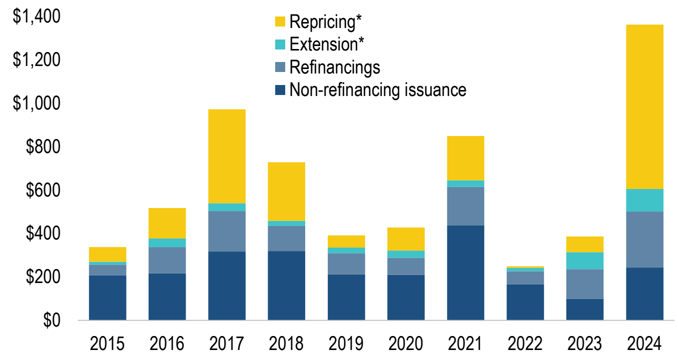
PitchBook | LCD

US

Credit Markets Quarterly Wrap

2024 features record overall activity, fueled by repricings…

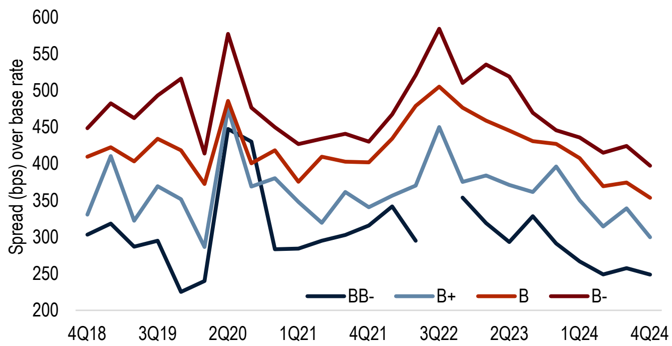
US institutional loan activity ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024
*Reflects repricings and extensions done via an amendment process only

…while supply/demand imbalance brings spreads to multiyear lows.

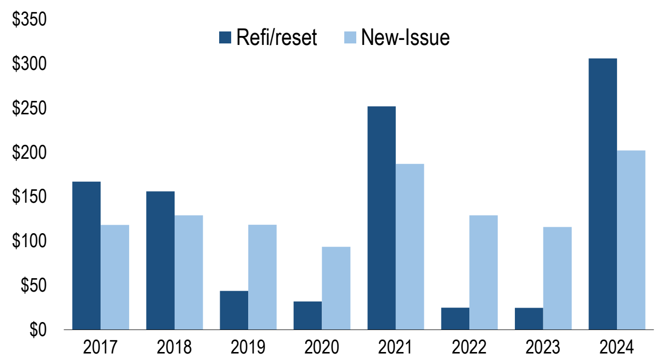
New-issue TLB spread by borrower rating



Source: PitchBook | LCD • Data through Dec. 31, 2024

CLO issuance and resets likewise set new records…

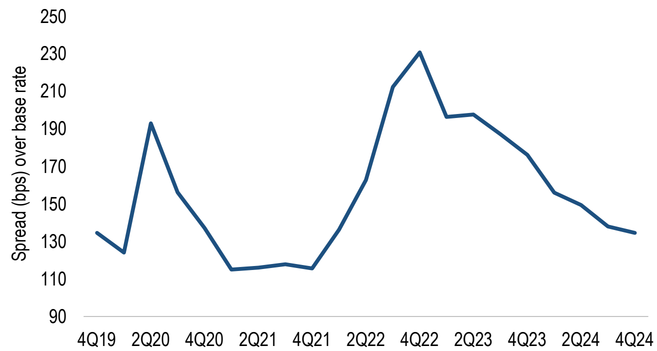
US CLO refi/reset and new-issue volume ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

...as triple-A spreads narrow to lows in the Sofr era.

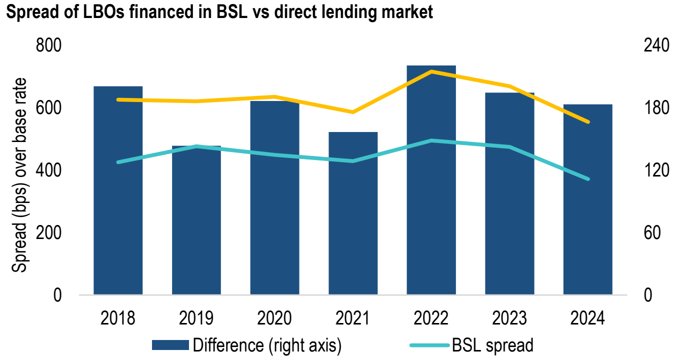
Average US CLO AAA spread



Source: PitchBook | LCD • Data through Dec. 31, 2024 • Excludes middle-market CLOs

The illiquidity premium shrinks as lenders compete for deals.

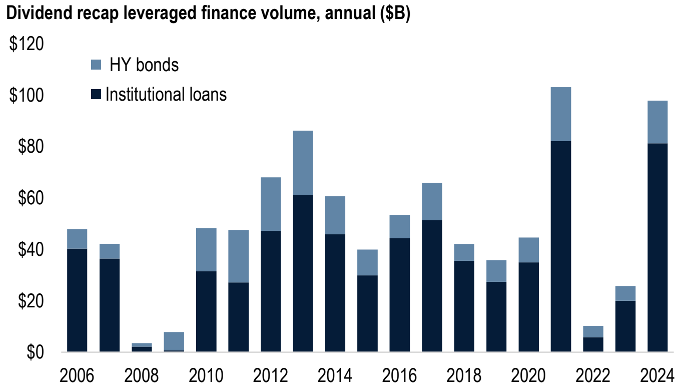
Spread of LBOs financed in BSL vs direct lending market



Source: PitchBook | LCD • Data through Dec. 31, 2024 • Direct lending spread data reflects senior secured first-lien loans and unitranche facilities. BSL data reflects loans issued to borrowers rated B-minus.

Sponsors agitate for payouts after lean years through the rate hikes.

Dividend recap leveraged finance volume, annual ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

Market recaps

Plus… What's in store for 2025? Key points from PitchBook | LCD's outlooks across the asset classes (p. 33)

Leveraged loan market caps banner year with busy quarter

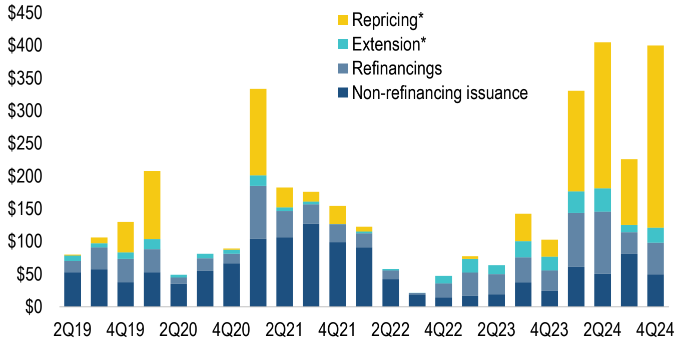
Leveraged loan activity flourished in the fourth quarter amid a favorable fundamental backdrop and demand-rich technical conditions. However, focus shifted back to opportunistic deals, with very little net supply in sight. While most market participants expect M&A volume to increase in 2025, 2024 wrapped up with the largest supply shortage on record, at roughly $192 billion. This technical imbalance was a consistent theme in 2024, compressing clearing yields to multiyear lows and fueling a record volume of refinancings and repricings.

Key takeaways:

- With $1.4 trillion of overall activity in the new-issue market, 2024 cements its place in the record books
- Speculative-grade borrowers reprice and refinance existing term loans at record clip in 2024
- Despite three rate cuts (the last on Dec. 18, after the market had all but wrapped for the year) and a massive repricing wave, loans gain 9.4% just from coupon-clipping in 2024
- Q4 is the second-busiest quarter ever as focus shifts back to opportunistic deals
- Investor demand for loans surges to a three-year high in Q4 as net supply declines
- Technical imbalance pushes new-issue spreads for single B borrowers to post-GFC lows

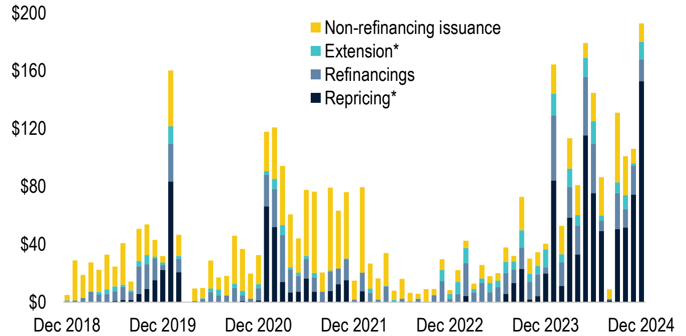
All told, primary market activity climbed to $400 billion in the fourth quarter — the second-highest amount on record, just 1% shy of the $405 billion peak in Q2 2024. December's loan production put an exclamation point on Q4 volume stats as speculative-grade borrowers took advantage of highly accommodating credit conditions at a record clip before the market shut down for the year-end holidays. Total activity reached $193 billion, a record for any full calendar month. It is also more than four times the overall historical monthly average ($46 billion). Typically, December is one of the slowest months in the leveraged finance market. Over the last 15 years, activity during the month has averaged $27 billion.

US institutional loan activity ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024
*Reflects repricings and extensions done via an amendment process only

US institutional loan activity ($B)



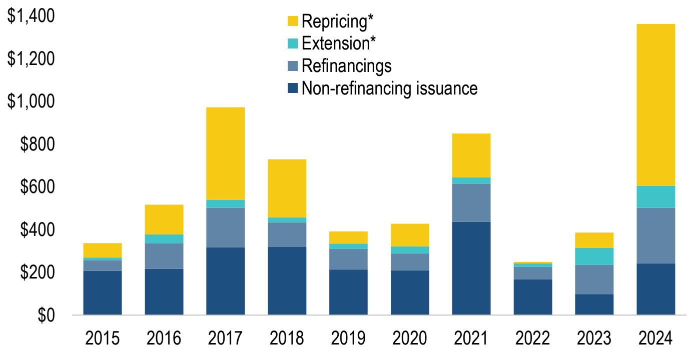
Source: PitchBook | LCD • Data through Dec. 31, 2024
*Reflects repricings and extensions done via an amendment process only

Indeed, 2024 cemented its place in the record books. Total activity of $1.4 trillion was 60% ahead of the 2021 tally and 41% higher than the prior peak in 2017. However, these headline figures overstate the case.

Stripping out repricings that simply reduce spreads and maturity extension amendments, new-issue loan volume was $501 billion in 2024. While that's more than double the 2023 and 2022 levels, it lagged 2021 by 18% and fell just short of $503 billion in 2017.

In addition, issuance not related to a refinancing, which represents net supply for loan investors, totaled $242 billion in 2024, 45% below 2021 and roughly in line with the 10-year average.

US institutional loan activity ($B)

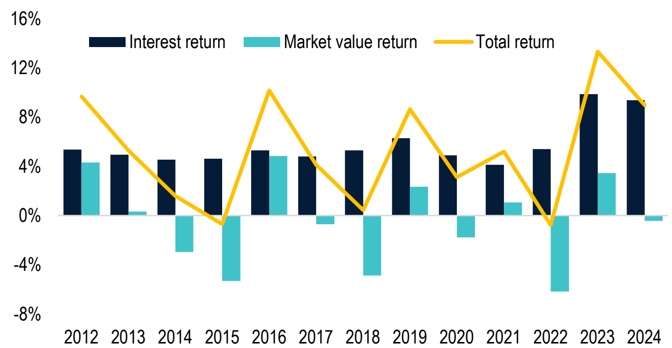


Source: PitchBook | LCD • Data through Dec. 31, 2024
*Reflects repricings and extensions done via an amendment process only

Looking at leveraged loan performance in 2024, the Morningstar LSTA US Leveraged Loan index gained 9.37% from coupon-clipping in the year, as measured by interest return, below the 9.87% record set in 2023. For reference, this metric averaged roughly 5.03% between 2013 and 2022.

While carry remains the key driver of returns last year, the impact is smaller than in 2023 due to two factors: first, tighter spreads on outstanding loans following record volume of repricings and refinancings — nominal spreads fell by 28 bps across the index — and second, three cuts to the base rate.

US leveraged loan returns



Sources: PitchBook | LCD; Morningstar LSTA US LL Index • Data through Dec. 31, 2024

Looking at total return, including changes in secondary loan prices, the 8.95% return in 2024 trailed the 13.32% return in 2023. However, returns topped every other year between 2017 and 2022.

Yet another repricing tsunami

Exceptionally hot demand from CLOs and retail investors, set against very little new issuance, reignited the repricing wave in the fourth quarter. In December alone, speculative-grade borrowers launched $153 billion worth of amendments to lower the spreads on existing term loans, the busiest month for such activity on record, with most companies lowering the spreads on credits that were either issued or repriced earlier in the year.

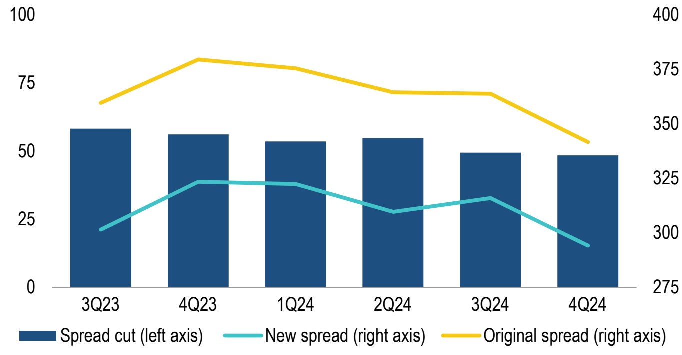
Out of the 112 borrowers launching a repricing last month, 47 completed a similar exercise in the first half of 2024. Overall, 122 companies repriced their loans twice in 2024, shaving 99 bps off the borrowing spread, on average. Although the sample of these double dippers is slightly skewed toward higher-credit-quality companies, plenty of B-minus rated borrowers were in the mix. For example, **McAfee** (B-/B2) recently repriced its $5.26 billion term loan B due March 2029.

The deal, one of the largest repricings last year, included a spread of S+300, with a 0.5% floor and an issue price of par. The facility was repriced to S+325 (0.50% floor) in May from S+400 (0.5% floor). McAfee's loan dates from a cross-border package allocated in February 2022 that backed the firm's Advent- and Permira-led buyout.

December's repricing barrage brought the fourth quarter's tally to a record-setting $279 billion, eclipsing the prior peak in the second quarter ($224 billion). As a result, the repricing total for the year stands at a massive $757 billion, also a record, easily exceeding the prior high in 2017, at $432 billion. If re-syndicated repricings are included in the 2024 cohort, the total increases to nearly $800 billion, or roughly 60% of all outstanding loans at the start of the year. This translates into $4.1 billion of annual interest expense savings for speculative-grade borrowers.

That said, the average spread savings via repricings is declining as many of the deals being repriced in the latest wave are resetting deals printed earlier in the year, including some that were repriced in Q1 and Q2 as the soft call protection from those transactions expired. The fourth quarter transactions saved borrowers on average 48 bps, taking the new spread to S+294, vs the first quarter's deals, which shaved 53 bps off the spread, reducing it to an average of S+322.

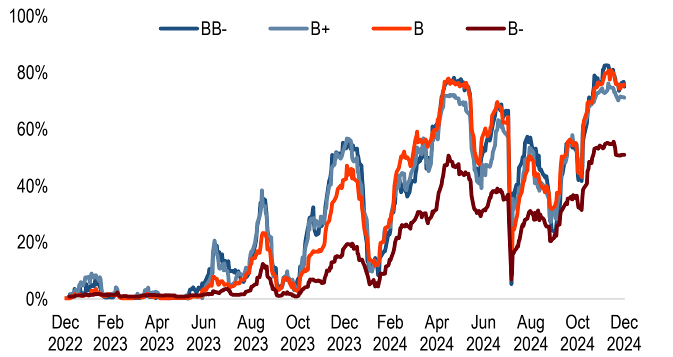
Repricing savings (basis points)



Source: PitchBook | LCD • Data through Dec. 31, 2024

Despite a record pace of repricings in 2024, more borrowers are waiting in the wings, with new-issue spreads at multiyear lows and net supply yet to recover in any meaningful way. Indeed, nearly 70% of outstanding loans tracked by the Morningstar LSTA US Leveraged Loan Index were priced at par or higher by mid-December, up from 27% at the end of September. For higher-rated names, this share was nearly 80%.

Loans priced at par and above by issuer rating



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Dec. 31, 2024

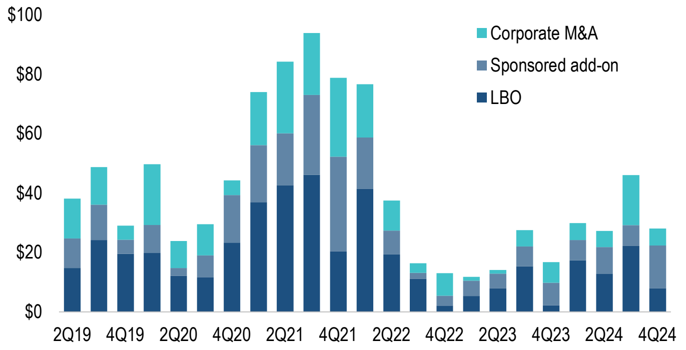
As a result, the pool of potential repricing targets in the US was $93 billion as of Dec. 16, as tracked by the index. This cohort consists of currently outstanding first-lien term loans that (1) are outside of their prepay protection period, which is typically six months, (2) have a bid price of par or higher, and (3) have a current spread at least 25 bps higher than the three-month average for new-issue loans with the same corporate credit rating by S&P Global Ratings. If we include loans whose call protection expired by the end of December, the repricing target estimate grows to $108 billion. Of course, if M&A activity picks up in 2025, the volume of opportunistic deals will likely decline. Repricing existing deals and paying out dividends are usually prominent when other types of dealmaking are quiet.

Sluggish M&A

Indeed, driving the year's repricing tsunami was exceptionally strong investor demand from both CLOs and retail investors, set against a persistent net supply drought as M&A activity remained significantly depressed. Loan investors saw little or virtually no net supply for the last two years amid the rising cost of debt for speculative-grade borrowers and a challenging exit environment for private-equity sponsors.

In fact, the size of the loan market expanded by just 1% in the last 12 months, as tracked by the Morningstar LSTA US Loan Index, as any new loan issued barely covered repayments. In contrast, the loan market grew 12% in 2021 amid record M&A-related issuance, or by 5% in 2022, as the Fed rate hiking cycle began.

M&A-related loan volume ($B)

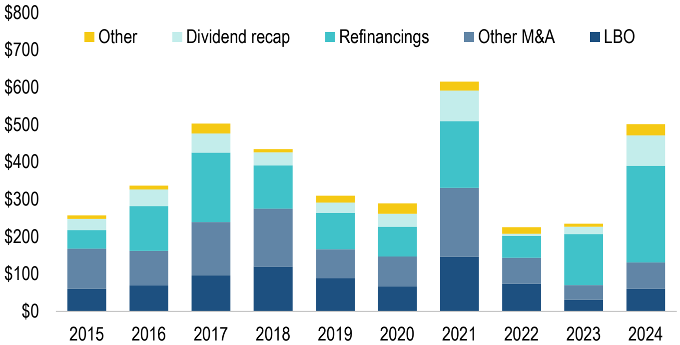


Source: PitchBook | LCD • Data through Dec. 31, 2024

Syndicated loan issuance to finance LBOs, sponsored add-ons, and corporate mergers and acquisitions declined from $46 billion in the third quarter to $28 billion in the fourth quarter, near levels in the first half of the year. While it's an improvement over the anemic 2022 and 2023 issuance, it was well below the 10-year quarterly average ($45.8 billion).

Loan issuance to finance buyouts fell to just $8 billion in Q4, the slowest quarter of the year, down from $22.1 billion in Q3 but up from $2.2 billion in Q4 2023. Private equity sponsors financed just eight buyouts in the broadly syndicated market in the fourth quarter, and more than half of that volume came from two large transactions — **R1 RCM** and **Barnes Group**. In contrast, LCD tracked 19 LBOs in the third quarter, including seven deals with term loans exceeding $1 billion.

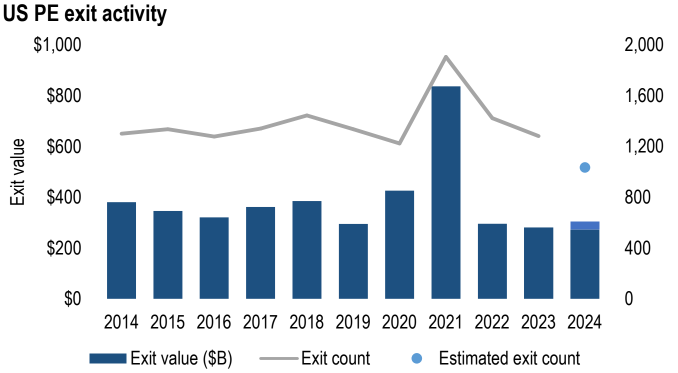
US institutional loan volume ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024
*Excludes repricing and extension amendments

Looking at 2024 as a whole, while LBO-related loan issuance of $60.3 billion doubled 2023's anemic levels, it remains below every other year since 2015. Private equity sponsor exit conditions have improved, but remain challenging. According to PitchBook data, through Q3, exit value had rebounded by 50.5% year-over-year. Still, exit count remained uncomfortably thin and flat compared with the prior year on an annualized basis. Exits were chunkier in 2024, owing to larger M&A exits to corporate buyers and 11 IPO exits. Excluding the outlier years of 2020 and 2021, exit value is headed for its highest total since 2018, but with fewer deals than in recent years. This reflects the trend of PE sellers bringing their highest-quality assets to market to secure favorable exits while holding off on the rest of their portfolios during a strained market period.

US PE exit activity



Source: PitchBook • Data through Sept. 30, 2024

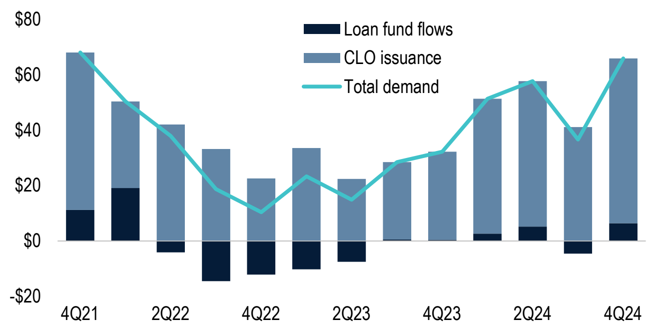
Demand on fire

At the same time, exceptionally strong demand for loans further widened the technical imbalance in the US leveraged loan market. Investor demand, defined as CLO issuance combined with cash inflows/outflows at retail investor loan funds, rose to $65.9 billion in the fourth quarter, the highest reading since the Fed began hiking rates in early 2022.

Aside from a dip in Q3, this metric has been steadily increasing since Q3 2023.

Fourth quarter CLO issuance totaled $59.5 billion, the highest reading since LCD began tracking this data in 2011, capping a banner year for CLO pricings, as AAA spreads narrowed to historically tight levels. At $202 billion, 2024 issuance exceeds the prior annual record set in 2021, at $187 billion.

US leveraged loan market – measurable investor demand ($B)



Sources: PitchBook | LCD; Morningstar Direct • Data through Dec. 31, 2024
Fund flows data includes monthly reporters.

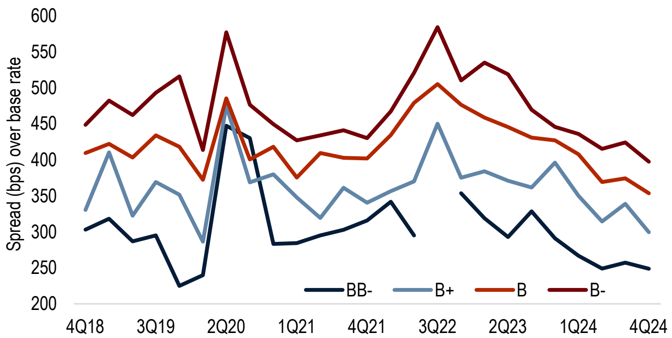
At the same time, demand from US mutual funds and ETFs investing in loans has increased sharply in recent months amid a favorable fundamental backdrop. These funds reported $5.5 billion of inflows for the 13-week period through Dec. 25, vs a $3.5 billion withdrawal during the third quarter, according to Morningstar. In 2024, retail investors pumped $8.6 billion into the loan asset class, versus $14.4 billion of redemptions in 2023.

More broadly, LCD estimates $6.44 billion of inflows to retail loan funds in the fourth quarter (including monthly reporters), the highest level since Q1 2022. Adding this to CLO issuance ($59.5 billion) results in total measurable demand of $65.9 billion, a three-year high.

For the full year, LCD estimates a roughly $192 billion gap between measurable demand and net supply, measured as the change in outstandings tracked by the index. This is the highest reading on record, up from $115 billion in 2023 and $87 billion in 2021.

This immense technical imbalance continued pressuring new-issue spreads across the full credit quality spectrum. In the fourth quarter, the riskier (and higher-yielding) borrowers, those with a B-minus or B-flat rating, saw spreads contract to the lowest level since the Global Financial Crisis, to S+397 and S+354, respectively. On the higher end of the spectrum, credits to B+ and BB-minus rated borrowers, at S+299.5 and S+248.5, respectively, were clearing at the lowest level since Q1 2020.

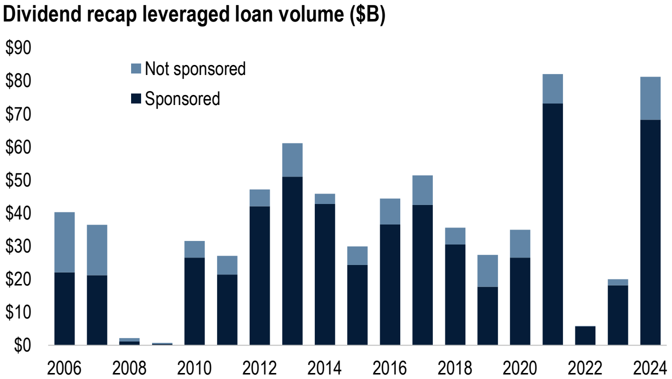
New-issue TLB spread by borrower rating



Source: PitchBook | LCD • Data through Dec. 31, 2024

In addition to a massive repricing wave, other types of opportunistic activity, such as dividend recaps, flourished in 2024 amid the persistent supply shortage. Speculative-grade borrowers raised $81.3 billion for this purpose, including $68.3 billion from PE-backed companies. Both metrics were the second-highest on record, behind $82.2 billion / $73.2 billion in 2021.

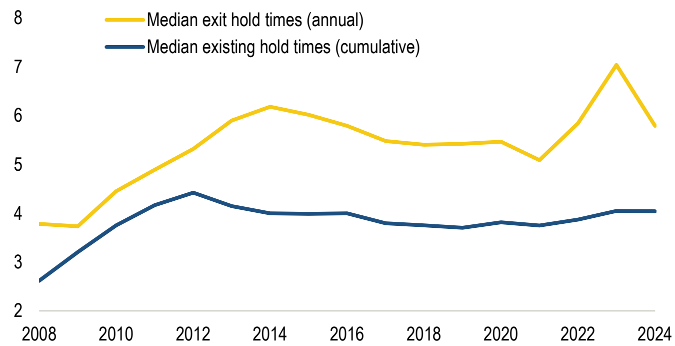
Dividend recap leveraged loan volume ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

Increased dividend activity comes as challenges persist for private equity firms trying to realize exits from their holdings. According to PitchBook, the median age for PE portfolio companies in the US was four years as of Sept. 30, an eight-year high, while the median hold period for exited companies was 5.8 years.

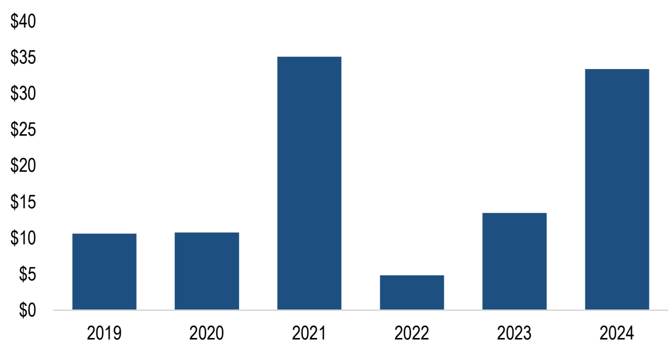
Private equity hold times (years)



Sources: PitchBook • Data through Sept. 30, 2024

Overall, sponsors extracted $33.4 billion via dividends financed in the BSL market in 2024, just 5% shy of the $35.1 billion in 2021 and roughly double 2022 and 2023 combined. At the same time, dividend payouts are growing. The median dividend size of recapitalizations financed in the broadly syndicated market last year was $300 million, matching the 2021 figure as the highest in at least six years. LCD tracked 11 transactions in 2024 in which the dividend exceeded $800 million.

Dividends paid to PE sponsors via leveraged loan market ($B)

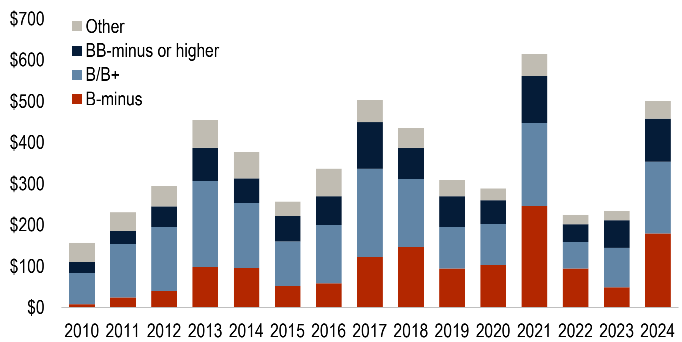


Source: PitchBook | LCD • Data through Dec. 31, 2024

In addition, as investor appetite for risk increased last year, the new-issue market ratings diversification moved closer to historical averages after a sharp flight to quality in 2023.

Borrowers rated B-minus by at least one ratings agency accounted for 36% of 2024 issuance, up from 21% in 2023, and moving closer to the 40% recorded in 2021. At the same time, BB-minus or higher issuers made up 21% of new deals launched, down from a record 28% in 2023. Regardless of credit quality, however, issuance was dominated by refinancings.

US new-issue loan volume by borrower rating ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

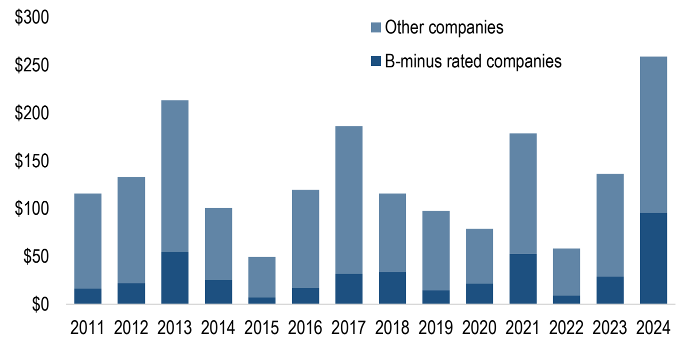
Shrinking maturity wall

With new-issue spreads tightening to multiyear lows, speculative-grade borrowers raised a record volume of refinancing-related loans in 2024, at $259 billion, chopping away a significant portion of the near-term maturity wall.

Roughly $96 billion, or 37% of this massive amount, came from companies rated B-minus by at least one ratings agency. That's the highest ever by both volume and share. With clearing spreads on these riskier loans falling to the lowest level since the GFC and investor risk appetite increasing, borrowers took advantage of accommodating credit conditions to address near-term maturities, opportunistically reduce the cost of debt, or both.

Companies were making up for lost time after being largely shut out of the market in 2022 and 2023 as the cost of debt shot up and demand receded. In fact, B-minus borrowers account for roughly a quarter of all outstanding loans, yet represented a 37% share of the year's refinancing volume.

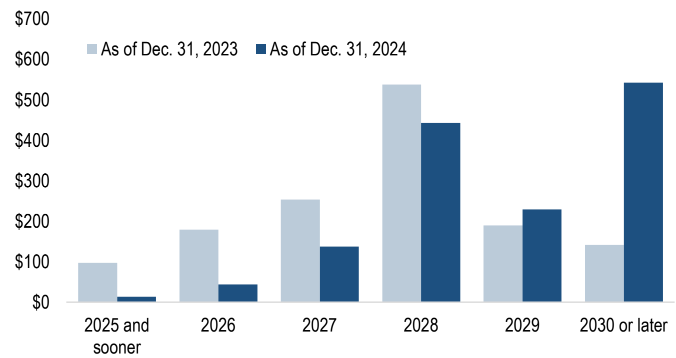
Syndicated loans issued for refinancing purposes ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

Looking at the market more broadly, the record amount of refinancings made a significant dent in the near-term maturity wall. The total amount of loans due by the end of 2026 that were outstanding at year-end 2023 was reduced by 79%. Heading into 2025 there is just $13.4 billion due in 2025 and another $44 billion due in 2026, LCD data shows. The 2027 cohort shrank by 46% last year, to $138 billion. The maturity wall rises sharply in 2028, with $443 billion of institutional term loans coming due.

US leveraged loan maturity wall ($B)



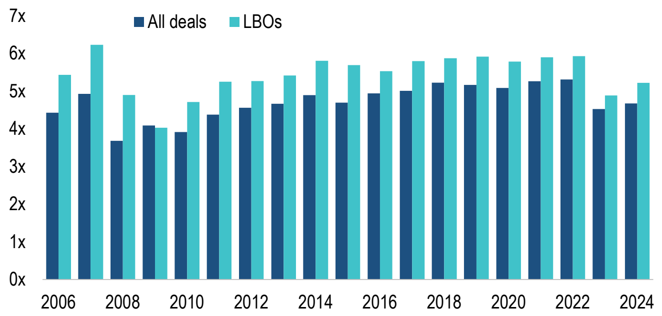
Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index

Interest coverage at post-GFC low

As the share of lower-rated transactions increased last year, the overall leverage ratios for new-issue deals crept higher.

In 2024, the average debt/EBITDA ratio of all primary market transactions rose to 4.7x from 4.5x in 2023, which was the lowest reading since 2011 (based on pro forma adjusted financials at closing). For reference, leverage ratios peaked at 5.3x in 2021, a record year for loan issuance. More than half the deals (56%) printed with an opening leverage of less than 5x last year, down from 64% in 2023 but above the 2021 level (44%). At the same time, deals levered over 6x remain relatively rare in the current market, accounting for 19%, up slightly from 17% in 2023 but significantly below the 28% to 38% range in the preceding five years.

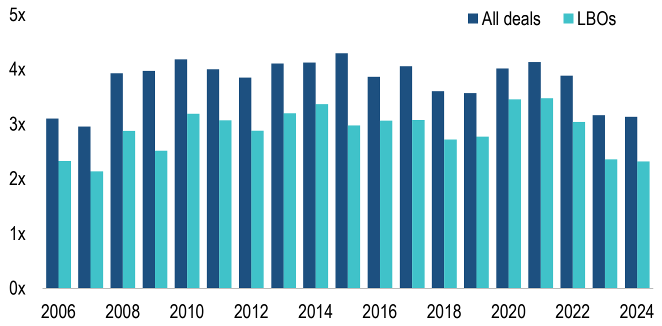
Debt/EBITDA ratio of leveraged loans



Source: PitchBook | LCD • Data through Dec. 31, 2024 • Data reflects pro forma interest coverage in the new-issue leveraged loan market of companies with at least $50M of EBITDA

LBOs financed in the BSL market had an average debt/EBITDA ratio of 5.2x last year, up from 4.9x in 2023, which was the lowest level since 2010. Current levels remain more than half a turn tighter than 2021 peaks, at 5.9x, as the share of aggressively levered transactions remains mild.

Interest coverage ratio of leveraged loans



Source: PitchBook | LCD • Data through Dec. 31, 2024 • Data reflects pro forma interest coverage in the new-issue leveraged loan market of companies with at least $50M of EBITDA

Just 17% of the 2024 cohort had an initial leverage ratio of 6x or higher, vs a 52% average between 2018 and 2022.

With leverage ratios creeping higher, interest coverage ratios declined slightly, to 3.1x for all deals and 2.3x for buyouts. Both metrics are at the lowest level since GFC.

Total volume (excluding repricings via amendment)					
	2024	**Change from 2023**	**4Q24**	**Change from 4Q23**	**Change from 3Q24**
LBO	$71.6B	71%	$10.3B	214%	-61%
M&A (non-LBO)	$108.1B	87%	$29.1B	72%	-21%
Total M&A	$179.7B	80%	$39.4B	95%	-38%
Refinancing	$326.0B	73.5%	$54.9B	22%	-1%
Dividend	$89.2B	322%	$14.2B	123%	-53%
Other	$59.3B	195%	$15.6B	535%	-6%
Total	$654.1B	99%	$124.0B	68%	-25%
Institutional volume					
	2024	**Change from 2023**	**4Q24**	**Change from 4Q23**	**Change from 3Q24**
LBO	$60.3B	96%	$8.0B	269%	-64%
M&A (non-LBO)	$70.8B	80%	$20.0B	38%	-16%
Total M&A	$131.1B	87%	$28.0B	67%	-39%
Refinancing	$258.9B	89%	$48.1B	53%	44%
Dividend	$81.3B	306%	$13.1B	117%	-53%
Other	$30.0B	279%	$8.8B	460%	20%
Total	$501.2B	113%	$97.9B	76%	-14%
Pro rata volume					
	2024	**Change from 2023**	**4Q24**	**Change from 4Q23**	**Change from 3Q24**
LBO	$11.3B	1%	$2.3B	108%	-42%
M&A (non-LBO)	$37.3B	102%	$9.1B	289%	-31%
Total M&A	$48.6B	64%	$11.4B	231%	-33%
Refinancing	$67.1B	31%	$6.8B	-49%	-69%
Dividend	$7.9B	610%	$1.1B	253%	-59%
Other	$29.3B	141%	$6.8B	667%	-26%
Total	$152.9B	63%	$26.1B	45%	-49%

Source: PitchBook | LCD • Data through Dec. 31, 2024

— Marina Lukatsky

2025 US Private Credit Outlook: More M&A, larger lenders, bigger market

The outlook for transaction activity in private credit for 2025 has brightened, market participants say. But the ability to source assets is top of mind for the year in what's become a crowded playing field within the asset class, marked by a growing number of major partnerships.

PitchBook LCD's inaugural quarterly Global Private Credit Survey, published in November, found "sourcing assets" and "geopolitical uncertainties" were leading concerns for private credit players in 2025 in response to a question on expected headwinds in the coming months. Respondents included credit providers, banks, private equity shops and advisory firms from the US and Europe.

Driving this trend is demand from private equity investors to return capital. This demand is expected to boost M&A and LBO deal activity in 2025.

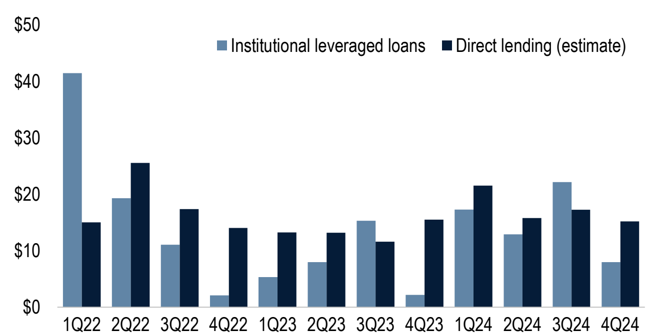
"The backlog for the first quarter, as we sit here in early December, is as high as we've seen in a while coming into a new year. More evidence that unrealized exits are starting to come to market," said Randy Schwimmer, vice chairman of Churchill Asset Management.

"These new deals are planes on the runway waiting to take off. And there are planes looking to land that have been circling the airport for a while," said Schwimmer.

Deal volume

In 2023, the private credit market captured deal flow handily from the broadly syndicated loan (BSL) market. The seemingly endless one-directional move that dominated in 2023, with deals migrating from the BSL market into private credit, stopped in its tracks in the first quarter of 2024 when the BSL market reopened for lower-rated credits. The lower spreads available in the BSL market proved difficult to ignore.

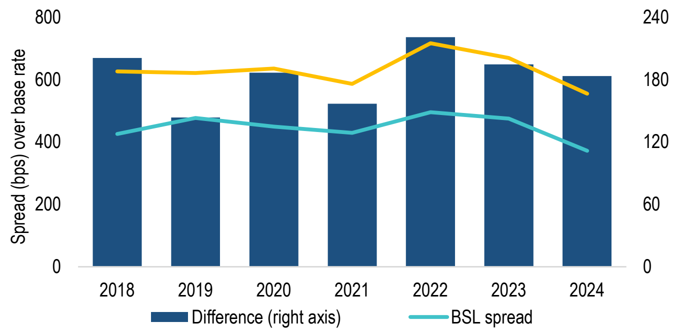
New-issue loan volume financing LBOs ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024
Direct lending analysis is based on transactions covered by LCD News

But private credit lenders are not giving up the fight. They are looking at near-term maturities in the BSL market for opportunities.

Spread of LBOs financed in BSL vs direct lending market



Source: PitchBook | LCD • Data through Dec. 31, 2024 • Direct lending spread data reflects senior secured first-lien loans and unitranche facilities. BSL data reflects loans issued to borrowers rated B-minus.

Interest-rate cuts were another hallmark of 2024. Debt issuers in both markets have been able to lock in lower borrowing costs, alleviating the strain on levered companies. These lower borrowing costs are expected to spur deal activity, brightening prospects for transaction volumes in 2025.

"We've seen a leveling off of inflation. We've seen interest rates actually be a nice tailwind. I think the environment is going to be more supportive than I've seen it in the last few years," said Spyro Alexopoulos, co-head of direct lending at Golub Capital.

Many market participants have expressed optimism that a second Trump term will further "grease the skids" for M&A through policies promoting less regulation, tax cuts and relaxed antitrust oversight.

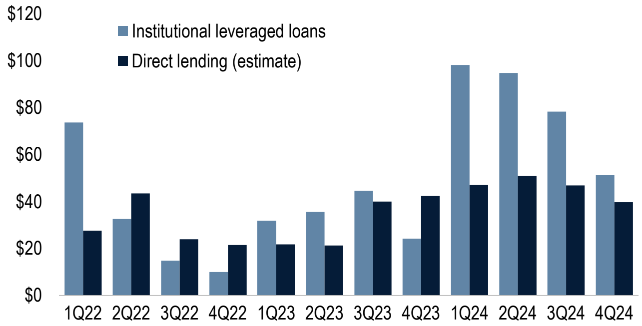
The removal of "election uncertainty" was cited as a win for improved deal activity.

"We certainly think the first half of [2025] is going to be busy. We view the second half as more of a question mark because of the potential for inflation to flare up again," said Michael Ewald, Global Head of Bain Capital's Private Credit Group.

It makes sense then, if M&A activity picks up, the volume of dividend and repricing activity will likely decline.

Repricing existing deals and paying out dividends are usually prominent when other types of deal making are quiet.

New-issue volume for PE-backed borrowers ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024
Direct lending analysis is based on transactions covered by LCD News

"It's possible that 2025 is a more predictable environment than it has been over the past couple of years. The economy appears to be in good shape, and rates should come down. The market is more accommodative to risk-on," said Tom Newberry, Sound Point's chief credit officer and portfolio manager.

Newberry added that he doesn't expect to see a dramatic pick-up in private credit defaults, but rather thinks they will be more or less "sideways."

"There is some stress in portfolios, and there has been quite a bit of kicking the ball down the road with some situations still percolating. But I don't expect the level of defaults to be crazy," Newberry said.

In one closely watched measure of private credit defaults, Proskauer said the overall private credit default rate in the third quarter increased to 1.95%, from 1.41% in the year-ago equivalent period, and the default rate for borrowers in the core part of the market rose to 3%. That rate trailed the 4.21% dual-track default rate (including distressed exchanges) of syndicated loans in the Morningstar LSTA US Leveraged Loan Index as of Sept. 30.

In contrast to many market participants, Bank of America has forecast the private credit default rate rising as high as 4% in 2025, approaching or converging with default statistics for public credit.

"We think that a lot of 2021 vintage deals, which are creating the overhang in these portfolios, will have to reach some sort of their end game over the next one to two years, forcing some event-driven activity in the private credit space," said Neha Khoda, head of global loan strategy at Bank of America Global Research.

The link between the competitive landscape, activity levels and portfolio stress will be in focus in 2025.

"As a new entrant, the odds are stacked against you right now as your only option for deployment is in overly competitive auctions," said Tyler Gately, head of North America private credit at Barings, in response to a question about what to expect in private credit in 2025.

"Between that dynamic and the gradual deterioration of current portfolios due to overly aggressive behavior in recent years, we think returns are inevitably going to start diverging. In private markets you are often able to kick the can down the road, but it doesn't work in perpetuity, so sooner or later conservatism wins," Gately said.

Partnerships: More to come

In December, BlackRock announced it would acquire HPS Investment Partners in a $12 billion all-stock transaction, combining their private credit capabilities into a new $220 billion private financing business.

Banks have moved to partner with private credit firms that have origination capabilities in order to be able to offer a full suite of products to borrower clients.

"You will continue to see the players that have scale take market share over time. As PE firms consolidate, our premise is that they are going to need scaled lenders to meet their needs. That trend will continue. Not just in 2025, but as a multiyear phenomenon," said Golub's Alexopoulos.

"We're still in the early innings with consolidation," said Barings' Gately.

Indeed, 2024 saw the announcements of Citigroup's $25 billion private credit partnership with Apollo, Webster Bank's venture with Marathon and Wells Fargo's $5 billion partnership with Centerbridge Partners.

Also, JPMorgan Chase and Co. announced in October it will allow a select group of private credit lenders to invest side-by-side on its deals in exchange for fees.

"The dam has really broken in working with the banking system," said Dan Sullivan, financial markets and real estate assurance leader at PwC US. "I use the term capitulation. Banks said, 'Can I do it myself? Do I really have to partner?' But now they're recognizing that this model of putting assets in a place with lower liquidity risk is a better model."

"I absolutely think it's likely we see more announcements over the coming months," said Sullivan.

The shifting nature of the relationship between private lenders and banks comes as private credit looks to make good on its aspirations to finance even more of the credit landscape.

Large lenders describe a $40 trillion total addressable market for private credit, encompassing asset-backed finance opportunities, for starters.

This push into new asset classes, away from the sponsor finance that has been the bread and butter of private credit firms, is expected to continue in 2025.

"We expect private credit could tap into as much as $3 trillion in assets moving off bank balance sheets in the next five years, including residential mortgages, higher-risk commercial real estate, project finance, and asset-backed finance like auto loans, aircraft leasing and student loans," Moody's said in a Dec. 5 outlook report for 2025.

Insurance companies are expected to drive demand for private credit investments, especially higher-quality assets.

Alongside the parade of partnerships between banks and private credit, private credit lenders are pairing up with insurance companies such as through the creation of Blackstone Credit and Insurance (BXCI).

Apollo Global Management, Brookfield and KKR & Co. have also each bought all or part of insurance companies.

Insurers bring to the market large pools of illiquid capital, serving as fodder in the market's "plan to finance everything." In 2025, private credit providers will also make an attempt to raise more capital from retail investors, as lenders launch private credit ETFs and look to attract investments from 401k retirement accounts.

Covenant line in the sand: $50M in EBITDA

PitchBook LCD's inaugural quarterly Global Private Credit Survey found that private credit spreads are expected to tighten in 2025 even after new-issue spreads declined significantly in 2024. Covenants will also be under watch.

"The fast-growing private credit market is being squeezed by narrowing credit spreads and increasing competition from banks even as the 2025 outlook for deployment brightens," S&P Global Ratings wrote in its 2025 outlook.

"Heightened competition between bank and nonbank lenders is tightening credit spreads, eating into returns for private credit investors," the agency continued.

At a recent Bloomberg Intelligence panel, Moody's Head of Private Credit Ana Arsov put it more bluntly. "Profitability is going to go down," Arsov said of the coming year. "It peaked in the second quarter of [2024], and the third quarter numbers show maybe 30 basis points less."

PitchBook LCD's Q4 Global Private Credit Survey found that the majority of survey respondents expect covenants to stay the same on lower middle market deals, defined as loans to companies generating $5-30 million in annual EBITDA.

Erosion of covenants has been most extreme for the upper part of the middle market that competes with the BSL market.

"The line used to be $100 million [of EBITDA] or below, there'd be a covenant. Then it was $75 million or below. Then it got to $50 million or below. The line's held pretty firmly for a number of years now, but it's sort of an unofficial line. You'll find the occasional lender being aggressive and offering [cov-lite] below that," said Bain Capital's Ewald.

— Abby Latour/Zack Miller

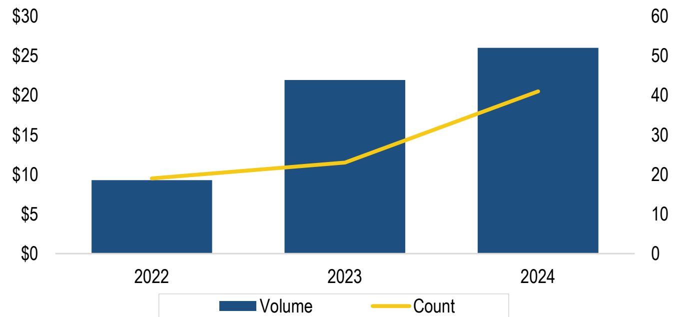
2025 Research Outlook: Migration of leveraged loans from BSL to private credit

An increasing number of speculative-grade borrowers exited the broadly syndicated loan market in favor of direct lenders within the last year. Going into 2025, what is the opportunity for alternative lenders to further chip away at the liquid loan market?

According to LCD's analysis of outstanding loans in the Morningstar LSTA US Leveraged Loan Index, the size of this opportunity can easily match or exceed 2024 levels if current market conditions carry into this year.

LCD analysis shows the opportunity ranging from $18 billion to $50 billion, depending on how many large borrowers choose to migrate to private credit.

Volume and count of direct lending deals refinancing broadly syndicated loans

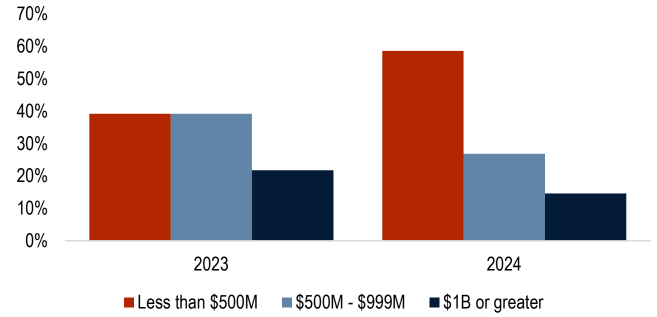


Source: PitchBook | LCD • Data through Dec. 31, 2024

LCD last year tracked 41 companies that repaid their existing syndicated loans with a private credit transaction, up from 23 issuers in all of 2023 and 19 in 2022. In absolute terms, last year's tally totals $26 billion of loans, exceeding the 2023 full-year total of $22 billion.

The profile of companies that exited the BSL market in favor of direct lenders shifted last year as credit conditions in the liquid markets improved. First, this activity skewed toward smaller borrowers. About 60% of 2024 paydowns came from term loans with less than $500 million outstanding, up from 39% in 2023 (based on count). At the same time, very few companies with multibillion-dollar term loans shifted to private credit last year. Repayments of term loans exceeding $1 billion accounted for just 15% last year, down from 22% in 2023.

Syndicated loans taken out with a direct lending deal: distribution by loan size



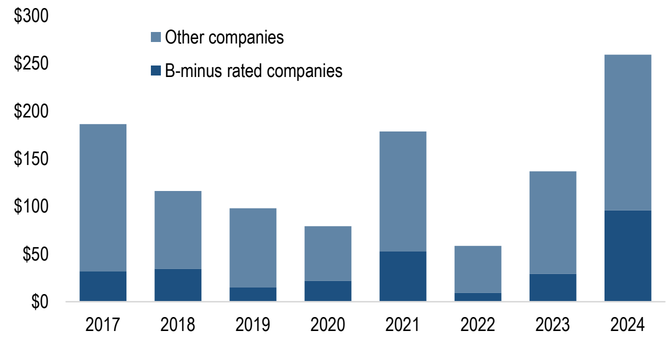
Source: PitchBook | LCD • Data through Dec. 31, 2024

Larger companies are addressing their balance sheet needs in the BSL market as exceptionally hot demand from CLOs and retail investors continues to push new-issue spreads to multiyear lows.

Indeed, volume of new syndicated loans issued to refinance existing debt totaled $259 billion in 2024, a record, more than the $195 billion launched in 2022 and 2023 combined. In addition, 37% of this record-setting refinancing volume came from borrowers rated B-minus by at least one ratings agency.

That is also an all-time high, both by share and volume ($95.6 billion). In 2022 and 2023, investor appetite for these riskiest borrowers evaporated as rates began to climb, taking a BSL refinancing option off the table for many borrowers, and creating an opportunity for direct lenders.

Syndicated loans issued for refinancing purposes ($B)



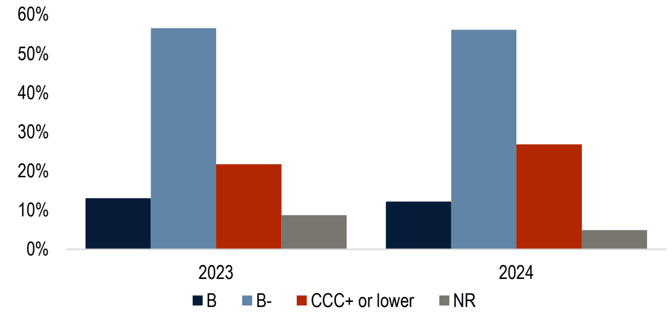
Source: PitchBook | LCD • Data through Dec. 31, 2024

While risk appetite increased in the liquid market last year, some borrowers are choosing a direct lending solution for a variety of reasons, such as availability of delayed-draw term loans, certainty and speed of execution, potential to pay some interest in-kind, or lack of public ratings.

For example, underground public utility provider **USIC Holdings** obtained a $1.48 billion private credit loan facility earlier in the year to support a refinancing of the company's broadly syndicated debt. According to a September research note, S&P Global Ratings withdrew its ratings on the company following the repayment of debt, including a 'B-' issuer credit rating and 'B-' issue-level rating on the first-lien loan, as well as a CCC issue-level rating on the second-lien loan.

Overall, 56% of the companies that exited the BSL market in favor of direct lenders last year had a B-minus rating at the time of repayment, and another 27% fell into the CCC-plus or lower category.

Syndicated loans taken out with direct lending deal: distribution by borrower rating



Source: PitchBook | LCD • Data through Dec. 31, 2024

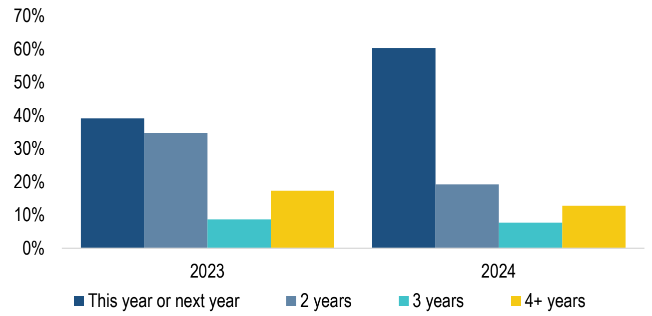
In addition, the bulk of companies refinancing with alternative lenders last year addressed the near-term maturity wall — 60% of paid-down loans would have fallen due either in 2024 or 2025, and another 19% in 2026.

Most recent direct lending deals refinancing broadly syndicated term loans

Company name	Date	Debt amount ($M)	Current sponsor	Last BSL deal date	Lender(s)
CLEAResult Consulting Inc	Sep 2024	850	Kohlberg & Co.	Aug 2018	KKR Capital Markets, Churchill, Antares
Wastequip	Sep 2024	N/A	H.I.G. Capital	May 2021	Ares Capital Corp.
PowerSchool Group LLC	Oct 2024	3,200	Bain Capital	Sep 2023	Ares Capital Management, HPS Investment Partners, Blackstone Alternative Credit Advisors, Blue Owl Credit Advisors, Sixth Street Partners, and Golub Capital
Gopher Resource	Oct 2024	450	Energy Capital Partners	Sep 2018	Silver Point Finance (lead); other new & existing lenders
PetIQ	Oct 2024	810	Bansk Group	Mar 2021	Ares Management and Diameter Capital Partners
Pure Fishing	Oct 2024	750	Sycamore Partners	Dec 2018	Monarch Alternative Capital LP and Silver Point Finance
Datavant	Nov 2024	N/A	New Mountain Capital	Jun 2021	Blackstone Secured Lending Fund
Quorum Software	Nov 2024	865	Thoma Bravo	Feb 2019	Apollo Global Management led; lenders include Ares, Blackstone, Antares, Carlyle, Cliffwater, GSAM, Thoma Bravo Credit, Diameter, HPS, Jefferies, Canal Road Group, New Mountain Capital
PSAV Presentation Services	Dec 2024	N/A	W Capital Partners	Nov 2020	Antares
CommScope Inc	Dec 2024	4,150	Not Sponsored	Jan 2019	Existing first-lien lenders, including Apollo and Monarch Alternative Capital

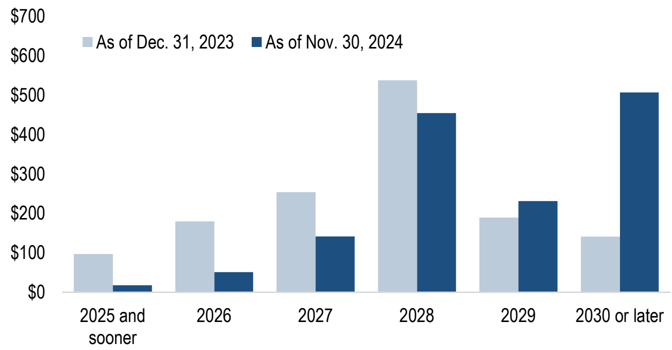
Source: PitchBook | LCD • Data through Dec. 31, 2024 • Table is based on LCD News reporting

Syndicated loans taken out with direct lending deal: distribution by maturity year



Source: PitchBook | LCD • Data through Dec. 31, 2024

US leveraged loan maturity wall ($B)



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index

Overall, speculative-grade borrowers greatly reduced the near-term maturity wall last year thanks to the record level of refinancing activity in the BSL market. As of Nov. 30, only $17.8 billion was due by the end of 2025, down 82% from the start of 2024, while the 2026 cohort stood at $51 billion, down 71%, based on the Morningstar LSTA US Leveraged Loan Index. Meanwhile, the amount of outstanding loans due in 2027 was reduced by 44%, to $142 billion.

Hunting ground

With the private credit market keen for deals, maturing syndicated loans from lower-rated companies is an obvious place to hunt for opportunities.

Given a record volume of B-minus refinancings completed in the BSL space, many of the largest remaining borrowers with 2025 and 2026 maturities are in the triple-C rated bucket.

Largest 2025 loan maturities, borrowers rated B or lower

Borrower name	Original loan amount* ($M)	Current S&P issuer rating	Sector
Verifone Inc	1,750	CCC+	Technology Hardware & Equipment
Veritas Software Corporation	1,322	CC	Software & Services
Forest City Enterprises	1,241	CCC+	Real Estate Management & Development
Audio Visual Services Corp.	1,222	CCC+	Media & Entertainment
CBL & Associates Properties Inc	884	B-	Equity Real Estate Investment Trusts (REITs)
Alvogen Pharma US Inc	831	B-	Pharmaceuticals, Biotechnology & Life Sciences
Jostens	775	B	Consumer Durables & Apparel
Anastasia Beverly Hills	650	CCC-	Consumer Discretionary Distribution & Retail
Plaskolite	645	CCC+	Materials
EagleView Technology	535	CCC	Software & Services

Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Nov. 30, 2024 • *Reflects amount at issuance, as tracked by the LLI

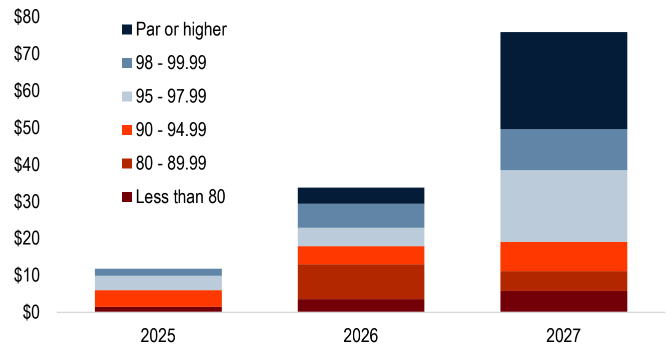
Largest 2026 loan maturities, borrowers rated B or lower

Borrower name	Original loan amount* ($M)	Current S&P issuer rating	Sector
CommScope Inc	3200	CCC	Technology Hardware & Equipment
Radiate Holdco	2680	CCC	Telecommunication Services
iheartMedia	2101	CC	Media & Entertainment
Telesat	1908	CCC+	Telecommunication Services
DigiCert Inc	1650	B-	Software & Services
Help/Systems LLC	1365	B-	Software & Services
Albany Molecular Research Inc	1190	CCC+	Pharmaceuticals, Biotechnology & Life Sciences
Ascend Performance Materials LLC	1086	B	Materials
ClubCorp Inc	1061	CC	Consumer Services
Sinclair Broadcast Group	600	B	Media & Entertainment

Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Nov. 30, 2024 • *Reflects amount at issuance, as tracked by the LLI

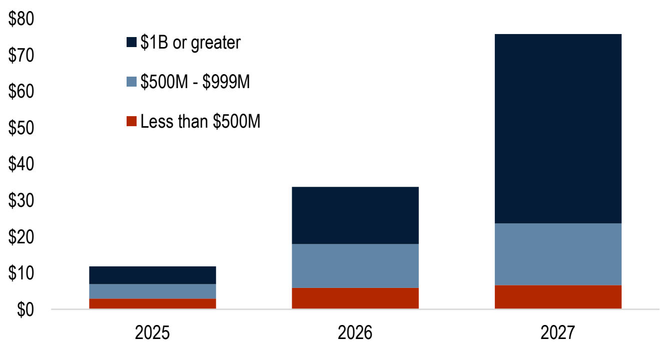
Overall, the Morningstar LSTA US Leveraged Loan Index currently tracks roughly $12 billion of performing outstanding loans to companies rated B-minus or lower due in 2025, $34 billion coming due in 2026 and $76 billion in 2027. However, if last year's pattern holds, many of the larger borrowers will likely look to the BSL market to refinance, given that market's lower cost of debt if current credit conditions remain, or if they become even more borrower friendly. For B-minus or lower rated borrowers with loans under $500 million — a typical refinancing opportunity for direct lenders — the total maturity wall over the next three years totals $15.6 billion. Looking at deals in the $500 million to $1 billion range adds another $33 billion.

B-minus or lower rated borrowers maturity wall by bid price ($B)



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Nov. 30, 2024

B-minus or lower rated borrowers maturity wall by facility size ($B)



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Nov. 30, 2024

Aside from company size and credit quality, many other factors determine whether a BSL credit is a great target for a direct lending refinancing, such as company performance. None of the syndicated loans that were paid down last year in favor of a private credit transaction were priced at distressed levels, based on the Morningstar LSTA US Leveraged Loan Index. Granted, some of the smaller loans either were not tracked by the index or were not very liquid, but based on a sample of roughly 30 facilities, the median bid price six months prior to repayment was 98.23. Three months prior to the repayment, the median bid price rose to 99.23.

Looking at the current near-term maturity wall (over the next three years) for companies with a B-minus or lower rating shows that about a third of the 2025-2026 cohort is priced below 90, indicating some level of stress.

The 2027 cohort includes a much higher share of potential refinancing targets — only 15% by par amount is currently priced below 90. For the whole 2025–2027 maturity cohort, the index is currently tracking $78.4 billion of outstanding loans to B-minus or lower rated companies priced at 95 or higher, including $50 billion at 98 or higher — a more likely pricing point for a refinancing.

However, out of this $50 billion, nearly $32 billion consists of facilities over $1 billion, where private credit providers would need to compete with BSL lenders. This leaves $18 billion as the "sweet spot" for a private credit refinancing — companies with a lower rating, smaller loan size, debt coming due in the next three years and current bid price over 98.

If current market conditions and last year's borrower behavior holds, LCD believes the market could see at least this level of refinancing in the private credit market with potential for up to $50 billion in 2024.

— Marina Lukatsky

Year-end trove of CLO new issuance, resets drive 2024 market records

BSL and middle-market CLO issuance set a quarterly record in the fourth quarter, capping a busy pricing calendar that carried the full-year 2024 issuance tally to a record annual total of $202 billion.

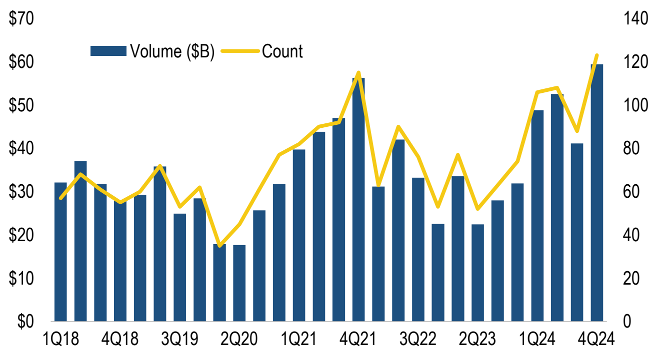
According to LCD data, US managers priced a total volume of $59.5 billion across 123 deals in Q4.

Nearly half of those deals — $25.55 billion — priced in November.

The fourth-quarter volume and deal count exceeded the all-time quarterly marks of $56.31 billion across 115 CLO pricings in the fourth quarter of 2021.

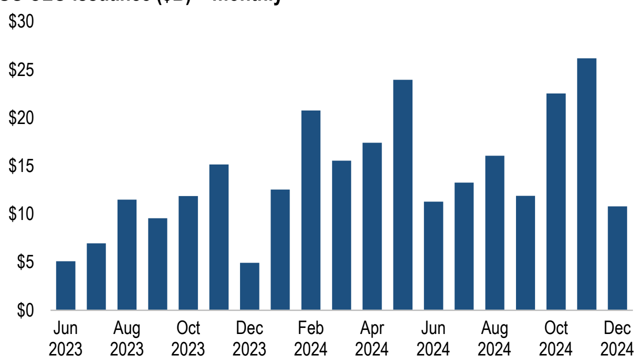
Both figures are also up by roughly 40% from Q3 2024's $41.16 billion from 88 transactions, and surpassed 2024's previous quarterly peaks of $52.57 billion from 108 deals during the second quarter.

US CLO issuance – quarterly



Source: PitchBook | LCD • Data through Dec. 31, 2024

US CLO issuance ($B) – monthly



Source: PitchBook | LCD • Data through Dec. 31, 2024

Mission accomplished

In setting the annual issuance record last year, managers went wire-to-wire in keeping ahead of the comparable pace of issuance in 2021, the previous record year with $187 billion.

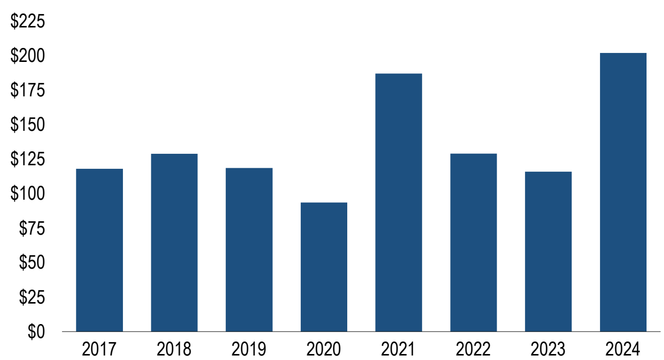
CLO market analysts had believed the quick start to the year would run out of steam in the second half as the tight loan supply dwindled, recession fears temporarily wobbled investors' poise, and ongoing spread compression trends stalled for a few summer months.

But coupons again shrank in the fourth quarter, matching up with expanding investment demand and a "let the good times roll" market confidence (as described in November by BofA Securities' 2025 CLO market outlook) that encouraged more deal pricings over the final three months of the year.

"We're actually pretty optimistic when you think about the CLO investor appetite ... really up and down the stack," said Adrienne Dale-Burns, managing director and portfolio manager for Onex Credit, during an Oct. 22 CLO manager panel discussion at the ABS East securitization industry conference in Miami Beach, Fla.

"It just seems there's a lot of demand for CLOs at this point."

US CLO volume ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

The record CLO output in the fourth quarter was aided by a boost in LBO/M&A loan activity to support CLO creation, as well as Fed rate cuts that debuted in September, providing some relief to corporate loan issuers' floating-rate debt service obligations. BofA noted in a Dec. 2 CLO market report that market technicals — including high earnings and flat loan growth with banks, insurers have raised $1 trillion industry-wide in annuities — were rounding into shape in support of further CLO demand.

The fast-growing segment of retail market CLO exchange-traded funds has also helped provide a strong tailwind for corporate and structured product investments.

LCD notes the record volume of deals last year were issued through 122 managers.

Arrival of ETFs

Aside from the rising demand from the traditional CLO investor base of banks, insurers and institutional buyers, CLO ETFs have made a splash.

Analysts identify 14 publicly traded ETFs with a cumulative $21 billion in assets — representing 2% of the estimated $1 trillion CLO market, according to JPMorgan's fixed-income research team. CLO ETFs vary by strategy, with some focused on AAA or investment-grade securities, and others that pursue CLO mezz notes and carry higher returns with higher risk.

BofA notes that up to 22 CLO ETFs could be in the field by 2025, including the first-ever ETFs focused on private-credit and middle-market CLO securities.

Two funds were launched in December targeting private credit/middle-market CLO investments: Virtus Seix AAA Private Credit CLO ETF and the BondBloxx Private Credit CLO ETF.

Other industry market announcements last quarter were Morgan Stanley's plans for a new CLO ETF chasing investment-grade CLO securities, and a new second ETF partnership between VanEck and PineBridge Investments focused on mezz tranches of CLOs.

CLO ETFs, assets under management

Fund name	Launch date	AUM ($M)	Net asset value ($M)	Price
Virtus Seix AAA Private Credit CLO ETF (PCLO)	12/2/2024	12.5	25.1	25.1
BondBloxx Private Credit CLO ETF	12/2/2024	15.1	50.3	50.3
TCW AAA CLO ETF	11/18/2024	38.1	50.1	50.1
VanEck AA-BB CLO ETF	9/24/2024	50.8	50.8	50.6
Palmer Square CLO Senior Debt ETF	9/11/2024	21.3	20.0	20.4
Palmer Square Credit Opportunities ETF	9/11/2024	28.5	20.0	20.3
Hartford AAA CLO ETF (Wellington)	2/12/2024	85.8	39.0	39.1
Janus Henderson Securitized Income ETF	11/8/2023	464.7	52.8	52.0
PGIM AAA CLO ETF	7/19/2023	1400.0	51.1	51.2
Panagram AAA CLO ETF	7/19/2023	88.1	25.5	25.6
Panagram BBB-B CLO ETF	1/24/2023	464.2	26.8	27.1
BlackRock (iShares AAA CLO Active ETF)	1/10/2023	618.4	51.8	51.8
Invesco AAA CLO Floating-Rate ETF	12/9/2022	234.4	25.7	25.7
VanEck CLO ETF	6/21/2022	749.0	52.9	52.9
Janus Henderson B-BBB	1/11/2022	1400.0	48.9	49.1
Janus Henderson AAA CLO ETF	10/16/2020	15600.0	50.7	50.7
AXS (Alternative Access) First Priority CLO Bond	9/9/2020	25.0	25.0	25.1

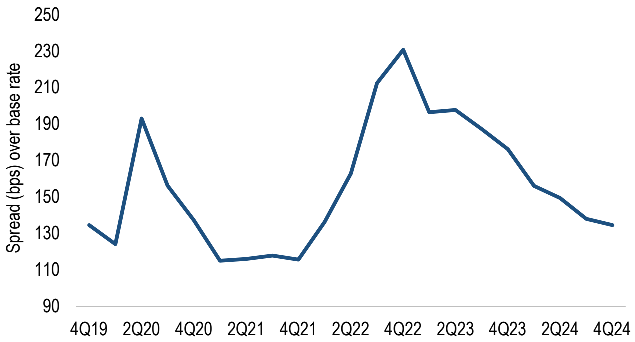
Source: PitchBook | LCD • Data through Dec. 3, 2024, Virtus and BondBloxx data through Dec. 18, 2024

Spread drops

The average US BSL CLO spread in Q4 was 135 bps over Sofr, with most deals pricing in a 124-143 bps range. That marks a narrowing of 3 bps from the Q3 average and 41 bps from Q4 2023 when the average for CLO AAAs was 176 bps.

The current AAA market average is the narrowest CLO AAA margin in the Sofr era (2022-2024) and is comparable to the tights in 2021 when AAAs averaged spreads between 98-113 bps over the former three-month Libor benchmark. (Portfolio managers apply a market-standard credit spread adjustment of 26.1 bps to derive Sofr-equivalent margins.)

Average US CLO AAA spread



Source: PitchBook | LCD • Data through Dec. 31, 2024 • Excludes middle-market CLOs

US CLO average coupon & weighted average cost of capital (bps)

Time frame	AAA	AA	A	BBB	BB	WACC
4Q22 (Sofr+)	231	322	415	582	850	298
1Q23 (Sofr+)	196	261	335	541	825	261
2Q23 (Sofr+)	198	273	336	549	853	259
3Q23 (Sofr+)	187	260	314	495	790	245
4Q23 (Sofr+)	176	256	302	483	786	235
1Q24 (Sofr+)	156	209	254	390	687	205
2Q24 (Sofr+)	149	189	227	344	633	191
3Q24 (Sofr+)	138	172	201	309	612	176
4Q24 (Sofr+)	135	172	195	297	580	170
Change from 3Q24	**-3**	**0**	**-6**	**-11**	**-32**	**-6**
Change from a year ago	**-42**	**-85**	**-107**	**-185**	**-207**	**-65**

Source: PitchBook | LCD • Data through Dec. 31, 2024 • Table excludes middle-market CLOs

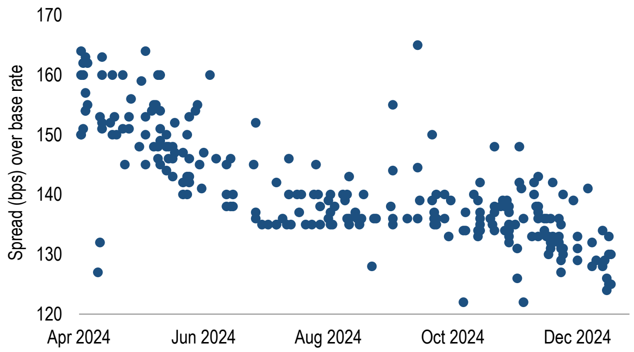
The 135 bps average for CLO AAAs is also nearly 100 bps inside of the widest average Sofr mark (231 bps) in the fourth quarter of the volatile 2022 market period.

Last quarter's average includes the recently priced deals with the tightest AAA BSL coupons of the year for a standard two-year non-call CLO structure.

The AGL CLO 37 deal priced on Dec. 18 with senior AAAs at S+124 bps.

Average spreads also dropped across the junior tranches, with AA through BB notes in the CLO capital stack contributing to a year-over-year drop in the weighted average cost of capital by 65 bps.

US CLO AAA coupon



Source: PitchBook | LCD • Data through Dec. 31, 2024 • Chart excludes middle-market and static CLOs

CLO issuers generally with longer track records can garner more favorable, tighter spreads from investors, but the so-called manager tiering trend was less pronounced in the fourth quarter.

LCD tracked only a 5.3% gap between the top and bottom manager tiers.

The most active managers (20 or more CLO prints in the post-crisis era) average 133.6 bps, compared to the average of 138.9 bps for the lowest tier (managers with fewer than 10 deals in that period).

Average AAA spread (bps) of BSL CLOs with 5-year reinvestment period

Quarter	Top tier	Middle tier	Bottom tier	Difference between top and bottom tier
2Q23	185.7	212.8	218.0	32.3
3Q23	173.5	196.3	197.5	24.0
4Q23	174.3	179.0	182.9	8.6
1Q24	153.9	158.8	163.8	10.0
2Q24	148.7	153.4	153.4	4.8
3Q24	137.1	138.5	142.8	5.7
4Q24	133.6	136.4	138.9	5.3

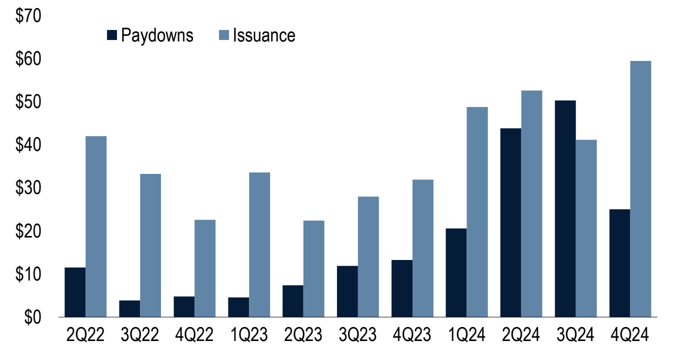
Source: PitchBook | LCD • Data through Dec. 31, 2024

Top tier = 20 or more CLOs issued between between 2011 and 2023

Middle tier = between 10 and 19 CLOs issued between 2011 and 2023

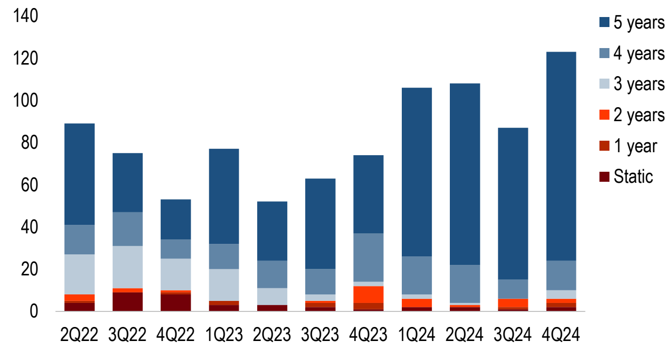
Bottom tier = fewer than 10 CLOs issued between 2011 and 2023

US CLO paydowns vs issuance ($B)



Sources: Intex; PitchBook | LCD; Bloomberg Finance LP; Deutsche Bank • Data through Dec. 31, 2024

New-issue US CLO count by reinvestment period



Source: PitchBook | LCD • Data through Dec. 31, 2024

A wave of resets and redemptions

One of the key institutional investment drivers for CLOs came from banks needing to simply replace CLO assets redeemed out of their fixed-income portfolios from a sharp wave of CLO bond paydowns last year.

According to Deutsche Bank, a record $139.7 billion in CLO notes have been paid down since January 2024, as managers driven by tightening market spreads reset a record volume of CLOs — transactions that require managers to liquidate existing deals and issue new securities that extend maturities and terms for existing CLO vehicles.

BofA Securities noted in November that bank CLO holdings have diminished by $2 billion since year-end 2023, as a wave of CLO redemptions cleared out of fixed-income portfolios. Total bank holdings of CLOs remained flat at $20 billion despite institutions being active buyers.

One of the worries for managers at year-end 2023 was the high percentage (40%) of outstanding CLOs that graduated from their set reinvestment periods for actively buying and selling assets.

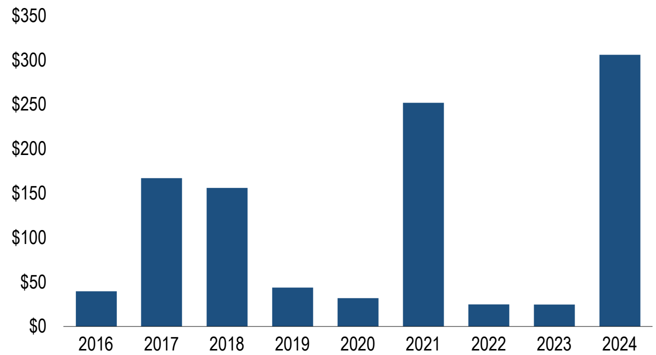
"As these deals amortize or get liquidated, that obviously presents a challenge in terms of fee generation" for managers, noted a portfolio manager for a large CLO platform issuer in an October interview with LCD.

CLO managers typically avoid amortization through periodic coupon refinancing or full-term resets of outstanding deals, but due to widened spread conditions in the latter half of 2022 and 2023, combined reset and refinancing volume fell to nearly $25 billion in both years as managers generally could not reprice older deals originally issued between 2018-2021 into cheaper coupons.

As spreads narrowed in 2024, the path to refinancing and resetting deals opened up for US managers. CLO managers priced a combined $306 billion in refinancing and reset transactions in 2024, besting the $251 billion in refinancings and resets during the previous record year of 2021.

Reset volume in 2024, totaling $223 billion across 450 transactions, was itself a high watermark for that corner of the market.

US CLO refi/reset volume ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

Refinancings in 2024 totaled $83.5 billion from 212 transactions, earning the second-highest annual mark since LCD began tracking refinancings and resets in 2016.

Many of these transactions have been limited to select investment-grade tranches of deals, but achieve much tighter spreads than market averages — such as AAAs inside of 110 bps — based on limited call protection between six months and a year, typically.

LCD reported early in the fourth quarter (Oct. 17) that 92 of 167 refinancings (or 55% of transactions) carry six-month non-calls, allowing for another near-term repricing of the CLO.

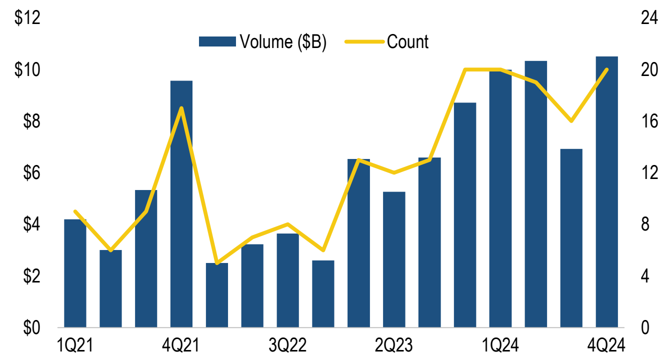
Middle-market CLOs

Issuance of middle-market and private-credit CLOs increased to $10.5 billion across 20 transactions in the fourth quarter, up from $6.93 billion in the third quarter from 16 deals.

The 2024 MM issuance total of $37.8 billion from 75 transactions marked a record high in middle-market issuance, although it also represents a smaller market share compared to 2023 due to the unexpected wealth of BSL issuance in 2024 ($164 billion).

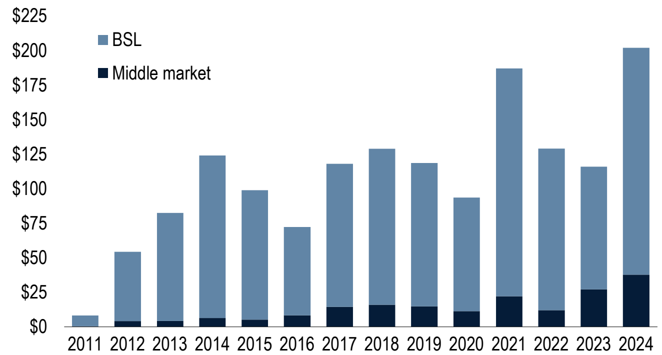
Many analysts had projected a range of only $70-100 billion in BSL deals heading into the year competing with MM issuance.

US middle market CLO issuance



Source: PitchBook | LCD • Data through Dec. 31, 2024

US CLO volume ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

League tables

The improved economics of deals through tighter liability spreads, plus the best equity distributions in CLOs since 2016, attracted the return of several traditional benchmark CLO issuers to the market, after a moribund 2023. The year's most active manager, Blackstone, priced 19 BSL and private-credit/middle-market CLOs last year after issuing only four deals in 2023. Ares Management increased its platform output to 15 deals in 2024 compared to five in 2023, while Blue Owl Capital sponsored 12 CLOs last year compared to six the year prior.

2024 most active new-issue CLO managers by count, versus their 2023 activity

Manager	2024 deal count	2023 deal count	Change from 2023 (%)
Blackstone	19	4	375%
Ares Management	15	5	200%
Blue Owl Capital	12	6	100%
Symphony Asset Management	10	7	43%
Elmwood Asset Management	10	3	233%
Babson Capital Management	9	7	29%
The Carlyle Group	9	5	80%
KKR Credit Advisors	9	4	125%
Onex Credit Partners	9	5	80%
AGL Credit Management	9	5	80%

Source: PitchBook | LCD • Data through Dec. 31, 2024

2024 most active new-issue CLO managers by volume

Manager	2024 deal volume ($B)	2024 deal count
Blackstone	10.38	19
Ares Management	9.15	15
Elmwood Asset Management	5.53	10
Blue Owl Capital	5.32	12
Antares Capital Advisers	5.28	7
Palmer Square Capital Management	5.13	8
GC Investment Management	5.06	8
Onex Credit Partners	4.84	9
The Carlyle Group	4.35	9
BlackRock Financial Management	4.32	8

Source: PitchBook | LCD • Data through Dec. 31, 2024

— Glen Fest

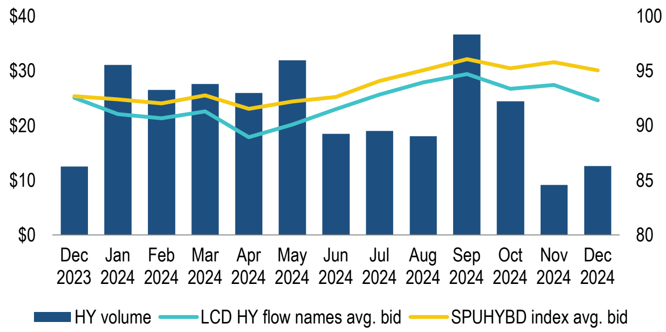
High-yield borrowers mount broad late-year push as sturdy underpinnings hold

Market barometers, led by issuance trends, suggested blue skies for high-yield borrowers at year-end, after the quickly decided US elections dispelled a cloud of uncertainty. There are certainly pockets of potential turbulence — particularly as the incoming Trump administration promises blustery trade and healthcare policy — but the wind is at the market's back after investors readily absorbed the most new high-yield supply in 2024 ($281.6 billion) since 2021 (a record $464.5 billion).

For more context, the year's total was more than the primary cleared cumulatively in 2022 ($102.3 billion) and 2023 ($176.1 billion).

Aided by steady prices and tightening spreads, the year's brisk pace for high-yield issuance showed no sign of flagging as issuance rebounded to a four-year high for December, after an outlier lull in November through the US elections. Deals cleared the primary over each of the first seven sessions of December, propelling volume in line with November's $9.2 billion full-month total. (November was the only month to see a decline from 2023 to 2024, and was the first single-digit total since October 2023.)

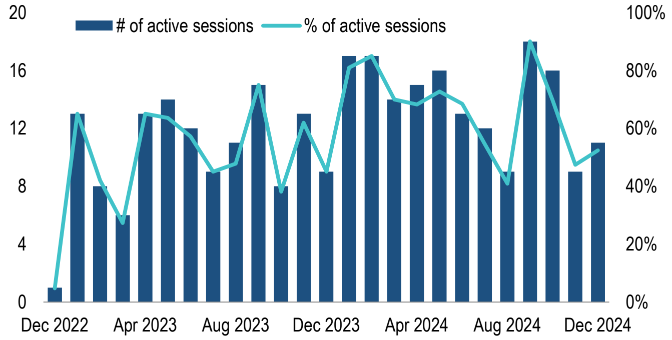
Monthly HY issuance volume ($B) and secondary pricing



Sources: PitchBook | LCD; S&P US High Yield Corporate Bond Index • Volume data through Dec. 31, 2024
Secondary pricing data through Dec. 19, 2024

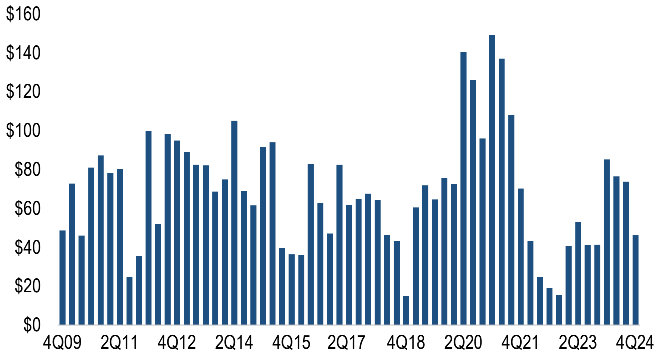
December volume of $12.6 billion marked a high for the month since an unprecedented deluge of nearly $30 billion in December 2020. Fourth quarter volume of $46.2 billion via 70 tranches was the highest for the last quarter of the year since 2021.

Active HY bond sessions per month



Source: PitchBook | LCD • Data through Dec. 31, 2024

US high-yield bond volume, quarterly ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

Many of the outlier trends that depressed market activity through the Fed's rate-tightening arc normalized in 2024, setting the stage for a wide-ranging bonanza of issuance should current market underpinnings hold.

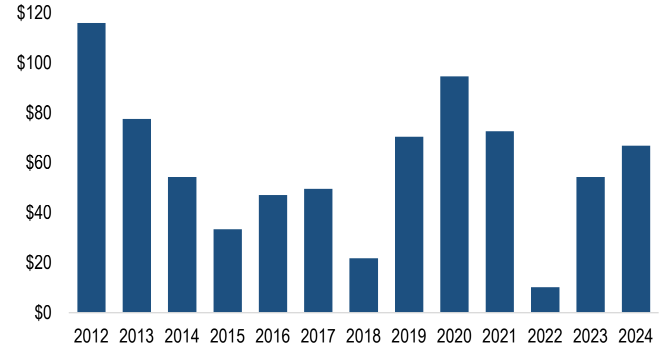
Tear down that wall, build another

Starwood Property Trust rounded out the year's issuance with a $500 million print of 6.50% 2030 senior sustainability notes, which it announced and priced the same day. That placement refinanced — with scant days to spare — a bond maturity impending on Dec. 31.

Not all issuers had the confidence to cut refinancings so fine, but refinancing nevertheless accounted for a whopping 70% of last year's issuance, up roughly eight percentage points from 2023 and up more than 22 points from 2022. The only year with a higher share was 2009 (75.5%), when nearly all issuance during that recession period addressed pressing maturities or immediate liquidity needs.

About $67 billion of bond issuance in 2024 targeted the repayment of existing loans, again about the same amount as issuers placed for the purposes cumulatively over the prior two years. Stripping out pro rata facilities, issuers priced more than $37 billion of bonds last year to refinance institutional loans, a high since 2012 ($59 billion).

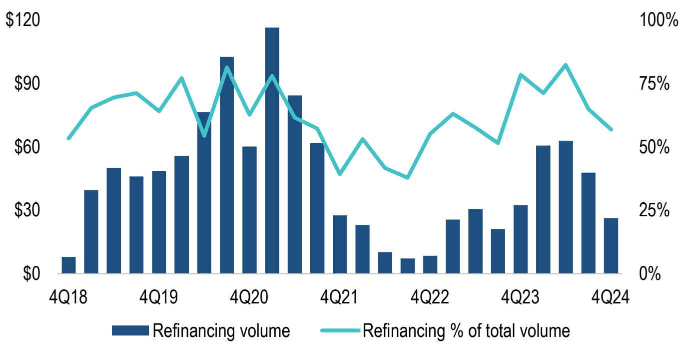
Annual volume of high-yield bonds issued to take out loans ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

However, from a near-record 82% share in the second quarter of 2024, refinancing dipped to 65% in the third quarter and 57% in the fourth quarter, the latter level back in line with the annual average since 2005.

US high-yield bond refinancing volume ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

Lower allocations to refinancing as the year progressed reflected a pivot to more aggressive financial policy among borrowers as the Fed worked to corral inflation, which could produce an upswing in incremental debt in the quarters ahead.

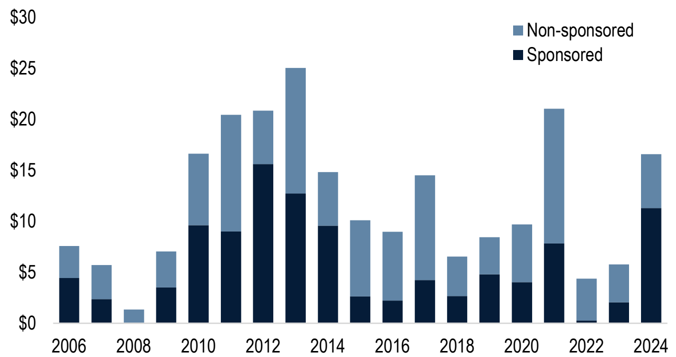
Cashing in and out

Shareholders — particularly sponsors — are agitating for payouts after lean years through the rate hikes. Including deals in the fourth quarter for **OneSky**, **US Acute Care Solutions**, **Ellucian**, **Jostens**, **Chobani**, and **Belron**, high-yield issuers priced more than $16 billion of bonds for dividend recapitalizations in 2024, weighted heavily to issues for PE-sponsored companies ($11.3 billion). Issuers placed roughly $10 billion for the purpose over the previous two years combined.

Dividend-backing bond volume was only higher during the 2021 pandemic recovery ($21 billion) and over the run from 2010-2013 ($17-25 billion), post the Global Financial Crisis.

That activity picked up over the back half of the year, including the two highest quarterly shares for dividend bonds (9.5% in the third and nearly 8% in the fourth) since 2012.

Dividend recap HY bond volume, annual ($B)

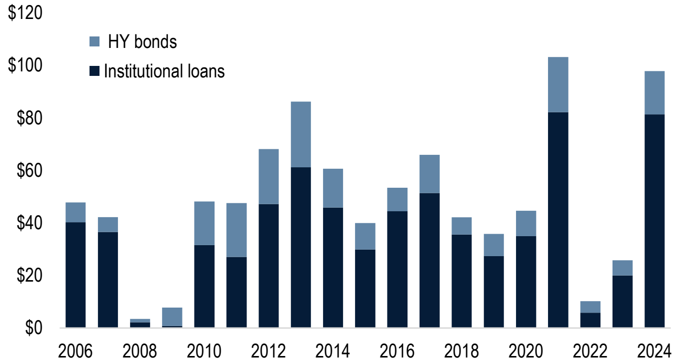


Source: PitchBook | LCD • Data through Dec. 31, 2024

To be sure, loans were the preferred vehicle for funding distributions to leveraged borrowers throughout the year.

Loans issued for dividend recaps surged to $81.3 billion in 2024, versus a cumulative total of less than $26 billion from 2022-2023, and near 2021's record $82 billion full-year total.

Dividend recap leveraged finance volume, annual ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2024

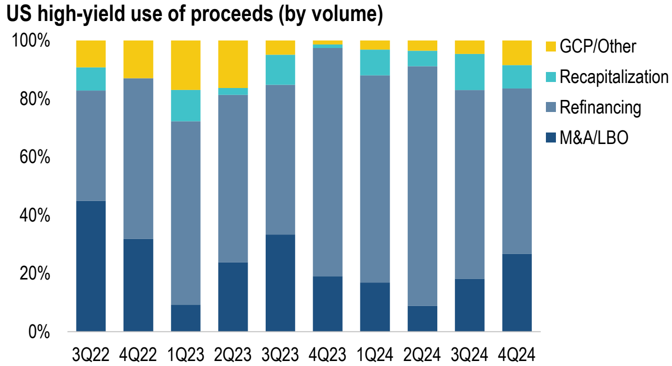
Go-time for LBOs?

Solid allocations to M&A last year notwithstanding (M&A accounted for 12.5% of last year's issuance, same as 2023 and versus shares from 6%-16% from 2016-2022), it was a lean year for leveraged buyouts.

The 3.3% share to LBO bonds in 2024 was slightly ahead of 2020's 2.9% and above a goose-egg outcome in 2009, but it trailed all other annual shares, including a 7.2% share in 2023.

However, LBO volumes perked up post the September rate cut. Including deals for **Barnes Group**, **R1 RCM**, **Rise Baking Company**, and **Atlantica Sustainable Infrastructure**, LBO bonds were more than 8% of fourth-quarter volume, a five-quarter high.

US high-yield use of proceeds (by volume)



Source: PitchBook | LCD • Data through Dec. 31, 2024

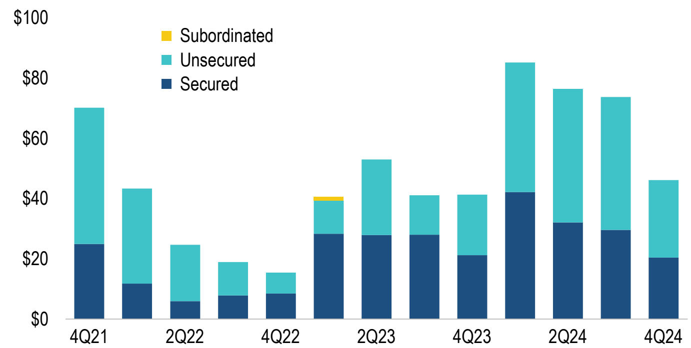
Senioritis

Among the depressive effects felt in the primary from 2022-2023 was a retreat from the marketplace for many serial issuers, particularly those that tend to issue based on faith and credit. Indeed, senior issuance in 2023 (less than $70 billion) was little changed from the gross total in 2022, a low since 2009.

Moreover, at less than 40%, senior issuance in 2023 accounted for the first minority share of total issuance on record, as hard-pressed issuers pledged collateral to clear deals through volatile rate markets.

In 2024, senior issuance swelled to $156 billion, or more than 55% of the total. For a sense of scale, the record years for senior issuance, in 2021 ($314 billion) and 2020 ($299 billion), saw unsecured deals account for more than two-thirds of total volume both years.

US high-yield bond volume ($B)



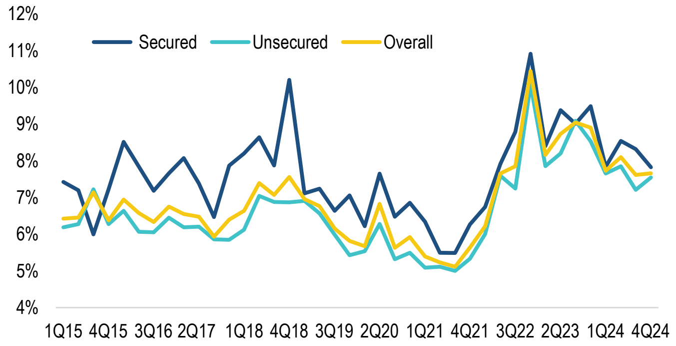
Source: PitchBook | LCD • Data through Dec. 31, 2024

Cost comparison

Those previous senior unsecured binges came with senior notes clearing the primary at an average of 5.65% in 2020 and a record-low 5.11% in 2021. Costs swelled to more than 7% in 2022 and nearly 8.5% in 2023, the latter a high since 2009.

Unsecured costs declined to 7.57% last year, including a commensurate average in the fourth quarter. (Senior yields dipped to 7.21% in anticipation of the September rate cut, a low since the last quarter of 2021 and down from a peak above 10% in the last quarter of 2022.)

New-issue yields for US high-yield bonds

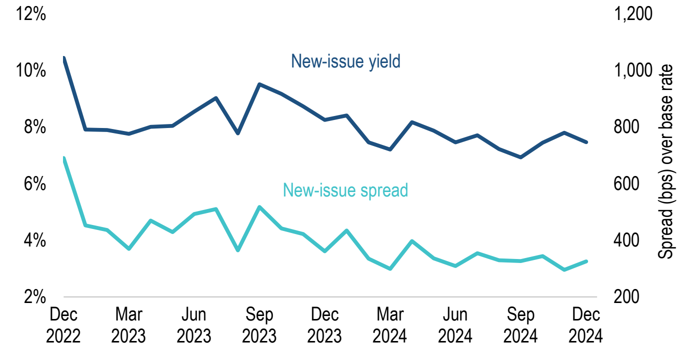


Source: PitchBook | LCD • Data through Dec. 31, 2024

While rates increased from the third to the fourth quarter, the shift was net of a firm trend for spreads last year.

New-issue HY senior bonds cleared the primary at monthly averages from T+295-344 in the fourth quarter, from T+434 in January 2024 and a high in the prior year at T+517 (September 2023).

Average new-issue yield vs. average new-issue spread, unsecured

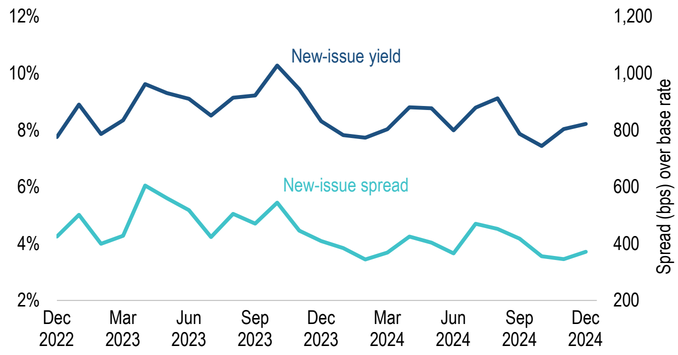


Source: PitchBook | LCD • Data through Dec. 31, 2024

The average for secured spreads fluctuated throughout the year, but the trend was tighter since the Fed's dovish pivot last November.

Ryan Specialty Holdings — which priced $600 million of 5.875% 2032 secured notes in September at T+221 — reopened the issue in December for $600 million more at T+180, which was the tightest secured spread at issuance in 2024.

Average new-issue yield vs. average new-issue spread, secured



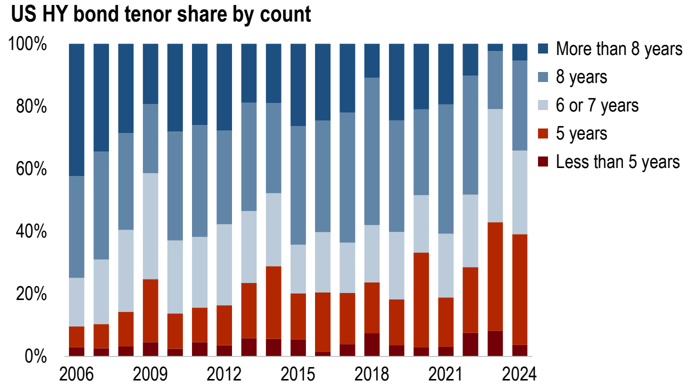
Source: PitchBook | LCD • Data through Dec. 31, 2024

Go long?

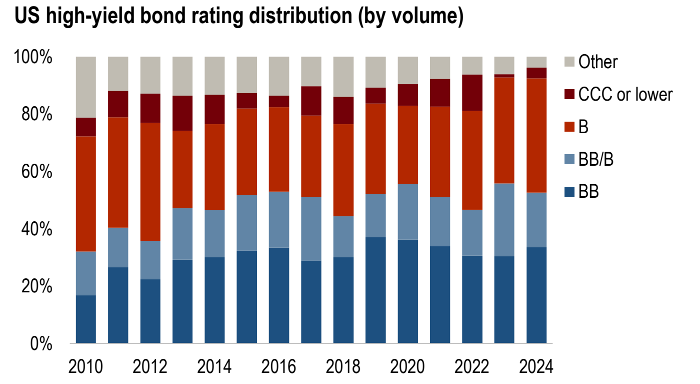
Rate volatility continues to impede long-dated issuance, which in turn compresses the refinancing cycles.

The count last year of new-issue tranches dated five years or less dipped only moderately to 39%, from a record 43% in 2023. During the low-cost 2021 era, that share was less than 19%.

Meantime, there were only 22 tranches dated longer than eight years in 2024, up from six in 2023 and 15 in 2022. Those are the three lowest long-dated totals on record, and down from 275 priced from 2020-2021.



Source: PitchBook | LCD • Data through Dec. 31, 2024



Source: PitchBook | LCD • Data through Dec. 31, 2024

C-food diet

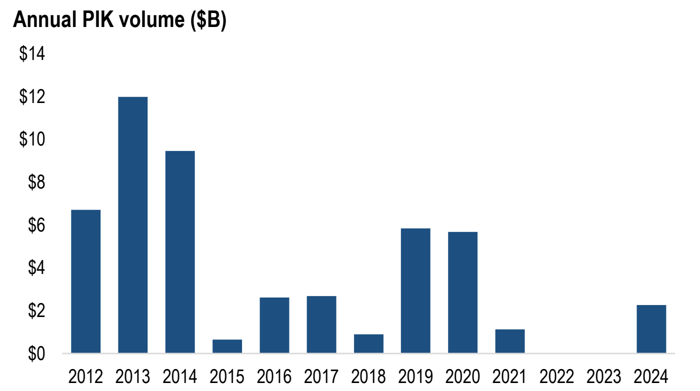
Another opportunity for growth hangs at the lowest rungs of the ratings ladder, after weak LBO volumes and competition from private credit added headwinds to last year's already pernicious rate volatility.

Triple-C issuance roused fitfully to account for just shy of 4% of last year's issuance (including a 4.4% share in the fourth quarter), from a record low at just over 1% in 2023. Last year's share is the second lowest.

For reference, triple-Cs were more than 21% of issuance in recovery-era 2010, and accounted for double-digit shares of annual volume from 2011-2019.

PIK a winner

Risk-on tone at year's end may also whet tolerances for other traditionally riskier structures, such as pay-in-kind instruments.



Source: PitchBook | LCD • Data through Dec. 31, 2024

Including deals in the fourth quarter for **IHO Verwaltungs GmbH**, **Chobani**, and **RR Donnelley**, PIK-toggle issuance reached $2.3 billion in 2024, after zero-sum totals in 2022 and 2023, and versus $1.1 billion for all 2021.

— John Atkins

US Leveraged Finance Survey: M&A revival to improve the technical balance

In 2024, leveraged companies capitalized on favorable market conditions to refinance, reprice, and extend loan debt at record levels. Looking ahead, the focus is expected to shift toward M&A and LBO activity, while also tackling a shorter maturity wall in high-yield bonds.

To gauge sentiment for the year ahead, LCD surveyed buyside, sellside, and advisory professionals. Among the questions asked: *What will be the biggest driver for high-yield bond issuance in 2025? Will credit spreads widen or tighten? What will most likely impact the performance of leveraged credit portfolios? Will M&A-related loan activity increase enough to improve the supply and demand imbalance?*

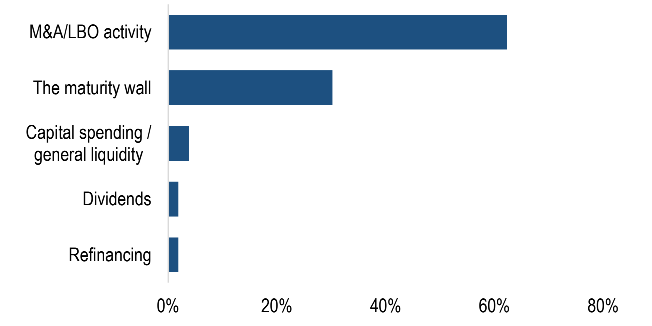
The full results of LCD's year-end edition of the US Leveraged Finance Survey, which closed Dec. 9, are detailed below.

Key points:

- Credit conditions seen easing, though sentiment is less bullish
- M&A-related supply will improve the technical balance
- Amid possible deregulation, Financials tipped to outperform
- Loan default rate to remain below historical average

See also our interactive graphic of the survey results.

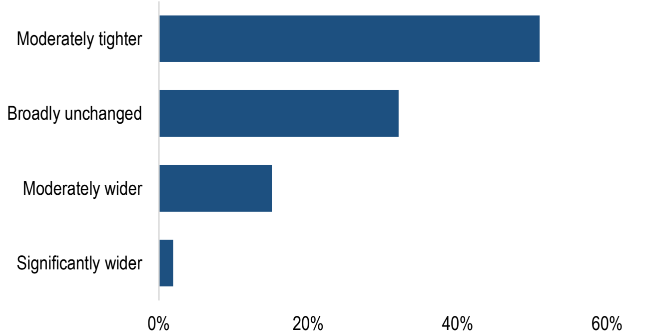
What will be the biggest driver for high-yield bond issuance in 2025?



Source: PitchBook | LCD • Data through Dec. 9, 2024

With high-yield bond issuance expected to increase in 2025, LCD asked market participants what the biggest driver of an uptick in activity would be. A vast majority, at 62%, see M&A and LBO dealmaking as the principal source of high-yield activity. However, with shorter debt maturities still to be addressed in this asset class, a collective 32% chose refinancing and the maturity wall.

In the next six months, credit spreads will be...

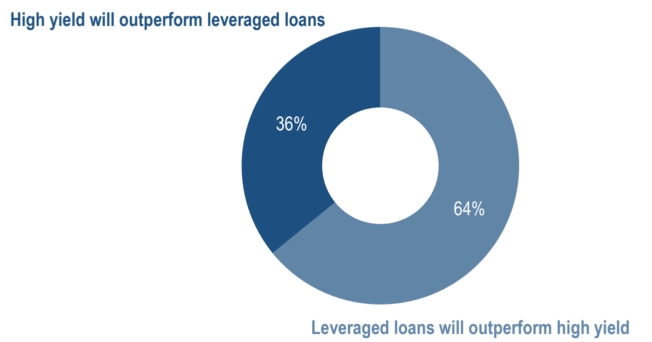


Source: PitchBook | LCD • Data through Dec. 9, 2024

Once again, and despite a material tightening of credit spreads since the start of the Fed's rate-cutting cycle, market pros believe there is room for more, as 51% of respondents are forecasting moderately tighter spreads in the next six months. This is up from 47% at Q3's reading. In this polling, no respondents expect a significant tightening of spreads, whereas at the last reading, 7% said they believed a significant tightening of spreads was in store.

Only 15% expect spreads to moderately widen, down from 23% in Q3.

Will leveraged loans or high-yield bonds outperform in H1 2025?

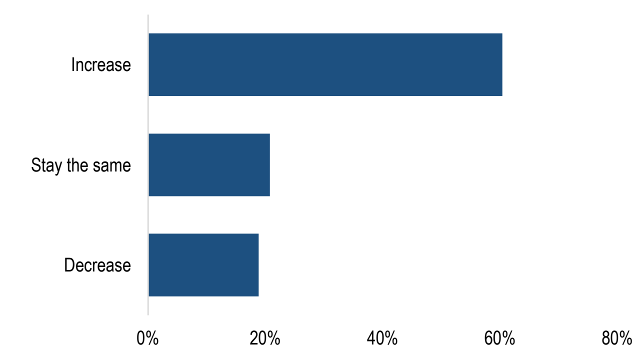


Source: PitchBook | LCD • Data through Dec. 9, 2024

While the Fed is on the easing path of monetary policy, economic strength and tapered inflationary concerns have Street analysts calling for just two 25-basis-point cuts in March and June of 2025 before hitting the pause button, keeping coupon clipping from floating-rate loans an attractive proposition.

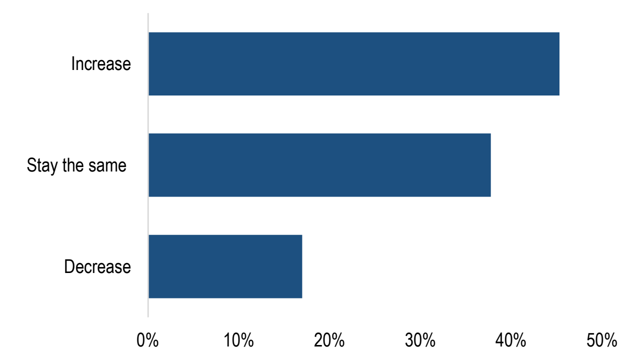
With that, 64% said leveraged loans will outperform high-yield bonds in the next six months — a significant about-turn from the Q3 sentiment read, where 63% said fixed-rate high-yield bonds would outperform. High-yield bonds began outperforming loans in May, losing out to loans only in the month of October.

In H1 2025, allocations to BSLs will...



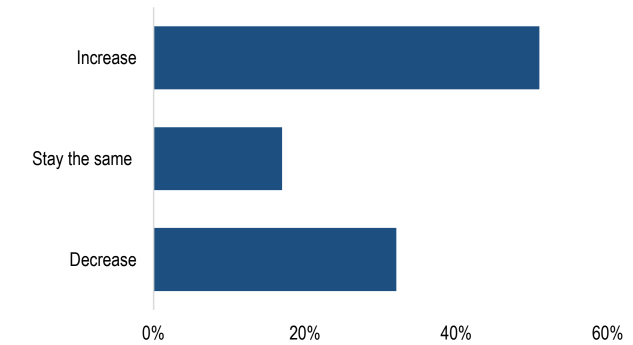
Source: PitchBook | LCD • Data through Dec. 9, 2024

In H1 2025, allocations to high-yield bonds will...



Source: PitchBook | LCD • Data through Dec. 9, 2024

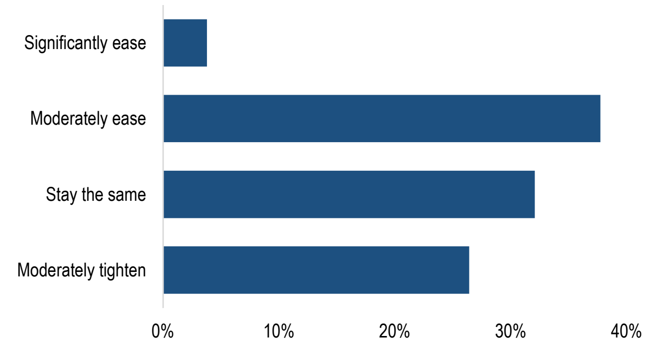
In H1 2025, allocations to private credit will...



Source: PitchBook | LCD • Data through Dec. 9, 2024

Investor allocations are expected to increase across leveraged credit, with loans (still offering historically high coupon margins even as the Fed pivots to rate cuts), high-yield bonds and private credit all expected to see allocations increase. In this reading, however, a greater share see allocations to leveraged loans and private credit increasing versus the Q3 reading. For loans, 60% think allocations to the asset class will increase (versus 47% the previous quarter), while 51% see private credit allocations increasing (versus 43% in Q3).

In H1 2025, credit conditions for leveraged companies will...

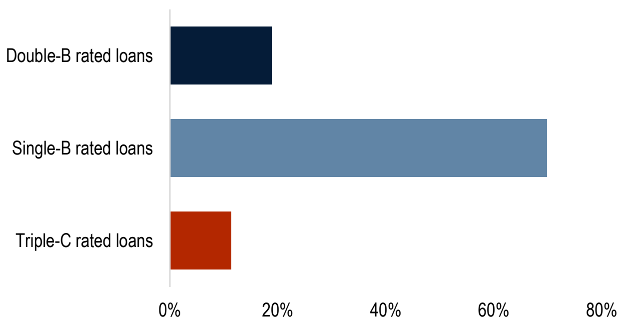


Source: PitchBook | LCD • Data through Dec. 9, 2024

With several risks on the horizon, including tariff increases and conflict escalation concerns on the geopolitical front, respondents dramatically reigned in their view on credit conditions. In the fourth-quarter polling, 38% expect a moderate easing of credit conditions from this point. At the Q3 polling, 57% said credit conditions would moderately ease.

Meanwhile, 26% said this time around that they expect a moderate tightening of credit conditions, versus 17% in Q3.

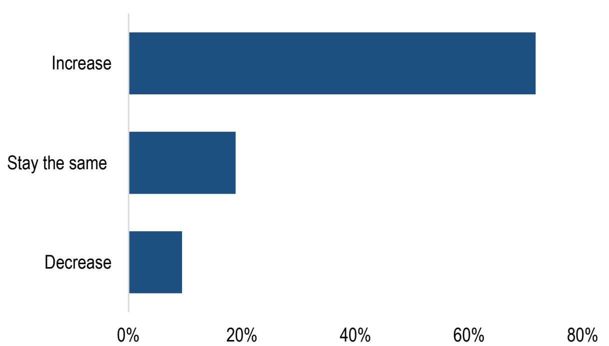
Which ratings bracket do you expect will outperform in H1 2025 for leveraged loans?



Source: PitchBook | LCD • Data through Dec. 9, 2024

The viewpoint on performance by ratings bracket continues to favor single-B loans, though by a slightly smaller conviction. In Q4, 70% of respondents said they see single-B loans outperforming in the next six months, versus 73% in Q3.

In H1 2025, the average leverage multiples of buyouts will...



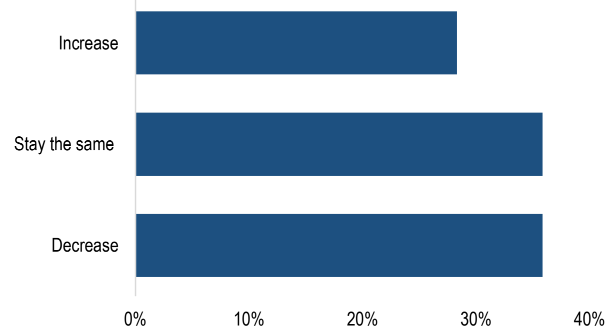
Source: PitchBook | LCD • Data through Dec. 9, 2024

Ahead of an expected ramp-up in M&A and LBO activity in 2025, market pros expect increasing leverage capacity in the markets in support of buyouts, per LCD's polling.

Results show sentiment has increased markedly in this respect, with 72% predicting leverage multiples on new deals will increase in the next six months, up from 57% in the previous quarter.

Only 9% expect leverage multiples to decrease over the same time frame.

In H1 2025, the average equity contributions of buyouts will...

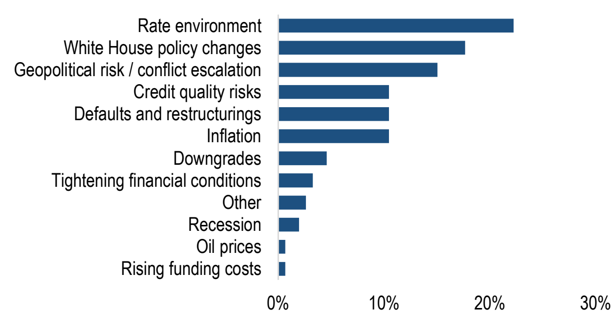


Source: PitchBook | LCD • Data through Dec. 9, 2024

Meanwhile, just 28% of those polled expect sponsors will need to offer up more equity to get buyout deals over the finishing line.

This compares to 44% at the year-end 2023 reading and 82% who at the end of 2022 said equity contributions would need to increase, as they ultimately did.

Which of the following will most likely impact leveraged credit portfolio performance over the next six months?



Source: PitchBook | LCD • Data through Dec. 9, 2024

In terms of what will drive the markets, respondents were asked to choose the three factors most likely to impact the performance of leveraged credit portfolios in the next six months.

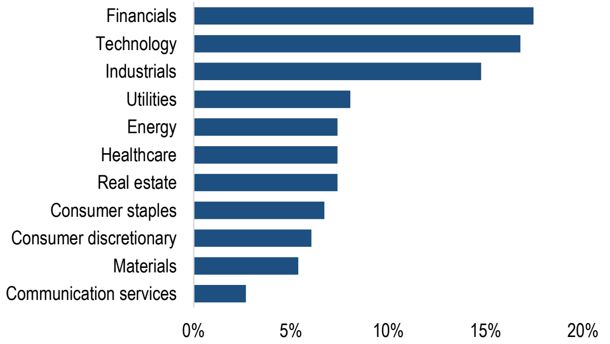
With the Fed on its easing path, the rate environment once again grabbed the top spot, at 22%.

With tariff increases looming, White House policy changes took second billing, with 18% of the votes.

Geopolitical risk / conflict escalation came in third with 15% of the votes.

Defaults and restructurings, meanwhile, dropped to 10% of the votes.

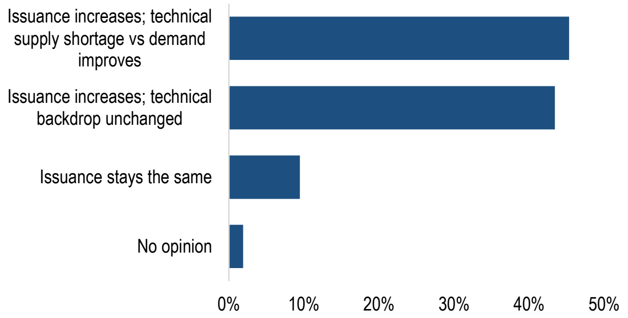
Which market sectors will outperform in the next six months?



Source: PitchBook | LCD • Data through Dec. 9, 2024

To the question of which sectors (up to three) would most likely outperform in the next six months, Financials took first place (at just over 17% of the votes) amid banking deregulation expectations in the next presidency, with Technology at a close second, with just under 17%.

Regarding M&A-related issuance via broadly syndicated loans in 2025, which do you expect?



Source: PitchBook | LCD • Data through Dec. 9, 2024

As several responses indicate, the backdrop is expected to become more accommodative for M&A-related issuance in the months ahead. Credit conditions are seen easing and funding costs declining, while markets are also expected to accommodate higher leverage multiples for such deals.

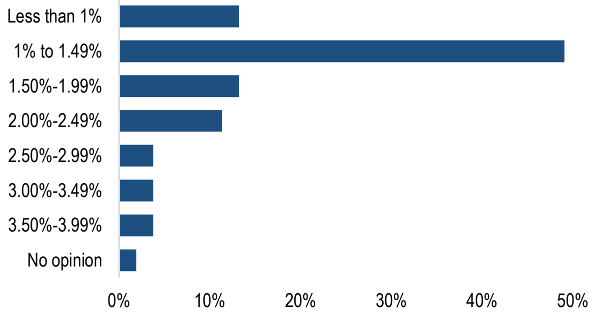
With that, for the first time since LCD first asked this specific question in the year-end 2023 reading, respondents believe there will be enough new loan paper from M&A-related issuance to improve the current technical imbalance.

By a small margin, the plurality, at 45%, said they expect M&A-related issuance volumes to increase, and by enough to improve the technical supply shortage versus demand.

Some 43% said M&A-related issuance would increase, but not enough to improve the current technical backdrop.

In 2024, the gap between supply and demand was $192 billion, the highest reading on record.

What do you think the rolling 12-month US loan default rate will be one year from now (12/31/2025)?



Source: PitchBook | LCD • Data through Dec. 9, 2024

When asked to look ahead 12 months and predict the loan default rate for Dec. 31, 2025, most of the respondents, at nearly 50%, pegged the trailing 12-month default rate of the Morningstar LSTA US Leveraged Loan Index as sitting at 1-1.49%, or 1.25% at the midpoint, which would keep the rate well below its 2.6% historical average.

Open comment

In addition to payment and bankruptcy defaults, in an open comment section respondents pointed to aggressive liability management exercises as influences that they think would likely impact the leveraged credit markets.

Comments such as the "negative impacts of liability management exercises on the loan asset class," and "recovery rate movements" which "will be more important than default rates," highlight concerns amid increasing instances of coercive restructurings and creditor-on-creditor conflicts.

Among other concerns, one buyside investor on the private credit side said, "Private credit will continue to pilfer the weakest credits from the broadly syndicated loan market, which will continue its slow improvement in overall credit quality [in the private credit market], not unlike the HY Bond market of the mid-late 2010s."

Among other market-specific influences raised were private credit consolidation, the ability to fundraise, optimizing funding sources, the liabilities side of the balance sheet for lenders, continued compression on fee structures on the buyside, and trading spreads on the sellside.

On the macro front, respondents pointed to global economic problems and high existing government debt among other driving factors to note for the year ahead.

— Rachelle Kakouris

Unprecedented year for global leveraged finance

The $769 billion of global loan issuance in 2024, excluding repricings and extensions, was the third-highest volume in history, trailing only 2017's $787 billion and 2021's record $957 billion. Technical supply shortages on both sides of the Atlantic drove borrowers to refinance, reprice and extend facilities, pushing out the market's maturity profile and generating rushes of dealmaking. When including repricings and extensions, 2024 boasted $1.512 trillion in activity in the US and €236 billion in Europe.

The $220 billion of global M&A-driven loan volume was up 88% from 2023. In Europe, M&A-related issuance more than doubled. Buyout-specific loan issuance was up 76%, to $88.2 billion.

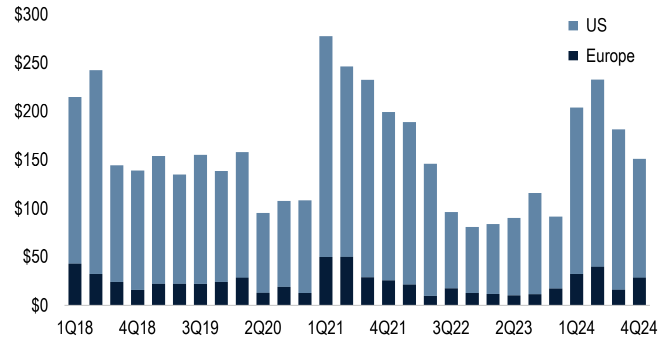
While M&A activity remained well short of 2021 levels, market participants said this shouldn't detract from what has been a stellar year. "By September we had met our budget that was then revised higher, and we've met that too," said one banker in Europe. Another agreed: "We've seen significantly higher volumes across the board and demand has been strong all year."

The strong technical backdrop favoring borrowers and falling base rates are translating to lower funding costs in both regions, with pricing trending lower all year. In the US, the average yield to maturity for single-B rated loans in the new-issue market fell to 8.25% in December, down significantly from 10.15% in December 2023. In Europe, the average new-issue yield of 7.71% in December is down from 9.38% one year prior. The hope is that with funding costs declining, 2024's M&A revival will pick up more steam in 2025.

Turning to the high-yield bond market, global volume reached $388 billion in 2024 — a high since the Covid-era surge in issuance in 2021 that reached an all-time record of $613 billion. As with loans, refinancings dominated use of proceeds in both regions. In the US, refinancing dominated the docket in each quarter, ultimately holding a 70% share of the annual US total. While that proportion is anticipated to be similar in 2025, a rise in opportunistic strikes and deals funding aggressive fiscal policy should spur bigger overall volumes, Street estimates show.

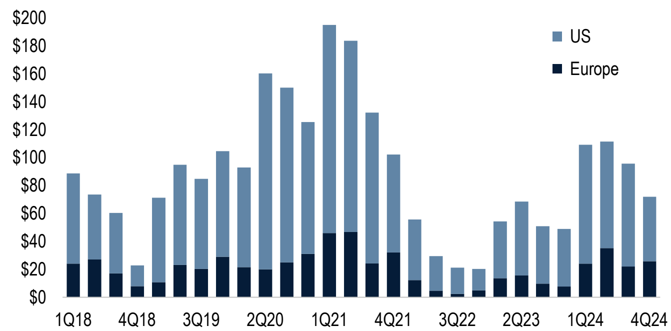
The European high-yield market bagged the silver medal for annual issuance. The surge in total supply comes against a backdrop of declining new-issue yields and narrowing secondary market spreads, as well as fund flows — which sources say stood at a record of more than €7 billion into European sub-investment-grade mutual funds and ETFs as of October.

Global new-issue loan volume ($B), quarterly



Source: PitchBook | LCD • Data through Dec. 31, 2024

Global new-issue bond volume ($B), quarterly



Source: PitchBook | LCD • Data through Dec. 31, 2024

And within the high-yield universe it has been specifically a record year for FRNs. Floating-rate bonds are not generally the first choice for non-CLO investors, especially in a falling rate environment, but sources say the attractive starting yield on such deals is attracting non-traditional accounts alongside core buyers such as CLOs.

One explanation for the surge in FRN supply is a flurry of deals out of Italy, where issuers favor floating-rate bonds over leveraged loans because of Italian withholding tax regulations. As well as LBOs for **Sammontana Italia**, **Acqua & Sapone** and **Somacis**, sponsor-owned companies including **Neopharmed**, **Omnia Technologies**, **CEME**, **La Doria** and **Rino Mastrotto** priced floating-rate bonds last year to refinance a mixture of private credit and bank debt, and support dividend payments.

— Taron Wade

What's in store for 2025?

Full outlooks for the new year, across key US and European risk asset classes, are available from LCD via the PitchBook platform. Some highlights:

Leveraged loans

- New supply will be more balanced with a pullback in opportunistic issuance and increased LBO and M&A financing.
- Demand for loans will remain strong with another robust year of CLO issuance expected.
- Returns for the asset class will be driven by carry amid a higher-for-longer rate environment, and with price appreciation limited.

Private credit

- M&A, LBO activity may accelerate amid hopes of dealmaking-friendly policies under new US presidential administration.
- Near-term broadly syndicated loan maturities offer a trove of private credit investment opportunities.
- Questions loom about policy changes that could affect industries that some private credit lenders have focused on, such as healthcare and defense.

CLOs

- A CLO ETF focused on buying CLO equity will launch.
- At least one CLO ETF will call it quits and liquidate, market players predict, as the competition for too-few assets limits the necessary AUM growth for the fund to grow more profitable.
- The reset wave will carry into 2025. Analysts are projecting between $190 billion and $265 billion in expected reset activity.

High-yield

- Issuance may increase for a third straight year as refinancing continues apace.
- Risk-on tone also augurs higher funding for M&A and LBO activity, and a ramp in debt-financed dividends.
- With limited scope for further tightening, spreads may face technical headwinds in the second half as supply mounts.
- Investors expect positive returns for a third straight year, though 2025's gain may be the smallest of the three.

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