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10 June 2025

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Private Credit – Cross Region

Private market retail to fuel opportunity but intensify liquidity, asset quality risks

Summary

In coming months competition for retail investor capital within private markets will intensify as alternative asset managers roll out new partnerships and special funds to address this potentially vast, still largely untapped market. But rapid growth within this still relatively opaque market also carries systemic implications.

» **Investing momentum is accelerating**. Retail investor capital within private markets represents one of the biggest new growth frontiers in the industry. Growth in this market – mostly discretionary and retirement assets – comes at a time when government and regulatory policy agendas around the world are calling for greater capital formation. But rapid growth in retail participation, within the still largely opaque private market world, will also bring new risks.

» **Retail capital poised to reshape private markets**. Private markets are becoming increasingly important to the expansion of global capital markets, in particular, as public listings fall and more companies opt to delist or remain private. To facilitate growth, asset managers and their partners are innovating new structures to provide points of access for private wealth. "Main Street" investors are becoming more important as institutional investors bump against capacity constraints in their alternative investment allocations.

» **As retail money flows to private markets, liquidity risks will grow.** Unlike institutional investors, retail investors expect ready access to their cash. To help, managers are launching products with periodic windows of liquidity. But in volatile markets, retail investors may run for the exits, which would exacerbate liquidity needs and the risk of potential mismatches between a product's available liquidity and what investors are expecting.

» **Surging demand will increase need for suitable assets.** As retail flows grow, managers will need to be agile in finding good quality assets. Deployment will become more difficult as more managers compete for limited asset supply. This may lead some managers to assume more risk by investing less prudently to capitalize on this new opportunity.

» **Alternative managers eye partnerships to accelerate the retail opportunity**. A wave of recent collaborations is blurring the lines between public and private markets, combining the scale and distribution of traditional asset managers with the specialist capabilities of alternative players.

Investing momentum is accelerating

In coming months we expect competition for retail investor capital within private markets to intensify as more managers pursue one of the biggest new growth frontiers in the industry. Although “Main Street” investing in private credit and other private asset classes is still nascent, the potential size of this retail market is vast. Momentum is growing – exemplified recently by Empower's 14 May announcement that it is in partnership with a number of investment managers to offer private assets in some retirement plans. Growth is happening globally, at different paces, with a call to deepen capital markets and extend higher-return opportunities to ordinary investors. Governments and regulators are reinforcing this momentum, with capital formation now a prominent priority on policy agendas around the world. Managers are looking to capitalize on this opportunity by trying to reduce barriers associated with investing in private markets. The surge in evergreen fund launches is one way, as these semiliquid vehicles are increasingly designed to attract “Main Street” investors.

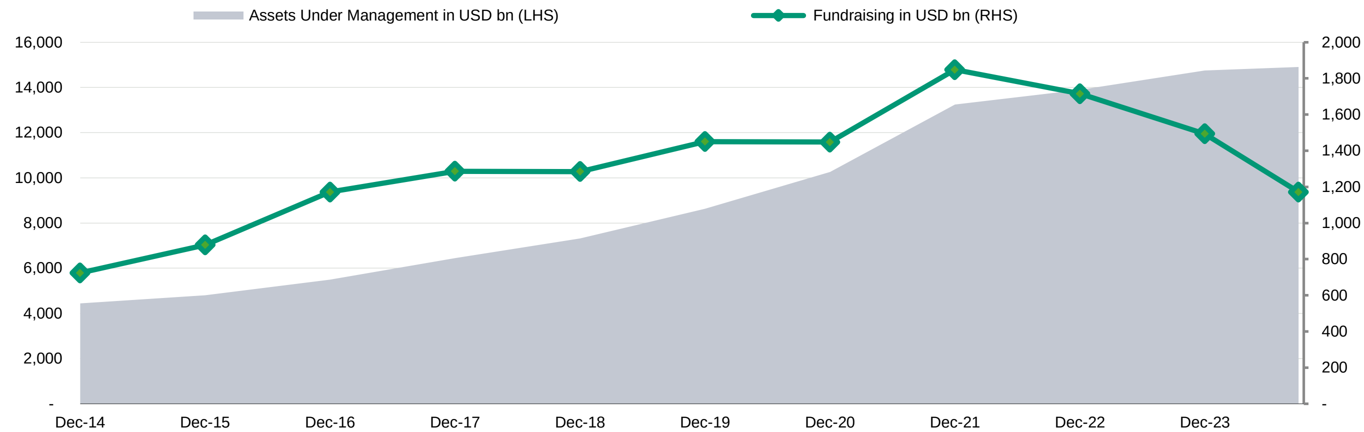
But rapid growth beyond the industry's traditionally core institutional roots – and its general opacity relative to public markets – could exacerbate risks around liquidity, transparency and valuation, which could in turn test the industry's reputation during times of stress. For example, “Main Street” investors have traditionally expected cash on demand, while institutional investors participate for the long-term. This means managers will have to address increasingly complex liquidity needs in traditionally illiquid funds. If competition for retail capital outpaces the supply of quality assets, and if growth outpaces the industry's ability to manage these complexities, such challenges could have systemic consequences. Private asset managers also face reputational risk if – in a scramble to grow share – credit standards slip or risk management falters. Concentration risk is something else to watch. Most retail investing initiatives – increasingly through partnerships – are being fueled by a handful of top alternative asset managers. While these are large and highly sophisticated managers, they also represent an increasingly bigger part of the private markets. Last year six of the largest firms raised 59% of all fundraising in the private markets, nearly triple their share in 2019[1].

Retail capital poised to reshape private markets

Private market AUM has experienced significant growth and structural shifts are driving this trend. Public listings have declined as companies increasingly choose to stay private for longer or even delist and go private permanently. At the same time the development of the infrastructure in private markets has facilitated the channeling of institutional and, increasingly, private wealth. The influx of private wealth, including increasingly the lower end of the wealth spectrum, will play a critical role in sustaining this growth, as institutional investors face capacity constraints in new exposure to private markets. A lot of the recent initiatives reinforcing accessibility of private assets involve private credit, which is among the fastest growing private asset classes.

Exhibit 1

Private markets have experienced significant growth, but institutional fundraising is slowing



AUM and fundraising figures are based on drawdown funds only. AUM data is as of September 2024; fundraising data for the full year 2024.
Private market AUM include private equity, real estate, infrastructure, private debt, natural resources based on Preqin's classification.
Source: Preqin & Moody's Ratings

Under the current US administration, the regulatory approach toward the private market has changed, with priorities shifting from enhanced disclosure requirements to a greater emphasis on accelerating capital formation. In a recent speech, the Securities & Exchange (SEC) Chairman – highlighting the growth of private markets – said that the Commission is looking at easing requirements that have historically limited retail investors from participating in closed-end funds, which is the most common way of investing in private markets.

In the meantime, alternative asset managers are focusing intently on defined contribution (DC) retirement plans in the US – such as 401(k)s – which represent an addressable market of roughly $12.4 trillion [2]. In the UK, a voluntary initiative known as the Mansion House Accord, backed by seventeen of the largest workplace pension providers, aims to integrate private assets into workplace pensions. These participants have agreed to allocate at least 10% of their default DC schemes in private markets by 2030, with in scope pension assets currently estimated at £252 billion, potentially rising to £740 billion by the end of the decade.

While private markets have thrived on the traditional model of long-term, locked-up capital and limited disclosure, that model is clearly shifting as retail investors emerge with very different needs. Accessibility, affordability and some degree of liquidity are key to accommodate the needs of “Main Street” investors. That means fund managers will have to adapt strategies and oversight capabilities to address this. As that happens, we expect private markets will increasingly start assuming more public market characteristics. In a May 2025 report, we addressed the emergence of evergreen funds, semiliquid fund structures that appeal to a broader set of investors, with given periodic liquidity access. We are observing a growing trend of managers launching blended public-private investment fund offerings, highlighting how the lines between public and private market investing are increasingly blurring. We expect this convergence to accelerate as more firms compete for access to retail capital (Exhibit 2).

Sourcing quality assets and adequate liquidity will become increasingly important as this market grows – one of the reasons big industry players such as Apollo Global Management, Inc. (A2 stable) have been eyeing another classic public markets playbook – secondary trading. Although there is some secondary trading activity in private credit, it is very limited compared to public credit markets in the US and elsewhere in the world, where trading in public bond and loan markets has been around for decades. Banks tap public secondary markets to broaden loan syndication channels, gain price discovery and manage exposure to underperforming debt. This market has also helped smaller banks – those unable to underwrite larger loans or otherwise gain access to select borrowers – participate with more bite-sized allocations. But what has helped public markets has traditionally been frowned upon by private markets, which favor illiquidity premiums, price stability, small lending groups and discretion. Apollo's efforts to initiate some version of a trading platform, along with select others, is yet another example of how rapidly private markets are evolving. Ultimately, whether it is through trading or some other means, private lenders will need to access adequate liquidity and quality assets as they roll out new ETFs and other funds focused on retail.

Exhibit 2

Private markets are evolving as investor access broadens

	Private markets		Public markets
Access	Mostly institutional	Broadening to include retail	Open to all investors
Liquidity	Long lock-up periods	Improving – development of secondary markets/semi-liquid funds	Daily trading on exchanges
Valuation frequency	Quarterly or less frequent	Move toward monthly or even more frequent valuation for some fund structures	Daily or real-time
Transparency	Limited reporting requirements	Increasing transparency through available reporting	Regulated disclosures, earnings reports
Fees	High management and performance fees	Introduction of products with more affordable/simplified fee structures	Generally lower (e.g., ETFs, index funds)
Regulation	Lightly regulated	Regulatory landscape evolves to allow broader access while maintaining investor protection	More regulatory oversight
Product innovation	Traditional closed-end fund structures	Rise of evergreen funds (semi-liquid) and other structures, such as private credit ETFs	ETFs, mutual funds, structured products

Source: Moody's Ratings

As retail money flows to private markets, liquidity risks will grow

One of the most pressing concerns for "Main Street" investors is liquidity and the inherent lack of it in private markets**.** Retail investors often require quicker access to their capital and have less long-term investment flexibility. As said above, the industry has responded by rolling out products offering periodic windows of liquidity. But one of the biggest challenges will be making this strategy align with the illiquid nature of private assets. Retail investors are more sensitive to market volatility and will increase redemption requests when markets erode. During the 2008 global financial crisis (GFC) people turned to their 401(k) retirement funds and other discretionary assets to help make ends meet. In the world of private assets, redemption demands can push managers to gate redemptions to head off fire sales and protect the remaining investors.

Periods of market stress can exacerbate risks across public and private markets. However, these risks become more pronounced when retail investors are involved. In the public markets, liquidity might be more limited at times of stress, when investors can only cash out at steep discounts. In private markets, an investor in a similar scenario might not be able to access money at all. Such concerns could get lost in the push for growth. If that happens, and consumers are hurt, this could lead to reputation loss, heightened regulatory scrutiny and higher costs. In addition, any misalignment of liabilities and assets can jump to the surface during times of market stress – with systemic implications when this stress spreads across multiple funds with similar strategies. In such a situation, there would be more limited liquidity access across the system – further hurting asset prices.

These risks are partially offset by the way many of these products are currently distributed- typically through advisory services or through regulated platforms. This layer of advisory input helps filter suitability and ensures that investors receive some level of guidance, which can mitigate some of the risks regarding lack of investor understanding. However, as access to private markets broadens, or if managers fail to fully integrate liquidity risk into their product design and portfolio construction, the system could become more vulnerable.

Asset valuation is another challenge. Unlike public markets, private assets do not benefit from real time mark-to-market pricing and often lag changes in underlying value, including potential markdowns during periods of stress. Unlike sophisticated institutional investors, retail investors typically lack the tools to perform their own assessments of underlying asset values. If they perceive a potential mispricing, for example because of weak market sentiment or delayed markdowns, investors might rapidly redeem their money or arbitrage opportunities. Moreover, as retail investors expand their allocation to private markets, they might inadvertently build overlapping exposures to similar assets and/or sectors across multiple investment vehicles, increasing concentration risk. This kind of interconnectedness can amplify systemic vulnerabilities during periods of market stress, especially if multiple funds face simultaneous redemption pressure or valuation shocks.

While the SEC continues to look for ways to broaden access, it has also acknowledged that risks must be addressed. In a recent speech, the SEC Chairman called for the need to "resolve important disclosure issues for these products, particularly for those that trade on exchanges, including conflicts of interest, illiquidity and fees." Regulators and other bodies continue to call out risks in private markets as the focus on retail investing gains momentum. But in the absence of new guidelines, it is unclear what will be done to proactively protect "Main Street" investors from private market risks.

Surging demand will intensify need to find enough suitable assets

The influx of retail money in vehicles that require rapid deployment will inflame situations where demand is outstripping supply, in a market that already has more than $4.2 trillion [3] in dry powder sitting in drawdown vehicles, which must be invested. An important distinction between drawdown funds and retail-oriented vehicles such as evergreen funds, is that the former typically have up to five years to put raised capital to work. At the same time, the latter needs to deploy capital quickly to prevent a cash drag on performance. In this environment, some managers may be tempted to compromise on underwriting standards or stretch into riskier assets to keep pace with inflows and capitalize on the opportunity.

We think that industry players with very deep origination and disciplined sourcing capabilities will be better placed than managers that might rush to participate but cannot keep pace with surging demand. In addition, manager risk appetite will be another big differentiating factor, meaning an ability to prudently manage the inherent risks associated with rapid growth. It will be important to demonstrate this kind of attention. For example, last year HPS Investment Partners decided to limit its inflows into one of its perpetual non-traded BDCs to continue to prudently manage the pace of capital deployment and ensure that the fund continues to invest in high-quality investment opportunities.

The implications go beyond individual fund performance. The influx of retail capital into private credit could compress credit spreads and encourage riskier lending behavior. In private equity, there is growing concern that some assets being funneled into retail vehicles may be hard-to-sell assets that the PE's flagship institutional funds are unwilling to retain or are keen to shed so they can create more liquidity for their LPs. This raises questions about alignment, transparency and product integrity.

Alternative managers eye partnerships to accelerate the retail opportunity

Growth will accelerate as alternative managers pursue new partnerships to create more access points into the private markets for individual investors. A wave of recent collaborations is blurring the lines between public and private markets, combining the scale and distribution of traditional asset managers with the specialist capabilities of alternative players. BlackRock, the world's largest asset manager with $11.6 trillion of AUM[4], invested more than $27 billion in three big acquisitions in 2024 to expand its private markets capabilities.

Recent partnerships between market players (Exhibit 3) are increasingly merging public and private asset expertise, resulting in more integrated solutions. Alternative managers are racing to innovate and collaborate with traditional firms to deliver tailored solutions. Structures such as evergreen funds are gaining traction for their ability to provide semiliquid access to private assets. Meanwhile, target date funds are beginning to incorporate private market exposure –for example, State Street is partnering with Apollo to incorporate private assets into its own retirement offerings. But these partnerships are not just about product innovation – they represent a broader shift toward integrated investment solutions that can serve a wider range of investors.

One of the most promising access points is the retirement market primarily DC plans – such as 401(k)s – which have long investment horizons, making immediate liquidity less critical. But we expect retail investors to increasingly extend their investable assets, beyond these retirement assets, into private markets. Managers are likely to deepen their focus on advisor-led solutions, digital platforms and investor/adviser education, all of which are essential to scaling access while reinforcing suitability.

Exhibit 3
Partnerships support broader adoption of private markets

Market players	Date	Developments
Apollo - State Street	Feb-25	Launch of SPDR SSGA IG Public & Private Credit ETF, the first private credit ETF Private credit ETFs
BlackRock - GeoWealth	Mar-25	Launch of public-private customized model portfolio within a Unified Managed Account, facilitating advisors allocation to alternatives in a single account Advisor solutions
KKR - Capital Group	Apr-25	Launch of two fixed income public-private investment funds (with target allocation 60% public fixed income, 40% private credit) Evergreen funds
Apollo - State Street	Apr-25	State Street Target Retirement IndexPlus Strategy to include a number of target date funds with 10% private market exposure, managed by Apollo Target date funds
BlackRock - Partners Group	Expected H1 2025	Planning to launch model portfolio solution to offer access to private markets, through a single managed portfolio Advisor solutions
Vanguard - Wellington - Blackstone	In coming months	Solutions are being developed Public-private multi-asset solutions

Source: Companies & Moody's Ratings

Endnotes

1 Based on company reports and Preqin data
2 Investment Company Institute, as of Q4 2024
3 Preqin as of September 2024
4 as of Q1 2025

REPORT NUMBER 1449290

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