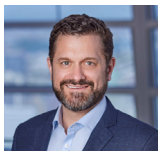




The Active Investor: Why a Flexible Approach to Credit Makes Sense



Brian Foerster, CFA®
Managing Director, Product Management



Steve Rocco, CFA®
Partner, Co-Head of Taxable Fixed Income

In this podcast, Lord Abbett Portfolio Manager Steve Rocco discusses the current environment for credit and how his team approaches combining public and private investment vehicles in fixed income portfolios.

BRIAN FOERSTER: Private credit is getting a ton of interest and headlines these days, and as a pioneer and leader in credit investing over the last 50 years, Lord Abbett has continued to evolve how we approach this space—from dedicated private credit strategies to solutions that blend public and private markets to deliver specific outcomes.

We think this evolution is creating some compelling opportunities for investors. But as always, it's important to separate the sound approaches from the noise. That's the conversation we're having today. I'm Brian Foerster, and welcome to *The Active Investor* podcast. I'm pleased to be joined today by Steve Rocco, who's co-head of fixed income and a partner and portfolio manager here at Lord Abbett. Steve, great to have you.

STEVE ROCCO: Thank you, Brian, excited to be here.

FOERSTER: Great. So, we have a lot to cover today, but maybe we'll just start with the macro, kind of thinking about how you're looking at just the overall fixed income environment today—and credit.

ROCCO: Sure. So, I think it's a great time in the credit markets—a very good time to take appropriate risk because spreads are tight. But you can construct portfolios that give you a really attractive carry or risk-adjusted return, so we're very bullish on the credit markets. We see in the near-term, growth accelerating off a low in Q4 [fourth quarter of 2025] and we see inflation coming down. That is a Goldilocks type of environment, which supports carry instruments. So, the asset classes that we like are asset classes like high yield, like bank loans, like private credit that offer that carry that provides great ballast in portfolios.

FOERSTER: So, let's talk a little bit more about this whole idea of convergence, and Greg Benz was here last year just talking about that, and he certainly worked on a portfolio with you that blends public and private credit. Just how are you thinking about that dynamic of more blurred lines between the public and private markets, and how that can help investors?

ROCCO: Sure. So, at the end of the day I think of credit as credit. You know, clearly, post the financial crisis [2008-2009], that was the rise of private credit. That asset class has grown as banks stepped aside and now, in this environment, you have banks coming back. So, you have kind of a push/pull, depending on the vol [volatility] environment between let's say, the broadly syndicated market and private credit. As an active investor, we want to be able to access both sides of that trade. So just to give a recent example, you've seen broadly syndicated spreads tighten. That can make private credit attractive. It also could take away supply from private credit and bring it into the broadly syndicated market. Those are credits that we may know on the private side. There're credits we may know on the public side that go on the private side, so I think having both of that covered at one firm and one investment department is very important.

FOERSTER: So, I know you manage a portfolio now that sort of leverages the best of both public and private markets. It's also a portfolio that you could argue sort of is in that core/core plus space, and a lot of investors still kind of think back to the experience in 2022. when they sort of had asymmetrical risk and it kind of crept up and caught them and had double digit losses in intermediate-term bonds. This portfolio you're managing might sort of neutralize some of that risk. Maybe just talk a little bit about how that portfolio works.

ROCCO: Sure. So, I don't think investors are getting paid for duration volatility. I think you mentioned 2022 when I think investors kind of woke up to that rising-rate environment after 40 good years. And so, what I said up front is in an environment where we want to focus on carry, it's very hard to predict where interest rates are going to go. Certainly, in an environment where interest rates have risen and maybe have stabilized you could argue that depending on what happens in the future, and [U.S. Federal Reserve] Fed policy and such, and maybe there's more interest rate cuts, and you can make duration bets that you'd be more confident in.



But at the same time, we've seen that that's been very, very difficult to do. So, I think, you know, you look at a portfolio, like you're describing, which doesn't have that duration risk but really just focuses on the spread product, right? It focuses on something that we can get your hands around a little bit more with fundamental research and due diligence, and earn that carry, and be confident that's what you're going to get. And then lower that volatility component when you think about a portfolio that may be replacing a core/core plus mandate, which has a duration somewhere between five and six [years] depending on the manager. But a portfolio that has a duration of less than one [year], surely that could get hurt in a rate environment, but also, this portfolio would be carrying a lot more as well. That kind of compensates you for that and you'll see a volatility profile that I think investors will like.

And I think you've seen that also, which is private credit as well, I think volatility there is kind of a feature of the asset class. I think investors like that. So, I think blending those two things creates really attractive outcomes that investors, I think, will gravitate more towards.

FOERSTER: Yes. Let's talk a little bit about private credit because it's constantly in the headlines, right? You constantly are seeing either some alarmist worry that it's a bubble, or that it's the end of private credit. And it doesn't seem like, when you look at the data, that that's necessarily true. Just in terms of the magnitude of where it is today, it's like a third of the leverage credit environment. So how are you thinking about it, when you hear all these headlines coming in and talk to clients?

ROCCO: Taking a step back, it's an asset class that I mentioned has grown rather quickly post-financial crisis [2008-2009]. Anytime you see that kind of growth there could be times when you're more suspicious of the lending that was being done. I think that's also true, obviously, in public markets as well. We've seen that in the high yield market around energy and telecom [telecommunication]. I think when I look at private credit and narrow it down, and you touched on the growth of it, I think that 2020-2022 period where rates were pinned at zero, there may have been some risks that folks were taking both on the syndicated [loan] side and on the private side. Because we've talked about First Brands [an automotive parts supplier that entered Chapter 11 bankruptcy in late September 2025] and Tricolor [a subprime auto lender and used-car retailer that collapsed in 2025]. First Brands was a broadly syndicated loan, it wasn't a private deal, to be fair. Not to say there isn't trouble in certain private deals. But that's the period we're talking about, right? And we're talking about a period when rates were pinned at zero and there was a lot of capital coming in, so I think standards were lowered. And now you're kind of five years away from that, and that's usually when you have to pay the piper, right, and these loans come due. So, it's not a surprise to see that. It's no surprise that there's now differentiation amongst BDCs [business development companies] and who's doing credit well and who isn't. And I think that's healthy for any asset class to go through that period after 15/16 strong years.

And that's what it's going through now. But then at the same time when you look at where we are at this moment and kind of the clean slate—we talked about elevated rates—and that's really what

triggered some of this. Because you had your denominator of interest expense rise rather quickly and companies couldn't cover that, and they weren't hedged. And there were obviously some other things going on, but I think when you put it all together, on a go forward [basis], you can model that base rate and model interest rate scenarios and lend at attractive spreads over SOFR [secured overnight financing rate]. And that's what's happening right now. But there's clearly some things that need to be cleaned up from that prior period of bad lending. So, it's like a vintage, right? So, if nothing, just like venture capital, you can have good vintages and bad vintages. I think the 2025 and 2026 vintage is going to be very good. We will see what happens with 2021, 2022, 2020—maybe some trouble there. And we'll see a lot of differentiation, and I think an active manager like us who just started the private credit business, I think we're doing rather well here, lending in what is I think a good period to lend on the private side.

FOERSTER: And it seems like, coming back to the earlier discussion just around blending public and private, it seems like you are seeing more innovation across our industry, and kind of the portfolio that you oversee that invests in public and private. The innovation there is having an investment-grade or investment-grade oriented portfolio that's offered in an interval fund structure. So, you're giving up some liquidity in order to get that reduction in duration risk, and that [potentially] higher return profile. What's your view just on innovation itself around this idea of convergence.

ROCCO: I like the innovation too because you're giving up liquidity, but if you look at our portfolio—we'll get in the weeds a little bit here—one of the things in private credit is you can never really be fully invested, right? Because you have something called a delayed draw or a revolver that you're lending against, and you need to be ready to make that commitment at a point in time. Whereas our product, you have half of it being in public credit, you know, steady state. You have the flexibility to be fully invested because you have liquidity on that public side to draw on and earn that carry. So, I think that's really attractive when you think about that innovation, right? So, I think that's something to consider when thinking about an interval fund structure that blends public and private.

FOERSTER: Right. I know you touched on this during your answer just around private credit and kind of what the risks are there. If you're just talking to clients and they were to say "Is there anything that keeps you up at night?" Or, "Is there anything that worries you just about the credit markets?" Or "How are you kind of thinking about managing risk?" How should clients—or where should clients be, being a little bit more cautious right now? I know you said you were kind of bullish overall.

ROCCO: Sure. It's always the unknown, right? We can always talk about risks that are known. Usually, it's the unknown that gets you like a pandemic or something we're not talking about. I think what I said up front is true—that you're lending in a very tight spread environment. There are pockets of value. I think CCC [credit rating] and B [credit rating] high yield is a pocket of value. Mortgages are maybe a pocket of value, but overall spreads are tight. So, you have to take that consideration, keep that consideration in mind.



At the same time, in fixed income what matters is yield. So, I think in retrospect, when spreads were tight and yields were low, doing high yield deals or loan deals at very low base rates, or zero-base rate with low spread, that's very unsatisfying to earn 3% or 4%. But a year like last year [2025] I could have said the same thing. Spreads were tight—and then look up—and every fixed income index and it's earning between 7%-8%, 9%. I think the same could be true this year. But I think you want to control your beta, because you're not going to have a lot more room for spread compression. You know, you can't say that spreads can't tighten, they've tightened since the start of the year. But you're reaching a limit. And I think that's something to consider. Now in terms of macro [macroeconomic] risks, to me this year, I'm very bullish on this year [2026]. It could be simply too much of a good thing depending on who's going to be the next Fed chair, depending on if the fiscal [policy] plays out the way people expect. And most people think it'll be stimulative, depending on the rate market, do you lose the long end [of the yield curve] or not? If you're cutting [interest rates] into something that is too good, and you may see that cycle turn again of lending, and things get too tight or too aggressive. I think it'll take time to get there, potentially like a second wave of inflation.

I have inflation coming down throughout the first half of the year. I'm pretty confident in that. Some of the data that we look at—and I think about rents, which is a big part of actual inflation data. Think about things like car prices, you think about wage inflation, the labor market. We haven't talked about that yet, but it's pretty much at kind of a stalled speed right here, not a lot of net hiring. So not a lot of wage inflation, but certainly that can turn in the back half of the year. And depending on who the Fed chair is and their reaction function to that. You could have obviously a tightening environment at that point, or you could have a Fed that ignores it.

The flip side of it, not to make this an innovation conversation, is that we've seen good productivity data. Some of that could be AI [artificial intelligence], maybe not, maybe that's to come, which could control those inflation impulses, which would be a very positive thing, kind of the '90s, right? So, all those things are on the table, but to me, you need something. Economies don't just tip over. You need some sort of catalyst. And usually that catalyst could be a Fed that's tightened too much; it could be an oil price shock. It could be a pandemic. That's usually how it goes. Until then, I think you're in a pretty good environment for risk-taking.

FOERSTER: Final thought just around, again, investing in broad credit. You mentioned we're investors in credit and kind of thinking about how private and public is becoming more and more like one bigger opportunity set. For a portfolio like that, where do you see investors—or how much do you see investors allocating to that—or how does that fit into a broader portfolio—or even if you're talking to existing clients and trying to wrap their heads around this type of a strategy.

ROCCO: Sure. So, there's a couple of ways to look at it. We

touched on the core piece, right, core total return, and controlling your duration risk—a substitute for core—because you have an investment-grade orientation here, you know, [approximately] 50% of the portfolio is above investment-grade [credit rating].

There's also this idea that, if we look at the portfolio, we're not full-on direct lending, right? Which is risky, right? It's a single B [credit rating] allocation. That's done very well over the years, but you're still talking about [potentially] 9%-10%. Here you have a portfolio that does maybe 30%/40% direct lending. So, it's a smaller step out into private credit. And we've only talked about direct lending. Here you also have what we call asset-backed securities, securitized products, and ABF [asset-based finance], that's blended together. That's a really attractive area of the market, and a growing area of the market. Actually, I think the next wave of private deals will be on the ABF/ABS [asset-backed securities] side. So, we're approaching that from two angles, right? Our ABS business and the ABF business of our sub-advisor. And that you can trade off there pretty effectively in terms of spreads between the two. Just like I talked about spreads between bank loans and direct lending, you can do the same on the ABS side. You can be very active around that. And then what's nice about those profiles, those generally tend to be IG [investment grade] profiles where you're talking about CLO [collateralized loan obligation] even down in the mezz [lower within the mezzanine portion of the capital structure]. You're talking about a whole business deal on the ABF or ABS side. Those are all really attractive IG [investment grade] profiles that give you much more spread than the average U.S. investment-grade deal. A U.S. investment-grade deal right now is probably a 75 [basis point] spread. CLO AAA [rated] is [approximately] 110 [basis points] to 120 [basis points], or, if you go down in the mezz [mezzanine] you're getting [approximately] 200/300 basis points [spread]. Same is true on the ABF side. So that's a really, really attractive area. That's also a big part of this portfolio.

FOERSTER: Great, so some great insights here today, Steve, and definitely a conversation worth continuing in the future. Love to have you back.

ROCCO: Thank you, anytime. I'd love to be back.

FOERSTER: And so, we'll leave it there. For investors wanting to learn more about Lord Abbett's views on the markets, please visit the Insights section of LordAbbett.com. And if you have any comments on today's episode, or ideas for future episodes, please email podcasts@LordAbbett.com. This has been Brian Foerster with The Active Investor podcast. Thank you for listening.

GLOSSARY OF TERMS USED IN THIS BROADCAST



Asset-backed security (ABS) is a security whose income payments, and hence value, are derived from and collateralized by a specified pool of underlying assets.

Asset-based lending is the business of loaning money in an agreement that is secured by collateral. An asset-based loan or line of credit may be secured by inventory, accounts receivable, equipment, or other property owned by the borrower.

Bank loans are debt instruments in which a bank or banks lend money to a borrower with scheduled interest and principal payments, usually a floating rate, and either a secured or unsecured structure.

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

Base rate: Variable interest rates fluctuate in line with a base rate which, typically, shifts in reaction to market factors.

Beta measures how sensitive a portfolio's returns are to movements in its benchmark or a broad market index. Beta shows how much the portfolio tends to move when the market moves.

Broadly syndicated loans are floating-rate loans made to corporate borrowers with generally greater than \$50 million in EBITDA and in most cases, at least \$100 million. They are senior in the capital structure and have a first claim on the assets of the borrower. They are a subset of bank loans with multiple lenders participating in the same loan facility.

Business Development Company (BDC) is a pooled investment vehicle that provides capital to small and mid-sized U.S. private companies, primarily in the middle market. BDCs are designed to expand the flow of capital to businesses that cannot, or choose not to, access traditional bank financing or public markets.

Carry refers to the return or cost from holding an asset over time. It is the income earned minus the cost incurred.

A **Collateralized Loan Obligation (CLO)** is a special purpose vehicle (SPV) that purchases a diversified pool of senior secured bank loans—often leveraged loans—and then issues tranches of securities backed by the cash flows from those loans.

Credit ratings or ratings are independent assessments of the creditworthiness of a borrower, such as a corporation, government, or specific debt instrument. They are issued by credit rating agencies, most commonly S&P Global Ratings, Moody's Investors Service, and Fitch Ratings. They indicate how likely it is for the borrower to repay its debt on time and in full and are considered a measure of credit risk.

A **delayed-draw term loan** is a committed loan facility where the lender agrees upfront to make additional capital available to the borrower over a defined future period, typically to fund acquisitions, capex, or other planned growth needs.

Direct lending is a type of private credit strategy that makes direct, illiquid loans to middle market companies outside of the traditional banking system.

Duration is a measure of how sensitive a bond or fixed-income portfolio is to changes in interest rates.

A **Goldilocks economic environment** is one where the economy is growing steadily, inflation is cooling but not collapsing, interest rates can stabilize or ease, and financial markets tend to be balanced with less volatility.

An **interval fund** is a type of registered investment fund that offers investors limited, periodic liquidity rather than daily redemptions. It allows investors to buy shares on a regular basis (typically daily at net asset value), but they can redeem or sell shares only at specific, pre-scheduled intervals—most

commonly quarterly—instead of every day. At those intervals, the fund offers to repurchase a portion of its outstanding shares according to a stated schedule.

Liquidity: Daily liquidity vehicles, like mutual funds, allow 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.

Mezzanine financing is subordinated debt that ranks below senior secured debt, meaning it is riskier than bank loans but less risky than equity.

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.

A **revolving credit facility (revolver)** is a flexible loan that allows the borrower to draw, repay, and redraw funds up to a committed limit during the loan's life, functioning similarly to a corporate line of credit.

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

The **Secured Overnight Financing Rate (SOFR)** is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities.

Securitized products broadly refer to pools of financial assets that are brought together to create a new security, which is then divided and sold to investors. The value and cash flows of the new asset are based on its underlying securities.

Spread is the percentage difference in current yields of various classes of fixed-income securities versus Treasury bonds or another benchmark bond measure. A bond spread is often expressed as a difference in percentage points or basis points (which equal one one-hundredth of a percentage point). The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate.

Vintage refers to the year in which a loan or investment is originated.

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.

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