LORD ABBETT®

November 2025

Investment Perspectives

A Closer Look at the Growth of Private Credit Markets

The private credit market may be poised for further growth, but careful manager selection remains critical in navigating emerging risks.

Mike Cibelli
Portfolio Specialist

Alex Mink
Product Specialist

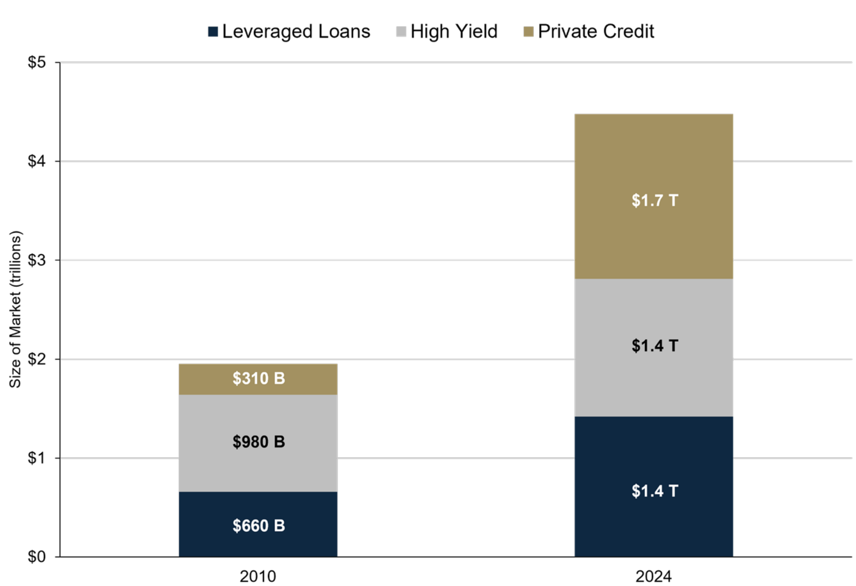
The private credit market—particularly corporate direct lending—has expanded significantly in recent years, prompting some investors to question whether such growth is sustainable. In our view, two concepts can hold true at the same time: 1) the market for private credit has the capacity to support continued expansion of the asset class, and 2) investors should remain attentive to emerging risks when selecting a private credit manager. Below, we've highlighted several considerations regarding the growth of private credit.

Each Subcomponent of Leveraged Credit Has Experienced Growth Over Time

In 2010, the value of private corporate loans totaled $310 billion. Today, that number has reached $1.7 trillion, now roughly one third of the overall leveraged credit market. For context, the high yield bond market began to develop as a stand-alone asset class in the 1970s. Initially, high yield bonds were born from downgraded investment-grade bonds, or "fallen angels." Over time, we began to see bonds that were newly issued as below investment grade. That market, which started from virtually nothing, has grown to nearly $1.5 trillion, shown in Figure 1.

Figure 1. Leveraged Credit Segments Have Expanded

High yield bonds, leveraged loans, and private credit market size



Source: Preqin, ICE Data Indices LLC., and Credit Suisse. Data as of September 30, 2024.

Most recent data available for private credit segment. High Yield= ICE BofA U.S. High Yield Index. Leveraged Loans=Credit Suisse Leveraged Loan Index. Private Credit-Preqin private credit market data. B=billion. T=trillion. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

LORD ABBETT

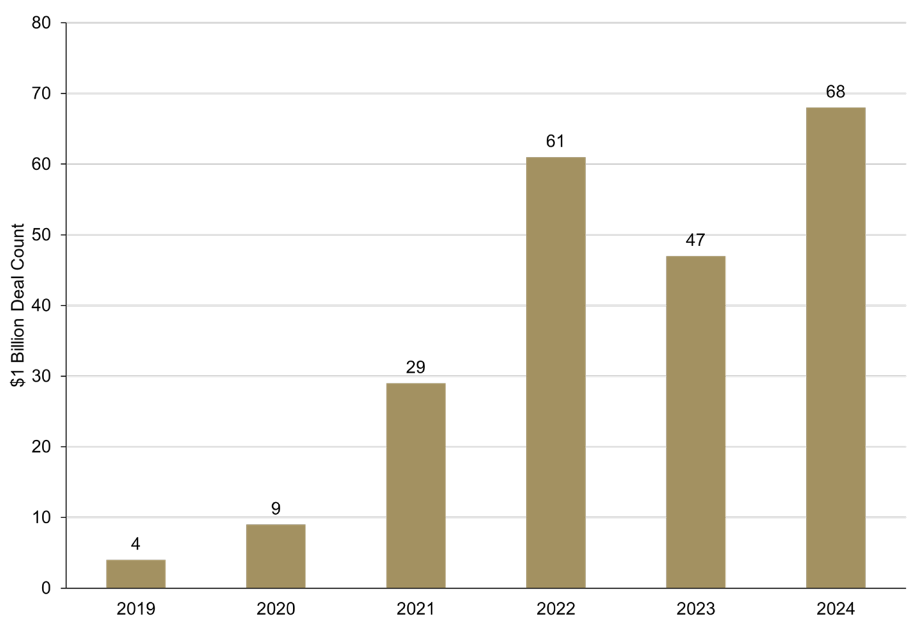
Today, both high yield bonds and leveraged loans are commonly used as a tactical or strategic allocation in client portfolios. Private corporate loans with floating coupons have served as another source of financing and liquidity for corporations and have experienced similar growth over time, reaching a size comparable to the other two subcomponents of the leveraged credit markets and becoming more widely considered as a strategic allocation in fixed income portfolios.

Private Credit Growth Has Been Amplified by a Transfer of Risk

Middle market companies have existed for a very long time. These borrowers needed financing twenty years ago and they continue to need financing today. We estimate that the middle market is made up of nearly 200,000 companies that represent one-third of the private sector gross domestic product (GDP) and would rank as the 4th largest economy in the world behind the US, China, and Japan. In the past, it was largely regional/commercial banks doing the lending, however, due to banking consolidation, larger banks prefer to arrange financing for larger companies, thereby generating higher fees. Banking regulation has also altered the lending landscape as capital requirements have made banks less willing and able to make those same loans. As a result, non-bank lenders are filling the void. To be sure, this is not new risk, instead it's a transfer of risk from banks to asset managers and their clients.

What's more, it's also a transfer of risk from the liquid public high yield and bank loan, also known as leveraged loan, markets to private markets as larger borrowers who have historically and exclusively financed themselves through the capital markets are now using the private credit option. COVID-19 and the regional banking crisis following the failure of Silicon Valley Bank in 2023 also supercharged growth in private credit. In both instances, public capital markets retreated; companies that still required financing, including larger firms that had historically borrowed in the public markets via large investment banks, turned to private markets for capital, indicated by the increase in $1 billion private credit deals over the last few years in Figure 2.

Figure 2. Number of $1 Billion Deals Increased as Larger Firms Turned to Private Markets



Source: JP Morgan and KBRA Direct Lending Deals. Data as of September 30, 2024. Most recent data available. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

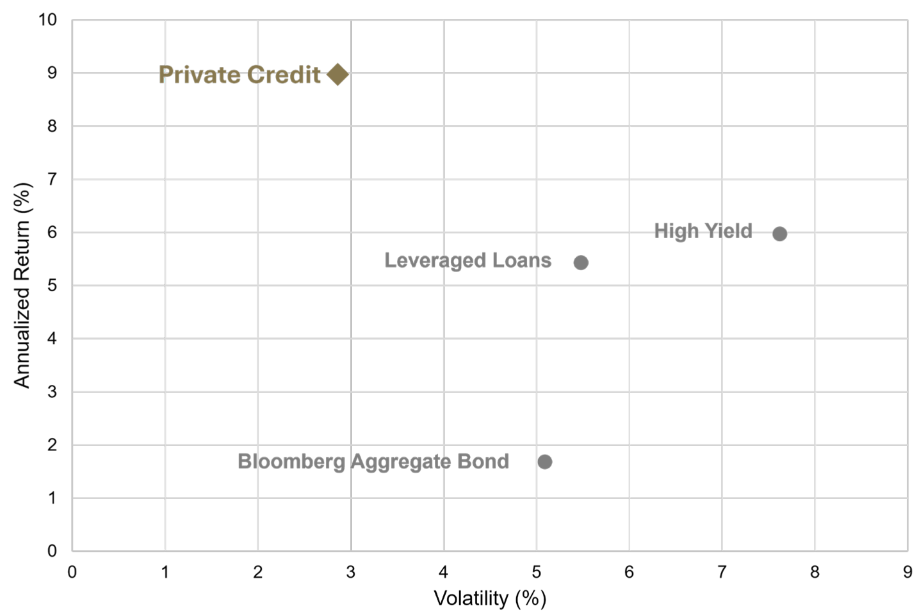
LORD ABBETT®

Private Credit Has Demonstrated Compelling Risk-Adjusted Returns

Beyond this risk transfer, another reason for this rapid growth in private credit has been the undeniably attractive risk-adjusted returns the asset class has delivered over time. Characterized by high income and lower volatility, private credit (and direct lending in particular) has demonstrated a favorable risk-reward profile relative to liquid credit.

Figure 3. Private Credit Historically Produced an Attractive Risk-Return Profile

Annualized return and standard deviation of indicated indexes, September 30, 2015-June 30, 2025



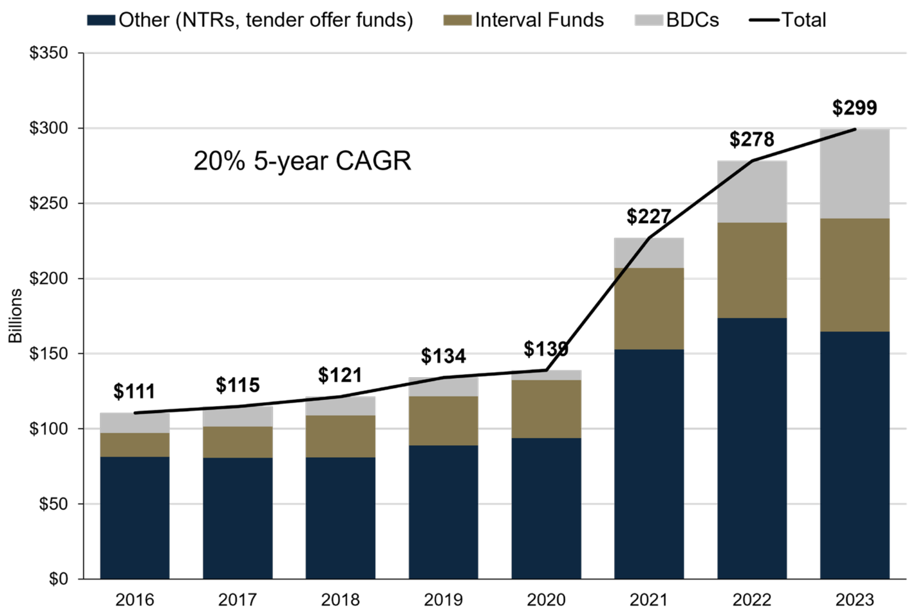
Source: Cliffwater, ICE Data Indices LLC., Bloomberg, and Credit Suisse. Data as of June 30, 2025. Most recent data available. Volatility represented by annualized standard deviation. Private Credit=Cliffwater Direct Lending Index. High Yield=ICE BofA U.S. High Yield Index. Leveraged Loans=Credit Suisse Leveraged Loan Index. Bloomberg Aggregate Bond=Bloomberg Aggregate Bond Index. Risk and return data reflect asset class data. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett. **Past performance is not a guarantee or reliable indicator of future results.**

The Democratization of Alternatives

Furthermore, the proliferation of innovative, semi-liquid vehicles such as interval funds and business development companies (BDCs) has offered individual investors greater access to the asset class that was once almost exclusively institutional in nature.

Figure 4. New Vehicles and Innovation Has Opened Access to Private Markets

Assets held in semi-liquid or illiquid private market vehicles, 2016-2023



Source: The Cerulli Report | U.S. Alternative Investments 2024. Data as of December 31, 2024. Most recent year-end data (2023) available. CAGR=compound annual growth rate. NTR=non-traded real estate investment trust. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

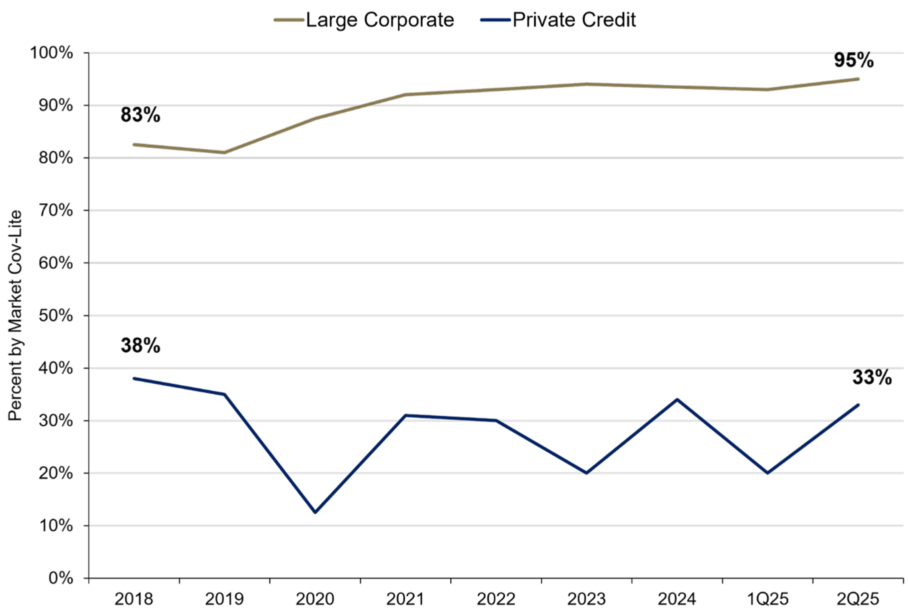
Manager Selection Matters

We tend to think about corporate direct lending as one ecosystem and historically that was the case. Congress created Business Development Companies (BDCs) in 1980 to stimulate investment in small- and mid-sized companies. Therefore, direct lending was defined as private loans by non-bank lenders to middle market companies. But as legacy BDCs have grown in size, the ecosystem split into two: the historic one and one focused on lending to larger companies that also have access to the capital markets for financing. Many of the "bubble" concerns investors have reside in the latter.

Larger BDCs with significant assets under management have sizeable amounts of cash to put to work, sourced from both inflows and loan repayments each year. These larger managers have to reinvest tens of billions of dollars every year. As a result, they have grown too large to make smaller loans to middle market companies, causing them to migrate out of the core middle market and make loans to larger capitalization borrowers. Additionally, the deployment of excess cash calls into question how prudently they are allocating that capital and introduces legitimate concerns such as greater exposure to broadly syndicated loans (BSL), higher leverage, weaker covenants, smaller illiquidity premiums, and the potential for liability management exercises (LME) to creep into their books. The concept of covenant-lite (cov-lite) loans has saturated the large capitalization (cap) broadly syndicated loan market for over a decade as well as the larger end of the private credit market. However, private loans to mid-sized companies are characterized by stronger covenants with greater lender protections.

Figure 5. Loan Covenants Have Remained Strong in Middle Market Lending Space

Covenant-lite share of new issue private credit versus large cap broadly syndicated first lien loans



Source: Covenant Review, a Fitch Solutions Service. Data as of 06/30/2025. Most recent data available. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

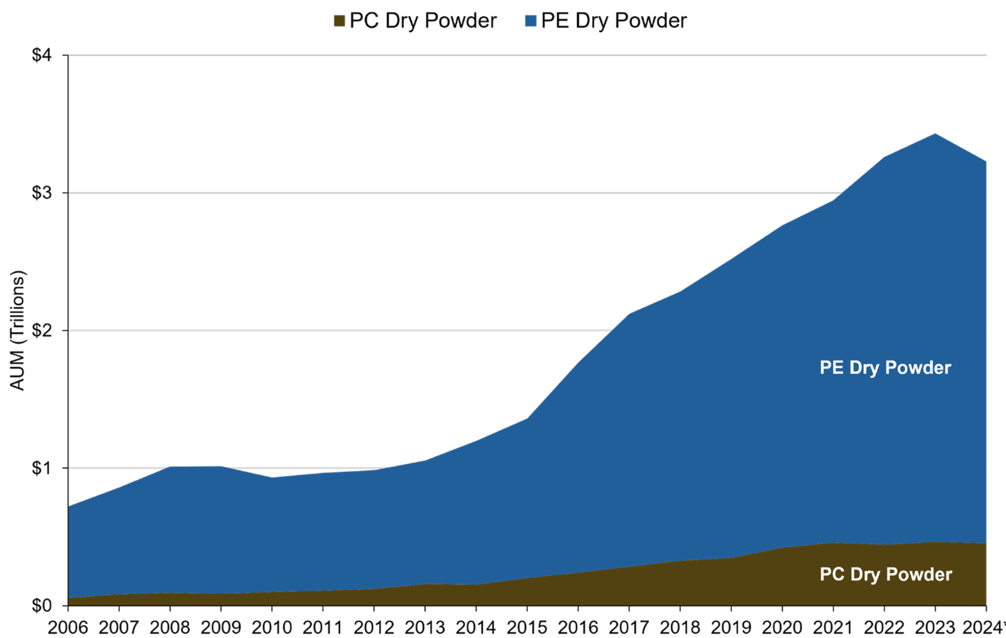
Additionally, many legacy managers are holding older, less ideal vintages originated in 2020 and 2021 when base rates were zero. Many of these loans were not underwritten with an expectation of a 500+ basis point (bp) rise in the secured overnight financing rate (SOFR). This significant increase in borrowing costs has pressured credit metrics (such as interest coverage ratios) and increasing risk to investors in these older vintages.

At Lord Abbett, we see value in scaled organizations with a long history and strong foundation in credit that employ managers with multi-decade of experience in private lending. Additionally, the importance of patient lending has been elevated. Platforms with the right amount of available capital can employ a more selective process relative to those teeming with assets, inflows, and maturing loan proceeds. We believe a focus on senior secured, first lien loans to middle market borrowers allows investors to gain exposure to the grassroots of the asset class versus those financing large corporations. We believe a conservative approach to direct lending that emphasizes low loan-to-value (LTV) ratios and healthy interest coverage is prudent in today's environment. We also think that vintages originated after the 2022 Fed rate hikes could potentially offer more resilient structures, particularly in non-cyclical or defensive sectors.

Drivers of Future Growth:

Higher interest rates have diminished private equity (PE) firm exit activity, resulting in a large backlog of unrealized assets that will need to be sold in the near term to return capital to investors. By the end of 2024, over 30% of private equity backed companies had been held by fund managers for at least 5 years, the highest percentage in nearly a decade. As firms have been in a holding pattern, private equity dry powder has reached $2.7 trillion, according to Preqin (see Figure 6). However, exit activity has already started to pick up and is expected to accelerate as interest rates decline, cash flows improve, and valuation mismatches between buyers and sellers begin to shrink, setting the stage for a rebound in mergers and acquisition (M&A) transactions. As most new buyouts are financed with a 1:1 debt-to-equity ratio, this PE dry powder should eventually result in the need for a significant amount of debt financing, including private credit. We expect that these sale processes will lead to consistent and growing demand for new private credit investment opportunities to support these buyouts.

Figure 6. PE Dry Power May Drive Demand for Private Debt



Source: Prequin. Data as of September 30, 2024. Most recent data available. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

Closing Out

The evolution of private credit represents one of the most transformative developments in modern fixed income investing. As the asset class continues to mature, it is reshaping how capital is intermediated between borrowers and investors - offering enhanced yield potential, portfolio diversification, and a compelling alternative to traditional public markets. Yet, as with any rapidly expanding market, the importance of rigorous manager selection, disciplined underwriting, and thoughtful portfolio construction cannot be overstated. For investors, we believe the opportunity set offered in private credit remains robust, supported by strong structural demand, favorable supply dynamics, and durable income characteristics. With prudent oversight, the next phase of growth in private credit may not simply be about expansion, but about endurance - anchored in quality, selectivity, and long-term value creation.

Glossary & Index Definitions

Base rate refers to the minimum interest rate that serves as a benchmark for pricing loans and other financial products and influences the rates at which commercial banks and other financial institutions lend to businesses and consumers.

A **basis point (bp)** is equal to one one-hundredth of a percentage point.

A **broadly syndicated loan (BSL)** is a type of leveraged bank loan that is provided by a group of lenders and is commonly used to finance mergers, acquisitions, and recapitalizations. These loans are syndicated by originating banks to a wide range of institutional investors, such as collateralized loan obligations (CLOs), mutual funds, and insurance companies.

Business development company (BDC) is a type of investment company in the U.S. that provides capital to small and mid-sized businesses, as well as distressed companies. BDCs are designed to help these firms grow during their early stages or regain financial stability.

Compound annual growth rate (CAGR) is the average annual growth rate of an investment, revenue, or metric over a specified period of time, assuming the growth is compounded annually.

Debt to equity ratio is a measure of a company's financial leverage. It compares the amount of debt a company uses to finance its operations to the amount of equity held by shareholders.

Direct lending is a type of private credit strategy that makes direct, illiquid loans to middle market companies outside of the traditional banking system. A direct loan refers to a privately negotiated loan provided by non-bank lenders directly to a borrower, typically a middle-market company.

Dry powder refers to readily available cash or liquid assets that investors, companies, or funds hold in reserve for strategic deployment. It represents capital that is not currently invested but is poised for immediate use. In both private credit and private equity, dry powder refers to committed but unallocated capital that may be pledged by investors that have not yet been deployed by fund managers.

First lien BSL is a type of senior secured commercial loan extended to below-investment-grade corporate borrowers. The loan is typically secured by the borrower's assets and holds priority in repayment over other forms of debt in case of default.

An interval fund is a type of closed-end investment company registered under the Investment Company Act of 1940 that do not trade on public exchanges. They offer periodic repurchase opportunities at specific intervals, usually quarterly, when investors can redeem a portion of their shares at the fund's net asset value (NAV).

Liability management exercises (LME) is a financial strategy used by companies to restructure their existing debt obligations outside of formal bankruptcy proceedings. Also known as "lender-on-lender violence", LMEs can involve a restructuring that disadvantages one part of the capital structure relative to others.

Liquidity in daily liquidity vehicles, like mutual funds, allows investors to buy or redeem shares at the end of each day's net asset value (NAV). A quarterly liquidity vehicle refers to an investment structure that offers investors the opportunity to redeem their shares on a quarterly basis. Highly illiquid investments, such as Limited Partnerships (LPs) or private funds, may require investors to wait for a specific event or a longer period to exit their investment.

Liquidity premiums are the additional return investors demand for holding assets that are less liquid—meaning they cannot be easily or quickly sold at fair market value. It compensates investors for the risk associated with investments that are difficult to sell or trade.

Loan covenants are contractual provisions included in loan agreements that set specific requirements or restrictions on the borrower's behavior or financial condition.

Loan-to-value (LTV) is a metric that compares the amount of a loan to the appraised value of the asset being financed, which is usually real estate or other collateral.

Non-traded real estate investment trust (NTR) is a private, income-producing real estate portfolio that is not traded on a public stock exchange. They generally target long-term investments in commercial properties.

Private credit refers to privately negotiated loans between a borrower and a non-bank lender.

Private equity refers to capital investments made in companies that are not publicly traded.

Risk-adjusted return measures how much risk is associated with producing a certain investment return.

A **senior secured loan** is a type of debt financing where the lender has a priority claim on a borrower's assets in case of default. These loans are considered "senior" because they rank higher in the capital structure than other debts, meaning the lender is paid back first if the borrower experiences financial distress.

Secured overnight funding rate (SOFR) is a benchmark interest rate that reflects the cost of borrowing cash overnight, collateralized by U.S. Treasury securities. It is calculated daily by the New York Federal Reserve.

Standard deviation is a measure of the dispersion or variability of a set of values. It tells you how much individual data points differ from the mean (average) of the dataset.

Strategic asset allocation is a long-term investment approach that establishes a target mix of asset classes based on an investor's goals, risk tolerances, and time horizon.

Tactical asset allocation is a short to medium-term investment approach that adjusts the asset mix based on market conditions, economic forecasts, or perceived opportunities.

Tender offer funds are a type of unlisted closed-end fund that allows investors to purchase shares continuously but offers periodic liquidity through discretionary repurchase offers. They do not offer daily liquidity or planned repurchase periods. Instead, they provide liquidity by offering to buy back a portion of outstanding shares at net asset value (NAV) during specific windows determined by the fund's board.

Underwriting is the process by which the lender decides whether an applicant is creditworthy and should receive a loan.

Vintage refers to the specific time period during which a set of loans or investments were originated or issued.

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value. The gross yield of an investment is its profit before taxes and expenses are deducted.

Index Information:

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and an investor cannot invest directly in an index.

The **Bloomberg U.S. Aggregate Bond Index** is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization.

The **Credit Suisse Leveraged Loan Index** is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. The CS Leveraged Loan Index is an unmanaged, trader-priced index that tracks leveraged loans. The CS Leveraged Loan Index, which includes reinvested dividends, has been taken from published sources.

The **ICE BofA U.S. High Yield Index** is a capitalization weighted index of all U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

The **Cliffwater Direct Lending Index ("CDLI")** seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria.

Bloomberg Index Information

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg owns all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, or make any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, shall not have any liability or responsibility for injury or damages arising in connection therewith.

ICE BofA Index Information:

Source: ICE Data Indices, LLC ("ICE"), used with permission. ICE PERMITS USE OF THE ICE BofA INDICES AND RELATED DATA ON AN "AS IS" BASIS, MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE ICE BofA INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THE USE OF THE FOREGOING, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND LORD ABBETT, OR ANY OF ITS PRODUCTS OR SERVICES.

© The Cliffwater Direct Lending Index (the "CDLI"), the CDLI-Senior ("CDLI-S"), the CDLI-Venture ("CDLI-V"), CDLI-Perpetual ("CDLI-P"), CDLI Levered Net of Fees ("CDLI-L-NOF"), CDLI Unlevered Net of Fees ("CDLI-U-NOF"), CDLI-Upper Middle Market ("CDLI-UMM"), and CDLI-Lower Middle Market ("CDLI-LMM") (collectively, "CDLI Indices") are owned exclusively by Cliffwater LLC ("Cliffwater"), and are protected by law including, but not limited to, United States copyright, trade secret, and trademark law, as well as other state, national, and international laws and regulations. All information on the performance and characteristics of the CDLI Indices is and shall remain the exclusive property of Cliffwater. The CDLI content received herein is the intellectual property of Cliffwater LLC. All content is provided for informational purposes only. Cliffwater provides this information on an "as is" and "as available" basis, without any warranty of any kind, whether express or implied. Republication or redistribution of this content is expressly prohibited without the prior written consent of Cliffwater LLC, unless otherwise permitted under the terms of the relevant CDLI service agreement. Cliffwater LLC shall not be liable for any errors, omissions, or delays in content, or any action taken in reliance thereon.

Important Information

The information contained herein is provided by Lord, Abbett & Co. LLC ("Lord Abbett"). Lord Abbett is a registered investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act"), as amended, and is subject to the Advisers Act rules and regulations adopted by the U.S. Securities and Exchange Commission ('SEC"). Registration with the SEC does not imply a particular ability or training. Lord Abbett is a global asset manager with headquarters in Jersey City, New Jersey.

Certain information provided in the material has been obtained from third party sources and such information has not been independently verified by Lord Abbett. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by Lord Abbett or any other person. While such sources are believed to be reliable, Lord Abbett does not assume any responsibility for the accuracy or completeness of such information. Lord Abbett does not undertake any obligation to update the information contained herein as of any future date.

Certain information contained in the material constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained in the material may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Market forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

Past performance is not a reliable indicator or guarantee of future results. All investments involve risk, including the loss of capital. Investments are not guaranteed by Lord Abbett, its affiliates, or any governmental agency.

The views and opinions expressed are those of the Lord Abbett author as of the date of the material, and do not necessarily represent the views of the firm as a whole. Any such views are subject to change at any time based upon market or other conditions and Lord Abbett disclaims any responsibility to update such views. References to specific asset classes and financial markets are for illustrative purposes only. This material is not intended to be relied upon as a forecast, research or investment advice. Neither Lord Abbett nor the Lord Abbett author can be responsible for any direct or incidental loss incurred by applying any of the information offered.

The information in this material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation in any jurisdiction. This material has not been reviewed or approved by any regulatory authority in any jurisdiction.

None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity.

Mentions of specific companies are for reference purposes only and are not meant to describe the investment merits of, or potential or actual portfolio changes related to, securities of those companies.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

This material may not be reproduced in whole or in part or any form without the permission of Lord Abbett. Lord Abbett mutual funds are distributed by Lord Abbett Distributor LLC, member FINRA.

Lord, Abbett & Co. LLC | 30 Hudson Street | Jersey City, NJ 07302-4804 | T 1.888.522.2388 | lordabbett.com

IP-PRIVATECRED
11-25