Rethinking resilience in private credit

Why collateral, structure and local expertise matter more as the market matures

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Recent commentary has pointed to isolated credit losses as a possible sign of broader fragility in parts of the lending market. While it is right to interrogate underwriting standards and risk management, it is also important to recognise just how heterogeneous private credit has become. Treating it as a single asset class with uniform characteristics risks clouding meaningful differences in structure, collateral and behaviour across the cycle.

At a high level, the distinction between corporate lending and asset-backed lending is fundamental. Corporate lending relies on a borrower's earnings and enterprise value, supported by covenants and contractual protections that tend to loosen and tighten with market cycles. Asset-backed lending, by contrast, is secured against a specific physical asset, with the lender holding direct collateral and, in many cases, a mortgage. That difference alone has significant implications for valuation sensitivity, downside protection and liquidity in periods of stress.

Against that structural backdrop, the question is not whether private credit is resilient in aggregate, but where resilience is genuinely anchored.

When assessing resilience across private credit today, I believe there are three questions that matter most. First, are asset valuations overstretched? Here, the divergence between corporate exposures and real estate is clear. Second, where is the attachment point? In asset-backed lending this is typically expressed through loan-to-value ratios, whereas in corporate lending it is more closely linked to leverage and earnings multiples. Third, what are the prevailing terms for lenders? Mortgage terms in asset-backed lending tend to be more stable and less cyclical, while terms in corporate lending have historically moved with market sentiment and competition.

In the asset-backed segments where our business is focused, those factors combine to create a markedly different risk profile. Mortgages are more homogenous, loan-to-value ratios are generally lower, and there is far less volatility or concern around valuations and covenants than we currently observe in parts of the corporate market. That is not to suggest asset-backed lending is risk-free, but rather that the nature of the risk is different and, in many cases, more transparent.

Liquidity dynamics reinforce that distinction. Residential property markets, for example, tend to show relatively steady transaction volumes across most cities, even through periods of economic uncertainty. By contrast, corporate exit routes such as IPOs and leveraged buyouts are far more cyclical and are currently constrained. In a slowdown, that makes it materially harder to exit positions or access liquidity in corporate lending, while asset-backed exposures often retain more predictable pathways to resolution. For those reasons, I do not see the same degree of downside risk in asset-backed lending today as in certain areas of corporate credit.

The complexity of asset-backed lending, however, should not be underestimated. The defining challenge for managers is that it is inherently local. Assets are physical by nature, and effective underwriting requires proximity to them. In corporate lending, there is usually a headquarters and a limited number of operating jurisdictions, and underwriting can be organised around that centre of decision-making. Asset-backed lending demands a different operating model, one that combines local market knowledge with centralised risk management.

Against that backdrop, the private credit market today is best described not as entering a new phase, but as confronting a significant opportunity that will be realised through long-term capability building. Corporate direct lending has already reached substantial scale. Global private credit assets stood at approximately $2.1 trillion in 2024 and are forecast to more than double to around $4.5 trillion by the end of the decade. Much of that growth has been intermediated by asset managers, with banks increasingly playing a supporting role through funding, distribution or balance-sheet partnerships rather than direct origination.

By contrast, real estate and other asset-backed lending markets are far larger in absolute terms, yet private credit penetration remains low. Asset-backed strategies account for only a small single-digit share of total private credit assets, historically around four to five per cent, despite the scale of the underlying markets. That disparity highlights how much further private credit could still expand into real estate-linked and asset-backed strategies over time, relative to the more mature and institutionalised corporate direct lending segment.

As more capital seeks opportunities in private credit, preserving underwriting discipline becomes predominant. Loan-to-value remains a core metric in asset-backed lending, but it is not sufficient on its own. Liquidity of the underlying asset matters just as much. A low loan-to-value ratio offers limited protection if the asset is illiquid or has a narrow buyer base. Sector selection, city selection and sponsor quality all play an important role, and there is a point below which operating in too small a part of the market forces a compromise on sponsor and operator quality that is difficult to be adequately compensated for.

Looking ahead, I believe private credit will continue to play a central role in institutional portfolios. Credit remains the primary source of current income, provides a degree of downside protection and offers faster capital return, while longer-term capital gains are more naturally associated with equity. When interest rates were very low, investors often favoured certain forms of real estate over credit, but that trend has reversed as rates have risen. More broadly, if rates move higher, allocations to credit should increase, while lower or more stable rates may encourage a greater tilt towards equity.

Fundamentally, credit and equity market bubbles tend not to form when interest rates are declining. In my view, the level of noise in the market today is overstated relative to the underlying level of risk, and the opportunity for disciplined, asset-backed private credit remains convincing.