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2025 Credit Markets Outlook

Examining trends in private credit and broadly syndicated loans across the US and Europe

Contents

Methodology

In the second quarter of 2025, Debtwire surveyed 150 senior executives from alternative asset managers with meaningful exposure to private debt strategies and AUMs of at least US$2bn. Of these, 75 were based in Western Europe and 75 were based in the US. Those surveyed included private debt, private equity, hedge funds, real estate, infrastructure and asset managers/investment managers.

On a general basis, all charts show overall figures except when figures based on region or type of organization are statistically significant.

Foreword

The explosive growth of private credit, expanding to a record US$3 trillion in assets under management (AUM) globally at the end of 2024, according to the Alternative Credit Council, has fundamentally reshaped the leveraged finance ecosystem. Its ascent was driven by post-Great Financial Crisis regulations like the Dodd-Frank Act and Basel that led traditional banks to step back from some corporate lending to minimize balance sheet risk. Private credit funds moved in to fill this void, initially providing financing to companies that no longer fit the rigid risk criteria of regulated banks. This essential role was further cemented during the market volatility of the COVID-19 pandemic, where private credit demonstrated its capacity to act as a responsive source of capital when public markets seized up.

However, this is not a zero-sum game that has stymied the broadly syndicated loan (BSL) market. Instead, it represents a major expansion of the overall credit universe. The relationship between these two lending markets has evolved, breeding more competition but also more choices for borrowers when it comes to financing their transactions.

For sponsors and corporate borrowers alike, the choice is no longer about which market is inherently superior, but which offers the optimal blend of cost, speed, certainty, and flexibility for a specific borrowing facility. This choice is now richer than ever, as private credit platforms have themselves matured from offering simple loans to providing a full spectrum of customized capital solutions, from stalwart unitranche products to hybrid debt-equity instruments, and asset-backed finance.

Indeed, a more complex and symbiotic relationship is developing between private credit funds and banks themselves. It is now common to see banks providing leverage directly to credit funds or participating alongside them in co-investment opportunities. Simultaneously, many traditional lenders are becoming direct competitors by launching their own private credit platforms. This is creating an intricate ecosystem where banks act as partners, service providers, and placement agents all at once, fostering a deeply interconnected financial landscape.

This growing sophistication and entanglement with the banking system represents the next chapter for the asset class. It is most evident in the growth of structured finance, particularly through risk-sharing arrangements like synthetic risk transfers (SRT) – a phenomenon more developed in Europe so far – which test the collaborative boundaries between banks and funds. As the market's tentacles reach into these more complex structures, it raises new and important questions about financial stability, drawing increased attention from investors and regulators alike.

This report, now in its second year and drawing on fresh survey data, examines the current state of play and the evolution that has taken place in both markets in the last year. It analyzes the fundamental characteristics of private credit and BSL in the US and Europe; maps the competitive intersection where they meet; explores the structural shifts reshaping the debt financing ecosystem; and provides a forward-looking perspective on the strategic implications for dealmakers in 2025 and beyond.

Key findings

Direct lending leads the way

An almost unanimous 99% of respondents have exposure to direct lending strategies, and over a third (35%) identify it as the largest part of their private credit allocation.

Regulatory scrutiny is the top hurdle

The market is bracing for impact from regulators. Over a third of managers (37%) identify rising regulatory scrutiny as the single greatest potential hurdle to the sustained growth of the private credit market.

The broadly syndicated loan (BSL) market feels the competitive heat

Competitive pressure is the dominant concern for the BSL market, with 30% of respondents citing it as the single biggest impact shaping this market, a considerable rise from last year's survey. This reflects the intense battle for mandates with private credit.

Private credit takes share from banks

The primary impact of private credit's growth is seen as a direct challenge to incumbents, with 47% of respondents agreeing that its main effect on the BSL market is taking market share from commercial banks.

Private credit cedes ground on covenants

Three-quarters (75%) of respondents report that covenants in private credit have become looser over the past three years as competition among direct lenders heats up.

Europe vs US

Western Europe has greater exposure to direct lending than the US (44% vs 27%), while the US relies more on CLOs than their European counterparts (21% vs 9%). Nearly a quarter (23%) of Western Europe-based respondents think that the best opportunity will lie in emerging markets compared to 8% of US-based respondents.

A year of change

In comparison to last year's survey, exposure to CLOs has risen up the table while special situations has fallen. In terms of aspects that target companies value most about private credit, diversification benefits takes top spot this year, overtaking speed of decision-making.

When it comes to factors that will have the biggest impact on the broadly syndicated loan (BSL) market in the next 12 months, competitive pressure in the market has grown since last year's survey.

When asked how demand in private credit (PC) will affect the BSL market, PC taking share from commercial banks has risen up the table considerably compared to last year.

Looking at the most challenging phases when carrying out BSL strategies, negotiating with borrowers has moved up considerably since last year's survey.

Part 1: Current trends and outlook

The private credit market has evolved far beyond its direct lending foundation. Today, it offers a long and sophisticated menu of financing options, including venture debt, asset-backed finance, special situations, and net asset value (NAV) loans, to name a few. However, its center of gravity remains firmly in direct lending. Our survey confirms this, with an almost unanimous 99% of respondents having exposure to direct lending strategies, and over a third (35%) identifying it as the largest part of their private credit allocation.

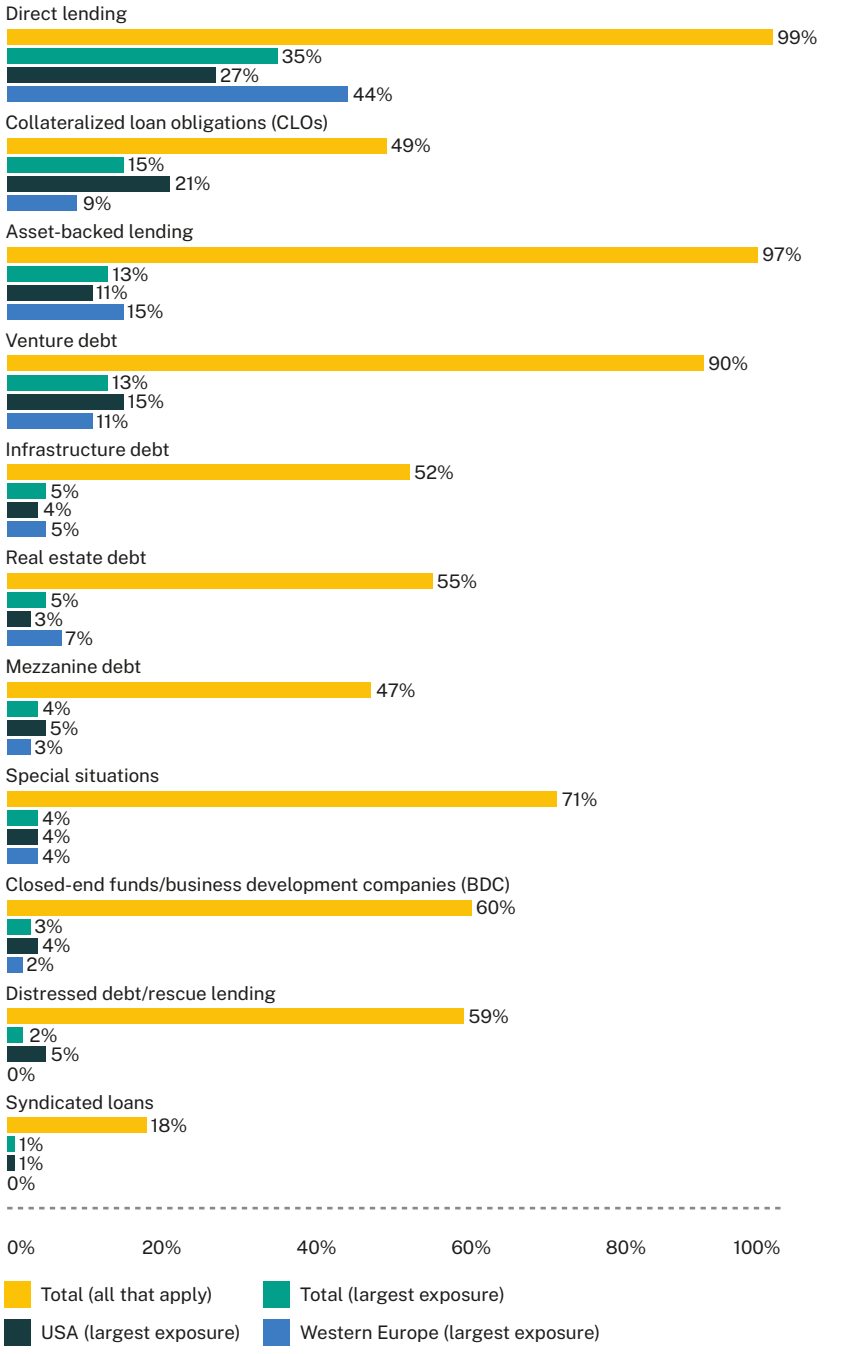
This dominance is particularly pronounced in Western Europe, where 44% of managers cite direct lending as their primary strategy, compared with 27% in the US. This reflects the deep-rooted tradition of relationship-based, middle-market lending in Europe, a role that private funds have inherited from the region's banks.

In the US, the picture is more diverse. The survey data points to a transatlantic divergence in securitization markets. When asked about their largest private credit strategy, a significant 21% portion of US respondents flagged collateralized loan obligations (CLOs). This speaks to the ongoing stateside growth of middle-market CLOs (MM CLOs).

Unlike traditional CLOs, which securitize publicly traded syndicated loans, MM CLOs are created specifically to securitize portfolios of illiquid private credit loans. They represent a true convergence of private and public market technologies, allowing private credit managers to achieve capital recycling and access a different pool of investors. It is estimated that the rapid growth of these structures over the past two years saw them make up around 20% of new US CLO issuance volume in 2024 and constitute more than 10% of the total outstanding US CLO market, according to S&P Global Ratings.

The fact that over one-fifth of US private credit managers in our survey now see CLOs as their largest strategy underscores how integral this emergent financing strategy has become to the ecosystem on this side of the Atlantic.

Which of the following types of private credit strategy do you currently have exposure to? (Select all that apply and one for the largest exposure)



Source: Credit Market Study, SRS Acquiom/Debtwire

In Europe, however, this market is still very much in its infancy. Barings Euro Middle Market CLO 2024-1 DAC, priced in November 2024 and valued at €380 million, was the first of its kind on the continent. Barings' novel "static" structure mitigated regulatory hurdles by offering investors a largely fixed portfolio of loans from day one, enhancing risk transparency and setting a template for more such offerings to follow.

Opportunities outlook

On the topic of where the best opportunities will lie in the next 12-24 months, refinancing and repricing activities are seen as two of the most reliable sources of deal flow by a majority (63%) of respondents, reflecting the ongoing need for companies to manage their balance sheets. Similarly, restructurings and amendments (61%) and portfolio management (57%) are seen as key areas of activity, pointing to a continued focus on optimizing and protecting existing investments.

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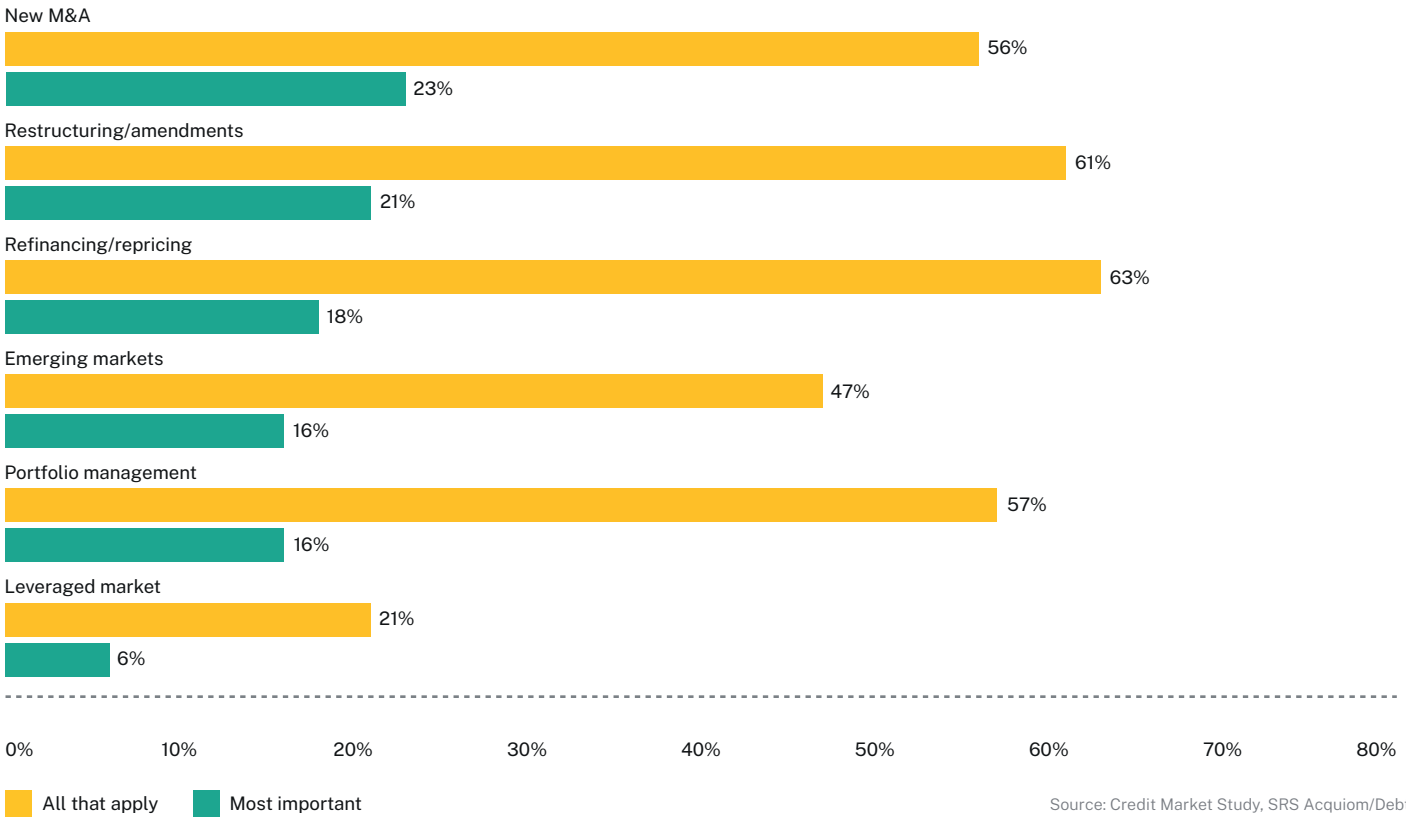
Where do you think the best opportunities will lie in the loan market in the next 12-24 months? (Select all that apply and most important)



Source: Credit Market Study, SRS Acquiom/Debtwire

M&A leads the way

However, the outlook on new M&A is most revealing, particularly when framed against the backdrop of sluggish activity this year, as apprehension has crept into the dealmaking market amid trade and geopolitical uncertainties in the first half of 2025.

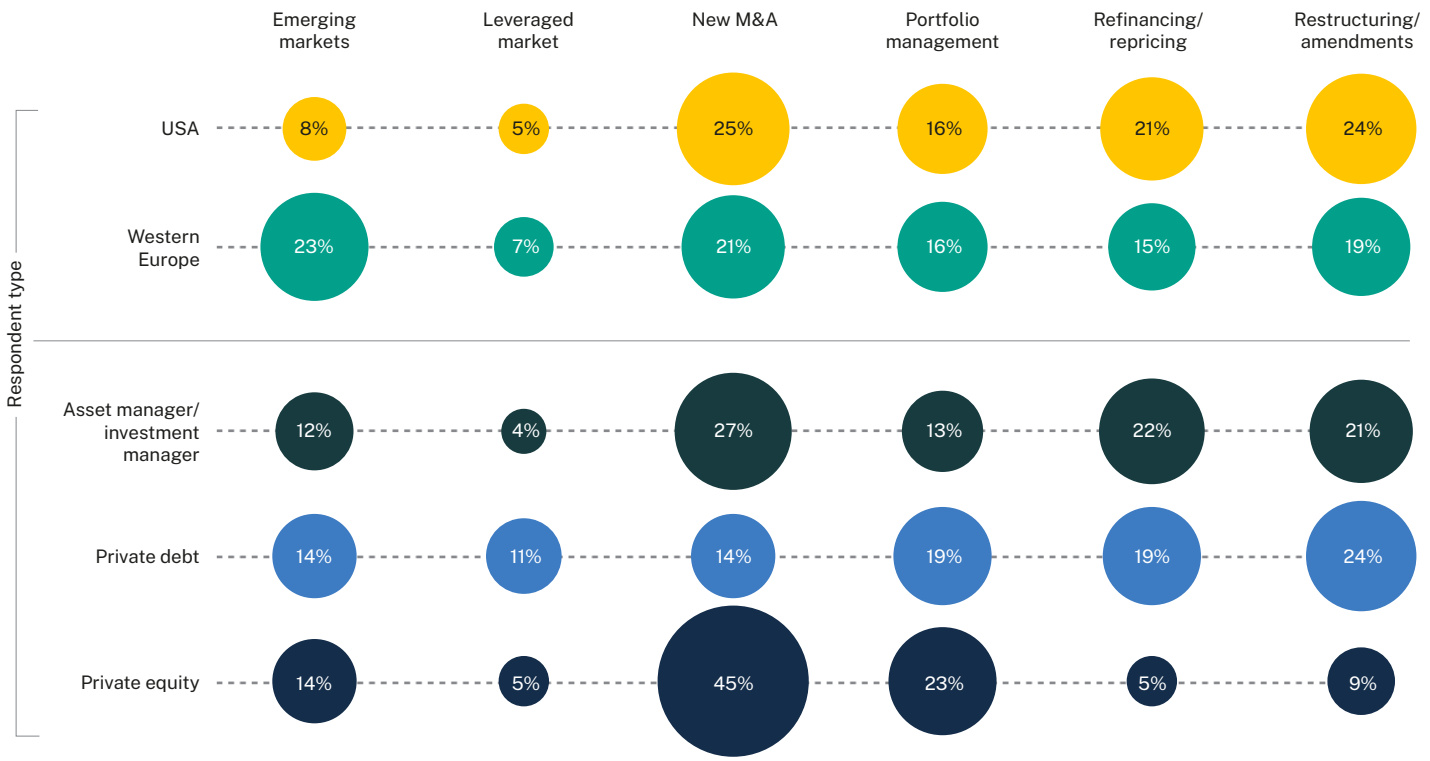
While refinancing and restructuring are seen as being among the most reliable sources of near-term activity, our survey reveals a significant pocket of forward-looking optimism for a rebound in buyouts. Nearly a quarter of all respondents (23%) believe new M&A will provide the single most important opportunity in the next 12-24 months.

This view is driven by the private equity community. Nearly half (45%) of PE respondents pinpoint new M&A as the most critical future opportunity, a stark contrast to the more conservative views of private debt lenders (14%) and other asset managers (27%). This disparity highlights the immense pressure on PE funds, which are sitting on vast levels of undeployed capital. Pent-up demand is palpable as the clock continues to tick for sponsors to put their dry powder to work, a move that would reignite demand for both private credit and BSLs.

Although fund managers naturally have a bias toward investing in their home territories, our research finds that 23% of Western European respondents see the greatest deployment opportunities residing in emerging markets, the largest share for this cohort. That is well above the 8% of US respondents who share this view and underscores a fundamental difference in these respective markets. For US managers, the domestic market is a vast, deep and homogenous playing field that continues to provide a rich set of opportunities, reducing the necessity to venture abroad.

For European managers, the picture is different. They operate in a more fragmented region, both in terms of deal opportunities and legal frameworks, characterized by intense competition within individual countries. This incentivizes efforts to look externally for higher yields and growth.

Where do you think the best opportunities will lie in the loan market in the next 12-24 months? (Select most important)



Source: Credit Market Study, SRS Acquiom/Debtwire

Private credit challenges

Alongside internal market pressures, debt markets are exposed to a maelstrom of external shocks. When asked about factors that will have the biggest impact on the private credit market in the next 12 months, respondents point to a trio of risks: yield expectations (26%), tariff implementation (20%), and geopolitical risks (20%).

The rise of yield expectations to the top of the list, an increase from last year (19%), hints at a market grappling with its own success. Private credit's core promise to investors is superior returns – the illiquidity premium – for locking up their capital. However, fierce competition for deals has shrunk the spreads managers can charge, compressing this premium. Managers are now caught between the high expectations of their investors and the lower returns available in the market, creating pressure that could lead to riskier underwriting.

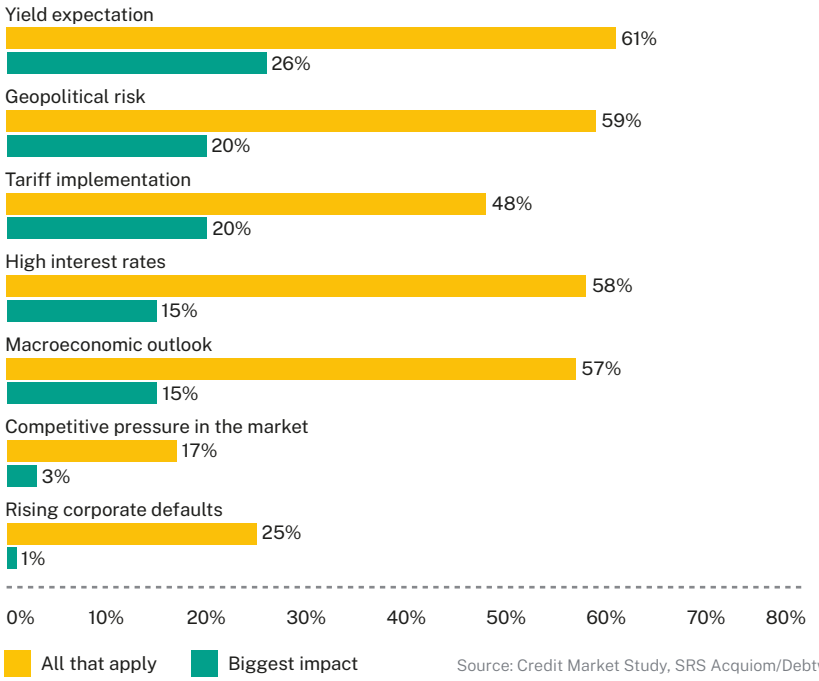
At the same time, external macro threats are no longer a distant concern. The prominence of tariffs and elevated geopolitical tensions highlight the vulnerability of the middle-market companies that are private credit's core constituency. These businesses often have less resilient supply chains and are more exposed to sudden cost shocks or disruptions than their larger, public counterparts. Given that private loans are illiquid, managers cannot simply trade out of a position if a borrower's business is impaired by a trade war or the escalation of conflict. They are locked in for the life of the loan, making careful underwriting against the backdrop of these macro factors more critical than ever.

Value drivers

In terms of the aspects that respondents value most about private credit, the answer has changed to some degree year over year. The classic pillars of the speed of decision-making (51%) and the ability to execute complex deals (35%) remain vital. As the managing director of a US hedge fund says: "The most value comes from the speed of decision-making. Unlike the syndicated market, the decisions are taken by one entity, limiting the time taken to complete all the loan procedures."

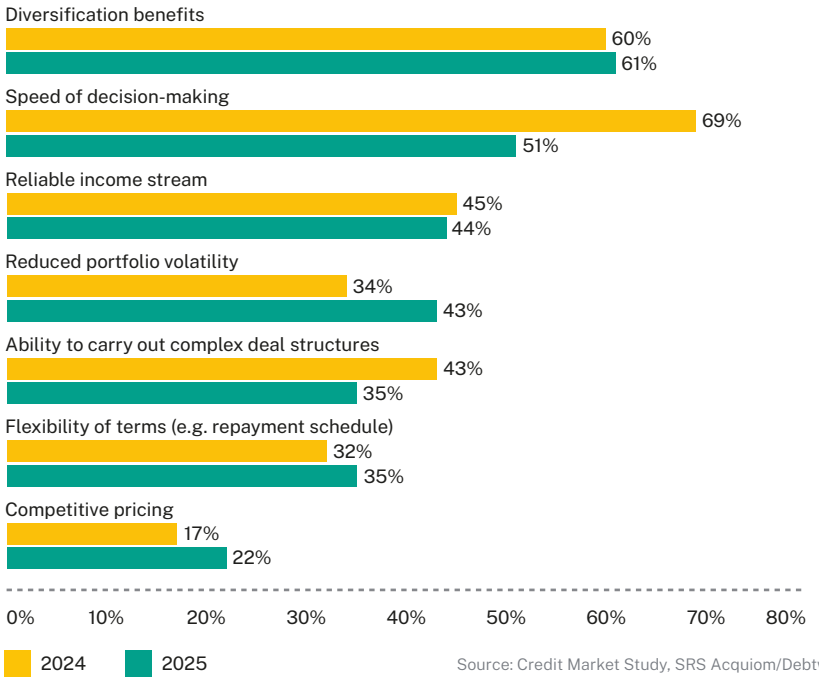
However, the top-ranked attribute is now the diversification benefits (61%) private credit offers.

What do you think will have the biggest impact on the private credit market in the next 12 months? (Select all that apply and biggest impact)



Source: Credit Market Study, SRS Acquiom/Debtwire

What do you believe target companies value most about private credit? (Please select top three)



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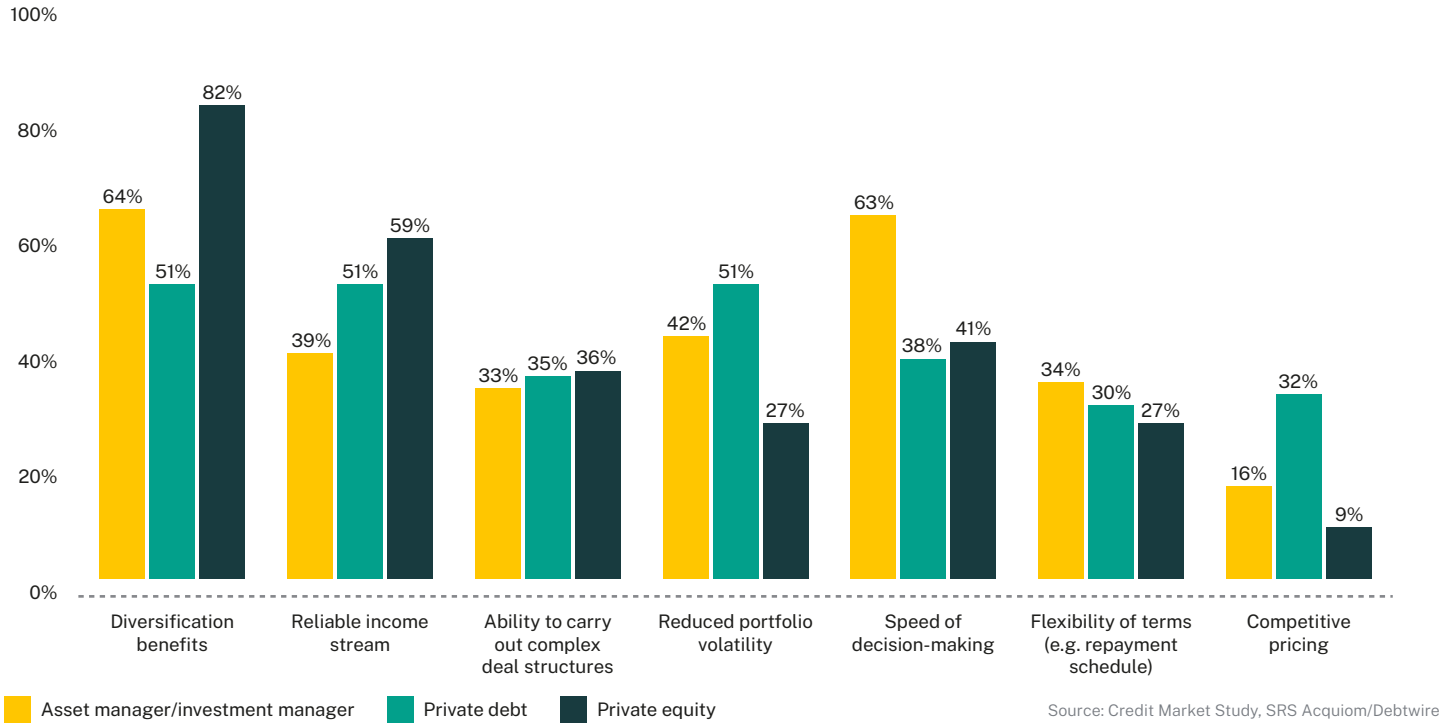

Source: Credit Market Study, SRS Acquiom/Debtwire

The rising importance of diversification benefits is overwhelmingly driven by private equity respondents, 82% of whom cite diversification of choice as a key value proposition. After all, PE sponsors act as the strategic equity partners for target companies and are the primary architects of their capital structures.

From a sponsor's perspective, having a strong relationship with a private credit provider aligns the portfolio company's funding options away from sole reliance on the syndicated loan market, which can be volatile and prone to shutting down in times of stress.

This has created a competitive dynamic, allowing sponsors to run dual-track financing processes to optimize terms, and ensures there is always committed capital available. This is an important benefit for borrowers, who have come to view private credit as a distinct and permanent source of financing and an invaluable alternative to the public markets.

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BSL pressures

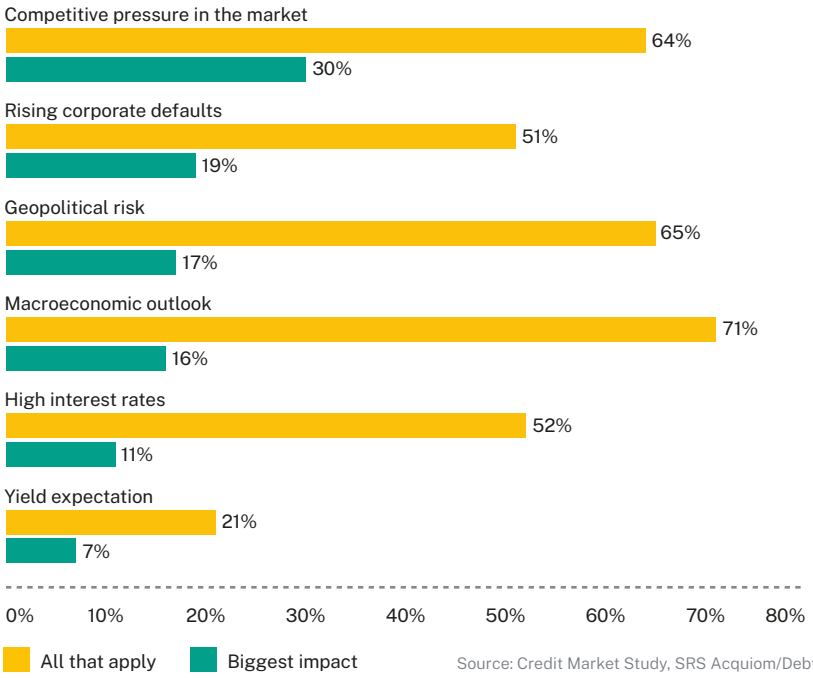
The view from the BSL market is dominated by one issue: competitive pressure, with 30% citing this as the biggest likely impact affecting the market, a sharp increase from last year's 5% reading. This coincides with a private credit market that is going from strength to strength, posing a formidable challenge to traditional loan syndication. For example, direct lenders are becoming increasingly more competitive at the upper end of the middle market by loosening covenants and lowering pricing.

Private debt managers raised a record US$74bn in the first quarter of 2025, according to Private Debt Investor, and are not only increasingly encroaching on the large-cap buyout financing space but expanding their remits. In June, Apollo Global Management committed to providing a hefty £4.5bn (US$6.1bn) financing package to French energy titan Électricité de France (EDF), the largest sterling-denominated private credit financing to date.

While not singled out to the same extent as competitive pressure, broader variables like the macroeconomic outlook, cited by 71% as an "overall" impact, and geopolitical risk, noted by 65% as another "overall" impact, are pervasive concerns for the BSL market. As a liquid, publicly traded market, BSL appetite is highly sensitive to global risk-on/risk-off sentiment.

In times of macro uncertainty or geopolitical turmoil, investors often flee to safety, selling riskier assets like syndicated loans in favor of government bonds. This can trigger rapid, market-wide price drops and cause liquidity in the secondary market to freeze, a risk that the illiquid, hold-to-maturity, and non-mark-to-market private credit universe does not face.

What do you think will have the biggest impact on the BSL market in the next 12 months? (Select all that apply and biggest impact)



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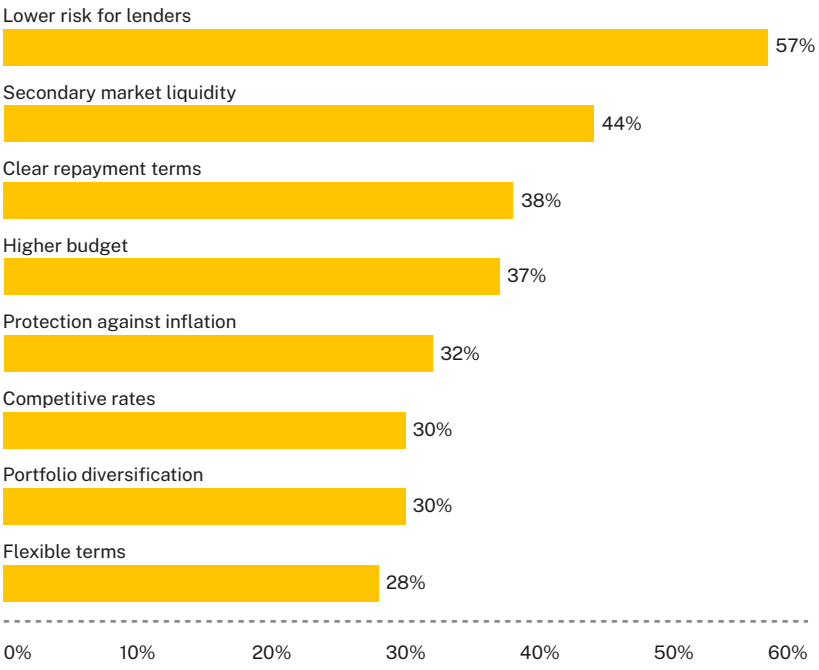
BSL benefits

Although private credit is chipping away at market share, the BSL market's unique features do represent an enduring value proposition. When asked what borrowers value most about syndicated loans, the top answers were lower risk for lenders (57%) and the massive secondary market liquidity (44%).

"Unlike the private credit market where firms can be stuck with illiquid assets, the BSL market has secondary market liquidity to count on. Given the increasing number of market players, this is an advantage," says the partner of a UK hedge fund.

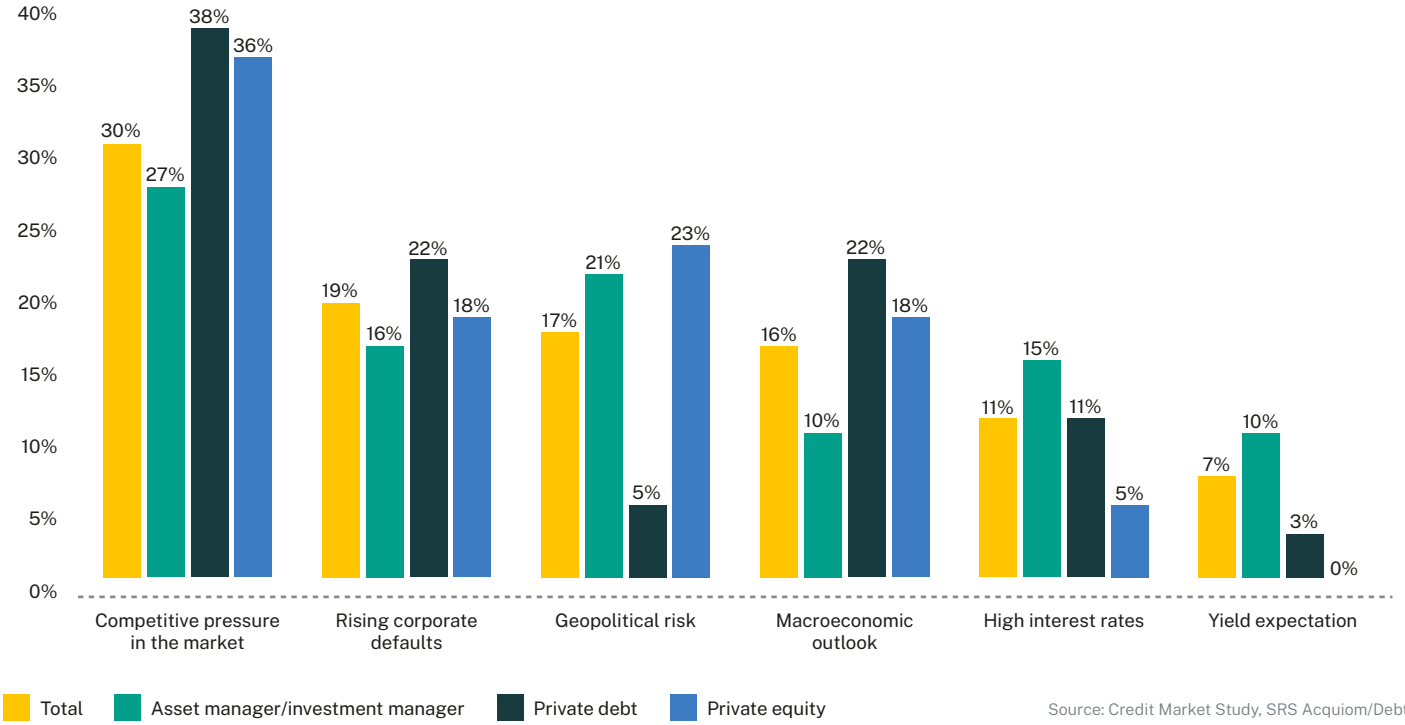
These are lender-centric features but translate into direct and related benefits for borrowers. When an individual lender's potential loss from a single default is minimized, their risk premium can be commensurately lower. This competitive pressure, fueled by a deep and liquid secondary market that allows investors to trade out of loans, results in a lower cost of capital for borrowers compared to what is available from alternative lenders. Notably, competitive rates are also cited by 30% of respondents as a top three borrower benefit.

What do you believe target companies value most about syndicated loans? (Please select top three)



Source: Credit Market Study, SRS Acquiom/Debtwire

What do you think will have the biggest impact on the broadly syndicated loan market in the next 12 months? (Select the biggest impact)



Source: Credit Market Study, SRS Acquiom/Debtwire

Private credit growth

A year on and respondents are in less agreement that the private credit and BSL markets are settling into a balance. Nearly half (47%) of respondents now believe the primary impact of private credit's growth will be an ongoing capture of market share from the BSL space. This represents a 19 percentage point surge from last year, when 28% of participants held this view.

Similarly, the belief that the two markets have leveled out has waned. This year, only 32% of respondents subscribe to this view, a seven percentage point decline from last year.

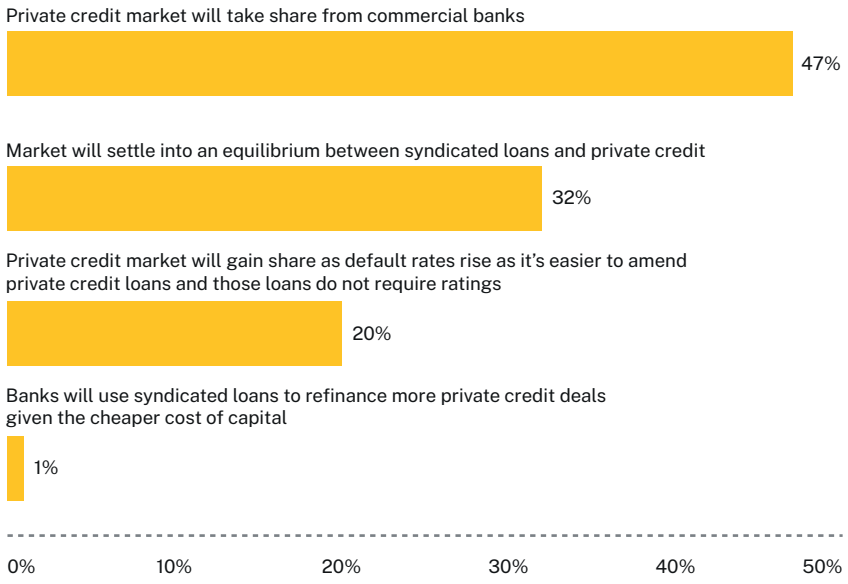
"The private credit market is all set for growth and will take share from commercial banks," says the managing director of a UK private debt fund. "Commercial banks cannot offer flexible terms and the controls of commercial banks are a hurdle for borrowers."

That said, following the dislocation of the BSL market in 2022-2023, when companies flocked to private credit in droves, the trend has latterly seen some reversal. Since the start of 2024, borrowers have been opportunistically tapping the BSL market to refinance private credit loans, motivated by lower interest rates and tighter margins to lock in savings. However, this represents a short-term, cyclical swing driven entirely by price.

"The distinct advantages of private credit and syndicated loans cannot be matched by the other," notes the CIO of a US private credit fund on this recent shift. "Borrower demands vary, and markets will fulfill them accordingly."

On a long-term basis, however, and outside of this recent tactical shift, private credit's structural transformation into a US$3trn asset class means it is now capable of underwriting massive, multi-billion dollar deals that were once the exclusive domain of the BSL market. Respondents see this long-term incursion as ongoing, supported by private credit's value proposition built on speed, relationships, and certainty of execution. These strategic advantages are often prioritized by borrowers over the lower cost of a BSL deal.

How is increased demand in private credit affecting the BSL market? (Select one)



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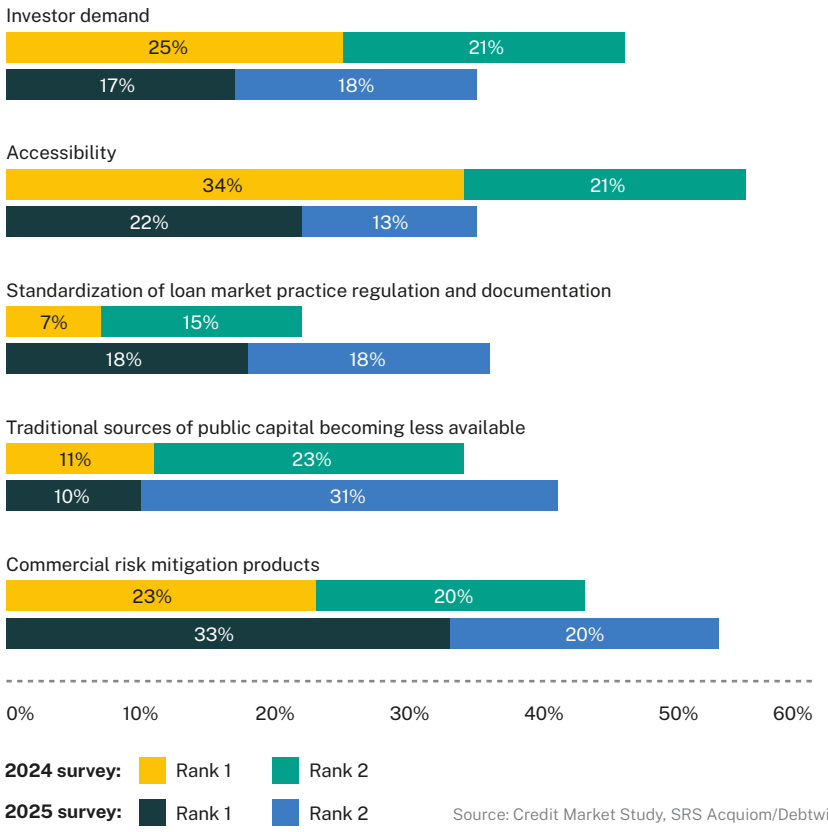
Protecting returns

This growing capacity to challenge the BSL market raises the question of how this encroachment can be sustained, particularly with the underwriting of larger and more complex deals. Our survey findings point to a maturation toward more sophisticated risk management.

Commercial risk mitigation products are now considered the single most important factor supporting sustained growth in the market, according to 33% of respondents. This is a departure from last year, when the primary growth driver was seen as accessibility (34%). Attention is moving from deploying capital to preserving it, ensuring the long-term viability of the asset class as it takes on ever-larger commitments.

While the accessibility of private credit capital remains a vital component of its success –still viewed as the most critical factor by a significant 22% of respondents –its decline in relative importance signals a new phase of development to mitigate default risk. Of note, commercial insurance brokers have been hiring talent specifically to address the rising demand for alternative credit risk coverage. Firms like Aon, Marsh McLennan, and WTW are reporting exponential demand growth as funds seek to manage their portfolio risks, such as high concentration in a single borrower or industry. By transferring a portion of this risk to the insurance market, they can protect their returns.

What are the most important factors supporting sustained growth in the private credit market? (Select top two)



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Covenant trends

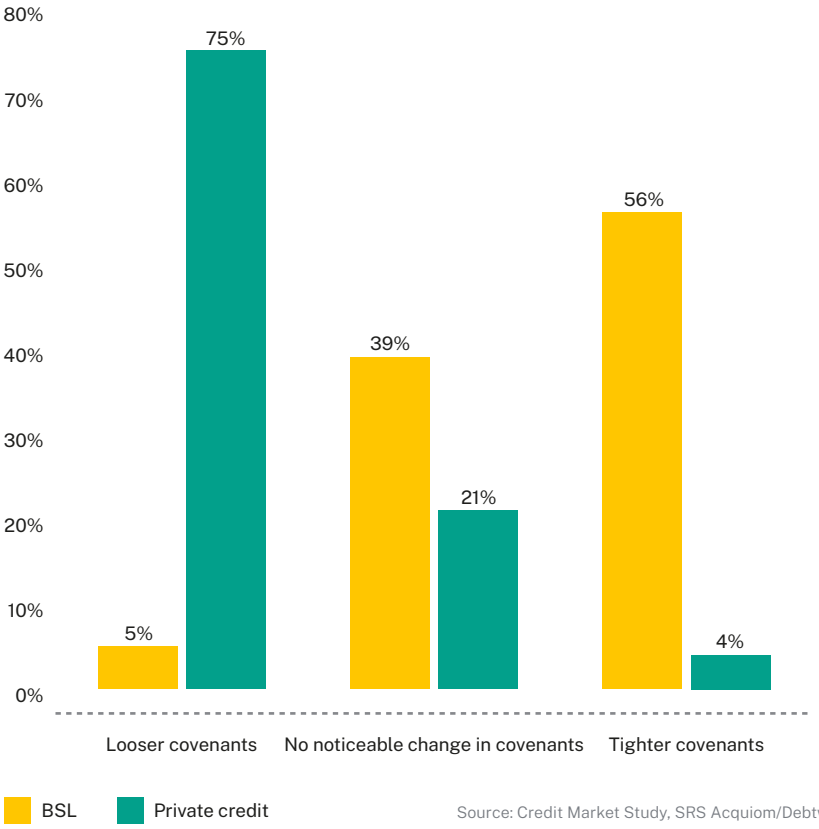
Intense competition for deals with large-cap borrowers has forced alternative lenders to make significant concessions on documentation. To win mandates against both BSL syndicates and competing direct lenders, funds have had to abandon the highly protective covenant packages that once defined the private asset class. This has led to a marked increase in covenant-loose and even fully covenant-lite structures, particularly for the larger, sponsor-backed unitranche loans that now compete head-to-head with the BSL market.

Respondents are well attuned to these dynamics, with 75% stating that private credit covenants have become looser over the past three years. "There will be increasing competition between lenders in the private credit market, which will allow for borrowers to get the best deal possible," says the managing director of a US asset manager.

However, the view that BSL covenants have tightened over this time, held by 56% of respondents, warrants scrutiny. This sentiment is likely influenced by the memory of the market dislocation in late 2022 and 2023. During that period of rate-driven volatility, lenders briefly gained the upper hand and were able to demand marginally better terms.

That phase was short-lived, however, and does not represent the broader trend. The BSL market's baseline is covenant-lite and, indeed, there was a slight erosion of covenant quality in early 2025, driven by abundant repricing and dividend recapitalizations and strong investor demand that shifted the balance of power back to borrowers.

How have the degree of covenants in private credit and BSL offerings changed over the past three years?



Source: Credit Market Study, SRS Acquiom/Debtwire

Company performance

A longstanding debate in corporate finance is about the strategic trade-offs inherent in different debt financing structures as it relates to company performance. For 43% of respondents, the fact that privately financed companies are less shackled by regulatory market scrutiny, thereby benefiting from greater flexibility, means that they are likely to perform better than their publicly financed counterparts.

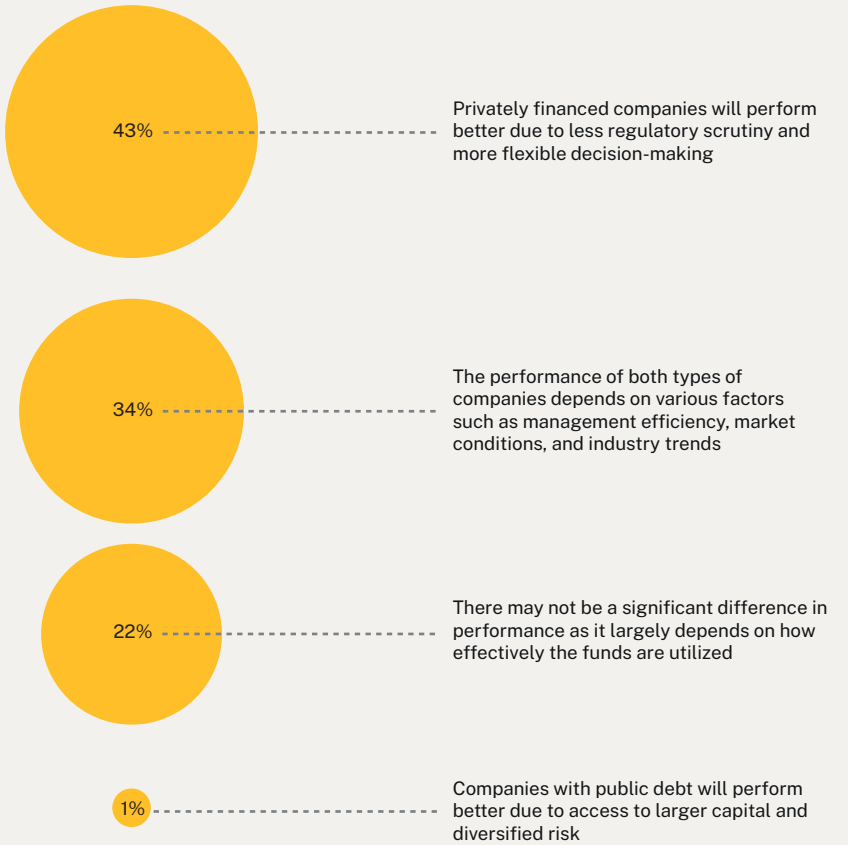
By using private credit with customized loan agreements, confidentiality, and the ability to quickly renegotiate terms with lenders allows management to focus on what matters: day-to-day operational performance and fulfilling their long-term strategy.

However, financing is just one variable and arguably not the most influential. A significant 34% minority argue that performance ultimately depends on a wider range of factors. This perspective acknowledges that there is no one-size-fits-all solution. For some firms, the advantages of public debt, such as lower interest rates and longer maturities, provide a powerful boost to the bottom line that outweighs the benefits of flexibility.

Furthermore, the sheer scale of the public markets provides access to substantially larger pools of capital, enabling transformative acquisitions and large-scale investments that may be beyond the reach of a single private lender. This access to a deeper, more liquid capital market is a powerful strategic advantage.

In this minority-held view, superior performance is not just about the financing structure itself, but the caliber of the management team that can navigate changing market conditions, exploit industry trends, and choose the optimal financing strategy – be it public or private – that best serves their specific goals.

How will privately financed companies perform compared with those with tradable debt?



Source: Credit Market Study, SRS Acquiom/Debtwire

Part 2: Risks, ructions and regulation

The private credit market has ballooned over the past decade from a niche alternative to a cornerstone of corporate finance. This runaway success has inevitably drawn the attention of regulators. As a result, 37% of respondents rank rising regulatory scrutiny among the two highest ranking obstacles to the industry's sustained growth, albeit only 6% believe it's the number one hurdle.

These concerns are well founded. The shadow of regulation looms large on both sides of the Atlantic. In the US, bodies like the Financial Stability Oversight Council and the Federal Reserve are now actively monitoring the systemic risks posed by the non-bank sector's leverage and its growing interconnectedness with traditional banking.

In Europe, the transition to the Alternative Investment Fund Managers Directive II (AIFMD II) by April 2026, following its introduction in 2024, comes with new constraints on risk retention rules requiring managers to keep 5% of the loans they originate, and significantly enhanced reporting requirements. In principle, for a simple direct lending fund whose strategy is to originate a loan and hold it until it's repaid, this rule is not a problem.

However, with the potential for a MM CLO market to bloom in the region over the coming years, the retention rule would make this much harder, forcing managers to keep a slice of the risk on their own balance sheet, creating a capital drag. While this is speculative at this stage, it is worth bearing in mind as the market continues to mature.

"The main challenge right now is the rising regulatory scrutiny, which has become really apparent," says the CFO of a Belgian private equity firm. "Private credit markets have clearly piqued the interest of regulators."

Default dilemma

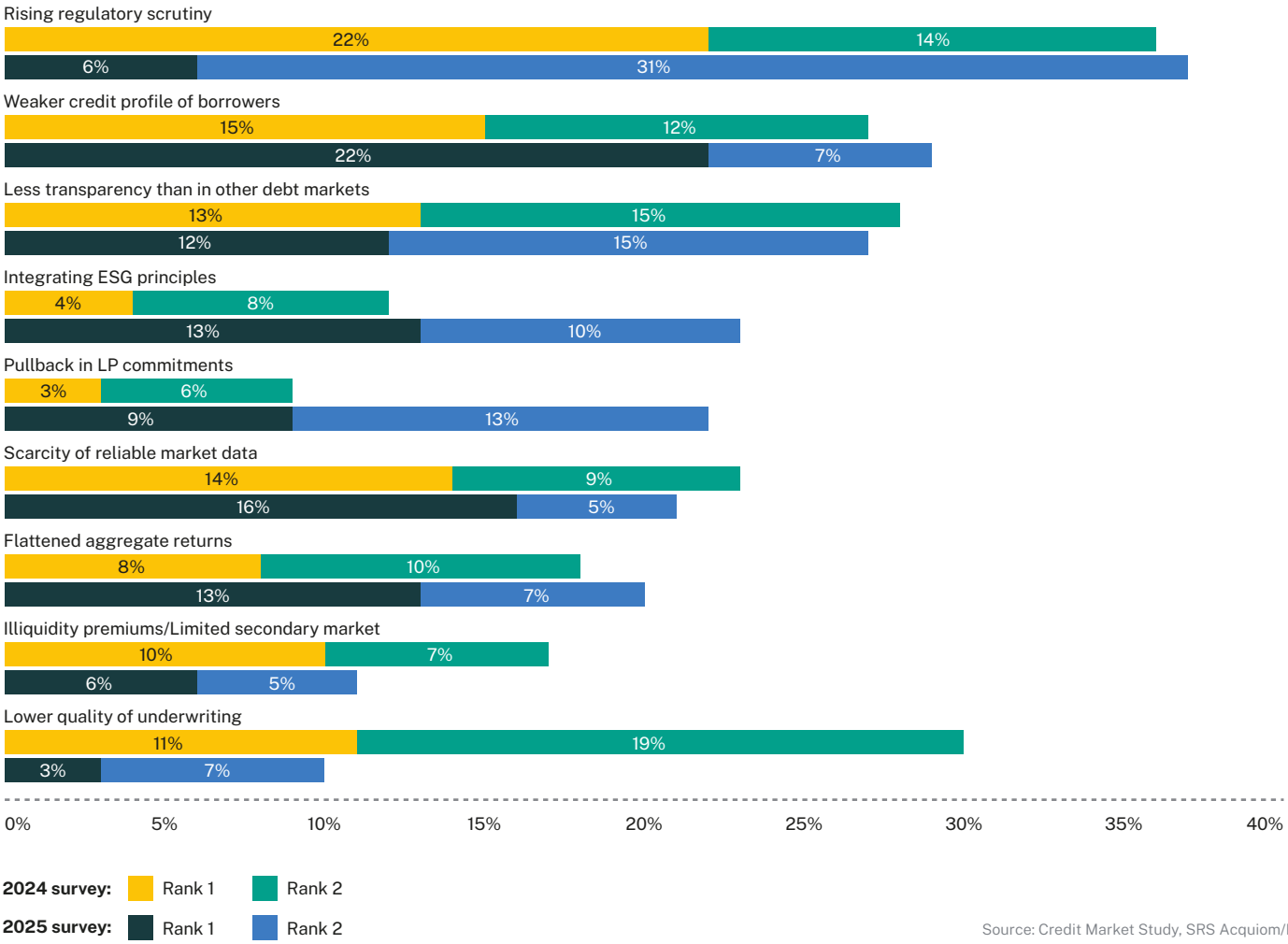
This regulatory spotlight coincides with rising concerns over the health of portfolio loans. The weaker credit profile of borrowers is flagged by 29% of respondents as one of two greatest obstacles to private credit's sustained growth, but by 22% as the number one hurdle – above any other. Essentially, this has toppled rising regulatory scrutiny over the past 12 months, which was the leading concern for 22% of respondents last year, and for good reason.

The lagged effect of the high interest rates of recent years is now materializing. According to S&P Global Market Intelligence, 2024 saw US corporate bankruptcy filings reach a 14-year peak with 694 cases. This figure exceeded the 635 filings in 2023 and also surpassed the previous decade's high of 638 set during the COVID-impacted year of 2020. This has carried over into 2025, with the figure tapping 188 filings in Q1, the highest point for that period since 2010, a 35% increase compared to the comparable year-ago quarter.

"The weaker credit profiles of borrowers is a possible long-term threat to consider," says the managing director of a UK private credit fund manager. "If defaults continue to increase as they have, private credit lenders may become as skeptical as traditional lenders are today."

As regulators have cautioned, the private credit market's opacity has fostered concerns of a hidden vulnerability in the financial system, which in turn is fueling the desire for greater oversight. This lack of transparency is the third-ranked hurdle to the market's sustained growth, cited by 27% of respondents. Ultimately, the industry's biggest apprehensions are two sides of the same coin: as private credit has swiftly scaled into a mainstream asset class, it can no longer operate in the shadows, and its portfolios are now facing the first real test of a full credit cycle.

What are the greatest potential hurdles to sustained growth of the private credit market? (Select top two)



Source: Credit Market Study, SRS Acquiom/Debtwire

37% of respondents rank rising regulatory scrutiny among the two highest ranking obstacles to the industry's sustained growth, albeit only 6% believe it's the number one hurdle.

Management hurdles

The primary concerns surrounding managing private credit portfolios center on the escalating complexity of the business. More resource-intensive management is now the top-ranked risk, cited by 43% of respondents, closely followed by the broad variety of fund structures to consider (41%) and the complexity of running funds that can hold hundreds of loans (41%).

The concern over a shortage of in-house private credit expertise has fallen since last year, from 42% to 35%, while misgivings about the variety of fund structures have risen, from 37% to 41%. At first glance, this seems contradictory: how can the talent shortage ease if the workload is growing more complex?

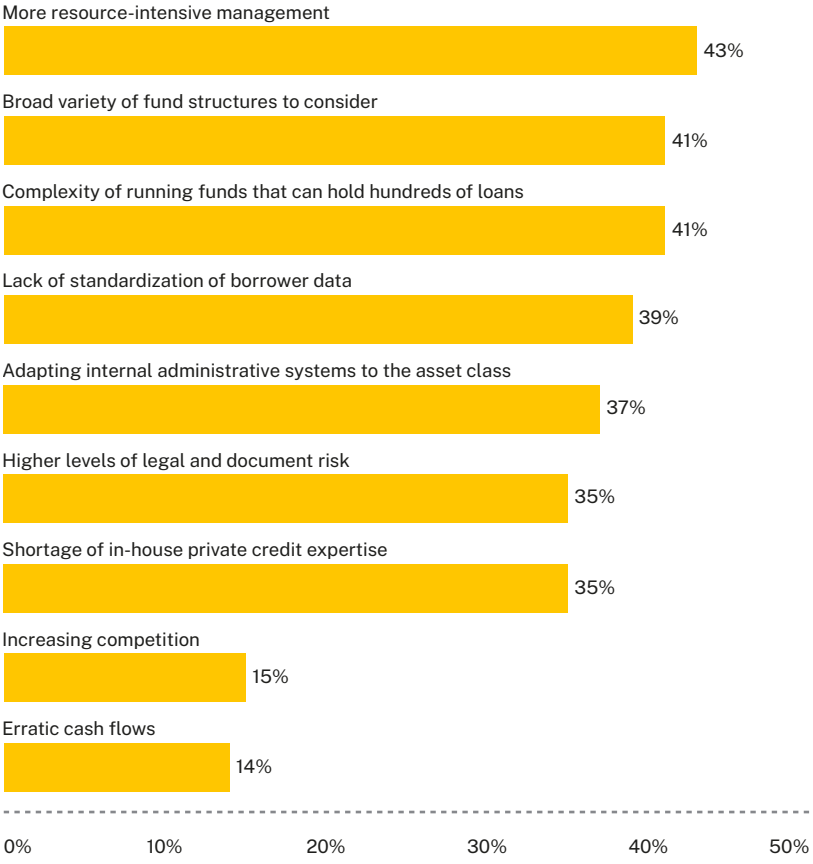
Talent surge

The answer lies in the market's successful, multi-year effort to solve its initial talent deficit. The great migration of professionals from investment banking, public credit investment roles, and even private equity has effectively filled the ranks of private credit funds, equipping them with the core expertise needed to underwrite and manage direct loans. The shortage has eased because the intense demand for talent has attracted people into the industry.

The challenge has now shifted from a people problem to a product problem. The rise in concern over the variety and complexity of fund structures reflects a market that has innovated far beyond the simple, closed-end direct lending model. To attract new sources of capital and meet diverse investor needs, managers have launched a new generation of vehicles.

Prominent examples include evergreen funds. In the past two years, Ares Management, Apollo Global, and KKR have all launched these open-end offerings in a bid to tap the private wealth channel, private capital's latest fundraising frontier. These perpetual structures are becoming increasingly popular and unlike traditional funds with a fixed life, require constant liquidity management to allow for subscriptions and periodic redemptions, which is a major new operational challenge.

What do you believe are the risks of private credit loans? (Please select top three)



Source: Credit Market Study, SRS Acquiom/Debtwire

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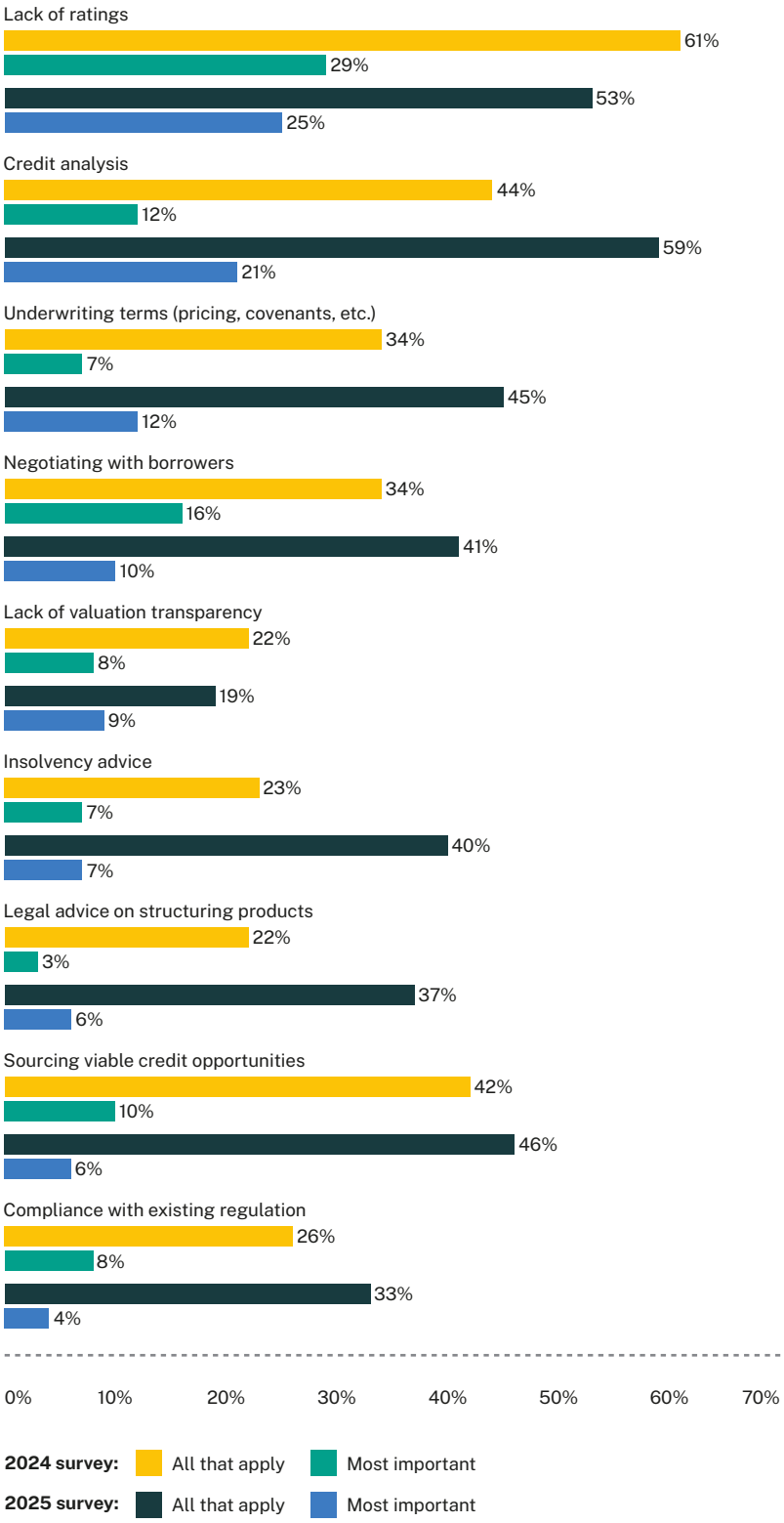
A ratings game

The inherent lack of ratings in private credit is a perennial challenge for fund managers and, once again, it scores highly among the most challenging aspects of running such a strategy. However, a 59% majority of respondents now state that credit analysis is among their top challenges, an increase from 44% last year. Over one-fifth (21%) now see it as the single greatest challenge, up from 12%.

This is a direct consequence of the erosion of lender protections at a time when default risk is rising. As competition for deals has intensified, private credit lenders have increasingly offered looser covenants to win mandates. These covenants, particularly maintenance terms that require a borrower to meet certain financial tests each quarter, have historically acted as a critical early warning system for lenders. They provide a contractual trigger that brings a borrower to the negotiating table at the first sign of underperformance, long before a payment default is imminent.

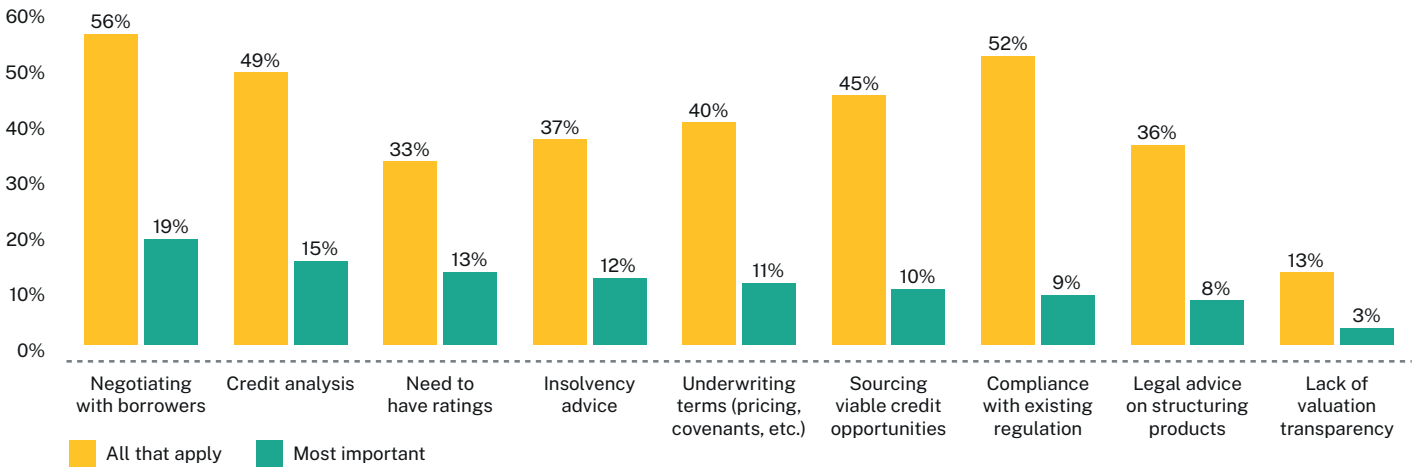
With these protections weakening, the margin for error in the initial underwriting phase has narrowed. Much of the risk management burden has shifted onto the upfront credit analysis. Lenders can no longer rely on a covenant tripwire to mitigate risk post-closing – they must be certain of a borrower's resilience from day one. This makes the initial credit analysis a much higher-stakes exercise. The increased challenge of credit analysis can, therefore, be seen as a consequence of the industry's intense competitive dynamics.

What do you think is the most challenging phase when carrying out private credit strategies? (Select all that apply)



Source: Credit Market Study, SRS Acquiom/Debtwire

What do you think is the most challenging phase when carrying out BSL strategies? (Select all that apply and most important)



Source: Credit Market Study, SRS Acquiom/Debtwire

BSL concerns

The chief challenges facing practitioners in the BSL market have also shifted over the past year. Credit analysis is still top of mind, but negotiating with borrowers has surged to become the most cited difficulty, with a 56% majority naming it as a top challenge – a dramatic increase from last year. Nearly one in five (19%) now see it as the number one most cumbersome aspect of a BSL strategy. This has eclipsed other structural challenges like compliance with existing regulations, which, while a concern for 52% of respondents, is seen as the top single issue by a far smaller group (9%).

The wide year-over-year increase in negotiation difficulty is a function of the growth and widespread market adoption of private credit. Borrowers, particularly sophisticated private equity sponsors, now have a highly credible and viable alternative to syndicated loans. They no longer operate from a position of dependency on the BSL market to get a deal over the line.

This has led to the emergence of dual-track financing processes, where a sponsor will simultaneously negotiate terms with both BSL arranging banks and a private credit fund. This creates a powerful competitive tension that gives the borrower significantly more negotiating leverage. They can use the private credit offer, which may feature more flexible terms or greater certainty, to push back on the pricing, covenants, and structure offered by the BSL arrangers.

This points to a fundamental change in the market. The negotiation phase has become more arduous for BSL lenders because borrowers now have more options, altering the balance of power at the negotiating table.

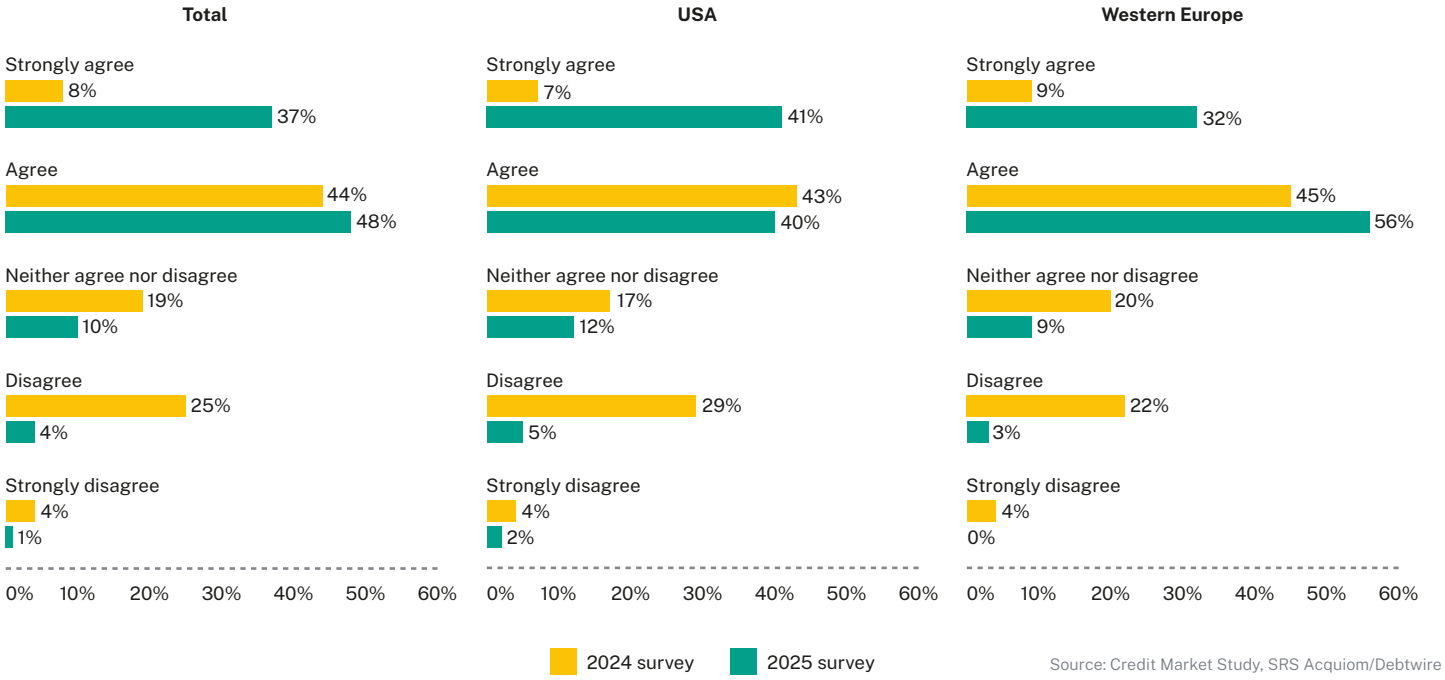
Regulation looms

It may seem counterintuitive for an industry born in the less-regulated shadows of the banking system to ask for more rules, but a clear-eyed oversight framework can help the industry to flourish with greater stability, transparency, and investor protections. An overwhelming majority in both Western Europe (88%) and the US (81%) now agree that authorities should adopt a more vigilant supervisory approach to private credit.

This represents a sizable leap from last year, when only 54% of European and 50% of US respondents held this view. This strategic calculus is driven by several factors. Industry leaders recognize that at its current scale, greater regulation is inevitable, and they would rather have a seat at the table now to help shape a sensible framework than have harsh, reactive rules imposed upon them during a future crisis.

Furthermore, to continue its growth trajectory, the industry must continue to attract the world's largest and most conservative investors, such as sovereign wealth funds and public pension plans, which require the legitimacy and transparency that a well-defined regulatory regime provides.

To what extent do you agree with the statement: "Authorities should adopt a more vigilant regulatory and supervisory approach to private credit"?



Source: Credit Market Study, SRS Acquiom/Debtwire

For large, established players, regulation also creates higher barriers to entry, making it more onerous for smaller competitors to challenge their market position.

In addition, under AIFMD II in Europe, there is a new major benefit that has come with closer supervision. By creating a single, harmonized rulebook, the directive eliminates the patchwork of different national regulations that previously made cross-border lending so difficult. A fund that complies with the rules in its home country can now originate loans across the EU without facing different local requirements.

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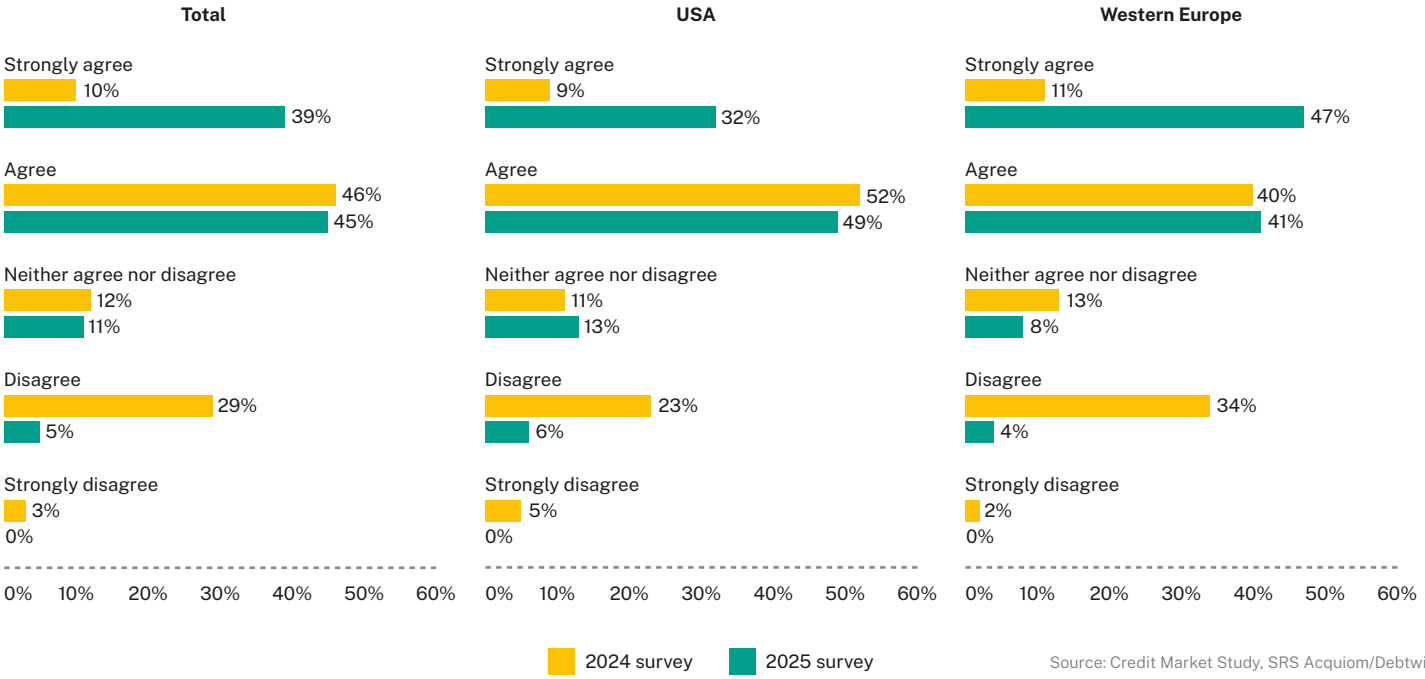
To what extent do you agree with the statement: "Regulators should improve reporting standards and data collection to better monitor private credit's growth and its implications for financial stability"?



Source: Credit Market Study, SRS Acquiom/Debtwire

In keeping with championing thoughtful regulation, the call for regulators to improve reporting standards and data collection is also now nearly unanimous, with 88% and 81% of European and US respondents, respectively, supporting this stance. A significant 47% and 32% of respondents in these markets strongly agree. This is well up on last year's results, which showed 51% of Western European respondents and 61% of US respondents broadly supporting regulator action.

For years, the opacity of private credit has been seen as an advantage. The lack of public information has given specialist managers an edge. However, this could now become a liability. It creates uncertainty for authorities about the extent of private credit lending in the economy and its relationship with systemic default risk, concerns highlighted by global bodies like the Financial Stability Board and the International Organization of Securities Commissions in their respective efforts to monitor the market's growth and impact on financial stability and investors' portfolio risk.

However, some prominent industry voices have challenged this view. Fitch Ratings, for example, has stated that "private credit, in isolation, is not currently a systemic risk," citing robust mitigants, especially in the dominant direct lending segment, even as ongoing monitoring remains prudent. In a similar vein, KBRA research concludes that, rather than amplifying financial system vulnerabilities, private credit has diffused risk away from highly leveraged banks and into the hands of long-term institutional investors. KBRA emphasizes that the asset class provides better loss absorption, enhanced recovery frameworks, and insulation for depositors and taxpayers.

Third parties

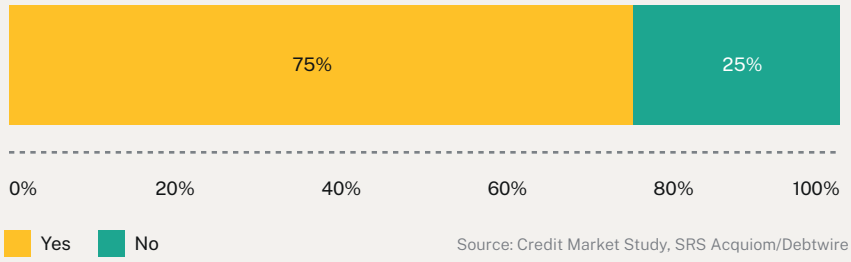
With private credit markets becoming ever more competitive, lenders are turning to specialized partners to gain an operational edge. The core value of third-party administrative agents is to lift the heavy and non-core administrative burden from the shoulders of investment professionals.

This value is evidenced by our survey, which found that an overwhelming 75% of firms reported they would consider using such an agent. This reflects a definitive industry trend toward operational outsourcing to achieve scale.

The specific priorities of asset managers when selecting an agent highlight exactly where this value lies. The top consideration is better risk management (18%), as an independent agent can provide meticulous tracking of loan covenants and reporting, insulating the fund from costly errors or technical defaults.

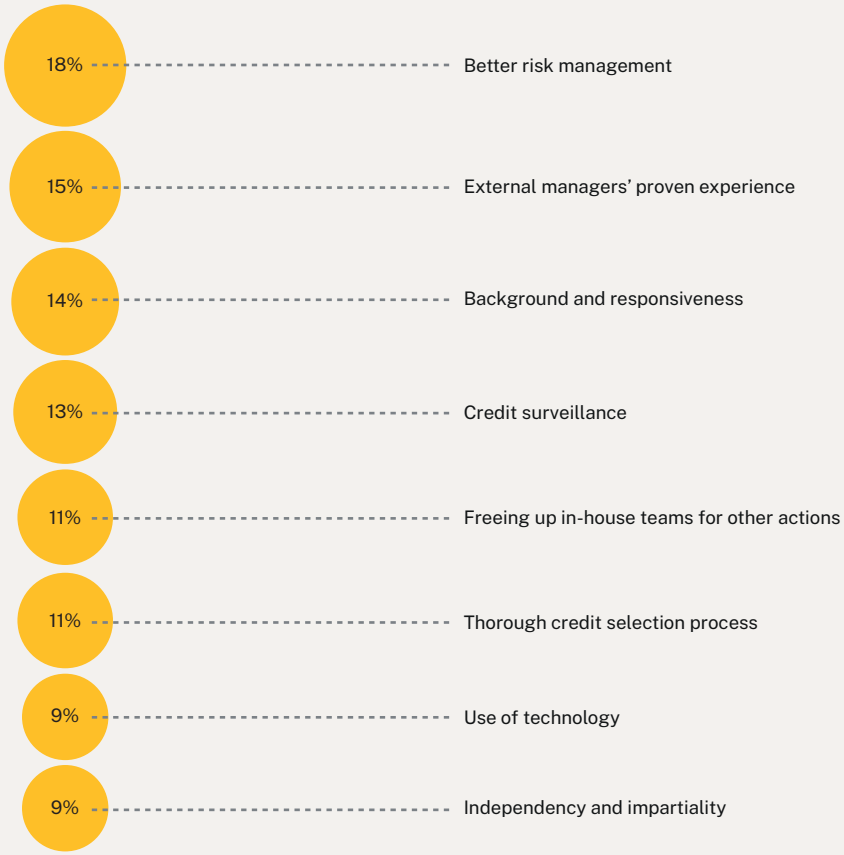
This is followed by the agent's proven experience (15%) and responsiveness (14%), demonstrating that asset managers need a reliable partner with robust, tested systems who can administrate credit agreements and provide accurate information on demand. Other key considerations include the desire to free up in-house teams (11%) and the agent's ability to provide independent and impartial service (9%). Ultimately, these third-party administrators provide the essential outsourced infrastructure that enables a fund to grow, institutionalize their operations, and manage investments with greater accuracy and efficiency.

Would you consider using a third-party administrative agent to deal with private credit providers? (Select one)



Source: Credit Market Study, SRS Acquiom/Debtwire

In your experience, what should be the most important consideration when dealing with third-party administrative agents? (Select one)



Source: Credit Market Study, SRS Acquiom/Debtwire

Conclusion: What's next for the private credit and BSL markets?

Private credit has completed its graduation from a niche alternative into a permanent pillar of the global leveraged finance ecosystem. Born from the post-financial crisis regulatory retreat of banks, the market has now reached US$3 trillion in AUM.

The most powerful catalyst for deployment will be the immense pent-up demand for M&A, with private equity sponsors needing to deploy an estimated US$2.51 trillion in dry powder. This, along with a looming US$620 billion maturity wall in 2026-2027, presents a generational opportunity for creative capital providers, according to JP Morgan and S&P/IHS Markit.

There are valid reasons that nearly half of all managers in our survey now believe private credit will continue to chip away at the BSL market's share. For borrowers, the choice is now between the former's speed, certainty, and flexibility versus the latter's lower cost and liquidity. Critically, private equity sponsors now view private credit as a permanent feature of the financing ecosystem, the wealth of options ensuring capital availability and driving competitive tension.

While this should ensure private credit continues to cement its place in the long run, markets naturally ebb and flow. Over the past year, companies that originally turned to private credit for its speed and certainty of execution during the volatile 2022-2023 period have been opportunistically tapping the liquid BSL market to optimize their balance sheets and significantly lower their debt servicing costs.

Syndicated loans offer materially cheaper financing, allowing borrowers to achieve average interest spread savings of 263 basis points compared with their initial private credit facilities, according to Pitchbook. In turn, this is forcing private lenders to become more competitive on their own terms and pricing to retain clients.

Extensive toolkit

Importantly, though, private credit has moved far beyond simple acquisition financing. Its increasing versatility means financial sponsors now have an extensive toolkit for refinancings, recapitalizations, and the general corporate borrowing needs of their portfolio companies. Private credit is also being tapped for NAV loans and subscription lines, helping GPs generate cash flow for investors without being forced into asset sales in a tepid exit market, and to manage capital calls more efficiently.

As the market continues to mature, the primary focus is pivoting decisively from pure growth to sophisticated risk management. This is evidenced by managers identifying commercial risk mitigation products as the single most important factor for sustained growth, supplanting accessibility.

This shift is imperative. Intense competition has eroded traditional lender protections, with the vast majority of respondents reporting looser covenants, converging with BSL market norms. This, combined with pressure to meet investors' yield expectations, elevates credit risk, with default rates now moving in an upward direction. Furthermore, the market's opacity is drawing ever closer scrutiny from regulators concerned about what its meteoric rise means for the stability of the financial system at large. There's still much to overcome, but if the past decade is any indication, expect further innovation, adaptation, and continued ascendancy.

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