



Pemberton Viewpoint

Insights into European Private Credit

November 2025

The tilt towards Europe is starting to show

The first signs of a reappraisal of Europe's prospects were a change in investor sentiment from the beginning of this year. That shift is now showing up in private credit fund flows and deal volumes – well before the effects of accelerating European investment in defence and infrastructure feed through to the economic data.

Introduction

Evidence is growing that investors are shifting focus towards European private credit. Data for the first half of 2025 show a marked shift in allocations compared with 2024, suggesting an increasing desire to diversify the heavy weighting of US private credit in many portfolios.

However, it is important to understand the nature of the shift that is under way. While huge attention has focused on the fall-out from the Liberation Day tariff announcement on April 2, the tilt in allocations towards Europe predates that shock, indicating concerns over concentrated exposure to US credit were already having an impact. Similarly, major European announcements on increased defence and infrastructure spending also predate April 2. These too have influenced investor thinking about Europe's medium-term growth outlook, as the fiscal stimulus from multi-year investments is discounted.

To attribute this shift in attitudes to individual news events is unhelpful. Instead, we believe we are witnessing the beginning of a longer-term trend that has successive phases, each of which unfolds at its own pace.

The first element of this – investor sentiment – moves fastest. European economies were among the most obvious beneficiaries of the new US administration's early policy moves. Since the Inauguration at the end of January, there has been a clear warming of investor sentiment towards Europe in response to more aggressive US trade policy. Expectations of a major fiscal stimulus have added to the sense of a turning point, as European governments have acknowledged that they must invest much more in their own defence. The performance of public markets in 2025 offered a good proxy for this shift in sentiment. Although the S&P500 is up about 16.4% year-to-date as of the time the article

was written – powered largely by AI-related names – versus about 14.4% for the Stoxx600, in dollar terms, Europe's flagship equity index is around 25% higher, illustrating the effects of weaker sentiment towards the US.

The evidence that sentiment is turning into action

This shift in sentiment is a potential leading indicator, but it must be followed by sustained action to have a meaningful impact. This is starting to happen – more positive attitudes towards European private credit are showing up in the emerging data on LP allocations.

Table 1: LP Private Credit Capital Raised – Europe's Share Hits Record in H1 2025

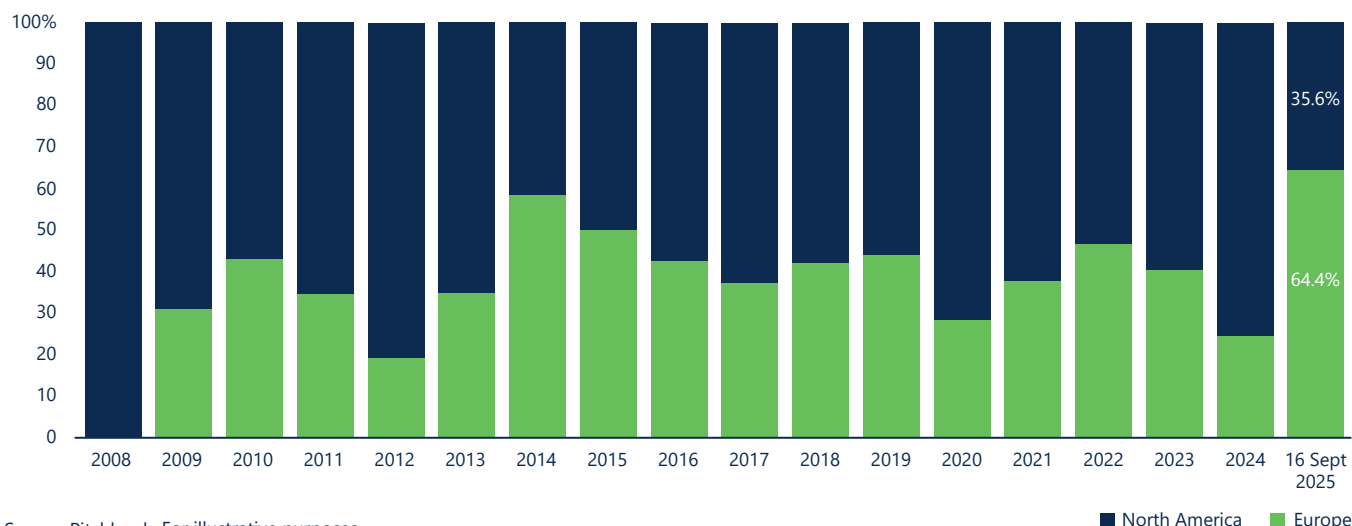
	2024	H1 2025	H1 2025 total as % of 2024
Europe	20.4%	32.4%	76%
N. America	75.4%	69.9%	41%

Source: Pitchbook

The swing in the geographical shares of LP funds raised (+12ppt for Europe, -5.5ppt for N. America) is notable but still short-lived. If further data releases confirm this trend, 2025 would become the first year since 2011 when assets raised for European private credit strategies increased year on year, while North America declined.

In fact, there is evidence that the trend towards Europe has been sustained into Q3. Figures prepared for Pemberton on the Direct Lending segment for the year to mid-September illustrate the same jump in Europe's share of global allocations.

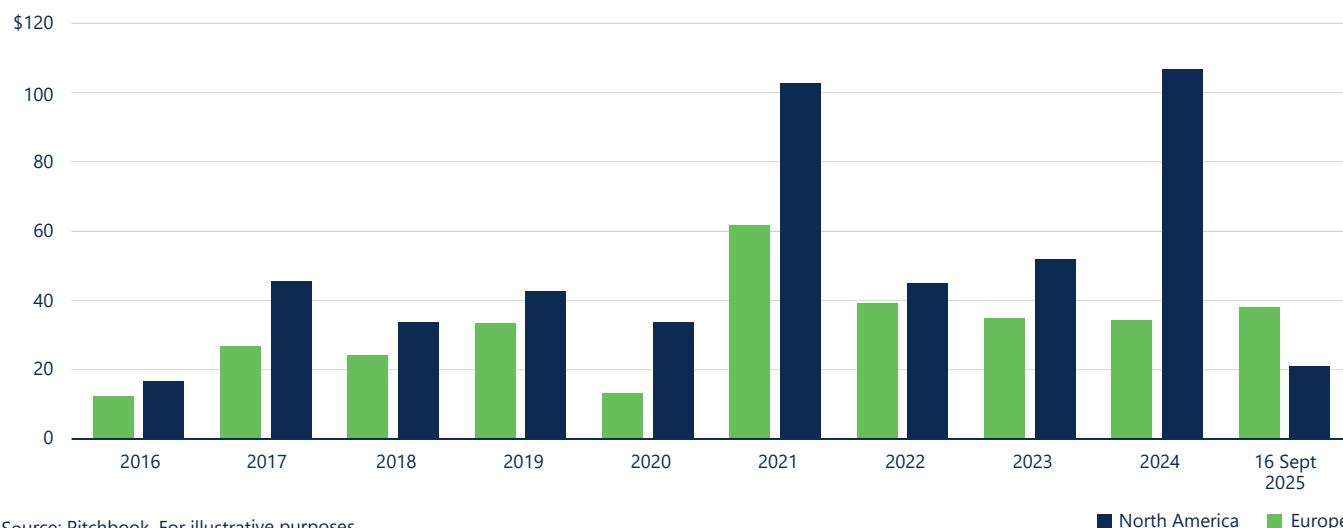
Chart 1: LP Direct Lending Capital Raised – Europe vs N. America (to 16/09/25)



The underlying fundraising figures illustrate the cause of this big share gain by European direct lending funds: a marked slowdown in fundraising among North American direct lending strategies.

Chart 2: Europe Shows Steady Progress While N. American Fundraising Dives

Direct lending funds raised by region (\$bn) – data for 2025 as at 16/09/25



This slowdown in fundraising so far this year follows a record total in 2024 of \$107bn for North American direct lenders, surpassing the region's previous peak of \$102.9bn in the boom of 2021. European direct lending funds, by contrast, have raised relatively consistent sums over the past few years. But with fundraising for the first nine months of 2025 already higher than the whole of 2024, Europe is poised to lift this year's total above the top of the recent \$35bn–\$40bn annual range. Even so, fundraising will remain well short of the record \$61.9bn, set in 2021.

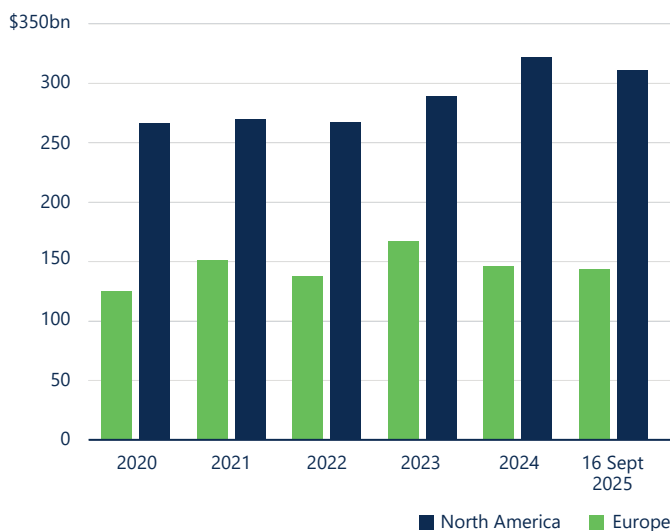
Recent media reports have suggested that allocators in the US see a less attractive opportunity set in that

market and, following buoyant fundraising across private credit strategies, they may believe that some are nearing saturation, particularly mid-market direct lending. There are also reported to be concerns in the US over underwriting standards.¹

Another way to assess the weight of money awaiting deployment in private credit is to compare growth in dry powder between European and North America. Data from Preqin shows a build-up of capital awaiting deployment in North American private credit strategies, particularly since 2022, which has not happened to the same degree in Europe, suggesting little grounds for concern there about market saturation.

¹ See: 'US public pension funds pare allocations to private credit' <https://www.ft.com/content/0d41ac73-f8a7-4be3-8594-625a72524afb> and 'Top US financiers sound alarm on lending standards' <https://www.ft.com/content/f1b61807-c199-4fee-9bd4-dea738e1a0ac>

Chart 3: Private Credit Dry Powder – Europe vs. North America (\$bn)



Source: Preqin. For illustrative purposes.

With a ratio of private equity to private credit dry powder in Europe of 2.85x as of Q3 2025, there is ample capacity to absorb higher allocations from LPs looking to diversify US private credit exposures. And as figures from Debtwire confirm, direct lending volumes in Europe are trending higher, with new record levels expected in 2025 based on the total of €84.9bn for the first nine months. This compares with €74.4bn in the first three quarters of 2024. Despite a lull in M&A during the summer this year, Europe’s deal count was 5% higher year-on-year at the end of September.

“...direct lending volumes in Europe are trending higher, with new record levels expected in 2025 based on the total of €84.9bn for the first nine months.”

The factors steering fund flows towards Europe

Taken together, the data on fundraising, dry powder and deployment represent early indications that the recent change in sentiment towards Europe is starting to show up in private credit fund flows and deal volumes.

We see three major explanations for this nascent trend:

Relative value

Well before the current concerns about US private credit, Europe already offered an attractive relative value proposition, thanks to the relative immaturity of its private credit markets vs the US. Although European banks are retrenching under regulatory pressure, this process has much further to run than in the US, while Europe also has fewer scale players competing for deals in private credit. Underwriting standards and loan documentation, especially in the middle market, remain robust, and net returns are generally higher than in the US, with a typical premium of about 100bps.

Diversification

The relative value argument has been strengthened by developments this year, including trade policy shocks and suggestions that a bubble may be forming in AI-related investments. These have strengthened the argument for investors with concentrated exposure to the US to consider diversifying their risks. Signs that the diversification factor is functioning as an additional driver of appetite among allocators for European assets have appeared in data on public markets.² Global investors are also reported to be hedging a much larger proportion of their dollar exposure than previously,³ which again highlights growing risk awareness over the high weighting of US assets in many portfolios.

Europe’s consolidation

The European mid-market is inherently fragmented across distinct national economies and the trend of consolidation through M&A, often sponsor-backed, is much less mature than in the US. This trend has been key for value creation across multiple sectors through buy-and-build strategies. By combining smaller businesses to achieve pan-European scale, private equity firms with local expertise have been able to optimise costs, professionalise management and implement digital transformation strategies, delivering significant value. As this consolidation trend plays out, it should continue to drive material additional demand for private credit.

Against this background, the case for investors to prioritise diversification is getting stronger. Europe’s status as the world’s second-largest market for private credit – and one with far more growth headroom than the US – puts it in the right place at the right time to offer attractive relative value and meaningful diversification.

² <https://www.ft.com/content/d5d46554-f495-4c24-91c0-b55ce150a793> 'Investors flock to 'ex-US' funds in drive to diversify'

³ <https://www.reuters.com/business/foreign-investors-can-exploit-cheaper-dollar-hedges-fed-easing-resumes-2025-10-03/>

Will fiscal stimulus cement the trend?

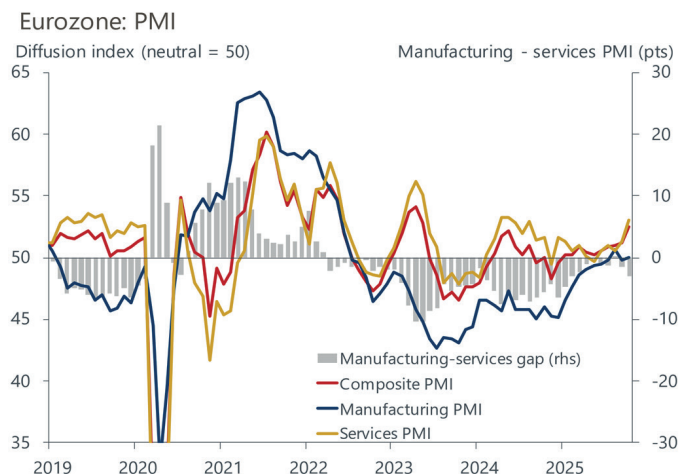
The trend we have identified is in its early stages. Sentiment is volatile and can shift quickly. The fund flows data is persuasive but needs confirmation over a longer period to become a compelling element of the argument. With that in mind, how much weight should investors put on the other major pro-Europe argument – that higher defence and infrastructure spending will feed through into faster economic growth?

The €500bn fiscal boost promised by Germany's new government is supported by EU-wide initiatives including the €150bn Security Action for Europe loan programme and the addition of defence as a priority sector for the European Investment Bank. Across the continent spending on defence is starting to ramp up.⁴

The ultimate impact of these longer-term trends remains uncertain, although recent research suggests that defence investment in Europe has a high fiscal multiplier, adding 1.6% to output for every 1% of GDP invested.⁵ If that research conclusion is borne out, Europe could see economic growth accelerate over the next few years, underpinning demand for debt capital.

But the results of the fiscal stimulus now rolling out will take several years to show up definitively in the continent's economic data, and they may prove less dramatic than some are predicting. What we can say at this stage is that the overall economic and fiscal backdrop remains broadly supportive and that private sector confidence in Europe appears to be improving.

Chart 4: Europe PMIs chart rebound sharply in 2025



Source: Oxford Economics, S&P Global

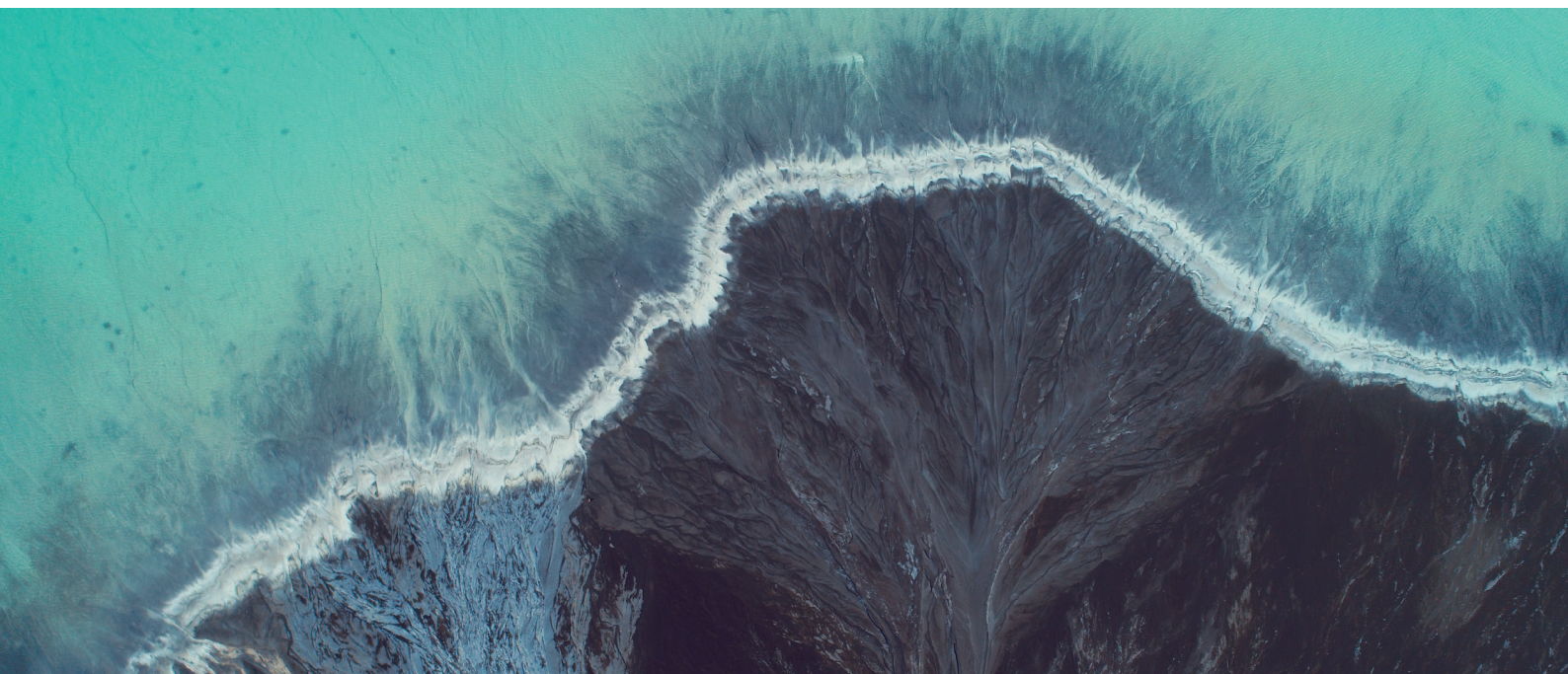
Our aim in this paper is to highlight three currents that we believe are moving in Europe's direction. The first, investor sentiment, changes direction most quickly and is the most volatile, but has clearly become more positive towards Europe this year. That shift is starting to show up in the second current – fund flows – as we have highlighted.

The third current – government borrowing and investment plans – will take much longer to become visible in the data. But the evidence available so far suggests that the early stages of a longer-term tilt towards Europe are under way.

“...the evidence available so far suggests that the early stages of a longer-term tilt towards Europe are under way.”

⁴ Europe builds for war as arms factories expand at triple speed' <https://www.ft.com/content/ce617187-43ed-4bec-aebf-b1b346c4cfb1>

⁵ EU gets a lousy 'Draghi report' card. But it might not matter' <https://www.reuters.com/markets/europe/eu-gets-lousy-draghi-report-card-it-might-not-matter-2025-10-21/>



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