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The rise of private credit: reshaping debt capital markets

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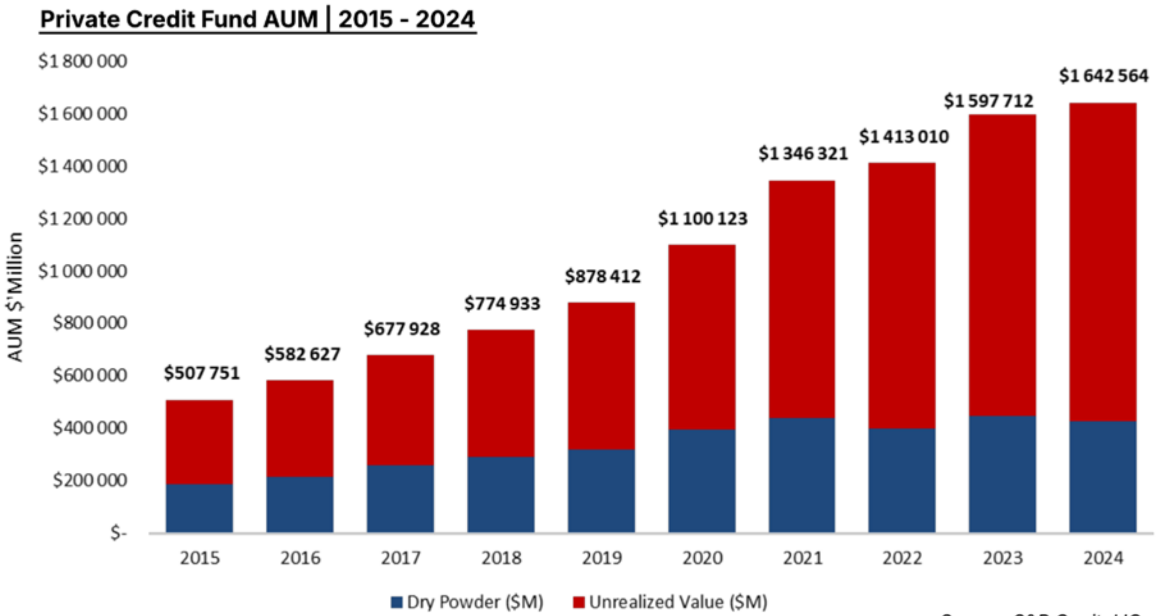
Over recent years, private credit has dramatically reshaped the landscape of global debt markets, evolving from a niche alternative strategy to a core pillar of corporate finance and institutional investing. Far from simply replicating traditional lending practices of banks or public markets, private credit has emerged as a highly streamlined, innovative method for directly channelling capital from investors to borrowers.

With bespoke financial structures, reduced transactional friction, and tailored solutions, private credit is now a central component of the financial ecosystem, redefining how companies access capital and how investors realise stable, risk-adjusted income. For investors, it offers income, diversification, and downside protection. These are qualities increasingly sought in today's uncertain market environment.

The growth of the private credit market

The scale of private credit today contrasts sharply with its modest beginnings. In 2000, private credit represented only about $44 billion in assets under management (AUM). In 2024, it exceeded $1.6 trillion and is expected to surpass $2.8 trillion by 2028.



Source: S&P Capital IQ

This growth has unfolded primarily in two distinct phases. The initial phase emerged in the 1990s, following extensive bank consolidation that reduced the availability of capital for small and medium-sized enterprises (SMEs). The second, more significant shift, occurred after the 2008 Global Financial Crisis. Regulatory reforms, notably Basel III, compelled banks to adopt a more cautious approach to lending, imposing stricter capital and liquidity requirements. As banks scaled back their lending activities, private credit institutions stepped into the void, significantly expanding their role and reshaping lending practices across various industries.

Understanding private credit

Private credit is a broad term which typically refers to loans directly negotiated and originated by non-bank entities such as private credit funds, insurers, and specialty asset managers. Unlike syndicated public market debt, private credit involves loans structured precisely to the borrower's requirements and the investor's risk-return expectations. The result is a more direct, efficient flow of capital, markedly different from the traditional lending machinery of banks or public credit markets.

The advantages of the private credit model

1) **Efficiency and streamlined capital flow:** One of the key advantages of private credit is its ability to streamline the flow of capital directly from investors to corporate borrowers. A central credit committee at a private credit fund simplifies the lending process, removing the extensive administrative layers and friction common in traditional banking systems. This simpler

operational structure reduces costs, time, and complexity associated with traditional lending markets, making private credit increasingly appealing to corporate borrowers.

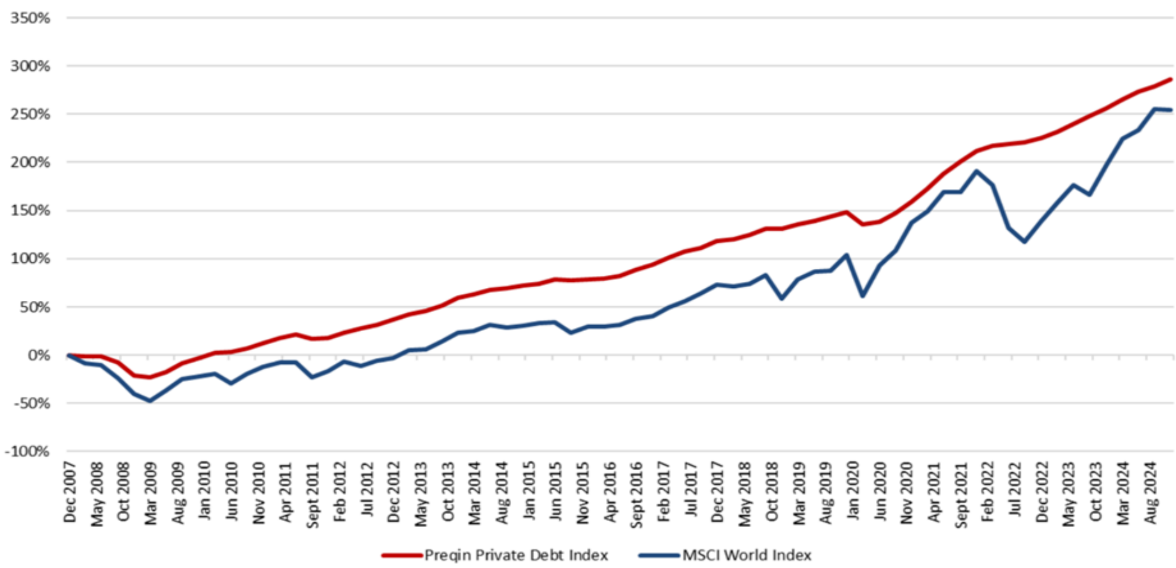
2) **Customisation and bespoke financing:** Unlike banks, which must adhere to strict regulatory constraints, private credit lenders have substantial latitude in deal structuring, enabling them to provide highly customised solutions that better align with borrowers' strategic objectives. Borrowers can negotiate specific terms, including flexible repayment schedules, payment-in-kind (PIK) interest, or equity-linked structures.

3) **Enhanced yield, downside protection and diversification benefits:** From an investor perspective, private credit not only provides attractive yields to compensate for its illiquid nature but also provides investors with a level of downside protection through extensive due diligence, strong contractual covenants, and collateral. Direct oversight further ensures timely management of borrower distress, and as a result, lower loss rates.

Private credit returns for investors

While the benefits for investors are noted from a diversification and risk management perspective, on a discrete basis, the returns from private credit or private debt investments may not appear as attractive as those achievable in equity markets, particularly during extended bull markets and economic expansions. However, viewed over the long-term, the private credit or debt market (represented by the Preqin Private Debt Index) has outperformed global equities (represented by the MSCI World Index) from 2008 to 2024 (see graph below). This demonstrates private credit's ability to deliver compelling risk-adjusted returns over full economic cycles, providing investors with a means to further diversify their portfolios without sacrificing long-term return potential. Nevertheless, it is important for investors to consider the inherent illiquidity associated with private credit investments.

Private Credit/Debt Performance vs Global Equities | 2008 - 2024



Source: S&P Capital IQ

The future of private credit

What began as a niche alternative for non-bank lending has matured into a multi-trillion-dollar asset class capable of servicing increasingly diverse borrowers and investors. With its growth no-longer confined to the middle market, private credit is now extending its reach into infrastructure, commercial real estate, and even consumer finance.

Importantly, the investor base for private credit is broadening rapidly. What was once the domain of large institutions such as pension funds and insurance companies is now attracting high-net-worth individuals, family offices, and increasingly, retail investors. Asset managers are responding by designing innovative structures that maintain institutional-grade oversight and protections while offering access points tailored to these newer participants.

As private credit continues to evolve, its future lies not just in expanding volume or deal size but in how it reshapes the function and structure of lending itself. Its ability to streamline capital delivery, customise financing, and align investment timelines with long-term obligations makes it a powerful alternative to traditional credit channels.

Conclusion

Private credit has progressed from a narrow niche to a multi-trillion-dollar asset class that now underwrites everything from middle-market buyouts to large-cap infrastructure projects. Its ascent has been powered by three structural advantages: direct, streamlined capital flow; flexible, borrower-specific structuring; and an attractive blend of yield and downside protection that traditional bank and public debt markets struggle to replicate.

Private credit is increasingly used as a fixed income substitute or an alternative diversifier alongside real assets and hedge funds, particularly in low-rate or volatile environments. For borrowers, it offers speed, certainty, and customisation. For investors, it supplies durable, cycle-resilient returns and meaningful diversification.

The challenge ahead is not demand, but disciplined capital deployment. This includes maintaining rigorous underwriting standards, managing portfolio liquidity, and scaling operational infrastructure as deal size and complexity grow. If the industry meets those challenges, private credit will cement its role as a permanent pillar of corporate finance.

For investors and allocators, the question is no longer whether private credit belongs in a portfolio, but how much exposure is appropriate and which strategies best fit their objectives.

Glacier Research would like to thank Alexander Engelhard for contributing to this week's *Funds on Friday*.

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