

## Private Credit: from a hidden gem to a heavyweight

- ▶ **Growth in private credit assets over the past ten years has been phenomenal.**
- ▶ **The asset class has also delivered better risk-adjusted returns, as expected.**
- ▶ **The next ten years should be equally strong, if not stronger, for private credit.**

### Private credit goes mainstream

Private credit's origins trace back to niche lending markets, but its expansion accelerated following the 2008/09 global financial crisis. As banks tightened lending standards due to regulatory constraints, private credit funds stepped in to fill the gap, providing tailored financing solutions. Over the past decade, institutional investors – such as pension funds, sovereign wealth funds, and insurance companies – have increasingly allocated capital to private credit, drawn by its potential for attractive risk-adjusted returns.

The broad spectrum of lending strategies including Direct lending, Distressed debt, Mezzanine financing, Venture debt, Asset-based lending, and Specialty finance, the asset class has gone mainstream in recent years from being considered an alternative to public fixed income markets.

The evolution of private credit assets under management (AuM) speaks to its success. From under USD500bn in 2014, the total AuM has grown over USD1.5trn as of end of 2023. Moody's estimates that the AuM will reach USD3.0trn by 2028 implying a compound annual growth rate (CAGR) of over 13% from the 2023 base line. Between 2014 and 2023, the share of global private credit AuM in overall alternatives space has averaged 13% ([exhibit 1](#)).

### That asset class delivered on its promises

Private credit has consistently delivered better risk-adjusted returns over the past decade. According to MSCI, global private credit funds had delivered an 8% average return over the five years to 2024. This compares with 4% average annual return on high yield corporate bond index and 1% average annual return on investment grade corporate bond index. More specifically, in 2022 when most asset classes posted negative returns, private credit funds recorded a gain of +4% (vs. 12%-15% losses in public fixed income markets). Interestingly, all three key segments of private credit – senior, mezzanine, and distressed – posted positive returns in all years between 2020 and 2024 ([exhibit 2](#)).

### Next ten years look promising

The next ten years look equally, if not more, promising. From the industry outlook standpoint, a range of factors – from demographics, technology, and policies – are expected to provide tailwinds. Here are a couple of key trends emerging within the private credit space.

#### Demand side for private credit:

- ▶ Hunt for stable yield continues as publicly traded bonds exhibit volatility driven by ever-changing market expectations of policy rates.
- ▶ Insurance companies have been increasing their participation in this asset class with a focus on asset-liability matching.
- ▶ Increasing demand from individual investors is structural and the advent of more liquid options in this space should help to increase the asset class penetration further.

#### Supply side of private credit:

- ▶ Asset-based financing is on the rise and helps deliver a more stable sub-asset class within the private credit universe.
- ▶ Tokenization applied to private credit space addresses the three key constraints often highlighted by traditional players in the market. These constraints are lack of liquidity, scope for improvement in efficiency, and lack of transparency.
- ▶ Changes in regulatory environment under the new US administration can help improve the outlook for the asset class.

From a risk-return perspective, private credit sub-asset classes offer the most compelling outlook for the next 10-15 years. For instance, [exhibit 3](#) shows how direct lending and commercial mortgage loans offer better risk-adjusted-returns compared to all other assets including public fixed income and equities.

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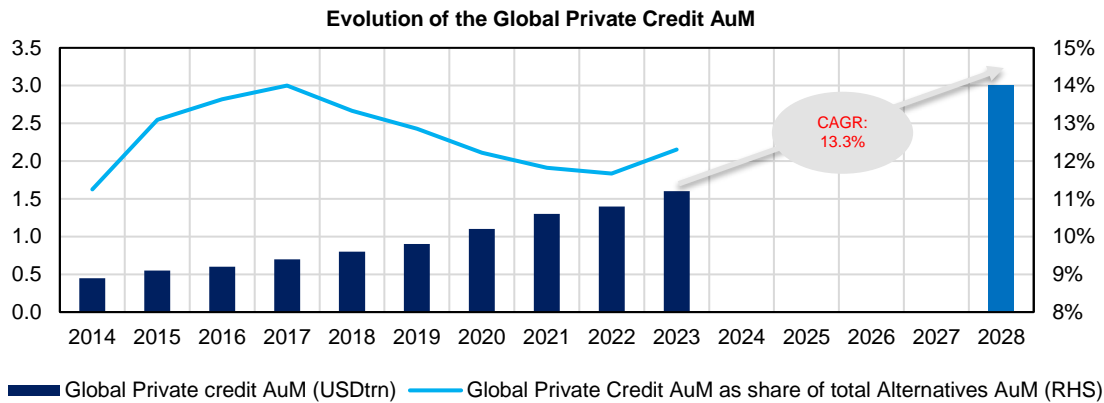
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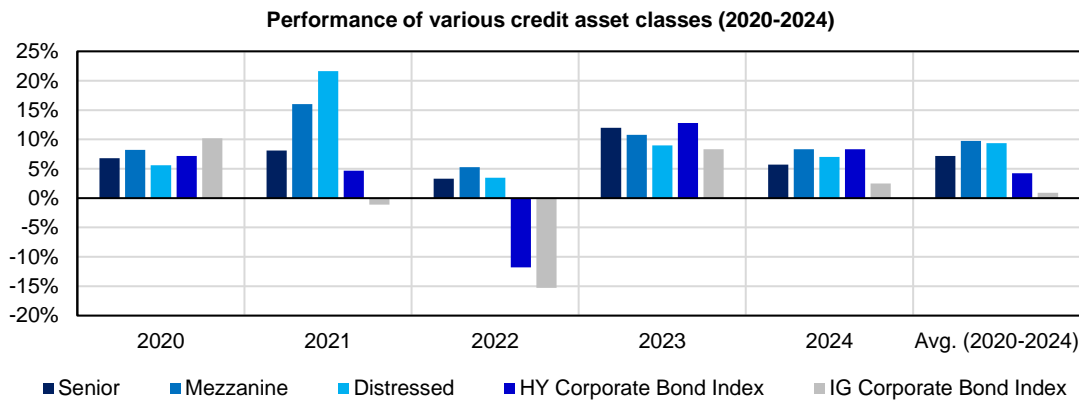
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**Exhibit 1: Global private credit market continues to grow at a rapid pace**



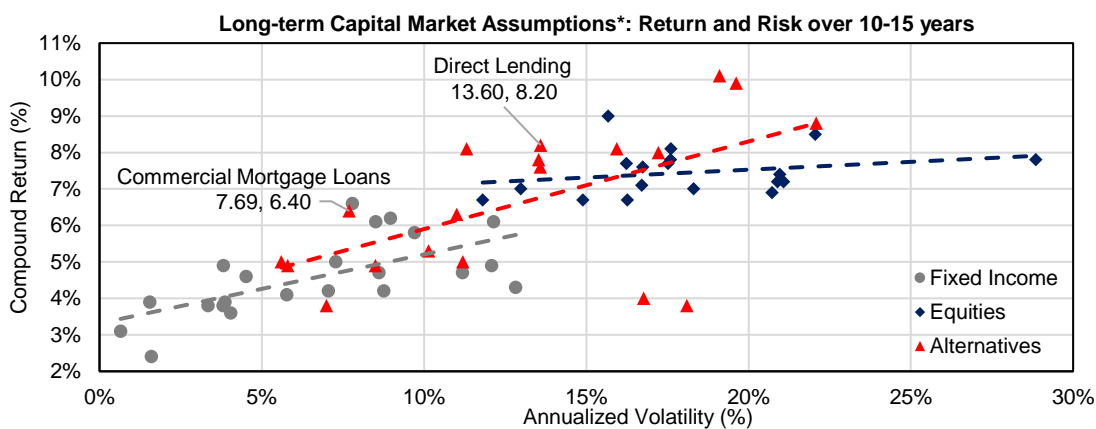
Source: Moody's, Brookings Institution, and ADCB Asset Management

**Exhibit 2: Global private credit has delivered consistent returns over the past five years**



Source: MSCI, Preqin, and ADCB Asset Management

**Exhibit 3: Global private credit is expected to deliver strong risk-adjusted returns over the next 10-15 years too**



Source: JPMorgan Asset Management (Long-term Capital Market Assumptions, 2025), and ADCB Asset Management | Notes: \*Each dot, diamond, and triangle on the chart represents a sub-asset class within the broader asset class of fixed income, equities, and alternatives, respectively.

## Risks to consider

Here are two key risks often highlighted by market participants on private credit, and our viewpoints on those.

- ▷ Due to the considerable size and influence of private credit in credit creation – now significant enough to directly compete with public markets – it has the potential to become macro-critical and exacerbate adverse economic shocks. Here, we would point out that, unlike traditional banks, private credit lenders are not reliant on deposit funding, making them less prone to liquidity crises. Also, private credit investors take a longer-term view and are less susceptible to sudden market selloffs, reducing volatility compared to public markets.
- ▷ The rapid expansion of private credit, alongside heightened competition from banks on substantial transactions and the pressure to deploy capital, may result in a decline in both pricing and non-pricing terms. This includes lower underwriting standards and weakened covenants, thereby increasing the risk of future credit losses. On this, we believe that with careful selection of opportunities with the help of a professional advisor, investors can avoid this risk.

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