



Evolution of private credit: the rise of asset-backed finance

‘Private credit has evolved into a mainstream asset class, offering diversification, yield, and downside protection. Within this landscape, asset-backed finance is emerging as a strategic frontier.’ In this interview with Financial Investigator, Elliot McIlrath from PIMCO explains how multi-asset strategies enhance resilience and unlock relative value opportunities.

By our editorial team

How have you seen private credit markets evolve over the last 10 years and where do you think they are headed?

‘Over the past decade, private credit has transformed from a niche strategy into a core institutional asset class, with \$ 1.7 trillion in assets under management as of June 2025. This growth was primarily driven by bank de-leveraging following the financial crisis, especially in middle-market direct lending, as banks sought to reduce risk on their balance sheets. Non-bank lenders stepped in, offering flexible, privately negotiated loans and capturing additional yield opportunities.

The definition of private credit is evolving as investor awareness grows around other attractive credit sectors. Combined with ongoing bank de-leveraging, this is expanding the private credit opportunity set. Leading this evolution is asset-backed finance (ABF), which alone represents a \$ 20 trillion opportunity. ABF offers attractive risk-adjusted returns and increased diversification, enabling investors to build portfolios that can perform well in the years ahead.’

What are the main benefits to hold private credit in institutional investor’s portfolio?

‘Private credit complements a public investment portfolio by providing attractive yields, defensive features, and diversification. Its illiquidity and complexity premiums often result in higher yields, which can generate increased cash distributions or higher total returns through reinvestment and compounding.

Due to private credit’s broad opportunity set, investors can diversify portfolios by geography, credit sector such as corporate, residential mortgage credit, commercial real estate, and consumer loans, and by investment return profile ranging from investment grade to high yield. Private credit also allows for customized loans tailored to borrower and asset characteristics, offering increased protection for investors.

Additionally, private credit’s low correlation with public markets enhances portfolio resilience, potentially reducing overall volatility and drawdowns.’

What are the benefits of investing in a multi-asset private credit solution?

‘Multi-asset private credit offers several key

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benefits that enhance portfolio strength and adaptability. It provides exposure across private credit sectors such as corporate lending, asset-backed finance, residential mortgage credit, and commercial real estate credit, reduces concentration risk and improves resilience during sector-specific downturns. Moreover, managers can pivot across sectors, avoiding overcrowded areas where pricing power has eroded, and reallocating to less competitive segments with attractive opportunities.

Currently, the private asset-backed finance market is a notable opportunity. Lastly, for investors with existing private credit allocations (often concentrated in floating rate direct lending), multi-asset strategies reduce risk through broader sector coverage and inclusion of fixed-rate private credit investments. For new investors, it provides access to the full private credit opportunity set.

Overall, this approach combines diversification, active management, and yield capture, making it a resilient solution in today’s evolving market.’

In what ways does a multi-asset credit approach enhance portfolio resilience in volatile markets?

‘A multi-asset credit approach diversifies exposure across credit sectors, structures, and geographies. Instead of concentrating risk in a single sector, such as corporate direct lending, investments are spread across asset-backed finance, residential mortgage credit, commercial real estate credit, and corporate direct lending. This diversification mitigates the impact of sector-specific downturns and macroeconomic shocks.

Different credit types respond differently to stress. Loans backed by tangible assets like

homes or vehicles tend to offer greater stability, often benefiting from inflation protection and lower loss rates. Amortizing structures support predictable cash flows and reduce duration risk.

Flexibility is a key advantage. Multi-asset portfolios can shift away from overcrowded areas into less competitive segments like asset-backed finance, pursuing relative value and maintaining performance across cycles.

In volatile markets, this strategy balances income generation, downside protection, and strategic allocation, offering investors a resilient solution for long-term portfolio construction.’

How does asset-backed finance fit within the broader private credit universe, and what makes it particularly attractive today?

‘ABF is a fast-growing segment within private credit, focusing on lending, secured by tangible or contractual assets such as homes, cars, aircraft, equipment, and royalties. Unlike traditional corporate or real estate lending, ABF spans consumer, non-consumer, and mortgage-related credit, offering exposure to diverse sectors of the real economy.

ABF is particularly attractive today for two main reasons. Firstly, for its defensive investment profile: loans are secured by physical assets, often amortizing and self-liquidating, with historically low loss rates even in default. Secondly, for its compelling risk-adjusted returns: supported by strong macro fundamentals and high barriers to entry, ABF limits competition and enhances pricing power.

ABF also contributes to portfolio diversification. Its low correlation with corporate credit and predictable cash flows help reduce duration risk and improve resilience. As private credit matures, ABF stands out for its scalability, stability, and strategic value in today’s market.’ ■

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SUMMARY

Private credit has evolved into a mainstream institutional asset class.

It offers diversification, attractive yields, and downside protection.

Multi-asset private credit enhances resilience and adaptability.

Asset-backed finance is a strategic frontier within private credit.

Investors benefit from structural flexibility and relative value opportunities.