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H1 2026

GLOBAL Private Debt Report

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Contents

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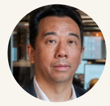

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Key takeaways

- Global institutional private debt AUM shrank to under $2 trillion for 2025; dry powder is declining, and NAV has not increased by a commensurate amount.

- Throughout 2025 and early 2026, retail investors and insurers contributed to AUM at breakneck speed, increasing their investment in the asset class by 43.7% globally, 41.4% in the US, and 73.1% in Europe. But with disruption to private debt markets this year, and full-year 2026 data is likely to tell a different story.

- Fundraising in 2026 is up YoY globally and in the US, although H2 could change this, and generally, fundraising has declined since the last cyclical peak of 2021. European fundraising is looking more challenged, running at only 41% of the total raised in 2025.

- Although fundraising is up, fund count is lower YoY, as capital is concentrating—with megafunds continuing to prove popular as investors seek experience, with sizes of $5 billion or larger comprising 56.9% of funds raised globally in 2026 through H1.

- Direct lending remains the dominant strategy for fundraising, at 53.7% of funds YTD in Europe, 43.6% in the US, and 43.8% globally.

- Private debt returns for most asset classes in 2025 are showing a decline compared with 2024 levels. Interest rate cuts are part of this story, but the drivers vary by debt strategy, with the most common explanation being spread compression due to crowded debt strategies, such as direct lending.

OVERVIEW

Global debt AUM shrinks; fundraising dominated by mega-players

The global private debt market has become more challenging since PitchBook last published its Global Private Debt Report in March, particularly in the direct lending subset. Overall, PitchBook's global debt fundraising data looks optimistic, with a 33.7% increase globally. However, this fundraising is concentrated in larger funds, with fund count down 34.6%. In addition, the fundraising picture is likely to be more nuanced by the end of 2026, with certain strategies benefiting from the higher interest rate environment, while others may lose favor.

Nervousness around AI-related risks and a public market selloff filtered into the private credit market in February, resulting in high-profile share sales of publicly traded business development companies (BDCs), as well as a flurry of redemption requests from investors in nontraded entities. Declining spreads in the second half of 2025 and rising credit risk concerns—a prevalence of payment-in-kind loans in 2025 and rising nonaccrual rates—exacerbated the flight away from private credit.

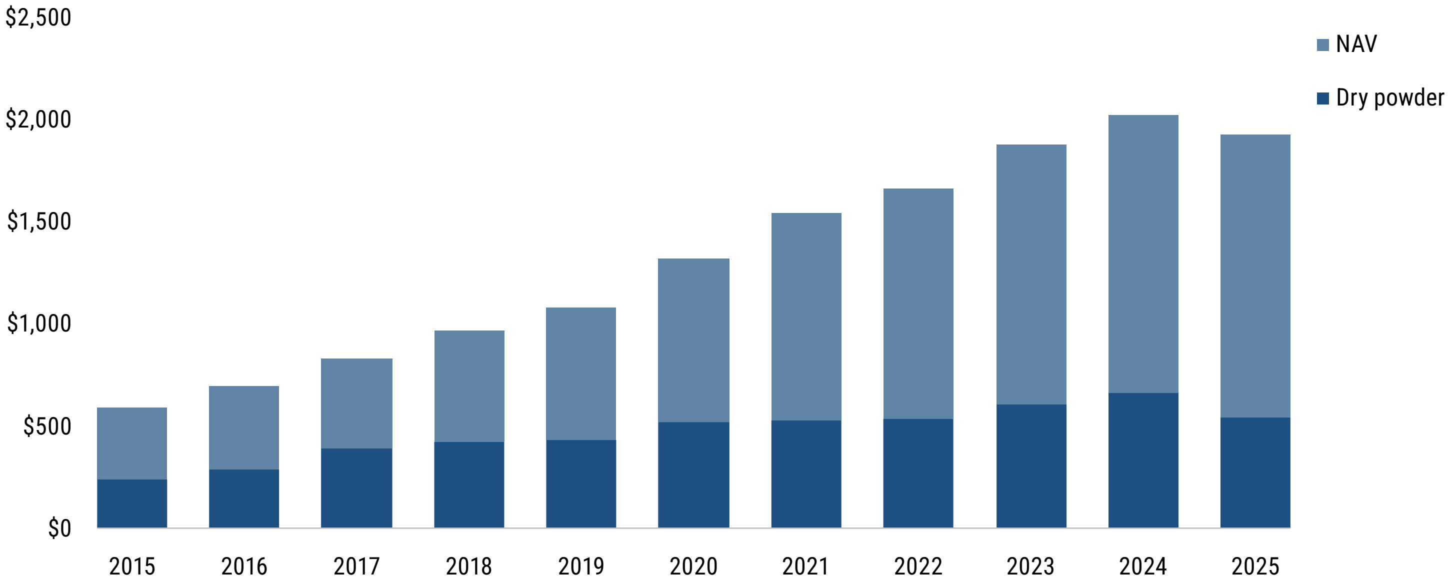
Nontraded BDC funds, which only became prominent in the past five years, found themselves in the mainstream press over bank-run-style headlines as investors flocked to redeem their investments. However, these long-term investment vehicles were set up with redemption limitations to prevent such scenarios of mass force portfolio asset sales to raise capital to return to investors. Broadly, the industry has held to its standard of a 5% quarterly cap on net asset value (NAV).

Although Europe does not have BDCs (either publicly listed or nontraded), other types of private credit vehicles were still impacted. In addition to the AI-related disruption, Europe faced fears over geopolitical volatility from the Iran war. Even though the market has gone through a reset since that point, with spread widening in the underlying assets, the most recent direct lending data from PitchBook LCD shows some renewed support for lending to the software sector in Europe. It also shows an overall bounce-back in lending volumes in both regions; although, on a historical basis, volumes and deal counts remain depressed.

With the Federal Reserve raising rates for the first time since 2023 with a 25-basis-point increase in the federal funds rate to 4.00%, market sentiment seems to be leaning toward more rate hikes in the next six months. This could influence how much investors commit to debt funds generally in the upcoming year and whether they think they need to reallocate their positions. Private debt returns for most asset classes in 2025 are showing a decline compared with 2024 levels. Interest rate cuts are part of this story, but there are other drivers to consider, as they vary by debt strategy, with the most common explanation being spread compression due to crowded debt strategies, such as direct lending. However, in distressed or stressed lending, this private credit liquidity helped to keep defaults low, starving investors of the assets for the strategy.

AUM and dry powder

Private debt institutional fund AUM ($B)



Source: PitchBook • Geography: Global • As of December 31, 2025

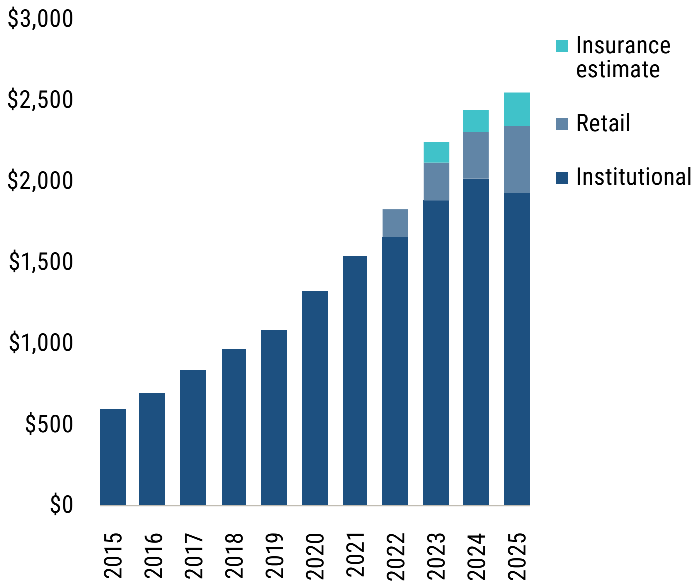
Retail investors flocked to debt funds, but the story could change in 2026

At the end of 2025, total global AUM from institutional investors shrank to just under $2 trillion at $1.928 trillion—a $91 billion drop—almost two-thirds ($58 billion) of which was attributable to direct lending funds. The proportion of dry powder fell to $547 billion (down $122 billion), but NAV only increased to $1.382 trillion (up $31 billion), resulting in an overall decline.

Likewise, for Europe and the US, dry powder has shrunk and NAV has increased, although by less, with overall institutional AUM declining in 2025 to $517 billion and $1.2 trillion, respectively.

But institutional investors do not paint the whole picture. Since 2022, PitchBook has been tracking contributions to AUM from retail investors and, since 2023, from insurance companies, in addition to institutional AUM. For the US, retail is defined as all credit-focused interval funds, tender offer funds, and nontraded BDCs, and any other US-domiciled private credit evergreen vehicle that does not fall into one of the previous three buckets. For Europe, retail AUM includes European Long-Term Investment Funds (ELTIFs) and Long-Term Asset Funds (LTAFs; specifically for UK investment), and any other credit vehicle with an evergreen structure.

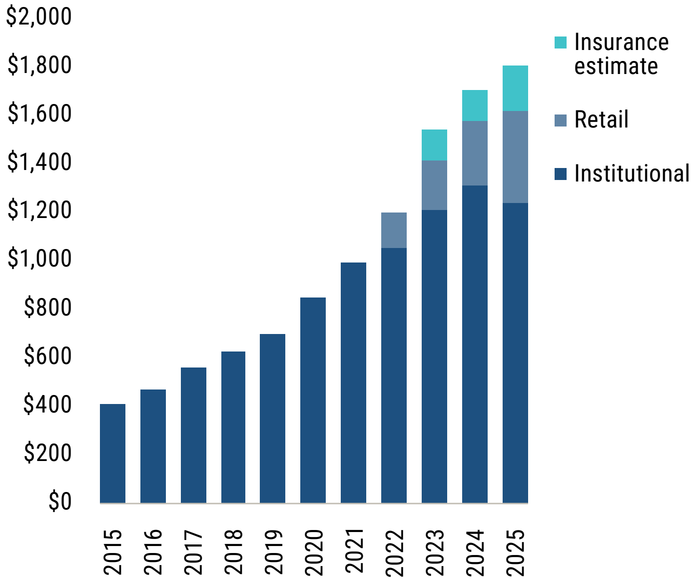
Global private debt AUM ($B) by channel



Source: PitchBook • As of December 31, 2025

Note: PitchBook did not track retail AUM before 2022 or insurance before 2023. Retail and insurance figures are as of June 30, 2026.

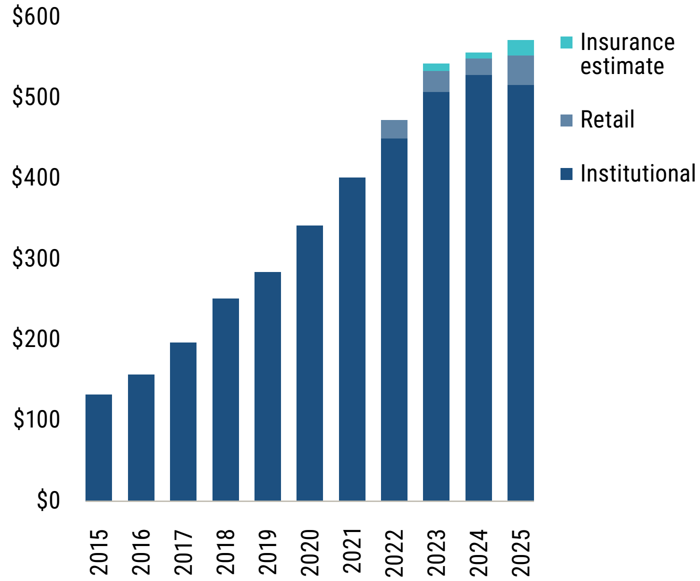
US private debt AUM ($B) by channel



Source: PitchBook • As of December 31, 2025

Note: PitchBook did not track retail AUM before 2022 or insurance before 2023. Retail and insurance figures are as of June 30, 2026.

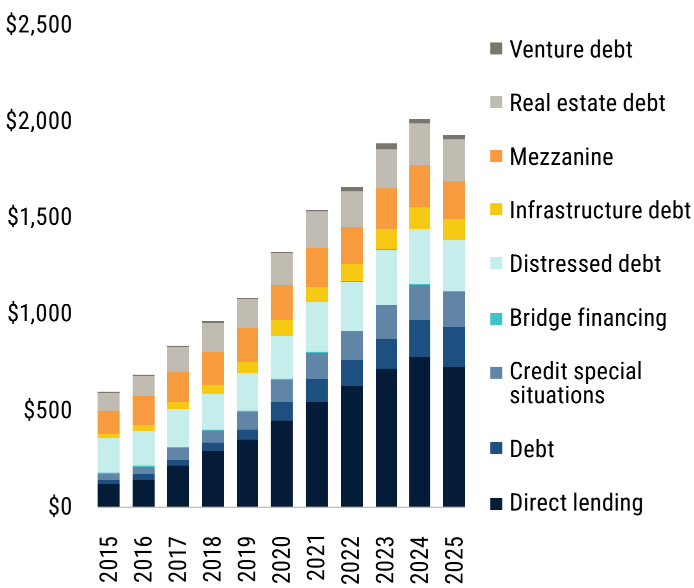
Europe private debt AUM ($B) by channel



Source: PitchBook • As of December 31, 2025

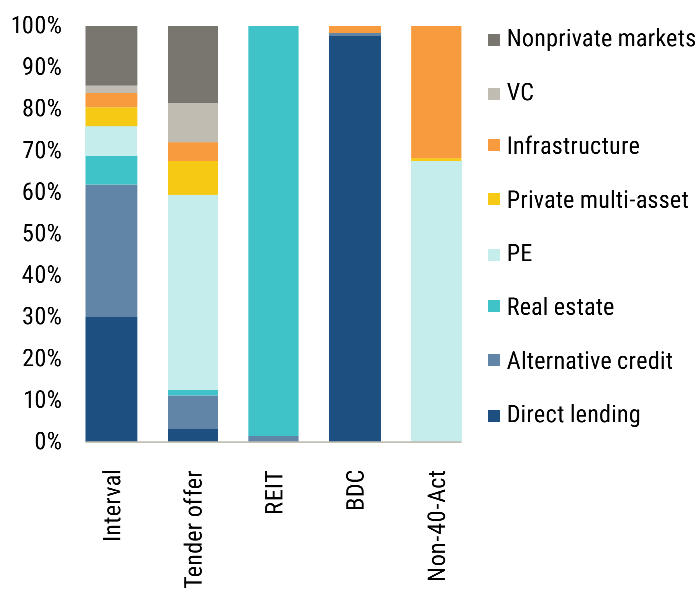
Note: PitchBook did not track retail AUM before 2022 or insurance before 2023. Retail and insurance figures are as of June 30, 2026.

Private debt AUM ($B) by type



Source: PitchBook • Geography: Global • As of December 31, 2025

Share of evergreen distribution of debt fund type by investor



Sources: Morningstar and PitchBook • Geography: US • As of December 31, 2025

Note: Data was aggregated on June 10, 2026. The most recent dates of the disclosure documents range from September 30, 2025, to March 31, 2026.

For the insurance AUM estimate, this data is opaque, so PitchBook uses the combined insurance AUM of the seven publicly traded US-based alt firms—Blackstone, KKR, Apollo, Carlyle, Ares, TPG, and Blue Owl—and assumes a conservative estimate that 15% of this is invested in private debt using historical trend information. It is also worth noting that the insurance AUM figures are likely well understated, as there is more insurance capital that is invested in private debt funds or lent to companies directly than what is captured here.

In 2025 and the early part of 2026, the retail channel added AUM to the asset class at a much faster rate than institutional investors in both regions, with growth rates of 43.7% globally, 41.4% in the US, and 73.1% in Europe through the beginning of 2026 compared with year-end 2024 figures. Likewise, insurance companies contributed to AUM at a much faster rate than institutional investors. There was a 50.4% AUM contribution growth rate globally, 45.5% for the US, and a staggering 132.7% increase for Europe, which was primarily driven by inorganic growth; however, the absolute figures were still a relatively small increase—going from $7.8 billion to $18.2 billion.

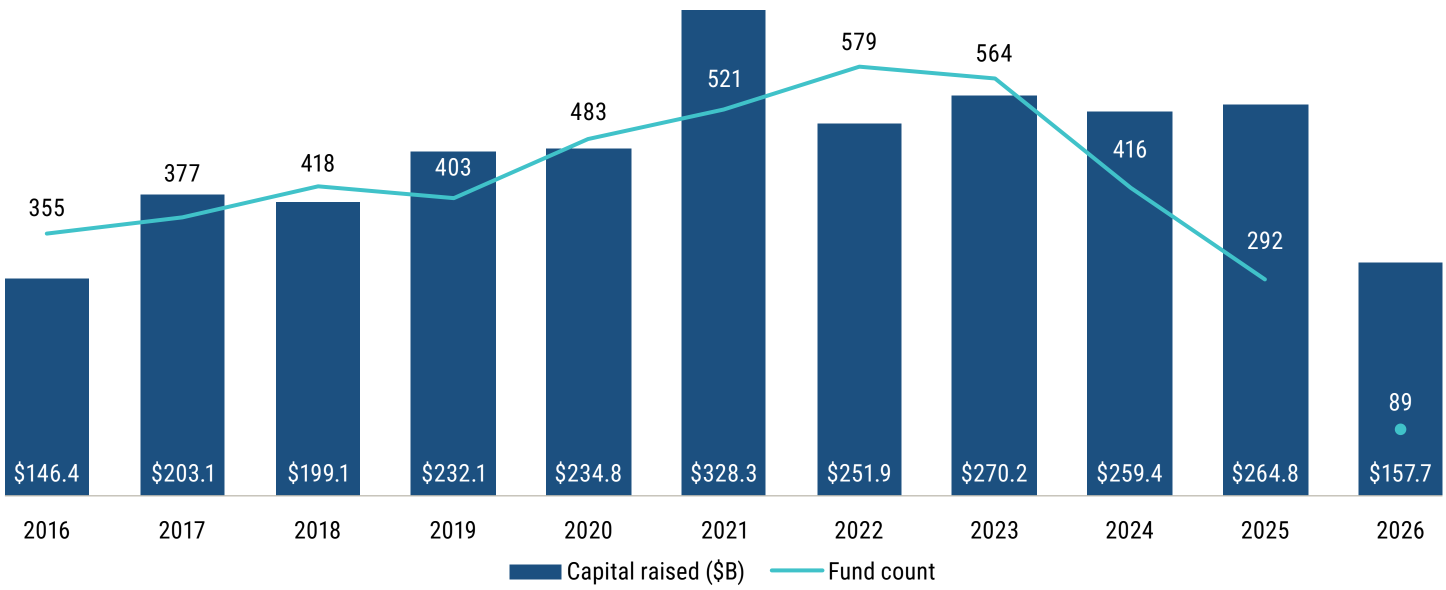
Despite high growth rates, on an absolute basis, the AUM contribution from retail investors in Europe is only 6.4%, and for insurers 3.2%. Globally, these figures are 16.2% and 8.1%, respectively, and even higher for the US at 20.9% and 10.4%.

But when PitchBook collects the H2 2026 data for these investors, the picture could look different. High-profile redemption requests from nontraded BDCs are likely to be replicated through all retail funds in the direct lending space. For retail investors and insurance companies, as well as institutional investors, direct lending still makes up the largest share of AUM by debt fund type globally.

For institutional AUM globally, the second-largest share is from distressed funds, while the third is real estate debt funds. For the US retail and insurance capital, most of it is earmarked for direct lending opportunities, primarily via BDCs and interval funds. In Europe, the evergreen retail debt split falls primarily in the general debt bucket, with direct lending the second most common debt type.

Fundraising

Private debt fundraising activity



Source: PitchBook • Geography: Global • As of June 30, 2026

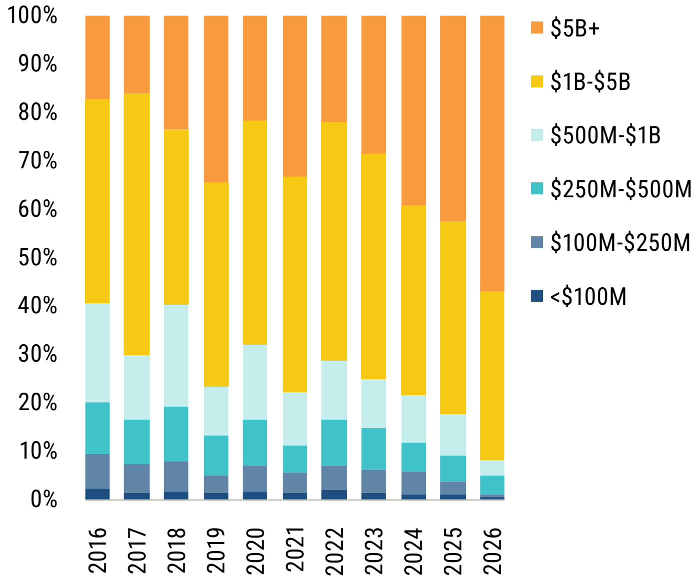
Megafunds dominate globally, following US trend

Fundraising has generally declined since the last cyclical peak in 2021, but 2026 is trending higher YoY both globally and in the US. However, this could change in H2. European fundraising is looking more challenged, however, running at only 41% of the total raised in 2025 and down by 12.9% YoY at the end of H1.

Globally, megafunds—funds of $5 billion or more—are dominating activity this year, which means fundraising activity by the number of funds is behind the same period in 2025. Similarly, US debt capital raised is up 57.4% YoY, while fund count is down 31.7%. Megafunds have comprised 56.9% of the funds raised so far this year globally. This percentage has been growing steadily since 2022. Funds between $1 billion and $5 billion make up the second-largest group at 34.8%.

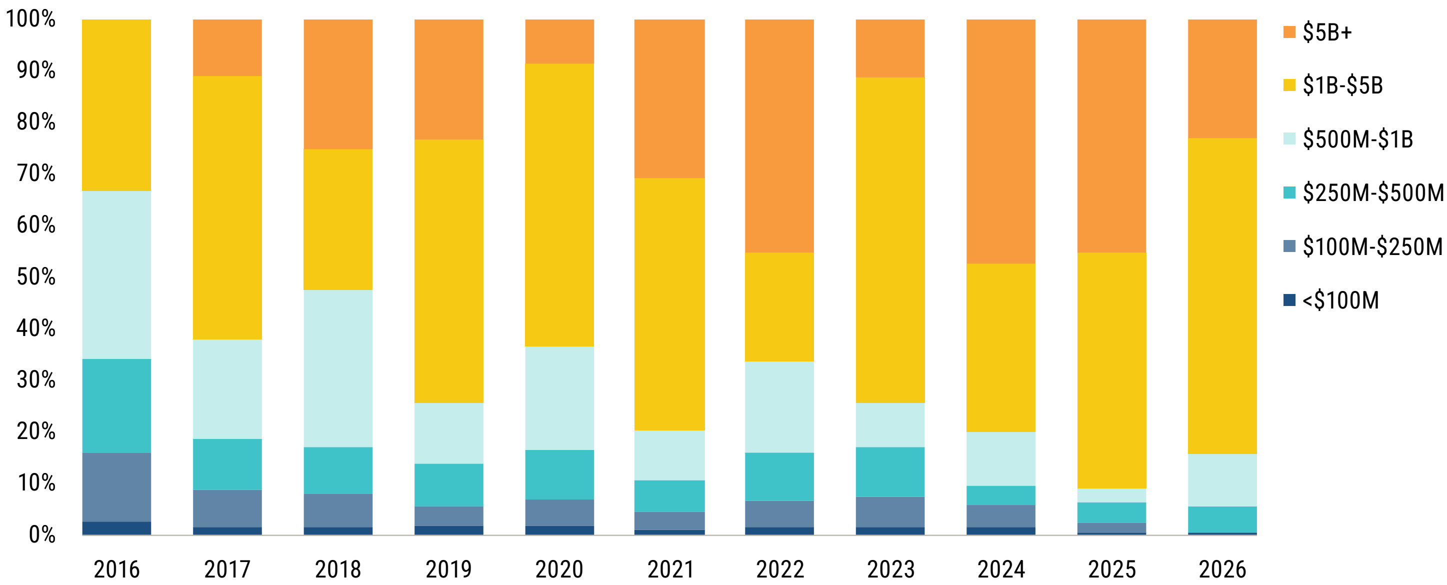
In the US, the majority of capital raised in 2026 has also come from megafunds, at 69.7%. In Europe, the trend diverges, with only 22.9% of funds by size in megafund territory—the lowest percentage since 2023, when they comprised 11.2% of new funds raised.

Share of global private debt capital raised by size bucket



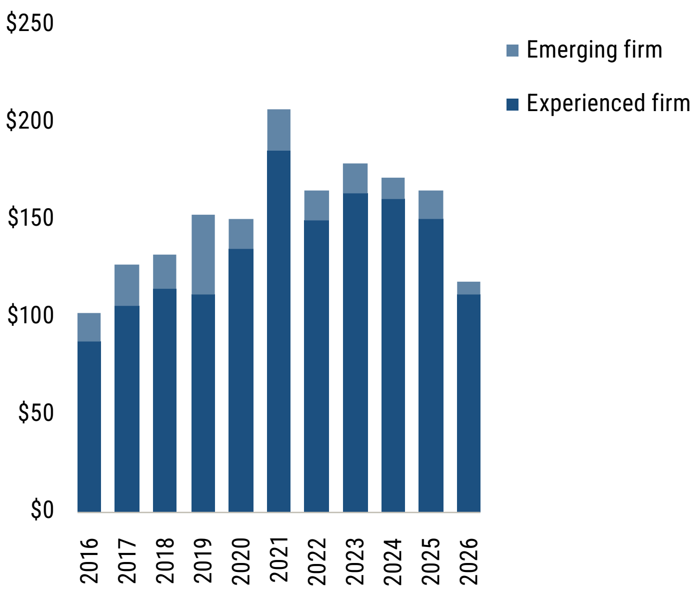
Source: PitchBook • As of June 30, 2026

Share of Europe private debt capital raised by size bucket



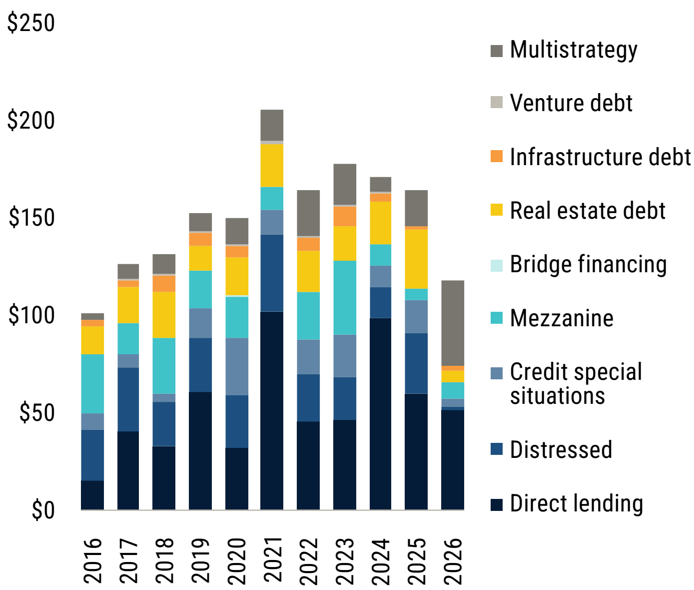
Source: PitchBook • As of June 30, 2026

US private debt capital raised ($B) by manager experience



Source: PitchBook • As of June 30, 2026

US private debt capital raised ($B) by strategy

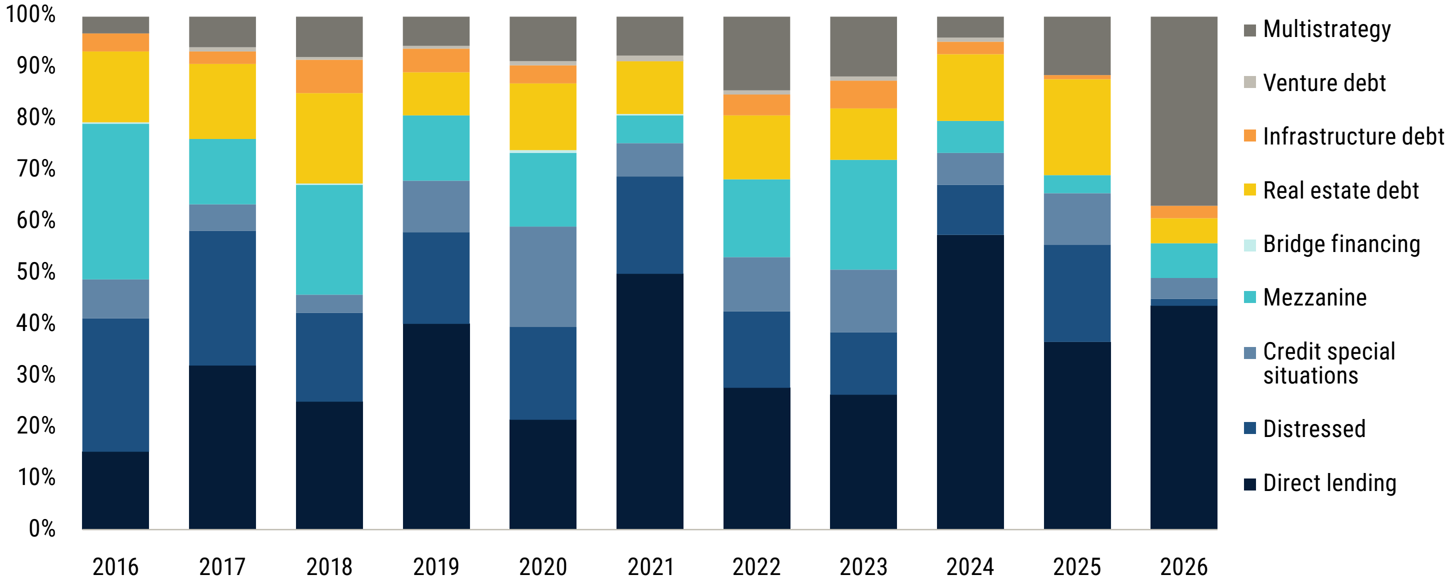


Source: PitchBook • As of June 30, 2026

In H1 2026, emerging managers (those raising funds one through three) only comprised 5.5% of US capital raised. This is the lowest level seen since PitchBook began tracking this data, but the percentage has been on the decline since its last cyclical peak in 2019 when it reached 27.2%.

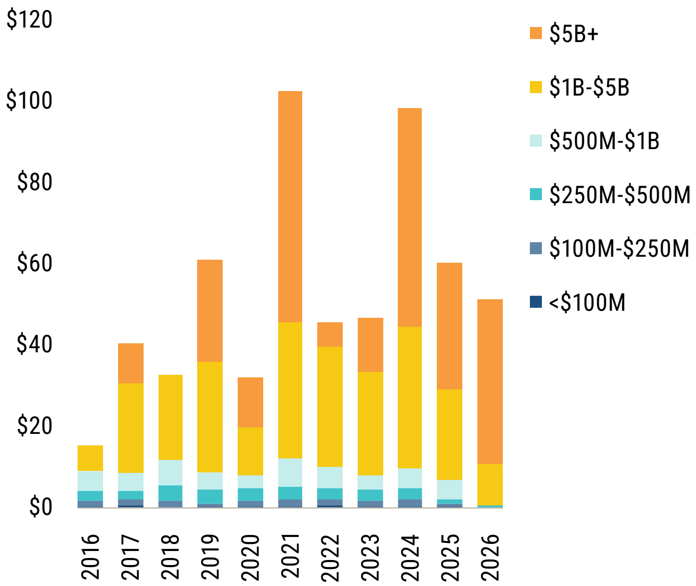
At 43.6% of all capital raised in the US through the first half of 2026, direct lending remains the largest category of the asset class. Multistrategy came second in size, accounting for 36.8% of capital raised, while distressed debt funds and special situations raised only 5.4%. In comparison, in 2025, these two categories totaled 28.8%—the second-largest category after direct lending (36.7%).

Share of US private debt capital raised by strategy



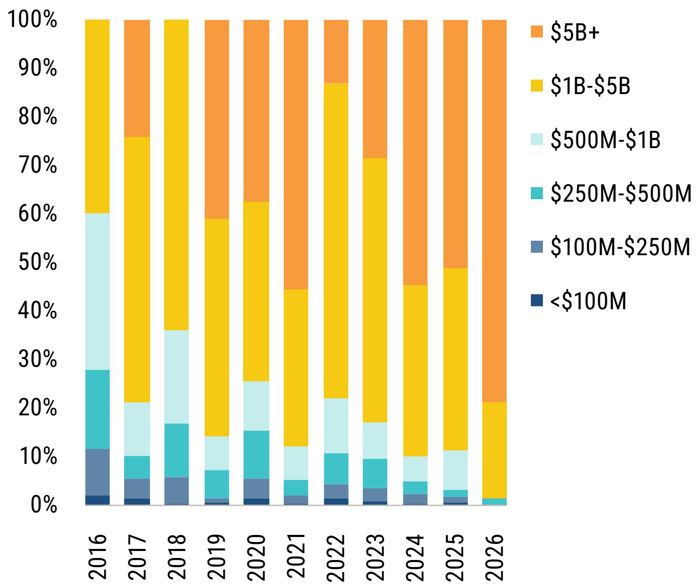
Source: PitchBook • As of June 30, 2026

Direct lending capital raised by size bucket



Source: PitchBook • Geography: US • As of June 30, 2026

Share of direct lending capital raised by size bucket



Source: PitchBook • Geography: US • As of June 30, 2026

Fundraising figures for direct lending look very positive on a YoY basis, but the concentration in larger funds is even more pronounced. Of all the direct lending capital raised thus far in 2026 in the US, 78.7% can be attributed to megafunds.

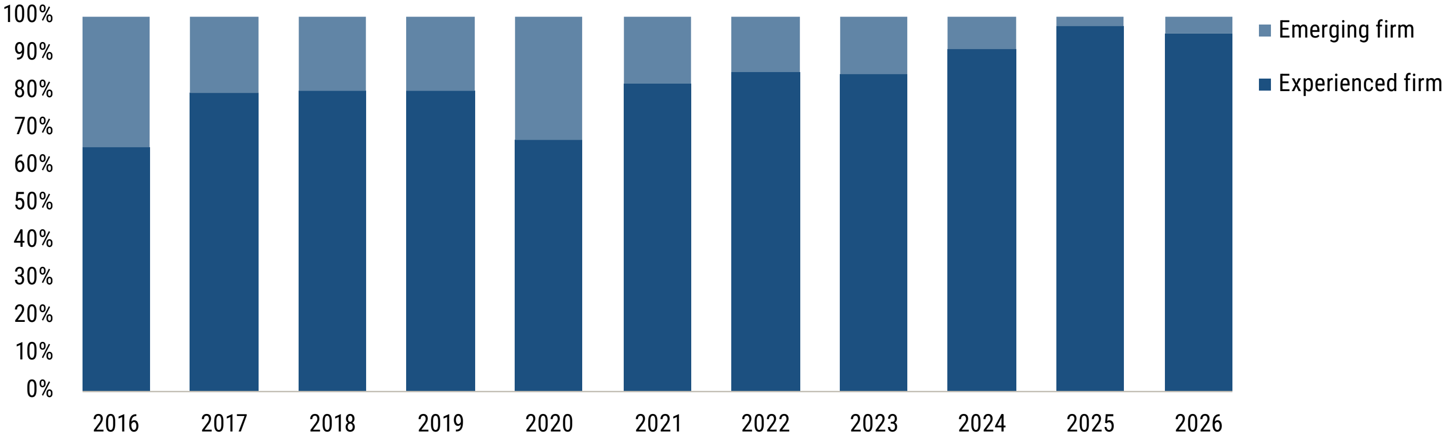
The top six funds raised in the first half of 2026 were on an even larger scale than the size bucket implies, with all more than $8 billion in size, including Barings' $19 billion raise and Blackstone's $10 billion fund.

Largest US private debt institutional funds closed in H1 2026

Fund	Investor	Fund size ($B)	Close date	Fund type	Fund step-up	Location
Barings Global Direct Lending Fund	Barings	$19.0	May 15	Direct lending	N/A	Charlotte
Blackstone Capital Opportunities Fund V	Blackstone Credit and Insurance	$10.0	April 7	Debt	1.1x	New York
Ares Pathfinder Fund III	Ares Management	$8.5	June 10	Debt	1.3x	Los Angeles
Antares Senior Loan Fund III	Antares Capital	$8.5	May 12	Direct lending	1.4x	Chicago
Guggenheim Investments Private Debt Fund IV	Guggenheim Partners	$8.4	February 4	Debt	N/A	New York
Ares Special Opportunities Fund III	Ares Management	$8.3	March 31	Debt	1.2x	Los Angeles
Adams Street Private Credit Fund III	Adams Street Partners	$7.5	April 13	Direct lending	3.0x	Chicago
Apollo Hybrid Value Fund III	Apollo Global Management	$6.5	May 5	Mezzanine	1.4x	New York
Crescent Direct Lending Fund IV	Crescent Capital Group	$5.5	March 6	Direct lending	0.9x	Los Angeles
Silver Rock Tactical Allocation Fund - Vintage 2025	Silver Rock Capital Partners	$4.0	January 4	Debt	1.3x	New York

Source: PitchBook • As of June 30, 2026

Share of Europe private debt capital raised by manager experience

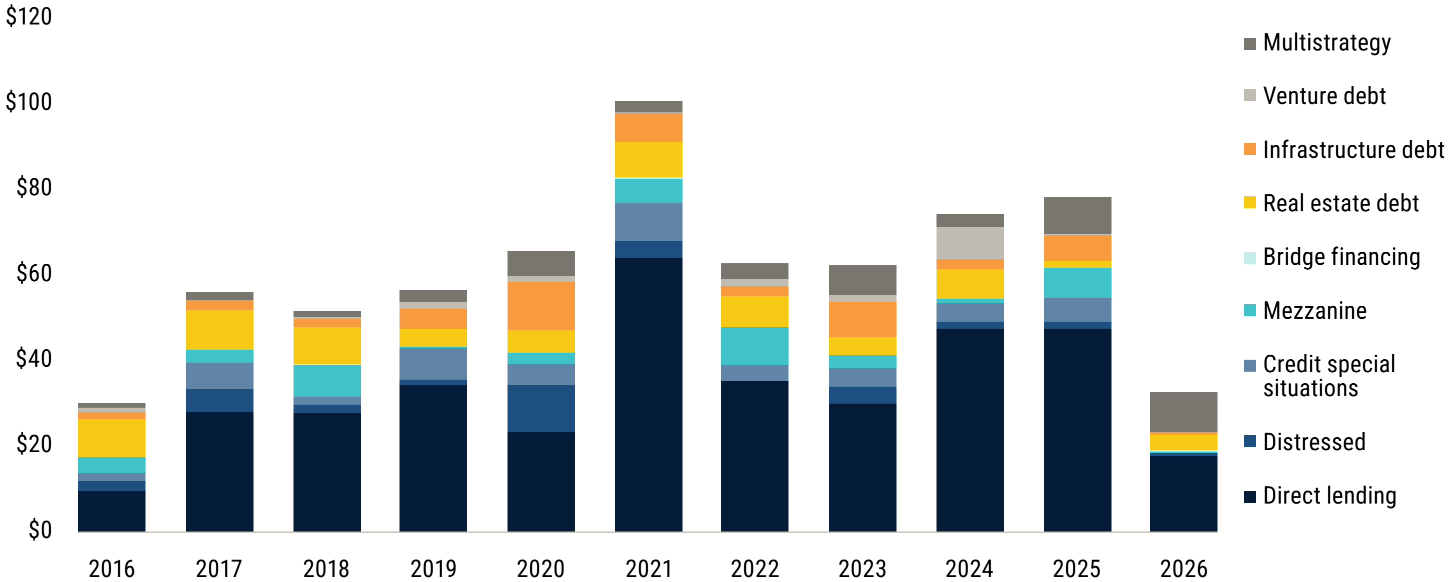


Source: PitchBook • As of June 30, 2026

In Europe, these new fundraising challenges are somewhat of a surprise, as earlier in 2026, European market participants hoped that investors rattled by US BDC redemptions and tariff uncertainty would focus on Europe, perhaps redirecting funds usually invested in the US abroad.

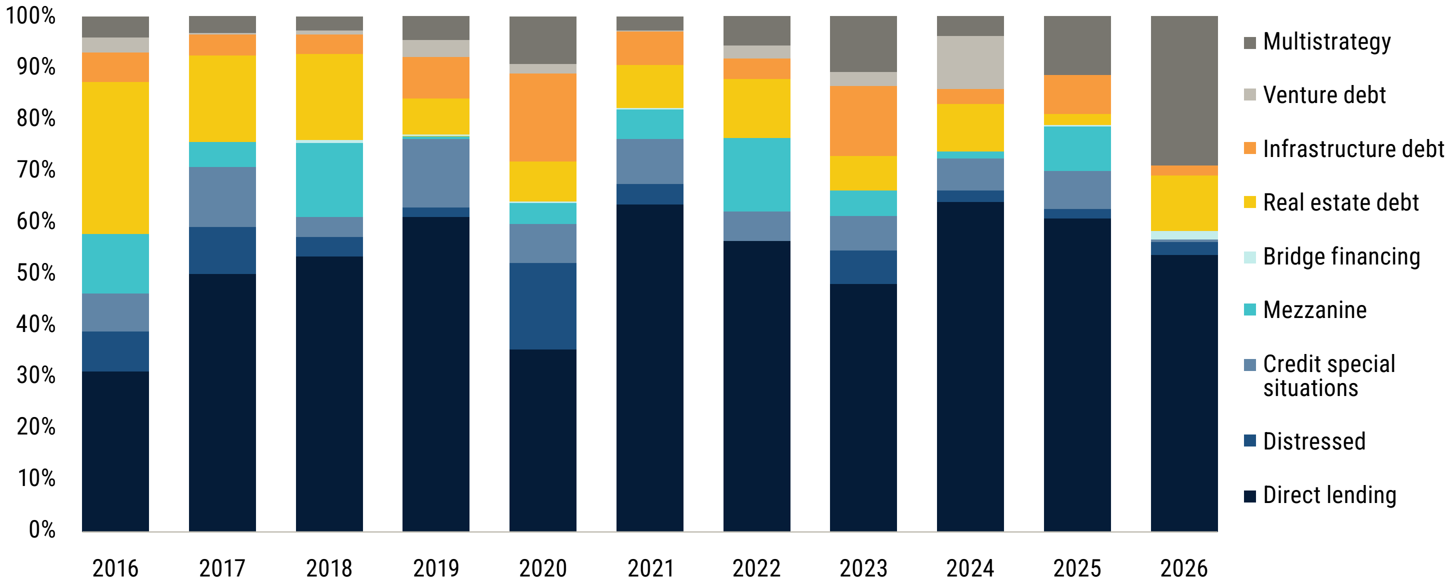
Similar to the US, the number of new firms entering the market is declining in Europe. Although there has been a tick-up in the percentage of new fund managers by amount raised so far in 2026 (4.5%). This compares with a meager 2.6% last year and demonstrates the severe downward trend since 2020, when 32.9% of fundraising came from emerging firms. Recent years' percentages are also substantially lower than the 10-year average of 18.7% and the 20-year average of 25.9%.

Europe private debt capital raised ($B) by strategy



Source: PitchBook • As of June 30, 2026

Share of Europe private debt capital raised by strategy

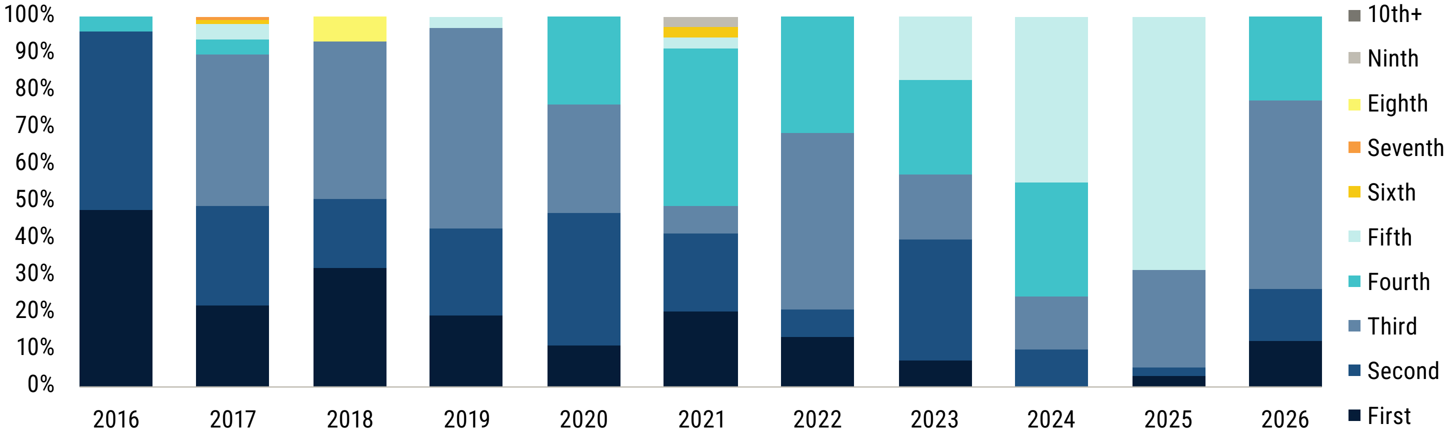


Source: PitchBook • As of June 30, 2026

As recently as May, direct lending was unseated as the highest percentage of fundraising by strategy (multistrategy took the lead), but H1 figures show that it is once again the dominant strategy for fundraising. At 53.7% of capital raised by debt type, it is now first, with multistrategy second at 29%. Real estate is third, followed by distressed. Venture debt has fallen out of favor in 2026 with the challenges facing the overall venture investing market.

Although European direct lending is ahead on a relative basis, fundraising is 37% of the 2025 total raised and 43.8% by fund count. Existing managers are mostly focusing on their established funds, rather than starting new fund families, in addition to the more challenging backdrop seen by emerging managers looking to raise a fund—both for all private debt raised as well as direct lending specifically. In 2026, for both cohorts, funds raised have been the fourth fund in the fund

Share of direct lending capital raised by fund number in family



Source: PitchBook • Geography: Europe • As of June 30, 2026

Largest Europe private debt institutional funds closed in H1 2026

Fund	Investor	Fund size ($B)	Close date	Fund type	Fund step-up	Location
17Capital Credit Fund 2	17Capital	$7.5	March 31	Debt	2.6x	London, UK
Eurazeo Private Debt VII	Eurazeo	$4.6	February 6	Direct lending	1.7x	Paris, France
Sixth Street Specialty Lending Europe III	Sixth Street Partners	$4.4	January 14	Direct lending	3.8x	London, UK
Pemberton Strategic Credit Fund IV	Pemberton Asset Management	$4.0	May 28	Direct lending	1.5x	London, UK
Enhanced Commercial Real Estate Debt	BNP Paribas Asset Management	$3.5	May 13	Real estate debt	N/A	Nanterre, France
Morgan Stanley European Direct Lending Fund	Morgan Stanley	$1.9	April 6	Direct lending	N/A	London, UK
Acto Mezzanine V	Andera Partners	$1.3	April 2	Mezzanine	2.2x	Paris, France
Canaima Global Opportunities Fund	Canaima Capital Management	$0.9	January 3	Distressed debt	N/A	Guernsey, UK
Emerald Mezzanine Fund	Emerald Managements Luxembourg	$0.7	February 15	Mezzanine	N/A	Luxembourg
Investec Private Debt Fund II	Investec	$0.7	January 27	Direct lending	2.4x	London, UK

Source: PitchBook • As of June 30, 2026

family or earlier. There have been no fifth or later funds in the fund family raised in 2026 so far.

For all private debt and direct lending, the distribution by funds raised looks similar to 2020: the year before total fundraising soared, as the global pandemic meant public debt capital was less available and the private market helped plug financing gaps. For direct lending, specifically, by deal count, the distribution looks more like 2022, before the 2023 financing wave, when direct lenders were ready again to support lending to companies as the broadly syndicated market pulled back due to rate rises across Europe. The distribution in 2026, however, appears to represent a more mature market, with first funds in a family falling to 29%, as opposed to the peak years of 2020 to 2022 when first funds comprised, on average, 40% of new raises.

A WORD FROM ARROW GLOBAL

Why manager skill matters more than ever in European private credit

Private credit has grown rapidly since the global financial crisis, but I believe the market is now entering a more demanding phase. That should not be mistaken for a negative development. In my view, it is a sign of maturation. More challenging markets have a way of exposing the difference between capital that is simply available and capital that is genuinely well deployed. They reveal which managers have built their strategies on discipline, local knowledge, and downside protection, and which have relied too heavily on benign conditions.

That distinction matters today because the dispersion in underwriting quality across private credit has become increasingly clear. In the most competitive parts of the market, particularly widely syndicated, on-market deals, pricing has compressed, terms have weakened, and covenant protection has eroded. In those segments, abundant liquidity has too often rewarded the most optimistic assumptions rather than the most robust ones. As macroeconomic uncertainty rises, that is likely to translate into weaker credit outcomes.

It would be a mistake, however, to treat that as a verdict on private credit as a whole. The more important conclusion is that not all private credit is the same. Strategy selection and manager selection have always mattered, but they matter much more in an environment shaped by geopolitical tension, policy volatility, and trade disruption. For institutional investors, the question is no longer whether private credit remains attractive, but rather, which parts of the market are best positioned to navigate a less forgiving cycle.

Adam Baghdadi
Managing Director, Lending Solutions

Adam Baghdadi is a managing director in the Arrow central investment team focused on lending. He has more than 15 years of investment experience in credit, lending, and corporate finance.

Previously, Adam was a member of the investment team at Sixth Street in London, where he worked across a range of credit and special situation transactions with a focus on hard asset and real estate-backed opportunities. Prior to that, Adam was an investment analyst at HBK, a global credit-oriented multi-strategy hedge fund, where he worked across a range of corporate and structured credit strategies. Adam started his career at Morgan Stanley in the UK Investment Banking team, where he worked across a range of public M&A, takeover defence, and debt and equity capital markets transactions.

Adam holds an MA in Economics and Management (first-class honours) from Oxford University.

A more demanding market should favour disciplined lenders

One of the most important developments I see today is a widening distinction between corporate-backed direct lending and asset-backed lending. Both have a role in institutional portfolios, but they are not exposed to the same forms of risk. In a world where forecasting earnings has become more difficult, there is a compelling case for strategies anchored in collateral and asset value rather than in the forward trajectory of EBITDA.

That is not to say asset-backed lending is simple, or that collateral completely removes risk. It does not. But it does change the nature of the underwriting challenge. When markets are volatile and international conditions are shifting, taking a view on whether an asset will preserve sufficient value to protect a credit position can be more dependable than taking a directional view on the sustainability of operating performance several years into the future. In my view, that is one reason asset-backed strategies are particularly well suited to the current environment.

The other reason is origination. A market awash with dry powder inevitably creates pressure to deploy, but disciplined managers do not respond to that pressure by chasing the same broadly marketed processes as everyone else. They respond by building differentiated sourcing channels and by maintaining the confidence to walk away from deals that do not compensate them for risk. That is why I place so much emphasis on local origination.

In Europe, that matters enormously. If you are underwriting a bridge loan in Madrid, the quality of your decision depends on more than a spreadsheet. It depends on local knowledge of the borrower, the sponsor, the legal framework, the collateral, and the behaviour of the market in stressed scenarios. That insight can only come from people on the ground. In my experience, local origination is not just a sourcing advantage; it is a risk-management advantage and one of the clearest ways to preserve underwriting discipline when the market becomes crowded.

Europe rewards local knowledge

This is also why I remain constructive on the long-term opportunity in European private credit. Europe has historically been far more bank-focused than the US, and private credit remains significantly less penetrated. Even as regulation continues to push banks away from certain forms of lending, many areas of the market remain underserved. Development finance, real estate-backed credit, receivables, and other specialised asset-backed opportunities are all areas where nonbank lenders can provide capital that is increasingly scarce but still essential.

At the same time, Europe cannot be approached as a single, uniform market. That is one of the most important points for allocators to understand. Europe is made up of multiple jurisdictions, legal systems, languages, currencies, and business cultures. Capital flows are highly local. Relationships are local. Credit judgment is local. A manager cannot credibly claim to cover the continent from one or two offices and expect to originate the best opportunities consistently.

I do not see that complexity as a weakness. I see it as a barrier to entry, and, therefore, a source of opportunity for managers with the right footprint and the right operating model. In Europe, local infrastructure is not a luxury. It is a prerequisite for repeatable performance. That is particularly true in the mid-market, where many of the most attractive opportunities never become broad, competitive processes at all.

This is also why selectivity has to remain at the centre of institutional underwriting. Recent episodes in specialist lending have reminded investors that ownership of the origination channel matters, as does in-house underwriting expertise. Real estate and infrastructure debt cannot be assessed effectively at arm's length by relying on third parties you do not fully control. When capital is passed from one platform to another without sufficient oversight, risks can compound quickly. The lesson for allocators is not to retreat from these asset classes, but to partner with managers whose governance, sourcing, and underwriting are institutional in nature.

Resilience comes from collateral, liquidity, and judgment

In practical terms, I believe today's environment continues to offer compelling opportunities in areas where structural demand and asset quality provide a stronger foundation for credit. In our own approach, we see particular merit in the living sector, including residential and residential-adjacent segments, such as student housing. Across much of western Europe, there is a persistent undersupply of high-quality housing, which creates a powerful structural backdrop.

We also continue to see attractive opportunities in hospitality, particularly in southern Europe, where travel trends have remained supportive as international tourism has normalised. Here again, the point is not to chase headline growth, but to focus on assets, locations, and sponsors that can sustain value and liquidity through different market conditions.

Alongside sector selection, liquidity has become a much more prominent consideration for institutional investors. That is understandable. Parts of the corporate direct lending market have proved more liquidity-challenged than many expected, particularly where structures offered synthetic rather than fundamental liquidity. As a result, investors are increasingly focused on understanding how and when capital will be returned. I think that is healthy. It is also one reason why short-duration bridge lending, opportunistic real estate credit, and receivables are attracting greater interest. These strategies can offer stronger capital velocity and, in some cases, earlier cash generation than longer-duration corporate exposures.

The next phase of European private credit will probably be defined by a combination of centralised institutional access and decentralised local execution. Large investors increasingly want the efficiency of working with a single pan-European manager, but the sourcing model itself will remain local. Mature platforms will not distinguish themselves by pretending Europe is homogeneous, but by building the local relationships, underwriting expertise, and operational oversight required to navigate it properly.

For institutional investors, that should be a reassuring conclusion. Europe's private credit market is certainly being tested, but a test is not the same as a threat. Where a manager has genuine local origination, deep in-house underwriting capability, a disciplined asset-backed approach, and a clear understanding of liquidity and downside protection, today's market should not be feared. On the contrary, it is exactly the kind of market in which disciplined private credit strategies can prove their value most clearly.

LCD SPOTLIGHT

Direct lending returns, but historically, volumes are muted

US direct lending deal count and estimated value by quarter

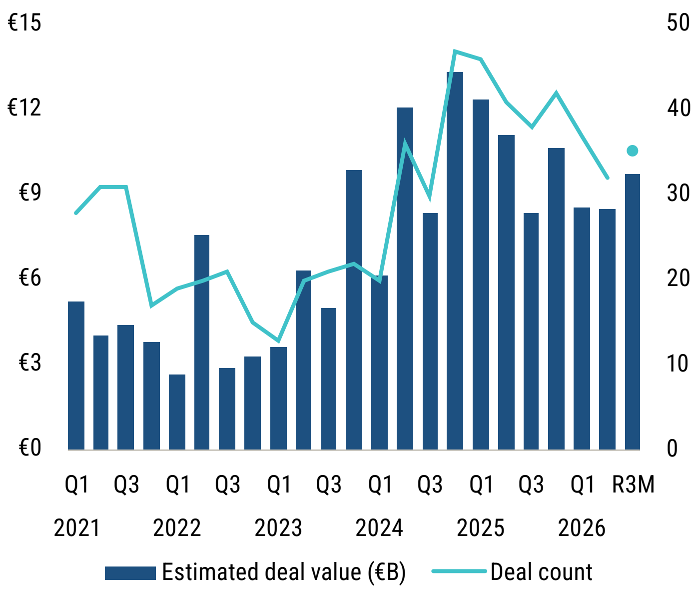
Source: PitchBook | LCD • As of July 31, 2026
Note: Rolling three months (R3M)

Looking lower in Europe

Market participants have told LCD news that middle- and lower-middle-market funds are becoming more popular to try to take advantage of investing in Europe's less-crowded segments. For example, Eurazeo, which was the largest middle-market fund raised in H1 2026, has said that its latest fund Eurazeo Private Debt VII will support the next generation of lower mid-market European companies. Though the firm does not specify the exact size of these companies, market convention would put these investments in an approximate EBITDA bucket of €20 million or lower.

Likewise, a recently closed $2 billion fund from HSBC Asset Management (not included in the H1 data) said its strategy was to invest alongside HSBC UK Bank plc in senior secured loans to PE-backed companies within underserved low-to-core middle-market segments, targeting high-growth, resilient borrower profiles.

Europe direct lending deal count and estimated value by quarter

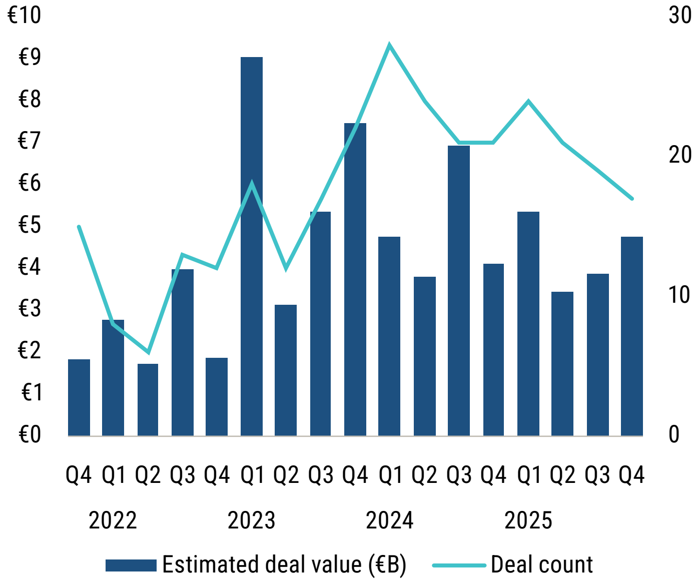


Source: PitchBook | LCD • As of July 31, 2026

US direct lending LBO deal count and estimated value by quarter

Source: PitchBook | LCD • As of July 31, 2026

Europe direct lending LBO deal count and estimated value by quarter



Source: PitchBook | LCD • As of July 31, 2026

The top closed funds in 2026 show many firms are still committed to larger cap deals, with Sixth Street, Pemberton, Arcmont, and Morgan Stanley having a broader range of target investments. Investec, however, launched its fund PDF II in January and is providing senior secured debt (including unitranche) and subordinated debt to PE- and corporate-backed businesses with EBITDA between €3 million and €50 million. The fund's primary geographic focus is the UK, Ireland, Benelux, and Germany, Austria & Switzerland (DACH) regions. CVI Private Debt Fund II is a lending fund that is also focused on this lower-mid-cap business category, but specifically in selected Central European countries.

Fundraising details from some of the top direct lending funds in the first half of 2026 show that there is some broadening of demand outside of Europe. Eurazeo said that international investors account for more than 60% of Eurazeo's commitments, confirming the fund's growing appeal among investors—particularly in North America and Asia—seeking diversified exposure to European private debt. Pemberton said its new fund included 70 new clients from Asia, the Middle East, and North America.

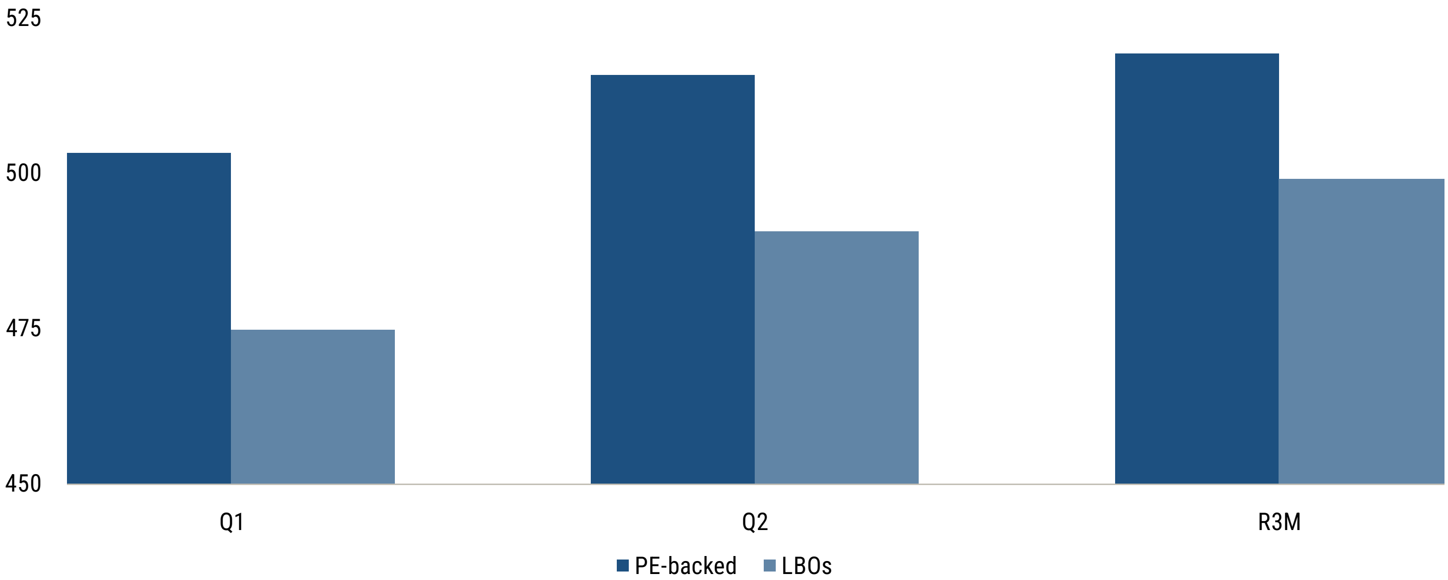
Recently raised funds, which do not appear in the H1 data, have publicly pointed out similar investor involvement. Tikehau said 18% of its fundraise came from North America, and 28% from Asia and the Middle East. Bridgepoint said roughly 35% of commitments came from new investors.

Direct lending bounces back over the summer, but historically, volume remains muted

In both the US and Europe, direct lending experienced a bounce-back in the start of Q3, following a relatively tough year for the asset class. And relative to the past few years, volume and deal count across the board remain depressed.

For the US, for all direct lending estimated deal volume, the past three months to July 31 came in at $39.8 billion, up from $35.5 billion in the second quarter, and deal count jumped to 184 from 163. This is still low on a historical basis, however, with the average quarterly volume in 2025 coming in at $66.5 billion, following $71 billion for 2024.

Spread (basis points) of PE-backed deals and LBOs in the direct lending market in 2026



Source: PitchBook | LCD • Geography: US • As of July 31, 2026

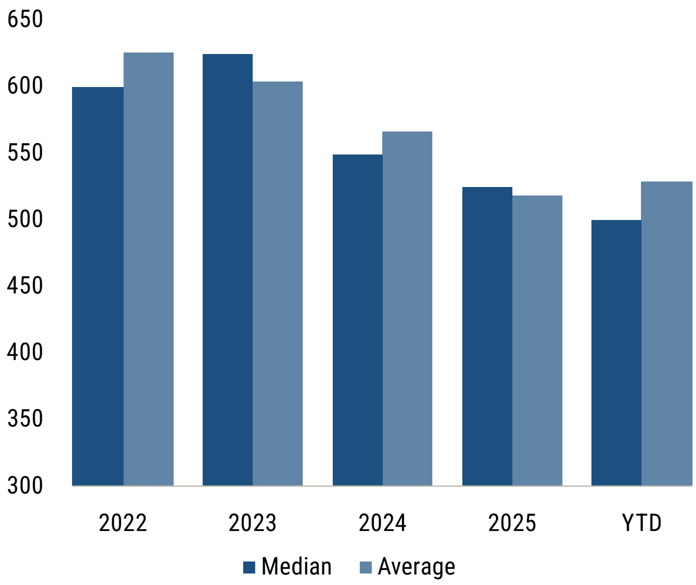
In the same three-month period in Europe, total estimated volume grew to €9.8 billion, up from €8.5 billion in Q2. Direct lending deal count rose to 35 from 32 in Q2. But it is a slightly rosier picture in Europe, as the past three months also beat Q1 estimated volumes of €8.6 billion, and PE-backed direct lending estimated volume grew to its highest level since the end of 2025 on a three-month basis.

In the US, buyout activity remained paltry, as deal count for direct lending LBO financings fell to its lowest level since Q3 2023 in the three months ended July 31, according to the latest US LCD Private Credit Monitor. The continued pullback in LBO activity suggests that sponsors are hesitating to launch deals amid the higher-for-longer interest rate backdrop.

European LBOs have seen a rise in estimated volume due to some larger transactions over the past three months, such as Recordati, CloserStill Media, and GBA Group, with the number of LBOs remaining below 20 during this period, with estimated volume the highest since Q4 2025.

Looking at the year as a whole, in the US, healthcare sector deals have accounted for 20% of new-issue direct lending deals in 2026, compared with 18% of deals for full-year 2025. Technology's share of new direct lending deals has fallen to 15% YTD from 19% for full-year 2025.

Median and average direct lending spreads (basis points)



Source: PitchBook | LCD • Geography: Europe • As of July 31, 2026

Spread widening that has been discussed by lenders in recent months appeared in the data in the three months ended July 31, as the average spread of PE-backed direct lending deals rose to SOFR+519 (S+519), compared with S+503 in Q1. Deals priced below S+500 are becoming less common as well.

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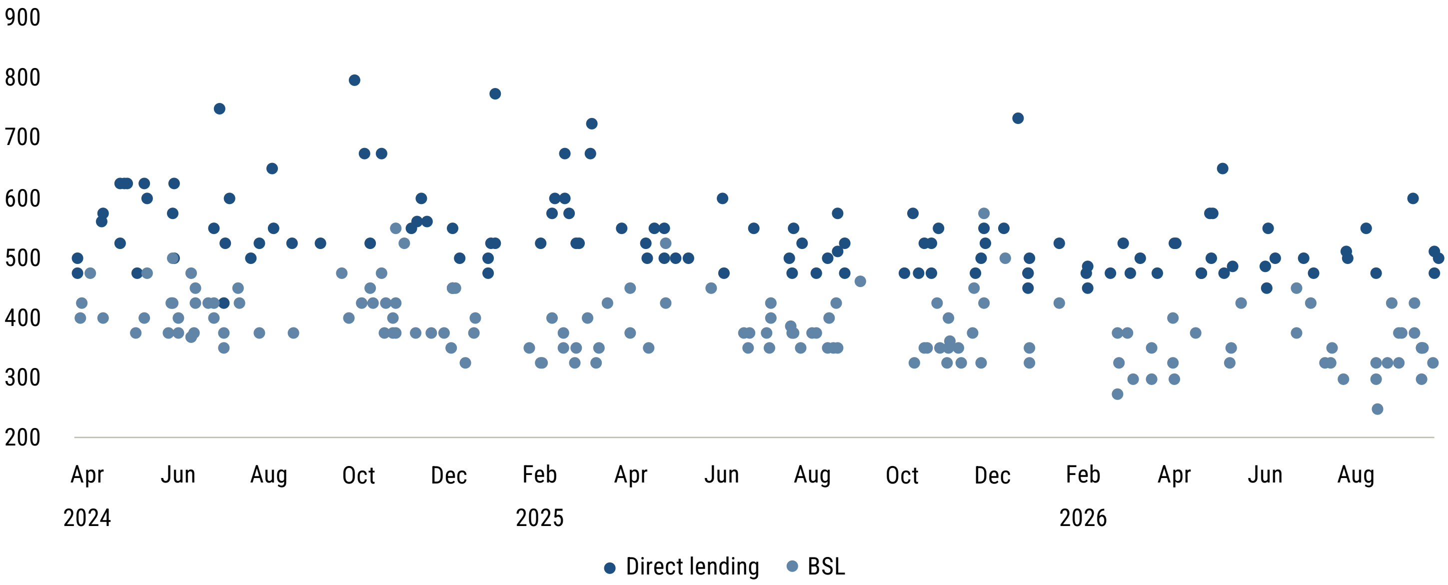
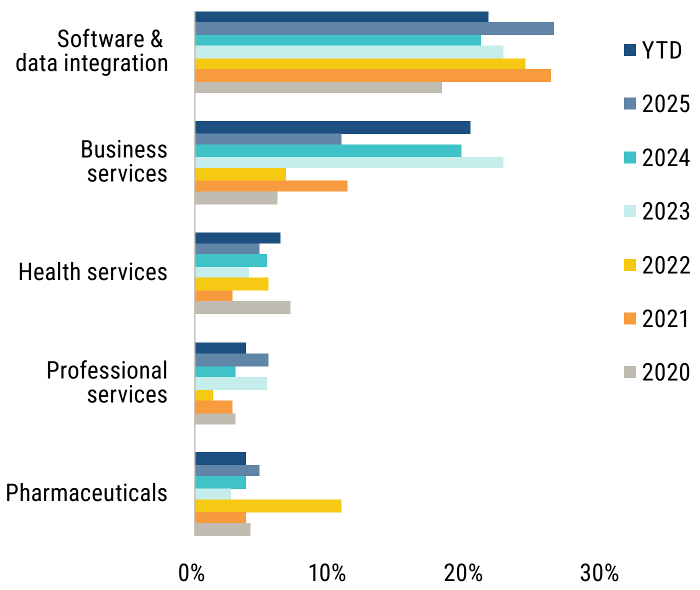
New-issue spreads (basis points) of sponsored-acquisition-related deals



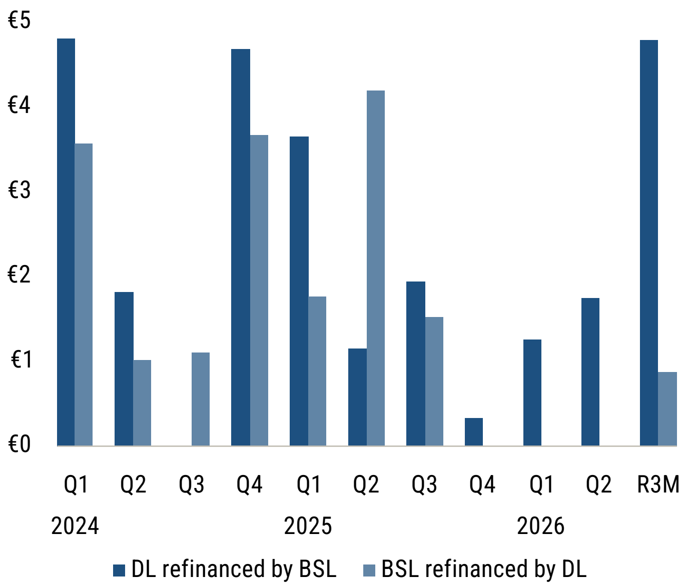
Source: PitchBook | LCD • Geography: Europe • As of July 31, 2026

Share of top five direct lending sectors by deal count



Source: PitchBook | LCD • Geography: Europe • As of July 31, 2026

Syndicated loans and direct lending takeouts (€B)



Source: PitchBook | LCD • Geography: Europe • As of July 31, 2026

In Europe, PitchBook LCD's pricing data shows that although median spreads on all deals have continued to decline YTD, some borrowers have needed to price wider, pulling up the average level to 529 basis points. This is the first widening in overall average spreads since LCD began tracking this data.

Market participants say European direct lenders are charging a premium to finance software buyouts, as AI disruption concerns and a shrinking pool of willing lenders reshape pricing in the sector. Indeed, sources have told LCD news that software credits in the middle and upper middle market are now printing at €STR+525-550 (E+525-550), up from around E+475 six months ago, while adding that deals in other sectors are pricing in an E+475-500 range.

Market participants point out that current pricing is still well below the peak of the last cycle, when margins on software deals priced above 600 basis points in 2022 and 2023, before compressing sharply. More of this software supply could follow, and a debt advisor told LCD news that their firm is working on two software financings—both priced at E+525.

The data supports the staying power of direct lending to software companies in Europe. The broad professional & business services category is still the most active sector in Europe YTD, with a 25% share of deals. But on a more granular basis, the software & data integration category is still in the lead with a 22% share, with business services taking a 20% slice.

Broadly syndicated loan (BSL) bites

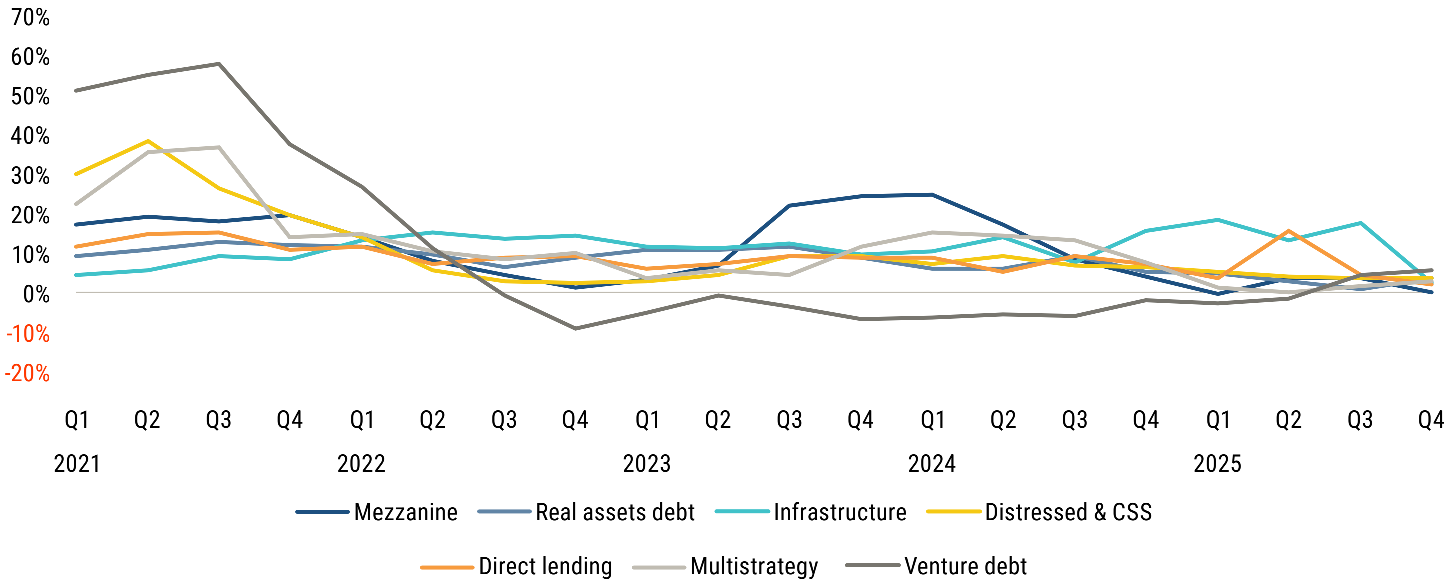
Despite the recent resurgence in direct lending activity and the strength shown by these players when it comes to financing the out-of-favor software sector, the number of borrowers using the BSL market to refinance their direct loans has suddenly jumped in Europe.

The volume of direct lending to BSL refinancings over the past three months was a chunky €4.8 billion—versus €1.7 billion in the second quarter and €1.3 billion in Q1. This tally is higher than all but one quarterly reading on this measure since LCD began tracking the data.

In the US, new-issue volume for LBOs financed by the BSL market remained above private credit LBO volume in the three months ended July 31, a trend that has persisted since Q1 of this year. Looking at sponsor-backed deal volume more broadly, the BSL market saw a much stronger recovery in deal volume than direct lending in Q3.

Performance

US private debt rolling one-year horizon IRR by type



Source: PitchBook • As of December 31, 2025

Returns are subdued compared with one year ago

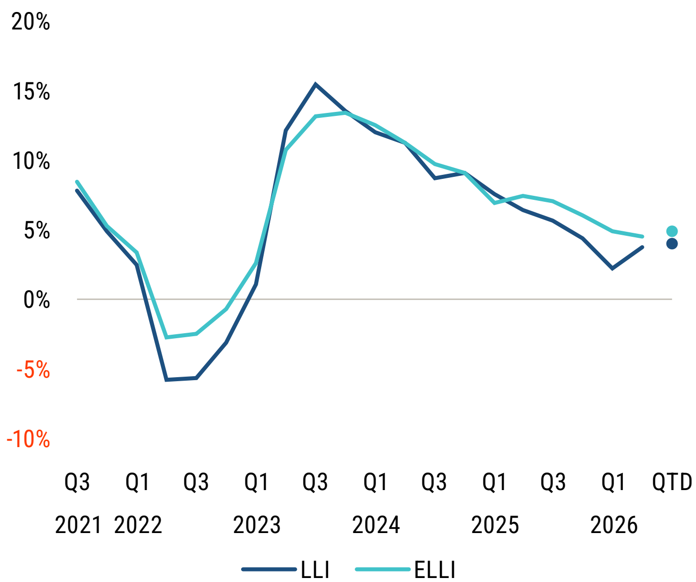
Overall, private debt returns for most asset classes in 2025 are showing a decline compared with 2024 levels. Interest rate cuts are part of this story, but the drivers vary by asset class, with the most common explanation being spread compression due to crowded debt strategies, such as direct lending. However, in distressed or stressed lending, this private credit liquidity helped to keep defaults low, starving investors of the assets for the strategy. Conversely, markdowns or credit losses could also be contributing to lower returns in some categories.

In the US, generally returns were subdued compared with a year ago. They have fallen across the board, apart from venture debt, which, in 2025, saw a turnaround into positive territory (6.2%) from negative a year ago (-1.4%).

Direct lending strategies have seen a sharp drop to 2.6% on average, in stark contrast to 7.9% at the end of 2024 and 16.3% in Q2. This is also below average returns in the broadly syndicated market, which had a total return of 4.3% in 2025, according to the Morningstar LSTA Leveraged Loan Index (LLI).

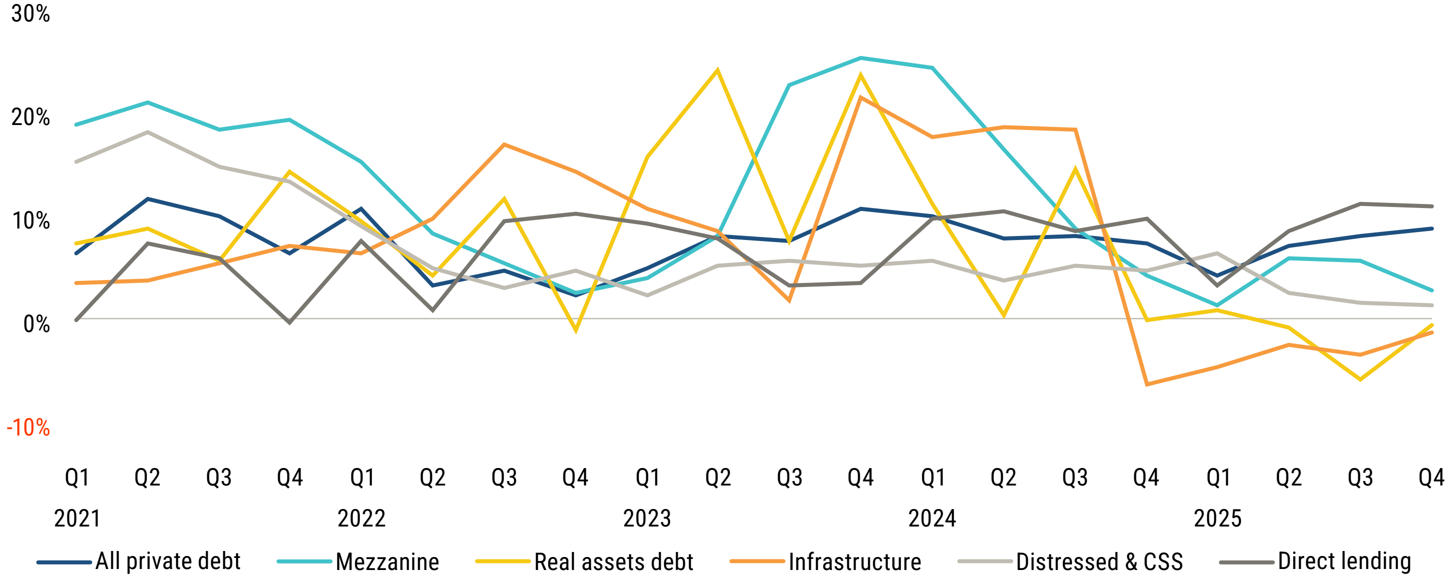
Infrastructure returns have also seen a collapse to 3.3% for 2025 compared with mostly high double-digits in the past four quarters. Infrastructure, like direct lending, was also impacted by rate cuts in 2025 and overall increased capital inflow chasing assets.

Morningstar LSTA LLI versus Morningstar European Leveraged Loan Index (ELLI) one-year total return (excluding currency)



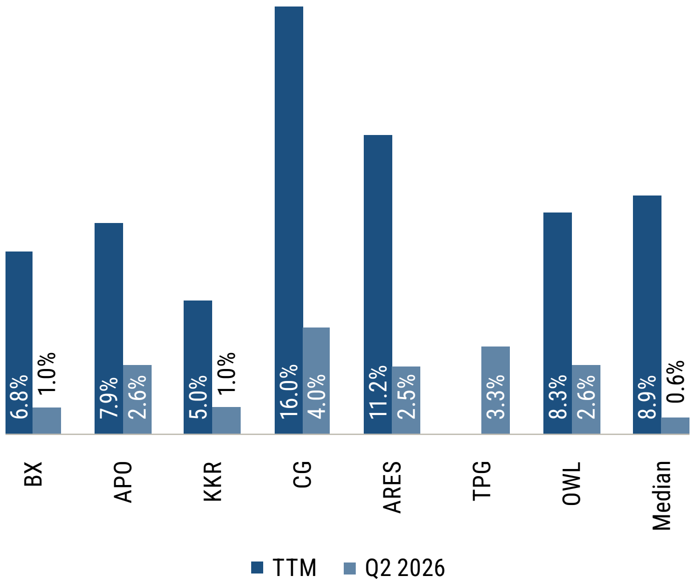
Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index, Morningstar European Leveraged Loan Index TR LCL • Geography: US and Europe • As of August 31, 2026

Europe private debt rolling one-year horizon IRR by type



Source: PitchBook • As of December 31, 2025

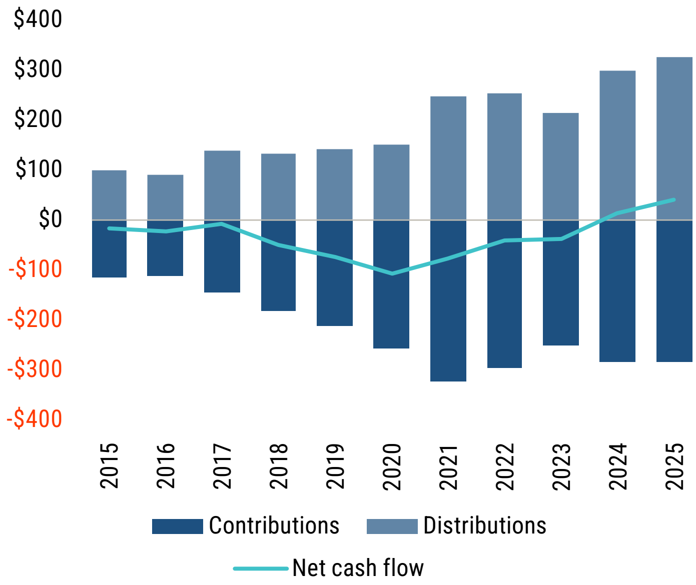
Private debt gross returns reported by manager



Source: Company reports • Geography: Global • As of June 30, 2026

Note: TPG did not provide TTM returns at the consolidated private credit level for Q2.

Private debt cash flows ($B)



Source: PitchBook • Geography: Global • As of December 31, 2025

In Europe, returns show a broad range of outcomes, with mezzanine returns showing the highest one-year horizon rolling IRR of 21.4%. Returns for this risky portion of leveraged companies' capital structure show a high level of volatility historically. Direct lending showed a solid low-double-digit rolling one-year horizon IRR of 11.1%, up from the midyear measure of 8.7%. Direct lending has been giving investors steady returns around 10% since early 2024, offering a real pickup to the more broadly syndicated loan market, which, on average, in the same time period has offered a one-year return of 5.9%, according to the Morningstar ELLI.

Real estate and infrastructure both hit negative territory, while distressed asset classes' returns stayed subdued—all below 2%.

Sponsored by

Looking at the wider private markets funds landscape, private debt can be seen as a bright spot—for now—among individual strategies. Globally, institutional private debt funds printed a 22.9% distribution rate relative to 2024 NAV, and their net cash flow of $39.5 billion in 2025 is the highest in our records for this strategy dating back to 1997. Meanwhile, debt is the only asset class with an increase in trailing 12-month and H1 fundraising.

But as global geopolitical upheaval continues to fuel market volatility and increased economic uncertainty, private debt fund investors need to incorporate this into their investment strategy and mitigate risk to their portfolios; and at the same time, they need to ensure they are putting their capital to work with the right managers to attain their expected returns. The remainder of 2026 will continue to challenge them in this respect.

Fund type definitions

Direct lending: Generally senior loans made to middle-market companies without the use of an intermediary but may include revolving credit lines and second-lien loans. Unitranche facilities, which combine different debt instruments under a single umbrella, are also becoming more common.

Real estate debt: The most common real estate debt strategy is direct lending for real estate acquisitions but may also include the buying and selling of securitized real estate loans in the secondary market. Risk profiles vary based on the nature of the underlying assets.

Infrastructure debt: Debt used for infrastructure development (for example, greenfield) and investment in existing assets (for example, brownfield), generally with longer terms (30-plus years) due to the extended useful life of the assets.

Mezzanine: Subordinated debt, generally with features similar to preferred equity, such as warrants. Often used in LBO transactions.

Special situations: Opportunistic debt or structured equity investments—such as convertible debt, convertible preferred, and debt with warrants—made with the intent of gaining control of a company, generally one in some type of financial distress. Special situations can involve direct origination with these hybrid structures or trading in the secondary market where manager believes price dislocation is present.

Distressed debt: This debt type differs from special situations in that it generally involves the purchase of securities or loans in the secondary market, rather than new origination of debt or structured equity. Distressed strategies likely involve identification of the "fulcrum" security, or the most subordinated part of the capital stack to be paid back in a bankruptcy or other restructuring, which can trade at steep discounts to NAV.

Venture debt: Debt financing extended to companies with venture capital backing. For entrepreneurs, venture debt serves as a way to extend the runway to exit without further diluting ownership.

Bridge financing: Private debt funds that provide short-term loans, also called swing loans, made in anticipation of intermediate-term or long-term financing.

Multistrategy: General-purpose credit funds with broad mandates to invest across the debt capital structure, substrategies, and verticals to capture the entire opportunity set in private credit. These funds will often invest in public debt as well as private debt on a dynamic and opportunistic basis.

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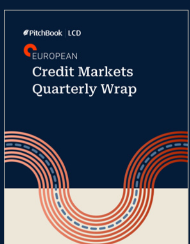
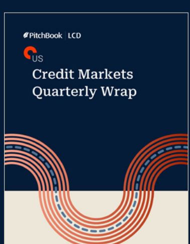


Q2 2026 European Credit Markets Quarterly Wrap

Download the report here



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