

Private Debt or Public Markets? A Positioning Reassessment

At the beginning of 2026, financial markets have increasingly started to recognize the potential systemic risks associated with the expanding scale of non-bank lending through Business Development Companies (BDCs) and private debt funds, particularly as questions arise around their performance.

Concepts such as transparency, net asset value (NAV), portfolio vulnerability, hidden pockets of risk, asset-liability management (ALM) often leading to astonishing liquidity mismatches, and the increasing participation of the retail sector have suddenly become central to the debate about financial stability.

Over the last few days in particular, we have seen a proliferation of colorful analysis, commentary and sharp phrasing from highly knowledgeable figures in the finance world, many of whom now portray the situation as “an emerging structural concern”.

An eventful start to 2026.

However, I would dispute the suggestion that these issues have only recently come to light. The negative commentaries and critical analysis surrounding the “private credit ecosystem” did not begin circulating at the start of the current year. In fact, the first serious wave of skepticism emerged earlier—likely around mid-2024 through Q1 2025.

From my own experience (I continue anyway to keep private debt separated from public BDCs), concerns that the sector was becoming overstretched had already emerged well before they appeared in the news. Around the end of 2022 I began to observe in the private debt portfolios the first unusual signs and inconsistencies (subtle but noticeable warning signals widely disseminated).

Increasingly levered transactions, aggressive deal structures because excessively concentrated, and low underwriting standards with deteriorated non-pricing terms in several asset pools, were the red flags that I had the opportunity to notice during due diligence processes performed both for some limited partners (LPs) and for my own portfolio allocation. I leave aside pricing considerations, as in a zero-rate environment virtually everything appeared attractive.

Given the portfolios' evident strategic fragility—not limited to the edges—I chose not to commit to private credit, as the liquid fixed-income market in Q1 2023 offered better and clearer risk-return profiles, which I could manage personally and not through external credit platforms. I also halted the renewal

of certain commitments to new ramped-up asset pools and recommended to other LPs passing on selected direct lending funds as liquidity became available from the gradual unwinding of the 2018–2019 vintage of alternative funds.

I am sure European credit managers still remember the points and observations I raised, which ultimately led me to decline the investment proposals with a simple “no, thanks”. Looking back, the seeds of today’s concerns were already present in those decisions. Others LPs remained complacent despite evident vulnerabilities and information gaps that prevented a comprehensive assessment of risks. Those risks, in my view, no longer seemed under control.

But this is not the main point I want to underline.

My real focus is on what has happened over the last twenty years and the lessons it offers. In the early 2000s, together with my job as a credit portfolio manager, I met with several private credit funds that were considering entering the public markets, particularly through high-yield bonds and the collateralized loan obligation (CLO) business. At that time, I highlighted both the advantages and the drawbacks of such a move. What struck me most was how reluctant many of these funds were to expose themselves to the scrutiny that comes with public markets. Transparency, continuous pricing, and public attention were perceived as potential threats rather than benefits. Some managers feared that market visibility might reveal operational and investment weaknesses, create reputational pressure by exposing them to volatility and scrutiny, or constrain the “flexibility” that private structures allowed them.

Interpret the above as you wish.

For many players, public markets were therefore viewed with suspicion—almost as an adversary to business growth. For some managers, the prospect of public market scrutiny and prudential oversight was enough to cause many sleepless nights (so, the investments risk-return profiles achieved for clients appeared less important...).

Interestingly, this mentality still persists in parts of the industry today. Mainly in the old managers and in medium-small credit boutiques.

What makes the current situation particularly peculiar is the reversal we are now witnessing. Many of the same managers who ultimately built large and well-respected platforms in public credit—particularly in the CLO market—are now facing increasing scrutiny over the valuation practices applied to their private and alternative lending portfolios.

Concerns have been raised about risk management models, theoretical marks, internal operational models, and the “smoothing of NAVs” in private credit vehicles. In some cases, these issues have begun to cast doubt not only on individual portfolios but on the general framework and valuation assumptions used across the entire credit platforms.

Investors are right to be nervous and unsettled. “The big players of the private credit boom” are falling out of favor in a public confidence problem. Go and check their share prices. Is this sense of malaise merely the result of poor communication, or does it hint at deeper, underlying anxiety? The sector is slow to grasp the first issue and lacks a solution for the second.

To what extent have portfolio managers been caught off guard by the rapid repricing of credit risk across the private credit asset class, with many investors now crowding the exit (where the gates are almost closed or do not work properly)?

In other words, we are observing a striking inversion: the private credit space is now becoming the source of reputational risk for some of the largest and most established credit and investment managers. Today the valuation uncertainty is generating first-mover dynamics and elevating runoff risks for certain funds, with investors increasingly mindful that more elevated and frequent redemption activity may heighten “conduct risks” associated with twisted valuations and “follow-on” investments (the well-known continuation funds).

A sobering outlook for credit managers, with significant implications for reputation. Are we witnessing the painful unwinding of the “multiple layers of hidden leverage” linking borrowers, lenders, and LPs, as highlighted in the IMF’s 2024 Global Financial Stability Report”? Who will bear the cost? I’m afraid the game will turn out differently this time.

Today, therefore, an opposite dynamic seems to be emerging. The opacity (which does not mean negligence) of private markets is beginning to raise questions that could potentially affect the credibility of firms whose reputations were originally built in more transparent public markets or asset classes.

We all agree that the objective is to elevate and scale the industry’s best practices.

This evolution reveals important structural dynamics within the financial sector. Over time, the boundary between public and private markets has increasingly blurred (as I emphasized in my previous post), with borrowers, capital, strategies, and investors moving more fluidly across both segments of the credit market, yet transparency, valuation discipline, and robust market feedback mechanisms remain fundamental to efficient capital allocation. In this way we can understand how capital financing functions, its scarcity or its abundance, whom it serves, and how it can be deployed to serve its purpose more effectively. This is what I think.

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equity funds, we generate insights into anticipated market movements helping us make informed decisions that translate into stronger outcomes for our clients” (from a private credit fund presentation deck of 4 years ago).

...“Looking ahead, the transformation of private debt is creating new investment opportunities, thanks to expanding market adoption and AI-driven innovations—empowering both institutional and retail investors and fostering growth across diverse borrower segments and cutting-edge industrial sectors” (from a private credit conference at the beginning of 2023).

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