Understanding the evolving private credit market

In brief

- Private credit refers to loans and other credit instruments issued in private offerings. This type of debt does not trade on the public market and is therefore less liquid than traditional fixed income securities.
- Private credit offers the potential for attractive income, accretive total returns and diversification in a portfolio.
- Investors can access private credit directly, through primary investments in private credit funds, or through secondary transactions.
- Corporate lending and asset-backed finance are two major types of private credit. Both categories offer several sub-strategies with different risk and return profiles.
- Following a period of rapid growth—especially in direct lending—the private credit market is evolving. In this next phase, we expect greater manager and sector dispersion, highlighting the need for diversification and creating opportunities for experienced investors.

What is private credit?

Private credit refers to loans, bonds and other credit instruments issued in private offerings. These transactions are negotiated directly between the lenders and borrowers and do not trade on the public market. As a result, private credit is less liquid than traditional credit and fixed income securities, which are typically issued by a syndicate of banks and traded in the public market. Private credit also differs from traditional fixed income in several other ways, including typically offering a floating rate rather than fixed rate coupon (**Exhibit 1**).

Exhibit 1: Key characteristics of private credit vs. traditional fixed income

	Private credit	Traditional fixed income
Public/Private	Privately originated and held	Publicly syndicated and sold
Loan negotiation	Bilateral	Multiple parties
Asset seniority	Senior secured	Focus varies
Coupon structure	Primarily floating rate	Fixed rate
Credit rating process	No	Yes
Call protection	Yes	Varies
Covenants	Yes	varies

Source: J.P. Morgan Asset Management; as of 3/31/26.

Different types of private credit investments

Just as publicly traded fixed income includes a variety of securities, such as investment grade, high yield, bank loans and asset-backed securities, private credit also includes different categories and sub-strategies. The two most prominent types of private credit are corporate lending and asset-backed finance.

These private credit strategies feature highly different characteristics. Therefore, investors need to account for both the differences with publicly traded fixed income and within private credit when making any investment decisions.

Corporate lending

Private corporate lending fills a critical gap, typically serving private or smaller companies, where banks would have historically acted. These smaller companies—many of which are owned by private equity firms—gain access to capital that might otherwise not have been available to them. Furthermore, bilateral negotiations in private lending can also create terms that may be more customized to their businesses and needs (**Exhibit 2**).

The lenders are often alternative asset managers that structure the transactions through lending platforms such as business development companies (BDCs), private debt funds (including interval funds) and collateralized loan obligations (CLOs). In return for lending capital, they typically receive a premium to traditional bank lending rates, reflecting the higher risk and complexity of lending to these smaller, private companies. Private corporate lending also offers investors access to more sectors of the economy than traditional fixed income, particularly more exposure to fast-growing industries that are home to many small and innovative companies.

Asset-backed finance

Asset-backed finance (ABF) is an increasingly mainstream area of private credit that differs greatly from corporate lending. While direct lending helps broaden the amount of credit available in the system, asset-backed credit helps transfer the risk.

ABF is private lending secured by diversified pools of contractual cash flows and/or tangible collateral. The underlying assets typically generate predictable payment streams that can service the debt independent

Exhibit 2: Key characteristics of different types of corporate lending

Types of corporate lending	Direct lending	Opportunistic lending	
	Predominantly secured, term loans at the top of a company's capital stack (i.e., senior debt). Borrowers tend to be small to mid-size companies with earnings before interest, taxes, depreciation and amortization (EBITDA) of $5 million to $100 million. Typically, the market differentiates between two types of companies: traditional middle-market (+/- $50 million EBITDA) and lower-middle market (under the $50 million EBITDA threshold).	Special situations	Distressed debt
		Loans to companies where a specific, identifiable catalyst (restructuring, spin-off, recapitalization, litigation outcome, regulatory change) is expected to drive value realization independent of the broader market	Loans to a company under severe financial stress—often trading at a deep discount—where repayment depends on a turnaround or a restructuring/bankruptcy process

Source: J.P. Morgan Asset Management; as of 3/31/26.

of the financial performance of any single corporate borrower in the pool. These cash flow streams may come from many types of lending, including consumer loans (auto loans and credit cards) mortgages (both residential and commercial), hard asset loans and leases (aircraft, data centers, solar panels) and loans based on contractual cash flows (music or intellectual property royalties).

ABF offers several benefits for investors, beginning with the opportunity to access a much broader and more diverse range of income streams. Another important feature of asset-backed credit is that a loan's principal amortizes over the life of the transaction, meaning there is less rollover or refinancing risk than often occurs in direct lending.

Access points

Investors have multiple ways to access the private credit market and each type of investment has its own benefits and considerations:

- **Direct loans/co-investments:** Privately negotiated loans made directly to a company (or alongside a private credit manager) where investors participate in a specific deal, typically with deal-level underwriting and terms.
- **Primary investments:** New commitments to a private credit fund during its initial fundraising period, where capital is drawn over time to originate new loans in that fund's strategy.
- **Secondary investments:** Purchases of existing private credit fund interests or loan positions from current holders, often at a discount to NAV, providing liquidity to sellers and immediate exposure to seasoned assets.

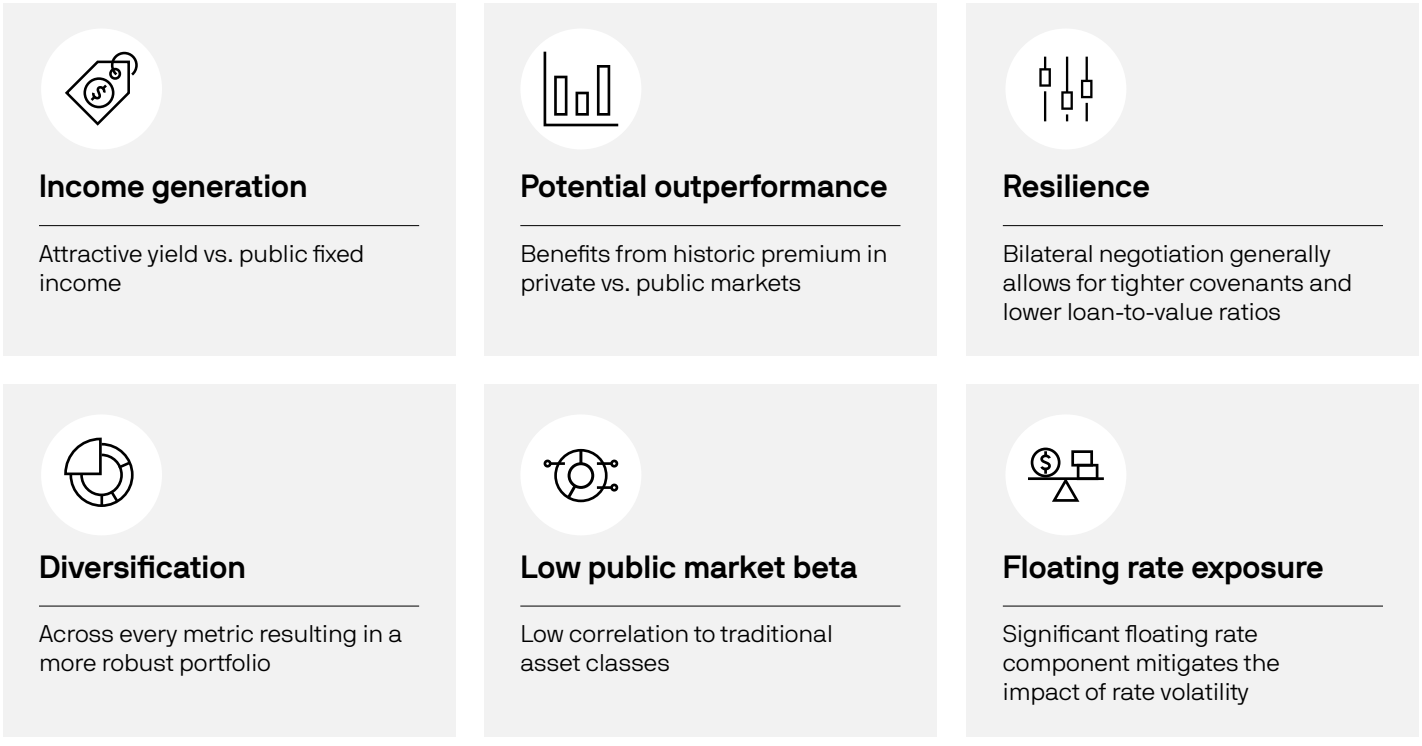
Benefits of private credit to your portfolio

The characteristics of private credit offer the potential for attractive income, returns and diversification in a portfolio.

Income generation

Private credit transactions tend to offer higher yields than many other asset classes (**Exhibit 4**). This higher yield has also contributed to strong returns over time. Direct lending has consistently outperformed publicly

Exhibit 3: Benefits of private credit



Source: J.P. Morgan Asset Management; as of 3/31/26.

traded credit over the past 30 years. Importantly, in the last 20 years, direct lending has experienced negative returns only in 2008 and has displayed less volatility than public leveraged loans.

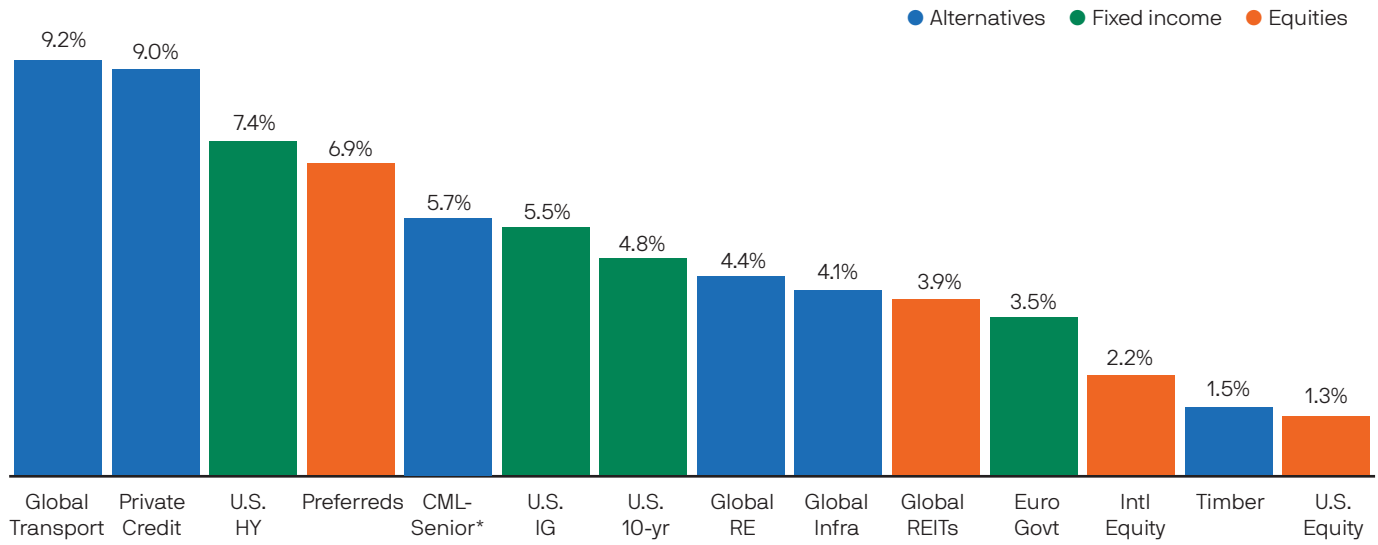
This compelling risk profile is grounded in some key characteristics of direct lending, including the typically low default rates and higher recovery rates vs. publicly traded credit securities. Direct lenders have been able to achieve these results in part through robust analysis of company fundamentals and experience in structuring transactions. In addition, the ability to work with companies to refinance rather than default is critical to generating long-term returns. As a result, direct lending has offered a compelling risk-adjusted return compared to most major asset classes when looking at the last 20 years.

Diversification

Several characteristics of private credit can help diversify portfolio exposure. For example, most private credit has a floating rate vs. the fixed interest rate typical of traditional fixed income investments. This feature allows private credit investments to benefit if interest rates rise.

Private credit also has a historically low to moderate correlation with a range of asset classes. Data from the last 20 years shows that the correlation with the Bloomberg Global Aggregate Index is close to zero and is about 0.7 with the MSCI AC World Index.

Exhibit 4: Yields across select asset classes



Source: BAML, Bloomberg, FactSet, Federal Reserve, FTSE, KBRA DLD, MSCI, NCREIF, Wells Fargo, J.P. Morgan Asset Management.

*CML is commercial mortgage loans tracked by the Gilberto-Levy Commercial Mortgage Index. Equities and fixed income yields are as of 1/31/26. Alternative yields are as of 9/30/25, except CML – Senior, which is as of 12/31/25. CML – Senior: Market-capitalization weighted average for all mortgages in the Gilberto-Levy Commercial Mortgage Index. Global Transport: Levered yields for transport assets calculated as the difference between charter rates (rental income), operating expenses, debt amortization and interest expenses, as a percentage of equity value, and are based on a historical 15-year average. Yields for each of the sub-vessel types are calculated and respective weightings are applied to arrive at the current levered yields for Global Transportation; Preferreds: BAML Hybrid Preferred Securities; Private Credit: KBRA DLD Index; U.S. High Yield: Bloomberg U.S. Aggregate Corporate High Yield; Global Infrastructure: MSCI Global Private Infrastructure Asset Index; Global REITs: FTSE NAREIT Global REITs; International Equity: MSCI AC World ex-U.S.; U.S. 10-year: 10-year U.S. Treasury yield; U.S. Equity: S&P 500 trailing 12 months' dividend yield; Europe Real Estate: Market weighted-avg. of MSCI Global Property Fund Indices – U.K. & Cont. Europe; U.S. and Asia Pacific (APAC) core real estate: MSCI Global Property Fund Index . Euro Govt.: Bloomberg Euro Aggregate Government – Treasury (7-10Y); Timber: NCREIF Timberland Index (U.S.) – EBITDA Return. Past performance is not a reliable indicator of current and future results.

Guide to Alternatives. Data are based on availability as of 7/31/26.

The outlook for private credit

Private credit's rise is closely tied to changes in lending following the 2008 global financial crisis. The financing gap resulting from constrained banks created opportunity for private lenders that was equally met with investor demand. Over the past decade, this growth in private credit has equated to roughly 14% per year, well ahead of overall corporate borrowing and bank loan growth. Even after this surge, private credit remains only about 9% of total corporate borrowing, suggesting meaningful runway as the market continues to mature, add strategies and broaden access through structures like secondaries and evergreen funds.

As private credit has grown, it has attracted significant media attention. Recently, headlines have focused on redemption pressures, questions about borrower fundamentals and the potential for AI disruption to impair software lending portfolios. These are legitimate topics that we think signify a shift in private credit—from a market experiencing explosive growth and benign fundamentals to one where underwriting standards and dispersion will likely be higher and risk tolerance will be lower as investors scrutinize transactions more closely.

Inflection points often offer opportunities for sophisticated investors able to take advantage of the market dislocation. Going forward, manager and sector dispersion will matter more than they have historically, making a diversified approach critical. Investors may also have an opportunity to deploy capital into managers and newly originated loans that intentionally avoid the legacy issues driving the current market concern while benefiting from the wider spreads occurring in this period of volatility.

As the private credit landscape continues to evolve, investors attracted to the potential yield, risk-return profile and diversification benefits will first need to consider which types of private credit investments best suit their needs.

Next steps

For more information, contact your J.P. Morgan representative.

J.P. Morgan Asset Management

270 Park Avenue | New York, NY 10017

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Private credit securities may be illiquid, present significant risks, and may be sold or redeemed at more or less than the original amount invested. There may be a heightened risk that private credit issuers and counterparties will not make payments on securities, repurchase agreements or other investments held by the strategy. Such defaults could result in losses to the strategy. In addition, the credit quality of securities held by the strategy may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security and in shares of the strategy. Lower credit quality also may affect liquidity and make it difficult for the strategy to sell the security. Private credit securities may be rated in the lowest investment grade category or not rated. Such securities are considered to have speculative characteristics similar to high yield securities, and issuers of such securities are more vulnerable to changes in economic conditions than issuers of higher-grade securities.

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