

Diverse Sourcing Capabilities Are Vital Amid Volatility

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

More than half of year-to-date direct lending deals were concentrated in just three industries.

U.S. policies, notably the "Liberation Day" tariff announcement on April 2, slowed the anticipated M&A recovery in early 2025. Direct lending loan volume and deal count are lagging last year's figures, attributed to fewer large buyouts financed by direct lenders amid prevailing uncertainty. In the first quarter of 2025, companies refinanced direct lending deals with syndicated loans totaling \$8.8 billion according to Pitchbook data as of June 30, marking the second-highest quarterly volume in four years, following \$11.7 billion in the first quarter of 2024.

Sector Commentary

- Direct lending volumes in the first quarter of 2025 were primarily focused on leveraged buyouts (LBOs), accounting for 32 percent of volume, with refinancing activity accounting for 27 percent.
- Dividend payouts constituted 6 percent of origination volume in the first quarter of 2025, down from 10 percent and 8 percent in the fourth and third quarter of 2024, respectively, but higher than 4 percent in the first quarter of 2024, according to Wells Fargo data. Dividend activity is expected to remain a meaningful use of proceeds as sponsors face pressure to return capital in a volatile M&A environment.
- We remain optimistic about deal volumes and are continuing to find higher quality transactions with attractive risk-adjusted returns in the current environment.

Investment Themes

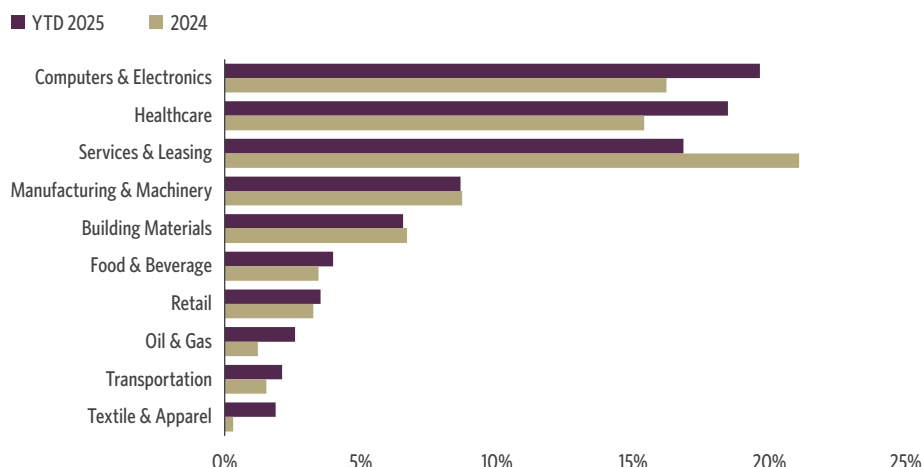
- Healthcare, technology (including computers and electronics), and business services dominated direct lending, representing over 50 percent of deals so far in 2025.
- Technology borrowers led in the first half of 2025, capturing a 19 percent share by deal count, up from 16 percent in 2024.
- We caution against private debt portfolios with high levels of industry concentration.
- In our view, the current environment favors managers who can source transactions from a diverse range of networks and sectors, outside of traditional volume-driven channels and industries.

By Joe McCurdy, Joe Bowen, Mark Pridmore, and Zac Huwald

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Healthcare, Technology, and Business Services Dominated 1H25 Direct Lending Volumes

New-Issue Direct Lending Top 10 Sectors, Share by Deal Count



Source: Guggenheim Investments, Pitchbook LCD. Data as of 6.30.2025. Direct lending analysis is based on transactions covered by LCD News.

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

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