FINASTRA



Market Commentary

Technology drives corporate lending evolution amid macroeconomic uncertainty

Financial institutions are navigating the digital evolution of financial services and the proliferation of AI

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Bankers want to do primary deals, traders want to trade risk, and markets want to consume all of it."

Sean Griffin

CEO and Executive Director, LSTA

Financial institutions are navigating the accelerating digital evolution of financial services and the rapid proliferation of AI, creating both opportunities and challenges for lenders as the pace of change shows no signs of slowing down.

Expectations for corporate lending at the onset of 2025 were high, partly due to anticipation of a new presidential administration with a focus on business-friendly economic policies. As of the start of the third quarter, lending activity is slightly below the aggressive pace set in 2024, with roughly \$750 billion of primary activity in leveraged capital markets.

New loan creation has increased between 30% and 40% year-over-year. The portion of the overall issuance market made up of new loans is roughly 20%, while 78% of activity continues to be refi, repricing or extension transactions.

Within the broadly syndicated loan market, volatility created by the U.S. administration's unpredictable tariff policies has had a ripple effect: new money issuance has been tempered due to uncertainty around company valuations that has led to spread compression, limiting the upside for sponsors. At the same time, borrowers have been able to benefit from the current cycle via refis that have lowered their borrowing costs and improved their maturity profiles.



Al comes up in virtually every conversation. Banks are notoriously conservative, but the sheer breadth of what they're doing with Al has surprised me."

Chris Walters CEO, Finastra

INNOVATING FINANCE TOGETHER



An economic environment frequently riddled with uncertainty has created an unpredictable backdrop for the U.S. corporate lending ecosystem throughout 2025.

Meanwhile, trading volume in the secondary market has been robust and volumes could exceed \$1 trillion this year. Secondary loan trading volumes have been on a consistent growth trajectory for the past 18 years and advancements in technology are continuing to provide better front-office access to liquidity in the syndicated lending market.

In the collateralized loan obligation (CLO) space, following a banner year in 2024, new issues are up about 4% year-over-year, and refi/reset/reissues are up almost 30%. Private credit CLOs are also on the rise, and outstanding CLO ETFs have exceeded \$30 billion despite having only entered the marketplace five years ago.

Finally, private credit continues to become an increasingly important component of the corporate lending ecosystem: for a more detailed exploration of the outlook for private credit.

Tech accelerates the evolution of corporate lending

Between the explosion of Al and the evolving expectations of consumers (including a growing population of digital natives), the financial services industry is currently experiencing the most massive shift, and fastest pace of change, in its history. The corporate lending space is no exception, and financial institutions are navigating a host of challenges and opportunities as they evolve their businesses.

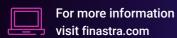
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Al is demonstrating strong potential to help corporate lending professionals become 'power users' of technology platforms and solutions."

Rob Downs

VP, Product Management, Corporate Lending, Finastra.

Despite the widespread enthusiasm and potential around AI, standardizing the vast amount of data that serves as the foundation of AI capabilities remains a persistent challenge that requires further collaboration across the corporate lending ecosystem. Establishing a foundation of high-quality, standardized data that can be transmitted and analyzed by AI tools will unlock efficiencies and eliminate some of the archaic processes that still plague the day-to-day processes of originating and servicing loans. However, updating siloed legacy systems, adopting modern tools, and optimizing lending data is a significant undertaking and a long-term project – and each institution is at a different stage in the journey.





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In addition, corporate lenders need to prioritize keeping pace with the sweeping, tech-driven changes taking place across the rest of the financial markets. For example, Sean points out that the industry is not currently set up to digitize and tokenize loans, while adoption is underway in other asset classes like cash and deposits, bonds, mutual funds and ETFs. Corporate lenders must evolve their operations to meet shifting expectations and embrace innovations like blockchain technology, or they may risk losing sponsors and borrowers to more efficient markets in the future.

Rather than replacing human workers outright, AI can automate repetitive tasks to enhance productivity and creativity, while also freeing up staff to focus on activities that drive revenue and strengthen client relationships.

Lenders anticipate further interest rate cuts before year-end

Looking ahead to the conclusion of 2025 and beyond, Sean predicts that interest rate cuts by the Federal Open Market Committee (FOMC) will contribute to a rebound in PE sponsor activity and the IPO markets, barring an increase in defaults or major additional impacts from tariffs.

Additional interest rate cuts before the end of 2025 are expected, despite inflation remaining above the Fed's desired target. However, the exertion of political pressure on the FOMC and questions about its independence, could undermine confidence among international trading partners and have implications for the dollar's status as the global reserve currency.

Lekshmi Nair, CRO of Lending at Finastra, observes that geopolitical change and economic volatility are key concerns among Finastra's customers, alongside Al, regulatory and compliance scrutiny related to cybersecurity, and competition from shadow banks and other lenders.

The outlook for corporate lending

Al and other technological advancements offer financial institutions the capability to address a host of challenges and seize new opportunities, including in the corporate lending market. In addition to embracing innovation and digital transformation within their own organizations, lenders will need to collaborate and cooperate to move the industry forward in 2026 and beyond.

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