OUTLOOK
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Private Credit — Global

2025 Outlook – Primed for growth as LBOs revive, ABF opportunities accelerate

Summary

The size and scope of the global private credit markets will continue to grow rapidly in 2025, spurred by lower interest rates, declining default risk and solid economic strength, led by the US and Europe. Global private credit assets under management (AUM) will jump to $3 trillion by 2028, reflecting greater momentum than in the past two years.

» **Asset managers look further afield for growth and returns**. Competition has hurt lofty returns in direct lending, prompting alternative asset managers to seek newer growth opportunities such as the asset-based finance (ABF) market and investment grade private credit as insurance companies search for higher yields.

» **ABF growth will be fueled by bank partnerships**. While direct lending makes up the biggest share of alternative asset management's private credit activity, ABF has gained importance as banks step away from riskier credit exposure. This is especially so in instances where they can alleviate risk-based capital requirements. We expect this momentum to continue.

» **Focus on retail investor opportunities will intensify**. Retail private debt AUM has been accelerating and, while still less than 20% of total private debt AUM, is growing more quickly than institutional AUM. To access this newer base, managers are coming to market with evergreen funds while some are rolling out first-ever private credit Exchange Traded Funds (ETFs).

» **Insurance companies will deepen ties with private credit**. 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.

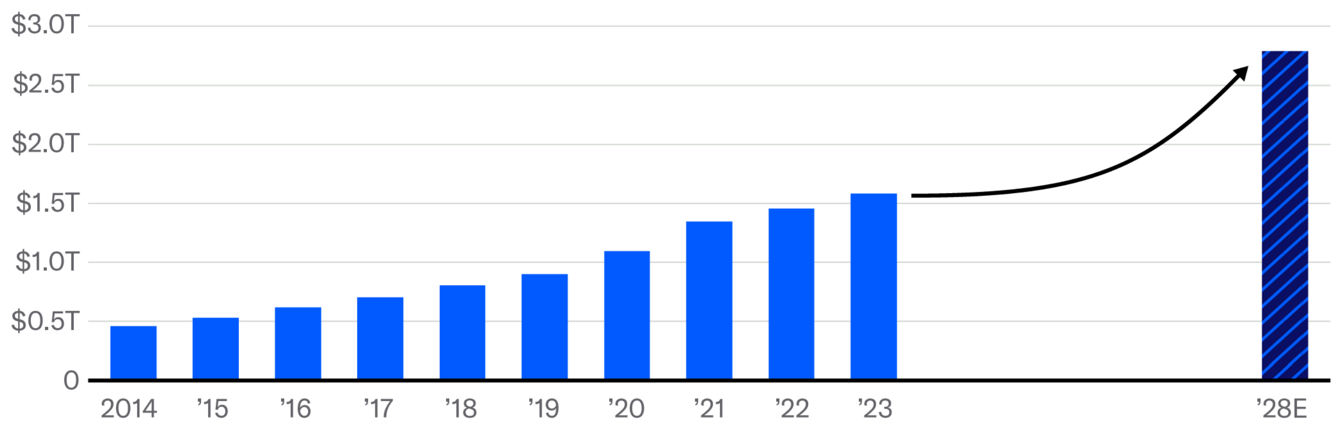
» **US regulatory approach will likely change under new administration**. The US regulatory approach toward the US private credit market will likely change during the second Trump administration, as priorities shift from an emphasis on enhanced disclosure requirements to reassessing the existing regulatory framework with a focus on capital formation.

» **Policy uncertainties, opacity risk will persist**. A negative turn in the economic environment would likely test the resilience of the private credit market and its growth aspirations. Early identification of asset performance issues remains difficult given limitations on public reporting requirements.

Asset managers look further afield for growth and returns

The size and scale of the global private credit markets will continue to grow rapidly in 2025, spurred by lower interest rates, declining default risk and solid economic strength in developed regions such as the US and Europe (Global Macro Outlook). Private equity sponsors are eager to push more deals over the finish line in 2025, creating opportunities for direct lenders to put $300 billion of outstanding dry powder to work. Leveraged buyout activity, which accelerated late last year, will continue, along with further refinancings. According to Pitchbook LCD, some are calling for this year's new issuance to be roughly in line with that of last year, when new volume totaled $500 billion (excluding repricings), the most since 2021 and more than double 2023's output. This year's volume will be supported by a bigger share of M&A, LBOs and other event-driven deals. We expect global private credit AUM to jump to $3 trillion by 2028 (Exhibit 1), with 70% of this growth from the US, as appetite for private capital grows unabated.

Exhibit 1
Private credit assets under management will hit $3 trillion by 2028
Global private credit AUM

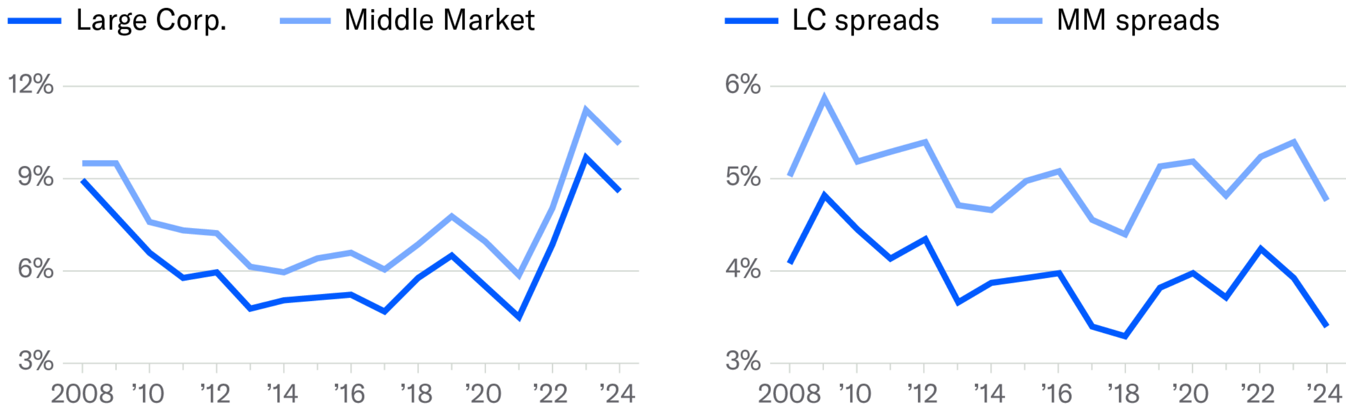


Our estimate uses Preqin's historical private debt fund AUM figures, which are not inclusive of all private credit AUM. Data does not include asset based financing, real estate and infrastructure PC assets, assets in non-fund structures and leverage on these funds.
Source: Preqin, Moody's Ratings

At the same time, growing competition between lenders in the broadly syndicated loan (BSL) market and private credit managers has been compressing returns in direct lending (Exhibit 2) and prompting weaker document protections. This dynamic has pushed alternative asset managers to expand beyond corporate direct lending into the ABF market given the opportunity for more attractive risk-adjusted returns. To accomplish this, they are starting to raise dedicated ABF funds, while those 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. Over the next five years, we expect at least $1 trillion in specialty finance private credit ABF origination.

Exhibit 2

Turning lower: middle market, large corporate primary first-lien term loan yields and spreads (three-year)



Yields and spreads tied to Libor through Q4 2021. SOFR thereafter. Q1 2024 MM spreads/yields data only includes five underlying deals.
Source: LSEG LPC

ABF is broadly any financing secured by assets including consumer assets, commercial assets, hard assets and financial assets. While ABF is not new to private credit, managers are focusing more intently on new opportunities such as data centers, where financing demand is soaring. Beyond ABF opportunities, private credit managers are angling for greater penetration of wealth channels and the broader retail market, which is still a vast and largely untapped investor base.

Achieving scale and the broadest set of investment capabilities will become more essential as capital demand accelerates across the global economy and clients want to do more with fewer general partners. The big will continue to get bigger – leading to more consolidation in the sector. Larger alternative asset managers will use their deeper pockets to grow their retail distribution forces, which can be costly and complicated. We expect alternative asset managers will continue to focus more intently on opportunities in private credit (Exhibit 3) versus other asset classes such as private equity or real estate, for which investment returns and fundraising prospects have been more difficult of late. A higher-for-longer rate environment will certainly continue to be a drag on private equity fund returns. And while ongoing competition for assets will help market liquidity, it will also add to risk-taking, leverage and weakness in documentation

Exhibit 3

Blackstone, Apollo, KKR and Carlyle are emphasizing private credit, insurance (AUM mix of the four largest alternative asset managers)

	Q3 2014	Q3 2024
Private credit & insurance	33.4%	52.0%
Private equity	30.1%	25.5%
Other	36.5%	22.5%
Total AUM	**$825.8B**	**$3.38T**

Data does not include asset based financing, real estate and infrastructure PC assets or assets in non-fund structures and leverage on these funds.
Source: Preqin, Moody's Ratings

While the global economy appears generally healthy, lower-than-promised returns or an eventual downturn could challenge the expanding role of partnerships between banks and private credit, which are mostly untested. Meanwhile, given the increasing demand for private credit assets, undisclosed leverage within the financial sector will only grow.

ABF is rapidly migrating to private credit, fueled by bank partnerships

As banks cede more turf to private credit, they face the need to either compete with or serve this growing part of the ecosystem. In many cases, the answer has been to build more partnerships with private credit lenders – a strategy that accelerated last year when at least nine sizable new alliances were cemented (Exhibit 5, Appendix). Partnerships will continue in 2025, but the large banks will also make it a strategic priority to further scale up the private credit investment capabilities within their asset management businesses. One such example is Goldman Sachs: the investment bank recently said that it is moving deeper into private credit by establishing a capital solutions group within its global banking and markets unit. The bank is also committing further to the alternatives investment team within its asset and wealth management group.

As highlighted in Exhibit 5, private credit lender/bank partnerships are focused on two main areas of lending: leveraged lending to corporate borrowers and asset-based finance. Both global investment banks and regional banks are benefiting from these partnerships because they can maintain the economics of their origination capabilities and customer relationships while giving private credit lenders access to their originations, with some risk relief on their balance sheets.

Direct lenders have rapidly developed relationships with the same financial sponsors that the large banks long served. Increased regulatory restrictions on banks – such as the Fed's 2013 leveraged finance guidelines and an overall heightening of bank capital requirements – means that banks are less likely to make and hold risky loans. However, they will remain a critical part of the credit ecosystem in their role as liquidity and financing providers to private credit lenders and alternative asset managers. For example, banks have long provided private credit lenders with subscription finance and asset-based lending facilities, as well as structuring collateralized loan obligation (CLO) issuances. Data on banks' involvement in private credit is scarce, but our global survey of 32 banks actively engaged with private credit shows that their average annual growth in lending to the ecosystem of 18% in 2021-23 nearly matches the rapid 19% increase in capital-raising by private credit funds over this period.

Demand for securitized financing will grow

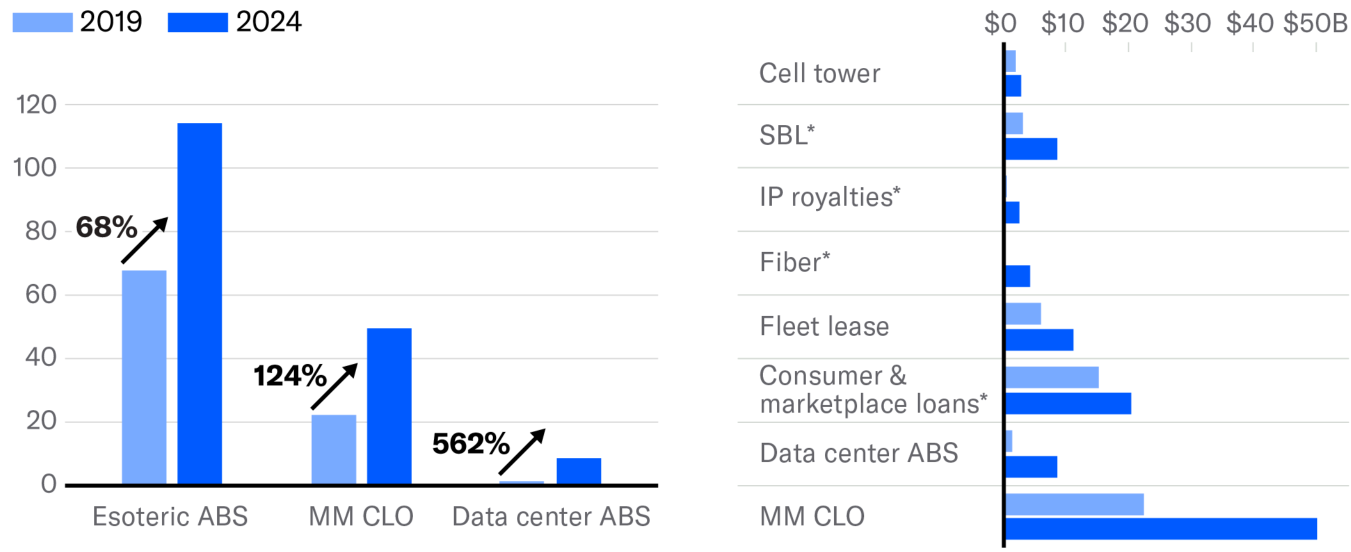
As direct lenders lean increasingly on asset-based finance to address growing capital demands, they are also tapping into the structured finance market to securitize a small but growing share of these ABF assets. Such asset-backed securities (ABS) currently account for some 10-15% of financing needs for a large variety of assets, including many "niche" or specialized assets that are included in Exhibit 4. These assets are relatively risky and illiquid and have traditionally relied heavily on bank financing. In 2024, as private credit continued to finance an increasing share of funding needs, structured financing as a share of this lending pie grew.

When looking at total ABS issuance for that year, $330 billion came to market (not including real estate mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS) and collateralized loan obligations (CLOs)) – with $130 billion of that (40%) in private ABS issuance. If we consider private credit CLOs – another increasingly important funding vehicle – we saw another roughly $50 billion of issuance in 2024, which accounted for 20% of total CLO issuance.

We expect that ABS financing for private credit will continue to grow in the years ahead. Assuming a 10% annual CAGR, we estimate that in five years total outstanding private ABS could reach around $500 billion. We also see total outstanding private credit CLOs reaching $200 billion in five years from today's $130 billion, if issuance remains as robust as it was in 2024.

Performance in this segment will vary, depending on the asset underwriting and acquisition standards of the originators, the experience of the sponsor/manager as well as the structural protections embedded in transactions. Moreover, the diversification of assets in the portfolio and ongoing risk control and governance discipline will support performance stability. The alignment of interests among transaction parties will also be important – for example, ensuring that the sponsor retains a vested interest in the performance of the transaction.

Exhibit 4
Private credit has been driving rapid growth in structured finance, especially in niche asset classes (in billions of dollars)



*Fiber and IP royalties data is 2020 and 2024.
Source: FinSight

Focus on expanding retail investor opportunities will intensify

Expansion of retail private debt AUM has been accelerating and, while still less than 20% of total private debt AUM, is growing at a faster pace than institutional AUM. This is happening as alternative asset managers look beyond the traditional base of high-net-worth individuals toward the "mass affluent." To access this newer base, some managers are offering first-ever private credit Exchange Traded Funds (ETFs — see report), while in Europe asset managers are adapting to recent regulation – ELTIF 2.0 (see report), which makes it easier for retail investors to participate by, for example, requiring modest minimum investment requirements. This approach also aligns more closely with the framework for US Business Development Companies (BDCs), which have contributed to the growth of the US private credit market (See BDC Q3 2024 update).

However, private market illiquidity, which suits institutional investors with long-term horizons, poses risks when applied to retail-focused ETFs, potentially leading to liquidity mismatches and underperformance during market stress. Illiquidity is a feature of private markets, where investing carries a premium that justifies its attractiveness to institutional investors. Private assets require a long-term investment horizon that is often matched with institutional investors' long-dated liabilities, such as life insurers' payouts or asset managers' long-dated lockup periods for their investors. Private assets have thrived, in part, on these structural features that prevent investors from redeeming their investments on short notice.

With the broadening of the investor base to include retail investors, such as proposals to establish private credit-focused ETFs, these structural considerations can be challenged. In addition, ETFs with a focus on investing in CLOs arranged by private credit firms have been large buyers of CLO debt. ETFs offer daily liquidity, and investors have the ability to buy and sell at any time during the trading day. But such a structure raises the risk of a liquidity mismatch between the ETF's equity leg (highly liquid in normal functioning markets) and the underlying private assets (highly illiquid).

We believe that when retail investors are given the option to sell and redeem their investments at high frequency, it will be exercised in a severe market downturn. Therefore, in the event of a liquidity drought in underlying markets, market makers facilitating the smooth trading of the ETF would likely reflect this risk in their trading quotes. So, in effect, in a stress scenario ETFs will track the liquidity of these assets. In other words, if investors trade on the premise that ETFs are more liquid than their underlying assets, they may find that performance falls short of their expectations in a stressed environment. This could be particularly true with private credit ETFs.

Insurance companies will deepen ties with private credit

Insurers will continue to shift their investment portfolios away from public investment grade assets to investment grade private ABF assets to enhance portfolio returns. Many will do this through partnerships with private credit managers who have greater expertise in this area. US life insurance companies, traditionally active in the private credit market, have been growing their exposure through a combination of new business flows, investment portfolio repositionings and the growing affiliation between life insurance companies and alternative asset managers. The alternative asset managers 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. The growth in private credit for the insurance sector has also aroused regulatory scrutiny from the NAIC (see section below, *US regulatory approach will likely change under new administration)*.

Private credit markets offer certain opportunities for insurers relative to public markets, such as significant illiquidity premiums, enhanced portfolio diversification and stronger covenant protections. Private credit investments also tend to be less volatile because they are not traded on secondary markets. This shields them from the daily swings in the publicly traded fixed-income sectors.

While regulators have raised concerns about the inherent illiquidity of private credit, these instruments can help insurance companies align with certain liabilities that have relatively predictable cash flow, such as pension risk transfers and structured settlements. At the same time, we believe this can justify at least a partial asset allocation to less liquid investments. However, the opacity of these complex assets also carries a distinct risk.

We expect the synergy between insurance companies and alternative asset managers will only strengthen, propelled by the growing use of asset origination platforms to generate assets. However, monitoring risks — especially credit and liquidity risks, along with ALM risks – remains essential. Another risk that insurance companies have to manage carefully is concentration risk, if companies have large exposure to single-name assets. Overall, insurers are seeking innovative methods to generate alpha returns from assets that are both high-yielding and capital-efficient — a strategy that requires them to balance enhanced yields against additional illiquidity and credit risk.

US regulatory approach will likely change under new administration

The regulatory approach will likely change with regard to the US private credit market during the second Trump administration, as priorities likely shift from an emphasis on enhanced disclosure requirements to reassessing the existing regulatory framework, with a focus on capital formation. One potential change could affect retail investors. For example, private markets are accessible primarily to accredited investors – mostly high-net-worth, sophisticated investors and institutional investors. Retail investors – the mass affluent, or those not defined as wealthy – have had very limited access to private markets. They could achieve greater access if the SEC decides to broaden the definition of “accredited investor” under the Securities Act of 1933. Recent SEC filings to launch private credit ETFs, such as the one by Apollo and State Street in September 2024, have raised concerns among regulators and investor advocates about the suitability of these funds for retail investors because of certain risks.

The banking industry also faces new exposure requirements for private credit. Starting in 2025, US banks with $10 billion or more in assets will need to disaggregate these loans into five new categories and report unused lending commitments similarly. This change is aimed at enhancing regulatory oversight and the understanding of credit and risk concentrations in the banking system. In addition, in June 2024, the Federal Reserve Board (Fed) proposed changes to the FR Y-14 reports for bank holding companies lending to non-bank entities, including private funds. The proposed changes will provide the Fed with more detailed information on lending to non-bank entities and improve the timeliness and coverage of counterparty credit risk data. Additional reporting would help improve transparency of banks' exposure and lending leverage to private credit, which could ease concerns regarding undetected systemic risks.

In addition, the National Association of Insurance Commissioners (NAIC) is enhancing its regulatory scrutiny of insurers' investment portfolios, with a particular emphasis on alternative investments (see blue box below for key initiatives). 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, as insurers benefit from enhanced investment returns, portfolio diversification and stronger asset-liability matching. The NAIC and state insurance regulators have initiated major updates to enhance the existing insurer investment risk oversight framework, including the reduction of so-called “blind reliance” on credit ratings while retaining the overall use of credit rating provider (CRP) ratings backed by a strong due diligence framework.

Key NAIC initiatives affecting private credit

Below is a summary of some of the key NAIC initiatives focused on the oversight of insurers’ investments, including those in private credit and their use of credit ratings for risk-based capital (RBC) purposes.

Procedures Granting NAIC Staff Authority to Challenge CRP Ratings

In November 2024, the NAIC issued final approval of procedures granting the staff of the NAIC’s Investment Analysis Office (IAO) the authority to challenge credit ratings submitted to the NAIC by insurers through the “filing exempt” (FE) process. The final implementation date for these procedures is 1 January 2026. Under this initiative, IAO staff can initiate a process to challenge any credit rating on an FE security if they deem the rating an unreasonable assessment of investment risk.

Deactivation of Private Letter Ratings Lacking a Rating Rationale Report

The NAIC announced that in 2025, it will begin deactivating certain private letter ratings (PLR) on bonds submitted by insurers and issued on or after 1 January 2022 that are missing a rating rationale report. If an insurer fails to file such report with the NAIC, the security’s FE status will be deactivated.

Updated Principles-Based Bond Definition

In August 2023, the NAIC adopted a principles-based definition of a bond, effective 1 January 2025. Insurers were required to evaluate their investment portfolios by this deadline to determine which securities qualify as bonds under the new definition, potentially leading to reclassification and less favorable RBC treatment of certain asserts. The updated definition of a “bond” refers to any security representing a creditor relationship, whereby there is a fixed schedule for one or more future payments and which qualifies as either an issuer credit obligation (ICO) or an asset-backed security (ABS). Investments categorized as ICOs under the new bond definition receive different accounting treatment than those categorized as ABS. This distinction significantly impacts RBC charges on residual equity interests (the first loss tranches).

Under the new bond definition, debt securities issued by BDCs, closed-end funds or similar operating entities and registered under the Investment Company Act of 1940 will generally be classified as ICOs. In contrast, debt securities issued by unregistered funds, including feeder fund structures and collateralized fund obligations, will not be automatically classified as bonds. For these securities to be reported as bonds, they must meet the NAIC’s ABS criteria, which includes additional requirements. The reclassification of assets in insurers’ investment portfolios could increase the insurers’ RBC charges on securities that no longer qualify as bonds and alter how these assets are reported and valued.

CLO Modeling Initiative

Beginning on 31 December 2025, the NAIC plans to discontinue using credit ratings to determine RBC charges on CLO investments. Instead, insurers will be required to submit CLO investments to NAIC staff, who will assign designations using an internal CLO modeling tool.

Policy, opacity, concentration risks will persist

Policy risks can have a big impact on leveraged assets, exemplified by the hawkish change in rate policy in 2022 and 2023, when we saw a big shift to direct lending and a notable increase in defaults among rated LBOs. Anything prompting a significant disruption to public markets would also likely weaken private assets, for instance any significant policy shifts affecting tariffs or inflation or further geopolitical shocks. The higher rates offer some benefits to private credit assets while the underlying risk of those assets increases.

While more investment-grade-style assets will dominate origination this year, particularly for insurance portfolios, we also expect to see other investors reaching for yield and holding the riskier tranches that make these higher quality investments possible. The lack of pressure to return capital helps the alternative asset managers manage risks; however, they are not regulated by the Federal Reserve and other federal agencies and, as a consequence, are less likely to benefit from regulatory support if markets turn negative.

Regulators require greater reporting requirements for the banking sector, including for their private credit activities, than the alternative asset managers. While private credit has helped ease some of the credit risks within that sector. Even so, private credit lenders have still been introducing additional leverage to the economy, with much less transparency. Leverage is increasingly “stacked,” meaning 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. In addition, an equity position in an investment may be funded with debt from banks.

For example, there is increasing interest from the alternative asset managers in leveraging LBO funds with net asset value (NAV) loans and borrowing to fund synthetic risk transfers – examples of leverage that are not always visible but that exacerbate risk that would be amplified in a downturn. Assessing valuations is also more difficult given the absence of a market price for private credit assets. Private credit firms do not disclose the underlying financials of the assets either to regulators or the public. The Business Development Companies (BDCs) use third-party valuation firms and mark their loans every quarter. However, valuation rights, methodologies and frequency are not consistent among firms. Moreover, the balance of private credit assets has even less disclosure. To some extent, such concerns are tempered by the fact that BDCs maintain low leverage, especially in comparison to the banking sector. (Business Development Companies – US: Q3 2024 Update)

We expect to see consolidation grow in this sector as scale becomes increasingly paramount to compete, especially with investors looking for managers with larger scale and the broadest set of investment capabilities. This growing concentration of risk among a few, very large asset managers remains difficult to assess given the limited reporting requirements. According to Pitchbook, last year the top 10 private credit firms collectively managed about 32% of all capital raised within the industry, a noticeable increase from the 26.6% share in 2021. Increasingly, the largest asset mangers are partnering with banks, continuing banks' exposure to risk, albeit indirectly, through relationships with alternative asset managers, including subscription lines and ABL lending. And while bank partnerships are a way of balancing risk and efficiency, they remain untested in a downturn and could become less constructive.

Appendix

Exhibit 5

Some examples of recent partnerships between banks and private credit sponsors

Date	Partnership	Description
Jan-25	Standard Chartered and Apollo	Apollo and Standard Chartered PLC announced a strategic partnership to support and accelerate financing for infrastructure, with a plan to contribute up to $3 billion toward clean energy and transition financing across a range of asset classes and sectors.
Jan-25	BMO Financial Group and Canal Road Group	BMO entered a partnership with Canal Road Group that enables the group to invest up to $1 billion in direct lending as BMO seeks to grow its presence in the private credit market
Sep-24	Mizuho and Golub	Mizuho purchased a passive, nonvoting minority stake in Golub Capital's management companies and entered into a distribution partnership
Sep-24	Citigroup and Apollo	$25 billion partnership where Citigroup will source new debt deals among its clients and will earn a fee for originating the transactions. Apollo and its partners will provide the cash.
Sep-24	BNP Paribas and Apollo	$5 billion strategic financing and capital markets collaboration between Apollo's Atlas SP and BNP Paribas. BNPP will make a significant day-1 financing commitment of $5 billion.
Jul-24	Lloyds Bank and Oaktree Capital Management	Partnership seeks to originate loans to UK middle-market sponsor-backed companies with £10-75 million in EBITDA. Combined single name hold capacity of £175 million per transaction.
May-24	PNC Bank and TCW	PNC and TCW will establish a team to manage all of the strategy's investment activities including origination, underwriting and portfolio management. Target to have $2.5b in capital available to invest in year 1.
Apr-24	Barclays and AGL Private Credit platform exclusive cooperation agreement	Direct origination of senior secured loans to large corporate borrowers. AGL to operate as independent manager, with complete control over origination, asset selection, portfolio construction and portfolio management with exclusive access to Barclays deal flow and ability to originate transactions directly.
Mar-24	KeyCorp and Blackstone Credit & Insurance	Forward flow origination (underwrite-to-distribute) partnership.
Feb-24	BNP Paribas and Blackstone	Cooperation would allow Blackstone to tap into French retail investors' pools of savings
Jan-24	Citigroup and LuminArx Capital	Strategic private lending vehicle called Cinergy, which will offer private credit solutions to companies, including Citi's global clients
Sep-23	Societe Generale and Brookfield Asset Management	Originate and distribute high-quality private credit investments through a private investment grade EUR10b debt fund.
Sep-23	Wells Fargo and Centerbridge Partners	Strategic relationship focused on direct lending to non-sponsor North American middle-market companies
Dec-22	CIBC Asset Management and Ares Management	Provides Canadian accredited investors with the opportunity to invest in the Ares Strategic Income Fund

Source: Company reports and Moody's Ratings

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