

Private Credit
Straw that breaks the camel's back?

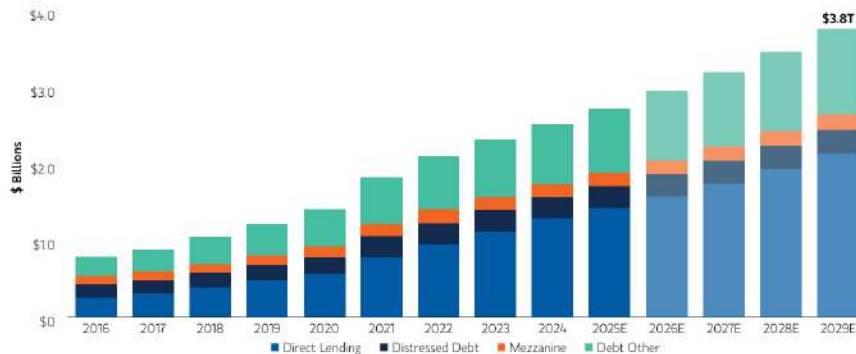
Ghosts of 2008

“When you see one cockroach, there are probably more...” Jamie Dimon

What is Private Credit & Direct Lending

- ▶ Private credit is lending outside the traditional banking system - private lenders originate loans directly with borrowers
- ▶ Post-2008, banks retreated from lending to smaller firms. Direct lending filled that gap for middle market companies
- ▶ Banks are still exposed - they fund private lenders (BDCs)
- ▶ Retail/HNW investors exposed via BDCs, new private credit ETFs & Pension fund investments

Projected and Historic Growth in Private Credit Assets



- 2025E Private Lending ~2.7T & direct lending ~1.4T
- Direct Lending > 50% of all private credit

Sources

[The Evolution of Direct Lending - Morgan Stanley](#)

[Private credit investments: 'Some caution is reasonable,' advisor says](#)

“A significant private credit shakeout on par with Covid losses is coming” – Morgan Stanley

“In our view, AI disruption will be a meaningful catalyst to drive defaults higher in direct lending... Overall, we expect the direct lending default rates to reach 8%, approaching Covid peak levels”
- strategist Morgan Stanley Joyce Jiang (as reported by CNBC)

Premise: New technology & AI → erode demand for software services → hurt lenders. Morgan Stanley estimates that ~26% of direct lender portfolios (BDCs) and ~19% of private credit CLOs are exposed to software - a sector highly vulnerable to AI disruption

Source: [Private credit shakeout matching Covid losses coming, Morgan Stanley says](#)

Investors in private credit demanding their money back

- Blackstone, the private equity giant: \$3.8 billion in redemption requests. CNBC reports that at least 25 senior leaders from across the firm pitched in some \$150 million from their own wallets .
- BCRED, Blackstones flagship private credit fund posted its first monthly loss of 0.4% in more than three years in February, it's first since September 2022, when it posted a loss of 1.3%.
- Blue Owl - hit with withdrawal requests. Halts redemptions and liquidates assets to repay.

Sources

[Blackstone's flagship private credit fund posts first monthly loss in over three years | Reuters](#)
[Why Wall Street is calling out 'echoes' of the 2008 financial crisis | CNN Business](#)
[After pouring billions into private credit, many investors want out](#)

“We're due for kind of a reckoning” *Lloyd Blankfein, ex-CEO Goldman Sachs*

Lloyd Blankfein on Bloomberg's 'The Big Take' podcast (as reported by Yahoo Finance) while speaking on the troubles in the private credit market.

- “The market could be the flashpoint for a bigger crisis in markets, pointing to the growing risks of another financial crisis given the decade of relative calm since the 2008 downturn.”
- "It sort of smells like that kind of a moment again," Blankfein said, referring to the 2008 financial crisis. "I don't feel the storm, but the horses are starting to whinny in the corral."

Source: [Ex-Goldman CEO Sounds Alarm on Private Credit: Could the Next Crisis Be Around the Corner?](#)

***“When you see one cockroach, there are probably more...
Everyone should be forewarned on this”*** *Jamie Dimon*

- Tricolor Holdings (subprime auto lender) went bust Sep 2025. Even JPMorgan took a \$170M hit from this single bankruptcy
- First Brands (auto-parts) filed Chapter 11 with ~\$2.3B in hidden loans. DOJ opened a criminal probe - echoes of Lehman
- Dimon’s point: these may be isolated, but in a downturn more will surface - “when you see one cockroach, there are probably more”

Beyond software, are car loans the next ‘toxic mortgages’ ?

Source: [Why Jamie Dimon is warning of 'cockroaches' in the US economy | CNN Business](#)

The regulators saw it coming

- **IMF April 2024:** Private credit could become systemic risk. Stale valuations, fragile borrowers, hidden leverage, opaque interconnections.
- **IMF 2025:** Half of DL borrowers had negative free operating cash. This deterioration of the borrowers' credit quality has not been reflected in the accounting valuation of DL loans.
- **Boston Fed May 2025:** Banks fund private lenders through credit lines and could pose systemic liquidity risk to banking sector under certain circumstances, including borrowers defaulting together.
Boston Fed's own words "tail risk may be underappreciated"

Sources

[IMF Global Financial Stability Report, April 2024, Chapter 2](#)

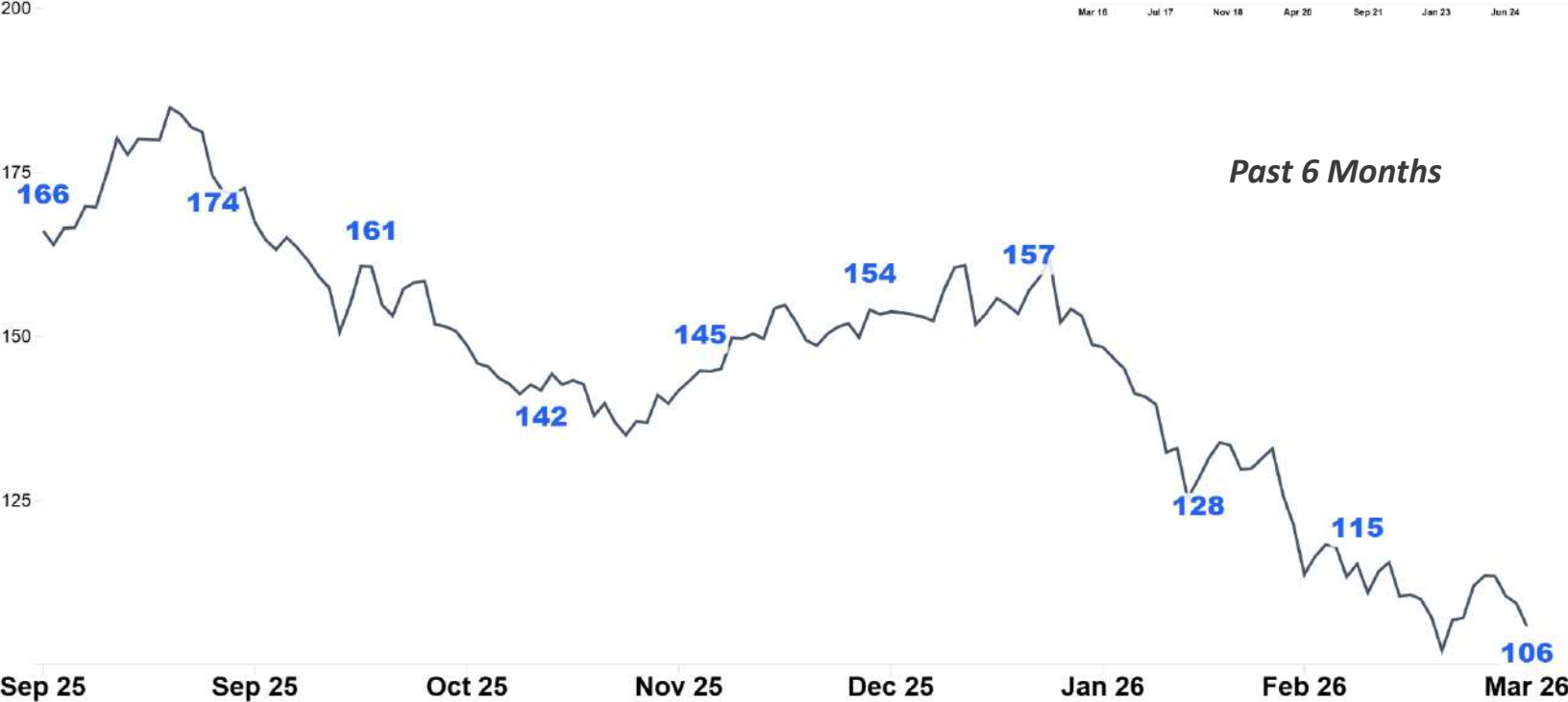
[IMF Global Financial Stability Report, October 2025](#)

[Federal Reserve Bank of Boston, Current Policy Perspectives 25-8, May 2025](#)

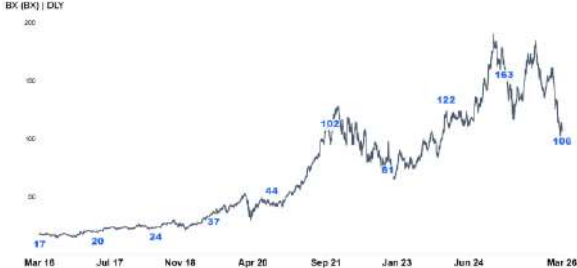
**What are the markets
saying?**

Blackstone down ~40% from its 6 month highs

BX (BX) | DLY



Past 10 Years



Past 6 Months

Apollo Global down ~30% from 6m highs

APO (APO) | DLY

180

160

140

120

Sep 25

Sep 25

Oct 25

Nov 25

Dec 25

Jan 26

Feb 26

Mar 26

135

136

127

128

131

148

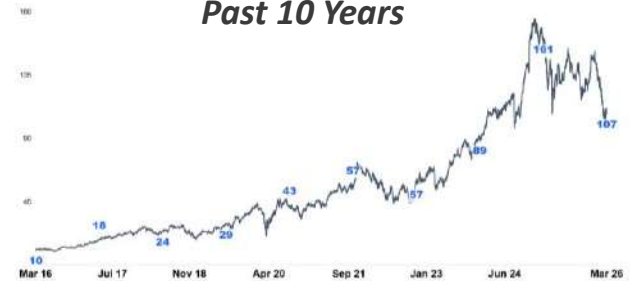
143

132

106

107

Past 10 Years



Past 6 Months

140

120

Sep 25

Sep 25

Oct 25

Nov 25

Dec 25

Jan 26

Feb 26

Mar 26

135

136

127

128

131

148

143

132

106

107

Blue Owl Capital down ~50% from 6m highs

OWL (OWL) | DLY

24

20

16

12

Sep 25

Sep 25

Oct 25

Nov 25

Dec 25

Jan 26

Feb 26

Mar 26

18

17

17

14

15

16

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24

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12

Dec 20

Sep 21

Jun 22

Feb 23

Nov 23

Jul 24

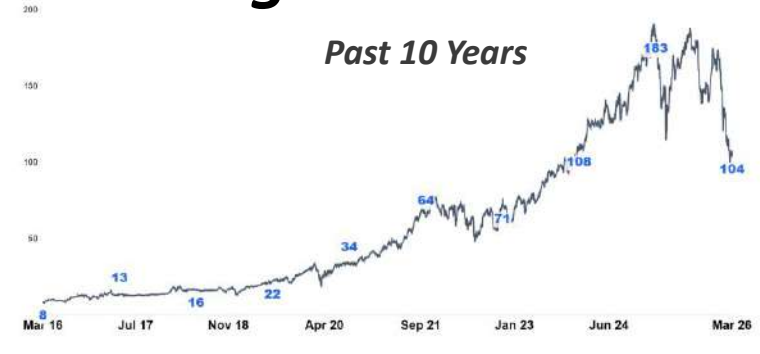
Apr 25

Mar 26

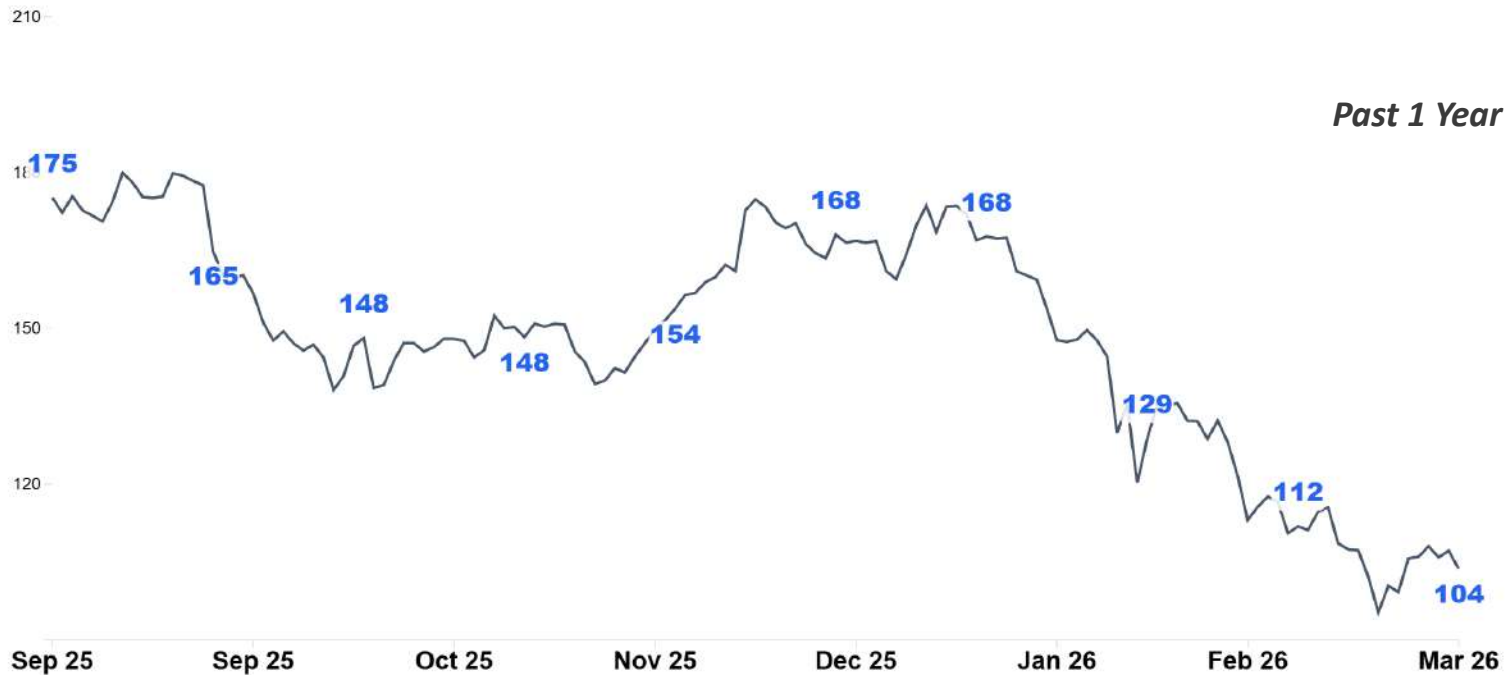
Since IPO – Past 5yrs

Past 6m

Ares Management down 40% from 6m highs



ARES (ARES) | DLY



“The US private credit market is heading in the wrong direction” - *The Kobeissi Letter*

- BDCs are publicly traded firms that lend to small and mid-sized US businesses.
- At 0.73x NAV, the market is saying 27% of their loan book is overvalued.
- This ratio has been declining for 18 months.
- In 2008 it hit 0.35x.
- ~20% of BDC portfolios are exposed to software, a sector under AI disruption pressure.

BDC discounts have widened, but they've been bigger in the past



Note: NAV = net asset value

Source: Morningstar | J. Guilford | March 4, 2026

Reuters Breakingviews

Source: [The Kobeissi Letter on X: "The US private credit market is heading in the wrong direction"](#)

**The macro backdrop
makes it worse**

Structural weaknesses intensifying



**Non Farm
Payroll**

2-yr downtrend



**Jobless
Rate**

Creeping up



**Brent
Crude**

Nearly 2x



**PPI
Core**

Rising fast



**PPI
Overall**

Oil shock pending



**Retail
Sales**

Declining



**30+ DPD
Delinquency**

Past COVID highs



**Yield
Curve**

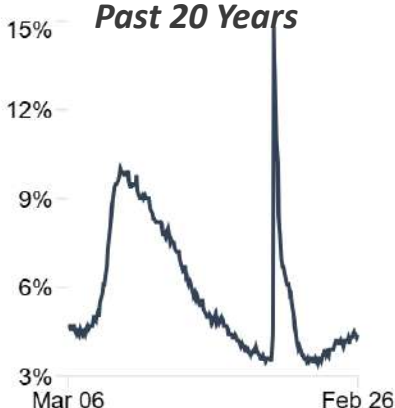
Falling



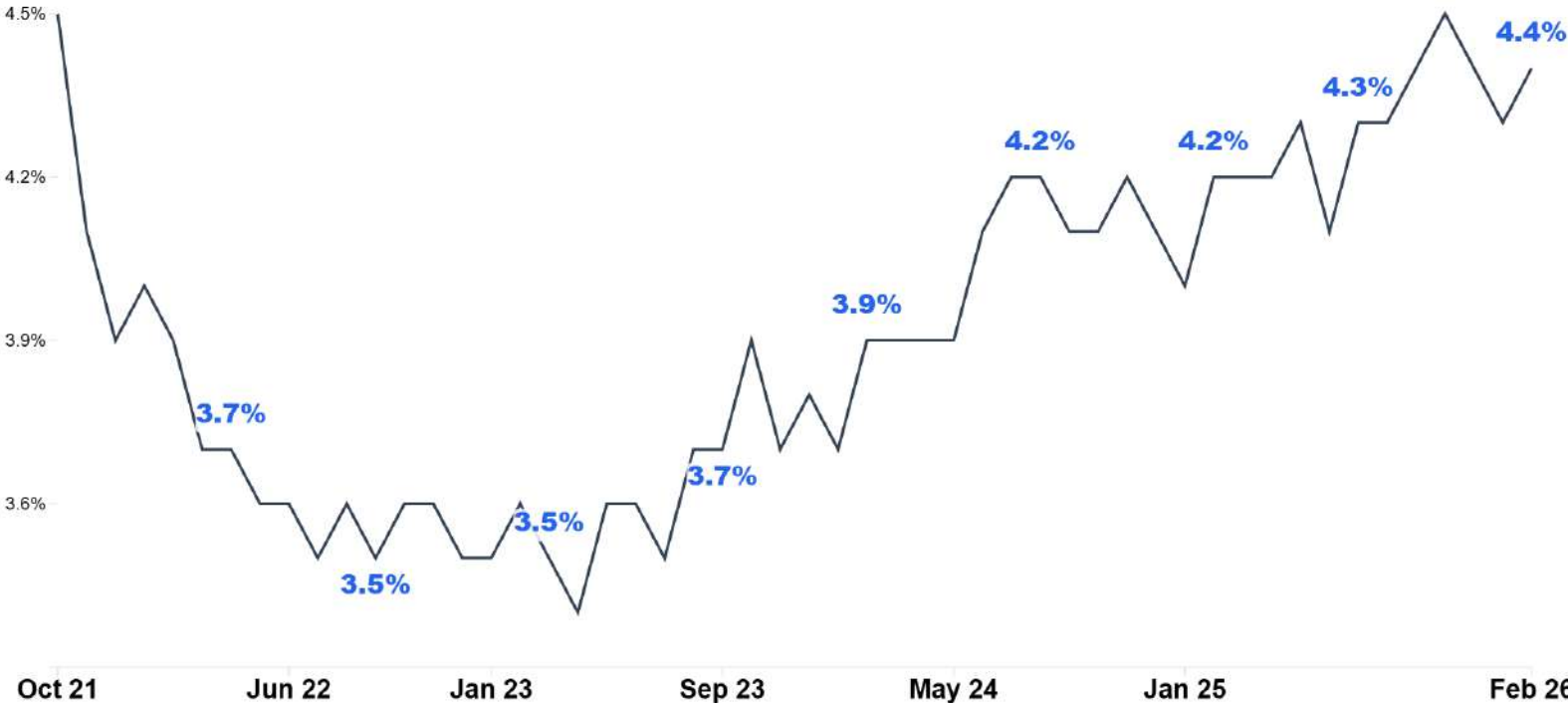
**Equity
Markets**

5-10% off highs

Unemployment creeping up steadily the past 2 years



US | Unemployment Rate (U-3) | MTHLY



US Non Farm Payroll YoY Rate – On a Clear Downtrend

Feb'26 Payrolls fell by 92K against consensus expectations of a 59K rise. This is the 5th time in past 9 months that the economy lost jobs

US | Total Nonfarm Payroll Employment | MTHLY (% YoY)



US 30+ DPD has already crossed the COVID highs



US | 30+ DPD All Debt (% of Balance) [NY Fed CCP] | QTLY



Previous Analysis going into structural weaknesses, oil prices and market movements:

1. [Structural Weakness Intensifying](#)

[March 20, 2026](#)

2. [Are We Staring into Face of Another Full Bear](#)

[March 14, 2026](#)

*You don't know who's been
swimming naked until the
tide goes out.*

- Buffett