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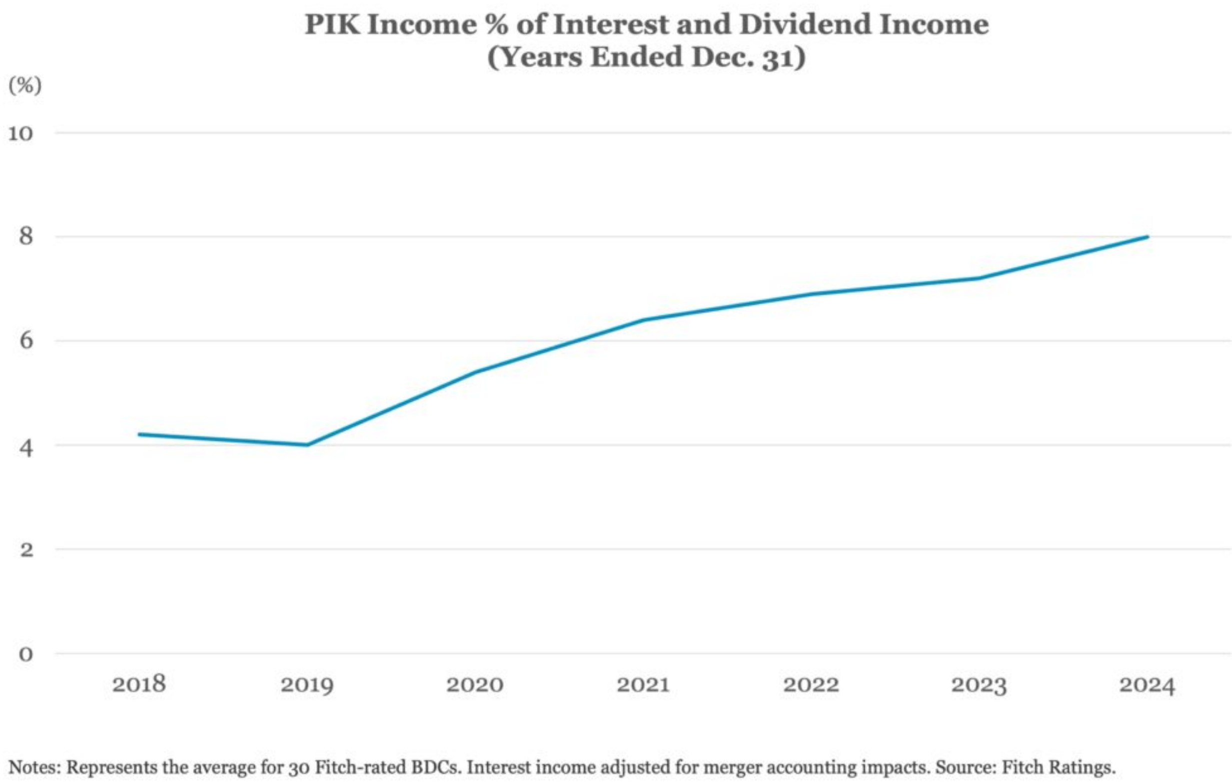
Slower Growth and Competitive Underwriting to Pressure Asset Quality for U.S. BDCs

Fitch Ratings | May 7, 2025



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U.S. business development companies (BDCs) are facing mounting pressure in 2025 as escalating trade tensions and broader economic uncertainty compound existing credit headwinds.

Fitch recently completed a peer review of 12 BDCs, affirming ratings for 11 of them, while taking no action on one. The Rating Outlooks remain Positive for ARCC and TSLX. TCPC, which was not part of this recent review, has a Negative Outlook.

Fitch maintains a sector-wide deteriorating outlook, with weaker net investment income (NII) due to tighter yields and increased non-accruals expected. The recent escalation in the global trade war has increased uncertainty, weakening performance for some borrowers and further delaying transactions. Fitch estimates direct trade-related exposure remains limited at below 10% of portfolios on average, but broader economic impacts are likely to further erode asset quality.

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