



The Roundup

Top Takeaways from Oaktree's Quarterly Letters

In the current installment of *The Roundup*,¹ Oaktree experts explore the bifurcated nature of credit markets, discuss potential disruption within the healthcare sector, assess the ramifications of limited private equity deal activity, and evaluate the current state of the real estate capital markets. Plus, we've included an excerpt from Howard Marks's latest memo.



Howard Marks
Co-Chairman

1.

Market Outlook: Worrisome Equity Valuations

A bit over half of the S&P 500's jaw-dropping 58% two-year total return in 2023-24 was attributable to the spectacular performance of just seven stocks, those of the so-called "Magnificent Seven" – Apple, Microsoft, Alphabet (parent company of Google), Amazon, Meta Platforms (parent company of Facebook), Nvidia, and Tesla.² These are great companies – some are the best companies ever – and these seven stocks have grown to represent a startling one-third of the total market value of the 500-stock index. (Please bear in mind that I don't claim to be an expert on stocks in general or tech stocks in particular.)

Because of these companies' greatness, their stocks are highly valued, and there's a popular perception that their elevated valuations are responsible for the S&P 500's unusually high average p/e ratio. The fact is their p/e ratios average out to roughly 33.³ This is certainly an above average figure, but I don't find it unreasonable when viewed against what I believe to be the companies' exceptional products, significant market shares, high incremental profit margins, and strong competitive moats. (A lot of the Nifty-Fifty stocks First National City Bank owned when I got there in 1969 were selling at p/e ratios between 60 and 90. Now that's high!) **Rather, I think it's the average p/e ratio of 22 on the 493 non-Magnificent companies in the index – well above the mid-teens average historical p/e for the S&P 500 – that renders the index's overall valuation so high and possibly worrisome.**⁴

The existence of overvaluation can never be proved, and there's no reason to think the conditions I discuss in [*Calculus of Value*](#) imply there'll be a correction anytime soon. But, taken together, they tell me the stock market has moved from "elevated" to "worrisome."

August 2025



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2.

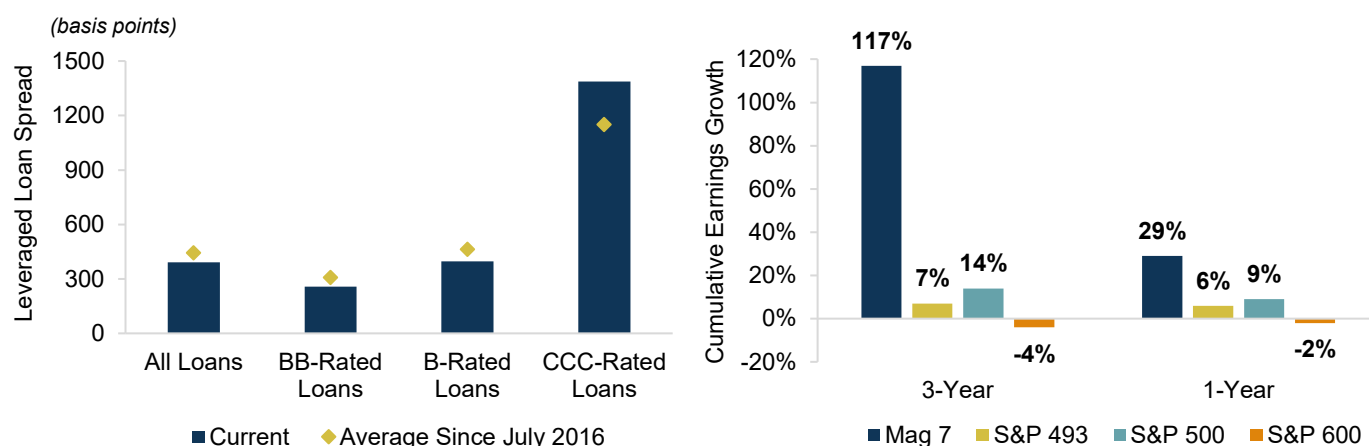
Value Opportunities: A Tale of Two Markets

It's not unusual for what we see at the surface to hide underlying currents. Today, the undertow is large as growing disparities lurk behind the stable picture presented by major indices. This bifurcation into "haves" and "have-nots" and divergence in valuation creates inefficiencies in both equity and credit: (a) unloved investments with few prospective buyers and (b) excessive complacency regarding companies that "seem fine."

Equities acutely illustrate this dynamic, as the Magnificent 7 continues to drive index performance while earnings in the "S&P 493" remain lackluster. (See Figure 1.) Broadly across equities, companies with "AI" in the ticker trade at meaningful premiums, while those without trade at discounted levels. These discrepancies underscore an economy struggling to find true escape velocity. Artificial intelligence spending accounted for roughly 0.5% of 1H2025 GDP, or one-third of total growth.⁵ Absent AI, 1H2025 GDP growth would be closer to 0.9%.⁶ By the end of 2026, AI spend could comprise 40-50% of GDP growth.⁷ If and when AI spend slows, the outcomes appear obvious.

We see a similar pattern in credit, shaped by lender risk tolerance. Solid borrowers face little resistance: BB-rated loans yield 6.9% – a spread of just 257 bps – yet still attract capital from both public and private markets.⁸ (See Figure 1.) In contrast, CCC-rated loans trade at 1,388 bps.⁹ The spread reflects a bleak outlook. From 2010 to 2021, LBO volumes accelerated on the back of zero-rate policies, fueling acquisitions with excess leverage and high multiples. Today, floating-rate debt from those pre-2022 deals has doubled in cost. The result: median cash flow coverage for CCC-rated loans has dropped below 1x and is only slightly higher for bonds.¹⁰ Many of these CCC issuers can't invest to grow and will struggle to refinance, making restructurings inevitable, most commonly in the form of liability management exercises. For opportunistic credit managers, the stage is set for a structurally elevated opportunity to buy deeply discounted debt, potentially for many years to come.

Figure 1: The Haves and the Have-Not



Source: PitchBook LCD Compass, as of August 31, 2025; reflects LSTA Leveraged Loan Index. Earnings growth sourced from Bloomberg, as of August 31, 2025



Olivia Guthorn
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3.

Opportunistic Credit: Diagnosing Healthcare

The healthcare sector is supported by several well-publicized secular tailwinds. The U.S. population is aging at a rapid pace: the number of people above the age of 65 is projected to rise by nearly 25 million between 2020 and 2050, with those over 85 expected to triple by 2050.¹¹ This is driving significant healthcare expenditure, with per-person spending for senior citizens about 2.5 times that of working-age individuals.¹²

Buoyed by these tailwinds and the sector's counter-cyclical nature, healthcare companies have been a darling of the private equity industry. Lenders have also heavily favored healthcare, enabling sponsors to secure significant leverage through the sub-investment grade credit markets. This has left the industry highly represented in credit markets: healthcare companies now account for over \$270bn in outstanding U.S. senior loans and high yield bonds, and have made up 18% of direct lending deals so far in 2025.¹³

While the sector benefits from long-term tailwinds, it faces potential disruption from policy changes in the U.S. Key issues include (a) Medicaid policy adjustments, (b) tariffs increasing input prices, (c) measures that seek to improve the access and affordability of pharmaceuticals, (d) changes at the FDA, and (e) research budget cuts. Combined with high leverage levels, the macroeconomic uncertainty and potential implications of these policy shifts have left many healthcare companies facing significant uncertainty.

These challenges may lead to attractive entry points for credit investors. The opportunities range across both public and private markets, from distressed debt trading at a significant discount to companies requiring liability management exercises or rescue financing. We're also seeing growing demand for opportunistic capital solutions, primarily to support more complex business models and help navigate policy headwinds.

Given the healthcare sector's vast yet highly interconnected and complex landscape, specialized lending expertise is critical for sourcing, underwriting, and evaluating risk across diverse business models. This detailed knowledge positions investors to provide much-needed capital to essential healthcare businesses, often on highly attractive terms, while helping companies navigate disruption and unlock long-term value.



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4.

Special Situations: Financing DPI

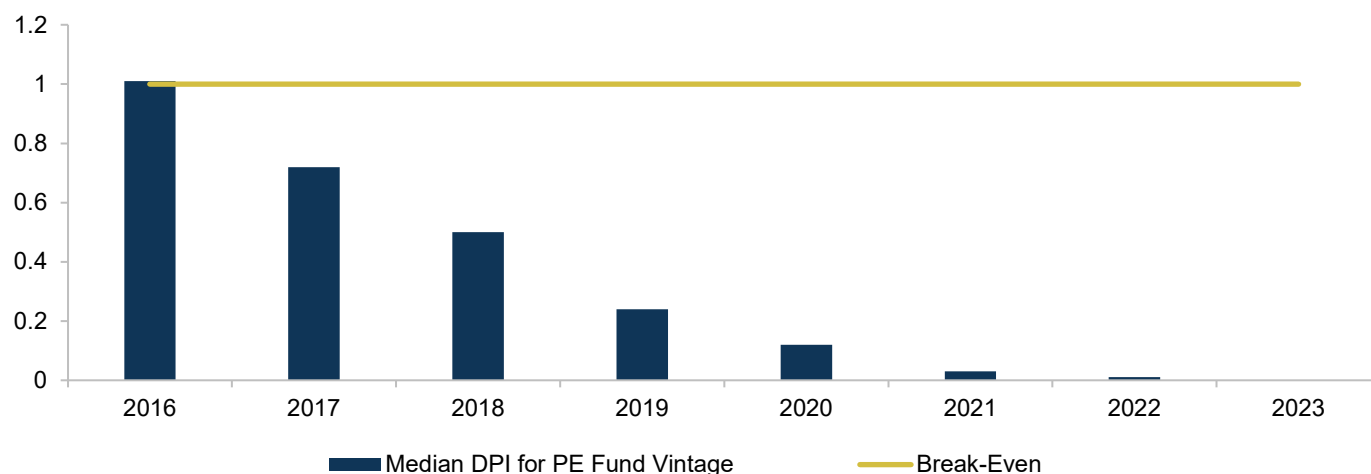
It's well documented that the paucity of M&A activity over the last few years has resulted in extremely low levels of distributions to paid-in capital (DPI) for traditional private equity (PE) funds. In fact, you have to look all the way back to 2016 for the most recent PE fund vintage with a median DPI above one, i.e., when LPs have received all their capital back. (See Figure 2.)

The fundamental problem is there continues to be a significant valuation gap between PE sellers and prospective buyers. The primary culprit for this impasse? The increase in interest rates from the ultra-low (perhaps unnaturally low) period of 2009-21. Prospective buyers face financing their purchase with a cost of capital around double that the now-seller would have faced to buy the same business. A higher financing cost effectively means less leverage is available, reducing the EBITDA multiple that a buyer could pay and still feasibly achieve their target return.

This dynamic puts the PE owner in a difficult position – it can either (a) sell the portfolio company and distribute the proceeds to its LPs while likely crystallizing a sizeable write-down or (b) continue to hold the investment, avoiding the write-down but limiting distributions. Option b is becoming increasingly tricky as DPI is firmly on the mind of LPs, with a 2025 McKinsey survey indicating the number of LPs ranking DPI as the “most critical” performance metric has more than doubled over the last three years.¹⁴

We see an emerging opportunity for sophisticated investors to provide structured equity capital solutions to these healthy PE-owned businesses. This allows the sponsor to achieve partial monetization – which is better than no return of capital – and a confirmation of its mark, while buying more time for interest rates to (hopefully) come down and purchase multiples to increase. Given the need for PE sponsors to increase their DPI, we think this could be a massive opportunity in the near-to-medium term.

Figure 2: Median DPI by Private Equity Fund Vintage



Source: PitchBook, as of June 27, 2025



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5.

Real Estate Debt: Rebuilding Momentum

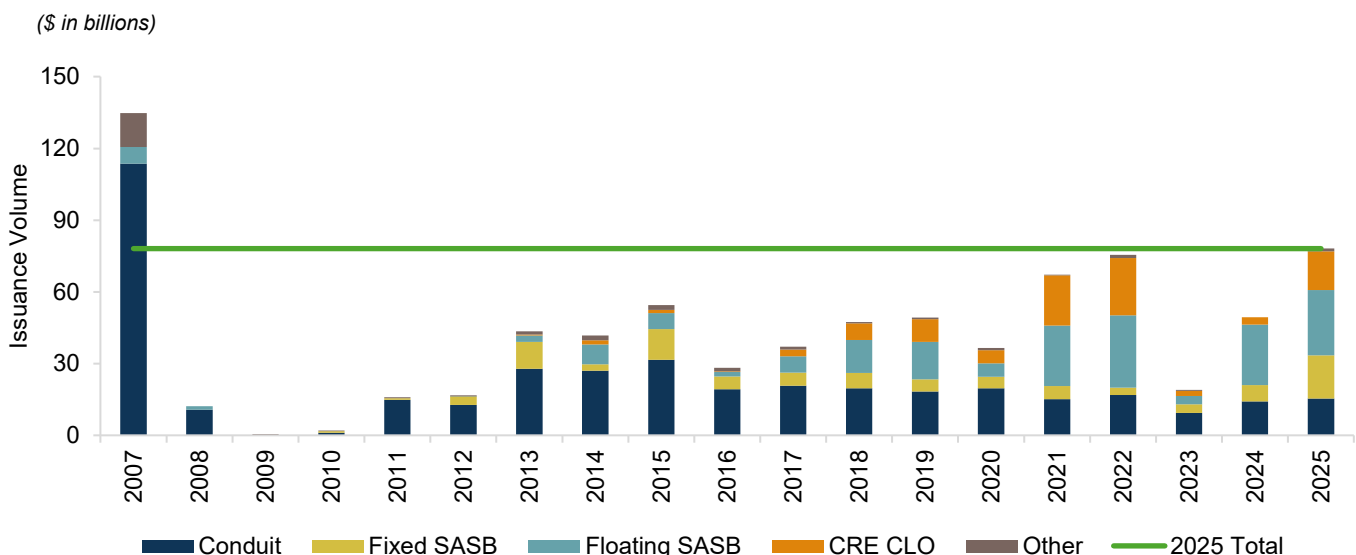
Many people would probably be surprised to hear commercial mortgage-backed security (CMBS) issuance set a post-GFC record in the first half of this year. (See Figure 3.) Commercial real estate has undeniably been beaten up over the last few years, but the financing market is re-establishing momentum.

Private-label CMBS issuance totaled over \$78 billion in the first six months of 2025, representing a 58% increase over last year and the strongest first-half total since 2007.¹⁵ Nearly 60% of this issuance came from single-asset, single-borrower (SASB) loans, which typically feature higher quality collateral than conduit loans.¹⁶ This profile has made SASB deals especially attractive as the commercial real estate market recovers.

Investor demand has kept pace with this surge in issuance. CMBS spreads have tightened over the course of the year, but yields remain attractive at roughly 7%.¹⁷ For investors primarily exposed to corporate credit, real estate credit can be an attractive diversifier. It's potentially less vulnerable to disruption from oscillating trade policy and benefits from already having experienced a reset in valuations over the last few years.

The rebound in real estate capital markets has revived a sense of animal spirits, signaling renewed confidence among real estate investors. We're beginning to see green shoots in the office sector, though activity remains largely limited to best-in-class properties in prime locations. Hospitality has shown some softness, with values declining 1.9% in the second quarter, but overall commercial real estate pricing has stabilized in 2025 – an encouraging sign for the sector.¹⁸ Still, disciplined credit selection remains essential, whether buying securities or making direct loans.

Figure 3: CMBS Issuance in 1H2025 Set a Post-GFC Record



Source: JP Morgan, as of July 3, 2025

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. Reuters.
3. Bloomberg.
4. Bloomberg.
5. Pantheon Macroeconomics.
6. Ibid.
7. Morgan Stanley, U.S. Federal Reserve.
8. LSTA Leveraged Loan Index, as of August 31, 2025.
9. LSTA Leveraged Loan Index, as of August 31, 2025.
10. BofA, as of May 15, 2025. Assumes a fed funds rate of 3.5%.
11. U.S. Census Bureau; Jones, C.H., Dolsten, M. Healthcare on the brink. navigating the challenges of an aging society in the United States. April 6, 2024.
12. Center for Medicare & Medicaid Services, as of September 2024.
13. UBS Leveraged Loan Index, ICE BofA US High Yield Index, PitchBook, as of August 31, 2025.
14. McKinsey proprietary survey, as of January 2025.
15. JP Morgan CMBS Research, as of July 2, 2025.
16. Ibid.
17. JP Morgan, ICE BofA Indices (Conduit, BB-).
18. Green Street Commercial Property Index.

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