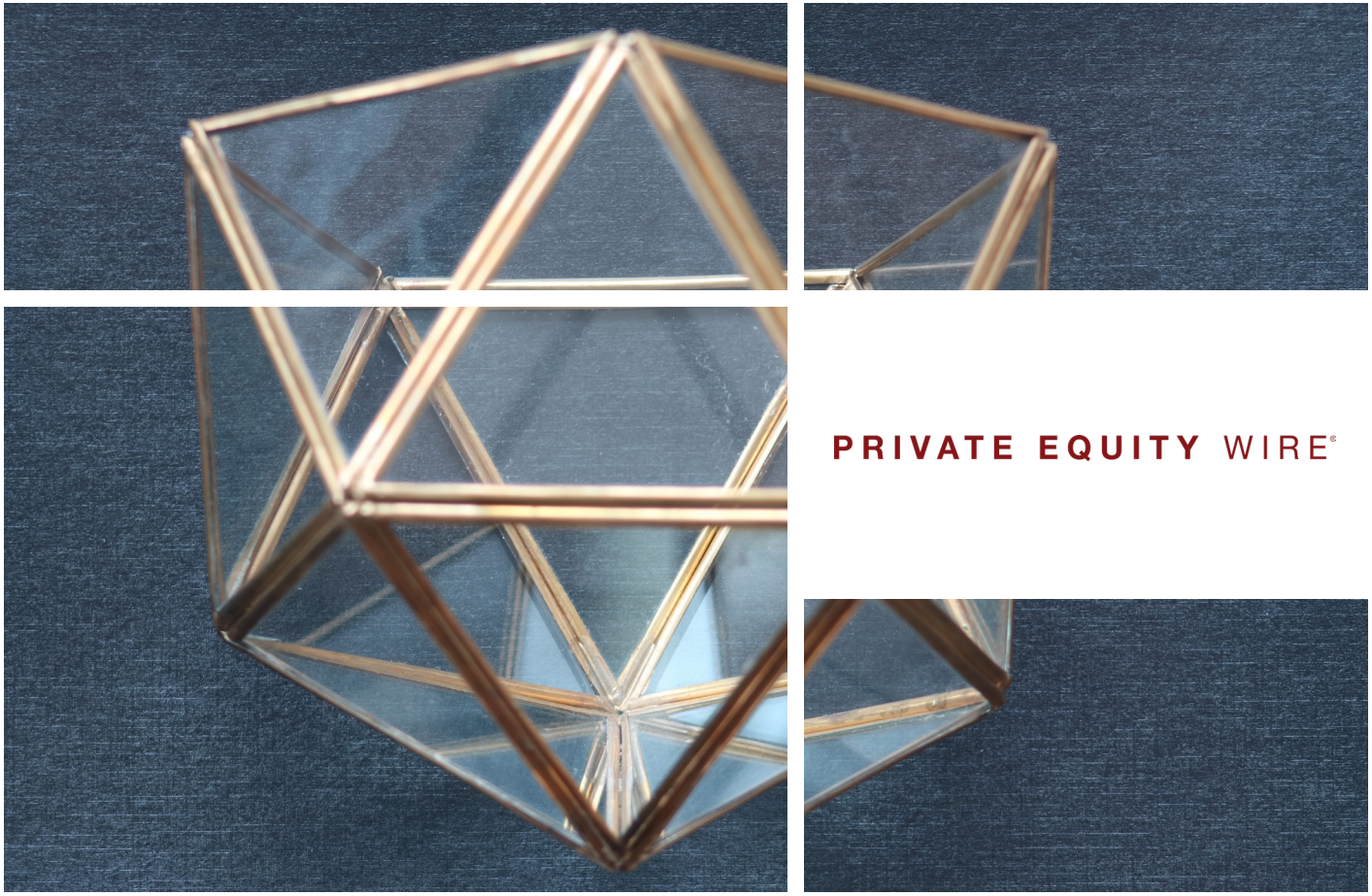
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SEPTEMBER 2026



PRIVATE EQUITY WIRE®

LATE CYCLE

PRIVATE CREDIT FACES DISPERSION, CHASES TRANSPARENCY

EXECUTIVE SUMMARY

As we progress to late in the cycle, private credit has developed into a substantial force in the global economy – highly stratified, increasingly sophisticated and vastly dispersed.

There is undoubtedly stress with which to contend, as default rates rise and economic instability strains portfolios. Parts of the market have also displayed ill-discipline and concentration, which have caused repercussions and continue to do so. At the same time, the fundamentals of bank retrenchment and capital needs continue to make for sizeable opportunities for firms that are able to source and select the right deals.

Section one of this report is all about dispersion, between the performers and the rest in private credit, which will define the foreseeable future for the asset class. How firms conducted themselves over the past half-decade will determine the pool of industry players that can capitalise on vast financing needs, from the lower-middle market to the AI value chain.

And while capital is widely available with strong appetite for private credit, investors are putting managers under the microscope, scrutinising their track record and performance over previous periods of economic stress. In short, managers that have survived a full credit cycle in the past, and ones that won't compromise on communication in downturns further along the road will win out.

Section two is all about transparency, when it comes to the form and frequency of pricing, as well as the risk management and monitoring infrastructure in place to navigate volatility. Information flows are far from smooth in the industry, but firms are leveraging data structuring, AI and, where acceptable, standardisation to enable a more rigorous reporting paradigm.

Dispersion is the industry's reality and transparency is its key pursuit. This report explores how firms are contending with both. A special thank you to SS&C for contributing operational expertise and making this research possible.

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METHODOLOGY

This research is based on a Private Equity Wire® survey of 110 private markets managers, with responses collected between June and August of 2026.

Report commentary is based on Private Equity Wire®'s editorial analysis, and in-depth, qualitative interviews with industry experts and participants.

53% Plan to keep their allocations to private credit level in the next 12-18 months, while 35% are planning an increase

42% Say the lower-middle market is the private credit segment with the highest return potential, followed by 33% that say asset-based financing

47% Say credit and default risks are the top challenge facing private credit firms at present, while 45% say the same of high competition

79% Are applying AI for data gathering and analysis, while 45% are using it for valuations and reporting and 44% for record keeping

40% Say data collection and reporting processes are their top operational pain points, followed by 23% that struggle with systems integration

BALANCING THE NARRATIVE

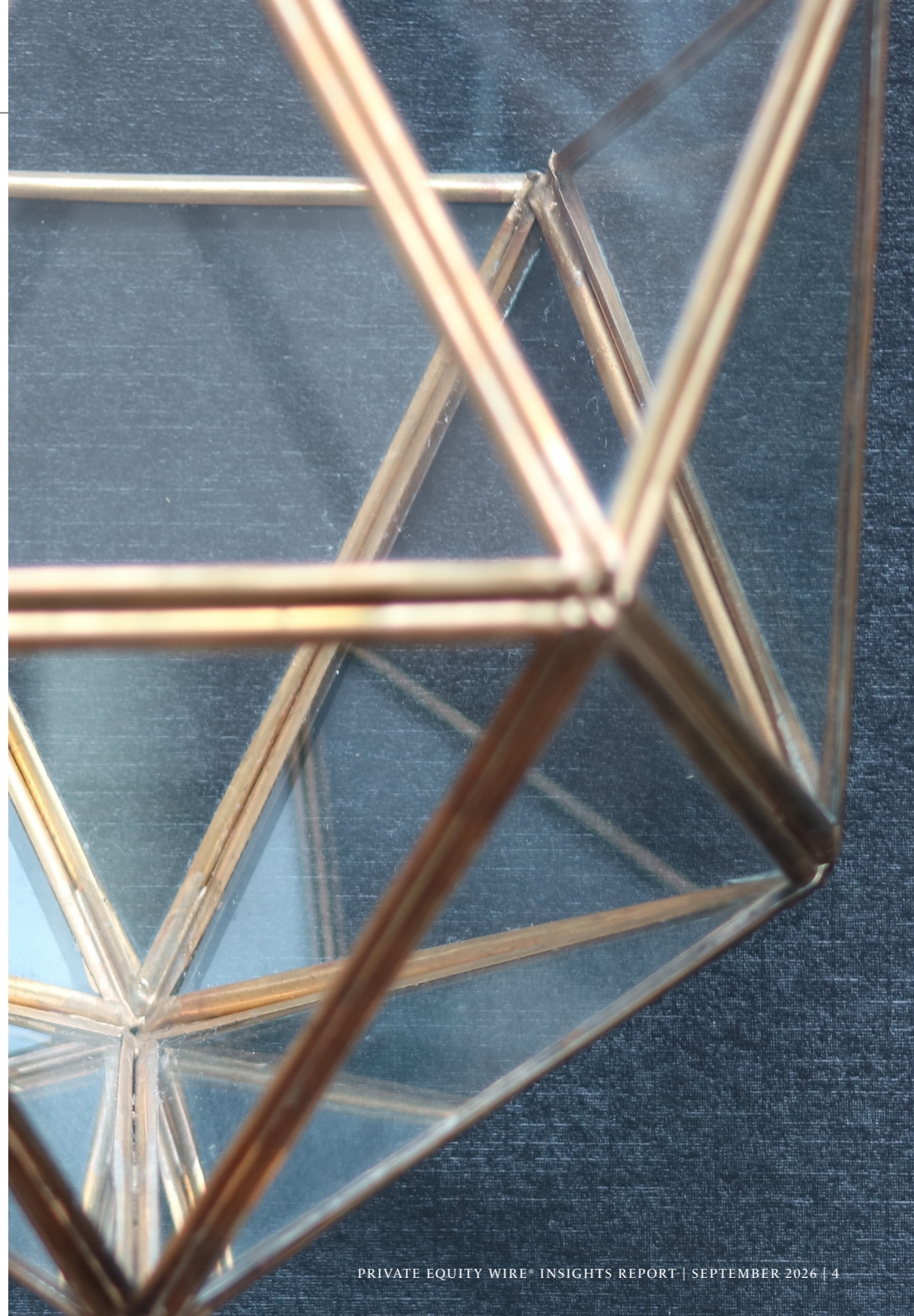
A nuanced picture of the AI rush, default risks, the lower middle-market and high competition

Keeping level for the most part and pressing ahead where appropriate sums up the confidence level in private credit for the next phase of the cycle.

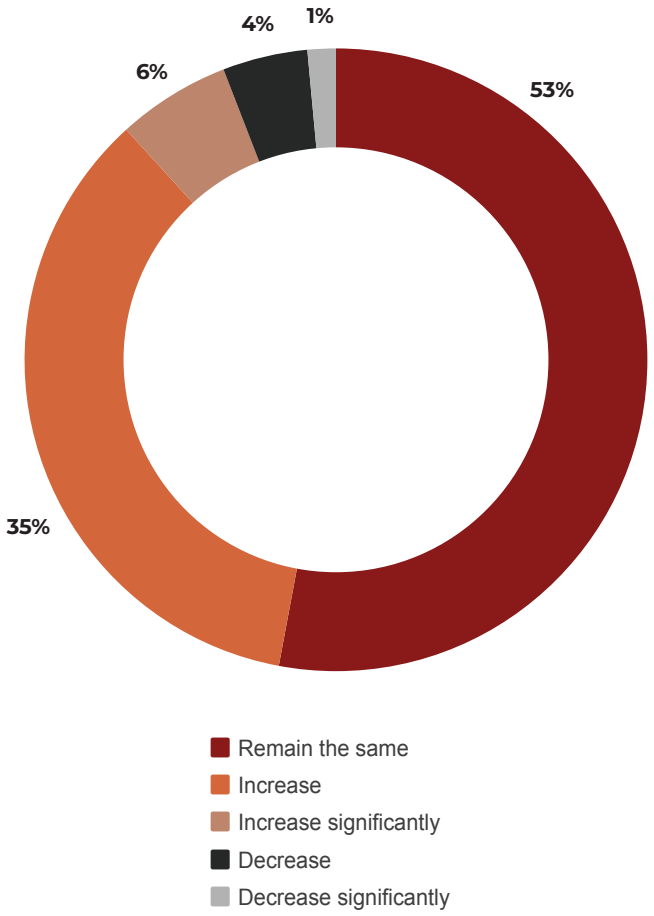
More than half (53%) of the respondents to Private Equity Wire®'s Q3 2026 Reader Survey plan to maintain their private credit deployment level for the next 12-18 months, while another third (35%) are planning an increase (see Fig.1.1.). Only 5% are cutting back.

One outcome most can agree on is dispersion, as the market enters a decisive period that will separate disciplined performers from the rest.

Emma Bewley, Partner and Head of Credit at Partners Capital, says: "We are looking at more of a K-shaped outcome in private credit now than previously. Dispersion in credit broadly, and in private credit specifically, has to rise given wider economic factors. For instance, refinancings done in 2021 will now be coming up



1.1. Allocation plans to private credit – next 12-18 months



No segment showed a variation of 25 percentage points or more from the overall figure.

for refinancing again at the five- and seven-year point, against equity valuations and leverage capacities that may no longer look the same."

Nik Singhal, Group Head of Direct Lending at ORIX USA, adds: "Publicly available BDC results are a good proxy for dispersion. Previously, brand name and size mattered a great deal. Now, allocators are digging into firms that actually navigated the cycle well and firms that faltered."

Also in focus for allocators is the market segment where managers play. Much has been made of the financing opportunity around the entire AI value chain, from supporting infrastructure to the end product. Still, our data finds this ecosystem to be lower down the pecking order, with real economy financing taking centre stage, either through lower- and upper-middle market direct lending or asset-based financing (see Fig.1.2.).

Bewley says: "I think we are entering a more traditional credit cycle in some ways which looks similar to what we saw in the period around 2000 to 2005. At that time, we had cyclical pressures, a conflict in the Middle East, and a very significant volume of debt-raising concentrated in a single sector – then related to telecoms. Today it is focused on financing the growth of AI.

"If a significant amount of investment-grade debt is coming into the market pricing close to some high yield issues, that raises a question about the cost of capital across the rest of the credit market. The proliferation of construction and the range of financing options now coming into the data centre market also make it the dominant credit story."

"If a fixed return is being generated on something with an equity-like risk profile, that may be the wrong part of the capital structure to be in. That position is better suited to equity, or something with attached equity, than to fixed income seeking a predictable path to repayment."

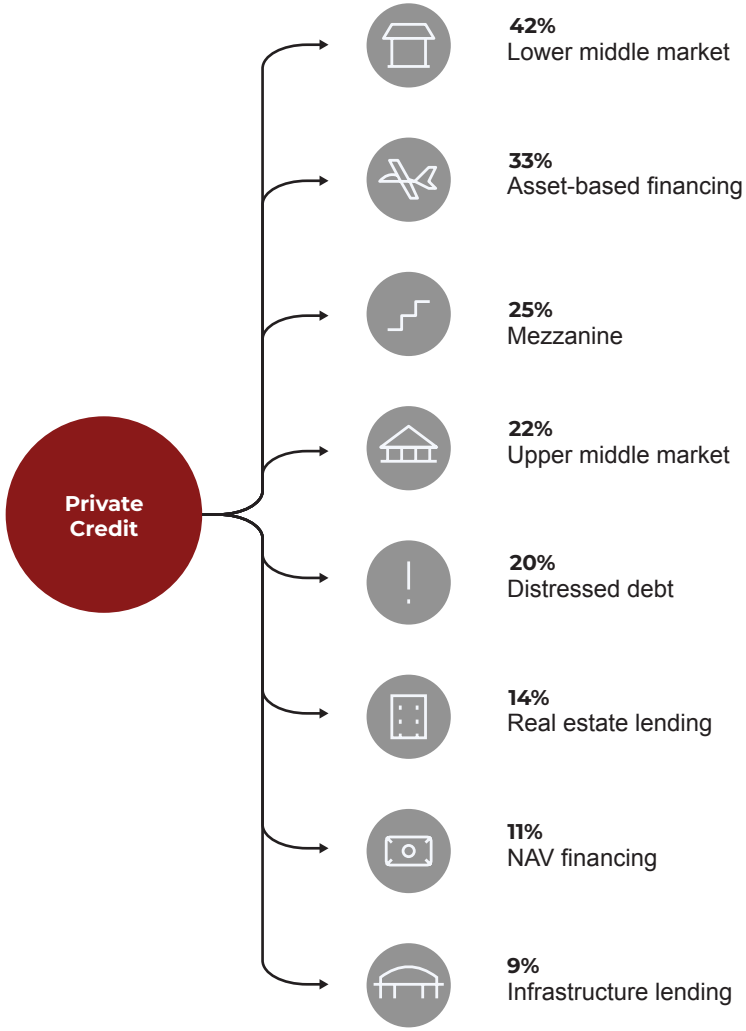
Andrew Eversfield, Co-head of Direct Lending at Sound Point Capital, says not all data centre investments are created equal. "A project finance situation tied to new-build construction, where EBITDA depends on completing the build, is inherently more risky than lending to an established operator with a recurring, monthly-paid business model tied to an already-operational asset."

THE MIDDLE MARKET

Away from the noise of AI, the opportunity set for middle market lending and asset-based financing worldwide is immense, from the robust pipeline of high-growth US businesses to the European sovereignty story and much more. Vastly underpenetrated by banks, the lower end of this segment represents a deployment outlet for private credit, with the important caveat that due diligence and robust origination become of critical importance here.

Concerns primarily relate to the resilience of these businesses to economic shocks, of which there are plenty. When underwriting new loans,

1.2. Segment with highest return potential – next 12 months



economic instability (53%) and geopolitical and regional risks (47%) occupy significant brain space, as do industry-specific concerns around refinance or exit risks (44%) and volatility in enterprise value (32%) and interest rates (29%) (see Fig. 1.3.).

Eversfield highlights that these challenges exist in all segments of the market. "There is no inherent assumption that a smaller EBITDA company is riskier than a larger one. It comes down to customer diversity, industry tailwinds, the depth of the sales force, and the tightness of the loan structure and covenants. All of that has to be assessed together rather than assuming risk scales simply with size."

DEFAULTS AND RESILIENCE

Front of mind for the industry are default rates – cited by 47% of firms as the biggest challenge faced by private credit managers (see Fig.1.4.). And the primary driver of defaults is far-and-away seen to be macro-economic pressure, as noted by 54% of firms (see Fig.1.5.).

Still, 2026 has brought surprising levels of economic resilience when considering the degree of disruption. Nicholas Brooks, Head of Economic and Investment Research at ICG, says: "Underlying final demand in the US is growing at somewhere around 2%, close to its potential rate. Europe's second quarter GDP, looked at on a year-on-year basis, shows growth of around 1.2 to 1.3%, which is slower than the US, but still decent. MSCI Europe EPS growth for the full year is forecast at around 17%, and still 13 to 14% once energy is stripped out. In the US, excluding AI-related companies as a very special segment, EPS growth is also running at around 14%."

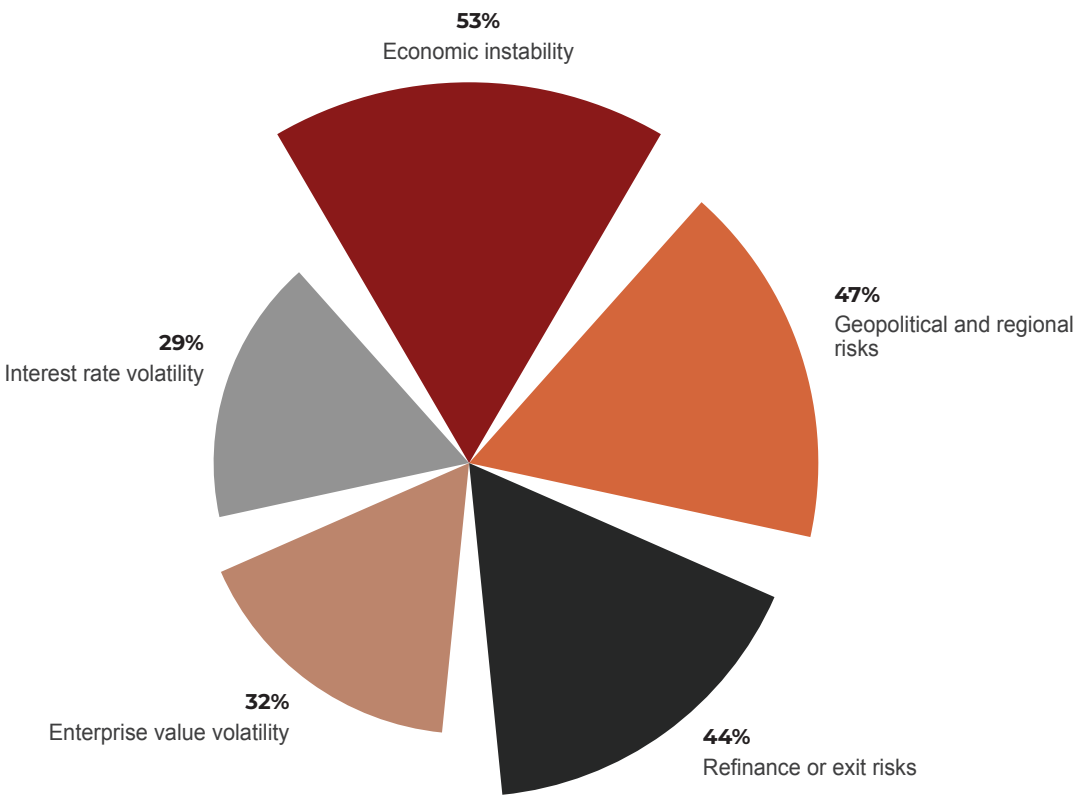
On the rising default rates and the wider concerns around private credit triggering a financial crisis, he says these concerns are overdone. "There is certainly a lot of dispersion within the private credit industry, and that dispersion is likely to increase over the coming year or two, but that is a fundamentally different issue from systemic risk."

Rising non-accrual rates in recent months have fuelled default concerns, but even here a degree of balance can be brought to the narrative. Singhal says: "Non-accrual is an accounting concept, and it can potentially be mitigated by reducing the interest rate, or by switching to payment-in-kind and potentially returning a loan to accrual status. There is judgment involved in that classification, which is why headline non-accrual figures alone are not a reliable measure of the stress actually present in a portfolio."

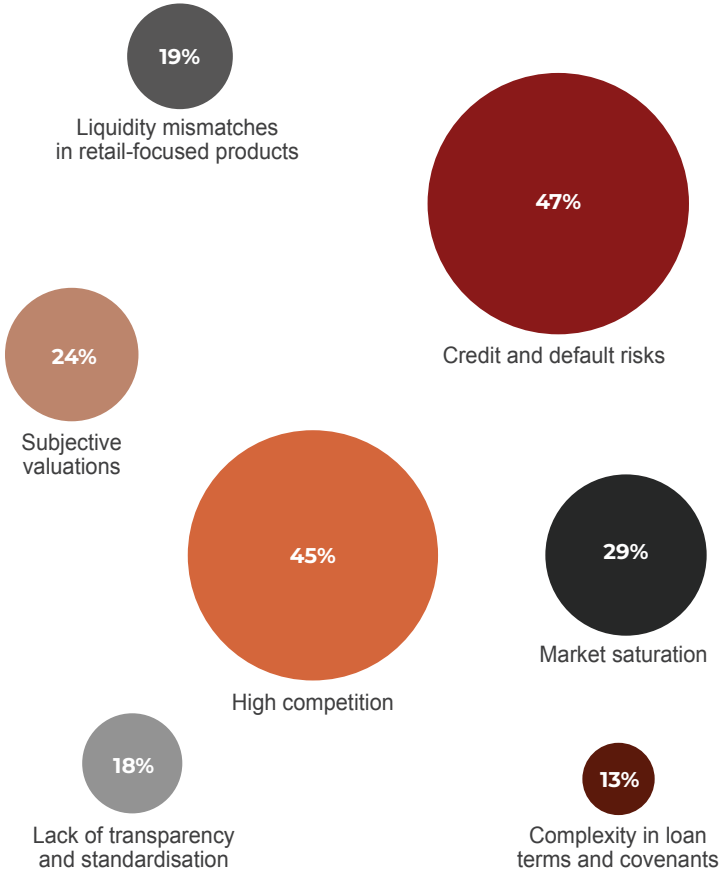
"Even accounting for hidden stress, some managers have around five percent of their portfolio under distress, while others have twenty to twenty-five percent."

"For the distressed portion of a portfolio, the more important question is where recoveries are actually expected to land. Some managers are looking at recoveries close to zero on names that have gone sideways; others are better positioned and may see recoveries closer to eighty percent on average. Those recovery levels, not just the headline stress ratio, are what ultimately protects a long-term track record."

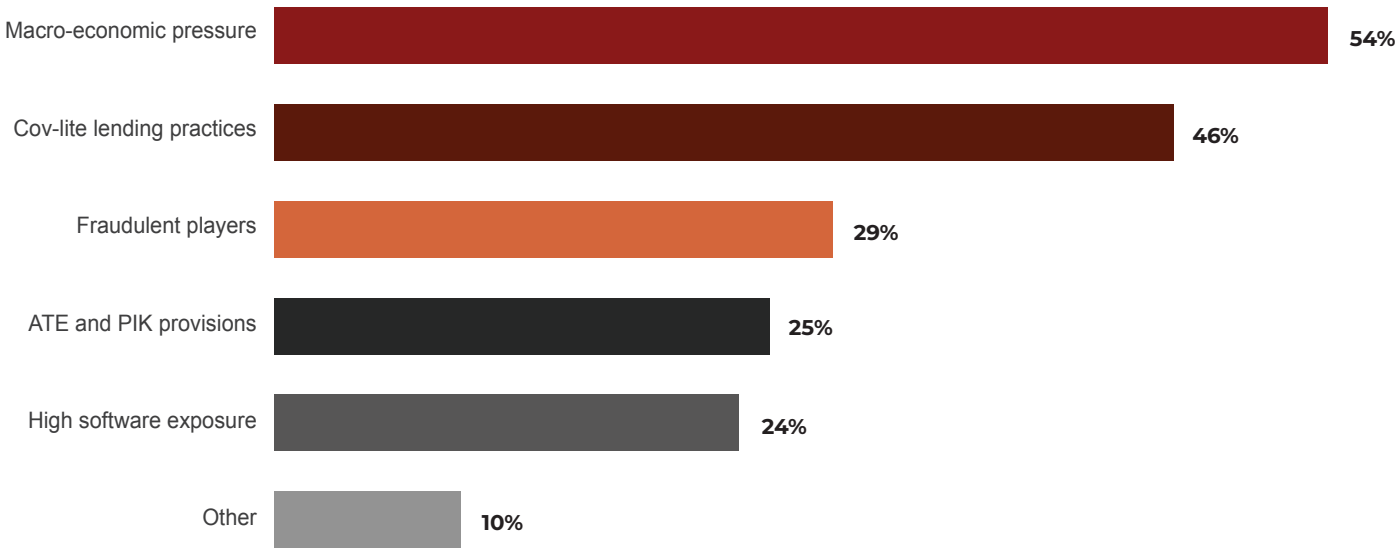
1.3. Top concerns when underwriting new loans



1.4. Top challenges facing private credit firms



1.5 Top drivers of default rates



The range of practices highlighted above are also contributing factors to rising default rates, although this is not the only challenge facing private credit firms. Nearly half of all firms (45%) find high competition to be a significant challenge, while 29% say the market is saturating and 24% are struggling with subjective valuations (see Fig.1.4.).

Maxime Laurent-Bellue, Deputy CEO and Co-Head of Credit at Tikehau Capital, says: "Leaving aside the macro environment, which is probably the mother of all concerns right now, the main challenge today is the lack of deal flow. M&A and PE activity has been subdued recently, for the simple reason that investors tend to be cautious amid uncertainty.

"It is one of these markets where firms need to be patient and deploy capital in a very focused and disciplined manner. Selectivity needs to be higher than ever in a market where there is already a limited number of deals. The positive of the current environment is that risks need to be reflected in the structures.

"There is pressure on pricing because of competition and the lack of deals, but structures tend to be more conservative. For firms able to resist pricing pressure, it is a decent environment."

A sizeable operational outlay goes into balancing deployment pressure with risk management, all while developing the innovative and opportunistic capital solutions the global economy so clearly requires.



“I think we are entering a more traditional credit cycle in some ways which looks similar to what we saw in the period around 2000 to 2005”

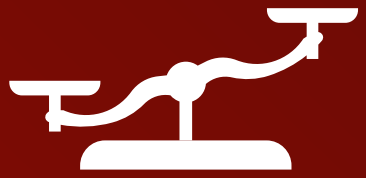
Emma Bewley
Partner and Head of Credit
Partners Capital

KEY FINDINGS

Top Concerns

Economic and geopolitical concerns outweigh industry challenges when underwriting

External forces



53%

Economic instability



47%

Geopolitical volatility

Industry challenges



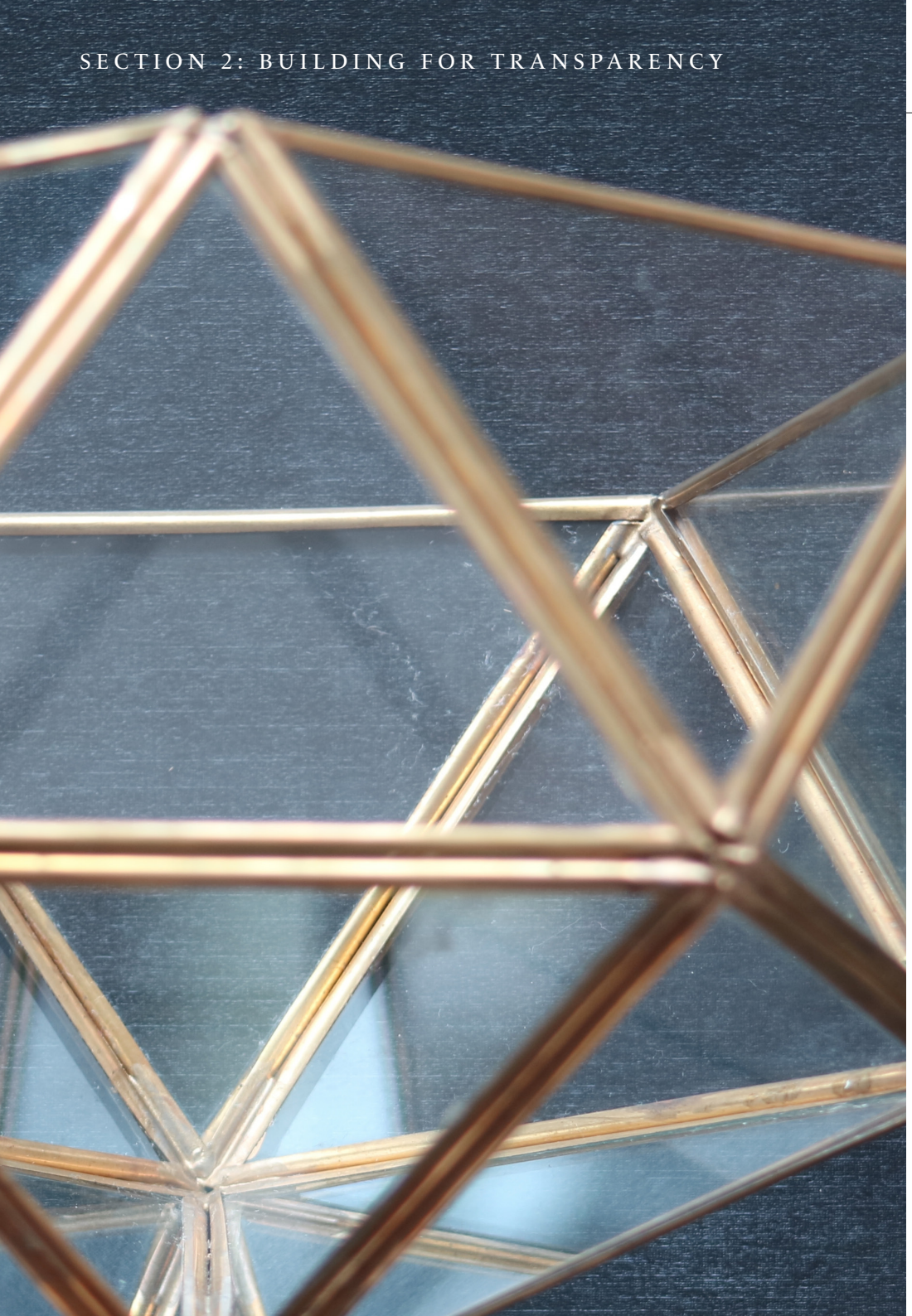
44%

Refinance or exit risks



32%

Enterprise value volatility



BUILDING FOR TRANSPARENCY

The operational imperatives facing firms as transparency becomes a non-negotiable differentiator

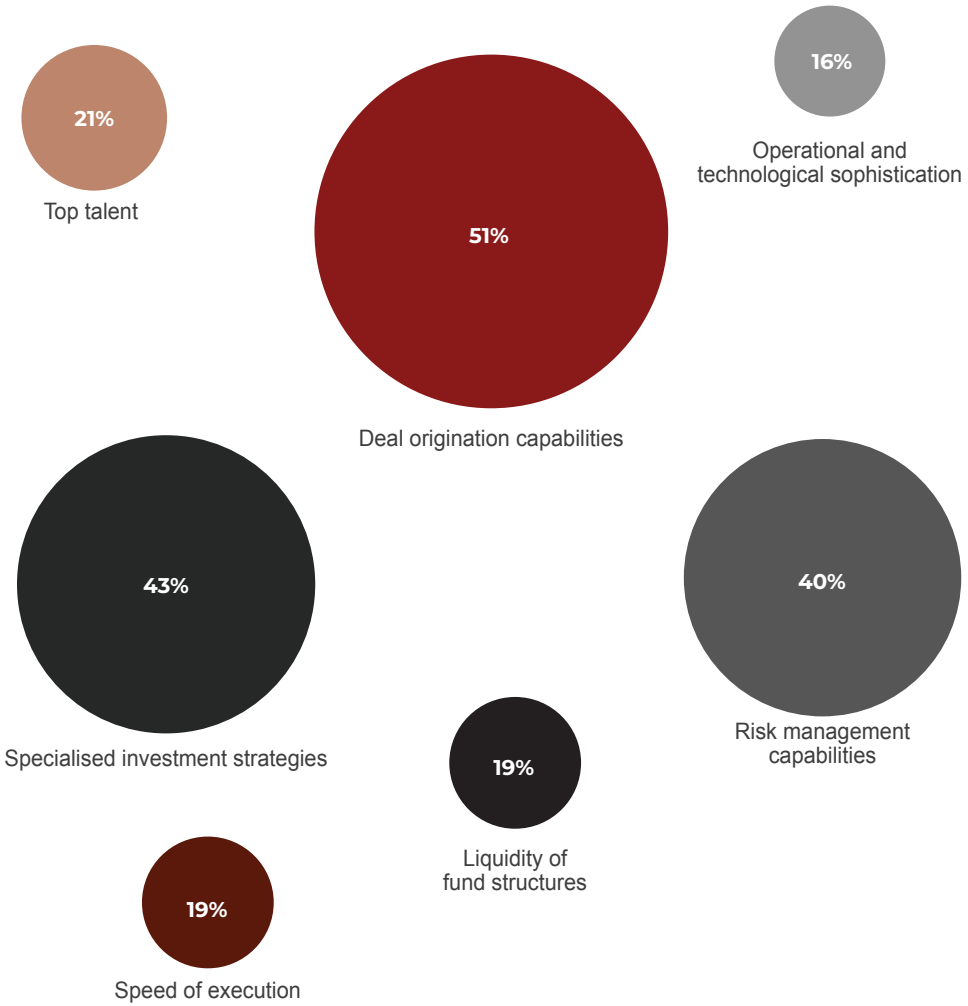
Three forces are conflating in private credit, namely high competition and deployment pressure; macroeconomic stress and default risk; and the need for real-economy financing worldwide.

Not surprisingly against this backdrop, the top differentiators for a future private credit firm according to our audience, are deal origination capabilities (cited by 51%), specialised investment strategies (43%) and risk management capacity (40%) (see Fig.2.1.).

Talent, speed of execution, liquidity of fund structures and technological sophistication are also on the list, but lower down by some distance.

Maxime Laurent-Bellue of Tikehau Capital says: “Origination remains the key point, and it becomes even more important with a more depressed deal flow. That means operating in local markets, being close to counterparts, and engaging with private equity firms proactively, before a formal process is even in place. Sponsors will also be more willing to work with lenders they know and can rely on, so repeat

2.1. Key differentiators for future private credit firms



business becomes the foundation of future deal flow."

Scale has long been a decisive advantage when it comes to origination in private credit, with large firms and their sprawling local networks of relationships in a strong position to feed the deal pipeline. Still, the fact that specialised investment strategies is high on the list of differentiators creates space for challenger firms, as the industry calls out for creative capital solutions based on relationships and deep sector expertise.

PRICING IN FOCUS

The most prominent emergence from 2026 has been the pursuit of transparency: from allocators, around the performance of their investments; from managers, on the true signals and exposures in their portfolios; and from regulators, around the interlinkages between private credit and the wider financial industry.

Pricing and valuations have come under scrutiny, both in terms of form and frequency. Our research finds that while a quarterly cadence remains preferred (cited by 53%), nearly a fifth of managers now mark their portfolios monthly (see Fig.2.2.). Daily pricing remains a distant reality, despite the leading edge of the industry progressing down that path.

Laurent-Bellue says: "Daily valuation on fully illiquid private instruments is not necessarily appropriate. But more frequent and more transparent processes can help support the ongoing democratisation of the asset class, and that trend is expected to continue."

Alongside frequency, the rigour of valuations is a key priority at present. Emma Bewley of Partners Capital says: "There has been a shift toward fair value methodology over the last three or four years, including in some of the more esoteric parts of the market. Valuing positions closer to the price achievable in the secondary market has introduced a bit more volatility into returns, but that is, in principle, the desired outcome, in that it demonstrates the position is being actively monitored.

"In a world where covenants are relatively weak, there is no shortcut to understanding the trajectory of a business and its creditworthiness short of monitoring performance on a monthly basis."

AI AND DATA

It's not just valuation practices that are being scrutinised. Increasingly, a firm's ability to navigate all the pressures at play in the market hinges on the sophistication of its operational infrastructure, and investors are paying close attention.

Bewley says: "Transparency is a threshold issue when evaluating managers. We want to know how a manager has generated returns, rather than taking a track record at face value. We often dig through years of cash flows with some of the more established managers to understand what has happened through various cycles, and how their appetite for risk has changed as the environment has shifted."

“Most firms are still trying to master the beast and make sure the use cases, and the way AI is integrated into their processes, are the right ones”

Maxime Laurent-Bellue
Deputy CEO and Co-Head of Credit
Tikehau Capital

"A risk-based sizing methodology governs how our commitments to managers are set, weighing the risks conferred by concentration, the part of the market a manager works in, and how they structure their deals. Sizing is informed by understanding the level of idiosyncratic risk in a manager's book, whether they sit at the smaller, more concentrated end of the market or the larger, more diversified, end."

For managers, standing up to this scrutiny has entailed more than an impressive and disciplined track record. It has meant the reinvention of their operational infrastructure to enable deeper insight into their own books and a smoother flow of data and information. The move down wealth channels through semi-liquid structures, and the regulatory, operational and liquidity implications of the same have only intensified the scale of this shift.

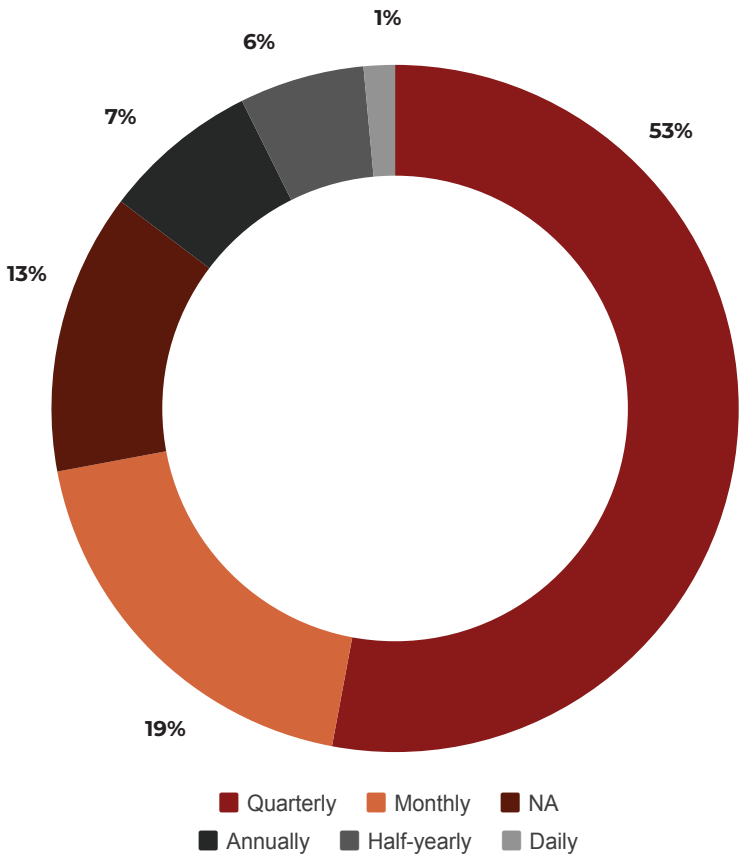
No doubt, AI will dictate progress in this space. Currently, firms use AI most for data gathering and analysis – cited by well over three-quarters (79%) of our respondents as the top use case (see Fig.2.3.). Other use cases, lagging behind, are valuations and reporting (45%), documentation and record keeping (44%), underwriting (42%), deal origination (39%) and performance monitoring (38%) – all pursuits that are intensifying as noted above. Interestingly, despite its now crucial importance, risk monitoring is a use case for only 24% of firms, with the trust deficit still very much a reality.

Laurent-Bellue says: "Most firms are still trying to master the beast and make sure the use cases, and the way AI is integrated into their processes, are the right ones. It will certainly evolve over time, we're only just at the beginning. But it's too significant to be ignored, and it is likely to contribute to the transformation of the industry."

Eversfield provides some colour on implementation at Sound Point. "AI is currently used most heavily in screening new deal opportunities, preparing overview memos, and monitoring which private equity firms are actively raising or performing well. Portfolio tracking has also been automated, so a query on how many companies in a given industry and geography sit below a certain leverage threshold can be answered in around ten seconds."

That level of efficiency could transform the industry's competitive landscape. Still, AI relies on the data it processes, and many firms continue to struggle with data gathering (cited by 40%), integration of systems (23%) and the capacity of their infrastructure to scale with them (21%) (see Fig.2.4.).

2.2 Frequency of valuations for private credit portfolios





THE CASE FOR STANDARDISATION

AI could free up time to build the solution private credit really needs, says Lance Weer, Managing Director at SS&C Technologies.

Private credit has proliferated at such a pace that few industry stakeholders have had the chance to take a step back and address the two features the asset class is plainly calling out for – transparency and standardisation.

This year, the cracks became more visible than ever before, pushing process and structure to the top of boardroom agendas. Lance Weer says: “More readily available financial information would create less reactionary moves in response to shifting political and financial conditions.”

The missing piece, according to him, is an aggregated benchmarking solution. “It would be helpful for the industry to arrive at a standard around a tool for private credit that better tracks deal analytics in a systematic way, comparable to how public instruments are tracked.

“This would allow firms to make better decisions, track information, compare loans and risk profiles against each other, and act on conviction at speed. The lack of uniformity and the pace of competition has made it difficult for the industry to focus on this, but it represents an area that could deliver the greatest return with broader adoption.”

A high-impact area would be continuation vehicles, which make up roughly half of all secondary transactions in private markets according to the latest Evercore Secondary Market Review. These vehicles also form a key pillar of the rapidly expanding credit secondaries space. Valuation conflicts are a key concern here and the ability to compare against industry standards would be a tremendous value add. The same comparative abilities would feed better risk models, which are evolving rapidly as external factors grow more volatile.

But building a standardisation tool is far from simple. Deal terms and capital solutions in private credit are growing more exotic by the day, as the industry grows more opportunistic. And firms wouldn’t have it any other way – deal structuring is a key differentiating feature in lending. Weer says a benchmarking tool wouldn’t negate innovation; it would feed it. “There are underlying analytics within each deal that are important to track across the portfolio. That need doesn’t disappear simply because a new lending structure was required to get the deal done.”

A SOLID FOUNDATION

As it happens, the industry is now in a place to make the most of standardisation. “Firms have spent recent years building individual AI agents and automations, and are now turning to the question of how to connect that work together.

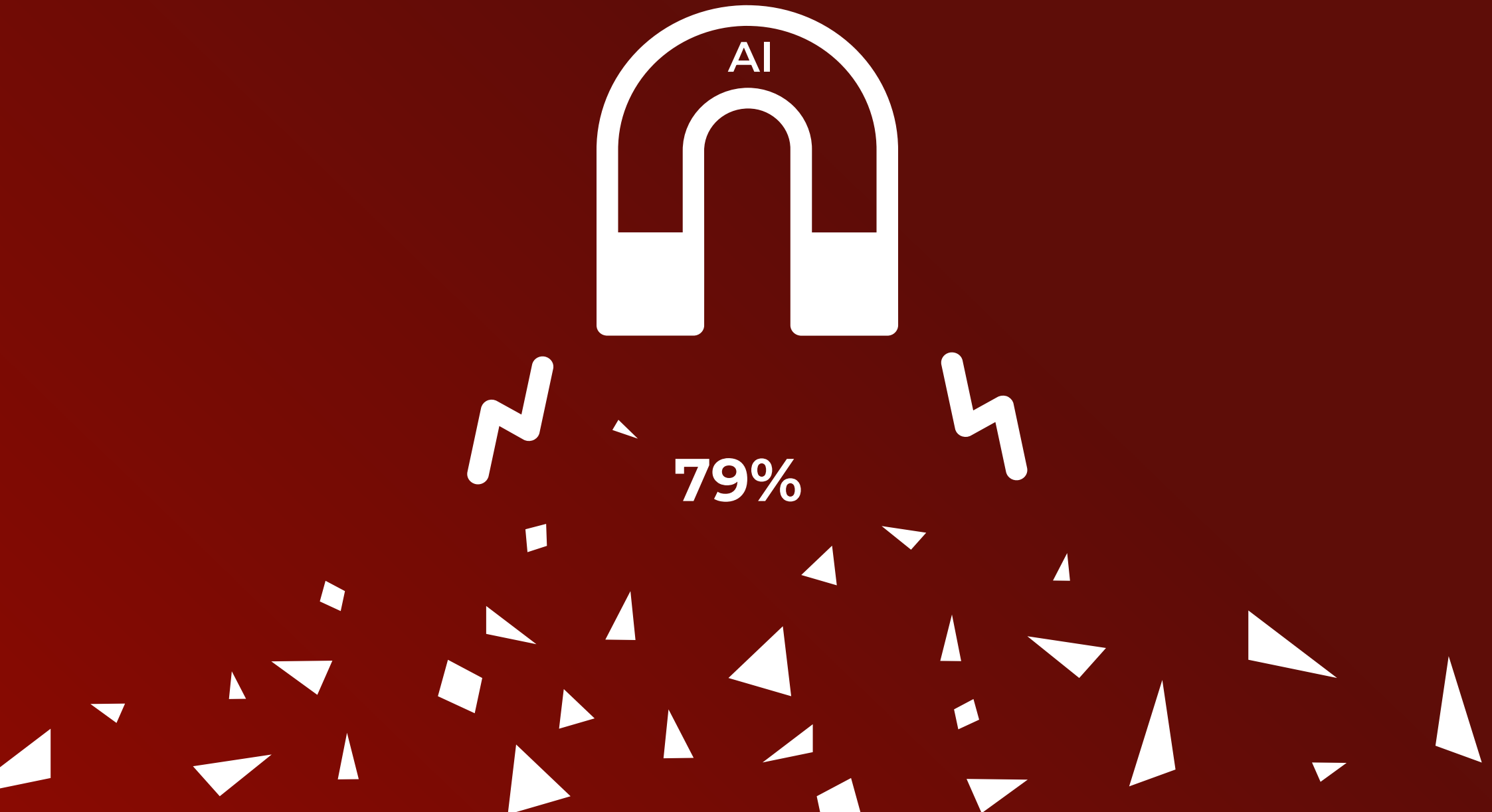
“A central orchestration layer can anchor fragmented processes, agents, and users into a single end-to-end workflow, so that existing agents aren’t lost or rebuilt as a firm moves into its next process. That allows an agent to complete its task and hand off to the next stage, whether that’s another autonomous process or a person, without anything falling through the gaps.”

With integration work ongoing, feeding these agents with a standardised language library would take pattern recognition and analytics to another level. As it stands, firms’ proprietary data libraries have become an arena of competition. Some build their data pools at scale, others with depth and specialisation. Neither is necessarily a clear competitive advantage, says Weer, and both have their limitations.

“Those libraries are concise and limited to internal information. Most AI models improve as the underlying language library grows, allowing agents to make more connections and build out further inferences. An internal dataset would benefit significantly from augmentation with industry benchmarks.”

KEY FINDINGS

Data gathering and analysis is the top use case for AI

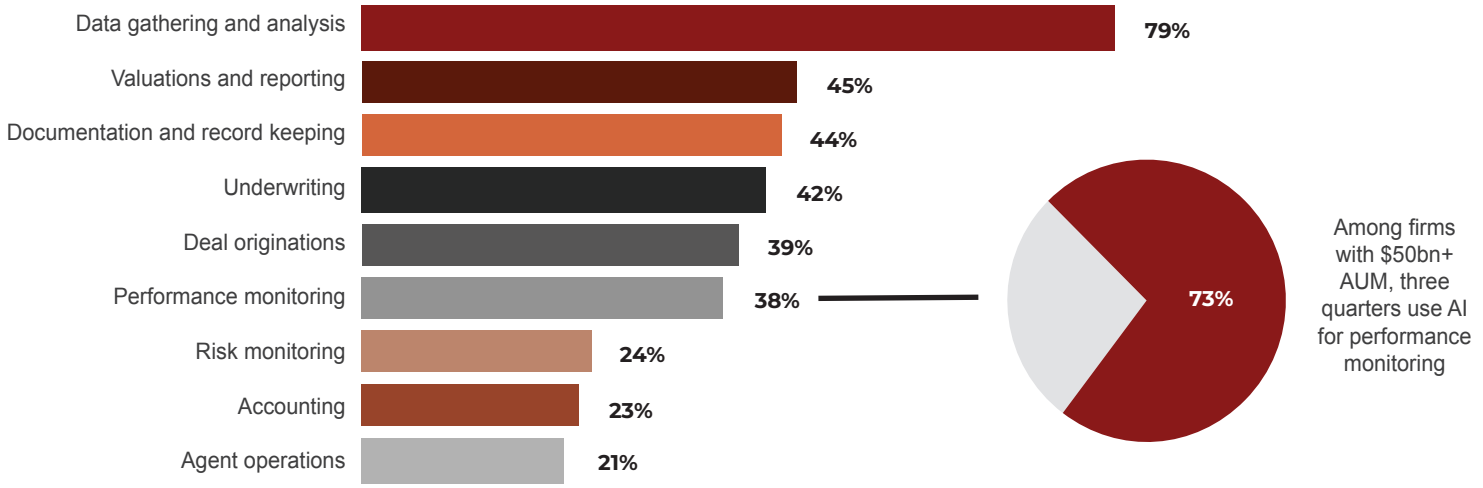


According to Eversfield, data structuring at his firm was a deliberate operational exercise. “We worked with an external vendor focused on automating borrower tracking, alongside an internal analytics team able to build updated visuals within twenty minutes. Uniform, structured data on the front end is what makes analysis possible on the back end.”

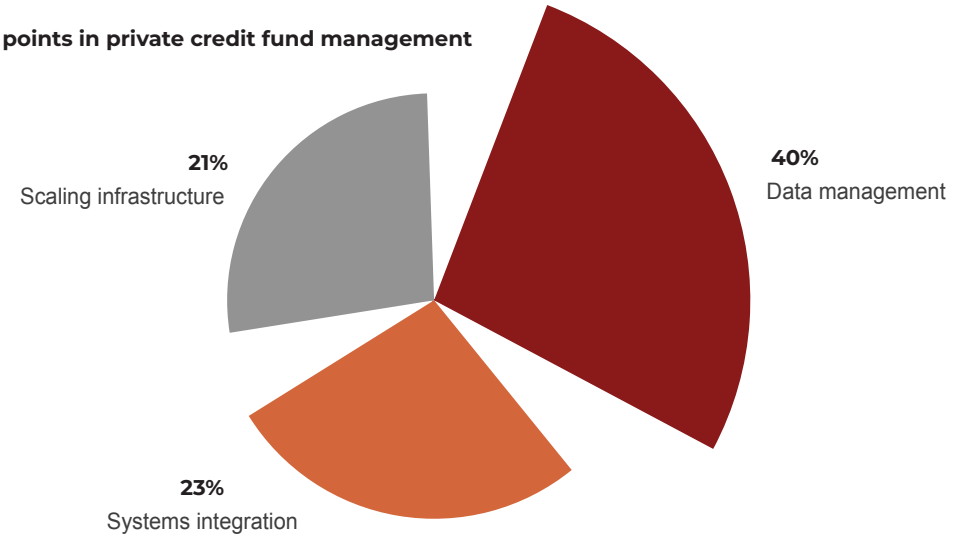
Standardisation is one way to accelerate data management progress across the industry. No doubt, a clear set of benchmarks on deal terms and pricing, among other aspects of the lifecycle, would enable a more efficient flow of information, internally and among stakeholders. But standardisation has long been a point of friction in private credit.

Democratisation might push firms further down the route of standardisation, as investors expect a more benchmarked overview similar to what they have experienced in the public sphere. At any rate, operational sophistication is rapidly becoming the key differentiator in a private credit industry where dispersion is now an inevitable direction of travel.

2.3. Application areas for AI



2.4. Top operational pain points in private credit fund management



PRIVATE EQUITY WIRE®

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