

# 2026 Outlook

## Know What You Own and Know Why You Own It

Peter Lynch

### Sensationalism sells fear, not facts

Bill Moyers

As seasoned credit specialists, we find it hard not to address the misconceptions and misleading narratives surrounding our ~\$1.7 trillion<sup>1</sup> asset class. Whether it be the recent headlines around “cockroaches in the system”, the increased prevalence of “PIK loans”, or constant speculation around dangers relating to the growth of private credit, negative soundbites cannot mask the fact that our segment of private credit, core middle market sponsor backed direct lending, continues to deliver.

First Brands is not representative of private credit, and this default has limited implications for direct lending<sup>2</sup>. That being said, it is true that default rates across corporate credit are rising, climbing to 1.3% amongst junk rated private borrowers, according to S&P Global. When including “selective defaults”, where borrowers amend terms for more headroom on interest payments, this climbs to 4.6%. Credit downgrades have also outpaced upgrades for the past seven quarters, with a record number of issuers rated CCC<sup>-3</sup>. The important distinction here is that these headlines and data points cover a universe of rated Broadly Syndicated Loans and/or High Yield instruments with a natural skew to larger cap transactions. Direct lending is by and large a private unrated asset class, and within this segment the core middle market continues to deliver strong risk-adjusted returns.

### Numbers don't lie

Cliffwater 2025

The Cliffwater Direct Lending Index (CDLI) encompasses ~\$500bn in middle market loans and is widely acknowledged as the best proxy for market performance, representing ~1/3 of the direct lending universe. According to Cliffwater's Q3 2025 report, the “numbers don't lie”, and private debt disclosures for Q3 2025 continue to provide investors with good news. Trailing one-year annualised losses are -0.66%, well below historical averages of -1.00%. Many GPs, the team at Corinthia included, have delivered annualised losses well below the figures above<sup>4</sup>. Trailing one year returns on the CDLI are expected to be ~9.65% to the end of September 2025. Risk and reward across the system remain balanced and in line with historical long-term performance.

<sup>1</sup> Preqin, March 2025

<sup>2</sup> Fitch

<sup>3</sup> Kroll Bond Rating Agency

<sup>4</sup> Bloomberg, our team's historical annualised loss rate of less than 2bps

<sup>5</sup> J.P.Morgan, The Middle Matters

<sup>6</sup> Private Credit Market Size & Share Outlook to 2030

### 2025 – Year in review

Delivering on our predictions – we believe each is now firmly underway:

#### 1. Disintermediation of banks to disintermediation of public markets

Private credit is no longer just replacing banks; it's increasingly competing with public markets, namely at the upper end of the market. Clearlake's acquisition of Dun & Bradstreet in May 2025, with a \$5.5bn private credit financing, showcases how the direct lending market has grown. Large-scale direct lenders are stepping into spaces traditionally dominated by syndicated loans and bonds, offering speed, certainty, and bespoke structures that public markets can't match. We also note expansion beyond corporate credit, into areas such as Investment Grade, Infrastructure and Real Assets.

#### 2. Expanding core middle market opportunity

The middle market remains the engine of private credit growth. The US middle market alone consists of ~300,000 companies which generate \$13 trillion in annual revenue – about one-third of US private-sector GDP and 30% of private-sector jobs<sup>5</sup>. With strong sponsor activity and refinancing needs, this segment offers attractive yields and lender protections. Corinthia's global origination footprint – ~700 deals sourced year-to-date by end of November 2025 with ~70 currently in the pipeline – underscores the depth of opportunity.

#### 3. From competition to cooperation

The industry is accelerating its move toward collaboration through joint ventures, GP stakes, and strategic partnerships. Market participants, from banks, asset owners, and asset managers to boutiques, all seek exposure to an asset class forecast to grow at a CAGR of **11.6%+** in the next five years<sup>6</sup>. Corinthia is actively exploring these avenues to broaden access and enhance deal flow, reflecting a shift from competition to shared value creation. We see this as acutely important for any LP seeking alpha in the asset class today.

#### 4. Pipelines ripe for conversion

After years of pent-up demand, deal pipelines are starting to convert at pace. Corinthia has closed **22** transactions to date, bringing total deployed capital to **\$1.1 billion+** in **~8 months**, with a further 3-5 deals expected to close before year-end. This is testament to disciplined execution and strong sponsor relationships.

#### 5. Supply driving attractive risk-adjusted yield

Increased deal supply is supporting returns. Corinthia's 2025 internal metrics – average margins of **~520bps** across the global book\*, median **EBITDA of ~\$20 million**, and **4.6x net leverage** across the ~700 deals reviewed – reflect a balanced approach to risk and reward in a competitive market.

\*European deals continue to garner a ~50bps premium to the US.

Mimicking the herd invites regression to the mean

Charlie Munger

Private credit and the direct lending asset class has matured significantly in recent years. With this continued growth we have seen consolidation from a fundraising perspective, and subsequently a shift up market from large brand names. Using the BDC market as a proxy, we see that BDCs with >\$5bn in fair value (21 BDCs) have a portfolio overlap of 9.2% among their peer set. BDCs with a fair value of <\$1bn have an overlap of 1.4% among their peers<sup>7</sup>.

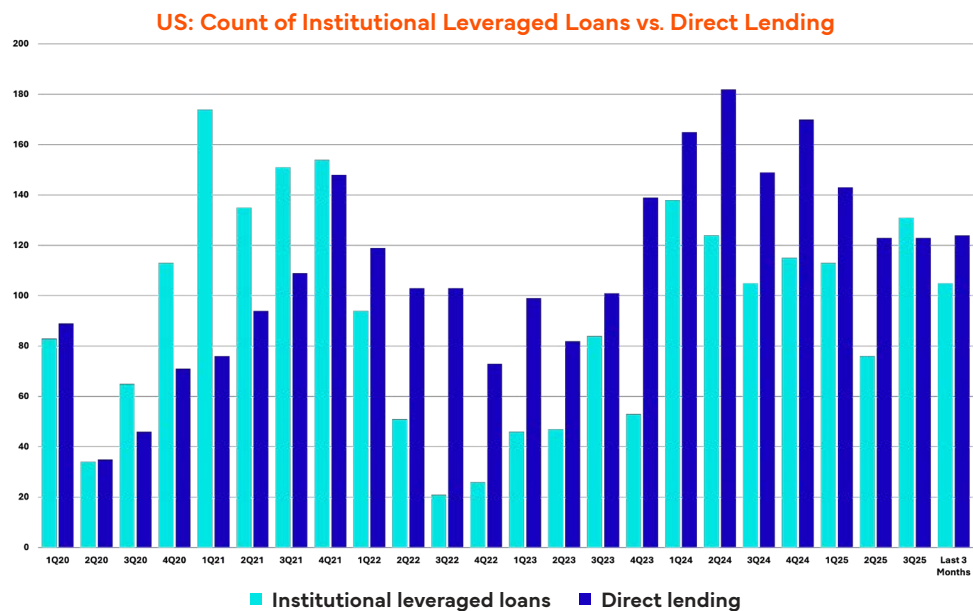
Allocations to brand name GPs are generally skewed to larger cap transactions, with likely overlap in loans, limited LP influence on economics, flexibility and access to co-investments. We classify this exposure as market beta – outcomes will mirror the broader market and be more impacted by public/private crossover.

We see increased interest from a broad range of LPs that are seeking either "smarter beta" or access to true alpha in this space. According to a recent Stepstone survey covering 145 GPs and 420 funds, co-investment volume has risen ~30% since before the pandemic<sup>8</sup>. Increasingly, "boutique" GPs are differentiating their offering with more aligned fee models and/or preferential access to co-investments. With a proliferation of choice, fees, flexibility, transparency, and an emphasis on partnerships can be key differentiators. The alpha opportunity in this asset class comes from accessing founder economics; this can be anything from GP stakes and aligned economics on new vehicles to revenue share across product lines.

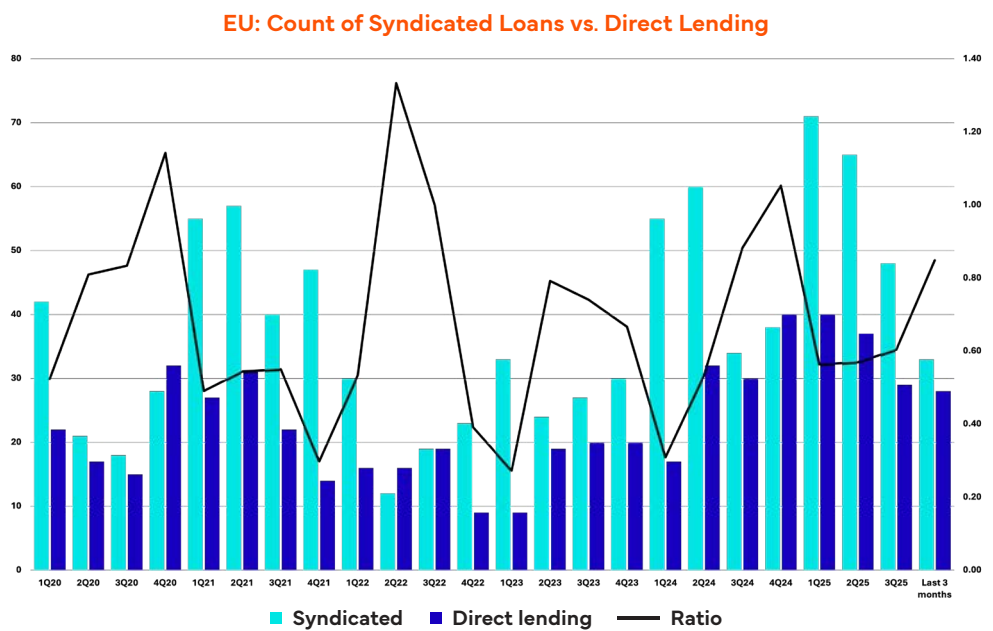
At Corinthia, we are focused on delivering a smart beta solution to LPs seeking a true middle market direct lending exposure, and partnering strategically with those focused on accessing alpha opportunities across the platform.

Importance of breadth and depth of capability

We have discussed the increasing convergence of public and private credit at length. Institutional Leveraged Loan volumes in both North America and Europe remain significant, with a particularly notable rebound in broadly syndicated loan issuance in Europe in 2025.



In the US, count of direct lending deals remained stable, showing no change quarter-on-quarter and a 17% decline year-on-year, signalling a plateau after last year's surge. In contrast, institutional leveraged loans rebounded sharply, rising 72% QoQ and 25% YoY as syndicated markets regained momentum and investor risk appetite improved.



Source: Pitchbook Private Credit Monitor (October 2025)

Across Europe, private credit softened from the highs seen twelve months ago, with direct lending deals down 22% QoQ and 32% YoY, reflecting a slowdown but consistently above average deal flow. Meanwhile, the syndicated loan market delivered mixed signals, falling 26% QoQ but climbing 41% YoY, suggesting a seasonal slowdown following a strong recovery from last year's lows.

Given this dynamic it's ever more important to operate a platform that is integrated, with public and private teams that are aligned to capture opportunities across the size spectrum.

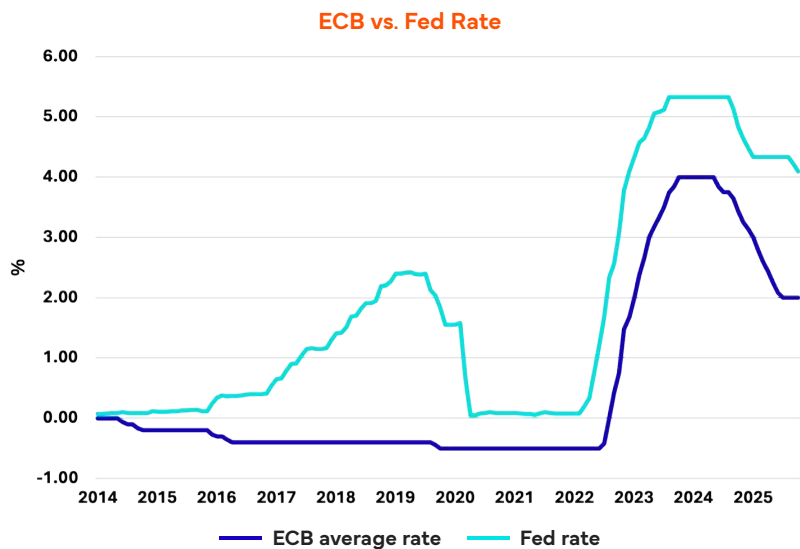
<sup>7</sup> Oct 21, 2025, LevFin Insights

<sup>8</sup> Doubling down on private equity co-investments - StepStone Group



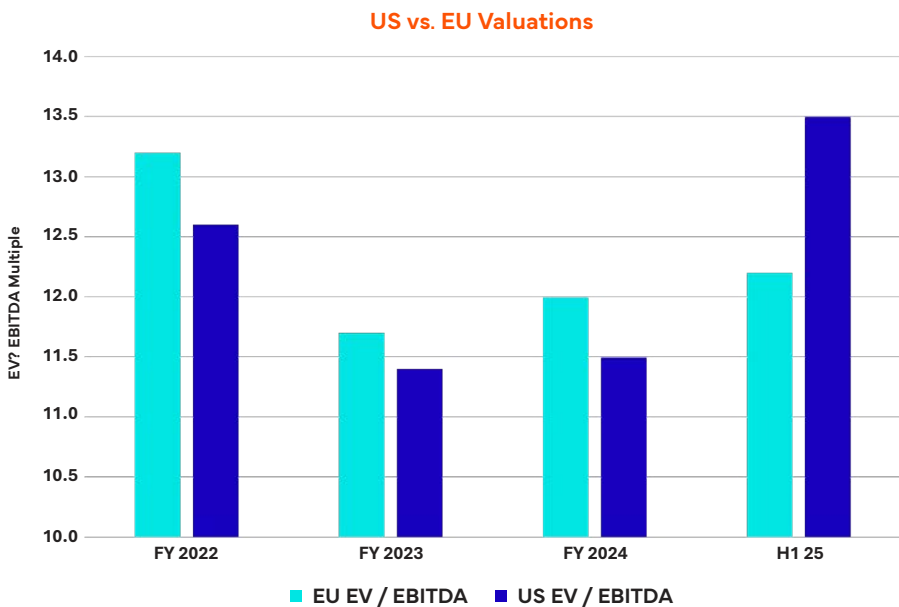
Global footprint and platform integration are mission critical

As we cement a move from the “lower for longer” rate environment to a more normalised interest rate environment, we expect to see a reversion of all-in yields in direct lending to their long-term average. With US base rates expected to be higher than Europe for some time, we are witnessing more US sponsors finding value across the Atlantic.



Source: Federal Reserve Bank of St Louis

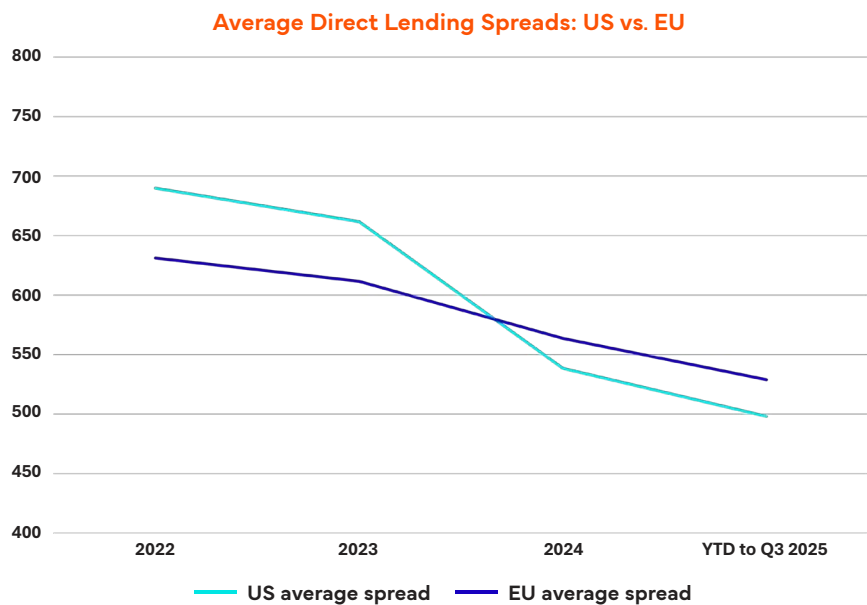
As valuation multiples in Europe continue to present attractive value vs. the US, we expect to see increased cross-border flow. Having a global footprint is key to covering sponsors as they transact globally. Integrated teams that are aligned to share expertise, provide local market intelligence and seamlessly construct a solution encompassing multiple currencies and local nuances, can provide a real edge in sourcing attractive flow.



Source: Pitchbook Private Credit Monitor (October 2025)

We are seeing a normalisation of returns

We seem to be past the “golden age of private credit”, but whilst super-normal returns from the asset class may have abated, gross returns today are in line with long-term historical trends. The CDLI has delivered an annualised total return of 9.54% since inception<sup>9</sup>. According to Campbell Lutyens, gross unlevered IRRs are projected to be between 9-11% in USD for those managers focused on the core middle market. Returns for the upper middle market are projected to be 8-10% in USD and the lower middle market continues to present a pick-up in returns (and risk) to both segments. We continue to see spread compression in both North America and Europe, but, with higher base rates, all-in yields remain compelling, and average leverage across our book remains balanced at ~5x.



Source: Pitchbook, Q3 2025

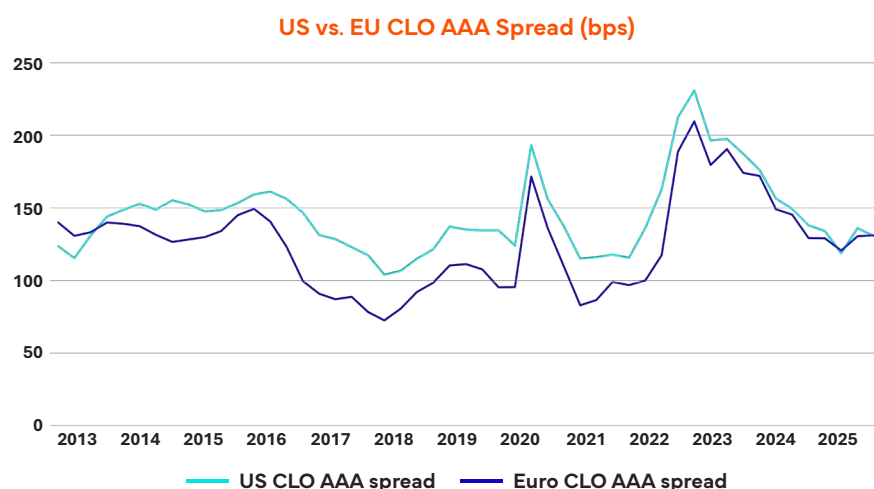
Time to lock in your liabilities

Post pandemic, at the peak of market dislocation, we observed a flight to safety as the banks stopped lending and spreads rapidly increased. At that time, and during the regional bank crisis of 2023, managers with the most established capital markets teams were able to access financing at lower spreads. Today, supply is plentiful as more banks look to enter the fund finance market and overall cost of borrowing has been trending significantly down. Our capital markets team is seeing margins for leverage facilities comfortably below 200bps which supports strong yield enhancement through leverage, even with asset yield compression. A good public proxy for this trend is the pricing of AAA CLO liabilities\* (c. 60% LTV) shown in the figure below.

<sup>9</sup>Cliffwater, Jun 2025

\*AAA CLO spread figures selected as a proxy due to lack of data for senior financing market. AAA CLO figures are driven by corporate loans, and the Loan-to-Value (“LTV”) of this tranche is 60%, akin to senior financing LTV for MM loans.





Source: Pitchbook Global CLO Volume Report (December 2025)

Another observed shift has been in the tenor of facilities; post pandemic, most were executed on a 12-month basis but today we are able to lock in financing for up to three years<sup>10</sup>. Given our access to leverage and the rates and tenors available, we see risk/return across levered vehicles being at their most attractive levels since 2021.

## Know what you own and know why you own it

As private credit expands and direct lending stretches away from its core, sensationalist headlines will likely continue. With the continued blurring of lines between public and private credit, and ~\$14bn of CCC- rated debt under scrutiny<sup>11</sup>, defaults and losses are to be expected. To be clear, these headlines are not reflective of the long-term performance of core middle market direct lending exposure, and the balance of risk/reward we see today. That's not to say that concerns around the asset class are completely unfounded, perhaps misplaced. If we cast our minds back to May 2024, Pluralsight had its equity marked to 0 by Vista Equity Partners. At the end of Q1 2024, seven brand name lenders had a different mark on their loan, ranging from 83.5% to 97%, with a 13.5% dispersion in valuations<sup>12</sup>.

**Fundamentally, know what you own and know why you own it.** Limited dispersion in returns and loss rates coupled with the growth of direct lending means that brand names have become a beta allocation. Pluralsight highlights the challenges of a lack of consistency in private credit, and the importance of looking beneath the hood, not only at valuation policies but fees, alignment and overall exposure. Smart beta can deliver an entry point to private credit that is more insulated from public market/large cap noise, a "truer" direct lending exposure with more flexibility on fees and access to co-investment. There is alpha available for investors in private credit today, via additional upside from strong alignment with quality platforms as they scale.

Looking ahead to 2026, the sentiment at Corinthia is "stick to your knitting". We see green shoots from an M&A perspective and with increased geopolitical stability, deal flow is poised to rebound.

<sup>10</sup> King & Spalding, July 2025

<sup>11</sup> Kroll Bond Rating Agency

<sup>12</sup> Public BDC filings

<sup>13</sup> Private Debt: Yield, Safety and the Emergence of Alternative Lending, by Stephen L. Nesbitt

Within our core segment of sponsor-backed transactions, companies generating \$10m - \$100m in EBITDA, we are witnessing signs of this resurgence. There are hidden gems to uncover where terms, pricing and structures remain balanced. Direct lending isn't a "point in time" trade; the asset class has historically delivered a long-term illiquidity premium of ~350bps<sup>13</sup>. Capturing this premium requires a long-term mindset and patience in portfolio construction. The key is remaining disciplined and sticking to an investment philosophy that has been tried and tested over multiple cycles periods of volatility.

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