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What a maturing private credit market means for investors



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A MATURING MARKET, NOT A BUBBLE

Private credit has been one of the fastest-growing asset classes over the past decade — and for good reasons. Non-publicly traded loans and other debt instruments provide investors with exposure to diversified sources of return that can be particularly valuable in a dynamic interest-rate environment.

In recent years, wealth investors have joined institutional allocators in participating in this growth. What began with ultra-high-net-worth investors is now broadening as more accessible structures come to market. Evergreen vehicles such as U.S.-based Business Development Companies (BDCs) and interval funds as well as Luxembourg-based vehicles such as Part II UCIs with embedded liquidity features are reshaping access, making private credit a more practical allocation within wealth portfolios.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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In this paper, we focus on the maturation of the middle and upper middle market direct lending segments — distinct markets from broadly syndicated loans — where private credit managers are playing an increasingly important role in financing businesses. We also explore how wealth investors can cut through the noise to identify managers and strategies best suited to their investment objectives.

PRIVATE CREDIT IS EVOLVING, NOT OVERHEATING

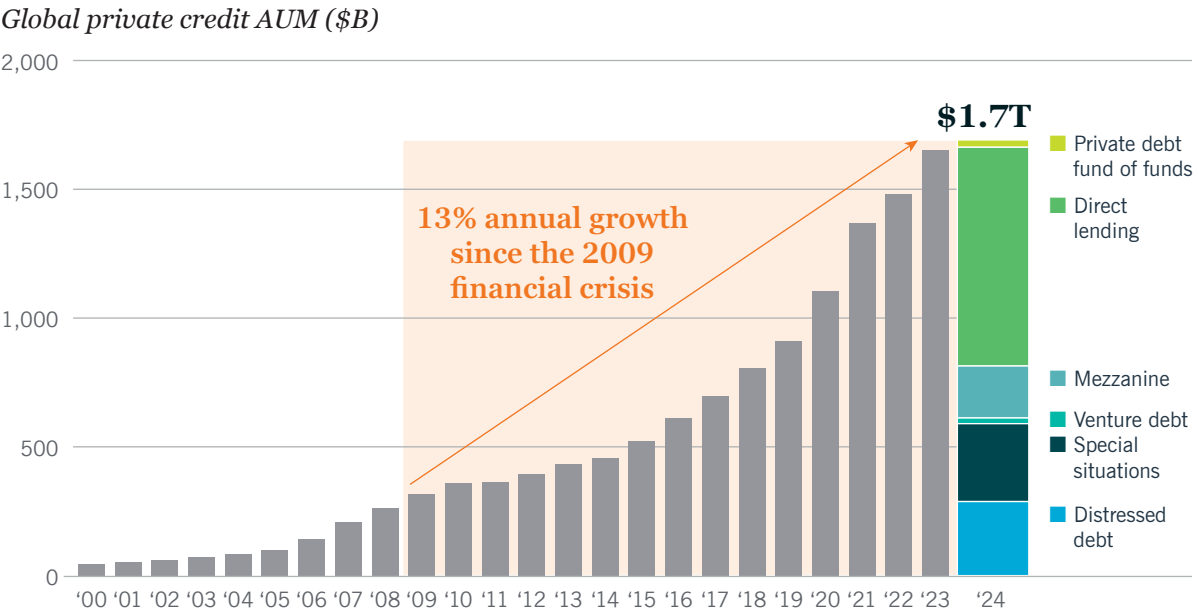
The private credit sector has experienced significant expansion over the past decade, with global assets under management reaching \$1.7 trillion (fig. 1). This growth, spurred by post-2008 regulatory changes and the retrenchment of traditional banks, has inevitably attracted scrutiny as have recent high-profile bankruptcies. These have raised

questions among market participants and observers about whether it signals a potential bubble.

We argue that the market’s evolution is indicative of the natural maturation of an expanding asset class. While the sector’s growth has led to a broadening of the opportunity set, market complexity has increased. With this comes an even greater need for scrutiny, necessitating more sophisticated analytical approaches, a heightened emphasis on manager selection, a conservative approach to lending and strict underwriting standards.

In our view, the primary consideration for investors should not be whether the private credit market has become oversaturated, but rather how to effectively identify high-quality opportunities and optimize allocations within the current nuanced market environment. This approach requires a thorough understanding of market dynamics, rigorous due diligence processes and a long-term investment perspective.

Figure 1: Global private credit has grown to a \$1.7 trillion market



Source: Preqin; As of 31 Dec 2024.

A DIVERSE AND DYNAMIC MARKET

A common misconception is that private credit is one large, monolithic asset class. In reality, it has matured into a diverse ecosystem encompassing a wide range of strategies, each with its own risk profile, borrower base, position in the capital structure and regional dynamics. This diversity is one of the reasons the asset class has proven durable through changing market conditions.

Private credit strategies can be segmented in several important ways:

- **Competitive dynamics.** Not all areas of the market are equally crowded. At the top end of the U.S. middle market, for example, competition for jumbo deals has intensified, often eroding investor protections. At the lower end, smaller non-sponsored borrowers can carry more credit risk. By contrast, the core U.S. middle market has actually become less crowded in recent years as capital flows shifted toward the extremes. In Europe, consolidation has concentrated capital among a limited number of well-established players, creating a favorable backdrop for scaled platforms in the upper middle market. Today, the top five managers control nearly half of the private capital across the continent.¹
- **Geography.** The U.S. is the world's most developed and liquid private credit market, supported by a diverse set of direct lending platforms. Lending to middle market companies drives a significant share of U.S. economic activity: one-third of all private sector GDP comes from the middle market, encompassing nearly 200,000 businesses employing 48 million workers and generating over \$10 trillion in annual revenues.² Europe, by contrast, is more fragmented, with significant differences in laws, regulations and business practices across countries. That complexity has raised barriers to entry, creating opportunities for a smaller number of scaled managers with the in-house professionals, language skills and knowledge of cultural and credit regimes required to operate across borders.
- **Position in the capital structure.** Private credit spans the debt spectrum, from senior



Private credit spans the breadth of the debt capital stack

secured loans to junior capital and net asset value (NAV)-based lending. Senior secured loans, which sit at the top of the capital structure, are often backed by strong collateral and protective covenants. These loans provide investors with stability, predictable cash flows and downside protection. Other strategies, such as mezzanine or second-lien loans, target higher returns in exchange for taking on additional risk.

- **Borrower type.** A distinguishing feature of the core middle market and upper middle market is private equity sponsorship. Sponsor-backed entities tend to be recurring-revenue businesses with strong management teams and ambitious growth strategies, and relationships with sponsors are a critical conduit for differentiated deal flow within the private credit ecosystem. In contrast, non-sponsored transactions may offer potential yield enhancement but frequently involve smaller-scale borrowers that may be characterized by less sophisticated governance frameworks and limited financial reporting capabilities.

For investors, the key takeaway is that private credit is not a singular asset class. It is a broad and dynamic market where risk and return can vary significantly depending on geography, structure, sponsorship and competition.

WHY PRIVATE CREDIT FITS IN WEALTH PORTFOLIOS

Private credit offers a combination of characteristics that can help wealth investors strengthen portfolios in ways that traditional equities and bonds may not:

- **Attractive income.** Private loans generally deliver higher yields than comparable public debt and steady cash flows, reflecting both the illiquidity premium and the bespoke structuring

of transactions. Many loans are floating rate, which helps preserve purchasing power when interest rates rise and offer structural protections for consistent income

- **Compelling total return potential.** The return profile of private credit is not driven solely by income. Because managers can negotiate terms directly with borrowers, they can secure covenant protections, call premiums and amortization schedules that enhance long-term outcomes. These negotiated features often result in stronger risk-adjusted returns relative to public credit.
- **Resilience in volatile markets.** Unlike public bonds, private loans are not priced daily in public markets, which reduces headline volatility and can provide a stabilizing effect in portfolios.
- **Benefits of covenants.** Protective covenants give lenders the ability to step in early if a company's performance weakens, whether due to broader market stress or idiosyncratic issues like poor management decisions. By triggering lender engagement before problems escalate, covenants play a central role in preserving capital and maintaining performance.
- **Enhanced diversification benefits.** Private credit broadens portfolio exposure across industries, geographies and borrower types, many of which are not accessible through traditional public markets. Middle-market companies, for example, represent a significant portion of U.S. GDP yet are often underrepresented in public equity and bond indexes.

Taken together, these features make private credit an attractive complement to traditional asset classes, particularly at a time when public markets remain challenged by volatility and dispersion.

KEYS TO SUCCESS IN A MATURING MARKET

As private credit expands and evolves, success depends on choosing the right partners who can deliver targeted exposures that align with investor needs. Top managers share several defining strengths:

- **Proprietary sourcing.** Long-standing relationships with borrowers and private equity sponsors provide consistent access to attractive deals that are not widely marketed.
- **Scale and execution.** Larger, well-established lenders can anchor transactions, shape terms and secure stronger covenant protections.
- **Portfolio construction discipline.** Leading managers build diversified portfolios across sectors, geographies and capital structures, with a focus on senior secured loans and resilient industries.
- **Active portfolio management.** Much of the real work in capturing value in private credit begins after a loan is made. Effective managers continuously monitor performance, engage directly with borrowers and sponsors, and intervene early when issues arise in order to protect capital and sustain performance.

For wealth investors, the lesson is clear: private credit can deliver income and diversification, but outcomes are largely determined by the quality of the manager.

PARTNERING WITH NUVEEN

In private credit, Nuveen brings together two of the most experienced and well-connected platforms globally. Both platforms share the qualities that matter most in today's environment: scale, access to proprietary deal flow, disciplined structuring and hands-on portfolio management.

Contact us to learn more about how private credit can strengthen investors' portfolios.

Platforms powering Nuveen private credit: a snapshot

U.S. MIDDLE MARKET PRIVATE CAPITAL

Comprehensive capital solutions for middle market private equity firms³

\$55B committed capital

\$75B private capital invested

2,400+ transactions closed

300+ private equity firms invested with

EUROPEAN MIDDLE MARKET PRIVATE DEBT

Providing flexible capital solutions to a wide range of businesses across Europe⁴

€34B committed capital

€35B capital raised

430+ transactions closed

120+ sponsor relationships

Nuveen is a global investment leader, managing \$1.3T⁵ in public and private assets for clients around the world and on behalf of TIAA, our parent company and one of the world's largest institutional investors.⁶

With broad expertise across income and alternatives, Nuveen builds portfolios for today's investors and future generations. Our active management approach uncovers diverse opportunities for yield spanning public and private markets, seeking to provide reliable and long-lasting income for clients.

For more information, please visit nuveen.com.

Endnotes

1 Prequin, November 2024

2 World Bank Open Data Database as of 31 Dec 2024; Middle Market assumption based on the definition by National Center for the Middle Market as of 31 Dec 2024.

3 Churchill as of 30 Jun 2025.

4 Arcmont data as of May 2025.

5 As of 30 Jun 2025. Nuveen assets under management (AUM) is inclusive of underlying investment specialists.

6 Nuveen as of 30 Sep 2024; world's largest pension funds 2024 based on research study from Willis Towers Watson, Thinking Ahead Institute | Pensions & Investments, September 2024, rankings based on U.S. funds' data as of 30 Sep 2023 and non-U.S. funds' data as of 31 Dec 2023, with certain exceptions; updated annually.

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Important information on risk

Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the potential use of leverage, potential short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits.

Real estate investments are subject to various risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, potential environmental problems and liability, and risks related to leasing of properties.

Investments in middle market loans are subject to certain risks such as: credit, limited liquidity, interest rate, currency, prepayment and extension, inflation, and risk of capital loss.

Private equity and private debt investments, like alternative investments are not suitable for all investors given they are speculative, subject to substantial risks including the risks associated with limited liquidity, the potential use of leverage, potential short sales, concentrated investments and may involve complex tax structures and investment strategies.

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