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Global Credit Weekly:

European private credit: unpacking the nuances

BlackRock

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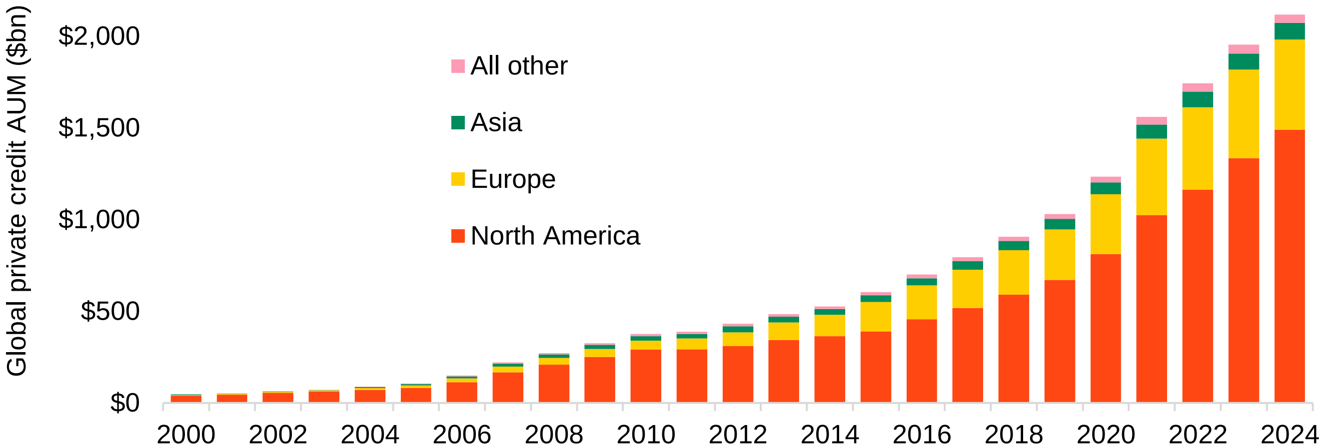
Key takeaways

- As our colleagues in the *BlackRock Investment Institute* recently highlighted, the transformation in the global economy – across a variety of 'mega forces' – is being accelerated. Related to this, corporate credit market participants have been increasingly focused on the potential benefits of geographical diversification, as these structural shifts unfold.
- In previous research, we have unpacked some of the key differences between the U.S. and European *liquid* corporate credit markets. In this *Global Credit Weekly*, we provide an in-depth overview of the European *private* credit market, outlining why we expect continued growth in this region, alongside North America (Exhibit 1). We also highlight some of the most relevant fundamental and compositional characteristics, in our view. Importantly, European private credit cannot be painted with a broad brush, due in part to the heterogenous mix of country exposures – each with their own nuances and competitive dynamics.
- Private firms represent 93% and 94% of the firms in the European Union (E.U.) and United Kingdom (U.K.), respectively, compared to 81% in the United States (U.S.). And both the E.U. and U.K. are more reliant – relative to the U.S. – upon bank lending to finance economic activity. These structural considerations suggest a meaningful role for private financing, in our view, over the long term. Underpinning this expectation are two themes we recently explored in greater detail: (1) the pattern of companies 'staying private for longer,' and (2) the increasing frequency of partnerships between banks and private credit lenders.
- As Europe's private credit market continues to grow, we expect its addressable market of borrowers will expand to reach areas it previously couldn't. This may include some larger firms which have historically financed themselves in the liquid credit markets. This pattern is captured in the deal size distribution of European private credit transactions, which has featured larger deals in recent years.

Exhibit 1: We see scope for the private credit market to expand further in Europe
Total global private credit assets under management by region, in $ billions



Source: Preqin, Cliffwater, BlackRock. As of September 30, 2024 (most recent available as of May 13, 2025). North America includes BDC data, which is as of December 31, 2024. Excludes Real Estate and Infrastructure lending. "All other" includes Latin America / Caribbean, Africa, Australia / New Zealand, Middle East & Israel, and Diversified / Multi-Regional.

Global economic shifts are underway

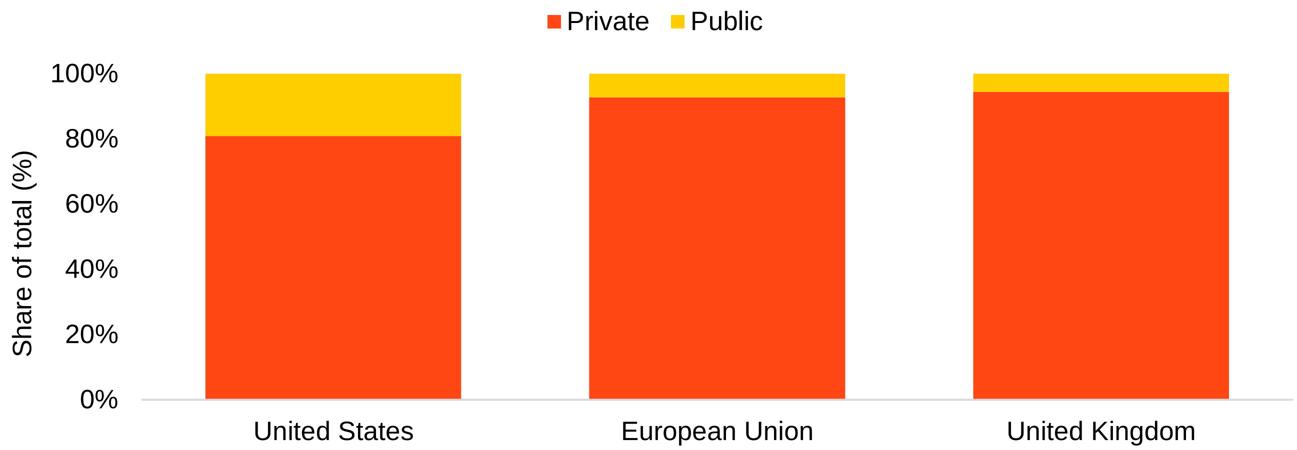
As our colleagues in the *BlackRock Investment Institute* recently highlighted, the transformation in the global economy – across a variety of 'mega forces' – is being accelerated. Related to this, corporate credit market participants have been increasingly focused on the potential benefits of geographical diversification, as these structural shifts unfold.

In previous research, we have unpacked some of the key differences between the U.S. and European *liquid* corporate credit markets. In this *Global Credit Weekly*, we provide an in-depth overview of the European *private* credit market, outlining why we expect continued growth in this region (Exhibit 1). We also highlight some of the most relevant fundamental and compositional characteristics, in our view.

We first turn to Exhibits 2 and 3 to illustrate the broader market opportunity for private financing. As Exhibit 2 shows, private firms represent 93% and 94% of the firms in the European Union (E.U.) and United Kingdom (U.K.), respectively, compared to 81% in the United States (U.S.). And as Exhibit 3 highlights, both the E.U. and U.K. are more reliant – relative to the U.S. – upon bank lending to finance economic activity. These structural considerations suggest a meaningful role for private financing, in our view, over the long term. Underpinning this expectation are two themes we recently explored in greater detail: (1) the pattern of companies 'staying private for longer,' and (2) the increasing frequency of partnerships between banks and private credit lenders.

Exhibit 2: Most companies in the U.S., E.U. and U.K. are private

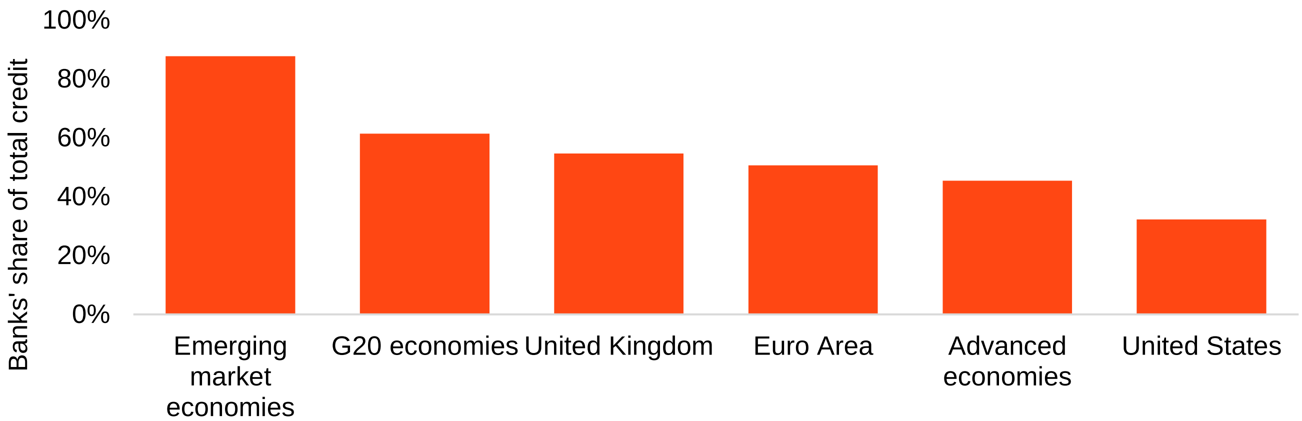
Distribution of public vs. private companies in each region (for firms with last twelve months' revenue greater than or equal to $100 million, or equivalent)



Source: S&P Capital IQ, BlackRock. As of May 14, 2025.

Exhibit 3: Reliance on bank lending varies across regions

Banks' share of total credit provided to the private non-financial sector - select regions



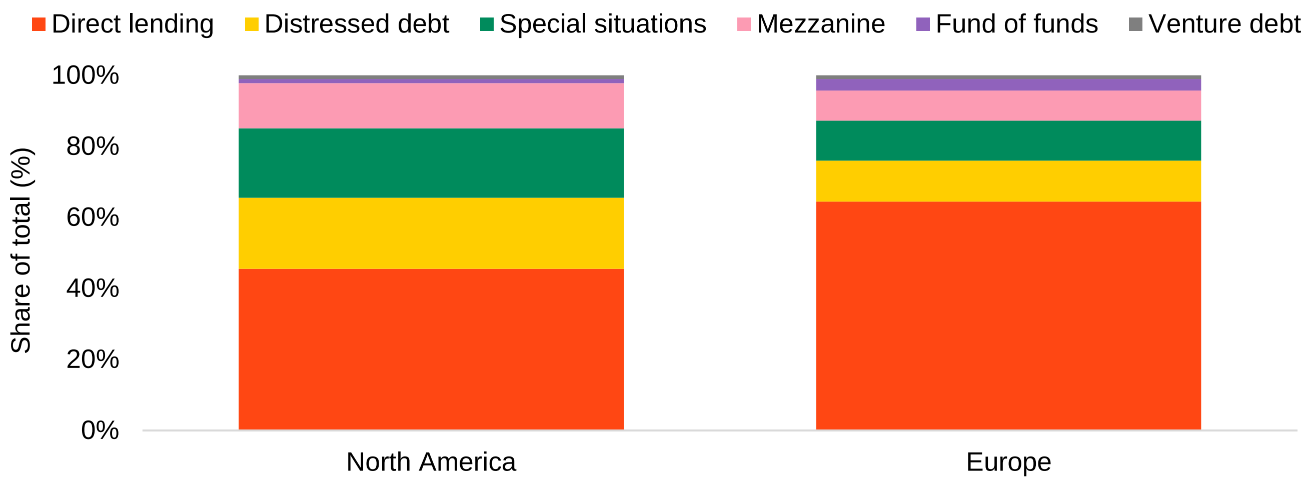
Source: Bank for International Settlements, BlackRock. As of 3Q2024 (most recent available as of May 13, 2025). The "private non-financial sector" includes non-financial corporations (both private-owned and public-owned), households and non-profit institutions serving households as defined in the System of National Accounts 2008.

The strategy mix-shift of private credit AUM

North America focused assets under management (AUM) represent roughly 70% of the $2 trillion total private credit AUM, compared to 23% for Europe focused funds (Exhibit 1). As we outlined in September, we see scope for additional growth in *global* private credit AUM. Within Europe specifically, we believe recent fiscal policy proposals and ambitions of a more robust Capital Markets Union could increase the addressable opportunity for private credit in the years ahead. Our conversations with investors also reflect a recognition of the potential benefits of geographical diversification, which may play a role in private credit's growth in other regions *alongside* North America.

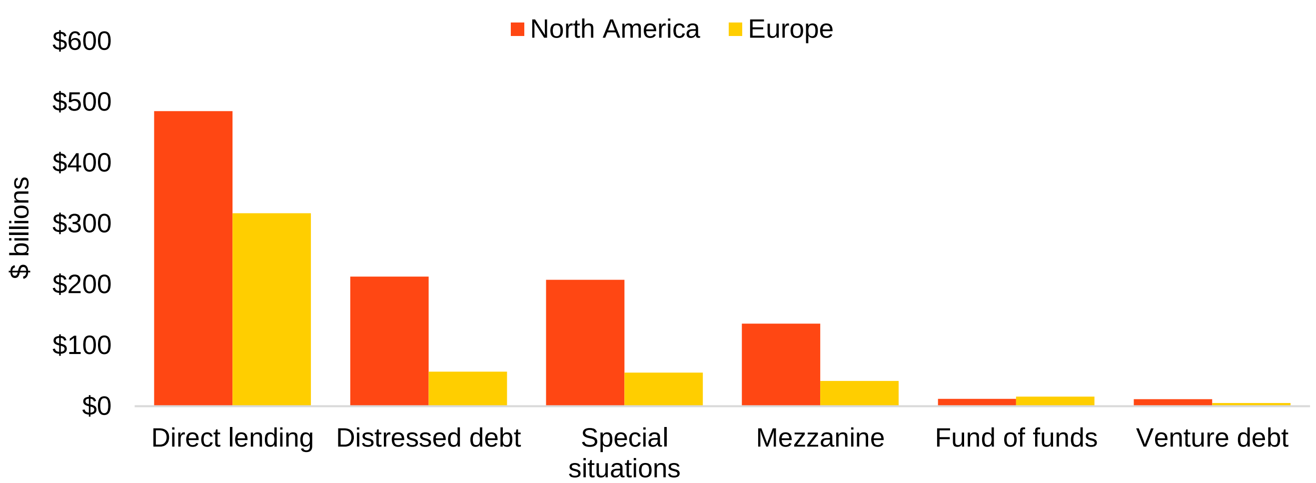
Notably, there is some variance in the strategy mix of private credit AUM between North America and Europe. While direct lending represents the largest strategy in both regions, as a share of total AUM (Exhibit 4) and in absolute terms (Exhibit 5), the skew towards direct lending is especially pronounced in Europe. Indeed, in North America, strategies away from direct lending represent more than half of AUM, vs. only 36% in Europe.

Exhibit 4: Direct lending represents 64% of European private credit AUM
Share of total private credit assets under management (including unrealized value and dry powder), by strategy, for North America and Europe



Source: Preqin, BlackRock. Assets under management includes unrealized value and dry powder. Direct lending includes senior debt, unitranche, blended/opportunistic, and junior/subordinated. Data as of September 30, 2024 (most recent available). Note: Does not include BDC AUM from Cliffwater.

Exhibit 5: A more granular look at the distribution of private credit strategies
North America and Europe private credit assets under management (including unrealized value and dry powder), by strategy ($ in billions)



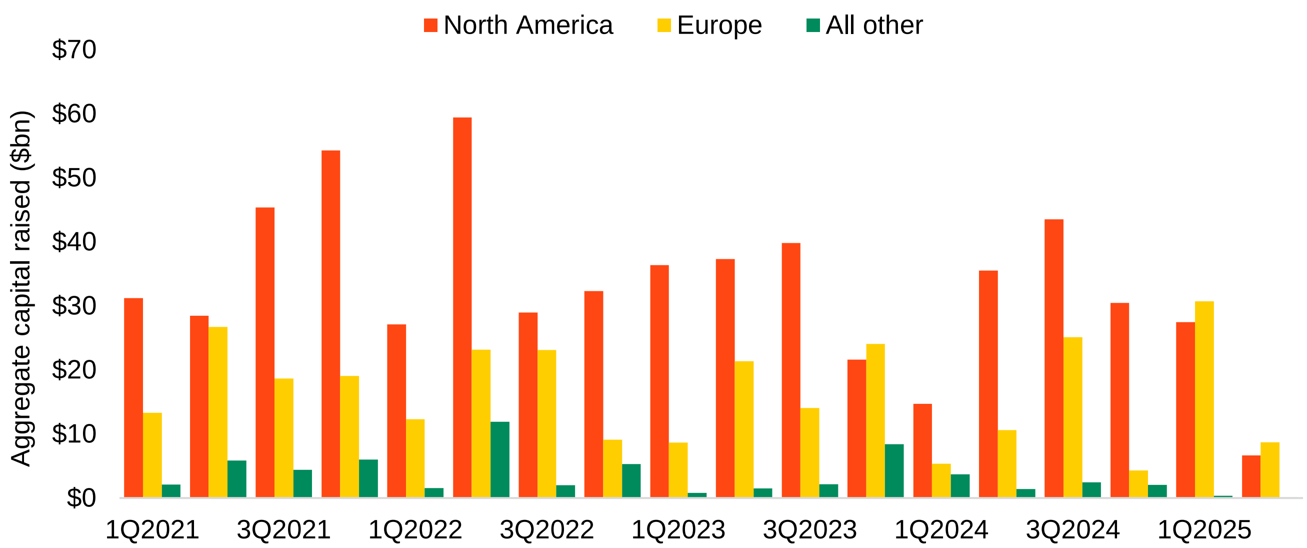
Source: Preqin, BlackRock. Assets under management includes unrealized value and dry powder. Direct lending includes senior debt, unitranche, blended/opportunistic, and junior/subordinated. Data as of September 30, 2024 (most recent available). Note: Does not include BDC AUM from Cliffwater.

Fundraising patterns across regions

1Q2025 global private credit fundraising was robust, totaling $59 billion and more than double the volume recorded for 1Q2024. Europe's private credit fundraising has outpaced North America so far this year (as of May 14, 2025), representing more than half of global fundraising volume (Exhibit 6). This marks a departure from the historical pattern, where North America has typically represented the largest share of fundraising.

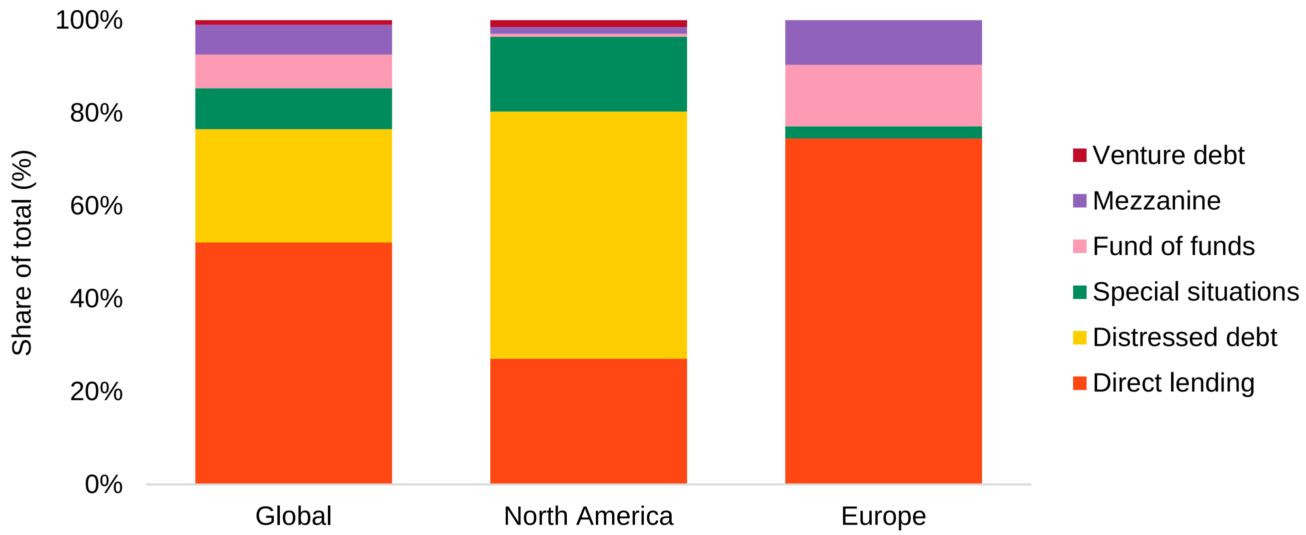
Consistent with the pattern we highlighted for overall AUM, direct lending represented the largest strategy within global private credit fundraising year-to-date, accounting for 52% of total capital raised. That said, the fundraising strategy mix has also varied across regions (Exhibit 7). While direct lending represented the largest share of fundraising in Europe, North America fundraising skewed towards distressed debt (again, Exhibit 7). Importantly, volumes in both Europe and North America were somewhat skewed by large fund closes during 1Q2025.

Exhibit 6: Europe's private credit fundraising has modestly outpaced North America this year
Quarterly aggregate capital raised, $ in billions, for funds focused on North America, Europe, and "All other"



Source: Preqin, BlackRock. 2Q2025 is as of May 14, 2025. "All other" includes Asia, Latin America / Caribbean, Africa, Australia / New Zealand, Middle East & Israel, and Diversified / Multi-Regional.

Exhibit 7: Direct lending represented roughly half of YTD global private credit fundraising
Share of year-to-date fundraising by private credit strategies, globally and by select regions



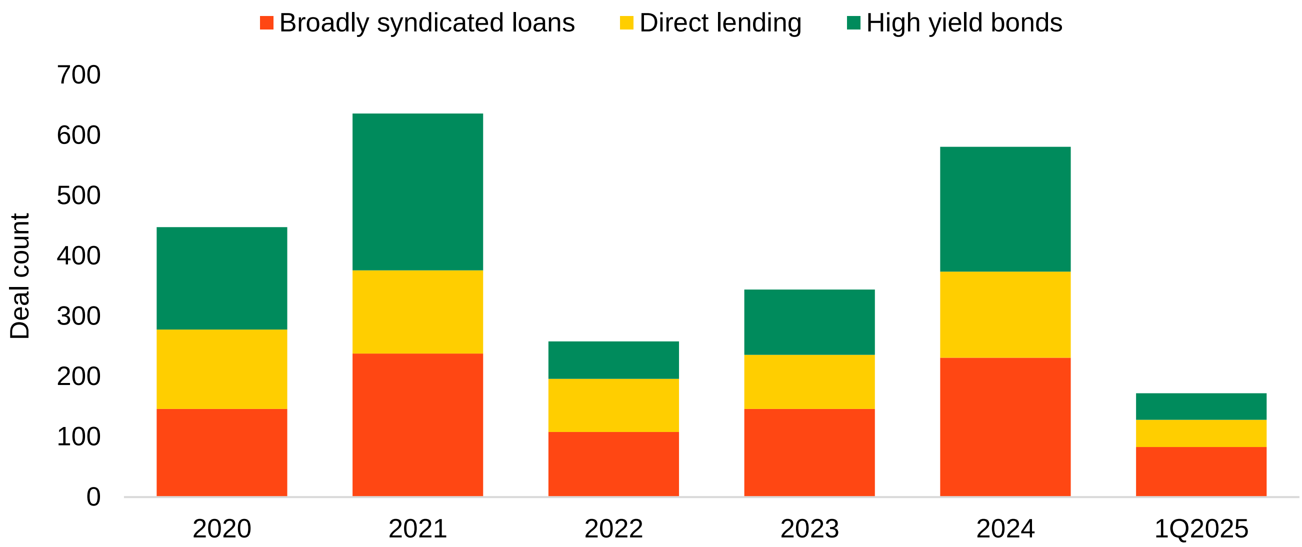
Source: Preqin, BlackRock. YTD fundraising volumes are as of May 14, 2025. Europe and North America private credit fundraising volumes are somewhat skewed due to large fund closes in the first quarter of 2025 (a direct lending fund in Europe, and a distressed debt fund in North America).

We expect the addressable market of borrowers to expand

On an absolute basis, the number of European direct lending deals reached new back-to-back records in 4Q2024 ad 1Q2025 – of 44 and 45, respectively – per Pitchbook LCD. On a relative basis, however, the share of European direct lending activity has been stable when considered against transactions in Europe's broadly syndicated leveraged loan and high yield bond markets. Indeed, the share of direct lending deals, vs. syndicated markets has remained range bound at 25-26% of total deal count from 2023 to 1Q2025.

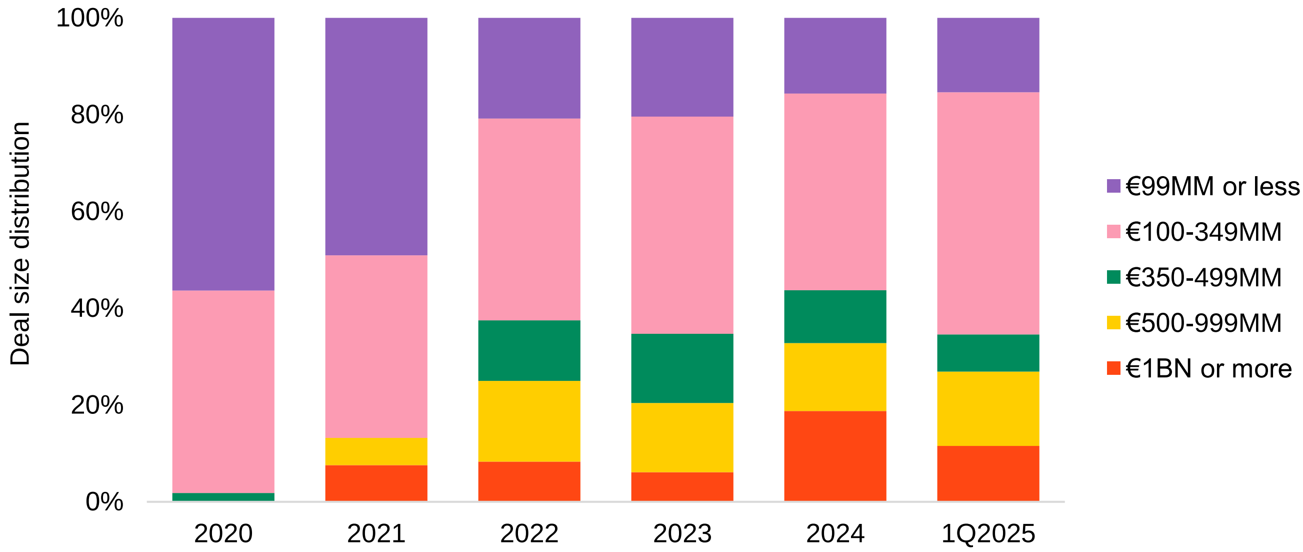
As Europe's private credit market continues to grow, however, we expect its addressable market of borrowers will expand to reach areas it previously couldn't. This may include some larger firms which have historically financed themselves in the liquid credit markets. This pattern is captured in Exhibit 9, which shows the deal size distribution of European private credit transactions. Recent years have featured larger deal sizes, which we believe is a direct reflection of an expanding addressable market of borrowers.

Exhibit 8: European direct lending deals reached a new quarterly record high of 45 in 1Q2025
Total number of deals financed in the European broadly syndicated loan, direct lending, and high yield bond markets



Source: Pitchbook LCD, BlackRock. Captures data through March 31, 2025. Direct lending count is based on deals covered by LCD News.

Exhibit 9: Larger European private credit deals have become more common in recent years
Deal size distribution of European direct lending deals, by count



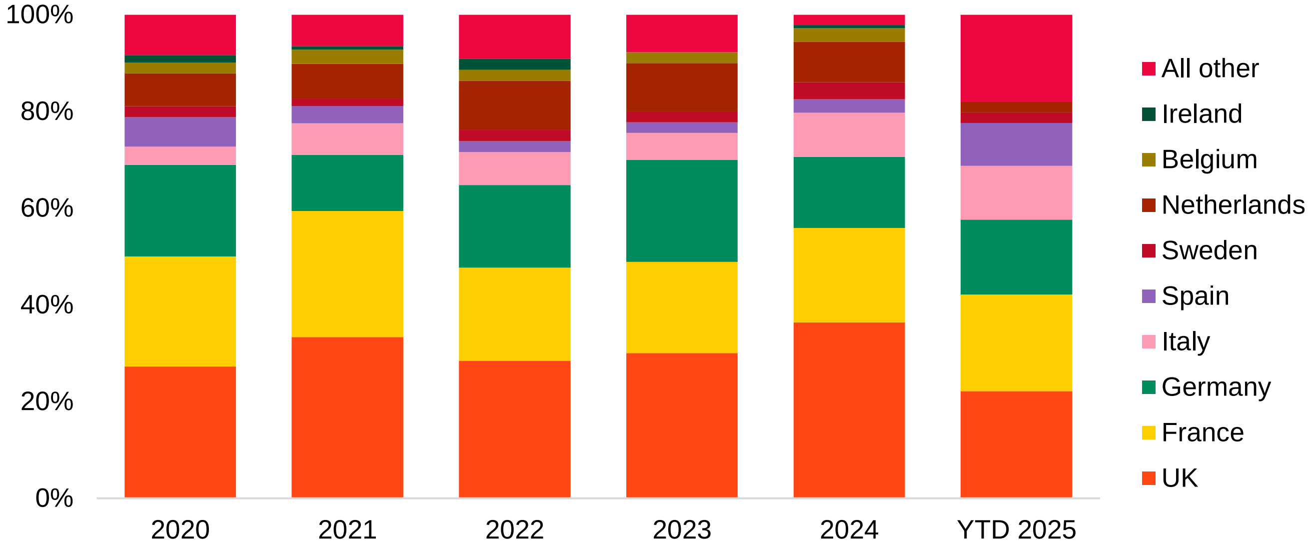
Source: Pitchbook LCD, BlackRock. Captures data through March 31, 2025. Analysis based on transactions covered by LCD News; share calculated based on deals where size information is disclosed.

Not 'one size fits all'

The European private credit market cannot be painted with a broad brush, however. The most prominent reason for this lies in the heterogeneous mix of country exposures across the market (Exhibit 10) – each of which carry their own nuances and competitive landscapes. This underscores the importance of regional expertise, in our view.

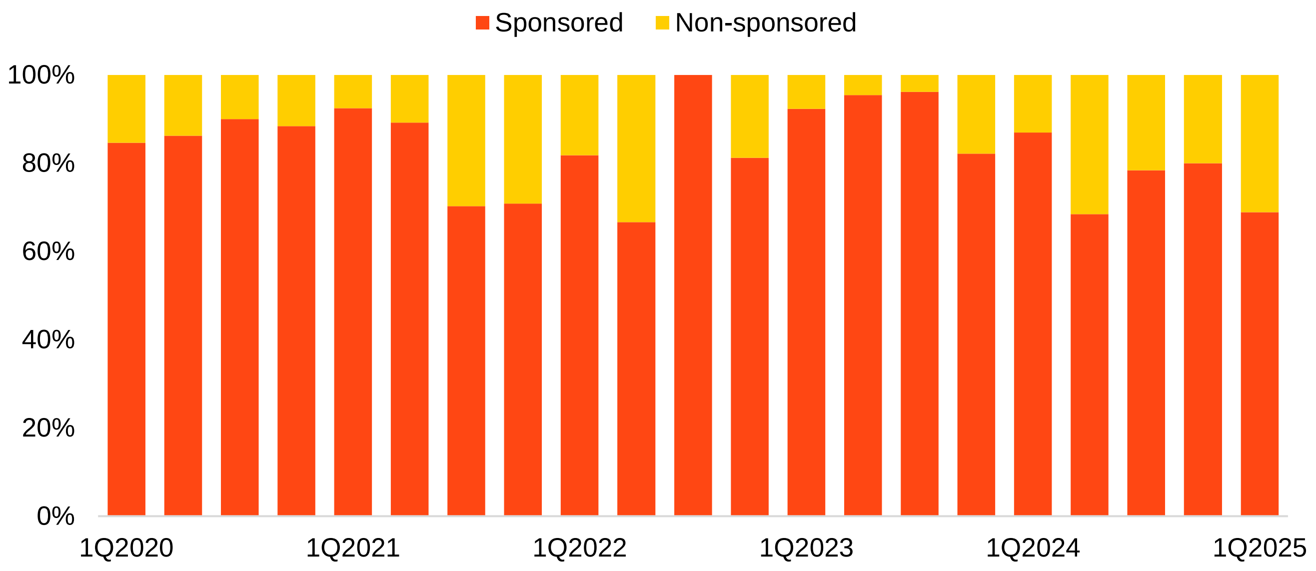
Furthermore, the market is also bifurcated across sponsor vs. non-sponsored transactions. Indeed, nearly 70% of the European private credit deals were sponsor-related in 1Q2025. While private equity dry powder is most heavily concentrated in North America (55% of total), 19% of the sizable $2.8 trillion total is located in Europe, which could further support sponsor-related transactions over time.

Exhibit 10: The broad term of 'European private credit' includes a wide range of country exposures
European direct lending deal share, by country



Source: Pitchbook LCD, BlackRock. Captures data through March 31, 2025. Analysis based on transactions covered by LCD News; share is by deal count.

Exhibit 11: Nearly 70% of European private credit deals were sponsor-backed in 1Q2025
Share of European private credit deals, by ownership type and count



Source: Pitchbook LCD, BlackRock. Captures data through March 31, 2025. Direct lending count is based on deals covered by LCD News.

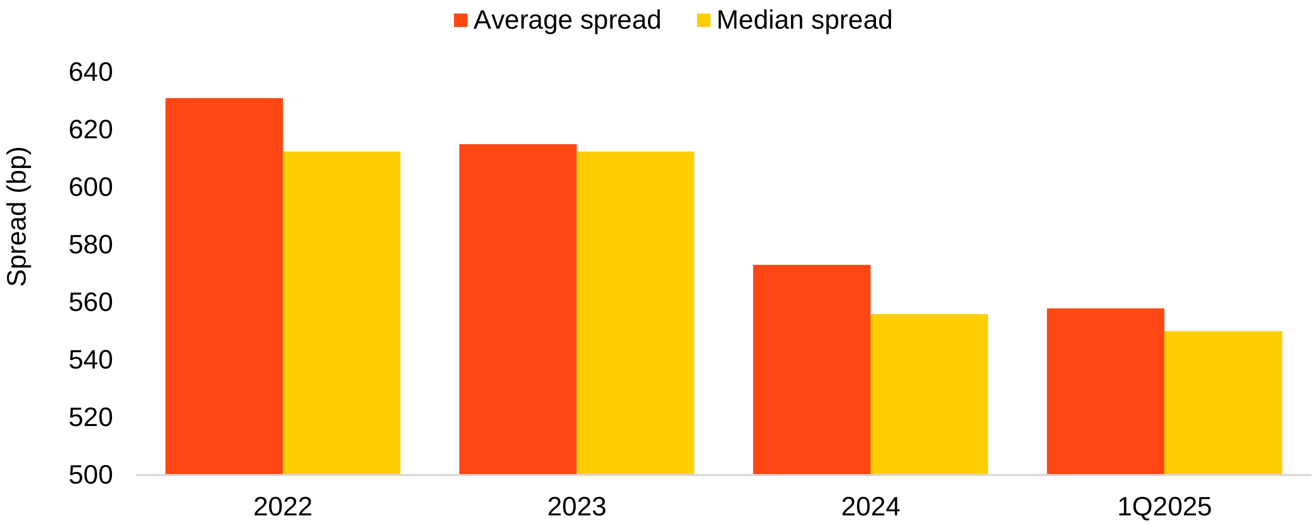
Taking stock of pricing trends

Pricing between the U.S. and European private credit markets can vary based on a variety of factors, in our view, including regional macroeconomic conditions, sector trends, relevant base rates, and availability of capital in other available credit financing markets.

Data from KBRA DLD demonstrates how spreads for private credit unitranche loans have varied over time, and across regions (Exhibit 13). Notably, spreads have tightened across the U.S. and Europe, reaching their tightest levels in 1Q2025 since the KBRA DLD dataset began in 1Q2023. That said, European unitranche loans have historically offered a spread 'pick up' compared to U.S. unitranche loans.

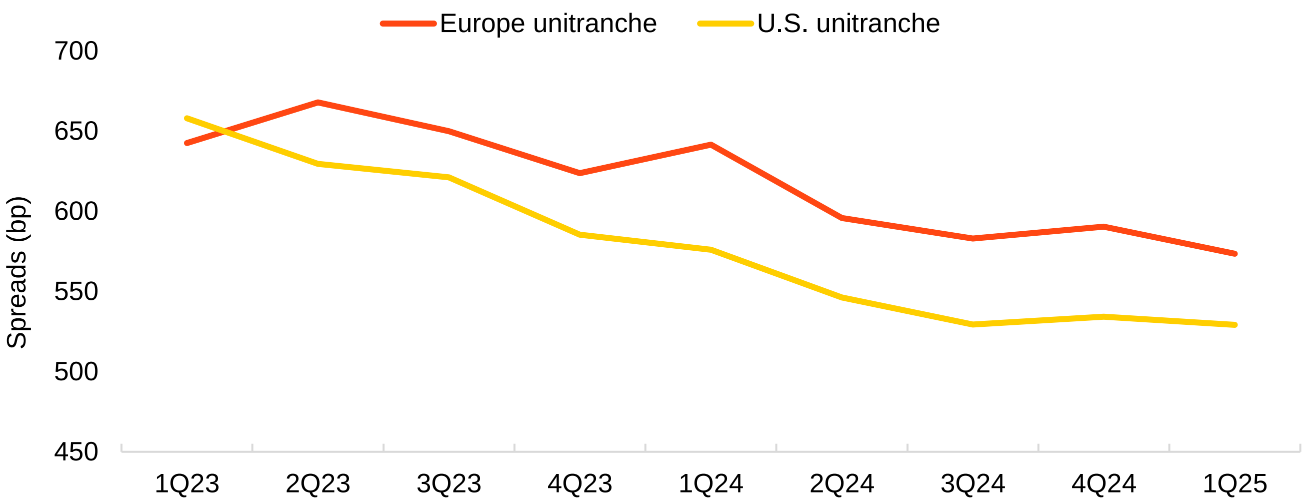
Middle market collateralized loan obligations (CLOs), or private credit CLOs, are also a more meaningful buyer base in the U.S. private credit market vs. in Europe. For context, from June 2024 to May 12, 2025, there was an aggregate of $36 billion in new issue activity for U.S. middle market CLOs, per Pitchbook LCD. By contrast, the first European middle market CLO priced only recently. While nascent, we see scope for future growth in the European private credit buyer base as these structures become more common.

Exhibit 12: Spreads for new European private credit deals have tightened since 2022
European direct lending average spreads



Source: Pitchbook LCD, BlackRock. Captures data through March 31, 2025. Analysis based on transactions covered by LCD News. Includes 1st lien and unitranche deals.

Exhibit 13: European unitranche deals offer a spread 'pick up' vs. the U.S. market
Unitranche spreads across regions, in basis points



Source: KBRA DLD Research, BlackRock. Comprised of 1st lien term loans. Unitranche is based on leverage: greater than 4.0x for an all-senior structure in Europe, and 4.5x in the U.S. As of March 31, 2025 (most recent available as of May 13, 2025).

Unless otherwise stated, all reference to $ are in USD.

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Cliffwater Direct Lending Index (CDLI) is an index that assists investors to better understand private credit as an asset class. The CDLI seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. Eligibility is set as all assets held by BDCs that (1) are regulated by the SEC as a BDC under the Investment Company Act of 1940; (2) have a substantial majority (approximately 75%) of reported total assets represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater's discretion, and (3) file SEC form 10-Q (or 10-K, as applicable) within 75 (or 90) calendar days following the current Valuation Date. If a BDC meets the eligibility criteria, but has not filed its report on Form 10-K or 10-Q with the SEC at the time the index is reconstituted, asset information from its report will be included in the index at the time of the next reconstitution. This information is derived from sources that are considered reliable, but BlackRock does not guarantee the veracity, currency, completeness or accuracy of this information.

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