

ALTERNATIVE
CREDIT COUNCIL

Financing the Economy 2026



Houlihan
Lokey

AIMA

ALTERNATIVE
CREDIT COUNCIL



Contents

Foreword	3
Executive Summary	4
Research Methodology	6
Chapter 1: Resilient Market Growth and Capital Deployment	7
Chapter 2: Focus on Fund Structures	32
Chapter 3: Credit Metrics Show More Stability Than Stress	43
Conclusion	58
Endnotes	59
About ACC and AIMA	60

Foreword

Welcome to the twelfth edition of the Alternative Credit Council's *Financing the Economy* research series. Produced in partnership with Houlihan Lokey, this year's report provides further evidence of the resilience and sustainability of the global private credit market, drawing on our most recent survey data and insights from leading industry participants.

As private credit continues to grow, so too does scrutiny of its role in financial markets and the wider economy. During 2026, questions about the sustainability of market growth, the performance of underlying loans and the resilience of fund structures have become increasingly prominent amongst investors and policymakers. Our research seeks to inform these discussions with a comprehensive and data-driven assessment of the market.



Jiří Król
Global Head
Alternative Credit Council



Dr. Cindy Ma
Global Head of Portfolio Valuation
and Fund Advisory Services
Houlihan Lokey

What has looked relatively dramatic in parts of the private credit market may well be overstated when set against the easy ride the asset class enjoyed over the previous decade. The verdict seems clear: some of the public sentiment has become divorced from the market-wide reality, resting on motivated analysis and anecdote rather than evidence. None of this means the market is free of significant tests and challenges. But such tests are to be expected in any healthy market, and they are dwarfed by the broader picture: an asset class that has remained stable through a period of real pressure, and that continues to deliver financing to businesses and returns to investors at scale.

We estimate that global private credit assets under management reached approximately US\$4.1 trillion in 2025, an increase of 17% from the previous year. This continued expansion reflects the structural demand for private credit from both borrowers and investors, as well as the growing diversity of financing solutions available across corporate lending, asset-backed finance, real estate and infrastructure debt.

Importantly, our findings suggest that this growth is underpinned by robust fundamentals. Investor demand remains strong, supported by returns that continue to meet expectations and have demonstrated greater consistency than those available across many other private market and public credit strategies. Private credit also continues to offer investors attractive diversification opportunities, with the relatively narrow dispersion of returns between managers providing further evidence of the asset class's maturity.

The resilience of private credit is also evident in the structures used to manage investor capital and the performance of underlying loan portfolios. Leverage remains modest, liquidity management practices continue to reflect the characteristics of underlying assets and core measures of credit quality remain broadly stable. While credit stress has increased in some market segments, our research suggests that these pressures remain concentrated rather than indicative of broader market deterioration. At the same time, some parts of the market and certain credit metrics continue to meaningfully improve.

Taken together, these findings provide further confidence that the continued expansion of private credit is supported by sustainable market fundamentals rather than an accumulation of risks to market integrity or financial stability.

We hope that this year's *Financing the Economy* report provides investors, policymakers and other stakeholders with a valuable resource for understanding the market's continued development, the opportunities supporting future growth and the risks that warrant ongoing attention.

Executive Summary

Resilient Market Growth

- The continued growth of the private credit market is strong and sustainable across multiple measures, posing no discernible systemic risk. Investor demand remains strong, with private credit returns remaining consistent with expectations and competitive with other private market and public credit alternatives. Key metrics around leverage, liquidity and the credit quality of loan portfolios signal broad stability with pockets of stress generally offset by areas of improvement.
- We estimate the private credit market stood at about US\$4.1 trillion in 2025, a 17% increase from the US\$3.5 trillion estimated in 2024. Growth continues to be supported by structural demand from borrowers and investors across a widening range of private credit strategies.
- Concerns that surfaced in parts of the non-institutional private credit market, most visibly among BDCs, appear to have abated: redemption requests in non-traded vehicles are slowing and discounts to net asset value in the listed market have narrowed. In Europe, the non-institutional channel has continued to see net inflows throughout. Meanwhile, the institutional channel continues with sustained commitments more than offsetting any net outflows from the affected parts of the retail segment.
- Corporate lending remains the largest private credit strategy, accounting for 54% of respondents' private credit AUM compared to 59% reported last year. This change reflects the growing diversification and specialisation of strategies within private credit beyond corporate lending.
- The US remains the largest private credit market, accounting for 65% of respondents' AUM, while the UK and Europe account for approximately 26%. Demand for private investment in energy, defence, transport and digital infrastructure is expected to create additional opportunities for private credit in Europe.

- Consolidation among funds is increasing, with LPs continuing to allocate more capital to larger private credit fund managers. Scale remains attractive for investors who value a strong track record as well as the ability to build and maintain diverse portfolios. Firms without scale continue to prosper where they offer investors access to alternative sources of returns to those provided for by larger firms.
- Private credit continued to generate attractive investor returns in 2025. The MSCI Global Private Credit Closed-End Fund Index returned 9.5%, compared with 8.6% for US high-yield corporate bonds and 7.7% for investment-grade corporate bonds.

Capital Deployment

- Our survey respondents deployed US\$608 billion of private capital in 2025 compared with US\$593 billion in 2024. The pace of growth over the past year has slowed considerably, possibly reflecting a level of maturity in the market. This deployment was almost evenly split between new lending at 56% and refinancing at 44%.
- We continue to see a significant concentration of lenders, with the top 20% by AUM accounting for 88% of deployment, largely unchanged from our 2024 survey.
- The UK and Europe show strong private credit inflows. Domestic businesses in these markets receive a higher share of investment from private credit funds compared to the share of private credit commitments made by domestic investors.
- Artificial Intelligence (AI) has become a major investment theme for private credit, both as a source of financing demand and as a consideration for existing portfolios. Private credit funds increased their investment in AI businesses in 2025, while lenders have fully integrated the assessment of AI-related risk into their existing portfolio monitoring and due diligence processes.

Executive Summary (Cont.)

Focus on Fund Structures

- Leverage levels in private credit remain modest and broadly consistent with historical trends. The survey estimates aggregate leverage at approximately 25% of respondents' net private credit AUM.
- 41% of flagship corporate lending funds surveyed were unlevered and 52% reported debt/NAV between 0.1x and 1.5x. Average debt to NAV was 35%, or 62% on a weighted basis.
- Most private credit capital remains in structures without redemption rights, although there is persistent evidence of demand for semi-liquid structures among institutional and retail investors. Funds that do provide liquidity use gates, notice periods, redemption windows and other tools to align investor liquidity with the underlying assets. These tools worked as designed during periods of elevated redemption requests, permitting managers to deal with capital outflows in an orderly manner.
- The private credit market has continued to grow robustly despite higher redemption requests in some semi-liquid vehicles during late 2025 and the first half of 2026. Fundraising in the first half of 2026 was the strongest for five years, driven primarily by institutional investors.

Credit Metrics Show More Stability Than Stress

- Underlying borrower performance remains generally positive. Houlihan Lokey data shows EBITDA growth has generally outpaced revenue growth over the past two years.
- Loan-to-value ratios remain generally conservative, although we observe dispersion across the market. 71% of respondents reported LTV ratios between 35% and 55% for their flagship corporate lending funds, while the data also shows an increase in the proportion of funds reporting LTV ratios above 70%.
- Reported borrower leverage is broadly stable. The average borrower net debt/EBITDA ratio reported for the flagship funds of the firms surveyed was 4.8x versus 4.9x reported in the 2025 edition of this research. Two-thirds of respondents reported that the ratio was between 4.0x and 6.9x.
- Reported Interest Coverage Ratios (ICR) across our respondents were stronger than those reported last year, with 76% of funds reporting an ICR of 2x or higher, compared to 55% in 2025.
- Credit stress remains concentrated rather than broad. 79% of funds surveyed reported non-accrual rates of 2.5% of net asset value or lower. 17% reported rates above 5%, illustrating continued dispersion between portfolios and market segments.
- Loan amendments remain an important tool for managing stressed exposures. On average, respondents reported that 10.6% of loans in their portfolio had been subject to a significant amendment, down from 11.65% reported in 2024.
- Approximately two-thirds of loans in our survey were to companies with EBITDA below US\$100 million, which highlights the reliance on private credit funding in the SME market. Only 1% of loans were to borrowers with EBITDA above \$1 billion.



Research Methodology

Financing the Economy 2026 is based on data from several sources. The Alternative Credit Council (ACC) and Houlihan Lokey conducted a survey of 41 private credit managers, and the ACC also conducted a series of one-on-one interviews with industry leaders.

For the survey, we defined private credit as: "investments in loans that you have originated or participated in as part of a club, private debt securities, mid-market CLOs and similar instruments across corporate lending, real estate debt, ABL and infrastructure debt strategies, but excluding broadly syndicated loans, publicly traded bonds or more liquid fixed income strategies". We asked respondents to provide their total private credit capital, including deployed and dry powder, as well as any leverage facilities. On this basis, their total private capital reached \$2.4 trillion. We then supplemented this with data from Preqin and other publicly available data for larger private credit fund managers that did not respond to our survey to arrive at our global market size estimate of \$4.1 trillion.

Market size estimates vary depending on data sources and definition used. Our estimate captures only private credit assets managed by dedicated fund managers using our definition of private credit. This approach may differ from other market estimates and may not include all types of private credit activity.

FIGURE 1

Estimate of the total size of the global private credit market



Estimated using data reported to ACC and other available data sources for firms who did not respond to our survey.

FIGURE 2

Total private credit capital of survey respondents



Total private credit capital consists of total committed capital (including both deployed capital and dry powder) plus any leverage facilities.

FIGURE 3

Total gross private credit AUM of survey respondents



Gross private credit AUM consists of deployed capital plus drawn leverage facilities secured against assets, but excluding dry powder.

FIGURE 4

Net private credit AUM of survey respondents



Net private credit AUM consists of deployed capital excluding leverage facilities secured against assets and excluding dry powder.

CHAPTER 1

Resilient
Market Growth and
Capital Deployment

Key Takeaways

Resilient Market Growth



The continued growth of the private credit market is strong and sustainable across multiple measures, posing no discernible systemic risk. Investor demand remains strong, with private credit returns remaining consistent with expectations and more durable than those provided by other private markets or public credit alternatives. Key metrics around leverage, liquidity and the credit quality of loan portfolios signal broad stability with pockets of stress generally offset by areas of improvement.



Concerns that surfaced in parts of the non-institutional private credit market, most visibly among BDCs, appear to have abated: redemption requests in non-traded vehicles are slowing and discounts to net asset value in the listed market have narrowed. In Europe, the non-institutional channel has continued to see net inflows throughout. Meanwhile, the institutional channel continues with sustained commitments more than offsetting any net outflows from the affected parts of the retail segment.



We estimate the private credit market stood at about US\$4.1 trillion in 2025, a 17% increase from US\$3.5 trillion estimated in 2024. Growth continues to be supported by structural demand from borrowers and investors across a widening range of private credit strategies.



Corporate lending remains the largest private credit strategy, accounting for 54% of respondents' private credit AUM compared to 59% reported last year. This change reflects the growing diversification and specialisation of strategies within private credit beyond corporate lending.



The US remains the largest private credit market, accounting for 65% of respondents' AUM, while the UK and Europe account for approximately 26%. Demand for private investment in energy, defence, transport and digital infrastructure is expected to create additional opportunities for private credit in Europe.



Consolidation among funds is increasing, with LPs continuing to allocate more capital to larger private credit fund managers. Scale remains attractive for investors who value a strong track record as well as the ability to build and maintain diverse portfolios. Firms without scale continue to prosper where they offer investors access to alternative sources of returns to those provided for by larger firms.



Private credit continued to generate attractive investor returns in 2025. The MSCI Global Private Credit Closed-End Fund Index returned 9.5%, compared with 8.6% for US high-yield corporate bonds and 7.7% for investment-grade corporate bonds.

Key Takeaways

Capital Deployment



Our survey respondents deployed US\$608 billion of private capital in 2025 compared with US\$593 billion in 2024. The pace of growth over the past year has slowed considerably, possibly reflecting a level of maturity in the market. This deployment was almost evenly split between new lending at 56% and refinancing at 44%.



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The UK and Europe show strong private credit inflows. Domestic businesses in these markets receive a higher share of investment from private credit funds compared to the share of private credit commitments made by domestic investors.



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Strong growth in private credit AUM

Based on our survey responses and other available data, the ACC estimates that global private credit AUM reached approximately US\$4.1 trillion towards the end of 2025, an increase of 17% from the US\$3.5 trillion that we estimated at the end of 2024.

This continued expansion of the private credit market offers further evidence that the drivers of market growth are structural and resilient. These include private credit's ability to cater to duration and structures that public markets do not easily accommodate, bank retrenchment, public and private infrastructure projects as well as investor appetite for alternative sources of return and diversification.

“ If a borrower wants something standardized, it can go to the public markets. If it needs creativity around duration or collateral, certainty of execution and scale, that is where private credit earns its premium. Borrowers will pay a premium in the form of excess spread for structuring capability, flexibility and confidence that the capital will be there.

Earl Hunt

Partner, Credit and Chairman and CEO of Apollo Debt Solutions, Apollo

“ For many institutional investors, private credit allocations are now well established. Even in asset-based finance, the conversation has moved beyond education. Allocators are asking a more demanding question: what can you originate that adds to the portfolio I already have? That puts the focus on bilateral origination, direct borrower relationships and deep sector expertise. For insurers, we believe the value is in connecting that access to an understanding of the balance sheet – so that liability, capital and liquidity requirements inform origination and structuring from the outset.

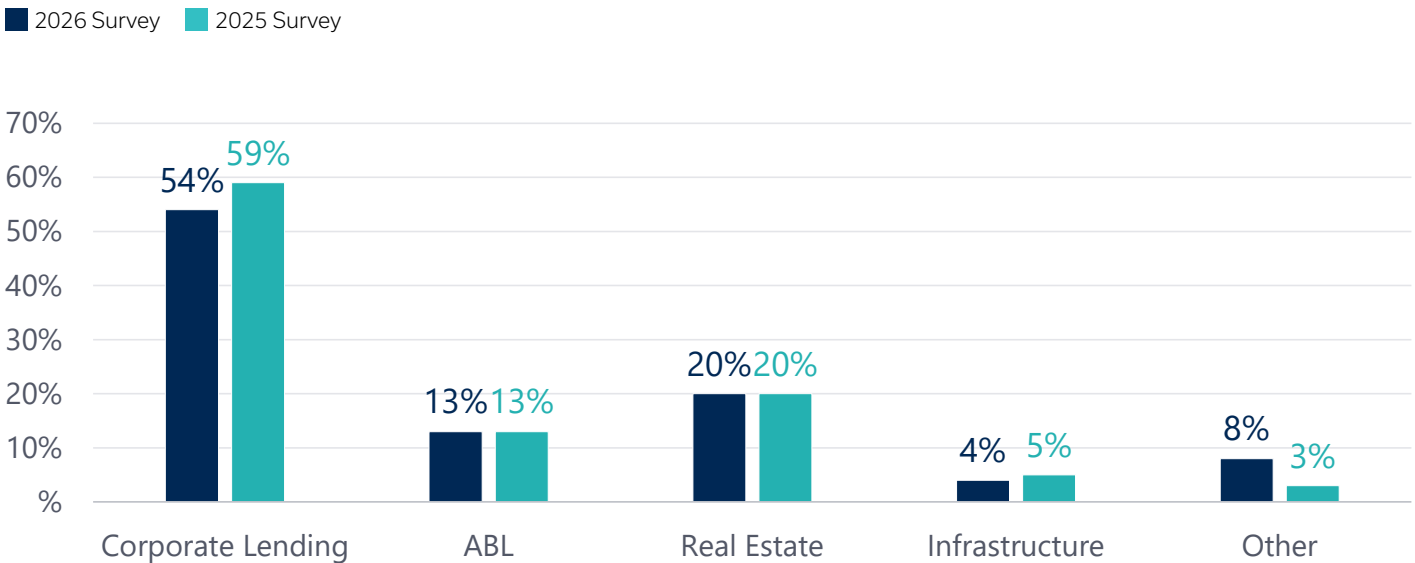
Brian Towers

Head of Insurance and Strategic Partnerships, PGIM

Corporate lending remains the largest private credit strategy, accounting for US\$1.075 trillion, or 54% of respondents' AUM, compared with 59% last year (figure 5). ABL, real estate and infrastructure debt strategies show similar market shares to our 2025 data, but we see a much higher share of assets allocated to strategies such as significant risk transfer, private credit secondaries, specialty lending and hybrid strategies which, grouped together under the "other" category in figure 5, collectively account for 8% of our respondents' AUM.

This suggests increasing market specialisation beyond our core four categorisations. The growth in the share of assets allocated to these strategies also reflects growing demand amongst investors for private credit exposures beyond the core corporate lending segment.

FIGURE 5
Private credit capital (gross AUM) invested
by strategy (US\$bn)



Strategies listed as "Other" by respondents to our survey included significant risk transfer, private credit secondaries, specialty lending and hybrid lending strategies.

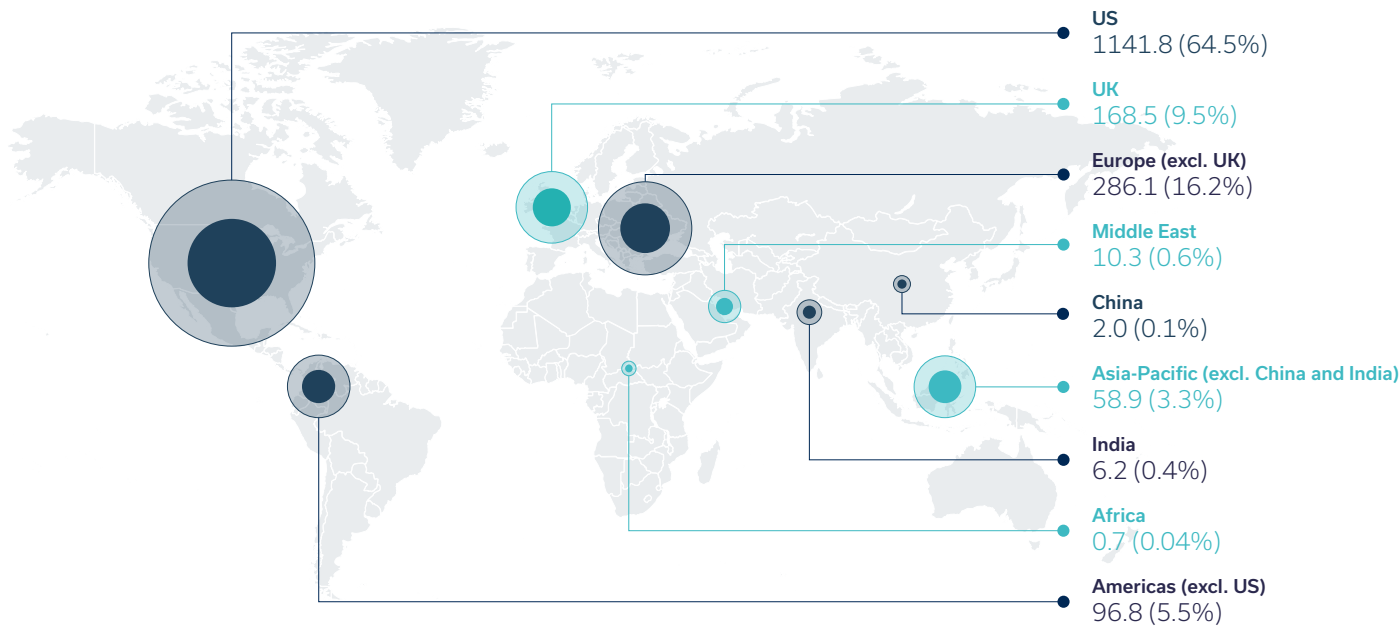
“Recent headlines have prompted allocators to look closer at where and how a manager is investing to avoid owning the same mega unitranches. Transparency is important to ensure true diversification across general partners. Investors are beginning to construct private credit portfolios more like public markets, across large-cap, core and lower middle market strategies, with different origination sources and much less overlap.

Kevin Marchetti
Chief Investment Officer and Head of US
Direct Lending, Man Group

The US remains by far the largest market for private credit loans, accounting for 65% of the respondents' AUM (figure 6) with Europe and the UK accounting for 16% and 9%, respectively. This data highlights the predominance of these regions within the broader market, collectively accounting for 90% of our respondents' private credit AUM.



FIGURE 6*
Private credit capital (gross AUM) invested by market (US\$bn)



*Percentages may not sum to 100% due to rounding.

When discussing AUM by geography, interviewees noted that the US and European markets each have different characteristics when it comes to lending structures, risk profile and market competition.

The growth drivers for private credit in each of these regions are also distinct from one another. Familiarity with private credit amongst borrowers, the size of the middle market and the growth of the AI industry in the US were cited by interviewees as key reasons for the US remaining the largest market.

Growing European investments in energy, defence, transport and digital infrastructure were described by interviewees as macro trends that will see private credit's footprint in the region expand significantly in coming years. The stated desire of European governments to increase defence spending from an estimated 2.75% of GDP in 2025 to the proposed 5% by 2035¹ is one illustration of how these trends are expected to drive demand for capital in Europe. As well as financing these investments directly, interviewees noted that this surge in investment will also create new demand for finance amongst companies that benefit from these structural trends indirectly. The investments that private credit firms have made in Europe over the past decade mean they are well placed to meet this demand.

Other regions beyond the US and European markets were seen to offer attractive opportunities but at a much smaller scale due to market fragmentation or less demand for private credit in markets without significant PE activity. Despite the challenges of achieving scale in these markets, investment outside of the US and Europe continues to be an important source of diversification for investors in private credit.

“ Europe has become an alternative to the US for global private credit investors. It offers diversification, some excess spread and less competition, while Asia is not yet mature enough to build a large diversified direct lending portfolio. Capital is also continuing to move from bank balance sheets to institutional providers, creating demand as well as supply.

Mike Carruthers

Senior Managing Director and European Head of Private Credit, Blackstone Credit & Insurance



“ Europe does not have the same mutual fund system as the US, so high yield, bank loans and direct lending do not compete in the same way. Private credit can double or triple and become roughly half of the European market. That structural difference should preserve more ability to negotiate covenants, terms and structures directly.

Europe is changing its mindset. After more than a decade of austerity, governments are focusing on growth, defence and infrastructure. M&A competition rules are becoming more supportive of consolidation and building European and Global champions. That should create a long-term opportunity for private equity to acquire family-owned mid-market businesses, build them across borders and generate significant demand for private-market financing.

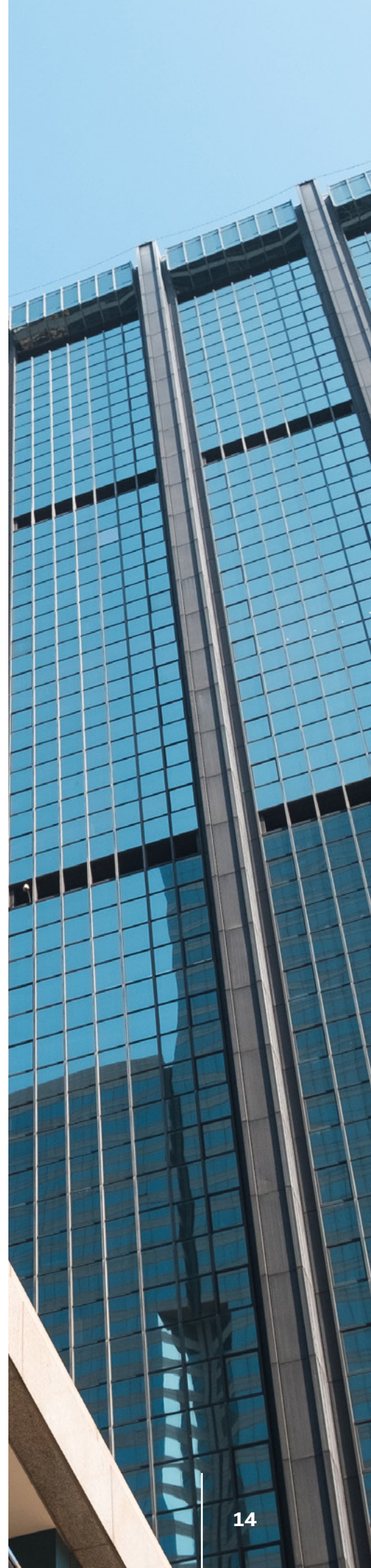
Symon Drake-Brockman

*Co-Founder and Managing Partner,
Pemberton Asset Management*

“ European markets are coming from a lower base of direct lending penetration, and bank retrenchment is accelerating in regions such as DACH, Benelux and the Nordics. Because Europe's bond market is not as deep or liquid as the US market, private credit could ultimately represent an even larger share of financing here. The runway remains very substantial.

Michael Dennis

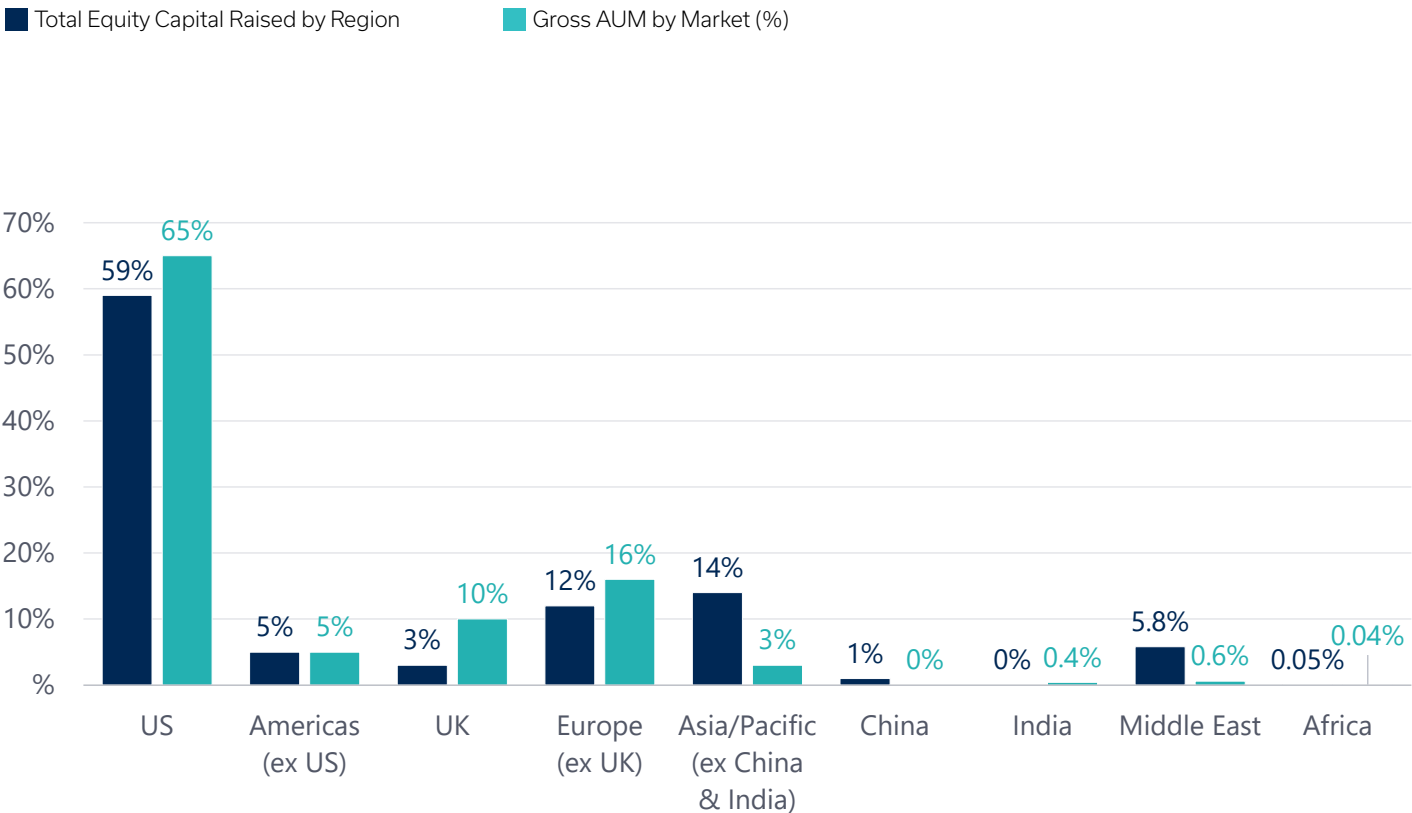
Partner and Co-Head of European Credit, Ares Management



Our survey asked respondents to identify the location of their investors. Comparing this data to our data on AUM allows us to assess private credit investment flows (figure 7). The US remains the most important market for both asset raising and capital deployment. The UK and Europe accounted for 3% and 12%, respectively, of capital raised, but 10% and 16% of total AUM. By contrast, Asia/Pacific (ex. China and India) and the Middle East accounted for 14% and 6% of capital raised, respectively, but only 3% and 1% of AUM deployment. This suggests that of the assets managed by respondents, there was a net inflow of funds into the US, UK and Europe and a net outflow of funds out of Asia and the Middle East.

Government-led initiatives in each of these regions are seeking to boost both domestic investment by local investors as well as attract international sources of capital. In Europe, pension funds are increasingly recognised as key actors in deepening domestic capital markets and supporting economic growth. Private markets are also seen as a key means for pension funds to meet the needs of retirees – particularly so given the extra demands on pension funds from aging societies.

FIGURE 7
Sources and uses of private credit capital by market





Deployment volumes remain strong across new lending and refinancing activity

Respondents reported deployment volumes of US\$608bn during 2025 (figure 8).

This is a modest increase on reported deployment volumes in 2024, but the rate of growth has slowed significantly year over year, dropping from 78% to just 2.5%. This likely reflects the increased maturity of the asset class and the selectivity in deployment emphasised by interviewees for this research when discussing market conditions and their investment activity in 2025. Deployment volumes were split 56% and 44% between new lending and refinancing, respectively, amongst respondents who reported this metric (figure 9).

Respondents to our survey deployed
US\$608bn
in 2025

FIGURE 8
Annual private credit deployment in US\$bn
(Gross deployment, including refinancing)

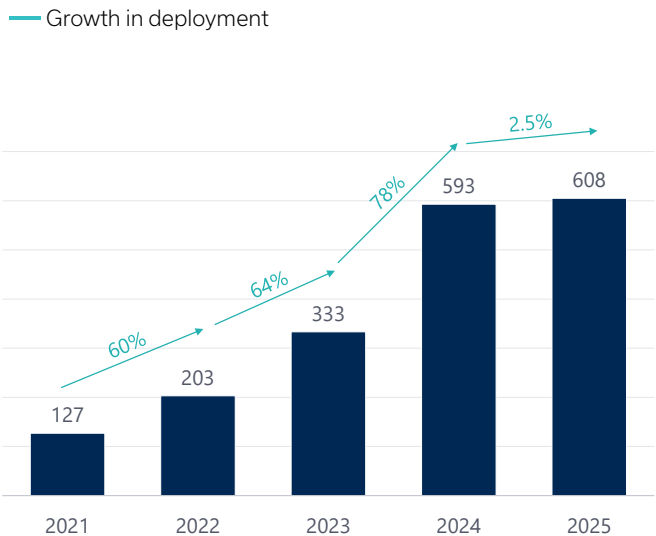
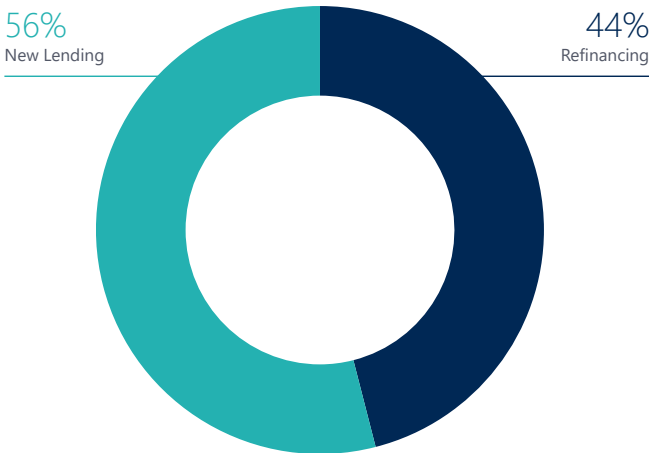


FIGURE 9
Private credit deployment in 2025 -
refinancing versus new lending



Our data also shows that the largest 20% of respondents accounted for 88% of total deployment volumes in 2025 – a figure that is largely unchanged from 2024 (figure 10). Deployment by larger firms includes significant volumes of lending to larger companies. Houlihan Lokey data shows that deals in excess of US\$1bn currently make up about 12% of all deals (figure 11). As we will see in later chapters, private credit continues to be a vital source of finance for borrowers of all sizes, but lending to larger businesses remains a key component of overall deployment volume.

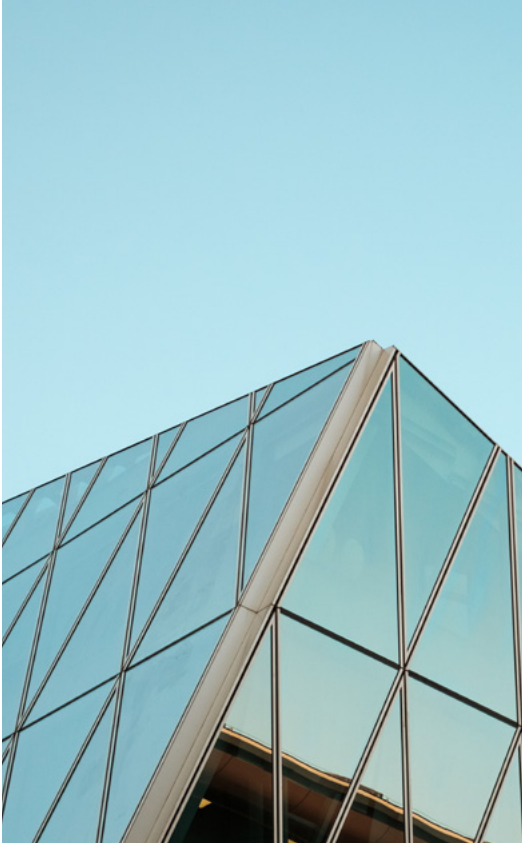
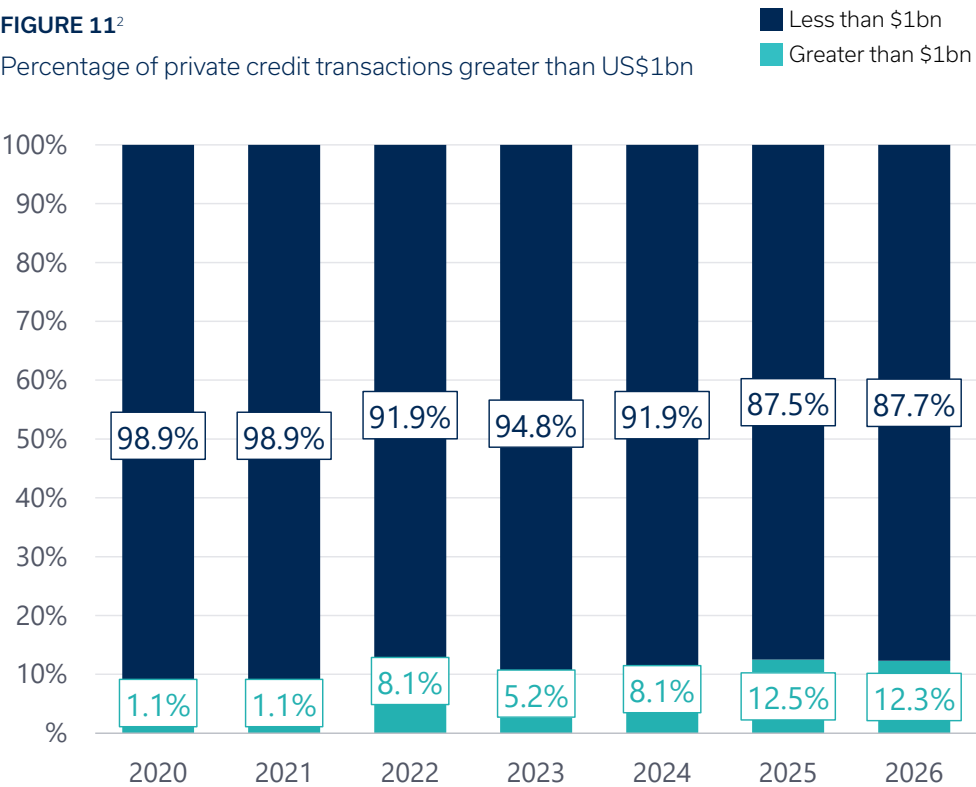


FIGURE 10
The largest private credit managers deployed 88% of capital in 2025



FIGURE 11²
Percentage of private credit transactions greater than US\$1bn



“ Direct lending has had a more challenging first half of the year. Software and AI uncertainty, public market volatility, geopolitical conflicts and a run of negative private credit public commentary all led to business owners and potential buyers hitting pause. The result has been fewer launches, fewer closings and fewer add-ons, alongside renewed debate about the price and terms of debt capital.

Mike Carruthers

Senior Managing Director and European Head of Private Credit, Blackstone Credit & Insurance

“ We are seeing a robust opportunity set financing the real economy across energy infrastructure, manufacturing, defence and digital infrastructure. Governments need capacity while fiscal debt burdens remain high, so private capital is increasingly supporting critical infrastructure at scale. That opportunity exists in both investment grade and non-investment grade credit.

Earl Hunt

Partner, Credit and Chairman and CEO of Apollo Debt Solutions, Apollo



PitchBook data shows the interaction of refinancing between private credit and the BSL market (figure 12) and that credit spreads over the past 12 months continued to follow historical trends, with private credit offering a ~150bps premium to the BSL market (figure 13).

FIGURE 12
Syndicated loans and direct lending takeouts (US\$bn)³

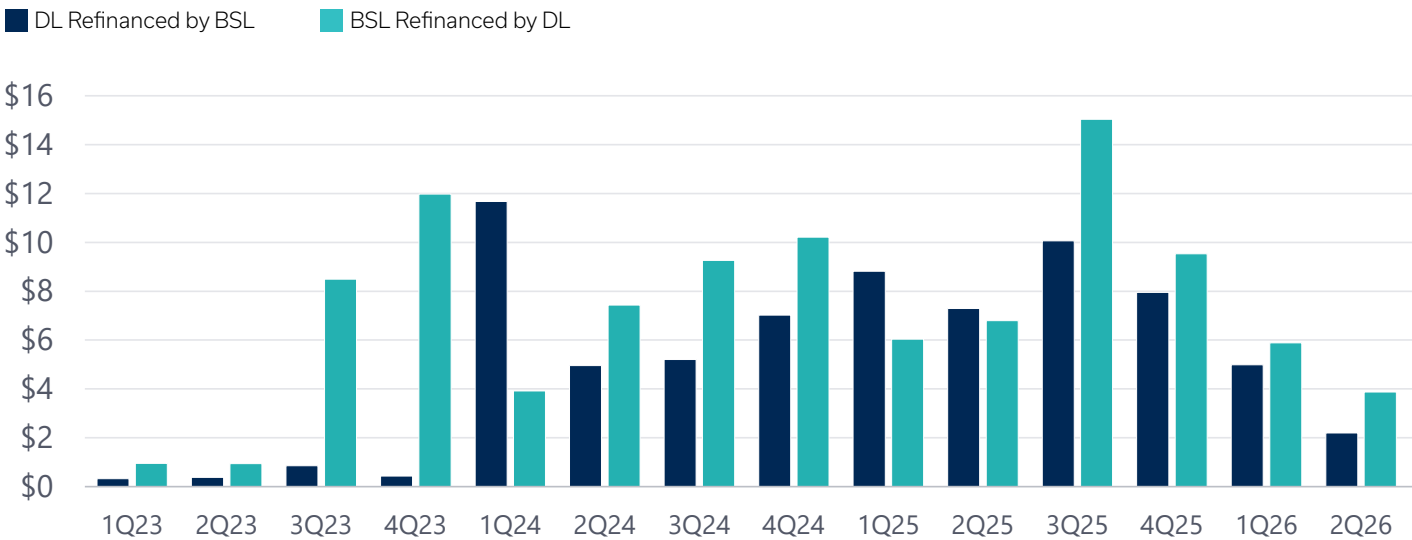
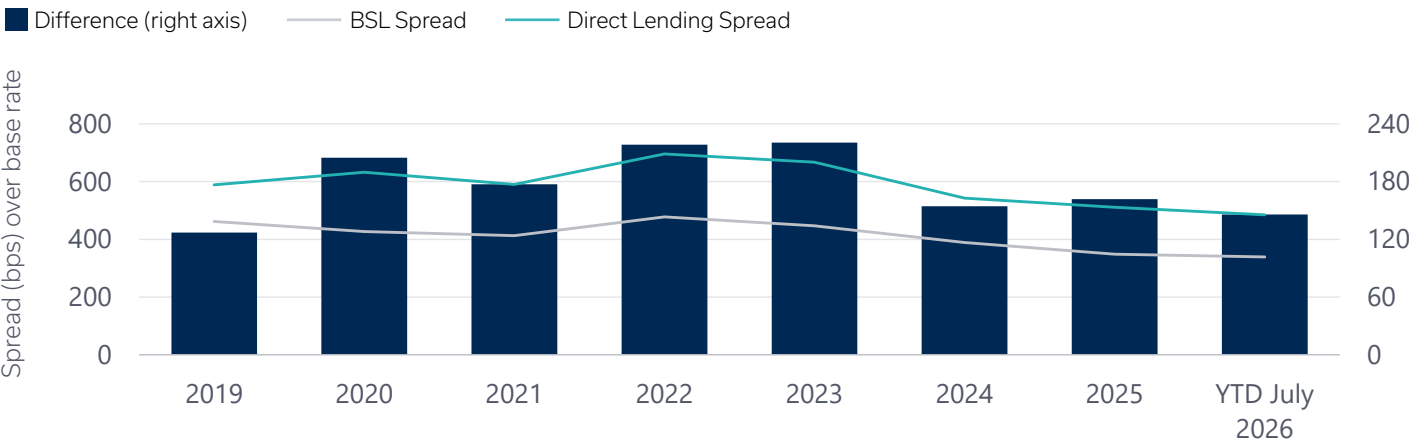


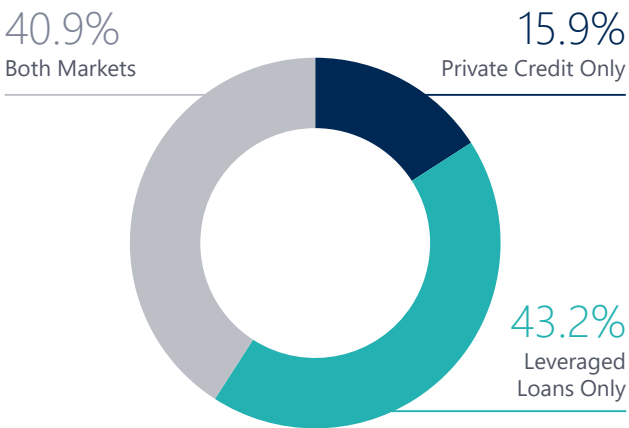
FIGURE 13⁴
Spread of LBOs financed in BSL versus direct lending



This interaction between the private credit and broadly syndicated market was recently explored by the Federal Reserve, which noted that the private credit market has become increasingly able to accommodate larger borrowers that seek bespoke, fast financing as an alternative to traditional leveraged loans. It estimates that about one-third of businesses used both the private credit and leveraged loan markets, but that smaller firms (revenues <US\$250mn) are more reliant on the private credit market than larger ones (revenues >US\$250mn) for their debt financing (figure 14). This highlights the ongoing importance of private credit for these businesses, and the stability of the deployment opportunity this market provides for private credit funds.

FIGURE 14
Distribution of borrowers by type of source of lending⁵

Borrower Distribution by Debt Profile:
Large Firms (revenues above US\$250mn)

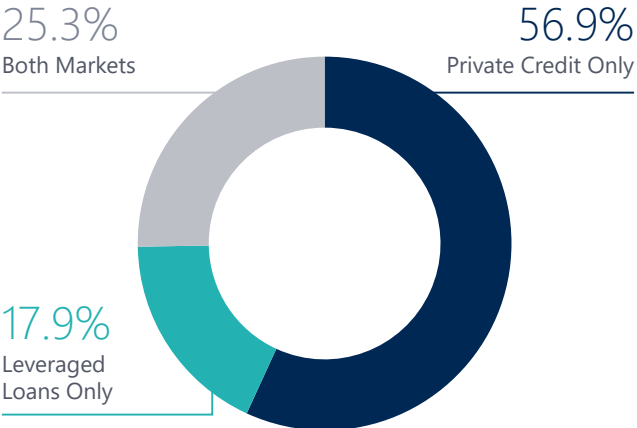


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A broad origination funnel creates more room to be selective on credit, structure and pricing. Capabilities across corporate, asset-based and real asset lending, alongside a substantial liquid credit platform, expand both the opportunities a manager sees and the solutions it can offer. Public market relationships can surface financings where a privately negotiated alternative, or a combination of public and private financing, better meets a borrower’s needs. We believe that breadth gives borrowers more flexibility and lenders more choice over which risks to take and on what terms.

Brian Towers
Head of Insurance and Strategic Partnerships, PGIM

Borrower Distribution by Debt Profile:
Small Firms (revenues below US\$250mn)





“ The US non-sponsored lower middle market has become less crowded. Most capital has gone into sponsor backed lending in the core and upper middle market, while banks lack the people as well as the capital to serve smaller companies. That lets us remain a sole, first lien lender without the spread compression seen elsewhere.

Daniel Leger

Senior Managing Director, Head of Investor Relations and Marketing, Metropolitan Partners Group

“ Ten years ago, private credit could be viewed as an absolute-return allocation. As the asset class has grown and moved into larger businesses, it has become more correlated with public credit. We still earn an excess premium, but investors now need to assess private credit on a relative basis rather than assume it is immune to wider credit-spread movements.

Patrick Linnemann

Senior Managing Director, Blue Owl

Supporting resilient investor portfolios

Key performance and portfolio management indicators highlight the ongoing value of private credit to investors. According to MSCI data, private credit outperformed public bond indices in 2025. While private credit returns slowed in Q1 2026, they recovered in Q2 and remained competitive relative to public bond indices.

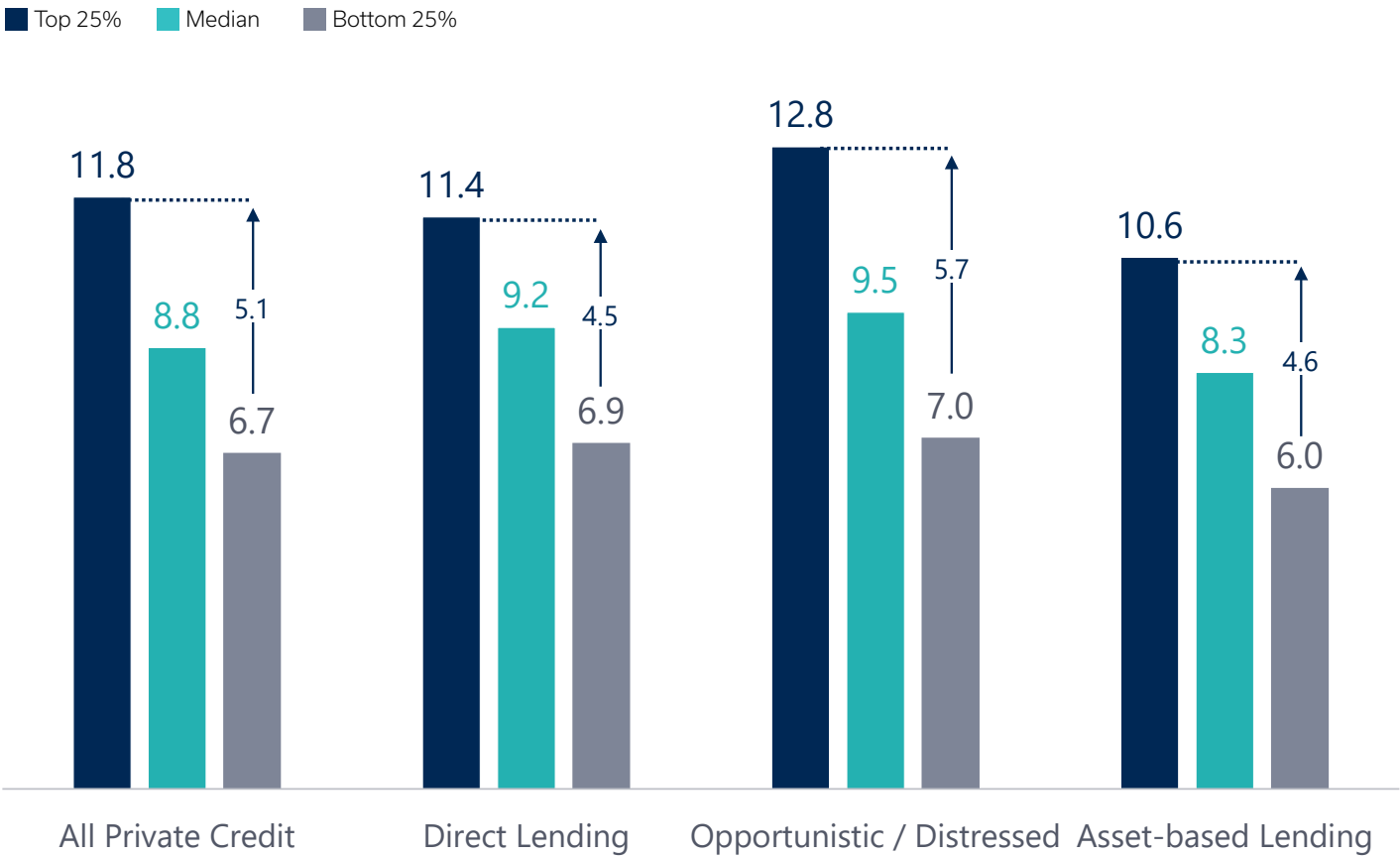
FIGURE 15

Returns in private markets⁶

	Annual Return (%)					Quarterly Return (%)				
	2021	2022	2023	2024	2025		3Q 25	4Q 25	1Q 26	2Q 26
MSCI Global Private Equity Closed-End Fund Index	40.3	-8.4	6.0	5.8	13.0		3.0	3.3	0.6	5.6
Venture Capital	50.0	-20.8	-1.8	5.5	21.0		6.2	6.7	4.5	12.7
Expansion Capital	32.9	-7.9	8.4	8.6	8.1		2.4	1.7	-0.2	1.3
Buyout	37.3	-1.4	9.6	5.7	10.9		1.6	1.9	-1.1	2.5
MSCI ACWI IMI	18.7	-18.0	22.2	16.9	22.6		8.2	2.9	-2.7	15.1
MSCI World Small Cap	16.2	-18.4	16.4	8.6	20.5		8.2	2.7	1.5	15.2
MSCI Global Private Credit Closed-End Fund Index	16.3	4.2	10.2	7.5	9.5		2.0	1.7	0.9	1.7
Direct Lending	12.0	4.7	12.1	7.5	10.8		1.8	1.5	0.4	1.0
Opportunistic Lending	22.7	3.9	11.4	8.4	9.4		2.5	1.7	1.7	2.4
Real Estate Debt	11.7	4.3	5.3	6.0	6.4		1.5	1.2	0.9	1.0
MSCI USD High Yield Corporate Bond Index	4.7	-11.8	12.8	8.3	8.6		2.4	1.3	-0.5	2.5
MSCI USD Investment Grade Corporate Bond Index	-1.1	-15.3	8.3	2.5	7.7		2.8	0.5	-0.3	1.6
MSCI Global Private Real Asset Closed-End Fund Index	22.3	8.4	1.5	2.6	7.6		1.2	1.3	1.7	1.8
Private Real Estate	26.2	2.1	-6.0	-2.6	2.3		-0.1	0.1	-0.1	0.2
Natural Resources	32.2	21.3	1.6	3.7	4.9		1.8	1.1	6.9	3.6
Infrastructure	13.3	9.4	8.5	6.4	12.6		2.1	2.3	1.7	2.5
MSCI ACWI Real Estate Index	23.6	-24.0	9.5	3.1	7.3		2.8	-2.3	0.2	5.9
MSCI ACWI Infrastructure	6.0	-4.2	4.8	15.5	22.1		4.2	0.3	9.3	-2.2

The Cliffwater Direct Lending Index returned 9.3% in 2025 – outperforming US high yield and leveraged loans even though these returns were slightly lower than its prior year performance⁷. McKinsey reported an 8.8% median IRR for private credit over a 10-year period (figure 16) with a 5.1 percentage-point spread between top- and bottom-quartile managers – the narrowest of all private market asset classes.

FIGURE 16
Median IRR and percentile spreads for
2013-2022 vintage private credit funds⁸

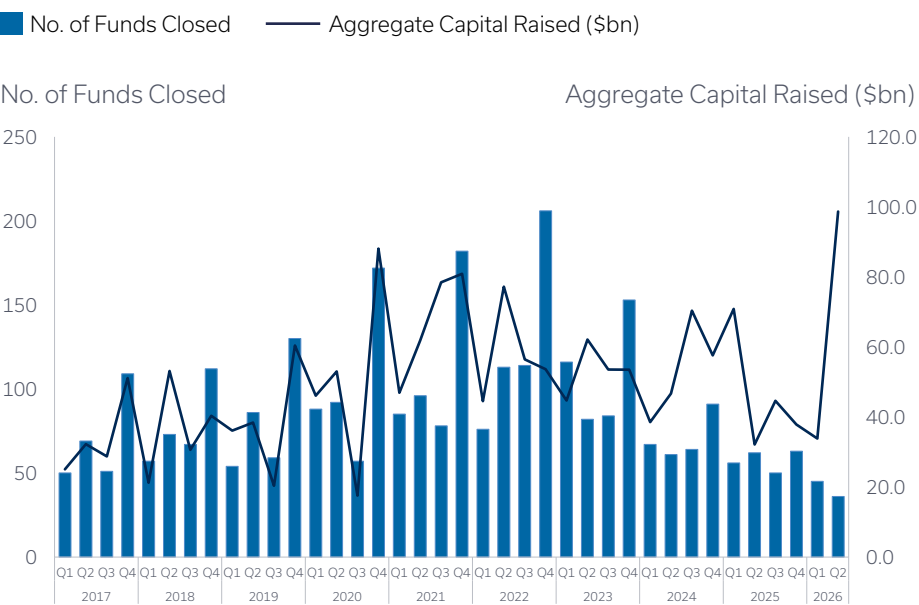




Consolidation in private credit fundraising

Recent data from Preqin highlights that private credit fundraising bounced back in Q2 2026 after a slowdown in previous quarters (figure 17). Comparing this to the number of fund closures suggests that consolidation persists with LPs continuing to allocate more capital to larger private credit fund managers.

FIGURE 17
Private Credit Q2 2026: Preqin Quarterly Update⁹



Scale remains attractive for investors who value track record, strong origination and risk management capacity, as well as the ability to build and maintain diverse portfolios. Firms without scale also continue to prosper where they offer investors access to alternative sources of returns to those provided for by larger firms.



The investor base for private credit is expanding but remains institutional at its core

Institutional investors remain central to the development of the private credit market. In *Financing the Economy 2025*, we showed that 76% of capital was from institutions and 24% from wealth management or direct retail channels, including high net worth, discretionary wealth and retirement investors. The ACC's 2025 fund-structuring research paper found that 57% of managers already served non-institutional clients and 64% were considering marketing to non-institutional investors in upcoming funds – with a particular emphasis on private wealth, high net worth and "semi-professional" investors¹⁰.

Retirement capital is another area where there is growing interest in private credit. In the US, Executive Order 14330 "Democratizing Access to Alternative Assets for 401(k) Investors" issued in August 2025 seeks to allow 401(k) retirement plans to invest in alternative assets, including private equity, private debt, real estate, commodities and infrastructure financing projects. The Department of Labor offered further clarification in March 2026¹¹. These measures will shape how a sector estimated at US\$10tn invests in alternative assets including private credit¹². Similar policy initiatives are being explored to support investment by defined contribution pension funds in private markets in the UK and Europe.

Interviewees described private credit as being a potentially important source of returns for both retail and retirement capital, but highlighted the importance of investor education, product design and strong industry practices if this is to become a larger segment of their investor base.

“ We prefer to talk about accessibility, not democratisation, because private markets are not the same proposition for every investor. Access must come with education, advice and an understanding of how the allocation fits the wider portfolio. Liquidity features need to be designed carefully and never over-promised: these investments are still intended to be held for the long term.

Edouard Jozan

Head of AllianzGI Private Markets, AllianzGI

“ Investors have realised that ten private equity managers and eight to ten credit managers can leave them exposed to many of the same companies. They are consolidating sponsor backed lending and looking for more bespoke, non-sponsored strategies. The challenge is to unpack what each manager is actually doing inside broad labels such as lower middle market opportunistic credit.

Daniel Leger

Senior Managing Director, Head of Investor Relations and Marketing, Metropolitan Partners Group

AI exposure is a dominant investment theme in private credit

AI remains a dominant investment theme within the private credit market in the same way it is a dominant theme in the public markets. JP Morgan estimates that investments in hyperscalers will reach ~US\$700bn in the US in 2026¹³, while McKinsey estimates total investment globally of nearly US\$7tn in data centers by 2030¹⁴. Preqin data estimates that private credit funds invested US\$77.1bn in AI businesses in 2025¹⁵.

When discussing AI as an investment theme, interviewees for this research highlighted two key considerations – notably how they are seeking to mitigate the unique risks of investing in the AI sector directly, and how they are assessing the impact that AI will have on existing and new investments in non-AI sectors of the economy. Our interviewees also indicated that they are frequently asked by investors how AI is integrated into their investment process, and that they closely analyse how portfolio companies are integrating AI into their own businesses.

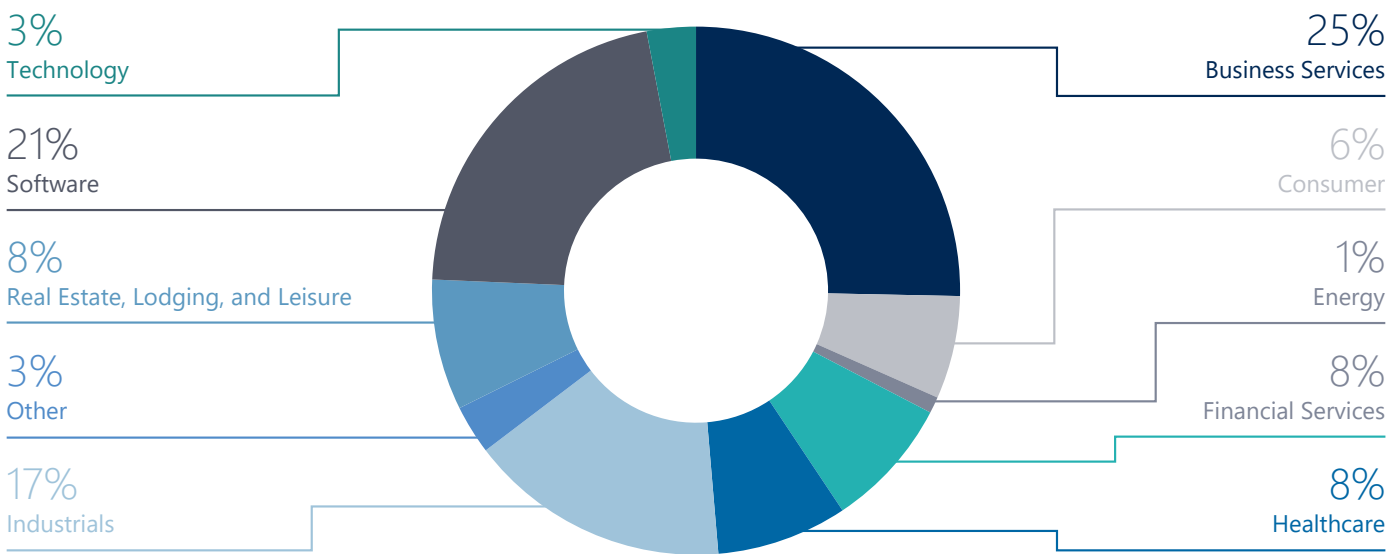
For firms investing in AI businesses, there was a consensus that the scale and pace of the AI sector gives rise to some unique considerations and potential sources of risk. They are therefore employing a number of methods and approaches to mitigate these risks. The strength of their counterparties was highlighted as a critical consideration as was the provision of contractual guarantees or long-term leases. Structuring amortising loans of shorter duration was another common approach used to mitigate risk. Our interviewees also indicated that investments in data centres cannot be looked at in isolation, but must also consider the supporting infrastructure, for example electricity grids and energy supply.

AI's potential impact on private credit loan portfolios has been a key talking point in 2026. While investor sentiment towards sectors such as software and business services, which make up a material proportion of some private credit portfolios (figure 18), has generally been positive over recent years, both were seen to be potentially vulnerable to AI-related disruption.





FIGURE 18
BDC exposure by sector (as of July 2026)¹⁶



Interviewees noted that AI has been a key consideration in their lending decisions for several years and that their assessment of AI takes into account the potential upsides as well as risk considerations. For example, AI may benefit some companies' cost structures as much as it might eliminate the need for some services.

It was also noted that the impact of AI will not be evenly felt across the market, with software providing an illustration of this. To date, earnings in software have remained strong, while LTV ratios for software loans are conservative, with two-thirds of these loans having LTV at 50% or lower (figure 19). At the same time, valuations for software loans are experiencing more markdowns than in other sectors.¹⁷ Houlihan Lokey data indicates that a material volume of software loans will require refinancing in 2029 (figure 20) by which time lenders will have had more time to assess the viability of these businesses and their appetite to support refinancing.



FIGURE 19
Software LTV ratios (Q2 2026)¹⁸

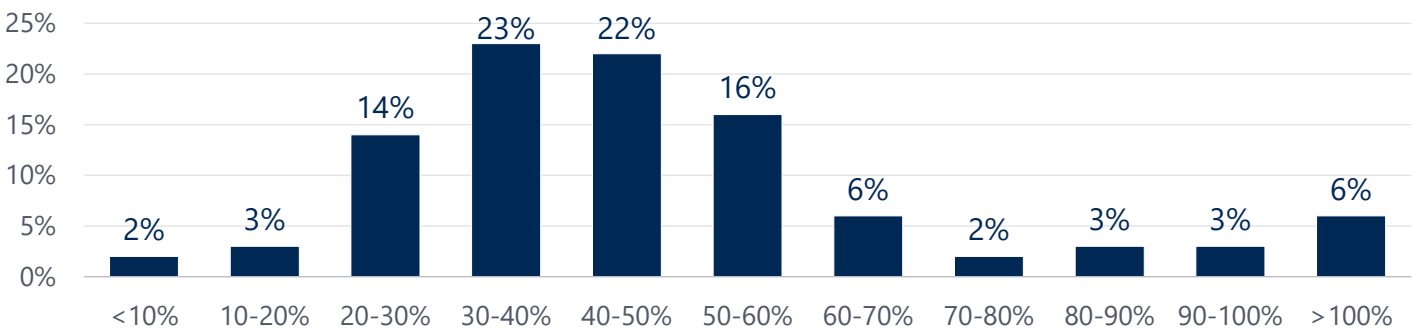
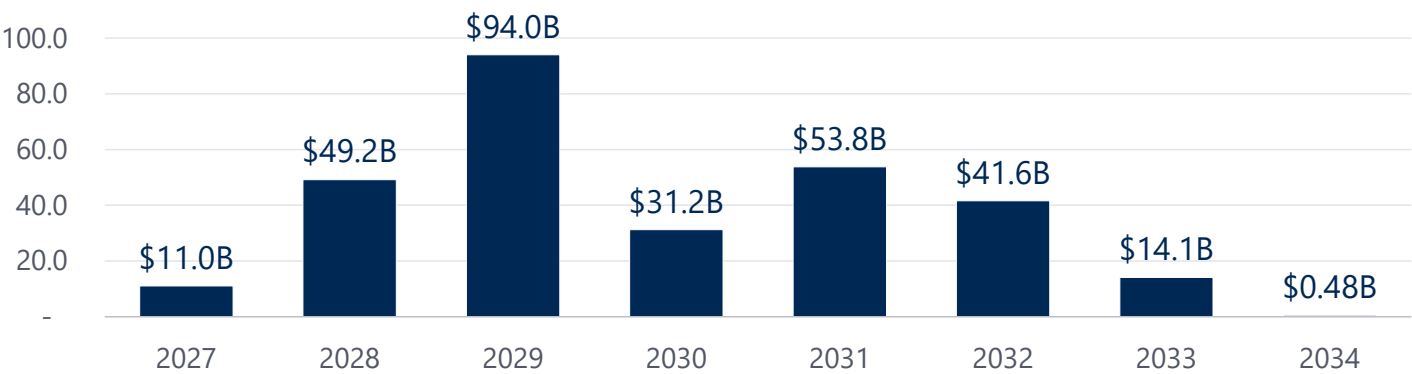


FIGURE 20
Debt maturities for software loans¹⁹



Looking at the market beyond software, KBRA analysis suggests some broader shifts in private credit lenders’ behaviour, such as requiring additional covenants, increasing loan spreads or in some cases an unwillingness to extend maturities for companies viewed as more vulnerable to AI disruption.²⁰ This analysis also highlighted how businesses deemed to

be more at risk of AI disruption also displayed weaker financial profiles, highlighting how AI-related disruption magnifies existing risks as well as presenting new ones. While the potential impact of AI is unlikely to be the only factor influencing lender behaviour in 2026 and beyond, it is likely to be a core driver given it is now firmly established as a dominant investment theme for private credit funds.

“

We are going through a new industrial revolution around AI. We will only really understand its full impact in two or three years; much of it will be positive, but it will also be disruptive. Institutional investors need to understand how much expertise, data science and training a manager has built into its underwriting and portfolio management.

Symon Drake-Brockman

*Co-Founder and Managing Partner,
Pemberton Asset Management*

“

The capital need for AI and digital infrastructure is significant, and no single market can absorb it. Equity, bank, convertible, private credit and asset-based finance markets will all have to contribute. For us, when looking at credit transactions, the discipline is short duration, self amortisation and contracted cash flows from high quality counterparties, without relying on residual values.

The software businesses we finance are deeply embedded workflows and systems of record; it is highly unlikely in our view that they could be displaced overnight. But AI will put real pressure on how they price and earn, and therefore on margins. The market leaders that invest in R&D and incorporate AI can remain leaders, even if their economics look different.

Patrick Linnemann

Senior Managing Director, Blue Owl

“

The market is looking in the wrong place for agentic AI disruption in private credit. Some software issuers will face stress, but professional services may be more exposed, particularly those who generate revenue from ancillary activities with very high contribution margins that could be replaced by co-pilots. A modest revenue loss could translate into a disproportionate fall in earnings and cash flow without management actions.

Michael Small

Partner, KKR



“

AI will not affect every lower middle market business in the same way. In IT services, it may erode revenue from routine support while increasing margins and creating a new need to help clients manage AI tools. The winners will be the firms that adapt their service model rather than simply trying to sell an AI product.

Daniel Leger

Senior Managing Director, Head of Investor Relations and Marketing, Metropolitan Partners Group

“

AI is creating a significant opportunity for private credit, for us primarily at the investment-grade level. With hard assets like chips, we know the collateral, duration, compute demand, whether they're contracted by high quality counterparties, the terms of those contracts, and so on. There are a lot of protections we can have in place.

Earl Hunt

Partner, Credit and Chairman and CEO of Apollo Debt Solutions, Apollo

“

Your software percentage is not your AI-risk percentage. All software is not equal, and risk also sits in IT services, healthcare IT, accounting, consulting and insurance broking. The incumbents need to prove they can use the tools, and the sponsor matters more because resources, investment capacity and execution will create much wider dispersion.

Private investment grade credit is growing because the AI capital-expenditure cycle is creating an enormous volume of assets, and because borrowers value diversified funding and flexibility. For insurance investors, earning an additional 150 to 200 basis points on genuinely investment grade risk can be powerful. At the largest cheque sizes, only a small group of providers can participate.

Mike Carruthers

Senior Managing Director and European Head of Private Credit, Blackstone Credit & Insurance

“

Post-Covid, companies no longer believe just-in-time is always the right way to run their businesses. They want security over critical inventory, whether chips, batteries or commodities. In data centres, we prefer financing the components needed to get a facility running rather than taking equity-type risk on its future cash flows or on how the technology evolves.

Symon Drake-Brockman

*Co-Founder and Managing Partner,
Pemberton Asset Management*

“

The scale of digital infrastructure has changed. Private credit, alongside every other source of financing, will be needed to meet the capital requirements of data centres and the wider ecosystem around chip providers, hyperscalers and AI developers. This is not only a US opportunity; Europe also needs financing, although the two markets remain very different in scale and order of magnitude.

Cécile Mayer-Lévi

Co-Head of Credit and Head of Private Debt, Tikehau Capital

“

We are embracing AI, digitalisation and data centres, but it is a matter of measure, diversification and understanding the underlying economics. Digitalisation only works if there is enough power, grid capacity and transmission. That is why the opportunity extends beyond data centres into grids, battery storage and energy production, while every investment still has to pass basic underwriting.

Edouard Jozan

*Head of AllianzGI Private
Markets, AllianzGI*





CHAPTER 2

Focus on Fund Structures

Key Takeaways



Leverage levels in private credit remain modest and broadly consistent with historical trends. The survey estimates aggregate leverage at approximately 25% of respondents' net private credit AUM.



41% of flagship corporate lending funds surveyed were unlevered and 52% reported debt/NAV between 0.1x and 1.5x. Average debt to NAV was 35%, or 62% on a weighted basis.



Most private credit capital remains in structures without redemption rights, although there is persistent evidence of demand for semi-liquid structures among institutional and retail investors. Funds that do provide liquidity use gates, notice periods, redemption windows and other tools to align investor liquidity with the underlying assets. These tools worked as designed during periods of elevated redemption requests, permitting managers to deal with capital outflows in an orderly manner.



The private credit market has continued to grow robustly despite higher redemption requests in some semi-liquid vehicles during late 2025 and the first half of 2026. Fundraising in the first half of 2026 was the strongest for five years, driven primarily by institutional investors.

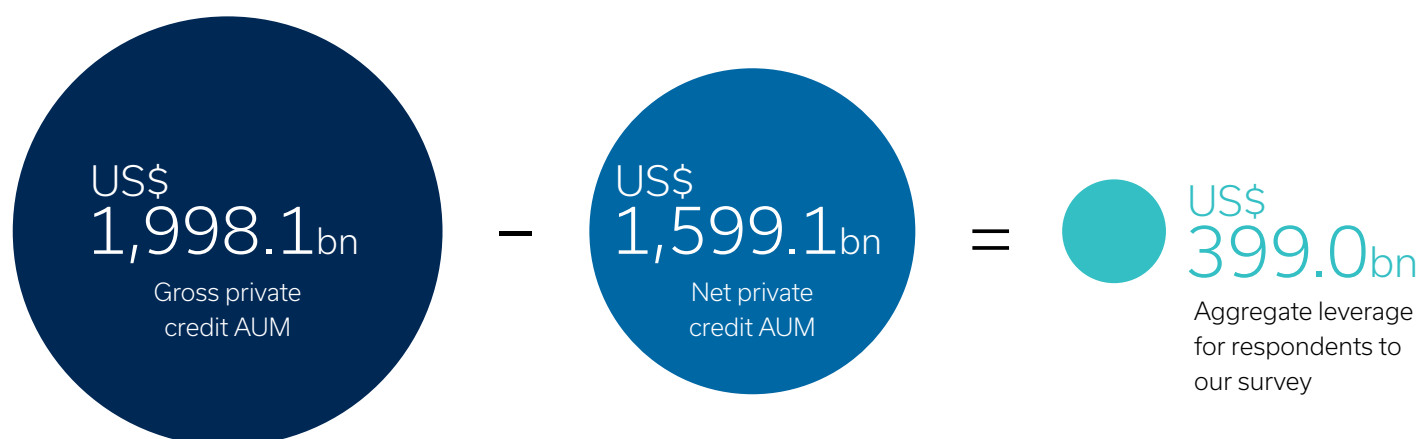


Use of leverage remains modest and in line with historical trends

Our data indicates that the overall use of leverage by private credit funds remains modest and stable. Comparing the aggregate Net and Gross AUM data of respondents, we estimate that these funds employ US\$399bn of leverage to support their investment strategy. This suggests an aggregate leverage level for the sector of 25% (figure 21).

FIGURE 21

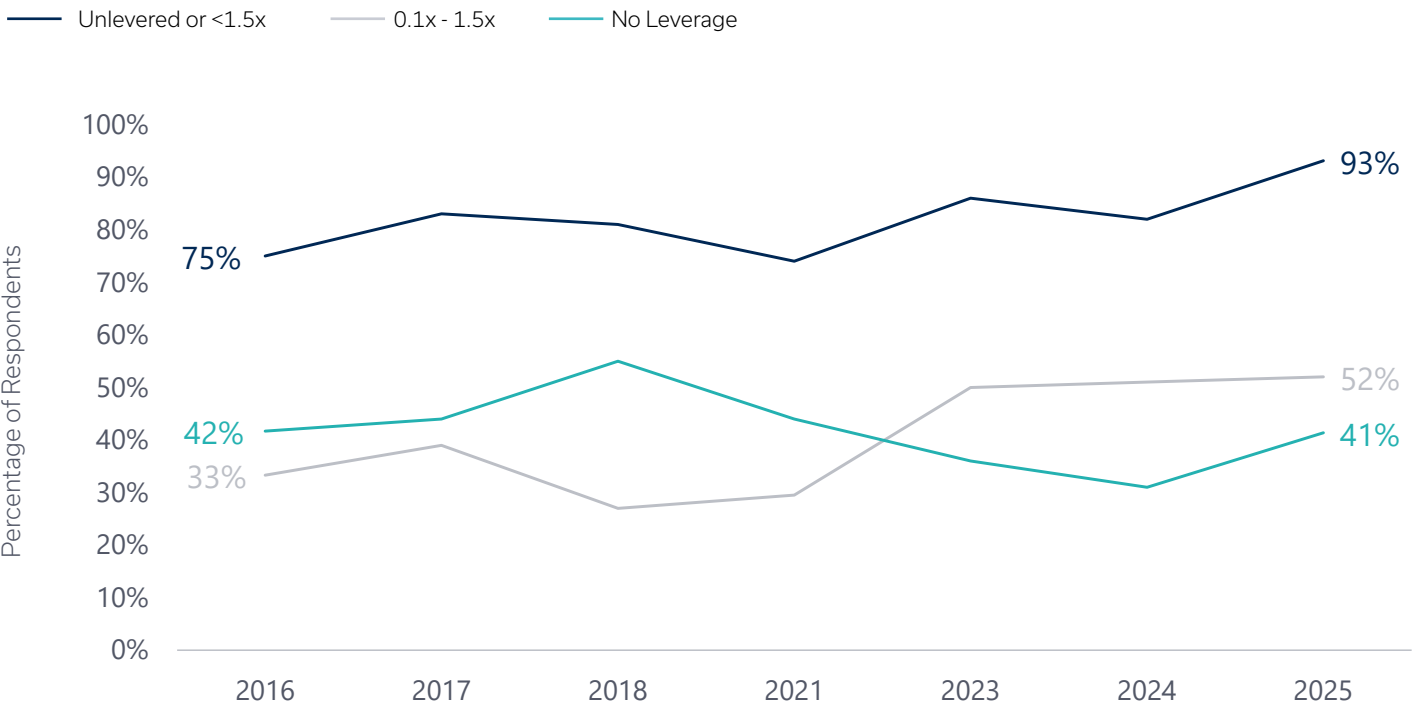
Deployed capital plus dry powder but excluding leverage = US\$2.02 trillion.



Our data indicates a similar trend of stable leverage at the level of individual funds. The average balance sheet leverage (measured as debt over NAV) of the flagship corporate funds surveyed was 35% or 62% on a weighted basis. 41% of respondents' flagship corporate lending funds operate on an unlevered basis with 93% operating on debt/NAV less than 1.5x. This data is broadly consistent with the findings of this research over the past 10 years (figure 22).



FIGURE 22
Leverage of flagship funds (Debt/NAV)



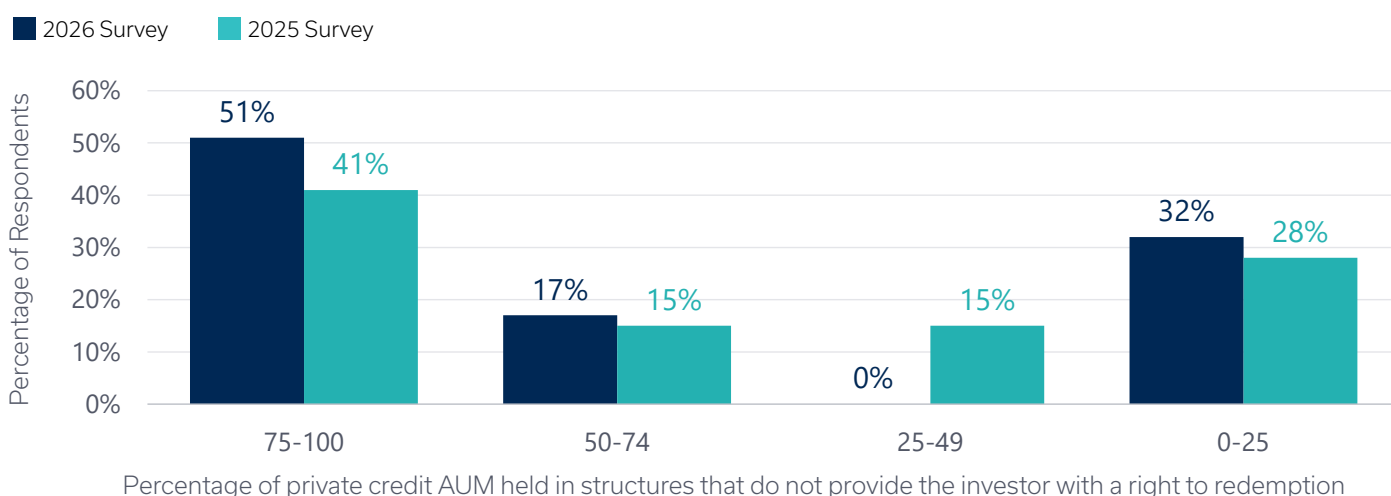
This data is consistent with other data on the use of leverage facilities. Moody's estimated US bank exposure to private credit at US\$300 billion in 2025²¹ while other estimates cited by the FSB reports credit exposure of banks (including both leverage facilities and subscription lines) to private credit funds are in the range of US\$270–500 billion, or less than 0.5% of member banks' assets.²² The US Office of Financial Research also found that "bank loans to private credit entities generally exhibit favorable risk characteristics compared to other commercial lending". While banks are not the only lenders to private credit funds, they remain the most common provider of finance facilities.

Private Credit Funds Span the Liquidity Spectrum

Our survey data indicates that the majority of private credit committed capital continues to be held in fund structures that do not provide the investor with redemption rights (figure 23). At the same time, we also see dispersion in the share of assets held in structures which do not provide the investor with redemption rights across our respondent base. This illustrates persistent investor demand across both institutional and retail capital for products and strategies that provide some form of liquidity as an alternative to the closed-ended fixed-maturity vehicles that investors have typically used to invest in private credit.

FIGURE 23

Proportion of private credit AUM held in structures that do not provide the investor with a right to redemption



Putting redemptions into perspective

The latter part of 2025 and first half of 2026 saw an increase in redemption requests at some private credit funds such as BDCs and interval funds. In some instances, the aggregate redemption requests exceeded the redemption gates of the funds. This resulted in some redemption requests only being partially met and the remainder being deferred until the next redemption window. Some of the concerns driving redemption requests appear to have abated, with redemption requests in non-traded vehicles slowing and discounts to net asset value in the listed market narrowing. This period contrasts with previous years where such funds saw continued net aggregate inflows and generally benefited from positive investor sentiment (figures 24 and 25).

FIGURE 24
Net fundraising of BDCs (US\$bn)²³

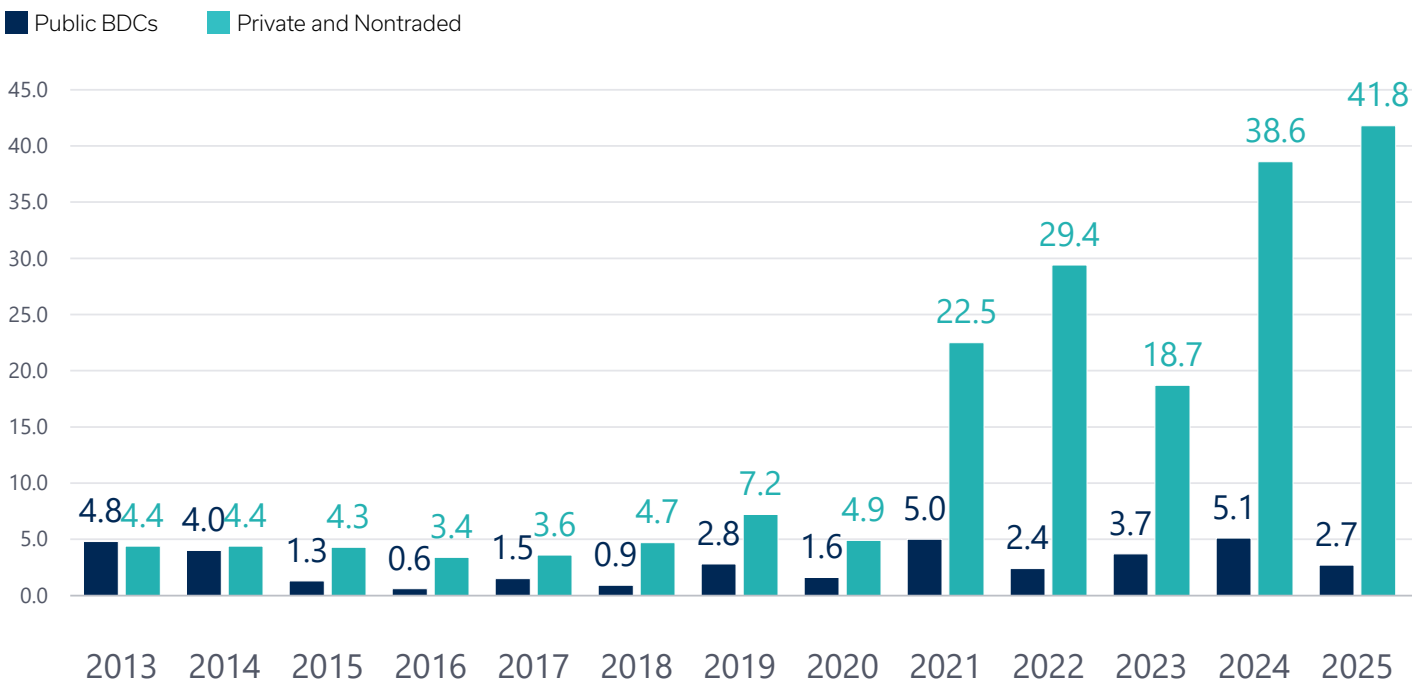


FIGURE 25

Non-listed BDCs Quarterly Capital Flows²⁴

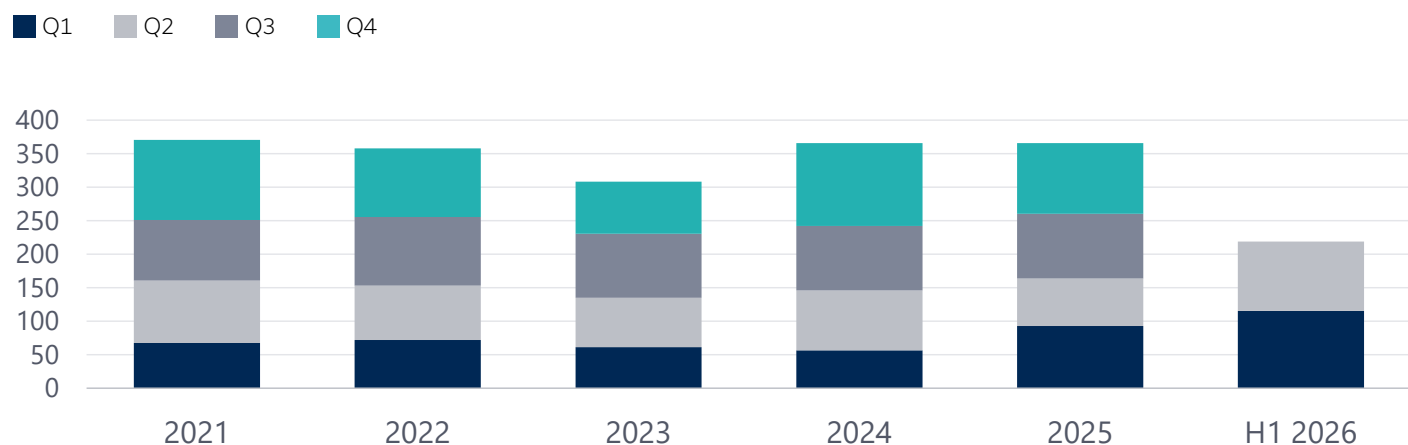
Non-Listed BDCs – Quarterly Capital Flows (\$mm)

	2025				2026	
	1Q	2Q	3Q	4Q	1Q	2Q
Fundraise (excl. DRIP)	\$12,193	\$11,272	\$11,586	\$9,316	\$5,059	\$2,048
Redemptions	(1,303)	(2,496)	(2,010)	(5,735)	(6,821)	(5,851)
Net Flows	\$10,891	\$8,776	\$9,576	\$3,581	(\$1,762)	(\$3,803)

These redemptions have been subject to substantial interest and scrutiny through the first half of 2026 but only provide a partial account of how the asset class has fared during the past year. At the broader market level, private credit has continued to grow as an asset class. This can be seen in recent data (figure 26) which shows that fundraising for private credit in the first half of 2026 was stronger than in the previous five years – driven primarily by ongoing interest from institutional investors.

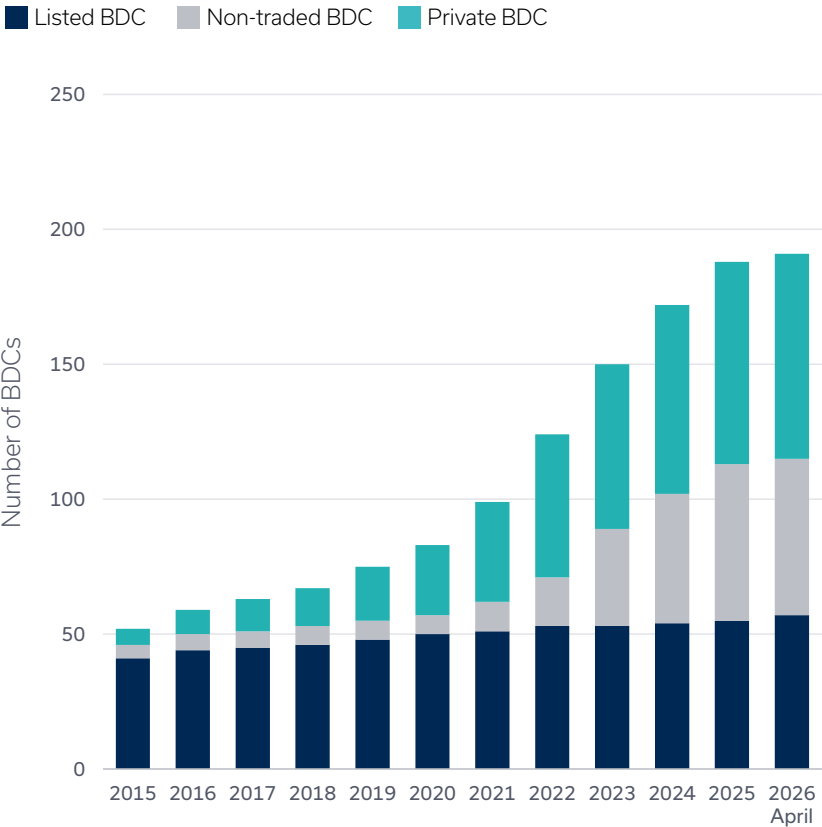
FIGURE 26

Private Credit fundraising (US\$bn)²⁵



While BDCs have grown rapidly in recent years to reach an estimated \$500 billion in gross asset value in 2026 (figure 27), this accounts for ~12% of the overall market based on our estimates.²⁶ ACC and other market data also do not show a pronounced or broad deterioration in credit quality for BDCs despite concerns about credit risk often being cited as a key factor influencing investor redemptions.

FIGURE 27
Gross BDC asset value by type²⁷



Listed BDC: publicly traded on a stock exchange – typically NASDAQ or NYSE.
Non-traded BDC: publicly listed and are sold through a continuous public offering to retail or institutional investors. Private BDC: Not publicly listed and raise capital through private placements, typically limited to institutional and qualified investors.

In terms of funds that have been subject to increased redemption requests, these funds have acted in accordance with the liquidity terms as set out in the fund documentation. Gating mechanisms and other liquidity management tools are a structural feature of the fund designed to protect against forced asset sales during times of heightened redemption requests and balance the interests of remaining and redeeming investors.

Many interviewees cited investor sentiment around credit risk as a key factor driving redemption requests. Exposure to software and other sectors vulnerable to AI disruption, as well as potential credit risk following high-profile defaults, were common drivers of investor behaviour even in instances where this did not correspond to the composition or performance of the portfolio.

When reflecting on this period, interviewees noted that this served as a reminder that investor sentiment can always move faster than underlying portfolio fundamentals, and that strong underlying assets do not remove the need to manage liability-side risk. On the investor-side, this period has therefore reinforced the importance of effective and timely communication on liquidity, portfolio performance and valuation practices. Several also suggested that in the longer-term, this may be regarded as a useful test of fund design and manager resilience, one that will help investors and policymakers distinguish between temporary market anxiety and genuine deterioration in underlying credit quality.



“

Retail is currently less than 5% of the European private credit market. Our product is marketed as long-term savings, not as an alternative to fixed income, and we have not seen redemptions. The US absorbed roughly \$350 billion of retail capital in about five years, creating deployment pressure and software concentration that Europe has not experienced.

Symon Drake-Brockman

*Co-Founder and Managing Partner,
Pemberton Asset Management*

“

Private ABL assets cannot credibly offer unconditional liquidity. The market is moving toward quarterly limits subject to liquidity, and in some cases more managed terms, so that the structure better matches the assets. Once one fund limits redemptions, demand can cascade to the next manager; proactive liquidity management is a feature designed to protect investors from exactly that scenario.

Alex Preobrazenski

CFA, Chief Investment Officer, Cortland Credit

“

The wealth channel has faced a sentiment challenge, especially offshore in parts of Asia, but the asset class is performing as it should. Investors have had access to 5% quarterly liquidity alongside cash distributions. This period will re-underwrite how managers have handled risk, reveal winners and losers, and ultimately create the conditions for the market to grow on the other side.

Earl Hunt

Partner, Credit and Chairman and CEO of Apollo Debt Solutions, Apollo

“

Illiquidity is real. You cannot earn an illiquidity premium from a fully liquid product. These vehicles can provide liquidity, but it is not guaranteed, and investors should not commit capital they may need in a sell-off. They belong in individual portfolios only when clients understand that trade-off and wealth managers advise them accordingly.

Mike Carruthers

*Senior Managing Director and European Head of Private Credit,
Blackstone Credit & Insurance*

“

Private credit needs more consistent measures of loss and liquidity risk. A loss ratio calculated against rapidly growing NAV can look artificially low, while an interval fund's liquidity sleeve can be exhausted before private loans repay, especially when maturities extend. Investors need to understand the assumptions behind the numbers and the mechanics supporting the promise of liquidity.

Daniel Leger

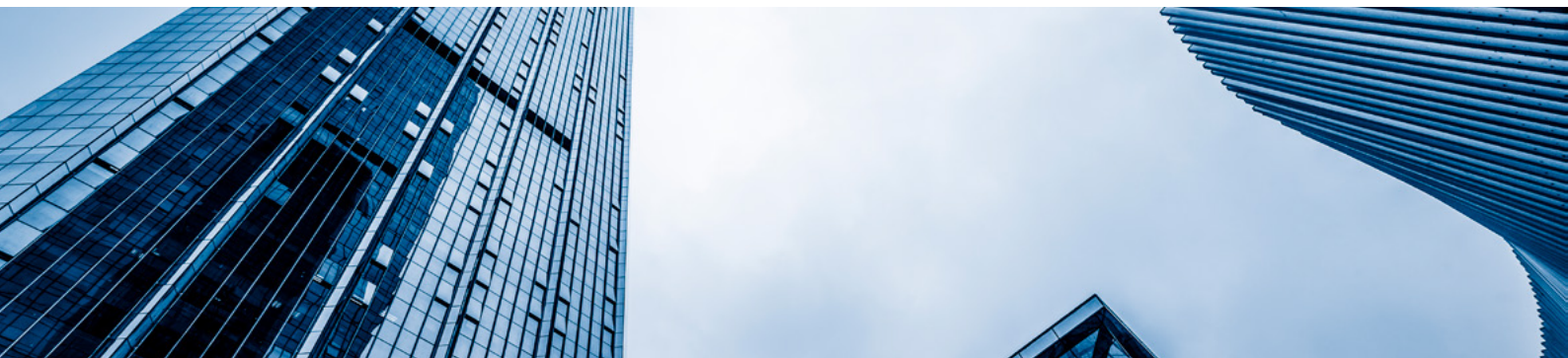
*Senior Managing Director, Head of
Investor Relations and Marketing,
Metropolitan Partners Group*

“

These vehicles were always designed to be semi-liquid, not liquid. The gate is doing what it should: protecting investors who want to keep their capital invested for longer. In Europe, we are still seeing net inflows month by month, and the redemptions we have had are tied to investor-specific liquidity needs rather than concern about underlying credit quality or performance.

Michael Dennis

*Partner and Co-Head of European
Credit, Ares Management*



“

Private credit is often discussed with too broad a brush. Much of the current redemption pressure appears to be concentrated in retail vehicles, while institutional investors—the historic backbone of the asset class—continue to deploy and, in some cases, upsize. In the core middle market, we have not seen the same supply-demand pressures, with fewer instances of managers needing to sell assets or draw revolvers to meet liquidity requests.

Zeshan Ashfaque

*Senior Managing Director and Senior Credit Officer,
US Direct Lending, Man Group*

“

No matter what wrapper you put around a private credit product, the underlying investments are illiquid. Investors need to understand the risks, absorb that illiquidity and invest over many years for diversification. Private credit should be a permanent part of an allocation; you cannot time this market. If you need to change your mind and sell, use the liquid markets.

Brian Spenner

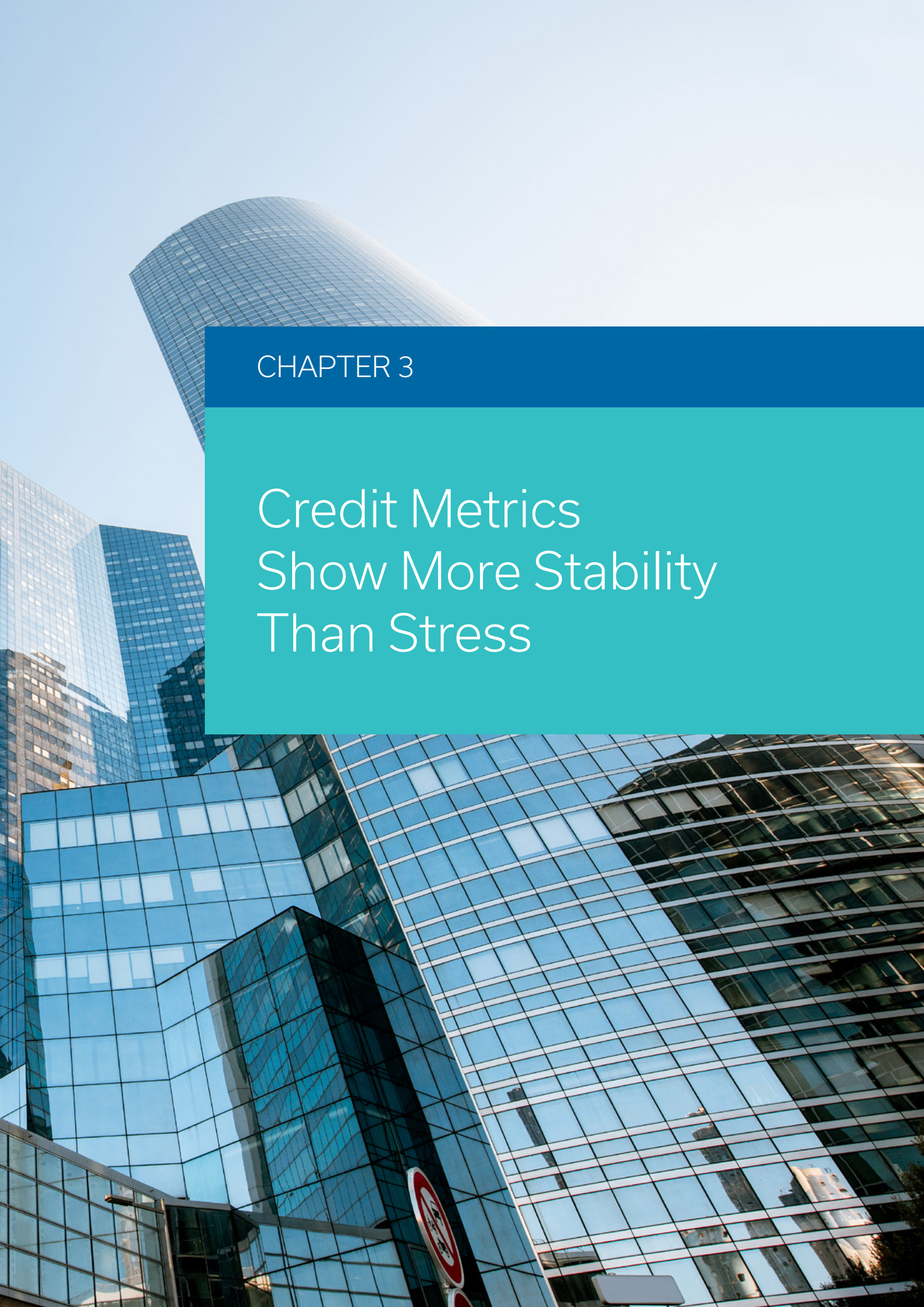
Head of North American Credit, ICG

“

For us, structuring discipline matters more than trying to predict every geopolitical shock. A full-dominion revolver is backed by self-liquidating collateral: with blocked accounts and weekly cash reconciliation, you can reduce the balance toward zero as risk emerges. That ability to control exposure is a fundamental difference between ABL and term lending.

Alex Preobrazenski

*CFA, Chief Investment
Officer, Cortland Credit*



CHAPTER 3

Credit Metrics Show More Stability Than Stress

Key Takeaways



Underlying borrower performance remains generally positive. Houlihan Lokey data shows EBITDA growth has generally outpaced revenue growth over the past two years.



Loan-to-value ratios remain generally conservative, although we observe dispersion across the market. 71% of respondents reported LTV ratios between 35% and 55% for their flagship corporate lending funds, while the data also shows an increase in the proportion of funds reporting LTV ratios above 70%.



Reported borrower leverage is broadly stable. The average borrower net debt/EBITDA ratio reported for the flagship funds of the firms surveyed was 4.8x versus 4.9x reported in the 2025 edition of this research. Two-thirds of respondents reported that the ratio was between 4.0x and 6.9x.



Reported Interest Coverage Ratios (ICR) across our respondents were stronger than those reported last year, with 76% of funds reporting an ICR of 2x or higher, compared to 55% in 2025.



Credit stress remains concentrated rather than broad. 79% of funds surveyed reported non-accrual rates of 2.5% of net asset value or lower. 17% reported rates above 5%, illustrating continued dispersion between portfolios and market segments.



Loan amendments remain an important tool for managing stressed exposures. On average, respondents reported that 10.6% of loans in their portfolio had been subject to a significant amendment, down from 11.65% reported in 2024.



Approximately two-thirds of loans in our survey were to companies with EBITDA below US\$100 million, which highlights the reliance on private credit funding in the SME market. Only 1% of loans were to borrowers with EBITDA above \$1 billion.

Revenue and earnings growth remain strong

Middle market borrowers generally continue to report solid revenues and earnings growth. KBRA reports that for the 2,785 middle market borrowers that it tracks, average quarterly revenues growth was 12% in the LTM to Q2 2026. As well as strong borrower performance, this growth may also reflect some rotation by fund managers of their exposure away from struggling companies or sectors.²⁸

The rotation is a reflection of how macro factors such as higher energy prices and tariffs are influencing investment decisions – for example, with services companies being seen as less exposed than consumer goods producers to the trends mentioned above.

Houlihan Lokey data also shows EBITDA growth generally outpacing revenues growth over the past two years. This implies that there are improving margins across portfolio companies or that the portfolio company mix is having a positive impact on this metric (figures 28 and 29).

FIGURE 28
Median revenue growth yoy²⁹

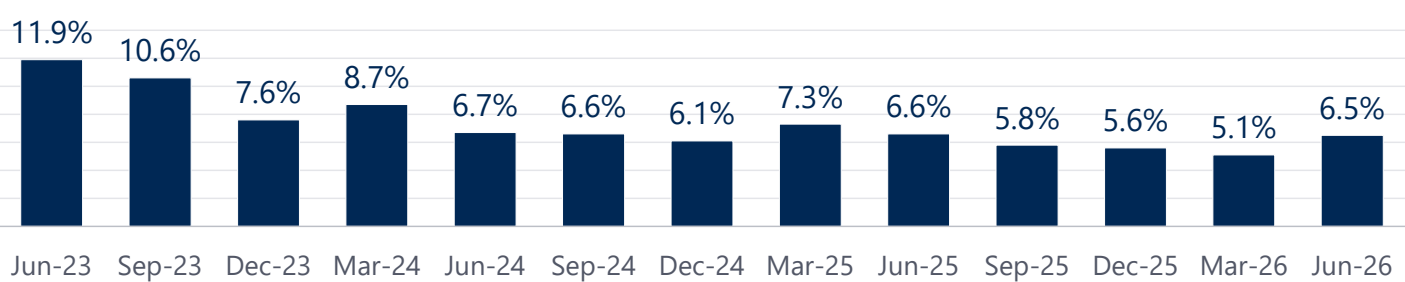
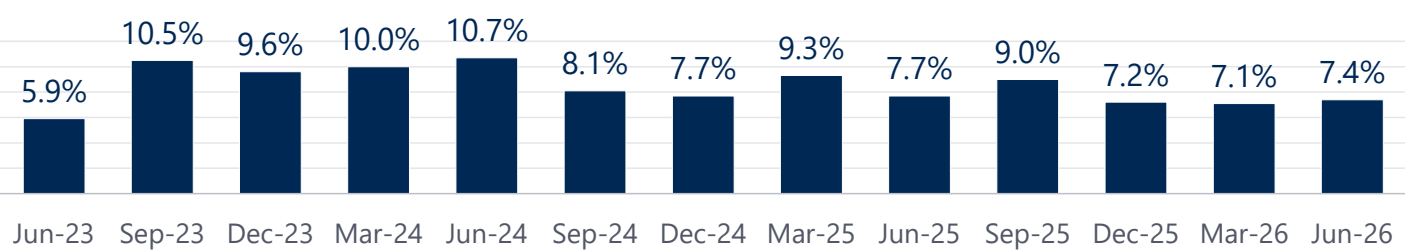


FIGURE 29
Median EBITDA growth yoy³⁰

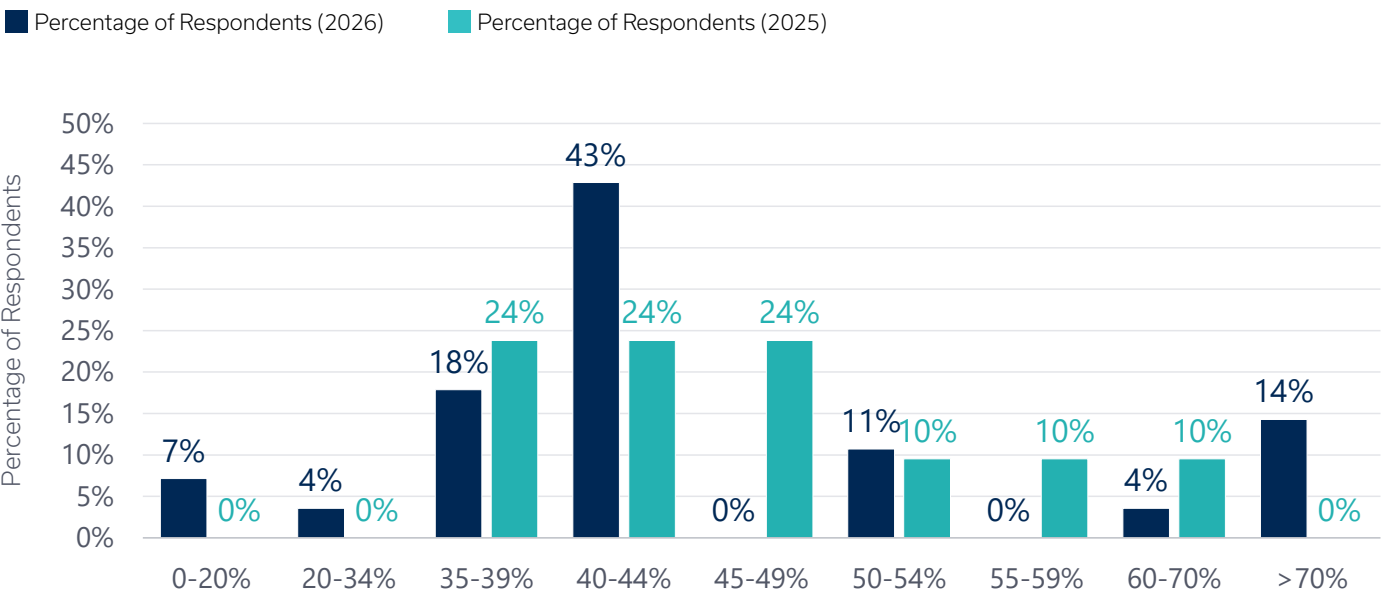


“ Private credit sentiment has been negative, particularly in the wealth channel, but the fundamentals have been disconnected from that sentiment. As of June 2026, borrowers across our direct lending platform have continued to perform well, with portfolio company EBITDA up in the mid-to-high single digits on average year-over-year. The first-quarter markdowns reflected modest spread widening, not a significant deterioration in underlying credit.

Patrick Linnemann
Senior Managing Director, Blue Owl

We asked survey respondents for the LTV metrics of their largest or flagship corporate funds. 71% of respondents reported LTV ratios between 35-55% (figure 30). Comparing this to our 2025 data suggests that overall LTV ratios have trended down, while at the same time we observe a notable increase in funds reporting LTV ratios above 70%. While the dispersion in LTV ratios will in part be a reflection of different lending strategies or our survey population, this may also reflect differing underwriting practices.

FIGURE 30
LTV ratios for largest flagship corporate lending credit funds



Percentages may not sum to 100% due to rounding.



Key lenders to the middle market

Our survey respondents indicated that their borrower base for corporate loans is predominantly middle market. Two-thirds of loans were to companies with EBITDA below US\$100mn, and 5% of loans were to companies with EBITDA of US\$500mn or higher (figure 31). This is consistent with Proskauer data, which provides further insight on the differences within borrower cohorts in the US and Europe (figure 32).

FIGURE 31
Breakdown of largest or flagship corporate lending funds by borrower size (EBITDA US\$mn)
Percentages are based on the number of loans.

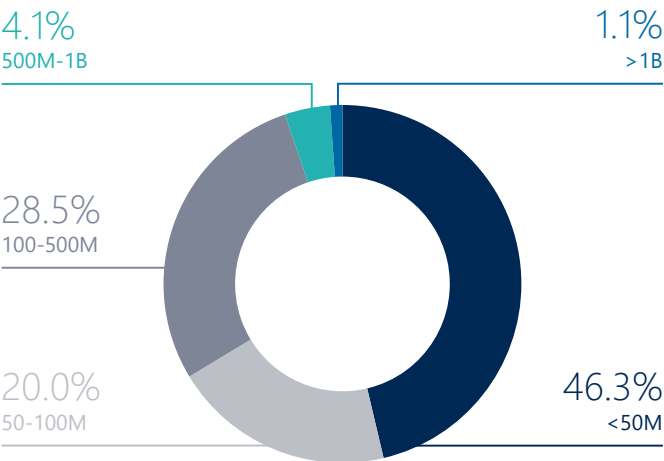
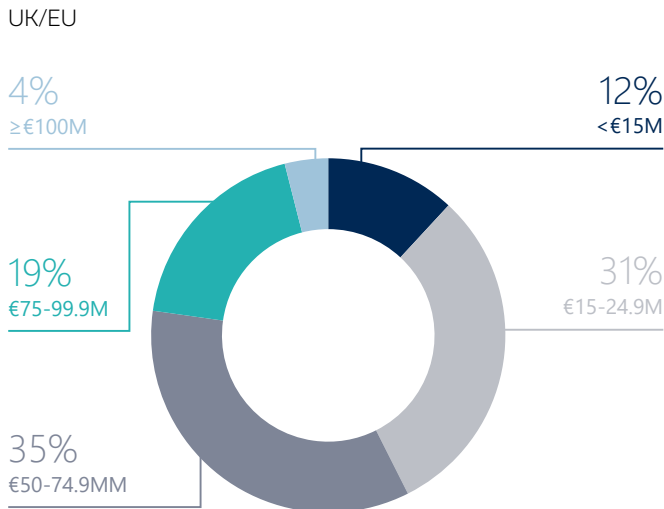
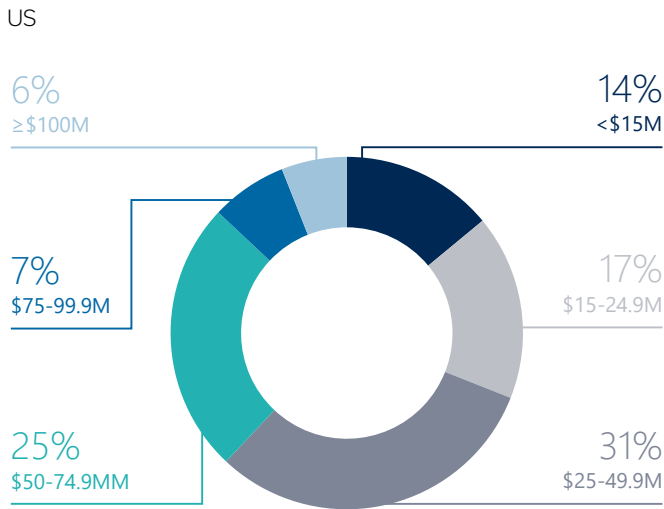


FIGURE 32
Average EBITDA of borrowers in lenders' portfolios³¹



Percentages may not sum to 100% due to rounding.

“

Our origination pipeline has been extremely strong and high quality, to the point that we are capital constrained. In Canada, banks can be on and off, particularly when tariff uncertainty makes highly levered regulated lenders pull back. That creates room for non-bank lenders to provide growth-oriented working-capital solutions in lower middle market ABL.

Alex Preobrazenski

Chief Investment Officer, Cortland Credit

“

The barriers to entry in the non-sponsored segment of the market are sourcing and old-school underwriting. You have to find the right businesses, craft lender-friendly documents and build trust with owner-operators who want to know what they owe, how much they can invest and whether you will be there if things go sideways. That is very different from competing with sponsors on price, leverage and covenants.

Daniel Leger

Senior Managing Director, Head of Investor Relations and Marketing, Metropolitan Partners Group

“

Valuations have become a hot topic, particularly after cases where positions were held at par one month and severely underwater the next. As fund structures evolve and retail participation grows, pressure for independent third-party valuation will increase. Our approach is conservative and systematic: scrutiny is applied across the portfolio, rather than relying on a small sample or primarily on manager marks.

Joss Trout

*Senior Advisor, Private Debt
Tikehau Capital*

“

In Europe, the renewed focus after the tariff shock has faded somewhat. Asian investors have shown more interest, but largely as a rebalancing from portfolios that were heavily skewed toward the US, not as an abandonment of America. Deal flow has progressed more softly than the volume of available capital suggested, even though activity became very strong over the summer.

Cécile Mayer-Lévi

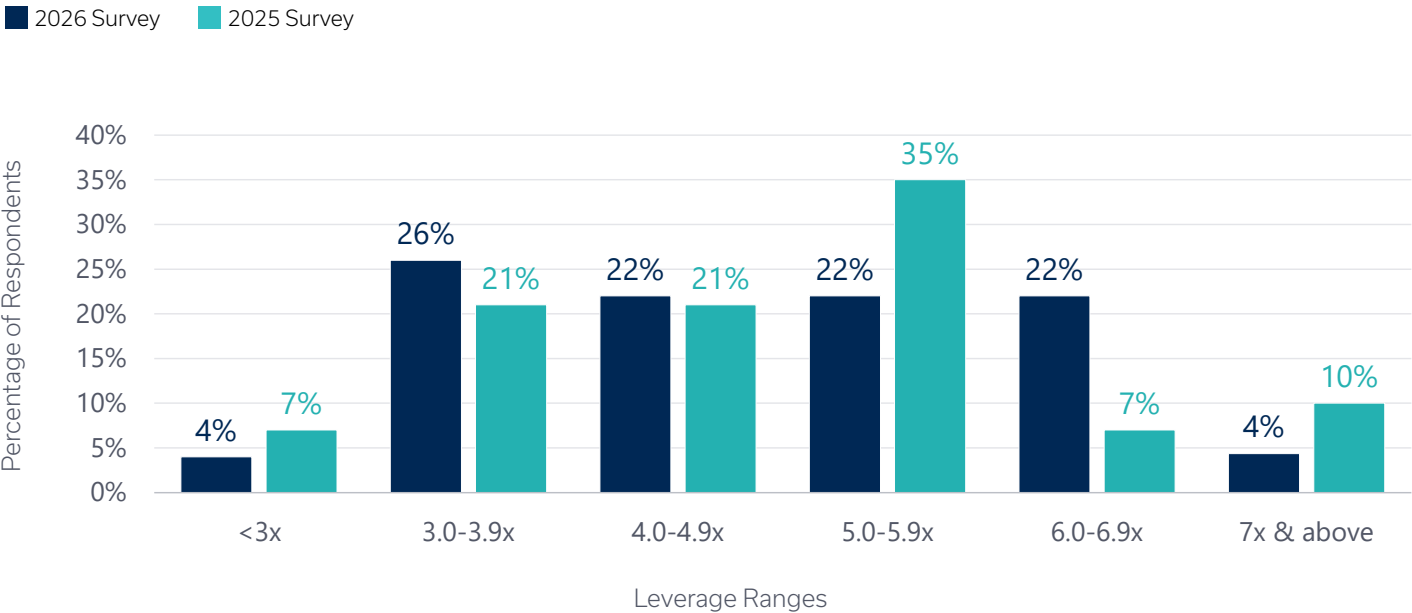
Co-Head of Credit and Head of Private Debt, Tikehau Capital

Borrower leverage levels broadly stable but with some market dispersion

The average borrower net debt/EBITDA ratio reported for the flagship funds of the firms surveyed was 4.8x versus the 4.9x reported in the 2025 edition of this research. While the data is not fully comparable due to changes in our sample of respondents, we continue to observe market dispersion. 65% of respondents report net debt/EBITDA ratios between 4-6.9x, with 4% reporting ratios below 3x. The sample of respondents reporting 7x or above, which may encompass companies under credit stress, dropped from 10% to 4% (figure 33).

Reported interest coverage ratios across our respondents were also stronger than last year, with 76% of respondents reporting ratios of 2x or higher compared to 55% in 2025 (figure 34). This aggregate improvement may be a reflection of trends relating to borrower earnings growth and portfolio rotation discussed in earlier chapters.

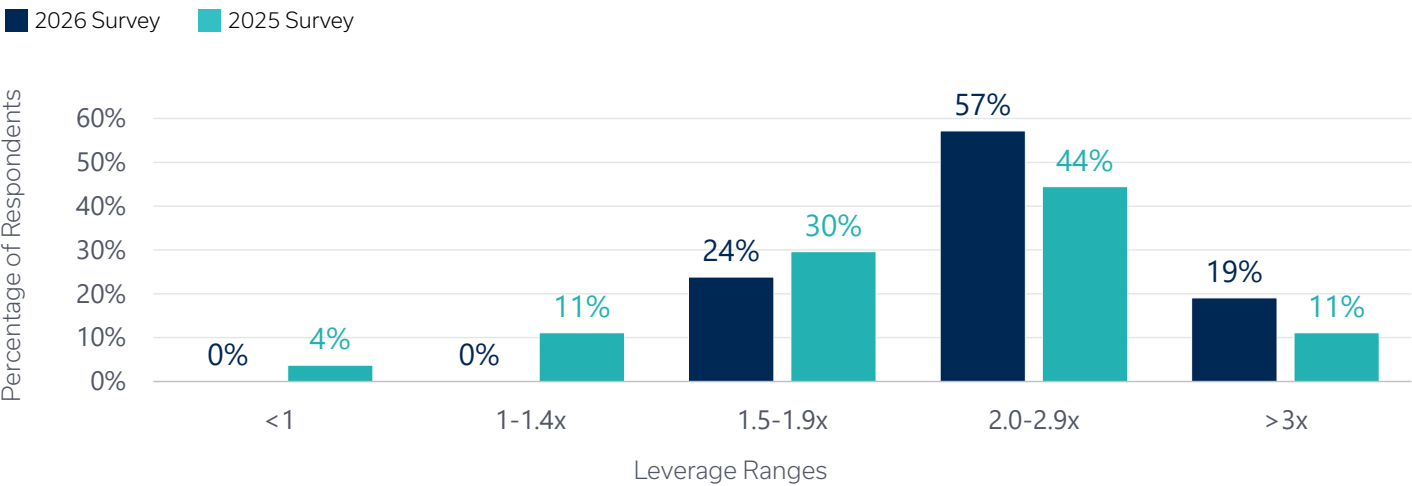
FIGURE 33
Average total net debt to EBITDA multiple of the borrowers in largest or flagship corporate lending private credit fund



Percentages may not sum to 100% due to rounding.



FIGURE 34
Weighted average Interest Coverage Ratio (ICR) across corporate lending portfolios



Percentages may not sum to 100% due to rounding.

When considering these, and other portfolio metrics, investors continue to scrutinise how they are calculated as much as the headline number. EBITDA adjustments are common practice in all credit markets, and ICR calculations may not be directly comparable across businesses and sectors. KBRA states that the aggregate gross leverage, as adjusted, of its middle-market portfolio is above 6x, and about three-quarters of its middle-market assessments are clearly in the single-B category (figures 35 and 36). The manner and basis for any reported measures continues to be a key matter for investors looking to understand potential risks, as well as compare managers or markets on a consistent basis.

FIGURE 35
Surveillance assessment score distribution³²

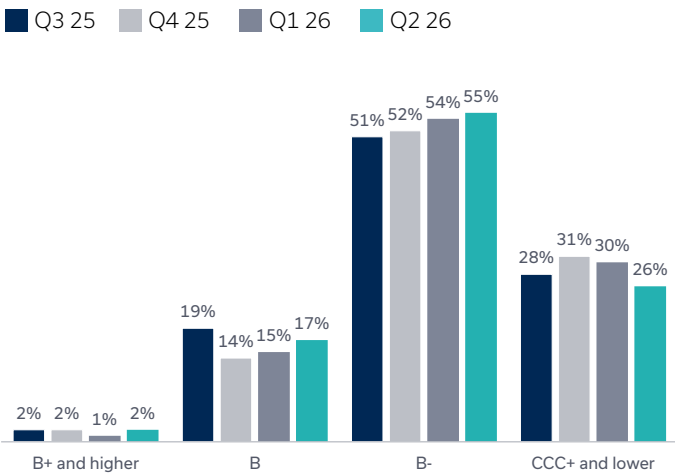
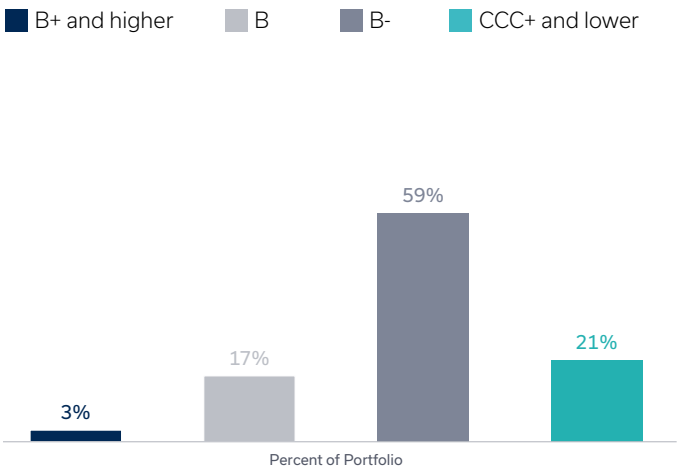


FIGURE 36
Distribution of >7,500 private credit assessments prior to 2025³³

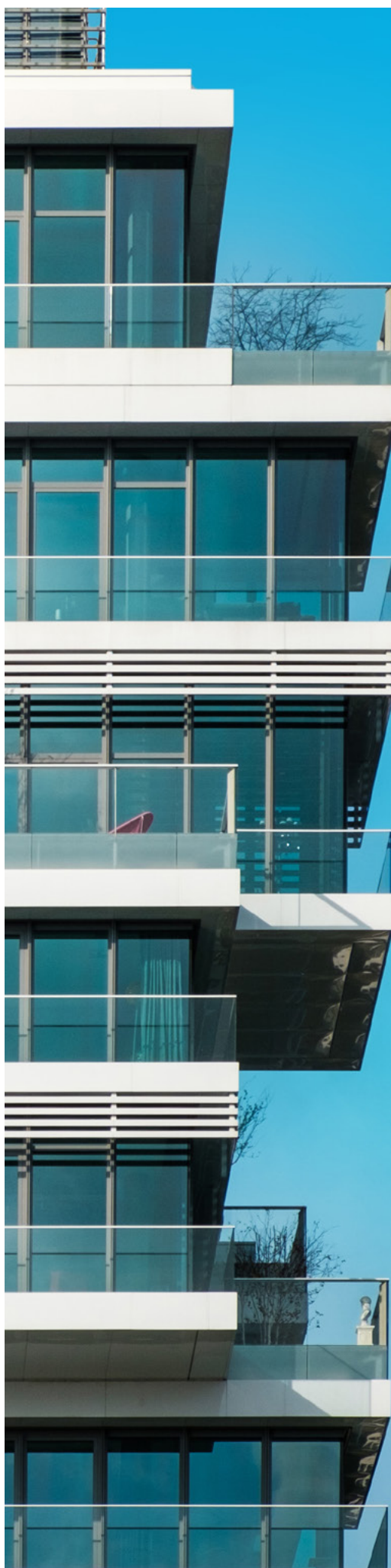


“ The market mostly talks about interest coverage based on EBITDA, but lending is about cash flow. If you start with adjusted EBITDA, you can derive a coverage ratio that doesn't really reflect the credit fundamentals of the borrower. On a true cash basis, many second- and third-quartile credits are becoming more levered whilst headline multiples appear unchanged.

Michael Small
Partner, KKR

“ Software is still financeable, but on a much more differentiated basis that distinguishes between commodity products - such as interface and workflow-layer software - and specialist providers that can bring proprietary tools and IP to deep and complex data platforms. It must address how productivity gains are likely to be shared and therefore the ability of software companies to defend historical EBITDA. Lenders will need to calibrate lending terms closely to the quality of key factors that determine success.

Joss Trout
*Senior Advisor, Private Debt,
Tikehau Capital*



Examining credit risk and portfolio stress

We see some consistent trends year over year when looking at non-accrual rates across our survey population. 79% of respondents stated that their flagship corporate lending funds had a non-accrual rate of 2.5% of net asset value or lower, while 17% of funds reported a rate over 5% (figure 37).

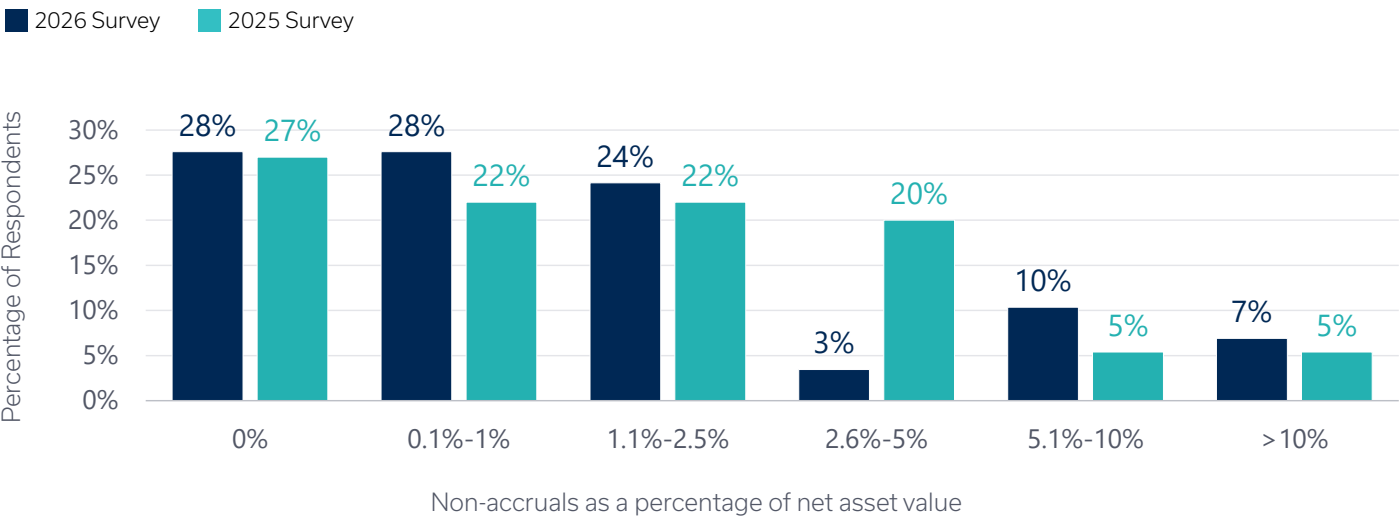
As with other data, this suggests some general improvement in loan portfolio credit quality for the sector generally alongside segments of more pronounced credit risk. Houlihan Lokey data provides some additional insights on how this trend applies across different economic sectors. The highest default rates are observed in the healthcare sector (figure 38), a trend corroborated by Fitch³⁴ and S&P³⁵.



79%
of funds reported
non-accruals at
2.5%
or below

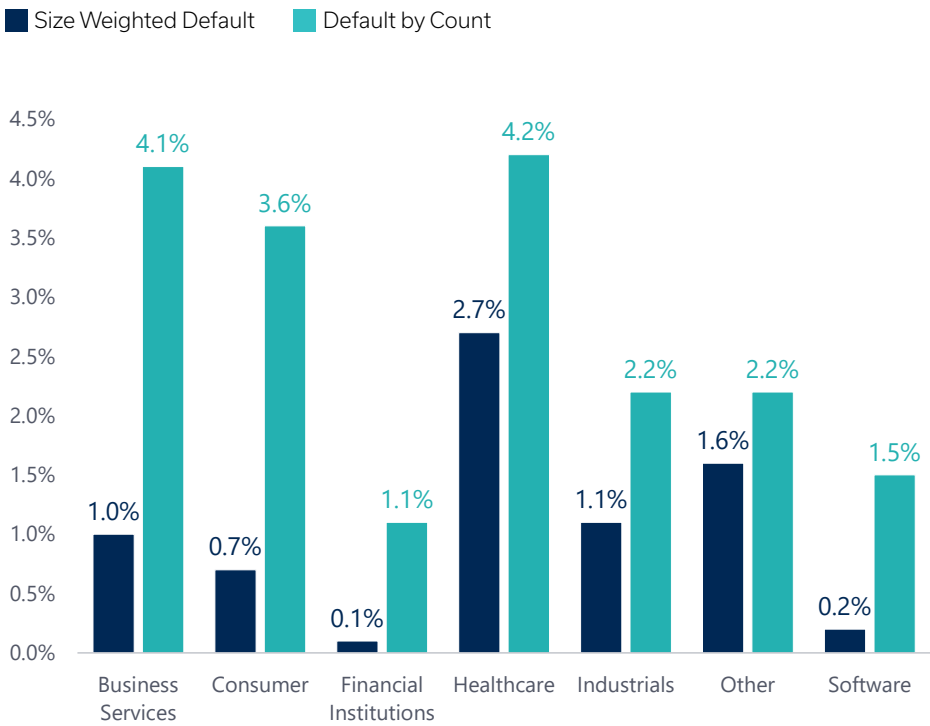
FIGURE 37

Proportion of corporate lending portfolio that is currently non-performing (on a non-accrual basis)



Percentages may not sum to 100% due to rounding.

FIGURE 38
Default rate by industry³⁶
For the Quarter Ended 6/30/26

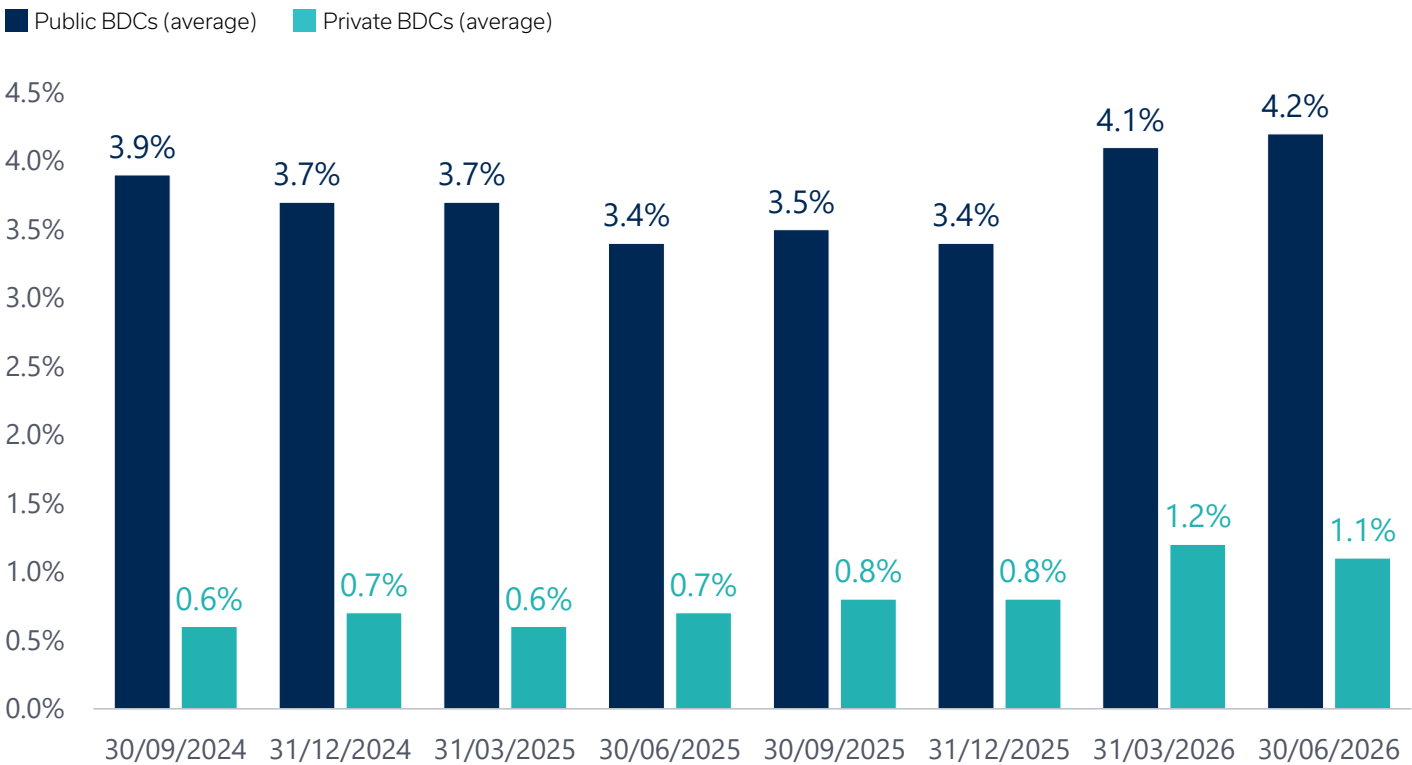


This data is also broadly consistent with that which is reported by BDCs. Morningstar states that the average non-accrual rate for the BDCs it tracks was at 3.4% at cost as of June 2026 versus 3.1% in Q4 2025.³⁷ Raymond James reports non-accruals for listed BDCs at 4.2% at cost as of June 2026, a figure that has risen somewhat in recent quarters and remains significantly higher than the 1.1% that it reports for private BDCs (figure 39).



FIGURE 39³⁸

BDC non-accruals as % of cost



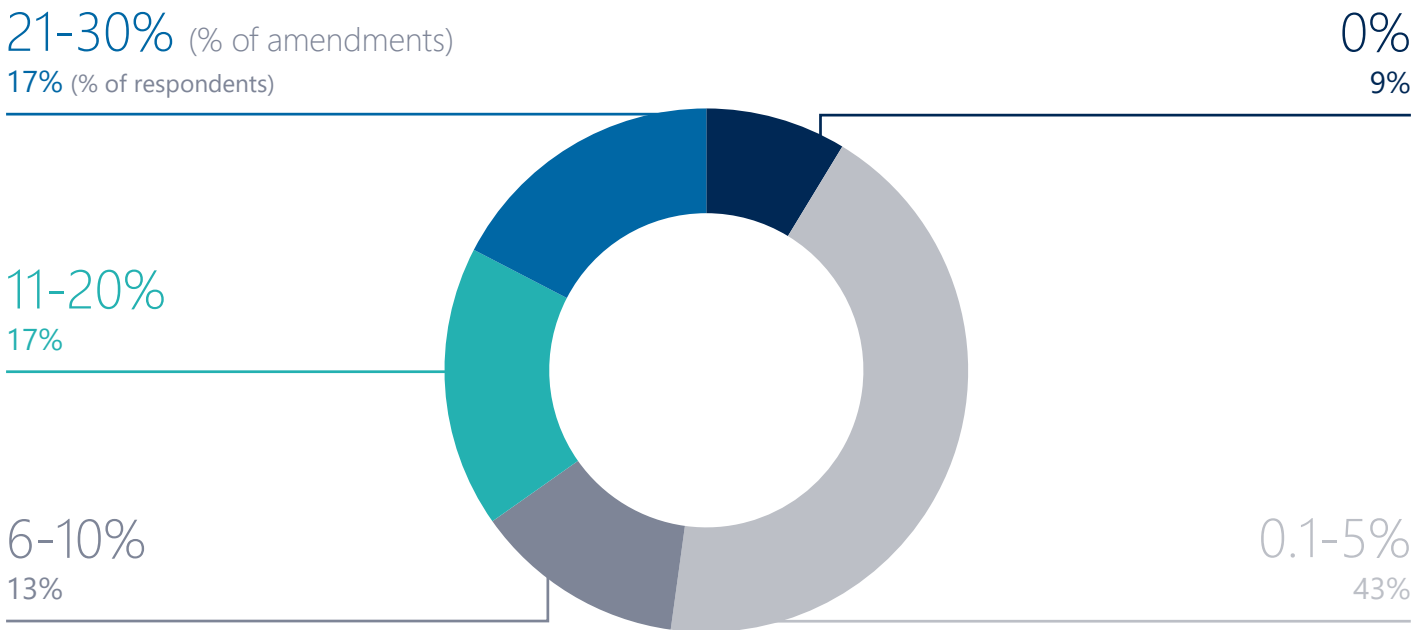
Loan adjustments indicate active management of stressed exposures

Loan amendments are a common tool for private credit lenders to manage their credit risk but can be an indicator of stress at both the loan and portfolio levels. Our survey asked respondents to state the percentage of loans in their portfolio that have been subject to significant loan adjustments such as payment holidays, maturity amendments, financial covenant amendments (including testing holidays) or PIK amendments, where cash interest was converted into non-cash payments that required an amendment to the original terms of the loan.

On average, our respondents report that 10.6% of loans in their portfolios were subject to a significant amendment, albeit with a high level of dispersion (figure 40). This is lower than the average of 11.65% we estimated in 2024, but slightly higher than the 8.07% estimated in 2023. This level of loan adjustments corresponds with other metrics that suggest credit stress is contained around certain borrowers or market segments, rather than widespread or at significantly elevated levels across the market.



FIGURE 40
Percentage of corporate loan portfolio that has seen a significant amendment to the original terms of the loan



Percentages may not sum to 100% due to rounding.

Investors typically seek additional information on the circumstances that gave rise to loan amendments, as well as the rationale underpinning the lenders’ approach on how to amend the loan, when assessing any headline data points.

For example, the resetting of financial covenants can be a form of proactive management where the original covenants were too stringent or to allow more flexibility for acquisitions. It can also be a response to earnings stress that reflects broader deterioration in credit quality. Similarly, some loan documents are designed to permit the conversion of cash interest to PIK during the life of the loan, whereas other instances of PIK may be added at a later date in response to stressed earnings.

Our interviewees highlighted that the use of PIK and other loan adjustments continues to be a heavily watched measure in the market. Such metrics can and do change over the life of the loan or loan portfolio and are not a direct proxy for potential loss rates. The impact on performance – whether reduction in expected returns or some loss of capital – of any loans subject to amendments varies significantly across loans and lenders. The impact will depend on factors such as the economic viability of the borrower, its broader financial position, the capabilities of the lender as well as the ranking of the loan relative to other debt or non-debt liabilities. Investors in private credit benefit from significant transparency – receiving loan level data and having direct access to lending teams – which supports their ability to make that assessment and look beyond headline numbers.

“

Many deals completed in 2021 and 2022 at zero interest rates are now approaching maturity. Some sponsors are adding equity or funding acquisitions; others are pursuing amend-and-extends or junior capital. The crucial question is whether a transaction actually fixes the balance sheet. A band-aid that adds debt and cost only delays the inevitable.

Brian Spenner

Head of North American Credit, ICG

“

The current stress is highly vintage-specific. Roughly 70% of lender takeovers are coming from 2021 and 2022 transactions, when purchase multiples were unsustainable and rates were low. Sponsors have supported many of those businesses, but the maturities now have to be worked through. That does not mean every foreclosure becomes a lender loss; the first-dollar debt still has meaningful equity beneath it.

Kevin Marchetti

Chief Investment Officer and Head of US Direct Lending, Man Group

“

Recent failures have not caused lenders to abandon ABL, but they have forced the market to reassess underwriting and fill gaps in initial and ongoing diligence. When you lend against receivables and invoices, fraud is a specific risk: rigorous field exams and manual verification are essential, and a solid structure can create opportunity when others pause.

Alex Preobrazenski

*CFA, Chief Investment Officer,
Cortland Credit*

“PIK in itself is not bad, but it should be used judiciously. PIK created through an amendment could be a forward-looking warning that the borrower is struggling to service cash interest. In Credit, you have to manage your downside risk: the best outcome may be repayment at 102 or 105, while the downside could be zero. That asymmetry demands disciplined underwriting and highly diversified portfolio construction.

Earl Hunt

Partner, Credit and Chairman and CEO of Apollo Debt Solutions, Apollo

“Private credit documentation has weakened but remains significantly better than its public market analogue. The gap, however, has narrowed. Covenant-lite structures are creeping into the lower middle market, where businesses are often operationally less robust. Even when a maintenance covenant exists, EBITDA adjustments often make it cosmetic.

Michael Small

Partner, KKR



Conclusion

Financing the Economy 2026 is designed to assess the resilience and sustainability of the global private credit market. Continued growth in assets under management, sustained investor demand and the expanding range of financing solutions available to borrowers demonstrates how firmly private credit has established itself within the global financial system. Importantly, our research provides evidence that this expansion is supported by sound fundamentals across multiple measures of market performance and resilience.

For investors, private credit continues to demonstrate its value as a source of attractive and consistent returns. Performance has remained broadly in line with expectations, while returns have proved more durable and less volatile than those of many other private market and public credit alternatives. Combined with relatively low dispersion between managers and the diversification benefits available across different private credit strategies, these characteristics continue to support strong institutional demand and the development of new investor channels.

The underlying resilience of the market is equally important. Modest fund-level leverage, liquidity structures that reflect the characteristics of underlying assets and generally stable credit metrics provide reassurance about the sustainability of market growth. While some portfolios and borrowers are experiencing greater pressure, our research indicates that credit stress remains concentrated rather than widespread. Borrower leverage, interest coverage and loan performance indicators collectively suggest a market demonstrating greater stability than stress.

These findings should not diminish the importance of continued vigilance around underwriting standards, liquidity management and emerging concentrations of risk. However, they provide an important counterpoint to concerns that the growth of private credit is inherently a source of financial instability. Rather, the evidence suggests that the market's continued expansion is supported by durable investor demand, disciplined fund structures and robust underlying assets. As businesses seek increasingly diverse and flexible sources of financing, private credit is well positioned to play an even greater role in supporting investment, economic growth and the financing needs of the real economy.



Endnotes

All quotes included in this report are gathered from one-on-one interviews.

- ¹ NATO, June 2026: [Defence investment and NATO's 5% commitment](#)
- ² Houlihan Lokey Private Credit DataBank
- ³ PitchBook [Private Credit Monitor, July 2026](#)
- ⁴ PitchBook [Private Credit Monitor, July 2026](#)
- ⁵ Federal Reserve, August 2026: [Private Credit and Leveraged Loan Markets: Similarities, Differences, and Substitution](#)
- ⁶ [MSCI Private Capital Benchmarks Summary Q1 2026](#)
- ⁷ Goldman Sachs [Global Investment Research, Private Credit Monitor: The Longer-Term View](#), 13 April 2026
- ⁸ McKinsey & Company [Global Private Credit Markets Report 2026](#)
- ⁹ Preqin
- ¹⁰ ACC, Trends in Private Credit Fund Structuring 2025
- ¹¹ [AIMA and Alternative Credit Council welcome DoL proposed rule on alternative assets in retirement plans](#), March 2026
- ¹² ICI, June 2026: [Quarterly Retirement Market Data, First Quarter 2026](#)
- ¹³ JP Morgan, August 2026: [Powering progress: Financing the infrastructure behind US data center growth](#)
- ¹⁴ McKinsey, August 2026: [The data center balance: How US states can navigate the opportunities and challenges](#)
- ¹⁵ Preqin
- ¹⁶ Houlihan Lokey Summer 2026 BDC Monitor
- ¹⁷ Houlihan Lokey Private Credit DataBank
- ¹⁸ Houlihan Lokey Private Credit DataBank
- ¹⁹ Houlihan Lokey Private Credit DataBank
- ²⁰ KBRA, March 2026: Private Credit: Deep Dive on AI and Software
- ²¹ Moody's, October 2025: [US banks' private credit loan exposure nears \\$300 billion](#)
- ²² Financial Stability Board, Report on Vulnerabilities in Private Credit, 6 May 2026, pp. 10–18, <https://www.fsb.org/uploads/P060526.pdf>
- ²³ Houlihan Lokey Summer 2026 BDC Monitor
- ²⁴ Stanger Report, August 2026: [Non-Listed BDC Fundraising Falls to Lowest Quarterly Level Since 2020](#)
- ²⁵ Private Debt Investor [H1 2026 Fundraising Report](#)
- ²⁶ Preqin, May 2026: [BDCs at \\$500bn: Enhanced Transparency into Private Credit](#)
- ²⁷ Preqin, May 2026: [BDCs at \\$500bn: Enhanced Transparency into Private Credit](#)
- ²⁸ KBRA June 2026: Private Credit: Q2 2026 Middle Market Compendium: EBITDA's Fading Tailwinds
- ²⁹ Houlihan Lokey Private Credit DataBank
- ³⁰ Houlihan Lokey Private Credit DataBank
- ³¹ Proskauer, Trends in Private Credit 2026
- ³² KBRA Q2 2026 middle market compendium
- ³³ KBRA Q2 2026 middle market compendium
- ³⁴ Fitch, June 2026: [Fitch Ratings' U.S. Private Credit Default Rate Remains at Record High 6.0% in May 2026](#)
- ³⁵ S&P, July 2026: [This Week In Credit: Health Care Drives Spike In Defaults](#)
- ³⁶ Houlihan Lokey Private Credit DataBank
- ³⁷ Morningstar, August 2026: [BDC Non-Accruals Remain Manageable Despite Rise in Q2 2026](#)
- ³⁸ Raymond James [BDC quarterly update Q2 2026](#)



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The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US\$2.5 trillion of private credit assets.

The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council.

ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure as well as the trade and receivables business.

The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits.

Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.



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