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Private Credit Under Pressure

Over the past decade, the private credit market has exploded into a roughly \$2 trillion asset class globally, rivaling traditional leveraged loan markets.¹ The growth has been driven by tighter bank regulation, strong investor demand for yield and the flexibility private lenders offer to mid-sized companies underserved by traditional finance.²

That trade-off is now under pressure. Default rates among U.S. private credit borrowers rose to a record 9.2% in 2025, up from 8.1% in 2024, according to Fitch Ratings.³ Smaller issuers with \$25 million or less in earnings made up the majority of last year's defaults.⁴

Liquidity concerns are also emerging. Semi-liquid vehicles such as business development companies have faced redemption requests near their quarterly limits, often around 5% of assets, prompting some managers to restrict withdrawals.⁵ At the same time, bonds issued by private credit funds have declined in value, with spreads widening to roughly 250 basis points over government debt—an early signal of market stress.⁶

Recent performance has reinforced those concerns. Blackstone's flagship private credit fund reported its first monthly loss in more than three years in early 2026, alongside a surge in investor

¹ Avalos, Fernando, Sebastian Doerr and Gabor Pinter. "The Global Drivers of Private Credit," *BIS Quarterly Review* (Mar. 11, 2025) <https://www.bis.org/publ/qtrpdf/r_qt2503b.htm>; Cohen, Charles, Caio Ferreira, Fabio Natalucci and Nobuyasu Sugimoto. "Fast-Growing \$2 Trillion Private Credit Market Warrants Closer Watch," *International Monetary Fund* (Apr. 8, 2024)

<<https://www.imf.org/en/blogs/articles/2024/04/08/fast-growing-usd2-trillion-private-credit-market-warrants-closer-watch>>; Chinnery, Andr, William Maher, Diego May and Josh Spiller. "Growth in Global Private Credit," Reserve Bank of Australia, (Oct. 17, 2024) <<https://www.rba.gov.au/publications/bulletin/2024/oct/growth-in-global-private-credit.html>>.

² *Id.*

³ Tracy, Matt. "U.S. Private Credit Defaults Hit Record 9.2% in 2025," *Reuters* (Mar. 6, 2026) <<https://www.reuters.com/business/us-private-credit-defaults-hit-record-92-2025-fitch-says-2026-03-06>>.

⁴ *Id.*

⁵ Unmack, Neil. "How Private Credit Can Survive Its Stress Test," *Reuters* (Mar. 25, 2026) <<https://www.reuters.com/commentary/breakingviews/how-private-credit-can-survive-its-stress-test-2026-03-25>>.

⁶ Mackenzie, Nell. "Private Credit Fund Bonds Were Flagging Risks Before Recent Redemptions," *Reuters* (Mar. 25, 2026) <<https://www.reuters.com/business/finance/private-credit-fund-bonds-were-flagging-risks-before-recent-redemptions-hedge-2026-03-25/>>.

withdrawals.⁷ Across the industry, similar pressures have led to tighter lending conditions and increased scrutiny of borrower quality.

Regulators are paying closer attention. The International Monetary Fund has warned that the shift of corporate lending from regulated banks to less transparent private markets could amplify financial stability risks, particularly given the growing interconnectedness with insurers, pensions and banks.⁸

Despite these pressures, the situation does not yet amount to a systemic crisis. The market remains dominated by long-term institutional capital, which reduces the likelihood of rapid deleveraging. Still, recent developments, including rising defaults, redemption limits and widening spreads, have drawn comparisons to earlier stages of past credit cycles.⁹ As one market observer concluded, “history suggests leaner times ahead”.¹⁰

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⁷ “Blackstone’s Flagship Private Credit Fund Posts First Monthly Loss,” *Reuters* (Mar. 20, 2026) <<https://www.reuters.com/business/blackstones-flagship-private-credit-fund-posts-first-monthly-loss-over-three-2026-03-20/>>.

⁸ Cohen, Charles, Caio Ferreira, Fabio Natalucci and Nobuyasu Sugimoto. “Fast-Growing \$2 Trillion Private Credit Market Warrants Closer Watch,” *International Monetary Fund* (Apr. 8, 2024) <<https://www.imf.org/en/blogs/articles/2024/04/08/fast-growing-usd2-trillion-private-credit-market-warrants-closer-watch>>.

⁹ Unmack, Neil. “How Private Credit Can Survive Its Stress Test,” *Reuters* (Mar. 25, 2026) <<https://www.reuters.com/commentary/breakingviews/how-private-credit-can-survive-its-stress-test-2026-03-25>>.

¹⁰ *Id.*