October 2025

Global Credit Quarterly: 4Q2025

Still climbing the 'wall of worry'

BlackRock.

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Authors

Amanda Lynam, CPA
Head of Macro Credit Research

Dominique Bly
Macro Credit Research Strategist

Key takeaways

- **Macro:** While U.S. growth has moderated from the above-trend pace of 2021-2024, it is 'supportive enough' to sustain resilience in risk assets, in our view. This should translate into normalizing monetary policy from the Fed, not a deep easing cycle. We see scope for a convergence between U.S. and European growth. Pages 3 – 14.
- **Liquid credit:** We continue to see an opportunity cost in being too defensive and remain comfortable selectively moving down in credit quality, given solid corporate fundamentals. We prioritize income and carry over duration exposure, given our rates view. Pages 15 – 25.
- **Private credit:** The structural growth drivers behind this asset class remain in place, and episodic market volatility is likely to further expand the addressable market of borrowers seeking a private financing solution. Similar to liquid credit, the fundamental signals are encouraging, in aggregate, albeit with some visible dispersion. This underscores the importance of credit selection, underwriting and workout expertise. Pages 26 – 35.
- **Commercial real estate (CRE):** Pricing has stabilized across even the most challenged sectors, and investors appear to be embracing an environment of structurally higher interest rates. This should support further momentum in transaction volumes, as well as the refinancing of CRE loans (scheduled and recent extensions). Pages 36 – 40.
- **Risks to our view:** A sharp downturn in global growth and severe deterioration in corporate profit margins are the key downside risks. Upside risks include an above-trend pace of economic activity, bolstered by a combination of consumer spending and business investment.

Macro: two-sided risks

Monitoring corporate margins and looking for confirmation of an upward inflection in earnings

Resilient growth poised to persist, in our view

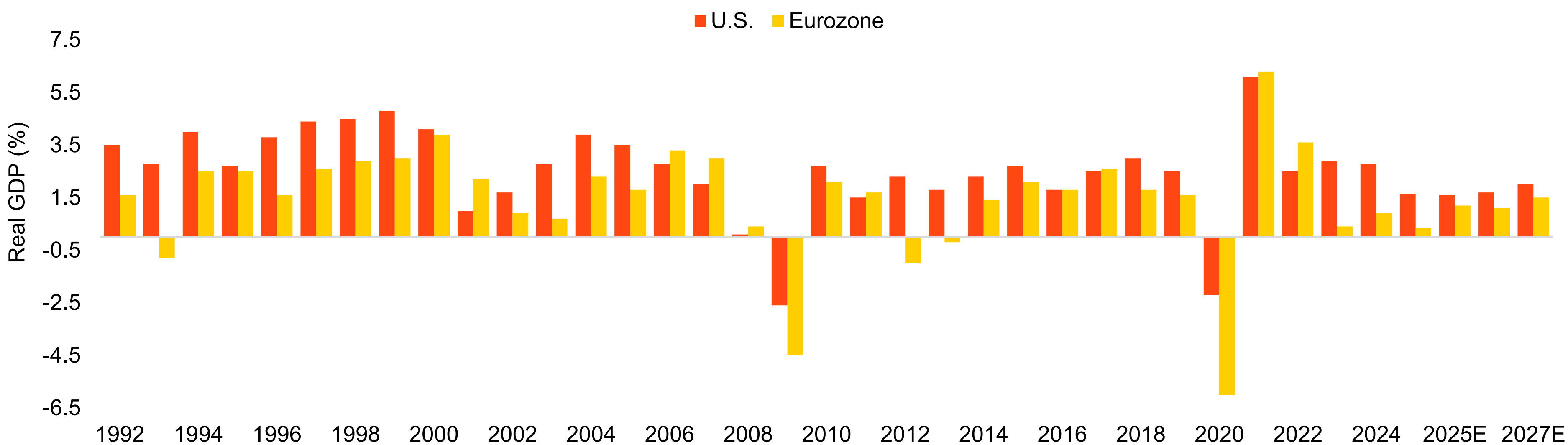
In our *3Q2025 Global Credit Outlook*, we highlighted the importance of monitoring *two-sided* macroeconomic risks, given the opportunity cost of being too defensive (and under-risked) in this environment. Heading into 4Q2025, our posture towards credit risk is still constructive, driven by a mix of 'solid enough' global growth, healthy corporate fundamentals, and favorable technical dynamics across a range of credit markets.

In the U.S., resilient consumer spending and capital investment have resulted in 1H2025 real GDP growth of 1.7% - not that far below potential and bolstered by an especially strong 2Q2025 reading. Moreover, years of above trend growth in 2021-2024 have strengthened corporates' financial positions, and gains in housing and equity markets have also reinforced the balance sheets of some U.S. consumer cohorts. This, coupled with some support from recent fiscal legislation (which will become effective in early 2026), strengthens the case for resilient U.S. growth through 2026, in our view.

After a few years of sharp growth differentials across the U.S. and Europe (Exhibit 1), we see scope for more convergence as fiscal spending on defense and infrastructure eventually takes hold in Europe. That said, we acknowledge that this may be a longer-term development.

Exhibit 1: Increased scope for convergence in U.S. and European growth

Actual real GDP (annual, year-over-year) for the U.S. and Eurozone, from 1992 to 2024, and 1H2025, and Bloomberg composite forecasts for full-year 2025 – 2027



Source: Bloomberg, BlackRock. As of September 25, 2025. 1H2025 uses the average of 1Q2025 and 2Q2025 quarter-on-quarter figures. 2025 - 2027 estimates use the Bloomberg Composite of forecasters. **There is no guarantee any forecasts may come to pass.**

Likely past peak trade uncertainty

Two key views underpin our constructive view on risk assets. The first is the view that peak trade policy uncertainty is likely in the rear-view mirror, as illustrated by Exhibit 2. While we expect additional announcements on sector-specific tariffs, we view this as a catalyst for additional dispersion, as opposed to broad market disruption.

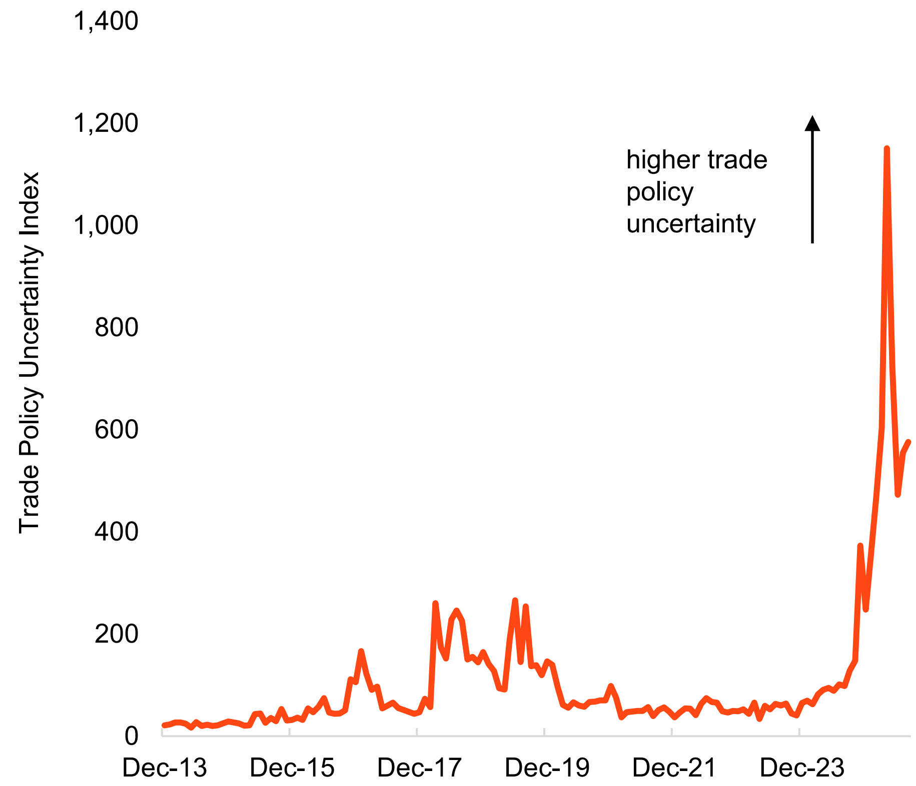
Second is our confidence in corporate management teams' ability to continue to navigate a dynamic policy environment. 2Q2025 earnings season was notable, in our view, as a wide range of management teams – across a variety of sectors – provided incremental clarity on the operational levers at their disposal to navigate and mitigate potential cost pressures.

For example, a range of retail and consumer-focused firms have highlighted a variety of internal efficiency initiatives to protect profitability. These include plans for a combination of: faster inventory turnover, changes to order timing, savings on shipping/logistic costs, vendor negotiations, sourcing diversification, price adjustments, shifts in product mix, divesting unprofitable business lines, productivity enhancements to SG&A (including using more digital tools), headcount reductions, using more automation in manufacturing, and supply chain organizational shifts. Some of these programs – which were originally planned to take place over time – are now being approached with more urgency and focus.

And while potential margin headwinds related to higher input costs are among the most prominent downside risks we are monitoring, we are also attuned to upside risks in this environment, such as deregulation and corporate tax incentives related to recently passed legislation.

Exhibit 2: Peak trade policy uncertainty has likely passed

Trade Policy Uncertainty Index



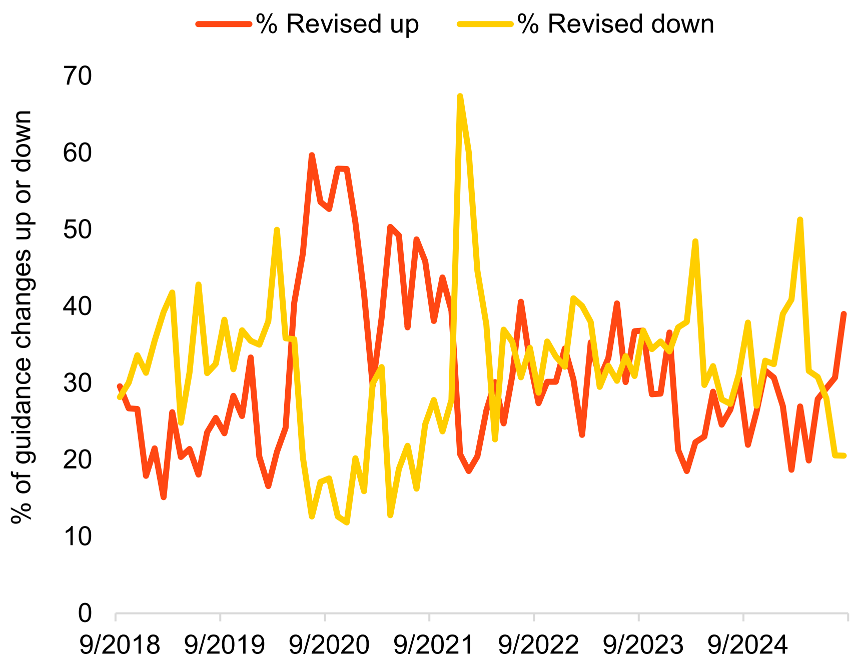
Source: Haver Analytics, BlackRock. Captures data through August 31, 2025 (most recent available as of September 25, 2025). The Trade Policy Uncertainty (TPU) Index is based on automated text searches of the electronic archives of seven newspapers: Boston Globe, Chicago Tribune, Guardian, Los Angeles 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.

Companies' ability to adapt

Corporates' ability to adapt to a shifting policy backdrop is evident in the positive inflection of management teams' earnings guidance and analysts' earnings expectations since April 2025. For U.S.-listed companies, 39% reported a positive change to earnings guidance in August 2025 – the highest since June 2023 and extending the trend over the past few months (Exhibit 3). Similarly, the share of firms reporting a downward change to earnings guidance dropped to 20.5% in August – the lowest since mid-2021 (again, Exhibit 3). We expect a similar directional move once the September 2025 data are available. Higher frequency data shows a similar positive inflection in analysts' S&P 500 earnings estimates for the next 12 months (Exhibit 4).

Exhibit 3: Earnings guidance has inflected higher

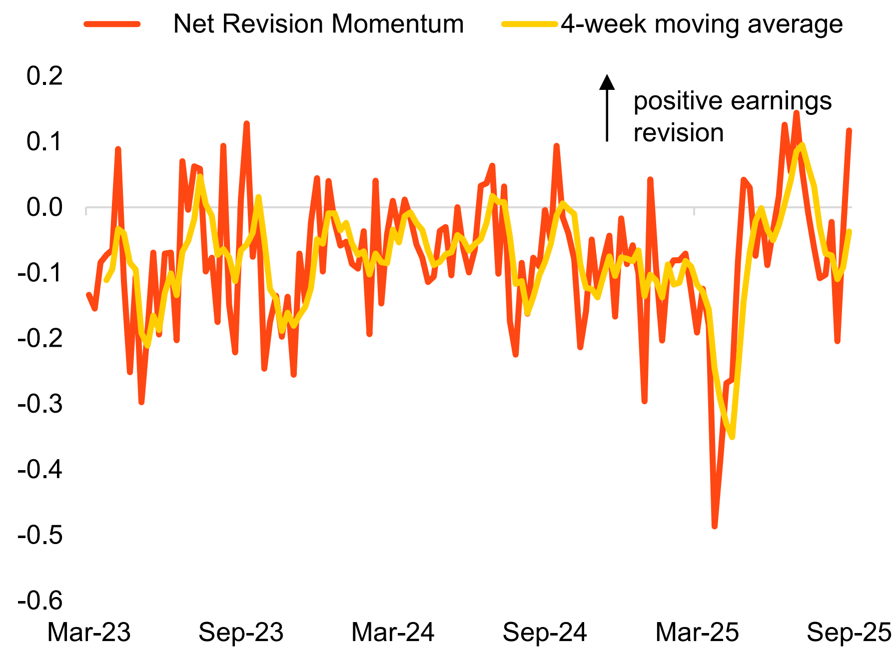
Monthly earnings guidance revisions provided by U.S. corporates (as of each month end)



Source: Bloomberg Intelligence, BlackRock. Captures data through August 31, 2025 (most recent available as of September 27, 2025). Excludes neutral guidance revisions. Captures guidance for all companies listed on a U.S. stock exchange (as the primary and active exchange). **There is no guarantee any forecasts may come to pass.**

Exhibit 4: A similar trend is visible for the S&P 500

Net Revision Momentum: 12-month forward EPS, for the S&P 500



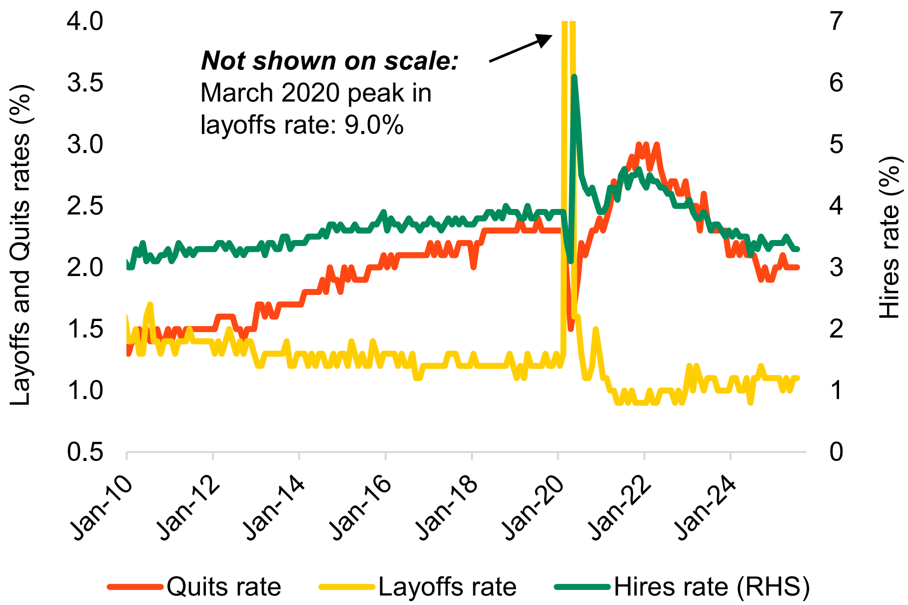
Source: Bloomberg Intelligence, BlackRock. Captures data through September 19, 2025 (most recent available as of September 27, 2025). **There is no guarantee any forecasts may come to pass.**

The margins–labor 'feedback loop'

That said, there are residual risks to monitor. The most critical, in our view, is the 'feedback loop' between corporate margins, the labor market, consumer spending and overall economic activity. The U.S. labor market has been characterized as "low hire, low fire" by Chair Powell – a trend that is also visible in Exhibit 5. If corporate margins experience material, sustained pressure, we see a risk for the layoff rate to increase from its low level. And given the low demand for labor (evident in the weaker than expected non-farm payrolls data in July, which included downward revisions to prior months), it will likely take longer for the recently unemployed to find new work. A potential pull back in consumer spending would be a headwind to economic activity, given the consumer generates two-thirds of U.S. GDP. For now, however, corporate margins are demonstrating resilience – especially in USD IG (Exhibit 6).

Exhibit 5: The "low hire, low fire" labor market

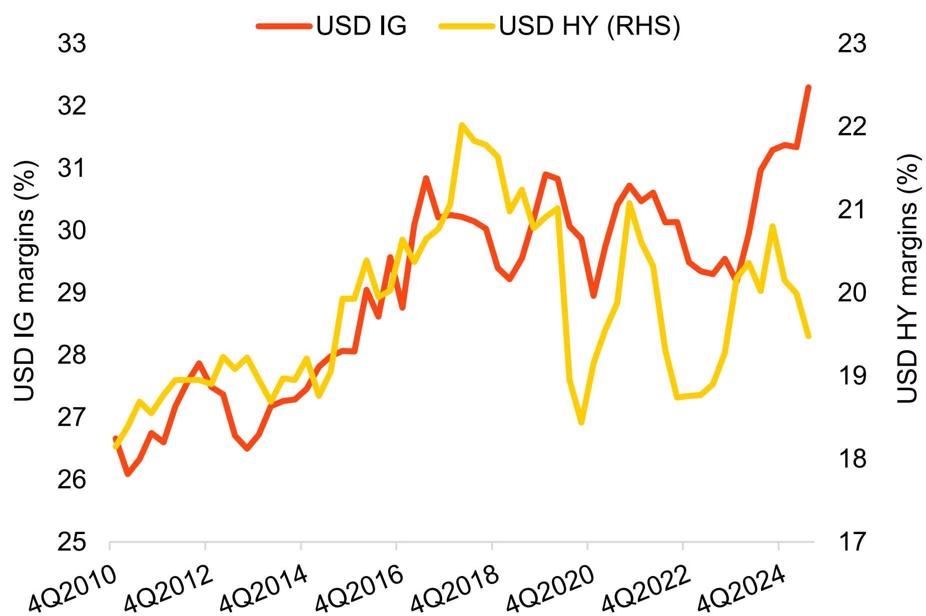
U.S. Layoffs & Discharge Rate (%), the U.S. Quits Rate (%), and the U.S. Hires Rate (%), all seasonally adjusted



Source: Bureau of Labor Statistics, Bloomberg, BlackRock. Captures data through July 31, 2025 (most recent as of September 29, 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 6: 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 2Q2025 (most recent as of September 29, 2025). Indexes are unmanaged and are used for illustrative purposes only. It is not possible to invest directly in an index.

Monetary policy has already normalized

Over the past several months, a range of developed market central banks have reduced the level of restriction embedded in their monetary policy rates (Exhibit 7). We see limited scope for additional, deep rate cuts across many of these regions. This means that floating-rate corporate borrowers and consumers will need to navigate a structurally higher cost of financing relative to the period between the global financial crisis and the pandemic (again, Exhibit 7). It also means, however, that the income opportunity captured by investors is likely to remain attractive by historical standards.

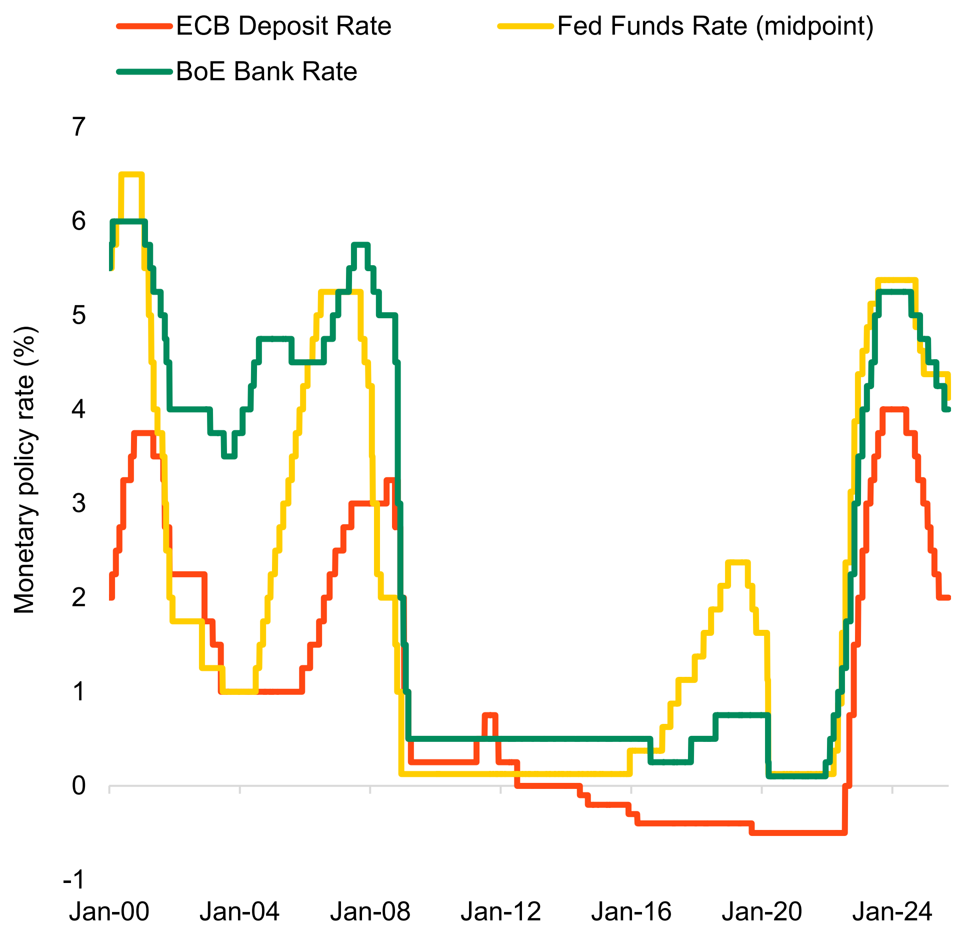
The European Central Bank (ECB) has delivered 200bp of rate cuts, and we expect the Governing Council will be on hold for the foreseeable future, now that inflation is closer to target (more on page 13) and risks to growth are more balanced. This was echoed by President Lagarde at the September 11th press conference, when she offered that policy was in “a good place,” albeit not on a predetermined path.

We expect the Bank of England (BoE) will remain on hold through 4Q2025. The Monetary Policy Committee has cited a “gradual and careful” approach to reducing the level of restriction in monetary policy, given the upside risks to inflation (and potential for second round effects resulting in higher wages).

In the U.S., the Federal Reserve (Fed) resumed its rate cutting cycle in September 2025, adding to the 100bp of rate cuts delivered in 2H2024. The 25bp cut in September was framed as a “risk management” cut, designed to push monetary policy in the direction of neutral, given the recent weakening in the labor market data. We continue to expect normalizing monetary policy, not a deep easing cycle into accommodative territory.

Exhibit 7: Monetary policy moves toward neutral

Monetary policy rates for the European Central Bank, Federal Reserve, and Bank of England



Source: BlackRock, European Central Bank, Federal Reserve, Bank of England, Bloomberg. As of September 23, 2025.

Tension in the Fed's dual mandate

The actions taken by the Federal Reserve have a significant impact on global financial markets, given the sheer size of the U.S. economy (the world's largest, at $30 trillion) as well as the 'ripple effects' from central bank actions on global interest rate and foreign exchange markets.

Over the past few months, Fed officials have been increasingly vocal regarding the inherent tension in their dual mandate of maximum employment and price stability. This view was once again echoed by Chair Powell at the September FOMC, when he stated "there are no risk-free paths" for monetary policy, given the tension between sticky inflation and softening labor demand.

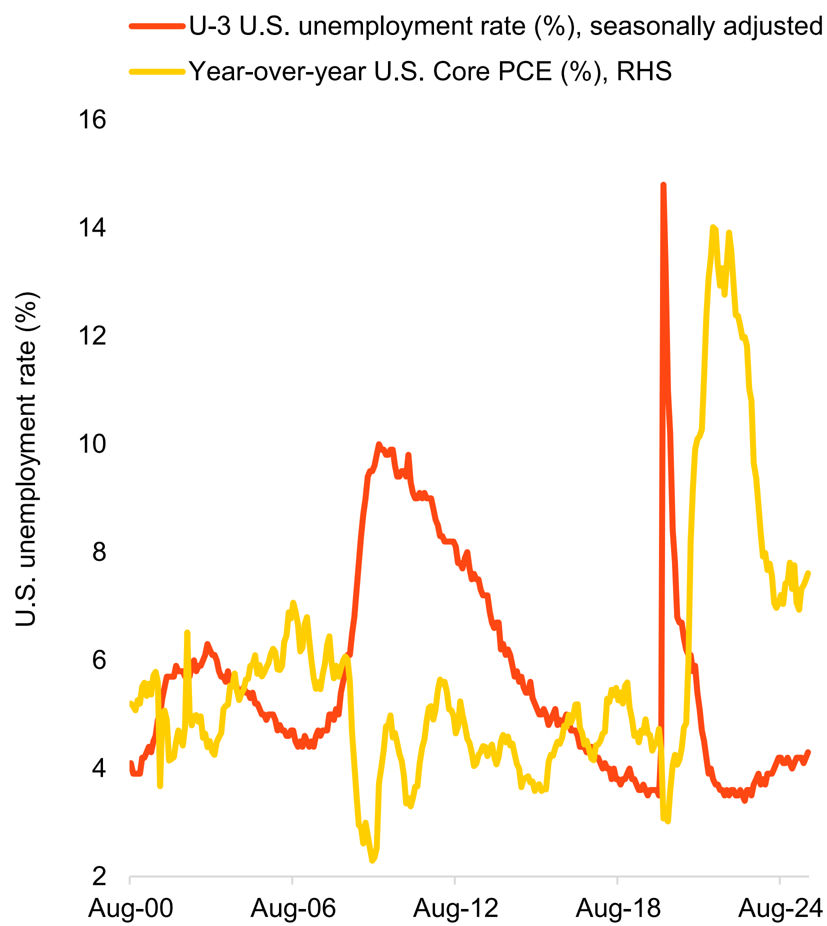
As shown by Exhibit 8, core PCE inflation has been above the Fed's 2% target since early 2021. Meanwhile, demand for labor has softened, and job creation is running below the so-called "breakeven rate" required to keep the unemployment rate constant.

For now, it appears that the FOMC is poised to continue to 'look through' elevated inflation and place more emphasis on the growth/labor market side of its mandate. For example, the Fed's most recent Summary of Economic Projections shows the median Federal Open Market Committee (FOMC) participant expecting inflation to return to 2% in 2028.

Additionally, in public remarks in late September 2025, Chair Powell revisited the framing he first provided in his speech at the Jackson Hole Economic Symposium, when he noted that "a reasonable base case" (vis-à-vis tariffs) is that the effects will be "relatively short lived — a one-time shift in the price level," while adding that "one-time does not mean all at once."

Exhibit 8: We expect the Fed will continue to 'look through' elevated inflation, in the near term

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 August 31, 2025 (most recent available as of September 30, 2025).

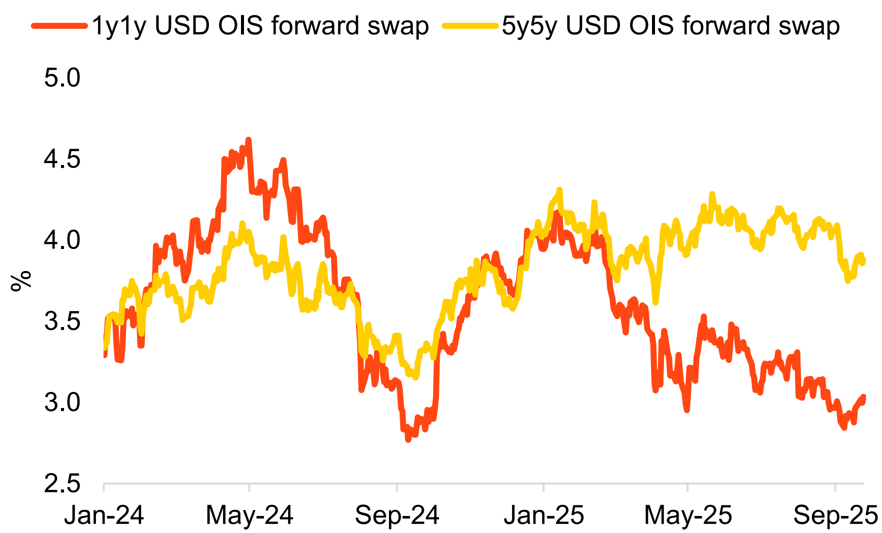
The *normalizing* vs. *easing* debate

While many investors are focused on the *timing* of any additional rate cuts from the Fed, we place more emphasis on the *drivers and depth* of the rate cutting cycle. In our view, rate cuts in response to easing inflation and actions done to 'get ahead' of additional material labor market weakness are likely to be supportive of risk asset valuations. By contrast, rate cuts in response to a visible (and potentially non-linear) deterioration in the labor market would likely be accompanied by increased risk premia in credit and equity markets – leaving such an action less supportive, in our view, for risk asset valuations.

Our base case calls for *normalizing* monetary policy, not a deep easing cycle into *accommodative* territory. But a factor at the heart of this debate is the so-called "neutral" rate of interest, which neither stimulates nor restricts the economy. A wide range of Fed officials have acknowledged the lack of clarity in pinpointing an exact level of neutral (Chair Powell has said "we know it by its works"). The median FOMC participant forecasts a longer-term Fed Funds rate of 3.0%. But market-based measures imply a higher neutral rate closer to 3.85% (Exhibit 9). Additionally, Exhibit 10 highlights how financial conditions have *eased* since early April 2025 – suggesting the economy (at least in aggregate) is not experiencing widespread restraint from the current level of monetary policy.

Exhibit 9: We see scope for a higher "neutral" rate

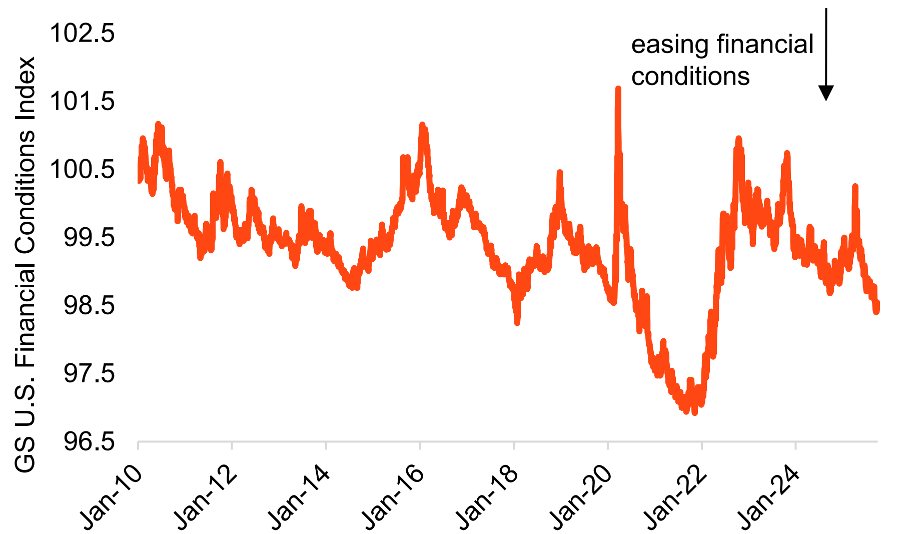
1y1y Overnight Indexed Swap (OIS) forwards, as a proxy for the terminal rate of this cycle, and 5y5y OIS as a proxy for the long-term neutral rate



Source: Bloomberg, BlackRock. As of September 24, 2025.

Exhibit 10: Financial conditions, in aggregate, are not tight

Goldman Sachs U.S. Financial Conditions Index



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

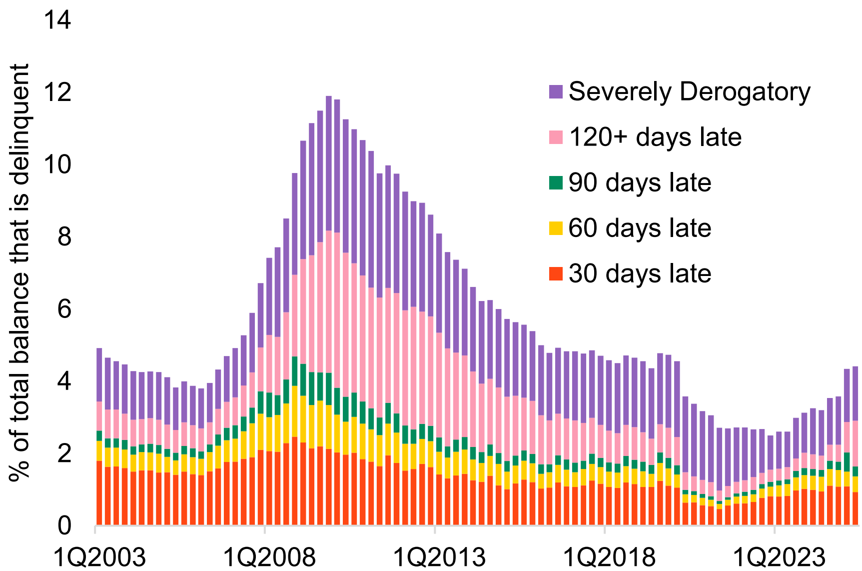
Consumer spending presses ahead

One of the most important factors underpinning the resilience of U.S. economic activity has been strength in aggregate consumer spending, which represents two-thirds of U.S. GDP. Data from the Federal Reserve shows that household net worth has increased from $148 trillion in 1Q2023 to $176 trillion as of 2Q2025, owing to gains in housing and investment markets. This ongoing strength was evident in September's U.S. retail sales data as well as anecdotal commentary from consumer-focused firms during the past few months, which highlighted a resilient backdrop in aggregate, albeit with some bifurcation in consumer spending patterns under the surface. For example, cost-conscious and value-seeking behavior was cited more often from younger and lower-income consumers.

Data from the New York Fed shows an increase in delinquent U.S. consumer debt balances, back to pre-pandemic levels (Exhibit 11). But as Exhibit 12 illustrates, the various *types* of consumer credit are experiencing vastly different backdrops, driven by collateral types and corresponding value fluctuations, fixed vs. floating interest rate exposure, and consumer focus.

Exhibit 11: Delinquent debt balances are back to pre-pandemic levels

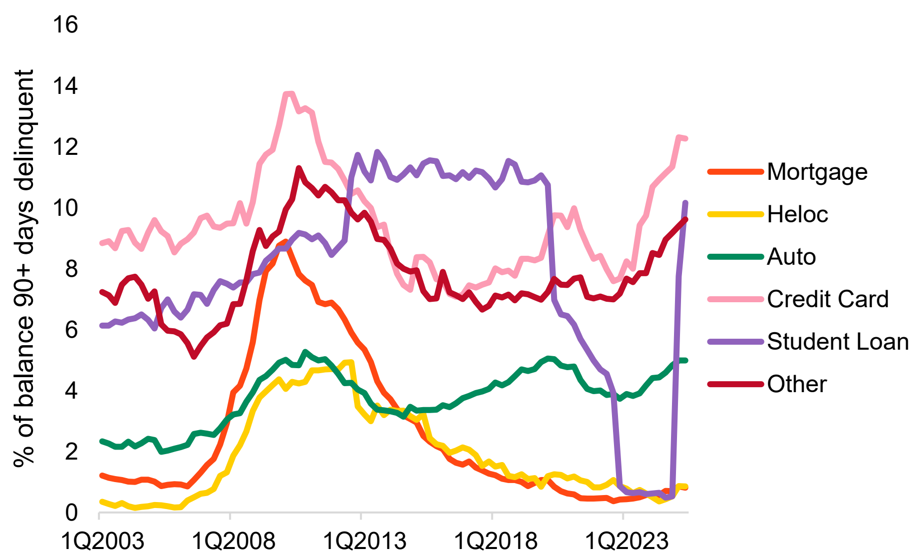
Percentage of total debt balances for U.S. consumers, by delinquent status



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 2Q2025 (most recent as of September 30, 2025).

Exhibit 12: Student loan delinquencies inflected higher, following the late 2024 grace period expiration

Percent of balance 90+ days delinquent, by loan type



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 2Q2025 (most recent as of September 30, 2025). The Other category includes Consumer Finance (sales financing, personal loans) and Retail (clothing, grocery, department stores, home furnishings, gas etc.) loans.

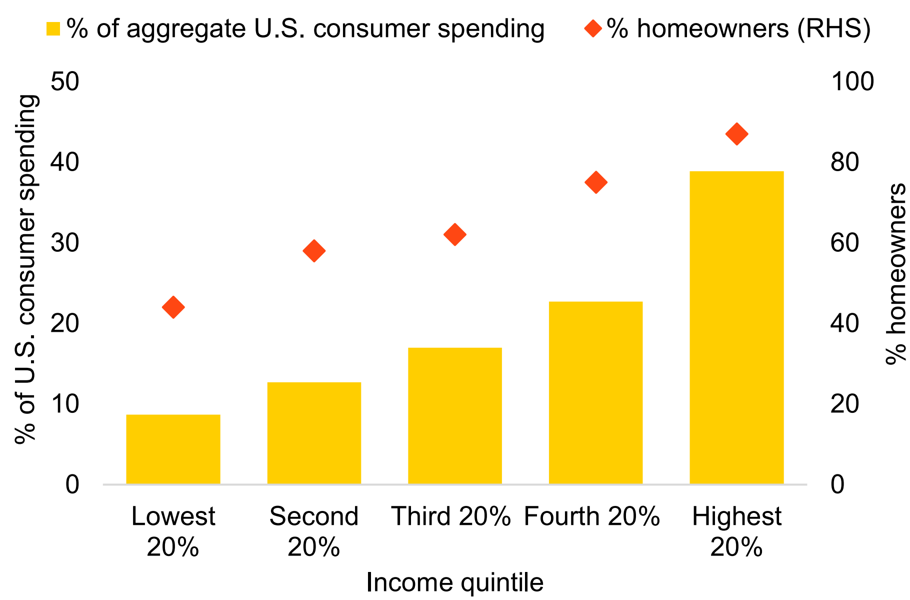
Bifurcation is evident

Beyond consumer credit *types*, bifurcation among income and age cohorts is also evident, as shown in Exhibits 13 and 14. For example, only 44% of consumers in the lowest income quintile are homeowners, compared to 87% in the highest income cohort. And student loans represent 28% of aggregate debt balances for the 18- to 29-year-old cohort of U.S. consumers, while mortgages represent a much greater share for older consumers. This helps explain, in our view, why delinquency rates for the younger cohort have outpaced older age groups in recent quarters, as we recently noted. It also underscores the trend of bifurcation and dispersion we have been highlighting – which has direct implications for credit investors given the different customer end markets served by various sectors (and firms).

While bifurcation is not a new concept, we believe it matters more in the current market, given the backdrop of elevated interest rates and considering the significant asset appreciation in home prices and equity markets over the past few years. For example, consumers in a *net borrower* position are encountering higher debt service costs while not participating in gains from home ownership and stock market investments (as those in a *net asset owner* position have).

Exhibit 13: Home ownership – and spending contributions – vary across income cohorts

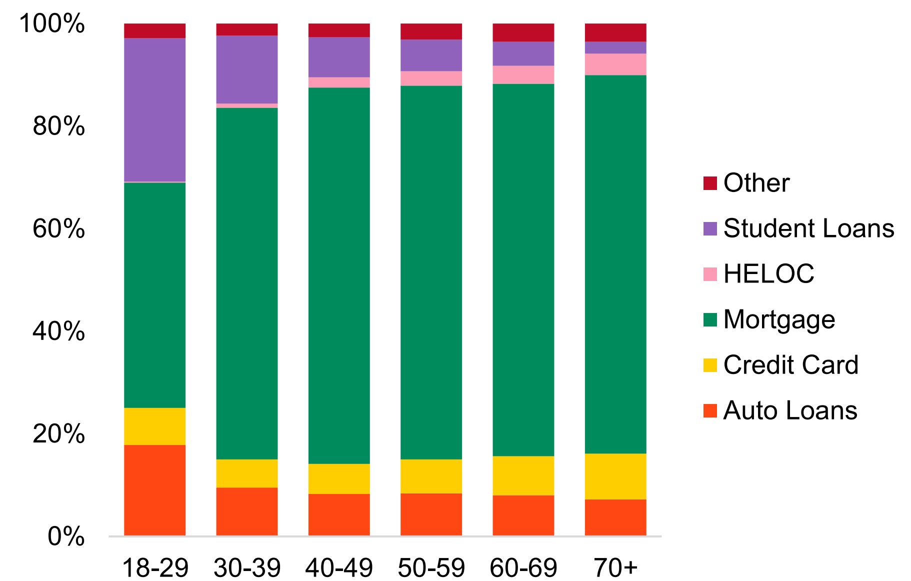
U.S. annual aggregate expenditures by consumer income quintile, and the share of consumers in each that are homeowners (RHS)



Source: BlackRock, U.S. Bureau of Labor Statistics Consumer Expenditure Survey (September 2024, most recent available).

Exhibit 14: Student loans represent 28% of younger consumers' total debt balances

Share of debt balances by type and age



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 2Q2025 (most recent as of September 30, 2025).

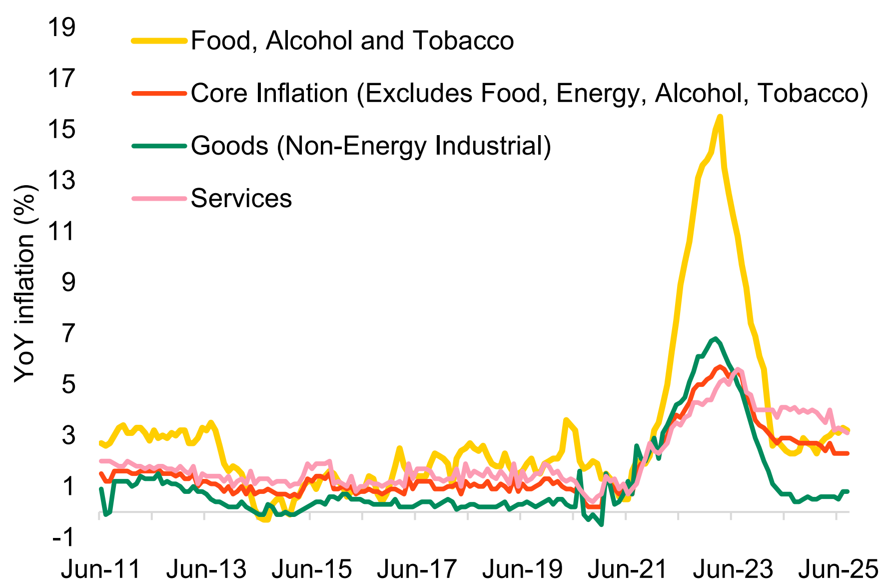
Europe: a mix of tailwinds to monitor

In late August, the U.S. and E.U. announced a trade framework, another step in the direction of reducing uncertainty related to trade policy. This is notable, given the established link between trade policy uncertainty and the potential for adverse economic developments (as discussed by the ECB in May). We view this – especially when considered alongside less restrictive borrowing costs, following 200bp of ECB rate cuts since mid-2024 – as supportive for Europe's growth prospects over the coming quarters. Recent survey indicators have also pointed to underlying positive momentum in manufacturing and services, as President Lagarde noted in September. Over the longer-term, we also see potential for investment to be supported by the recent fiscal plans on infrastructure and defense spending.

Economic activity for the Euro Area grew 0.7% in 1H2025, and the ECB expects 1.0% growth in 2026 and 1.3% in 2027. Inflation is now close to the Governing Council's 2% medium-term target (Exhibit 15), and forward-looking indicators such as the ECB's wage tracker suggest that compensation per employee will moderate further (vs. the 3.9% level in 2Q2025). Appreciation in the Euro, to the extent it persists, may also help curb goods inflation in the region (Exhibit 16).

Exhibit 15: Inflation is close to the ECB's target

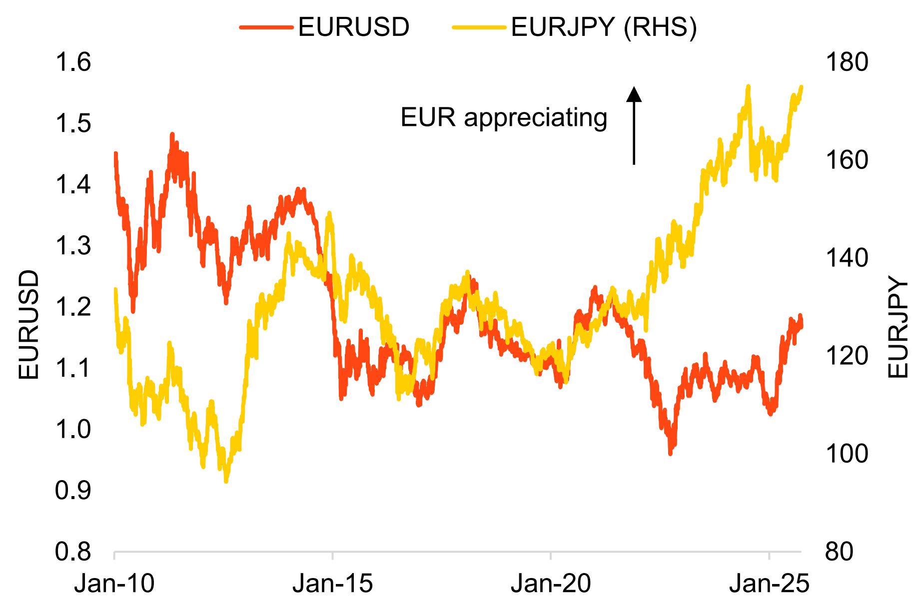
Year-over-year inflation (not seasonally adjusted) for the Euro Area, by category



Source: Eurostat, Bloomberg, European Central Bank, BlackRock. Captures inflation data through August 31, 2025 (most recent available as of September 30, 2025).

Exhibit 16: The Euro has strengthened

EURUSD and EURJPY spot exchange rates



Source: Bloomberg, BlackRock. As of September 26, 2025.

Asia: solid exports, weak domestic demand

One of the most notable macroeconomic developments from the Asia Pacific region over the past few months has been the relative resilience of export activity, despite tariff-related volatility. A September 21st analysis by Goldman Sachs Research found that Asia's exports increased 7% in U.S. dollar terms through August 2025 (and 8% in real terms, through July), compared to the same period last year.

Technology exports – especially from Taiwan – led the strength. We expect this pattern to persist, driven by the ongoing demands related to the build-out of artificial intelligence capabilities and related infrastructure.

Under the surface, we also see evidence of a regional mix shift. As shown in Exhibit 17, China's exports to the U.S. have declined in recent months, while its exports to Europe have increased. This has implications across regions. For example, ECB economists have estimated that additional Chinese exports could lower headline HICP inflation by 0.15 percentage points in 2026, with smaller effects persisting in 2027.

Beyond the potential for export and supply chain fluctuations, weak domestic consumption in Asia is also a focus – especially in China. Using Bloomberg consensus forecasts, growth for the Asia Pacific region is expected to remain stagnant from 2025 through 2027, at approximately 3.8% in real terms. This marks a deceleration from the 2023-2024 pace of 4.4-4.5%.

That said, most central banks in the region (with the exception of Japan) have room to ease interest rates, as needed.

Exhibit 17: Evidence of a 'mix shift' in exports

China exports to the U.S. and E.U., in $ billions (not seasonally adjusted)

Source: China Customs General Administration, Bloomberg, BlackRock. Captures data through August 31, 2025 (most recent as of September 26, 2025).

Liquid credit: focus on yield

We are still comfortable *selectively* moving down in credit quality

The spread vs. yield 'tug of war' persists

One of the themes which has remained firmly in place over the past several quarters has been the resilience of credit spreads. Episodes of widening around periods of market volatility have been short lived, and spreads across most rating cohorts continue to hover at the tight end of the post-global financial crisis range, in the USD and EUR markets.

A range of factors have contributed, including 'good enough' economic activity (as mentioned earlier), solid corporate fundamentals, and supply and demand technical tailwinds (such as limited net issuance and robust demand from yield-based investors, as all-in yields are still attractive by historical standards; Exhibit 19). Many of these factors are expected to remain in place for 4Q2025, as we outline in the following slides.

Exhibit 18: Spreads have remained tight...

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

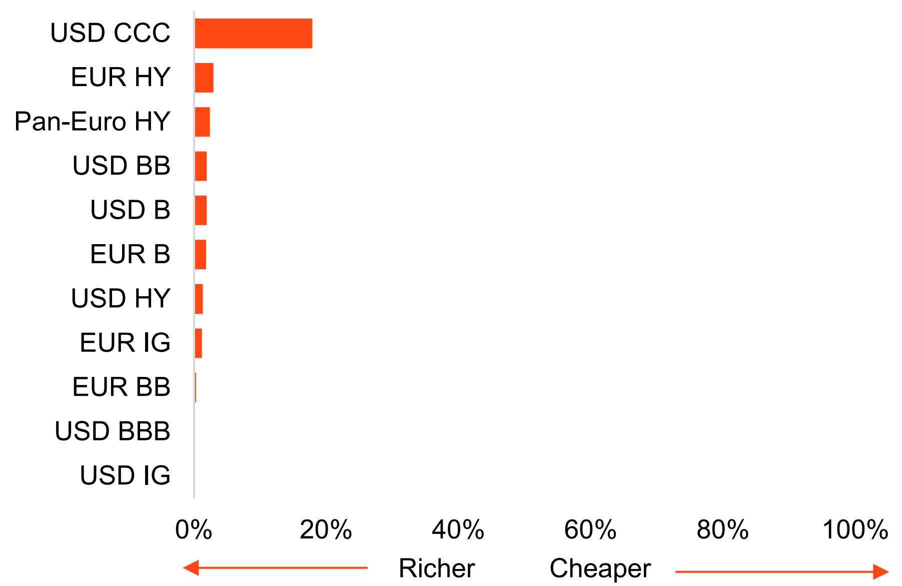
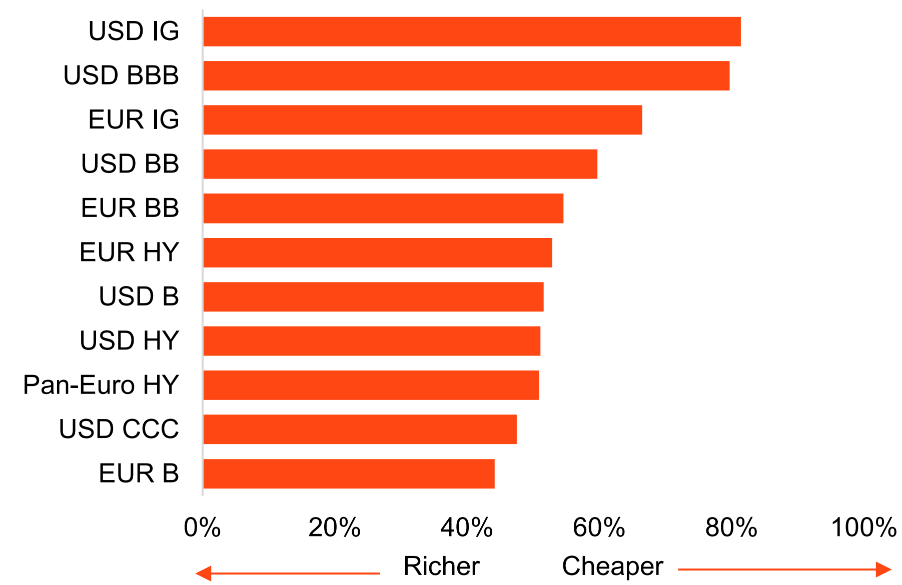


Exhibit 19: ...supported by the yield backdrop

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 September 26, 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.

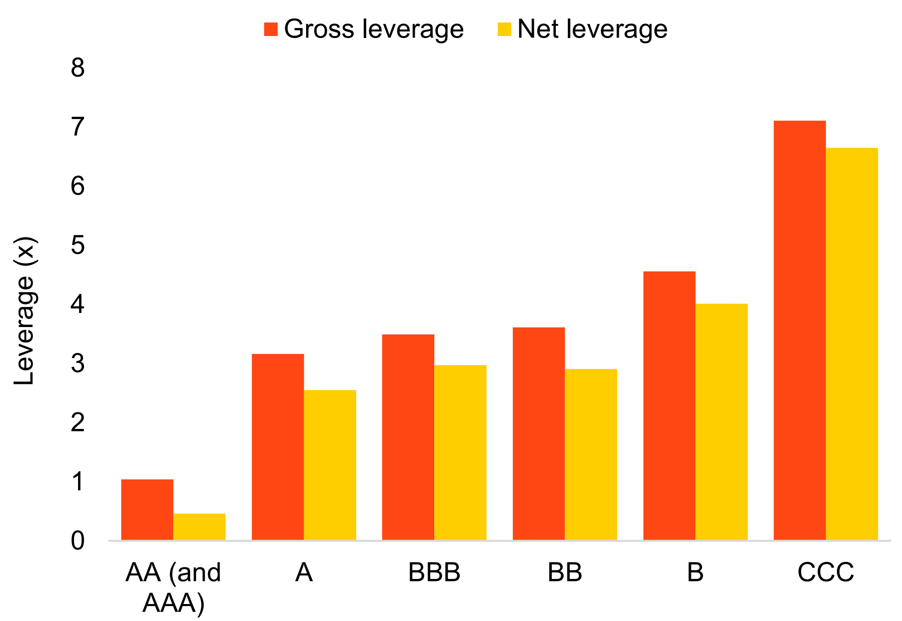
Selectively move down in credit quality

Since April 10th, we have been comfortable selectively moving down in credit quality, driven by a mix of macroeconomic, fundamental and technical factors. For investors constrained to the investment grade (IG) universe, this has meant a preference for BBB-rated credit over its higher rated peers (where we see more scope for balance sheet deterioration within the construct of an IG rating).

And for investors with a more flexible mandate, this has meant reaching into the high-end of high yield. As Exhibit 20 illustrates, net leverage for the BB and BBB cohorts is very similar. That said, the very thin financial cushions (and highly idiosyncratic nature) of the CCC-rated cohort require an intense focus on credit selection (Exhibits 20 and 21).

Exhibit 20: Leverage for BBBs and BBs is modest, and similar

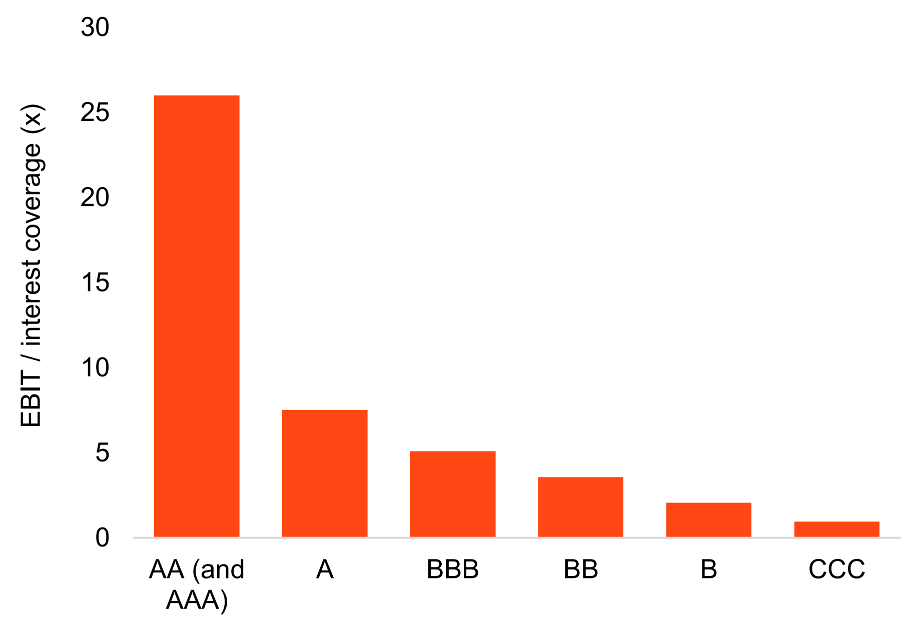
Trimmed mean (excludes top / bottom 10%) leverage metrics, for the last twelve months ended 2Q2025. Captures issuers in the Bloomberg USD IG and HY Corporate indices.



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 2Q2025 (most recent available as of September 29, 2025).

Exhibit 21: Coverage varies significantly, however

Trimmed mean (excludes top / bottom 10%) interest coverage metrics, for the last twelve months ended 2Q2025. Captures issuers in the Bloomberg USD IG and HY Corporate indices.



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 2Q2025 (most recent available as of September 29, 2025).

Carry and income are the focus

As shown in Exhibits 22 and 23, the lower-rated portions of the corporate credit market have been resilient on a year-to-date basis – again underscoring why a 'generic' up-in-quality tilt may not be the best approach even when uncertainty is elevated and policy shifts are frequent. For investors allocating to fixed rate corporate credit, we recommend doing so for the yield and income opportunity – and not for a potential total return 'boost' from tighter spreads or lower interest rates. We see limited scope for spreads to tighten on an absolute basis from current levels but also see a high bar for a sustained sell-off (i.e., widening) in credit spreads.

Exhibit 22: 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

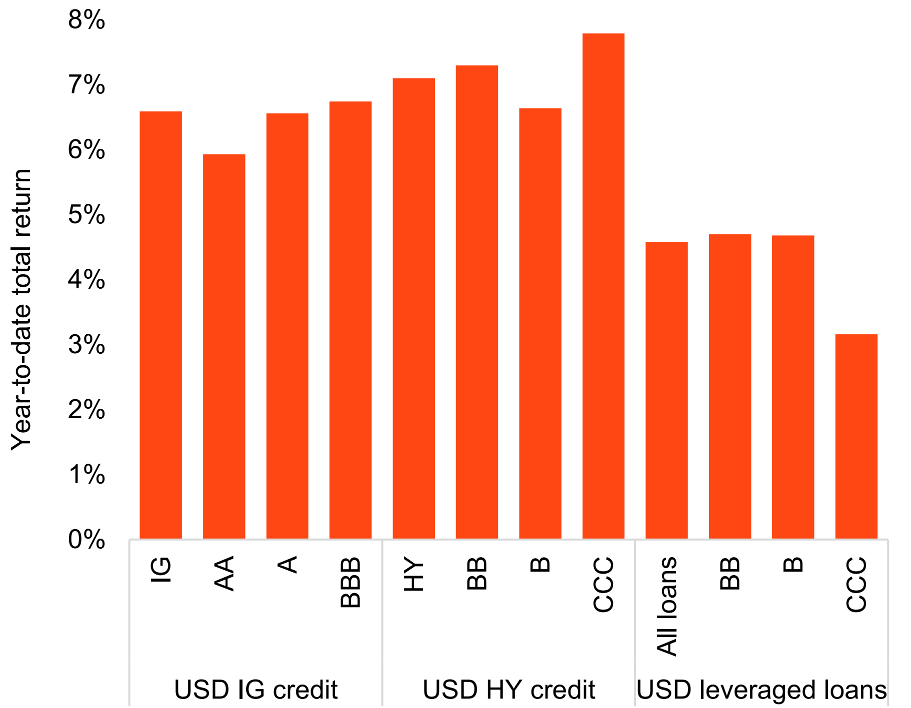
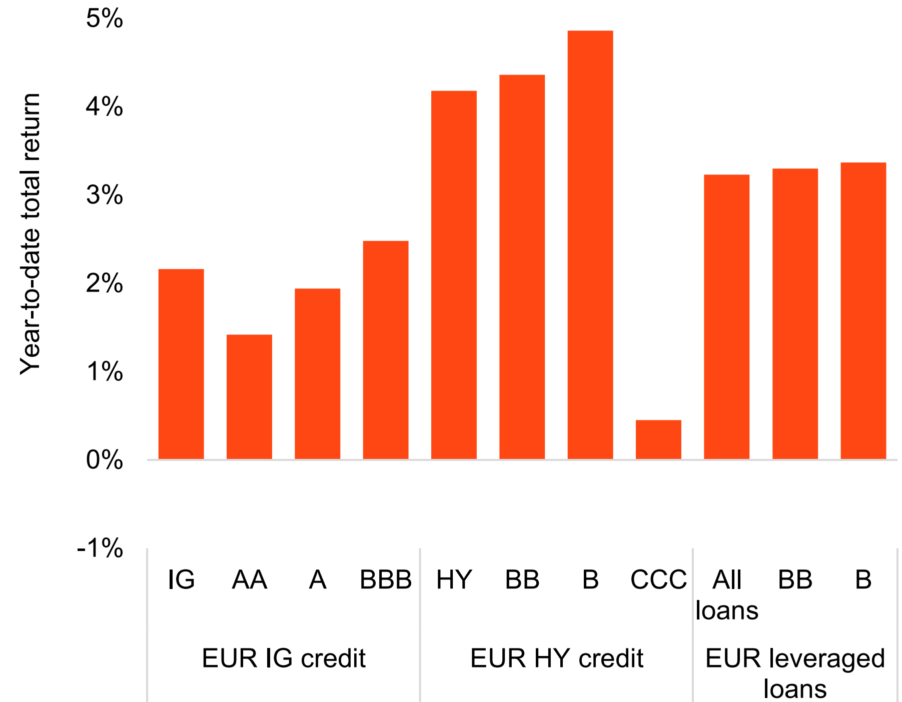


Exhibit 23: EUR HY has also outpaced EUR IG on a total return basis

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



For both charts: Source: Bloomberg, Pitchbook LCD, BlackRock. As of September 26, 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.

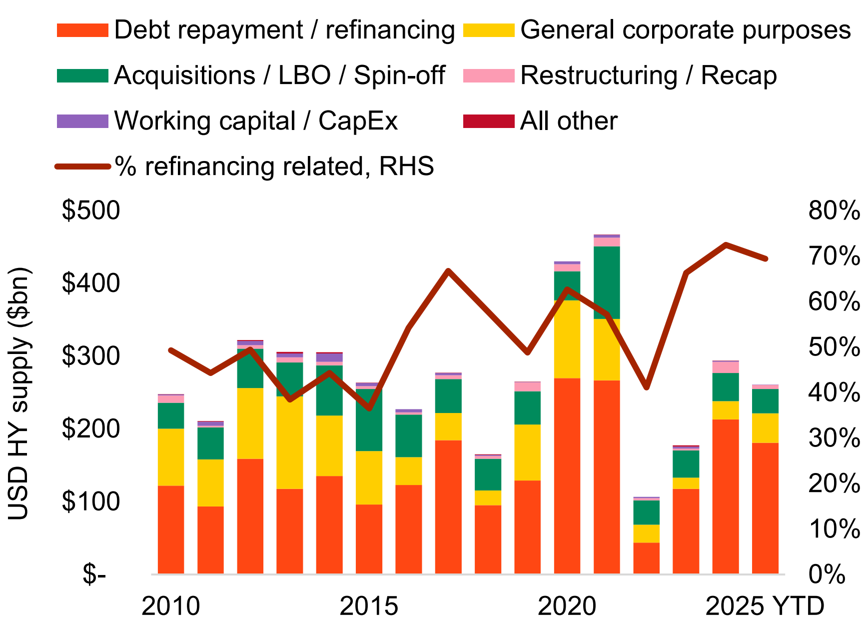
Favorable demand technicals in HY

Exhibits 24 and 25 illustrate how supportive the technical backdrop has been for the USD and EUR HY bond markets. Using 'use of proceeds' data captured by Dealogic, we find that 69% of the year-to-date gross USD HY supply has been earmarked for debt repayment or refinancing. This is just below the post-financial crisis record of 72% set in 2024. Similarly, the share of gross EUR HY issuance earmarked for debt repayment or refinancing stands at 63%. This follows 2024, which was also a heavy year for refinancing activity, at 55%.

In both markets, back-to-back years of limited net new issuance have created a supportive technical backdrop. We expect HY management teams will remain prudent and proactive with their balance sheet management, as they have done since the pandemic. In some cases, this may mean opting to address upcoming maturities well in excess of the 12-month mark prior to maturity (when a debt becomes 'current').

Exhibit 24: Most recent issuance in the USD HY market has been refinancing related

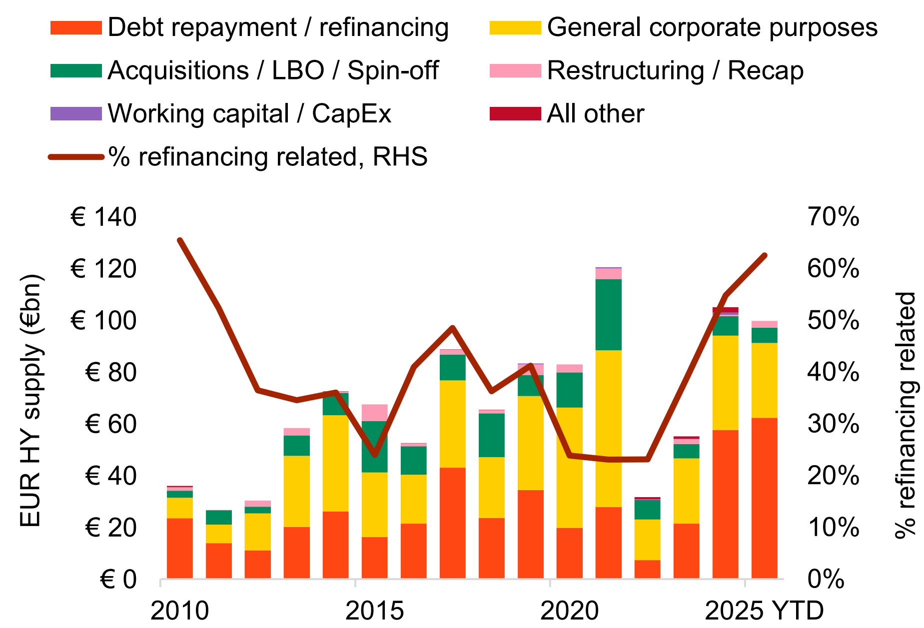
USD HY gross issuance by tranche use of proceeds and the share related to refinancing (RHS)



Source: Dealogic (ION Analytics), BlackRock. 2025 is as of September 29, 2025.

Exhibit 25: The share of refinancing issuance in EUR HY reached a new local peak

EUR HY gross issuance by tranche use of proceeds and the share related to refinancing (RHS)



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

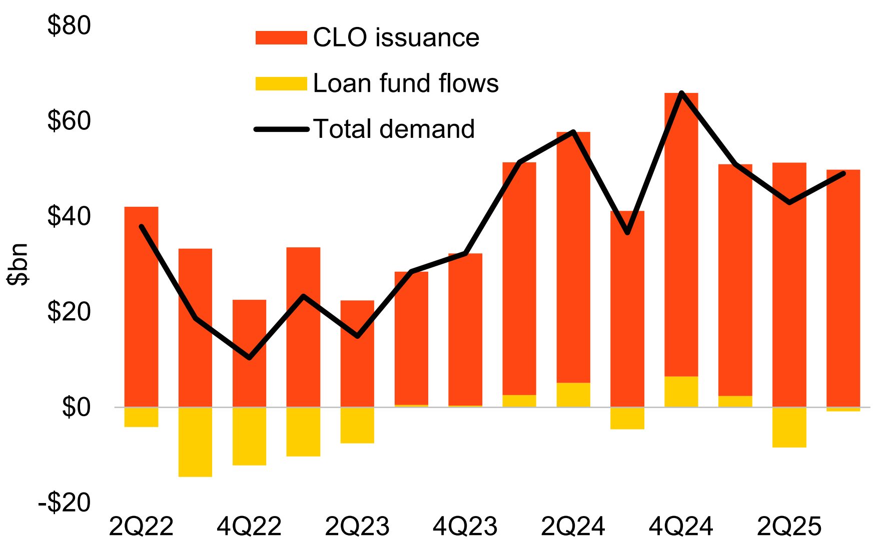
Loan technicals are also a tailwind

Similar to the USD and EUR HY bond markets, the technicals in the leveraged loan market have also been a tailwind – a pattern we expect to persist, largely owing to the strong levels of collateralized loan obligation (CLO) creation illustrated in Exhibits 26 and 27. While shifts in the so-called CLO 'arbitrage' may moderate the pace of CLO creation from here, we expect it will nonetheless remain a supportive factor for leveraged loans in the secondary market. For context, as of August 2025, there were 272 open CLO warehouses in the USD market – the highest on record, according to data compiled by Barclays Research and U.S. Bank.

That said, for corporate credit allocators choosing between the USD HY and leveraged loan markets, the more important relative value considerations relate to the yield opportunity and duration exposure, in our view. When isolating at the B rating level, index level data compiled by PitchBook LCD shows that leveraged loans offer a 132bp yield 'pick up' relative to HY bonds. While down from the peak of 273bp in September 2024 (just prior to the start of the Fed's rate cutting cycle), it still compares favorably to the 82bp in early April 2025.

Exhibit 26: Demand for USD leveraged loans is elevated

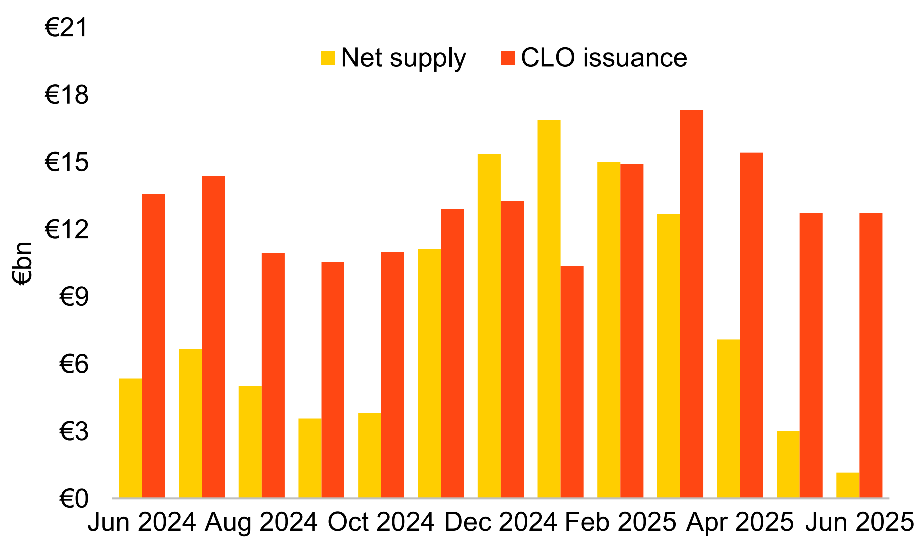
USD leveraged loan market: measurable investor demand



Source: Pitchbook LCD, Morningstar Direct, BlackRock. Data through September 24, 2025 (most recent as of September 26, 2025). Fund flow data includes monthly reporters.

Exhibit 27: A similar trend in the EUR market

EUR leveraged loan market: rolling 3-month institutional market net supply vs. CLO issuance



Source: PitchBook LCD, Morningstar European Leveraged Loan Index. Data through June 30, 2025 (most recent as of September 26, 2025). Net supply is calculated as new issues tracked by the index minus repayments.

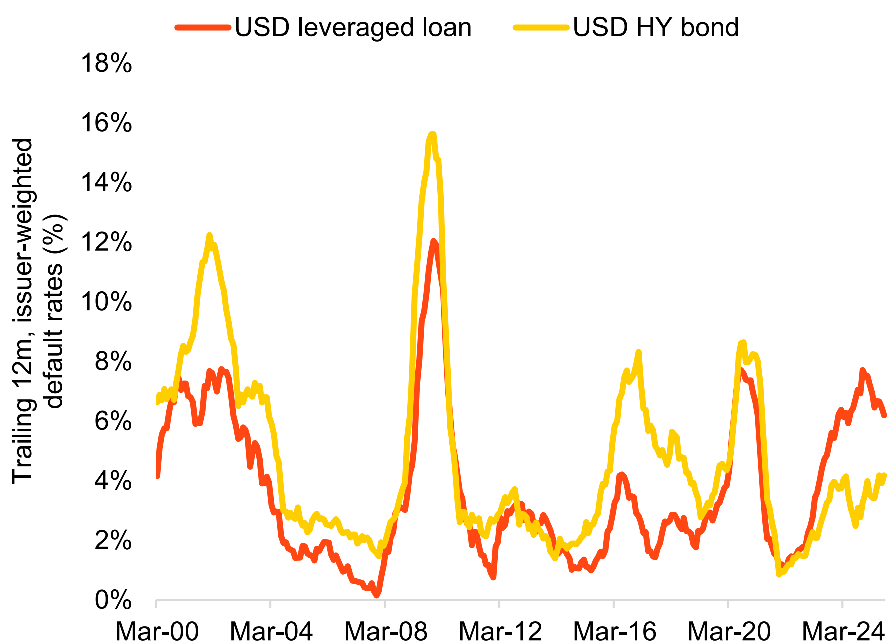
Defaults will likely remain contained

Looking ahead to 4Q2025 (and into 2026), we expect default activity to moderate, in aggregate, given the growth and monetary policy backdrops we outlined earlier. Within the USD leveraged finance universe, the gap between floating rate and fixed rate borrowers should also continue to narrow, as it has been over the past few months (Exhibit 28), as floating rate borrowers experience incremental relief with the Fed's most recent (and anticipated) rate cuts.

That said, some of the key default themes from the past several quarters are likely to remain in place. Most notable, in our view, is the elevated share of 'repeat defaulters' (Exhibit 29), which we believe is driven by 'incomplete' balance sheet relief for the most stressed credits. Firms attempting distressed exchanges instead of formal Chapter 11 filings may struggle to 'grow into' their debt capital structures.

Exhibit 28: The gap between loan and HY defaults should continue to narrow

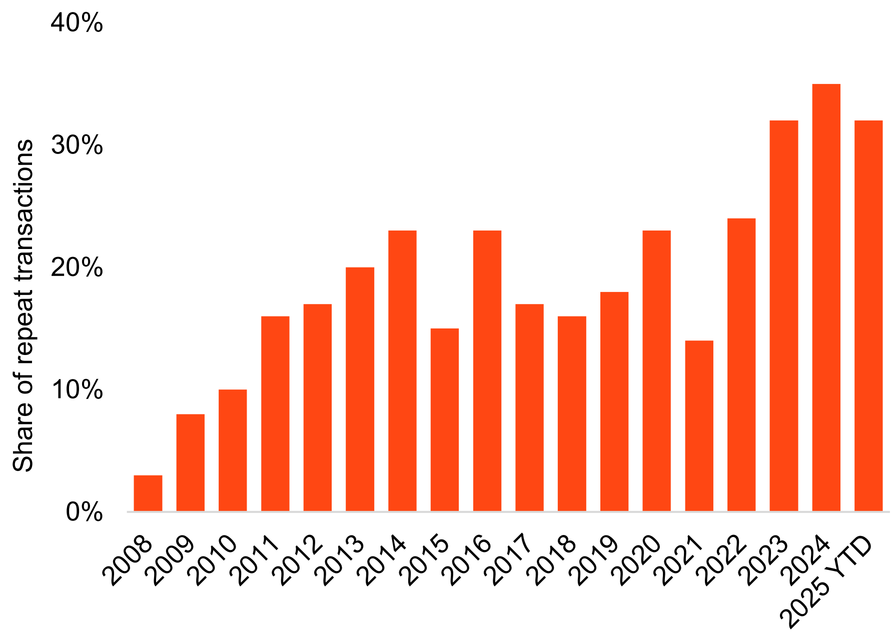
Trailing 12-month, issuer-weighted default rates for the universe of USD HY bonds and USD leveraged loans tracked by Moody's



Source: BlackRock, Moody's. As of August 31, 2025 (most recent available as of September 28, 2025).

Exhibit 29: As distressed exchanges have become more common, so too have 'repeat defaulters'

Share of repeat defaulters in the USD credit market



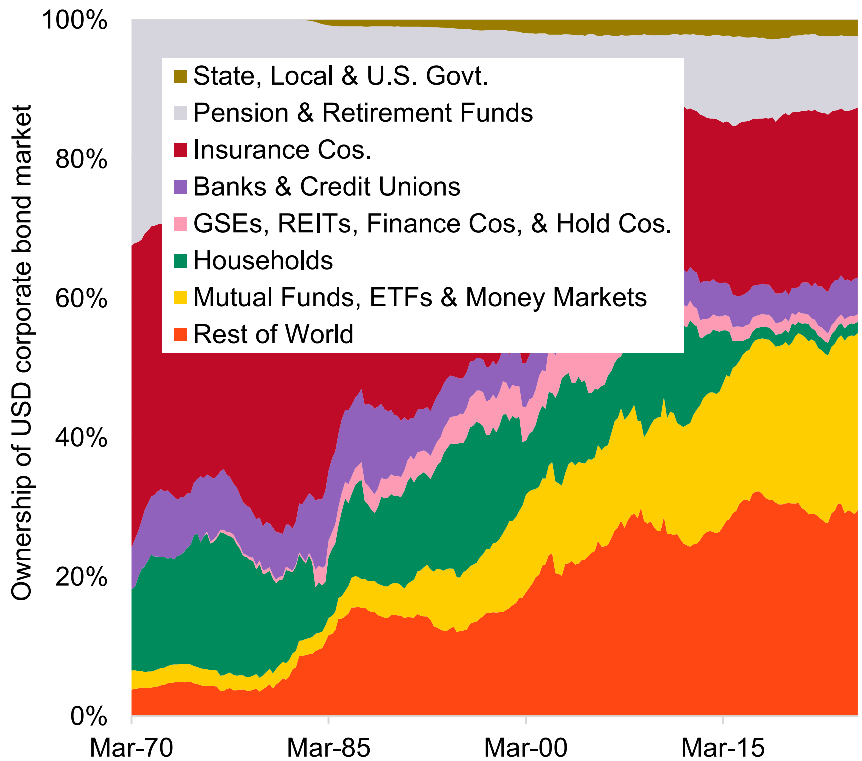
Source: J.P. Morgan Research, as of September 2, 2025.

A focus on foreign demand for USD credit

Another closely watched development for corporate credit investors has been foreign investors' appetite for USD credit, as this cohort owns more than 25% of the USD corporate bond market (Exhibit 30). At the start of the year, many market participants were concerned about a possible moderation in "U.S. exceptionalism," and the potential for a reallocation of capital flows outside of the U.S. Those concerns are not visible in data from the U.S. Treasury, however. Since the start of the year, foreign investors' holdings of long-term USD corporate bonds increased 7%, while holdings of USD stocks increased 9%. And the most recent data from the U.S. Treasury shows that year-to-date foreign demand remains on pace to rival 2023 and 2024 levels (Exhibit 31).

Exhibit 30: More than 25% of USD corporate debt is held by foreign investors

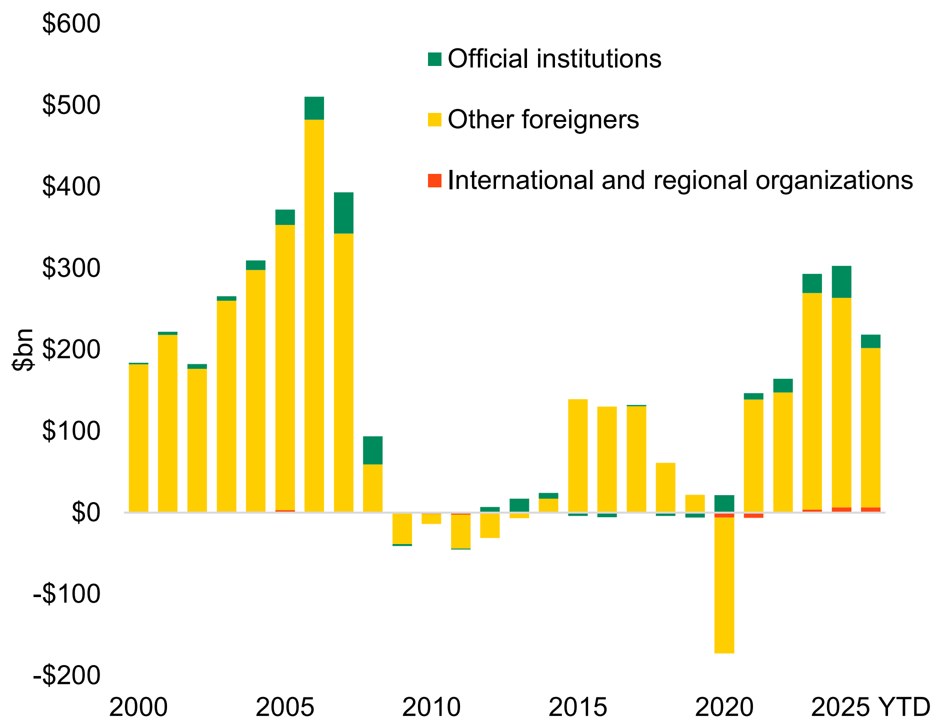
Ownership distribution of the USD corporate bond market



Source: BlackRock, Haver Analytics, Federal Reserve Board. Captures data as of 2Q2025 (most recent available as of September 30, 2025).

Exhibit 31: 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 and July 31, 2025 (most recent as of September 28, 2025).

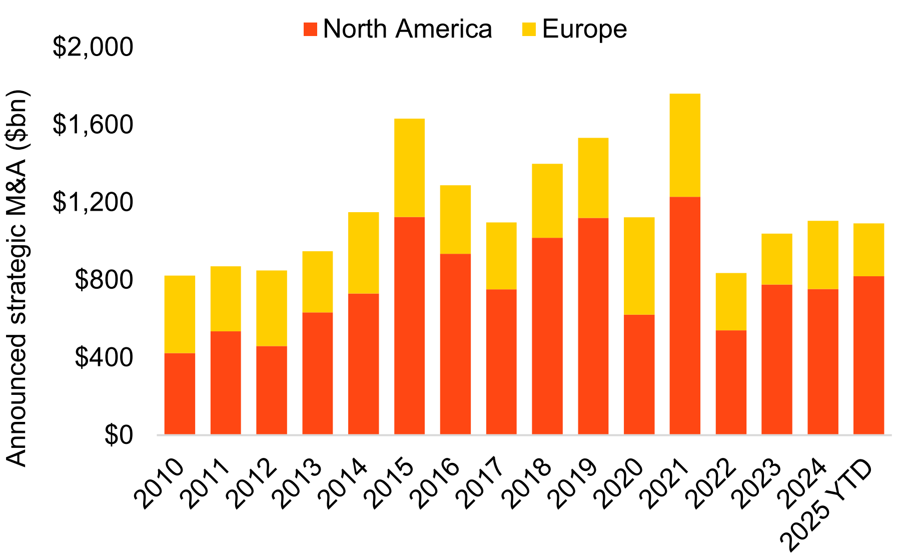
The M&A momentum is poised to extend

Beyond earnings guidance commentary from management teams, strategic M&A is also closely watched as a barometer of C-suite confidence. These deals often relate to long-term business objectives, such as product diversification, entering a new market, reaching a new customer, or acquiring new capabilities. They can also require significant investments.

The past few months have seen a resurgence in strategic M&A activity, and we expect this pattern to accelerate into 4Q2025 and 2026 as C-suites gain more clarity and confidence around the macroeconomic and policy backdrops. So far this year, North American acquirers have announced $820 billion of strategic deals – already surpassing the full-year amounts of 2022-2024 and leaving 2025 on track to generate the most active year for deal-making since 2021 (which was ultimately a record; Exhibit 32). Acquisitions announced by European acquirers have been relatively more muted, by contrast.

Exhibit 32: Strategic M&A has reaccelerated

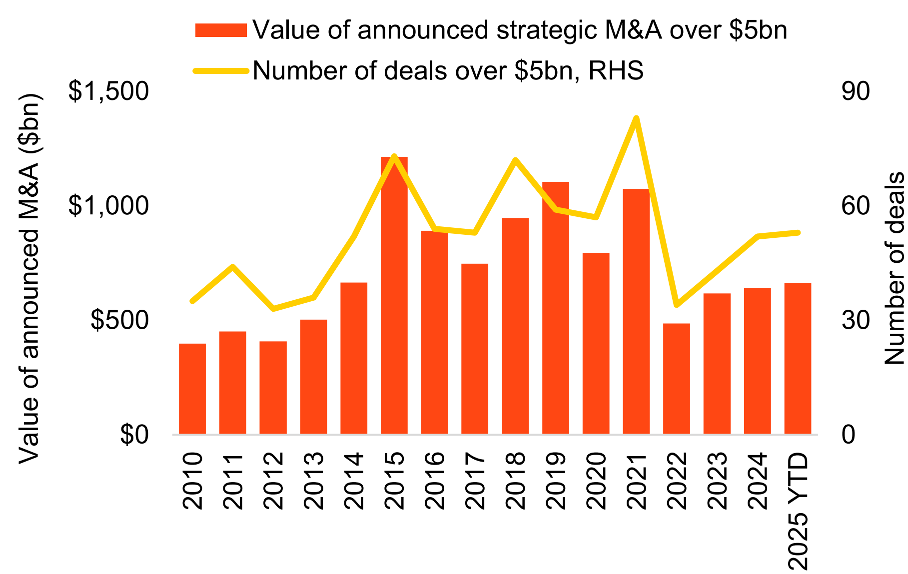
Announced strategic M&A by North American and European acquirers. Captures deals valued at $1 billion or more at announcement. Excludes cancelled and withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. 2025 is as of September 23, 2025.

Exhibit 33: Large M&A so far in 2025 has already surpassed the full years of 2022-2024

Announced strategic M&A deals valued at $5bn or more at announcement (value and count, RHS), by year. Captures acquirers based in North America and Europe. Excludes cancelled and withdrawn deals.



Source: Source: Dealogic (ION Analytics), BlackRock. 2025 is as of September 28, 2025.

A less-friendly financing mix for bondholders

Large-scale M&A – or deals valued at $5bn or more, at announcement – has also reaccelerated in 2025. As Exhibit 33 highlights, both the *value and count* of $5bn+ deals announced so far in 2025 have surpassed the full-year amounts of 2022-2024.

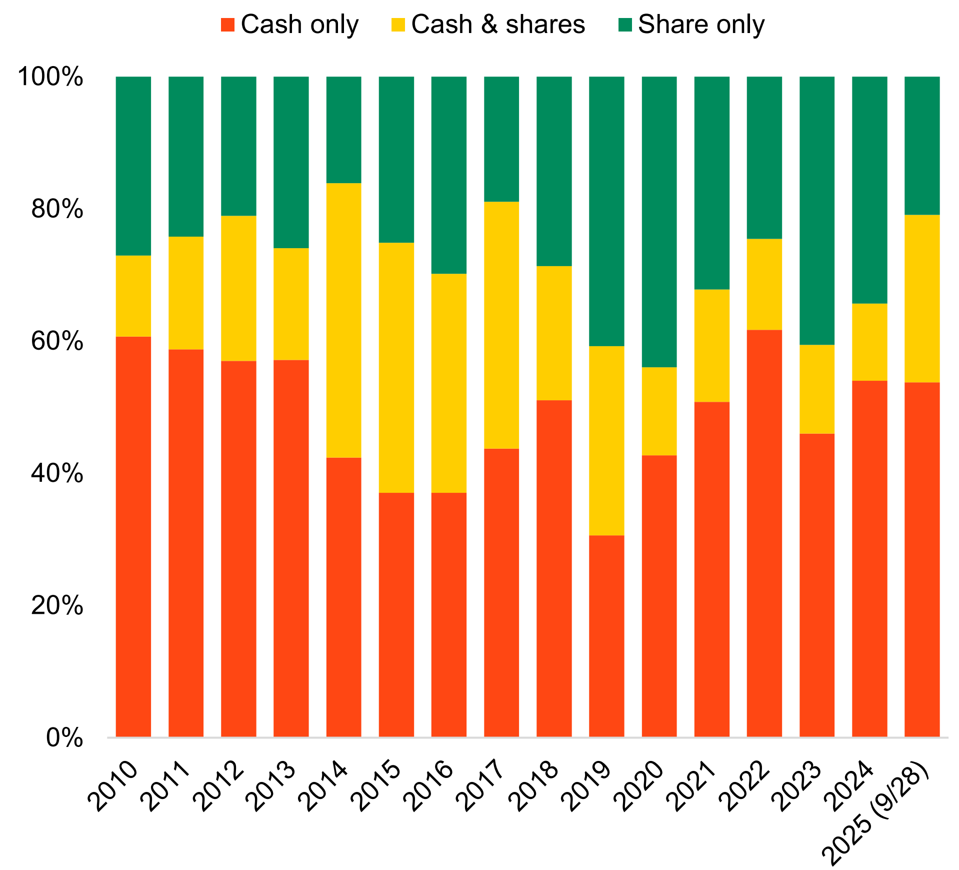
This is important for bondholders to monitor, as such large transactions often require additional financing from external sources – such as equity or debt issuance. And even when the deals are funded via cash resources already on hand, anecdotal evidence often finds that this liquidity is often 'replaced' with debt, at a future date.

As Exhibit 34 shows, the share of all-stock deals announced in 2025 is tracking at its lowest level since 2017. We view this as a reflection of the financial flexibility and debt capacity available to some of the most active acquirers. It also likely reflects the elevated equity market volatility of the past several months.

Sector 'leadership' has also shifted so far in 2025, based on our analysis of Dealogic deal-level data. For example, certain sectors have been larger contributors to the 2025 deal-making backdrop, relative to their historical pattern. This includes Transports and Construction. By contrast, sectors which have often been sizable contributors in past years – such as Healthcare and Energy / Utility – are tracking towards a more modest share in 2025. The contribution from Technology and Financials is generally consistent (and sizable). In fact, Technology has represented 22% of deals – the highest share of the post-financial crisis era (and above the previous high watermark of 21% set in 2021).

Exhibit 34: The financing mix of strategic M&A has been somewhat unfriendly for bondholders in 2025

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



Source: Dealogic (ION Analytics), BlackRock. 2025 is as of September 28, 2025.

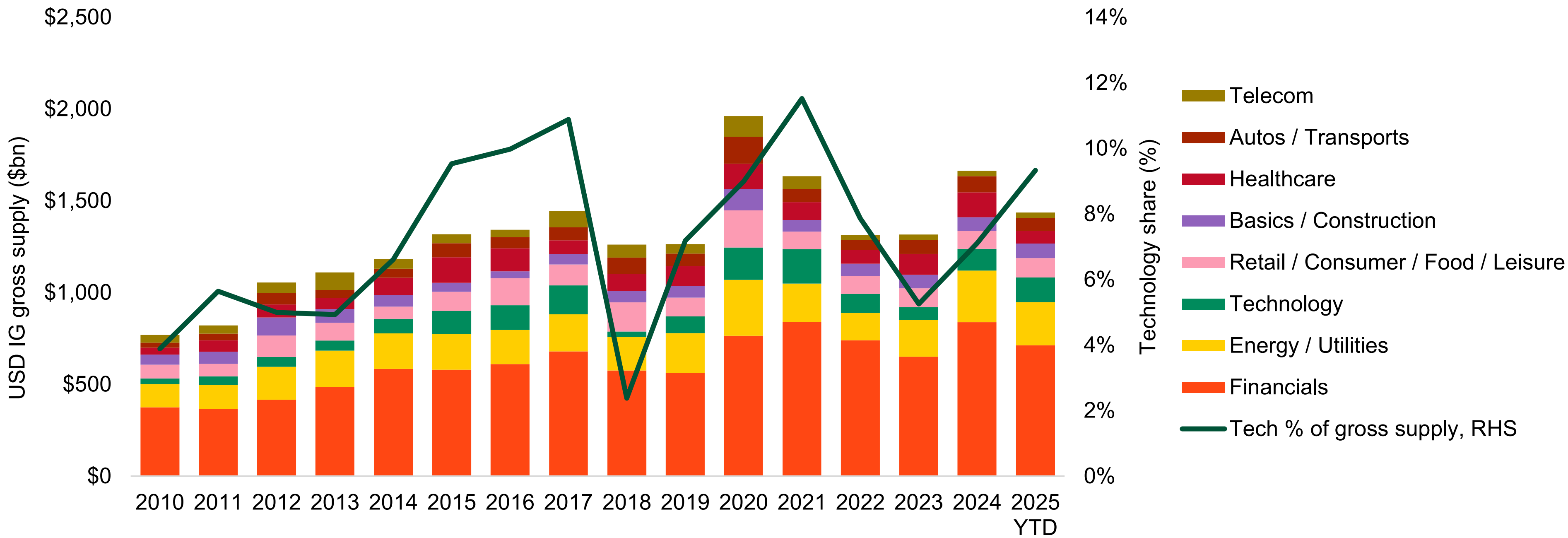
USD IG supply will be boosted by M&A, Tech

Large-scale M&A tends to be dominated by IG-rated acquirers, as the financial flexibility required to complete such transactions typically maps to the higher end of the rating spectrum. So far this year, 7% of overall USD IG gross supply has been earmarked for acquisitions. This sits at the low end of the historical range, which has spanned from 3% to 17% in the post-financial crisis era. As the announced deals from 2025 are funded (there is typically a several month time lag from a deal's announcement to its subsequent financing), we expect the share of M&A related supply in the USD IG market to increase.

More broadly, gross issuance in the USD IG market is on track for the busiest year since 2020, as shown in Exhibit 35. The activity has been driven, in part, by an acceleration of supply from the Technology sector. Our colleagues in the *BlackRock Investment Institute* have noted that the annual investment in artificial intelligence (AI) data centers and their chips could surpass $700 billion by 2030. Investment of this scale will create a vital role for both public and private capital markets, in our view.

Exhibit 35: USD IG supply is on track to be the largest since 2020, boosted in part by Technology

USD IG gross supply by sector ($bn), and share of supply associated with the Technology sector, RHS



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

Private credit: an expanding opportunity set

Fundamentals in aggregate appear solid, albeit with ongoing dispersion

The magnitude of the private opportunity set

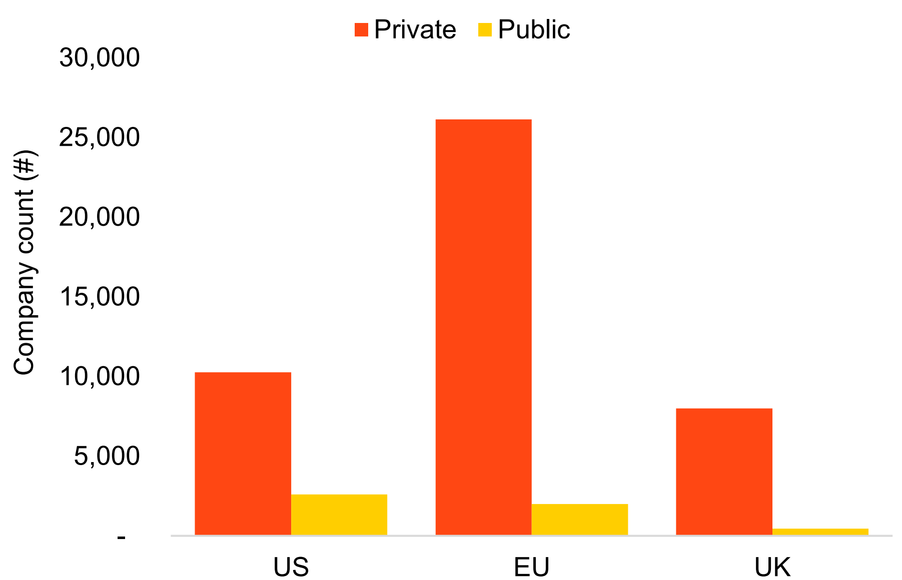
Private credit's expansion over the past several years has been driven by a multi-faceted set of growth drivers including: (1) investors' desire for diversification and income, (2) borrowers' desire for customization and partnership, (3) structural shifts in public debt and equity markets, which are serving ever larger borrowers as companies 'stay private for longer,' and (4) an evolution in the bank lending landscape.

As private credit has grown into a sizable, scalable, stand-alone asset class, its role in the financing ecosystem has also evolved. As a result, private credit is no longer reserved for niche financing solutions or lending exclusively to smaller, middle-market corporate borrowers. Rather, it can now reach areas where it previously could not, including larger borrowers with demonstrated access to the liquid (public) corporate debt markets, such as broadly syndicated leveraged loans, high yield (HY) bonds, and even investment grade (IG) bonds.

This expanding addressable market of potential borrowers – across a range of sectors – adds to the significant opportunity set presented by privately held firms, globally. The magnitude of the opportunity in financing private companies is significant.

Exhibit 36: There are over 44,000 private companies across the US, EU, and UK

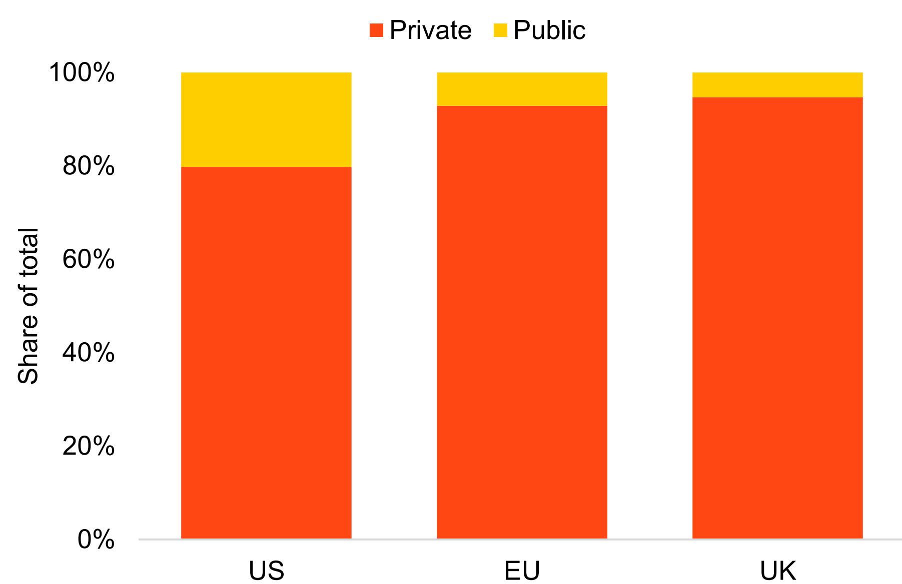
Count of private and public companies with revenue greater than $100 million, in the US, EU, and UK



Source: S&P Capital IQ, BlackRock. As of August 19, 2025.

Exhibit 37: The majority of scaled businesses are private, across regions

Share of private and public companies with revenue greater than $100 million, by count, in the US, EU, and UK



Source: S&P Capital IQ, BlackRock. As of August 19, 2025.

An expanding universe of borrowers

Data from Capital IQ shows that the number of private companies with revenue greater than $100 million far outpaces public companies in the U.S., E.U., and U.K., both in absolute terms and as a share of total (Exhibits 36 and 37).

The most notable takeaway, in our view, is the sheer quantity and scale of financing opportunities that exist among private companies – over 44,000 across the three regions.

Exhibit 38 puts the size of this business opportunity in dollar terms, capturing the aggregate last-twelve-month (LTM) revenues for public and private companies with revenue greater than $100 million. The total revenues associated with these private businesses amount to $40 trillion.

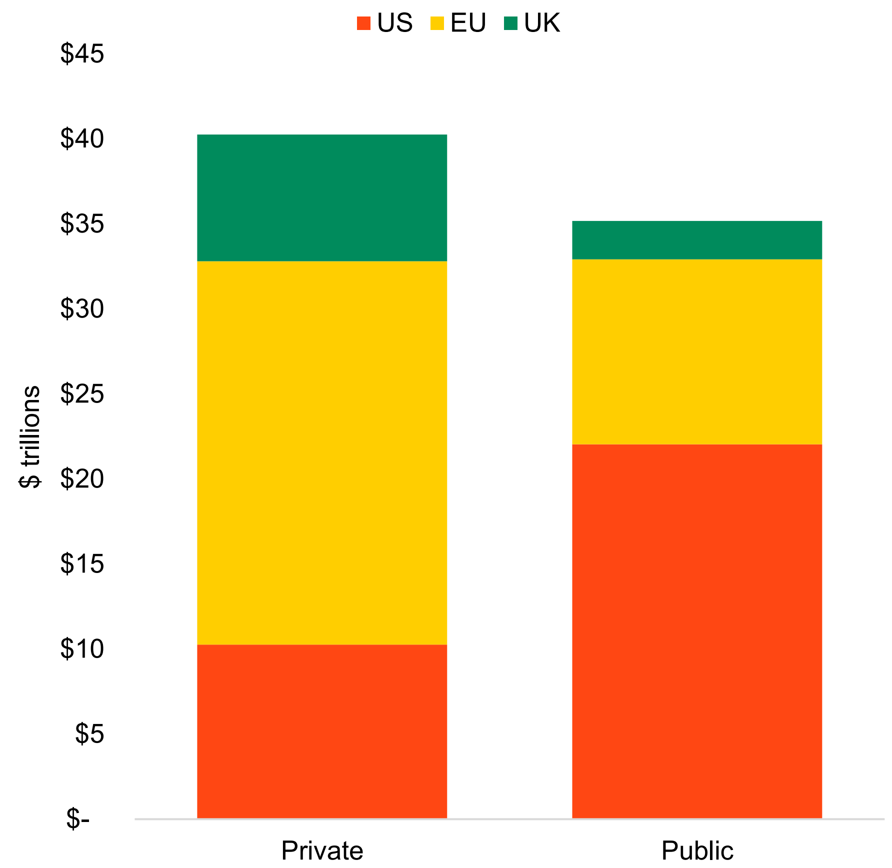
For context, publicly listed companies with more than $100 million in revenue represent an aggregate of $35 trillion in LTM revenue in the US, the EU, and the UK (again, Exhibit 38).

And while private companies capture a meaningful opportunity set for financing, the universe is not restricted to non-listed firms. Indeed, we expect an ongoing expansion of private credit's addressable universe of borrowers into cohorts that the syndicated markets have historically serviced.

This expansion of private credit's borrower base has been driven by a key 'feedback loop,' in our view: as experienced managers have captured a larger share of fundraising in recent years, private credit fund sizes have increased accordingly. Data from Preqin shows the average private credit fund size has grown from $627 million in 2020 to $1.05 billion in 2024, with the largest managers able to raise funds exceeding $10 billion in size. This, in turn, has allowed private credit to finance larger deals.

Exhibit 38: Private company annual revenues total $40 trillion and outpace public company revenues, in aggregate

Aggregate annual revenues for private and public companies, with revenues greater than $100 million, in the US, EU, and UK, in $ trillions



Source: S&P Capital IQ, BlackRock. As of August 19, 2025.

Larger funds and more 'jumbo' issuance

These larger financings, often referred to as 'jumbo' financings, have increased in recent years (Exhibit 39). They generally include larger borrowers – some of which have demonstrated access to the syndicated debt markets. As such, private credit is no longer reserved for smaller, niche financings – as it was in earlier stages of its growth.

With size no longer a binding constraint on private credit's reach, larger borrowers can benefit from its ability to construct flexible and bespoke financing solutions. This can position private credit as a complement to other financing solutions in the existing capital structure.

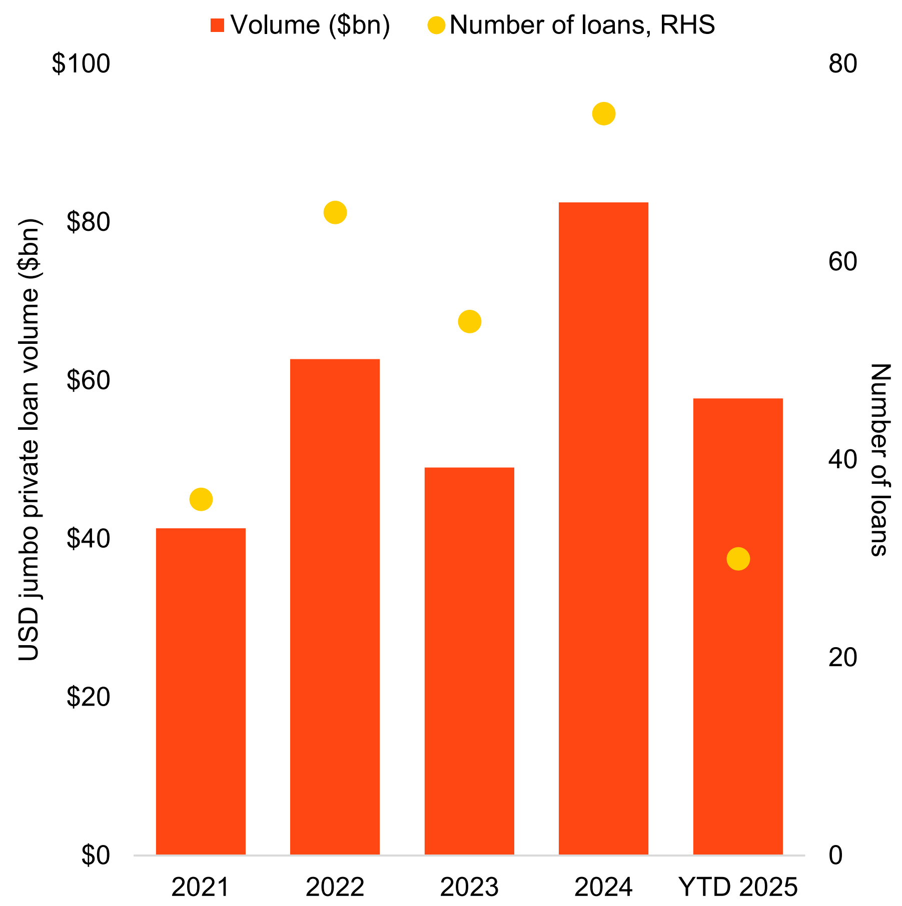
While this presents a structural tailwind for upper middle market and larger scale private credit borrowers, we still see a compelling opportunity across the core middle market. Smaller-sized borrowers are increasingly likely, in our view, to rely on private credit for incremental financing that is too small to be considered liquid in the syndicated credit markets (which are serving ever larger borrowers).

We also believe these companies can benefit from the partnership-oriented lending relationship and customized financing as they move through the various stages of their growth journey.

Further, we expect recent periods of episodic market volatility may act as a tailwind in further broadening the addressable market of borrowers accessing private credit for financing solutions. This is largely due to private credit's ability to provide certainty of execution and terms, flexibility, and customization across the capital structure.

Exhibit 39: The number of 'jumbo' loans has increased

Private ('jumbo') loans greater than $1 billion, in the USD market



Source: KBRA DLD, BlackRock. As of September 29, 2025. Includes incremental amounts to existing financings that total $1 billion or more.

Constructive signaling from fundamentals

Beyond the structural shifts impacting the private financing markets, investors also remain focused on the fundamental trends. The signaling from the most recent data (capturing 2Q2025) has largely been encouraging.

As we discuss in the following slides, our review of the 2Q2025 data released from a range of third-party data sources reveals incremental improvements in interest and fixed charge coverage ratios, realized loss rates that remain below historical average levels, and the largest magnitude of aggregate EBITDA growth in multiple years.

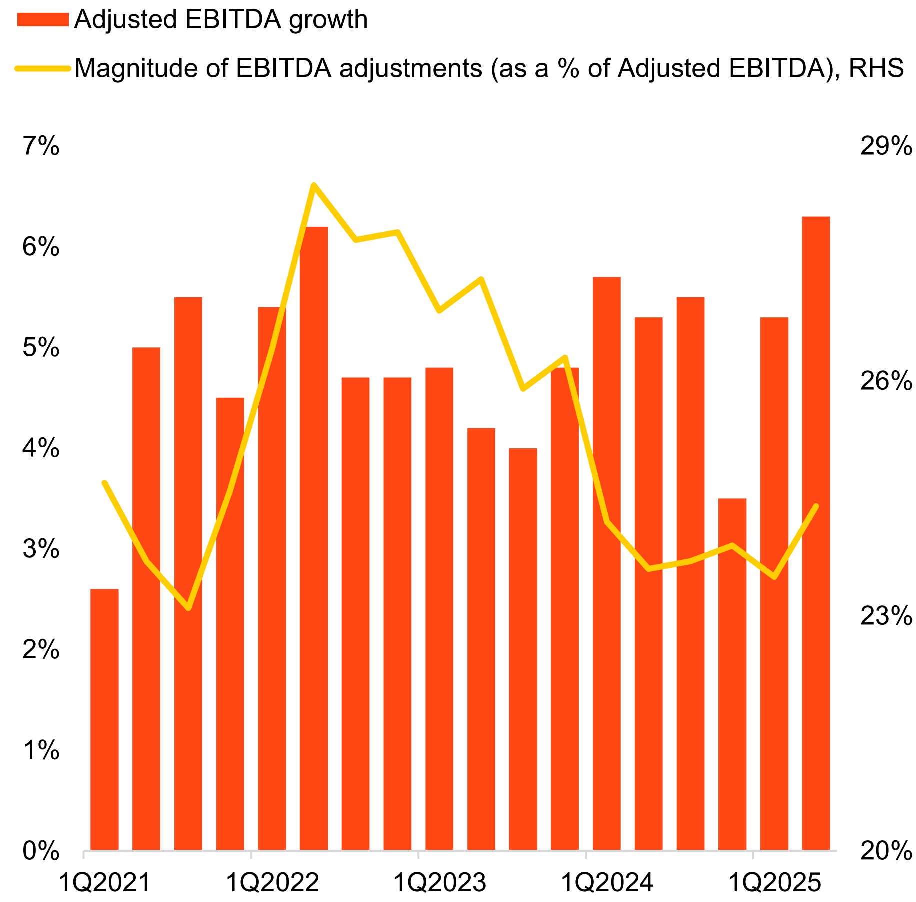
That said, dispersion remains evident across a range of factors, including company size, sector, and vintage. And away from the more 'traditional' credit metrics, we are closely monitoring trends – and important nuances – related to payment-in-kind (PIK) utilization, covenant defaults, and non-accrual rates, as potential signposts to watch as catalysts for additional dispersion.

In our view, this underscores the importance of manager selection, credit underwriting and structuring, workout expertise, and origination capabilities, among other variables.

We first start with the Lincoln International Proprietary Private Market Database, which conducts quarterly valuations for over 6,250 portfolio companies and is estimated to capture 30% of all U.S. private equity-backed companies. In 2Q2025, 63.4% of U.S. companies tracked by Lincoln reported an increase in adjusted EBITDA, which is above the historical average of 60.6% (Exhibit 40). Average adjusted EBITDA growth was 6.3%, up from 5.3% in 1Q2025 and the highest level in the last five years. Additionally, the level of EBITDA adjustments in 2Q2025 was not outsized relative to the past few years (again, Exhibit 40).

Exhibit 40: EBITDA growth in 2Q2025 was the highest in the past five years

Adjusted EBITDA growth (last twelve months, year-over-year) for U.S. firms tracked by Lincoln International's Proprietary Private Market Index, and the magnitude of EBITDA adjustments (RHS)



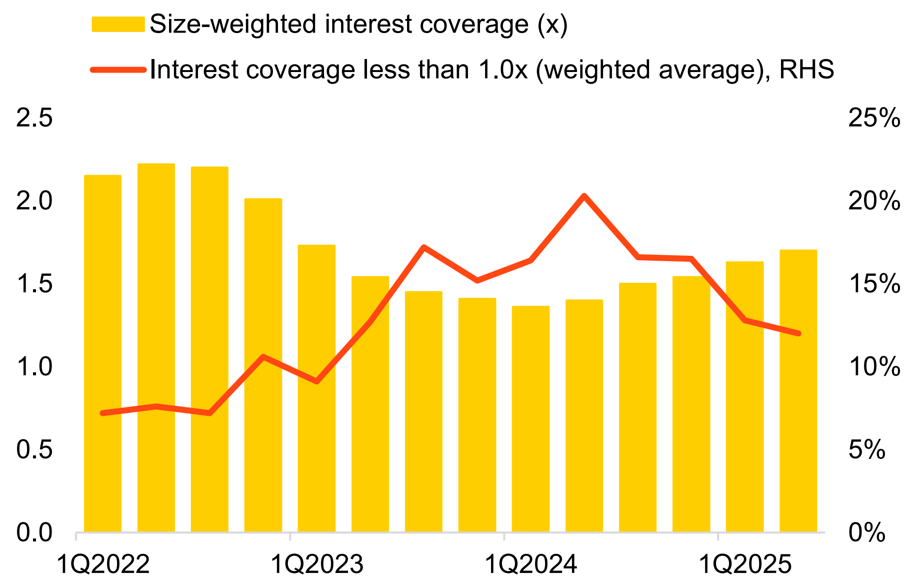
Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 2Q2025 (most recent). © 2025 Lincoln Partners Advisors LLC. All rights reserved. Used with permission. Third-party use is at user's own risk.

Coverage metrics continue to improve

Additionally, as Exhibits 41 and 42 illustrate, interest and fixed charge coverage (FCC) ratios (also tracked by Lincoln International) improved slightly in 2Q2025, extending the trend of the past few quarters. The share of firms with very weak interest coverage ratios (i.e., below 1.0x) declined modestly, while the share of firms with FCC below 1.0x remained stable. We expect incremental improvement over the next few months, as the Fed rate cut delivered in September 2025 filters through to borrowing costs, and presuming economic activity tracks with our constructive base case. This should be visible as 3Q2025 and 4Q2025 data are made available.

Exhibit 41: U.S. private credit interest coverage metrics improved in 2Q2025…

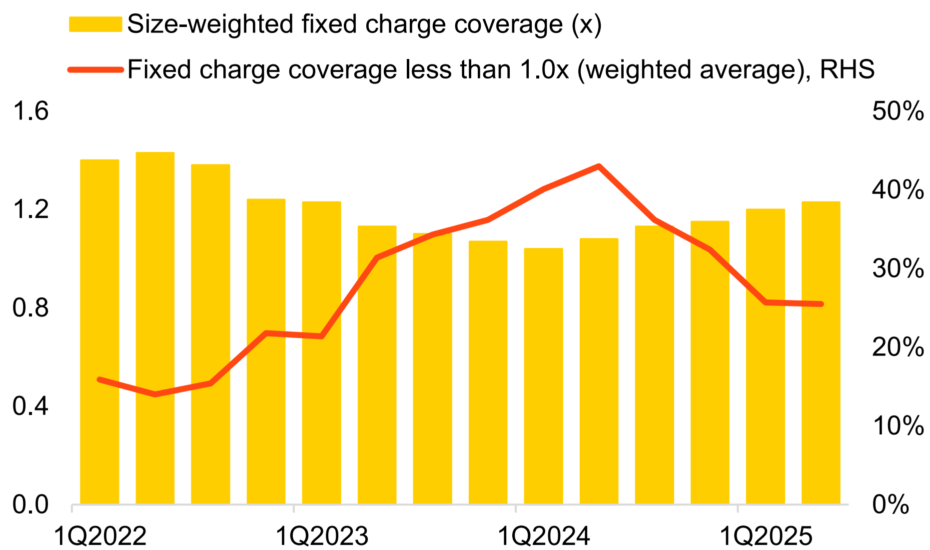
Size-weighted interest coverage ratios for U.S. firms tracked by Lincoln International's Proprietary Private Market Index, and the weighted average share of firms with interest coverage less than 1.0x, RHS



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 2Q2025 (most recent). Interest coverage = LTM EBITDA / Interest. © 2025 Lincoln Partners Advisors LLC. All rights reserved. Used with permission. Third-party use is at user's own risk.

Exhibit 42: … as did fixed charge ratios

Size-weighted fixed charge coverage (FCC) ratios for U.S. firms tracked by Lincoln International's Proprietary Private Market Index, and the weighted average share of firms with FCC less than 1.0x, RHS



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 2Q2025 (most recent). Fixed Charge Coverage = (LTM EBITDA – Taxes - Capex) / (Interest Expense + (1% * Total Debt)). Capital Expenditures ("Capex") utilizes LTM Capex by default. If LTM Capex is not available, NFY Capex is utilized, and LFY Capex if both LTM Capex and NFY Capex are unavailable. © 2025 Lincoln Partners Advisors LLC. All rights reserved. Used with permission. Third-party use is at user's own risk.

Assessing defaults and realized losses

The directional trend in covenant defaults is also monitored by many market participants as a barometer of potential financial pressure within private credit. From early 2023 through late 2024, the aggregate covenant default rate tracked by Lincoln International showed a consistent trend of improvement (i.e., decline). But the covenant default rate has recently increased: to 3.4% as of 2Q2025, compared to 2.2% in 3Q2024, albeit still modestly below the five-year average of 3.6% (Exhibit 43).

That said, a covenant default does not necessarily translate into a monetary default. For this reason, we view realized loss rates as more informative than covenant default rates. As Exhibit 44 illustrates, trailing twelve-month realized losses for the Cliffwater Direct Lending Index were 75bp in 2Q2025, below the 10-year average of 104bp. The Cliffwater Direct Lending Index (CDLI) is an index of over 20,000 USD middle market loan holdings, representing over $485 billion in assets under management (AUM). We view it as a proxy for the U.S. direct lending market, which is the largest strategy by AUM in the private credit universe (per Preqin).

Exhibit 43: Covenant defaults have increased…

Aggregate size-weighted covenant default rate, and the 5-year historical average, for the U.S. portfolio companies included in the Lincoln International Proprietary Private Market Database

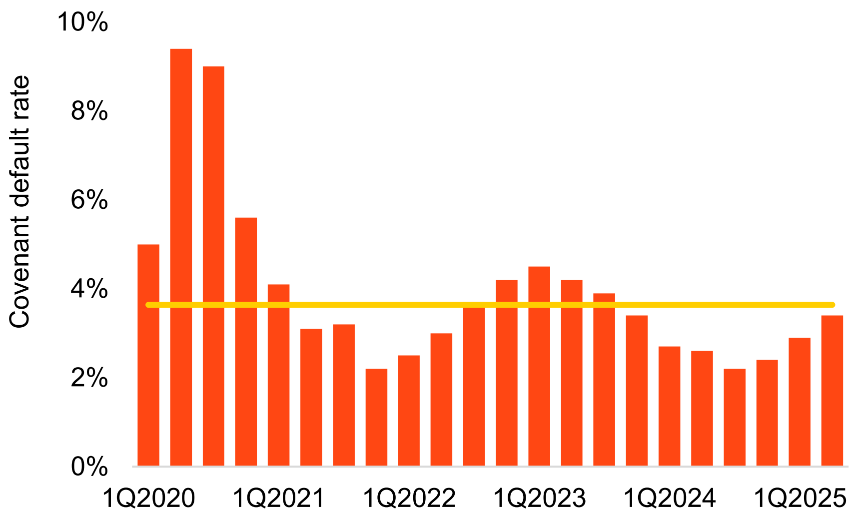
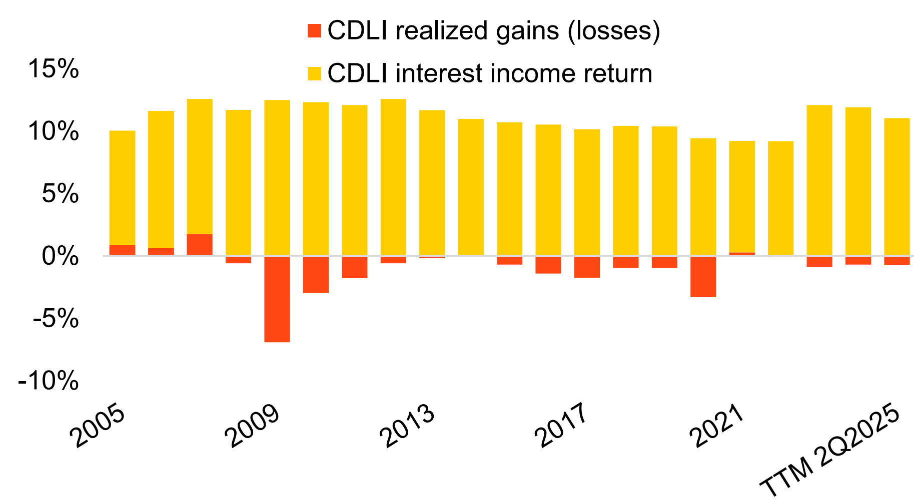


Exhibit 44: …but realized losses are contained

Trailing 12-month interest income return and realized gains (losses) for the Cliffwater Direct Lending Index (CDLI)



Source for Exhibit 43: Lincoln International Proprietary Private Market Database, BlackRock. As of 2Q2025. 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. **Source for Exhibit 44:** Cliffwater Direct Lending Index, BlackRock. As of June 30, 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. **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.

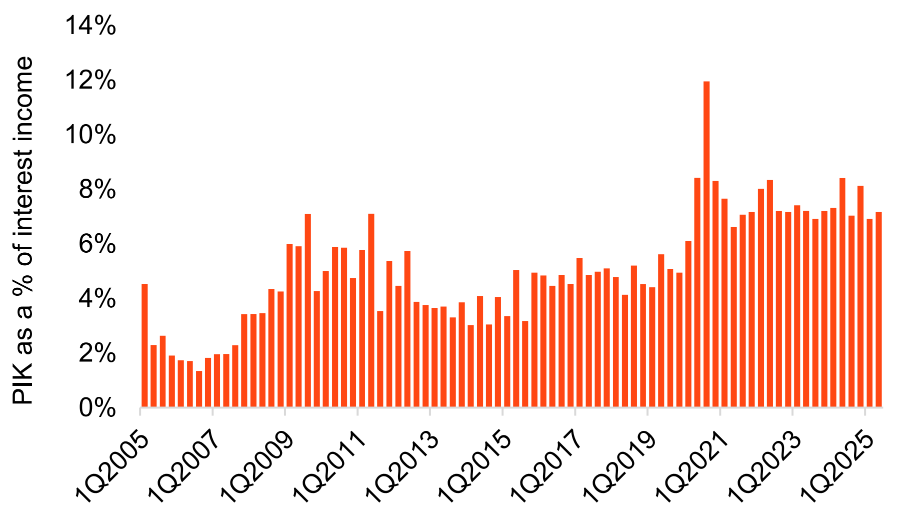
The nuances surrounding 'PIK'

Many market participants also monitor payment-in-kind (PIK) utilization for incremental insight into potential fundamental pressures and possible catalysts for additional dispersion. PIK interest is defined as interest that is 'paid' in the form of additional non-cash principal, as opposed to cash interest. While there are various ways to track PIK utilization, we believe monitoring PIK as a percentage of total interest income is among the most informative. Exhibit 45 demonstrates this metric for the CDLI.

That said, the label of 'PIK' is nuanced. An analysis from Lincoln International draws a distinction between so-called 'good PIK' and 'bad PIK.' When included as an option for a borrower in the *original* credit documents (to provide additional flexibility to invest in near-term growth prospects), the presence of PIK may not, in isolation, signal stress. This would be considered 'good PIK.' By contrast, PIK that is amended into a credit agreement *after origination* may indicate (unanticipated) stress (i.e., 'bad PIK'). As of 2Q2025, Lincoln International estimates that 11% of investments reviewed have a PIK option, and about half of those with a PIK option have 'bad PIK', which was added after the time of underwriting (Exhibit 46).

Exhibit 45: PIK as a percentage of total interest income has remained range-bound since 2021

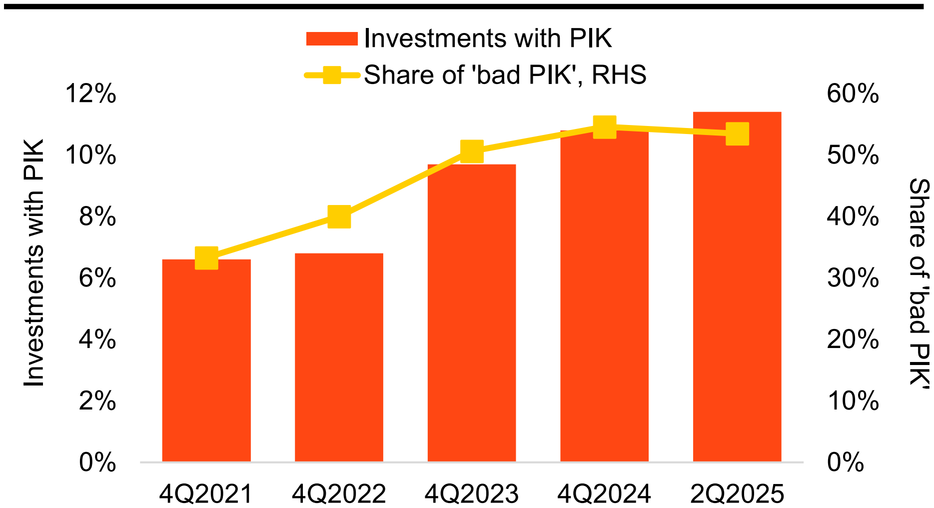
Payment-in-Kind (PIK) as a percentage of total interest income for the Cliffwater Direct Lending Index



Source: Cliffwater Direct Lending Index, BlackRock. As of June 30, 2025 (most recent).

Exhibit 46: The share of investments with 'bad PIK' has edged down vs. late 2024

For the U.S. companies tracked by Lincoln International, the share of total investments with PIK interest, and the share of PIK-paying investments with 'bad PIK' (i.e., without PIK at close), RHS



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 2Q2025. Third-party use is at user's own risk. Data represented above considered Senior and Unitranche Term Loans.

Sponsor M&A has room to accelerate

After a sluggish start to the year, sponsor-related M&A volumes have accelerated and are on pace to exceed the full-year 2024 levels, as shown in Exhibit 47.

The relative share of sponsor-related deal-making, as a percentage of overall M&A, has also rebounded to 38%, using data sourced from Dealogic. This now ranks above the 10-year average (2014-2024) of 35%, when using a universe of deals valued at $100 million or more at announcement, for sponsors in North America and Europe.

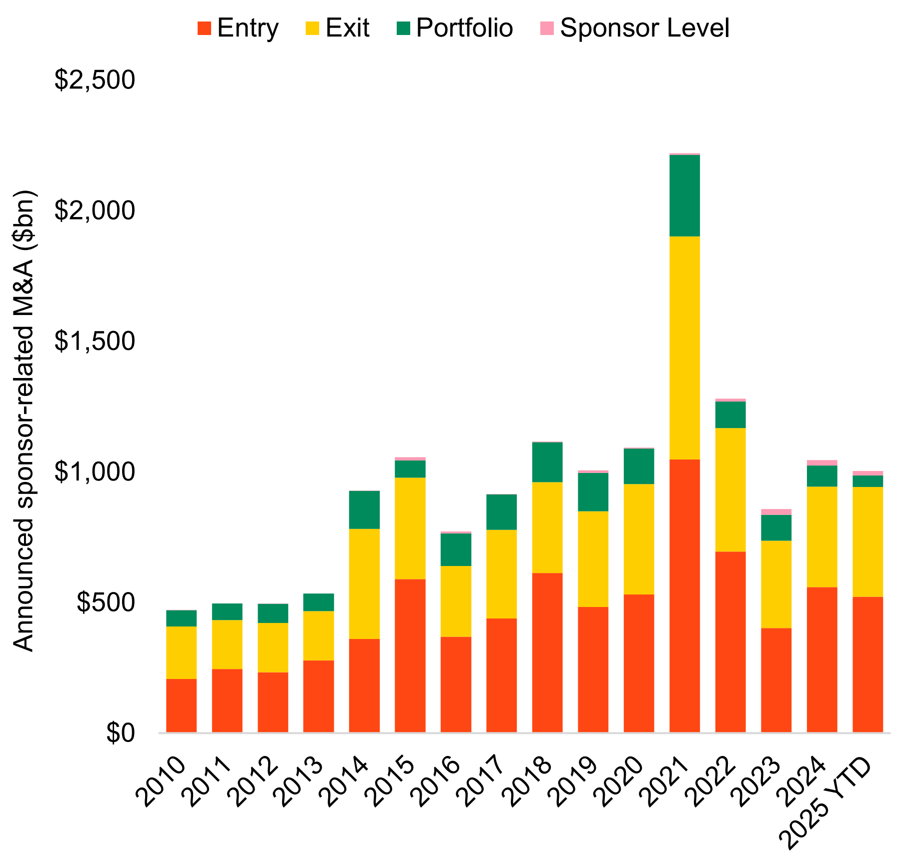
We see scope for the pace of sponsor-related M&A activity to broaden, given the macroeconomic and policy factors outlined earlier.

For example, data sourced from PitchBook shows that private equity (PE) exit activity has generally been contained to the largest assets and hasn't yet encompassed a wide range of portfolio companies. To us, this suggests that PE general partners are likely prioritizing 'exiting' their largest and highest quality assets given the market volatility, as higher interest rates and intermittent concerns about a slowdown in global growth weighed on financial sponsors' ability to exit existing investments in recent years.

We believe a 'valuations expectations gap' between buyers and sellers has played a role in the muted activity and see potential for this gap to narrow in the coming quarters. This could provide incremental financing opportunities for private credit lenders over the medium term.

Exhibit 47: Sponsor-related deal making has room to run, in our view

Sponsor-related deal volumes ($bn), by type, for North American and European financial sponsors. Captures deals valued at $100 million or more, at announcement. Excludes cancelled or withdrawn deals.



Source: Dealogic (ION Analytics), BlackRock. 2025 YTD is as of September 28, 2025. A deal is classified as a sponsor-related transaction if a financial sponsor is involved as a buyer or a seller. These figures will double-count transactions, in some instances (i.e., an investment captured as an entry and exit, by two different financial sponsors).

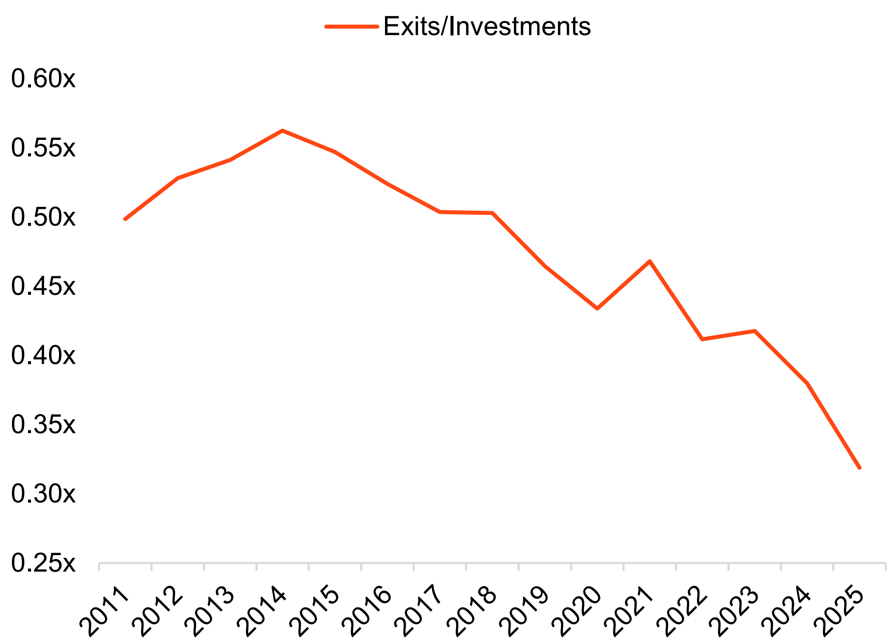
Watching for a broadening in PE exits

Exhibit 48 illustrates the progressive decline in the U.S. PE exits / investments ratio. The impact of lower PE exit volumes is also evident in the aging of PE inventories. Today, PE inventory has grown to more than 12,500 portfolio companies, with 33% of PE-backed company inventory being 7 years or older, according to Pitchbook LCD (Exhibit 49). This has resulted in increased interest from some market participants in secondaries funds and continuation vehicles, to unlock liquidity.

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

Exhibit 48: PE investments have outpaced PE exits

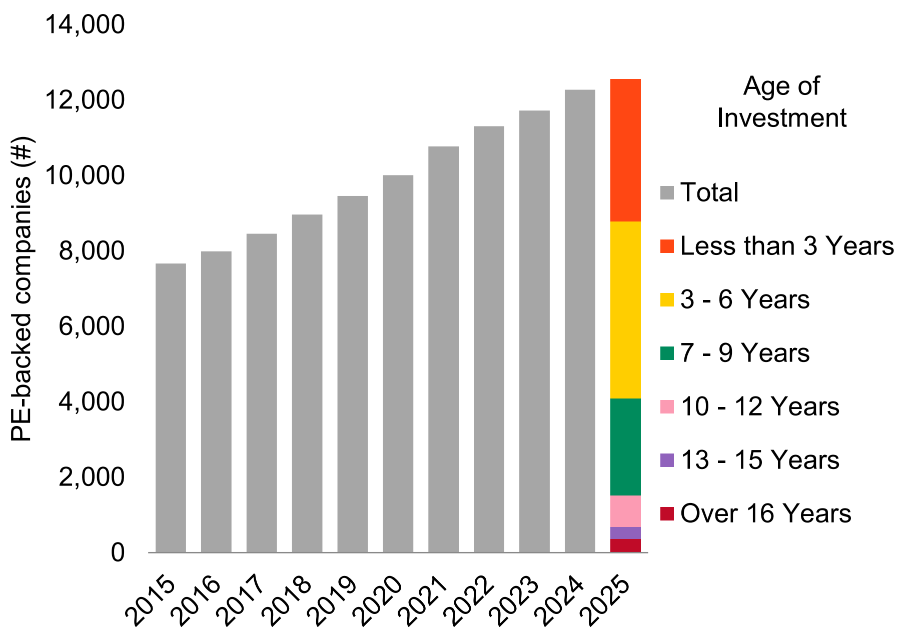
Count of U.S. PE exits / count of U.S. PE investments



Source: Pitchbook LCD, BlackRock. YTD 2025 is through 2Q2025 (most recent as of September 30, 2025).

Exhibit 49: A share of PE investments have aged beyond several years

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



Source: Pitchbook LCD, BlackRock. YTD 2025 is through 2Q2025 (most recent as of September 30, 2025).

Commercial real estate: adapting to higher rates

Watching transaction volumes and refinancing of extended loans

CRE prices continue to stabilize

Commercial real estate (CRE) has undergone significant shifts in recent years, driven in part by its sensitivity to interest rate dynamics. For example, since the Federal Reserve's interest rate hiking cycle began in 2022, CRE asset prices have, in many cases, retraced gains made from 2020 to 2022. The repricing of assets to reflect higher borrowing costs has kept market participants focused on the pace and shape of CRE's recovery.

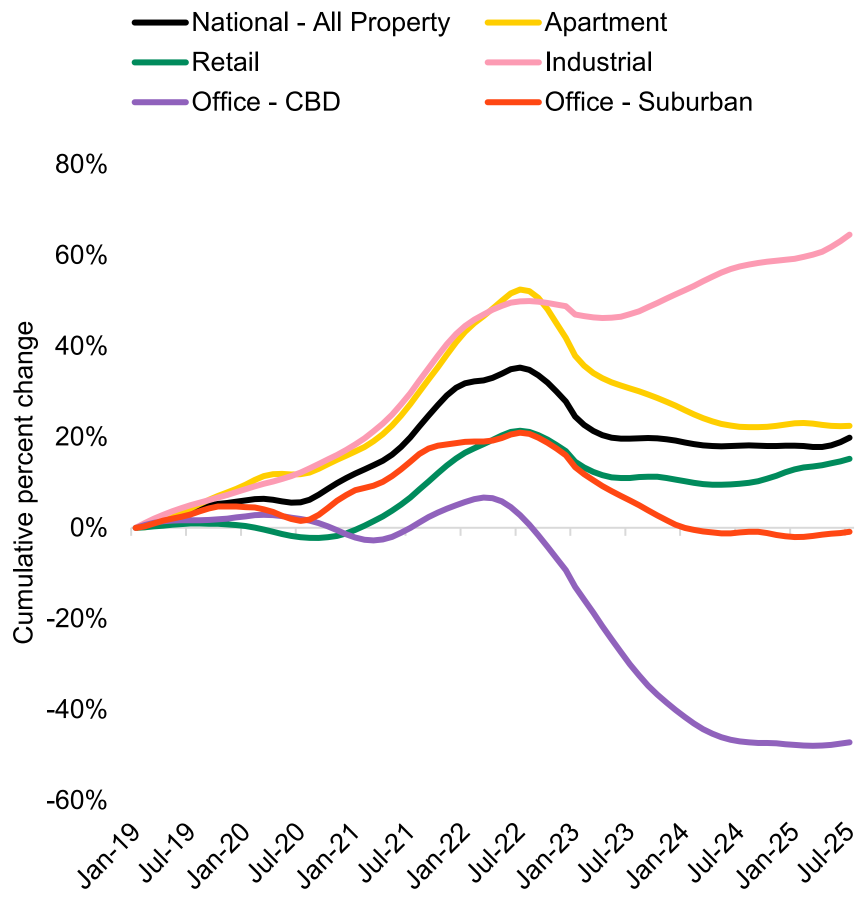
To date, CRE asset prices, as assessed by Real Capital Analytics Commercial Property Price Indices (RCA CPPI), have not seen a "V-shaped" recovery, but rather the recovery appears to be slow-moving and uneven across and within property types (Exhibit 50). This includes Central Business District (CBD) offices, which experienced the most significant decline and lagged in stabilization relative to other property types covered by the indices.

Recent data through August 2025 demonstrate that this trend of stability has continued, with some prices even modestly *recovering* in recent months, indicating what may become a 'trough' in values, relative to declines for some property types that began in 2022. That said, we expect the directional recovery of CRE to be slow. As such, we anticipate further fluctuations in both transaction activity and property values may occur, especially as residual stress continues to work its way through the asset class.

Of course, CRE is considerably nuanced, including across property types. Indeed, each property type is subject to its own set of performance drivers, as demonstrated by the dispersion in pricing values in Exhibit 50. For example, values for industrial properties have gained considerably since 2019, achieving a sizable cumulative outperformance relative to other asset classes over the period, driven by factors such as domestic supply chain build-outs, for example.

Exhibit 50: Data shows stabilization in CRE asset values, albeit with dispersion by category

Cumulative percent change in the level of the Real Capital Analytics Commercial Property Price Indices (RCA CPPI), since January 2019



Source: Real Capital Analytics, BlackRock. As of August 31, 2025 (most recent available).

Adapting to higher interest rates

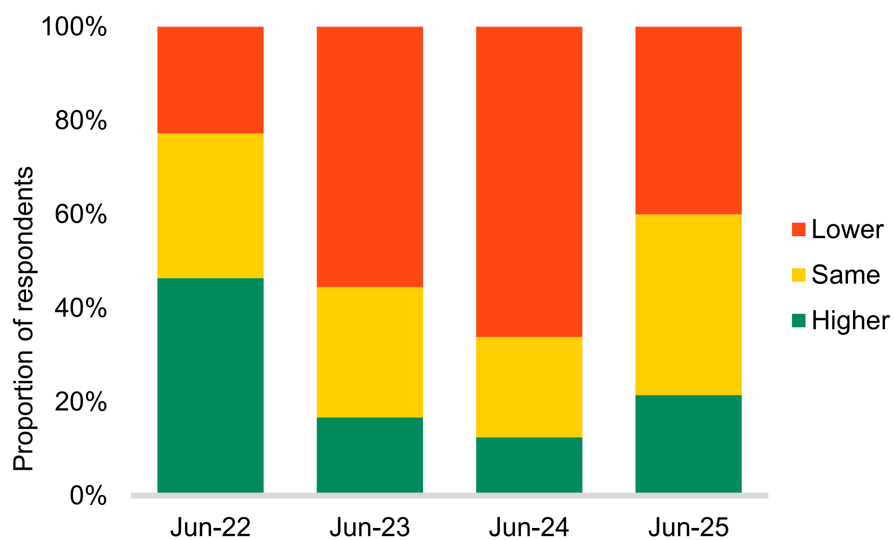
A Preqin survey of over 450 institutional investors also suggests that CRE asset prices may be stabilizing. For example, 40% of respondents noted that asset prices have fallen versus 12 months ago, down from 66% in June 2024. Further, the share of respondents who view asset prices as higher than 12 months ago grew modestly to 21% in June 2025, from only 12% in June 2024. Preqin's survey also highlighted that institutional investors have lowered return expectations for real estate investment portfolios compared to last year (Exhibit 52).

Interest rates and asset valuations remain the top two areas of concern for CRE investors over the next 12 months – consistent with the last three years. As we've detailed, these two factors are closely intertwined for CRE. That said, the share of respondents highlighting interest rates as a key challenge fell by 16 percentage points YoY, from 78% to 62%, suggesting that investors are becoming increasingly comfortable with a backdrop of structurally higher interest rates. This should be supportive in addressing the sizable upcoming maturities of CRE loans over the next few years (including recent extensions, as detailed in Exhibits 53 and 54).

Notable, too, concerns related to currency, commodity, and stock market volatility remain muted, despite the uptick in uncertainty in the months preceding the June survey. This underscores the relative stability of an allocation to real assets such as CRE, even amid broader macro volatility.

Exhibit 51: Price adjustments are moderating

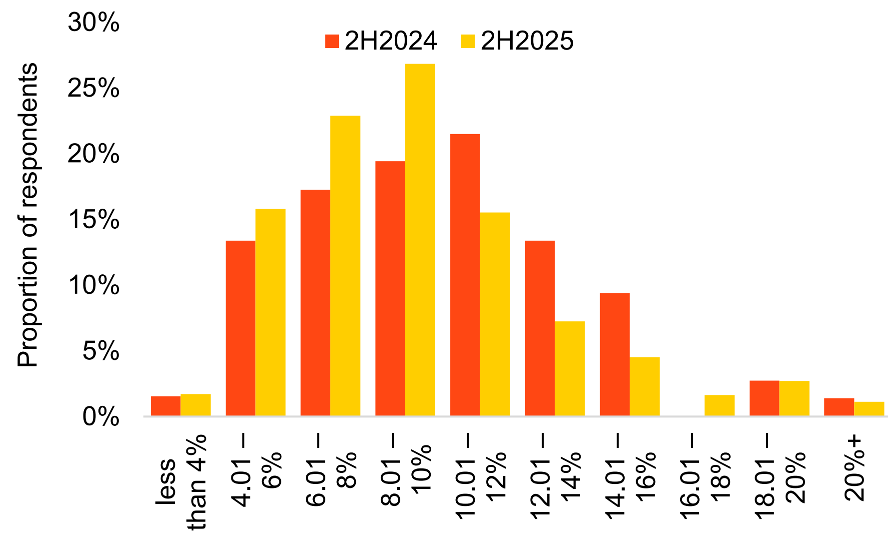
Investors were asked: 'How has (CRE) asset pricing changed vs. 12 months ago?'



Source: Preqin Investor Surveys June 2022 - 2025, BlackRock.

Exhibit 52: Two-thirds of investors are targeting CRE returns of 10% or less

Institutional investors' targeted returns for real estate portfolios



Source: Preqin Investor Surveys June 2024 - 2025, BlackRock.

CRE loan maturity walls and extensions

Exhibit 53: Banks represent the largest lender segment for upcoming maturities

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

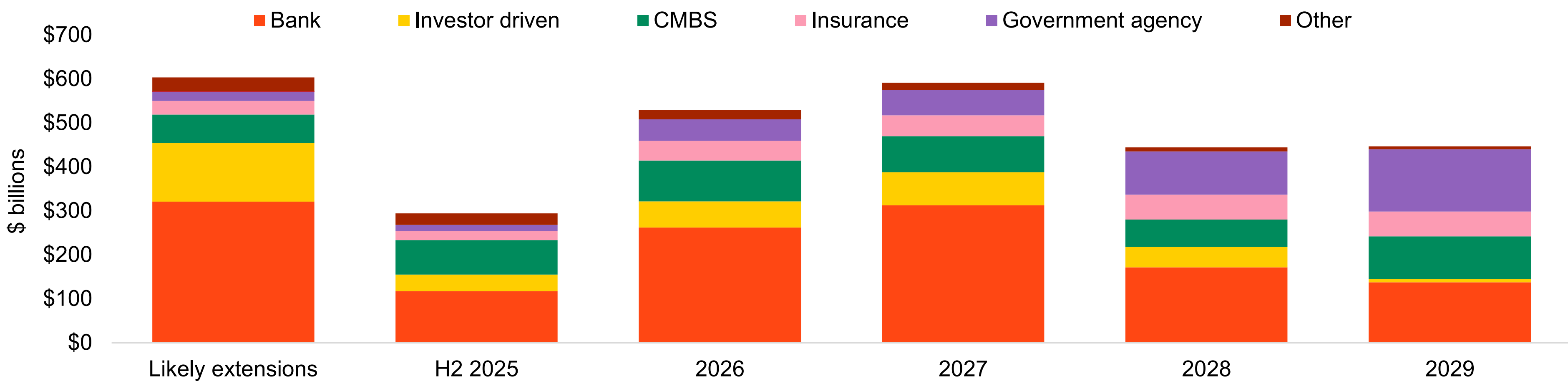
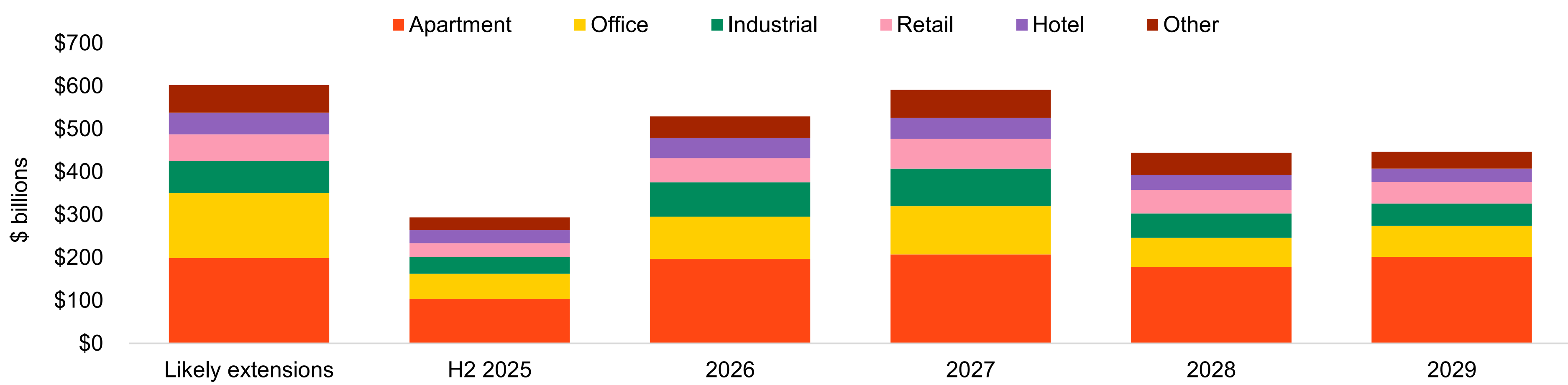


Exhibit 54: Extended and upcoming maturities are diversified across property types

Volume of maturing U.S. commercial property loans, by property type, in $ billions



For both charts: 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 September 23, 2025, and reflects the market as of June 30, 2025. **For Exhibit 53:** 'Bank' includes international, national, and regional/local. 'Other' includes CLOs and private, among others. **For Exhibit 54:** 'Other' includes development sites, senior housing and care, among others.

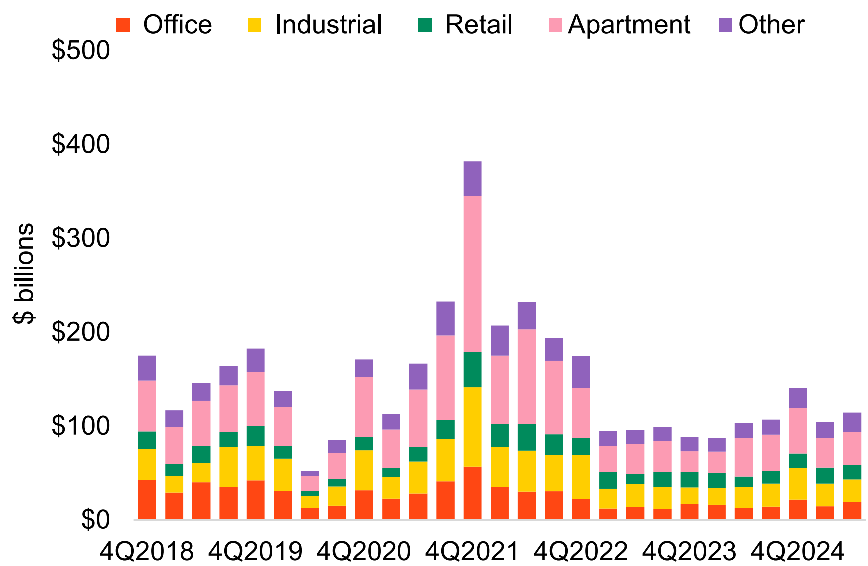
Activity diverges across regions

Our analysis highlights an ongoing recovery in transaction volumes – extending the trend we last highlighted in May. That said, as we've observed in other asset classes (including private and syndicated credit), there is considerable dispersion, including by property type and across regions. For example, quarterly transaction volumes in the U.S. improved modestly in 2Q2025, rising 9% QoQ and 11% YoY, as shown in Exhibit 55. Despite improvements, overall deal volume remains at just 82% of the quarterly average for 2016-2019, suggesting significant room for additional recovery, in our view, as incremental clarity on the macroeconomic backdrop narrows the so-called 'expectations gap' between buyers and sellers.

In Europe, a recovery in transaction volume has been somewhat more muted, thus far. 2Q2025 transaction volume was stable QoQ but declined 10% YoY (Exhibit 56). Further, activity remains at only 56% of the 2016-2019 quarterly average. Here too, we see scope for continued progress on recovery. Anecdotally, while only a small segment of overall deal volume today, data centers are increasingly capturing market attention. Such volume is captured by the "other" segments of Exhibits 55 and 56 and remains small and lumpy relative to other property types. That said, we see continued enthusiasm and investment around the property type as a potential tailwind to growth.

Exhibit 55: U.S. CRE transaction activity grew modestly in 2Q2025...

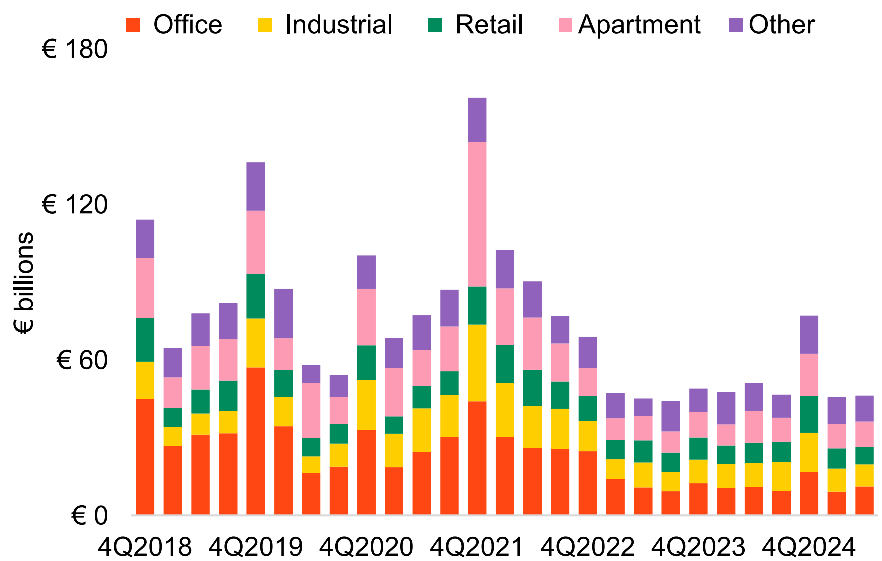
U.S. CRE transaction volume by property type, in $ billions



Source: Real Capital Analytics, BlackRock. Captures data through 2Q2025. Other include hotels, dev sites, seniors housing & care, and data centers.

Exhibit 56: ...while activity remained more muted in Europe

European CRE transaction volume by property type, in € billions



Source: Real Capital Analytics, BlackRock. Captures data through 2Q2025. Other include hotels, dev sites, seniors housing & care, and data centers.

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

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