
Navigating Risks in US Private Credit

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Executive Summary

Recent headlines have highlighted potential cracks in the US private credit market. During a period of rapid growth where the US private credit market grew from approximately \$500 billion in 2020 to \$1.4 trillion in 2025, many managers lowered their lending standards in order to compete for deals and raise and deploy more AUM. We may now be seeing the consequences of more than a decade of borrower-friendly conditions as an increasing number of concerning incidents in the US private credit market emerge. The only way to navigate these risks is to invest with cycle-tested credit managers that have a proven ability to preserve capital over the long-term.

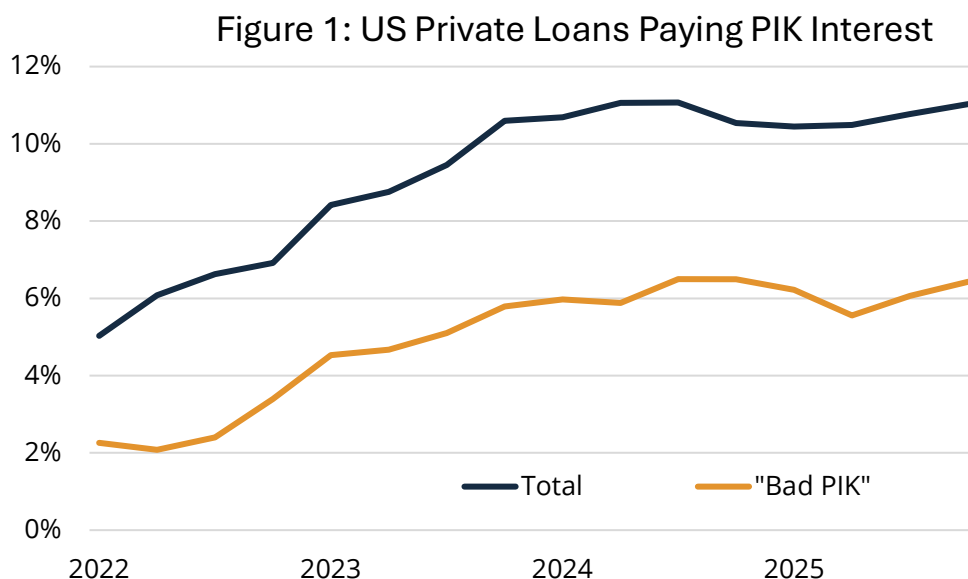
Recent developments in the US private credit market

- **September 2025: Tricolor Holdings and First Brands Group** file for bankruptcy. Both companies were highly leveraged (and allegedly fraudulent), raising questions about lending standards and the thoroughness of due diligence in the private credit market.
- **October 2025: JP Morgan** CEO Jamie Dimon warns that “when you see one cockroach, there are probably more”, seemingly implying that there may be more concerning private credit defaults that are yet to be uncovered.
- **October 2025: Zions and Western Alliance Bank** disclose multiple incidents of credit defaults involving allegedly fraudulent behaviour from borrowers, including apparent misrepresentation of collateral.
- **November 2025: BlackRock’s** TCP Capital BDC faces a 100% loss on a loan to Renovo Home Partners, just one month after marking the loan at par even though it was failing to make interest payments. This raised serious questions about valuation practices and opaqueness in the private credit market.
- **January 2026: BlackRock** TCP Capital BDC marks down its net asset value by ~19% for Q4 2025 due to a string of deteriorating loans, including six loans that were almost entirely written off despite being marked near par the previous quarter. This prompted a securities class action lawsuit against the BDC for making materially false or misleading statements when valuing its loan book.
- **February 2026: Blue Owl** permanently halts redemptions on one of its private credit vehicles (OBDC II) after selling ~\$1.4 billion worth of private loans to meet redemptions across three different funds. This highlights capital flight risks in private credit funds with significant exposure to software and other volatile sectors, noting that Blue Owl is a major software lender.

The rise in payment-in-kind (PIK) debt reflects weaker lending standards in US private credit

Rapid growth in private credit AUM has meant that competition for deals has intensified, and with it, borrower-friendly terms. Whilst some managers have maintained their disciplined approaches, other managers have lowered their lending standards in order to grow their portfolios. Traditional lender

A clear demonstration of this is the increasing tolerance for payment-in-kind (PIK) interest, which is where borrowers defer their cash interest and instead add it to the loan balance. Private lenders typically avoid this kind of flexible covenant, but allowing for it in an initial agreement can help them win deals in a competitive market. In Q4 2025, more than 11% of private US middle market loans used PIK interest. The biggest concern is around ‘bad PIK’, which is PIK that was not part of the original loan structure but was instead added along the way to avoid an interest payment. Lincoln International describes ‘bad PIK’ as a “shadow default rate” because it is effectively a way of avoiding, or in many cases delaying, an actual default. Bad PIK has alarmingly risen to 6.4% of all private US middle market loans.



As at 31/12/2025. Sources: Lincoln International, Bloomberg.

Concentrated exposure to software sector highlights risk management issues

Recent volatility in software companies has highlighted the fact that many private credit managers have built large, concentrated exposures to the software sector, including an average exposure of 28% amongst listed BDCs. An exposure of that size to any sector, let alone a more speculative sector like software, reflects poor risk management practices and is likely a result of larger managers needing to deploy excess capital in sectors with high demand for leverage. This volatile sector could be a source of significant risk in private credit portfolios in the coming quarters.

US BDC Manager	Software Exposure
Blue Owl (OTF), Fidus, Hercules, New Mountain, Tripple Point, Sixth Street	40–60%
Stellus, Golub, BlackRock, Morgan Stanley, Horizon, Blackstone, Sierra Crest, Oaktree	30–40%
Barings, Blue Owl (OBDC), Trinity, Ares, Bain, KKR, Crescent, Nuveen	20–30%
Pennant Park, Apollo, Investcorp	10–20%
Main Street	5–10%
Kayne Anderson, SLR Capital	<5%
Average	28%

As at Q3 2025. Source: KBW Research.

Manager selection is crucial to navigating risk in US private credit

As capital has flooded into the private credit market, it has attracted large generalist alternative-asset managers whose private credit platforms are relatively new (many of them launched in the 2020-2023 period) and have not proven themselves through one market cycle, let alone multiple.

To navigate risk in US private credit, your capital is safest with managers who understand that credit is a risk business, not a growth business. Investors should seek out strategies with the following characteristics:

- **Cycle-tested** – managers and strategies that have a proven track record of minimising losses across multiple market cycles.
- **Capital preservation focus** – a clear focus on capital preservation, lending to stable companies and prioritising strong covenants, conservative leverage, and tangible collateral rather than chasing yield.
- **Investing in established industries** – portfolios that focus on established, stable industries where the winners and losers are already known, as opposed to sectors like software that are volatile and more speculative.
- **Consistent lending standards** – no evidence of lowering lending standards in order to accommodate AUM growth.

We believe managers and strategies with these characteristics are best positioned to generate consistent risk-adjusted returns across a market cycle. Investing with these managers is the best way to navigate risk in US private credit.

References

Bloomberg Intelligence, research and estimates, January–February 2026.

Lincoln International, Lincoln Senior Debt Index, Q4 2025.

KBW Research, data as at 30/09/2025.

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