U.S. PRIVATE CREDIT

Industry Deep Dive | Independent Research | 17 October 2026

MARKET STRUCTURE / LENDING ECONOMICS / FINANCIAL STABILITY

Executive assessment

Private credit is a meaningful alternative channel for financing non-investment-grade firms. It provides tailored underwriting, speed, and certainty of execution, but also introduces concentrated credit risks, valuation opacity, financing interconnections, and constrained liquidity.

Anchor fact: the Federal Reserve estimated approximately **$1.4 trillion of U.S. private credit loans** as of the second half of 2025, or about 10% of U.S. nonfinancial corporate debt; the Financial Stability Board estimated **$1.5-2.0 trillion globally** using a different scope and methodology. These figures are not directly additive or strictly comparable. [1][2]

Core conclusion

The outlook is selectively constructive for managers with strong origination, disciplined documentation, diversified exposure and permanent or duration-matched financing. Deteriorating loan performance and retail-access liquidity mismatches are principal risks. This is an analytical assessment, not a forecast of returns.

Scope and methodology

U.S.-focused corporate direct lending with global context. Primary material: the May 2026 Federal Reserve Financial Stability Report, the May 2026 FSB private-credit study, and April 2026 IMF research. No proprietary subscription datasets, loan-level samples or verified live AUM series are represented.

Primary sources: [1] Federal Reserve; [2] FSB; [3] IMF.

01 / Definition and Taxonomy

The asset class is a financing channel, not a uniform strategy.

- Direct lending: bilaterally negotiated senior secured loans to firms typically outside liquid syndicated markets.
- Unitranche loans combine senior and junior risk into a single facility with blended pricing.
- Mezzanine / subordinated debt assumes lower priority in the capital structure in exchange for more return.
- Special situations, distressed credit, asset-based finance and real-estate private debt have different risk characteristics.
- Private credit AUM, invested loans, gross fund assets and fund NAV measure different things.

Analyst interpretation: Define the perimeter before stating market size; compare risk by lien, collateral, covenant, leverage and sponsor behavior.

Sources: [1][2]

02 / Market Sizing

Both scale and definitional variation are material.

- Fed May 2026: approximately $1.4T in U.S. private credit loans based on latest second-half-2025 data.
- Fed approximation: 10% of U.S. nonfinancial corporate debt and approximately one-third of below-investment-grade corporate debt excluding bank loans.
- FSB May 2026: global private-credit market size estimated at $1.5T-$2T.
- Different provider data, definitions, debt stock versus AUM and timing prevent an apples-to-apples ratio.
- Reported market size must be accompanied by source, as-of date and precise asset perimeter.

Analyst interpretation: Use a $1.4T loan-stock estimate for the U.S. market context, not a fabricated forecast trajectory.

Sources: [1][2]

03 / Why Borrowers Choose It

Speed and customization can outweigh headline spread.

- Bilateral terms can offer certainty when broadly syndicated capital markets are volatile.
- Lenders may provide flexible amortization, acquisition funding, delayed draw structures and bespoke covenants.
- Borrowers typically pay an illiquidity premium and negotiate lender-friendly terms.
- Sponsor-backed middle-market lending is sensitive to private-equity acquisition and refinancing activity.
- Bank retrenchment can shift marginal borrowers toward funds without eliminating aggregate credit risk.

Analyst interpretation: A credible market thesis explains the borrower value proposition separately from lender returns.

Sources: [2]

04 / Capital Formation and Vehicles

Liability structure determines how much liquidity a fund can promise.

- Closed-end private funds generally lock investor capital for extended periods.
- Perpetual business development companies and interval funds offer constrained periodic repurchase features.
- Federal Reserve reported $306B gross assets / $161B net assets in perpetual-life BDCs.
- Federal Reserve reported $119B gross assets / $80B net assets in private-credit-focused interval funds.
- Combined semi-liquid fund gross assets were $425B, net assets $241B in the May 2026 report.

Analyst interpretation: Gross assets include leverage and are not interchangeable with shareholder NAV or invested-loan estimates.

Sources: [1]

05 / Lending Unit Economics

Gross coupon is not investor net return.

- Loan yield contains base reference rate, credit spread, upfront fees and original issue discount.
- Fund-level return deducts credit losses, management fees, expenses, servicing, incentive allocations and financing costs.
- Floating-rate loans can support coupon income but increase interest expense on borrowers when rates rise.
- Origination fees and prepayment receipts can create period-to-period earnings volatility.
- PIK interest may increase accrued income without providing immediate cash for debt service.

Analyst interpretation: Underwrite risk-adjusted cash collections and recoveries, not only contractual yield.

Sources: Analyst framework

06 / Credit Underwriting

The downside is determined before a default occurs.

- Debt / EBITDA, interest coverage, and free cash flow after capex should be evaluated under stress.
- Examine add-backs to EBITDA, recurring adjustments, acquisitions and customer concentration.
- Assess lien priority, collateral packages, guarantees and the enforceability of covenants.
- Model valuation compression, slower growth, higher rates and sponsor willingness to provide support.
- Recovery scenarios need an enterprise-value bridge to residual value at each debt tier.

Analyst interpretation: Borrowers with weak free cash flow and aggressive EBITDA add-backs are most vulnerable to refinancing stress.

Sources: Analyst framework

07 / Credit Cycle Transmission

Rate changes alter borrower affordability and lender yields simultaneously.

- When base rates rise, floating-rate loan coupons increase, but borrower coverage can weaken.
- Rising nonaccruals, deferrals and restructurings may appear after several quarters.
- Asset valuations can remain sticky because loans are not continuously exchanged on a public market.
- Refinancing windows and sponsor exits affect repayment probability.
- A maturity wall concentrates risk even when near-term cash collections remain intact.

Analyst interpretation: Stress liquidity, covenant compliance and refinancing at conservative spreads.

Sources: [1][2]

08 / Liquidity and Redemption Risk

Fund-level liquidity is not underlying-loan liquidity.

- Federal Reserve reported an increase in redemption requests at semi-liquid private-credit funds in late 2025 and Q1 2026.
- Several managers imposed permitted redemption caps when requested withdrawals exceeded customary windows.
- Perpetual BDCs may disclose quarterly repurchase intentions around 5% of NAV, subject to discretion.
- Interval funds are governed by distinct periodic repurchase rules; they are not identical to perpetual BDCs.
- Liquidity mismatch can force credit tightening or discourage new loan deployment before assets are liquidated.

Analyst interpretation: Investor liquidity terms belong in every assessment of credit-fund risk.

Sources: [1]

09 / Financial System Interconnections

Private assets do not imply isolated balance sheets.

- Banks may lend to BDCs, managers or private-credit vehicles and provide subscription or asset-backed facilities.
- Insurers can invest in credit funds or affiliated portfolios.
- Private equity sponsors influence borrower leverage, deal supply and exit assumptions.
- Levered vehicles transmit stress through lender marks, collateral terms and funding constraints.
- FSB flags data gaps, cross-border links, concentration and liquidity mismatch as monitoring challenges.

Analyst interpretation: Track aggregate leverage and who funds the fund, not just what the fund lends to.

Sources: [2]

10 / Sector Concentration

Underwriting must account for industry composition.

- Federal Reserve identified software as a major private-credit exposure associated with historic PE activity.
- AI disruption concerns and high-profile borrower defaults affected investor sentiment in 2025-2026.
- Software underwriting requires scrutiny of retention, recurring revenue, contract structure and customer switching cost.
- Cyclicals face revenue shocks; healthcare and services can carry reimbursement or regulatory risks.
- Diversification by issuer alone can miss correlated sector and sponsor exposure.

Analyst interpretation: Risk concentration should be stress-tested by sector, sponsor and origination vintage.

Sources: [1]

11 / Manager Competitive Landscape

Competition is multidimensional.

- Large alternative asset managers compete through distribution, scale, portfolio construction and origination relationships.
- Specialist middle-market direct lenders compete on underwriting knowledge and sponsor service.
- Publicly traded BDCs provide observable portfolio disclosures but differ from private commingled vehicles.
- Insurers and asset managers may create captive or affiliated origination arrangements.
- A credible manager screen compares fee rates, nonaccruals, NAV changes, realized losses and capital structure.

Analyst interpretation: Compare vehicles on like-for-like strategies and disclose unavailable manager-level datasets.

Sources: Analyst framework

12 / Institutional Due Diligence

The right questions precede return projections.

- What are realized loss and recovery rates by vintage, excluding restructurings that have not exited?
- What fraction of yield comes from cash-pay interest versus PIK or fee accretion?
- How much is exposed to covenant-lite lending, single sponsors or aggressive EBITDA adjustments?
- How are quarterly marks independently challenged and calibrated to exits?
- How do lender credit lines and redemption conditions behave during correlated stress?

Analyst interpretation: Focus on source-document verification: LP letters, audited financials, loan schedules and valuation policies.

Sources: Analyst framework

13 / Scenario Analysis

Frame plausible states rather than unsupported precision.

- Base: origination remains active; credit costs normalize; managers with selective underwriting perform comparatively better.
- Downside: defaults and extensions increase, recoveries disappoint and semi-liquid investors request more repurchases.
- Upside: healthier borrower cash flow and improved capital markets reopen exits and refinancings.
- Watch indicators: nonaccruals, interest coverage, PIK share, NAV markdowns, fund flows and bank financing terms.
- No point estimates are assigned without a reproducible loan-level or manager-level data model.

Analyst interpretation: These scenarios are analyst constructs, not observed data or numerical forecasts.

Sources: [1][2]

14 / Outlook and Investment Implications

Favor disciplined underwriting over unconditional industry exposure.

- Potential winners: diversified funds with repeatable origination, conservative documentation, and well-matched capital.
- Riskier structures: aggressive fund leverage, concentrated borrowers and redemption liquidity unsupported by cash holdings.
- The Federal Reserve characterized redemption risks as manageable systemwide but relevant for credit availability.
- FSB warned that the expanded market has not been tested across a severe economic downturn at current scale.
- This report supports risk-aware industry discussion, not selection of a specific vehicle.

Analyst interpretation: The decision criterion is downside resilience per unit of net expected return.

Sources: [1][2]

15 / Source Register and Research Limitations

Primary publications and transparency.

- [1] Federal Reserve, Financial Stability Report, May 2026, Box 4.1, Developments in Private Credit.
- [2] Financial Stability Board, Report on Vulnerabilities in Private Credit, 6 May 2026.
- [3] IMF, Global Financial Stability Report, April 2026, especially Chapter 2 / private credit discussion.
- Market statistics reflect different definitions and reporting periods.
- No nonpublic manager NAV data, loan tape, forecasts, implied IRRs or proprietary market estimates were used.

Analyst interpretation: Future iterations should append verified manager-level data and as-of dated credit performance tables.

Sources: [1][2][3]

SOURCE LINKS

[1] Federal Reserve, Financial Stability Report, May 2026, Box 4.1:
https://www.federalreserve.gov/publications/2026-may-financial-stability-report-funding-risks.htm

[2] Financial Stability Board, Report on Vulnerabilities in Private Credit, May 6, 2026:
https://www.fsb.org/2026/05/report-on-vulnerabilities-in-private-credit/

[3] IMF, Global Financial Stability Report, April 2026: https://www.imf.org/-/media/files/publications/gfsr/2026/april/english/text.pdf

[4] Federal Reserve, May 2026 Financial Stability Report summary:
https://www.federalreserve.gov/publications/2026-may-financial-stability-report-accessibility-tables.htm

Professional disclosure

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