Private credit is not one market: why European allocators need a more precise lens

By John McNichols, CFA, Head of Private Credit Investment & Strategy

Private credit has moved from a niche allocation to a structural component of European institutional portfolios. Over the past 15 years, the global market has more than tripled in size, far outpacing the growth of the public credit universe. Yet as the asset class has expanded, the way it is framed — often as a single, monolithic exposure — is no longer fit for purpose. For insurers, pension schemes and other European allocators making increasingly sophisticated commitments, how private credit is understood is now as important as whether to allocate to it.

The premise is a simple one: private credit is not one market. Treating it as such risks obscuring where risk is concentrated and where resilience sits.

Beyond the headlines

Private credit is often discussed through the lens of direct lending, and recent headlines have shaped perceptions of the asset class more broadly — despite being concentrated in a relatively narrow segment. Middle Market Direct Lending (MMDL) represents around 30% of the global market, with evergreen and semi-liquid vehicles accounting for only around 15% of that segment. That means little more than 5% of the total global private credit market is directly impacted by the issues dominating recent commentary[1].

Valuation quality, concentration and liquidity matter — but the industry has done a poor job of distinguishing between segments in ways that are meaningful for investors. The risk is overstating challenges in some areas while overlooking resilience in others.

The global, non-bank, non-government private credit market has tripled to more than $3 trillion since 2010[2], but growth has been uneven across segments. Corporate Private Placements and Mezzanine Debt have grown more slowly, while MMDL and Asset-Based Finance (ABF) have driven aggregate expansion. The composition of the market — not just its size — is increasingly relevant for investors.

A differentiated opportunity set

Across these segments, private credit collectively offers the full set of characteristics European investors have historically sought from credit allocations: fixed or floating income, varying maturities and duration, bullet and amortising structures, and principal protection.

Private real estate credit markets, for example, are now comparable in scale to major fixed income markets — and these segments are not simply different labels; they perform different roles in the portfolio. Core strategies seek investment-grade-equivalent returns with duration and positive credit migration. Core-plus or transitional exposure targets higher spreads through predominantly floating-rate structures. Structured real estate credit is deployed tactically across the capital stack, including mezzanine, preferred equity and participating mortgages.

ABF has followed a related but distinct path. Banks remain meaningful originators, but institutional access has expanded — particularly in consumer ABF, where growth from a small base has been especially rapid. Infrastructure debt growth is perhaps, the most "organic" of all the sectors. While commercial and development banks remain heavily invested, the scope of global infrastructure financing needs, after years of underinvestment, is too big for any single pool of capital. McKinsey estimates that a cumulative $106 trillion in infrastructure investment will be necessary through 2040[3].

From opportunity to allocation

Private credit markets offer both long-term structural pathways — earning complexity and illiquidity premia — and short-term tactical opportunities. Current direct lending dynamics are a case in point: spread widening and tighter underwriting reflect a predictable market adjustment, and conditions may now offer improved entry points relative to recent vintages.

In private real estate credit, the post-pandemic repricing means investors can lend against suppressed property values that are 20% below peak on average[4], supported by tighter underwriting and resilient rental demand.

For European allocators, the implications are particularly relevant. Insurers have long used private credit — including core commercial mortgages and private placements — to match long-dated liabilities while enhancing yield, with rated feeder structures increasingly supporting allocations to higher-spread segments through improved capital efficiency. Pension schemes have similarly evolved from small direct lending sleeves towards a broader toolkit, recognising that illiquidity premia are attractive for long-dated, high-quality bonds they already hold for actuarial reasons.

Private credit is moving from a benign period into a more challenging phase. Macro uncertainty and geopolitical shocks can raise rates and funding costs — benefiting floating-rate structures but increasing borrower strain, particularly in lower-quality and cyclical credits. This places a premium on disciplined origination, thoughtful liquidity management, concentration controls and rigorous risk frameworks, complemented by stress testing to avoid reaching for yield as competition intensifies.

For European institutional investors, the message is clear. Private credit is less a single allocation than a toolkit — where different segments can be combined to shape income, duration and downside protection. Outcomes are driven by how exposures are structured and combined. The challenge is shifting from access to deploying capital with greater precision across a broader, more differentiated opportunity set.

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[1]Estimates from Preqin & PGIM
[2]Nov 2024, AIMA: https://www.aima.org/article/press-release-private-credit-market-surpasses-us-3trn-and-maintains-resilience-despite-growing-stress.html
[3]McKinsey, The Infrastructure Moment (Report 09/09/2025), Accessed April 2026
[4]2026 Global Real Estate Views: https://www.pgim.com/content/dam/pgim/us/en/pgim-real-estate/active/documents/outlooks/2026-global-...