Private Credit: Open for Business[1]

SUZANA PERIĆ
MANAGING DIRECTOR,
SOURCING AND ORIGINATION

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.

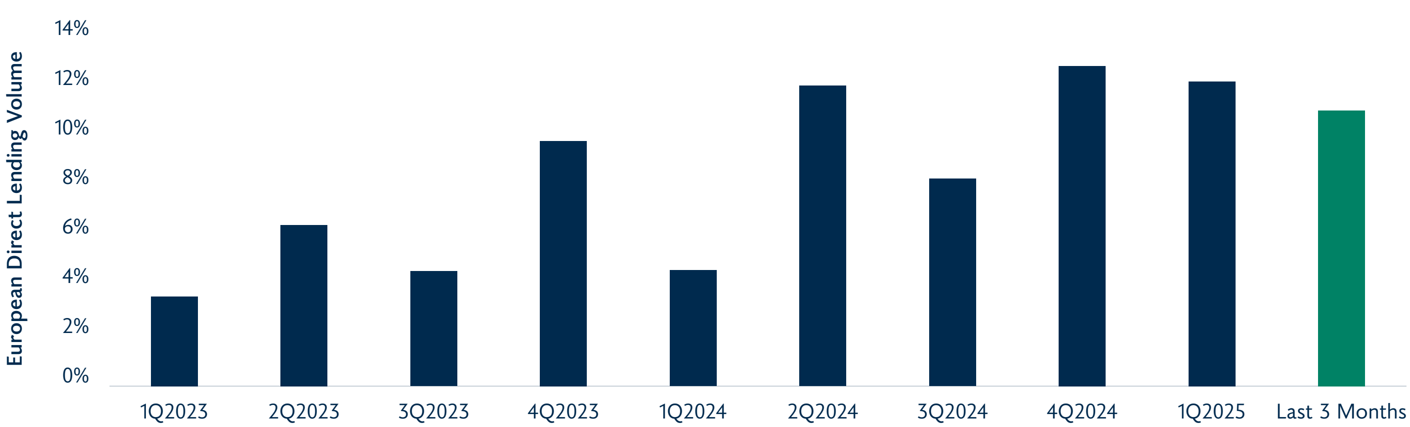
When public debt market accessibility is limited, private credit truly shines as a financing solution. We saw this at the onset of the Covid-19 pandemic, during the interest rate hikes beginning in 2022, and again in the second quarter of this year. None of these events were associated with default rates 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 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

€ in billions



Source: PitchBook, as of May 31, 2025.

ENDNOTES

[1] Source: ***The Roundup:*** Top Takeaways from Oaktree's Quarterly Letters—June 2025 Edition. 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.

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As an asset class, private credit is comprised of a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison to their public equivalents.

Because private credit usually involves lending to below investment grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.

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Contact Us

brookfieldoaktree.com

info@brookfieldoaktree.com

+1 855-777-8001

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