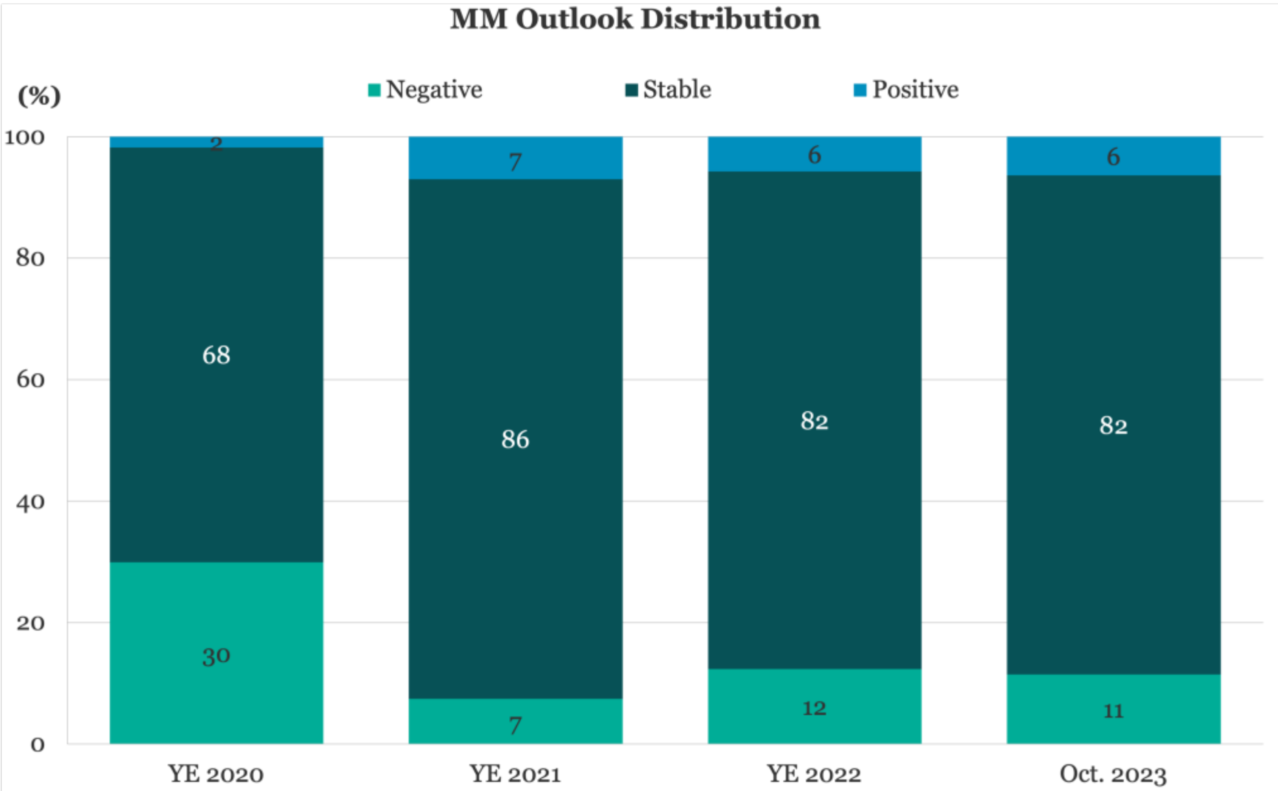
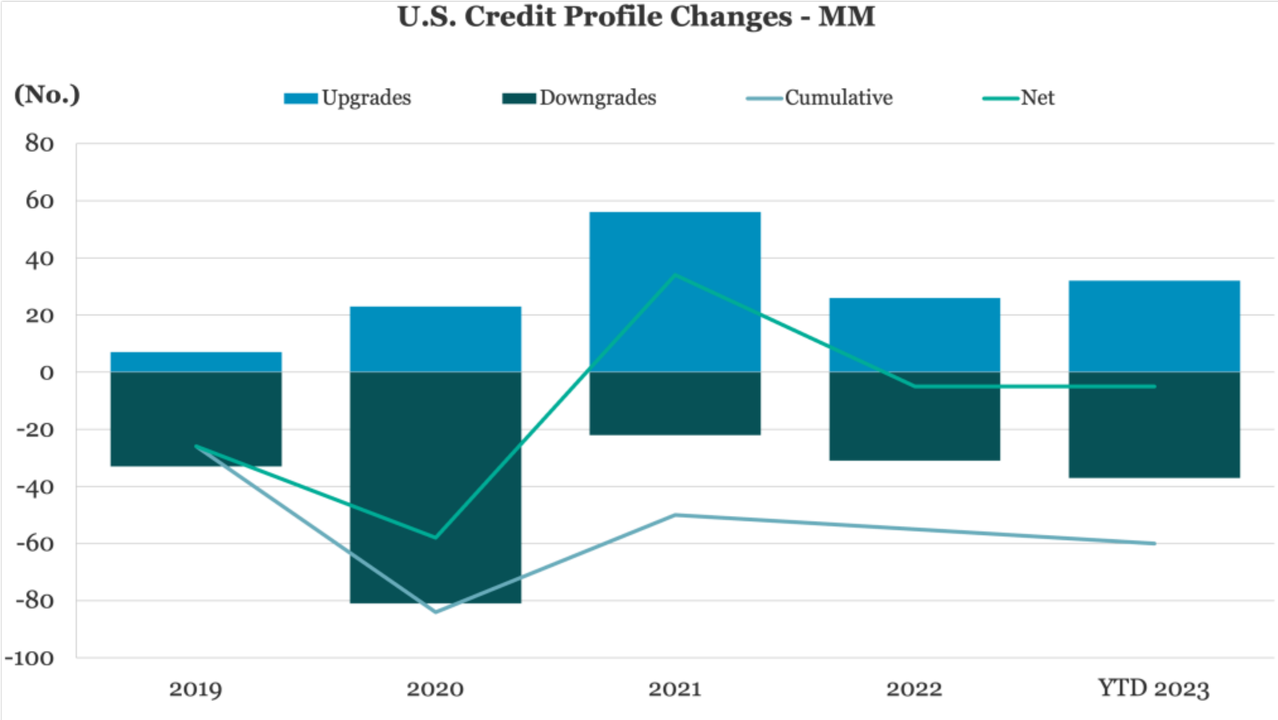
Fitch's U.S. Middle Market Outlook

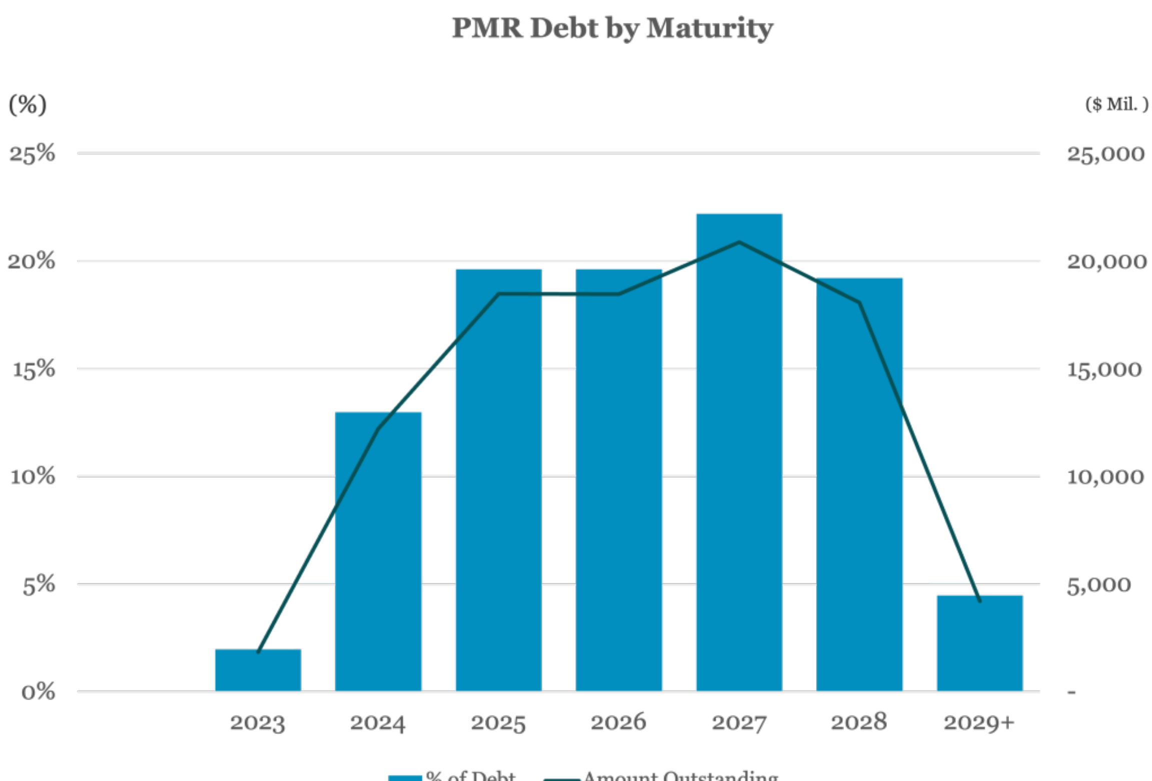
Fitch Ratings | January 10, 2024



MM – Middle Market. Note: Positive and Negative denotes Outlooks and Watches. Includes private ratings only. Source: Fitch Ratings.



Note: Includes private ratings only.
Source: Fitch Ratings



Source: Fitch Ratings

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The distribution of middle market (MM) issuers' Outlooks within Fitch's portfolio stayed relatively flat in 2023 compared with 2022. Approximately 11% of MM issuers have a Negative Outlook or Watch, relatively unchanged from 2022, and a large decline from 30% in 2020. Net upgrades have hovered around zero so far this year.

The large middle market default rate within Fitch's loan index could remain elevated in 2024, in the mid-single digits, in line with expectations for 2023 but up from 1.4% in 2022, given the greater exposure to economic headwinds within the segment including elevated base rates and a slowing U.S. economy.

MM companies are more sensitive to negative economic conditions given their smaller scale, highly variable rate debt structures with limited use of hedges, and higher leverage relative to BSL issuers. Fitch expects challenges to continue into 2024 as weaker companies succumb to prolonged pressure on liquidity from higher rates, and seek relief from lenders and assistance from a sponsor.

(Past performance is no guarantee of future results.)

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