Private Credit 2.0: Why Emerging Markets Are Becoming the Next Frontier

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Private credit has never had more capital. Yet finding transactions worth financing has become increasingly difficult.

The constraint is no longer capital. It is origination.

For investors, advisers and borrowers alike, that shift is changing how private credit opportunities are identified, structured and financed.

Over the past fifteen years, the asset class has evolved from a niche investment strategy into a mainstream component of institutional portfolios. According to the Alternative Credit Council, global private credit assets under management have reached an estimated US$3.5 trillion, with capital deployment of almost US$600 billion in 2024 alone — up 78% on the previous year.[1] Much of this expansion was driven by a structural shift rather than a cyclical one: the gradual retreat of banks from corporate lending following the Global Financial Crisis. As banks became constrained by capital requirements and regulatory reform, private credit managers stepped in to fill the funding gap, and the model proved remarkably successful.

Success, however, has also brought crowding.

As more capital has entered developed market private credit, transactions are increasingly intermediated through competitive auction processes, spreads have compressed, leverage has increased and documentation has become less lender-friendly. Covenant-lite structures rose to 21% of direct lending transactions in 2025, up from just 4% two years earlier.[2] In PwC's 2026 survey of global credit portfolio managers, two-thirds cited competition as the primary driver affecting fund performance, and 93% expected flat or lower returns this year.[3]

Recent developments have exposed some of the consequences of this increasingly competitive environment: a series of leveraged loan defaults in late 2025, the rising use of payment-in-kind toggles and a sharp increase in redemption requests across semi-liquid vehicles have placed the asset class under its first genuine test — a test concentrated, notably, in precisely the crowded, loosely documented, sponsor-backed lending where competition has been most intense.

The question for institutional investors is therefore changing: where will the next generation of attractive private credit opportunities come from?

Increasingly, the answer lies not in assuming more risk, but in looking beyond increasingly efficient markets.

Looking Beyond Developed Markets

An increasing number of specialist investors are broadening their focus beyond traditional developed markets towards carefully selected emerging economies. This is not simply a search for higher yields; it reflects the recognition that many emerging markets continue to exhibit the structural characteristics private credit originally sought to exploit:

- limited availability of long-term institutional capital;
- banking sectors that remain the dominant source of corporate funding;
- funding gaps created by regulatory constraints or balance sheet limitations;
- lower levels of competition among alternative lenders; and
- opportunities to negotiate stronger collateral packages and lender protections.

The opportunity lies not in taking greater risk, but in operating in markets where the supply of institutional capital remains structurally limited.

The scale of the imbalance is striking. The IMF estimates emerging market private credit assets at just US$50–100 billion — a fivefold increase over the past decade, yet still only around 2–3% of the global asset class.[4] Emerging markets represent a significant share of global economic activity, yet account for little

more than a rounding error in private credit allocations.

In other words, many emerging markets today resemble the developed market private credit landscape of ten to fifteen years ago.

Risk Is Not Defined by Geography

Emerging markets are often perceived as inherently higher risk. While macroeconomic and political risks certainly require careful consideration, geography alone does not determine credit quality.

Institutional investors increasingly assess opportunities transaction by transaction rather than country by country. The quality of a credit is determined by factors such as:

- contractual cash flows;
- collateral quality;
- legal enforceability;
- sponsor strength;
- governance standards; and
- downside protection.

A well-structured transaction secured by investment-grade export receivables may present a more attractive risk profile than a highly leveraged sponsor-backed transaction in a developed market with limited lender protections. The events of the past year have made that comparison harder to dismiss.

The emphasis is no longer on maximising yield. It is on constructing resilient credit structures capable of performing across market cycles.

The Importance of Origination

Another structural change is becoming increasingly evident.

Capital is no longer scarce.

High-quality origination is.

Origination has become the principal constraint on capital deployment.

As private credit funds continue to grow, their ability to deploy capital increasingly depends on accessing proprietary opportunities before they become broadly marketed. Competitive advantage is therefore moving away from simply having capital available; it is increasingly determined by access to local relationships, sector expertise and structuring capability.

The ability to identify institutional-quality borrowers, understand local legal and commercial environments and structure transactions that meet international investment standards has become a critical differentiator. In many cases, the real value is created long before an investment committee reviews a transaction.

In increasingly competitive markets, proprietary origination has become a source of investment alpha in its own right.

For advisers and investors operating in emerging markets, this places increasing value on institutions capable of combining local origination with international structuring and execution standards.

Turkey Illustrates the Broader Trend

Turkey provides a useful illustration of these broader structural dynamics.

Despite its large and diversified corporate sector, long-term institutional funding remains relatively limited outside the domestic banking system. At the same time, many Turkish companies possess characteristics that international investors increasingly seek:

- significant hard-currency revenues generated through exports;
- established relationships with investment-grade international customers;

- valuable receivables and hard assets capable of supporting secured structures;
- internationally recognised manufacturing and infrastructure businesses; and
- experienced management teams with long operating histories.

These characteristics support structured lending solutions that extend well beyond conventional corporate loans — from financings secured on export receivables and hard assets to funding for infrastructure, renewable energy and regulated financial institutions. For international investors, such transactions offer the potential to combine attractive returns with strong collateral and carefully negotiated documentation.

The opportunity is not unique to Turkey. Turkey simply demonstrates how these dynamics can converge within a single market.

This increasingly favours advisers and investment managers with genuine local relationships, structuring expertise and access to proprietary transaction flow. The competitive advantage increasingly lies in bridging local opportunity with global institutional capital.

Private Credit 2.0

The next phase of private credit is unlikely to be defined simply by deploying larger amounts of capital into increasingly competitive developed markets. Instead, it is likely to be characterised by greater selectivity, stronger emphasis on downside protection and a broader geographic opportunity set.

Emerging markets will not replace developed markets. Rather, they will become an increasingly important component of diversified private credit portfolios, particularly where structural inefficiencies continue to create attractive opportunities for disciplined investors. For investors, this offers the opportunity to originate differentiated transactions that combine attractive risk-adjusted returns with robust structural protections.

For corporates, this shift is equally significant. Companies that understand how institutional investors evaluate risk — and prepare themselves accordingly — will find access to a broader and more diversified pool of long-term capital. The challenge is no longer simply finding lenders. It is presenting opportunities in a way that meets institutional underwriting standards.

Private Credit 1.0 was built on the retreat of banks.

Private Credit 2.0 will not be defined by who has the most capital. It will be defined by who can originate, structure and execute the highest-quality opportunities before they become broadly syndicated or intermediated.

For borrowers, advisers and investors alike, the implication is clear. Competitive advantage is moving away from access to capital and towards access to proprietary opportunities. The next decade of private credit will not be won simply by raising larger funds. It will be won by those who can consistently originate institutional-quality opportunities, structure them to international standards and connect local markets with global capital.

Exhibit — From Private Credit 1.0 to 2.0

Private Credit 1.0	Private Credit 2.0
Capital scarcity	**Origination scarcity**
Developed markets	**Selected emerging markets**
Bank retrenchment	**Institutional capital surplus**
Broad deployment	**Selective deployment**
Yield maximisation	**Risk-adjusted structuring**
Capital	**Origination**

Notes

1. Alternative Credit Council / AIMA, Financing the Economy 2025 (in partnership with Houlihan Lokey), December 2025. Estimates of global private credit AUM vary with definition; narrower measures focused on closed-end direct lending strategies place the market at above US$2 trillion (Moody's, Private Credit Outlook 2026).

2. Proskauer Rose, 15th Annual Private Credit Insights Report, February 2026, as cited in McKinsey & Company, Global Private Markets Report 2026.

3. PwC, Global Private Credit Survey 2026, based on responses from more than 120 credit portfolio managers globally, conducted January–March 2026.

4. International Monetary Fund, Global Financial Stability Report, April 2026, Chapter 2: “Capital Flows to Emerging Markets: The Role of Global Nonbank Investors.”

NN Capital Advisory advises corporates, financial institutions and investors on cross-border financing, structured credit and capital solutions across Turkey and emerging markets.