

Convergence

Fixed Income Replacement Newsletter

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Portfolio Allocations: Where Does Private IG Credit Belong?

Key Takeaways

- Traditional allocation frameworks in fixed income were built around public and private distinctions that no longer capture the full breadth of today's investment grade opportunity set.
- Private investment grade credit combines the economic characteristics of fixed income with the structural features of private markets.
- Private IG can sit within either a **fixed income allocation** or a **private credit allocation**. Each carries distinct implications for governance, benchmarking and portfolio construction. For most investors, the biggest risk is not miscategorizing, but rather under-allocating to Private IG.

Rethinking Traditional Definitions

Fixed income has long been defined along two complementary dimensions within investment portfolios: **the role it plays** and **how it is implemented**. From a portfolio perspective, fixed income is the engine of income generation, capital preservation and duration management. It provides stable cash flows, supports liability matching and acts as a buffer during periods of market stress. And historically, it's been implemented in a portfolio through publicly traded securities with daily liquidity, measured against broad market indices.

As explored in the [inaugural edition of the Convergence newsletter](#), the structural transformation of credit markets over the past decade has expanded the investment grade universe well beyond these historical boundaries. The growth of passive investing and benchmark-driven

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allocation has crowded ownership into the largest issuers and sectors, compressing spreads and reducing the income cushion available to absorb volatility. As shown in **Exhibit 1**, spread contribution to yield in the Bloomberg Aggregate has fallen to just 7%, meaning that for most public IG investors, portfolio performance is driven mainly by rates, not credit spreads.

Private investment grade credit changes this dynamic materially. With 43% of yield coming from spreads, Private IG restores the income cushion that has largely disappeared from public benchmarks without requiring a move down the credit quality spectrum. The question for allocators is no longer whether to consider Private IG. It is how to incorporate it within existing portfolio frameworks.

The Question: Where does Private IG Belong?

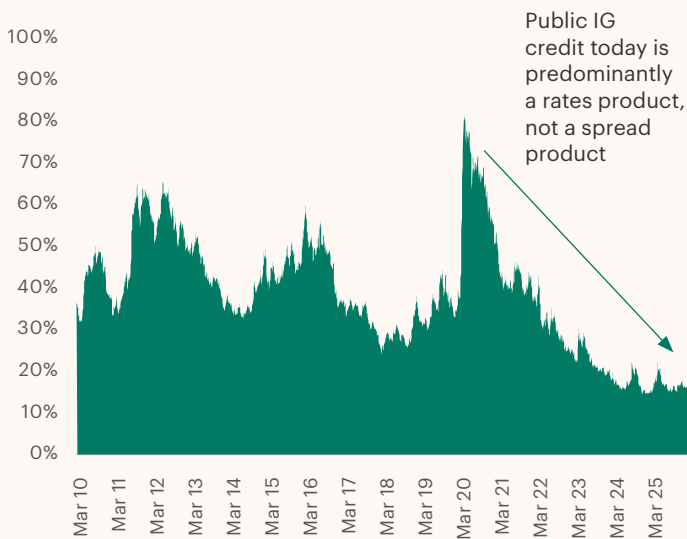
Private investment grade credit does not fit neatly within existing allocation frameworks. It combines the **economic characteristics** of fixed income (contractual cash flows, defined seniority, covenant protections and low expected loss) with the **structural features** of private markets (negotiated origination, relationship-driven access and differentiated liquidity profiles).

This dual nature means it can sit credibly within either a fixed income or a private credit framework. At Apollo, we have seen allocators incorporate Private IG within both frameworks, with each approach delivering distinct but complementary characteristics to the overall portfolio.

In our opinion, the more fundamental risk for most allocators is actually **under-allocation or omission**. When fixed income mandates are tightly defined around public benchmarks, Private IG may fall outside the defined opportunity set. This is not because it fails to meet the underlying investment criteria, but because the framework was not designed to accommodate it. **This is the gap we believe allocators need to address.**

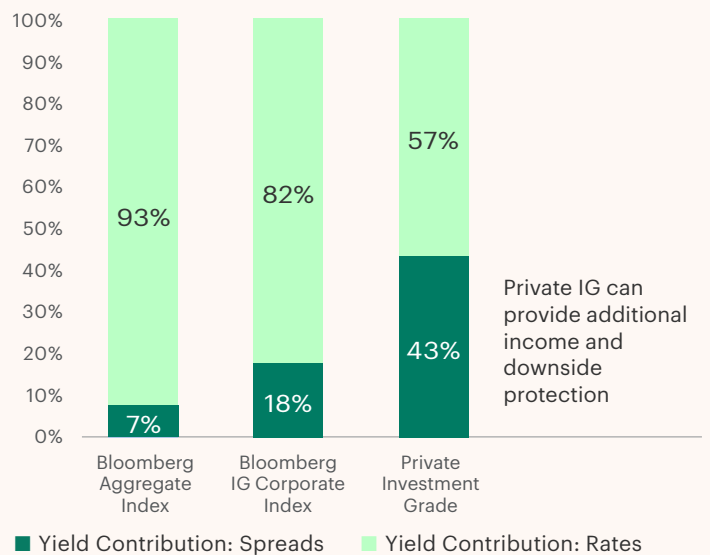
EXHIBIT 1: Investors are no longer being compensated to take spread risk in public fixed income

Only 18% of the IG Corporate Yield Today Comes from Spread



Note: IG Corporate represented by the Bloomberg US Corporate Index. Data as of February 2026. Sources: Apollo Analysts, Bloomberg

Generating High Quality Excess Spread in Private Assets Can Serve as an Important Yield Cushion



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Why the Traditional Framework Is Under Pressure

The public/private distinction has served as a useful organizing principle for institutional portfolios. It provides a shorthand for thinking about liquidity, governance and implementation. But at its core, the distinction describes **how an asset is originated, traded and governed**, not the underlying economics or credit risk.

In fact, investment grade credit risk is more directly driven by borrower quality, seniority, collateralization, cash flow structure, covenant protections and expected loss behavior — characteristics that exist in both public and private markets. As banks have retreated from traditional lending (**Exhibit 2**), a broad and scaled set of investment grade exposures has emerged in private form, carrying

comparable credit quality to public equivalents and offering a structural premium for bespoke origination and certainty of execution.

We believe two dynamics have amplified the pressure on traditional frameworks. First, the growth of passive investing and ETF-driven allocation has concentrated ownership in the largest public issuers and compressed spreads across the IG corporate market. Second, the private investment grade market has grown into a scaled, credible alternative.

As we discussed in our [recent paper on liquidity](#), liquidity across investment grade credit is best understood as a spectrum, rather than a binary.

Taken together, the public/private distinction is no longer sufficient on its own as a guide for portfolio construction.

Two Ways to Own Private IG

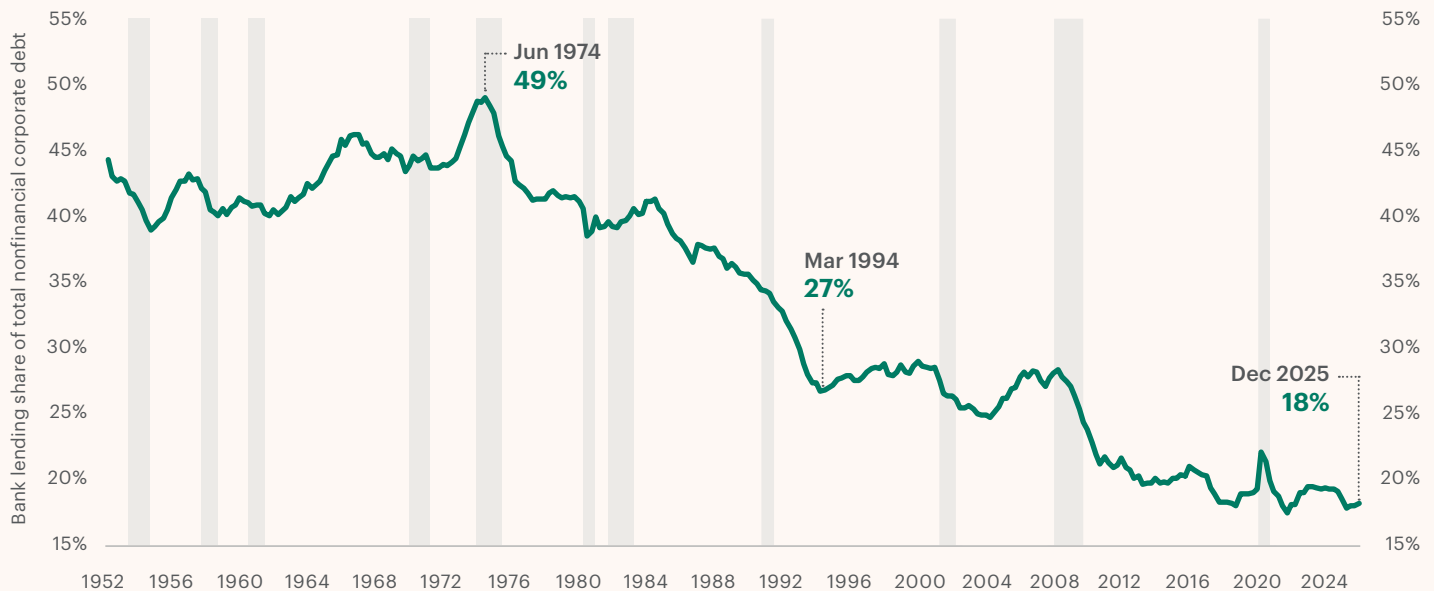
In practice, allocators have incorporated private investment grade credit in two ways: within their fixed income allocation, or within their private credit allocation. The choice is driven by institutional structure and mandate design, not by the underlying investment merits of Private IG itself.

When classified as **fixed income**, Private IG is evaluated by the role it plays in the portfolio: stable income, low expected loss and duration management. It is managed alongside public IG within the fixed income mandate, and benchmarked against Bloomberg Aggregate or IG Corporate indices, with excess spread as the primary performance metric.

When classified as **private credit**, Private IG is grouped by how it is

EXHIBIT 2: Corporate lending has shifted away from banks

Fixed income investors such as insurers, pensions and mutual funds have stepped in as banks retrench due to increased regulation.



Note: Data as of December 2025. Sources: FRB, Haver Analytics, Apollo Chief Economist

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sourced and governed rather than by its economic characteristics. It sits within the private credit mandate alongside other less liquid strategies, with performance measured against yield-based targets rather than public index benchmarks.

Both frameworks are internally consistent, and we have seen allocators use each one effectively. The choice is driven by institutional structure, mandate design and portfolio objectives. **Fixed income portfolios are evolving** to incorporate higher-carry investment grade exposures sourced through private markets, while managing liquidity at the portfolio level rather than at the level of individual holdings. At the same time, **private credit allocations are also evolving**, with some allocators expanding their frameworks to include investment grade buckets alongside traditional return-seeking strategies.

Where Fixed Income Replacement Sits Within a Modern Portfolio




Fixed income replacement is not a single strategy. It is a **framework** for incorporating private investment grade credit alongside traditional public exposures. The right entry point depends on the portfolio objectives, liquidity profile and governance structure of the allocator **(Exhibit 3)**.

Within a Fixed Income Allocation

Private IG can serve as a direct complement or replacement to existing public credit exposure. We believe there are constructive applications across multiple sleeves **(Exhibit 4)**:

- **Short-duration credit portfolios** can generate 150+ basis points of excess yield by introducing a tier of capital accessible within approximately 60 days, enhancing short-term liquidity while improving income relative to traditional cash and short-duration benchmarks.
- **Core bond portfolios** can add 100 to 150+ basis points of net excess yield relative to Bloomberg US or Global Aggregate mandates, improving diversification and reducing correlation to rate-sensitive public benchmarks.
- Within a **Core-plus bond portfolio**, incorporating Private IG can replace sub-IG exposures such as high yield bonds, leveraged loans and emerging market debt, delivering comparable yield while improving credit quality.

EXHIBIT 3: Implications of each classification type

	Fixed Income Allocation	Private Credit Allocation
 Governance	Within fixed income mandate ; managed alongside public IG	Within private credit mandate ; managed alongside other private credit strategies
 Benchmarking	Measured vs. Bloomberg Aggregate or IG Corporate indices; excess spread over public benchmarks as primary metric	Spread premium over public equivalents; yield-based targets rather than index-relative benchmarks
 Portfolio Role	Income enhancement, liability matching, and replacing public IG exposure with a higher-yielding equivalent at similar credit quality	Return enhancement above public credit benchmarks; access to origination and illiquidity premium

Note: As of April 2026. For illustrative purposes only. Source: Apollo Analysts

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EXHIBIT 4: Potential client applications within a modern fixed income portfolio

Cash & Short Duration — Enhance yield while preserving liquidity and credit quality



■ 3-mo US Treasury ■ Private IG (Short Duration)

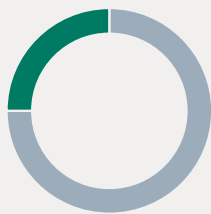
3-Month US Treasury

Yield	3.7%
Spread	—
Rating	AA+
Duration	0.3

3-Month UST (75%) / Private IG (25%)

Yield	4.3%	+0.5%
Spread	66	+66
Rating	AA	—
Duration	0.9	+0.6

Core Fixed Income — Increase yield and spread without altering duration or moving down the credit spectrum



■ US Aggregate ■ Private IG (Intermediate Duration)

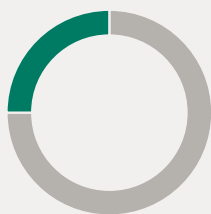
US Aggregate

Yield	4.2%
Spread	28
Rating	AA-
Duration	5.9

US Agg (75%) / Private IG (25%)

Yield	4.6%	+0.4%
Spread	84	+56
Rating	AA-	=
Duration	6.1	+0.2

Core-Plus / High Yield — Maintain portfolio yield while upgrading overall credit quality



■ US HY Corporates ■ Private IG (Short Duration)

US HY Corporates

Yield	6.7%
Spread	291
Rating	B+
Duration	2.8

US HY Corps (75%) / Private IG (25%)

Yield	6.6%	-0.1%
Spread	285	-6
Rating	BB	++
Duration	2.8	+0.0

Note: Data as of February 28, 2026. Sources: Bloomberg, Apollo Analysts

Within a Private Credit Allocation

Private IG can be incorporated as a distinct sleeve within the broader private credit allocation, providing a higher-quality, lower-volatility complement to return-seeking direct lending strategies:

— Investment Grade Buckets

within private credit allocations allow for segmentation by credit quality. Allocators can access the illiquidity and origination premium associated with private markets without concentrating entirely in sub-investment grade risk.

— Private Markets Funding

Programs employ semi-liquid evergreen structures that target higher yields than public credit while providing a flexible capital base for broader private market mandates, serving both an income-generating and a portfolio-management function.

The Real Risk: Under-Allocation

In both cases, the practical implication is the same. Fixed income portfolios that do not incorporate Private IG are likely capturing a narrower opportunity set than intended, particularly in an environment where public credit spreads are compressed and traditional benchmarks offer limited differentiated income. We believe the entry point, whether through a fixed income or private credit framework, matters far less than ensuring these exposures are being fully considered.

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A Practical Decision Framework for Allocators

For investment teams evaluating where Private IG fits within their portfolios, the following framework provides a useful starting point.

1	Define the objective	Is the allocation meant to generate high-quality yield, match liabilities or enhance returns? The answer points to whether the exposure belongs in fixed income or private credit.
2	Assess liquidity	Map the timing and size of expected cash flows against liquidity needs. Private IG vehicles offer different redemption frequencies, from monthly windows in evergreen funds to multi-year lock-ups in drawdown structures. Choose the structure that fits the liquidity budget.
3	Evaluate risk and structure	Scrutinize credit quality, seniority, collateral and covenants. Short-duration portfolios target incremental yield over cash equivalents. Core and Core-plus strategies lend to high-quality borrowers and aim to add incremental yield over public bonds. Multi-asset credit combines corporate and asset-backed exposures to deliver higher spreads while remaining senior and secured. Funding programs finance evergreen pools to meet capital calls. Match exposures to risk tolerance.
4	Choose a classification	Based on objectives, liquidity and risk, decide whether to treat the exposure as fixed income or private credit. Communicate that decision to stakeholders so governance, benchmark and incentive structures are aligned.
5	Integrate across the portfolio	Apply a total portfolio approach to see how substituting public bonds with Private IG changes overall risk, return and liquidity. Consider how the new allocation interacts with other private market strategies and whether additional adjustments are needed to keep liquidity aligned with liabilities.

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The Bottom Line

The question of whether Private IG is “fixed income” or “private credit” is less important than whether it is being incorporated at all. Both classification frameworks are valid, and both can support favorable portfolio outcomes. What matters is that allocators build frameworks broad enough to reflect the investment grade opportunity set as it exists today at a time of convergence, one that spans public and private markets and can be accessed across the full liquidity spectrum. Fixed income replacement is not a departure from the traditional role of fixed income in a portfolio. It is an expansion of the toolkit available to achieve it.

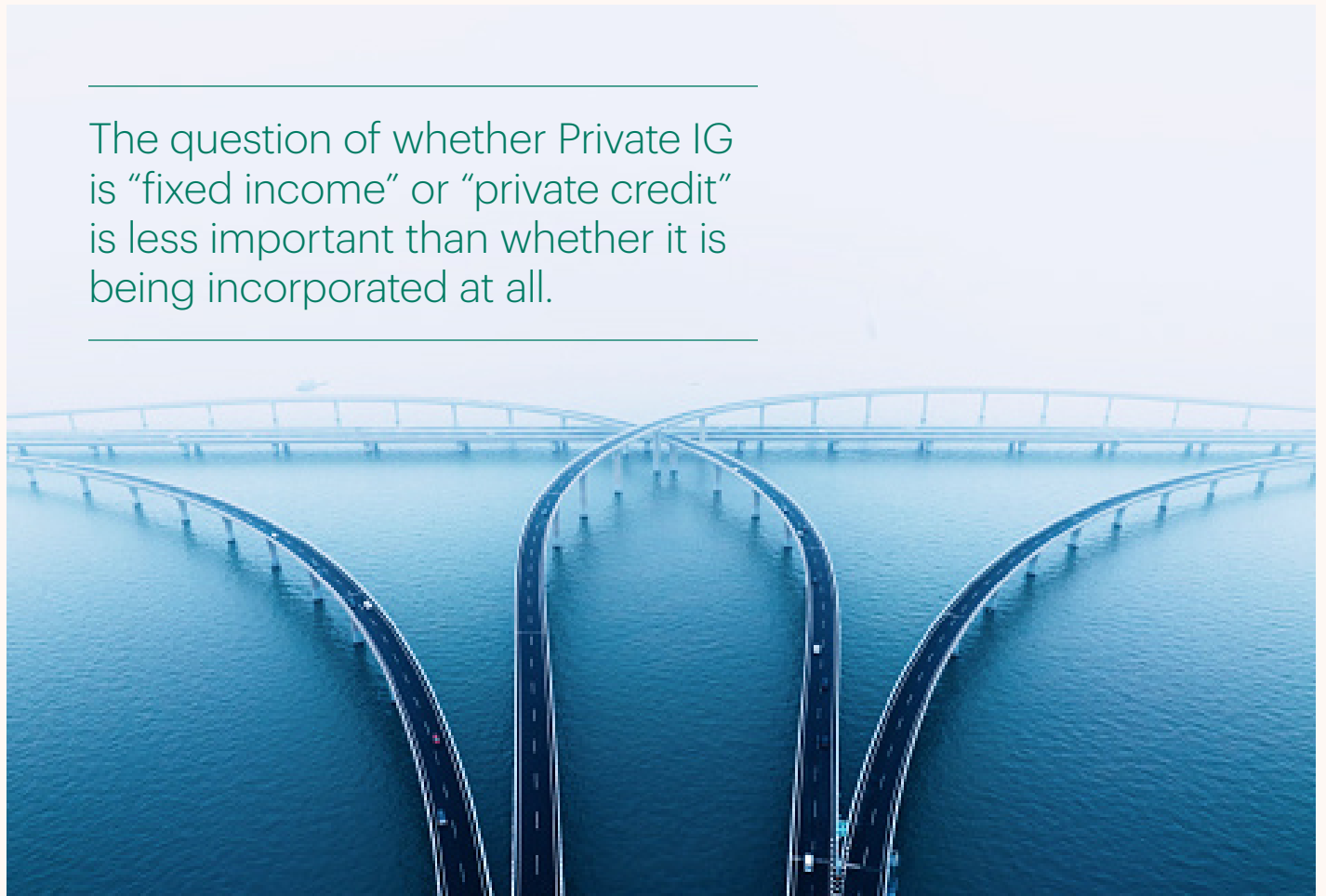
About the Author



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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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The Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers. The index includes securities with remaining maturity of at least one year.

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