Credit Markets Update

September 30, 2025

Credit Markets Commentary

In Q3 2025, opportunistic borrowing drove record deal activity after a sluggish summer. With easing monetary policy on the horizon, investors are keeping an eye out for a long-awaited rebound in M&A activity.

Opportunities Abound

- During the third quarter, opportunistic issuance dominated the landscape driven by robust investor demand and an easing monetary policy outlook
  - Volume climbed to $202.0 billion, up sharply from $160.1 billion in the previous quarter and $165.1 billion in the same period last year
  - Investor demand drove spreads to tighten to post-2008 lows, fueling refinancing and repricing activity
  - M&A activity remained sluggish, but issuers increased reliance on dividend recaps to monetize investments
- Private credit markets continued to navigate a lack of new issue supply, relying on a slowly rebuilding M&A pipeline
  - Broadly syndicated lenders gained edge over direct lenders through larger deals and flexible DDTL-like structures
- The high-yield bond market posted its strongest quarterly volume since the second quarter of 2021, driven by opportunistic refinancings as issuers sought to lock-in cheaper debt amid lowering base rates and tight spreads
- Use of Liability Management Exercises (LMEs) for restructuring remains persistent among investors, accounting for 66% of total combined defaults recorded during LTM Sep-2025
- The Federal Reserve announced the first rate cut of 2025 in Q3 (and a second one in October). The cuts signaled concerns about job growth, but the Fed also stated that a cut in December is not a "forgone conclusion."

Tailwinds…

- The market is tilted in favor of borrowers with relatively low pricing and flexible terms, which should continue to drive market activity
- After the disruption during the summer, a rebuilding M&A pipeline could fuel a fresh supply of loans in the coming months
- The planned monetary policy easing should reduce cost pressures on companies across the credit spectrum and support growth in high-yield and leveraged loan issuance

…Risks on the horizon

- The latest monetary policy prioritizes job growth, even as inflation remains elevated; a significant surprise in inflation could challenge further monetary easing
- Any escalation of trade wars or hot wars could quickly dampen the risk appetite driving the current market
- A prolonged government shutdown could start to impact overall economic growth, which could lead to a slowdown in deal activity

Credit Markets Update – Q3 2025

Opportunistic borrowing drove record deal activity after a sluggish summer. With easing monetary policy on the horizon, investors are keeping an eye out for a long-awaited rebound in M&A activity.

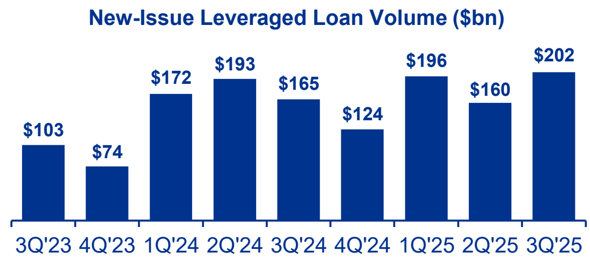
- Third quarter new-issue leveraged loan volume recorded $202.0 billion, significantly up from $160.1 billion in the previous quarter and $165.1 billion during the same period in 2024
  - A technical imbalance due to strong investor demand and limited net supply is pushing spreads tighter across all credit tiers, reaching post-2008 lows
- Refinancing volume took the lead with a ~51% share of institutional loans during the third quarter, as borrowers sought to address 2028 maturities
  - Quarterly refinancing volume recorded $72.8 billion, the highest since $96.1 billion in the second quarter of 2024
  - Extension and repricing activity, not recorded in new issue leverage loan volume, surged to $260.5 billion during the quarter, second only to the all-time high observed during the fourth quarter of 2024
- While LBO and M&A activity remain subdued, investors are leaning on dividend recaps for liquidity
  - M&A-backed loan volume accounted for under ~25% of institutional loan volume during the third quarter, the lowest share since 18% logged in the second quarter of 2024
- Broadly syndicated lenders have regained market share against direct lenders through larger transactions, competitive pricing, and DDTL-like features
  - The M&A deal pipeline disruption due to second quarter market volatility allowed broadly syndicated credit lenders more room to compete with direct lenders
  - Direct lenders are relying on a slowly rebuilding M&A pipeline and investing with BSLs in large deals for capital deployment
- Investors continue using Liability Management Exercises (LME) for restructuring, which have risen significantly since the pandemic
  - LMEs accounted for 66% of total default activity during LTM Sep-2025, slightly down from 72% in LTM Jun-2025

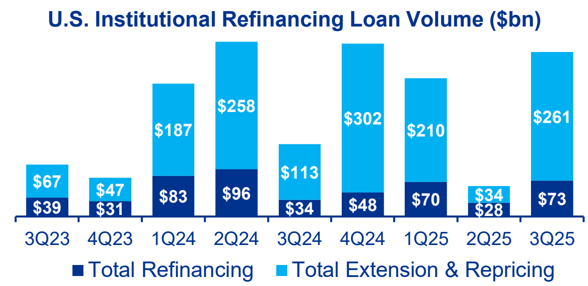
Strong tailwinds have accelerated high yield deal activity, recording $263.0 billion for YTD Sep-2025, surpassing the $235.4 billion attained in YTD Sep-2024

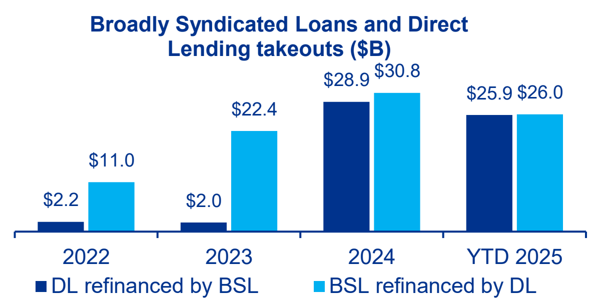
- Third quarter high yield volume of $118.2 billion recorded a 17-quarter high, significantly above $37.1 billion recorded during the same period last year
- The quarterly average yield slipped to 7.08% for the third quarter, versus 9.6% in the first quarter of 2024
- Refinancing activity represented 79% of the quarterly volume, sought to push out inflation repricing risk

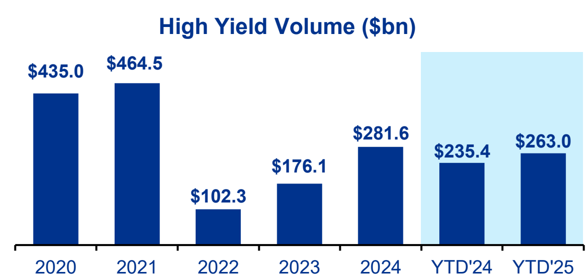
The Federal Reserve announced a 25-bps rate cut in Q3 (and another in October), addressing lower job growth and rising risk to employment.

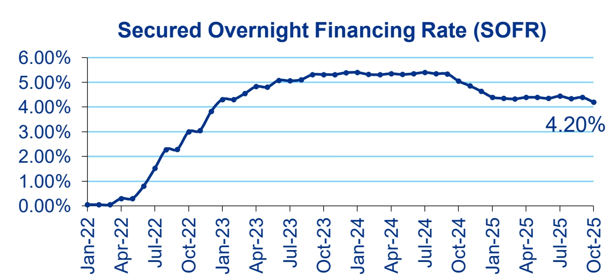
- In September, the FOMC brought the benchmark rates down to 4.00% - 4.25%
- The Committee is keeping a close watch on its dual mandate as uncertainty around the economic outlook remains elevated









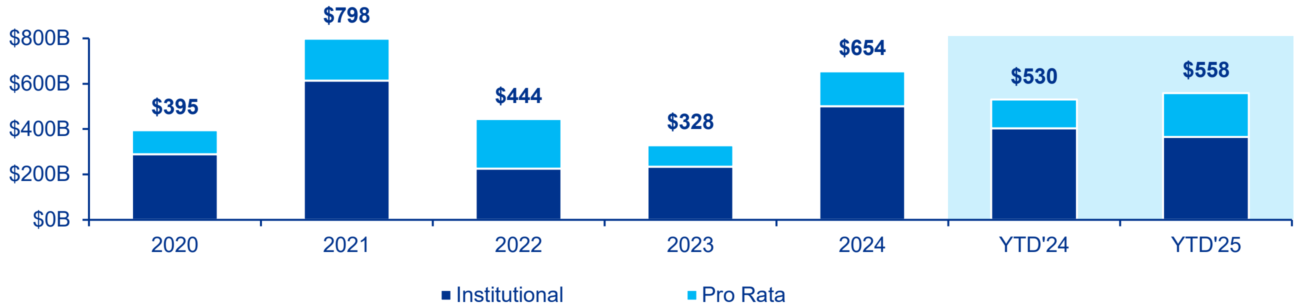


Source: New York Fed; 90-day Term SOFR rate

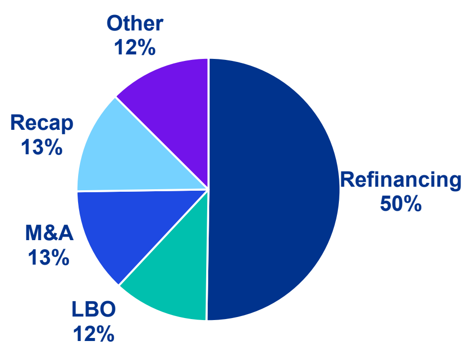
Source: PitchBook | Leveraged Commentary & Data, KPMG Market Research.

Leveraged Loans

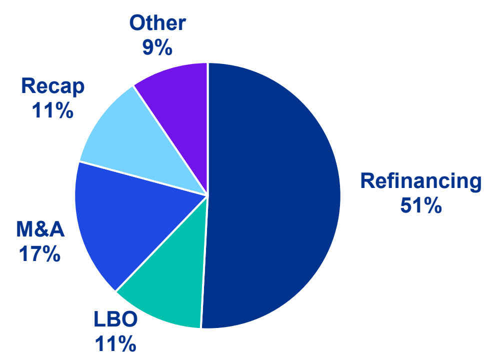
New-Issue Leveraged Loan Volume ($bn)



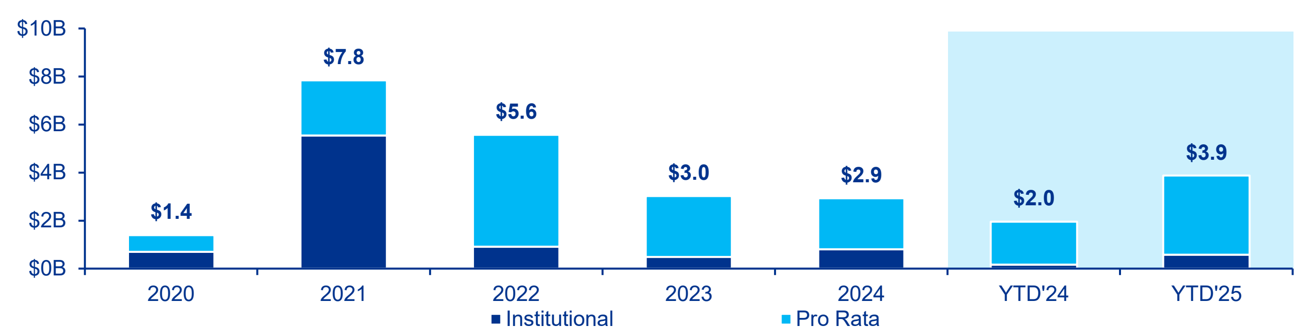
Leveraged Loan Issuance by Purpose - YTD'24



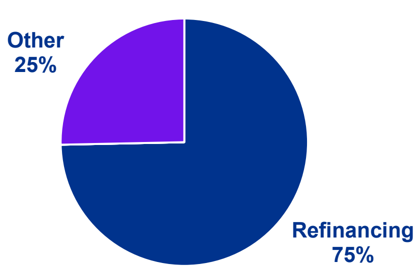
Leveraged Loan Issuance by Purpose - YTD'25



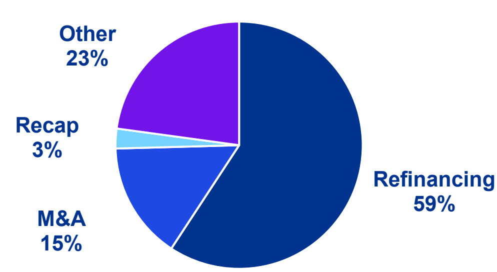
Middle Market Leveraged Loan Volume ($bn)



Middle Market Leveraged Loan Volume by Purpose - YTD'24

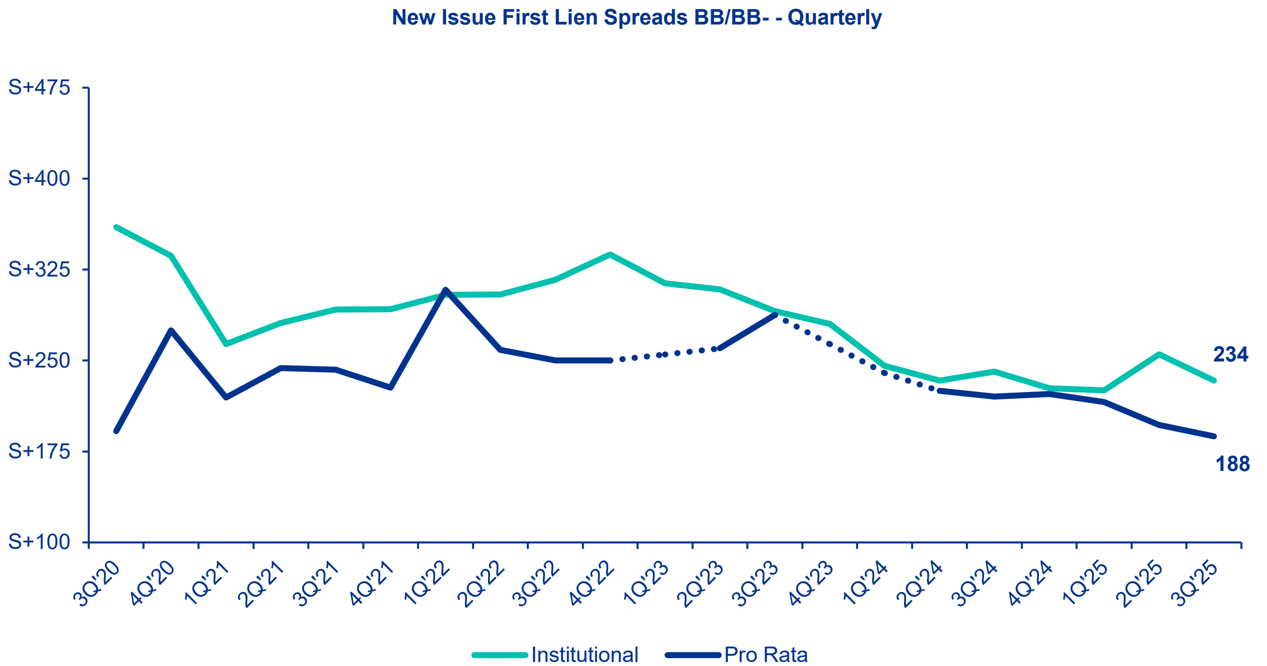


Middle Market Leveraged Loan Volume by Purpose - YTD'25

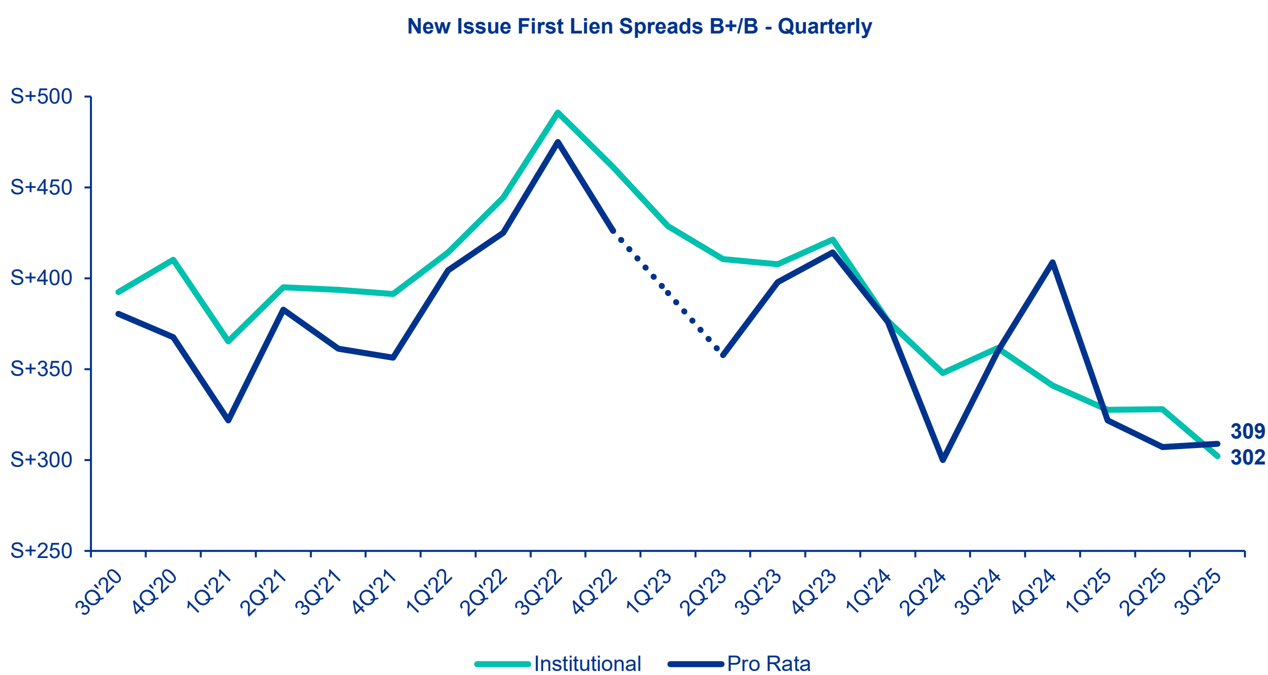


Source: PitchBook | Leveraged Commentary & Data.
Note: Middle market refers to companies with EBITDA of $50 million or less.

Leveraged Loans (continued)



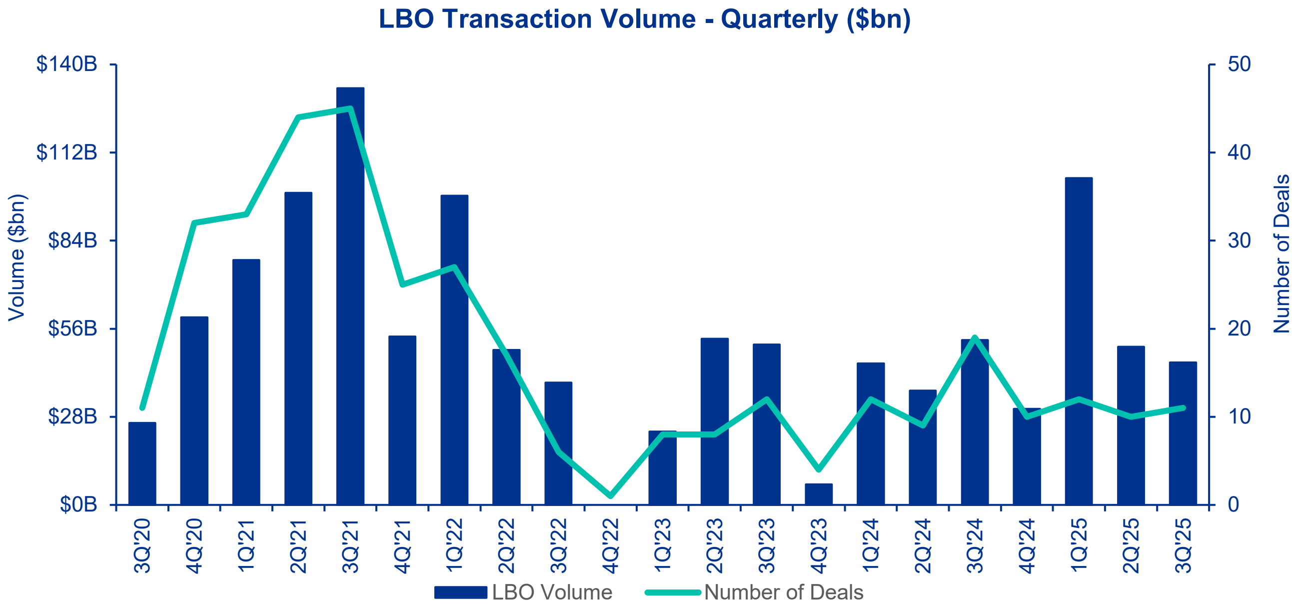
Note: 1Q'23, 4Q'23, and 1Q'24 data not available



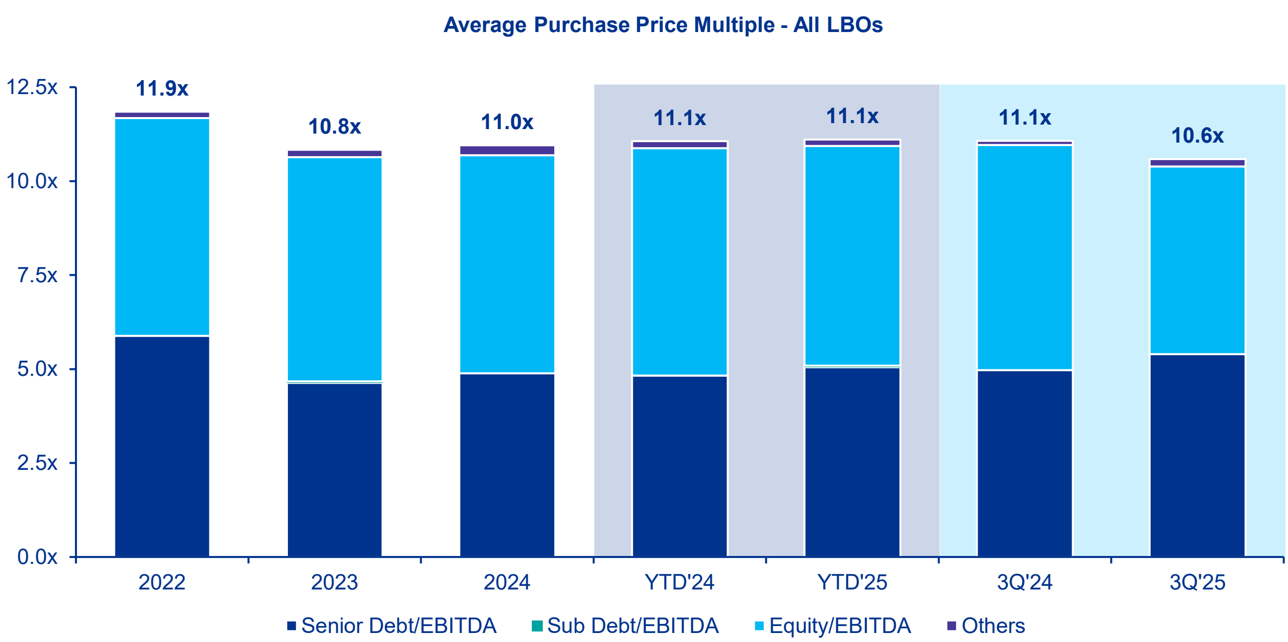
Note: 1Q'23 data not available

Source: PitchBook | Leveraged Commentary & Data.

LBO Summary

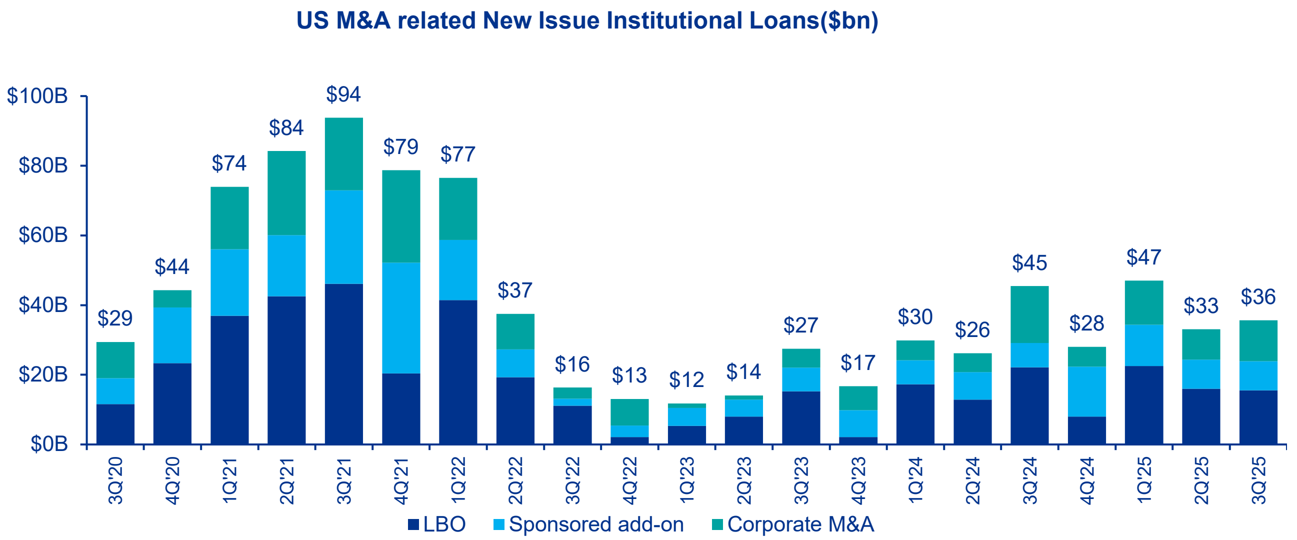


Note: 4Q'22 LBO volume data not available

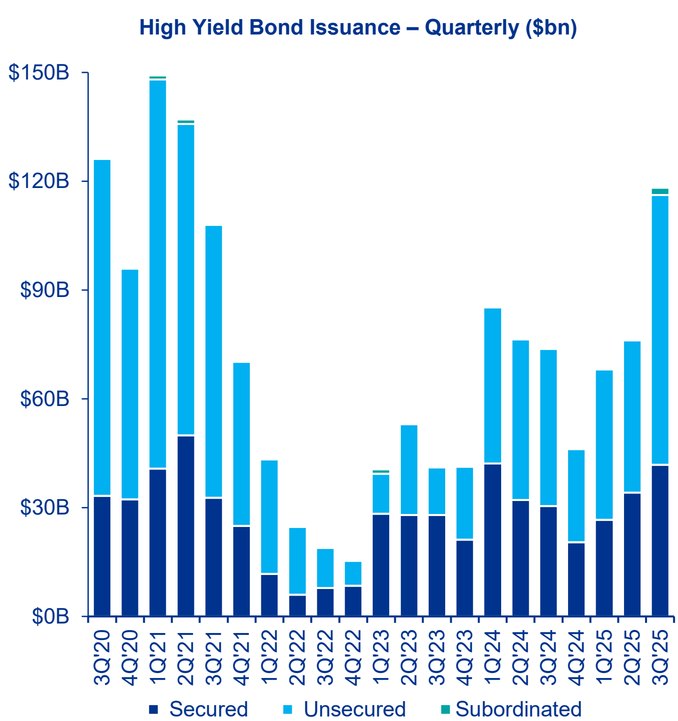


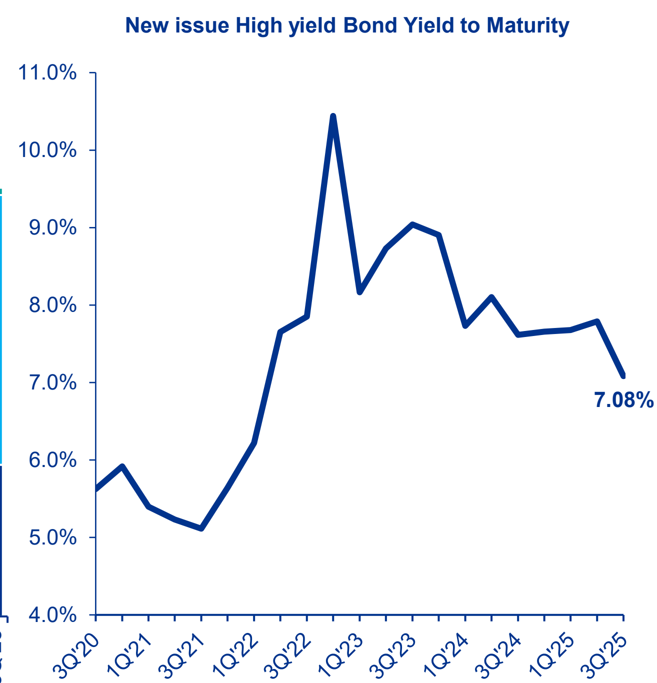
Source: PitchBook | Leveraged Commentary & Data.

M&A Related Loan Volume



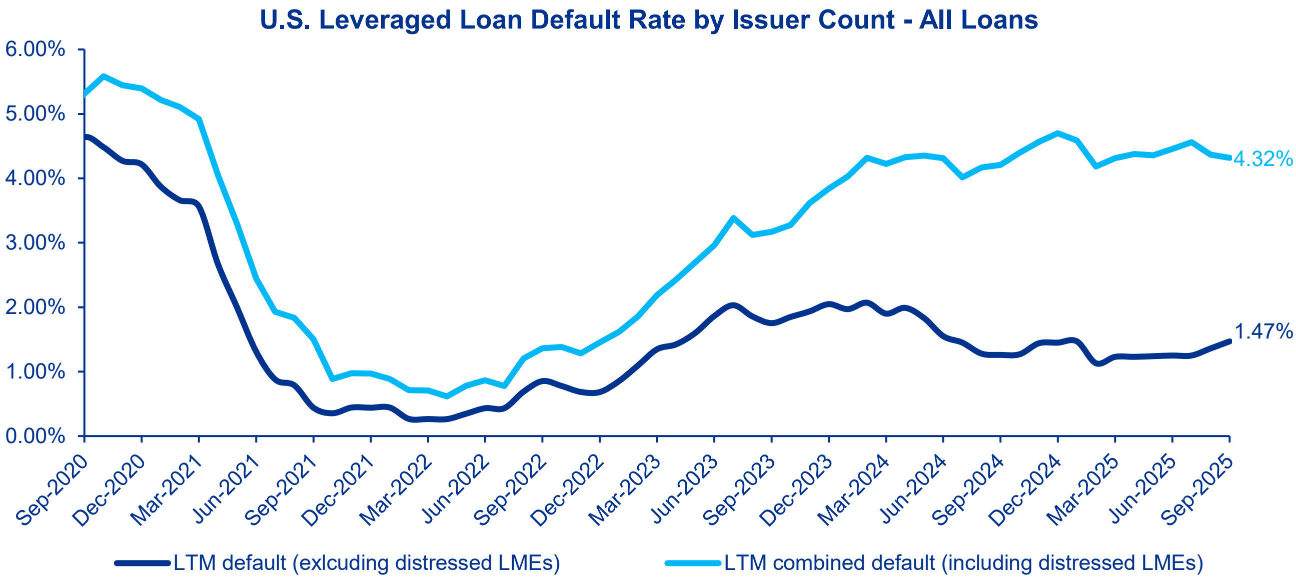
High Yield Bonds



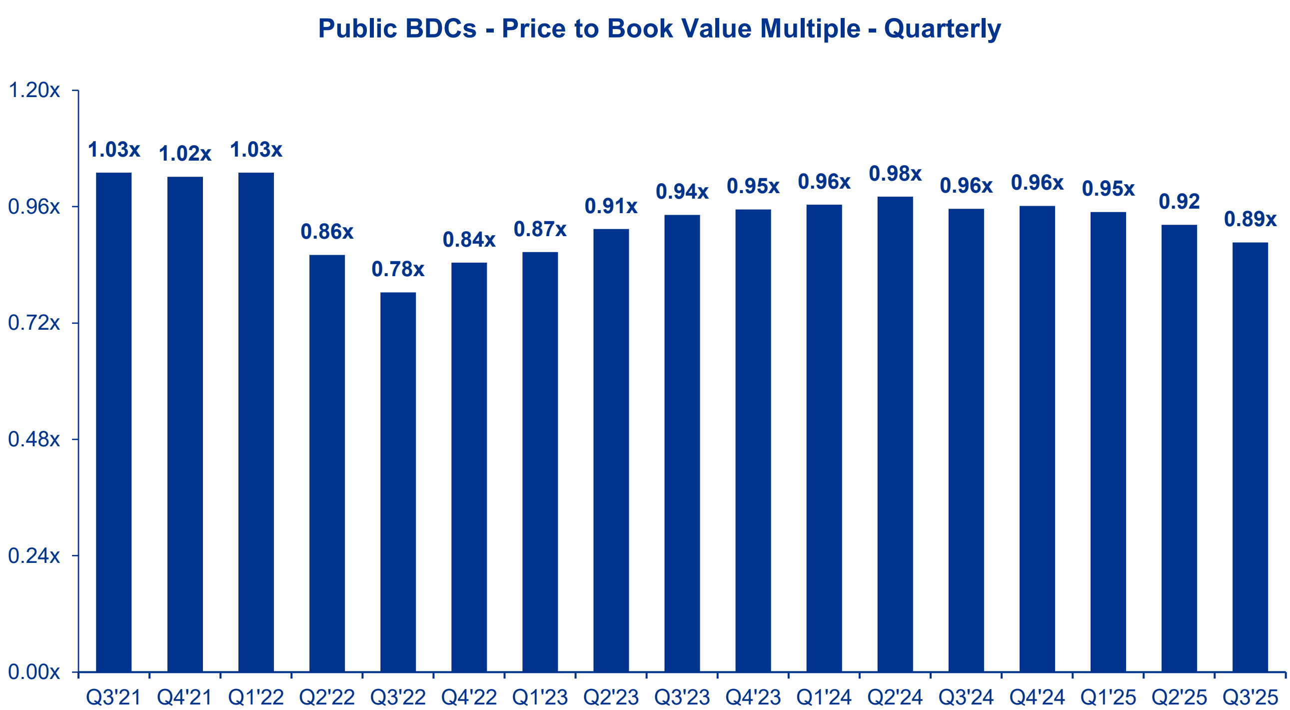


Source: PitchBook | Leveraged Commentary & Data.

Distress and Defaults



Price to Book Value



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

KPMG Investment Banking - Capital Markets Advisory

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 Capital Markets Transactions

KPMG | 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

KPMG | 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

KPMG | Nextlink

Debt Advisory

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

Not Disclosed

KPMG | smartlink

Debt Advisory

Acted as financial advisor to Smartlink in connection with raising credit facilities

Not Disclosed

KPMG | Tidewater Fleet Supply | Falcon Affiliates

Debt Advisory

Acted as the exclusive financial advisor to Tidewater Fleet Supply in connection with securing a new credit facility

Not Disclosed

KPMG | AgXplore

Debt Advisory

Acted as financial advisor to AgXplore in connection with raising credit facilities used for a recapitalization

Not Disclosed

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