William Blair

Q4 2025

Going for Gold: After a Respectable 2025, Does a Resurgence Await?

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INVESTMENT BANKING

Leveraged Finance Newsletter

Going for Gold: After a Respectable 2025, Does a Resurgence Await?

2025 marked a respectable year for new issuance volume in the face of uneven market conditions and quarters of divergent performance

The leveraged finance market was resilient in 2025 while facing significant volatility driven by fast-changing policy shifts and economic uncertainty. The optimism for a banner year following a record first quarter did not materialize, but volume across many key areas of the market was stable-to-up. Despite a quiet fourth quarter, expectations for 2026 remain high, particularly as it relates to an increase in M&A-driven activity. Market conditions continue to sit in highly borrower-friendly territory that should encourage new issuance. If market volatility can remain in check, 2026 looks well-positioned for a finish atop the podium.

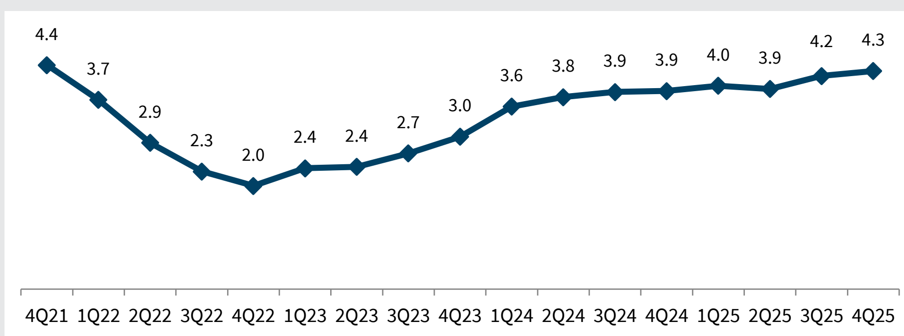
U.S. institutional loan volume totaled $439.1 billion in 2025, finishing 13% below the $501.7 billion of the year prior. Despite the year-over-year decline, 2025's volume exceeded the average of the last 10 years as well as full-year totals for 2022 and 2023. Including repricings and extensions, annual volume surpassed $1.0 trillion, the second-highest total on record but 25% off 2024's total of $1.4 trillion. Record opportunistic repricing and refinancing activity in 2024 driven by falling rates and limited supply represents a difficult comparison, despite a year of solid issuance in the face of increased volatility and uncertainty.

2025 featured several positive trends to finish the year, highlighted by continued growth in non-refinancing related activity. Institutional volume tied to M&A increased to $142.4 billion, almost 10% higher than 2024 and just shy of the levels seen in 2022. Much of this growth was driven by sponsor add-on and corporate issuance, both reaching post-2021 highs, while LBO activity remained muted. LBO-related volume of $59.4 billion was largely in line with the year prior but trailed 10-year average issuance by 27%. For 2026, further increases in volume tied to M&A, and LBOs in particular, will be a key factor for the leveraged finance markets. Outside of M&A, dividend recapitalization volume remained strong, finishing the year at $80.1 billion, just below the levels of 2024 and the record-setting 2021. Given the quieter M&A environment over the last few years, sponsors and lenders alike have looked to dividend-related transactions to return and deploy capital. In total, non-refinancing related issuance was $247.3 billion for the year and marked the highest level since 2021.

As with 2024, though, the leveraged loan market was characterized by a frenetic pace of opportunistic refinancing and repricing transactions

Borrower-Friendly Market Reaches New Highs

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 4.3, the highest level since 2021, as lender demand continues to outpace supply.



Source: William Blair Leveraged Finance Survey.

in 2025. The $191.8 billion of refinancing volume during the year was the second highest on record behind only 2024's total. The same trend applied to repricing activity, which saw $503.6 billion of volume, trailing only the $756.8 billion in the year prior. Overall, 76% of all activity during the year was related to refinancings, amendments or repricings.

Drilling into the fourth quarter, U.S institutional loan volume finished at $70.7 billion, representing the lowest level since the fourth quarter of 2023 and down over 50% from the prior quarter. The combination of seasonal factors, secondary market weakness, and a slightly narrowing supply-demand imbalance all contributed to the quarter's softness. Volume across multiple transaction types including M&A ($26.7 billion), total non-refinancing issuance ($48.6 billion), and refinancings ($22.2 billion) reached LTM lows during the quarter. Given the overall volatility of 2025, the year featured a roller coaster of strong first and third quarters and weaker second and fourth quarters. Despite the quieter finish to the year, market conditions remain highly favorable for new issuance.

William Blair's Leveraged Lending Index increased to 4.3 (scale of 1 to 5 with 5 being the most borrower-friendly), the highest reading since the final quarter of 2021. The volatility experienced over the course of 2025 put expectations of a surge of activity on hold, and the market continued to experience the supply-demand imbalance and fierce competition that have been present over the last several years, pushing the market into highly borrower-friendly territory. The fourth quarter marked the eighth straight in which a majority of lenders surveyed made borrower-friendly concessions they historically would not have to win a deal. Concessions related to reduced rates, pricing and/or fees have consistently been the most common form over the last two years. Spreads have tightened to near record lows across both the broadly syndicated loan and private credit markets. In the broadly syndicated market, spreads for B-minus-rated borrowers fell to 354 basis points during the quarter, the lowest level since the Global Financial Crisis. In a similar vein, the private credit market continued to price a significant proportion of deals at spreads of 500 basis points or below, with the highest quality deals clearing as low as the mid-400s.

Outlook for 2026

Last year marked a continuation of much of the positive momentum that began in 2024, as markets started to rebound after tough years in 2022 and 2023. Investors are optimistic about a return of M&A volumes this year as elongated hold periods and significant dry powder drive the need to transact. In a positive early sign, 68% of respondents to William Blair's lender survey saw increased volumes in the fourth quarter compared to the six months prior and 72% indicated that their expectations for 2026 M&A activity increased during the quarter. M&A activity is likely to be the driving force behind net new volume after multiple years of opportunistic-focused refinancings. On the pricing side, the expectation of increases in volume, and M&A in particular, are likely to stabilize spreads in 2026. Much of the tightening over the last year has been a product of subdued deal flow. Sixty-two percent of respondents to William Blair's lender survey expected pricing to remain the same in the coming year, with the remainder largely split between modest increases and decreases.

The expectations around increased volumes in 2026 are likely to be influenced by several key external factors outside of deal flow and sponsors' willingness to bring assets to market. The biggest elephant in the room is likely to be the amalgam of tariff policy, economic uncertainty, and geopolitical noise that was present throughout 2025. These risks have caused material volatility across the leveraged finance and M&A markets, which could reappear if further negative news returns. Another dynamic that will be worth watching this year is the cross-market refinancings between the broadly syndicated and private credit markets. Competition between these markets has intensified over the last several years, peaking in 2025 with over $30 billion being refinanced between each of the two markets. New changes around banking deregulation may serve to further increase this competition in 2026 and beyond, which would likely be to the benefits of borrowers. Finally, market participants are expected to keep a close eye on defaults and any increase in challenged credits, particularly in the private credit markets, following a year that included several high-profile bankruptcies.

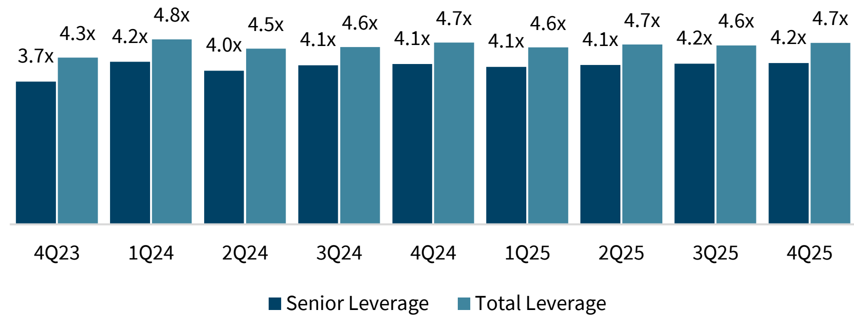
To learn more about these and other trends shaping the leveraged finance market, please don't hesitate to contact us.

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 ticked up slightly in Q4, reaching LTM highs, but remains largely in line with prior quarters.

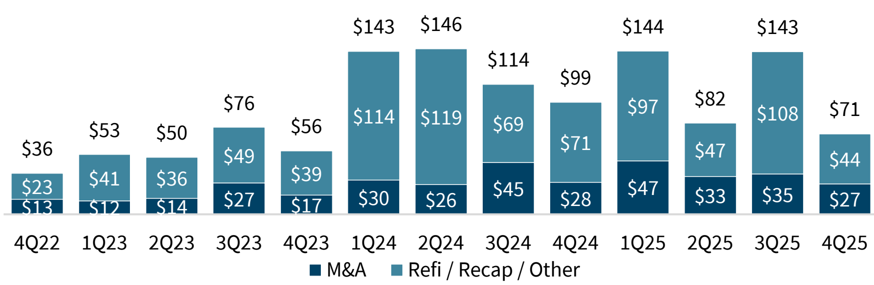


Source: PitchBook LCD. Represents the rolling 90-day average leverage multiples from all loan activity.

Institutional Loan Volume

Total institutional loan volume decreased to $71 billion in Q4, mirroring Q2 and 2023 levels. Opportunistic activity drove much of the decline, reversing the trend of the prior quarter.

($ in billions)

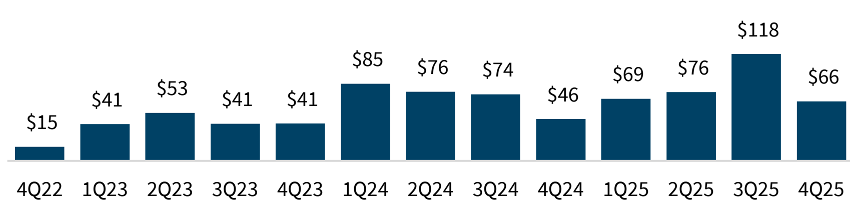


Source: PitchBook LCD.

High-Yield Bond Volume

High-yield bond volume decreased from the quarter prior to $66 billion in Q4, rounding out a third consctive annual increase in total volumue.

($ in billions)



Source: PitchBook LCD.

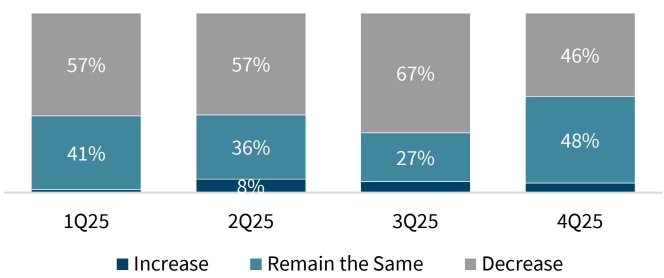
Highlights From William Blair's Q4 2025 Leveraged Finance Survey

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.

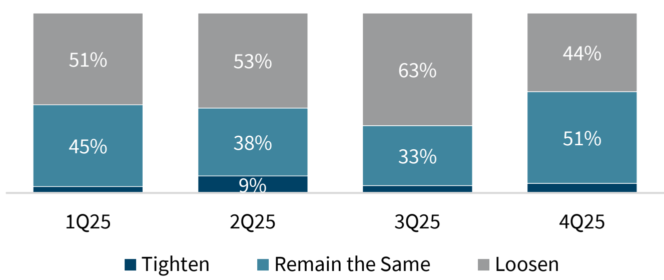
Sustained Borrower-Friendly Conditions

Borrower-friendly pricing, leverage, and terms continue as 94% of respondents indicated that pricing decreased or remained the same and 95% of respondents indicated that leverage and terms loosened or remained the same this quarter.

Pricing



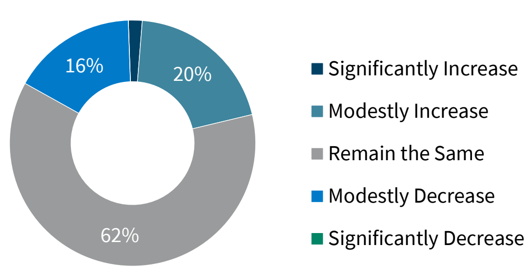
Leverage and Terms



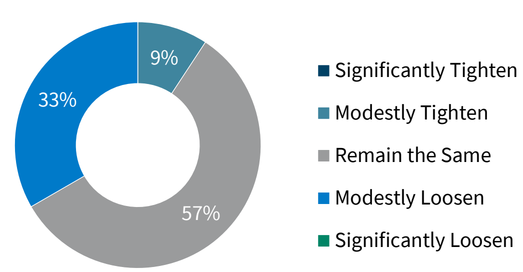
Lending Expectations

Looking ahead to 2026, survey respondents expect pricing, leverage, and terms to remain the same, continuing the sustained conditions in favor of borrowers that has persisted for the past several quarters as dry powder and a need to deploy capital remain high.

Pricing Expectations



Leverage and Terms Expectations

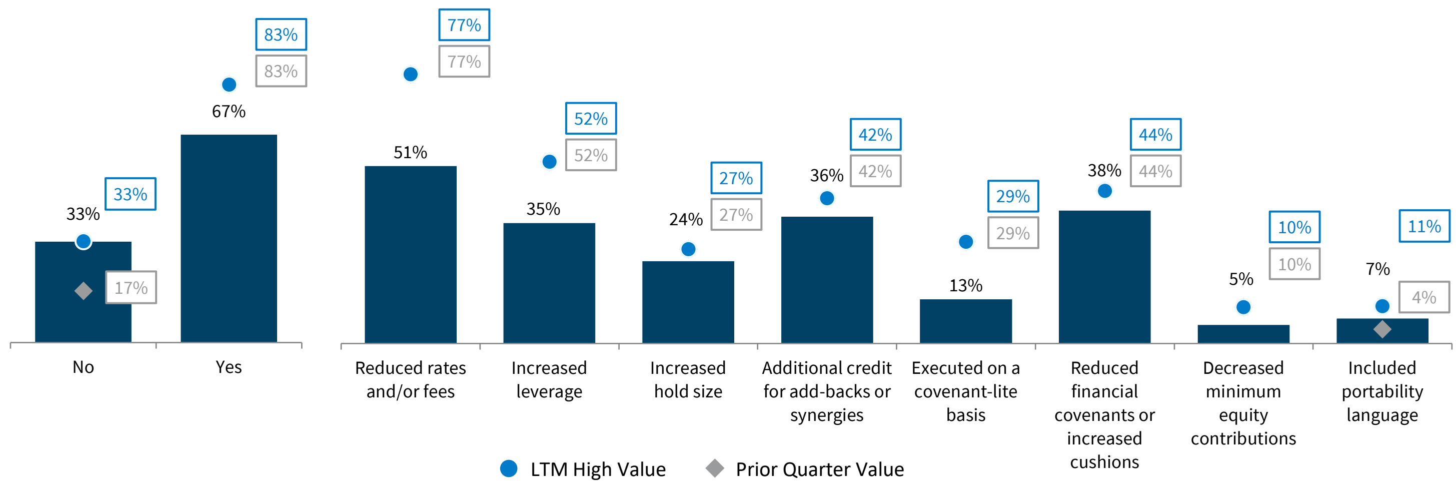


Note: Based on responses received from William Blair's Leveraged Finance Survey.

Lender Competition Continues

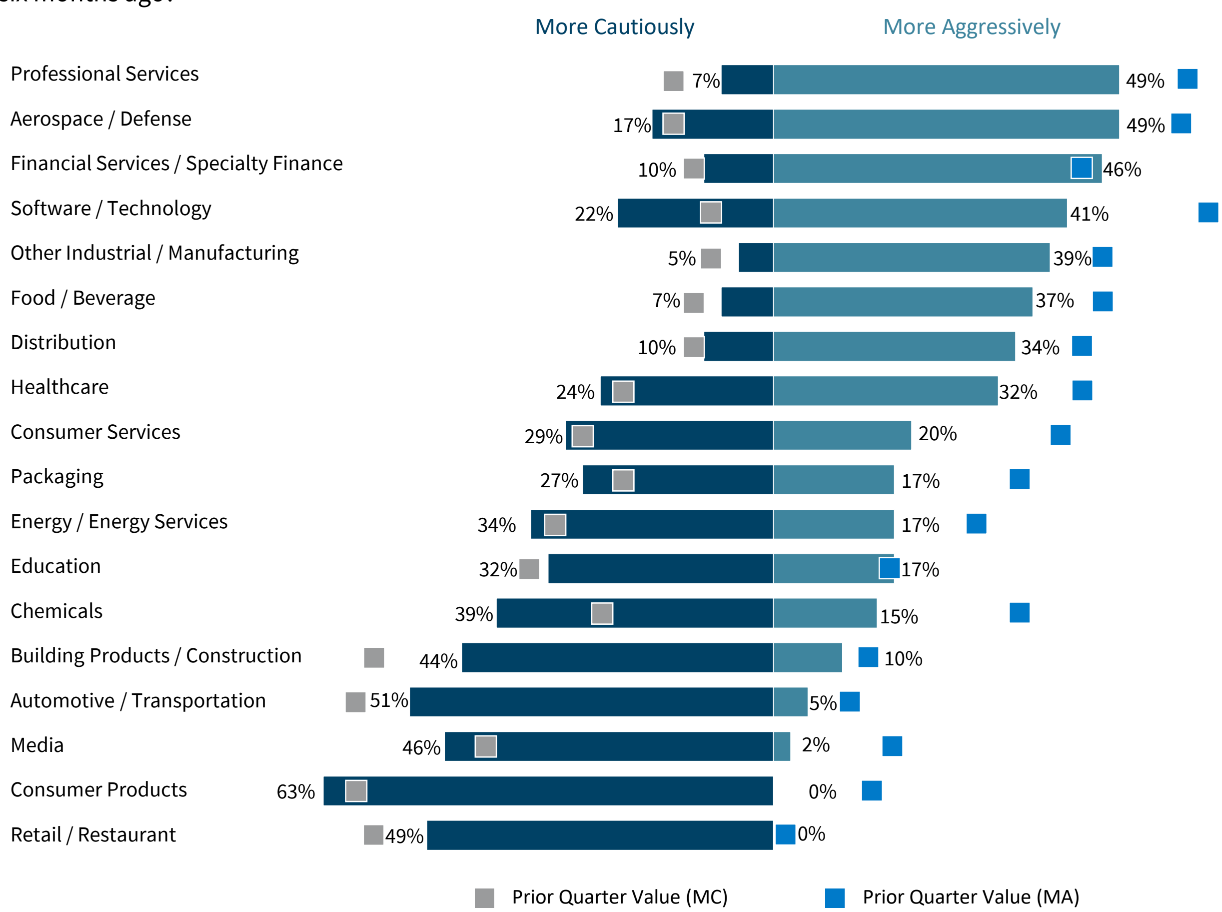
67% of respondents indicated that they made borrower-friendly concessions to win a deal this quarter. Though slightly down from last quarter, the figure indicates that lack of M&A volume, ample dry powder, and persistent need to deploy capital continue to push lenders to bend to the market to win deals.

During Q4 2025, did you make borrower-friendly concessions you historically would not have to win a deal? If yes, what were the concessions?

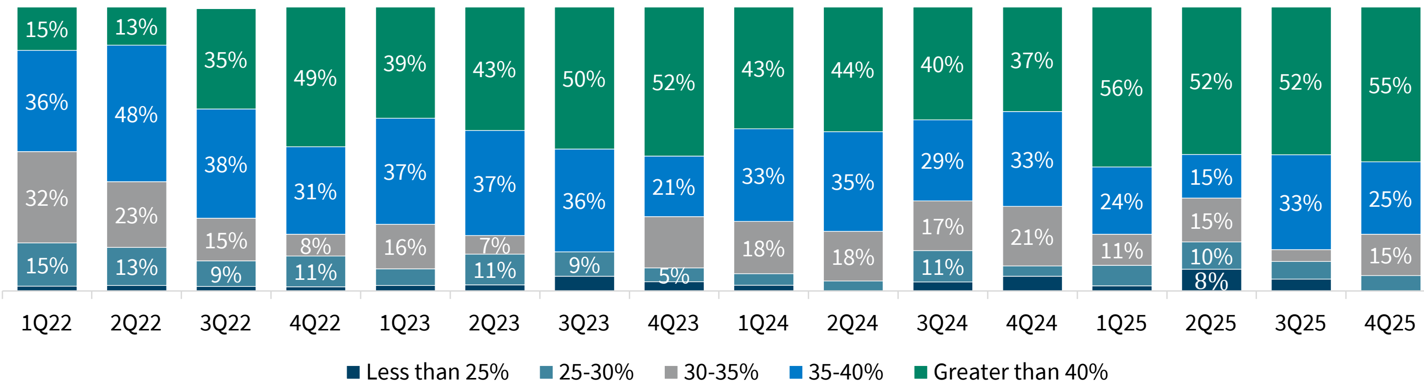


Additional Highlights

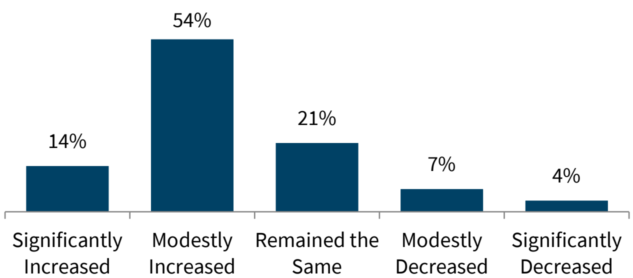
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with six months ago?



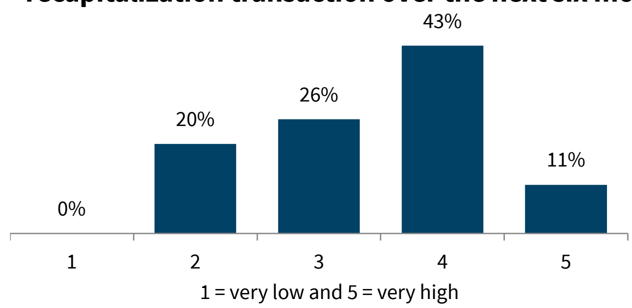
For transactions involving a private equity sponsor, what is the minimum equity contribution you require?



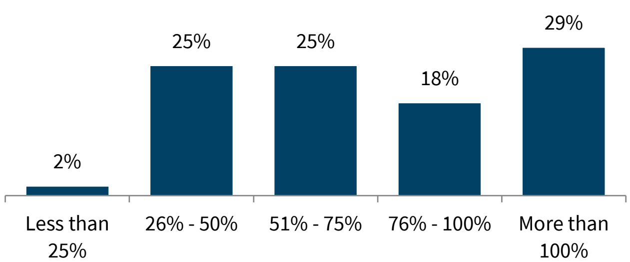
During Q4 2025, how did new-issue loan volume compare to that in the previous six months?



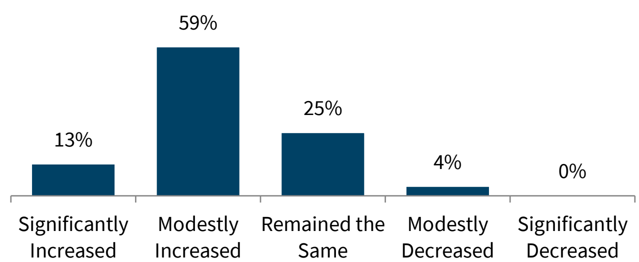
What is your appetite level for supporting a dividend recapitalization transaction over the next six months?



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



During Q4 2025, how have your expectations for M&A activity for 2026 changed?

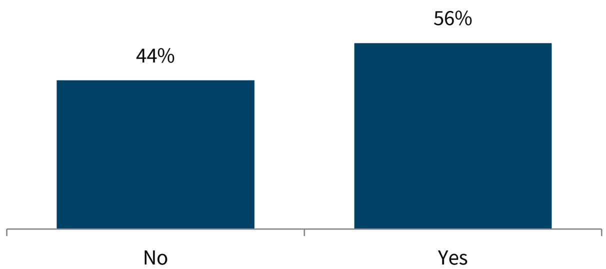


How have this year's changes to tariff and other economic policies affected your underwriting and origination policy and how are you incorporating potential risk going into the new year?

- Tariff risk has become a standard part of the underwriting process and IC discussions
- Greater focus on supply chain diversity and resilience, especially for businesses relying on significant international sourcing
- More conservative underwriting with a focus on downside cases and added sensitivities
- Minimal change to fundamental underwriting process, remain focused on defensive and less GDP-sensitive sectors with strong cash flows
- Pricing in the expectation that higher inflation persists and borrowers' costs remain pressured
- More selective sector appetite with a shift away from consumer products, commodity exposed businesses, and industrials with significant tariff exposure
- Require evidence from sponsors on mitigation strategy and quantification
- Deals with material tariff risk have often been paused or declined
- More focus on ability to pass through cost increases and maintain margins

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

Is your institution ever willing to include portability mechanics in a new debt transaction If yes, what are the primary considerations or criteria when including portability?



- High credit quality and strength of the business
- Conditions of portability including leverage level, minimum equity, and buyer characteristics
- Existing relationship with the borrower and strong conviction to maintain in portfolio
- Top-tier sponsor / buyers, typically from an approved list or with minimum AUM requirements
- Rationale around hold periods and protections such that it is only used in appropriate circumstances
- Company size and industry trends / outlook
- Restricted to the best credits and tier A sponsors
- Terms of portability such as approval of next owner
- Economics of the existing deal vs. market and fees associated with portability
- Plan for the asset and tenor of portability

Looking ahead to 2026, how do you expect bank deregulation to impact the leveraged finance landscape, and private credit in particular, in the coming year?

- Banks to re-enter riskier lending gradually and ultimately become more competitive, especially in upper middle market and BSL transactions
- Potential benefits from increased deal flow, especially if rates decline and banks re-engage more broadly
- Limited impact on the middle market, with little to no change in competition or structures
- Private credit is expected to remain resilient, with potential upside from increased M&A and transaction volume
- Competition is likely to intensify overall, leading to tighter spreads and fee compression
- Banks may gain market share in larger transactions, while private credit may face pressure on pricing and leverage for high-quality deals
- Regulation and scrutiny on private credit are likely to increase
- Any shift more likely to come in 2027 and beyond rather than 2026, as banks adjust slowly

Looking ahead to 2026, what factors or trends do you expect will have the most significant impact on the leveraged loan market?

- Volume, volume, volume
- Increased appetite for transactions in other areas of private credit, including asset-based financing / lender and IG
- Increase in private equity sales and a return of sponsor-to-sponsor transactions
- Refinancing activity from 2020 and 2021 vintages
- Tailwinds from tax and regulatory reforms
- Continued strength in M&A
- Improved economic stability
- Sustained appetite to deploy due to capital inflows
- Certainty around the economy and tariffs
- Willingness of sponsors to trade seasoned assets at less than perfect outcome
- Balancing the effect on volume from lower rates and recession / tariff fears
- Need for higher quality deal flow
- Federal uncertainty and mid-term election results
- Lack of opportunities will increase competition, terms will loosen
- Bank deregulation
- Competition between new entrants and players with longer track records
- Defaults and any wave of challenged credits coming to fruition
- Lower interest rates
- Consistency in federal government economic policy
- Geopolitical risks and the effects on the economy
- Increase M&A volume
- Private credit dry power
- Artificial intelligence
- Higher level of M&A driving players back to their traditional arenas as opposed to stretching into non-traditional vectors
- Global macroeconomic trends and equity market disruptions

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.

Select Transactions

DUNLOP AIRCRAFT TYRES a portfolio company of LIBERTY HALL Capital Partners has completed a refinancing 2025	Heathos a portfolio company of SHERIDAN CAPITAL PARTNERS Unitranche Credit Facility 2025	HARROW Your patients. Our purpose. Senior Unsecured Notes 2025
BioTouch™ a portfolio company of Atlantic Street Capital Unitranche Credit Facility 2025	VARDIS SWITZERLAND Senior Secured Term Loan (Add-on) 2025	unisys Senior Secured Notes Financial Advisor 2025
mapal os a portfolio company of PSG has completed a dividend recapitalisation 2025	VARDIS SWITZERLAND Senior Secured Term Loan 2025	MEDVET Leading Specialty Healthcare for Pets Senior Secured Credit Facilities Preferred Equity 2024

William Blair Leveraged Finance by the Numbers

175+
completed leveraged finance transactions since 2016

$24B+
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
- Turn-key financing teams able to deliver unparalleled speed, execution, and certainty to close

With more than 260 senior bankers around the world, William Blair has completed more than 1,500 advisory and financing transactions totaling over $850 billion in value for our clients.*

Leveraged Finance Group Leadership

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* In the past five years as of December 31, 2025.