



Three reasons why allocation to private credit could increase in 2025



Albane Poulin, Head of Private Credit at Gravis, discusses the outlook for private credit in 2025.

“Decarbonisation, decentralisation and digitalisation should provide significant opportunities for private lenders in 2025 on and digitalisation should provide significant opportunities for private lenders in 2025”

Key take-outs:

- The credit environment is improving
- Increase in allocation from pension funds, investors traditionally investing in fixed income and private funds
- Infrastructure loans with credit quality in the BB rating category attractive

1. The credit environment is improving

We expect 2025 to be a more favourable macroeconomic environment for private credit, which should result in an easing of valuations and some of the liquidity pressures. Lower rates should also increase

M&A activity, creating new opportunities for private lenders.

Having spiked in 2024, we expect default rates to fall in 2025, especially in the US where the healthcare, telecom and business services sectors were the largest contributors of defaults in the past 12 months, reflecting macroeconomic pressures and secular declines.

Interest rates have also started to fall, and inflation has moderated, so borrowers' ability to service their debt is expected to improve. Lower funding costs should reduce refinancing risk, especially for cyclical sectors where lenders had to accept deferring cash interest payments (PIK loans) to manage borrower's cash flows. These expensive loans will need to be refinanced as market conditions are improving.



2. Allocation to private credit likely to increase

We expect allocation to private credit to grow due to a number of factors.

Firstly, investors could switch from traditional fixed income. Spreads there are tight, indicating that the additional yield that investors are earning over the risk-free rate is minimal. With geopolitical tensions, fiscal expansion, trade protectionism and political headwinds, there are also plenty of reasons to expect more volatility in the public bonds market, and spreads could potentially go wider in 2025.

Private credit offers superior risk-adjusted returns and less volatility compared to public bonds. While offering a stable source of cash flows and better risk premium, the all-in coupon of private credit should become even more attractive on a relative basis as rates come down.

We also expect demand for private credit to grow out of private equity, as private credit offers certainty of income and predictability of capital back to investors. In the context of private equity having difficulties exiting investments, we believe private credit provides a compelling advantage.

Finally, expect pension schemes to grow allocation to infrastructure debt in particular, given the asset class provides predictable income and strong capital preservation. This is also in line with the government's intention to encourage pension funds to invest in private assets to support the UK economy.

3. Value is to be found in private credit

We expect decarbonisation, decentralisation and digitalisation to provide significant opportunities for private lenders.

Manager selection will be crucial, particularly in infrastructure where technical expertise is required to assess properly innovation, regulation and government policies. This requires a strong skillset to assess these evolving technologies and regulatory frameworks to support government policies achieving faster energy transition. Track-record, return performance and loss rate should be key differentiators when selecting asset managers.

We specialise in infrastructure debt, which has stable cash flows no matter what the prevailing environment and is less sensitive to the health of the economy. Many assets are also inflation-linked and/or government backed. We have a successful track record of being an early mover into new infrastructure areas – our expertise means we can provide bespoke and complex financial solutions which match best the risk profile of the asset and, in doing so, achieve good risk/reward metrics irrespective of market conditions.

Moving into 2025, infrastructure loans with strong investment-grade ratings remain very competitive. We favour loans with credit quality in the BB rating category, where we can generate more alpha but still benefit from strong collateral.

The private market has a key role to play in the trend towards decarbonisation, and infrastructure debt should continue to be a cornerstone for portfolios.



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