

US PRIVATE
credit RISKS *are*

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probably NOT
SYSTEMIC

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Understanding private credit

Private credit has grown from a niche strategy into a component of lending for some businesses. It consists of non-bank lenders providing loans to small and mid-sized companies that often cannot access public bond markets or meet banks' lending criteria. These lenders typically hold loans to maturity and work closely with borrowers, an approach that helps firms manage periods of financial stress. The US private credit market now exceeds \$1.6 trillion and sits alongside traditional sources of borrowing such as bank loans, syndicated loans and corporate bonds.¹

Why concerns have emerged

Investor anxiety has intensified following two key developments. First, in late 2025, the collapse of First Brands Group (a large global aftermarket automotive parts supplier) and Tricolor (a major subprime auto lender and used car retailer), shook confidence across credit markets. This occurred amid allegations of fraudulent activity, leading to significant losses for banks, institutional lenders, and Business Development Companies (BDCs) exposed to their debt.

Second, in early 2026, loans tied to software and technology companies experienced a sharp sell off, as markets reassessed how creative destruction from artificial intelligence could rapidly render certain business models obsolete. Private credit lenders' exposure to the software sector added to those concerns, given the view that the industry may be particularly vulnerable to AI driven disruption.

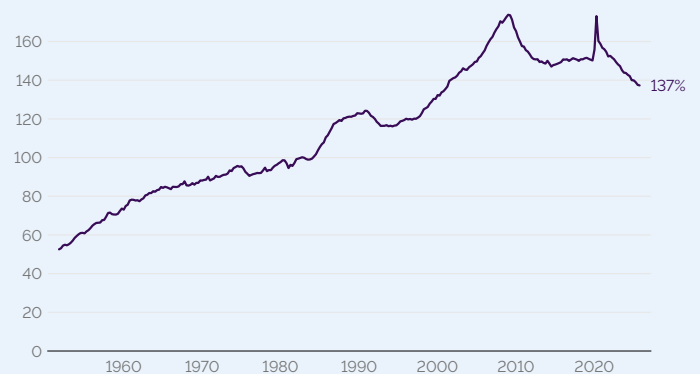
More recently, JPMorgan CEO Jamie Dimon added to these concerns, warning that weakened lending standards mean losses in private credit will be larger than expected. He is not predicting a collapse but argues that years of cheap money and loose discipline postponed the reckoning rather than avoiding it.

For investors not directly exposed to private credit, the key concern is contagion: if stresses were to spill over into the broader financial system, they could tighten lending conditions, slow growth, and impact a wide range of assets beyond private credit itself.

A very different environment from 2008

Although the headlines of an impending credit crunch sound familiar, today's environment is very different from the Global Financial Crisis (GFC) nearly twenty years ago. Years of steady cash-flow generation, combined with stricter rules placed on banks since then, have helped borrowers reduce what they owe. Private-sector debt from households and businesses has fallen from 174% of GDP in 2009 to 137% at the end of 2025.²

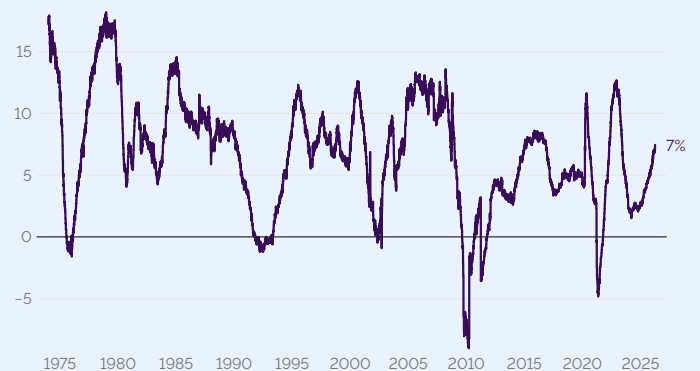
Private sector debt to GDP



Source: LSEG / Evelyn Partners

Moreover, corporate finances remain in good shape, and US bank lending has grown at a 7% annual rate, the fastest since 2023, which should help cushion the impact if private credit lenders become more cautious.³

US bank lending growth (% yoy)



Source: LSEG / Evelyn Partners

US private credit risks are probably not systemic

Overall, with less debt built up across the system, the financial landscape is sturdier, making it harder for small problems to snowball into wider damage. Using data provided by Goldman Sachs and the MSCI Private Capital Universe, which covers roughly 60 to 70% of US private credit activity, there are four reasons why stress in private credit is unlikely on its own to trigger a credit crunch, similar to the GFC.⁴

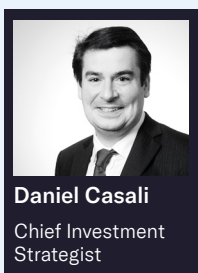
1) The private credit industry is relatively small

Goldman Sachs research shows that private credit accounts for just 4% of all credit extended to the US private non-financial sector, meaning it still makes up only a small part of the overall lending market. Even if this segment came under pressure, the broader economy would likely feel only a modest impact. For instance, Goldman estimates that if private credit defaults rose from 1% in 2025 to 3–4%, which is typically at the lower end of the range for leveraged loans in earlier credit cycles, the effect would be a relatively small 0.2% drag on real GDP growth.⁵ Even a more severe scenario, in which defaults reached 10%, would still be unlikely on its own to cause broader financial instability.

2) High equity buffers and limited leverage

MSCI data shows that private credit funds rely far more on investor capital than on borrowed money to finance their portfolios. Equity usually makes up 65–80% of their total assets, compared with only around 10% for US banks.⁶ This large cushion means that when losses occur, they are mainly absorbed by long-term investors such as pension funds and insurers, rather than spilling quickly into the broader financial system.

Unlike banks, private credit funds do not depend on short-term funding that can disappear suddenly. This strong reliance on equity is one of the most important reasons why stresses in private credit are less likely to turn into wider financial problems.



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3) Broad portfolio diversification

Despite concerns about exposure to software companies, private credit portfolios are widely spread across different sectors, with no single area dominating. For example, as a share of asset value, financials account for 21%, industrials 15%, health care 12%, information technology 11%, and both consumer discretionary and real estate 10% each.⁷ This broad mix helps prevent issues in one sector from spreading across the market, supporting overall resilience.

4) Long-term funding and maturity alignment

Private credit funds operate with long-term horizons. Fund lifespans typically are ten to twelve years, while the loans they make usually mature sooner, often within three to seven years, creating a steady stream of repayments before investors need their money back. Although some funds use bank credit lines, these tend to be small relative to total assets and are used mainly to manage short-term cash needs.

Essentially, private credit funds do not depend on short-term funding that can disappear suddenly, and because loan maturities generally align with fund timelines, they avoid many of the structural weaknesses seen in traditional banking.

Conclusion

The private credit market is facing its first sustained period of stress in recent years, but its structural features provide resilience. High levels of equity, long funding horizons, limited maturity mismatch, and broad diversification mean that losses will mainly affect investors rather than transmit through the financial system.

Although challenges remain for returns, the evidence suggests that private credit stress is manageable and unlikely to trigger major disruption in corporate credit or equity markets. Indeed, recent deterioration in the private credit industry has not materially increased borrowing costs in the high-yield market.

Taken together, these factors suggest that while the sector is under pressure, US private credit risks are probably not systemic. For investors, this reinforces that while pockets of stress may affect returns in private credit, the risk of wider market disruption remains limited.

Speak to us

Sources

¹ OFR, Measuring Counterparty Exposures to private credit, 12 March 2026

^{2,3} Evelyn Partners/Refinitiv

^{4,6,7} NBER, Private credit balance sheets and financial stability, March 2026

⁵ Goldman Sachs, US Daily: putting private credit risks in macroeconomic context, 23 March 2026

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