Insights

The Roundup

Top Takeaways from Oaktree's Quarterly Letters

In the current installment of *The Roundup*,[1] Oaktree experts examine potential risks and opportunities in various asset classes today. They consider the current state of the credit markets, including the growing need for direct lending solutions and the renewed interest in European credit, and also assess private residential real estate and the consumer lending segment of the asset-backed finance market.

Justin Quaglia
Managing Director,
Credit Trading

1.

Views from the Trading Desk

Our job as investors is to price credit risk premiums in the face of uncertainty. The broader the array of possible outcomes, the less confidence market participants have in asset valuations, leading to volatile price swings. The volatility we saw in early April resulting from the posturing around trade policy was truly historic. Take April 9, for example, one of the most memorable trading days of my career, where we saw the following:

- Pre-Market: Long-dated Treasury yields rose above 5% and S&P 500 futures were down 2%
- 7:00am ET: The high yield bond market opened down 1-5 points depending on the structure
- 9:30am ET: The stock market opened, and President Trump shared high conviction market messages on social media, including that "it is a great time to buy"
- 1:15pm ET: A 90-day pause on tariffs was announced for a broad list of countries
- 1:30pm ET: High yield bond prices immediately bounced back, erasing the day's losses, and many moved higher on the day
- 4:00pm ET: The S&P 500 closed up 9.5% and the NASDAQ closed up 12.2% on the day
- 4:30pm ET: Economist calls for a recession made just hours earlier were rescinded

This day was the most extreme but much of early April had a similar profile as investors sought clarity amid evolving trade negotiations. The 90-day pause restored some confidence, while reminding investors of the attractive yield offered by sub-investment grade credit. The high yield bond market finished the month flat after being down almost 3%.

The rebound was sharp, but the credit markets today are still distinguishing between the haves and have-nots. In the liquid markets, most names are trading within a narrow spread range but a subset of pressured credits are trading at outsized spreads. Similarly, in private credit, most issuers remain fundamentally sound, but a tail of stressed names are switching to payment-in-kind interest and may need borrower intervention. The message is clear: selection is key.

Suzana Perić
Managing Director,
Sourcing and Origination

2.

Private Credit: Open for Business

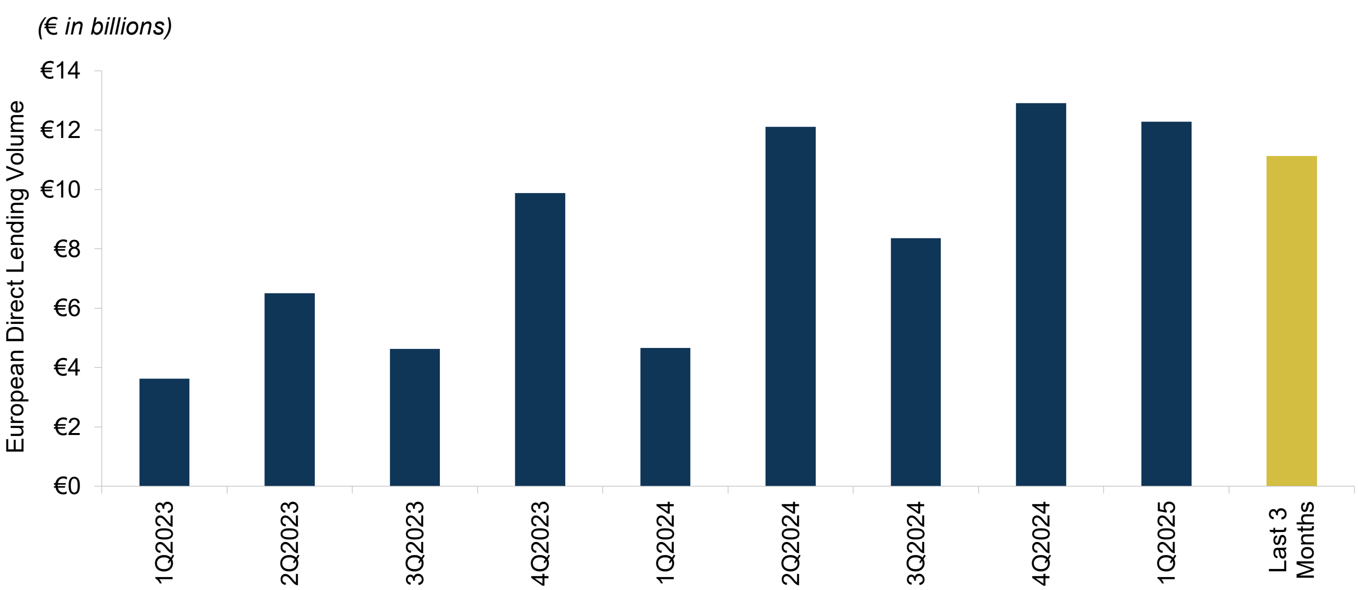
The private credit market has stayed open for business amid the volatility of the last few months. Issuance is still modest as private equity deal activity remains sluggish, but the direct lending market has successfully provided capital for new LBOs and refinancings of near-term debt maturities despite the ongoing tariff uncertainty and geopolitical concerns, reinforcing its reputation for quick and certain execution.

When public debt market accessibility is limited, private credit truly shines as a financing solution. We saw this at the onset of the Covid-19 pandemic, during the interest rate hikes beginning in 2022, and again in the second quarter of this year. None of these events were associated with default rates spiking to recessionary levels or even prolonged distress, but the uncertainty was enough for (a) the banks that intermediate the leveraged loan market to take a pause and (b) public lenders to step back and assess the mark-to-market volatility in their portfolios. In each case, private credit helped fill the gap.

Moreover, private credit activity in Europe has been notably robust amid the volatility, with over €11 billion of direct lending volume in the last three months.[2] (See Figure 1.) Admittedly this figure is boosted by a handful of mega-deals, but as we outline in the following section on European liquid credit, investor sentiment regarding Europe is improving: the region may be reasonably isolated from tariff pressures and corporate fundamentals remain strong.

With more stringent bank capital rules set to be enforced, an extraordinary volume of private equity dry powder, and the likelihood of continued market volatility, it's fair to expect private credit will be an increasingly critical financing source for corporates and private equity sponsors.

Figure 1: Direct Loan Issuance Has Been Robust Amid Recent Volatility



Source: PitchBook, as of May 31, 2025

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Portfolio Manager, European High Yield Bonds and Senior Loans

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3.

European Liquid Credit: EUReka Moment

European credit is gaining investor interest as a valuable diversifier for U.S.-centric credit portfolios. Europe is often characterized as a bureaucratic region lacking the high-octane commercial exuberance of the U.S.: for credit investors, that may be no bad thing. Don't expect Magnificent Seven-level equity multiples here but instead conservatively managed corporate borrowers that pay their coupons, prudently deal with maturities, and benefit from a stable policy backdrop. In an uncertain global economy, this may be an attractive proposition.

Of course, European credit markets are smaller than those across the pond. But they're far from insignificant, with nearly €650 billion of outstanding European senior loans and high yield bonds, and a thriving direct lending market.[3] This is split across multiple countries (the U.K., Germany, and France tend to be well represented) and a wide range of industries, providing the opportunity to construct highly diversified portfolios.

European credit also has a few things in its favor right now:

- Stimulative spending in the region: Europe is set to bolster its military and industrial bases to mitigate increased detachment from the U.S.[4] This will require significant government spending: most notably, Germany has released its "debt brake" and is set to drastically increase investment. All of this is favorable for avoiding a recession.

- Robust issuers: The average quality in the European credit markets is high. Slow economic growth has constrained aggressive financings and mandated cautious balance sheet management. Together with expectations for relative insulation from tariffs, this had led to very moderate default rate predictions in Europe: only 2.5-3% in the loan market.[5]

- Limited vulnerability to creditor-on-creditor violence: We've seen signs of liability management exercises coming to Europe, but they remain difficult to execute here. European lenders continue to be relatively well protected by stringent directors' duties regimes, complex guarantee and security structures, and a collaborative creditor community.

That's not to say European issuers are invulnerable. They'll likely continue to be significant dispersion between the bulk of robust issuers and a small subset of distressed names. It's the latter which can hinder portfolio returns, and managers will have to be as diligent as ever in their credit selection. Get that right and Europe could present attractive opportunities for adding diversification and decent risk-adjusted yield to a credit portfolio.

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4.

Asset-Backed Finance: Nuances of Consumer Lending

The financial health of the U.S. consumer is under constant scrutiny. Personal consumption constitutes nearly 70% of GDP, underpinning demand for goods and services.[6] Lending to consumers is an industry in itself, from auto loans and credit cards to mortgages and student loans. In the context of asset-backed finance (ABF) within the consumer space, these loans represent collateral. Our key question is whether these loans will be repaid. Headlines regarding consumer health shouldn't be regarded as the defining information when making consumer lending investments: this data can be useful in informing our views, but a more nuanced assessment is required.

Most investors will regularly review multiple consumer data metrics, including unemployment rates, consumer savings, and consumer spending. At a high level, the data doesn't yet appear to indicate a dramatic deterioration in consumer health. However, it's important to examine the underlying economic data points rather than rely on the headlines, for example:

- Unemployment remains low at 4.2%[7] but continued jobless claims have incrementally risen to nearly two million,[8] indicating that re-entering the workforce is currently challenging.
- The personal savings rate is nearly 5%,[9] which is below the peak rate during the pandemic but above 2022 levels. However, this average may be dragged up by wealthier consumers as lower-income consumers struggle, having experienced year-over-year wage growth of just 1.5%.[10]
- Student loan delinquencies have accelerated in recent weeks, with over 30% of borrowers officially delinquent on their loans.[11] This may have corollary impacts not yet visible in the data, as some borrowers face the prospect of garnished wages.

This kind of data can serve as an input when assessing the potential credit performance of consumer asset pools. For improved utility, this means analyzing how data values and ranges vary by borrower cohort, activity, and credit product. Even then, this data is only part of the picture: to form a nuanced view on future loan losses, managers should take a holistic approach, including evaluating industry trends, regulatory risks, and originators. In short, quantitative inputs must be supplemented with qualitative underwriting.

The underwriting of each loan – and the motivation for repayment – is critical when assessing expected credit performance. For example, we're wary of consumer lending reliant on automated, algorithmic methods to estimate repayment likelihood rather than conducting common sense "will the borrower pay?" underwriting. Within the consumer segment of ABF, our preference is toward financings for essential purchases. This could include things like HVAC (heating, ventilation, and air conditioning) system financing for homes. In other words, we want to be invested in the assets that'll be prioritized by the borrower during periods of financial stress.

Consumer lending continues to be a space we assess selectively, being just one component of the vast ABF universe. We tend to find the best relative value where regional lenders have stepped back and other originators or capital providers can't participate as they deal with problems from loans made (often to subprime consumers) in 2021-22. This can create a supply/demand imbalance that favors new entrants.

Mark Jacobs
Co-Portfolio Manager,
Real Estate Income

5.

Real Estate: Residential Resilience

Uncertainty around trade policy and ongoing political tensions have led to increased fears of an economic downturn in the U.S., as businesses brace for potential higher input costs and postpone new investments. Private real estate may be well positioned in this environment compared to other asset classes. Specifically, residential real estate has proven resilient during previous downturns and the recent reset in values coupled with improving fundamentals could lead to outsized rent growth and value appreciation over the next few years, regardless of the direction of the U.S. economy.

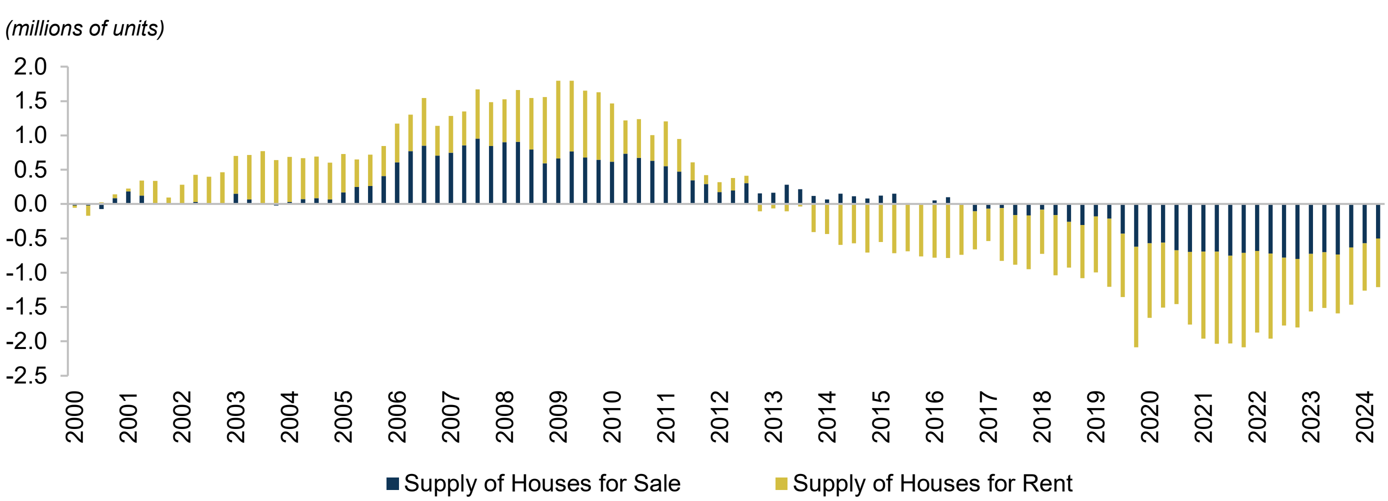
Historically, real estate has shown greater cash flow resiliency than the broader corporate universe. For example, multifamily property cash flows fell by just 6.3% during the Global Financial Crisis, compared to a 38% drop in S&P 500 EBITDA.[12] Home prices have been stable so far in 2025, with a 1.9% year-to-date increase through the end of February, according to the latest reading of the Case-Shiller U.S. National Home Price Index.

The U.S. housing market is currently undersupplied by an estimated 1.2 million residential units, while residential rental absorption (i.e., the speed at which units are leased) remains historically high.[13] (See Figure 2.) The undersupply of housing is creating an opportunity for owners to attain high levels of rent growth across the multifamily sector.

Further, while the depth of the financing market for high quality real estate assets is increasing off recent lows, private capital remains uniquely positioned to offer targeted financing solutions where traditional liquidity hasn't fully recovered. Demand for differentiated private capital solutions to stressed developers and operators presents a potential opportunity for non-traditional lenders to achieve outsized returns with strong downside protection.

The opportunities available in residential real estate must be carefully underwritten but a reset in values over the past two and a half years, and the prospect of net operating income growth, may offer a unique entry point into core-plus multifamily real estate.

Figure 2: Residential Property Remains Deeply Undersupplied in the United States



Source: John Burns

Endnotes

1. The content is derived from or inspired by ideas in recent letters, or other materials featuring or produced by Oaktree thought leaders; the text has been edited for space, updated, and expanded upon where appropriate.
2. PitchBook, as of May 31, 2025.
3. Combined Morningstar European Leveraged Loan Index and Morningstar Eurozone High Yield Bond par amount.
4. EU White Paper for European Defence – Readiness 2030.
5. Fitch, estimated 2025 European senior loan default rate.
6. Federal Reserve Bank of St. Louis; personal consumption expenditure represents 68.4% of GDP, as of 1Q2025.
7. Federal Reserve Bank of St. Louis, as of May 2025.
8. Trading Economics, as of June 7, 2025.
9. Federal Reserve Bank of St. Louis, as of April 2025.
10. BofA Consumer Checkpoint, as of May 9, 2025.
11. Bloomberg, as of June 24, 2025. Delinquency defined as 90 days late on loan payments.
12. Green Street; Bloomberg.
13. John Burns, as of December 31, 2024.

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