Q3 2025 Leveraged Loan Market Overview

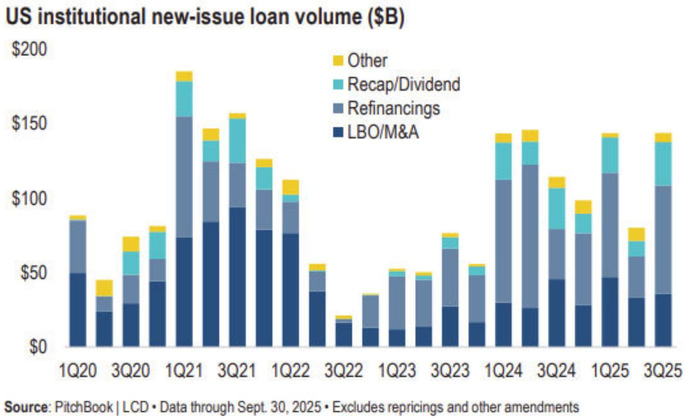
Market Momentum Returns as Volatility Subsides

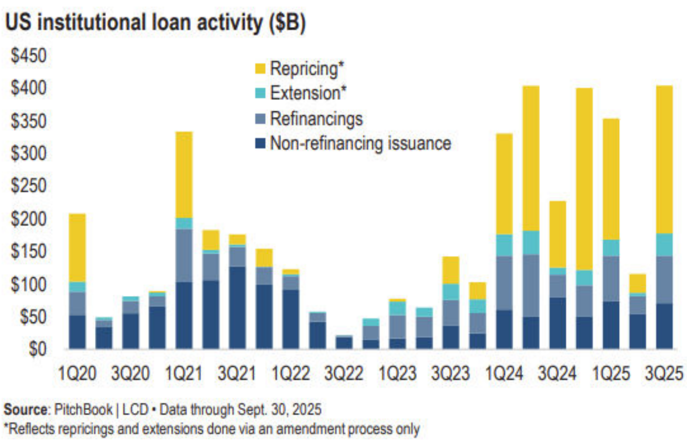
October 23, 2025

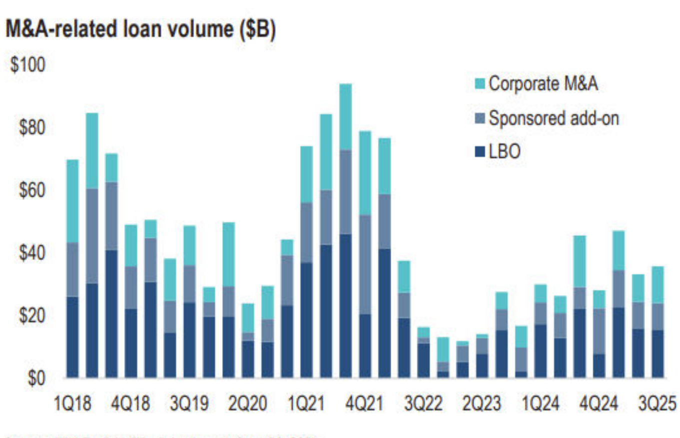
Q3 2025

LEVERAGED LOAN MARKET BOUNCES BACK

The US leverage loan market rebounded in Q3'25; activity surged as borrowers rushed to refinance ("refi"), reprice, extend maturities, or pursue dividend recaps after uncertainty from monetary policy and tariffs / trade policy slowed second quarter activity. Market dynamics shifted back toward a more borrower-friendly environment defined by tighter credit spreads, strong investor demand, and limited net supply as forward M&A expectations improved. A more balanced technical backdrop materialized towards the end of the quarter as CLO issuance cooled, and repayments moderated. As a result, the leveraged loan market accelerated to the fastest last twelve months ("LTM") growth rate since late 2022 and reached yet another new record of $1.51 trillion outstanding.







SUPPLY: THIRD QUARTER REBOUNDS

With greater clarity around tariffs along with the Fed cutting interest rates by 25 bps on September 17, 2025, Q3'25 new-issue loan volume increased 90% q/q to ~$145 billion from $76.3 billion; bringing YTD issuance to $366 billion. After refi activity in the second quarter dropped sharply to just $27.8 billion, issuance of new loans for refis increased to $72.8 billion in the third quarter (busiest quarter since the refi surge in early 2024) driven by B-minus rated issuers jumping on multi-year-low spreads to reap interest savings and address maturities. Q3'25 LBO and M&A-related borrowing remained low, while dividend recap volume more than doubled in comparison to the second quarter.

Institutional loan volume in Q3'25 also rebounded from the second quarter's tariff-driven volume slump ($115.5 billion), surging to $404.2 billion – both the busiest quarter of the year and the highest quarterly volume on record, surpassing the prior record set in Q2'24. ~82% of third quarter activity was driven by borrowers seeking to cut interest costs, extend maturities, or both – activity that does not contribute new net supply to the leveraged loan market. Only 18% ($70.9 billion) of the new-money transactions in Q3'25 was unrelated to refis or amendments. Though this volume is higher than Q2's $53.8 billion, it is still 4% below Q1'25 and 12% below Q3'24 levels, despite tighter spreads and strong investor demand, reflecting low historical levels of M&A supply.

M&A MOMENTUM STAGANT

M&A-related loan volume increased slightly from Q2'25. $35.7 billion was raised in the institutional syndicated loan market during the quarter to finance buyouts and other M&A transactions, down 22% year-over-year, but up 8% compared to Q2. Private equity firms raised $15.5 billion for buyout financing from the BSL market, the weakest quarter so far in 2025. Notably, 35.5% of Q3'25 volume came from a single transaction – a $5.5 billion term loan B for Thoma Bravo's LBO of Dayforce. While $15.5 billion exceeds the $12.4 billion quarterly average since the Fed began raising rates in 2022, volume remains well below historical norms. However, issuance related to M&A is slowly normalizing, with overall volumes up 15% year over year after starting 2025 on a strong note.

ANOTHER RECORD FOR LEVERAGED LOANS

Continuing the trend from last quarter, repayment activity remained low in Q3'25. As a result, the leveraged loan market continued to expand in Q3'25. The par amount outstanding grew to yet another record of $1.51 trillion, eclipsing Q2'25's previous record of $1.50 trillion. The US loan market has grown by $91.5 billion YTD, or 6.4%, versus a 1.1% contraction at this time last year. On a 12-month basis, the Morningstar LSTA US Leveraged Loan Index expanded by 9.2%, the highest annual growth rate since October 2022, and a sharp increase from 1.4% in 2024.

Morningstar LSTA US LL Index: Par amount outstanding

Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Sept. 30, 2025

SECONDARY PRICES TREND DOWNWARDS

Subdued new issuance in Q3'25 spurred a rally in the secondary market early in the quarter, with the weighted average bid for US leveraged loans rising to 97.58 – just shy of the 2025 high of 97.70 set in January. However, strong loan issuance in July and softer economic data cooled momentum in August. The quick collapse of First Brands Group in September caused its debt to plunge from the mid-90s to the mid-30s within weeks and delivered an outsized hit to overall leveraged loan index performance. At the end of Q3'25, the weighted average bid for US leveraged loans fell to 97.06, down 13 bps from August. Excluding First Brands, the average rises to 97.25 – a six-bps gain month-over-month.

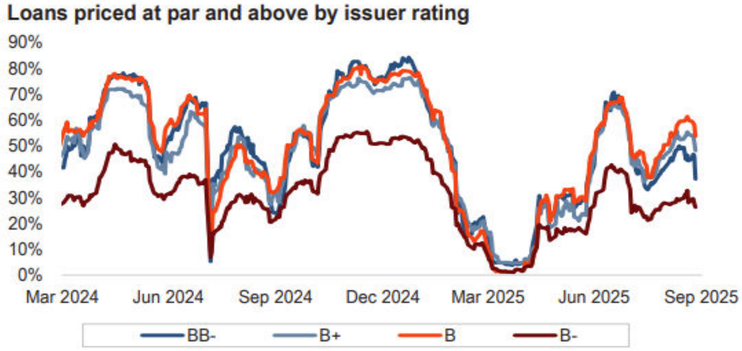
Weighted average bid of US leveraged loans

Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Sept. 30, 2025

LOANS PRICED AT PAR/ABOVE FLUCTUATE

After a strong start to the third quarter, the percentage of performing loans priced at par and above sharply declined in July, reflecting more cautious investor appetite. However, by mid-September, nearly half of all performing loans in the Morningstar LSTA US Leveraged Loan Index were priced at par or above – a clear sign of strong investor demand. Although another decline came on September 25th, 54% of B-flat rated borrowers belonged to the par-or-above cohort. On the contrary, only 26% of B-minus rated loans were priced at par or higher.

Loans priced at par and above by issuer rating

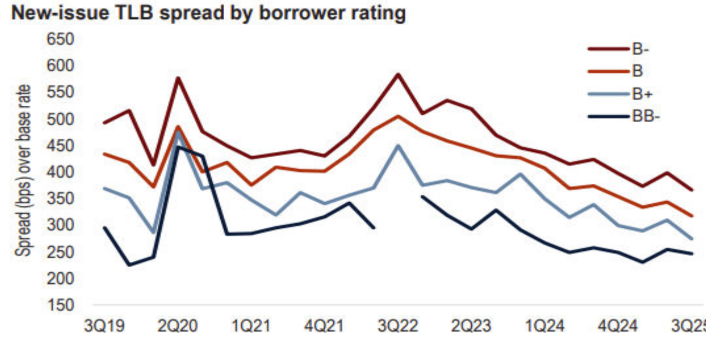


Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Sept. 25, 2025

SPREADS CONTINUE TO TIGHTEN

After briefly spiking in Q2, new-issue spreads resumed their downward trend in Q3'25 across the credit spectrum as market conditions normalized. The riskiest, highest-yielding loans fell to their lowest levels in over a decade. Loans to borrowers rated B-minus closed the quarter with an average spread of S+366 – a post-GFC low and 58 bps tighter year-over-year. New loans issued to companies rated B-flat, B-plus, and BB-minus all saw spreads tighten, reaching S+317 (a decade-plus low), S+275, and S+247, respectively.

New-issue TLB spread by borrower rating



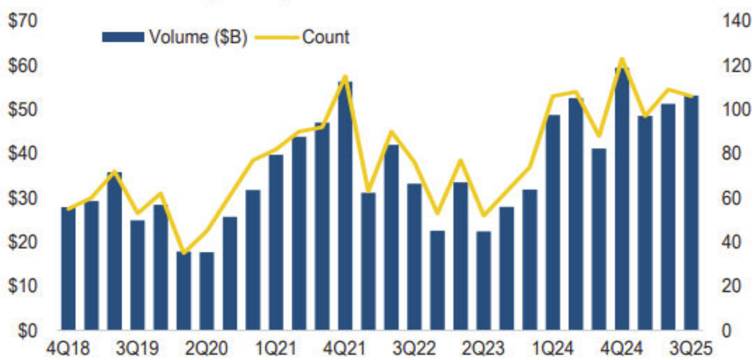
Source: PitchBook | LCD • Data through Sept. 30, 2025

CLO ISSUANCE MAINTAINS UPWARD TREND

CLO issuance in Q3'25 continued to run ahead of 2024's record-setting totals, driven by a resurgence of middle-market/private credit CLO offerings. Total third quarter CLO issuance volume was $53.1 billion from 106 transactions across both BSL and MM CLOs. This is greater volume than both Q1'25 ($48.6 billion across 97 deals) and Q2'25 ($51.3 billion across 109 deals). Third-quarter volume was driven by a July spike of $23.0 billion in new-issue deal pricing – the highest monthly total since November 2024 – alongside record levels of open warehouses and tightening spreads. YTD 2025 volume of $153 billion is 7% ahead of the $142.5 billion in at the same point in 2024 when deal activity was trending towards a record $202 billion. Market analysts currently project US CLO issuance at year-end to reach ~$180-215 billion.

Middle-market CLO issuance accelerated in Q3'25 after a lackluster Q2'25, reaching $13.7 billion in volume across 24 transactions, almost doubling the second quarter's $7.1 billion. The rise in MM CLO interest comes as CLO investors seek higher returns against the BSL market, with ongoing spread tightening and lower debt note returns compared to 2024.

US CLO issuance – quarterly



Source: PitchBook | LCD • Data through Sept. 30, 2025

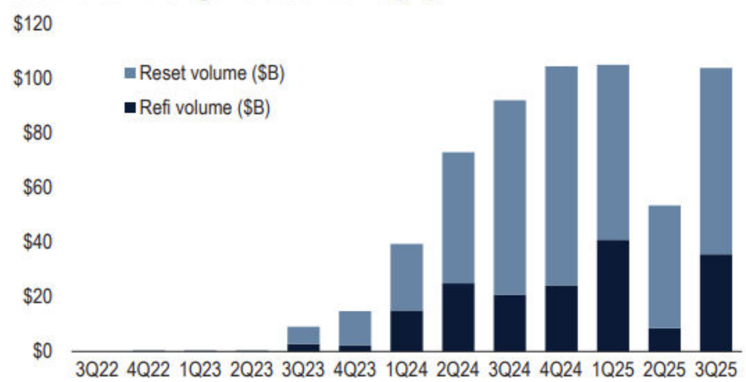
US middle market CLO issuance, quarterly

Source: PitchBook | LCD • Data through Sept. 30, 2025

CLO REFIS & RESETS RETURN

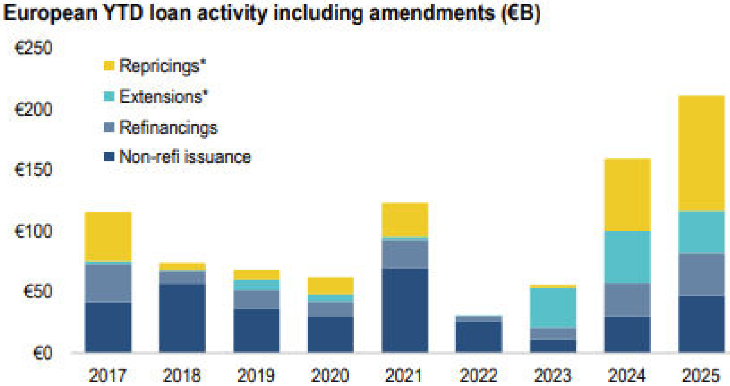
Following an extreme slowdown in Q2'25, US CLO refi and reset volume bounced back in Q3'25, putting 2025 on pace to set a new annual volume record. Third quarter CLO refi volume ballooned to $35.5 billion (compared to $8.6 billion in the second quarter) and reset volume to $68.1 billion (compared to $44.8 billion in the second quarter). The reset wave was driven partly by the volume of paydowns and deal liquidations, as managers repurposed aging and formerly amortizing deals with new terms and assets. The YTD refi and reset volumes of $84.9 billion and $176.8 billion, respectively, each far outpace comparable 2024 levels, $60.7 billion and $143.3 billion, respectively.

US CLO refinancing and reset volume ($B)



Source: PitchBook | LCD • Data through Sept. 30, 2025

European YTD loan activity including amendments (€B)



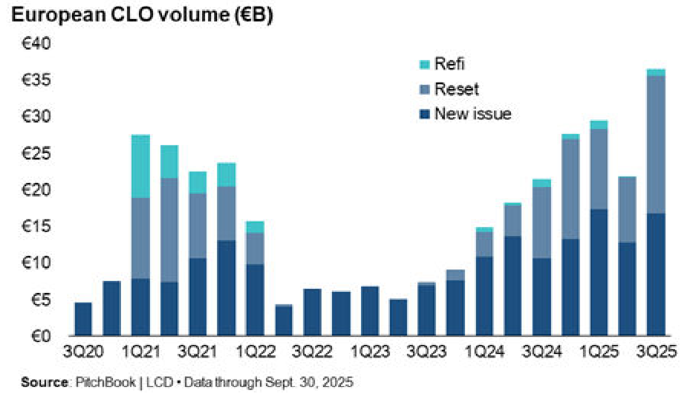
Source: PitchBook | LCD • Data through Sept. 30, 2025
*Reflects extensions and repricings done via amendment process only

ISSUANCE: EUROPE

European institutional leveraged loan activity through Q3'25 reached €211 billion, which bests not only the €160 billion through the Q3 of last year, but also the €207 billion full-year record from 2024. European institutional leveraged loan activity through Q3'25 reached €211 billion, beating full year 2024 volume of €207 billion. The record activity was predominantly underpinned by repricings and extensions. Repricing volume reached €94.7 billion in quarter Q3'25, reflecting borrowers' efforts to capitalize on favorable market conditions. Additionally, a more supportive credit environment allowed issuers to manage upcoming maturities, extending or refinancing more than €19.0 billion of loans in Q3'25 - the highest level ever recorded for a third quarter.

EUROPEAN CLOS SET RECORD QUARTER

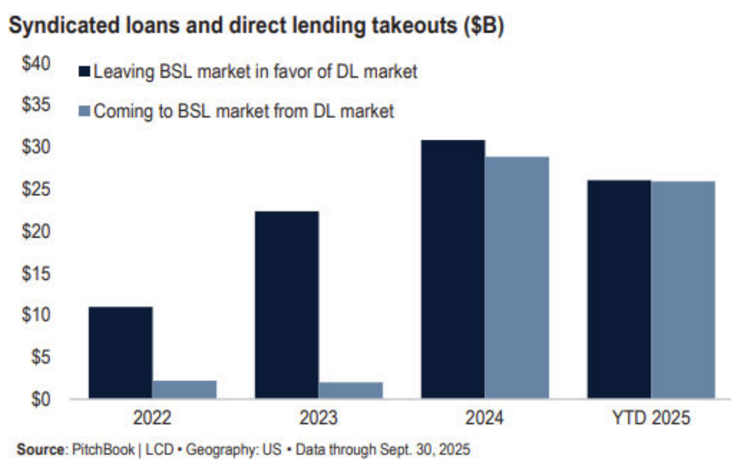
The European CLO market delivered its highest-ever overall quarterly volume in Q3'25. Volume across new issues, resets, and refi's totaled €36.4 billion across 85 deals, with new issuance contributing €16.6 billion across 39 deals, resets €18.9 billion across 43 deals, and refi's €884 million across three deals. The 39 new-issue deals represent the highest new issuance deal count on record, while the volume figure is second only to the €17.3 billion from Q1'25. July was the busiest month on record for overall European CLO activity, contributing over half of the new issuance (€8.9 billion from 21 deals).

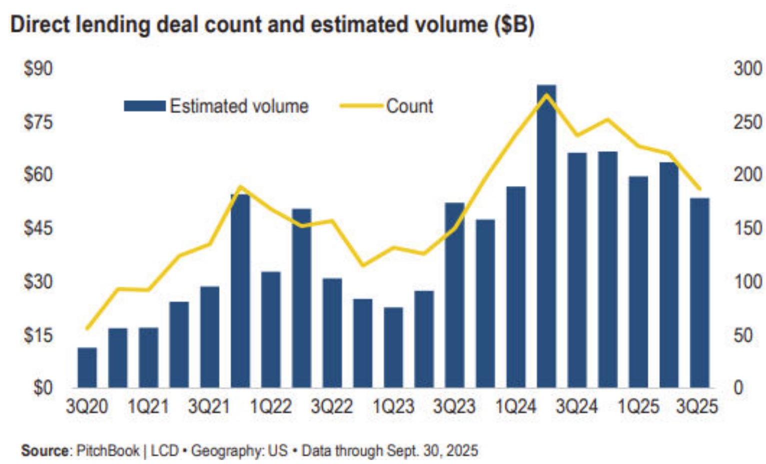


BSL AND DIRECT LENDING SPREADS TIGHTEN FURTHER

Borrowers have historically placed debt more cheaply in the syndicated loan market than in the private credit market. When rates reached peak levels in 2022 and 2023, issuance favored direct lenders due to certainty of execution, flexible structures, and faster execution. Takeouts between the syndicated loan market and the private credit market are now about evenly matched as spreads continue to fall.

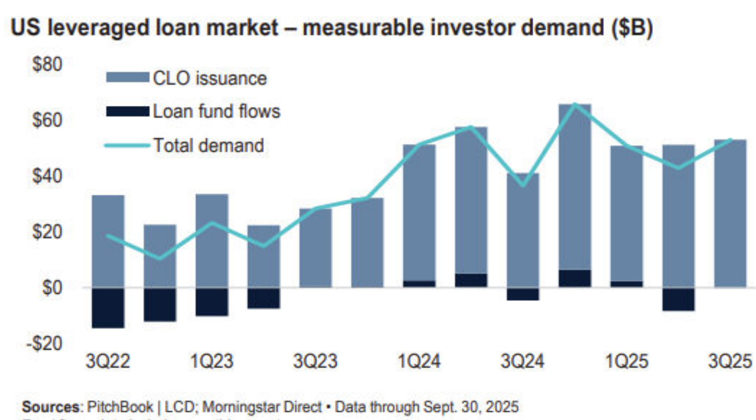
Although the shock and volatility stemming from tariffs that hit the direct lending market in Q2'25 has for the most part passed, the disruption it created has continued to play out in the third quarter, reflected by a decline in deals financed by private credit loans. Private credit deal volumes continue to fall short of expectations, especially given the hopes that the second Trump administration would loosen regulations and promote dealmaking. Additionally, the technical imbalance in private credit has worsened over the third quarter of 2025, as demand for private credit loans continues to outstrip supply.





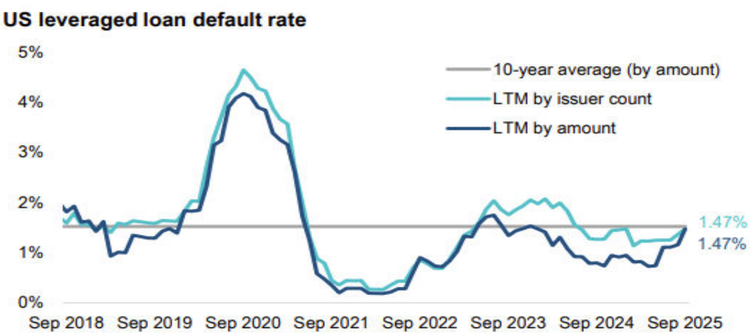
LOAN DEMAND TICKS UPWARDS

Q3'25 saw an uptick in total measurable demand. CLO managers priced $53.1 billion worth of vehicles over the course of the quarter, marking the third-busiest on record. A resurgence in middle-market/private credit CLO offerings contributed to growing demand as well. However, retail investor sentiment toward leveraged loans remained weak, evidenced by outflows in eight of the past 13 weeks, attributable to expectations of a Fed rate cutting cycle. LCD estimates $73.3 million in withdrawals during Q3'25, which is substantially less than the $8.4 billion exodus seen in Q2'25, but still a reversal from the inflows seen in Q1'25.

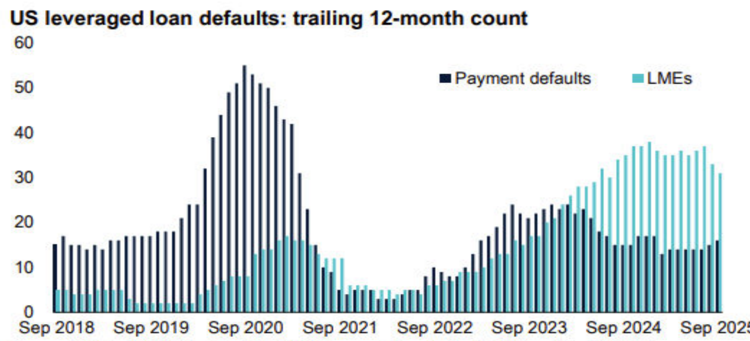


DEFAULT RATES CONTINUE TO RISE

The leveraged loan default rate (by dollar amount) rose sharply from 1.11% at the end of Q2'25 to 1.47% at the end of Q3'25. The leveraged loan default rate (by dollar amount) rose from 1.11% at the end of Q2'25 to 1.47% at the end of Q3'25. Liability management exercises ("LMEs") – or actions a company takes to restructure or optimize its debt, often to extend maturities or reduce leverage when facing financial stress – continue to outpace payment defaults, though the gap between the two closed slightly in the third quarter. With the rise of LMEs to restructure debt since the COVID-19 pandemic, these transactions now make up 66% of default activity by count. At the peak in July 2025 (and February 2025), LMEs comprised 74% of the default landscape, compared to just 9% in January 2020 at the start of the pandemic.



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Sept. 30, 2025



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LOAN RETURNS REMAIN STEADY

The Leveraged Loan index gained 1.77% in Q3'25, though this gain was roughly a 24% drop from the 2.32% recorded in Q2'25. Loans lagged all other fixed-income categories and also trailed US Equities, as the S&P 500 delivered another strong quarter, returning 8.1% amid renewed risk-on sentiment post-Liberation Day, especially as M&A and dividend activity quickens. Overall, all asset classes produced positive returns, with all YTD returns positive, even after a rougher start to the year.

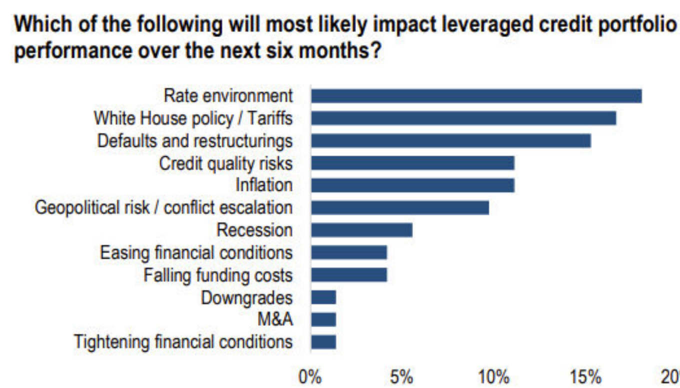
Returns by asset class

	Sep 2025	Aug 2025	3ME	YTD	LTM
Morningstar LSTA US LL Index	0.44%	0.45%	1.77%	4.63%	7.00%
Morningstar US High-Yield Bond	0.78%	1.25%	2.44%	7.16%	7.31%
Morningstar US Corporate Bond	1.51%	1.03%	2.64%	6.89%	3.63%
S&P 10-year Treasury Index	0.94%	1.58%	1.85%	6.95%	1.47%
S&P 500	3.65%	2.03%	8.12%	14.83%	17.60%

Sources: PitchBook | LCD; Morningstar; S&P Dow Jones Indices • Data through Sept. 30, 2025

LOOKING FORWARD

According to LCD's Q3'25 survey, the rate environment is the number one concern among leveraged loan market participants for leveraged credit performance over the next six months (18% of votes). Meanwhile, White House policy and tariffs dropped from first place in Q2'25 to second in Q3'25 (~16% of votes), while defaults and restructurings maintained its third-place position (15% of votes) as debt servicing costs remain relatively high. Credit quality risks, which placed second in the Q2'25 survey fell two spots to the fourth highest concern in the most recent survey.



Source: PitchBook | LCD • Data through Sept. 22, 2025

Despite the volatility experienced throughout 2025, demand for leveraged loans remains strong, and the leveraged loan index continues to reach new highs. Expectations for a quick rebound in M&A activity under the Trump administration's second term bolstered by four rate cuts in the last 12-months have not yet materialized, with M&A issuance still subdued relative to historical norms. The reality is that deal-making takes time, and the tariff-driven volatility in Q2 put many transactions on hold as market participants adopted a wait-and-see stance amid prolonged uncertainty. Nevertheless, ARC saw healthy activity, with acquisitions, IPOs, and LBOs crossing the finish line in Q3 and early Q4'25. Adding to that momentum, on September 29, Electronic Arts ("EA") announced a $55 billion LBO, with $20 billion of debt underwritten by banks – the largest LBO transaction of all time. Looking ahead, there are two remaining Fed meetings this year, and markets are anticipating two additional rate cuts, which could catalyze the long-awaited resurgence in M&A activity, given volatility remains largely at bay. The impact of tariffs has yet to be fully reflected in real time, but attention is shifting to autos, industrial machinery, and consumer goods, where import dependencies are greatest. Margin compression is expected across these sectors as companies attempt to pass higher costs on to consumers.

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