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In the Know: Leveraged Finance Annual Report 2026

OUR ANNUAL REVIEW OF 2025 AND 10 PREDICTIONS FOR 2026

LEADING AND CLOSING COMPLEX DEALS – EVERY DAY

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2025: The Year in Review

Overview: A Resilient Year

Despite a period of volatility driven by tariff uncertainty, geopolitical risks, and lingering inflation concerns, the leveraged finance market demonstrated strong resilience in 2025. This was the most active year since 2021, with combined issuance of leveraged loans and high-yield bonds across U.S. and European markets reaching record levels, while private credit further expanded its footprint, including large-cap transactions.

Market activity was fueled predominantly by a mix of refinancings, repricings and other liability management transactions, resulting in higher average deal sizes even as overall deal counts remained uneven. Elevated base rates continued to underpin demand for floating-rate instruments, while high-yield bond markets benefited from tightening credit spreads and an improvement in investor risk appetite, most notably in the second half of the year.

Although volatility periodically disrupted primary issuance, credit fundamentals remained broadly stable, default levels were contained and documentation terms remained largely borrower/sponsor-friendly. Taken together, market conditions in 2025 pointed to a gradual normalization of the U.S. and European leveraged finance markets, characterized by increased transaction values, selective deployment of capital and a continued orientation toward higher-quality credits among investors. As global inflation continued to ease as the year progressed, central banks initiated rate-cutting cycles, and recessionary fears receded, supporting robust investor demand and historically tight spreads. Below, we examine the key themes that shaped this dynamic year.

The High Yield and Leveraged Loan Markets Rebound

Both the U.S. and Europe saw market rebounds for leveraged finance products in 2025. In the U.S., activity fluctuated but regained momentum later in the year, driven primarily by refinancings and repricings, while high-yield issuance reached more than $325 billion in 2025, a 17% increase year-on-year, and a record-high since 2021. Similarly, European high-yield issuance reached about €141 billion, an all-time high, surpassing 2021's Covid-era peak, while leveraged loans rose 20% year-on-year. European markets saw strong technicals supported by record CLO formation and robust fund inflows, pushing spreads toward historic tights even as October's systemic risk fears, following the First Brands and Tricolor filings, briefly slowed issuance.

Demand continued to outweigh supply, with investors sitting on significant undeployed capital and with collateralized loan obligations maintaining steady issuance levels, providing much needed stability to the broader market. That said, with robust investor demand and declining borrowing costs, in conjunction with tighter pricing and maturities on the horizon, repricings and refinancings dominated the market with most issuers and borrowers looking to stabilize capital structures. Although amend-and-extend transactions represented a smaller portion of overall activity, stressed borrowers continued to rely on these transactions as a tool to avoid in-court restructurings, while many chose payment-in-kind ("**PIK**") toggles to conserve liquidity. With the majority of issuers having successfully refinanced or extended their obligations, a large portion of the 2025–2026 maturity wall got successfully pushed to 2028. In the U.S., default rates remained moderate compared with historical norms in 2025. Leveraged loan defaults were slightly higher than high-yield bond defaults throughout the year, but still moderate, while broader corporate default counts rose notably around May, but remained in total below the 2024 levels. Default activity in Europe fluctuated throughout the year, with some notable individual defaults and a growing share of repeat defaulters. Overall, however, default rates remained moderate - slightly elevated compared to the 2024 levels, but broadly in line with historical averages.

M&A Megadeals Increase Values in a Mixed Market

Global M&A and LBO activity in 2025 was mixed across regions. In the U.S. and Europe, deal volumes were lower than expected, but a focus on high-quality assets and a handful of megadeals drove record aggregate values. Activity was characterized by corporate carve-outs, public-to-private transactions, strategic sponsor moves via portfolio companies, and increased crossover sub-investment grade M&A. In contrast, India and the Middle East saw double-digit growth in deal volumes, supported by strong economic momentum and capital inflows.

The valuation gap remained a major headwind for M&A and LBO activity in 2025, suppressing deal volumes as private equity sponsors faced pressure from limited partners ("**LPs**") to preserve return discipline amid higher financing costs and macro uncertainty. Portfolio congestion and slower exits further constrained distributions, reinforcing a cautious deployment stance. Meanwhile, sellers held firm to prior-cycle valuations, widening bid/ask spreads and prolonging processes. As a result, sponsors focused on fewer, larger, high-conviction deals, often using structured pricing, rollover equity, and LP co-investments to bridge gaps - driving lower volumes but higher average deal sizes.

The Evolving Role of Private Credit

In 2025, private credit continued its emergence as a critical player in the leveraged finance market, extending its reach to large-cap deals. Furthermore, private credit's strong performance has drawn unprecedented capital, heightening deployment pressures. Its convergence with the broadly syndicated loan ("**BSL**") market is reshaping deal dynamics, leading to tightening terms even as lenders strive to maintain prudent standards. Private credit is here to stay and will continue to have a prominent place in the leveraged finance product mix going forward.

Furthermore, as competition in the U.S. private credit market has intensified and pricing has tightened, many U.S.-based sponsors have broadened their geographic focus toward Europe, where yields have generally remained more attractive and the market is perceived as less saturated. While levels of U.S. participation vary by jurisdiction and transaction type, this influx of international capital has been expanding the European lender base and reinforcing private credit's role as a strategically significant source of leveraged finance alongside traditional bank-led and broadly syndicated solutions.

Distressed Debt Plays a Part

In 2025, distressed debt and liability management activity increased notably in both the U.S. and Europe, as financially stressed companies sought alternatives to formal bankruptcy. In the U.S., higher interest rates and pressure on leveraged loans and high-yield debt drove a surge in liability management exercises, including debt exchanges, covenant adjustments, and maturity extensions, allowing firms to restructure without Chapter 11 filings. Europe also saw a growing adoption of these strategies, often drawing on U.S.-style restructuring playbooks, particularly in sectors such as real estate, energy, and retail. Distressed debt investors remained active across both regions, often achieving better recoveries than through formal bankruptcy. Notably, there was also an increase in repeat restructurings, with some deals effectively being recapitalizations in disguise, often including a partial equity element or conversion of debt to equity for creditors.

In 2025, rising conflicts among creditors (even among members of the same creditor groups) were exacerbated due to certain liability management exercise ("**LME**") transactions that provided for the "up-tiering" of the debt of certain creditors at the expense of others or creating value leakage through permitted asset "drop-down" transfers. While these aggressive LME transactions first appeared in the U.S., the European market saw its own examples in 2025, accompanied by a growing backlash against cooperation agreements. In hindsight, 2025 marked the year in which a new set of LME transactions and distressed debt solutions became mainstream tools, reflecting rising corporate stress in certain sectors and the maturation of both U.S. and European restructuring markets, and also giving rise to new provisions in finance documentation to enhance intercreditor protections against these maneuvers.

The AI Boom

In 2025, artificial intelligence ("**AI**") played an increasingly prominent role in the leveraged finance market, driving both deal activity and technological transformation. A significant portion of leveraged finance activity was propelled by debt funding for AI-related expansion, with large technology and hyperscaler firms borrowing heavily to support data-center development and AI infrastructure projects, driving issuance volumes higher in key sectors. Meanwhile, lenders and investors increasingly leveraged AI-driven analytics and machine-learning models for credit valuation, risk pricing, stress testing, and due diligence, while trading and portfolio management gained from predictive algorithms and AI-enabled risk monitoring. However, the rapid growth of AI financing also raised fears of an AI bubble, as some deals involved companies with unproven business models or highly optimistic revenue projections. This, coupled with model and operational risk from overreliance on AI-driven analytics, prompted more selective lending and tighter scrutiny of AI-backed borrowers. Overall, 2025 marked a year in which AI both drove demand and transformed the market practices, while simultaneously highlighting the need for disciplined risk management amid concerns about potential overheating in AI-related credits.

A Digital Assets Era

In 2025, digital assets became even more embedded in institutional finance. Crypto assets like Bitcoin and Ethereum, tokenized securities and other digitized financial instruments saw both technological adoption and regulatory maturation.

Tokenized bonds and other tokenized real-world assets gained traction, offering benefits like fractional ownership, 24/7 settlement, and

broader investor access, though secondary market liquidity remained limited. Meanwhile, crypto assets experienced significant volatility, with prices of major coins declining over the year, yet institutional engagement remained substantial through regulated products like spot Bitcoin Exchange-Traded Funds ("**ETFs**") and stablecoin-linked instruments. Stablecoins and tokenized cash instruments also expanded their role in payments, settlements, and cross-border transactions, reflecting growing integration with traditional financial markets. Regulatory clarity progressed in both the U.S. and Europe, with frameworks like the EU's Markets in Crypto-Assets Regulation ("**MiCAR**") coming into effect and the Guiding and Establishing National Innovation for U.S. Stablecoins Act ("**GENIUS Act**") getting signed into law in the U.S., stabilizing investor protections and supporting market development. Overall, 2025 was a pivotal year for digital assets, which began moving toward more structured, institutional-grade adoption, even while liquidity and risk management challenges remained.

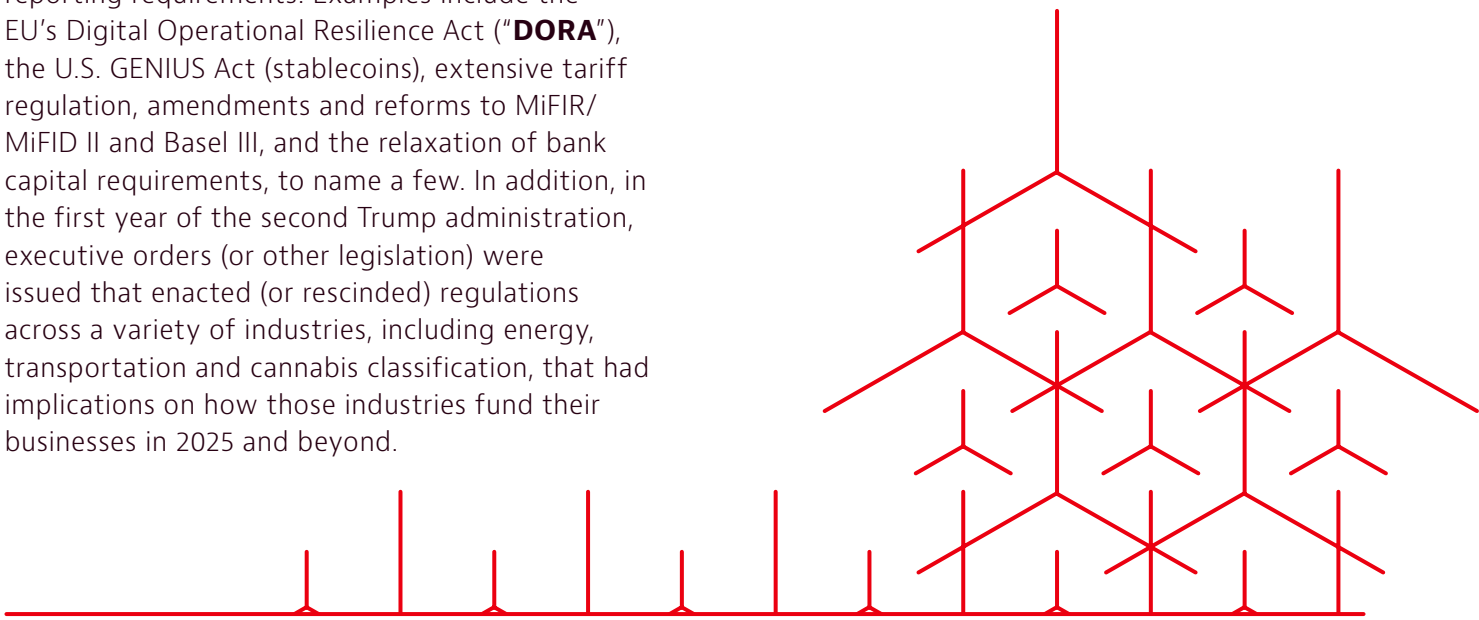
De-Regulation (and Re-Regulation) Creates Challenges and Opportunities

During 2025, regulatory changes (in the U.S. and internationally) affected the international financial markets in key areas such as banking and securities, trade, taxation, crypto and reporting requirements. Examples include the EU's Digital Operational Resilience Act ("**DORA**"), the U.S. GENIUS Act (stablecoins), extensive tariff regulation, amendments and reforms to MiFIR/ MiFID II and Basel III, and the relaxation of bank capital requirements, to name a few. In addition, in the first year of the second Trump administration, executive orders (or other legislation) were issued that enacted (or rescinded) regulations across a variety of industries, including energy, transportation and cannabis classification, that had implications on how those industries fund their businesses in 2025 and beyond.

ESG Financing Transforms

In 2025, environmental, social and governance ("**ESG**") financing experienced a mixed and selective year. Some sustainable strategies - particularly in renewable energy, infrastructure, and transition-focused credit remained strategically viable, especially in the first half of the year, while many ESG funds underperformed traditional peers over the full year. Europe saw moderate inflows but the U.S. and some parts of Europe faced notable outflows, as investors became more selective, favoring funds with credible ESG outcomes and strong financial performance amid regulatory uncertainty and a performance dispersion. While international markets still recognized the importance of ESG initiatives, some concerns (e.g. "green-washing" and ambiguous KPI objectives), as well as often non-discernible economic benefits of implementing ESG plans and contradictory geo-political viewpoints, somewhat dented the trajectory of ESG financing compared to recent prior years.

Institutional investors increasingly favored ESG strategies that focused on measurable environmental and social outcomes and delivered disciplined financial performance, moving away from the label-based ESG financing toward outcome-linked or impact-linked financing and focusing on the achievement of verifiable results, while also expanding the strict label of ESG.



2025 by Product

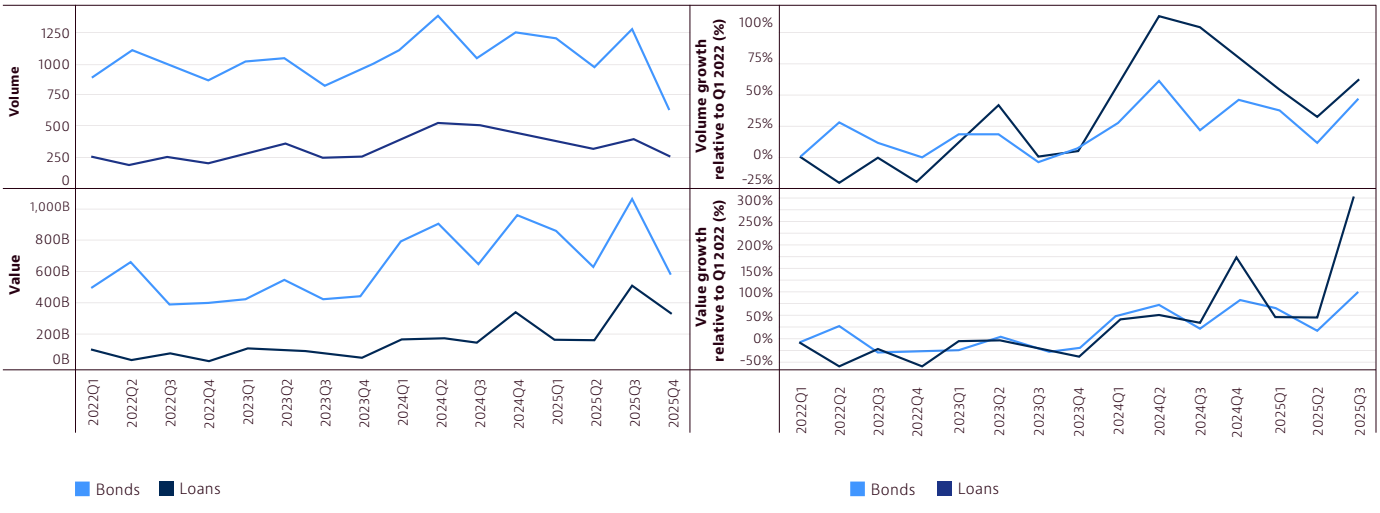
Leveraged loan activity reached record highs in 2025, with European high yield bond issuances surpassing the Covid-era peak in 2021 and U.S. activity being three times higher than 2022. The brief tariff-related shock caused volatility only temporarily, as the leveraged finance markets regained momentum later in the year, driven by refinancing and repricing activity.

Competition between the BSL market and private credit continued in 2025, with many borrowers running both processes in parallel and deals moving between the relevant asset classes. Private credit has become an integral part of the leveraged finance ecosystem, extending its reach in 2025 to include bigger-ticket deals. Although M&A and LBO volume activity in 2025 fell short of the robust levels anticipated, deal value sizes grew significantly as market participants focused on high-quality assets and deployed capital at scale in premium assets. Similarly, the high-yield bond market was led by straight-double B ratings, followed by single B and triple C ratings. Leveraged loans comprised the majority of the leveraged finance issuance in 2025, with high yield bond issuances occasionally outpacing loans throughout the year, but taking a smaller share of the overall issuance volume. Term loan B activity remained a strong component of issuance in 2025, supported by a surge in repricing and refinancing deals, while term loan A activity represented a smaller portion of the total leveraged loan volume. Leveraged loans for dividend payouts surged across both U.S. and European markets in 2025, exceeding 2021 levels by more than 24% in the U.S. and more than doubling in Europe.

As interest rates started declining in 2025, both high-yield bonds and leveraged loans delivered positive returns throughout the year and high-yield spreads and leveraged loan discount margins are now hovering near historical lows. Bond yields, in turn, softened even more in 2025, averaging around 7%, with single B rated bonds trading on average just below 7% and double B notes below 6%. From 2000 - 2025 high yield bonds delivered an average annual return of 5.3%.

CLO activity reached record levels during the past year in the U.S., driven by exceptionally strong CLO resets and refinancings, alongside record-high new-money CLO issuance of approximately $205 billion, and private credit CLO issuance reaching around $40 billion.

The charts below show deal volume and value by quarter, and growth relative to Q1 2022, for the period 2022-2025 for high-yield bonds and leveraged loans globally:



Source: Refinitiv

2025 by Industry

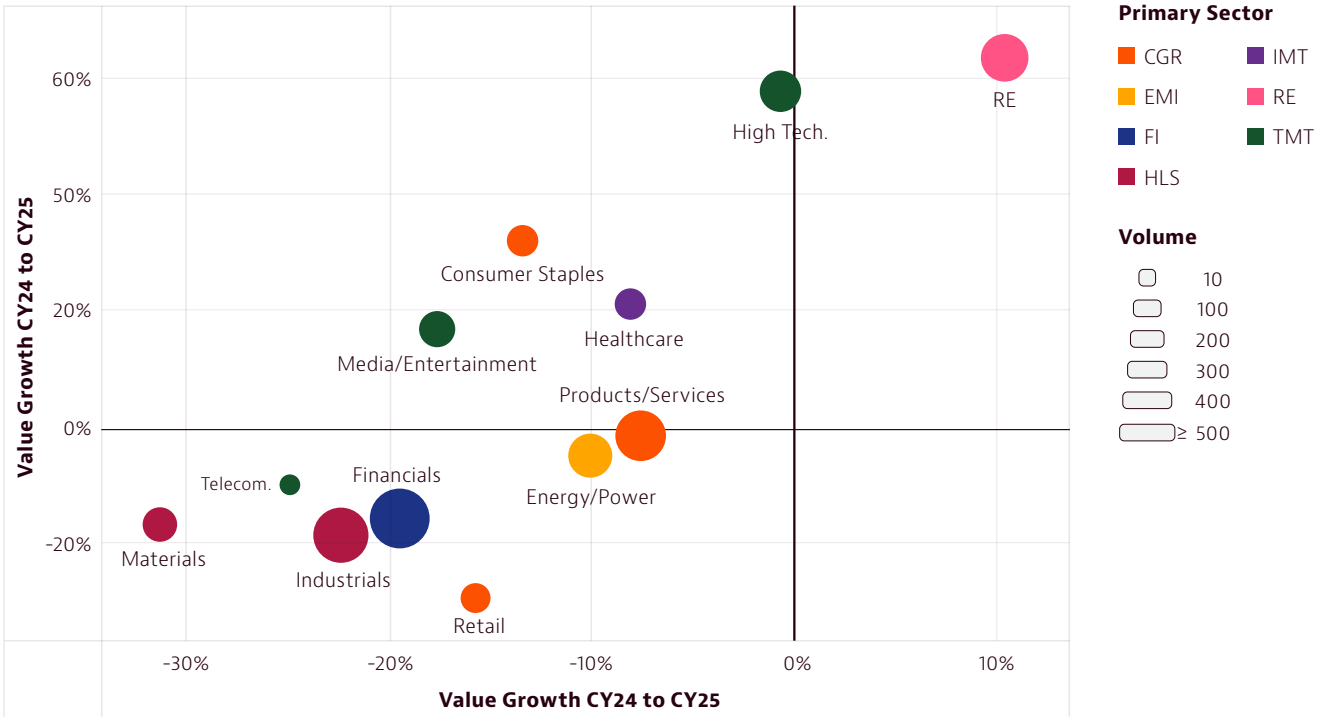
As the markets stabilized, opportunities arose in certain industries as transactional activity resumed.

The global leveraged loan market witnessed the following:

- Real estate financing saw a 70% increase in terms of value and a 10% increase in volume globally.
- High tech sector financing increased globally by 60% in value and remained steady in volume and by 70% in value and 15% in volume in EMEA, despite the drop by 15% in activity in the U.K.
- Consumer staples sector financing increased by 30% in value, although it declined by 25% globally.
- Healthcare financing increased by 20% in value and declined by 10% in volume globally.
- Media and entertainment sector financing increased globally by approximately 15% in value and contracted by 18% in volume, while it contracted by around 20% in EMEA.

Defaults are generally expected to ease in 2026. In particular, U.S. leveraged loan defaults are expected to decline to 4.5-5% and to 2.5-3% for high yield issuers in 2026 as a result of the more accommodating monetary policy, which shall provide relief to high levered issuers. Any defaults in the U.S. are expected to be driven by the telecom, cable, broadcasting and media industries. For Europe, a default rate of 3 - 3.5% for loans and 3.75 – 4.25% rate for high-yield bonds is expected, with the vast majority coming from industrial, financial, real estate and consumer-focused sectors. Defaults in private credit portfolios are expected to rise compared to the broadly syndicated market.

The chart below shows deal volume and value growth from 2024 to 2025 of leveraged loans broken down by sector:



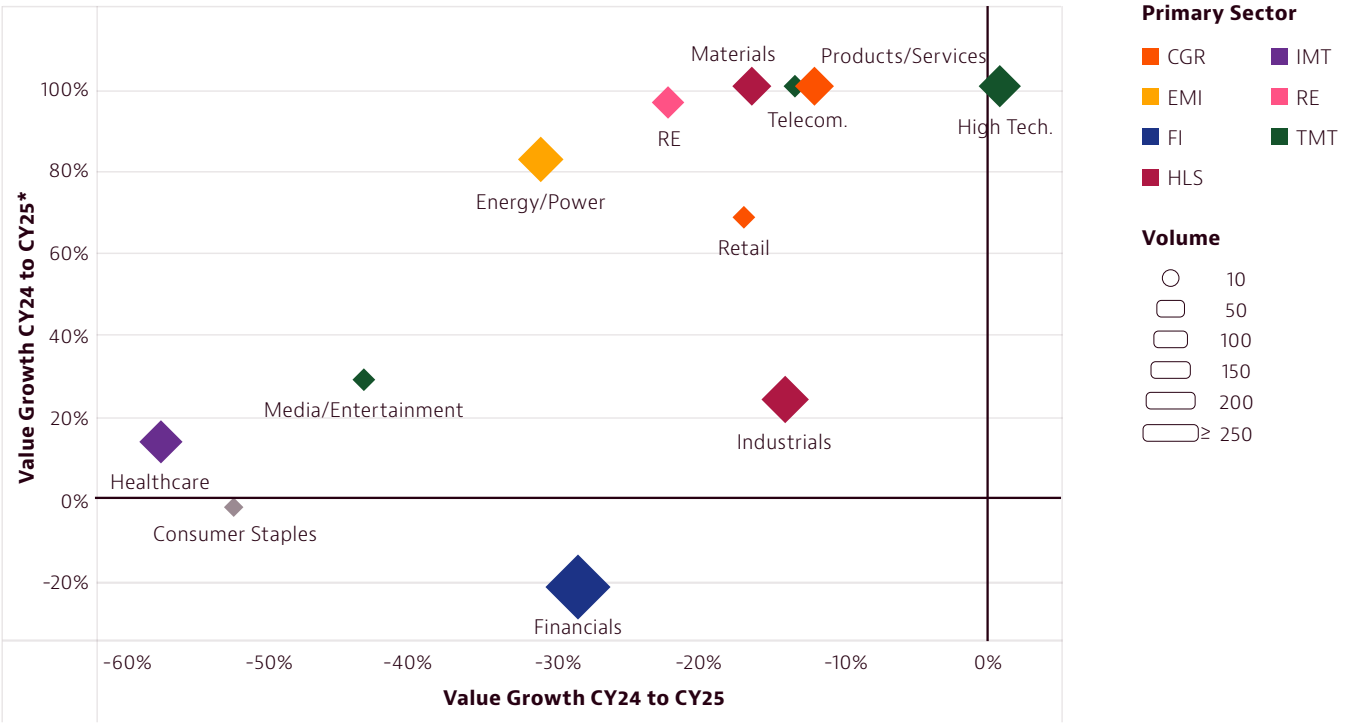
Source: Refinitiv

The high-yield bond market saw a significant increase in activity, with issuances, as noted above, more than doubling in terms of value in 2025 compared to the previous year across most sectors. The global high-yield bond market witnessed the following:

- Telecom, products and services, materials and high tech more than doubled and real estate saw a 90% increase in value in 2025, although these sectors contracted slightly in volume compared to 2024, except for high tech sector which remained stable in volume.
- Energy/power saw an 80% increase in value and a 30% contraction in volume globally, while it remained stable in terms of volume and increased by 60% in value in EMEA.
- Retail grew by 70% in value globally, despite a 20% drop in both value and volume in EMEA.

Trends in the U.S. market (which represents more than two thirds of global leveraged finance activity) remain the main factor affecting global market trends.

The chart below shows deal volume and value growth from 2024 to 2025 of high-yield bonds broken down by sector:



Source: Refinitiv

2026: Ten Predictions

01 Net new origination activity up

Driven by refinancing needs and the U.S. Federal Reserve's ("**Fed**") anticipated rate cuts, the leveraged loan and high-yield markets rebounded strongly in 2025. Issuers capitalized on favorable conditions and investor demand to refinance and extend maturities, easing early-2026 pressure by pushing much of the 2025–2026 maturity wall further out. However, with maturities rising sharply in 2028, refinancing will remain a key driver in 2026, supported by a stable rate environment. At the same time, growing investor appetite for new issuance, combined with solid fundamentals and improved credit conditions, is expected to spur deal flow. The leveraged finance market is entering a new phase in 2026.

Prediction

The leveraged finance market in 2026 is poised for a positive dynamic. With a looming $15 trillion refinancing wall maturing in 2026-2028, including a $229 billion high-yield bonds maturity wall and a $530 billion leveraged loans maturity wall coming up in 2028, we expect refinancing activity to be one of key drivers of the leveraged finance market in the year ahead. Furthermore, new origination fueled by renewed M&A and LBO activity and supported by strong investor appetite and CLO issuance, is also projected to gain momentum in 2026.

2026 will be defined by a strong refinancing wave complemented by a steady rise in new-money issuance, creating a dynamic and competitive environment across the leveraged finance market.

02 M&A momentum

In 2025, despite a drop in M&A deal volumes from 2024, restored investor confidence and pent-up demand from the 2022-2024 period drove deal values up about 40% to $4.5 trillion in total announced transactions, making it one of the top three years on record. Lower rates, high capital costs, and regulatory shifts cleared a backlog of large strategic deals, while smaller ones stayed sidelined. North America led activity, while India saw multi-year highs in tech and other sectors. With interest rates trending down, narrowing bid/ask gaps, and strong demand, momentum is expected to continue into 2026. Central bank cuts late in 2025 boosted financing demand, and with $65 billion in LBO debt already underwritten, 2026 could be the busiest year in a decade.

Prediction

With the key drivers anticipated to be growth and strategic investments, we expect M&A activity to accelerate in 2026. M&A deal values are estimated to exceed $4 trillion, as a result of a more accommodating regulatory environment, falling short-term rates, sustained economic growth and high levels of dry powder. In particular, M&A deals are projected to remain large and strategic, supported by strong corporate balance sheets and the need for sector consolidation, while LBO activity will accelerate as financing becomes cheaper and private equity pushes to deploy capital. The CLO market also looks poised for growth as well, reaching potentially near-record levels, as refis, resets and new issuances will drive supply. Carve-outs and divestitures are expected to remain robust, while secondary buyouts are projected to gain traction in the year ahead, as record levels of private equity dry powder and shifting strategies push GPs to deploy capital efficiently and exit.

03 Rate cut cycle benefits realized

In 2025, major central banks delivered collectively a large number of interest rate cuts, marking the most aggressive easing since the 2007-2009 global financial crisis. By mid-2025 the European Central Bank ("**ECB**") had cut rates by a total of 75bps, lowering its deposit rate to 2.0% from 3.75% at the end of 2024, while the Bank of England also lowered its rate by 100bps in December 2025 compared to the end of 2024, down to 3.75%. The Fed delivered multiple rate cuts totaling about 150bps compared to the end of 2024, lowering the target rate to 3.50%-3.75%. With inflation easing, wage growth slowing but real wages positive, and monetary policy shifting to data-driven, the global economy is expected to remain resilient in 2026.

Prediction

We expect global growth to remain steady in 2026, further rebounding in 2027. Easing inflation, modest wage growth and supportive interest rates which will remain largely on hold or ease depending on the economy's performance, will create a stable environment for corporate investments, M&A and leveraged finance, despite geopolitical tensions and market volatility.

With spreads historically tight and appealing yields, 2026 is shaping up to be a carry-driven year, with floating-rate leveraged loans and high-yield bonds offering attractive coupons relative to funding costs.

04 The artificial intelligence boom

In 2025, AI shifted from reactive tools to agentic systems, becoming deeply integrated into daily life and finance-from trading and fraud detection to automation and risk management. AI-related capital spending, including data center expansions, added 1.1% to GDP growth in early 2025, surpassing U.S. consumer spending. By year-end, GDP kept rising and markets remained optimistic, signaling AI's strong potential to boost global output in coming years.

Prediction

We expect 2026 to be a year of further AI deployment and governance as AI adoption broadens across industries and companies fully integrate AI into their core operations. As AI spending and investment are expected to remain strong in 2026, including AI hardware, software, and cloud-based services, AI is expected to continue supporting GDP growth year-over-year. Furthermore, as AI capabilities grow, AI's influence on the labor market in 2026 is expected to be transformative but uneven with some jobs becoming increasingly automated, potentially reshaping employment dynamics and accelerating productivity, while many roles are being augmented rather than fully automated, offsetting the effects of ageing workforces in developed markets and tackling some of the longer-term challenges facing the global economy.

The anticipated wave of AI-related spending, which is estimated at around $150 billion for data centers alone over the next five years, presents significant opportunities for the leveraged finance market. While challenges such as labor disruption, bubble fears and valuation risks remain, AI investment is expected to bolster economic growth in 2026 and create new avenues for credit deployment, making disciplined underwriting and strategic pricing essential.

AI is definitely here to stay – and grow!

05 Private credit expansion

In 2025, private credit markets, and especially direct lending, expanded further as a financing alternative to public markets, even in the case of "mega" deals. PIK features became more prevalent in the private credit markets highlighting the high demand in liquidity flexibility. Private lenders took on sub-investment-grade deals and some refinancings, while some private deals moved to public markets for lower costs and larger size. Investors enjoyed steady income and low volatility, but borrowers shifted to the BSL market when pricing was more favorable. The pricing gap between private credit and syndicated loans narrowed to its tightest since 2019, though private credit still carried a premium. With spreads tightening, borrowers will continue to run both processes in parallel in an attempt to find the best deal, with many deals dual tracking or moving between the respective asset classes.

Prediction

We expect direct lending to continue to grow in 2026, as the middle market remains substantial and direct lending expands further into larger transactions, both in the EU and the U.S. As direct lenders continue to demonstrate the ability to provide financing solutions for transactions that would have traditionally gone to the public markets, and as both public and private markets remain open for refinancings, sponsors and borrowers will continue to run dual track processes – keeping both public and private market options – in order to find the best financing options; and as the two markets grow side by side, we expect the upper middle market to more closely resemble the broadly syndicated market particularly in terms of covenant-lite terms and liability management exercises. Furthermore, we expect the secondary market transactions volume to rise as investors enter the growing asset class.

In addition, given the increased interest and involvement of U.S. private credit providers in European deals during 2025, we expect this trend to continue and intensify competition for market share in Europe, potentially placing greater pressure on deal pricing and terms as these lenders compete with established European players.

06 Alternative sources of funding and liquidity continue to evolve

The rapidly rising funding needs for datacenter and related infrastructure build-outs driven by the AI boom, as well as the broader capital requirements of high-growth companies across AI-adjacent sectors, have pushed many market participants to explore alternative forms of capital-raising. In 2025, alternative credit and structured finance remained central to corporate liquidity. Receivables financing remained a growing segment, particularly in private credit and asset-backed structures, while private placements also expanded, driven by institutional demand for bespoke, flexible debt instruments, enabling companies to raise capital quickly for growth or targeted acquisitions. Convertible bond global issuance reached a five-year high to fund expansion, refinancing, and selective M&A activity, while Sukuks and other Sharia-compliant debt instruments surged, particularly in the Middle East and Asia. Collectively, these instruments highlighted the continued diversification of non-traditional credit markets in 2025, providing alternatives to syndicated loans and high-yield bonds while supporting both corporate liquidity needs and strategic transactions.

Prediction

2025 was a year in which alternative debt instruments were increasingly on the radar of issuers and investors, and as market participants around the world become more experienced and knowledgeable in debt finance transactions and alternative sources of liquidity, we expect alternative sources of funding and liquidity to continue to evolve and to see new, more bespoke sources emerge across markets in the coming years.

07 ESG financing is in transition

In 2025, ESG and sustainable financing continued to be a great part of the global capital markets, but growth was uneven and nuanced. Companies, their stakeholders and governments continued to focus on funding environmentally friendly projects in Asia Pacific and Eastern Europe, where strategic investor demand demonstrated ongoing commitment to green bonds, sustainable financing products and, more broadly, ESG-linked instruments, while regulatory uncertainty resulted in slowing issuance in the U.S. and the rest of EMEA. This regional divergence indicates that the market is adapting rather than expanding uniformly.

Prediction

We predict ESG financing will continue to be relevant in 2026, but not as a main transaction driver in traditional markets. Despite the current U.S. administration's policies representing a significant shift away from ESG-focused financing and corporate practices, the global ESG finance market is potentially still poised for growth globally in the coming years, especially in light of the high global emissions, clean tech and the rapid expansion of AI and data center related financing.

We predict one source for growth will be in areas beyond emissions and nature conservation, which may be linked instead to other areas targeted by the UN's Sustainable Development Goals. For example, outcome bonds are expected to build on the momentum seen in 2025, offering investors a results-driven approach to sustainable finance, linking returns to measurable impact metrics, such as carbon reduction, social inclusion, or health outcomes, and creating stronger accountability and alignment between issuers and investors. Furthermore, given the current geopolitical environment in the EU, defence bonds are expected to surge in 2026, with issuers and policymakers seeking to align them with broader European security and ESG goals emphasising governance standards, transparency of use of proceeds, supply-chain oversight and compliance with international law and human rights.

08 Capital Solutions

In 2025, asset sales and divestitures, as part of broader corporate restructuring strategies, reached $1 trillion globally, the highest level in the past three years, reflecting investor pressure and strategic break-ups. High inflation, interest rates, lower consumer demand and public policy shifts fueled large corporate bankruptcies, while out-of-court restructurings involving LMEs became more frequent and more complex. Loan documentation also evolved following the Serta ruling in 2024. Europe saw a rise in contentious restructurings with notable cases including Victoria PLC, Ardagh, Selecta, and Hunkemöller, as non-pro rata LMEs sidestepped sacred rights using intercreditor clauses, slim majority thresholds, and distressed disposals. While in both the U.S. and Europe borrowers and creditors continued to find creative ways to modify capital structures in 2025, signs showed a potential shifted towards more collaborative and less contentious transactions, particularly as documentation has tightened to address what some refer to as intercreditor "violence."

Prediction

Despite concerns in the face of the looming 2028 maturity walls and the uptick in triple-C rated borrowers in Europe, the decreasing interest rates and slowing inflation, coupled with corporate earnings and a modest, if not resilient, economic growth in 2026 and fewer deals with breach-able maintenance covenants, we predict that corporate default rates will remain low. Still, given the impact of the high inflation, interest rates, slow economy, energy price crisis and low consumer demand over the past five years, repricing and amend-and-extend strategies or even full restructurings will be inevitable for certain industries such as telecom, retail, auto, healthcare and consumer sectors, although such reorganisations may tend to be more 'consensual' as performance-based event of default triggers have become less prevalent. Further, given ongoing litigation risk, borrowers may think twice about pursuing more aggressive strategies.

On the other hand, even though new transaction documentation now typically contains "LME blockers" or cooperation agreements designed to prevent the recent spate of "up-tiering" and asset leaking "drop-down" "LME transactions" and market signs may indicate a less aggressive trend toward structures that advantage certain creditors over others, many older deals still provide opportunities for creative restructurings that could benefit one creditor group over another, and we expect, despite the litigation risk, that new LME solutions will be coming in 2026 that may test any "consensual" efforts.

09 Digital assets on the rise

After the signing of the GENIUS Act into law, the global stablecoin market jumped by 47% in 2025 compared to the 2024 levels, with USD-backed coins making up 99.5% of the market. Major banks like Société Générale have entered the stablecoin space, while a consortium of 10 European banks announced plans for a MiCAR-compliant euro-denominated stablecoin. Assets under management in tokenized funds rose by 110% from 2024, while real-world asset tokenization grew by 308% over three years. Digital bond issuance fell by 44% year-on-year in 2025 due to ECB trial completion in November 2024, though volumes excluding trials stayed stable. The cryptocurrency market saw structural progress but high volatility: Bitcoin hit about $126,080 and $4 trillion market cap mid-year before ending near $87,000, down about 6%, its first annual loss since 2022. Ethereum and many major altcoins also declined, but institutional adoption advanced with strong ETF inflows, contributing to crypto's maturation as a financial asset class.

Prediction

With a structured market aligned to those of more traditional financial instruments being established, we predict we are not far from banks starting to bank crypto-assets and holding crypto-assets on their balance sheet. Furthermore, as the respective regulatory frameworks and digital technologies continue to evolve, more issuers are expected to embrace digital bonds. Following the SEC approval of DTCC, which processes $3.5 quadrillion in annual securities transactions, to offer tokenization services, we expect a large-scale integration of digital assets into traditional markets in the years ahead. Furthermore, we expect further stablecoin infrastructure development and standardization of the relevant operating rules, aligning them with existing payment systems to enhance interoperability and trust among the various counterparties.

Digital assets are definitely about to transform the financial services industry!

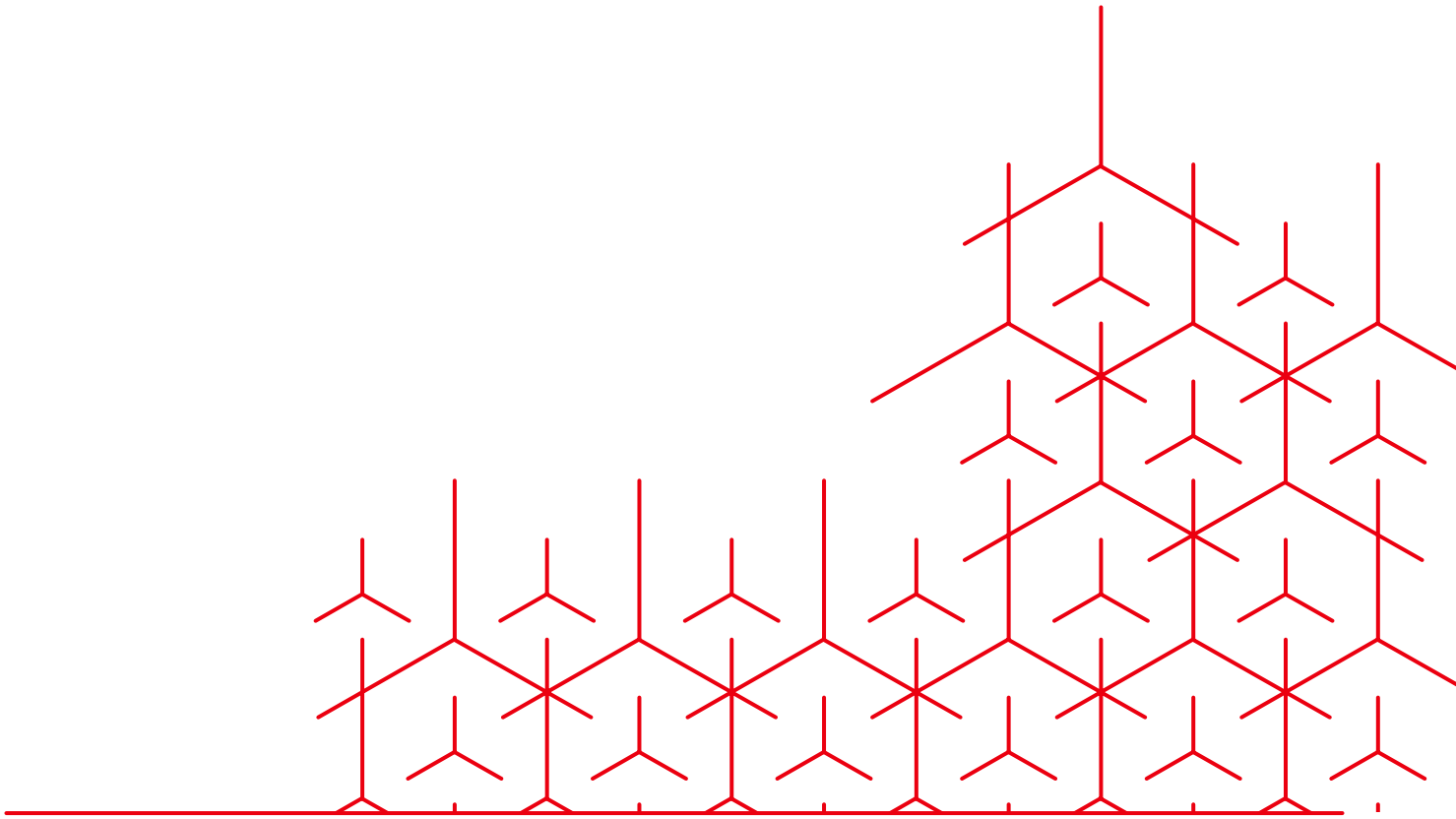
10 The commercial real estate debt market rebounds

In 2025, the commercial real estate debt market was characterized by increased lending activity and cautious optimism, driven by expectations of stabilizing or falling interest rates, but tempered by significant refinancing pressures and rising delinquencies in certain sectors, especially office properties.

Prediction

As nearly $1 trillion of commercial real estate debt is maturing by the end of 2026, lenders are looking at financing options, including an increased use of senior/mezzanine structures and back-leverage.

We expect yields to compress and property values to stabilize further in 2026. The renewed investor interest and the dry powder waiting to be deployed, together with the decline in interest rates is expected to enhance capital availability and shape the year ahead as the beginning of a new business cycle for the commercial real estate debt market.



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