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Global Credit Quarterly: 3Q2025

Two-sided risks

BlackRock

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Key takeaways

- **Macro:** We expect 3Q2025 will be characterized by a somewhat more challenging growth-inflation mix in the U.S., and key deadlines on trade, taxes, and fiscal policy. Episodes of macro volatility (which are inherently difficult to time) will, in our view, likely remain a prominent feature of the investing landscape. That said, we are attuned to the opportunity cost of being too defensive in this environment and are navigating *two-sided* risks. Watch the feedback loop between corporate margins, the labor market, and consumer spending. Pages 3 – 7.
- **Liquid credit:** The all-in yield opportunity in credit is attractive, despite tight spreads. We are comfortable *selectively* moving down in credit quality, given a mix of macro, fundamental, and technical factors. Focus on ‘back to basics’ credit analysis. Pages 8 – 13.
- **Private credit:** Episodic market volatility may act as a tailwind in further broadening the addressable market of borrowers accessing private credit for financing and certainty of execution. This would add to the other multi-faceted growth drivers behind private credit, including the structural shifts in public debt and equity markets. Pages 14 – 31.
- **Commercial real estate (CRE):** ‘Amend and extend’ activity over the past several quarters has resulted in steep near-term maturity walls, which will be important to monitor. Increased acceptance of structurally higher interest rates should support additional stabilization in CRE values, but the theme of dispersion remains intact. Pages 32 – 37.
- **Risks to our view:** Upside: stronger-than-expected growth, which would support corporate margins. Downside: weaker-than-expected growth and a prolonged wave of inflationary pressures.

Macro: two-sided risks

Monitoring corporate margins amid a somewhat more challenging growth-inflation mix

Navigating two-sided risks

While the start of 2Q2025 was met with a sharp increase in volatility, a wide range of risk assets staged an impressive recovery through the remainder of the quarter. As we enter 3Q2025, credit spreads are back towards the lower end of the historical range, some U.S. equity markets are approaching new all-time highs, and financial conditions have eased (Exhibit 1).

And while traditional measures such as GDP have been skewed by front-loading of inventories, underlying measures of economic activity (such as private domestic final purchases) are tracking at a solid pace (of 2.5%).

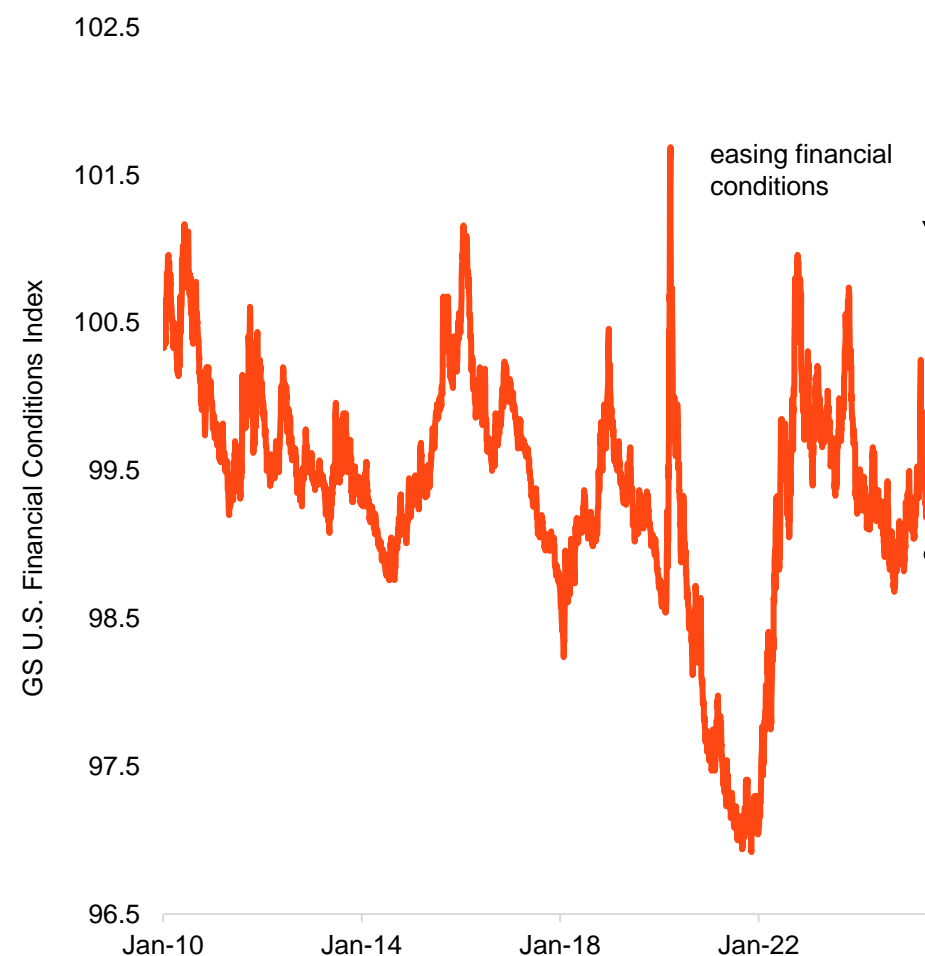
We expect 3Q2025 will be characterized by a somewhat more challenging growth-inflation mix in the U.S., as our base case calls for growth to slow (likely to a below trend pace) and inflation to edge higher as the impact of tariffs works through the supply chain. That said, the magnitude and duration of these moves have yet to be determined.

3Q2025 will also be punctuated by a range of key deadlines on trade, tax, and fiscal policy. As a result, we expect episodes of macro volatility (which are inherently difficult to time) will remain a prominent feature of the investing landscape. That said, we also remain attuned to the opportunity cost of being too defensive (and under-risked) in this environment. Indeed, we are continuing to navigate *two-sided* risks.

Our views on risk assets reflect a comfort with *selectively* moving down in credit quality, driven by a range of macro, fundamental, and technical factors. But as we discuss within, our comfort does *not* extend into the very lowest rungs of the credit quality spectrum.

Exhibit 1: Financial conditions have eased since early April 2025

Goldman Sachs U.S. Financial Conditions Index



Source: BlackRock, Bloomberg, Goldman Sachs Global Investment Research. As of June 26, 2025.

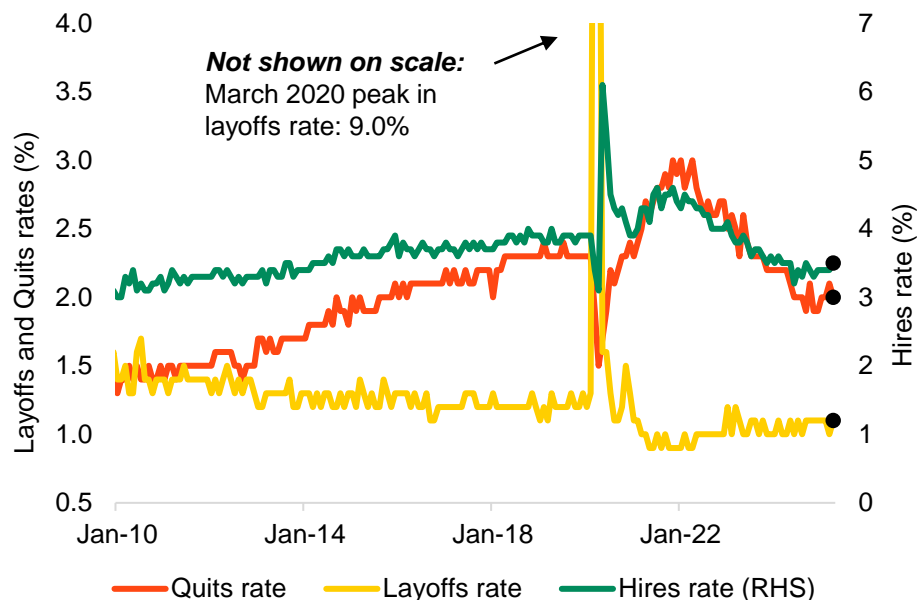
The margins-labor market 'feedback loop'

We continue to monitor the '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. For now, layoffs remain muted by historical standards (Exhibit 2), and margins have not shown signs of sharp deterioration (Exhibit 3).

That said, these metrics will be important to monitor in 3Q2025 as tariffs are implemented. High-frequency labor market data is especially important, as is company-level commentary on headcount plans, margins, and pricing power. 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 (again, Exhibit 2), 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).

Exhibit 2: Chair Powell has referred to a 'low hiring, low firing' labor market

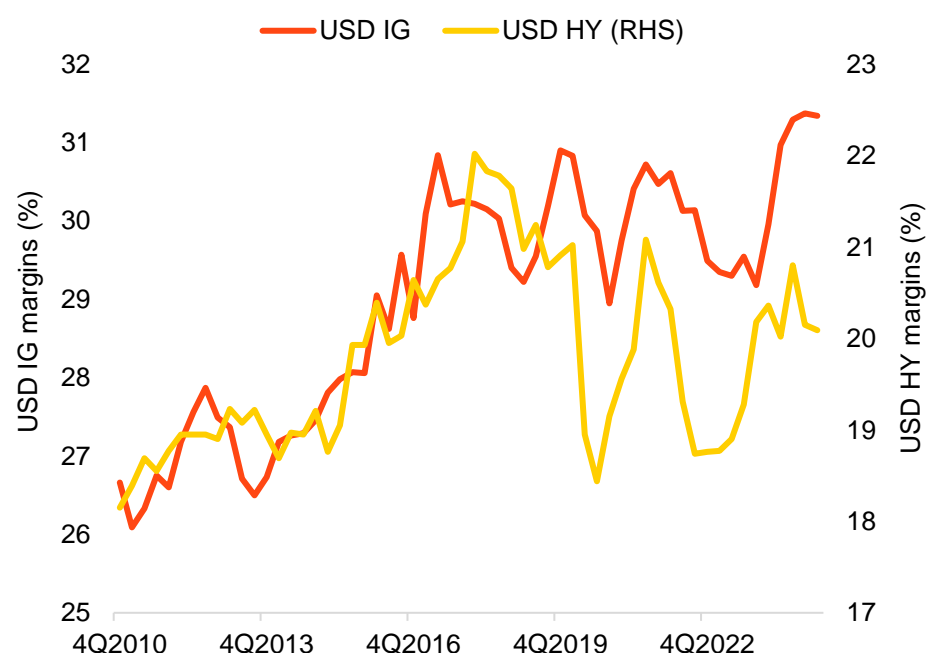
U.S. Layoffs & Discharge Rate (%), the U.S. Quits Rate (%), and the U.S. Hires Rate (%), all seasonally adjusted



Source: Bureau of Labor Statistics, Bloomberg, BlackRock. Captures data through April 30, 2025 (most recent as of June 26, 2025). The Layoffs & Discharge Rate tracks involuntary job separations initiated by the employer; the Quits Rate tracks voluntary job separations initiated by the employee; the Hires Rate tracks additions to the payroll.

Exhibit 3: Margins may absorb some portion of higher input costs

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



Source: Bloomberg Intelligence, BlackRock. Captures data through 1Q2025 (most recent as of June 26, 2025).

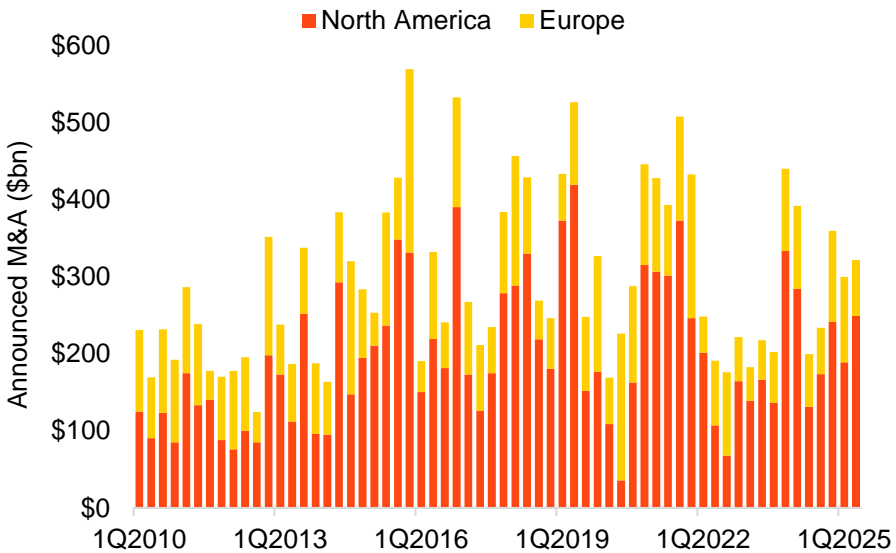
M&A: a barometer of corporate confidence

Beyond the well telegraphed link between profit margins and labor market conditions, firms’ appetite for mergers and acquisitions (M&A) can also be interpreted as another barometer of corporate confidence. At the start of 2025, there was considerable optimism related to a potential acceleration in M&A activity, as well as broader capital markets transactions such as IPOs. This gave way to a more negative tone in the spring, with many citing policy and macroeconomic uncertainty as reasons to expect subdued M&A volumes.

But the granular data reveals a somewhat more constructive backdrop in terms of recent deal volumes (Exhibit 4). We expect this pattern to gain additional momentum in 2H2025, as corporate management teams are likely to pursue their long-term strategic objectives, despite residual macroeconomic uncertainty. Key for corporate credit investors will be the funding mix of these deals. As Exhibit 5 illustrates, deals announced so far in 2025 have featured a somewhat less bondholder-friendly mix, with more cash-funded deals and fewer all-stock deals. We believe this likely reflects, in part, a sector skew of activity in favor of cash-rich industries and firms with ample balance sheet flexibility.

Exhibit 4: Strategic M&A volumes in 2Q2025 are in line with recent history

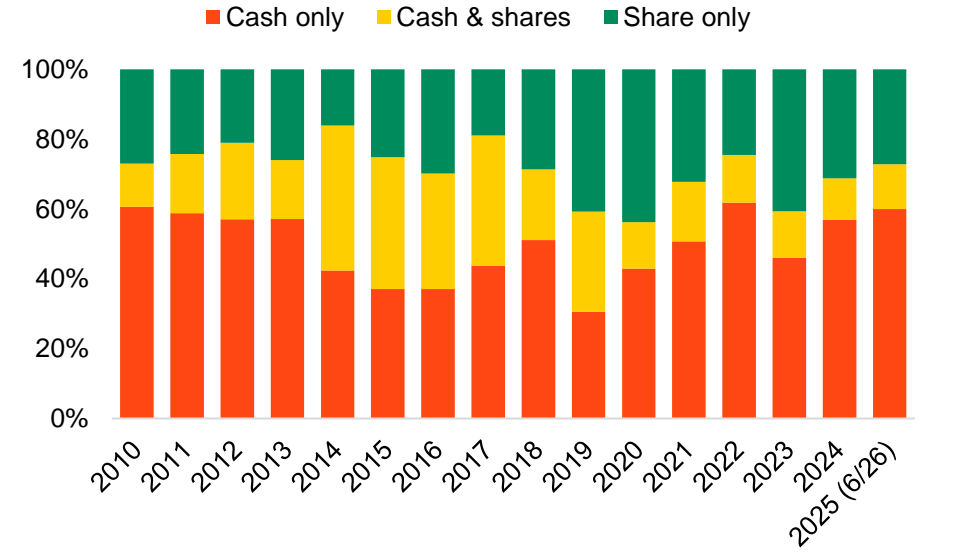
Announced strategic M&A volumes (\$ in billions), by acquirers based in North America and Europe, by quarter. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. 2Q2025 is as of June 26, 2025.

Exhibit 5: The 2025 funding mix has skewed toward ‘cash only’ deals

Funding mix of announced strategic M&A by North American and European acquirers. Captures deals valued at \$1 billion or more at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. 2025 is as of June 26, 2025.

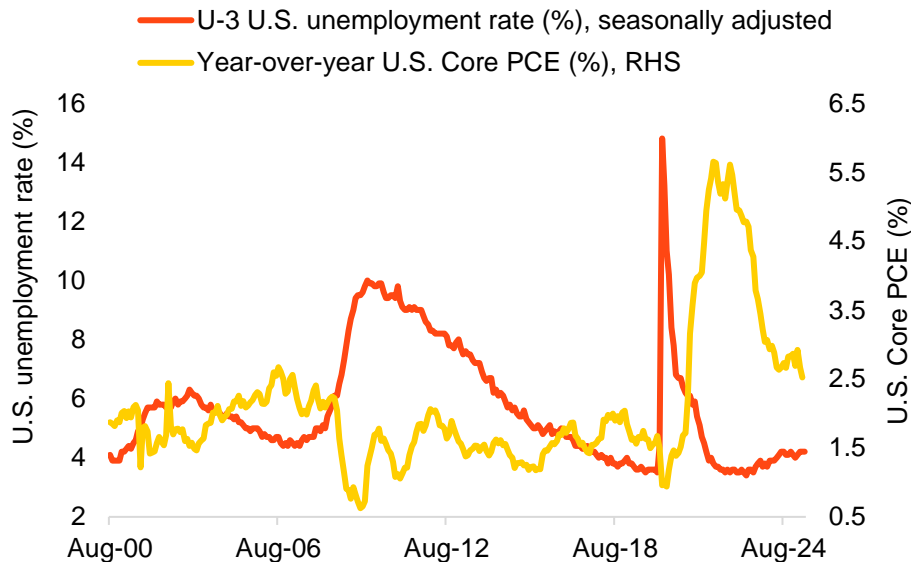
Potential tension in the dual mandate

Alongside a somewhat more challenging growth-inflation mix, we also see limited prospects for preemptive rate cuts from the Federal Reserve (Fed) in 3Q2025. Indeed, Fed Chair Jerome Powell reiterated a wait-and-see approach at the [June FOMC press conference](#), as well as during his [testimony](#) to Congress in late June. The messaging was underpinned : (1) an expectation for “a meaningful amount of inflation to arrive in coming months,” and (2) a view that the labor market is broadly in balance after some “slow continued cooling,” with the unemployment rate of 4.2% (as of May) modest by historical standards.

Chair Powell [noted](#) that “increases in tariffs this year are likely to push up prices and weigh on economic activity.” He added: “The effects on inflation could be short-lived – reflecting a one-time shift in the price level. It is also possible that the inflationary effects could instead be more persistent,” depending on the size and timing of the pass-through to prices, and on whether longer-term inflation expectations are well anchored. If faced with a “challenging scenario” where the Fed’s dual-mandate goals (of maximum employment and price stability) are in tension, he said the FOMC would consider how far the economy is from each goal, and the time horizons over which those respective gaps would be anticipated to close.

Exhibit 6: Monitoring the dual mandate...

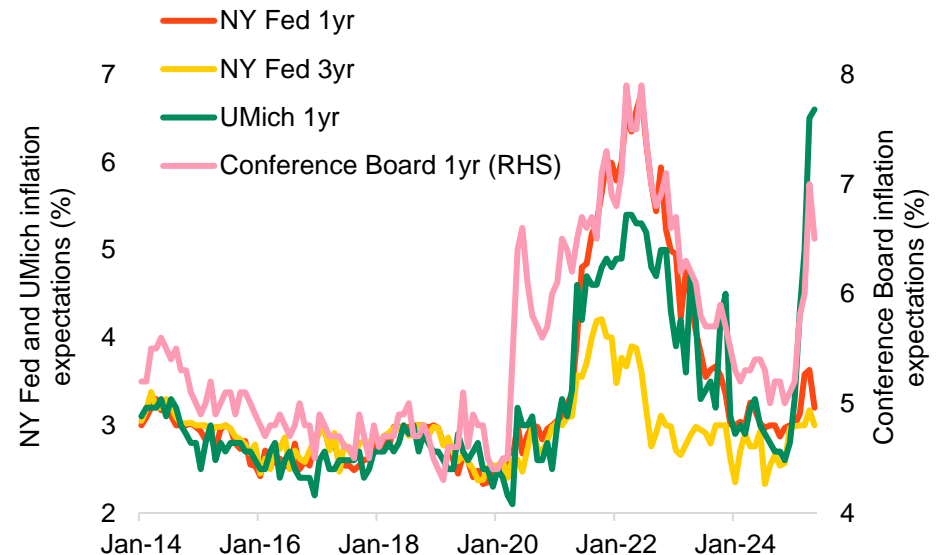
U-3 U.S. unemployment rate (%) seasonally adjusted, and year-over-year U.S. Core PCE inflation (%) seasonally adjusted, RHS



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, BlackRock. Captures data through May 31, 2025 (Unemployment) and April 30, 2025 (PCE), most recent available as of June 26, 2025.

Exhibit 7: ...and long-term 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. All data as of May 31, 2025.

Liquid credit: focus on yield

Comfortable *selectively* moving down in credit quality

The spread vs. yield ‘tug of war’ persists

The macroeconomic backdrop outlined earlier has two implications for corporate credit investors: (1) corporate borrowers will likely need to navigate a structurally high cost of capital environment (as they have been doing in 1H2025), and (2) the all-in yield characteristics of corporate credit are likely to remain attractive by historical standards, boosted by the elevated risk-free rate (Exhibit 9).

Indeed, we are emphasizing the carry and income aspects of corporate credit in this environment. By contrast, we see more limited scope for a potential total return ‘boost’ from lower interest rates or tighter spreads, which have often been drivers of total returns in fixed rate corporate credit.

While we see limited scope for absolute spread tightening from current levels (given the valuations shown in Exhibit 8), we also believe the bar for a sustained widening in credit spreads is rather high. Indeed, episodes of spread widening in 2H2024 and 1H2025 have proved short-lived, which we believe is reflective of investors (especially yield-focused ones) using those opportunities to deploy capital.

Exhibit 8: Spreads are tight vs. history...

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

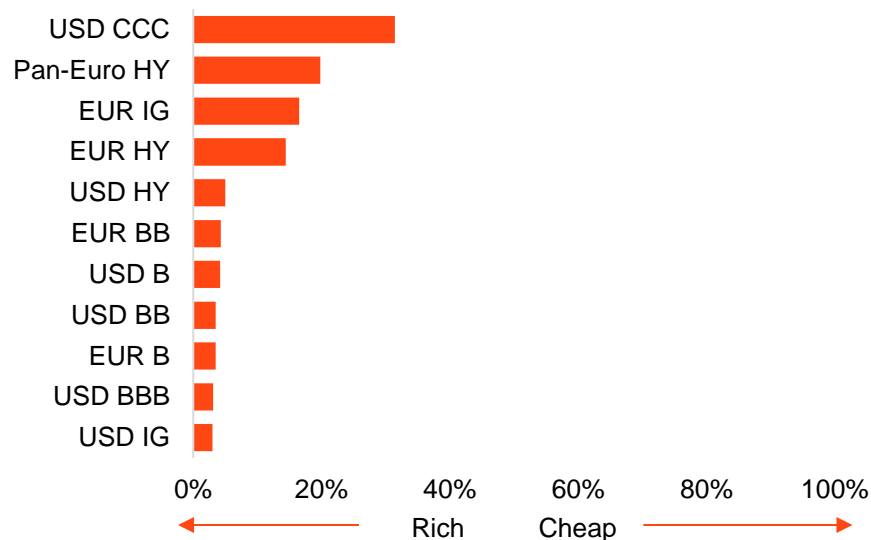
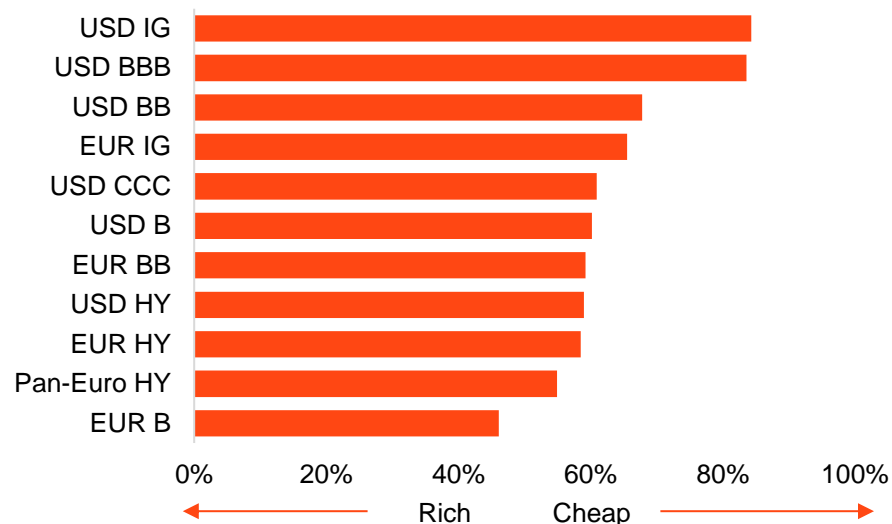


Exhibit 9: ...while all-in yields screen attractive

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 June 25, 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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Selectively move down in credit quality

While we are expecting a more challenging growth-inflation mix and an eventual ‘catch down’ of the hard economic data to the soft (survey-based) indicators, the magnitude and timing remain highly uncertain. Importantly, this does not automatically equate to a broad ‘risk-off’ posture, in our view. As we first outlined in late April, we are still comfortable selectively moving down in credit quality – to capture additional spread premium in pockets of the market we view as fundamentally solid. Indeed, the relative resilience of certain subsets of the lower-rated credit universe has persisted (Exhibits 10 and 11).

That said, the very lowest quality portions of the market – which have already been under fundamental pressure prior to any deterioration in the economic data – are likely to face increased headwinds over the next few quarters. This is consistent with the theme of issuer and sector-level dispersion that we highlighted in our 2Q2025 Global Credit Quarterly and is evident across a range of metrics that we track. For corporate credit investors, this underscores the importance of ‘back to basics’ credit analysis, in our view.

Exhibit 10: The high-end of HY has been resilient vs. its higher-rated peer group

Year-to-date total returns (%) for various USD corporate credit indices

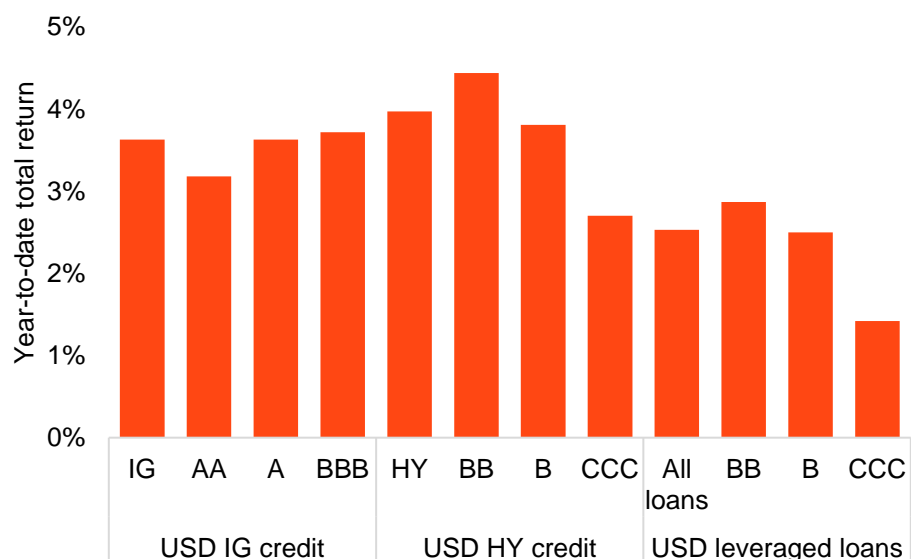
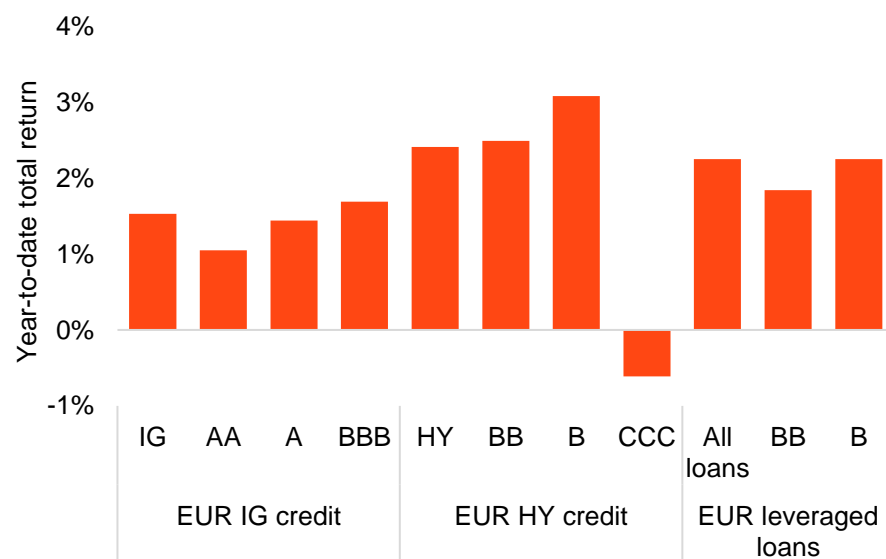


Exhibit 11: EUR HY has also outpaced EUR IG on a total return basis

Year-to-date total returns (%) for various EUR corporate credit indices



Source for both charts: Bloomberg, Pitchbook LCD, BlackRock. As of June 25, 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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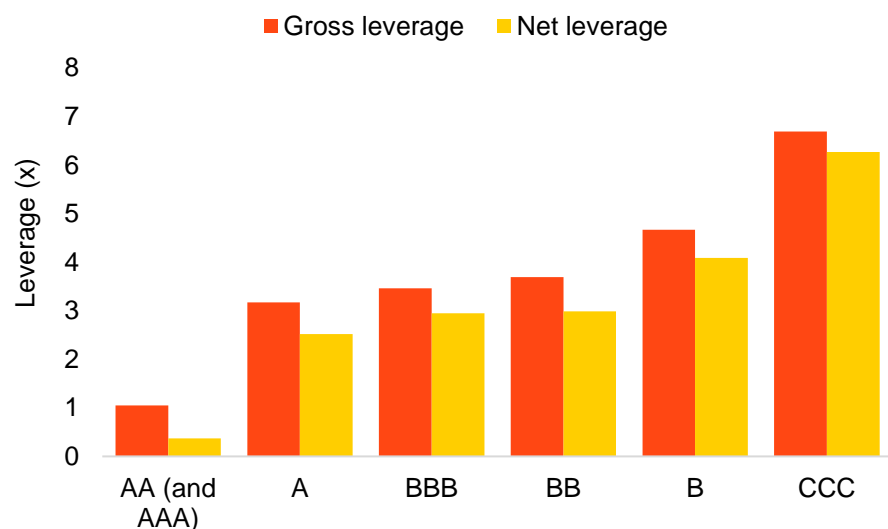
‘Back to basics’ on credit fundamentals

Importantly, in our view, moving down in credit rating (a generic barometer for quality) does not mean compromising on fundamental credit strength. For example, the USD BBB cohort traded at an average OAS of 105bp, compared to 73bp for its USD A peer group (as of June 25th). There are only modest differences in key credit fundamentals between the two groups (Exhibits 12 and 13). 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, we are mindful of the so-called ‘left tail’ cohorts of the market, which *already* have weak credit metrics (*prior* to any visible, material downturn in U.S. economic activity). One example of this is the CCC universe in USD HY, where trimmed mean interest coverage is 1.0x (implying a very minimal cushion to service debt; again, Exhibit 13). While a highly idiosyncratic group, we would need to have more confidence in the U.S. growth outlook before becoming constructive on the risk-reward in this cohort.

Exhibit 12: Leverage for BBBs and BBs is modest

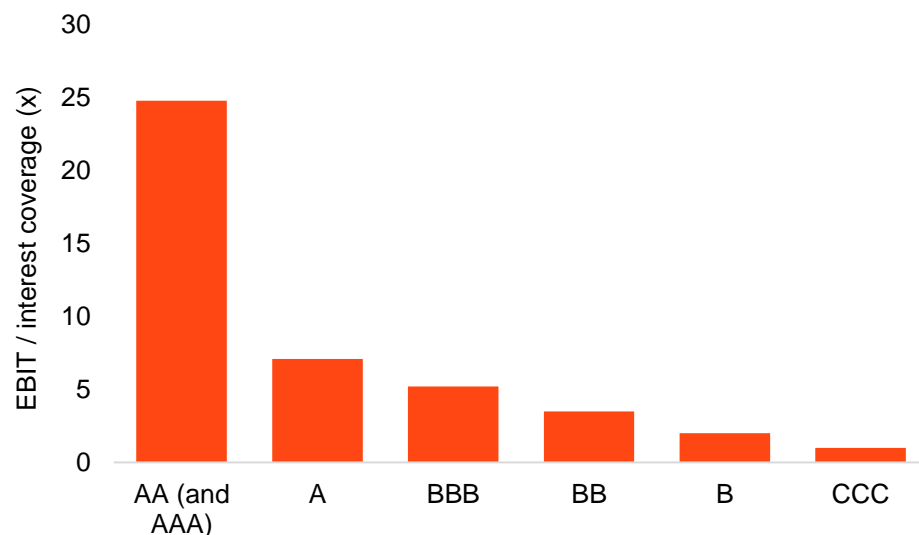
Trimmed mean (excludes top / bottom 10%) leverage metrics, for the last twelve months ended 1Q2025. Captures issuers in the Bloomberg USD IG and HY Corporate indices.



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 1Q2025 (most recent available as of June 26, 2025).

Exhibit 13: Coverage varies significantly, however

Trimmed mean (excludes top / bottom 10%) interest coverage metrics, for the last twelve months ended 1Q2025. Captures issuers in the Bloomberg USD IG and HY Corporate indices.



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 1Q2025 (most recent available as of June 26, 2025).

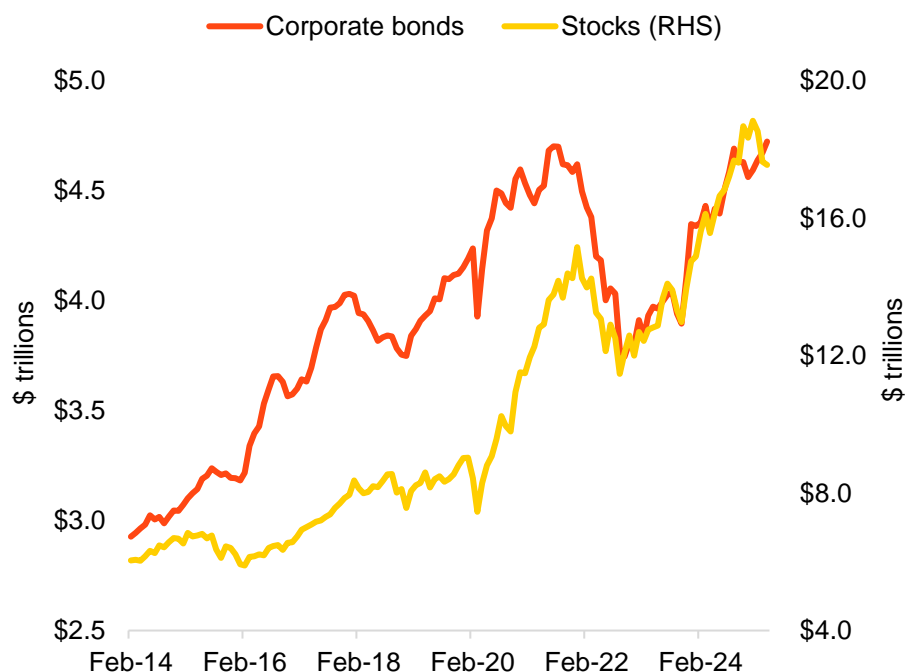
A focus on foreign demand for USD credit

As our colleagues in the *BlackRock Investment Institute* recently highlighted, the transformation in the global economy – across a variety of ‘mega forces’ – is being accelerated. Related to this, corporate credit market participants have been increasingly focused on the potential benefits of geographical diversification as these structural shifts unfold.

We expect a key focus area for corporate credit investors in 3Q2025 will be the appetite of foreign investors for USD corporate credit. Indeed, 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. Per data from the Federal Reserve, foreign investors own more than 25% of the USD corporate bond market (Exhibit 15).

Exhibit 14: Foreign holdings of U.S. bonds and stocks have grown in recent years

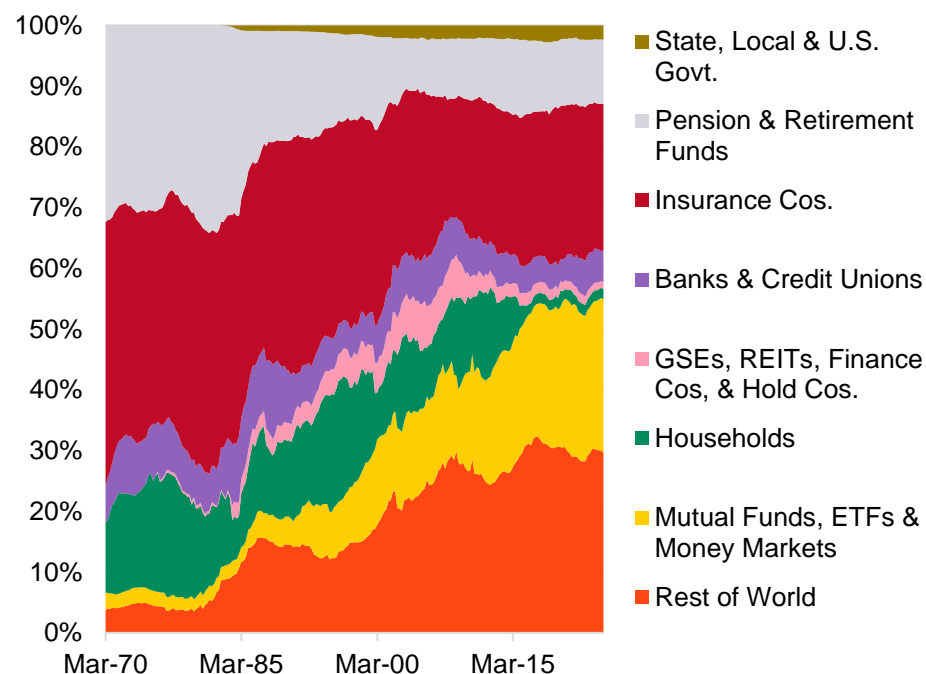
Foreign portfolio holdings of U.S. securities



Source: Department of the Treasury, Haver Analytics, BlackRock. As of April 30, 2025 (most recent available as of June 25, 2025).

Exhibit 15: 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 1Q2025 (most recent available as of June 25, 2025).

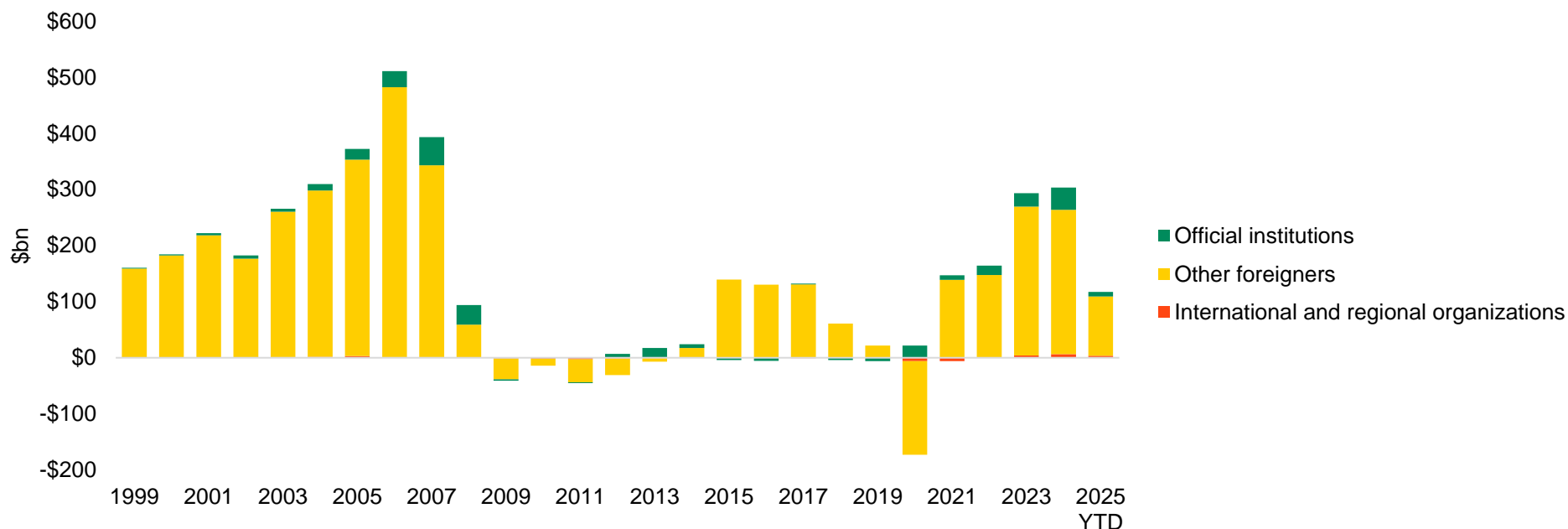
We see scope for marginal shifts

As we highlighted earlier this year, some market participants have questioned whether foreign investors' demand for USD corporate credit could wane. The potential drivers cited are multi-faceted and range from concerns about fading 'U.S. exceptionalism,' to optimism around fiscal spending (and growth) in Europe, to the return of yield support in the Euro Area (which endured years of *negative* rates, in the past).

The theme warrants monitoring, in our view, as foreign investors' appetite for USD corporate credit has been a technical demand tailwind in recent years, serving as an important buyer base for U.S. risk assets, as shown in Exhibit 14. But rather than expecting a large-scale reallocation across regions, we instead see scope for the *marginal* dollar to be redeployed outside of the U.S., to capture some of the structural shifts occurring across the globe. Indeed, we expect foreign-based demand for corporate credit to remain robust due to the structural characteristics inherent in the USD IG market, such as its size, breadth, and depth. Further validating this view is recent data from the U.S. Treasury International Capital (TIC) System, which shows that foreigners net *purchased* more than \$18 billion of USD corporate debt in the month of April 2025 (the most recent data point available, given the six-week lag). Year-to-date net purchases stand at \$117 billion (Exhibit 16).

Exhibit 16: The tailwind from foreign demand has moderated in 2025, but it hasn't disappeared

Net annual sales of USD corporate bonds to foreigners, by type



Source: U.S. Treasury, Haver Analytics, BlackRock. Captures annual data through year-end 2024. Year-to-date 2025 is as of April 30, 2025 (most recent as of June 25, 2025).

Private credit

Structural growth tailwinds intact; keeping a close eye on fundamentals

Private credit's expanding markets

Amidst a backdrop of volatility and uncertainty across markets, private credit's four structural growth drivers remain intact: (1) investors' desire for diversification and income, (2) borrowers' desire for certainty of execution, (3) structural shifts in the public debt and equity markets, and (4) an evolution in the bank lending system to a more 'product agnostic' approach (and in some instances and market environments, more selective lending).

We see scope for private credit AUM to reach \$4.5 trillion by 2030, an above consensus forecast (Exhibit 17). Notably, this forecast includes the 'traditional' universe of private credit AUM and does not include lending to investment-grade firms, or private asset-based finance – which we view as clear avenues of expansion for the asset class, as the 'definition' of private credit has broadened in recent years to include a wider range of lending.

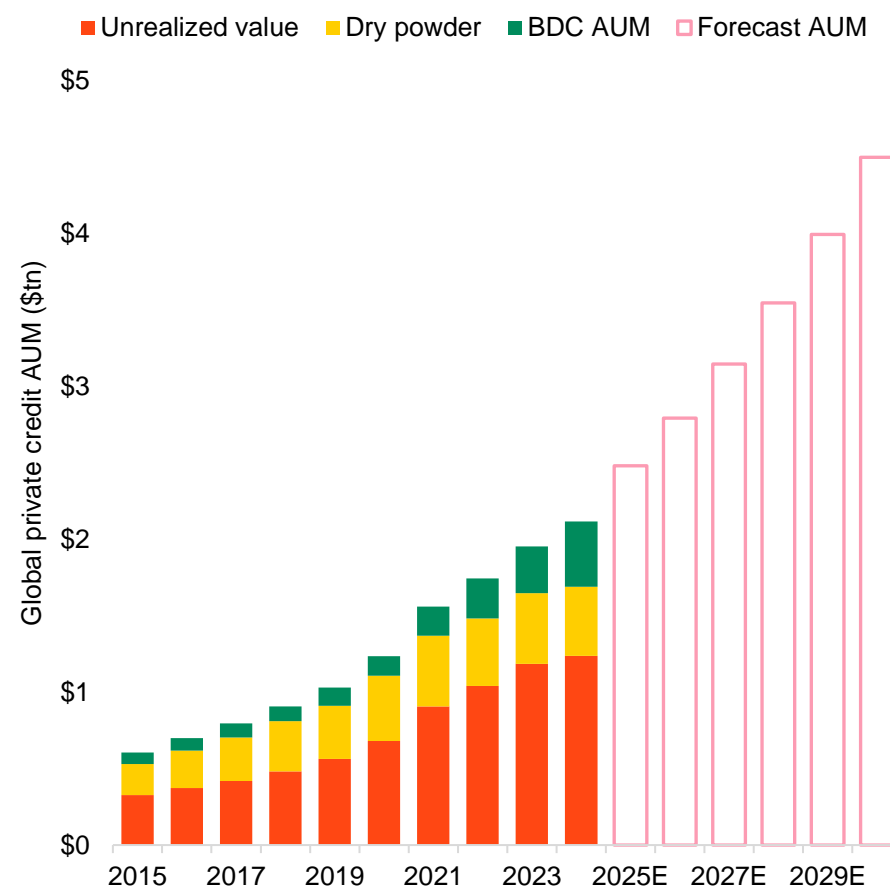
This has resulted in an expanding addressable market of investors and borrowers. Indeed, private credit has evolved from an asset class that was best placed to accommodate niche financing solutions, or lending to smaller, middle-market borrowers, to a sizable, scalable, stand-alone asset class.

A notable consequence of this expansion, in our view, is that private credit can now reach areas where it previously could not – including financing larger borrowers, such as those with demonstrated access to the liquid (public) debt markets.

Further, market volatility in recent years – and especially in recent months – has highlighted the value of the certainty of execution that private credit can provide. This is largely a function of long-term relationships between borrowers and lenders, as well as patient capital.

Exhibit 17: 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 September 2024 (Preqin, most recent available as of June 26, 2025). 2025E to 2030E are BlackRock estimates.

There is no guarantee any forecasts may come to pass.

Companies are staying private for longer

And while volatility has moderated somewhat in recent weeks, we believe this overhang will likely remain a key consideration for borrowers as they evaluate financing options – especially for long-term capital expenditures or acquisitions. Indeed, past volatility may act as a tailwind in further broadening the addressable market of borrowers accessing private credit for financing.

The private credit market's ability to provide financing during a wide range of market environments is especially relevant given the magnitude of private companies.

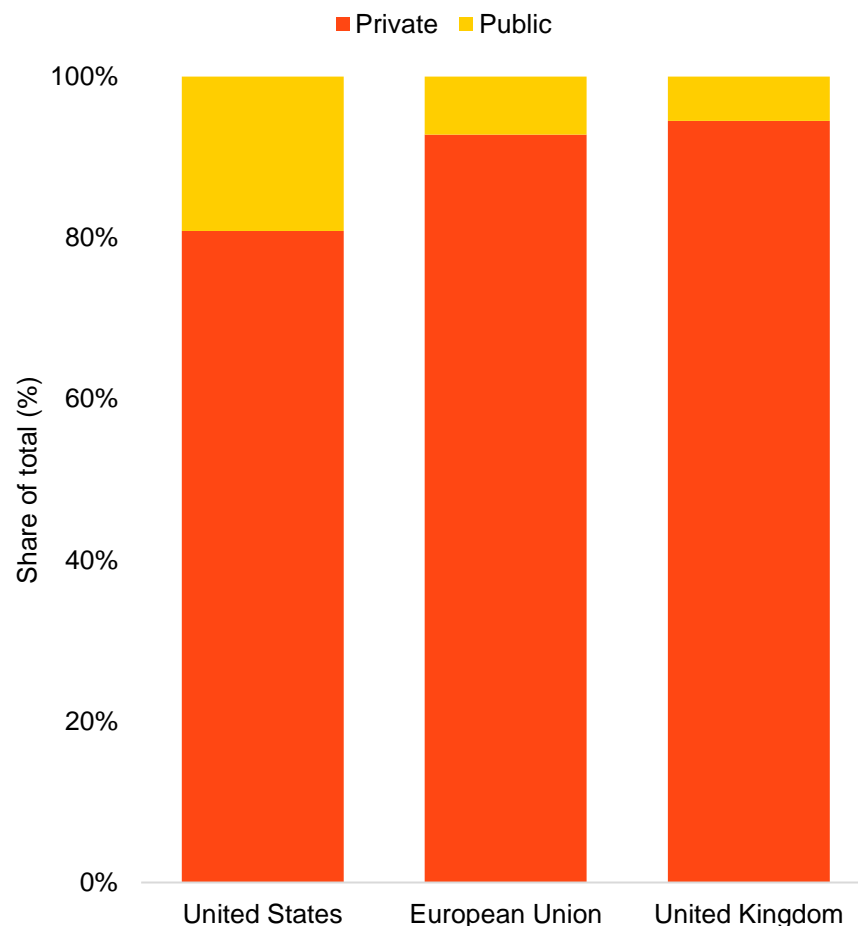
For example, in the U.S., 81% of companies with \$100 million or more in revenue are private, according to data sourced from S&P Capital IQ (Exhibit 18). The share of private firms is even higher in the European Union and the United Kingdom – at 93% and 94%, respectively.

And as Exhibits 19 and 20 illustrate, the average deal sizes (for new issues) in the publicly traded corporate credit markets are substantial – suggesting a high barrier to entry if a firm wants a new financing to be index eligible and liquid in the secondary market. To put some of these figures in context: since 2020, the average deal size in the USD HY bond primary market is \$730 million, per data compiled from Dealogic. In the EUR HY bond market, it is €421 million.

And in the USD leveraged loan market, the average deal size for new USD institutional loans (excluding repricings) is \$714 million. It is even larger when including repricings. And in the EUR leveraged loan market, the average deal size (again, excluding repricings) is €592 million.

Exhibit 18: Most companies are private

Distribution of public vs. private companies in each region (for firms with last twelve months revenue greater than or equal to \$100 million, or equivalent)



Source: S&P Capital IQ, BlackRock. As of May 14, 2025.

Larger deal sizes in public debt markets

In our view, the drivers of larger new issue sizes are two-fold. First, we believe companies are waiting longer to tap public financing sources, given the ample financing available in private markets (as the AUM of the asset class has grown). Second, we believe the ‘upper limit’ of debt leverage within the investment grade rating spectrum has increased since the financial crisis. For example, using data compiled by Bloomberg Intelligence, median net leverage (i.e., net debt / EBITDA) for the universe of USD IG borrowers increased from 1.73x in 1Q2010 to 2.54x as of 1Q2025.

Exhibit 19: The average deal size in the USD HY market is \$730 million since 2020

Average deal sizes for USD new issues (\$ in millions)

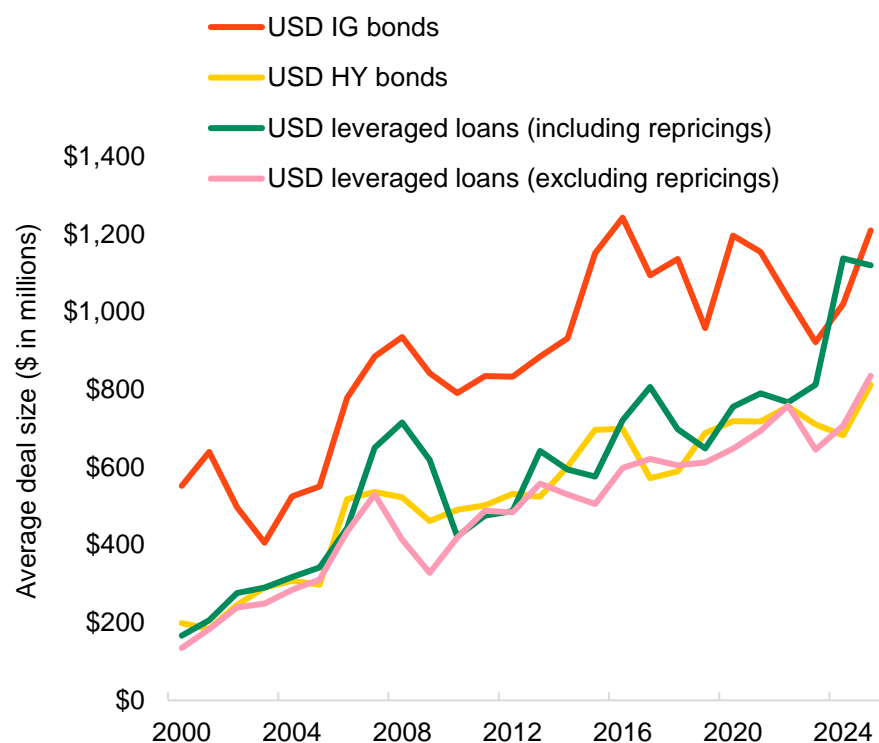
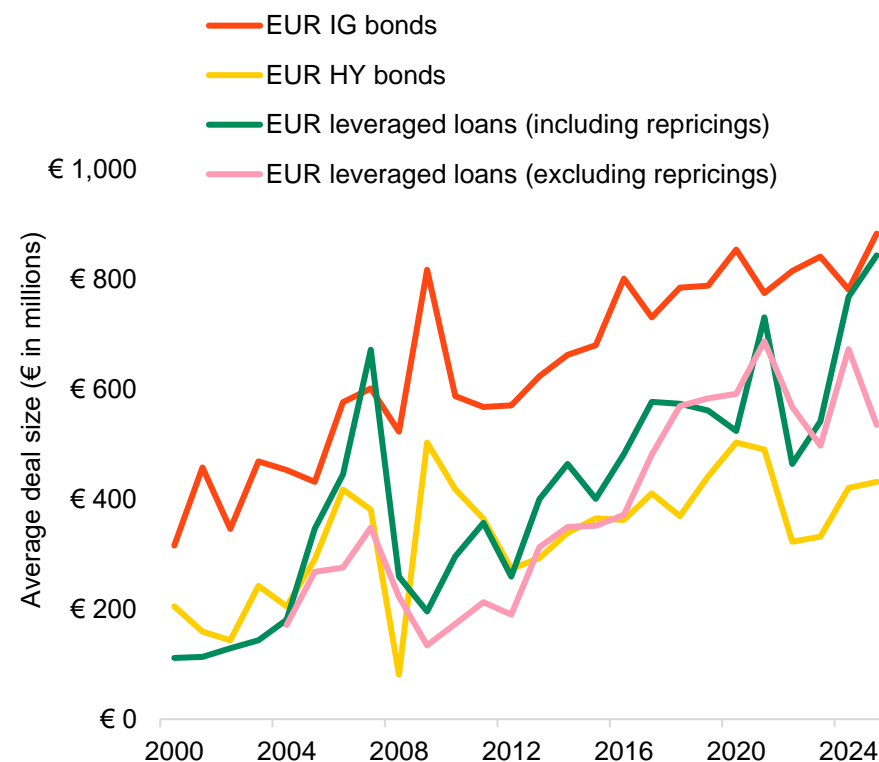


Exhibit 20: Average deal sizes in the EUR market are also sizable

Average deal sizes for EUR new issues (€ in millions)



For both charts: Source: Dealogic (ION Analytics), Pitchbook LCD, BlackRock. Captures issuance through year-end 2024, and as of June 10, 2025. For loans, we capture institutional issuance only (and exclude pro-rata). USD IG and EUR IG exclude preferred stock and medium-term notes.

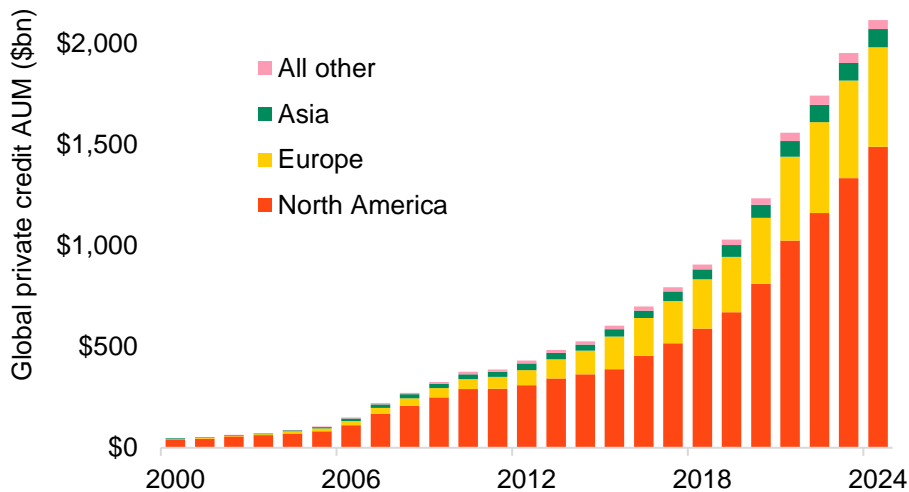
Regional expansion in private credit

As we outlined in [September](#), we see scope for additional growth in *global* private credit AUM (Exhibit 21). Within Europe specifically, we believe recent [fiscal](#) policy proposals and ambitions of a more robust [Capital Markets Union](#) could increase the addressable opportunity for private credit in the years ahead. Our conversations with investors also reflect a recognition of the potential benefits of geographical diversification, which may play a role in private credit’s growth in other regions *alongside* North America.

As one example: as Europe’s private credit market continues to grow, we [expect](#) its addressable market of borrowers will expand to reach areas it previously couldn’t. This may include some larger firms which have historically financed themselves in the liquid credit markets. This pattern is captured in the deal size distribution of European private credit transactions, which has featured larger deals in recent years (Exhibit 22). The European private credit market cannot be painted with a broad brush, however. The most prominent reason for this lies in the heterogeneous [mix of country exposures](#) across the market – each of which carry their own nuances and competitive landscapes. This underscores the importance of regional expertise, in our view.

Exhibit 21: We see scope for the private credit market to expand further in Europe

Total global private credit AUM by region, in \$ billions



Source: Preqin, Cliffwater, BlackRock. As of September 30, 2024 (most recent available as of June 27, 2025). North America includes BDC data, which is as of December 31, 2024. Excludes Real Estate and Infrastructure lending. “All other” includes Latin America / Caribbean, Africa, Australia / New Zealand, Middle East & Israel, and Diversified / Multi-Regional.

Exhibit 22: Larger European private credit deals have become more common in recent years

Deal size distribution of European direct lending deals, by count



Source: Pitchbook LCD, BlackRock. Captures data through March 31, 2025. Analysis based on transactions covered by LCD News; share calculated based on deals where size information is disclosed.

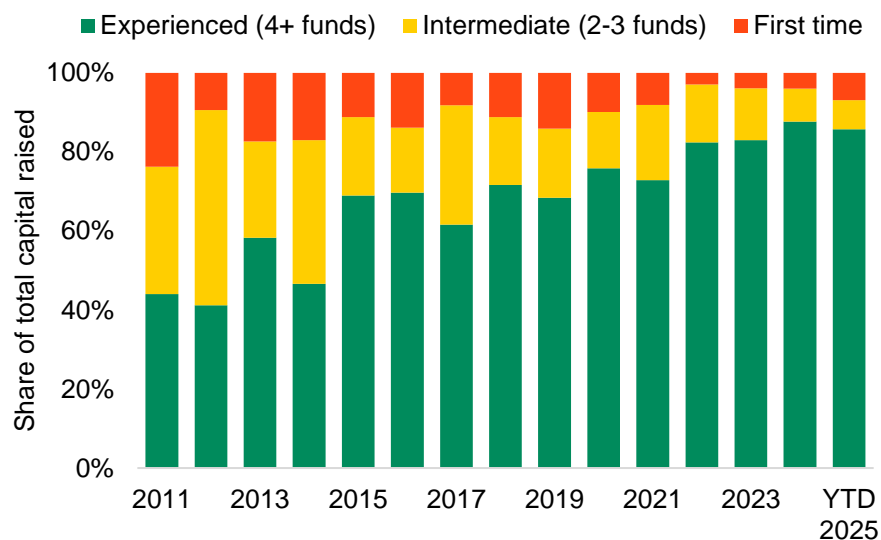
Manager consolidation influences fund sizes

As interest rates have increased since 2022, fundraising has shifted even more to favor the most experienced managers (Exhibit 23), as allocators have likely become more selective in where they allocate capital. Scaled managers, who are often also experienced managers (defined by Preqin as those with four or more private credit funds), tend to benefit from some combination of: an enduring performance track record, more robust origination capabilities, operational expertise and efficiencies, incumbent portfolios, and/or in-house workout expertise. These benefits can also create barriers to entry for newer managers.

This shift has likely also impacted the current fundraising landscape, including what funds are coming to market and their fundraising targets. Exhibit 24 demonstrates how fund capital targets skew meaningfully toward the largest fund size cohort, with funds targeting more than \$1 billion representing nearly 70% of the total capital targeted. This indicates that the funds with the largest target fund size are seeking to raise a disproportionate amount of capital (versus their smaller peers). We expect these trends will remain in place throughout 2H2025, given the uncertain macroeconomic backdrop and the elevated interest rate environment.

Exhibit 23: Experienced managers have grown their share of total fundraising

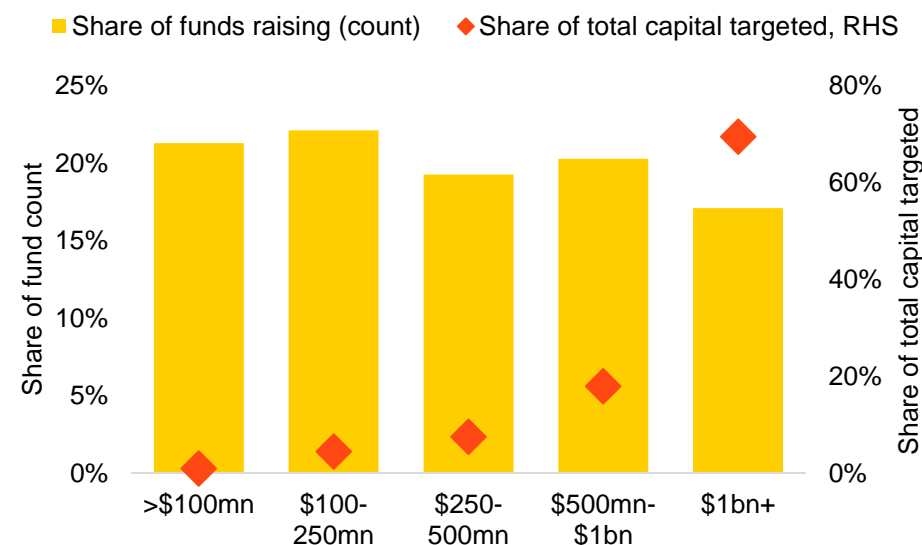
Share of total private credit capital raised by manager experience



Source: Preqin, BlackRock. YTD 2025 as of June 3, 2025. Captures closed-ended private credit funds.

Exhibit 24: Funds targeting \$1 billion or more represent 70% of the total capital targeted

Share of private credit funds in the market by target size, and by aggregate capital targeted, RHS



Source: Preqin, BlackRock. As of 1Q2025.

Larger fund sizes, fluidity across markets

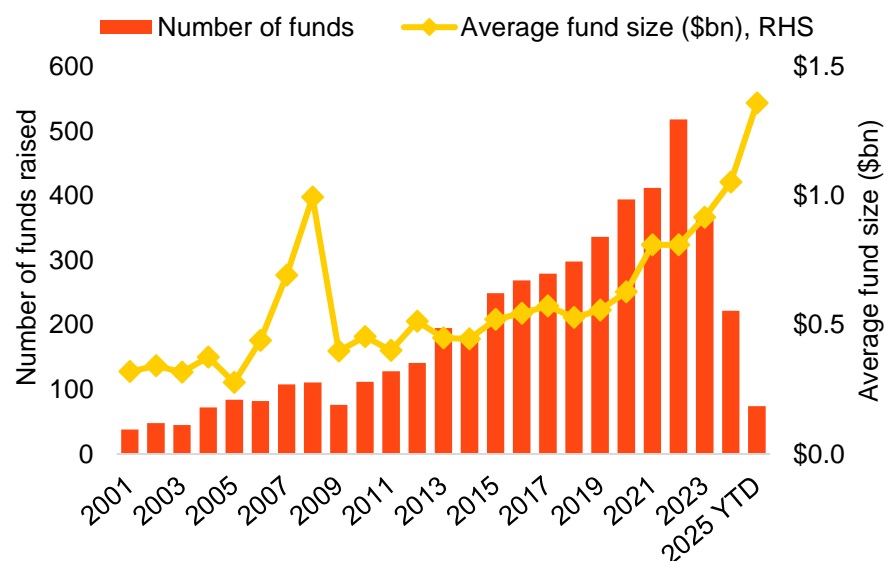
These fundraising preferences are, unsurprisingly, also evident in the growing average size of private credit funds closing each year (Exhibit 25). This trend directly informs the addressable market of borrowers that private credit can accommodate, because larger funds allow managers to write larger checks, without compromising portfolio diversification.

As such, private lenders have grown to finance larger borrowers, including those with *demonstrated* access to public debt markets. Exhibit 26 shows how refinancing activity between the two asset classes has shifted over time, supported by changes in market conditions and investor risk appetite. Notably, refinancing activity moves in both directions, including a nearly even split between the two markets in 2024.

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 potential for significant policy shifts. In past episodes of market volatility, private credit has shown an ability and willingness to step in and provide financing to a wide range of borrowers. With this in mind, we expect that volatility ahead may further support private credit's expansion by reinforcing one of its core value propositions, certainty of execution and pricing, relative to public markets.

Exhibit 25: 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 June 26, 2025. YTD2025 average fund size data may be skewed due to a small sample size.

Exhibit 26: 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. Data through May 21, 2025.

Increasing overlap with public debt markets

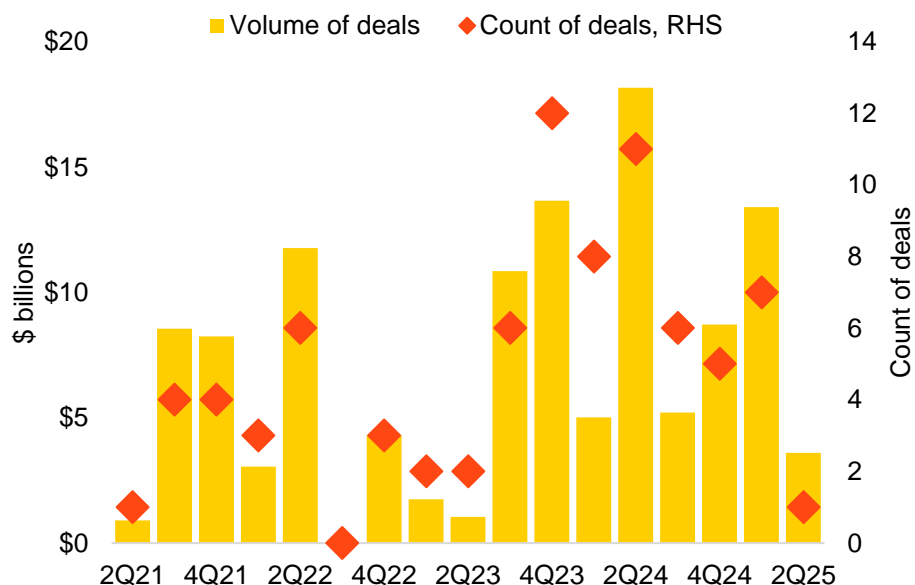
Exhibits 27 and 28 use data from KBRA DLD to demonstrate refinancing activity from the USD broadly syndicated loan market into the USD private credit market, characterized as private market ‘steals.’ (For context, KBRA DLD’s private debt dataset captures an aggregate value of \$787 billion in outstanding loans to U.S. PE-backed companies.) ‘Steal’ activity has amounted to \$17 billion year-to-date (as of June 9, 2025).

Notably, private market ‘steals’ skew towards smaller deal sizes, with 70% of the deal count attributed to deals less than \$2 billion (Exhibit 28). That said, ‘steals’ of larger deal sizes are becoming more common, supported in part by the continued growth of private credit fund sizes. We see scope for ‘steals’ activity to grow among larger borrowers, as the private credit asset class grows.

Related to this, we also see a use case for investment grade (IG)-rated borrowers to incorporate more private financing into their capital structures. We’ll discuss a driver of this on the next page.

Exhibit 27: The private market is refinancing syndicated loans

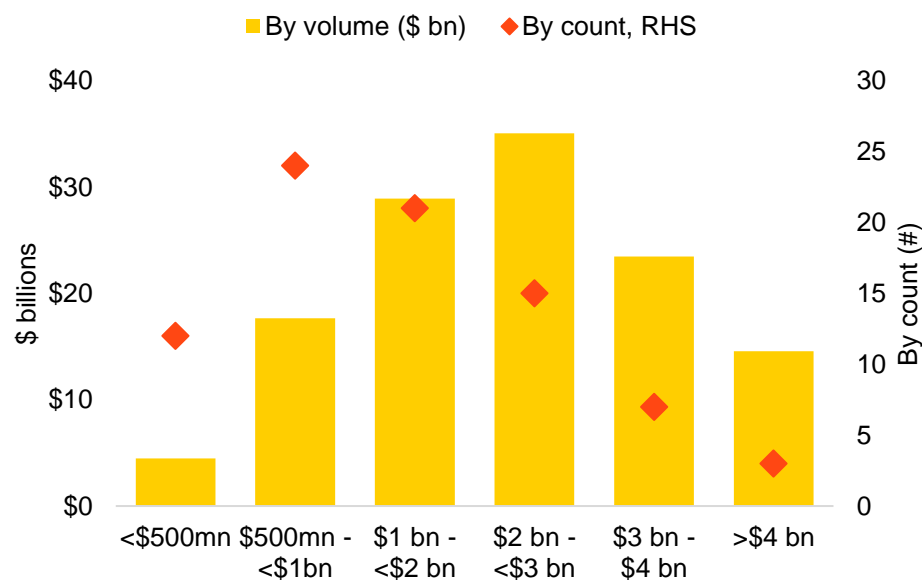
Private market ‘steals’: volume and count (RHS) of USD deals refinanced from syndicated loans into private credit, \$ in billions



Source: KBRA DLD, BlackRock. 2Q2025 as of June 9, 2025.

Exhibit 28: Private market ‘steals’ skew towards smaller deal sizes

Private market ‘steals’ (cumulative since Oct. 2019, as tracked by KBRA) by deal size, including total volume and count of deals, RHS



Source: KBRA DLD, BlackRock. As of June 9, 2025.

Private credit’s broadening investor base

Thus far, we’ve been focused on private credit’s expanding addressable market of borrowers. That said, private credit’s expanding addressable market of *investors* is also an important consideration. For example, our [2025 Global Family Office Report](#) showed that nearly one-third of family office survey respondents are planning to increase allocations to private credit over the next two years – the highest among all alternatives we surveyed.

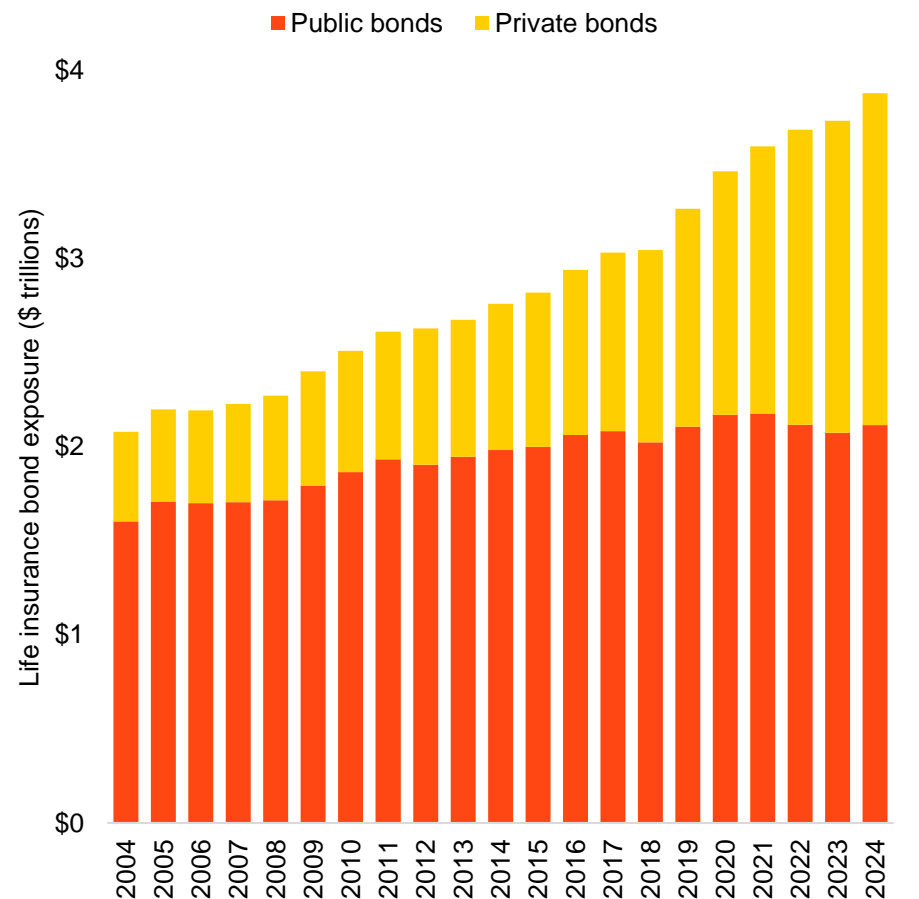
Insurers have also increased their private bond holdings over time (Exhibit 29). As we’ve previously [discussed](#), insurers are increasingly focused on generating ‘capital efficient yield.’ Life insurers’ [asset-liability matching](#) approach is well suited to deploy capital into less liquid assets, given the long-term nature of their liabilities (i.e., life insurance policies are paid years into the future).

Insurers can be subject to rating-related investment constraints, making IG ratings an important investment consideration. As such, insurance demand has naturally supported a broadening in private credit’s addressable market of borrowers, including to capture [select cohorts](#) of IG-rated corporate credit issuers. As we detailed in our [1Q2025 Global Credit Outlook](#), we see two instances when private credit can be an attractive partner to IG-rated firms: (1) for issuers that are approaching investors’ issuer concentration limits, and/or (2) for issuers reaching the “upper bound” for IG-rated leverage at the holding company level.

Relatedly, private equity (PE) [ownership](#) of insurers has increasingly supported a growing allocation to private credit, in our view. Asset managers are increasingly seeking ownership of more permanent capital sources, including life insurers, for example. As of year-end 2023, PE-owned insurers’ total cash and invested assets of \$605.7 billion represented 7.1% of the \$8.5 trillion U.S. insurance industry – a relatively modest figure in aggregate, per the NAIC.

Exhibit 29: Life insurance exposure to private bonds has grown over time

U.S. life insurance industry bond exposure (\$ trillions), by type from 2004 to 2023



Source: Capital IQ, BlackRock. As of year-end 2024 (most recent available as of June 26, 2025). Private bonds are broadly [defined](#) as bonds that are privately placed, or those that are qualified for resale under SEC Rule 144A or are freely tradable under SEC Rule 144.

Fundamentals are (mostly) resilient

As we have outlined previously, we believe private credit borrowers' ability to navigate the sharp increase in interest rates in 2022 and 2023 was due, in large part, to the above trend pace of U.S. growth, which prevailed over the past several quarters.

Looking ahead to 2H2025, however, we expect corporate credit borrowers will be navigating a structurally higher cost of capital environment, amid a somewhat *less supportive* growth backdrop. This underscores the importance of monitoring real-time signals to track whether economic activity 'catches down' to the soft sentiment data.

With this in mind – and over the course of the following slides – we will take stock of a wide range of fundamental data, to assess the 'starting point' of credit strength for subsets of the asset class.

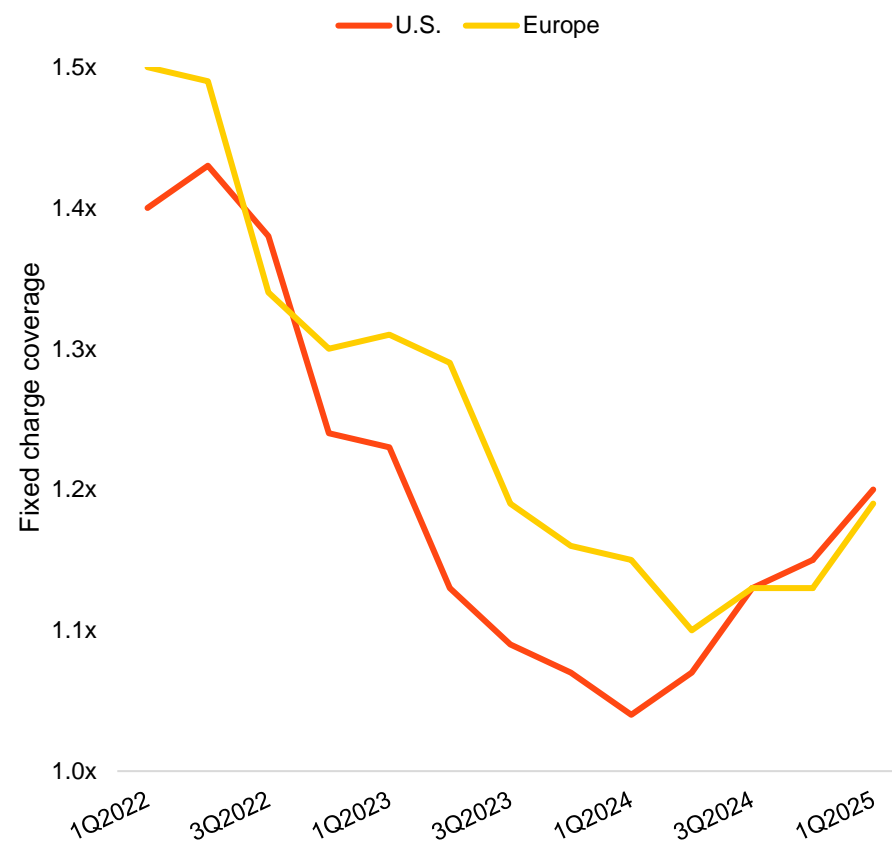
In short, the most recent data, which extends through 1Q2025, shows that a few private credit fundamental metrics have weakened somewhat, while most others have remained steady or even *improved*.

To start, we assess fixed charge coverage ratios for the Lincoln International Proprietary Private Markets Database, which captures over 6,000 portfolio companies across more than 200 financial sponsors. For context, the database captures roughly 30% of all U.S. private equity-backed companies.

Indeed, coverage ratios modestly improved across the Lincoln International universe of U.S. and European companies in 1Q2025 (Exhibit 30). This likely comes as a result of central bank rate cuts in both regions in 2H2024. We view improving fixed charge coverage as a positive signal for private credit borrowers. This metric will be important to watch, especially should the growth backdrop show signs of slowing meaningfully.

Exhibit 30: Interest coverage has improved

Size-weighted fixed charge coverage ratios for the universe of U.S. and European firms captured by Lincoln International



Source: Lincoln International Proprietary Private Market Database, BlackRock. Captures data as of 1Q2025. Calculation: $(\text{EBITDA} - \text{Taxes} - \text{Capex}) / (\text{Interest Expense} + 1\% \text{ Debt Balance})$. For U.S., respective SOFR rates represent a trailing 4 quarter average. For Europe, interest is calculated regardless of whether the company is making cash payments, using Payment-in-Kind (PIK) interest if cash interest is not being paid.

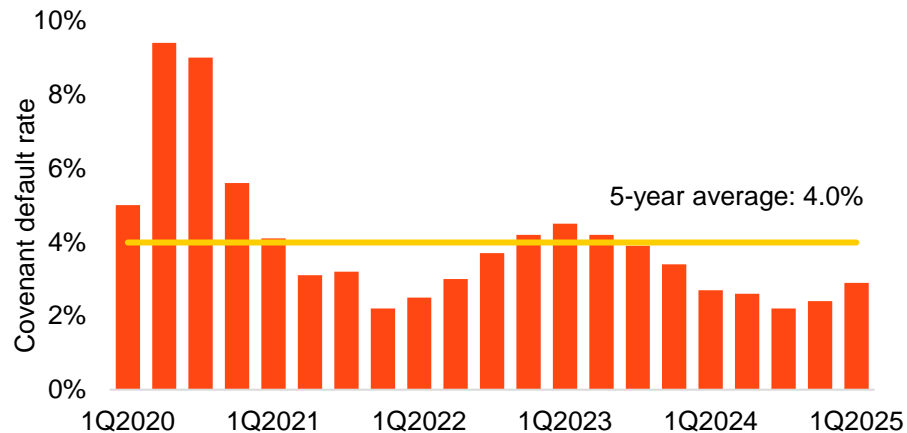
Defaults and non-accruals

Private credit covenant default rates have increased for the past two quarters, after six consecutive quarters of *decline*. While still tracking below the 5-year average of 4.0% (Exhibit 31), the recent uptick in the private credit covenant default rate warrants watching as it may suggest a waning in lenders' willingness to amend challenged loans in the months ahead. This may be informed by an expectation of a combination of a more challenging growth backdrop, policy uncertainty, and structurally higher interest rates.

Another fundamental indicator that we track closely is the non-accrual rate, which captures loans that are no longer current in paying interest income and would be considered in default. Data from the Cliffwater Direct Lending Index (CDLI), which is an asset-weighted index of approximately 19,000 directly originated U.S. middle market loans totaling \$465 billion, shows that non-accruals in private credit have been modest. As of 1Q2025, roughly 1.3% of the CDLI's loan value by cost was on non-accrual, suggesting \$5.9 billion in aggregate value (Exhibit 32). This represents a continuation of a low and range-bound level, with the share of loans on non-accrual hovering between 1% and 1.6% since 2022. This is also modest by historical standards, compared to a long-term average of 2.1%, and a peak of 6% in 2010. That said, as is often the case in private credit, there is considerable dispersion under the surface.

Exhibit 31: Both the covenant default rate...

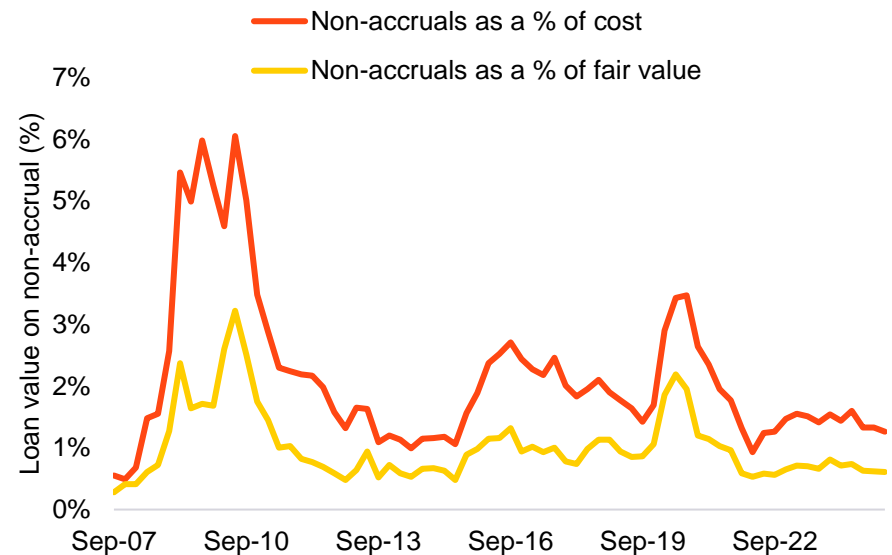
Size-weighted covenant default rate, and 5-year historical average, for the universe of U.S. firms captured by Lincoln International



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 1Q2025. 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 32: ...and non-accruals are below average

Non-accrual rates (as a percentage of cost and fair value) for the Cliffwater Direct Lending Index



Source: Cliffwater Direct Lending Index, BlackRock. As of 1Q2025.

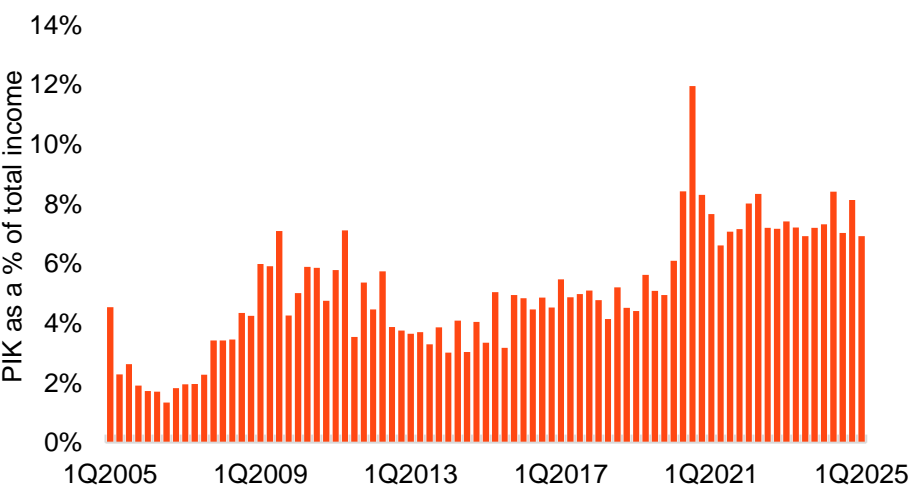
PIK utilization warrants watching

Payment-in-Kind (PIK) utilization represents another fundamental indicator of private credit borrower health. PIK reflects interest that is ‘paid’ in the form of additional non-cash principal, as opposed to cash interest income. As we’ve detailed [previously](#), there are two ways to track PIK: (1) the share of deals that include a PIK option and (2) PIK as a percentage of interest income. We view the second metric as more informative for credit deterioration, as it reflects liquidity management choices in times of stress. As shown in Exhibit 33, PIK as a share of interest income fell to 6.9% in 1Q2025, the lowest level seen since 3Q2023, but broadly in line with range-bound levels since late 2021.

An analysis from Lincoln International draws an important distinction between so-called ‘good PIK’ and ‘bad PIK.’ ‘Good PIK’ is defined as PIK included as an option for a borrower in the original credit documents. In this case, a PIK option may be included to ‘win’ a deal, generally signaling that the borrower is high-quality. By contrast, ‘bad PIK’ is PIK that is amended into a credit agreement after origination, likely because the borrower is experiencing (unanticipated) stress. Exhibit 34 demonstrates how ‘bad PIK’ has grown as a share of total PIK in recent years. Though the share has grown, levels of ‘bad PIK’ have remained considerably steady since 2023, suggesting that while this trend warrants watching, it does not necessarily indicate excess stress vs. 2023 and 2024.

Exhibit 33: PIK as a % of interest income fell the in first quarter

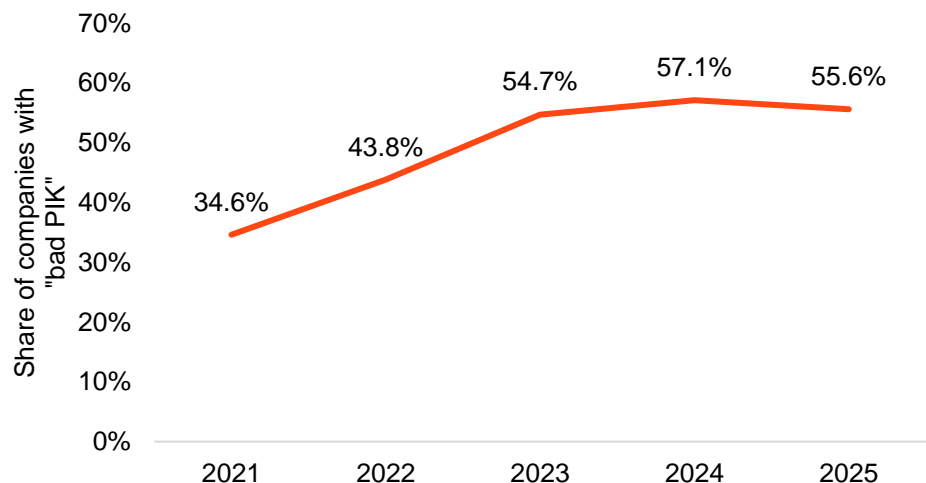
Payment-in-Kind (PIK) as a percentage of total interest income



Source: Cliffwater Direct Lending Index, BlackRock. As of March 31, 2025 (most recent available for CDLI).

Exhibit 34: The share of PIK added after deal close has been steady in recent years

Share of companies with Payment-in-Kind (PIK) interest currently, but did not have PIK at close (i.e., so-called ‘bad PIK’)



Source: Lincoln Proprietary Private Market Database, BlackRock. As of 1Q2025. ‘Bad PIK’ is defined as investments without PIK at close that have PIK now. © 2023 Lincoln Partners Advisors LLC. All rights reserved. Used with permission. Third-party use is at user’s own risk.

Dispersion is still a consideration

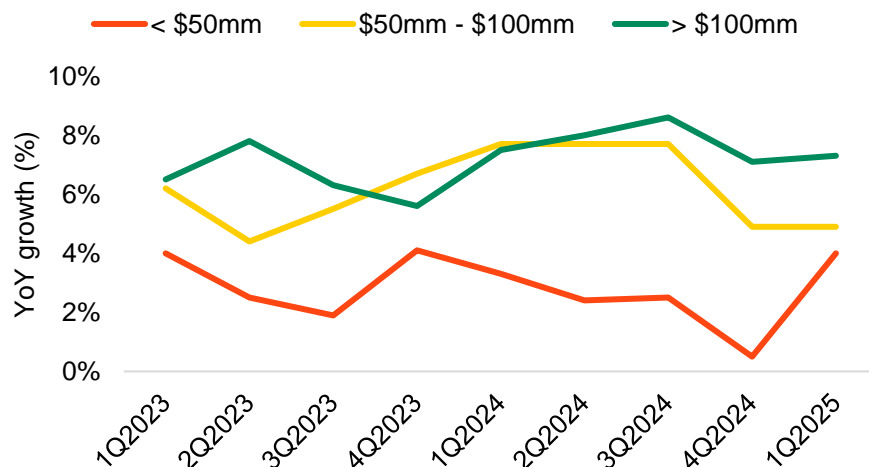
Even with a wide range of fundamental metrics at hand, the private credit asset class cannot be painted with a broad brush. Under the surface, there is a considerable amount of dispersion, similar to the trends we have observed across a range of other asset classes that we track. This underscores the importance of active credit selection, structural protections, and granular underwriting, in our view.

For example, Exhibit 35 demonstrates how year-over-year (YoY) LTM adjusted EBITDA growth has varied across company size cohorts. Those with EBITDA of \$100mm or more demonstrated the highest growth rate throughout the data set, though this varied over time. Generally, larger companies in the Lincoln International database have exhibited faster growth than smaller ones, supported by scale, operational efficiencies, diversification in their revenues, and flexibility in their capital structure, among other drivers. This trend of dispersion across borrower size is also evident in default rates.

Exhibit 36 shows how EBITDA growth has varied across (and within) different sectors, as well. Looking ahead to 2H2025, we believe sectors with exposure to certain key factors, such as international supply chains and discretionary consumer spending, will be important to monitor, given the lingering downside risks to global growth.

Exhibit 35: EBITDA growth has varied across buyer sizes, but typically favors larger borrowers

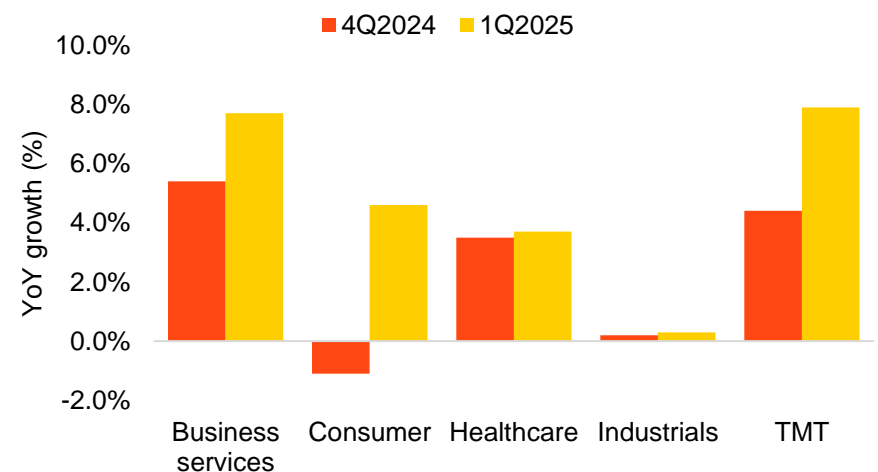
Year-over-year last-twelve-months' adjusted EBITDA growth, by company size (annual EBITDA)



For both charts: Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 1Q2025. © 2023 Lincoln Partners Advisors LLC. All rights reserved. Used with permission. Third-party use is at user's own risk.

Exhibit 36: There is meaningful dispersion between sectors

Year-over-year last-twelve-months' adjusted EBITDA growth, by industry



Progress on sponsored activity

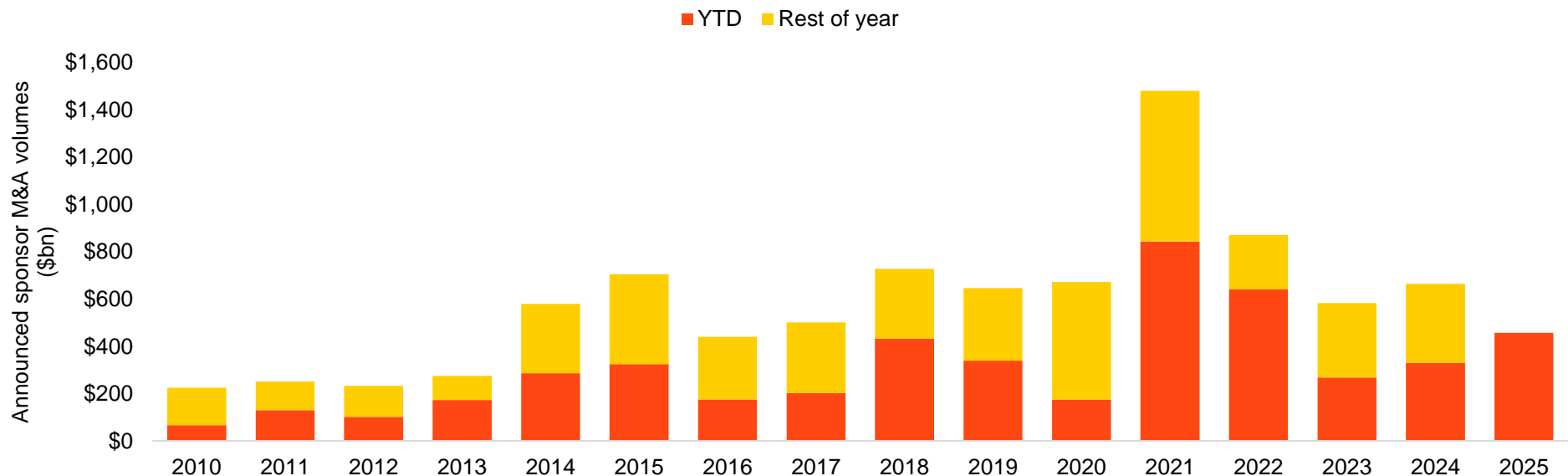
Coming into 2025, market participants were hopeful that PE exit activity would begin to accelerate. And while year-to-date volumes are tracking above 2023 and 2024 levels (Exhibit 37), a more detailed look into transaction activity reveals that sponsored M&A volume was boosted by a few large deals. For example, the five largest deals represented 23% of total YTD volume, according to data by Dealogic.

This is consistent with our belief that PE general partners are likely prioritizing ‘exiting’ their largest and highest-quality assets, given the market volatility. That said, anecdotally, some market participants expect a broader increase in PE exit activity in the near term. Investor commentary suggests that both PE investors and private credit lenders are motivated to understand what opportunities exist to access liquidity from PE-owned businesses, whether it be via an exit or a partial monetization.

While higher interest rates, intermittent concerns about a slowdown in global growth, and a wide ‘valuations expectations gap’ between buyers and sellers have likely weighed on financial sponsors’ ability to exit existing investments, we see incremental clarity on the macroeconomic and policy fronts, and the aging of PE inventory as factors that could support PE exit activity ahead, possibly as early as 2H2025.

Exhibit 37: Sponsor M&A makes directional progress toward recovery in 2025

Announced sponsor-related M&A volumes (\$ in billions), by acquirers based in North America or Europe. Captures deals valued at \$1 billion or more, at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics). Historical year-to-date periods are as of June 27 in each calendar year. As of June 27, 2025. A sponsor-related transaction is one that involves a financial sponsor as a buyer or a seller.

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Focusing on incremental improvements

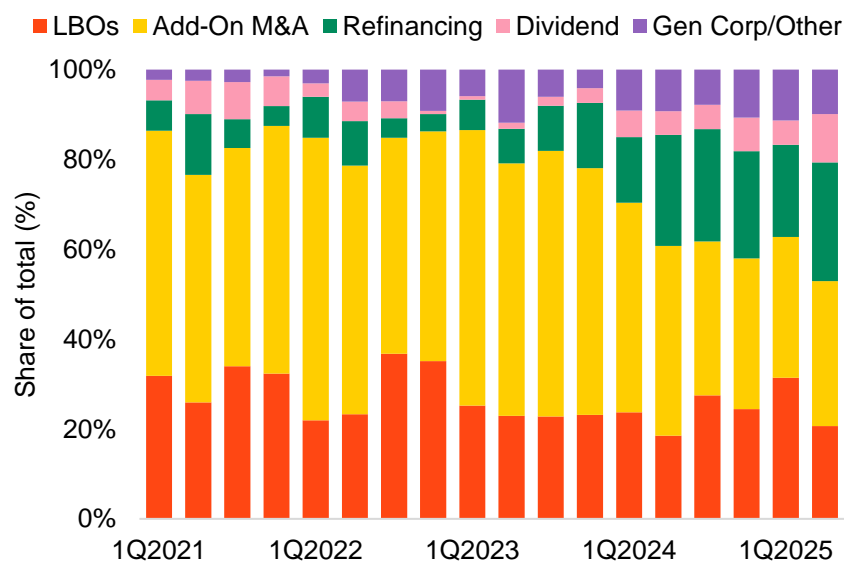
While managers await a more sustained improvement in the exit environment, they are working to build value in their existing portfolios through a combination of opportunities for growth, operational synergies, and improved financing terms.

Exhibit 38 uses data from KBRA DLD to demonstrate the share of sponsored direct lending transactions each quarter, by transaction type. (For context, KBRA DLD's private debt dataset captures an aggregate value of \$787 billion in outstanding loans to U.S. PE-backed companies). In recent quarters, refinancing has grown as a share of total activity, while the share of LBOs and add-on M&A has fallen. We generally expect this trend of heightened refinancing activity to continue in the near term, as sponsors seek incremental clarity on the macroeconomic backdrop, before taking decisive entry or exit actions.

Exhibit 39 isolates PE buyout activity, separating add-on and non-add-on activity. Add-on activity continues to represent a meaningful share of total PE buyout activity (70%+), by deal count. (Note: Exhibit 39 includes transactions across the PE universe, including those that accessed financing in the syndicated leveraged loan market). The perceived 'unfavorable' exit environment leaves add-on transactions, especially those with room for possible synergies, as a potential avenue to grow and diversify existing portfolio companies.

Exhibit 38: Refinancing gains traction

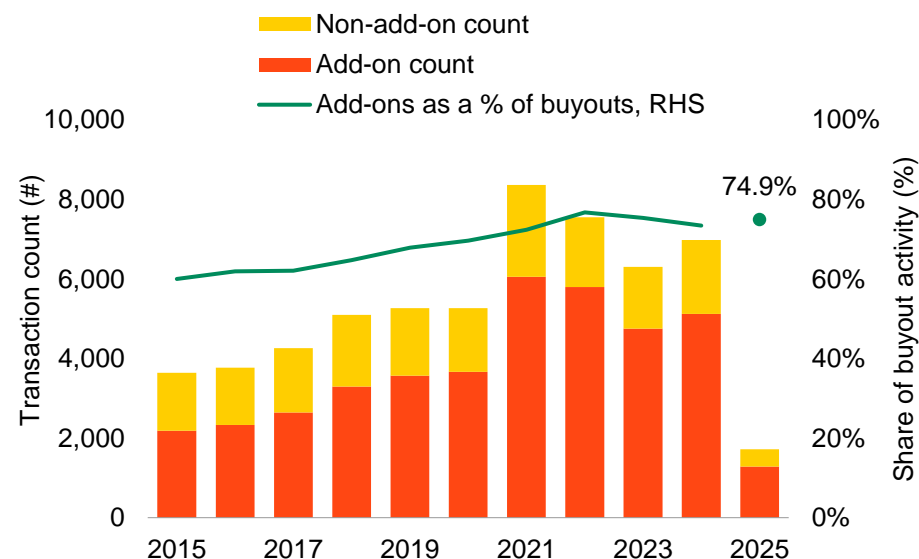
Share of total U.S. direct lending transaction count, by type



Source: KBRA DLD, BlackRock. 2Q2025 as of May 2025. KBRA DLD notes that most deals completed in April were already structured and approved in March.

Exhibit 39: 'Add-ons' remain a key area of focus

U.S. PE buyout activity (segmented as add-ons and non-add-ons), by count and as a share of all U.S. PE buyout activity, RHS



Source: Pitchbook LCD, BlackRock. 2025 as of 1Q2025.

Active ownership to build value

Like add-ons, active ownership represents another way sponsors may be able to increase value in their existing portfolio companies.

The higher interest rate environment makes multiple expansion more challenging (relative to the lower interest rate regime), underscoring the importance of value creation.

A January 2025 McKinsey [survey](#) of 333 private equity operating groups found that the average operating group across all fund sizes has more than doubled in the past three years. This underscores sponsors continued, and growing, participation in value creation, via portfolio operations teams.

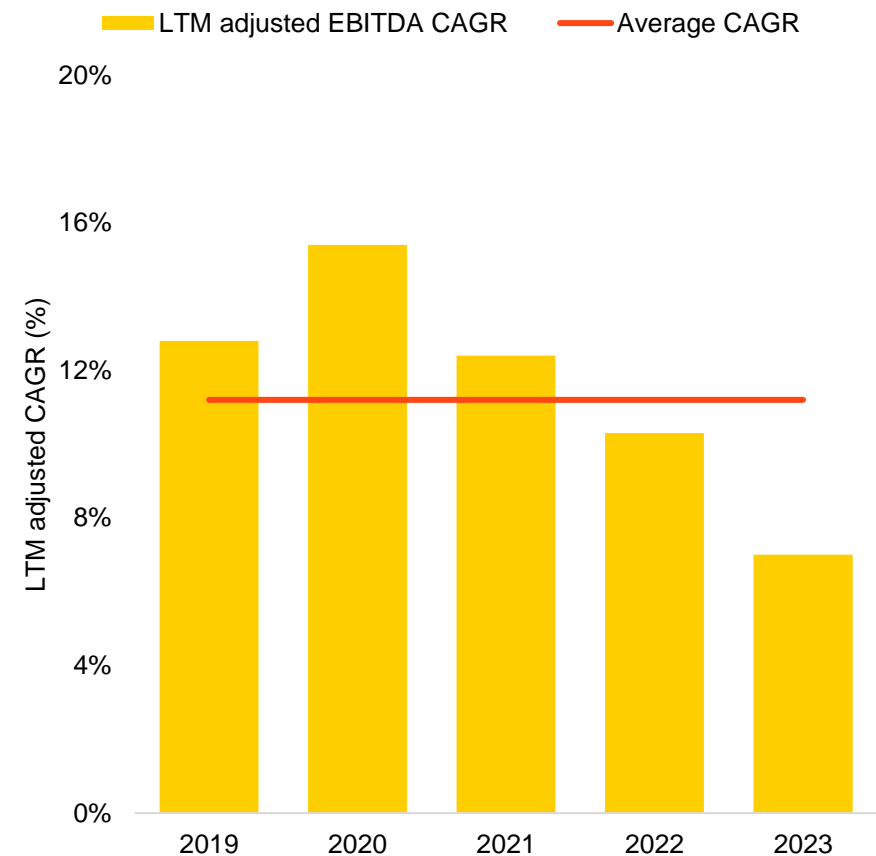
Related, Exhibit 40 demonstrates EBITDA growth across deal vintages. There are two notable takeaways, in our view. First, the average LTM adjusted EBITDA compound annual growth rate (CAGR) varies each vintage year, underscoring the trend of dispersion and the importance of vintage diversification in investing.

Second, growth for the 2019 – 2021 vintage deals has exceeded the average CAGR of 11.2%. In many cases, sponsors will change operational elements of a business during ownership, and the impact of such changes takes time to be realized. As such, we expect this outperformance of earlier funds may be due to a combination of drivers, *including* hold times.

Looking ahead, our expectation of a structurally higher interest rate backdrop suggests that such methods for increasing valuations will be critical to success in PE. We expect that continued value creation and aging of PE inventory may act as tailwinds to PE transaction activity in the future, as sponsors seek to exit/monetize positions and distribute capital to investors.

Exhibit 40: EBITDA growth across deal vintages

Last-twelve-month adjusted EBITDA CAGR between initial deal closing and 1Q2025, by vintage year and average



Source: Lincoln International, BlackRock. As of 1Q2025. Note: Adjusted EBITDA includes all adjustments as defined by the credit agreement and includes organic and inorganic growth. Analysis may be biased to survivorship bias. Average CAGR is across all unique portfolio companies. The following is the average EBITDA at close for each vintage year: \$52mn (2019), \$79mn (2020), \$59mn (2021), \$69mn (2022), \$144mn (2023).

Contained losses, against robust income

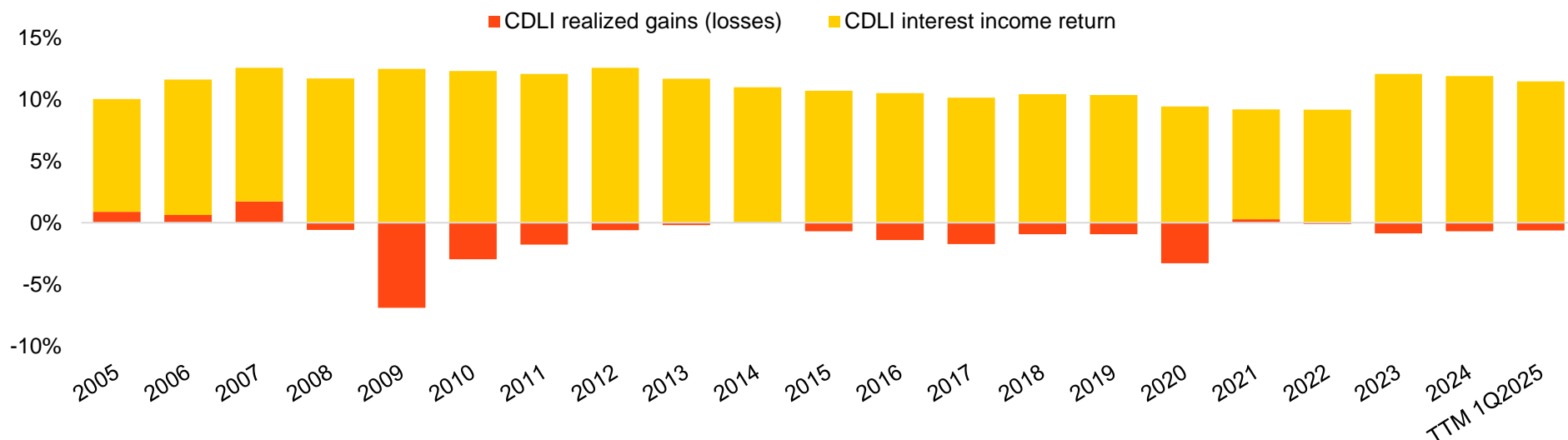
And while the growth, current fundamentals, and M&A landscape are all elements that inform the health of the private credit market, returns and income are likely the most meaningful metrics to investors.

To quantify private credit's resilience, we again turn to the Cliffwater Direct Lending Index (CDLI), which is an asset-weighted index of approximately 19,000 directly originated U.S. middle market loans totaling \$465 billion. In 1Q2025, the trailing twelve-month (TTM) interest income of the CDLI totaled 11.47%, compared to realized losses of 63bp (Exhibit 41). Notably, the trailing twelve-month loss rate remains below the longer-term average of roughly 100bp.

That said, as the private credit market shifts to be more senior, the ability to achieve realized gains, via prepayment fees or equity kickers, for example, becomes more challenging, as these are typically included in more junior instruments. This underscores the importance of capital preservation or loss mitigation. As such, we view modest *realized* losses as critical to a manager's performance.

Exhibit 41: 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 March 31, 2025 (most recent available). Realized gains in the CDLI 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.

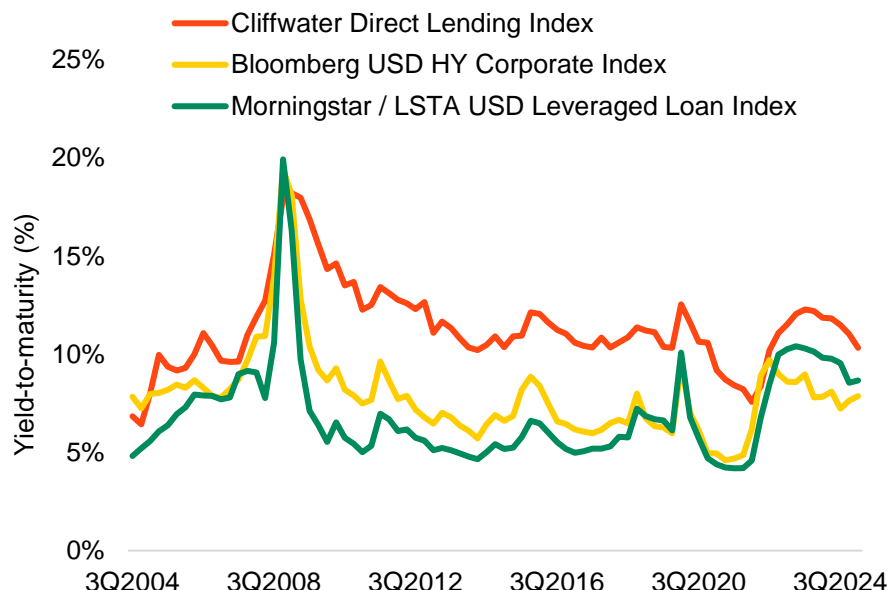
A yield 'pick up' vs. liquid markets

Exhibit 42 shows how the private credit yield differential has compared to high yield (HY) bonds and leveraged loans. We view loans as the most direct comparison to direct lending, as both are floating rate (as opposed to HY, which is fixed rate).

In early May, we used data from the CDLI and JP Morgan Research to compare loss rates across private credit and the syndicated corporate credit markets, including USD leveraged loans and HY bonds. Using trailing 12-month data, as of 1Q2025, USD HY bonds have the lowest loss rates, followed by the CDLI and loan markets, which have comparable metrics. That said, loss rates across all three segments remain notably contained and below long-term averages (2005 – 2024; Exhibit 43). We continue to view the collaborative relationship between private credit lenders and borrowers as a feature of the asset class that can help maximize recoveries in the event of borrower stress.

Exhibit 42: The CDLI offers a modest yield 'pick up' vs. broadly syndicated leveraged loans

Average index yield-to-maturity levels

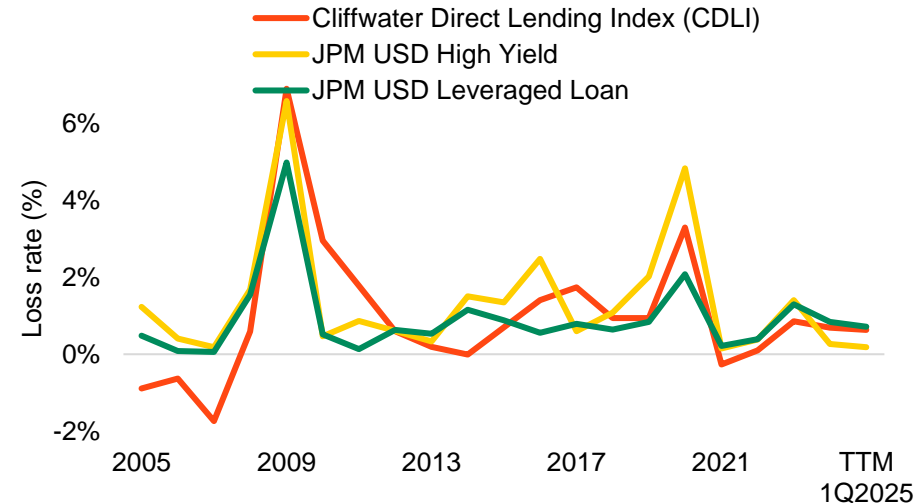


Source: Cliffwater LLC, Bloomberg, Morningstar / LSTA, Pitchbook LCD, BlackRock. As of 1Q2025 (most recent for CDLI). **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

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Exhibit 43: Losses are modest, overall

Realized annual and trailing 12-month 1Q2025 loss rates for the Cliffwater Direct Lending Index (CDLI) and for the universe of USD leveraged loans and HY bonds tracked by JP Morgan



Source: Cliffwater, JP Morgan, BlackRock. For the CDLI, we show annual and trailing 12-month realized loss rate data for 1Q2025 (most recent available). Realized gains in the CDLI 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. For USD Leveraged Loans and High Yield, we show implied loss rates based on JPM's actual issuer-weighted, trailing 12-month default and recovery rates (calculated as actual issuer-weighted trailing 12-month default rate, multiplied by one minus the issuer-weighted recovery rate, based on prices 30 days after default).

Commercial real estate: continued progress

Data signals progress on recovery, though uncertainty warrants watching

An uneven recovery in transaction volumes

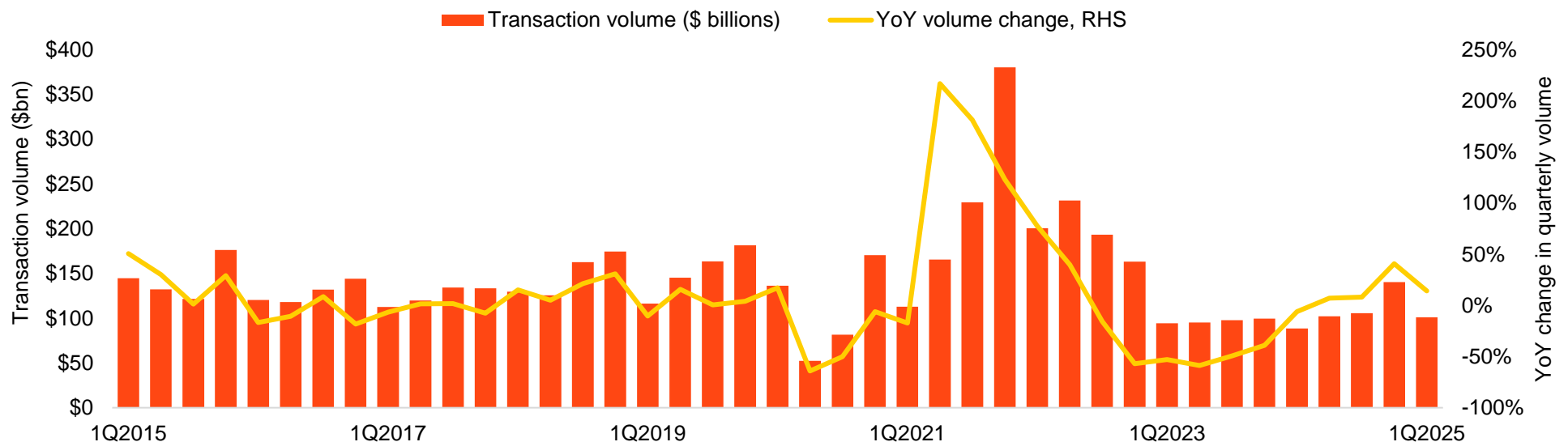
As has been well telegraphed at this point, the asset class of commercial real estate (CRE) has encountered a variety of headwinds in recent years, including structurally higher U.S. interest rates and post-pandemic shifts in property usage. Coming into 2025, we expected CRE would continue its (gradual) path to recovery. Our view was underpinned by a combination of three factors: (1) incremental clarity on the macroeconomic landscape (i.e., confidence that the U.S. would avoid a recession); (2) increased acceptance of structurally higher interest rates; and (3) further normalization of post-pandemic disruptions.

Since that time, markets have been especially dynamic and, at times, quite volatile. That said, we nonetheless find that CRE transaction volumes have, in aggregate, continued to rebound into 2025. For context, 1Q2025 CRE transaction volumes grew 14% year-over-year (YoY; Exhibit 44), marking the fourth consecutive quarter of positive change. While transaction volumes in April were resilient, they fell modestly in May, suggesting a somewhat uneven recovery (potentially due to macroeconomic uncertainty).

Still, aggregate strength in year-to-date (YTD) volumes is important, in our view, because such transactions provide price discovery or 'clearing levels' that many market participants are seeking. Looking ahead to 2H2025, we expect that incremental clarity via price discovery will support transaction volumes, though we continue to watch macro uncertainty as a potential headwind to activity.

Exhibit 44: Transaction volume was resilient through 1Q2025

Aggregate U.S. CRE transaction volume in \$ billions and year-over-year (YoY) volume change, RHS



Source: Real Capital Analytics, BlackRock. As of 1Q2025.

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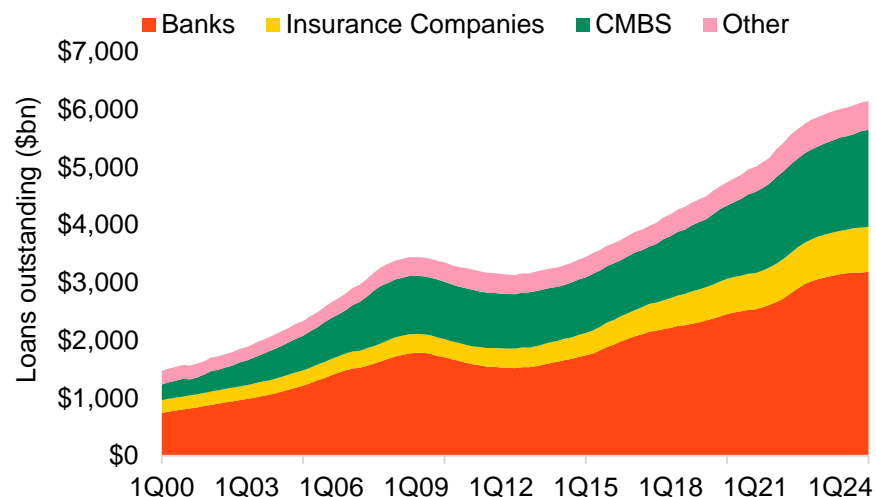
The evolving base of CRE debt investors

CRE's evolving investor base – which is diversifying to include more investors with longer-term capital commitments – may further support recovering transaction activity over the medium term. For context, banks, CMBS markets, and insurance companies account for roughly 90% of CRE loans outstanding (Exhibit 45), with banks representing the largest share. And while banks' last twelve-month (LTM) loan growth remains positive (Exhibit 46), Green Street sees scope for regulation to influence how banks engage with CRE lending over the longer term. For example, banks may opt to decrease direct CRE lending exposures and instead ramp financing to CRE debt funds, which may offer more favorable treatment from a regulatory perspective.

At the same time, insurance companies have gradually grown their holdings of CRE loans as a share of total net assets. And over the last 12 months, insurance CRE loan holdings grew faster than those of both CMBS and banks, albeit from a small base (again, Exhibits 45 and 46). As with private credit, CRE loans offer insurers, especially life insurers, the opportunity to match long-term assets with long-term liabilities while capturing an income stream. Access to debt financing is a critical source of stability in the CRE market. As such, we view increasing involvement from lenders with access to patient capital as generally positive for the CRE ecosystem.

Exhibit 45: Banks represent half of loan ownership

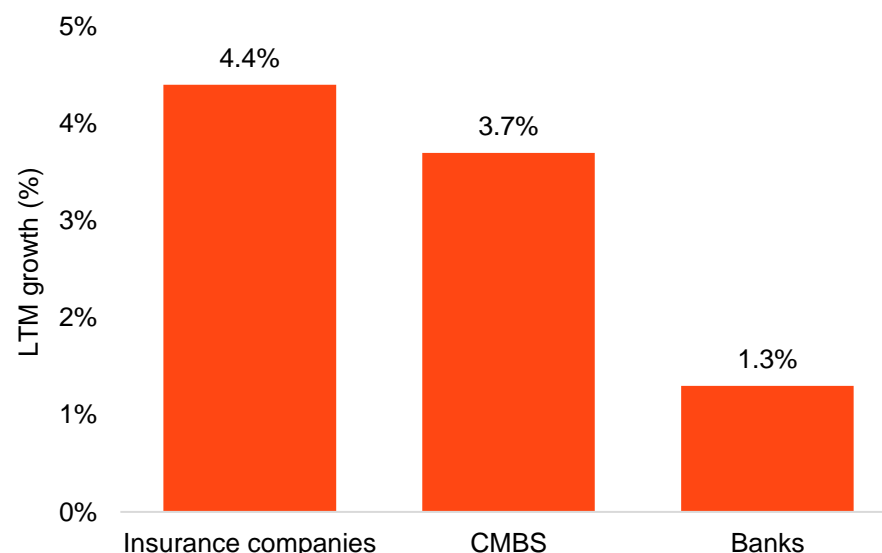
Commercial and multifamily real estate loans outstanding, in billions, by lender type



Source: Federal Reserve, Green Street, BlackRock. As of 1Q2025. Includes mortgages backed by construction projects (~\$550B) and owner-occupied properties (~\$660B). "Other" includes mREITs, finance companies, pension funds, and other businesses. CMBS includes agency portfolios and MBS (\$1T) and non-agency CMBS (\$0.6T). mREITs holdings are adjusted to exclude CMBS securities owned.

Exhibit 46: CRE loan growth has been positive

Last twelve-month (LTM) growth in commercial and multifamily real estate loans by capital provider



Source: Federal Reserve, Green Street, BlackRock. As of 1Q2025.

Near term maturity walls have increased

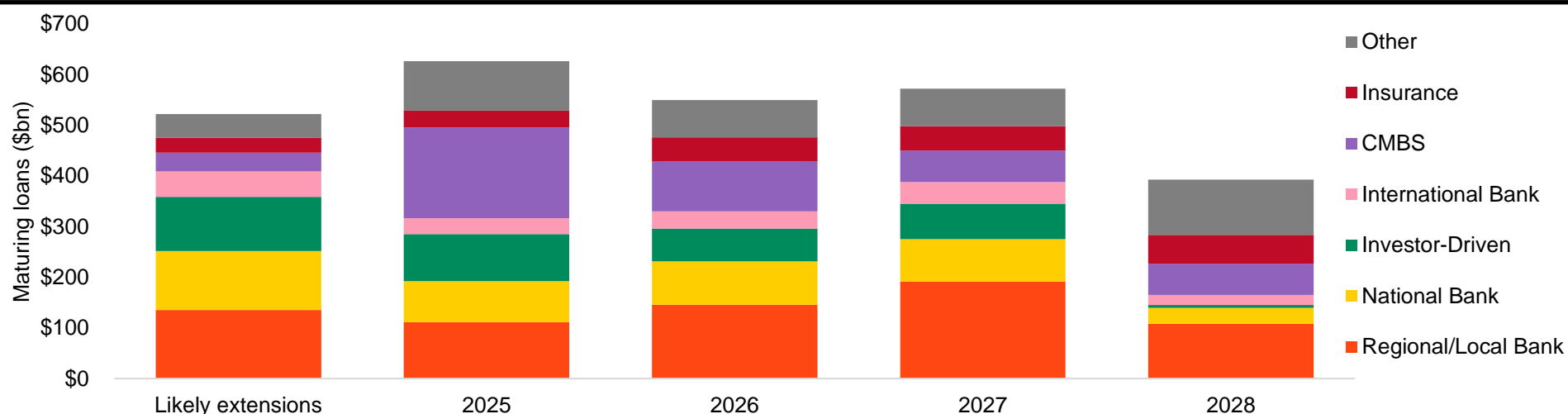
Lenders' appetite to amend or refinance CRE loans has been a key focus of market participants in recent years, and we expect this to remain the case in 3Q2025. Specifically, 'amend-and-extend' activity has allowed both equity and debt holders to mitigate realized losses from property value declines.

Importantly, lenders' willingness to conduct these modifications is rooted in optimism around their ability to improve principal recovery. So, expectations about the macro backdrop are a key input. A May 16th report from Goldman Sachs Research uses data from the CMBS market to evaluate debt capital availability. The analysis finds that despite uncertainty and lending adjustments following the regional banking crisis, debt capital availability is strong for credit-worthy borrowers. That said, the market remains 'lender-friendly,' suggesting lenders have considerable control over financing terms. Debt capital availability is key to watch because limited access to capital could force asset owners to take decisive action, even as some property values remain underwater.

Data from MSCI RCA, which provides visibility into the aggregate value of CRE loan extensions (and upcoming CRE maturity walls), estimates that \$520 billion in U.S. commercial property loan volume was extended prior to 2025, and another \$625 billion in U.S. commercial property loan volume is set to mature in 2025 (Exhibit 47). Banks represent a meaningful segment of volume maturing, and within that cohort, regional/local banks represent the largest banking segment, each year. Looking ahead, we will continue to watch lenders' willingness to extend (or refinance) existing loans as a bellwether for stress in the CRE market.

Exhibit 47: Banks represent more than half of the 'likely extension' volume

Volume of maturing commercial property loans by lender type, in billions



Source: Real Capital Analytics, MSCI Real Assets, BlackRock. Based on independent reports of properties and portfolios \$2.5 million and greater. Data believed to be accurate but not guaranteed. Data is as of 03/25/2025 and reflects the market as of 12/31/2024. Other includes private, government agency, collateralized loan obligations, and unknown.

Dispersion is (still) evident

The CRE asset class is not immune to the themes of dispersion and bifurcation that we have flagged across a range of other asset classes in recent quarters, including liquid corporate credit, private credit, and consumer balance sheets.

Exhibit 48 illustrates the divergent paths for valuations across CRE property types. Dispersion is also evident *within* property types, for example, across quality cohorts of office properties (e.g., Class A, B, C, etc.)

This underscores the importance of asset selection, in our view, including selecting property types exposed to longer-term thematic (or structural) tailwinds. Examples could include demographic trends, supply chain resilience, and infrastructure spending.

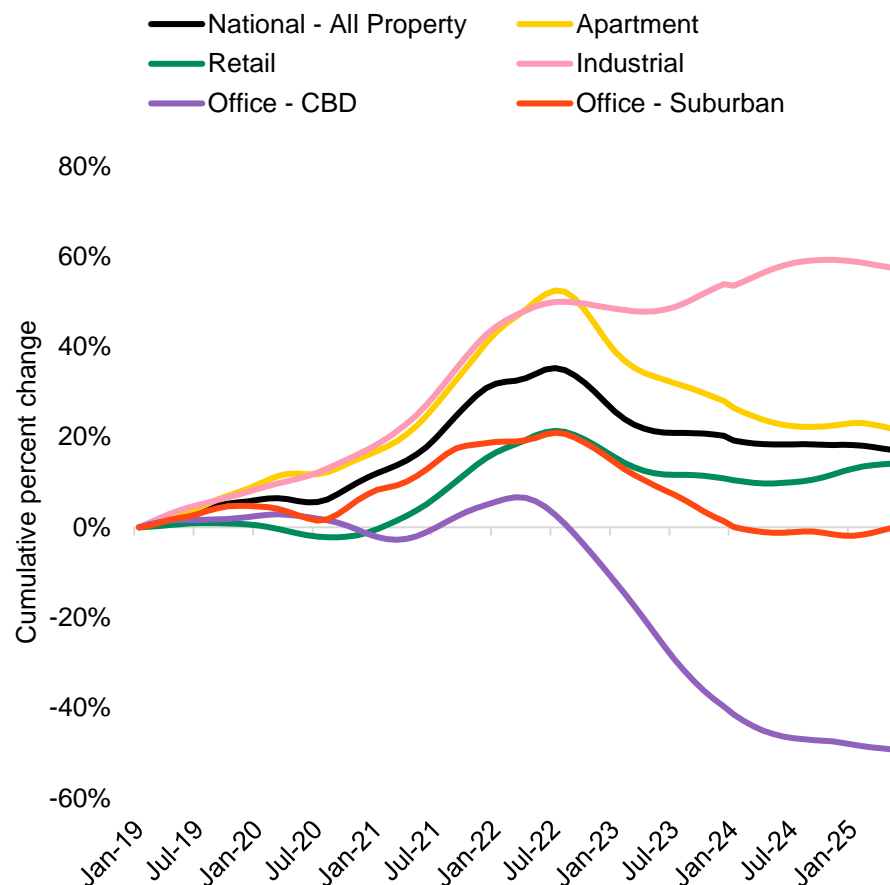
That said, even the most challenged subsets – such as Central Business District (CBD) Office – have shown some signs of stabilization in recent quarters. We believe this is important on two fronts: (1) it may help inform lenders' refinancing decisions for existing CRE loans (as discussed earlier), and (2) it may lay a foundation for a more predictable underwriting environment ahead.

We also believe many market participants have grown increasingly accepting of structurally higher interest rates, which have played a key role in CRE underwriting and the ongoing transaction volume recovery in the CRE market (albeit uneven, as outlined earlier).

Anecdotally, we have also observed that in many instances, real estate assets can 'afford' the higher debt servicing costs, as net operating income has also grown in the elevated interest rate environment.

Exhibit 48: CRE pricing has largely stabilized

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 May 31, 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.

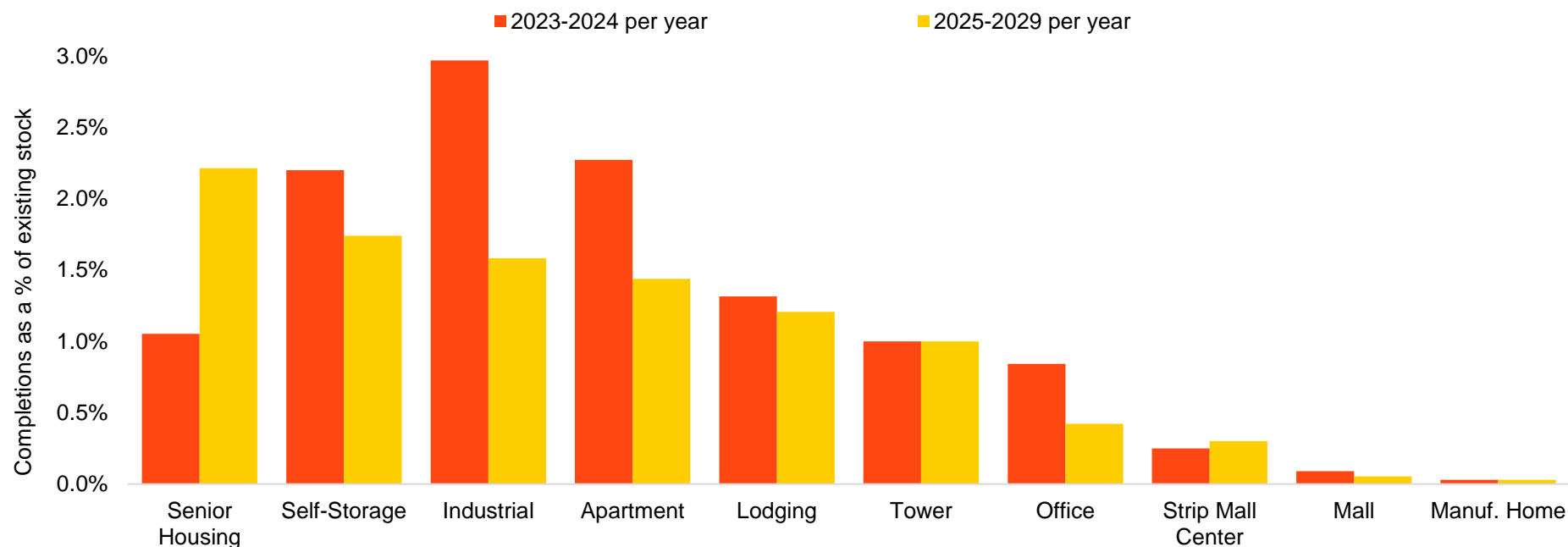
Supply is a technical tailwind, in some areas

Technical tailwinds are also in place in some areas of the CRE market – but here too, dispersion is a consideration. Exhibit 49 illustrates the varying supply backdrops by property category, using Green Street forecasts. In some cases, supply is expected to decline notably compared to the run rate of the past few years. This can translate into a technical tailwind for valuations and credit conditions over the next few years – similar to how supply technicals can meaningfully impact performance in other markets, such as corporate credit.

Meanwhile, in other areas, an increase in supply may limit scope for property value appreciation within that segment. Even so, in areas such as Senior Housing, supply is increasing from a relatively low base, which helps mitigate the extent of potential headwinds. The broader set of macro drivers, such as structural shifts across sectors and nuances around property demand, will also inform performance and valuation dynamics, in our view.

Exhibit 49: CRE supply backdrops vary by property type

Annual completions as a share of total existing CRE stock, using Green Street forecasts



Source: Green Street, BlackRock. As of May 23, 2025. Supply growth is based on square footage, except for apartments and senior housing, which is based on the number of units. **There is no guarantee any forecast may come to pass.**

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

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Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

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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