Proskauer

Talking Trends: The Annual Download and 2026 on the Horizon

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In **Women in Private Credit: Talking Trends**, we dive into the world of private credit through the lens of eminent women in the field – from professionals at the forefront of the industry to our own lawyers. Together, we navigate the trends and topics influencing private credit against the backdrop of today's ever-evolving geopolitical landscape.

In our latest edition, Proskauer private credit partner Harriet West speaks with leading women from across the private credit landscape to reflect on the key developments that shaped 2025 and to share their insights on the trends, opportunities, and challenges that could shape the private credit market in 2026.

What trend do you think dominated the private credit market for 2025?

Priyanka Surya*, Corinthia Global Management:* In 2025, private credit evolved into a contest for privileged access. In a market characterised by oversubscription and large-cap influence on mid-market terms, long-cultivated, enduring, and trusted sponsor relationships have become the ultimate differentiator for private credit managers. Securing a place amongst a private equity firm's preferred long-term relationship lenders allows for proprietary deal origination and superior credit selection. Success lies in balancing this access with an investment team's seasoned judgement of knowing when to lean in and when to step away.

What was the biggest challenge for direct lending in 2025?

Iryna Adebiyi, *Ares Management:* There were over 60 political elections globally in 2024, many of which were in regions already navigating various sensitive situations, so geopolitical uncertainty was a challenge that we anticipated when heading into 2025. With the year now concluding, the measures we took – such as active portfolio and risk management, as well as a highly selective investment strategy – appear to be paying off. Loans-to-value in our European Direct Lending portfolio are healthy at 48% on average, as of Q3 2025, and deal activity has been strong, with firmwide gross deployment approaching $100 billion in the same period. This resilience builds on our track record of growing through other challenging periods, including the global financial crisis, European sovereign debt crisis, Brexit, and COVID-19 (and the high-interest rate environment that followed).

Heading into 2026, we believe private credit is positioned for continued growth in Europe, especially in less mature markets like Italy – having opened an office in Milan earlier this year – in which we’re seeing meaningful demand for flexible capital solutions.

How have covenant protections and documentation standards evolved this year?

Harriet West, *Proskauer:* In combination with weakening lender economics and leverage creeping back up, the trend toward looser documentation has become increasingly evident across the European direct lending market. While covenant-lite structures have moved down the deal-size spectrum, what lenders are finding most difficult to resist is the steady erosion of key protective terms — particularly around debt incurrence, permitted restricted payment regimes, EBITDA adjustments, voting controls, disposals and value leakage, guarantee and security packages, among others.

We have seen “incurrence-style” covenants appearing in mid-market transactions, but also these concepts being subtly embedded within more traditional mid-market documentation, further blurring the lines between upper-mid market documentation and mid-market documentation. Items that had been strongly resisted by lenders last year or at the start of the year, have in some instances become common place in grids and documentation as 2025 draws to a close.

2025 seemed to be a game of two halves with dealflow really expanding in H2 2025, how did this play out for

you?

Aude Doyen, *Lincoln International:* 2025 did split into two phases, but we stayed busy throughout and are on track for a record year at Lincoln. H1 was still dominated by refinancings and recapitalisations as sponsors focused on cleaning up capital structures, and H2 kept that pace while bringing a more visible return of acquisition financing. Activity wasn’t consistent across the region – continental Europe benefited from stronger M&A-driven flow, whereas the UK remained softer, though we saw a clear pickup in Q4 with processes aiming for pre-Christmas or early-2026 signings. Deal quality also improved as the year went on, which gives us good conviction on activity levels going into 2026.

How did you position your fund between deployment discipline and capturing opportunities in a competitive environment this year?

Claire Harwood, *Permira Credit:* We operate a European strategy and when you look at Europe it remains one of the most compelling credit markets today. European structural dynamics are generating more, not fewer, opportunities for private credit. Higher sovereign yields and fiscal divergence are lifting the cost of capital and driving repricing across credit markets, but private credit is adjusting more slowly, supported by strong demand, constrained bank balance sheets and a healthy refinancing pipeline. Activity in defensive, sponsor-backed sectors remains robust, and refinancing cycles going into 2026 are expected to increase deal flow on more attractive terms. With that backdrop, we have seen really strong deployment this year and expect that to continue into 2026.

In terms of discipline, it has always been fundamental to our underwriting strategy, and we think that in today’s environment, a manager’s ability to outperform depends even more on discipline. In a lower-yield environment, the differentiators are underwriting quality, sector expertise and conservative structuring, so our focus on defensive, asset-light sectors and our cycle-tested track record position us well.

How did competition evolve between private credit lenders and traditional banks in 2025?

Megan Lawrence, *Proskauer:* There continues to be competitive pressure between the financing options offered by the private credit and syndicated markets as private credit continues to grow, and we frequently see sponsors running parallel private credit and syndicated financing solutions on deals so as to keep their options open. While private credit funds had a larger share of the middle market, we are now also seeing private credit lenders offering financing solutions in larger cap deals which, owing to their size, have historically been more suited to the syndicated loan markets. Private credit lenders are also able to offer customized capital structures with unitranche, PIK and hybrid financing solutions not otherwise easily accessible in the syndicated markets.

On the flip side, the lower spreads offered in the broadly syndicated markets are driving down the pricing of larger private credit loans - putting pressure on the private credit funds and their ability to participate in large cap deals at the lower price point. From a documentation perspective, there is competition between terms offered in the syndicated versus private credit markets and, certainly on the large cap financings, we are now seeing broadly similar terms across both offerings. Further, where large-cap sponsors plan on financing middle market deals, they are looking to obtain some of the terms on those transactions that are seen in the large cap space. Investment banks have also acknowledged the competition posed by private credit providers and the need to compete in the private credit markets and have responded by setting up their own private credit platforms allowing them to compete in this space. We have no doubt that this will continue to be an interesting and competitive space to watch over the next few years and the Proskauer finance team, having capabilities across the private credit, syndicated and high yield markets, is well placed and excited to represent clients across various capital structures and financing solutions.

If you could summarize 2025 in one word or phrase for European private credit, what would it be – and why?

Julija Miezetyte, *Barings:* Resilient: 2025 marked a defining year for European private credit, showcasing its resilience amid a challenging global macroeconomic backdrop. Sponsors across Europe continued to rely on private credit funds for speed and certainty of execution, while co-investors demonstrated a sustained and growing appetite for the asset class.

What’s your outlook for deal flow and pricing heading into 2026?

Vanessa Totah, *Marlborough Partners:* To date 2025 has seen an active financing market with syndicated leveraged loan issuance up around 20% year-on-year, albeit the deal volume that related to LBO activity was relatively subdued (representing roughly a quarter), as a persistent valuation gap between buyers and sellers continued to weigh on deal flow. This disconnect has reduced the supply of new transactions coming to market, a trend further compounded by heightened geopolitical uncertainty (e.g. tariffs), with the majority of the transactions being portfolio related (refinancing, recapitalisations, add-ons), as private equity focused on value creation in their existing portfolios.

Looking ahead, we do not expect the start of 2026 to follow a materially different trend. Some potential sellers are opting to hold on to their assets and delay planned sale processes or to soft market the assets ahead of a wider auction. High quality companies will likely make their way to market quicker and with sponsors pushing to deploy record levels of unspent capital, albeit without lowering the bar on asset quality, demand will remain extremely high. We expect continuation vehicle processes to remain an attractive alternative option for these higher quality assets too. In the lower mid-market, we have witnessed the emergence of search funds, often acting as consolidators in a specific sector. We expect this trend to continue.

In the private credit market, funds’ dry powder and pressure to deploy remains, creating a borrower-friendly environment for terms and continued margin compression. The private credit market remains somewhat bifurcated between high quality and mid quality credits. The higher quality assets terms have been extremely attractive in recent months, with borrowers securing pricing in the mid-4% range, while more traditional credits have been priced in the mid-5% range. However, recent widely publicised defaults, particularly in the US, may lead to a slowdown in deployment and reduce competition which would limit the scope for further material tightening. Much will depend on the pace and composition of new supply, particularly among market-leading credits.

What trend are you most looking out for in the private credit industry in 2026?

Rana Misirlizade, *Macquarie Capital Private Credit:* Going into 2026, we expect a further convergence of mid-market and large-cap private credit terms, where lenders with flexible capital that are able to offer solutions to borrowers across the spectrum can step into situations that other players may have too narrow a mandate to execute on. Maintaining discipline on asset selection and documentation controls is more important than ever in this environment, and strength of borrower relationships is critical to being able to deliver on that.

How do you see direct lending documentation evolving in 2026, particularly around covenants and flexibility?

Annabel Lau, *Pemberton:* Our expectation is that lending documentation in 2026 will remain bifurcated, with larger, upper mid-market deals continuing to push for cov-lite terms, higher opening leverage, and broader flexibility, including debt freebie capacity. Lender acceptance will hinge on factors such as credit quality, jurisdiction, and the availability of a broadly syndicated loan alternative. In contrast, mid to lower mid-market lenders are likely to maintain tighter covenants and more measured flexibility. As ever, collective discipline from private credit funds will be essential to ensure that the right balance is struck between documentation flexibility and adequate mitigation of limited partner risks.

What opportunities are you watching closely for 2026?

Amie Taylor, *Arcmont Asset Management:* Private Credit has responded well to various macroeconomic stresses in recent times. The continued decline in lending appetite from traditional banks, coupled with a heightened degree of volatility in the liquid markets over the last five years, has served to highlight the reliability that private debt funds can offer to borrowers and sponsors alike. M&A processes, at all sizes, now often incorporate a dual track with a private credit option, demonstrating the scale of the structural shift.

Currently, we see the macro environment improving, with reduced inflationary and interest rate pressures across Europe (including the UK), driving a renewed confidence in the M&A markets. Combined with both a refinancing wall from the large 2021-2022 transaction cohort, as well as pressure on sponsors from limited partners to exit assets to return capital, we are seeing an ever-increasing set of actionable financing opportunities.

We also see a continued thematic trend of a bifurcating market in European private credit. A smaller number of large managers are attracting an ever-increasing portion of capital raised and, on the other side of the equation, as sponsors are operating in increasingly competitive environments where reliability and execution certainty becomes key, deal flow is also consolidating around a smaller group of trusted managers, a development which we are looking to take advantage of.

2025 has also seen heightened interest in AI developments and what this means ‘on the ground’ for financial markets, businesses and consumers alike. We are currently evaluating this through an opportunistic lens – in terms of how AI is supporting businesses and markets to grow effectively and create efficiencies. We believe these developments could also generate attractive opportunities in newer areas to invest.

Which area or segment of the market do you expect to present the greatest opportunities in 2026?

Charlotte Boylin, *Proskauer:* The hybrid capital space will be an area of focus which will continue to evolve. In an effort to be proactive in chasing opportunities and manufacturing activity in an ever competitive environment, we’ve seen numerous examples of active private credit participants stepping in to provide hybrid capital products as financing solutions offered in response to market pressures. Such activity enables sponsors to maximise returns, monetise their assets and re-equitise overleveraged balance sheets – while also facilitating the deployment of additional ‘dry powder’ for future growth. These products can deliver practical solutions for a range of objectives, including bridging valuation gaps, de-leveraging and the raising of additional capital to finance new investments and/or M&A where there may be restrictions on incurring further opco level debt.

For more than 20 years, the Private Credit Group at Proskauer has been intrinsically involved in the evolution of the industry, working on pioneering structures and products. Our technical strength, combined with our expansive experience, makes us the firm of choice for first-in-kind transactions. Acting as strategic partners to our clients across industries and jurisdictions, our team of lawyers has expertise in U.S. and Europe-centric transactions, as well as North American and European cross-border transactions.

Proskauer's Women in Private Credit initiative offers a knowledge sharing and peer network platform for practitioners active in the private credit market. **Click here to register your interest in receiving future updates**.

Related Professionals

- **Harriet West**
  Partner
- **Megan Lawrence**
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  Special Finance Counsel