

Private Credit BDCs sell-off unlikely to be systemic

21 October 2025

Overview

- Recent Private Credit Business Development Companies (BDC) sell-off reflects the Fed's rate-cut expectations, with high-profile defaults outside private credit triggering indiscriminate selling despite limited direct exposure.
- Overall credit fundamentals remain sound; private credit portfolios remain healthy with low defaults and strong liquidity buffers, according to Goldman Sachs.
- Semi-liquid funds managed by BDCs pose limited systemic risk, with most assets in locked-up institutional structures and redemptions well within control, reducing risk of a "run".
- No broad market contagion expected; impact is confined to select small lenders and sub-prime exposures in the equity space. In the Private Credit space, choosing the right managers is key for stable performance.

Executive summary

The recent sell-off in Business Development Companies (BDCs) has raised concerns about potential stresses in the credit environment. At the same time, several high-profile defaults outside of private credit compounded worries. A BDC acts as a vehicle (or holdco) that pools investor capital and deploys it into private credit assets such as senior secured loans, mezzanine debt, and sometimes equity. They do not operate businesses themselves; they hold a portfolio of loans and investments in private companies. Investors buy shares in the BDC, which gives them indirect exposure to private markets without having to originate deals themselves. Structured like a closed-end fund (non-redeemable), a BDC must invest at least 70% of its assets in US private companies and distribute at least 90% of its taxable income to shareholders, making it a high-yield, income-focused investment.

Figure 1: Cliffwater BDC Index



Source: Bloomberg, UOB Private Bank

Why the sell-off?

As the Fed shifts from "higher for longer" to rate cuts, investors are repricing the earnings of BDCs. Most BDC portfolios are on floating rates; lower base rates translate into softer net investment income and potential dividend compression after two years of strong returns.

Recent corporate failures — including First Brands, Tricolor, and Cantor Group — stoked fears of broader credit deterioration. These incidents largely occurred outside private credit, but the headlines blurred the distinction, sparking indiscriminate selling. The broader concern also spilled over to high-yield bonds, senior loans as well as bank Additional Tier-1 securities.

Semi-liquid BDCs have seen heightened scrutiny over redemption trends as they are the only vehicles that offer liquidity. The latest data showed that redemptions fell over 20% in Q3 to just 2.2% of NAV, below quarterly limits.

Taken together, the sell-off reflects a normalisation of expectations rather than a material deterioration in credit fundamentals.

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Why it is unlikely to be systemic

Based on research by Goldman Sachs Investment Bank, the overall private credit portfolio appears to be healthy:

- Healthy Fundamentals: Portfolio leverage averages $\sim 5\times$ debt/EBITDA, with equity cushions of $\sim 50\%$ and interest coverage ratios near $2\times$. Non-accruals remain around 1%, while Payment-in-kind (PIK – a measure of deteriorating credit quality) loans have stabilised at 14% of total exposure.
- Conservative Leverage: BDCs operate at $\sim 0.9\times$ debt-to-equity, far below the $2\times$ regulatory cap. Most funding lines are fully committed and termed out, reducing rollover risk.
- Ample Liquidity Buffers: The industry holds over USD 400bn in available capital across direct lending and opportunistic credit funds, more than enough to meet potential redemptions or absorb defaults.
- Long-Duration Capital: Institutional and GP/LP structures dominate the market; semi-liquid retail vehicles account for just 8% of total private credit loans.

Even under a 2008 Global Financial Crisis-style stress test (i.e., at 7-8% default rates), expected ultimate losses remain mid-single digits – painful but manageable, not systemic.

Some investors may be concerned that a sharp increase in semi-liquid BDCs may create a “run” on the private credit market. Most of the private credit AUM is concentrated in locked-up GP/LP vehicles ($\sim$ USD 2.5tn). Including leverage, the market supports $\sim$ USD 3.7tn of loans. Semi-liquid retail vehicles represent a small share, with NAV of about USD 200bn as of September 2025. In terms of sectors, technology, services, and healthcare are the 3 sectors that BDCs lend to the most frequently. First Brands is an auto-parts company while Tricolor is a used-car dealership and sub-prime auto lender. Credit failures do occur even in the best of times, but they do not always lead to a systemic failure.

The key to watch for a broader systemic trend is a deteriorating economy and tightening of credit conditions. In this regard, we do not see a high probability of a recession; overall credit availability remains normal as evidenced by the Fed Senior Loans Officer Survey. High-yield debt spreads have also fallen off recent highs. If macro stresses build, the Fed has ample room to cut rates to stabilise financial conditions.

Market implications across asset classes

Equities: We do not see systemic contagion to the broader equities market. However, it is entirely possible for specific small BDCs with sizeable exposure to failed companies to attract media headlines, resulting in periodic volatility.

While there are signs of a short-term overbought conditions, the S&P 500 is driven largely by technology and growth companies which are less vulnerable to credit markets. As we do not see the BDC sell-off as systemic, the impact to equities is likely limited to smaller banks and weaker companies that require the sub-prime lending market for financing.

Credit: Leveraged-loan and high-yield spreads have widened slightly but remain below long-run averages. The repricing may improve forward returns for institutional direct lenders who are able to deploy into wider spreads. Overall credit fundamentals do not appear to be deteriorating although valuation of credit spreads is tight relative to history.

For the broader private credit asset class, the key is to be selective – choosing the right managers who have the experience to manage the asset class over tough cycles. The recent sell-off has demonstrated that BDCs of stronger managers attract a smaller discount to their net asset values.

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Figure 2: BDC Comparison Table

Ticker	BDC Type	Perpetual Life BDC	Total Investments (USD, mn)	Leverage	% First Lien	% Second Lien	% Equity	% Subordinated	% Non-Accrual (Cost)	PIK Income / Nil
APODS	Private	Yes	17428	0.56x	100%	0%	0%	0%	0.8%	2.4%
ARCC	Public	No	27886	1.01x	59%	5%	26%	9%	2.0%	16.4%
ARESSI	Private	Yes	15994	0.81x	84%	1%	3%	5%	0.0%	10.0%
BCSF	Public	No	2502	1.37x	63%	1%	19%	17%	1.7%	24.6%
BBDC	Public	No	2624	1.38x	71%	3%	20%	4%	1.4%	15.1%
TCPC	Public	No	1792	1.59x	82%	7%	11%	0%	9.2%	21.2%
BCRED	Private	Yes	73176	0.67x	90%	4%	5%	0%	0.4%	10.2%
BXSL	Public	No	13253	1.13x	98%	1%	1%	0%	0.3%	12.6%
OBDC	Public	No	16869	1.20x	76%	5%	17%	2%	1.6%	14.0%
OBBCII	Private	No	1700	0.69x	78%	10%	10%	2%	2.5%	17.7%
OCINCC	Private	Yes	32004	0.84x	89%	5%	5%	1%	0.2%	8.1%
OTF	Public	No	12729	0.60x	78%	3%	15%	4%	0.2%	14.7%
CGBD	Public	No	2335	1.09x	86%	4%	5%	5%	3.0%	18.4%
FRBP	Private	No	4083	1.23x	76%	4%	14%	6%	2.3%	16.4%
FSK	Public	No	13648	1.31x	76%	6%	16%	2%	5.4%	30.6%
GSBD	Public	No	3265	1.19x	96%	2%	2%	0%	2.5%	16.9%
GBDC	Public	No	8962	1.28x	92%	0%	7%	0%	1.2%	13.3%
GCRED	Private	Yes	6670	1.18x	98%	0%	1%	0%	0.0%	8.8%
HTGC	Public	No	4176	0.96x	87%	7%	5%	2%	0.2%	15.4%
HLEND	Private	Yes	20757	0.94x	97%	0%	0%	0%	0.8%	9.3%
MAIN	Public	No	5093	0.83x	65%	0%	35%	0%	5.0%	3.8%
MSDL	Public	No	3785	1.15x	96%	2%	1%	0%	0.7%	8.9%
NMFC	Public	No	3001	1.41x	66%	6%	25%	4%	1.4%	19.9%
NHPIFS	Private	Yes	6585	0.90x	99%	0%	1%	0%	1.1%	6.3%
OCSL	Public	No	2809	1.01x	82%	2%	6%	9%	6.0%	15.1%
OAKSCF	Private	Yes	6363	0.66x	91%	2%	1%	5%	0.2%	2.8%
PSEC	Public	No	6674	0.73x	67%	11%	21%	0%	4.1%	22.0%
SIXSLP	Private	No	7506	1.00x	97%	0%	2%	0%	0.0%	11.3%
TSIX	Public	No	3295	1.07x	94%	1%	5%	0%	2.1%	11.4%

Source: BDC Collateral, JP Morgan BDC Quarterly Earnings Review, 30 Sep 2025

Figure 3: Relevant financial information for notable private credit companies

Ticker	Company	Mkt cap (USDbn)	Est Dvd Yield (%)	3M Price % Chg	B/H/S	Cons target	Last px	% up/down
ARCC	Ares Capital Corp	13.8	9.8	-14.1	13/2/0	23.04	19.60	17.5
OBDC	Blue Owl Capital Corp	6.5	12.1	-14.3	11/2/0	15.50	12.70	22.0
MAIN	Main Street Capital Corp	5.2	7.2	-9.2	1/6/0	61.33	57.95	5.8
GBDC	Golub Capital BDC Inc	3.7	11.4	-8.0	3/2/0	15.25	13.93	9.5
HTGC	Hercules Capital Inc	3.2	10.1	-8.2	6/2/0	21.09	17.49	20.6
BXSL	Blackstone Secured Lending Fun	6.0	11.9	-18.8	9/3/0	31.14	25.95	20.0
FSK	FS KKR Capital Corp	4.2	17.3	-32.7	1/10/0	18.35	14.83	23.7
TSIX	Sixth Street Specialty Lending	2.0	9.3	-10.6	9/2/0	24.18	21.68	11.5
MSDL	Morgan Stanley Direct Lending	1.5	12.1	-13.7	4/3/0	18.14	16.92	7.2
CSWC	Capital Southwest Corp	1.1	12.2	-11.2	3/5/0	23.36	20.39	14.6

Source: Bloomberg, UOB Private Bank

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