

Frontier Line 233: Lower returns ahead for private credit

September 2025

Private credit has grown exponentially to an unprecedented market size and provided investors with strong returns fuelled by a combination of elevated base rates since 2022; robust credit spread premia; low loss rates; and attractive origination fees. In this report we consider if the favourable environment for private credit is now showing signs of change and highlight the following themes using data collected from our annual manager survey.

Key takeaways from our comprehensive paper:

- One key development over the past year has been the compression of credit spreads across most markets, with the US seeing the sharpest decline.
- A similar trend has emerged with origination fees, which have declined in the US and Europe.
- Credit fundamentals have shifted with lower interest cover ratios for loans originated in 2022 and 2023 albeit equity cushions have generally strengthened.
- Default rates have edged higher compared to last year, particularly in older vintages, however loss rates remain low.
- The direct lending market has evolved in terms of borrower segmentation and loan structures. In the US, the historical spread premium for smaller borrowers has largely disappeared.
- Proportion of covenant-lite loans, common in larger US transactions, remain low in the middle and lower segments.
- Property debt has become an area of increasing focus with returns varying widely depending on the asset type and loan structure.

Our comprehensive paper delves into these themes in more detail. Clients can access this paper via the Partners Platform.

Frontier can help with portfolio construction and has extensive coverage of Australian and offshore direct lending strategies. We would be pleased to share additional insights and discuss any aspect of this asset class with interested investors.