

Convergence

Insights on Fixed Income Replacement

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Welcome to Convergence, a new series exploring the convergence of public and private credit markets and its potential implications for the future of fixed income portfolio construction.

At Apollo, we believe that fixed income portfolios—traditionally anchored in government-related debt and investment-grade corporate bonds—are being reshaped by structural shifts in liquidity, regulation, and investor needs. Certain segments of public credit markets have become more liquid but less differentiated: spreads are compressed, benchmarks are highly concentrated, and the scope for active alpha has become limited. Meanwhile, demographics have shifted as an aging global population struggles with inadequate savings for retirement, increasing the need for durable high-quality investment income.

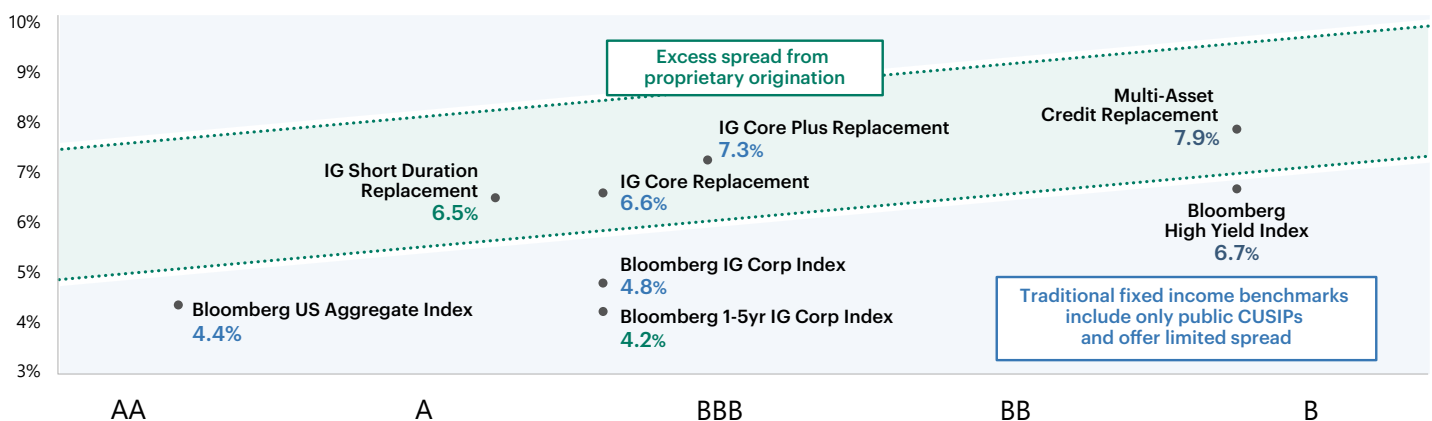
Private credit, once synonymous with middle-market direct lending, has evolved into an estimated \$40 trillion

global market, the majority of which is investment grade. As banks retreat from traditional lending, private investment-grade credit has emerged as a scalable source of yield and diversification.

In this inaugural edition, we will lay out our base case for how the integration of public and private credit—the **Fixed Income Replacement** framework—can enhance returns, improve portfolio efficiency, and align liquidity with investors’ long-term objectives.

It starts with excess spread. Replacing some public fixed income exposure with private credit has the potential to provide investors with excess spread without excess credit risk. As just one example, private investment-grade credit can provide 150-200+ basis points of excess spread compared to traditional Core Fixed Income and public IG corporate debt without going lower in credit rating (**Exhibit 1**).¹

Exhibit 1: Fixed Income Replacement can generate excess spread relative to public markets



Data as of July 31, 2025. For illustrative purposes only.

Note: Fund ratings are based on the underlying investment ratings using S&P, Kroll, Moody’s, and Apollo Analysts. Spreads presented for private market portfolios are based on hypothetical model portfolios and not indicative of actual spreads experienced. Actual results may vary substantially.

Source: Apollo Analysts, Barclays, ICE BofA, Pension & Investments

1. Source: Apollo Analysts

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It's Time for Traditional Fixed Income Investors to Change Their Playbook

Credit markets are evolving, driven in recent years by the rapid growth of exchange-traded funds and other passive investment vehicles. While these structures have improved market accessibility and liquidity, they have also accelerated the commoditization of public credit. Benchmark replication has led to a larger share of assets being allocated to low-fee beta exposure, concentrating ownership in the largest issuers and sectors that dominate public indices (**Exhibit 2**).

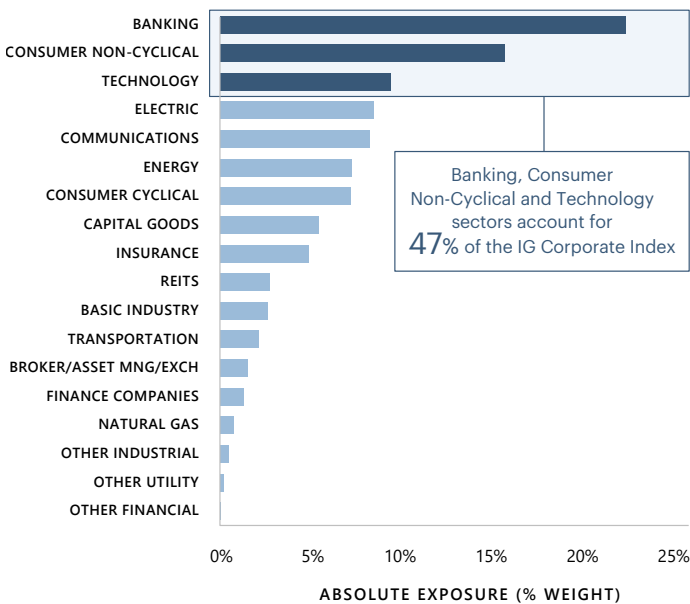
While this increased accessibility has improved trading efficiency, it has also contributed to tighter spreads and reduced opportunities to generate differentiated yield. As a result, investors are finding it increasingly challenging to achieve their return objectives within traditional public fixed income markets (**Exhibit 3**).

The result is a fully priced market with compressed spreads and limited dispersion. Liquidity and benchmark replication have come at the cost of yield, diversification, and true credit selectivity. **Public fixed income continues to play a vital role, but we believe generating incremental income now requires extending beyond public benchmarks.**

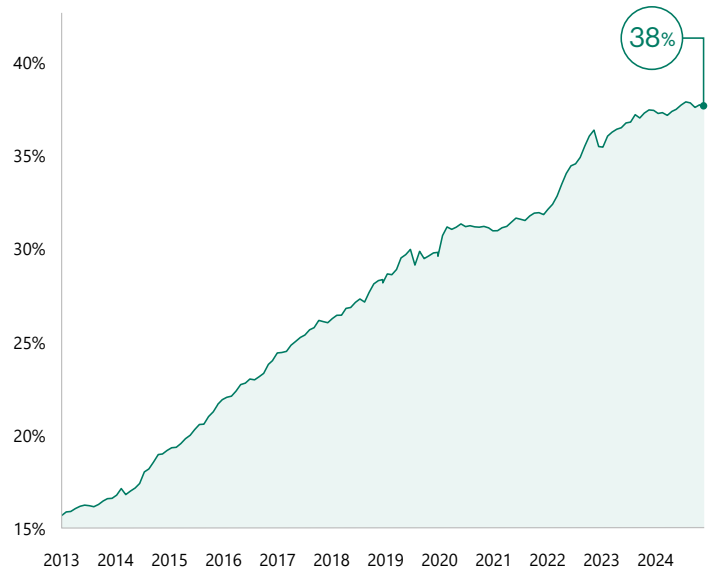
In response to the increased commoditization in public fixed income, many institutions are expanding their opportunity set to include private markets, where structural and origination premia present the potential for enhanced returns without added credit risk. These developments underscore the need to revisit long-held assumptions about credit portfolio construction. Integrating public and private credit exposures within a unified framework can enhance yield potential, improve diversification, and optimize long-term performance.

Exhibit 2: Index funds are driving the commoditization of public credit

Nearly Half of the IG Corporate Index is Exposed to Three Sectors



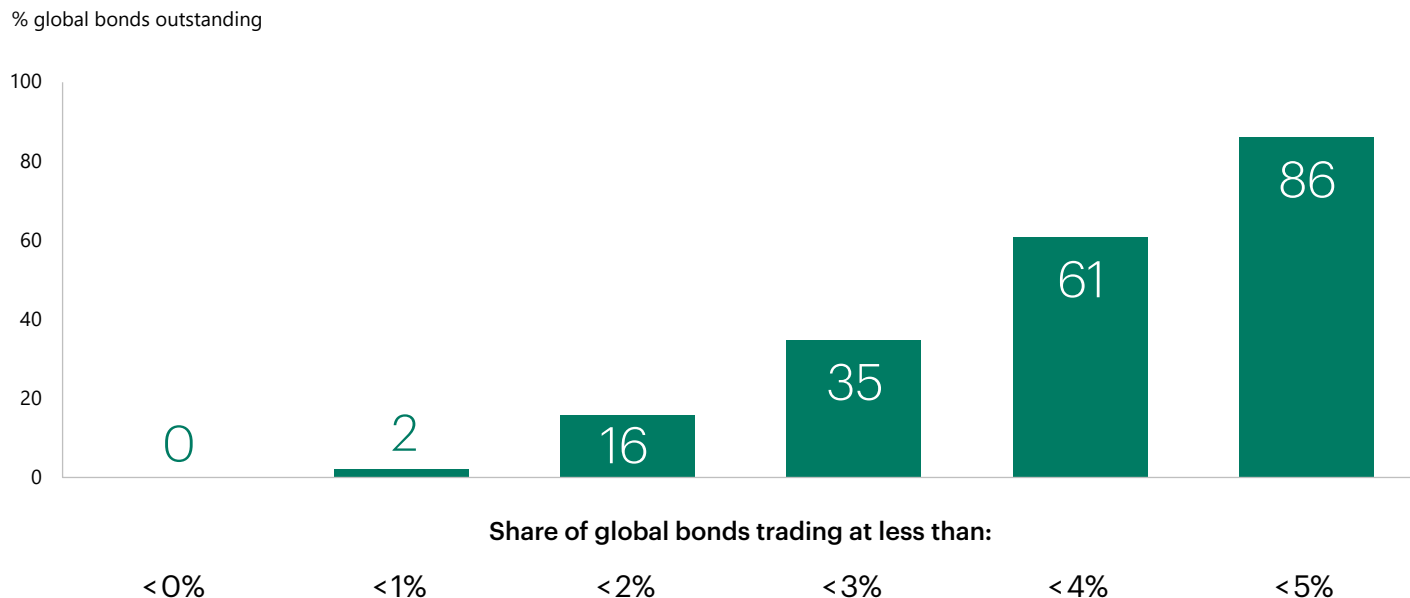
Passive Funds Are Growing as % of the Public Credit Market



(Left) Data as of December 2024. Note: Data is based on estimates from sample of 8,689 funds. Source: Bloomberg, Apollo Chief Economist

(Right) Data as of September 2024. Source: Bloomberg

Exhibit 3: Today, nearly 90% of public fixed income yields less than 5%, translating to a real return of roughly 2% or lower after accounting for inflation



Data as of Oct. 27, 2025. Source: Bloomberg, Apollo Chief Economist

Redefining Private Credit for Fixed Income Investors

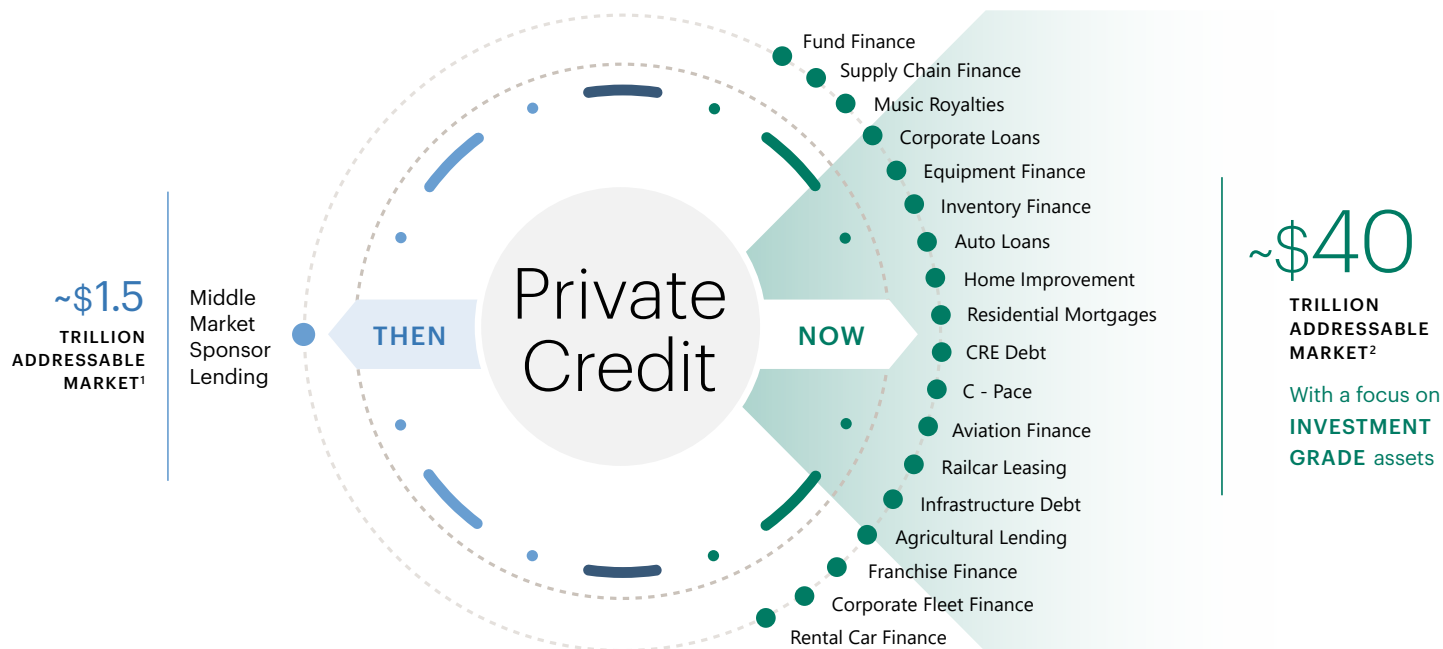
Apollo estimates the global private credit market at approximately **\$40 trillion**, the majority of which is investment grade in nature. By providing long-term capital that supports economic growth and financial stability, private credit has become an integral component of the modern financial system.

Within this universe, we believe **private investment-grade credit** represents the largest and most resilient segment, offering the potential for high-quality yield and dependable

income streams for long-term investors. As many developed economies confront aging demographics and growing retirement funding gaps, we believe private fixed income is positioned to play an increasingly important role in supporting retirement security and sustaining economic resiliency.

As regulatory capital constraints have limited bank balance sheet lending, a broader investor marketplace has stepped in to fill the void. This structural shift has socialized credit among larger and more diverse pools of capital, and often through structured securities that allow businesses and consumers to access financing that is otherwise unavailable to them.

Exhibit 4: Debanking and other trends have driven massive expansion of private credit



1. Private Debt AUM as of December 2022.
 2. Fixed-income replacement market based on Apollo Analyst estimates as of June 30, 2024. Represents the views and opinions of Apollo Analysts. Not an exhaustive list. Subject to change at any time without notice. For illustrative purposes only. Sources: Federal Reserve Board, S&P LDC, BofA, Preqin, SIFMA, Haver Analytics, Bloomberg

Private lenders such as Apollo have built out scaled origination capabilities across markets and borrowers, including in asset-backed finance (Exhibit 4). These transactions are typically senior, collateralized, and supported by rigorous covenants and performance triggers. Borrowers in the resulting deals are often willing to pay a premium for bespoke investment solutions, structuring and certainty of funding, which can generate excess yield while maintaining credit quality.

Client Applications Within a Modern Fixed Income Portfolio

Today’s evolution toward **Fixed Income Replacement** could compel traditional asset allocators to reconsider the role of liquidity within their overall portfolios. Many institutional investors maintain liquidity far in excess of what their long-term liabilities demand. For portfolios with multi-year horizons—such as pensions, endowments, and insurance companies—**monthly or quarterly liquidity** is often sufficient to meet capital requirements.

Across the liquidity spectrum, different Fixed Income Replacement strategies can complement traditional allocations:

- **Short-Duration Replacement** can generate **150+ basis points** of excess yield by introducing an additional tier of capital accessible within approximately 60 days, enhancing short-term liquidity and fixed income allocations.²
- **Core / Core-Plus Replacement** can add **100–150+ basis points** of net excess yield relative to traditional Bloomberg U.S. or Global Aggregate mandates while improving diversification and reducing correlation to public benchmarks.²
- **Private IG and Multi-Asset Credit** strategies can deliver yields comparable to high-yield bonds or leveraged loans but with higher credit quality.²
- **Private Markets Funding programs** can employ semi-liquid Private IG evergreen structures that target higher yields than public credit while providing a flexible funding source for private market drawdown mandates.²

2. Source: Apollo Analysts. For illustrative purposes only. Excess yields presented are based on hypothetical model portfolios and not indicative of actual yields experienced. Actual results may vary substantially.

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The Time for Convergence is Now

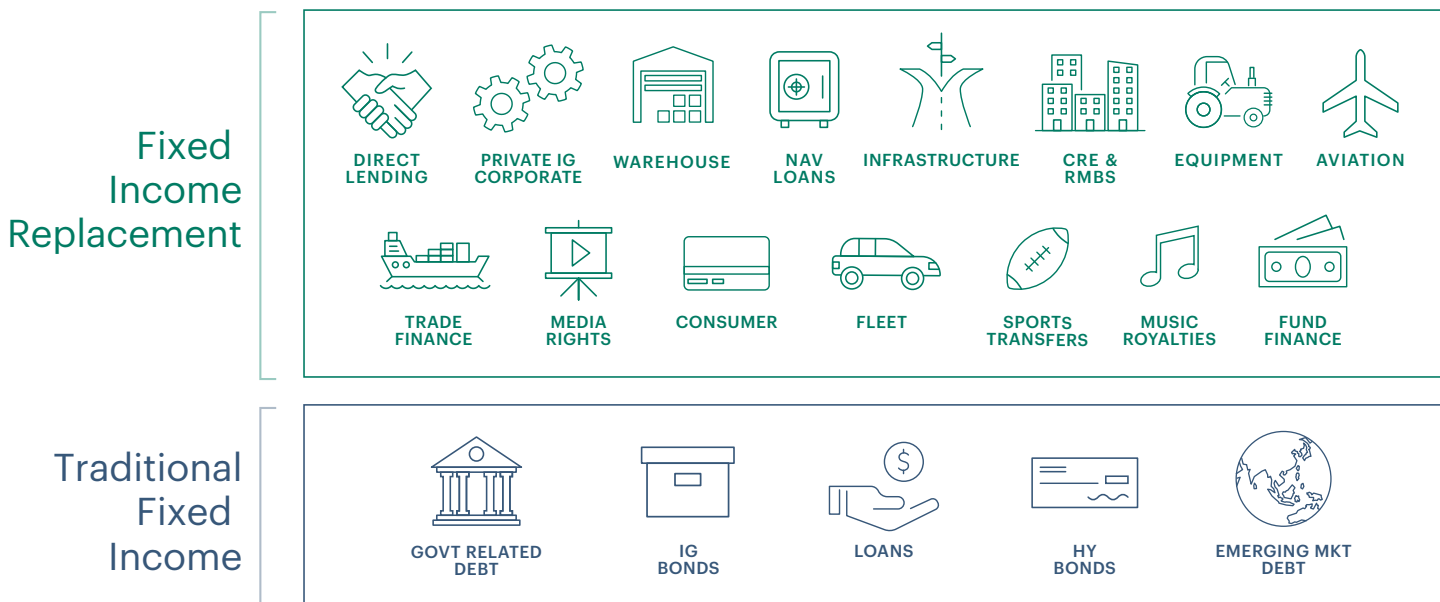
In future editions of this newsletter, we will dive deeper into the impact that the addition of private credit can have on traditional fixed income portfolios and try to answer some of the most common questions we receive about Fixed Income Replacement, including:

- What’s behind the rapid growth of private investment-grade credit markets?
- How can investors think about liquidity risk in their portfolios?
- How durable is the excess spread available in Fixed Income Replacement asset classes?
- How can the addition of private credit affect the long-term performance of a fixed income portfolio through fluctuations in the economic and market cycle?

- What role can Fixed Income Replacement play in defined contribution plans?
- How can this framework be applied in different regulatory and capital regimes across Europe and Asia?

The Bottom Line: Fixed Income Replacement is not a departure from traditional fixed income—it **represents the next stage of its evolution**. The structural transformation of credit markets over the last decade has created a lasting opportunity for institutions to modernize their fixed income allocations. We believe that by integrating private credit alongside traditional public exposures (**Exhibit 5**), investors can access higher income, improved diversification, and better alignment between liquidity and long-term obligations.

Exhibit 5: Integrated portfolios could soon be the standard fixed income allocation



For illustrative purposes only.

ABOUT THE AUTHOR



Brian Weinstein is a Partner and Head of Fixed Income Replacement, responsible for shaping Apollo's Fixed Income Replacement strategy and product suite. Prior to joining in 2025, Brian was at Morgan Stanley Investment Management, where he most recently served as the Head of Global Markets and Head of Fixed Income. Previously, he was a cofounder and CIO of Blue Elephant Capital Management, and held senior roles at BlackRock including Head of Multi-Sector Fixed Income. Brian is a graduate of the University of Pennsylvania.

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