

E X P E R T Q & A

Lenders that can look beyond cyclical trends in the fragmented European private credit market will be well positioned to benefit from long-term tailwinds, says Zach Lewy, CEO and CIO at Arrow Global



Why the European credit shift is structural

Q What is your current outlook on the European lending environment?

The private credit opportunity in Europe is often seen through a cyclical lens. In reality, its foundations are firmly structural. Fragmented markets, regulatory change and shifting investor demands are reshaping the credit landscape. These dynamics favour those with the insight, reach and operational expertise. Our conviction in this long-term opportunity has only deepened. This sentiment is echoed by recent research from Moody's Ratings, which notes that while European private credit has historically lacked the depth of

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US markets due to regulatory and legal constraints, the region is now ready for accelerated growth. Greater autonomy from the US, combined with political urgency to fund infrastructure, housing and defence is expected to drive significant new spending. As these pressures mount, private credit will increasingly serve as the bridge for capital gaps, helping Europe's markets catch up with their US counterparts. Europe's mid-market is complex by design – 44 countries, each with its

own legal system, language, regulatory environment and industrial structure, make the continent anything but unified. Capital deployment is still largely domestic. German institutions finance German borrowers; French lenders do the same in France. This is often seen as a constraint, but we view it as a source of long-term advantage. We have built a franchise of 24 local platforms to originate, underwrite and manage credit across these markets. This structure gives us the access, regulatory alignment and operational capability needed to navigate local complexities. It underpins our ability to deploy capital consistently across

jurisdictions and through the cycle. Our investment approach focuses on building portfolios with an appropriate balance of return, protection, duration and liquidity. These elements are central to maintaining resilience and investor confidence.

Q Which strategies are particularly interesting?

One of the most active and expanding areas in private credit are asset-based finance and asset-based lending (ABL). This encompasses aircraft leasing, maritime and auto finance, mortgage lending, and more. Each of these sectors has its own operational and regulatory requirements, but they share a reliance on tangible collateral and direct capital deployment without intermediation. These are not passive exposures. Lending into these markets requires infrastructure, servicing capabilities and regulatory authorisations. Many of the underlying activities are classified as regulated financial services and cannot be executed without the appropriate licensing. Asset-based credit is not an adjacent activity for us; it sits squarely within our operating capabilities. While private capital has come to dominate corporate direct lending, its presence in asset-backed and real estate credit remains limited. This creates significant headroom for growth.

Q Are specific segments of the market undergoing significant upheaval?

Our underwriting reflects a deliberate assessment of both cyclical patterns and structural developments. One example is European student housing. Demand for purpose-built accommodation continues to rise, driven by two overlapping factors: changes to international student mobility, particularly in the US, and a persistent lack of modern, high-quality supply in major university cities. We measure this through occupancy data, rental growth and enquiry

volumes, allowing us to underwrite the asset class with precision. Elsewhere, other asset classes are behaving quite differently. Office real estate in Northern Europe remains under pressure, while hospitality assets in parts of Southern Europe, such as hotels and aparthotels, are attracting very strong investor interest. These movements raise a fundamental question: are we seeing short-term dislocation or permanent repricing? Our view is that the latter is true. We aim to distinguish cyclical noise from structural change using a data-driven approach. Technology plays a central role in how we serve institutional capital. A key development for us has been the integration of a unified fund management platform across all Arrow operations. This allows us to meet a range of investor reporting requirements with accuracy and efficiency, while supporting delivery of tailored strategies through managed accounts and custom mandates. Artificial intelligence is a particularly promising area. It is not simply about process automation but about expanding the range of addressable opportunities. Our work on construction claims in Italy is a case in point. These claims were historically too time-consuming and cost-intensive to assess. Reviewing them would have required a team of 50 analysts working through many thousands of documents. Today, our AI-based platform can produce scorecards in seconds. This alters the economics entirely and brings previously inaccessible transactions into scope. **Q How does this idea of a 'structured market' play out in the distressed space?** In distressed and special situations, time behaves differently. In fast-moving jurisdictions such as Texas, US,

resolution can be measured in months. In those markets, timing is critical. In Europe, legal processes tend to unfold over many years. We recently bid on a bankruptcy that had been in progress since 1982. In such an environment, speed is less important than persistence. What matters most is the ability to remain present, methodical and patient. As distressed cycles progress, assets often fragment. Larger transactions are resolved, leaving smaller, more complex cases that require careful handling. That is not a drawback. In markets such as Iceland, headline opportunities from the post-crisis period may have passed. But for those active in that market, there remains the potential to identify sub-€10 million euro opportunities underpinned by solid asset bases. These deals demand local knowledge and operational commitment. **Q What do you believe the future holds for European private credit?** Migration of credit origination from banks to private lenders will continue. This shift is not theoretical, it reflects structural limits imposed by regulation. Since the global financial crisis, a range of complex credit activities including development lending, bankruptcy resolution and insolvency processes have moved out of the banking system. This was not voluntary – it was a response to capital treatment and risk-weighting constraints that continue to limit bank participation. The first wave of this shift occurred in corporate lending. The second wave is now visible in real estate and asset-backed lending. Arrow's strategy is to lead in areas where we hold a competitive advantage – namely, our operational depth, regulatory coverage and proprietary data. As institutional demand for private credit grows, success will come not from scale alone, but from the ability to deploy capital selectively and with discipline. We remain fully committed to that approach. ■