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Macro Pulse for June 28

- May's PCE report showed firm inflation at 4.1% YOY. Both headline and core prices accelerated modestly from April, while consumer spending remained resilient. Although this print is unlikely to materially change the Fed's outlook, it reinforces our view that the policy rate will remain on hold this year, looking through inflation pressures that continue to be driven primarily by energy.
- Last week's volatility in tech equities highlights risks around concentrated leadership by semiconductor producers. The Philadelphia Semiconductor Index benchmark, along with memory chip makers primarily based in Korea, show higher cyclicality and volatility over the past decade than the Magnificent 7 incumbents. Particularly as consensus expectations shift away from Fed support, we expect further volatility ahead and anchor in quality, including tech leaders with strong profitability and lower earnings variability.
- Attention this week turns to the June employment report. Though we've now seen several months of resilient hiring, the labor market has not tightened: the unemployment rate has held steady, and wage growth continues to slow gradually. This labor market steadiness contributes to our view that the bar for rate hikes is high.

Separating signal from noise in private credit

As private credit continues to grow, investors are balancing its expanding opportunity set against questions around risks. Those themes took center stage at New York Life Investment Management's June 22nd webinar, Private Markets in Motion: Navigating the Next Phase of Growth. GMS's own Sarah Hirsch was joined by **Frantz Paulus of Apogem Capital** to examine a key question for investors: how to evaluate private credit as it enters its next phase of growth?

If you missed the live webinar, click here to register for the on-demand replay. We'll cover the private equity side of the conversation, with Jeremy Held of Bow River Capital, in the coming weeks.

The conversation highlighted three themes:

1. Private credit growth continues, with adoption varying across investor types
Private credit has grown steadily over the past 15 years as banks pulled back from middle market lending following the Global Financial Crisis. Today, it has become an important source of financing for thousands of middle market businesses and a larger part of institutional portfolios.
The growth has been meaningful: private credit assets have grown around 13% to 15% annually over the past 15 years, and assets under management are expected to roughly double over the next five years. Direct lending continues to anchor portfolios, representing roughly 45% of total private credit fundraising volume.

For investors, the appeal of private credit remains its potential for income generation, diversification, and lover volatility relative to public markets. While the asset class continues to experience robust demand, capital flows tell a more nuanced story. In Q1 2026, non-traded Business Development Companies (BDCs)recorded their first quarter of net outflows, even as institutional private credit fundraising reached a record high.
The divergence between retail and institutional flows offers important context. While recent headlines may be dampening sentiment among wealth investors, institutional demand remains robust. That continued conviction suggests investors with long-time horizons continue to see attractive fundamentals despite recent market noise.

2. Fundamentals paint a more balanced picture than the headlines
Private credit has faced scrutiny in recent months, driven by high-profile bankruptcies, concerns about software exposure, and redemptions from semi-liquid vehicles. While these developments deserve attention, they do not point to

a broad-based credit event.

The underlying fundamentals remain resilient. Companies have generally improved their ability to cover interest payments, borrowing levels have remained stable, and default rates continue to run at historically modest levels. Non-cash-pay interest has also stabilized after rising in recent years.

Rather than signaling broad weakness, today's environment points to greater dispersion across borrowers and managers. That makes quality underwriting, manager discipline, and manager selection increasingly important drivers of performance.

3. As the credit cycle matures, manager selection matters more

Investors should look beyond yield and evaluate a manager's ability to source attractive opportunities, maintain disciplined underwriting standards, construct diversified portfolios, and actively manage investments throughout the life of a loan. A demonstrated track record across market cycles and workout capabilities may also become increasingly important.

Managers with stable capital and the ability to remain patient and selective may be particularly well positioned in the current environment. We continue to see compelling opportunities in the middle and lower middle market, where less crowded deal dynamics and stronger lender protections can support attractive risk-adjusted returns.

Bottom line

Private credit remains a valuable source of income and diversification, particularly as public markets become increasingly concentrated. Although recent headlines have raised questions about the asset class, the underlying fundamentals appear more resilient than the headlines suggest.

Looking ahead, we believe success will depend less on broad market beta and more on where and with whom investors allocate capital. Experienced managers, disciplined underwriting, and historically resilient segments of the market, such as the lower middle market, are likely to become increasingly important differentiators.