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CONSULTING AND ACADEMY

PRIVATE CREDIT RESEARCH

Macro Conditions, Sector Stress, and the Governance Response

September 2026



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Executive Summary

Private credit has moved from a period of rapid, largely untested growth into its first genuine stress test. Across both the global and Australian markets, the past six to nine months have surfaced a consistent pattern: redemption pressure building faster than fund managers' ability to generate offsetting liquidity, valuations that rely on optimistic or forward-looking assumptions rather than current market reality, and a widening gap between what headline default statistics show and what is actually happening inside loan books. Investors who treat "private credit" as a single, homogenous, low-volatility asset class are increasingly exposed to risks that this report finds are neither small nor evenly distributed.

Notable Developments

- Redemption pressure is now a recurring, not one-off, phenomenon.
- A secondaries market has emerged at scale to absorb this pressure, growing from roughly $20 billion in 2025 toward a projected $80 billion by 2030, but at a cost: discounts on investor-led secondaries sales have widened by an estimated 300 basis points, and a 26%-discount tender offer for several major non-traded BDCs was largely rebuffed by investors unwilling to crystallise losses (reference to Cox Capital Partners bid to 5 non traded BDCs).
- In Australia specifically, the collapse of a major Sydney property developer (detailed in the companion Bathla Collapse report) has been publicly labelled by ASIC as the sector's "first real test," triggering pre-emptive redemption gating even at funds with no direct exposure to the event. This is clear evidence that stress at one manager can transmit into unrelated parts of the market purely through investor behaviour.
- Australian mortgage arrears rose broadly across states in July, and US technology credit (the other major private-credit-adjacent flashpoint) shows a clear split between resilient high-quality issuers and structurally underperforming junk-rated, software-exposed credit, with private-credit-linked debt from firms including Blackstone and Ares explicitly cited as weighing on financials-sector spreads.

Areas of Risk Concentration

- Real Estate Concentration in Australia:
  - an estimated 50% - 60% of Australia's roughly A$200 billion private credit market is tied to real estate, compared with just 15% - 20% in North America. This leaves Australian private credit unusually correlated to a single macro variable, the housing cycle, at exactly the point that cycle has turned down.
- Valuation Opacity:
  - much real-estate-linked private credit is marked on "as-if-complete" or otherwise forward-looking assumptions rather than current, realisable values. These assumptions that can unwind quickly once a market turns (read Trusler Consulting's *The Bathla Collapse Report*).
- Understated Distress:
  - broader default methodologies that capture payment-in-kind conversions and distressed exchanges put the "true" US private credit default rate near a record 6%, well above narrower headline figures — meaning reported performance across the industry may be flattering the underlying reality.
- Software and technology-sector (global credit)y:
  - where AI-driven disruption risk is concentrated and where credit spreads and equity performance have begun to diverge sharply from the rest of the market.

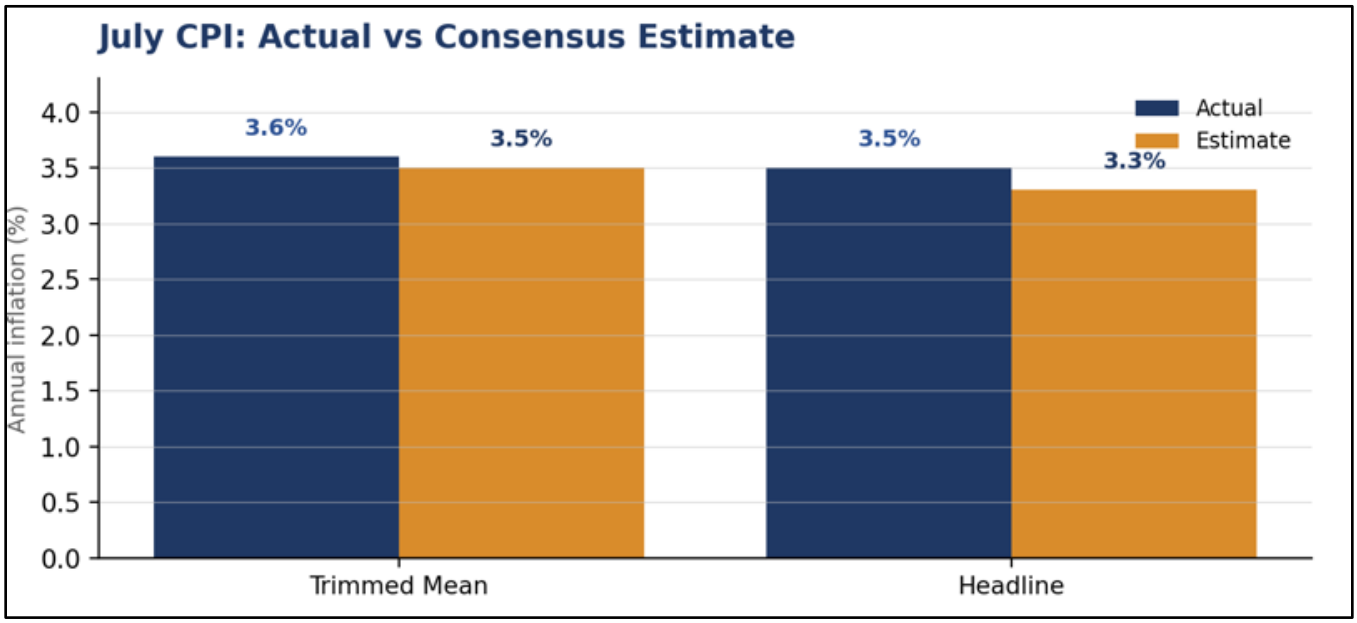
None of this argues for abandoning private credit as an asset class — institutional capital continues to flow into large, closed-end vehicles even as retail-facing funds struggle, and several senior credit investors see the current repricing as a healthy, overdue correction rather than a systemic crisis.

But the days of treating private credit as a uniformly low-volatility, high-yield allocation appear to be over. The sections that follow set out the full detail behind each of these findings.

Private Credit Environment: Australia Macro and Markets

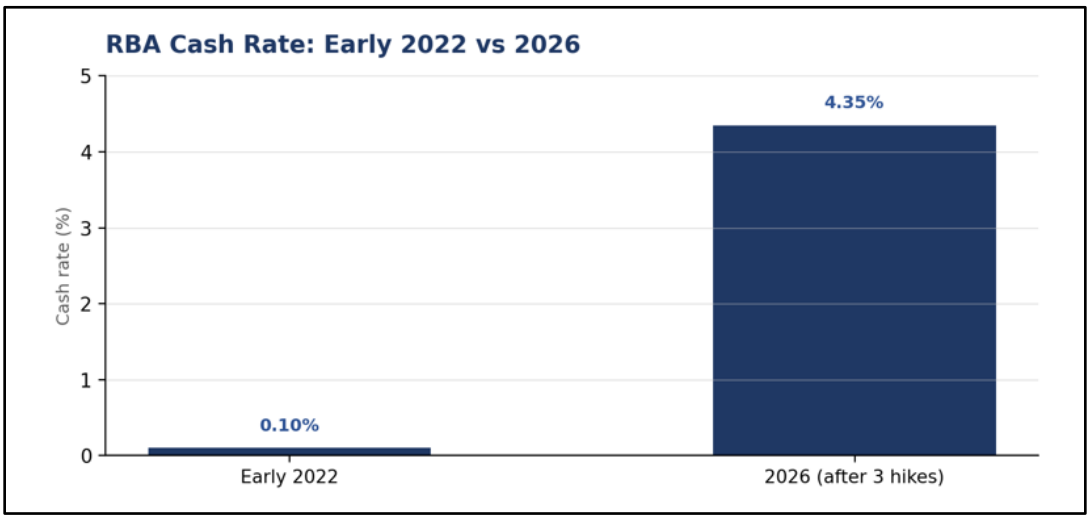
Inflation

Australia's inflation picture hardened through the middle of 2026. July's trimmed-mean CPI rose 3.6% annually, above the 3.5% consensus estimate, with core prices accelerating to 0.5% month-on-month from 0.3% previously. Headline annual inflation came in at 3.5% against an expected 3.3%. Housing costs were the largest single contributor, up 5% annually, followed by food and non-alcoholic beverages (+3.2%); automotive fuel jumped 7.5% in the month alone.



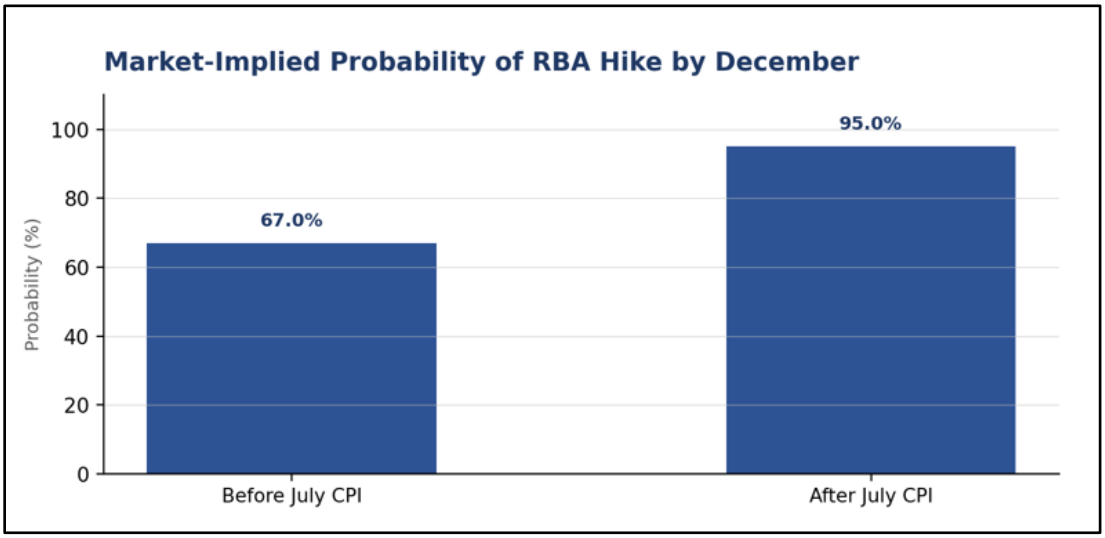
Source: ABS, Bloomberg

The Reserve Bank of Australia targets the midpoint of a 2% - 3% band (noting it has not reached this level in almost five years). The cash rate was lifted three times in 2026 to currently 4.35% (from a low of 0.1% in early 2022).



Source: ABS, Bloomberg

The July inflation print (the last official reading at the time of writing, and before the next September 29 policy meeting) pushed money markets to price a roughly 95% probability of another hike by December (up from 67% before the data).



Source: Bloomberg Forecast

Underlying growth is not helping the inflation task: June-quarter GDP grew just 0.4% (2.1% annualised) against a long-run average above 3%, while productivity fell 0.2% over the past year (meaning additional hours worked delivered less output, not more).

Response from Bonds

Global government bond yields have moved to levels last seen in the mid-to-late 2000s. Bloomberg's global government bond yield index reached its highest point since mid-2008, with 10-year yields in Japan, Australia, Germany, France and the UK hitting multi-decade highs. Australia's three-year government bond yield rose as much as four basis points in a single session to 4.59% following the recent inflation surprise.

Two forces are widely cited as driving the move:

a) growing government debt issuance to fund large deficits linked to populist spending commitments, and
b) a parallel wave of borrowing by major technology companies to fund artificial intelligence infrastructure investment. Commentary frames both as largely insensitive to the cost of capital - they appear to continue regardless of price, competing for the same limited pool of funding and real resources.

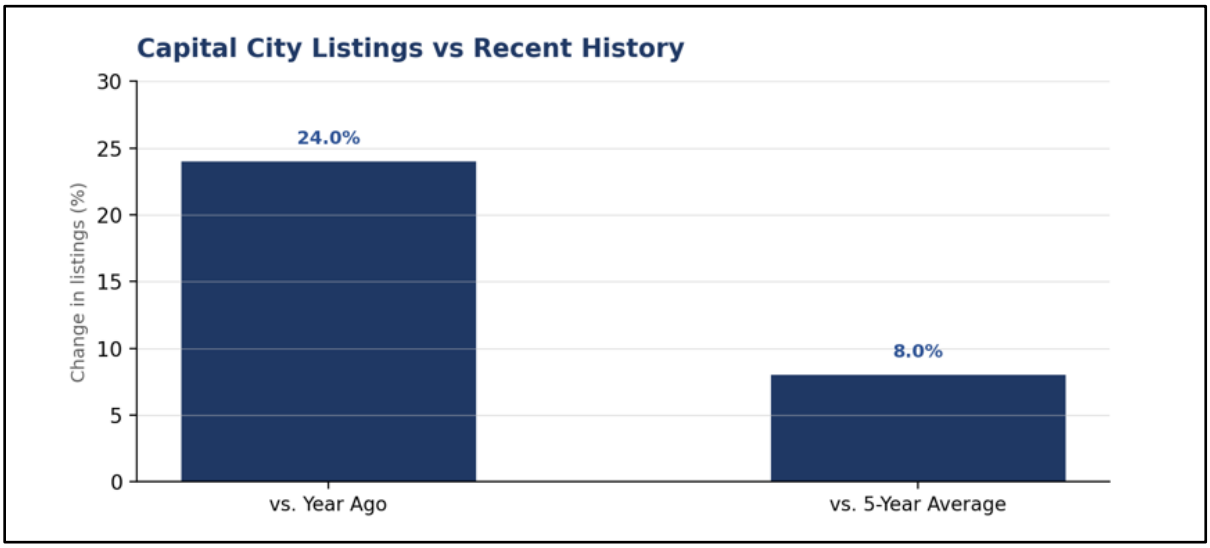
Commodity markets have compounded the pressure: Brent crude has risen to ~ above US$95 amid renewed conflict linked to the Iran war, while soft commodities including wheat, corn and cocoa reached multi-year highs, with a possible El Niño pattern threatening to worsen food inflation further.

The overarching theme running through market commentary is one of capital and resource scarcity.

Australia's Real Estate Residential Sector

Sydney's multi-decade property boom is visibly cracking. Prices are down currently roughly 7% from a February 2026 peak, with declines that started in the priciest suburbs now present in 93% of capital-city suburbs nationally. Cotality's national home price gauge fell 0.9% in August, a fifth consecutive monthly decline, taking the drop from the March peak to 3.6%; Sydney alone fell 1.4% in August. Home sales are running 15.5% below year-earlier levels and 11.5% below the five-year average, with Brisbane, Perth and Sydney recording the steepest volume declines.

Listings are elevated (24% above year-ago levels) even as demand softens, and auction clearance rates have slumped - Sydney's fell to 49.2% in one reading, its lowest level since the pandemic.

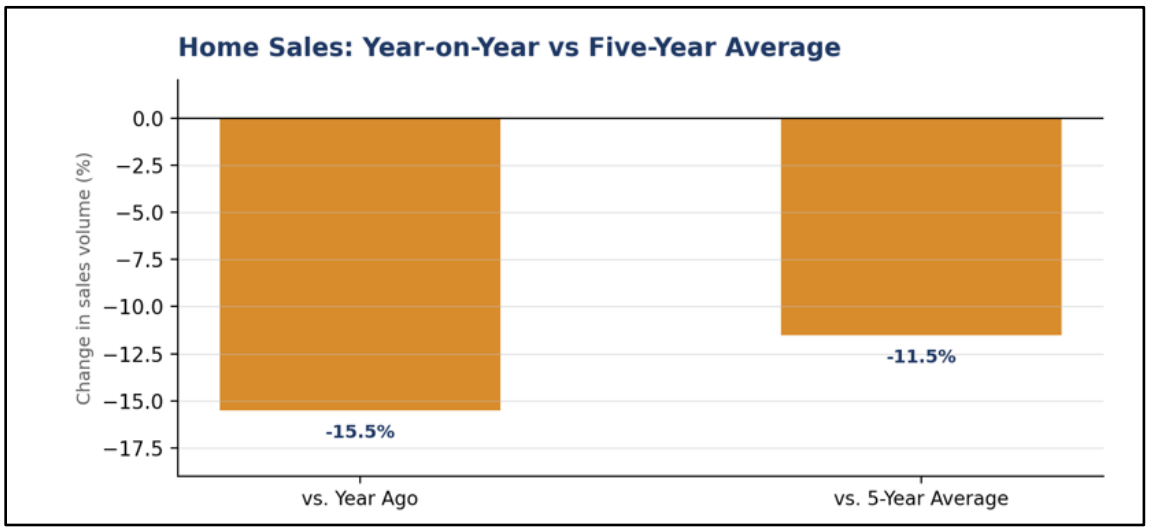


Source: ABS, Bloomberg

Two forces are compounding the correction:

a) RBA rate hikes feed almost immediately into repayments, since fewer than 5% of Australian mortgages are on fixed terms (unlike the US's typical 30-year fixed loan); and

b) the May federal budget abolished negative gearing for existing properties purchased after May 12 (new builds remain eligible) while replacing the capital gains tax discount with an inflation-indexed regime, effective from July 2027.



Source: ABS, Bloomberg

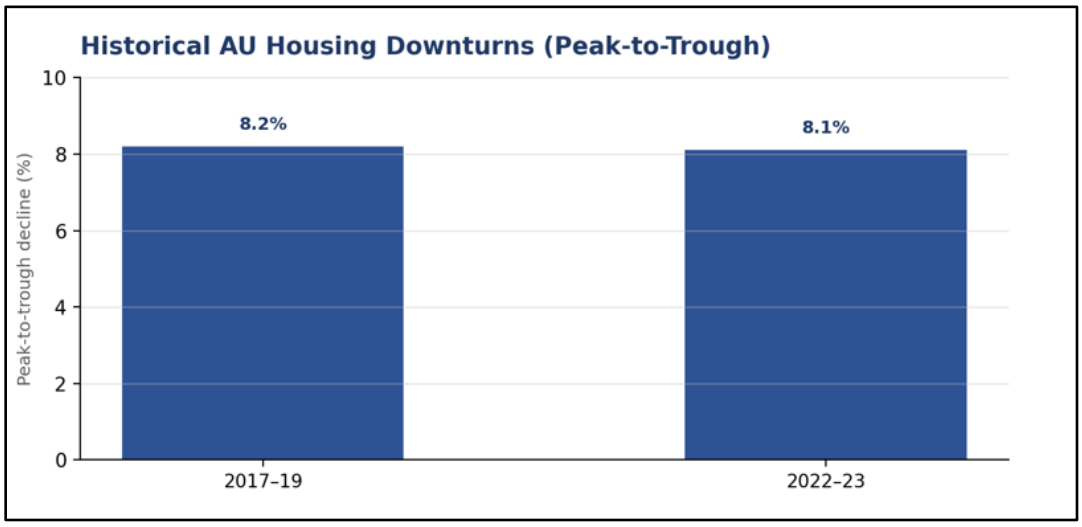
The impact on investor behaviour is already visible in individual cases reported in the market: some residential investors have paused further purchases, watched existing holdings fall in value, and redirected capital toward equities (likely AI and semiconductor stocks) while waiting for the downturn to stabilise. Context matters here:

- Sydney remains the world's second most expensive city to buy in (average home roughly 14 times disposable income) after a decade in which national prices rose about 67%, so the correction is occurring from a historically stretched base.
- Roughly 60% of household wealth is tied to property, and
- Australia's major banks carry 60% - 70% of their loan books in residential mortgages.

Comparing the current situation to history:

- Australia's two most comparable past downturns (2017 -19 and 2022-23) both saw peak-to-trough declines of only around 8%,
- fewer than 1% of mortgage holders are currently estimated to be in negative equity - pointing to household balance-sheet resilience even if the correction continues.
- It is envisaged that house prices could keep falling into mid-2027 before rate cuts set the stage for a rebound through 2027- 2028.
- Of note, construction-side stress is building in parallel: detached house construction costs are roughly 50% above pre-pandemic levels, new home approvals fell over 10% in March, and construction-industry insolvencies have risen steadily since the pandemic

- *This backdrop is directly relevant to the case study covered in Trusler Consulting's companion The Bathla Collapse report.*



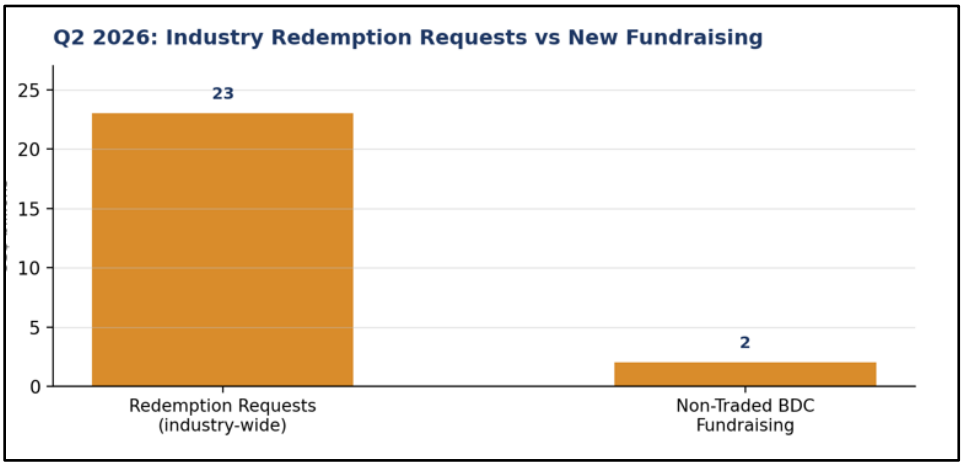
Source: ABS, Bloomberg

The Private Credit Sector

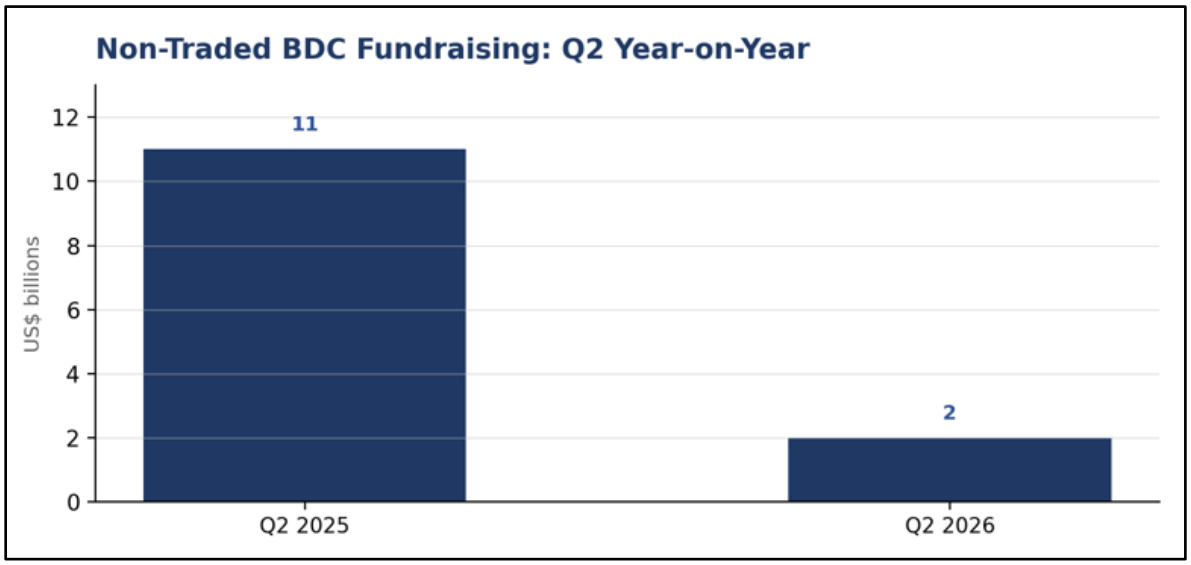
Market and Asset Class Activity

The global private credit market is approximately US$1.8 trillion. The industry is mid-pivot: managers increasingly frame traditional corporate direct lending as one slice of a far larger opportunity set, emphasising diversification into asset-based finance, data-centre and AI-linked lending, aerospace/defence and life sciences.

The retail-facing BDC (business development company) segment is under visible strain: portfolios have contracted for three consecutive quarters as loan repayments outpace new originations, and non-traded BDC fundraising collapsed to $2 billion in the second quarter of 2026 (an 82% drop from $11 billion a year earlier, and the lowest level since 2020).



Source: Bloomberg



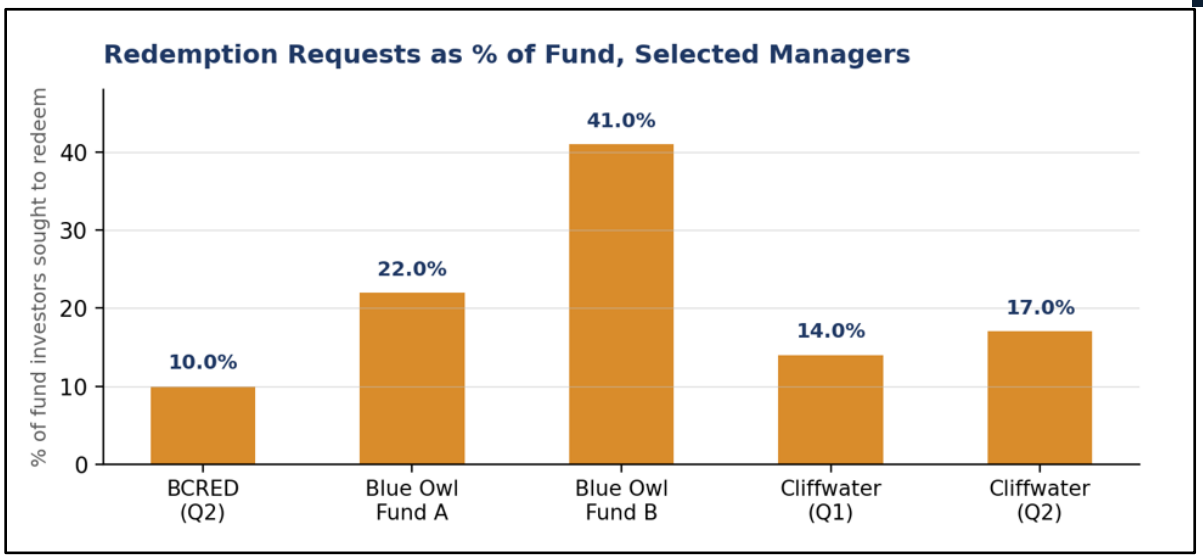
Source: Bloomberg

By contrast, large closed-end vehicles marketed to institutional investors (which carry no redemption mechanism) continue to raise substantial capital: Eurazeo (€3.9 billion), Bridgepoint (targeting roughly €5 billion) and Crescent Capital (over $5.5 billion, its largest fund ever) all closed sizeable direct-lending vehicles over the same period. This underscores a bifurcation between redemption-exposed retail vehicles and locked-up institutional capital.

Investor Redemption Activity

Redemption pressure has been persistent through 2026 rather than a single shock.

- Blackstone's private credit fund (BCRED) faced record redemption requests (investors sought 10% of the fund) and, for a second consecutive quarter, was capped at releasing only half of that; BCRED's net asset value fell from $24.68 in January to $23.64 in July.
- Blue Owl blocked most of the exits after two funds faced withdrawal requests of 22% and 41%.
- Cliffwater's redemption requests rose from 14% to 17% of its fund across successive quarters, also resulting in redemptions being capped at 5%.
- Partners Group capped withdrawals on an evergreen fund and signalled readiness to gate others, including in the US.
- Ares Management again capped withdrawals at its flagship private credit fund after redemption requests rose in the second quarter. Similar capping was also conducted on the $22.6 billion Ares Strategic Income Fund (ASIF) in the second quarter.
- In aggregate, investors attempted to pull a record $23 billion from private credit funds industry-wide in the second quarter, with managers continuing to enforce standard ~5% quarterly limits.



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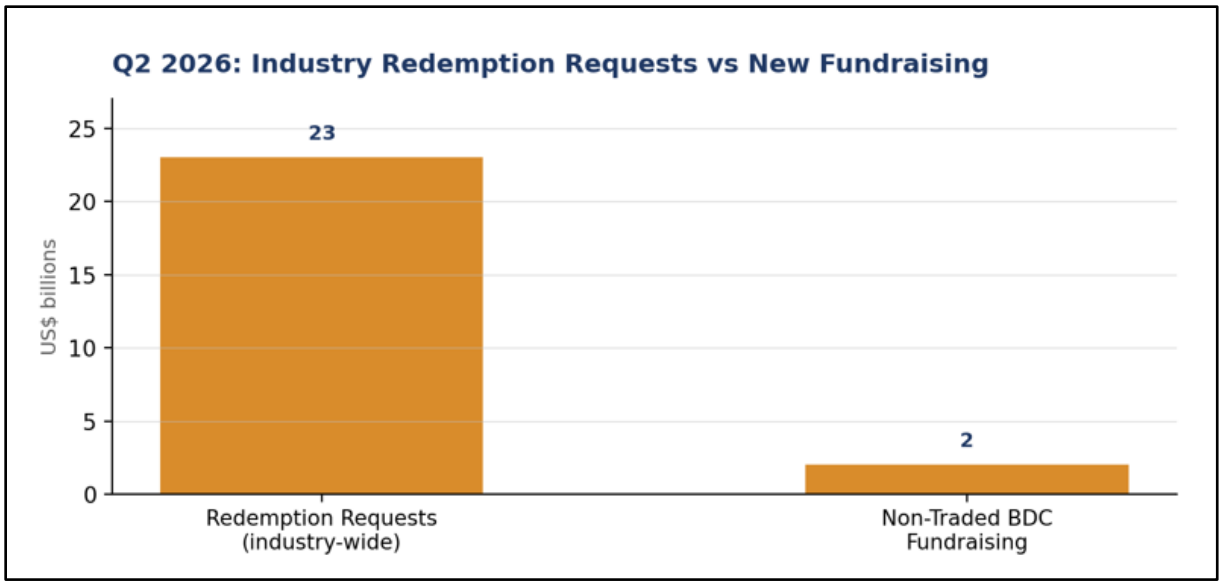


Source: Bloomberg

In Australia, the pattern has been distinctly pre-emptive, with several managers restricting withdrawals in response to a major local developer collapse (Bathla), even where they had no direct exposure to the event.

Private Credit Manager	Involvement in Bathla	Response to Bathla
MA Financial Group	No Direct Bathla Exposure	capped monthly redemptions at 1% on one of its real estate credit funds, explicitly described as a *"proactive measure in response to the potential for increased redemption activity"*
CVS Lane Capital Partners	One of Bathla's biggest lenders	Imposed withdrawal restrictions

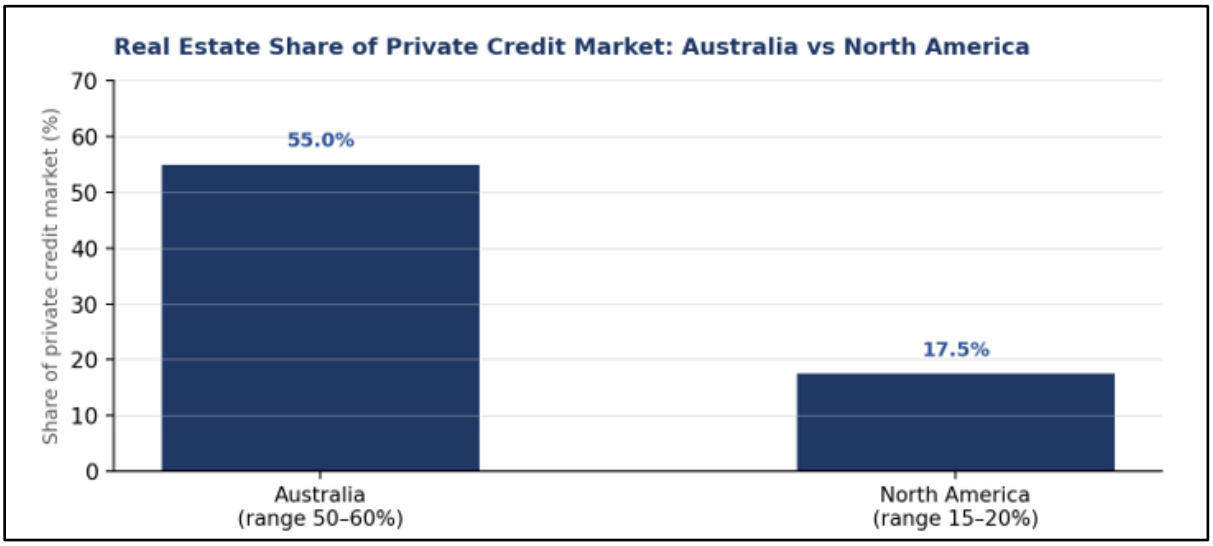
Centuria Bass	Direct Bathla exposure	Halted redemptions on two of its vehicles
LaTrobe Financial	Direct Bathla exposure	publicly committed not to freeze redemptions, telling clients Bathla's collapse would not affect income paid or result in loss of capital, and characterizing its total exposure as *"approximately 0.15% of assets under management."*

A roughly 5% quarterly cap has effectively become the industry's default containment tool, used both reactively and pre-emptively

Identified Sources of Stress

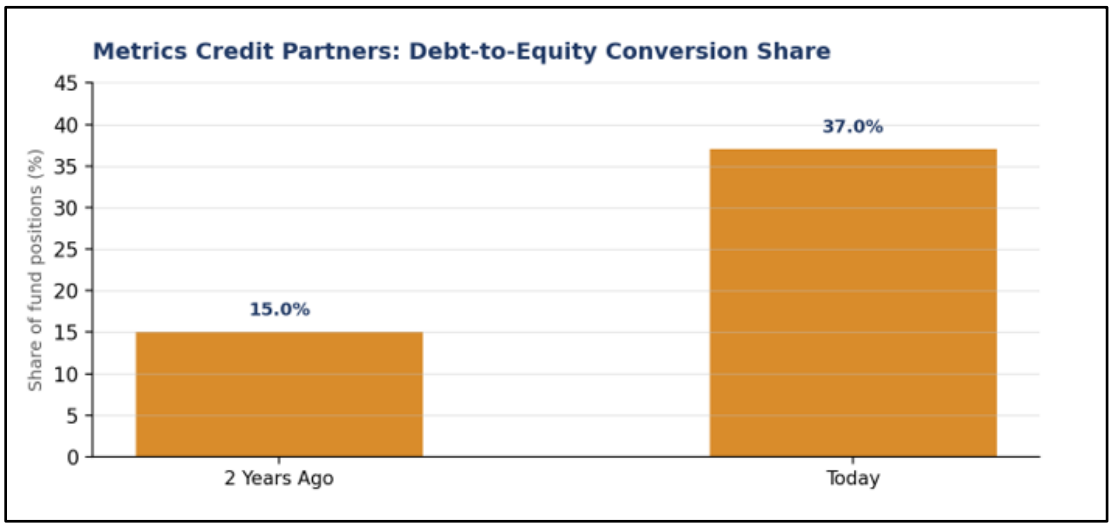
The nature of the stress differs by geography. Globally, the largest source of concern has been software and technology-sector credit exposure, amid fears that generative AI could disrupt legacy software business models (the trigger for the BCRED and Blue Owl redemption waves).

In Australia, stress is concentrated in real estate and housing-linked lending rather than software. Property lending makes up an estimated 50% - 60% of Australia's roughly A$200 billion private credit market, compared with 15% - 20% in North America. This structural concentration leaves the sector unusually exposed to the current housing correction.



Source: MSCI, Bloomberg

A secondary stress indicator comes from established manager Metrics Credit Partners, whose major funds have seen the share of positions converted from debt to equity holdings (a typical step in protecting capital during a “workout” – a restructure of troubled loans) rise from 15% two years ago to 37% today.



Source: Bloomberg

Underwriting quality is under scrutiny globally too: EBITDA addbacks used to justify leverage have roughly doubled over the past decade in direct lending (per research done by Davidson Kempner Capital Management) which means that loss-given-default will likely prove structurally higher than currently expected.

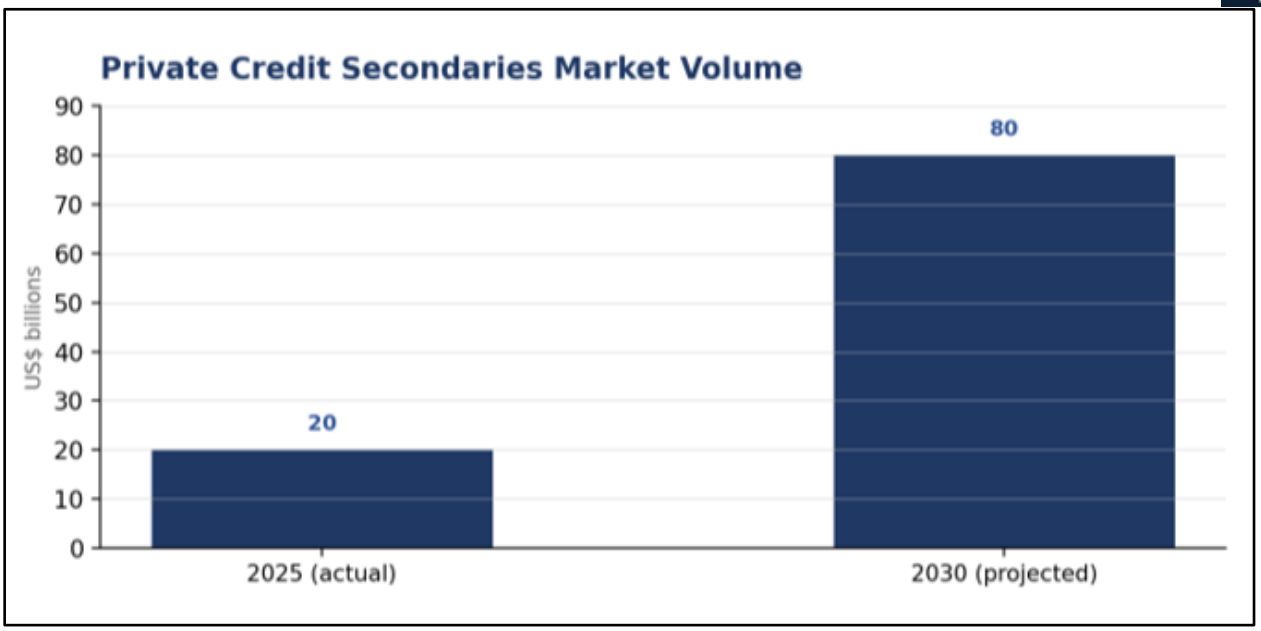
Secondaries Market

The market for buying and selling existing private credit fund stakes and loan portfolios has expanded rapidly as an outlet for liquidity-starved investors and a refinancing tool for managers.

Global secondaries volume roughly doubled to $20 billion in 2025 and could reach $80 billion by 2030 (as per Carlyle Group). Two distinct flows are driving this:

a) limited partners selling fund stakes outright to raise cash (Singapore's GIC tapped the market for up to $2 billion in June), and

b) managers moving existing loans into new continuation vehicles that let existing backers exit while freeing capital for further investment (Bridgepoint Credit and Jefferies Credit Partners have each explored $1 billion-plus European transactions this year, and Ares is reportedly working on what could be one of the largest continuation vehicles ever assembled).



Source: Carlyle Group

Pricing reflects the imbalance between sellers and buyers: redemption-driven selling has widened discounts on investor-led secondaries deals by an estimated 300 basis points. In one example, a tender offer for shares in five non-traded BDCs at a 26% discount was mostly rebuffed, with investors preferring to wait for gated, NAV-based redemptions rather than crystallise steep losses.

Views differ on how much of this growth reflects redemption-driven distress versus the natural maturing of a much larger asset class - private credit net asset value has roughly tripled over the past decade, but either way, secondaries have become a genuine (albeit costlier), exit route that barely existed at scale a few years ago.

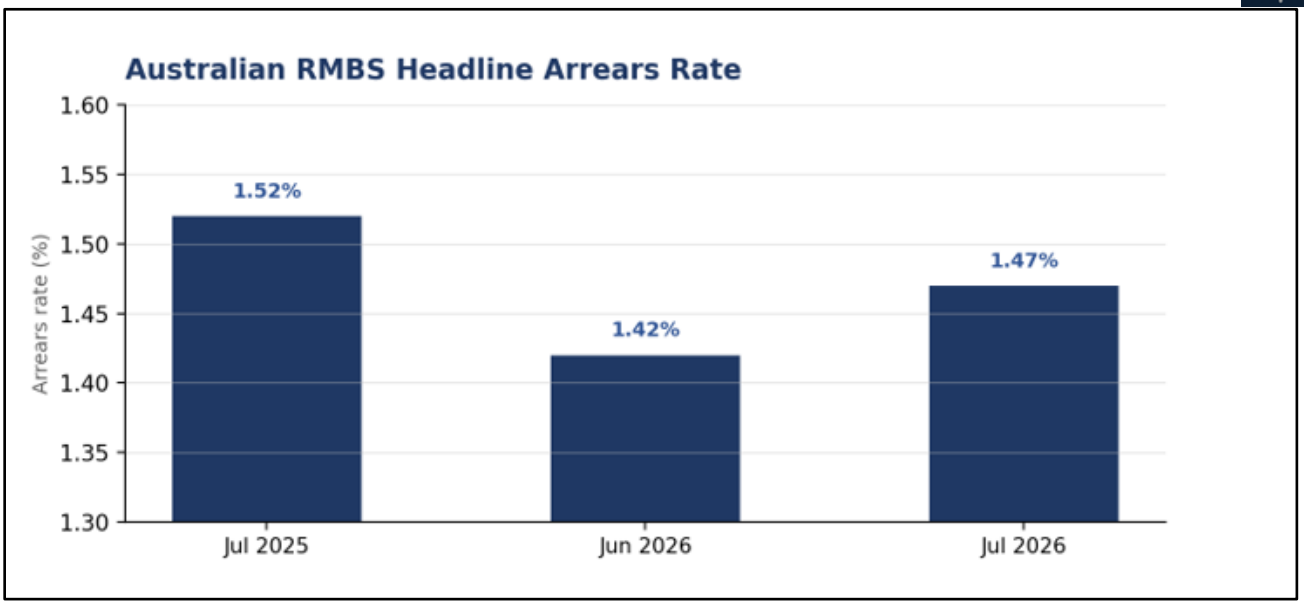
What the Data Tells US

Australian Mortgage Arrears

Bloomberg residential mortgage-backed securities (RMBS) arrears tracker (across a monitored pool of 264 deals worth A$125 billion) shows a modest but broad-based deterioration in Australian mortgage performance.

The headline arrears rate rose 5 basis points to 1.47% in July, up from 1.42% in June, though still below the 1.52% level of a year earlier.

The increase was broad-based across states, with Victoria's arrears rate remaining well above New South Wales, Queensland and Western Australia.

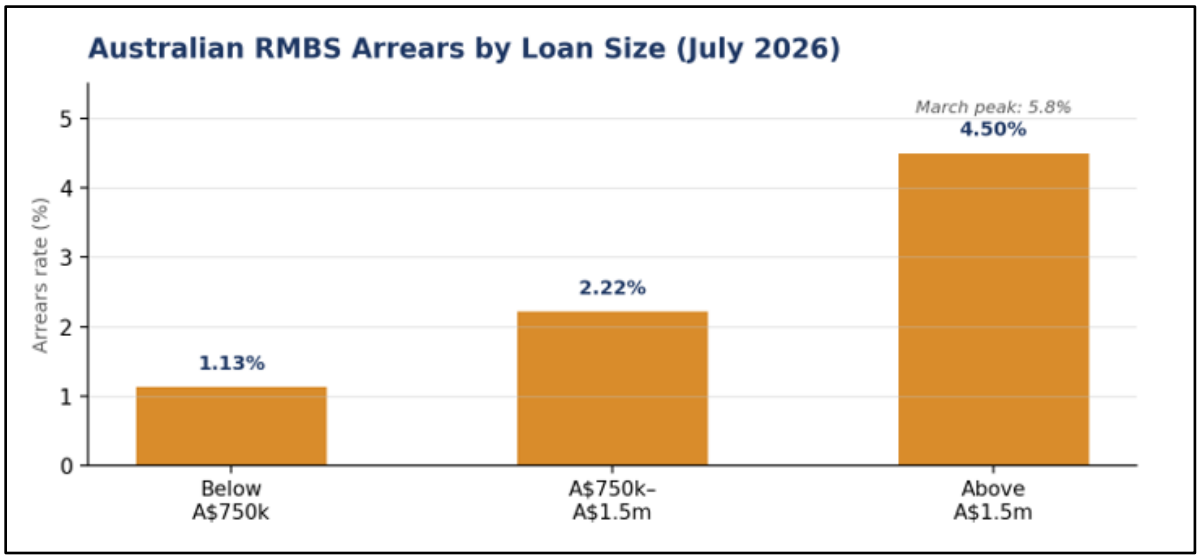


Source: Bloomberg's RMBS Tracker, 8 September 2026

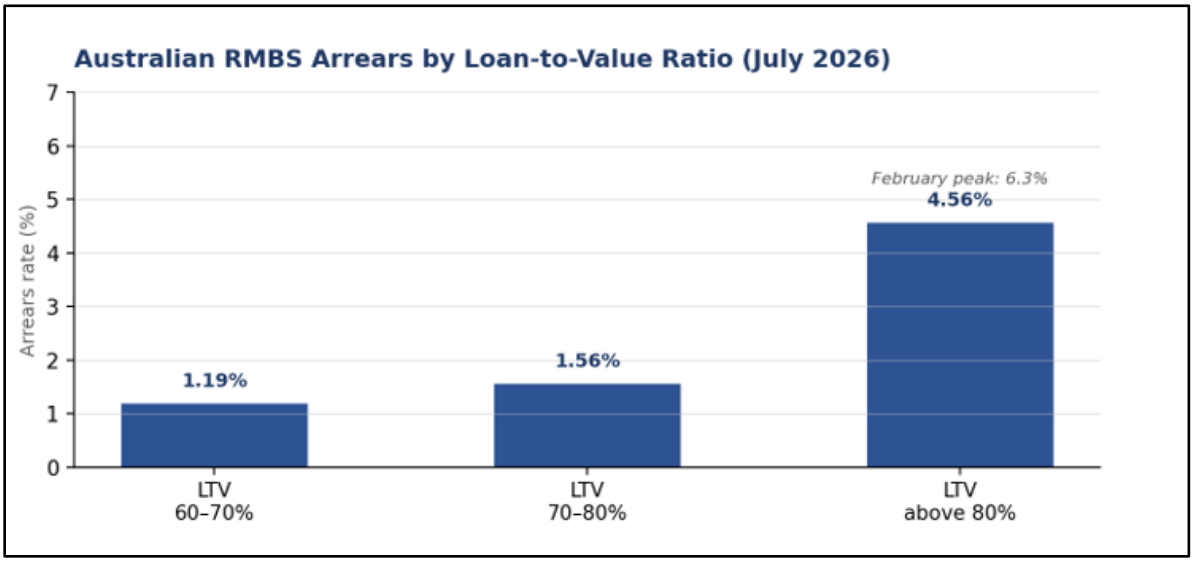
The composition of the stress is notable:

- Pressure is actually easing at the higher-risk end of the pool. Arrears on loans above A$1.5 million fell to 4.5% in July from a March peak of 5.8%,
- Arrears on high loan-to-value loans (LTV above 80%, representing A$14.7 billion or 11.8% of the pool) dropped 57 basis points to 4.56% from a February peak of 6.3%,
- By contrast, mid-sized loans (A$750,000–A$1.5 million) saw arrears tick up slightly to 2.22%
- Loans with LTVs of 60% - 70% rose 3 basis points to 1.19%,
- Loans below A$750,000 held flat at 1.13%.
- The average loan size across the monitored pool was approximately A$344,000.

This suggests that the household mortgage stress accompanying the housing correction is, so far, is concentrated more in the broad middle of the market than at either the largest, most–leveraged loans or the smallest, most owner-occupier-typical ones.



Source: Bloomberg's RMBS Tracker, 8 September 2026



Source: Bloomberg's RMBS Tracker, 8 September 2026

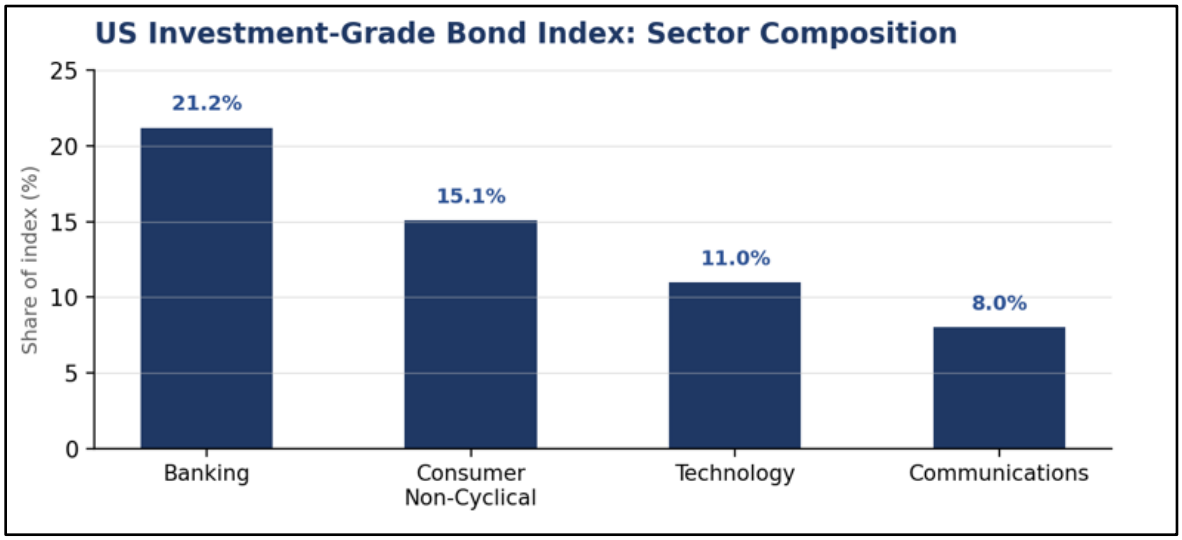
US Investment-Grade Tech Credit Spreads

Risk for both IG and HY US technology debt has risen relative to index peers over the past six months, as large AI-related capital-spending commitments put a premium on liquidity and capital access.

Investment-grade technology spreads have rallied more than +14 basis points from March wides but still trade about +5 basis points wider than the broader Bloomberg US Corporate Bond Index. The tech sector's spread now sits at roughly the 98th percentile versus its own decade norms (i.e., historically wide relative to the broader index).

Technology now makes up roughly 10% - 11% of the US investment-grade bond index (third-largest sector behind banking at ~21% and consumer non-cyclical at ~15%), with heavy new issuance — much of it tied to data-centre expansion from hyperscalers including Oracle, Meta and Amazon - generally well absorbed by the market.

Software specifically stands out as a source of spread volatility in 2026 amid AI-obsolescence concerns;



Investment Governance within Private Credit

Given the opacity of private credit valuations, the absence of standardised default and distress terminology across managers and rating agencies, and the demonstrated ability of one manager's problems to transmit into unrelated funds via redemption gating - investment governance functions as the primary risk-control mechanism actually available to investors and trustees.

Investors and regulators are increasingly pushing managers for a much deeper understanding of what they actually own, with specific calls for improved disclosure on valuation methodology, non-performing loans, and expected recovery levels.

With specific regards to Australia's real estate sector, rising construction costs and extended project timelines mean many losses in the sector have not yet been crystallised, reinforcing that reported performance may not reflect the true underlying position.

Building Blocks of an Effective Investment Governance Framework

- ✓ Valuation transparency as a pre-condition - clear disclosure of valuation methodology, including whether and how conservatively forward-looking assumptions are used, before allocating capital.
- ✓ Capital-structure clarity – explicit explanation of exactly where an investment sits (senior secured, mezzanine, or otherwise) and what rights and priority that position carries in a workout or default.
- ✓ Ongoing monitoring, not just initial due diligence — track leading indicators over the life of an investment, including redemption/gating activity, debt-to-equity conversion trends, and secondary-market pricing on comparable exposures.

- ✓ Independent verification - seek valuations or reviews independence of the manager where possible, and treat regulatory guidance as a floor, not a ceiling, for acceptable practice.
- ✓ Genuine specialisation - favour managers with demonstrated, specific expertise in a lending structure or sector over generalists opportunistically chasing available deals.

Asset Class Considerations

- Redemption gates and caps - whether a fund has already gated, at what level, and whether the trigger was a direct credit event or a pre-emptive, market-wide precaution.
- Manager-level concentration - the proportion of a manager's book in real estate/development lending specifically, and how forward-looking versus current valuations are being applied.
- Debt-to-equity conversion trends - a rising share of positions shifting from debt to equity is a leading indicator of portfolio stress, ahead of formal default statistics.
- Secondary market pricing - widening discounts on fund-stake and loan-portfolio sales are a real-time, market-based signal of risk that may not yet be reflected in a manager's own marks.
- The fundraising/redemption imbalance - signals a structurally shrinking segment (more relevant for US retail)
- Regulatory signals - ASIC's ongoing enforcement investigations and its guidance that valuations must be grounded in realistic assumptions point to where scrutiny, and potential disclosure change, is heading.

By ASIC's own admission, this is the first genuine test of a sector that has never been through a full credit cycle — meaning historical return and loss data may not reliably guide what comes next.

Conclusion

Taken together, the evidence in this report points to a private credit market that is transitioning, unevenly, and in some corners reluctantly, from a decade of largely uninterrupted growth into its first real credit cycle.

That transition is visible in the persistence of redemption pressure across Blackstone, Blue Owl, Cliffwater, and Partners Group. In Australia specifically, the housing-linked private credit market has now had its "first real test" and, very likely is still counting the cracks.

None of this is evidence of an imminent, system-wide crisis. Institutional capital continues to flow into large closed-end vehicles even as retail-facing, redemption-exposed funds struggle;

Eve noting that Australian housing downturns have historically been shallower and shorter-lived than the current one, it is useful to note that Australian mortgage arrears are still rising even as stress eases at the highest-risk end of the loan book, and US technology credit — priced at a 98th-percentile spread versus its own decade norms — shows the market is already charging a real premium for the private-credit and data-centre-linked uncertainty.

The consistent thread across every section is that the risks in private credit are structural rather than incidental - concentration in real estate (Australia) and technology (US), valuations that lean on forward-looking assumptions, and liquidity terms that were not designed for the redemption behaviour now being observed.

These risks require the kind of active, ongoing investment governance outlined in this report - continuous monitoring of leading indicators rather than point-in-time due diligence, genuine transparency on valuation methodology and capital structure, and deliberate discipline against the specific concentrations this report has identified.

For fund allocators and other investors with existing or prospective private credit exposure, the practical implication is straightforward - the asset class has not stopped offering a legitimate role in a diversified portfolio. However, the passive, yield-chasing approach that characterised much of the sector's growth over the past decade is no longer adequate to the risks it now carries.

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