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Private credit's next phase: finding opportunity in a maturing market

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A MATURING MARKET, NOT A BUBBLE

The private credit market has experienced remarkable growth in recent years, with significant increases in capital inflows from both institutional and retail channels.

Its success and expansion has naturally attracted scrutiny, with some observers questioning the sustainability of the asset class.

This paper offers an alternative perspective: the current state of private credit represents a natural progression of a maturing asset class.

As with any evolving market, growth has introduced greater complexity, necessitating more sophisticated investor analysis and decision-making. The key question is not whether private credit has become too large, but how investors can discern quality and operate effectively in an increasingly sophisticated and nuanced landscape.

According to Nuveen's 2025 *EQuilibrium* survey, nearly half (49%)[1] of institutional investors plan to increase their allocation to private credit over the next two years, a clear signal that confidence in the asset class remains strong. For investors who can separate signal from noise, this growth presents an opportunity to focus on the segments, structures and managers most capable of delivering durable outcomes in a maturing market.

To help investors better understand what success looks like in this changing environment, we highlight three distinct and fast-growing areas of the market: investment-grade corporate private placements, U.S. middle market direct lending and pan-European upper mid-market lending. These examples illustrate that the value in private credit is driven not just by where managers invest, but how they invest: through differentiated origination capabilities, disciplined underwriting and active portfolio management. Together, they offer a view into the practices that can help investors capture the potential of private credit as it continues to evolve.

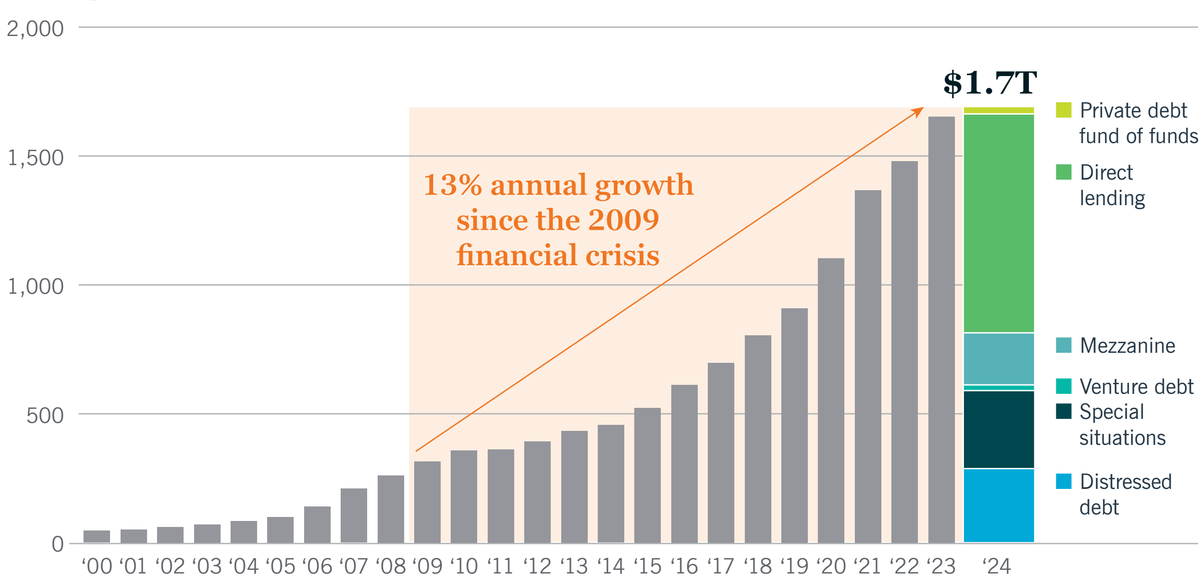
DEBUNKING THE MONOLITH MYTH

One of the most common misconceptions about private credit is the notion that it constitutes a singular market. In reality, it has matured into a diverse and dynamic ecosystem growing 13% annually since the global financial crisis (fig. 1) and encompassing a range of strategies, each characterized by its own risk profile, borrower attributes, positions within capital structures and regional dynamics. This expansion has given rise to segments such as energy infrastructure, secondaries, venture debt, asset-backed finance and other specialty finance strategies, each addressing distinct borrower needs and investor objectives.

This evolution is also reflected in the broadening of the investor base. Nearly 95% of institutional investors who hold alternatives now allocate to some form of private credit, up from 62% just four years ago, according to the 2025 *EQuilibrium*

Figure 1: Fast-growing and diverse global private credit ecosystem

Global private credit AUM ($B)



Source: Preqin; As of 30 Sep 2024.

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survey. Furthermore, the influx of new capital from a wider range of sources is reshaping the market's structure. As retail channels, defined contribution pension plans and insurance balance sheets grow their allocations, managers are adapting product structures, liquidity features and reporting standards to meet a wider range of investor needs.

Understanding private credit's segmentation is essential to optimizing its role within a portfolio. No longer an opportunistic niche, private credit now represents a core allocation that demands a considered approach to manager selection and portfolio construction.

A market defined by segmentation

Private credit strategies diverge along several major axes:

GEOGRAPHIC DIVERSITY

The U.S. continues to maintain its position as the most developed and liquid private credit market, characterized by well-established relationships and a diverse array of direct lending platforms. In contrast, the European market exhibits greater fragmentation and structural complexity. Given the significant investment required to develop and maintain in-depth knowledge of local credit regimes, languages and cultures to operate cross-border, pan-European platforms that leverage regionally dedicated teams and jurisdiction-specific expertise tend to demonstrate a competitive advantage.

CAPITAL STRUCTURE AND CREDIT QUALITY

Private credit spans the breadth of the debt capital stack, ranging from investment-grade corporate private placements to junior capital and NAV-based lending. While investment-grade corporate placements and middle-market direct lending both emphasize stability, covenant protections and predictable cash flows — ideal characteristics for liability-driven investors — they focus on different areas of the market and employ different amounts of leverage.

RELATIONSHIPS AND BORROWER TYPE

A distinguishing feature of middle market direct lending is private equity sponsorship. While sponsor-backed entities represent a small fraction of the market (less than 5% of the U.S. middle market[2] for example), they tend to be recurring-revenue businesses with strong management teams and ambitious growth strategies. Relationships with sponsors are a critical conduit for differentiated deal flow within the middle market 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.

> *Private credit spans the breadth of the debt capital stack*

The investment-grade corporate private placement market features a broader set of issuers, including utilities, energy companies, infrastructure projects, real estate operators, financial institutions, nonprofit organizations and even sports leagues. Within industrial sectors, borrowers are typically large, often global businesses that may be publicly traded or family-owned. Many of these companies could access the public bond market, but they choose private placements for the confidentiality, flexibility and long-term, fixed-rate financing that banks and traditional markets are less able to provide. Origination is driven by banking channels and long-standing lending relationships with existing borrowers.

MARKET STRUCTURE AND COMPETITION

The private credit landscape includes a growing number of strategies beyond traditional direct lending, each with its own unique dynamics. Within direct lending, the U.S. middle market has undergone a notable transformation that belies conventional wisdom regarding market saturation. Despite strong capital inflows, the core middle market appears less crowded than it was pre-Covid, a trend explored in greater detail in the following section. In Europe, dynamics differ. Despite the numerous new players in recent years, it is the established lenders with successful long-term track records that have managed to scale.

Scale has also become a key competitive advantage in the investment-grade corporate private placement market. Larger investors with the ability to write significant checks and maintain long-standing issuer relationships have greater access to deals. For investment-grade private corporates this includes broad industry opportunities and proprietary or small club deals — at times even engaging directly with borrowers rather than through traditional bank syndication. Issuers value this approach because it offers stable, reliable capital along with the efficiency of working with a smaller, more concentrated group of lenders.

Putting it all together: the modern institutional portfolio

The breadth of today's private credit opportunity set is reflected in the portfolio construction of leading institutional investors. For example, TIAA, Nuveen's parent company and one of the world's largest institutional investors, maintains a highly diversified portfolio that integrates both public and private markets across asset classes (fig. 2). This allocation highlights how private credit sits alongside a range of complementary asset classes to balance yield, stability and diversification.

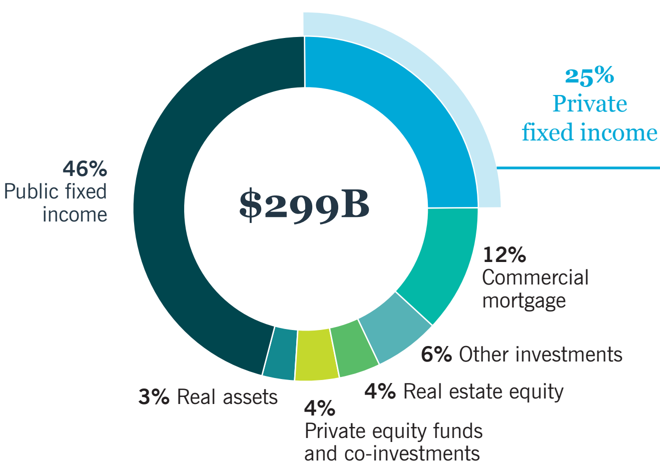
ASSESSING FLOWS AND UNDERWRITING TRENDS ACROSS SEGMENTS

Private credit has drawn significant capital, but that capital has not been distributed evenly. The result is a market with vastly different competitive dynamics depending on strategy, scale and specialization. For investors, understanding where capital is concentrated, and where it is scarce, is essential to identifying segments with stronger deal structures and more attractive risk-adjusted return potential.

Elevated competition at the extremes

At the upper end of the U.S. middle market, large private credit platforms are targeting jumbo transactions involving borrowers with more than $100 million in earnings (measured by EBITDA). These deals increasingly resemble broadly syndicated loans in structure and frequently feature

Figure 2: Diversification in the TIAA General Account



IN MILLIONS	
Private placements	$27,930
Project finance/infrastructure	$11,054
Credit tenant loans	$13,167
Global middle market senior loans	$3,374
Middle market sub debt	$4,377
CMBS securities (subordinated)	$576
Distressed	$17
Private ABS	$13,045
Fund investments	$701
TOTAL	**$74,241**

Source: TIAA General Account as of 30 June 2025

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looser terms, including covenant-lite frameworks. The surge of capital into this segment, from $41B of loan volume in 2021 to $82B in 2024,[3] has intensified competition and, in some cases, weakened investor protections.

At the other end of the spectrum, many lenders have moved into the lower middle market or non-sponsored space. While these deals may offer higher yields of 1% – 2% above comparable sponsor-backed transactions,[4] they come with notable risks, such as limited financial cushions, governance complexity and difficulty scaling. Enforcement challenges can also be greater, especially with smaller, family-owned borrowers or businesses in unfamiliar jurisdictions.

Resilience in U.S. middle market

By contrast, the traditional U.S. middle market — particularly sponsor-backed deals — has arguably become less crowded in recent years. As larger managers have shifted upmarket and smaller players have moved downmarket, the number of scaled competitors in this core segment has contracted. The most successful lenders in this space have long-standing relationships with private equity sponsors and the capacity to fund full deals. This combination allows them to secure proprietary opportunities and avoid pricing or structural concessions that are less favorable to investors.

Middle market equity sponsors have raised record levels of capital in recent years, outpacing private debt fundraising and creating a widening dry powder gap of more than $450B between equity and debt capital (fig. 3). This imbalance supports a long-term, sustainable pipeline of deal opportunities for well-positioned lenders.

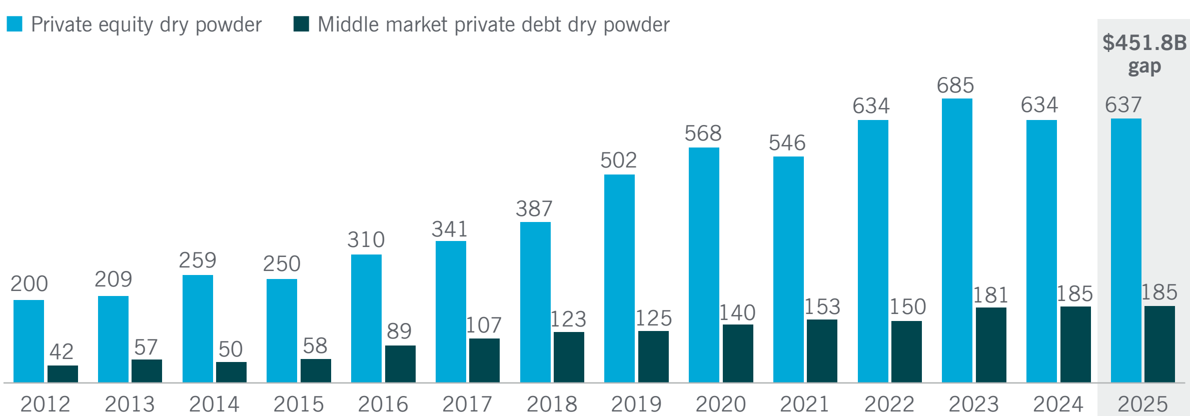
Lending to middle market companies drives economic activity. In the U.S., one-third of all private sector GDP comes from the middle market, encompassing nearly 200,000 businesses employing 48 million workers and generating over $10 trillion in annual revenues.[5] Within this vast and economically critical segment, certain industries stand out for their resilience. Amid recent geopolitical uncertainty, commercial landscaping and pest control are examples of sectors that had continued operations through Covid and remain well-insulated from global macro risks, offering dependable cash flows and consolidation potential without excessive competition.

Consolidation in Europe's upper mid-market

Similar dynamics are playing out in Europe, where a handful of pan-European platforms now dominate the upper mid-market. With embedded local teams and sponsor networks, these managers benefit from being the first call for private equity sponsors who prioritize execution certainty and relationship consistency.

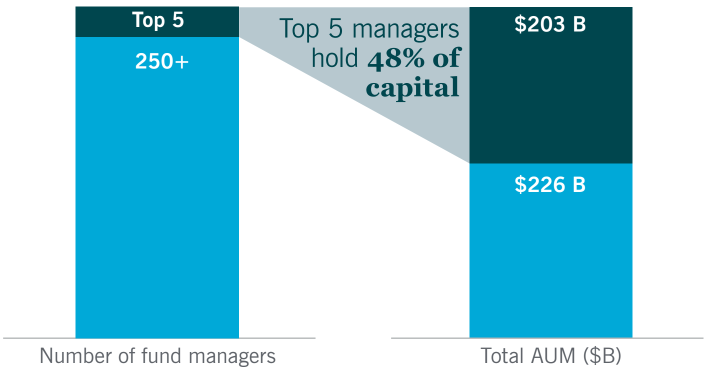
Market concentration has intensified, with the top five managers now controlling nearly half of the capital in the continent — up from about 35% just

Figure 3: A widening $452B funding gap creates opportunity for lenders



Source: Preqin; As of 01 Apr 2025. Note: North America data only.

Figure 4: European market dominated by a small number of large fund managers



Source: Preqin, November 2024

three years ago (fig. 4). While competition is still present, it is concentrated among a limited group of firms with the scale, local knowledge and structuring expertise to navigate Europe's fragmented regulatory and legal environment.

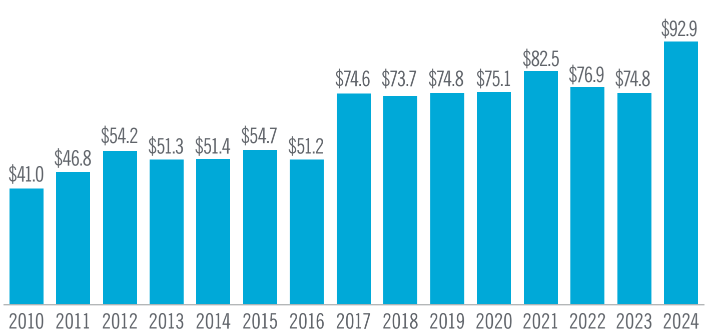
Similar to the U.S., private equity sponsor activity in the upper mid-market remains robust, with substantial capital still waiting to be deployed across Europe's national economies. As of December 2024, European private equity had 4.7X the dry powder of private debt.[6] This overhang reinforces the importance of scale, sponsor relationships and execution certainty in sourcing differentiated transactions.

Stability of investment-grade private placements

The investment-grade segment of corporate private placements remains relatively insulated from

Figure 5: Annual private placement market volume

Per volume issued (in billions)



Source: Thomson Reuters and Bank of America Securities. Data as of 31 Dec 2024.

crowding pressures. Market volume of private placements has more than doubled from $41B in 2010 to $93B at the end of 2024 (fig. 5), as institutional investors seek high-quality assets with structural protections, as well as the income and credit diversification benefits they can provide. Lead investors with full-take deal capabilities often shape terms directly, ensuring strong covenant frameworks and appropriate pricing discipline. For liability-driven investors such as insurance companies and defined benefit pension plans, this segment continues to offer durable income streams, defensiveness through structure and asset-liability matching opportunities with long-duration assets.

MANAGER SELECTION IN A MATURING MARKET

The consolidation in both the traditional direct lending and investment-grade corporate private placements, driven by shifts in capital flows, market segmentation and high barriers to entry, creates opportunities for well-positioned lenders. Despite these favorable conditions, investors still must be highly discerning when evaluating opportunities. In today's more mature market, success requires partnering with managers who have the scale, relationships and structuring expertise to originate proprietary deals, secure strong terms and endure market stress.

Sourcing plays a critical role in delivering alpha

In middle market and upper mid-market direct lending, consistent access to attractive deal flow is a crucial differentiator. Top managers do not rely on intermediated opportunities. Instead, they build direct pipelines through longstanding relationships with private equity sponsors and repeat borrowers. For example, some platforms play dual roles as both limited partner and lender to hundreds of private equity firms, enabling a continuous stream of high-quality, often proprietary transactions. This evolution in origination — away from reliance on intermediated transactions and toward relationship-driven pipelines — has allowed managers who can generate their own deal flow to access differentiated opportunities and maintain pricing discipline.

These advantages also extend to investment-grade corporate private placements. There, relationship depth with issuers and banks allows leading lenders to take full positions and influence terms early in the process, often before deals are widely marketed. Across the credit spectrum, access and alignment help secure better structures and better pricing.

Structure is a strategic advantage

Structure is another key source of alpha in today's environment. Managers who can lead or anchor transactions often shape critical elements of the deal: covenant packages, amortization schedules, call protection and bespoke terms tailored to the borrower and jurisdiction. In cross-border situations, local legal and regulatory nuances must be reflected in documentation, a capability that few platforms possess. In many ways, this trend signals a broader evolution in the asset class: deal structures are becoming increasingly bespoke, with terms tailored to the borrower's business model, sector outlook and jurisdictional requirements. For investors, this bespoke approach can enhance downside protection and alignment, but only if managers have the expertise to execute it consistently.

Covenants are another critical area of differentiation. In an era of higher rates and greater dispersion, these mechanisms give managers the ability to intervene proactively — through amendments, conversations or re-underwriting — before more drastic measures are required.

Control over structure is earned through both deal size and reputation. Managers who consistently execute with transparency and reliability are invited to lead transactions, not forced to chase them. In turn, that control enables more protective structures, better terms and greater leverage in workouts.

> *Much of the value in private credit is driven by how, rather than where, managers invest.*

Designing portfolios for a maturing market

Portfolio construction is another key area of differentiation. Top-tier managers build for both durability and yield. That means emphasizing seniority in the capital stack, prioritizing transactions with strong sponsors or proven borrowers, and diversifying exposure across sectors, geographies and macro sensitivities. Crucially, they are also willing to walk away when sponsor alignment fades or underwriting standards are at risk of erosion.

THE UNSUNG ENGINE OF PRIVATE CREDIT: PORTFOLIO MANAGEMENT

In private credit, much of the real work begins after the deal closes. The best managers implement continuous monitoring, evaluate financial performance relative to covenant thresholds and stay in regular dialogue with borrowers and sponsors. This proactive approach helps identify issues early and provides time to collaborate on solutions before problems escalate. Such practices are especially important in today's environment of higher rates and economic uncertainty. As companies face rising costs and shifting demand patterns, portfolio management is essential for protecting capital and maintaining performance.

Relationships that compound

Strong portfolio management also has compounding benefits. Managers that maintain trusted relationships with portfolio companies often generate follow-on opportunities through add-on acquisitions, refinancing or expanded financing needs. Over time, these repeat interactions can reduce sourcing costs and improve overall credit outcomes. This creates a self-reinforcing cycle that drives consistent deal flow and may strengthen portfolio quality and enhance long-term returns for investors.

Tailored approaches by segment

The demands of portfolio management differ across private credit segments. In investment-grade corporate lending, maintaining stable ratings and clear reporting frameworks is critical. In the middle and upper middle market, active engagement with sponsors and responsiveness to sector trends matter. For cross-border portfolios, navigating jurisdiction-specific enforcement and restructuring protocols requires additional legal and operational insight. Investors benefit from portfolio management practices that can adapt to each segment, which help preserve value and capture opportunities that may be overlooked by less specialized competitors.

THE NEXT PHASE OF PRIVATE CREDIT

Private credit has entered a new era shaped by greater visibility, heightened complexity and a rapidly expanding investor base. Although headlines often focus on the surge of capital into the space or speculate on whether the market is overheating, the real question is how can investors discern quality and navigate nuance in an increasingly sophisticated landscape.

At a time when many public markets remain challenged by volatility, private credit continues to offer a compelling combination of yield, structural protections, risk diversification and access to dynamic sectors driving economic growth. For institutions, the ability to lock in attractive cash flows with covenant support offers stability that can complement broader portfolio objectives. In many ways, private credit acts as a noise-cancelling allocation, providing a higher degree of predictability in an increasingly unpredictable world.

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> *The real question is how can investors discern quality and navigate nuance in an increasingly sophisticated landscape*

As this paper has emphasized, much of the value in private credit is driven by how, rather than where, managers invest. Proactive and highly engaged portfolio management is a defining trait of top-tier managers. For successful managers, a significant share of new opportunities is sourced from existing portfolio companies — whether through add-on acquisitions, refinancing or expanded financing needs — highlighting the compounding benefits of long-term, relationship-based lending.

In short, private credit is not overheating — it is evolving. The sustained overhang of private equity dry powder in both the U.S. and Europe continues to underpin long-term deal flow, highlighting the importance of partnering with managers who can access and execute on these opportunities. For investors who can separate signal from noise and partner with experienced managers who have mastered sourcing, structure and stewardship, the opportunity remains both durable and expansive.

Platforms powering Nuveen private credit: a snapshot

U.S. MIDDLE MARKET PRIVATE CAPITAL

Comprehensive capital solutions for middle market private equity firms[7]

$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 Europe[8]

€34B committed capital

€35B capital raised

430+ transactions closed

120+ sponsor relationships

INVESTMENT-GRADE PRIVATE CREDIT

Offering innovation across the investment grade private credit spectrum

$63B assets under management[9]

#4 largest global private debt investor[10]

62% of investments as lead/co-lead[9]

Nuveen is a global investment leader, managing $1.3T[11] 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.[12]

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 35% of Nuveen *EQuilibrium* Global Institutional Investor Survey respondents were maintaining allocations to private credit, 9% decreasing and 6% do not invest in private credit. **2** PitchBook 2024 US PE Middle Market Report and the National Center for the Middle Market. **3** KBRA DLD as of 31 Dec. 2024. **4** The Alts Institute, Brookfield Oaktree, Understanding Private Credit: Sponsored vs. Non-Sponsored Financing. Data as of 31 Jan 2025. **5** 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. **6** Prequin, December 2024. **7** Churchill as of 30 Jun 2025. **8** Arcmont data as of May 2025. **9** As of 31 Mar 2025. **10** Rankings published in Private Debt Investor Magazine's Global Investor 75, March 2025. **11** As of 30 Jun 2025. Nuveen assets under management (AUM) is inclusive of underlying investment specialists. **12** 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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