

Notes from New York

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What's on the minds of private debt professionals? Regulation, market conditions and distressed debt all had an airing at our recent industry event.

We noted a few talking points from our recent PDI Network New York Forum:

1. Private markets is in a “deregulatory environment”, according to Jillien Flores, chief advocacy officer of the Managed Funds Association, and that will benefit private credit. “Government,” she added, “won’t proactively impose additional regulation.” But this does not mean there are no possible threats on the horizon from policy makers.

Flores pointed out that government has been mulling how to make life easier for the banks – and banks have been populating the pages of mainstream media, playing up the risks of private credit. This at a time when the asset class is doing its level best to tap into the retail investor base. If a fund supported by such investors were to blow up, the “told you so” response from certain quarters would be loud and clear – and regulators would be forced to respond.

2. Yet again private credit appears to be weathering a challenging environment well, as it has done during other recent seminal tests such as the covid pandemic. With the tariff regime biting and the economy slowing, defaults are refusing to scoot up. But positive prognoses are made with caution.

One panellist noted NAV softness in the BDC market where there is a widening dispersion between good and bad performance and where PIK is an increasing characteristic. While fundraising across private credit appears to be holding up reasonably well, deployment – and specifically identifying quality dealflow – is seen as challenging. There is concern that desperation to deploy may result in some ill-advised deals.

3. Further to point two, a panel on distressed debt heard how, amid a currently benign environment, there are “clear signs of trouble”. There is distress arising out of tariffs and private equity sponsors “just want companies to make that next interest payment as the treadmill tilts up”. The importance of the consumer was stressed in the context of economic performance and the data is showing consumer spending down among the bulk of the population (the most affluent are still spending freely).

For distressed debt investors, this all adds up to an expanding opportunity set. This is within a context where the overall market size has grown naturally in any case, given the steep growth seen in the leveraged loan market since the global financial crisis.