

The Rise of Private Credit: Hidden Risks Beneath the Surface?

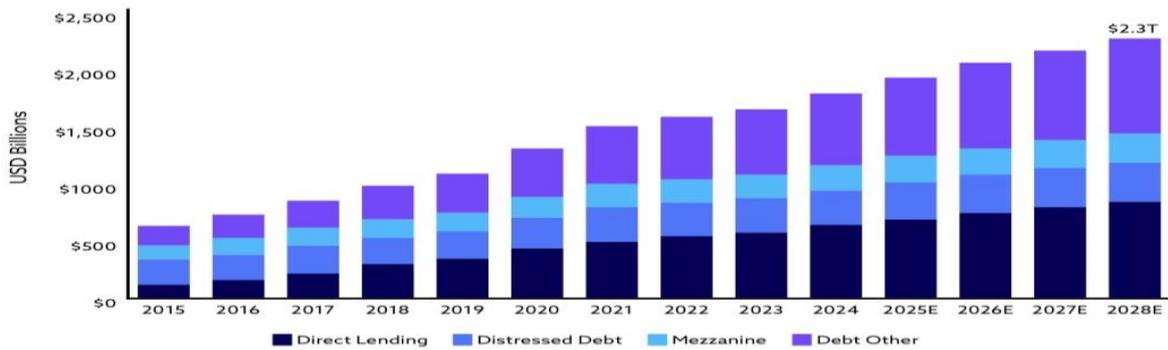
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Recent events in private credit markets have begun to attract greater scrutiny. Borrower failures such as First Brands and Tricolor, alongside withdrawal restrictions at funds managed by Blue Owl and BlackRock, have highlighted moments of stress within parts of the rapidly expanding market. This article examines how the private credit market works and whether these developments signal broader risks for the financial system.

A Market Growing in the Shadows

Private credit has become one of the fastest growing segments of global finance. As banks pulled back from corporate lending after the Global Financial Crisis, private lenders increasingly stepped in to provide financing to companies while offering investors higher yields. Much of this market, however, operates outside the transparency of public credit markets. Loans are negotiated privately, valued using internal models, and reported infrequently, making it more difficult to assess underlying risks. As private credit continues to expand, an important question has emerged: could vulnerabilities within this opaque market eventually spill over into the broader financial system? Figure 1 illustrates the rapid expansion of the market, with private credit assets under management rising significantly over the past decade.

Figure 1: Global Private Debt Assets Under Management



Source: PitchBook. Historical AUM and forecasts.

The Scale of the Private Credit Market

Private credit has expanded rapidly, with global assets estimated to reach roughly US\$3–3.5 trillion by 2028 as institutional investors increase allocations to the asset class (AIMA, 2025; McKinsey, 2025). However, activity remains concentrated in developed markets, particularly the United States and Europe.

Figure 2: South African Private Credit Market Growth in % (2025-2026)



Source: Trading Economics, South African Reserve Bank

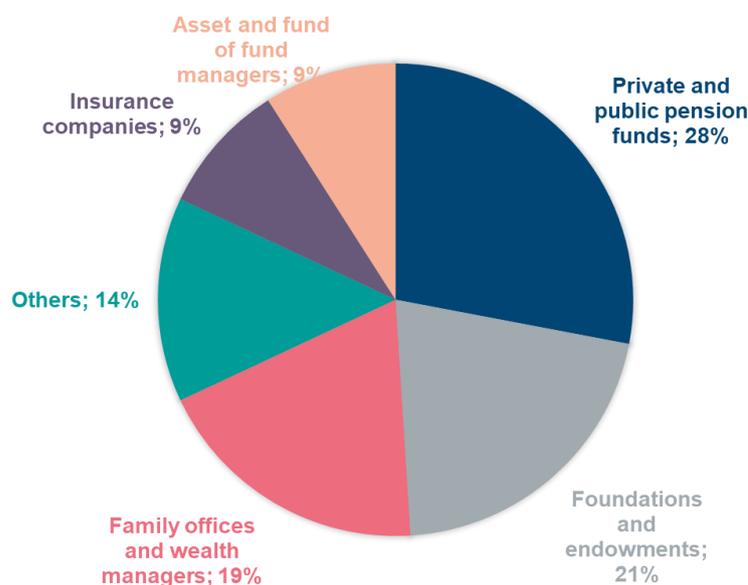
South Africa's private credit market remains relatively small by comparison, suggesting that systemic risks are more likely to originate in larger global financial systems.



Who is Exposed to Private Credit?

Private credit is primarily funded by institutional investors rather than banks. Pension funds, insurers, endowments, and asset managers provide most of the capital, meaning that risks are largely transmitted through investment portfolios rather than bank balance sheets.

Figure 3: Investors in U.S Private Credit Funds



Source: 2023 IMF Global Financial Stability Report

Although institutional allocations to private credit have increased, the asset class still represents a relatively small share of most portfolios. In South Africa, exposure remains limited and typically occurs indirectly through private credit funds managed by asset managers.

Opacity and Liquidity: Why Stress Can Be Hidden

A central concern surrounding private credit is its limited transparency. Unlike publicly traded bonds, private loans are negotiated privately and typically held to maturity, resulting in little continuous price discovery. Valuations are commonly based on mark-to-model approaches and updated only periodically, which can smooth reported returns and delay the recognition of credit deterioration. Liquidity structures can also create risks. While the underlying loans are illiquid, some private credit funds allow periodic investor withdrawals, which may generate redemption pressure during market stress (IMF, 2024).

In South Africa, private credit is generally structured through long-term closed-end vehicles, reducing these liquidity mismatch risks, although transparency and risk monitoring remain important as the market expands.

Where the Risk Sits: Borrower Quality, Sectors and Contagion Channels

Borrower Quality

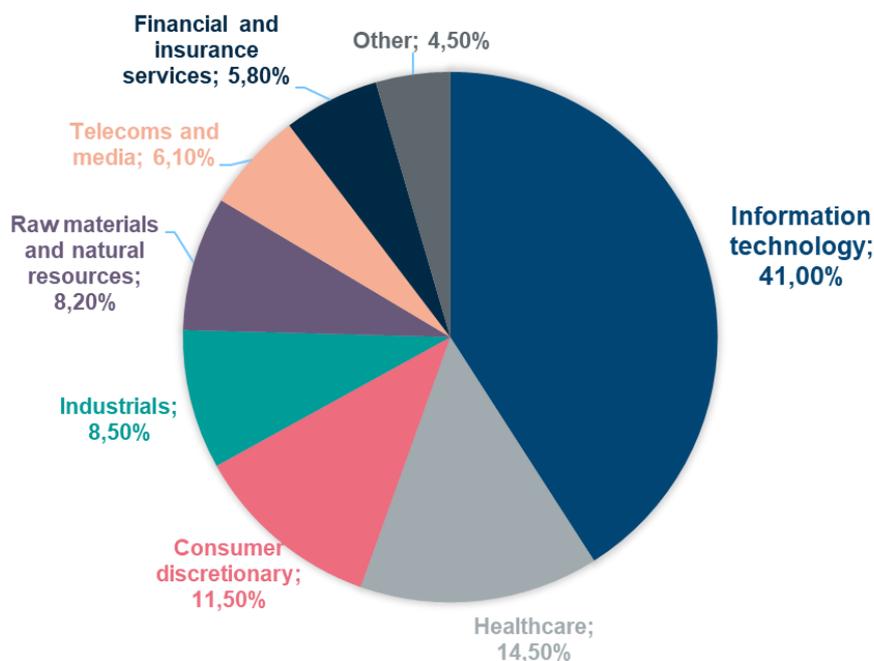
The credit quality of private credit borrowers is often debated, as many are mid-market or leveraged companies without public credit ratings. However, private lenders typically negotiate stronger covenants and collateral protections, which can help limit losses. So far, credit stress has largely remained contained within private credit funds.



Sector Exposure

Private credit lending is concentrated in a relatively small number of sectors, particularly areas linked to private equity and middle-market corporate financing.

Figure 4: Private Credit Sector Allocation



Source: International Monetary Fund

The information technology sector represents the largest share of private credit exposure, followed by healthcare and consumer sectors, reflecting strong demand for financing among high-growth and private equity-backed companies.

Contagion Channels

Although private credit losses may initially remain within individual funds or borrowers, the market's connections with banks, capital markets, and corporate financing create several potential transmission channels.

Figure 5: Potential Contagion Channels

Contagion Channel	How Stress Could Spread
Banking system exposure	Banks provide credit lines and leverage to private credit funds, creating indirect balance-sheet exposure.
Funding market spillovers	Stress in private credit may raise risk premiums across leveraged loans and high-yield credit markets.
Liquidity pressure	Semi-liquid fund structures can create redemption pressure despite illiquid underlying loans.
Investor confidence effects	Concerns about valuations or transparency may trigger broader risk aversion across credit markets.
Real economy transmission	Reduced lending could limit financing for mid-market companies reliant on private credit.

These linkages mean that stress in private credit could spread beyond the sector even if initial losses remain contained.

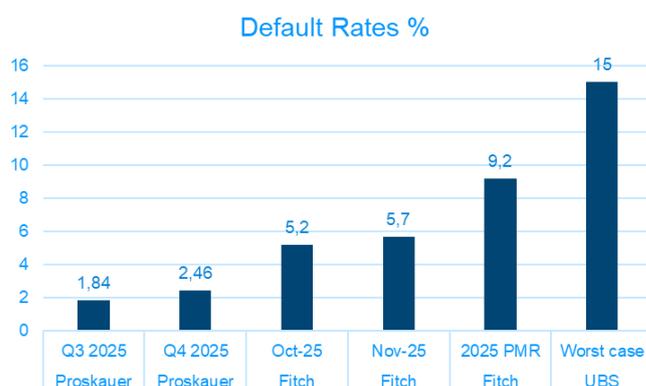


What the Evidence Shows: Defaults, Stress Events and Regulators

Default Rates

Default rates in private credit have begun to rise from historically low levels as higher interest rates pressure leveraged borrowers. However, the data suggests that stress remains uneven across the market.

Figure 6: Private Credit Default Rates According to Different Institutions



Source: Author's compilation based on Proskauer (2025), Fitch Ratings (2025), and UBS (2025).

As shown in Figure 6, reported defaults vary widely depending on the dataset. Indices focused on senior direct lending loans report relatively low default rates, while broader portfolios tracking more leveraged borrowers show higher levels of stress. Although some downside scenarios suggest defaults could rise significantly in a severe downturn, current levels remain well below crisis levels. Taken together, the data suggests that defaults are rising but remain far from crisis levels, reinforcing the view that stress in private credit is currently building gradually rather than signalling a systemic credit event.

Recent Credit Events in Private Credit Markets

Several recent borrower failures and liquidity restrictions have drawn attention to potential vulnerabilities within private credit markets. Notable examples include the bankruptcy of First Brands Group and the collapse of the subprime lender Tricolor, which generated losses for lenders and raised questions about underwriting standards. Liquidity pressures have also emerged within private market funds, with managers such as Blue Owl and BlackRock limiting investor withdrawals after redemption requests exceeded available liquidity. Although these events highlight emerging risks, they have so far remained contained and have not triggered broader financial disruption.

Figure 7 : Selected Stress Events in Private Credit Markets

Year	Event	Market Implication
2025	First Brands Group bankruptcy	Jefferies reports ~\$715m exposure
2025	Tricolor collapse	Losses reported by lenders including JPMorgan
2025	Blue Owl private credit fund limits withdrawals	Liquidity mismatch concerns
2026	UBS warns defaults could reach 15% in downturn	Rising systemic risk debate

Source: The Guardian (2025); Swissinfo (2025)

Regulatory Concerns: Transparency, Leverage and Systemic Risk

Global regulators, including the IMF and ECB, have warned that the rapid growth of private credit warrants closer monitoring due to concerns around limited transparency, leverage, and increasing links



with the banking system. However, regulators do not currently view the sector as an immediate systemic threat, instead emphasising the need for continued oversight as the market expands.

Is This Another GFC? No, But It Deserves Monitoring

GFC vs Private Credit

Private credit shares some structural similarities with credit markets before the Global Financial Crisis, particularly in areas such as opacity and leverage. The table below compares key features of the two environments.

Figure 8: GFC vs Private Credit

Feature	Global Financial Crisis (2008)	Private Credit Today
Opacity	Complex securitised products obscured underlying mortgage risk	Private loans valued privately with limited disclosure
Leverage	High leverage across households and financial institutions	Leverage concentrated mainly in corporate borrowers
Interconnectedness	Risks transmitted through securitisation and bank balance sheets	Indirect links through banks, funds, and institutional investors
Market Structure	Highly traded securities amplified panic and fire sales	Loans typically held by long-term investors with limited trading
Systemic Risk	Losses rapidly spread across the global banking system	Risks may accumulate more slowly and appear later in the cycle

These differences suggest that while private credit shares some structural vulnerabilities with past credit cycles, systemic risk may currently be lower because exposures are less concentrated within the banking system and assets are not widely traded or securitised.

A Closer Look at Our Private Credit Exposure

Within the Wealth Builder portfolio, private credit exposure is very limited. Alternatives represent roughly 5% of the portfolio, with about 1.4% allocated to private credit, primarily financing South African infrastructure projects such as renewable energy, digital infrastructure, and transport networks. These investments typically generate stable cash flows and are structured as senior debt, supporting stronger recovery prospects in the event of borrower distress. As such, this exposure differs from the more leveraged segments of the global private credit market that have raised systemic risk concerns.

Conclusion

Private credit has expanded rapidly and recent defaults, liquidity restrictions, and fund-level stress suggest that pressures are beginning to emerge as financial conditions tighten. However, current evidence indicates that these stresses remain largely contained within individual funds and borrowers rather than spreading across the broader financial system. Private credit therefore appears unlikely to trigger an immediate systemic crisis, although its continued growth and limited transparency mean it will remain an area that regulators and investors must monitor closely as the credit cycle evolves.