

# Private Credit Isn't Cracking—But Investors Should Watch Closely

## Key Takeaways

- Liquidity, not defaults, drives stress. Most borrowers are current; default rates remain normal.
- Funding feedback loops matter. Collateral markdowns can trigger tighter credit, asset sales, and lower marks—independent of borrower performance.
- Structural mismatches exist. Investors expect liquidity, but private loans may be illiquid. Redemptions may force difficult tradeoffs.
- Hidden risks amplify stress. Opaque valuations, layered leverage, and fragmented oversight can cascade before the credit picture is clear.
- Resilience is key. Strong liquidity management, funding lines, and disclosure infrastructure are essential for navigating this evolving market.

## Private Credit Hits the Headlines: Key Stress Events

Over the past few weeks, private credit has moved from a niche corner of finance to front page news:

- JPMorgan: Marked down loan portfolios it finances for private credit funds.<sup>1</sup>
- BlackRock's HLEND: Capped investor withdrawals at 5% of assets after redemption requests blew past that limit.<sup>2</sup>
- Blackstone's BCRED: Nearly 8% of its net asset value requested for redemption in a single quarter.<sup>3</sup>
- Blue Owl: Sold roughly \$1.4 billion in loans to meet withdrawals, yet its stock still dropped.<sup>4</sup>

## Is this similar to the 2008 Financial Crisis?

At a glance, these headlines make it feel like it is—it's not. But it's not nothing, either.

The real concern may not be an imminent systematic meltdown. Instead, it may be something more subtle—and in some ways, more difficult to manage:

- Opaque valuations may hide the true risk of underlying loans.
- Layered leverage may exist between banks and fund vehicles.

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<sup>1</sup> Financial Times - <https://www.ft.com/content/389a0003-d8de-4afd-9de9-be6e9fc6888c>

<sup>2</sup> Reuters - <https://www.reuters.com/business/finance/private-credit-strains-ripple-through-wall-street-investors-grow-wary-2026-03-24/>

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

- Cascading funding risks may occur when markdowns, tighter credit lines, or redemption caps cascade through the system before anyone has a clear picture of what these underlying loans are worth.

## How Did Private Credit Grow So Fast?

Banks pulled back after the 2008 financial crisis due to tighter capital rules and heavier supervision, pushing some traditional lenders away from middle-market and higher-risk corporate lending.

Non-bank lenders—including private credit funds, business development companies, and interval funds—stepped in. Their pitch to investors was straightforward:

1. Higher yield potential than public credit
2. Lower expected volatility

### Is “Lower Volatility” Real?

Only partially. Private credit has returned ~8.9% annualized, compared with ~5.8% for high-yield bonds and ~5.6% for leveraged loans.<sup>5</sup> Because these loans are not publicly traded, they're not marked to market daily. Fund managers set valuations themselves, typically on a quarterly basis. This approach may suppress reported volatility during good times but may allow risk to build quietly. When market sentiment shifts and these marks become obviously stale, adjustments can hit all at once, potentially explaining what we're seeing right now.

### How Big is the Market Now?

Global private credit assets under management reached ~\$1.79 trillion by early 2026, up from ~\$1.1 trillion at the end of 2020, marking a 14% compound annual growth rate.<sup>6</sup>

As the market scaled, private credit became deeply entrenched into the broader financial system:

- Banks finance the funds
- Insurers hold private credit assets
- Retail investors access them through semi-liquid vehicles

Because of this interconnection, recent headlines matter. This is no longer a story about a few funds. Changes in sentiment, funding, and transparency may create a ripple effect across the entire ecosystem.

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<sup>5</sup> J.P. Morgan Markets - [https://markets.jpmorgan.com/jpmm/research.article\\_page?action=open&doc=GPS-5232551-0](https://markets.jpmorgan.com/jpmm/research.article_page?action=open&doc=GPS-5232551-0)

<sup>6</sup> Ibid.

## The JPMorgan Markdowns: How Collateral Repricing Tightened Fund Financing

### What Happened?

The conversation around private credit shifted when JPMorgan marked down certain loan portfolios, specifically those with heavy exposure to software companies which private credit funds were using as collateral. At the same time, JPMorgan reduced the amount of financing it would provide against those portfolios going forward.

### Why Does That Matter?

Banks like JPMorgan don't typically lend directly to the companies in a private credit portfolio. Instead, they will generally lend to the fund itself, secured by the fund's loan book. When JPMorgan marks down the collateral, the fund's available financing can shrink, even if the underlying borrowers continue making their payments on time.

### What Triggered the Markdowns?

The markdowns were driven by a sell-off in public software stocks, driven by fears that AI disruption could impact traditional enterprise software businesses. This repricing in public markets forced a question that had been easy to avoid: Have private credit managers adjusted their own valuations to reflect the same risks?

In many cases, the answer appears to be no—or at least, not fast enough. Software and services account for roughly 19% of direct lending exposure, representing a meaningful slice of many private credit portfolios.<sup>7</sup>

JPMorgan's decision mattered because it turned valuation skepticism into a funding consequence. It's one thing for analysts to debate whether private marks are stale, but it's another when a major bank acts on that view and tightens the credit available to fund managers.

### How Does Redemption Pressure Amplify Risk?

Current stress in private credit is more complicated than simple defaults or redemptions.

### How Does the Feedback Loop Work?

1. Fund managers hold portfolios of private loans.
2. Banks lend to the funds using those portfolios as collateral.
3. If banks mark down the collateral, the fund's available financing shrinks.
4. Tighter financing makes it harder for managers to meet redemptions or maintain positions.

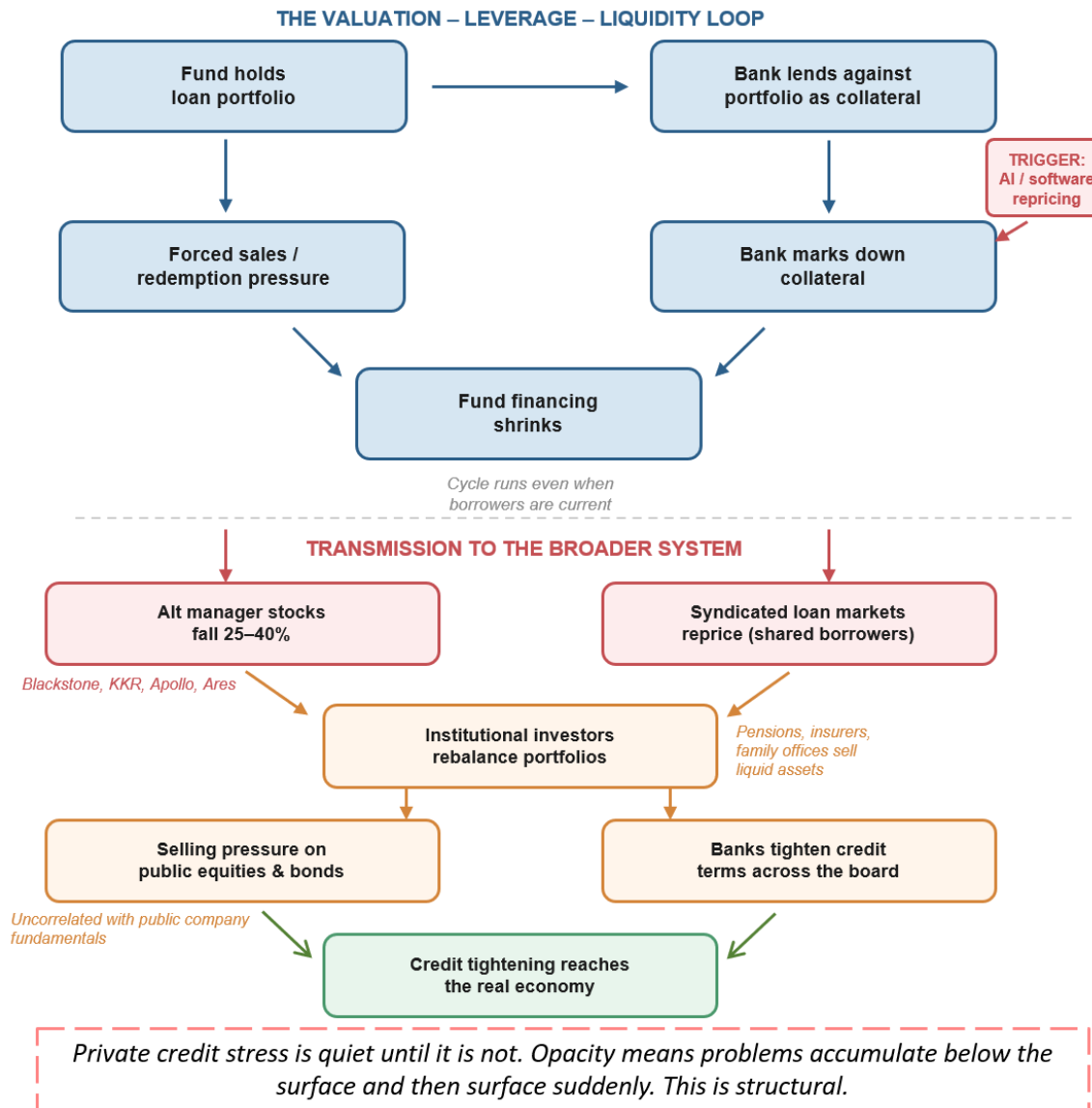
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<sup>7</sup> Bloomberg - <https://www.bloomberg.com/news/articles/2026-03-16/private-credit-default-rates-to-reach-8-morgan-stanley-says>

- This can force asset sales at discounts, which lowers marks further, potentially triggering even further tightening.

This cycle can occur even when the underlying borrowers remain current on their payments.

Figure 1: How private credit stress transmits to the broader financial system.



### What About Liquidity in Semi-Liquid Funds?

- Investors in semi-liquid funds request redemptions, but the assets are private loans that can't be sold overnight.
- Most funds allow ~5% in quarterly redemptions, designed to prevent a liquidity mismatch that could make banks vulnerable to runs.

- When redemption requests spike across multiple funds at the same time, even these orderly limits can feel like locked doors.

### Manager Responses

- Some managers raise redemption caps, sell assets, or draw on bank credit lines.
- Others stick to standard limits and wait it out.

### How Are Fraud Cases Affecting Confidence?

Separate from the valuation and liquidity story, a string of high-profile fraud allegations has rattled confidence in private credit.

Market Financial Solutions (MFS), a UK-based bridge lender, collapsed in early 2026 amid accusations that it pledged the same mortgage collateral to multiple lenders. Administrators reported ~£930 million (\$1.3 billion) in missing collateral. Major firms with exposure included Apollo, Barclays, Castlelake, and Santander.<sup>8</sup>

This followed similar allegations involving:

- First Brands, a car-parts supplier
- Tricolor, an auto lender

Both were accused of [double-pledging collateral](#) to trick their creditors.

### What Does This Signal?

When three separate cases surface in quick succession, the natural question is whether these are isolated incidents or symptoms of an industry that grew faster than its verification infrastructure. The answer is likely both.

Double-pledging is not a market-wide problem, but it may thrive in the same conditions that define private credit more broadly:

- Bilateral deals
- Limited centralized tracking
- Minimal regulatory oversight
- Competitive pressure to deploy capital quickly

When lenders are hungry for deal flow, due diligence standards may slip. In one case, a fund manager passed on MFS as early as 2021 after noticing its pitch materials didn't match public filings. Others may not have looked as closely.

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<sup>8</sup> Bloomberg - <https://www.bloomberg.com/news/articles/2026-02-27/mfs-creditors-warn-of-930-million-shortfall-from-double-pledges>

**Why It Matters**

The lesson is not that all private credit borrowers are dishonest.

It's that opacity may reward bad actors disproportionately, and the industry's infrastructure for verifying collateral and tracking exposures may not have kept pace with its growth.

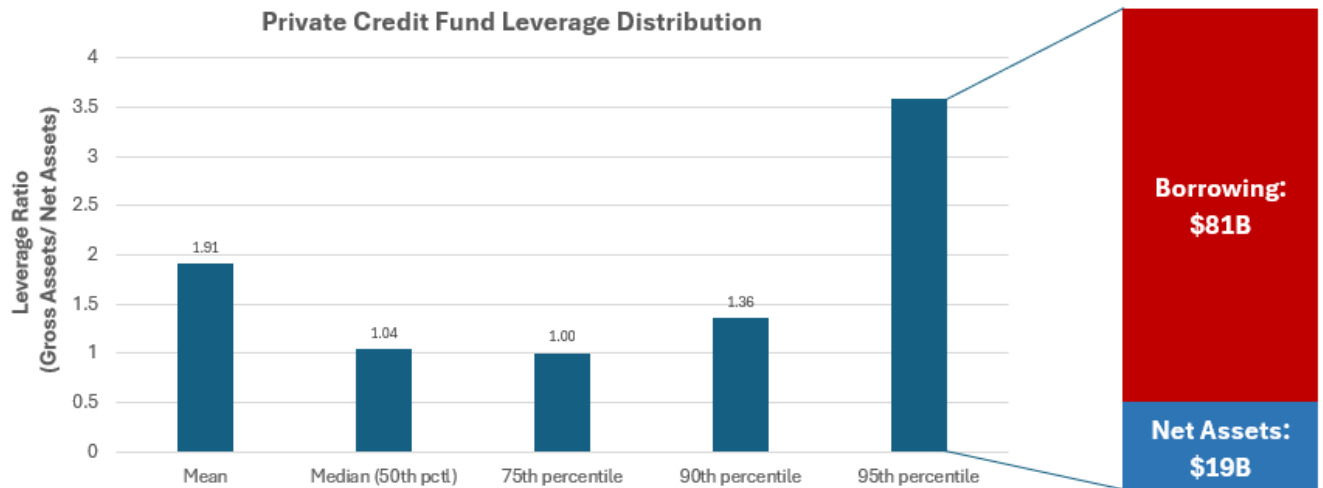
**How Connected is Private Credit to the Broader Financial System?**

Start with the bank connection. [The Treasury's Office of Financial Research](#) (OFR) published a report in March 2026 offering one of the most comprehensive views of private credit counterparty exposure to date. By combining two confidential regulatory datasets, the OFR estimates:

- \$410-\$540 billion in total bank and nonbank lending to private credit funds and BDCs
- ~\$300 billion in uncalled capital commitments from limited partners (pension funds, insurers, endowments)

These commitments are contractual obligations, meaning capital can be called during periods of market stress.

Figure 2: Most private credit funds use little leverage, but the tail is significant



Source: ORF Brief 26-02, SEC Form PF (year-end 2024)

**Leverage: Concentrated, Not Widespread**

At the fund level, leverage appears more reassuring than the headlines suggest:

- Median private credit fund leverage: ~1.0x (effectively no borrowed capital)
- 95<sup>th</sup> percentile leverage: above 3.5x
- This higher-leverage cohort accounts for ~\$81 billion in borrowing, or ~23% of total estimated private fund borrowing.

Key takeaway: leverage risk may be concentrated in a relatively small set of vehicles, not evenly distributed across the market.

### Loan Quality and Structure

The loans themselves appear conservatively structured:

- 86% of bank loans to private credit funds are secured by first or second liens on diversified loan pools
- Banks estimate a ~1.3% 12-month default probability, ~1.3%, lower than broader commercial loan portfolios
- Loss-given-default: ~21% (value-weighted).

[Other research](#) even argues that lending to BDCs may be less risky than directly lending to underlying borrowers, due to the overcollateralization and diversification at the fund level.

So far, so reassuring. But there are layers of risk that don't show up in those numbers.

### What Hidden Risks Exist?

Banks are no longer just lenders to private credit—they are increasingly integrated into the ecosystem:

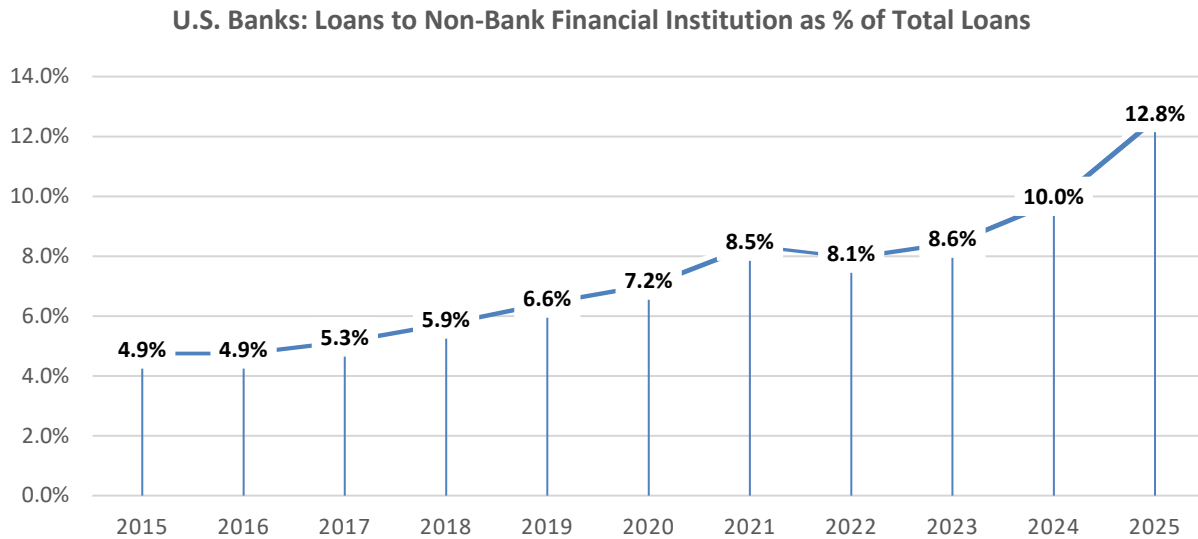
- Acting as equity partners and joint venture co-investors
- Providing backstop liquidity
- Expanding into large-scale partnerships

Examples include:

- JPMorgan announcing a \$50 billion private credit partnership
- Citigroup and Apollo launching a \$25 billion joint lending program

According to [research](#) using Federal Reserve data, the six largest U.S. banks' total exposure—including investments and unused commitments to non-bank financial intermediaries—amount to ~56% of their combined core capital. Much of this exposure sits off-balance sheets, outside the normal prudential regulatory perimeter.

Figure 3: Bank lending to non-bank financial institutions has nearly tripled as a share of total loans



Source: Company Reports, S&P CapIQ, CreditSights. Total across banking sector

### The Insurance Channel

- Risk also flows through insurers: Private equity firms with credit arms have acquired or partnered with insurance companies, using their long-duration liabilities as stable funding for private assets.
- Insurers' bank-loan holdings nearly doubled in the five years through 2024, reaching ~\$123 billion.

The OFR data also flags the LP capital call risk:

- During downturns, pension funds and insurers holding ~\$300 billion in uncalled commitments may be forced to sell liquid assets (stocks and bonds) to meet those calls.
- This mirrors dynamics seen during the 2008 financial crisis, particularly when hammering university endowments.

### System Fragmentation and Spillover Risk

The modern credit system is highly fragmented:

- Banks are regulated at the federal level
- Insurers are regulated at the state level
- Private credit funds operate with limited oversight

Each authority sees its own slice, with no single regulator having a complete view. Even the OFR notes that identifying private credit funds in regulatory data remains manual and imperfect—a transparency gap in itself.

### Why This Matters

When redemptions spike, fund managers may draw on bank credit lines at exactly the moment liquidity is tightest. If a fund is forced to sell assets at a loss, the markdowns can ripple into bank collateral values and insurer balance sheets. If sentiment sours broadly, the spillover into public equity and credit markets can tighten lending conditions for everyone.

### Is Private Credit Collapsing?

To be clear: private credit is not collapsing. Default rates have risen but remain within a normal range:

- ~1.1% on a par-weighted basis
- ~2.9% including non-accruals
- Broadly comparable to syndicated loan markets

The recent peak occurred in May 2025, and conditions have stabilized since. The direct bank lending channel appears well-structured:

- Loans are typically overcollateralized
- Underwriting standards appear to be conservative by historical standards
- Private credit continues to serve a real economic function, financing companies underserved by traditional banks

### Where Are Risks Building?

- Slowing fundraising for four consecutive years.
- Elevated redemption requests across multiple vehicles.
- Software and AI disruption is pressuring a meaningful share of portfolios.
- Banks are tightening the financing they extend.
- High-profile fraud cases are exposing gaps in the industry's verification infrastructure.
- Transparency, which has always been the weak link, is becoming a bigger issue, not a smaller one.

### What Should Investors Watch Next?

1. Will more banks re-mark collateral?
2. Will software sector weakness translate into realized defaults?
3. Can the industry build the disclosure and data infrastructure that a \$1.8 trillion market demands?

### Bottom Line

Recent headlines don't suggest that private credit is broken. But they do highlight a critical shift that may be important to investors:

- Valuation discipline is important – outdated marks can create sudden funding stress.
- Funding resilience is being tested – liquidity and redemption pressures may test even well-structured portfolios.

- Transparency is no longer optional – limited visibility can amplify risk across funds and the broader financial system.

The long-standing narrative of "smooth returns" is giving way to a more realistic view: risk is still present, just less visible, and requires careful oversight and planning.

**Author:**

Keren Luo  
Analyst  
[kluo@capitaladvisors.com](mailto:kluo@capitaladvisors.com)

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Capital Advisors Group, Inc.  
One Federal Street, Suite 2200  
Boston, MA 02110  
Tel: 617.630.8100 ~ Fax: 617.630.0023  
[www.capitaladvisors.com](http://www.capitaladvisors.com)  
[info@capitaladvisors.com](mailto:info@capitaladvisors.com)