

Why Private Credit Still Shines in a Falling Rate Environment

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- The Fed cut interest rates again last week, leaving investors wondering if they need to adjust their asset allocations.
- Even in declining rate environments, PennantPark's approach to first lien loans in the core middle market has delivered attractive income (see chart on page 3).
- In contrast to private credit investments in large-cap companies through upper middle market broadly syndicated loans, our focus on the core middle market has allowed PennantPark to offer tighter protections and more favorable terms for investors.

The Federal Reserve cut interest rates again last week, a move that has many investors reevaluating their fixed income allocations. While private credit is often celebrated as a winning strategy in rising rate environments, it's also uniquely positioned to perform well when rates begin to decline.

At PennantPark, we believe private credit remains an all-weather asset class, and our core middle market strategy has historically offered compelling advantages regardless of the rate cycle (see chart on page 3).

Floating-Rate Advantage: Built for Uncertain Rate Environments

It's true—floating-rate loans shine when interest rates are rising. Nearly all of PennantPark's portfolio is made up of first lien loans with floating interest rates. That means as the Fed raised rates over the past two years, the floating rate allowed returns on these loans to adjust upward. This is not the case with traditional fixed income instruments, where the returns remain static.

But What Happens When Rates Fall?

Here's where the real differentiation begins. While income from floating-rate loans may gradually decline in a falling rate environment, PennantPark's focus on the **core middle**

market seeks to help preserve investor value through wider spreads, lower leverage, and stronger protections.

Unlike large-cap or upper middle market syndicated loans, where intense competition compresses spreads and erodes credit quality, the core middle market remains less crowded. These conditions may create the potential to negotiate better terms—higher yields, tighter covenants, and more control in structuring deals. These structural features have historically helped mitigate volatility when base rates decline.

Safety First

At PennantPark, our investment philosophy centers on capital preservation and downside protection. We have partnered with stable, profitable businesses that generate consistent cash flows, in essential industries like healthcare, software, business services, and government contracting. These companies don't rely on economic cycles to succeed. They are resilient through uncertainty, and our underwriting ensures protective covenants and substantial sponsor equity.

Why Core Middle Market Private Credit Still Makes Sense

Private credit has outperformed fixed income even in a near zero base rate environment. Over the last 10 years, the Cliffwater Direct Lending Index (CDLI) has outperformed fixed income indices such as the Bloomberg AGG by 360 bps and the S&P/LSTA Leveraged Loan Index by 250 bps with the majority of this period occurring in a near-zero rate environment.

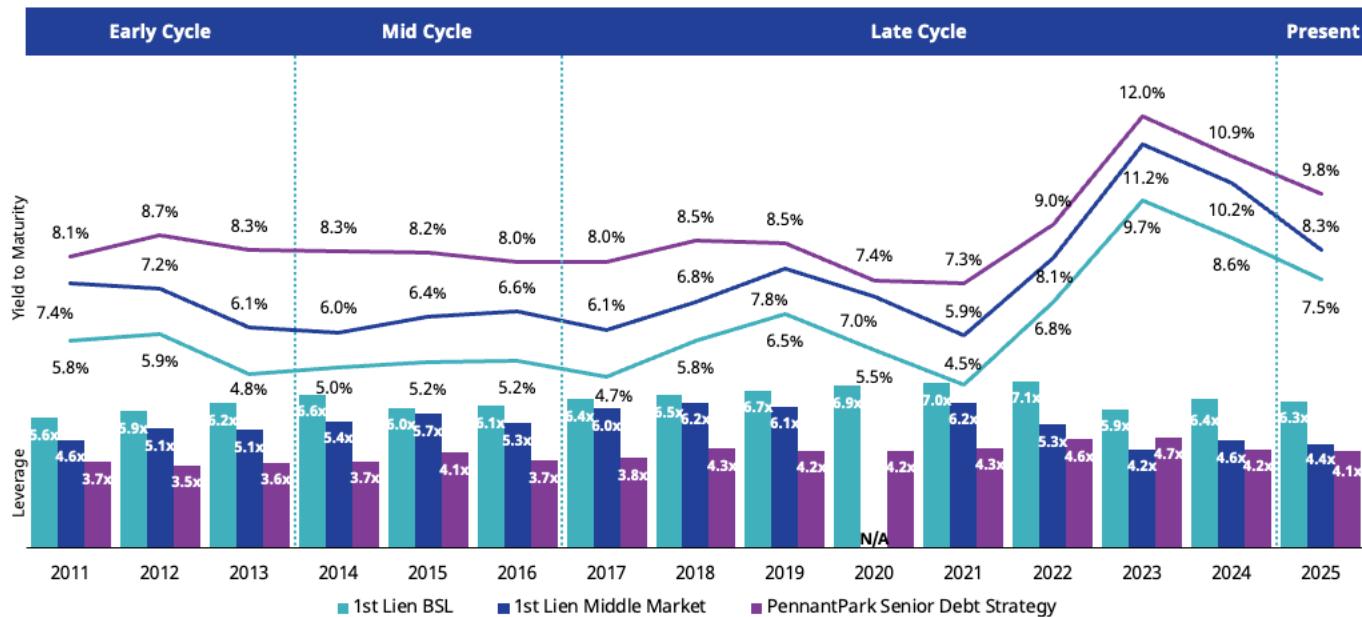
Beyond the broad outperformance of private credit as an asset class in declining rate environments, the PennantPark strategy has offered:

- **Attractive yield premiums** compared to broadly syndicated loans and upper middle market deals
- **Strong downside protection** from first lien positions and tighter covenants
- **Lower leverage** and tighter credit structures
- **Transparency and access** through our private credit platform designed for sophisticated investors

And importantly, PennantPark's track record spans multiple rate cycles (including the Global Financial Crisis and the COVID-19 downturn) proving that our strategy has delivered durable income across multiple rate cycles.

Why PennantPark? Higher Yields with Lower Leverage

- PennantPark Senior Debt strategy has delivered an average **133 bps yield premium over the middle market** and **263 bps over broadly syndicated loans** with **22-36% lower leverage (risk)**, respectively



Note: Past performance is not necessarily indicative of future results. Invested capital is at risk. Asset-level yield to maturities do not represent a return to investors. The data only reflects the asset-level relative attributes of the market segments shown.

Source: LSEG. As of 3/31/2025. Middle Market is defined as Issuers with revenues of \$500M and below, and total loan package of less or equal to \$500M. Broadly Syndicated Loans are defined as syndicated or direct/clubbed deals that have either revenues or total loan package of \$500M or greater. Broadly Syndicated Loans are denoted as "BSL". Market data averages only include data available from LSEG for the time periods referenced. For 2020, LSEG does not have sufficient observations at this time to provide data for First Lien Middle Market.

A Long-Term, Relationship-Driven Partner

PennantPark isn't chasing trends. We've been investing in the core middle market since 2007, guided by a disciplined approach, an experienced team, and a culture of transparency and integrity. Whether rates rise or fall, we remain focused on delivering value to our investors through thoughtful underwriting, selective origination, and long-term relationships that stand the test of time.

Core middle market private credit continues to play a role in diversified portfolio construction across rate environments.

About PennantPark:

PennantPark was founded in 2007 as an independent middle market credit platform. The firm was founded by Art Penn, a private credit industry veteran that previously co-founded Apollo Investment Management. We have invested over \$26 billion across multiple economic and credit cycles since inception, and we manage \$10 billion in AUM today.ⁱ PennantPark serves a broad range of sophisticated investors with product offerings that include business development companies, private capital funds, joint ventures, and other specialized funds.

Our highly experienced team primarily invests in the core middle market, targeting companies with earnings of \$10 million to \$50 million. These mid-sized companies are often overlooked by banks and large investment managers, resulting in senior secured loans that feature higher yields, lower leverage, and stronger lender protections when compared to the upper middle market and broadly syndicated loans. We focus on five key industry verticals where our track record is excellent and where we have the most expertise and experience. These industries include healthcare, government services, business services, consumer, and software & technology.

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