A photograph of a blue industrial building with yellow metal stairs and railings. The image is used as a background for the document.

January 30, 2025

# **Global Credit Weekly:**

On hold, for now

**BlackRock**

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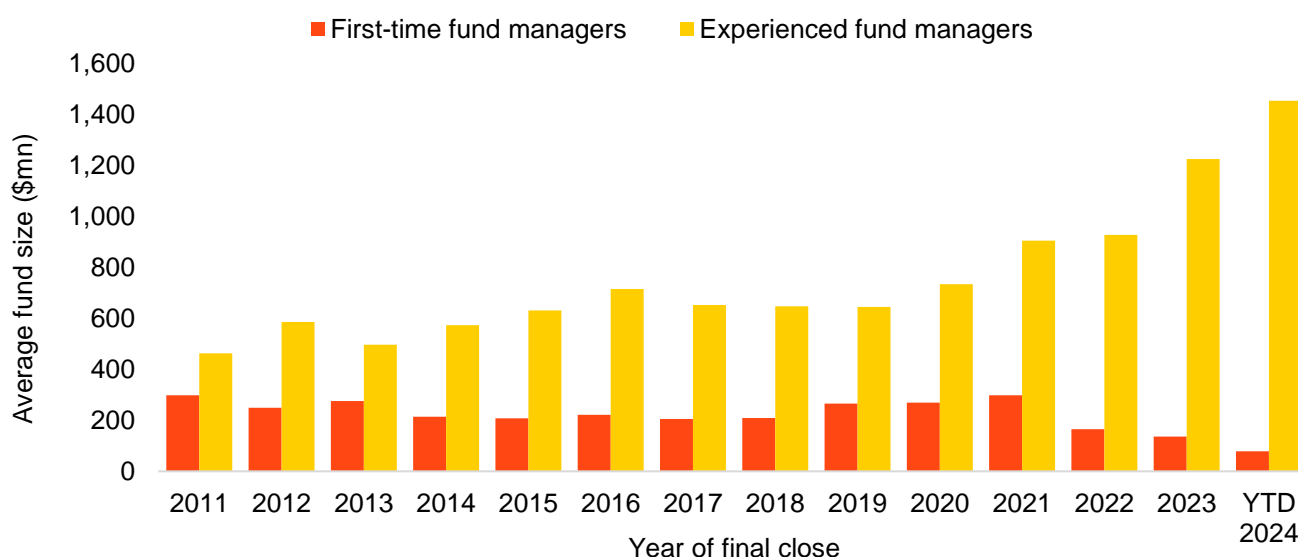
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## Key takeaways

- The Federal Open Market Committee left its monetary policy rate unchanged (4.25-4.5%) at the January 2025 meeting. After 100bp of rate cuts since September 2024, Federal Reserve Chair Powell said the Committee will look for additional progress on inflation before making another policy adjustment. The December 2024 FOMC press conference laid the groundwork for this recent pause, as Chair Powell referenced “a new phase in the process” and characterized December’s 25bp rate cut as a “closer call.”
- The developments are consistent with our expectation for *normalizing* monetary policy, as opposed to *easing*. While additional rate cuts are possible for the cycle, we believe they are unlikely to materialize in 1H2025, barring a sharp downturn in growth or deterioration in the labor market (neither are our base case). This has two implications for liquid and private USD corporate credit markets. First, it should support the well-telegraphed, attractive all-in yield proposition of the asset class, including the diversification offered by floating rate exposures. Second, borrowers will continue operating in an environment of structurally higher borrowing costs – at least relative to the post-financial crisis era. So far, corporates have generally navigated this with resilience (albeit with some dispersion). So long as U.S. growth remains at a trend pace (or ideally, above), we expect this aggregate resilience to persist.
- Away from monetary policy decisions, we also take stock of the ongoing evolution of the global debt financing markets – including the expansion of private debt. In this *Global Credit Weekly*, we review 2024 private debt fundraising trends, which highlighted two key themes, in our view: (1) average fund sizes grew as allocators continue to favor experienced managers, and (2) the fundraising mix reflected an investor preference for direct lending and North America-focused strategies. That said, we see plenty of scope for growth across strategies and regions, as private debt’s addressable markets of investors *and* borrowers continue to expand.

### Exhibit 1: Experienced managers’ funds grow even larger

Average private debt fund sizes: first-time vs. experienced fund managers



Source: Preqin Pro, BlackRock. YTD 2024 as of 3Q2024. Experienced managers are defined as those with four or more funds.

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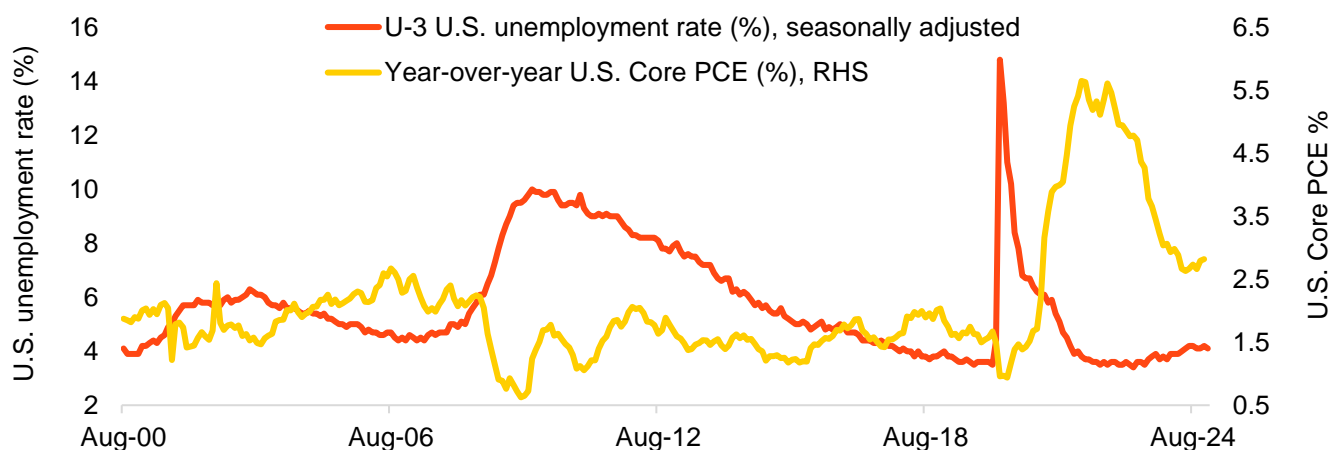
## January FOMC: On hold, for now

The Federal Open Market Committee (FOMC) left its monetary policy rate unchanged (4.25–4.5%) at the January 2025 meeting. After 100bp of rate cuts since September 2024, Federal Reserve (Fed) Chair Powell said the Committee will look for additional progress on inflation before making another policy adjustment. The December 2024 FOMC press conference laid the groundwork for the pause, as Chair Powell referenced “a new phase in the process” and characterized December’s 25bp rate cut as a “closer call.”

We continue to expect a *normalizing* monetary policy cycle, as opposed to a sharp easing one. With U.S. growth tracking above trend, and absent signs of meaningful deterioration in the labor market, we struggle to see a catalyst for deep rate cuts. This has two implications for liquid and private USD corporate credit markets. First, it should support the well-telegraphed, attractive all-in yield proposition of the asset class, including the diversification offered by floating rate exposures. Second, borrowers will continue operating in an environment of structurally higher borrowing costs – at least relative to the post-financial crisis era. So long as U.S. growth remains at a trend pace (or ideally, above), we believe this will be manageable for most of the USD universe of firms – especially considering the significant amount of pre-funding and refinancing that has already taken place. That said, we expect dispersion to persist, driven by underperformance in firms and business models unable to sustainably grow into their capital structures.

### Exhibit 2: The Fed is looking for additional progress on inflation, towards 2%

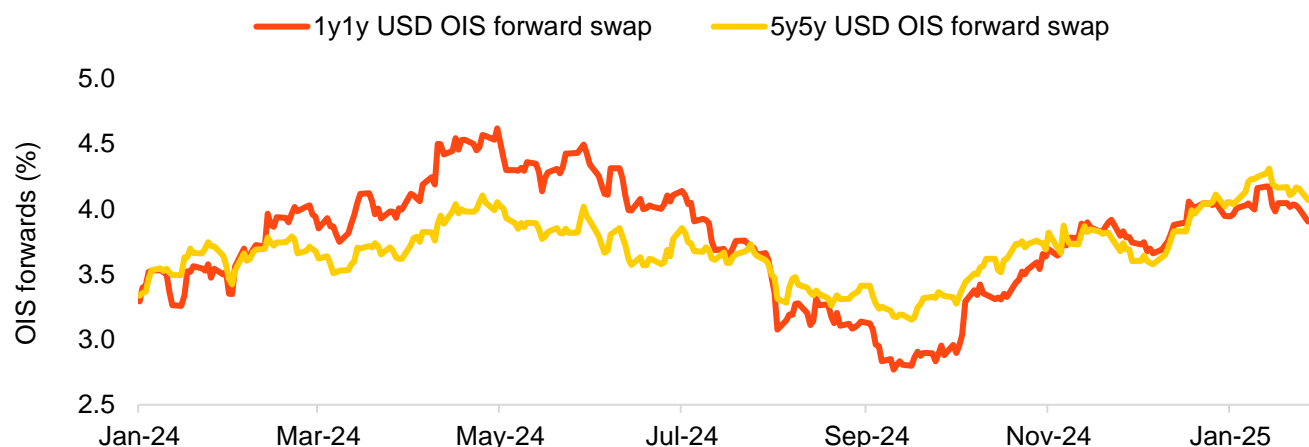
U-3 U.S. unemployment rate (%) seasonally adjusted, and year-over-year U.S. Core PCE inflation (%) seasonally adjusted, RHS



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, BlackRock. Captures unemployment rate data through December 31, 2024, and inflation data through November 30, 2024 (most recent available as of January 29, 2025).

### Exhibit 3: Market pricing reflects a shallow rate cutting cycle from the Federal Reserve

1y1y Overnight Indexed Swap (OIS) forwards, as a proxy for the terminal rate of this cycle, and 5y5y OIS as a proxy for the long-term neutral rate



Source: Bloomberg, BlackRock. As of January 29, 2025.

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## January FOMC: Still restrictive, albeit less so

Below, we outline the key takeaways for corporate credit investors, from Chair Powell's Jan. 29<sup>th</sup> [press conference](#) and Q&A:

- **The current policy rate is likely “meaningfully” higher than the neutral rate.** Given the structural shifts in the post-pandemic economy, market participants have been focused on quantifying the so-called “neutral” rate of interest (i.e., the level which neither stimulates nor restricts growth). Given the resilience of U.S. economic growth despite 525bp of interest rate hikes from 2022-2023, many market participants believe the neutral rate is likely higher (relative to past cycles). Indeed, the most recent quarterly [Summary of Economic Projections](#) (released in December 2024), made another upward adjustment to the median longer-run estimate, to 3.0% (Exhibit 4; red box). When asked, Chair Powell reiterated that the neutral rate cannot be known with precision (repeating again, “we know it by its works”). At the same time, he said the current policy rate of 4.25-4.5% is likely “meaningfully” above neutral and is higher than most FOMC members’ estimates of the long-run neutral rate.
- **Monetary policy is still restrictive, albeit less so vs. mid-2024.** At the [December 2024](#) FOMC press conference, Chair Powell characterized the stance of monetary policy as “meaningfully restrictive.” When asked if this was still the case, he referred to the current level of Fed Funds as “meaningfully restrictive” but “not highly restrictive.” For example, Chair Powell noted that 100bp of rate cuts have been delivered since the September 2024 meeting, while also specifically referencing the ongoing drag from higher rates on interest-sensitive sectors, such as housing.

### Exhibit 4: The December SEP pushed the long-run neutral rate “dot” higher, again

The median economic projections of the 19 FOMC members, for the 4th quarter of each year shown, per the December 2024 Summary of Economic Projections (SEP)

	2024	2025	2026	2027	Longer-run
<b>Real GDP growth</b>	<b>2.5</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.8</b>
Sept 2024 projection	2.0	2.0	2.0	2.0	1.8
June 2024 projection	2.1	2.0	2.0		1.8
March 2024 projection	2.1	2.0	2.0	not given	1.8
December 2023 projection	1.4	1.8	1.9		1.8
<b>Unemployment rate</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>	<b>4.2</b>
Sept 2024 projection	4.4	4.4	4.3	4.2	4.2
June 2024 projection	4.0	4.2	4.1		4.2
March 2024 projection	4.0	4.1	4.0	not given	4.1
December 2023 projection	4.1	4.1	4.1		4.1
<b>PCE inflation</b>	<b>2.4</b>	<b>2.5</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>
Sept 2024 projection	2.3	2.1	2.0	2.0	2.0
June 2024 projection	2.6	2.3	2.0		2.0
March 2024 projection	2.4	2.2	2.0	not given	2.0
December 2023 projection	2.4	2.1	2.0		2.0
<b>Core PCE inflation</b>	<b>2.8</b>	<b>2.5</b>	<b>2.2</b>	<b>2.0</b>	
Sept 2024 projection	2.6	2.2	2.0	2.0	
June 2024 projection	2.8	2.3	2.0		not given
March 2024 projection	2.6	2.2	2.0	not given	
December 2023 projection	2.4	2.2	2.0		
<b>Federal funds rate</b>	<b>4.4</b>	<b>3.9</b>	<b>3.4</b>	<b>3.1</b>	<b>3.0</b>
Sept 2024 projection	4.4	3.4	2.9	2.9	2.9
June 2024 projection	5.1	4.1	3.1		2.8
March 2024 projection	4.6	3.9	3.1	not given	2.6
December 2023 projection	4.6	3.6	2.9		2.5

Source: Federal Reserve, BlackRock. As of the Federal Reserve's Summary of Economic Projections published on December 18, 2024. **There is no guarantee any forecasts may come to pass.**

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- **The Fed responds to large and persistent changes in financial conditions.** Recent equity market and interest rate volatility pushed the topic of financial conditions into the Q&A discussion. Chair Powell noted the FOMC should only react to *large and persistent* changes in financial conditions. He attributed the move higher in long-end yields (over recent months, and since the Fed started *cutting* rates in September 2024) to higher levels of term premia required by investors (as estimated by the New York Fed). He added that the Fed's monetary policy actions should be reflected most directly in *front-end* rates. And while higher long-end rates, in isolation, would serve to tighten financial conditions, this has been somewhat offset by equity market gains and tighter credit spreads over that same timeframe.
- **Not in a hurry to adjust policy.** Notably, in his opening statement, Chair Powell highlighted two potential paths for monetary policy: (1) maintain policy restraint for longer if the economy remains strong and inflation does not continue to move sustainably toward 2%, or (2) ease policy if the labor market were to weaken unexpectedly or inflation were to fall more quickly than anticipated. Potential rate *hikes* were not mentioned. He added: "we do not need to be in a hurry to adjust our policy stance."
- **Inflation is the key ingredient, as of now.** The statement noted that "inflation has moved much closer to our 2% longer-run goal, though it remains somewhat elevated." Barring weakness in the labor market, sustained (i.e., not idiosyncratic) progress on inflation is required before making any additional rate adjustments. (Chair Powell specifically referenced the 12-month inflation rate, which is less impacted by seasonal distortions). While Chair Powell acknowledged short-term inflation expectations have increased, he signaled comfort with longer-term inflation expectations remaining "well anchored."

### Exhibit 5: Financial conditions have eased, in aggregate, since late 2023

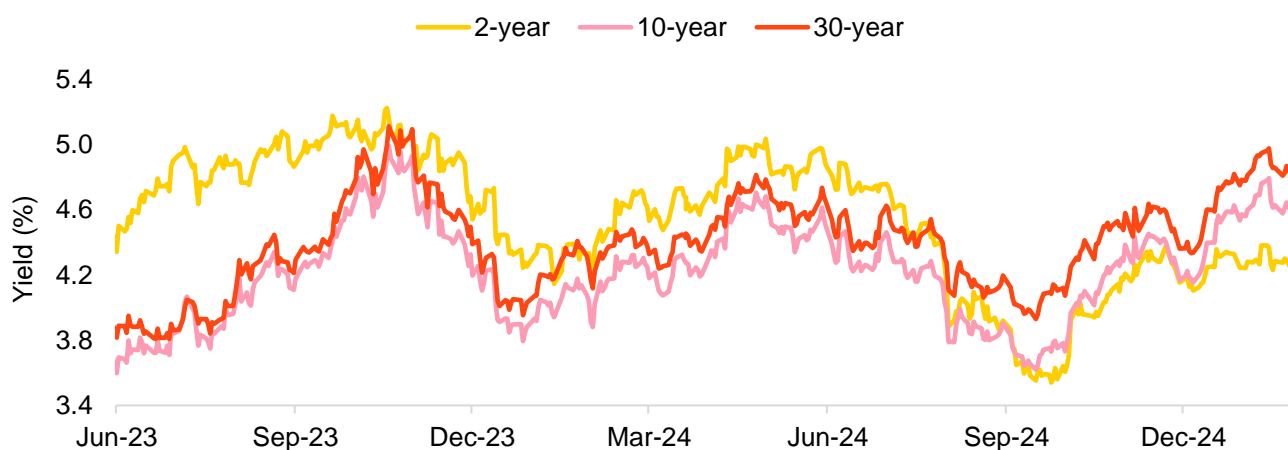
Goldman Sachs U.S. Financial Conditions Index



Source: BlackRock, Bloomberg, Goldman Sachs Global Investment Research. As of January 29, 2025.

### Exhibit 6: Long-end rates have moved higher since Sept. 2024, as the curve has steepened

Yield-to-worst of the 2-year, 10-year and 30-year U.S. Treasuries (on-the-run securities, mid levels)



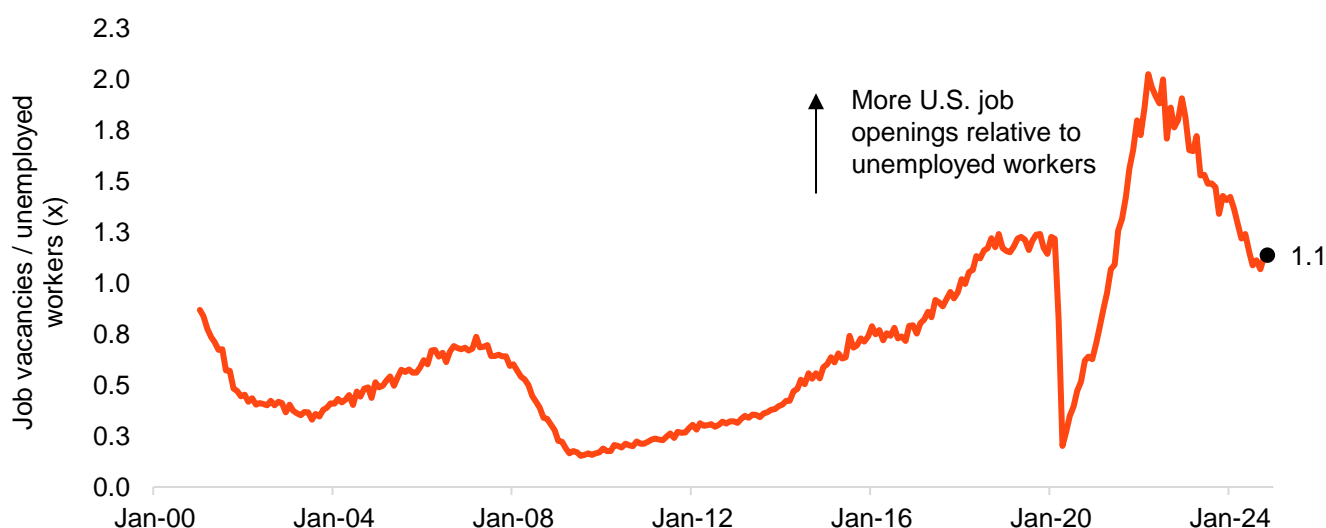
Source: Bloomberg, BlackRock. As of January 29, 2025.

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- **Labor market risks to monitor.** Chair Powell noted that labor market conditions have cooled from their “formerly overheated” state and remain solid. Among other items, he cited the narrowing of the jobs-workers gap (to the pre-pandemic level; Exhibit 7) and a 4.1% unemployment rate which is low by historical standards (Exhibit 2). But while Chair Powell suggested the broad range of labor market indicators signaled *aggregate* stability, he also acknowledged that the low hiring rate may pose a risk if layoff activity increases. This would make it more difficult for displaced workers to find new employment. For now, the layoff rate remains low (Exhibit 8), which is encouraging. But as we noted in our *1Q2025 Global Credit Outlook*, a spike in layoff activity would likely cause the weakness evident among the low-income consumer cohort to expand more broadly. Because consumer spending generates roughly two-thirds of U.S. GDP, this warrants close monitoring. And of course, growth-sensitive asset classes such as corporate credit would face a headwind from a deterioration in growth momentum (which is generally not reflected in the current level of spreads). Indeed, Chair Powell reiterated that further labor market cooling is not required (for inflation to decline) or desired, as lower income consumers are already facing pressure from increases in price levels over the past few years (in absolute terms, which has reduced purchasing power).

### Exhibit 7: The “jobs-workers gap” has rebalanced to the pre-pandemic level

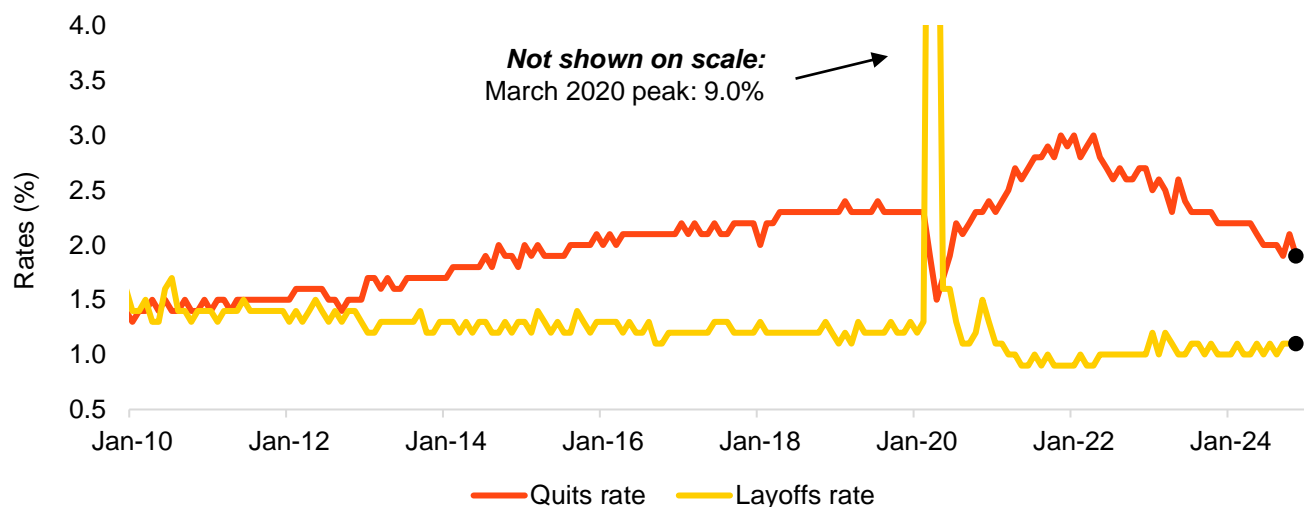
The ratio of U.S. job vacancies to U.S. unemployed workers, both seasonally adjusted



Source: BlackRock, Bureau of Labor Statistics. Captures data through November 30, 2024 (most recent as of January 29, 2025).

### Exhibit 8: The low hiring rate could pose a risk, if layoffs accelerate

U.S. Layoffs & Discharge Rate (%) and the U.S. Quits Rate (%), both seasonally adjusted



Source: Bureau of Labor Statistics, Bloomberg, BlackRock. Captures data through November 30, 2024 (most recent as of January 29, 2025). The Layoffs & Discharge Rate tracks involuntary job separations initiated by the employer, while the Quits Rate tracks voluntary job separations initiated by the employee.

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## A review of 2024 private debt fundraising

Away from monetary policy decisions, we also take stock of the ongoing evolution of the debt financing markets – including the expansion of private debt. Throughout the course of 2024, private debt fundraising showed signs of adapting to the macroeconomic backdrop and investor preferences.

To level set, private debt fundraising totaled \$170 billion in 2024, according to preliminary Preqin data. While this represents the third consecutive annual *decline* in aggregate capital raised from an all-time high in 2021, it remains broadly in line with the previous 10-year average (2014–2023) of \$164 billion (Exhibit 9). Notably, the full-year 2024 value is also likely understated due to a number of scaled manager fund closes in late 2024, which are not yet included in Preqin’s dataset. This could add nearly \$20 billion of additional fundraising to the 4Q2024 figures, per Preqin.

The decline in 2024 fundraising volume is largely attributed to weakness in 1Q2024, suggesting that uncertainty around the macroeconomic backdrop and considerations of a potential hard landing may have influenced allocation decisions in early 2024, per Preqin.

A review of 2024 fundraising data highlights two key themes, in our view: (1) average fund sizes grew as allocators continued to favor experienced managers, and (2) the fundraising mix reflected an investor preference for direct lending and North America-focused strategies.

### Fund sizes continued to grow, as experienced managers gained share

The average private debt fund size continued to march higher in 2024, reaching \$1.1 billion (again, Exhibit 9). (Note that the average fund size is also expected to increase as fundraising data is finalized). One notable driver behind the larger fund sizes is an investor preference for experienced fund managers, defined as those with four or more funds, which has been amplified in recent years.

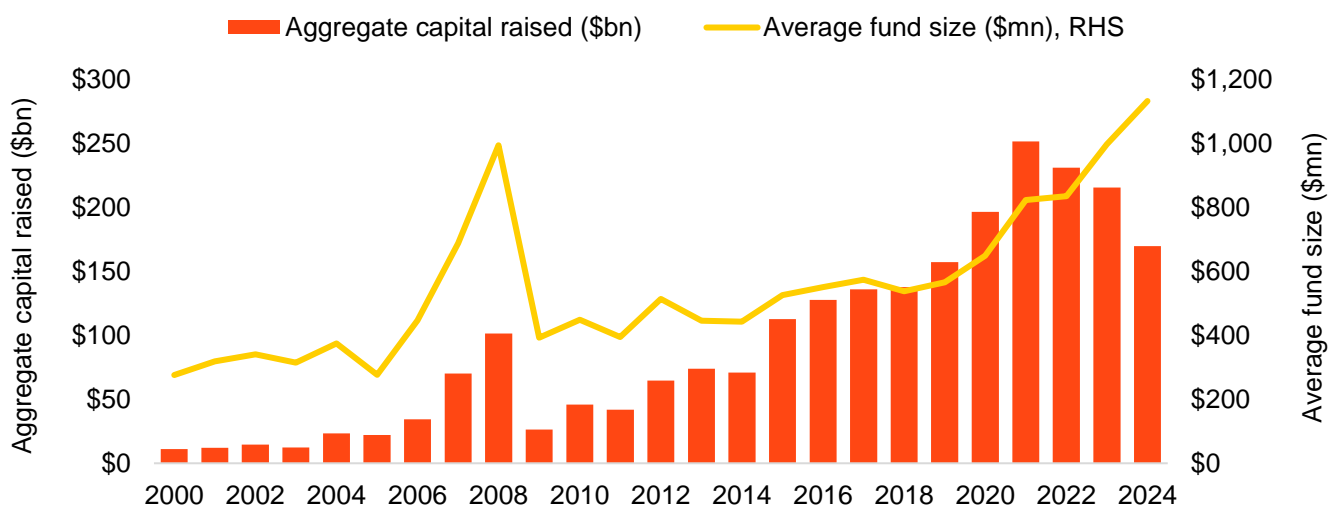
For context, experienced managers have grown their share of total capital raised over time, while first-time managers have raised a smaller amount of the total. As of November 1, 2024, experienced managers captured 92.4% of total capital raised in 2024, vs. only 1.5% for first-time fund managers, according to data by Preqin.

This preference for experienced managers, in our view, can be attributed to (1) the higher interest rate environment, which has encouraged investors to favor managers with more restructuring and workout expertise, and (2) a desire to streamline the number of private debt managers an investor is allocating to.

Exhibit 1 demonstrates how the average fund size for first-time managers and experienced managers has diverged over time. This divergence is especially stark beginning in 2022, when the Federal Reserve began its rate hiking cycle.

### Exhibit 9: Aggregate capital raised\* moderated in 2024, but average fund size grew

Aggregate annual private debt capital raised (\$bn) and average annual private debt fund size (\$mn), RHS



Source: Preqin Pro, BlackRock. As of year-end 2024, using Preqin data accessed January 29, 2025. \*Preliminary data.

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## The fundraising mix favored direct lending and North America-focused funds in 2024

The macroeconomic backdrop also influenced the strategy and geography fundraising mix in 2024, in our view, with two “standout” investment areas: direct lending and North America.

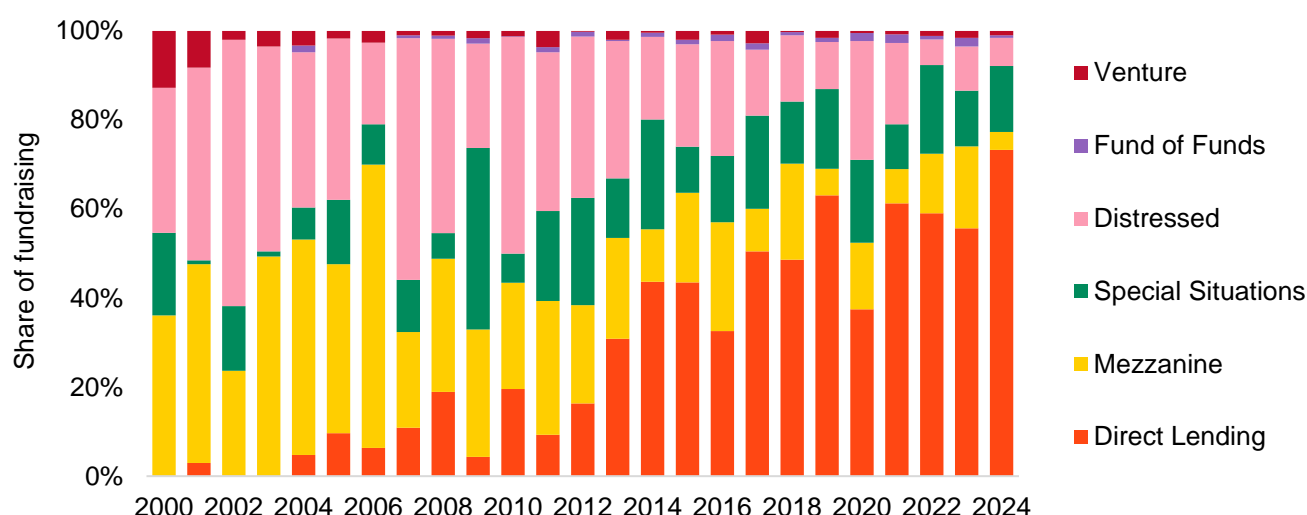
Direct lending dominated private debt fundraising in 2024, capturing a record 73% of total capital raised across all private debt strategies (Exhibit 10), and *increasing* vs. the 2023 level. This preference for direct lending, in our view, was driven by several favorable tailwinds during the year including an easing of “hard landing” fears, continued resilience of private debt borrowers, and elevated reference rates.

North America-focused funds (including the U.S. and Canada) also captured a large share of private debt fundraising in 2024, representing 68% of total private debt capital raised (vs. 64% in 2023; Exhibit 11). This, in our view, reflects the attractive growth backdrop in the U.S. throughout 2024, in absolute terms and relative to many other developed market economies.

The fundraising mix in 2024 further accentuated existing trends in private debt assets under management (AUM). Direct lending and North America-focused funds represented a meaningful share of the AUM mix, at 51% and 64%, respectively as of June 30, 2024, per Preqin.

### Exhibit 10: Direct lending represented 73% of total private debt fundraising in 2024

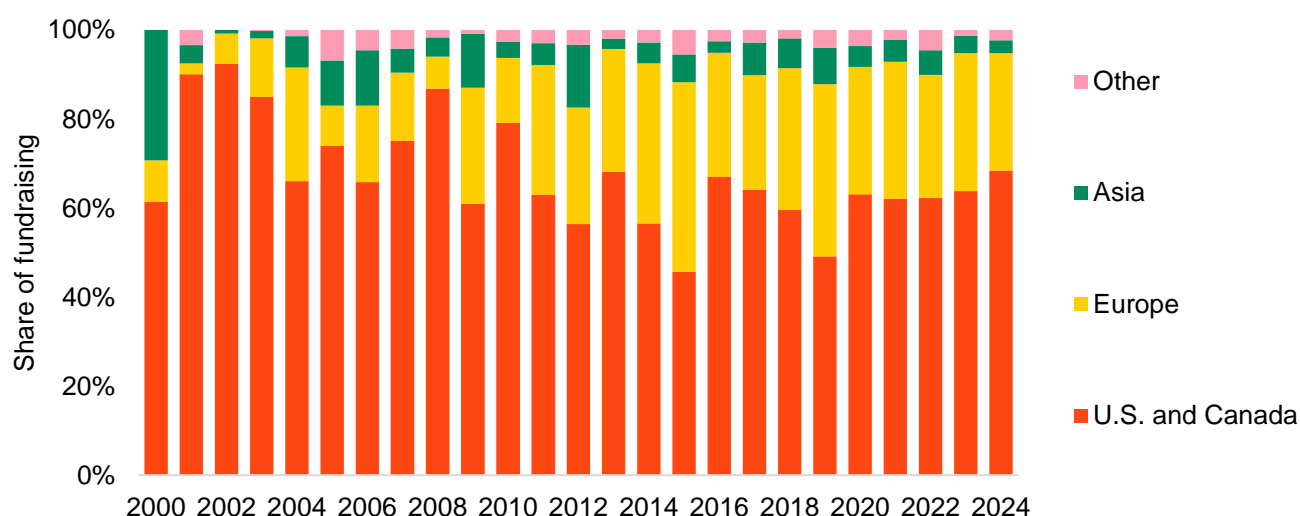
Share of annual global private debt fundraising, by strategy



Source: Preqin Pro, BlackRock. As of year-end 2024, using Preqin data accessed January 29, 2025.

### Exhibit 11: The U.S. and Canada represented continued strength in fundraising

Share of annual global private debt fundraising, by geography



Source: Preqin Pro, BlackRock. As of year-end 2024, using Preqin data accessed January 29, 2025. "Other" includes LatAm and Caribbean, Australia and New Zealand, Africa, Middle East and Israel, and diversified multi-region.

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