



Market Perspective

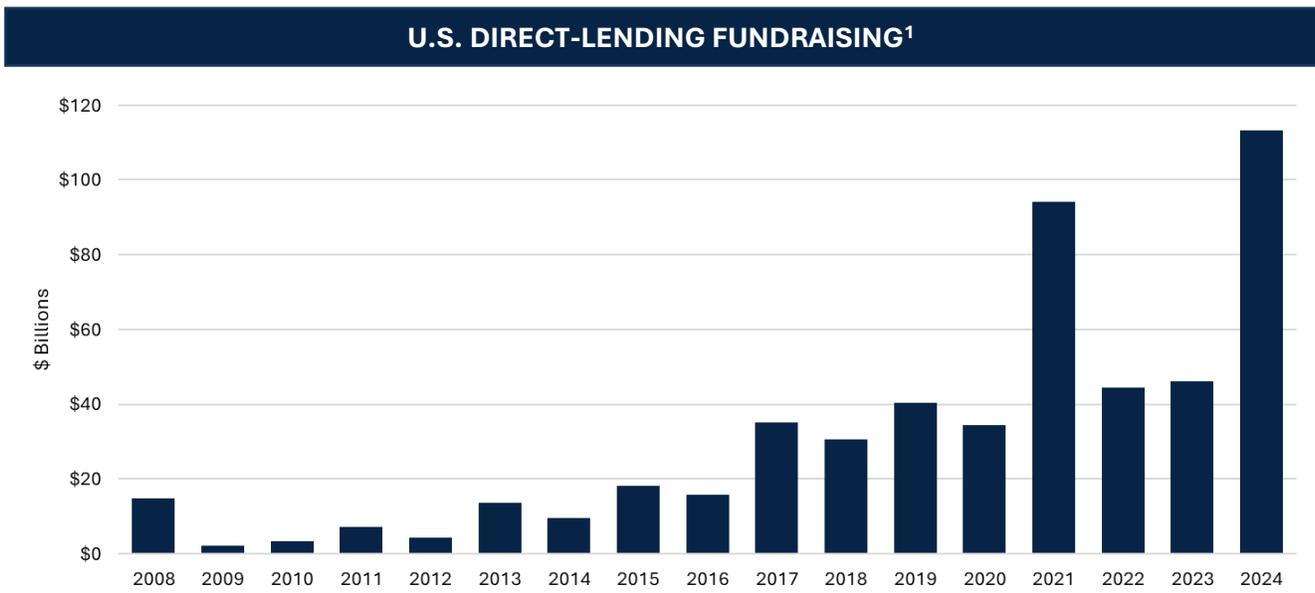
Q2 » 2025

Kayne Anderson Private Credit

There's been a fair amount of press regarding private credit and the contention that there's too much capital chasing too few deals. In this article, we tackle this issue from several perspectives, (i) illustrating the vast majority of the capital raised has gone to the larger loan market, where there is a significantly smaller addressable universe of companies available to finance; and (ii) the ratio of private credit dry power to private equity dry powder is consistent with ratios over the last 10 years (~5x private equity to 1x private credit); and (iii) that core middle market private credit, which focuses on companies in the \$10MM-\$75MM of EBITDA range, has more favorable risk-adjusted return dynamics as well as supply/demand implications that should create an attractive investment environment for the foreseeable future.

INTRODUCTION

A recent article suggested that private lending funds are facing a surplus of dry powder with limited high-quality deployment opportunities. Viewed from a macro perspective, the growth in U.S. direct lending fundraising does appear significant—raising \$113.2 billion in 2024 alone, the highest annual total on record since 2008.



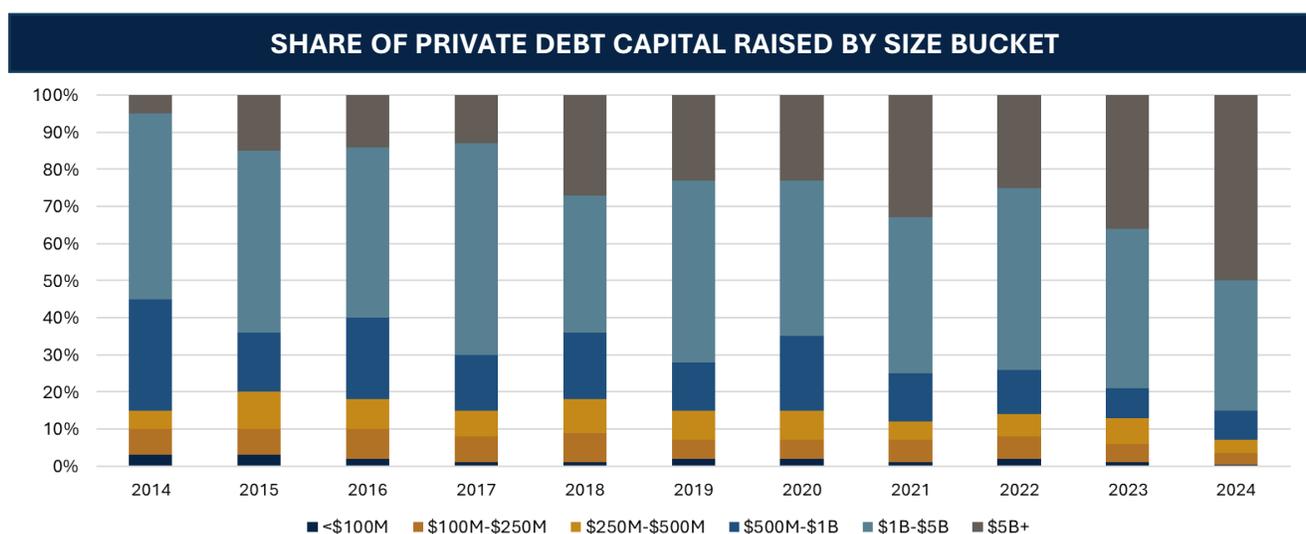
The growth in private debt fundraising has been driven by both the **supply of capital** from investors and the ongoing **demand from private equity sponsors** for deal financing.

» ¹Source: PitchBook.

PRIVATE DEBT

» SUPPLY

Interest in the private credit market has grown steadily over the last 10+ years (as evidenced by continued growth in fundraising activity) as institutional and, more recently, retail investors have become more comfortable with the relative risk and illiquidity profile of private debt investments: senior secured position, resiliency through recessionary periods, conservative advance rates, and low correlation to equity markets. This interest has recently accelerated as increased reference rates have increased returns in what were already lender-friendly environments.



In 2024 alone, over half of all private debt fundraising was allocated to funds sized at \$5 billion or more, highlighting a clear and accelerating shift toward the upper market. This trend—evident since 2014—has resulted in an increasing concentration of capital among larger funds and upper market platforms. As a result, the majority of dry powder is now concentrated in the upper market, intensifying competition for deals and placing downward pressure on returns in that segment. Notably, five managers accounted for approximately 66% of total capital raised in private credit in 2024—all of whom are focused on the upper or upper middle market—further underscoring this dynamic.

Manager	% of AUM Raised ('24)	Target EBITDA
Blackstone	19.4%	\$100MM+
Ares Management	13.5%	\$10-150MM
Goldman Sachs Asset Management	12.9%	N/A
HPS Investment Partners	12.6%	\$75-350MM+
Silver Point Capital	7.5%	\$25-100MM+
% of Total AUM Raised	66.0%	

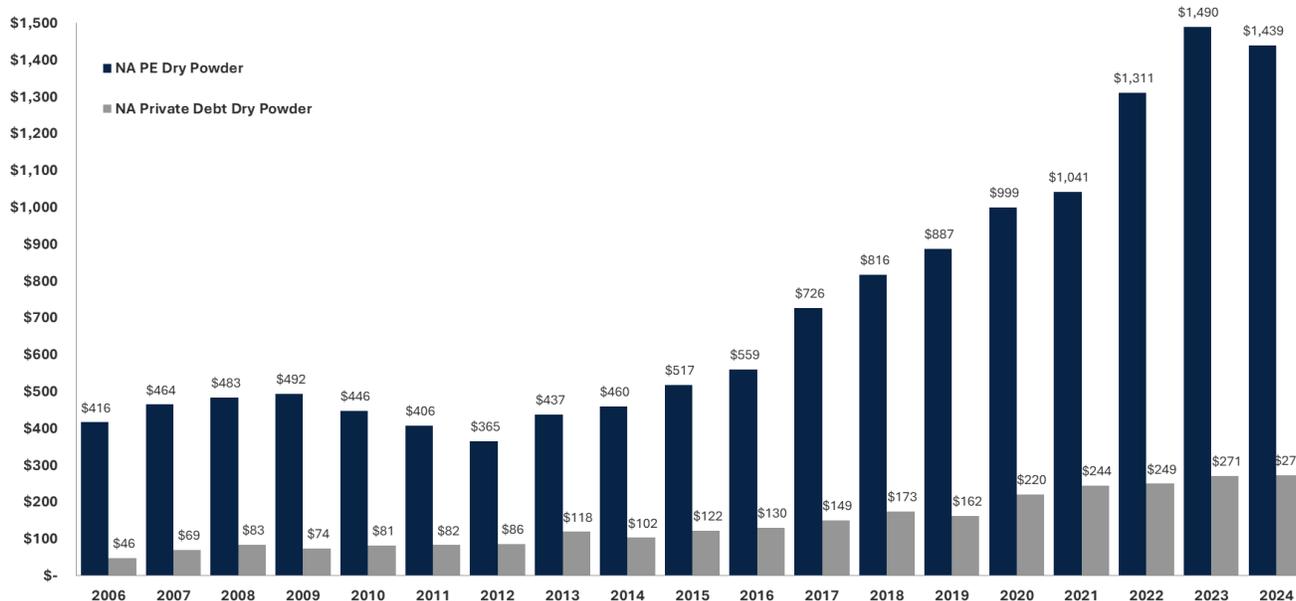
» Source: PitchBook 2024 Annual Global Private Debt report.

PRIVATE CREDIT

» DEMAND

Transaction volumes in the private debt markets are primarily driven by private equity capital formation and deployment. As of year-end 2024, North American private equity dry powder stood at nearly \$1.4 trillion. Given that most transactions in these markets are structured with roughly 50% debt and 50% equity, we estimate that a comparable amount of private debt will be deployed over the coming years—even before factoring in ongoing capital formation.

NORTH AMERICAN PRIVATE EQUITY AND PRIVATE DEBT DRY POWDER (\$ IN BILLIONS)¹



As shown above, private credit dry powder continues to lag behind private equity dry powder. In 2024, private credit dry powder represented approximately 19% of total private equity dry powder—a ratio that has remained relatively stable since 2006, with a historical average of around 20%. This consistency suggests a well-balanced market and provides no indication of excess capital in the private credit space.

Importantly, the core middle market offers a significantly broader universe of opportunities: approximately 206,000 companies in the \$10–\$500 million revenue range, compared to only ~4,200 companies in the \$500 million–\$1 billion range². Despite similar total deal value, this larger volume of smaller transactions supports stronger risk-adjusted returns, given reduced competition and greater lender influence on terms and structure.

» ¹Source: Preqin.

» ²Source: National Center for the Middle Market.

PRIVATE DEBT: BIGGER IS NOT BETTER

While an oversupply of capital relative to financing opportunities can contribute to spread compression, this impact has been more moderate in the core middle market, which we define as companies with \$10–75 million of EBITDA. By contrast, upper middle market participants often compete directly with the broadly syndicated loan (BSL) market—introducing additional pricing pressure and affecting transaction volumes—dynamics that are generally not present in the core middle market. For example, in 2024, KAPC experienced spread compression of approximately 50 basis points, whereas we estimate compression in the larger market was closer to 100–150 basis points¹.

While some market participants promote a “bigger is better” narrative when discussing risk profiles, available data does not support this view. We see no evidence that (i) larger businesses perform better than smaller ones during downturns, or (ii) credit losses are lower in larger markets. In fact, investments in larger businesses and markets often introduce structural complexities that can elevate risk, including challenges around lender coordination (due to larger syndicates), weaker credit documentation, absence of covenants, and greater exposure to market-driven pressures.

Middle market private credit has consistently generated yields that exceed those of most other credit-related indices, while maintaining loss rates that are lower than—or at worst, in line with—those same benchmarks. For example, the Cliffwater Direct Lending Index (CDLI) has outperformed both the Bloomberg High Yield Bond Index and the Morningstar/LSTA U.S. Leveraged Loan Index over the past ten years and since the CDLI's inception in 2005.

Senior loans have the unusual combination of strong, quarterly cash-driven returns with consistent resilience, even in downturns. Senior loans have posted positive returns in 28 of the last 31 years, including during 2022's bond market crash (-1% vs. -13% for aggregate bonds). Their floating rate feature shields them from rate hikes, while senior secured status limits losses in defaults.

Media narratives about excessive capital raising overlook senior credit's unique risk/reward profile, structural protections, high active yields, and the fact that strong institutional demand is a vote of confidence for its role as a core alternative allocation, particularly amid economic uncertainty. While competition may intensify in generic direct lending, senior credit's defensive attributes and evolving specialization trends ensure continued relevance, especially in the less competitive core middle market.

» ¹Source: LSEG Refinitiv Private Market Deal Analysis Q4 2024. Based on sponsored middle market first-lien spreads for large middle market companies defined as \$101 million to \$500 million of EBITDA.



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