Private Credit Insights: Liquid Courage

Policy uncertainty, federal funding cuts, and volatile markets have spurred many investment boards to fixate on liquidity. Take courage: You can sell out of private credit positions—and not just to secondaries funds.

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Key takeaways

- The investment grade private placement market has always had more liquidity than everyone thinks, though some areas are more liquid than others.
- Sticking with intermediated deals and a Tier One manager can help you sell out of single names more easily—and potentially get you a higher average premium on primary placements.
- You can also ladder your portfolio with shorter-duration asset-based finance (ABF) paper, which can return money faster while potentially keeping spreads high.
- Energy infrastructure debt is also returning cash very frequently thanks to America's desperate need for more electricity generation; it is probably the strongest macro play in direct lending right now.

The (Untitled) Golden Goose Game

A major appeal of investment grade private placements is their historical spread premium over public investment grade corporate bonds. "That's obviously an illiquidity premium," people say, and all of us in the market nod and smile and don't contradict them because we don't want to damage the goose that's laying the golden eggs.

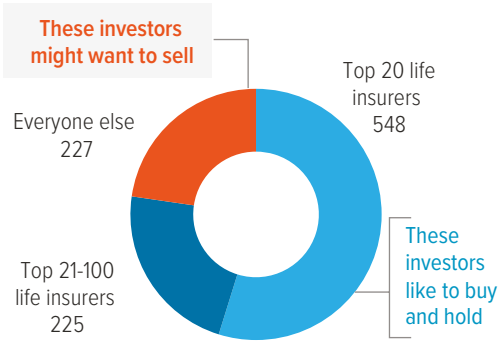
See, if more managers knew how comparatively easy it is to sell out of most placements at market price, more of them would be rushing into private credit. Then our premiums might go down, and that would be unfortunate.

But I'm retiring at the end of this year, so it's time to start saying the quiet part out loud. The premium on private placements isn't an illiquidity premium. It's a customization premium. That's how the borrower thinks of it, and that's how investors should think of it too, for one simple reason: You can still sell out of placements—it's just that the majority of investment grade private credit is in the hands of life insurance companies who don't want to (Exhibit 1).

If more managers knew how comparatively easy it is to sell out of good placements, they'd be rushing into investment grade private credit.

Exhibit 1: Investment grade private credit is concentrated in the hands of buy-and-hold investors

Ownership of investment grade private credit ($bn)



As of 12/31/24. Source: Voya IM, CapIQ, Reg D filings. Assumes a $1 trillion total market size.

Think of it this way: Private equity's premium really is an illiquidity premium. You need to sell out of private equity? Good luck; call a secondary fund.[1]

You can sell investment grade private credit at the name level.

But with investment grade private credit, you can sell at the name level. We've traded over $2 billion in the secondary market for our general account and our clients in the past five years, for example—most completed within two weeks (Exhibit 2).

This isn't about *rotating among sectors* the way your public fixed income manager does. You went into this to buy and hold. But … if there's a portfolio need, or you no longer like the name, it's liquid, so you sell it. Your alpha doesn't come by trading in and out of sectors. It comes from properly structuring a transaction and from excess yield.

ABF can be harder to price, but its shorter WAL and high structural premium help make up for that.

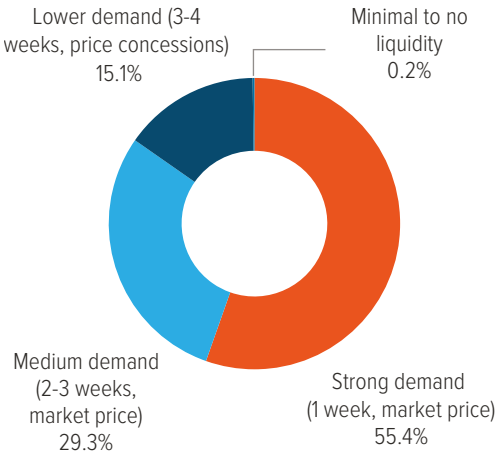
Liquidity is only going one way in this market, and it ain't down. Corporate private placements have always been liquid, as there is significant demand from a large, established investor base.

Infrastructure's liquidity has expanded enormously over the past five years as more investors have entered the space.

ABF isn't as liquid yet, for reasons I'll talk about in a moment, but given the vast amount of balance sheet capital that private-equity-linked insurers are expending to make ABF a thing, you'd better believe that's coming too.

The middle market is different. It's still a case of LPs selling portfolios via secondary funds. But I think in three years, we'll be trading individual names of middle market companies. Somebody's going to set up a desk that's productive and financially successful, and then everyone's going to copy them.

Exhibit 2: Liquidity in the average Tier One investment grade private credit portfolio



As of 12/31/24. Source: Voya IM estimates, StoneCastle. Assumes normal market conditions.

Liquidity, duration, and your portfolio

I note above that some ABF is hard to sell. Does that mean ABF's high premium is due to its illiquidity? Still no. It's a structural premium, the same reason that public securitized credit tends to trade at a wider spread to equivalently rated corporate bonds. Turns out that while "it's complicated" can get you in a lot of trouble at a Coldplay concert, it can also get you 100-400 basis points extra yield on a private placement.

The ABF that can be harder to sell is generally shorter-term, self-amortizing floating-rate paper, because it's harder to price.[2] It's not a fixed-coupon, 10-year weighted average term deal with a make-whole prepayment if the borrower refinances early. That, you can price.

A four-year securitization based on self-liquidating assets with unpredictable cash flows? Somewhat harder. But if that securitization pays 550 bp over Treasuries for investment grade—like a recent placement we offered our clients—the incentive to sell decreases.

[1] Also is it really an illiquidity *premium*? If so, why all the NAV discounts on secondary private equity sales?

[2] Quick reminder here that there is no consistent definition of ABF in the private placement market. Three different co-leads have categorized the same deal in three different ways. (It will settle down, but not yet.) What's more, ABF encompasses everything from 30-year toll road project finance deals to 2-year sports media rights securitizations, so it's very difficult to generalize about beyond "it has the structural risk mitigation of securitized credit, but the covenants of private placements."

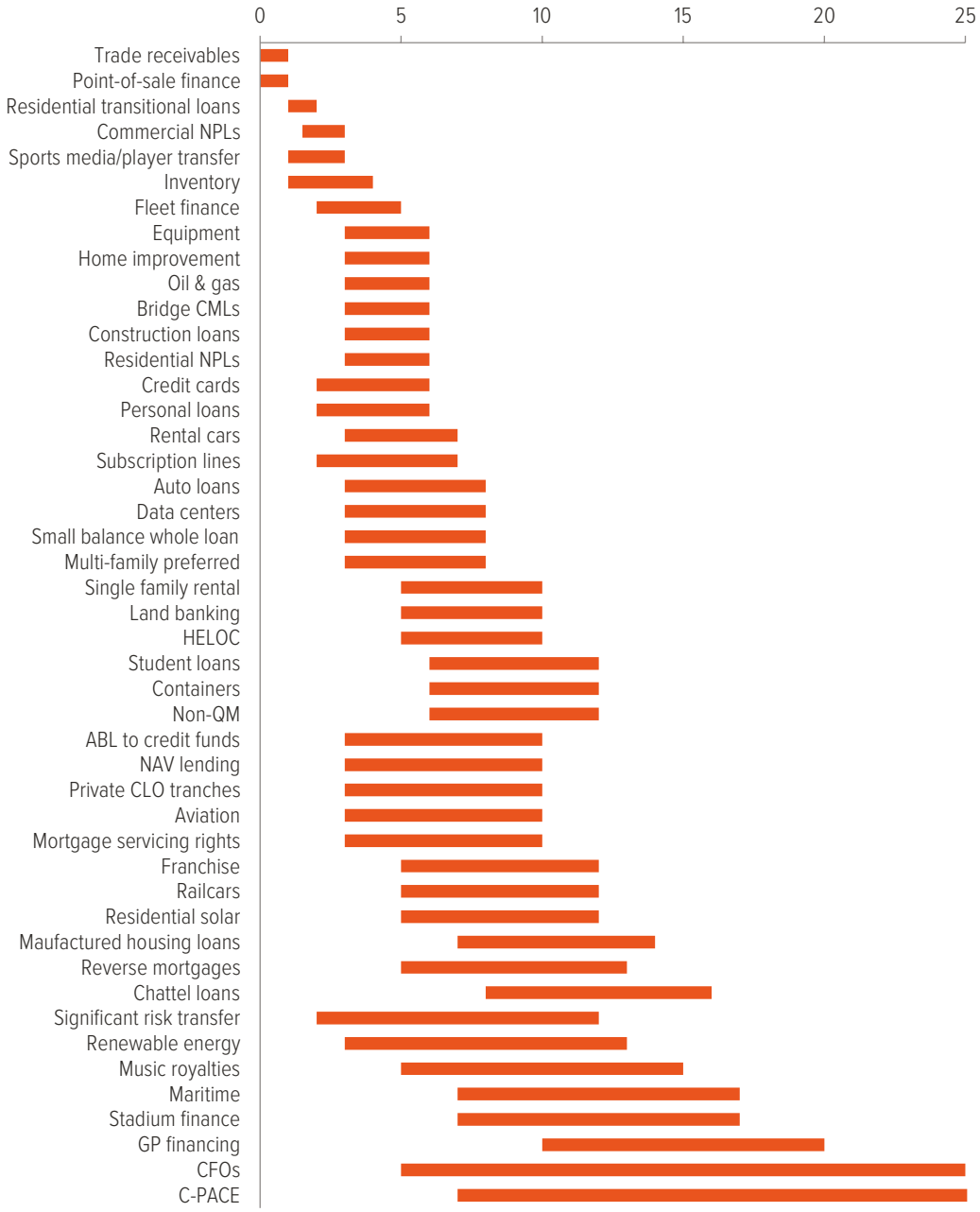
As you can see, there's a rough correlation between demand for duration from investors and liquidity in investment grade private placements. Liquidity rises as duration increases because placements' traditional investor base typically wants higher yield (with longer duration). But that doesn't mean that you only need to take longer-dated paper if you want the option to sell.

There are ways to ladder your investment grade private credit portfolio with allocations to short-dated ABF and specialist lending, like renewable energy infrastructure debt, so you're taking advantage of those potential 300+ bp spreads while also getting liquidity events in the portfolio every year or so (Exhibit 3).

You can ladder your investment grade private credit portfolio to have frequent liquidity events.

Exhibit 3: ABF offers a wide range of weighted average life options

(years)



As of 08/10/25. Source: Voya IM estimates.

We're doing this sort of laddering a lot with our pension fund clients (who have longer-duration liabilities but like the optionality of cash, especially in an era where their private equity allocations aren't returning much of it) and with our P&C insurance clients (who need an average portfolio duration shorter than the traditional 7-10 years that investment grade corporate placements provide).

If it brings you (or your trustees) comfort to see regular influxes of cash into your investment grade private credit portfolio, that's a simple allocation issue.

If you want to see the cash come in and choose where to redeploy it yourself, short-term ABF is the answer.

If you want to see the cash come in and then have someone else redeploy it, talk to our renewable energy infrastructure debt (REID) team. That team's investments have historically returned cash fairly quickly, as projects tend to refinance or get bought out within 2-4 years.

Although allocations to the team have minimum time commitments and can't be redeployed elsewhere, liquidity events happen with gratifying regularity. And boy, is this ever a time to get involved in power project finance (see box).

Tier One investors often have preferential access to the most desirable placements, which also enhances portfolio liquidity.

A tale of two markets

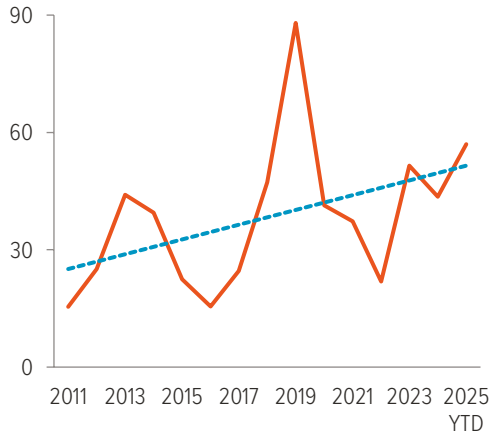
Another important thing affecting liquidity in private placement portfolios is that the market is bifurcating.

Even as investment grade private credit transactions scale rapidly in size, with billion-dollar deals increasingly the new normal, we have seen average number of investors in those deals remain steady at 10-12. Some of those investors may then have dozens of clients getting sub-allocations, which is fine—but, importantly, the intermediary is dealing with only one counterparty.

What this means is that, on the one hand, there's the Tier One investors, who have the ability to take very large allocations (i.e., $300-500 million, thanks to hefty balance sheets and/or client lists) plus years of experience. On the other, there's everybody else.

Exhibit 4: As the investment grade private credit market has gained popularity, Voya's average spread has widened

Voya's spread premium to the investment grade private placement market average (bp)



As of 07/31/25. Source: Voya IM, BofA Global Research. Assumes a 30/70 split between NAIC 1 and 2 rated portfolio assets.

The Tier One investors make life easier for borrowers and their intermediaries (whether investment banks or large private-equity-linked non-bank originators), because it takes only a few of them to circle a transaction and make it successful. As you can imagine, this means intermediaries usually approach the Tier One investors first, with the most desirable transactions.

This is one of the reasons why we at Voya have been seeing our spreads to Treasuries and to comparable public corporate bonds increase over the past year, rather than decrease—despite a significant rise in investor demand for investment grade private credit over the same period (Exhibit 4).

Another reason is that, as private credit lenders, we'd much rather take structural risk than credit risk, so even the corporate placements we lead often tend to be complex enough for our co-leads to categorize them as ABF.

Plain vanilla paper can be harder to sell—and more prone to credit events.

The complexity of documenting, underwriting, and even understanding the sort of more structured transactions we favor naturally limits the buyer base to Tier Ones, who have the team size and experience to do it—and, of course, to clients of those Tier Ones, who trust their underwriting.

There's only a handful of firms that can really execute in this space. The rest get offered the more commoditized end of the investment grade corporate placement market.

That paper tends to be priced at around just 30-40 bp over comparable corporate bonds, and if you're going to experience a credit loss in investment grade private placements, this is the sort of transaction where it's going to happen. As you might expect, these plain vanilla names are going to be harder to shift in a secondary sale, and there's more likely to be some combination of time and discount involved.

I'll end with one last thought. If you go to any alts conference attended by large institutional investors these days, chances are you'll run into someone grumbling about how illiquid their private equity portfolio is.

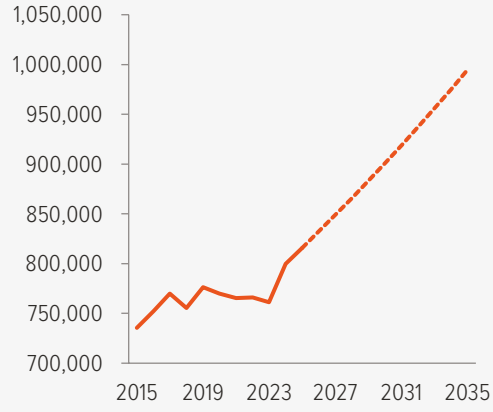
Funny, but you never hear that about private credit, do you?

The U.S. electricity crisis is creating a golden era for direct infrastructure lending

There's a technological revolution happening right now, and no, it's not AI—although AI is both overshadowing it and benefiting from it. This stealth revolution is the rising efficiency and crashing price (down 54% over the past two years) of battery storage systems, which allow solar and wind generation to be used as reliable baseload power by utilities, corporations, and other offtakers.

Exhibit 5: U.S. power demand forecasts are soaring

Peak summer demand, MW



As of 12/15/24. Source: North American Electric Reliability Corporation.

At the same time, the U.S.'s electricity demand is growing at rates not seen since the 1980s, primarily thanks to the rapid rise of new data centers across the country—a rise which shows no signs of abating (Exhibit 5). What's stepping into the breach? Solar, wind, and storage.

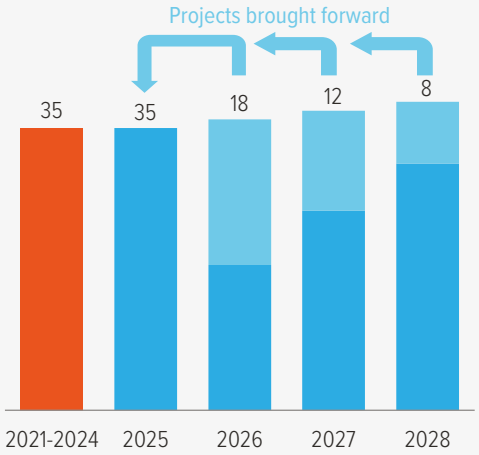
"Oh, but Trump…!" Yeah, gonna stop you right there. Two things are happening because of the OBBBA sunsetting renewable generation tax credits at end 2027 and battery storage tax credits at end 2033.

The end of tax credits means *more* renewable deal flow, not less

First, every developer with a planned renewable generation project is currently trying to speedrun it into construction, in some cases years ahead of plan. To start construction, developers need to borrow money, and they're going to prioritize speed and flexibility over the cost of that money. Our renewable energy infrastructure lending team—one of the most flexible and innovative in the market—is probably going to have the busiest two years of their lives.

Our team estimates that there will be somewhere in the region of $38 billion in extra demand for construction lending over the next 18 months, on top of the annual average project finance need of $35 billion (Exhibit 6). The race is already on—I suspect we're going to see developers trying to book up large regional utility construction companies' availability for the next three years, just for their renewables projects.

Exhibit 6: Up to $38bn of renewable energy project investment could be brought forward due to the OBBB



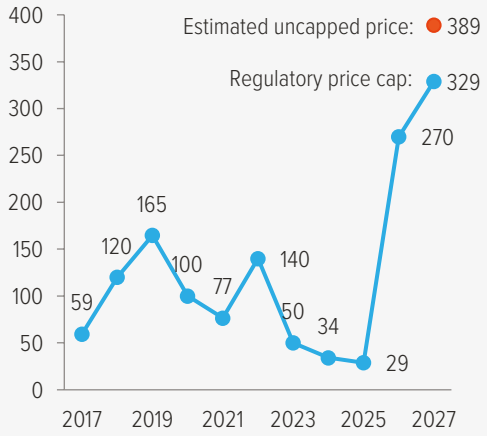
As of 07/15/25. Source: Voya IM estimates.

Second, the economics of renewable generation projects (but not storage, because their credits don't expire until 2033) are going to have to adjust.

Good news, they've got room to pass on more costs to offtakers, because the price of electricity is going up everywhere. Electricity prices across the U.S. are forecast to rise at an 8% CAGR from 2026 through 2035, and the mainstream news is full of articles about how data centers are causing residential electricity prices to rise.

Exhibit 7: PJM's latest capacity auction hits an all-time price high, thanks to data center demand

(Year ending May 31, $/MWh)



As of 07/22/25. Source: PJM.

Let's look at one example of why that's happening. PJM, the largest U.S. grid (covers the mid-Atlantic from New Jersey to eastern Kentucky and Illinois) just had its 2026/2027 capacity auction, and prices were immediately bid up to 22% above 2025's level—and they would have gone another 18% higher (to $389/megawatt-day) if not for a $329/megawatt-day price ceiling imposed by the Federal Energy Regulatory Commission (Exhibit 7).[3]

In the words of the utility itself, "It is misleading to assert that the capacity market results are simply just a reflection of supply and demand. The current conditions are not the result of organic load growth. The current conditions in the capacity market are almost entirely the result of large load additions from data centers, both actual historical and forecast."[4]

[4] "PJM capacity prices set another record with 22% jump," Utility Dive, 07/23/25.
[5] "2025/2026 RPM Base Residual Auction, Part G," The Independent Market Monitor for PJM, released 06/03/25.

Or, in plain English, the "move fast, break things" crowd is now mostly breaking the U.S. electricity grid.

Renewables and natural gas, working together

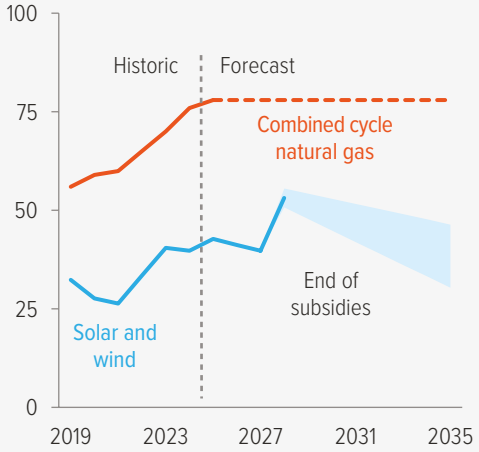
So where are we going to get more electricity from? The economical choices are solar or wind plus storage (91% of the current U.S. interconnection queue), and combined cycle natural gas generation (6%). That's it.[5]

"But the end of tax credits means nobody will want renewables anymore." No, even on an unsubsidized/no-tax-credit basis, renewable generation plus storage remains competitive with natural gas (Exhibit 8)—which is good, because the natural gas generation supply chain is a hot mess.

Right now, the waitlist for gas turbines is somewhere around 5-7 years—and other costs, including skilled labor, have increased around 2.5x.[6] No matter your personal opinions on renewable generation versus natural gas generation, the looming electricity crisis is going to require both. And if the U.S. wants more electricity generation capacity operational by 2028, there's one available choice, and that's renewables plus storage.

Exhibit 8: The economics of renewable generation can survive the end of subsidies

Historical and forecast levelized cost of electricity, solar vs. natural gas ($/MWh)



As of 07/22/25. Source: BNEF, Lazard LCOE+ 2025.

This is one of those scenarios where preparation meets opportunity. It's going to be a heck of a few years for shops like ours, who have deep relationships with developers in both the renewable and gas generation businesses.

[5] Even though nuclear is the single most expensive form of generation, tech bros love it because its capacity utilization is a flat line at 95%; a 100 MW nuclear plant produces 95 MW of power round the clock. "Oh, if I could just plug my data center into a nuclear power plant I wouldn't have to worry about intermittency, and that capacity utilization is so efficient!" This sort of thinking leads to ideas like starting up Three Mile Island again, a plant built in the late 1960s from all custom parts made by people who are now dead for companies that no longer exist. And presumably now they're going to try to make it run on Windows. Look, the only new nuclear reactor built in the U.S. in the last 30 years went $19 billion over budget, began operations eight years late, and helped bankrupt Westinghouse. Will new nuclear start contributing to U.S. power in ten to fifteen years? Sure, maybe. Can it help now? All signs point to no.

[6] Norton Rose Fulbright, "The Shift Back to Gas," 08/01/25, and S&P Global, "US gas-fired turbine wait times as much as seven years; costs up sharply," 05/20/25.

A note about risk

All investing involves risks of fluctuating prices and uncertainties of rates of return and yield. All security transactions involve substantial risk of loss.

Private credit: Foreign investing does pose special risks, including currency fluctuation, economic, and political risks not found in investments that are solely domestic. As interest rates rise, bond prices may fall, reducing the value of the share price. Debt securities with longer durations tend to be more sensitive to interest rate changes. High yield securities, or "junk bonds," are rated lower than investment grade bonds because there is a greater possibility that the issuer may be unable to make interest and principal payments on those securities. Other risks of private credit include, but are not limited to: credit risks, other investment companies risks, price volatility risks, inability to sell securities risks, and securities lending risks.

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