



Oaktree Credit Quarterly

3Q
2025

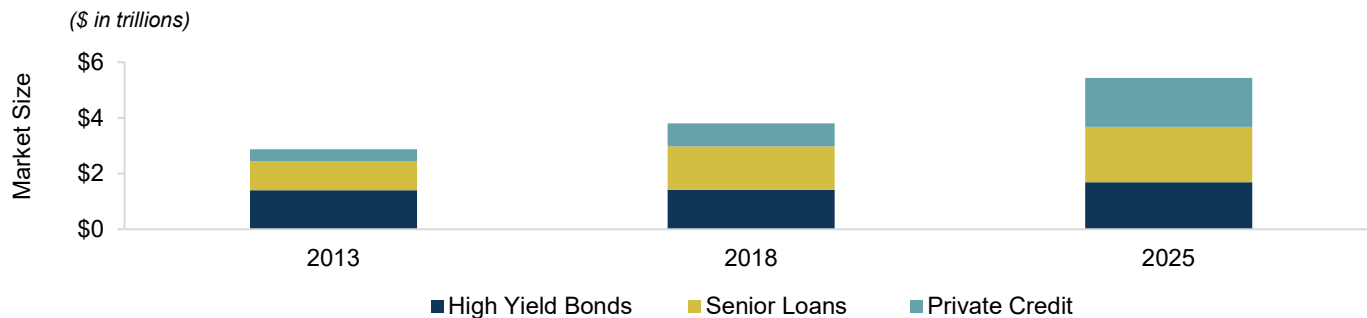
FRIENDS NOT FOES

Often framed as rivals, private and liquid credit should instead be viewed as powerful complements for both issuers and investors. We believe these two markets are settling into a **sybiotic coexistence**, as the distinctions blur between the likes of direct lending and broadly syndicated loans.

The rise of private credit has been one of the defining post-Global Financial Crisis developments. Now a mainstream asset class, corporate private debt constitutes over \$1.7 trillion in assets and has become a fixture in institutional portfolios.¹ This rapid growth has often been characterized as being at the expense of the more established liquid credit markets. However, the ability for borrowers to flexibly access both liquid and private credit markets should be viewed positively by investors exposed to corporate credit risk. These distinct but interlinked markets together broaden the range of available credit solutions, serving to support the financial health of issuers. (See Figure 1.)

Investors can also benefit from the nuanced propositions of these two markets, which may be increasingly converging but continue to offer differing levels of yield, credit risk, liquidity, and volatility. **For sophisticated investors, the decision shouldn't be between private or liquid credit, but instead around the most effective way to gain exposure to these complementary markets.**

Figure 1: Private Credit Has Become a Core Pillar of Sub-IG Financing

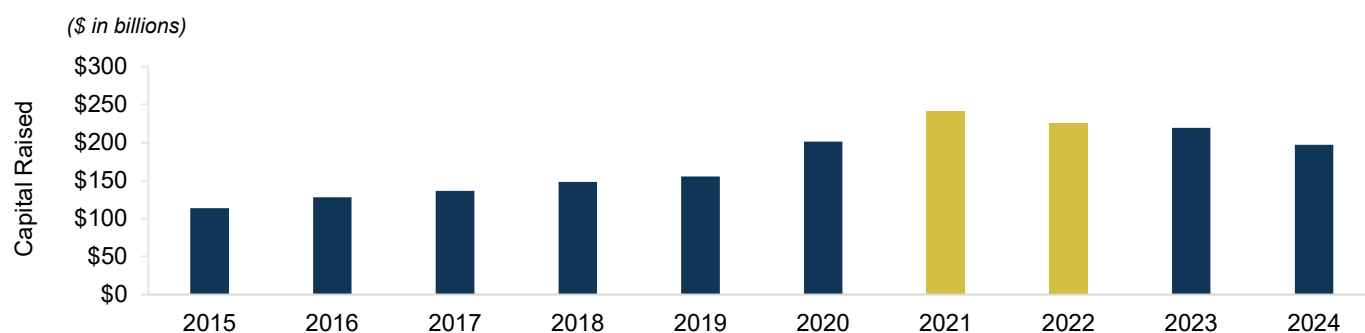


Source: ICE for global high yield bonds, UBS for global senior loans, and Preqin for global corporate private credit, as of March 2025

The Rise of Private Credit

The story is now a familiar one. Banks, crippled by stringent capital regulations in the wake of the 2008 meltdown, retrenched from corporate lending. This paved the way for alternative lenders to fill the funding gap. The rise of private debt was then solidified by the Covid-19 pandemic and subsequent macroeconomic challenges. With the traditional syndicated debt markets periodically unavailable, a wide range of borrowers sought credit offering both rapid execution and enhanced flexibility. Combined with its spread premium over liquid credit during a time of low base rates, it's no coincidence that private debt fundraising spiked during this period. (See Figure 2.)

Figure 2: Private Credit Fundraising Accelerated in 2021-22



Source: Preqin

It's worth noting that the growth of private credit has been supported by establishing a strong track record of solid performance and minimal credit losses. Like high yield bonds before it, private credit, in the form of direct lending, has transitioned from obscure to mainstream.

A More Versatile Financing Ecosystem

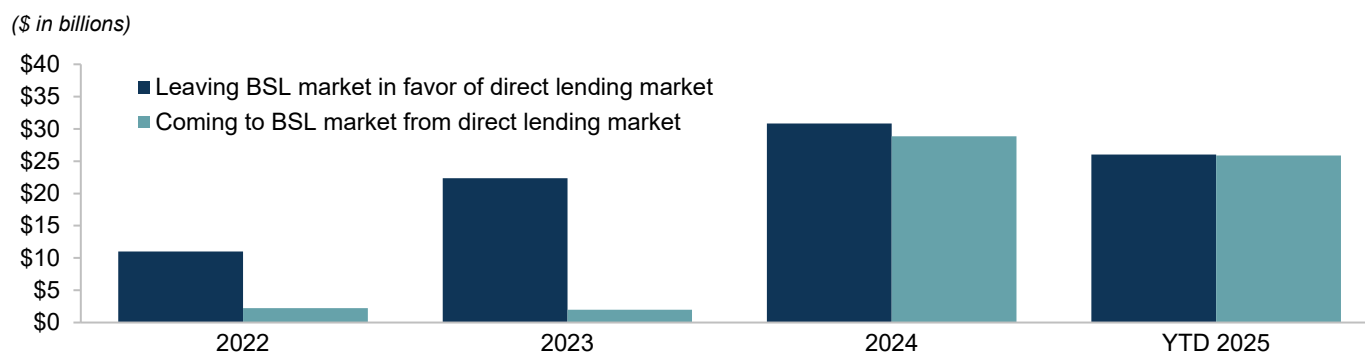
Large borrowers benefit from having two sets of lenders that can step in across different market conditions. The interplay of liquid and private credit has been clearly illustrated in just the last few years.

With liquid credit markets subdued in 2022, private lenders were able to provide much-needed financing. The mark-to-market volatility that spooked liquid markets wasn't a factor for private credit, which benefits from asset prices less exposed to broader market sentiment. Importantly, private lenders can move unilaterally (or in smaller lender groups), meaning they inherently circumvent banks – which at the time were saddled with hung loans and reticent to underwrite new deals.

While this removed potential deal flow for public lenders, the injection of private debt stabilized many public borrowers at a time when liquid markets couldn't help. This was especially true for lower-rated borrowers, for which public markets had scant appetite. These migrating issuers paid a premium to refinance in the private market but received a crucial lifeline in the form of flexible credit.

As liquid credit markets found greater stability entering 2024, with a firmer understanding of the trajectory of interest rates and more confidence in a soft landing, public financings boomed, albeit primarily driven by refinancings. With both the liquid and private credit markets now truly open again and the spread differential between the two compressing, we've reached parity in refinancing activity between the direct lending and broadly syndicated loan (BSL) market: roughly \$25 billion of loans have gone in each direction so far this year.² (See Figure 3.)

Figure 3: Loans Have Been Moving Almost Equally Between the BSL and Private Credit Market

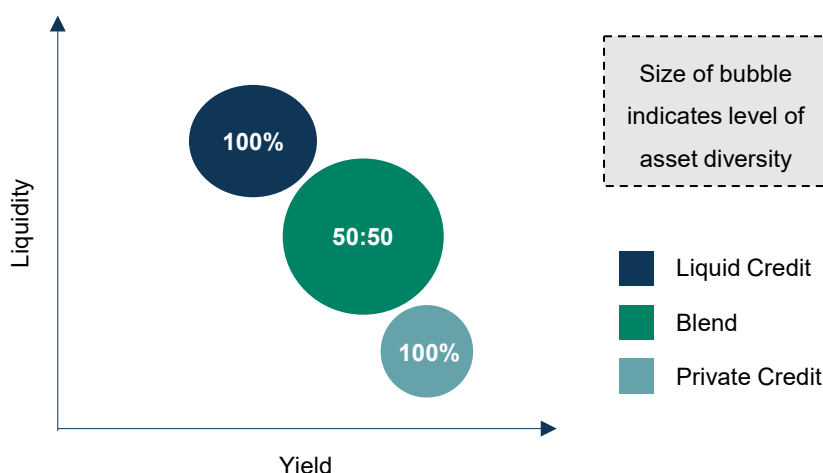


Source: PitchBook, as of September 30, 2025

A Complementary Investment Proposition

When combined, we believe the liquid and private credit markets provide an excellent solution due to the range of complementary nuances that allow investors to solve for an optimal blend of yield, liquidity, and volatility. (See Figure 4.)

Figure 4: Combining Liquid and Private Credit in a Single Portfolio



Note: Indicative profile for sub-investment grade credit.

First, liquid credit has a clear tradability advantage, generally benefiting from regular two-way pricing. In comparison, private loans, which lack regular market pricing, have an unclear liquidity profile: secondary markets exist but aren't particularly developed and often require sellers to accept a chunky discount. For most private debt investors in closed-end funds, liquidity is limited to distributions and return of capital, something that limited partners can't control.

Combining liquid and private credit in a single portfolio can present an efficient solution. The liquid portion of the portfolio can be used to promptly meet investor liquidity requirements and allow rapid deployment of new capital. The ability to invest in liquid credit can also be valuable during periods of dislocation, as managers can access discounted bonds and loans, creating pull-to-par opportunities that may enhance total returns. Meanwhile, the private portion of the portfolio dampens volatility, being marked on fundamentals rather than prevailing market psychology, and should offer an attractive yield premium, particularly if lending to businesses smaller or more levered than those in the broadly syndicated markets.

Particularly notable is the diversification benefit of blending private and liquid credit. Direct lending funds are much more concentrated than liquid credit funds, which may contain several hundred issuers. Blending the two means investors can receive exposure to a broader mixture of company size, sector, and geography.

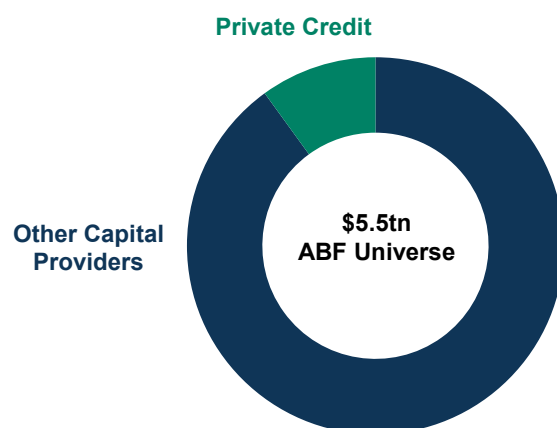
Beyond The Core

The obvious entanglement is between direct lending and broadly syndicated loans, both of which primarily provide private equity sponsors with senior floating rate debt. But it's important to note there's much more to the liquid and private debt markets. We believe particularly accretive diversifiers may include:

- **Asset-backed finance (ABF)**, which offers a different risk/return profile to corporate lending, being backed by pools of contractual assets and providing lenders with continuous principal repayment. ABF represents a massive addressable universe, with private lender participation still limited. (See Figure 5.)
- **Sectoral private credit niches**, which involve highly tailored origination and underwriting methods, often requiring specialized knowledge, as with life sciences or infrastructure lending.

- **CLOs**, which benefit from powerful structural protections and a spread premium over similarly rated corporate bonds. CLO tranches aren't immune to mark-to-market volatility but historically have a very low impairment rate.
- **Real estate debt**, in the form of direct loans or securitizations (i.e., CMBS, RMBS), which offers a different underlying risk to corporate credit and may be less exposed to potential macroeconomic headwinds.

Figure 5: Asset-Backed Finance Is a Relatively Untapped Corner of Private Credit



Source: Oliver Wyman, estimate as of April 2024³

What Next?

Private and liquid credit are set to continue this symbiotic coexistence. Financing requirements will remain high as large-cap M&A activity gradually returns and borrowers seek to refinance a looming wall of debt. We anticipate a sustained rise in capex requirements across Western economies, including data center financing, increased defense expenditure, and digital infrastructure build-out. We expect to see both liquid and private credit markets playing an important role in meeting these financing needs, including through potential collaboration on larger deals.

Investors can take advantage of this dynamic by blending private and liquid credit investments to optimize their portfolios for acceptable levels of liquidity and volatility. Beyond now-mainstream asset classes like direct lending and high yield bonds, this'll likely include less traditional areas such as asset-backed finance and liquid structured credit. **We believe the new diversification lever isn't a static 40% investment grade corporate bond allocation but instead a dynamic portfolio of private and liquid credit.**

Of course, the important caveat is the latter option requires a completely different level of due diligence. The likes of high yield bonds and senior loans offer greater reward than investment grade bonds as they also present more risk – and that must be managed. Extending to private credit, which may present even more spread in exchange for potentially lower credit quality and less liquidity, deep underwriting is as essential as ever. Get that right and investors may be able to access a diversified, income-generating portfolio without equities' reliance on economic growth.



Credit Markets: Key Trends, Risks, and Opportunities to Monitor in 4Q2025

(1) Converts lead the way!

Convertible bonds have experienced strong growth in both performance and issuance volume in 2025 as this under-the-radar asset class has benefitted from several tailwinds.

September set a monthly record for convertible bond issuance, with nearly \$30bn of new supply.⁴ This was supported by a notable rise in issuance in Asia and Europe, which contributed around 45% of the supply.⁵ Issuance for the asset class now exceeds \$125bn so far this year, as sustained stock market strength and tight credit spreads have supported a surge in deals.⁶

Performance has been strong thus far in 2025, particularly for balanced convertibles, which benefit from participation in equity upside. AI has been a highly accretive theme for the convertibles market, with Bank of America research indicating AI-linked issuers have returned triple that of the broader market!⁷

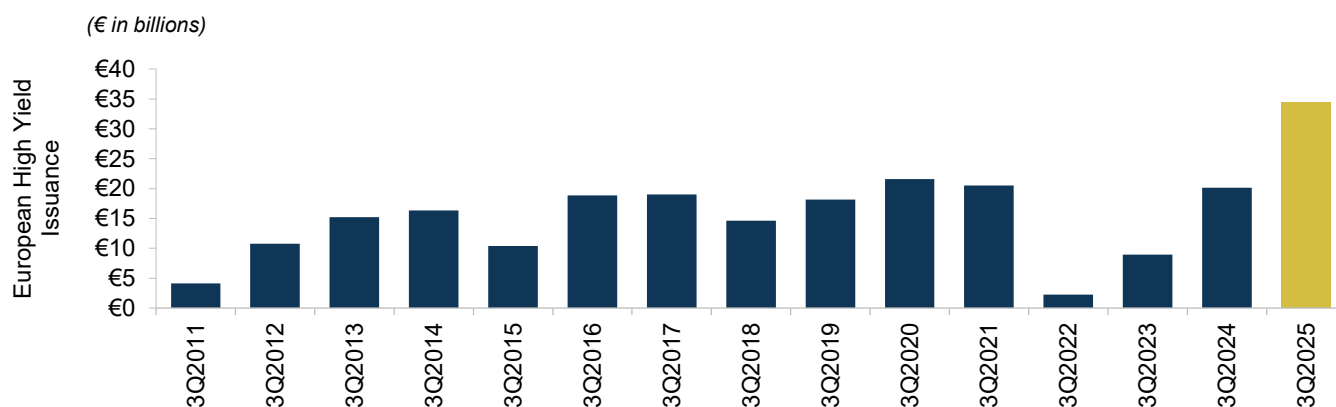
(2) European credit markets are active

Europe continues to be a bright spot for sub-investment grade credit issuance.

- The third quarter saw record European CLO activity, as robust demand for liabilities helped AAA-rated spreads compress back below 130 basis points for tier-one managers.⁸
- Senior loans also finished September at record issuance levels for the year-to-date period. This was supported by a wave of repricings, but “new money” issuance has still edged higher from the lows of 2023.
- High yield bonds clocked a record third quarter, following a bumper September. (See Figure 6.) Similar to loans, this was dominated by refinancings, which made up nearly 70% of total volume.⁹
- Direct lending activity has been strong, with over €30bn of volume so far this year, exceeding the level for the same period in 2024.¹⁰

We expect European credit to remain active as (a) private equity firms seek to increase exposure to the region and (b) several themes – not least increased defense and infrastructure spend – create sustained capex needs. European credit issuance has been met with ample demand from lenders, including those seeking to diversify U.S.-centric credit portfolios and access the compelling hedged yields offered by EUR-denominated bonds and loans.

Figure 6: 3Q2025 Was a Record Third Quarter for European High Yield Issuance



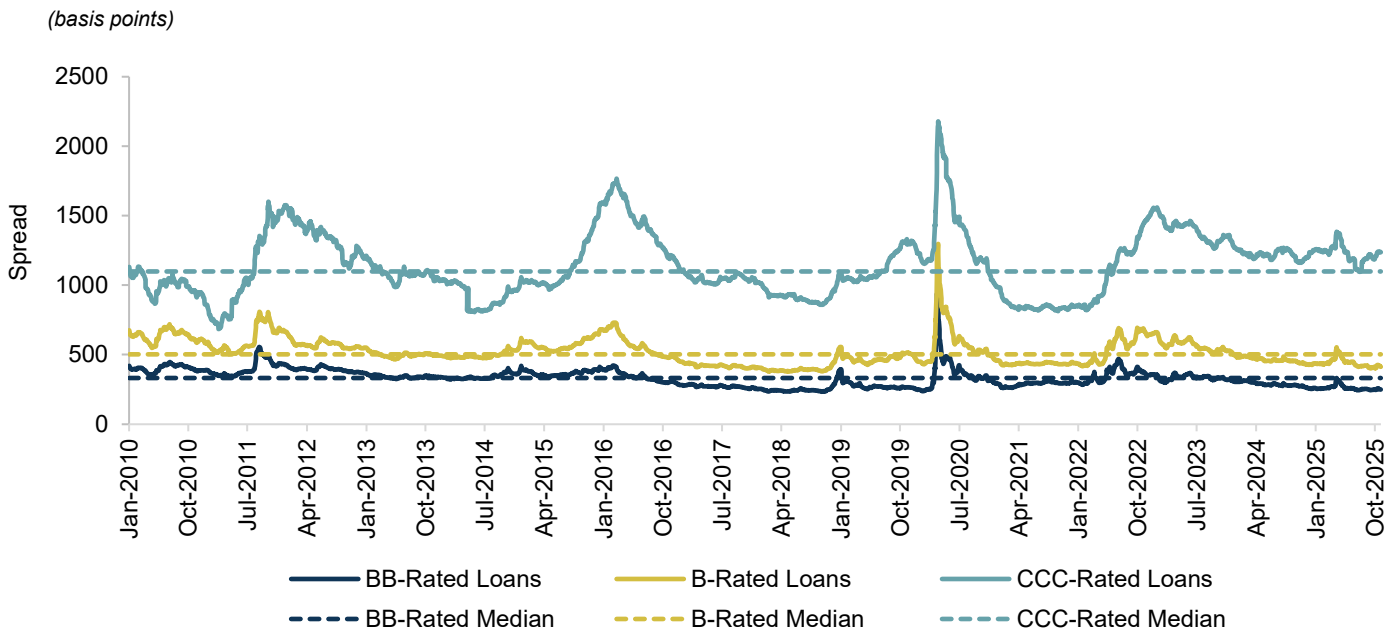
Source: PitchBook, as of September 30, 2025

(3) The credit market remains bifurcated by quality

Index averages remain a somewhat misleading proxy for the state of credit markets, as quality names remain well bid but unloved ones rapidly fall through the cracks. Recent well-publicized credit problems have exacerbated this dynamic, as has a CLO buyer base with limited appetite for CCC-rated loans. Accordingly, while B- and BB-rated loans currently trade within their long-term average spread, CCC-rated loans are trading outside their historical average, with an average spread in excess of 1,200 bps.¹¹ (See Figure 7.) When dispersion is this dramatic, fundamental, bottom-up credit selection is especially critical.

We discussed this bifurcation in depth on a recent [podcast](#).

Figure 7: CCC-Rated Loans Are Trading Outside Their Long-Term Median



Source: UBS Leveraged Loan Index, as of October 28, 2025

Market Conditions: 3Q2025

Investment Grade Credit¹²

Return	Defaults (LTM)	Issuance	Value Proposition
2.7% Investment grade corporate bonds delivered strong performance in the third quarter, supported by declining interest rates across the yield curve and tightening credit spreads.	N/A	\$409.0bn The primary market saw robust issuance and was met by ample demand from investors: the average book oversubscription ratio was at least 4.0x each month this quarter.	Short duration, investment grade credit remains compelling for investors seeking to (a) out-yield traditional cash equivalent strategies or (b) insulate their portfolio from macroeconomic and geopolitical volatility.

High Yield Bonds¹³

Return	Defaults (LTM)	Issuance	Value Proposition
2.4% (U.S.) 2.6% (Europe) High yield bonds extended their winning streak during the quarter, led by a rally in CCC-rated bonds, the market's most equity-like tier.	1.4% (U.S.) 1.3% (Europe)	\$121.9bn (U.S.) €35.0bn (Europe) New issuance was quite active in 3Q2025. Despite robust supply, most deals were oversubscribed, underscoring investors' continued appetite for yield.	Looking ahead, the backdrop for high yield bonds remains favorable. Although spreads have tightened so far this year, defaults are expected to remain below the long-term average in the near term and the overall credit environment is still on solid footing.

Senior Loans¹⁴

Return	Defaults (LTM)	Issuance	Value Proposition
1.7% (U.S.) 0.9% (Europe) The performance of senior loans has largely been driven by coupon income.	1.5% (U.S.) 1.8% (Europe)	\$211.3bn (U.S.) €29.4bn (Europe) While the primary market was active during the quarter, much of the volume was tied to refinancings and repricings rather than new-money deals.	Senior loans continue to offer attractive value with their high floating-rate coupons and senior secured position.

Emerging Markets Debt (Corporate)¹⁵

Return	Defaults (LTM)	Issuance	Value Proposition
3.4% EM high yield debt markets were very strong during the quarter, supported by optimism for lower interest rates globally, resilient company fundamentals, and fund inflows.	3.3%	\$40.0bn Year-to-date EM high yield bond issuance is running at its fastest pace since 2021, accelerating in September.	Spreads are historically tight, though they widened in October following a few instances of corporate credit stress in Latin America. Rigorous security selection remains crucial to manage risk.

Market Conditions: 3Q2025

Global Convertibles¹⁶

Return	Defaults (LTM)	Issuance	Value Proposition
7.1% Strong equity market performance, particularly in the U.S. and Asia, supported convertible bond prices in the third quarter.	2.3%	\$54.4bn The asset class recorded the highest level of quarterly issuance since 2021, primarily driven by high volumes in the U.S. and Asia.	Equity valuations remain reasonable, and new issue pricing has improved significantly in recent years, thus offering more attractive coupons and enhanced convexity.

Structured Credit (Corporate)¹⁷

Return	Defaults (LTM)	Issuance	Value Proposition
3.4% (BB-Rated U.S. CLOs) 2.2% (BBB-Rated U.S. CLOs) Corporate structured credit generated strong returns supported by high coupon income during the period.	N/A	\$54.1bn (U.S.) €14.9bn (Europe) In the third quarter, global CLO issuance was higher compared to the same period last year.	Structured credit's high income makes it one of the most attractive asset classes within fixed income, particularly as corporate defaults remain low.

Structured Credit (Real Estate)¹⁸

Return	Defaults (LTM)	Issuance	Value Proposition
2.0% (BBB-Rated CMBS) The asset class continued to benefit from improving fundamentals during the quarter, largely driven by the U.S. Federal Reserve's 25 bps interest rate cut in September.	7.2%	\$39.0bn 2025 is on track to be the most active year for private-label CMBS issuance since 2021, underpinned by strong single-asset, single borrower issuance.	As commercial real estate markets stabilize, we expect to see increased demand for capital, with investors looking to generate durable income with enhanced downside protection.

Private Credit

Private credit markets continue to demonstrate resilience amid a complex macroeconomic backdrop. While private equity activity hasn't reached anticipated levels for 2025, it's recently increased, spurring a rise in direct lending deal flow. Activity is strong in Europe, where year-to-date issuance has already exceeded 2024 levels, and momentum has picked up over the last several weeks in middle market direct lending. Sponsors continue to actively pursue refinancings and recapitalizations, often running dual-track processes between public and private markets in large cap deals to optimize execution. In recent weeks, we've seen sponsors begin to initiate sale processes with banks, signaling renewed transaction appetite likely stemming from improved market certainty. Pricing discipline remains strong, with U.S. first lien loans typically landing above SOFR + 450 bps and European transactions around EURIBOR + 475 bps. Despite recent interest rate cuts by the U.S. Federal Reserve and the Bank of England, signs of borrower stress are emerging, with payment-in-kind (PIK) income reaching a four-year high as a percentage of total income. In this environment, private credit managers must remain cautious, avoiding deals where spreads fail to compensate for risk, utilizing rigorous underwriting and robust sourcing capabilities to preserve portfolio quality.



Armen Panossian

Co-Chief Executive Officer and Head of Performing Credit

Mr. Panossian serves as co-Chief Executive Officer, primarily focused on overseeing the organization and performance of Oaktree's investment teams. He is also Head of Performing Credit, where his responsibilities include oversight of the firm's liquid and private credit strategies and as a portfolio manager within the Global Private Debt and Global Credit strategies. Mr. Panossian joined Oaktree's Global Opportunities group in 2007. In January 2014, he joined the U.S. Senior Loans team to assume co-portfolio management responsibilities and lead the development of Oaktree's CLO business. He became head of all performing credit in 2019. Mr. Panossian joined Oaktree from Pequot Capital Management, where he worked on their distressed debt strategy. Mr. Panossian holds a B.A. degree in economics with honors and distinction from Stanford University, where he was elected to Phi Beta Kappa; an M.S. degree in health services research from Stanford Medical School; a J.D. degree from Harvard Law School; and an M.B.A. from Harvard Business School. Mr. Panossian serves on the Advisory Board of the Stanford Institute for Economic Policy Research. He is a member of the State Bar of California.



Danielle Poli, CAIA

Managing Director and Assistant Portfolio Manager

Ms. Poli is a portfolio manager within Oaktree's Global Credit strategy, which is the firm's flagship multi-asset credit offering. She is a founding member of its Investment Committee. Ms. Poli is also a regular commentator for mainstream and financial media and has been named to Barron's list of 100 Most Influential Women in U.S. Finance. Ms. Poli joined Oaktree in 2014 following graduation from the UCLA Anderson School of Management, where she received an M.B.A. and the Laurence and Lori Fink Investment Management Fellowship. Prior thereto, she worked at PAAMCO KKR Prisma (formerly PAAMCO) where she helped manage hedge fund portfolios for institutional clients. Ms. Poli holds a B.S. degree in business administration from the University of Southern California and is a CAIA charterholder.

Oaktree's Credit Platform

Oaktree Capital Management is a leading global alternative investment management firm with expertise in credit strategies. Our credit platform has \$156 billion in AUM and encompasses a broad array of strategy groups that invest in public and private credit instruments across the liquidity spectrum.¹⁹ All Oaktree investment activities operate according to a unifying philosophy that emphasizes key principles including the primacy of risk-control and benefits of specialization.

Endnotes

1. Preqin, as of March 2025.
2. PitchBook, as of September 2025.
3. Oliver Wyman, Private Credit's Next Act, April 2024. The \$5.5 trillion figure represents the U.S. asset-backed finance market, excluding real estate.
4. BofA, Global Convertibles Chartbook, as of October 1, 2025.
5. Ibid.
6. Ibid
7. BofA, Global Convertibles, as of October 20, 2025.
8. PitchBook.
9. Ibid.
10. PitchBook, as of September 30, 2025.
11. UBS Leveraged Loan Index, as of October 28, 2025.
12. ICE U.S. Corporate Index for all return data; Bank of America for all issuance data (reflects U.S. issuance).
13. ICE BofA US High Yield Constrained Index for all U.S. High Yield Bonds return data; ICE BofA Global Non-Financial High Yield European Issuer Excluding Russia Index for all European High Yield Bonds data; JP Morgan for all U.S. default rates; UBS for all European default rates (including distressed exchanges); PitchBook LCD for all U.S. and European issuance data (including refinancings).
14. S&P UBS Leveraged Loan Index for all U.S. Senior Loans return data; UBS Western Europe Leveraged Loan Index for all European Senior Loans return data; JP Morgan for all U.S. default rates; UBS for all European default rates (excluding distressed exchanges); PitchBook LCD for all U.S. and European issuance data (including refinancings).
15. JP Morgan Corporate Broad CEMBI Diversified High Yield Index for all return data; JP Morgan for default rates (including distressed exchanges) and issuance (including refinancing) data.
16. Refinitiv Global Focus Convertible Index for all return data; Bank of America for default rates and issuance data.
17. JP Morgan CLOIE BB Index and JP Morgan CLOIE BBB Index for all return data; JP Morgan Weekly CLO Issuance for all issuance data.
18. Bloomberg US CMBS 2.0 Baa Total Return Unhedged Index for all return data; Trepp for default rates (%; 30+ day delinquency, and REO); JP Morgan for all issuance data.

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