

PRIVATE MARKETS PERSPECTIVES

18 November 2025

Private credit facing noises: a necessary evil?

Private debt has evolved from a minor niche into a major segment of the global credit market. Two decades ago, this type of lending was seen as an under-the-radar alternative source of corporate funding with negligible volumes; now it is central to many institutional portfolios. Global private-credit assets under management are expected to exceed 2 trillion dollars in 2025. Projections point to 4.5 trillion dollars by 2030, making private credit the fastest growing segment of private markets. This expansion is being driven by strong investor demand, a shift in regulatory frameworks, and a growing preference over traditional bank lending.

Non-bank lenders

After the Global Financial Crisis, regulatory reforms such as Basel III and the Dodd-Frank Act raised capital requirements for banks. As a result, many banks and financial institutions scaled back their exposure to leveraged or sub-investment-grade lending. That gap was largely filled by private credit funds and direct lenders. They offered tailored financing to companies often shut out from standard capital markets. Over the years, borrowers have come to favour private lenders for speed, flexibility and funding certainty in volatile environments. As the asset class has become a structurally growing segment, many sub-strategies have started to emerge, some of which, like senior direct lending, are particularly relevant in the current macro environment.

Private credit has now become an essential financing channel for mid-market companies and large corporates, shifting a large part of the loan market from traditional banks towards private credit funds.

A maturing asset class

Despite its strong growth, the private credit market appears to be entering a more selective and discerning phase. Recent defaults, including those involving Tricolor Holdings and First Brands Group, have drawn attention to differences in underwriting standards and transparency across the industry. However, most of the debt in both cases was actually held in the broadly syndicated loan market through CLOs. These events underscore an important reality: the quality of underwriting and the discipline of individual managers make a significant difference in outcomes.

As financial conditions tighten, areas such as subprime consumer credit and highly-leveraged corporate lending are experiencing more strain, particularly where aggressive structures or limited covenants were common. Yet, this differentiation is also revealing the strength of well-managed portfolios. Managers with rigorous credit selection, active monitoring, and conservative structuring are generally better positioned to manage the current environment.

After years of easy liquidity and minimal defaults, today's market is providing a useful stress test for the maturing asset class. Rather than signalling systemic weakness, the current adjustment highlights the value of experience, prudence, and transparency, qualities that increasingly define the most resilient private credit managers.

A bifurcated market

This environment is producing a more polarised market. Senior lending funds continue to finance solid companies with proven products, positioning, real profitability and sustainable growth, backed by strong private equity sponsors.

The expansion of private credit has brought greater dispersion in credit quality and manager capability, which highlights the need for selectivity. While some riskier segments are showing strain, others remain resilient. Senior secured lending, asset-backed strategies and infrastructure debt all continue to deliver consistent, risk-adjusted returns.

These loans typically have variable rates that rise with the market and are secured by borrower assets, offering investors additional protection if defaults occur. Custom covenants and tighter loan documentation also offer stronger investor protections than public debt.

The asset class also shows low correlation to public equities and bonds, helping diversify multi-asset portfolios. Even with inflationary and geopolitical pressures, these features have continued to support private credit's performance.

The case for private credit

The combination of relatively high margin, structural protections and floating-rate exposure makes private credit particularly appealing in the current environment and consolidates its place in private market portfolios. This is reflected in recent allocation trends, as institutional investors, including pension funds, insurers and sovereign wealth funds, continue to increase allocations to this space. At the same time, private wealth and retail channels are finding their way through semi-liquid evergreen vehicles, which raised 86.4 billion dollars in the first half of 2025, more than 50 per cent higher than the 57.4 billion dollars raised during the same period in 2024, according to PitchBook's latest Global Private Debt Report.

As private debt grows and matures, it is entering a more selective phase. Some areas face pressure, but as a whole, the segment continues to offer attractive returns together with regular yield distribution and diversification benefits. The difference now lies in execution. In a more complex and competitive environment, performance increasingly depends on a thorough understanding of underlying risks and structures. For those managers who combine selectivity with sound governance and experienced loan management, we are convinced private credit remains a source of durable and attractive risk-adjusted returns.



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