Private credit and real asset debt: resilience through rate normalisation

Private credit, commercial real estate (CRE), infrastructure debt, and middle market direct lending have proved resilient across most rate regimes because performance is anchored in structure, cashflow durability, and disciplined underwriting - not in the direction of policy rates. With the Fed in an easing phase and term premia normalising along the curve, allocators should focus on relative value, origination windows, and manager differentiation rather than attempting to time rate moves.

Structural drivers over rate direction

Private markets' advantages are regime consistent. Floating rate mechanics in many loans help preserve relative returns as base rates fall because spreads compress more slowly - or can widen - versus public markets. Long investment horizons shift attention to business fundamentals and operational value creation, not quarterly sentiment. The illiquidity premium persists due to complexity and information asymmetry, a pattern that held even in the post GFC low-rate decade. Lower rates typically support middle market activity: refinancings, add-ons, and strategic combinations, where value is driven more by margin expansion than by multiple expansion. And persistent liability driven demand from pensions and insurers sustains capital flows, often intensifying when headline yields decline.

CRE: it's the long end-and its stability-that resets the market

CRE is more sensitive to the level and stability of long duration yields than to incremental policy cuts. The relationship between Fed funds and the 10year Treasury is stronger in levels than in day to day moves; today's ~4%–4¼% range sits near long run norms after the unusual, post GFC period of ultralow rates. In such a band, with inflation near ~3%, a roughly 1% real rate can be compatible with NOI led returns and limited cap rate compression. The why behind falling yields matters: a drop driven by weakening growth would not be unequivocally bullish. We expect unlevered total returns to rise towards the low 7% range annualised over the next five years and approach the historical 8-10% annualised over the next decade. Structural themes will remain important, but clearing return hurdles requires sharper focus and execution. We see opportunity in modern logistics, data centers, and rentership housing, while underwriting discipline and operating capability remain decisive as competition returns and return premia compress.

Infrastructure debt: contracted, essential, largely rate neutral

Infrastructure debt's contracted or regulated revenues, cost pass through frameworks, and essential service profiles make the asset class relatively insensitive to rate direction. Performance is driven primarily by seniority, collateral, and covenants. In easing periods, public market spreads often compress faster than private spreads, leaving private infrastructure debt with an attractive premium without sacrificing credit quality. The underwriting edge is in validating contractual mechanics, counterparty strength, and covenant robustness - discipline that sustains value across cycles regardless of the policy path.

Investment grade private credit: consistency and issuance tailwinds

IG private placements deliver enhanced spreads versus public comparables, strong covenant packages and access to higher quality, cash generative issuers. The asset class has historically delivered attractive risk adjusted returns even when base rates were near zero, underscoring that spread and structure, not rate level, drive outcomes. In a lower rate regime, spreads will tighten and total yields will decline, but issuance and refinancing typically accelerate as borrowers optimise capital structures. That dynamic expands the investable pipeline. As dispersion widens, manager selection- underwriting standards, sector specialisation, and structuring skill- becomes the primary performance lever.

Middle market direct lending: offsetting yield compression with better fundamentals

Direct lending's floating rate loans see headline yields compress as policy eases, yet lower interest burdens improve free cash flow, stabilise balance sheets, and strengthen credit profiles, all supporting portfolio resilience. Sponsor and non-sponsor deal activity tends to pick up as financing costs decline, improving origination volume through refinancings, add-ons, and new buyouts. With enterprise values generally below $1 billion and heavy reliance on private credit, the middle market remains a durable engine of loan demand. The risks in easing cycles - spread tightening, competitive pressure on terms, and pockets of covenant slippage - are best addressed through disciplined pricing, robust protections with meaningful covenants, industry selection, and active monitoring.

Allocation implications

For institutions, the strategic case is unchanged: maintain core exposures to private credit and real asset debt for diversification, drawdown mitigation, and income durability, while leaning into manager skill to capture dispersion. In CRE, prioritise platforms with operating expertise and the ability to drive NOI growth under a stable long rate backdrop. In infrastructure debt, emphasise contracted assets with proven passthroughs and strong counterparties. In IG private credit, use periods of heavier issuance to secure covenant strength and structural protections while avoiding spread beta. In middle market direct lending, focus on first lien seniority, conservative leverage, good credit structures and sponsors or non-sponsor owners with value creation playbooks; where competition is intense, insist on pricing that compensates for structure.

Risk framework

Key watchpoints include the reason behind any further decline in long yields (growth scare vs. benign disinflation), refinancing calendars in sponsor backed portfolios, underwriting standards as deal volume accelerates, and sector specific sensitivities to slower nominal growth. Lower rates do not remove risk; they change its shape. The advantage accrues to managers who can create, protect, and realise value through cycle tested underwriting, rigorous risk assessment, and operational execution.

Bottom line

Private markets' resilience is rooted in fundamentals, structure, and discipline. As long rates normalise and policy eases, CRE, infrastructure debt, investment grade private credit, and middle market direct lending should continue to offer compelling opportunities - not because rates are falling, but because the mechanisms that generate value in private markets are built to persist across regimes.

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