

# Credit Currents:

## Insights across public and private credit

June 26, 2026



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**Topics in this piece:**

- Macro
- USD and EUR leveraged loans
- USD and EUR private credit

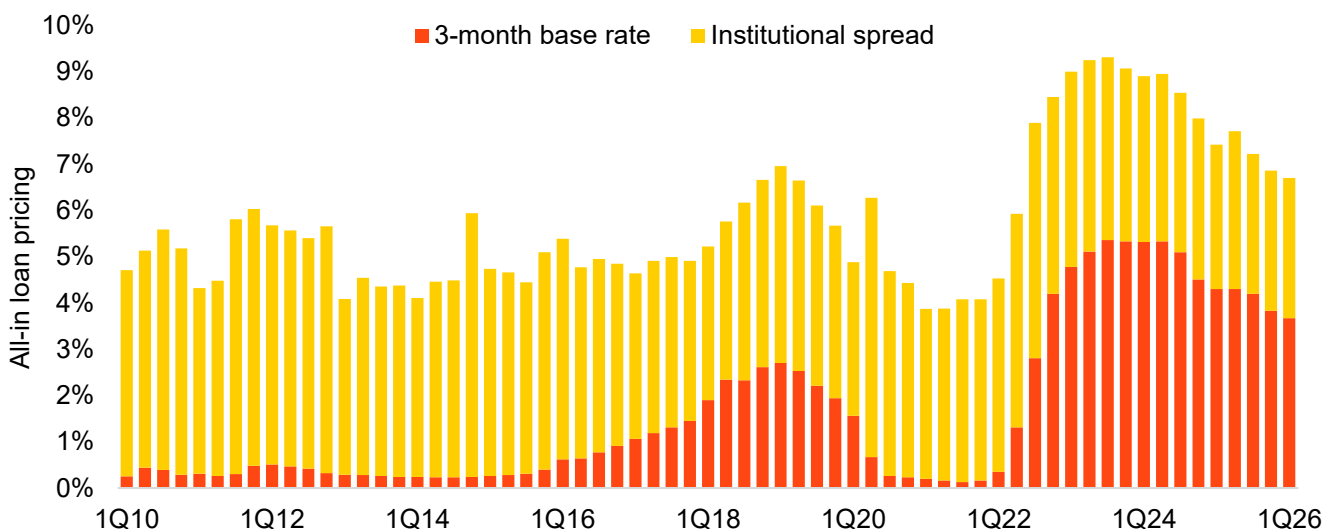
Estimated read time: 10 minutes

### Still a higher-for-longer income opportunity

- 1. Headline inflation has moved higher in both the U.S. and euro area**, in part due to renewed pressure from energy prices. The persistence of those pressures, and their potential spillover into broader price dynamics, remains a key risk.
- 2. Central banks are leaning more hawkish.** In June meetings, the ECB raised rates by 25 bps, while the Fed held steady but emphasized price stability. Updated central bank projections in both regions point to a less favorable growth-inflation mix.
- 3. Higher-for-longer keeps income central in floating-rate credit, even as spreads remain tight.** Still, historical yield comparisons require context, particularly in private credit, where index composition has evolved as the asset class has grown larger, more senior and more focused on scaled borrowers.
- 4. The opportunity also differs by region.** The higher U.S. base rate environment and more resilient growth backdrop provide stronger support for income, though we continue to see value in diversification across markets.

### Exhibit 1: Base rates have become a larger driver of USD leveraged loan yields in recent years

Weighted average absolute institutional rate for new-issue USD leveraged loans



Source: Pitchbook LCD, BlackRock. As of 1Q2026. Captures three-month LIBOR (prior to 2022) or SOFR (2022 or later) plus weighted average institutional spread. Base rate reflects the average during the quarter.

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## Still a higher-for-longer income opportunity

The final leg of disinflation is proving difficult, reinforcing a higher-for-longer policy-rate backdrop in the U.S. and euro area. For credit investors, this backdrop keeps the focus on income. Indeed, elevated policy rates continue to support all-in yields in floating-rate credit, even as spreads remain tight by historical standards.

However, the opportunity is not uniform. Relative value in floating-rate credit is shaped by many factors, including base rates, spreads, credit quality, seniority, borrower mix and market composition, all of which influence all-in income levels. These dynamics create important differences across asset classes and regions.

In this *Credit Currents*, we examine recent inflation and monetary policy developments in the U.S. and euro area and discuss how a higher-for-longer backdrop continues to shape income, financing costs and relative value across leveraged loans and private credit markets.

### Inflation progress has stalled as growth becomes more uneven

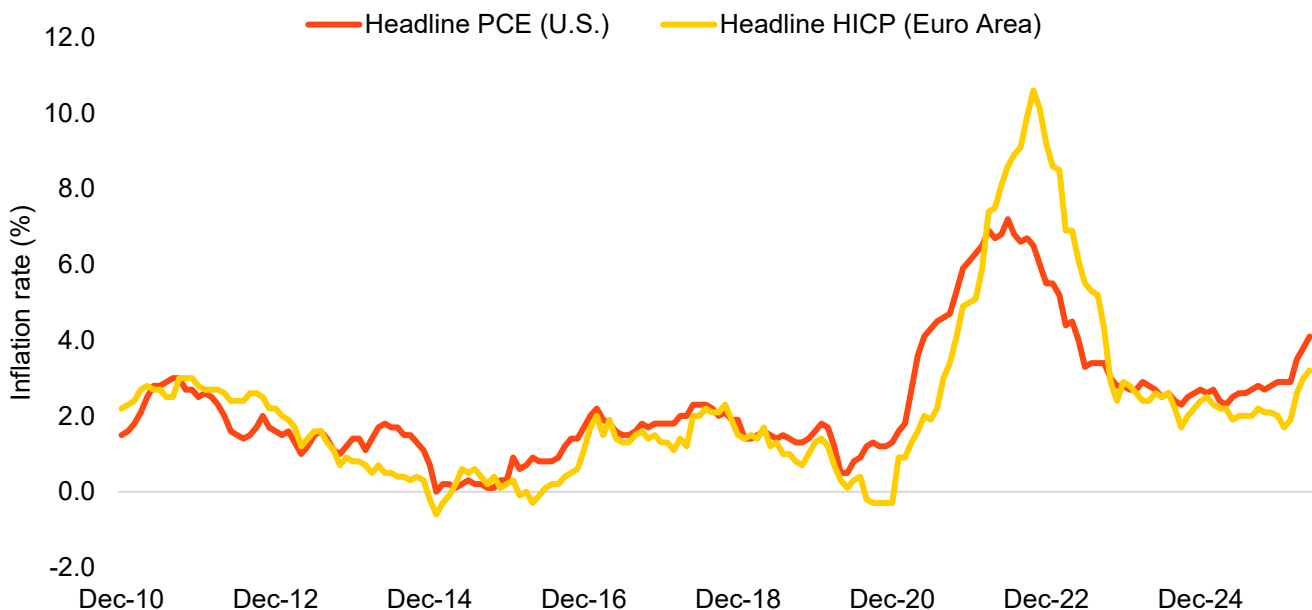
Headline inflation has moved higher in recent months across both the U.S. and euro area, reflecting, in part, renewed pressure from energy prices. The persistence of these inflation pressures will depend partly on the evolution of the geopolitical environment, as our colleagues in the *BlackRock Investment Institute* have [highlighted](#). A de-escalation in Middle East tensions and a normalization of oil flows would likely help ease pressure on energy prices. However, if higher energy costs begin to feed into broader price pressures, the recent acceleration could prove more persistent.

At the same time, the growth backdrop is also becoming more uneven across regions. Real GDP growth has been more resilient in the U.S. than in the euro area, and forecasts suggest that divergence is likely to persist (Exhibit 3 – next page).

For central banks, including the Federal Reserve (Fed) and the European Central Bank (ECB), the combination of renewed inflation pressure and uneven growth creates a more challenging policy backdrop. With inflation risks re-emerging, policymakers have less room to ease policy, keeping the direction of recent communication more hawkish.

### Exhibit 2: Rising inflation has complicated the path back to target in the U.S. and euro area

Year-over-year headline inflation measures: U.S. PCE and euro area HICP



Source: Bloomberg, U.S. Bureau of Economic Analysis, Eurostat. U.S. Personal Consumption Expenditures (PCE) inflation is as of May 31, 2026 and is seasonally adjusted. Euro area Harmonised Index of Consumer Prices (HICP) inflation as of May 31, 2026 and is not seasonally adjusted.

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## Central banks are leaning hawkish

That constraint is already visible in recent central bank communication and, in the case of the ECB, in policy action. While growth expectations have somewhat softened, renewed inflation pressure has kept policymakers focused on inflation risks.

### European Central Bank

The shift is most visible in euro area, where the ECB raised all three key policy rates by 25 bps in June, taking the deposit facility rate to 2.25% (Exhibit 4 – next page). In the [press conference](#) that followed, ECB President Christine Lagarde emphasized the uncertainty around the inflation and growth outlook, noting that the ultimate impact of the Middle East conflict would depend on the “intensity and duration” of the energy price shock, as well as the extent of any indirect and second-round effects. Even so, she noted that the decision to raise rates was unanimous and “robust across a range of scenarios.”

The June 2026 Eurosystem staff macroeconomic [projections](#) reinforced this view, showing a less favorable growth-inflation mix than in March, with inflation revised higher and real growth revised modestly lower for 2026 and 2027.

### Federal Reserve

The direction of travel was similar for the Federal Reserve (Fed). At the June FOMC meeting, the first under Chair Kevin Warsh, the Committee left the policy rate unchanged at 3.50%-3.75% (again, Exhibit 4). That said, during the [press conference](#), Warsh emphasized the Fed’s commitment to returning inflation to its 2% [target](#), noting “this Committee will deliver price stability.”

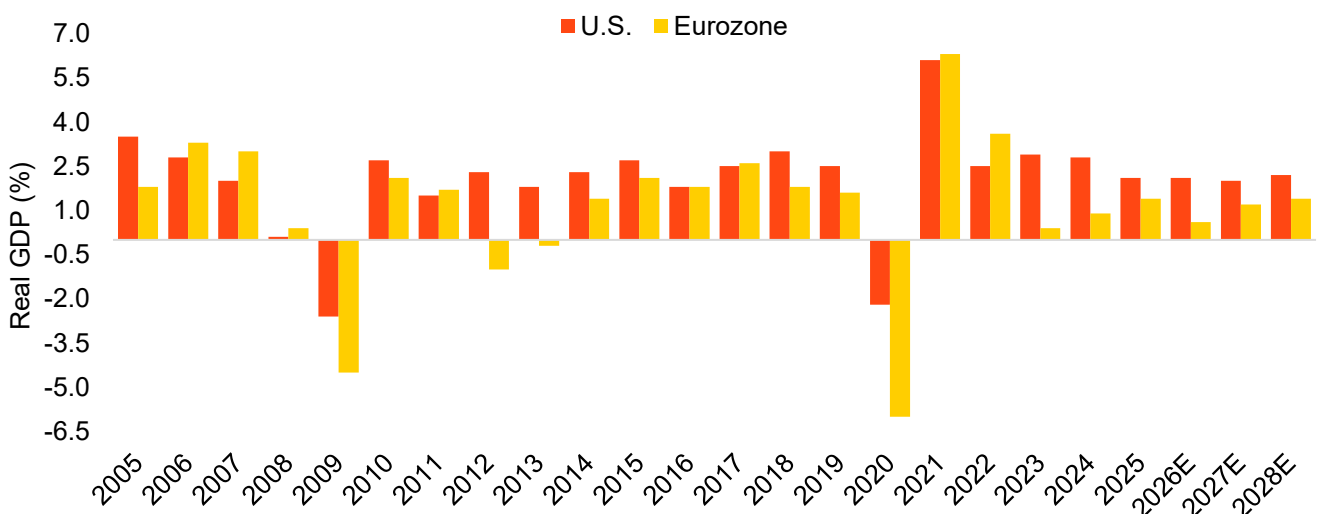
The June 2026 Summary of Economic Projections ([SEP](#)) also reinforced a more constrained policy backdrop. Indeed, median inflation projections were revised higher for 2026 and 2027, while median real growth projections were revised modestly lower for 2026, relative to the March SEP.

Warsh also signaled a shift in how the Fed may communicate policy ahead. He noted that the Fed will “ask what changes might improve the conduct of monetary policy,” including considering a more limited role for forward guidance, which he argued “was not well-suited to the current policy conjuncture.” In his view, financial markets function best when they respond to incoming data, rather than to policy signaling.

As of June 24, 2026, markets are pricing one additional policy rate hike by year-end in both the U.S. and euro area, per data from Bloomberg. In our view, this reinforces the case for structurally elevated policy rates, absent a sharp deterioration in the macroeconomic backdrop.

### Exhibit 3: U.S. growth is expected to remain more resilient than euro area growth

Real GDP (annual, year-over-year) for the U.S. and Eurozone from 2005 to 2025, and Bloomberg composite forecasts for full-year 2026 – 2028



Source: Bloomberg, BlackRock. As of June 24, 2026. 2026 – 2028 estimates use the Bloomberg Composite of forecasters. There is no guarantee any forecasts may come to pass.

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## Higher rates keep income in focus

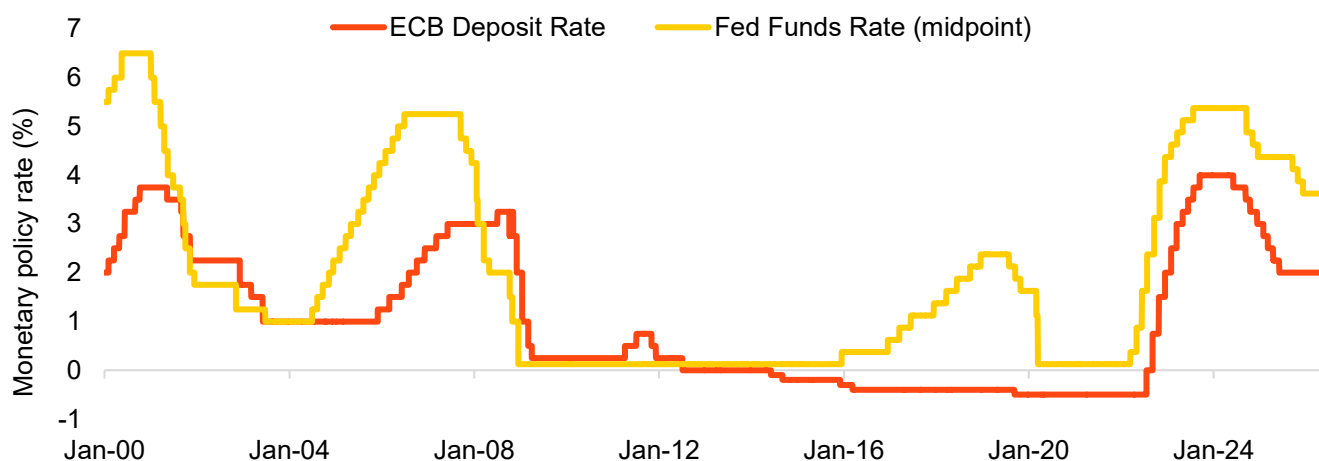
The higher-for-longer rate backdrop has reinforced income as a central theme in floating-rate credit, though the yield picture is not uniform. Yields in the Morningstar LSTA USD Leveraged Loan Index remain elevated relative to much of the post-GFC period, supported in part by higher base rates (Exhibit 5). At the same time, yields in the Cliffwater Direct Lending Index (CDLI), a commonly used proxy for the private credit market, have moderated from recent peaks.

Importantly, yield levels reflect more than base rates alone. Spreads, credit quality, seniority, borrower mix and index composition all play a role. This distinction is particularly relevant in private credit. Indeed, the asset class (including the CDLI, which includes more than 22,000 U.S. loan segments and over \$560 billion of assets) has evolved over time to be more senior and to capture larger borrowers. As such, aggregate direct lending yields have evolved to reflect these changes as well.

For investors, the key takeaway is that yield levels should be interpreted in context. Base rates remain an important source of income, but spreads, credit quality and market composition also shape all-in yields and relative value across floating-rate credit markets.

### Exhibit 4: Policy rates remain elevated relative to the post-GFC era

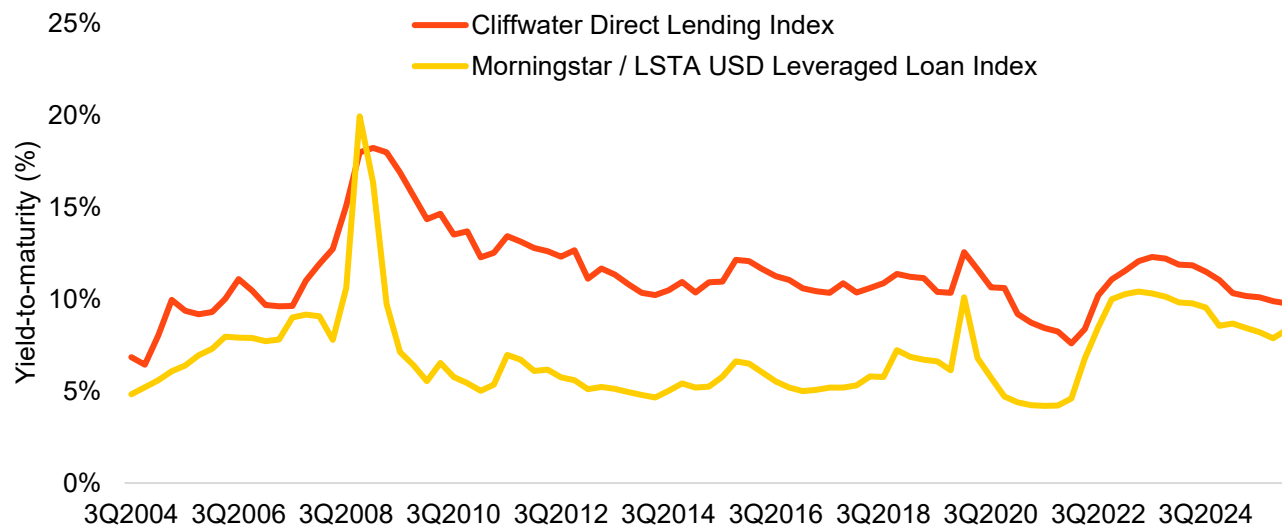
Monetary policy rates for the European Central Bank and Federal Reserve



Source: European Central Bank, Federal Reserve, Bloomberg, BlackRock. As of June 23, 2026.

### Exhibit 5: Floating-rate yields have eased as base rates have declined from local highs

Average index yield-to-maturity levels



Source: Cliffwater LLC, Bloomberg, Morningstar / LSTA, Pitchbook LCD, BlackRock. As of 1Q2026 (most recent for CDLI). The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

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## Floating-rate income remains compelling, led by the U.S.

That context is also important when comparing the income opportunity across USD and EUR leveraged loan and private credit markets. In these markets, spreads remain tight by historical standards. However, the higher U.S. base rate environment and more resilient growth backdrop provide stronger support for all-in income in USD floating rate credit, in our view.

In the U.S., reference rates continue to account for a much larger share of all-in loan pricing than they did for much of the post-GFC period, when base rates remained near zero (Exhibit 1). From 2023 through 1Q26, base rates accounted for an average of 57% of all-in loan pricing, compared with an average of 15% from 2010 to 2019.

A similar pattern is visible in USD private credit markets, based on KBRA DLD data, though the historical series begins in January 2022. At the start of the series, before the Federal Reserve began its rate-hiking cycle, the interest rate/floor component contributed 13% of total yields. From January 2023 to May 2026, that contribution averaged 44% (Exhibit 6).

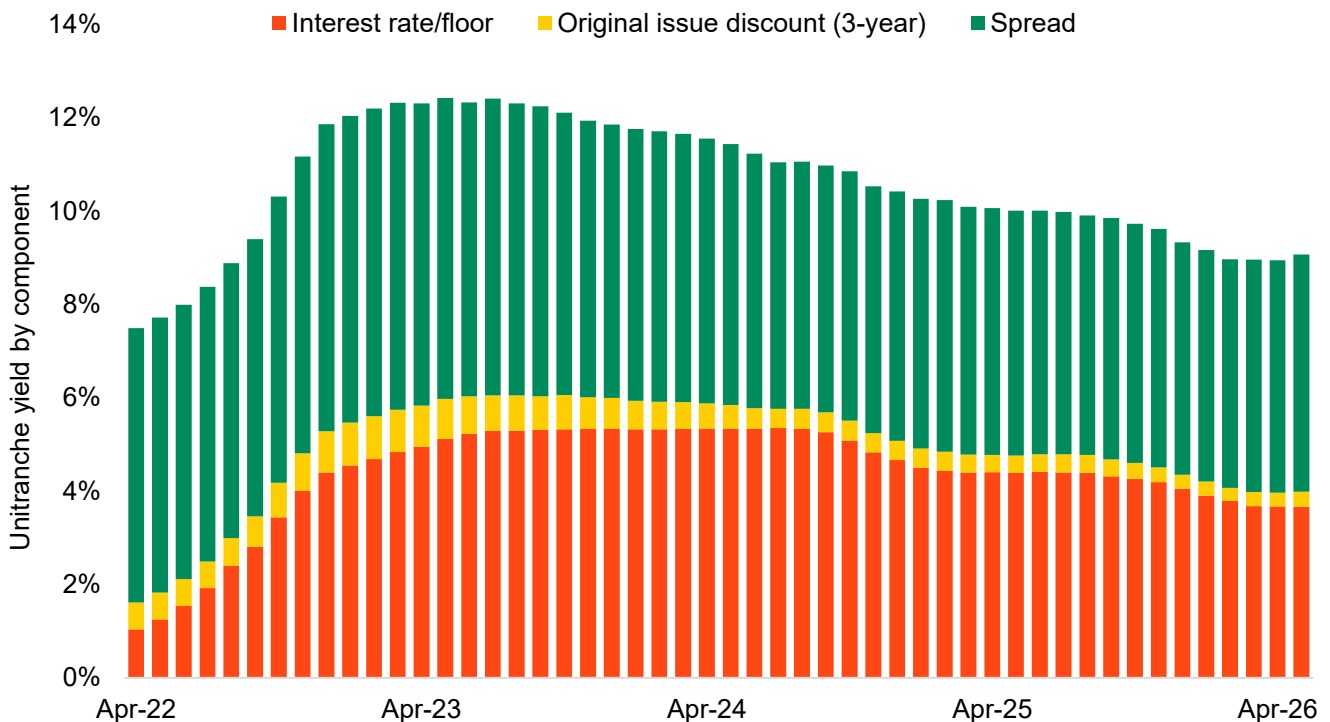
Europe shows a similar, but less elevated, dynamic. New-issue data from euro-denominated term loan B (TLB) issuance show that yield to maturity rose alongside ECB policy rates through 2023, even as primary spreads moved directionally tighter (Exhibit 7). More recently, lower base rates and tighter spreads have brought yields closer to longer-term averages.

Unitranche yields in European private credit have also moderated in recent quarters as base rates have declined from recent peaks (Exhibit 8). Though here too, the historical dataset is somewhat limited.

Still, we continue to see value in diversification across regions and markets. In both regions, income remains an important source of return potential, while higher borrowing costs reinforce the importance of disciplined underwriting and careful asset selection.

### Exhibit 6: Elevated base rates continue to support private credit yields in USD markets

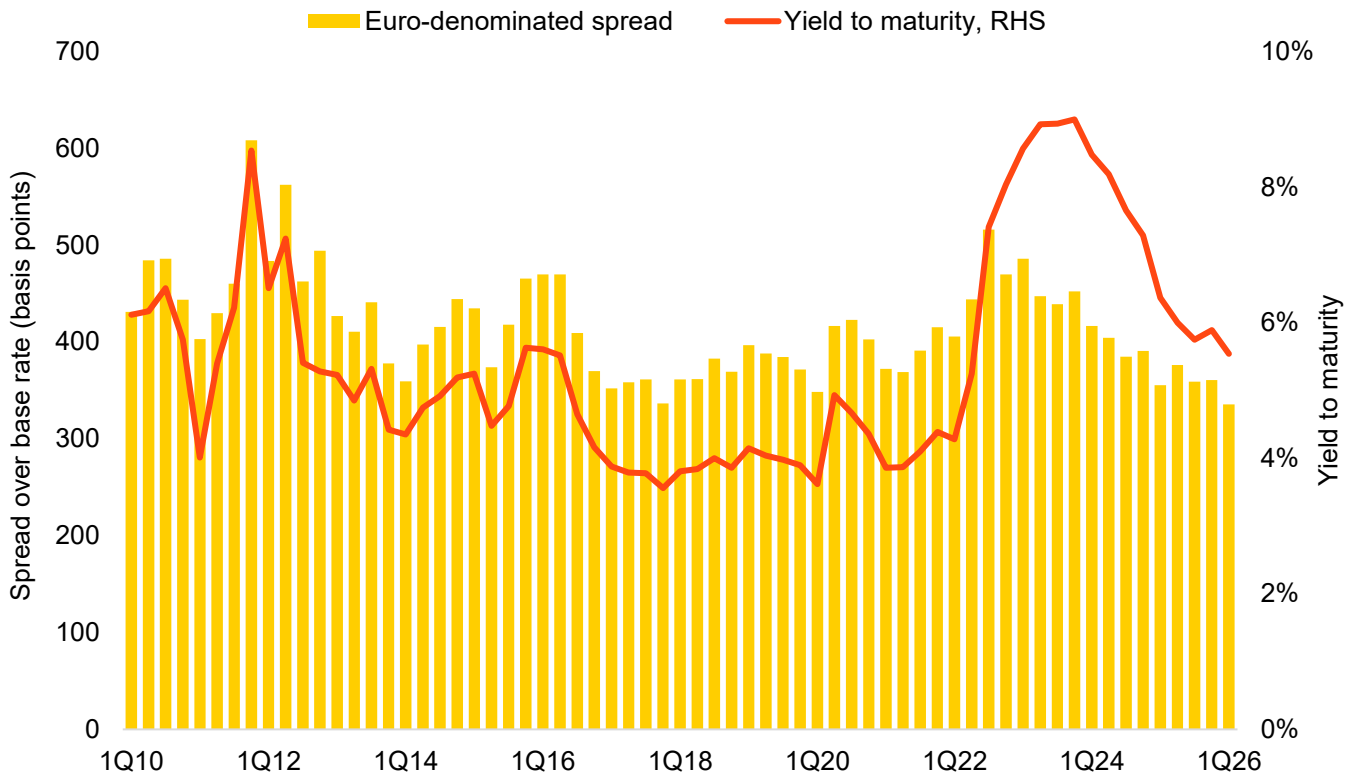
3-month rolling average private credit unitranche yields, by component



Source: KBRA DLD, BlackRock. As of May 31, 2026. Considers first lien term loans and assumes 3-year yield-to-maturity.

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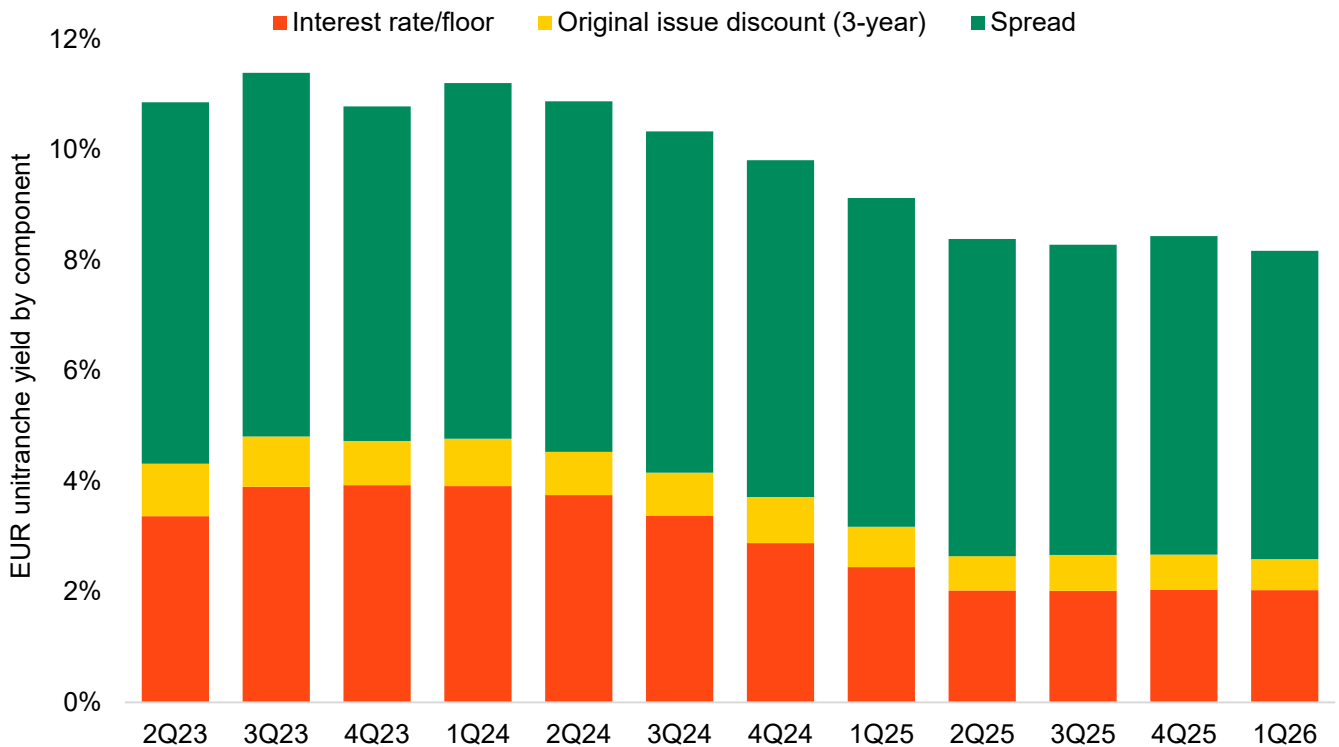
**Exhibit 7: EUR leveraged loan yields have eased as base rates have declined from local peaks**  
 Euro-denominated TLB primary spreads (basis points) and yields to maturity (%), RHS, quarterly averages



Source: Pitchbook LCD, BlackRock. As of 1Q2026. Based on term loan B (TLB) spread at close (including flexes), the OID and EURIBOR floor, if any.

**Exhibit 8: Base rates represent a smaller component of all-in yields than in USD markets**

Quarterly average yield on Euro-denominated private credit unitranche loans, by component



Source: KBRA DLD Research, BlackRock. As of March 31, 2026. Considers first lien, euro-denominated term loans only. Assumes a 3-year yield-to-maturity.

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Cliffwater Direct Lending Index (CDLI) is an index that assists investors to better understand private credit as an asset class. The CDLI seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. Eligibility is set as all assets held by BDCs that (1) are regulated by the SEC as a BDC under the Investment Company Act of 1940; (2) have a substantial majority (approximately 75%) of reported total assets represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater's discretion, and (3) file SEC form 10-Q (or 10-K, as applicable) within 75 (or 90) calendar days following the current Valuation Date. If a BDC meets the eligibility criteria, but has not filed its report on Form 10-K or 10-Q with the SEC at the time the index is reconstituted, asset information from its report will be included in the index at the time of the next reconstitution. This information is derived from sources that are considered reliable, but BlackRock does not guarantee the veracity, currency, completeness or accuracy of this information.

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