Healthcare Private Credit 2025 Market Outlook

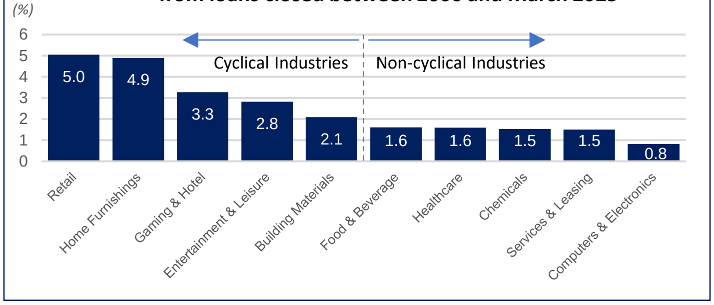
The healthcare sector continues to be a pivotal driver in the direct lending market, accounting for a significant portion of recent deal activity. In 2024, healthcare represented approximately ~20%[1] of all direct lending deals, underscoring the sector's prominence in private credit markets.

Several considerations for investing in healthcare in 2025:

Opportunities

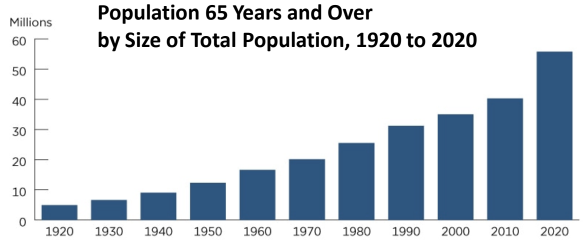
- ✓ **Non-Cyclical Demand**: Healthcare services are non-discretionary and essential. Unless elective, healthcare is generally not tied to any economic cycle or environment. From 2000 to March 2025, Healthcare loans had a cumulative default rate of 1.6%.[2]

Pitchbook LCD long-term sector default rates from loans closed between 2000 and March 2025



- ✓ **Mental and Behavioral Health Growth**: There is heightened recognition of mental health issues, leading to greater demand for psychiatric, counseling, behavioral, rehabilitation and related services.
- ✓ **Cost Stabilization Trends**: The COVID-19 pandemic initially led to significant wage inflation in the healthcare sector due to heightened demand and labor shortages. The normalization of wages[3] suggests that the acute post-pandemic wage pressures have largely subsided, contributing to more predictable operating costs for healthcare providers.
- ✓ **Aging Population**: The United States is experiencing demographic shifts, with a growing proportion[4] of elderly individuals requiring increased medical attention, particularly in specialty care and chronic disease management.

Population 65 Years and Over by Size of Total Population, 1920 to 2020



Challenges

- Δ **Tariff Exposure**: Exposure can vary business to business. The primary items affected are inputs like medical devices, supplies and pharmaceuticals[5]. Post-pandemic, many companies and supply chains diversified to procure these materials from multiple sources and countries, including onshoring, but more efforts and investment may be required.
- Δ **Staffing Shortages**: Despite wage normalization, staffing shortages persist in certain regions and types of healthcare businesses, which can ultimately lead to facility closures and increased reliance on temporary staffing agencies, which ultimately drive-up healthcare costs.
- Δ **Public Spending Rationalization**: Federal spending on health programs and services accounted for $1.9T (27%[6]) of federal spending in 2024. DOGE's initiatives include scrutinizing Medicaid, Affordable Care Act, and Food and Drug Administration expenditures, staffing levels, and health research funding. While the aim is to identify and eliminate fraudulent activities and inefficiencies, the rapid implementation of these measures may have an impact on essential services.

Prospect continues to monitor these trends and sees attractive risk-adjusted opportunities to deploy capital in healthcare businesses including opportunities to finance expansions, acquisitions, and innovations within the industry.

Sources and Footnotes:

(1) Pitchbook LCD US Private Credit Monitor Report February 2025.
(2) Pitchbook LCD long-term sector default rates from loans closed between 2000 and March 14, 2025. Output has not been reviewed by PitchBook analysts.
(3) "Healthcare Providers to Gradually Recover in 2024" by Fitch Ratings.
(4) U.S. Census Bureau, 2020.
(5) "A Look at How Tariffs Affect the Healthcare Industry" by Sanjana Vig MD, MBA published March 2025 by Longview News-Journal.
(6) "What Does the Federal Government Spend on Health Care?" by KFF. Data from Office of Management and Budget, FY 2025 President's Budget, others.

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