Competition to Pressure BDCs' Deal Terms, Credit Performance in 2025

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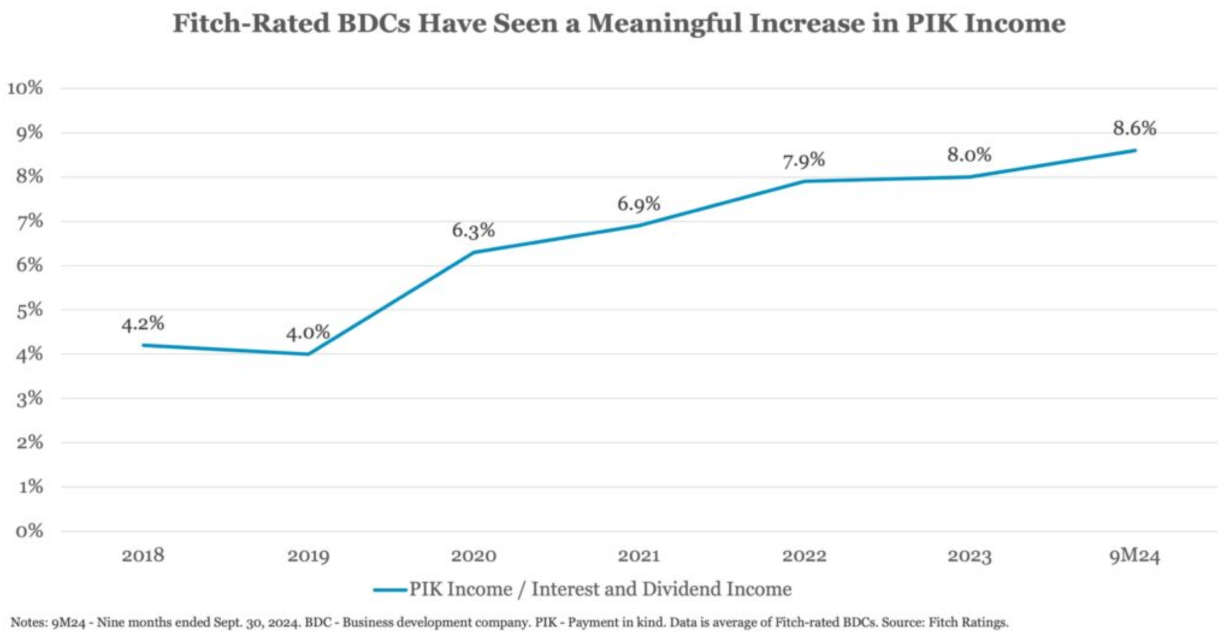

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The competitive underwriting environment for business development companies (BDCs) will continue in 2025, with spread pressure, interest rate cuts and the potential for rising non-accruals driving weaker earnings and dividend coverage metrics across the sector. However, rated BDCs are expected to originate selectively in 2025, with many sponsors predicting a stronger M&A environment.

Fitch Ratings expects the deteriorating sector outlook to persist for BDCs in 2025. Credit spreads are nearly as tight as prior to the GFC amid the Fed lowering rates. Unsecured debt maturities through 2025 are nearly all pre-funded given strong sector issuance in 2024, but maturities will increase in 2026, which will require additional access to capital for BDCs to maintain funding flexibility.