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Multi-Asset Credit: Your Credit Market GPS

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Static credit exposures are like maps—useful, but not reactive. In many cases, a map does the job for getting from point A to point B. But it can't warn you about an upcoming accident, traffic jam, or road closure.

To navigate uncertainty and volatility, investors need a credit market GPS, which is exactly what multi-asset credit provides. Just as a GPS can reroute around traffic jams and roadblocks, effective multi-asset credit strategies enable investors to pivot across credit sectors—public and private, liquid and illiquid—to navigate shifting macro conditions and capitalize on new opportunities as they arise.

A holistic approach to multi-asset credit also expands the investable credit universe beyond increasingly indexed public market exposures while tapping into deals and structures that are otherwise unavailable to most credit investors. In a world where market conditions can shift overnight, static strategies often fall short. By combining real-time adaptability with differentiated sourcing, multi-asset credit helps investors stay agile and stay ahead.

Why Multi-Asset Credit?

Credit markets encompass a broad and diverse investable universe, spanning over $15 trillion in assets across corporate, real estate, real asset, and consumer exposures (see Exhibit 1).[1] It is a landscape far too dynamic to traverse by only following a fixed path.

Navigating credit markets entails choosing among a complex network of routes, each offering different tradeoffs and destinations. Investors must decide between public and private markets, fixed and floating rate exposure, liquid or illiquid assets, and whether to put more weight on relative or absolute valuations when making investment decisions.

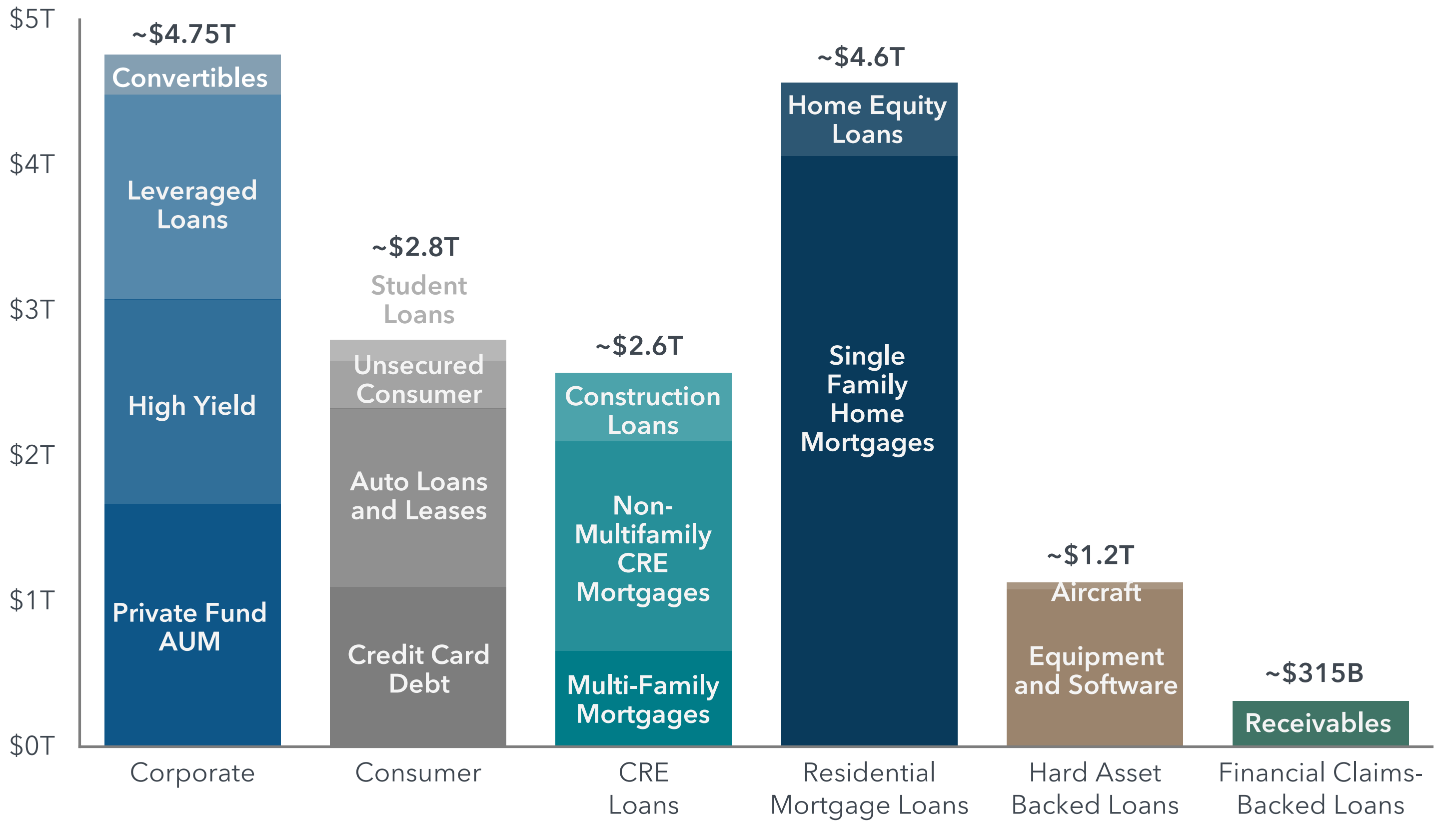
They face choices around their seniority in the capital structure, level of downside protection, callable versus non-callable structures, duration, and the balance between yield and credit quality. Each path presents its own risks and rewards, requiring a flexible, time-tested approach to reach the best outcome and one that fits each investor's unique risk and return objectives.

Just as a GPS relies on both a satellite-level perspective and street-level data, effective credit investing requires combining deep sector insight with a top-down understanding of the macro environment, capital flows, policy shifts and the credit cycle. The vast expanses of the credit market have distinct topographies that demand specialized expertise to assess risk, structure, and value. But this can also be enhanced by an ability to dynamically adjust across credit buckets based on new opportunities or market-wide dislocations.

Across credit markets, investors are able to access a wide range of diversifying risk-reward profiles, each shaped by the structure, sector, and source of the underlying cash flows. From senior secured corporate loans to subordinated real estate debt, from consumer credit to structured credit tranches, each exposure

Exhibit 1: Credit is a Vast and Diverse Investable Universe of Over $15T in Assets

US Corporate and Non-Corporate Credit Markets, $T (excludes US IG corporate credit)[2]



Note: 1. These figures exclude the >$7T in US IG corporate credit. 2. US Leveraged Loans and HY based on ICE BofA indices. Private fund AUM based on private debt funds tracked by Preqin as of Q3 2024, including direct lending, distressed debt, special situations, mezzanine, and fund of funds, convertible bonds based on market cap of VXA0 as of 5/2025. Source: Bloomberg, Preqin, Goldman Sachs Global Investment Research, TPG.

Exhibit 2: Multi-Asset Credit Provides Valuable Diversification Given Low Correlations Across Credit Types

	Corporate		Real Estate Credit		Consumer Credit		
	US IG	*US HY*	*CMBX AAA*	*CMBX BBB*	*Auto Loan*	*Credit Card*	*Student Loan*
US IG		0.95	0.60	0.69	0.74	0.66	0.72
US HY	0.95		0.67	0.83	0.82	0.72	0.79
CMBX AAA	0.60	0.67		0.83	0.60	0.63	0.48
CMBX BBB	0.69	0.83	0.83		0.78	0.71	0.72
Auto Loan	0.74	0.82	0.60	0.78		0.96	0.78
Credit Card	0.66	0.72	0.63	0.71	0.96		0.69
Student Loan	0.72	0.79	0.48	0.72	0.78	0.69	

Note: Correlations are based on asset-level returns between 6/2010 and 6/2025. CMBS based on on-the-run CMBX AAA and CMBX BBB- indices, Auto Loan ABS based on AA-BBB spread, Credit Card ABS based on AA-BBB spread, Student Loan ABS based on AA-BBB spread, and IG and HY based on CDG IG and CDX HY. Past cross-asset correlation relationships don't necessarily guarantee the same relationships will hold in the future.
Source: Bloomberg, Markit, Haver Analytics, ICE-BAML, Goldman Sachs GIR, TPG.

carries its own profile of yield, volatility, liquidity, and downside protection.

Some segments offer steady income with strong collateral, while others provide higher-returning opportunities tied to complexity, illiquidity, or market dislocations. Understanding and unlocking each of these distinct pockets within the credit market is key to building a resilient and opportunity-rich credit portfolio.

Risk exposures in credit markets are also dynamic, and they shift with market regimes, liquidity conditions, and macroeconomic factors. Multi-asset credit strategies can provide valuable diversification given the lower correlations exhibited across the various sub-segments of credit markets (see Exhibit 2), reflecting their specific economic and market sensitivities.

Like two highways experiencing traffic jams at different times, real estate, corporate, and consumer credit cycles often diverge, each driven by their own set of fundamentals, policy exposures, and capital flows. A multi-asset approach recognizes these differences and enables investors to shift their focus as conditions evolve, rather than getting stuck on the most congested route.

Why Multi-Asset Credit Now?

In the current environment, with rates elevated and corporate credit spreads near historic tights, some investors are reassessing their overall approach to investing across credit markets. Public credit bundles two key features: interest rate exposure from their Treasury-like component and equity-like market exposure via credit spreads, which are driven by corporate and other economic fundamentals.

But credit markets also offer unique premiums that cannot be captured through an equivalent combination of equities and Treasuries (see Ben Dor et al. 2021).[3] Even after adjusting for company exposure, leverage, and volatility, corporate credit would have significantly boosted a 60/40 portfolio of Treasuries and equity with equivalent volatility in recent decades.

It's the role of credit in the middle ground between equity volatility and sovereign safety that makes it a valuable diversifier. The fact that base rates make up a greater proportion of all-in yields today, also acts as an embedded hedge given rates and spreads are likely to move in opposite directions if the economy weakens.

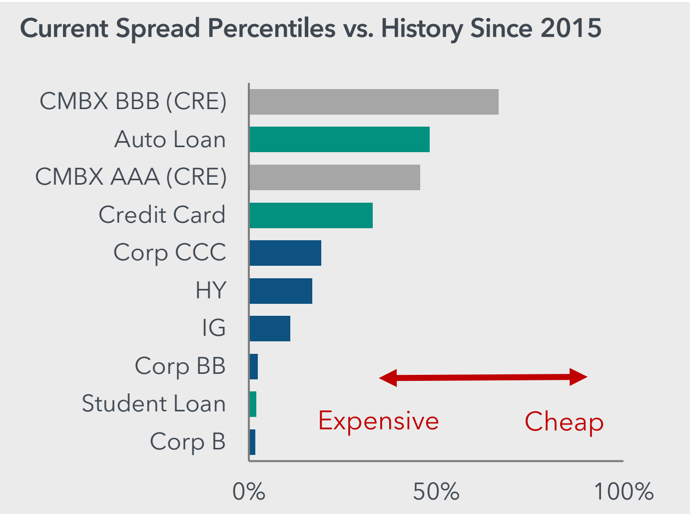
Note: 3 "Systematic Investing in Credit" (2021). Through extensive back-testing against a 60/40 portfolio, the authors find that adding credit exposures increases portfolio Sharpe ratios by harvesting unique risk premia that are not easily replicable in a comparable portfolio of Treasuries and equities.

Forgoing credit altogether means giving up a critical source of income and diversification that has historically supported portfolios across a wide range of macroeconomic regimes. At the same time, multi-asset credit provides a flexible lens for identifying relative value across the credit landscape, especially when the largest pockets of opportunity today exist outside traditional credit indices and benchmarks.

In addition to providing strategic value and diversification, there is a strong tactical case for multi-asset credit right now: high dispersion in spreads across credit markets, ratings buckets, and within sectors presents a strong opportunity set for skilled active credit managers.

Looking at current credit spreads relative to the last ten years (see Exhibit 3), valuations in public corporate credit markets leave little room for error, while parts of commercial real estate credit and asset-based credit stand out as far more attractive on a relative basis.

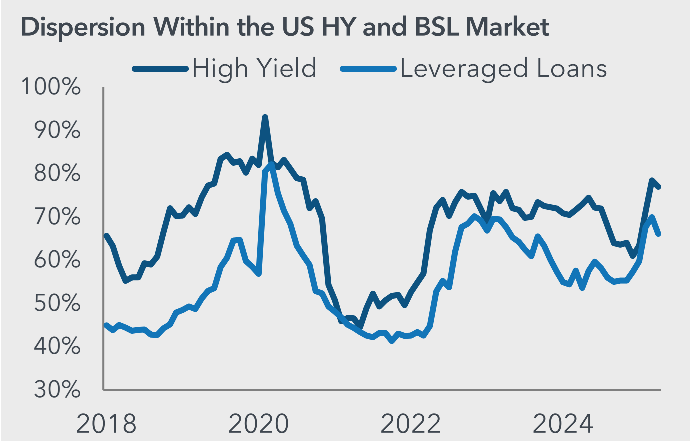
Exhibit 3: Relative Valuations Vary Significantly Across Corporate, CRE, and Asset-Backed Credit Markets



Note: Data as of July 25, 2025. Source: Bloomberg, Goldman Sachs, ICE/BofA, Palmer Square, TPG.

But below the surface of headline credit indices, dispersion within the corporate credit market is at its most elevated level since the Covid pandemic, creating a rich opportunity set across issuers and sectors (see Exhibit 4). This backdrop favors active credit selection and creates opportunities for skilled allocators who are able to generate unique credit solutions for healthy companies that need to retool their capital structure.

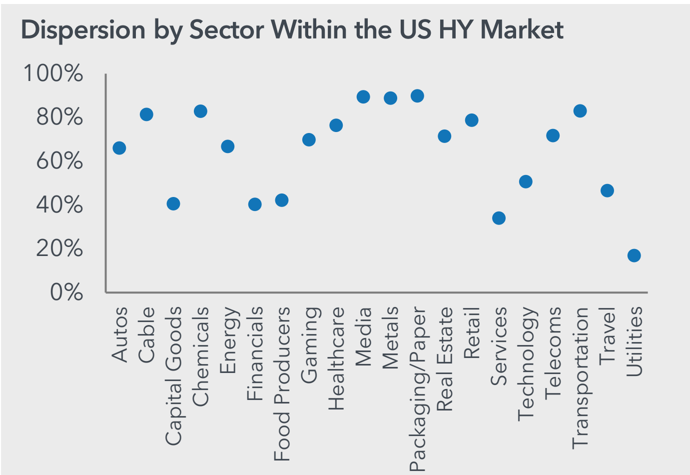
Exhibit 4: Dispersion Within the HY and Leveraged Loan Markets is High Despite Tight Overall Spreads



Note: Dispersion is proportion of face value in the index/subindex marked outside +/-100bps of overall index level. Source: BAML,TPG.

Credit performance and dispersion are also increasingly being driven by sector-specific fundamentals rather than broader market moves (see Exhibit 5). This plays to the strengths of our sector expertise and long-standing focus on industry dynamics and company fundamentals, which enable us to identify corporate credit market opportunities that others might overlook.

Exhibit 5: Dispersion Is More Pronounced in Some Sectors



Note: Dispersion is proportion of face value in the sector subindex marked outside +/-100bps of overall subindex level. Source: BAML,TPG.

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How We Approach Multi-Asset Credit

Our approach to multi-asset credit starts with rigorous fundamental underwriting focused on the specific areas of the credit universe where we believe we can capture differentiated risk-reward. This ensures that every investment we make is grounded in a clear understanding of risk and value and retains protection from downside scenarios.

Each of our fundamental credit businesses—Middle Market Direct Lending, Credit Solutions, Asset-Based Credit, Convertibles, and Performing Credit, among others—act like a specialized layer of our GPS, offering different routes through the market terrain. Depending on the environment, we can take advantage of less-traveled back roads or opt for wide-open expressways, ensuring we stay on the most compelling path.

Once we've mapped the fundamentals, we layer on absolute and relative value considerations. Remaining market-aware allows us to reroute in real time, leaning into relative value opportunities as conditions evolve and avoiding detours that no longer justify the risk.

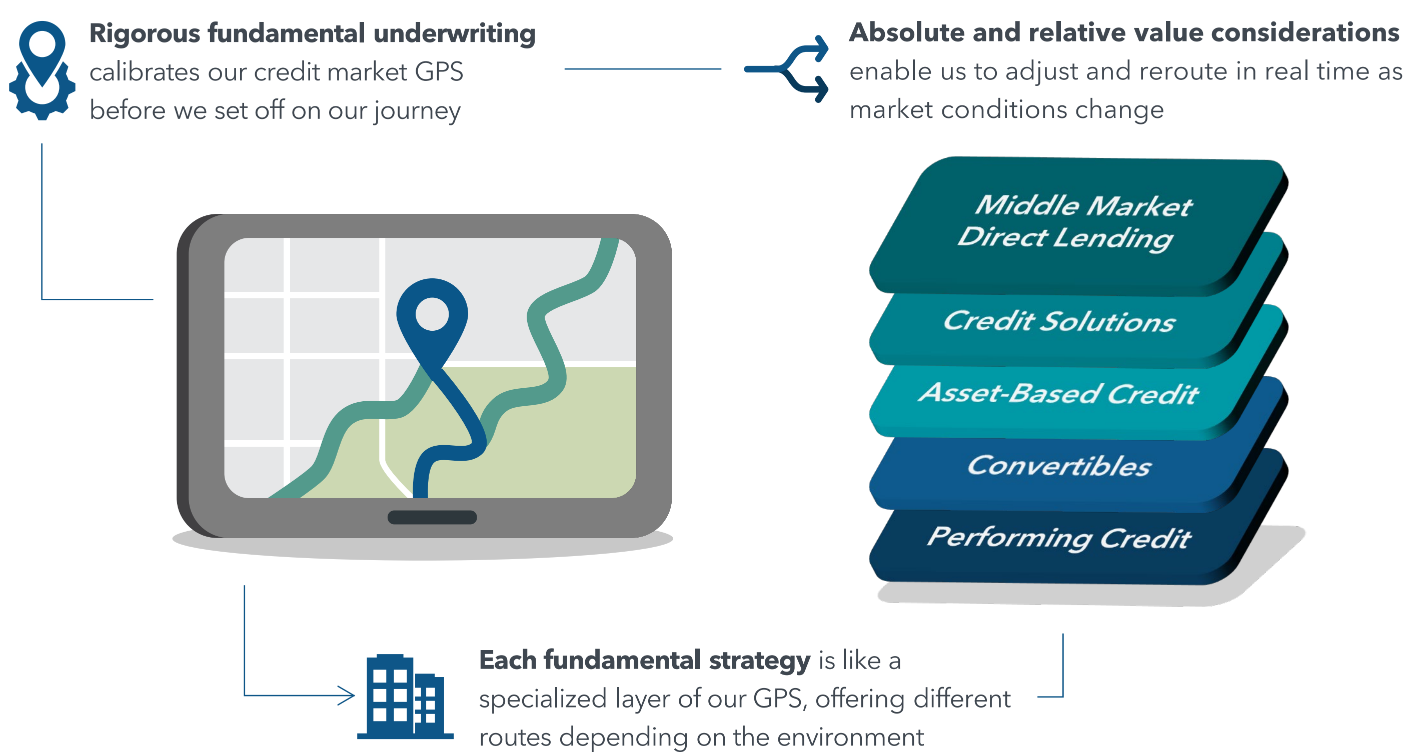
Managing a multi-asset credit strategy is inherently complex, requiring specialized teams for each asset class, a robust infrastructure, and deep experience to navigate diverse market dynamics. We've built and refined our integrated approach over the past 30 years.

Conclusion

In today's environment, static credit strategies can fail to capture the rich opportunities hidden in the ups and downs of the market. With spreads tight, dispersion high, and opportunity unevenly distributed, investors need more than a map to navigate credit markets—they need a GPS. They need a strategy grounded in fundamentals, responsive to changing conditions, and capable of steering capital toward the most compelling risk-adjusted opportunities across sectors and capital structures.

That's the advantage of our approach to multi-asset credit. It combines deep underwriting, cross-sector insight, and tactical flexibility to navigate complexity and uncover value. In a credit landscape where the road ahead is anything but linear, a multi-asset approach is essential.

Exhibit 6: Our Approach to Multi-Asset Credit Provides a GPS to Steer Through Credit Market Complexity and Volatility



Case Study: Adding A New Dimension to Credit Portfolios with Convertible Arbitrage

In multi-asset credit, it's possible to deploy arbitrage strategies to capitalize on relative value dislocations that occur across capital structures, instruments, and issuers. These strategies seek to capture pricing inefficiencies that can arise among related assets from time to time, making them a valuable source of differentiated and diversifying returns.

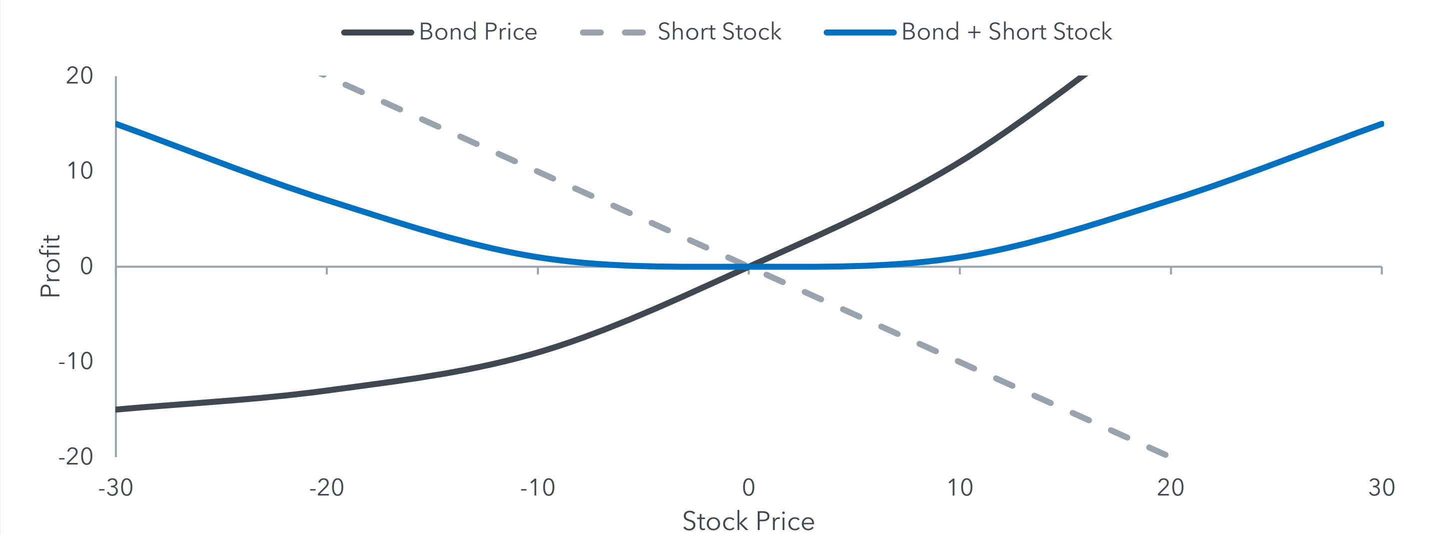
Such arbitrage opportunities are like hidden routes along our journey—they're often context-specific and only visible to those tracking real-time market signals. In the past few years, elevated market volatility and a surge in convertible bond issuance has sparked a growing opportunity in convertible arbitrage strategies, which seek to take advantage of mispricing between firms' convertible bonds and their underlying equity.

A convertible bond is a hybrid instrument that combines features of both a corporate bond and an equity option. Like traditional debt, it has a coupon and a maturity date, but it also includes a conversion ratio—specifying how many shares a bond can be exchanged for—which sets the conversion price (see Exhibit 7). Convertible arbitrage seeks to profit from purchasing convertible bonds that appear undervalued, while also hedging their equity exposure through a short position in the issuer's common stock.

The strategy seeks to generate asymmetric returns by purchasing convertible bonds below fair value, profiting whether the equity moves up or down, and limiting losses through the short equity hedge (see Exhibit 8). The blend of credit, equity, and volatility sensitivity provided by convertible arbitrage strategies makes them a compelling source of differentiated and diversifying returns in many market environments.

Exhibit 7: A Typical Convertible Arbitrage Position

Exhibit 8: An Illustrative Example of Convertible Arbitrage Expected Payoffs

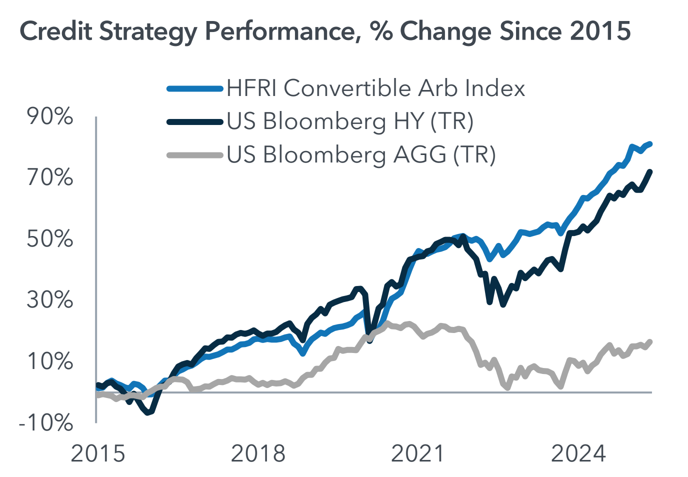


Note: Illustrates a delta-hedged convertible bond, which mirrors the expected payoffs of a convertible arbitrage strategy. Assumes position is fully delta-hedged as the price of the underlying stock changes. Source: Santander, TPG.

After maintaining a more modest allocation to convertible arbitrage opportunities in 2020, given an environment we viewed as providing more limited value, we decided to increase our exposure in late 2023 amid a pickup in issuance driven by elevated funding costs and equity market volatility. We like convertible arbitrage because it can perform in a range of environments—from falling interest rates and tightening credit spreads, which support the bond portion of the position, to periods of elevated realized equity volatility, which boosts the value of the embedded equity option.

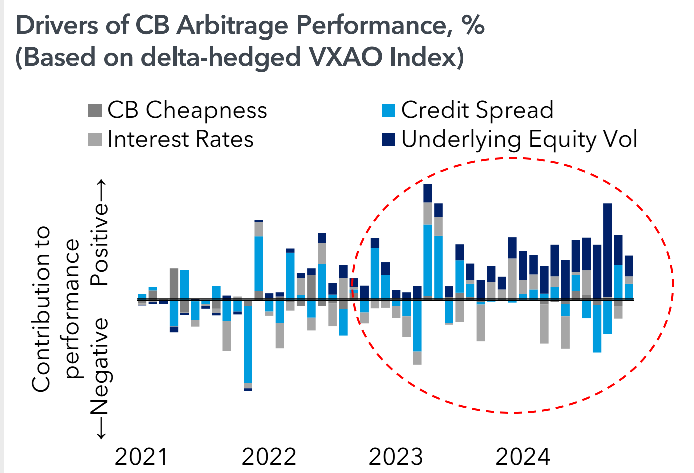
In the past few years, the strategy has outperformed on a relative basis (see Exhibit 9) due to a favorable combination of elevated equity volatility and generally improving credit fundamentals (see Exhibit 10). By tapping into dislocations tied to volatility and capital structure dynamics, convertible arbitrage adds a powerful layer of return and diversification to our multi-asset credit strategy, especially when the market's path is anything but smooth (see Exhibit 11).

Exhibit 9: CB Arb Has Performed Well In Recent Years



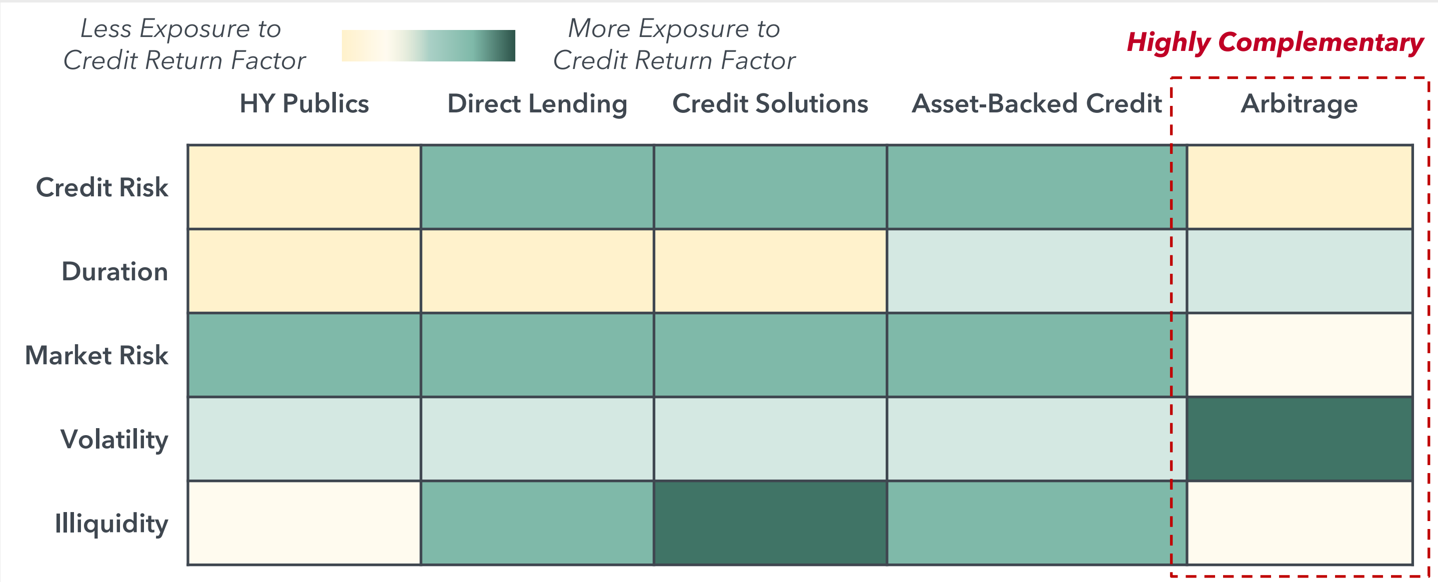
Source: HFRI, Bloomberg, TPG.

Exhibit 10: Equity Vol Has Driven Strong CB Arb Returns



Source: BAML, TPG.

Exhibit 11: Credit Arbitrage Strategies Can Be Highly Complementary to Existing Credit Portfolio Exposures



Note: Strictly illustrative, based on TPG's subjective view of relative risk exposures of different credit market strategies. Source: TPG.

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