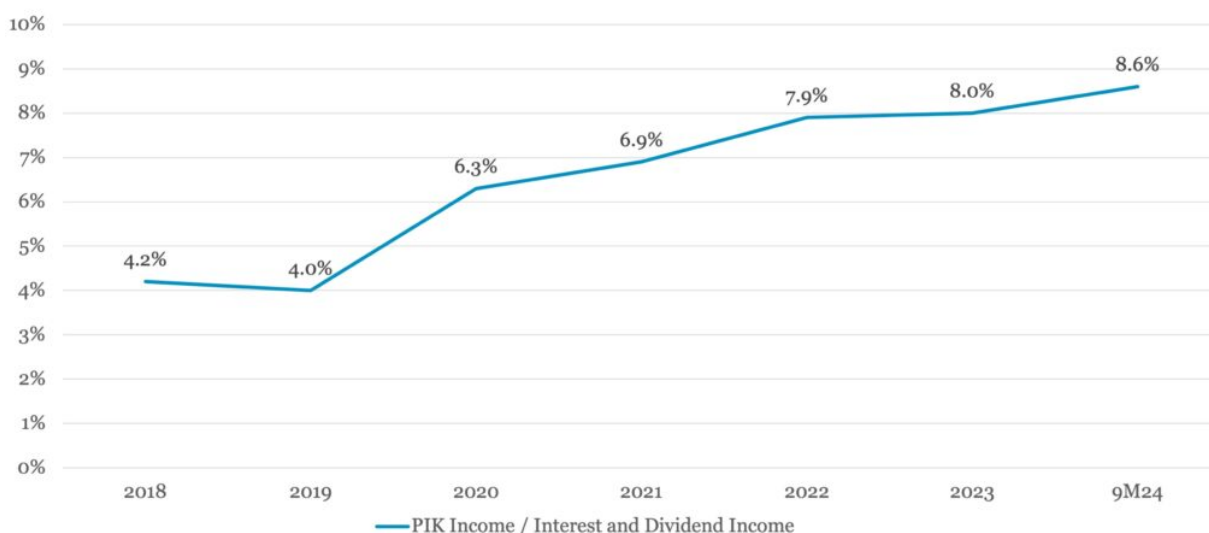


Competition to Pressure BDCs' Deal Terms, Credit Performance in 2025

Fitch Ratings | December 11, 2024

Fitch-Rated BDCs Have Seen a Meaningful Increase in PIK Income



Notes: 9M24 - Nine months ended Sept. 30, 2024. BDC - Business development company. PIK - Payment in kind. Data is average of Fitch-rated BDCs. Source: Fitch Ratings.

Click [here](#) to learn more.

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.