Credit Markets Update

March 31, 2025

Credit Markets Commentary

The hot start to 2025 quickly cooled with market uncertainty and volatility as policy changes took effect

Caution: Curves Ahead!

- January optimism drove the first quarter of 2025 numbers to a solid level, before equity market volatility and major policy changes took effect in the month of February and March, souring investor sentiment
  - 43% of the first quarter new Issue leveraged loan volume was recorded in January
  - 48% of the first quarter M&A related leveraged loan volume was recorded in January
  - 72% of the first quarter extension & repricing volume was recorded in January
- A fresh supply of loans pushed the non-refinancing volume to $79 billion in the first quarter, just shy of the three-year peak of $80 billion
- The broadly syndicated market continued to refinance direct loans at a quicker pace, re-capturing some of the share they lost to private credit lenders during the quantitative tightening
- However, investors' declining appetite for risk started driving spreads wider, away from the record lows achieved in late 2024, impacting opportunistic-borrower deal flow
- Due to rising uncertainty, the high yield loan market finished the quarter at $68.5 during a typically busy part of the year. Refinancing via high-yield accounted for 66% of the total volume
- Federal reserve opted for a wait-and-see approach, sticking to the previously planned two rate cuts during 2025, while highlighting the possibility of rebound in inflation and economic slowdown

Tailwinds…

- Despite the initial uncertainty, the tariff policy could benefit the domestic market with manufacturing opportunities and jobs creation
- The new administration is pushing hard to enact tax cuts and de-regulation, which is expected to drive growth
- When the dust settles, sponsors sitting on aging portfolios are expected to quickly enter the M&A market, which would drive a new supply of loans

…Risks on the horizon

- A potential surge in inflation and economic slowdown due to tariffs may slow the pace of rate cuts. General volatility and lack of visibility could also disrupt the rate cut plans, if persisted
- Geopolitical risks including potential trade wars with major economies and an increase in hot conflicts around the world might be the tipping point for a recession

Credit Markets Update

A great start to 2025 stumbled due to equity market volatility and major policy changes. Amid heightened uncertainty, market participants continue to monitor the evolving landscape closely.

- First quarter new-issue leveraged loan volume recorded $187.7 billion, an uptick from $172.1 billion during the same period in 2024, as an extraordinary start of the year gave way to souring sentiments due to tariff concerns and volatile capital markets
  - The decreased investor demand and risk appetite during the quarter shifted the balance of power to lenders and away from issuers
- Refinancing share declined to 45%, surpassed by non-refinancing volume for the third straight quarter, printing $65.3 billion, which represents a significant drop from $82.5 billion during the same period in 2024
  - Extension and repricing activity also fizzled out as the quarter progressed, accumulating $150.9 billion in the January before crawling to $210.2 billion by the conclusion of March 2025, as investors re-evaluated their outlook amid increased volatility
- The fresh supply of loans was driven by M&A related-financings from sponsor and strategic buyers, despite widening spreads driving up the cost of debt
  - M&A related institutional loans volume posted a three-year peak at $51.9 billion, with January accounting for 48% the first quarter volume
- While persistent private credit lenders remain active, broadly syndicated lenders have captured back much of their lost volume share by offering lower spreads

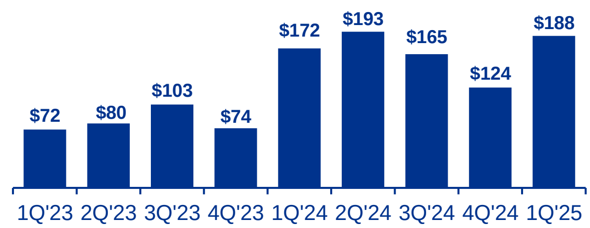
The initial buoyancy in the high yield market was impacted by market uncertainty during a typically busy quarter of the year

- First quarter volume of $68.5 billion was down from $85.2 billion during the same period in 2024
- Refinancing led the high-yield new issue volume, accounting for 66% of the volume during the period, but the absolute volume for M&A and LBOs continue to rise
- The quarterly average yield slid slightly to 7.55% for the first quarter, recording the lowest yield in three years

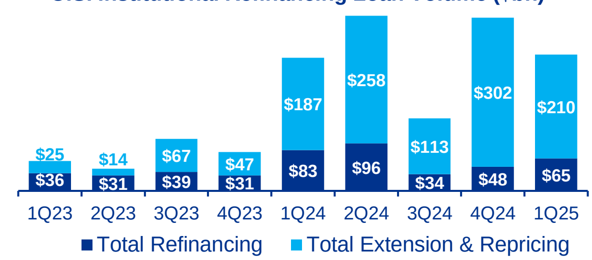
The Federal Reserve kept the policy rates unchanged in two successive meetings during the quarter, opting for a wait-and-see approach

- In March, the FOMC maintained the benchmark rates at 4.25% - 4.5%, specifying potential spike in inflation and lowered economic growth forecast
- Growth outlook quickly subdued after the initial burst of optimism from elections results. While the sweeping policy changes unnerved investors, reciprocal tariff and geopolitical tensions have reduced economic visibility

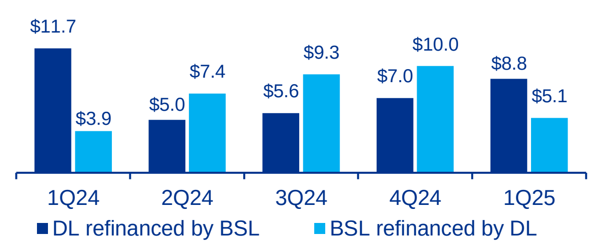
New-Issue Leveraged Loan Volume ($bn)



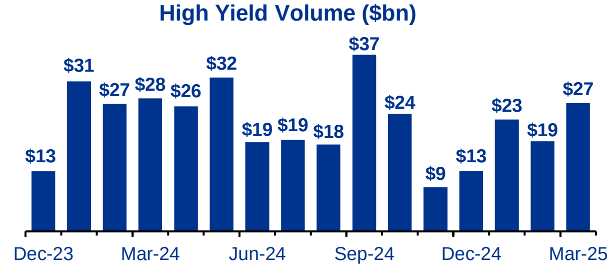
U.S. Institutional Refinancing Loan Volume ($bn)



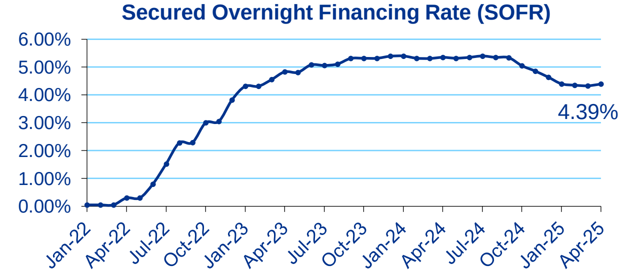
Broadly Syndicated Loans and Direct Lending takeouts ($B)



High Yield Volume ($bn)



Secured Overnight Financing Rate (SOFR)

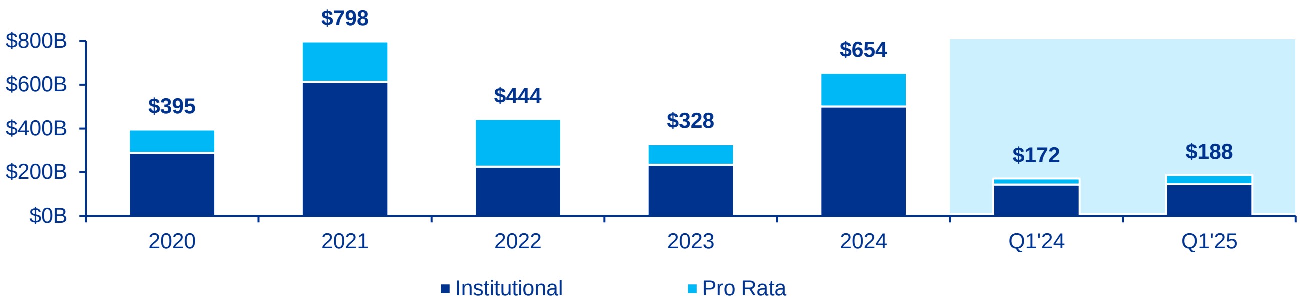


Source: New York Fed; 90-day Term SOFR rate

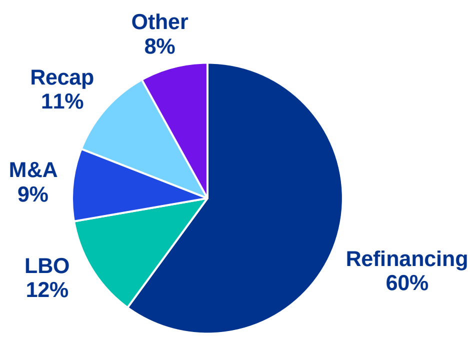
Source: PitchBook | Leveraged Commentary & Data, KPMG Market Research.

Leveraged Loans

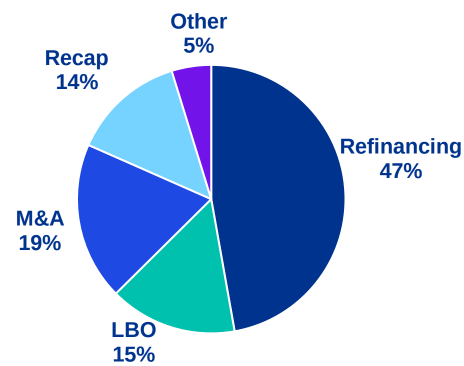
New-Issue Leveraged Loan Volume ($bn)



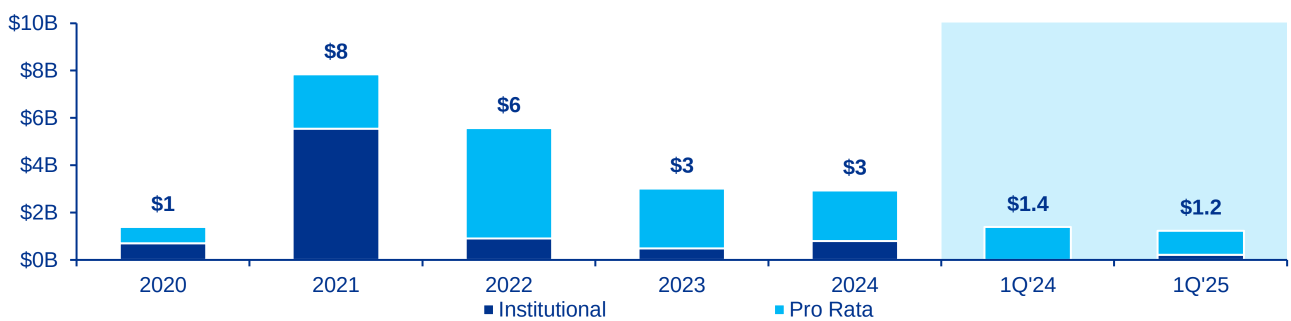
Leveraged Loan Issuance by Purpose - 1Q'24



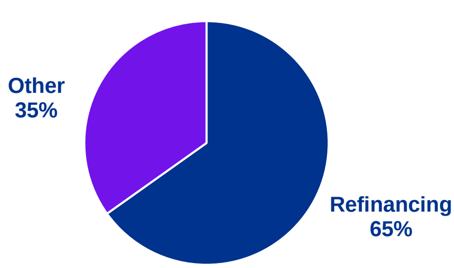
Leveraged Loan Issuance by Purpose - 1Q'25



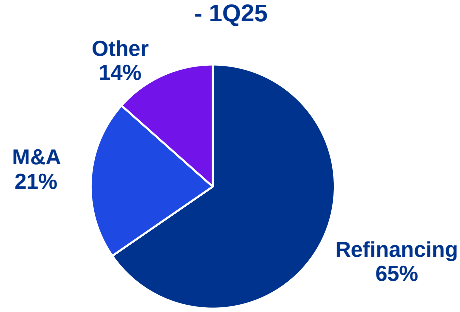
Middle Market Leveraged Loan Volume ($bn)



Middle Market Leveraged Loan Volume by Purpose - 1Q'24

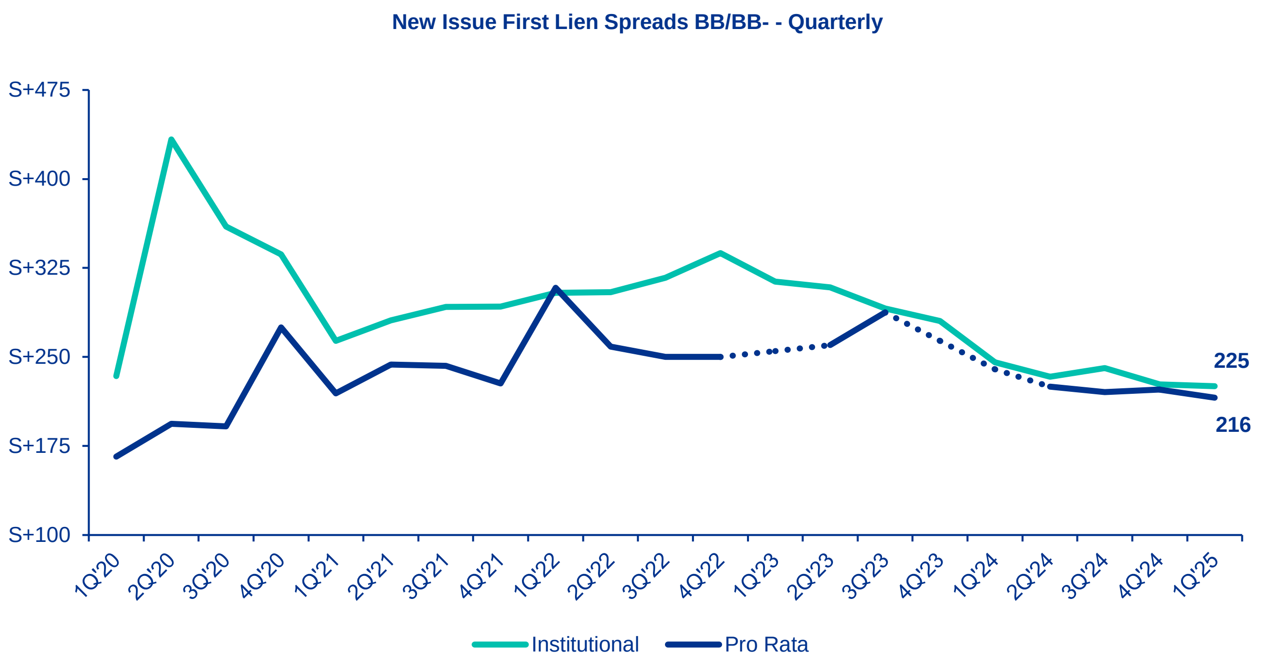


Middle Market Leveraged Loan Volume by Purpose - 1Q25

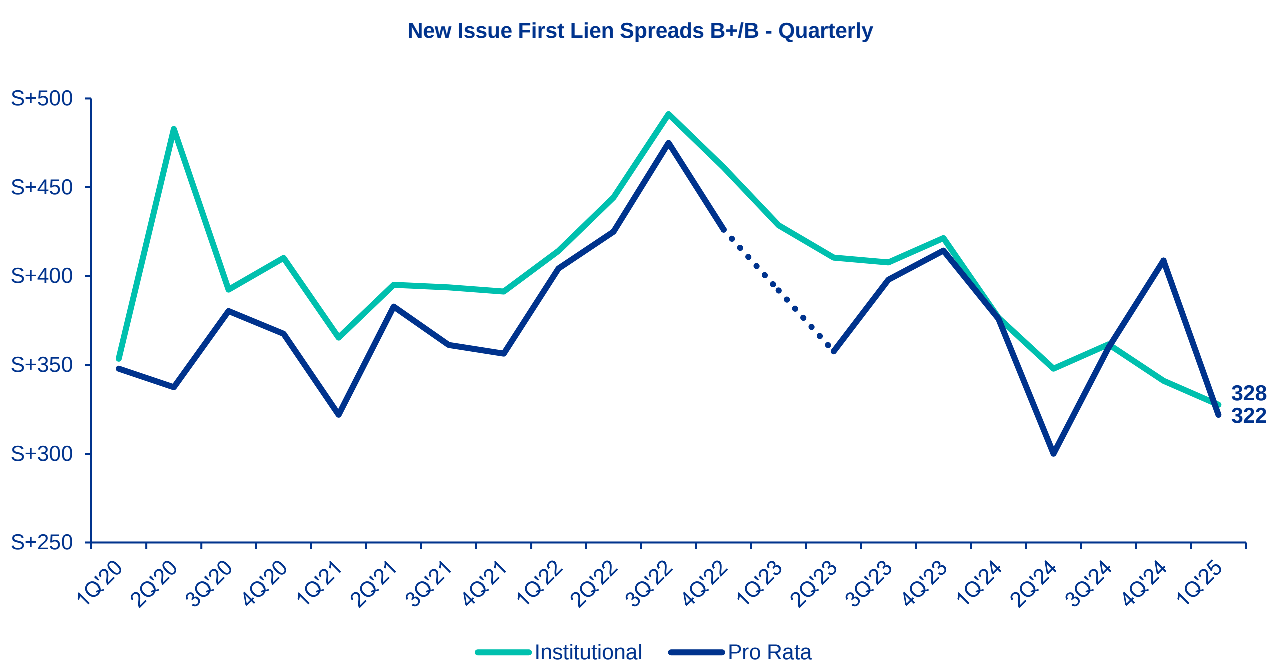


Source: PitchBook | Leveraged Commentary & Data.
Note: Middle market refers to companies with EBITDA of $50 million or less.

Leveraged Loans (continued)



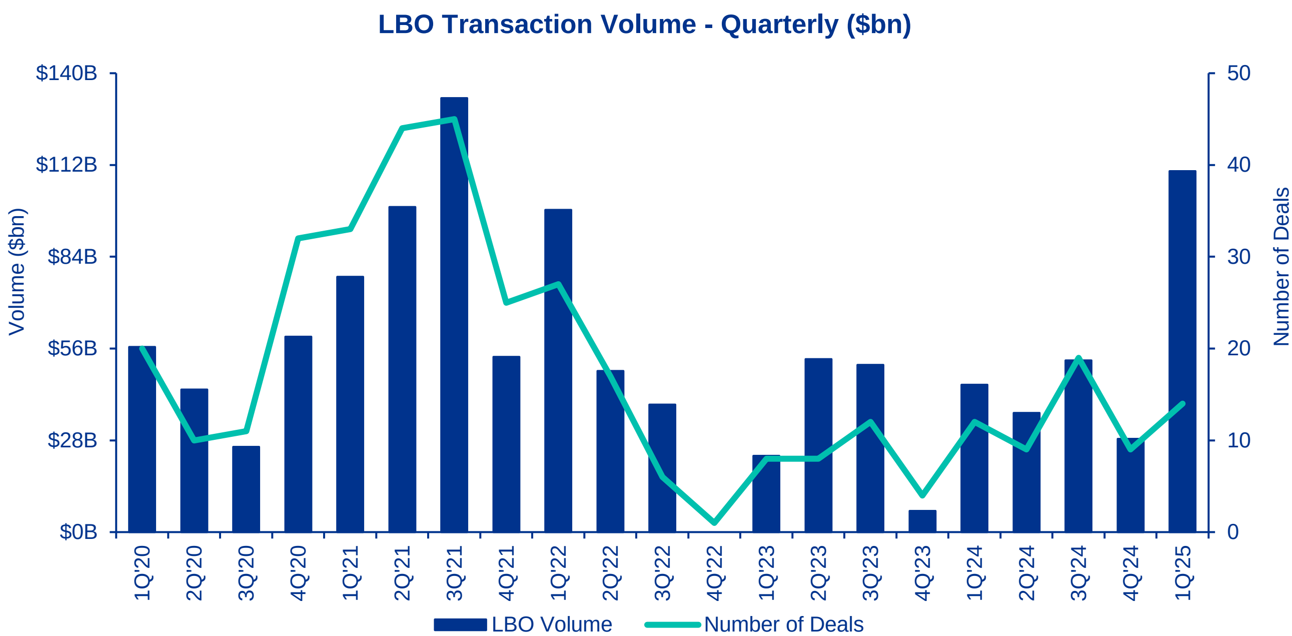
Note: 1Q'23, 4Q'23, and 1Q'24 data not available



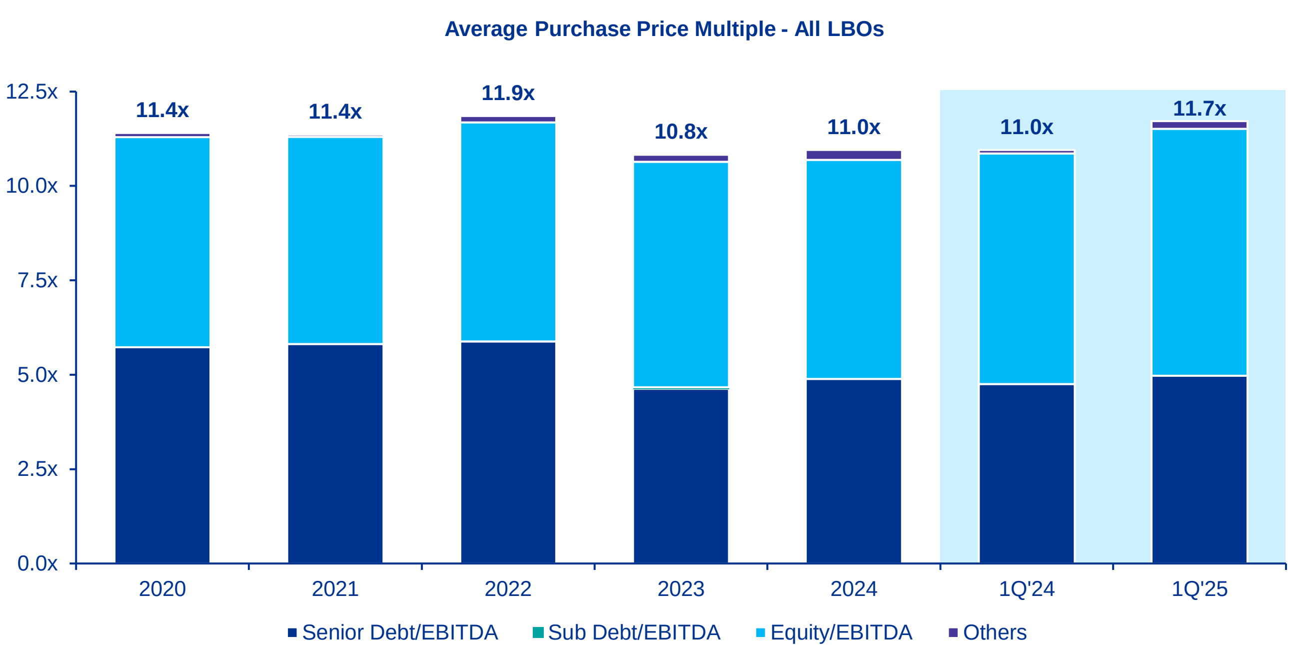
Note: 1Q'23 data not available

Source: PitchBook | Leveraged Commentary & Data.

LBO Summary

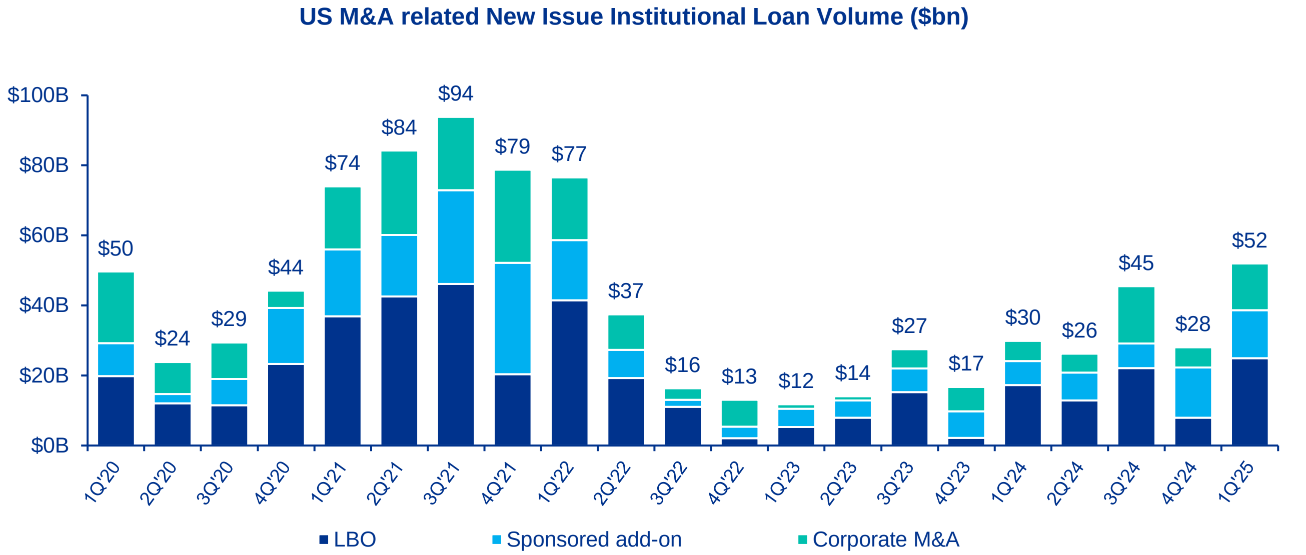


Note: 4Q’22 LBO volume data not available

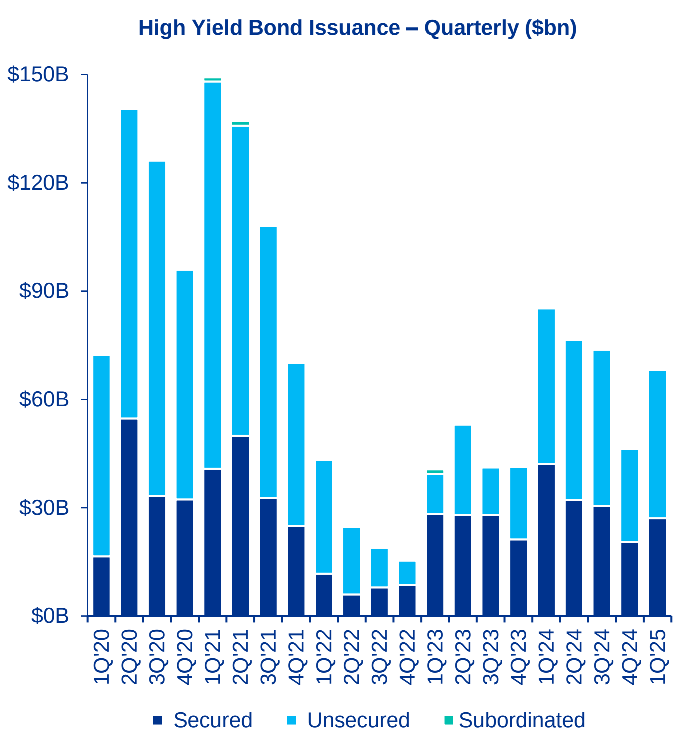


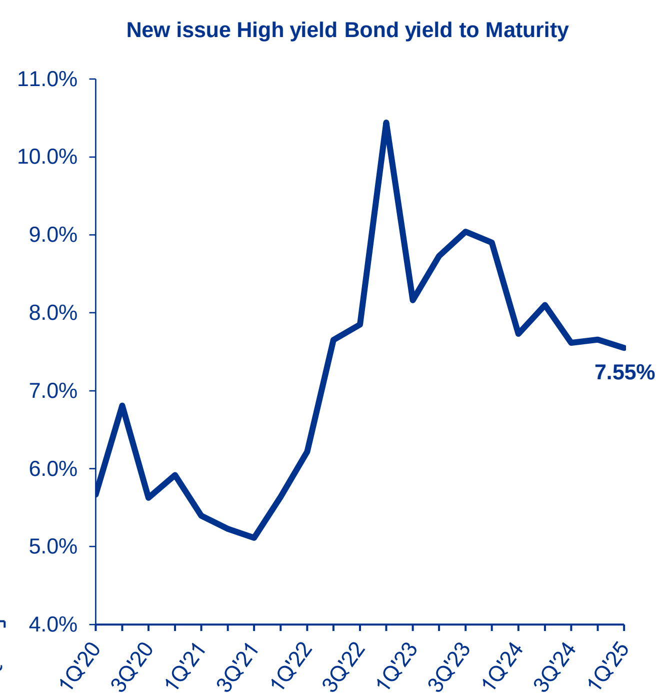
Source: PitchBook | Leveraged Commentary & Data.

M&A Related Loan Volume



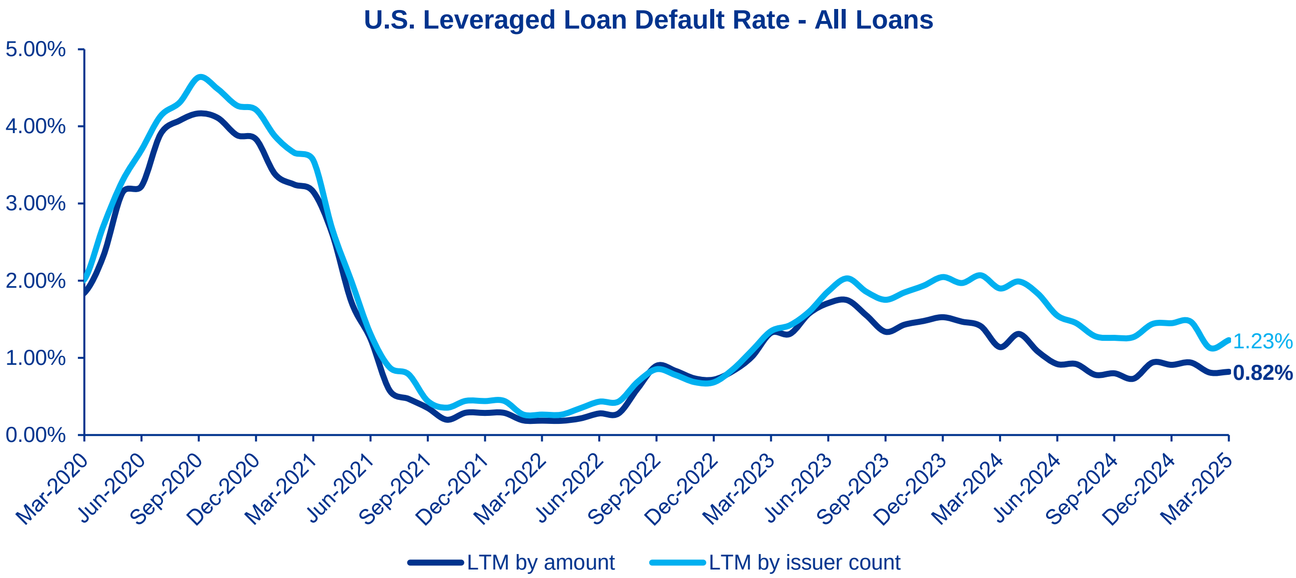
High Yield Bonds



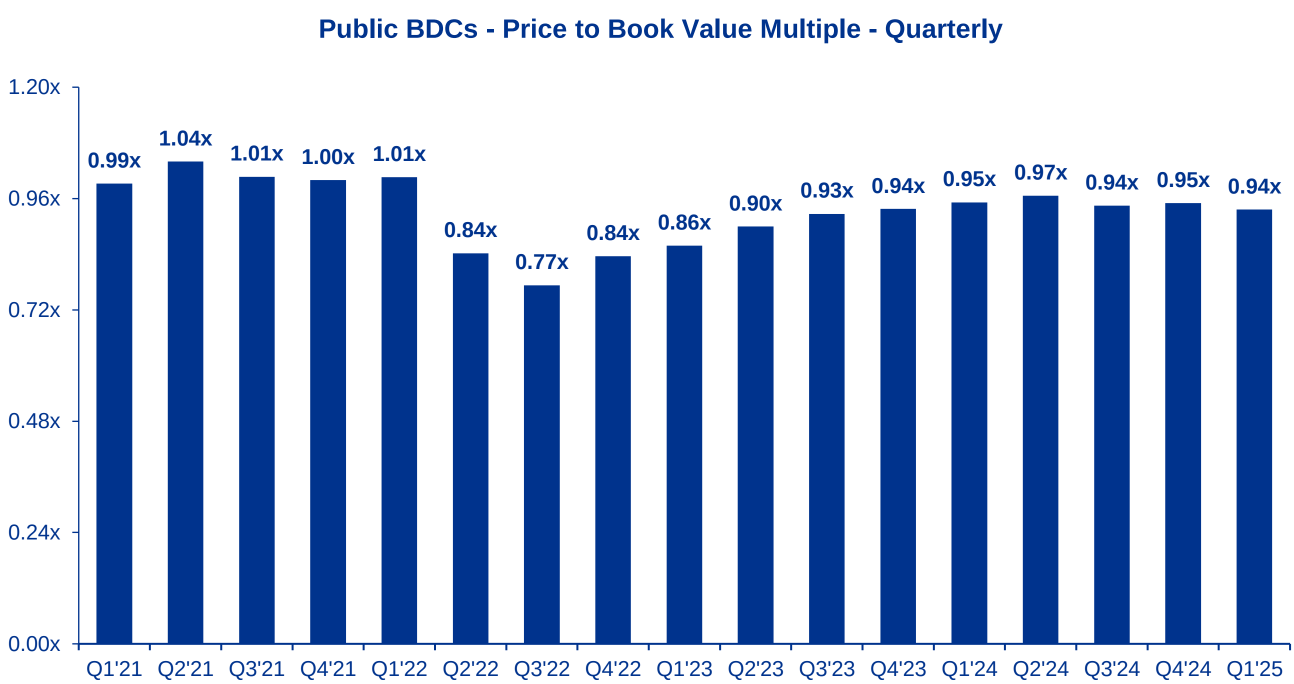


Source: PitchBook | Leveraged Commentary & Data.

Distress and Defaults



Price to Book Value



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

KPMG Investment Banking - 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

KPMG

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

KPMG

Project Tyson

Debt Advisory

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

In Process

KPMG

Project Diamond

Debt Advisory

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

In Process

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

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