

Latin American Private Credit

A Structural, Underpenetrated, Scarcity-Driven,
High-Alpha Opportunity

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PATRIA

Institutional interest in private credit has expanded rapidly over the past decade as investors have responded to compressed public market risk premia, lower yields, and volatile capital markets.

Global private debt assets under management could reach USD 4.5 trillion by 2030, with the United States alone hosting a market exceeding USD 1.1 trillion and Europe surpassing USD 497 billion. Despite this growth, private credit remains highly concentrated, with roughly 85% of capital deployed in North America and Europe.

This concentration reflects market maturity and investor familiarity rather than economic fundamentals. The core drivers of private credit – capital scarcity, bank retrenchment, bespoke borrower needs, inefficient public markets and fragmented corporate ecosystems – are present to an even greater degree in emerging markets, and within that set Latin America private credit stands out as one of the most structurally mispriced, despite its resilient fundamentals.

Latin America therefore represents a compelling structural opportunity, driven by a combination of:

- **Scarcity of Capital:** Underpenetrated and reduced appetite from traditional lenders
- **Structure-led downside protection:** Senior secured transactions with robust asset backed collateral packages
- **Superior Performance:** historically ~600 bps higher than U.S. private credit
- **Fixed Interest Rate:** Benefits from current high interest rate environment
- **Conservative borrower behaviour:** family-owned companies often run lower leverage and prioritise reputation
- **Self Amortizing:** minimizing refinancing risk and income generation

A defining statistic illustrates how early this market remains: Latin American private credit is approximately **USD 16 billion**, around **5%** of the region's high-yield (HY) market and **<1%** of the broader Latin American corporate credit system.

In this market, Latin America today resembles US Private credit in the early 2000s: wide spreads, covenant-rich structures, deal terms dictated by lenders, and effectively no competition for high-quality transactions. Over time this window will narrow as capital flows increase.

To contextualise the opportunity, this paper first examines the structure of Latin America's broader corporate credit market, approximately USD 2.3 trillion and more diversified than is often assumed by global investors. It then evaluates how private credit fits within that system and the growing role it can play in addressing persistent financing gaps.

I. The Structure of Latin America's \$2.3 Trillion Corporate Credit Market

Latin America's corporate credit ecosystem is a multi-layered system comprising banks, local currency bond markets, hard-currency investment-grade issuers, offshore high-yield markets, and a nascent private credit segment. Based on cross-market estimates, the total size of this system is approximately **\$2.3 trillion**.¹



The region remains structurally under-levered relative to other major regions², with corporate credit representing approximately 40% of GDP.

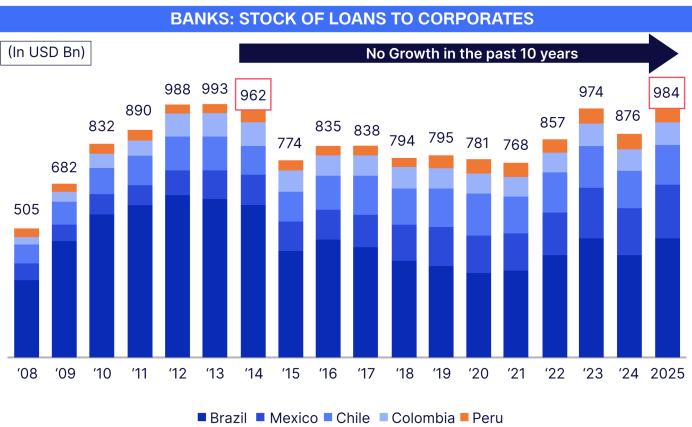
	Corporate Credit / GDP	Total Debt / GDP
LatAm	40%	147%
North America	74%	281%
Europe	106%	243%
APAC	142%	225%

Banking Sector

Banks remain the central pillar of corporate financing in Latin America, with a sector size of roughly USD 1 trillion.

The region's banking sector is large, profitable, and highly conservative, often generating returns on equity above 20%. This profitability reduces incentives to expand into specialty or long-duration lending.

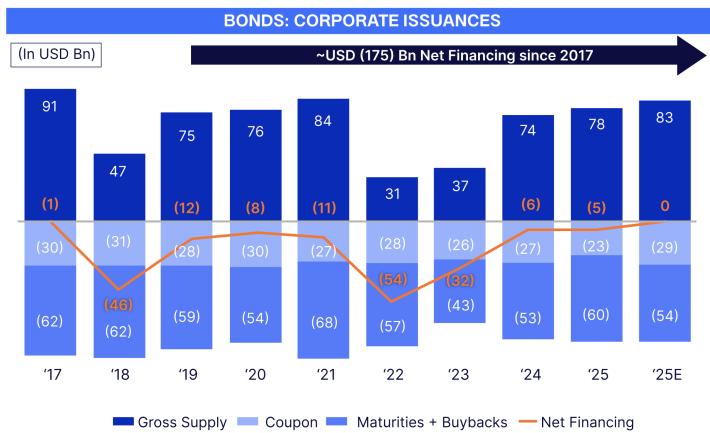
Structural factors such as Basel III constraints, short-term lending preferences, and interest rate dynamics favor short-tenor lending to blue-chip corporates. **As a result**, bank lending to corporates has shown limited growth over the past decade.³ Even well-managed mid-market companies often struggle to secure multi-year financing, creating a persistent funding gap that private credit is well positioned to address.



While these markets provide efficient funding for large, stable corporates, they do not adequately serve mid-market borrowers, which often lack the scale, liquidity, or issuance frequency required for public markets.

Latin America also hosts a globally relevant hard-currency investment-grade market of approximately USD 250 billion, concentrated among 40-60 large issuers with regular access to offshore markets. The offshore high-yield market is one of the most developed in emerging markets and exceeds USD 330 billion, but is structurally constrained, with minimum deal sizes typically around USD 300 million to ensure secondary liquidity and index inclusion. This excludes most mid-market companies despite solid fundamentals.

The sovereign ceiling, or "zip code effect," further distorts pricing. Companies operating in high-yield sovereigns often trade at high-yield spreads even when their fundamentals would support investment-grade ratings elsewhere. Combined with limited issuance since 2017, resulting in net negative financing of approximately USD 175 billion⁴, these dynamics underscore the scarcity of reliable capital.



Private Credit

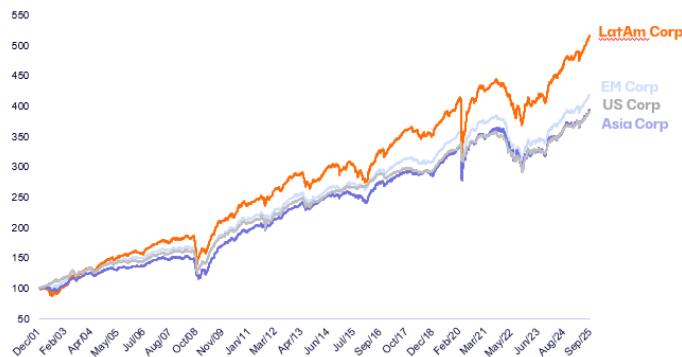
Private credit remains the smallest segment of the system, at approximately USD 16 billion. Its limited size reflects institutional under-allocation, historical reliance on banks, a lack of early movers, and misaligned perceptions of risk. This imbalance allows lenders to dictate terms, maintain wider spreads, and secure strong structural protections.

Corporate Markets

Local currency corporate bond markets, totalling approximately USD 800 billion, are among the most sophisticated in emerging markets. These markets are dominated by investment-grade issuers and supported by strong domestic institutional demand. Issuance is primarily denominated in local currencies, limiting foreign participation.

II. Two Decades of Outperformance

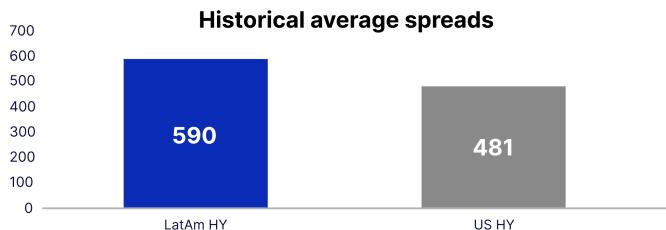
One of the most striking and underappreciated features of Latin American credit is its long-term performance. Using the J. P. Morgan CEMBI indices for emerging markets and the Bank of America US indices we observe that **Latin America has generated the highest cumulative total returns of any major region since index inception in December 2001.**⁵



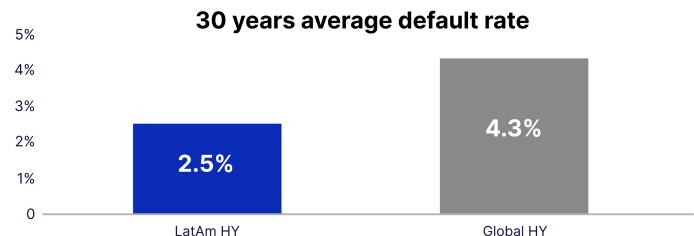
This outcome contradicts conventional perceptions of elevated regional risk. Over long horizons, Latin American corporates have exhibited lower default rates than global high-yield markets, resilient recovery values, and strong risk-adjusted returns.

Drivers of Long-Term Outperformance

Several structural drivers help explain this performance. Latin American high-yield credit consistently trades at a premium to U.S. and EM peers due to a persistent, perception-based risk premium rather than weaker fundamentals.⁶



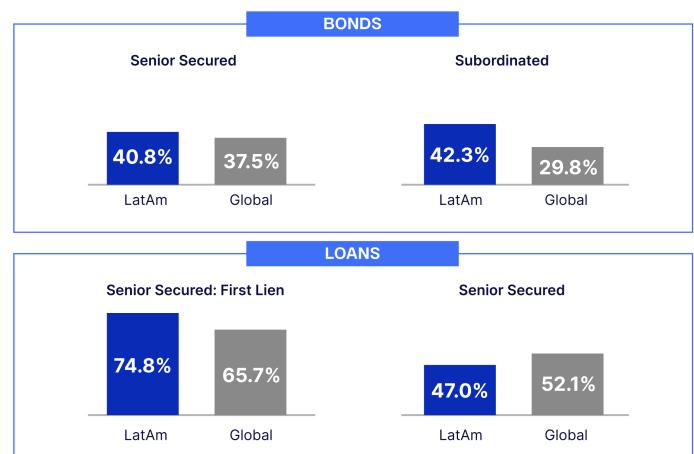
Additionally, over a 30-year horizon, the region has also systematically produced lower default rates than global high yield markets.



At the same time, leverage is materially lower, with net debt to EBITDA of approximately 2.8x versus 5.5x in the U.S., supported in part by the predominance of family-owned companies and a more conservative approach to balance sheets.⁸

	LatAm HY	US HY
Leverage	2.8x	5.5x
Spread Reward	140	48
Average Rating	BB-	B
Interest Coverage	5.4x	4.5x
Covenant Quality	3.5	4.2

Recovery dynamics have also been supportive. Recovery rates in senior secured credit have tended to be in line with or slightly better than global peers. In subordinated instruments, Latin American corporates have outperformed global markets in terms of recoveries.⁹



In private debt specifically, first-lien recoveries have averaged approximately **74.8%** versus **65.7%** globally.

Together, these characteristics have important implications for private credit allocators: public indices can underestimate the degree of protection available in private transactions, and private-market yield premia of 600–700 basis points¹⁰ have not historically been offset by higher loss rates. This suggests excess returns can persist until institutional capital meaningfully penetrates the region.

III. Private Credit in Latin America

Among global private credit markets, Latin America offers one of the most compelling combinations of yield, structure, and downside protection. Unlike the U.S. and Europe, where decades of capital inflows have compressed spreads and weakened covenants, Latin America remains early in its institutional development.

In terms of market structure, the comparison between high yield and private credit is **striking**. In the U.S., both markets are broadly comparable in scale; in Europe, private credit has surpassed the size of high yield. In Latin America, private debt represents only **~5%** of the high-yield market, implying **substantial headroom for expansion**.¹¹

Three factors underpin this opportunity. First, capital scarcity remains extreme, with limited availability of flexible financing across a USD 2.3 trillion market. Second, competition is limited, with transactions often involving bilateral negotiations rather than crowded syndicates. Third, borrower complexity creates a premium for lenders capable of structuring bespoke solutions.

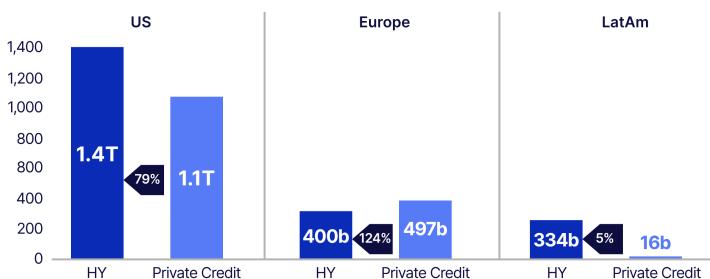
Structural protections are a defining feature. Latin American private credit frequently employs insolvency-remote SPV and ring-fenced cashflow structures, receivable pledges, hard-asset collateral, trustee-governed waterfalls, and cash-sweep mechanisms. Financial maintenance covenants, including leverage and interest-coverage tests, remain common, contrasting with covenant-lite structures prevalent in U.S. markets.

IV. Conclusion: A Structural Opportunity

Latin America represents one of the most compelling institutional opportunities in private credit globally. A USD 2.3 trillion corporate credit system remains structurally under-levered, while private credit penetration is minimal. Public credit markets have delivered strong long-term performance with lower default rates, yet institutional allocations remain limited.

In private credit, constrained banks, episodic public markets, and limited competition can allow lenders to retain pricing power and secure strong structures. The result is a rare combination of wide spreads and robust downside protection.

If private credit penetration converges even partway partially toward U.S. or European levels, assets under management could expand by around 10-20X over the coming decade. As institutional capital enters the market, spreads would be expected to tighten and covenant packages to normalise, progressively narrowing the excess return available today. For investors seeking yield, diversification, and durable returns, Latin American private credit represents a differentiated opportunity - driven by scale, scarcity, structure and timing.



Sources:

1. Moneda Patria Investments internal reports, JP Morgan, McKinsey Global Private Credit Markets Reports.
2. Bank for International Settlements (BIS) 4Q 2024.
3. Bond Radar, Goldman Sachs, Bloomberg L.P, Brazil Central Bank, CMF, among others.
- 4 Bond Radar, Goldman Sachs, Bloomberg L.P, Brazil Central Bank, CMF, among others. Net Financing 2017 – 2023 = Σ (Bond Issuances (-) Amortizations (-) Tender/calls/buybacks (-) Coupons paid).
5. LatAm Corp = J.P. Morgan Corporate Broad Diversified Latin America Index (JBCDLA Index) / EM Corp = J.P. Morgan Corporate EMBI Broad Diversified Composite Index (JBCDCOMP Index) / US Corp = ICE BofA US 50% Corporate & 50% High Yield Index / Asia Corp = J.P Morgan Corporate EMBI Broad Diversified Asia Index (JBCDASIA Index). Data as of December 31st, 2025.
6. LatAm Hy: JPMorgan CEMBI Broad Diversifies Latin HY Index; US HY: BBG Barclays US High Yield Index. Data from 31 December 2005 to 31 December 2025.
7. Moody's: Latin America and Caribbean corporate default and recovery rates, 1990 to 2021.
8. Financial Statements of Companies, Capital IQ, Bloomberg and Moody's High-Yield Covenant Database. Note: LatAm HY: Output based on the J.P. Morgan CEMBI Broad Div. LatAm HY Index. US HY: BBG Barclays US High Yield Index. Data as of last financial statements available. Weighted Leverage and Interest Coverage for LatAm HY are as of March 31, 2025. Spread reward is as of June 30, 2025, and rating data is as of September 30, 2025. Weighted Leverage and Interest Coverage for US HY are as of June 30, 2025. Spread reward and rating data are as of September 30, 2025. Interest Coverage LatAm HY source from Moneda Patria Investments, and Interest Coverage US HY source from Barclays. Covenant Quality Index – CD1 represents the most protective covenant packages and CD5 the weakest packages. Covenant Quality as of December 31st, 2023, last data available.
9. Moody's Latin America and Caribbean corporate default and recovery rates, December 2022.
10. Carlyle Credit Market Outlook 2024. Using the average credit spread for private credit loans in 2022 and 2023.
11. Preqin.

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