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We are more excited than we have been in years about the private credit opportunity set

WHAT MAKES PRIVATE CREDIT SO ATTRACTIVE TODAY?

Overall, the competitive backdrop has improved the return potential for providing new private loans with better downside protections.

Private credit lenders have a unique opportunity to deploy capital with quality borrowers at attractive spreads with improved covenants and deal terms.

Supply/demand dynamics are trending in a favorable direction.

Accessibility to capital remains constrained for borrowers, as evidenced by plummeting issuance in traditional capital markets.

Meanwhile, private equity firms are sitting on record levels of dry powder.

Dislocated debt capital markets have expanded the opportunity set and provide an attractive hunting ground for experienced managers.

Larger borrowers are turning to private credit solutions for their financing needs.

A range of special situations are likely to emerge in a more normal interest rate environment.

The Competitive Dynamics in Private Credit Have Shifted

It may be too early to call this a full "reset" but across the board, the key competing sources of debt capital (leveraged loans, high yield, IPOs, securitization markets, retail investor flows) for private credit investors are facing headwinds while private markets institutional capital raising including within private credit has started to become more challenging. Despite the positive attributes of the asset class, private credit is also feeling the impact of the "denominator effect" for some investors and other challenges faced by specific institutional investors.

INDICATOR	2021	2022	YOY CHANGE
Traditional Capital Markets			
Bank Loan Issuance ($B)	835.1	252.5	(70%)
High Yield Issuance ($B)	483.0	106.5	(78%)
US IPO Proceeds ($B)	155.8	8.5	(95%)
Private Equity (PE) Activity (Private Credit Demand)			
PE Buyouts, North America ($B)	321.0	296.0	(8%)
PE Dry Powder, North America ($B)	1,042.0	1,314.0	26%

Source: Morningstar, FactSet, JP Morgan Asset Management, Pitchbook LCD, Houlihan Lokey, E&Y. Past performance is no guarantee of future results.

At the same time, private equity firms sitting on record levels of dry powder will look to take advantage of a softening valuation environment for new platforms and add-on transactions, while liquidity support may be needed for a broad range of borrowers. Elevated borrowing costs may alter capital structures with partial cash pay junior debt and preferred solutions more frequently arising to make the math work for some new private equity transactions. The dislocated debt capital markets have also expanded the addressable universe for many private credit managers as larger borrowers turn to private capital solutions for their financing needs. Finally, while "defaults" and secondary credit pricing still remain muted, there remains potential for an expanded "distressed" opportunity set across several markets and borrower types. The low-rate environment enabled credit market excesses that are starting to surface and are providing a range of special situations type investments.

The expanded opportunity set comes at a time when dry powder for many private credit platforms has been meaningfully diminished.* We had noted in last year's outlook that direct lending dry powder was not nearly as robust as fundraising headlines would suggest, and we believe that this phenomenon has only worsened 12 months later.

This content is an excerpt of Aksia's *Annual Private Credit Update and Outlook.* Please see page 2 for information about accessing the full paper.

*This references data from Aksia's 2022 end of year private credit survey which collected data on the topic from over 50 different direct lenders.

We believe that this dynamic should help balance supply/demand in several parts of the private credit market and catalyze new opportunities. Overall, the competitive backdrop has improved the return potential for providing new private loans with better downside protections. There is no doubt that the risk of a sustained downturn in the U.S. and Europe is real, but it's often when liquidity becomes scarce that competitive dynamics in the credit markets become more attractive.

READY TO LEARN MORE ABOUT THE OPPORTUNITY OF PRIVATE CREDIT?

This paper is an excerpt of Aksia's recently published *Annual Private Credit Update and Outlook.*

To read the full paper, please reach out to your Calamos Investment Consultants at 888-571-2567 or by email at investmentprofessionals@calamos.com

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