Private Credit Perspectives: Mid-Year 2026 Market Commentary

Apogem Capital
BY NEW YORK LIFE INVESTMENT MANAGEMENT

Apogem Capital[1] is a leading middle market specialist alternatives investor and a wholly owned subsidiary of NEW YORK LIFE

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Direct Lending

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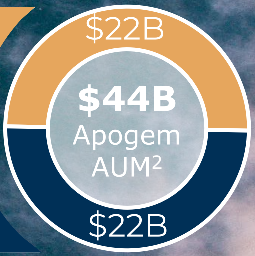

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Apogem Capital Markets

Mr.Brazier and Mr.Halajian are members of Apogem Capital's Private Credit team. Together, they focus on capital markets, lender and direct lending partner relationships, and the structuring and syndication of private credit transactions, while providing insight on broader market and macroeconomic trends.

How would you characterize the current 'mood of the market'?

Given the macro backdrop, the lower middle market feels cautious but increasingly attractive. Deal activity has slowed, and while there's still plenty of capital available, lenders are being more selective and focused on downside protection and credit quality. Importantly, this isn't a stressed market—fundamentals remain stable and most borrowers continue to perform well. At the same time, market terms are shifting back in lenders' favor. We're seeing modestly wider spreads, lower leverage, and larger equity contributions from sponsors, all of which improve the overall risk-reward profile. Deal activity is increasingly centered on strategic growth initiatives and platform expansion rather than large, highly levered buyouts, which aligns well with a relationship-driven approach to investing. In this environment, sourcing, selectivity, and execution matter more than ever, and we're seeing a healthy pipeline supported by both new opportunities and portfolio company add-ons. Overall, it's a slower and more selective market, but one with stable fundamentals and improving deal structures that create attractive opportunities for disciplined lenders.

What structuring trends are you seeing in '26?

We're seeing a clear return to discipline in the lower middle market. Transactions are being structured more conservatively, with lower leverage, larger sponsor equity contributions, and stronger lender protections. One of the biggest shifts is in capital structures. Equity checks have increased, often representing 60% or more of the capital stack, creating better alignment and a larger cushion for lenders. At the same time, pricing has remained firm to slightly wider, improving overall risk-adjusted return potential. We're also seeing continued emphasis on lender control. Directly negotiated lower middle market transactions still allow for meaningful covenants, tighter documentation, and greater involvement throughout the life of the investment. Overall, market discipline, stronger structures, and improved sponsor alignment are creating a constructive environment for experienced lenders.

To what extent are software deals getting done in the market today?

Generally, software deals are still getting done, but the market is highly selective. Activity is concentrated in high-quality, AI-aligned assets, particularly focusing on mission critical/embedded products with strong recurring revenue, and where sellers/buyers are aligned on repriced valuations. Broader volumes remain muted and are largely affected where AI-risk is unclear, leading to wider spreads and somewhat moderated leverage. Buyers are still deploying capital, but underwriting standards and conviction thresholds have reoriented around characteristics considered to exhibit less exposure to AI-related disruption.

What is Apogem's strategy with respect to tech and software?

Within Software & Technology, Apogem focuses on vertically oriented, mission-critical application software and data-driven platforms that are deeply embedded in customer workflows. These businesses are typically characterized by high switching costs and recurring revenue models. Apogem's portfolio construction reflects its emphasis on specialized, workflow-integrated solutions where functionality, data, and customer integration create durability, and where AI is more likely to be complementary to existing offerings. Along those lines, Apogem views IT services businesses that are generally focused on outsourced, recurring, and often mission-critical functions, including managed services, implementation, and support in complex or regulated environments as favorable businesses within the sector. Apogem has seen consistent volume in this sector firsthand through its dedicated Software & Technology Services industry vertical, however deal quality has notably declined year-to-date relative Apogem's historical standards. Apogem maintains a selectively constructive stance on software/tech where it is underweighting the broader market but actively investing in what we believe to be high-quality, defensible assets. While certain lower-complexity services may face automation risk, many of these companies provide high-touch, specialized capabilities where AI is more likely to serve as a productivity tool rather than a substitute.

What is Apogem doing to combat sluggish deal volumes?

We view slower deal markets as an opportunity to differentiate. When activity declines, we believe success becomes less about volume and more about sourcing, relationships, and selectivity. At Apogem, we're leveraging deal flow from our long-standing sponsor relationships, and we are also seeing a significant amount of activity from our existing 300+ borrower portfolio. Those transactions tend to be easier to underwrite because we have existing familiarity with the business. Periods like this also create market share opportunities. As some lenders pull back, we seek to remain a consistent capital provider, strengthen sponsor relationships, and position ourselves for future opportunities. Ultimately, in our view, lower deal volume doesn't necessarily mean fewer opportunities—it often means better opportunities for managers with strong sourcing networks and disciplined underwriting.

What types of opportunities is Apogem leaning into currently?

We're prioritizing true lower middle market transactions that are less intermediated and more directly negotiated. These deals typically provide greater control over pricing, documentation, and overall structure, which is especially valuable in today's environment. From a credit perspective, we're focusing on opportunities where we have the highest conviction. Those areas include defensible industries where we have decades of experience including the healthcare and financial services sectors. Those sectors typically have stable recurring revenue, strong cash flow generation, and resilient business models. At the same time, improving market dynamics (as mentioned earlier)—including lower leverage, larger sponsor equity contributions, and modestly wider spreads—are creating more attractive risk-adjusted return opportunities across all sectors where we invest. Overall, we're focused on relationship-driven, directly negotiated investments with strong structures and compelling downside protection. That's where we believe we can generate the most attractive outcomes in the current market.

Footnotes

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