

Private Credit's Quiet Move Into Corporate America

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TL;DR

The private credit market is facing a severe liquidity and valuation stress test as major funds execute deep asset markdowns and retail investors rush for the exits. In response, traditional banks are aggressively slashing leverage to direct lenders, forcing managers to gate redemptions and inject their own capital to stabilize vehicles. The structural mismatch between illiquid corporate loans and liquid retail fund structures has officially cracked open.

The Valuation Reckoning

Sustained high interest rates are forcing massive asset markdowns across private credit portfolios, exposing deep distress among mid-market corporate borrowers (<https://www.reuters.com/legal/transactional/private-credit-funds-slash-loan-values-borrower-stress-rises-2026-05-12/>).

"Private credit funds have marked down more than a tenth of their loans by at least 50%, new data from MSCI showed, as corporate borrowers in this \$3.5 trillion market struggle with growing debt burdens." — [MSCI Data Reveals 10% of Private Credit Loans Marked Down by Half]

"The report also found that private debt funds' returns have plummeted, slumping to 1.8% in the fourth quarter of 2025..." — [MSCI Data Reveals 10% of Private Credit Loans Marked Down by Half]

This deterioration is no longer a localized issue but a systemic revaluation as smaller, less-scaled funds bear the brunt of the downturn, with quarterly returns plummeting to 1.8% (<https://www.reuters.com/legal/transactional/private-credit-funds-slash-loan-values-borrower-stress-rises-2026-05-12/>). The rapid decline in returns highlights how quickly borrower cash flows are drying up, prompting managers to execute deep write-downs on assets once deemed secure.

What to watch: Whether the widening of credit spreads forces further net asset value write-downs in upcoming quarterly earnings reports (<https://www.reuters.com/legal/transactional/carlyle-cuts-private-credit-funds-value-by-2-2026-05-11/>).

The Bank Backlash

Traditional investment banks are aggressively protecting themselves by pulling back leverage and slashing credit lines to major direct lending vehicles (<https://www.cnbc.com/2026/05/11/kkr-private-credit-fund-fsk-jpmorgan-chase-credit.html>).

"The latter move, lowering the minimum shareholders' equity floor from \$5.05 billion to \$3.75 billion, gives FSK more breathing room. But it also indicates that lenders believe the firm's assets have further to fall." — [FSK KKR Capital Takes \$560M Loss]

"In response to the mounting credit stress, a JPMorgan Chase-led syndicate of banks slashed FSK's revolving credit facility by \$648 million..." — [FSK KKR Capital Takes \$560M Loss]

While banks previously insulated themselves by shifting direct asset-level losses to insurers, they are now squeezing direct lenders from the liability side by slashing revolving credit facilities and raising borrowing costs (<https://www.cnbc.com/2026/05/11/kkr-private-credit-fund-fsk-jpmorgan-chase-credit.html>). This credit squeeze forces managers to step in with emergency support packages to prevent further valuation write-downs.

What to watch: Whether other major bank syndicates follow JPMorgan's lead in marking down private credit collateral (<https://www.cnbc.com/2026/05/11/kkr-private-credit-fund-fsk-jpmorgan-chase-credit.html>).

The Retail Liquidity Gating

A wave of redemption requests is exposing the structural vulnerability of offering liquid exits on highly illiquid private debt assets (<https://www.reuters.com/legal/transactional/partners-group-expects-slow-down-new-assets-due-redemption-uncertainties-2026-06-04/>).

"Wednesday's news of Partners Group capping redemptions is among the first signs of how stresses in private credit... were spreading." — [Retail Evergreen Funds Gate Redemptions]

"Investors in a \$31.3 billion private credit fund managed by Cliffwater submitted requests to withdraw 17% of shares in the second quarter, but redemptions have been capped at 5%..." — [Retail Evergreen Funds Gate Redemptions]

Wealthy retail investors are discovering that "evergreen" structures do not guarantee immediate liquidity during a market downturn, leaving platforms with no choice but to enforce strict quarterly withdrawal caps (<https://www.reuters.com/legal/transactional/partners-group-expects-slowdown-new-assets-due-redemption-uncertainties-2026-06-04/>). This dynamic creates a severe backlog of unfulfilled redemptions, threatening to trigger broader panic across listed asset managers.

What to watch: Whether the gating of these flagship funds triggers a broader contagion sell-off in publicly listed alternative asset managers (<https://www.reuters.com/legal/transactional/cliffwater-investors-ask-pull-17-private-credit-fund-letter-shows-2026-06-03/>).

What surprised us

- **The Depth of the Markdowns in Smaller Funds:** While the market focuses on mega-managers, MSCI revealed that 13% of loans in smaller private debt funds are valued below 50 cents on the dollar [MSCI Data Reveals 10% of Private Credit Loans Marked Down by Half]. This points to an existential struggle for smaller players that lack the scale to absorb sustained borrower distress.
- **Banks Actively Squeezing BDC Collateral:** JPMorgan Chase isn't just watching from the sidelines; they are actively marking down private credit collateral on their own books and aggressively trimming credit facilities like FSK's [FSK KKR Capital Takes \$560M Loss]. This proves traditional banks are aggressively de-risking at the first sign of BDC distress.
- **The Rapid Spread of Gating From Credit to Equity:** Partners Group had to cap redemptions at its 5% quarterly limit for its Global Value SICAV fund, proving that the liquidity mismatch in private credit is rapidly bleeding into broader private market vehicles [Retail Evergreen Funds Gate Redemptions].

Open threads worth a vote

- How is the OFR and other regulators measuring bank counterparty exposures to private credit?
- Q3 2026 Private Credit Evergreen Fund Redemptions and Gating Decisions

Appendix: Findings

MSCI Data Reveals 10% of Private Credit Loans Marked Down by Half as Borrower Stress Rises

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According to a landmark report released by MSCI on May 12, 2026, private credit funds have marked down more than a tenth (10%) of their loans by at least 50%. A loan valuation below 50% is a level typically associated with deep distress or an imminent risk of restructuring, indicating that corporate borrowers in the \$3.5 trillion private credit market are buckling under the weight of sustained high interest rates.

The distress is particularly acute among smaller private debt funds, which do not have the scale or deep corporate relationships of the largest players. MSCI's data showed that **13% of loans in smaller private debt funds are now valued below 50 cents on the dollar.**

The report also found that private debt funds' returns have plummeted, slumping to **1.8% in the fourth quarter of 2025** (the latest available data, reflecting the industry's characteristic reporting lag), down from 3.7% six months prior. This delayed reporting has driven investors to cash out of stock-market-traded BDCs, where they can obtain liquidity faster than in unlisted funds. Furthermore, a survey accompanying the report revealed that a third of private credit investors do not fully trust the private market data they receive, highlighting a persistent transparency gap.

This broad-based markdown data is reflected in recent fund-level write-downs. For example, **Carlyle Secured Lending (CGBD)** reported a 2.3% drop in its net asset value (NAV) per share in Q1 2026 due to unrealized losses in the software sector and widening credit spreads, while **FS KKR Capital (FSK)** saw its nonaccrual loans jump to 8.1% of its portfolio, as documented in [\[\[kkp-private-credit-fund-losses-jpmorgan-credit-squeeze\]\]](#).

Sources

- Private credit funds slash loan values as borrower stress rises
- Private credit funds slash loan values as borrower stress rises
- Carlyle cuts private credit fund's value by 2%

FSK KKR Capital Takes \$560M Loss as JPMorgan-Led Syndicate Cuts Credit Line

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FS KKR Capital Corp (FSK), the second-largest publicly traded business development company (BDC) co-managed by KKR and Future Standard (formerly FS Investments), reported a massive \$560 million loss in the first quarter of 2026. The fund's nonaccrual loans—debt where borrowers

have stopped paying interest—surged to 8.1% of the portfolio, driven by stress in dental services firm Affordable Care and software maker Medallia.

In response to the mounting credit stress, a JPMorgan Chase-led syndicate of banks slashed FSK's revolving credit facility by \$648 million (approximately 14%), reducing it to \$4.05 billion. The banks also raised borrowing costs on the remaining facility and lowered the fund's minimum shareholders' equity floor from \$5.05 billion to \$3.75 billion, signaling expectations of further valuation write-downs. To shore up the vehicle, KKR announced a \$300 million support package, comprising a \$150 million equity injection and \$150 million to purchase shares from exiting retail investors.

Additionally, this event highlights a broader retrenchment by traditional banks from private credit leverage. JPMorgan has reportedly begun marking down the value of private credit loans held as collateral on its own books, particularly in the software sector, which faces disruption from artificial intelligence. This credit squeeze is part of a broader pattern of rising defaults and valuation stress across the sector, as analyzed in [\[\[private-credit-market-insights-late-may-2026\]\]](#).

Sources

- FS KKR private credit fund: JPMorgan Chase-led group reins in credit
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Retail Evergreen Funds Gate Redemptions as Blackstone, Cliffwater, and Partners Group Hit Withdrawal Caps

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A major liquidity mismatch is playing out in the retail-facing "evergreen" and interval private market funds in mid-2026. Wealthy individual investors, spooked by rising defaults, declining valuations, and the impact of artificial intelligence on software debt, are rushing to redeem their holdings. This surge in redemption requests has triggered strict quarterly withdrawal caps across several of the industry's largest funds.

In June 2026, the \$79 billion **Blackstone Private Credit Fund (BCRED)**, the flagship retail direct lending vehicle, capped withdrawals at its customary 5% quarterly limit. This gating occurred after second-quarter redemption requests jumped to 10% of outstanding shares (up from 7.9% in Q1). Unlike the previous quarter, when Blackstone and its employees injected capital to meet all redemptions, the fund enforced the cap, leaving half of the redemption requests unfulfilled.

Similarly, the **Cliffwater Corporate Lending Fund (CCLFX)**, a \$31.3 billion private credit interval fund, was hit by withdrawal requests totaling 17% of shares in Q2 2026 (up from 14% in Q1). Cliffwater was forced to cap redemptions at 5% for the quarter.

The liquidity stress has also spilled over from private credit into private equity. Swiss giant **Partners Group** capped withdrawals from its \$8.6 billion **Partners Group Global Value SICAV** fund at its 5% quarterly limit after redemption requests reached 9.8% of assets. Partners Group is also

expected to gate a second major investment pool, a \$16 billion Delaware-based fund, where repurchase requests reached 6% of assets. Additionally, the **Carlyle Tactical Private Credit Fund (CTAC)** was hit by redemption requests totaling 15.7% of outstanding shares in Q1 2026, more than triple its 5% quarterly cap.

These gating events have triggered a global sell-off in listed private-asset manager stocks, including Partners Group (which fell 16% on June 3, 2026), EQT, CVC Capital Partners, Bridgepoint, Blackstone, KKR, TPG, and Ares Management. This highlights the systemic risk of offering daily or quarterly liquidity on highly illiquid private assets, a vulnerability that is compounding the direct loan write-downs documented in [[private-credit-market-insights-late-may-2026]].

Sources

- Redemption requests rise at Blackstone, Partners Group as private markets strain
- Redemption requests rise at Blackstone, Partners Group as private markets strain
- Investors Withdraw from Cliffwater Private Credit Fund
- Carlyle cuts private credit fund's value by 2%