CAIS Advisors

Office of the CIO

Private Credit: State of the Markets

Q1 2026

CAIS Advisors

Private Credit: State of the Markets

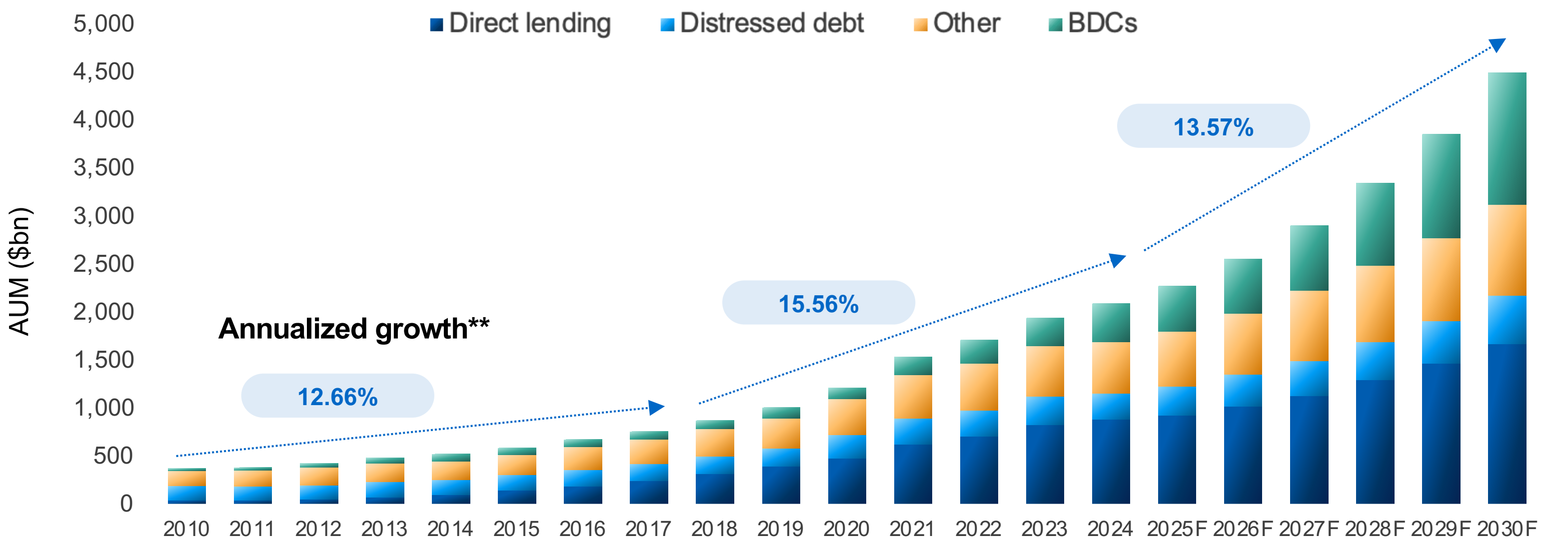
Private Credit Market Overview

Private Credit Is Here to Stay

Commentary

- **Growth remains durable:** Fundraising is steady and redemptions are a small share of the market. AUM expected to double by 2030 (Preqin)
- **PE dry powder drives demand:** With PE dry powder ~4.5x private credit dry powder, sponsor deployment needs continue to structurally support private credit origination.
- **Evolving Regulation and the Role of Institutional Platforms**: Increasing regulatory complexity underscores the importance of institutional infrastructure and supports private credit's role alongside banks.

Private credit AUM to double by 2030[1]



Market Events

- Basel III and stronger regulation influenced bank retrenchment
- Privatization of public markets
- Private Credit as a Core Income and Diversification Allocation in Wealth Portfolios

Takeaway:

Multiple structural forces, including regulation, sponsor demand, and scale advantages, contribute to private credit growth, appear to support forecasts for continued expansion through the end of the decade

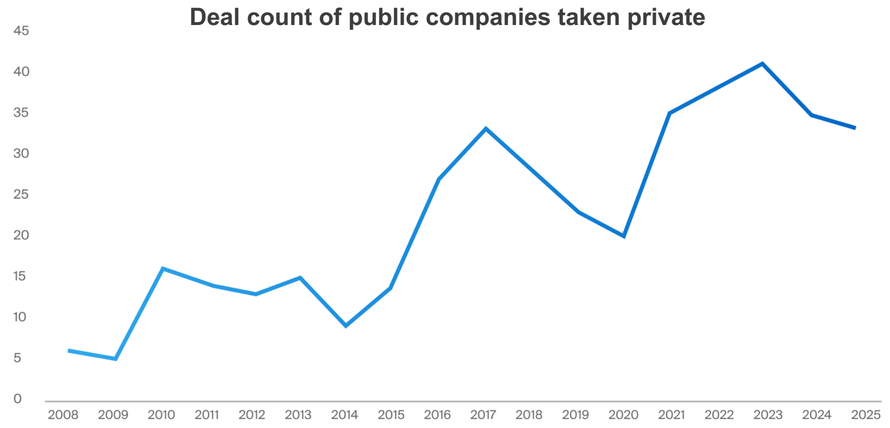
Source: (1) RJ Joshua, CFA, "Private Credit Q3 2025: Preqin Quarterly Update," Preqin, Nov. 10, 2025.

The changing capital landscape: a structural shift towards privatization

Commentary

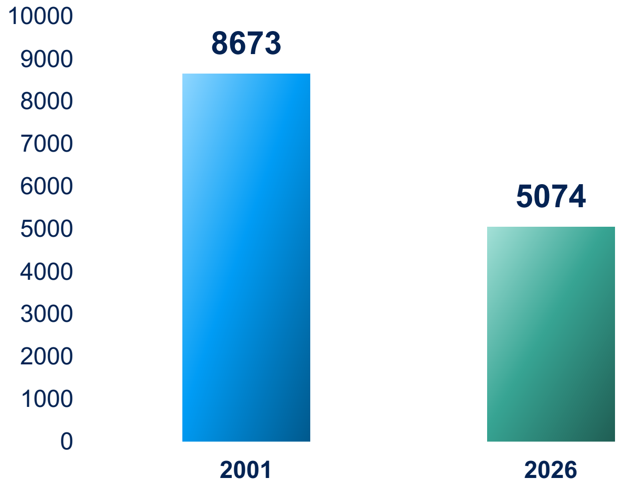
- Public markets are shrinking—private capital is filling the gap
- Fewer public companies, more private opportunities
- Private credit benefits from a structural shift, not a cycle

A rising number of public companies are taken private



Source: Slok, Torsten. “A rising number of public companies are taken private”, October 13, 2025. Note: 2025 figures are annualized.

Number of US-listed Companies > $1M Market Cap.



Data Set: Bloomberg L.P. (2026). U.S.-listed companies screened for market capitalization greater than $1 million on 2001 and 2026. Retrieved January 28th 2026, from Bloomberg Terminal.

Takeaway:

The shrinking public market universe and continued privatization of companies represent a structural tailwind for private credit, which may reinforce growth beyond a traditional credit cycle

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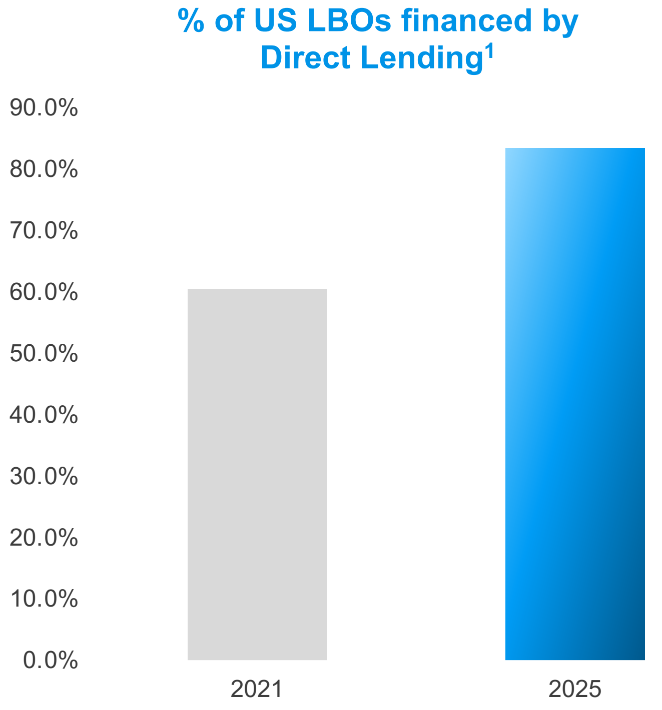
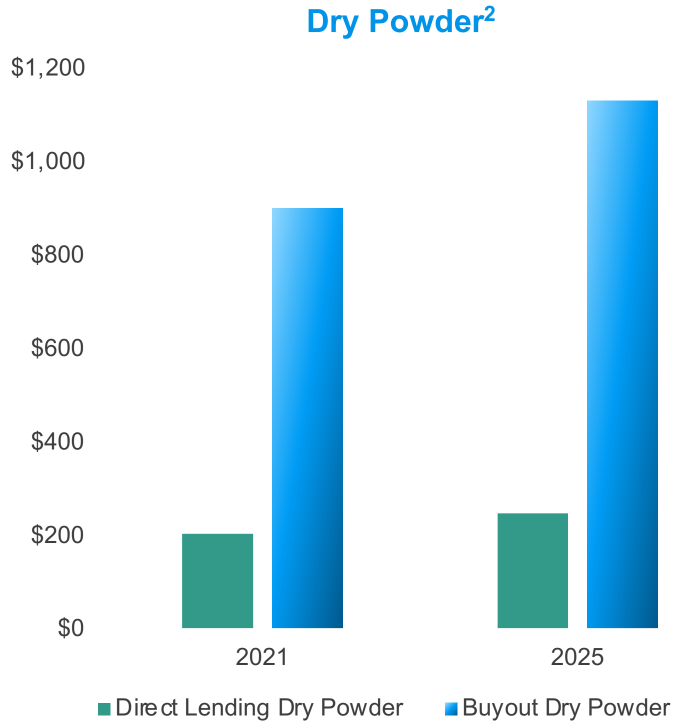
Private Credit Is Increasingly Funding Private Equity Deals

As of 9/30/2025

Commentary

- **Approximately 70% of direct lending is dedicated to LBO financing**, underscoring private credit's central role in sponsor-backed transactions.
- **The share of LBOs financed by direct lenders has risen steadily** as private credit has scaled and banks have retrenched from leveraged lending.
- **Record PE dry powder represents latent demand**, positioned to be deployed into new deals as financing conditions and valuation dynamics become more favorable.





Takeaway:

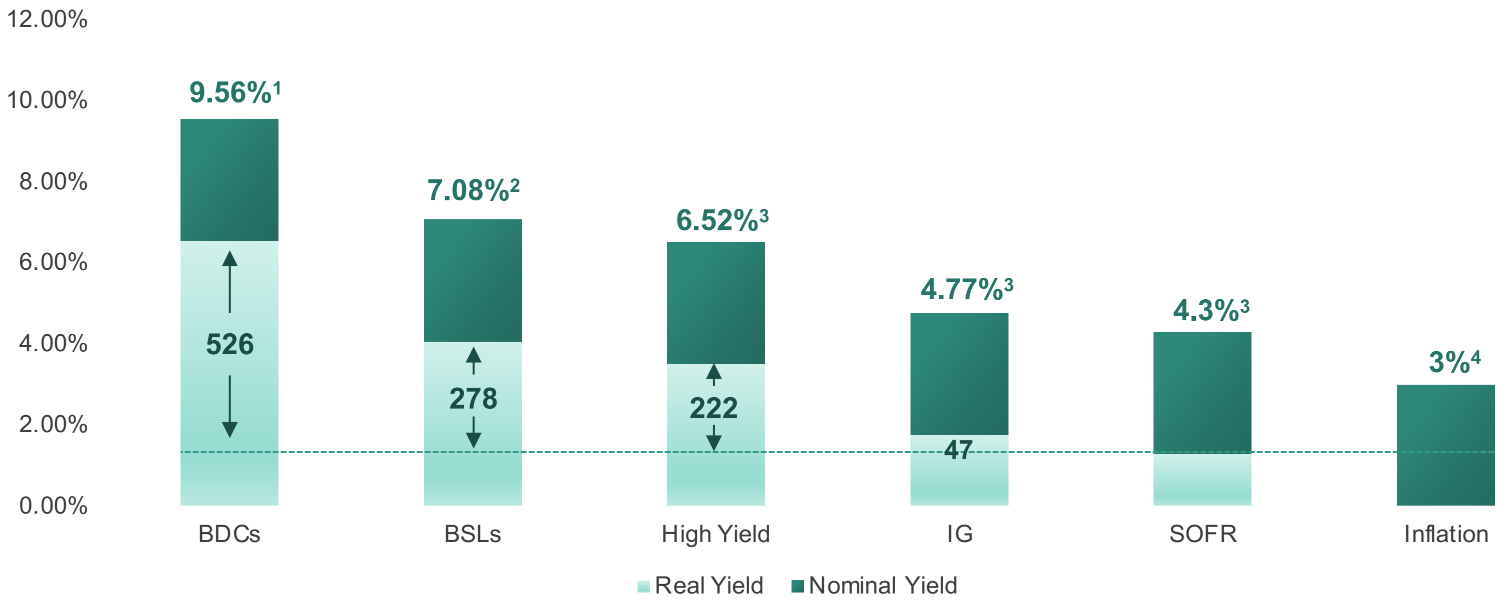
Rising reliance on private credit to finance private equity-backed transactions, combined with elevated PE dry powder (or dollars ready to deploy), has contributed to increased private credit deployment

Sources: (1) PitchBook LCD; "Private Credit Monitor," Dec. 2025; (2) **Data Set:** Preqin Pro (2026). *Dry powder dashboard*, filtered by Buyout and Direct Lending strategies; 2021 and 2025 figures in USD billions. Retrieved January 28, 2026.

BDCs Continue to Offer a Yield Premium Over Public Credit

Commentary

- **Direct Lending BDC** yields and other floating rate funds are trending lower entering into 2026 due to decreasing SOFR
- Lower SOFR may decrease default risk by increasing coverage ratios of the borrowers moving private credit as an asset class down the risk/return spectrum
- We believe the real spreads of BDCs over SOFR and other income asset classes will remain compelling



Disclosures: All figures as of 9/30/2025
(1) Source: LSEG BDC collateral. Calculated using the median Annualized Yield on NAV for 135 BDCs with net assets above $200M. (2) Invesco Senior Loan ETF (BKLN) & SPDR® Blackstone / GSO Senior Loan ETF (SRLN). Calculated using the median of both ETFs 30-day SEC yield. (3) Source: FRED. Using "ICE BofA US Corporate Index Effective Yield ""ICE BofA US High Yield Index Effective Yield ""30-Day Average SOFR"(4) Bloomberg CPI figure as of 9/30/2025. BSLs stands for Broadly Syndicated loans.

Takeaway:

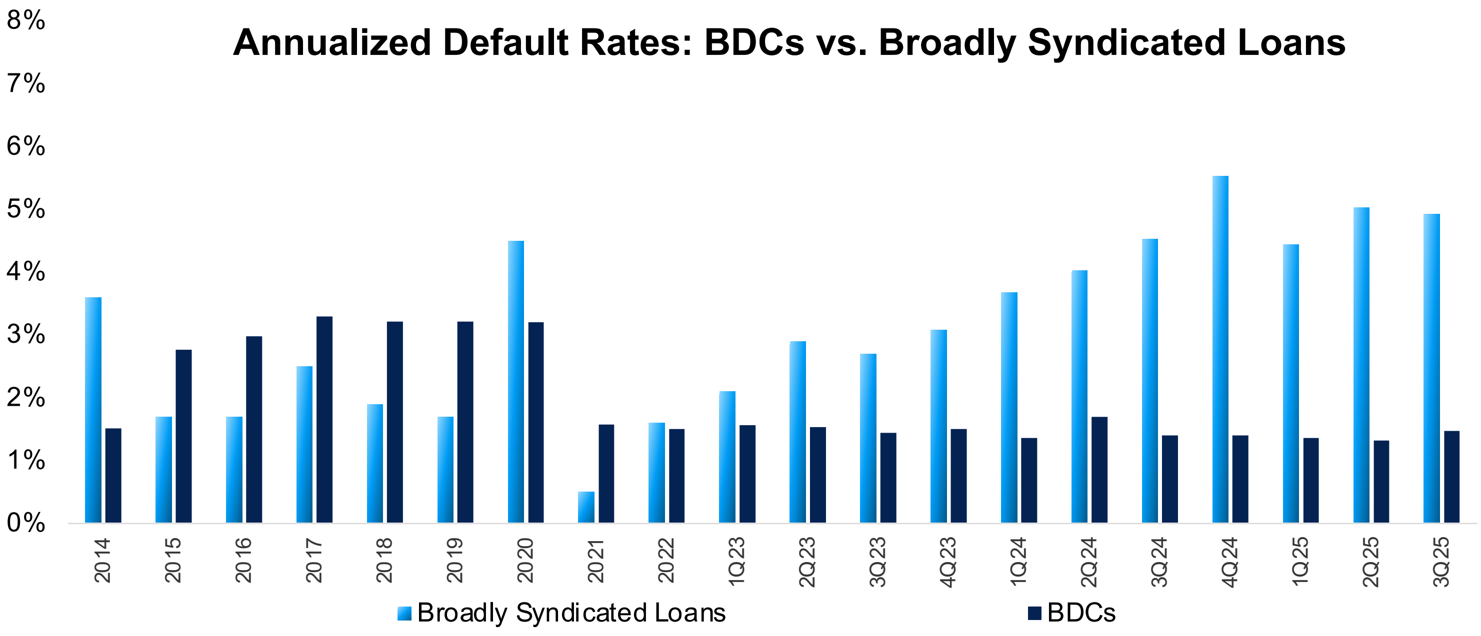
Despite declining base rates, private credit has historically exhibited a meaningful yield premium versus public credit

Disclaimer: Yield comparisons do not account for differences in liquidity, credit risk, or structure. Data displayed as 9/30/2025. Source: Bloomberg, FRED

Private Credit Has Historically Delivered Lower Defaults Than the Syndicated Loan Market

Commentary

- Spreads have compressed but risk premiums remain attractive
- Credit Spread now represent 65% of the all-in yield vs the historical average of 75%
- BDC default rates remain below long-term average and well below covid peak
- BDC default rates continue to be below that of the broadly syndicated loans



Takeaway:

Private credit has exhibited attractive risk-adjusted returns, with default rates remaining below long-term averages and public market equivalents

Source: LSEG BDC Collateral, “MM Connect: 3Q25 BDC Analysis”, December 4, 2025.

Key Themes From the Private Credit Market

	What we're seeing	Why it matters
Growth in Private Credit	Private credit continues to grow, supported by regulation, bank retrenchment, and strong demand	Private credit has become a durable part of the credit market rather than a temporary trend
Growth in Private Markets	More companies and capital activity remain in private markets	Private credit benefits from a long-term structural shift, not just a market cycle
Private Credit Demand	Private equity increasingly relies on private credit to finance deals, supported by record levels of dry powder	Sustained deal demand continues to support private credit origination and deployment opportunities
Yields	Even as interest rates decline, private credit continues to offer higher yields than public credit	Private credit remains an attractive income source relative to traditional fixed income
Defaults	Defaults have increased modestly but remain below long-term averages, and below public loan markets	Credit conditions are normalizing, but overall credit performance remains resilient

Disclaimer: The statements above reflect the views of CAIS Advisors on private credit. These views are based on internal research and due diligence and are informed by available market data as of January 2026, which may change over time.

Private Credit: State of the Markets

Navigating an Evolving Private Credit Landscape

The Private Credit Landscape Is Evolving

Legend
- ↑ Higher than long-term average
- ↓ Lower than long-term average
- ←→ Consistent with long-term average
- + Positive market impact
- − Negative market impact

	Vs Long-term average	Private Credit Market Impact	What it means
Spreads	↓	−	Returns are becoming more uneven across private credit, making manager selection more important
Chapter 11 Filings	↑	−	More bankruptcies are increasing company-specific risk, reinforcing the value of disciplined underwriting
Non-Accruals	↑	−	While some funds are seeing higher stress, overall credit performance remains stable
M&A Deal Volume	↑	+	Improving deal activity is creating better opportunities for private credit managers to deploy capital
Asset Flow Expectations	↑	+	Investor demand for private credit may continue to grow as clients seek income and stability
Relative Spreads	←→	+	Private credit may continue to offer higher yields than public credit,

Takeaway:

The private credit market is entering a more selective environment characterized by rising dispersion, reinforcing the importance of underwriting discipline and manager differentiation

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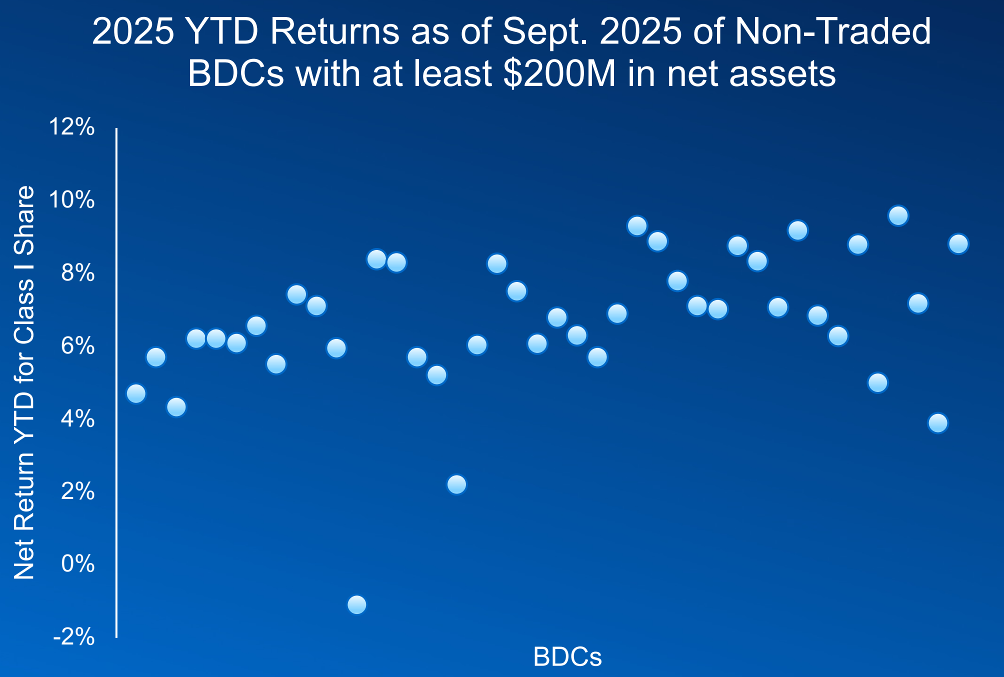
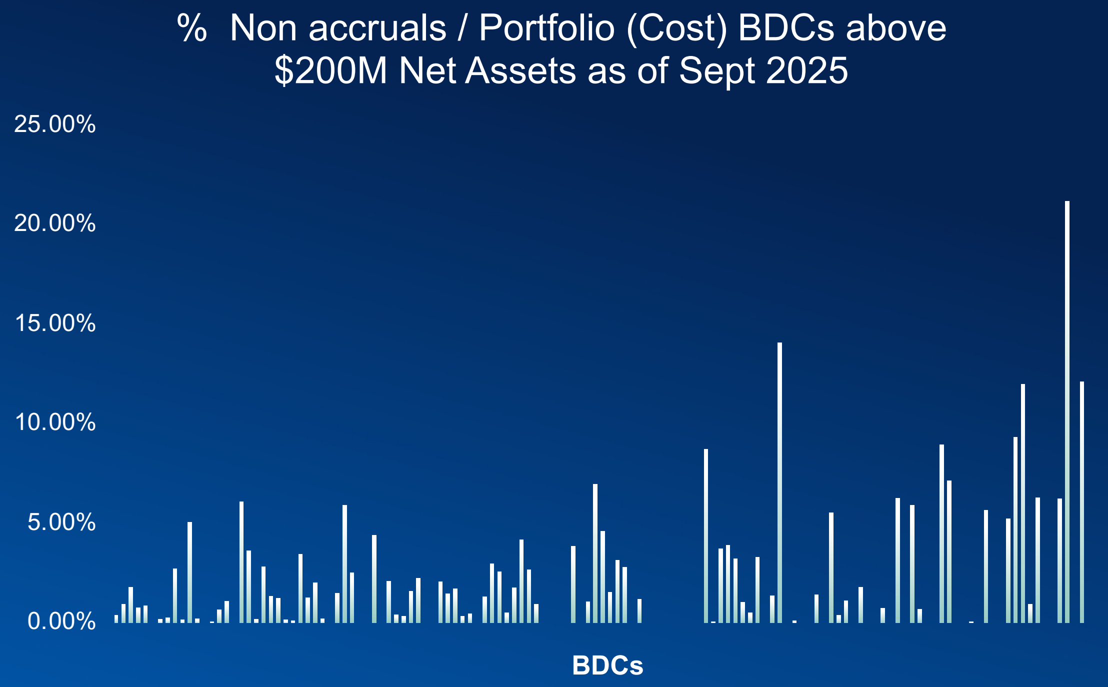
Diversifying Private Credit Exposure

- Non-performing loans accumulating in some parts of the BDC universe
- Observable dispersion in YTD total Returns in the NT BDC universe



Source: SEC Filings



Source: LSEG BDC Collateral

Takeaway:

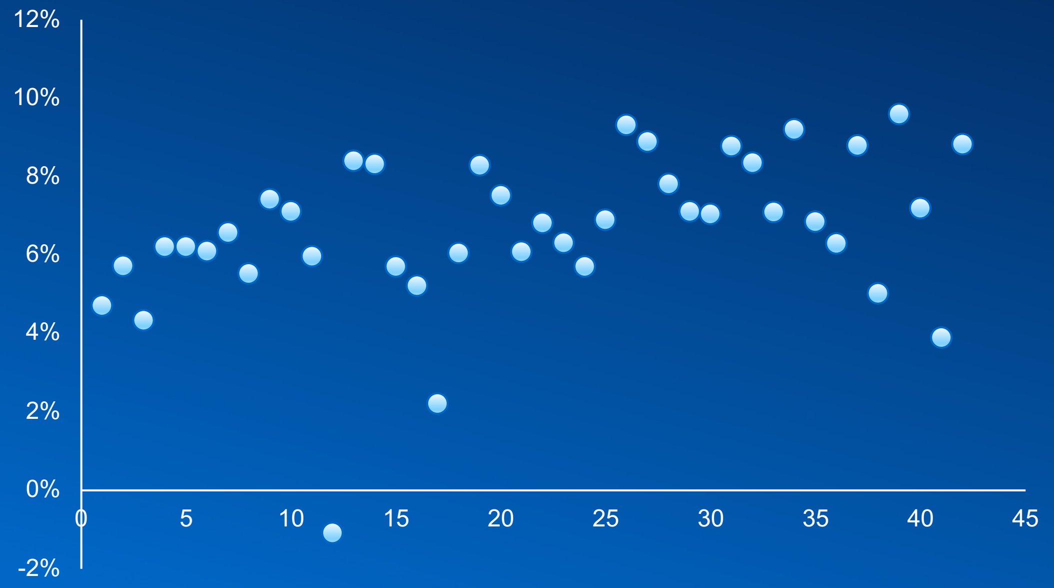
The return and credit quality dispersion across non-traded BDCs is already evident, highlighting growing differentiation at the manager and portfolio level

Sources: CAIS Advisors (2026), based on SEC filings (year-to-date returns); LSEG BDC collateral data (non-accruals). **Data as of** September 30, 2025. **Retrieved** January 28, 2026.

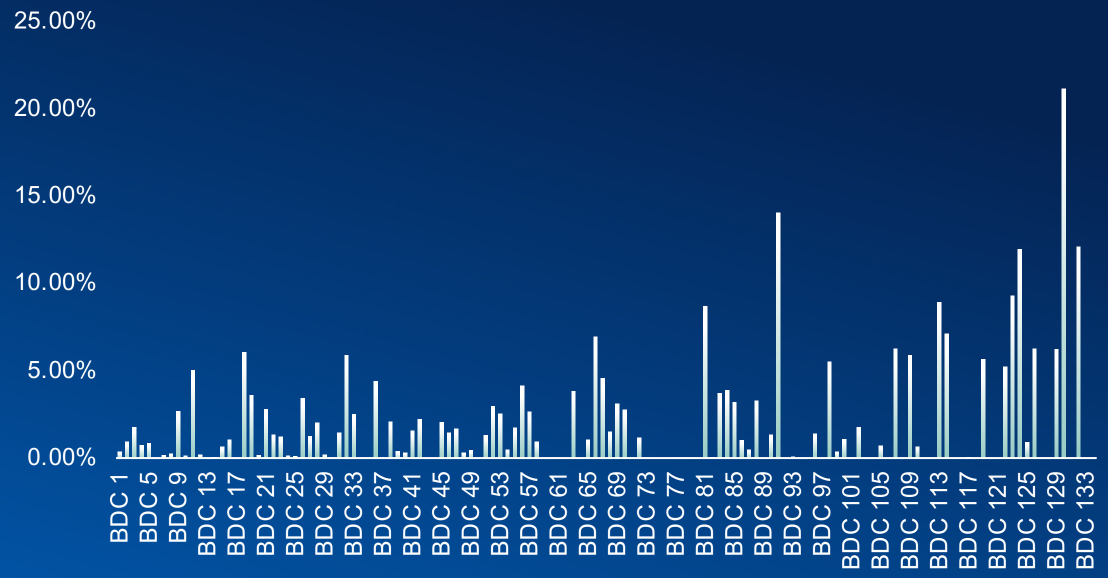
Diversifying Your Private Credit Exposure

- Non-performing loans accumulating in some parts of the BDC universe
- Observable dispersion in YTD total Returns in the NT BDC universe

Non traded BDCs above $200M 2025 YTD returns as of Sept 2025



% Non accruals / Portfolio (Cost) BDCs above $200M Net Assets as of Sept 2025



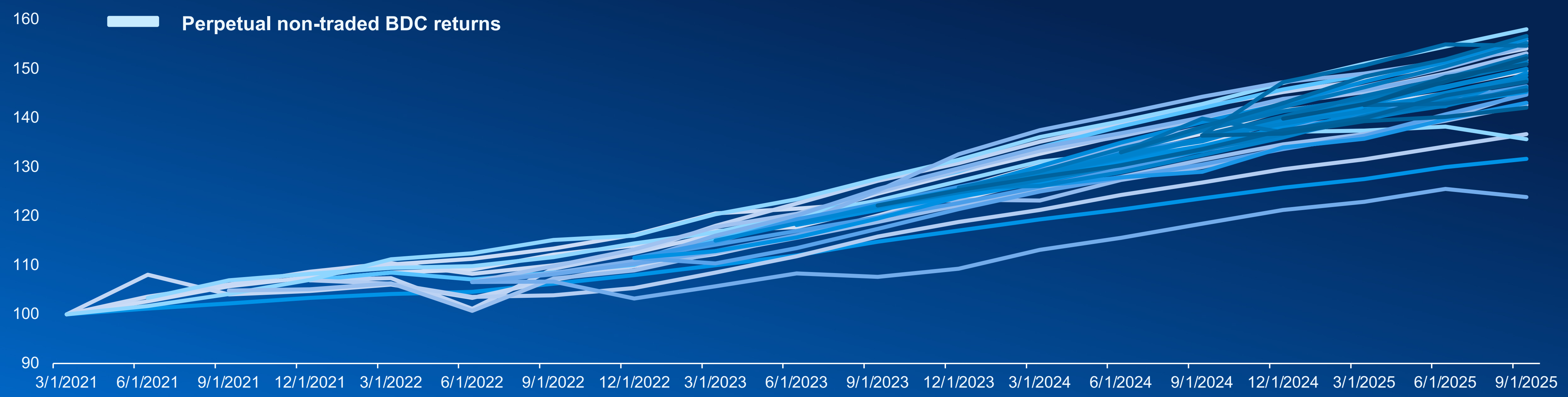
Takeaway:

The Return and credit quality dispersion across non-traded BDCs is already evident, highlighting growing differentiation at the manager and portfolio level

Source: Year To Date Returns source by CAIS advisors from SEC filings, Non-accruals sourced from LSEG BDC collateral

Dispersion & Tracking Error of Non-Traded BDC Universe

- Individual BDCs have shown wider performance variability; diversification may smooth outcomes
- Blending multiple BDCs potentially lowers volatility compared to single-manager exposure



Takeaway:

Individual BDCs have exhibited wide performance variability, while diversified exposure has the potential to smooth outcomes and reduce portfolio-level volatility

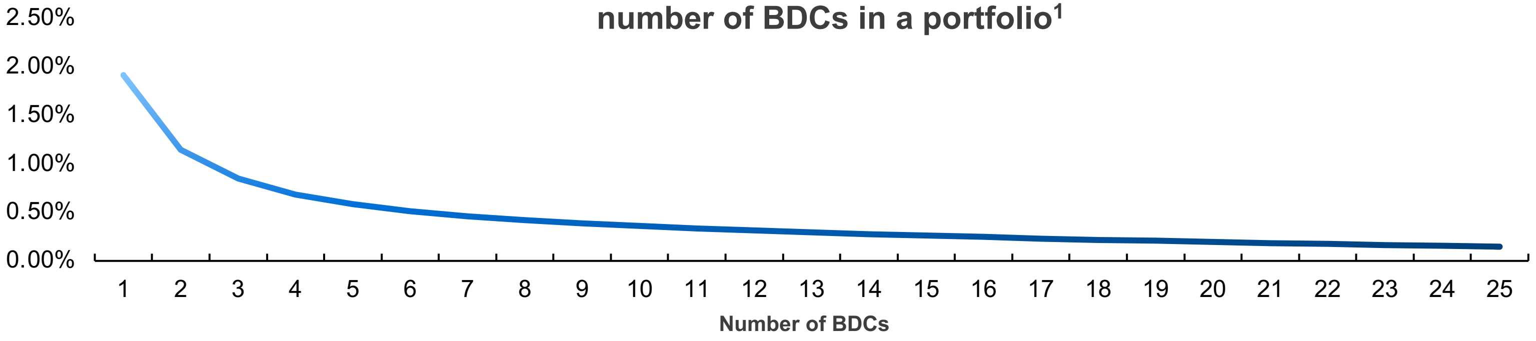
Source: CAIS Advisors (2026), based on SEC filings. Universe includes non-traded BDCs with net assets greater than $200 million. **Retrieved** January 28, 2026.

Why Diversification Matters in Private Credit Portfolios

Commentary

- Diversification materially reduces portfolio dispersion
- Concentration risk is meaningful in small portfolios.
- Private credit returns are showing increased dispersion across managers.
- Median returns remain resilient, masking underlying dispersion.

Average Historical Tracking Error to the CAIS Solactive Private Credit BDC Index by number of BDCs in a portfolio[1]



2025 Net Return (I-Share) stats for Non-Traded BDCs>$200M Net Assets[2]			
	Q1 2025	Q2 2025	Q3 2025
Mean	2.06%	2.19%	2.15%
Median	1.90%	2.27%	2.26%
St.dev	0.70%	0.68%	1.16%
Min	0.20%	0.24%	-1.88%
Max	3.79%	3.34%	4.76%

Takeaway:

The Diversification may reduce tracking error and concentration risk in private credit portfolios, particularly as dispersion across managers continues to increase

Source: (1) For the chart titled "Average Historical Tracking Error by BDC Portfolio Size," the analysis was conducted by CAIS Advisors using a Monte Carlo simulation that evaluated all possible perpetual non traded BDC portfolio combinations. Tracking error to the CAIS Solactive Private Credit BDC Index was calculated for each iteration and then averaged by portfolio size for illustrative purposes. The analyses includes the following period 6/30/2021-9/30/2025 (2) Performance for individual BDCS sourced by CAIS Advisors from SEC filings.

Portfolio Considerations in a Changing Private Credit Environment

The impact of evolving market conditions are not all the same: some impact the system, some lead to idiosyncratic risk.

Systematic Impacts ◄ ► **Fund-specific Impacts**

Return Drivers

Increasing M&A Deal Volume
Increased deal volume drives greater capital demand and signals positive economic activity

Declining Spreads
Normalizing interest rates may reduce overall yields, but relative spreads remain an important driver of returns.

Risk Measures

Macroeconomic Environment
GDP growth, Inflation, and interest rates will continue to drive dispersion in manager return

Positive Asset Flow Expectations
Structural tailwinds and continued bank retrenchment are supporting sustained asset inflows

Increasing Chapter 11 Filings
Increased bankruptcies signify an elevated credit risk environment

Stable Relative Spreads
The risk premium relative to alternatives like BSLs remains intact despite compression

Rising Non-Accruals
Increased credit stress and missed loan payments will impact funds with weaker underwriting standards

Increasing Redemptions
Elevated redemptions could disproportionately impact less well-equipped funds

Sector Concentration
Funds with sector-specific exposure may face elevated risk (e.g., Technology)

Takeaway:

Return drivers cross both systematic impacts and fund-specific impacts, while risk measures concentrate heavily around fund-specific impacts, demonstrate a potential increase in idiosyncratic risk and the need for diversification

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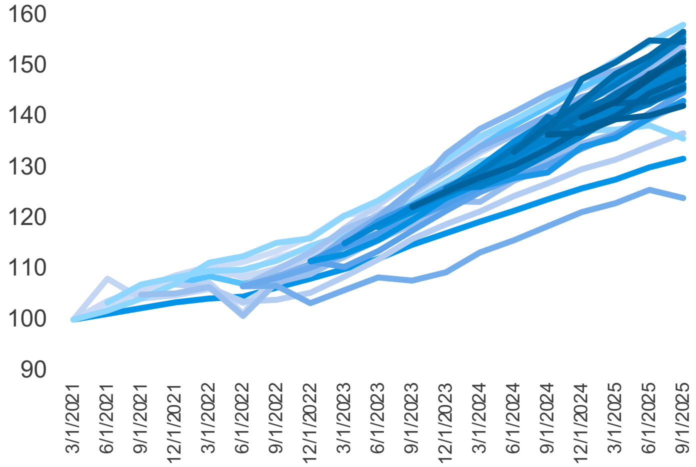
Private Credit Is Changing. The Market Is Evolving.

Private Credit remains attractive but idiosyncratic risk is increasing



Macro-Environment is shifting

GDP Growth

Inflation

Interest rates

Diversifying exposure may help investors stay invested in the asset class while potentially reducing risk

Takeaway:

Diversification may help manage idiosyncratic risk while maintaining exposure to private credit

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Thank you

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