

The OG of Private Credit: Par for the Course

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What is a loan worth? At its core, a loan's value is driven by two forces: credit risk (the likelihood the borrower repays) and market risk (the rate and spread that determines the investors' demand to hold it). With today's macro noise, questions about the accuracy of value, or "marks," have grown louder. Yet loans in the heavily scrutinized BDC portfolios have been trading essentially at par (see our [Chart of the Week](#)) even against a backdrop of mounting headwinds. That is, in some ways, a reassuring data point. But it masks a more complicated story about what happens when retail capital meets an asset class it does not fully understand.

The problem is not simply valuation. It is the mismatch between investors who now own these assets, and the assets themselves. Retail investors, unlike pension plans, insurance companies, and sovereign wealth funds, do not have long-term liabilities to match the long-term tenors of private credit. Nor do they have the multi-cycle history owning private credit that would make it easier to contextualize short-term noise against the longer arc of secured lending performance.

When a BDC marks a portfolio company down – even modestly or temporarily – the reaction from a retail investor base is structurally different from an institutional LP who has stayed invested in private markets through the tech-wreck (2001), the Great Recession (2008), and Covid (2020). The institutional investor understands that prices fluctuate and that the covenant package and security position are what determine recovery. The retail investor sees a decline and worries this reflects worsening default risk and real value deterioration.

The tyranny of retail cash runs in both directions. On the inflow side, too much capital to deploy can pressure managers to write loans they would otherwise pass on, accepting terms they would typically reject from a more patient capital base. On the outflow side, retail redemptions can hamper direct lenders' capacity — slowing deployment and widening spreads. We are already seeing elements of this. But for managers with dry powder, this is the opportunity.

A conservatively structured middle market portfolio with strong covenants, broad sector diversification, and meaningful equity cushions is far better positioned to absorb a period of market turbulence than a large cap portfolio with cov-lite structures, higher leverage, and concentrated sector exposure.

As Wells Fargo Equity Research noted in March 2026, *"Non-tradedes will likely be fine in the base case and perhaps improve on their design for the long run."* That may prove true, but loan values are reflective of the manager. The character of your deal sourcing determines the destiny of your portfolio. Was the loan derived out of discipline or desperation? The beauty of this private credit moment is the market will ultimately determine which managers are associated with which.