Private Debt

Continued Growth in Private Debt

Lower rates and a meaningful pick up in M&A activity will be catalysts for a robust deal market in 2025.

The private debt market has grown at a record pace in recent years, largely driven by the appeal of contracted yields, defined maturities, and a notable yield premium over the broadly syndicated loan (BSL) market. The high yield and leveraged loan markets have grown substantially both in terms of volume and deal size, restricting many middle-market companies from accessing public market funding. This, coupled with bank retrenchment, has caused many middle market businesses to turn to private credit as their main source of funding.

Sector Commentary

- Private debt assets under management surpassed $1.7 trillion in 2024. Private debt is the second-largest private capital asset class behind private equity at $8.7 trillion, after surpassing real estate in assets under management in 2023, according to Preqin.
- Allocations to direct lending funds have soared over the last decade, peaking in 2021, with over $148 billion of capital closed. Over $130 billion was raised in direct lending strategies through the end of October 2024, compared to just $31 billion in 2014.
- Private credit's fundraising has been disproportionately concentrated within several mega managers. With only a handful of managers sitting on most of the industry's dry powder, we believe that this underscores the need for a selective approach with a strict focus on credit selection that provides compelling relative value for investors.

Investment Themes

- The direct lending deal market is robust and volumes remain elevated, as the number of loans reviewed in the fourth quarter increased 38 percent year over year and 20 percent quarter over quarter, according to Wells Fargo Research.
- There is a meaningful distinction in the market between transactions competing with the BSL market and more traditional private debt transactions that deliver a yield premium. While overall spreads flattened in the fourth quarter, spreads on mega-sized transactions continued to compress.
- With nearly $1.2 trillion of corporate debt maturing in 2026 alone, the pending maturity wall will also drive demand for private credit. Roughly 80 percent of leveraged loan activity in 2024 was driven by refinancing and repricing.
- Lower rates, private equity dry powder, and increased M&A activity should all support a strong deal market in 2025.

By Joe McCurdy, Joe Bowen, Mark Pridmore, and Zac Huwald

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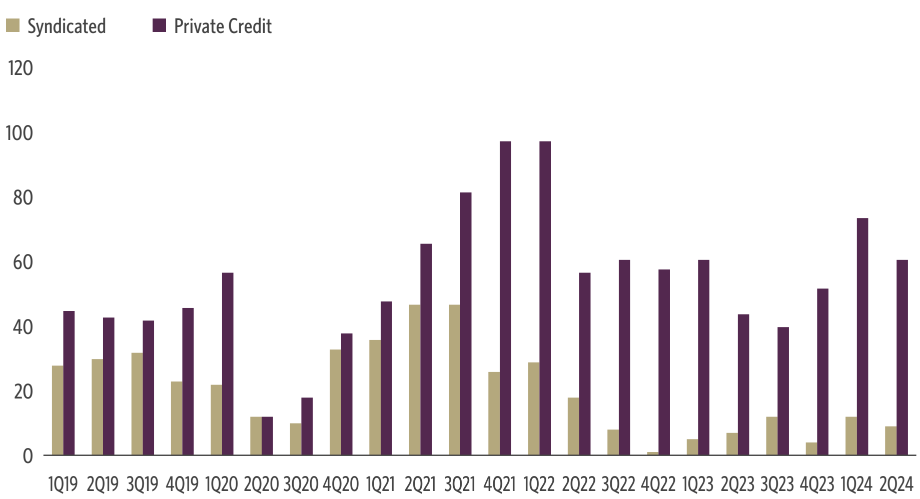
Number of LBOs Financed by Private Credit Dwarfs Broadly Syndicated Loans



Source: Guggenheim Investments, Pitchbook LCD U.S. Credit Markets Quarterly Wrap July 2024. LBO = leveraged buyout.

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