The Private Credit Market

The Data Behind the Headlines

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In March 2026, we published "The Private Credit Market: Understanding Its First Real Test," examining several noteworthy market developments, including collapses driven by alleged fraud, increased redemption pressure at some of the largest funds and growing concerns regarding software-sector concentration and opacity in private credit fund net asset valuations.

This update addresses four themes that have been top of mind for clients since March: (I) how retail private credit continues to evolve; (II) where capital is being reallocated across private credit strategies; (III) what second-quarter 2026 results reveal about the health of corporate lending generally and private credit funds specifically; and (IV) the extent to which prevailing headlines compare with underlying performance data.

The emerging data increasingly suggest a market bifurcation rather than a market-wide deterioration.

I. The Evolution of Retail Private Credit

How has retail private credit evolved since March?

Efforts to expand retail access to this asset class continue. On March 30, 2026, the Department of Labor's Employee Benefits Security Administration published a proposed rule establishing a process-based safe harbor for 401(k) and other defined contribution plan fiduciaries selecting alternative assets, including private credit, as designated investment alternatives[1]. The proposal implements President Trump's August 7, 2025 executive order, "Democratizing Access to Alternative Assets for 401(k) Investors," and requires fiduciaries to "objectively, thoroughly and analytically consider" six factors: performance, fees, liquidity, valuation, performance benchmarks and complexity; in order to obtain a presumption of prudence under the Employee Retirement Income Security Act of 1974 (ERISA)[2]. US workplace retirement plans held US$13.8 trillion at the end of the first quarter of 2026, of which US$9.9 trillion was held in 401(k) plans[3].

Below the regulatory layer, retail-accessible product structures continue to proliferate. Interval fund assets, the dominant wrapper for private credit distributed to individual investors, reached US$126.4 billion by late 2025 having nearly doubled in three years and 93 funds have launched since 2019[4].

Separately, some newly launched exchange-traded funds have begun using the 15% illiquid-asset allowance under Securities and Exchange Commission (SEC) Rule 22e-4 to hold private credit instruments directly, rather than merely holding business development companies (BDC) or collateralized loan obligations (CLO) securities. This represents a structural innovation that raises its own questions about how much liquidity such vehicles can realistically deliver under stress[5].

That stress, which we discussed in our March alert, continues. One large, retail-oriented nontraded BDC sponsor saw redemption requests exceeding 40% of shares in some vehicles and more than 20% in others[6], and by mid-2026 had cut the dividend on another publicly traded vehicle by roughly 16% alongside a multi-quarter streak of net asset value declines[7]. Industry-wide, BDC capital formation and retail sales fell approximately 40% year-over-year in the first quarter of 2026[8]. The Federal Reserve's May 2026 Financial Stability Report confirmed that for the first time in this cycle fund outflows moderately exceeded new inflows in the first quarter of 2026, but concluded that stability risks from further redemption requests remain "limited and manageable," while cautioning that continued redemptions and negative sentiment could reduce credit availability for higher risk borrowers[9].

That said, some of this continued market stress may reflect a disconnect between investor expectations and the nature of the assets that underlie private credit investments, rather than a fundamental weakness in the asset class. The industry has begun to acknowledge the point. Following the redemption wave, managers have started retiring the "semi-liquid" label altogether[10]. A JPMorgan Asset Management strategist has described the products as "semi-illiquid," and Goldman Sachs has said it avoids the term with clients on the basis that it offers false comfort[11].

II. Capital Reallocation Across Private Credit Strategies

Where is capital moving within the private credit market?

The clearest trend with respect to asset allocation is a declining share of capital directed toward traditional corporate direct lending and increased allocations into asset-based and specialty finance strategies backed by tangible or contractual cashflow collateral. The shift is now visible in the composition of current fundraising: direct lending accounted for 58.4% of all private credit capital raised in 2024, but had fallen to roughly 31% by the first quarter of 2026. The balance was reallocated into infrastructure, real estate, special situations and other asset-backed strategies[12]. Capital formation remains resilient, but the pace and composition of fundraising have become more selective. Aggregate fundraising remains robust, but capital is increasingly concentrating on larger platforms and specific strategies. Credit secondaries fundraising through the first quarter of 2026 for example had already reached approximately 75% of the amount raised in that strategy during all of 2025[12], which suggests reallocation within the asset class rather than retreat from it.

Asset-based finance (ABF) has been the single largest source of industry growth. ABF fundraising totaled US$70 billion in 2025, lifting its share of private credit fundraising well above the 10.6% recorded in 2024, though that figure understates the true scale of the private ABF market, much of which is backed by insurance-linked capital that traditional fundraising statistics do not capture[13]. Forward-looking indicators point the same way: the 10 largest specialty finance funds in market are collectively targeting approximately US$35 billion[14], and portfolio managers surveyed in 2026 identify senior direct lending, ABF and specialty finance as the most attractive segments available to them today[15].

A similar redeployment is under way into credit secondaries and opportunistic/capital-solutions strategies. In the first quarter of 2026, opportunistic credit funds surpassed direct lending funds in fundraising for the first time on record, while credit secondaries fundraising tripled year-over-year[16]. Opportunistic, special situations and distressed debt funds have collectively raised roughly US$100 billion over the past two years, positioning a substantial pool of capital to respond to dislocation[14].

Capital is also seeking opportunities outside of the US. European funds' share of global private debt fundraising has risen to approximately 35%, reflecting a structural shift toward private credit on the continent[18], and European ABF is now estimated to be a €4.2 trillion category in which nonbanks hold only about 13% of the total, against a 34% share in the US[13]. Asia presents a more nuanced picture: only five Asia-based private credit funds closed in H1 2026, raising US$1.2 billion, the lowest total in at least 12 years. Meanwhile global managers continue raising capital for Asia-Pacific strategies, suggesting investor interest is concentrating in larger, established platforms[17].

This reallocation has not benefited all managers equally, and the dispersion is widening. Excluding the largest five managers, private credit fundraising nearly halved year-over-year, from US$64.3 billion in the first quarter of 2025 to US$32.3 billion in the first quarter of 2026, with average fund size for that cohort falling from US$1.1 billion to US$0.9 billion[16]. Mid-market managers raising between US$500 million and US$5 billion saw the sharpest contraction, at roughly 60% less capital raised year-over-year[16].

Conversely, real estate-focused private credit has attracted a relative wave of capital, with several large managers launching nontraded mortgage real estate investment trusts (REITs): retail vehicles that raise capital from wealthy investors to finance real estate loans[19]. Looking further out, Moody's projects private credit assets under management will exceed US$2 trillion in 2026, and approach US$4 trillion by 2030, with the investing mix continuing to shift from corporate lending toward ABF and with EMEA and APAC gaining momentum[20].

III. Second-Quarter 2026 Results: Corporate Lending and Private Credit

What do second-quarter 2026 results show about the health of corporate lending generally, and private credit funds specifically?

On the bank side, several large and regional institutions reported meaningful loan growth, although acquisitions contributed materially to reported growth at some institutions. One large money-center bank reported second-quarter 2026 net interest income (NII) growth of 10%, alongside earnings growth in the low double digits after adjusting for one-time items[21]. Several regional and mid-size banks reported similar or greater strength in commercial and industrial lending, with year-over-year growth in the double digits at more than one institution (in at least one case aided by a completed acquisition)[22], and at least one bank raising its full year 2026 loan growth guidance into the high-teens-to-20% range[23]. Taken together, the results are consistent with a broader industry pattern of loan growth accelerating from the subdued levels of the past several years.

Several of the largest, most diversified alternative asset managers reported record or near-record quarterly fundraising, with credit-specific assets under management at one such platform reaching roughly US$331 billion,[24] and fee-related earnings rising materially at another[25]. Industry participants have taken to describing the resulting divide as "K-shaped," with the largest, most diversified platforms on what one executive called the industry's "happy part"[24] of the curve. By contrast, at least one large, more retail-concentrated manager posted meaningfully smaller net new capital for the quarter, reflecting a continued slowdown in its private wealth fundraising channel and redemption requests in its nontraded BDCs[26]. The pattern is consistent with capital rotation toward large scale, diversified platforms discussed above and suggests the bifurcation in the private credit fundraising market is continuing into the second half of 2026.

At the individual BDC level, results were more reassuring than the sharpest headlines that led to our initial alert in March and continue today. The largest publicly traded BDC reported second-quarter net investment income modestly above the prior-year quarter on a per-share basis, and maintained its dividend, even as net asset value per share declined modestly on mark-to-market adjustments[27]. Importantly, dispersion by platform persists. At least one research note tracking BDC filings identified elevated nonaccruals, and a second consecutive dividend cut at a peer vehicle during the quarter[7], underscoring that quarter-over-quarter improvement in aggregate metrics can still mask meaningfully different outcomes across managers, vintages and sector concentrations.

Default rate data for the quarter show a more mixed picture than a single figure would suggest. KBRA's Q2 2026 Middle Market Compendium, covering 2,785 borrowers and more than US$1.2 trillion of direct lending debt, found its Middle Market Default Monitor rate by borrower count ticked up for the first time in a year, to 3.3%, and the default rate by debt outstanding reached a new high of 2.4%, as median revenue and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) growth among surveilled borrowers slowed from the prior quarter[28]. Other measures in the same report cut the other way: the ratio of downgrades to total surveillance actions fell to a series-low 11%, and near-term maturity pressure continued to ease, with loans maturing through 2026 falling to about 6% of borrowers by count and roughly 2% of debt, from 8% and 5%, respectively, in the first quarter[28]. We are not aware of any single index that captures the full picture of what is happening in the market.

IV. Headline Risk Versus the Underlying Data

Does the performance data support the level of alarm reflected in recent coverage?

Both the Federal Reserve and the Financial Stability Board have declined to characterize private credit as a current systemic risk. The Federal Reserve's May 2026 financial stability report devoted a special feature box to the sector, but concluded that redemption-related risks remain "limited and manageable"[9], and the SEC's chairman has said the same of fraud-related concerns generally[29]. The Financial Stability Board's (FSB's) May 6, 2026 report likewise avoided systemic-risk language, while identifying bank interconnection, borrower credit quality and valuation opacity, concentration and liquidity mismatches, and data gaps as its four vulnerability clusters[30]. However, the FSB itself acknowledges that the lack of harmonized definitions and granular loan-level data makes it difficult to size the problem with confidence, estimating direct bank exposure to private credit funds across FSB member jurisdictions at roughly US$220 billion, against commercial estimates ranging from US$270 billion to US$500 billion[30]. When even the exposure figures vary by more than double depending on methodology, characterizing the risk with declared precision, in either direction, is itself a disclosure and diligence hazard.

Default rate reporting shows a similar dispersion. Fitch Ratings, using a broad methodology that captures a wide category of borrower distress, including the introduction of payment-in-kind (PIK) interest, distressed maturity extensions and out-of-court restructurings, recorded a US private credit default rate of 6.0% for the twelve months through the second quarter of 2026, the highest level since the measure's inception[31]. At the same time, Morgan Stanley's institutional research has noted that fully loaded default rates, inclusive of restructurings and nonaccrual rates in seasoned BDC portfolios have both trended lower in recent quarters, alongside modestly improving EBITDA-to-interest coverage ratios[32]. Sophisticated institutional forecasters also disagree materially on where the market cycle is heading in 2026: Morgan Stanley projects an 8% default rate, while UBS's severe-scenario estimate reaches 13% to 15%, against a historical average of 2% to 2.5%[7].

Fraud in the market may not be as prevalent as certain headlines would have readers believe. For example, SFNet Task Force's survey revealed that a majority of secured lenders report stable fraud levels in their own portfolios, even as they perceive fraud rising across the industry as a whole[33]. PwC's 2026 global private credit survey of more than 120 portfolio managers similarly concludes that the asset class, though facing its first real test and a widening dispersion between top-quartile and median managers, is "not in crisis," with most managers continuing to target high-single-digit to low-double-digit unlevered internal rates of return[15].

Critically, and as we noted in our March alert, an estimated 80% of the direct lending market sits in structures without on-demand redemption rights[34]. As such, the liquidity-driven stress most visible in recent headlines remains concentrated in a definable, retail-facing minority of the market rather than reflecting the condition of private credit as a whole. Ironically, it is redemption gates, though regularly maligned in the headlines, that have functioned as designed and agreed in subscription documents and helped prevent the type of run on financial institutions that was a hallmark of the Global Financial Crisis.

V. Conclusion

Across all four themes above, the data support a bifurcated rather than a uniformly alarming picture. There is real, measurable stress in identifiable pockets of the market, particularly among retail-facing investment vehicles and a shrinking tier of sub-scale managers. However, this distress lives alongside continued institutional confidence, fresh capital formation and investor demand in asset-based, specialty finance and secondaries strategies. The headline risk is genuine, but narrower than its coverage. The fact that the market lacks the harmonized data needed to test either narrative with confidence may be the bigger issue.

The private credit story in 2026 is no longer whether the asset class survives its first real test, but which managers, structures and lending strategies emerge stronger from it.

Appendix: Practice Guidance

Retail Access and Redemption Risk (Section I)

1. Direct lenders deploying through nontraded BDCs or other retail vehicles should pressure-test unfunded commitments (e.g., delayed-draw term loans, revolvers and incremental facilities, etc.) against vehicle-level redemption scenarios, and should confirm that fund-level leverage and subscription facilities can support drawdowns in a quarter when redemptions run at the cap.

2. Lenders should revisit assignment and participation provisions in their credit agreements, including eligible-assignee definitions, borrower consent and deemed-consent mechanics, and minimum hold requirements, so that positions can be moved between affiliated vehicles or sold into the secondaries market without needing borrower cooperation at precisely the moment it is least likely to be given.

ABF and Global Reallocation (Section II)

1. Direct lenders transitioning into asset-based and specialty finance should plan for materially different documentation. Borrowing-base eligibility, collateral perfection, true-sale analysis and servicer arrangements are structural questions that differ from a standard direct lending credit agreement.

2. Lenders entering European and Asian transactions for the first time should engage local counsel early on security packages, intercreditor arrangements, financial-assistance restrictions and enforcement timelines, which differ materially from US practice and are frequently items that can delay closing.

Default Triggers and Enforcement Readiness (Section IV)

1. Because the increase in defaults often reflects distressed restructurings rather than missed payments, lenders should confirm their credit agreements carefully define relevant triggers that can lead to missed payments or financial covenant defaults, including EBITDA add-backs and run-rate adjustments, PIK toggle conditions, covenant testing holidays, and what constitutes an event of default.

2. Lenders should engage restructuring counsel to provide mechanics for orderly and predictable enforcement scenarios at the outset. Amend-and-extend terms, standstill arrangements, sponsor support packages and lender-group organization are all materially easier to shape at the documentation stage when the lender has more leverage rather than after a default.

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We expect the next phase of the credit cycle to generate increased activity across portfolio amendments and restructurings, asset-based and specialty finance, fund-level financing and cross-border capital deployment. To discuss how these developments may affect your lending strategy, portfolio or transactions, contact Gabriel Yomi Dabiri or Cynthia Weiss using the contact information below.

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