



MARCH 2026

Private Credit: Investors are turning to Europe



Damien Guichard, Co-Head
of European Private Credit

European private credit has entered a new phase. Once considered a secondary alternative to the scale and depth of the US market, the region is now attracting unprecedented investor interests.

Structural shifts within Europe's financing ecosystem are reshaping corporate behaviour. At the same time, companies face growing needs for capex related to digitalisation, energy transition, and supply

chain reshoring – areas where private credit offers certainty and bespoke solutions. These dynamics have meaningfully strengthened the *supply* of high-quality private credit opportunities. Fundraising momentum, expanding sectoral breadth, and a more diversified geographic opportunity set are reshaping the landscape. At the same time, investors who have historically concentrated on their private credit exposure in the US are reassessing relative value and risk-return dynamics. Against this backdrop, understanding where Europe stands and what differentiates it has become essential for global allocators.

Developments in the US and Europe

Private debt has been first developed in the US and has over the last decade established itself as a major asset class standing at USD 1.1 trillion of AUM,¹ offered to both institutional as well as retail investors. Whilst sizeable at USD 488bn and fast-growing itself, the European market has long been in the shadows of its elder brother.

Over the last couple of years, however, we have been seeing increasing interest from investors for European private debt strategies. This is confirmed by the fundraising momentum:

1) Preqin Global Report Reports 2025

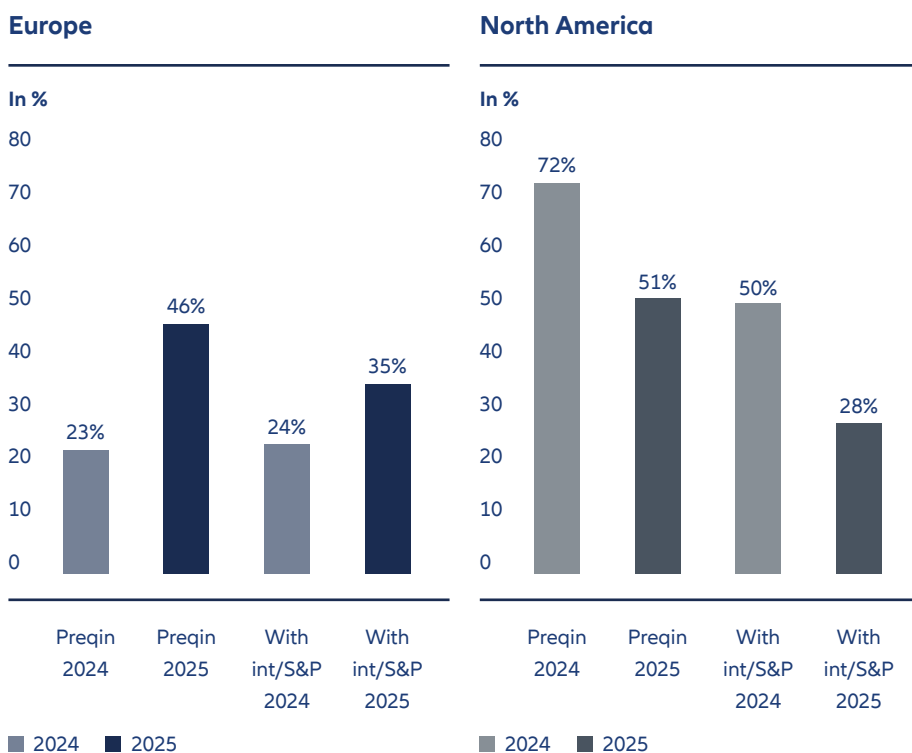
according to Preqin, Europe-focused private credit funds captured 46% of global fundraising in the first three quarters of 2025, nearly doubling their 23% share in 2024, signalling a strong acceleration in capital flows into the region. This steep change highlights a structural strengthening in investor appetite.

Much of this additional demand comes from institutional investors that historically only invested in the US. This may appear counterintuitive given the macroeconomic headwinds faced by Europe’s largest economies. Yet IMF data confirms some stabilisation of the European economy: Germany’s real GDP growth is projected at 1.1% and 1.5% in 2026 and 2027, while the UK is forecasted to grow by 1.3% and 1.5% in 2026 and 2027, France standing at 1.0% and 1.2% according to the IMF’s latest outlook.² While these figures are not spectacular, they remain consistent with a stable environment in which private credit can play a role.

Increasing interests for Europe is driven by diversification needs and relative value

Part of the drive is the continuous need for diversification, particularly as global portfolios remain structurally overweight to the US. Asia, although growing, still lacks the scale and depth required to absorb very large institutional allocations, making Europe the only other market of comparable maturity and capacity in private credit at this point.

Exhibit 1
Share of Fundraising in terms of regional focus – North America vs. Europe



Source: Global Preqin Report, with intelligence/S&P

The US direct lending market could appear stretched from a risk-return standpoint. Heightened market efficiency has pushed some structures to their limits and reduced the margin pick up versus the public markets. Lincoln International estimated in its Q1 2026 release that the margin compression has exceeded 100bps, whilst shadow default rates (defined as “Bad PIK”) has increased from 2.5% in Q4 2021 to 6.4% as of Q4 2025.³

In parallel, several US BDCs have recently experienced significant quarterly declines in net asset value. The magnitudes of these moves have been striking given that these vehicles are expected to benefit from portfolio

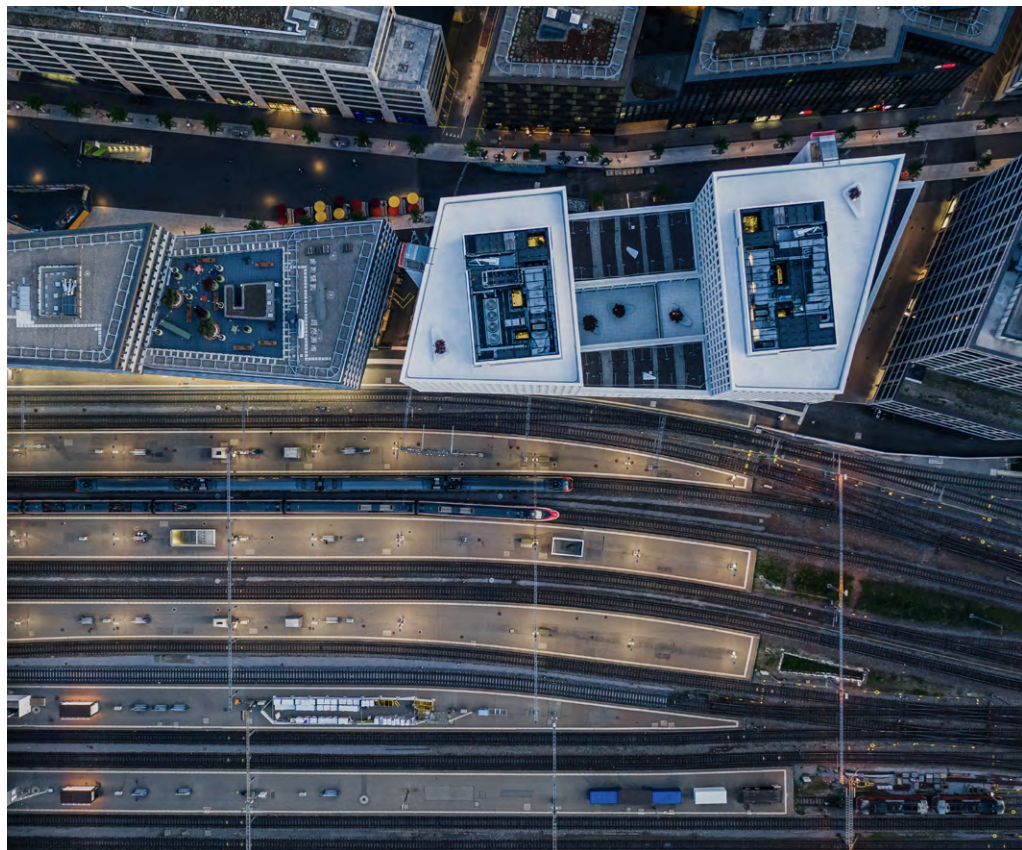
granularity and senior-secured positioning. One contributing factor is that these funds are often levered in excess of 1 to 1, whereas most European private credit funds operate on an unlevered basis.

Finally, sector concentration is also a growing concern, particularly around software, which is one of private credit’s favourites. UBS estimates that roughly one third of US private credit exposures sits in businesses vulnerable to varying degrees of AI-driven disruption. While managers argue that this percentage is largely overstated, and that tech companies remain fundamentally healthy, average leverage levels at around

2) IMF World Economic Update January 2026
3) Q1 2026 Private Market Webinar: U.S. Edition

8x leave limited margin for any operational slowdown.⁴

The European private credit market is also a competitive market, but it is not as exposed to some of the factors described above. European funds are largely unlevered and concentration in the technology sector is not as high. Sector exposures are spread with buoyant subsectors such as energy transition and digital transformation. These sectors have become particularly relevant in markets such as Germany, France, UK where energy-related infrastructure modernisation and digitalisation are priorities. This broadening sectoral base provides Europe with additional resilience and diversification.



Finding value in the core mid-market segment

On the one side, regulatory frameworks such as Basel IV are pushing banks to hold more capital against corporate loans, reducing their appetite for mid market lending. On the other side, more and more mid market borrowers are looking for long-term financing partners to support them in their transformations with regards to digitalisation, the energy transition and supply chain re-shorting. This comes with a range of opportunities for institutional investors.

The market has now reached a level of scale and maturity that enables meaningful strategic differentiation. The market is also increasingly segmented, allowing investors to select the strategy style that best aligns with their risk appetite, return expectations, and portfolio construction objectives.

A first clear segmentation has emerged between the upper mid-market and the core midmarket. The upper midmarket – typically targeting companies with EBITDA above EUR 750–100 million – expanded rapidly in 2022 when the broadly syndicated loan market was largely closed to new issuers. That window of opportunity has now closed, and although the segment remains growing and active, it now faces direct competition from very dynamic capital markets with record volume in the broadly Syndicated Loan market. As a result, transactions in that segment are largely covenant-lite structures and offer only a limited margin premium, as borrowers can switch back to the Broadly Syndicated Loan market when direct lending terms are either too restrictive or expensive. In current market conditions, margins above base rates range from 425bps–475

bps. This segment is dominated by global managers operating mega funds with significant capital to deploy and a preference for large transactions to accommodate their ramp-up objective.

By contrast, the core midmarket, defined here as businesses with EUR 15–50 million of EBITDA, remains largely insulated from capital markets competition. Deals in this segment tend to feature higher spread pickup, stronger covenant protection, more bespoke structuring, and better alignment between lenders and borrowers. This is the segment in which Allianz Global Investors operates, focusing on disciplined underwriting and robust documentation in a market where risk-adjusted returns remain compelling. Margins in that segment typically range from 500bps to

4) UBS Global Credit Strategy January 2026

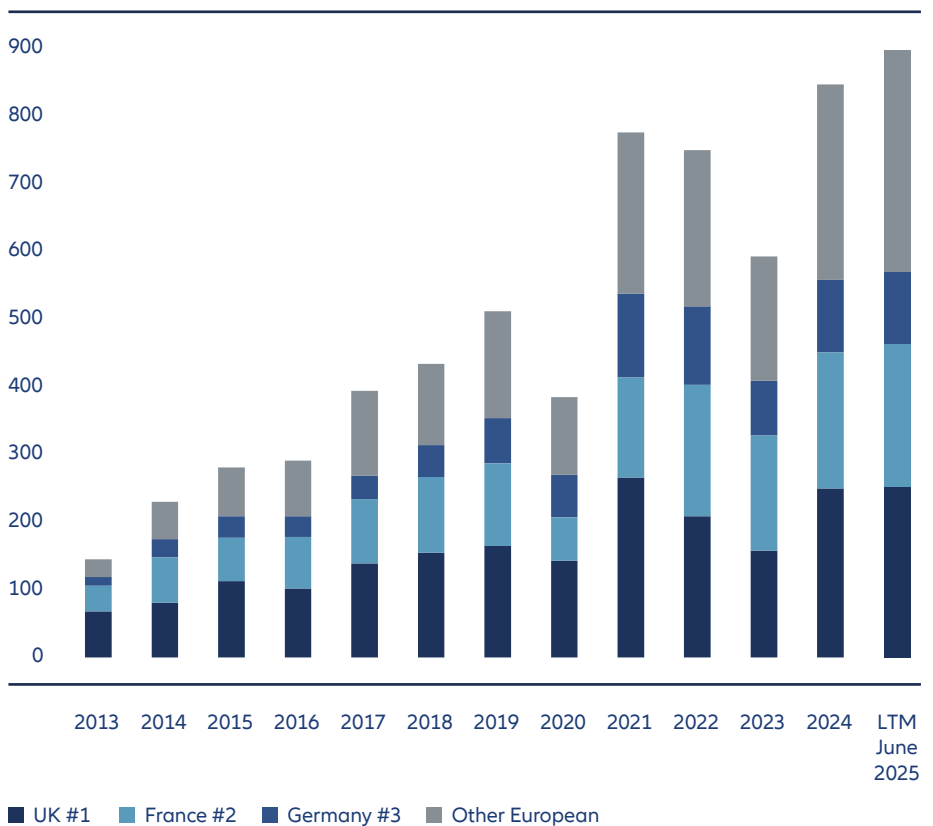
575bps. Targeting the core midmarket also means that you are financing local companies that operate at the national or European level. These companies are de facto on average less exposed to tariffs, supply chain disruptions, and global macroeconomic factors than larger companies. In our portfolio, we aim to favour local leaders with the vast majority of their revenues deriving from Europe and limited exposure to the global supply chain market.

In addition, the market is becoming increasingly pan-European. As recently as 2020, the UK represented approximately 37% of total deployment volumes, according to Deloitte.⁵ By the first half of 2025, this share had declined to about 27%, reflecting a more diversified geographic landscape. This offers investors a broader and more balanced universe in which to deploy capital. At the same time, operating across more than 20 jurisdictions, each with its own legal, regulatory, and financing environment, creates complexity. When addressed in a robust manner, this generates inefficiencies that well positioned managers can translate into excess returns. If deal flow softens or credit quality deteriorates in one jurisdiction, sourcing can be shifted towards more attractive regions. As an institutional player with a pan-European and local presence, AllianzGI leverages on-the-ground intelligence to identify and capture opportunities especially in France, UK, Germany and the Netherlands where we see the most attractive opportunities for direct lending at this point.

The European investment universe continues to expand gradually. Banks

Exhibit 2

Number of direct lending transactions completed in EU



Source: Deloitte Private Debt Deal Tracker Autumn 2025

remain active across several markets but are structurally retrenching amid regulatory constraints and are increasingly relying on originate-to-distribute models and/or partnerships with private debt funds. Sponsored transactions remain the predominant source of deal flow – more than 90% – and in that segment, it is essential to build strong relationships based on trust and the ability to deliver in both favourable and challenging situations. Sponsorless lending is also emerging as a significant opportunity, although it has been historically thought of as a way to boost returns. As private credit gains recognition, we expect to see more and more high-quality midmarket sponsorless

companies seeking long-term financing partners to support their growth. Given the strong reputation and network of Allianz, we aim to partner with those companies whilst bringing additional diversification for our clients.

These structural supply forces – tight bank lending, significant capex requirements, and an expanding pool of mid market borrowers seeking long-term financing partners – are widening the opportunity set for private credit investors. Crucially, they are doing so independently of cyclical market conditions, contributing to a more durable and scalable European private credit ecosystem.

5) Deloitte Deal Tracker 2025

Europe stands out

Overall, European private credit is now a fully scaled institutional asset class, with roughly EUR 400 billion in assets under management and a rapidly expanding opportunity set. Its combination of structural diversification, improving legal

frameworks, market inefficiencies, and attractive sector dynamics enables investors to build portfolios with significant depth and risk dispersion. At the same time, Europe continues to offer at this point a premium of more than 200 basis points over public markets, enhancing long-term return profiles

while offering more defensive characteristics. In an environment where global investors are actively rebalancing away from concentrated exposures, Europe stands out not only as an attractive alternative but as a compelling allocation opportunity.

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances arises from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced, except for the case of explicit permission by Allianz Global Investors. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws. This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).