

European Debt Trends 2025: April Update

As the European debt markets evolve, Lincoln's European Capital Advisory Group have highlighted key trends expected to shape the landscape through 2025. These trends reflect growing caution among lenders and investors, driven by macroeconomic uncertainty and market volatility.

Shift Towards Quality: Investors are increasingly favoring high-quality, resilient business models. Companies with cyclical revenues, exposure to U.S. tariffs or reliance on discretionary consumer spending are facing heightened scrutiny.

Selective Capital Deployment: Funds and banks are concentrating on existing portfolios. Mergers and acquisitions (M&A) deals with lower closure probabilities, especially those involving complex structures or lacking a strong strategic rationale, are being deferred.

Fundraising Challenges: Fundraising activities are largely on hold as investors prioritize capital preservation, particularly for funds with weaker historical performance.

Liquidity with Caution: While market liquidity remains ample, funds' internal decision-making processes are slowing. Investment committees are seeking greater visibility on current trading performance before committing capital.

Pressure on Institutional TLB Market: The institutional Term Loan B (TLB) market is experiencing increased volatility:

- Repricings have failed due to market instability.
- New issuances are pricing around E+400bps or higher, with only top-tier credits in resilient sectors expected to succeed—and then at a premium.

Rising Private Debt Margins: Market uncertainty is driving a repricing of risk in the private debt space. The previous pricing equilibrium (approximately E+500–525bps) is proving unsustainable, and spreads expected to widen—particularly for smaller borrowers or those with tariff exposure. While high-quality credits may benefit from stable pricing due to limited supply, weaker profiles could face increases of 100bps or more as lenders grow increasingly selective.

Emphasis on Lender Education: Increased scrutiny from investment committees necessitates comprehensive lender education. Borrowers must clearly articulate their investment case, risk mitigants and exposure to macroeconomic uncertainties.

Opportunities for Strong Credits: High-quality issuers, particularly those insulated from tariffs or global trade dynamics, continue to attract capital despite market volatility. Weaker credits, however, may struggle to secure financing without offering significant premiums or additional structural protections.

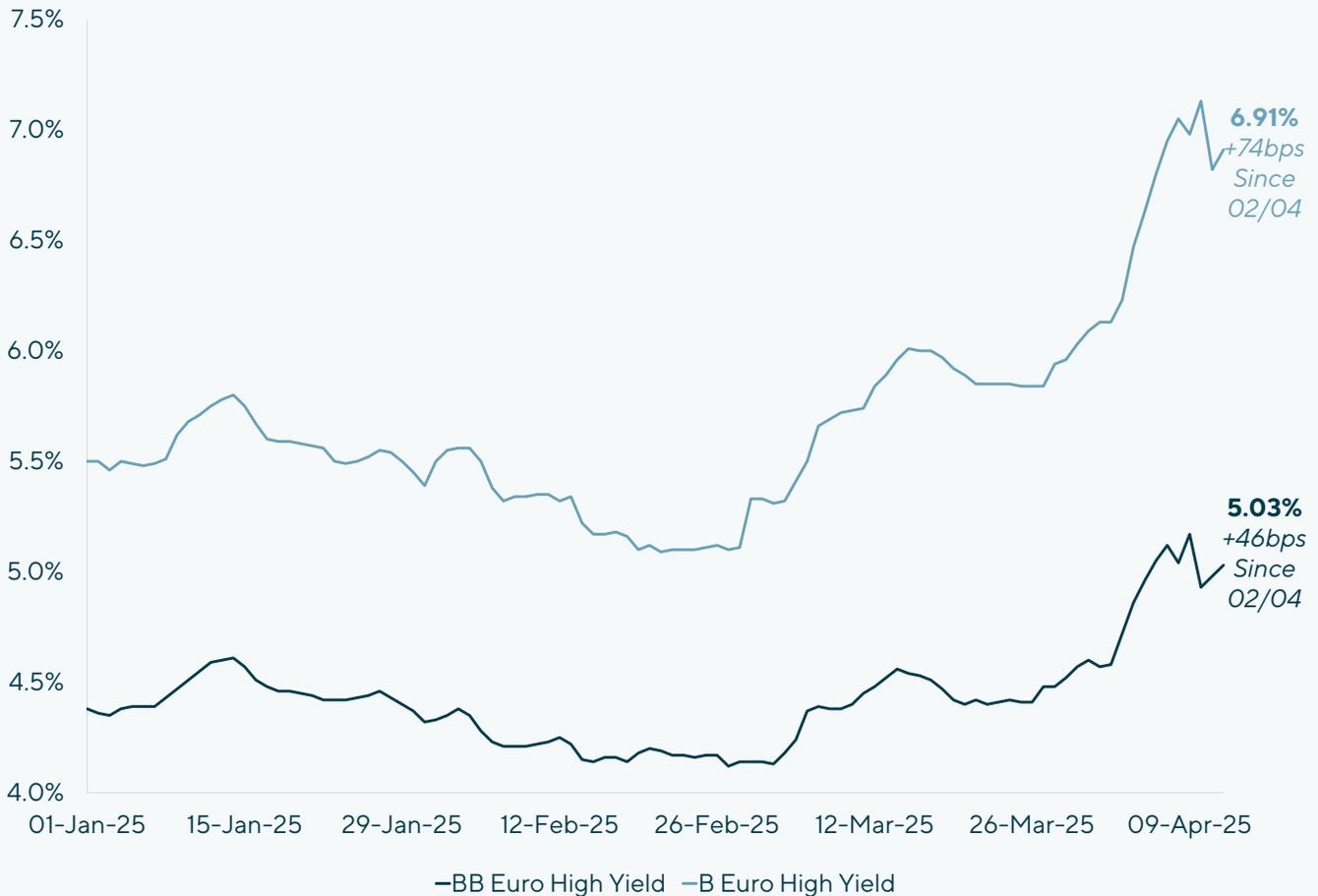
Risk-Off Sentiment Among Lenders: Similar to early in the COVID-19 pandemic, lenders are actively reassessing portfolio risk, focusing on tariff exposure and sector vulnerability. Many are rating credits based on high, medium or low sensitivity to macro shocks.

Private Equity Pullback Affecting Deal Flow: In several cases, private equity sponsors are voluntarily pausing live processes, further reducing deal activity and underwriting pipeline visibility.

Enterprise Value Volatility Emerging: Portfolio company valuations are under pressure, especially in sectors closely correlated with public market comps. Higher long-term rates and equity volatility are contributing to downward pressure on private multiples, though not always to the same extent as public peers.

High Yield Bond: Euro high yield (HY) bonds fell sharply following the April 2 tariff announcements, with core HY names down 3–6pts. In terms of yield, the single-B segment has expanded +74bps since April 2 to 6.91%, while BB-rated bonds have expanded +46 bps, now trading at 5.03%. The move reflects a repricing of macro and trade risk, with investors demanding a clear premium for lower-rated credits.

High Yield Cash Prices



Source: HSBC - European Leveraged Credit Market Update report



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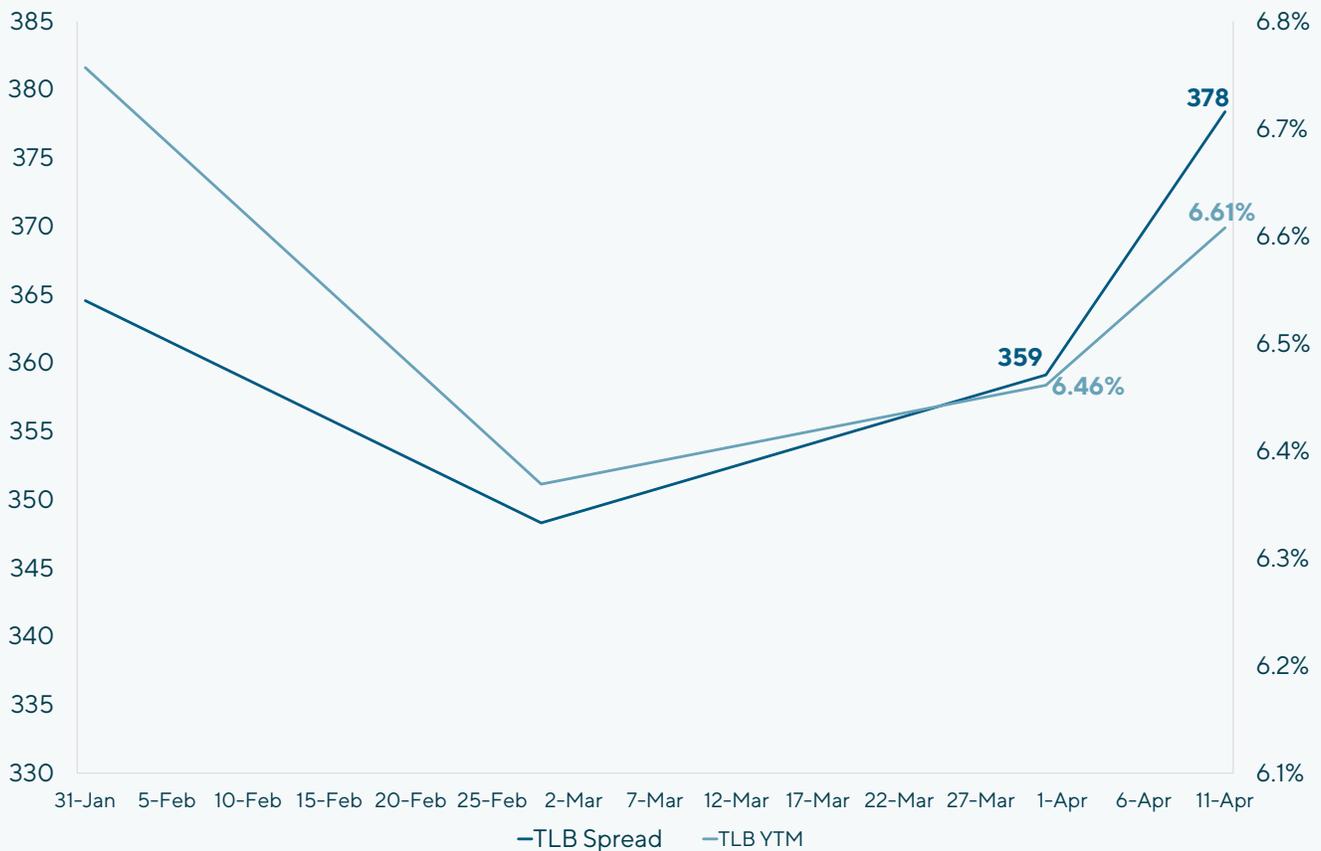
Credit Markets Adjust: Risk Premiums Rise Despite Euribor Decline

Recent market movements confirm a clear repricing trend in the European leveraged finance space. Since early March, new issue yields and spreads have widened materially, reflecting heightened risk aversion and weaker sentiment—particularly following the April 2 tariff announcements.

The European Leveraged Loan Index (ELLI) illustrates this trend, showing a sharp uptick in both yield-to-maturity and spread-to-maturity, with the latter reaching 493bps by mid-April. Meanwhile, forward guidance suggests a continued decline in Euribor rates, with the three-month rate expected to drop further from the current 2.25%, contributing to base rate compression even as spreads expand. This dynamic reinforces a dual-track environment: while reference rates trend downward, credit risk premiums are widening—especially for lower-quality or more exposed issuers.

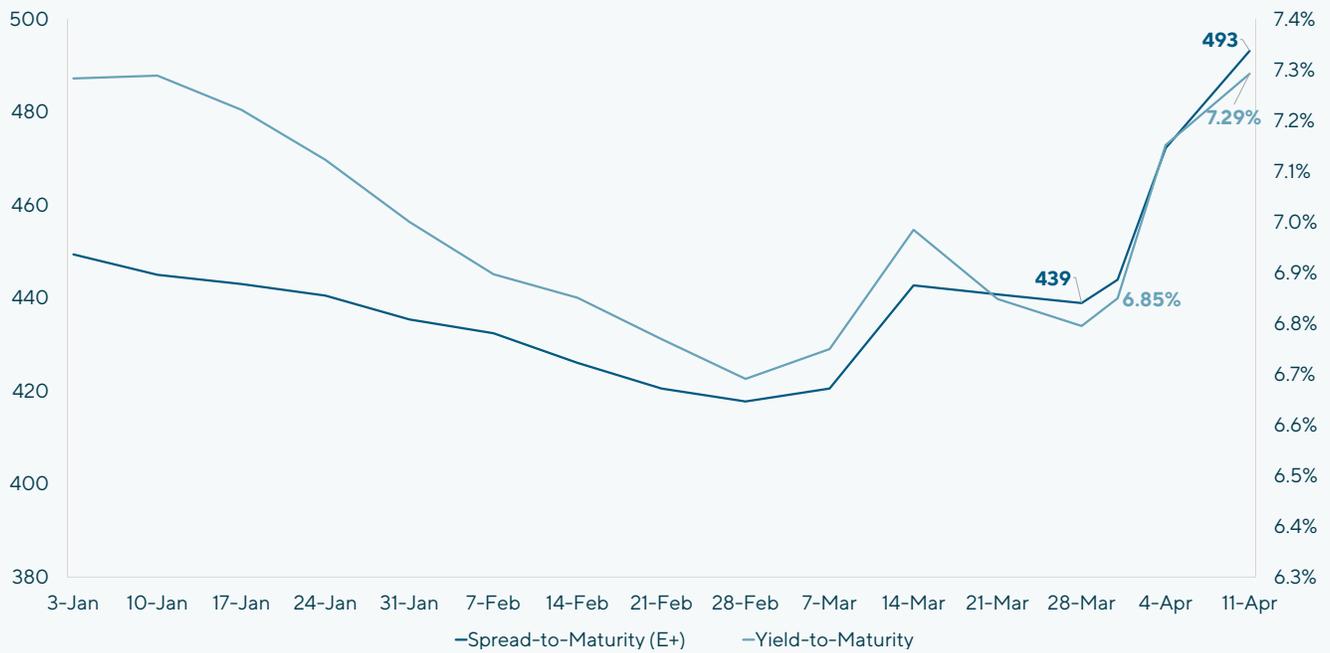
This repricing environment presents challenges for borrowers, particularly those with weaker credit profiles, as lenders demand higher premiums to compensate for the increased risk. For lenders, it signals the need for disciplined assessment of risk-adjusted returns, as market volatility continues to reshape pricing dynamics.

2025 – New Issue Yields



Source: LCD, Pitchbook

2025 - European Leveraged Loan Index



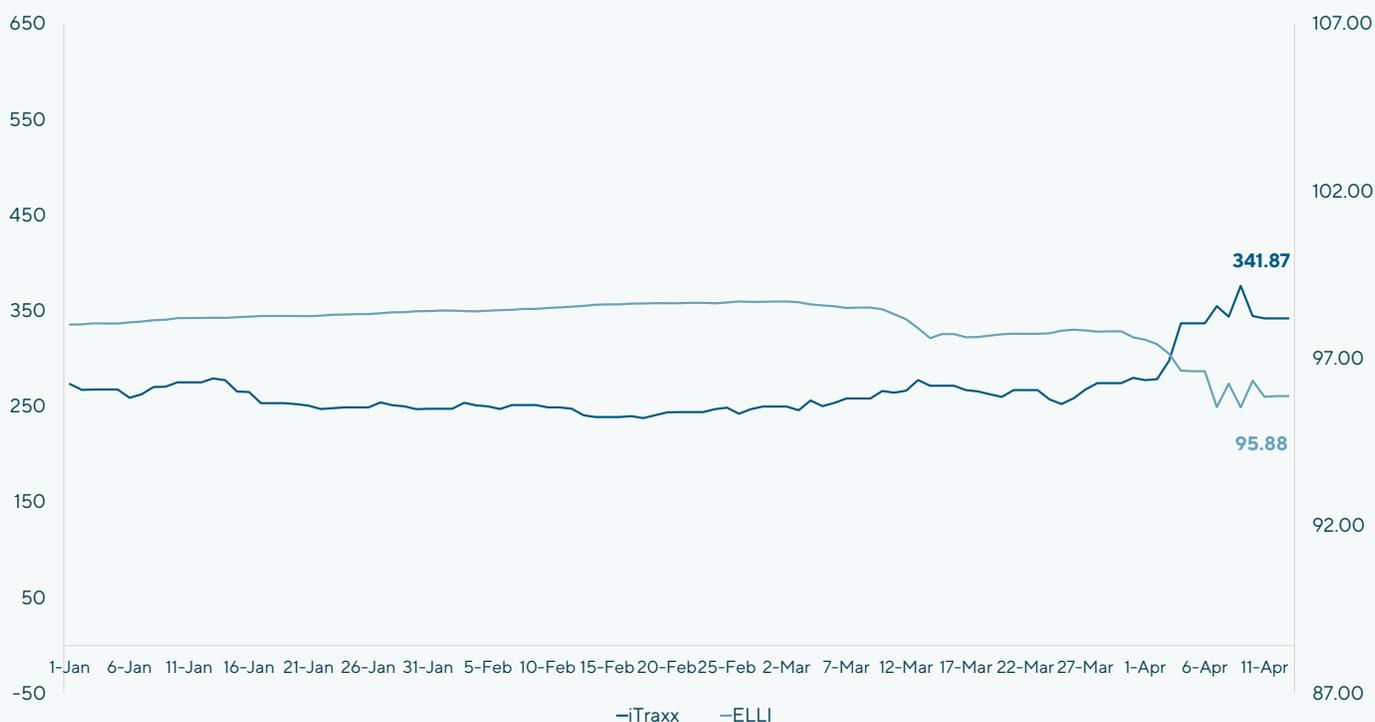
Source: LCD, Pitchbook

2025 - Euribor Rates



Source: Thomson Reuters, Copyright Bank of Finland; Chatham Financial

2025 – TLB Secondaries (ELLI) move in opposite direction with market volatility (Itraxx – crossover CDS)



Source: LCD, Pitchbook; S&P indexes

Lender Positioning: Mixed Reactions and Sector-Specific Vulnerabilities

As market volatility persists, lender behavior is increasingly influenced by both technical signals and mounting pressure from limited partners to maintain relative value. For instance, the widening divergence between iTraxx crossover CDS (credit default swaps) and ELLI secondary prices highlights the growing disconnect between market sentiment and underlying asset valuations.

While some credit funds are cautiously reentering the public market to take advantage of dislocations, others are reassessing pricing, portfolio exposure and underwriting appetite. Borrowers seeking financing must adapt to these changes by presenting clear investment cases and aligning with lender priorities.

As lenders recalibrate their strategies, sector-specific fundamentals are playing an increasingly critical role in determining creditworthiness and pricing. Rising input costs, supply chain delays, weakening demand in export-heavy sectors and refinancing needs are exposing vulnerabilities that vary widely by industry. While some sectors retain pricing power or benefit from local production models, others—particularly those with limited flexibility or exposure to discretionary spending—are seeing mounting pressure on margins, cash flow and access to capital.

Below is a breakdown of how current conditions are translating into credit risk and lender selectivity across key sectors:

Auto and Auto Suppliers: The automotive sector faces demand weakness and geopolitical risks, with export volumes vulnerable to shifting trade terms. Inflationary cost pressures and limited pricing flexibility are likely to compress margins, with EBITDA erosion of 15–16% projected for some original equipment manufacturers (OEMs) in 2025.

Building Materials: The sector is expected to show relative resilience, supported by domestic production and strong historical pricing power. Building materials companies have proven their ability to offset cost increases, and cross-border trade exposure is limited. EBITDA impact should remain contained compared to more trade-dependent industries.

Chemicals: While direct tariff exposure is limited, the sector is highly sensitive to energy prices and the stability of upstream raw material flows. Specialty chemical producers relying on imports of critical inputs—such as rare earths for catalysts or titanium dioxide for coatings—from China are vulnerable to rising cost pressures in the event of supply disruption. Additionally, around 60% of chemical demand in Europe is driven by downstream sectors like automotive, machinery and electronics, which are under stress. This dynamic amplifies the risk of indirect demand contraction and increases exposure to credit risk.

Consumer Goods: Oil and gas companies are largely insulated from tariff effects, but steel and aluminum producers are more exposed, particularly where North American sales routes are involved. Volatility in spot pricing and

weakening demand could weigh on profitability and refinancing capacity.

Commodity producers: Producers such as oil and gas companies are largely exempt from tariffs, as mining revenues largely come from local mining operations. However, steel and aluminum producers face greater risks, particularly in their U.S. market sales through Canadian subsidiaries. While imports from Europe remain relatively small, lenders may scrutinize these companies for exposure to trade dynamics and pricing volatility.

Pharmaceuticals: The sector remains fundamentally strong. While not currently targeted by trade measures, focus is on cash flow consistency and pipeline execution, especially for smaller players or those with concentrated geographic exposure.

Shipping: Route disruptions and inventory front-loading may temporarily support rates, but the underlying trend of global trade deceleration could reverse this benefit in the medium term. Companies with diversified route networks and strong contract coverage are better positioned, while those reliant on specific trade corridors may struggle.

Technology: While semiconductors are not directly affected by tariffs, exposure to industrial and automotive end-markets presents indirect risk. Telecom equipment exporters may face longer procurement cycles, but lower competitive pressure and pricing flexibility offer some protection.

Understanding these sector vulnerabilities is essential for lenders to target resilient industries and for borrowers to position themselves as attractive credit opportunities.

Looking ahead with Lincoln

As the European debt markets evolve, both borrowers and lenders must adapt to an environment marked by repricing, rising risk premiums and heightened sector scrutiny. For borrowers, clear communication of business resilience and risk mitigants will be crucial to securing financing under favorable terms. For lenders, disciplined capital deployment and a focus on strong credit profiles will be key to navigating volatility and maintaining relative value.

Lincoln's European Capital Advisory Group remains committed to providing actionable insights to help clients navigate these challenges and identify opportunities. Contact our team for tailored guidance and expertise.

Ready to discuss the opportunities ahead for you?

Connect with a senior professional at connect@lincolninternational.com