



Private Credit in the Spotlight

WHERE THERE IS ONE COCKROACH...

In October 2025, JPMorgan Chase CEO Jamie Dimon warned that hidden systemic risks were building in the private credit market. “When you see one cockroach, there’s probably more,” he remarked, suggesting that more failures were likely in the roughly \$3 trillion industry as lax underwriting standards, elevated asset prices and a shifting credit cycle began to collide. As the first quarter of 2026 unfolds, it appears there may indeed be plenty of cockroaches.

Dimon’s warning came after JPMorgan absorbed losses linked to the collapse of auto lender Tricolor, followed weeks later by the failure of First Brands. The back-to-back problems intensified fears that more troubled loans were lurking beneath the surface. An asset class that had become an investor favourite suddenly found itself under intense scrutiny – and the sound of something scuttling behind the walls was hard to ignore.

Not long afterwards, federal investigators revealed they were probing fraud allegations involving private credit borrowers following a lawsuit filed by lenders, including a subsidiary of BlackRock.

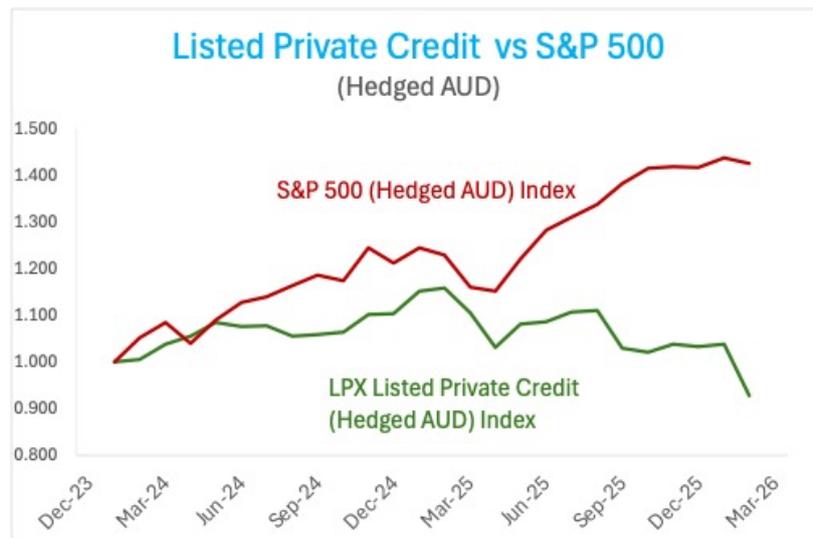
Perhaps the most damaging blow to confidence came from Blue Owl Capital, a private asset manager that had previously dismissed Dimon’s “cockroach” comments with forceful rebuttals. As redemption pressures accelerated, the Financial Times reported that Blue Owl had effectively merged two funds¹, a move that raised fresh questions about liquidity in the sector.

There has also been collateral damage from the decline in technology stocks, given that private credit exposure to the software sector is estimated at roughly 20 per cent. Software firms have long been attractive targets for private lenders because their subscription-based business models generate relatively predictable cash flows that can support higher levels of borrowing.

¹ <https://www.ft.com/content/4f57094c-6255-431b-a711-8112e49725bb>

In early March the sector was shaken again when BlackRock's \$26 billion HPS Corporate Lending Fund announced it would cap redemptions at 5 per cent after receiving requests equivalent to 9.3 per cent of its total shares.

The chart below shows the performance of a listed private credit index hedged back to Australian Dollars² since February 2024 until February 2026. As the index is 98% USD denominated private credit the S&P 500 Index (hedged back to AUD) is used as a comparison. Over the 2-year period shown the listed private credit index has returned -3.8% compared to the listed equity index which has returned 16.7%. In the last 6 months since Jamie Dimon made his infamous "cockroach" comment the listed private credit index is down -17.7%.



Private credit surged in popularity after regulatory reforms following the Global Financial Crisis made banks far less willing to hold higher-risk corporate loans. But confidence in the sector has begun to erode as each week seems to bring fresh reports of redemption limits, valuation declines and signs of stress.

A recent Federal Reserve study observed that the shift toward nonbank lenders can reduce the impact of tighter monetary policy on overall credit supply. However, these lenders typically pass on their own higher funding costs to borrowers, amplifying the rise in borrowing costs across the system.

In other words, private credit flourished partly because regulators wanted to make banks safer. Stricter capital requirements encouraged banks to focus on lower-risk lending, pushing many borrowers toward alternative sources of financing.

As Ben Carlson recently wrote in *Wealth of Common Sense*³:

“Lots of money has been flowing into private credit in recent years. How does this impact the lending market if they have to pull back? What happens when there is an actual credit event in the economy? Will more and more investors look to get out of these funds now that there is some fear in the space?”

² LPX Listed Private Credit Index (Hedged AUD) <https://www.lpx-group.com>

³ <https://awealthofcommonsense.com/2026/03/why-is-private-equity-crashing/>

I don't know the answers to these questions. Neither do investors in these companies.”

In the United States, redemptions from retail private credit funds are beginning to resemble a rush for the exits, raising concerns that the pressure could evolve into a broader run. The panic has not yet spread to Australia's private credit industry, but it may simply be a matter of time before the turbulence arrives – unless Australia proves to be a relative safe haven.

Australia's regulator turned its attention to the sector in 2025, releasing a detailed report that highlighted questionable practices⁴ and called for stronger disclosure and transparency.

Even semi-liquid or evergreen funds — which allow investors to subscribe and redeem monthly or quarterly — typically impose redemption limits of around 5 per cent of total assets. If investors rush to withdraw funds, that cap can be reached very quickly. Many investors may not fully appreciate these liquidity constraints, particularly how long it might take to recover their money if they decide to exit.

The recent tremors in private credit do not necessarily signal the collapse of the sector, but they do raise concerns around the transparency and suitability for some investors. As higher interest rates, tighter liquidity and greater regulatory scrutiny begin to test the resilience of borrowers and lenders alike, the true quality of many loans will become clearer.

For investors, the lesson is not that private credit should be avoided altogether, but that it is far less immune to the credit cycle than many had assumed and they need to be fully aware of the liquidity risks. If the past few months have revealed anything, it is that when the tide turns in opaque markets, the first cockroach rarely arrives alone.

Dr Steve Garth
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⁴ <https://www.asic.gov.au/regulatory-resources/find-a-document/reports/rep-820-private-credit-surveillance-report-retail-and-wholesale-surveillance/>