Private Debt AUM Set to Double to $2.69tn by 2026

Asset Class Uniquely Positioned to Deliver Reliable Income and Strong Risk-Adjusted Returns

- **Private debt AUM**: Annualized figures put private debt AUM at near $1.21tn for 2021, after a decade of growth averaging 13.5%
- **ESG**: The COVID-19 pandemic drew more attention to ESG, and some of the largest private debt firms launched record-breaking funds with ESG credentials
- **Bigger deals and direct lending preference**: Competition will heat up for bigger deals, while direct lending will remain the largest strategy
- **Regional focus**: The US private debt market will continue to dominate, but funds are expected to diversify geographically into Europe and Asia-Pacific

Private debt continues to evolve as an asset class. Annualized figures from October 2021 put private debt assets under management (AUM) near $1.21tn for the full year, off the back of a decade of 13.5% annual growth, according to the 2022 Global Private Debt Report, published by Preqin, the global leader in alternative asset data, tools, and insights.

Preqin forecasts that private debt will continue to grow, with AUM more than doubling to $2.69tn by 2026. Among investors surveyed by Preqin in November 2021, 36% said they looked to private debt for a reliable income stream, while 37% were attracted to its high risk-adjusted returns. Environmental, social, and governance (ESG) is also of growing importance to both investors and fund managers. Some of the largest private debt firms have launched record-breaking funds that have some level of ESG consideration. The momentum behind ESG in private debt will be driven by investors, and Preqin expects it to grow in tandem with the asset class itself.

Providing further evidence that the private debt market is rapidly expanding, deal volume has dropped almost 12% annually over the three years ending 2020, despite a modest uptick in transaction values. Based on data to Q3 2021, deal activity should end the year on a similar level to 2020. The trend of fewer yet larger deals is indicative of a greater number of larger funds, or those able to make significant commitments. The result for the end investor may end up being more concentrated portfolios and lower returns.

Among the strategies pursued by private debt funds, direct lending and distressed debt make up about 60% of AUM in the asset class. According to Preqin data, direct lending will remain the largest strategy, with investors attracted to its more stable return profile in volatile markets. The strategy’s AUM ($452bn) is now nearly double that of the second-largest strategy, distressed debt ($277bn).

Preqin forecasts that the US market, which currently accounts for more than 60% of private debt assets ($738bn), will continue to dominate private debt investments. That said, AUM in Europe, which reached £364bn at the end of 2021, has consistently shown double-digit growth, and several large European-focused funds have been raised in recent years. Private debt growth in Asia-Pacific will be slower, although the region should attract greater interest from managers looking for attractive deal pricing in a less-developed private debt market.

**Sam Monfared, Associate Vice President, Research Insights, at Preqin, says:** “Private debt is well established in alternative investment portfolios. The low interest rates that helped the industry grow into its current form will persist, keeping investors in the hunt for yield. The key to its success has been – and will continue to be – its ability to offer investors low volatility and fixed-income returns that trump the public markets.”

About Preqin

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