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The core middle market: A structural advantage in private credit

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Key takeaways:

- **The core middle market is a distinct and large opportunity:** Companies with $15 million–$75 million in EBITDA (earnings before interest, taxes, depreciation and amortization)[1] represent one of the largest segments of U.S. businesses, with roughly 65% remaining privately held.[2] Yet fewer than 10% of all middle market companies are backed by private equity,[3] making it a largely untapped opportunity for institutional capital.
- **Structural advantages that help protect investor capital:** Steady deployment opportunities, lower leverage, stronger covenant protections, and greater portfolio diversification collectively help distinguish the core middle market from other market segments.
- **The asset class has offered attractive risk-adjusted returns:** In the past two decades, middle market direct lending has posted a negative total return in only one year,[4] helped by a steady illiquidity premium, which has historically contributed to outperformance relative to public credit markets through periods of stress.[5]
- **A core holding with complementary benefits:** Core middle market direct lending can serve as a core allocation in a multi-asset portfolio while also complementing existing private credit exposure, typically delivering differentiated borrower access and distinct structural characteristics.

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Private credit is one of the fastest-growing segments of the alternative investment landscape, attracting record capital flows and commanding increasing attention from both institutional and individual investors across the globe.[6] Yet, despite this growth (or perhaps because of it), the conversation has lost an important distinction—private credit is not monolithic. Where a manager operates is important for risk, returns and the structural protections that help to preserve investor capital.

These distinctions are critically important given the negative sentiment surrounding private credit today. As capital has flooded into larger deals, competition among managers has intensified, leading some to accept higher leverage and relax lending standards. The result has led to pockets of stress, including rising non-accruals around specific deals and certain vintages.[7] Headlines have focused on risk in specific parts of the market, but not all segments are equal. Identifying this difference is key to help investors find opportunity.

The core middle market, by contrast, operates by a fundamentally different set of rules, which may provide key advantages for deal structure and risk management. This is an important starting point for understanding why the core middle market deserves consideration in a diversified portfolio.

How do we define the core middle market

Private credit comprises three tiers based on the size and profile of the borrowing companies. EBITDA is one common reference point. Revenue, as well as the size of the lending group, also affects how a company is categorized. **Together, these characteristics provide important categorization encompassing not only market size, but equally important factors including relationships, deal structures and investor protections.**

The lower middle market comprises companies with EBITDA below $15 million.[1] These are often smaller, owner-operated businesses that may present significant challenges for institutional investors, including limited liquidity and thinner management teams. They also tend to have narrower product offerings and greater customer concentration, meaning the loss of a single key customer could have an outsized impact on financial performance.

The upper middle market, in contrast, generally comprises companies with EBITDA above $75 million.[1] As borrowers grow toward the upper end of this range and beyond, they may often benefit from a stronger market position, greater customer and supplier diversification and a more established strategy. These characteristics can help justify a different set of terms than those found in smaller transactions. At the same time, larger borrowers typically have more financing alternatives available to them, including, at the upper end, competition from the broadly syndicated loan (BSL) market, which tends to become a viable option above roughly $100 million in EBITDA.[8] Sponsors operating at this scale often leverage that competition to negotiate terms that reflect their broader set of options, which may include looser covenant structures, higher leverage and greater sector concentration in areas like technology and software.

The core middle market sits squarely between these two segments with companies having EBITDA of roughly $15 million—$75 million (Figure 1).[1] While not as large as upper middle market firms, these are generally established businesses of meaningful scale—generating annual

Figure 1: Defining the core middle market

Churchill investment universe ($10M-$100M)

	Lower middle market	Core middle market	Upper middle market
Company size (EBITDA)	$3 to $15 million	$15 to $75 million	$75 million+
Size of lending group	1 to 5	3 to 5	10 to 25
Borrower compliance metrics	Traditional covenants	Traditional covenants	Majority covenant-lite
Loan sourcing	Direct transactional driven	Direct relationship driven	Relationship driven via agents and sponsors
Liquidity	Illiquid	Relatively illiquid	Partially illiquid
Level of borrower diligence	Primary due diligence	Extensive primary and/or secondary due diligence	Primary and secondary

Note: Reflects Churchill's views and beliefs as of the date appearing on this material only, which is subject to change. There can be no guarantee trends will continue or will not reverse.

revenues between $100 million and $500 million. These companies sit below the threshold where the syndicated loan market is a viable financing option, which can create significant advantages for lenders.

While this is how we define these segments of the market, these definitions can vary from firm to firm and are not universally standardized across the industry.

Knowing how the market is defined is a starting point. The more important question is what those distinctions mean for investors.

> "Accessing the core middle market is not simply a matter of having capital to deploy."

Why not every manager can access the core middle market

While only a small fraction of middle market companies are backed by private equity, sponsored transactions represent a significant portion of core middle market lending activity. These sponsors have a direct financial interest in the performance of their portfolio companies and a long-term need for financing partners they can rely on. They tend to value lenders who can provide speed, hold capacity, certainty of execution and the flexibility to customize loan terms. And they have historically tended to consolidate around a trusted core group of partners who have demonstrated those qualities consistently over time and through multiple credit cycles.

The result is that lenders who have operated in this market typically have more data points to draw on than those building sponsor relationships for the first time. That depth is earned over time through direct engagement and consistent execution, not simply by raising a larger fund. **Given that not every manager brings the same depth of relationships, manager selection in the core middle market carries significant weight.**

The structural advantages of the core middle market

We believe that the core middle market offers five distinct structural advantages:

1. Largely an untapped market by institutional investors: The middle market opportunity set is substantial. There are approximately 125,000 U.S. middle market businesses generating $16 trillion in annual revenue and employing over 50 million people.[9] Within this landscape, the core middle market represents a dominant share, comprising approximately 65% of all U.S. companies with revenues above $100 million (Figure 2a). Yet less than 10% of all middle market companies are backed by private equity, meaning the vast majority of these firms have historically relied on relationship-driven lenders to finance their growth (Figure 2b).

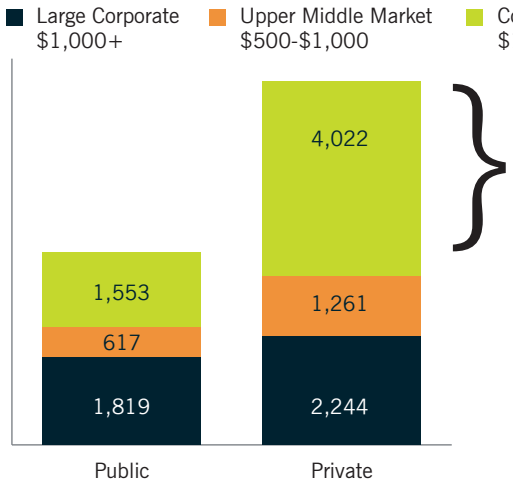
That reliance can translate into negotiating power at the table, a dynamic that shapes several of the other structural advantages discussed below.

2. Steady deployment opportunities: Consistency in deploying capital, even when broader deal activity slows, is another potential advantage for the core middle market. New buyout volume tends to track closely with corporate business sentiment and capital market activity, which can weaken in a higher volatility environment.[10] Core middle market borrowers, by contrast, tend to be highly acquisitive by nature, which may generate a steady stream of add-on and buy-and-build financing opportunities, which are less dependent on the broader deal cycle.

Consistency may also stem from the power of incumbency. Because core middle market relationships are built directly with private equity sponsors and management teams,

Figure 2: The core middle market is a massive opportunity, with little institutional backing

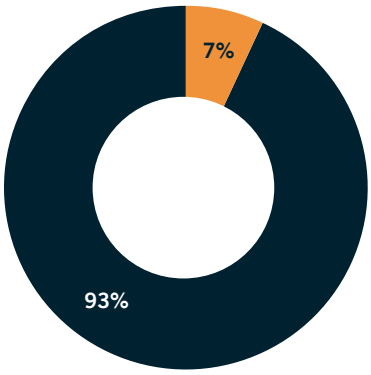
*Figure 2a: **65%** of U.S. companies with revenues $100mm+ remain **privately** held*



Core Middle Market

- Largest segment among U.S. private companies
- Broad industry and subsector diversity
- Predominantly domestic footprint helps mitigate global macro shock exposure

*Figure 2b: While only **<10%** of middle market companies are PE-backed*



Source: (Left) S&P Capital IQ as of Mar 2026 (Right) PitchBook data and National Center for the Middle Market as of 3Q 2025.

often across multiple ownership periods spanning many years, incumbent lenders are typically first in line when a portfolio company pursues its next transaction. That incumbency compounds existing exposure rather than simply preserving it, producing a potential pipeline of high-conviction opportunities within a manager's own book of business. This can help lenders sustain deployment without depending as heavily on new platform originations.

This dynamic is reinforced by private equity dry powder in North America, capital raised but not yet invested, standing at approximately $710 billion, or roughly three and a half times the $200 billion in private credit dry powder.[11] With institutional capital yet to meaningfully penetrate this market, experienced core middle market lenders are generally well-positioned to meet financing needs that are simply larger than the capital currently available to address them.

Managers with deep incumbent relationships and diversified sponsor networks can often continue finding opportunities to deploy capital into businesses whose credit profiles they already understand. For investors, the practical result is smoother deployment and a portfolio that is less exposed to the capital drag which often weighs on strategies reliant on new platform originations.[12]

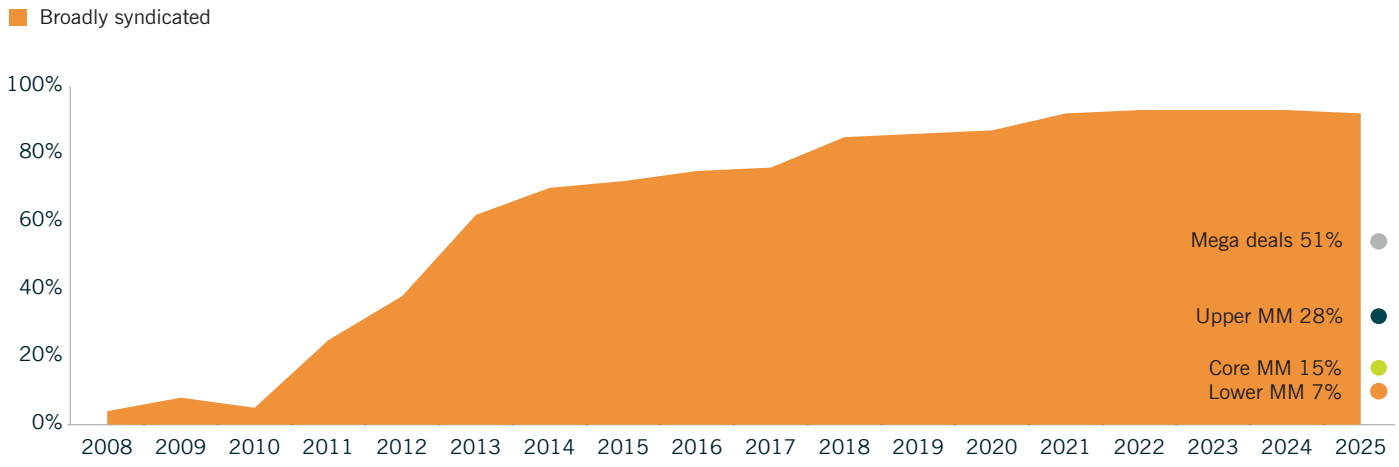
3. Lower leverage: Core middle market loans historically carry an average debt-to-EBITDA ratio of approximately 4.0x—4.5x, compared to 5.0x—6.0x in the upper middle market.[13] That gap may appear modest, but in a stress scenario the difference in a borrower's capacity to service debt can be meaningful. Because core middle market borrowers sit below the size threshold where the syndicated loan market becomes a viable option, lenders can retain genuine influence over leverage levels at the negotiating table—influence that may begin to erode as borrowers move up market. That discipline starts at origination and is reflected in the more conservative loan structures designed to protect investor capital.

4. Covenant protections: A covenant, in the context of a loan agreement, is a condition that a borrower must meet. These are typically based on a financial ratio such as a maximum leverage level or minimum earnings threshold. Covenants matter because they give lenders an early warning system and power to act. If a borrower's financial condition begins to deteriorate, covenants give the lender the right to intervene and bring the sponsor to the table for negotiations before a loan reaches impairment. Without these protections, by the time a lender can act, the loan may exceed enterprise value.

As managers have raised larger funds and faced growing pressure to deploy capital, competition for deals has

Figure 3: Covenant protections erode as deals move up market

Percentage of covenant-lite loans



Source: PitchBook LCD, Covenant Review, PGIM private capital. As of 31 Mar 2025.

intensified, and covenant protections have generally eroded as deal size increases. Among mega-cap deals, 51% are now covenant-lite—meaning fewer restrictions are placed on the borrower, resulting in less protection for the lender.[14] Moving further down market, this stands at 28% for the upper middle market, and only 15% in the core middle market (Figure 3).[14]

While covenant structures can vary by transaction and may shift over time as competitive dynamics evolve, core middle market lenders have historically used covenants when underwriting their loans. This can allow greater flexibility to engage borrowers early, whether through restructuring terms or requiring additional equity from the sponsor - tools that can be used to help protect capital.

5. Greater diversification: One area attracting increased scrutiny from investors is portfolio overlap, or the extent to which multiple managers made loans to the same borrowers. When conditions are good, overlap may not be a problem on its own, but it can create the illusion of greater diversification for investors who have exposure to multiple private credit managers. However, in a stress scenario, when even one credit encounters difficulty, this can ripple across the asset class.

Portfolio overlap among upper middle market managers stands at approximately 57%,[15] meaning on a look-through basis, an investor's portfolio could be more concentrated than they realize. This overlap has increased significantly over the past five years,[15] which is a natural consequence of managers being forced to deploy large amounts of capital.

In the core middle market, this overlap drops to roughly 22%[15] and, unlike in the upper middle market, overlap has remained steady over the same timeframe (Figure 4). This is a product of the proprietary, relationship-driven nature of core middle market lending, which can be even more powerful for managers that can speak to the entirety of the financing need for a borrower.

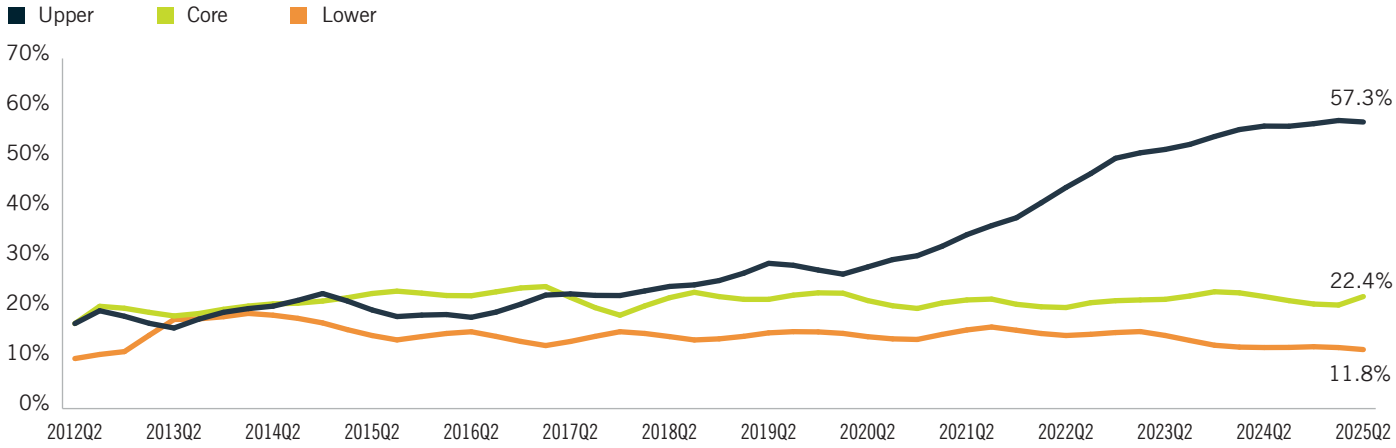
The core middle market can also offer natural diversification across industries. Unlike the upper middle market, which has developed notable concentrations in sectors like software and technology, core middle market portfolios tend to be more diversified across industries.[15] **That diversification can help limit the impact of sector-wide dislocations, giving investors a more resilient portfolio across market cycles.**

The role of core middle market direct lending in a diversified portfolio

Given the large opportunity set and structural advantages outlined above, a natural question for investors is how these characteristics translate into portfolio outcomes. The

Figure 4: Portfolio overlap is greater in the upper vs. the core middle market

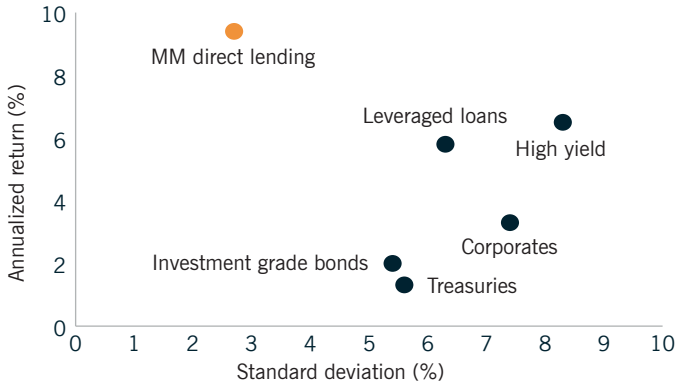
Overlap by market (%)



Source: Raymond James (4Q25 BDC Portfolio Overlap Report), as of 31 Dec 2025.

Figure 5a: Historically low volatility relative to public credit markets

Private credit risk-adjusted returns 1Q 2016 to 4Q 2025



Source: Cliffwater, as of 31 Mar 2026.

answer is that the structural discipline of the core middle market is not just a theoretical construct: it is reflected in the historical return and volatility profile of the asset class.

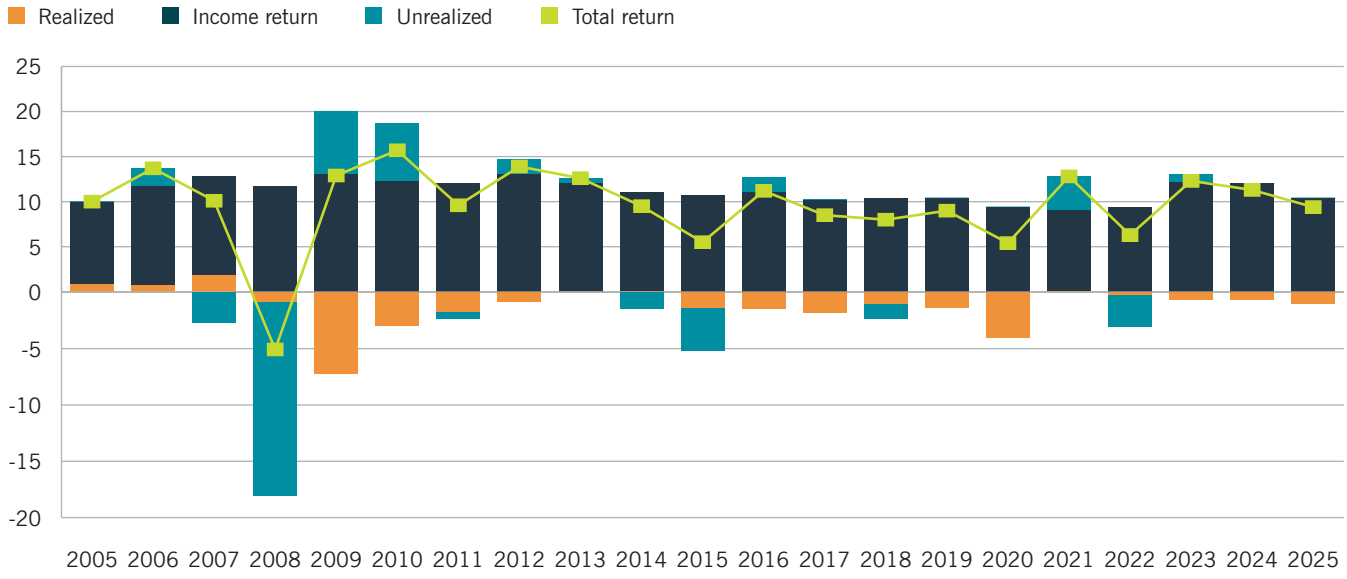
Middle market direct lending has historically exhibited low volatility relative to public credit markets (Figure 5a), a characteristic that is largely a function of the illiquidity premium investors earn for committing patient capital to privately negotiated loans. Looking back over the past 20 years, middle market direct lending produced only one down year, during the 2008 financial crisis. Yet the asset class return of approximately -6% that year still compared favorably to the -26% for high yield bonds and -29% for leveraged loans (Figure 5b).[16]

The 2008 financial crisis is one of several periods in which middle market direct lending has exhibited lower volatility and competitive risk-adjusted performance relative to other market segments. Over the past decade, core middle market direct lending has demonstrated its ability to preserve investor capital across a range of market environments, including the 2018 trade war, the COVID pandemic and the period of rapid Federal Reserve rate increases and subsequent cuts (Figure 6). The middle market's ability to navigate these different economic environments shows the historical durability of its return profile.

A key contributor to that durability has been the illiquidity premium itself. **At approximately 150—200 basis points over comparable public market returns, this premium has historically provided an income cushion during periods of volatility.[17] For investors with a longer time horizon and the ability to tolerate illiquidity, we believe the risk-adjusted return profile remains attractive.**

Figure 5b: Over 20 years, there has only been one down year

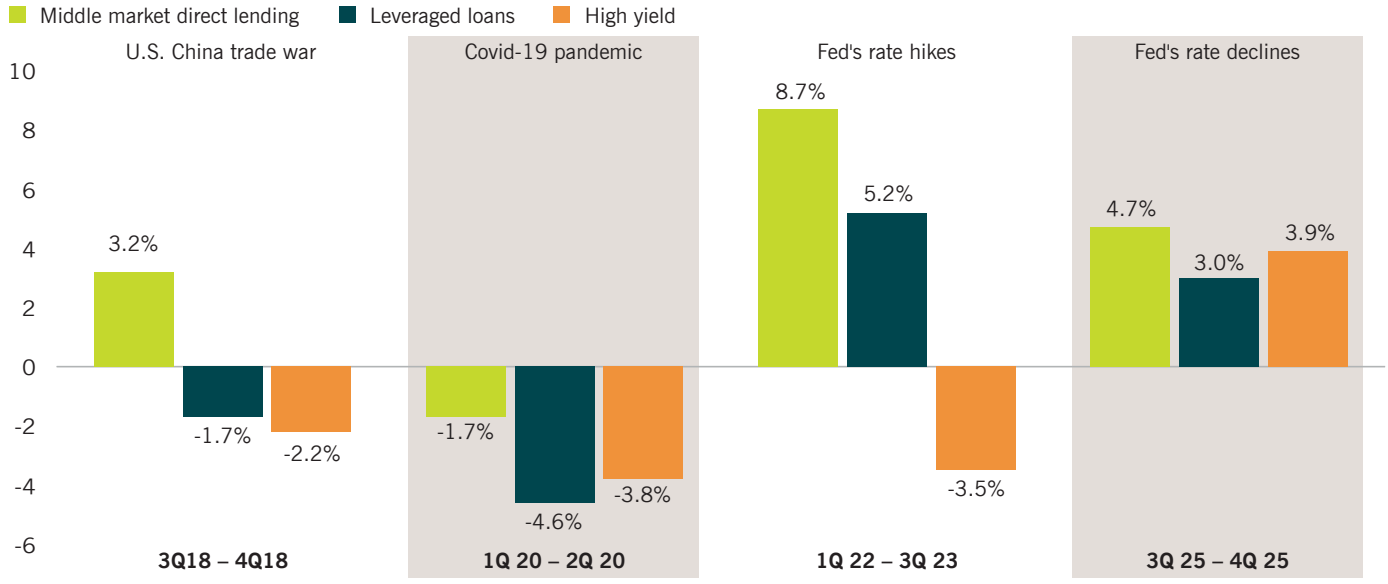
Annual middle market direct lending returns (%)
20-year period ending 31 Dec 2025



Source: Cliffwater, as of 31 Mar 2026.

Figure 6: Middle market direct lending performance has held up over many cycles

Average annual total returns as of 31 Dec 2025 (%)



Source: Cliffwater, Bloomberg Index Services, Morningstar, as of 31 Dec 2025.

Why the core middle market warrants a core allocation

Investing in any asset class can often be framed as "why now?" This is particularly relevant to private credit, as investors think about where we are in the credit cycle. However, this question often overlooks the structural advantages of the asset class and why a consistent allocation may make sense across different market environments.

Within private credit, it can be easy to overlook the core middle market. Investors newer to the asset class may gravitate toward the largest, most visible names in the space. But size and visibility are not the same as experience. Lenders with a longer history in this market typically have more data points to draw on than those still building sponsor relationships. That depth is earned through direct engagement and consistent execution, not simply by raising a larger fund. Manager selection matters more in the core middle market, where relationship depth varies widely.

This paper is not meant to be a case against the other market segments. Rather, it is about recognizing how competitive dynamics have reshaped the trade-offs investors face at each end of the market. At the upper end, competition for a narrowing pool of large transactions has pushed terms in the borrower's favor, eroding the covenant protections and leverage discipline that once defined private credit as an asset class. At the lower end, the same competitive pressures show up differently, by potentially compounding the liquidity, management and concentration risks inherent to smaller, owner-operated businesses. By contrast, the core middle market has historically offered negotiated terms, direct relationships and protections—covenants chief among them—that give lenders the ability to intervene early on. The core middle market can also offer genuine growth potential. Many of these borrowers operate in highly fragmented industries, and lenders with the right relationships have historically been well-positioned to finance the buy-and-build strategies that consolidate smaller regional players into multi-regional or national leaders.

> "Private credit is not monolithic, and where a manager operates matters."

The combination of underwriting for the downside while financing growth opportunities has historically contributed to the core middle market's ability to deliver consistent income, lower loss rates and relative resilience across decades of market cycles. As noted at the outset, private credit is not monolithic, and where a manager operates matters enormously for risk, return and the protections that help preserve investor capital. **The core middle market's structure, scale and borrower access allow it to serve as a differentiated exposure that can complement existing private credit allocations, while also standing on its own as a core allocation within a multi-asset portfolio.**

For more information, please visit nuveen.com.

Endnotes

1 As Churchill defines the core middle market.
2 S&P Capital IQ as of Mar 2026.
3 PitchBook data and National Center for the Middle Market as of 3Q 2025.
4 Cliffwater Direct Lending Index, as of 31 Mar 2026.
5 Cliffwater Direct Lending Index, Bloomberg Index Services, Morningstar, as of 31 Dec 2025.
6 Preqin Private Markets in 2030, as of 31 Dec 2025. Note: Includes direct lending, distressed debt, BDCs and other.
7 Cliffwater, as of 30 Jun 2026.
8 CollateralizedLoanObligations.com, as of 21 Jun 2026.
9 RSM, as of 04 Feb 2026.
10 Goldman Sachs, Business Roundtable, Chief Executive Magazine, Duke University Fuqua School of Business, Federal Reserve Banks of Kansas, New York, Richmond, Philadelphia, Chicago, National Federation of Independent Business, as of 31 Mar 2026.
11 Preqin, as of 31 Dec 2025.
12 PitchBook | LCD, PE Middle Market Report, as of 30 Jun 2026.
13 Lincoln International, as of 31 Dec 2025.
14 PitchBook LCD, Covenant Review, PGIM private capital. As of 31 Mar 2025.
15 Raymond James (4Q25 BDC Portfolio Overlap Report).
16 Cliffwater Direct Lending Index, as of 31 Mar 2026.
17 PitchBook | LCD, as of 31 Aug 2026.

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Index Definitions:

Cliffwater Direct Lending Index (CDLI): The CDLI seeks to measure the unlevered, gross of fee performance of U.S. middle market corporate loans, as represented by the asset-weighted performance of the underlying assets of BDCs, including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements.

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