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Global Credit Quarterly: 2Q2025

Crosscurrents

BlackRock

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Key takeaways

- **Macro:** Policy uncertainty is elevated due to shifts in the global trade landscape. In the U.S., we foresee a more challenging growth, inflation and policy mix; above target inflation may limit scope for rate cuts. That said, we expect a slowing of growth and not a recession. Pages 3 – 9.
- **Consumer and corporate sentiment:** We see risk that economic activity ‘catches down’ to weaker sentiment data. High frequency labor market data and company commentary will be key to monitor, given the ‘feedback loop’ between corporate margins, the layoff rate, consumer spending, and overall economic activity. Pages 10 – 17.
- **Liquid credit:** We continue to prioritize income. While we expect some additional spread widening, the magnitude may be somewhat tempered by corporates’ solid fundamentals and other technical factors. Sector dispersion should increase. Pages 18 – 26.
- **Private credit:** The ongoing expansion of private credit’s addressable markets (investors and borrowers) reinforces its ‘staying power.’ Past periods of market volatility have provided opportunities for private credit to serve as a stabilizing source of financing for a wide range of borrowers in a variety of market conditions. Pages 27 – 40.
- **Commercial real estate (CRE):** Amid an ongoing recovery in CRE transaction volumes, loan extensions in challenged subsets (namely, office) will likely remain an overhang. Pages 41 – 45.
- **Risks to our view:** Upside: A scaling back of tariffs could limit pressure on corporate profit margins and inflationary pressures. Downside: Persistently elevated tariff rates could negatively impact corporate margins, which may pressure the labor market and economic activity.

Macro: navigating uncertainty and crosscurrents

A more challenging growth, inflation and policy mix, at least in the near-term

Monetary policy: limited scope for cuts

After having taken steps to normalize monetary policy in 2H2024, the Federal Reserve (Fed), European Central Bank (ECB), and Bank of England (BoE) began to signal a more patient approach in 1Q2025 as their respective policy rates approached neutral. Each of the central banks referenced the prevailing theme of macroeconomic uncertainty, related to expected policy shifts – including global trade policy, potential for tax cuts and deregulation in the U.S., and fiscal spending in Germany.

For the Fed, above-target inflation has resulted in a more constrained reaction function to further *normalize* policy – let alone *ease it*. Comments from various Fed officials (following the March FOMC) suggest that while the central bank is attuned to downside risks to growth, a near-term rate cut is unlikely barring evidence of a meaningful deterioration in the labor market.

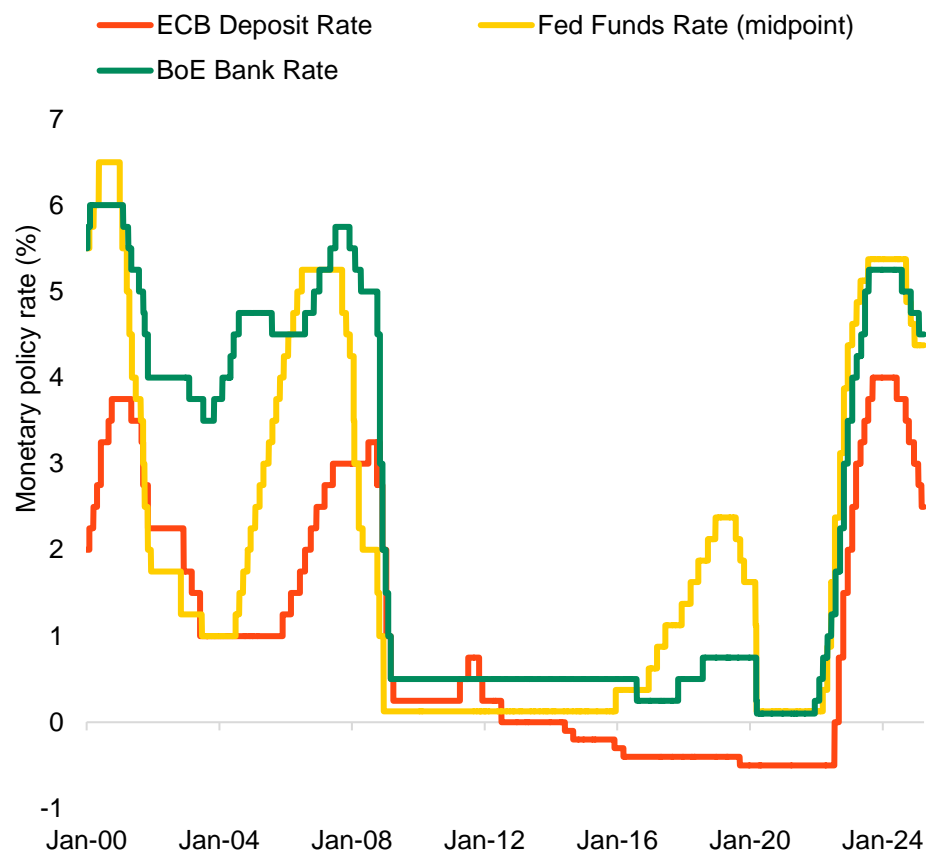
Meanwhile, the ECB noted during its March 2025 meeting (where it cut the deposit rate by 25bp) that monetary policy “is becoming meaningfully less restrictive.” And the BoE held the Bank Rate unchanged at 4.5% at the March 2025 meeting.

Looking ahead, and absent a sharp downturn in global growth, this leaves us comfortable with our expectation for structurally higher interest rates relative to the period between the global financial crisis (GFC) and the pandemic (Exhibit 1).

This has two implications for corporate credit investors. First, on demand, it should continue to support an attractive all-in yield proposition in corporate credit, relative to prior cycles. Second, on fundamentals, it means that borrowers will need to continue to navigate a structurally higher cost of debt capital. This leaves the growth backdrop as critical to their ability to do this while preserving demand for products and supporting overall margins.

Exhibit 1: Scope for additional cuts appears limited, absent a sharp growth downturn

Monetary policy rates for the European Central Bank (ECB), Federal Reserve (Fed), and Bank of England (BoE)



Source: BlackRock, European Central Bank, Federal Reserve, Bank of England, Bloomberg. As of April 2, 2025.

A more constrained FOMC reaction function

The FOMC's March 2025 Summary of Economic Projections (SEP) reflected weaker growth, higher inflation, and higher unemployment for 2025, relative to the projections as of December 2024 (Exhibit 2).

The March 2025 SEP did not incorporate any additional rate cuts in response to the weaker growth and labor market projections and continued to reflect a median forecast of two cuts by year-end 2025. This, in our view, reflected the binding constraint of above-target inflation.

Chair Powell acknowledged that inflation remains “somewhat elevated” relative to the FOMC’s 2% longer-run goal and “further progress” appears to be delayed for the time being. As evidence of this, he pointed to the increase in goods inflation over the past two months. He added that “clearly some of it” is driven by tariffs, and that it was “too soon to say” whether it will be appropriate to “look through” such tariff-related inflationary pressures.

The March SEP highlights the resumption of the disinflation trend in 2026, with inflation reaching the FOMC’s 2.0% target in 2027. Longer-term inflation expectations are a focus for the Fed. Any evidence that they are becoming “unanchored” will be key to monitor, as it would be a threat to one of the Fed’s mandates: price stability.

Notably, FOMC participants’ assessments of the uncertainty and risks around their economic forecasts increased relative to December, and the range of forecasts for the policy rate in 2025 shifted *higher*. Chair Powell cited “remarkably high” forecast uncertainty and some “inertia,” which influenced the projections.

Exhibit 2: The March SEP reflected a more challenging growth inflation mix vs. December

The median economic projections of the 19 FOMC members, for the 4th quarter of each year shown, per the March 2025 Summary of Economic Projections (SEP)

	2025	2026	2027	Longer-run
Real GDP growth	1.7	1.8	1.8	1.8
December 2024 projection	2.1	2.0	1.9	1.8
September 2024 projection	2.0	2.0	2.0	1.8
Unemployment rate	4.4	4.3	4.3	4.2
December 2024 projection	4.3	4.3	4.3	4.2
September 2024 projection	4.4	4.3	4.2	4.2
PCE inflation	2.7	2.2	2.0	2.0
December 2024 projection	2.5	2.1	2.0	2.0
September 2024 projection	2.1	2.0	2.0	2.0
Core PCE inflation	2.8	2.2	2.0	
December 2024 projection	2.5	2.2	2.0	not given
September 2024 projection	2.2	2.0	2.0	
Federal funds rate	3.9	3.4	3.1	3.0
December 2024 projection	3.9	3.4	3.1	3.0
September 2024 projection	3.4	2.9	2.9	2.9

Source: Federal Reserve, BlackRock. As of the Federal Reserve’s Summary of Economic Projections published on March 19, 2025. **There is no guarantee any forecasts may come to pass.**

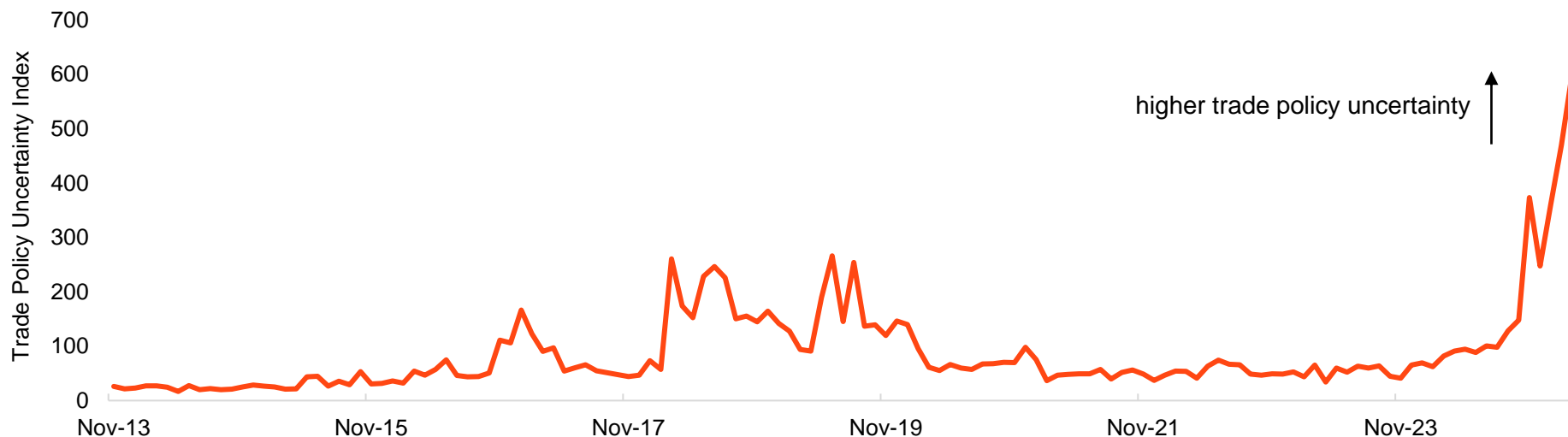
Trade policy uncertainty

Exhibit 3 provides some historical context on the level of trade policy uncertainty, using an index developed by Federal Reserve Board economists¹. Their 2019 paper² found that the rise in trade policy uncertainty in 1H2018 (a period of escalating U.S.-China trade tensions and implementation of new tariffs) accounted for a 0.8 percentage point decline in the level of global GDP in 1H2019. And as Exhibit 3 illustrates, the current level of policy uncertainty has now exceeded that level.

For corporate credit investors, we see the most risk to fundamentals in a scenario of across-the-board tariffs (i.e., not targeted to specific countries or products), accompanied by retaliatory tariffs. This has the potential to weigh on corporates' input costs and profit margins, beyond a 'one time' upward price level shock. It may also shift consumer consumption patterns, based on the elasticity of the good. Depending on the severity of any input cost pressures, we see a risk that corporates may look to reduce headcount as a tool to protect margins. As we discuss later, a deterioration in the labor market could have negative spillover effects to economic activity.

Exhibit 3: Trade policy uncertainty has exceeded the 2018-2019 episode

Trade Policy Uncertainty Index (measured monthly)



Source: Haver Analytics, BlackRock. Captures data through March 31, 2025. The Trade Policy Uncertainty (TPU) Index is based on automated text searches of the electronic archives of seven newspapers: Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal, and Washington Post. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is then normalized to a value of 100 for a one percent article share. Developed by Dario Caldara, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo. ¹ Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty," revised November 2019, Journal of Monetary Economics. ² Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2019). "Does Trade Policy Uncertainty Affect Global Economic Activity?," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 4, 2019, <https://doi.org/10.17016/2380-7172.2445>.

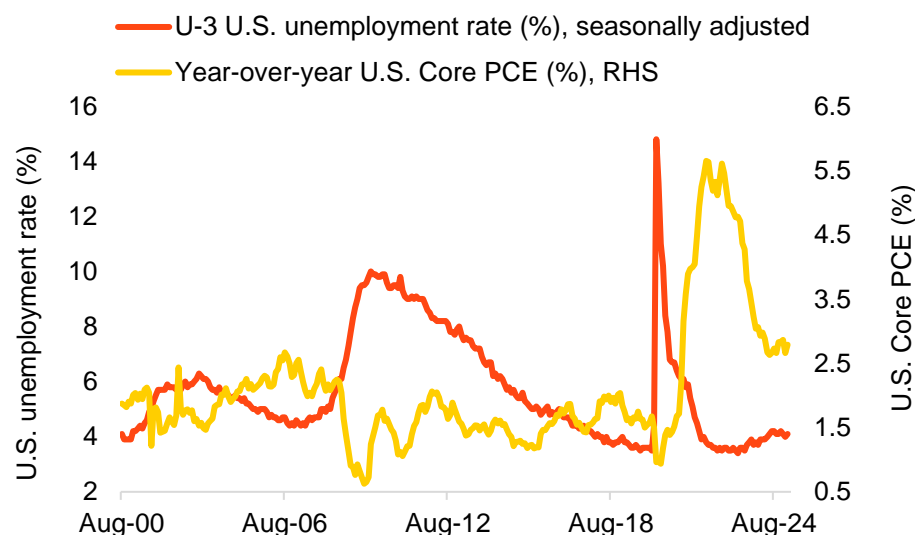
The bar for a cut is high, in our view

Chair Powell said he believes “policy is in a good place to react to what comes” and the right thing to do is “to wait... for greater clarity about what the economy is doing.” As for what could cause another rate cut (beyond the 100bp already delivered since September 2024), Chair Powell cited two factors: (1) if the labor market were to “weaken unexpectedly” or, (2) if inflation were to fall more quickly. We view potential labor market weakness as the more likely catalyst, given the limited prospects for further improvement on inflation.

Commentary from a range of Federal Reserve officials since the March FOMC has underscored the importance of monitoring for the risk of entrenched inflationary pressures. Most notable, in our view, were Atlanta Fed President Raphael Bostic’s recent comments that businesses in his district are generally planning to raise prices, while not expecting a negative impact to sales volumes. We continue to view a rate cut in 1H2025 as unlikely but will be watching high-frequency data on the labor market closely. The 3-month average of non-farm payrolls is tracking at 200k, and the unemployment rate stood at 4.1% as of February 2025 (a low level, by historical standards).

Exhibit 4: The path to 2% inflation may be longer than expected

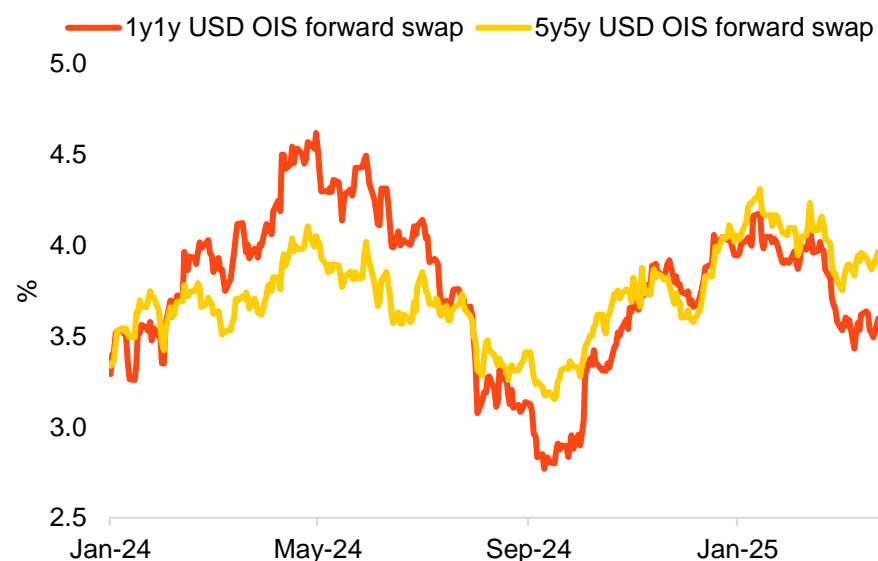
U-3 U.S. unemployment rate (%) seasonally adjusted, and year-over-year U.S. Core PCE inflation (%) seasonally adjusted, RHS



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, BlackRock. Captures data through February 28, 2025 (most recent available as of April 2, 2025).

Exhibit 5: Market pricing reflects a terminal rate for this cycle of roughly 3.1%

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



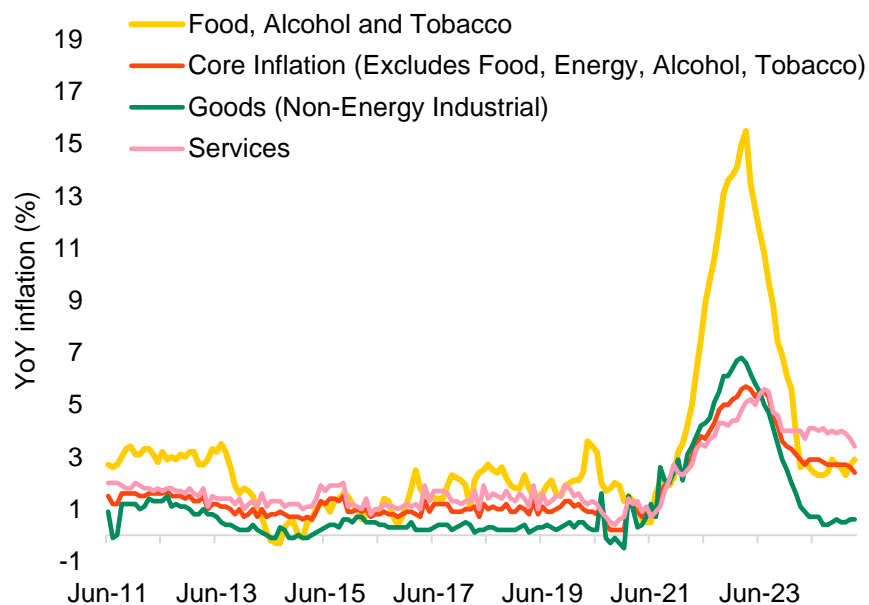
Source: Bloomberg, BlackRock. As of April 3, 2025. **There can be no guarantee any forecasts may come to pass.**

ECB balances risks to growth

Since beginning its rate cutting cycle in June 2024, the ECB has delivered a cumulative 150bp of rate cuts through the March 2025 meeting (leaving the deposit rate at 2.5%). Market pricing reflects an additional 67bp implied rate cuts through year-end 2025 (as of April 3rd). ECB staff expect “high geopolitical and policy uncertainty” to weigh on Euro Area economic growth, alongside “persistent competitiveness challenges” (a reference to the recent Draghi report on EU competitiveness). These headwinds are expected to be somewhat offset by rising real wages (driving a recovery in consumption) and easing of financial conditions (as recent interest rate reductions flow through to the economy). The ECB has acknowledged that domestic inflation remains high, as “wages and prices in certain sectors are adjusting to the past inflation surge with a substantial delay.” Core inflation is expected to average 2.2% in 2026, but reach the 2.0% target in 2026, per ECB staff projections. The recent planned boost to fiscal spending is expected to eventually be supportive to European growth, although the precise magnitude is yet to be determined.

Exhibit 6: Inflation is expected to remain above target in 2025, per ECB staff

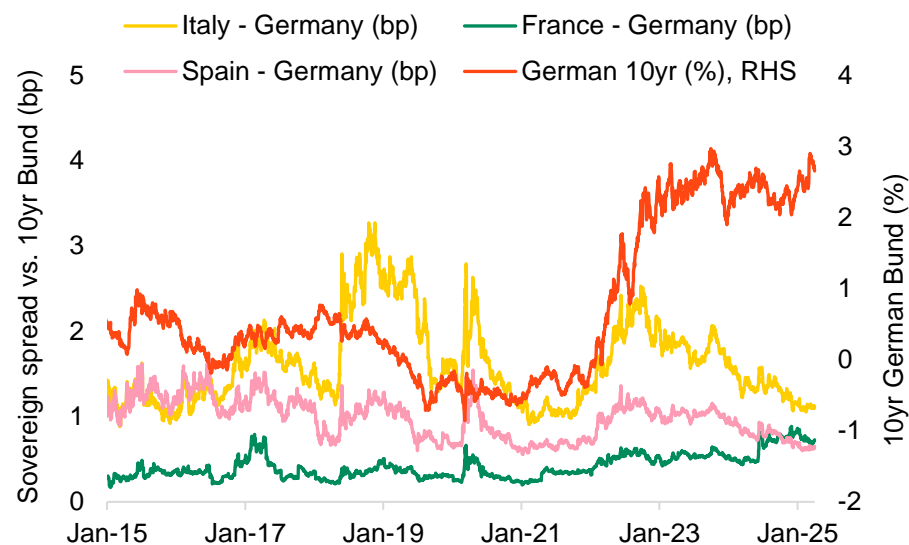
Year-over-year inflation (not seasonally adjusted) for Euro Area, by category



Source: BlackRock, Eurostat, Bloomberg, European Central Bank. Captures data through March 31, 2025.

Exhibit 7: German yields have increased on the back of fiscal spending plans

10-year German Bund yields (RHS) and the respective 10-year sovereign spreads (relative to Germany) of Italy, France and Spain



Source: Bloomberg, BlackRock. As of April 3, 2025. **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.

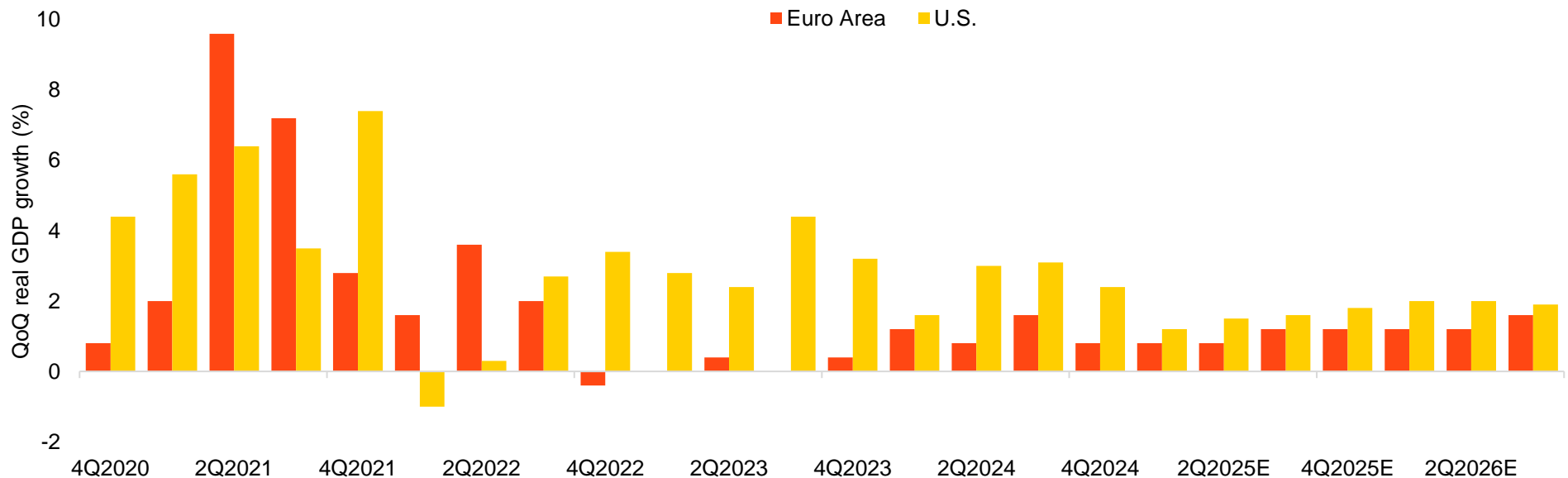
Potential for long-term growth convergence

During 1Q2025, some market participants began to express less conviction in the theme of so-called “U.S. exceptionalism.” The catalyst was two-fold: (1) an expectation for a more challenging growth-inflation mix in the U.S., and (2) optimism around the potential for positive growth spillovers to the Euro Area, on the back of plans (following the German election) for increased fiscal spending on defense and infrastructure. This is reflected in the longer-term trend of consensus growth forecasts, which implies a narrowing of the U.S. – Euro Area growth differential, over the longer-term (Exhibit 8). Consensus forecasts for U.S. growth in 4Q2025 (annualized) are now averaging 1.8%, while forecasts point to 1.2% growth in the Euro Area.

That said, as our colleagues in the *BlackRock Investment Institute* recently [highlighted](#), increased fiscal spending (led by Germany) will take time to filter into the economy. Moreover, the Euro Area will be affected by changes in U.S. trade policy. A [recent analysis](#) from the European Commission framed the potential headwind of trade policy uncertainty to Euro Area investment. And data from [Eurostat](#) (the statistical office of the European Union) shows that the U.S. represented approximately 20% of goods exported from the European Union in 2023.

Exhibit 8: Signs point to a narrowing growth differential between the U.S. and Europe

Quarter-on-quarter (QoQ) real GDP growth (%), seasonally adjusted at an annualized rate



Source: BlackRock, Bureau of Economic Analysis, Eurostat. 1Q2025 – 3Q2026 are forecasts, using the Bloomberg Contributor Composite as of April 3, 2025. **There is no guarantee any forecasts may come to pass.**

Consumer and corporate sentiment: softening

The risk of a 'catch down'

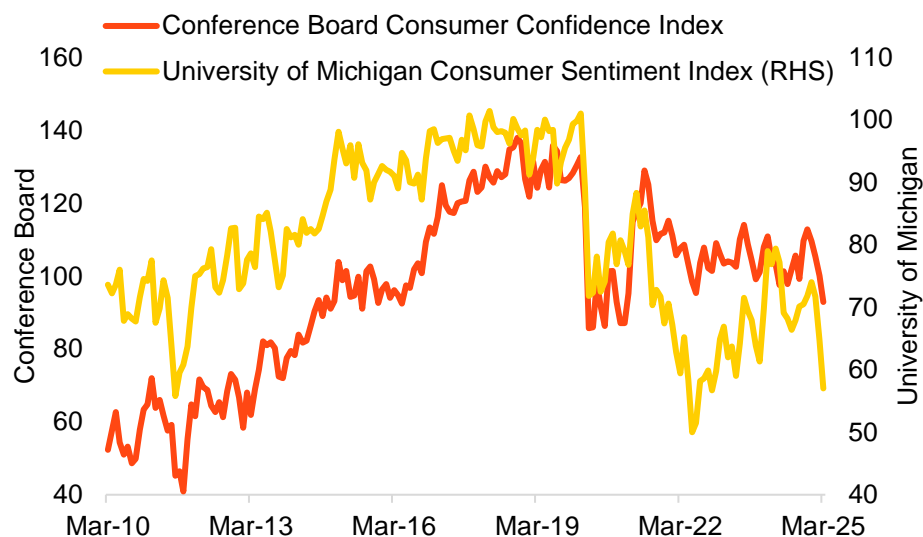
Weaker consumer (and C-suite) sentiment

Since early February, market participants' concerns regarding a more challenging growth-inflation mix in the U.S. have been building. What started as a sharp increase in trade policy uncertainty has translated into weaker consumer sentiment data (Exhibit 9). Near-term inflation expectation measures have also increased (Exhibit 10). The deterioration in U.S. consumer sentiment warrants monitoring by corporate credit investors for two reasons. The first is its significance to overall economic activity, as the U.S. consumer generates two-thirds of U.S. GDP. Indeed, it was the resilience of aggregate consumer spending that drove above trend growth in the U.S. in 2023-2024. This supported investor appetite for risk assets, such as credit. The second is more micro-related, as sectors and issuers in the credit market have varying degrees of direct exposure to consumer-facing industries, which is likely to drive performance dispersion, in our view.

C-suite confidence and optimism have also showed signs of deterioration as of late. This was captured in the Business Roundtable's 1Q2025 CEO Economic Outlook Survey, as well as a separate CFO survey conducted by the Richmond Fed. This also warrants monitoring, given the potential impact to capital spending and hiring plans.

Exhibit 9: Falling consumer sentiment

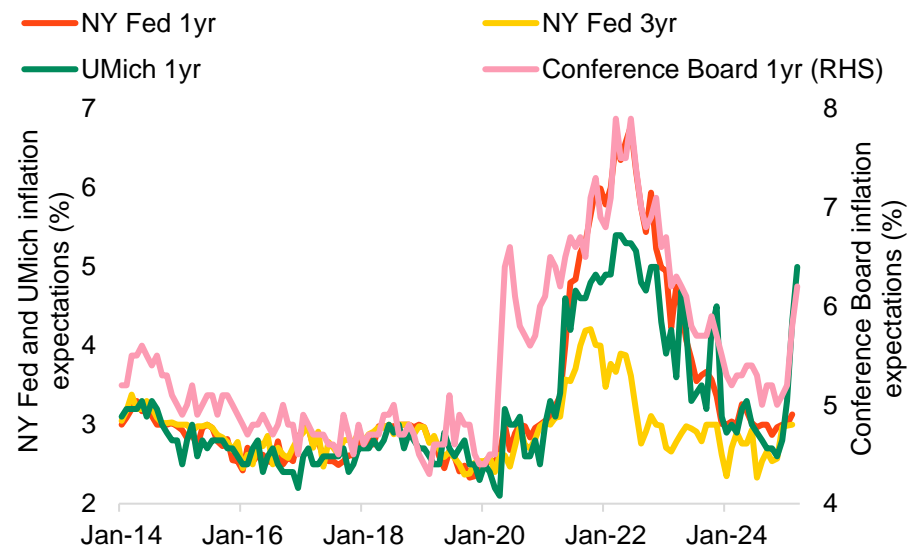
U.S. consumer sentiment measures (monthly)



Source: Conference Board, University of Michigan, Bloomberg, BlackRock. As of March 31, 2025.

Exhibit 10: Increasing inflation expectations

Inflation expectations: NY Fed 1-year and 3-year ahead, University of Michigan 1-year ahead, and Conference Board 1-year ahead



Source: Federal Reserve Bank of New York, Conference Board, University of Michigan, Bloomberg, BlackRock. As of February 28, 2025 for NY Fed, and as of March 31, 2025 for UMich and Conference Board (all latest available as of April 2, 2025).

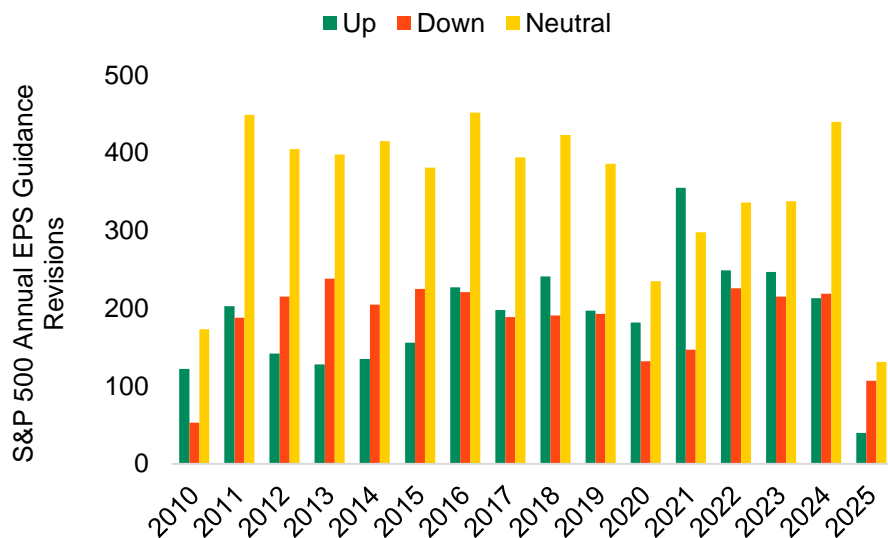
Downward revisions to guidance

For much of 1Q2025, there was a disconnect between the weaker survey/sentiment data (the so-called “soft data”) and the traditional measures of economic activity (the so-called “hard data”). While household and business survey data reflected a significant rise in uncertainty and concerns about downside risks, the hard data (such as labor market data, for example) have not yet shown the same degree of deterioration.

We see risk of a ‘catching down’ on two fronts: (1) that the hard economic data eventually catches down to the soft sentiment data, and (2) that corporate fundamentals (specifically, margins) catch down to analysts’ earnings estimates and companies’ 2025 guidance, which have both been revised lower in recent weeks. Indeed, firms in a range of consumer-facing industries have begun to reflect additional conservatism in their EPS guidance (Exhibits 11 and 12). And while analysts’ earnings revision momentum has moved into negative territory (Exhibit 13), we believe there is likely room for this trend to intensify, given the macroeconomic risks now appear tilted to the downside (after a period of above-trend growth).

Exhibit 11: 2025 annual guidance revisions have skewed strongly negative, so far

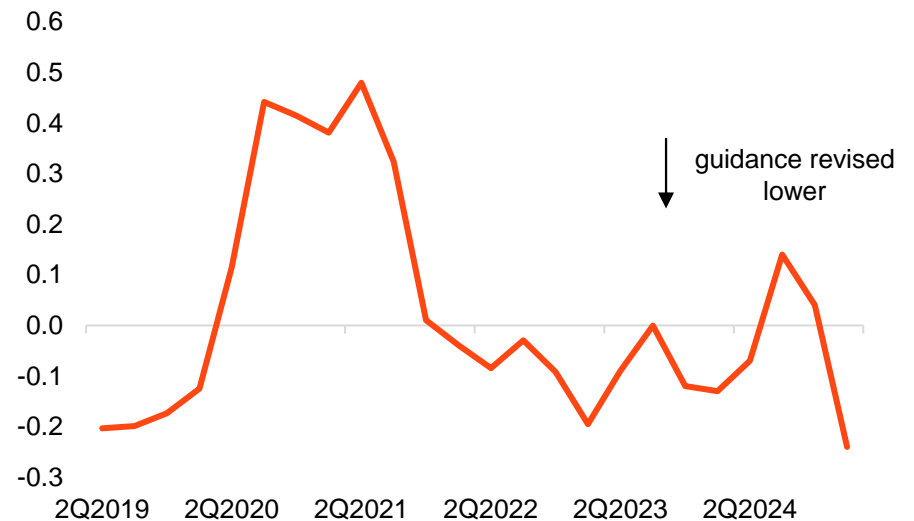
Annual EPS Guidance Revisions for the S&P 500, as captured by Bloomberg Intelligence



Source: Bloomberg Intelligence, BlackRock. As of March 28, 2025 (most recent update as of April 2, 2025).

Exhibit 12: Company guidance for 1Q2025 has been adjusted lower in recent weeks

Quarterly EPS Guidance Momentum Score for the S&P 500, as calculated by Bloomberg Intelligence



Source: Bloomberg Intelligence, BlackRock. As of March 28, 2025 (latest update as of April 2, 2025). For a given period, the Guidance Momentum Score is calculated by Bloomberg Intelligence as: $(\text{Upward Revisions} - \text{Downward Revisions} + 0.5 \times \text{Neutral Revisions}) / \text{Total Guidance Announced}$.

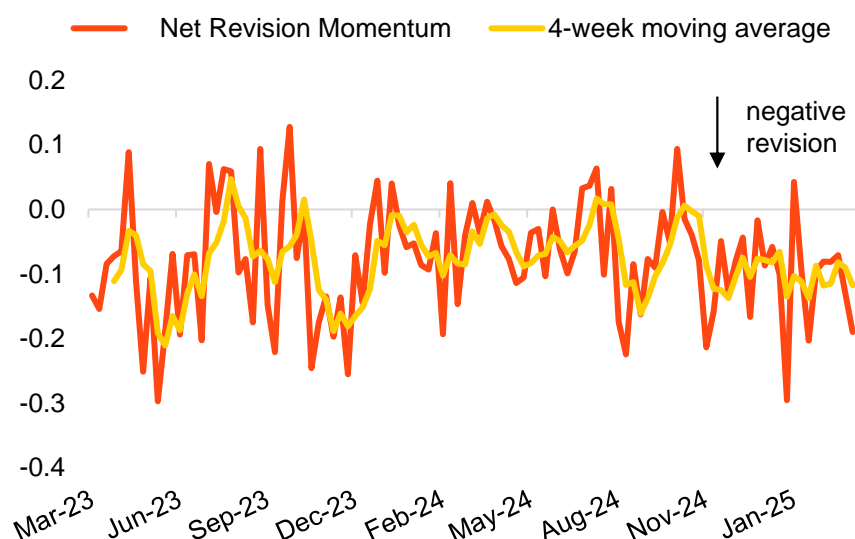
Slowing growth, not a recession

While these high-frequency guidance and earnings revision data sets are specific to the equity market, we see scope for these trends to extend into the corporate credit market, as well. Given the nature of the potential shocks – a prolonged period of policy uncertainty leading to a pullback in consumer spending, and an escalation in global trade tensions – a wide variety of sectors could be impacted. This includes multinational firms with international suppliers and customer end markets, discretionary categories (where consumers have more of an option to pare back spending), and well-telegraphed goods categories (such as autos and retail). Somewhat more insulated in our view, are services-based and/or domestically-focused sectors, including banks, insurance, and telecommunications.

As we have outlined previously, we see risk for some additional spread widening – beyond the amount which has occurred since early February. This rebuilding of risk premia would reflect a more challenging growth-inflation mix in the U.S., as well as heightened policy uncertainty. That said, the *magnitude* of the potential growth slowdown is key, and we are not expecting a recession.

Exhibit 13: Scope for more negative revisions

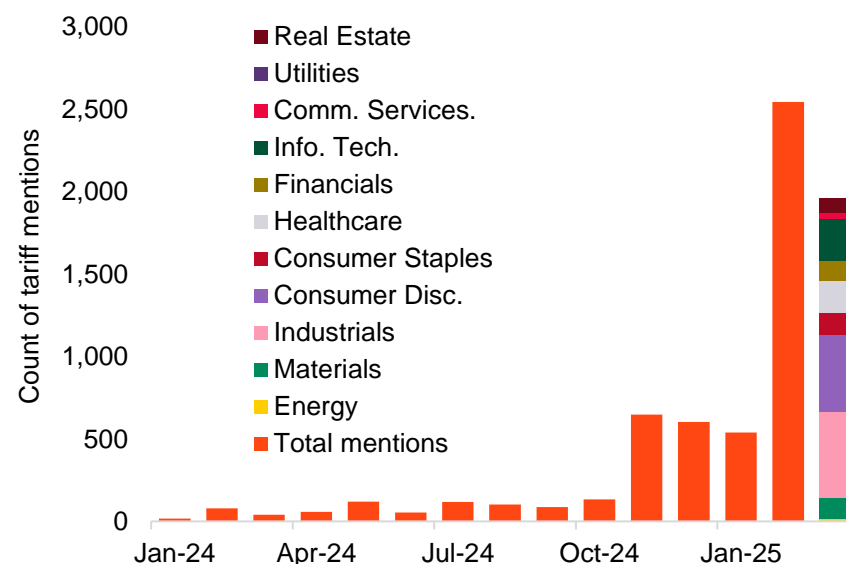
Net Revision Momentum of 12-month forward EPS for the S&P 500, as calculated by Bloomberg Intelligence, and the 4-week moving average



Source: Bloomberg, BlackRock. As of March 21, 2025 (most recent update as of April 2, 2025). Net Revision Momentum = (Positive Revisions – Negative Revisions) / Total Revisions.

Exhibit 14: Tariffs discussed across a range of industries

Count of artificial intelligence-identified mentions of tariffs in Russell 3000 conference call transcripts



Source: Bloomberg, BlackRock. As of March 31, 2025.

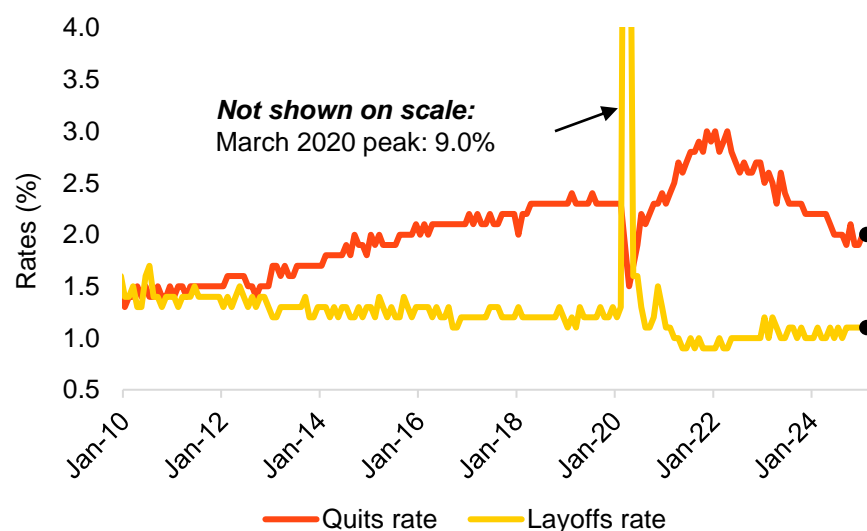
Watch corporate profit margin trends

As we outlined earlier, we see a clear feedback loop between (1) the health of the U.S. labor market, (2) the strength of U.S. consumer spending, and (3) overall U.S. economic activity. But a key ingredient in corporates' demand for labor (workers) is their profit margins. Sustained downward pressure on profit margins (from higher input costs, for example) increases the risk that corporates could use layoffs more aggressively, to protect profitability. An increase in layoffs, coupled with a low *hiring* rate, could result in broad-based weakness in consumer spending (as it may take longer for laid-off workers to find jobs and restore their income).

For now, layoffs remain muted by historical standards (Exhibit 15), and margins have not shown signs of sharp deterioration (Exhibit 16). That said, these metrics will be important to monitor as tariffs are implemented. High-frequency labor market data is especially important, as is company-level commentary on headcount plans, margins, and pricing power.

Exhibit 15: The low hiring rate could pose a risk, if layoffs accelerate

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

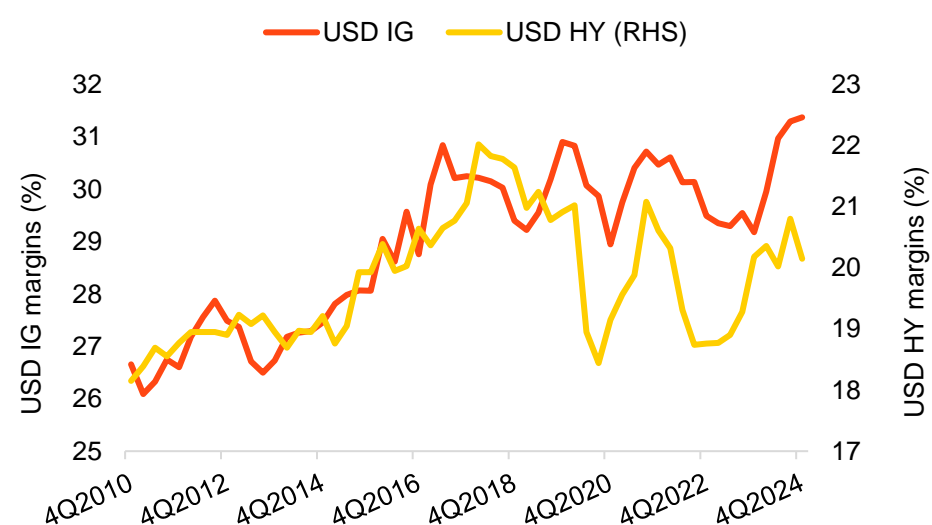


Source: Bureau of Labor Statistics, Bloomberg, BlackRock. Captures data through February 28, 2025 (most recent as of April 2, 2025). The Layoffs & Discharge Rate tracks involuntary job separations initiated by the employer, while the Quits Rate tracks voluntary job separations initiated by the employee.

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Exhibit 16: Margins are key to monitor

Trailing 12-month adjusted EBITDA margins for the median issuer in the Bloomberg USD IG and HY Corporate indices



Source: Bloomberg, BlackRock. Captures data through 4Q2024 (most recent as of April 2, 2025).

Real disposable income growth is slowing

One of the most important drivers of consumers' purchasing power is real disposable personal income growth. This refers to the amount (adjusted for inflation) that U.S. residents have left to spend or save after paying taxes. As Exhibit 17 highlights, the pace of year-over-year (YoY) income growth in 2023 and 1H2024 outpaced the 2010-2019 average. This was largely driven by a 'catch-up' in wages, as they adjusted to the inflation of 2021-2023 with a lag (which has also been the case in Europe).

That said, as this growth has now moderated and fallen below the longer-term 2010-2019 average, we believe consumers' ability (or willingness) to spend will moderate, at least relative to recent history. We believe the moderation in real disposable income growth is also contributing to the softer consumer sentiment visible in recent survey data.

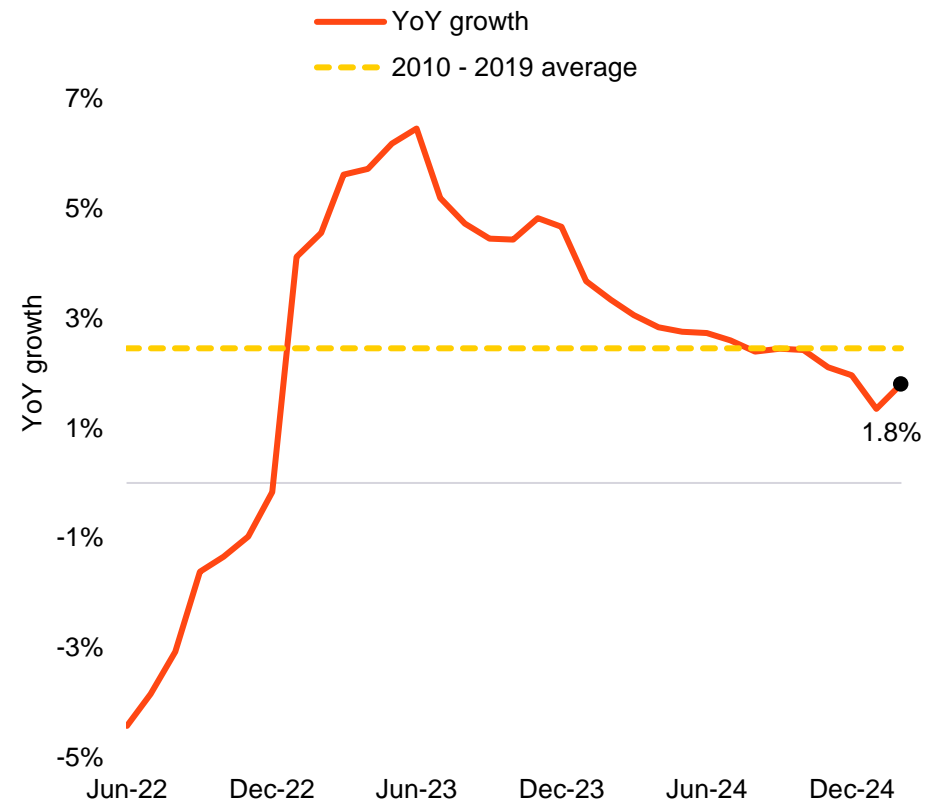
Away from the trajectory of incomes, a separate dynamic has *positively* affected aggregate consumer financial positions since the pandemic: wealth creation from asset ownership. Indeed, data from the Federal Reserve demonstrates that the net worth of households and nonprofit organizations has grown 48% from 3Q2019 to 3Q2024, an absolute increase of \$55 trillion.

That said, bifurcation persists. Homeowners and those with investments have experienced significant gains over the past few years, while renters and lower-income consumers are still feeling pressure from cumulative, absolute price level increases (even as the *rate of inflation* has moderated).

While divergence between higher-income and lower-income consumers is not a new concept, we believe it matters more in the current cycle (vs. past cycles). This is because of the *magnitude* of the respective tailwinds and headwinds facing each group.

Exhibit 17: Real disposable personal income growth has moderated, but remains positive

Year-over-year (YoY) growth in real disposable personal income (seasonally adjusted annual rate, and based on chained 2017 dollars), and average YoY change from 2010 - 2019



Source: Bureau of Economic Analysis, FRED, BlackRock. As of February 2025 (most recent available as of April 2, 2025).

The U.S. consumer is (still) bifurcated

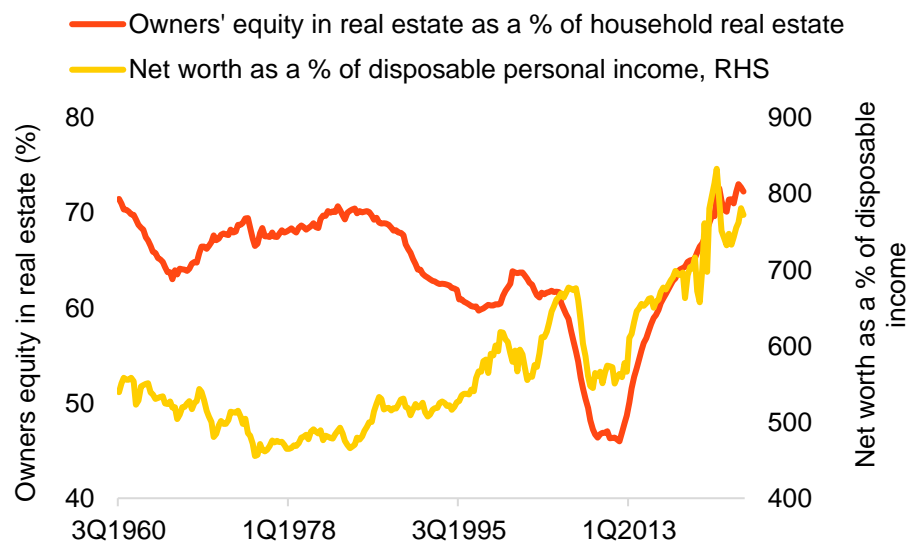
Exhibit 18 highlights how two specific measures of U.S. household wealth creation – gains in the equity and real estate markets – have grown. For context, despite the year-to-date volatility, the S&P 500 has increased 46% since year end 2020 (through April 3rd). And from year-end 2020 through January 31st (most recent), the S&P CoreLogic Case-Shiller U.S. National Home Price Index was up 38%.

That said, this wealth creation has been concentrated among the highest earners. As the Federal Reserve's Distributional Financial Accounts data show, the top 20% of income earners held 69% of total wealth as of 3Q2024 (Exhibit 19). Furthermore, a recent analysis by Moody's Analytics notes the top 10% of earners account for 49.7% of all spending today, vs. only 36% three decades ago.

So far, the financial stress within the U.S. consumer has been contained to the lower-income cohort, and *aggregate* consumer delinquency rates are still modest compared to the longer-term trend. Indeed, 96% of total consumer debt outstanding is current (vs. a series low of 88% in 2009; Exhibit 20). That said, meaningful dispersion is visible *under the surface* – especially by loan type. For example, credit card, auto, and “other” (i.e., consumer finance and retail loans) delinquencies marched higher in 4Q2024, with credit cards the most elevated (Exhibit 21).

Exhibit 18: U.S. households' aggregate net worth has grown, owing to equity and housing gains...

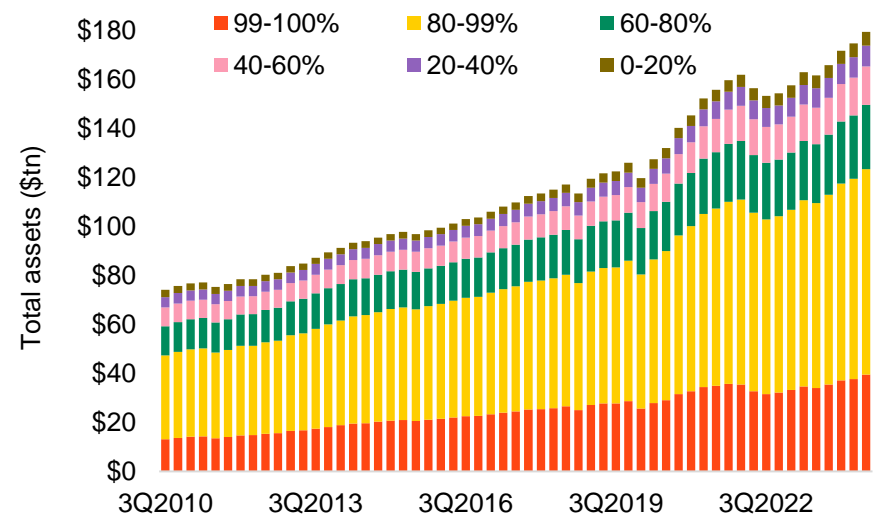
Measures of U.S. households' net worth



Source: Federal Reserve Board, Haver Analytics, BlackRock. As of 4Q2024 (most recent as of April 2, 2025).

Exhibit 19: ...yet, wealth is concentrated

Total U.S. household assets by income percentile, \$ in trillions; 99-100% is highest, 0-20% is lowest



Source: The Federal Reserve, Survey of Consumer Finances and Financial Accounts of the United States, BlackRock. As of 3Q2024 (most recent as of April 2, 2025).

Watching for an expansion of stress

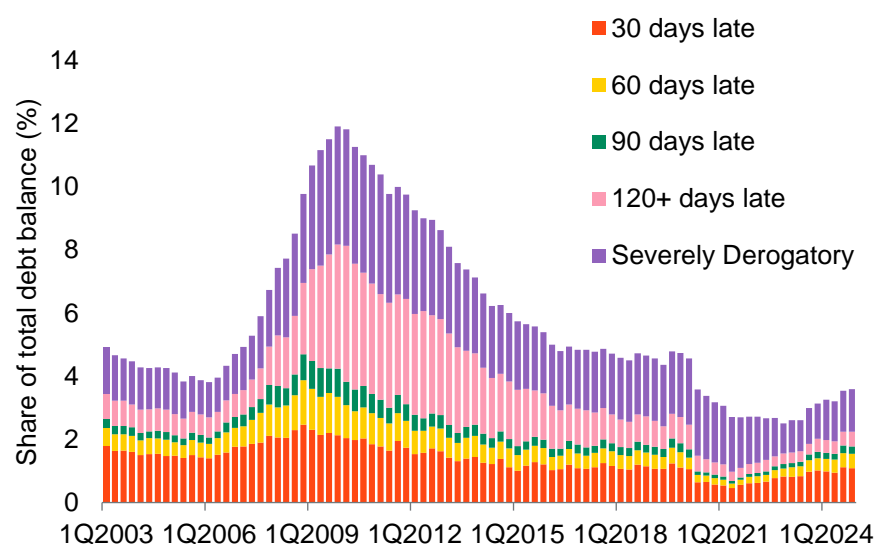
Still, delinquency levels across these three loan types remain below series highs, which were set during or following the 2008 global financial crisis. Meanwhile, home-related consumer debt (i.e., mortgage and HELOC loans) delinquencies are currently negligible, likely supported by a backdrop of elevated home values (i.e., an asset that homeowners will likely want to protect).

While student loan payments resumed in late 2023, delinquencies were not reported to credit bureaus until September 30, 2024. As such, 4Q2024 student loan delinquencies are likely understated. VantageScore, using data from the Department of Education, estimates that more than 9 million borrowers will face significant drops in credit scores, once delinquencies appear on credit reports in 1H2025. As part of this, VantageScore expects the credit scores of 2.3 million consumers to dip into subprime territory – somewhat mitigating the trend of upward credit score migration which occurred following the onset of the pandemic in 2020.

Given the level of macro uncertainty, we see risk of deterioration in U.S. consumers' financial position, if labor market conditions turn less supportive. This again underscores the importance of monitoring high-frequency labor market data (such as jobless claims) closely.

Exhibit 20: Aggregate delinquency rates have increased, but are still modest

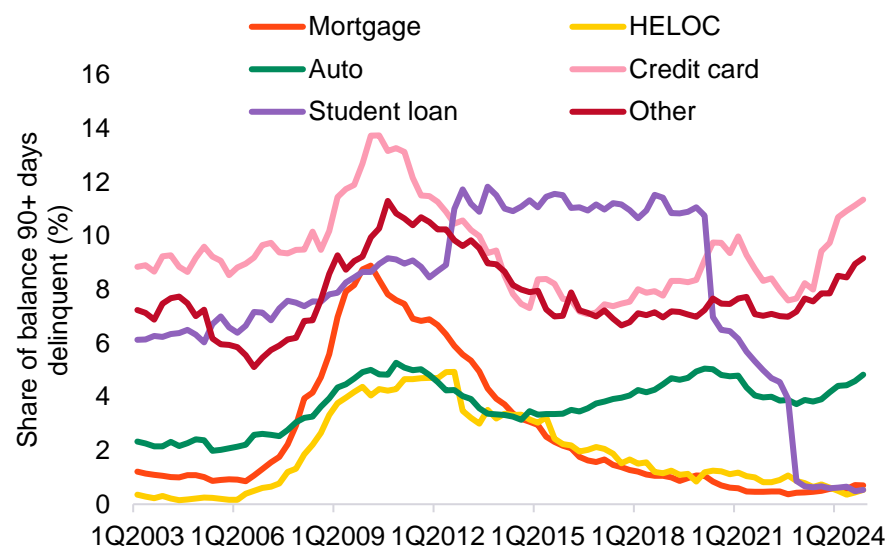
Delinquent balance as a share of total U.S. consumer debt



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 4Q2024.

Exhibit 21: Credit card and auto delinquencies march higher

Percent of balance 90+ days delinquent by loan type



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 4Q2024. The Other category includes Consumer Finance (sales financing, personal loans) and Retail (clothing, grocery, department stores, home furnishings, gas etc.) loans.

Liquid credit

Some additional risk premia rebuild, and elevated sector dispersion

The spread vs. yield ‘tug of war’ persists

For much of 2023 and 2024, investors faced a relative value ‘tug of war’ in corporate credit markets: spreads were generally near the tight end of the post-financial crisis range, while all-in yields looked more attractive on a historical lookback (owing to elevated risk-free rates; Exhibits 22 and 23).

We see two implications for corporate credit investors. First, the elevated economic and policy uncertainty discussed earlier suggests some room for additional widening in credit spreads. This would reflect a more challenging growth-inflation mix, and *not* a recession – suggesting spreads are likely to remain at or slightly below long-term averages. Second, the attractive all-in yield opportunity should support ongoing yield-based demand from a wide range of investors. This is likely to further mitigate the magnitude of spread widening and may also leave such widening episodes as relatively short-lived.

Key to watch, in our view, will be the dispersion under the surface – especially at the sector level. Given the varying impacts of policy shifts, we expect sector performance dispersion will remain elevated in 2025.

Exhibit 22: Spreads are tight vs. history...

Percentile rank of daily index-level corporate bond option adjusted spreads, since January 1, 2010

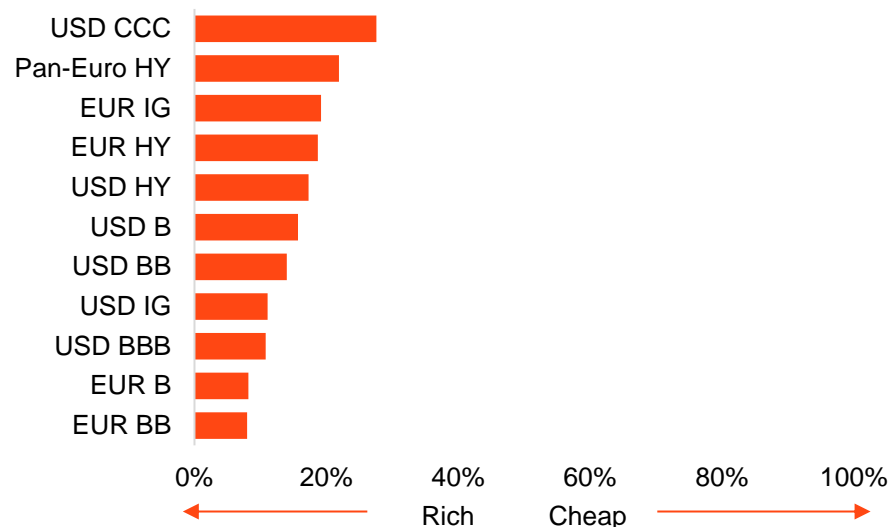
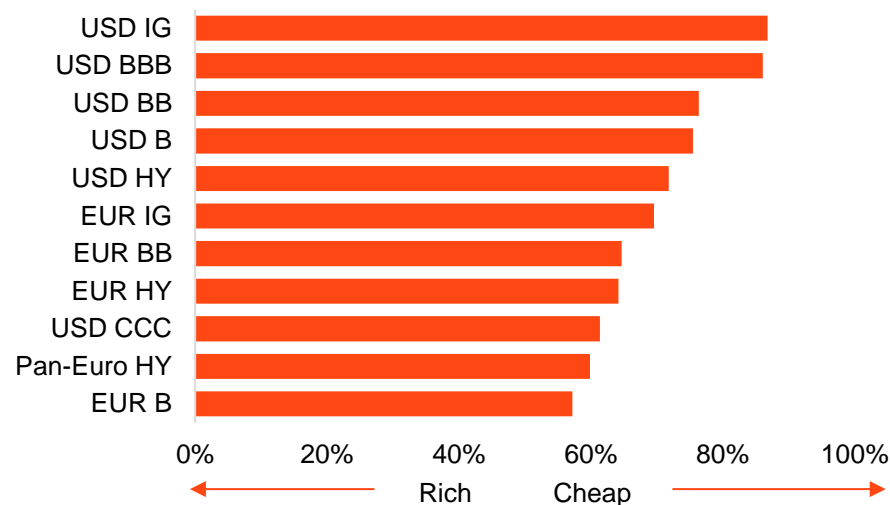


Exhibit 23: ...while all-in yields screen attractive

Percentile rank of daily index-level corporate bond yield-to-worst levels, since January 1, 2010



For both charts: Source: BlackRock, Bloomberg, ICE-BAML. As of April 2, 2025. **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. We exclude USD AAA, EUR AAA, and EUR CCC due to their small size.

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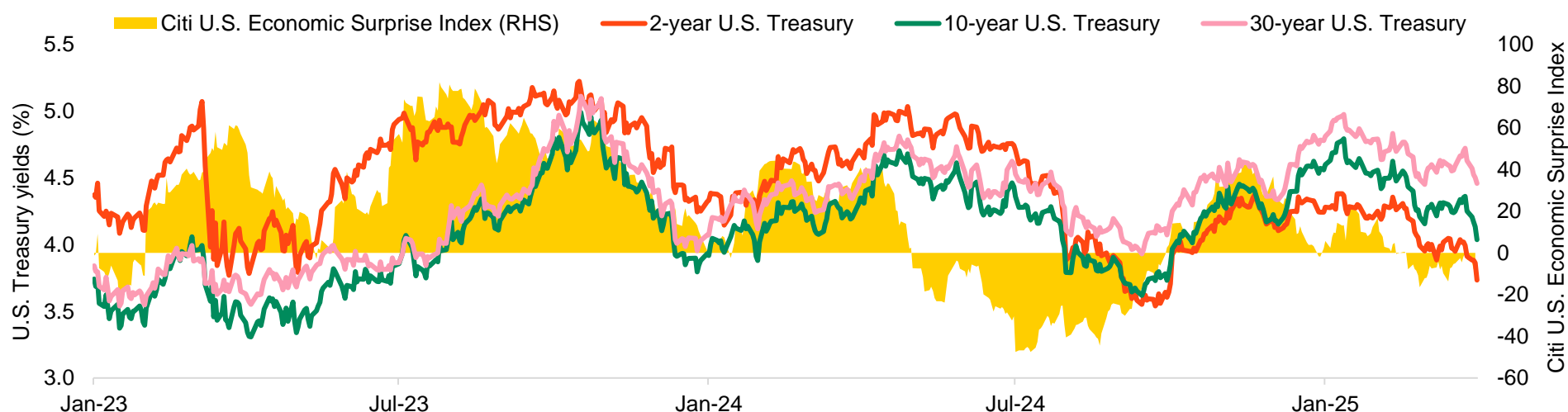
Duration: *some* benefit to total returns

In our *1Q2025 Global Credit Outlook*, we highlighted the attractive all-in yield and income opportunities in corporate credit. At the same time, we also noted that a potential ‘boost’ to total returns from lower rates or tighter spreads – two of the historically common drivers of total returns in credit – was not our base case. So far in 2025, however, U.S. Treasury yields *have* provided a modest boost to USD credit total returns. This is illustrated in Exhibit 24, which shows that yields are lower (across the curve) vs. mid-January 2025 levels. This has helped to mitigate the impact of the modest year-to-date spread widening. And as Exhibit 25 highlights, USD fixed rate credit total returns have outpaced floating rate leveraged loans, so far this year.

That said, U.S. Treasury yields have not been a *reliable* hedge to corporate credit in some of the ‘risk-off’ episodes of the past several weeks (a theme which has been evident, on and off, over the past few years). As Exhibit 24 shows, U.S. Treasury yields have moved *higher* during instances of recent negative economic surprises. We believe a *sustained* rally in interest rates is unlikely from current levels, barring a significant increase in the probability of a U.S. recession. Over the long-term, our colleagues in the *BlackRock Investment Institute* expect the U.S. fiscal deficit to remain above 5%. This could leave long-term U.S. Treasuries vulnerable to potential increases in term premium (as investors may demand additional compensation). They also expect higher long-term bond yields to persist, globally.

Exhibit 24: Treasury yields are below mid-January levels, as economic surprises skewed negatively

On-the-run 2-year, 10-year, and 30-year U.S. Treasury yields vs. the Citi U.S. Economic Surprise Index (CESI). A positive reading on the CESI means data releases have been stronger than expected and a negative reading means data releases have been worse than expected.



Source: Bloomberg, Citi, BlackRock. CESI is as of April 2, 2025. Treasury yields are as of April 3, 2025. **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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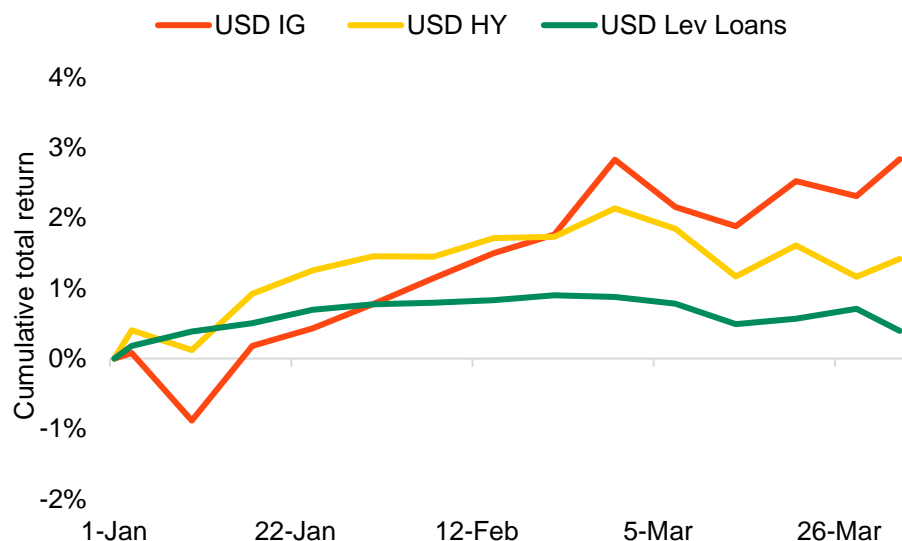
The fixed vs. floating decision

This leaves us comfortable with our prioritization of income and carry as drivers for allocating to corporate credit in the medium term, as opposed to an expectation for a potential total return ‘boost’ from spread tightening or lower interest rates. It also highlights the potential diversification benefit from including floating rate exposures in portfolios, in our view.

This underscores the importance of monitoring the *drivers* of interest rate fluctuations. For example, if higher sovereign yields are driven by concerns related to the U.S. deficit, or investors’ pushing inflation expectations higher, that can be a negative backdrop for corporate credit sentiment. By contrast, if higher sovereign yields are reflective of improved economic growth prospects, that would be a much more supportive environment for corporate credit, in our view. Similarly, if sharp declines in U.S. Treasury yields are driven by recessionary concerns, that would likely be accompanied by wider credit spreads (given the growth sensitivity of the asset class).

Exhibit 25: Duration exposure has provided a boost to fixed-rate total returns

Cumulative total returns for the Bloomberg USD IG and HY Corporate indices, and the Morningstar/LSTA USD Leveraged Loan Index, all since year-end 2024

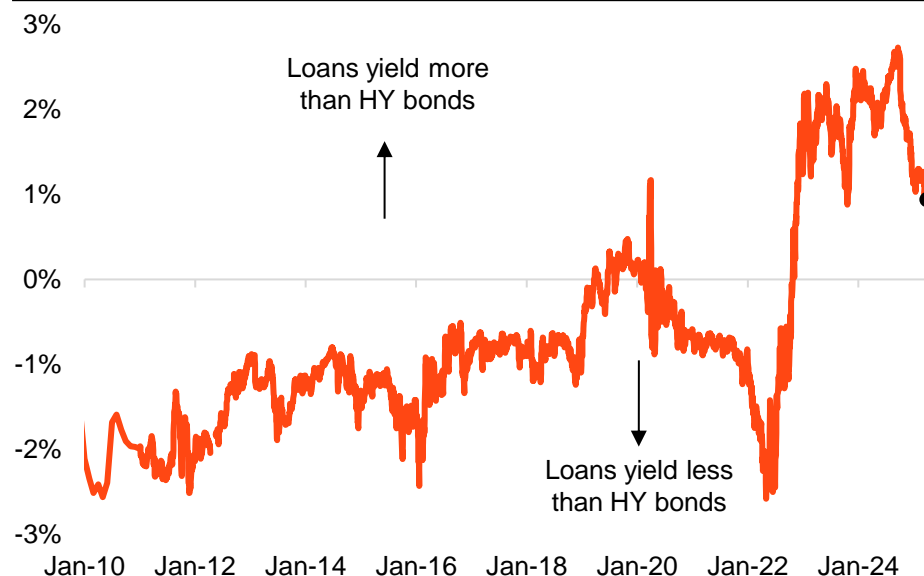


Source: Bloomberg, Morningstar/LSTA, BlackRock. As of April 2, 2025. Uses weekly observations for cumulative total returns.

For both charts: 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.

Exhibit 26: The yield ‘pick up’ of USD leveraged loans has moderated

Yield differential (%): B-rated leveraged loans minus B-rated HY bonds



Source: Pitchbook LCD, Morningstar/LSTA, ICE-BAML, BlackRock. As of March 31, 2025.

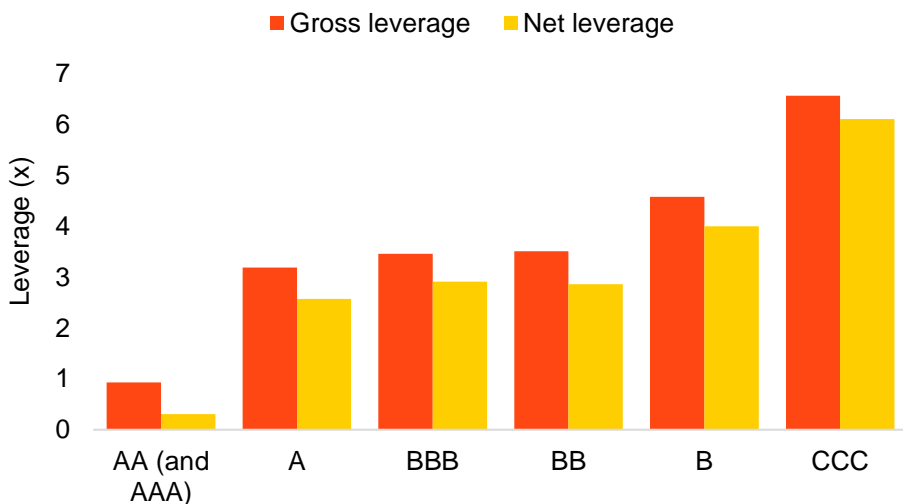
Down in quality, within reason

Within the fixed rate corporate credit universe, we are comfortable moving down in quality, within reason, and with the expectation that margins are likely to moderate from current levels (as discussed earlier). For example, the USD BBB cohort traded at an average OAS of 114bp, compared to 79bp for its USD A peer group (as of April 2nd). There are only modest differences in key credit fundamentals between the two groups (Exhibits 27 and 28). And we see less scope for balance sheet deterioration among BBB rated capital structures, where we expect most management teams to prioritize maintaining a debt rating within IG territory. By contrast, A and AA rated firms would have much more capacity to add debt onto their balance sheets (if the ‘only’ key parameter is to stay IG rated).

Similarly, we still see value in reaching into the ‘high-end’ of the HY market (BBs). That said, USD CCCs have been a clear underperformer and *already* have weak credit metrics (*prior* to any visible, material downturn in U.S. economic activity). While a highly idiosyncratic group, we would need to have more confidence on the U.S. growth outlook before becoming constructive on the risk-reward in this cohort. Exhibits 29 and 30 provide a snapshot of year-to-date total returns and excess returns (which exclude the impact of interest rate fluctuations) for the various rating cohorts of USD HY and USD IG.

Exhibit 27: Leverage for BBBs and BBs is modest

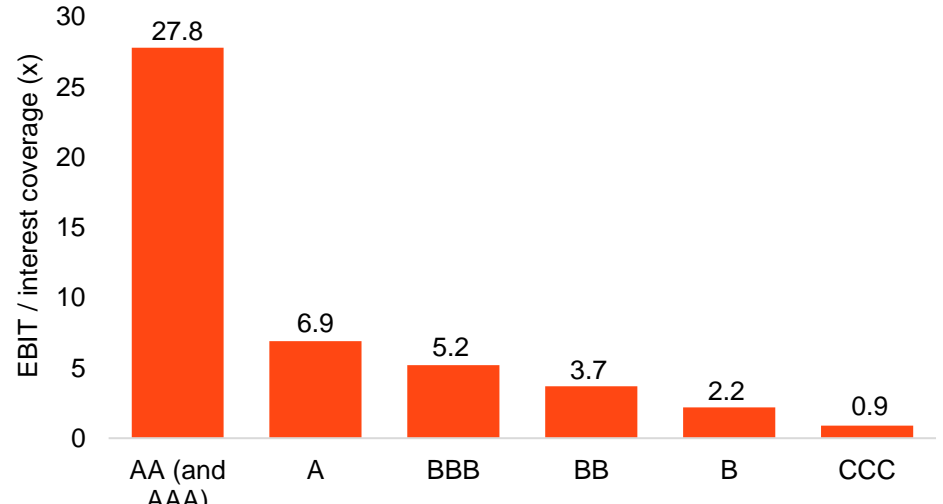
Trimmed mean (excludes top / bottom 10%) leverage metrics, for the last twelve months ended 4Q2024. Captures issuers in the Bloomberg USD IG and HY Corporate indices.



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 4Q2024 (most recent available as of April 2, 2025).

Exhibit 28: Average interest coverage for USD CCCs is already below 1x

Trimmed mean (excludes top / bottom 10%) interest coverage metrics, for the last twelve months ended 4Q2024. Captures issuers in the Bloomberg USD IG and HY Corporate indices.



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 4Q2024 (most recent available as of April 2, 2025).

Total and excess returns

Exhibit 29: We are comfortable moving lower in quality within the IG ratings spectrum

YTD total and excess returns (excludes interest rate impact) for Bloomberg USD IG (left panel) and EUR IG (right panel) Corporate indices

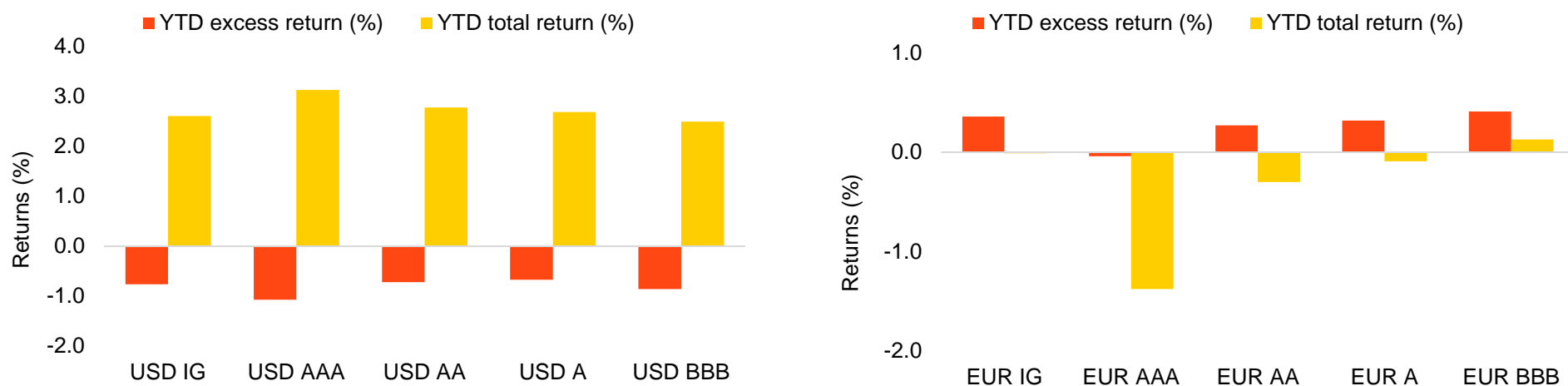
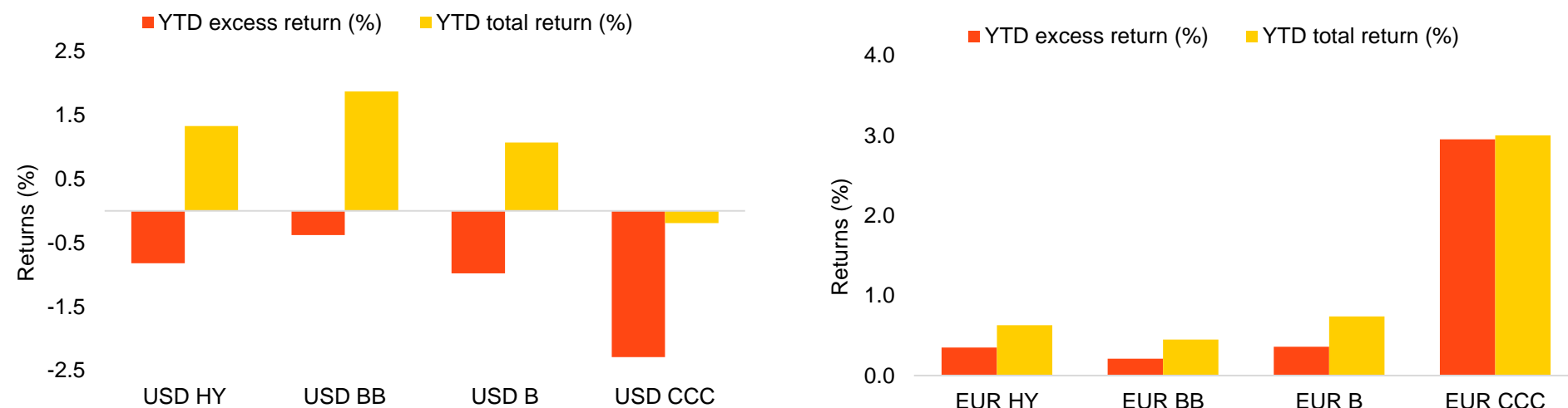


Exhibit 30: The high-end of HY has outpaced its lower-rated peer group in the USD market

YTD total and excess returns (excludes interest rate impact) for Bloomberg USD HY (left panel) and EUR HY (right panel) Corporate indices



For all charts: Source: Bloomberg, BlackRock. As of April 2, 2025. **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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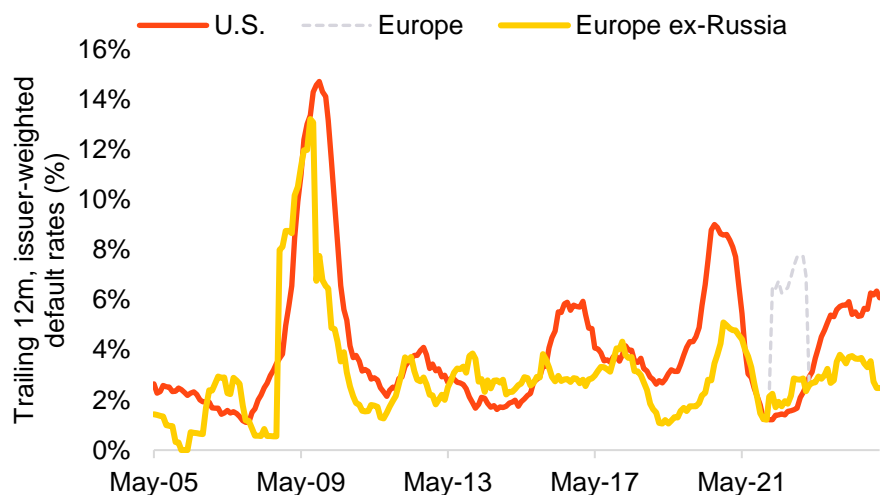
Defaults: key themes to monitor

Absent a sharp downturn in U.S. growth to recessionary levels, we expect default activity in liquid credit markets to be somewhat contained and focused on specific subsets of the market. There are four patterns to monitor, outlined below and in Exhibits 31 through 35.

- Leveraged loan defaults have continued to meaningfully outpace their HY bond peers.** While this is a highly unusual development in the context of the past two decades, it is (in part) a direct reflection of the transmission of monetary policy in this cycle.
- Smaller companies are driving the bulk of the default activity.** This reflects the benefits of scale and diversification in navigating a higher cost of capital. Smaller borrowers are also more likely to have 'loan-only' capital structures, which relates to point #1.
- Distressed exchanges are representing a greater share** of overall default activity, as opposed to 'traditional' Chapter 11s. This likely reflects the share of private equity-backed loans defaulting (as financial sponsors tend to opt for distressed exchanges and out-of-court restructurings, to preserve equity value).
- The share of 'repeat defaulters' is elevated relative to history.** This suggests that, in some instances, distressed exchanges may not provide the degree of balance sheet relief ultimately required (compared to a Chapter 11, for example).

Exhibit 31: USD defaults have outpaced EUR

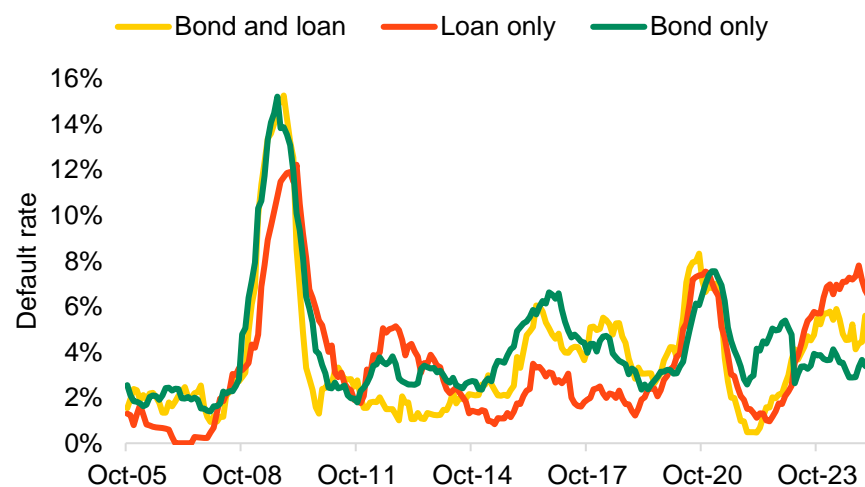
Trailing 12-month, issuer-weighted default rates for USD and EUR HY and leveraged loans (combined) tracked by Moody's



Source: Moody's, BlackRock. As of February 28, 2025 (most recent available as of April 2, 2025). The increase in defaults in the EUR market in early 2022 reflects the defaults of Russian issuers following the onset of the Russia-Ukraine war.

Exhibit 32: Capital structure default dispersion

Issuer-weighted, trailing 12-month default rates for the global universe of issuers tracked by Moody's. Default rates include payment defaults and distressed exchanges.

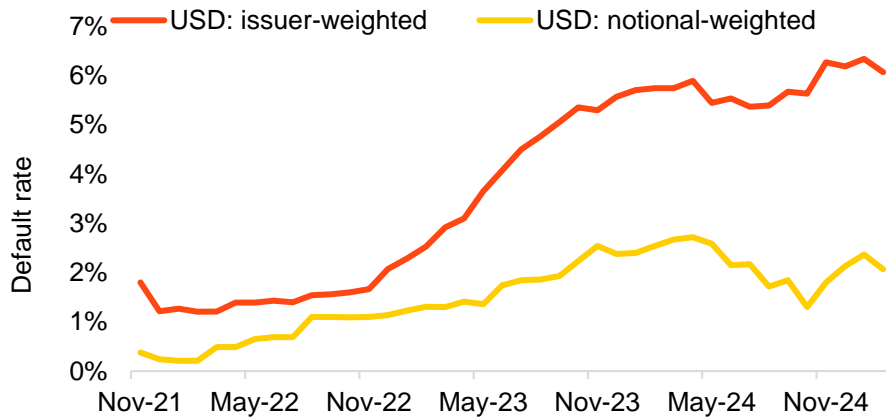


Source: Moody's, BlackRock. As of February 28, 2025 (most recent available as of April 2, 2025).

Default details

Exhibit 33: Smaller issuers driving defaults

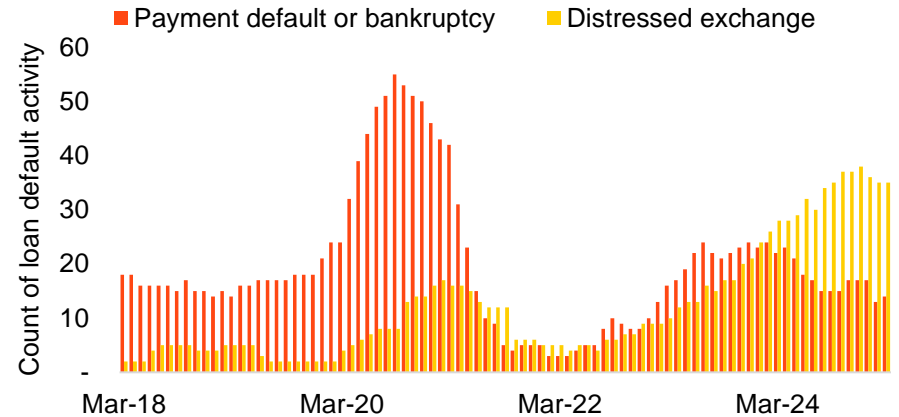
Trailing 12-month USD leveraged loan and HY bond default rates



Source: Moody's, BlackRock. As of February 28, 2025 (most recent as of April 2, 2025). Includes payment defaults and distressed exchanges.

Exhibit 34: Distressed exchanges lead activity

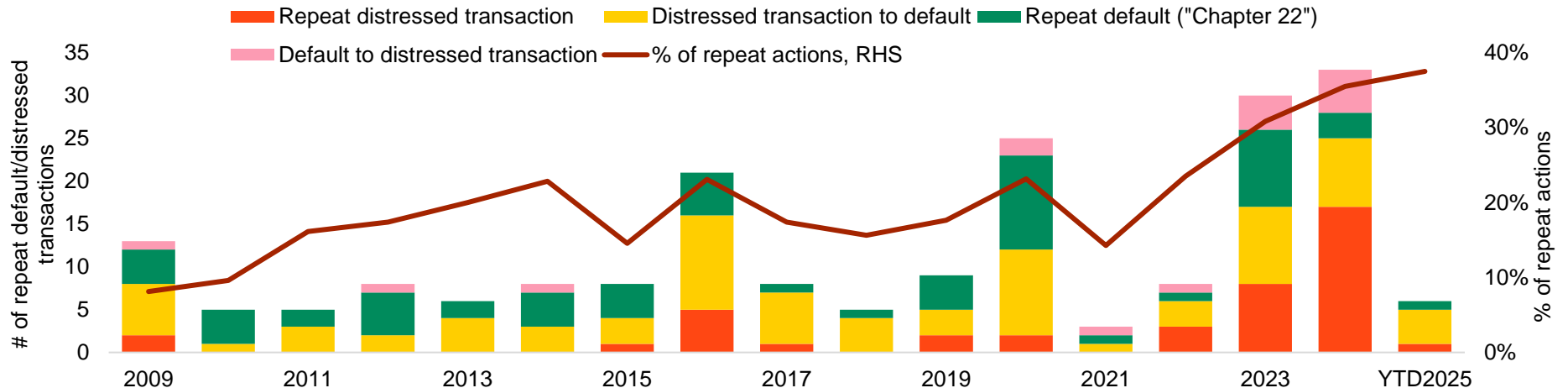
Trailing 12-month USD leveraged loan defaults, by type



Source: PitchBook LCD, Morningstar LSTA US Leveraged Loan Index, BlackRock. Captures data through March 31, 2025. Includes payment defaults and distressed exchanges.

Exhibit 35: The share of “repeat defaulters” is elevated vs. history

Count of USD leveraged loan and HY repeat defaults by type and share of total default actions that were repeat defaulters (RHS)



Source: J.P. Morgan Research, PitchBook, Bloomberg, S&P/IHSMarkit, BlackRock. YTD2025 captures data through March 31, 2025. “Chapter 22” refers to a company filing Chapter 11 bankruptcy a second time. Default action includes payment defaults and distressed transactions.

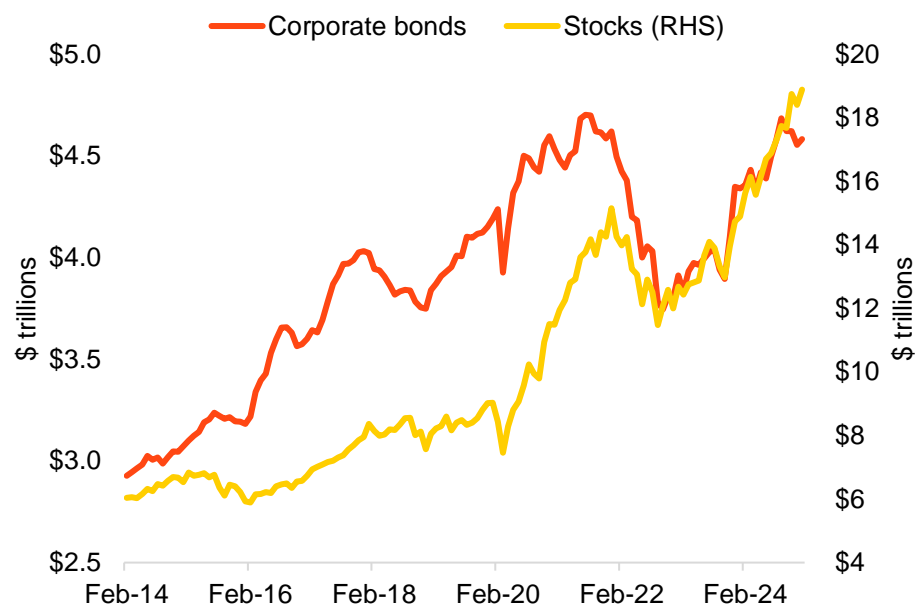
A risk of some moderation in foreign demand

Foreign investors have allocated to USD corporate credit in recent years, owing to its relatively attractive all-in yields and a generally resilient U.S. growth backdrop. As we highlighted recently, some market participants have questioned the potential for incrementally more attractive yields on EUR corporate credit (relative to its USD peer) to soften foreign investors' demand for USD corporate credit. This could take two forms: (1) encouraging European yield-based investors to focus on opportunities in their domestic credit markets, and/or (2) incentivizing a wider range of foreign investors to allocate more to the EUR corporate credit market (instead of the USD universe).

The theme warrants monitoring, in our view, as foreign investors' appetite for USD corporate credit has been a technical demand tailwind in recent years. Indeed, foreign investors have served as an important buyer base for U.S. risk assets, as shown in Exhibit 36. In the USD corporate bond market, non-U.S. investors own more than 25% of the universe, as illustrated in Exhibit 37. Our view? While this may lead to *some* moderation in foreign investors' appetite for USD credit, we nonetheless expect foreign-based demand to remain robust due to the structural characteristics inherent in the USD IG market, such as its size, breadth, and depth.

Exhibit 36: Foreign holdings of U.S. bonds and stocks have grown in recent years

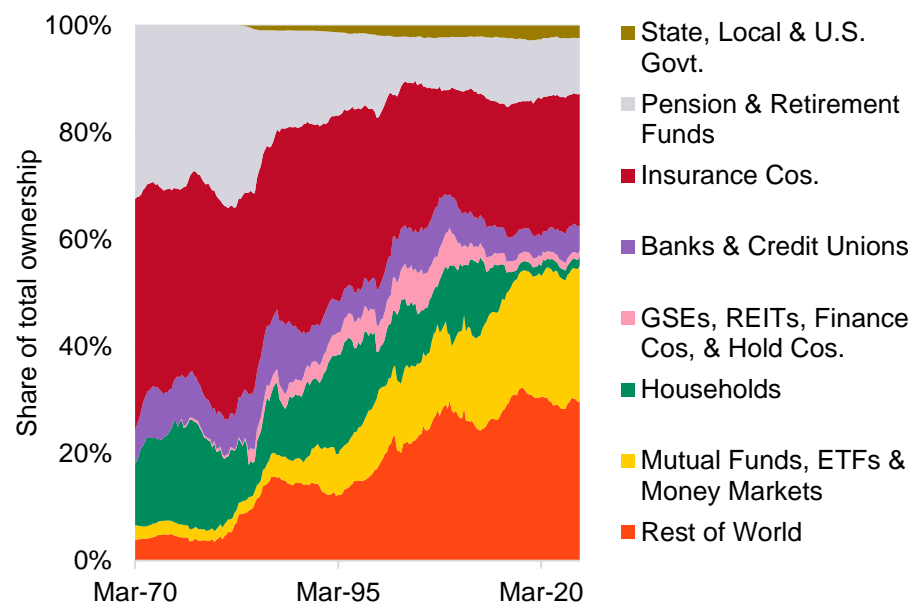
Foreign portfolio holdings of U.S. securities



Source: Department of the Treasury, Haver Analytics, BlackRock. As of January 2025 (most recent available as of April 2, 2025).

Exhibit 37: More than 25% of USD corporate debt is held by foreign investors

Ownership distribution of the USD corporate bond market



Source: BlackRock, Haver Analytics, Federal Reserve Board. Captures data as of 4Q2024 (most recent available as of April 2, 2025).

Private credit's staying power

Structural market shifts reinforce the long-term value proposition

Private credit's expanding markets

As the private credit market has grown into a sizable, scalable, stand-alone asset class, it has broadened its addressable markets of investors and borrowers. This has meant that private credit is no longer reserved for niche financing solutions, or exclusively for lending to smaller, middle market borrowers.

Rather, it can now reach areas where it previously could not – including financing larger borrowers, such as those with demonstrated access to the liquid (public) corporate debt markets (i.e., broadly syndicated leveraged loans, high yield bonds, and even investment grade debt markets).

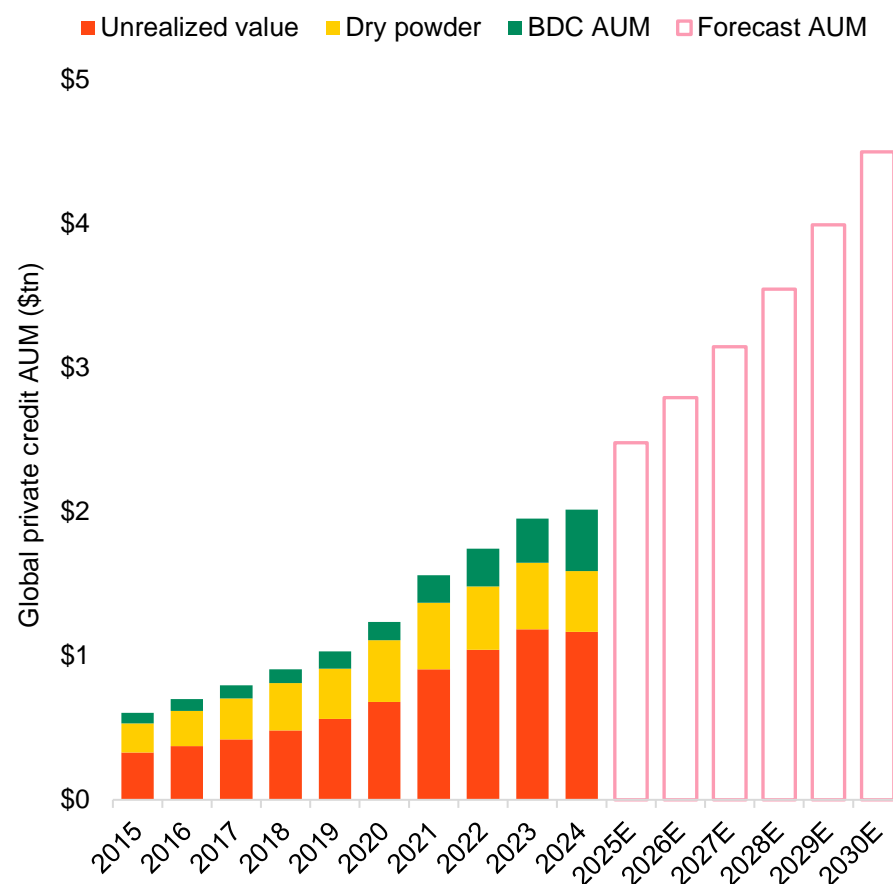
The continued expansion of private credit's addressable markets acts as a structural tailwind for its growth. We see scope for private credit AUM to reach \$4.5 trillion by 2030, due to market forces, technology, and regulation, which are consistently moving financial activity to where it can be done more efficiently (Exhibit 38).

While our expectation for private credit's growth represents an above-consensus forecast for the 'traditional' universe of private credit, it only captures (1) a specific universe of corporate middle market lending segments (tracked by Preqin), and (2) the universe of North American business development companies (BDCs) tracked by Cliffwater.

Indeed, it does not capture two additional, large market opportunities: (1) private asset-backed finance, which we have discussed in a separate deep-dive report, and (2) lending to investment-grade firms, which we addressed in our 1Q2025 Global Credit Outlook. This presents upside risk to our market-wide AUM forecast.

Exhibit 38: We expect private credit AUM to reach \$4.5 trillion by 2030

Private credit global assets under management (\$ in trillions)



Source: Preqin, Cliffwater, BlackRock. Historical (actual) data from Preqin and Cliffwater as of each calendar year-end and December 2024 (Cliffwater) and June 2024 (Preqin). 2025E to 2030E are BlackRock estimates. As of March 31, 2025. **There is no guarantee any forecasts may come to pass.**

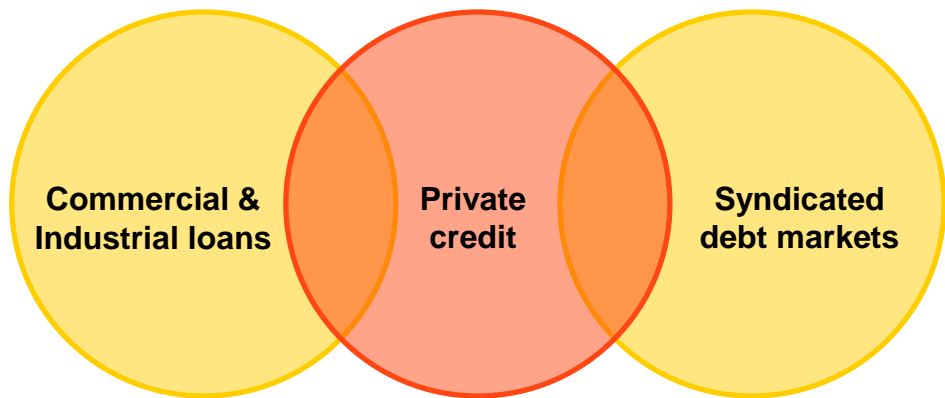
Private credit’s staying power

In March, we published *Private Credit: Further confirmation of its staying power*, a deep-dive report detailing private credit’s overlap with two distinct areas of bank lending: (1) for smaller borrowers: commercial & industrial (C&I) loans, and (2) for larger borrowers: syndicated corporate credit markets (Exhibit 39).

As banks recognize that the subsets of their financing businesses are becoming increasingly connected, we believe they are seeking to offer a holistic solution to clients, with a product-agnostic approach. As such, a wide range of global banks have publicly announced plans to participate more actively in private credit. Our analysis identified 42 instances of banks participating in the private credit market, with these instances increasing in frequency from 2022-2024 (Exhibit 40).

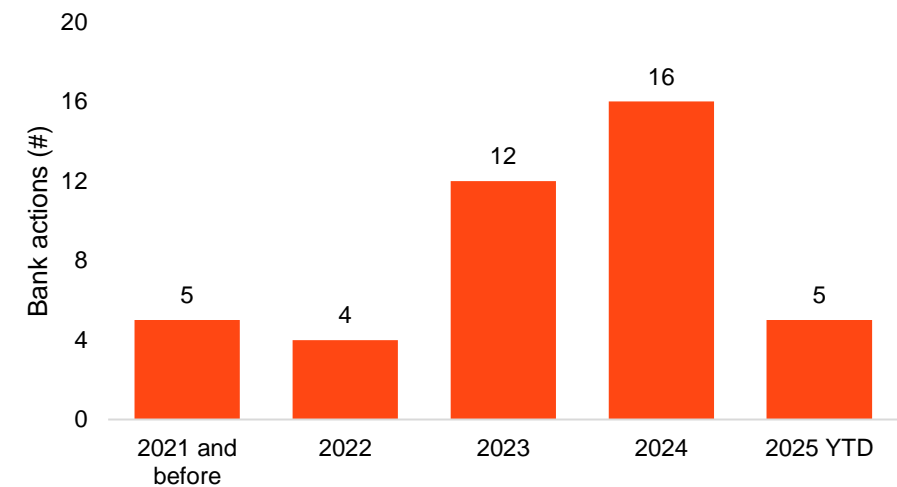
In our view, banks’ increased focus on bolstering their ability to offer a private credit solution (whether directly or via partnerships) provides further confirmation of private credit’s ‘staying power’ as a viable funding option for a wide range of companies, in a variety of market conditions. We expect this will drive additional expansion of private credit’s addressable market and see high-level benefits across banks (client retention, product capabilities), private credit lenders (origination, market expansion), and the financial system (broadening customized and efficient financing access for a range of borrowers).

Exhibit 39: The addressable market for private credit overlaps with other financing channels



Source: BlackRock. For illustrative purposes only.

Exhibit 40: Bank participation in private credit
Instances of banks participating more actively in private credit



Source: Company disclosures, BlackRock. As of April 2, 2025. Excludes synthetic risk transfer (SRT) transactions.

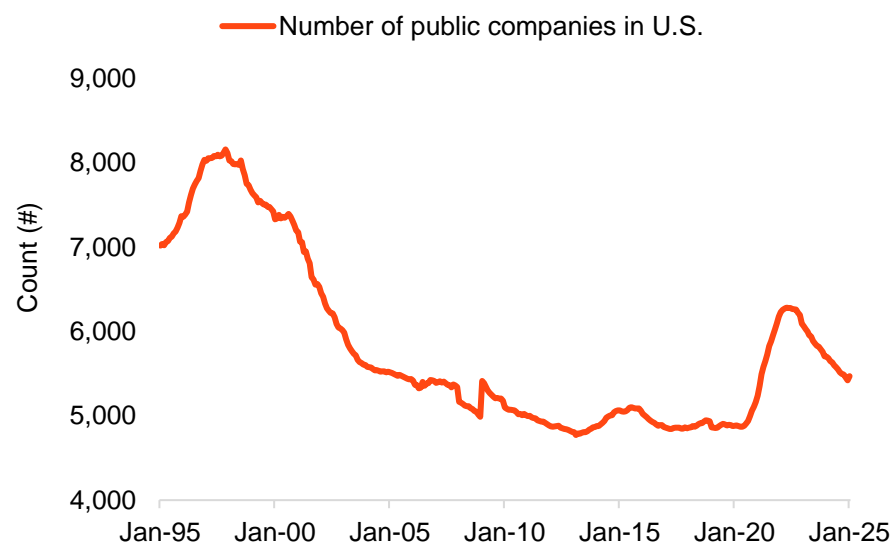
Staying private, for longer

Other shifts in market structure are contributing to private credit's growth, such as the trend of firms staying 'private for longer'. As we've discussed previously, syndicated debt markets have evolved over time to serve larger borrowers. As a result, a financing 'void' may be present for a middle market company in search of a modest amount of financing, which finds itself too small for the syndicated debt markets. Private credit can help fill this funding gap, in our view.

Equity markets are undergoing a similar structural shift, with companies choosing to stay private (i.e., 'unlisted') for longer. Exhibit 41 demonstrates the decline in the number of public companies in U.S. equity markets. Even despite a flurry of initial public offering (IPO) activity in 2021, the trend of decline continued in the years following. Further, Exhibit 42 shows the distribution of public vs. private company ownership in the U.S., the E.U., and the U.K., with all three regions skewed toward private ownership. We believe private markets act as an important avenue for funding the early stages of a company's growth journey, which provides opportunities for investors.

Exhibit 41: Companies are staying 'private for longer' in the U.S. equity market

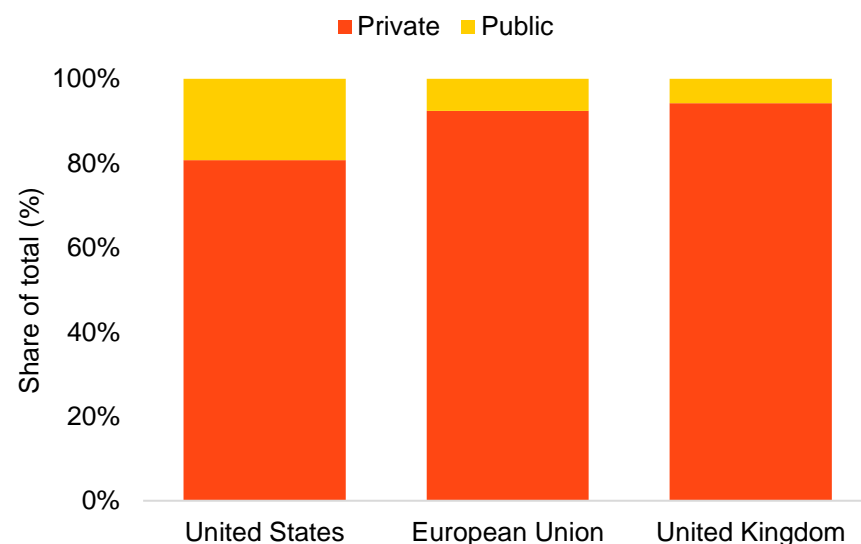
Number of public companies listed on the NASDAQ and NYSE



Source: BlackRock, World Federation of Exchanges, Haver Analytics. As of January 31, 2025 (most recent for both as of April 2, 2025).

Exhibit 42: Most companies in the U.S., E.U. and U.K. are private

Distribution of public vs. private companies in each region



Source: S&P Capital IQ, BlackRock. As of February 24, 2025. Captures firms with last twelve months' revenue greater than or equal to \$100 million, or equivalent.

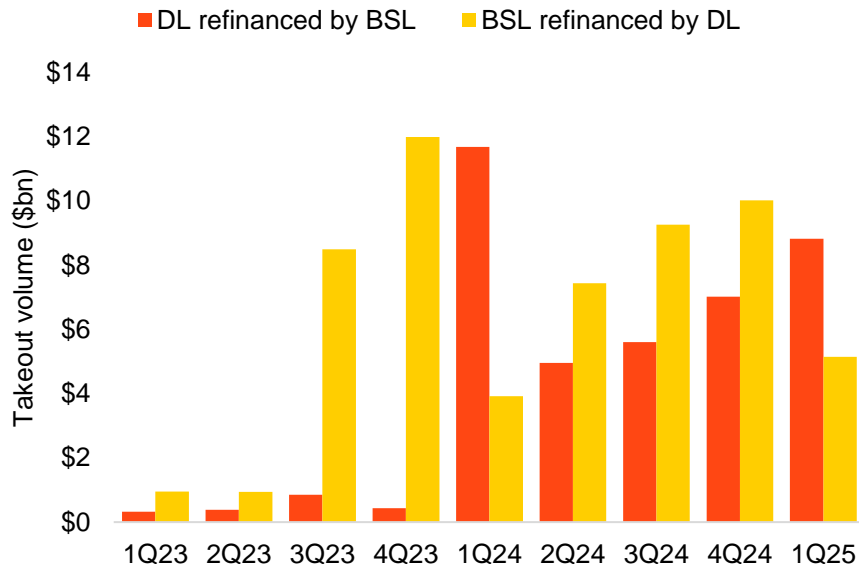
Market volatility may present opportunity

Elevated market volatility has been a persistent market theme so far this year, and we expect this to remain the case over the medium term, given the significant policy shifts on the horizon. In past episodes of market volatility, private credit has shown an ability and willingness to step in to provide financing to a wide range of borrowers. Indeed, we expect some borrowers will choose private financing if/when capital is less available (or access is more uncertain) in public markets. On net, we believe broadening access to customized and efficient financing for a wide range of borrowers – in a variety of market conditions – provides high-level benefits to the financial system.

Exhibits 43 and 44 illustrate the overlap between the broadly syndicated leveraged loan and private credit (direct lending) markets by demonstrating refinancing activity between the two asset classes. Exhibit 43 uses data from Pitchbook LCD and highlights how the ‘mix shift’ varies over time (in both directions), based on market conditions and investor risk appetite. And Exhibit 44 uses KBRA DLD data to show the aggregate number and amount of ‘private market steals,’ over a multi-year period.

Exhibit 43: The private vs. public ‘mix-shift’ will ebb and flow with market conditions

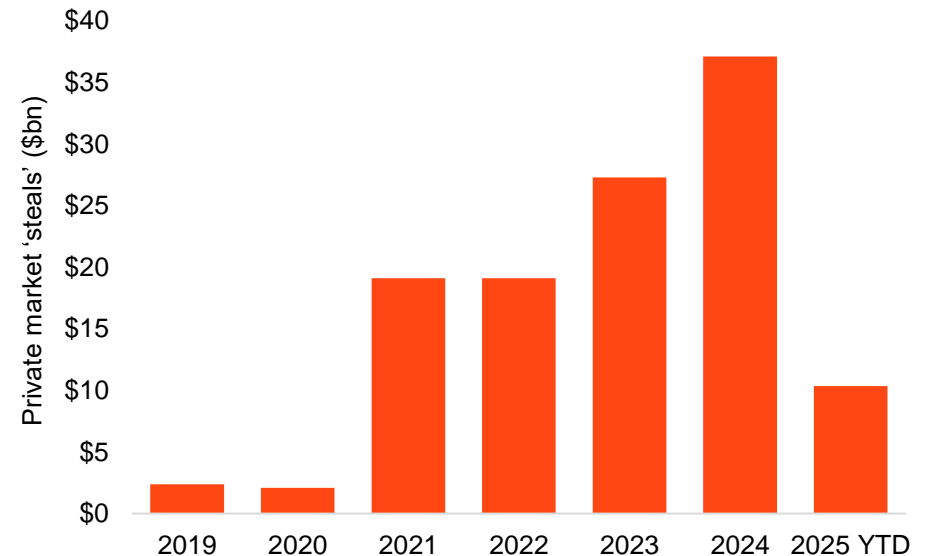
New issue broadly syndicated loans (BSL) and direct lending (DL) ‘takeouts’ (\$ in billions)



Source: Pitchbook LCD, BlackRock. As of 1Q2025. Historical data is subject to change as LCD collects more information.

Exhibit 44: The private market is refinancing syndicated loans

Private market ‘steals’: volume of debt refinanced from USD broadly syndicated loans into USD private credit (\$ in billions)



Source: KBRA DLD, BlackRock. As of February 28, 2025 (most recent as of April 2, 2025). Includes incremental amounts to existing financings that total \geq \$1bn. Excludes refinancings into private credit from USD HY bonds.

Financing larger borrowers

Larger fund sizes (Exhibit 45) have also contributed to the increasing overlap between syndicated markets and private credit, by enabling private lenders to finance larger borrowers, including those with *demonstrated* access to public debt markets.

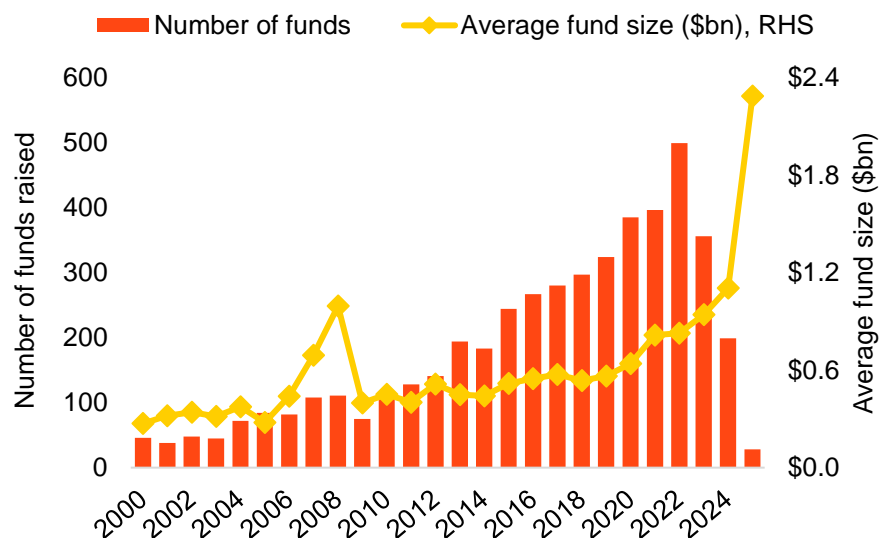
Exhibit 46 illustrates this expansion by quantifying private credit's participation in 'jumbo' financings – or financings exceeding \$1 billion in the USD market. Indeed, jumbo financing reached a new record in 2024, totaling \$89 billion in volume, according to data by KBRA DLD.

As we discussed previously, there are a variety of reasons a borrower may choose to issue in the private credit market, versus in syndicated markets, including certainty of execution amid public market volatility or flexibility inherent in a long-term borrower-lender relationship.

Later in this section, we'll discuss dispersion among borrowers, including based on borrower size. We view private credit's expanding addressable market of borrowers as an opportunity for investors to introduce further portfolio diversification even *within* private credit allocations.

Exhibit 45: Larger private credit fund sizes

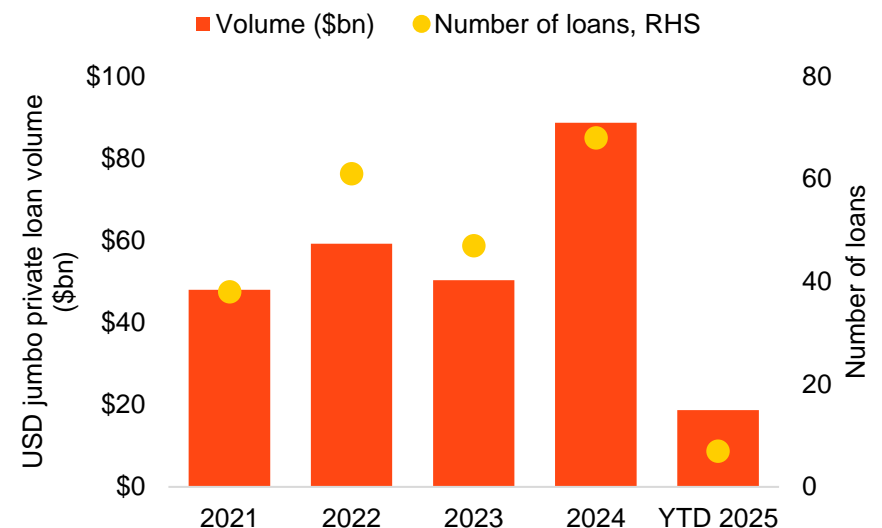
Global private credit fundraising. Captures the final close date for each fund, and the number of funds that have reached a final close in each calendar year.



Source: Preqin, BlackRock. YTD 2025 is as of April 2, 2025. YTD2025 average fund size data is likely skewed due to a small sample size.

Exhibit 46: 'Jumbo' private credit loans are becoming more frequent

Issuance of private ('jumbo') loans greater than \$1 billion in the USD market, and by number, RHS



Source: KBRA DLD, BlackRock. As of March 25, 2025 (most recent as of April 2, 2025). Includes incremental amounts to existing financings that total >=\$1bn.

Technical nuances of CLOs also play a role

Importantly, unique technicals in the broadly syndicated leveraged loan market also play a large role in the ‘ebb and flow’ of the private vs. public financing mix shift, in our view. We believe this point is often underappreciated by some market participants.

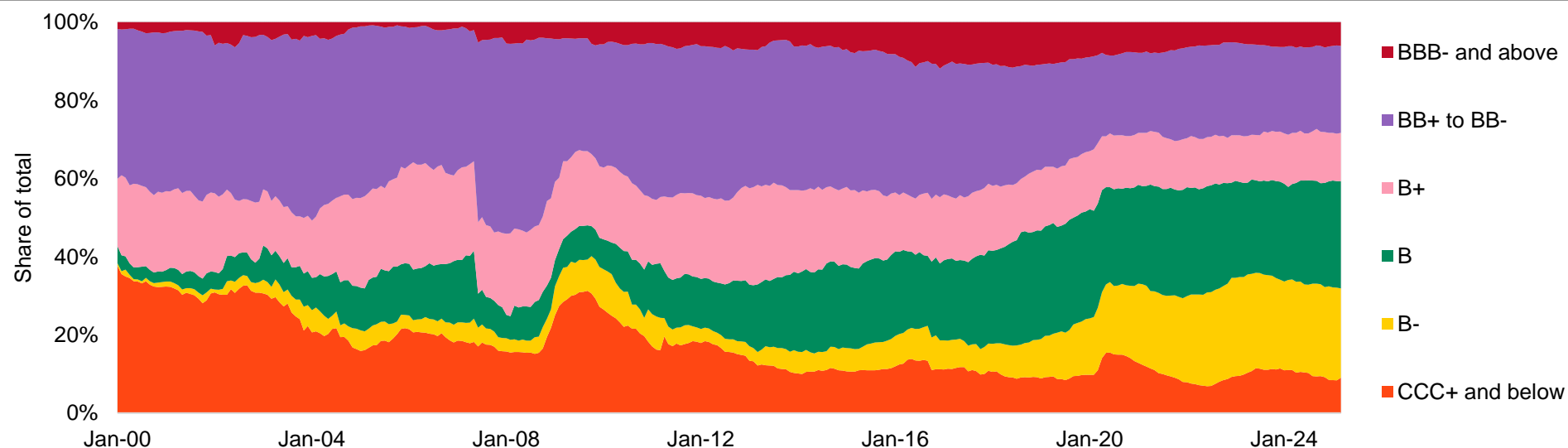
For context, approximately two-thirds of syndicated leveraged loans in the primary market are purchased by collateralized loan obligations (CLOs), which are rating sensitive structures. Most CLOs have limits on CCC-rated loan holdings (usually 7.5%). In periods of market volatility or when recession risks are elevated, CLO managers not only shy away from purchasing CCCs, but also tend to avoid B- loans, for fear of downgrade into CCC territory. Borrowers rated B- and below represent 32% of the USD leveraged loan market (Exhibit 47).

Given this significant concentration of the syndicated leveraged loan market buyer base (among CLOs), and their rating sensitivity, this has meaningful implications for the liquid credit market’s receptivity to lower rated borrowers in times of volatility. We have previously documented investor aversion to the lowest-quality segments of the HY credit market during periods of volatility.

More broadly, market conditions in syndicated markets are just one of many reasons a borrower may choose to refinance public credit into private credit (or vice versa). Indeed, as Exhibits 43 and 44 again illustrate, the private credit market captured financing from the syndicated markets in 2024 and in the early months of 2025, even as liquid credit market conditions were quite accommodative. This was likely driven by considerations including flexibility, customization, and a desire for a long-term financing partner.

Exhibit 47: Loans rated B- or below account for 32% of the USD leveraged loan market

Distribution of USD leveraged loan market by loan rating, based on par amount



Source: Pitchbook LCD, BlackRock. As of March 31, 2025. CCC+ and below category includes loans that are not rated.

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Product innovations increase access

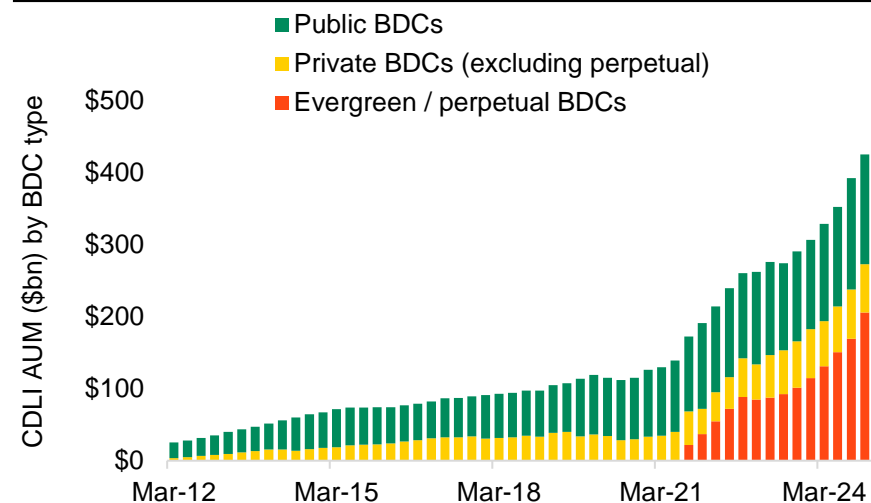
Another important driver of private credit's expansion is the broadening addressable market of investors. In recent years, there has been an increased focus on providing private capital investing opportunities to the retail investor base. The retail opportunity is vast, and even a modest increase in retail allocations to private capital could provide a meaningful tailwind. For context, the most recent UBS Global Wealth Report outlines \$450 trillion in total global wealth, with more than 22 million people qualifying for millionaire status in the U.S., alone.

Recent iterations on investment fund structures, such as the evergreen (perpetual-life) BDCs and the European Long-Term Investment Fund 2.0 (ELTIF 2.0), reflect efforts to align products with investor preferences for simplified access.

Exhibit 48 demonstrates how AUM for evergreen BDCs now exceeds that of public and private BDCs, despite their more recent inception. Further, the ELTIF 2.0 structure was rolled out in January 2024 and implemented changes to the existing ELTIF framework. Fund launch activity suggests the 2.0 structure has been a success, with the count of ELTIFs launched in 1H2024 outpacing the full year 2023 (Exhibit 49). Moody's estimates that there was €505 billion of ELTIF AUM for European private credit as of September 2024, including dry powder. The Long-Term Asset Fund (LTAf) represents a similar innovation in the U.K.

Exhibit 48: BDC structures have evolved to meet demand from the wealth manager universe

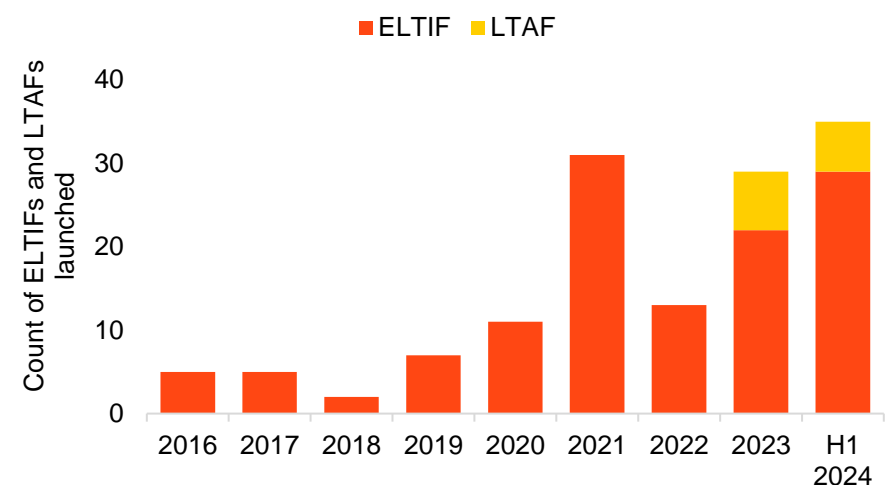
Cliffwater Direct Lending Index assets under management, by BDC type



Source: Cliffwater Direct Lending Index, BlackRock. As of 4Q2024 (most recent available as of April 2, 2025).

Exhibit 49: The start of 2024 showed promise for ELTIF and LTAF vehicles

Count of ELTIF (including 2.0) and LTAF launches



Source: Preqin, BlackRock. Data as of August 2024 (most recent available as of April 2, 2025). Note: includes count for all funds, not only those focused on private credit.

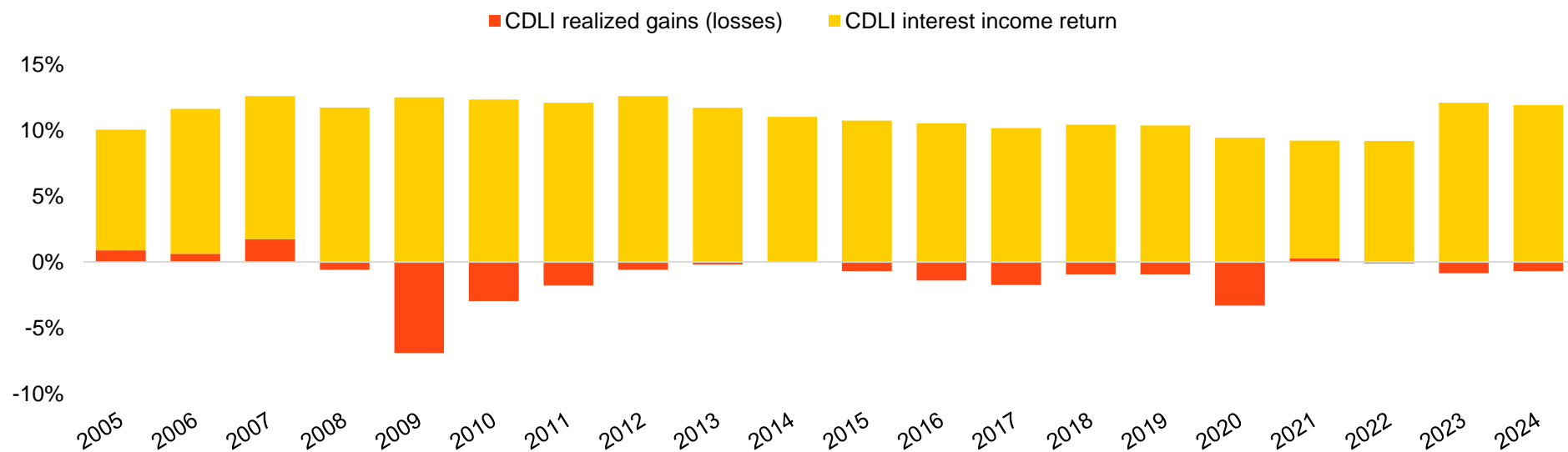
Contained losses, against robust income

Beyond its market expansion, the fundamental backdrop for private credit has been a growing focus for market participants, especially as the recent deterioration of ‘soft data’ (discussed earlier) has prompted investors to consider downside risks to growth. This begs the question – can private credit maintain its resilience if the growth backdrop becomes less supportive? We believe maintaining a trend pace of growth is key for risk assets, broadly, and we are closely monitoring downside risks. And in the case of private credit, its structural protections (depending on the strategy) are likely to become even more valuable.

For context, we revisit how the asset class has fared during prior periods of macroeconomic volatility. To start, we review income and loss data from the Cliffwater Direct Lending Index (CDLI) – an asset-weighted index of approximately 17,000 directly originated middle market loans totaling \$425 billion – as a proxy for U.S. middle market lending. 4Q2024 data (the most recent available, as of April 3rd) demonstrate how income has compared favorably to loss rates over the past two years, despite the higher cost of capital for borrowers. In the trailing twelve months ended in 4Q2024, interest income for the CDLI was 11.91%, compared to realized losses of 69 basis points (Exhibit 50).

Exhibit 50: Realized losses for the CDLI remain modest despite elevated rates

Trailing 12-month income return and realized gains (losses)



Source: Cliffwater Direct Lending Index, BlackRock. As of December 31, 2024 (most recent available as of April 2, 2025). Realized gains can be driven by equity stubs, warrants, and gains on exited investments. These were more common in 2005–2007, when second lien and mezzanine loans were a greater portion of the CDLI. We exclude unrealized gains and losses in this chart. Long-term unrealized gains (losses) are approximately zero, as they either convert to net realized losses upon a credit default, or are reversed when principal is fully repaid. **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.

Covenant defaults remain below average

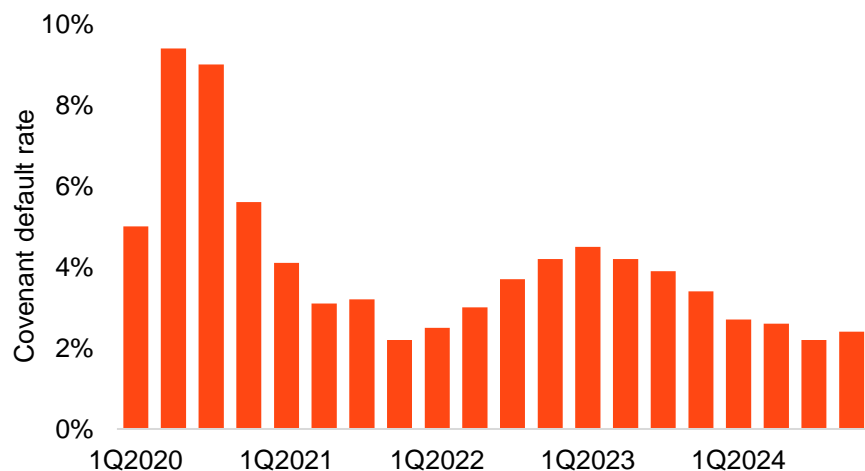
Private credit fundamentals have, so far, held in well in the higher interest rate environment, owing in large part to the supportive macroeconomic backdrop in place for much of 2023 and 2024. Here too, any sustained downside risks to growth will be important to track.

Lincoln International's Proprietary Private Market Database (which included 5,750+ U.S. portfolio companies as of 4Q2024) shows the private credit size-weighted covenant default rate increased modestly in 4Q2024, marking the first quarter-over-quarter increase since 1Q2023 (Exhibit 51). Of note, this modest increase followed six consecutive quarters of declines in private credit covenant defaults. The aggregate covenant default rate of 2.4% remains below the longer-term trend of 3.4%.

Interest coverage fundamentals improved modestly for U.S. borrowers and held constant for European borrowers in 4Q2024 (Exhibit 52). Lincoln International expects coverage ratios to continue improving through 2025, on a pro-forma basis. That said, and as we discussed earlier, we view the bar for additional near-term rate cuts in the U.S. as quite high, given above-target inflation.

Exhibit 51: A (modest) increase in the covenant default rate

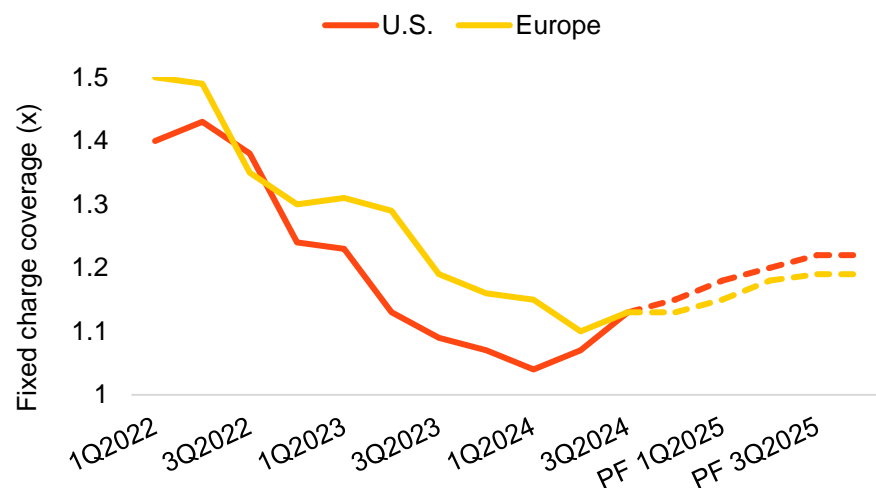
Aggregate size-weighted covenant default rate for the U.S. portfolio companies tracked by Lincoln International



Source: Lincoln International Valuations & Opinions Group Proprietary Private Market Database, BlackRock. As of 4Q2024. A default is defined by Lincoln as a covenant default (not necessarily a monetary default). The calculation is size-weighted and considers the total net debt balance for each of the portfolio companies that had a defaulting security in the respective quarter. © 2023 Lincoln Partners Advisors LLC. All rights reserved. Used with permission. Third party use is at user's own risk.

Exhibit 52: Fixed charge ratios may have troughed

Size-weighted and pro-forma (PF) fixed charge coverage ratios for the universe of U.S. and European firms captured by Lincoln International (and per Lincoln's PF estimates)



Source: BlackRock, Lincoln International Valuations & Opinions Group Private Market Proprietary Database. Captures data as of 4Q2024. Calculation: $(\text{EBITDA} - \text{Taxes} - \text{Capex}) / (\text{Interest Expense} + 1\% \text{ Debt Balance})$. © 2023 Lincoln Partners Advisors LLC. All rights reserved. Used with permission. Third-party use is at user's own risk. For U.S., respective SOFR rates represent a trailing 4 quarter average.

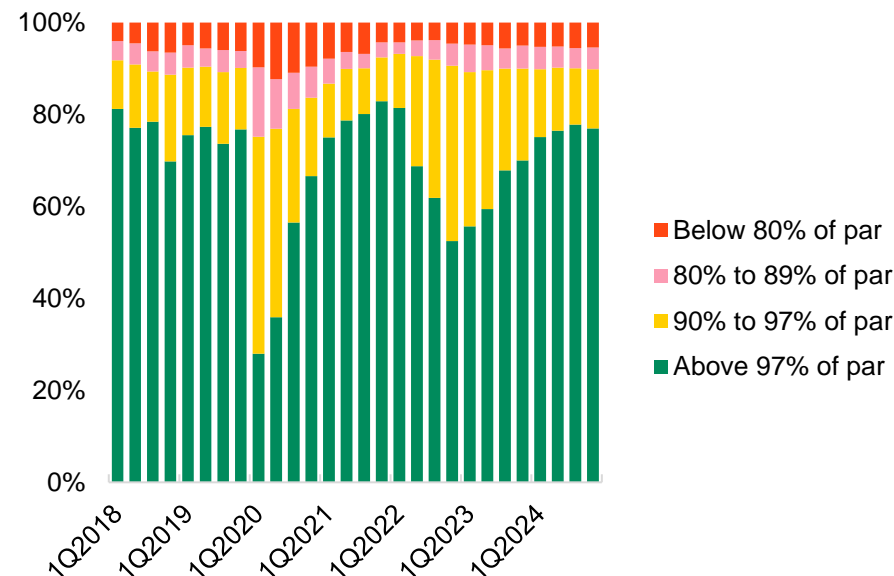
Private credit valuations respond to stress

One of the most cited questions regarding private credit valuations is whether, given the lack of a daily ‘mark-to-market’, they anticipate financial stress in default situations. We expect this theme to remain top of mind, given the potential for a more challenging growth backdrop ahead.

Fair value data from Lincoln International’s Proprietary Private Market Database shows that nearly 90% of investments are currently marked at or above 90% (Exhibit 53). That said, there is dispersion across the current distribution as well as past periods, as would be expected given the evolution of macroeconomic conditions. Additionally, data from the KBRA DLD database – which captures implied recovery rates for defaults over the last 12 months – addresses the topic more directly. KBRA DLD data suggests that direct lending loans were, in aggregate, reflecting a level of distress in the three and six months prior to a default, with aggregate marks below \$80 (which we view as a rough proxy for distress; Exhibit 54).

Exhibit 53: Fair value fluctuations

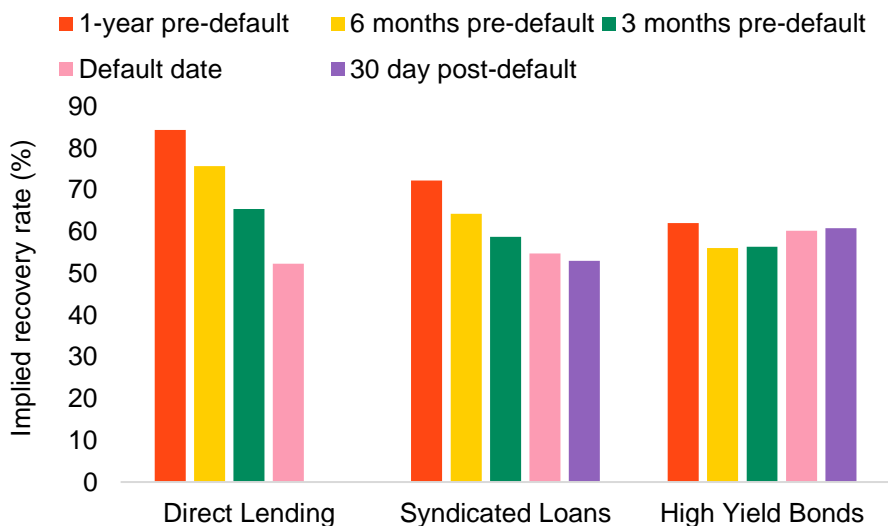
Fair value distribution of the U.S. portfolio companies (5,750+ as of December 31, 2024) tracked by Lincoln International's Proprietary Private Market Database



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of December 31, 2024 (most recent available as of April 2, 2025).

Exhibit 54: Pricing in default risk

Average implied trailing 12-month recoveries (equal weighted) for defaulted direct lending loans (count: 48 defaults), syndicated leveraged loans (count: 67 defaults) and high yield bonds (count: 27 defaults)



Source: KBRA DLD, Solve, BlackRock. Captures data through March 27, 2025. Implied recovery rates are calculated as fair value / principal. Direct lending rates are preliminary pending 4Q2024 BDC holdings. There can be no guarantee any forecasts may come to pass.

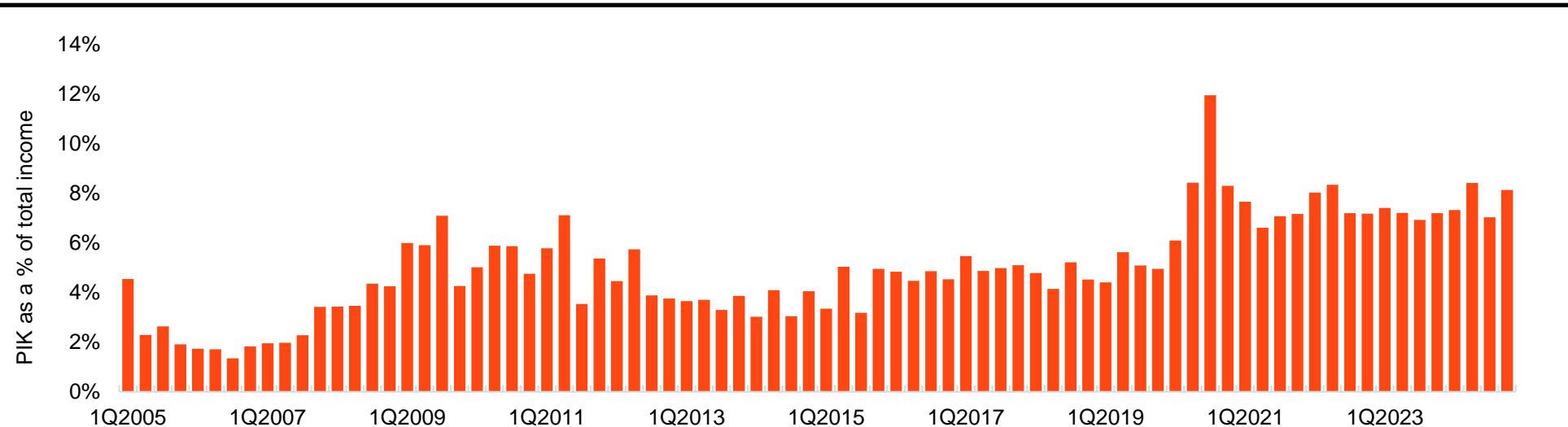
PIK: not outsized, but warrants watching

The final fundamental indicator that we'll address is payment-in-kind (PIK) utilization, which reflects interest that is 'paid' in the form of additional non-cash principal, as opposed to cash interest income. There are two ways to track PIK: (1) the share of *deals* that include PIK as an option and (2) PIK as a percentage of *interest income*. We view the second metric as more informative for credit deterioration, as it reflects a company's liquidity management choices in times of stress. This contrasts with, for example, a private credit lender including a PIK option for a higher-quality borrower to 'win' a deal (owing to the competitive environment), where that PIK option may never be utilized.

Exhibit 55 demonstrates how PIK, as a percentage of total income, has been in the 7%-8% range for most of the past few years for the CDLI. The takeaway? While PIK utilization has increased above the pre-pandemic trend, it is not outsized. Further, Lincoln International notes that 11% of their investments valued had a portion of PIK interest as of 4Q2024. Notably, more than half of the firms included in this PIK cohort did not have a PIK option at underwriting – suggesting it was added once stress was encountered. When analyzing the entire universe of borrowers with PIK as of 4Q2024, Lincoln found the group experienced an average *decline* in EBITDA CAGR of 18% since the initial investment date, with average LTVs growing from 53% at close to 78% as of 4Q2024. So, while PIK utilization does not *always* indicate stress (i.e., it could be used by a company focused on funneling cash into growth), it's an important fundamental metric to watch, in our view, to signal aggregate health of borrowers. It also underscores the importance of selective and disciplined underwriting by lenders.

Exhibit 55: PIK interest has remained stable over the last few years

Payment-In-Kind (PIK) as a percentage of total interest income for the Cliffwater Direct Lending Index



Source: Cliffwater Direct Lending Index, BlackRock. As of December 31, 2024 (most recent available for CDLI as of April 2, 2025).

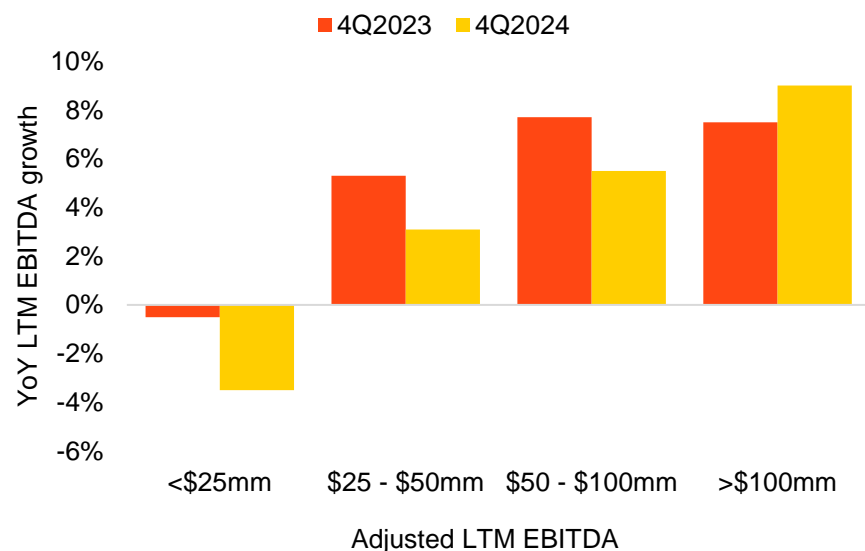
Dispersion should persist

While private credit’s *aggregate* fundamentals remain resilient, dispersion persists – extending the theme we have flagged over the past few quarters. Exhibit 56 demonstrates how year-over-year (YoY), last twelve-month (LTM) adjusted EBITDA growth has varied across borrower sizes, with scaled borrowers tending to grow faster than smaller ones. The smallest cohort – borrowers with less than \$25 million in EBITDA – experienced a negative YoY growth rate in both 4Q2023 and 4Q2024. Further, the absolute difference between 4Q2024 growth rates (i.e., the difference between maximum and minimum growth rates; 12.5%) far exceeds that of 4Q2023 (8.2%), suggesting dispersion may be more material than in past quarters.

Exhibit 57 demonstrates how EBITDA growth has varied across vintages, over their holding time. Notably, 2020 and 2021 vintage deals have grown above the aggregate compound annual growth rate (CAGR) of 9.3%, while other vintages (2019, 2022, and 2023) have grown more slowly. It’s worth noting that sponsor-owned businesses, which comprise much of the Lincoln International database, will often shift operations in some capacity after being acquired. So, the dispersion in EBITDA growth rate likely reflects both a slowing growth backdrop over the holding period, and an element of change driven by the sponsors holding the businesses during that time. Such dispersion underscores the importance of diversification and active credit selection, in our view.

Exhibit 56: EBITDA growth has varied by size...

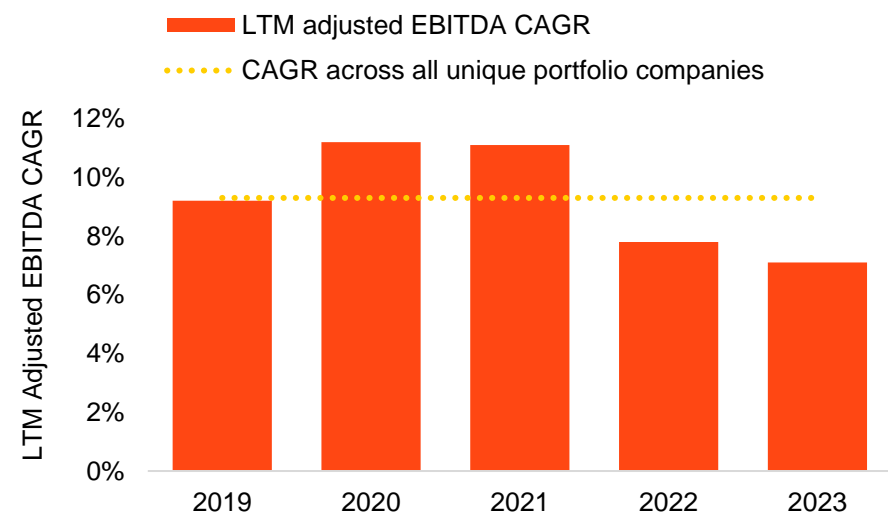
Year-over-year (YoY) last twelve-month (LTM) adjusted EBITDA growth rate by company size



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 4Q2024 (most recent as of April 2, 2025).
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Exhibit 57:... and by vintage

LTM adjusted EBITDA CAGR between initial deal closing and today, by vintage year



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 4Q2024. The average EBITDA at close for each vintage cohort is as follows: 2019, \$59.9 million; 2020: \$58.9 million; 2021: \$59.1 million; 2022: \$75.5 million; 2023: \$127.1 million.

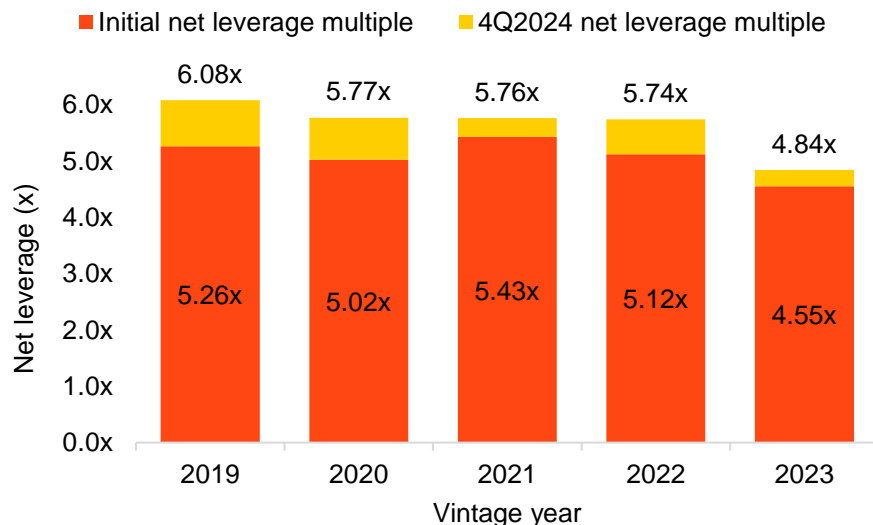
PE exits: multiple expansion likely required

After a few years of muted private equity (PE) exit activity, market participants are closely monitoring the environment for sponsor-related transaction activity. Beyond returning capital to PE limited partners, an increase in activity may also create financing opportunities for private credit lenders focused on sponsor-backed financing. That said, an alignment in valuation expectations between buyers and sellers is a key ingredient. Importantly, a sponsor's assessment of a transaction is often driven by financial metrics that quantify value created, such as the multiple on invested capital (MOIC). As such, the enterprise value – including both equity and debt components – is a critical consideration.

Data from Lincoln International shows that, in aggregate, net leverage has increased for companies across vintages (Exhibit 58). They estimate that approximately 55% of companies across the 2019-2023 vintages experienced an increase in net leverage from deal closing to 4Q2024. This higher net leverage is yet another factor complicating the 'value creation' equation for metric-driven investors (such as private equity sponsors). Some sponsors may need to grow their equity value sufficiently to offset an increase in net leverage, especially if they are not able to achieve strong multiple appreciation at exit. Still, the 'aging' of PE inventory (Exhibit 59) should somewhat act as a tailwind to sponsored deal activity in the coming years, as PE sponsors seek to exit/monetize positions and distribute capital to investors.

Exhibit 58: 55% of companies across 2019-2023 vintages have had an increase in net leverage

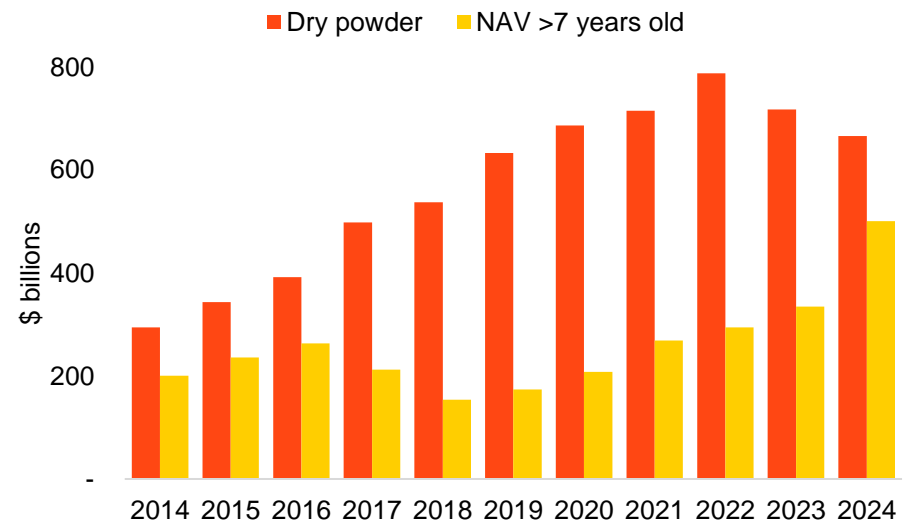
Net leverage multiple at initial deal closing and today, by vintage



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 4Q2024 (most recent available as of April 2, 2025).

Exhibit 59: PE Net Asset Value (NAV) is aging

Total US buyout dry powder versus NAV in funds over 7 years old (\$ bn)



Source: Pitchbook, BlackRock. As of March 31, 2024 (most recent available as of April 2, 2025).

Commercial real estate: ongoing recovery

Directional progress, but some overhangs persist

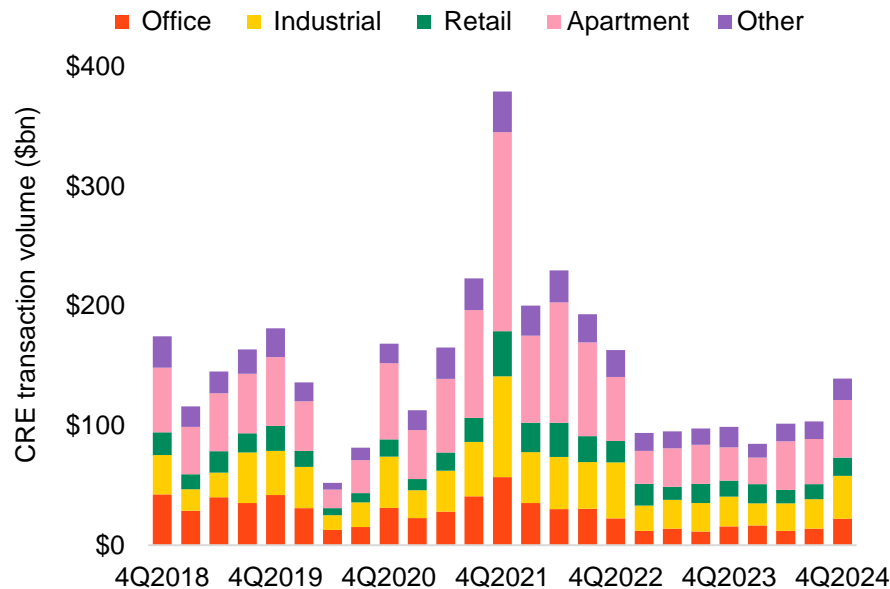
Directional progress toward recovery

In commercial real estate (CRE), a modest pickup in transaction volumes (Exhibit 60) and continued stabilization in property prices (Exhibit 61) across many categories have signaled progress in the ongoing recovery. Encouragingly, even office properties have experienced this, though to a lesser degree than other property types. On the other hand, high volumes of extended and ‘underwater’ loans highlight the dispersion which has remained following legacy stress situations.

In February, we discussed the driving forces behind the narrowing gap between buyer and seller expectations, including (1) incremental clarity on the macroeconomic landscape (i.e., confidence of avoiding a U.S. recession), (2) increased acceptance of structurally higher interest rates, and (3) further normalization of post-pandemic disruptions (such as return-to-office mandates). While recent economic developments, such as heightened policy uncertainty, may incrementally hinder directional progress, we believe other drivers will remain largely intact in 2025, and will support further recovery in the CRE market throughout the year.

Exhibit 60: CRE transaction volume increased 41% year-over-year

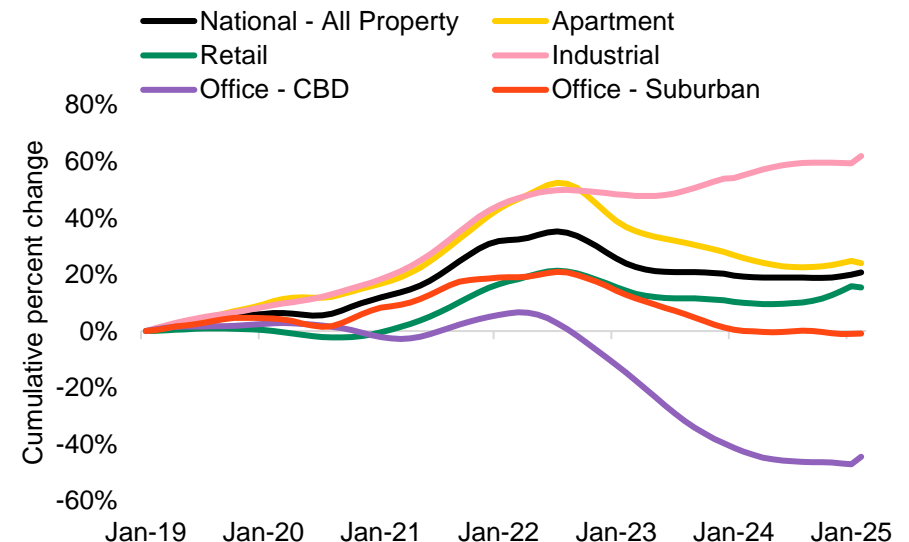
U.S. CRE transaction volume by property type, in \$ billions



Source: Real Capital Analytics, BlackRock. Captures data through 4Q2024 (most recent available). Other include hotels, development sites, and senior housing & care.

Exhibit 61: Pricing has stabilized, mostly

Cumulative percent change in the RCA U.S. Commercial Property Price Indices (CPPI) sector-specific indices since Jan. 2019



Source: Real Capital Analytics Commercial Property Price Indices National All-Property Index, BlackRock. Captures data through February 28, 2025. 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.

A slower and bifurcated recovery for office

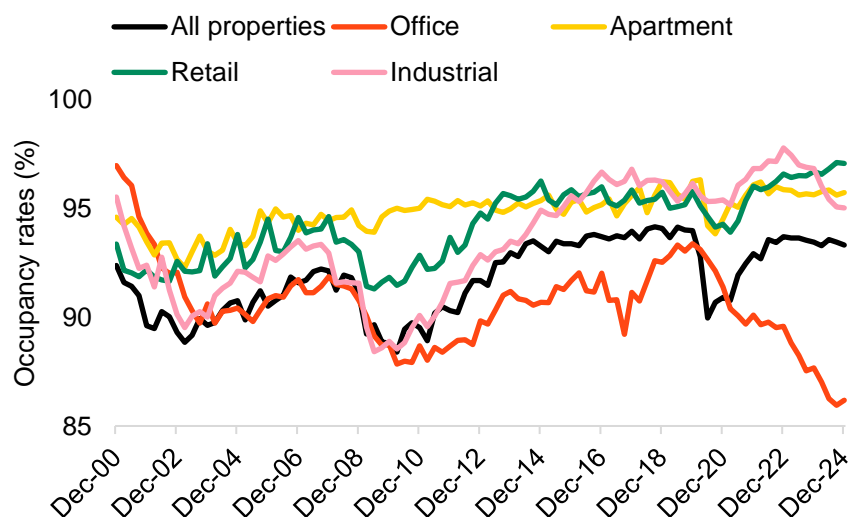
Office properties – especially central business district (CBD) – have been the most notable, and enduring, segment of stress in CRE, because they've been impacted by overlapping headwinds. These include structurally higher U.S. interest rates, post-pandemic shifts in property usage, and tight (albeit moderating) bank lending standards. (Note: there is meaningful dispersion even *within* the CBD office segment).

The relative stress of the office sector is visible in various ways. For example, Exhibit 61 (previous page) demonstrates how office property values have underperformed other property types since 2019. Exhibit 62 demonstrates this underperformance through another lens, highlighting how post-pandemic shifts disproportionately impacted occupancy rates in the office sector. Indeed, where occupancy rates for other property types have recovered from pandemic shocks, they continued to fall for office properties, reaching a record low of 86% in 3Q2024. A January report from Moody's noted a similar trend in 4Q2024, with office vacancy rates reaching a record *high* of 20.4%.

That said, some market participants have begun to focus on the potential for emerging opportunities in the office space. For example, a March report from MSCI demonstrates how office assets acquired during periods of market stress can often lead to better long-term value creation. Further, an uptick in YoY office transaction volume suggests that buyer and seller expectations are coming into alignment (Exhibit 63). In our view, this underscores the importance of nuance in CRE investing, especially *within* categories.

Exhibit 62: Office occupancy is near record lows

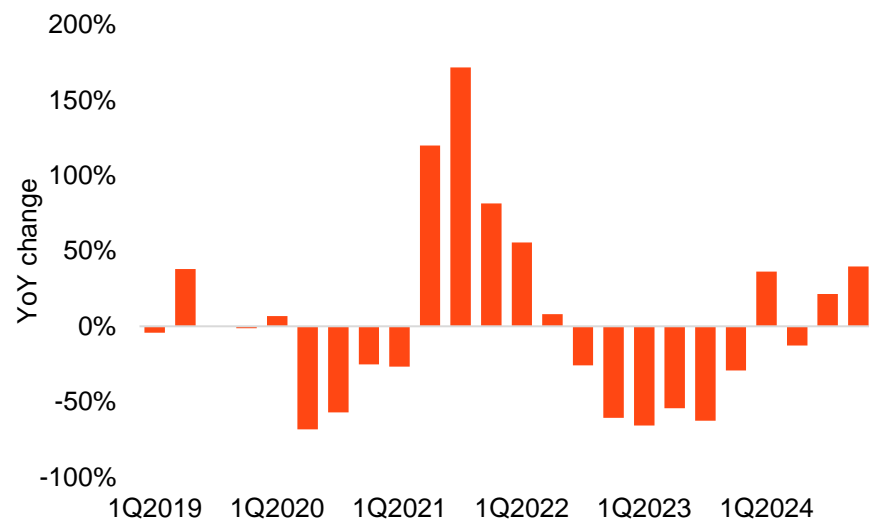
Total average occupancy rate for REIT property segments including all properties, office, apartment, retail, and industrial



Source: Nareit T-Tracker, Bloomberg, BlackRock. As of 4Q2024.

Exhibit 63: Office property transaction volume is improving, but structural headwinds persist

Change in year-over-year (YoY) U.S. CRE office transaction volume



Source: Real Capital Analytics, BlackRock. Captures data through 4Q2024 (most recent).

Extending is the path of least resistance

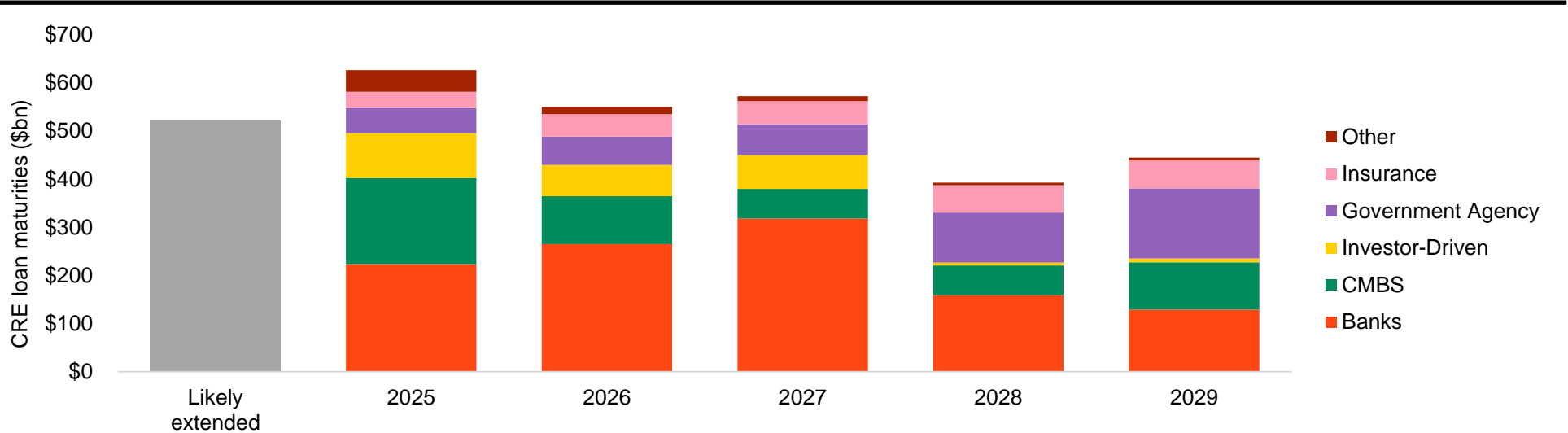
And while it’s tempting to focus on the investing opportunity ahead, especially as CRE property values stabilize, we believe legacy CRE investments (especially the underperforming ones) will continue to inform the market opportunity. As we’ve previously discussed, banks have generally demonstrated a willingness to work with CRE borrowers, including by extending loans. This was happening, in our view, because distressed sales can create sub-optimal outcomes for both the borrower and the lender. As a result, both parties are often incentivized to conduct loan modifications in an attempt to maximize principal recovery.

RCA estimated that, as of year-end 2024, \$522 billion of U.S. CRE loans were set to mature and have been extended, with banks representing the largest holders of these loans. Further, another \$626 billion and \$550 billion of loans are expected to mature in 2025 and 2026, respectively (Exhibit 64).

As we flagged previously, a January 2025 Green Street analysis, using CMBS data, found that loan modifications are near decade highs (driven by office, retail, and lodging). And Goldman Sachs Research recently noted that rising CMBS delinquencies have not necessarily translated into rising foreclosures. These two trends suggest ongoing collaboration between lenders and asset owners, further reinforcing the extensions trend.

Exhibit 64: Banks hold the largest share of loans maturing in the coming years

Volume of maturing commercial property loans, by lender type



Source: MSCI Real Assets, Real Capital Analytics, BlackRock. Data as of March 25, 2025 (reflects the market as of December 31, 2024). RCA identifies a loan as “likely extended” if, based on their analysis, it was slated to come due and was not subsequently refinanced or the associated collateral was not sold. Based on independent reports of properties and portfolios \$2.5 million and greater. Data believed to be accurate but not guaranteed.

Signals of a long road ahead

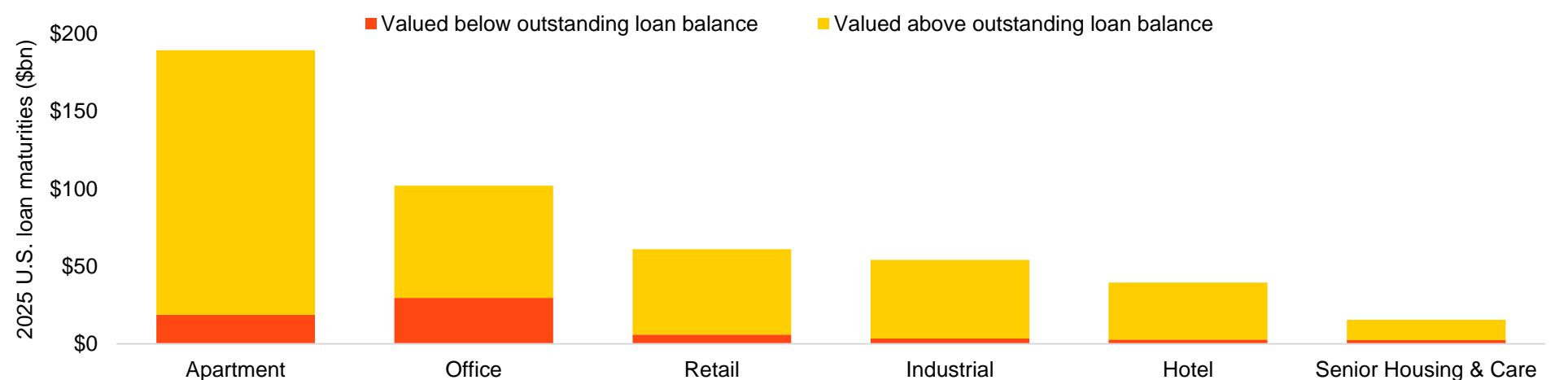
However, such extensions may not resolve the underlying issues – namely, that some CRE loans are more than the value of the associated collateral. Indeed, expectations of the forward rate path evolved meaningfully through 2024 (when many of these loan modifications were presumably completed). Indeed, this continued evolution in the macroeconomic environment may temper optimism around the enduring effectiveness of such actions (as a ‘bridge’ to a more favorable macro/interest rate backdrop).

A March report from Moody’s, using CMBS data, found that loan liquidations in 2024 (by count and value) were the lowest since 2003 and 2009, respectively. That said, the severity of loan losses was the highest since 2000, with average loss severity for office properties reaching 75.9%. In our view, this reinforces that amendment/extension activity in 2024 was used as a tool to ‘bridge’ borrowers to a more favorable macro backdrop, with lenders only choosing to take losses on properties where they see no feasible path to improved recovery.

RCA estimates that nearly 14%, or \$63 billion, of U.S. CRE loan value set to mature in 2025 is ‘underwater,’ meaning the outstanding loan balance is higher than the current asset value (Exhibit 65). Office properties represent the most troubled segment, with 30% of maturing loans below outstanding loan values, again underscoring the importance of active asset selection and management. Looking ahead, absent a material change in the macroeconomic backdrop (such as a steep non-recessionary decline in interest rates), we see scope for these extensions to continue.

Exhibit 65: An estimated 14% of CRE loan value maturing in 2025 is ‘underwater’

U.S. 2025 CRE loan maturities across property types; split by the value of maturing loans for assets above or below their outstanding loan balance



Source: MSCI Mortgage Debt Intelligence, Real Capital Analytics, BlackRock. Loans outstanding as of 3Q2024. Includes loans maturing in 2025 that were originated prior to 3Q2024. Data as of December 6, 2024.

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

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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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