Beneath the Surface of Private Credit Risk

**GOELZER**
INVESTMENT MANAGEMENT

Over the past 10 years, private credit assets under management have grown from about $500 billion to nearly $2 trillion.[1] The rapid rise of the asset class has garnered questions on how it compares to publicly traded credit, particularly in terms of default risk.

Generally speaking, private credit has a lower default rate than public credit. But private credit also has a lower recovery rate when there is a default. Private credit lenders are not beholden to standard bank lending terms, so lenders can negotiate more control and flexibility into deals. When borrowers are in trouble, private credit lenders are empowered to work with them to reach a solution before default occurs.

However, if a solution cannot be found and a default does occur, that likely means there is serious distress with that borrower. It could be difficult for the private credit lender to recover its invested capital in those situations. Recovery also depends on the private credit strategy. For example, many direct lending borrowers are asset-light businesses like software companies, so there may not be much to recover when there is a default. On the other hand, asset-backed strategies are often collateralized by hard assets like real estate or equipment. In the event of a default, the lender can seize the asset and sell it for a partial—if not full—recovery of invested capital.

[1] Pitchbook, "Q2 2025 Global Private Market Fundraising Report."

Trailing 12 Month Default Rates
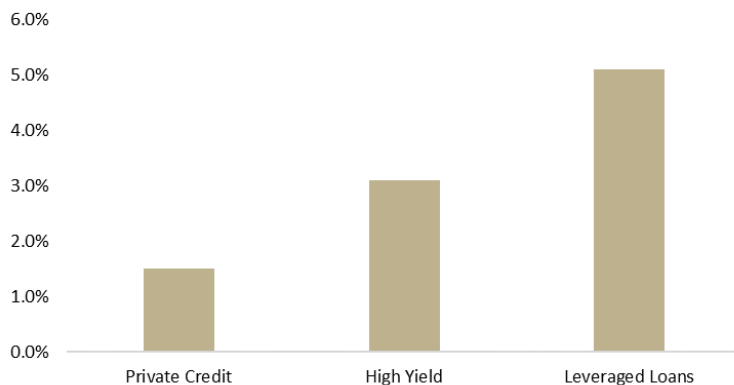
Source: Cliffwater Direct Lending Index and Fitch Ratings as of 6/30/2025.

Economy

Last Week	This Week
- ISM Manufacturing PMI (Aug.): 48.7 vs. 48.0 one month prior	- Benchmark Payrolls Revision (12M ending March 2025): 9/9
- JOLTS (July): 7.2 mln job openings vs. 7.4 one month prior. Quits rate unchanged at 2.0%	- Producer Price Index (Aug.): 9/10
- ISM Services PMI (Aug.): 52.0 vs. 50.1 one month prior	- Consumer Price Index (Aug.): 9/11
- Payrolls & Unemployment (Aug.): +22K vs. 73K one month prior. Unemployment rate 4.3% vs. 4.2% one month prior	- U. of Mich. Sentiment (Sept. P.): 9/12

Equities

			Returns (%)			
Index	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	6495	0.58	4.92	11.42	21.66	18.67	15.56
Russell 1000 Growth	4544	1.41	6.41	12.89	31.39	24.45	16.79
Russell 1000 Value	1977	-0.08	3.70	9.92	12.67	11.71	13.19
FTSE High Dividend Yield*	503	0.34	4.69	10.91	16.66	12.85	14.47
S&P Small and Mid Cap	18237	1.12	7.19	5.80	12.58	10.52	13.13
MSCI EAFE	2743	0.84	3.69	24.37	18.83	18.02	11.17
MSCI EM	1282	1.26	5.48	21.88	22.60	12.92	6.34

Characteristics

Index	NTM P/E	NTM P/E (20Y med)	Div Yield
S&P 500	21.5	15.4	1.3
Russell 1000 Growth	28.6	17.9	0.5
Russell 1000 Value	16.7	13.5	2.1
FTSE High Dividend Yield*	13.2	13.0	3.9
S&P Small and Mid Cap	15.1	15.4	1.9
MSCI EAFE	15.1	13.5	3.0
MSCI EM	12.8	11.1	2.6

S&P Sector Returns YTD

* Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income

			Returns (%)			
Index	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	4.26	1.31	2.25	6.37	3.16	3.78	-0.41
U.S. Int. Gov/Credit	3.85	0.64	1.73	5.93	4.43	4.43	0.86
U.S. Corporates	4.74	1.54	2.64	6.92	4.19	5.48	0.31
High Yield	6.65	0.42	2.13	6.80	8.45	9.03	5.30
Municipals (1-10)	2.93	0.73	2.05	3.84	3.26	3.37	1.17

Levels (%)

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	3.49	3.64	3.72	4.24	3.60	3.51	0.15
10-yr Treasury	4.04	4.26	4.23	4.57	3.64	3.32	0.70
30-yr Treasury	4.69	4.96	4.78	4.78	3.96	3.48	1.46
SOFR	4.40	4.39	4.45	4.49	5.33	2.28	0.09
6-mo. CD rate	4.36	4.14	4.28	4.33	4.72	3.80	0.21
Prime Rate	7.50	7.50	7.50	7.50	8.50	5.50	3.25
30-yr fixed mortgage	6.55	6.66	6.80	7.28	6.66	6.11	3.06