

March 19, 2026

Global Credit Weekly:

Navigating private
credit's liquidity, scale,
and performance
dynamics

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Market insights contributor



Dominique Bly
Macro Credit Research Strategist

Topics in this piece:
Private Credit
Business Development Companies

Key takeaways:

- Early 1Q2026 data points to a measured increase in redemption activity across some perpetual BDCs, bringing renewed focus to a defining feature of semi-liquid private credit vehicles: balancing investor demand for liquidity with inherently illiquid assets.
- In this *Global Credit Weekly*, we explore how BDCs are navigating this dynamic, including the role of redemption frameworks and other tools available to managers. While redemption activity warrants monitoring, early signals suggest limited risks to the broader financial ecosystem.
- At the same time, preliminary 4Q2025 private credit data signal continued resilience through YE2025. However, rising dispersion highlights the growing importance of underwriting discipline, recovery execution, and manager selection in driving outcomes.

Navigating private credit's liquidity, scale, and performance dynamics

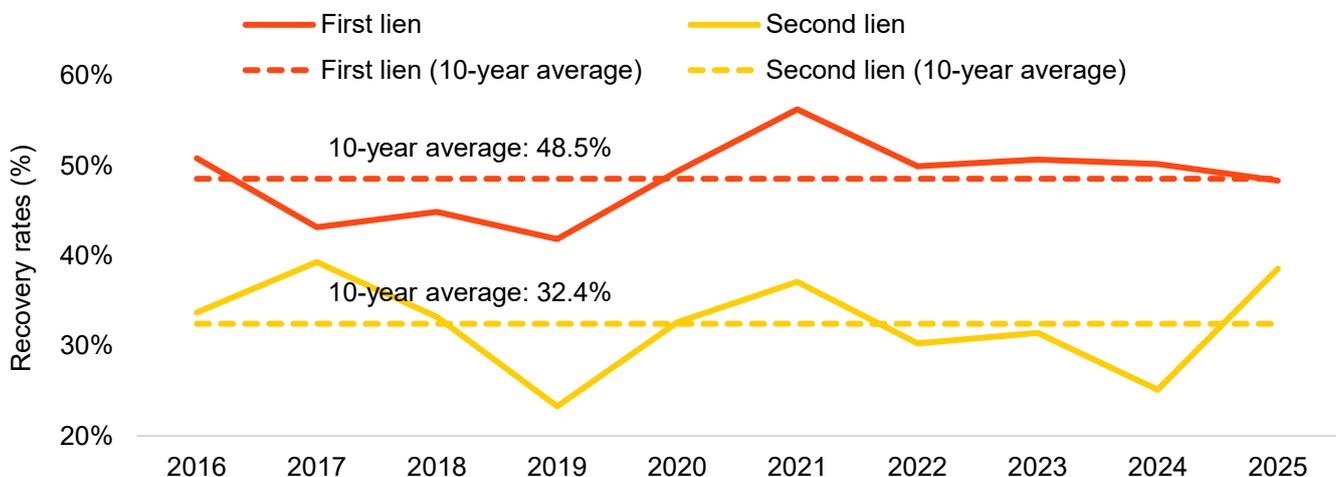
Recent shifts in the macro backdrop are ushering in a more dynamic investing environment. Against this backdrop, factors such as a lower rate regime and uncertainty around AI-related disruptions appear to be influencing investor preferences at the margin, with early 1Q2026 data pointing to a measured pickup in redemption activity across some perpetual BDCs. This evolving landscape brings renewed focus to a core feature of semi-liquid private credit vehicles: balancing investor demand for liquidity with the inherently illiquid nature of the underlying assets.

In this *Global Credit Weekly*, we examine how BDCs are navigating this dynamic, including the structure of redemption frameworks and the tools available to meet such redemptions. We also consider what implications these may have for broader credit markets and the wider financial ecosystem.

Finally, we assess performance across private credit, where increasing dispersion highlights the importance of underwriting discipline, recovery execution, and manager selection in driving resilient outcomes.

Exhibit 1: First lien private credit implied recoveries remain in line with the historical average

Annual and 10-year first and second lien implied recovery rates for the Cliffwater Direct Lending Index



Source: Cliffwater Direct Lending Index, BlackRock. As of YE2025. Since BDCs do not publish true recoveries on impaired assets, the CDLI calculates an implied recovery rate based on the aggregate mark of loans on non-accrual in a given quarter. **Past performance is not a reliable indicator of current or future results.**

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Perpetual BDCs: Structuring liquidity in illiquid markets

Private credit has grown considerably in recent years, with Business Development Companies (BDCs) becoming an important access point for investors. There are three types of BDCs: public BDCs, private BDCs (excluding perpetual), and perpetual non-traded BDCs. Each is designed to accommodate the inherently illiquid nature of private credit, though in different ways. Note that we have defined each in greater detail previously, [here](#).

As of 3Q2025, perpetual BDCs account for approximately 54% of total BDC assets under management (AUM), according to the Cliffwater Direct Lending Index (CDLI; Exhibit 2), which covers over 20,000 U.S. loan holdings and roughly \$514 billion in AUM.

These vehicles are designed to balance access to enhanced yield associated with the so-called ‘illiquidity premium’ with a periodic, though limited, pathway to liquidity. They achieve this through structured liquidity frameworks that offer conditional redemptions via recurring windows, typically capped at around 5% of NAV per quarter and subject to board discretion.

In practice, redemption demand has generally remained below these thresholds, with data from the CDLI showing that redemption requests for perpetual BDCs have historically averaged well below the 5% cap.

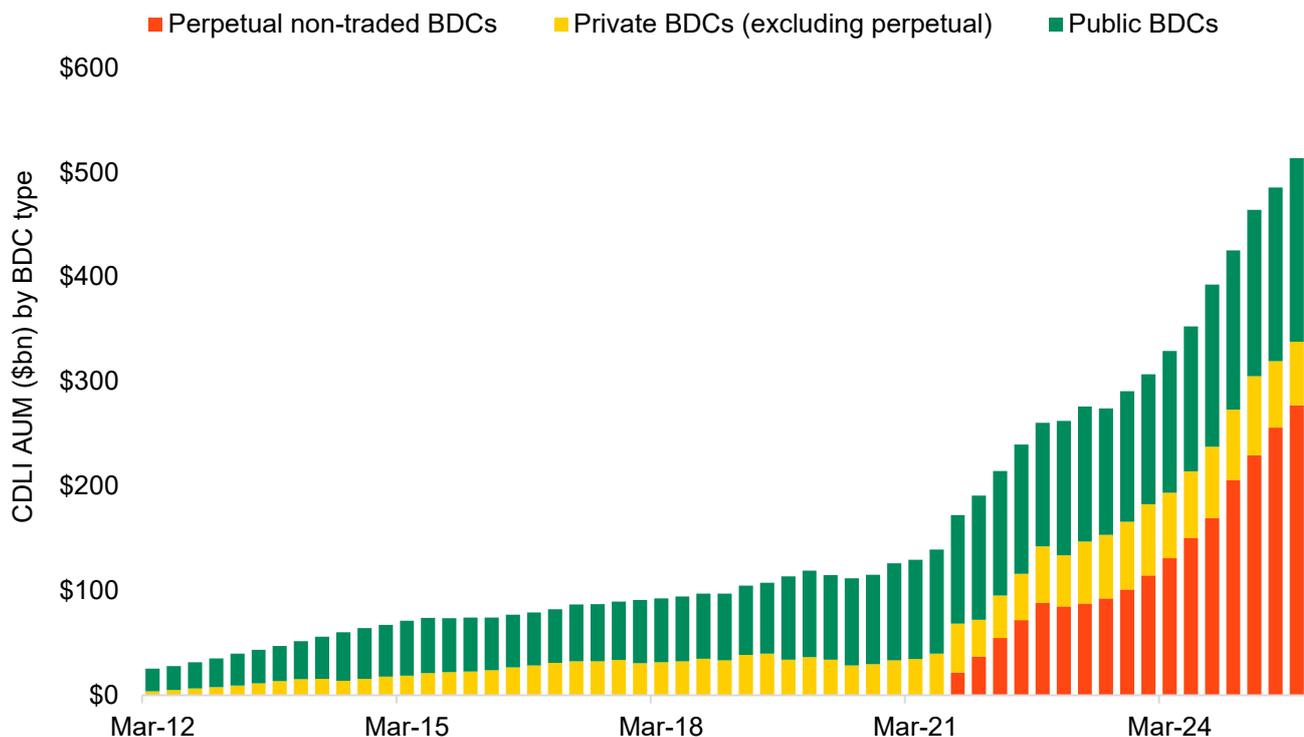
When redemption requests exceed the permitted threshold, tenders may be fulfilled on a pro-rata basis. For example, if investors submit redemption requests equal to 8% of NAV during a quarter, the board may authorize a 5% tender, which will be allocated on a pro-rata basis across participating investors.

This structured liquidity framework helps align investor liquidity expectations with the underlying illiquid loan portfolios, supporting portfolio stability over time.

In doing so, it reduces the risk of forced asset sales, which could otherwise require managers to sell illiquid loans at discounts during periods of market stress and potentially contribute to broader credit market pressures, a dynamic we discuss in greater detail on the coming pages.

Exhibit 2: Perpetual BDCs represent the largest BDC type by AUM

Cliffwater Direct Lending Index assets under management, in \$ billions, by BDC type



Source: Cliffwater Direct Lending Index, BlackRock. As of 3Q2025 (most recent available).

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Understanding avenues to liquidity for BDCs

Signals of elevated redemption requests in 1Q2026 have focused investor attention on the *conditional* liquidity offered by perpetual non-traded BDCs and the broader market implications of meeting those requests. In our view, the recent increase in redemptions is likely driven by a variety of factors, including shifts in the rate environment and uncertainties related to macro and sector dynamics (including software, for example), rather than a broad-based deterioration in underlying borrower fundamentals.

Thus far, several large perpetual BDCs reported 1Q2026 redemption requests exceeding typical quarterly limits. Managers have taken different approaches to these requests, including honoring redemptions above stated thresholds or affirming caps and allocating liquidity on a pro-rata basis. Importantly, these decisions can vary from quarter to quarter.

Broadly speaking, we view perpetual BDCs as managing redemption activity through two sources of liquidity: funding liquidity, tied to the fund's capital structure, and portfolio liquidity, generated by cash flows and asset flexibility within the investment portfolio. Together, these tools allow managers to address redemption demand while limiting the need for forced asset sales.

Funding liquidity

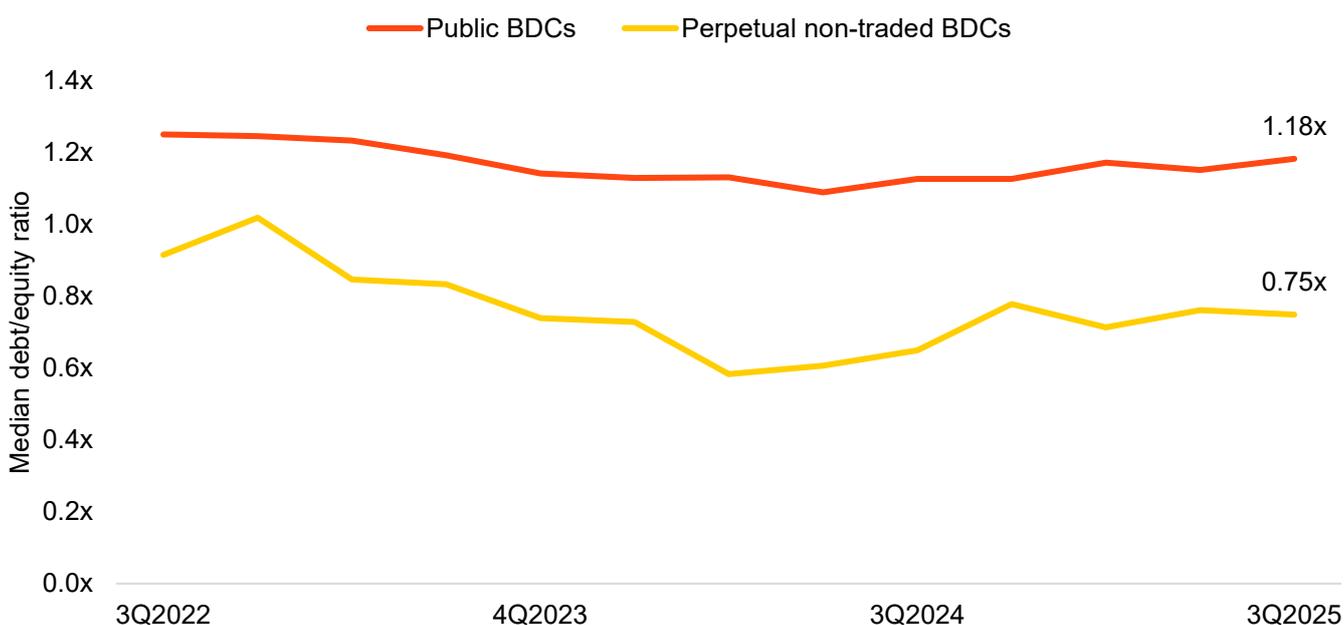
Funding liquidity reflects balance sheet resources and financing flexibility within the BDC's capital structure. This can include cash balances, net asset inflows/outflows, and access to financing through credit facilities or other forms of debt.

A February 2026 analysis from Moody's, which captures data as of 3Q2025, notes that in aggregate perpetual BDCs appear well positioned to absorb elevated redemption activity given "substantial liquidity and capital buffers," including a low median debt/equity ratio for perpetual BDCs (Exhibit 3).

A November 2025 analysis from Fitch Ratings echoes this, noting as well that they expect rated BDCs will maintain leverage within targeted ranges in 2026, resulting in sufficient cushions to regulatory asset coverage requirements to account for future losses, should they occur. That said, the report notes that refinancing needs and capital market conditions will remain key to watch.

Exhibit 3: Median debt/equity levels remain modest for perpetual non-traded BDCs

Median debt/equity ratio for rated BDCs covered by Moody's



Source: Moody's ratings, company financials, BlackRock. As of 3Q2025 (most recent available). Captures data from 34 rated BDCs.

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Portfolio-based

In addition to structural tools, BDCs can generate liquidity directly from their portfolios.

Portfolio liquidity can be supported by cash flows, such as loan repayments. Indeed, managers can *redirect* these cash flows toward meeting redemption requests by slowing reinvestment and allowing repayments to accumulate as cash. Exhibit 4 demonstrates recent loan repayments for the CDLI, which have rebounded from 2023 lows but remain below the long-term average of 33.8%.

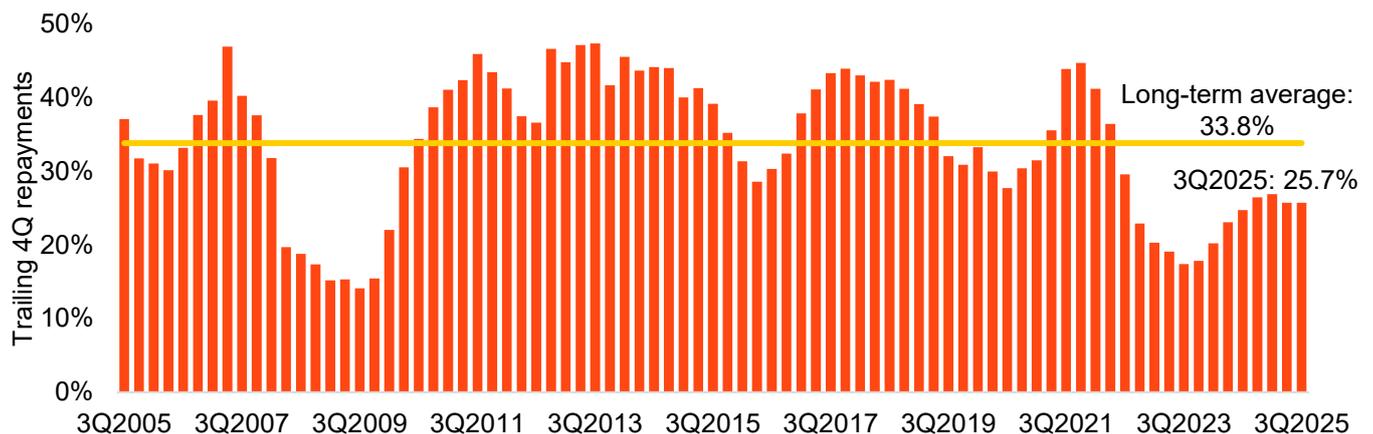
Managers may also generate liquidity by selling more liquid assets within their portfolios, including broadly syndicated loans (BSLs), which trade in secondary markets. Some investors have considered whether elevated redemption activity could increase BSL selling.

An S&P Ratings analysis of more than 165 BDCs and interval funds indicates that non-traded BDCs (including perpetual and private vehicles) allocate roughly 33% of loan portfolios to BSLs, compared with about 23% for publicly traded BDCs (Exhibit 5). The higher allocation among non-traded BDCs likely reflects the need to manage periodic redemptions, unlike public BDCs whose shares trade on exchanges. In aggregate, non-traded BDCs (including perpetual and private) represent roughly \$338 billion in AUM, per the CDLI, compared with approximately \$1.53 trillion of U.S. leveraged loan par value outstanding as of March 17, 2026, per PitchBook LCD.

As such, we believe redemption-driven BSL sales could represent a modest technical headwind for secondary market loan performance in the near and medium term.

Exhibit 4: Private credit repayments have improved, but remain below the long-term average

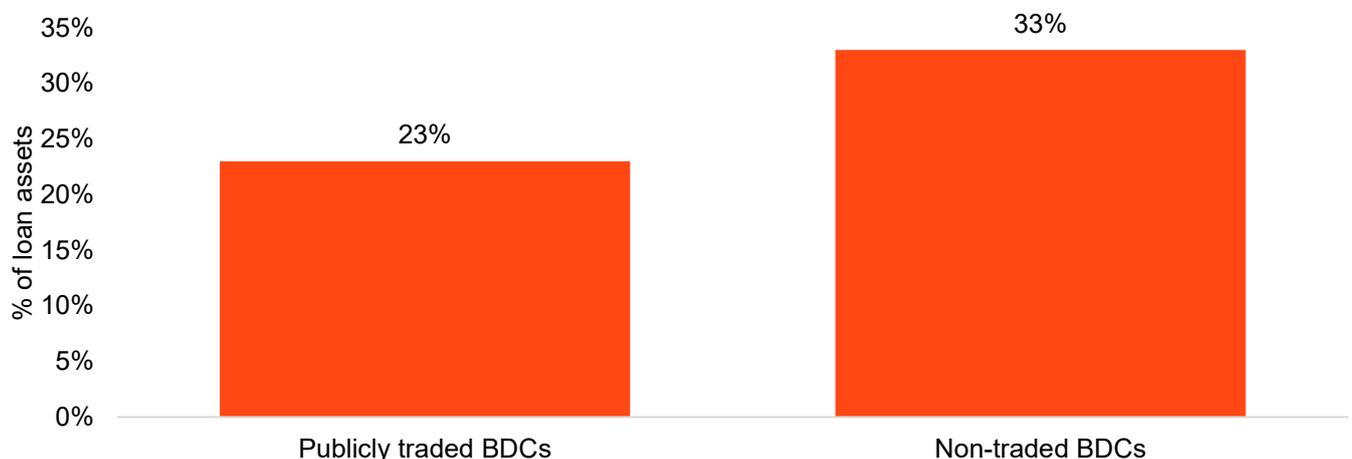
CDLI trailing 4 quarter repayments, including loan maturities, prepayments, and sales



Source: Cliffwater Direct Lending Index, BlackRock. As of 3Q2025 (most recent available). Captures cash inflows from maturing loans, prepayments, and sales, divided by total investments at cost. Excludes interest.

Exhibit 5: BSL assets represent roughly one-third of non-traded BDC loan assets

Broadly syndicated loans as a share of total BDC loan assets (fair value-weighted)



Source: S&P Global Ratings Private Markets Analytics, BlackRock. As of 2Q2025. Includes BDCs that are rated and unrated.
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Framing private credit exposures in the broader ecosystem

Private credit vehicles, including BDCs, are increasingly integrated into the broader financing ecosystem through their use of both bank and capital markets funding. Rating agencies assess these vehicles' creditworthiness with a focus on capital adequacy, leverage, asset quality, liquidity, profitability, and portfolio diversification, though approaches vary across agencies, structures, and issuers.

Leverage is a key consideration for BDCs given regulatory constraints under the Investment Company Act of 1940, which impose asset coverage requirements that effectively cap leverage at roughly 2.0x debt-to-equity (150% asset coverage). In practice, most BDCs operate below this threshold (again, Exhibit 3). Further, a March 17, 2026 report from Barclays notes that in their review of over 30 BDCs with investment grade debt, the median regulatory asset coverage was 191%.

Maintaining compliance with this requirement is critical, as breaches can severely restrict capital management. As a result, rating agencies place significant emphasis on liquidity, funding access, and asset quality when evaluating overall credit profiles, particularly in the context of elevated redemption activity in perpetual BDC structures.

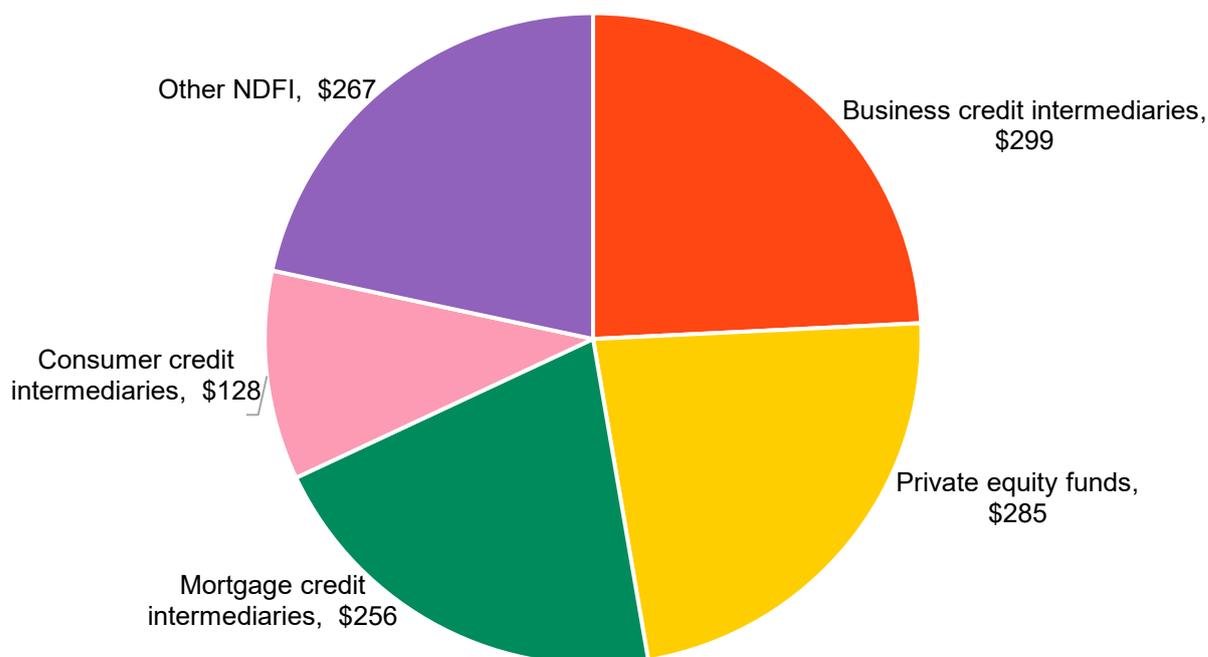
From a funding perspective, BDCs typically rely on a mix of secured and unsecured financing, with composition varying by issuer and market conditions. These funding channels link private credit to both the banking system and public credit markets.

Despite these linkages, aggregate exposures remain modest relative to the size of the broader financial system. Moody's estimates that U.S. banks' exposure to private credit was approximately \$300 billion as of 2Q2025, or less than 3% of total bank loans (Exhibit 6). Similarly, the Office of Financial Research estimates total BDC borrowings from both banks and nonbanks to be approximately \$195 billion as of year-end 2024. The report notes that private credit exposures are often overcollateralized and generally exhibit favorable risk characteristics.

Taken together, these data points suggest that while private credit's role within the financing ecosystem has expanded, its current scale remains manageable. Continued growth, however, warrants monitoring as market dynamics evolve.

Exhibit 6: U.S. banks lend an estimated \$300 billion to private credit

U.S. bank exposure to non-depository financial institutions (NDFIs), in \$ billions



Source: Moody's Ratings, U.S. Board of Governors of the Federal Reserve System, BlackRock. As of 2Q2025. Moody's Ratings believes banks' private credit exposures are mainly reported under the "business credit intermediaries" category. The business credit intermediaries segment mostly includes loans to private credit funds, direct lenders, business development companies (BDCs), finance companies, special purpose entities, collateralized debt obligations and collateralized loan obligations. Also includes loans to non-bank business lenders, such as online marketplace lenders.

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Dispersion and recovery dynamics in private credit performance

Against this backdrop, we turn to private credit performance, where outcomes are shaped by a combination of macro conditions, borrower fundamentals, and manager execution. Recent data points to a broadly constructive environment through YE2025. A February 2026 Cliffwater report shows that preliminary full-year 2025 income for the CDLI totaled 10.39%, while realized losses remained contained at 0.70%, well below the long-term average of 1.01% (Exhibit 7; shows most recent *finalized* data).

However, performance across BDCs has not been uniform. Exhibit 8, which shows trailing four-quarter return on equity (ROE), illustrates how performance drivers can shift over time. Periods such as 2020 were largely influenced by macro conditions, with 45% of BDCs recording negative ROE amid pandemic-related write-downs, followed by a sharp recovery in 2021. More recently, a wider dispersion of ROE outcomes suggests a greater role for manager-specific factors, including underwriting discipline and portfolio construction.

This increasing dispersion is also evident at the underlying credit level. In 2025, foreclosure activity increased to \$24.3 billion, up from \$10.7 billion in 2024, according to Lincoln International (Exhibit 9). Notably, over 70% of this activity was concentrated in 2021 and 2022 vintage loans, most of which were underwritten in a much lower interest rate environment (Exhibit 10). This highlights how vintage and underwriting conditions can influence outcomes over time.

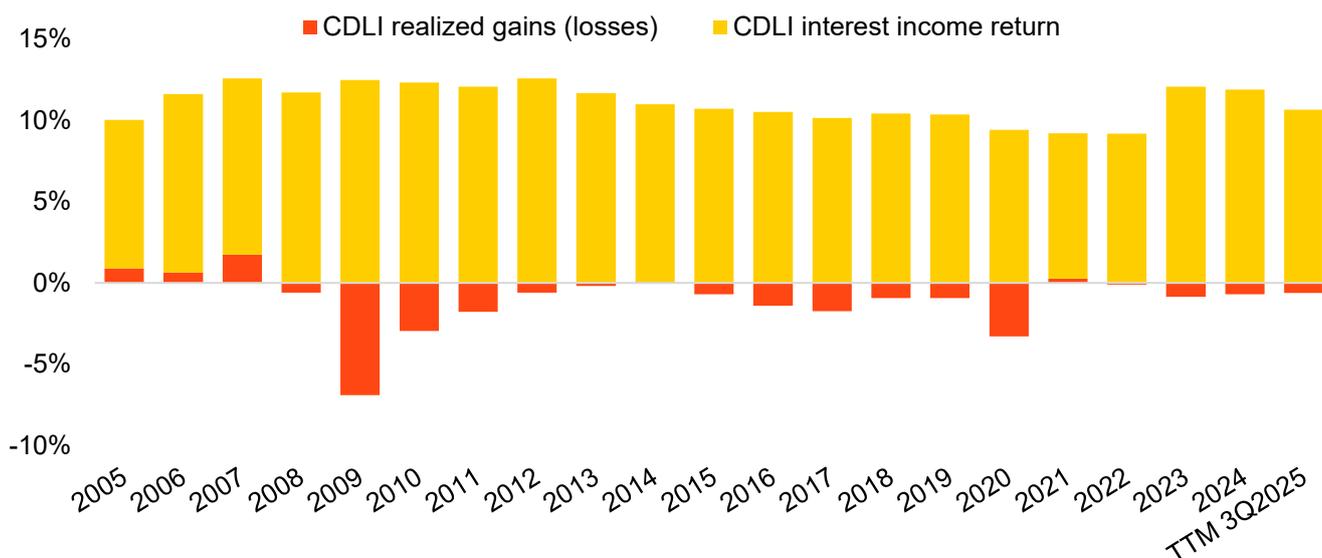
Importantly, foreclosure activity alone does not determine ultimate outcomes. Rather, performance also depends on how effectively managers navigate these situations, with borrower engagement, restructuring, and recovery execution playing a central role.

Exhibit 1 reinforces this dynamic. Implied recovery rates vary somewhat over time and across instruments. That said, first lien recoveries from 2022 to 2025 have tracked broadly in line with long-term averages, suggesting no meaningful deterioration in recovery outcomes.

Taken together, these trends signal that while dispersion and idiosyncratic stress are likely to persist, they remain manageable within the broader context of private credit. In this environment, manager selection, underwriting discipline, and recovery execution are key in determining outcomes and supporting resilient performance.

Exhibit 7: Private credit realized losses remain contained

Trailing 12-month interest income return and realized gains (losses) for the Cliffwater Direct Lending Index

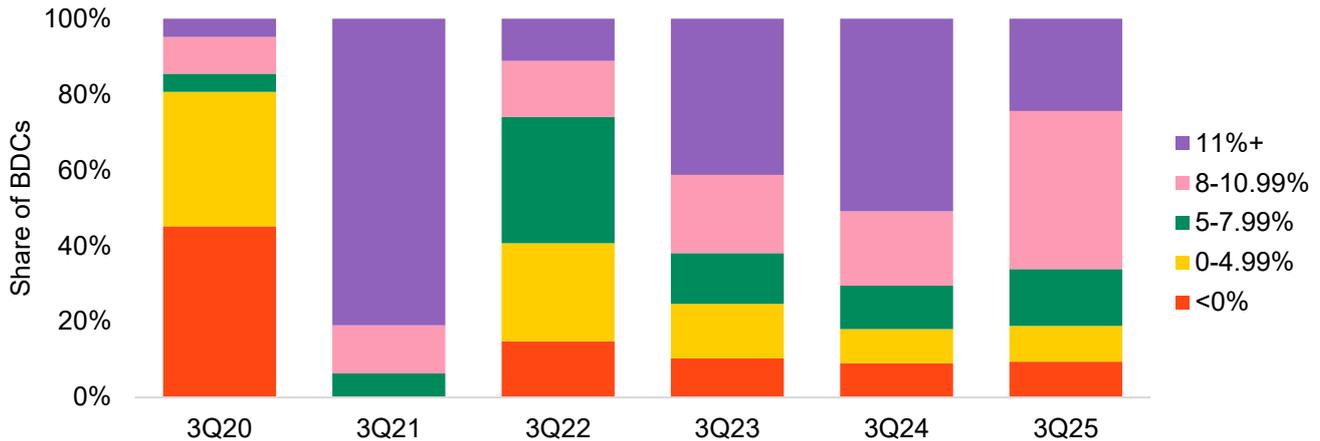


Source: Cliffwater Direct Lending Index, BlackRock. As of 3Q2025 (most recent finalized data available.) The preliminary full year 2025 values cited above are available in the February 23, 2026 report from Cliffwater. Realized gains in the CDLI can be driven by equity stubs, warrants, and gains on exited investments. These were more common in 2005-2007, when second lien and mezzanine loans were a greater portion of the CDLI. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged, and one cannot invest directly in an index.

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Exhibit 8: BDC ROE reveals performance dispersion

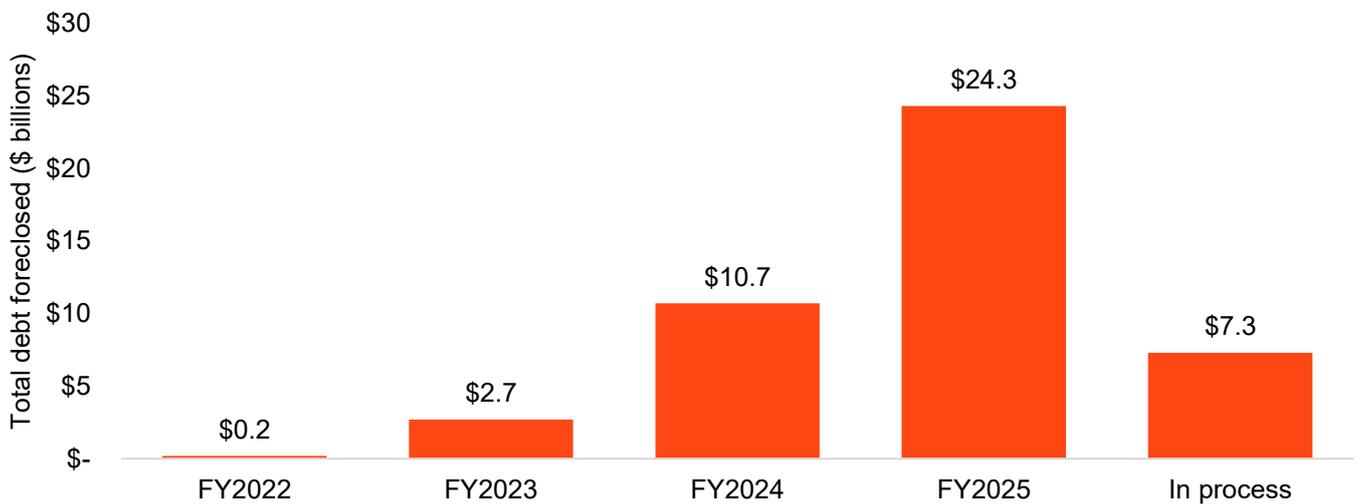
Trailing 4Q return on equity distribution for BDCs in the Cliffwater Direct Lending Index, by count



Source: Cliffwater Direct Lending Index, BlackRock. As of 3Q2025. **Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Exhibit 9: Total private credit foreclosures grew in 2025

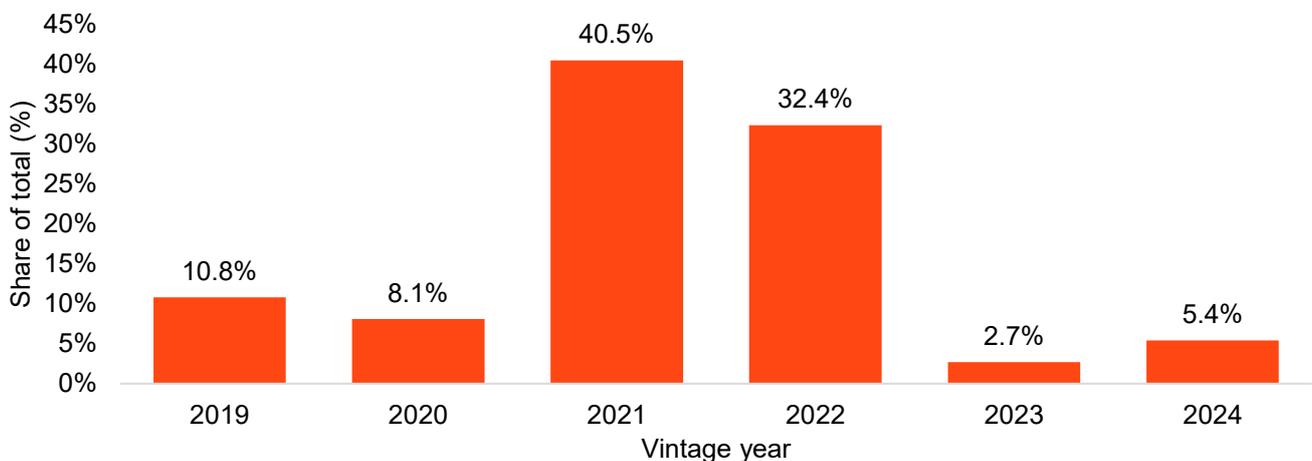
Annual volumes of private credit foreclosed, in \$ billions



Source: Lincoln VOG Proprietary Private Market Database, BlackRock. In process is as of February 12, 2026. \$7.3 billion represents a minimum figure. Captures companies in which lenders had either taken control or were imminently expecting to take control from the sponsor.

Exhibit 10: 2021 and 2022 vintage debt represented the largest share of foreclosures in 2025

Share of debt foreclosed in 2025 by vintage year



Source: Lincoln VOG Proprietary Private Market Database, BlackRock. As of YE2025. Captures companies in which lenders had either taken control or were imminently expecting to take control from the sponsor.

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Cliffwater Direct Lending Index (CDLI) is an index that assists investors to better understand private credit as an asset class. The CDLI seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. Eligibility is set as all assets held by BDCs that (1) are regulated by the SEC as a BDC under the Investment Company Act of 1940; (2) have a substantial majority (approximately 75%) of reported total assets represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater's discretion, and (3) file SEC form 10-Q (or 10-K, as applicable) within 75 (or 90) calendar days following the current Valuation Date. If a BDC meets the eligibility criteria, but has not filed its report on Form 10-K or 10-Q with the SEC at the time the index is reconstituted, asset information from its report will be included in the index at the time of the next reconstitution. This information is derived from sources that are considered reliable, but BlackRock does not guarantee the veracity, currency, completeness or accuracy of this information.

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