William Blair

Leveraged Finance Newsletter

Q1 2025

Headlines vs. Trendlines: Unpacking an Up-and-Down First Quarter

In This Report

Analysis of Q1 Trends in Leveraged Finance

Highlights, Analysis, and Results From William Blair's Quarterly Leveraged Finance Lender Survey

Headlines vs. Trendlines: Unpacking an Up-and-Down First Quarter

A hot start to the new year led to a front-loaded first quarter in which a record-setting January gave way to a quiet March.

The leveraged loan market kicked off 2025 with a January that saw more total activity than any month in the last decade. Positive sentiment around the new administration, a return of M&A, and borrower-friendly conditions produced a better first month than anyone could have hoped for. But that was yesterday's news. The progression over the first quarter was perhaps the most dramatic we have seen since 2020. As March drew to a close, conditions had shifted dramatically—equity markets were in disarray and loan volumes contracted as all eyes focused on tariffs. However, the desire to deploy capital remains as markets seek certainty in the face of uncertainty.

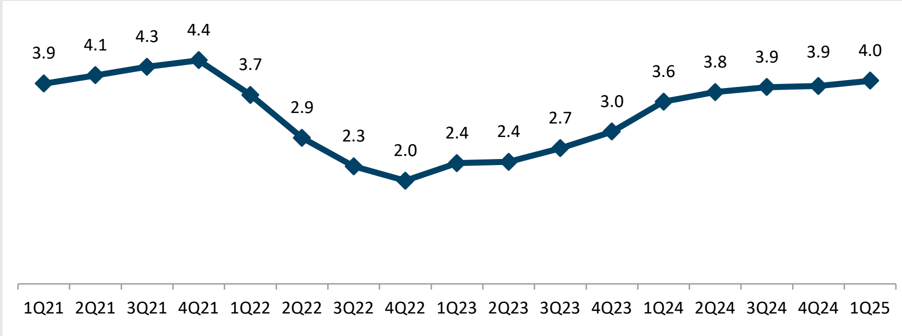
On the surface, the U.S. leveraged loan market regained most of the momentum of last year, with $144.5 billion of institutional loan volume in the first quarter. This level of volume represented a 47% increase over the prior quarter and the third-highest total in the last decade. Including repricings and extensions done via amendments, first-quarter loan volume reached $354.6 billion, the fourth-highest quarter on record.

As discussed throughout last year, 2024 was dominated by refinancings and repricings, but the first quarter of 2025 showed signs of more balanced supply. Refinancing activity accounted for $64.4 billion of volume, or 45% of this quarter's total loan issuance, down from 58% and 52% in 2023 and 2024, respectively. The biggest cause of this shift in supply was M&A-related activity, providing the market with a long-awaited uptick. Total volume related to M&A was $52.0 billion in the quarter, a three-year high and well above the quarterly average of $32.4 billion in 2024. In a further positive sign, $24.9 billion of this M&A-related volume was tied to LBO transactions, representing the highest reading since 1Q22 and in line with the 10-year average. Dividend recapitalization volume was $24.4 billion during the quarter, continuing the strong showing seen throughout much of 2024 as the need to return capital remains center stage for sponsors.

William Blair's Leveraged Lending Index increased to 4.0 (scale of 1 to 5 with 5 being the most borrower-friendly), continuing its positive trend after bottoming out at the end of 2022. This quarter was the first instance of breaking through the 4.0 threshold since the middle of 2021, as borrow-friendly conditions reached multiyear highs. Intense competition among lenders, strong fundraising, and suppressed levels of M&A activity have all contributed to the shift in lender

Borrower-Friendly Market Persists as 2025 Kicks Off

Each quarter we ask middle-market lenders to rate overall conditions in the leveraged finance market on a scale of 1 to 5, with 5 being the most borrower-friendly conceivable. The index increased to 4.0 for the first time since 2021, as the market remains favorable for borrowers.



Source: William Blair Leveraged Finance Survey.

sentiment over the last year and a half. Despite the market uncertainty, spreads across both the direct lending and broadly syndicated loan market hovered at or near record lows to end the quarter.

Further, over 70% of respondents to William Blair's Leveraged Finance Survey indicated they've made borrower-friendly concessions they historically would not have to win a deal in Q1. This marked the second straight quarter with responses over 70% and the fifth straight above 60%. The need to deploy capital appears to be outweighing concerns around macroeconomic and policy uncertainty among lenders.

Leveraged Loan Market Trending Down Amid Uncertainty

The headline numbers for Q1 were strong across the board, with volume across multiple transaction types at or near record levels. Diving deeper into the numbers, though, the quarter was heavily weighted toward January before momentum began to fade. The second half of the quarter saw volume retract as well as pricing and terms deteriorate. Uncertainty around tariffs and swings across global capital markets prompted this negative shift in sentiment.

Total activity in January, when including repricing and extensions done via amendment, was over $215 billion and the highest total on record. As the quarter progressed, March total activity fell to $47.7 billion, the lowest level in more than a year. The decline was felt across nearly all transaction types, but none more acutely than repricing-related activity. Repricings fell to less than $9 billion in March, a falloff of more than 90% from the total recorded in January. Much of this decline can be attributed to worsening conditions in the secondary market, with the weighted average bid of the Morningstar LSTA US Leveraged Loan Index falling by 138 basis points from its year-to-date high to 96.31 by the end of the quarter.

Spreads also began to show signs of widening as the quarter progressed, following a prolonged trend of declining pricing. Widening spreads were largely concentrated in the lowest-rated B-minus and B-flat borrowers, while holding steady for higher-rated borrowers, a sign of investors' decreasing appetite for risk.

Impacts to Deal Activity

Not three months ago, market sentiment was focused on the possibility of a resurgence in M&A activity, a more conducive regulatory environment, a friendlier FTC, and stabilizing inflation. As the first quarter has drawn to a close, this sentiment has shifted focus to tariffs, policy uncertainty, and volatility in the capital markets.

As described previously, while March activity slowed meaningfully, the trend has significantly worsened in April as tariffs have dominated the news cycle. There has not been a single broadly syndicated deal launched in the first 15 days of April, the longest stretch since the beginning of the COVID-19 pandemic in March 2020.

The complete closure of the broadly syndicated market may present an opportunity for private credit to capture new gains in market share. Respondents to the William Blair Leverage Finance Survey indicated that while tariffs are affecting the way in which deals are underwritten, they remain open for business and may even use the uncertainty to be more aggressive in certain situations. The main changes in underwriting practices that were described include increased focus on supply chains, further downside modeling, and reforecasting projections. Direct lenders and other private credit market participants have demonstrated their constructive approach and flexibility as key differentiators in periods of volatility such as the beginning of the pandemic and during the rising rate environment of 2022-2023.

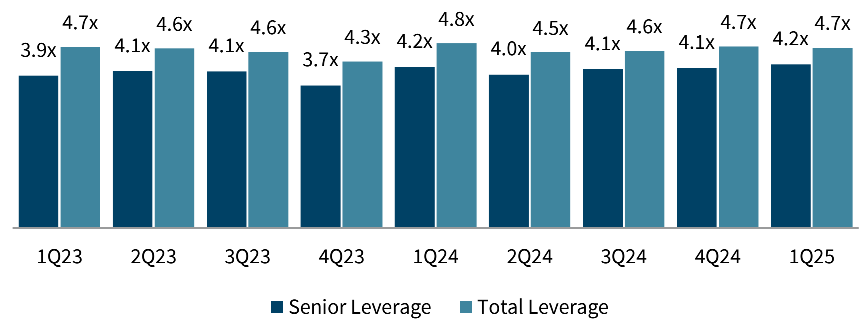
All eyes remained fixed on economic and trade policy news, but in uncertain times it is critical to dig beyond the headlines to understand the true impacts, trends, and opportunities. To learn more about these and other factors shaping the leveraged finance market, please don't hesitate to contact us.

Market Analysis

Each quarter, we look behind the numbers to examine the market dynamics that are driving trends in pricing and volume in leveraged finance transactions.

Leveraged Loan Multiples

Total leverage remained the same as the prior quarter in Q1, matching LTM highs.

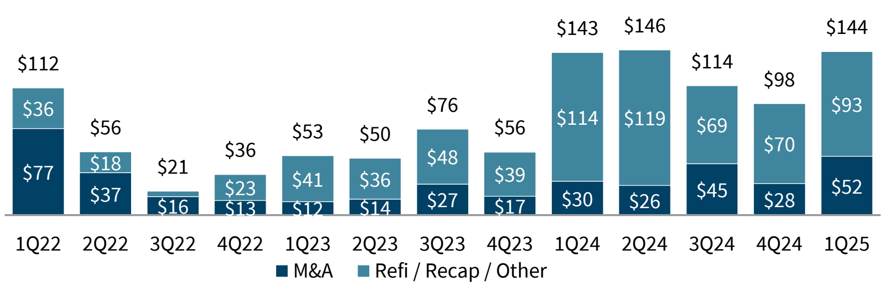


Source: PitchBook LCD. Represents the rolling 90-day average leverage multiples from all loan activity.

Institutional Loan Volume

Total institutional loan volume increased to $144 billion in Q1, following two straight quarters of declines. M&A-related volume helped lead the way, reaching its highest level since early 2022.

($ in billions)

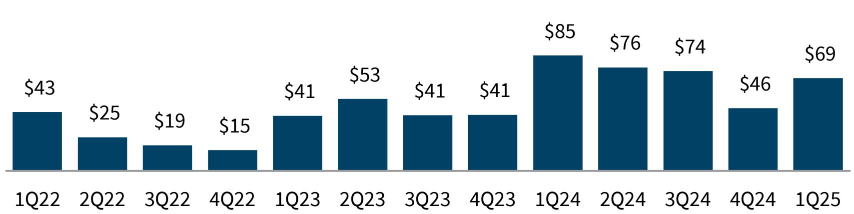


Source: PitchBook LCD.

High-Yield Bond Volume

High-yield bond volume increased to $69 billion in Q1, gaining much of the momentum of last year and sitting well above the average levels of 2022 and 2023.

($ in billions)



Source: PitchBook LCD.

Note: Based on responses received from William Blair's Leveraged Finance Survey.

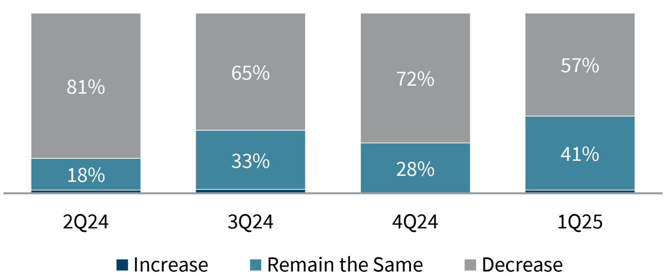
Highlights From William Blair's Q1 2025 Leveraged Finance Survey

Each quarter, William Blair surveys middle-market leveraged finance professionals representing leading credit funds, BDCs, commercial finance companies, commercial banks, and other credit providers to measure sentiment in the leveraged finance market. The data reflects responses from approximately 60 leveraged finance professionals who participated in the survey this quarter.

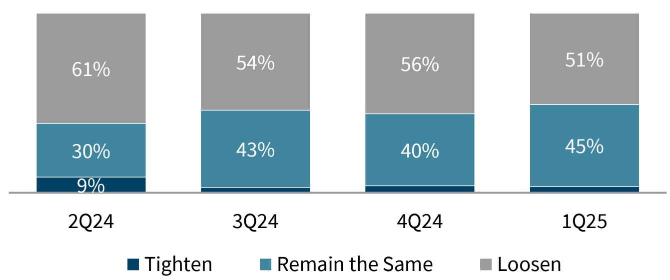
Borrower-Friendly Conditions Remain Present

Borrower-friendly pricing, leverage, and terms continue as 57% of respondents indicated pricing tightened and 51% of respondents indicated leverage and terms loosened this quarter.

Pricing



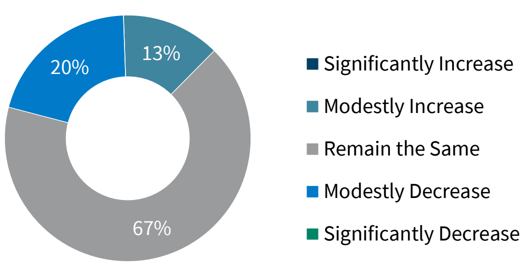
Leverage and Terms



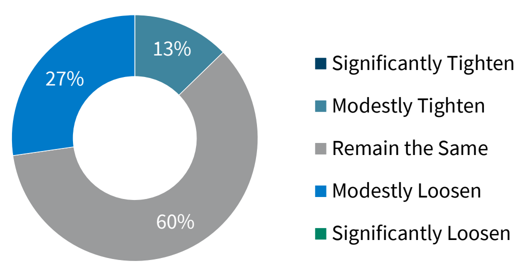
Lending Expectations for 2025

Similarly, survey respondents expect pricing, leverage, and terms to remain in favor of borrowers for the remainder of 2025. While a majority of respondents anticipate pricing and leverage and terms to remain the same, about a quarter expect more borrower-friendly terms in 2025, as investor appetite and the need to deploy capital intensify.

Pricing Expectations



Leverage and Terms Expectations

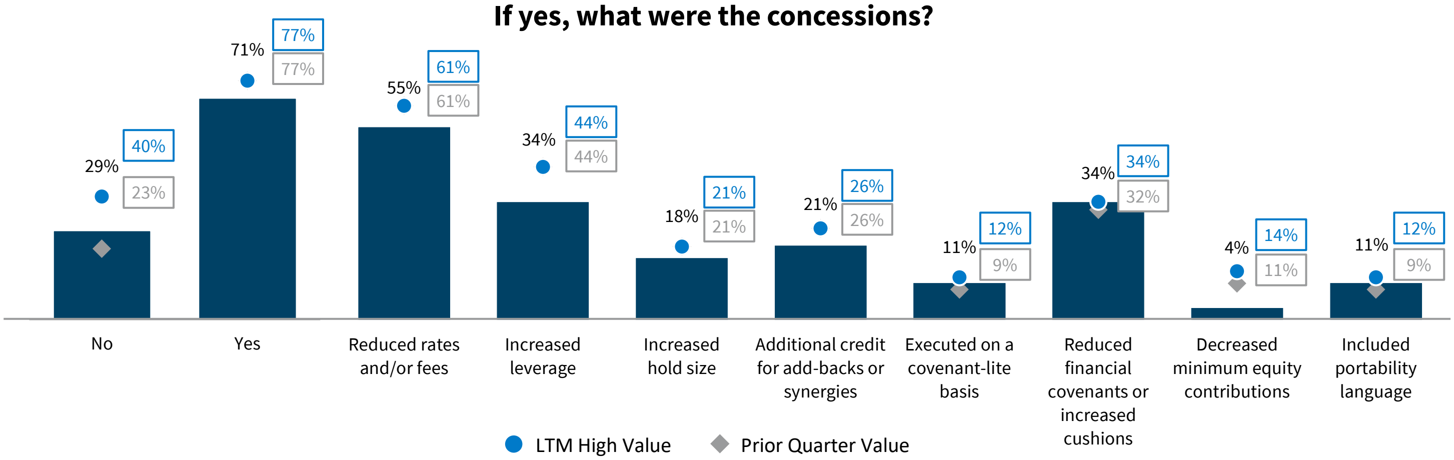


Note: Based on responses received from William Blair's Leveraged Finance Survey.

Lender Competition Persists

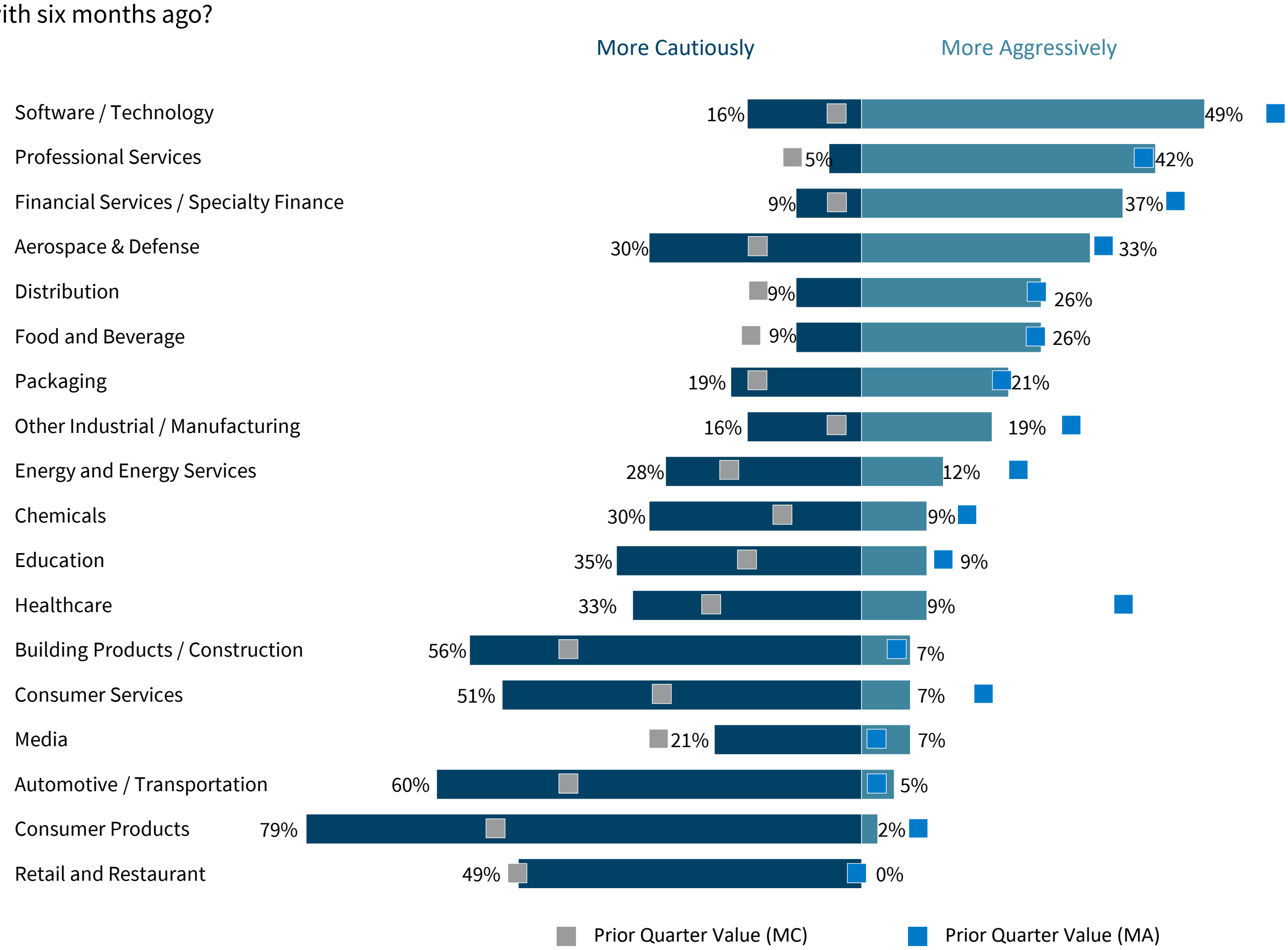
With M&A-related volume still relatively limited, sustained competition from the broadly syndicated market, and the persistent need to deploy capital, lenders remain aggressive, making borrower-friendly concessions to win new deals. Over 70% of respondents indicated they made such concessions during the quarter, which is just off LTM highs.

During 1Q25, did you make borrower-friendly concessions you historically would not have to win a deal? If yes, what were the concessions?

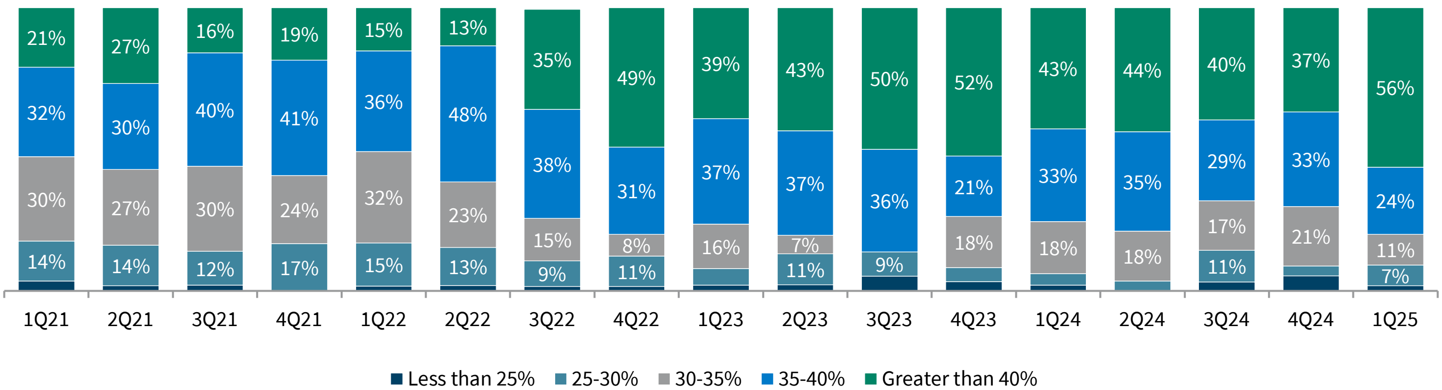


Additional Highlights

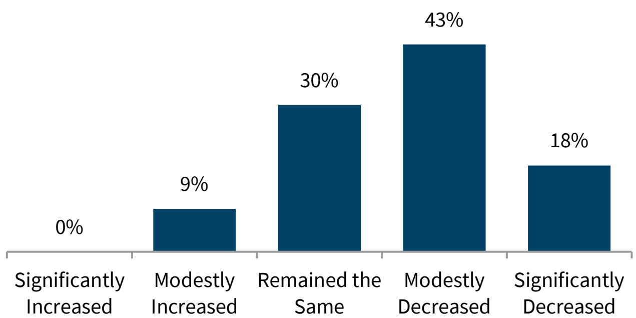
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with six months ago?



For transactions involving a private equity sponsor, what is the minimum equity contribution you require?

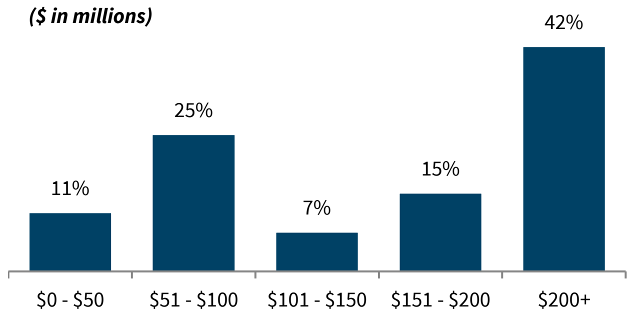


During Q1 2025, how did new-issue loan volume compare to that in the previous six months?

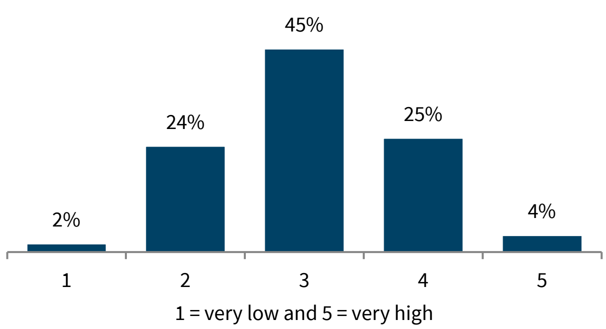


What is your firm's current maximum hold size for a single credit?

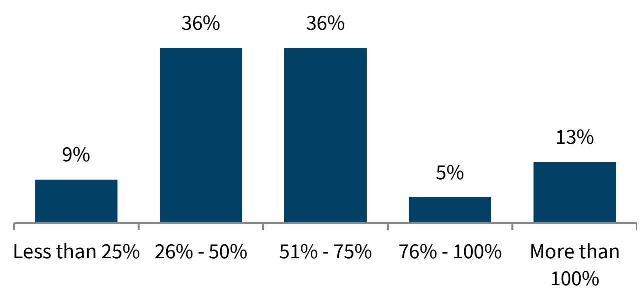
($ in millions)



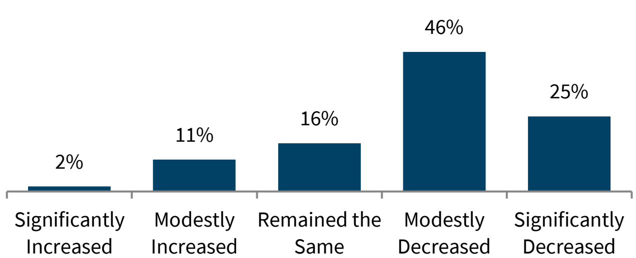
What is your appetite level for supporting a dividend recapitalization transaction over the next six months?



For a dividend recapitalization transaction, what is the maximum percentage of cash equity returned to investors you would be comfortable with?



During Q1 2025, how have your expectations for M&A activity for the remainder of 2025 changed?



Note: Based on responses received from William Blair's Leveraged Finance Survey.

Have the recent changes in tariff and other economic policies from the new administration changed the way your firm thinks about and underwrites new opportunities? If so, please explain how you are incorporating that potential risk in your underwriting and origination processes (decision-making, structure, terms, etc.)?

- Tariffs are now a key diligence point for deals during discussions, but the uncertainty has made it difficult to assess and price risk
- Reforecasting projections and including a downside scenario
- Increasing focus on supply chains and potential foreign exposure, leading to a more detailed sensitivity analysis
- 5%-10% downward adjustment to margins in existing base-case scenario
- Preference for U.S. businesses with North American supply chains, pushing up demand for these assets
  - Needing to be more aggressive on leverage and pricing to win these deals in an already borrower-favorable environment
- Underwriting with the assumption that tariffs remain, so downside impact is essentially absorbed
- Caution around businesses with exposure to government contracts or spending
- Seeing more opportunities in opportunistic credit as a result
- Building in structural cushions for modestly exposed opportunities, but avoiding materially exposed opportunities entirely
- Labor costs and raw materials continue to be the focus
- Leaning more into favorable opportunities given reduced deal flow volume resulting from tariffs

For the remainder 2025, what factors or trends do you expect will have the most significant impact on the leveraged loan market?

- Decisions by the Trump administration & DOGE
- Tariffs, interest rates, and inflation
- Strong lender appetite but limited new platform deal flow
- Performance of existing portfolios
- Upcoming debt maturity walls
- Narrowing of valuation gap and the need for sponsors to transact
- Expectation to see more private deals due to struggling syndicated market
- Growth outlook amid political uncertainty
- Consumer confidence, sentiment, and spend
- M&A activity and lack of results from dividend recaps
- Volatility from regulation
- Continued financial stress of interest expense and labor and input costs
- Labor and/or supply chain disruption
- PE fund exits
- Macroeconomic uncertainty, including recession concerns
- Extensive competition with lenders competing for few deals
- Appetite for refinancings
- Continued lack of deal flow against LP demands to return capital
- Artificial intelligence (AI)
- Foreign policy and geopolitical risks (Ukraine, Middle East, etc.)

Drawing on our deep product expertise and the strength of our relationships, William Blair has built a leading leveraged finance franchise. Sponsors and business owners turn to us for outstanding execution in support of their capital-raising objectives.

Recent Transactions

mapal os
a portfolio company of
PSG
has completed a dividend recapitalisation
2025

VARDIS
SWITZERLAND
Senior Secured Term Loan
2025

Not Disclosed
MEDVET
Leading Specialty Healthcare for Pets
Senior Secured Credit Facilities
Preferred Equity
2024

Starrett
Senior Secured Credit Facility
2024

Diverzify
Senior Secured Credit Facilities
2024

Sensor Tower
Senior Secured Credit Facility
2024

BISHOP LIFTING
Debt Placement
2023

PRIMUTEC SOLUTIONS GROUP
Senior Secured Credit Facility
2023

Certified Power Inc.
Unitranche Credit Facility
2023

William Blair Leveraged Finance by the Numbers

170+
completed leveraged finance transactions since 2016

$22B+
arranged financing since 2016

500+
lender and alternative credit provider relationships

William Blair's Leveraged Finance team structures and arranges debt capital in support of acquisitions, recapitalizations, and growth through its well-established relationships with debt capital providers globally.

- Conflict-free advisory focused on delivering the best solution available in the market
- Proprietary 360-degree view of leveraged finance market from William Blair's global M&A and debt advisory practices; relationships with more than 500 lenders and significant transaction experience with alternative credit providers
- Experts at orchestrating competitive auctions to achieve optimal financing outcomes in complex engagements, including those requiring insightful credit positioning and the arrangement of multiple layers of capital
- Seamless integration with William Blair's sector coverage teams
- Turnkey financing teams able to deliver unparalleled speed, execution, and certainty to close

With more than 265 senior bankers around the world, William Blair has completed more than 1,475 advisory and financing transactions totaling over $814 billion in value for our clients.*

Leveraged Finance Group Leadership

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* In the past five years as of March 31, 2025