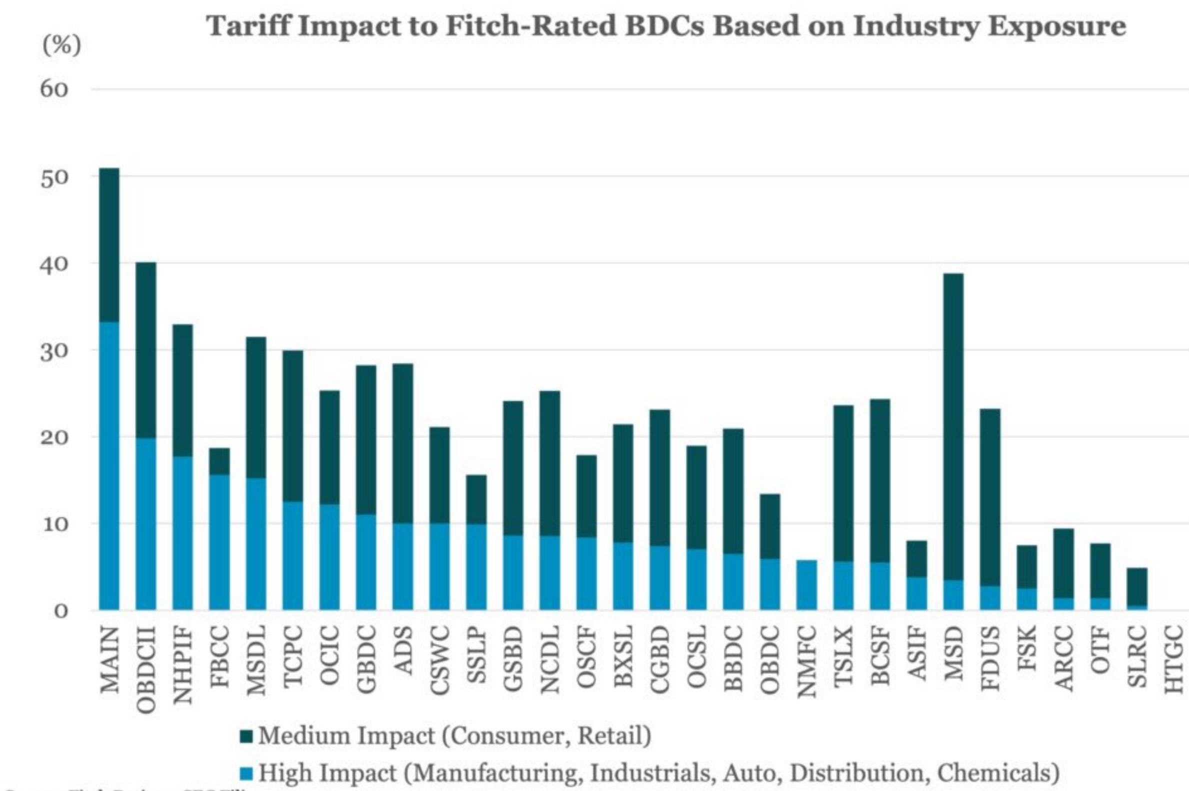
BDCs Face New Headwinds but Limited Direct Exposure to Tariff Sectors

Fitch Ratings | April 30, 2025



Source: Fitch Ratings, SEC Filings.

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The recent escalation in the global trade war and resulting uncertainty across the market introduced additional headwinds for business development companies (BDCs) and private credit in the near term. Fitch expects additional non-accruals across BDC portfolios in 2025 given the continuation of elevated interest rates and the challenging economic backdrop, including impacts of tariffs on some portfolio companies.

In general, the BDCs have limited exposure to industries that are directly affected by tariffs. However, BDCs face second order effects, especially if a prolonged recession materializes that would pressure portfolio company performance more broadly. BDC's direct exposure to first-order industries that will be most affected by tariffs, including manufacturing, industrial, distribution and auto, is limited to less than 10% of BDC portfolios, on average, at fair value.

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