

# Europe at critical juncture for economic growth

Europe is approaching a critical juncture for financial innovation and economic growth. Securitisation presents a major opportunity now that demand for asset-backed finance (ABF) is gaining momentum.

By Edwin Wilches

Europe has consistently lagged global GDP, and reversing this trend requires significant capital deployment across equity and debt markets. However, 85% of European funding currently comes from banks, creating a systemic imbalance given its financing needs to boost economic growth. This structural imbalance presents a major opportunity for securitisation to become a critical tool to finance the real economy, particularly in areas such as defence spending, energy transition, and infrastructure.

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## Vital mechanism

Securitisation is not merely a technical issue for financial services. It is a vital mechanism for channelling capital to where it is needed most, connecting businesses and consumers seeking funding with global investors. This process accomplishes two critical goals. First, it diversifies risk away from the banking system, which Europe relies on too heavily. The European Central Bank’s latest Financial Stability Review highlighted that Europe’s weak growth and reliance on a few sources of credit sources pose real risks to the stability of its financial system and economy.

Second, it gets institutional investors like pension funds and insurance companies, and intermediary investors like retail banks and wealth managers more engaged in financing the real economy. A healthy securitisation market means more funding for everything from mortgages and car loans to data centres, small

businesses, heat pumps and solar panels. Importantly, these assets generally have longer durations, which are an inherent mismatch in how depository banking institutions fund.

Reviving the securitisation market to pre-crisis levels could generate billions in private financing each year. This is capital that could fuel innovation and create jobs. Its benefits would also be amplified by enabling cross-border capital flows and freeing capital currently sitting idle within individual member states to reach the most impactful growth opportunities across the region.

## Regulatory shifts driving opportunity

The 2024 Mario Draghi report on the future of European competitiveness identified securitisation as a key lever for growth. Regulators are now working to reduce friction and encourage issuance while maintaining transparency.

Here, expected developments include Solvency II reforms, with changes anticipated soon set to ease capital requirements for insurers, increasing the appetite for securitised products. In addition, adjustments to securitisation regulation will likely make issuance more efficient without compromising investor protections.

While these reforms will not fully meet Draghi's ambitious targets, they do mark a significant improvement after a decade of restrictive regulations. The expectation is for a surge in insurance participation and broader issuance of securitised products across Europe in 2026.

### ABF is gaining momentum

Securitized products are a core part of ABF. While the concept is not new, the current environment is driving renewed demand. Post-GFC banking constraints and recent capital needs, including AI-driven infrastructure and defence, have accelerated growth in private deals. The addressable market for ABF is estimated at \$10 trillion globally, with some forecasts as high as \$40 trillion. Yet, actual invested capital remains under \$1 trillion, signalling a massive gap and long-term growth potential.

Insurance companies, pension funds, and sovereign wealth funds are expected to increase exposure to ABF strategies, attracted by liquidity premiums and diversification benefits. Investment grade ABF offers spreads of 150-200bps over corporates, while below-investment

grade tranches can deliver additional spreads of 600bps or more, making them competitive with corporate direct lending mandates.

By partnering with banks and originators, investors can source opportunities across public and private markets, ensuring resilience when any one market faces dislocation. This structure also positions investors to capture relative value across cycles without being tied to a single origination channel. Current examples include financing for hyperscale data centres, where demand for AI-related infrastructure is creating significant funding needs. Over time, infrastructure funds and collateralised loan structures are expected to enter this space, compressing spreads, but new sectors will emerge, sustaining relative value opportunities.

In terms of the concentration of capital around AI and digital infrastructure, these themes are filtering through equity, corporate credit, and securitised markets. While exposure may be unavoidable, prudent risk management will hinge on transaction-level scrutiny and awareness of indirect correlations. Shorter lending horizons and reassessment windows are preferred to mitigate obsolescence risk.

### Expanding role of securitised credit

As for portfolio construction, securitised products are increasingly viewed as versatile building blocks. They offer differentiated risk profiles compared to traditional corporate credit, with

better risk-adjusted returns and lower credit migration due to diversified collateral pools. This structural advantage positions securitised assets as substitutes for cash, short corporates, or even high-yield exposures, depending on the tranche and rating.

Multi-sector portfolios in particular will continue to capitalise on compelling relative-value opportunities across securitised sectors such as CLOs and commercial real estate tranches.

Another growing theme is the convergence of public and private markets. The ability to pivot between public securitised mandates and private capital pools enhances flexibility and origination capacity. This dual capability is particularly valuable during periods of market stress, ensuring continuity of deal flow and pricing power. This is equivalent to having a full-field vision of the investment landscape allowing for a more robust assessment of risk, pricing of assets that ultimately enhances portfolio construction.

Lastly, client interest in mixed-liquidity portfolios is rising. The hybrid approach of combining liquid securitised assets with private ABF provides investors with flexibility to lean into dislocations when spreads widen, enhancing the prospect of long-term outperformance. As spreads remain attractive and markets evolve, semi-liquid structures are expected to become a mainstream solution for institutional investors. ■



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## SUMMARY

The 2024 Mario Draghi report on the future of European competitiveness identified securitisation as a key lever for growth.

Reforms will mark a significant improvement after a decade of restrictive regulations and are expected to trigger an issuance surge across Europe in 2026.

Securitized products are increasingly viewed as versatile building blocks. They offer differentiated risk profiles compared to traditional corporate credit, with better risk-adjusted returns and lower credit migration due to diversified collateral pools.