Retirement Income
JOURNAL

Private Credit AUM to Double by 2028: Moody's

By Editorial Staff *Sat, Feb 1, 2025*

The Moody's report showed that, as of the end of the third quarter of 2024, private credit and insurance assets accounted for 52% the AUM of the four largest alternative asset managers: Apollo, Blackstone, Carlyle and KKR.

A new **report** from Moody's Investors Services on the global market for private credit assets describes the anticipated hockey-stick growth of that market, the use of such assets by insurance companies, and the potential dangers such assets might pose to the global financial system.

The world's private credit assets under management (AUM) is on track to roughly double in the next few years, from just over $1.5 trillion in 2023 to about $3 trillion by 2028, "with 70% of this growth from the US, as appetite for private capital grows unabated," according *Moody's Ratings Outlook, January 21, 2025: Private Credit.*

Partnerships between alternative asset managers (AAMs) and insurance companies will drive part of the rising creation and consumption of private assets, respectively. The Moody's report showed that, as of the end of the third quarter of 2024, private credit and insurance assets accounted for 52% the AUM of the four largest AAMs (Apollo, Blackstone, Carlyle and KKR).

"US insurers have recently increased their exposure to alternative investments, including private credit, which marks a shift from their typical approach of favoring more traditional, long-term investments. Partnerships between asset managers and insurers have accelerated this trend," the report said.

AAMs "that own or have partnerships with insurance companies are investing insurance company general account assets into ABF investments. The insurance industry has shown a willingness to sacrifice liquidity and accept the greater complexity that may come with ABF to pocket better returns for equivalent investment grade risk."

According to the ratings agency's report:

The AAMs have poured capital into the insurance sector, acquiring minority or controlling stakes in insurance companies. These evolving partnerships have allowed US life insurers to leverage the managers' direct access to asset originator platforms, lowering costs and improving yield generation for the insurance company. The partnerships also allow insurers to gain proficiency in complex asset classes, including private credit, real estate and asset-based finance, without having to invest significant capital.

Relative to public credit markets, private credit markets offer illiquidity premiums, portfolio diversification and stronger covenant protections. Private credit investments are not traded on secondary markets… this shields them from the daily swings in the publicly traded fixed-income sectors.

Synergies between insurance companies and alternative managers will grow, but it will be essential to monitor risks, especially credit and asset-liability mismatch (ALM) risks, Moody’s analysts said. Among the potential risks posed by private credit:

- “Ongoing competition for assets will help market liquidity, it will also add to risk-taking, leverage and weakness in documentation… Lower-than-promised returns or an eventual downturn could challenge the expanding role of partnerships between banks and private credit, which are mostly untested.
- Private credit lenders have still been introducing additional leverage to the economy, with much less transparency Leverage is increasingly “stacked”—it is not necessarily clear how to distinguish asset-level leverage, fund-level leverage (tacit leverage) and the creation of tranche-structured leverage in ABS transactions. An equity position in an investment may be funded with debt from banks.

Moody’s also expects the market for private credit to expand to include retail investors. “While still less than 20% of total private debt AUM, retail private debt AUM is growing faster than institutional AUM. Some managers are bringing evergreen funds to market. Others are rolling out first-ever private-credit exchange traded funds (ETFs),” the report said.