Credit Where It's Due

The Persistent Rise of Private Credit

A Clearwater Research Insight

SUMMER 2026



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Summary from Clearwater's Head of Research

For the past decade, but especially in the post-Covid business cycle, private credit has moved from the fringes of institutional portfolios to the foreground.

As an asset class, it has generated exuberance, aroused suspicion, and created outright panic (sometimes deserved but, far too often, undue). While its reputation has been battered and rehabilitated more than once, its direction of travel, measured in invested assets and allocations, has been an unmistakable due north.

At Clearwater we are no strangers to such trends. Private credit assets on our platform have ballooned nearly 20% over the last two years alone. This report was born both as a natural byproduct of flows we are witnessing day to day and as a response to the latest in financial news media. In the pages that follow, we aim to provide a differentiated view of the private credit landscape, grounded in our proprietary database.

This report, a follow-up to our autumn 2025 report on alternative assets, is broken into three sections:

01

A look into strategy:

how does private credit fit inside portfolios?

02

An analysis of performance:

how has private credit delivered (or not delivered)?

03

An assessment of systemic risk:

are we on the precipice of a financial crisis?

To answer these questions, we leverage our database to look across asset owners, including insurers, corporates, and private wealth investors. While as researchers we cannot see into every corner of capital markets, we believe that we can see enough to make a few educated pronouncements—and dispel a few myths.

In the report's final section, we assess potential threats from private credit to the macroeconomy. We view today's systemic fears as overstated, even as criticisms have grown louder. Despite a common refrain, private credit in 2026 is not housing in 2007, and the transmission mechanisms that defined the global financial crisis are largely absent today. That said, idiosyncratic pain points are real, and they will hit hardest for those without a clean view of their own exposures. And in the event of a downturn, private credit, while not a trigger, will still prove an accelerant to macroeconomic tumult.

Matthew Vegari

HEAD OF RESEARCH,
CLEARWATER ANALYTICS

Our key findings

01

Private credit is no longer a niche allocation.
It has become a core asset class on many institutional balance sheets, particularly among life insurers.

02

Private credit looks very different from one investor type to the next.
Insurers chiefly hold privately placed bonds and direct loans; private wealth exposure is almost entirely through funds.

03

Private credit has delivered steady, ballast-like returns across the investor universe.
The magnitude of contribution has been shaped by the quantity and type of credit held.

04

A real but underappreciated risk on insurer balance sheets is "cross-contamination."
Correlated exposure to the same underlying credit could create idiosyncratic challenges.

05

The risk of a 2008-style cascade originating in private credit is low.
Underlying loans are less correlated than housing was, and the transmission mechanisms that turned losses into a crisis are largely absent.

Section 1: Strategy

From the fringes to the foreground

Across decades but particularly since the global financial crisis reshaped the US banking system, private credit has steadily gained prominence and garnered a growing share of investor portfolios. For many institutions, particularly insurers, what was once a rounding error now comprises a meaningful share of the balance sheet. This section examines how the asset class now fits inside portfolios.

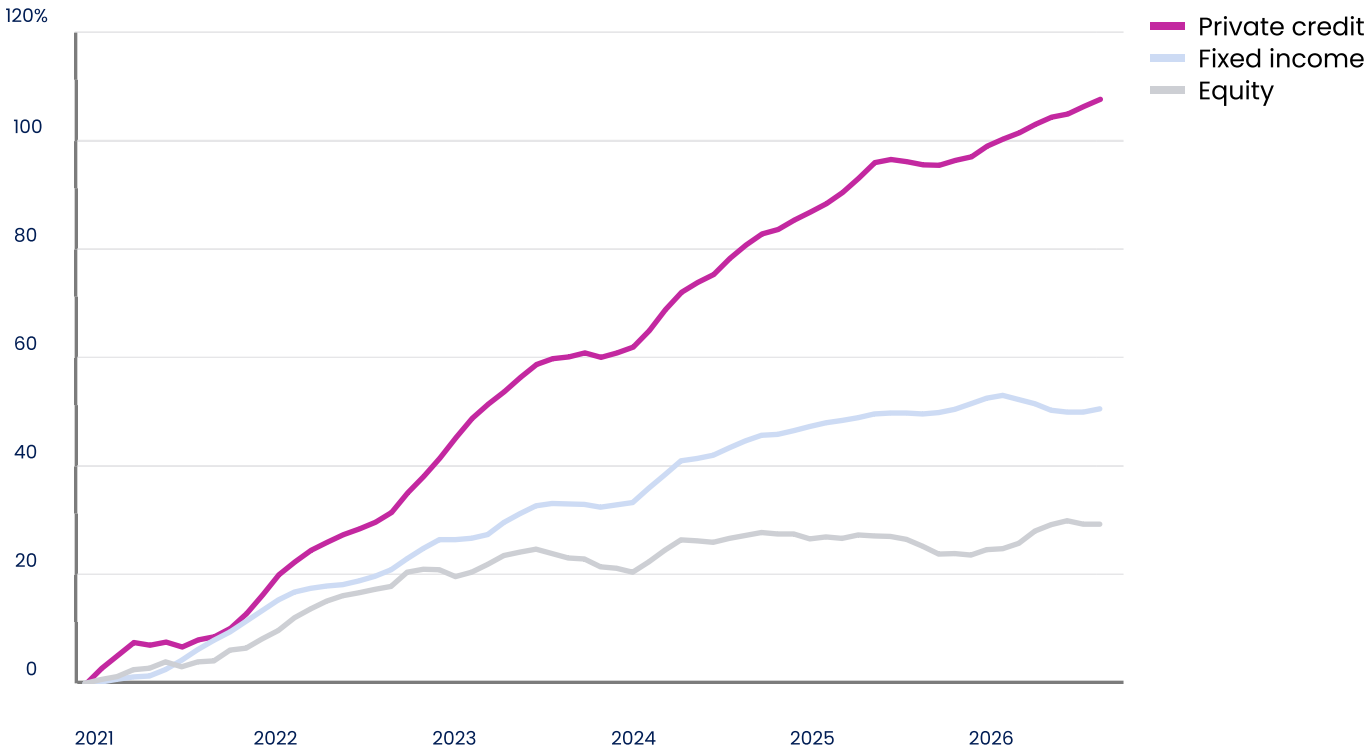
Before going further, we are mindful of this report's scope. The term "private credit" remains contested, and the industry offers competing definitions: some hew narrowly to direct lending funds; others sweep more broadly and include everything from business development corporations (BDCs) to infrastructure debt. **In this report, we focus on nonbank lending**—wider than many treatments but, we think, the right lens for a discussion that culminates in an assessment of systemic risk. We include the obvious candidates, like limited partnerships (LPs) and direct loans, alongside less obvious ones, like directly held mortgages. **In matters of financial stability, we think it's better to include too much than too little.**

Regardless of where one draws the line, private credit's growth has been remarkable. We are no strangers at Clearwater. From 2021 to 2026, the median growth in private credit holdings for an insurer on our platform was 110%. Other asset classes have paled in comparison (Figure 1.1).

FIGURE 1.1

For insurers, private credit growth is peerless.

Median change in assets



NOTE: FOR BOOK VALUES OF ASSET CLASSES FOR US INSURERS.
SOURCE: CLEARWATER ANALYTICS

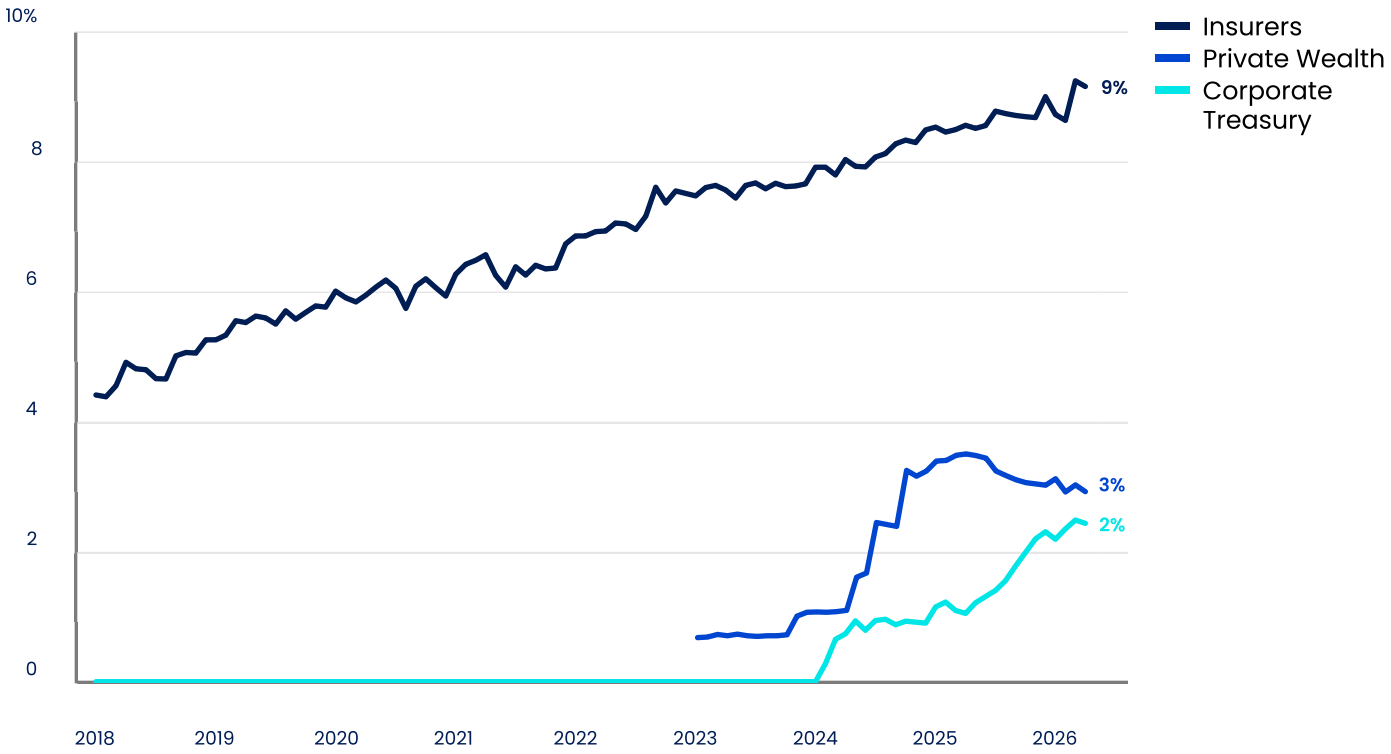
Insurers, admittedly, comprise a disproportional share of the private credit universe. The fit is in many ways structural: insurers carry long-dated, predictable liabilities, particularly on the life and annuity side, and private credit's longer lockups match those liabilities well. The illiquidity that gives other investors pause is, for insurers, closer to a feature than a bug. They are not forced sellers and are compensated for their patience via an illiquidity premium.

This report focuses on each of three types of investors: insurers, corporate treasurers, and private wealth investors, e.g., ultra-high net worth individuals and family offices. For these three segments, exposures to the asset vary (Figure 1.2), but so does the kind of private credit being held (Figure 1.3). As noted, we are using a broad definition of nonbank lending, primarily composed of privately placed corporate bonds, limited partnership investments in credit funds, bank loans, and directly held mortgages.[1]

FIGURE 1.2

Exposures differ, but private credit comprises a larger share of portfolios across the board.

Median allocations to private credit (share of portfolio)



NOTE: PRIVATE WEALTH TRUNCATED AT 2023 PER HISTORICAL LIMITATIONS.
FOR CORPORATES, MEDIAN ALLOCATIONS WERE 0% PRIOR TO 2023.
SOURCE: CLEARWATER ANALYTICS

[1] The asset classes in this report that fall under "nonbank lending" are not exhaustive. For example, Clearwater's platform tracks collateralized loan obligations (CLOs) backed by private credit instruments, but the available data in aggregate is insufficient for broad-based research and commentary.

FIGURE 1.3

"Private credit" means different things to different asset owners.

Average breakdown of private credit assets per portfolio



NOTE: AS OF Q1 2026.
SOURCE: CLEARWATER ANALYTICS

Section 1: Strategy

Insurers

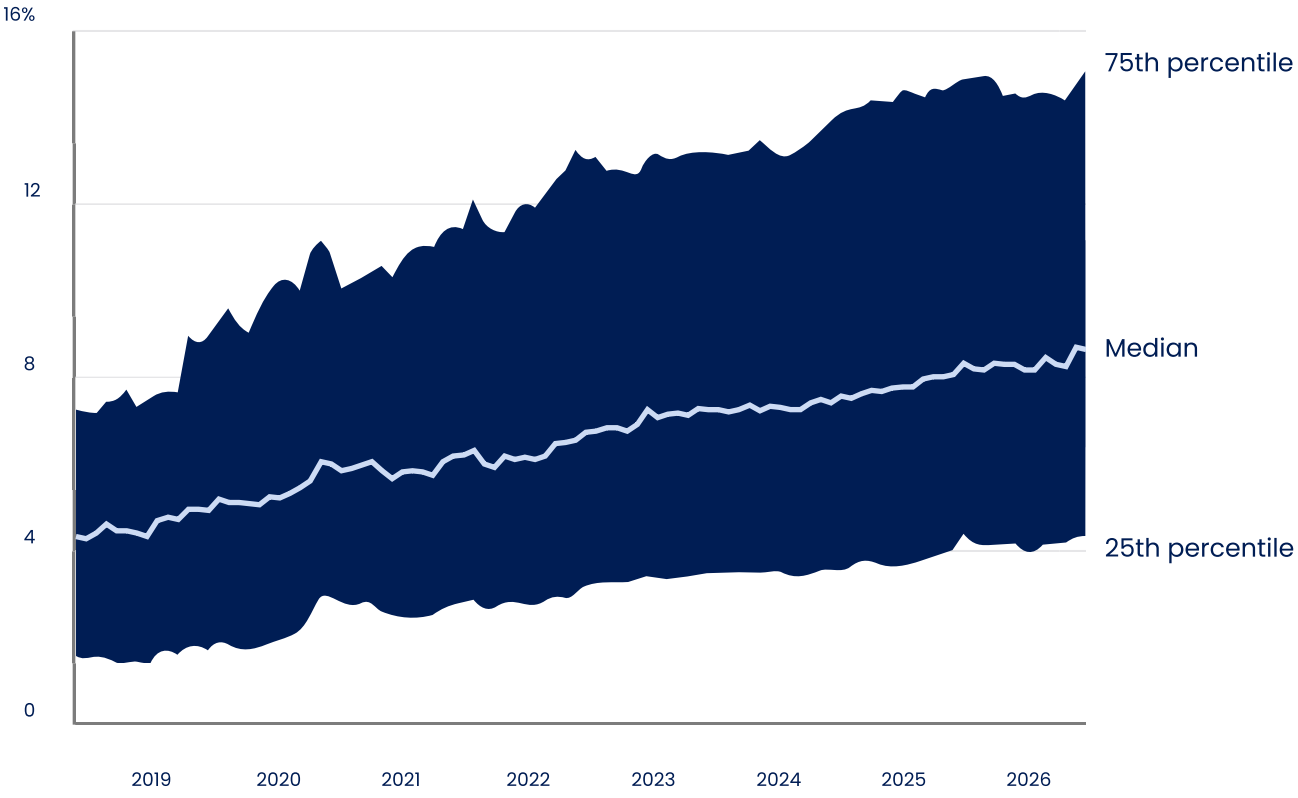
Insurers' portfolio allocations to private credit have been growing for years. In our 2025 alternatives report, we estimated that US insurers now account for a 30–50% share of private credit assets (and less than 5% of hedge fund assets, for comparison).[2]

As with alternative assets generally, exposures are not uniform. Some insurance portfolios on our system maintain over 40% allocated to private credit. Figure 1.4 offers a 25th to 75th distribution for US insurers on Clearwater's platform.

FIGURE 1.4

Private credit continues to comprise a larger and larger share of insurance portfolios.

Distribution of allocations to private credit (share of portfolio)



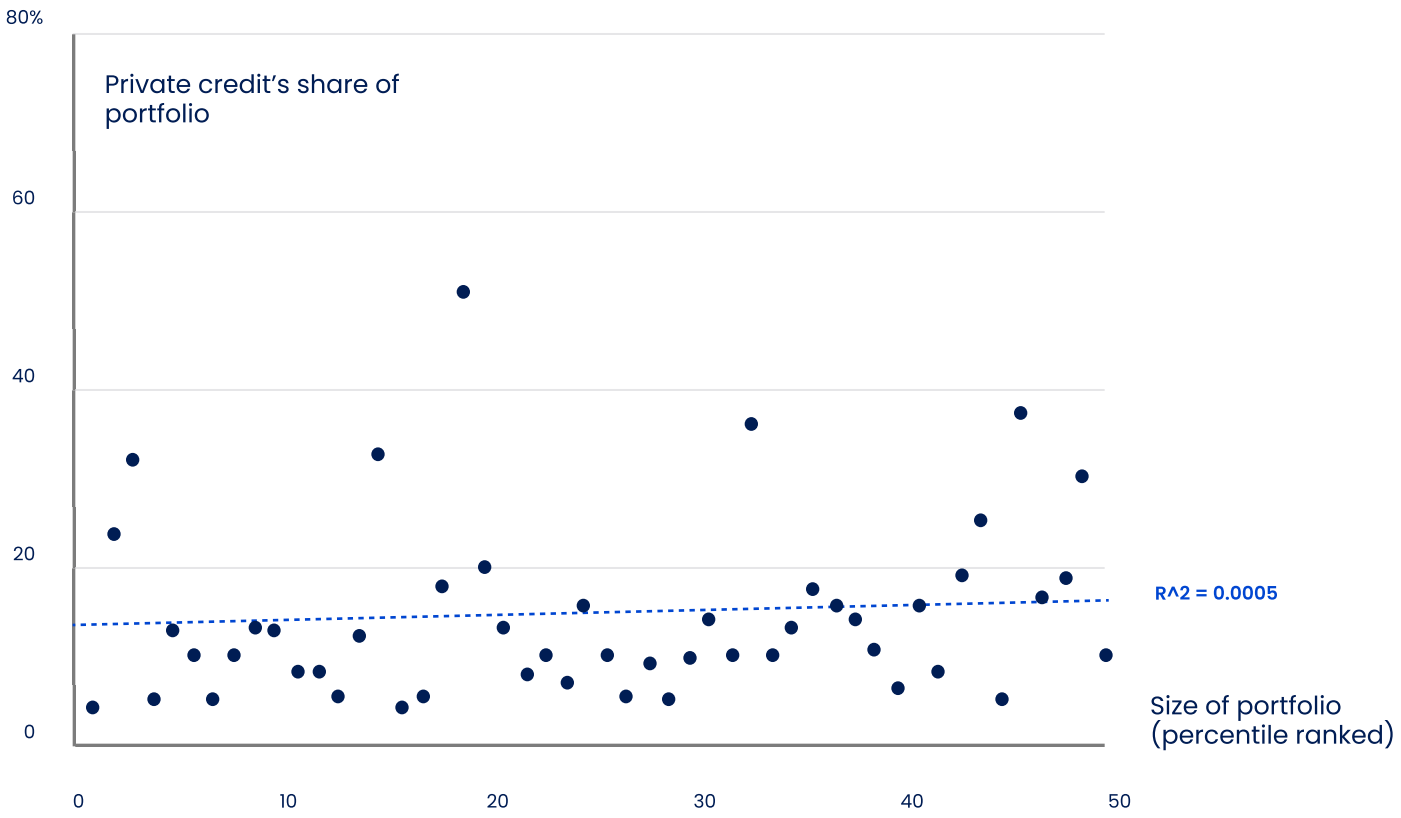
NOTE: FOR US INSURERS.
SOURCE: CLEARWATER ANALYTICS

What helps explain the distribution? Is it the size of assets, i.e., the bigger the insurer, the greater the exposure to alternatives? Clearwater's database reveals no such relationship (Figure 1.5).

[2] This report's body focuses on US insurers with at least $500 million in assets on Clearwater's platform. For a global perspective, please see the appendix.

FIGURE 1.5

Size is not a good predictor of allocations to private credit.



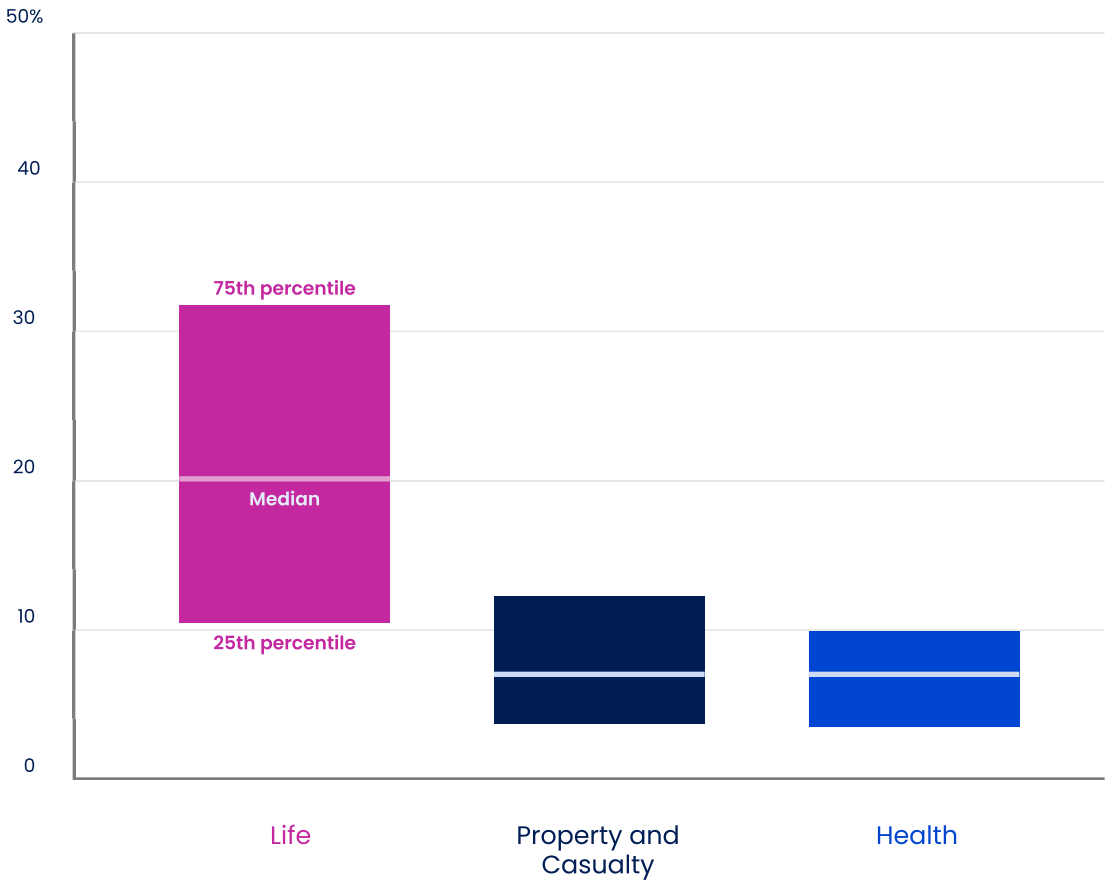
NOTE: X-AXIS REPRESENTS RANKS OF PORTFOLIO BY SIZE OF AUM.
LARGER RANKS HAVE LARGER AUM
SOURCE: CLEARWATER ANALYTICS

A better predictor of exposure is type of insurer. **Generally speaking, life insurers have far greater exposure to private credit than their peers** (Figure 1.6). As life insurers carry long-dated, predictable liabilities (annuities and permanent policies that often sit on books for decades), private credit's lockups and hold-to-maturity profile are a natural match.

FIGURE 1.6

Life insurers lead the charge of private credit exposure.

Private credit's share of insurer portfolios



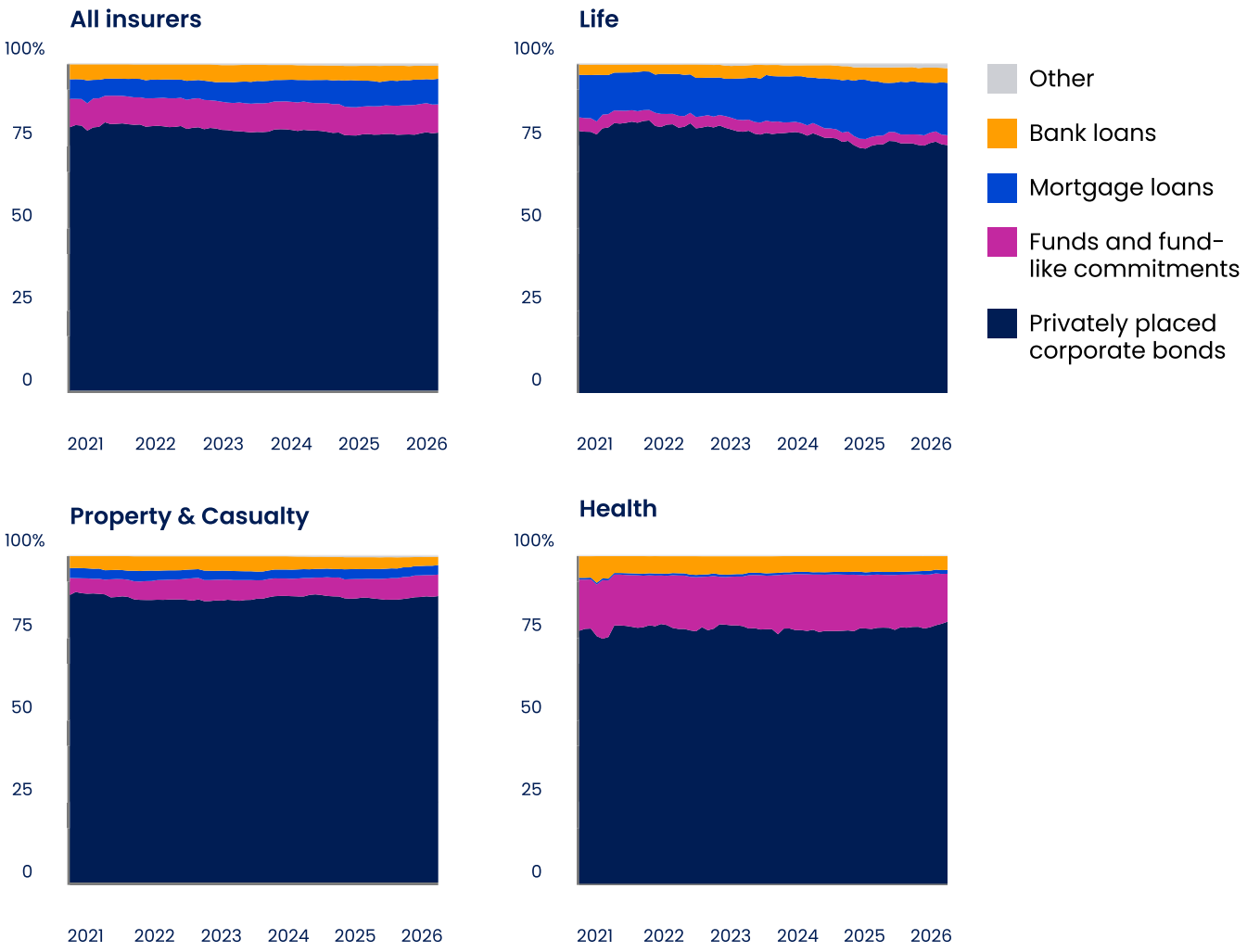
NOTE: FOR US INSURERS. HOLDINGS AS OF Q1 2026.
SOURCE: CLEARWATER ANALYTICS

Exposures in aggregate vary, but they also vary within private credit as an asset class. Privately placed bonds comprise the lion's share of all private credit exposure, but for health insurers, funds (e.g., limited partnerships and business development corporations) are the runner-up; for life insurers, in second place sit directly held mortgages, with 20% of assets (Figure 1.7).

FIGURE 1.7

Exposure to private credit as an asset class varies. But exposure to types of private credit varies, too.

Average breakdown of private credit assets



NOTE: FOR US INSURERS.
SOURCE: CLEARWATER ANALYTICS

Privately placed bonds

Privately placed corporate bonds comprise well over half of insurers' private credit holdings and nearly 10% of their portfolios overall. Within this bucket, roughly 80% of holdings were issued under Rule 144A. Rule 144A is a securities regulation that allows issuers to sell privately placed bonds to qualified institutional buyers (QIBs) without full SEC registration; the resulting securities are private in the legal sense but trade among QIBs in a reasonably active secondary market. They are often considered "quasi-private"[3] and tend to have shorter maturities than other privately placed bonds on insurer balance sheets.[4]

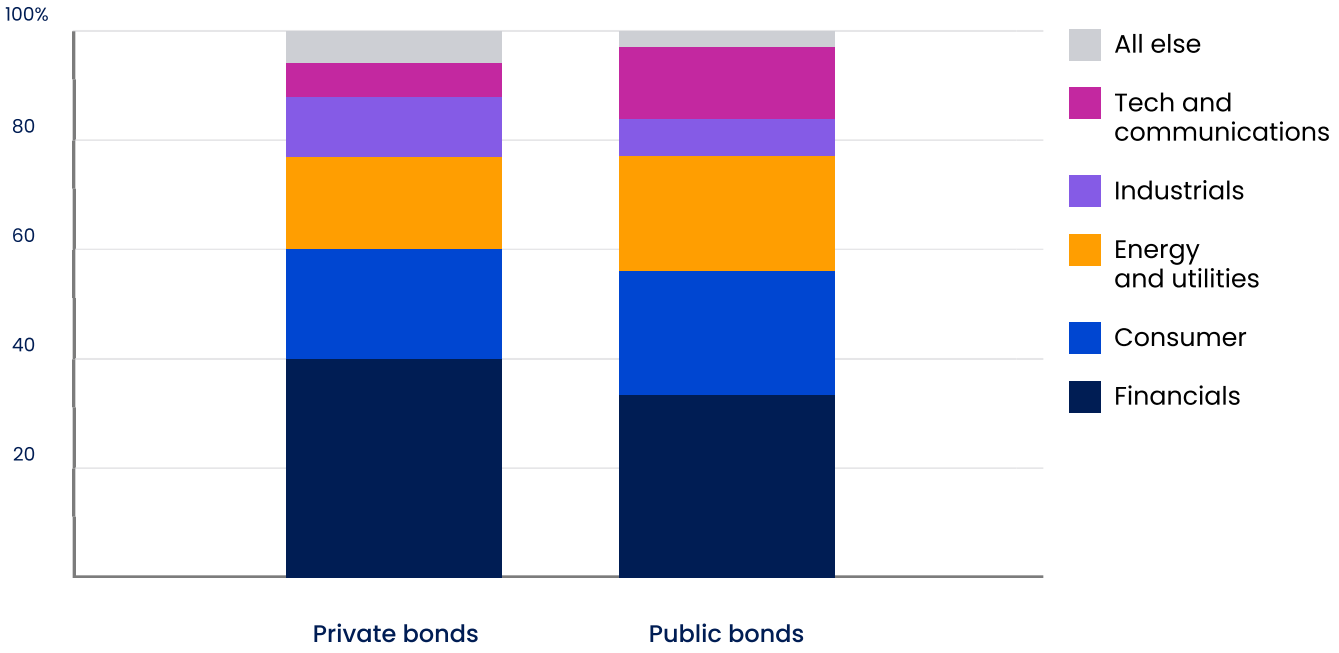
[3] In Q1 2026, Clearwater's platform showed a typical 40-60 bps spread for Rule 144A bonds over comparable publicly traded bonds.
[4] On balance, the average time to maturity for a Rule 144A privately placed bond was 2 years shorter than other private placements.

Outside of spreads and maturity differences, how does the composition of insurer bond holdings differ between public and private markets? For the most part, the compositions are not too dissimilar (Figure 1.8).[5]

FIGURE 1.8

Industry exposures in public and private markets don't look too different for insurers.

Bond holdings decomposed by sector



NOTE: FOR US INSURERS. HOLDINGS ARE SHOWN IN COUNT, NOT DOLLAR-WEIGHTED, SPACE.
SOURCE: CLEARWATER ANALYTICS

Bonds issued by financial institutions make up a larger share of privately placed bond holdings, and a meaningful portion of that overweight reflects lending to private credit funds themselves (see Section 3 for an assessment of systemic risk). Private credit funds typically lever their portfolios between 1x and 2x equity; some of that leverage is raised publicly, but much of it is raised privately, often from insurers. Industrials are also more prominent in private bond portfolios. Public bond holdings, by contrast, skew more heavily toward media and telecommunications, dominated by the investment-grade issuance of major telecom incumbents.

Bank loans

Bank loans, despite their name, are increasingly nonbank. The moniker is a holdover from decades past and reflects the instrument's legal form rather than originator. In practice, today's "bank loan" bucket on insurer balance sheets is dominated by direct lending, i.e., privately negotiated loans from nonbank managers, often private credit funds, with insurers participating as co-lenders.

[5] While Figure 1.8 looks at numeric counts of bonds, weighting by market value does not change these proportions substantially.

Many of these loans go to similar borrowers as privately placed bonds—corporate issuers, fund vehicles, infrastructure projects—but two differences stand out (Table 1.1). First, bank loans are typically floating-rate (often SOFR plus a spread), where privately placed bonds are predominantly fixed. Second, the borrower mix tilts more heavily toward private equity-backed companies. Within the bucket, the secured/unsecured split also tracks borrower type rather than credit quality: secured loans concentrate in infrastructure projects and PE-sponsored deals, while unsecured loans go disproportionately to fund finance and high-quality structured borrowers.

TABLE 1.1

Insurer bank loans skew secured

Type of loan	Average split	Median market yield
Unsecured	36.4%	6.25%
Secured	63.6%	8.57%

SOURCE: CLEARWATER ANALYTICS

Funds and fund-like commitments

When the financial press talks about "private credit," this is often the corner of the market they have in mind: pooled vehicles—limited partnerships and their structural variants—run by marquee managers. The typical insurer accesses these funds through standard limited partnership interests (Table 1.2). But roughly half of insurers also hold rated note feeders, i.e., wrappers that pool insurer capital, route it into an underlying private credit fund as a limited partner, and issue rated notes against the resulting cash flows. These notes qualify for more favorable NAIC treatment than a direct LP interest, and for the insurers that use them, they can represent a meaningful share of total fund exposure. Note: Table 1.2 captures only the equity tranche of rated note feeder exposure; the senior note tranche (typically the far larger of the two), which functions and reports as a bond, is not shown.

TABLE 1.2

Insurer access to private credit funds

	Book value split of fund exposure *Median (75th percentile)*		Share of insurers investing in...		
	Limited partnerships	Rated note feeders, equity	Limited partnerships	Rated note feeders	Both
Life	99% (71%)	1% (29%)	97%	53%	53%
Health	99% (86%)	1% (14%)	100%	50%	50%
P&C	100% (86%)	0% (14%)	100%	42%	42%

NOTE: MEDIAN FIGURE SHOWN FIRST; 75TH PERCENTILE IN PARENTHESES. BOOK VALUE SPLIT REFLECTS THE EQUITY PORTION OF RATED NOTE FEEDER STRUCTURES.
SOURCE: CLEARWATER ANALYTICS

Across LP and feeder positions combined, the typical insurer on Clearwater's platform holds exposure to roughly five distinct managers (where multiple funds from the same manager are counted once). Within any given fund, insurers tend to be small but not trivial limited partners: typical ownership is between 0.5% and 2% of fund size, with the typical insurer's largest single position averaging around 5% of fund size.

Mortgages

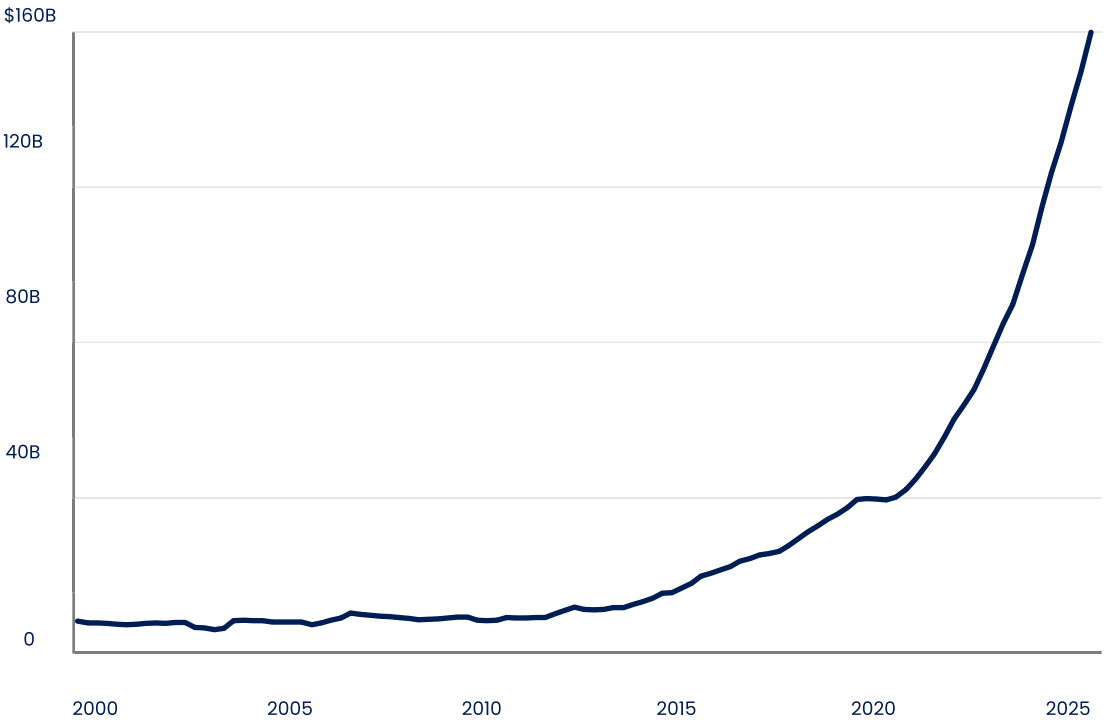
While directly held mortgages are not exclusive to life insurers, we focus on them here, as life insurers' exposure is far higher than that of industry peers.

The macro backdrop for directly held mortgages follows the long retreat of traditional lenders from the US mortgage market. Depository institutions—commercial banks, thrifts, and credit unions—were the dominant holders of US home mortgage credit through the 1980s. Today they hold about a quarter, with the remainder distributed across agency mortgage pools and a wide set of nonbank holders. **A growing share of that nonbank balance has ended up on insurer balance sheets** (Figure 1.9). Insurers have long held mortgage exposure indirectly through agency and private-label MBS, and they continue to do so, but they have increasingly come to hold mortgages directly as well.

FIGURE 1.9

Government statistics show mortgages on insurer balance sheets have surged.

1-to-4 family mortgages held by US life insurance companies



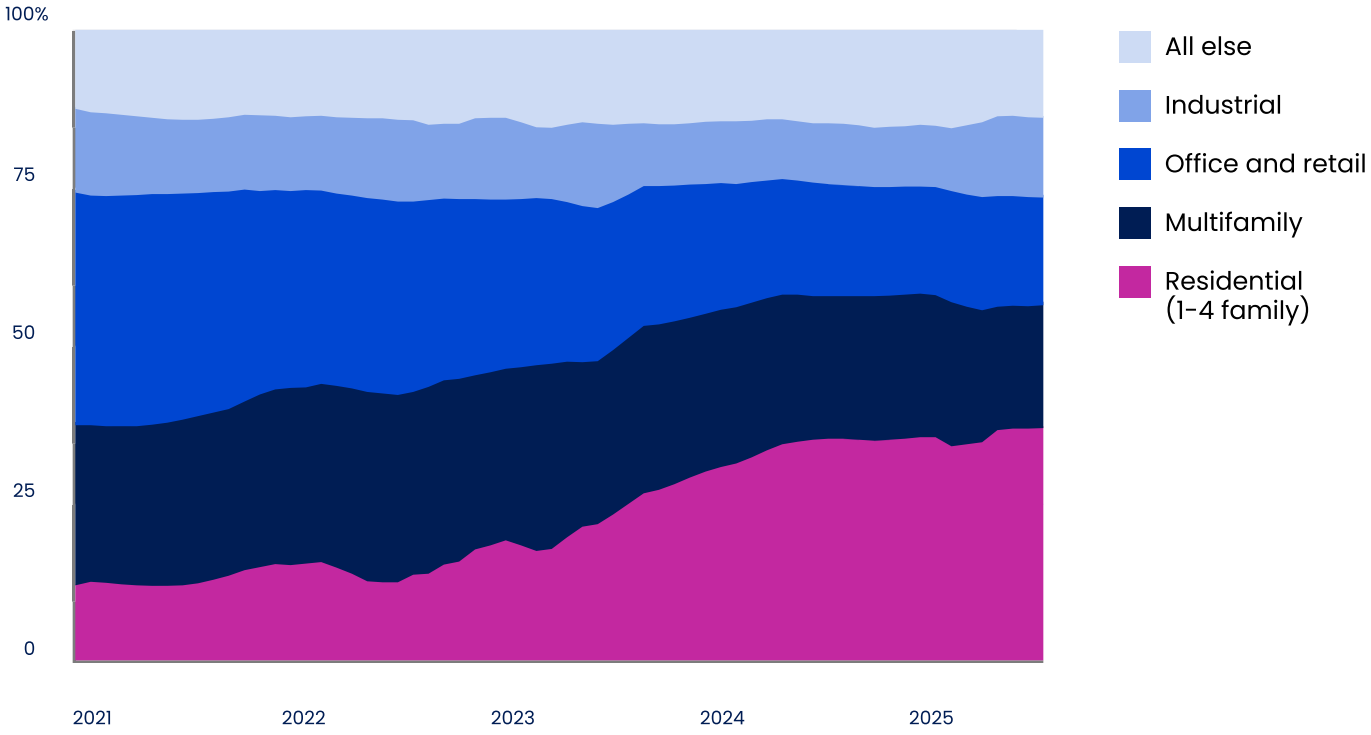
SOURCE: FEDERAL RESERVE

Within those direct holdings, Clearwater's database shows a notable shift in property exposure. The single-family versus commercial split is now 40/60 today, up from 20/80 as recently as 2022. Within commercial mortgage holdings, multifamily leads. Credit quality, by traditional metrics, is in line with the overall market[6]: Q1 2026 transactions data show the median home mortgage purchased was originated at a 75% loan-to-value ratio.

FIGURE 1.10

Directly held mortgages are increasingly residential.

Breakdown of directly held mortgages (weighted by market value)



NOTE: FOR US INSURERS.
SOURCE: CLEARWATER ANALYTICS

[6] Federal Reserve Bank of Philadelphia, "Large Bank Credit Card and Mortgage Data."

Section 1: Strategy

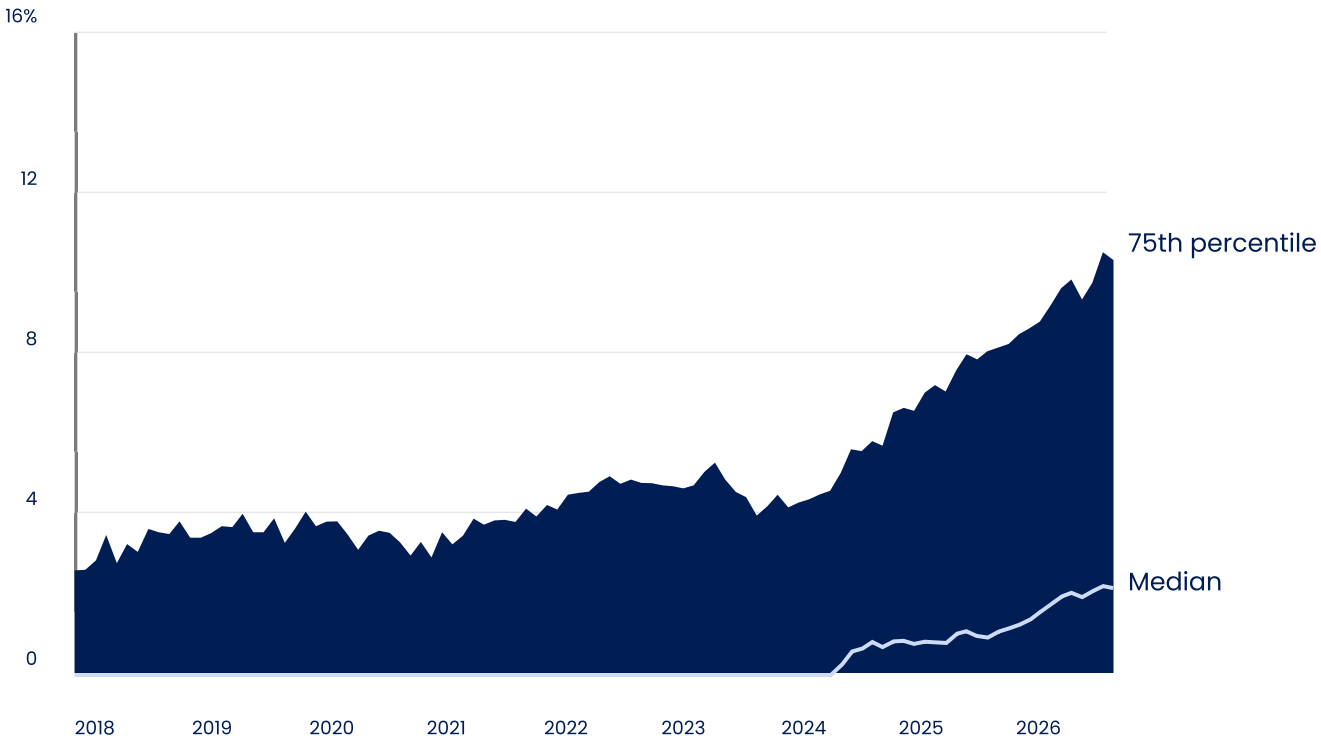
Corporate treasurers' exposure to private credit is far smaller than that of insurers, but its trajectory has been just as striking. The median corporate treasurer on our platform now holds 2% of its portfolio in private credit, up from effectively zero just a handful of years ago (Figure 1.11).

Corporate Treasury

FIGURE 1.11

Corporate treasurers have embraced "private credit."

Distribution of allocations to private credit (share of portfolio)



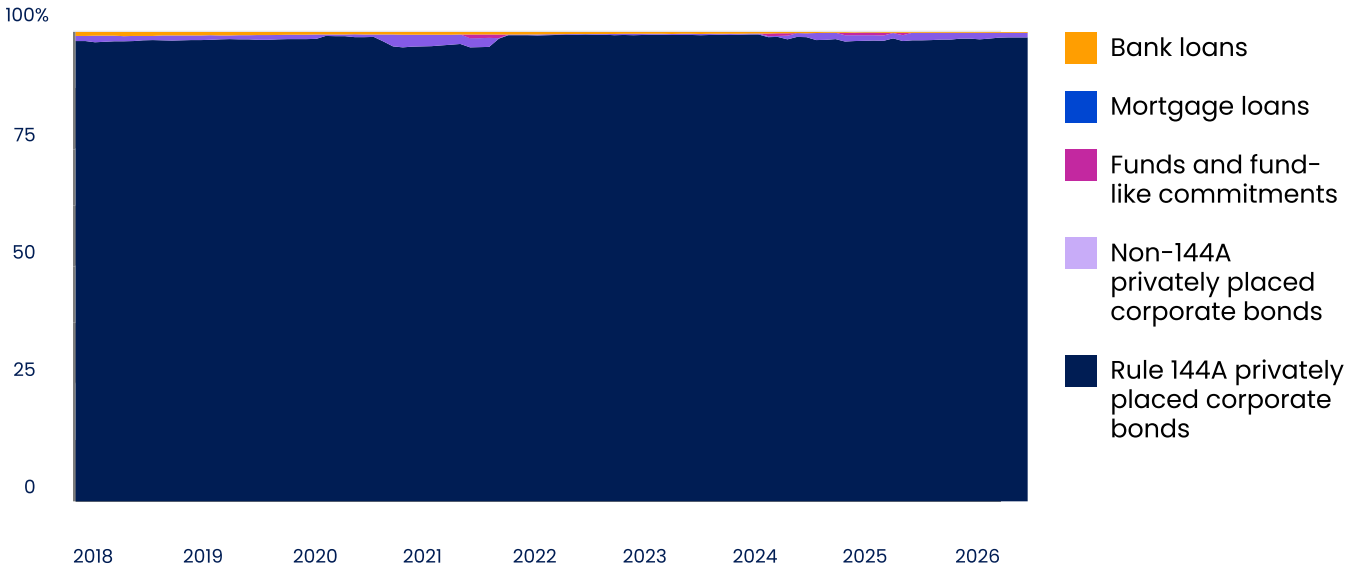
SOURCE: CLEARWATER ANALYTICS

The composition is also simpler. Nearly all of this exposure sits in Rule 144A privately placed bonds—one of the most liquid corners of the private credit universe, and the bucket that most closely resembles the public investment-grade bonds treasurers have long held. Direct lending, fund interests, and directly held mortgages are essentially absent (Figure 1.12).

FIGURE 1.12

For corporates, Rule 144A privately placed bonds dominate private credit exposure.

Average breakdown of private credit assets



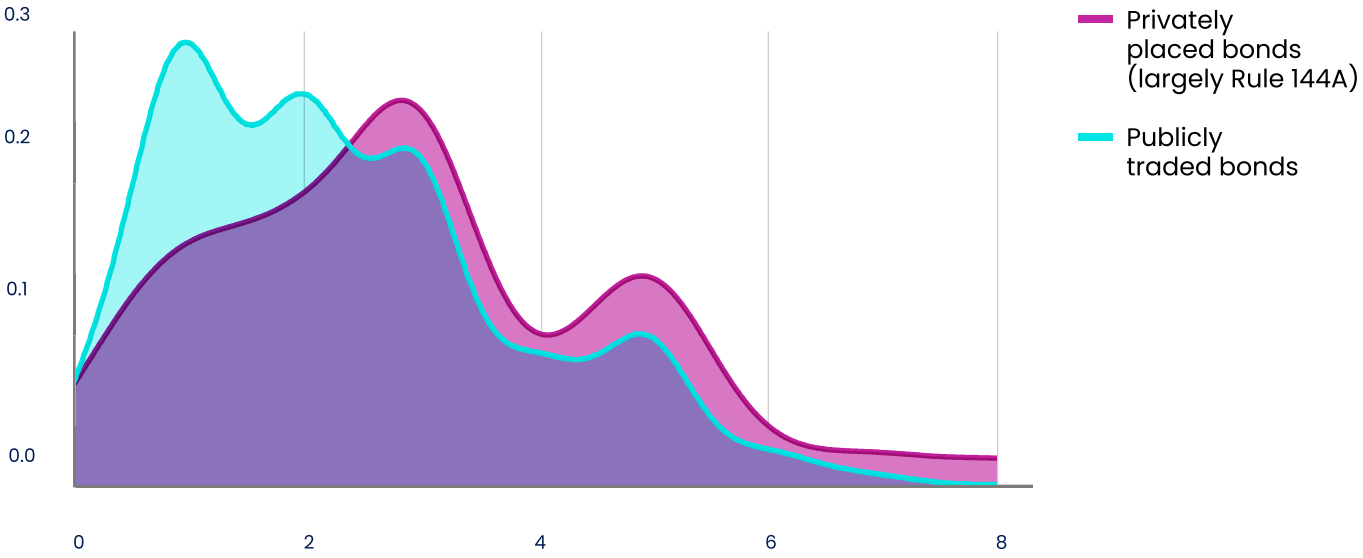
SOURCE: CLEARWATER ANALYTICS

How do these bonds differ from publicly traded debt? Within treasurer portfolios, private bonds tend to carry longer maturities (2+ years) than other fixed income holdings (Figure 1.13). The yield pickup reflects two premia: a term premium for the longer tenor, and an illiquidity premium for the private placement structure.

FIGURE 1.13

For corporates, privately placed bonds mean longer maturities.

X-axis: Time to maturity (years) • Y-axis: Density



NOTE: PURCHASE DATA FROM 1/2025 THROUGH 5/2026.
SOURCE: CLEARWATER ANALYTICS

Section 1: Strategy

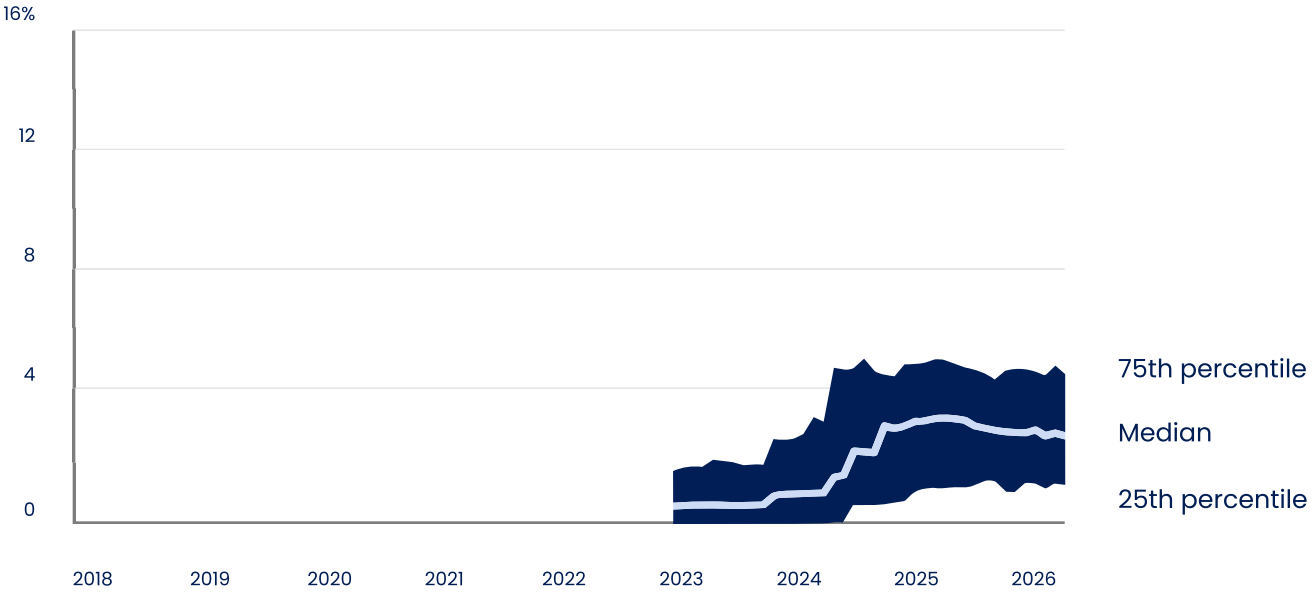
Private Wealth

Private wealth's relationship with private credit is the youngest of the three asset owner segments we cover—and the most volatile. On our platform, allocations for family offices and ultra-high net worth individuals grew through 2023 and 2024, before plateauing through 2025 and dipping modestly[7] into 2026 (Figure 1.14). The median private wealth investor now holds roughly 3% of their portfolio in private credit.[8]

FIGURE 1.14

Private wealth exposure to private credit grew—then plateaued.

Distribution of allocations to private credit (share of portfolio)



NOTE: EXCLUDES PORTFOLIOS WITH NO PRIVATE CREDIT HOLDINGS ON CLEARWATER'S PLATFORM. DATA TRUNCATED AT 2023 DUE TO HISTORICAL LIMITATIONS.
SOURCE: CLEARWATER ANALYTICS

Post-pandemic, private credit managers pushed aggressively into the wealth channel, opening the asset class to a new set of investors. The largest alternatives managers launched non-traded BDCs and interval funds aimed at individual investors, with lower minimums and more frequent liquidity windows than the institutional vehicles that preceded them.

These preferences are apparent when looking at the split of private credit assets. Private wealth investors access private credit overwhelmingly through fund vehicles: roughly 85% of holdings sit in LP interests in private credit funds, with most of the remainder in privately placed corporate bonds (Figure 1.15).

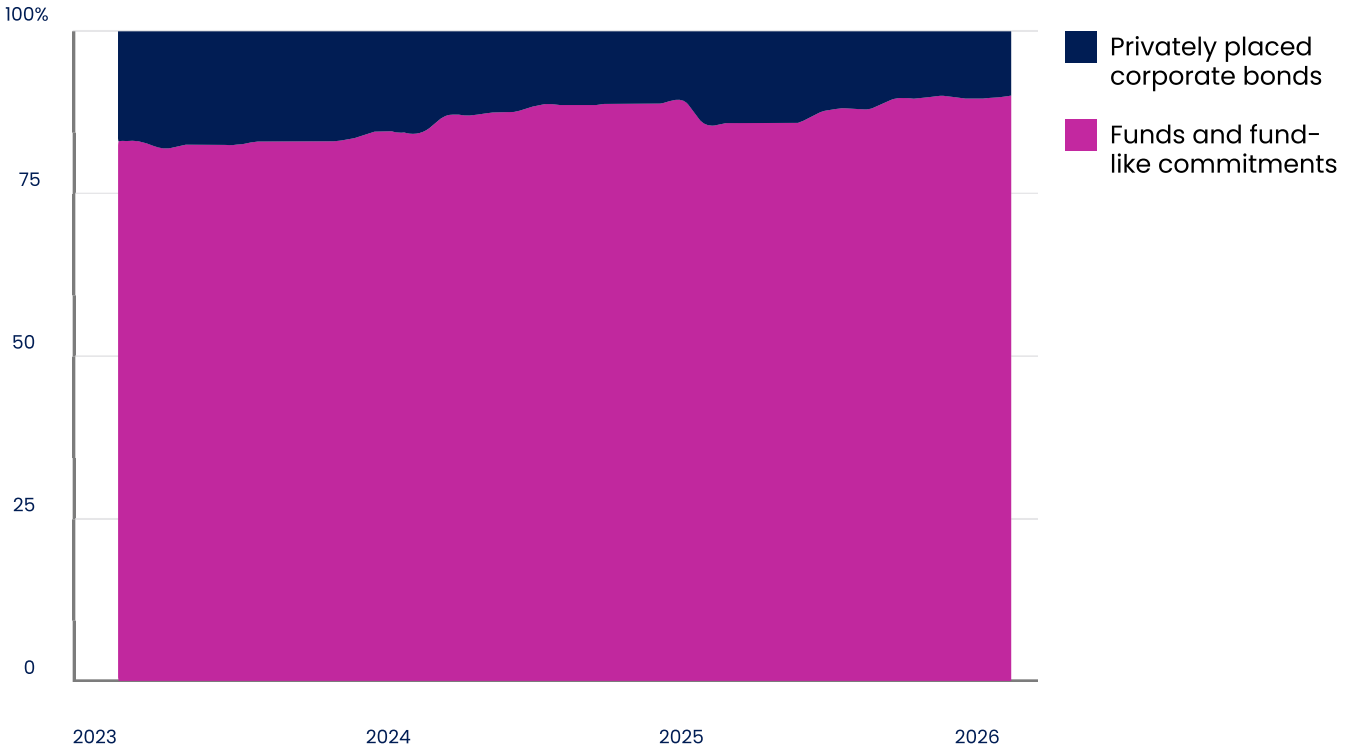
[7] See Section 3 for a discussion of redemptions and systemic risk.

[8] For assets visible on Clearwater's platform (excludes real assets, for example).

FIGURE 1.15

For private wealth investors, funds predominate.

Average breakdown of private credit assets



SOURCE: CLEARWATER ANALYTICS

Section 2: Performance

Reliably steady returns

In the preceding section, we mapped where private credit sits inside institutional portfolios and the structural reasons why some investors favor one type of private credit over another. This section leverages our database—and Clearwater's calculation engine—to see how the asset class has (or hasn't) delivered returns.

Looking back over the past several years, **we find private credit's contribution to performance depends chiefly on two things: first, the amount of exposure; second, the type of private credit held.** While a bank loan and a directly held residential mortgage are both, in the context of this report, "private credit," they are hardly the same investment. Despite its variety, private credit has performed well over the last several years. The rising allocations documented in Section 1 have translated into a rising contribution to portfolio returns.

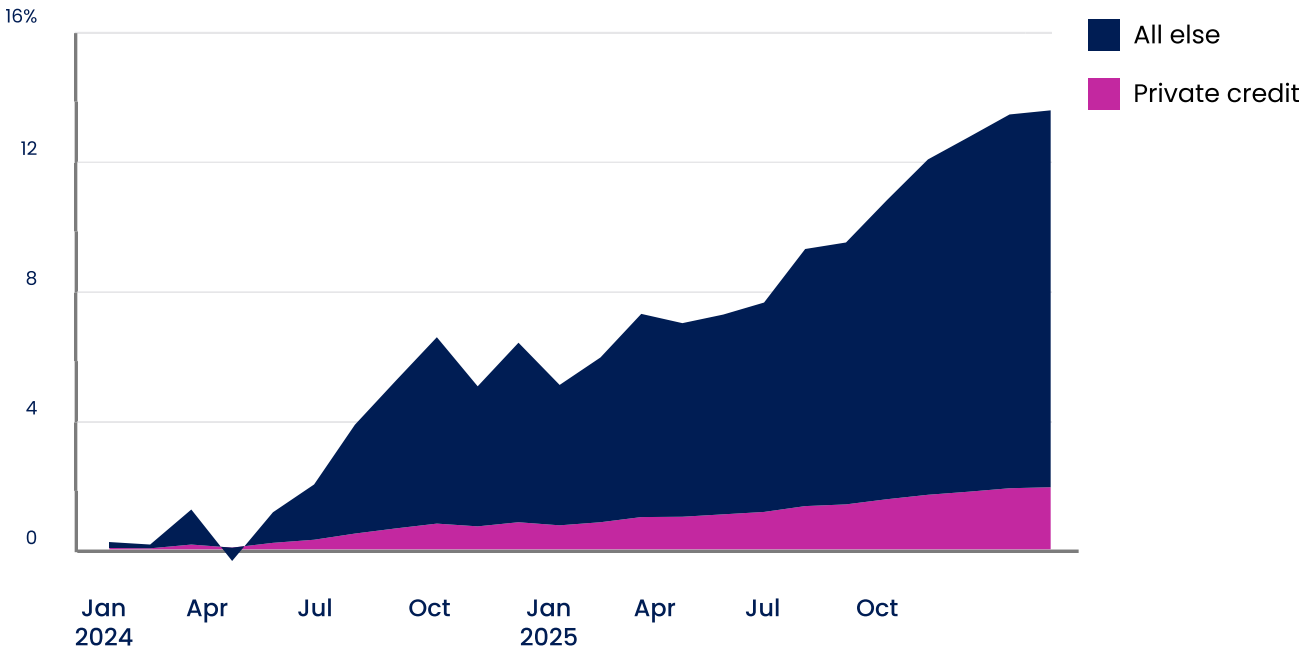
Insurers

On balance, insurers returned a cumulative 14% from 2024 through 2025 (Figure 2.1).[9] Private credit's contribution was roughly 2 percentage points, slightly above what its 12% portfolio allocation would imply. On an asset-class basis, private credit returned 5.5% annualized in aggregate for insurers (high-grade privately placed bonds dominated here). Equities, by contrast, which have seen a tremendous run for the past several years, accounted for closer to a quarter of total return on a similar allocation share.

FIGURE 2.1

Private credit now comprises a meaningful share of insurers' returns.

Cumulative performance since 2024, average for insurers



NOTE: FOR US INSURERS.
SOURCE: CLEARWATER ANALYTICS

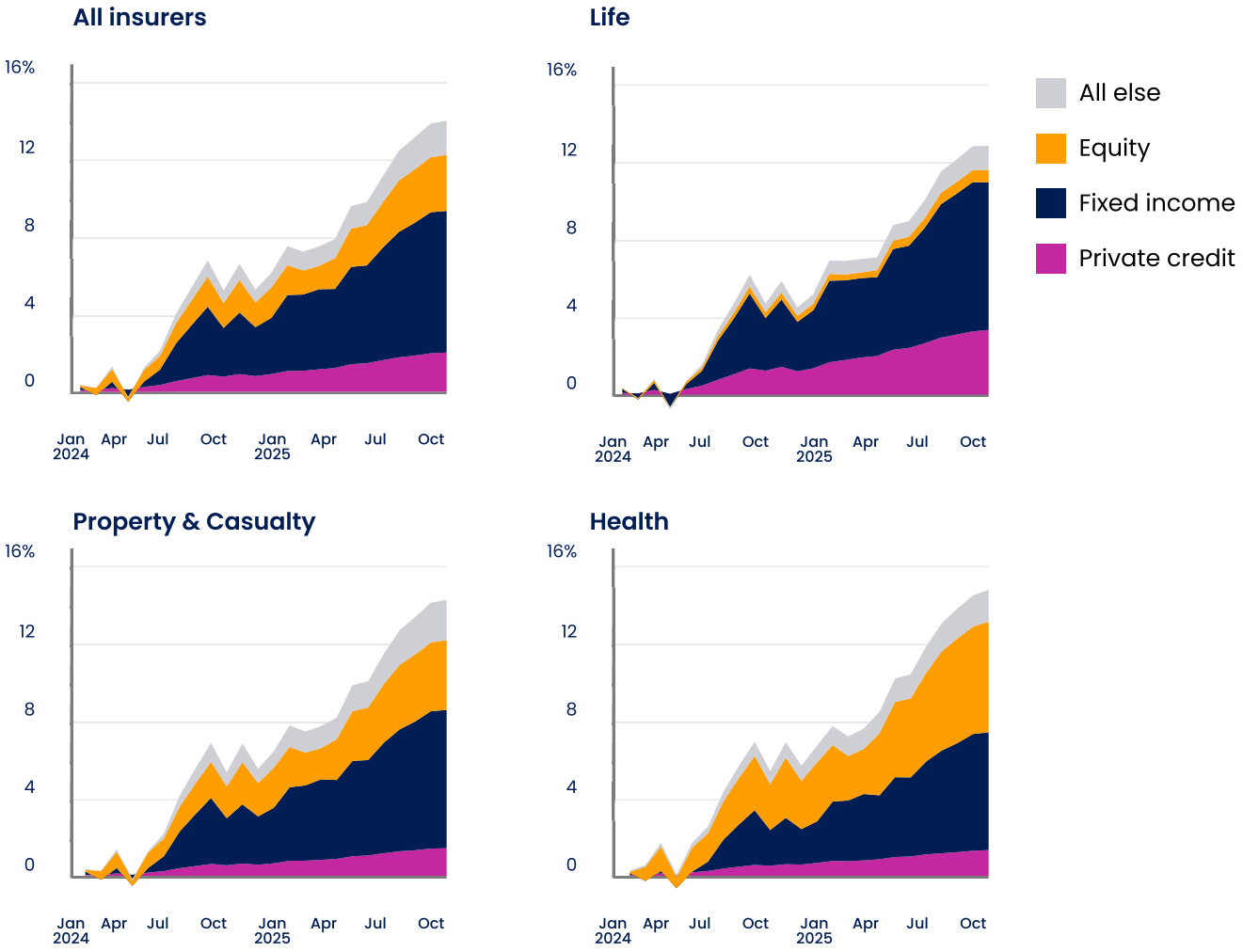
[9] The figures below reflect what investors see on their books, including the smoother valuations characteristic of private credit accounting, a topic we revisit in Section 3.

Decomposing by insurer type: life insurers carry the highest private credit contribution by a wide margin, a cumulative 3pp+ over 2024-25, more than double the figures for health or P&C (Figure 2.2). For life specifically, private credit contributed more to total return than equity did, an inversion that reflects a structurally heavy allocation to longer-dated, illiquid credit. Health and P&C tell a different story; their equity exposure has dominated, and private credit, while present, plays a supporting role.

FIGURE 2.2

Private credit's contribution to performance varies materially by segment of the insurance industry.

Cumulative total return, 2024-2025, decomposed



NOTE: AVERAGES FOR US INSURERS.
SOURCE: CLEARWATER ANALYTICS

Within private credit, privately placed corporate bonds have done the heavy lifting across every insurer type, accounting for roughly two-thirds to three-quarters of the asset class's total contribution (Figure 2.3). Fund interests, by contrast, contribute only a few basis points anywhere—a function of their small share of allocations, not weak underlying performance.[10]

FIGURE 2.3

As higher rates have settled in, private credit has conferred more gains to portfolios.

Private credit's contribution to total returns, decomposed



NOTE: FOR US INSURERS.
SOURCE: CLEARWATER ANALYTICS

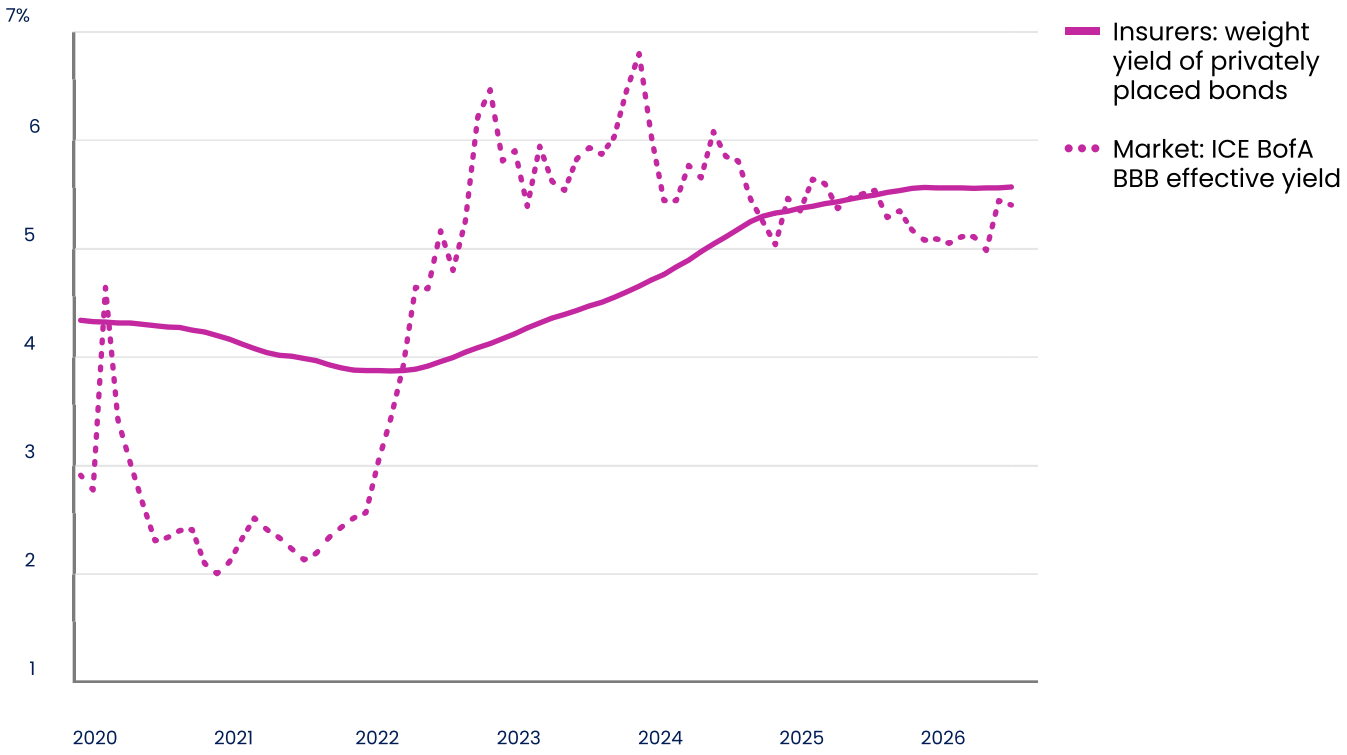
[10] Where fund performance was unavailable, industry benchmarks by credit vehicle were used.

Private credit's overall contribution to portfolios also rose meaningfully from 2024 to 2025, reflecting strong price returns and the gradual turnover of insurer books as rates settled higher. That turnover is the central engine of recent performance. Insurers tend to hold to maturity, and as older credit rolled off balance sheets (and new credit was added at prevailing rates), the book yield on portfolios drifted upward.

Privately placed corporate bonds (Figure 2.4). Insurer book yields on private placement bonds have climbed steadily from roughly 4% in early 2022 to over 5% today, lagging market rates as older, lower-rate paper has rolled off and been replaced by new bonds issued and traded in the new rate environment.

FIGURE 2.4

Markets repriced "higher-for-longer" quickly. Insurers books turned over more gradually.

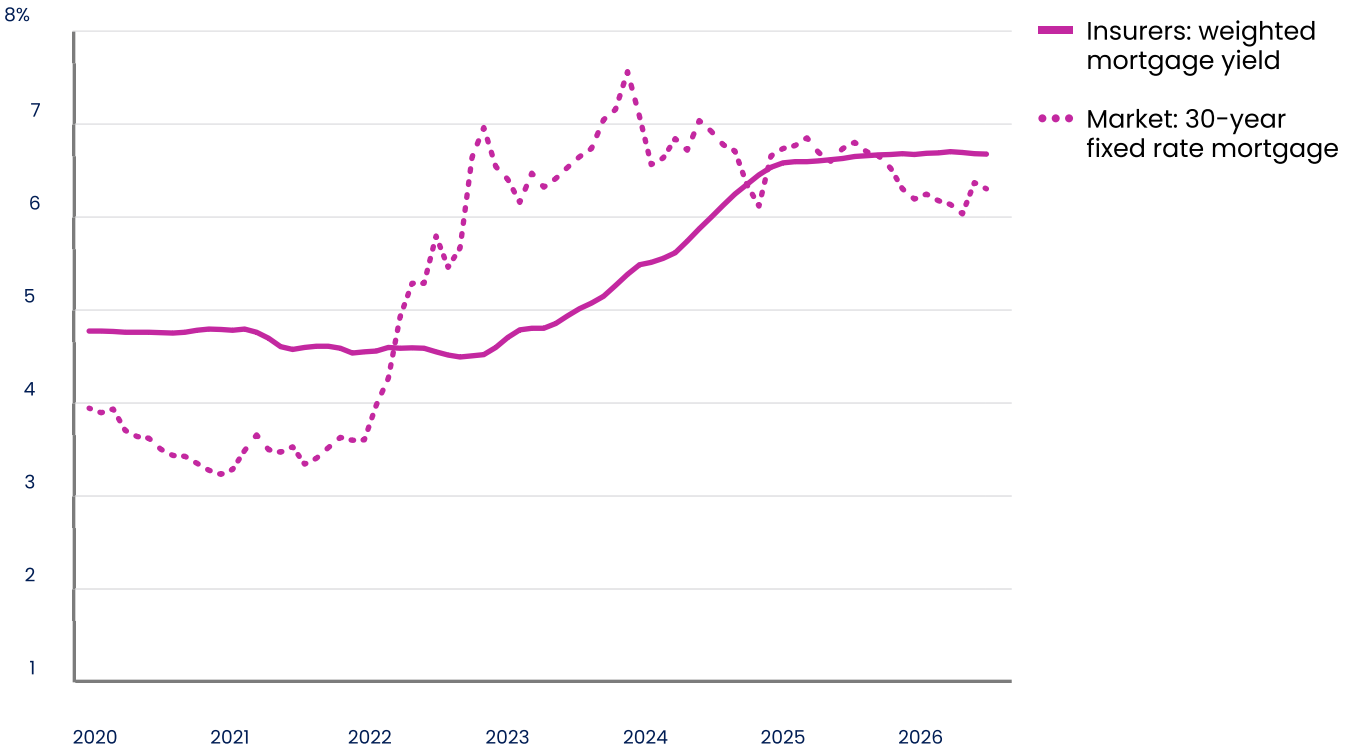


NOTE: FOR US INSURERS.
SOURCE: ICE, CLEARWATER ANALYTICS

Directly held mortgages (Figure 2.5). Mortgages show a similar pattern, if slower and more pronounced: weighted book yields have risen from around 4.4% in 2021 to roughly 6.7% in early 2026, smoothing through the volatility of the mortgage rate benchmark.

FIGURE 2.5

Insurers' books lag the mortgage market 18-24 months but eventually catch up.

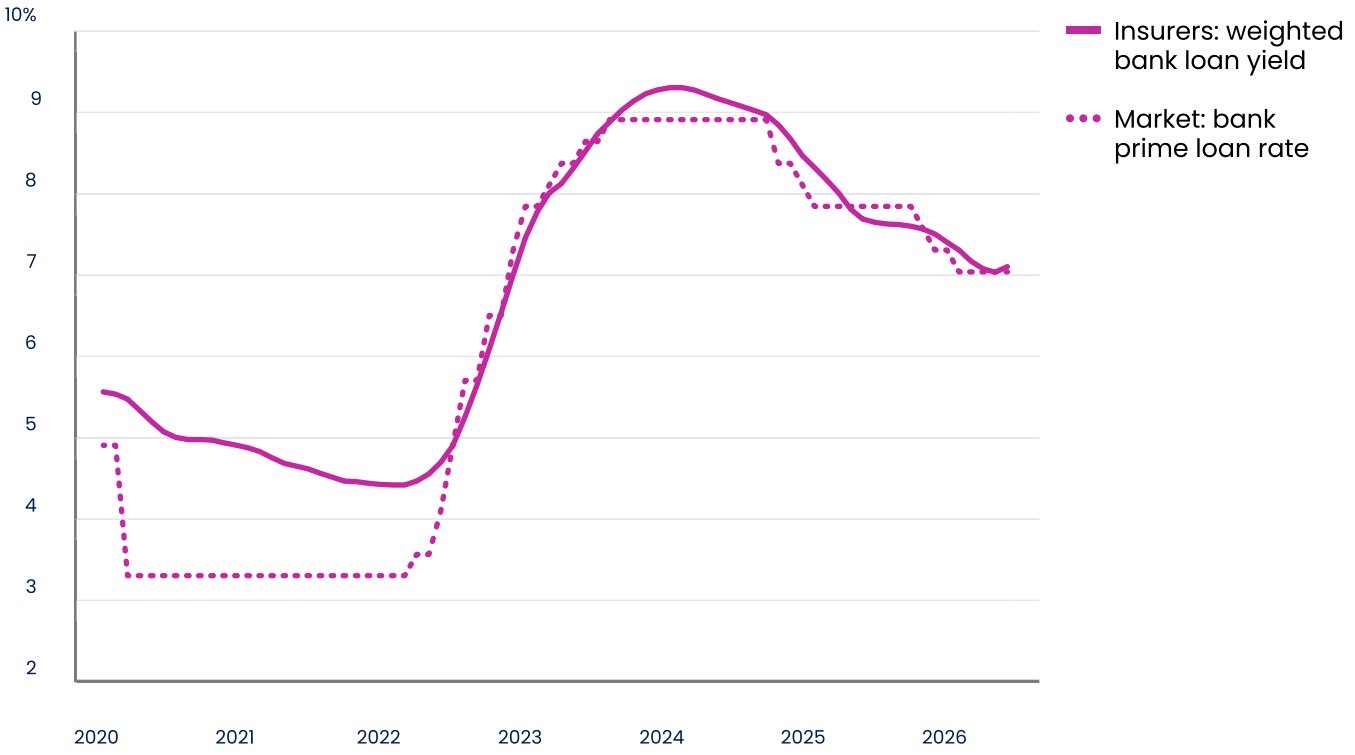


NOTE: FOR US INSURERS.
SOURCE: FREDDIE MAC, CLEARWATER ANALYTICS

Bank loans (Figure 2.6). Bank loans are the exception. Because they are predominantly floating-rate, book yields move in near-lockstep with prime, transmitting rate changes into income immediately rather than gradually.

FIGURE 2.6

Insurer bank loan yields tend to float—and they follow the market accordingly.



NOTE: FOR US INSURERS.
SOURCE: FEDERAL RESERVE, CLEARWATER ANALYTICS

Section 2: Performance

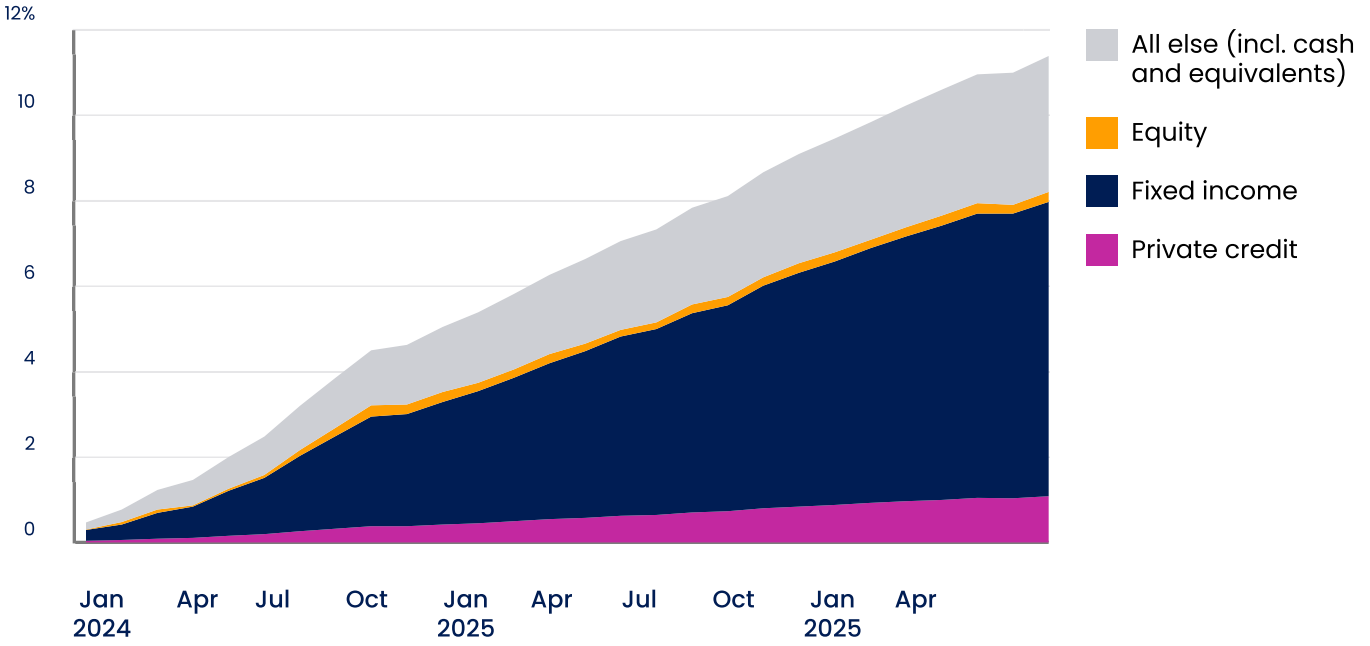
Corporate treasurers returned 5.1% annualized from 2024 through 2025 (Figure 2.7).[11] Fixed income led contributions, followed by cash and equivalents, which have benefited from the Fed's restrictive policy stance even as short rates have fallen. Private credit contributed roughly 1 percentage point in 2025.

Corporate Treasury

FIGURE 2.7

For corporates, private credit comprises a small but growing share of returns.

Cumulative performance since 2024, average for corporate treasuries



NOTE: EXCLUDES CORPORATES WITHOUT PRIVATE CREDIT EXPOSURE.
SOURCE: CLEARWATER ANALYTICS

[11] Analysis comprises corporates with private credit exposure.

Section 2: Performance

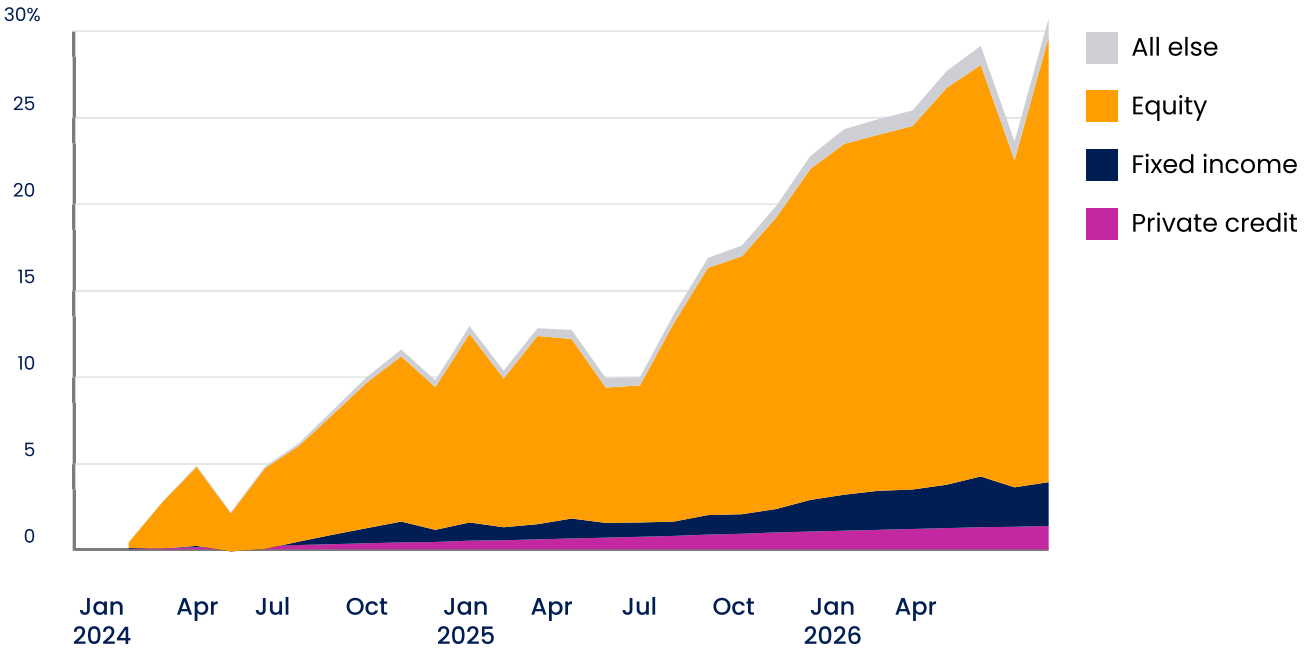
Private wealth investors holding private credit (average of 2%) returned roughly 12% annualized from 2024 through 2025 (Figure 2.8), with equity contributing the overwhelming majority. Private credit added about 1 percentage point, a small share of the total, but one that would loom larger in a more modest/volatile window for equities.

Private Wealth

FIGURE 2.8

Modest private credit exposure means modest gains for private wealth investors.

Cumulative performance since 2024, average for private wealth



NOTE: FOR INVESTORS WITH PRIVATE CREDIT EXPOSURE.
SOURCE: CLEARWATER ANALYTICS

Section 3: Systemic risk

Notes from an economist

The most important question in macroeconomics is not "what could go wrong?" but "what would it take?" Few asset classes have engendered as much skepticism and fear in recent years as private credit. But can private credit really bring the entire economy to its knees?

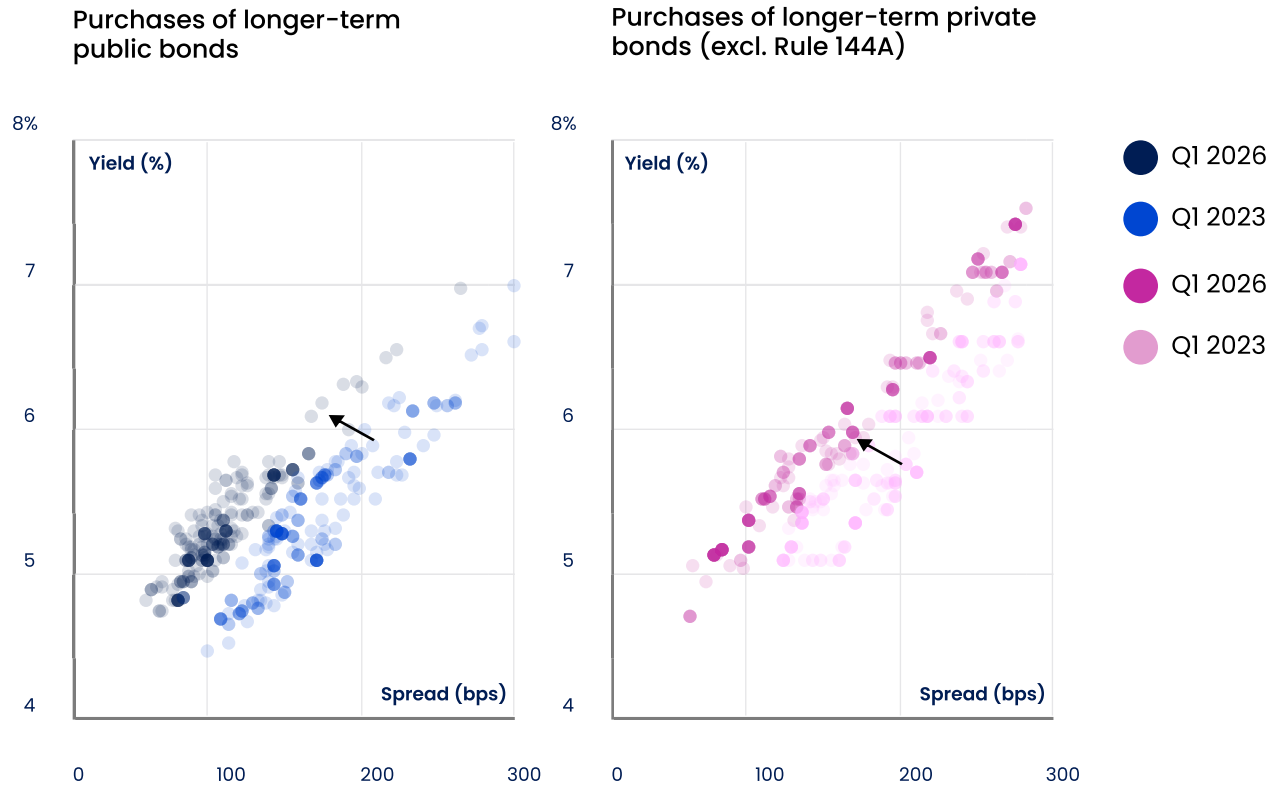
In our view, the bar for "what it would take" is quite high, far higher than the volume of negative headlines would suggest. Notably, this report has surveyed private credit across many asset owners and instruments in part to highlight breadth. As we have seen, private credit is hardly a monolith of lending activity, and its diversity matters for how stress moves through the system.

Public and private credit move together

A persistent critique of private credit is the assumption that it represents a shadow market: a hidden, exotic asset class whose risks are too opaque to locate or measure. The concern is reasonable on its face. The market is less observable than its public counterpart, and the standard worry is that what we cannot see, we cannot price.

At Clearwater, we actively monitor yields and spreads. Generally speaking, many private credit investments move in tandem with their public counterparts (Figure 3.1). Since 2023, yields are up for purchases of public and privately placed bonds—and spreads are down.

FIGURE 3.1 **Private bonds move with public markets.**



NOTE: FOR A RANDOM SAMPLE OF LONG-TERM BONDS (10-15 YEARS TIME TO MATURITY AS OF PURCHASE DATE). INTERPOLATED US TREASURY RATES USED IN SPREAD CALCULATIONS.
SOURCE: CLEARWATER ANALYTICS

Though there are meaningful differences between private and public credit, the underlying credit cycles are linked. The right object of concern is not a hidden time bomb in private credit but the credit cycle itself—and how the system would absorb a downturn. If too little risk is being priced into private credit today (e.g., ultra-low spreads), the same can easily be said of public markets.

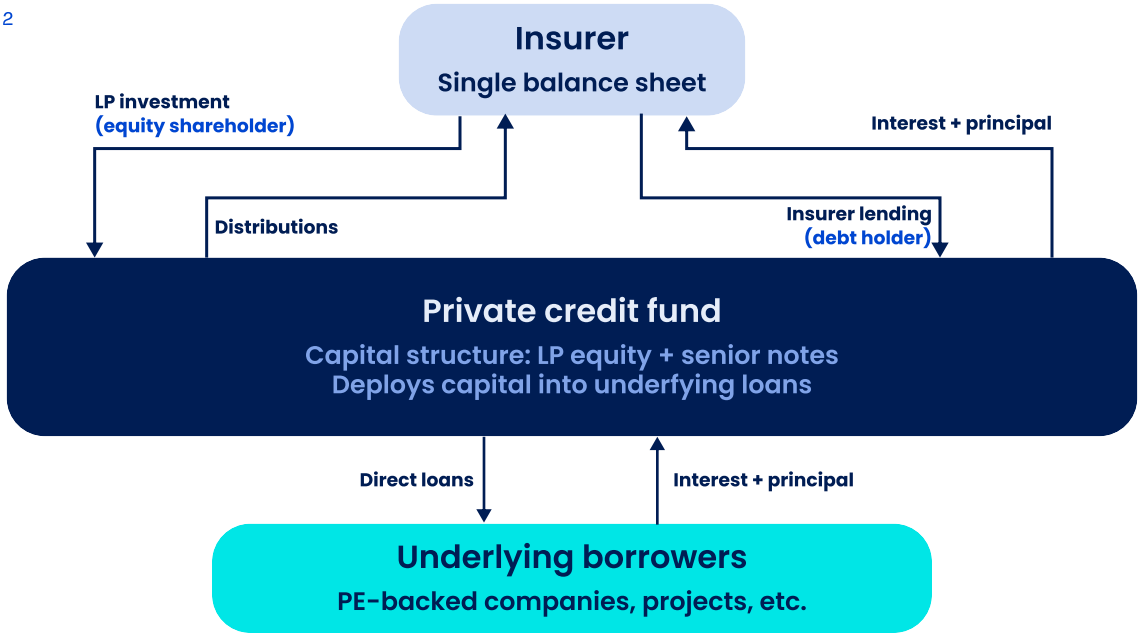
The risk that exists is concentrated, not systemic

That public and private credit markets move together does not mean private credit poses no additional risks. Their linkage does, however, make an isolated private credit blow-up a less plausible scenario; if something were broadly wrong, public markets would in all likelihood already be pricing for it. The greater risk, borne by Clearwater's data, is idiosyncratic and investor-specific. **We call it the potential for "cross-contamination."**

The version of cross-contamination most commonly discussed is exposure to the same borrower through two different funds: an investor holds an LP interest in two managers, each of which has lent to the same underlying company, and the apparent diversification is illusory.

The version of cross-contamination less discussed but visible on our platform is more subtle: a single insurer holds both an LP interest in a private credit fund and a senior note issued by that same fund, i.e., the debt the fund uses to lever its portfolio (Figure 3.2). The two positions look distinct on the balance sheet. One is an equity-like LP interest; the other is a fixed-income security with a coupon and a maturity.

FIGURE 3.2



A shock to the borrowers hits the LP equity first;
in a severe shock, it reaches the senior note as well

SOURCE: CLEARWATER ANALYTICS

A shock to the underlying borrowers hits the LP equity first; in a severe shock, it reaches the senior note as well. The insurer has, in effect, taken correlated exposure to the same risk pool through two ostensibly different channels and asset classes.[12]

Neither form of cross-contamination is necessarily systemic. **The losses, if they arrive, sit with the institutions that took the exposures, not with the economy as a whole. The good news is that both conditions are foreseeable; investors and supervisors can identify and manage them—provided they have the technological tools to look.**

Limited amplification mechanism

In 2008, the amplifying mechanisms were specific: subprime mortgages were packaged into mortgage-backed securities, distributed across leveraged balance sheets, and marked daily. Those securities, in turn, were referenced by credit default swaps written largely by insurers, so a single price move could cascade through loans, securities, and derivative wrappers in lockstep. When housing prices turned, the marks fed back into margin calls and forced selling, and the loop fed on itself.

The first amplification channel that does not exist here is the forced-selling loop. Private credit is, by design, largely illiquid. Capital is locked up; secondary markets are only liquid to a degree; losses are typically realized slowly through workouts rather than instantaneously through price discovery. This is usually discussed as a cost, and in some scenarios it is. But in the context of systemic contagion, it functions as a buffer. Some private credit, of course, is priced daily, and that corner of the market is not immune to mark-driven feedback. The bulk, however, sits outside the reflexive loop entirely—there is no margin call to trigger a sale, no daily mark to feed back into other positions.

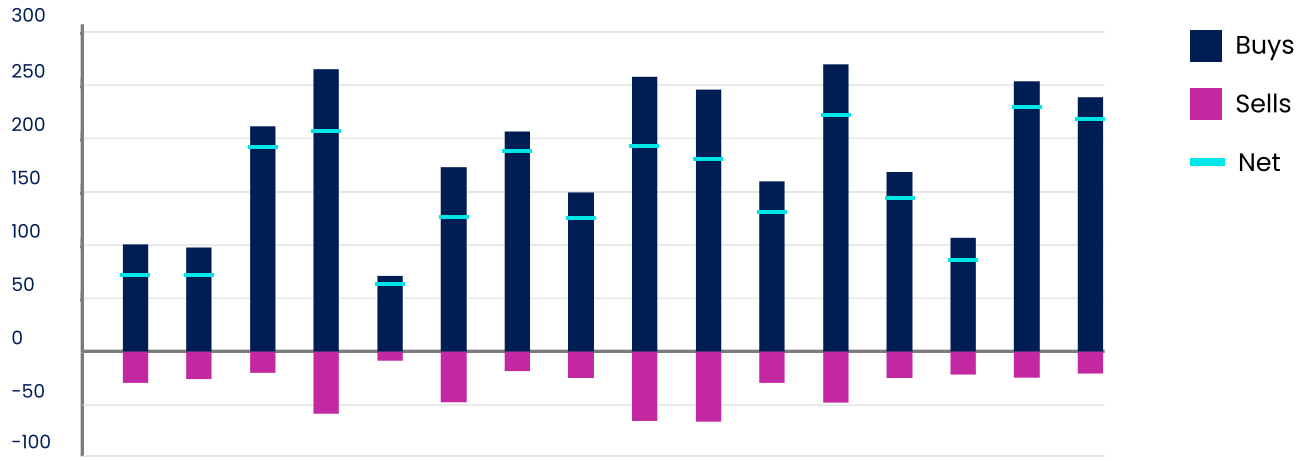
The second amplification channel that does not exist here is the forced-seller dynamic. Much of the institutional money in private credit sits on insurance company balance sheets, and insurers are structurally the wrong actors to trigger a fire sale. Their liabilities are long-dated and predictable; they are not subject to depositor runs. The contrast is visible on our platform. Through the private credit anxiety of late 2025 and early 2026, public BDC prices fell sharply while insurer net purchases of privately placed bonds held steady (Figure 3.3).

[12] We estimate 10-20% of insurers with LP exposure are also exposed to the underlying fund's debt.

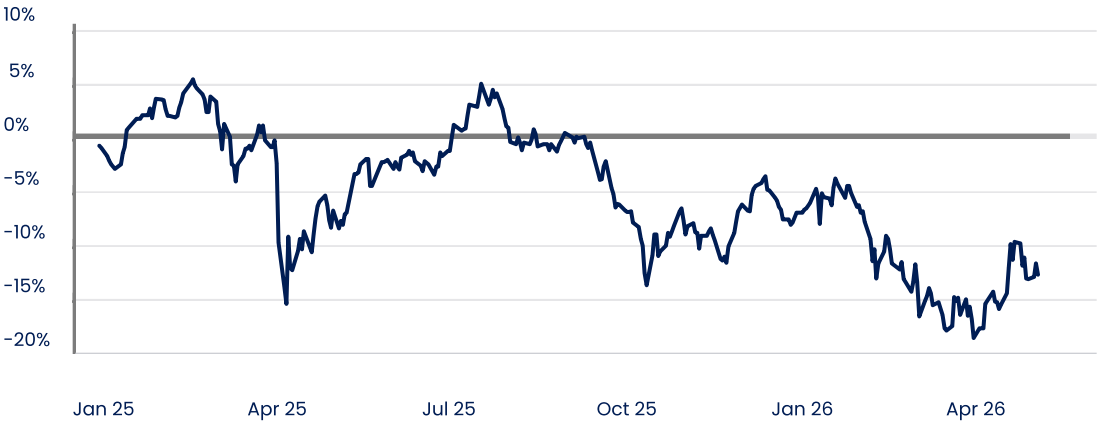
FIGURE 3.3

Amid private credit turbulence, insurers are net buyers through and through.

Insurer private bond transaction flows (indexed to Jan. 2025)



VanEck BDC Income ETF (indexed to Jan. 2, 2025 = 0%)



NOTE: EXCLUDES RULE 144A BONDS.
SOURCE: YAHOO FINANCE, CLEARWATER ANALYTICS

The third amplification channel—the one that has dominated recent headlines—is the concern that retail investors, newly admitted to private credit through BDCs and the like, will behave like depositors at the first sign of stress. The concern is real, and we have seen evidence of it on our platform. Most retail funds cap quarterly redemptions at a single-digit percentage of fund size, and when requests exceed the cap, outflows are limited by design. The reputational damage to the manager (and, by extension, to the asset class) is real and well-documented. The macroeconomic damage is not, however, as private credit remains but a tiny share of the typical private wealth portfolio.

The final transmission channel is the banking system. Two points are worth making. First, bank exposure to private credit is smaller in scale: as of year-end 2023, US banks held roughly $525 billion in commitments tied to private credit, less than 4% of total bank loans.[13] (Even on the broadest definitions, nonbank lending remains a fraction of the public credit markets it is often compared to, well under a fifth the size of the US public corporate bond market alone.) Research also finds that the exposure that does exist is high-quality, dominated by secured, senior facilities at the top of private credit's capital structure.

A note on valuations

We have argued that the structure of private credit limits the channels through which stress could become systemic. A related but distinct question is whether we are measuring stress correctly in the first place.

Delinquencies in private credit are trending up, though this trajectory is hardly unique; delinquency rates across commercial bank business loans **have risen, too.** This is what late-stage credit cycle looks like. Reported figures for private credit may understate the underlying stress, however. Headline default rates of 1–2% rise toward 5–6% on broader measures that include short-term remediation tools, like amend-and-extend transactions.

More pointed still is the question of whether private credit pricing honestly reflect the stress that is there. Private credit assets are typically valued monthly or quarterly, often using internal models rather than observable market prices, and the result is smoother reported volatility than the underlying bonds or loans might warrant. Persistent discounts of publicly traded BDC share prices to their reported NAVs are the most visible expression of market skepticism. Major managers have begun moving toward more frequent and more transparent pricing of their private credit books, with daily marks on substantial portions of the asset class expected in late 2026. That does not solve the valuation question overnight, and it does not eliminate the manager discretion baked into private credit accounting. But the general trajectory has been toward more transparency, not less.

[13] Moody's, "Bank funding of private credit grows rapidly, in step with sector's capital-raising," October 2024.

Why this isn't 2008

A common critique of private credit is that some corners of the market are overexposed to specific sectors, most often technology, and within technology, SaaS. The concern has merit. Late-vintage direct lending funds carry concentrated exposure to PE-backed software companies whose equity valuations were set in a zero-rate environment that no longer exists—and which now face the additional pressure of AI-driven disruption to their underlying business models.

But private credit is not a monolith, and SaaS concentration in some funds is not the SaaS concentration of all funds. The asset class encompasses infrastructure debt, asset-based finance, real estate credit, mid-market cash flow lending, and consumer credit. These segments are not correlated to software valuations.

The 2008 crisis was, at its root, a crisis of a single correlated asset: housing. When the market turned, prices fell everywhere at once, and the damage rippled outward: first to consumers, whose balance sheets were built on home equity; then to banks, whose loan books and securitized holdings deteriorated together; and onward into insurers and the broader financial system. That correlation is what turned a credit cycle into a systemic crisis.

Private credit has few equivalent relationships. A SaaS company's inability to service its debt has little to do with a healthcare practice's ability to service its debt or a manufactured-housing community's. Nor would the losses, when they arrive, travel as far. A defaulted direct loan damages the fund that holds it, and through the fund, the LPs who funded it. It would not impair the household balance sheet of anyone who never invested in private credit, and it would not move through the banking system with anything like the force that subprime did. The cascade simply has fewer dominos in the chain.

A final point: Over the past decade, private credit has disintermediated the banking system, taking over much of the leveraged corporate lending that banks once dominated. In a meltdown scenario where private credit retrenches (and in which, as we have argued, banks would be largely spared) the banking system retains the capacity to step back into its older role. Credit may tighten, and it may reprice, but the underlying capacity to lend will not have disappeared.

Conclusion: a high bar to clear

Returning to the opening question: what would it take? It would take a macro shock severe enough to impair both private and public credit simultaneously, at which point private credit would prove not a cause but a consequence. Stress can move through private credit. It cannot, on the evidence we see, originate there in a way that brings the broader system down.

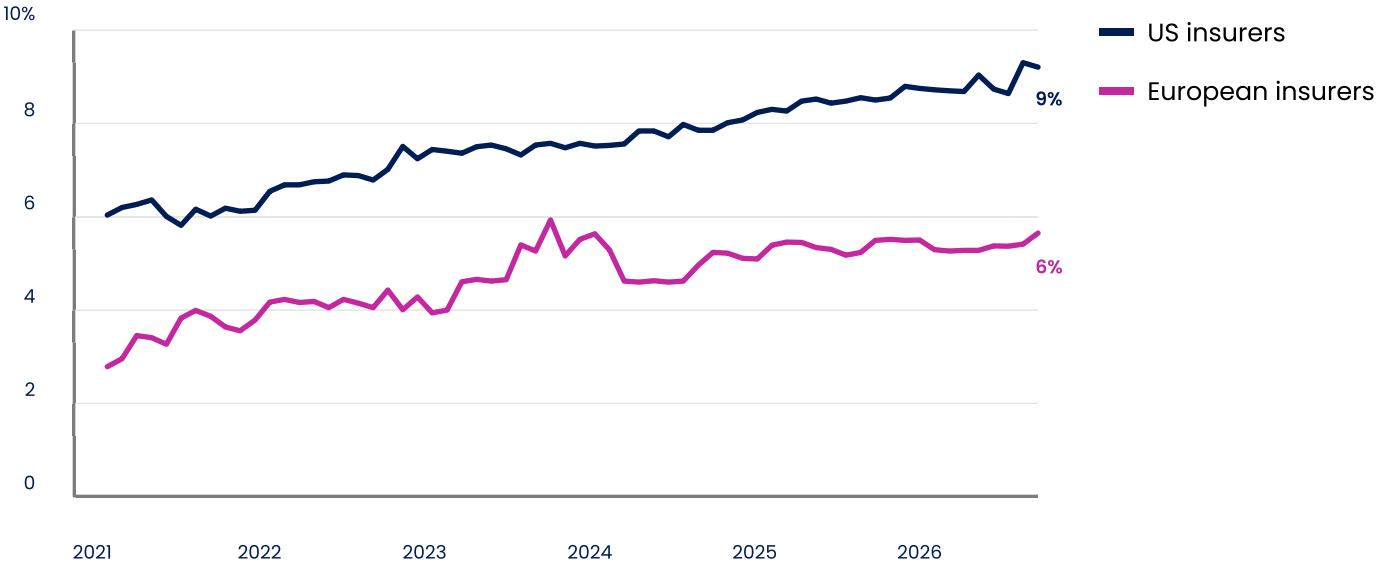
None of this is an argument for complacency. Cross-contamination on specific investor balance sheets is real and worth monitoring. SaaS exposure in late-vintage direct lending funds will produce losses. The retail wrappers will be tested. But monitoring is not alarm, and idiosyncratic risk is not systemic risk.

This report is hardly exhaustive. We have not addressed, in any depth, the rapidly growing role of private equity–owned and affiliated insurance platforms, the use of synthetic risk transfers as a channel between bank and nonbank balance sheets, or the proliferation of private credit ratings issued by smaller agencies for regulatory-capital purposes. Each is a real and well-documented concern, and each is worthy of its own treatment.

Appendix

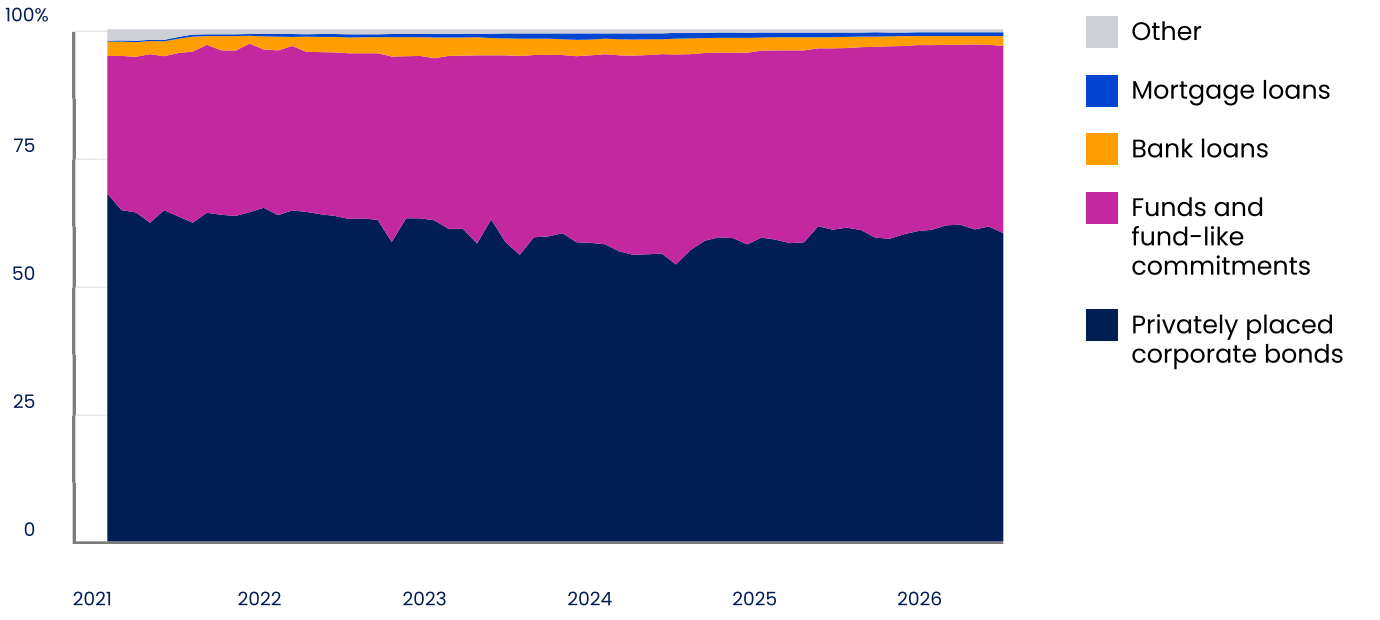
Private credit adoption is rising across insurers worldwide, with US firms setting the pace.

Median allocations to private credit (share of portfolio)



SOURCE: CLEARWATER ANALYTICS

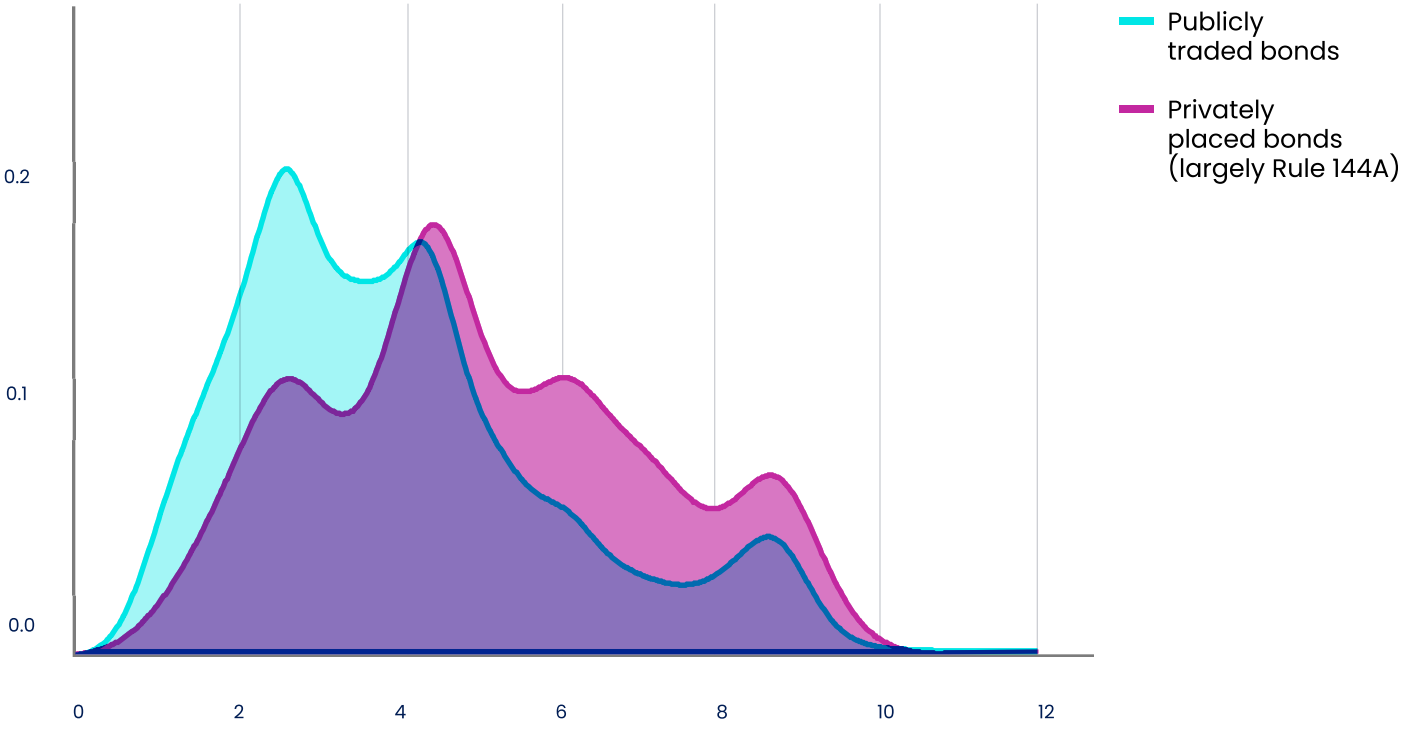
European exposure to private credit is primarily through private bonds and funds.



SOURCE: CLEARWATER ANALYTICS

For European insurers, privately placed bonds tend to have longer maturity profiles.

X-axis: Time to maturity (years) • Y-axis: Density



NOTE: PURCHASE DATA FROM 1/2025 THROUGH 5/2026.
SOURCE: CLEARWATER ANALYTICS

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Clearwater's research database is comprised of holdings and transactions on Clearwater's platform. The data has been cleaned, anonymized, and aggregated to reflect industry best practices and compliance with our legal obligations.

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