KPMG

Credit Markets Update

December 31, 2024

Credit Markets Commentary

After a strong finish to 2024, expectations are high for a big 2025

All Systems are Go for 2025!

- The final quarter of 2024 continued the second half theme of rapidly rebounding institutional markets.
- With volumes and activity at or near record-breaking levels and/or multi-year highs by the end of 2024, the markets are wide open across the board as compared to 12-18 months ago.
- Activity has mostly been driven by repricings and maturity extensions, but there was an up-tick in M&A-related financings that hopefully is an early indicator for a strong M&A environment in 2025.
- Many deals have seen oversubscription and tightening spreads with spread compression particularly evident across the spectrum of BB / B ratings.
- Record setting CLO issuance is continuing to fuel liquidity in the market; private credit cash returns have outpaced private equity, which has resulted in substantial cash flows into private credit.
- The environment in the private middle market could be characterized as a robust, issuer-friendly market in search of issuers.
- Many of the key dynamics of high investor demand, tightening spreads, and loosening of covenants have also been seen in the private middle market,but the challenge has been that the supply of deals is well below the demand by investors, particularly for M&A-related financings.
- Adding all those factors together, the credit markets are primed and ready for a big 2025.

Tailwinds for 2025 appear strong…

- Anticipated pro-growth / pro-business policies from the new administration
- While too early to declare complete victory, the Fed seems to have a handle on inflation and rate cuts should continue
- Maturity walls and aging portfolios investments should spur overdue recap and M&A activity from financial sponsors

…but danger is always lurking on the horizon

- The Fed may slow the pace of race cuts from the anticipated plan in early 2024, but a halt to cutting all together if inflation unexpectedly surges could send shock waves through the markets
- The biggest wild card in 2025 seems to be geopolitical risk – any expansion of wars or surprise conflicts that disrupt trade could quickly unravel the momentum building for a strong 2025

Credit Markets Update

Opportunistic borrowers dominated the debt markets in 2024. With the Fed's push for normalcy and the arrival of the Trump administration, participants expect a better M&A financing outlook

- In a busy 2024, fourth quarter new-issue leveraged loan volume recorded $124.0 billion, a significant increase from $73.8 billion during the same period in 2023, despite logging the lowest quarter of the year
  - The pent-up investor demand due to subdued M&A activity was a lingering theme throughout the year, causing fierce competition among lenders, driving multiyear low spreads and easing covenants
  - Amid a lack of fresh supply, loan volume was stimulated by opportunistic borrowers seeking to take advantage of the favorable market conditions through refinancing and dividend recapitalizations
- Refinancing activity increased during the fourth quarter with $48.1 billion printed, a significant uptick from $33.3 billion in the preceding quarter and $31.4 billion during the same period in 2023
  - Roaring extension and repricing activity, which is not included in new-issue loan volume statistics, soared to $302.1 billion in the fourth quarter, surpassing the peak of $259.4 billion recorded in the second quarter
- Amid a prolonged period of muted M&A activity, private equity has relied on dividend recapitalization to monetize an aging portfolio
- Private credit lenders have fought hard with broadly syndicated lenders, consistently edging them out, capturing a larger share of private equity-backed deals and issues from the lower end of the credit spectrum

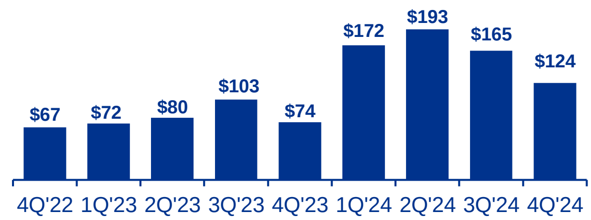
High yield volume posted strongest year since the Fed's interest rate hikes started, surpassing the combined volume of 2022 and 2023

- Fourth quarter volume of $46.2 billion rose from $41.3 billion in 2023, despite being the lowest quarter of 2024. With the decisive election results, the market is optimistic about the newly elected administration
- The quarterly average yield logged a miniscule uptick to 7.66% during the fourth quarter, the second lowest yield since the third quarter in 2022

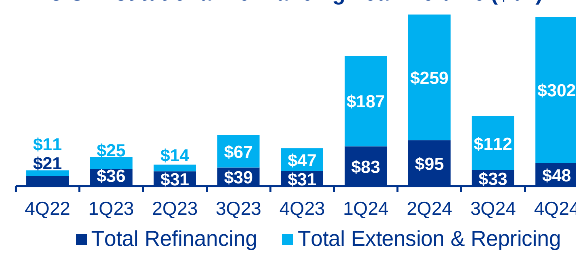
The Federal Reserve cut the policy rate by 100 basis points through three consecutive rate drops in 2024

- The FOMC announced a 25-basis point rate cut in December 2024, bringing the target range to 4.25% to 4.5%, and suggested a slower pace for future rate cuts
- The policy aims to avoid an economic slowdown due to prolonged high interest rates, while preparing for the fiscal impacts of the new administration's policies

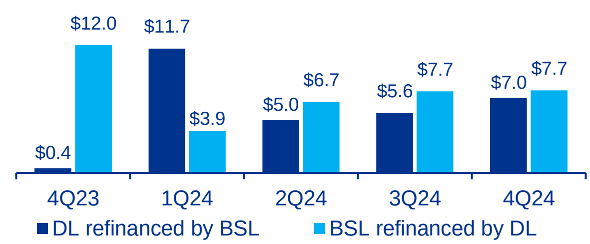
New-Issue Leveraged Loan Volume ($bn)



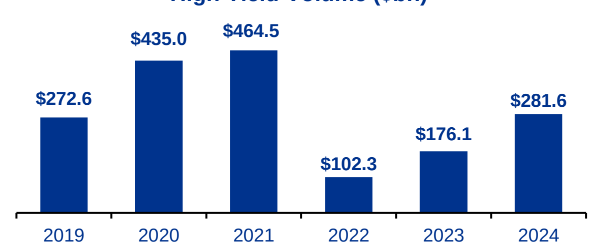
U.S. Institutional Refinancing Loan Volume ($bn)



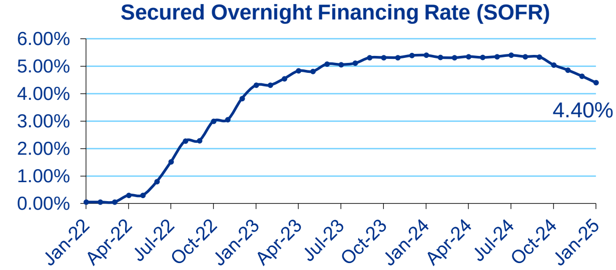
Broadly Syndicated Loans and Direct Lending Takeouts ($bn)



High Yield Volume ($bn)



Secured Overnight Financing Rate (SOFR)

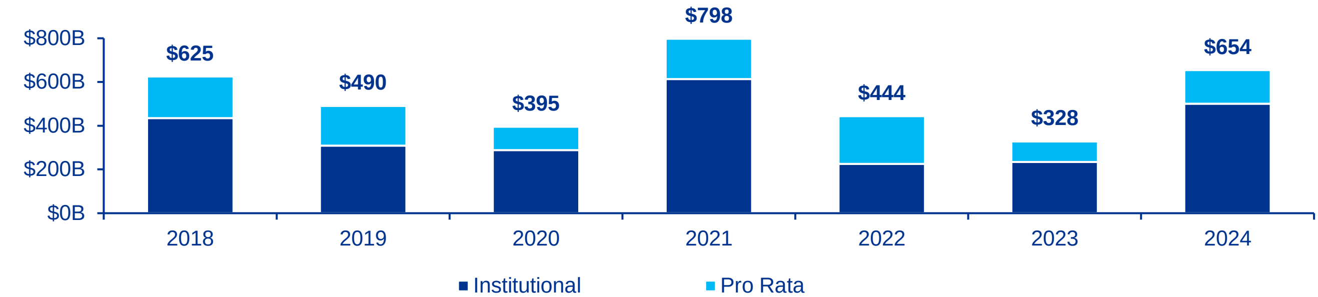


Source: New York Fed; 90-day Term SOFR rate

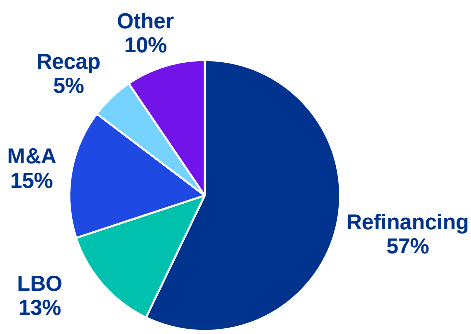
Source: PitchBook | Leveraged Commentary & Data, KPMG Market Research.

Leveraged Loans

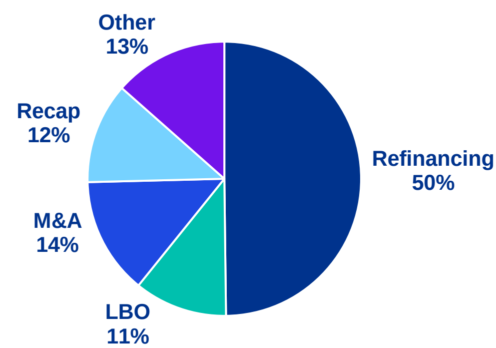
New-Issue Leveraged Loan Volume ($bn)



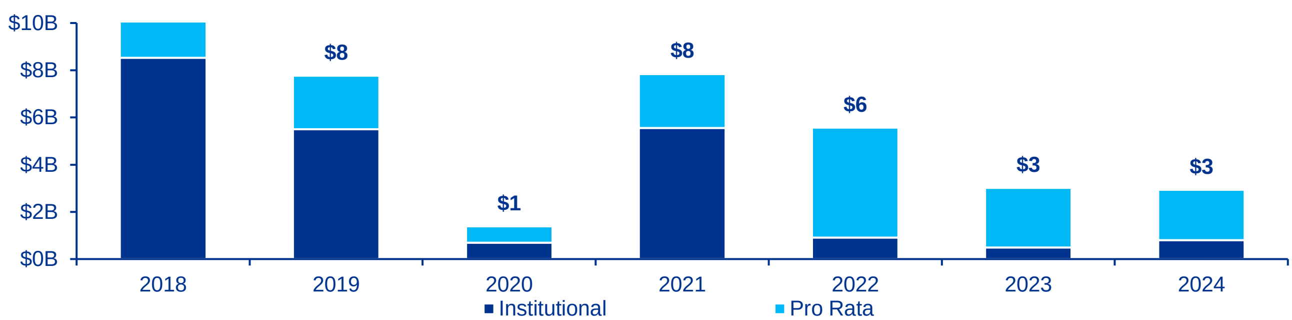
Leveraged Loan Issuance by Purpose - 2023



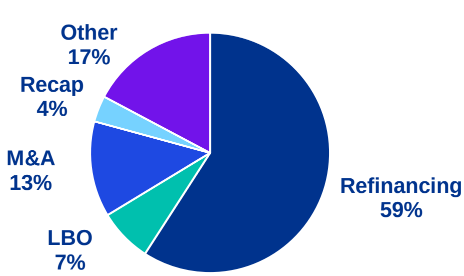
Leveraged Loan Issuance by Purpose - 2024



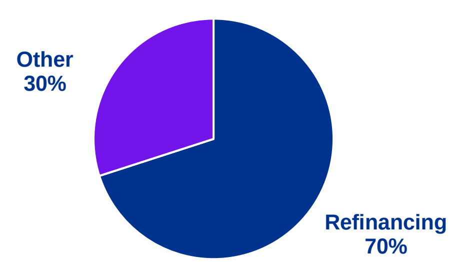
Middle Market Leveraged Loan Volume ($bn)



Middle Market Leveraged Loan Volume by Purpose - 2023



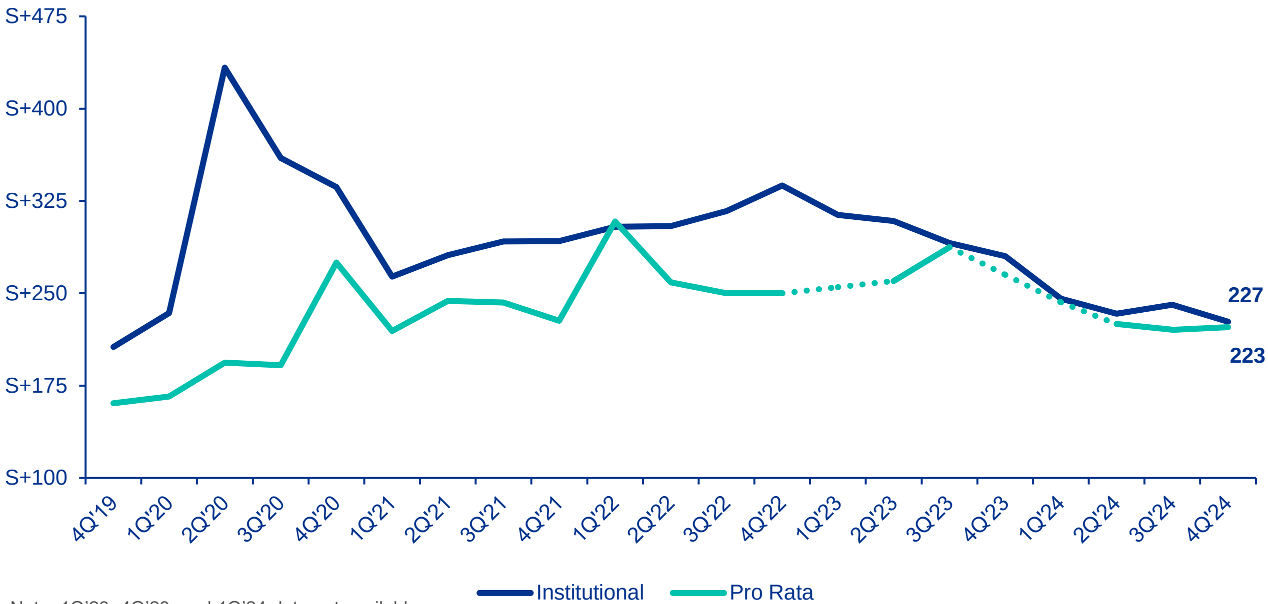
Middle Market Leveraged Loan Volume by Purpose - 2024



Source: PitchBook | Leveraged Commentary & Data.
Note: Middle market refers to companies with EBITDA of $50 million or less.

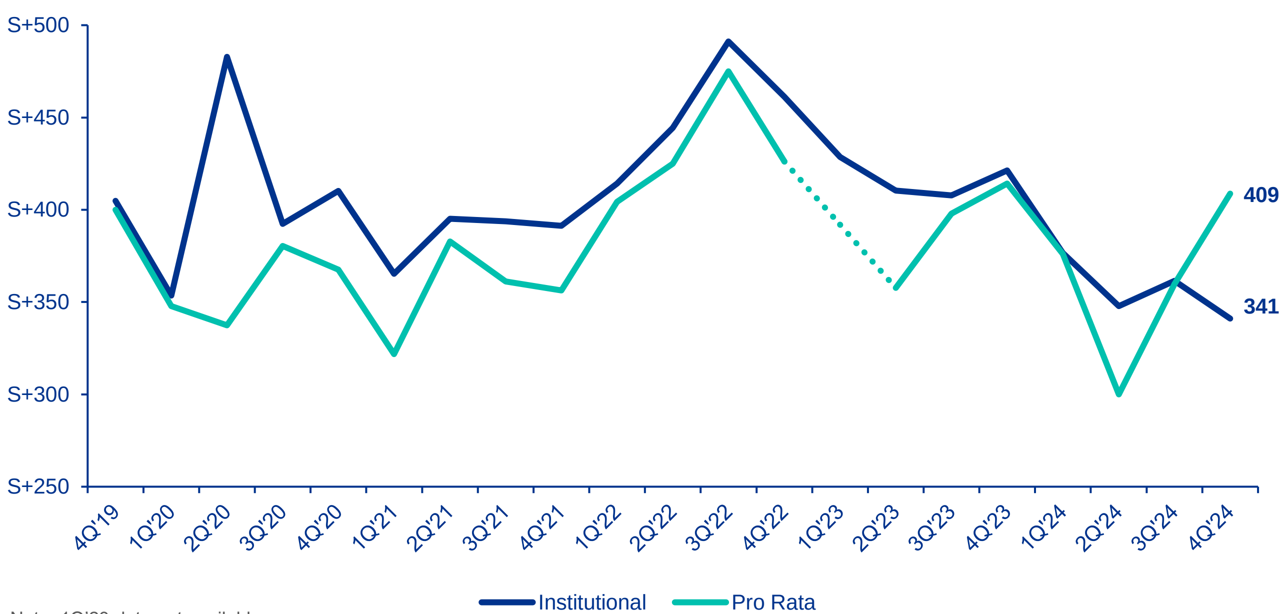
Leveraged Loans (continued)

New Issue First Lien Spreads BB/BB- - Quarterly



Note: 1Q'23, 4Q'23, and 1Q'24 data not available

New Issue First Lien Spreads B+/B - Quarterly

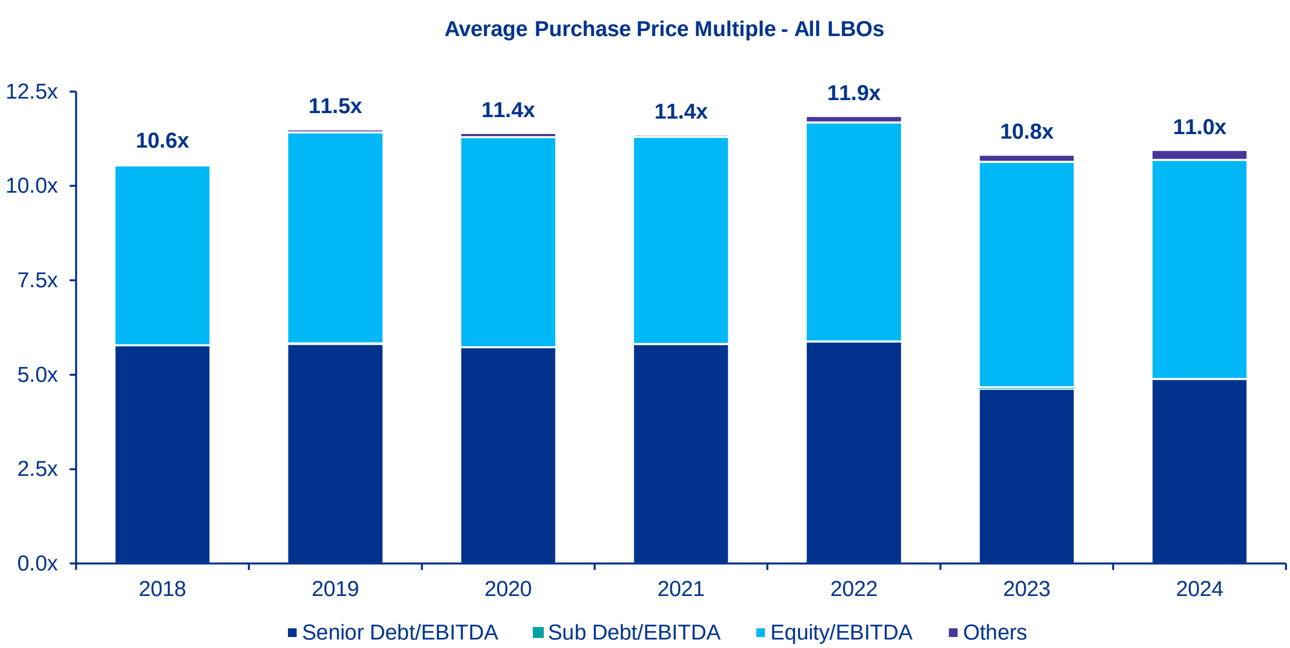


Note: 1Q'23 data not available

Source: PitchBook | Leveraged Commentary & Data.

LBO Summary

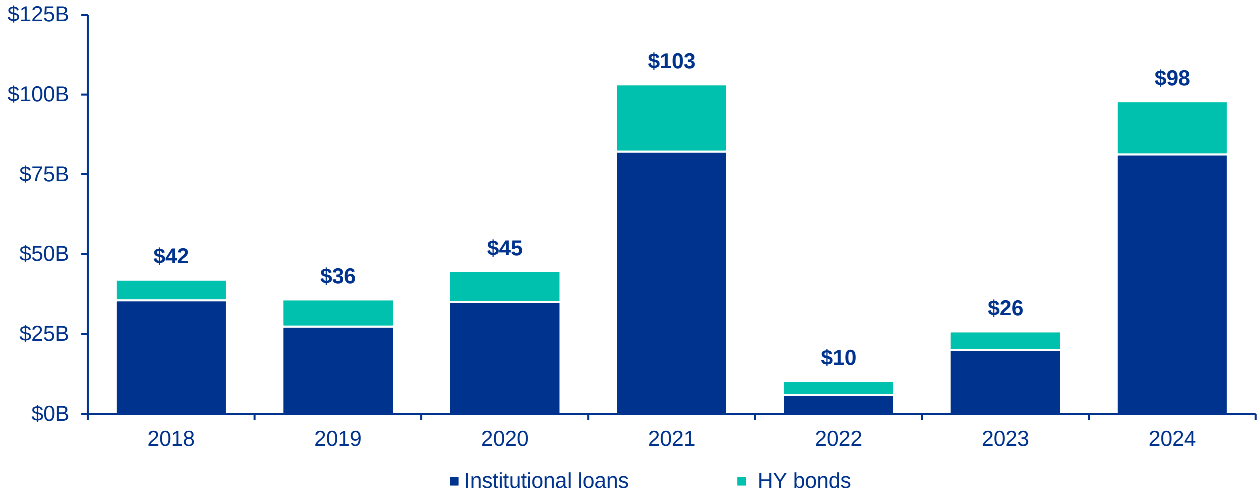
Note: 4Q'22 LBO volume data not available



Source: PitchBook | Leveraged Commentary & Data.

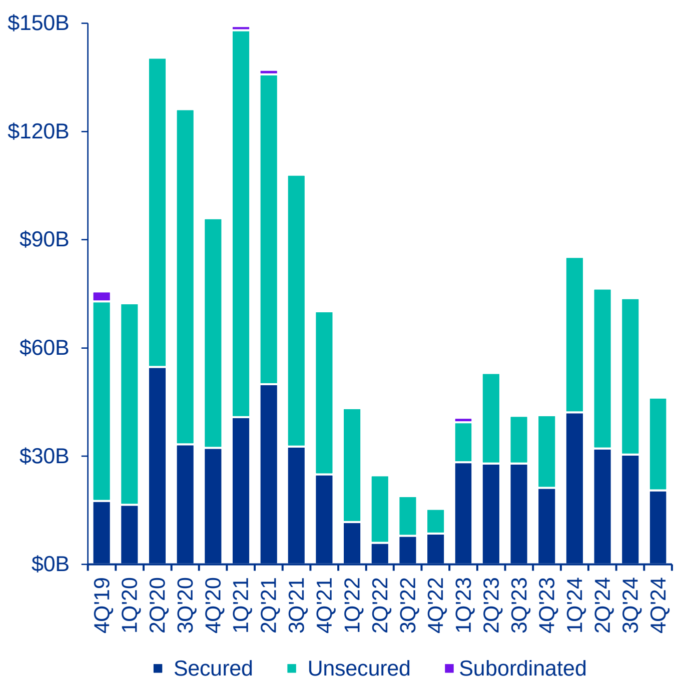
Dividend Recapitalization

Dividend or Stock Repurchase Loan Volume- Annual ($bn)

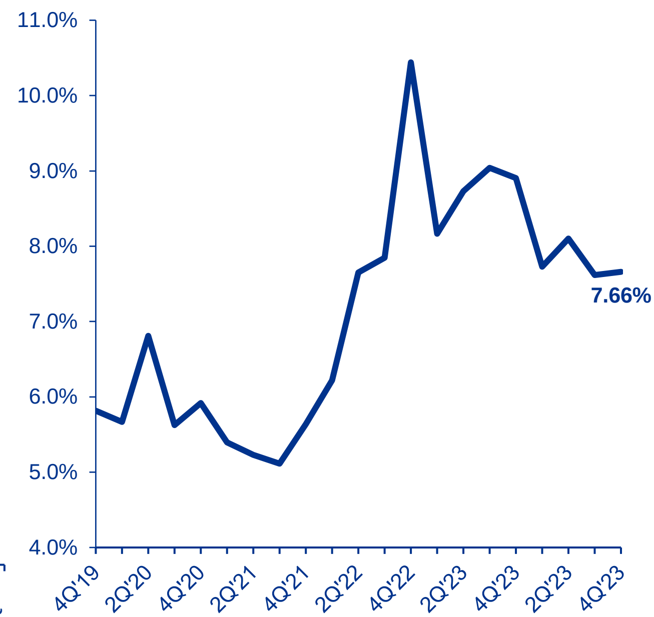


High Yield Bonds

High Yield Bond Issuance – Quarterly ($bn)

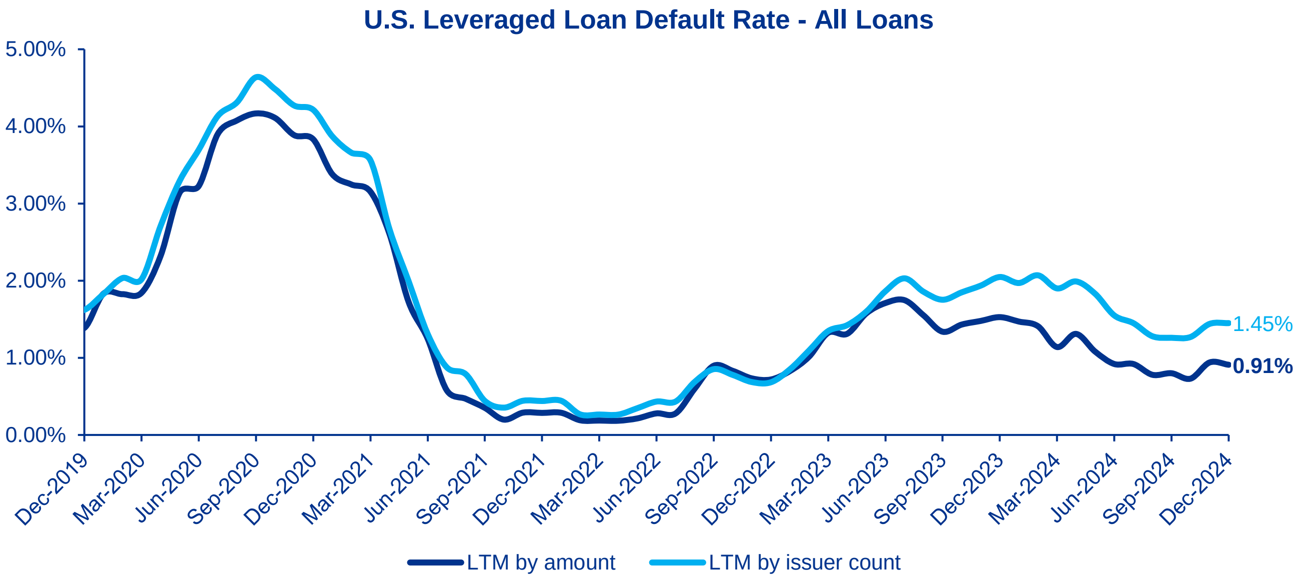


New issue High yield Bond yield to Maturity

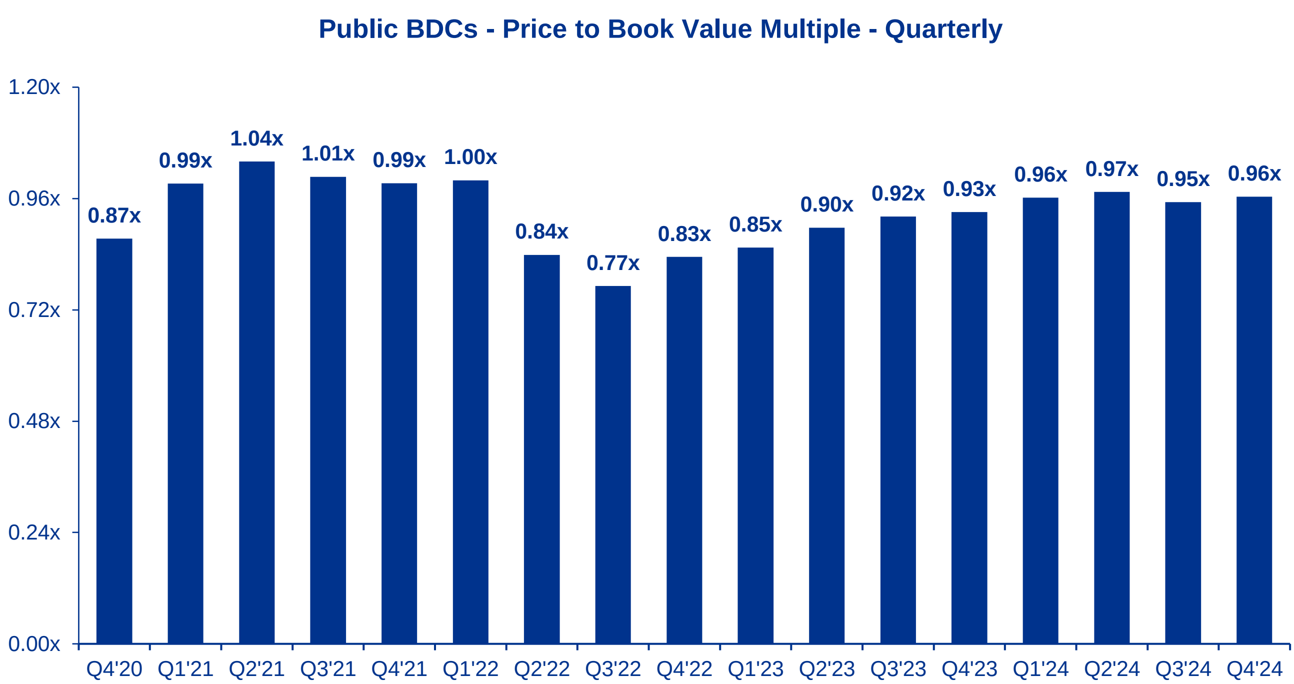


Source: PitchBook | Leveraged Commentary & Data.

Distress and Defaults



Price to Book Value



Source: PitchBook | Leveraged Commentary & Data; KPMG Market Research

KPMG Investment Banking – Debt Capital Markets

Debt Capital Markets Practice

We are a leading global financial advisor with real time knowledge of the capital markets. We advise on a wide range of transactions involving both debt and equity, including raising financing for acquisitions, buyouts, dividend recapitalizations, growth capital, special situations, and DIP and exit financing in bankruptcies

We maintain close relationships with debt, mezzanine and equity capital providers, including banks, BDCs, specialty finance companies, insurance companies, family offices, credit and equity funds and other private investors

Primary Service Offerings

Debt and equity capital raises

- Senior debt financing, refinancing or amendments
- Acquisition and growth capital
- Dividend recapitalizations and minority buyouts
- Mezzanine/junior subordinated financing
- Structured and minority equity
- Project financing
- Capital for special situations, including bankruptcies

Value Added Advisor

- Unbiased and objective advice
- Local market insight with strong relationships across all tranches of capital
- Experienced deal team
- Flexible and innovative approach
- Fully integrated service offering
- KPMG global advisory network

Selected Debt Capital Markets Transactions

Project Apple

Debt Advisory

Acting as the exclusive financial advisor to a not-for-profit educational and training Institute in connection with acquisition financing

In Process

Project Tyson

Debt Advisory

Acting as exclusive financial advisor to a sponsor pursuing investments in roofing service provider companies

In Process

Project Diamond

Debt Advisory

Acting as the exclusive financial advisor to a specialty pharmaceuticals company in connection with raising debt capital

In Process

idw / Mayfair Capital Partners

Debt Advisory

Acting as the exclusive financial advisor to a commercial point-of-purchase solution provider in connection with raising debt

Not Disclosed

Fortem Holdings

Debt Advisory

Acted as the exclusive financial advisor to Fortem Holdings in connection with securing debt for the acquisition of C&TDG Management LLC

Not Disclosed

Nextlink

Debt Advisory

Acted as the exclusive financial advisor to Nextlink in connection with securing a new credit facility

Not Disclosed

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