PRIVATE CREDIT

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# APAC private credit: A diversifier for global portfolios

**Covid-driven supply shocks, followed by expansive fiscal and monetary policy and multiple protracted energy shocks have seen the re-emergence of inflation and geopolitical risk. This growing uncertainty is prompting investors to reconsider their approach to diversification, allowing Asia-Pacific private credit to emerge as a stabilising force for global portfolios.**

## Key takeaways

1. As rising inflation pushes equities and investment-grade bonds into closer correlation, classic portfolio and diversification methods are becoming less reliable, prompting institutional investors to look beyond traditional asset classes for genuine portfolio stability.
2. APAC private credit is structurally distinct from its US and EU counterparts: predominantly bilateral and non-sponsored, lending to high-growth mid-market corporates. This makes it attractive even to portfolios already holding US and EU private credit.
3. This asset class also has low correlation to global equities and bonds with high Sharpe ratios. Portfolio modelling shows that an allocation to APAC private credit shifts the efficient frontier up and to the left, improving risk-adjusted returns.

Rising inflation and an increasing correlation between global equities and investment-grade (IG) bond returns are challenging institutional investors' traditional approach to diversification. Previously common and reliable approaches to portfolio construction – focused on allocation to equities and bonds – are resulting in less diversified and more volatile returns. Against this backdrop, the question of where investors can find genuine diversification becomes more pressing.

One area drawing greater attention for diversification is in the debt space, with private credit often seen as a strong diversifier given its high Sharpe ratios and low correlation to the equity market.

Specifically, the APAC private credit market remains structurally under-allocated,[1] with historically strong risk-adjusted returns driven by a complexity premium rather than higher underwriting risk. More importantly, with its low correlation to northern hemisphere developed markets, APAC private credit represents a lower risk entry point to developing markets exposure while being a meaningful complement to global portfolios.

## Why the classic portfolio is under strain

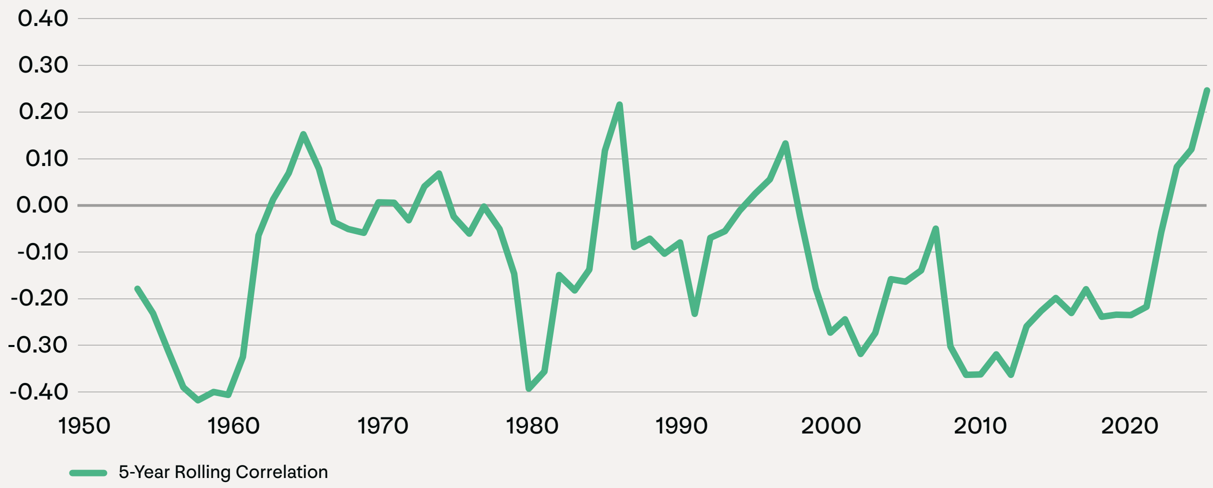
In developing the Modern Portfolio Theory (MPT) in 1952, Harry Markowitz mathematically proved the benefits of diversification, demonstrating how investors could minimise overall portfolio risk by combining non-perfectly correlated assets.

Over time, these mathematical principles were simplified into a widely adopted investment approach, with asset managers and financial advisers popularising the quintessential 60/40 balanced portfolio in the 1990s – occurring at a time when inflation and the correlation between equities and bonds was low. With the correlation between equities and bonds now significantly higher than in previous decades, the balanced portfolio model is under strain.

**Correlation between stocks and bonds climbed quickly with rising inflation and interest rates, most prominently from 2023-2025, making the 60/40 portfolio suboptimal from a returns efficiency perspective.**

GRAPH 1

STOCK-BOND CORRELATION, 1950 - 2025




Source: S&P 500 / US 10-Yr Treasury, 60-month rolling Pearson correlation (December snapshot). Inflation: World Bank Global Inflation Database (GDP-weighted average headline CPI, 1970-2023), with US CPI-U YoY used for 1950-1969 and 2024-2025 where World Bank data is unavailable.

[1] IFM Investors (2026), 'The opportunities in Asia-Pacific private credit'

## The fundamental case for APAC private credit

As we explored in "The opportunities in Asia-Pacific private credit", current public market volatility and geopolitical risks have shifted investors' focus to diversification, with geographical breadth and public/private market exposure emerging as two key important levers. APAC private credit is one of the few areas that delivers both, with most global portfolios underweight in the region.

### 1) Structurally different from US and European private credit

The private credit books of many global institutions share an increasingly common profile. They are predominantly sponsor-backed, geographically concentrated in the US and European Union (EU) and progressively correlated to the buyout and equity cycles that drive public markets.

In the US, around 70% of private credit transactions are sponsor-backed or linked to refinancing needs. In parts of the EU, this figure approaches 90%, and globally reached 77% in 2024, a 10-year high.[2] A significant share of global private credit assets are supporting a leveraged buyout financing business, heavily dependent on M&A deal flow. Credit performance is tied to private equity portfolio companies, and pricing and terms follow the rhythm of increasingly sponsor-favoured negotiations.

In Asia, the private credit market remains mainly bilateral and non-sponsored. Borrowers are typically promoter-managed businesses and regional mid-market corporates in a high-growth stage, seeking flexible capital solutions that their banking systems are unable to provide.

This structure allows APAC private credit to offer meaningful diversification to traditional portfolios, while remaining a valuable portfolio complement through the cycle, even for portfolios with exposure to either EU or US private credit.

### 2) Low correlation to other asset classes, high Sharpe ratios

As shown in Table 1, IFM's proprietary research found that APAC private credit exhibits a low correlation with a range of asset classes, including global public equities and government and corporate bonds. Its reliable and uncorrelated performance is backed by its senior position, strong cash flow and asset coverage, conservative leverage and contracted returns.

Low volatility and contracted returns result in APAC private credit's high Sharpe ratio (see Table 2), positioning it as a highly effective diversifier and stabilising asset class in most global portfolios. This stabilising effect is particularly pronounced during equity market dislocations, as witnessed in 2020 during market upheavals triggered by the pandemic, during which time APAC private credit proved resilient.

TABLE 1

**ASSET CLASS CORRELATION MATRIX**

| | S&P500 | Global Equities | Govt Bonds | Corp Bonds | US High Yield | EUR High Yield | US Leverage Loans | EUR Leverage Loans | Commodities | US Direct Lending (Unlevered) | IFM APAC Sub-IG Composite |
|---|---|---|---|---|---|---|---|---|---|---|---|
| S&P500 | 1.00 | 0.96 | 0.32 | 0.61 | 0.79 | 0.71 | 0.60 | 0.53 | 0.39 | 0.40 | 0.30 |
| Global Equities | 0.96 | 1.00 | 0.41 | 0.70 | 0.84 | 0.77 | 0.63 | 0.54 | 0.46 | 0.43 | 0.32 |
| Govt Bonds | 0.32 | 0.41 | 1.00 | 0.85 | 0.47 | 0.31 | 0.12 | 0.09 | 0.14 | 0.05 | 0.13 |
| Corp Bonds | 0.61 | 0.70 | 0.85 | 1.00 | 0.78 | 0.69 | 0.49 | 0.45 | 0.27 | 0.27 | 0.34 |
| US High Yield | 0.79 | 0.84 | 0.47 | 0.78 | 1.00 | 0.88 | 0.79 | 0.68 | 0.47 | 0.50 | 0.49 |
| EUR High Yield | 0.71 | 0.77 | 0.31 | 0.69 | 0.88 | 1.00 | 0.79 | 0.78 | 0.34 | 0.52 | 0.51 |
| US Leverage Loans | 0.60 | 0.63 | 0.12 | 0.49 | 0.79 | 0.79 | 1.00 | 0.89 | 0.42 | 0.60 | 0.63 |
| EUR Leverage Loans | 0.53 | 0.54 | 0.09 | 0.45 | 0.68 | 0.78 | 0.89 | 1.00 | 0.28 | 0.54 | 0.63 |
| Commodities | 0.39 | 0.46 | 0.14 | 0.27 | 0.47 | 0.34 | 0.42 | 0.28 | 1.00 | 0.39 | 0.25 |
| US Direct Lending (Unlevered) | 0.40 | 0.43 | 0.05 | 0.27 | 0.50 | 0.52 | 0.60 | 0.54 | 0.39 | 1.00 | 0.54 |
| IFM APAC Sub-IG Composite | 0.30 | 0.32 | 0.13 | 0.34 | 0.49 | 0.51 | 0.63 | 0.63 | 0.25 | 0.54 | 1.00 |

Source: Bloomberg, PitchBook, Cliffwater & IFM Investors

[2] S&P Global (2025), 'Private debt's share of buyout financing hits decade high'

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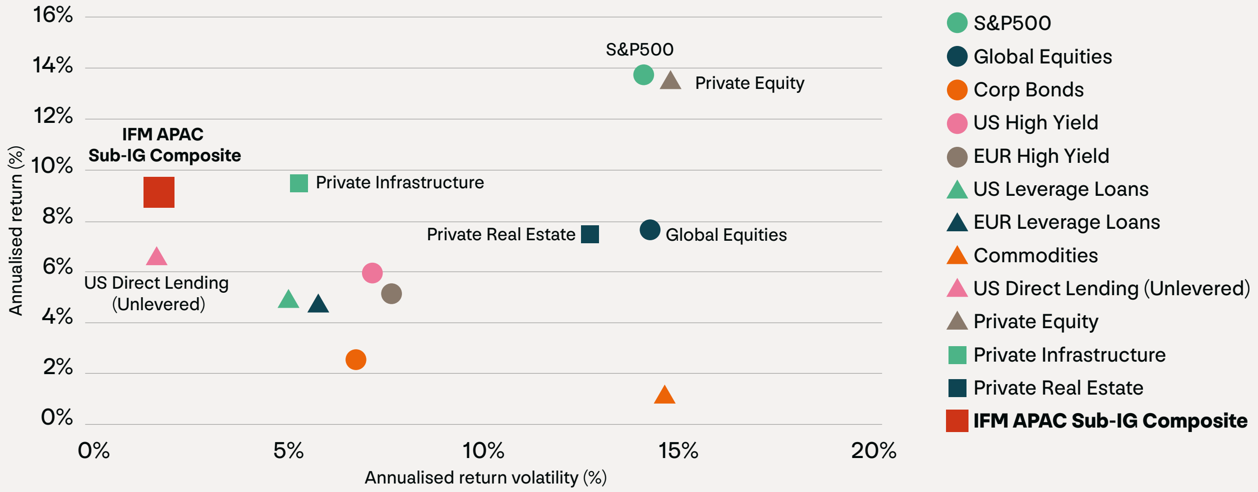
GRAPH 2

**AVERAGE ASSET CLASS RISK AND RETURN**




Source: Bloomberg, PitchBook, Cliffwater, MSCI & IFM Investors

**ASSET CLASS SHARPE RATIOS**

| Asset Class | Sharpe Ratio |
|---|---|
| IFM APAC Sub-IG Composite | 4.8 |
| US Direct Lending (Unlevered) | 3.3 |
| Private Infrastructure | 1.5 |
| S&P500 | 0.8 |
| Private Equity | 0.8 |
| US Leveraged Loans | 0.6 |
| US High Yield | 0.6 |
| EUR Leverage Loans | 0.5 |
| Private Real Estate | 0.4 |
| EUR High Yield | 0.4 |
| Global Equities | 0.4 |
| Corp Bonds | 0.1 |

Source: Bloomberg, PitchBook, Cliffwater, MSCI & IFM Investors

### 3) APAC: A region of distinct economies comprising of a range of uncorrelated mature and emerging economies

While the APAC region is often seen as a single, homogeneous market, it is made up of very different economies – from mature markets (Australia, Japan, Singapore, Korea etc.) to emerging markets (India, Indonesia, Malaysia, Vietnam, Thailand and the Philippines). These economies have differing levels of interdependence and are driven by different sectors, growth trends and domestic conditions (see Table 3), which means they are unlikely to be affected by localised shocks in the same way. For investors, this offers a further layer of diversification, beyond the geographic breadth and public/private market exposure outlined below.

**TABLE 3**

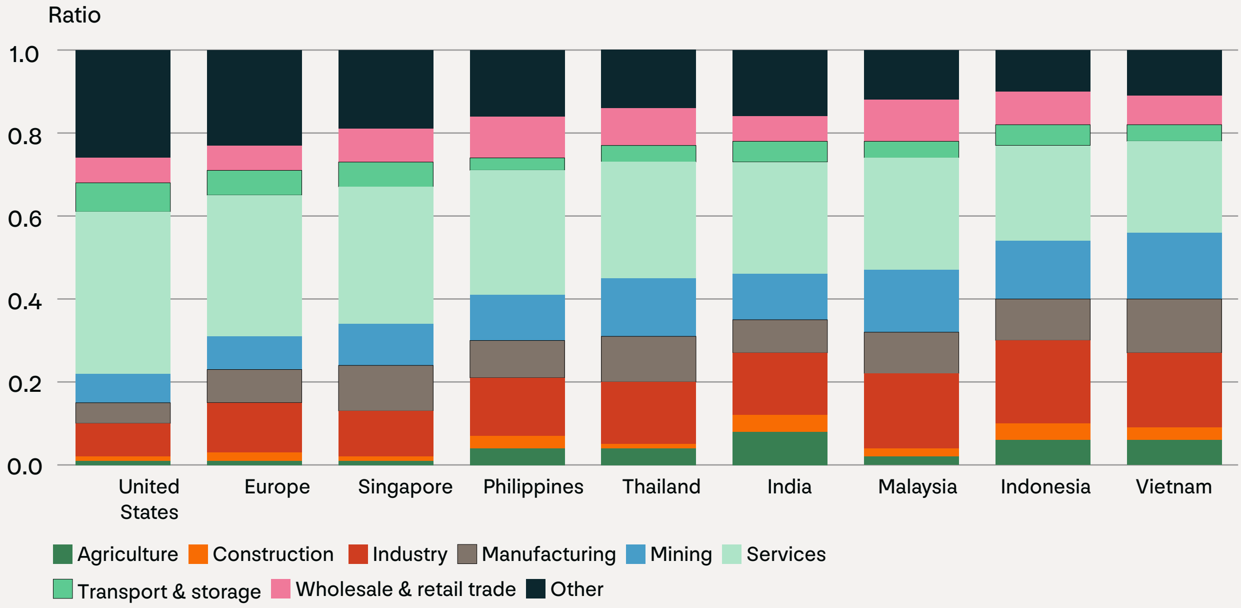
**CORRELATION MATRIX OF GDP GROWTH RATES ACROSS APAC ECONOMIES**

| | India | Vietnam | Philippines | Malaysia | Singapore | Indonesia | Thailand | Australia | United States | EU27 |
|---|---|---|---|---|---|---|---|---|---|---|
| India | 1.00 | 0.26 | 0.78 | 0.78 | 0.77 | 0.73 | 0.69 | 0.77 | 0.71 | 0.80 |
| Vietnam | 0.26 | 1.00 | 0.33 | 0.58 | 0.04 | 0.32 | 0.33 | 0.27 | 0.18 | 0.28 |
| Philippines | 0.78 | 0.33 | 1.00 | 0.78 | 0.56 | 0.86 | 0.74 | 0.76 | 0.70 | 0.74 |
| Malaysia | 0.78 | 0.58 | 0.78 | 1.00 | 0.67 | 0.70 | 0.76 | 0.71 | 0.70 | 0.77 |
| Singapore | 0.77 | 0.04 | 0.56 | 0.67 | 1.00 | 0.50 | 0.69 | 0.61 | 0.65 | 0.71 |
| Indonesia | 0.73 | 0.32 | 0.86 | 0.70 | 0.50 | 1.00 | 0.67 | 0.69 | 0.44 | 0.56 |
| Thailand | 0.69 | 0.33 | 0.74 | 0.76 | 0.69 | 0.67 | 1.00 | 0.57 | 0.55 | 0.57 |
| Australia | 0.77 | 0.27 | 0.76 | 0.71 | 0.61 | 0.69 | 0.57 | 1.00 | 0.69 | 0.77 |
| United States | 0.71 | 0.18 | 0.70 | 0.70 | 0.65 | 0.44 | 0.55 | 0.69 | 1.00 | 0.89 |
| EU27 | 0.80 | 0.28 | 0.74 | 0.77 | 0.71 | 0.56 | 0.57 | 0.77 | 0.89 | 1.00 |

Correlations based on annual year-on-year GDP growth rates (2001-2024).
Source: World Bank Global Economic Monitor

**GRAPH 3**

**GROSS VALUE BY SECTOR ACROSS APAC MARKETS**




Source: UN Trade and Development

## Modelling APAC private credit's impact on global portfolios

Theoretically, APAC private credit has the potential to play a meaningful role in institutional portfolio construction. To examine its impact on portfolio returns, we've modelled how "Defensive", "Balanced" and "Growth"[3] portfolios could benefit from the addition of APAC private credit employing a utility maximisation framework which facilitates risk appetite aware optimisation to tailor portfolios to match specific investor risk preferences (see Graph 04). Also on this graph are the three portfolio asset allocations comprising of only listed asset classes, and IFM's Infrastructure Portfolio (UIP) as the unlisted asset class.

Our analysis shows that the efficient frontier moves up and to the left, with all portfolios benefiting from this allocation shift – for the same level of expected return, volatility (risk) is reduced. Each modelled investor portfolio shows improved excess returns with lower volatility (i.e. higher portfolio Sharpe ratio).

The modelled outcome mathematically supports APAC private credit as a diversifier, or return enhancer, for defensive, balanced or growth-oriented portfolios.

## Why APAC private credit matters now

As the assumptions underpinning the traditional 60/40 model break down, the search for diversification, return premiums and growth tailwinds point to APAC private credit – structurally uncorrelated, attractively priced and underpinned by long-term demographic trends.

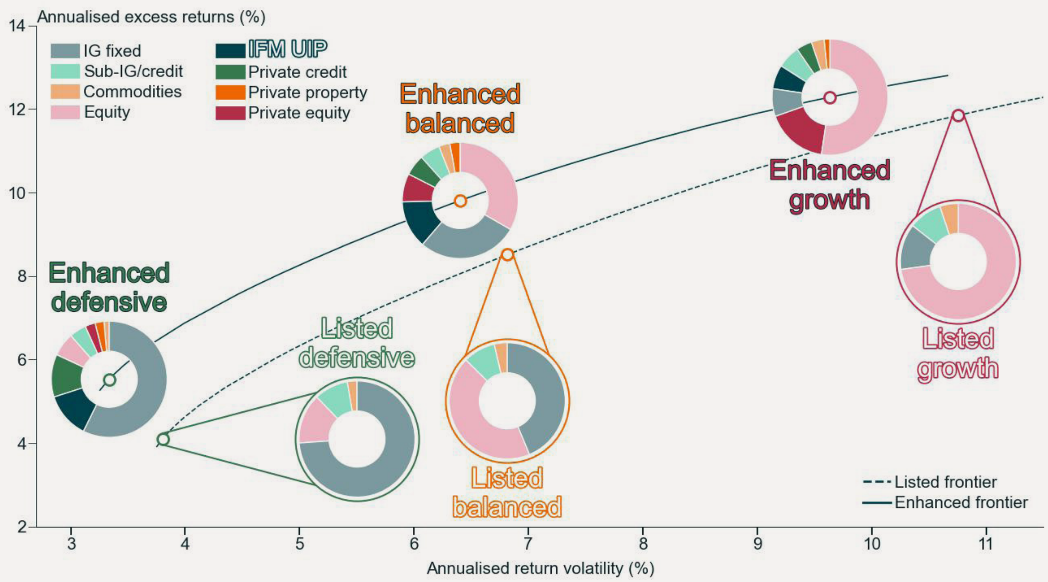
What remains is the institutional will to act and explore the opportunities available to better mitigate investment risks.

The question is no longer whether APAC private credit belongs in a global portfolio – but how sophisticated allocators should think about its role in the next phase of portfolio construction.

**To discuss the role of APAC private credit in portfolio diversification, please contact our Client Solutions team.**

GRAPH 4

UTILITY MAXIMISATION FRONTIER




Source: IFM Investors, Bloomberg, Burgiss, MSCI

[3] Hypothetical Defensive portfolios allocate 75% to investment-grade fixed income, 14% equities, 7% commodities and 4% credit; hypothetical Balanced portfolios allocate 45% to investment-grade fixed income, 45% to equities, 9% commodities and 1% credit; hypothetical Growth portfolios allocate over 75% to equities, with the remainder in commodities and investment-grade fixed income and no credit exposure.

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