Private credit - evolution vs. revolution

The Corinthia Global Management team foresees several key themes playing out over the course of 2025.

1. Disintermediation of banks to disintermediation of public markets

The private debt market continues to mature and arguably has come of age. Estimates suggest the asset class stood at ~$2 trillion in assets at the end of 2023, but that the addressable market in the US alone could be more than $30 trillion when including a variety of asset-based financing structures. [McKinsey | the next era of private credit - 24 September 2024]

With this growth, we see a segment of the market "dominated" by scaled managers whose focus is now shifting to competing with the broadly syndicated loan and public markets. Increasing numbers of managers are launching products and hiring teams focused on large cap transactions and adjacent strategies – we see this expansion of the opportunity set as being positive for sponsors (more choice in terms of financing solutions) and LPs (more choice in terms of risk-adjusted returns).

2. An ever-increasing opportunity set within the core middle market

Continued growth within private debt creates opportunity for those focused on the core middle market. As more established lenders with scale raise larger and larger funds, it becomes less efficient to deploy into mid-sized transactions. It is increasingly common to see private credit deals exceeding $1bn and current estimates suggest that private credit is funding ~85% of leveraged buyouts. [Pitchbook | LCD * Data through - 30 September 2024]

We therefore see material opportunity for those with established relationships to carve out a niche within the core middle market. As the market grows, Europe in particular is displaying characteristics seen in the US market. We see more definitive market segments and an increased theme of sponsors looking to diversify their lender groups. This is another lens through which we see more opportunity for deployment in the core middle market.

3. A move from competition to coopetition

Market participants are leaning into their competitive edge, and we see more potential for cooperation. As banks look to benefit from the tailwinds in private debt, we see their role evolving to providing GP stakes and launching JVs, in addition to the more traditional aspect of providing fund financing. We see more asset and wealth managers with distribution or structuring capabilities partnering with GPs that have strong origination, with each group playing to their strengths.

"These shifts could lead to significant changes in the industry, such as a decoupling of asset origination from the downstream parts of the value chain. A new breed of partnerships and open-architecture business models could emerge as a result." [McKinsey | the next era of private credit - 24 September 2024]

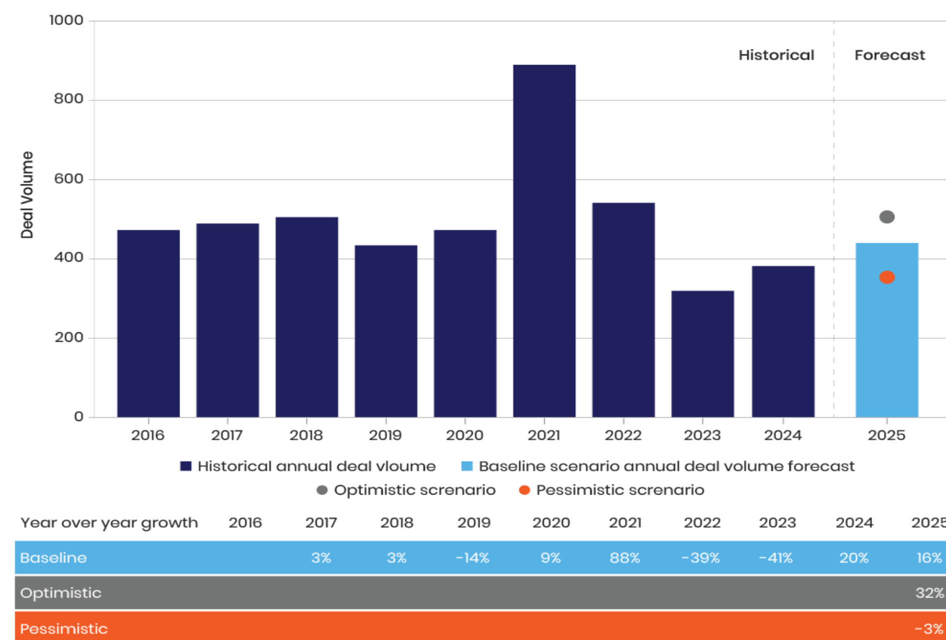
4. Deal pipelines are ripe for conversion

Recent years have seen a compression in M&A, with deal flow hindered by uncertainty over rates and a volatile macroeconomic backdrop. 2025 offers more visibility on the path of rates. Private Equity sponsors have been under considerable pressure to return capital to LPs and are ever more focused on achieving exit targets. The past 18-24 months have allowed time to focus on EBITDA expansion so EV erosion should be less of a hindrance. Companies are growing back into value, and this should provide a positive tailwind as we head into 2025.

According to a recent survey of 200 UK based senior private equity professionals, 84% of respondents expect to execute at least 5 to 10 deals in 2025. [Deutsche Numis | UK Private Equity M&A Outlook - 2024]

In the US, a similar trend is predicted, with expectations of a ~16% increase in M&A volumes projected for 2025. [EY-Parthenon | M&A Outlook - 21 November 2024]

Figure 1: US PE deal volume



Year over year growth	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Baseline		3%	3%	-14%	9%	88%	-39%	-41%	20%	16%
Optimistic										32%
Pessimistic										-3%

5. Increased supply of deals will underpin attractive risk-adjusted yield

After 18 months of super profits from direct lending, we see returns normalising but remaining compelling as interest rates settle at a higher long-term level. The risk side of the equation is positive with leverage levels down and the bilateral nature of the asset class enabling good long term downside protection.

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