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BSP Credit Insights

A resilient market, but it’s bifurcating

Defaults · Inflation · Bargaining

4th November 2026

AT A GLANCE

A resilient credit market, but it’s bifurcating

01	Private credit defaults	Published rates vary significantly. Definitions, not borrower worthiness, explain most of the gap.
02	Inflation and corporate resilience	An energy shock that large companies are absorbing. The strain largely sits with smaller, floating-rate borrowers.
03	Lender bargaining power	The swing to borrowers has stopped. Lenders are on top where borrowers lack options.

01

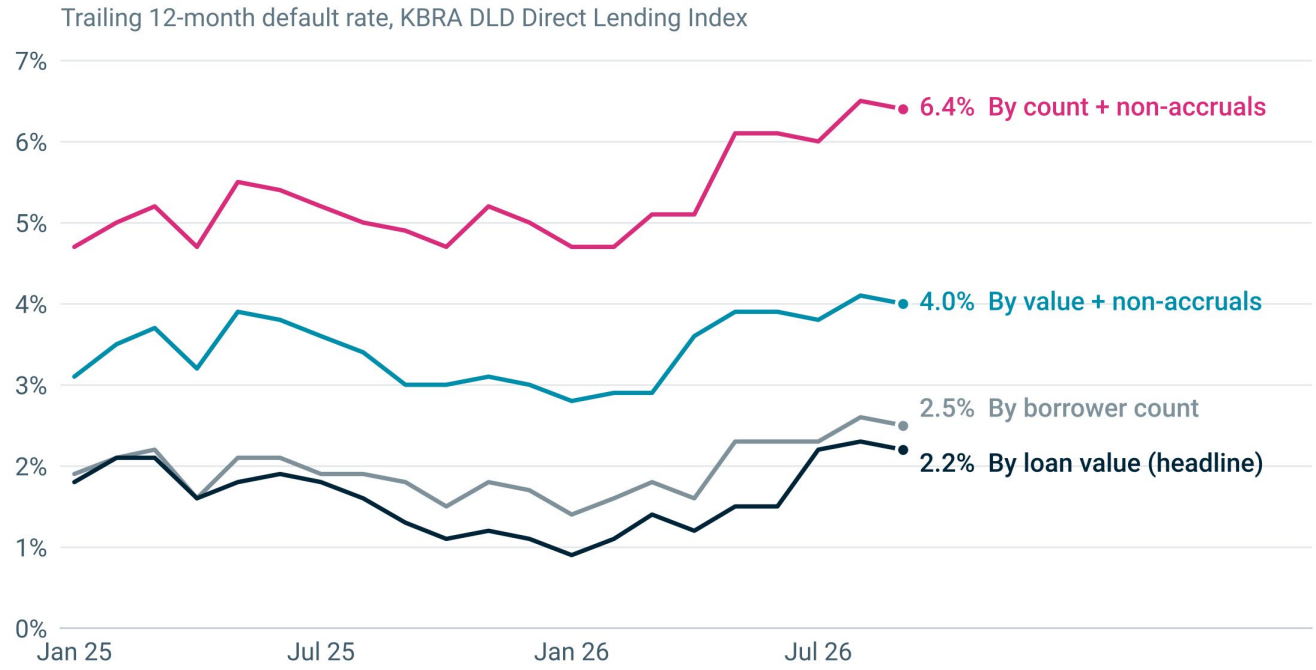
PRIVATE CREDIT DEFAULTS

The headline number depends on who you ask

Anant Kumar, Global Investment Strategist, said: “Published private credit default rates run from about 1% to 8.5%, and stress scenarios go higher. Most of that range comes from what each provider counts as a default and whose loans it tracks, not from different views of the same borrowers.”

01 PRIVATE CREDIT DEFAULTS · CHART 1.1

One loan index with four different answers: 2.2% to 6.4%



Same loans, same month. The choice of measure alone triples the headline.

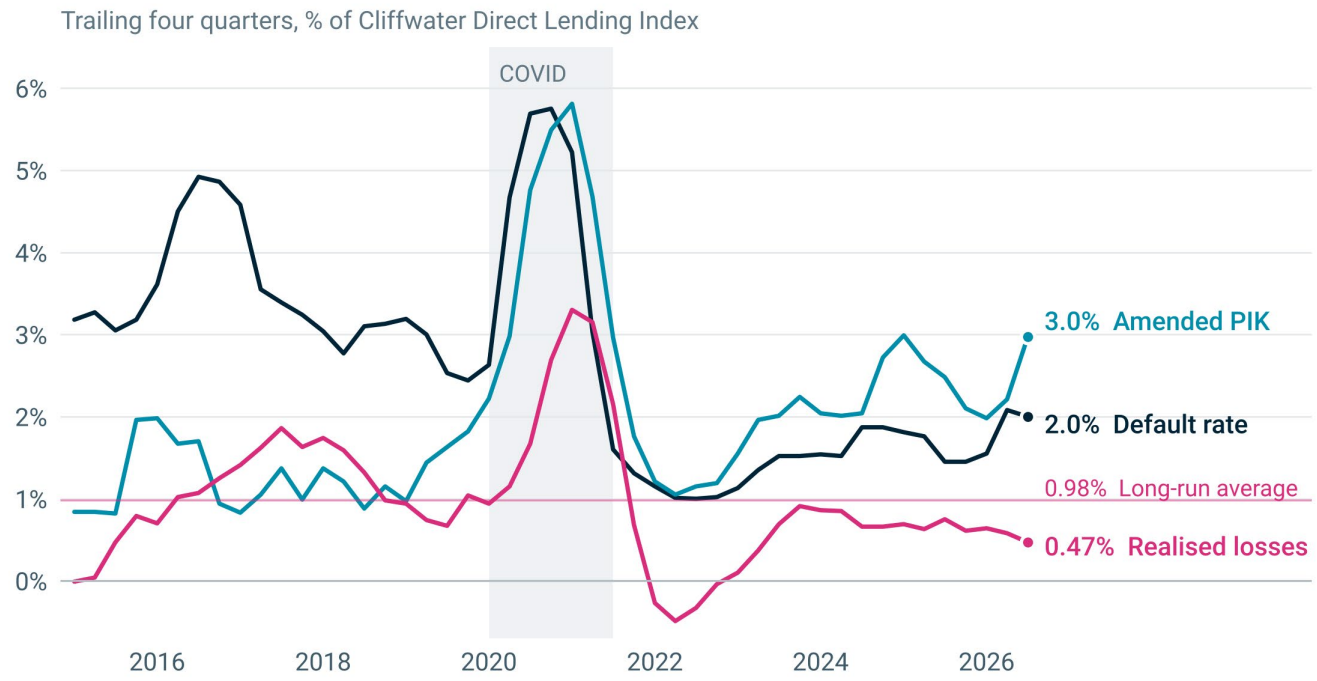
By loan value, KBRA DLD's index shows 2.2% (2.0% in its October update). Counting borrowers gives 2.5%: small firms default more.

Adding loans that have stopped paying cash interest (non-accruals) lifts the figures to 4.0% and 6.4%.

Source: KBRA DLD Direct Lending Index, trailing 12 months, as published monthly to Sep 2026.

01 PRIVATE CREDIT DEFAULTS · CHART 1.2

Defaults may rise but losses may not



Losses are running at about half their long-run average.

Over the year to June, 2.0% of Cliffwater's $550bn direct lending index went on non-accrual, and its trailing amended-PIK rate was 3.0%.

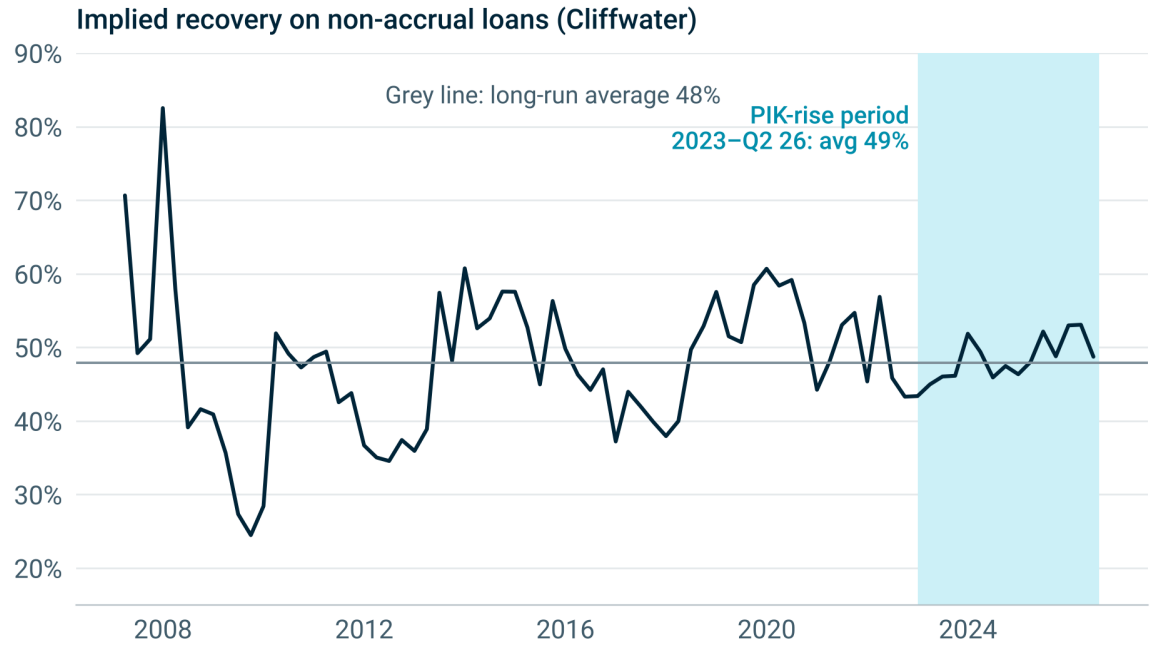
Realised losses were 0.47%, against 0.98% a year since 2004. A default rate tells you how often things go wrong, but not how much is lost.

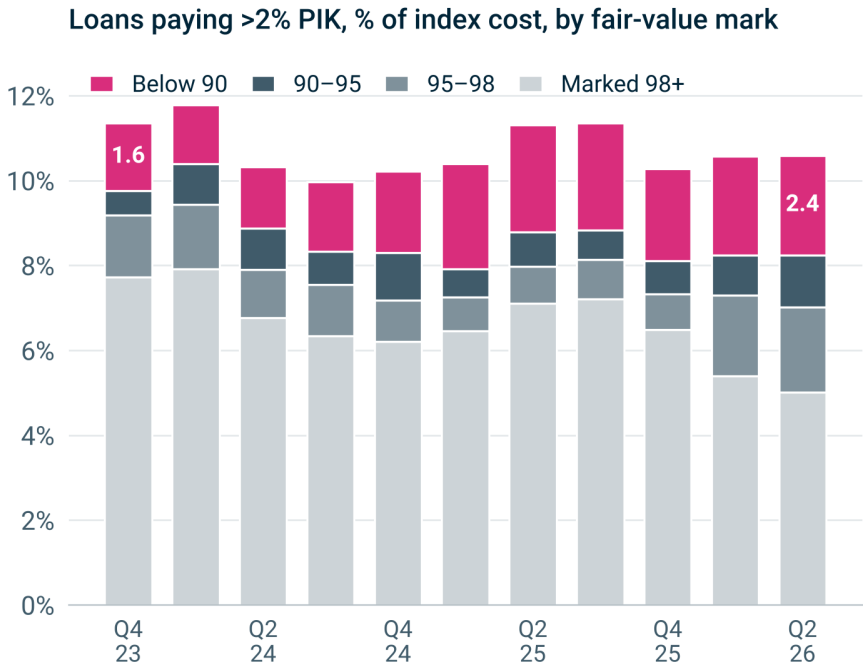
Source: Cliffwater Direct Lending Index; trailing four quarters to Q2 2026.

01 PRIVATE CREDIT DEFAULTS · CHART 1.3

Rising “bad PIK” does not necessarily mean higher losses

Recoveries on non-accrual loans have averaged 49% since 2023, in line with the long-run 48%. But PIK loans marked below 90 have risen from 14% to 22% of PIK exposure.





Source: Cliffwater Direct Lending Index, quarterly to Q2 2026.

02

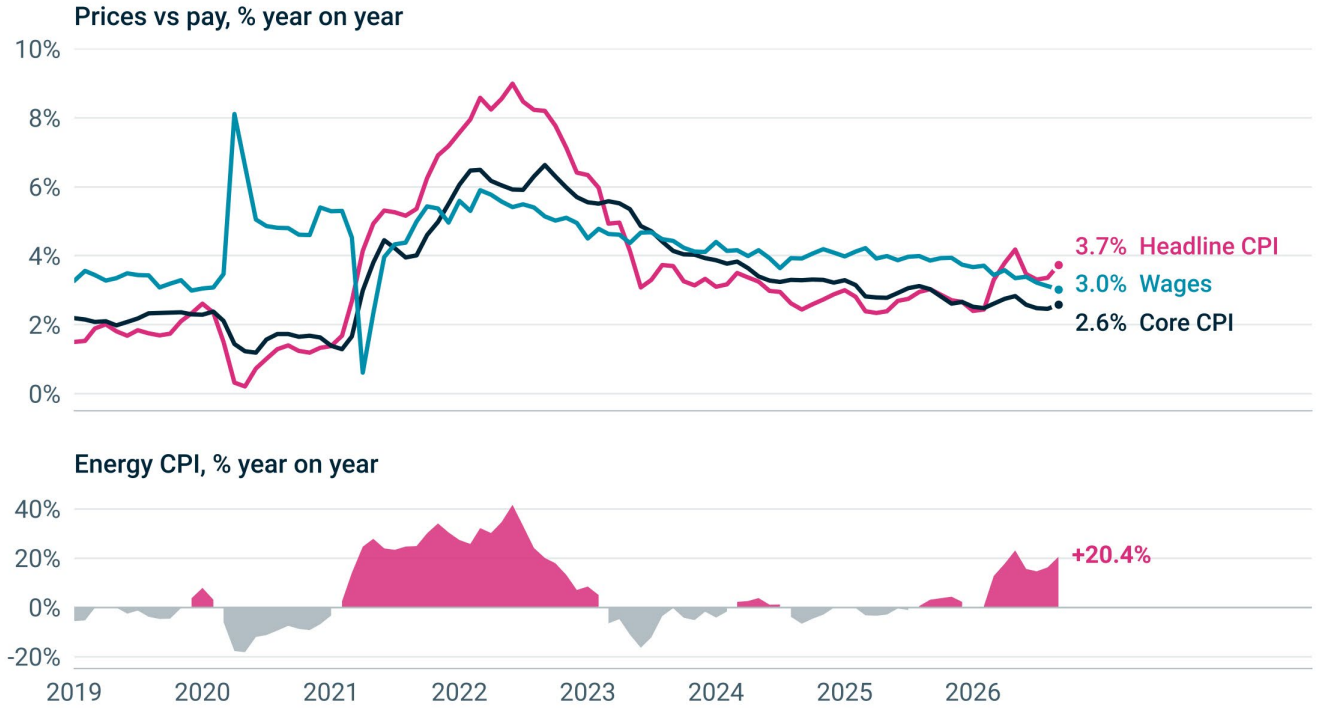
INFLATION AND CORPORATE RESILIENCE

Inflation is biting, but corporate America is absorbing it

Anant Kumar, Global Investment Strategist, said: “Energy has pushed headline inflation to 3.7% and the Fed has started raising rates again. Large US companies have so far passed costs on and locked in cheap debt. But the strain is showing up among smaller, floating-rate and lower-rated borrowers.”

02 INFLATION AND RESILIENCE · CHART 2.1

This is an energy shock, not a wage spiral



Headline inflation is 3.7%, driven by energy prices up 20% on a year ago.

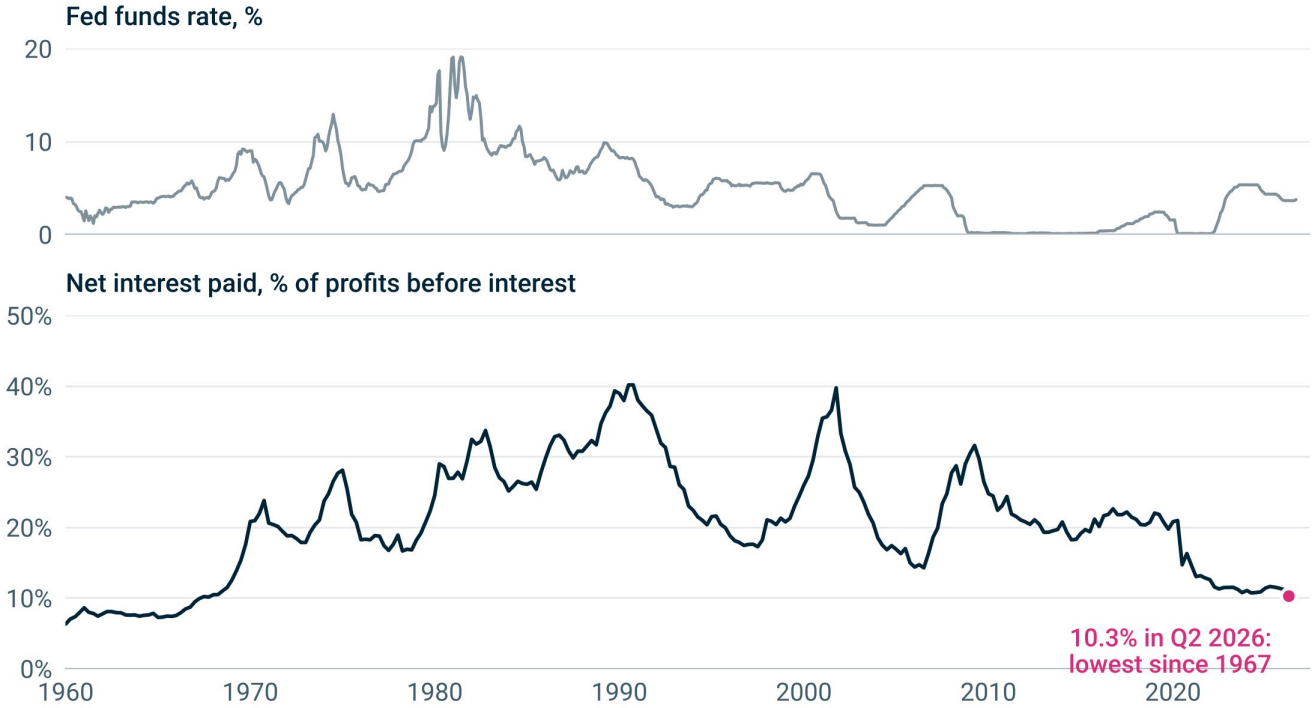
Core inflation (2.6%) is running below wage growth (3.0%), so labour is not what is pushing costs up.

The Fed raised rates in September, its first hike since 2023, and held in October. Its debate is whether energy costs spread into broader prices.

Sources: BLS via FRED (CPI, average hourly earnings); Federal Reserve. Data to Sep 2026.

02 INFLATION AND RESILIENCE · CHART 2.2

Rates are up but the interest bill is not…yet



Net interest takes 10.3% of corporate profits before interest, the lowest share since 1967.

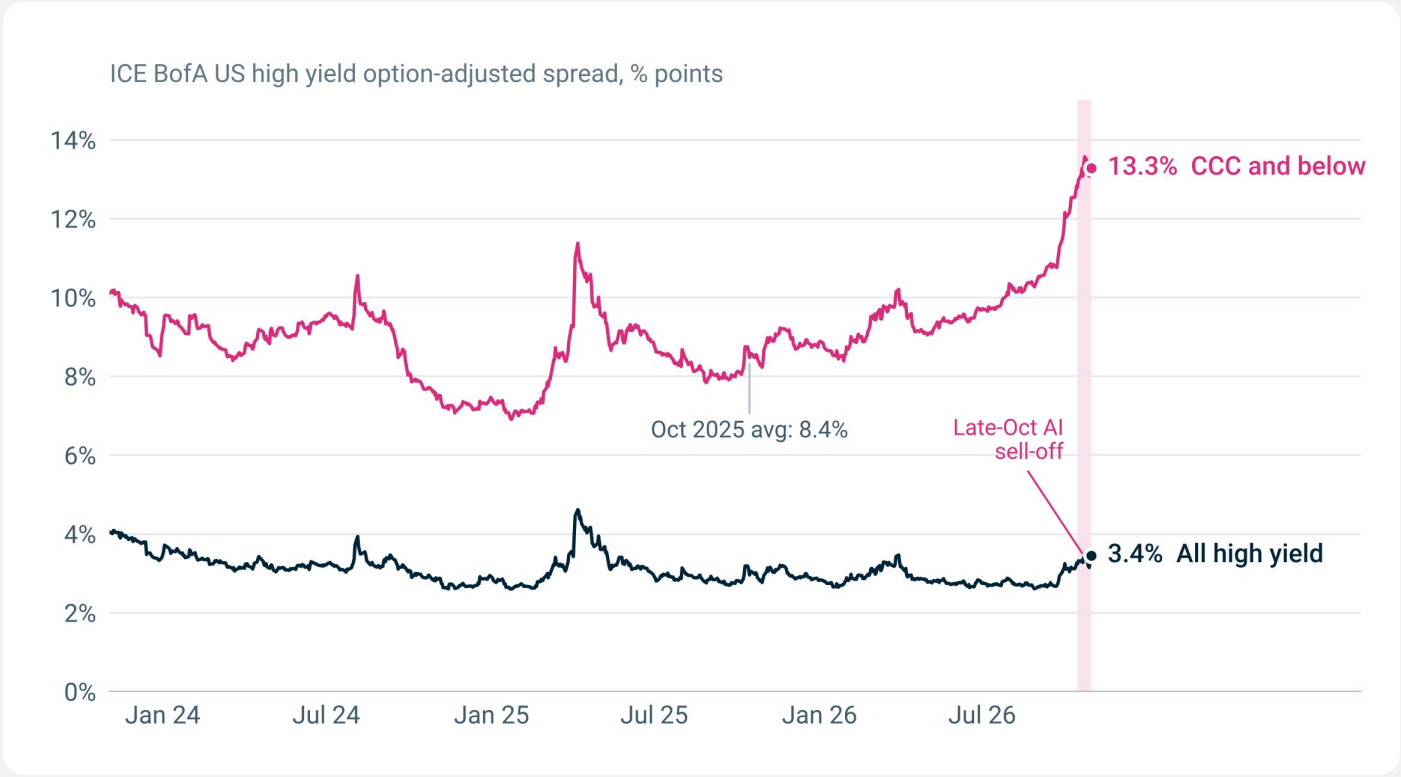
Company debt is about 41% higher than in 2019, yet net interest paid is roughly unchanged.

Large firms locked in long-term fixed rates and earn more on their cash. That cushion erodes as debt is refinanced.

Sources: BEA (NIPA) and Federal Reserve (Z.1, H.15) via FRED; quarterly to Q2 2026.

02 INFLATION AND RESILIENCE · CHART 2.3

Markets are charging weaker borrowers more



Most corporate credit is still priced calmly, though nerves rose in late October.

The overall high-yield spread rose to 3.4% as an AI sell-off hit data-centre issuers, a growing part of the index. That is still low by historical standards.

But the CCC spread has widened to 13.3% from about 8.4% a year ago. Lenders are charging more for the weakest borrowers – the companies most exposed to higher costs and floating rates.

Source: ICE BofA US High Yield and CCC & Lower indices, option-adjusted spreads, via FRED; to 30 Oct 2026.

03

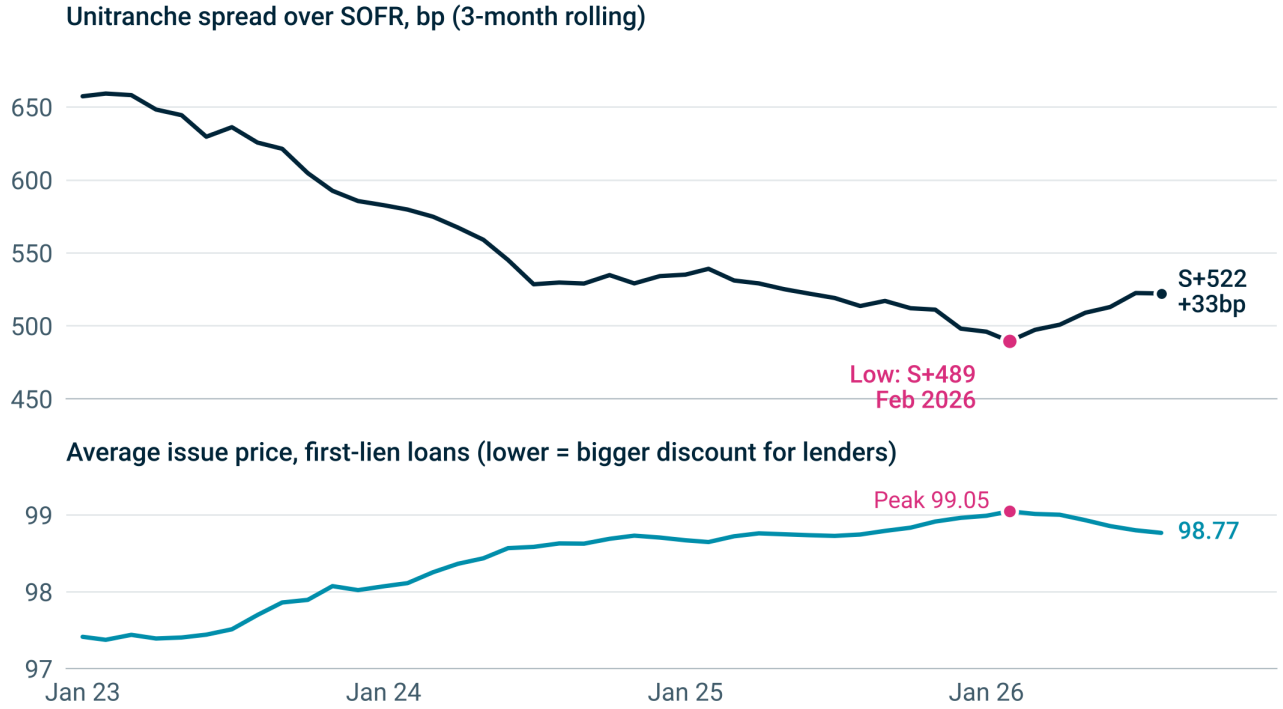
LENDER BARGAINING POWER

The power pendulum has stopped swinging towards borrowers

Anant Kumar, Global Investment Strategist, said: “After three years in which borrowers won ever-tighter pricing and looser terms, lenders are regaining ground in private credit, especially on weaker credits and extensions. Strong borrowers still have options, so the shift is selective, not market-wide.”

03 LENDER BARGAINING POWER · CHART 3.1

Private credit pricing has turned, modestly, towards lenders



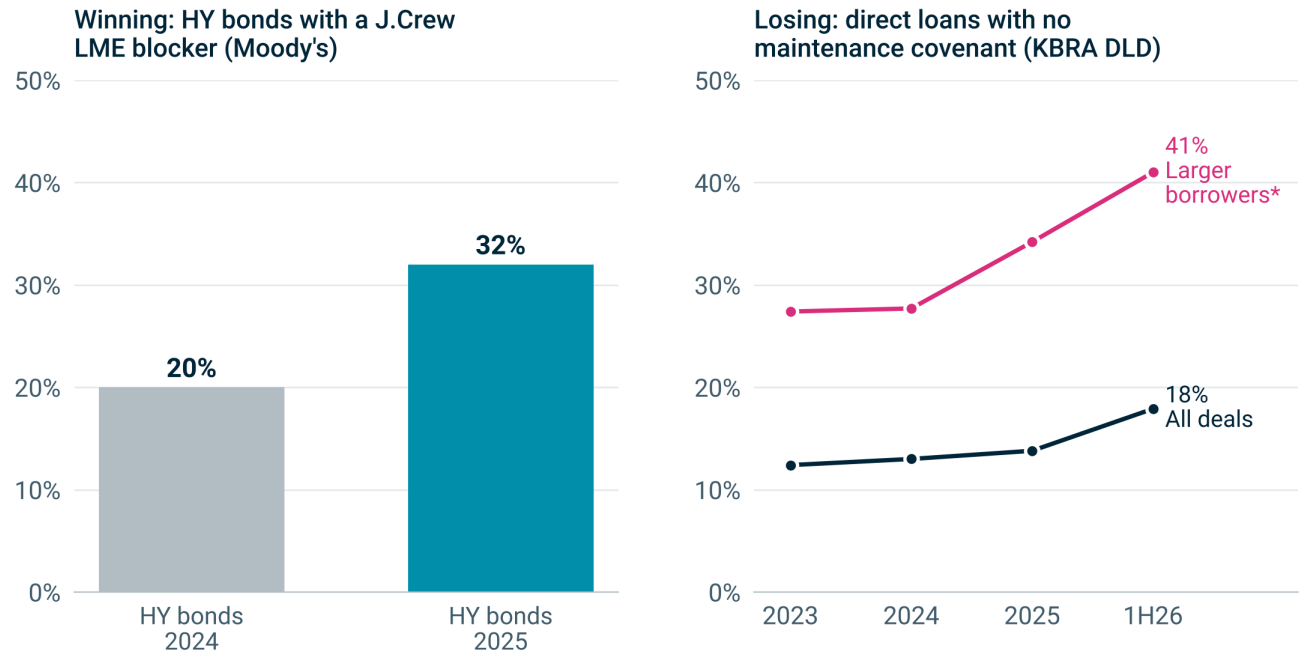
Spreads have widened since February, and discounts have grown.

Unitranche spreads fell from S+657 (2023) to S+489 (Feb 2026), then rose to S+522. September buyout spreads were 40bp above the low.

That is a real turn, but only about a fifth of the 2023-26 tightening has reversed.

Sources: KBRA DLD Insights & Outlook (Aug 2026) and At a Glance (Oct 2026); 3-month rolling averages.

Lenders are winning on LME protection, but not covenants



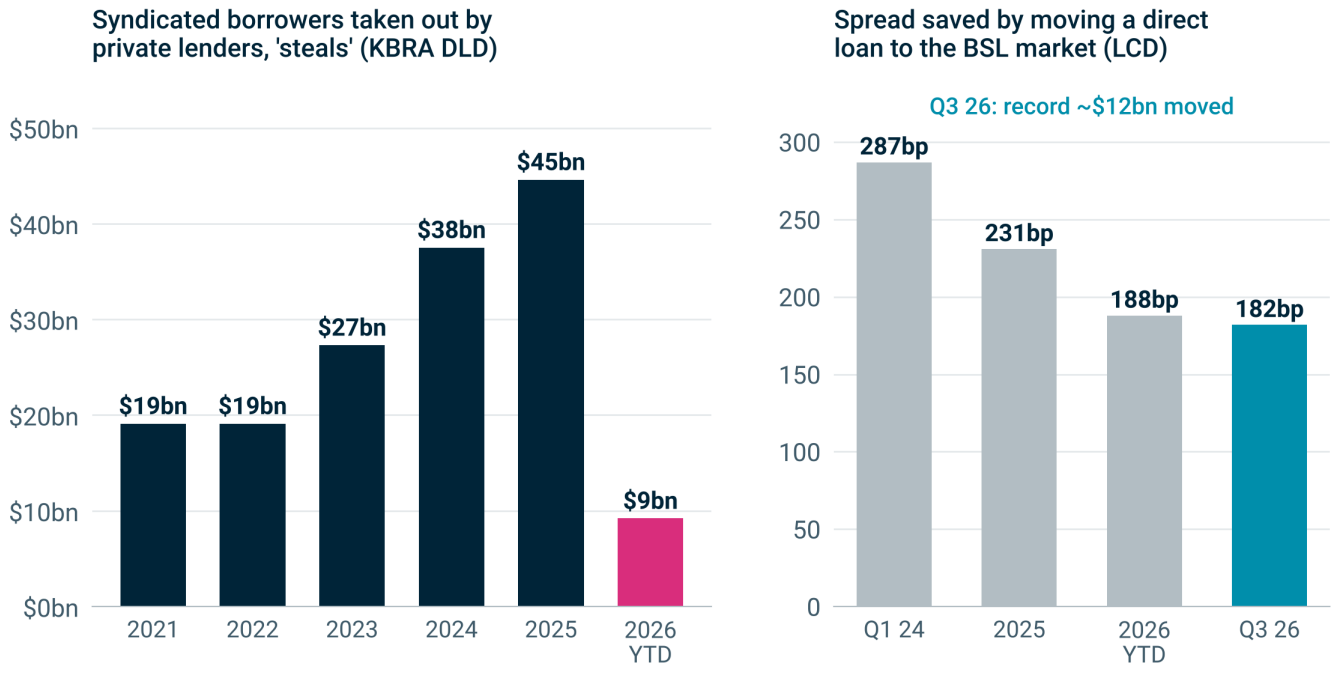
Protection against liability-management raids is spreading.

About a third of 2025 high-yield bonds carried a "J.Crew blocker", up from a fifth.

But maintenance covenants keep thinning: 18% of US direct loans in 1H26 had none, and 41% for larger borrowers (EBITDA $50m+).

Sources: Moody's (via CFA Society New York, May 2026); KBRA DLD Research (1H 2026).

Strong borrowers can still walk away



Refinancing traffic now runs from private credit to the syndicated market.

Private lenders took out $45bn of syndicated borrowers in 2025, but only $9bn so far in 2026.

A record ~$12bn of direct loans moved the other way in Q3, saving borrowers about 182bp.

Sources: KBRA DLD Jumbos & Steals (Sep 2026); PitchBook LCD (25 Sep 2026).

THE BOTTOM LINE

1 *"Headline default rates differ wildly so watch for actual losses and use amended PIK as a stress gauge."*

The same loans, different default rates

2.2% and 6.4% can describe the same loans in the same month.

Watch losses, not just defaults

Realised losses are running at about half their long-run average.

Treat bad PIK as a stress gauge

So far, it has bought time without hurting recoveries. But PIK marks are slipping and many of these loans mature by 2028.

2 *"The macro risk is not an economy-wide squeeze. It is a widening gap between the strongest and weakest borrowers."*

The shock is energy, not wages

Labour costs per unit of output are barely rising.

Corporate interest burdens remain low

Despite higher rates and rising debt levels, US companies' net interest burden is at its lowest since 1967.

The pressure is at the edges

Selection matters most with small and floating-rate borrowers, those with thin interest coverage and CCC spreads.

3 *"Lenders are increasingly being paid for risk again, but only where the risk is most acute."*

The one-way move has stopped

Private spreads and discounts have turned, though only about a fifth of the earlier tightening has reversed.

Lenders are securing stronger protections

Protection against liability-management raids is on the up, but not for covenants.

Strong credits still have choices

The syndicated market and easing banks keep pricing power selective, but not every borrower has that luxury.