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Global Credit Weekly:

Why private equity trends matter for credit

BlackRock

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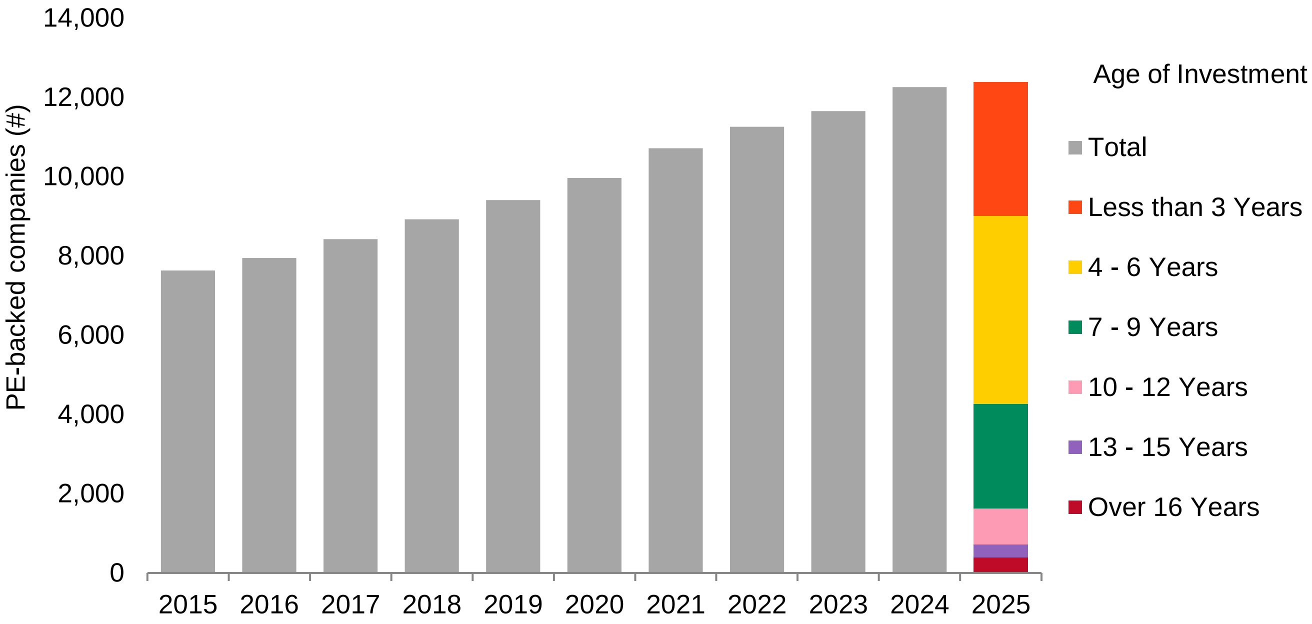
Key takeaways

- For private equity (PE) investors, the muted levels of sponsor-related M&A and exit activity have been top of mind for (at least) the last few quarters. But corporate *credit* investors - in both the liquid and private markets – have also been closely monitoring trends in the PE universe.
- We see two specific areas of interest. For one, a recovery in PE exit activity would help pave the way for *new* PE investments – providing an opportunity for deployment of private credit capital ('dry powder') to help finance such sponsor-related transactions.
- Second, the financing 'mix shift' between private and public credit has become increasingly dynamic in recent years, ebbing and flowing based on market conditions. As a result, portions of the addressable markets of borrowers now overlap, and private credit can be used to refinance syndicated credit (and vice versa). Furthermore, 64% of the notional outstanding in the USD broadly syndicated leveraged loan market is issued by firms backed by PE sponsors.
- With the most recent data in hand, we once again take stock of the pace of PE exit activity. While late 2024 and 1Q2025 showed some encouraging signs of momentum, the pace of sponsor-related M&A and PE exits has slowed in 2Q2025 in response to market volatility. Moreover, the activity which has occurred in recent quarters has been largely concentrated among larger deals.
- Given the uncertainty related to global growth prospects, we expect the 'valuation expectations gap' will persist between buyers and sellers – at least in the near term. In the meantime, with PE investment inventory aging and exits remaining low, market participants' interest in secondaries and continuation vehicles is likely to increase further.

Exhibit 1: 35% of PE company inventory is 7 years or older

U.S. private equity-backed company inventory, by deal year



Source: Pitchbook LCD, BlackRock. As of March 31, 2025 (most recent).

Why private equity activity matters for *credit* investors

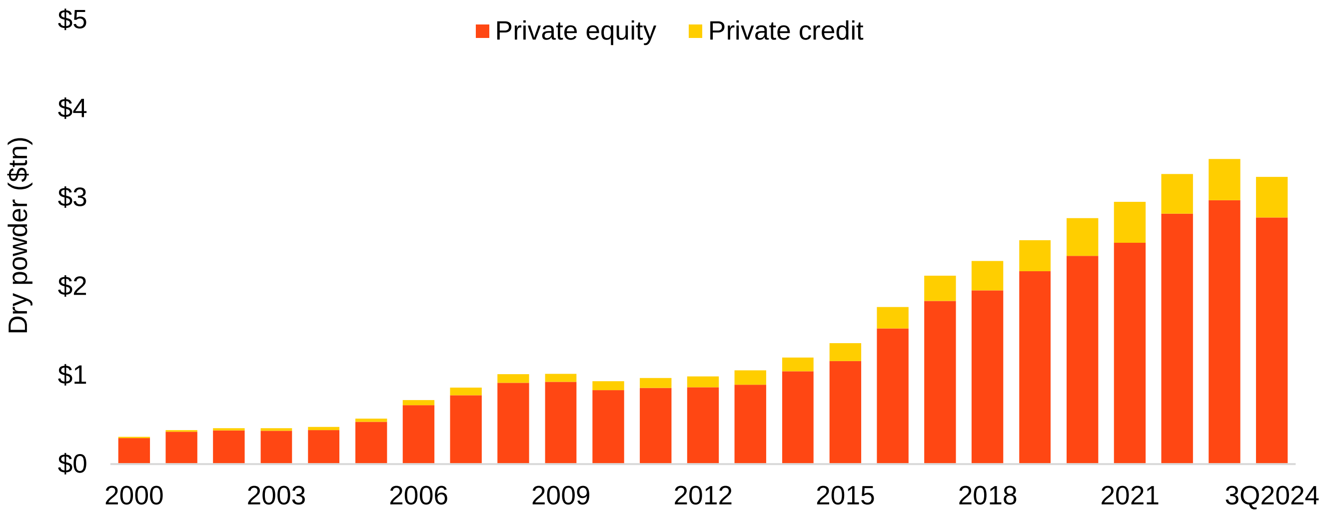
For private equity (PE) investors, the muted levels of sponsor-related M&A and exit activity have been top of mind for (at least) the last few quarters.

But *credit* investors have also been closely monitoring PE activity, for two reasons. First, a recovery in PE exit activity would help pave the way for *new* PE investments – providing an opportunity for deployment of private credit capital to help finance such sponsor-related transactions (Exhibit 2).

Second, investors in the *syndicated* leveraged finance universe also keep a close eye on trends in PE landscape, especially given the increasing convergence between public and private credit markets in recent years. As we have outlined previously, the financing 'mix shift' between private and public credit is dynamic and tends to ebb and flow depending on market conditions (i.e., private credit may refinance a broadly syndicated loan, and vice versa). Furthermore, 64% of the notional outstanding in the USD broadly syndicated leveraged loan market is issued by firms backed by PE sponsors (Exhibit 3).

Exhibit 2: PE dry powder totaled $2.8 trillion as of 3Q2024, and private credit dry powder stood at $450 billion

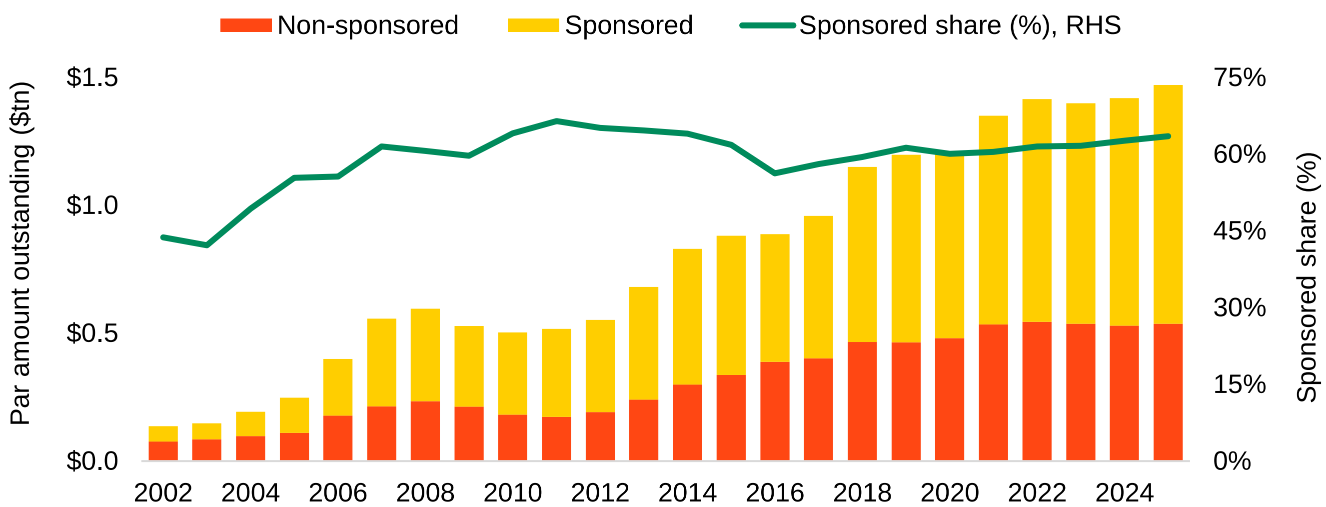
Global private equity and private credit dry powder (capital available for deployment), $ in trillions



Source: Pitchbook LCD, Morningstar / LSTA, BlackRock. Captures most recent data available as of April 30, 2025.

Exhibit 3: The broadly syndicated leveraged loan market includes many PE-backed firms

Par amount outstanding ($ in trillions) for the Morningstar / LSTA USD Leveraged Loan Index, split by sponsored and non-sponsored deals. At calendar year-end (2002 - 2024), and as of March 31, 2025.



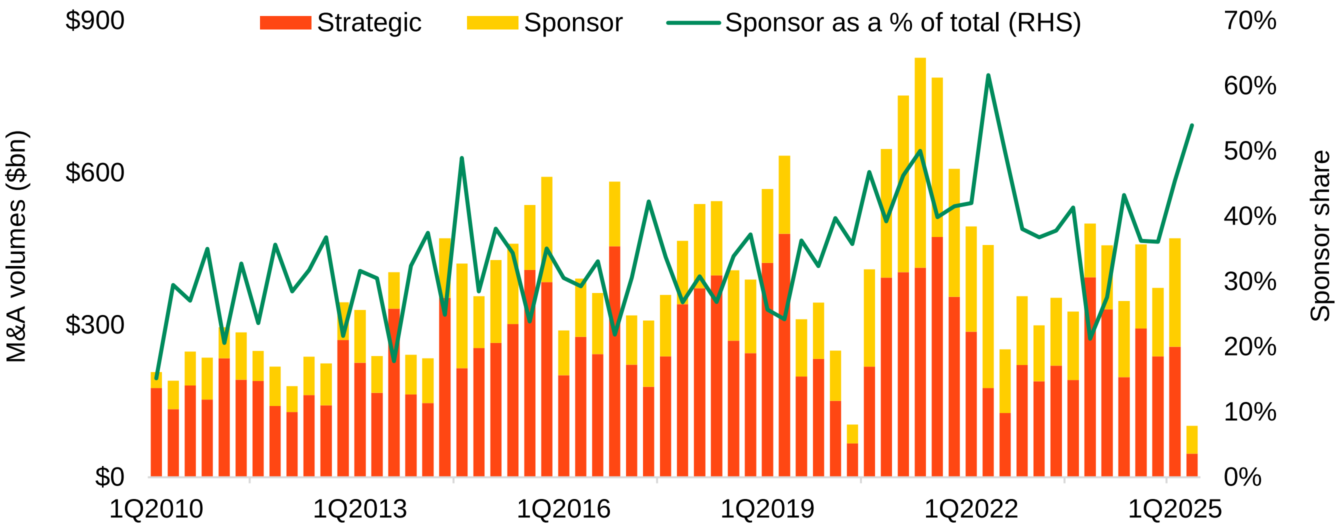
Source: Pitchbook LCD, Morningstar / LSTA, BlackRock. Captures most recent data available as of April 30, 2025.

Higher interest rates and intermittent concerns about a slowdown in global growth weighed on financial sponsors' ability to exit existing investments in recent years. We believe a wide 'valuations expectations gap' between buyers and sellers played a role in the muted activity.

This is illustrated in Exhibit 4, which shows how sponsor M&A volume has generally lagged strategic M&A activity over the past several quarters (in absolute and relative terms). While cash-rich corporates sought to grow and diversify their businesses through M&A, sponsor-related deals represented a lower share of overall activity. Additionally, 2Q2025 volumes (for both strategic and sponsor related deals) are off to a very slow start, owing, in our view, to broader market volatility and policy uncertainty. This, alongside a quiet IPO market, has driven a continued decline in the U.S. PE exits / investments ratio (Exhibit 5).

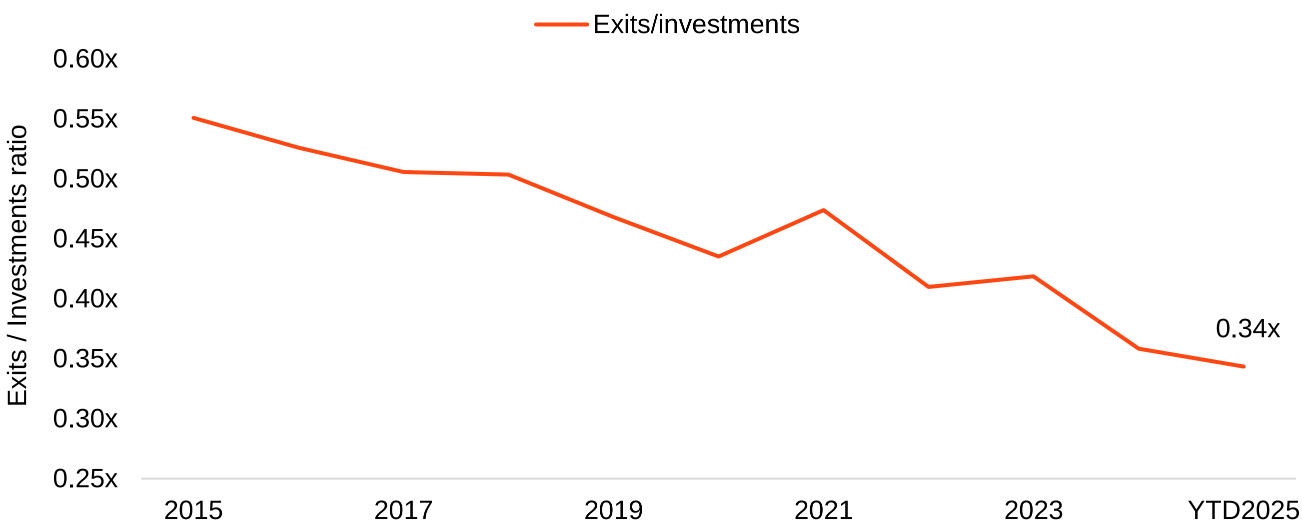
The impacts of lower PE exit volume are also evident in the aging of PE inventories. Today, PE inventory has grown to more than 12,300 portfolio companies, with 35% of PE-backed company inventory being 7 years or older, according to Pitchbook LCD (Exhibit 1). This has resulted in increased interest from some market participants in secondaries funds and continuation vehicles, to unlock liquidity.

Exhibit 4: M&A activity – both strategic and sponsor – is off to a slow start in 2Q2025
Announced sponsor and strategic M&A deals in North America and sponsored volume as a share of the total (RHS). Captures deals valued at $100 million or more, at announcement. Excludes canceled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. As of April 28, 2025. Sponsor related transactions are those that include a financial sponsor on either side (as buyer or seller).

Exhibit 5: PE investments have outpaced PE exits
Count of U.S. PE exits / count of U.S. PE investments



Source: Pitchbook LCD, BlackRock. As of March 31, 2025.

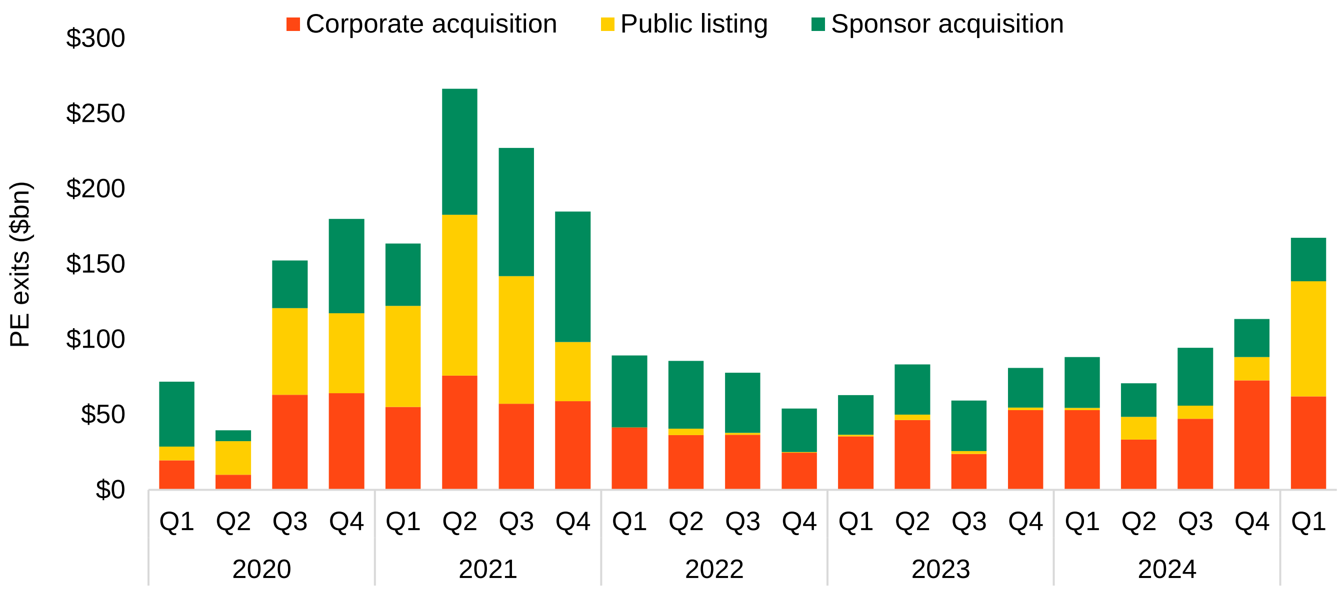
Returning capital to limited partners (LPs) can support PE fundraising volumes, as LPs may reinvest this capital into a newer fund vintage. In a January 2025 McKinsey survey of 333 LPs, 2.5 times as many LPs ranked distributions to paid-in capital (DPI) as a "most critical" performance metric, vs. three years ago.

That said, despite the muted aggregate figures, granular data illustrates increased activity in *some* subsets of the market. For example, data from Pitchbook LCD shows 1Q2025 aggregate PE exit value increased for the third consecutive quarter, reaching the highest level since 2021 (Exhibit 6).

Exhibit 7 demonstrates how median annual exit hold times also fell in 2024, for the first time since 2021, supported by the increase in exit activity. Still, continued strength in exit activity will be required to offset the exit shortage over recent years (again, Exhibit 5).

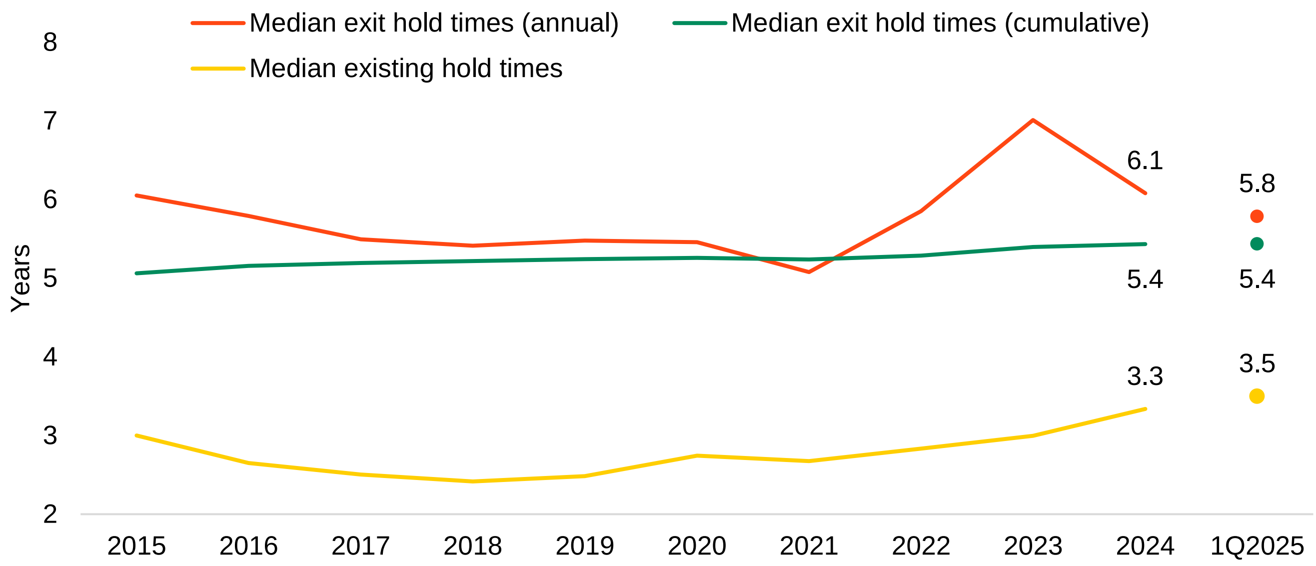
Moreover, the boost in aggregate exit volumes has been driven by larger transactions, as shown in Exhibits 8 and 9. To us, this suggests that PE GPs are likely prioritizing 'exiting' their largest and highest-quality assets given the market volatility.

Exhibit 6: PE exit values increased for the third consecutive quarter
Quarterly share of U.S. PE exit value ($ in billions) by transaction type



Source: Pitchbook LCD, BlackRock. As of March 31, 2025.

Exhibit 7: Annual exit hold times fell in 2024
Median U.S. PE company holding times, in years

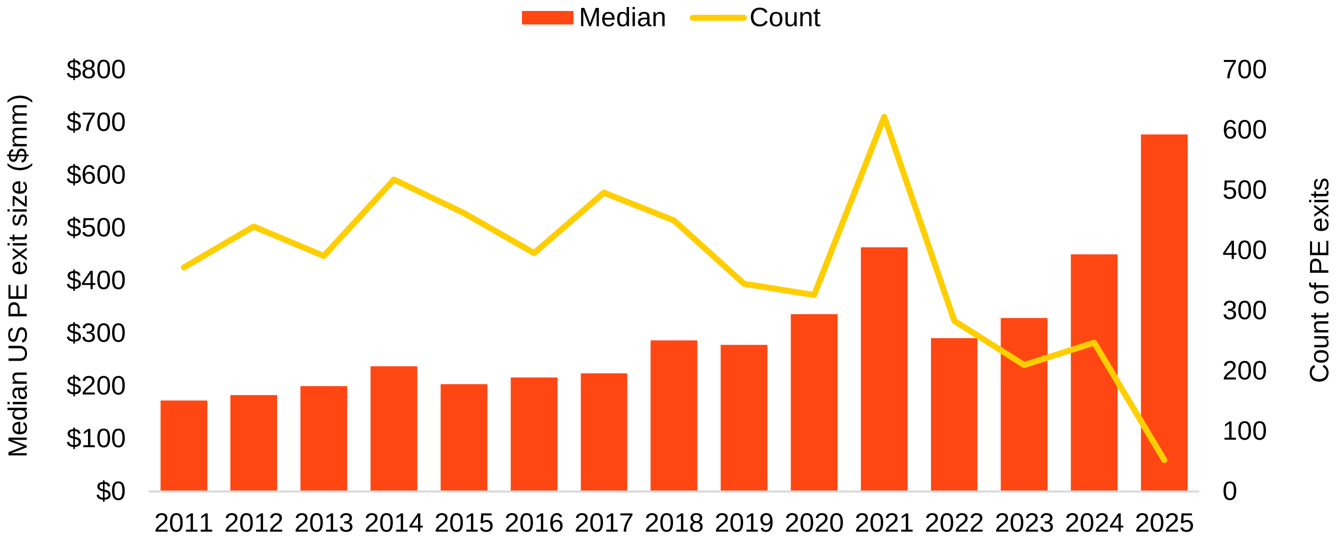


Source: Pitchbook LCD, BlackRock. As of March 31, 2025.

We believe a resumption in activity will be somewhat contingent on a supportive macro backdrop – including additional clarity on trade policy (given its importance to the global growth outlook, as we have discussed previously).

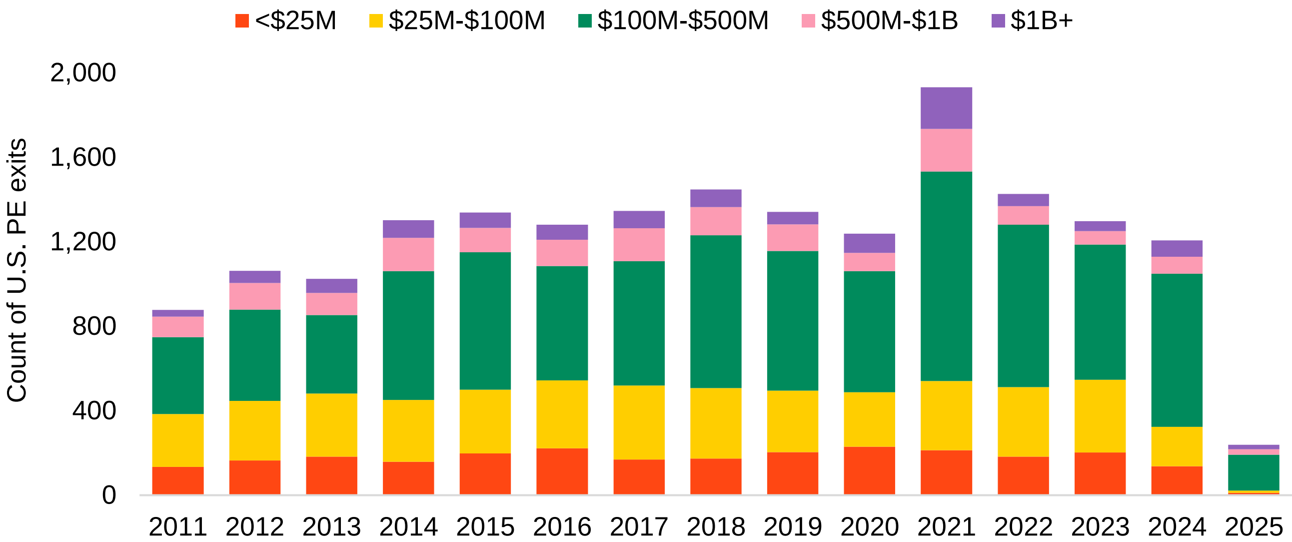
More broadly, trends in PE are directly relevant to a wide range of institutional investors, including pensions, endowments and foundations, given current estimated asset allocations (Exhibit 10). According to a February 2025 analysis conducted by Preqin, on average, institutional investors in North America are estimated to be overallocated to private equity (relative to their targets) by 0.4 percentage points on a simple average basis. This compares to a 1.3 percentage point underallocation (again, relative to target) to private credit.

Exhibit 8: Larger transactions have driven the year-to-date PE exit activity
U.S. private equity exit activity: median transaction size and count of transactions (RHS), for annual periods 2011 – 2024 and 1Q2025



Source: Pitchbook LCD, BlackRock. 2025 is as of March 31, 2025. Captures latest available data as of April 30, 2025.

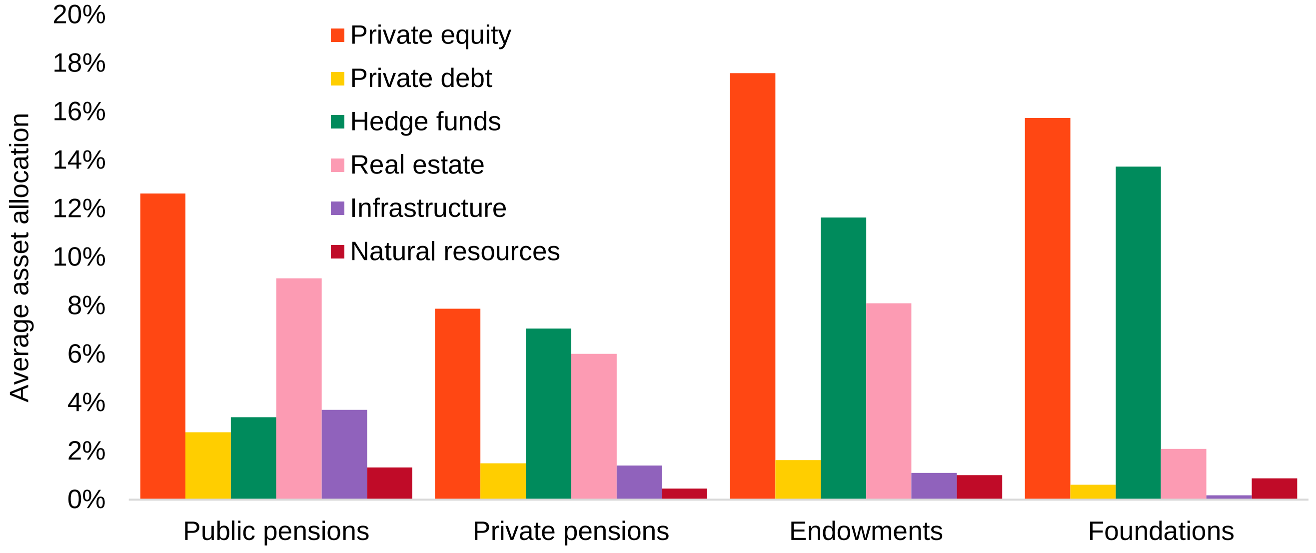
Exhibit 9: The distribution of PE exit activity by size bucket shows a similar trend
U.S. private equity exit activity count by transaction size, for annual periods 2011 – 2024 and 1Q2025



Source: Pitchbook LCD, BlackRock. 2025 is as of March 31, 2025. Captures latest available data as of April 30, 2025.

Exhibit 10: Private equity is a sizable asset allocation for pensions, endowments and foundations

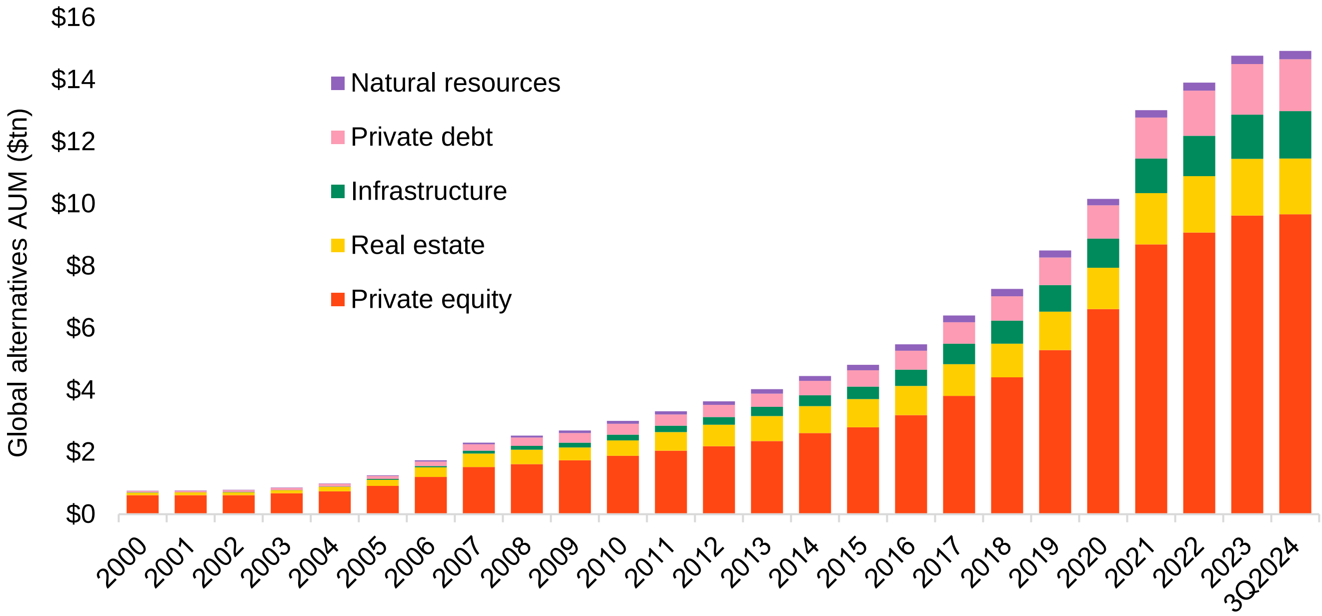
Average weighted asset allocation of North American institutional investors surveyed by Preqin, as of February 2025



Source: Preqin, BlackRock. As of February 2025. Venture Capital is included within Private Equity. Preqin's sample universe for this analysis (which required data on 2024 allocations) includes 3,822 institutional investors representing $8.8 trillion in assets under management.

Exhibit 11: Private equity represented two-thirds of global alternatives AUM as of Sept. 2024

Assets under management (unrealized value and dry powder) across alternative asset classes, $ in trillions



Source: BlackRock, Preqin. As of September 30, 2024 (most recent available as of April 30, 2025). To avoid double counting of available capital and unrealized value, fund of funds and secondaries are excluded.

Unless otherwise stated, all reference to $ are in USD.

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