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OUTLOOK

21 January 2026

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Private Credit – Global

2026 Outlook - Growth to accelerate, along with complexity and liquidity risks

Summary

Private credit's momentum will continue as global capital demand rises and asset-backed finance (ABF) becomes a core part of funding this growth. Financial innovation is playing a critical role in supporting increasingly diverse liquidity needs.

» **Momentum will continue, but mix is shifting**. We see assets under management (AUM) exceeding $2 trillion in 2026 and approaching $4 trillion by 2030. Investing is shifting from a corporate lending focus to the ABF market, while EMEA and APAC will gain momentum. Mergers & acquisition (M&A) and leveraged buyout (LBO) activity will escalate, increasing competitive pressures among lenders but also opening more funding opportunities.

» **ABF will lead growth as partnerships, asset origination accelerates**. Alternative asset managers are looking to fund newer, more diverse pools of assets – increasingly consumer loans and data infrastructure credit. New partnerships are spurring origination opportunities while alternative asset managers will continue stepping up as banks remain constrained in certain lending activities.

» **A widening range of assets will support securitization growth**. Private credit's growing presence across securitized products is particularly focused in sectors where high yields help compensate for the riskiness of the assets, especially as spreads have compressed across asset types.

» **Innovation will support growing liquidity demand**. Private credit is leaning more than ever on financial innovation tools such as structured credit, rated fund structures, NAV lending and PIK loans to address demand for alternative liquidity funding. Growing adoption of evergreen funds is also reshaping distribution channels for managers.

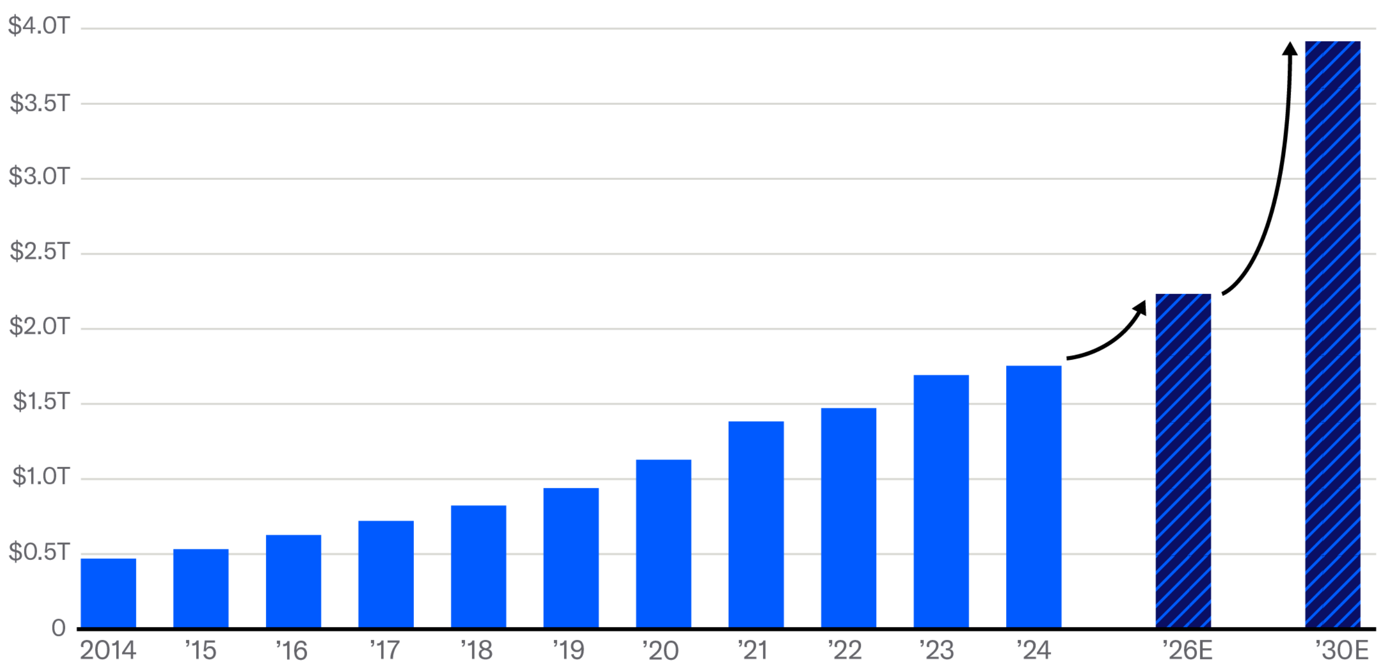
» **Regulatory guardrails will remain limited, but transparency focus will grow**. Globally, regulators generally continue to support private credit's larger role in addressing capital needs. But there is also caution. For example, the Bank of England recently launched a systemwide exploratory scenario for private markets.

» **Risks will rise as interconnectivity grows**. Private credit funds and traditional financial institutions are deepening ties, which could heighten contagion risk in a downturn. Volatility could grow as the Main Street retail investor assumes a bigger role in private credit.

Momentum will continue, but mix is shifting

This year, we expect rising global funding needs and an increase in M&A and LBOs to spur further growth in assets under management (AUM). Corporate lending still makes up most of private credit lending, but momentum is shifting toward ABF. While more difficult to track, ABF has the potential to eclipse the size of the more traditional corporate lending. We expect corporate lending AUM to exceed $2 trillion in 2026 and approach $4 trillion by 2030 (Exhibit 1). Competition between direct lenders and the broadly syndicated loan (BSL) market will continue to increase risks in the underlying loans through loosening of covenants and documentation. Fundamentals remain supportive, with our global economic forecast calling for broadly steady growth. Absent major shocks, this suggests that the global macroeconomic backdrop will likely not be a primary driver of changes in credit conditions in 2026.

Exhibit 1
Capital demand will continue to fuel private credit AUM growth
AUM focused on direct lending



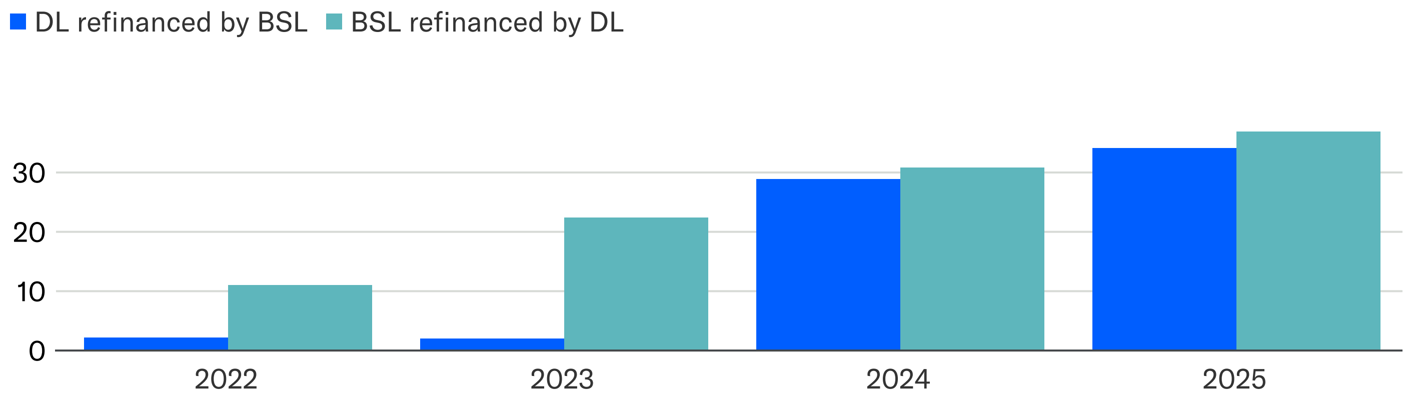
Our estimate uses Preqin's historical private debt fund AUM figures, which are not inclusive of all private credit AUM. Data does not include asset based financing, real estate and infrastructure PC assets, assets in non-fund structures and leverage on these funds.
Source: Preqin and Moody's Ratings

While US corporate direct lending will still dominate in 2026, growth opportunities are rapidly shifting to other geographies such as EMEA and APAC and newer asset classes as investors look to diversify returns. Returns for traditional corporate direct lending have compressed as competition with the BSL market has intensified. In the past two years, as interest rates have eased from lofty highs, BSLs have been reclaiming lost market share from direct lenders (Exhibit 2) as borrowers seek cheaper financing in the syndicated loan market. Also, banks may be encouraged to make use of their newfound flexibility following a December 2025 rule change, where the Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) waived certain post-financial crisis leverage limits that had limited deal leverage multiples around 6x. Competition between these two markets will continue on the back of tight spreads, which in US direct lending over the past year have contracted roughly 100 basis points to 450-475 basis points.

Exhibit 2

Competition between banks and direct lenders has intensified

US BSL and direct lending refinancings (in USD billion)



Source: Pitchbook and Moody's Ratings

Europe's private credit growth rate has the potential to outpace that of the US, with European assets projected to reach $800 billion –$900 billion by 2028. Demand for capital continues to rise as Europe confronts substantial funding needs – particularly in critical infrastructure and defense, with private credit well positioned to offer longer term, bespoke financing where traditional sources fall short. APAC – still largely bank intermediated – is also poised for expansion, supported by a low starting base, rising domestic financing requirements and investors' search for yield and diversification. Sustained economic growth, regulatory improvements and heightened demand for flexible, non-bank financing further strengthen the region's prospects, especially in Australia, Japan and India, which are emerging as key private credit growth markets.

Beyond traditional corporate lending, ABF (secured by specific assets with repayment tied to contractual cashflows) is rapidly becoming the new growth frontier as large-scale deals become the norm, whether it is massive infrastructure deals, data center ecosystems or mega corporate mergers. Public and private markets are aligning more to fund these deals. We are also seeing newer partnerships emerging as alternative asset managers extend their reach beyond bank and insurance partnerships to finance companies and specialist originators. Some of these partnerships are providing alternative managers with greater access to consumer debt and hard assets, where they purchase loans shortly after being originated. This allows them to expand origination pockets while allowing originators to pursue less capital-intensive business models. Investors will need to ensure that this rapid growth keeps pace with underwriting standards. While Tricolor and First Brands bankruptcies were relatively unique, they reflected a tendency toward more complex off-balance sheet deals with a reminder that credit problems can erupt without much warning.

ABF will lead growth as partnerships, asset origination accelerates

The financing needs of global capital markets are such that alternative asset managers are being driven to develop deeper and more diverse pools of assets in the ABF markets. Growth is happening on multiple fronts, from new partnerships to accelerated issuance in the asset-backed securities market (ABS). Partnerships, for instance, are spurring greater capital origination. Over the past year alone, we have seen a number of new dedicated ABF partnerships emerge as managers hunt for new ways to harness capital in the private credit space. In the first few weeks of January alone, at least four new ABF-related sizable transactions have been announced (Exhibit 3). Several recent insurance – manager partnerships speak to this growing demand for investment-grade-equivalent debt.

Exhibit 3
Fundraising and origination partnerships will support ABF growth

Date	Manager	Type	Transaction
Jan-26	TPG	Equipment finance receivables (forward-flow ABF)	TPG entered a $1 billion forward-flow agreement with Elevex Capital to provide scalable, repeatable take-out capital for mid- and large-ticket equipment financing originated through Elevex's tech-enabled platform.
Jan-26	Apollo	Compute infrastructure financing (data centers/AI)	Apollo led $3.5bn capital solution as part of Valor Compute Infrastructure's $5.4bn transaction to acquire and lease compute assets to xAI under long-term, triple-net lease structure.
Jan-26	TPG	Investment-grade ABF & direct lending partnership	TPG entered a long-term investment management partnership with Jackson, under which TPG will manage at least $12 bn (targeting up to $20 bn) focused initially on investment-grade ABF and direct lending; TPG also made a $500 m minority equity investment in Jackson, while Jackson received $150 m in TPG stock.
Jan-26	Blackstone	Aviation – aircraft engines and select aircraft	Blackstone Credit & Insurance partnered with Willis Lease Finance, an aviation engine lessor and asset manager, to deploy over $1bn into aircraft engine assets over two years, with Willis Lease Finance Corporation (WLFC) providing a seed portfolio and managing origination
Jul-25	KKR / PIMCO	Consumer retail loan receivables (motorcycle finance)	Harley-Davidson to sell >$5bn existing retail loan receivables and ongoing forward sales, shifting to capital-light model; KKR/PIMCO provide ABF capital.
Jul-25	KKR	Fundraise (ABF flagship)	KKR raised $6.5bn for ABF strategy (ABF Partners II; plus ~$1bn SMAs). Scaled dedicated ABF capital >2.5x predecessor to finance privately originated, collateral-backed credit across diversified pools.
Jun-25	Carlyle	Fintech specialty lending	Partnership between Carlyle and Citi to co-invest and finance fintech lenders with asset-backed solutions; shared market intelligence and origination pipelines.
Jun-25	PGIM	Consumer installment loans (BNPL / revolving pass-through)	Expansion of existing partnership between PGIM, part of Prudential Financial, and Affirm; PGIM to purchase up to $3bn of Affirm loans over 36 months via a revolving pass-through structure (up to $500m at any one time).
May-25	Fortress Investment Group	Consumer loans (forward flow)	Fortress committed to purchase up to $1.2bn of Upstart-originated loans through Mar 2026; Citi provides debt financing.
Jan-25	Sixth Street	Insurance mandate & strategic partnership	Sixth Street entered a long-term partnership with Northwestern Mutual to manage $13 bn across private investment strategies, including asset-based finance; as part of the agreement, Sixth Street received a minority equity investment from Northwestern Mutual.

Source: Company reports and Moody's Ratings

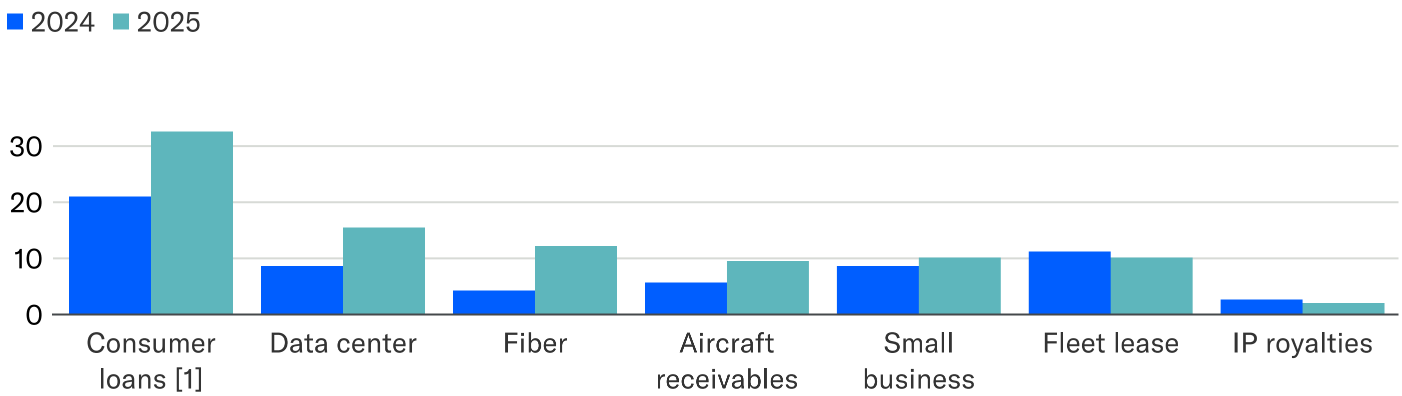
ABF asset pools run the gamut from receivables and consumer loans to aviation, fintech and AI-infrastructure needs. ABF is also becoming an important tool for structuring investment-grade private credit, with financing tied directly to identifiable assets with repayment driven by related cash flows rather than by corporate balance sheets. Because ABF spans many asset types that require specialist expertise, managers are locking in multiyear deal flow through origination partnerships – increasingly via forward flow agreements. These contracts commit managers to regularly purchase newly originated loans or receivables from specialist originators at set terms, enabling both sides to operate more efficiently and scale faster. These arrangements also operate a simpler, programmatic alternative to traditional securitizations for funding non-bank lending, providing the originator of the assets with liquidity and capital to originate more loans and the private credit firm with access to a future stream of assets to sell later. We expect these partnerships to accelerate and broaden, which will help managers scale their ABF business but also add operating and underwriting complexities associated with indirect origination.

A widening range of assets will support securitization growth

Private credit's growing presence across securitized products is particularly focused in sectors where high yields help compensate for the riskiness of the assets, especially as spreads have compressed across asset types. Asset classes in which private credit is increasingly prominent include consumer lending, residential mortgages, commercial mortgages and nontraditional asset classes. In some cases, private credit's willingness to fund assets of lower credit quality or assets of new issuers could add performance risks over time.

Private credit's role in financing capital intensive sectors, most notably digital infrastructure, including data centers and fiber networks, is surging. Massive capital is needed for the rapid expansion of AI, cloud computing and 5G, which will continue to exceed traditional bank capacity. Data center ABS and CMBS issuance volume will likely grow considerably in the near term, driven by the refinancing of data center construction loans and of securitization term notes reaching their refinance dates. Securitization issuance for data centers was 80% higher in 2025 than in the prior year (Exhibit 4), with private equity-backed firms the most common sponsors of these transactions. Likewise, increasing needs for high-capacity fiber connectivity will continue to drive demand for mobile data and fiber networks, supporting fiber network securitization volume. Businesses will also increasingly finance expensive technology equipment, such as servers, network equipment and capital-intensive graphics processing units (GPUs) through leases or loans, some of which are being included in equipment ABS.

Exhibit 4
Private Credit expansion into consumer ABS will continue
(in USD billion)



[1] Includes marketplace and home improvement
Source: Moody's Ratings

Private credit funds are increasingly providing funding for asset classes that include unsecured consumer loans (such as marketplace lending (MPL) personal loans and buy-now-pay-later (BNPL) loans), small business loans, equipment loans, credit card loans, student loans and single-family rental homes. As the private credit market pushes into new types of financings and for less established originators with shorter operating histories, the experience of managers overseeing the more fluid structures such as forward-flow arrangements will play an increasingly important role in mitigating risks.

For commercial real estate (CRE) financing, we expect to see a continuing shift to private credit in the next three-to-five years as traditional lenders deleverage. Insurance companies have always been a major long-term private credit funding source for CRE borrowers, but in recent years, other types of private credit investment funds – mortgage REITs, asset managers and other non-depository institutions – have expanded their CRE involvement with a focus on higher yield loans. The liquidity private credit provides largely benefits CRE market players, but light regulation combined with private credit's affinity for high-leverage loans could become a concern in an economic downturn.

As banks remain constrained in their mortgage lending activities, private credit is also increasingly financing certain higher-yielding segments of the residential mortgage sector, including investor properties, non-qualified mortgages and transition loans. Transaction structures include bilateral loan purchases, warehouse facilities, fund-based structures and forward-flow arrangements. With continued competition between private credit and the BSL market, private credit/middle-market CLOs will continue to account for around 20% of new CLO issuance. In addition, as private credit has stepped in to fill demand for project finance loans related to data centers as well as for traditional infrastructure, interest will continue to increase in securitization of such loans in project finance/infrastructure CLOs.

Innovation will support growing liquidity demands

Liquidity pressures will remain a defining theme, driving sponsors and issuers to seek increasingly creative financing solutions. Competitive dynamics in direct lending are pushing the boundaries of innovation at a time when private and public markets continue to converge. Looser covenant structures and payment-in-kind (PIK) features are becoming common, while back-leverage – often structured as PIK debt – enables sponsors to extract dividends or redeploy capital without increasing operating company leverage.

Although these structures may appear neutral to senior creditors, they can mask liquidity stress and are particularly prevalent in private credit, where transparency is often limited.

To enhance liquidity, private equity sponsors are increasingly using NAV facilities, which are loans secured against the aggregate value of portfolio companies rather than individual assets. These facilities introduce leverage at the fund level without appearing on portfolio company balance sheets. For sponsors, this structure provides a means to enhance equity returns and deliver liquidity to LPs or support portfolio expansion without adding more leverage at portfolio company level. We expect demand for NAV facilities — a highly bespoke financing tool — to grow at a stronger relative pace than other asset classes including direct lending – even if a resurgence in deal activity eases near-term liquidity constraints. This growth will be supported by private market expansion and broader adoption and familiarity with NAV structures among General Partners (GPs), Limited Partners (LPs), and lenders.

Insurers and private credit funds are among the most active NAV providers. These facilities offer attractive risk-adjusted returns and portfolio diversification, because collateral is partially insulated from typical market risks. Collateralized fund obligations (CFOs) will also expand, using structured features such as tranching and over collateralization to create high credit quality exposures for institutional investors and further expand access to private markets. Rated fund structures are becoming more prevalent as investors seek exposures that offer good returns with a degree of insulation from broader market swings.

Beyond fund-level financing, both GP and LP solutions continue to proliferate, expanding the available mechanisms to provide liquidity across private markets. These tools – ranging from preferred equity and continuation vehicles to secondary financing facilities – provide additional flexibility but also introduce new layers of leverage and structural complexity into the ecosystem.

Fund managers are also rethinking how they structure funds to introduce more liquidity features to address the growing role of the retail investor – a key reason evergreen funds are proliferating. These offer institutional and retail investors greater flexibility to access private credit and other private assets, with periodic liquidity, a trend we expect to accelerate. In the US, 2025 marked a record year for evergreen fund launches, with total assets now estimated at $500 billion[1]. While the US has led the way, Europe and the UK are poised to expand retail capital's role in funding the real economy, with semiliquid funds increasingly targeting a broader investor base. Digital platforms will expand access to private credit, while some alternative asset managers are exploring tokenization. However, these developments also introduce complexity and greater interconnectivity.

Regulatory guardrails will remain limited, but transparency focus will grow

Regulators continue to support the increasingly important role that private credit is playing in addressing significant capital funding gaps. They have done so by prioritizing capital formation while maintaining regulatory guardrails that are intended to enable growth in private markets. The Main Street retail investor – with their trillions of dollars in potential savings stashed in retirement accounts and beyond – will be increasingly important to growth. In the US, the Department of Labor (DOL) is expected to propose a rule that would allow 401(k) and other defined contribution plans to invest retirement savings in alternative assets such as private credit and private equity. In parallel, the Securities and Exchange Commission (SEC) Investor Advisory Committee has recommended that retail investors gain access to private market assets through SEC- registered funds. The goal is to ease regulatory barriers and encourage retail participation in potentially higher-yielding assets that have traditionally been reserved for institutional and high net worth individual investors.

Similar to developments in the US, several European regulators are focusing on broadening access to private markets, with initiatives such as the UK Solvency II reforms and the revisions to the European securitization framework, which will support insurers' allocations to private credit. However, regulators are also looking to enhance visibility into this largely opaque market. In the UK, for example, the Bank of England has launched an exploratory scenario to assess systemic risks in the private credit market, involving major US asset managers like Apollo and Blackstone. This initiative reflects concerns about the sector's rapid growth and opacity, aiming to understand interlinkages between financial entities and potential stress transmission.

At the same time, the FDIC has also begun to seek greater transparency requirements as banks have increased their focus on growing loans to non-depository financial institutions (NDFIs), which reached $1.2 trillion as of late June 2025 for domestically chartered US banks. About $300 billion of these loans are to private credit providers. Starting with the December 2024 reporting quarter, US banks with over $10 billion in assets began disclosing their loans to NDFIs.

Insurance companies, which play a significant role in the growth of private credit, will also remain in focus as regulators look to improve transparency. The National Association of Insurance Commissioners (NAIC), which has been focusing on the adequacy of insurers' disclosures regarding their investments in private assets, including private credit, has adopted changes to increase disclosures of private placement securities in insurers' investment portfolios. Effective Dec. 31, 2026, insurers will be required to publicly disclose in their investment schedules filed with the NAIC whether a security is registered with the SEC, is exempt from SEC registration as a private placement security or is not subject to registration.

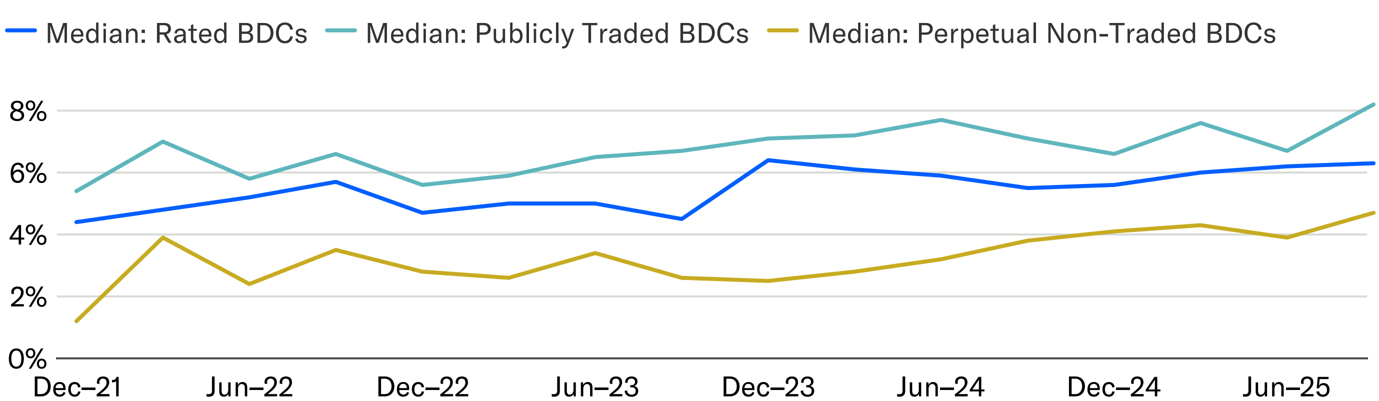
Risks will rise as interconnectivity grows

While innovation has fueled private credit's growth, it has also introduced greater structural complexity and interdependencies. Private credit funds and traditional financial institutions are deepening ties, which could heighten contagion risk in a downturn. Additionally, although individual investors still represent a small share, their growing participation could introduce greater volatility in the private credit market, which has taken strength in its traditional roots of long-term institutional capital. In contrast, institutional capital is generally more stable. Volatility can trigger a significant increase in the cost of capital at times when the availability of capital is limited. Evergreen funds, with their liquidity profiles, introduce maturity transformation risk – a feature not historically associated with private markets.

The influx of private wealth has accelerated the entry of new managers into the space and driven the proliferation of products offering periodic liquidity. These managers will need to address increasingly complex liquidity demands in traditionally illiquid funds. As private wealth participation broadens, investor product understanding – particularly around access to cash – is critical, as misperceptions about liquidity could damage the industry's reputation. At the same time, vehicles needing rapid capital deployment risk exacerbating supply-demand imbalances, which will further compress spreads and competition, potentially encouraging riskier lending behavior and weaker underwriting.

Looking ahead, our Credit Transition Model (CTM) forecasts that the global speculative-grade default rate will decline this year. For direct lending, monitoring trends in PIK income in business development companies (BDCs) – among the most transparent segments of private credit – provides early insight into asset quality performance. For rated BDCs, the percentage of PIK income rose gradually last year, but it remains a small percentage of income overall (Exhibit 5). A significant increase in PIK levels could indicate asset quality challenges ahead, particularly if macroeconomic conditions weaken or risks emerge in specific segments of the market where private credit exposures are higher – such as the lower end of speculative-grade debt.

Exhibit 5
PIK levels have increased but remain contained
PIK interest and dividends/gross investment income of rated BDCs



Based on Moody's coverage of 34 publicly traded and perpetual non-traded BDCs. For more information, see US BDCs Q3 2025 update
Source: Company financials and Moody's Ratings

Recent defaults at First Brands and Tricolor – while linked to alleged fraud – still highlight the risks of off-balance-sheet financing, hidden leverage and the potential for governance failures, especially as off-balance sheet transactions increase in the ABF space. In addition, features like PIK interest and back-leverage add complexity and can mask true leverage levels. These examples also served as reminders to the credit markets – across public and private – of the importance of strong due diligence. If asset servicing and asset quality were to come under stress, we believe managers that consistently apply prudent underwriting practices and monitoring would be better positioned to limit downside risks.

Expansion into newer ABF areas – while expanding opportunities – will also bring challenges. The private credit landscape is increasingly defined by dispersion, with vulnerable pockets sitting alongside areas of solid asset quality, making structural protections, lender experience, underwriting rigor, portfolio selection and controls more critical than ever. In particular, cyclical segments such as consumer or small business receivables introduce the potential for greater performance volatility. Small businesses and non-prime and near-prime consumers, for example, have unprecedented access to unsecured credit, amplifying the risk of over levered loan obligors in private credit portfolios. ABF deals' structural protections and lender oversight will be key in mitigating downside risks to investors. Meanwhile, less cyclical digital infrastructure assets will fare better because of the essential nature of the services they provide.

As private credit continues to scale rapidly, reliance on partnerships for origination – across both direct lending and ABF – will deepen. While these arrangements provide a healthy pipeline, greater dependence on partnerships for origination reduces direct control over certain underwriting aspects, which may expose weaknesses during periods of stress. The market at its current scale has not yet been truly tested.

Endnotes

1 Pitchbook

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