

# MARKET SIGHT LINES



## An Update on Private Credit

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April 8, 2026



Global private credit – where non-bank lenders provide loans directly to private companies – has grown from \$0.2 trillion in 2007 to \$1.8 trillion in 2025. Recently, there has been increasingly negative media coverage on private credit, with a focus on defaults and increasing redemption requests from private credit funds. With increased economic and market stress fueled by the **Iran conflict** and **industry changes driven by artificial intelligence**, investors are increasingly worried about the potential for systemic problems in private credit. In this Sight|Lines, we review the nature and history of the private credit market, providing an update on the current state of the market and what's behind these negative headlines.

## THE TAKEAWAY: PRIVATE CREDIT MARKETS REMAIN HEALTHY, BUT REDEMPTIONS ARE GROWING

The private credit space has been increasingly popular among investors, but headlines highlight select risks, some remote and others more possible near term. In summary:

- Private credit is a market where non-bank lenders provide loans to private companies, many of those middle-market businesses owned by private equity sponsors.
- Attracted by the potential for enhanced income and returns, retail investors can invest in private credit through various product structures.
- Isolated defaults have been reported in the private credit space, with some tied to fraud-related issues.
- The disruptive impact of AI on certain industries, like software, is bringing into focus the potential risk of weaker credits or defaults of private credit borrowers in those industries.
- Some industry leaders have highlighted how private credit has introduced some additional financial risk, with less liquidity and transparency.
- Despite the headlines, we see no discernible trend toward widespread deterioration, and private credit deal flow has remained active in 2025 and 2026.
- Notably, many retail investors are seeking redemptions, worried that troubles in the private credit market may increase, and some impacted funds have engaged liquidity provisions – sometimes called “gates” – to manage the impact of withdrawals on the funds.

## IN-DEPTH: PRIVATE CREDIT MARKETS REMAIN GENERALLY HEALTHY AND ARE SHOWING NO SYSTEMIC ISSUES, BUT REDEMPTIONS, ESPECIALLY FROM RETAIL INVESTORS, ARE INCREASING

The private credit space has been increasingly popular among institutional and retail investors, but recent headlines are highlighting potential challenges, with some risks more remote and others possible in the near term. Going deeper:

- Global private credit, where non-bank lenders provide loans to private companies, has become a significant market, growing from \$0.2 trillion in 2007 to \$1.8 trillion in 2025:
  - Many of the borrowers are middle-market businesses owned by private equity sponsors.
  - These loans are typically floating-rate, senior secured debt used to finance leveraged buyouts, growth capital, acquisitions, or refinancings, and are held in private funds rather than publicly traded.
- Private credit has become popular with retail investors who can invest through various product structures:
  - Two popular structures are interval funds and publicly traded business development corporations (BDCs).
  - For higher-net-worth investors, other private fund structures include general partnerships and non-traded BDCs.
- Isolated private credit defaults have been reported, with some of those tied to fraud-related issues:
  - Tricolor Holdings (subprime auto lender) and First Brands Group (auto parts supplier) both filed for bankruptcy in 2025 amid fraud allegations, highlighting private credit concerns and increasing investor scrutiny.
- The disruptive impact of AI on select industries is in focus:
  - Recent AI releases have shaken the software industry, bringing into question private credit exposure there.
  - This also brings into focus the quality of the private credit manager's underwriting skill to invest in strong credits.
- Some industry leaders have offered comments about private credit. In his annual shareholder letter, JPMorgan's Jamie Dimon said:
  - "... private credit does not tend to have great transparency or rigorous valuation 'marks' of their loans – this increases the chance that people will sell if they think the environment will get worse – even if actual realized losses barely change."

### WHAT WE THINK

The media is known to lead with negative headlines, often amplifying fear about a market that is unwarranted. While a significant economic downturn would lead to a tighter credit environment and an increase in defaults, the economy has been resilient. And while pockets of private credit stress are emerging, the underlying fundamentals of that market remain sound, especially those private credit funds managed by skilled and credible firms. We see no discernible trend toward widespread deterioration or systemic risk, and deal flow was solid last year and remains positive this year.

Given the headlines, many retail investors have been seeking redemptions, worried that troubles in the private credit market will increase. Many impacted funds have engaged liquidity provisions, or "gates," to manage these withdrawals. While sometimes considered negative, these provisions protect all fund investors from the negative impact of forced sales of fund positions. While we remain positive on the private credit market generally, investors should continue to monitor the underlying fundamentals of the credit markets and should be informed on the particular liquidity constraints of the funds they hold.

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