



2025 Leveraged Loan Market Survey Executive Summary

Lenders Maintain Optimism After a Banner Year for Leveraged Credit

Leveraged credit markets in the U.S. were poised for recovery entering 2024, buoyed by expectations that the Fed's quantitative tightening policy would soon conclude following months of easing inflation. Yet, few anticipated the extraordinary rallies that would sweep across financial markets last year, including leveraged credit, marking a second consecutive year of robust performance for issuance activity and pricing.

Despite the Fed's late start to cut rates, which only began in September, and its gradual but ongoing reduction of its securities holdings, financial markets showed remarkable resilience. Strong economic growth and healthy corporate earnings fueled optimism throughout the year. Paradoxically, by late 2024, the U.S. leveraged loan default rate climbed to a decade-high of 5.6%, driven largely by distressed exchanges. That rate surpassed the previous peak of 4.5% seen during the COVID-19 crisis in 2020.¹ However, the rise in defaults generated little concern among lenders, who remained ebullient.

Borrowing demand surged, particularly for ongoing refinancing and repricing activity as participants capitalized on strong market conditions. Traditional lenders, feeling the hot breath of aggressive private credit lenders on their necks, had little choice but to meet this demand, leading to near-unanimity in market forces. Consequently, 2024 emerged as a record-breaking year for U.S. leveraged loan issuance. However, only 20% of institutional tranches represented "new money" loans,² underscoring the dominance of refinancing activity over fresh capital deployment.

Leveraged credit market trading levels may be outpacing fundamentals, with credit spreads for large syndicated leveraged loans approaching their tightest levels since before the 2008 global financial crisis. Recently, the all-in borrowing cost for many single-B-rated loans touched 8.0%. Meanwhile, 10-year Treasury note yields are 70 bps higher year-over-year, reflecting concerns about lingering inflation and expanding budget deficits with the administration change. President Trump's re-election may have led to a surge in business optimism generally, yet uncertainty lingers around upcoming economic policy initiatives and the impact of unconventional measures.

While there will be inevitable industry winners and losers under "Trump 2.0," financial markets across the board have embraced the enthusiasm for now. This sets the stage for 2025, as participants responded to our seventh annual Leveraged Loan Market Survey. Many respondents remain sanguine about the year ahead but in a more subdued fashion than financial markets suggest.

Surveyed lenders expressed confidence that positive leveraged lending momentum from 2024 will carry into 2025. Their outlook reflects expectations of a continued stable lending environment supported by easing interest rates, slowing inflation and an improved climate for large corporate borrowers, all likely acting as tailwinds for the year ahead.

Some noteworthy responses include:

- **Leveraged Loan Market Conditions Will Remain Favorable:** Even with the huge rally in leveraged loan markets in 2024, more respondents expect market conditions to further *ease/loosen* (27%) than to *pull back/tighten* (21%), but a majority of respondents (52%) say credit availability and spreads will mostly *remain the same* this year.
- **No Recession in the Near Term:** Only 15% of respondents said the chances of a U.S. recession in the next 12 months were *material* (13%) or *likely* (2%) compared to 42% who had those expectations last year. Conversely, more than 80% of respondents said the likelihood of a recession this year was *minor* (59%) or *negligible* (22%).
- **But We're Not Out of the Woods:** Only 10% of respondents said a soft-landing scenario for the U.S. economy was “*Mission Accomplished*,” while a majority (53%) said that label was a *premature declaration of victory*, and another 20% were concerned about an upturn of inflation or a recession after 2025 (17%).
- **Most Expect Respectable GDP Growth:** About 60% of respondents expect real domestic economic growth of 2%-4% in 2025, consistent with actual real GDP growth in 2023-2024, while only 12% expect negligible growth (6%) or contraction (6%) in the year ahead.
- **Impact of Inflation/High Interest Rates Has Moderated:** A majority of respondents said that idiosyncratic factors (43%) or industry-specific events (22%) were reasons behind most loans in workout in 2024, a notable uptick from last year's response. Conversely, just 9% said high inflation/interest rates were primarily responsible for loans in workout compared to 31% in last year's survey.
- **Modest Concerns About Geopolitical Events:** Despite growing political tensions in many Western nations and an uptick in global hotspots, only about one-third of respondents felt that political and geopolitical events would have *much more impact* (5%) or *somewhat more impact* (30%) on financial markets. Most believed that financial markets would be *slightly more impacted* (27%) or *minimally impacted* (38%) by such events.
- **Federal Reserve and Other Central Banks Get Mostly Good Grades:** A majority of respondents gave solid grades to the Federal Reserve (or relevant central bank) for policy actions taken since 2022, with 49% giving a B grade and 13% giving an A grade.
- **Loan Underwriting Standards Not Expected to Tighten:** Few respondents expect leveraged loan underwriting standards to be more restrictive in the year ahead, with just 15% expecting *tighter* lending standards compared to 37% last year. Most respondents expect lending standards to *remain the same* (61%) this year while 24% see lending standards *loosening further*.
- **Competition with Private Credit Heats Up:** A majority (55%) of traditional lender respondents said they compete with private credit for deals *at least some of the time* while another 31% said they compete with private credit *most of the time* (19%) or *almost all the time* (12%).
- **Most Respondents Don't See Material Improvement in Lender Protections:** Nearly one-half of respondents said lender protections in loan documents of recent deals offered *no stronger* (24%) or *fewer* (23%) lender protections than loans that have already undergone LMEs, while a slight majority said lender protection in recent deals were *modestly stronger* (47%) or *much stronger* (5%). This response pattern implies that Liability Management Transactions will continue for the foreseeable future.
- **Loan Default Activity Will Remain Elevated:** Surprisingly, a majority of respondents said new default/workout activity in the year ahead will *increase slightly* (45%) or *increase substantially* (5%) compared to 2024, while just 13% expect *lower* default activity compared to last year.
- **Distress by Industry Sector:** Retail & Consumer Products is the industry sector mostly likely to experience distress in 2025, followed by Real Estate/REITs and Healthcare, a slight reshuffling of the Top 3 spots compared to 2024. However, respondents expressed less concern about defaults in each of these sectors than they did last year, especially for Real Estate/REITs, while Restaurants/Dining moved up the leaderboard into fourth place.

Survey Methodology:

FTI Consulting surveyed large bank and non-bank lenders between November 18, 2024 and December 16, 2024, including commercial banks, investment banks, private credit platforms, CLOs and BDCs. Respondents included chief credit officers, workout group leaders, managing directors, senior vice presidents, executive directors, directors, and vice presidents. The survey received approximately 260 responses, and about 80% of respondents were based in North America.

Endnotes

¹ “Distressed Market Review,” LSEG LPC (December 2024).

² “Leveraged Loan Monthly,” LSEG LPC (December 2024).

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