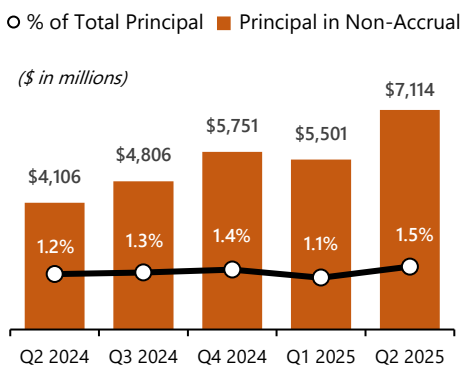


Double, double toil and trouble... As the nights grow longer and temperatures drop, foreboding trends are appearing in private credit. Key indicators across portfolios of business development companies (BDCs) are beginning to spook investors, who are increasingly finding skeletons in the credit closets.

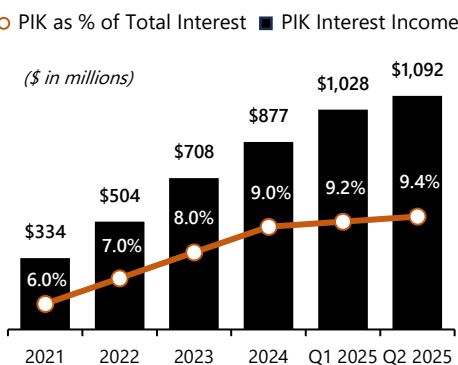
- **The Undead are Stirring:** Loan balances marked as non-accrual by BDCs surged by \$1.6 billion in Q2 2025 (29% increase vs Q1). Such loans are now ~1.5% of the total amount lent by BDCs, higher than any period since Q1 2024.
- **The PIKening:** As a sign of frights to come, the usage of payment-in-kind (PIK) interest continues to creep up. In Q2 2025, 9.4% of interest earned by BDCs was in the form of non-cash payments. BDC equity holders are getting scared – as demonstrated by downward share price pressure since the beginning of August.

...Fire burn and caldron bubble

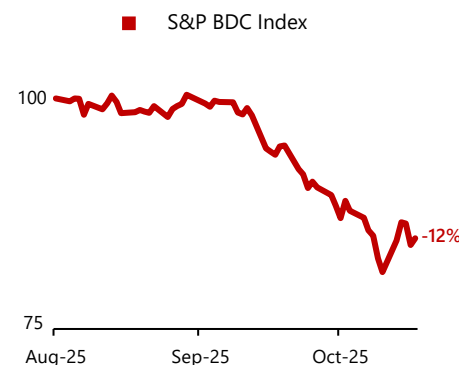
Non-Accruals Jumped in Q2 '25...



...and PIK Usage Crept Up...



...Resulting in Pressure on BDC Stocks

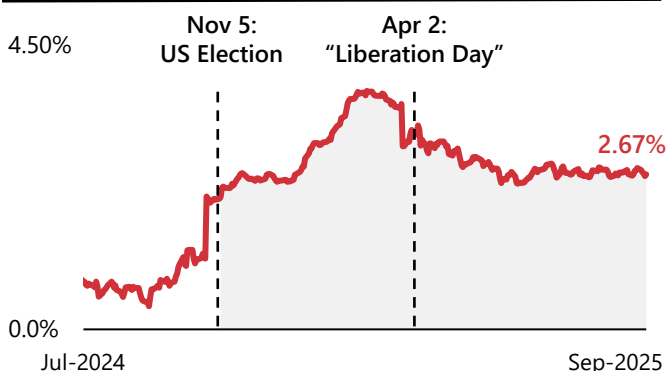


Source: Capital IQ, PitchBook

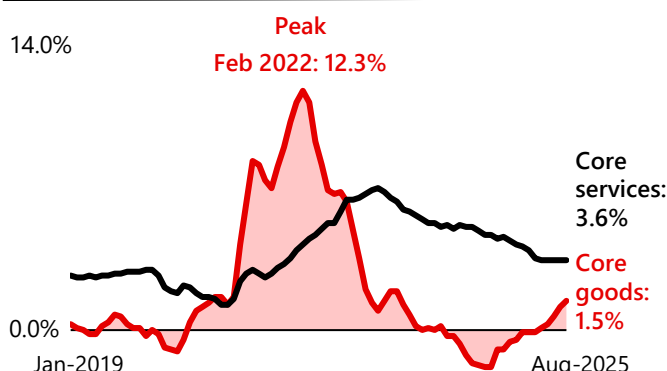
"Inflation Contained, But May be Rising" - Proprietary Insights from Our Colleagues at MUFG

"For most global economies, the trade war will translate to tepid growth, lower inflation and policy easing. While US inflation has been sticky, and the outlook uncertain, price pressures have been more subdued than anticipated as a result of: (1) low energy prices; and (2) the strength of corporate profits absorbing higher tariffs. This, however, may not last."

1 yr US Inflation Breakeven



US Core Goods and Services Inflation



Source: Bloomberg, MUFG Capital Markets Strategy

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