



# Private Credit Promised 10%.

## What Happens When You Need Your Money Back?

*Redemption gates are slamming shut across the private credit market. The yield you were promised and the yield you will receive are not the same number. The price of finding that out is liquidity you can no longer access.*

For the better part of a decade, private credit was the trade everyone wanted. Double-digit yields, low reported volatility, and the reassuring credibility of institutional brand names. Advisors pitched it. Clients bought it. Assets swelled past \$2 trillion globally by 2024.<sup>1</sup>

Now the bills are coming due, and the exit doors are narrowing.

In the first quarter of 2026, redemption restrictions have rippled across some of the largest names in the industry. Withdrawal requests have exceeded quarterly caps at multiple major private credit funds, forcing managers to gate or prorate redemptions.<sup>2</sup> Investors who believed they had access to a liquid, high-yielding asset are now learning that the exit was narrower than expected.

## The Private Credit Liquidity Risk Nobody Priced

### Liquidity Risk

The problem with private credit has always been structural. These vehicles hold multi-year term loans to middle-market companies, assets that are illiquid by design with maturities measured in years, not days. Yet many were sold to retail and wealth management clients with quarterly or monthly redemption windows.

#### WHAT IS A BUSINESS DEVELOPMENT COMPANY (BDC)?

A Business Development Company, or BDC, is a federally regulated investment fund that raises money from investors and lends it to small and mid-sized private companies at high interest rates. By law, BDCs must distribute at least 90% of their income to investors as dividends. That is why they advertise high yields.

BDCs come in two forms. Publicly traded BDCs list on stock exchanges and can be bought or sold daily, though share prices fluctuate with market sentiment. Non-traded BDCs are sold through financial advisors to retail and wealth management clients and are not listed on any exchange. They typically offered quarterly redemption windows, meaning investors could only request their money back four times a year, subject to caps.

Why this matters right now: The majority of private credit sold to individual investors over the past five years was structured as a non-traded BDC. The redemption gates that have been slamming shut at Blackstone, Blue Owl, Morgan Stanley, and BlackRock in early 2026 are all non-traded BDC or semi-liquid fund events. These are not abstract institutional products. They are the exact vehicles that advisors recommended to clients seeking enhanced yield, and they are the vehicles where investors are now discovering that the promised liquidity does not exist when they need it most.

That is a fundamental mismatch. In a stressed environment, it is the investor who absorbs the consequences.

### Valuation Risk

There is also a valuation problem. Private credit portfolios are not exchange-traded. Marks are set by the managers themselves on a quarterly basis, using models and assumptions that are not independently verified in real time. Discrepancies in how different firms value the same underlying exposures have drawn regulatory scrutiny. The question every advisor should be asking: what is this portfolio actually worth today, if you had to sell it?<sup>3</sup>

*“You think you’re buying a 10% yield. When you account for the losses that will run through the product, you’re more likely to end up with 4 to 6%.” Kris Konrad, Co-Founder, Piton Investment Management*

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## The Yield You Were Sold vs. the Yield You Will Receive

Private credit was sold on yield after fees. During the peak rate environment of 2022 through 2024, retail BDC investors were marketed yields of 9% to 13%, and in many cases that is what was distributed.<sup>4</sup> Then default rates climbed. By late 2025, private credit default rates had reached a record 9.2%, according to Fitch Ratings.<sup>2</sup> By 2025, as base rates declined alongside rising defaults, the median non-traded BDC was delivering approximately 6%, net of fees, and before the full impact of those defaults had even appeared in reported valuations.<sup>5</sup>

That 6% figure is not coincidental. At a 9.2% default rate and a 33% recovery rate (both sourced from federal regulators), the credit loss rate works out to approximately 6.2%, reducing the marketed yield to an effective return of 2.8% to 7.8% depending on starting yield.<sup>6</sup> The math and the market data are telling the same story.

The Cliffwater Direct Lending Index, the industry's accepted benchmark for U.S. middle market loans, posted a gross return of 10.06% over the trailing 12 months through Q2 2025.<sup>7</sup> That figure is gross of all management fees and carry, which Cliffwater's own research shows average 3.94% annually across the largest direct lending managers.<sup>8</sup> Subtract fees. Apply the default rate. You arrive at the same place.

Investors accepted illiquidity in exchange for a yield premium that is now being eroded by losses. They gave up the ability to exit. The return they were promised is shrinking toward what they could have obtained in liquid markets all along.

## The Case for Liquid Fixed Income and Transparent Yield

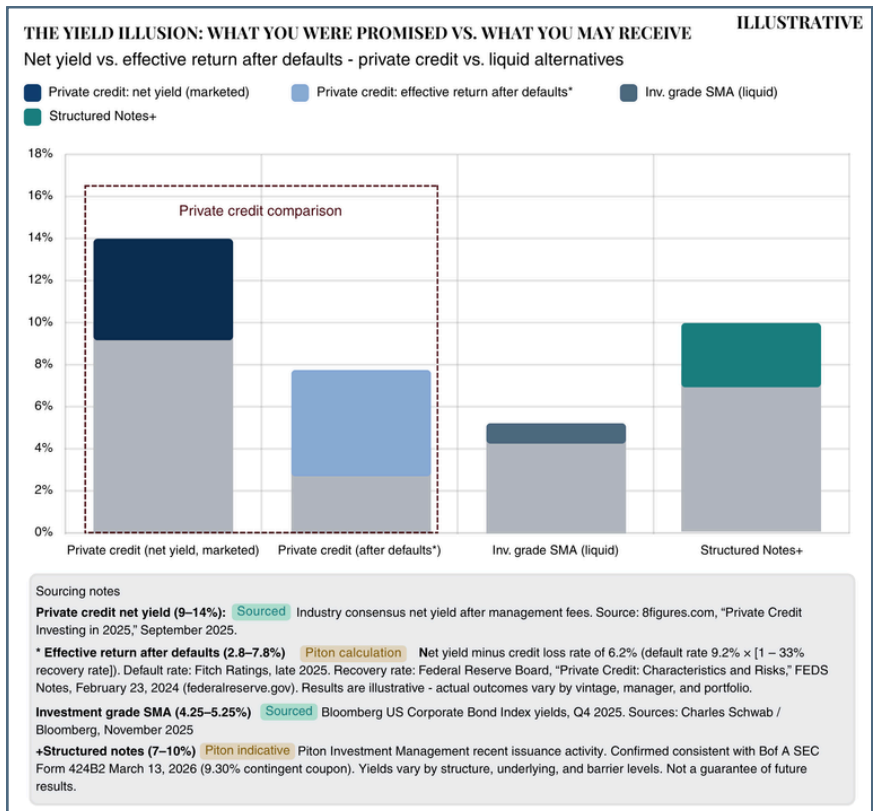
Liquidity and transparency have always had real value in fixed income. The current moment is just making that obvious. Core fixed income, managed actively through a separately managed account, offers something private credit cannot: the ability to exit any position at a known price, on any trading day.

### WHAT IS CORE FIXED INCOME?

Core fixed income refers to a portfolio of high-quality, publicly traded bonds: Treasuries, investment-grade corporate bonds, agency mortgage-backed securities, and municipals. Every security trades on a deep, liquid market with an independently verifiable price every trading day.

In the current environment, investment-grade corporate bonds are delivering competitive income without requiring investors to accept illiquidity, manager-set valuations, or lock-up periods.

Unlike private credit, there are no quarterly redemption windows and no lag between when a loss occurs and when it appears in your reported return. An investor who needs their capital can sell any position on any day at a known price. It is the foundational layer of a fixed income allocation, and its most underappreciated feature right now is the one private credit cannot offer: the ability to leave.



Investment-grade corporate bonds, agency mortgage-backed securities, and Treasuries trade on deep, liquid markets. Every position has an observable, exchange-driven price. Every holding can be liquidated in days, not months. And in a downturn, that liquidity is not just a convenience. It is the difference between managing risk and being trapped by it.

*“The advisors who protected their clients were not the ones who found the highest headline yield. They were the ones who asked what happens when the client needs their money back.”*

*Brian Lockwood, CIO, Piton Investment Management*

## Structured Notes: Enhanced Yield with a Known Mark

For clients who need more yield than core fixed income alone provides, structured notes are worth a direct look. Income payments are tied to the performance of a defined reference asset: a well-known public index like the S&P 500, the Nasdaq-100, or the Russell 2000, or a single publicly traded stock. Those reference assets have a price every business day that anyone can verify. There is no private manager deciding what your investment is worth. No quarterly window to formally request your money back. No waiting to find out what you would receive if something went wrong. The terms are set at issuance. The downside conditions are spelled out. Clients know what they own.

Notes can be structured to pay income across a range of market environments, with defined downside barriers that tell clients exactly where their principal is at risk. The yield profile is competitive with what private credit investors are likely to actually net after defaults, and it comes without the lock-up, the valuation lag, or the redemption gate. To put a real number on it: Bank of America priced a contingent income callable yield note in March 2026 at a 9.30% per annum contingent coupon. Principal is only at risk if the reference indices fall more than 40% from their starting value by maturity.<sup>9</sup> Unlike a gated private credit fund, a structured note position can be understood, valued, and addressed at any point during its life.

## What Advisors Should Be Asking Right Now

The private credit stress unfolding in 2026 is a good time for every advisor to go back through the yield-seeking allocations in client portfolios. Not to panic. To pressure-test.

If a client needed this capital in 90 days, could they access it? Does this position have a price that is independently verifiable today? When the gross yield is adjusted for expected defaults and fees, does the net return actually justify what the client gave up to get it?

If any of those answers are uncertain, there are alternatives. Core fixed income and structured notes, managed by specialists can deliver competitive risk-adjusted income without the structural complications that are now making daily headlines. Clients do not have to choose between yield and the ability to leave.



**Brian Lockwood** is the Chief Investment Officer of Piton with over 20 years of fixed income portfolio management experience. He has managed fixed income strategies for HSBC, Ramius Capital Group, and DLJ/Credit Suisse Asset Management. He holds the Chartered Financial Analyst® designation.



**Kris Konrad** is a founding partner of Piton with over 20 years of fixed income experience specializing in Agency Mortgage-Backed Securities. He has managed one of the largest levered Agency MBS portfolios, with over \$140 billion in assets at its peak. He previously served as Co-Chief Investment Officer at Annaly.



# Fixed Income Perspectives

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## About Piton Investment Management

Piton Investment Management is a fixed income asset manager serving financial advisors, RIA firms, family offices, and institutional and individual investors. We specialize in constructing customized separately managed accounts (SMAs) across traditional fixed income and structured notes, drawing on over 90 years of combined industry experience.

Our approach is built on the belief that fixed income portfolios should be tailored to each client's objectives, not adapted from a standard model. Every account is managed with direct oversight, with a focus on generating alpha, managing risk, and maintaining transparency throughout.

### Our Strategies

- **Yield Enhanced** – income-focused portfolios with defined risk parameters
- **Conservative Total Return** – balancing income generation with capital preservation
- **Cash Management** – liquidity-driven, low-risk solutions
- **Tax-Exempt** – municipal bond strategies for tax-sensitive investors

It's not what we do that makes us different. It's how we do it.

This analysis is provided for educational purposes and does not constitute investment advice. Past performance does not guarantee future results. Consider your individual circumstances and consult with qualified professionals before making investment decisions. References to specific firms or funds are for informational purposes based on publicly reported information and do not constitute an endorsement or criticism of any investment manager.

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<sup>1</sup> Federal Reserve Board, "Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications," FEDS Notes, May 23, 2025. The Federal Reserve reported global private credit assets of nearly \$2 trillion as of Q2 2024, representing approximately five times growth since 2009. [federalreserve.gov](https://www.federalreserve.gov)

<sup>2</sup> Bloomberg, "Blackstone, Apollo, Ares Signal Investor Pain With Private Credit Withdrawals," March 3, 2026. [bloomberg.com](https://www.bloomberg.com) | Default rate: Fitch Ratings cited in Fortune, "The \$265 Billion Private Credit Meltdown," March 14, 2026. [fortune.com](https://www.fortune.com)

<sup>3</sup> Wealth Management, "The Private Capital Crisis Is Real," March 2026. [wealthmanagement.com](https://www.wealthmanagement.com)

<sup>4</sup> 8figures.com, "Private Credit Investing in 2025: Yields, Risks, and Realistic Ways to Get Access," September 4, 2025. Industry consensus net yield target of 9–13% for direct lending and BDC vehicles after management fees. [8figures.com](https://www.8figures.com) | BCRED annualized distribution yield of 10.3%–10.5%: Blackstone Private Credit Fund SEC filings, Q3–Q4 2024. [sec.gov](https://www.sec.gov)

<sup>5</sup> Morningstar Direct / SEC Filings. Median unlisted public BDC net total return of 6.2% for the first three quarters of 2025. Source: Morningstar, "Investors Are Still Piling Into Private Credit as Returns Fade," November 26, 2025. [morningstar.com](https://www.morningstar.com) | Note: This figure independently corroborates the Piton credit loss calculation in footnote <sup>6</sup> below. Both produce an effective return in the approximately 6% range for the 2025 period.

<sup>6</sup> Piton Investment Management credit loss calculation: loss rate = default rate × (1 – recovery rate) = 9.2% × (1 – 33%) = 6.2%. Applied to the marketed net yield range of 9–13% produces an effective return range of 2.8–7.8%. Default rate of 9.2%: Fitch Ratings, late 2025, cited in Fortune, March 14, 2026. Recovery rate of 33%: Federal Reserve Board, "Private Credit: Characteristics and Risks," FEDS Notes, February 23, 2024. [federalreserve.gov](https://www.federalreserve.gov). Illustrative. Actual outcomes vary by vintage, manager, and portfolio composition.

<sup>7</sup> Cliffwater Direct Lending Index (CDLI), trailing 12-month gross return of 10.06% as of Q2 2025. The CDLI is an asset-weighted index of approximately 19,000 directly originated middle market loans and is explicitly gross of fees. Cited in: Larry Swedroe, "Private Credit Delivers Strong Q2 2025 Performance," August 22, 2025. [cliffwaterdirectlendingindex.com](https://www.cliffwaterdirectlendingindex.com)

<sup>8</sup> Cliffwater 2023 Fee Survey, covering 58 of the largest direct lending managers managing \$924 billion in assets. Average total fees of 3.94% composed of 1.96% management fees, 1.50% carried interest, and 0.48% administrative expenses. Published by CAIA Association, December 2023. [caia.org](https://www.caia.org)

<sup>9</sup> Bank of America / BofA Finance LLC, Contingent Income Issuer Callable Yield Notes, SEC Form 424B2, pricing date March 13, 2026, maturity March 16, 2029. Contingent coupon rate: 9.30% per annum, payable semi-annually if each of the Nasdaq-100, Russell 2000, and S&P 500 closes at or above 60% of its starting value on the applicable observation date. Available at: [sec.gov](https://www.sec.gov)

Chart sourcing note: Bar 1 (Private credit net yield, 9–13%): Industry consensus net yield after fees for retail BDC investors during peak rate environment 2022–2024. Source: [8figures.com](https://www.8figures.com), September 2025; BCRED SEC filings Q3–Q4 2024.

Bar 2 (Private credit effective return after defaults, 2.8–7.8%): Piton Investment Management calculation. Loss rate = 9.2% default rate × (1 – 33% recovery) = 6.2%, applied to marketed net yield range of 9–13%. Independently corroborated by Morningstar median non-traded BDC return of 6.2% through Q3 2025 (net of fees, before defaults fully recognized). See footnotes 5 and 6.

Bar 3 (Investment grade SMA, 4.25–5.25%): Bloomberg US Corporate Bond Index yields as of Q4 2025. Source: Charles Schwab fixed income research, Bloomberg, November 2025.

Bar 4 (Contingent income notes, 7–10% indicative): Piton Investment Management recent issuance activity. Consistent with publicly filed terms: BofA SEC Form 424B2, March 13, 2026 (9.30% contingent coupon). Yields vary by structure, underlying, barrier level, and market conditions. Not a guarantee of future results.