



Credit Markets Report

Q3 2025



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

We are the trusted partner to hundreds of middle market companies.

Contact Us

Please reach out to us to schedule a call to discuss this quarter's market update or to explore how we can serve your business needs.

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.

The Dinan brand, representing both Dinan & Company and its subsidiary, Dinan Capital Advisors, unites deep institutional knowledge and collaborative resources to deliver a tailored, client-focused experience.

Creating \$70B+ in value through 900+ transactions closed since 1988, we would like to say thank you for your trust along the way.

FIRM LEADERSHIP



MICHAEL DINAN
President & CEO
mdinan@dinancapital.com
(602) 248-8700



WILL DOWNING
Managing Director
wdowning@dinancapital.com
(602) 248-8700



MICHAEL BRILL
Managing Director
mbrill@dinancapital.com
(332) 266-3863



ANDREW TAN
Vice President
atan@dinancapital.com
(332) 266-3862

PRIVATE CAPITAL MARKETS

FEATURED TRANSACTIONS*

AAI
APPLIED ACQUISITIONS
a portfolio company of
ANGELES
EQUITY PARTNERS
has acquired
Vista
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

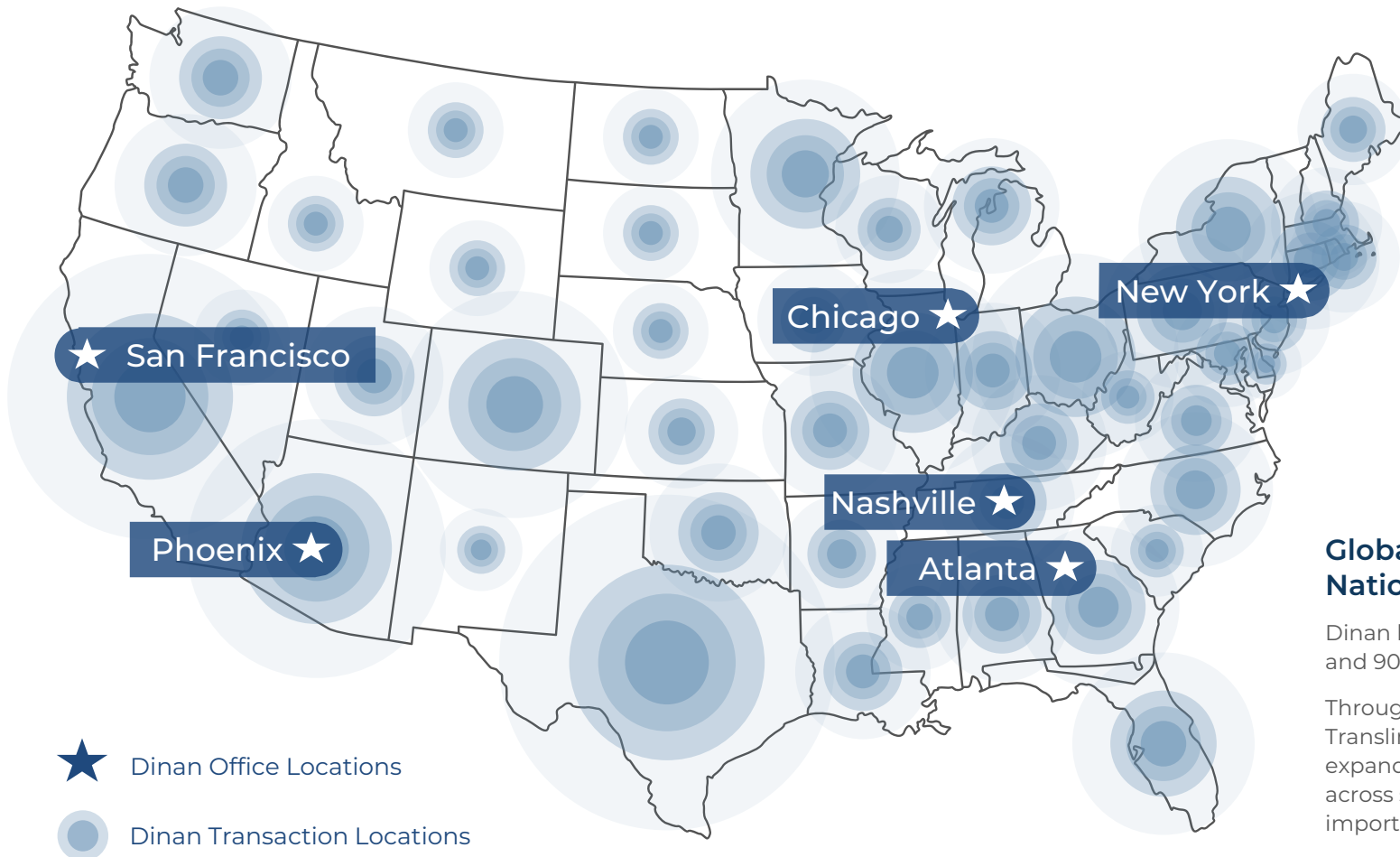
ProSmile
a portfolio company of
TRISPAN
raised a credit facility from
BankUnited

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.



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

MARKET COMMENTARY

Q3 2025 marked a shift from uncertainty to selective conviction. Headline risks surrounding tariffs and labor softness triggered spikes in volatility, though investors priced in stagnation rather than collapse. Equity markets today are more supported by expectations of rate cuts than core strengths.¹

As mid- and small-cap sellers hold out for an M&A rebound, deal volume contracted. Rather than transacting at compressed multiples, companies are **turning to private credit as a growth funding strategy**, using debt to maintain momentum without running a broad offering process nor equity dilution.

However, large-cap deal activity gained momentum, reflecting a flight to scale and a focus on resilient, blue-chip names amid uncertainty.²

¹ Reuters, ² JPM, ³ WSJ
Graph Sources: S&P Global, data extracted as of 9/10/25

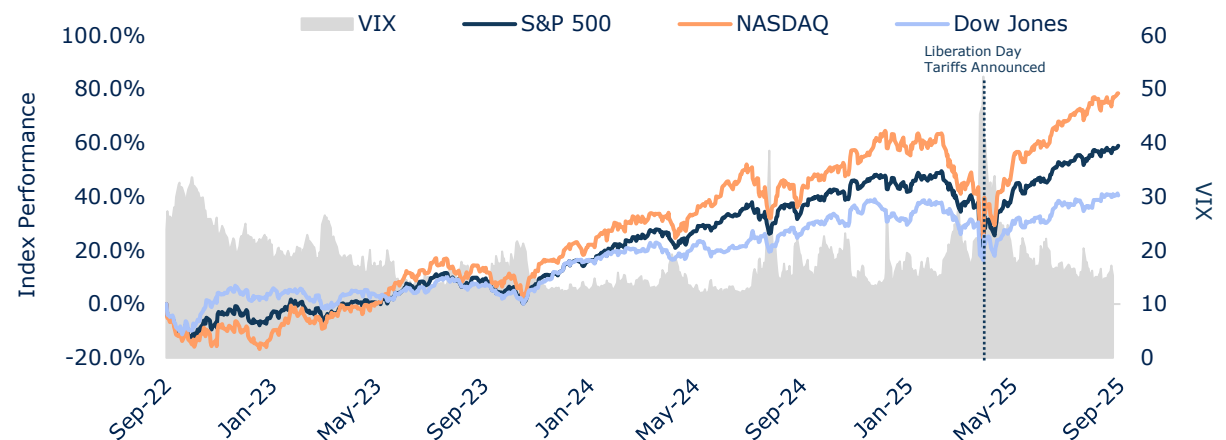
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Major Indices Performance

Equity indices traded sideways in Q3, but surface-level stability masked underlying volatility. The VIX spiked mostly in early August following revised labor data and new tariffs, though markets quickly retraced as investors priced in a high probability of September rate cuts. The S&P 500 and Nasdaq have notched increases for the quarter so far, but gains have been concentrated in rate-sensitive sectors and a few mega-cap tech stocks in particular, highlighting the market's dependence on policy support rather than broad fundamental strength.

On the other hand, cyclicals and small caps underperformed. With consumers tightening their wallets and retailers dealing with sticky input costs, margins suffered. A pull forward in Q2 spending as households braced for potential tariffs left Q3 demand unusually soft.³

The result was a tougher operating environment for companies without scale or pricing power, leaving them more vulnerable to bouts of market volatility and investor preference for larger, more resilient names.



	% Change (3/31/25 - 6/30/25)	% Change (6/30/25 - 9/10/25)	P/E Ratio (6/30/25)	P/E Ratio (9/10/25)
VIX	-5.55%	-1.38%	-	-
S&P 500	+14.43%	+7.95%	23.24x	23.18x
NASDAQ	+25.03%	+12.36%	29.90x	29.83x
Dow Jones	+6.46%	+4.31%	20.77x	20.77x



Credit markets

POLICY CATALYSTS

The “Big Beautiful Tax Bill” passed by Congress in Q3 2025, marked a decisive pivot toward fiscal expansion and injecting near-term stimulus into the market.

Equity markets rallied on the policy shift. However, this response was tempered by growing expectations of Republican losses in the upcoming election, as political blowback from the bill intensified across swing districts and key Senate races.

With the potential for a Democratic majority to undo portions of the legislation, markets priced in tighter fiscal conditions beyond 2025, muting the impact of the initial policy shift and reinforcing investor caution.¹

Meanwhile, unexpected job market weakness looks increasingly likely to fast-track a 25–50 bp rate cut by the Fed.

¹ Time, ² CME FedWatch, ³ Reuters, ⁴ Oxford Economics, ⁵ Yale Fed Rate Sources: CME, data extracted as of 9/10/25

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September Meeting Fed Rate Probabilities²



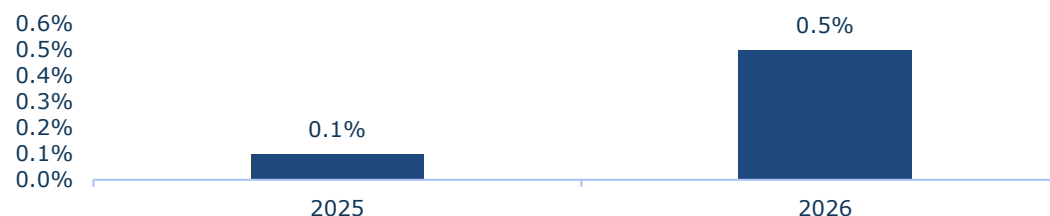
Target Rate	Effective Rate Cut	September Meeting Probabilities %		October Meeting Probabilities %	
		Current Probabilities	Previous Week	Current Probabilities	Previous Week
3.75 – 4.00	50 bp	6.3%	0.0%	76.0%	51.5%
4.00 – 4.25	25 bp	93.7%	96.9%	19.0%	47.1%
4.25 – 4.50	0 bp	0.0%	3.1%	0.0%	1.5%

Market expectations point to a rate cut as the base case for the Fed's next meeting, with futures markets assigning an essentially 100% probability of a 25 bp (or more) reduction in the federal funds rate, according to the CME FedWatch. Futures are currently pricing a ~75% likelihood of a cumulative 75 bp rate reduction by the end of the year.

This repricing was catalyzed by a disappointing labor report in early August, which not only showed weak headline job creation but also featured meaningful downward revisions to May and June payrolls, casting doubt on the resilience of prior labor market strength. This was followed by a series of weak employment indicators in September, suggesting that slack may be re-emerging in employment markets faster than previously understood, particularly in cyclically sensitive sectors.³

While policy remains data-dependent, the breadth of softening across labor and credit conditions has strengthened the consensus that the cutting cycle is approaching, with investors now focused on the pace and depth of easing rather than the start date.³

Big Beautiful Tax Bill GDP Impact⁴



Oxford Economics expects 0.1% GDP growth in 2025 and 0.5% growth in 2026, while Yale estimates averaging 0.2% growth a year from 2025-2027.⁵



Credit markets

MACRO TAILWINDS

In Q3 2025, the Treasury yield curve continued steepening, a trend that began in late 2024.

Unlike last year's growth-driven steepening, the current move is fueled by rate cut expectations, with softer consumer data and labor market revisions pulling short-term yields lower while long-term yields have remained steady due to expectations of sustained heavy Treasury issuance to finance large deficits and refinancing needs.¹

This rate backdrop is easing refinancing costs and supporting credit markets, while also signaling that investors are positioning for a late-cycle policy pivot.

The yield curve's recent trends highlight the market's reliance on monetary easing to sustain momentum.²

¹ Reuters, ² Pitchbook

Note: Secured Overnight Financing Rate ("SOFR")

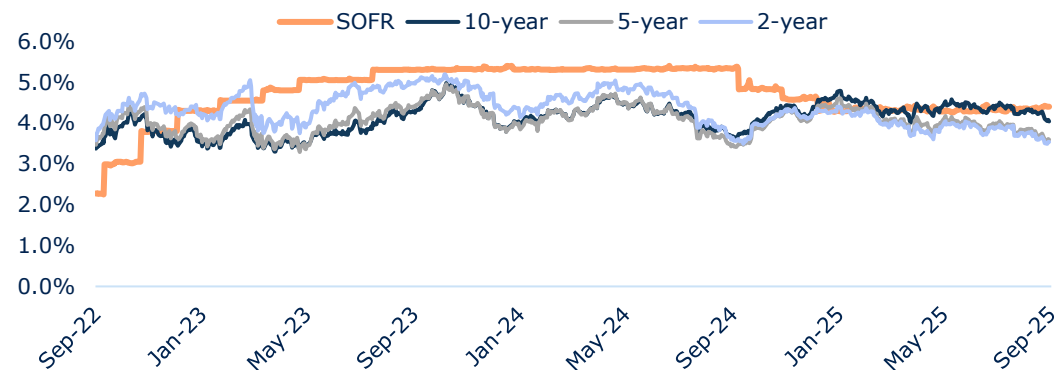
Graph Sources: S&P Global, data extracted as of 9/10/25

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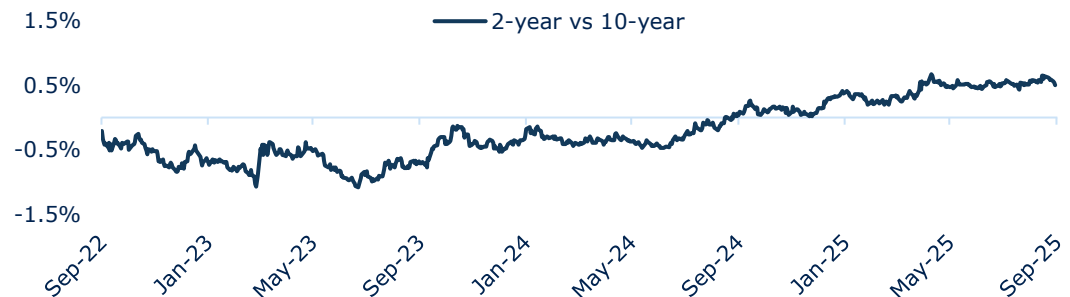
SOFR and Treasury Yields

The resilience of long-term Treasury yields, despite growing expectations for Fed cuts, signals that investors are demanding a higher term premium to hold duration, reflecting persistent supply pressures due to tariffs and uncertainty around inflation. This suggests the market is pricing in short-term policy easing without fully embracing a lower long-run neutral rate.

Floating base rate private credit surged as both borrowers and lenders are eager to deploy capital and lock in favorable financing conditions without having to worry about anticipated Fed rate cuts.²



Yield Curve Differentials



	12/31/22	12/31/23	12/31/24	9/10/25
2-year vs 10-year	-0.53%	-0.35%	+0.33%	+0.50%



Credit markets

AN ISSUER-FRIENDLY MARKET

Borrower leverage in private credit negotiations hit a multi-year high in Q3 2025. Record dry powder and muted new deal supply have lenders competing aggressively for assets, tightening spreads in the process.¹

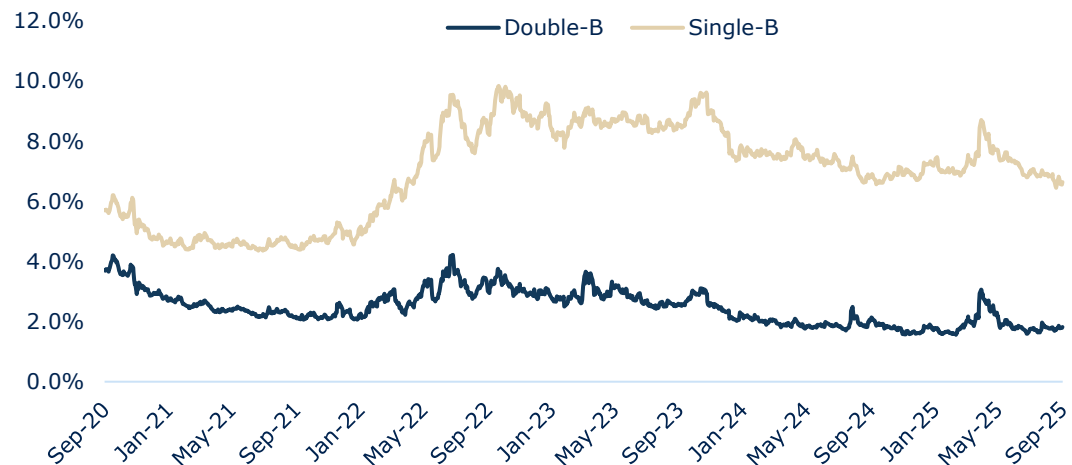
For sponsors and private companies, this has translated into capital costs on par with public high yield, paired with bespoke terms, light amortization, and accelerated execution. Private credit is increasingly the channel of choice for refinancings, leveraged recaps, and opportunistic growth capital.

The imbalance between capital supply and deal flow has created a market where well-positioned borrowers can largely dictate structure and timing, turning lender competition into a strategic advantage.²

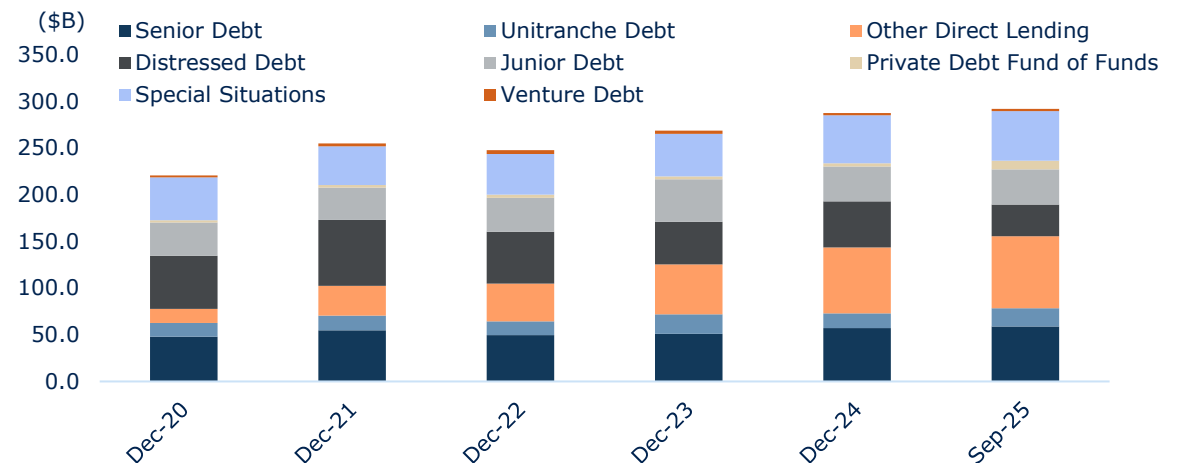
¹ WSJ, ² Reuters
Graph Sources: FRED, S&P Global, data extracted as of 9/10/25

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US High Yield Index Option-Adjusted Spread



US Dry Powder Trends



Credit markets

AN ISSUER-FRIENDLY MARKET

New loans saw a dip while the secondary market took the spotlight. Slower M&A activity has further thinned the pipeline for new LBO financings. With fewer sponsor-backed deals coming to market, lenders are increasingly competing to keep capital deployed.

Borrowers have used their leverage to reprice existing floating-rate debt at tighter spreads. Elevated base rates keep yields attractive for lenders, while expected Fed cuts promise lower costs for borrowers, fueling record repricing volumes. By mid July, more than half of outstanding loans were priced at par or above.¹

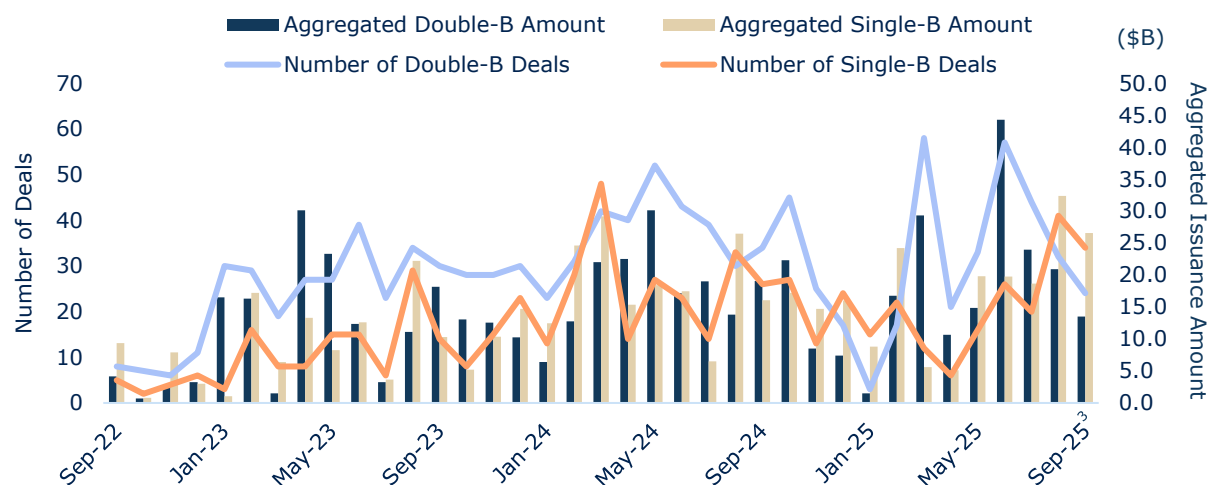
The combination of strong secondary demand and limited new supply has shifted negotiating power firmly toward borrowers.²

¹ Pitchbook, ² Reuters, ³ Estimated

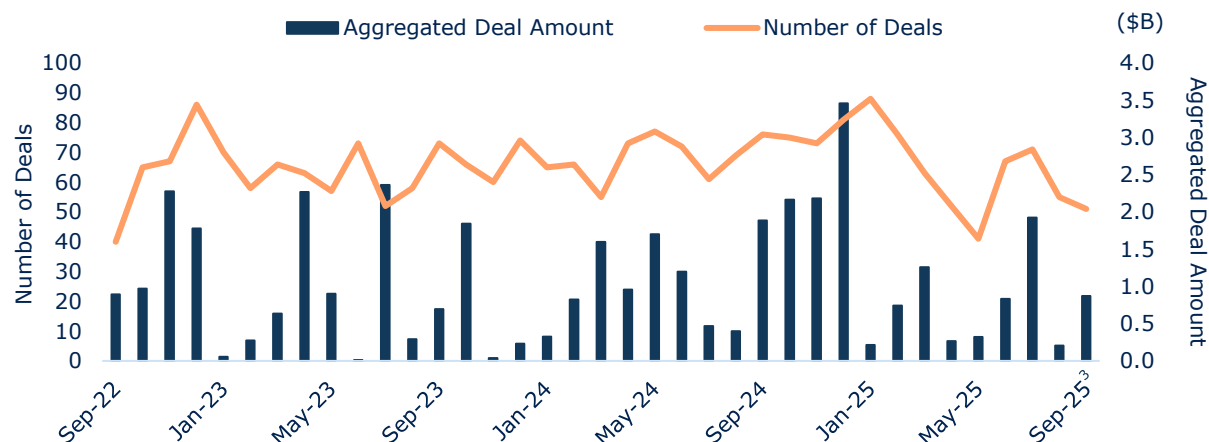
Note: Deal volume aggregated by transaction close dates
Graph Sources: S&P Global, data extracted as of 9/10/25

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US High Yield Bond Issuance Volume

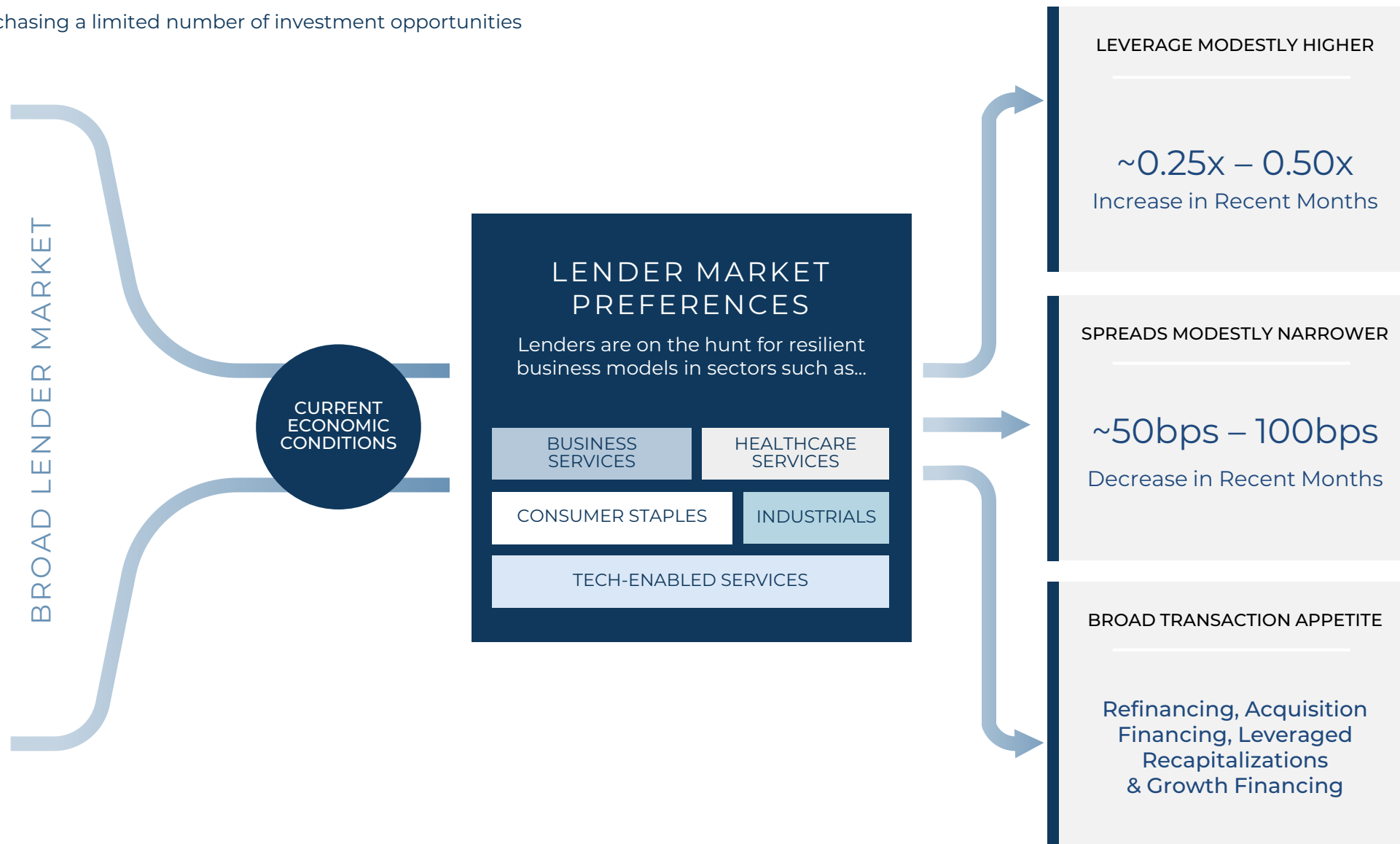


US LBO Deal Volume (<\$1B Transaction Value)



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





Headquarters

307 N Gateway Boulevard
Phoenix, Arizona 85008

602.248.8700
866.447.3500

www.dinancapital.com

New York Office

420 Lexington Avenue
Suite 2400
New York, NY 10170

Dinan Private Capital Market Contacts:

Michael Brill

Managing Director,
Head of Private Capital Markets
Dinan Capital Advisors
D: 332.266.3863
E: mbrill@dinancapital.com

Andrew Tan

Vice President
Dinan Capital Advisors
D: 332.266.3862
E: atan@dinancapital.com

