2025 Midyear Outlook

BLUE OWL

Credit

JUNE 2025

Introduction

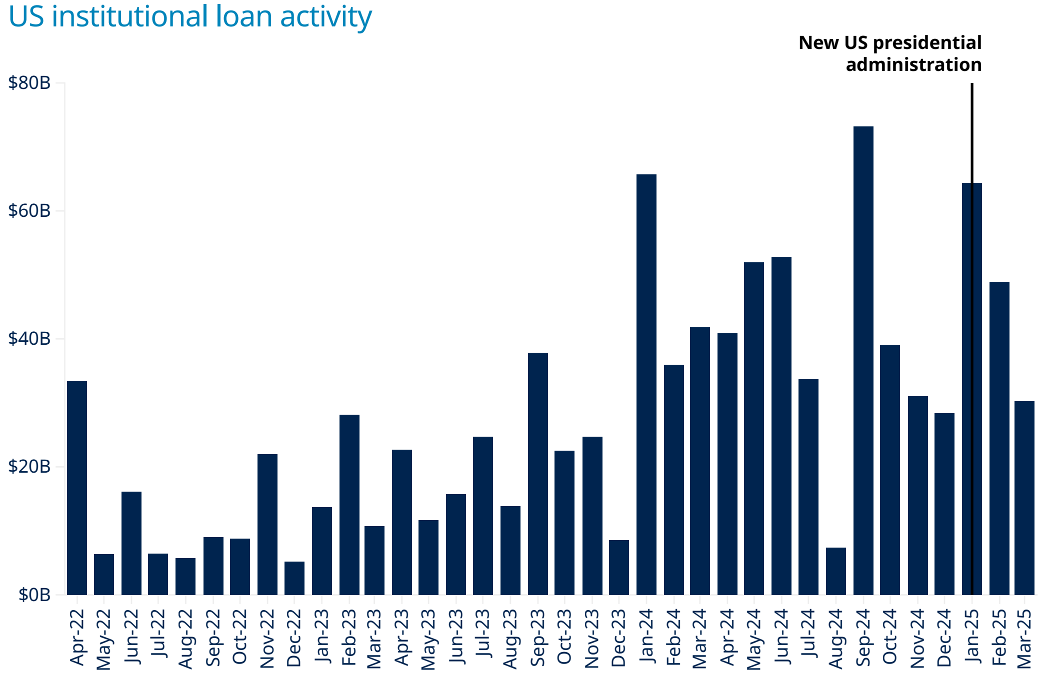
The first half of 2025 presented myriad challenges and shifting market conditions that, at times, gave investors pause as they reacted to the changing landscape. While our Credit platform has closely monitored these changes and the potential impact they may have on our borrowers and the broader financing market environment, we continue to remain steadfast in our mission to provide a broad suite of attractive financing solutions to our direct lending and alternative credit borrowers across varying market conditions.

Over just a handful of years, we have been witness to a number of periods where public markets pulled back significantly, demonstrating the critical role of private credit managers as liquidity providers in markets seeking reliable, solutions-oriented financing. We believe the value proposition of private credit, which has resonated with investors in relatively sanguine environments, becomes increasingly compelling when global outcomes are incrementally more uncertain. While we continue to see resiliency in the broad economy and relative strength across our Credit portfolio, we have no doubt that economic growth and market expectations remain bifurcated between companies that are affected by potential tariffs and higher-for-longer interest rates and those that are not.

Looking back to April of this year, the rollout of tariffs resulted in a spike in volatility across public equity, credit, FX, and commodities markets, reminding market participants that during periods of stress, correlations move toward the number 1. Within two days, broad stock market indices dropped 10% or more and the VIX index, a measure of market volatility, spiked over 200% in two weeks. Amid this volatility and uncertainty, we witnessed public credit market debt issuance grind to a halt. In fact, between March 29 and April 20 there was not a single public leveraged loan deal issued in the market, the longest stretch since the Global Financial Crisis.[i]

At the start of the year, a tap on the brakes

US institutional loan activity



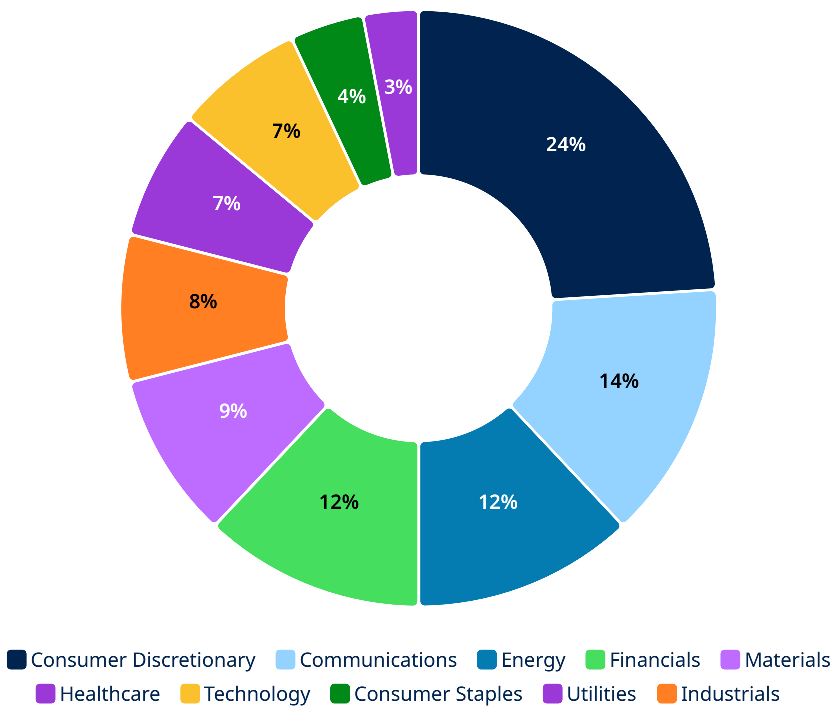
Source: Pitchbook LCD

Since April, we have seen indices rebound and remain remarkably resilient. Sitting here at the midpoint of the year, both the public and private loan markets are relatively open, and we did not see a sustained move toward wider credit spreads, as many initially expected. Public markets have stabilized, but the volatility has not been forgotten. In contrast, the comparable stability of private credit markets has only been amplified during this period. While the impact of tariffs is still playing out and may continue throughout the rest of 2025, private lenders are intently monitoring the on-going situation while continuing to seek out high-quality investment opportunities for scaled, resilient companies.

As we evaluate the potential impacts of the evolving tariff policies on our portfolio, we feel well-prepared for this economic backdrop. Since inception, we have constructed our portfolio—through rigorous underwriting, thoughtful construction, and a diversified platform of loans with more than 400 borrowers—to be defensive across a range of market environments. That posture is borne out of an investment philosophy that seeks out companies with defensive characteristics: recurring revenue models, high customer retention rates, and a focus on services as opposed to supply chains. Furthermore, our portfolio companies are better insulated from tariffs as the vast majority of them are based in and serve customers in the US. Our bias toward service-oriented businesses in areas such as healthcare, financials, insurance, and software mean tariffs have a significantly lower impact. By comparison, traditional fixed income indices such as investment grade, high yield, and leveraged loans are much more exposed to tariff-impacted sectors such as consumer discretionary, energy, industrials, and materials.

Traditional fixed income faces greater tariff exposure

Bloomberg Barclays high-yield index weights by market capitalization



Source: Bloomberg Barclays HY index weights by market capitalization

We remain vigilant about the potential ripple effects of tariffs, particularly the risk of broader recessionary pressures, shifts in customer demand, supply chain disruptions, and impacts on overall business operations. However, with our scale, conservative portfolio construction, and deep relationships with sponsors and financing sources, we believe Blue Owl is well positioned to be both responsive in partnering with our borrowers as well as in identifying the opportunities this environment may bring.

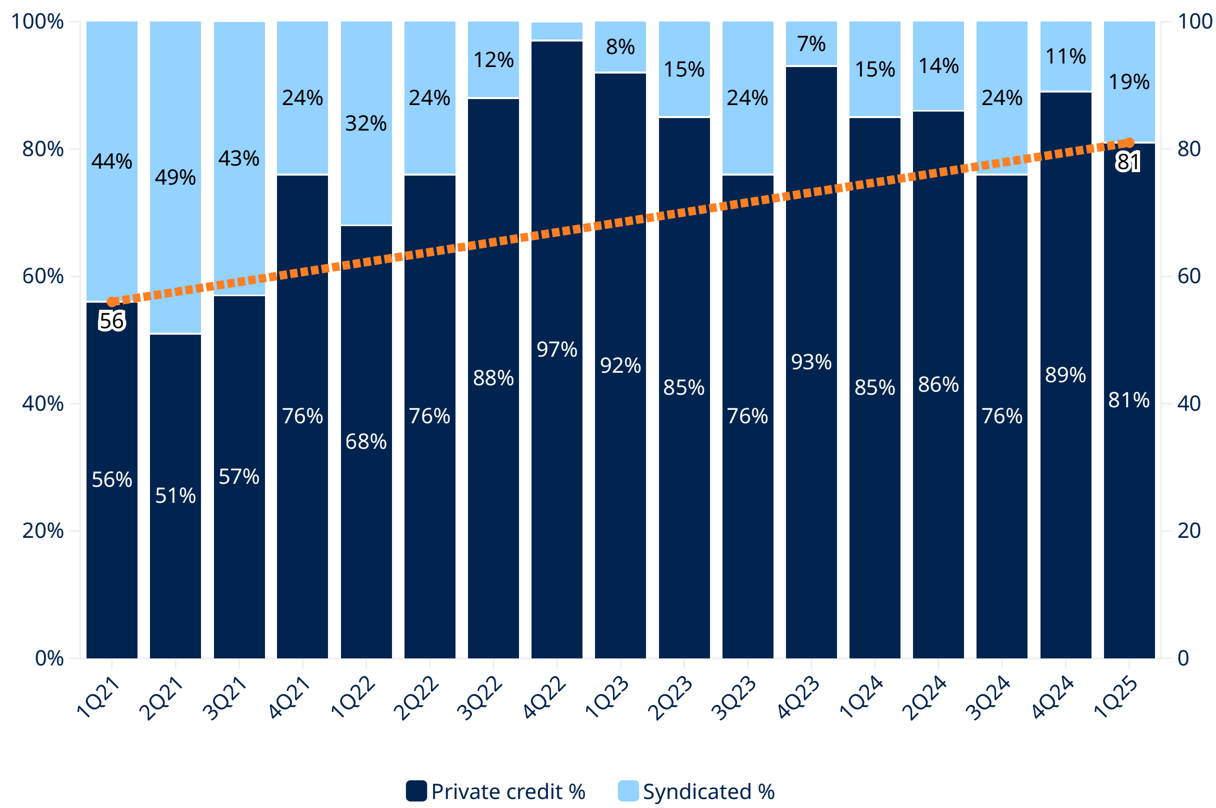
In Focus:

Private credit as a preferred partner

Coming into 2025, many market participants expected to finally see a rebound in M&A activity on the back of a new administration perceived to be business friendly as well as some stabilization (or even declines) in interest rates. However, tariff and policy uncertainty in general, combined with continued high interest rates, has caused companies to re-evaluate their supply chains and focus on core operations. In unpredictable markets, it is not surprising to see corporate and financial sponsor activity slow. This plays to private credit's strengths of stability and partnership, which is why it continues to grow during periods of uncertainty and to solidify its role as a critical source of financing for upper middle market companies.

Private credit's growing share

Percent of LBOs financed by private credit vs. BSL markets



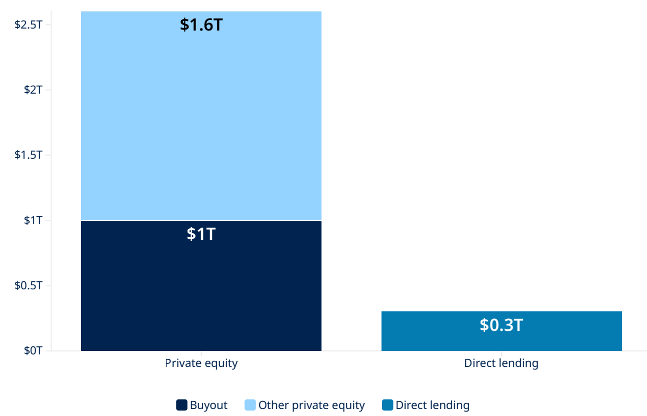
Source: Pitchbook, April 2025

In fact, over the past decade, one of the largest transformations we have witnessed has been the willingness and, in many cases, the preference of large private equity firms to utilize private loans to finance some of their largest buyouts. This has been one factor in the growth of private credit as an asset class, spurred by the growing investor interest and participation that has allowed private credit managers to provide increasingly scaled solutions for these larger companies.

Private equity dry powder currently exceeds private credit dry powder by approximately 9x, illustrating the pent-up demand for M&A activity once the macro backdrop stabilizes. We believe private credit remains poised to continue to be the partner of choice as private equity sponsors sit on historically high levels of dry powder and buyout activity inevitably ticks up.

Private equity has some money to spend

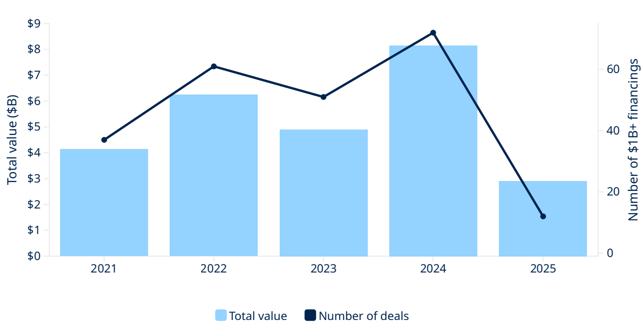
Private equity vs. direct lending dry powder



Source: Prequin as of 12/31/2024

Bigger deals, and more of them

History of $1 billion+ direct lending transactions *(2025 figures are year to date)*



Source: KBRA, June 2025

We see a parallel opportunity in asset-based finance, which is following in the footsteps of Direct Lending in the evolution towards private financing solutions. As increased cost of deposits, regulation, and higher capital requirements have encouraged banks to optimize their risk capital and focus on customers with whom they have direct relationships, the opportunity set has broadened for asset-based credit investors with the ability to provide more flexible structures and pricing. This reduction in capital supply has afforded us the ability to further expand our relationships with existing borrowers and forge new relationships with seasoned, scaled players who relied primarily on bank capital until bank retrenchment accelerated following the 2022 rate hiking cycle and 2023 regional banking crisis. Since cash is inventory for most of our counterparties in asset-based finance, consistent and reliable access to capital is of paramount importance. To lock in reliable, committed financing, we have observed that our counterparties are willing to offer advantageous pricing and investment structures to scaled players with demonstrated execution capabilities, consistent market presence, and reputations as long-term investors. These dynamics have supported consistent and robust capital deployment across our Alternative Credit platform, and we believe the growth of the asset-based finance opportunity set will remain accelerated in the coming years as private capital continues to replace bank and even public market solutions.

Conclusion

As our Credit business has evolved over the past decade, we have experienced a wide range of market environments, gaining valuable experience in pursuing attractive risk-adjusted returns through market cycles.

Our Direct Lending strategy started in 2016 in a relatively benign market climate—which was then upended in 2020 when COVID struck. Since then, we've seen skyrocketing inflation, rapid rate hikes, and higher-for-longer base rates. While market conditions have fluctuated significantly, we have remained focused on demonstrating the value of our solutions to borrowers and on seeking to deliver differentiated outcomes for investors.

With the addition of our Alternative Credit team, we are now able to offer a similar value proposition to a new set of partners, supported by the team's decades of expertise and the scale of Blue Owl's platform. We continue to believe that scale will play a particularly important role in the expansion of private credit markets and look to position ourselves as one of the scaled players in each of the markets in which we invest. Our expansive investment team allows for dedicated and broad sector coverage and expertise, helping us to identify and capture opportunities as they emerge in real time. The ongoing diversification of our platform allows us to widen the funnel of sourcing opportunities as we lean into origination synergies. And as always, we retain our focus on the core goals of pursuing income-driven returns and emphasizing downside protection[ii]—principles that have helped distinguish Blue Owl for our investors.

Author

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Endnotes

i. Pitchbook

ii. References to "downside protection" or similar language are not guarantees against loss of investment capital or value.

Important information

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