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The Explosive Growth of Private Credit

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I. Introduction: Private Credit's Ascent and the History Behind It

In the last few years, private credit's explosive growth has driven the practice from relative obscurity to being hailed as the future of finance. Private credit is currently the fastest-growing segment of the asset management industry, achieving a compound annual growth rate (CAGR) of 20% from 2017 to 2022.[1] Going back further to the housing bubble crash of 2007, global private credit assets under management (AUM) have since grown over tenfold, facilitated the exponential rise in the quantity of private debt funds from 100 in 2011 to 1,080 in 2023.[2] In this time, the industry has transitioned from being dominated by distressed investment strategies to direct lending, which now makes up about half of all private credit investments.[3] Although the gap between bank and nonbank lending has been widening since the 2000s, the divergence has accelerated recently—bank lending dropped from 44% of corporate borrowing in 2020 to just 35% in 2023.[4]

Private credit refers to nonbank lending to private companies that tend to be smaller and higher-risk. Compared to syndicated loans, private credit lending groups are much smaller in number, sometimes consisting of a single private credit asset management fund. Investors in private credit firms tend to be institutional; major backers include pension funds, endowments, foundations, and insurance companies.[5] Although private credit offers a wide array of different debt instruments, corporate debt makes up the greatest share by volume.[6]

Private credit's ascent is expected to continue at breakneck speeds with the sector being forecasted to grow another 87% in the next five years.[7] By 2028, the industry will have reached an AUM of $3.5 trillion, greater than today's U.S. leveraged and high-yield debt markets combined.[8]

The roots of the modern private credit market are traced back to the global financial crisis, which ushered in a new era of regulations that have discouraged traditional banks from

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[1] Saurabh Tripathi et al., "To Seize a $7 Trillion Opportunity, Banks Need Bolder Strategies for Serving Customers and Society " (BCG, January 2024), https://web-assets.bcg.com/d2/e4/a13ce7e640ba96a5821709fec9d7/bcg-to-seize-a-7-trillion-opportunity-banks-need-bolder-strategies-jan-2024.pdf, 10.
[2] Peter Madigan, "The Inexorable Rise of Private Credit," BNY, June 25, 2024, https://www.bny.com/corporate/global/en/insights/rise-of-private-credit.html.
[3] Goldman Sachs Asset Management, "Understanding Private Credit," July 29, 2024, https://am.gs.com/en-us/institutions/insights/article/2024/understanding-private-credit; Richard Rosenthal et al., "How Can Banks Adapt to the Growth of Private Credit?" (Deloitte, August 13, 2024), https://www2.deloitte.com/us/en/insights/industry/financial-services/alternative-lending-effect-on-banks.html, 3.
[4] Rosenthal et al., "How Can Banks Adapt?", 3.
[5] Eva Su, "Private Credit: Trends and Policy Issues," Congress.gov, April 23, 2024, https://www.congress.gov/crs-product/IF12642.
[6] Gresham Partners, "Private Credit Unveiled: Opportunities, Risks, & Why We Steer Clear," August 12, 2024, https://www.greshampartners.com/insights/private-credit-unveiled-opportunities-risks-why-we-steer-clear/.
[7] Don Muir, "Giant Banks Struggle, but Private Credit Is Soaring," Forbes, October 4, 2024, https://www.forbes.com/sites/donmuir/2024/10/04/giant-banks-struggle-but-private-credit-is-soaring/.
[8] Amanda Lynam and Dominique Bly, "Private Debt: The Multi-Faceted Growth Drivers" (BlackRock, September 2024), https://www.blackrock.com/institutions/en-us/literature/market-commentary/private-debt-deep-dive-multi-faceted-growth-drivers.pdf, 2; Rosenthal et al., "How Can Banks Adapt?", 3.

lending to middle-market corporations.[9] Similarly, the loosening of banking regulations in the 1990s with the Riegle-Neal Interstate Banking and Branching Efficiency Act and the Gramm-Leach-Bliley Act encouraged the consolidation of the banking industry, which has simultaneously encouraged banks to pull away from the middle market in search of larger-cap transactions and bigger fees.[10] Between 2000 and 2023, growth in lending from commercial and industrial banks to midsize businesses averaged just under 2%, and the percentage of bank balance sheets consisting of loans has steadily declined.[11]

On the nonbank side, the proliferation of private equity opportunities has encouraged smaller companies to go private or stay private for longer periods. As the amount of capital invested through private means has ballooned, startups and small companies increasingly have more options to forgo public markets altogether.[12] The trend can also be attributed to increased regulatory obligations for public companies, especially those of the Sarbanes-Oxley Act of 2002, which disproportionately burdened smaller firms.[13]

Investors, meanwhile, were driven to riskier assets by the low interest rate environment after the global financial crisis as they sought opportunities for higher returns, a phenomenon called "reach for yield."[14] Pension funds and insurance companies, bound by absolute return targets, were particularly attracted by the higher yield of private credit.[15]

Most recently, private credit emerged as a winner from both the interest rate hikes of 2022 and the 2023 regional banking crisis. From Q4 2021 to Q2 2022, private credit posted returns of 4.7%, while Bloomberg's US Aggregate Bond Index tanked by -10.3%.[16] While large banks like Morgan Stanley, Bank of America, and Barclays pulled out of new LBO-underwriting as they dealt with hung debt, private credit funds rose to the occasion, providing a peak of 68%

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[9] Next Street and JPMorgan Chase, "THE MIDDLE MATTERS: Exploring the Diverse Middle Market Business Landscape," November 2023, https://www.jpmorgan.com/content/dam/jpmorgan/documents/cb/insights/banking/commercial-banking/next-street-the-middle-matters-report.pdf, 18.

[10] Van Spina, "The Definitive History of Private Credit," Wall Street Fintech (blog), February 13, 2024, https://wallstreetfintech.substack.com/p/the-definitive-history-of-private.

[11] Next Street and JPMorgan Chase, "THE MIDDLE MATTERS", 18.

[12] Zoe Mendelson, "Public vs Private Funding? A Shifting Entrepreneurial Landscape," Columbia Business School, December 2023, https://business.columbia.edu/insights/entrepreneurship/public-vs-private-funding-shifting-entrepreneurial-landscape.

[13] Robert Bartlett III, "Going Private but Staying Public: Reexamining the Effect of Sarbanes-Oxley on Firms' Going-Private Decisions," 2009, https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?params=/context/uclrev/article/5452/&path_info=76UChiLRev7.pdf.

[14] Rob Copeland and Maureen Farrell, "Wall St. Is Minting Easy Money from Risky Loans. What Could Go Wrong?," The New York Times, December 27, 2024, https://www.nytimes.com/2024/12/27/business/wall-st-private-credit-money.html; Sam Boocker and David Wessel, "What Is Private Credit? Does It Pose Financial Stability Risks?," Brookings, February 2, 2024, https://www.brookings.edu/articles/what-is-private-credit-does-it-pose-financial-stability-risks/.

[15] Sirio Aramonte, "Private Credit: Recent Developments and Long-Term Trends," Www.bis.org, March 1, 2020, https://www.bis.org/publ/qtrpdf/r_qt2003v.htm.

[16] Joe Zidle and Dwight Scott, "Private Credit Investing in Rising Rate Environments," Blackstone, October 4, 2022, https://www.blackstone.com/pws/insight/private-credit-investing-in-rising-rate-environments/.

of total loan volumes in Q4 2022.[17] Billion-dollar private deals were making headlines, like the $4.1 billion debt package afforded by Blackstone and Apollo Global Management for the take-private deal of software company Zendesk in July 2022.[18] In October 2022, Blackstone advertised private credit as a good investment during high interest rate environments, citing private credit's floating-rate loans, flexibility in borrower negotiations, and lower volatility.[19] Following the regional banking crisis, banks were further discouraged from lending, opening up opportunities for private credit funds.[20] The aftermath also saw regional banks seeking to free up their balance sheets by offloading their loans to private credit funds.[21]

II. Industry Structure: Private Credit's Relationships with Other Financial Institutions

a. Banks

Private credit has proven itself as a strong competitor against traditional financial institutions, as the danger of volatile debt markets has sent buyers to private credit as an alternative to syndicated loans.[22] Though private credit has traditionally focused on middle-market deals, the last few years have seen record-breaking appetite for private credit megadeals that rival or even beat the volumes of syndicated loans.[23] For banks, private credit financing's explosive popularity has meant decreased revenues, which can be a significant threat to their business model: historically, bond underwriting, loan arrangements, and loan sales have generated a third of investment banking fees.[24] However, regional banks are most exposed to competition from private credit funds, as both go after middle-market clients.[25]

As the private credit market rapidly expands to match or even surpass that of broadly syndicated loans, banks are pivoting to compete. Previously, strategic changes were complicated by the fact that banks were barred from owning or sponsoring private funds by the Volcker Rule, whose restrictions were relaxed in 2020. Similarly, the downsizing of bank loan origination

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[17] Spina, "The Definitive History"; Jodi Xu Klein, "Private Credit Eases off Mega Loan Deals as Banks Regain Ground," The Wall Street Journal, March 5, 2025, https://www.wsj.com/articles/private-credit-eases-off-mega-loan-deals-as-banks-regain-ground-13870e62.

[18] Jonathan Guilford and Neil Unmack, "Private LBO Lenders Find Zen amid the Storm," Reuters, July 5, 2022, https://www.breakingviews.com/considered-view/private-lbo-lenders-find-zen-amid-the-storm/.

[19] Zidle and Scott, "Private Credit Investing."

[20] Rosenthal et al., "How Can Banks Adapt?", 3; Ann Saphir, Saeed Azhar, and Lewis Krauskopf, "Regional Banks Face Big Hurdles a Year after SVB Collapse," Reuters, March 7, 2024, https://www.reuters.com/markets/us/regional-banks-face-big-hurdles-year-after-svb-collapse-2024-03-07/.

[21] Carmen Arroyo and Rachel Butt, "Private Credit, Hedge Funds Flooded with Loans as Banks Dump the Debt," Bloomberg, June 30, 2023, https://www.bloomberg.com/news/articles/2023-06-30/private-credit-and-hedge-funds-flooded-as-banks-dump-loans.

[22] Liam Proud, "Banks' Private-Credit Fightback May Underwhelm," Reuters, August 4, 2022, https://www.reuters.com/breakingviews/banks-private-credit-fightback-may-underwhelm-2022-08-04/.

[23] Jodi Xu Klein, "Pro Take: Mega Loans Blur Lines for Private Credit and Banks," The Wall Street Journal, July 19, 2024, https://www.wsj.com/articles/pro-take-mega-loans-blur-lines-for-private-credit-and-banks-2c476e66.

[24] Lisa Lee and Silas Brown, "Credit Suisse, JPMorgan Echo Goldman in Fighting Private Credit," Bloomberg, August 18, 2022, https://www.bloomberg.com/news/articles/2022-08-18/private-credit-goldman-offers-playbook-for-disrupted-banks.

[25] Samuel Hanson et al., "The Evolution of Banking in the 21st Century" (The Brookings Institution, March 27, 2024), https://www.brookings.edu/articles/the-evolution-of-banking-in-the-21st-century/.

apparatuses instigated by the GFC and the 2023 regional banking crisis means that it is difficult for banks to compete directly.[26] Thus, large banks—especially the Global Systemically Important Banks (GSIBs)—have been pursuing multiple strategies, both competitive and cooperative, while regional banks have either been primarily cooperating with private credit or not responding at all.[27]

Despite the challenges of direct competition, some banks have been developing their own funds, though not all are equally significant. These banks, largely U.S.-based GSIBs, have taken advantage of their already-established balance sheet, wealth management, asset management, and investment banking wings to raise money, look for deals, and collect fees. Goldman Sachs began constructing its private credit fund in 2008, years before its competitors, leaving it with the most developed private credit capabilities.[28] In early 2024, it was reported that the company aims to expand the fund from $130 billion to $300 billion in five years.[29] Goldman's head start is clearly illustrated in its scale in comparison to other leading investment banks: in January 2024, Morgan Stanley pledged to double its private credit portfolio to $50 billion; a year later, JPMorgan Chase announced that it will earmark $50 billion for direct lending.[30] JP Morgan's initiative to lend straight from its balance sheet is unique, but the tactic is difficult to pull off due to regulatory concerns and high costs of borrowing.[31]

As such, it is much more common to see banks establish partnerships with premier private credit funds instead. In the last few years, there have been partnerships between Wells Fargo and Centerbridge Partners; Barclays Plc and AGL Credit Management; Citigroup and LuminArx Capital and Citigroup and Apollo Global Management; and JP Morgan and Cliffwater, FS Investments, and Shenkman Capital Management.[32] In total, there have been 15 recently announced partnerships between European and North American banks and private credit funds.[33]

The flourishing of bank-private credit fund partnerships can be explained by banks wanting to garner fees in the private credit space while taking on minimal risk.[34] Meanwhile, private credit firms benefit by gaining access to the client relationships cultivated by large banks.

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[26] Robin Blumenthal, "Inside the Love-Hate Relationship between Banks and Private Credit," Private Debt Investor, April 2, 2024, https://www.privatedebtinvestor.com/inside-the-love-hate-relationship-between-banks-and-private-credit/.
[27] Rosenthal et al., "How Can Banks Adapt?"
[28] Lee and Brown, "Fighting Private Credit."
[29] Blumenthal, "Inside the Love-Hate Relationship."
[30] Tatiana Bautzer and Saeed Azhar, "Exclusive: Morgan Stanley Plans to Double Private Credit Portfolio to $50 Bln," Reuters, January 26, 2024, https://www.reuters.com/business/finance/morgan-stanley-plans-double-private-credit-portfolio-50-bln-2024-01-26/; Joshua Franklin and Eric Platt, "JPMorgan Chase Sets aside $50bn for Direct Lending in Private Credit Push," Financial Times, February 24, 2025, https://www.ft.com/content/4b8b1863-9def-4673-a3c5-9b41fe885ef2.
[31] Lee and Brown, "Fighting Private Credit."
[32] Rosenthal et al., "How Can Banks Adapt?"; Franklin and Platt, "JPMorgan Private Credit Push"; Zacks Equity Research, "JPMorgan Enters Collaborations to Broaden Reach in Private Credit," Yahoo Finance, October 3, 2024, https://finance.yahoo.com/news/jpmorgan-enters-collaborations-broaden-reach-160100983.html.
[33] FS Investments, "Private Credit: The Changing Role of Banks," October 29, 2024, https://fsinvestments.com/fs-insights/private-credit-the-changing-role-of-banks/.
[34] FS Investments, "Changing Role of Banks."

For instance, Apollo described their partnership with Citi as a "win-win," as it allows Citi to "enhance their client offering with more private solutions while allowing Apollo to boost its origination and tap into Citi's extensive client relationships."[35]

At the same time, banks are opting for cooperation, either instead of or in addition to competition. In their perspectives on the future of banking, specialists at both McKinsey and Deloitte have suggested that banks should offload the risk of lending to private credit funds, becoming middlemen, distributors, or originators instead.[36] Movements towards different roles in the credit industry can already be seen today, as demonstrated by Deloitte's breakdown of present-day bank-private credit cooperation into four main forms: operational support, fund financing, origination partnerships, and risk transfer.[37] In other words, banks are helping to facilitate the day-to-day functions of private credit funds, including foreign exchange and treasury services, issuing loans to assist private credit funds in raising capital, connecting private credit funds with current clients, and transferring assets from bank balance sheets to those of private credit funds.

As one moves from large-cap to the middle market, bank-private credit cooperation becomes more vital while competition fades. While regional banks do interact with private credit funds, they tend to stick to providing operational support and financing, though there is a growing appetite for risk transfers.[38] Risk transfer has recently been bolstered by uncertain macroeconomic conditions—after the failure of Silicon Valley Bank, private credit managers bought banks' "asset-based and commercial loans," thus "streamlining their balance sheets."[39] Indeed, the American risk transfer market has undergone a 200% increase in three years, catching up to risk transfer volumes in Europe.[40]

Nonetheless, there are examples of larger banks cooperating with private credit funds: HSBC advises on and helps originate private credit deals, while Morgan Stanley, Merrill Lynch, and UBS distribute Blackstone's private credit products.[41]

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[35] Eric Needleman, Investor Day Presentation, https://d1io3yog0oux5.cloudfront.net/_fea736e26b36b16ca99020dfabe083a3/apollo/files/pages/apollo/db/2302/description/CORRECTED_TRANSCRIPT_Apollo_Global_Management_Inc.%28APO-US%29_Investor_Day_1-October-2024_8_00_AM_ET.pdf.
[36] Fuad Faridi et al., "The next Era of Private Credit" (McKinsey & Company, September 24, 2024), https://www.mckinsey.com/industries/private-capital/our-insights/the-next-era-of-private-credit; Rosenthal et al., "How Can Banks Adapt?"
[37] Rosenthal et al., "How Can Banks Adapt?"
[38] Rosenthal et al., "How Can Banks Adapt?"
[39] Blumenthal, "Inside the Love-Hate Relationship."
[40] FS Investments, "Changing Role of Banks."
[41] Jonathan Kandell, "As Private Credit Surges, Banks and Alternative Asset Managers Turn Frenemies rather than Foes," Institutional Investor, December 4, 2023, https://www.institutionalinvestor.com/article/2ciy5fv74kddt9eoq1m2o/corner-office/as-private-credit-surges-banks-and-alternative-asset-managers-turn-frenemies-rather-than-foes; Silas Brown and Kat Hidalgo, "HSBC Becomes Latest Global Player to Deepen Push into Private Credit," Bloomberg, October 12, 2023, https://www.bloomberg.com/news/articles/2023-10-12/hsbc-makes-global-push-to-broker-deals-in-private-credit-market.

b. Private equity

Private equity funds have increasingly relied on private credit to finance their deals. Beginning in 2020, private credit has continued to vastly outstrip the syndicated loan market in the LBO financing sphere.[42] In a survey of 100 private equity senior executives around the world, Dechert found that 45% of firms had "increased their use of private credit financing in buyouts over the last three years."[43]

The trend is being driven by the predictability, flexibility, and straightforward processes of private credit financing.[44] Predictability and easier processes were noted as the most important strengths of private credit by 26% and 24% of respondents, respectively. The long-term, locked-up nature of private credit loans has meant that the sector is less affected by volatility than more liquid credit markets, and the fact that private credit funds are not as sensitive to current market uncertainties also means they are generally more open to possibilities when determining financial terms. As such, in worst-case scenarios, it is easier to negotiate with a private credit fund than a traditional financial institution or secondary market investors.

On a more fundamental level, private equity funds are reorienting towards private credit to capture long-term revenue. This ties into the broader trend of buying companies not as portfolio investments but to expand their asset management platforms and loan origination capabilities. Take Apollo Global Management's growth strategy which identifies "fixed income replacement" as a defining growth opportunity for the next five years, driven by investors' return to the fixed income industry.[45] In particular, Apollo has pointed out asset-based finance and investment-grade private credit as primary growth accelerants that have not yet been tapped into. Meanwhile, Blackstone has made private credit a central part of their financing strategy—called "financing the real economy"—for their long-run "investing megatrends" in infrastructure for housing, data centers, AI, and energy transition.[46] Finally, KKR has singled out global credit as one of the four main growth drivers, particularly asset-based finance and private credit in Asia.[47] In their investor day presentation, the company cited the continued retreat of U.S. commercial banks, elevated interest rates driving credit market inflows, record levels of private equity dry powder signaling a surge in M&A activity, and greater dependency of Asia Pacific markets on bank credit as pertinent opportunities that have informed their credit strategy.

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[42] Rosenthal et al., "How Can Banks Adapt?"
[43] Dechert and Mergermarket, "2022 Global Private Equity Outlook," November 9, 2021, https://www.dechert.com/content/dam/dechert%20files/knowledge/publication/Global_Private_Equity_2022_FINAL.pdf.
[44] Dechert and Mergermarket, "2022 Private Equity Outlook."
[45] Marc Rowan, "Strategy," Powerpoint Presentation, https://d1io3yog0oux5.cloudfront.net/_f17f35f418163a6dfe485a78c91f3bbc/apollo/db/2224/21725/pdf/Apollo+2024+Investor+Day+Presentation+.pdf.
[46] Mike Zawadzki, "A Broader Toolkit to Capitalize on the Credit Opportunity," Blackstone, February 13, 2025, https://www.blackstone.com/insights/article/a-broader-toolkit-to-capitalize-on-the-credit-opportunity/.
[47] Joseph Bae and Scott Nuttall, "Strategic Overview," Powerpoint Presentation, https://ir.kkr.com/media/document/b1a455e3-374d-48f8-b5ed-ec734e92b07f/assets/KKR-2024-Investor-Day.pdf?disposition=inline.

c. Insurers

The post-GFC era of low interest rates brought about troubled times for the insurance industry, laying the foundation for insurers to grow reliant on private capital, including significant investments in private credit.[48] 91% of insurers globally intend to increase their allocations to private markets in the next two years; among them, 30% plan to increase allocations to private debt in particular.[49]

Deepening ties between private credit and insurance are driven by demand for capital to support an aging population and the advantages of private debt, including reduced volatility and higher yields. On the global level, the most common motivation that senior executives have cited for entering private debt was diversification and lower volatility (59%), followed by the opportunity to invest in new asset classes (48%), and meeting climate targets (41%).[50] Concurrently, the liquidity of public markets starts to feel less and less desirable as insurers' liabilities become increasingly long-term. When liquidity is less of a concern, insurers are free to chase the yields of private credit. As stated by Gilles Dellaert, leader of BlackStone Credit, "If [an insurer] want[s] to be relevant today, it's essential to have access to the yield enhancement that private credit offers, which allows [one] to offer consumers competitive products."[51] With private credit, additional yield—amounting to "150 to 200 basis points of excess spread"—can be wrought for little to no additional risk.[52]

For private credit funds, cash influxes from insurers have allowed them to deepen their supplies of long-term—or even permanent—capital, securing periodical management fees, boosting growth in earnings, and providing cushioning to fall back on during economic downturns.[53] The large sums of money infused by insurers into private credit funds also serve as welcome fuel for funds' growth strategy; currently, partnerships like the one between Northwestern Mutual and Sixth Street exemplify the trend of private credit managers striking deals to facilitate their push into asset-based finance.[54]

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[48] Gilles Dellaert, Blackstone's Gilles Dellaert on private credit and insurance, interview by McKinsey, McKinsey & Company, December 17, 2024, https://www.mckinsey.com/industries/financial-services/our-insights/blackstones-gilles-dellaert-on-private-credit-and-insurance.

[49] BlackRock, "Global Insurance Report 2024," October 15, 2024, https://www.blackrock.com/institutions/en-zz/literature/market-commentary/2024-global-insurance-report.pdf, 22.

[50] BlackRock, "Global Insurance Report 2024," 22.

[51] Dellaert, Blackstone's Gilles Dellaert, interview by McKinsey.

[52] Dellaert, Blackstone's Gilles Dellaert, interview by McKinsey.

[53] Andrew Reich and Ramnath Balasubramanian, "Private Capital in Insurance 2.0: Building the Flywheel," McKinsey & Company, June 26, 2024, https://www.mckinsey.com/industries/financial-services/our-insights/private-capital-in-insurance-2-point-0-building-the-flywheel.

[54] Miriam Gottfried, "Sixth Street Strikes Deal to Manage $13 Billion of Insurer's Assets," The Wall Street Journal, January 7, 2025, https://www.wsj.com/finance/investing/sixth-street-strikes-deal-to-manage-13-billion-of-insurers-assets-1439f114.

At the same time, private equity firms have been buying or acquiring stakes in insurance companies, particularly in the life insurance space,to finance their private credit operations.[55] The buying spree kicked up around 2019 with landmark deals consisting of Apollo's merger with Athene in 2021 and KKR's acquisition of Global Atlantic Financial Group in 2024. 2021 also saw Blackstone take a minority stake in Allstate Life Insurance and American International Group (AIG), while Elliot Investment Management struck a similar deal with Principal Financial Group. By the second half of 2023, private equity firms owned 9% of the life insurance industry, or $774 billion in life insurance assets.[56] These assets are similarly used as "permanent capital" to bring down the cost of borrowing for private credit loans.[57]

To leaders in the insurance world, the growing interconnectedness between insurance and private credit is a net boon for the economy. As banks retreat from lending and private credit takes the mantle, the industry will need sustainable funding, and as posited by Anant Bhalla, CEO of American Equity Investment Life Insurance, "who better than another regulated industry like insurance?"[58]

d. Individuals

Though private credit has long relied on institutional investors to inject capital into their funds, they are no longer enough to accelerate their growth—instead, funds are turning to high net worth individuals and retail markets.[59] Leading firms like Apollo Global Management, BlackRock, KKR, and State Street have announced public investment products like private credit exchange-traded funds and interval funds.[60] Many of these companies are looking to push retirement vehicles that invest in private credit as an alternative to the S&P 500. At Apollo's 2024 investor day presentation, CEO Mark Rowan declared, "we levered the entire retirement of America to Nvidia's performance…We're going to fix this and we are in the process of fixing

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[55] Americans for Financial Reform Education Fund, "Risky Business: Private Equity's Life Insurance Gambit," December 2023, https://ourfinancialsecurity.org/wp-content/uploads/2023/12/Private-Equitys-Life-Insurance-Gambit-02.pdf.
[56] Americans for Financial Reform Education Fund, "Risky Business," 4.
[57] Americans for Financial Reform Education Fund, "Risky Business," 4.
[58] Anant Bhalla, Anant Bhalla on the convergence of insurance, asset management, interview by McKinsey, McKinsey & Company, May 3, 2024, https://www.mckinsey.com/industries/financial-services/our-insights/anant-bhalla-on-the-convergence-of-insurance-asset-management.
[59] Greg McKenna, "Private Equity Wants the $12 Trillion Americans Have Stashed in Their 401(K) Plans. A Study Says the Upside Temptation Might Not Be Worth the Risk.," Yahoo Finance, April 3, 2025, https://finance.yahoo.com/news/private-equity-wants-12-trillion-112400084.html; JPMorgan Chase, "Private Markets Court High-Net-Worth Investors," February 2025, https://www.jpmorgan.com/content/dam/jpm/cib/complex/content/securities-services/fund-services/Private-Markets-Court-High-Net-Worth-Investors.pdf.
[60] Matt Wirz, "Wall Street Races to Bring Private Credit to the Masses," The Wall Street Journal, October 3, 2024, https://www.wsj.com/finance/investing/wall-street-races-to-bring-private-credit-to-the-masses-8a25b624; Bloomberg, "State Street's Private-Credit ETF Receives Lukewarm Response," Investment News, March 13, 2025, https://www.investmentnews.com/alternatives/state-streets-private-credit-etf-receives-lukewarm-response/259695.

it."[61] By 2026, the company aims to have raised $50 billion in retail investments.[62] These initiatives are not limited to Apollo—KKR has estimated that half of their funds will be raised from private wealth, while Blackstone is targeting a $300 billion increase in retail investment.[63]

III. The Performance of Private Credit Funds

One of the clearest strengths of private credit is its ability to fix the asset-liability mismatch of commercial bank lending—private credit draws from a capital base of long-term investments, while bank assets are primarily highly liquid consumer deposits that are prone to flight.[64]

This may help explain the industry's stellar performance thus far. Even during the 2022-2023 period of interest rate tightening, private credit borrower defaults were not significantly impacted.[65] Private credit default rates have historically been lower than in the syndicated market, hovering at around 2-3% compared to the syndicated market's 5.26%.[66] On average, managers of all asset types except for private credit have seen losses; private credit is the only one that has still generated positive returns at the bottom quartile. The low default rates are usually attributed to private lenders' flexibility in determining favorable lending terms or renegotiating in times of financial distress. Another explanation may have to do with the significant overlap between private equity-sponsored firms and private credit borrowers—firms sponsored by private equity have lower default rates during periods of financial stress, as sponsors want to preserve their investments and may inject capital into their portfolio firms.[67]

Though the sector has an impressive overall track record, the achievements of top funds have been staggering. Blue Owl Capital, for instance, has "firm-wide annualized losses of just 0.06%," with fund IRRs ranging from 15-42%.[68] Blackstone's private credit wing saw a return of 18% with a default rate of less than 40 basis points; similarly, Oaktree Capital Management has

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[61] Marc Rowan, Investor Day Presentation, https://d1io3yog0oux5.cloudfront.net/_fea736e26b36b16ca99020dfabe083a3/apollo/files/pages/apollo/db/2302/description/CORRECTED_TRANSCRIPT_Apollo_Global_Management_Inc.%28APO-US%29_Investor_Day_1-October-2024_8_00_AM_ET.pdf, 5.

[62] JPMorgan Chase, "Private Markets Court High-Net-Worth Investors," 3.

[63] JPMorgan Chase, "Private Markets Court High-Net-Worth Investors," 3.

[64] Spina, "The Definitive History."

[65] David Ridley, Vincenzo Lucibello, and Eric Klar, "Breaking New Ground on the next Phase of Private Credit," Debt Explorer, February 13, 2025, https://debtexplorer.whitecase.com/leveraged-finance-commentary/breaking-new-ground-on-the-next-phase-of-private-credit.

[66] Proskauer, "Proskauer Announces Q4 Private Credit Default Rate of 2.67%," Proskauer, January 21, 2025, https://www.proskauer.com/report/proskauer-announces-q4-private-credit-default-rate-of-267; Fitch Ratings, "2024 US Issuer Default Rate Surpasses Pandemic Levels, Highlighting Ongoing Risk," FitchRatings, January 31, 2025, https://www.fitchratings.com/research/corporate-finance/2024-us-issuer-default-rate-surpasses-pandemic-levels-highlighting-ongoing-risk-31-01-2025; Gresham Partners, "Private Credit Unveiled."

[67] Fabio Cortes et al., "The Rise and Risks of Private Credit" (International Monetary Fund, April 2024), https://www.imf.org/en/Publications/GFSR/Issues/2024/04/16/global-financial-stability-report-april-2024, 60, 67.

[68] Hank Tucker, "Inside the $200 Billion Billionaire Factory," Forbes, May 24, 2024, https://www.forbes.com/sites/hanktucker/2024/05/24/inside-the-200-billion-billionaire-factory/.

maintained a default rate of 0.36%, a loss rate of 0.09%, and a 100% recovery rate since 2002.[69] Flexibility of negotiation has been cited as a primary reason for the rarity of losses among these funds, allowing borrowers more options aside from defaulting in times of financial stress.[70]

IV. The Concerns of Regulators

The most oft-cited issue that has plagued the industry is its opaqueness. Private markets more or less operate outside the purview of financial regulators, meaning very little is publicly known about the details of private credit operations. Institutions like the IMF and the Bank of England have warned of the possibilities of increasing systemic risk posed by private credit, while individuals like Jamie Dimon and former Senator Sherrod Brown, former chair of the Senate banking committee, have sounded the alarm over private credit funds acting "in the shadows."[71] Beyond standard direct lending, newer developments in private credit exacerbate the inscrutability of the industry. For example, net asset value (NAV) loans, or loans made to private equity funds based on the net asset value of their investment portfolios, are especially risky, as they are secured on theoretical valuations of funds that are "almost fully invested."[72] NAV finance is expected to increase dramatically in the coming years, with deal flow already doubling since 2020.[73] Yet, only two credit rating agencies have the ability to rate the riskiness of NAV loans.[74]

Private credit's explosive growth also puts forth the possibility that there is an oversupply of private credit capital. As funds have grown, so has "dry powder," or uninvested capital: since 2014, private credit dry powder has nearly quadrupled, suggesting that while funding has flourished, demand has not caught up.[75] Combine the abundance of dry powder with constant expectations for high returns, as well as deal competition from banks, and there is considerable risk of a deterioration in lending standards, potentially fueling a rise in defaults in the future.

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[69] Zack Miller, "Blackstone Sees Strong Q2 Originations, Private Credit Returns," PitchBook, July 22, 2024, https://pitchbook.com/news/articles/blackstone-reports-strong-q2-originations-private-credit-returns; Oaktree Capital Management, "Oaktree Strategic Credit Fund," March 31, 2025, https://osc.brookfieldoaktree.com/sites/default/files/2023-06/Presentation.pdf, 8.

[70] Ellen Schneider, Carmen Arroyo, and Jill R Shah, "When Private Credit Loans Get in Trouble, Here's What Happens," Bloomberg, February 19, 2025, https://www.bloomberg.com/news/articles/2025-02-19/when-private-credit-loans-get-in-trouble-here-s-what-happens.

[71] Copeland and Farrell, "Wall St. Risky Loans."

[72] Shankar Ramakrishnan, "Focus: Rating Firms Cautious Ratifying Some Private Credit Loans," Reuters, May 28, 2024, https://www.reuters.com/business/finance/rating-firms-cautious-ratifying-some-private-credit-loans-2024-05-28/.

[73] Armen Panossian and Pierre-Antoine de Selancy, "NAV Finance 101: The next Generation of Private Credit" (Oaktree Capital Management, 2024), https://www.oaktreecapital.com/docs/default-source/default-document-library/nav-finance-101.pdf?sfvrsn=6e1e5766_2.

[74] Ramakrishnan, "Rating Firms Cautious."

[75] Fang Cai and Sharjil Haque, "Private Credit: Characteristics and Risks," FEDS Notes (blog), February 23, 2024, https://www.federalreserve.gov/econres/notes/feds-notes/private-credit-characteristics-and-risks-20240223.html; Gresham Partners, "Private Credit Unveiled."

According to the IMF's global financial stability report, "[i]ndustry commentary suggests that underwriting standards…have already deteriorated" for large-cap deals.[76]

Additionally, private credit loans are almost exclusively floating-rate, which may leave them exposed to interest rate hikes. The greater a firm's reliance on floating-rate debt, the more rapidly higher interest rates get translated into a firm's borrowing costs.[77] Private credit borrowers, which already tend to be highly leveraged, have shown signs of financial stress since the beginning of the high-rate environment, as earnings have not kept up with interest rates. Among B3-rated companies, a rating commonly held by private credit borrowers, 62% recorded an interest rate coverage ratio less than 1—signifying an inability to cover interest costs—in December 2023, a sharp increase from 29% in 2022.[78] Payment in kind (PIK) loans are on the rise, approaching heights last seen during the GFC.[79] PIK loans are noteworthy because they signify that borrowers are deferring cash payments, pointing to widespread accumulation of cash flow difficulties, likely spurred on by higher interest rates.[80] Moody's has raised warnings over the increase in PIK loans among LBO borrowers in particular.[81] Likewise, higher interest rates pose refinancing risks, as lenders are less likely to lend on favorable terms as macroeconomic conditions worsen and borrowers' debt servicing costs rise.[82] Though the proportion of private debt loans that must be refinanced cannot be determined, around a quarter of similar high-risk global debt instruments like high-yield bonds and leveraged loans must be refinanced by the end of 2025.[83] To mitigate these interest rate risks, "amend and extend" agreements, or agreements to delay maturity, usually in exchange for a "higher yield and tighter financial controls," have become commonplace.[84] Like PIK loans, however, these deals are temporary solutions that push financial stress down the line.

In general, private credit has been able to successfully control liquidity risk by matching the liquidities of its funding and loan structures—in other words, through structures that ensure low maturity transformation. However, the rise of semiliquid products like perpetual business development companies (BDCs), a prominent vehicle for investing in private credit due to its higher liquidity and accessibility, opens the gates for increased liquidity risk.[85] Solutions like BDCs are meant to appeal to individual investors which has the potential to increase maturity transformation.

[76] Fabio Cortes et al., "Risks of Private Credit," 71.
[77] Fabio Cortes et al., "Risks of Private Credit," 59.
[78] Gresham Partners, "Private Credit Unveiled."
[79] Gresham Partners, "Private Credit Unveiled."
[80] Sophie Baker, "Red Flags Rising in Private Credit Market," Pensions & Investments, May 7, 2024, https://www.pionline.com/alternatives/private-credit-market-showing-red-flags-moodys-ratings.
[81] Sophie Baker, "Red Flags."
[82] Bank of England, "Financial Stability Report," December 2023, https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2023/financial-stability-report-december-2023.pdf, 43.
[83] Bank of England, "Financial Stability Report," 43-44.
[84] Bank of England, "Financial Stability Report," 45.
[85] Fabio Cortes et al., "Risks of Private Credit," 62.

At the same time, the overall illiquidity of private credit markets exacerbates the potential consequences of financial stressors coming to pass. Sharp moves in prices may force market participants to respond by selling assets outside of the private credit sector to reduce their credit risk exposure, tightening overall financial conditions as a spillover effect.[86] More directly, borrower defaults instigated by high interest rates can trigger significant losses for highly exposed institutional investors, particularly pension funds and insurers, both of which have substantially expanded their illiquid investments and leverage over the last decade.[87] Worryingly, private equity-influenced life insurers have weaker solvency capital ratios than the average, meaning that "their regulatory capital could be eroded much faster in a scenario of rapid increases in corporate defaults."[88] The close ties between private credit and private equity have also raised spillover concerns for the latter industry, as well as questions about conflict of interest.[89]

In the case of default, private credit loans have been shown to have a low recovery rate, in comparison to syndicated loans and high-yield bonds.[90] This is largely attributed to the fact that private credit borrowers tend to be in sectors with "relatively low collateralizable or tangible assets such as software, financial services, or healthcare services."[91]

V. Thoughts on Regulatory Priorities

Despite the impressive gains of the private credit industry, it is critical to keep in mind that private credit has not been tested through an economic downturn. Private credit has had remarkable success at containing liquidity risk and preserving returns in high interest rate environments, but trends like increasing maturity transformation and financial stress among borrowers should raise alarm bells. Such consideration will only become more necessary as private credit increasingly looks to embed itself within broader financial systems, including consumer-facing financial institutions like pension funds and insurance.

Even the regulator analyses cited in this report could not be complete due to the scarcity of knowledge about the makeup of private credit. Both the IMF and the Bank of England reports repeatedly note that they were unable to fully evaluate the risks they were identifying. In the current state of affairs, the amount of opaque debt hidden in private credit markets is staggeringly vast: JPMorgan alone reported $133 billion in loans simply marked as "other" to the FDIC, more than the total loans of "all but a handful of the country's biggest banks."[92] It is not only lenders that are leveraged, however; the entire value chain builds upon the leverage of the other actors. Investors are leveraged, lenders are leveraged, and borrowers are leveraged, and

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[86] Bank of England, "Financial Stability Report," 49.
[87] Fabio Cortes et al., "Risks of Private Credit," 57, 70.
[88] Fabio Cortes et al., "Risks of Private Credit," 71.
[89] Fabio Cortes et al., "Risks of Private Credit," 68.
[90] Cai and Haque, "Characteristics and Risks."
[91] Cai and Haque, "Characteristics and Risks."
[92] Stephen Gandel, "JPMorgan Snubs Regulators over Disclosure of Private Equity Loans," Financial Times, February 15, 2025, https://www.ft.com/content/4a79657f-ad79-4cad-b044-db639ec8bdb4.

each actor faces reporting gaps that blind them to the states of leverage among the others.[93] Without some semblance of a regulatory scheme in place, that number will only accelerate at unprecedented speed.

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[93] Fabio Cortes et al., "Risks of Private Credit," 63.