

Back to School (Part Two)

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Post-Labor Day market conditions continue to favor credit issuance of all stripes. Rather than being hampered by uncertainty surrounding tariffs, inflation, growth or rates, borrowers and investors have decided these dynamics have been settled in favor of “risk on!”

What then are the real worries for credit? While lower rates and less chance of a recession have eased the pressure on balance sheets and financing expenses, this hasn’t prevented some observers from predicting higher defaults down the road. Digging more into the details reveals a more optimistic story.

Eric Rosenthal, KBRA’s default guru, spoke recently on the “[Three Things in Credit](#)” podcast suggesting that credit default rates for high-yield bonds, broadly syndicated loans, and private credit should remain at subdued levels for the foreseeable future.

For broadly syndicated loans, KBRA’s 2025 default forecast is 3.75% (all rates by volume). For high-yield bonds, that prediction is 2.25%; estimates that are both unchanged. By volume, defaulted liquid loans are expected to be at \$58 billion by December; they reached \$37 billion in early August, slight above the full-year pace.

Rosenthal said the level of most-challenged performers, KBRA’s Default Radar Red List, is down more than 40% from January, presaging an easing of defaults by year end.

For junk bonds, the environment is extraordinarily stable; of the \$32 billion in estimated defaults, less than \$15 billion is forecast through eight months of this year. Underperforming fixed income credits are concentrated in a handful of names. If payment defaults can be avoided for those borrowers, bond defaults could be less than 2% for the second year in a row.

The private credit default outlook appears similarly favorable. KBRA is expecting a 1.5% default rate for 2025, down from 1.8% last year, largely due to one large issuer default in 2024. Rosenthal reported while the number of stressed direct loans has risen modestly to 207 (from 183 last December), actual defaults are more likely to be postponed until 2026.

Healthy private credit portfolios naturally beget healthy deal appetite from private credit managers. This helps explain why the most experienced arrangers are in the middle of a late-summer buyout financing renaissance.

And as we outlined last week, the positive public portfolio data showing today’s interest coverage and leverage statistics compared favorably to pre-Fed rate liftoff 2019. That element is a tailwind compressing liquid credit spreads to relative tightness despite continued macro-related headline risks (see our [Chart of the Week](#)).

So, yes, private credit yields have narrowed since the highs of 2023, but that bunny slope pales in comparison to the black diamond downhill of bond and large-cap loan yields.