Credit Markets Report

Q4 2025

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Dinan is a premier global investment bank, with proficiency in mergers and acquisitions, capital markets, financial markets, financial restructuring, and financial and valuation advisory.

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Dinan & Company was founded with the singular purpose of providing the highest standards of professionalism, sophistication, and execution expertise in merger and acquisition and capital raising transactions for middle market companies comparable to that afforded to the Fortune 500 at full-service Wall Street investment banks.

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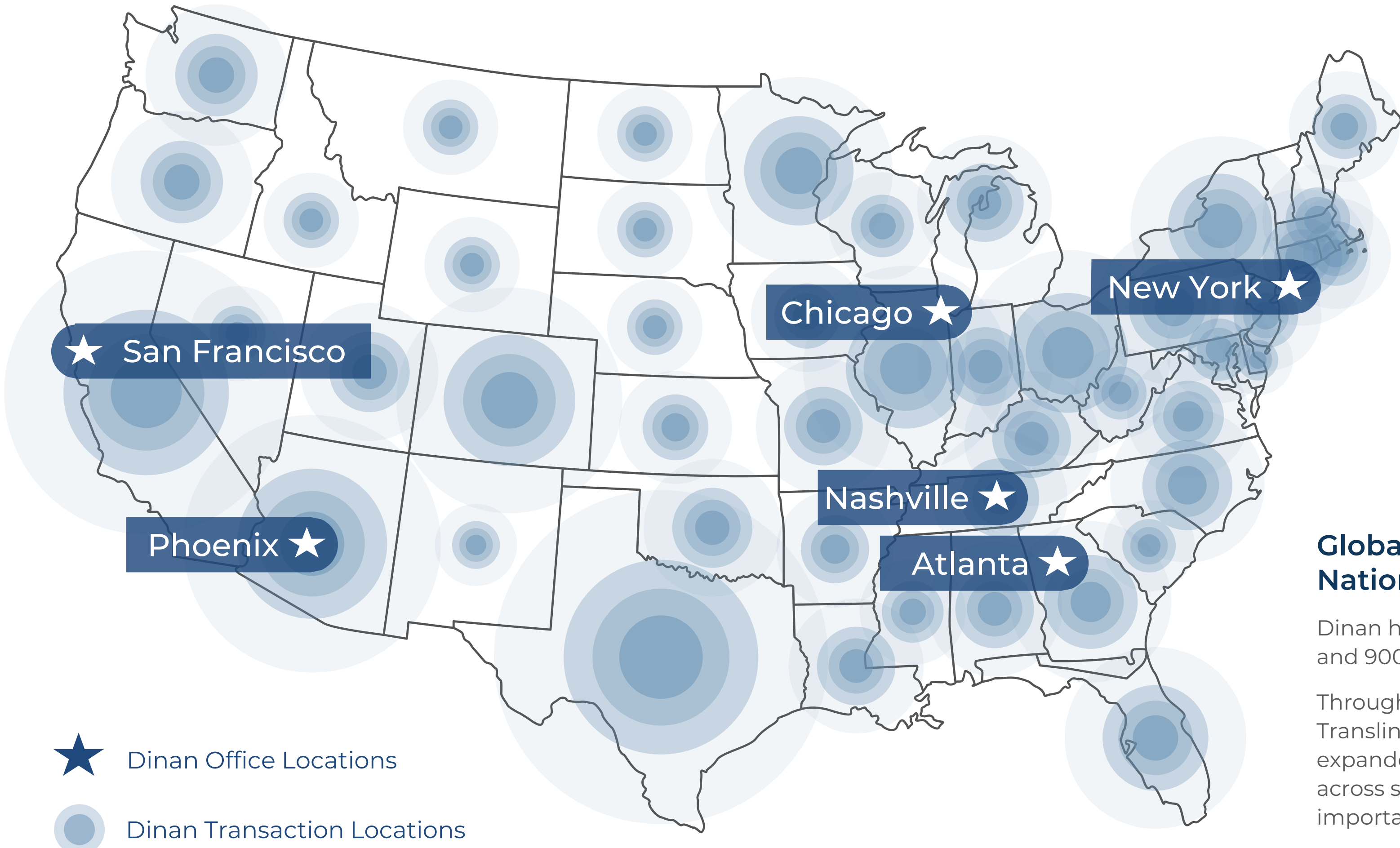
FEATURED TRANSACTIONS*

- AAI Applied Acoustics International, a portfolio company of Angeles Equity Partners, has acquired VisTech with debt financing provided by usbank
- ZCG has acquired DRF with debt financing provided by Kayne Anderson
- image one, a portfolio company of Innovating Capital, has received financing from midcap financial, Catalur Capital
- An affiliate of Nexus Capital has raised a credit facility from Cerberus Capital Management, L.P. to acquire certain assets of FTD under §363 of the Bankruptcy Code
- ProSmile, a portfolio company of Trispan, raised a credit facility from BankUnited
- Trajus, a portfolio company of White Oak, has closed a new asset-based credit facility

*Includes transactions completed by senior professionals while at prior firms

Our Nationwide Footprint

Transactions Across the U.S.



★ Dinan Office Locations

● Dinan Transaction Locations

Global Reach, Nationwide Expertise

Dinan has over 35 years of experience and 900+ completed transactions.

Through our international partner, Translink Corporate Finance, we have expanded our reach to over 35 countries across some of the world's most important economic regions.

Credit markets continue as leverage provider of choice

Market Commentary

Q4 markets ended with investors digesting 3 back-to-back Fed rate cuts in acknowledgement of a softer labor market and concerns around slowing growth. AI and semiconductor players, which had led much of the year's economic activity, experienced increased volatility in Q4 as investors reassessed valuations and the durability of datacenter spending.[1]

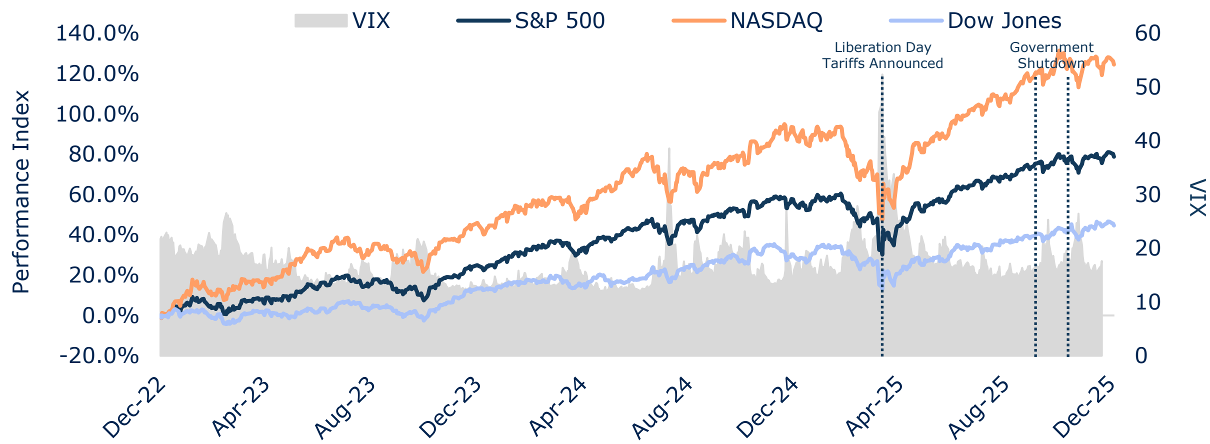
Amidst this volatility, large cap M&A transactions continued to dominate, while middle-market dealmaking became more selective and financing-driven. Companies focused on extending runway and improving capital structures – oftentimes by pushing back maturities,[2] leaning on private credit for growth capital and flexible refinancing solutions.

Major Indices Performance

Equity indices started Q4 off under pressure as investors reassessed lofty valuations and the rate-cut narrative. Both the S&P 500 and Nasdaq Composite saw early downside, with the Nasdaq pulling back more sharply as major tech and chip-related names corrected from earlier gains.

The dip reflected renewed caution following a surge earlier in the year with the federal government shutdown further amplify this uncertainty. Several key economic releases, including labor reports, were delayed which limited the market's ability to gauge near-term momentum and magnified volatility. However, markets have since shifted to become forward-looking and are pricing in future conditions of softer inflation and rate cuts, spurring the S&P 500 to hit a record high by the end of the shutdown.[3]

By late November, the broader market began to stabilize.[4] Forward earnings estimates for 2025–26 remained modestly positive, supporting some recovery in indices as yield expectations re-anchored and economic data suggested no hard landing.



	Index Change (6/30/25 - 9/30/25)	Index Change (9/30/25 - 12/31/25)	P/E Ratio (9/30/25)	P/E Ratio (12/31/25)
VIX	-0.45	-1.33	-	-
S&P 500	+12.63	+4.10	23.85x	23.01x
NASDAQ	+22.12	+5.62	30.90x	28.89x
Dow Jones	+6.93	+5.01	21.17x	21.04x

[1] Reuters, [2] Invesco, [3] Morningstar, [4] WSJ
Graph Sources: S&P Global, data extracted as of 12/31/25

Credit markets continue as leverage provider of choice

Policy Catalysts

Softening inflation and cooling labor data set the tone for Q4. With CPI continuing to ease and payrolls coming in lighter than expected, signs pointed to slowing demand and a gradual loss of labor market momentum. Rising jobless claims reinforced the Fed's view that the economy was entering a softer phase of the cycle.[1]

Against this backdrop, investors are more confident that additional policy support is likely in early 2026. Election-year dynamics added noise, as shifting expectations around future fiscal policy drove swings in Treasury yields even as inflation readings stabilized.

Overall, the Q4 policy environment of moderating inflation and lower yields suggest a forthcoming uptick in M&A activity, with non-bank lenders remaining a key source of liquidity.

January 2026 Meeting Fed Rate Probabilities[2]

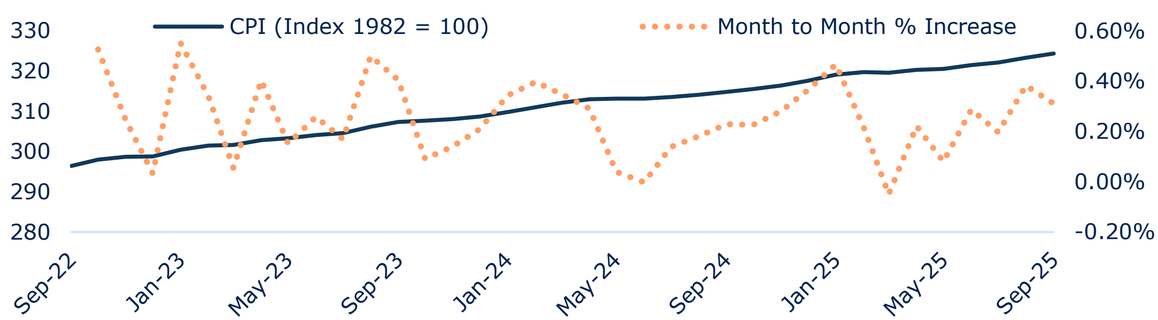
		January Meeting Probabilities %		March Meeting Probabilities %	
Target Rate	**Effective Rate Cut**	**Current Probabilities**	**Previous Week**	**Current Probabilities**	**Previous Week**
3.00 – 3.25	50 bps	0.0%	0.0%	6.0%	7.4%
3.25 – 3.50	25 bps	17.2%	17.4%	40.0%	45.1%
3.50 – 3.75	0 bps	82.8%	82.6%	54.0%	47.6%

The futures markets indicate strong expectations for no rate cuts at the January meeting following the 3 consecutive rate cuts at the end of 2025, with 2 cuts implied later in 2026. This data in the aggregate reinforces our view that monetary policy will remain accommodative as growth momentum cools and inflation continues to trend toward target.

While conditions remain data-dependent, broad cooling across labor, consumption, and credit indicators has strengthened expectations that the policy backdrop will stay supportive heading into 2026.

Consumer Price Index Trends[3]

CPI data (for all urban consumers) in 2025 showed a continued slowdown in month-to-month inflation, even as headline levels remained high. The moderation in price growth reinforced expectations for additional policy support and contributed to lower yield volatility across the curve.



[1] BLS, [2] CME FedWatch, [3] FRED
Fed Rate Sources: CME, data extracted as of 1/6/26

Credit markets continue as leverage provider of choice

Macro Tailwinds

In Q4 2025, the Treasury yield curve held its steepening bias as short-term yields drifted lower on cooling labor data and continued disinflation. The front end remained the primary driver of the curve, reflecting growing confidence of additional policy easing.[1]

Longer-dated yields stayed comparatively stable, supported by expectations of ongoing Treasury supply and ongoing elevated fiscal needs. This mix of lower front-end rates anchored by higher long-term yields helped ease refinancing pressure and provided a constructive backdrop for credit markets.[2]

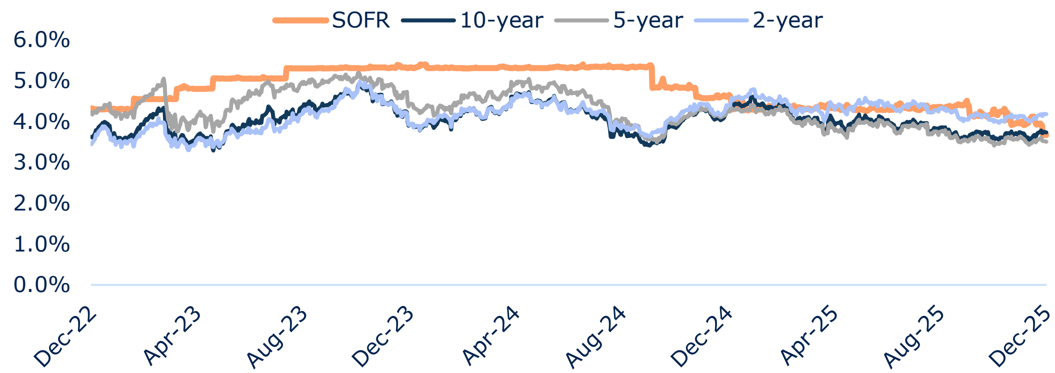
The steepening yield curve signals a market increasingly oriented around policy normalization, with investors positioning for a slower growth environment but not a disorderly downturn.

[1] WSJ, [2] Reuters
Note: Secured Overnight Financing Rate ("SOFR")
Graph Sources: S&P Global, data extracted as of 12/15/25

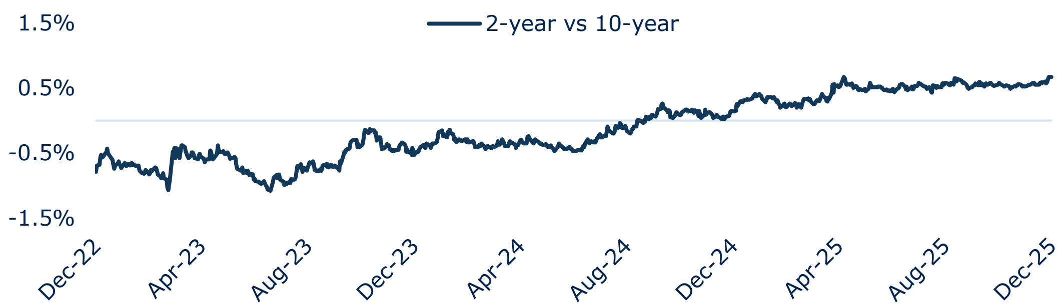
SOFR and Treasury Yields

Rate dynamics showed a clearer split between short and long-term yields. Front-end rates moved lower on softer inflation and labor data, while long-term yields held steadier as markets continued to factor in elevated Treasury supply and persistent fiscal pressures. As one would expect, Fed policy of lowering rates had much more impact on the short-term yields while market expectations of macroeconomic trends dominated in determining long-term yields.

This combination supported active use of floating-rate credit, as borrowers moved to lock in lower benchmarks while retaining flexibility amid an uncertain duration outlook.



Yield Curve Differential



	12/31/22	12/31/23	12/31/24	12/15/25
2-year vs 10-year	-0.53%	-0.35%	+0.33%	+0.67%

Credit markets continue as leverage provider of choice

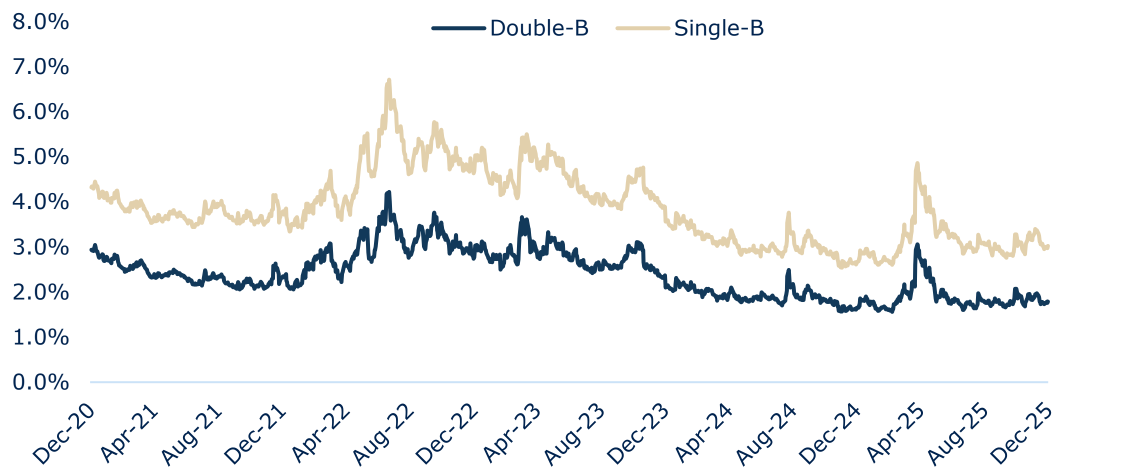
An Issuer-Friendly Market

Q4 2025 remained largely issuer-friendly. Ample dry powder, stabilizing rates, and pressure to deploy capital kept lenders aggressive on high-quality credits. Well-positioned borrowers continued to secure flexible structures, and fast execution as private credit maintained its role as the most reliable financing channel.

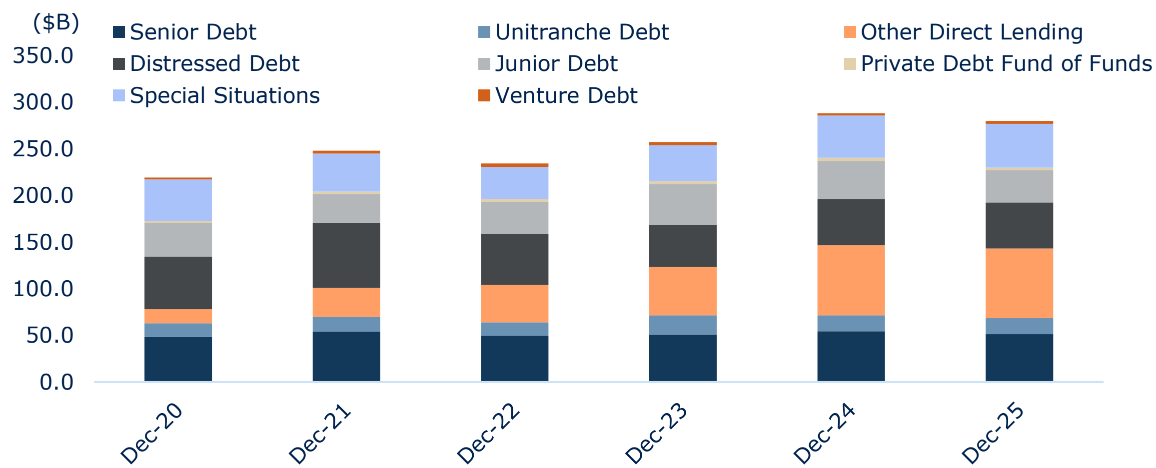
At the same time, the market grew increasingly selective. Lower-quality borrowers faced widening spreads and tighter covenants, reflecting a more cautious stance among private credit lenders amid a macroeconomic slowdown and high-profile cases of distressed credit at household names such as Blackrock and Blue Owl.[2]

The result was a Q4 market that favored scale and sponsor backing, while less forgiving on issuers with operational or liquidity challenges.[3]

US High Yield Index Option-Adjusted Spread



US Dry Powder Trends



[1] Bloomberg, [2] MSN, [3] WSJ
Graph Sources: FRED, S&P Global, data extracted as of 12/15/25

Credit markets continue as leverage provider of choice

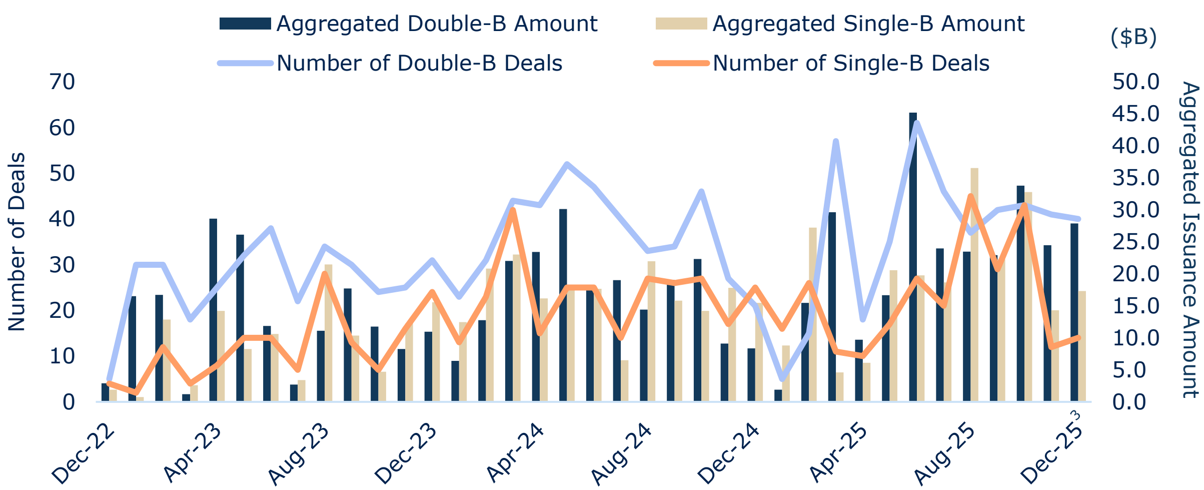
An Issuer-Friendly Market

New-issue loan supply remained modest in Q4 as muted M&A activity kept LBO financings limited, pushing lenders toward secondary markets. Capital from CLO formation and ample PE dry powder continued to target a small pool of higher-quality credits.[1]

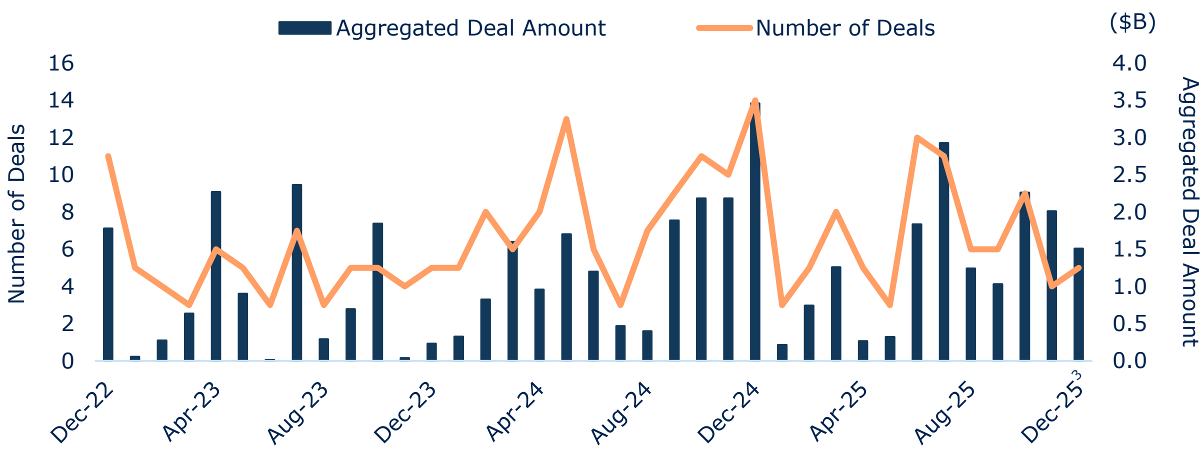
Borrowers capitalized on the supply and demand imbalance to continue pricing private credit loans aggressively. High base rates kept all-in yields compelling for lenders, while expectations of Fed cuts drove issuers to refinance floating-rate paper early to secure lower spreads before benchmarks declined.[2]

Overall, constrained supply and steady demand fostered an issuer-friendly backdrop, despite rising credit stress among some borrowers.

US High Yield Bond Issuance Volume



US LBO Deal Volume (<$1B Transaction Value)



[1] Reuters, [2] Pitchbook, [3] Estimated
Note: Deal volume aggregated by transaction close dates
Graph Sources: S&P Global, data extracted as of 12/15/25

The Bottom Line...

Private debt markets strongly favor issuers as a result of a buildup of dry powder chasing a limited number of investment opportunities... increasing lender selectivity notwithstanding

BROAD LENDER MARKET

CURRENT ECONOMIC CONDITIONS

LENDER MARKET PREFERENCES

Lenders are on the hunt for resilient business models in sectors such as...

- BUSINESS SERVICES
- HEALTHCARE SERVICES
- CONSUMER STAPLES
- INDUSTRIALS
- TECH-ENABLED SERVICES

LEVERAGE

Continues at Recent Market Highs

PRICING

Continues at Recent Market Lows

BROAD TRANSACTION APPETITE

Refinancing, Acquisition Financing, Leveraged Recapitalizations & Growth Financing

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