BANKERS EDGE
ADVISORY

Credit Market Update

September 2025

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Executive Summary

BANKERS EDGE ADVISORY

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September economic data reaffirmed a **steady U.S. growth backdrop**, with **resilient labor market**, **moderate wage growth**, and robust **consumer activity underpinning economic confidence**. Despite this, trade-sensitive sectors remain a potential source of volatility. Inflation pressures remain contained enabling the Federal Reserve Board to consider easing monetary policy. Corporate earnings and balance sheets remain strong, with low delinquency rates and stable margins supporting a constructive near-term outlook.

2

Public credit markets remain liquid and strong with **high-yield credit spreads near all-time lows at 2.8%**. Bank and private credit liquidity remain abundant, providing borrowers with sufficient capital availability to meet demand. M&A sentiment is improving; M&A capital has seen a clear pivot towards fewer but larger transactions with activity concentrated in high-value buyouts and add-on deals.

3

While trade uncertainty remains a consideration, recent policy developments have eased immediate pressures on supply chains and pricing. The combination of stable macro conditions, improving financing prospects, and unclogging deal pipelines supports optimism into late 2025. Market positioning suggests measured risk-taking, with capital ready to deploy into quality opportunities across public and private markets, setting the stage for a potentially strong close to the year.

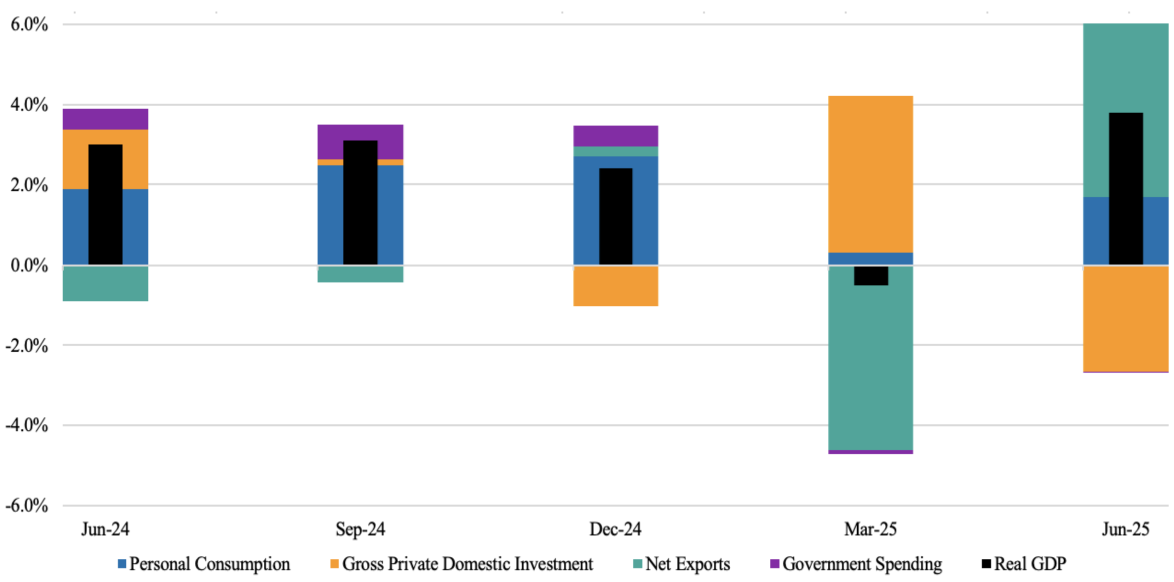
US GDP Breakdown

The advance estimate for **Q2 GDP came in at a robust +3.8% annualized**, marking a notable rebound in economic momentum. Strength in consumer spending and business investment more than offset earlier headwinds from volatile import activity, offering a reassuring signal that domestic demand remains the engine of growth. This July datapoint re-anchors expectations for the second half of the year, suggesting that the economy is regaining its footing after a choppy start.

Policy stimulus and resilient household income continue to underpin demand, particularly in services and discretionary consumption. While tariff-related uncertainty poses a risk to import prices and supply chain fluidity, recent fiscal measures have helped buffer the impact, keeping consumer sentiment and spending on solid ground. The durability of this demand base is critical as the economy navigates tighter financial conditions and global trade friction.

Net growth momentum appears to have renewed, with a constructive outlook for corporate revenues and capital expenditures heading into year-end. However, **trade-sensitive sectors and inventory dynamics remain potential sources of volatility**, especially as global demand softens and supply chains recalibrate. Businesses may need to tread carefully in managing stock levels and export exposure, but the broader trajectory points toward continued expansion.

Contributions to Percent Change in Real Gross Domestic Product



Source: BEA Data as of 25 September, 2025

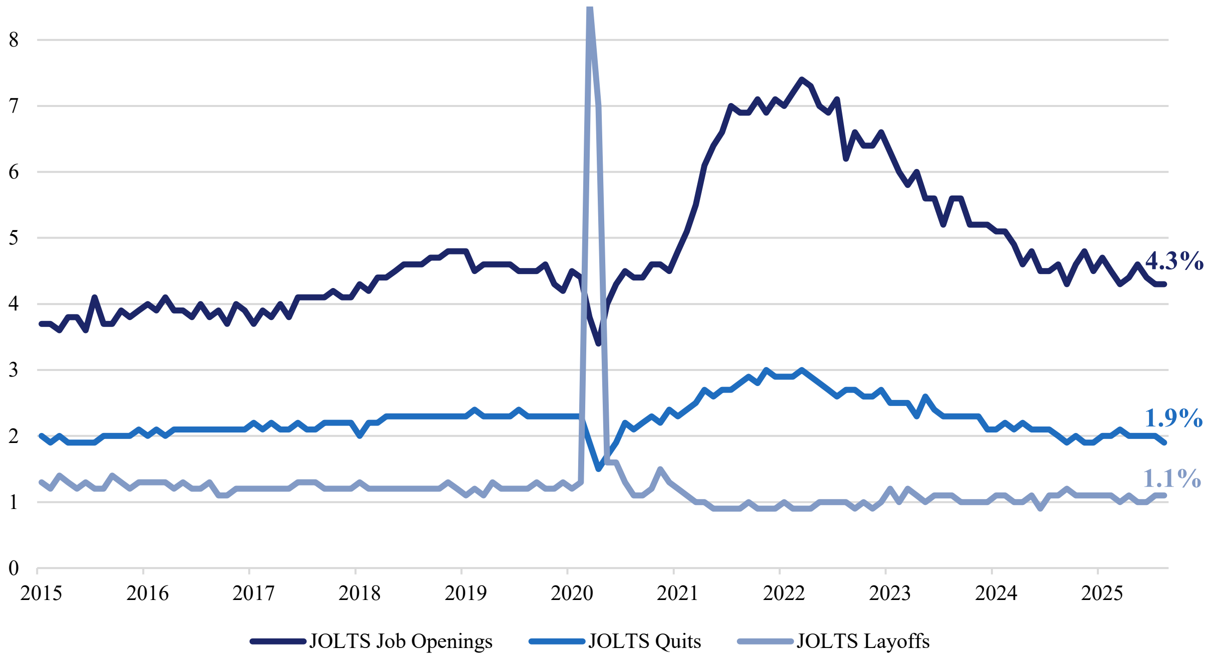
JOLTS Employment Survey Data

The latest Job Openings and Labor Turnover Survey (JOLTS) data for July reveals a labor market that is gradually cooling, but still fundamentally sound. **Job openings declined to approximately 7.23 million**, marking a continued downtrend from post-pandemic highs. This easing in labor demand helps reduce the risk of wage-driven inflation, yet the level of openings remains historically elevated—suggesting employers are still actively seeking talent, albeit with more selectivity.

Quits and hires have held relatively steady, indicating that workers are not exiting roles in-mass and firms are maintaining existing payrolls. The stability in these metrics reflects a shift from aggressive post-COVID hiring toward a more measured approach, where companies prioritize retention and productivity over expansion. This dynamic supports a soft-landing narrative, where labor market rebalancing occurs without triggering widespread unemployment.

A softer but orderly labor market reduces near-term inflationary pressures, giving the Federal Reserve greater flexibility to consider rate cuts without fear of reigniting wage-push inflation. With fewer signs of overheating and continued labor market participation, policymakers may find room to pivot toward a more accommodative stance—especially if broader economic indicators begin to soften.

JOLTS Job Openings, Nonfarm Quits, and Nonfarm Layoff Rates (%)



Source: US Department of Labor Data as of 30 September, 2025

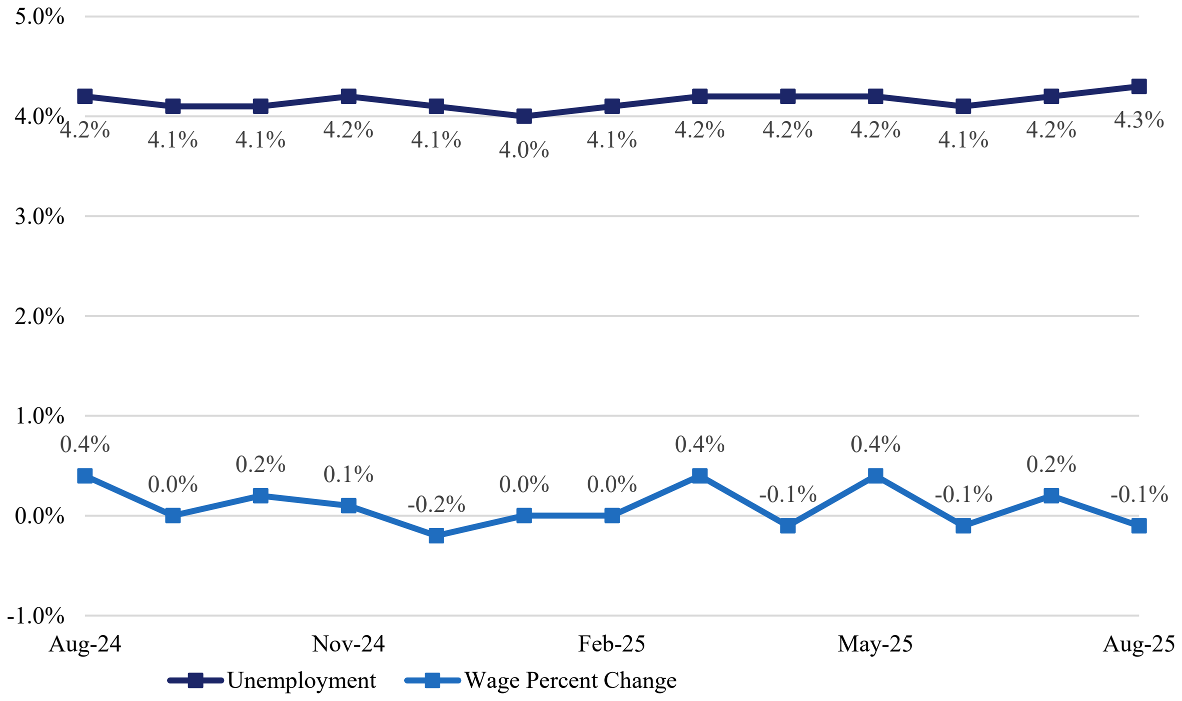
Unemployment and Wage Growth

The U.S. labor market has remained remarkably steady through 2025, with the **unemployment rate anchored in the low-4% range (4.0–4.2%)**. This consistency reflects a balanced employment environment, where job creation has kept pace with labor force growth, and month-to-month volatility has been minimal. Despite tighter monetary policy and slowing economic momentum, employers have largely held onto workers, suggesting confidence in underlying demand and a reluctance to reintroduce hiring frictions.

Real average hourly earnings have shown little directional momentum, fluctuating within a narrow band of –0.2% to +0.4% over the past year. The most recent readings—0.0% and 0.1% month-over-month—highlight the absence of wage acceleration, even as inflation pressures ease. This modest wage growth points to a labor market that is neither overheating nor deteriorating, offering a rare equilibrium between employment stability and cost containment.

Bottom line: labor conditions remain balanced. Unemployment is steady, wage pressures are contained, and there are few signs of broad-based stress or overheating. This backdrop provides policymakers with valuable flexibility, allowing them to navigate inflation and growth trade-offs without the urgency of labor-driven price spirals

US Unemployment Rate and Wage Growth Rate



Source: US Department of Labor Data as of 31 July, 2025

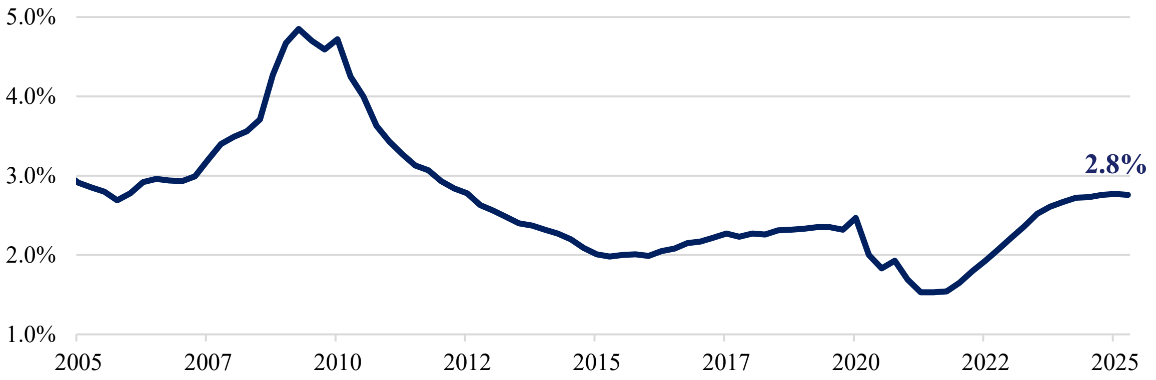
Consumer Financial Health

Consumer balance sheets remain broadly resilient, even as financial conditions gradually tighten. **Loan delinquencies have risen from pandemic-era lows to 2.8% in early 2025**, reflecting a normalization in credit behavior. However, this level remains well below the peaks observed during the Global Financial Crisis and other major stress periods, indicating that household credit stress is still contained by historical standards.

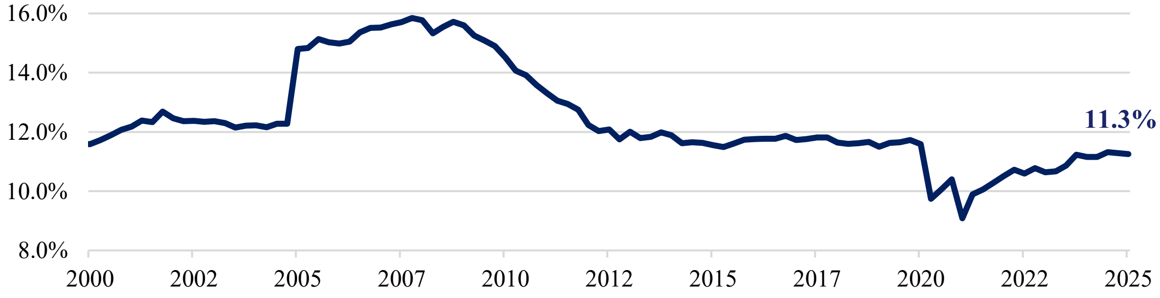
Household debt service ratios have ticked up to 11.3% of disposable personal income, a move toward pre-pandemic norms. While this marks a steady increase from the unusually low levels seen in 2021–2022, it remains comfortably below the pre-2008 highs, suggesting that most households are still managing their debt burdens without significant strain.

Together, these indicators point to **continued consumer spending momentum into the second half of the year**, supported by stable employment and wage growth. That said, **credit-sensitive segments—particularly lower-income households and younger borrowers—may face growing pressure** as interest rates remain elevated and household leverage creeps higher. These pockets of vulnerability warrant close monitoring, especially in the context of rising living costs and tighter lending standards.

Consumer Loans Delinquency (%)



Household Debt Service Payments as a Percent of Disposable Personal



Source: Federal Reserve St. Louis, Data as of 18 August, 2025

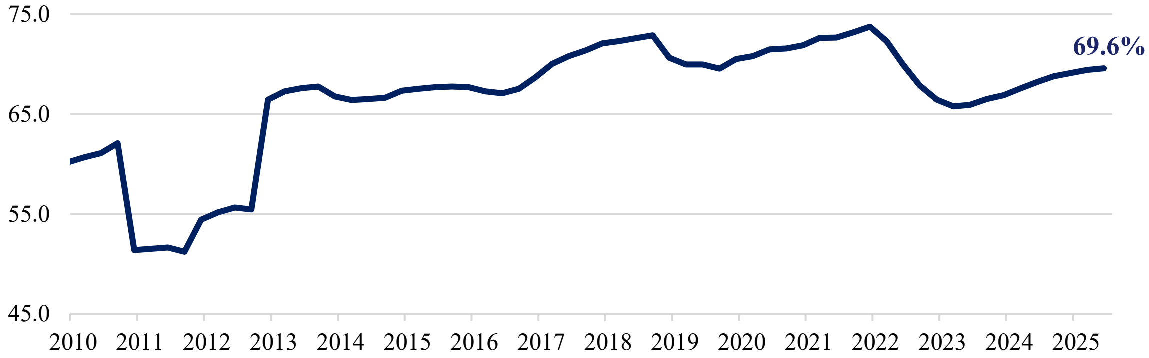
Corporate Financial Health

Despite macroeconomic headwinds and tighter financial conditions, corporate America continues to demonstrate remarkable resilience. **S&P 500 gross margins, while slightly below their recent highs, ticked up slightly to 69.6%**, remaining well above long-term averages. This strength reflects sustained pricing power, disciplined cost management, and ongoing efficiency gains—particularly in sectors that have embraced automation and digital transformation. Companies have shown an ability to protect profitability even as input costs fluctuate and demand patterns shift.

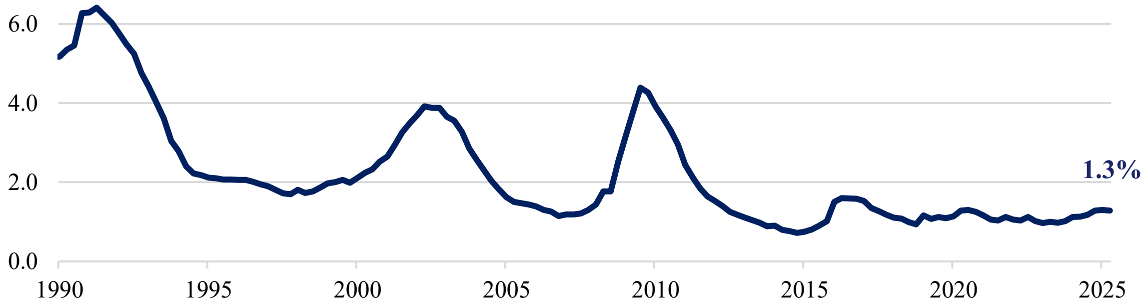
Business loan delinquency rates remain historically low, hovering around 1.3% in early 2025, a clear signal of healthy corporate balance sheets and prudent financial stewardship. This low level of stress in bank loan books suggests that most firms are managing their debt obligations effectively, with ample liquidity and access to capital markets. The benign credit environment has also helped banks maintain strong asset quality, reducing the risk of contagion across the financial system.

Earnings resilience and low corporate delinquencies continue to underpin credit market confidence, supporting robust demand for both investment-grade and high-yield issuance. This favorable backdrop has M&A, driven by strategic consolidation and opportunistic deal-making, particularly in sectors with strong cash flow visibility and balance sheet flexibility.

S&P 500 Gross Margins (%) Since 2010



Delinquency Rate on Business Loans, All Commercial Banks



Sources: Federal Reserve St. Louis, Macrotrends Data as of 31 August, 2025

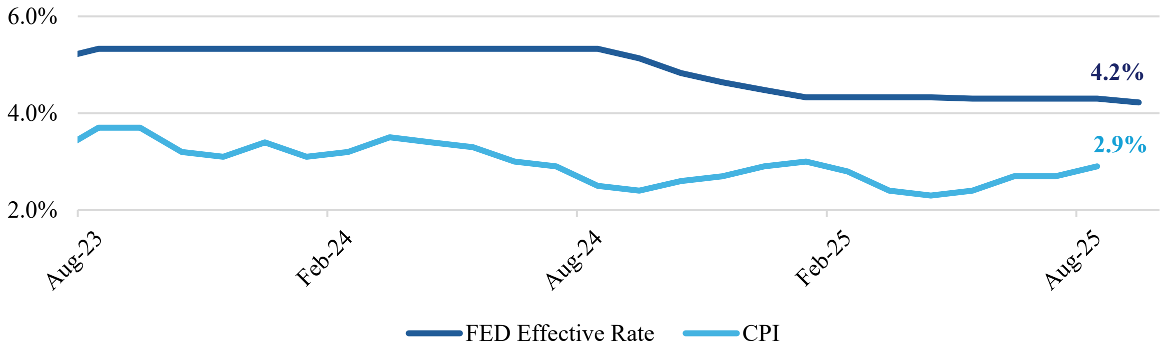
Public Rates Markets

July's CPI rose slightly to 2.9%, while the Fed Funds effective rate for September further fell to 4.2%, keeping monetary policy firmly in restrictive territory. The subdued inflation reading, coupled with a softer demand backdrop, supported modest gains in investment-grade bonds—even as credit spreads tightened slightly. High-yield sectors continued to show resilience, with spreads hovering near historic lows, reflecting strong investor appetite and confidence in corporate fundamentals.

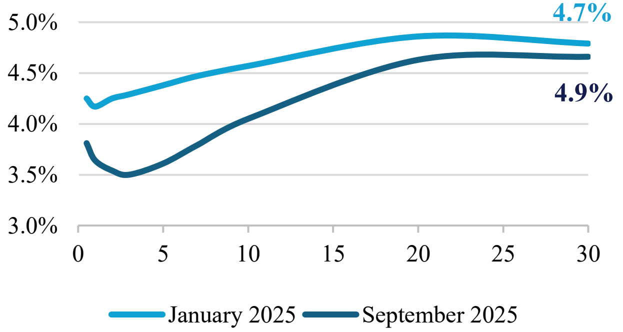
U.S. Treasury yields steepened modestly over the year, with front-end rates remaining anchored while intermediate maturities eased, reflecting a recalibration of rate expectations. At the same time, short-term funding costs stayed elevated, as SOFR closed September at 4.24%, underscoring persistent liquidity constraints in overnight markets. The widening gap between short- and intermediate-term yields signals rising investor anticipation of policy easing, even as near-term funding pressures continue to weigh on market dynamics.

The Federal Reserve maintained its target rate at 4.25–4.50%, reiterating its data-dependent stance as inflation gradually trends toward its 2% objective. Although markets are pricing in a potential rate cut in October, the recent uptick in PPI suggests any easing will likely be cautious and incremental. Policymakers remain focused on balancing inflation control with financial stability, especially as global growth signals begin to soften.

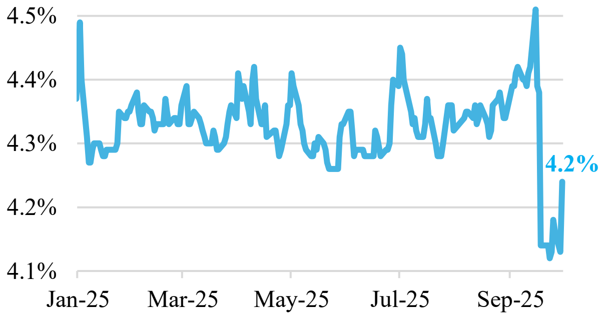
CPI Vs. Fed Effective Rate



Treasury Yield Curve

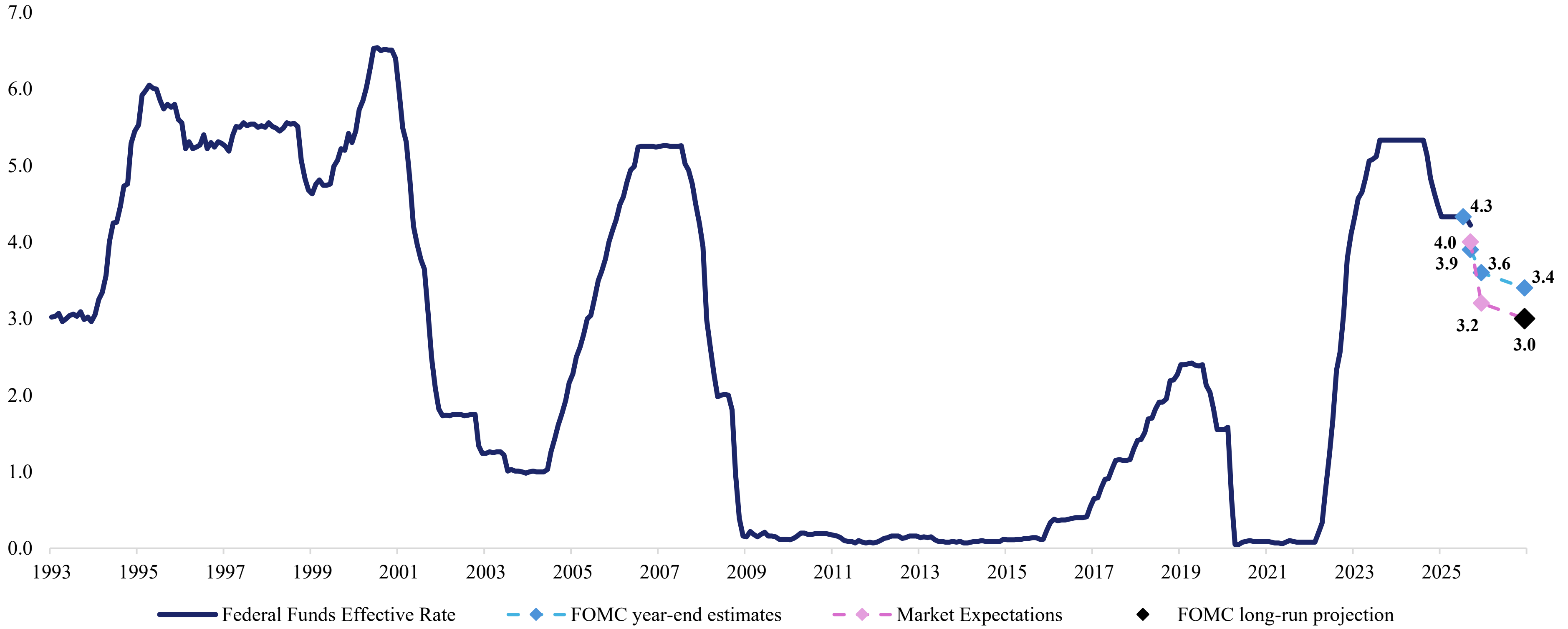


US SOFR Overnight Rate



Sources: Federal Reserve St. Louis, US BLS, US Dept. of Treasury, CME FedWatch Data as of 31 July, 2025

Fed Funds Rate Expectations



Sources: Federal Reserve St. Louis, Bloomberg Data as of 1st October, 2025

Public Credit Markets

High-yield spreads held steady at 2.8% in September, near historical lows, signaling a durable credit environment and sustained investor demand. Though spreads have edged up from cycle lows, they remain compressed relative to long-term norms, underscoring market resilience despite elevated policy rates.

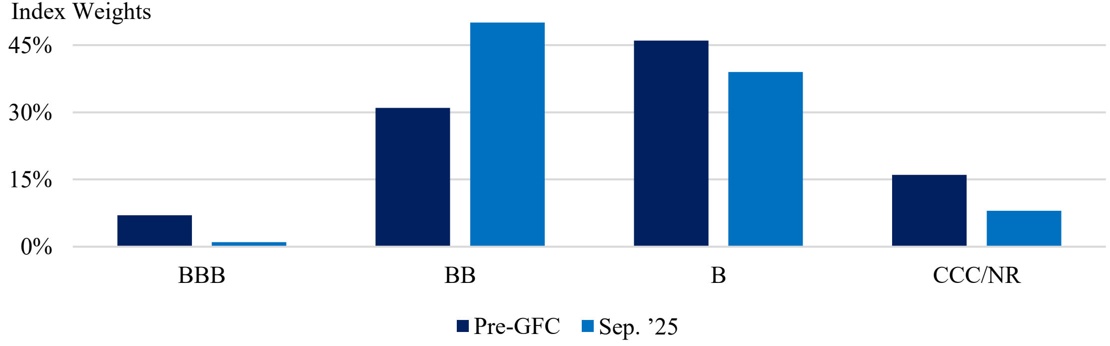
The high-yield index has undergone a notable shift since the pre–Global Financial Crisis era. BB-rated bonds now comprise nearly 50% of the index, up from roughly 30%, while B-rated allocations have moderated. This move up in credit quality reflects stronger gross margins across industries and reduced leverage, as the past years elevated inflation contributed to the natural deleveraging of corporate balance sheets.

Index weights to CCC-rated and non-rated (NR) bonds has also declined sharply, further tilting the index toward higher-quality credit. This shift enhances market resilience and reduces vulnerability to default cycles.

Following reputational setbacks during the Global Financial Crisis, rating agencies have adopted more conservative assumptions and stricter scrutiny of issuer fundamentals. **These tighter underwriting standards make the move toward higher-quality issuance even more notable**, reflecting a lower corporate leverage preference and a more disciplined credit environment.

US Corporate High Yield Average Option Adjusted Spreads

Credit Rating Weights in U.S. High Yield Index



Source: Federal Reserve Bank of St. Louis, J.P. Morgan Domestic High Yield Index weights

Bank Lending Markets

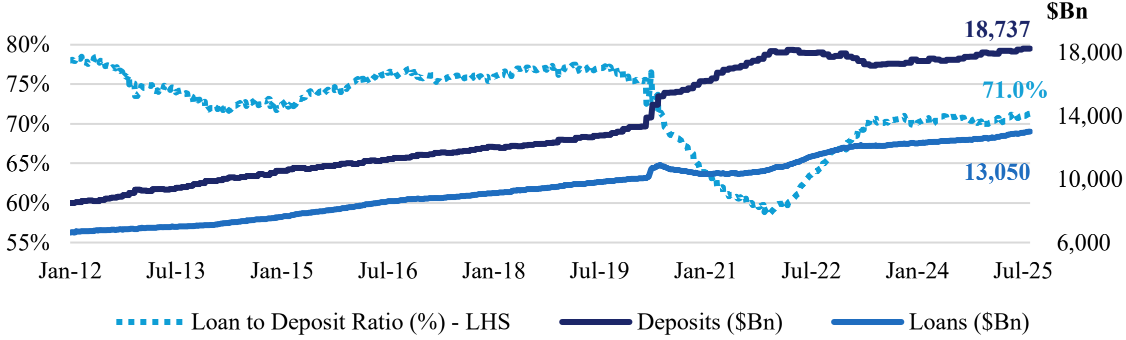
The loan-to-deposit ratio, which peaked near 78% prior to the COVID-19 pandemic, has now stabilized around 71%, reflecting continued caution across the banking sector in the wake of the Silicon Valley Bank bankruptcy. The Banks remain highly selective and risk-averse, contributing to a 7-point gap that, if closed, would unlock nearly **$1 trillion in deployable lending capital**—a powerful signal of the system's untapped capacity.

Tier-1 capital ratios remain elevated at 14.1%, near post–Global Financial Crisis highs. These strong capital buffers provide a solid foundation for credit expansion and risk absorption, reinforcing the sector's ability to support larger corporate financings even in a more conservative lending environment.

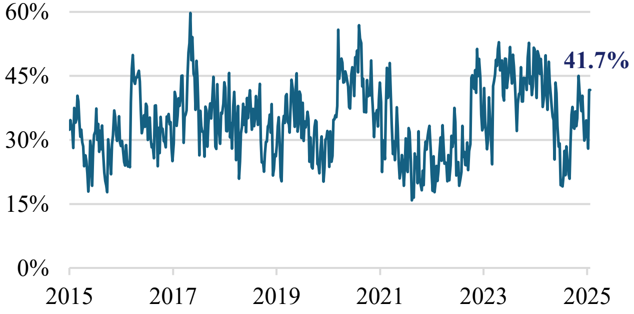
Meanwhile, **lender sentiment remains soft**, with bullishness increasing 7.1 percentage points over September to 41.7%. This minor pullback reflects continued macroeconomic uncertainty and a more guarded outlook on credit markets, despite the sector's underlying financial position.

The combination of **steady deposit inflows and robust capital reserves** positions banks to remain active participants in credit intermediation through the second half of the year. Despite softening sentiment, the industry's strong balance sheets suggest ample capacity to sustain lending activity and absorb potential credit shocks—without triggering a material tightening of underwriting standards.

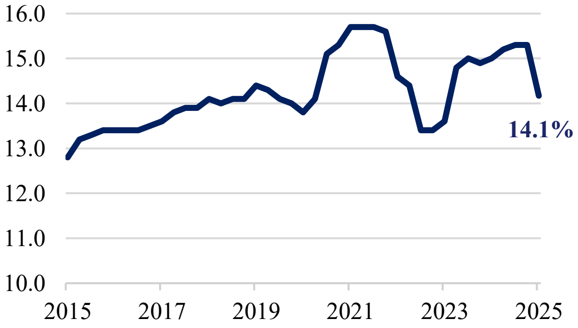
Loan to Deposit Ratio



Lender Sentiment Survey, % Bullish



Bank Tier-1 Capital as % of Assets



Sources: Federal Reserve St. Louis, S&P Capital IQ, AAII

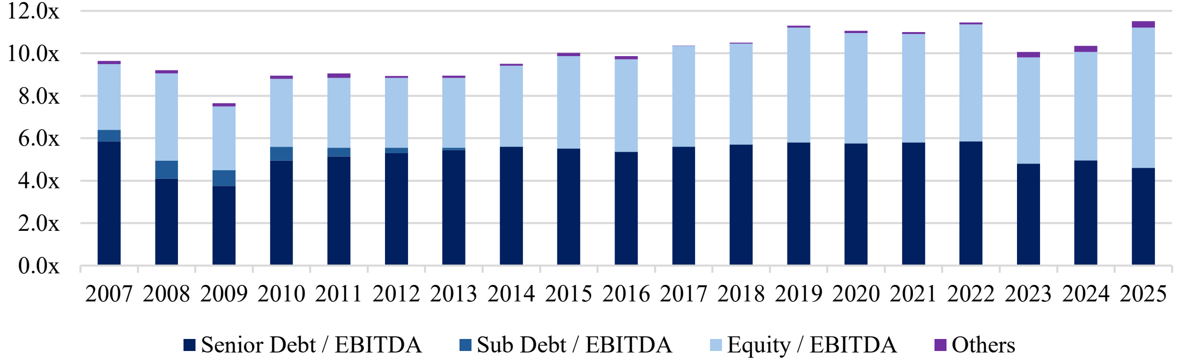
Private Credit Markets

LBO purchase price EBITDA multiples remain elevated, supported by strong sponsor activity and senior debt financing averaging 4.0x–4.5x EBITDA. While modestly below the 2021–2022 highs, overall purchase price multiples have stabilized near 10x EBITDA, underscoring sustained competition among lenders. Senior leverage has remained conservative, aided by the widespread use of unitranche facilities that continue to minimize reliance on subordinated or mezzanine debt.

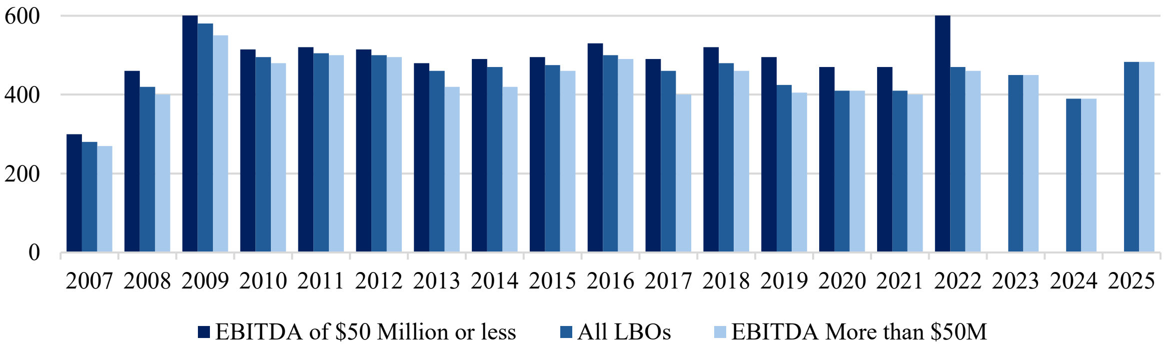
Institutional loan spreads widened slightly in 2025, reversing last year's compression. Average spreads now range between 450–470 bps, up from roughly 400 bps in 2024, as lenders adjusted to higher funding costs and macroeconomic volatility. Despite this modest uptick, spreads remain well below 2022 peaks and continue to reflect strong credit quality and disciplined underwriting. The spread differential between sub-$50 million and larger EBITDA deals persists, though it has narrowed as smaller borrowers regained access to private credit markets.

Overall, private credit remains competitively priced and highly accessible for well-structured transactions. Robust liquidity, elevated equity contributions, and flexible debt structures continue to favor borrowers. However, if macroeconomic uncertainty and rate volatility persist, lenders may reprice risk selectively, especially for lower middle-market credits.

LBO Purchase Price Multiples (EBITDA Multiples)



LBO Institutional Spreads



Source: Pitchbook Q2'25 US LBO Update

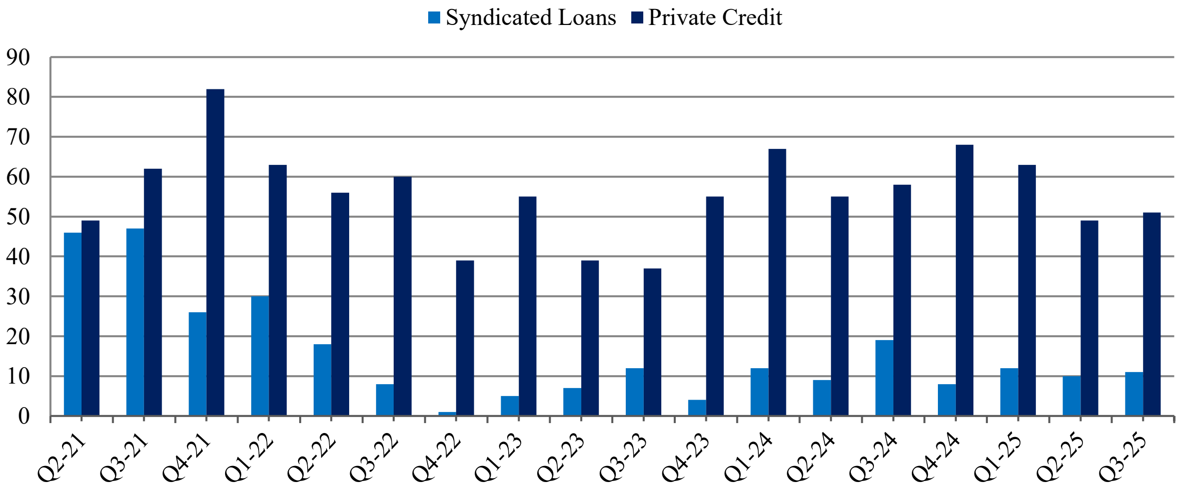
Private Credit Markets

Private credit markets moderated in Q3 2025 after two strong quarters but continued to show resilience amid ongoing tariff disruptions and market uncertainty. Direct lending issuance through September reached $173 billion, up from $121 billion in the first half of the year, though growth slowed quarter-over-quarter. Buyout-related direct lending fell to about $18 billion in Q3, down from $22 billion in Q2, marking a brief pause following record sponsor-driven demand.

Compared to prior quarters, private credit maintained a dominant share of LBO financing relative to bank syndicated loans—accounting for nearly 80% of total LBO volumes in Q3 2025. While deal flow softened, private credit providers remained favored for their flexibility and execution certainty, particularly amid tighter banking standards and macroeconomic headwinds that continued to constrain traditional syndicated lending.

Globally, the private credit market now exceeds an estimated $2.6 trillion, nearly double its size from four years ago. Investor demand for yield and predictable cash flows continues to underpin lending activity, even as heightened competition among lenders has compressed spreads. Despite these pressures, private credit continues to command a meaningful premium over public credit alternatives and remains a critical funding source for middle-market and sponsor-backed transactions.

LBOs Financed by Bank Syndicated Loans vs. Private Credit



Sources: Pitchbook

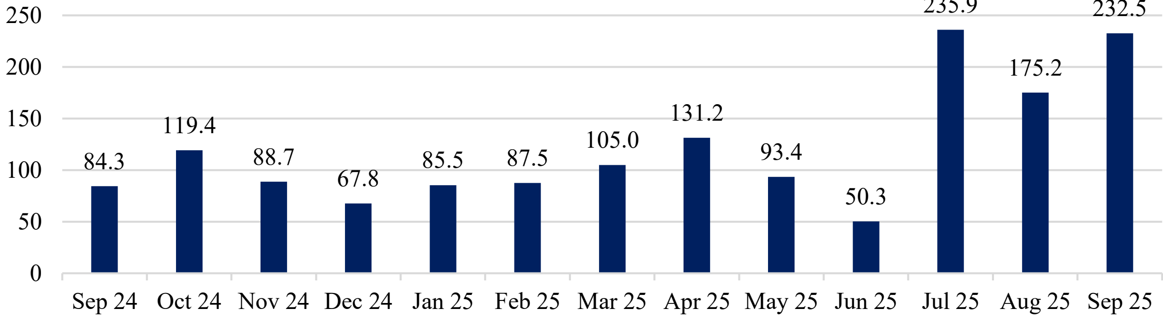
M&A Trends

Through late 2025, U.S. M&A activity accelerated, with total capital invested surging to $232 billion in September, just below the July peak of $236 billion. This sustained rebound underscores strong deal momentum and renewed sponsor confidence following a midyear slowdown. Aggregate deal value for 2025 now stands well above 2024 levels, reflecting broad recovery across strategic and private equity transactions.

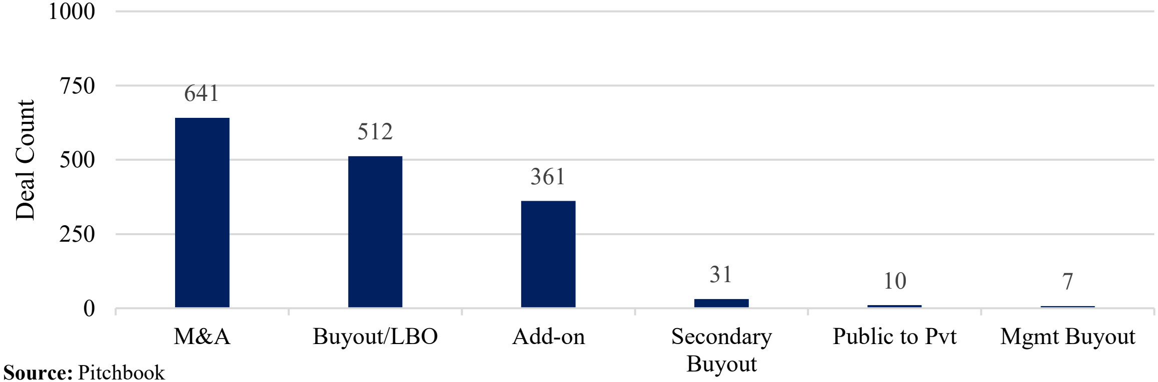
While deal count remains moderate, transaction size continues to expand—driven by a wave of large-scale buyouts and add-ons. M&A transactions (641) and buyouts/LBOs (512) accounted for the majority of deal flow, while smaller categories such as secondary and management buyouts saw steady but limited activity. This ongoing shift toward larger, sponsor-backed deals highlights both abundant liquidity and heightened risk concentration in the upper end of the market.

Looking ahead, sustained activity levels suggest continued investor appetite through year-end. However, as valuations rise and financing conditions tighten, acquirers may face increasing pressure on leverage ratios and post-merger integration capacity.

US Capital Invested ($B)



Financing Trends by Deal Type



Source: Pitchbook

Outlook

The September–October macro-outlook appears broadly constructive, supported by resilient labor markets, contained inflation, and strong consumer spending—all of which continue to anchor economic momentum. Liquidity remains ample across both traditional banks and private credit channels, while growing expectations of a measured Fed pivot toward lower rate suggests financial conditions may ease meaningfully in the near term.

Improving policy visibility and fading trade uncertainties are helping to revive deal activity, with July already showing an uptick in larger transactions and renewed corporate investment confidence. Credit spreads remain historically tight, and investor demand across rating tiers continues to provide a stable and diversified funding base.

While near-term risks—including potential trade disruptions or abrupt shifts in rate expectations—warrant close monitoring, the overall market tone remains positive and supportive of continued transaction flow.

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Mr. Consul brings over 20 years of expertise in domestic and international capital markets as a Senior Portfolio Manager and Fixed Income, Currency, and Commodities Strategist. Most recently, serving as Senior Portfolio Manager and Fixed Income Strategist for Victory Capital's institutional fixed income team, where he was a member of the investment committee overseeing nearly $7 billion in assets under management across Total Return, Short-Duration, and Convertibles strategies. Throughout his career, Mr. Consul has been a trusted business partner for corporate, banking, and insurance clients, helping them navigate and solve complex challenges related to liquidity, risk management, Asset-liability Management (ALM), and secondary market dynamics.

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Mr. Vermet brings nearly a decade of experience in institutional asset management and investment banking to the team. He has been an integral part of close-knit investment teams responsible for the portfolio construction and tactical asset allocation of over $30 billion in institutional capital, helping clients manage and structure their balance sheets with strategic asset liability management solutions. As a trusted advisor, Mitch has consistently guided clients to solutions for their most immediate challenges while helping to enable them to prudently manage risk and be dynamically positioned to capitalize on opportunities over all possible future macroeconomic scenarios.