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MARCH 2026



PRIVATE EQUITY WIRE®

PRIVATE CREDIT IN 2026

DISCIPLINE, DISPERSION AND DEFAULTS

EXECUTIVE SUMMARY

It's testament to how fast private capital trends now evolve, that when Private Equity Wire® conducted our private credit survey in January 2026, the residual narratives from FirstBrands and Tricolor were the industry's dominant stories.

In light of developments since, we've supplemented the data with some freshly collected allocator insights and in-depth interviews – to marry the original themes of competitiveness and diversification with an inquest into risk and discipline the industry so requires.

There are push and pull factors at play with respect to and within the world of private credit, with established expertise driving some firms to consolidate on their flagship strategies, while a combination of overcrowding and opportunity causes others to diversify.

The comparative structural and economic forces behind direct lending and asset-based financing exemplify this dichotomy, as firms seek ways to double down on the former while tapping into the latter's sizeable addressable universe. Section one of this report will explore these dynamics in detail – with a deep dive on due diligence, valuations, repayments, amoritisation and other points of divergence between the two specialisms.

A certain degree of diversification is inevitable as the market crowds and spreads compress, both in the investor base and the asset pool. The former, mainly with respect to retail involvement, brings its own challenges – effectively a doom loop of redemptions and headlines that can be broken only with a combination of transparency, discipline and education.

As for investment diversification, each specialism brings its own operational framework – the robustness of which determines success in scaling. Section two of this report explores how a cohesive data pool can cut through all these operational complexities, creating a strong platform for scale, specialisation and – most importantly – discipline.

Private credit headlines will persist for the foreseeable future, and we'll continue to survey the market to understand how firms are navigating a time of heavy stress and scrutiny. A special thanks to our report partner, Arcesium.

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METHODOLOGY

This research is based on a Private Equity Wire® survey on 100+ private credit managers, and 20+ allocators, with responses collected between January and March of 2026.

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

47% See direct lending as the highest-opportunity lending strategy in 2026, with asset-based financing following closely behind with 37% and real asset lending in third, with 29%

43% Choose to implement bespoke tech applications for each specialised lending strategy, while 57% prefer a more centralised implementation model

37% Say their biggest operational challenge amid diversification is loan structure complexity, while diversity of investor demands (33%), liquidity management (33%) and valuations all rank high on the list

34% Plan to consolidate or scale up their existing private credit offerings rather than diversify, which is the option of choice for 20% of managers, or specialise (18%)

27% See risk as the biggest reason to diversify away from direct lending, while return contraction (18%) and cyclical progression (12%) also make the list of push factors

FORCES AT PLAY

The risk-return dynamics that are driving diversification in a tumultuous private credit landscape

Let's begin with the right to exist of private credit itself, as the industry's untameable expansion in recent years has led many to question its long-term fundamentals. No doubt, a normalised interest rate environment, if such a point is destined to arrive, will conflate with the flood of capital and competitiveness in the industry to compress returns and heighten risk. These dynamics are already playing out in a very visible manner.

At the same time, bank retrenchment and financing gaps – the very factors that drove the industry's nascence – remain as pertinent as they were nearly two decades ago. What results is dispersion in the market, between the disciplined and the callous, and a diversification away from frenzied segments into pockets of opportunity.

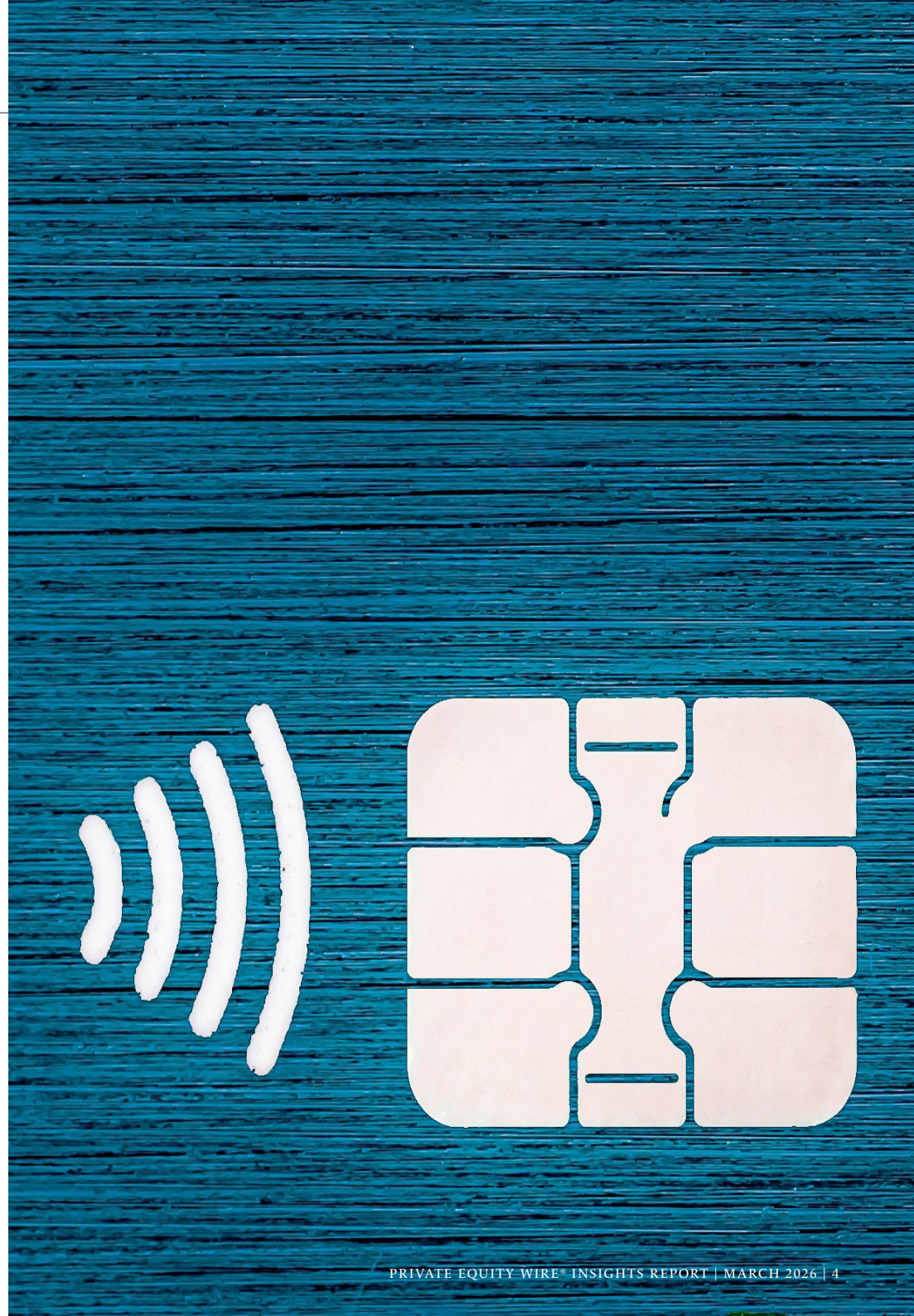
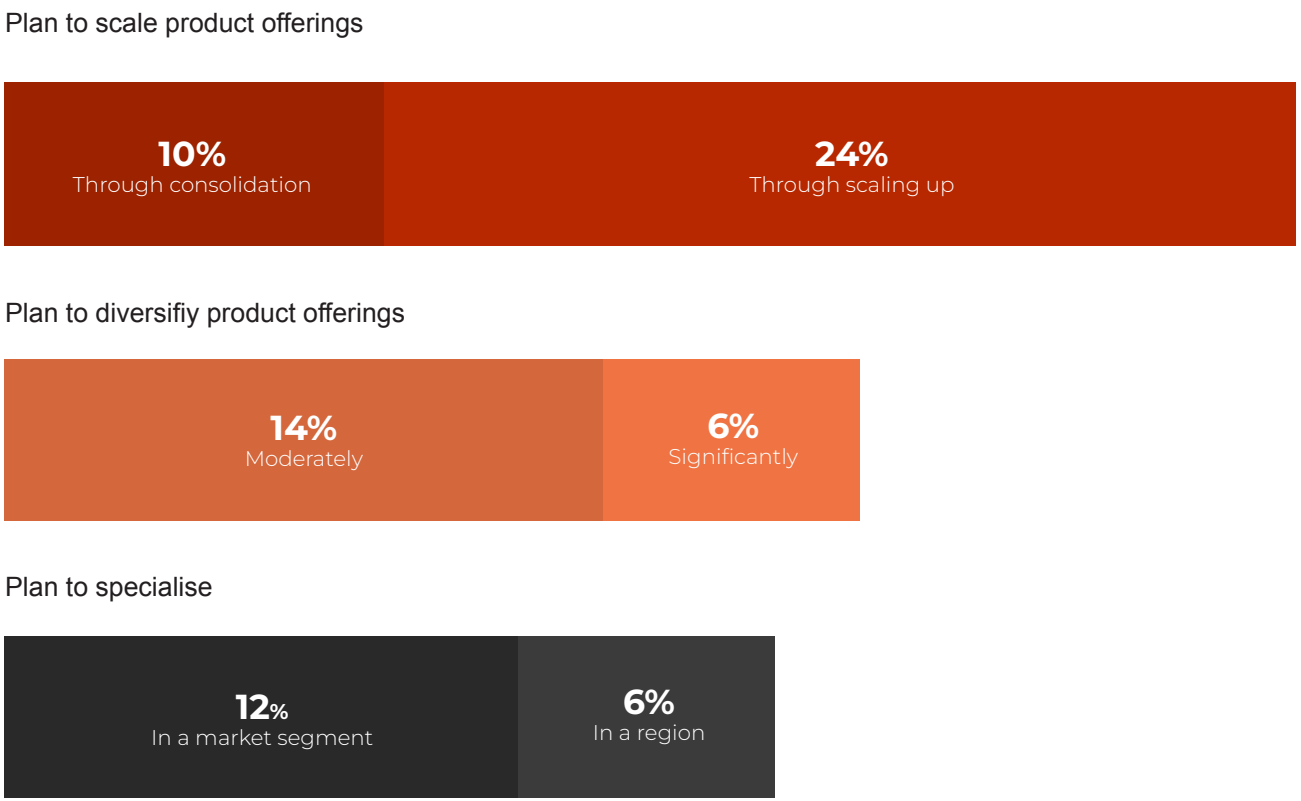


Fig 1.1. Private credit growth strategies



VERTICAL OR HORIZONTAL: GROWTH STRATEGIES OF CHOICE

There is a near even split, between firms that are looking to scale up or consolidate their existing offerings (34%), and ones that will engage in some form of diversification (20%) or specialisation (16%) (see Fig 1.1.). The overarching message among firms in Europe, a region long dominated by a handful of scale players, appears to be that diversification should be a considered decision.

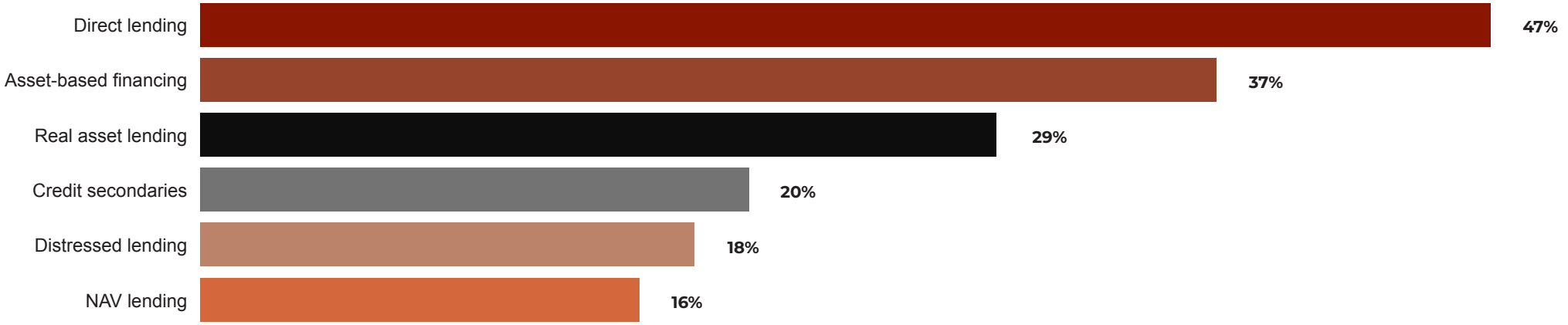
Boris Harmsen, Head of Origination, Europe at Pemberton, says private credit is fundamentally about underwriting predictable cash flows and pricing risk appropriately, which require a strong local network, deep sector knowledge and long-standing relationships with sponsors and advisers. “Those capabilities take years to build. Moving into a new segment, geography or strategy without that infrastructure can dilute the consistency investors expect,” he says.

Ardian’s Head of Private Credit, Mark Brenke, has a similar viewpoint. He says: “In a more complex credit environment, deep sector expertise remains a stronger risk management tool than broad diversification into strategies less well known.”

According to Claire Harwood, Managing Director and Co-Head of Direct lending at Permira Credit, some managers will always look to innovate and diversify – the key is to ensure the new offerings are aligned with the underlying investor base.

“We’ve seen growth in many instruments over the last two decades – these are trends that ebb and flow. A long-term lens matters more than chasing what’s generating headlines in a particular quarter.”

Fig 1.2. Highest-opportunity lending strategies for 2026



The US market has long been more fragmented and diversified, and certain scale players here have a different view. Engin Okaya is an Executive Managing Director of Private Credit at one such player, PGIM. She says: "We think of private credit like a pie slice of the American economy. It's a little bit of everything, given our industry-agnostic approach. The portfolio composition across direct lending, infrastructure, investment grade, private high yield, and asset-based financing is what becomes most important," she says.

Many firms in both regions will take a similarly diversified approach – as economic shifts present strong pockets of opportunity. Ongoing energy, data centre and wider infrastructure needs are putting real asset ending in sharp focus (see Fig. 1.2.), while the maturing of loan books and evolution in the continuation vehicle space have put credit secondaries among the hottest areas.

A buildup of market stress will boost the distressed opportunity set, and the widespread liquidity crunch in private markets makes NAV lending an opportunistic play.

PUSH AND PULL: DIRECT LENDING AND ASSET-BASED FINANCING

Among the vast array of specialisms, it's no secret that ABF is now the flavour of the day – borne true in its popularity among our survey respondents.

Jennifer Marques, Managing Director and Head of Strategy and Structuring for Structured Credit at Oaktree, says market tailwinds for ABF have intensified – mainly relating to the significant real-economy financing gap left by bank retrenchment, and the resultant supply-demand dynamics.

She says: "The part of the market we're most excited about is what we refer to as core or formally unrated. This is where banks have significantly pulled back, and where structural reasons mean it's not a good fit for a formal investment grade rating – which keeps insurance-affiliated capital largely out. That's creating real financing gaps across a broad range of sectors."

"The asset-level yields and spreads on offer are significantly in excess of what you'd see in corporate credit today, and that spread premium is what's driving such intense interest. We like anywhere we can potentially achieve excess returns for our clients."

“

The software story is really a valuation question: is the business worth the multiple of EBITDA that was set when the loan was originally made?

Jennifer Marques
Managing Director, Head of Strategy and Structuring
Oaktree

Indeed, return contraction is among the top push factors for firms to diversify beyond direct lending (see Fig. 1.3.). Firmly atop that list, however, is risk (cited by 27% of firms) – very much the story of the year so far in private credit.

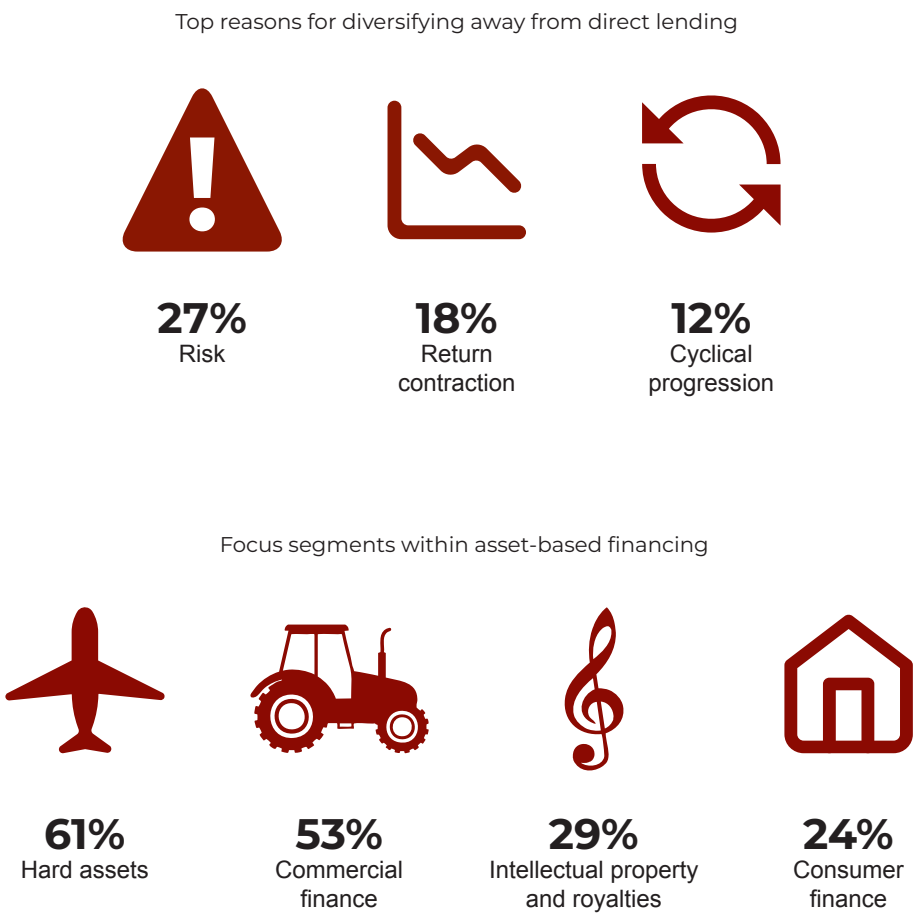
A structural comparison of direct lending and ABF provides acute insight into the forces driving a heightened sense of stress and caution – with Marques suggesting the latter has in-built mitigating factors, even if the return profile on offer entails a certain degree of risk.

For one, covenant practices are going in opposite directions, with direct lending famously moving towards cov-lite terms while ABF remains covenant-heavy. Another difference is in the reliance on company valuations. Marques explains: “In ABF, investments are often self-amortising. As the underlying borrowers make their monthly payments, these include both interest and principal, which allows ABF investors to see return of basis, not just income, throughout the life of the investment.

“To pay down the principal in direct lending, in contrast, the next capital provider must generally agree with the existing capital provider on the value of the business or company. ABF doesn’t require such a valuation exercise, it just requires the underlying loans or leases in the SPV to perform or to make their scheduled payments. Our investments also tend to be shorter duration –two-to-four years compared with five-to-seven years you see in direct lending. That’s a fundamentally different risk profile.”

As a result, ABF is potentially less exposed to the broader AI disruption themes affecting corporate credit right now. “The software story in corporate credit isn’t a performance story. These businesses are generally healthy and executing their business plans. The concern stems from the valuation question: is the

Fig. 1.3. Specialism deep dives



SPOTLIGHT

27%

The share of firms that say high risk is a reason to diversify away from direct lending



business worth the multiple of EBITDA that was set when the loan was originally made?"

That's not to say there isn't inherent default risk in ABF's reliance on repayments, but Marques says there are strong protections built into SPVs. She says: "In a proper structured credit structure, you can weather non-performance from a portion of the pool. The structured credit box is built to absorb stress up to a defined threshold.

"These protections, alignment of interest mechanisms and disclosure requirements are built into every deal with our originator partners. A good originator wants those terms too. The deals worth doing are the ones where our interests are genuinely aligned from the outset."

All things considered, direct lending and ABF don't necessarily have a zero-sum relationship. "As spread compression continues in corporate direct lending and both institutional and wealth clients seek diversification, ABF has come into focus. But most investors we speak with view ABF as a complement, not a replacement."

As investors continue to pile capital into a diversified pool of private credit exposures, it's up to managers to offer a healthy pipeline of investment opportunities, sourced and executed with precision and strongly protected from a downside perspective. Balancing these considerations is an operationally intensive feat – one that we'll be unpacking in detail in the next section.

KEY TAKEAWAY

There are strategies that align well with current economic conditions, but diversification efforts should be built on product and sector expertise rather than opportunistic urgency.

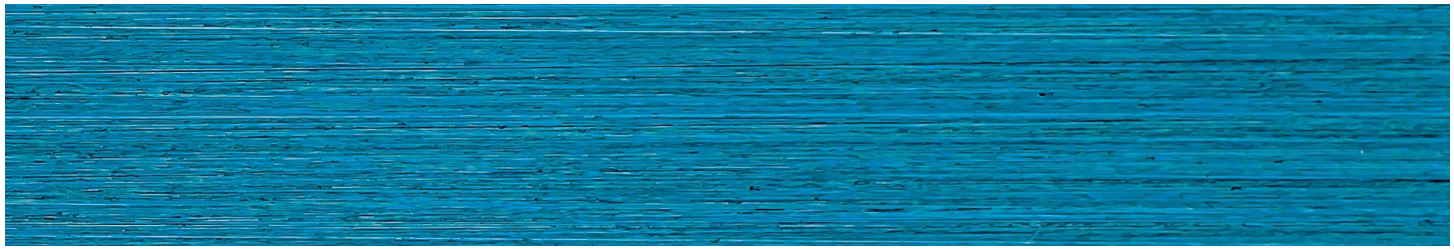
THE ALLOCATOR VIEW: PRIVATE EQUITY WIRE®'S MINI SURVEY

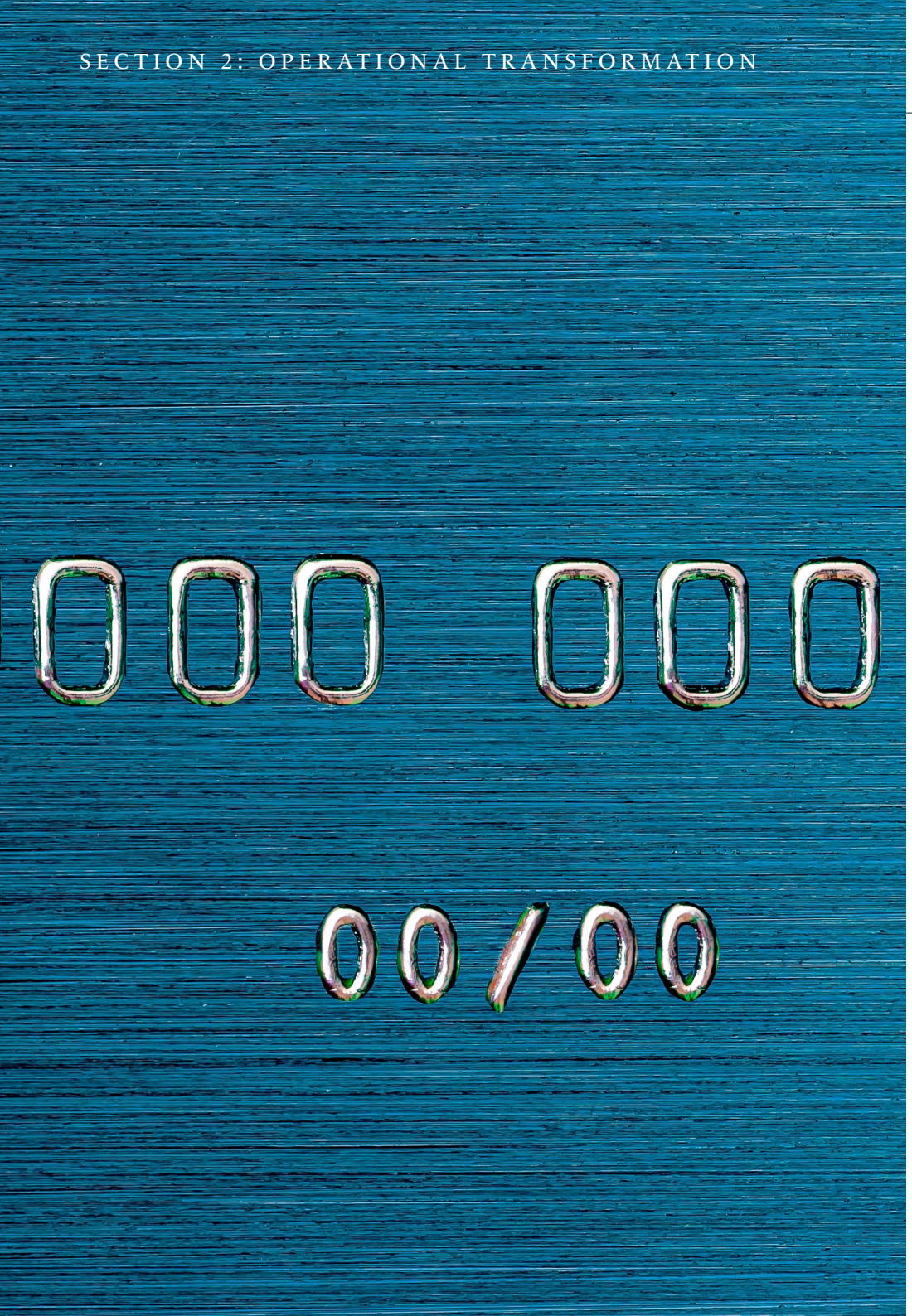
As mentioned at the start of this report, we surveyed a set of 20 LPs in March, in response to private credit headlines to gauge their view on current trends. Here are some of the highlights.

Private credit stress and liquidity risks rank second on the full list of LP concerns, cited by 62% behind only geopolitical conflict which was predictably yet impressively ranked first by 92% of respondents. Closely related, AI valuations and the potential tech bubble ranked third with 54%.

Not a single LP said they weren't concerned by private credit dynamics at present, while the rest were near evenly split between mild and significant concern. Still, only 14% say the market is risky enough to keep them away from private credit at the moment. The majority, 54%, say it's largely risky but manager selection is critical, while 29% say it's only partly risky – with some elements driving caution.

And the causes? The biggest share of LPs attribute stress to cov-lite and other high-risk lending practices, while 23% say high exposure to software is the main driver, while 15% say intense competition, dry powder and general market exuberance are to blame.





DISCIPLINE IN DIVERSIFICATION

The mechanics behind a disciplined, diversified and transparent private credit operation

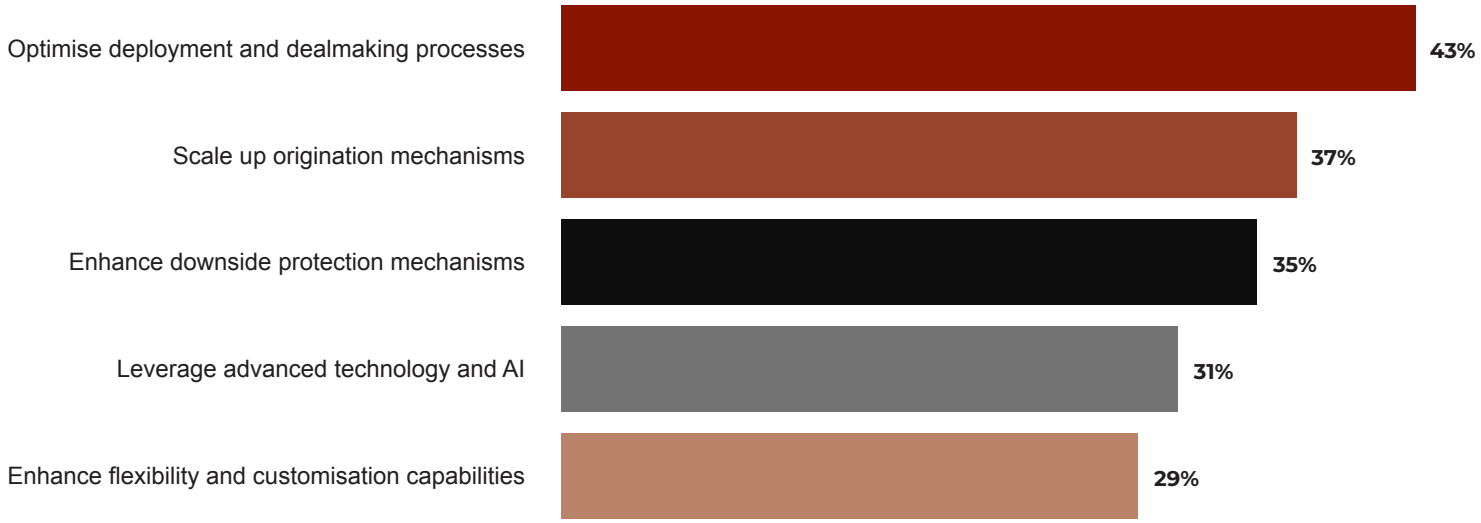
Scale does remain a decisive advantage in private credit, with established managers benefitting not just from healthy origination mechanisms built up over decades, but also from efficient execution capabilities – all of which are seen as key means to competitiveness in the industry (see Figure 2.1.).

PGIM's Engin Okaya says: "Our unique value proposition is our origination network – fifteen offices around the world originating private credit assets on a daily basis. That's how we've operated for the last 75 years. Even if these offices bring the firm one unique deal every two years, they pay for themselves."

This has a direct bearing on AUM growth. "It's always the chicken-and-the-egg quandary: we need to raise capital to invest in new strategies, but we need deal flow to attract investors in the first place – coming back full circle to our origination network," Okaya adds.

Most managers mentioned in this report credit their origination networks for competitiveness.

Fig 2.1. Routes to competitiveness



Respondents split by AUM

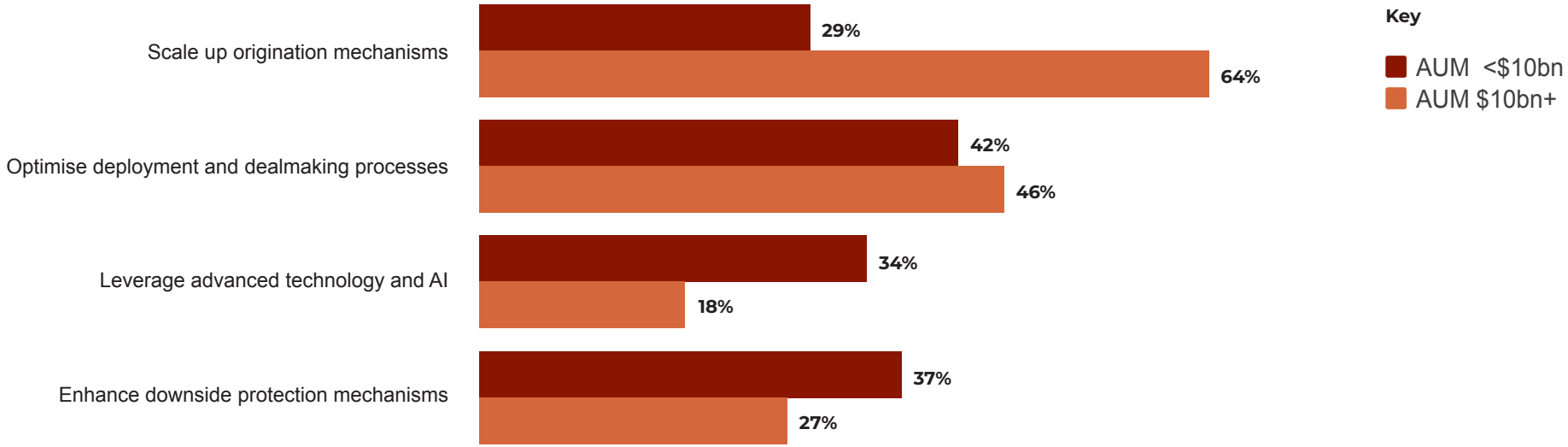
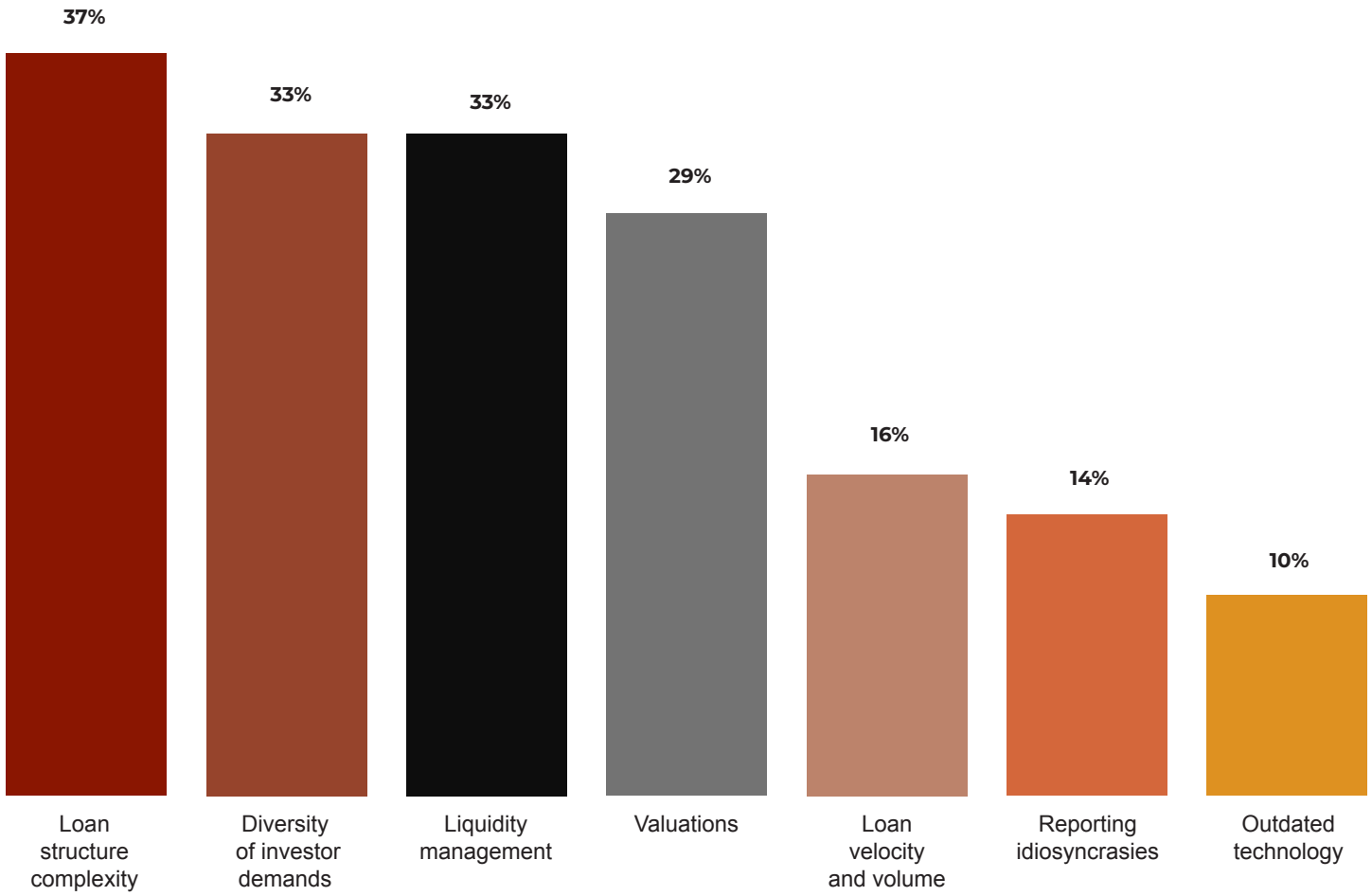


Fig. 2.2. Operational challenges amid diversification



As discussed in section one, European firms also advocate for a considered approach to diversification, favouring a consolidation of their existing reach over forays into new areas.

Ardian's Mark Brenke says: "Where we do see opportunity to diversify, we're guided by a clear filter: we will only expand into areas where we have a genuine right to play. That means building on the relationships, sector knowledge, and deal flow that Ardian's broader platform has developed over three decades."

This platform harvesting of sorts is also a product of scale. Permira Credit's Claire Harwood describes this as "information velocity", where insights from the Permira platform on sector flow and growth areas feed directly into the credit underwriting side of the business. Besides performance implications, this enables a measured approach to lending – very much the industry's need of the hour.

Harwood says: "With eighteen years of credit investing, Permira Credit is able to distinguish between disciplined underwriting and narrative-driven decision-making."

“

Candidly, AI is currently more valuable as an efficiency tool than as a source of competitive edge in its own right, but that is evolving quickly to become a genuine differentiator.

Mark Brenke
Head of Private Credit
Ardian

TOPLINES AND HEADLINES: OPERATIONAL COMPLEXITY AND TRANSPARENCY

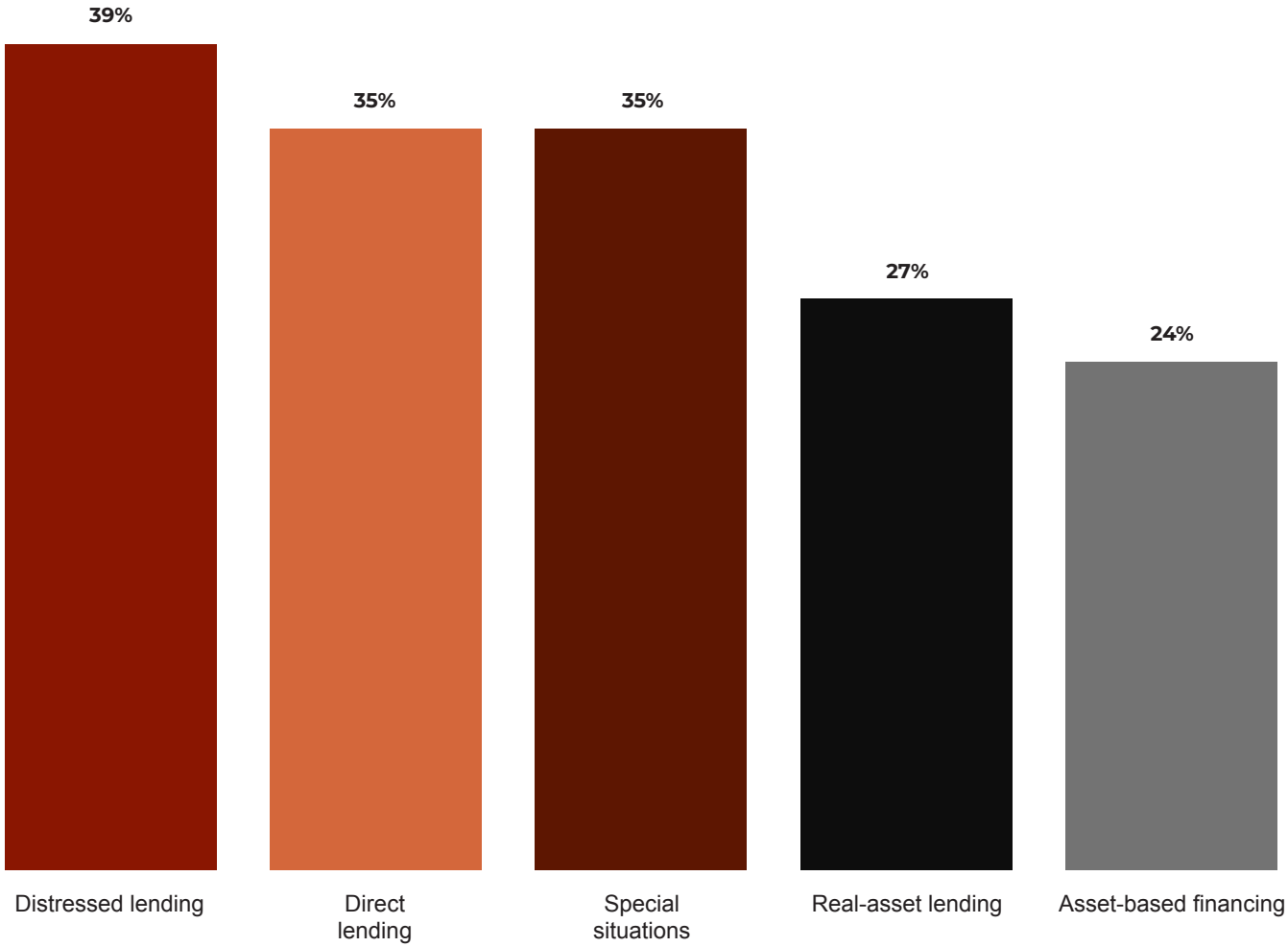
Dispersion will continue in due course, between the disciplined segments of the lending landscape and parts that have been moving opportunistically at the expense of reliability. It may be that very exuberance that drives some of the more quality-focused players into more secure environments.

With growth and diversification comes complexity, cited by 37% of our respondents as the top operational challenge currently faced (see Fig.2.2). Each lending strategy brings its own operational framework, and challenges therein (see Fig. 2.3.). Addressing these idiosyncracies is a question of cohesion (see Boxout).

Certain operational challenges, however, cut across strategies. High on this list are a diversity of investor demands (33%), liquidity management (33%) and valuations (29%). These challenges ring true in the very prominent liquidity mismatches coming to bear in retail-focused private credit products.

We can expect a steady stream of headlines in months to come, as a range of highly scrutinised practices – such as cov-lite lending, amends-to-extend, payment-in-kind and others – arrive at their final point of maturity, revealing the most realistic picture yet of default rates.

Figure 2.3. Most operationally intensive lending strategies





IN PURSUIT OF COHESION

Cesar Estrada, Private Markets Segment Head, **Arcesium**

Scaling up in private credit is a question of streamlining operating models, while diversification is a data play – according to Cesar Estrada of Arcesium.

AUM may be concentrating in the upper echelons of private markets, but the end game here is not a 'winner-takes-all' scenario. Estrada says: "There has been no shortage of new players entering the market with novel and differentiated strategies in recent years, while scale players have certainly been consolidating their advantages."

Both are valid routes to competitiveness, though the building blocks for each differ considerably. "Scale works best if the operating platform is already industrial strength. If processes are fragmented across spreadsheets and manual workflows, you're essentially scaling chaos – with amplified operational risk trumping economies of scale."

"Firms that diversify successfully tend to invest in flexible data models that can support multiple credit strategies, rather than having to rebuild the operating model each time."

In direct lending, still the bread-and-butter strategy for much of the private credit market, workflows across underwriting, portfolio monitoring, covenant tracking and investor reporting all need consistency and standardisation to work at scale.

As for asset-based finance, credit secondaries, distressed lending and other expanding specialisms, these bring varying data structures, valuation approaches, monitoring requirements, collateral types, receivable pools and royalty streams – which in turn have idiosyncratic analytics and servicing data.

THE PIPELINE

Whether the focus is operating models or data proficiency, coherence and streamlining should be unifying pursuits. Estrada says: "The biggest pain point we see consistently is connecting origination data to the rest of the investment life cycle.

"Data lives in CRMs, underwriting models, document repositories, portfolio monitoring systems, accounting systems, none of which are fully connected. Optimisation comes from creating a single data pipeline across this lifecycle, so teams can reuse data rather than having to recreate it at each different stage."

"Once the pipeline is operational, firms can layer on automated and human-in-the-loop workflows that facilitate all of those functions. Decision-makers should focus on making the right judgment calls, not gathering data."

THE HYBRID MODEL

Building a coherent technology architecture is far from simple. As discussed, scale and diversification bring two separate sets of requirements, and firms need to strike the balance between centralised technology applications and specialised systems.

According to Estrada, this equilibrium lies in a hybrid model, which entails centralising the data but not necessarily the tools. He says: "Firms don't have to force every strategy onto the same system, however ideal that might be. Collateral monitoring tools in ABF look very different from a portfolio management system in direct lending, for instance. The hybrid model acknowledges that reality."

The direction of travel, however, should be towards centralisation and control – especially given the current challenges in the industry around retail investor behaviour and wider risk mapping. "Firms need to tighten the screws, learn from this, and invest in better data, workflow automation and AI technology infrastructure – to bring transparency to daily workflows and to service a new and growing type of clientele that has genuinely different expectations," says Estrada.

For a variety of reasons, from the legacy of acquisition-driven growth in private credit to diversification and bottom-up optimisation in larger firms, there is a history of decentralised operations in the industry. This, rather than progress in the available technology itself, is what has slowed down the streamlining process.

"It will take time. As firms look to scale and offer their increasingly eclectic LP base a consistent experience across different business lines – that imperative will ultimately drive cohesion," Estrada concludes.

The resultant redemption and gating cycles in semi-liquid funds will force managers with these offerings to reckon with their valuation mechanisms, liquidity practices and, perhaps most importantly, their ability to communicate with and educate end investors.

Firms are caught in a paradoxical doom loop of sorts. Retail investors are demanding a higher frequency of valuations, which in itself is an operationally intensive exercise – with limited credibility given the opacity of data and valuation mechanics in private markets.

Nevertheless, firms that do offer monthly or even weekly marks – as a number of prominent players are commencing – risk perturbing their investors with volatility. This brings with it a wave of redemptions, the meeting of which affects overall fund performance and results in headlines, and the gating of which sparks panic and, inevitably, causes headlines.

And the cycle repeats. There is no doubt, however, that growing market stress resulting from geopolitical volatility and AI-driven disruption lie at the heart of this loop, which needs addressing in its own right.

The foundation for the modern private credit operation, whether it's looking to offer retail products or not, is data and transparency.

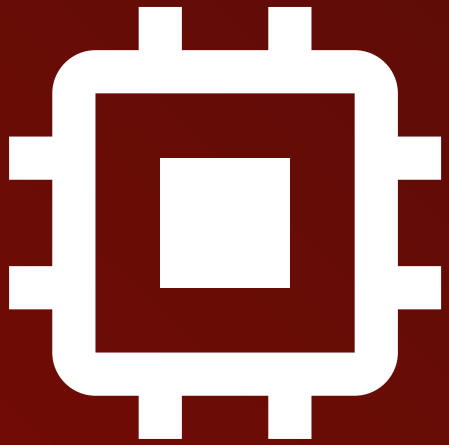
Figure 2.4 Preferred technology operating model across a diversified private credit offering



SPOTLIGHT

31%

The share of firms that is leveraging AI and advanced technology for a competitive edge



We've discussed at length the importance of discipline, which stretches through origination, underwriting, portfolio look-through and monitoring and, finally, pricing and reporting. Attempting this without data cohesion is near impossible (see Boxout).

OPTIMISED FOR ORIGINATION: THE TECHNOLOGY STACK

Overlaying this data foundation is advanced technology and AI – cited by 31% of firms as a key route to competitiveness (see Fig. 2.1.). Adoption of technology is now rife, though implementation across the investment lifecycle varies.

Okaya says: "AI will help at the margins – it helps us find information on companies faster and more easily. But the most impactful use case right now is portfolio management: synthesising data, spotting trends, and freeing up the time that would ottherwise be spent on model-building."

Jennifer Marques of Oaktree says the firm has a sizeable Information Solutions Group and a dedicated Data and Asset Management function within the ABF team, which places technology and data as critical drivers across strategies. "The ability to get real-time visibility into the data tapes from underlying investments, at any point, is foundational to how we manage the portfolio."

At Ardian, Mark Brenke reports that AI will soon play a role in driving competitive dynamics. He says: "Ardian is a proactive adopter of data science and AI across the investment lifecycle, and this is not a peripheral effort – it's firmwide, sponsored at executive committee level and embedded across investment teams, IT, and data science functions.

"A tangible example is our fully secure, in-house generative AI platform, GAIA. Hosted on our private cloud, it is already improving speed and quality across due diligence, investment committee preparation, and internal workflows, all while ensuring confidentiality and keeping human judgment firmly at the centre.

"Candidly, AI is currently more valuable as an efficiency tool than as a source of competitive edge in its own right, but that is evolving quickly to become a genuine differentiator, particularly in sourcing. We're piloting AI-driven market-scanning tools to help identify trends, ownership changes, and proprietary situations earlier, creating a structural sourcing advantage that complements our existing origination strengths."

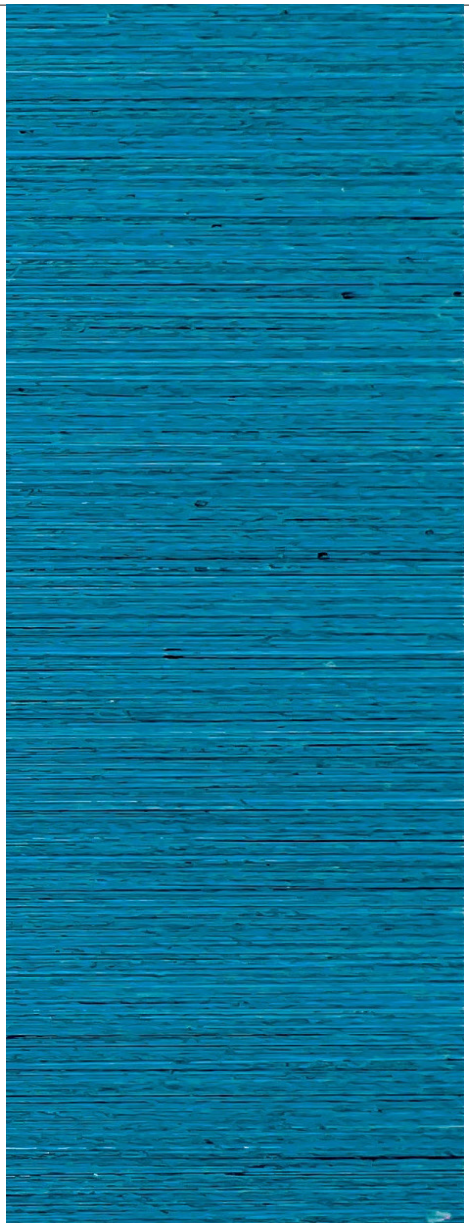
Mentioned by several managers, the ability to use intel from across the platform and multiple strategies to feed into the credit strategy is a distinctive advantage. This entails a centralised data and technology model, which our data shows is popular among larger firms (see Fig.2.4.).

Still, there is an argument to suggest bespoke systems and applications for each strategy would be more suitable, given the unique operational framework and challenges that presented by each lending specialism. This is relatively more popular among smaller firms, per our research, though more generally there is a near-even split in tech operating models. Neither is necessarily preferable to the other.

At any rate, technology will play a critical role in a private credit universe wherein the dominant narratives are risk, competition, transparency, education and – our theme of the year across private markets as a whole – discipline.

KEY TAKEAWAY

Transparency will be critical for firms to steer themselves, and their increasingly diverse base of investors, through periods of economic stress and volatility.



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