Insights Live: The Liquid-Private Credit Convergence

Armen Panossian

Hi, I'm Armen Panossian, Co-CEO and Head of Performing Credit at Oaktree. I'm delighted to be joined today by my colleagues, Raghav Khanna, co-portfolio manager in our global private debt strategy, and Danielle Poli, assistant portfolio manager in our multi-asset credit strategy. Thanks for joining today. Today we're going to talk about a very important topic, and that is the convergence of public and private credit markets as distinctions blur between direct lending on the one hand and broadly syndicated loans on the other.

So, first to level set on the context and the history of public and private credit, Raghav, can you open and just give us a sense for the history of the private side initially?

Raghav Khanna

Sure. What opened the door for private credit, I think we all know, was the post GFC regulatory changes, which forced banks to retrench from this space, especially in the below IG space. And look, the market's grown a lot. Today the market is about $1.7 trillion in size, so it's roughly comparable to the high yield market in the U.S. and the broadly syndicated loan market. So simple way of thinking about it is in the below IG space. Each of these markets has approximately one third market share. So at this point, it's not a novel category, it's a core allocation for most LPs and especially the larger and more sophisticated LPs.

Armen

Now, let's compare that a little bit to the public side, specifically to broadly syndicated loans or high yield bonds. It'd be great to understand, Danielle, from your perspective, how has that kind of evolution occurred?

Danielle Poli

Well, there's a really interesting parallel there between private credit and the growth and evolution in that market. If you think about when Oaktree's founders first started their investment activities in the late seventies, early eighties, high yield bonds were referred to as junk bonds. And that market has developed to the nearly $2 trillion market that Raghav mentioned today with thousands of borrowers, large companies, sometimes enterprise values over a billion, and these are household names and it's really become a mainstream part of the liquid credit markets.

Armen

Yeah, no, it's very clear that at this point borrowers have a lot of choices. They could go down the private credit context and get a negotiated loan with a bilateral counterparty. They could go down a syndicated context with the broadly syndicated loan where that position is put away in dozens, if not hundreds of potential CLOs or other types of owners. Raghav, walk us through how a sponsor or a borrower thinks about the options there.

Raghav

Sure. So, companies that need a financing of a billion dollars or more, those sponsors definitely see the markets, the public market and the private market as complimentary. And one trend that we're seeing, which is kind of interesting and somewhat new, is that we're now seeing single name borrowers go from the BSL market or the broadly syndicated market to the private credit market and vice versa. And this is happening now more frequently. So, in the first half of 2025 alone, $28 billion of paper has migrated from the BSL market to the private credit market and vice versa.

The other trend we're seeing, and again I expect this trend to continue, is hybrid capital structures. Now we're seeing hybrid structures where you could have, as an example, a broadly syndicated first lien held by CLOs and a privately placed second lien, or you could have a bank held term loan A with a private credit term loan B. So you're starting to see the market converge around these options and then mix and match these options more and more.

Armen

So it seems like a private equity firm or a borrower that is a repeat user of the markets would have the benefit of having a highly functioning public market and a highly functioning private market to be able to have options as their opportunity sets change. I mean, I remember during the pandemic period there was a period of time there that the public market really seized up because I think the CLO buyers were not really buying. And on that point, Danielle, I mean, can you kind of talk us through as businesses may change and swapping back and forth between broadly syndicated and private, I mean Raghav mentioned, but what are your views on that kind of migration?

Danielle

Well, I think that's exactly right. When issuance in public market slows, that's an opportunity for private credit lending to pick up. And you highlighted the Covid period when banks were hung with a significant amount of deals on their balance sheets and private credit lenders stepped in and some cases to save the day. We also saw as macro volatility picked up related to rates in 2022 and 2023, a number of deals get refinanced into the private markets from the syndicated markets. And then today, as Raghav mentioned, we're right at around parody, which I think really speaks to the trend of convergence that we're talking about today. But I do think having those two markets is going to lead to an overall healthier market and a variety of ways for companies to get financing even in more challenging economic backdrops.

Armen

What's your view on the opportunity side? Can we actually deploy this capital that people are interested in investing with managers in the credit space?

Raghav

I think data center is obviously the capex story of this decade, but I think it also highlights an interesting transformation that I think the Western economies are going through, which is if you look back at the previous decade, a lot of the growth in GDP was driven by "asset light" sectors such as financials, technology, and healthcare. And I suspect, we're going through for the next decade, I suspect we'll see growth in GDP driven by capex heavy sectors.

AI data centers is obviously a big one, but you have an increase in defense. You have reshoring, you have the energy transition, you have all the fiber and telecom capex that's being laid out right now. So, combined its trillions of dollars of capex that's required that will need to be financed. It will be financed by commercial banks, it will be financed by money center banks. It'll be financed by the liquid credit markets and by private credit.

Armen

There's a lot of thematic areas of investing that are going to require private credit or just credit generally. In addition to that is just there's a lot of sponsor-to-sponsor trading activity that occurs, sponsors selling their assets to other sponsors and they need private credit or broadly syndicated loans to help finance those transactions as just in the normal course. So, Danielle, what are you seeing in Europe and just in the broadly syndicated markets of the public markets generally? I mean, what's your sense of that overall market opportunity?

Danielle

Yeah, I mean, thematically we're seeing the same things because I think if you think about big picture, 10,000 PE owned companies, 90% of companies are private. They need financing solutions. You mentioned Europe. That's been interesting, especially in the liquid credit markets where you can pick up a little bit more yield that's a smaller, less efficient market today. And there's also some secular trends there with certain countries increasing their defense spending, infrastructure spending.

Armen

I know as a global investment manager, we're always interested in relative value between U.S., Europe, emerging markets and other kind of developed economies. And it's good to see expansion outside of the U.S. as well, and I think we'll have further opportunities to invest globally in some of these thematic areas, but also in private equity backed companies.

Let's talk a little bit about structure. Are we sort of converging or is private credit still sort of meaningfully different either in terms of pricing, legal structure, leverage levels on any dimensions you think Raghav?

Raghav

Sure. The businesses that are looking for a billion dollars of financing or more that can access both the liquid market and the private credit market. So naturally you would then expect that it is that part of the market where we are starting to see convergence in terms of credit agreements, pricing and leverage between the public market and the private market. What's happened now is that the private credit market, even for really large deals, looks and feels a little bit more syndicated than it did five, ten years ago.

Even though there are some very large lenders that can speak for $500 million to a billion dollars per deal, private equity sponsors have just realized that they do not want to take a lender risk, if you will. And so they will naturally create a deal where there are four, sometimes as many as ten lenders in a deal, which is starting to feel a little bit more like the syndicated loan market.

Danielle

We're obviously seeing convergence in structure and pricing between the two markets. We're also seeing convergence in the buyer base. And this is interesting because high yield bonds, senior loans, these used to be institutional asset classes. They're now well owned by everyday investors and mutual funds and other types of portfolios, and you're seeing that adoption with private credit too. It's moving from more of an institutional market to the wealth market. It's being incorporated in different types of hybrid vehicles, evergreen vehicles, BDCs interval funds, tender offer funds. As that buyer base shifts, I think you'll just continue to see the two markets become more of one and coexist as a single asset class.

Armen

So as the buyer base becomes sort of uniform across all of these public and private asset classes, credit and otherwise, how do you think about portfolios? It used to be the case or maybe it still is the case that investors say, this is my private credit allocation, this is my public credit allocation. Are we now talking about credit rather than public credit versus private credit?

Danielle

I think that's right. I think instead of thinking about it as two different asset classes, allocators are thinking more about outcomes. What do they want to achieve from credit? Is it income? Is it inflation protection? And they're structuring portfolios that way. When you can combine public and private credit in a portfolio, I think it optimizes your portfolio construction. You can really pick that right mix of yield and liquidity.

We talked about private credit giving enhanced deal because of the illiquidity and the less frequent marks. That can be great in a certain market environment, but if markets are dislocating, how great to be able to go into public markets where you can buy things at a discount and quickly and also have some dry powder in a portfolio to then fund those private deals because that's a great time to step in as a private lender. We use liquid credit as a funding mechanism too for private credit so that we don't have cash drag in our portfolios.

Armen

So, we could be more selective as we pick the private positions that we want in such a portfolio. We could camp out and public credit and earn a nice income as we wait. That's a good point, Danielle.

Raghav

The other nice thing about adding private credit to a public portfolio is, as we all know, private credit marks based on fundamentals, not on psychology, which can infect the liquid credit markets more so than the private credit market.

Armen

Yeah. So I guess to say what you said, but in my words, so the private portfolio gives you stability and income and the public portfolio to the extent you could add it to, it helps to manage liquidity and helps to actually get opportunistic when there's a technical dislocation in that market.

Raghav

Correct.

Armen

And specifically when we were talking about private credit, we were talking mainly about corporate direct lending, sponsored direct lending, and in the case of public credit, we were talking about broadly syndicated loans and high yield bonds. I think those are pretty well understood and we are definitely seeing that convergence, but what else is out there?

Raghav

Sure. So I mentioned this briefly, but I do think asset-backed finance is very interesting if you believe, as I do that we are entering a period of high capex across data centers, defense, aerospace, what have you, that I think asset-backed finance is naturally an area that's going to grow and benefit by financing a lot of that capex spend.

Armen

What about in the public areas or areas that might touch some of these public markets? Danielle, what are you seeing?

Danielle

Yeah, when I think about the global credit markets and Oaktree's opportunity set as we're constructing multi-asset portfolios, the core is usually high yield bonds and senior loans, and then the alpha strategies that add some spice to the portfolio are structured credit, emerging market debt and convertibles. I think the opportunity and structured credit is very attractive today on both the corporate side in the form of CLO debt and equity as well as in real estate and in particular in residential mortgage-backed securities.

Armen

Really distilling what both of you just said, it seems like although there's this very well understood core in the private side of corporate direct lending on a first lien basis to private equity sponsors and on the public side high yield bonds and broadly syndicated loans, that just seems like the core of the private credit market and the public credit market. But if I was to really think about what you said in addition was to really tap the best of the private credit market and the public credit market, you need to have skills beyond just that core.

Danielle

For me, diversification is the key. When you're combining these asset classes and you're going outside of core markets, you're adding diversification and uncorrelated asset streams to your portfolio. And I think that really opportunistic piece is core to Oaktree's DNA. It's shown in how we approach our borrower community and the flexibility of solutions we can offer them, as well as how we flexibly design portfolios for different market environments.

Armen

So maybe if I could just wrap up, it seems like there's a growing level of convergence between public and private, a growing opportunity set in some of these other areas that are sort of new and esoteric, and I think that this spectrum of public and private credit is only becoming more dynamic and more interesting.