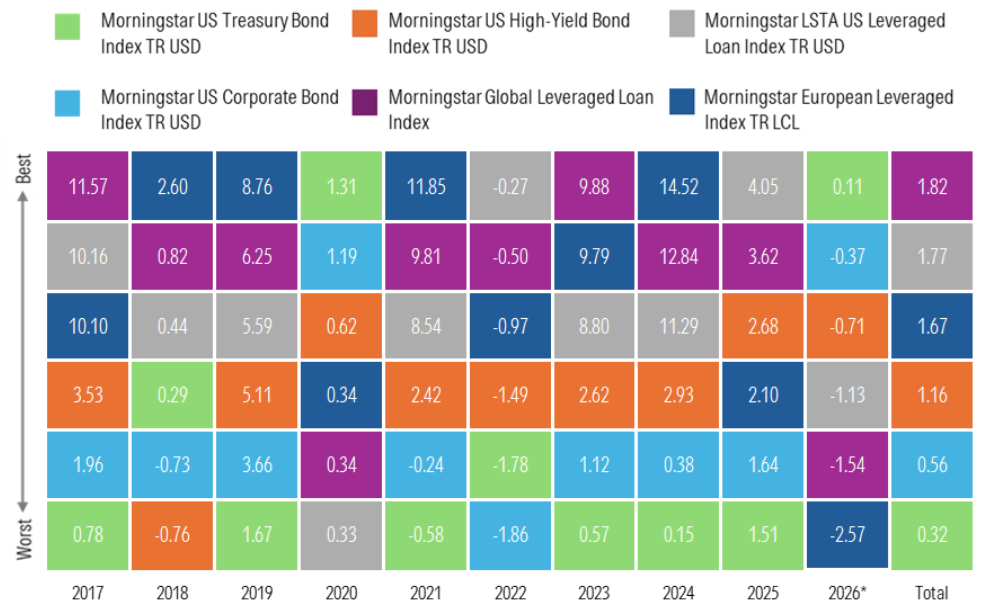
Source: Morningstar Indexes. Data as of March 31, 2026.

\*2026 Horizon - Annualized Returns (Date as of March 31, 2026).

Period for Total - Dec. 31, 2016, to March 31, 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 March 31, 2026.  
 \*2026 Horizon - Annualized Returns and Risks (Data as of March 31, 2026).  
 Period for Total - Dec. 31, 2015, to March 31, 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>.

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