Top Ten Myths About Private Credit (Second of a Series)

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Responding to last week's discussion of the relationship between age and happiness [link], several readers asked what country has the happiest residents?

According to the World Happiness Report [link], Finland topped the list of 156 countries. The US was 19th, and South Sudan as the least cheerful place to live.

Finland is perhaps a surprising outcome, since it is also known for high depression rates and long, dark winters. But digging into the details, Finns benefit from a strong social safety net, a healthy community awareness, and excellent public services.

Going beyond headlines is also critical to understand the nuances of private credit nuances. Media articles suggest market conditions are changing. Does this mean the fundamental benefits of private credit have changed?

Myth #1: "Private credit is a crowded space."

Fact: Investor capital into private credit is dwarfed by bank capacity exiting it.

In 1994, per S&P/LCD, 72% of leverage loans were held by banks; today, it's 15%. Assuming a 2.3% share decline annually, on an average $500 billion universe (it's $1.2 trillion today), that's a $4.3 trillion cumulative exit over 25 years.

See our *Chart of the Week* for private capital assets under management. Private debt, according to Preqin's numbers, is $805 billion of the total. Even assuming robust new fundraising, that's still a sizeable gap versus bank loan share loss.

Fact: For every $1 of private credit dry powder, there are $4 of PE dry powder.

Yes, private credit managers have been busy fundraising, but most of those dollars are being invested in direct lending opportunities. Preqin data shows less than $100 billion of private credit dry powder available for $438 billion of sponsor dry powder.

Fact: "Private credit" covers multiple strategies, not just sponsor-focused lenders.

These include higher-yielding, higher-risk arenas in venture, distressed and special situations, as well as esoteric financings in aircraft, litigation, royalties. (And asset-based lending, as our PDI partner content below illustrates).

PE shops look to a limited club of relationship providers with capacity for their credit needs. As these "haves" grow in scale, smaller "have-nots" are being shut out of deal flow.

The result? The number of relevant private credit providers is shrinking, not growing.

? Next week: Myth #2: “Private credit is the next market bubble.”