# LEVERAGED FINANCE

***MARKET REVIEW*** **4Q 24**

Carleton McKenna & Co

# LEVERAGED FINANCE MARKET REVIEW

## Market Overview(1,2)

Third quarter leveraged lending activity declined to $33.9 billion, down 38% quarter-over-quarter, but nearly double to level reported in 3Q 2023. While overall lending contracted, there was a resurgence in M&A activity. Overall lending activity for the first nine months of 2024 has surpassed $200 billion, up 256% compared to the same period in 2023.

Institutional refinancing activity dropped 69% to $30 billion in 3Q 2024, while new money issuance increased, accounting for approximately 70% of total activity in the first half of September. This is a 13% increase compared to 2Q 2024.

## Pricing & Market Conditions(3)

Average margins on first lien institutional loans decreased to 3.37% in the US and 4.16% in Europe during 2Q 2024. Both reported the lowest quarterly averages in over two years.

Conversely, US average gross leverage multiples rose to 4.7x in H1 2024 compared to 4.5x in H1 2023. European borrowers saw a similar increase in average gross and net leverage multiples by 5.0x and 4.6x during H1 2024, up from 4.3x and 3.9x in H1 2023.

An astonishing 61% of outstanding loans have been repaid, repriced or extended in 2024. Further, borrowers thinned spreads on $511 billion of institutional loans by an average of 53 basis points.

**Figure 1: Institutional Loan Volume ($B, USD) (4)**

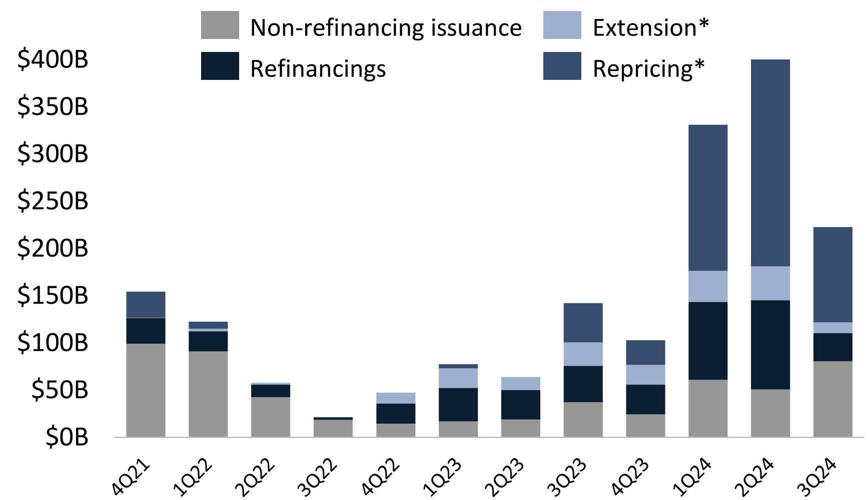
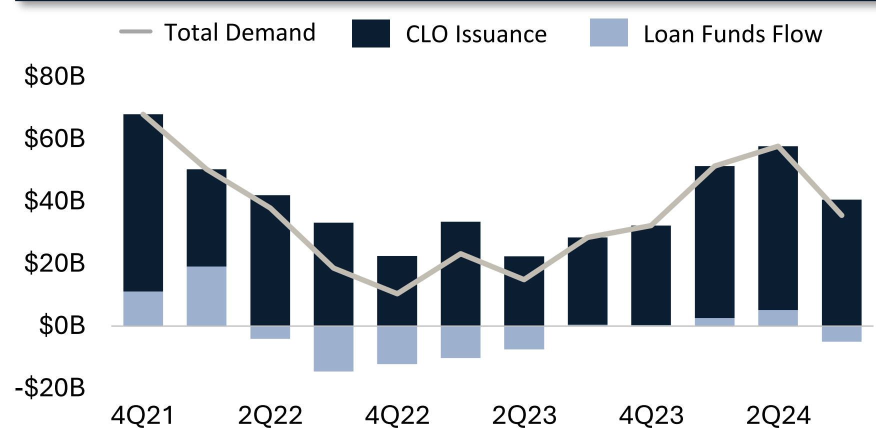



**Figure 2: Measurable Investor Demand ($B, USD) (4)**




(1) Debt Explorer
(2) McDermott Will & Emery
(3) LSTA
4. Pitchbook

# Leveraged Finance Market Review

## Default Outlook[5]

The US leveraged loan default rate is expected to remain relatively low, projected to be near 1.50% through June 2025. This represents a slight decrease from 1.55% observed in June 2024.

In a pessimistic scenario, the default rate could rise to 3.25% if economic growth is lower than expected. In an optimistic scenario, the default rate could fall to 1% if economic growth remains steady and interest rate cuts are faster than anticipated.

## Market Dynamics[5,6]

Speculative-grade issuers showed signs of credit stabilization in early 2024, thanks to margin improvement initiatives, moderating inflation, and spread tightening from refinancing activities.

The rating mix for loan-only issuers remains heavily concentrated in the "B" category, making up nearly two thirds of this group.

More specifically, speculative-grade maturities due from the second half of 2024 through year-end 2025 decreased by 35% in the first half of 2024 as borrowers extended maturities and took advantage of lower total pricing.

Strong refinancing activity through 2024 has reduced near-term maturities, potentially easing pressure on issuers in 2025.

**Figure 3: Count of LBOs* Financed in BSL & Private Credit Markets [4]**

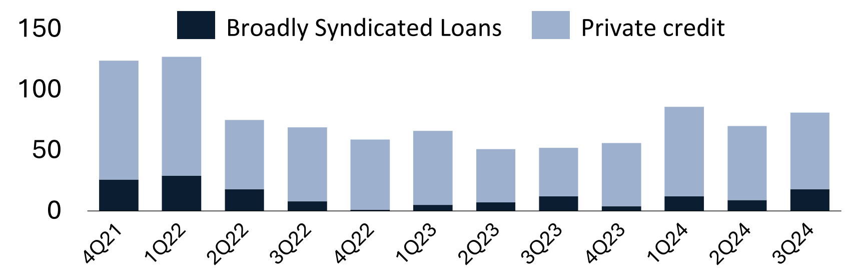



**Figure 4: Broadly Syndicated Loans & Direct Lending Takeouts ($B, USD) [4]**

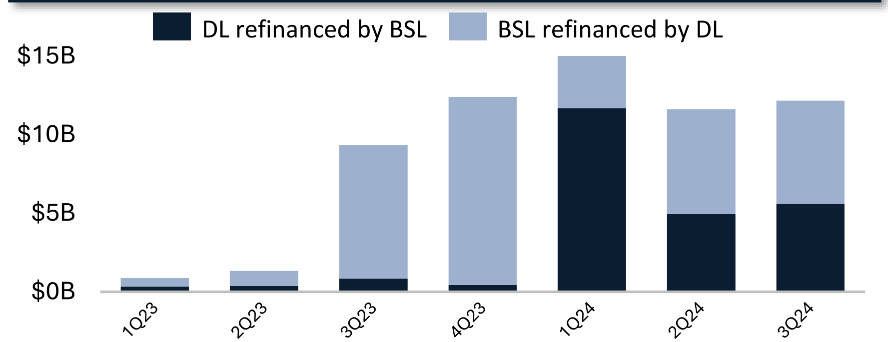
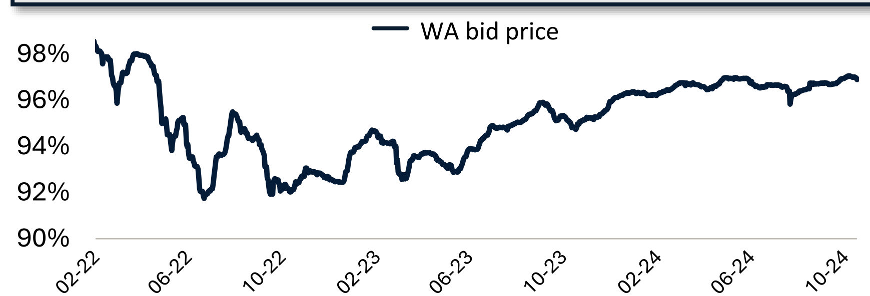



**Figure 5: Weighted Average Bid for Domestic Leveraged Loans [4]**




4. Pitchbook
5. SP Global
6. SP Global

# LEVERAGED FINANCE MARKET REVIEW—2025 MARKET OUTLOOK

## Interest Rate Environment & Economic Growth[7,8]

The Federal Reserve is expected to continue a measured and modest easing cycle in 2025, benefiting leveraged loan borrowers due to their floating interest rates. However, as the Secured Overnight Financing Rate ("SOFR") declines, loan coupons will reset lower, providing immediate cost savings to issuers. The full impact of these cuts may not be felt immediately though, as most borrowers will need to wait for resets.

Sustained economic growth should bolster issuer performance as creditworthiness of leveraged loan issuers improves. Of course, a slowdown would elevate associated default risks.

## Investor Appetite[6,7,9]

Leveraged loans have continued to attract investors looking for high yields, especially in a low-interest-rate environment. Demand remains robust, driven by the limited loan supply and need to deploy capital. Should economic conditions remain steady with little fluctuation in interest rates then this yield seeking will likely persist, leading to new dynamics within the loan market.

During 2024, private credit outpaced traditional banks in providing financing. Given the relatively positive outlook for 2025 generally and for an active M&A market, continued activity from private institutions affecting deal structures and terms is expected. More specifically, private credit should continue its expansion into investment-grade loans and asset-based lending as a result.

**Figure 6: Domestic Refinancing Institutional Loan Issuance Volume ($B, USD) [4]**

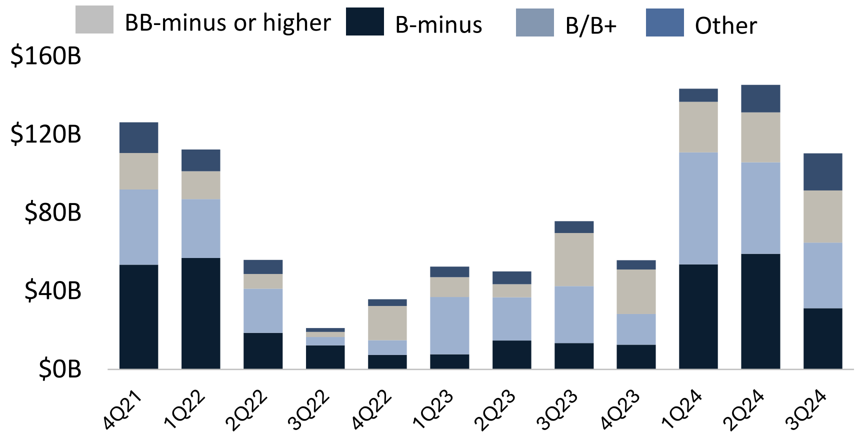
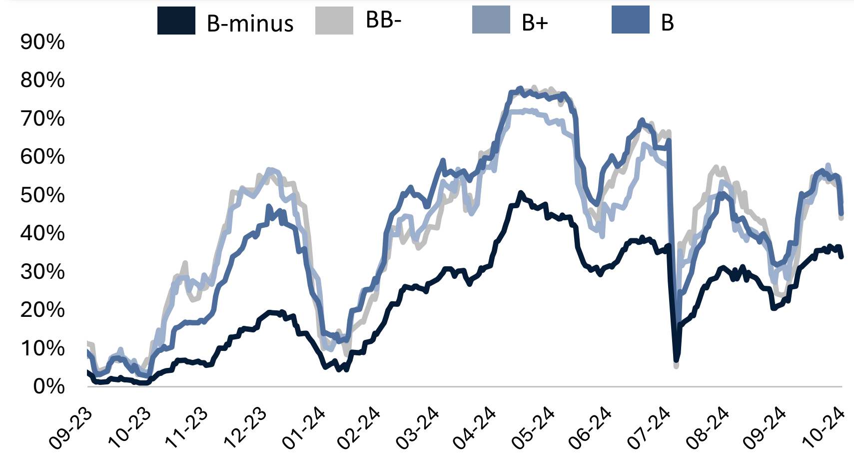



**Figure 7: Loans Priced at Par and Above by Issuer Rating[4]**






4. Pitchbook
6. SP Global
7. Guggenheim Investments
8. Debtwire
9. Financial News London

# Carleton McKenna Overview

Carleton McKenna & Co is an independent investment banking firm providing M&A and Capital Raising advisory services. We work with middle-market closely-held family businesses, multi-generational family businesses, portfolio companies of private equity firms and divisions or subsidiaries of public companies focusing in B2B Services, Manufacturing & Industrials, Consumer, and Healthcare.

Our Team is made up of finance and accounting experts, entrepreneurs and operators, C-Suite and Board professionals, lawyers, consultants and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.

We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate to maximize life changing transactions.

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*Research, Analysis & Publishing*

***Brandon Novak***
*Analyst*

***Emily Kuznik***
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