

Capitalizing on Uncertainty

This report is excerpted from the *Second Quarter 2025 Fixed-Income Sector Views*.

Diverse private debt sourcing networks offer compelling opportunities in the current environment.

So far in 2025, tariffs, trade tensions, government spending cuts, and policy uncertainty under the new administration have unsettled markets, resulting in lower-than-expected deal volumes. Predictions of increased M&A activity and strong deal markets at the year's start did not materialize in the first quarter. Most proceeds from direct lending activity year-to-date have been used for add-ons and refinancing activity.

Sector Commentary

- Amid subdued deal volumes, companies are capitalizing on lower financing costs by refinancing direct lending deals, with syndicated loans reaching \$7.3 billion in the first quarter.
- Direct lending spreads showed signs of stabilizing in the first quarter—with some widening in certain market segments—after a gradual tightening throughout last year.
- In the first nine months of 2024, spreads narrowed at least 50 basis points in more than 600 senior secured and unitranche term loans. During the same period, more than 50 companies repriced unitranche debt by an average of 96 basis points to SOFR + 514; roughly 40 percent of these companies reduced pricing by at least 100 basis points.

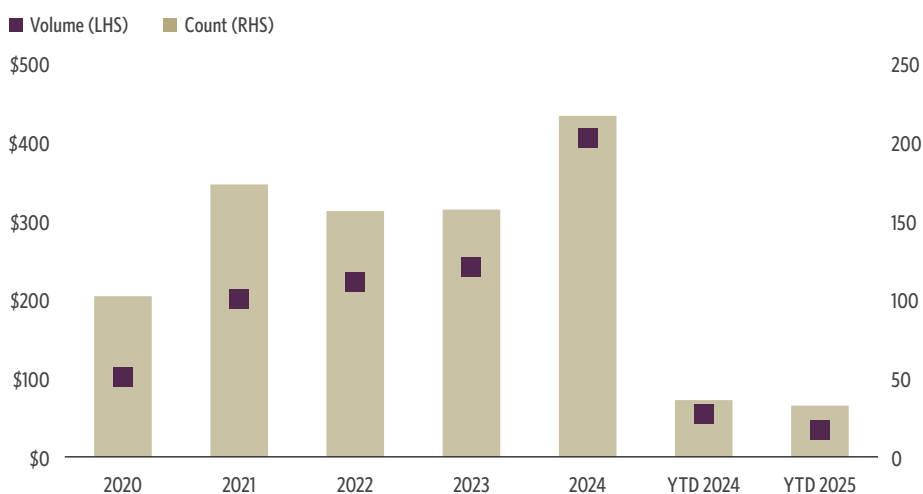
Investment Themes

- The current market environment benefits managers who can source deals from diverse networks beyond traditional, volume-driven channels.
- We are finding strong relative value opportunities in non-sponsored transactions, which are typically less crowded and often offer a spread premium, stronger documentation, and a more attractive risk-adjusted return profile compared to sponsored transactions.
- With limited supply of deals from the sponsored channel year-to-date, capabilities in the non-sponsored space reduce dependence on market volumes and enable select managers to source deals at a premium to the market and price transactions with attractive absolute risk-adjusted returns.

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Private Debt Sponsor-Backed Deal Volumes Trail 2024 Pace



Source: Guggenheim Investments, Pitchbook. Data as of 2.28.2025.

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One **basis point** is equal to 0.01%.

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