

# E X P E R T Q & A

*A dislocation between soaring equity markets and economic fundamentals could yet prevent buyers and sellers coming together on price, says Bain Capital's global head of private credit Michael Ewald*



## Bridging a stubborn bid-ask spread

**Q How has the private debt market fared during this period of macroeconomic and geopolitical volatility, and how do you expect that to evolve?**

With respect to existing portfolios, the credit environment has been relatively benign and companies have generally held up well. There has been no broad-based recession where default rates have picked up substantially – that appears to be true in both Europe and the US.

I think part of that is due to the experience gained during the covid-19 pandemic. Private equity sponsors and management teams, to their credit, stepped up admirably during that time. When interest rates spiked a couple of

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years later, we might have expected to see more distress, but by then companies were already pretty lean and had a playbook around preserving liquidity. I think that is all part of the reason that we have seen so little distress creep in during this latest period of volatility.

From a new deal perspective, meanwhile, this has been something of a whiplash year. There was initially a lot of excitement. The hope was that interest rates would moderate, inflation would come down and everything would be full steam ahead. While

things are progressing on that front, we're not quite there yet.

Dealflo has started to pick up again in the third quarter as trade deals have been struck and timelines pushed back. Meanwhile, inflation remains elevated in the US, but has not continued to accelerate, which was a concern for a lot of people. Despite this ebbing and flowing throughout 2025, therefore, there are signs that activity is resuming.

One of the potential inhibitors, however, besides the geopolitical environment, is the increased divergence between where equity markets are trading and what corporate earnings actually look like. That is inevitably impacting what people are willing to pay.

Sellers are seeing the equity markets continually hit new peaks and naturally want to command high prices. Buyers, meanwhile, are looking at economic indicators, including slow GDP growth and the threat of recession, and their valuations are far lower. That dislocation between buyers and sellers can really hamper the ability to get deals done.

**Q Are there parts of the market where dealflow has been less affected?**

Dealflow in the core mid-market, which we define as between \$25 million and \$75 million of EBITDA, tends to be less affected by the macro environment. In the large-cap space, there are only so many big companies that can transact, while in the core mid-market there is always add-on activity going on.

Sponsors are holding on to businesses for longer and need to show growth. Those tuck-in acquisitions are all financing opportunities for us. We also see family-owned companies going through generational change that need to be sold, irrespective of the macro environment.

**Q Where do you expect to find the most interesting opportunities going forward?**

We are a little conservative about the consumer segment right now. Inflation, coupled with labour market weakness, means there are headwinds in that space. We find services, generally, far more interesting. Business services – any outsourced provider that makes it cheaper, easier, faster and more efficient for other companies to operate – is always going to be attractive.

We have also been leaning into financial services. Historically, that has primarily meant wealth management, but more recently it has also morphed into areas such as insurance brokerage. Professional services firms, including audit, have also received a lot more



**Q Where do you expect to find the most interesting opportunities geographically?**

From a developed markets perspective, I would say that the US and Europe are fairly evenly matched right now, though Europe would probably have the edge. Base rates are lower and various government fiscal policies mean growth appears to be picking up a bit more than in the US. The US is a massive market, however, which means you can really pick and choose your spots. Overall, I would say the two markets are pretty much neck and neck.

Back in 2021, however, the US was a relatively unattractive market. There was too much exuberance, meaning terms were much looser from a lender perspective, while leverage was high and pricing was not very attractive. The situation flipped slightly following Russia's invasion of Ukraine and growing concerns around natural gas supplies, which made the US more interesting once again. Now things have evened out.

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interest from private equity of late. That is another segment where we are increasingly active.

Healthcare is the other big thematic, given the sector's inherent recession resilience. A lot of recent deal activity in that space has centred on physician practice roll-ups, however, many of which have experienced challenges given slow recognition of expected revenue and cost synergies, as well as the increase in cost of delivery with mass nurse resignations. We believe that areas such as mental and behavioural health treatment and infusion services outside of the hospital environment are more attractive, so that is where we are focusing our attention.

### **Q How do you see competitive dynamics evolving and what will that mean for pricing and terms?**

It has been interesting to observe how competitive tensions have played out through 2025. Everyone has been worried about tariffs and the economic outlook, so you might think spreads would widen. But the reality is that whenever there are not a lot of deals coming to market, competition spikes up, so in fact we have experienced spread compression.

That said, while spreads have come down since they peaked in late 2023 and early 2024, they have only just come down to more normalised levels. The same is true for terms. Things like EBITDA definitions for covenants and conditions around delayed draw-term loans have returned to a steady state, whereas they were more lender-friendly a couple of years ago. In general, I would say that the situation is pretty balanced between borrowers and lenders today.

Something that is still quite conservative, and therefore lender-friendly, however, is leverage. That is driven by base rates still being relatively elevated, at least in the US. Borrowers are therefore not able to afford as much debt as they could when base rates were at close to zero. As a result, we are seeing spreads remaining steady against a backdrop of more conservative leverage levels, which is good for us as lenders.

### **Q How do you expect investor appetite for private credit to evolve going forward?**

I think it is important to define what you mean by private credit, which has arguably become an overused term to the point where it has almost become meaningless. Private credit used to refer primarily to direct lending. Now it encompasses a broad range of strategies, ranging from distressed debt and special situations to more esoteric asset

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classes such as music royalties, life settlements or litigation finance.

We have found that LPs are all at very different points in their journeys with respect to these different aspects of private debt. We talk to investors that have not allocated to direct lending yet and are trying to figure out whether they should start out with the large-cap brand name players or focus on the core mid-market, where we believe the risk/return trade-off is more attractive.

We also talk to investors that are looking to diversify within direct lending by gaining exposure to the mid-market and to investors whose direct lending allocations are already set, but that are interested in exploring some of these other asset classes. There is a broad spectrum.

What is consistent across this broad

spectrum of options, however, is that investors appreciate the yield we can generate, particularly in terms of the premium against the liquid loan market, always assuming they are comfortable with some degree of illiquidity.

### **Q Which of the more esoteric asset classes are capturing investor attention?**

Several areas involving special situations are attracting interest, including music royalties, where Bain Capital is active. It is important that managers in these sectors really understand the nuances at play, specifically regarding structuring. Some of the newer entrants seem to primarily be focused on the maths involved in these transactions, but structuring is the secret sauce, and it requires experience.

### **Q Where do environmental, social and governance issues fit into the future of private credit?**

ESG doesn't just fit into the future of private credit, it is essential to the present. At Bain Capital, we are conscious of sustainability considerations and of being on the right side of history – it's important to us that we are on the right side of the future, as well.

For us, it is something that is integrated into our decision-making processes, including maintaining sponsor score cards that evaluate not only how GPs perform financially, but also how they themselves incorporate sustainability into their processes.

In addition, we include an ESG section in every investment committee memo. This is because we always want to be thinking about the long-term impacts that the businesses we back will have on society and the environment. We also want to make sure we are considering the long-term impacts on any potential exit in three to five years, when we need to get re-paid. Ultimately, it comes down to ensuring a successful outcome. ■