Blackstone

MARCH 2026

Private Credit: Myth vs. Fact

There's been a lot of overheated headlines and misinformation on private credit. It's important to understand the facts.

What is true in the noise about non-investment grade private credit?

1. Like with high yield bonds and leveraged loans, there will be defaults (particularly off of historic lows)
2. There is exposure to software and there will be disruption, but private credit loans are senior in the capital structure, supported by meaningful equity cushions, typically ~60%
3. Returns were elevated during the "golden moment" of private credit, and have since normalized as interest rates declined. But the premium to non-investment grade liquid credit has persisted for 20+ years[1]
4. Both institutional and individual investors' capital in the space has grown considerably over the last decade. That growth is the result of a lower cost direct to customer model and a better experience for borrowers. But it's worth noting, it is still only ~1/3 of the sub-investment grade credit market and over 80% of the capital comes from institutions[2]

Where is the noise coming from?

It is natural for a growing asset class to face scrutiny, particularly when those losing share have every incentive to discredit the shift. The result is a cycle of grossly exaggerated claims and misleading comparisons.

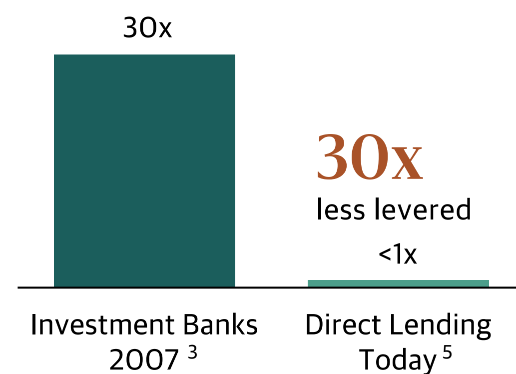
The myths below may be widely repeated, but facts tell a very different story.

Myth: Private Credit Will Create the Next GFC

Fact: Today's market looks nothing like 2008

Banks then were levered 25 to 40 times,[3] primarily funded by short-term deposits and commercial paper, and heavily exposed to subprime housing. The underlying assets were 90%+ loan-to-value and layered on top were highly complex derivatives that obscured the risk.[4] Put simply: risky loans in extremely levered vehicles that were backed by money that could disappear overnight.

This is nothing like what is happening today. Business development companies (BDCs) typically operate with less than 1x leverage,[5] lend at roughly 40% loan-to-value to corporate borrowers,[6] and use structures that don't rely on deposits or overnight capital. Liquidity across the space is significant, with vehicles that have multiple levers to pull rather than dependence on any single source.[7]



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Myth: Private Credit Lacks Oversight and Transparency

Fact: Private credit funds are transparent and regulated

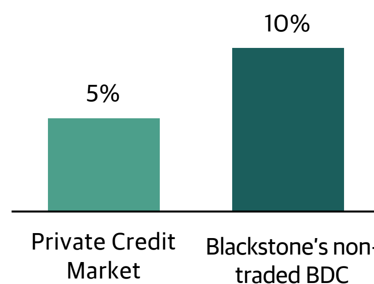
Most individual investors access private credit through SEC-registered BDCs, a structure that has existed for decades. Loan valuations go through multiple layers of oversight, valuation committees, third-party appraisals and independent audits. Every single loan and detail is disclosed every quarter. Loans are marked down as facts change. That means if there is credit stress it is visible, not hidden. Traditional bank lenders provide no such underlying loan detail.

Myth: Credit Quality Is Collapsing

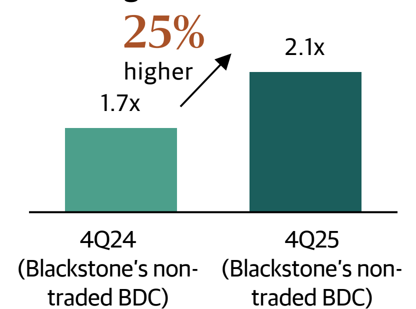
Fact: Credit metrics are resilient

Companies in Blackstone's non-traded BDC grew earnings by 10% on average last year[8] and the cushion between what they earn and the interest they owe on their loans grew by 25%[9] — meaning they're in a stronger position to repay their debt today than they were a year ago. History tells us that large default cycles do not occur outside of recessions — and right now the economy remains healthy and resilient.

Solid EBITDA Growth[8,10]



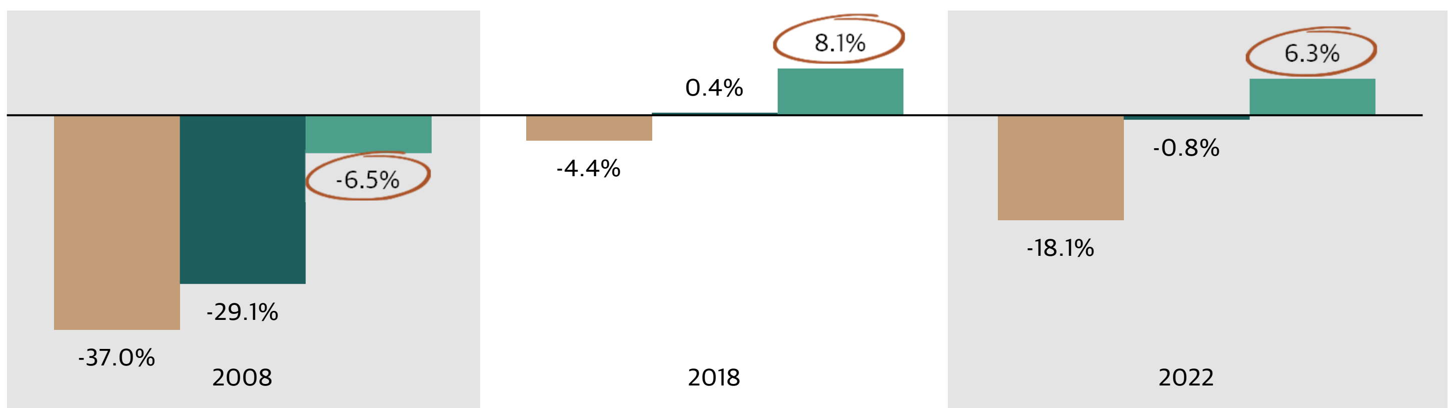
Improving Interest Coverage Ratios[9]



When individual loans do face stress, the structure can provide meaningful risk mitigation. Private credit loans sit at the top of the capital structure with around a 60% equity cushion — think of it like a mortgage, but with 60% down instead of 20%. That limits losses, though it does not eliminate them. As senior secured lenders, we are first in line to restructure terms or take control of a company, backed by over 100 operating professionals working directly with borrowers to protect value. History reinforces the case — private credit has consistently protected capital through periods of uncertainty, with a ~1% industry realized loss rate over the last 20 years.[11]

Private Credit's Resilience

(Full Year Total Return, years where the S&P experience negative returns over the last 20 years)[(12)(13)]



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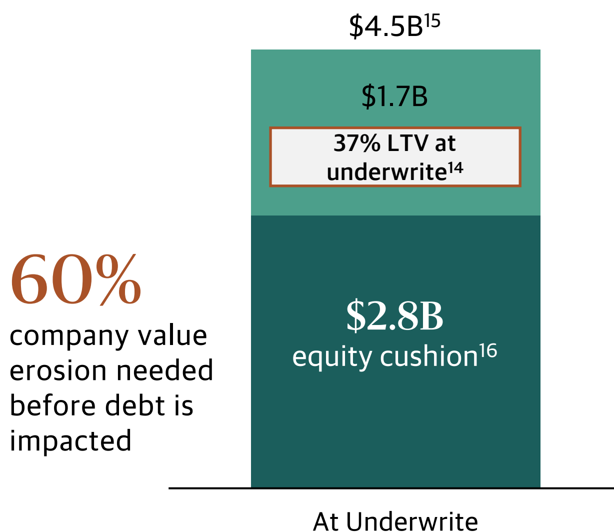
Myth: The "SaaS-pocalypse" Is Coming for Private Credit

Fact: Software firms will be hit, but credits are generally well protected

Software companies will face real challenges. We have been earlier and louder than many on this risk and where we see it in our portfolio.

Not all software is created equal — much of it is deeply embedded, mission-critical, and not easily replaced by AI. In cases where portfolio companies are facing AI-related headwinds, we believe we have appropriately reflected this in our marks. More importantly, the average software loan in Blackstone's non-traded BDC was made at roughly 37% loan-to-value, meaning more than 60% of a company's value would need to erode before the debt is impaired.[14] We focus on larger software borrowers, with an average enterprise value of $4.5 billion,[15] with nearly $3 billion of borrower equity subordinate to our position.[16] These companies actually grew cash flows faster than the overall portfolio last year.[17]

Even if a broad wave of disruption were to materialize, private credit's structure can help limit the downside. Consider an extreme stress scenario of a 10% default rate, which is higher than the GFC, and a 50% recovery rate.[13] The impact to realized returns is estimated at just 300bps over two years.[18]



Myth: These Products Are Not Appropriate for Individual Investors

Fact: Private credit products are working as expected and can be an effective wealth creation tool

The semi-liquid structure is a feature, not a bug. Repurchase limits are designed to prevent forced asset sales, protecting returns for all investors. That liquidity trade-off is why private credit can deliver higher income than traditional fixed income, and it is fully disclosed from day one. These funds are purchased by sophisticated end investors, guided by their financial advisors, and tend to be just a slice of a broader portfolio of liquid traditional holdings.

The model has been tested. Blackstone's non-traded REIT navigated elevated redemptions during a historic rate spike — investors were substantially redeemed within four months,[19] and the guardrails helped protect performance. Since inception, Blackstone's non-traded REIT has outperformed publicly traded REITs by 45% on an annualized basis.[20]

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Endnotes

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1. Source: Morningstar, from September 30, 2005 through September 30, 2025. "Public Credit" is represented by **Morningstar LSTA US Leveraged Loan Index**. "Private Credit" is represented by **Cliffwater Direct Lending Index**. Total return reflects the sum of annualized income return, annualized realized gain / loss, and annualized unrealized gain / loss during the period.
2. The sub-investment grade credit market is composed of high yield bonds, leveraged loans and private credit. Allocations to private credit by investor type in 2024, published in "Financing the Economy 2025."
3. Financial Markets Regulation, GAO report, published on July 2009.
4. JP Morgan "The Credit Tracker: Subprime Mortgages & Large Cap Banks: Some Earnings Pressure But Manageable," published on March 16, 2007.
5. Blackstone Credit & Insurance views for typical direct lending vehicle.
6. As of Q4 2025, Lincoln Direct Lending data.
7. Measured as the reported redemptions for Q4'25 per SEC filings as of March 18, 2026 for the following: Apollo Debt Solutions BDC (ADS), Ares Strategic Income Fund (ASIF), Barings Private Credit Corp (BPCC), Blackstone's non-traded BDC, Blue Owl Credit Income Corp. (OCIC), Blue Owl Technology Income Corp. (OTIC), CliffwaterCorporate Lending Fund (CCLFX), CliffwaterEnhanced Lending Fund (CELFX), Golub Capital Private Credit Fund (GCRED), HPS Corporate Lending Fund (HLEND), Oaktree Strategic Credit Fund (OSCF), and North Haven Private Income Fund (NHPIF). **Sources liquidity include: Reported Liquidity / Cash on Balance Sheets:** Reported cash and revolving capacity available, and includes debt issuance subsequent to year-end. **Liquid Loans:** Adjusted for secured borrowings.
8. Represents LTM EBITDA Growth year-over-year and excludes private debt investments that funded after December 31, 2024. Fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset based investments and quoted investments. Blackstone's non-traded BDC amounts are weighted on fair market value of each respective investment. Blackstone's non-traded BDC amounts were derived from the most recently available portfolio company financial statements (which are generally one quarter in arrears), have not been independently verified by Blackstone's non-traded BDC, and may reflect a normalized or adjusted amount. EBITDA is a non-GAAP financial measure. For a particular portfolio company, EBITDA is generally defined as net income before net interest expense, income tax expense, depreciation, and amortization over the LTM. EBITDA growth year-over-year may reflect some inorganic growth due to mergers and acquisitions (M&A).
9. Interest coverage ratio ("ICR") is estimated as the ratio of average LTM EBITDA, to cash interest paid over the last 12 months for each respective portfolio company. Includes all debt investments (excluding ARR loans) for which fair value is determined by the Board in conjunction with a third party valuation firm and excludes both asset-based investments and quoted investments. Amounts derived from the most recently available portfolio company financial statements, have not been independently verified by Blackstone's non-traded BDC, may reflect a normalized or adjusted amount, and are generally about 90 days in arrears. EBITDA is a non-GAAP financial measure. For a particular portfolio company, LTM EBITDA is generally defined as net income before net interest expense, income tax expense, depreciation and amortization over the preceding 12-month period. Currency fluctuations may have an adverse effect on the value, price or income and costs of our portfolio companies and investments which may increase or decrease as a result of changes in exchange rates. During Q4'24 Blackstone's non-traded BDC's portfolio had an ICR of 1.7x. which represents an approximately 25% increase year-over-year as of December 31, 2025.
10. Private credit market exhibited average LTM EBITDA Growth of 5%, based on issuer companies of loans in the Lincoln International Private Market Database as of September 30, 2025, which is latest available data.
11. Source: Morningstar. "Private Credit" is represented by **Cliffwater Direct Lending Index**.
12. Represents the yearly return of the S&P 500, Traditional Fixed Income, and Private Credit during the years in which the **S&P 500 Index ("S&P 500")** exhibited negative performance from 2000 to 2025.
13. Source: Morningstar, Bloomberg, Blackstone Credit & Insurance as of December 31, 2025. "Leveraged Loans" is represented by **Morningstar LSTA U.S. Leveraged Loan Index**. "Private Credit" is represented by **Cliffwater Direct Lending Index**.
14. Average loan-to-value represents the net ratio of loan-to-value for each portfolio company in Blackstone's non-traded BDC's software portfolio (as classified under the GICS Industry level) weighted based on the fair value of total applicable investments as of December 31, 2025. Includes all debt investments within Blackstone's non-traded BDC's software portfolio for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. Loan-to-value is calculated as the total net debt through each respective loan divided by the estimated enterprise value of the portfolio company at close. Amounts have not been independently verified by Blackstone's non-traded BDC and may reflect a normalized or adjusted amount.
15. Based on the enterprise value at close for each applicable investment. Includes all debt investments within Blackstone's non-traded BDC's software portfolio (as classified under the GICS Industry level) for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. Average enterprise value is weighted based on the fair value of total applicable investments as of December 31, 2025. The number is presented for illustrative purposes and does not reflect actual realized proceeds to Blackstone's non-traded BDC or to the equity sponsor or the company, and there can be no assurance that realized proceeds received by Blackstone or any investor in a Blackstone fund will be increased as a result. Currency fluctuations may have an adverse effect on the value, price or income and costs of our portfolio companies and investments which may increase or decrease as a result of changes in exchange rates.

Endnotes

16. Based on the subordinated capital at close for each applicable investment. Includes all debt investments within Blackstone's non-traded BDC's software portfolio (as classified under the GICS Industry level) for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. Average subordinated capital is weighted based on the fair value of total applicable investments as of December 31, 2025. For Blackstone's non-traded BDC's total private debt portfolio, the average subordinated capital at close is over $2 billion. Includes all debt investments within Blackstone's non-traded BDC's debt portfolio for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. Average subordinated capital is weighted based on the fair value of total applicable investments as of December 31, 2025.

17. Includes all applicable debt investments in Blackstone's non-traded BDC's software portfolio (as classified under the GICS Industry level) for which fair value is determined by the Board in conjunction with a third-party valuation firm and excludes both asset-based investments and quoted investments. Amounts derived from the most recently available portfolio company financial statements have not been independently verified by Blackstone's non-traded BDC, may reflect a normalized or adjusted amount, and are generally about 90 days in arrears. Aggregate growth since close represents portfolio company growth since Blackstone's non-traded BDC's initial investment close and is not adjusted for repricings or refinancings. EBITDA growth since funding for debt investments within Blackstone's non-traded BDC's Software sector (as classified under the GICS Industry level), split by BXCI AI risk category is as follows: 32% (Low AI Impact/ Tailwinds), 26% (Drive AI Impact), and 6% (AI Head-winds).

18. As of December 31, 2025, the bottom 5% of Blackstone's non-traded BDC's private debt investments (defined as those debt investments classified as Level 3 marked the lowest relative to par aggregating to 5% of the total cost of Level 3 debt investments, excluding structured finance obligations) were approximately 98% first-lien, senior secured debt at underwrite, with a 37% weighted average loan-to-value at underwrite and have a weighted-average mark of 75.8.

19. Reflects the average number of months for an investor to receive ~80% of their initial repurchase request assuming an investor submitted full repurchase requests monthly between November 30, 2022 and January 31, 2024.

20. Reflects annualized Blackstone's non-traded REIT Class I share performance since inception. Publicly traded REITs reflect the MSCI U.S. REIT Index total return as of February 28, 2026. Blackstone's non-traded REIT's Class I inception date is January 1, 2017. During the period from January 1, 2017 to February 28, 2026, Blackstone's non-traded REIT's Class I annualized total net returns of 9.3% was 43% higher than the MSCI U.S. REIT Index annualized total return of 6.5%. During the period from January 1, 2017 to December 31, 2025, Blackstone's non-traded REIT Class I's annualized total return of 9.3% was 2.7x the NFI-ODCE annualized total net return of 3.5%. Blackstone's non-traded REIT does not trade on a national securities exchange, and therefore, is generally illiquid. The volatility and risk profile of the indices presented are likely to be materially different from that of Blackstone's non-traded REIT including that Blackstone's non-traded REIT's fees and expenses may be higher and Blackstone's non-traded REIT shares are significantly less liquid than publicly traded REITs.