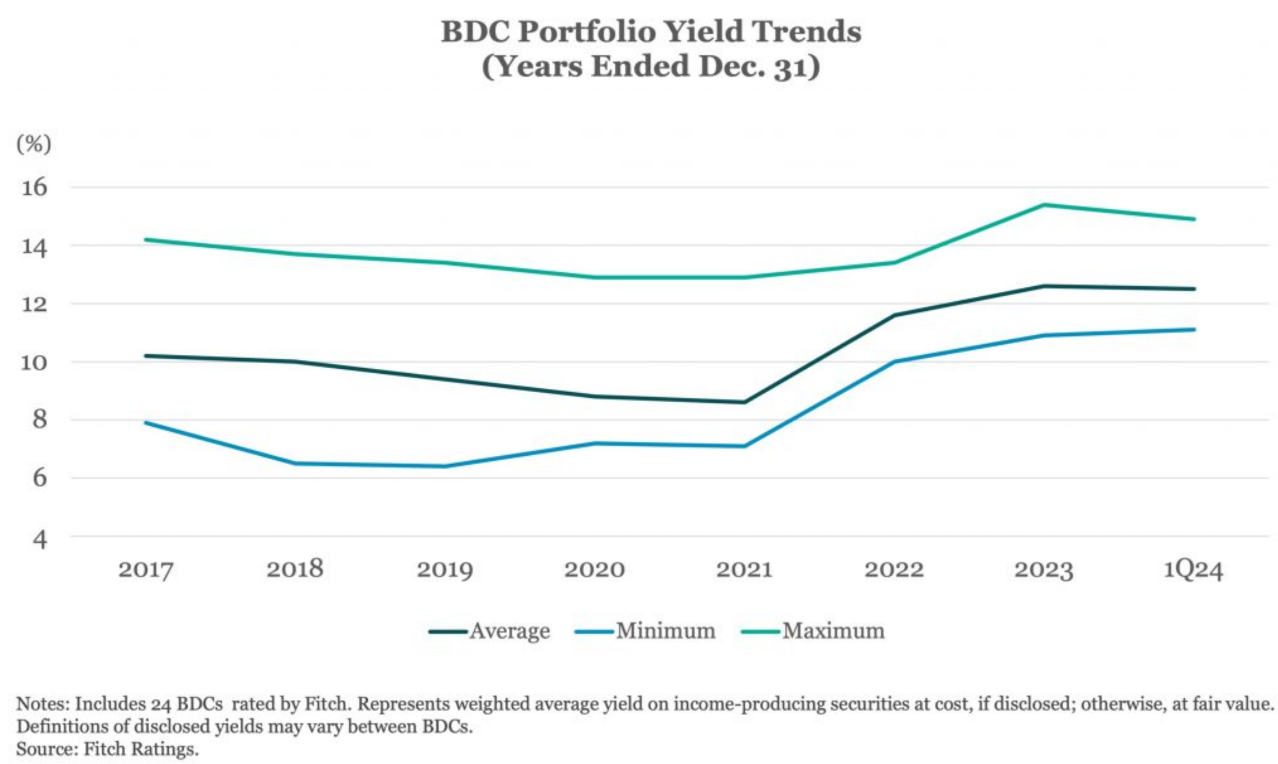
U.S. Business Development Companies – Peer Review 2024

Fitch Ratings | May 21, 2024



Download FitchRating's Report here.

The chart above shows trends in reported yields on business development companies' (BDCs) income-producing investments. BDCs' portfolio yields and earnings benefited from the rising rate environment, given the floating-rate loan exposure. The average yield on income-producing investments for Fitch-rated BDCs increased to 12.6% on Dec. 31, 2023 from 11.6% on Dec. 31, 2022, driven by higher interest rates and wider spreads in new deals during 2023. Spreads have tightened in recent months, particularly in the upper-end of the middle market, as the broadly syndicated loan market has started to rebound and banks are increasing lending activity. Tighter spreads have pressured yields on new middle market deals and also driven an uptick in repricing activity within BDC portfolios. As a result, the average income-producing portfolio yield for Fitch-rated BDCs ticked down slightly to 12.5% on March 31, 2024, but remained supported by elevated interest rates. Fitch expects elevated competition to persist in 2024 as private credit lenders grow and banks remain active in the space. Continued pressure on spreads, combined with rising non-accrual levels and higher funding costs, will be a headwind for BDCs’ earnings in the coming quarters. Portfolio yields will be further negatively affected by future interest rate cuts.