Private Credit: Beyond The Noise

Michael Zawadzki
Global CIO,
BXCI

Brad Marshall
Global Head of
Private Credit Strategies

Dan Oneglia
Global CIO of
Liquid Credit Strategies

Recent headlines have raised questions about private credit. The reality of what we're seeing tells a different story.

Q. What are your views on credit fundamentals and the default landscape?

We're seeing healthy market fundamentals. Leveraged loan defaults are down over 100bps this year – hardly the crisis many headlines suggest.(1) Defaults happen in credit investing. It's all about how managers use disciplined underwriting to minimize defaults and asset management expertise to help drive recoveries. Within our own $200 billion private loan portfolio, we see healthy fundamentals and strong growth.

Defaults are natural in credit investing. While we expect defaults to rise from their current low levels, we believe we are well positioned to minimize their impact and drive strong recoveries. BXCI is armed with:

- 120+ person Office of the CIO overseeing underwriting, execution, and portfolio & asset management
- Dedicated workout specialists focused on helping companies through challenging periods
- Value Creation team identifying cost savings and revenue growth opportunities

The companies you've recently read about in the news are not typical of what we target in our North America direct lending portfolio. We focus on sponsor-backed companies with motivated equity beneath our loans which are 95%+ senior secured debt(2) with weighted-average loan-to-values at less than 50%.(3) We take a long-term view, underwriting both asset and owner through the diligence stage, typically holding to maturity.

Q. Shifting to interest rates — how do you view private credit returns in a lower rate environment?

Lower rates may reduce yields, but private credit's relative value remains compelling

- Private credit has continued to earn a ~200bps premium over leveraged loans and high yield bonds(4)
- In a lower rate environment, that premium can become an even larger share of total return
- Falling rates can also create tailwinds. Lower financing costs can spark M&A activity, fuel deployment opportunities, improve borrower cash flows and strengthen balance sheets, which can bolster credit quality

BXCI has generated strong returns through various environments, including lower rates

- For nearly two decades, Blackstone has delivered strong returns in private credit through cycles(5)
- This performance is rooted in private credit's 'farm-to-table' model. By eliminating intermediaries who take a fee, we connect directly with borrowers – allowing for deeper diligence, flexible structures, cost savings, and ability to pass more value to end investors in the form of higher returns

Q. Can you talk about the M&A environment, and how you maintain investment discipline?

We believe the M&A market is showing momentum – or as we like to say, "the deal dam is breaking."

Q3 data tells the story:

- 64% increase in M&A activity year-over-year[(6)]
- >20% increase in new deal screenings across the BXCI global private deal pipeline year-over-year[(7)]

Our investment discipline comes down to two pillars: investment themes and structure. We're thematic investors, not passive deal-takers. We develop investment ideas using insights from our broad credit platform, as well as Blackstone's broader ecosystem. We focus on companies that are on average $200M+ in EBITDA, and structure deals at ~40% loan-to-value with a significant equity cushion.[(8)] This disciplined approach has helped us maintain low loss rates across cycles.

Q. Private credit has grown at a record pace – is it a bubble?

This isn't a bubble - it's natural evolution.

Taking a step back, we believe private credit's growth is driven by real, sustainable trends.

- When interest rates were near zero, investors sought yield and turned to private credit, which offered an attractive premium.
- At the same time, we saw an increase in the number of borrowers that wanted to work directly with firms like Blackstone, for benefits of the 'farm-to-table' model which can deliver speed, certainty, confidentiality and customized solutions.
- Today, this includes larger companies, public companies, and businesses that are powering the real economy—all seeking alternatives to traditional bank financing.
- Private equity dry powder in North America is about 5x larger than private credit dry powder. That means a deep pipeline of deals may need financing.[(9)]
- With private credit at $2 trillion versus a $30 trillion total addressable market, there is an enormous runway for growth.[(10)]

This doesn't mean that traditional public financing goes away. If you think about where sponsors can go to for financing, it's made up of three buckets all about equal in size: the high yield bond market, the leveraged loan market, and the private credit market. Private credit is complementing public markets and filling a gap.

The size of the total sub-investment grade credit market has remained relatively flat over the last five years and during this time, private credit's share has increased from 27% to 33%.[(11)] We see stories sensationalizing private credit's growth, but looking closely, what we're seeing is simply a flexible financing solution taking share. Not excessive risk-taking or speculation.

Q. So in summary, how do we think about the headlines?

Headlines about private credit challenges aren't new—we've seen similar narratives during the recent rate hiking cycle, the regional banking crisis, and "Liberation Day". Sometimes it feels like "don't let facts get in the way of a good story," but facts matter.

First, the market is stronger than headlines suggest. We're seeing a decline in defaults this year and non-accrual rates remain low across the industry and even lower at Blackstone. Second, we believe our track record demonstrates the power of patient, disciplined underwriting: we have a 0.08% annualized loss rate over 20 years in direct lending.[(12)]

This is what private credit is designed to deliver: safety, yield, and excess spread versus the liquid markets. It's easy to get caught up in isolated headlines, but when you take a step back and look at today's macro backdrop, we believe the benefits of private credit remain incredibly strong.

This discussion took place on October 15, 2025 and the above reflects Blackstone Credit & Insurance's views and beliefs as of this date only, which is subject to change. **Past performance does not predict future returns.** There can be no assurance that any Blackstone fund or investment will achieve its objectives or avoid substantial losses. There can be no assurances that any of the trends described herein will continue or will not reverse

End Notes

Note: Data is as of October 15, 2025, unless otherwise indicated. Returns for periods greater than one year are annualized. **Past performance does not predict future returns. There can be no assurance that any fund or alternative asset class will achieve results comparable to those of any of Blackstone's funds or be able to implement its strategy or achieve its investment objectives, including due to an inability to access sufficient investment opportunities, avoid substantial losses, or that any expected returns will be met.**

1. J.P. Morgan Default Monitor, published on December 1, 2025. Represents the trailing 12-month par-weighted default rate for the U.S. leveraged loan market. The par-weighted default rate is calculated as the sum of the par value of all leveraged loans that have defaulted over the last twelve months (including bankruptcies, missed payments, and distressed exchanges, but excluding technical defaults) divided by the total par value of the U.S. leveraged loan market outstanding at the end of the period.
2. As of June 30, 2025. Excluding equity investments in joint ventures which have similar portfolio composition and underlying qualities.
3. As of June 30, 2025. Average loan-to-value represents the net ratio of loan-to-value for each portfolio company, weighted based on the fair value of total applicable private debt investments. Loan-to-value is calculated as the current total net debt through each respective loan tranche divided by the estimated enterprise value of the portfolio company as of the most recently available information. Includes all private debt investments for which fair value is determined with a third-party valuation firm. Amounts are weighted on fair market value of each respective investment. Amounts were derived from the most recently available portfolio company financial statements, have not been independently verified by BXCI, and may reflect a normalized or adjusted amount. Accordingly, BXCI makes no representation or warranty in respect of this information.
4. Source: KBRA DLD Monthly Insights & Outlook Report as of August 31, 2025.Source: KBRA DLD Monthly Insights & Outlook Report as of August 31, 2025.
5. As of September 30, 2025. Private Credit returns include the Flagship commingled funds across the opportunistic lending, global middle market direct lending funds, stressed/distressed strategies, and non-investment grade infrastructure and asset based credit strategies. Separately managed accounts, funds with a limited number of limited partners that are not broadly marketed, inactive investment strategies, unlevered funds within a strategy that has designated levered and unlevered sleeves, and Multi-Asset Credit strategies are excluded. Liquid Credit returns include CLOs, closed-ended funds, open-ended funds and separately managed accounts. Only fee-earning funds exceeding $100 million of fair value at the beginning of each respective quarter-end are included. Funds in liquidation, funds investing primarily in investment grade corporate credit and asset based finance are excluded. Blackstone Funds that were contributed to BXCI as part of Blackstone's acquisition of Blackstone Credit, formerly known as GSO, in March 2008 and the pre-acquisition date performance for funds and vehicles acquired by BXCI subsequent to March 2008, are also excluded.
6. Source: KBW IB Weekly Data – Summary of Capital Markets Activity, published on October 2, 2025.
7. As of September 30, 2025. Pipeline includes potential BXCI investment opportunities classified by BXCI as new global private deals screened in its sole discretion regardless of size and includes both potential new investments and follow-on investments in existing portfolio companies. Certain investments in the pipeline may be inactive. Pipeline investments of a certain size reflect the entire transaction size, and BXCI expects third parties to participate in a substantial portion of such investments. There is no guarantee that any or all of these potential investments listed in the pipeline will be consummated or, if consummated, consummated in the form originally considered by BXCI or that any BXCI fund will participate in the investment.
8. As of June 30, 2025. Based on BXCI internal analysis conducted by the Office of the CIO.
9. Source: Preqin as of March 31, 2025, as published on November 3, 2025. Reflects only North America dry powder. Dry powder is a term for uncalled capital commitments.
10. McKinsey & Company, The Next Era of Private Credit, September 2024.
11. Source: Bloomberg ("High Yield") and LCD ("Senior Loans") as of October 31, 2025. Preqin ("Private Credit") as of March 31, 2025, which is the latest data available. Total addressable global sub investment grade credit market defined as the aggregate of the US and Europe high yield bonds, US and Europe leveraged loans and North American and Europe private credit markets. Leveraged loans refer to broadly syndicated loans. Private Credit includes BDCs.
12. Represents BXCI's average annualized loss rate for its North America Direct Lending strategy from 2006 through September 30, 2025. The annualized loss rate represents annualized net losses for substantially realized investments. Whether an investment is substantially realized is determined in the manager's discretion. Investments are included in the loss rate if (1) a payment was missed, (2) bankruptcy was declared, (3) there was a restructuring, or (4) it was realized with a total multiple on invested capital less than 1.0x. Net losses include all profits and losses associated with these investments, including interest payments received. Net losses are represented in the year the investment is substantially realized and excludes all losses associated with unrealized investments. The annualized net loss rate is the net losses divided by the average annual remaining invested capital within the platform. Investments sourced by BXCI for the Sub-Advised Investments did, in certain cases, experience defaults and losses after BXCI was no longer sub-adviser, and such defaults and losses are not included in the rates provided. Prior to December 31, 2022, the methodology used by the North America Direct Lending track record for calculating the platform's average annual loss rate was based on net loss of principal resulting only from payment defaults in the year of default which would exclude interest payments. Past performance is not necessarily indicative of future results, and there can be no assurance that BXCI will achieve comparable results or that any entity or account managed by or advised by BXCI will be able to implement its investment strategy or achieve its investment objectives.

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