

Marked to Myth: The Private Credit Crunch

MARCH 2026

Stress in private credit does not begin with liquidity; rather, it begins with default risk. Peak-cycle underwriting, AI-driven earnings damage in concentrated sectors, circular revenue assumptions in data center finance, and buried consumer credit strain have already produced real losses. Reported marks have yet to absorb those losses. Therefore, liquidity is not the source of the trouble, but rather, is the device through which the trouble becomes visible.

When a \$25 million loan falls from par to zero in ninety days,¹ when one of the industry's most prominent executives tells a room full of clients every mark in the sector is wrong,² when redemption requests rise to three times the prior year's pace and funds across the industry gate withdrawals in the same month,³ the point is clear that hidden losses exist. This prompts further questions about size, speed, and destination.

The harder task is diagnosing the underlying sources and magnitude of credit risk. This point in time could mark the opening phase of a credit cycle reset, the first correction of consequence since the Global Financial Crisis (GFC). This moment could also prove

to be a news cycle moving faster than underlying fundamentals, each headline feeding the next. The United States has not endured a meaningful credit cycle reset since 2008, which may explain why so many observers insist one must be soon. Every dislocation since the GFC has inspired predictions of imminent disaster, and nearly all those predictions have failed, as the American economy has shown unusual resilience. Private credit is a popular subject in the present time, which deserves serious attention. The divergence between reported valuations in private credit and observable signals from public markets suggests both the presence of credit stress and a lag in the recognition of that stress.

One conclusion does stand on firm ground: the evidence now of risk in private credit markets is enough to justify close attention, disciplined positioning, and further analysis for allocators across asset classes, including commercial real estate. For investors in infill industrial, dislocation in private credit could emerge less as contagion than as structural tailwind. Should credit distress deepen, forced institutional dispositions—particularly of liquid, last-mile logistics assets—could open a rare window to acquire high-quality infill warehouse properties at dislocated pricing.

The First Cracks: Summer and Autumn 2025

The first fractures within private credit markets did not appear inside private credit vehicles, but rather, in broadly syndicated industrial credit. In August 2025, Tricolor Holdings, a Texas-based subprime auto lender, collapsed under fraud allegations.⁴ Within weeks, JPMorgan Chase wrote off \$170 million of exposure.⁵ Then, in September, First Brands Group, an automotive parts manufacturer carrying more than \$10 billion in liabilities, sought Chapter 11 protection after missing payments on a nearly \$1.9 billion inventory financing facility.

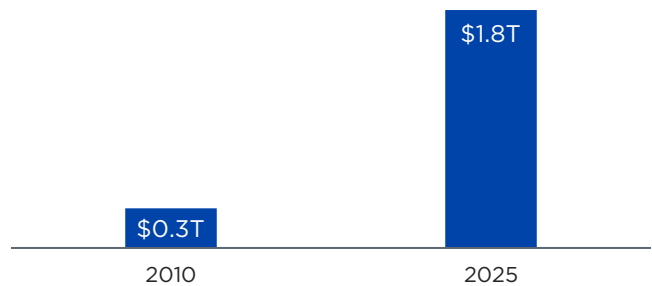
The speed of the First Brands collapse served as a warning. Fewer than two weeks before the filing, first-lien term loans traded near par. Days after default, senior debt changed hands near \$0.36 on the dollar. The bankruptcy eventually touched \$2.6 billion of debt spread across more than 1,100 CLO vehicles managed by more than eighty managers.⁶ The filing also exposed Jefferies, through its specialist fund Point Bonita Capital, to hundreds of millions in receivable-backed exposure.⁷

On October 14, 2025, Jamie Dimon addressed the parallel failures during JPMorgan’s third-quarter earnings call. Dimon reduced the anxiety to a single quote: “When you see one cockroach, there’s probably more.”⁸ His view reflects a concern that the easy-money era may have produced loose underwriting standards that could warrant further attention and apprehension.

How We Got Here: The Decade-Long Buildup

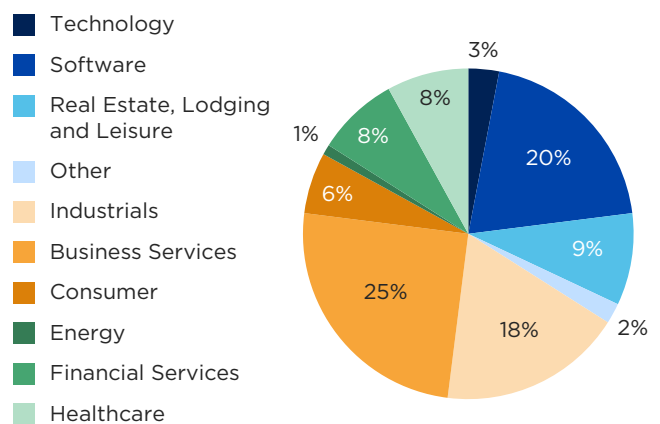
Private credit grew in the vacuum left by post-2008 bank regulation. As lending capacity moved out of the banking system, institutional and retail capital poured into BDCs, interval funds, and direct lending vehicles in search of yield traditional fixed income no longer offered. Assets under management rose from roughly \$300 billion to more than \$1.8 trillion in about a decade.^{9,10} After a decade of sustained inflows, the investor base in private credit has broadened significantly. Today, incremental demand may be more limited than in prior periods. In such an environment,

PRIVATE CREDIT MARKET SIZE



Cibelli, Michael, and Alex Mink. “A Closer Look at the Growth of Private Credit Markets.” Lord Abbett, November 7, 2025, “Private Credit Risks Explained, Oil Surges Above \$100, The Weekly Wrap.” YouTube, 20 Mar. 2026, [m.youtube.com/watch?v=wKPYXqBCqfo](https://www.youtube.com/watch?v=wKPYXqBCqfo).

BDC PORTFOLIO COMPOSITION BY INDUSTRY



Houlihan Lokey. BDC Monitor: Fall 2025. Houlihan Lokey, 2025, <https://cdn.hl.com/pdf/2025/bdc-monitor-fall-2025.pdf>

shifts in sentiment will have a more pronounced effect on fund flows and secondary pricing.

The manufacturing logic of the largest managers, Blackstone, Blue Owl, Ares, Apollo, and BlackRock, matched the hunger of investors. The wealth channel then carried once-institutional strategies to retail capital. Howard Marks captured the dynamic in his February 2026 memo. Originators moved into private credit because the field was open and banks were retreating. In a market defined by scarce yield and abundant demand, the reach for income made aggressive underwriting more likely.¹¹

The circular structure of the private lending business deserves attention due to the unique risks that it poses. Roughly 80% of direct lending goes to companies owned by private equity.¹² Many private equity firms also own the private credit vehicles financing those acquisitions. In one arm of the business, private equity buys companies. In another, private equity lends itself the money to do so. When a credit cycle turns, such circularity becomes a weakness. The institution originating the loan, owning the borrower, and marking the asset faces no outside discipline on value until redemptions force one. However, activity in the private credit market implies that volatility in private credit has not been avoided, just deferred. Valuation adjustments have been and will continue to occur quickly and suddenly. This structure also increases interdependence across segments of the alternative asset ecosystem. In many cases, the same institutions originate loans, own the borrowing entities, and determine valuation marks. As a result, external price discovery may remain limited until liquidity events or redemptions create objective reference points.

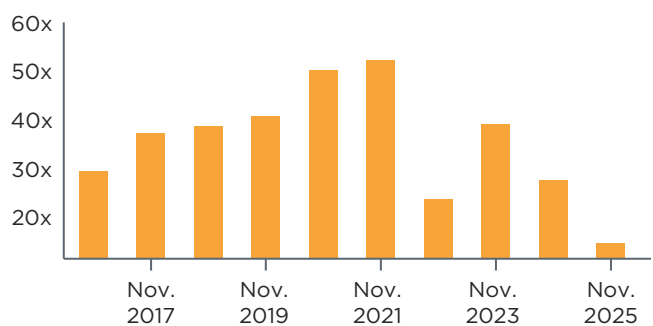
The AI Reckoning

Software and SaaS: The Concentrated Bet Unravels

Private credit is not spread evenly across the economy, but instead is concentrated in B2B software and SaaS, healthcare services, business services, and, more recently, data center infrastructure. Some estimates

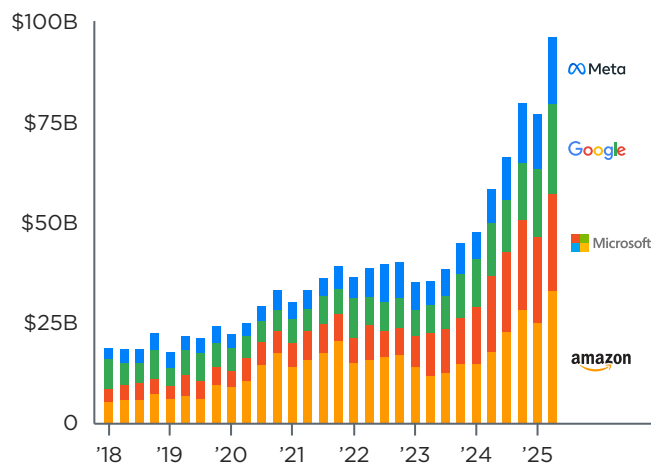
place as much as 25% of all direct lending loans in software companies, many acquired by private equity between 2018 and 2022 under valuations built for a world before generative AI arrived.¹³ A Wall Street Journal analysis published March 29 suggests that software exposure within the private credit industry may even be understated. For example, Ares Capital Corp reported 24% of its Q4 2025 investments as “Software and Services” under GICS classifications, while the Journal estimated actual exposure to be closer to 30%, reflecting software companies categorized under other sectors.¹⁴

ADOBE EV TO EBITDA RATIO, PAST 10 YEARS



“Adobe Inc. (BOVESPA: ADBE34) EV / EBITDA (LTM).” Finbox, https://finbox.com/BOVESPA:ADBE34/explorer/ev_to_ebitda_ltm/

CAPITAL EXPENDITURES, QUARTERLY



Note: Data are for calendar quarters and include finance leases. Mims, Christopher “Silicon Valley’s New Strategy: Move Slow and Build Things.” The Wall Street Journal, 1 Aug. 2025, <https://www.wsj.com/tech/ai/silicon-valley-ai-infrastructure-capex-cffe0431>

Public equity markets have already priced the disruption with unusual swiftness. Adobe, a proxy for enterprise software, lost more than 40% over the trailing twelve months through early 2026 as investors weighed the threat generative AI poses to core franchises. UBS has estimated that 25 to 35% of private credit portfolios carry elevated AI disruption risk not yet reflected in marks.¹⁵ Few facts may matter more in the sector today than the widening gap between what public markets are saying and what private marks still insist upon.

Pressure grows with the calendar. Roughly 11% of software loans in private credit portfolios mature in 2027, and another 20% mature in 2028.¹⁶ Those loans were written in a much cheaper rate regime. If turmoil in software persists, the market still lacks a clear answer on who will refinance those borrowers, and on what terms.

Data Centers: The Circularity Problem

Several major private credit funds, including vehicles managed by Blue Owl, built heavy exposure to data center operators financing the AI infrastructure boom.¹⁷ The logic of this lending boom was that data processing demand was rising faster than infrastructure capacity, and the spread on data-

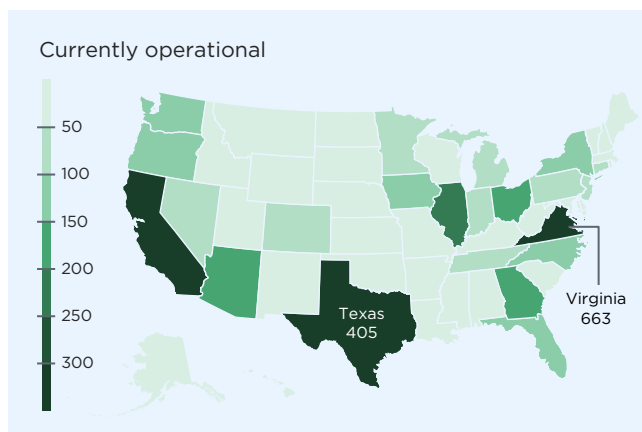
center-linked credit looked attractive. The major weakness in the thesis is that a meaningful share of the revenue sustaining data center demand comes from other participants in the AI ecosystem, not from end-user economic activity.

Howard Marks called attention to the problem that a proportion of AI revenue is currently circular in nature, derived from AI companies buying from each other. Lenders to data center operators are therefore leaning on a vendor-financing chain whose durability has not faced a real test under lower hyperscaler capital spending. During Nvidia’s annual developer conference on March 17, Jensen Huang said purchase orders between the Blackwell and Vera Rubin chip platforms should reach \$1 trillion through 2027.¹⁸ Private credit faces a more exacting question: are borrowers anchored in durable end-user demand, or in self-reinforcing spending across neighboring AI firms?

The Unraveling: November 2025 Through March 2026

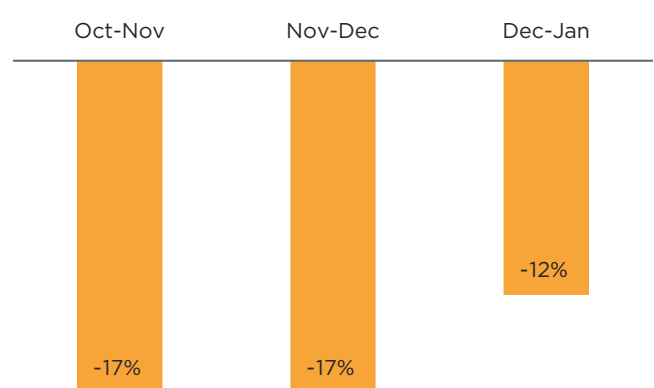
Since November, reported developments have adhered to a familiar dynamic: what begins as an exception evolves into a cluster, and then into a

DATA CENTERS IN THE U.S., AS OF OCTOBER 2025



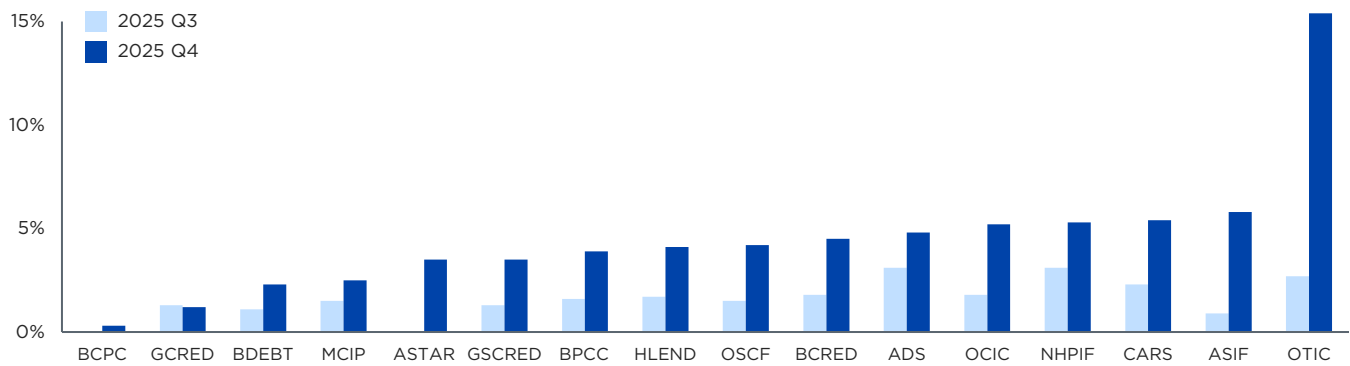
Fitzpatrick, Alex. "America's Data Center Growth Hot Spots, Mapped." Axios, 18 Dec. 2025, <https://www.axios.com/2025/12/18/data-center-growth-map-states>

FUND INFLOW CHANGES, MONTH OVER MONTH



Fitch Ratings. "Perpetually Non-Traded U.S. BDCs See Higher Redemptions, Slower Fundraising." Fitch Ratings, 17 Feb. 2026, <https://www.fitchratings.com/research/corporate-finance/perpetually-non-traded-bdcs-see-higher-redemptions-slower-fundraising-17-02-2026>

REDEMPTION OF SHARES OUTSTANDING



Fitch Ratings. "Perpetually Non-Traded U.S. BDCs See Higher Redemptions, Slower Fundraising." Fitch Ratings, 17 Feb. 2026, <https://www.fitchratings.com/research/corporate-finance/perpetually-non-traded-bdcs-see-higher-redemptions-slower-fundraising-17-02-2026>

discernible pattern. Reviewing the sequence in full helps separate genuine alarm from cyclical noise magnified by relentless coverage.

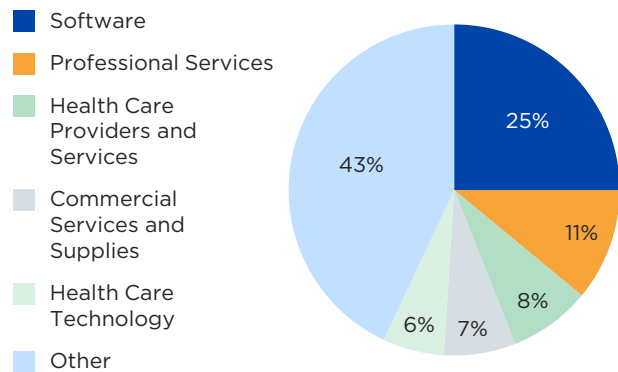
Blue Owl: From Failed Merger to Permanent Closure

In November 2025, Blue Owl halted redemptions in Blue Owl Capital Corp II, or OBDC II, after a proposed merger with the publicly traded Blue Owl Capital Corporation collapsed.¹⁹ By February 2026, the firm had permanently closed OBDC II to new redemptions and shifted to an over-time capital return model, which is another name for slow liquidation.²⁰ Blue Owl shares fell more than 30% between the November announcement and March 2026.²¹

Blackstone: Record Outflows and Extraordinary Measures

Blackstone's flagship private credit fund, BCRED, with roughly \$82 billion in assets, received quarterly redemption notices equal to 7.9% of assets in the first quarter of 2026, the largest request in the fund's history.²² The standard quarterly cap is 5%. In a highly unusual step, Blackstone raised the cap to 7% for the quarter and covered the remaining roughly \$400 million with Blackstone balance-sheet capital and employee money.²³ The move was read as a show of confidence. The same move also revealed the depth of investor demand for the door. Blackstone shares fell more than 20% from the November 2025 level.²⁴

BCRED SECTOR EXPOSURE



Portfolio Snapshot, BCRED. Accessed March 7, 2026. <https://www.bcred.com/performance/>

Across the non-traded BDC universe, Fitch Ratings reported redemption requests in the fourth quarter of 2025 running nearly three times the level seen in the third quarter of 2024.²⁵

BlackRock: From Par to Zero

The episode that fixed the market's attention on valuation arrived in early March 2026. BlackRock TCP Capital Corp., one of the firm's publicly traded BDCs, marked a \$25 million loan to Infinite Commerce Holdings, an Amazon product aggregator, from par to zero in a single quarter.²⁶ The writedown helped drive a 19% decline in NAV and followed an earlier full-value writedown on loans to Renovo Home Partners.²⁷

A related shock came from BlackRock's HPS Corporate Lending Fund, or HLEND, a \$26 billion non-traded BDC acquired through BlackRock's purchase of HPS Investment Partners. Investors requested roughly \$1.2 billion in redemptions, or about 9.3% of shares. The fund honored only \$620 million, consistent with its standard 5% quarterly cap. BlackRock shares fell nearly 7% on the day of the announcement.²⁸ Taken together, these events highlight the central risk for investors in private credit: as Howard Marks observes, conditions can appear placid even as underlying credit deteriorates, with the shift from stability to impairment occurring within a single reporting period.

The Week of March 11: Contagion Widens

The next week widened the field of concern. Morgan Stanley enforced a 5% quarterly redemption cap on its \$7.8 billion North Haven Private Income Fund after investors sought to withdraw nearly 11% of shares. Cliffwater did the same on its \$33 billion flagship vehicle, limiting redemptions to 7% after investors sought a record 14%, with roughly half the requests left unsatisfied.²⁹

JPMorgan, with an estimated \$22.2 billion of exposure to private credit funds, took what could prove to be the most consequential step by any single institution. The bank marked down loans held by private credit funds, with a focus on software exposure, and began



limiting its own lending against those assets.³⁰ The meaning is hard to miss. Loans still performing on paper were no longer worth par in JPMorgan's view. Reason suggests many of the same loans still sit on private fund books near full value. Once a systemically important bank and the funds the bank finances stop speaking the same valuation language, pressure to reconcile those numbers runs through the system.

HOWARD MARKS SPEAKS ON CNBC



CNBC

Apollo's John Zito, co-president of asset management and head of credit, offered the bluntest judgment from inside the business. Speaking to UBS clients in remarks later reported by The Wall Street Journal, Zito said he thought all the marks were wrong, and private equity marks were wrong as well. His target was private equity valuation, yet the implication spread much wider because many private-equity-owned companies also carry private credit debt. Zito said a generic small or midsize software lender might recover \$0.20 to \$0.40 on the dollar and predicted elevated redemptions for several more quarters.³¹ Apollo, notably, carries only about 2% exposure to software against an industry estimate near 25%.³²



Failed Syndications and Fresh Outflows

The following week brought more evidence that stress was broadening. A J.P. Morgan-led syndicate failed to place a \$5.3 billion debt package for Qualtrics, which sought financing for its \$6.75 billion acquisition of Press Ganey Forsta. Qualtrics' existing \$1.5 billion loan fell from near par in February to \$0.86 on the dollar by March 17.³³ When a debt package of that size fails in the hands of a systemically important institution, the market receives the message quickly.

On March 20, Blackstone reported a loss in BCRED for February, the fund's first monthly loss in more than three years.³⁴ On March 23, Apollo announced it was limiting investor redemptions from Apollo Debt Solutions, which witnessed redemption requests or 11.2% of its fund after marking down its loan portfolio in February.³⁵

Meanwhile, the fraud count kept rising. Following Tricolor and First Brands, Marketed Financial Solutions emerged as a third alleged fraud case in the private credit sphere, with its chief executive accused

of siphoning funds.³⁶ Three fraud cases in less than a year strengthen the suspicion that speed, opacity, and weak oversight created room for abuse.

Beyond Software: Consumer Credit and Financial Engineering

One of the clearest signals of underlying weakness in the sector is migration: stress is no longer confined to AI and software-linked sectors. Stone Ridge Asset Management's LENDX fund, which holds consumer and small-business loans from fintech lenders such as Affirm, Block, and LendingClub, told clients the fund would honor only 11% of the dollar amount investors had requested to redeem. LENDX is an interval fund required to repurchase no less than 5% of shares each quarter. The implied scale of redemption demand, investors seeking to pull what appears to be more than 45% of holdings, suggests consumer credit strain is now feeding the wider retreat from private credit.³⁷ This is no longer a software story, but rather, a sector-wide crisis of confidence.

In Canada, Go Easy, a subprime lender making personal, auto, and home-equity loans, disclosed premature revenue recognition, booking loan payments into revenue before collection. The market erased about 60% of the company's equity value in a single week.³⁸ Go Easy is not a U.S. private credit vehicle, but regardless, the disclosure belongs in the same mosaic. Across the broader lending ecosystem, underwriting discipline appears weaker than reported metrics suggest.

A final signal came from private equity itself. Carlyle structured a collateralized fund obligation called Project Potomac, pooling limited-partnership stakes from multiple Carlyle private equity funds into a single securitization, then slicing the pool into debt, preferred equity, and common equity tranches for sale to new investors.³⁹ The structure manufactured liquidity for existing investors by securitizing their fund interests. The deal was not a private credit event in the narrow sense. The message was plain nonetheless. Liquidity strain now runs through the alternative-investment complex. When a firm of

Carlyle's stature must engineer synthetic exit routes for its own LPs, this implies that the old channels for returning capital, IPOs, strategic sales, secondary buyouts, are no longer doing the job.

Transmission to Commercial Real Estate

A private credit crisis does not remain sealed inside private credit. The pressure reaches commercial real estate through three channels, and each channel is already active.

The first channel is tenant credit risk. The middle-market software companies, business-services firms, and healthcare operators occupying office, industrial, flex, and medical office space are often the same borrowers filling private credit portfolios. When earnings weaken, companies rarely default on debt first. They cut costs. They postpone expansion. They consolidate footprints. They sublease spare space. Credit strain now visible in private lending books is likely to show up as occupancy and rent pressure in commercial real estate with a lag of two to four quarters.

The second channel is credit-market contagion. Stress in one corner of private credit can reduce risk appetite across the broader lending system, causing spreads to widen and underwriting to tighten. JPMorgan's decision to reduce collateral values on software-linked loans was sector-specific. The pullback in

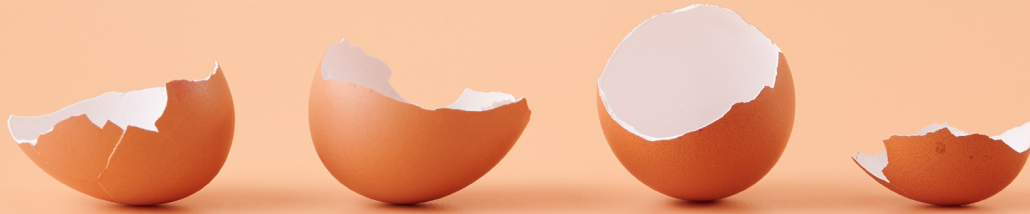
bank lending to private credit funds carries second-order effects across every asset class those funds touch, including commercial real estate debt. As banks retreat from lending to private credit vehicles, floating-rate credit across the broader middle market becomes harder to secure.

The third channel is forced valuation, which perhaps matters most. The BlackRock TCP Capital episode showed how sharply private credit marks often reset once pressure becomes unavoidable. Commercial real estate is vulnerable to the same mechanism when redemption pressure forces asset sales and establishes distressed comparables. The Wall Street Journal has already reported institutional investors and secondary-market buyers pursuing private credit loan assets below par. Once a similar process reaches real estate, appraisal benchmarks across entire markets may begin to move.

These transmission channels may also interact in a reinforcing manner. Credit deterioration can lead to valuation adjustments, which in turn may contribute to increased redemption requests. Redemption activity may prompt asset sales or tighter lending conditions, which can further affect borrower performance and asset values. The progression of these dynamics is typically sequential rather than simultaneous but could lead to a rapid decline in liquidity and market valuations.

JUDGE ROAD (LONGPOINT FUND II)





What to Watch

Secondary-market pricing deserves the closest attention. Transaction prices for BDC shares and underlying loan portfolios will offer the cleanest independent read on credit quality. Where public equities trade for companies whose debt sits inside private credit portfolios, persistent equity weakness is often the first signal that private marks still have distance to fall.

Redemption velocity is another trend to continue to monitor. The pace of withdrawal requests across BDC and interval-fund vehicles will reveal whether investor confidence is stabilizing or still eroding. The LENDX episode and the Go Easy disclosure suggest broadening stress beyond the original software epicenter.

Hyperscaler capital spending remains a central concern for vehicles with heavy data-center exposure. Amazon, Microsoft, Google, and Meta have kept AI infrastructure spending high. The deeper issue is narrower. Borrowers leveraged against that spending must show debt-service capacity grounded in end-user revenue, not merely in spending from neighboring AI firms.

The software refinancing wall looms over the next phase. With 11% of software loans maturing in 2027 and another 20% in 2028, lender willingness to refinance those borrowers with materially higher borrowing costs will shape the next chapter. If refinancing markets stay closed or punitive, losses implied by public equity prices will migrate into private marks.

Bank-to-fund credit transmission is another cause for concern. Mark-to-market adjustments by banks financing private credit funds could flow into covenant strain, margin calls, and more redemption pressure. Whether the process remains orderly or turns self-reinforcing will depend on the speed and force of that transmission.

Fraud and accounting irregularities also deserve close scrutiny. Three alleged frauds in less than a year, including Tricolor, First Brands, and Marketed Financial Solutions, is a pattern worth respecting. As regulators and investors apply more pressure in the sector, new cases could surface, which would theoretically erode trust even further.

The evolution of private credit stress should also be considered in the context of current monetary conditions. In prior cycles, periods of credit deterioration were met with a rapid easing of financial conditions. Today, policy rates remain elevated relative to the post-2008 period, and inflation considerations continue to influence central bank decision-making. As a result, the Fed may be unable to cut rates to offset a contraction in private credit, increasing the importance of market-based adjustment mechanisms.

Summary

Private credit moved from the market's most coveted alternative asset class to one of its most mistrusted in a matter of months. Whether the shift marks the start of a genuine credit cycle reset or an overreaction

amplified by the media remains unresolved. The United States has not lived through a meaningful credit crisis since 2008. Each new stress since then has been hailed as the next valuation reset, and each prior alarm has faded against an economy with unusual capacity for recovery.

Yet the evidence gathering in private credit differs from prior false alarms in one crucial way: rather than just a shift in market sentiment, valuation marks are changing with unusual speed. As a result, redemption pressure is spreading across unrelated vehicle types. Bank marks and fund marks are diverging. Syndications are failing. Stress has moved from software into consumer credit. Taken together, the pattern may point to something more serious than a passing loss of confidence. The losses are real, although the ultimate scale remains unknown.

Mounting distress in private credit markets may prove to be advantageous for acquisition of warehouse industrial real estate, as institutional investors facing liquidity pressures could be compelled to divest high-quality assets to meet redemption demands or shore up balance sheets. Infill logistics properties, among the most liquid institutional holdings, could be prime candidates for forced sales — creating opportunities to acquire last-mile assets at attractive pricing. From Longpoint’s experience, past dislocations impacting

other parts of markets, such as the Great Financial Crisis and COVID, have driven institutions to sell highly liquid infill industrial product.

Infill industrial is well positioned to absorb this capital rotation because it offers what private credit increasingly does not: transparent valuation, durable cash flow, and legible collateral. Warehouse assets in supply-constrained markets carry replacement costs that are observable, insurable, and still rising. Pricing is grounded in rent comparables, recurring third-party appraisals, and liquid public-market REIT proxies — not internal marks supplied by a manager. And demand is driven by e-commerce, nearshoring, and last-mile delivery requirements, forces tied to the movement of goods through the real economy rather than the leveraged lending cycle.

For allocators with long horizons, the wisest course as a thoughtful investor is to take the stress seriously without pretending to know the final shape of the cycle. Portfolio construction should favor assets able to perform under a mild correction or a severe one. Infill industrial, with physical collateral, supply-constrained locations, observable value, and demand rooted in the real economy, stands to benefit from the rotation already beginning because the asset class offers what private credit today does not: transparency, tangibility, and trust.

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