

The OG of Private Credit: The Steady-Cam of Capital Markets

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“We are late in the credit cycle.” What is often a throw-away line preceding some dire market prediction, should be questioned. Are we measuring from the GFC? Are we ignoring the multiple speed bumps – COVID, bank failures, tariffs, rate shock – since then?

Regardless, a major sustained downturn since 2008-09 has not materialized. Clearly central bank intervention at every liquidity crunch has been a major factor. But we also believe private credit has played a significant role in the stability of capital markets.

[FT](#) cited a [paper](#) on how the asset class “calmed the cycle.” Rather than concerns “private credit could amplify credit supply shocks,” it states, “our results indicate that private credit may dampen the corporate credit cycle. [This has] important implications for assessing the financial stability ramifications of the rapid growth in private credit.”

So, how has the cycle been calmed? Direct lending has rewired how credit is being accessed, managed and absorbed by the financial system. It has increasingly served as the lender of last resort for middle market firms when the broadly syndicated loan market shuts down. Consolidation and regulation pushed banks from storing leveraged loans to moving them to CLOs and retail funds. If those buyers were risk-off, public markets closed.

Financing channels only remained open because private capital had raised ample dry powder from long-term institutional investors. Corporate borrowers could then finance their growth and operations regardless of macro headwinds.

Often overlooked is the fact that even having strengthened their Tier One capital over the past decade, banks carry significantly more balance sheet leverage – at about 10x vs. Tier One capital. Non-banks are a different story. BDCs, for example, are subject to a statutory leverage limit of 2x debt-to-equity but tend to operate well below that limit and closer to 1x.

One of the hallmarks of past crises is “flighty” capital. But direct lenders match their assets with long-term liabilities anchored by institutional capital with long investment horizons. Banks, by contrast, fund themselves with deposits and short-term borrowings – the very definition of duration mismatch.

Yes, retail redemptions ticked up over recent quarters, but gates exist precisely for moments like these – preventing a destabilizing “run” and protecting investors who stay the course. Meanwhile, institutional investors like insurance companies, pension plans and sovereign wealth funds are not just supporting private allocations, they are expanding them.

None of this means the credit cycle is dead. Rates, inflation, and growth still matter. But core middle market lending didn’t spring into existence overnight. It has been fully functioning in all financing weather for over forty years and delivered consistent premium yields to investors. Its rapid growth brought intense media

scrutiny, and a narrative that private credit is the next systemic fault line.

But direct lending is the Steadi-Cam of the capital markets. If there is another recession, it could well be one of the reasons that downturn proves less damaging than the last.