

Morningstar Leveraged Loan Index Monitor: Q3 2026

Leveraged loans outshine traditional fixed income in 2026 as software rebounds.

Morningstar

October 2026

Contents

- 2 Market Update
- 4 Leveraged Loans Insights
- 10 Sector Spotlight
- 14 Credit Ratings Radar
- 16 Comparison With Traditional Fixed-Income Benchmarks
- 18 Reliable Benchmarks in a Dynamic Credit Market

Nikhil Arora, CFA

Associate Director of Quantitative Research,
New Product Development
nikhil.arora1@morningstar.com

Shailesh Balachandran Menon, CFA, FRM
Principal Quantitative Analyst, New Product
Development
shailesh.balachandran@morningstar.com

Important Disclosure

The conduct of Morningstar's analysts is governed by Code of Ethics/Code of Conduct Policy, Personal Security Trading Policy (or an equivalent of), and Investment Research Policy. For information regarding conflicts of interest, please visit: <http://global.morningstar.com/equitydisclosures>

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

- ▶ The Federal Reserve raised the federal-funds rate by 25 basis points to 3.75% to 4% at its September 2026 meeting, a first move after holding rates steady in June and July, lifting the base rates on leveraged loans.
- ▶ The Bank of England held the Bank Rate at 3.75% in a 6-3 vote, with three members favoring a hike to 4%, and judged inflation risks tilted further to the upside. The European Central Bank raised its deposit facility rate by 25 basis points to 2.50%.
- ▶ Treasury yields rose sharply in the third quarter 2026, led by the two- to seven-year segment (+85 basis points on average), while long-term yields rose 78 basis points and yields out to one year 38 basis points, steepening the curve out to 10 years.
- ▶ Leveraged loans posted positive returns, driven mainly by coupon income and supported by a rebound in software loan prices. The Morningstar LSTA US Leveraged Loan Index delivered the highest returns of 1.95%, followed by the Morningstar Global Leveraged Loan Index at 1.73% and the Morningstar European Leveraged Loan Index at 1.07%.
- ▶ Yield to maturity rose over the quarter, with the Morningstar LSTA US Leveraged Loan Index ending at 8.66%, up 28 basis points, while the Morningstar European Leveraged Loan Index rose 19 basis points to 7.37%.
- ▶ Spreads widened in the US by 12 basis points to 486 basis points and narrowed by 10 basis points in Europe over the quarter. Spreads in the US are now higher than European loan spreads for the first time since July 2024 and the widest since December 2023.
- ▶ New loan issuance declined, with the Morningstar LSTA US Leveraged Loan Index recording USD 172 billion from USD 185 billion last quarter and the Morningstar European Leveraged Loan Index recording EUR 53 billion from EUR 62 billion.
- ▶ By rating cohort, B-rated loans led both regions. In the US, B-rated loans returned 2.53%, BB 1.59%, and CCC -2.64%; in Europe, B-rated loans returned 1.34%, BB 1.13%, and CCC -4.34%, with CCC negative in all three months in both regions.

Market Update

Federal Reserve Raises Rates as Inflation Remains Elevated

At its September 2026 meeting, the Federal Reserve raised the target range for the federal-funds rate by 25 basis points to 3.75% to 4%, judging that the move would support a timelier return of inflation to the 2% level it considers consistent with stable prices. This was the first rate hike since July 2023, reflecting a firmer growth backdrop and inflation still running above the level the Fed deems acceptable. Domestic spending has stayed resilient, productivity growth is strong, and capital investment is robust, signaling the Fed's conviction that conditions warrant removing a measure of accommodation rather than holding steady.

Real gross domestic product rose at a 2.2% annual rate in the second quarter of 2026, according to the Bureau of Economic Analysis's third estimate, after a 2.5% revised gain in the first quarter.¹ Consumer spending, investment, and exports drove the advance, while imports subtracted from growth. The Personal Consumption Expenditures price index increased 5.0% and the core PCE index 3.3%, both well above the Fed's preferred pace. The September projections saw a slight increase in inflation forecasts, with year-end PCE expected to rise to 3.7% from 3.6% in June.² The projected federal-funds rate also increased to 4.1% from 3.8% in June. This implies a strong possibility of at least one more rate hike in 2026.

The outlook is one of above-trend growth paired with stubborn price pressures. Firm private demand and a revised-up first half argue that the economy retains momentum even under tighter policy, while elevated inflation keeps further tightening on the table. The 25-basis-point increase signals the Fed's intent to accelerate the return to 2% inflation. Investors should expect continued vigilance from policymakers, with the potential for further adjustments if inflationary pressures intensify.

Bank of England Holds Rates as Energy Shock Clouds Inflation Path

The Bank of England's Monetary Policy Committee voted to maintain Bank Rate at 3.75% at its meeting ending on Sept. 16, 2026, judging that current policy restrictiveness, combined with tighter financial conditions since the onset of the Middle East conflict, provides sufficient insurance against upside inflation risks for now. UK CPI inflation rose to 3.1% in August, and Bank staff now expect inflation to climb to around 3.75% in the fourth quarter of 2026 and slightly above 4% in the first quarter of 2027, compared with 3.2% projected at the time of the July Report.³ This was driven almost entirely by further increases in wholesale oil, gas, and electricity costs. UK GDP grew 0.4% in the second quarter of 2026, 0.10% above the July report projection, and third-quarter growth is now tracked at 0.40%, materially stronger than the 0.10% previously anticipated, with resilience evident in business services, PMI readings, and consumer confidence. The unemployment rate held at 4.90% in the three months to July, with timely indicators pointing to some stabilization in labor market slack.

¹ GDP growth rates data source: Bureau of Economic Analysis, US Department of Commerce, released on Sept. 30, 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 September 2026 Monetary Policy Statement.

ECB Delivers Hike as Energy Shock Reshapes Inflation Path

The Governing Council raised the three key ECB interest rates by 25 basis points at its September 2026 meeting, lifting the deposit facility, main refinancing operations, and marginal lending facility rates to 2.50%, 2.65%, and 2.90%, respectively. The move followed the July decision to leave rates unchanged and reflected a judgment that the conflict in the Middle East continues to generate inflation pressures, with inflation set to remain well above target for an extended period. This marks the second hike by the ECB in the past three monetary policy meetings.

The euro-area economy has absorbed the energy shock better than feared. Growth in the second quarter was broad-based across countries and sectors, with manufacturing supported by defense and infrastructure spending, services recovering alongside firmer consumer confidence, and the unemployment rate holding at 6.4% in July. Updated projections see headline inflation averaging 3.0% in 2026, 2.5% in 2027, and 2.1% in 2028, and core inflation projections averaging 2.5% in 2026, 2.6% in 2027, and 2.3% in 2028, with the 2027 and 2028 paths revised higher versus June. Growth projections rose to 0.9% in 2026, 1.4% in 2027, and 1.5% in 2028, an upward revision for both 2026 and 2027, mainly reflecting the greater-than-expected resilience of the euro area economy.⁴

For the euro-area outlook, the September decision marks a resumption of tightening after the July pause, with the ECB tilting policy against second-round effects rather than waiting for them to materialize. With risks to the upside for inflation and to the downside for growth, the stance signals that further tightening cannot be ruled out should the energy shock prove more persistent, keeping euro-area rate expectations and credit spreads sensitive to incoming inflation prints into year-end.

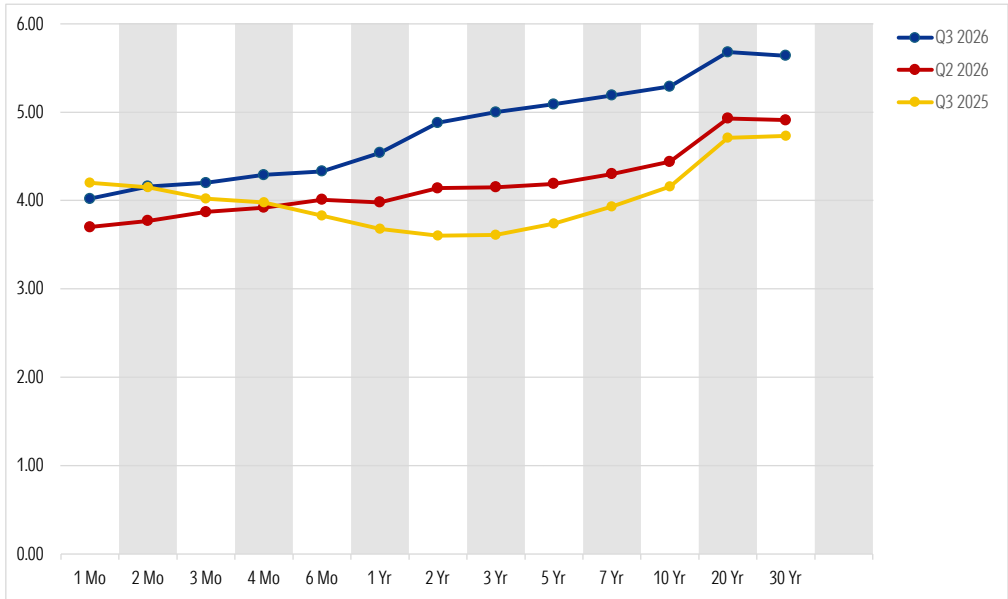
US Yield Curve and Interest Rate Movement Summary

In the third quarter, medium-term Treasury yields led the move higher, with maturities between two and seven years rising by an average of roughly 85 basis points to 5.04%. Long-maturity yields climbed almost as much, with the 10-, 20-, and 30-year segments rising 85, 75, and 73 basis points, respectively, lifting the long-term average by 78 basis points to 5.54%. Short-term interest rates rose by comparatively less, with yields out to one year increasing by an average of about 38 basis points to 4.26%.

The quarter-over-quarter pattern reflects a steepening of the belly and front end of the Treasury yield curve. The long end, by contrast, flattened, with the spread between 30- and 10-year term rates narrowing to 35 basis points.

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

Exhibit 1 Yield Curve (%)

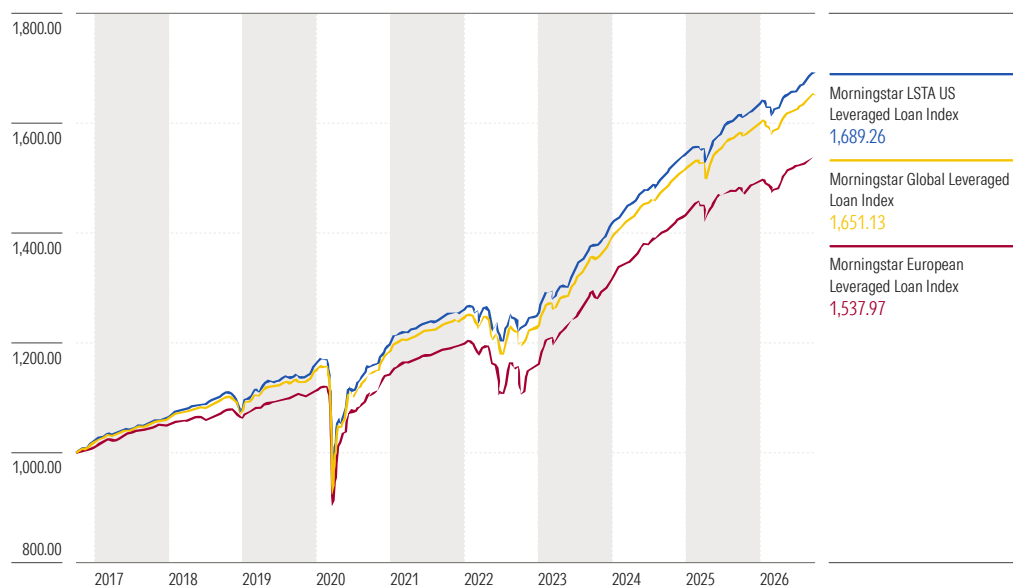


Source: US Department of the Treasury. Data as of Sept. 30, 2026.

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

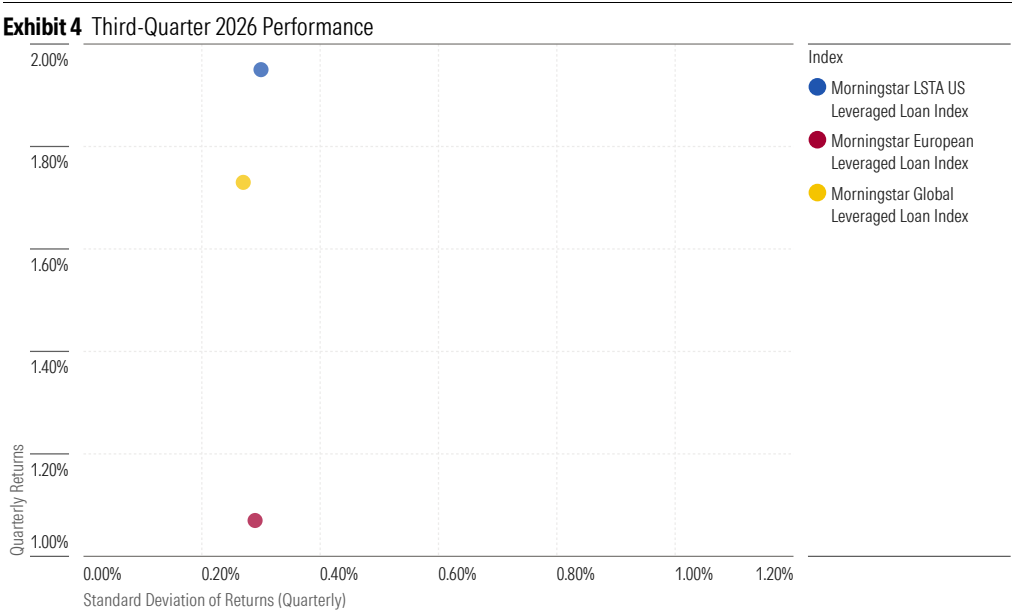
Source: Morningstar Indexes. Data as of Sept. 30, 2026. TR LCL Variant.

Exhibit 3 Risk/Characteristics

Parameters	Morningstar LSTA US Leveraged Loan Index	Morningstar European Leveraged Loan Index	Morningstar Global Leveraged Loan Index
Start Date	2016-09-30	2016-09-30	2016-09-30
End Date	2026-09-30	2026-09-30	2026-09-30
Return (%)	5.38	4.40	5.14
Risk (%)	5.29	6.34	5.47

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

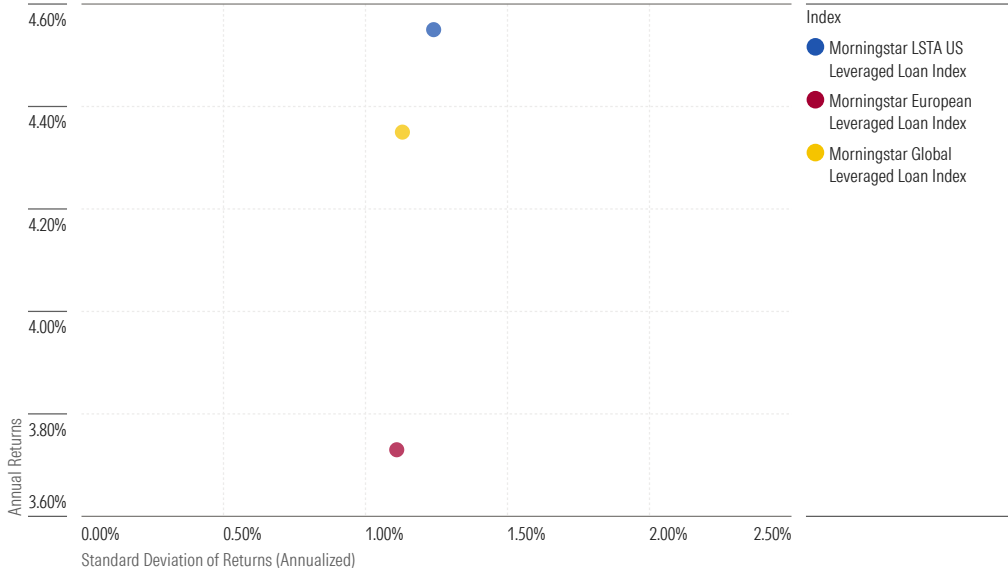
The comparative risk/return performance of the Morningstar indexes over the third quarter is shown in Exhibit 4. Leveraged loans posted solid gains across all three indexes during the quarter. The Morningstar LSTA US Leveraged Loan Index led with a return of 1.95%, followed by the Morningstar Global Leveraged Loan Index at 1.73%, while the Morningstar European Leveraged Loan Index recorded the weakest performance at 1.07% for the quarter. Returns were driven mainly by interest income while also benefiting from a rebound in software loan prices. The three indexes exhibited broadly comparable risk characteristics over the period, with the global index again tracking closely to its dominant US component.



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

Exhibit 5 highlights the comparative performance over the previous 12 months. The Morningstar LSTA US Leveraged Loan Index provided the highest returns, supported by comparatively higher base rates prevailing in the US. Over the trailing 12 months, the Morningstar LSTA US Leveraged Loan Index returned 4.55%, ahead of the Morningstar Global Leveraged Loan Index at 4.35% and the Morningstar European Leveraged Loan Index at 3.73%. The weaker returns of the Morningstar European Leveraged Loan Index reflected the lower base-rate environment in Europe. Meanwhile, returns of the Morningstar Global Leveraged Loan Index trailed the US, largely owing to the influence of European loans.

Exhibit 5 12-Month Performance Ended Sept. 30, 2026

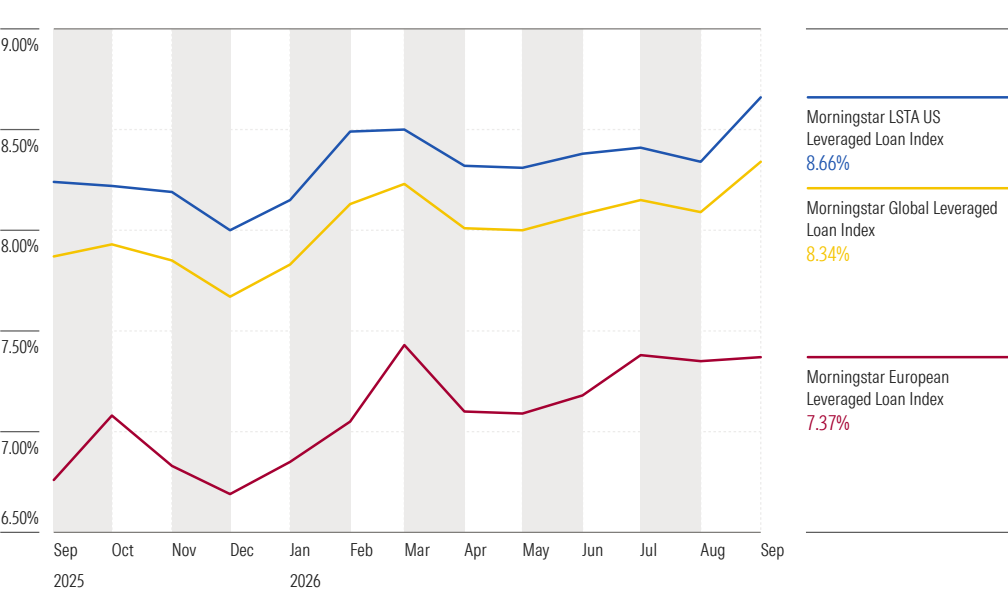


Source: Morningstar Indexes. Data as of Sept. 30, 2026. TR LCL Variant.

Leveraged Loan Yields Rise on Higher Base Rates in Both Regions

As seen in Exhibit 6, the yield to maturity for leveraged loans rose over the third quarter. The yield to maturity of the Morningstar LSTA US Leveraged Loan Index ended the quarter at 8.66%, representing an increase of 28 basis points from the last quarter. The Morningstar European Leveraged Loan Index saw a more modest rise of 19 basis points, with yields reaching 7.37%. The Morningstar Global Leveraged Loan Index reached yields of 8.34%.

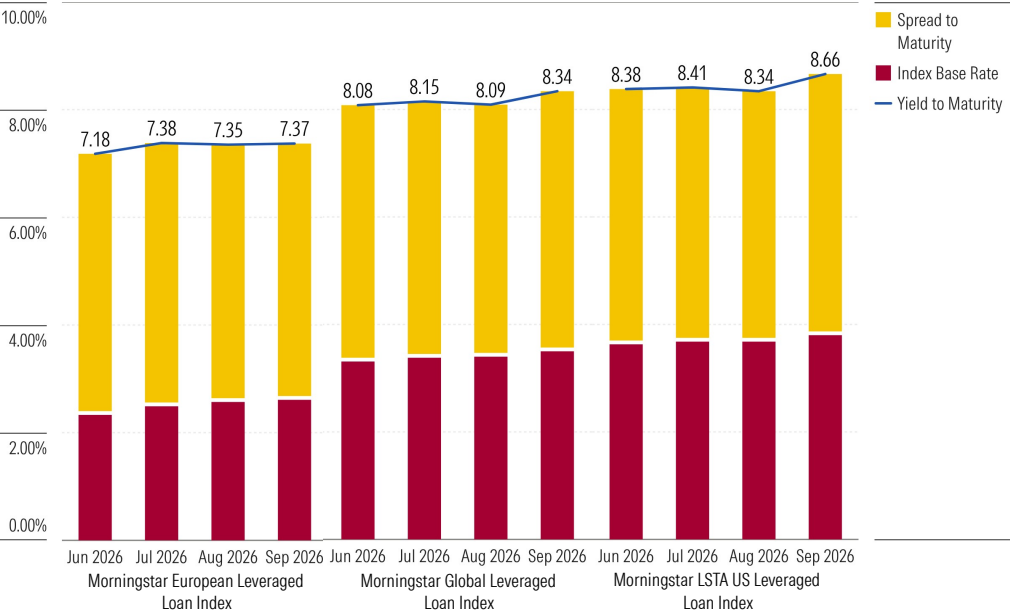
Exhibit 6 Yield to Maturity



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

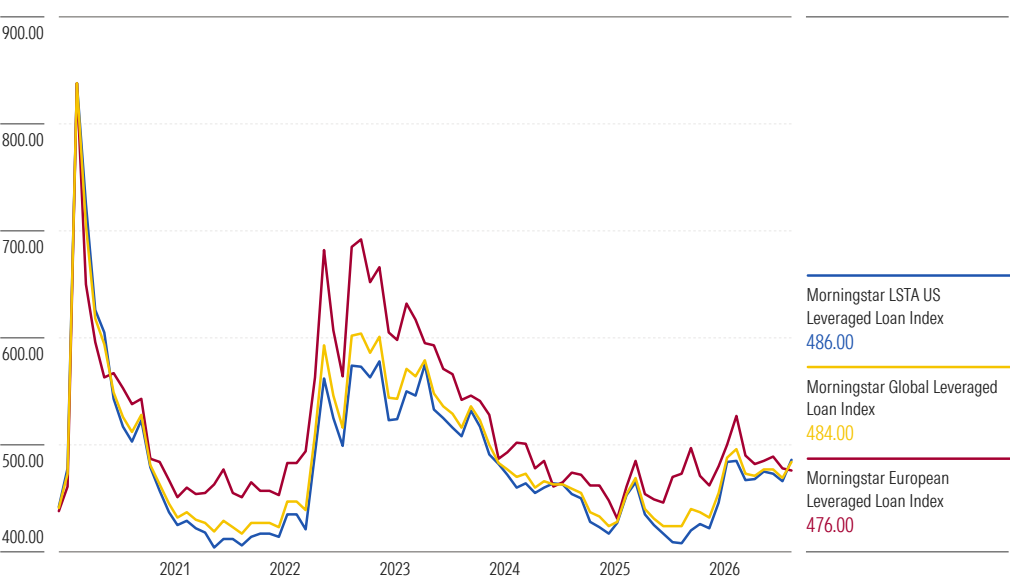
As illustrated in Exhibits 7 and 8, base rates edged higher over the quarter in both the US and Europe. Credit spreads moved in opposite directions across the two regions. Over the quarter, the spread to maturity widened by 12 basis points in the US while narrowing by 10 basis points in Europe. This marks the first time since July 2024 that US spreads exceed Europe's. It is also the widest spreads seen in the US since December 2023.

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



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

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

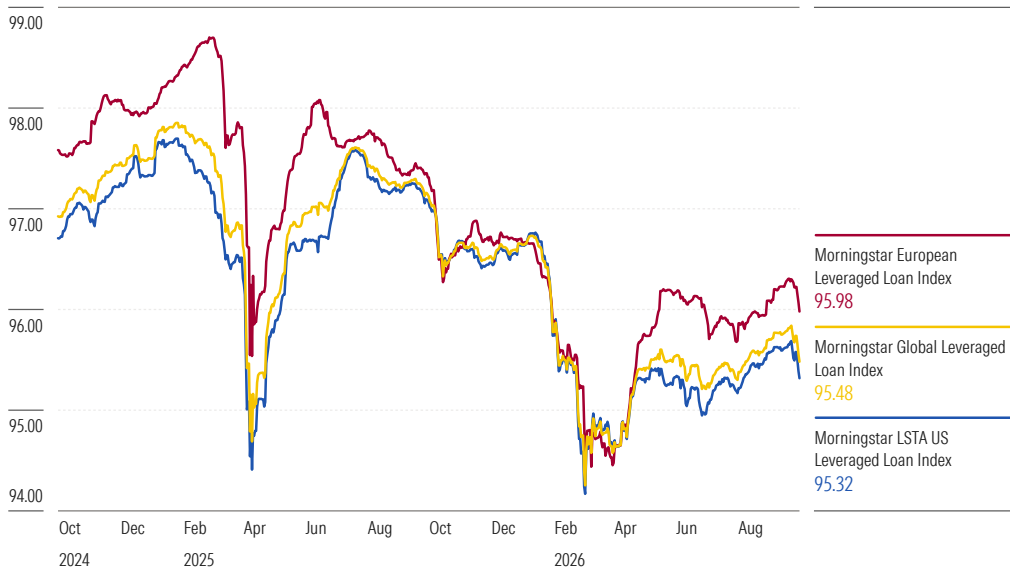


Source: Morningstar Indexes. Data as of Sept. 30, 2026.

Loan Bid Prices Hold Steady as Software Outperforms on Both Sides of the Atlantic

Across both the US and European markets, leveraged loan prices remained stable, as illustrated in Exhibit 9. By quarter-end, prices had risen by 0.36 points in the US and stayed flat in Europe. Despite the broadly stable quarterly performance, bid prices weakened toward the end of September as markets continued to adjust to a higher interest rate environment following the Federal Reserve's 25-basis-point rate hike in September. Subsequently, the comments from New York Fed President John Williams on Sept. 24 stating that another rate hike later in the year was a reasonable possibility reinforced expectations for continued monetary-policy tightening. Higher base rates, however, lift coupon income on floating-rate loans, which should cushion total returns.

Exhibit 9 Weighted Average Bid Price



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

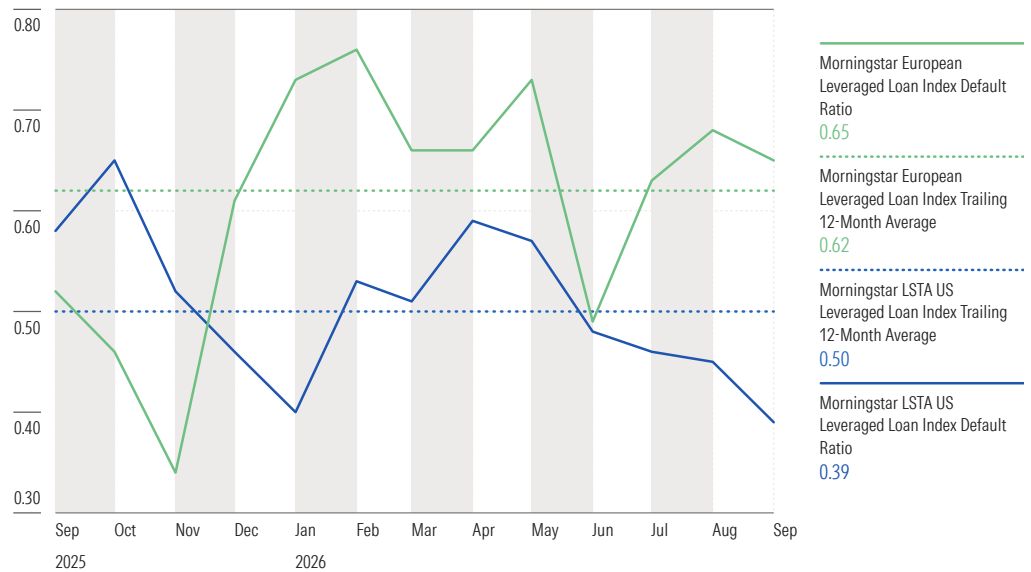
Exhibit 10 highlights software & services outperforming on both sides of the Atlantic, while all other sectors held comparatively flat apart from a dip in prices at the end of September. In the US, software & services opened the quarter at 89.97 and ended at 92.44. In Europe, software & services started the quarter at 92.76 and closed at 95.09.

Exhibit 10 Weighted Average Bid Price (Software & Services Versus Other Sectors)

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

US Loan Defaults Fall Below Their 12-Month Average While Europe's Stay Elevated

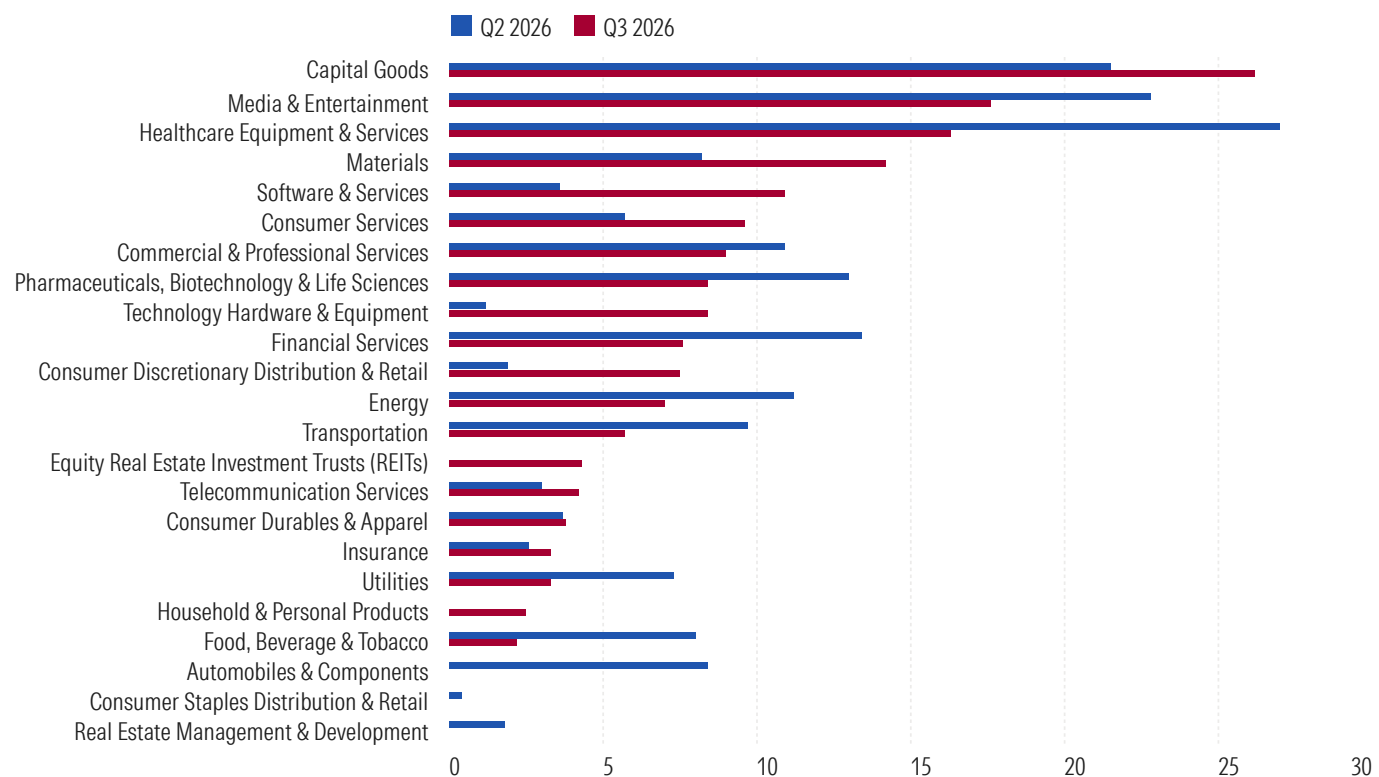
As shown in Exhibit 11, US and European loan default rates have diverged. The US rate has fallen for five straight months to 0.39% in September, its lowest level since May 2025 and well below its 12-month average of 0.50%. September's drop from 0.45% was the sharpest since June, driven by restructurings at Cubic, Esdec, and New Fortress Energy. In Europe, by contrast, the rate has stayed above its 12-month average of 0.62% since July and was 0.65% in September. This reflects defaults over the past few months at major issuers such as Ingenico, Cerba European Lab, and Novocap. The gap between the two regions is now at its widest since January.

Exhibit 11 Default Ratio: Morningstar Leveraged Loan Indexes

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

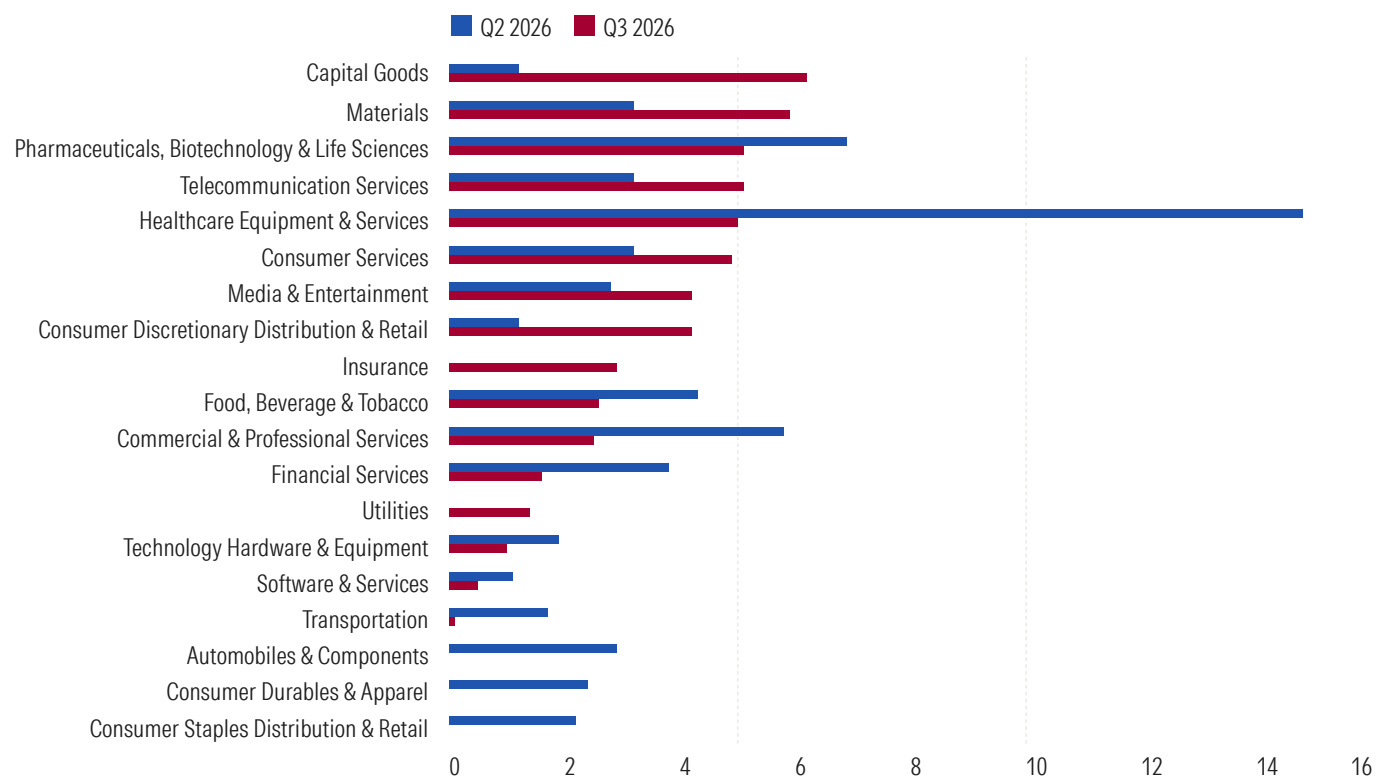
Sector Spotlight**Capital Goods Leads Leveraged Loan Issuances in the US and Europe This Quarter**

New loan activity declined in the third quarter of 2026. According to the Morningstar LSTA US Leveraged Loan Index, USD 172 billion in new loan issuances was added compared with USD 185 billion recorded in the last quarter. The most active sectors included capital goods and media & entertainment, as shown in Exhibit 12. Among the leading issuers were Electronic Arts and Proofpoint. Software & services issuance tripled to USD 10.9 billion from USD 3.6 billion, a sign the market reopened to software alongside the price rebound.

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

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

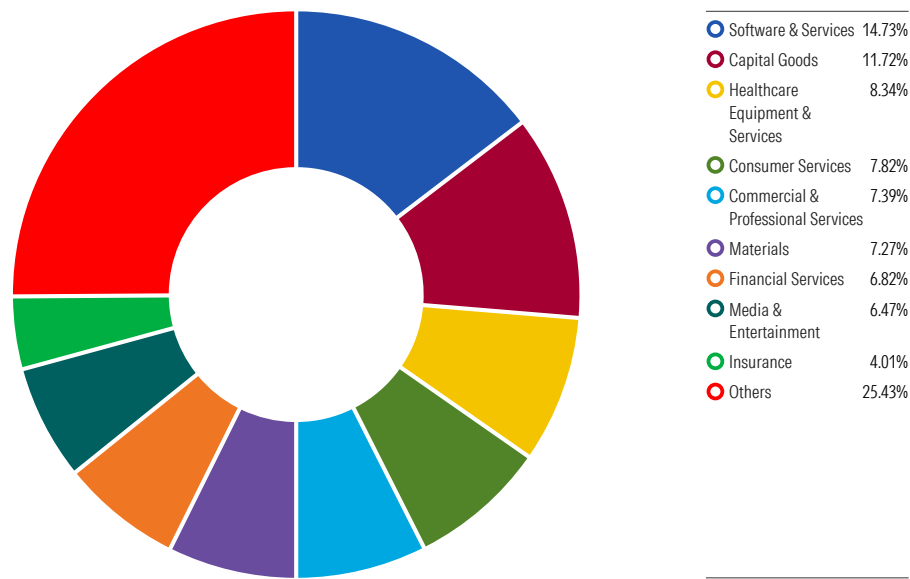
The European leveraged loan market also experienced a decline in loan issuance activity. According to the Morningstar European Leveraged Loan Index, new loan issuances in the third quarter totaled EUR 53 billion compared with EUR 62 billion in the past quarter. The capital goods and materials sectors led the activity, as illustrated in Exhibit 13. Leading the momentum were Motor Fuel Ltd and Cooperation Pharmaceutique Francaise.

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

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

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

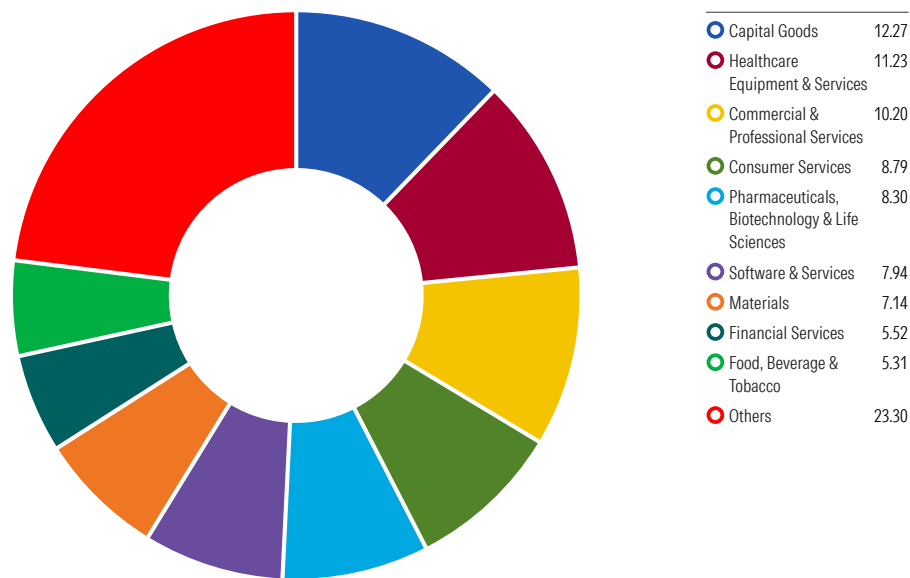
Exhibit 14 Morningstar LSTA US Leveraged Loan Index Sector Distribution



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

As shown in Exhibit 15, the largest sector exposures within the Morningstar European Leveraged Loan Index include the capital goods, healthcare equipment & services, commercial & professional services, and consumer services sectors, which collectively account for approximately 42% of the index's total market value.

Exhibit 15 Morningstar European Leveraged Loan Index Sector Distribution

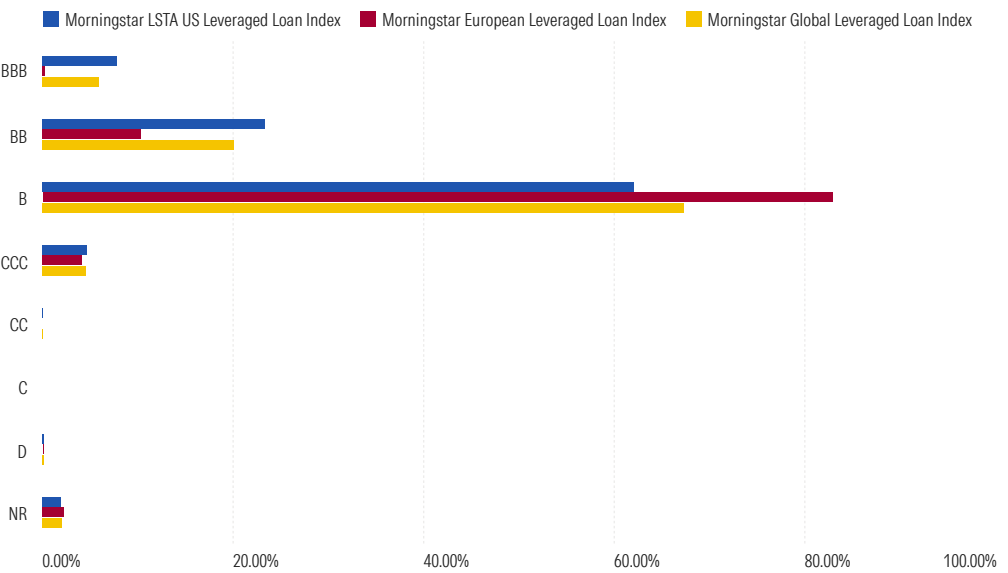


Source: Morningstar Indexes. Data as of Sept. 30, 2026. TR LCL variant.

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.

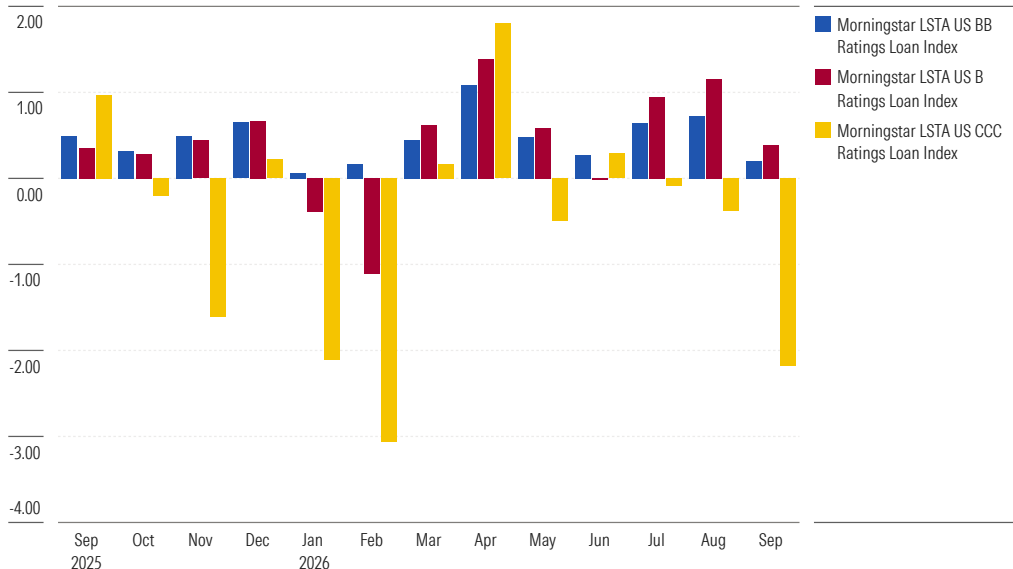
Exhibit 16 Morningstar Leveraged Loan Indexes Rating Distribution



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

As shown in Exhibit 17, the rating cohorts of the Morningstar LSTA US Leveraged Loan Index posted a clear quality-tiered dispersion over the third quarter of 2026. The Morningstar LSTA US B Ratings Loan cohort led, returning 2.53% for the quarter, followed by the BB rated cohort at 1.59%, while the CCC rated cohort lagged with a decline of 2.64%. Most of the CCC loss came in September (–2.18%), coinciding with the spread widening. CCC was negative in every month of the third quarter after a positive second quarter.

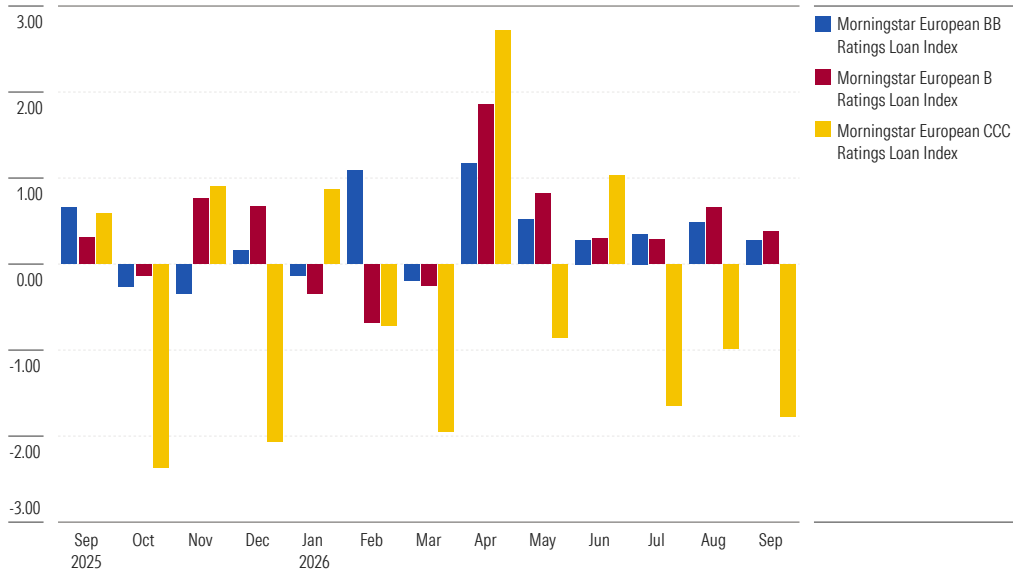
Exhibit 17 Morningstar LSTA US Leveraged Loan Index Monthly Returns by Loan Rating



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

Exhibit 18 shows a comparable quality differentiation within the Morningstar European Leveraged Loan Index over the third quarter of 2026. B rated credits, as measured by the Morningstar European B Ratings Loan Index, led the quarter with a return of 1.34%. BB rated credits, as measured by the Morningstar European BB Ratings Loan Index returned 1.13%, while CCC credits, as measured by the Morningstar European CCC Ratings Loan Index, fell 4.34%. In contrast to the positive returns posted in the second quarter of 2026, lower-rated CCC loans underperformed in every month of the third quarter.

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



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

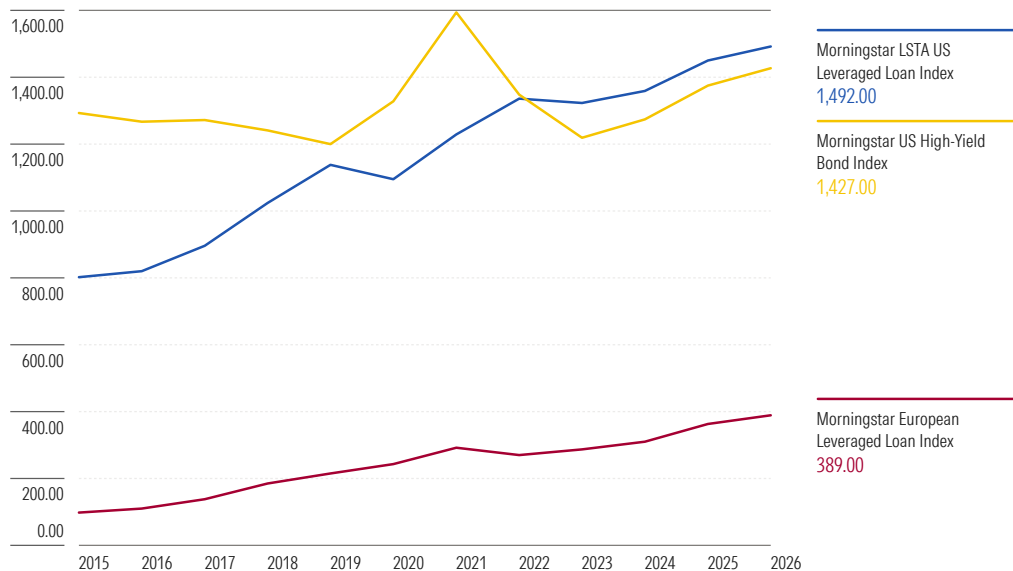
Comparison With Traditional Fixed-Income Benchmarks

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 1.49 trillion as of September 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 September 2026. The European leveraged loan market, while smaller in scale at USD 389 billion (EUR 343 billion), has shown a steady rise.

These trends highlight 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.

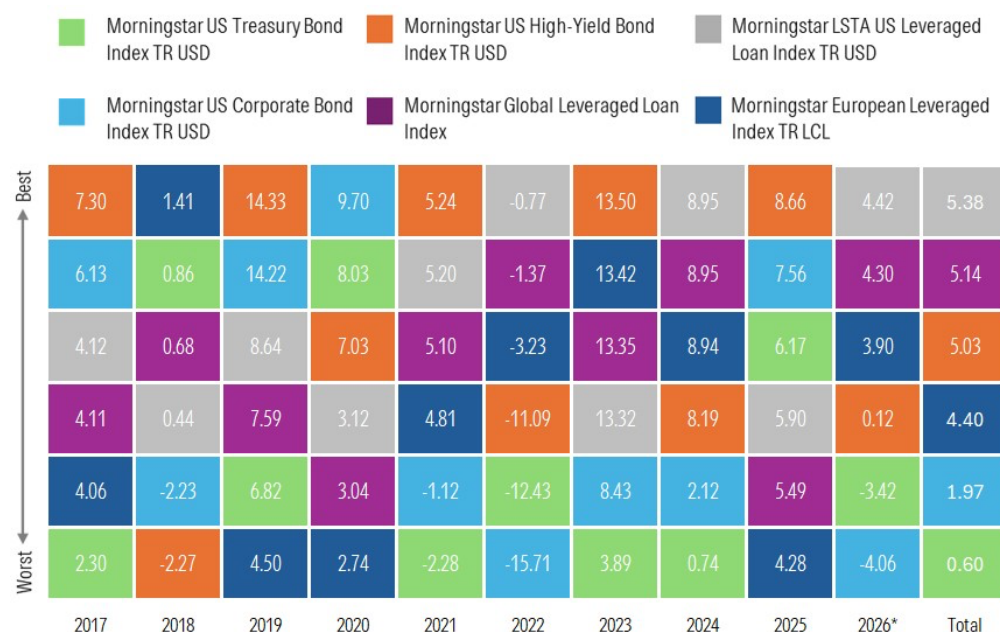
Exhibit 19 Market Value in USD Billion



Source: Morningstar Indexes. Average daily market value for the year. Data as of Sept. 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 latest period, the three leveraged loan indexes and the US high-yield bond index posted positive returns, while US Treasuries and US investment-grade corporate bonds delivered negative returns as credit-sensitive segments outperformed rate-sensitive ones. Over the decade, the Morningstar LSTA US Leveraged Loan Index delivered the highest total return, closely followed by the Morningstar Global Leveraged Loan Index and the Morningstar US High-Yield Bond Index, with the Morningstar European Leveraged Loan Index trailing but still well ahead of corporate and Treasury bonds.

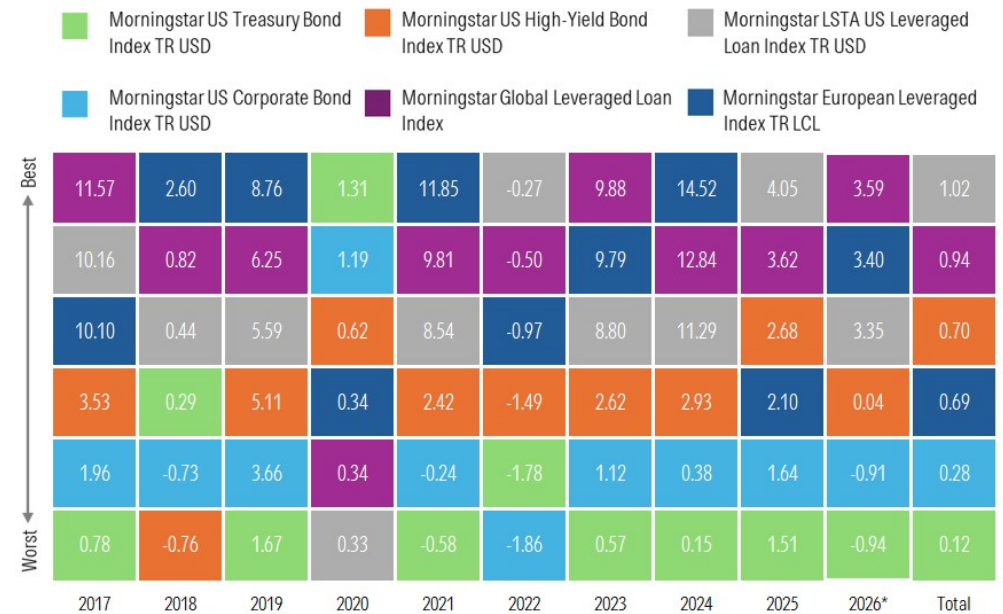
Exhibit 20 Horizon Returns (%)

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

*2026 Horizon—Annualized Returns (Data as of Sept. 30, 2026).

Period for Total—Dec. 31, 2016, to Sept. 30, 2026.

Exhibit 21 provides a risk-adjusted comparison using the return-to-risk ratios reported in the exhibit. In the most recent period, the Morningstar Global Leveraged Loan Index posted the strongest return-to-risk profile, followed closely by the European and US leveraged loan indexes, each far ahead of the traditional fixed-income benchmarks. Over the decade, the Morningstar LSTA US Leveraged Loan Index recorded the highest risk-adjusted performance, with the Morningstar Global Leveraged Loan Index close behind.

Exhibit 21 Return/Risk Performance (%)

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

*2026 Horizon—Annualized Returns and Risks (Data as of Sept. 30, 2026).

Period for Total — Dec. 31, 2016, to Sept. 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. In February 2026, the acquisition of CRSP brought the CRSP Market Indexes—benchmarks for over \$3 trillion in AUM—into the Morningstar Indexes family. Rebranded to the Morningstar Market Indexes in July 2026, these indexes are recognized globally for their high-quality methodology and focus on investability. Additionally, CRSP's Research Data Products, renowned for their academic rigor, historical depth, and accuracy, will further enhance Morningstar's equity research and data capabilities. This integration unites two trusted sources of market insight, reinforcing a shared commitment to transparency, quality, and investor-focused solutions.

Please visit indexes.morningstar.com for more information.

Contact:

indexes@morningstar.com

© 2026 Morningstar. All rights reserved. The information, data, analyses and opinions contained herein (1) include the proprietary information of Morningstar, (2) may not be copied or redistributed, (3) do not constitute investment advice offered by Morningstar, (4) are provided solely for informational purposes and therefore are not an offer to buy or sell a security, and (5) are not warranted to be correct, complete or accurate. Morningstar has not given its consent to be deemed an "expert" under the federal Securities Act of 1933. Except as otherwise required by law, Morningstar is not responsible for any trading decisions, damages or other losses resulting from, or related to, this information, data, analyses or opinions or their use. Past performance does not guarantee future results. Before making any investment decision, consider if the investment is suitable for you by referencing your own financial position, investment objectives, and risk profile. Always consult with your financial advisor before investing.

MORNINGSTAR Indexes

22 West Washington Street
Chicago, IL 60602 USA