Q&A: What will be the biggest trend or issue impacting the European private credit market in 2023?

December 7, 2022

The private credit market has proven to be an attractive prospect for investors in light of recent economic developments. As other asset classes shrunk during the global financial crisis, private credit maintained resiliency. Now as we enter 2023, Alex Griffith, Daniel Hendon, Faisal Ramzan and Harriet West reflect on what is next for the market.

What will be the biggest trend or issue impacting the European private credit market in 2023?

Alex Griffith: “Market uncertainty and macro risk concerns mean that we are definitely out of the era of “cheap debt and endless leverage”. There has been a reduction in the volume of M&A deals and Sponsors are sitting tight on their existing financings, in large part because of the hike in interest rates making borrowing more expensive than before. This will mean that some credit funds will flex their innovation muscles and come up with newer and ever evolving ways to interact with the market. I can easily see closer collaboration between credit funds and other lenders on solutions that merge separate products and approaches, for instance a Unitranche facility from a direct lender provided alongside an ABL facility from a bank, to offer both long term certainty and access to liquidity quickly. But what is important to remember is that whilst private credit funds have had to sharpen terms and pull back on leverage, it has not resulted in a shutdown of activity like it has in other parts of the market – private credit providers are still open for business!”

Daniel Hendon: "There will be plenty of mid and upper-mid market transactions in Europe in 2023. That said, I have been involved in a number of really interesting mid to lower and/or off market transactions in Europe in 2022 (including to name a few jurisdictions, UK, The Netherlands and the Nordics). This universe will be where private credit funds continue to seek opportunities and deploy especially since there will be ongoing volatility in liquid public markets and a tightening of traditional financing markets which will limit the ability to execute on too many larger transactions. This is an exciting time to be operating in this space as the opportunities to deploy exist and they can be bespoke."

Faisal Ramzan: "In the European market, it is likely that banks will continue to look for ways to compete against the dominant credit funds in that middle market space. If we look back over the past couple of years, a large number of banks have set up dedicated private credit businesses. This has been achieved through using a mix of own capital and externally raised funds, coupled with freshly hired teams from the midmarket credit funds to try and compete with more traditional players in the European direct lending space. In 2023, I can imagine seeing competition heat up, with the banks trying to fight back for some of the market share which they almost completely lost to credit funds following the GFC."

Harriet West: "There is no escaping what is likely to be challenging economic headwinds in 2023 and we are likely to see traditional M&A activity in the UK market remain slower. However, 2023 is likely to present new opportunities for private debt managers: one trend that we are seeing and is likely to pick up pace next year is private debt funds looking to geographies that in the current climate, have seen traditional banks retrench, in particular in Italy, Spain, Portugal and the Nordics, which are already seeing record private credit transaction levels. We are also likely to see more clubbed unitranche lending, especially in the large-cap space where larger managers step into fill the gaps left with the closing of the syndicated loan market and high-yield market and at the lower/core mid-market we will continue to see private debt funds gain ground as traditional banks tighten further on terms and leverage."

Related Professionals

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