PitchBook | LCD

Q2 2026 US

Private Credit and Middle Market Quarterly Wrap

Software under scrutiny as private credit market recalibrates

New signals showing the health of the private credit market emerged in the second quarter of 2026, indicating a changed landscape as lenders and investors alike reassessed their exposure to the alternative asset class and once-favored sectors. The war in Iran stymied hopes for a return of M&A and buyout activity that seemed to be taking shape in late 2025. This development compounded existing negativity for private credit in the wake of a rough start to 2026, after the release of Anthropic's Claude Cowork fueled a global sell-off of publicly traded software and IT companies and raised concerns about business models of software-as-a-service companies.

Matt Harvey, head of middle-market direct lending for PGIM's private capital business, said that prior to the US attack on Iran, reduced uncertainty over tariff policy had led to a burst of direct-lending activity, which amounted to "pent-up demand." For PGIM, Q4 2025 was the firm's busiest quarter on record. PGIM's direct lending business focuses on "real economy" borrowers, such as food and beverage; consumer services that are staples, such as home repairs; value-add industrial services and products, such as distribution logistics; and certain areas of healthcare. The business has little exposure to software. PGIM focuses on midsize companies generating EBITDA of $25-75 million.

"Valuations are starting to become a little more realistic," Harvey said. "Our pipeline has never been fuller on deals ready to go."

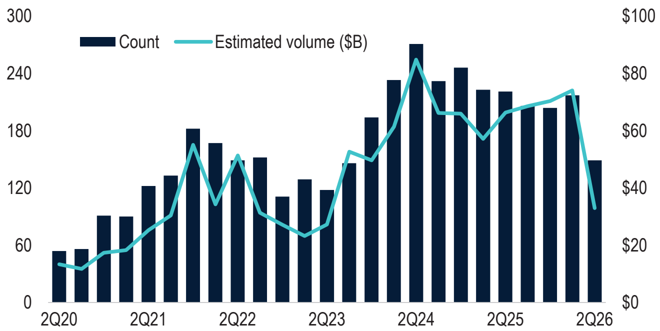
Pricing on a typical non-sponsored loan financing is approximately S+500, with 40-50% loan-to-value, 4x leverage, 60% equity, and 1-2 covenants, according to Harvey. This spread is wider than it was a year ago, he said.

What's more, Harvey said some borrowers have struggled with rising input prices and broader inflation, some of which is related to the closure of the Strait of Hormuz. Harvey was speaking on the sidelines of the SuperReturn International conference, held in Berlin June 8-12. "Freight movements are down and are more expensive. There are impacts from that. Labor and wage increases are the hardest to pass through," said Harvey. "Most companies are demonstrating an ability to manage inflation," he added.

This matched what LCD's data in the second quarter of 2026 showed about transaction volumes. Direct lending deals were down in the quarter.

LCD recorded $33 billion across 149 transactions, well short of the $74.1 billion across 217 deals in the first quarter, which was the highest-volume quarter in two years.

Direct lending deal count and estimated volume

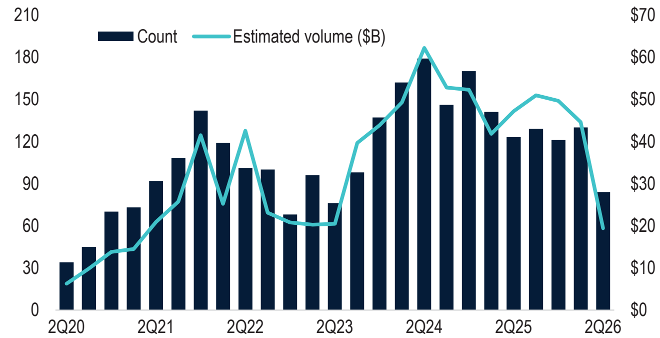


Source: PitchBook | LCD • Data through June 30, 2026
Direct lending analysis is based on transactions covered by LCD News

The LCD data showed an even steeper fall for borrowers backed by private equity firms, which are struggling to find appealing exit opportunities and were reluctant to transact amid increased uncertainty and macroeconomic and geopolitical headwinds in the second quarter.

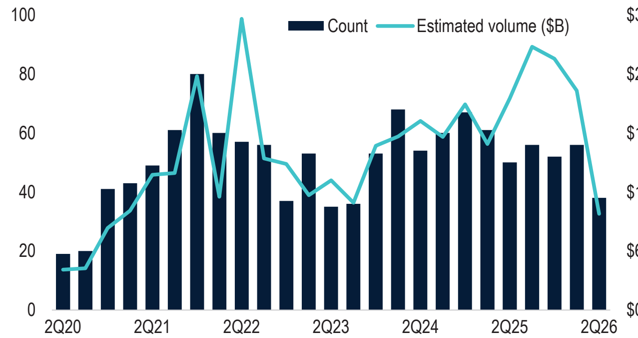
According to PitchBook data, US PE deal value totaled just $177 billion in Q2, down 38% from Q1 and marking the lowest quarterly reading in two-and-a-half years.

Direct lending deal count and estimated volume, PE-backed borrowers



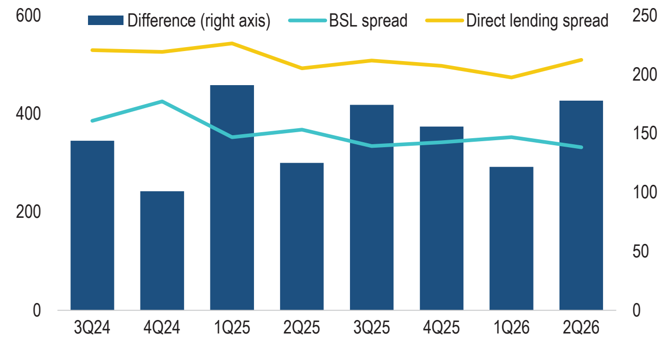
Source: PitchBook | LCD • Data through June 30, 2026
Direct lending analysis is based on transactions covered by LCD News

Direct lending deal count and estimated volume, LBOs



Source: PitchBook | LCD • Data through June 30, 2026
Direct lending analysis is based on transactions covered by LCD News

Spread of LBOs financed in BSL (all borrowers) vs direct lending market

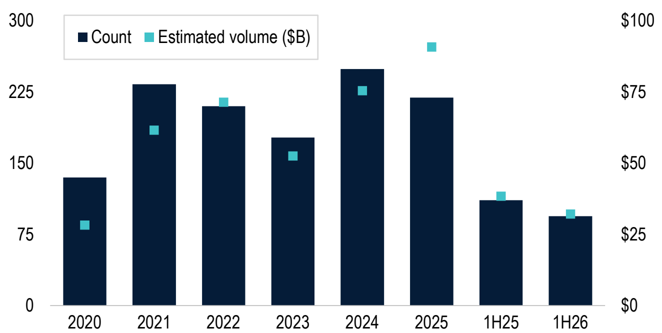


Source: PitchBook | LCD • Data through June 30, 2026
Direct lending analysis is based on transactions covered by LCD News

By every measure, transactions are down. Mega-buyouts that private credit grew accustomed to stealing from the syndicated loan market are especially scarce. LCD has not tracked a single LBO financing over $2 billion by direct lenders since early March.

As a result, year-to-date estimated direct lending LBO loan volume, at $32.1 billion, is running 16% behind last year's pace, while deal count, at 94, is trailing by 15%.

Direct lending deal count and estimated volume, LBOs (annual)



Source: PitchBook | LCD • Data through June 30, 2026
Direct lending analysis is based on transactions covered by LCD News

The competition between the direct lending and broadly syndicated loan markets continues, of course. The BSL market has taken the majority of LBO financing volume this year, a reversal from the past few years.

Big deals

Despite the slowdown in Q2, the market retains a pulse. Lenders describe a market reset taking shape, with spreads widening, leverage pulling back, and deal terms improving. On plain-vanilla deals, spreads have moved out roughly 25 to 50 basis points — a loan that priced at S+450 late last year would likely come at S+500 today, with slightly more OID. A small sample of recent LBOs bears this out, with spreads averaging S+509, versus S+474 in Q1, according to PitchBook LCD, though the dataset is thin.

Private credit lenders still put together one of their largest-ever financings, even if it was far from a plain-vanilla direct lending deal.

Apollo and Blackstone led a $36 billion investment-grade structured notes financing as part of a deal to purchase and then lease chips to AI giant Anthropic. The private credit lenders are planning to sell down some of the debt through a syndication while keeping significant portions for themselves, according to market sources. Here, we see private credit lenders moving into less traditional realms of finance. The $36 billion Apollo and Blackstone-led financing for Anthropic is excluded from LCD's direct lending volume because it is structured as investment-grade notes rather than the traditionally unrated, floating-rate bilateral or club loans that define the direct lending asset class.

The financing will include roughly $6 billion in 'super-senior' A1 notes, $25 billion in first-lien senior A2 notes, and $4.5 billion in second-lien B notes. Price talk on the A1 notes is T+100, sources said. Price talk on the A2 notes is an all-in yield of 5.50-5.75%, and price talk on the second-lien B notes is a fixed-rate coupon of 8.5%.

On the A1 tranche, Wells Fargo is serving as global coordinator, joint bookrunner, and joint lead arranger and BNP Paribas, Citi, and UBS are serving as joint bookrunners and joint lead arrangers, according to a June 9 statement by Apollo. On the A2 tranche, Goldman Sachs, Bank of America, and Morgan Stanley are serving as joint placement agents.

As part of the deal, Broadcom Inc. will backstop payments on the debt, which will be assigned to a special purpose vehicle. That vehicle will be used to purchase tensor processing units (TPUs), which the SPV will lease to Anthropic. TPUs are custom chips used as hardware for generative AI tools and are designed by Google. Broadcom is a supplier of the TPUs being purchased with the financing. Broadcom is providing a residual value support agreement. If Anthropic fails to make payments and the SPV is unable to recover enough value from selling the TPUs to cover the A1 and A2 notes, Broadcom will make up the difference.

Among more traditional private credit deals, one of the larger financings to hit the market in the quarter backs Irth Capital's take-private bid for Papa John's International. Brookfield Asset Management provided committed financing for the deal, including $725 million of preferred equity, which the lender is looking to syndicate to other private credit lenders. The preferred equity has an all-in yield of 12%, with 10% PIK and 2% cash. The preferred equity also includes a minimum multiple on invested capital of 1.6x.

As part of the buyout bid, Morgan Stanley is also providing bridge financing, backstopping about $1 billion in debt to help fund the LBO, sources said. That debt is then expected to be moved into a whole-business securitization rather than stay on Morgan Stanley's balance sheet.

Private credit also eyed financing for LongRange Capital's acquisition of Pizza Hut from Yum! Brands, though that financing was ultimately provided by the BSL market, led by UBS.

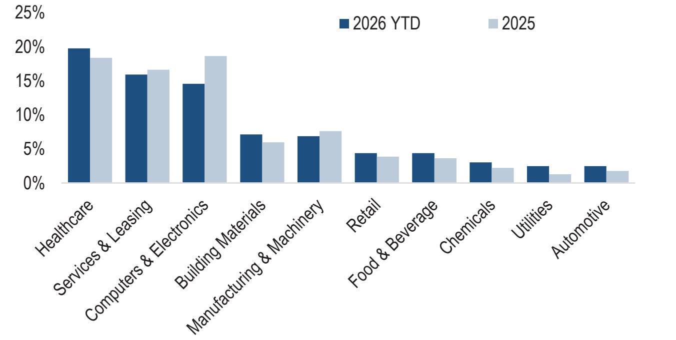
Another LBO financing for private credit in Q2 was the roughly $500 million private credit loan supporting Cerberus Capital's acquisition of data center infrastructure company S+S Industries. The loan is structured as a first-out, last-out loan, with Encina in talks to participate in the first-out portion, sources said.

Private credit was in talks to potentially support a refinancing of cybersecurity software company **Sophos**' debt, but that borrower is attempting to get a $2.6 billion amend-and-extend done in the BSL market instead, according to market sources. The borrower pivoted to BSL after marketing the potential refinancing to private credit earlier this year on EBITDA of around $500 million and pricing of S+575.

Sector switch

Shifting market conditions also led lenders to recalibrate what they view as attractive opportunities. Software's fall from favor increased demand for other types of businesses.

New-issue direct lending top 10 sectors – share by deal count



Source: PitchBook | LCD • Geography: US • Data through June 30, 2026

Since the year began, the Healthcare sector surpassed Technology, which is dominated by Software, to take the largest share of new deals by count. Building Materials, Retail, Food & Beverage, Chemicals, Automotive and Utilities businesses also grew their share of the pie.

Among the healthcare deals in Q2 was a $1.2 billion refinancing for **Caris Life Sciences**. Blue Owl Capital Corp. was administrative agent, and funds affiliated with Blue Owl and Blackstone were lenders. Pricing for the initial term loan is S+500. The initial proceeds repaid and terminated a $400 million credit agreement (S+650) that was agented by Wilmington Trust in January 2023. OrbiMed and Braidwell were lenders on that financing.

Elsewhere, biopharmaceutical company **Esperion** received a $550 million senior credit facility to support a take-private buyout by Archimed. Funds affiliated with Pharmakon Advisors provided the facility.

Companies that appear insulated from disruption by artificial intelligence are in demand, lenders say, as many portfolio managers look to shrink the portion of their books associated with software.

The shift in sentiment has also led to competition for companies in the Industrials segment, market participants say.

This has also spurred activity in channels outside of plain-vanilla direct lending, such as life sciences, venture debt, and equipment and consumer lending.

For instance, biotechnology company **Apogee Therapeutics Inc**. (Nasdaq: APGE) reached an agreement for up to $1.3 billion in financing, including $800 million of synthetic royalty funding, to support the development and commercialization of a novel treatment.

Funds affiliated with Blackstone Life Sciences provided the committed financing, and will receive revenue share payments based on a tiered percentage of annual net product sales.

Conversely, would-be software borrowers must be “pristine” to cross the finish line, lenders tell LCD. That means strength across quantifiable metrics like user retention and revenue, and a clear data moat to protect the company from generative AI.

One major investor in enterprise software, Vista Credit Partners, said the firm now considers that about 20% of software businesses overall are in a category described as “failure to thrive.” These businesses will need to “reestablish their right to exist” given advances in AI, according to Alex Hughes, co-portfolio manager of the firm’s Flagship Credit fund, speaking at the SuperReturn International global conference where private debt and equity market professionals convene annually alongside investors.

According to Hughes, the weakest category of software borrowers does not include companies that are focused on agentic AI, such as Databricks. The company is a developer of an analytics platform for data and artificial intelligence clients.

In January 2025, Databricks obtained more than $5 billion in financing, including a $2.25 billion recurring-revenue term loan. JPMorgan was the left lead arranger.

The largest category of software borrowers is companies that are going to use AI tools to expand margins, Hughes said. Generally speaking, investors had bought software indiscriminately as a single category.

“All software is not created equally,” said Hughes, speaking on a panel at the SuperReturn International conference entitled “Private credit: A new continuum — Meeting the challenges of an altered investing era.”

Beyond AI

Rushin Shah, who is managing director, credit at Veritas Capital, said AI is not the only factor impacting software. So far, the performance of these businesses has not reflected the souring investor sentiment for the sector.

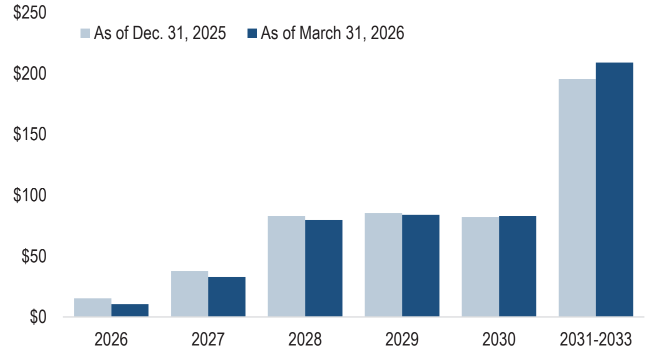
Moreover, many companies are poised to use AI tools to boost efficiency, expand their margins and establish new product lines.

“R&D money got diverted to pay interest,” Shah said. “These businesses remain cash-flow strong.”

Under watch are buyouts of software businesses that closed in 2021-22, market participants say. Valuations have declined since asset prices hit peak levels in the low-interest-rate environment resulting from the Covid-19 pandemic, raising concerns about refinancings of software loans in private credit portfolios.

So far, losses and defaults have not accelerated meaningfully, but many expect they will. But winners will doubtlessly emerge among software borrowers as well.

BDC maturity wall ($B)



Source: PitchBook | LCD; Data through March 31, 2026 | Excludes equity and CLO holdings

To that end, market observers are particularly focused on the upcoming maturities related to these deals. The investment portfolios of BDCs (business development companies) are showing a buildup of those loans.

One prominent software default in Q2 emerged from the embattled digital survey and customer feedback company **Medallia**. A group of private credit lenders led by Blackstone, Apollo and FS KKR Capital Corp. took the keys to the software company from previous owner Thoma Bravo in a recapitalization of the business.

Thoma Bravo, which bought the company for $6.4 billion in 2021, acknowledged that it had overestimated the software company's growth prospects and paid too much for it. Private credit lenders had provided a $1.8 billion recurring-revenue loan to support the company's LBO.

But the lenders-turned-owners have not lost all hope.

The recent transaction "significantly" reduced Medallia's outstanding debt, and the new owners invested $150 million of new capital in the company.

"Medallia is a profitable business with a strong track record serving many of the largest companies in the world," said Brad Marshall, global head of private credit strategies at Blackstone, in a company statement in June. "We're confident in the business under this new capital structure and look forward to supporting its plans to invest in this next phase of innovation and growth."

New data, increased transparency

Investors have asked for more data points and transparency when it comes to private credit. Recent developments are promising.

For example, Apollo plans to introduce a novel valuation approach to the industry. The company stated in its earnings call on May 6 that it will offer daily mark-to-market valuations on all of its credit assets, including direct lending assets, by Sept. 30 of this year.

The change is intended to allay concerns about private credit's opacity and valuation practices.

"The recent press around marks is just driving us to this solution. And I expect regulatory interest to follow, which will also drive toward the solution," said Apollo CEO Marc Rowan.

This is timely. After all, at the start of the quarter, the US Department of Labor unveiled a proposal that would move private credit assets another step closer to broad inclusion in 401(k) retirement portfolios.

Proponents of the plan, which focuses on limiting litigation against fund administrators, emphasized its potential benefits for American retirees while maintaining safeguards against imprudent lending. Treasury Secretary Scott Bessent said the change would help to usher in a "Golden Age."

But there's little doubt that this timing is awkward, as the private credit market grapples with capital withdrawals by some of the same retail investors targeted by the plan.

Lenders are still trying to fulfill redemption requests at non-traded BDCs. Blackstone Private Credit Fund (BCRED), the largest such fund in the market, pulled out all the stops in March to redeem 7% of shares by injecting its own employees' cash into a feeder fund. But after HPS' HLEND fund first enforced its 5% redemption cap, the rest of the market quickly fell in line.

Withdrawal demand intensified in Q2.

BCRED's 7% redemption demand in Q1 climbed to 10% in Q2, according to a June 4 investor letter. Apollo Debt Solutions received requests to repurchase 17% of outstanding shares, up from 11% in the prior quarter. Cliffwater's CCLFX climbed to 17%, from 14%. Many other funds' redemption windows remained open at the time LCD went to print.

But the redemption caps are serving their purpose. Lenders and ratings agencies alike have touted lenders' liquidity reserves, and in some cases, non-traded funds have reported net inflows.

For more information on the effect of redemptions on the market, see "Private credit adjusts retail investor message after redemption run" on p. 12.

Secondaries' moment

Recent events have also given rise to private credit secondaries, which have featured explosive growth in recent years. This is largely driven by continuation vehicles and more traditional secondaries transactions.

So far, 2026 has seen the expansion of a new kind of secondary trading, however, as the market turmoil and liquidity pressures brought by elevated redemptions prompted private credit managers to list more loans up for sale in a secondary capacity than ever before.

Initial market reception to the new inventory of secondary loans, which were primarily being offered at par, was initially tepid.

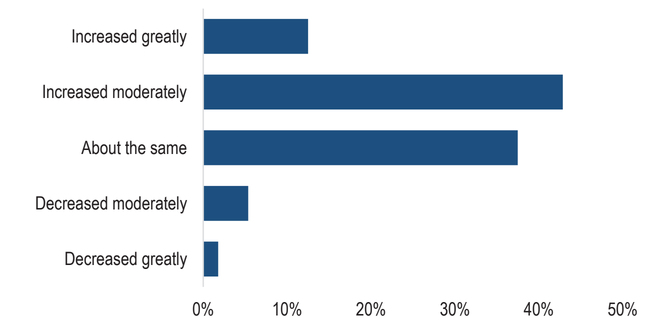
But market sources indicated that these loans began transacting more frequently, with some trading at par but others trading at discounts ranging from 3 cents to over 10 cents below par, suggesting that sellers became more flexible on pricing in some instances.

This pickup in activity was confirmed by JPMorgan, which reported trading roughly $2 billion worth of private credit loans as of mid-May, including loans across over 20 unique borrowers.

The bank said that secondary trading volume exceeded all prior years combined, suggesting that the nascent market is finding its footing despite reports of limited success early in the year.

LCD's Q2 Private Credit Survey also pointed to a growing secondary market. The inventory of private credit loans available for sale in secondary trading has increased moderately, lenders say. *(See the full survey on p. 8.)*

How has the inventory of private credit loans available for sale in a secondary capacity changed in the past quarter?



Source: PitchBook | LCD • Data through June 8, 2026

Another unorthodox secondary transaction this year was Abry Private Debt's $330 million acquisition of a portfolio of sponsor-backed private credit loans, in which Abry unusually assumed active management of the portfolio. Coller Capital partnered with Abry to complete the transaction.

Secondary market deals continue to evolve as new transaction types appear, but traditional deals also got done in the second quarter.

One was Antares Capital's $1.7 billion continuation vehicle, led by Ares secondaries. The continuation vehicle was established to purchase assets from a closed-end private credit fund comprising over 300 underlying first-lien loans originated and managed by Antares. The vehicle will provide liquidity to existing institutional investors while offering new investors exposure to the underlying loans, as continuation vehicles typically do. Antares will continue to manage the vehicle and the underlying loans.

The market continues to attract new entrants, who are compelled by both the traditional secondaries market and the potential for secondaries trades driven by liquidity pressures at BDCs. One of these entrants was Sycamore Tree Capital Partners, which launched a new credit secondaries platform.

In an interview with PitchBook, Sycamore Tree said the normalization of credit markets following years of lower defaults will create greater dispersion in manager and asset performance, increasing the value of liquidity for LPs in private credit funds.

StepStone Group also closed on the second vintage of its StepStone Credit Opportunities Fund with $1.6 billion in commitments. The fund will invest in private credit secondaries and is aiming to capitalize on the environment of market volatility and dislocations.

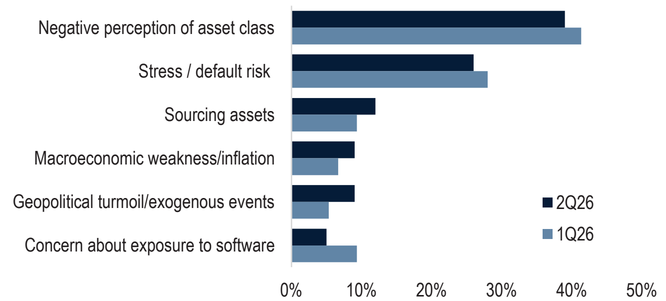
— Abby Latour, Zack Miller, Sami Vukelj & Janelle Bradley

Q2 Global Private Credit Survey: Lenders trim software exposure; sentiment mixed

The private credit market is adjusting after a period of depressed dealmaking, including trimming its exposure to software borrowers, according to LCD's quarterly survey.

For a second consecutive quarter, the strongest perceived challenge for private credit was the negative perception of the asset class, followed by credit stress and sourcing assets, survey respondents told LCD.

Which of the following will be the biggest headwind facing private credit market participants in the next six months?



Source: PitchBook | LCD • Data through June 8, 2026

Fewer respondents identified software risks among the top headwinds facing private credit compared to Q1 — but concern has not faded entirely.

Instead, many lenders have moved to shield their portfolios from the risks posed to software borrowers by generative AI.

Slightly more than half of those surveyed by LCD said they had reduced their exposure to software borrowers, including 21% who said they had significantly reduced their exposure and 6% who had stopped lending to them entirely.

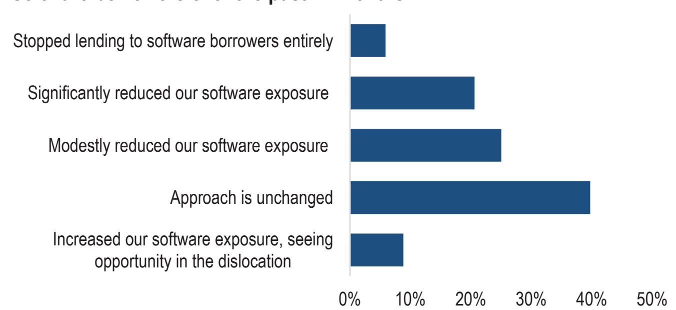
Nine percent of respondents said they had increased their exposure, looking to capitalize on the dislocation.

LCD's Q2 survey was conducted May 27-June 8. Respondents included a mix of credit providers, banks, PE firms, advisory firms and other market participants from the US and Europe.

Recalibrating

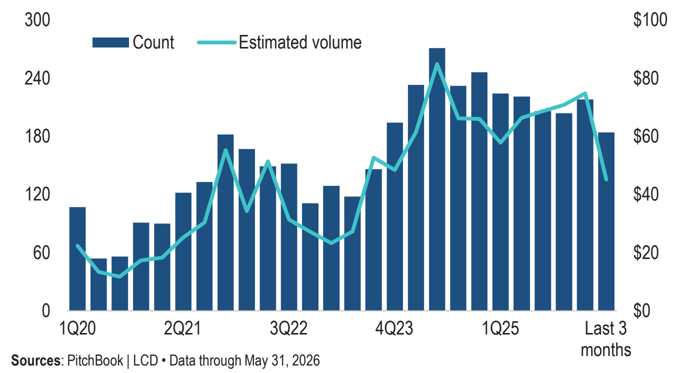
So far, Q2 has been a disappointment for those hoping for a brisk return to dealmaking. The three months through May have brought fewer deals than any quarter since 2023, according to LCD's Private Credit Monitor.

How has AI disruption risk changed your approach to underwriting software borrowers over the past 12 months?



Source: PitchBook | LCD • Data through June 8, 2026

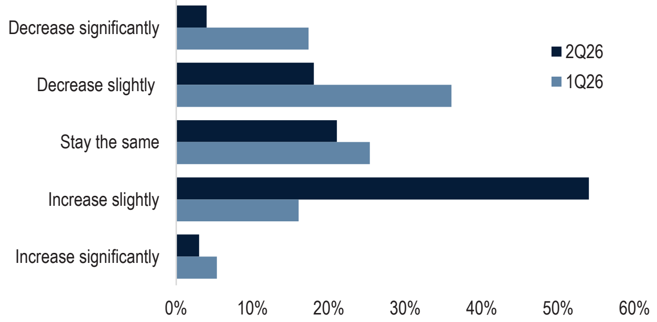
Direct lending deal count and estimated volume (quarterly) ($B)



Sources: PitchBook | LCD • Data through May 31, 2026

However, respondents expressed optimism that deal flow would pick back up. A majority said they expected deal activity to increase at least slightly in the next 90 days.

In the next 90 days, deal activity will...

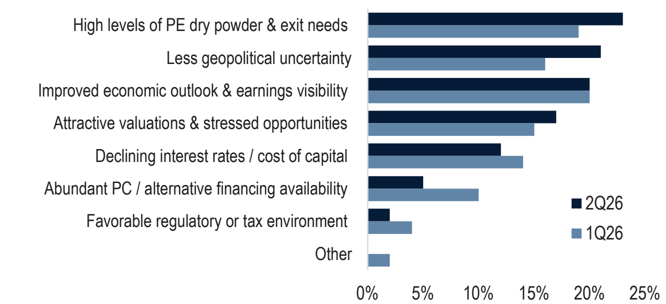


Source: PitchBook | LCD • Data through June 8, 2026

Looking out over the next 12 months, several factors could accelerate M&A activity.

The most important, according to respondents, is the high amount of dry powder in the private equity market. Others said they are looking for an improved economic outlook, less geopolitical uncertainty or attractive valuations and distressed opportunities.

Which are the most important factors for driving an acceleration of M&A in private credit over the next 12 months?

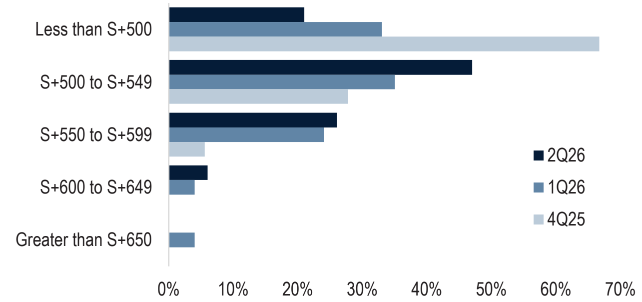


Source: PitchBook | LCD • Data through June 8, 2026

One of the most striking changes in the private credit market comes from the shift in pricing.

In just two quarters, the percentage of respondents who reported that a unitranche loan to a non-cyclical business with $50 million of EBITDA would price below S+500 dropped to 21%, from 67% at year-end 2025.

Where could a $50M EBITDA business in a non-cyclical industry price a unitranche loan (40% LTV) today?

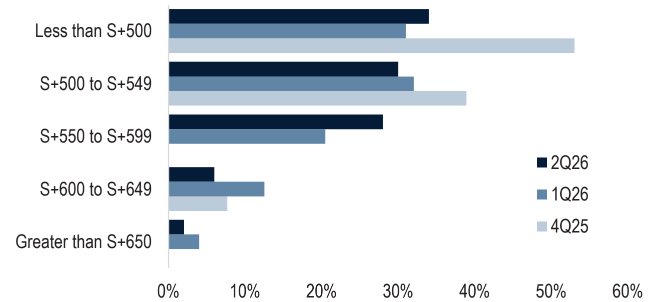


Source: PitchBook | LCD • Data through June 8, 2026

A plurality expected such a loan would instead price at S+500-549; roughly a quarter suggested S+550-599.

However, respondents indicated that the premium pricing may not last. A plurality of respondents said they expected the same unitranche loan would price below S+500 six months from now. Notably, opinion was far from unanimous.

In six months, where could a $50M EBITDA business in a non-cyclical industry price a private credit loan (40% LTV)?



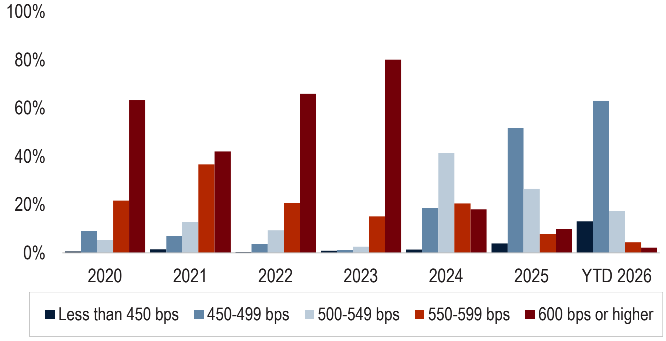
Source: PitchBook | LCD • Data through June 8, 2026

If those respondents are correct, that would renew a downward trend that has compressed spreads since 2022.

The private credit market has increasingly been pricing in the S+450-499 range, LCD data shows.

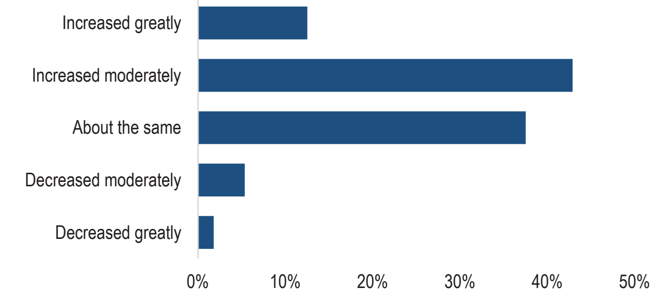
Spreads have widened since the year began, particularly in the US, which market participants have attributed to a retrenchment by lenders that took pressure off a persistent undersupply of lending opportunities. Following a severe period of market turbulence, respondents to LCD's Q1 survey indicated that the supply of loans exceeded demand, or at least had moved closer to equilibrium.

LBO direct lending spread distribution



Sources: PitchBook | LCD • Data through May 31, 2026

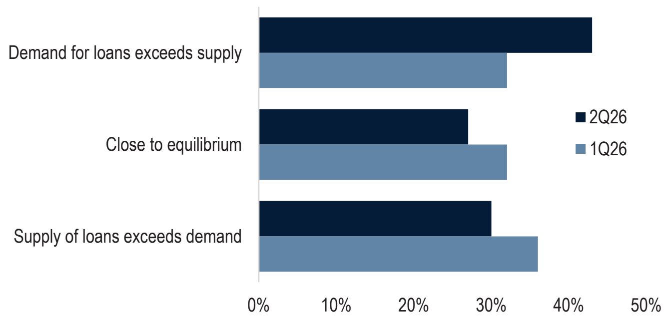
How has the inventory of private credit loans available for sale in a secondary capacity changed in the past quarter?



Source: PitchBook | LCD • Data through June 8, 2026

However, the Q2 survey suggests the market has returned to a regime of undersupply. In recent weeks especially, sources say the private credit market has become more active — and competitive.

How would you describe the current private credit market?



Source: PitchBook | LCD • Data through June 8, 2026

In contrast to this undersupply of new-issue loans is the growing secondary private credit market.

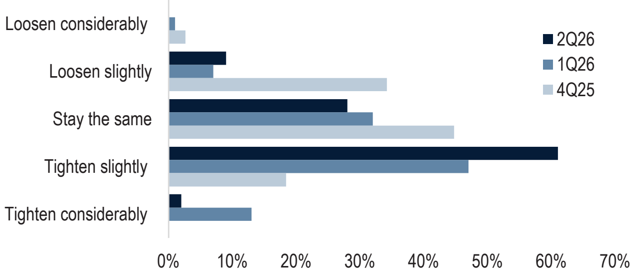
The inventory of private credit loans available for sale in secondary trading has increased moderately, lenders say.

That increase builds on what were already record amounts of private credit loans available for purchase in the secondary market at the beginning of the quarter.

So far, the supply of loans on the secondary market has outpaced demand; the glut has in part been driven by elevated redemptions among investors in non-traded BDCs.

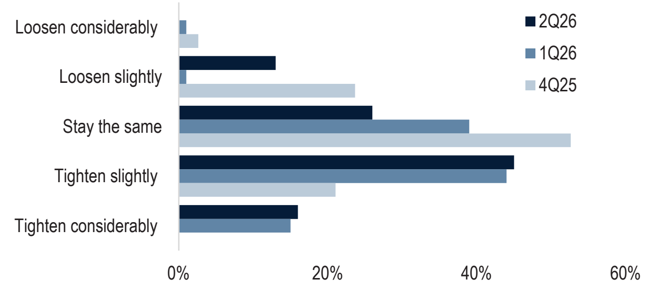
On covenants, the near-term outlook is lender-friendly. A majority of respondents said they expected covenant terms to tighten slightly in the next few months among core middle-market deals.

How do you expect loan covenant terms to change on core middle market direct lending deals in the next few months?



Source: PitchBook | LCD • Data through June 8, 2026
Core middle market is defined as companies with up to $50 million of EBITDA.

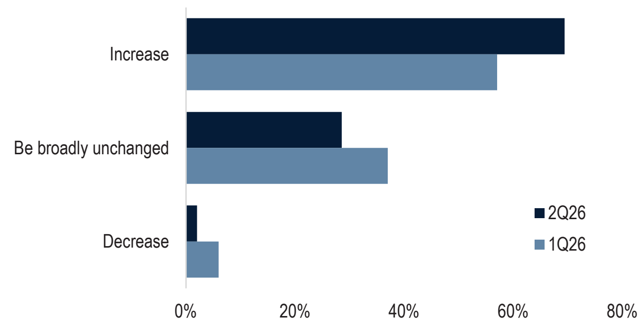
How do you expect loan covenant terms to change for lower middle market direct lending deals?



Source: PitchBook | LCD • Data through June 8, 2026
Lower middle market is defined as companies with EBITDA of $5-30 million.

In the lower middle-market, more than half of respondents said they expected terms to either tighten slightly or tighten considerably in the next few months.

In the next six months, default levels in private credit portfolios will....



Source: PitchBook | LCD • Data through June 8, 2026

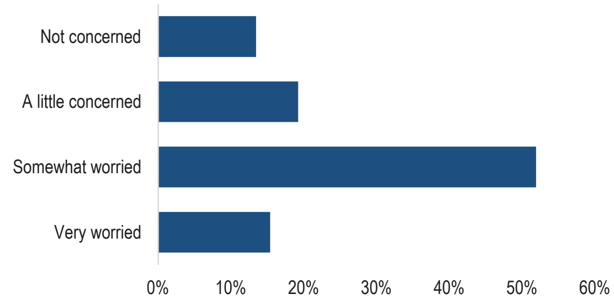
In the world of defaults, however, optimism is harder to come by.

Sixty-nine percent of survey respondents said that they expect default levels in private credit portfolios to increase in the next six months, up from 57% of respondents in Q1 who expected an increase.

Indeed, LCD's latest analysis of BDC portfolios found that the pool of borrowers under pressure is growing faster than the pool of borrowers overall.

More than half of respondents said they were either somewhat worried or very worried that valuation pressures could inhibit refinancing activity.

How worried are you that valuation pressures could inhibit refinancing activity?



Source: PitchBook | LCD • Data through June 8, 2026

The worry is sharpest in software, a sector that has lost significant ground in the leveraged lending market.

— Zack Miller

Private credit adjusts retail investor message after redemption run

Private credit market participants are leaning into a message of support for the asset class from institutional investors after a punishing run of retail redemptions and concern over exposure to software loans.

Attendees at the SuperReturn International in Berlin held this year June 8-12 — a key industry conference on private capital — heard that institutional support for the asset class "remains rock solid." The global conference, where private debt and equity market professionals convene annually, took place for the first time since the private credit market met unprecedented retail outflows and fresh geopolitical turmoil in the Gulf region.

Fair debate

Uncertainty about how AI may upend business models of software companies, some of private credit's most prolific borrowers, has also rocked the market. Combined, events in the first half of 2026 have stoked debate about the suitability of an illiquid asset class for retail investors, conference attendees heard. "It's a fair debate to be had," said Anthony Fobel, CEO of Nuveen affiliate Arcmont Asset Management, in the inaugural address of the private debt portion of SuperReturn, which organizes concurrent specialist summits on AI and tech, sports investing, and venture capital.

Despite worsened sentiment for the asset class and recent negative headlines, the performance of private credit portfolios is strong, defaults have not picked up meaningfully, and terms have improved for private credit lenders, conference attendees heard. Institutional inflows still eclipse retail outflows, and redemption requests have been concentrated among investors in Asia. Despite these positive technical factors, market participants acknowledge that messaging aimed at retail investors has room for improvement, such as designating funds as "illiquid," rather than "semi-liquid."

"Retail investors tend to run when things get tough," said Ralph Eissler, global head of research for private assets, MSCI. "If you are an investor, you need to know your risk tolerance. I do think there is a role for private credit to play into every investment portfolio."

Structural change

Another possible change ahead for retail investors could be the structure of investment entities, reverting to drawdown funds that call capital when suitable investments arise, rather than those that are under pressure to deploy capital immediately, regardless of market conditions. "Historically, this has been an institutional market," said Ted Koenig, founder and CEO of Monroe Capital, who warned that allowing 401(k) funds to invest in private credit could be "dangerous."

"Retail investors are fundamentally different. They are like fish — they swim in schools. They come in together, and they tend to go out together," Koenig added.

Meanwhile, panelists agreed that two more calendar quarters were needed to work through redemption requests. "The headlines have to die down, and the performance has to continue," said Nicole Drapkin, part of Blue Owl's credit investment team, while adding that capital flows were not only one-way. "The notion that there aren't inflows into these funds simply is not correct."

In Europe, where private credit fundraising has remained overwhelmingly reliant on institutional investors, any changes in messaging will be harder to detect. Still, the nascent retail channel in Europe faces a further setback following redemption turmoil in the US, according to market participants. "It's going to be significantly slower, and maybe even shut down the European retail pool of new inflows for the time being," Jeffrey Griffiths, partner and global head of private credit at Campbell Lutyens said, while adding he does not see any material change in institutional demand for private credit from European investors.

A loan manager agreed, describing the current mood among wealth channels as one of "cautious pause" as the market digests US developments. European investors have been tempted to tap the pools of wealth and retail money, but it is not a heavy dependence. "The reliance on institutional money is far bigger in Europe, and it will continue. Fundraising through the wealth channel is also expected to pick up, but at a slower pace," the manager added.

Niche strategies

Specialty, niche strategies within private credit — such as secondaries, fund finance, and asset-based lending — may come into favor as investors look beyond private credit's roots in direct lending to companies backed by private equity firms.

Even as conference attendees zeroed in on the issue of illiquidity, there was talk of private credit loans changing hands, for example — even though most of the loans are buy-and-hold investments.

Daniel Gurvich, a private credit portfolio manager at Beach Point Capital Management, said the firm has purchased private credit loans via secondary market trades in the low to mid-80s as a way to become involved in a larger financing solution for a borrower. "We turn right around and go to the company with a solution. We're super excited about the pipeline today," said Gurvich, speaking on a panel entitled "Private debt 2.0: A fundamentally sound investment for LPs?"

Other panels on the first day of the conference included "Where are we in the credit cycle?" "The competitive landscape of direct lending for the mid market" and "Private credit: A new continuum — Meeting the challenges of an altered investing era." Panels on the second day include "Private credit: where are the pressure points?" and "Can the private credit market sustain its momentum?"

— Abby Latour/Nishant Sharma

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LCD News – US

Tim Cross
tim.cross@pitchbook.com

John Atkins
john.atkins@pitchbook.com

Jon Hemingway
jonathan.hemingway@pitchbook.com

Gayatri Iyer
gayatri.iyer@pitchbook.com

Alan Zimmerman
alan.zimmerman@pitchbook.com

Jakema Lewis
jakema.lewis@pitchbook.com

Richard Kellerhals
richard.kellerhals@pitchbook.com

Mairin Burns
mairin.burns@pitchbook.com

Abby Latour
abby.latour@pitchbook.com

Jack Hersch
jack.hersch@pitchbook.com

Glen Fest
glen.fest@pitchbook.com

Sean Czarnecki
sean.czarnecki@pitchbook.com

Zack Miller
zack.miller@pitchbook.com

Sami Vukelj
sami.vukelj@pitchbook.com

Janelle Bradley
janelle.bradley@pitchbook.com

Alvaro Ledgard
alvaro.ledgard@pitchbook.com

LCD News – Europe

David Cox
david.cox@pitchbook.com

Francesca Ficai
francesca.ficai@pitchbook.com

Michael Rae
michael.rae@pitchbook.com

Thomas Beeton
thomas.beeton@pitchbook.com

Nishant Sharma
nishant.sharma@pitchbook.com

Jean-Marc Poilpré
jean-marc.poilpre@pitchbook.com

LCD Global Copy Edit/Production

Brenn Jones
brenn.jones@pitchbook.com

Alex Poole
alexander.poole@pitchbook.com

Michael Baron
michael.baron@pitchbook.com

Jamie Tebaldi
jamie.tebaldi@pitchbook.com

Katie Dowd
katie.dowd@pitchbook.com

LCD Global Research

Marina Lukatsky
marina.lukatsky@pitchbook.com

Miyer Levy
miyer.levy@pitchbook.com

Taron Wade
taron.wade@pitchbook.com

Kenny Tang
kenny.tang@pitchbook.com

Rachelle Kakouris
rachelle.kakouris@pitchbook.com

Cuong Huynh
cuong.huynh@pitchbook.com

Sara Shehata Wahba
sara.wahba@pitchbook.com

Shaundra Edmonds
shaundra.edmonds@pitchbook.com

Tim Mastracci
timothy.mastracci@pitchbook.com

Carl Syverud
carl.syverud@pitchbook.com

Jack Johnson
jack.johnson@pitchbook.com

Ryan Brown
ryan.brown@pitchbook.com

Neil Harmon
neil.harmon@pitchbook.com

Mallory Bedell
mallory.bedell@pitchbook.com

Frederick Tetteh
frederick.tetteh@pitchbook.com

Julia Avdoi-Green
julia.avdoigreen@pitchbook.com

Armando Di Cicco
armando.dicicco@pitchbook.com

Sebastian Kian
sebastian.kian@pitchbook.com

Contact Us
support@pitchbook.com

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