

The WestEnd Macro Spotlight: Giving Credit its Due

Despite economic uncertainty and investor concerns over private credit, broader credit conditions remain supportive of extended late-cycle economic expansion.

SUMMARY

- We are seeing improving credit conditions and credit uptake as interest rates have stabilized over the past year.
- Many banks have stopped tightening lending standards and report increased demand for commercial and industrial loans.
- Business and household balance sheets remain healthy, suggesting they can support additional credit usage.
- Broad contagion from private credit issues appears unlikely.
- We believe credit growth can help support continued economic expansion, benefiting economically sensitive sectors.

THE MACRO TAKE

Credit markets can be a key source of fuel for economic growth. While certain potential growth drivers, such as the labor market, are muted or softening, credit conditions generally appear to be improving, despite some concerns over private credit.

Since early 2025, Federal Reserve data have shown a steady acceleration in aggregate loan balances, with year-over-year growth rising from below 3% throughout 2024 to approximately 7% in early 2026. Initially, this was driven by loans to non-depository financial institutions (NDFI), which includes private credit, but since mid-2025, loan growth has also accelerated markedly outside of NDFI.

Faster loan growth has coincided with a stabilization of longer-term interest rates, after an inflation-driven post-pandemic spike. Since early 2025, the 10-year Treasury yield has traded in the 4.0%–4.5% range, which does not appear to be preventing borrowers from taking on credit. Corporate bond issuance hit a post-pandemic high in 2025 and continued to grow in Q1, providing capital for continued corporate investment. Meanwhile, Fed rate cuts have helped normalize the yield curve, restoring a positive slope which can incentivize bank lending.

The Federal Reserve's Senior Loan Officer Opinion Survey on Bank Practices also suggests improving credit conditions. In its January

survey, the net percentage of banks tightening lending standards fell below 10%, down from a post-pandemic high above 50% in 2023. Further, the net percentage of banks reporting stronger demand for commercial and industrial loans continued to rise after turning positive in October. Management commentary on recent earnings calls for various bellwether banks we follow also suggests credit quality and loan demand remain solid (see callouts for examples¹).

Banks See Healthy Demand

"What we see with loan pipelines going forward, which are quite robust, is people beginning to invest in kind of core middle market expansion and CapEx." – U.S. Bancorp²

Household and corporate balance sheets remain healthy, in our view, allowing room for continued

borrowing. As of Q4 2025, household debt service payments represented just 11.3% of disposable personal income, lower than at any time during the 2010s economic expansion. For non-financial corporate businesses, debt as a percentage of equity market value was at its lowest level on record, and earnings growth remains robust.

Credit Quality Holding Up

"...our credit results remain benign, and we continue to feel good about the quality of our portfolio." – Bank of America³

Private credit has been an area of recent investor concern, driven by elevated redemptions and concentrated Software exposure, but we believe this is less of a broad risk than is widely perceived. Loans to NDFIs only represent about 14% of commercial bank loans, and private credit asset quality remains healthy for now, in our view. Business development company non-accrual rates (a measure of private credit default risk) have been stable below 1.5% since 2024, well below their 5%+ COVID peak.

PORTFOLIO IMPLICATIONS

The credit conditions outlined above offer a pillar of support for potential extension of the current economic cycle. While we retain significant defensive exposure across portfolios, given various late-cycle conditions, credit growth helps support our view that balancing this with select economically sensitive allocations is warranted.

In addition to technology-related sector exposures where we see secular growth drivers, we currently maintain exposure to the Financials sector and, in our ETF portfolios, have added an allocation to the Transportation industry (part of the Industrials sector). We believe both can benefit from extended economic growth supported by credit expansion. We also expect Financials sector profitability to benefit directly from increased lending.

Footnotes:

1. *Specific company examples selected for recognizability and as representative of the predominant tone of comments reviewed in WestEnd's coverage of recent Banks industry results and management outlooks, not based on inclusion in or exclusion from WestEnd portfolios or specific opinions about these companies. These references to specific companies should not be considered a recommendation to purchase or sell these securities.*
2. *Gunjan Kedia, CEO. U.S. Bancorp. (April 16, 2026). "Q1 FY2026 Earnings Call." Webcast. <https://ir.usbank.com/news-events/webcasts-presentations/default.aspx>*
3. *Alastair Borthwick, EVP and CFO. Bank of America Corp. (April 15, 2026). "First Quarter 2026 Earnings Announcement." Transcript. <https://investor.bankofamerica.com/quarterly-earnings>*

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