

APOLLO

The growing role of private credit The outlook for corporate finance

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Apollo Global Management

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Unless otherwise noted, information as of May 2025.

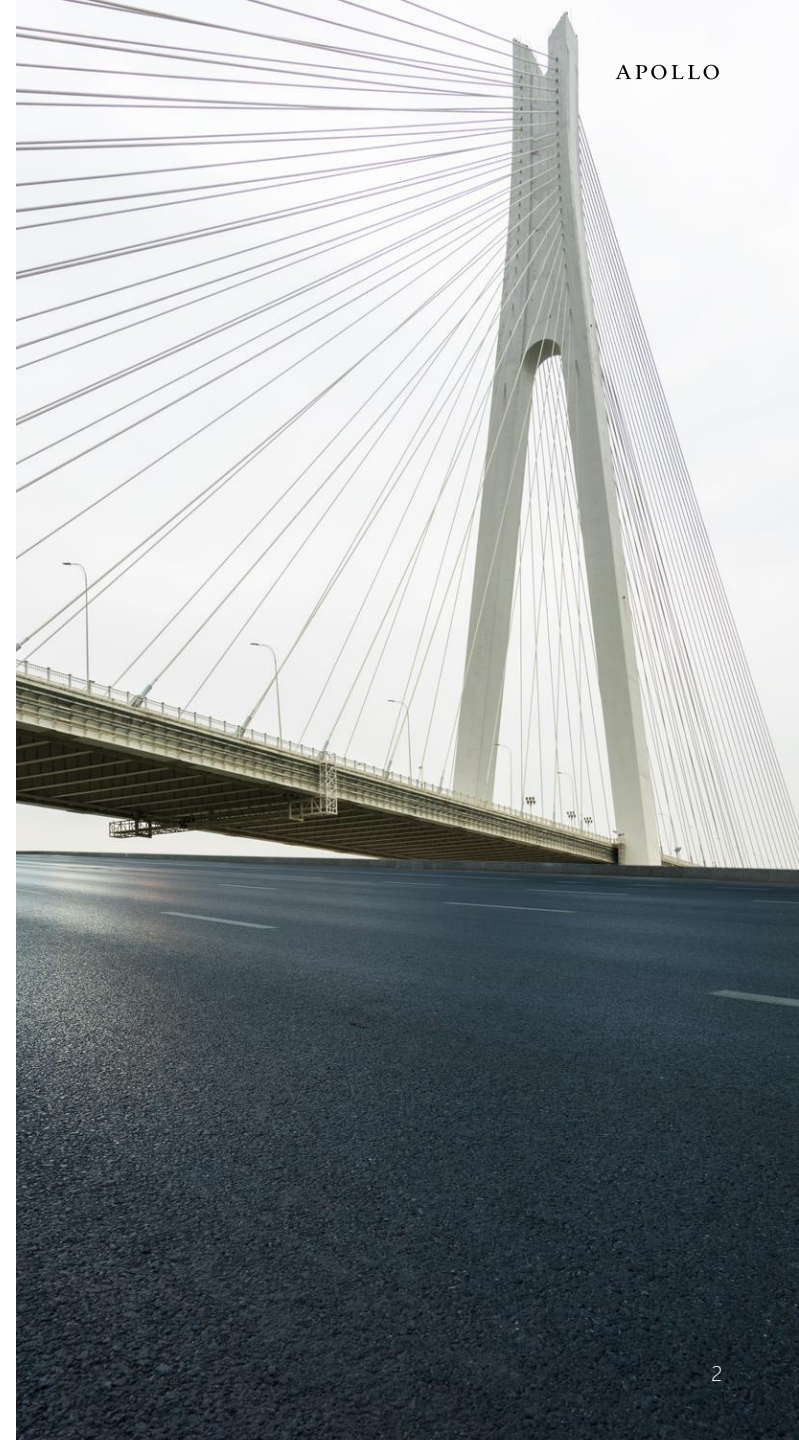
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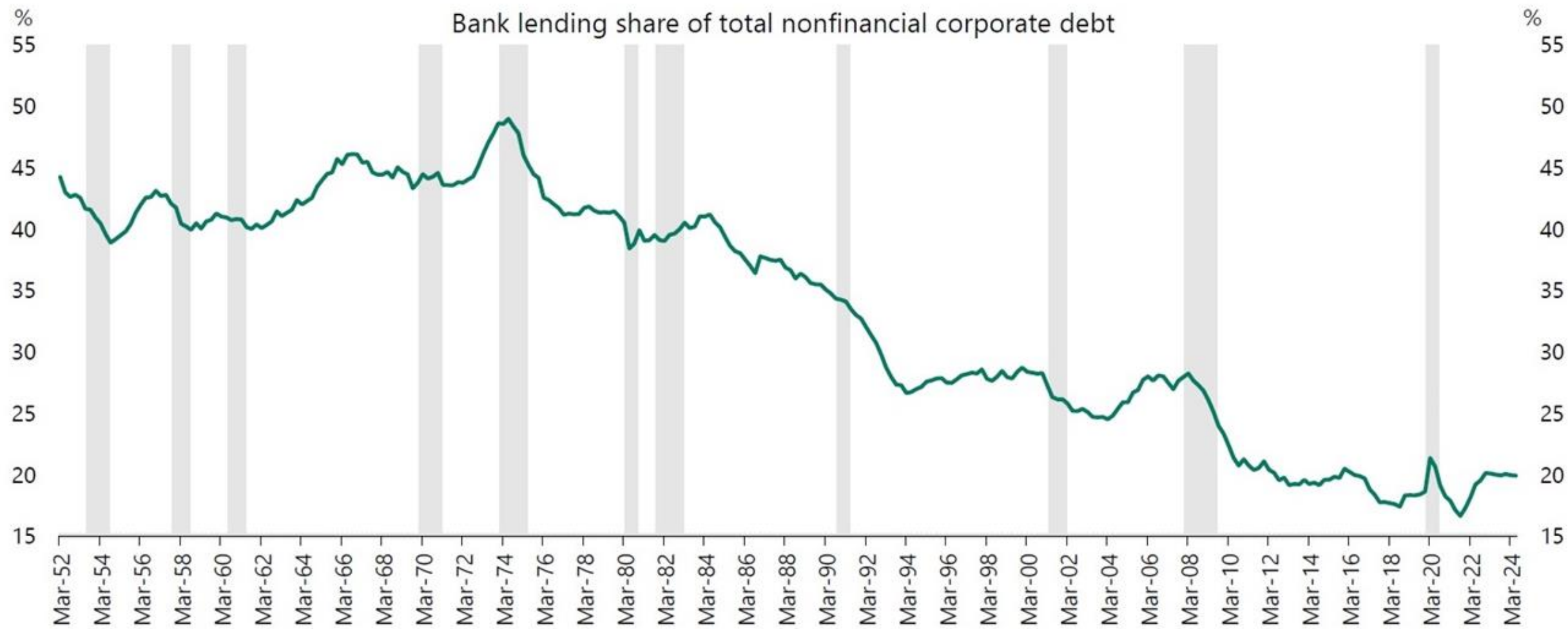
Outline

1. Structural changes in corporate borrowing: The shrinking role of banks
2. Structural changes: Comparing public and private markets
3. Cyclical changes: The impact of tariffs on corporate borrowing
4. Conclusion

How do companies borrow?
The shrinking role of banks



Banks playing a smaller role as providers of credit



Source: Federal Reserve

How do companies borrow?

- 1. Bank Loans:** Term Loans – Lump-sum borrowing repaid over time. Revolving Credit Facilities – Similar to a credit card; draw as needed up to a limit. Syndicated Loans – Large loans funded by a group of banks.
- 2. Bond Markets:** Investment-Grade Bonds – For companies with strong credit ratings. High-Yield Bonds – Higher interest, higher risk, for less creditworthy issuers. Convertible Bonds – Can convert into equity under certain conditions.
- 3. Direct Lending:** Loans from institutions like Apollo. Examples: unitranche loans and mezzanine debt. Can be used when speed, flexibility, or confidentiality is important.
- 4. Asset-Based Lending:** Loans secured by assets like inventory, accounts receivable, or equipment. Common in retail and manufacturing.
- 5. Vendor or Trade Credit:** Suppliers extend payment terms. Short-term (could be 60 days) and often informal.
- 6. Leasing or Equipment Financing:** Useful for capital-intensive industries. Types: finance lease, operating lease, sale-leaseback.
- 7. Hybrid Instruments:** Preferred Equity – Has debt-like features (fixed dividends, senior to common equity). Convertible Debt – Debt with an option to convert into equity later.
- 8. Securitization:** Turning receivables (e.g., mortgages, credit card payments) into marketable securities. Often used by financial or asset-heavy firms.

Examples of top issuers in investment grade and high yield corporate bonds:

Investment grade:

Bank of America, JP Morgan, AT&T, United Healthcare, Apple, Amazon, CVS, and Boeing

High yield:

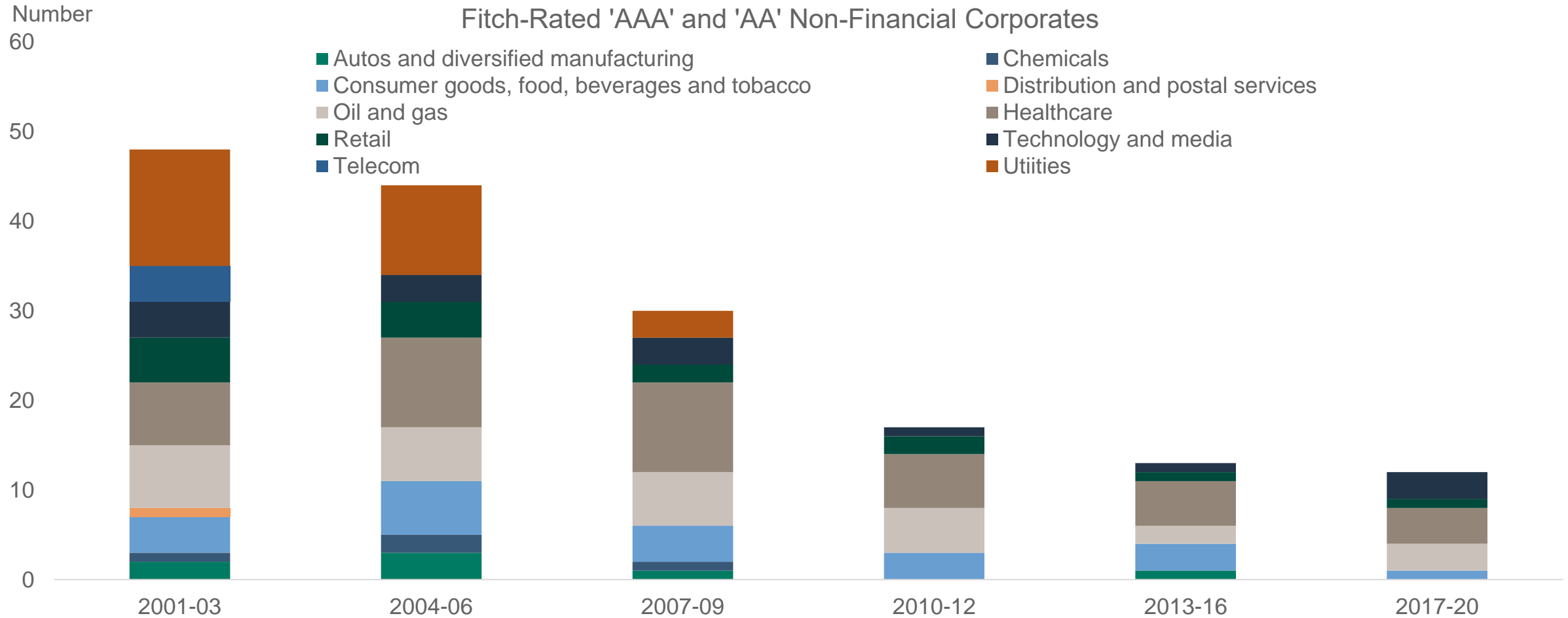
Sirius, Royal Caribbean, Walgreens, Univision, Carvana, Albertson, and American Airlines.

Most corporate bonds outstanding are rated either BBB or single-A

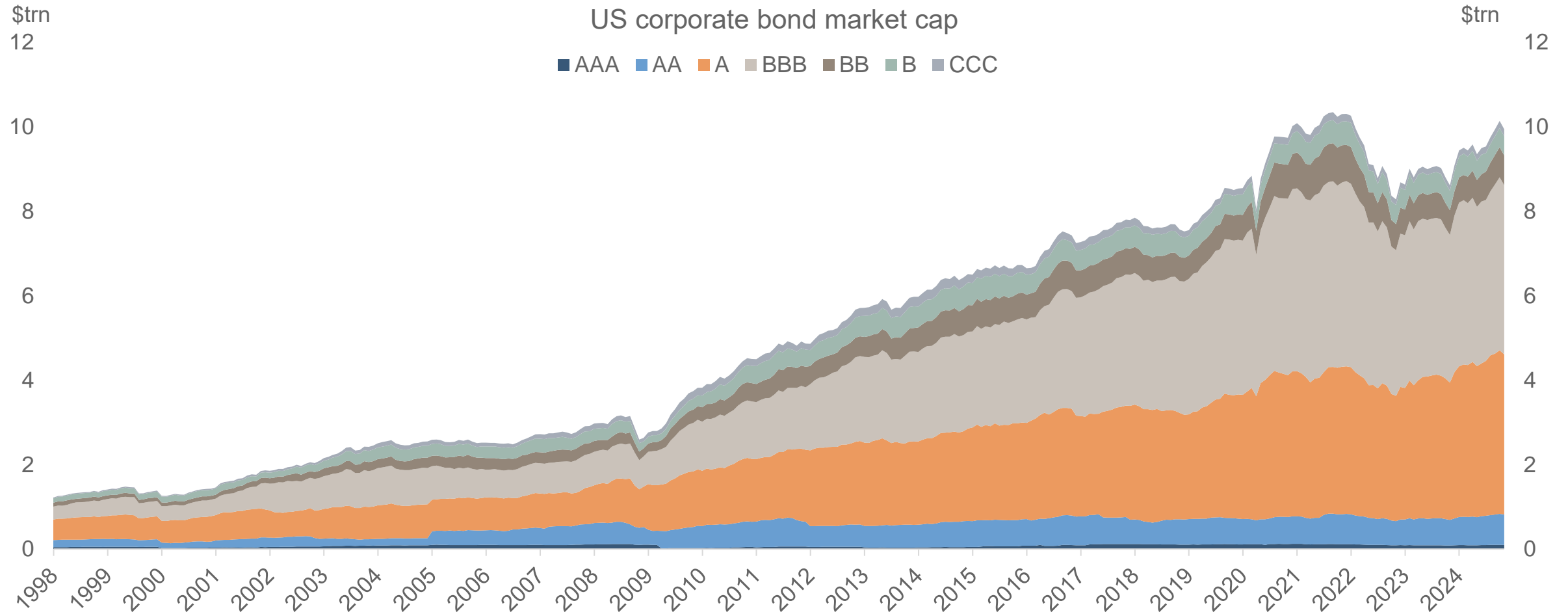


Source: ICE BofA, Bloomberg, Apollo Chief Economist.

Fewer and fewer corporate bonds are rated AAA and AA

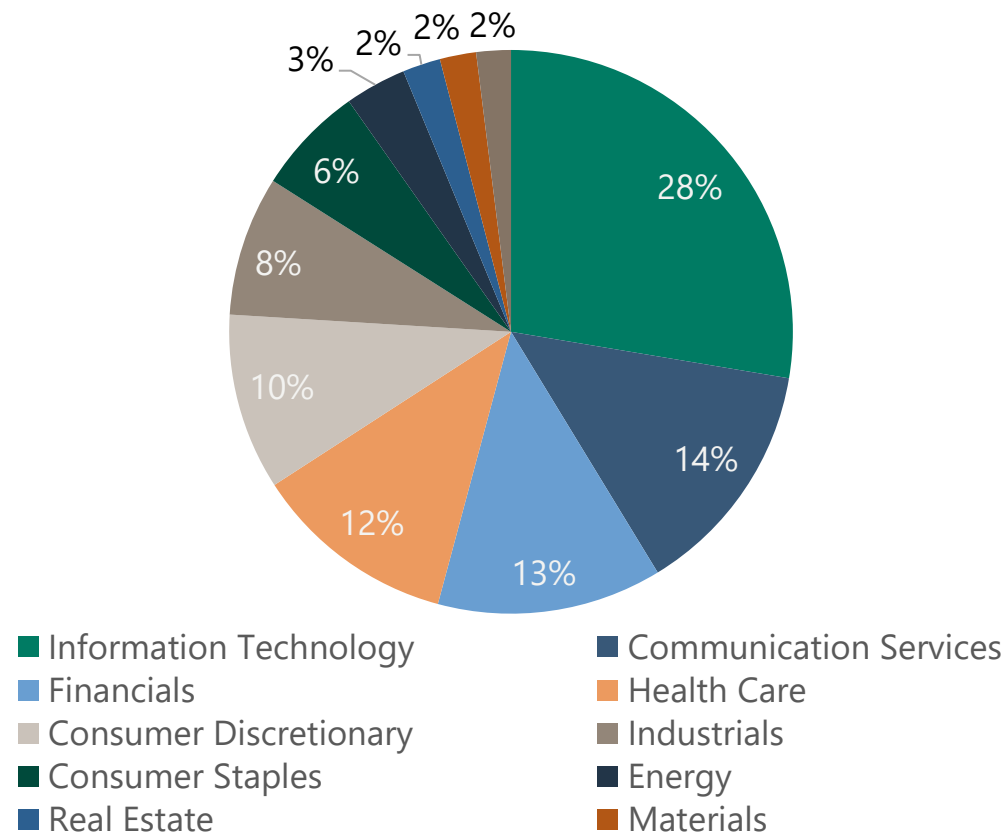


Total market cap of US corporate bond markets: \$10trn

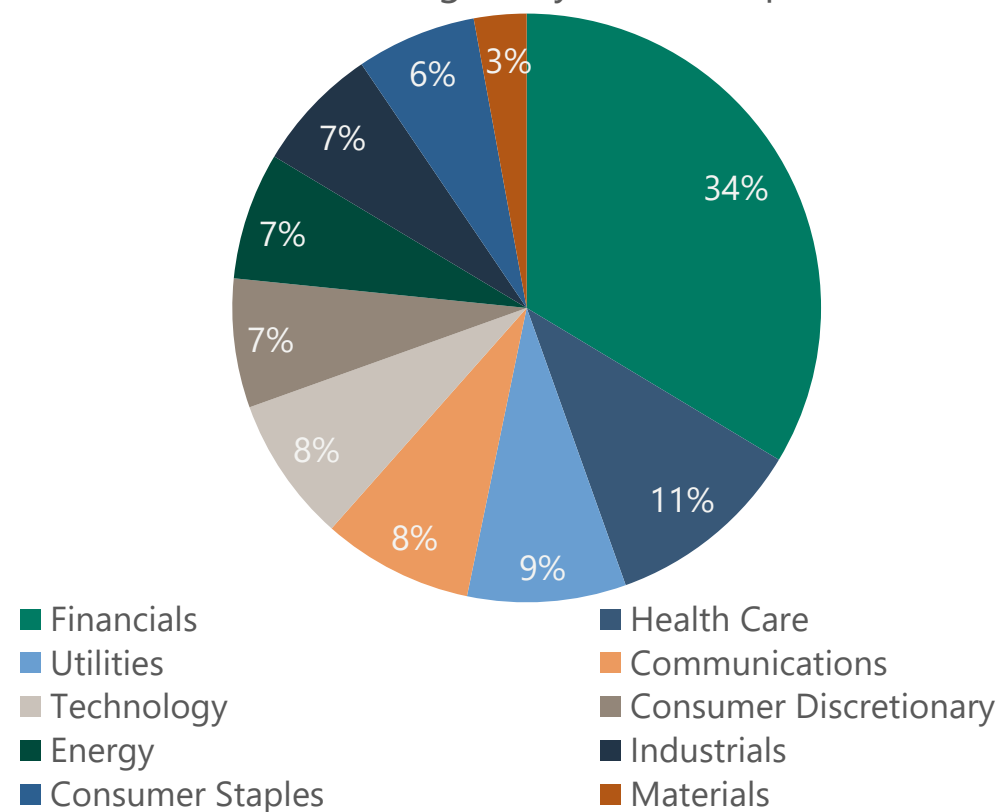


Big differences between weights in the S&P500 and the IG index

S&P 500 Index weight by market cap

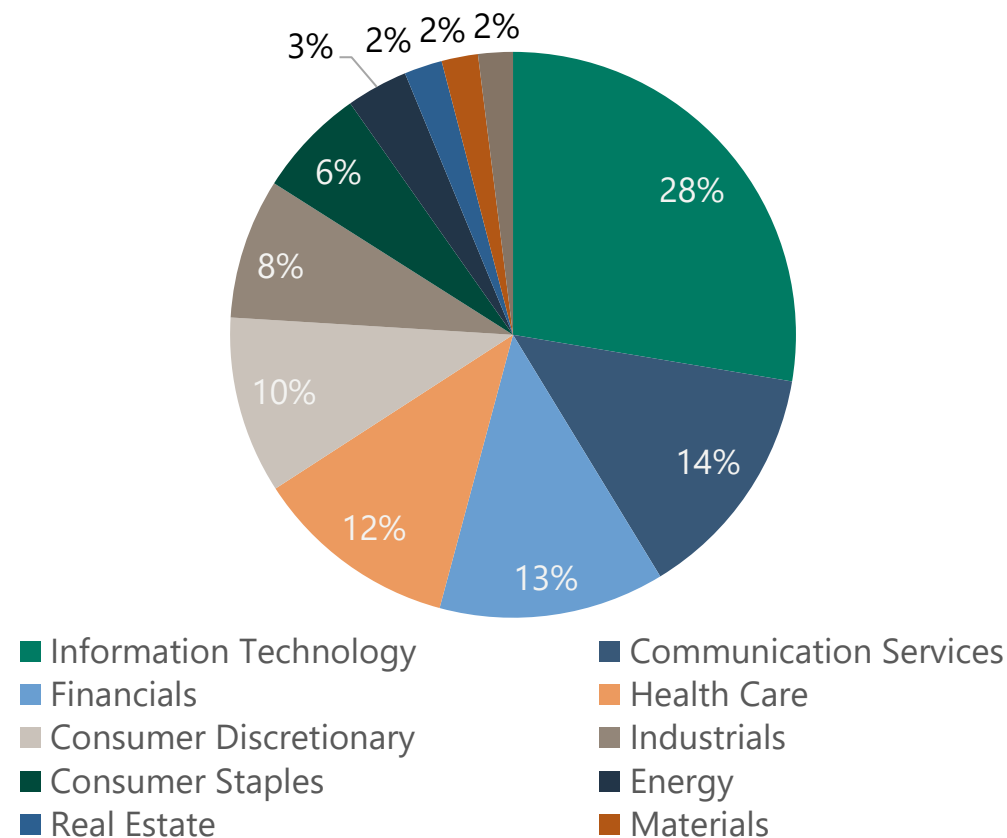


Barclays corporate IG index weights by market cap

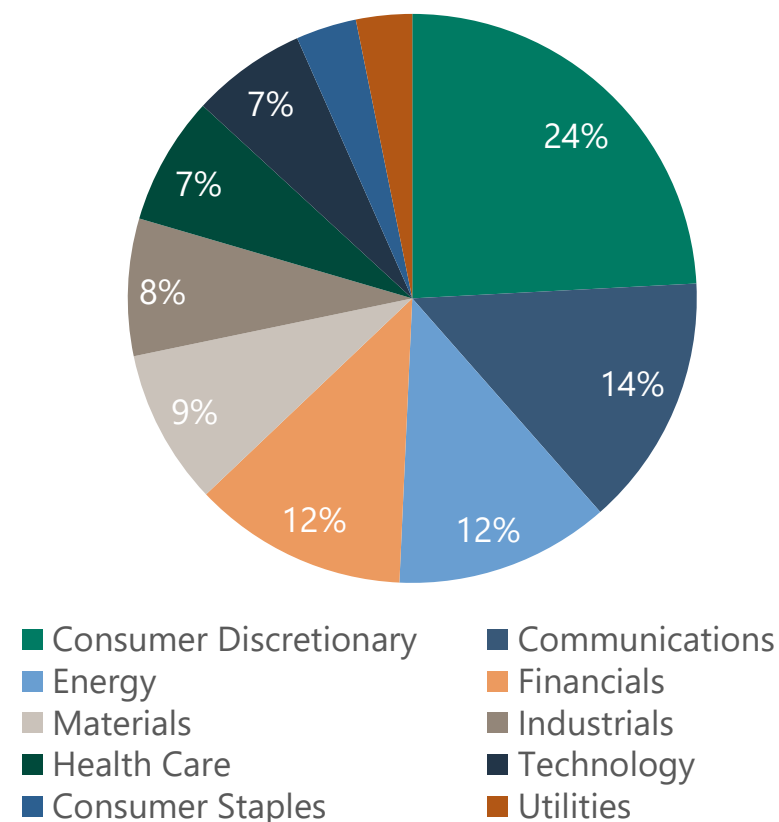


Big differences between weights in the S&P500 and the HY index

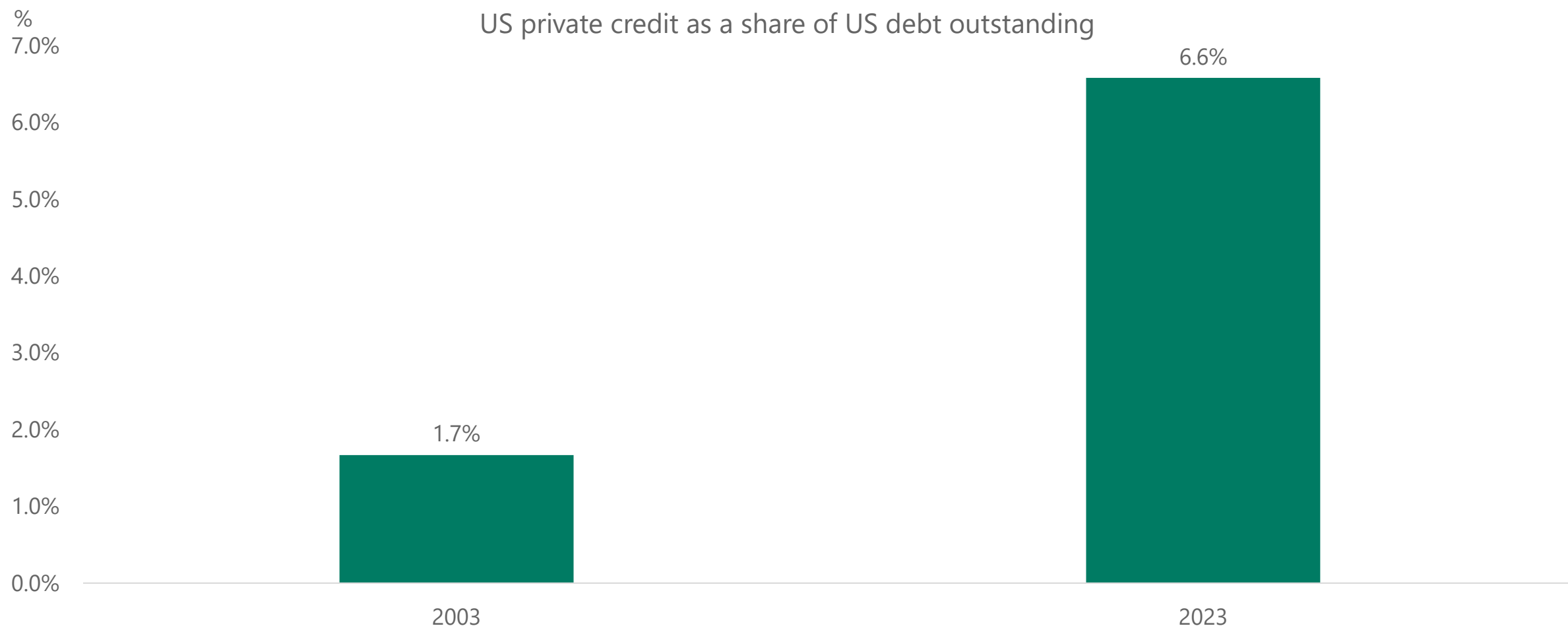
S&P 500 index weight by market cap



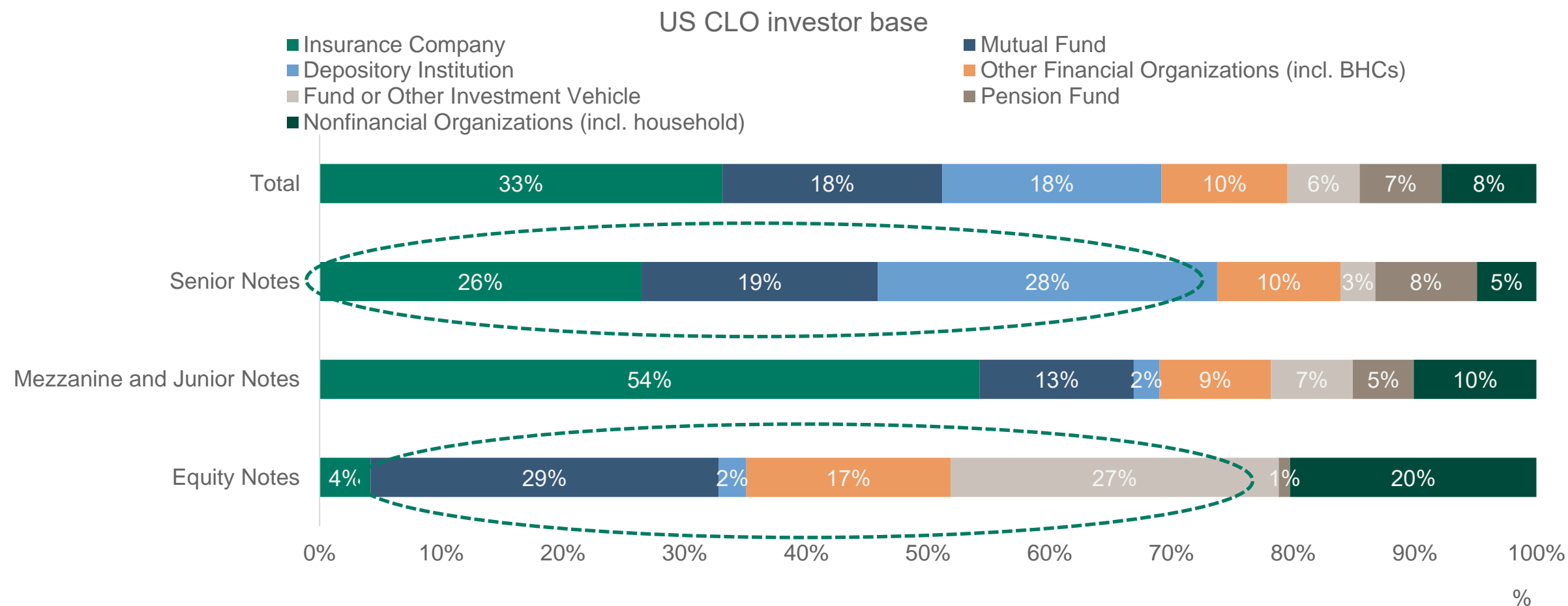
Bloomberg Barclays HY index weights by mkt cap



Private credit as a percentage of total credit markets



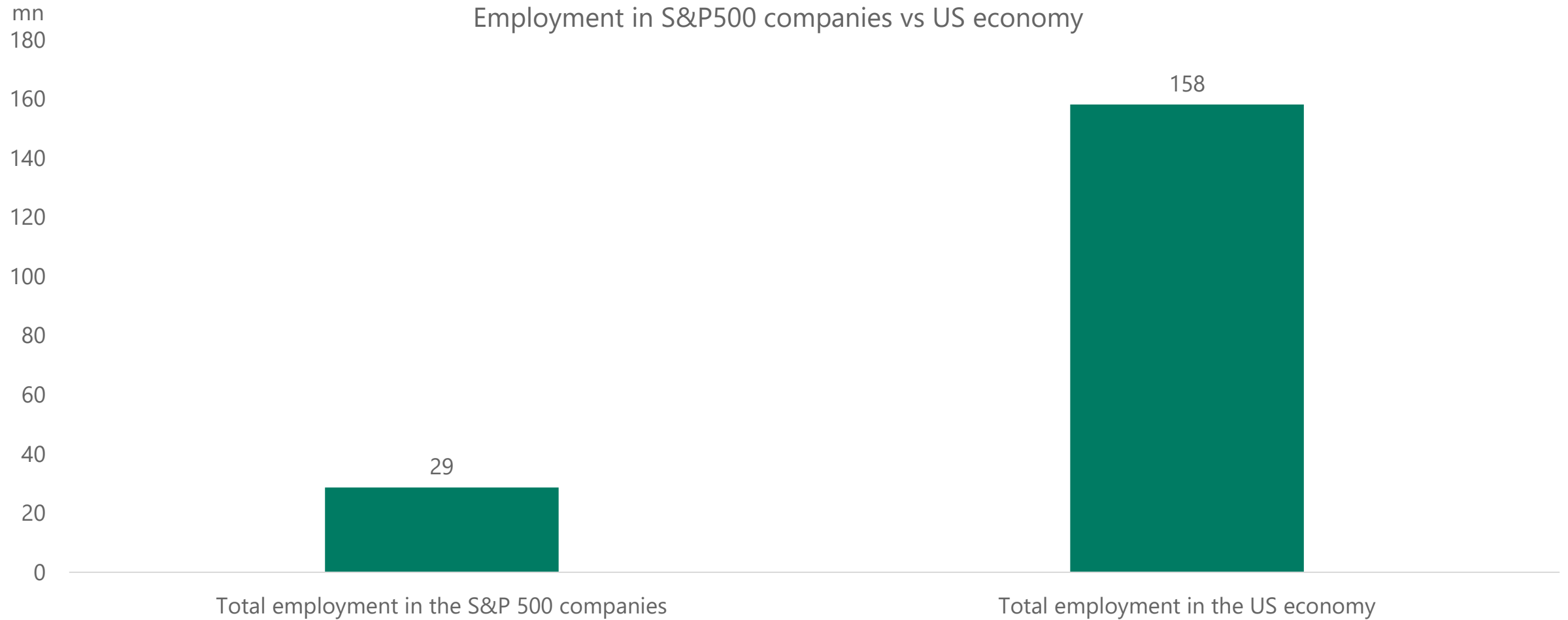
US CLO investor base, by tranche



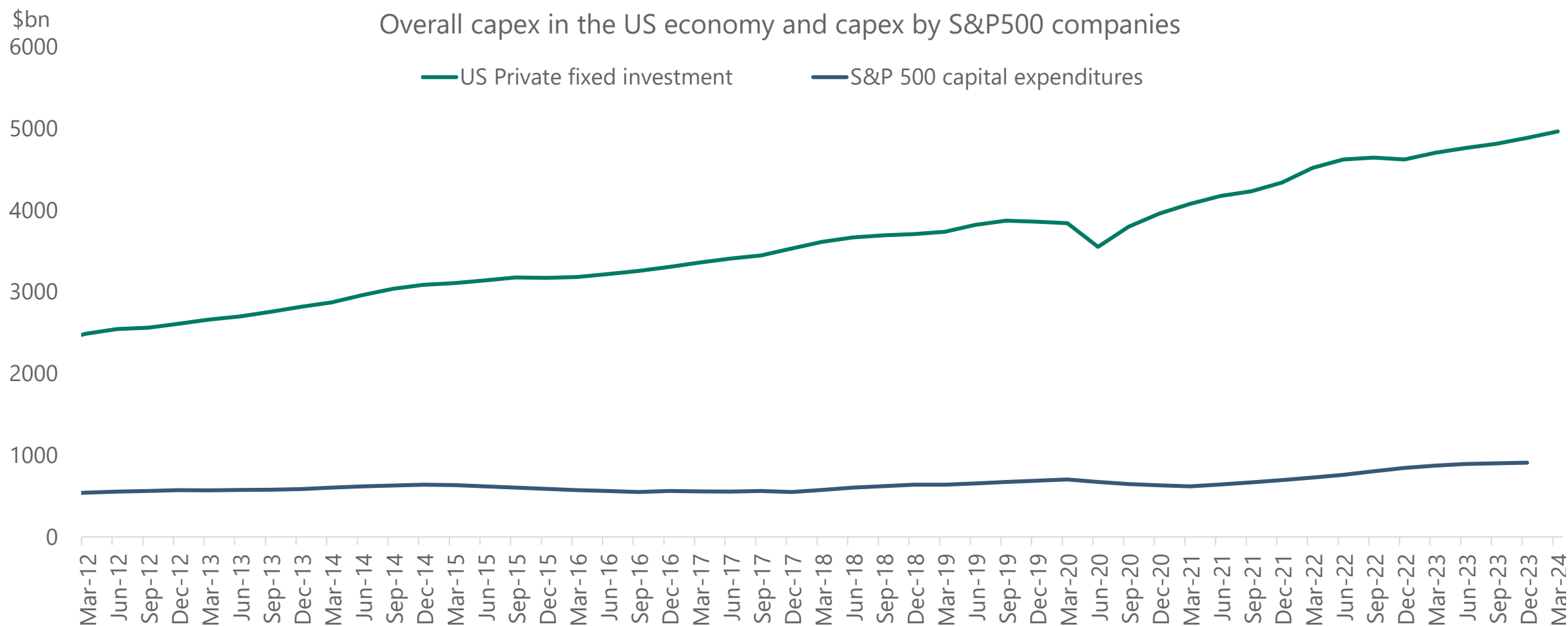
Comparing public and private markets:
S&P 500 vs the rest of the economy



Employment in S&P500 companies is 18% of total US employment



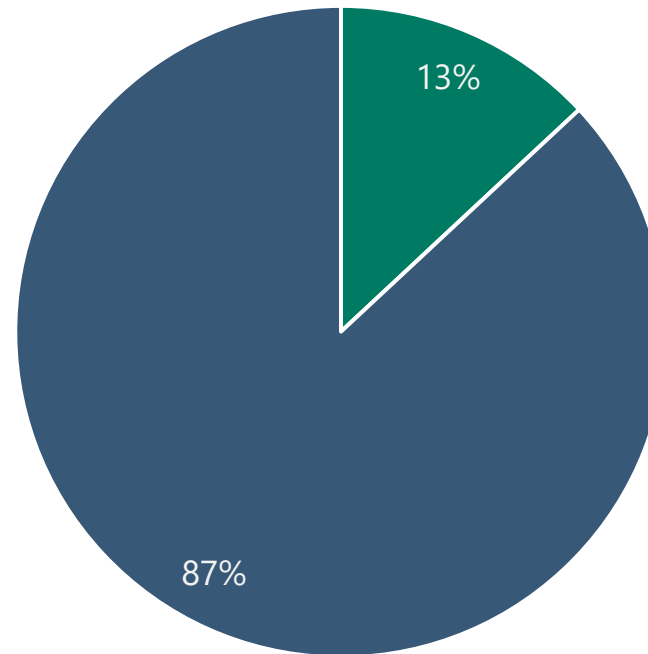
Capex by S&P500 companies is 15% of total capex in the US economy



US: 87% of firms with revenues greater than \$100mn are private

Share of public and private companies in the US, with revenue greater than \$100mn

■ Public companies ■ Private companies



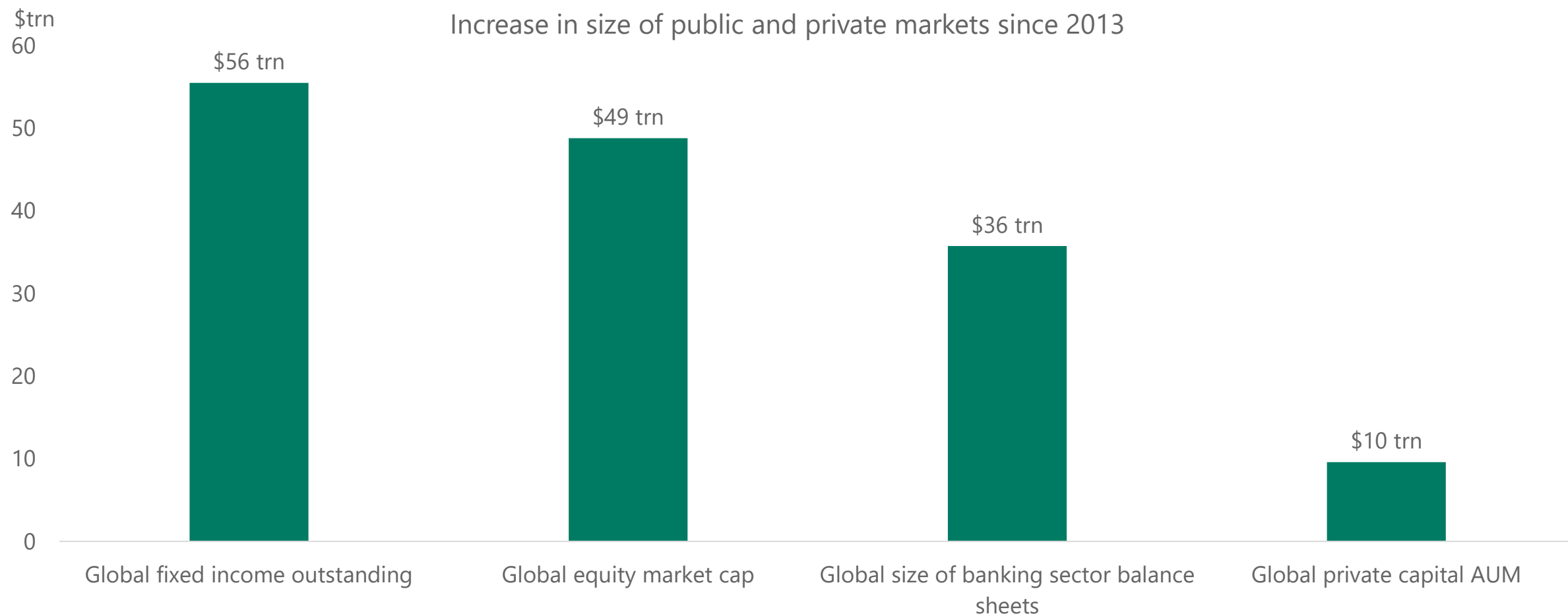
Examples: PwC, Koch Industries, Mars, Cargill, Deloitte, E&Y, Wava

Comparing public and private markets

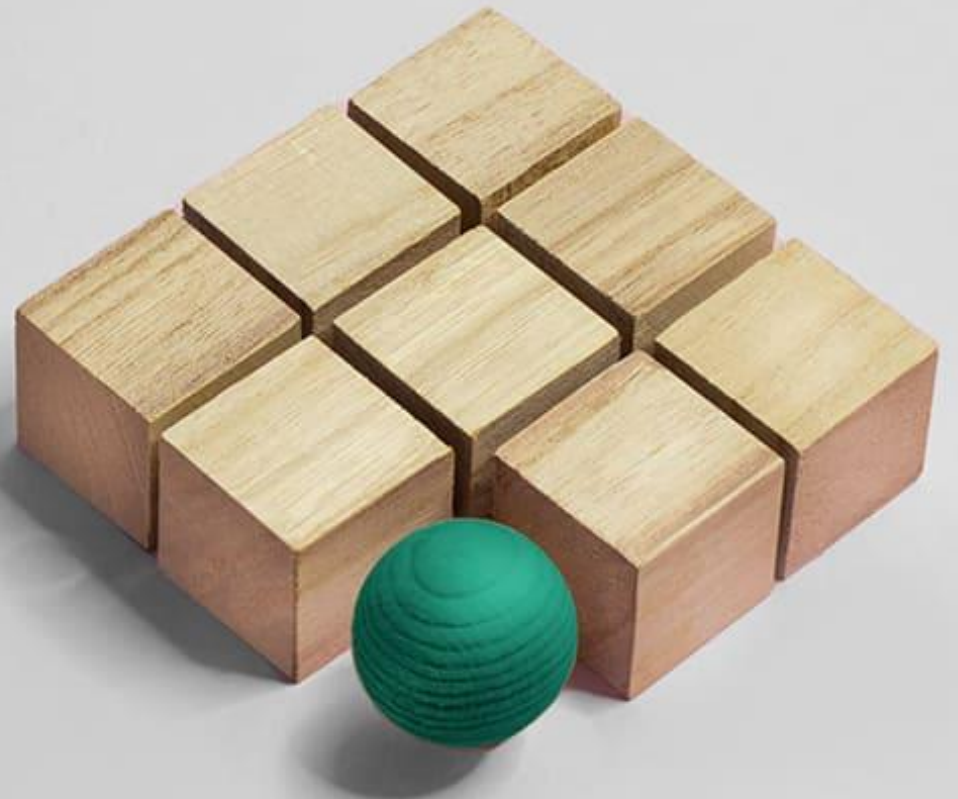


Source: SIFMA, BIS, PitchBook, Apollo Chief Economist. Note: Data as of 2023 and 2024 Q2 (BIS data) and 2024Q1 for private capital

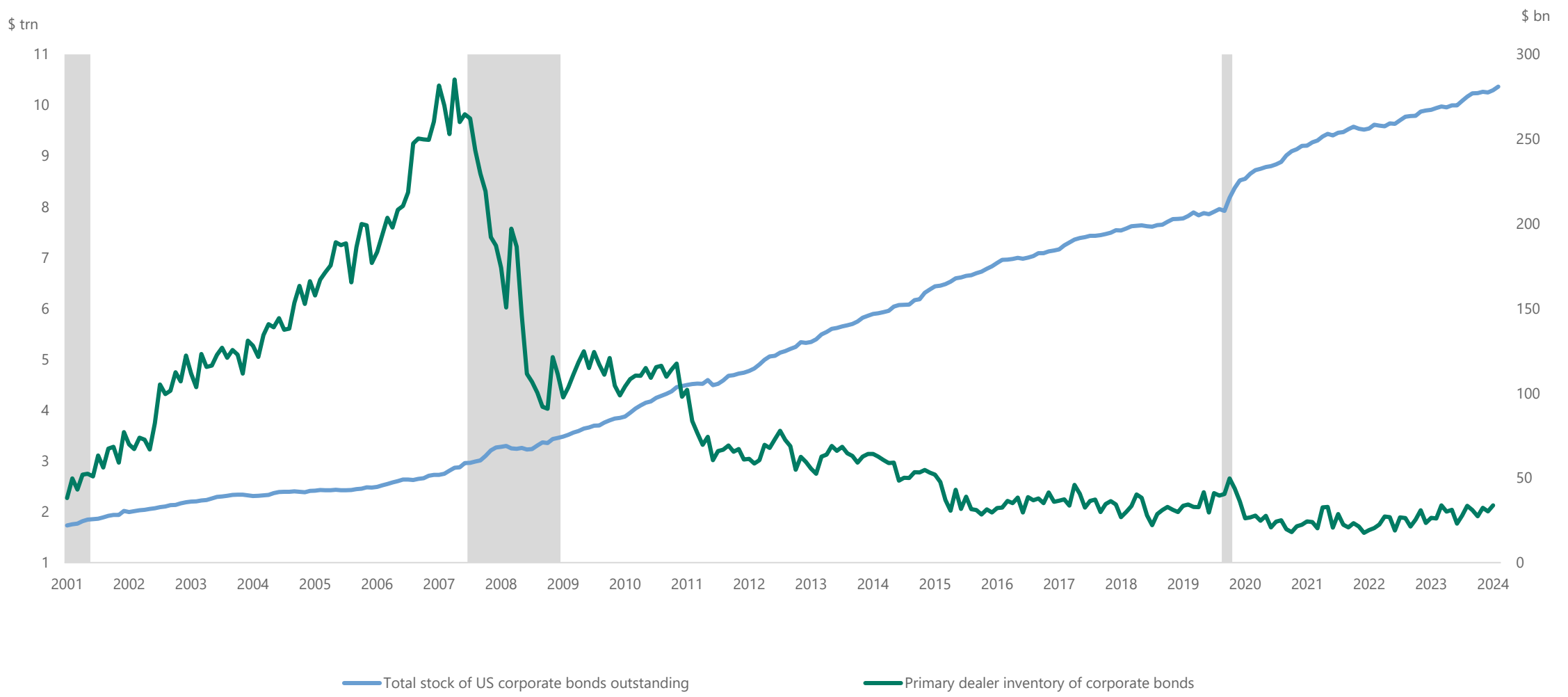
Comparing growth in public and private markets since 2013



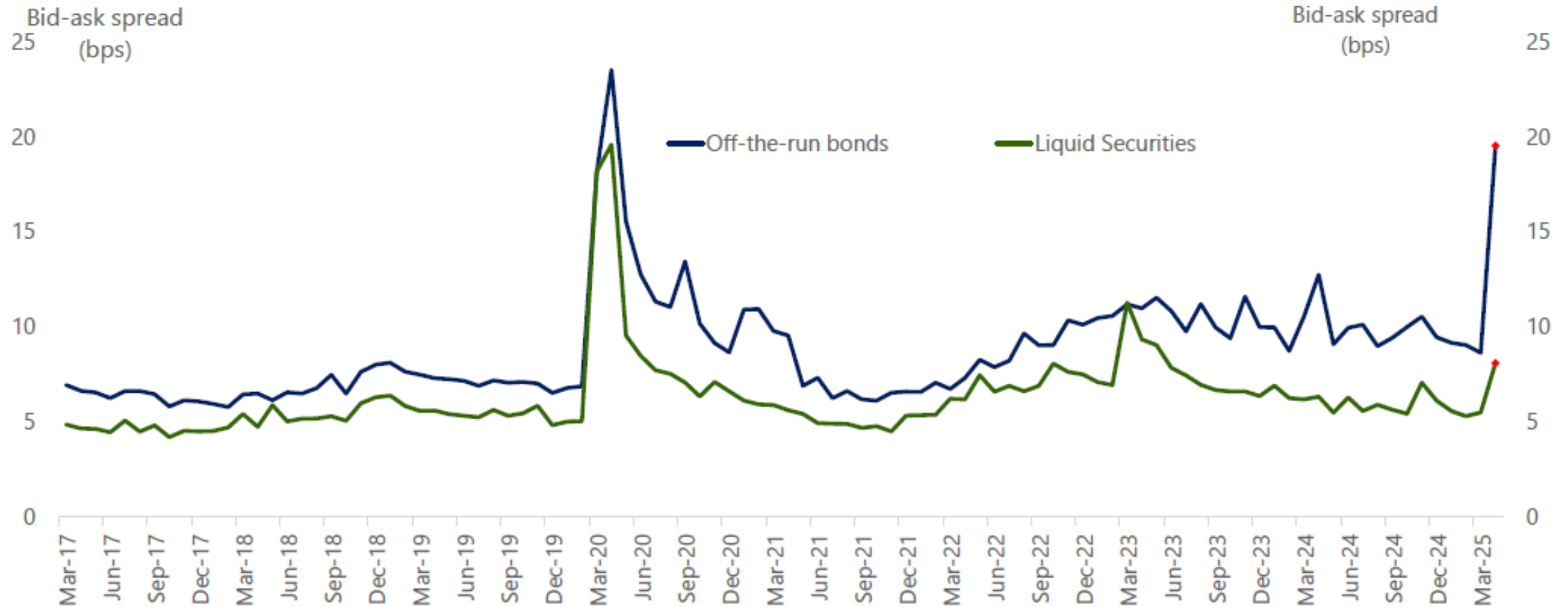
The impact of tariffs on corporate borrowing



Low liquidity in public credit markets:
 Dealer balance sheets are a fraction of their pre-GFC size while the market has grown 3x

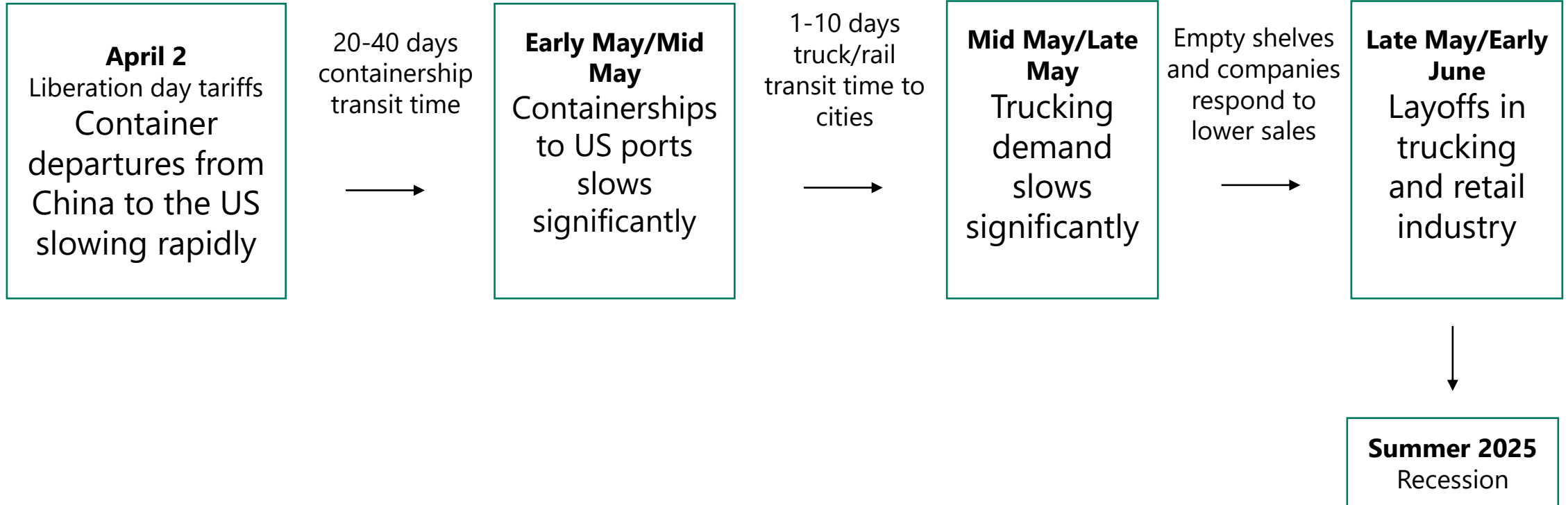


Bid-Ask spreads widening in IG credit markets

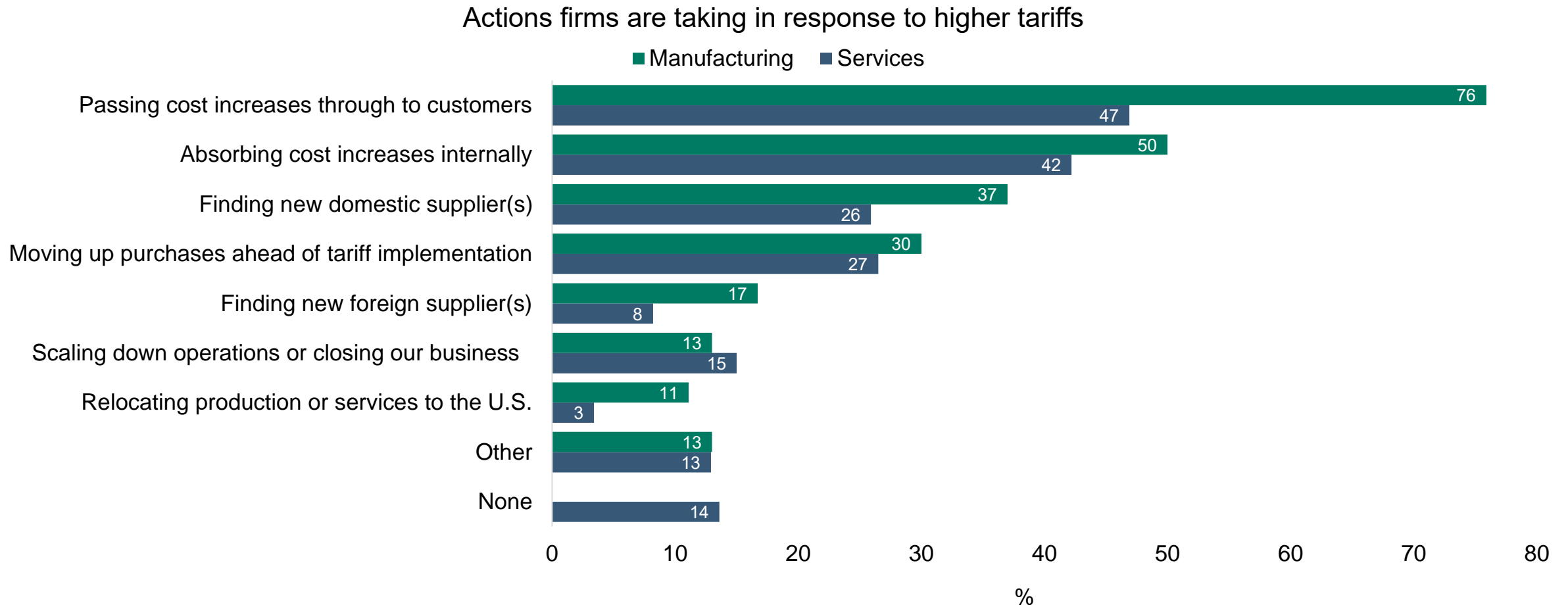


Source: Shobhit Gupta, Apollo Chief Economist. Note: The chart below shows estimated bid-ask for IG bonds based on trader quotes. Liquid securities defined as \$1bn+ deals issued in the past year. Off-the-run bonds are those issued more than 2yrs ago with deal size <\$900mn (these bonds make up 50% of the IG market by count).

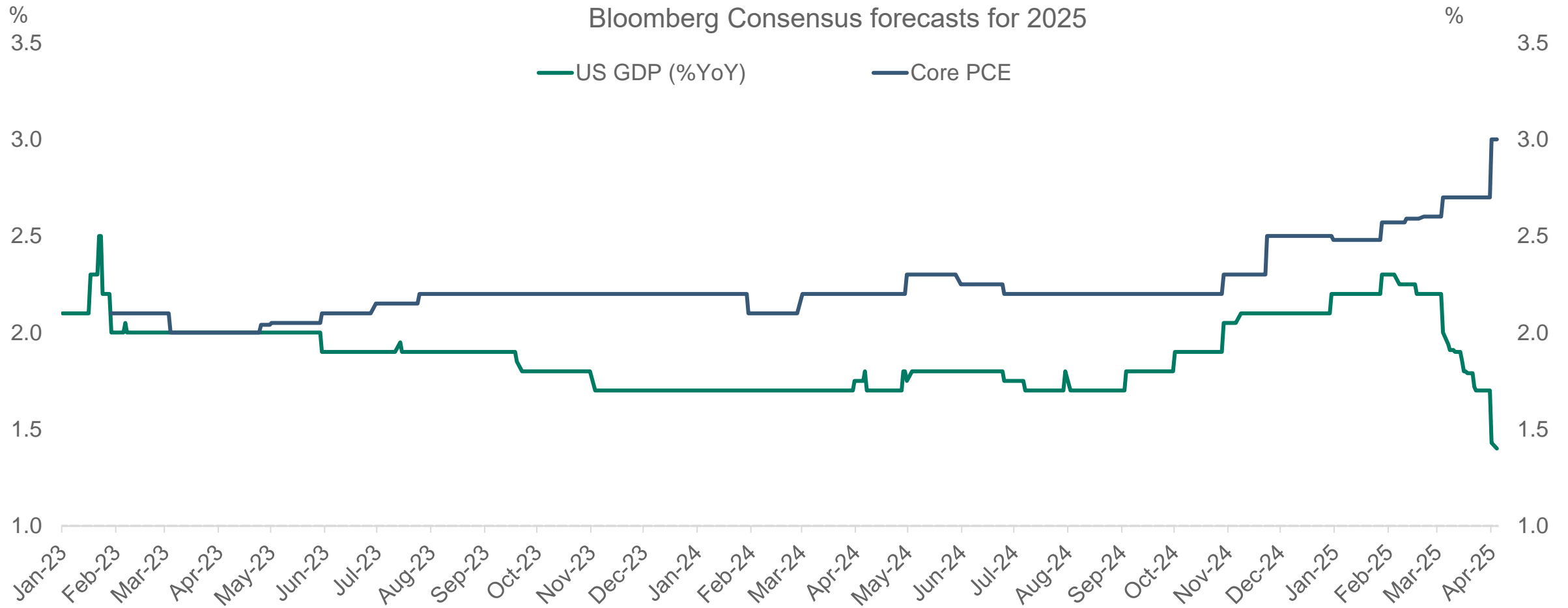
The Voluntary Trade Reset Recession



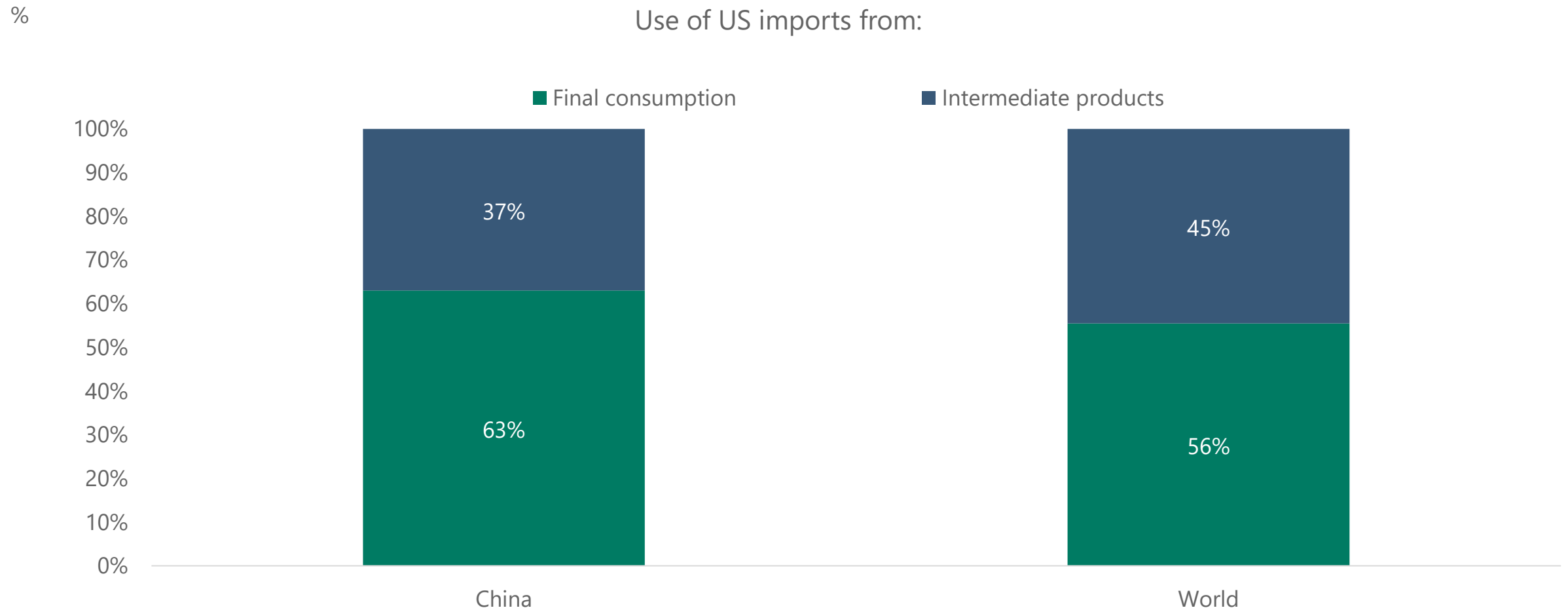
Firms plan to pass tariff-related costs to consumers



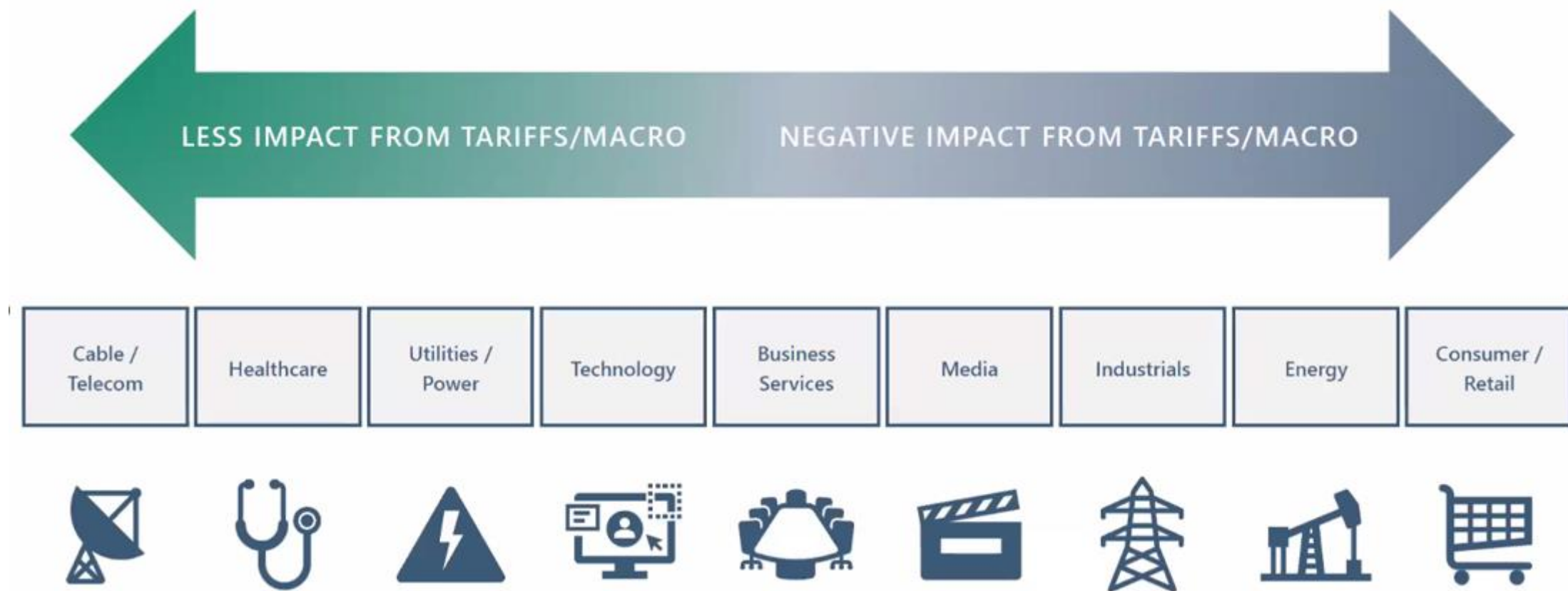
Consensus forecasting stagflation



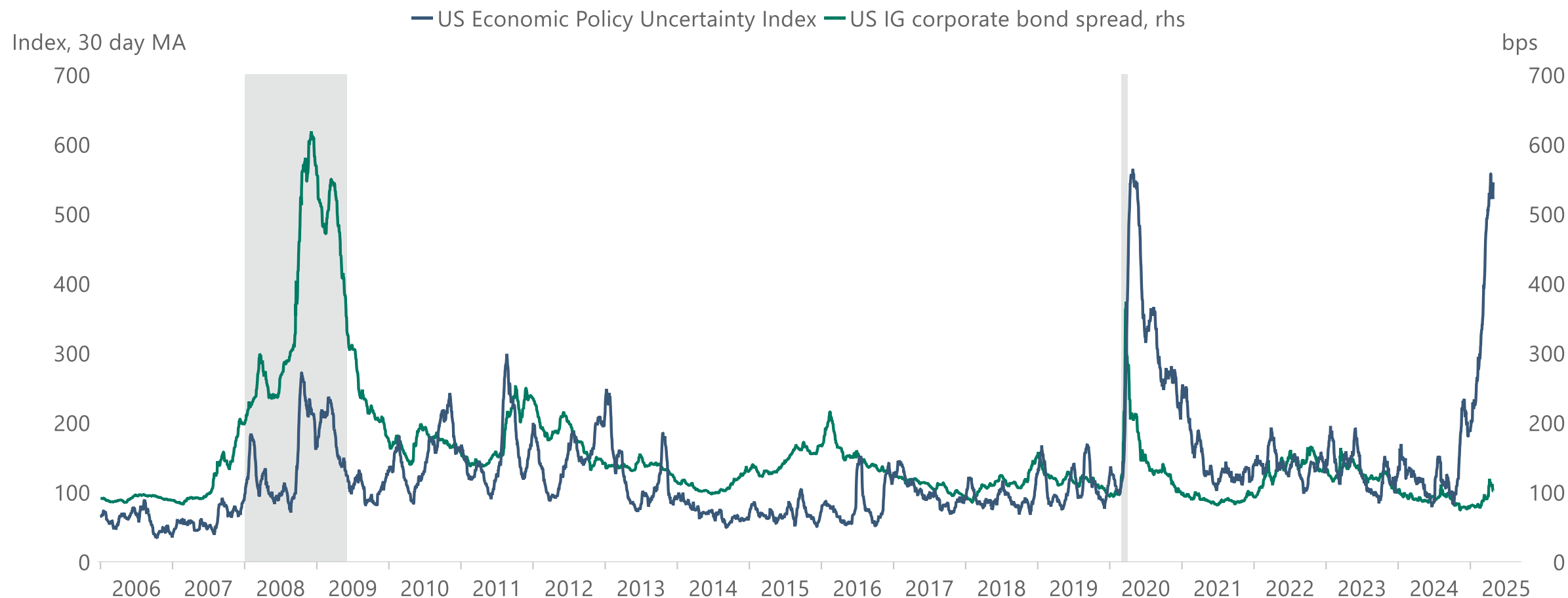
37% of US imports from China are intermediate goods used in US production



Sector impact of tariffs



IG spreads are disconnected from the economic policy uncertainty index

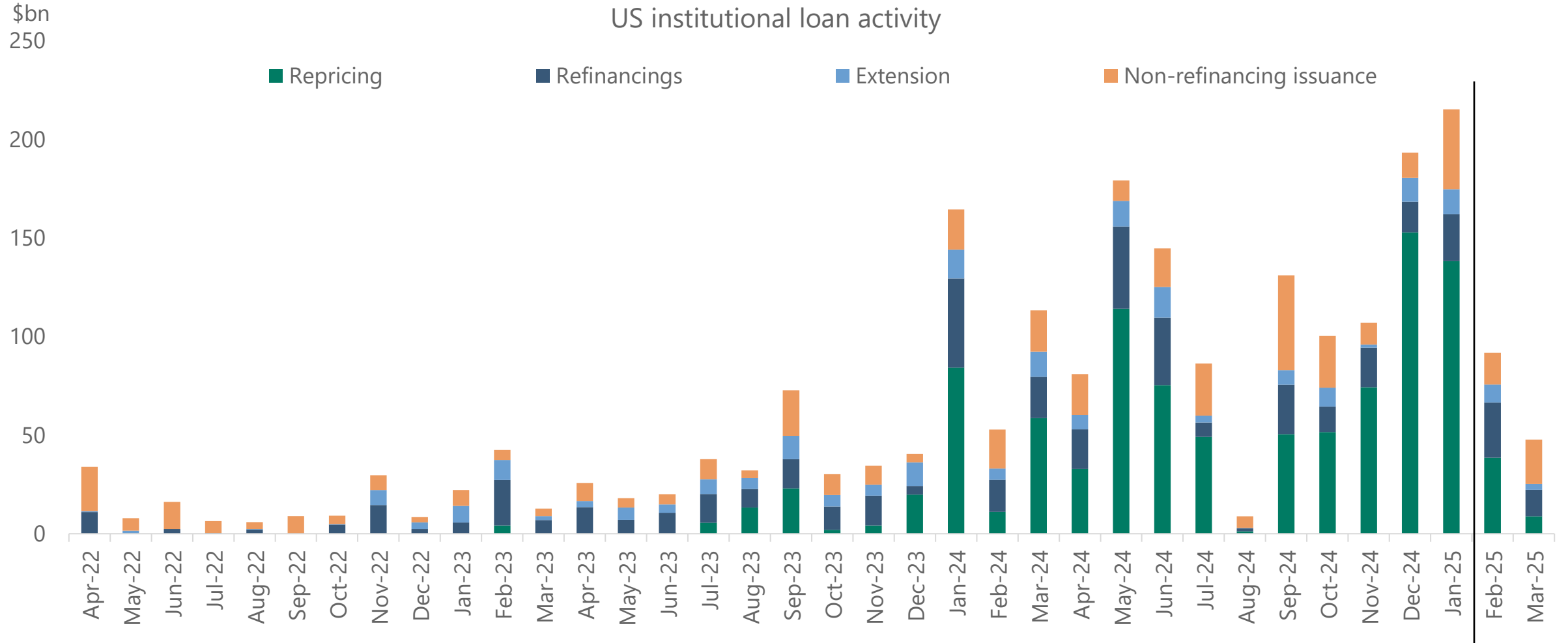


Source: Economic Policy Uncertainty, Macrobond, Apollo Chief Economist

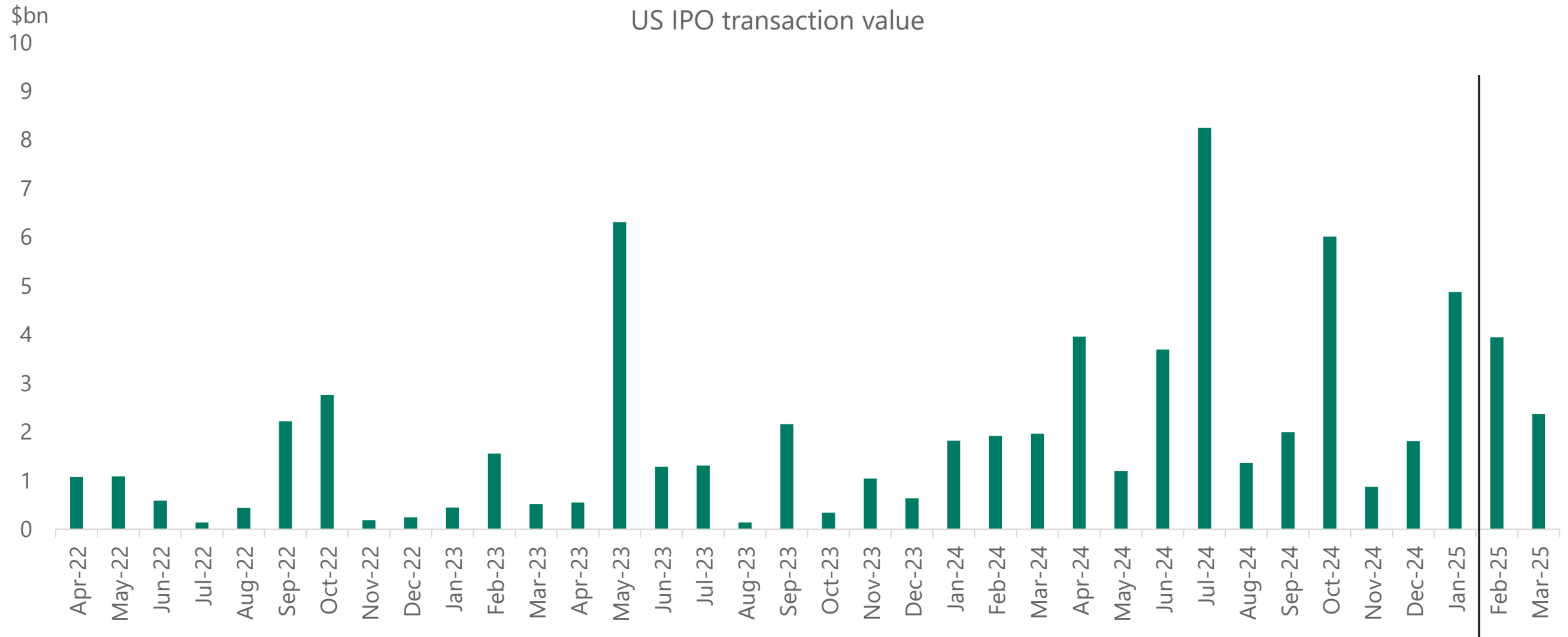
Conclusion



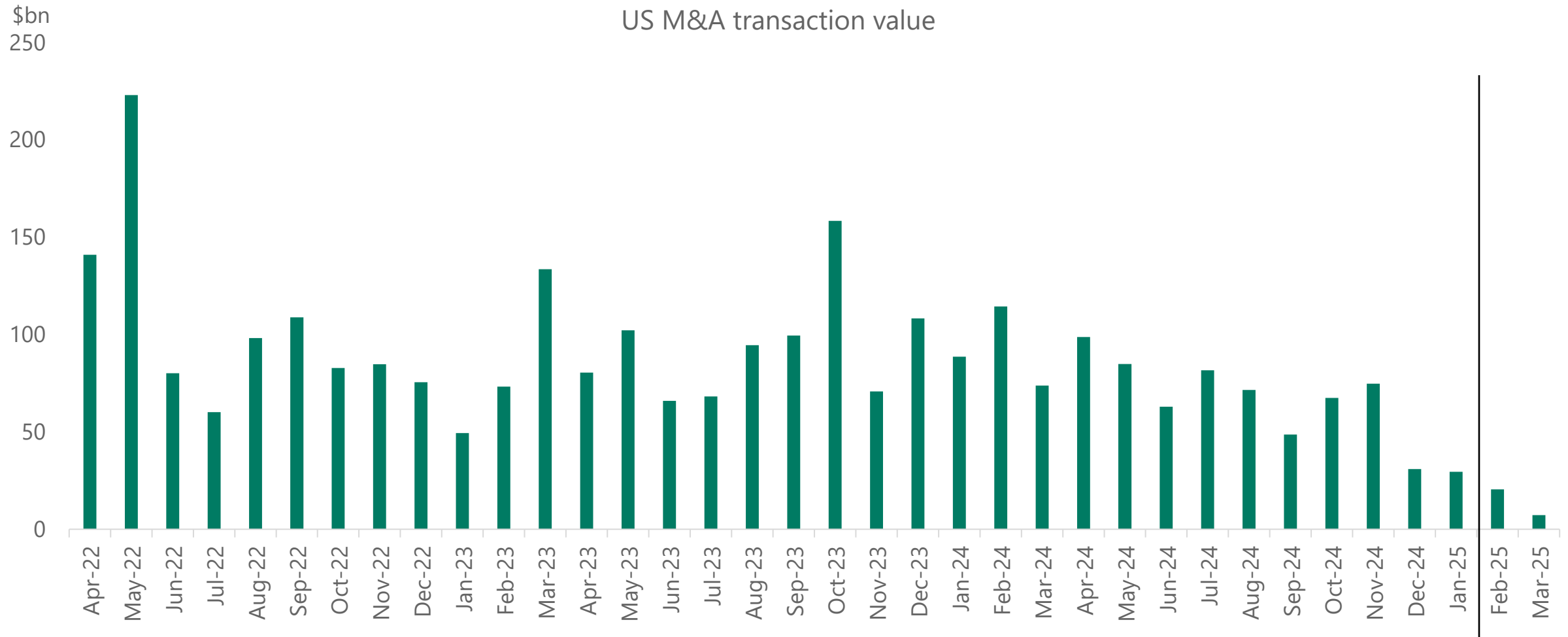
When policy uncertainty went up, loan issuance went down



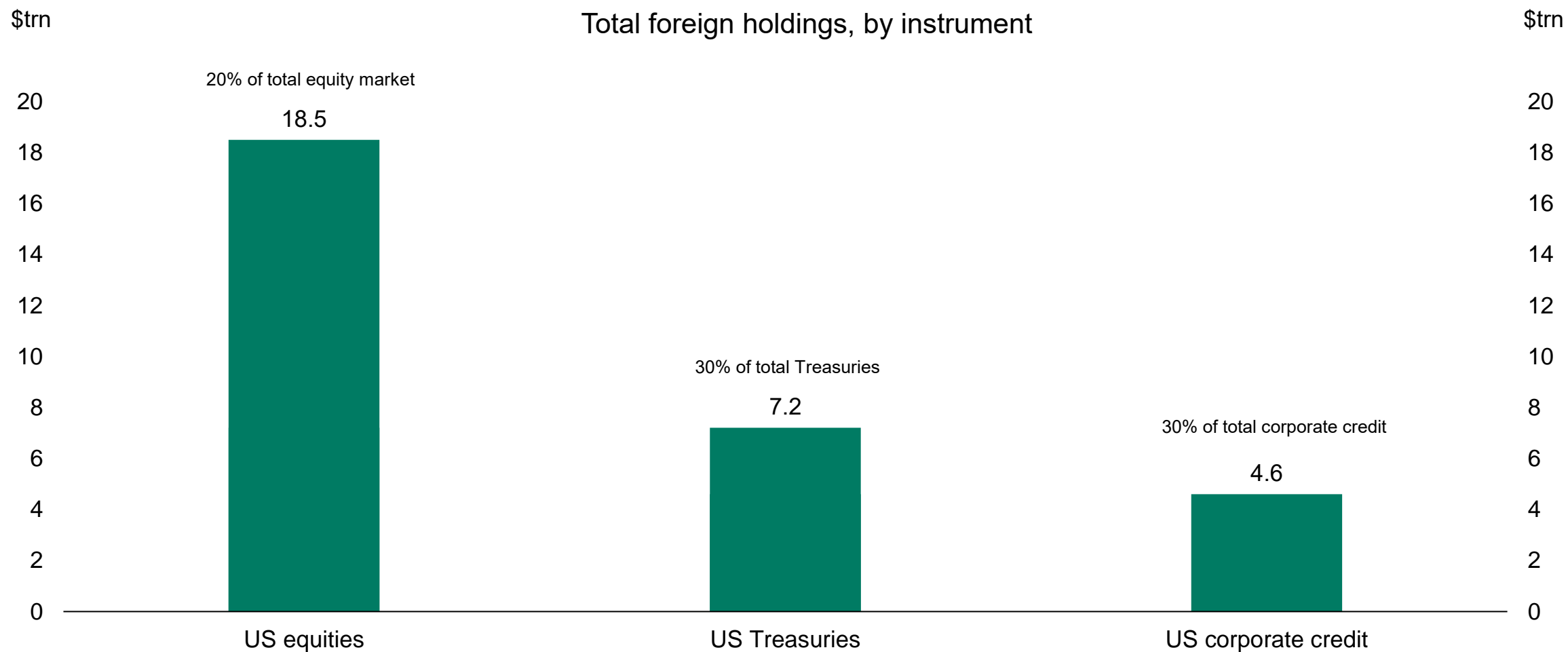
When policy uncertainty went up, IPO activity went down



When policy uncertainty went up, M&A activity went down



Total foreign holdings of US equities, Treasuries, and US credit



Conclusion: The outlook for corporate finance

1. Structural change: Banks play a smaller role
2. Cyclical changes: Tariffs and stagflation
3. Risks to the outlook: The fiscal situation and the Mar-A-Lago Accord.



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Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.