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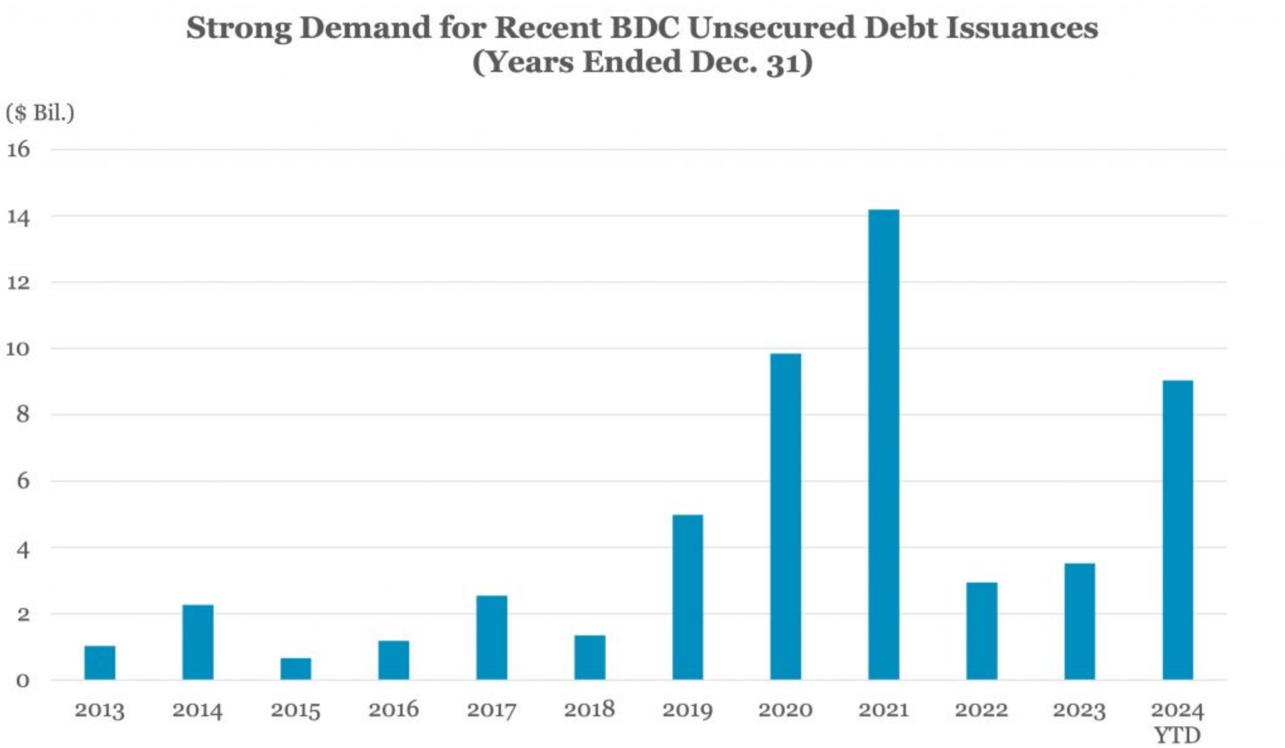
U.S. BDC Earnings, Credit Headwinds to Persist in 2024

Fitch Ratings | June 12, 2024



Note: Represents aggregate unsecured debt issued by 25 BDCs rated by Fitch. 2024 YTD includes issuances through June 11, 2024. Source: Fitch Ratings.

Fitch-rated U.S. business development companies (BDCs) face persistent headwinds in 2024, with rising paid-in-kind (PIK) income and continued markdowns of investments during 1Q24 signaling additional credit issues and resultant net investment income (NII) pressure. However, increased utilization of supplemental dividend policies will support dividend coverage, with BDCs well positioned for new originations as M&A activity picks up given relatively low leverage and strong funding profiles.

BDCs continue to tap the unsecured debt markets, with four rated BDCs issuing $1.9 billion in May to-date, bringing the year-to-date total to $7.1 billion, more than the $6.5 billion issued in 2022 and 2023 combined. Elevated rates have driven higher coupons on recent issuances compared to upcoming maturities, but BDCs have been increasingly utilizing interest rate swaps to prepare for eventual rate cuts. Unsecured debt averaged 52.0% of total debt at 1Q24 and secured debt averaged 23.1% of assets, providing solid funding flexibility.