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Macro Markets Podcast Episode 89: Beyond the Private Credit Headlines: Finding Opportunity in a Noisy Market

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Jay Diamond: Welcome back to macro markets. While much of the market's attention in 2026 has been on geopolitics, oil, and the impact of AI on the economy, private credit has also been in the headlines—not surprising for a sector that has experienced significant growth in recent years.

To help us understand what's going on in the market and what's at play here, we're joined by Joe Mckirdy, who heads the private debt group at Guggenheim Investments, and Rusty Parks, a portfolio manager on the team. They are also the authors of our white paper on private debt, which you can find on our website or in the podcast show notes. I'm Jay Diamond, Head of Thought Leadership for Guggenheim Investments and I'll be hosting today. So with that, welcome back Joe and Rusty, and thanks for taking the time to chat with us today.

Joe McCurdy: Thanks, Jay.

Rusty Parks: Thanks, Jay. All right.

Jay Diamond: Now let's start with some brief basics for our newer listeners who might not be as familiar with this sector to help level set as we dive into our discussion. So, Joe, if you could give us a quick explainer on private debt, how it differs from public debt, and who are the major market participants.

Joe McCurdy: The private credit markets, greater than $3 trillion market. It is alternative for borrowers that historically had to go through banks, whether those are commercial banks or investment banks, to raise capital for either investments they wanted to make, LBOs in the case of private equity firms or other capital needs for growth. Private credit investors like ourselves have stepped in over the last 20 plus years to provide an outlet away from the banks that allows borrowers to deal directly with the capital.

And for us, that market is defined in the range of about 20 million of EBITDA to over 100 million of EBITDA. So these are sizable companies. These aren't mom and pop. These are professional management teams, real businesses, real teams, and looking for capital to grow their business. The capital that we're deploying is on behalf of client capital. For us, that's mainly institutions, whether that's insurance accounts, pension funds, high net worth individuals. There's also a retail channel that's been opening up in the market. I'm sure we'll get to based on some of the headlines out there today—not a big presence in the business that we have today.

Jay Diamond: All right. Now, Rusty, what's the typical return profile of private debt and how does it compare to other sectors of the fixed income market?

Rusty Parks: So typically private credit's a floating rate product right now kind of the market yields between SOFR, which stands for the secured overnight funding rate, which is about 3.75 percent, plus a risk premium or spread, which is right around 5.5 percent. So that gets you all-in between upfront fees and the interest rate to a return on assets of around 10 to 11 percent.

And the returns typically have exceeded the broadly syndicated loan and high yield index by roughly 200 basis points over the past five to seven years. The one big differentiator isn't necessarily a headline rate that these instruments are paying, these loans are paying in private credit. The big difference is in loss ratios, because documentation is really important, because you're afforded more time to do primary diligence, you can negotiate terms on bilateral basis with either the company, the private equity firm, or the owner of the business. You can put in financial covenants or other covenants to protect your downside protection. Or if a company falters, you have ability to ask the company to either right-size the amount of debt by injecting more equity into the company. Or you can reprice the risk.

Jay Diamond: And it just follow-up for you, Rusty. What business characteristics are you looking for when you're evaluating a borrower?

Rusty Parks: As far as what we look for in investments, it really comes down to pricing power. We're looking for a company that's got pricing power for its goods and services. Usually what that equates to is it means that there's a good industry structure, a good market structure, high barriers to entry, limited competition, or there's significant product or service differentiation.

So pricing power is pretty much the number one thing that we look for when we're making investments.

Jay Diamond: Thanks for all this background guys. Now Joe there have been a lot of headlines about private debt recently. And not all of them have been positive. But what's the mood of the market right now to you?

Joe McCurdy: Yeah. Well, it's funny, the headlines I think paint a different picture than maybe what we're seeing in the market. Having done this for over 20 years, I probably went, I don't know, 18 years with no one knowing what I did for a living and a few years of people calling it the Golden age, and then a few more years of people saying, oh man, is that a bad thing?

And really, they sell a lot of newspapers, some of it's real, some of it's not. Well, I hit a couple of them. AI, that's a real thing, right? We're all experiencing that in our lives. And everyone's trying to figure out how will that impact businesses. How will that impact obviously tech businesses, but more than that, right, services, anything white collar seems like it's potentially at risk.

And so there's a bit of a re-underwriting going on both on the private credit and the equities you see in public equities as well. And we're certainly spending time on that. And the other big headline of late has been retail. There's been a kind of an unwind of all the money that flowed into retail. Folks are realizing that liquidity isn't quite what they thought it was.

And there's some of our peers struggling are dealing with that. How do they come up with liquidity? How do they meet what their investors want? We've seen this story before. You put an illiquid product in a liquid wrapper. It's going to lead to some issues when people want to get out of it.

We don't have those troubles. We don't have retail funds of that nature. We've been very thoughtful on how we raise capital when we raise capital. And it just makes sense that you shouldn't put illiquid products in a liquid wrapper. So, for us, yeah, that's great. Right. Because it's distracting some of our peers. It opens up market opportunity for us that people are focused on. Some of our peers are focused on different issues rather than just underwriting credit and finding good investments.

And then the last piece is just deal flow, right? There's a lot publicized about the lack of M&A volume, which certainly we see. But when you think about us and our approach to the market, we aren't a volume shop. And what I mean by that is we're not looking to do hundreds of deals a year. We haven't raised capital at the pace of a lot of our peers, and that's been purposeful.

We want to continually find that relval, that relative value opportunity that Rusty touched on, on why you should give up liquidity and do private credit. And when you do that, you tend to be a little more selective and do maybe a few less deals in a given year that you think have better quality. We're at this very unique period of the market that I don't think I've seen before, and it's lasted for a few years now, where the banks distributing risk to various investors has been functioning.

By and large, it's pretty healthy. There's new CLOs getting done, deals are happening. At the same time, you have private equity pace of selling their companies, buying new companies slowed dramatically. Right. So typically one of the two is happening where either BSL is not functioning, and that's a great opportunity for private credit. Or M&A is spiking, and that's a great opportunity for private credit.

Right now you don't have either, which means you really have to do work on the origination front to find high quality transactions that you want to deploy into. But it also means, as I look out over the next few years, we see a huge opportunity, right? There's still a ton of private equity firms that need to sell businesses that are in their portfolios.

There's still a ton of dry powder, and there's still plenty of companies that are not private equity owned that want to grow, that need capital for various initiatives. So for us, while it always feels tough in the moment and you look out, you see huge opportunity and a lot of potential for what's coming to our market.

Jay Diamond: Joe, I want to stick with you because I mentioned headlines and you were quoted in a recent story in the Wall Street Journal that carried this headline. The anything goes era in private credit lending is coming to an end. What does that mean? And are you surprised to see stories like this in this environment you just described?

Joe McCurdy: Yeah, I think what you're having is a moment of the market learning about the products, maybe after they've put the money into the product, which is, maybe unfortunate for some of those investors. But actually, I think those investors are by and large in fine shape. And I think the illiquidity actually might help them because I don't think they should all be running for the hills.

And if the price traded off, I just think it wouldn't be the right time to sell. If you look at the recovery rates, the performance of companies by and large is still strong, right? The economy's still healthy. So I think those investors will do just fine. But I do think there's a bit of an awakening or eyes opening of geez, wait, what is this?

And is this something bad? Because all of a sudden private credit suddenly became a bad word in the headlines in the newspapers. And then I get that that sells ads and that sells newspapers. But that's not really what's happening out there. We still feel very good about the performance of the asset class, especially when you start comparing it to some of its pure asset classes.

Jay Diamond: But it does sound like this anything goes approach does apply to certain participants, but perhaps not your team. Would that be right?

Joe McCurdy. We've done it the same way for the last 20 plus years. Slow, methodical growth, raising capital when we see good opportunity, deploying that capital thoughtfully. We've had great alignment with our investors. Guggenheim and its affiliates have always been the largest investor in any fund that we've ever raised. And that's how the wealth creation should happen.

Getting return on capital rather than kind of growing at all costs and chasing management fees, that's never the way the firm has behaved, and certainly not as it relates to private credit.

Jay Diamond: Now, Rusty. Joe mentioned before AI is having an influence on the market. Let's talk specifically about that. What are some of those concerns and are they appropriate or are they overblown?

Rusty Parks: I think they are appropriate for a couple reasons. One, as a fixed income investor, our upside is capped. Right. And so anytime that there's idiosyncratic issue or secular change within a sector, we have to be worried. We take a very, very thoughtful approach in how we evaluate that. And if you look at the deployment of private credit over the last ten years, when you look across some of the public vehicles, some of their exposure to software or tech adjacent range anywhere from 5 to 10 percent as high as 40 percent.

And a lot of those transactions that were done, particularly in the 2019, 21 and 22 timeframe, were done at peak market conditions for a borrower. And so when you look at that, you have a this confluence of events where you have highly levered software businesses in 2019, 21 and 22 with M&A. And then now you have this new threat of AI.

We think for credit, at least for right now, credit will largely not be impacted. These deals were done at 40 to 50 percent loan-to-value, i.e. the private equity firms or the owners of those business have to lose 50 percent of the company value before private credit’s hurt. Our loans are typically five to seven years long, and we need to understand the risk and the main question right now—and it's early innings—is how will the terminal value or how will the valuation of these companies be impacted when the private equity owners of those businesses look to exit or sell those businesses?

So, it's something we're very focused on. We've been focused on it for well over a year now. And for the folks that are overexposed to certain sectors within software, it's going to be painful. Most of the software investing that we've done is either in vertical software or software to government agencies, areas of slow-moving change with high switching costs. And a lot of the peak kind of market transactions in tech from M&A standpoint were done in horizontal software, which we did not participate in.

And unfortunately, a lot of our peers played in those deals.

Jay Diamond: And how have you seen that concern about AI risk manifest itself in the private debt market?

Rusty Parks: Like anything, there's going to be an overreaction and there'll be slower kind of pace of volume of M&A within tech. When that happens, we get excited because we think that there will be good deals that you can find—you have to work harder—that are insulated from AI. It could be vertical AI software that's hardware enabled.

It could be something that touches every facet of a company, and a company uses it as a central nervous system. It won't change it out, but it will impact valuations on the equity side, which is again, fine for us because it typically will result in a lower loan-to-value and allow us to command a higher pricing premium.

So, we're being very selective, but we're working hard to find those assets while everybody else is navel gazing about what's in their portfolio.

Jay Diamond: Great. Now, Joe, going back to something you also mentioned earlier is about the growth of private debt as an option for individual investors, which we really hadn't seen before. So what accounts for this interest in private debt by retail investors, and how has that rise in retail played a role in the market?

Joe McCurdy: The interest in the product makes a lot of sense. It's cash paying, high yielding, floating rate products. Obviously with where rates have gone, Rusty talked about the returns. I mean we're talking about 10 percent-plus returns for the first, 40 percent LTV of a of a company, right. So, I don't know what you're hoping to get out of your equity portfolio.

I imagine you'd be thrilled with 15 percent. If I told you you get 10 percent but take half the risk or even less, I think that's a pretty interesting addition to any portfolio, so it makes a whole lot of sense. I don't think the RIAs and other folks recommending this, their products are wrong in the least. It's probably a more of a lack of understanding that those investors had, and the flood of money that came into the market probably add to some of the exuberance or some of our peers, because one problem in some of these structures is they have to stay invested, or else there's bad cash drag.

And so when you have to stay invested, you have to do deals. And as I mentioned, the deal flow hasn't been robust. That creates a tough supply demand dynamic for some of our peers. And we've seen that right. We've seen spreads come in at various times. We've seen documentation weaken on certain deals. And for us, it's about realizing when we need to pass on those transactions.

Even if we like the company, we might not like the return or like the documentation, and go move on and find something that maybe is a little less sought after for one reason or another. Typically, it means working a little harder on the origination front, not just calling private equity firms.

Jay Diamond: And how does that manifested in terms of redemptions? And that's spilled over into the market?

Joe McCurdy: I think the redemptions we've spent a lot of time looking at this just to try to judge the impact they'll have to the market and where we might see, where and when we might see opportunity. If you look at the Blackstone's REIT product that had this issue happen a few years ago, I mean, it took over six quarters, maybe eight.

And you look today and it looks similar, right? Because it's, people are, you can't get out of, the 5 percent gates go up. That makes more people want to the line up for the gates because they think something bad's happening. I think what ultimately will happen is, as they continue to see returns come in pretty steadily, as they always have, some of that will abate, but it will take some time.

And in the meantime, that feels like good opportunity for us.

Jay Diamond: Now, Rusty, this dynamic, has it resulted in any change in pricing or liquidity or supply in the wake of these outflows.

Rusty Parks: The start of the year, the asset aggregators, the folks that really raised a lot of retail capital, they've certainly pulled back. They don't have the cash drag issues because of their redemptions. And so they're having to use that cash to meet redemptions. And as a result, that's allowed us to craft some better packages, risk return from a documentation standpoint and a pricing standpoint.

On the supply side, AI kind of headlines and some of the geopolitical headlines, and really a probably muted kind of M&A volumes, when those stabilize that, I think it'll be a really good time to invest as well.

Jay Diamond: And do you think that the yields and returns you're getting in private credit now are compensating you for the illiquidity?

Rusty Parks: Our view at Guggenheim is we are, short liquidity like our view is quantity is only there when you don't need it. If you have something that's great and people want to pay for it, they'll pay for it. So what we underwrite and we document the transactions that we're in, we assume you can't get out. We assume that there's not going to be a buyer, and so is a private credit investor over the life of a five- to seven-year loan, we always plan for a recession. We always plan for a hiccup, and the way we structure our deals and our documents, and we assume that we're not going to be able to sell the asset and we structure it accordingly.

Jay Diamond: Great. Now, Joe, let’s turn to the current market, if you will. So, I know you guys are in the market having just raised a fund, given the elevated market volatility that we've just been going through and some of the macro uncertainties that are out there, how are you approaching credit selection right now?

Joe McCurdy: The good and the bad about being a credit person is it doesn't change a whole lot, at least not in our view, if you're doing it the right way. Which anyone who has listened to this podcast across any asset class at Guggenheim, I think will be used to hearing this refrain that it's research, research, research, right? Our deep fundamental research drives everything we do.

We are not, what I'd say many of my peers are origination driven organizations, right? They want to get as many deals done as they can. And the originator kind of rules the roost. At Guggenheim, it's research, it's underwriting. And we have a huge investment in resources and people and technology to help us do that.

We sit in industry verticals so our research channels can become experts in those industries. We've got teams in the US and in Europe able to dive deep into a given industry and share across everything we see in liquid and illiquid corporate credit portfolios. And so that's what's made us who we are, which is going deal by deal, going unit by unit, KPI by KPI to come up with investment thesis and make investment decisions.

And then once you get there on a business and a structure, then it's the documentation. And we know we're doing our job right because we're still losing deals over documentation. We don't lose them all, obviously, but we're trying to create those situations where we have a chance to structure what we think is appropriate for the risk.

That we have to leave the company room to operate. We totally get that, and we'll work with the borrowers to make sure that's the case. But we also want to keep some sanity in. if we're lending to something today, we want it to look similar tomorrow, and we want to protect ourselves on the downside. As Rusty mentioned, there is no liquidity, but you do want a chance to raise your hand and talk to the borrower if things aren't going to plan.

And that's where the documentation comes in. And in our experience, the sooner you get to the table to have that conversation, the better the outcomes are on the recoveries.

Jay Diamond: Do you look at the market in terms of a credit cycle, and if so, where are we in the credit cycle?

Joe McCurdy: I'd say we continue to be surprised with how resilient the economy has been and the consumer has been. You've seen a lot thrown at the consumer, from inflation and interest rates and all of these things that you would have thought or we would have thought would have damaged the economy along the way. And it's been extremely resilient. So, the thing about what Rusty and I have to do every day is assume we're headed into a recession tomorrow.

Right? So we every investment we do, every case we run, it's always to the downside. We get no upside out of these transactions. Right? There's no equity ups for us in almost all of these transactions. We can get our coupon and get our par back. So, all we care about is what happens if things go terribly. So we try to spend a little less time focused on macro themes around when and where to jump in and out, because that's not how this market works.

It's more of, can you survive in a terrible situation for this business and what might bring that about? And we'll go and stress that again and again and again to try to find the companies that best fit our portfolios.

Jay Diamond: Rusty, where are you finding the best opportunities right now.

Rusty Parks: Which Joe mentioned, we have a full team in Dublin. We have a full team here in the US. So, when we're looking at opportunities, we have the ability to go back and forth between geographies to find the best packages of risk-return for our investors. So, for example, if the European market is more favorable from a relative value or fundamental structuring standpoint, we have the ability to do more European deals. And we've been doing quite a bit in Europe. It's a very exciting market

In the US, the market's a little bit more formed, I'd say, with the broadly syndicated loan market. But when there's a hiccup in the broadly syndicated loan market, we get access to larger companies that need to transact. And we've been pretty good deployers of capital when that happens. We also have the ability to work with founder-owned companies or non-sponsored companies are broadly syndicated portfolios for opportunities.

Companies that we've been following for ten years that may need access to capital, or we can proactively go pitch them solutions saying, here's how we can address maturity profile, here's how we can help you finance acquisitions. That flexibility across our platform over the last 20 years has resulted in better packages of risk-return, in our view, than what our peers have been able to create.

Jay Diamond: Joe, what makes Europe so attractive right now relative to other geographies?

Joe McCurdy: Yeah, Europe is exciting. We're relative value focused, and we're finding great relative value over there. What's happening in Europe that is getting us excited both for what we're seeing right now and for the coming years, is what you saw happen in the US, probably ten, 15, almost 20 years ago, where the banks have been pulling back. So, the banks are less active.

You've had a much more active local bank dynamic over there that's easing, which creates more opportunity for folks like us. You've got sponsor adoption, sponsors being more willing to use private credit. It's something they understand better today than maybe they did five, ten years ago. And then you have legal regimes that are maturing. And so, when we first were investing in Europe, we started to compare legal regimes and obviously we hold them all up against the US.

And historically it's been a market where, just to summarize, we could invest around the beer drinking countries and not so much the wine drinking countries. And you're in a place right now where some of those wine drinking countries are starting to figure out their bankruptcy regimes, and we start to feel comfortable on it'll be a fair fight through a process like that. That opens up a lot of the economy you can go after as potential financing and all that adds up to the great rel val that we're seeing today, but also what we think will be a huge growth opportunity in the coming years.

Jay Diamond: And what kind of risks are you most focused on right now?

Joe McCurdy: I hit it a few times, so that's the life of a credit guy. It's you have to worry about the same things every day, but the economy is always a risk, right? Recession just again, we think it's around the corner at all times. Our macro people would probably say something different and that's great. If that's the case, then even better for our portfolios and then legal documentation.

You start thinking about the places where we try to limit risk. It's around debt and currents and leakage and what they can do with our collateral. If you do a loan today and you're four turns, you have four turns of leverage. If you allow a one times free and clear meaning one times EBITDA, there's other baskets they can use.

There's other ways to incur debt. All of a sudden you might say, well, in a worst-case scenario they could actually be, we'll say performance is flat six times, seven times levered. Well, that's a much different risk proposition. And in most of these deals you're not getting paid extra for that. You really need to be wise about how you structure your document to make sure you're getting the downside protection that you think you are.

Jay Diamond: You guys have been very generous with your time. Rusty, one last question for you. And maybe we've covered some of these today, but what kinds of questions are you getting right now from clients? Essentially the investors in our private debt vehicles.

Rusty Parks: I think certainly they're asking about artificial intelligence. They're asking how is inflation going to ripple through, how a $100 oil, if that happens, it's going to ripple through the portfolio? How are you managing the portfolio for existential geopolitical risks? And so, look we've been doing that for, as Joe mentioned, for over 20 years, we've invested in a lot of different types of economies with a lot of different issues.

While investors do ask about how things were aware of is going to impact us, well, we're focused on if you look at like the last six years and you look like, well we've all gone through, we're really focused on, okay, how are we making sure we're protected against what we don't know? And to Joe's point, just to reiterate, because it is a really important differentiator, is just documentation and risk shifting.

While we are a good partner to the folks that we lend money to, we do not allow them to borrow indiscriminately to shift risk to us as a lender. And that documentation, we think the views that we have on documentation will differentiate us from our peers.

Jay Diamond: Great, Joe, any final takeaways you want to leave with our listeners before we wound up.

Joe McCurdy: All the headlines create a bunch of noise out in the market. But really what we're seeing on the ground is pretty good deals, not the best but pretty good. And the deal quality is is actually quite solid because in a market where M&A is subdued, it's really only the good companies that can get traction on a sale.

So we're satisfied with the deal opportunities in front of us. And then we feel pretty well hedged on the upside to come. And what I mean by that is one of two things is likely to happen. M&A volume picks up and that's great. That's a lot more deals out there. That's more opportunity for us than everyone else. And we'll pick our spots. We won't buy them all by any means, that's not our style. But we will have more to choose from, which excites us. Or it'll go the market will go the other way and you'll see volatility. And we love volatility. Volatility is great for our market. It's where you'll see us lean in and do a whole lot of deals.

And we pounce on deals that flood into our market. So we feel like in either direction there's upside to come out of a market that's stable and solid today with an economy that continues to perform, leaves us pretty excited about what's to come.

Jay Diamond: Thanks again for your time, Joe and Rusty. I really appreciate it. Please come again and visit with us soon. And we invite our listeners who would like to learn more about private credit, of course, to read our white paper, “Investing in Private Debt.” It's available on our website and in our show notes.

And thanks to all of you who've joined us for our podcast. If you like what you are hearing, please rate as five stars; it helps people find us. And if you have any questions for Joe or Rusty or any of our other guests, please send them to Macro Markets at Guggenheim investments.com, and we'll do our best to answer them on a future episode or offline. I'm Jay Diamond and we look forward to gathering again for the next episode of Macro Markets with Guggenheim Investments.

In the meantime, for more of our thought leadership, visit Guggenheim investments.com/perspectives. So long.

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