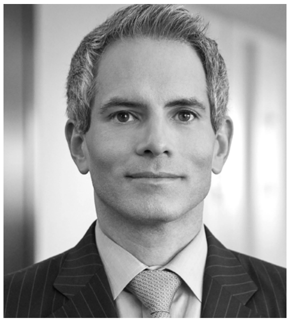
Blackstone

PRIVATE WEALTH SOLUTIONS | ALTERNATIVE PERSPECTIVES

Private Credit Investing in Rising Rate Environments

The increase in prices is pervasive and persistent across a range of sectors of the global economy — and investors now face upward pressure on interest rates. Private credit, which generally consists of floating rate loans, may be resilient in a rising rate environment.

Several upward pressures on interest rates



Joseph Zidle
Chief Investment Strategist,
Private Wealth Solutions

- Persistent supply-chain issues, pent-up consumer demand, and price swings related to the war in Ukraine have each injected inflationary pressure into the global economy already experiencing pandemic-era inflation
- Globally, most central banks appear committed to a hawkish posture in an effort to contain these trends, even as they acknowledge the risks of slowing growth
- The 60/40 portfolio of equities and bonds turned in one of its worst starts to a year ever in 2022 — reflecting uncertainty associated with the war in Ukraine, commodity price shocks, more hawkish central banks around the world, and pressure on traditional fixed income that is unlikely to abate

At this point, it may make sense to take a fresh look at assets with resilience in the face of rising rates and inflation, such as those with variable cash flows and/or floating-rate coupons

FIGURE 1: Inflation-Adjusted Returns for Aggregate Bonds
(2021-Q2 2022)[1]

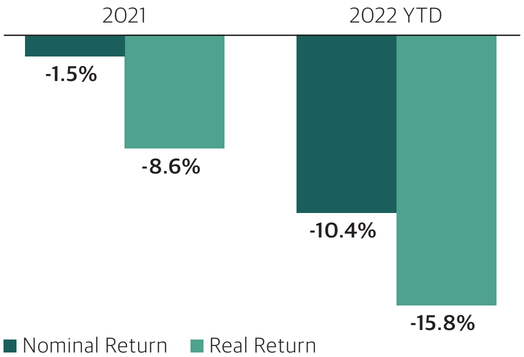
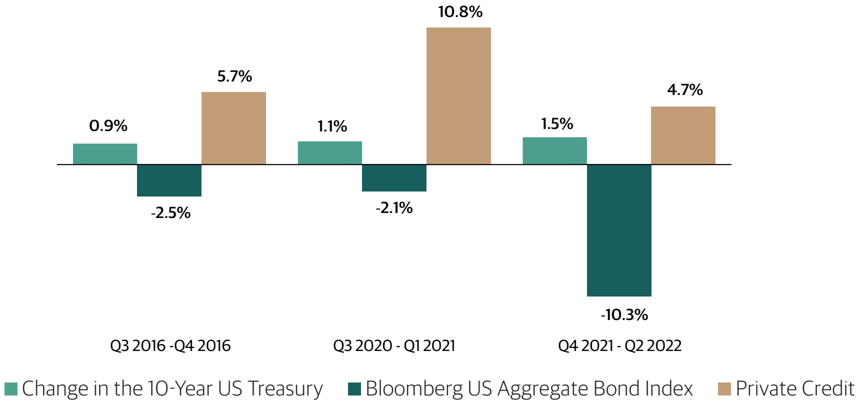


FIGURE 2: Returns When 10-Year US Treasury Increases by 0.75%+
(2016-2022 YTD)[2]



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1. Source: Morningstar, as of 6/30/2022. Federal Reserve, as of 6/30/2022. Morningstar calculates nominal return using trailing yearly/quarterly returns Real Return is calculated by subtracting inflation from the Nominal Return. Inflation is represented by the US Bureau Labor of Statistics CPI All Urban Seasonally Adjusted Base Period 1982-1984 Index. Aggregate Bonds is represented by the Bloomberg US Aggregate Bond Index.
2. Source: Morningstar, as of 6/30/2022. Federal Reserve, as of 6/30/2022. Includes periods of rising rates over the past 5 years, beginning in 2016. Private Credit is represented by the Cliffwater Direct Lending Index.

What makes private credit an attractive consideration for investors in an inflationary and rising rate environment?

Dwight Scott
Senior Managing Director
and Global Head
of Blackstone Credit

Floating Rate Loans may Benefit from Rising Rates

- In a cycle of rising interest rates characterized by persistent inflation, fixed income investors may struggle to earn satisfactory yield on their long-duration investments
- In a rising rate environment, we believe floating rate loans such as those in private credit are highly attractive, as income can increase with rising interest rates

Privately Negotiated Terms and Structure

- Private transactions are negotiated directly between the lender and the sponsor/borrower, with an extensive focus on due diligence and downside protection
- Private lenders aim to negotiate stronger structural protections, including covenants and higher call premiums
- Private credit deal flow remains robust as borrowers seek certainty of terms, flexibility in structuring, and a more efficient process than the public market

Less Volatility, Duration, and Correlation

- Private assets are valued based on the fundamentals of the underlying companies and are not subject to mark-to-market volatility
- Floating rate loans are often benchmarked to 3-month reference rates and they are among the lowest-duration investments available to investors today
- Less volatility and lower correlation are expected in private assets because these investments are not traded in public markets

Scale and Sector Focus Matter

- Blackstone's scale and size allow the firm to commit to large-scale transactions in changing market environments
- Blackstone seeks to offer protection from inflation by focusing on sectors the firm believes exhibit high growth trends and strong cash flow profiles, such as software and healthcare

Note: Products are subject to the risk of capital loss and investors may not get back the amount originally invested.

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Russian Invasion of Ukraine. On February 24, 2022, Russian troops began a full-scale invasion of Ukraine and, as of the date of this Material, the countries remain in active armed conflict. Around the same time, the United States, the United Kingdom, the European Union, and several other nations announced a broad array of new or expanded sanctions, export controls, and other measures against Russia, Russia-backed separatist regions in Ukraine, and certain banks, companies, government officials, and other individuals in Russia and Belarus as well as a number of Russian individuals. The ongoing conflict and the rapidly evolving measures in response could be expected to have a negative impact on the economy and business activity globally (including in the countries in which the Fund invests), and therefore could adversely affect the performance of the Fund's investments. The severity and duration of the conflict and its impact on global economic and market conditions are impossible to predict, and as a result could present material uncertainty and risk with respect to the Fund and the performance of its investments and operations, and the ability of the Fund to achieve its investment objectives. Similar risks will exist to the extent that any portfolio entities, service providers, vendors or certain other parties have material operations or assets in Russia, Ukraine, Belarus, or the immediate surrounding areas.