



Credit Market Update

December 2025

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Executive Summary

1

U.S. GDP **growth accelerated to a robust 4.3%** in Q3 2025, driven primarily by resilient consumer spending and a notable narrowing of the U.S. trade deficit. Household demand remains supported by steady job creation, real income gains, and a gradual easing in inflation pressures. While it's too early to draw definitive conclusions, recent trade data suggests that the administration's imposition of tariffs and the renegotiation of global trade agreements may be contributing a material shift in trade flows, with increased domestic production and import substitution beginning to alter the composition of U.S. trade activity.

2

Corporate fundamentals remain strong, with **S&P 500 gross margins near 69.8%** and **business loan delinquencies at just 1.3%**; as a result, high-yield spreads remain well supported near all-time lows of 2.8%. While bank lender sentiment remains cautious, with only 42.5% of commercial lenders reporting a bullish outlook, earnings resilience and low corporate delinquencies continue to support credit market growth, led by private credit direct lenders with ample liquidity filling the M&A funding gap left by banks.

3

Aggregate M&A deal value finished 2025 well above 2024, fueled by a broad recovery in strategic and private equity transactions. After a mid-year lull, U.S. M&A rebounded at year-end, with capital invested rising to \$201.97 billion in December. Year-end momentum reflects growing sponsor confidence and signals continued investor appetite into early 2026, though stretched valuations may pressure acquirers' leverage and post-merger integration capacity.

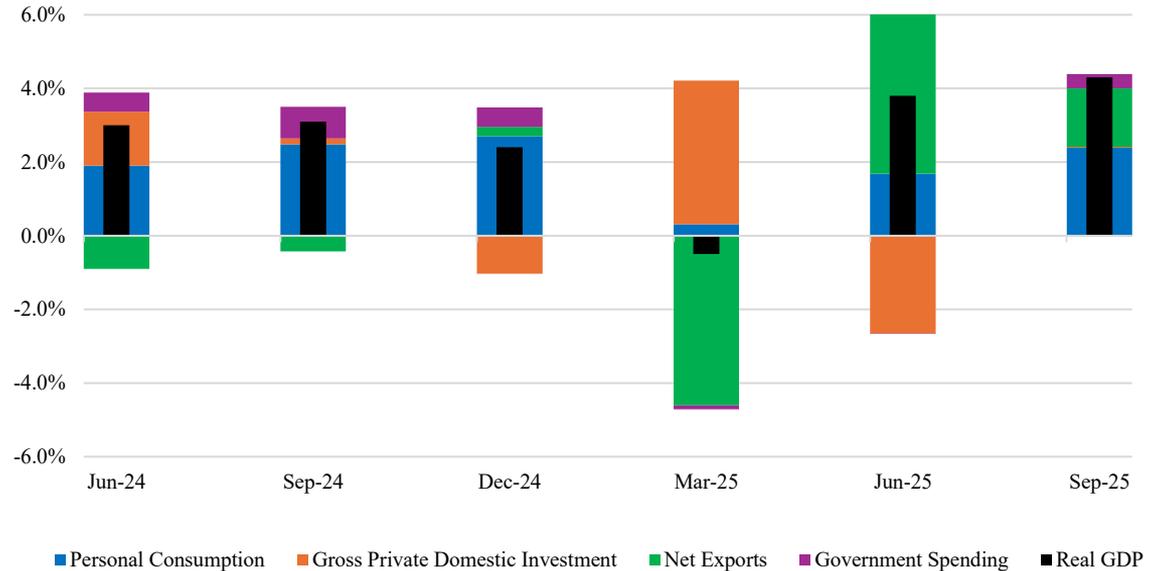
US GDP Breakdown

U.S. economic momentum accelerated in Q3, with the advance estimate showing robust **4.3% annualized growth**, driven by a turnaround in net exports and resilient consumer spending. Stable labor markets and moderating inflation continue to support household spending and services activity, confirming that domestic demand remains healthy and momentum remains constructive heading into 2026.

The sharp improvement in net exports suggests that recent tariffs and trade renegotiations are materially shifting trade flows, supporting increased domestic production and import substitution. These developments highlight the growing impact of trade policy on U.S. economic composition and reinforce the constructive backdrop for continued growth.

At the same time, surging productivity gains are boosting forward-looking growth prospects. Higher output per worker not only supports stronger corporate earnings and investment but also allows for more sustainable economic expansion without triggering excess inflation, enhancing the resilience of the U.S. economy in the year ahead.

Contributions to Percent Change in Real Gross Domestic Product



Source: BEA Data as of 25 September, 2025

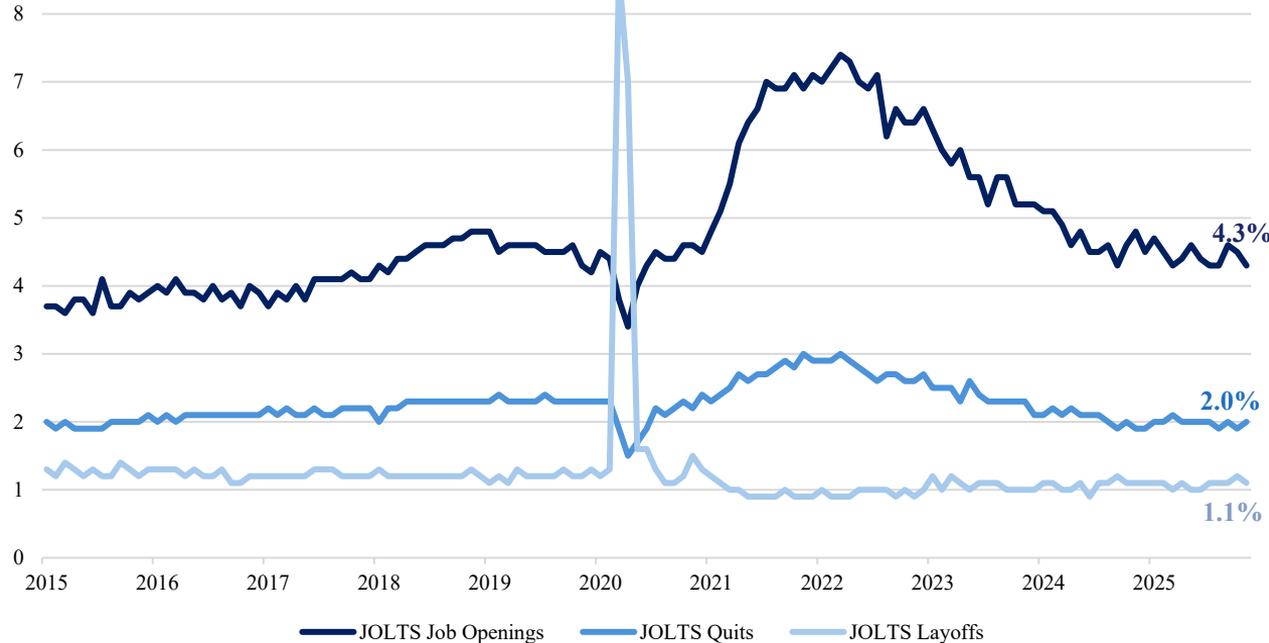
JOLTS Employment Survey Data

According to the November 2025 Job Openings and Labor Turnover Survey (JOLTS), the labor market remains healthy, with signs that tightness is easing and inflationary pressures are moderating. Job openings gradually declined to **7.15 million**, reflecting businesses reassessing hiring needs amid steady but slower economic growth. **However, openings remain above pre-2020 levels, signaling a strong employment environment.**

Layoffs increased slightly to 1.7 million but remain in line with long-term trends, while quits held steady at 3.1 million, signaling continued worker confidence. This balance between stable separations and moderating hiring points to a soft-landing dynamic, where labor demand slows without triggering large-scale job losses.

Wage pressures have eased as the market seems to be finding increasing supply demand equilibrium, giving the Fed more flexibility to consider further rate cuts without stoking inflation. Overall, the employment environment remains supportive of consumer spending and underpins the broader growth outlook entering 2026.

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



Source: US Department of Labor Data as of 7 January, 2026

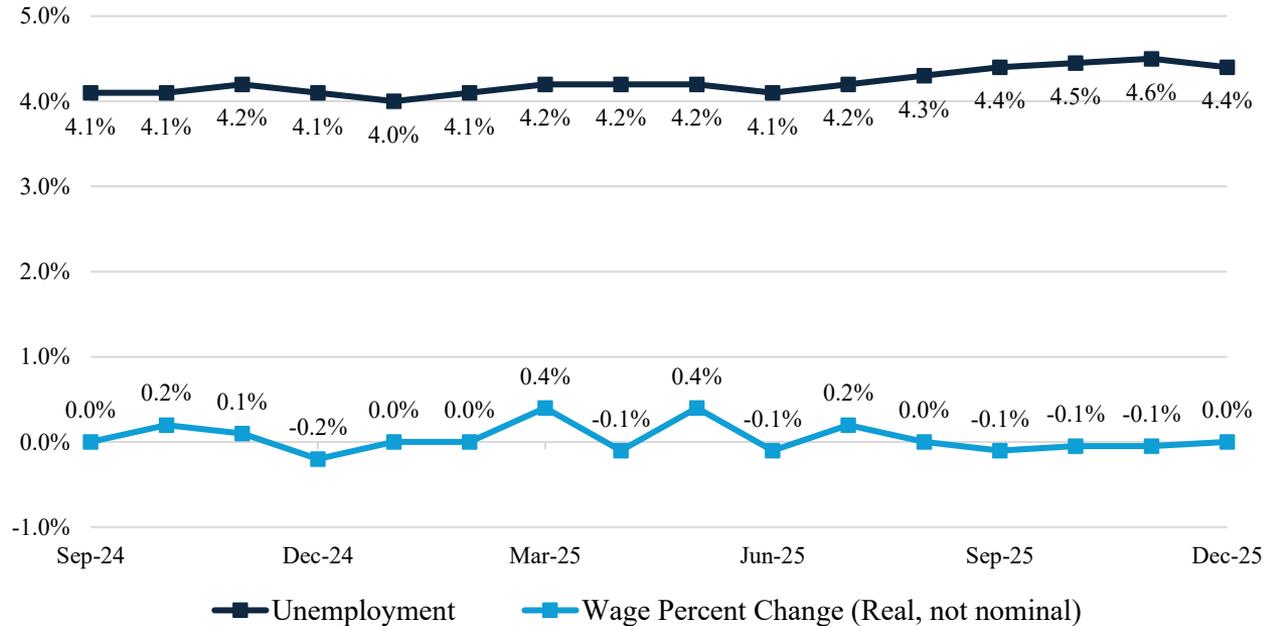
Unemployment and Wage Growth

The U.S. labor market remained remarkably steady through 2025, with the unemployment rate holding in the low to mid-4% range throughout the year. This stability reflects a balanced employment environment, where job creation is keeping pace with labor force growth and month-to-month volatility has been minimal. Despite slowing economic momentum, employers have largely retained workers, signaling confidence in underlying demand and a reluctance to reintroduce hiring frictions.

Real average hourly earnings showed limited movement, fluctuating between -0.2% and +0.4% for most of the year. Recent readings month-over-month highlight modest wage growth, indicating a labor market that is neither overheating nor weakening and helping ease inflationary pressures.

Bottom line: labor conditions remain balanced. Unemployment is low, wage pressures are contained, and there are few signs of broad-based stress or overheating. This backdrop gives policymakers flexibility to manage 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 18th December, 2025

Footnote: October and November data are estimated as the arithmetic mean of the adjacent months due to the unavailability of official releases.

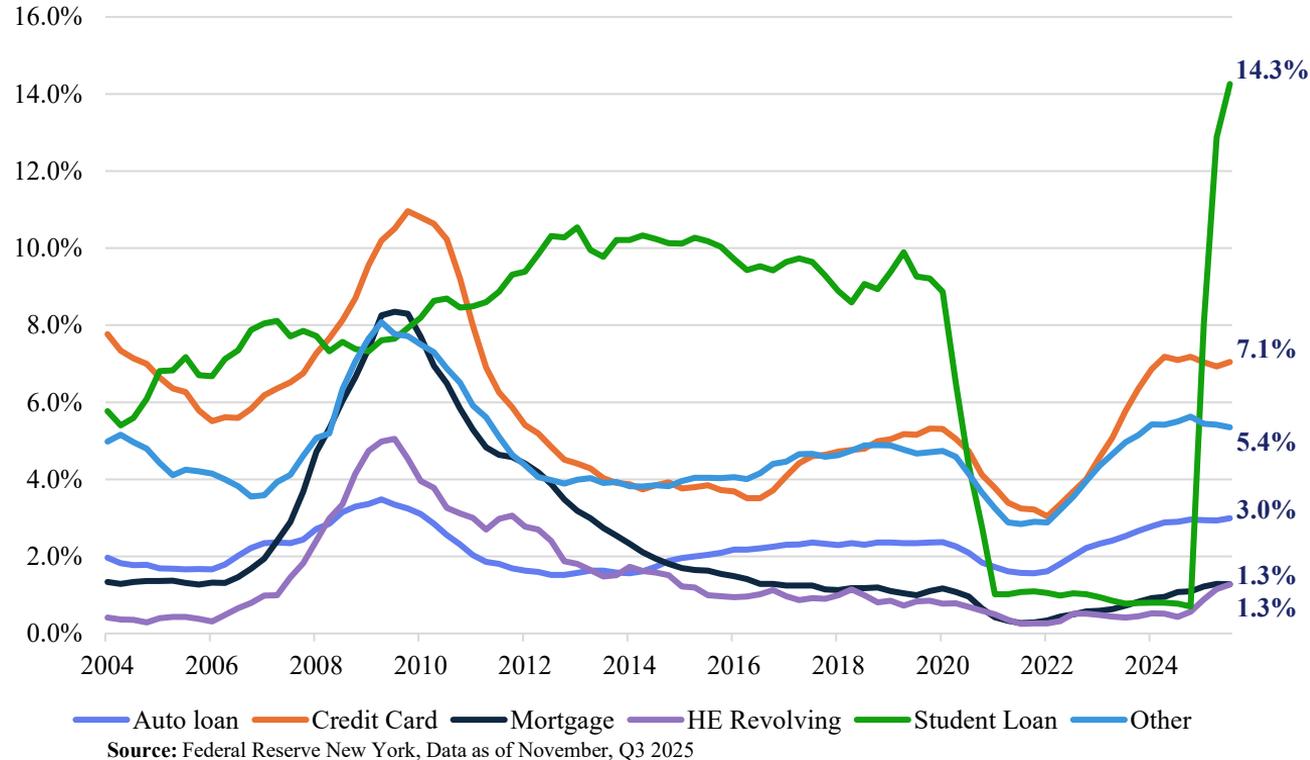
Consumer Financial Health

Consumer balance sheets remain broadly within acceptable delinquency ranges as we enter 2026. Transitions into serious delinquency (90+ days past due) have risen from pandemic-era lows, but remain below prior cycle peak, indicating that household credit stress remains contained by historical standards.

The exception is student loan delinquencies, which have risen sharply to 14.3%. Much of this increase reflects the expiration of Biden-era student loan forbearance and forgiveness programs. However, even after accounting for the program's expiration, student loan defaults have surged to all-time highs, suggesting additional sources of stress among recent graduates. While it is too early to fully explain the magnitude of this increase, these borrowers typically represent near-term household formation demand, and elevated delinquency rates—along with impaired credit scores—could delay broader household formation.

Overall, these trends point to continued consumer spending resilience heading into 2026, but with mounting pressure on credit-sensitive segments, particularly younger and lower-income borrowers. These pockets of vulnerability warrant close monitoring as we progress through 2026.

Transition into Serious Delinquency by Loan Type (90+)



Corporate Financial Health

Five years after COVID, corporate America continues to display notable resilience. **S&P 500 gross margins, though modestly below recent peaks, remain elevated at 69.8%**—well above long-term averages. This durability reflects sustained pricing power, disciplined cost control, and ongoing efficiency gains, particularly in sectors that have embraced automation and digital transformation. Companies have largely preserved profitability despite volatile input costs and shifting demand patterns.

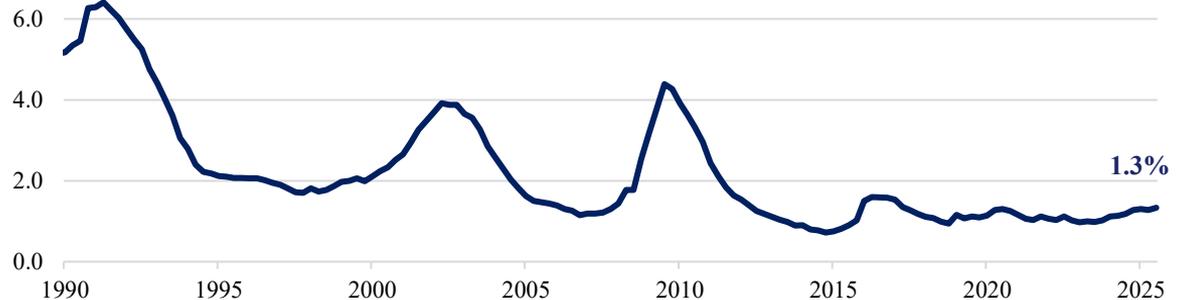
Corporate credit conditions remain equally supportive. **Business loan delinquency rates are historically low, hovering around 1.3% in late 2025**, underscoring strong balance sheets and prudent financial management. This limited stress in bank loan portfolios suggests most firms are comfortably servicing debt, supported by ample liquidity and continued access to capital markets. In turn, banks benefit from solid asset quality, reducing the risk of broader financial contagion.

Together, earnings resilience and low delinquency rates underpin confidence across credit markets, sustaining robust demand for both investment-grade and high-yield issuance. This favorable backdrop has also supported M&A activity, driven by strategic consolidation and opportunistic deal-making—particularly in sectors offering 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 30 September, 2025

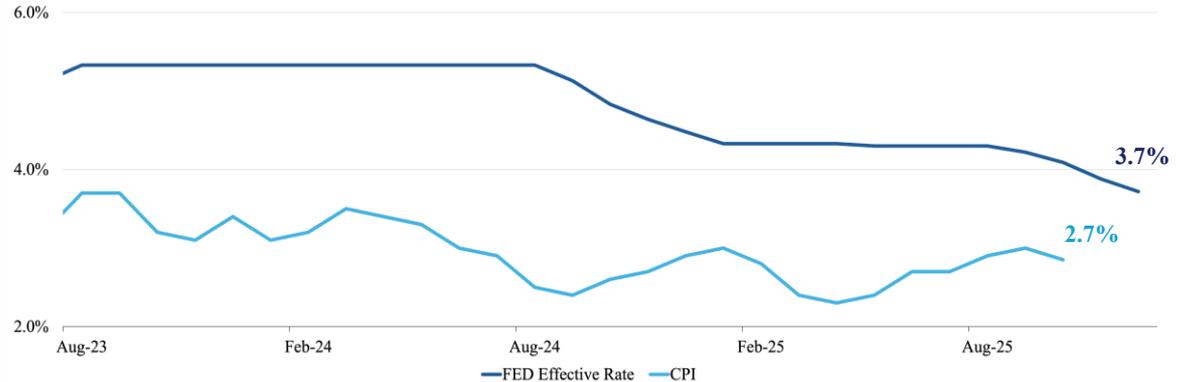
Public Rates Markets

While November's **CPI eased modestly to 2.7%**, inflation continues to show a clear moderation from the elevated levels observed between 2022 and 2024. This deceleration in price pressures has afforded the Federal Reserve greater policy flexibility, enabling its third rate cut of the year. By late December, **the federal funds rate stands at 3.7%**.

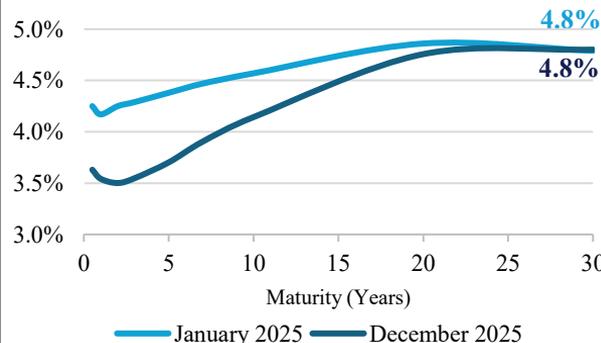
Corporate credit spreads have continued to grind tighter as yield-oriented investors remain constructive across both investment-grade and high-yield markets. Strong balance sheet fundamentals, combined with a supportive macroeconomic backdrop, have sustained demand for corporate credit. As a result, spreads are hovering near historic lows, reflecting robust investor appetite and confidence in corporate earnings durability.

Meanwhile, the **“kinked” shape of the U.S. Treasury yield curve points to expectations for further monetary easing in the coming quarters.** At the same time, elevated long-term yields suggest investors anticipate either a relatively shallow rate-cutting cycle or a potential reacceleration of growth and inflation over the longer term. The gap between short- and intermediate-maturity yields underscores growing expectations of policy easing, even as near-term funding dynamics continue to shape market conditions.

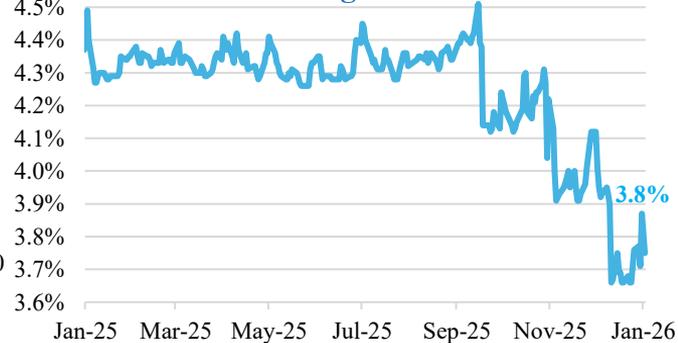
CPI Vs. Fed Effective Rate



Treasury Yield Curve



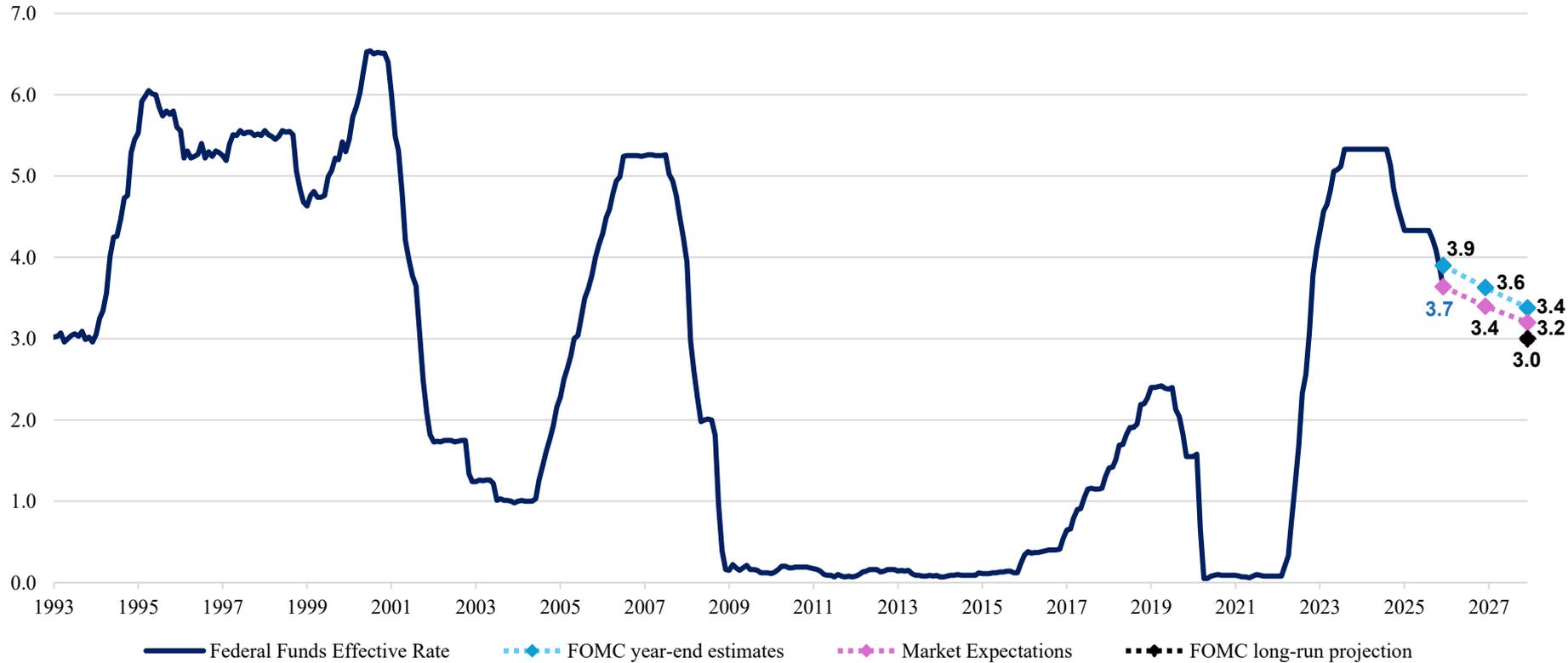
US SOFR Overnight Rate



Sources: Federal Reserve St. Louis, US BLS, US Dept. of Treasury, CME FedWatch Data as of 1 December, 2025

Footnote: October data are estimated as the arithmetic mean of the adjacent months due to the unavailability of official releases.

Fed Funds Rate Expectations



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

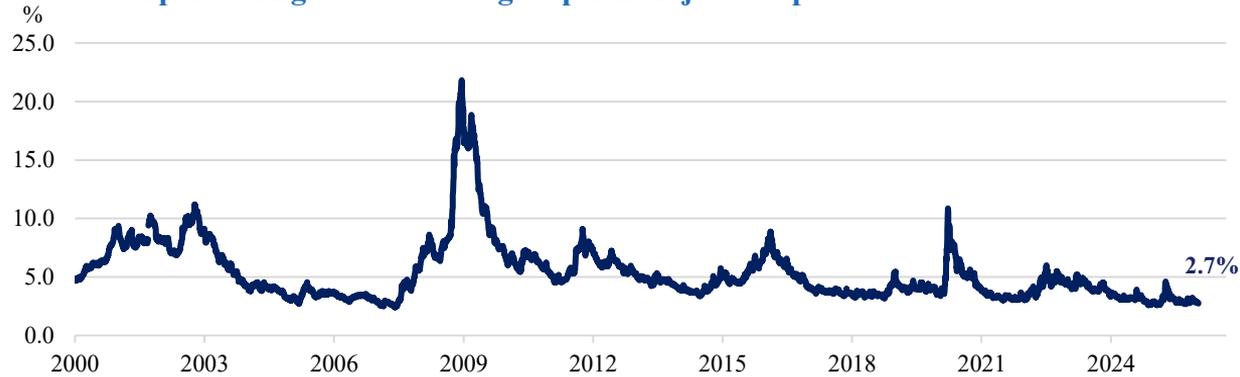
Public Credit Markets

High-yield credit spreads tightened modestly from 2.9% to 2.8% in December, reflecting sustained investor demand for yield. While the magnitude of the move was limited, spreads remain low by historical standards, underscoring a constructive credit environment supported by resilient corporate fundamentals and a continued appetite for risk.

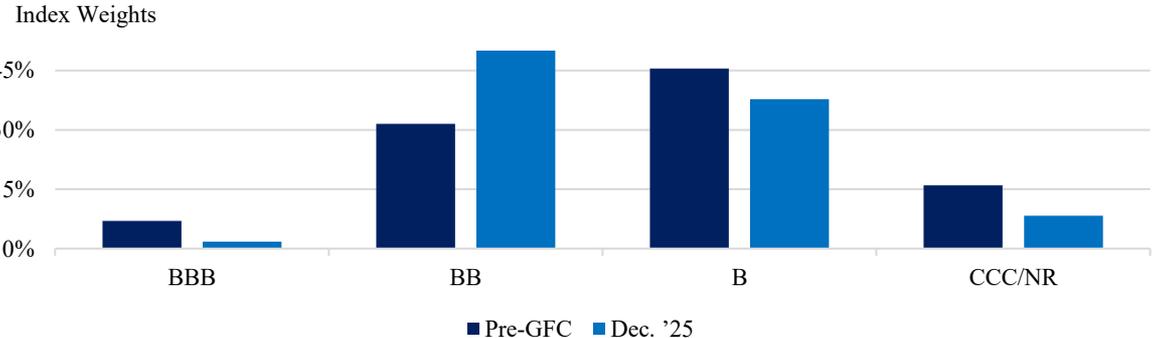
The composition of the high-yield index since the pre-Global Financial Crisis (GFC) period has also meaningfully improved. BB-rated bonds now account for nearly 50% of the index, up from approximately 30%, while allocations to B-rated and below rated issuers have declined. This upward shift in credit quality reflects stronger gross margins across industries and lower leverage, as elevated inflation in recent years has facilitated the natural deleveraging of corporate balance sheets. Further tilting the index toward higher-quality credit. This evolution enhances overall market resilience and reduces vulnerability to default cycles.

Finally, following reputational setbacks during the Global Financial Crisis, **rating agencies have adopted more conservative assumptions and applied stricter scrutiny to issuer fundamentals.** Against this backdrop, the move toward higher-quality issuance is particularly notable, reinforcing the view that corporate leverage preferences have declined and that the high-yield market is operating within a more disciplined credit framework.

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

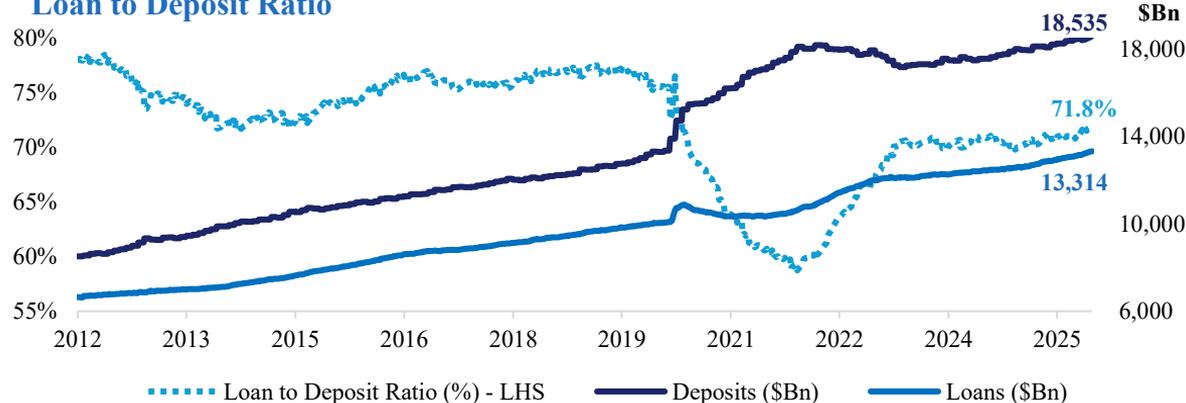
Bank loan-to-deposit ratio, which peaked near 78% prior to the COVID-19 pandemic, has stabilized around 71.8%, reflecting continued caution across the banking sector following the pandemic and Silicon Valley Bank failure. Banks remain highly selective and risk-averse, contributing to a roughly seven-point excess liquidity difference that—if redeployed—could unlock nearly \$1 trillion in additional lending capacity, highlighting significant untapped credit potential within the system.

Tier 1 capital ratios remain elevated at 14.1%, near post-Global Financial Crisis highs. These robust capital buffers provide a strong foundation for both credit expansion and loss absorption, reinforcing banks’ ability to support larger corporate financings even within a more conservative underwriting environment.

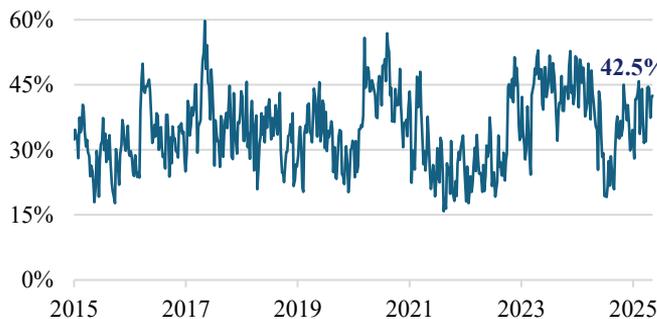
While overall lender sentiment remains subdued, bullishness increased modestly in December, rising to 42.5%. This improvement reflects greater macroeconomic clarity and a more constructive outlook for credit markets, supported by the sector’s underlying financial strength.

Taken together, steady deposit inflows and strong capital reserves position banks to remain active participants in credit intermediation. Despite cautious sentiment, balance sheet strength across the industry suggests ample capacity to sustain lending activity and absorb potential credit shocks—without triggering a broad-based tightening of underwriting standards.

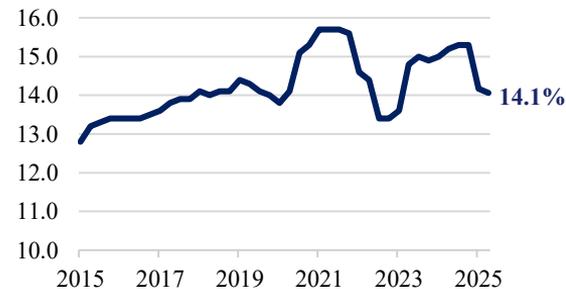
Loan to Deposit Ratio



Lender Sentiment Survey, % Bullish



Bank Tier-1 Capital as % of Assets



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

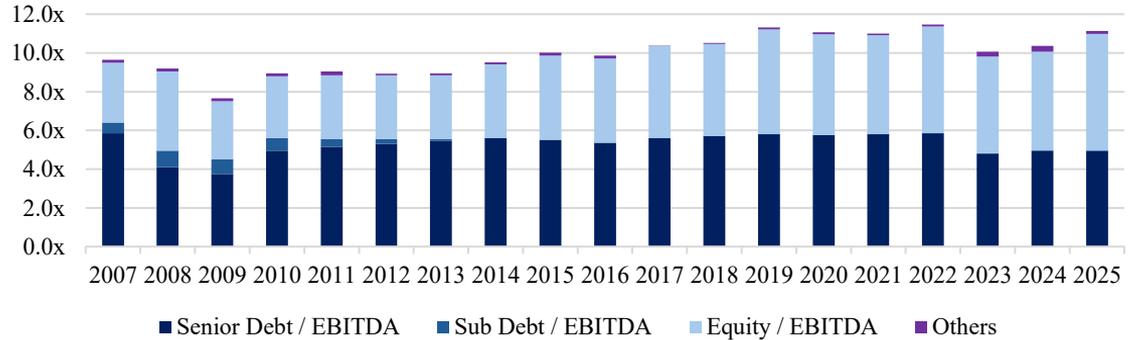
Private Credit Markets

LBO purchase price EBITDA multiples remain elevated, supported by strong sponsor activity and senior debt financing typically averaging 4.0x–4.5x EBITDA. While modestly below the 2021–2022 peaks, overall purchase price multiples have stabilized near 10x EBITDA, underscoring sustained competition among both lenders and sponsors. Senior leverage has remained conservative, aided by the widespread use of unitranche facilities.

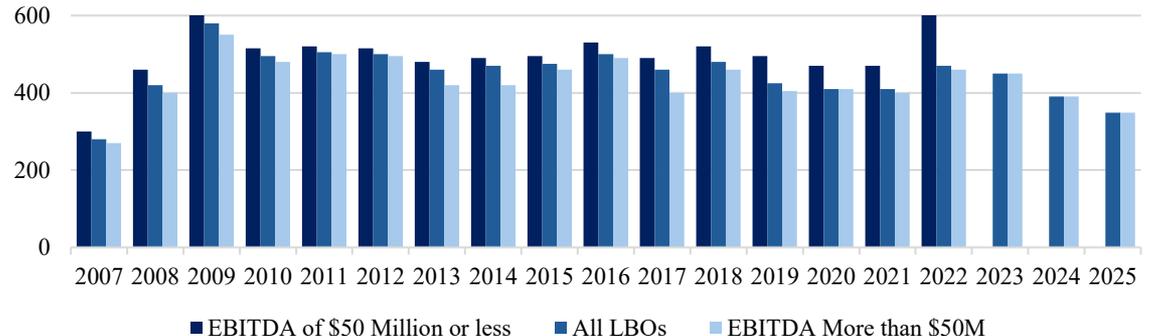
Institutional loan spreads compressed modestly in 2025, extending the tightening trend seen last year. Average spreads now range from 350–400 basis points, down from approximately 400 basis points in 2024, as lenders adapted to higher funding costs and macroeconomic volatility. Despite this compression, spreads remain well below their 2022 highs and continue to reflect strong credit quality and disciplined underwriting standards.

Overall, private credit remains competitively priced and readily accessible for well-structured transactions. Robust liquidity, elevated equity contributions, and flexible capital structures continue to favor borrowers. Should macroeconomic uncertainty and interest-rate volatility persist, lenders may selectively reprice risk—particularly for lower middle-market credits with less stable cash-flow profiles.

LBO Purchase Price Multiples (EBITDA Multiples)



LBO Institutional Spreads



Source: Pitchbook US LBO Debt Quarterly Trend Lines Q4 2025

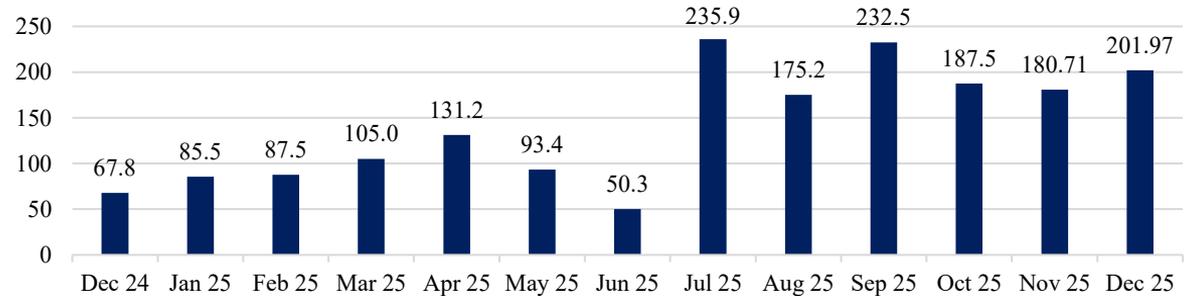
M&A Trends

U.S. M&A activity rebounded at year-end, with total capital invested rising to \$202 billion in December, reversing November’s pullback of \$181 billion. This rebound closed 2025 with renewed deal momentum and points to improving sponsor confidence.

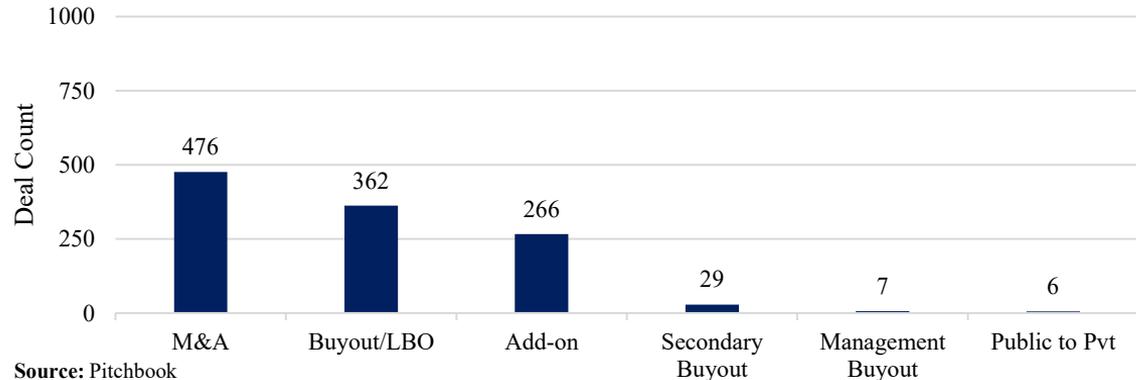
Aggregate deal value for 2025 finished well above 2024 levels, reflecting a broad-based recovery across both strategic and private equity transactions. **While overall deal counts remain moderate, average transaction size continues to increase, driven by a concentration of large-scale buyouts and add-on acquisitions.** M&A transactions (476) and buyouts/LBOs (362) still account for the majority of deal flow, even as volumes have eased and activity in smaller segments—such as secondary and management buyouts—remains limited.

This continued tilt toward larger, sponsor-backed transactions highlights abundant liquidity, but also signals rising risk concentration at the upper end of the market. **Looking ahead, sustained activity suggests continued investor appetite into the new year. However, higher valuations and tightening financing conditions may place greater pressure on leverage tolerance and post-merger integration capacity.**

US Capital Invested (\$B)



Financing Trends by Deal Type



Source: Pitchbook

Outlook

The near-term macro backdrop remains firmly constructive, supported by resilient labor markets, contained inflation, and steady consumer spending. Ample liquidity across banks and private credit, combined with growing expectations for additional Fed rate cuts, point to easing financial conditions ahead. Meanwhile, the middle-class tax provisions of the “Big Beautiful Bill” should boost household cash flow and strengthen incentives for capital investment.

Improving policy clarity, fading trade uncertainty, and a more favorable tax environment are reigniting deal activity, with larger transactions leading the recovery. Credit spreads remain historically tight, providing a deep and reliable funding base.

While risks around trade and rate expectations persist, the overall tone is positive and supportive of continued transaction momentum.



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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.

Mitch Vermet, CFA, CAIA

Partner & Managing Director

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.