

# 2026 European Private Credit Outlook

February 2026



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# Introduction

## 2025 reinforced the structural case for European private credit

European private credit has expanded considerably in the past decade and today encompasses a wide range of asset types and investment strategies, each with distinct risk-return characteristics. Globally, the asset class is expected to grow further in the coming years with assets under management (AUM) forecast to reach over \$4-5tn by 2030<sup>1</sup>.

European private credit enters 2026 on a strong footing, following the continued growth of the market throughout 2025, despite the year having been punctuated by periods of elevated political and market volatility.

Renewed trade tensions, heightened policy uncertainty in the United States and persistent global instability created a challenging backdrop for investors generally. Despite this, we have observed European private credit demonstrating resilience, as has consistently been the case through several periods of headwinds in recent years, reinforcing the asset class's role as a key component of investor portfolios.

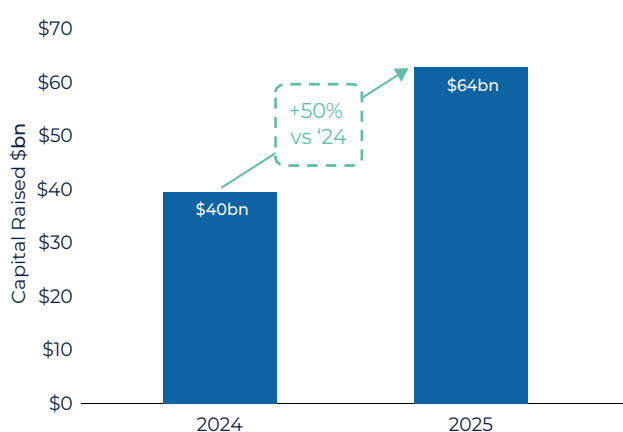
At the macroeconomic level, GDP growth, stable inflation and falling interest rates across Europe created relatively benign conditions for credit. While economic growth remained modest, both M&A and private equity backed middle-market activity increased<sup>2</sup>. Europe's comparatively predictable policy and stable political environment further reinforced its appeal.

As we saw during 2025, one important driver of this resilience is the structural profile of European private credit's core borrower base. Whilst the private credit ecosystem is varied, direct lending to middle-market businesses represents the largest segment of the market.

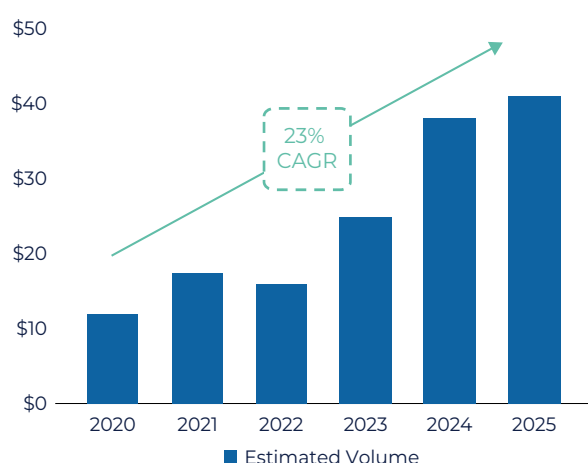
These companies typically operate in local markets, have largely domestic revenue profiles and tend to be operationally relatively asset-light – thus limiting exposure to US tariffs and complex global supply chains. This structural insulation proved particularly valuable in a year characterised by external shocks.

As a result, we have observed that the impact of tariffs and trade-related disruption on borrower performance was largely muted – and in fact contributed to the enhanced relative attractiveness of Europe, with total fundraising volumes across European private credit strategies rising by more than 50% compared to 2024<sup>3</sup>.

European private capital fundraising<sup>1</sup>



European direct lending activity<sup>4</sup>



Against this backdrop, European private credit deal activity continued on its multi-year growth trajectory. Alongside growing fundraising volumes, capital deployment and deal volumes also increased, supported by robust private equity activity. We continued to see an expanding role for private credit in sponsor financing, with private credit now firmly established as a reliable and flexible source of capital across market conditions – resulting in access to a consistent pipeline of investment opportunities across Europe.

1 Preqin, Global Private Debt Report December 2025

2 Pitchbook Q4 European Credit Markets Quarterly Wrap

3 Preqin, Historical Fundraising data, December 2025

4 Source: PitchBook | LCD · Data through Dec. 31, 2025. Deal count is based on transactions covered by LCD News

# Four key themes for 2026

Looking ahead, we believe 2026 offers attractive conditions for European private credit, underpinned by a robust investment environment and a supportive – though still unpredictable – macroeconomic backdrop. We have included below a discussion of the four key themes we expect to observe in 2026:

## 1 Opportunities in European Private Credit remain attractive in 2026

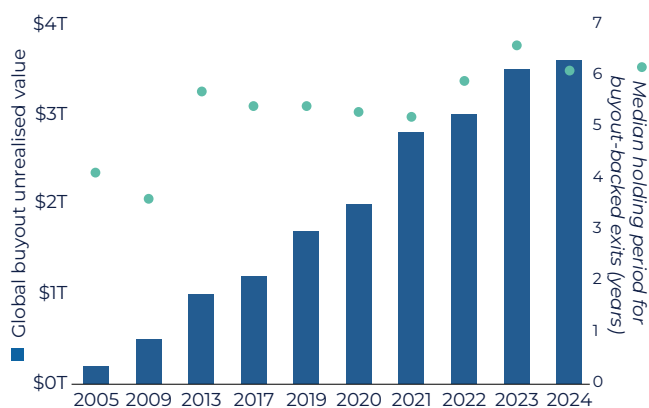
Private credit remains closely aligned to middle-market buyout activity, and benefits from a long-term supply of potential investment opportunities arising from the significant dry-powder that private equity sponsors need to deploy on behalf of their investors. Sponsor demand for certainty of execution, flexibility, partnership and speed continues to grow and private credit now features prominently in sponsor financing discussions at the outset of transactions.

The wide-spread adoption by private equity sponsors has been driven in the first instance by supporting primary buyout activity. However, as the market has matured, private credit has played an increasingly important role in other transaction types such as bolt-on acquisitions and refinancings. In our view, what is key for investors to note is that the private credit investment environment is not solely reliant on a buoyant buyout market, and in fact now remains active across cycles.

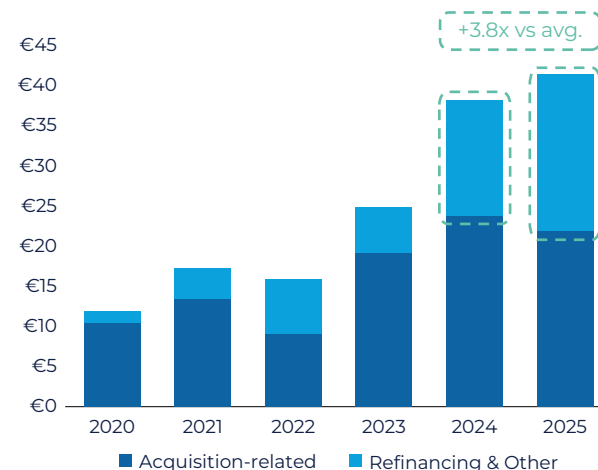
Market data indicates that private equity sponsors are currently sitting on around 5x more dry powder than their private credit counterparts – offering a clear avenue for future deployment<sup>5</sup>. In addition to needing to deploy this capital for their investors, sponsors are also facing the challenge of managing portfolio assets as hold periods remain significantly above long-term averages. While exit activity has begun to recover, a substantial backlog of unrealised value remains across sponsor portfolios.

With approximately \$3.6tn of unrealised value remaining in global buyout portfolios<sup>6</sup>, we expect private equity sponsors will continue to seek creative solutions for financing existing portfolio assets – presenting a clear opportunity for private credit. Working through this backlog will take time but we are hopeful of seeing the beginning of a new private equity cycle which we believe will create sustained transaction activity in 2026 and beyond – with a pick-up in exit activity also expected to benefit private equity fundraising efforts.

Buyout hold periods & unrealised value<sup>6</sup>



Direct lending deal purpose<sup>7</sup>



In addition to primary deal origination, a significant opportunity exists in supporting sponsors in providing additional capital to existing portfolio assets – and we note that in many cases managers are electing to retain ownership of their best performing assets for longer. Private credit managers with a broad existing portfolio benefit from preferred incumbency access to these companies and their sponsors, providing the potential for a meaningful and repeatable source of potential deployment. Further, upcoming maturity walls across credit markets reinforce this dynamic, adding to a perpetual refinancing pipeline for established lenders operating across the risk-return spectrum.

<sup>5</sup> Source: Preqin. Data downloaded December 2025.

<sup>6</sup> Bain & Co, Private Equity Outlook 2025

<sup>7</sup> Source: PitchBook | LCD · Data through Dec. 31, 2025. Deal count is based on transactions covered by LCD News

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During 2025, the significant CLO issuance and leveraged loan and high yield market activity resulted in some price compression in spreads and fees following a period where these public markets were either closed to new issuance or highly restricted during the worst effects of the Russia/Ukraine War. The private credit mid-market was somewhat insulated from this compression at the large cap level, with average all-in yields during 2025 remaining attractive at 9-10%<sup>8</sup>. We expect these levels of pricing to remain fairly constant during 2026<sup>9</sup>.

From a macroeconomic perspective, we note that European fundamentals remain supportive, even as geopolitical uncertainty remains elevated. The accelerating adoption of artificial intelligence is creating productivity opportunities across many sectors, while posing structural challenges for others. This environment reinforces the appeal of private credit’s contractual, income-focused return profile and its emphasis on downside protection.

## 2 Size and scale: manager selection comes to the fore in a maturing market

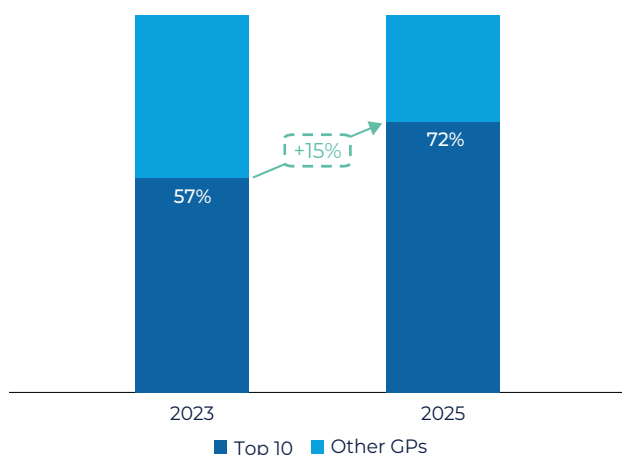
As the European private credit market continues to grow and mature, manager selection is becoming an increasingly important consideration for investors. Headline performance remains paramount; however, investment outcomes are also shaped by a range of factors.

Stringent credit discipline, the ability to deliver diversified portfolio construction and robust risk management are areas that investors will continue to place emphasis. Conservative underwriting standards, embedded downside protection and active monitoring are critical to preserving capital, particularly as the market navigates structural and technological changes, along with ongoing geopolitical uncertainty.

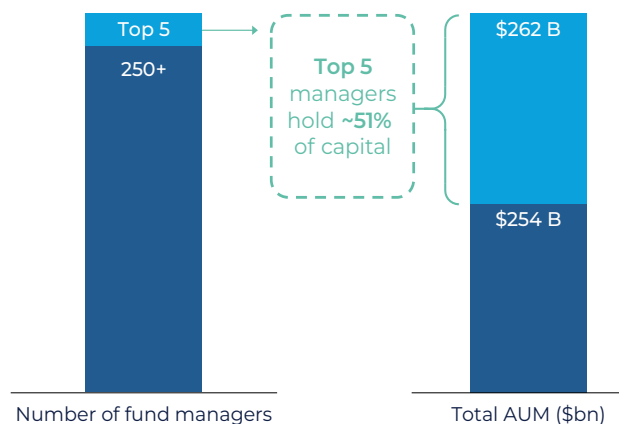
The ability to deploy capital consistently through cycles has also emerged as a key differentiator. Deployment discipline – namely investing in a consistent manner across market conditions – supports portfolio diversification and helps to mitigate vintage concentration risk.

Managers with established sourcing networks and deep sponsor relationships are better positioned to maintain this consistency and are increasingly taking market share in terms of capital deployment. Further, as discussed in section 1, managers with large and diversified existing portfolios benefit from an additional proprietary deployment advantages via access to their existing assets.

European Private Credit manager deployment bifurcation<sup>10</sup>



European manager size bifurcation<sup>11</sup>



<sup>8</sup> Kroll StepStone Private Credit Outstanding Issues Monitor, data accessed 29 January 2026. Yield information does not take into account the impact of fees and expenses that will be experienced by investors in private credit

<sup>9</sup> This expectation is based on a number assumption and actual pricing in the market may differ materially from this expectation

<sup>10</sup> AlixPartners’ Mid-Market Debt Report, September 2025.

<sup>11</sup> Preqin data downloaded November 2025.

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In our view it is clear that LPs are in turn continuing to commit to fewer, proven managers. In the first half of 2025, experienced private credit managers raised 95% of capital dedicated to the asset class globally and accounted for 78% of the number of closed funds (up from just 77% and 54%, respectively in 2015), while median fund sizes have almost doubled since 2022<sup>12</sup>.

Size and scale continue to play an important enabling role for managers, with investors continuing to grow allocations to the most established players in the market. Larger platforms typically benefit from broader deal access and deeper resources across investment teams, underscoring their ability to construct diversified portfolios across geographies, sectors and sponsors. Scale also supports managers' ability to deliver broad product access and manage complexity to meet evolving investor needs across different structures and risk profiles.

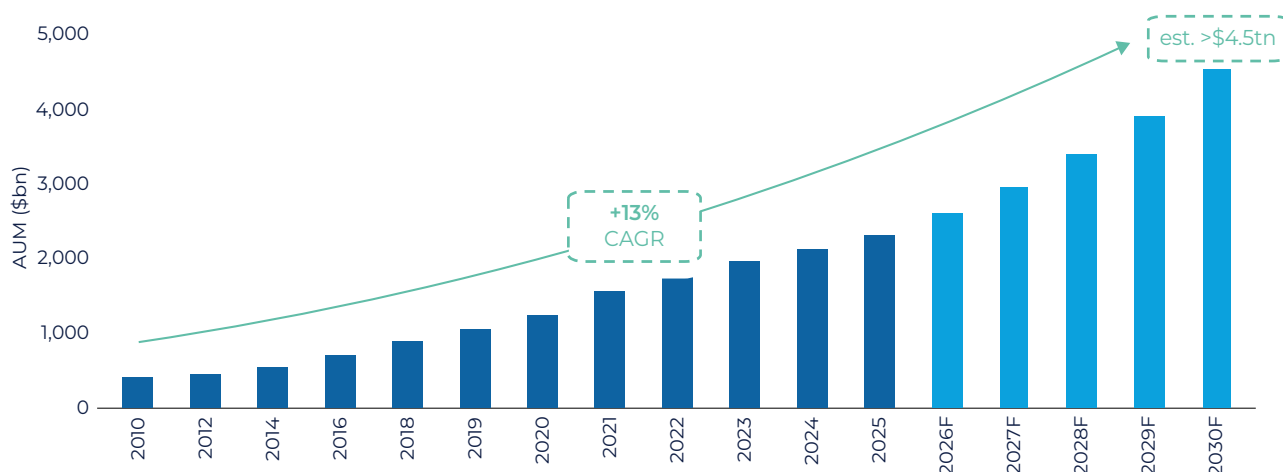
As private credit becomes more embedded within the financing ecosystem, Arcmont's experience has shown that sponsors increasingly prefer to work with lenders they trust to deliver across market conditions. Investors, in turn, are concentrating commitments with managers that have demonstrated an ability to navigate complexity and deliver consistent outcomes – a theme we expect to continue throughout 2026.

### 3 Private credit is now a perennial allocation for investors

Private credit is now firmly established as a fixture within institutional portfolios, as investors have continued to pivot strategic asset allocation profiles away from traditional “60-40” public equity and fixed income portfolios<sup>13</sup>. The rationale for investing in the asset class is well understood and broadly accepted across the institutional community that has been the cornerstone of the growth of the industry – whilst adoption via non-institutional channels continues to gather momentum.

Consistent double-digit expansion over more than a decade has resulted in private credit transforming from a niche investment strategy to a ubiquitous feature of many investor portfolios. With the market projected to increase to approximately \$4.5 trillion globally by 2030, it is clear that whilst already well-established, significant runway exists for the asset class to grow further.

Private credit 2030 growth forecast<sup>14</sup>



<sup>12</sup> PitchBook, H1 2025 Global Private Debt Report. Experienced managers defined as those that have raised more than three funds.

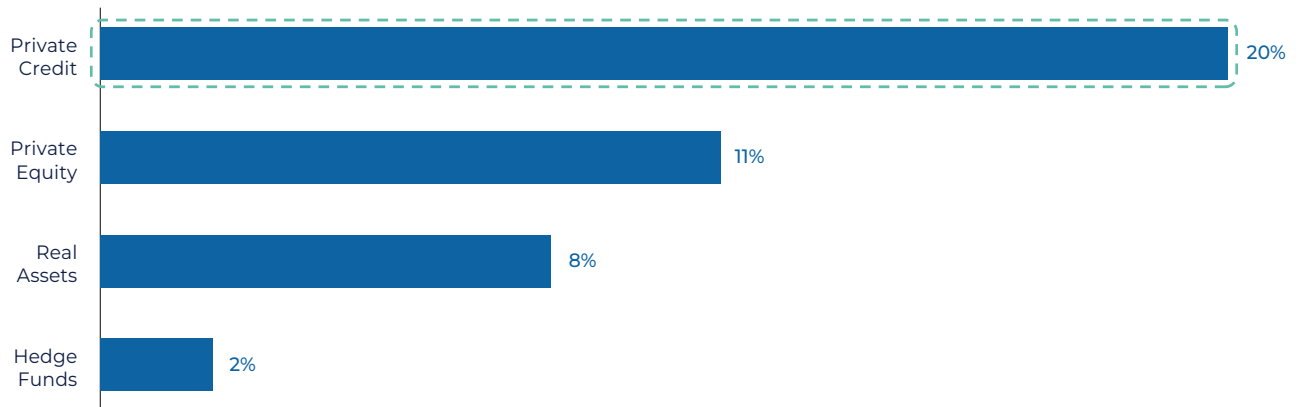
<sup>13</sup> CFA Institute Research & Policy Center. The Performance of the 60/40 Portfolio: A Historical Perspective

<sup>14</sup> Preqin Private Credit in 2026 Report

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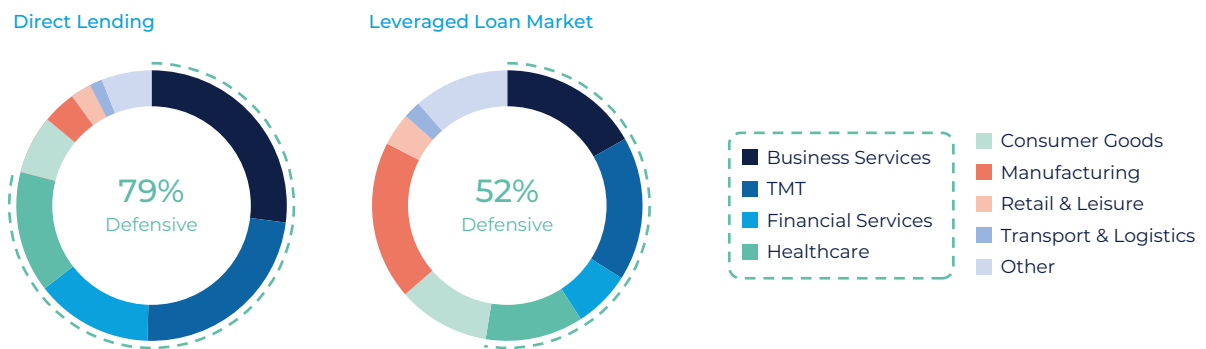
Total institutional investor allocations to private credit have grown by around 20% over the last decade, significantly ahead of other private markets asset classes. With almost 90% of respondents to Preqin’s recent investor intentions survey indicating a preference to either maintain or increase their private credit allocations, we expect to see continued demand underpinning the next leg of growth in the coming years<sup>15</sup>.

LP allocation growth since 2015<sup>16</sup>



Crucially, private credit offers the potential for attractive risk-adjusted returns, with capital preservation and income generation central to the attractiveness of the investment proposition. All-in yields remain attractive for investors as private credit continues to offer a pricing premium over comparable public markets<sup>17</sup>. Further, private credit portfolios tend to be more orientated towards defensive sectors than those in the public markets, providing further downside protection should economic conditions deteriorate.

Direct Lending vs Leveraged Loan Market Underlying Industries<sup>18</sup>



Beyond return characteristics, private credit managers’ typically offer a high degree of engagement and access. Transparency into portfolio composition, borrower performance and risk exposures supports informed decision-making and long-term partnerships between investors and managers.

As a result, we see investor attention has increasingly shifted away from *whether* to allocate to private credit, towards *how best* to implement that allocation in 2026 and beyond.

<sup>15</sup> Preqin Global Report: Private Credit in 2026

<sup>16</sup> Source: Cliffwater, June 2015-June 2024. Data represents growth rate of allocations

<sup>17</sup> Source: Q3 2025 Lincoln Senior Debt Index, published November 2025. European Yield premium statement is in reference to the comparison of the Lincoln – EU Senior Direct Lending Index and the Morningstar European Leveraged Loan index all-in yield.

<sup>18</sup> Leveraged Loan: LCD Research – S&P Global Market Intelligence, S&P European Leveraged Loan Index components as of December 2025 – sector categorisation through Arcmont internal analysis; Direct Lending: Deloitte Alternative Lender Deal Tracker – Autumn 2025. Defensive sectors are determined by Arcmont’s own assessment and is produced using a number of subjective judgements and using different judgements may alter the output data materially.

# Four key themes for 2026

## 4 The private credit ecosystem will continue to evolve

The European private credit market is now far from monolithic and whilst it is the largest single segment, the market is no longer defined solely by direct lending<sup>19</sup>.

While direct lending remains the foundation of the asset class, the opportunity set continues to broaden in response to increasingly complex sponsor, borrower and investor needs.

We see the addressable market for large, well-resourced private credit managers continuing to expand into emerging segments.

Special situations and capital solutions strategies are playing a growing role, providing tailored financing for situations that fall outside traditional lending parameters. As outlined above, an exit backlog currently exists, and sponsors are likely to focus on realising their strongest portfolio companies first. That potentially leaves a long tail of companies that have been held in portfolios for several years but are not yet ready for exit – for these, sponsors will likely need access to creative refinancing solutions in order to meet challenges posed by maturing debt.

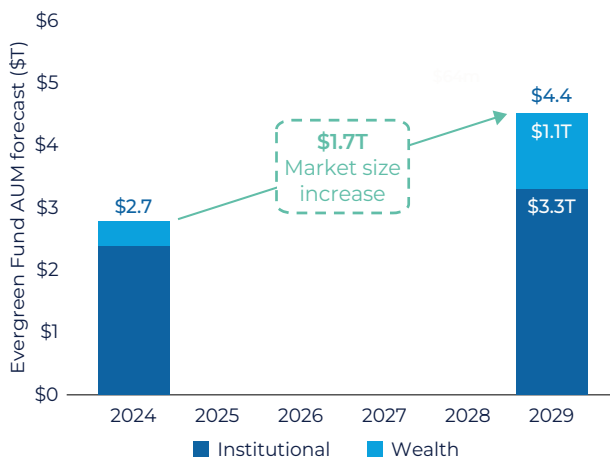
European private credit is also now starting to meet the growing demand for impact investment. Impact is moving into the mainstream: reaching \$1.57tn, global impact investing AUM grew three-fold between 2018 2024<sup>20</sup>. Yet until recently, there was a gap in the European market for scaled private credit impact strategies with a risk-return profile comparable to direct lending; impact strategies have tended to focus on niche areas, with funds correspondingly on the smaller side. We see significant opportunity in this fast-growing segment of private credit.

NAV financing continues to expand, offering sponsors the opportunity to access flexible capital at both the fund and management company level to support add-on acquisitions, refinancing and liquidity management. As familiarity with these structures grows among both GPs and LPs, adoption is expected to continue.

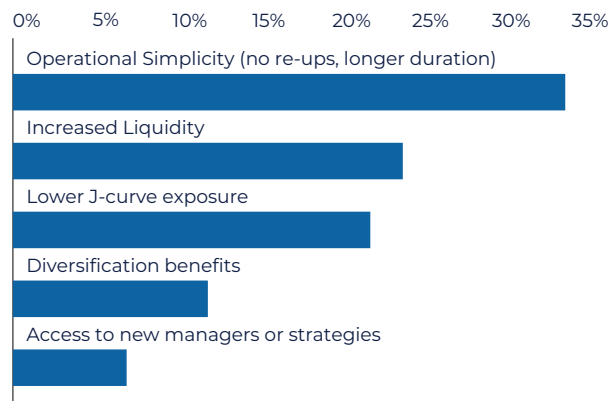
Alongside these areas, investor interest is expanding into asset-backed strategies, secondaries and junior capital, further broadening the private credit landscape and offering the potential for differentiated risk-return profiles.

At the same time, the wealth channel continues to grow. The development of evergreen and semi-liquid structures is expanding access to private credit for a broader investor base – with projections suggesting c.20% compounded annual growth through 2030.

Evergreen channel growth<sup>21</sup>



Investor allocations motivation survey<sup>22</sup>



19 Preqin, Global Private Debt Report December 2025  
 20 GIIN, Sizing the Impact Investing Market 2024  
 21 Source: Pitchbook, 2029 Private Market Horizons Report  
 22 Source: Private Debt Investor 2026 Perspectives study

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The development and growth of these vehicles is a natural response to institutional and individual investor demand for more straightforward access routes to private markets. They remove the need for re-ups and drawdowns, provide faster exposure to investment, and can offer an element of liquidity as well as the potential for lower investment minimums. While these vehicles offer clear benefits in terms of access and simplicity, they also raise the bar for operational capability, governance and transparency.

Taken together, these developments reflect a maturing and increasingly sophisticated ecosystem, with private credit continuing to expand its role within European financing markets.

### Conclusion

European private credit enters 2026 with strong momentum. The asset class has demonstrated resilience through periods of heightened volatility, benefited from Europe's relative macroeconomic stability and continued to build on a multi-year growth trajectory. At the same time, the market is becoming more mature, and diverse, whilst investors seek to be more selective as the competitive landscape continues to evolve.

Attractive investment conditions, a durable deployment pipeline and the structural appeal of private credit as an established allocation underpin the outlook. Outcomes, however, will increasingly be shaped by manager quality, discipline and the ability to navigate an evolving ecosystem.

We expect these dynamics to define the next phase of growth for European private credit.





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