The changing world of institutional credit

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The traditional boundaries between public and private lending are rapidly dissolving, creating new opportunities – and new challenges – for investors.

This shift reflects deeper structural changes. Over the past 25 years, corporate lending has steadily migrated from banks to nonbank and private lenders. Regulatory reform and capital constraints have accelerated this trend, fuelling innovation across public and private credit structures.

To thrive in this new architecture, credit market participants must move beyond historical silos and embrace the full opportunity set with an integrated, agile approach.

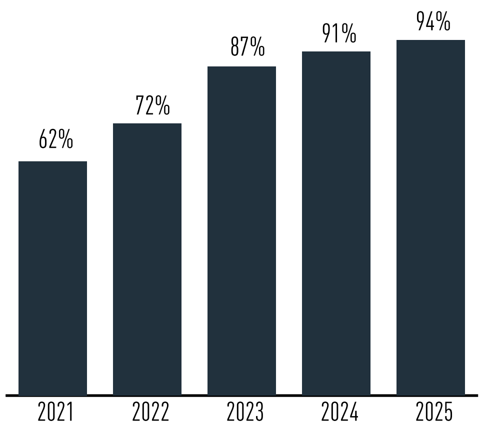
Embracing public and private

Nuveen's latest EQuilibrium survey shows that 94 per cent of institutional investors globally now hold private credit in their portfolios. This marks a significant jump over the last five years (see chart). At the same time, investors are reengaging with public fixed-income markets with the recent rise in yields.

Almost half of investors surveyed by Nuveen indicated plans to increase allocations to public fixed income. Institutional investors are once again seeing opportunities in traditional bonds, with the Bloomberg U.S. Aggregate Index ending Q1 2025 at 4.6 per cent – approaching double its 2010-2019 average of 2.5 per cent. Investors who previously relied on private credit for yield now recognize that public markets can also generate robust income, with the added benefits of liquidity and transparency.

Compounding this are issuers, bankers and asset managers beginning to treat public and private credit interchangeably. Issuers, seeking best execution, frequently explore both public and private pathways in parallel. Asset managers are reorganizing teams to evaluate opportunities through a wider lens. This shift promotes a new mindset — one that evaluates exposures based on value and portfolio fit, not labels.

Percent of institutions investing in private credit (%)



Source: 2025 Nuveen EQuilibrium Survey

Constructing credit portfolios

Rather than viewing public and private credit as distinct alternatives, agile investors are embracing more flexible approaches that consider opportunities across both spaces.

Their ability to diversify credit exposure now goes beyond varying duration, ratings, countries and sectors. It involves balancing liquid and illiquid assets for better liquidity management, blending fixed and floating rate exposures to hedge macro risks and selecting credit structures — such as broadly syndicated loans, collateralized loan obligations (CLOs), direct lending or investment grade private credit — based on relative value and execution.

This broader toolkit enables investors to fine-tune their portfolios beyond conventional levers.

Accessing the opportunities

Innovation in financial product design is also changing how investments are delivered to investors. Asset managers are working with institutional investors to design capital-efficient vehicles – such as rated note feeders, credit-protected wrappers and semi-liquid funds – that facilitate exposure to attractive credit segments while navigating regulatory changes. This includes the post-financial crisis reforms of Basel III Endgame and Solvency II that increased capital requirements and improved risk management among financial institutions.

An example of innovation is the growing use of structured finance vehicles to address the needs of many institutional investors for large-scale investments that also meet capital efficiency requirements. In a recent transaction, a consortium of like-minded insurers raised more than $1 billion for Commercial Property Assessed Clean Energy (C-PACE) investments — a financing approach in the U.S. that supports sustainability and resiliency measures for commercial buildings.

Also available are public-to-private wrappers that allow immediate deployment into liquid assets and rotate into illiquid assets over time, mitigating cash drag. Semi-liquid structures, including interval funds and non-traded BDCs (closed-end funds that provide financing to businesses), offer quarterly liquidity while accessing private credit. CLO ETFs offer a liquid vehicle to access exposure to actively managed portfolios of securitized broadly syndicated senior loans. They are proving to be attractive tools for balancing return goals and governance needs.

Executing with agility

The growing fluidity between public and private credit markets is also prompting organizational change within asset managers and asset owners. This affects team alignment. As credit markets converge, public and private credit teams are collaborating more frequently — or, in some cases, merging.

It also has implications for manager evaluation. As deal complexity and borrower dispersion grow, institutions are placing greater weight on underwriting rigor and execution flexibility. For asset managers, agility now includes not just asset selection and timing, but execution readiness and underwriting expertise across different deal structures. This requires technology to integrate performance reporting across public and private holdings, and investment teams that are truly cross-functional.

Issuers and banks, as well as investors, are adapting operations and objectives to match the new environment:

- Dual-track issuance: Issuers now routinely explore both public and private execution pathways. This is particularly visible in the asset-backed securities (ABS) space, where institutions increasingly anchor, negotiate and hold diversified collateral pools — roles once dominated by public securitizations.
- Manager-bank partnerships: Banks are increasingly forming joint ventures with private credit managers that allow the managers greater access to the bank's loan origination.
- Cross-platform manager partnerships: There is a growing trend of large-scale collaboration between public and private market specialists. These relationships aim to expand distribution, deepen research capabilities and enhance multi-asset execution.
- Multi-asset credit mandates: These mandates that allow managers to allocate across public and private markets are gaining traction. Many allow asset managers to dynamically allocate based on relative value, combining high-conviction views across high yield bonds, senior loans, emerging markets debt and securitized credit, with the ability to tactically allocate to less liquid credit opportunities as they arise.

Partnering for success

Asset managers will play a crucial role in helping clients navigate this evolving credit environment, from sourcing public and private market investments to analysing the risks and return potential. The key lies in understanding each client's unique needs – from liquidity requirements and risk tolerance to income goals and tax considerations – and applying the full range of credit opportunities to build resilient portfolios.

The future of credit investing won't be about choosing between public and private markets, but about combining them strategically to create portfolios capable of withstanding market cycles over the medium to long term.

For insight into portfolio construction, risk management and operational considerations, read The new architecture of institutional credit on our website nuveen.com/institutional-credit-eq

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Important information on risk

Past performance is no guarantee of future results. Investing involves risk; loss of principle is possible.

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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