

Quarterly market outlook: Second quarter 2026

# Private credit

Headlines are loud, but fundamentals remain sound.

## Redemptions are elevated, but the system is working as designed

Recent media coverage has intensified concerns about liquidity in the private credit market, contributing to higher redemption requests in many evergreen private credit funds. Despite the noise, managers have generally continued to meet redemption requests up to their stated quarterly redemption caps using available portfolio liquidity, cash, borrowing and, in limited cases, selling assets without incurring a material discount. In recent examples, some funds honored redemptions in full, while others received requests well above their stated caps and fulfilled withdrawals on a pro rata basis based on the requested redemption amount up to the fund's stated cap.

If redemption requests remain elevated, funds will likely continue to prorate withdrawals above their stated caps. This is not necessarily a sign of distress; rather, it is an essential feature of the structure. Evergreen private credit vehicles are designed for long-term investors and are not intended to provide regular liquidity beyond defined thresholds. Proration protects remaining shareholders by avoiding forced asset sales and preserving portfolio construction. While headlines may frame gating or proration negatively, adherence to redemption limits reflects disciplined fund management and is central to how these vehicles are designed to operate. Continued redemption queues could weigh on sentiment and fundraising, but they do not, on their own, signal underlying credit stress. It is also important to remember that evergreen private market vehicles, besides interval funds, which are required to provide their stated liquidity each quarter, retain board level discretion on when access to redemptions is appropriate.

## Technology exposure is meaningful, but disruption concerns remain nuanced

Private credit has meaningful exposure to software and technology-enabled businesses. These companies represent 24% of the Cliffwater Direct Lending Index as of Q4 2025. This exposure has drawn attention amid broader discussion about artificial intelligence (AI) and its potential impact on traditional software business models.

At this stage, credit performance does not show broad deterioration tied to technology disruption. Many borrowers are either system-of-record platforms or have deeply embedded workflow tools with long-term contracts, high switching costs or mission-critical functionality, which can slow the pace of disruption.

In addition, private equity sponsors have been incorporating automation and AI considerations into operating strategies for several years, focusing on efficiency gains and competitive positioning rather than reacting to a single technological development. In our opinion, while technology exposure warrants monitoring, current data does not support an imminent credit-led downturn stemming from AI-driven disruption.

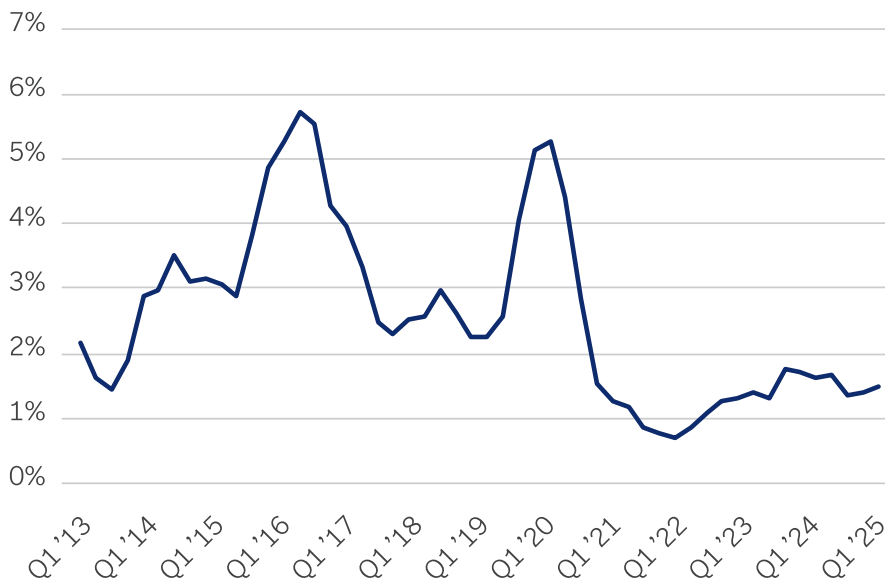
## Losses will rise over time as part of a normal credit cycle

Private credit is part of the broader leveraged finance ecosystem that also includes public high-yield bonds and bank loans, which should all be expected to experience cyclical increases in losses over time. Historically, annualized loss rates in private direct lending have averaged about 1%, broadly similar to long-run experience in publicly traded bank loans. Recent default rates have remained below these averages, reflecting generally stable borrower performance.

# Private credit (cont.)

## Senior direct lending loan default rates remain below long-term averages

(trailing 4-quarter senior loan default rate %)



Source for all data: Bloomberg.

Several structural features support credit quality in private markets, including tighter documentation, enhanced financial reporting, closer lender sponsor engagement and alignment created by lenders retaining originated loans. At the same time, portfolio-level leverage can magnify losses in a downturn. Therefore, investors should expect loss rates to rise when the next credit cycle emerges, potentially resulting in downward pressure on net asset values (NAV). This dynamic is part of the normal cycle and is factored into long term return expectations for the asset class.

Alternative investments are speculative, highly illiquid and include a high degree of risk. Investors could lose some or all of their investment.

Alternative investments are designed for long-term investment. Alternative investments typically have higher fees and expenses than other investment vehicles which will lower returns achieved by investors. Alternative investments have distinctive characteristics, such as investing in private markets and investor eligibility.

Unlike mutual funds, alternative investment funds are not subject to some of the regulations designed to protect investors and are not required to provide the same level of disclosure. Before investing, you should carefully consider the features, suitability and risks of these investments.

## > Action for investors

Private credit remains supported by stable fundamentals despite elevated redemptions and uneven sentiment. Long-term investors should anticipate occasional proration of withdrawals and view this as a normal structural safeguard rather than a sign of stress. In our opinion, while technology exposure and redemption activity merit ongoing attention, current evidence does not indicate a meaningful deterioration in credit quality. Properly sized allocations and appropriate liquidity expectations remain central to successful private credit outcomes.

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