OXFORD JOURNAL
OF STUDENT
SCHOLARSHIP

Private Credit's Structural Transformation of Investment Banking: From Crisis Instrument to Deal-Making Infrastructure, 2008 to 2029

Chinmay Kanodia and Krishnav Deorah
chinmaykanodia.cirs@gmail.com; 3395@cirschool.in

ABSTRACT

Private credit has grown from approximately $2 trillion in assets under management in 2020 to an estimated $3.5 trillion in 2025, yet academic literature has failed to keep pace with the asset class's structural transformation of corporate finance. This paper examines how private credit evolved from a crisis-born instrument of shadow banking into the mainstream infrastructure of investment banking deal-making, and what this transformation implies for financial institutions and capital markets through 2029.

We approach this question through a unified past, present, future and frontier analytical framework, which is, to our knowledge, the first application of this scope to private credit. Our analysis draws on historical lending data from the 2008 Global Financial Crisis, current market reports from Morgan Stanley, S&P Global, and the Alternative Investment Management Association, and the Financial Stability Board's landmark May 2026 vulnerability assessment. The study is further grounded in a modified reading of Diamond and Dybvig's (1983) financial intermediation theory, which we extend into an original Direct Intermediation Model. This model accounts for four structural features that set private credit apart from both classical bank lending and prior conceptions of shadow banking: lockup-based capital structure, concentrated monitoring, bilateral relationship reconstitution, and contractual governance depth.

Several findings stand out. Nine of the twenty largest private credit managers are now major private equity firms. Direct lending delivered average returns of 11.6% across seven rising-rate periods since 2008, roughly 200 basis points above the long-run mean. Bank lending to private equity firms rose 57% in the first half of 2025, pointing to a structural partnership model rather than simple competitive displacement. Looking ahead, three quantitative scenarios project the asset class will reach between $3.5 trillion and $6 trillion by 2029, with regulatory outcomes proving the decisive variable. The FSB's May 2026 report identifies systemic vulnerabilities in leverage concentration, evergreen fund liquidity mismatches, and bank interconnectedness that each scenario incorporates directly.

This paper makes four contributions. It provides a unified historical and forward-looking analysis of private credit's relationship with investment banking. It incorporates the FSB's May 2026 findings into

original scenario modelling. It proposes the Private Credit Integration Model, a four-pillar strategic framework for investment banks navigating this shift. And it reframes private credit theoretically, not as a deviation from the bank lending model, but as a structurally distinct form of financial intermediation in its own right. The central conclusion is this: private credit is no longer peripheral to investment banking. It is central to it.

Keywords: private credit, investment banking, shadow banking, direct lending, leveraged finance, financial intermediation, M&A financing, Basel III, alternative assets, regulatory risk

1. INTRODUCTION

In January 2022, a consortium of Wall Street's most powerful banks, including Bank of America, Credit Suisse, and Goldman Sachs, committed to underwriting a $15 billion debt package for the leveraged buyout of Citrix Systems by Vista Equity Partners and Evergreen Coast Capital. Within months, rising interest rates and deteriorating credit conditions had made the debt impossible to syndicate at par, forcing the banks to absorb collective losses exceeding $600 million (Hochenberg and Liff, 2023). Financial journalists reached for superlatives, and it was hard to argue with them. What happened next proved more instructive than the loss itself.

As the banks pulled back and reassessed their appetite for leveraged lending, a different class of lender moved into the space with confidence. Private credit funds, unconstrained by the capital adequacy requirements binding commercial banks, originated, priced, and held large corporate loans on their own terms. The Citrix episode was not simply a transaction failure. It was a clarifying moment, one that exposed the structural limits of bank-led leveraged finance with unusual precision and confirmed the extent to which private credit had already established itself as a credible and consequential alternative.

This paper takes the Citrix episode as one point in a longer, more consequential transformation. Private credit has grown from approximately $2 trillion in global assets under management in 2020 to an estimated $3.5 trillion by the end of 2025, with Morgan Stanley (2025) projecting continued growth to $5 trillion by 2029. What began as a niche strategy targeting middle-market companies too small to access public debt markets has evolved into the dominant financing mechanism for leveraged buyouts, and is now extending its reach into infrastructure debt, consumer asset-backed lending, and the financing of artificial intelligence infrastructure. Several of the largest private credit managers, including Blackstone, Apollo, KKR, and Ares, are simultaneously major private equity firms, reflecting the convergence of the two business models at scale (Private Debt Investor, 2025). The boundary between equity and credit in alternative asset management has, for practical purposes, dissolved.

The implications for investment banking are significant and, in the existing academic literature, considerably underappreciated. Formal co-lending partnerships between major commercial banks and private credit managers, including the Citigroup and Apollo $25 billion programme and JPMorgan's

side-by-side lending model, have restructured how deals are originated, financed, and distributed. Bank lending to private equity firms rose 57% in the first half of 2025 alone, which signals not competitive displacement but a hybrid model in which banks and private credit managers share deal flow, fees, and credit exposure (S&P Global, 2025). For aspiring investment bankers, understanding private credit is no longer optional. It is foundational.

This paper addresses three specific questions. First, what historical forces created and sustained private credit's growth from 2008 to 2025, and how did regulatory, macroeconomic, and structural factors combine to produce an asset class of this scale? Second, what does the current market structure, competitive landscape, and the evolution of bank and private credit dynamics reveal about the asset class's transition from alternative to mainstream? Third, what regulatory, competitive, and macroeconomic scenarios will shape private credit's trajectory through 2029, and how should investment banks position themselves in response?

Our central argument is that private credit has passed three distinct phases. From 2008 to 2013, it served as a crisis-born gap-filler, stepping into the financing void created by bank retrenchment and post-crisis regulatory reform. From 2013 to 2020, it matured into an institutionalised asset class with serious capital behind it. From 2020 to the present, it has become the infrastructure of modern deal-making. This shift is structural rather than cyclical. It has been driven by permanent changes in bank regulation, durable shifts in institutional capital allocation, and the growing demand from corporate borrowers for financing structures that public markets cannot efficiently provide. We do not believe it can be undone.

We also argue that the regulatory scrutiny now materialising, most visibly in the Financial Stability Board's landmark vulnerability report of May 2026, does not signal the beginning of the end for private credit but rather its maturation into a regulated and permanent component of global capital markets, a comparison developed fully in Section 9.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Origins and Historical Literature

The academic study of private credit as a discrete phenomenon begins with the aftermath of the 2008 Global Financial Crisis, though its intellectual foundations lie in a longer tradition of financial intermediation theory. The most rigorous empirical treatment of private credit's emergence as a substitute for bank lending is Luck and Zimmermann (2020), who document that the post-crisis withdrawal of bank credit from leveraged and middle-market borrowers was structural rather than cyclical. Their analysis shows that private credit managers systematically targeted precisely the borrower segments that banks vacated: firms with EBITDA of between $10 million and $150 million, sub-investment-grade credit ratings, and complex capital structures. This paper departs from Luck and Zimmermann in one important respect. Where they frame private credit as a substitute for bank lending, we argue the relationship is

more transformative than substitution implies. Private credit did not merely fill the role that banks had vacated. It changed the nature of that role in ways that neither classical intermediation theory nor the shadow banking literature fully anticipates.

The demand-side origins of bank retrenchment are well documented. Ivashina and Scharfstein (2010) show that bank lending to large firms fell by 47% in the second half of 2008 relative to the first, with the sharpest contractions concentrated in the syndicated leveraged loan market that private credit would later absorb. Their work establishes the demand-side shock that created the financing gap. Bord and Santos (2012) complement this analysis by demonstrating the longer-term structural consequences of the originate-to-distribute model's breakdown: as banks shifted away from holding loans on balance sheet and toward fee-based intermediation, the economics of relationship lending deteriorated in ways that opened permanent space for balance-sheet lenders willing to hold risk to maturity. The regulatory dimension is captured most precisely in Gropp et al. (2019), whose cross-jurisdictional evidence demonstrates that higher risk-weighted capital requirements materially reduced bank appetite for non-investment-grade lending across European banking systems following phased Basel III implementation. Together, these studies establish the supply-side shock that created the structural opportunity for private credit, but they do not address the second-order consequence: that bank retrenchment transferred not just market share but origination capability, pricing knowledge, and relationship capital to a new class of lenders operating entirely outside the regulatory perimeter.

2.2 The Shadow Banking Literature and Its Limits

The theoretical treatment of non-bank credit intermediation that has most influenced the field is Gorton and Metrick (2012), whose analysis of shadow banking centres on the role of repo markets, securitisation vehicles, and structured finance in creating deposit-like liabilities outside the banking system. Their framework is valuable for understanding the pre-crisis financial architecture but has limited applicability to the direct lending model that now dominates private credit. Private credit funds do not perform the maturity transformation that Gorton and Metrick identify as the defining characteristic and core fragility of shadow banking. They raise locked, long-duration capital and deploy it in long-term loans, a structure that is almost the inverse of the short-term funding and long-term asset model that shadow banking describes. Treating private credit as shadow banking, as much regulatory commentary continues to do, conflates structurally different phenomena and risks producing inappropriate policy responses calibrated to the wrong set of vulnerabilities.

2.3 Financial Intermediation Theory and the Need for a New Framework

The foundational theoretical framework for this paper is Diamond and Dybvig's (1983) model of bank intermediation, extended through Diamond's (1984) delegated monitoring framework. Diamond and Dybvig formalise the economic rationale for bank intermediation as the simultaneous resolution of two problems: the maturity mismatch between borrowers who need long-term capital and depositors who demand liquidity, and the transaction cost problem of aggregating small deposits into productive loans.

The model predicts that banks are intrinsically fragile because their liquidity transformation function creates the conditions for bank runs, but that this fragility is the price of the economic value they generate.

Diamond's (1984) extension adds the monitoring dimension. Banks serve as delegated monitors who screen and supervise borrowers on behalf of dispersed depositors who lack the scale, information, or incentive to do so individually. This delegated monitoring function gives banks a comparative advantage in lending to opaque borrowers, specifically those without public credit ratings or observable market prices for their debt. Middle-market companies, which constitute the core of private credit's borrower base, are the archetypal opaque borrowers in Diamond's framework. Rajan (1992) extends this analysis by showing that relationship banking creates bilateral information advantages that allow banks to price credit more accurately for opaque borrowers than arm's-length market mechanisms. The syndicated loan market subsequently eroded this advantage by distributing relationship loans to institutional investors with no prior relationship with the borrower, severing the informational link that gave bilateral lending its pricing superiority.

The central theoretical question this paper confronts is both important and underexplored. If bank regulation has made delegated monitoring economically unattractive for banks, and private credit managers have absorbed that function outside the regulatory perimeter, what kind of intermediation model has emerged in its place? Neither Diamond-Dybvig nor Gorton-Metrick provides an adequate answer. It is to fill this theoretical gap that this paper proposes the Direct Intermediation Model.

2.4 The Direct Intermediation Model: An Original Theoretical Contribution

We propose the Direct Intermediation Model (DIM) to explain what private credit actually is structurally, rather than what it superficially resembles. Four dimensions set it apart from both classical bank intermediation and shadow banking, and they don't all rest on the same footing. One has direct empirical support. The other three are, at this stage, better arguments than proven claims.

Start with capital structure. Private credit funds don't take deposits; they raise long-duration, locked capital from pension funds, sovereign wealth funds, and insurers, investors whose own liabilities are just as long-dated. That alignment removes the bank-run fragility Diamond and Dybvig (1983) identified as the built-in cost of deposit funding, and it removes the implicit subsidy deposit insurance gives to bank lending. Private credit has to price risk without that safety net underneath it. Gropp et al. (2019) offer some indirect support, since their finding that binding capital rules pushed European banks out of sub-investment-grade lending confirms the cost side of this story, though whether that cost advantage actually shows up in private credit's pricing or loss experience is a separate question their data doesn't answer. The evergreen fund structure complicates matters further: by offering investors periodic liquidity against loans that are anything but liquid, it quietly reintroduces the very mismatch this dimension is supposed to eliminate. That is the basis of the FSB's (2026) central concern, and we take it up properly in Section 6.3.

The second dimension, concentrated monitoring, is where the DIM stands on its firmest ground. Bank lending spreads monitoring across a relationship manager, a credit committee, a syndications desk, and eventually a scattered investor base, and something is lost at every handoff. Private credit skips the handoffs entirely. The originating manager holds the loan to maturity, keeps the information, and keeps the incentive to watch the borrower closely. Luck and Zimmermann (2020) confirm this empirically, showing private credit managers post lower default rates than syndicated lenders on comparable credits. Boot (2000) explains the mechanism, tying tighter bilateral relationships to better information outcomes for borrowers public markets read poorly. Of the four dimensions, this is the one we would point a skeptical reviewer to first.

Reconstitution of bilateral relationship capital is really two claims stitched together, and they carry unequal weight. The erosion half is well established: Bord and Santos (2012) document how relationship lending degraded once banks moved to an originate-and-distribute model, consistent with Rajan's (1992) earlier point that arm's-length debt cannot price opaque borrowers as well as a lender who actually knows them. The reconstitution half is weaker. It holds that private credit has rebuilt this relationship model without the capital costs that made it unworkable for banks post-Basel III, a claim that follows logically from the erosion evidence and from Gropp et al.'s findings but has not been tested directly against comparative recovery-rate or amendment-rate data. We treat it as inference rather than result.

The most original piece of the DIM, contractual governance depth, is also its shakiest. Private credit contracts carry maintenance covenants, information rights, and equity cure provisions that neither public bonds nor covenant-lite syndicated loans offer. We think this governance layer is a genuine source of the return premium documented in Section 5.4, separate from the illiquidity and leverage premia everyone already cites. Is that provable with what's currently available? Not quite. Joenväärä and Suhonen (2026) found statistically significant alpha after controlling for illiquidity and leverage, which is consistent with a governance premium existing, but their study was not built to isolate covenant depth specifically, and nothing in our current source base performs that isolation. This dimension is the paper's most interesting hypothesis, and we present it as exactly that.

Taken together, these four dimensions describe something that is neither classical banking nor shadow banking in Gorton and Metrick's (2012) sense: a third model built on locked capital, concentrated monitoring, reconstituted relationships, and contracts deeper than public markets allow. The strongest evidence currently sits under monitoring; the rest of the model's explanatory power draws on logic borrowed from adjacent literatures rather than direct tests we have run ourselves. We think that is still a meaningful contribution, and we think it matters to say plainly where the model stands on its own evidence and where it is still leaning on someone else's.

Table 1. The Direct Intermediation Model: A Structural Comparison

Dimension	Bank Lending	Syndicated Loans	Private Credit	Evidence Strength
Capital structure	Deposit-funded, maturity mismatch (Diamond & Dybvig, 1983); costly under Basel III (Gropp et al., 2019)	Distributed to diffuse investors, no lockup	Locked long-duration institutional capital	Theoretical, indirect empirical support
Monitoring	Dispersed across manager, committee, syndications desk	Further dispersed to unrelated investors	Concentrated in originating manager	Empirical (Luck & Zimmermann, 2020; Boot, 2000)
Relationship capital	Present, weakened post-Basel III	Largely absent (Rajan, 1992; Bord & Santos, 2012)	Reconstituted, without bank capital constraints	Erosion half empirical; reconstitution half inferred
Contractual governance	Standard covenants, public disclosure	Frequently covenant-lite	Bespoke, renegotiable, equity cures	Hypothesized; consistent with but not isolated by Joenväärä & Suhonen (2026)

2.5 Gaps in the Existing Literature

Three substantive gaps in the existing scholarship are directly addressed by this paper. One is the fragmentation of analytics. The literature on post-crisis bank retrenchment establishes historical causation but does not connect it to current market structure or to investment banking strategy. The performance literature provides rigorous empirical evidence on fund-level outcomes but does not situate those outcomes within a broader account of why private credit emerged or what its growth implies for financial institutions. Joenväärä and Suhonen (2026) note that their study of private credit fund performance was only the third peer-reviewed academic paper to examine the asset class directly, which gives a sense of how early this field of academic inquiry still is. No study has examined private credit through a unified past, present, future and frontier framework. This paper does so.

The second gap is the under-studied transformation of investment banking. The existing academic literature on investment banking strategy, including Eccles and Crane's (1988) foundational work on relationship banking and Morrison and Wilhelm's (2007) analysis of fee-based intermediation, predates the private credit era entirely. There is no published academic study that examines how formal bank and private credit partnerships alter the economics of deal origination, fee generation, and balance sheet deployment. This paper addresses that absence.

The third gap is the absence of forward-looking scenario analysis incorporating the FSB's May 2026 findings. No published academic study has used the FSB's risk taxonomy as the organising framework for a quantitative scenario model of private credit's trajectory. This paper does so in Section 7.

3. METHODOLOGY

This paper employs a qualitative and quantitative analytical framework structured around four dimensions: historical analysis, current market assessment, emerging frontier mapping, and forward-looking scenario modelling.

The historical analysis in Section 4 draws on academic studies, regulatory documents, and practitioner reports to reconstruct the causal chain connecting the 2008 crisis to private credit's emergence and institutionalisation. Primary sources include Basel Committee documentation of capital requirement changes, bank earnings disclosures, and the academic literature reviewed in Section 2. This section synthesises existing evidence through the lens of the Direct Intermediation Model proposed in Section 2.4.

The current market analysis in Section 5 draws on the Cliffwater Direct Lending Index (Cliffwater, 2024), Morgan Stanley's 2025 institutional private credit report, the AIMA's 2025 Global Private Credit Report, and public disclosures from major private credit managers and bank partners. Where practitioner data is used as primary market sizing evidence, we acknowledge the commercial interests of the producing institutions and cross-reference across sources where possible. The CDLI's mark-to-model limitation is noted in the relevant analysis.

The partnership analysis in Section 5.3 draws on public press releases, earnings call transcripts, and regulatory filings for the major co-lending arrangements. The absence of peer-reviewed academic treatment of these partnerships is acknowledged as a limitation of the current study. The case studies in Section 5.5 draw on publicly available transaction documents and contemporaneous financial press coverage.

The scenario models in Section 7 use a probability-weighted expected value framework. Three scenarios are constructed using the FSB's (2026) risk taxonomy as the organising principle, with projections anchored to current AUM of $3.5 trillion and calibrated against Morgan Stanley's (2025) $5 trillion base case for 2029. The scenarios are informed by regulatory precedent from comparable asset class development cycles, including the high-yield bond market's regulatory evolution in the late 1980s and early 1990s.

4. THE HISTORICAL TRANSFORMATION OF PRIVATE CREDIT, 2008 TO 2025

Having established the theoretical basis for treating private credit as a distinct form of intermediation, this section turns to the historical record that produced it.

4.1 The Pre-Crisis Architecture and the 2008 Structural Break

To understand why private credit emerged when and how it did, it is necessary first to understand what it replaced. Prior to 2008, the dominant mechanism for financing leveraged buyouts and middle-market corporate transactions was the bank-led syndicated loan market, which by 2007 had grown to represent more than $1.5 trillion in annual issuance in the United States alone (S&P Global, 2025). In this model, investment banks originated loans and then distributed them through syndication to a broad institutional investor base of collateralised loan obligation managers, mutual funds, and hedge funds. The originating banks retained minimal credit exposure but earned substantial arrangement and underwriting fees. The economics of this model depended on two conditions: a stable funding environment supporting the CLO market's continued absorption of leveraged credit, and a regulatory framework that did not impose prohibitive capital costs on the warehousing of loans before syndication.

Both conditions collapsed in 2008. Ivashina and Scharfstein (2010) document that bank lending fell by 47% in the second half of 2008 relative to the first, with the sharpest contractions concentrated precisely in the syndicated leveraged loan market. The crisis destroyed CLO issuance capacity, removing the institutional buyers to whom banks had been distributing risk, and simultaneously impaired bank balance sheets, eliminating the capacity to warehouse loans ahead of future syndication. The originate-to-distribute model, which had been the organisational basis of leveraged finance for two decades, broke down simultaneously on both the distribution and origination sides. Brunnermeier (2009) documents the amplification dynamics through which initial liquidity stress transformed into a full credit contraction, with particular severity in the structured credit markets that had underpinned syndicated lending economics.

4.2 Basel III as the Institutional Catalyst

The regulatory response to the crisis, most significantly the Basel III capital adequacy framework implemented progressively from 2010 onward, transformed what might otherwise have been a temporary lending gap into a permanent structural shift. By raising risk-weighted capital requirements for non-investment-grade exposures and introducing the leverage ratio as a binding constraint on total balance sheet size, Basel III changed the fundamental economics of leveraged lending for banks in a lasting way. Gropp et al. (2019) demonstrate that European banks subject to binding Basel III capital requirements reduced lending to sub-investment-grade borrowers materially more than banks with capital buffers above the new minimums, confirming the causal link between capital regulation and leveraged credit supply contraction.

The effect was not uniform across market segments. Large-cap, investment-grade borrowers retained access to bank credit and the public bond markets throughout the crisis and recovery period. It was middle-market companies, typically defined as those with EBITDA of between $10 million and $1 billion, and complex leveraged credits without investment-grade ratings that found themselves cut off from bank financing. This segment, which encompasses the vast majority of private equity-backed portfolio companies, was precisely the segment that had relied most heavily on relationship bank lending and had the least capacity to substitute to public markets independently. The financing gap was real, large, and, crucially, structurally persistent. Banks could not simply return to middle-market leveraged lending once conditions improved, because the capital cost of doing so under the new regulatory framework made it economically irrational relative to other uses of balance sheet capacity.

4.3 The Decade of Institutionalisation, 2010 to 2020

Private credit managers were not slow to recognise the opportunity. Business Development Companies, a legal structure created by the Investment Company Act of 1980 that allows regulated investment vehicles to make loans to middle-market companies with tax-efficient pass-through treatment, had existed for decades but remained a niche product. From 2010, major alternative asset managers began building BDC platforms and direct lending funds at scale. Ares Capital Corporation, founded in 2004, became the largest BDC in the United States by 2015, with assets exceeding $10 billion. Apollo, Blackstone, KKR, and other large private equity managers launched dedicated credit platforms that drew on their existing deal origination networks and due diligence infrastructure.

The institutionalisation of private credit during this decade had several distinctive features. Large institutional investors, including pension funds and sovereign wealth funds, began allocating meaningfully to the asset class in search of yield in a persistently low interest rate environment. The floating-rate structure of most direct loans, typically priced at a spread over LIBOR or, following the 2021 transition, the Secured Overnight Financing Rate (SOFR), provided a natural hedge against interest rate sensitivity that appealed to liability-driven institutional allocators. By 2020, global private credit AUM had reached approximately $848 billion, representing a compound annual growth rate of roughly 13% from the approximately $300 billion estimated at the start of the decade (AIMA, 2025). The middle market solidified as the core battleground, as banks that had historically dominated this segment, including GE Capital before its post-crisis wind-down, did not return to it at scale following the crisis.

The convergence of private equity and private credit during this decade was also structurally significant. Kaplan and Stromberg (2009) document that private equity managers possess origination relationships and due diligence capabilities that are highly complementary to direct lending, and the integration of credit platforms within alternative asset management firms allowed managers to offer portfolio companies comprehensive financing solutions spanning equity, senior debt, mezzanine, and structured capital. By the end of the decade, the analytical and commercial distinction between a private equity firm and a private credit firm had become largely notional for the largest alternative asset managers.

4.4 Scale, Convergence, and the Rate Cycle Advantage, 2020 to 2025

Three developments between 2020 and 2025 accelerated private credit's transition from institutionalised asset class to mainstream deal-making infrastructure.

The first was the COVID-19 liquidity test of 2020. The pandemic created an acute financing stress that private credit navigated without the systemic failures many observers anticipated. Private credit managers demonstrated the ability to work constructively with distressed borrowers through covenant modifications, payment deferrals, and debt restructurings, leveraging precisely the bilateral relationship advantages and contractual governance depth described in the DIM. Default rates in direct lending portfolios rose but remained materially below rates observed in broadly syndicated loan markets during the same period, consistent with the monitoring concentration hypothesis (Cliffwater, 2024).

The second development was the Federal Reserve's aggressive rate hiking cycle from 2022 to 2024. Private credit's floating-rate structure became a direct performance advantage as benchmark rates rose sharply. The Cliffwater Direct Lending Index delivered gross returns averaging 11.6% across seven rising-rate periods since 2008, approximately 200 basis points above the asset class's long-run average, as floating-rate loan income mechanically increased alongside SOFR (Cliffwater, 2024). This performance during a period of significant stress in public credit markets attracted substantial additional institutional capital allocation.

The third development was the expansion of deal scale that culminated in the Citrix episode described in the introduction. By demonstrating that private credit could finance transactions of $5 billion or more, the asset class dissolved the presumed size boundary that had historically confined it to the middle market. By the end of 2025, the total market had reached an estimated $3.5 trillion in global AUM, with capital deployment up 78% year-on-year, reflecting both new deal origination and the absorption of refinancing activity from the broadly syndicated loan market (AIMA, 2025).

5. CURRENT MARKET ARCHITECTURE AND THE INVESTMENT BANKING RELATIONSHIP

With the historical causation established, the analysis now turns to how these forces have shaped the market as it exists today.

5.1 Market Structure and Taxonomy

The contemporary private credit market encompasses five principal strategies, distinguished by their position in a borrower's capital structure and the risk-return profile they target. Direct lending constitutes the largest and most mature segment, accounting for approximately 60% of global private credit AUM (AIMA, 2025). Direct lending funds originate senior secured loans to middle-market and

upper-middle-market companies, typically with leverage multiples of four to seven times EBITDA, at floating-rate spreads of 500 to 700 basis points over SOFR for core middle-market credits.

Mezzanine and junior capital represents the second major segment, providing subordinated debt and hybrid instruments that sit below senior secured loans in the capital structure and command return targets typically ranging from 12% to 18%. Asset-based finance, the fastest-growing segment by deployment velocity, provides lending secured by specific asset pools rather than enterprise value, including consumer receivables, equipment leases, royalty streams, and trade finance portfolios. Distressed debt and special situations funds target companies experiencing financial or operational stress, seeking to acquire debt at discounts to par or to provide rescue financing on terms reflecting the elevated risk. Infrastructure and real estate debt complete the taxonomy, providing long-duration financing for physical assets with predictable cash flows suited to institutional liability-matching requirements.

5.2 Key Players and Competitive Dynamics

The private credit landscape is dominated by a small number of very large managers whose scale creates meaningful competitive advantages in deal origination, operational infrastructure, and investor access. Apollo Global Management has built the largest private credit platform globally, with over $500 billion in credit AUM across strategies, supported by its balance sheet relationship with Athene, the insurance company it acquired in 2022, which provides a permanent, low-cost capital base for credit deployment (Apollo, 2025). Ares Management operates the largest dedicated direct lending platform in the United States, anchored by Ares Capital Corporation, the largest BDC by assets, with substantial European and Asian credit franchises. Blackstone Credit, KKR Credit, and Blue Owl Capital complete the top tier, each managing between $50 billion and $200 billion in credit assets and each offering the full range of corporate, infrastructure, and asset-based strategies.

The competitive dynamics of this industry are increasingly winner-takes-more in character. Large managers can offer borrowers certainty of execution, speed of deployment, and the ability to finance complex multi-layered capital structures in a single transaction: advantages that smaller managers structurally cannot replicate. The top ten managers now account for an estimated 40% of total market AUM, a concentration ratio that has increased materially over the past five years (AIMA, 2025).

5.3 The Bank and Private Credit Partnership Model

The most consequential structural development in the current market is the emergence of formal partnership arrangements between major commercial banks and private credit managers. These arrangements represent a fundamental reconfiguration of the competitive relationship between banks and alternative lenders and are directly relevant to the investment banking implications of this paper.

The Citigroup and Apollo $25 billion co-lending programme, announced in 2023 and extended in 2024, is the most prominent example. Under this arrangement, Citigroup originates loans to large corporate

borrowers, retains a portion on its own balance sheet, and distributes the remainder to Apollo's credit funds. Citigroup benefits from fee income on deal origination and distribution without the full capital burden of holding the entire loan. Apollo benefits from access to deal flow that its own origination network might not reach at the same volume or pace (Citigroup, 2024). JPMorgan has pursued a parallel model, operating a side-by-side co-lending structure in which the bank and external private credit partners jointly underwrite transactions from origination, sharing both the credit analysis and the economic exposure. Wells Fargo and Centerbridge Partners launched a $5 billion partnership in 2023 focused specifically on the asset-based finance segment, combining Wells Fargo's origination infrastructure with Centerbridge's credit management capability.

The strategic logic underlying all these partnerships is consistent with Bord and Santos' analysis (2012). Banks have accepted that holding non-investment-grade credit risk on balance sheet is structurally uneconomical under Basel III capital requirements, but they retain significant competitive advantages in deal origination, client relationships, and distribution infrastructure. Private credit managers have the balance sheet and appetite for credit risk but lack the origination networks that banks have built over decades. Partnership structures allow both parties to monetise their comparative advantage. Bank lending to private equity firms rose 57% in the first half of 2025, reflecting both direct co-lending activity and the broader financing that banks provide to private credit funds through revolving credit facilities (S&P Global, 2025).

5.4 Returns, Risk, and Performance Attribution

The performance case for private credit has been substantially validated by the rate cycle of 2022 to 2024. The CDLI delivered a gross return of 10.0% and a net return of approximately 9.2% for the twelve months ending in 2024, compared with the Morningstar LSTA US Leveraged Loan Index, return of approximately 7.5% and the ICE BofA US High Yield Index return of approximately 8.1% over the same period (Cliffwater, 2024). On a risk-adjusted basis, the case is stronger still. Private credit default rates have averaged approximately 1.5% to 2.0% annually over the past decade, materially below the 3.5% to 4.5% long-run average for broadly syndicated leveraged loans (Moody's, 2024). Joenväärä and Suhonen (2026) document statistically significant alpha generation relative to public credit benchmarks after controlling for illiquidity, leverage, and credit risk, confirming that the performance premium is not entirely explained by systematic risk factors.

Two important qualifications apply to this performance record. First, the CDLI uses mark-to-model rather than mark-to-market valuation, meaning that reported volatility understates the true risk of the asset class during stress periods. Second, the strong returns of 2022 to 2024 partly reflect the mechanical benefit of floating-rate exposure during a period of unusually rapid rate increases. Whether these returns will be fully sustained in a stable or declining rate environment is an open question that the scenario analysis in Section 7 addresses directly. What the Joenväärä and Suhonen (2026) findings contribute, importantly, is evidence that risk-adjusted return persistence holds across rate cycles, suggesting that the contractual

governance and monitoring advantages described in the DIM generate genuine alpha beyond the rate cycle effect.

5.5 Case Studies in Private Credit-Financed M&A

The Citrix LBO of 2022 illustrates both the structural limits of bank-led leveraged finance and the advantage of the private credit model under volatile conditions. The $15 billion debt package, underwritten by a consortium including Bank of America, Credit Suisse, and Goldman Sachs, could not be syndicated at par as market conditions deteriorated. The banks absorbed losses exceeding $600 million, a figure that represented a direct earnings hit and prompted a meaningful reassessment of leveraged lending risk appetite across the dealer community (Hochenberg and Liff, 2023). The absence of a syndication requirement in a private credit structure would have eliminated precisely the market execution risk that generated those losses. The transaction thus served simultaneously as a cautionary tale for the bank-led model and a validation of private credit's structural advantage in volatile conditions.

The Citigroup and Apollo co-lending arrangement represents the constructive institutional response. By structuring transactions with shared underwriting from the outset, the partnership eliminates the gap between origination and distribution that the Citrix episode exposed. For investment banks, the advisory and arrangement fees generated by co-lending partnerships are now a material and growing revenue stream. The ability to offer clients a financing solution that does not depend on syndication market conditions has become a genuine competitive differentiator in leveraged finance mandates.

6. EMERGING FRONTIERS

Beyond the current market structure lie four frontiers that will determine the scale and character of private credit's next phase of growth.

6.1 AI Infrastructure and Data Centre Financing

The buildout of artificial intelligence infrastructure represents the largest discrete financing opportunity that private credit has encountered since the asset class's founding. Morgan Stanley (2025) estimates a global pipeline of approximately $800 billion in data centre, power generation, and semiconductor manufacturing investment over the next five years, much of which requires long-duration, project-level debt financing that public bond markets have been slow to accommodate at the required speed and structural complexity. Apollo, Blackstone Infrastructure, and Blue Owl have all announced dedicated AI infrastructure financing initiatives in 2024 and 2025. Financing structures typically involve senior secured loans against contracted revenue streams from hyperscale cloud providers, with loan terms of five to ten years and all-in pricing reflecting technology execution risk alongside more familiar credit risk. The concentration and technology obsolescence risks are genuine and represent a meaningful departure from

the historical private credit default experience that current portfolio models have not fully absorbed. This risk category features prominently in the FSB's (2026) vulnerability assessment.

6.2 Asset-Based Finance

Asset-based finance, which provides credit secured by specific asset pools rather than enterprise value, is the fastest-growing segment by deployment velocity and is widely identified as the next major structural frontier for private credit. Apollo (2025) projects the total addressable market for ABF at between $5 trillion and $8 trillion globally, reflecting the large stock of consumer receivables, equipment leases, royalty streams, and trade finance obligations that banks have historically financed on balance sheet and that regulatory pressure is steadily pushing toward non-bank alternatives. ABF offers private credit managers a diversification benefit relative to the corporate leveraged lending that has historically been the core of the direct lending market. Consumer receivable portfolios, for example, have low correlation with corporate credit cycles, providing a degree of portfolio resilience during periods of corporate stress that is increasingly attractive to institutional allocators with diversified credit exposure.

6.3 Democratisation and Retail Access

The opening of private credit to retail and high-net-worth investors through semi-liquid evergreen fund structures represents both the most significant growth opportunity and the most significant systemic risk in the current market. Wealth channel assets under management in private credit have grown from approximately $100 billion in 2020 to an estimated $500 billion in 2025, with Morgan Stanley (2025) projecting growth to $1.1 trillion by 2029. Evergreen structures, which offer monthly or quarterly liquidity windows rather than the multi-year lockup periods of institutional closed-end funds, are the primary vehicle for this growth.

The FSB (2026) identifies evergreen fund liquidity mismatches as the most acute near-term systemic vulnerability in the private credit complex. Evergreen funds invest in illiquid loans but promise periodic liquidity to investors who may choose to redeem simultaneously during a stress period. The gate and side-pocket provisions available to fund managers may be legally adequate but are practically and reputationally difficult to enforce at the scale that a co-ordinated redemption wave would require. The FSB estimates that the 2026 redemption pressure in the BDC segment contributed to a $265 billion market capitalisation reduction in the BDC index, providing the first large-scale empirical evidence of the fragility embedded in these structures and validating the concern that the DIM's lockup-based capital advantage does not extend to evergreen structures designed to mimic it.

6.4 Global Expansion

Private credit remains predominantly a North American phenomenon, with the United States accounting for approximately 60% of global AUM (AIMA, 2025). European markets represent approximately 30%, driven by a regulatory and macroeconomic environment that mirrors the post-crisis bank retrenchment

dynamics that created the American market. The Draghi Report's (2024) recommendations for deepening European capital markets, we argue, function as a regulatory tailwind for non-bank financing, and major US private credit managers have accelerated their European expansion accordingly. Asia represents the smallest current share but the largest potential growth market, with infrastructure financing and green energy transition lending emerging as the primary entry points for international private credit capital.

7. REGULATORY ENVIRONMENT AND SCENARIO ANALYSIS TO 2029

Having surveyed private credit's current architecture and emerging frontiers, this section turns to the regulatory environment now shaping its trajectory, and to the scenarios that follow from it.

7.1 The FSB May 2026 Vulnerability Report

The Financial Stability Board's May 2026 report on private credit vulnerabilities represents the most significant regulatory intervention in the asset class's history and directly shapes the forward-looking analysis of this paper. The FSB identifies three systemic risk channels warranting heightened supervisory attention.

The first is leverage concentration. Private credit funds typically borrow against their own portfolios through subscription credit lines, net asset value facilities, and asset-backed securitisations, adding structural leverage on top of the borrower-level leverage already embedded in direct lending portfolios. The FSB estimates that total leverage in the system has increased materially since 2020, and that stress scenarios involving simultaneous borrower defaults and fund financing tightening would create amplification dynamics with systemic implications not unlike the structured finance cascade of 2007 to 2008.

The second vulnerability is the liquidity mismatch in semi-liquid fund structures, discussed in Section 6.3. The FSB's concern here is not with the institutional closed-end fund model, whose liability structure is well matched to its asset illiquidity, but with the growing segment of retail-facing vehicles that have expanded rapidly without fully pricing the embedded liquidity risk.

The third vulnerability is interconnectedness. The FSB documents that major commercial banks have extended approximately $95 billion in credit lines and other financing commitments to private credit funds globally, creating a channel through which stress in the private credit sector could transmit to the banking system even without direct overlap in borrower exposure. The partnership model that this paper identifies as strategically significant thus carries a systemic dimension: it creates economic value through complementary capital deployment but simultaneously introduces a new form of linkage between the bank and non-bank financial sectors.

7.2 Credit Quality and Default Dynamics

The performance record described in Section 5.4 and the structural advantages proposed in the Direct Intermediation Model warrant a corresponding account of where private credit's risks concentrate. These risks fall into two categories that are useful to distinguish. Cyclical risks, valuation uncertainty and the durability of monitoring advantages under stress, concern how the asset class performs across a credit cycle it has not yet fully experienced. Structural risks, covenant erosion, concentration, and conflicts of interest in bank partnerships, concern features of the current market that would persist independent of where the cycle stands. Both categories bear on the claims made in Section 2.4, and this section addresses each in turn.

Valuation uncertainty (cyclical). The Cliffwater Direct Lending Index, the primary benchmark used throughout this paper, relies on mark-to-model rather than mark-to-market valuation. This is a methodological necessity given the illiquid, privately negotiated nature of the underlying loans, but it carries a specific consequence: mark-to-model smoothing can reduce reported volatility without reducing the underlying economic risk of the portfolio. The two are not the same, and the CDLI's historically low volatility figures should not be read as evidence that private credit's actual risk is correspondingly low. The 2026 BDC selloff is instructive here. Publicly traded BDCs, whose share prices are set by the market rather than internal models, experienced NAV discounts that widened materially during the stress period, suggesting that model-based valuations for privately held direct loans had understated the deterioration in underlying credit quality that the market was already pricing in.

Monitoring advantage under downturn conditions (cyclical). Section 2.4 presents concentrated monitoring, Dimension 2 of the Direct Intermediation Model, as the DIM's most empirically supported claim, resting on Luck and Zimmermann's (2020) finding that private credit managers post lower default rates than syndicated lenders on comparable credits. That finding draws substantially on data from a period of historically favorable credit conditions. The COVID-19 stress period offers a partial test under genuinely adverse conditions: Cliffwater (2024) data show direct lending default rates rose but remained below rates observed in broadly syndicated markets during the same window, consistent with the monitoring-concentration hypothesis holding under real stress. This is one data point, not a full validation. Whether the same advantage persists through a longer or more severe downturn, of the kind sketched in the bear case in Section 7.3, remains untested by the evidence available here.

Covenant erosion (structural). Competitive pressure among private credit lenders has measurably weakened the covenant packages the Direct Intermediation Model's fourth dimension describes. S&P Global Market Intelligence's Leveraged Commentary and Data unit reports that covenant-lite structures, once a marginal feature of direct lending, expanded significantly between 2023 and 2025, with the erosion concentrated at the upper end of the market: mega-deals exceeding $500 million in debt have seen covenant-lite terms become the norm rather than the exception, while lower-middle-market lending has retained meaningfully more covenant protection (S&P Global Market Intelligence, 2025). Fitch's tracked default rate for U.S. private credit rose from near zero in 2022 to approximately 5.7% by early 2025, the asset class's first genuine test of how these looser structures perform under stress (Fitch Ratings, 2025).

This is a direct qualification of the DIM's fourth dimension, not a refutation of it. The DIM describes a structural mechanism, contractual governance depth, that private credit possesses and syndicated lending largely does not. The covenant erosion evidence concerns whether competitive pressure is weakening that mechanism's practical force over time, particularly in larger transactions. It qualifies the theory's application in the current market environment; it does not undermine the underlying logic of why bespoke covenant structures provide a governance advantage where they remain intact.

Concentration risk (structural). The competitive dynamics described in Section 5.2, in which the top ten private credit managers account for an estimated 40% of total market AUM (AIMA, 2025), carry a risk dimension not addressed there. Manager-level concentration means that a governance failure, a liquidity event, or a systematic underwriting error at any of a small number of firms would have outsized effects on the asset class as a whole. Concentration also exists within sector exposures: software and technology lending, identified elsewhere in this paper as a source of stress, reflects a period in which private credit portfolios were not fully diversified across the economic cycle.

Conflicts of interest in bank partnerships (structural). Co-lending partnerships described in Section 5.3 have drawn direct regulatory attention. The Federal Reserve's own analysis of bank lending to private credit concludes that banks are increasingly expanding their strategic partnerships with private credit, and this increasing interconnectedness warrants close monitoring (Federal Reserve, 2025). The FSB's (2026) May report similarly identifies bank-private credit arrangements, including revolving facilities extended alongside fund-originated loans and synthetic risk transfers, as a channel through which incentives may not be fully aligned between the originating bank and the ultimate risk-bearer. The underlying concern is structural: a bank compensated primarily through origination and distribution fees may assess and structure credit differently than one retaining the full exposure on its own balance sheet, a dynamic conceptually related to the originate-to-distribute critique Bord and Santos (2012) raise regarding the pre-crisis syndicated loan market. Whether this has produced specific, documented outcomes in current bank-private credit partnerships is a narrower question than whether the concern itself is regulator-recognized. On the latter, the Federal Reserve and FSB sources above confirm it is.

Taken together, these five considerations do not overturn the case this paper makes for private credit's structural transformation of corporate finance. They qualify for it. The Direct Intermediation Model's strongest empirical claim, concentrated monitoring, shows encouraging but not conclusive evidence of holding under stress. Its most original claim, contractual governance depth, faces a documented and ongoing erosion at the upper end of the market that meaningfully qualifies how the mechanism operates in current conditions, without undermining the theoretical logic behind it. A balanced assessment of private credit's role in modern corporate finance requires weighing both its demonstrated performance and the unresolved questions surrounding its structural evolution.

7.3 Three Scenario Models to 2029

Anchoring these projections to a current AUM base of $3.5 trillion is straightforward. Assigning probabilities to alternative future trajectories from that base is more challenging. The scenario weights are derived through structured expert judgment rather than statistical estimation, informed by three inputs: the FSB's (2026) risk taxonomy, which identifies leverage concentration, liquidity mismatch, and interconnectedness as the dimensions most likely to shape regulatory response; Morgan Stanley's (2025) base-case projection, used as a reference benchmark for moderate-growth expectations; and the regulatory precedent of the high-yield bond market's evolution following the savings and loan crisis, which suggests that asset classes under serious supervisory scrutiny tend toward continued growth under tighter rules rather than outright suppression. The weights should be interpreted as subjective probabilities reflecting the relative plausibility of each scenario under current evidence, not as outputs of a formal econometric model.

The horizon to 2029 is selected because it aligns with the medium-term outlook adopted in several industry forecasts, including Morgan Stanley's own projection, while limiting the uncertainty associated with longer-range projections.

The base case, assigned a 60% probability, assumes the FSB's stated concerns produce a targeted regulatory response: higher disclosure requirements and leverage caps in semi-liquid structures, with no constraint on the institutional direct lending market that constitutes the bulk of the asset class. Under this path, AUM reaches $4.5 to $5 trillion by 2029. This scenario receives the highest weight because it relies on the fewest simultaneous departures from currently observable market and regulatory trends.

The bull case, assigned a 25% probability, requires several favorable conditions to occur simultaneously: a favorable regulatory resolution, continued institutional demand from insurers and pension funds consistent with the yield-driven allocation shift documented in Section 4.3, successful scaling of asset-based finance into the $5-8 trillion addressable market Apollo (2025) identifies, and continued European and Asian expansion along the lines projected by AIMA (2025) and supported by the regulatory tailwind Draghi (2024) describes. Each condition is independently plausible; their simultaneous occurrence is less likely than the base case, which supports the 25% weighting rather than a lower one.

The bear case, assigned a 15% probability, assumes a coordinated redemption event across multiple semi-liquid vehicles, triggering liquidity pressures similar to those identified by the FSB as a potential systemic vulnerability. This is treated as a low-probability rather than negligible scenario, particularly following the 2026 BDC selloff, which demonstrated that correlated stress in semi-liquid structures is a live possibility rather than a purely theoretical one. Under this path, AUM plateaus at $3.5 to $4 trillion, default rates exceed 5%, and regulators respond with binding leverage caps and mandatory mark-to-market valuation requirements.

Table 2. Scenario Summary

Scenario	Probability	2029 AUM	Key Assumptions
Base	60%	$4.5-5.0T	Moderate regulation targeting semi-liquid structures; continued institutional growth
Bull	25%	>$6T	Favorable regulatory resolution; sustained institutional demand; ABF and international expansion
Bear	15%	$3.5-4.0T	Coordinated liquidity event; tighter regulation; elevated defaults

Using the midpoint of each range as a point estimate ($4.75T base, $3.75T bear) and $6.0T as a conservative lower-bound estimate for the open-ended bull case, the probability-weighted expected value under the stated 60/25/15 weighting is approximately $4.91 trillion. Sensitivity to the weighting scheme is asymmetric rather than uniform. Shifting to a 50/30/20 distribution, which increases both the bull and bear weights at the base case's expense, leaves the expected value nearly unchanged (approximately $4.93 trillion), because the gain from added bull-case weight is largely offset by the loss from added bear-case weight. Shifting instead to 50/20/30, which concentrates the added weight specifically in the bear case, lowers the expected value more meaningfully, to approximately $4.70 trillion. The expected value is therefore more sensitive to how weight is redistributed between the two tail scenarios than to the size of the shift away from the base case itself.

This scenario analysis is intended as a structured analytical framework rather than a formal probabilistic forecast. The value of the framework lies not in the precision of its probability estimates, but in making explicit the assumptions that drive different possible trajectories for the private credit market.

8. THE PRIVATE CREDIT INTEGRATION MODEL FOR INVESTMENT BANKS

The historical, structural, and regulatory analysis developed so far points toward a practical question: how should investment banks actually respond? The Private Credit Integration Model proposed here answers that question directly.

The preceding analysis supports an original strategic framework that we term the Private Credit Integration Model (PCIM). This four-pillar model translates the empirical and theoretical findings of the paper into guidance for investment banks seeking to position themselves advantageously in the private

credit era. Each pillar reflects a pattern observable in the current market that we argue represents best practice for banks navigating the structural shift.

8.1 Pillar One: Formal Partnership Architecture

The first pillar is the establishment of formal, structured co-lending partnerships with major private credit managers, modelled on the Citigroup and Apollo and JPMorgan arrangements discussed in Section 5.3. The strategic logic is that banks possess origination networks, client relationships, and distribution infrastructure that private credit managers cannot easily replicate. Private credit managers possess balance sheet capacity and credit risk appetite that Basel III makes prohibitively expensive for banks to deploy directly. A well-structured partnership allows banks to earn arrangement and structuring fees on transactions they originate but do not fully hold, while private credit managers gain access to deal flow their own networks could not generate at the same volume.

The key design elements of an effective partnership architecture are clarity of underwriting responsibility, shared credit standards protecting the bank's reputational interest, and revenue-sharing mechanisms that properly align incentives over the life of a transaction. Banks that have entered partnerships on an ad hoc, transaction-by-transaction basis have found that the absence of a framework agreement creates execution friction and misaligned incentives precisely when transactions encounter stress. A formal architecture, governed by a master agreement with agreed credit protocols, resolves these issues and allows the partnership to operate at the scale and pace the current market demands.

8.2 Pillar Two: Fee-Based Advisory Services

The second pillar is the development of fee-based advisory services designed specifically for private credit-financed transactions. As private credit has scaled into large-cap deal financing, the demand for independent advisory services on financing structure, lender selection, covenant negotiation, and terms optimization has grown materially. This advisory function is distinct from the traditional investment banking role of arranging and underwriting debt. It positions the bank as a fiduciary adviser to the borrower on private credit financing rather than as the principal financing agent, which is both a differentiated revenue source and a relationship-deepening opportunity.

Investment banks with established restructuring and leveraged finance advisory practices are well positioned to extend into private credit advisory, as the analytical skills involved in evaluating direct lending terms, assessing covenant packages, and comparing private credit financing against syndicated market alternatives are closely related to existing capabilities. The fee economics are attractive: a 50 to 100 basis point advisory fee on a $1 billion private credit transaction generates $5 to $10 million in fee revenue with minimal balance sheet deployment, compared with the capital-intensive model of traditional leveraged loan underwriting.

8.3 Pillar Three: Direct Lending Subsidiaries

The third pillar is the establishment of direct lending subsidiaries or affiliated funds that allow banks to participate in the private credit market as principals rather than solely as advisers or co-lending partners. Goldman Sachs' West Street Credit Partners and JPMorgan's Private Credit business are examples of bank-affiliated direct lending vehicles that deploy institutional capital in competition with independent private credit managers while leveraging the bank's origination and analytical infrastructure. The risk management challenges of this model are significant. Bank-affiliated credit funds must be structured to maintain regulatory separation between fund balance sheets and the bank's own capital base, and conflicts of interest between the bank's advisory, lending, and fund management roles must be managed through information barriers and governance frameworks. These challenges are solvable, but they require deliberate structural design from the outset rather than retrofitting governance onto an existing organisational structure.

8.4 Pillar Four: Risk Management Framework

The fourth pillar is a risk management framework specifically designed for private credit exposure, whether held directly, through partnerships, or in affiliated funds. Existing bank risk management frameworks are largely calibrated for publicly traded, mark-to-market exposures and do not adequately capture the concentration, illiquidity, and covenant enforcement risks that characterise private credit portfolios. The FSB's (2026) findings on leverage concentration and bank interconnectedness make explicit the systemic dimensions of these risks that internal frameworks alone cannot address.

A fit-for-purpose private credit risk framework must incorporate scenario analysis covering simultaneous borrower stress and fund financing tightening, stress testing of evergreen structure liquidity mismatches, monitoring of portfolio concentration by sector, borrower, and leverage multiple, and regular independent credit assessment of mark-to-model valuations. The 2026 BDC stress episode demonstrated the cost of inadequate risk governance in the private credit context. Banks with robust frameworks will be better positioned to navigate future stress episodes and to demonstrate to regulators that their private credit exposures are prudently managed.

8.5 Implications for Investment Banking Careers

The PCIM has direct implications for preparing aspiring investment bankers. Private credit has become a core competency requirement across the leveraged finance, restructuring, and M&A functions of investment banking. Understanding direct lending structures, covenant packages, return attribution, and the economics of bank and private credit partnerships is no longer a specialism confined to the credit divisions of a small number of banks. It is a prerequisite for effective practice across a growing range of investment banking roles. As we noted in the introduction, the Citrix episode was clarifying not just for the industry but for the individuals working in it. The next generation of investment bankers who understand both the traditional syndicated market and the private credit alternative will be more valuable to clients and employers than those fluent in only one.

9. DISCUSSION

Having presented the paper's empirical and theoretical findings, this section turns to their broader interpretation, including the limitations that qualify them.

9.1 Interpretation of Key Findings

The analysis presented in this paper supports several conclusions that advance beyond the existing literature. The most significant is the theoretical reframing of private credit as a Direct Intermediation Model rather than as shadow banking or a temporary substitute for bank lending. This reframing matters because it changes the regulatory and strategic conclusions that follow from the analysis. If private credit is shadow banking, the appropriate regulatory response is to constrain it until it resembles regulated banking more closely. If private credit is a structurally distinct form of intermediation with its own advantages and vulnerabilities, the appropriate regulatory response is to develop a framework addressing those specific vulnerabilities without suppressing the genuine economic value the model provides.

The FSB's May 2026 report does not fully resolve this question, but its focus on specific structural vulnerabilities rather than on the asset class as a whole is consistent with the more nuanced approach that the DIM suggests is warranted. The regulatory trajectory, we argue, is more likely to resemble the evolution of the high-yield bond market after the savings and loan crisis than the suppression of a systemically dangerous activity. That market faced serious regulatory pressure in the late 1980s and early 1990s, survived it through a combination of structural reform and demonstrated performance, and became a permanent, well-understood component of global capital markets. Private credit is on a comparable trajectory. The 2026 stress episode, painful as it has been for BDC investors, is better understood as a maturation event than as a systemic failure.

The finding that bank and private credit partnerships have restructured deal-making in ways that benefit both parties is significant for the debate about whether private credit is a threat to or an opportunity for investment banking. The evidence reviewed in this paper suggests it is predominantly an opportunity, provided that banks build the capabilities and governance frameworks necessary to participate effectively. Banks that have treated private credit as purely competitive have conceded deal flow and fee revenue to asset managers who have moved into advisory and structuring functions traditionally occupied by investment banks. Banks that have structured formal partnerships have found new revenue streams partially offsetting the decline in traditional leveraged loan underwriting income.

The DIM's four dimensions, lockup-based capital structure, concentrated monitoring, bilateral relationship reconstitution, and contractual governance depth, provide a more complete explanation of private credit's risk-adjusted performance premium than existing attribution frameworks, which focus predominantly on illiquidity and leverage premia. The contractual governance dimension in particular deserves further academic attention, as it represents a structural source of alpha that is not captured in

standard public credit benchmarks and that has not been formally modelled in the existing performance literature.

9.2 Limitations

This paper has several limitations that should be acknowledged. The reliance on practitioner and industry sources for much of the market data, given the limited peer-reviewed academic literature on private credit, introduces the possibility of commercially motivated presentation of performance and market size data. The CDLI's mark-to-model methodology understates true volatility and may overstate the risk-adjusted return advantage of direct lending relative to public credit alternatives. The partnership arrangements analysed in Section 5.3 have not been subjected to independent academic verification, and the deal-level economics of these arrangements are not fully disclosed in public documents.

The scenario models in Section 7 are illustrative rather than predictive. The probability assignments reflect reasoned judgement informed by regulatory precedent and current market conditions rather than formal statistical estimation, and the three-scenario structure necessarily simplifies a distribution of possible outcomes that is continuous rather than discrete. Future research would benefit from formal probabilistic modelling of the regulatory and macroeconomic variables driving each scenario.

9.3 Implications for Policy and Practice

The policy implications of this paper's analysis centre on the need for regulatory frameworks calibrated to the specific structural characteristics of the DIM rather than to the bank intermediation model from which private credit has diverged. The FSB's risk taxonomy is a valuable starting point, but the regulatory response it prompts should distinguish between the institutional closed-end fund model, which has a well-matched liability structure and presents limited systemic risk, and the semi-liquid evergreen model, which reintroduces liquidity mismatch and warrants more direct supervisory attention.

For practitioners, the implication is that the partnership model is the near-term equilibrium for the bank and private credit relationship, and that banks developing genuine private credit capability will be structurally better positioned than those that do not. The window for building this capability before the market further consolidates is narrowing, and the first-mover advantages enjoyed by early-partnering banks are already visible in deal flow data.

10. CONCLUSION

This paper has traced a transformation whose historical causes, current architecture, and regulatory trajectory have each been examined in turn. What follows draws these threads together.

This paper has traced private credit's evolution from a crisis-born gap-filler in 2008 to a $3.5 trillion asset class that now constitutes the mainstream infrastructure of leveraged finance and M&A deal-making. The journey has been driven by permanent changes in bank regulation, durable shifts in institutional capital allocation, and the structural advantages of the Direct Intermediation Model that private credit has developed in the absence of the regulatory and funding constraints binding commercial banks.

The theoretical contribution of this paper is the Direct Intermediation Model, which identifies four structural characteristics of private credit: lockup-based capital structure, concentrated monitoring, bilateral relationship reconstitution, and contractual governance depth. These four dimensions distinguish private credit from both classical bank intermediation in the Diamond-Dybvig sense and shadow banking in the Gorton-Metrick sense, and they explain why private credit has delivered the risk-adjusted performance premium that the empirical evidence documents. Understanding this model on its own terms, rather than as a regulatory arbitrage play that policy will eventually close or a temporary substitute that banks will eventually reclaim, is the theoretical contribution this paper offers to the literature.

The empirical contribution is a unified past, present, future and frontier analysis of private credit's relationship with investment banking, incorporating current market data, the FSB's May 2026 findings, and the first scenario models to use the FSB's risk taxonomy as the organising framework. The probability-weighted expected value of our three scenarios is approximately $4.75 trillion in 2029 AUM, with a range of $3.5 trillion to $6 trillion depending primarily on regulatory outcomes.

The practical contribution is the Private Credit Integration Model, a four-pillar framework covering formal partnership architecture, fee-based advisory services, direct lending subsidiaries, and a fit-for-purpose risk management framework. Each pillar reflects best practice observable in the current market and provides a basis for investment banks to participate in private credit's continued growth rather than being displaced by it.

The forward-looking analysis suggests private credit's most likely regulatory path is targeted correction rather than existential constraint, consistent with the maturation argument developed in Section 9.

For the generation of financiers entering the industry today, private credit is the most consequential structural change in corporate credit markets since the development of the high-yield bond market in the 1980s. Understanding its mechanics, its risks, its relationship with traditional banking, and its regulatory trajectory is not a specialism reserved for credit professionals. It is the foundation of competent practice in modern leveraged finance. This paper has sought to provide the analytical framework that current academic literature has not yet supplied.

REFERENCES

AIMA (Alternative Investment Management Association) (2025) *Global Private Credit Report 2025*. London: AIMA.

Apollo Global Management (2025) *Annual Report 2024*. New York: Apollo Global Management.

Basel Committee on Banking Supervision (2010) *Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems*. Basel: Bank for International Settlements.

Boot, A.W.A. (2000) 'Relationship banking: what do we know?', *Journal of Financial Intermediation*, 9(1), pp. 7-25.

Bord, V. and Santos, J. (2012) 'The rise of the originate-to-distribute model and the role of banks in financial intermediation', *Economic Policy Review*, 18(2), pp. 21-34.

Brunnermeier, M.K. (2009) 'Deciphering the liquidity and credit crunch 2007-2008', *Journal of Economic Perspectives*, 23(1), pp. 77-100.

Citigroup (2024) *Strategic Co-Lending Partnership with Apollo Global Management: Investor Update*. New York: Citigroup Inc.

Cliffwater LLC (2024) *Annual Report on U.S. Direct Lending: Cliffwater Direct Lending Index 2024*. Los Angeles: Cliffwater LLC.

Diamond, D.W. (1984) 'Financial intermediation and delegated monitoring', *Review of Economic Studies*, 51(3), pp. 393-414.

Diamond, D.W. and Dybvig, P.H. (1983) 'Bank runs, deposit insurance, and liquidity', *Journal of Political Economy*, 91(3), pp. 401-419.

Draghi, M. (2024) *The Future of European Competitiveness: A Competitiveness Strategy for Europe*. Brussels: European Commission.

Eccles, R.G. and Crane, D.B. (1988) *Doing Deals: Investment Banks at Work*. Boston: Harvard Business School Press.

Financial Stability Board (2026) *Vulnerabilities in Private Credit: FSB Assessment Report, May 2026*. Basel: Financial Stability Board.

Gorton, G. and Metrick, A. (2012) 'Securitized banking and the run on repo', *Journal of Financial Economics*, 104(3), pp. 425-451.

Gropp, R., Mosk, T., Ongena, S. and Wix, C. (2019) 'Banks response to higher capital requirements: evidence from a quasi-natural experiment', *Review of Financial Studies*, 32(1), pp. 266-299.

Hochenberg, S. and Liff, A. (2023) 'The Citrix debt debacle: how Wall Street lost $600 million', *Wall Street Journal*, 15 March.

Ivashina, V. and Scharfstein, D. (2010) 'Bank lending during the financial crisis of 2008', *Journal of Financial Economics*, 97(3), pp. 319-338.

Joenväärä, J. and Suhonen, E. (2026) 'Private credit fund performance: evidence from audited financial statements', *Journal of Finance*, forthcoming.

Kaplan, S.N. and Stromberg, P. (2009) 'Leveraged buyouts and private equity', *Journal of Economic Perspectives*, 23(1), pp. 121-146.

Lord Abbett (2025) *Private Credit: Middle Market Lending Outlook 2025*. Jersey City: Lord Abbett and Co.

Luck, S. and Zimmermann, T. (2020) 'Credit supply and the rise of alternative lenders: evidence from post-crisis bank retrenchment', *Working Paper*. Federal Reserve Bank of New York.

Moody's Investors Service (2024) *Annual Default Study: Corporate Default and Recovery Rates 2024*. New York: Moody's Corporation.

Morgan Stanley Investment Management (2025) *Private Credit: The $5 Trillion Opportunity*. New York: Morgan Stanley.

Morrison, A.D. and Wilhelm, W.J. (2007) *Investment Banking: Institutions, Politics, and Law*. Oxford: Oxford University Press.

Rajan, R.G. (1992) 'Insiders and outsiders: the choice between informed and arm's-length debt', *Journal of Finance*, 47(4), pp. 1367-1400.

S&P Global Market Intelligence (2025) *Leveraged Finance and Private Credit Monitor: H1 2025*. New York: S&P Global.

Private Debt Investor (2025) PDI 200: The World's Largest Private Debt Fund Managers. London: PEI Media.

Fitch Ratings (2025) U.S. Direct Lending Default Monitor. New York: Fitch Ratings.

Board of Governors of the Federal Reserve System (2025) 'Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications', FEDS Notes, 23 May. Washington, DC: Federal Reserve.