PRIVATE CREDIT MARCH 2026

Can We Still Hear the Symphony?

A SEARCH FOR HARMONY AMID RISING NOISE

Overture

NOISE VS. MUSIC

In recent weeks, the private debt market has been overwhelmed by a crescendo of anxiety. A series of idiosyncratic events has been amplified into a broader narrative of systemic fragility. From the early-February 2026 "SaaSpocalypse," to questions around liquidity, redemptions, and gates, and finally to the late February geopolitical shock in the Middle East, headlines have grown louder and increasingly discordant. As recently as March 12th, it was flagged by a Bloomberg journalist during the Future of Finance forum in Paris that out of the top 5 most read articles, two were related to the Middle East conflict and three to private credit.

Yet beneath this cacophony, many of the core fundamentals of private credit continue to play in tempo. This memo proposes a score to distinguish the music from the noise through four movements, with some rests. As patient capital, private debt needs time to thrive.

Movement I

SAAS / AI DISRUPTION: NEW INSTRUMENTS, HARSH DISSONANCE

The accelerated announcements around AI innovation – particularly Anthropic's Claude Cowork automation tools – created an abrupt rupture in sentiment toward SaaS business models.

Market concerns around an AI-driven compression of enterprise software cashflows intensified. Jefferies even coined the term *"SaaSpocalypse."* The narrative took hold quickly, in part because many private credit funds had built significant exposure to software companies through years of elevated valuations, high leverage, and a tech-friendly deal environment.

But the disruption is uneven.

- **Mission-critical platforms** with deep data foundations and complex logic remain defensible.
- **Interface and workflow-layer software** appear more vulnerable to displacement.

AI is challenging longterm differentiation for part of the SaaS stack – but not all of it.

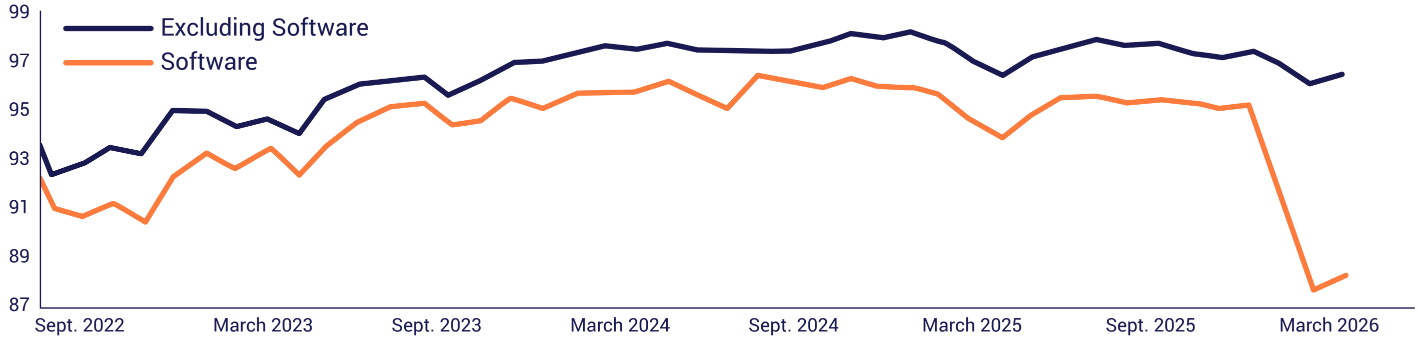
Software globally represents around 12-13% of the Broadly Syndicated Loan ('BSL') market and an estimated 20% to 30% of direct lending portfolios, overweighted to the US. The media 'angst' has simply drawn attention to a deep and long-term trend likely to lead to bifurcated performance outcomes over time. But along with massive disruption risks come significant opportunities to integrate AI tools that will generate transformational productivity and performance gains for tech-oriented companies.[1]

There is also concern about the refinancing risk associated with a $40bn maturity wall for low-rated software-related credits that have suffered sharp declines in equity valuations amid AI disruption. The post-Covid recovery saw a peak in both mid-market and large cap. software deals in 2021 and 2022, and underperforming companies with high LTVs may struggle to exit.

1 Bloomberg, "Private Credit's Software bet is even bigger than it appears" 12th February 2026

A key challenge will be to distinguish between profitable business models with recurring and predictable cash flows and more speculative companies that rely on Annual Recurring Revenues ('ARR') as the basis of their credit proposition. Competition and deployment pressures have pushed direct lenders to compromise and finance such credits on similar terms as mainstream transactions for a venture capital type of risk. The optics of relatively low LTV, supported by inflated valuations, replaced the security of tangible cash flow metrics (such as interest and fixed charge cover ratios), leading to dysfunctional financing structures from inception. Some companies financed by private credit were valued at up to 20x revenues, not even based on ARR EBITDA which were still negative, during the low-rate period. The rise of AI is now reshaping competitive dynamics and forcing reassessment of these multiples.

WEIGHTED AVERAGE BID PRICE OF PERFORMING LOANS



Sources: PitchBook | LCD, Morningstar LSTA US Leveraged Loan Index • Data through March 10, 2026

The orchestra was no longer following the score and has now embarked on its own improvisations to find the correct tune.

Movement II

LIQUIDITY & GATING: A RAPID SHIFT IN TEMPO

Liquidity concerns accelerated as several funds heavily exposed to software, directly or indirectly, began to experience an uptick in redemption activity.

The situation crystallized when one American asset manager became the centre of media attention. Amid record withdrawal requests, the firm executed **$1.4bn of asset sales**, largely first-lien senior secured loans, at **~99.7% of par** – a near-validation of book values. Management framed the sales as an opportunity to reduce concentration risk and provide faster liquidity to investors.[2] Nevertheless, the headlines amplified the fear:

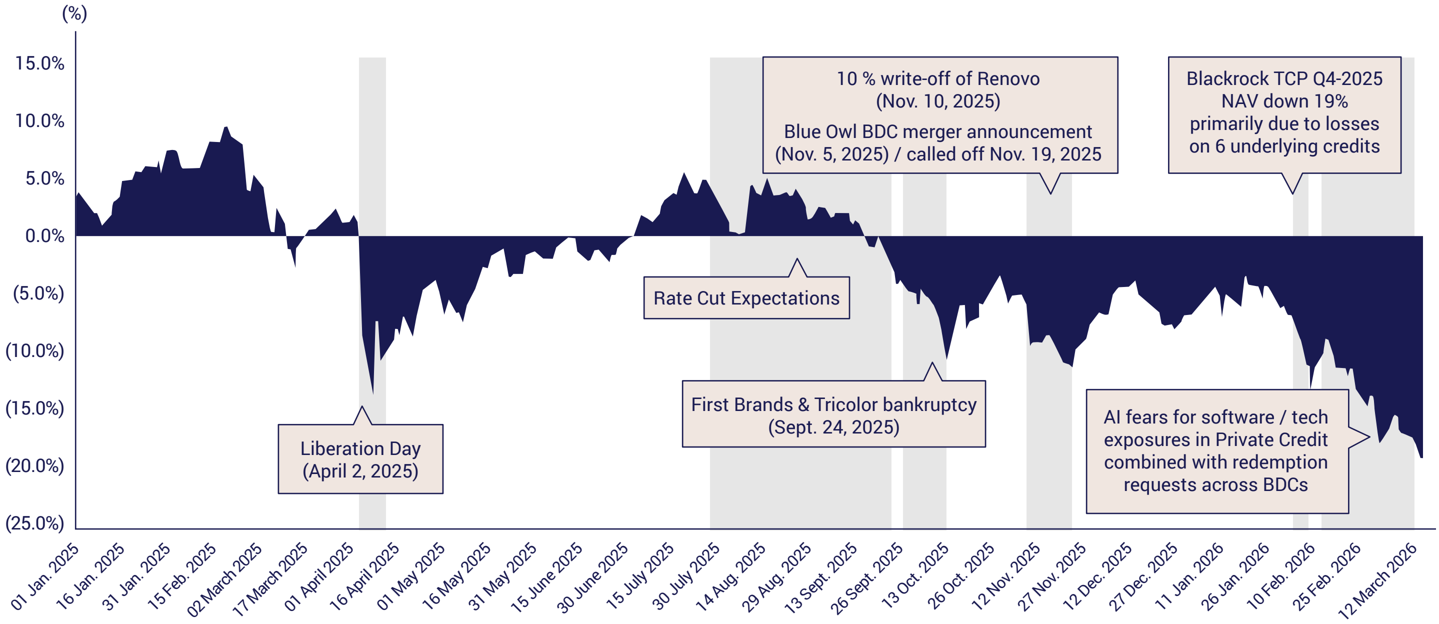
- "Bank-run dynamics" became a recurring theme, as the persistent drumbeat of successive redemption requests tested the capacity of, for instance, two leading Business Development Corporations ('BDCs') to meet the liquidity demands of investors, representing between 7.9% and 9.3% of assets. The most recent redemption requests peaked at 14% for an established large corporate lending fund (over $30bn) in March 2026.

Quarterly redemption limits are usually 5%, with the option to increase it to 7% at managers' discretion. In these cases, some firms chose to pay out the redemptions in full after a company and its employees invested a significant amount (around $400m) to show alignment of interest with third-party investors to help cover the requests, while it was reported that other funds fulfilled about half of the redemption requests.

2 Confidence was tested late last year when a non-traded BDC, Blue Owl's OBDC II saw a sharp increase in redemption requests. To meet the demand for liquidity without gating investors, Blue Owl attempted to merge it with its larger publicly traded fund OBDC, a controversial move given that OBDC II investors would have suffered a valuation markdown of about 20% given the discount at which the listed OBDC was trading relative to its NAV. Given the controversy, the merger was abandoned, and Blue Owl announced that it would resume redemptions in the first quarter of 2026. However, it recently announced that it was permanently halting redemptions from OBDC II and began liquidating the fund, with the intention to distribute up to 30% of the fund's net assets to investors. It sold off $600m of OBDC II assets to new investors, as part of a broader divestiture totalling $1.4bn.

- Combined with broader fears about private credit quality, the shares of listed BDCs have also experienced sharp declines, to trade at significant discounts to NAV in some cases.

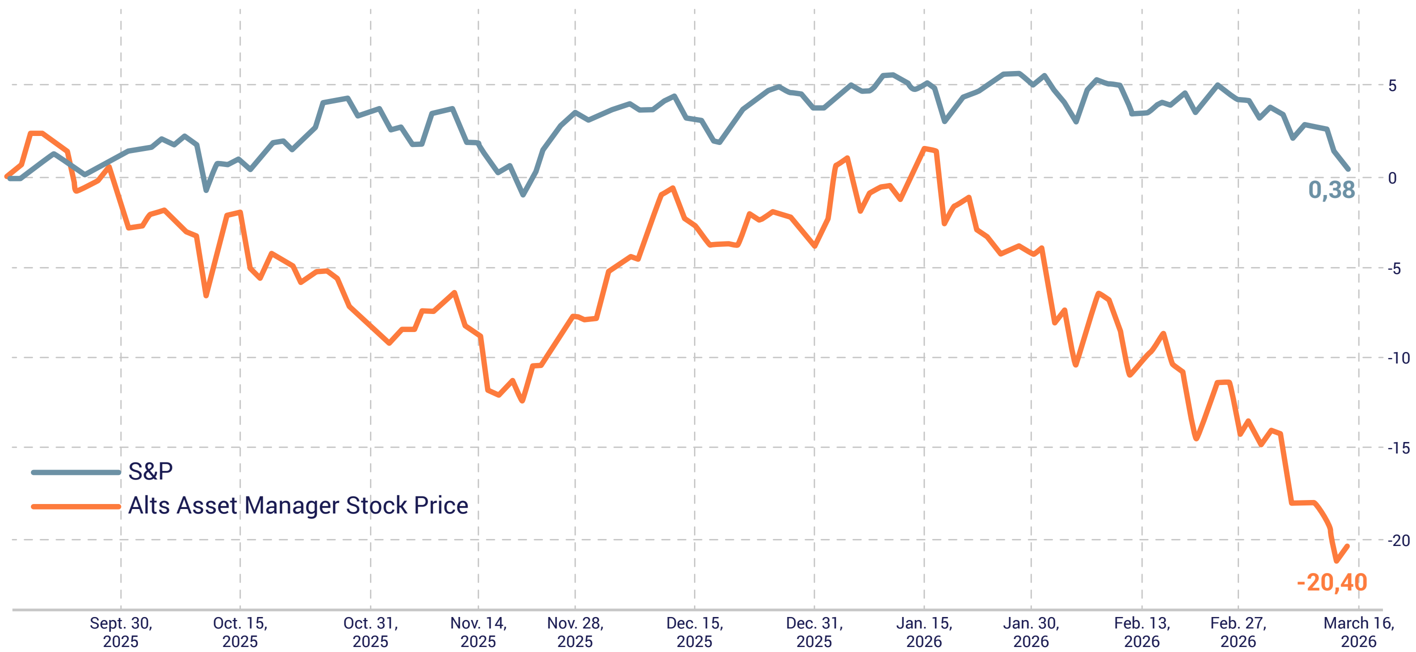
BDC PREMIUM / (DISCOUNT) TO NAV



Source: Bloomberg, CWDBC Index as of 13 March 2026. The index represents data from 41 constituent BDCs

- These events have, in turn, led to progressive declines in the stock prices of listed asset managers. Public markets have reacted swiftly. From recent highs, listed alternative asset managers suffered a cumulative reduction of nearly $270bn in market capitalization in just a few weeks (February through to mid-March 2026).

ALTERNATIVE ASSET MANAGERS STOCK PRICE, INDEX ALTS/ S&P



Source: Bloomberg as of 16 March 2026. Last 6 months rebased at 100.

Underlying these reactions lies a structural issue: **the mismatch between funds which have been marketed as vehicles offering periodic liquidity and illiquid private market assets which are best suited for patient capital.**

Regulators, valuation bodies, and financial stability observers resurfaced longstanding concerns around:

- heterogeneous valuation methodologies,
- the risk of shadow defaults,
- lack of transparency,
- and the governance of redemption mechanisms.

These issues have gained greater prominence in the US given the deep and well-established BDC market. Still, the system has absorbed the stress. Continuation vehicles, secondary processes, and orderly gating policies may have helped avoid forced selling reminiscent of the GFC era.

A more conservative approach in Europe, both on credit underwriting metrics such as adjustments and addbacks to financial definitions, and on the liability side with limited leverage, has helped it to withstand, to some degree, the more negative perceptions.

Movement III
GEOPOLITICS: DISSONANCE FROM THE MIDDLE EAST

The sudden escalation of conflict involving Iran, the US, Israel, and regional actors in the Middle East has introduced a fresh layer of volatility. The impact is both **direct** and **indirect**:

- rising oil prices and renewed inflation pressures strain the most fragile companies,
- underwriting spreads widen as crossborder visibility deteriorates,
- capital flows from Middle Eastern investors – formerly strong supporters of private markets – face uncertainty.

Geopolitical risk is now an integral theme in underwriting and portfolio monitoring. The focus of this memo being on private debt management, we will not elaborate at length on these impacts.

Movement IV
CREDIT FUNDAMENTALS: FROM LIVELY TO SOMBRE MOOD

Recent bankruptcies and rising stress indicators such as increased PIK usage (referred as 'bad PIK' when not part of the initial documentation), and higher 'proxy' default rates which take into account loan amendments, reflect late-cycle credit conditions, when strong risk appetite (and some complacency) faces more challenging economic conditions. The impact has been concentrated on 2021 and 2022 vintages, since when inflation, higher interest rates, trade tariffs and geopolitical uncertainty have undermined growth, compressed margins, and raised financing costs.

Human 'frequency and negativity' biases drive media coverage, with exceptions being perceived as the rule.

But fundamentals remain broadly positive:

- **Private market equity indices** continue to post positive returns driven by performance rather than ratings.
- **79.1% and 68.8% of European companies grew LTM revenues and EBITDA,** with growth rates of +7.6% and +6.9% respectively.[3]

3 Lincoln International Q4 2025 Private Market Webinar: European Edition (February 2026)

- **Direct lending indices continue to outperform liquid credit –** Lincoln International's European Senior Direct Lending Index was up 10% on an LTM basis as of Q3 2025, vs 4.5% for leverage loans.[4]
- **Stress indicators are concentrated on smaller companies** (less than €10m EBITDA), and the Consumer sector. Watchlist levels (across a range of third-party institutions monitoring over 1000 European direct loans) have stabilized around 10% (based on valuation marks below 90% of par).[4]

Despite the more challenging environment, private credit does not currently meet the conditions required to trigger systemic failure:

- **There has not been a catastrophic deterioration in asset class fundamentals**, on a scale like the 15%-20% decline in US house prices in 2008. While current 'proxy' direct lending default rates of up to 7.5% are higher than historical averages, recovery rates should translate into lower average annualised loss rates, and one should remember that direct lending markets have only experienced one year of negative return in the US (2008) and no annual decline in Europe since the first index was created, beginning Q4 2018.[5]
- **Private credit, as defined by sub-investment grade non-bank lending, is not large enough to trigger systemic failure.** This segment is estimated to be c. $3.5trn in size, representing 5% of non-bank entities that may pose bank-like financial stability risks. Direct lending represents about $2.1trn (3%).[6]
- **There is limited interconnectivity between financial institutions exposed to private credit.**
  - Direct lending is largely unlevered (effectively de-risking banks' exposures), funded by institutional investors, 80% of which is held in closed-ended structures.
  - Europe's insurance sector exposure to private debt has been estimated to be €500bn, according to Moody's (13% of total portfolios). Corporate debt and loans represented 3.2% (c.€125bn). With a Solvency Capital Ratio ('SCR') of 224% at the end of 2025, the surplus relative to average target coverage of 185% would be nearly €100bn, 8x the amount required to cover a notional 10% loss.[7]
  - European banks remain very well capitalised with CET1 capital of €1.6trn (16.1% of risk weighted assets), representing a €400bn surplus. While precise direct lending exposure is difficult to quantify, we estimate it would be similarly well covered, without constraining banks' lending capacity.[8]
  - **The relative absence of leverage and the diversified nature of private credit represents a critical difference to the 2008 financial crisis**, where the decline in US house prices triggered a 50% loss in sub-prime lending (with knock-on effects on other segments of real estate lending, as well as consumer lending), and multiple layers of leverage amplified losses that cascaded through the whole economy.[9]
  - **On March 11th, 2026, a new dime in the jukebox. An article in the FT, reporting that leverage banks will begin to mark down the value of financing facilities extended to direct lending funds, may serve as an alarm clock to reassess risk and valuation and probably limit globally the implied leverage embedded in such vehicles.**

4 Lincoln Private Market Perspectives: European Edition (November 2025)
5 Data based on Cliffwater Direct lending Index and Lincoln European Senior Direct Lending Index (Q3 2025)
6 Alternative Credit Council 'Financing the Economy 2025'
7 Private Debt Investor 'Insurers seek to add more private debt through rated vehicles' (June 2025)
8 European Banking Authority 'Risk Assessment Report' (June 2025)
9 RGE Monitor 'Specter of Technical Insolvency for the Banking System Calls for Comprehensive Solution' (January 2009)

Coda

THROUGH THE DISSONANCE, THE ORCHESTRA STILL PLAYS

Despite the noise, several truths remain:

- **Performance dispersion will grow**, and active portfolio management – especially the workout playbook – will be central.
- **Core private credit fundamentals continue to hold** – midmarket direct lending maintains conservative valuations and manageable default trends.
- **Opportunities persist**, provided investors focus on:
  - deep and thorough due diligence – attractive deal terms will never rescue a fundamentally flawed underwriting,
  - senior, first-lien, cash-pay structures,
  - moderate LTVs,
  - robust covenants,
  - and diversified exposures.
- **AI is both a threat and an opportunity**: it can pressure certain models, but it will also enhance underwriting, monitoring, and value-creation capabilities.

Under constant scrutiny, well-established private credit managers will focus on refining their underwriting playbooks to discharge as best as possible their fiduciary duties to their investors.

But more importantly, this will take place alongside a more integrated regulatory framework that promotes harmony, greater transparency and better monitoring.

So, is this a moment when the music stops? Or simply a moment when the orchestra must retune before playing a stronger, clearer symphony?

The core ensemble remains intact. With discipline and selectivity, private debt can still deliver a long lasting, well orchestrated performance.

Too much dissonance has triggered the search for harmony. The market has historically shown a capacity for self-correction and in our view, will most likely continue to create opportunities to capture attractive risk-adjusted returns. This could be the moment when the conductor raises a turning fork to set the tone again and put behind it the excesses of the past. The pace may be slower but prioritize artistry over volume. The strongest private credit returns are usually derived from the most challenging conditions. As Mark Twain used to say, history doesn't repeat itself, but it tends to rhyme, so the music should pick up with a more even tempo, led by established players who emerged after the 2008-2009 crisis.

New opportunities are also emerging with the growth of the private debt secondaries market, which could offer attractive entry points during these periods of stress.

The intrinsic nature of most private credit funds that have demonstrated a long-term commitment to private debt should avoid the fire sale phenomenon, which was experienced back in 2007-2008, when eventually most long-term players never experienced any significant issues. A large dose of patience, meticulous underwriting, and intensive restructuring skillsets should strengthen the nature of private credit, which has become an unavoidable asset class in investment allocation and to finance corporates worldwide.

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