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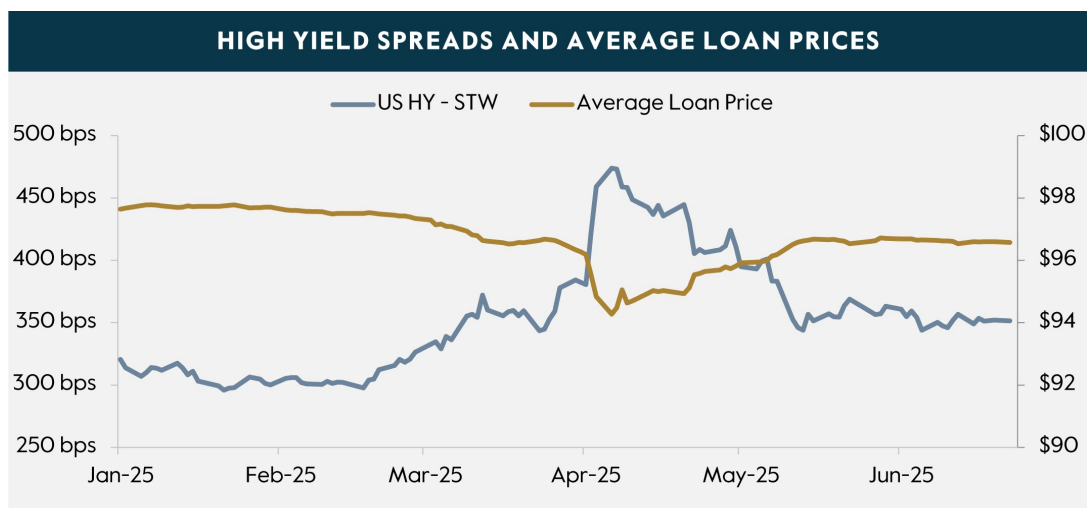
By Matt Savino

July 1, 2025

*Welcome back to **The Carlyle Compass**, your weekly newsletter that brings together the latest research and market insights from our global team. This week's edition features guest author Matt Savino, Global Head of Carlyle's Capital Markets team. Received this email as a forward? [Subscribe here](#).*

Credit Markets: A Wall of Worry vs Strong Technicals

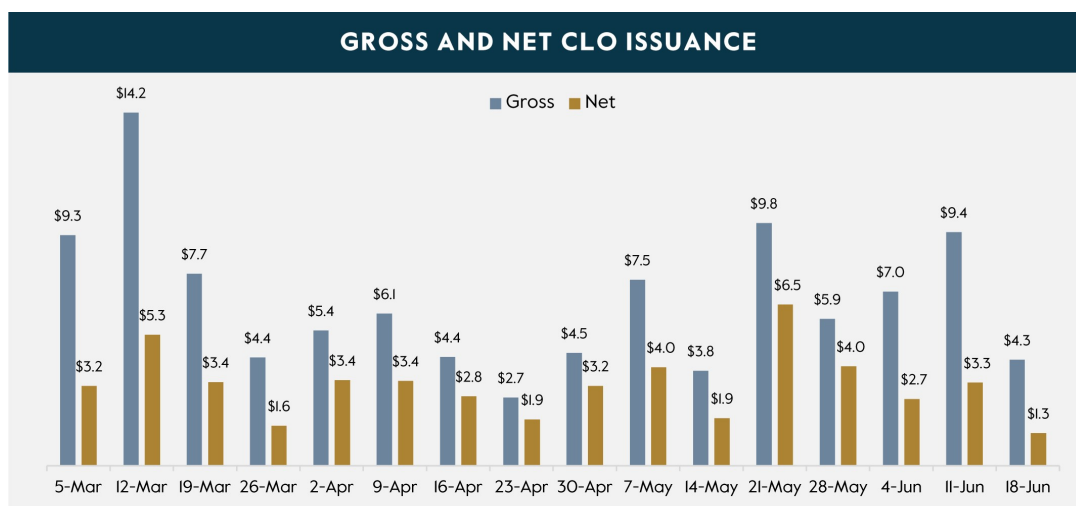
Credit markets have performed well this year despite broader volatility in rate and equity markets. While not immune to macroeconomic turbulence, credit markets remained orderly throughout the recent downturn and are now continuing to tighten as we enter the summer.



Source: J.P. Morgan.

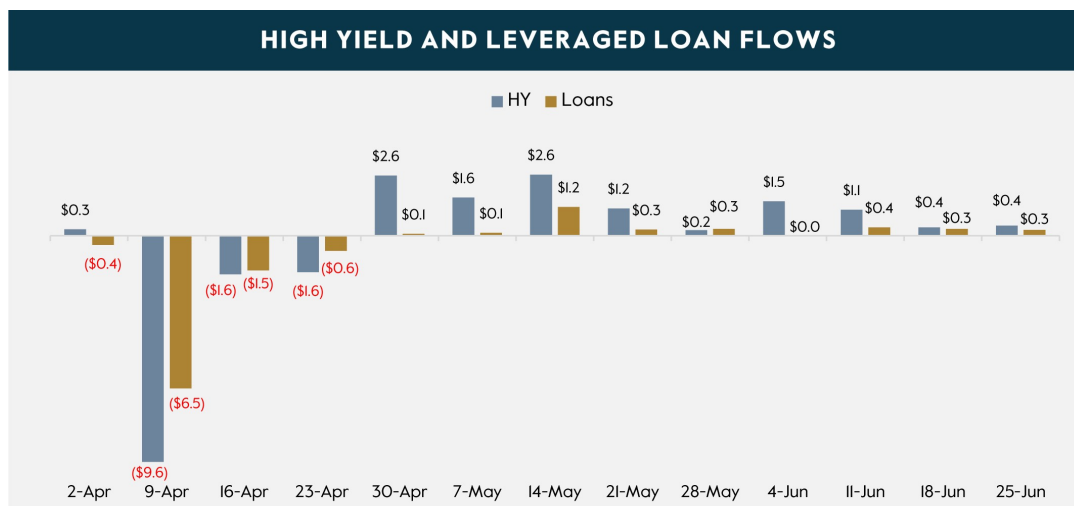
For context, high yield spreads started the year at 325bps, tightened to 296 (a post-GFC low) and then widened all the way to 474bps during the post-Liberation Day weakness. Spreads have now recovered back to 340bps. Similarly, leveraged loan index prices hit a peak of 97.78 in January before falling to a low of 94.28 post-Liberation Day and currently stand at 96.92. All told, leveraged loan and high yield markets are posting positive returns for the year even though there is greater underlying dispersion across credit quality.

The rebound from April lows has been driven by a notably favorable technical backdrop. Demand for both loans and bonds has strengthened materially over the past two months. Gross and net supply of collateralized loan obligations (CLOs), which represent approximately 65% of overall loan demand, has been strong. 2025 CLO formation is nearly tracking on pace with record-breaking 2024 levels. [1]



Source: J.P. Morgan; Figures shown in USD Billions.

Retail flows have also turned positive for both asset classes. Over the past nine weeks, the high yield market has received ~\$14.5 billion of inflows, fully recovering the ~\$13.0 billion outflow that followed the Rose Garden speech.



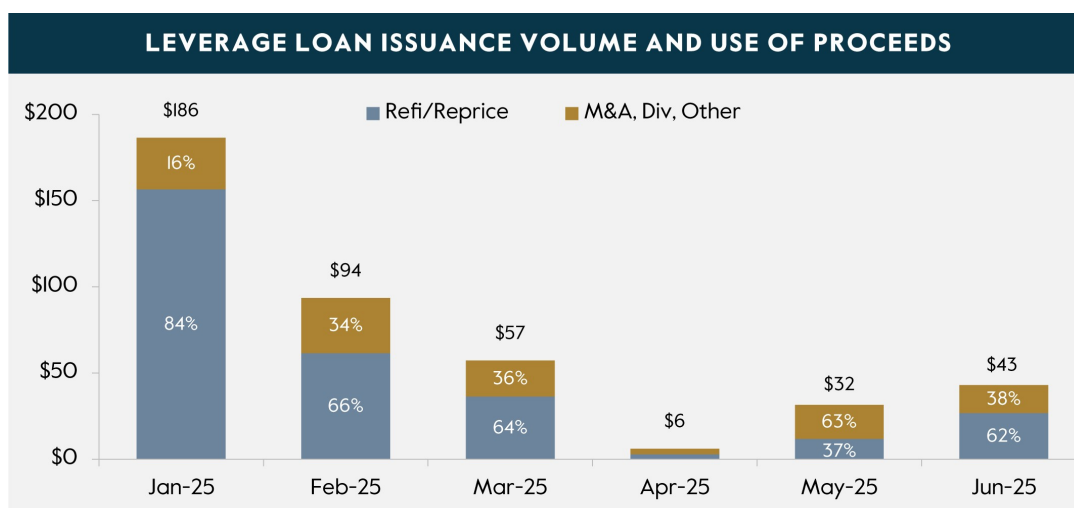
Source: J.P. Morgan; Figures shown in USD Billions.

As of April 2nd, the backlog of underwritten deals on bank balance sheets was estimated to be a manageable ~\$60 billion. Notably, approximately 40% of the pipeline at that point involved BB-rated corporate issuers and 35% of the backlog (with overlap to the prior stat) was structured as 364-day loans rather than riskier, longer-dated bridge loan structures. [2] The lack of meaningful risk in the pipeline allowed primary markets for loans and bonds to shut down at the worst periods of volatility and then gradually return as risk appetite returned. Much of the supply backlog has now come to market over the last several weeks as conditions have improved. Large deals for Sketchers, Voyager (IGT Gaming/Everi), Colonial Pipeline, First Eagle, Altera and OSTTRA, among others, have completed syndication. The backlog of underwritten loan deals is now estimated to be approximately ~\$32 billion, much of which does not need to come to market soon. [3]

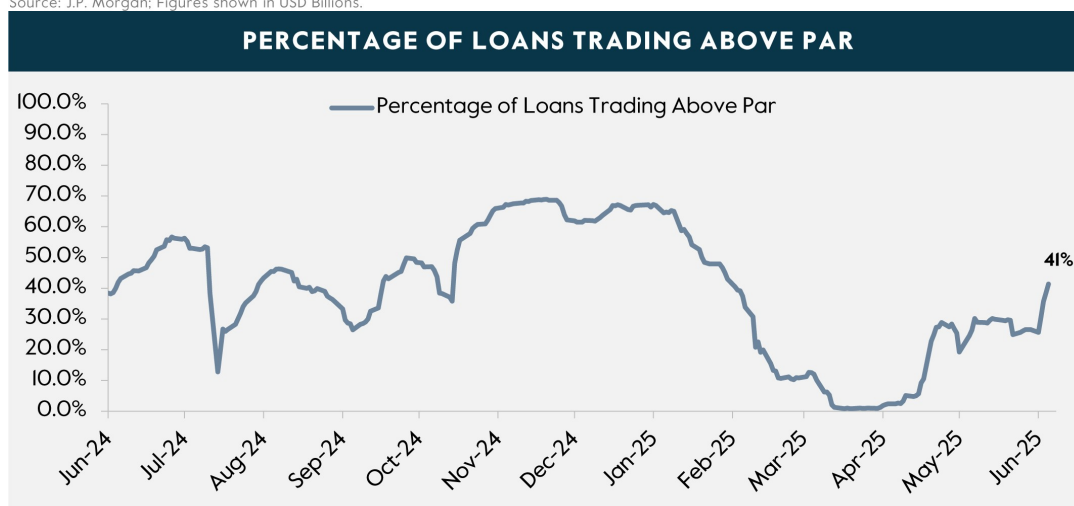
With supply-demand technicals favoring issuers, markets now stand poised to rise higher through the summer if they are not derailed by the culmination of a major risk event. That “if” is admittedly a big one. The market recovery over the last couple of months has been impressive given the wall of worry the market has had to scale to accomplish it. Risk has continued to pile up without many removals from the active list, and key potential catalysts remain in the weeks ahead. Tariff policy is poised to come into focus as we approach July 9. Tax policy will likely come to a head, with markets

continuing to weigh the benefits of lower taxes with unsustainably high fiscal deficits. The release of June economic data and the start of Q2 earnings season will present another test for markets looking for more clarity on the impact of high macro uncertainty. Geopolitics has no shortage of hot spots. In the past couple of months, strong technicals have driven markets tighter despite the heavy weight of macro uncertainty.

In the leveraged loan market, further progress may support a return of the attractive repricing and refinancing opportunities that were prevalent in the beginning part of the year when optimism about a new business friendly administration was at its peak. The below chart shows the components of monthly supply year-to-date, highlighting refinancing/repricing activity relative to net new supply. A line graph then shows the percentage of loans trading above par. If loan pricing in the market continues to rise, a meaningful repricing wave likely won't be far behind.



Source: J.P. Morgan; Figures shown in USD Billions.



Source: J.P. Morgan.

Market access will likely be window-based going forward given the wall of worry. Borrowers will be best served by being prepared to access windows as they emerge. We are in one of those windows currently, but don't blink.

1. LCD News – Global CLO Roundup 6/24/2025.
2. Morgan Stanley – Leverage Finance Event Pipeline 4/11/2025.
3. Morgan Stanley – Leverage Finance Event Pipeline 6/25/2025.

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