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Investment Perspectives

Public and Private Credit: Convergence Creates Opportunity

Borrowers can now move across public and private markets more fluidly than ever. Understanding both can help investors identify better opportunities and manage risk more effectively.

Kearney Posner, CFA®
Partner, Portfolio Manager

Vincent Lu
Partner, Portfolio Manager

KEY TAKEAWAYS

- **Borrowers have more financing options than ever before.** Companies are increasingly evaluating private credit, broadly syndicated loans (BSLs), and high yield bond options among a range of alternatives to address their financing needs. Cost remains relevant, but borrowers are also solving for speed, certainty, flexibility, confidentiality, scale, and the ability to secure pre-committed capital in advance.
- **The relationship between public and private credit has changed for larger borrowers but remains the same for borrowers in the core middle market.** While larger borrowers increasingly move among BSLs, high yield bonds, and private credit— and may even combine public and private solutions within the same capital structure— most core middle-market private companies don't have that luxury and continue to finance themselves in either the private credit or commercial bank loan market.
- **Looking across both markets can create a better investment lens.** Public credit markets provide real-time information on pricing, valuations, industry and borrower-specific developments, and general investor sentiment, while private markets can offer deeper insights into borrowers, industries, sponsors, management teams, and negotiated deal terms. Together, these perspectives may provide a fuller view of borrower and industry health, relative value, and risk.
- **For investors, the decision is less about choosing between public and private credit and more about defining the role each should play within a broader credit allocation.** Private credit may enhance portfolio income and diversification through direct origination, greater structural protections, and potential illiquidity premia. Public credit can provide scalable market exposure, liquidity, and the ability to actively reposition across sectors and cycles. Together, they can form complementary strategic building blocks within a diversified credit portfolio.

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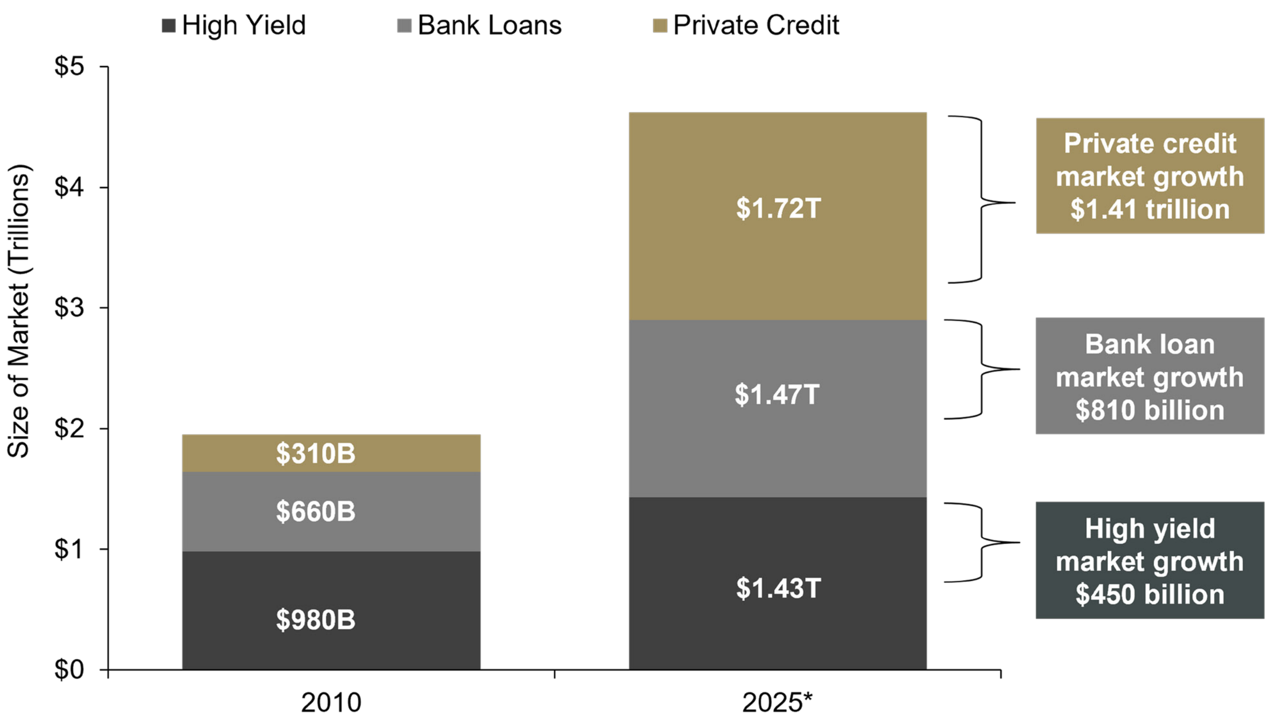
Leveraged Finance Has Expanded and Evolved

Public and private credit markets have expanded significantly over the past 15 years, supported by investor demand for income, floating-rate exposure, and access to leveraged credit. High yield bonds, BSLs, and private credit have each grown into substantial segments of the leveraged finance market, with private credit experiencing the most pronounced increase. That growth has reflected several reinforcing trends: a prolonged demand for yield, the increased use of floating-rate debt in changing interest-rate environments, and a broader shift by corporate borrowers toward non-bank and capital markets financing.

Figure 1. Private Credit Has Led the Growth of the Leveraged Finance Market

Assets by market for the indicated years



Source: Preqin and PitchBook. *2025 data as of March 31, 2025. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

These trends have been reinforced by a fundamental shift in the financing landscape. Bank consolidation and post-global financial crisis (GFC) regulations reduced the availability of traditional bank lending, particularly for middle-market companies, while periods of public market volatility prompted more borrowers to seek capital from private lenders. These dynamics have helped establish private credit as an increasingly important source of corporate financing.

Broader Financing Options for Borrowers

But market growth alone does not explain the current environment. The more relevant development has been the degree to which these markets now intersect. As private credit, BSLs, and high yield have expanded, borrowers have gained more ways to evaluate financing alternatives across the leveraged credit spectrum. They can now compare markets based on trade-offs among cost, speed, execution certainty, flexibility, liquidity, scale, confidentiality, pre-committed capital, and structural terms.

- **Cost**: The economics of the financing, including coupon, fees, call protection, and any premium paid for greater certainty or flexibility.
- **Speed**: The time required to secure financing, complete diligence, and close the transaction, particularly when timing is important for an acquisition or strategic initiative.
- **Execution certainty**: The confidence that financing will be available on agreed terms, without meaningful market disruption, syndication risk, or execution delays.
- **Flexibility**: The borrower's ability to tailor terms around business needs, including acquisition financing, delayed-draw capacity, prepayment options, and documentation provisions.
- **Liquidity**: The degree to which financing can access a broad investor base and support secondary-market trading, which can be more relevant in broadly syndicated loans and high yield.
- **Scale**: The ability of a market to provide sufficient capital for larger transactions, including refinancings, acquisitions, or multi-year strategic plans.
- **Confidentiality**: The extent to which a borrower can limit public disclosure of financial information, business strategy, or transaction details.
- **Pre-committed capital**: The ability to secure additional capital in advance to support business needs such as potential acquisitions and growth capital expenditure programs.
- **Structural terms**: The covenants, leverage levels, collateral package, maturity profile, prepayment features, and lender protections that define the overall terms of the financing.

Borrowers with sufficient scale have been increasingly comparing these trade-offs, at times using more than one market within the same financing strategy. In a converging market, the main question is not which financing channel is available, but which structure best fits the borrower's objectives.

The Investment Manager's View of a Connected Credit Market

From an investment manager's perspective, convergence can create both a broader opportunity set and a more complex underwriting environment. As borrowers move more easily across financing channels, managers need to evaluate not only the credit quality of the borrower, but also how a proposed financing compares with other available sources of capital, and whether the structure provides adequate compensation for the risk.

A more connected market can also offer a robust information set. Public credit markets can provide timely signals on pricing, liquidity, sector and borrower-specific fundamentals, and general investor sentiment, while private credit offers deeper access to borrowers, industry information, sponsors, management, and negotiated transaction details. For managers with capabilities across both markets, those insights can be used together to assess relative value, separate technical market movements from fundamental credit indicators, and maintain discipline when competition for transactions increases. Full visibility across the entire leveraged credit ecosystem and sharing data and insights from both markets can help managers become more astute investors.

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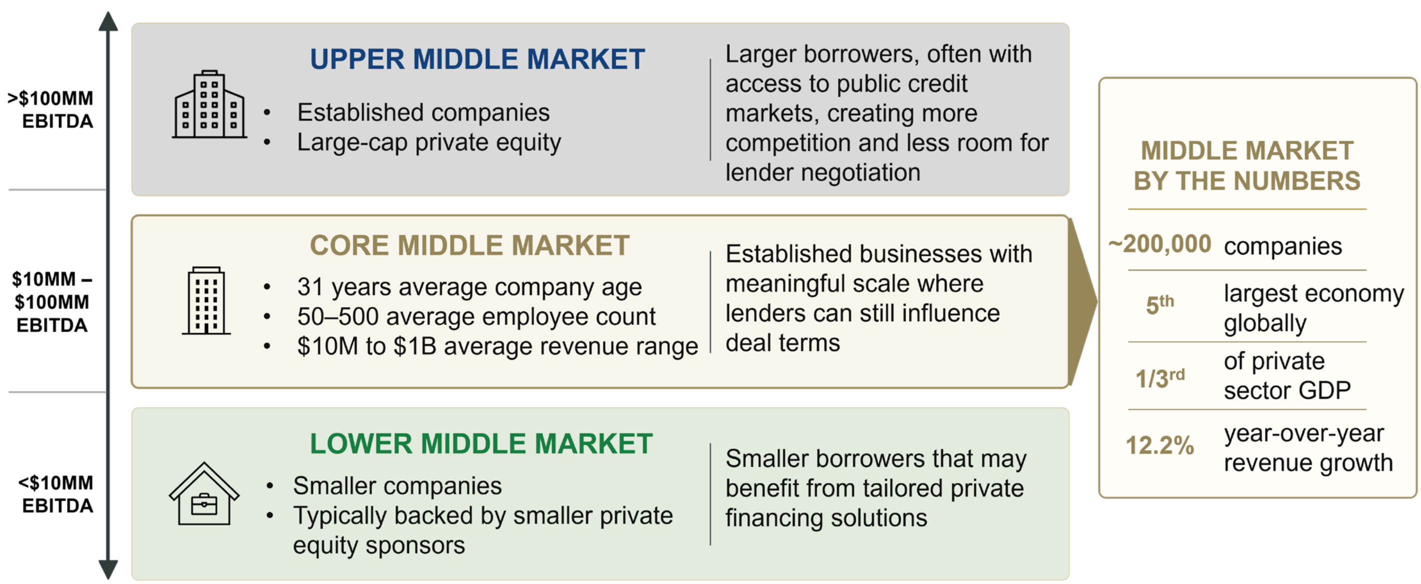
The Core Middle Market: Where Convergence Has Limits

The convergence of public and private credit has expanded financing options for many borrowers, but not all of them. While larger companies increasingly move between syndicated loans, high yield bonds, and private credit based on market conditions, most core middle-market companies don't have that luxury. Limited scale and access to the public markets often make private credit their primary source of capital.

For investors, that distinction matters. Because borrowers have fewer financing alternatives, experienced lenders can spend more time underwriting businesses, negotiating financing terms directly, and structuring loans with stronger lender protections. The result is an opportunity set that tends to be driven less by public market technicals and more by manager skill in sourcing, underwriting, and portfolio management. In other words, while convergence is changing much of the credit landscape, the core middle market remains an area where active lending relationships and disciplined credit selection can still create meaningful differentiation.

Figure 2. A Borrower-Size View of Private Credit Trade-offs



Source: Lord Abbett; National Center for the Middle Market (NCMM), Middle Market Indicator Year-End 2025 and historical data through Q4 2025. Data as of December 31, 2025. Most recent data available. The Middle Market Indicator (MMI) is a survey-based economic gauge of U.S. middle-market companies, typically defined as companies with $10 million to $1 billion in annual revenue. Revenue cohorts reflect NCMM definitions, not earnings before interest, taxes, depreciation, and amortization (EBITDA). NCMM core middle market is defined by revenue ($50M to <$100M). The historical data are for illustrative purposes only and do not depict or predict the performance of any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

Summing Up

The distinction between public and private credit is becoming less about competing asset classes and more about complementary tools within a broader credit allocation. As borrowers move more fluidly between financing channels, understanding relative value, borrower fundamentals, and market dynamics across both markets becomes increasingly important.

For investors, that has meaningful implications. Private credit can provide access to negotiated structures, direct origination, and the potential for an illiquidity premium, while public credit offers liquidity, price transparency, and the flexibility to reposition portfolios as market conditions evolve. Each serves a different role, and each brings distinct advantages.

Rather than choosing one market over the other, investors may benefit from thinking about how the two can work together. Managers with experience across both public and private credit may be better positioned to evaluate opportunities, identify relative value, and build portfolios that seek to generate attractive income while managing risk across changing market environments.

Glossary & Index Definitions

Broadly syndicated loan / BSL: A loan made to a corporate borrower that is arranged by one or more banks and distributed to a broad group of institutional lenders or investors.

Call protection: Loan or bond terms that limit or penalize a borrower's ability to repay or refinance debt before a specified date.

Capital expenditure / CapEx: Money a company spends to acquire, upgrade, or maintain long-term assets, such as equipment, facilities, technology, or infrastructure.

Capital structure: The mix of debt, equity, and other financing sources a company uses to fund its operations and growth.

Collateral package: The assets pledged by a borrower to secure a loan and provide lenders with a claim on those assets if the borrower defaults.

Commercial bank loan: A loan provided by a bank to a business, often used to finance working capital, acquisitions, refinancing, or other corporate needs.

Convergence: The increasing overlap between public and private credit markets as borrowers compare or combine financing options across private credit, broadly syndicated loans, and high yield bonds.

Core middle market: A segment of middle-market companies with meaningful scale but generally limited access to public credit markets. In this article, core middle-market companies are described as continuing to rely primarily on private credit or commercial bank loans.

Coupon: The stated interest rate paid by a borrower on a bond or loan, typically expressed as an annual percentage of the principal amount.

Covenants are the conditions and requirements written into a loan or bond agreement that are designed to protect lenders and investors. Covenants may require borrowers to meet certain financial targets or restrict specific actions, such as taking on additional debt, helping to reduce credit risk and preserve the borrower's financial stability.

Credit allocation: The portion of an investor's portfolio dedicated to credit investments, such as public bonds, loans, private credit, or other fixed income assets.

Credit quality: An assessment of a borrower's ability to meet its debt obligations, based on factors such as cash flow, leverage, business stability, and financial strength.

Debt covenant: A restriction or requirement in a lending agreement that limits borrower actions or requires the borrower to meet certain financial or operating standards.

Delayed-draw capacity: A loan feature that allows a borrower to access committed capital over time rather than drawing the full amount at closing.

Direct origination: The process by which a lender sources and negotiates a loan directly with a borrower or sponsor, rather than buying the loan after it has been broadly distributed.

Diversification refers to an investment strategy that spreads investments across different asset classes, sectors, industries, or securities to help reduce the impact of any single investment's poor performance on the overall portfolio. Diversification can help manage risk, though it does not guarantee a profit or protect against loss.

EBITDA: Earnings before interest, taxes, depreciation, and amortization. EBITDA is commonly used in credit analysis to assess a company's operating performance and ability to service debt.

Execution certainty: The confidence that financing will be available on agreed terms, without meaningful market disruption, syndication risk, or execution delays.

Floating-rate debt: Debt with an interest rate that adjusts periodically based on a benchmark rate, causing interest payments to rise or fall as rates change.

Global financial crisis / GFC: The severe financial crisis and economic downturn that occurred in 2007–2009, driven in part by stress in housing, mortgage, banking, and credit markets.

High yield bond: A bond issued by a company with a below-investment-grade credit rating. High yield bonds typically offer higher income potential than investment-grade bonds but carry greater credit risk.

Illiquidity premium: The potential additional return investors may require for holding investments that are not easily bought or sold.

Leverage: The use of borrowed money to finance a company, investment, or transaction. Higher leverage can increase potential returns but also increases financial risk.

Leveraged credit: Credit extended to companies with higher debt levels or below-investment-grade credit profiles, including high yield bonds, broadly syndicated loans, and private credit.

Leveraged finance: Financing provided to companies with higher levels of debt or below-investment-grade credit profiles, often through high yield bonds, bank loans, broadly syndicated loans, or private credit.

Liquidity: The degree to which an asset or market can be bought or sold quickly and efficiently without meaningfully affecting price.

Middle market: Companies that are larger than small businesses but generally smaller than large public companies. In the article, middle-market companies are referenced using the National Center for the Middle Market's definition of $10 million to $1 billion in annual revenue.

Middle Market Indicator / MMI: A survey-based economic gauge of U.S. middle-market companies published by the National Center for the Middle Market.

Non-bank lender: A lender that provides financing but is not a traditional bank, such as a private credit manager or other institutional lending platform.

Pre-committed capital: Capital secured in advance to support future business needs, such as acquisitions, growth initiatives, or capital expenditure programs.

Prepayment option: A loan or bond feature that allows a borrower to repay debt before its scheduled maturity, sometimes subject to fees or call protection.

Private credit: Loans provided by non-bank lenders through privately negotiated transactions that are not issued or traded in public markets.

Public credit: Debt instruments issued or traded in public markets, such as high yield bonds and broadly syndicated loans, where pricing and investor sentiment are generally more visible.

Public market technicals: Market factors that can influence prices or spreads independent of borrower fundamentals, such as fund flows, investor demand, supply conditions, liquidity, or market positioning.

Refinancing: Replacing existing debt with new debt, often to reduce borrowing costs, extend maturity, adjust covenants, or improve financial flexibility.

Relative value: An assessment of whether one investment offers attractive compensation for its risks compared with other available opportunities.

Secondary-market trading: The buying and selling of existing loans or securities after they have been issued, rather than directly from the borrower at origination.

Sponsor: A private equity firm or other owner that backs a company and may help guide its financing, strategy, acquisitions, or growth plans.

Structural protections: Loan or bond terms designed to protect lenders, including covenants, collateral, maturity terms, prepayment provisions, and other lender rights.

Structural terms: The covenants, leverage levels, collateral package, maturity profile, prepayment features, and lender protections that define the overall terms of a financing.

Syndicated loan: A loan provided by a group of lenders and arranged by one or more financial institutions, typically for larger borrowers.

Syndication risk: The risk that a loan arranged for a borrower cannot be successfully distributed to lenders or investors on expected terms, which may delay or disrupt financing.

Underwriting: The process by which a lender evaluates a borrower's credit quality, financial condition, risks, and loan terms before deciding whether to provide financing.

Valuation: An assessment of the value of a company, security, loan, or investment based on financial metrics, market conditions, and expected risk and return.

Yield: The income generated by an investment, typically expressed as a percentage of its price or value.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

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