



Credit Markets Update

December 31, 2025

Credit Markets Commentary

After a strong end to 2025, hopes are high for a banner year in 2026

Strong momentum building for 2026



- Opportunistic borrowing supported steady growth in deal activity during 2025
 - Volume climbed to \$709.0 billion, up from \$661.2 billion in 2024, marking the second-highest new-Issue leveraged loan volume since 2021
 - The share of refinancing fell to 44%, despite amassing the second highest refinancing volume of the decade, at \$191.8 billion in annual volume
 - While the long-anticipated M&A rebound has yet to fully materialize, new-money issuance from LBO and M&A activity led the charge in 2025, despite policy volatility and macroeconomic uncertainty
- Broadly syndicated lenders have continued to gain momentum against direct lenders, narrowing the share gap in a fiercely competitive market. However, direct lenders edged out BSL in cross-flows by capturing multiple large deals
- A strong high-yield bond market, driven by refinancing volume, was further energized by the Fed's relatively dovish stance, supporting a 16% YoY increase in annual volume to over \$330 billion in 2025 as quarterly average yield inches closer to 7%
- The combined default rate fell to 3.35%, with liability management exercises remaining the preferred restructuring tool, accounting for 65% of total default activity in 2025
- As expected, the Federal Reserve announced a third rate cut announcement in December 2025. Despite the cut, the Fed remains focused on labor market trends as well as inflation, which remains somewhat elevated

Tailwinds...



- The market continues to favor borrowers as tight spreads and declining base rates are driving low cost of capital, which should continue to fuel deal activity in early 2026
- Momentum in the 2025 M&A pipeline could also jump start a fresh supply of loans in the coming month, accelerating new issue momentum
- As the Fed's leadership transition nears in 2026, the Trump administration's push for easing monetary policy could play a prominent role in supporting further monetary accommodation and reducing cost pressures for companies across the credit spectrum

...Risks on the horizon



- Monetary policy remains dependent on clearer signals from job-market and inflation data; any significant downside surprises could limit the support for additional monetary easing
- Rising geopolitical tensions, including trade, border, or political conflicts could quickly dampen risk appetite disrupting the momentum
- The surge in refinancing and repricing activity has pushed out near-term maturities, but a high refinancing wall remains for 2028 maturities, with a heavy concentration of B- or lower-rated borrowers; this presents elevated execution risk for lower rated credits, which could test the credit market's resiliency

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



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Credit Markets Update - 2025

After a strong end to 2025, hopes are high for a banner year in 2026

- In 2025, new-issue leveraged loan volume reached \$709.0 billion, second only to \$798.4 billion recorded in 2021. Fourth quarter volume was \$138.2 billion, up from \$124.0 billion during the same period in 2024, marking the highest fourth quarter volume since \$171.9 billion in 2021
 - The steady growth was buoyed by non-refinancing issuance which rose for the third consecutive year, as opportunistic activity drove LBO, M&A and other new-money issuance
- Despite the decade's second-highest refinancing volume in 2025 at \$191.8 billion, the refinancing share fell to 44% of institutional loan volume, down from 52% in 2024, indicating a pullback in refinancing activity
 - Extension and repricing activity, not recorded in new-issue leverage loan volume, witnessed another strong year after an unprecedented 2024, totaling \$589.7 billion in 2025, surpassing the institution loan volume of \$439.1 billion
- M&A-backed institutional loan volume accounted for 20.1% of the 2025 institutional loan volume, reaching \$142.3 billion, highest since \$143.4 billion recorded in 2022
 - The anticipated sharp rebound in LBO and M&A activity has yet to fully materialize amid macroeconomic uncertainty and policy volatility, but a growing flow of M&A-driven issuance is poised to underpin market momentum in 2026
- Broadly syndicated lenders have continued to gain momentum against direct lenders, narrowing the share gap in a fiercely competitive market. However, direct lenders edged out BSL in cross-flows by capturing multiple large deals
- Liability management exercises remain a key restructuring tool, accounting for 65% of total default activity during 2025, down from its peak of 73% logged for LTM February 2025
 - Combined default rate went down to 3.35% as tight spreads and Fed rate cuts are supporting interest pressure relief

The strong primary high-yield market was augmented by the Fed's relatively dovish stance, with issuance amassing \$330.1 billion in 2025, a 16% jump from 2024

- Fourth quarter high-yield volume came in at \$65.9 billion, up from \$46.2 billion a year ago, marking the highest last quarter volume since 2021
 - Refinancing dominated use of proceeds representing ~70% share of the quarterly volume
- The average quarterly yield remained stable in second half, reaching 7.04% in fourth quarter 2025, from 7.66% a year ago

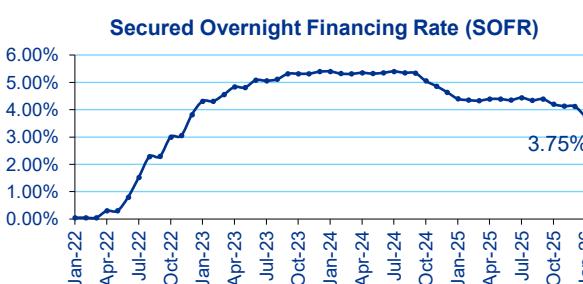
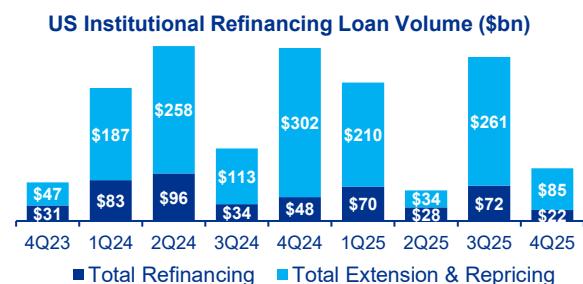
The Federal Reserve announced its third consecutive rate cut in December 2025

- A cumulative 75 bps rate cut brings the benchmark rates down between 3.50% and 3.75%
 - The FOMC's plan to buy Treasury securities for a few months, is expected to further boost the market liquidity
- Despite the cut, the Committee seeks clearer signs on the direction of the job market and inflation that remains somewhat elevated

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



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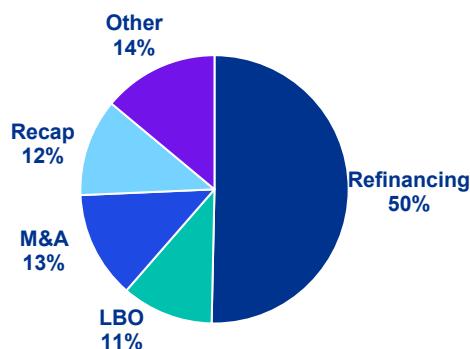
Source: New York Fed; 90-day Term SOFR rate

Leveraged Loans

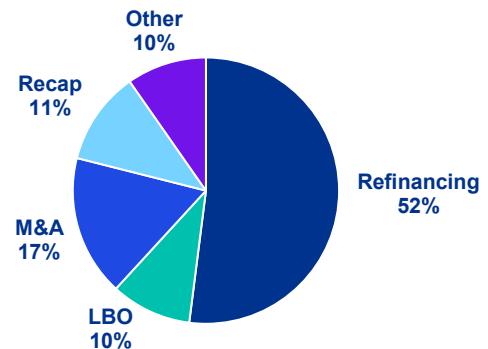
New-Issue Leveraged Loan Volume (\$bn)



Leveraged Loan Issuance by Purpose - 2024



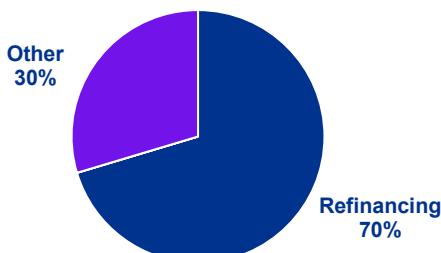
Leveraged Loan Issuance by Purpose - 2025



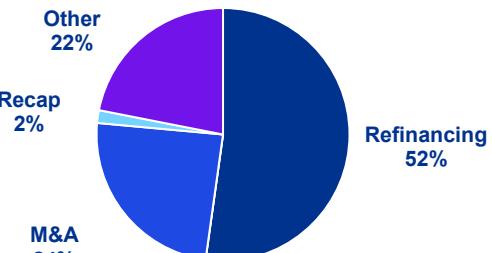
Middle Market Leveraged Loan Volume (\$bn)



Middle Market Leveraged Loan Volume by Purpose - 2024



Middle Market Leveraged Loan Volume by Purpose - 2025

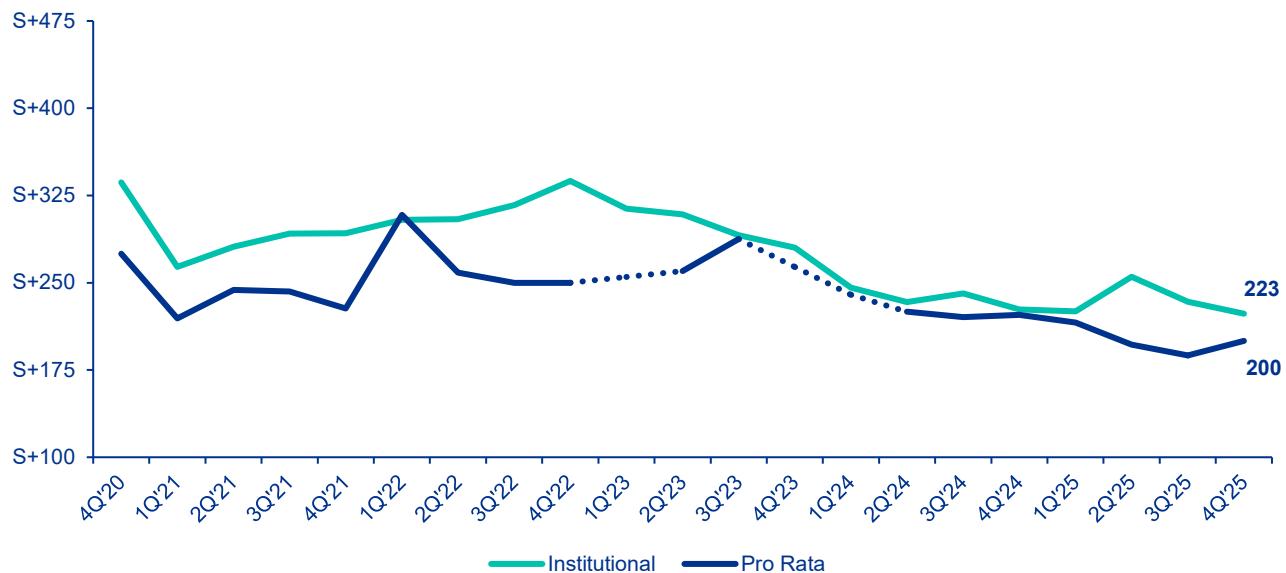


Source: PitchBook | Leveraged Commentary & Data.

Note: Middle market refers to companies with EBITDA of \$50 million or less.

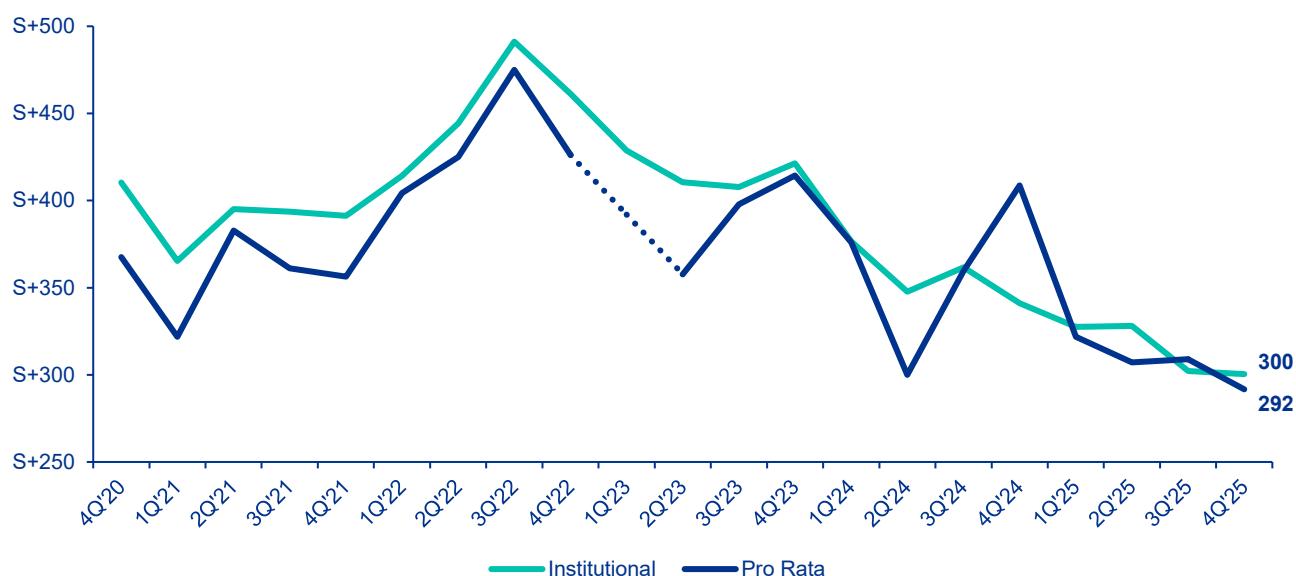
Leveraged Loans (continued)

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.



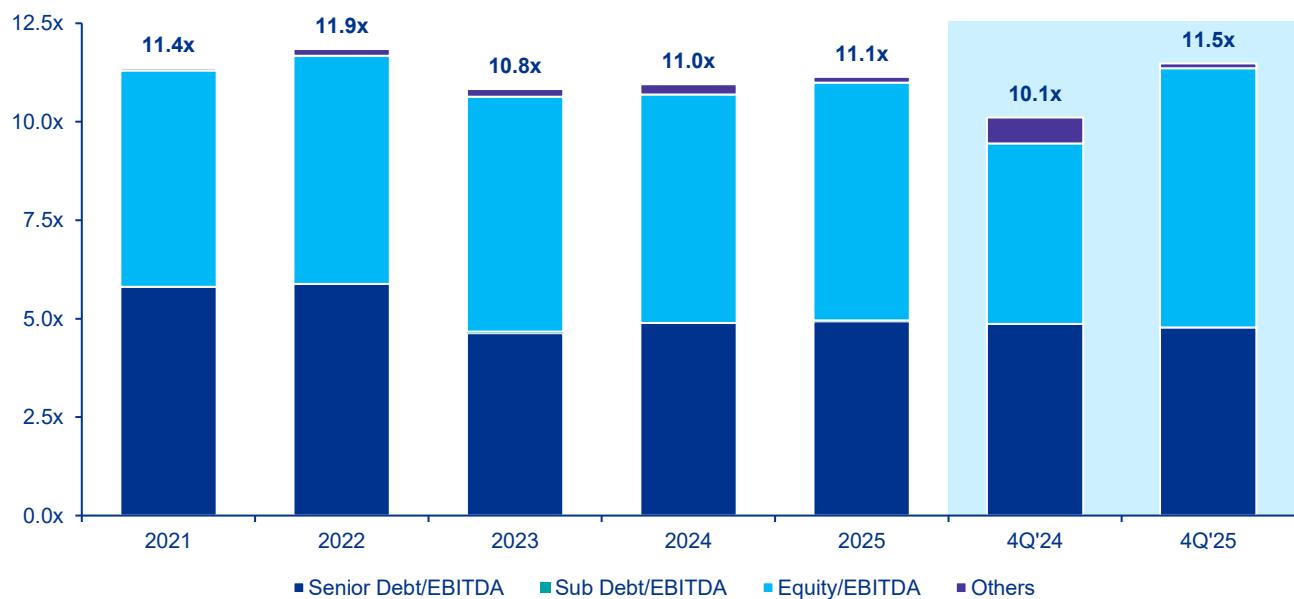
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LBO Summary



Note: 4Q'22 LBO volume data not available

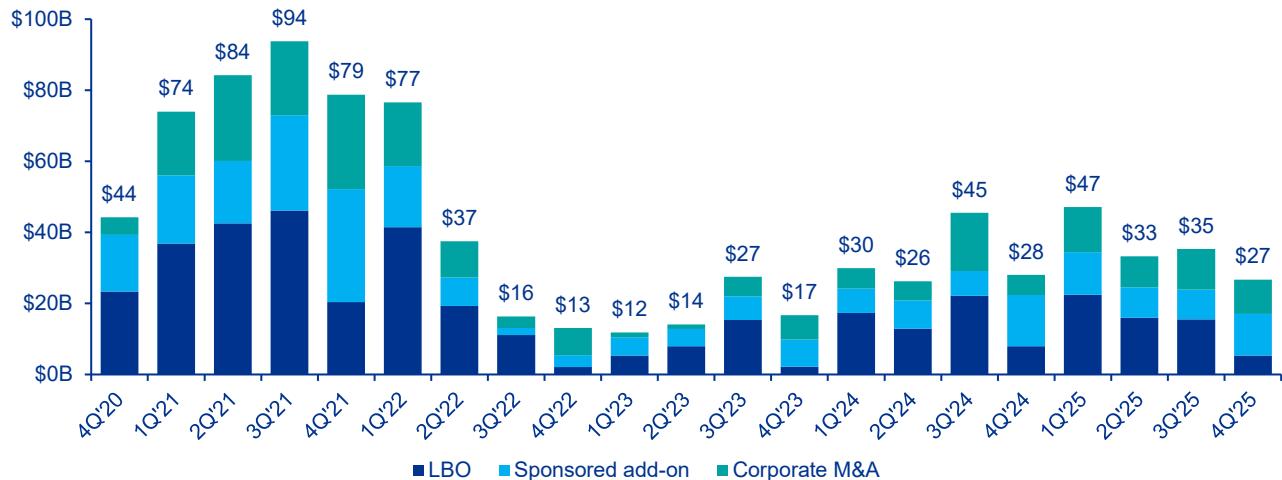
Average Purchase Price Multiple - All LBOs



Source: PitchBook | Leveraged Commentary & Data.

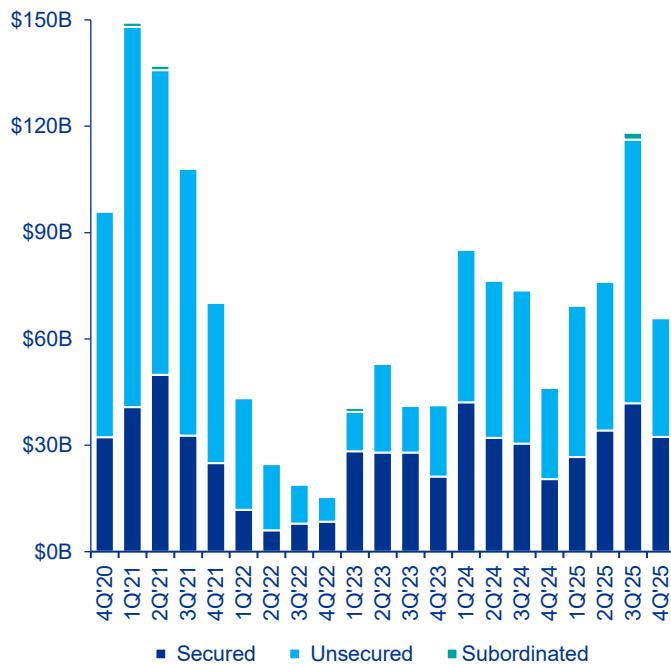
M&A Related Loan Volume

US M&A related New Issue Institutional Loans (\$bn)



High Yield Bonds

High Yield Bond Issuance – Quarterly (\$bn)



New issue High yield Bond yield to Maturity

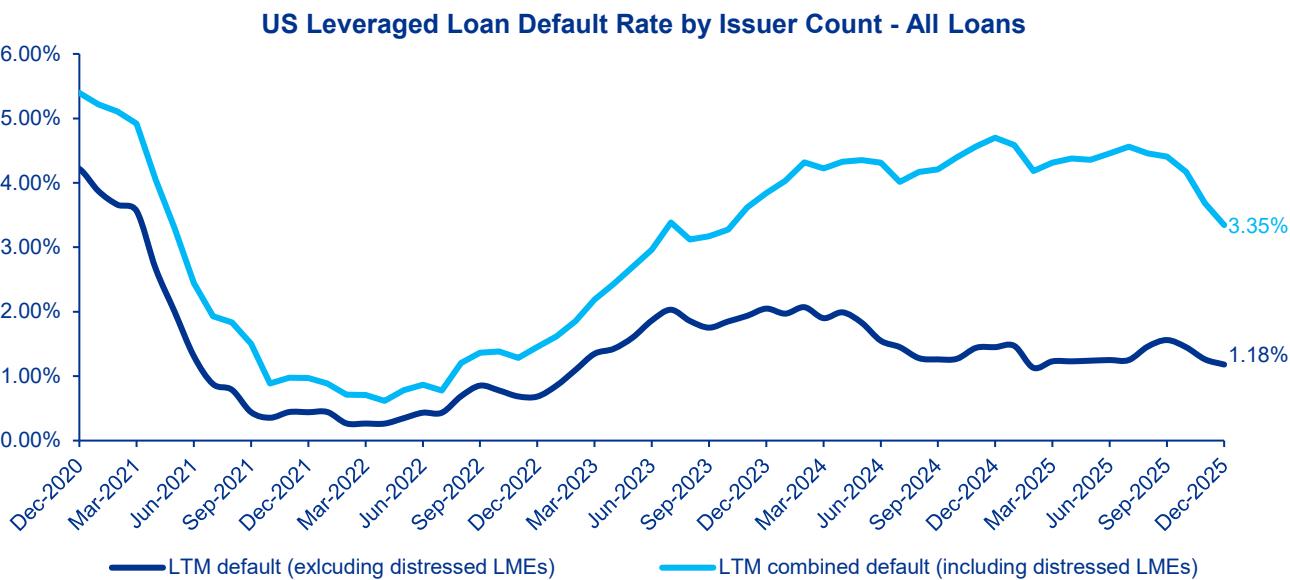


Source: PitchBook | Leveraged Commentary & Data.

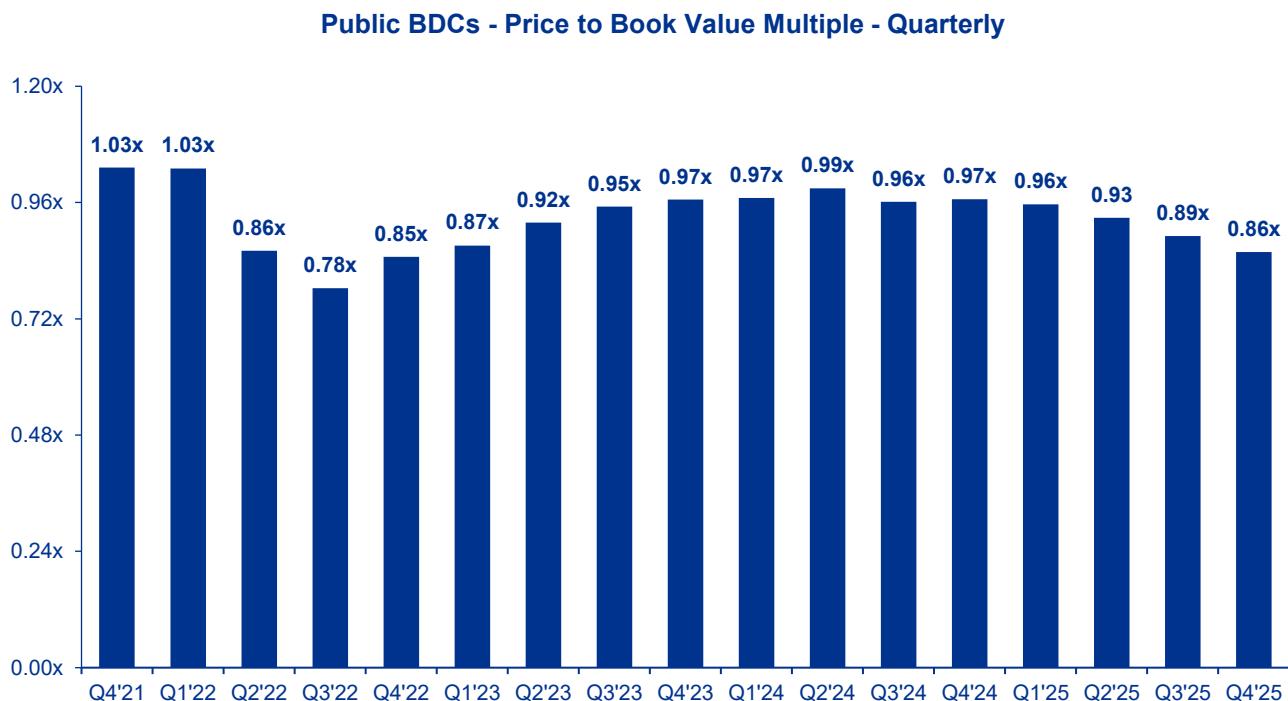


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Distress and Defaults



Price to Book Value



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

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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

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- 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



Debt Advisory

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

Not Disclosed



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



Debt Advisory

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

Not Disclosed

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Debt Advisory

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

Not Disclosed



Debt Advisory

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

Not Disclosed



Debt Advisory

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

Not Disclosed



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