2025 Leveraged Loan Market Overview

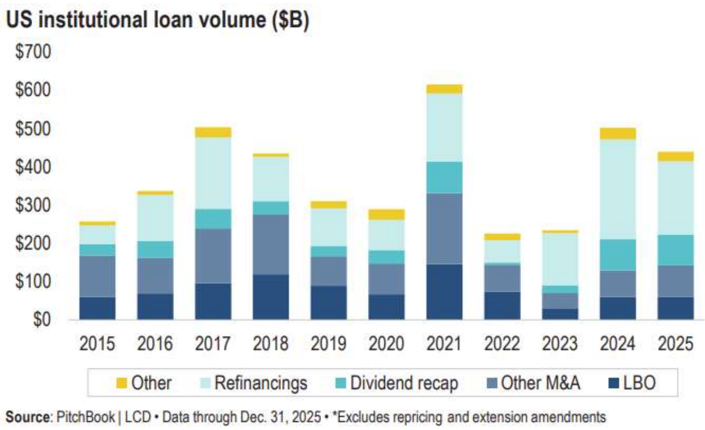
Resilient by Design: Leveraged Loans Withstand Volatility

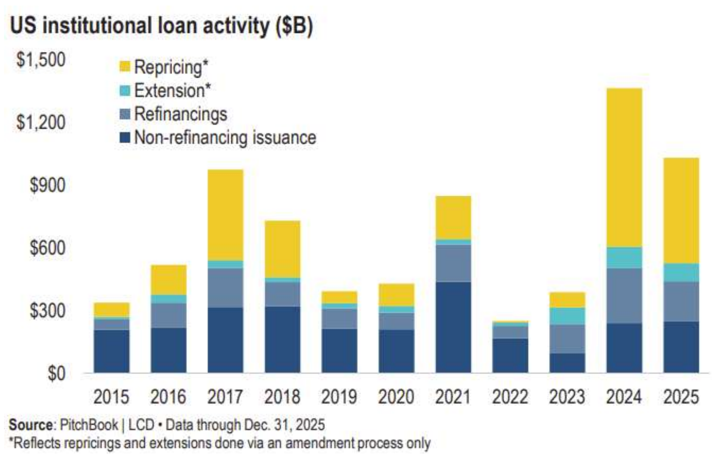
February 17, 2026

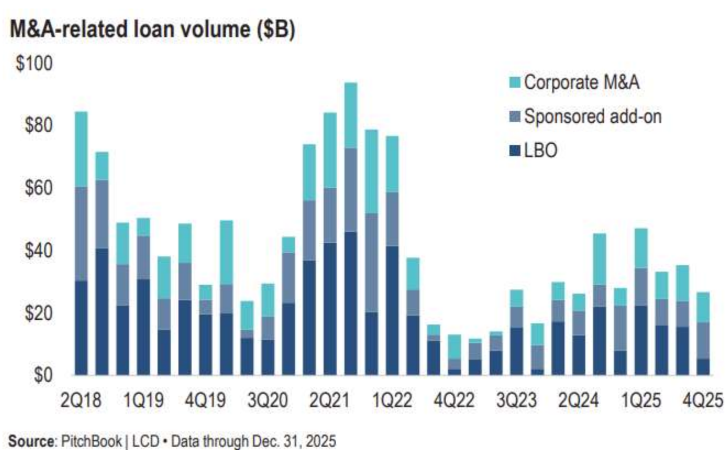
Q4 & FY2025

2025: OUTPERFORMS HEADWINDS

Despite a volatile political and macroeconomic backdrop, the leveraged loan market delivered another historically strong year in 2025. Early-year optimism for a significant pick-up in activity was tempered by tariff developments, geopolitical tensions, and shifting risk sentiment among investors and lenders. Refinancing ("refi") and repricing volume slowed from record levels in 2024, while M&A activity inched higher. Robust CLO formation and tightening credit spreads were key drivers of the market's growth in 2025 with strong investor demand absorbing available supply and materially compressing the supply-demand gap. Supported by opportunistic transactions and new-money issuance, the US syndicated loan asset class grew to a record $1.55 trillion, a 9.2% increase from 2024 and one of the strongest growth years over the last decade.







LOAN SUPPLY TRENDS DOWN AS REFIS SLOW

Annual institutional new loan issuance, which excludes repricing and extension amendments, totaled $439 billion in 2025, ~13% behind 2024's $500 billion issuance, as refi activity normalized. $192 billion of refi issuance in 2025, a 27% decline from 2024's refi surge, still ranks as the second-highest annual total in the past ten years and third-highest on record. Similar to 2024, dividend recaps remained a major contributor to new issuance, with $43.6 billion of dividends issued in the US broadly syndicated loan ("BSL") market – the highest annual total since the Great Financial Crisis.

Institutional loan activity (including repricings and extensions) exceeded $1 trillion in 2025, marking the second-highest annual tally ever (only trailing 2024). The 24.5% y/y decline from a record 2024 was mostly driven by a reduction in repricing and extension activity (which does not contribute to new supply loan issuance). Repricings alone made up roughly half of market activity in 2025, totaling $504 billion. Though a significant decline from the $757 billion record set in 2024, this year's issuance marks the second highest annual total on record.

M&A ISSUANCE ENDURES, DESPITE SLOW Q4

Q4'25 was the slowest quarter for M&A and LBO-related issuance in 2025, with total volume amounting to just $26.7 billion and $5.4 billion, respectively. This issuance marked the lowest levels since Q2'24 and Q4'23, respectively. Even as expectations for a sharp rebound in activity did not materialize given political volatility and economic uncertainty, 2025 saw loan issuance tied to LBO and M&A activity rise (especially for higher-rated corporates) to its highest levels in three years. According to market reports, a resurgence could be on the horizon; LBO & M&A volume is expected to grow in 2026 based on stable fundamentals and lower borrowing costs.

RECORD LEVERAGED LOAN OUTSTANDINGS

Despite geopolitical turmoil, heightened volatility, and an uncertain macroeconomic backdrop, the leveraged loan asset class grew noticeably in 2025. The par amount outstanding tracked by the Morningstar LTSA US Leveraged Loan Index expanded by 9.2% in 2025, to a record $1.55 trillion. 2025 saw the third highest annual growth rate in the last decade, only behind the 12.2% and 19.9% seen in 2021 and 2018, respectively. Growth was supported by a steady recovery in net new issuance and a decline in repayments.

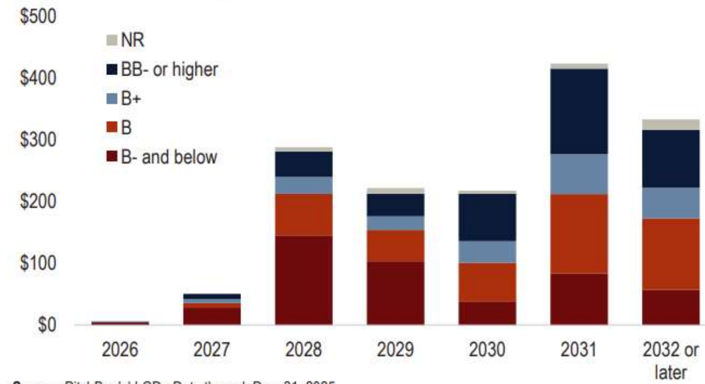
Morningstar LSTA US LL Index: Par amount outstanding and growth rate

Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Dec. 31, 2025

BORROWERS MANAGE MATURITIES FOR NOW

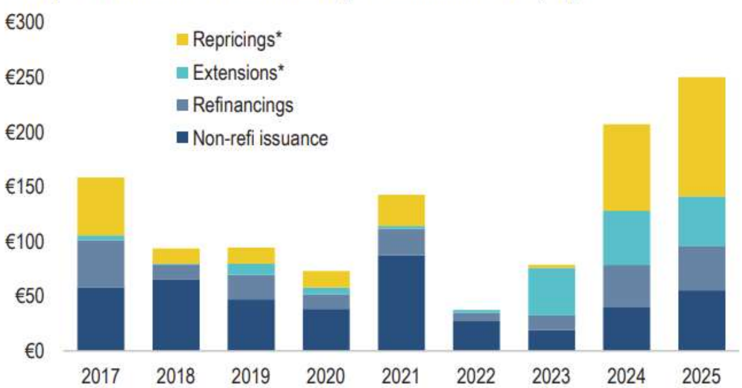
Driven by the strong pace of refi and extension activity, borrowers continued to push out near-term maturities in 2025. The volume of loans maturing in 2027 declined 63% to $50.4 billion. However, the maturity wall sharply increases in 2028 with $288 billion coming due. This level remains elevated even after a 35% reduction from year-end 2024. Though near-term maturity pressure has been mostly alleviated, the amount maturing in the next three years ($344 billion) is higher than any comparable period in the history of the Morningstar LSTA US Leveraged Loan Index. This value is equal to ~22% of all outstanding loans.

US leveraged loan maturity wall by borrower rating ($B)



Source: PitchBook | LCD • Data through Dec. 31, 2025

European institutional loan activity inc. amendments (€B)



Source: PitchBook | LCD • Data through Dec. 31, 2025
*Reflects extensions and repricings done via amendment process only

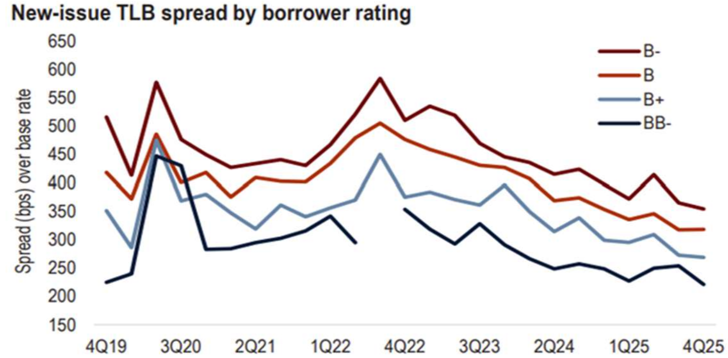
ACTIVITY: EUROPE

European leveraged loan issuance delivered a second consecutive year of record high issuance. Including repricings, total activity reached €250 billion, up from 2024's €207 billion record. Excluding repricings (but including extensions), total volume reached €141 billion at the end of the year. Despite the pick-up in overall volume, M&A activity in 2025 fell short of pre-year market expectations, reaching €43.5 billion. Although up from 2024's €37.7 billion, 2025 non-refi issuance still lagged well behind the post-GFC peak achieved in 2021, with the April 2025 announcement of the US's reciprocal tariffs disrupting activity. Overall, however, 2025 was a positive year for European issuance.

SPREAD THIN

Spreads experienced a steady compression across the credit spectrum throughout the year. At year-end, the average spread for BB-minus rated term loans was S+221, a six-year low. B-plus borrowers saw a 30-bps contraction y/y, with a year-end spread of S+269, the lowest since Q2 2007. Lower-rated loans followed a similar trend; spreads on the riskiest B-minus ratings tightened to S+354 – the tightest level since the GFC and 43 bps narrower than Q4 2024 levels. With spreads at decades-long lows, the BSL market afforded borrowers significant savings on interest expense in 2025.

New-issue TLB spread by borrower rating



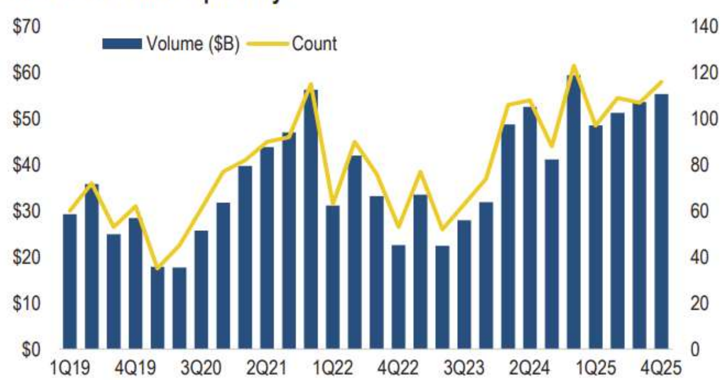
Source: PitchBook | LCD • Data through Dec. 31, 2025

CLO ISSUANCE SETS YET ANOTHER ANNUAL RECORD

U.S. CLO issuance set a second-straight annual record of $208.8 billion across 429 deals, surpassing the prior record of $202.6 billion in 2024 amid tightened spreads and a peak level of open warehouses to meet demand from investors. In Q4'25 alone, managers priced $55.3 billion in new-issue CLOs – the highest quarterly value of 2025 – reflecting investor confidence in CLOs and leveraged finance that had been declining after the bankruptcies of auto parts supplier First Brands and subprime auto lender Tricolor Holdings in September. Even with broadly syndicated loan ("BSL") issuance declining year-over-year, CLO demand expanded from a growing base of existing institutional investors throughout the year.

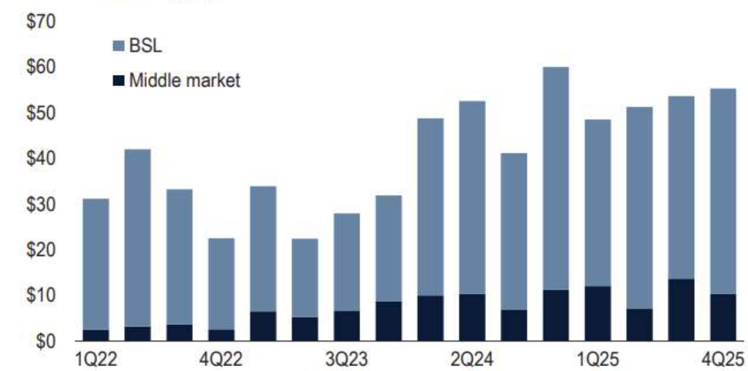
Middle-market ("MM") or private credit CLO issuance declined to $10.3 billion in Q4'25 compared to $13.7 billion in Q3'25. Total 2025 MM CLO issuance of $43.1 billion surpassed 2024 issuance of $38.5 billion. MM CLOs accounted for 20.7% of the 2025 CLO market share against BSL issuance of $165.7 billion, which is a relatively small gain compared to the 2024 market split (~19% for MM CLOs) but still below that of the 23.4% market share from 2023.

US CLO issuance – quarterly



Source: PitchBook | LCD • Data through Dec. 31, 2025

US CLO volume ($B)

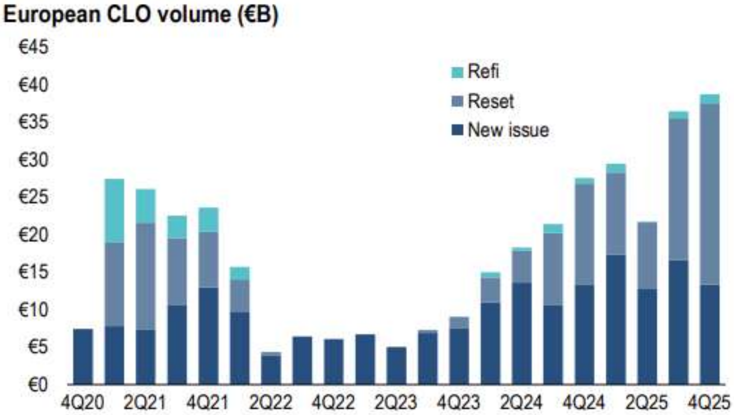


Source: PitchBook | LCD • Data through Dec. 31, 2025

EUROPEAN CLO VOLUME SOARS

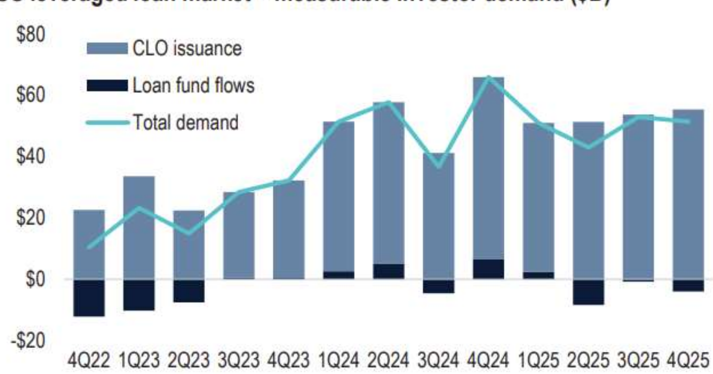
The European CLO market delivered on volume in 2025. Total new-issue volume for 2025 hit a new record of €60 billion across 140 deals, surpassing the €48.4 billion from 127 deals in 2024. The average new-issue deal size in 2025 also reached its highest level on record at ~€429 million (compared to €423 million and €410 million for 2024 and 2023, respectively). Additionally, CLO resets totaled €62.9 billion across 143 deals in Europe through 2025, with 12 refinancings raising the combined tally to €66.4 billion.

European CLO volume (€B)



Source: PitchBook | LCD • Data through Dec. 31, 2025

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



Sources: PitchBook | LCD; Morningstar Direct • Data through Dec. 31, 2025
Fund flows data includes monthly reporters.

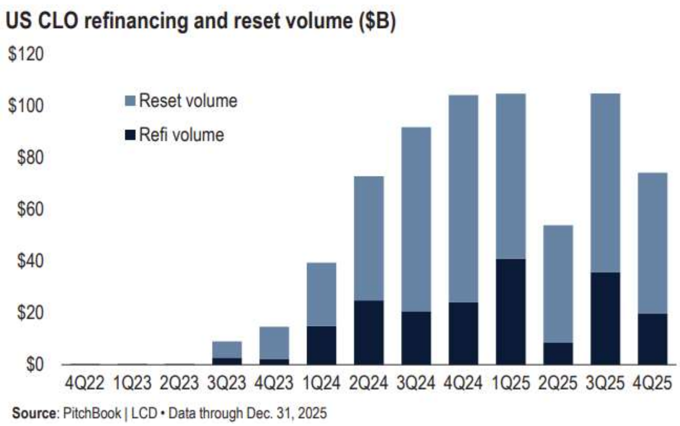
LOAN DEMAND REMAINS STEADY

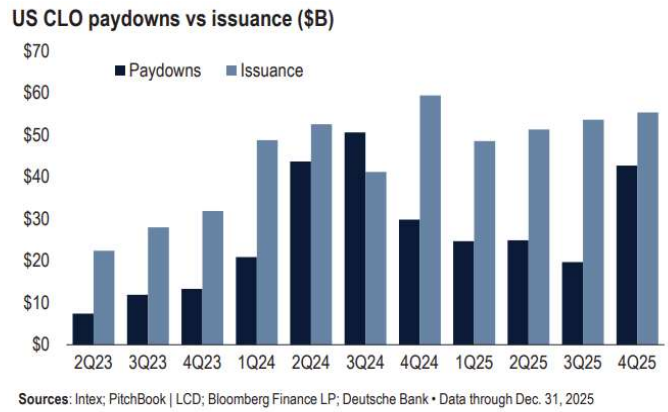
Supported by record CLO issuance, measurable investor demand remained robust in 2025. Managers priced $209 billion of CLOs during the year; the elevated activity helped offset middling retail demand for leveraged loans, with investors withdrawing ~$10.7 billion from the asset class in 2025. The supply-demand gap narrowed significantly from $192 billion in 2024 and $115 billion in 2023. Net supply for the year was $67.1 billion short of measurable demand, though, improving net supply conditions brought market technicals closer to equilibrium.

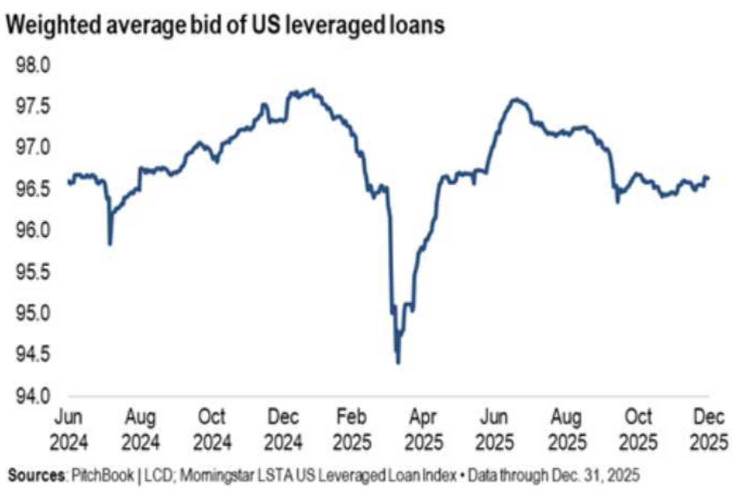
CLO RESETS AND REFIS CONTINUE HOT STREAK

Though at a slower pace than Q3'25, strong reset and refinancing activity continued in Q4'25 as tightening spread conditions provided room to reprice outstanding deals. As a result, managers raced to arrange new terms to over $100 billion in CLOs in Q4'25. Resets and refis reached $53.7 billion and $20.0 billion, respectively, in the fourth quarter, pushing 2025's combined volume between the two to $337 billion, exceeding the 2024 record of $308 billion.

The fourth quarter also experienced a high volume of paydowns, an indicator signaling the extensive reset activity that continued throughout 2025. Paydowns reached $427.7 billion in Q4'25, the highest quarterly volume since the $50.6 billion in Q3'24, as borrowers reduced outstanding balances to satisfy reset conditions and move new loans forward.







SECONDARY PRICES MIRROR VOLATILITY

Given heightened volatility after a relatively calm 2024, pricing in the secondary fluctuated greatly over the course of 2025. After reaching an intra-year high of 97.70 in January, the weighted average bid in the US Leveraged Loan Index ("LLI") decreased markedly to 94.41 in April following the "Liberation Day" tariff announcements. Prices recovered through July before unwinding over the last five months of the year as retail outflows, sector-specific headwinds, and speculation around AI-focused names weakened sentiment. At year-end, the weighted average bid sat at 96.64 – a ~70 bps decline from the beginning of 2025.

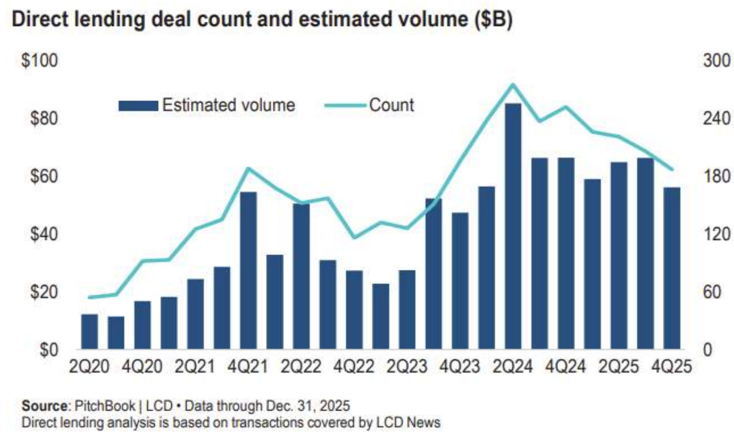
LOANS PRICED AT PAR/ABOVE CLIMB BACK

At the end of 2025, 58% of loans were priced at par or above – a sign of strong investor demand. This represented a strong recovery after a steep decline in September and October 2025 that stemmed from renewed tariff and trade threats with China in an already tightly priced market and ended with just 13% of loans priced at par or above as investor appetite weakened. By year-end, sentiment had improved across the credit spectrum. For issuers rated B-plus and higher, 71% of loans were priced at par or above compared to ~20% in October, while 39% of B-minus loans were priced at par or better, compared to less than 10% in October.

BSL AND PRIVATE CREDIT CONTINUE TO SPAR

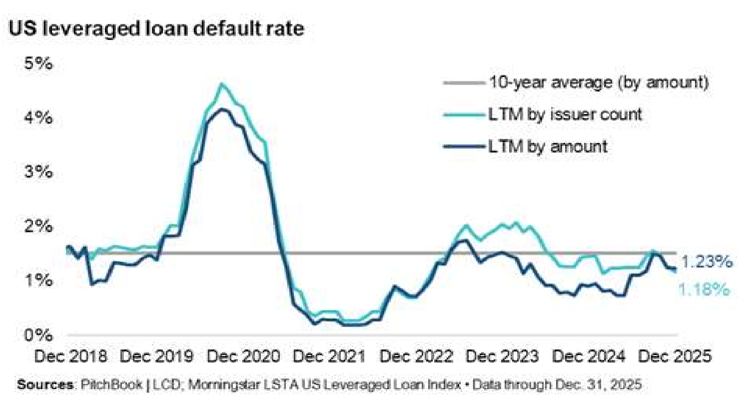
Throughout the year, private credit and the broadly syndicated loan market continued an everlasting tug-of-war, competing for deals and further narrowing spreads for borrowers. After being dominated by private credit in 2022 and 2023, the BSL market has refinanced some relatively large direct lending loans in 2025 with spreads sitting at decades-long lows. In 2025, $34.1 billion of direct lending loans were refinanced in the BSL market, up 18% from 2024 and the highest annual total since LCD began tracking this data in 2022. Notwithstanding this, direct lenders refinanced $36.9 billion of syndicated loans in 2025 – the highest level in over four years. Each market captured 40 borrowers from the other over the course of the year, although private credit holds a slight advantage in dollar terms.

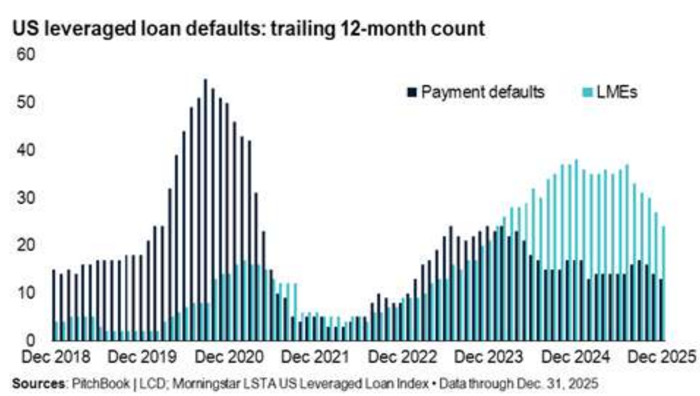
The fourth quarter of 2025's $56.1 billion in direct lending volume across 187 deals was the lowest volume since Q2'24 and the lowest transaction count since Q3'23 but ahead of any quarter leading up to Q3'23. As Q4'25 progressed, market participants became increasingly concerned with credit stress and loosening borrowing conditions, weighing on the private credit market. Nevertheless, direct lending transaction volume over the entire year totaled $247 billion, the second busiest year on record since LCD started tracking private credit data, trailing only 2024.



DEFAULT COUNT TRENDS DOWNWARD AS LMEs LOSE GROUND

The U.S. leveraged loan default rate (by dollar amount) fell from 1.47% in Q3'25 to 1.23% in Q4'25. However, defaults trended upward in comparison to 2024; the payment default rate by amount increased by almost 40% y/y from 0.91% at the end of 2024 to 1.23% at the end of 2025. Still, fewer loan issuers defaulted in 2025 compared to 2024, with payment default rate by issuer count down ~19% y/y, from 1.45% to 1.18%. Both the default rate by amount and issuer count remain below the index's 10-year historical averages (1.52% and 1.71% by amount and number, respectively), though this can be partly attributed to the rise of distressed liability management exercises ("LMEs") according to LCD. Including LMEs in the defaulting issuer count raised the default rate to 3.35% at year-end, a steep decline from year-end 2024's rate of 4.70%. In 2025, the trailing 12-month count of LMEs outpaced that of payment defaults in every month, continuing the trend that began in January 2024. Yet, the dominance of LMEs that started after the Fed initially hiked interest rates in 2022 eased as 2025 progressed, eventually accounting for 65% of the trailing 12-month count at the end of year. While still elevated, this share reflects a slight reversal from July 2025's high of 73%.





LOAN RETURNS LAG OTHER ASSET CLASSES DESPITE SOLID YEAR

The leveraged loan index returned 5.90% in 2025, reflecting a solid performance despite macro and market headwinds. Interest income was compressed due to high volume of repricings and refis by borrowers, along with the 75 bps of Fed rate cuts in the back half of the year. Weakening secondary prices also dampened returns while the collapse of First Brands dragged both loan sentiment and returns down further.

U.S. leveraged loan returns trailed the 8.95% and 13.32% generated in 2024 and 2023, respectively, but still beat the returns for every other year from 2019 through 2022. As base rates declined and spreads continued to tighten, the floating-rate advantage of leveraged loans relative to other risk assets faded. The index's 5.90% gain in 2025 lagged behind all covered asset classes: equities returned 17.88%; high-yield bonds returned 8.66%; the 10-year Treasury index returned 8.02%; and corporate bonds returned 7.56%. 2025 marks the first year since 2020 in which leveraged loans underperformed equities, high-yield bonds, and investment-grade corporate bonds.

Returns by asset class

	2025	2024	2023	2022	2021	2020	2019
Morningstar LSTA US LL Index	5.90%	8.95%	13.32%	-0.77%	5.20%	3.12%	8.64%
Morningstar US High-Yield Bond	8.66%	8.20%	13.48%	-11.09%	5.24%	7.03%	14.33%
Morningstar US Corporate Bond	7.56%	2.13%	8.41%	-15.71%	-1.12%	9.70%	14.22%
S&P 10-year Treasury Index	8.02%	-1.67%	3.54%	-16.47%	-3.74%	10.69%	8.71%
S&P 500	17.88%	25.02%	26.29%	-18.11%	28.71%	18.40%	31.49%

Sources: PitchBook | LCD; Morningstar; S&P Dow Jones Indices • Data through Dec. 31, 2025

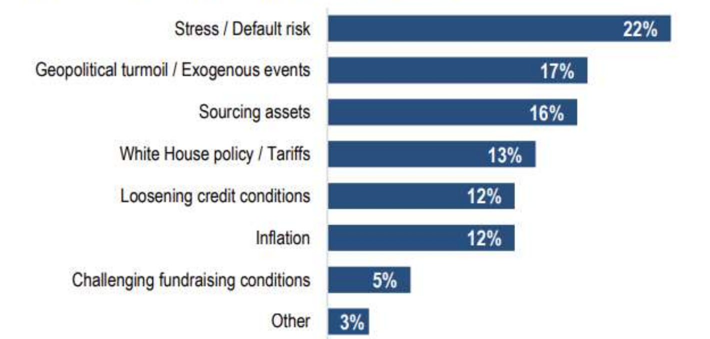
US leveraged loan returns, annual

Sources: PitchBook | LCD; Morningstar LSTA US LL Index • Data through Dec. 31, 2025

LOOKING FORWARD

According to LCD's Q4'25 survey, stress and default risk is the number one concern among leveraged loan market participants over the next six months (22% of votes). Geopolitical turmoil rose from sixth place in Q3'25 to second in Q4'25 (17% of votes), while sourcing assets came in at third (16% of votes) as LBO activity remains subdued and borrowers delay transactions. Notably, White House policy and tariffs, which placed second in the Q3'25 survey, fell two spots to the fourth highest concern in the Q4'25 survey. Survey participants also continued to point out loosening credit conditions and inflation as potential headwinds, though these were considered less of a risk than other concerns.

Which of the following will present the strongest headwinds to leverage loan market participants in the next six months?



Source: PitchBook | LCD • Data through Dec. 19, 2025

Although tariff uncertainty has eased since April's Liberation Day reciprocal tariff announcement, volatility in the leveraged loan market is likely to persist in 2026 as risks remain around rising defaults, geopolitical instability, and US trade policy. However, another year of growth is expected, especially in LBO and M&A related deal volume. Market participants expect the leveraged loan market to transition from a period of heavy refinancing to one of event-driven financing. M&A activity for 2026 is building, supported by favorable macroeconomic conditions and recent Fed rate cuts. LBO issuance is set to accelerate as financial sponsors seek opportunities to exit longer-term investments given strong financing conditions and a buildup of dry powder from prior years. ARC also expects borrowers to begin addressing the 2028 maturity wall. As a result, ARC expects to see healthy deal flow in 2026. Showcasing this momentum is the ~$75 billion of underwritten activity on the forward calendar, including the $55 billion LBO of Electronic Arts ("EA") – the largest LBO transaction of all time. Looking ahead, investors and market participants expect further interest rate reductions by the Fed in 2026, though the extent of these cuts remain uncertain. UBS projects the Fed funds rate to close 2026 at 3.00-3.25% (reflecting two cuts in 2026) on improving employment and inflationary pressures, which would assist in catalyzing the long-awaited resurgence in M&A activity.

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