Private Markets in a Higher Rate World

Slow Adjustment, Rising Dispersion

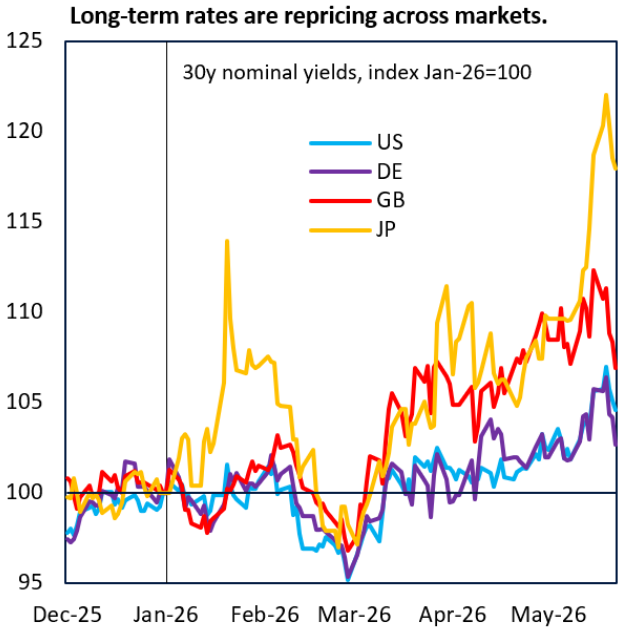
June, 2026

Marcello Estevão
Managing Director and Chief Economist

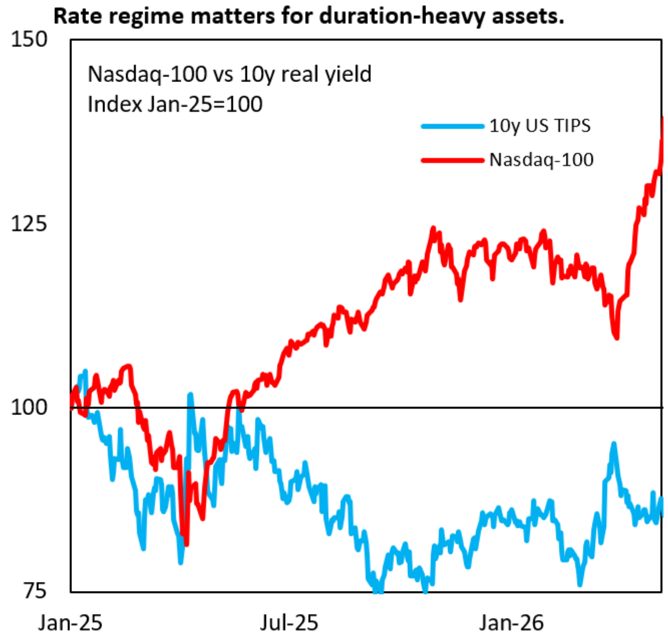
Institute of International Finance

Private markets are absorbing the same macro shock more slowly

- Long-term rates have repriced across major markets.
- Higher real rates are pressuring duration heavy assets.
- Private markets absorb the same shock with slower price discovery.



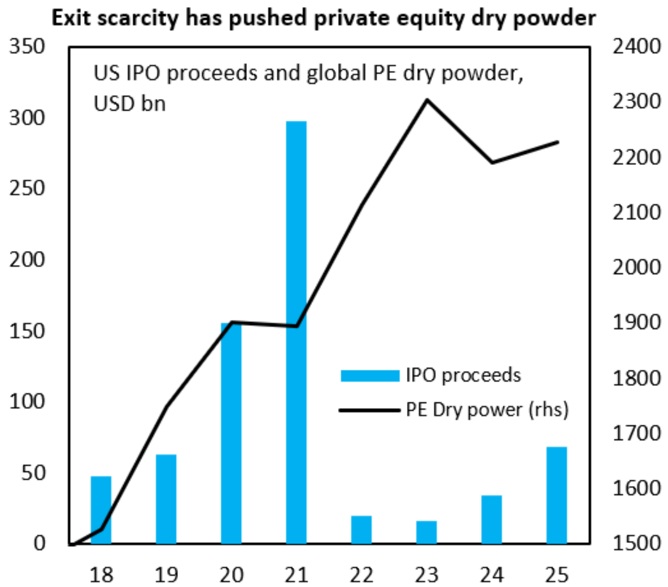
Source: BBG, IIF



Source: BBG, IIF

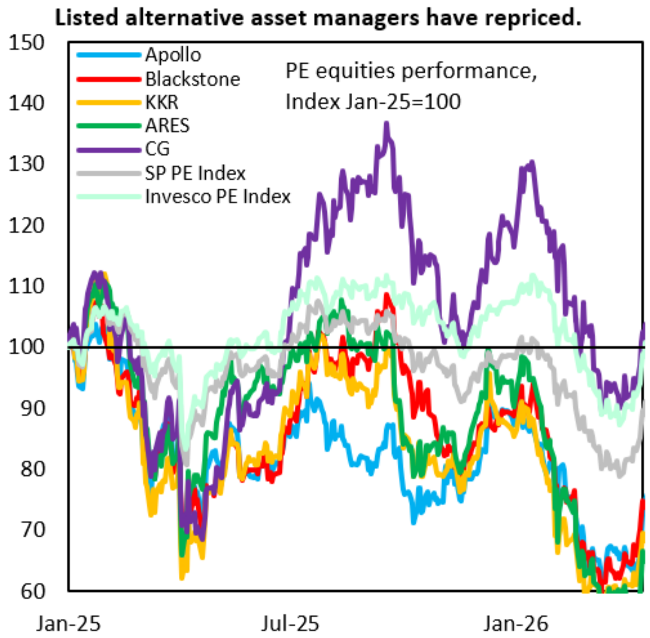
Liquidity is increasingly engineered rather than realized

- IPO proceeds remain weak while dry powder stays elevated.
- Capital is accumulating faster than it is being recycled.
- Listed alternative managers show public markets are already discounting the model.



Note: Dry powder refers to committed but uncalled capital available for deployment by private equity funds

Source: S&P, BBG, IIF

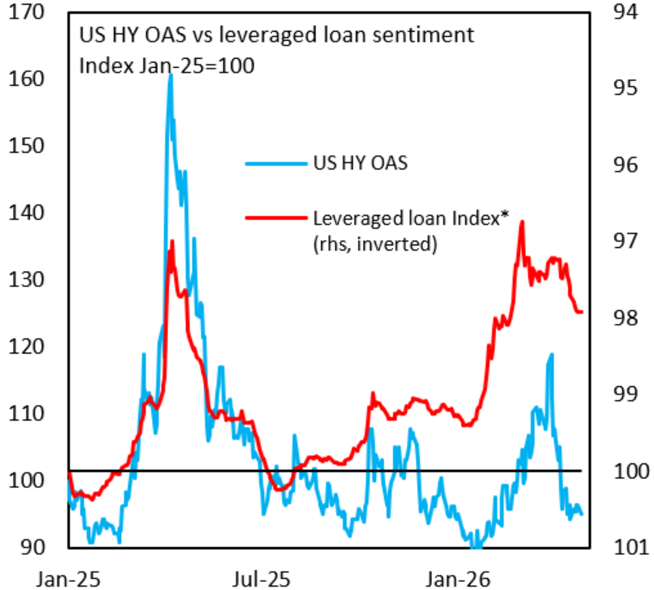


Source: BBG, IIF

Public markets are repricing faster than private markets

- High-yield and leveraged-loan markets are showing renewed stress.
- Listed private credit proxies are not fully mirroring public credit repricing.
- The gap points to slower transmission inside private markets, not insulation.

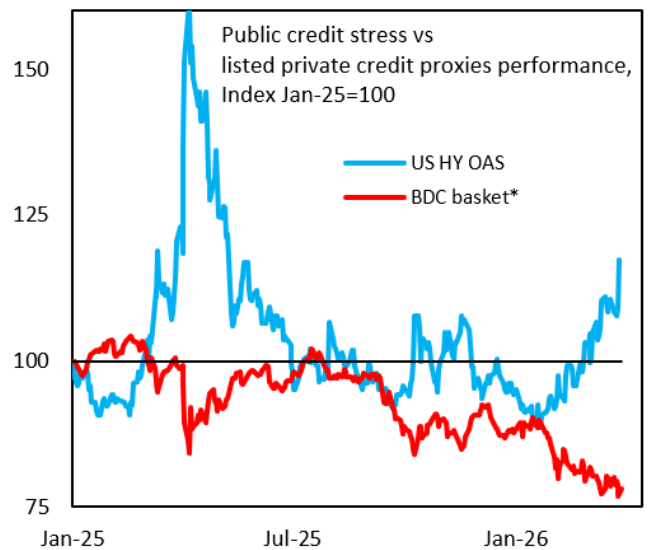
Public credit stress still present in the system.



*proxied by the Morningstar LSTA US Leveraged Loan Index bid price

Source: BBG, IIF

Private credit proxies do not mirror credit stress.

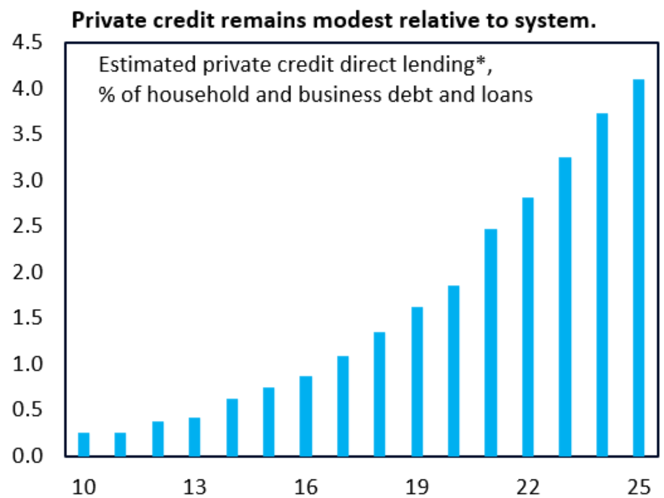


*Listed private credit sentiment is proxied by an equal weight basket of Ares, Blue Owl and Golub equities

Source: BBG, IIF

The structure of private credit differs from banking

- Direct lending remains modest relative to the broader credit system.
- Private credit relies less on runnable liabilities than banks.
- The risk is opaque stress transmission rather than classic deposit flight.

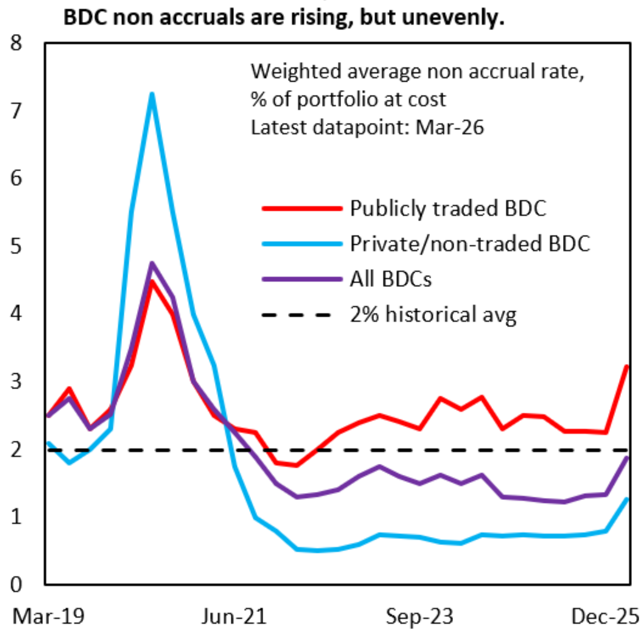


*Series is an approximate measure of private credit direct lending relative to household and business debt and loans. Private credit definitions differ across providers. PitchBook and Preqin primarily report fund AUM rather than lending volumes, so the series should be read as a harmonized proxy rather than a precise measure of outstanding credit.

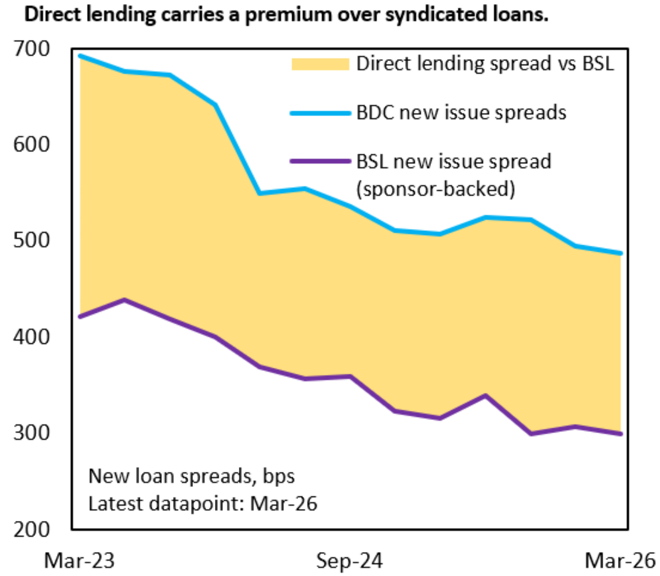
Source: Preqin, PitchBook, GS, FRB, IIF.

The slow credit cycle is becoming more visible

- BDC non accruals are rising, but deterioration is uneven.
- Direct lending still carries a large premium over syndicated loans.
- Borrower quality and refinancing needs are increasingly driving outcomes.



Source: LSEG, BDC Collateral, SEC, IIF

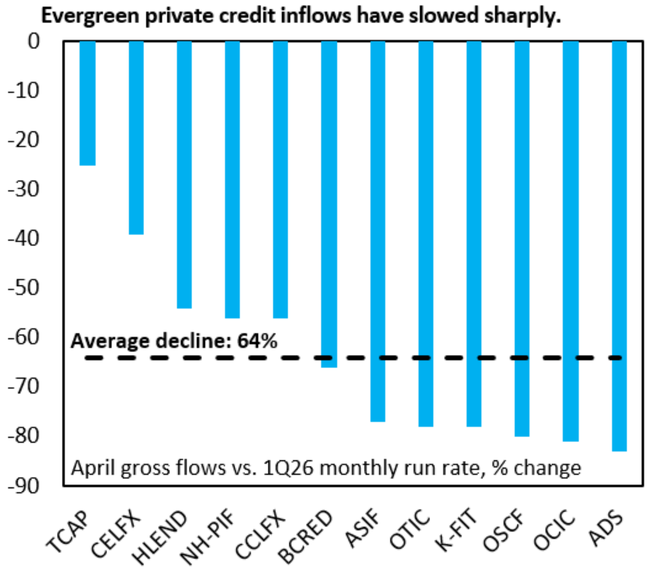


Note: BDC new issue spreads are used as a proxy for direct lending spreads. BSL refers to broadly syndicated loans. Data are for sponsor backed loans.

Source: BDC Collateral, GSIR, IIF

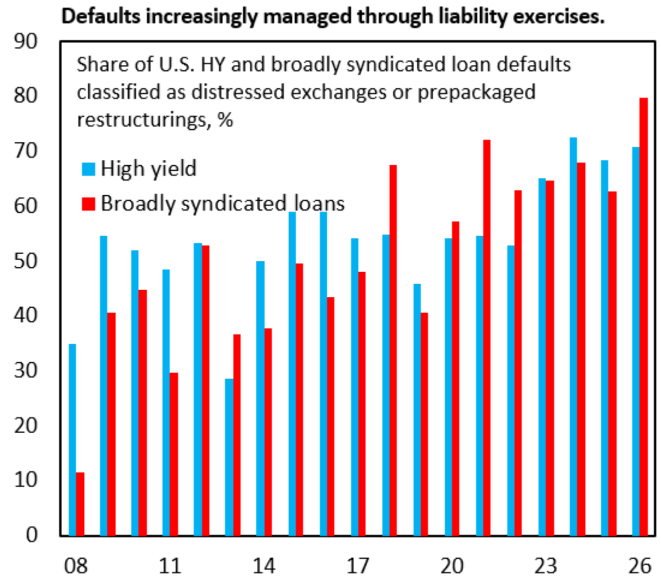
Semi-liquid structures reduce volatility but also visibility

- Evergreen private credit inflows have slowed sharply.
- Redemption pressure makes illiquid assets harder to manage.
- Gates and internal liquidity tools can smooth stress but reduce visibility.



Note: Includes dividend reinvestment plans. Sample covers evergreen direct lending funds and non traded BDCs managed by large private market platforms with monthly flow disclosures

Source: SEC, GSIR, IIF



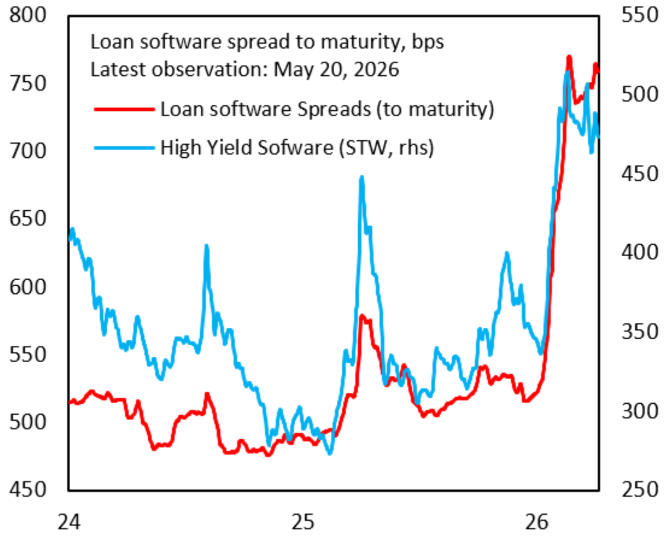
Note: Distressed exchanges and prepackaged restructurings are included as default events. 2026 data are through April.

Source: Moody's, GS, IIF

AI is increasing dispersion inside credit markets

- AI capex supports growth but narrows market leadership.
- Software credit spreads have widened as disruption risk is repriced.
- Private tech loan marks remain close to par despite public repricing.

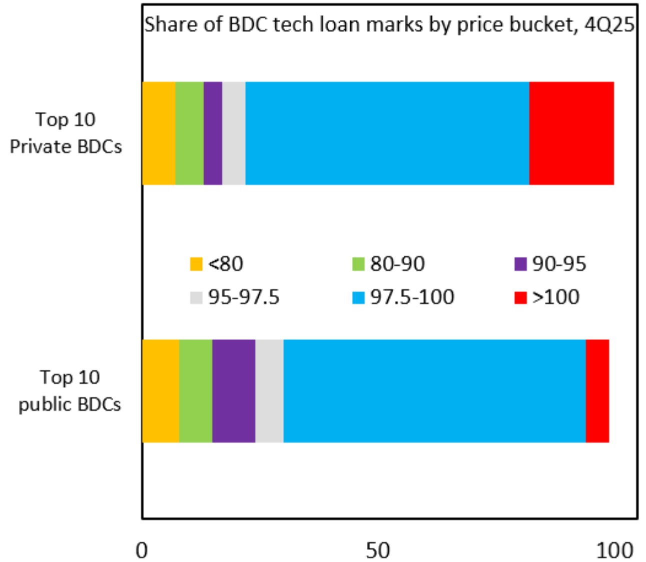
Software loan spreads have widened sharply.



Note: Loan software series refers to spread to maturity for software leveraged loans. High yield software series refers to spread to worst for software high yield bonds.

Source: JPM, S&P/IHS Markit, IIF

Private tech loan marks remain close to par.



Note: Price buckets are based on fair value as a share of principal. Sample covers the largest public and private BDCs.

Source: Pitchbook, UBS, IIF