

Weekly Commentary

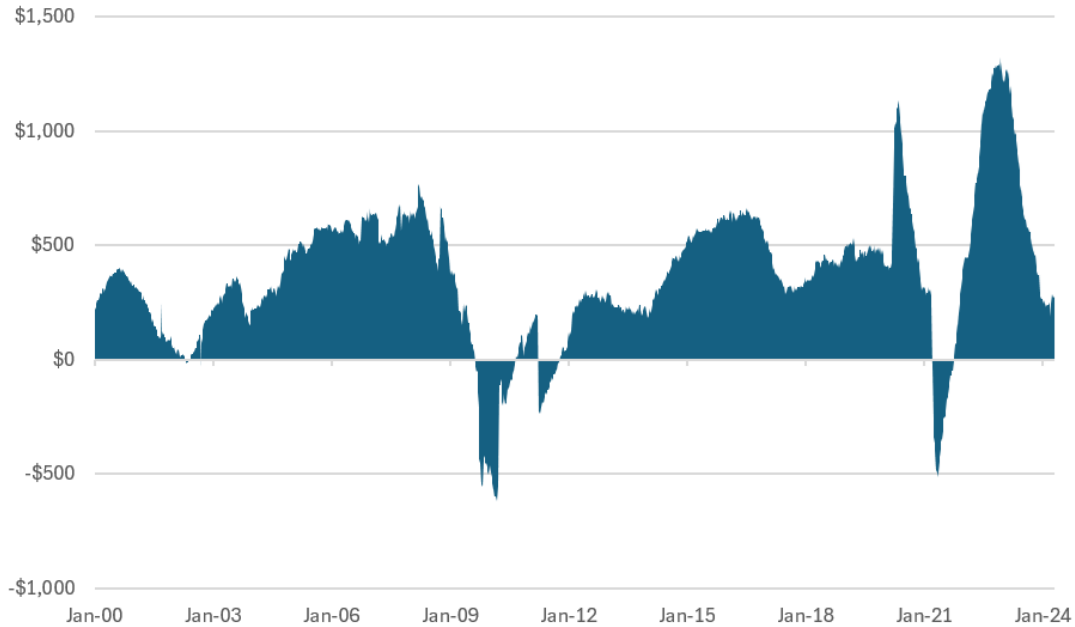
New Partners

It's no secret that private credit's growing popularity has come at the expense of traditional banks. As more companies opt to secure funding through alternative sources, banks lose out on lucrative deal fees and revenues from ancillary services. To counter some of these mounting pressures, banks have increasingly embraced strategic partnerships with their competition. Just last week, PNC Bank and TCW Group, a \$200 billion asset manager, announced they are teaming up to expand each other's private credit capabilities. In this joint strategy, TCW will oversee loan origination, underwriting, and portfolio management, while PNC will tap its network to source opportunities. Specific terms of the deal remain undisclosed, but it's probable that PNC will receive a share of the GP economics associated with the newly formed private credit platform while avoiding the necessity to lend off its own balance sheet, a near impossibility in today's strict regulatory environment. Other recently announced cooperation agreements include Barclays and AGL Credit Management, Wells Fargo and Centerbridge, and Citibank and LuminArx.

Who comes out ahead? We are still in the early innings of these alliances, and there seem to be clear benefits for both parties. However, we believe private credit platforms ultimately get the better deal from a competitive standpoint. They access valuable new sourcing channels, grow AUM and enjoy increased revenues from management and incentive fees. Indeed, banks diversify their revenue streams and can leverage their broader suite of services to boost margins. But their push into private credit comes from a defensive posture, reacting to shrinking market share, driven by regulatory constraints and challenging operating conditions. A tough backdrop to innovate and keep up with markets participants' evolving needs. Nevertheless, these new partnerships suggest that banks and private lenders will push the industry forward, spurring growth and fierce competition across this area of alternative finance for the foreseeable future.

Our values appreciate yours

Fig. 1: Loans and Leases Change from Year Ago (Billions), All Commercial Banks



Source: Bloomberg, Mill Creek.

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