



Credit Markets Update

June 30, 2025

Credit Markets Commentary

Major tariff policy changes shook the market in April, but investor optimism bounced back by the end of the quarter as trade deals and deadline extensions were announced

Summer Heat Wave Ahead



- During the second quarter, investor sentiment in the leveraged loan market recovered quickly after the spike in volatility in April as trade war concerns dissipated
 - Volume of \$135.9 billion in second quarter marked a solid result after a lost April
 - A fresh supply of new loans helped make up for declining refinancing volumes amid fluctuating investor appetite
 - Spreads settled near multi-year lows despite early volatility in the quarter
- Private credit markets continued to navigate a technical imbalance, as strong pent-up demand is still waiting for the much-anticipated rebound in M&A activity
 - With 188 deals in the second quarter, PE exit activity declined for the fourth consecutive quarter
- Broadly syndicated lenders lost momentum during the month of April while direct lending recorded \$59.6 billion with 207 deals during the second quarter
- High yield volume made a surprising recovery in May and June, surpassing the preceding quarter and nearly equaling the same period in 2024 as the high levels of liquidity in the market met with fresh supply including M&A, LBO, and dividend recapitalizations
- As the Trump administration's trade policies take their final shape, the Federal Reserve is continuing with its wait-and-see approach and is committed (for now) to its previously planned two rate cuts during 2025

Tailwinds...



- The market is tilted in favor of borrowers with relatively low pricing and flexible terms, which could portend a hot summer of market activity
- The new administration was successful in pushing through its pro-growth "Big Beautiful Bill" with tax cuts and de-regulation, which should spur economic activity
- Sponsors seeking ways to monetize an aging portfolio could drive a new supply of loans in the second half of the year

...Risks on the horizon

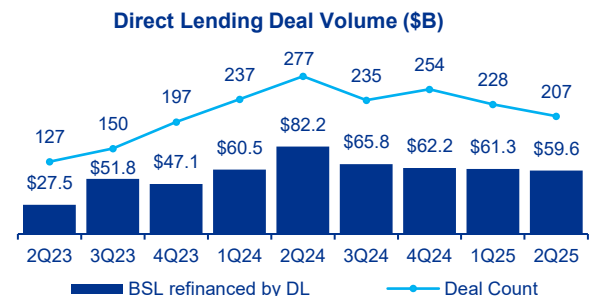
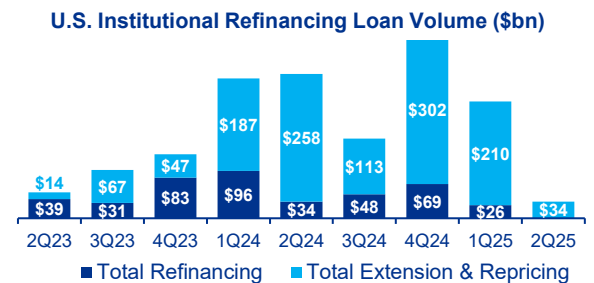
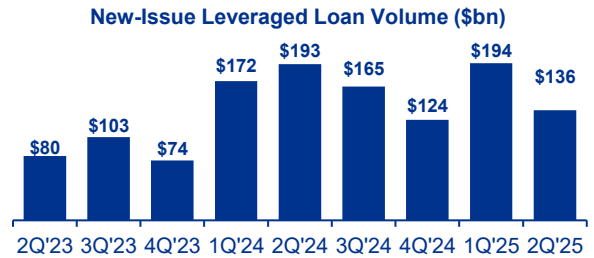


- Although inflation has so far been muted, any uptick in inflation may slow (or even stop) the pace of rate cuts, which could result in a significant sell-off in the markets
- Geopolitical risks including potential hot wars and trade wars with major economies are still front and center in investors' minds; any increase in these concerns might be a tipping point for a recession

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Major tariff policy changes shook the market in April, but investor optimism bounced back by the end of the quarter as trade deals and deadline extensions were announced

- Second quarter new issue leveraged loan volume recorded \$135.9 billion, significantly down from \$194.2 billion in the previous quarter and \$192.8 billion during the same period in 2024
 - The concern over an emerging global trade war weighed heavily on deal activity in April, but the markets quickly recovered in May and June as tariff threats cooled
- Non-refinancing volume continued to dominate total loan volume for four straight quarters, with a 67% share
 - Quarterly refinancing volume came in at \$26.3 billion, the lowest since 2023 and a significant drop from \$96.1 billion a year ago
 - Extension and repricing activity was down amid investors' weak risk appetite, but the market recovered in June recording \$28.0 billion, helping the overall quarterly volume reach \$28.5 billion
- Both sponsors and corporate backed M&A financing volumes were down, as investors are still looking for a long-awaited rebound in M&A activity
 - M&A backed volume dipped 30% in the second quarter against the previous quarter
 - PE exit activity decreased for fourth straight quarter
- Average spreads for the second quarter settled near the multi-year lows, after a sudden jump in April
- Momentum in the broadly syndicated loan market that was building in Q1, slowed against the backdrop of April volatility, opening the door for private credit to fill the gap
 - Faster deal speed and DDTLs have allowed direct lenders to carve their niche, particularly with private equity



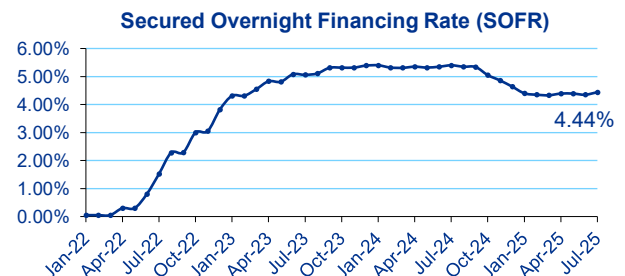
The high yield market made a strong recovery after the April market shock

- Despite recording the lowest April issuance since 2008, second quarter volume of \$76.2 billion was close to \$76.4 billion during the same period in 2024
- M&A, LBO, and dividend recaps provided an offset for the decreasing refinancing activity in the high yield new issue market
- The quarterly average yield jumped up to 7.79% for the quarter, the highest since 8.10% recorded a year ago



The Federal Reserve kept its policy rates unchanged, sticking with a wait-and-see approach

- In June, the FOMC maintained the benchmark rates at 4.25% - 4.5%, expecting a potential spike in inflation and lowered economic growth forecasts due to tariffs
- The Fed is expecting to stick with its two rate cuts plan for the remainder of 2025, but is ready to make any necessary adjustments based on the health of the economy



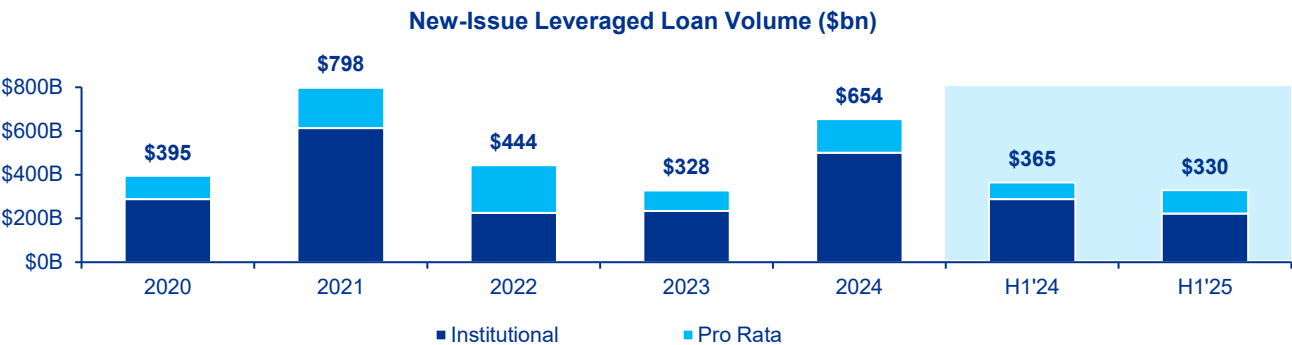
Source: New York Fed; 90-day Term SOFR rate

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

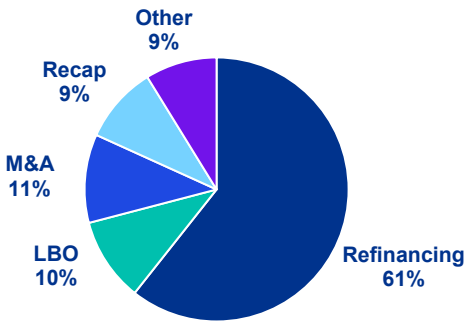


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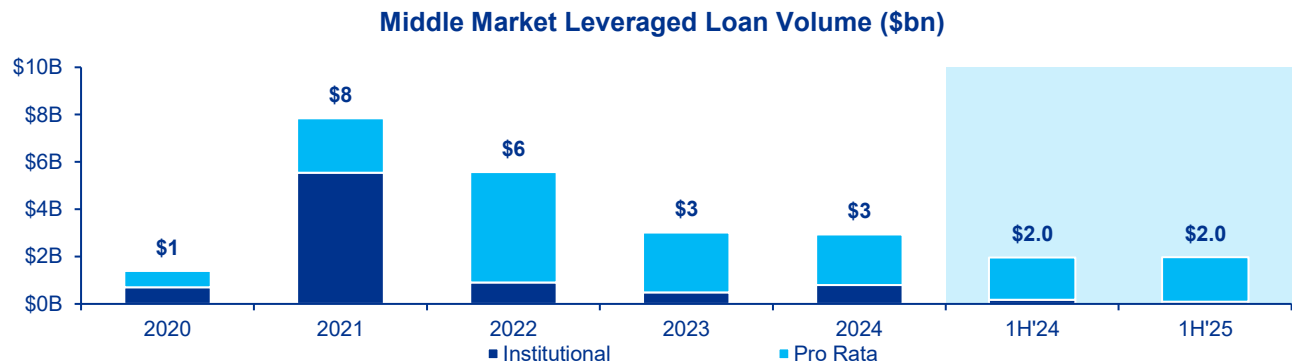
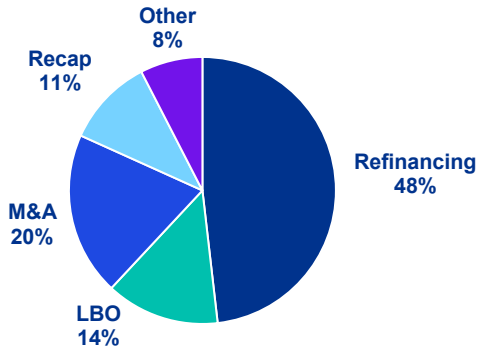
Leveraged Loans



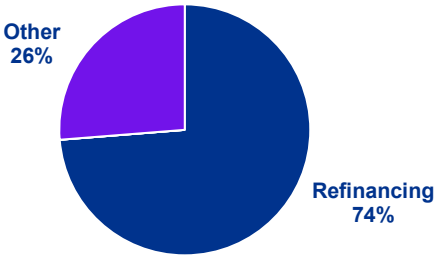
Leveraged Loan Issuance by Purpose - 1H'24



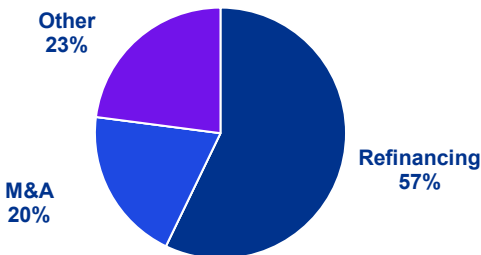
Leveraged Loan Issuance by Purpose - 1H'25



Middle Market Leveraged Loan Volume by Purpose – 1H'24



Middle Market Leveraged Loan Volume by Purpose – 1H'25



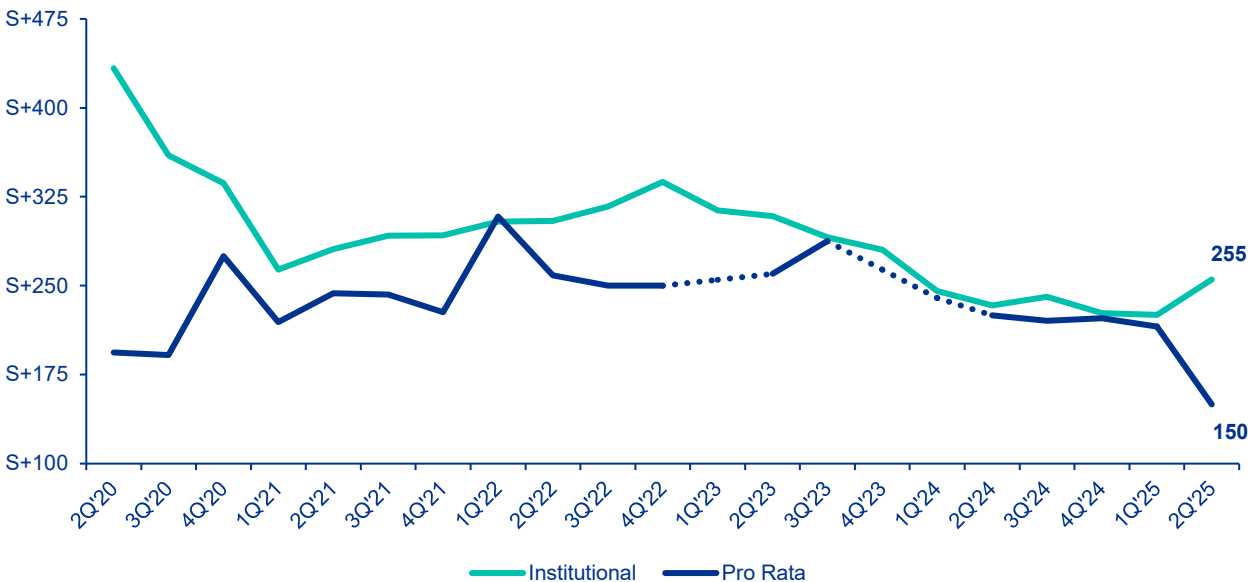
Source: PitchBook | Leveraged Commentary & Data.
Note: Middle market refers to companies with EBITDA of \$50 million or less.



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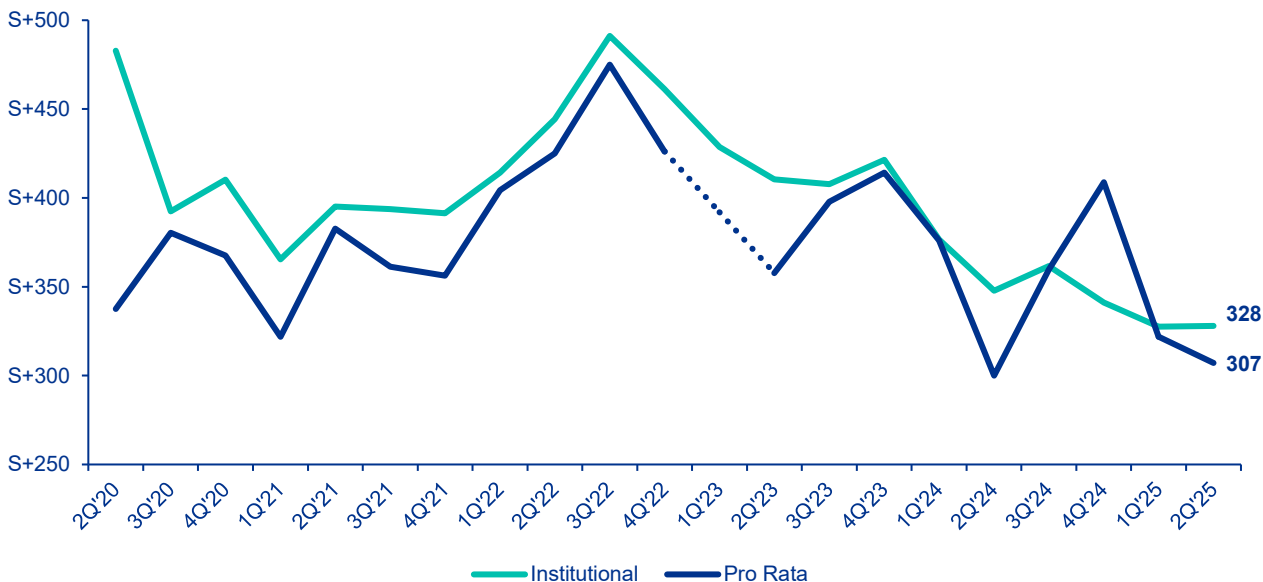
Leveraged Loans (continued)

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



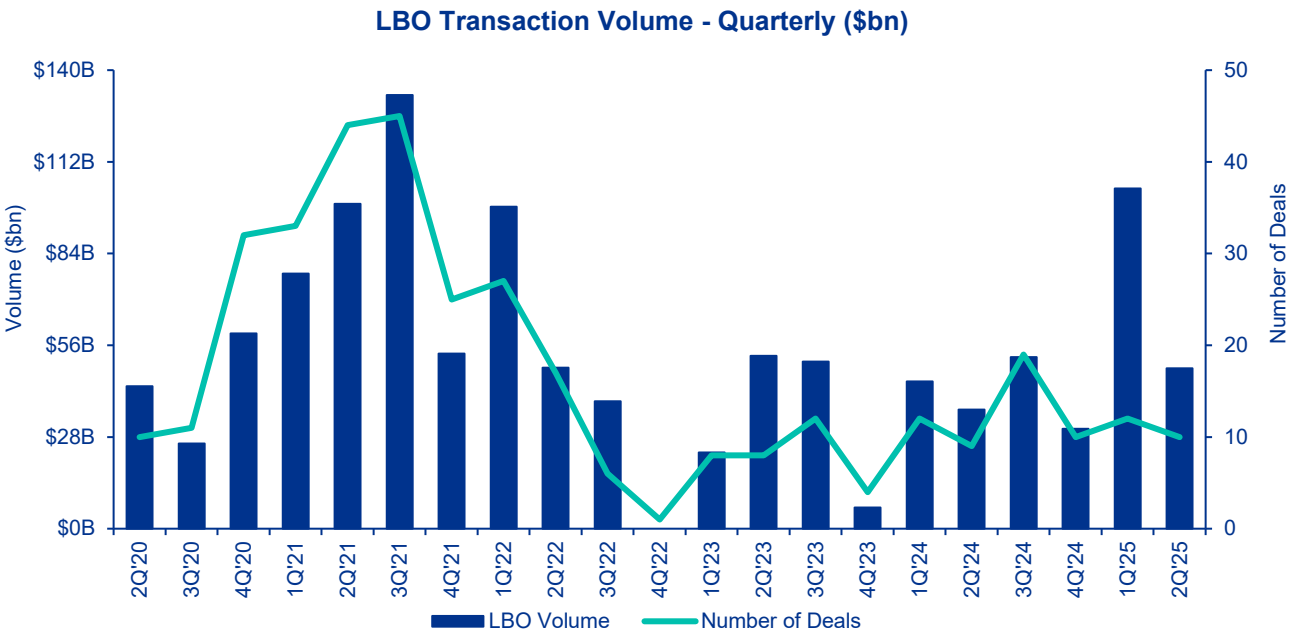
Note: 1Q'23 data not available

Source: PitchBook | Leveraged Commentary & Data.

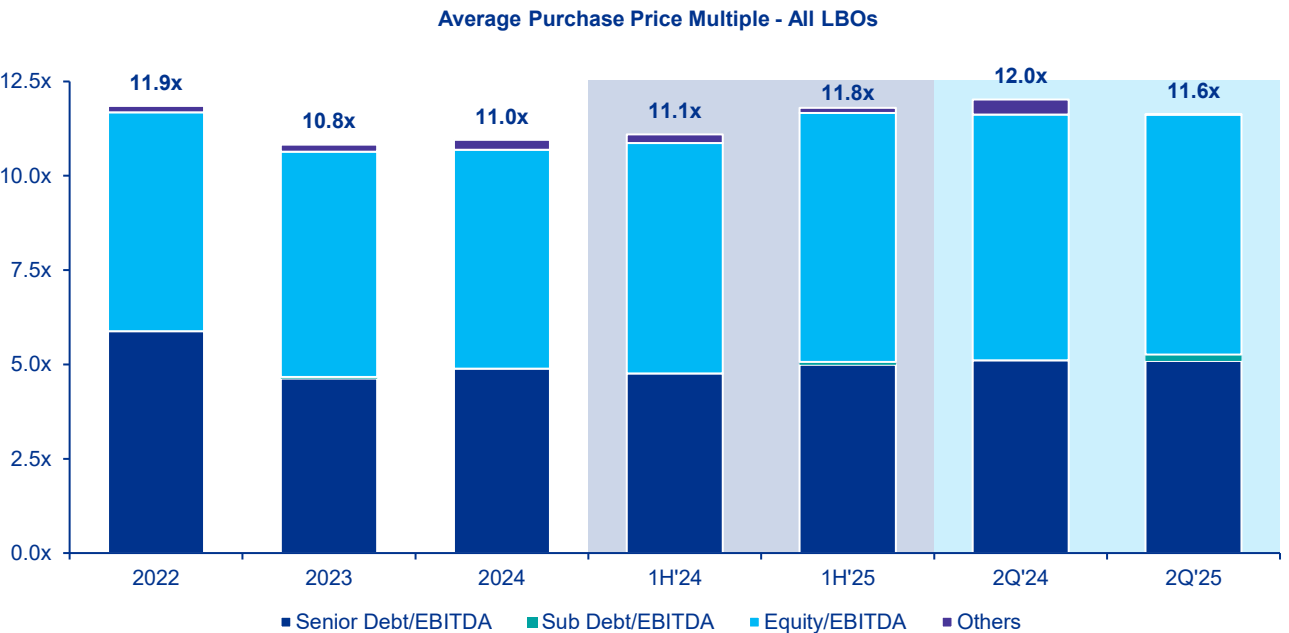


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LBO Summary



Note: 4Q'22 LBO volume data not available

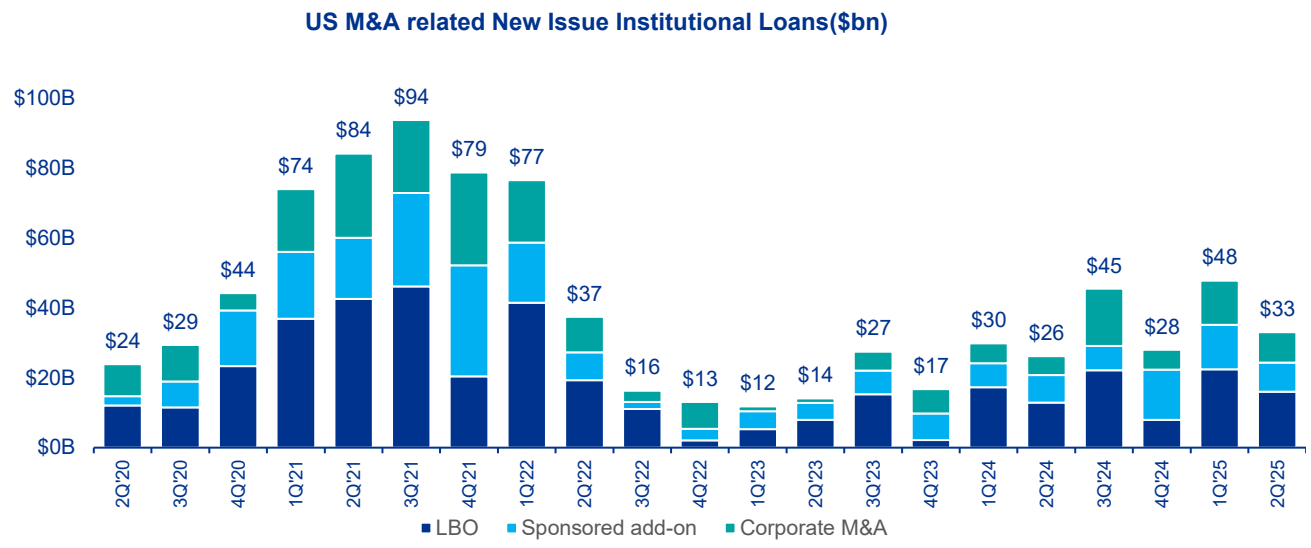


Source: PitchBook | Leveraged Commentary & Data.

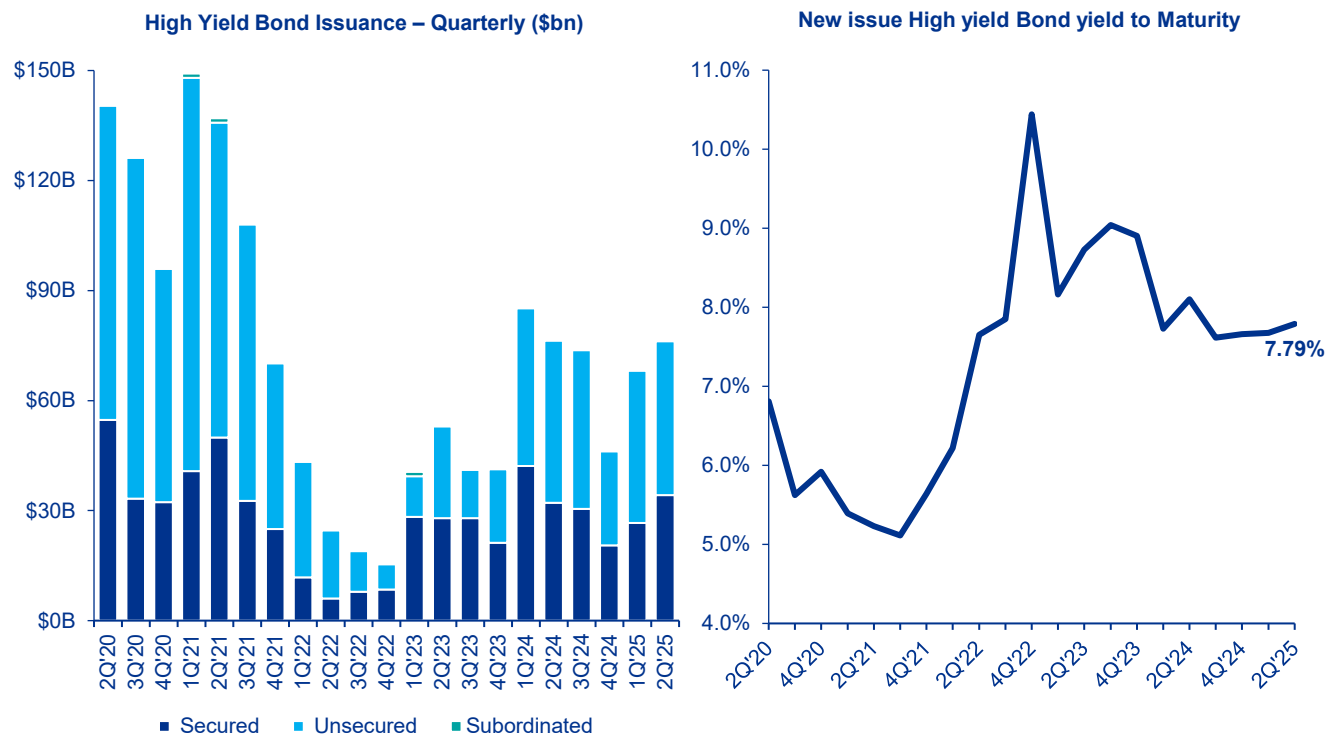


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M&A Related Loan Volume



High Yield Bonds

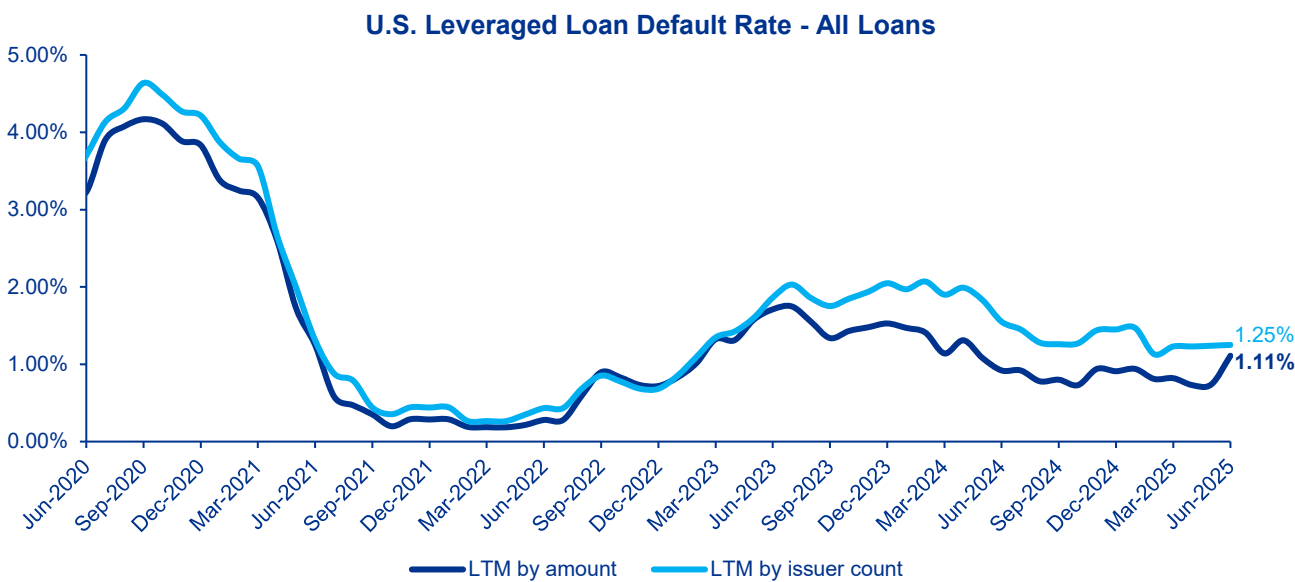


Source: PitchBook | Leveraged Commentary & Data.

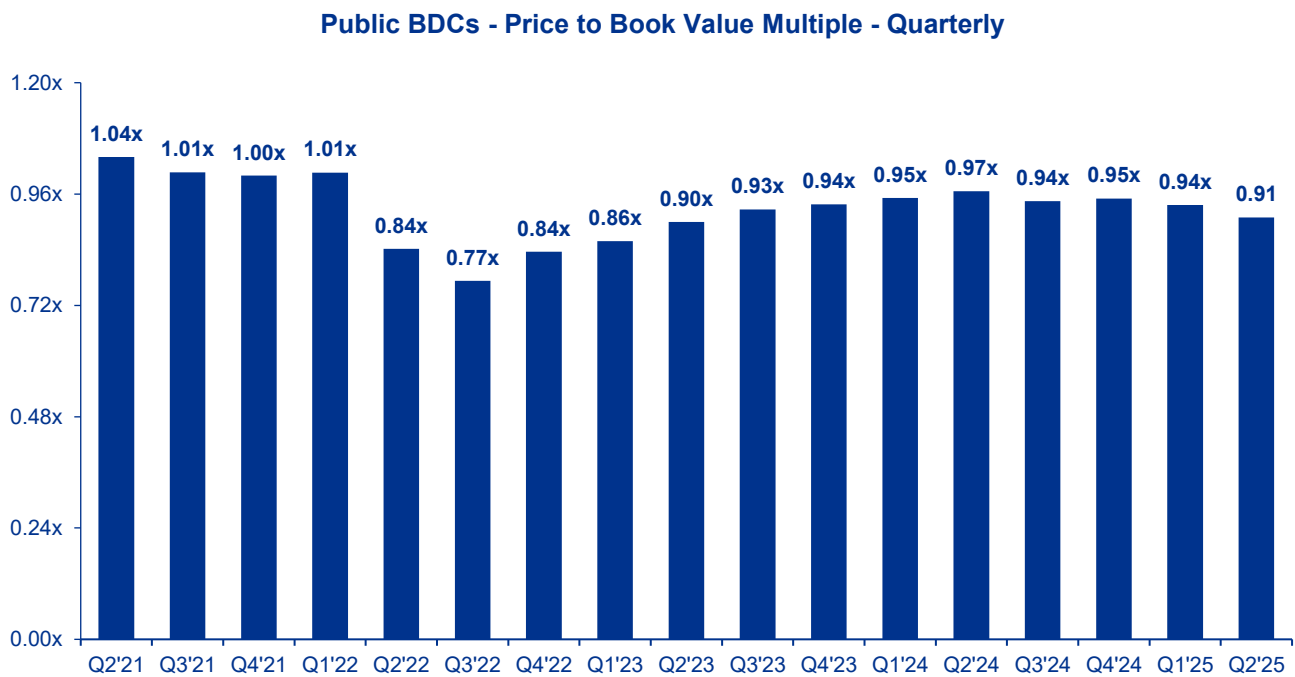


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Distress and Defaults



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

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



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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