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SUMMARY

- Private credit usually has both higher yields, and risks related to liquidity, transparency, and credit quality versus its public debt counterparts.
- Of these risks, transparency is our biggest concern regarding private credit.
- Private credit due diligence is complex, making the role of the financial advisor even more important.

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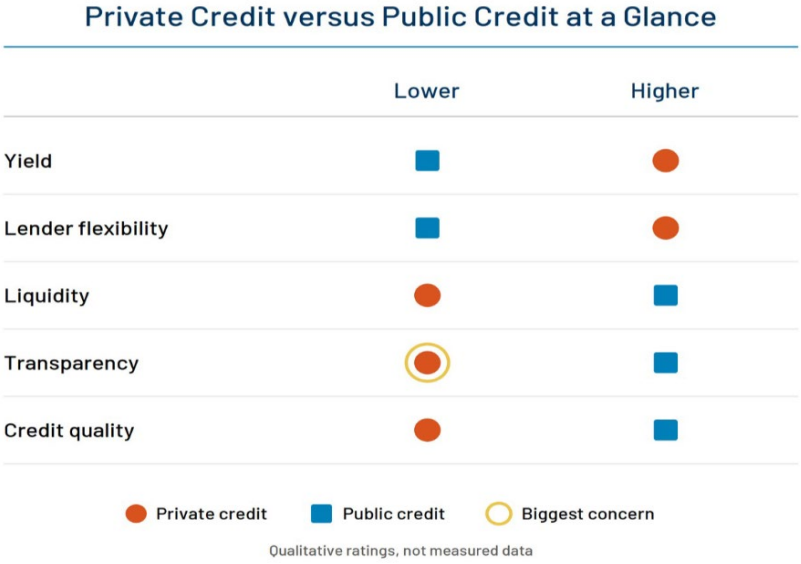
Private Credit: Buyer Beware

Lower Quality, Less Transparent for Retail Investors

We continue to field questions from clients and advisors concerning the creditworthiness and suitability of 'private credit.' While RiverFront does not invest in private credit, we do closely monitor industry dynamics as we view it as a systemically important –and opaque -part of debt markets.

What is Private Credit?

Since the Great Financial Crisis of 2008 ("GFC"), traditional banks have limited the amount of lending to small and mid-size companies, especially those under $50 million in market capitalization. These limits are due in part to increased capital requirements by regulators to help shore up the financial system. Non-bank lenders filled the void by providing loans to these companies. This lending model is known as the 'private credit' market. We believe that there are a number of significant differences between the private and public credit markets that are important for retail investors to understand. These attributes are market structure, liquidity, transparency, and credit quality.



Source: RiverFront, opinions as of 10.27.2026. The scenarios above are based on RiverFront's Investment Team's views and opinions as of the publication of this piece. These views are subject to change and are not intended as investment recommendations. Chart shown for illustrative purposes only. Past performance is no indication of future results

Private Credit: Higher Yields, More Flexibility...and Higher Risk

The private credit market consists mainly of non-bank lenders, such as private debt funds, hedge funds, and business development companies (BDCs). Private credit lenders provide financing for companies that would either be too small or too highly leveraged to issue debt in the public markets.

To accommodate for this higher risk, private credit lenders require higher interest rates and more control over a company's operations and lending terms. For this reason, private credit lenders tend to have more control over the range of borrowing outcomes than the public market, in our opinion.

Liquidity Risk: 'Gating' can Limit Private Credit Investors' Access to Their Investment

Public market debt has historically provided investors with the ability to buy and sell positions without restriction, even during periods of market stress, though not always at favorable prices. **Contrast this dynamic with private market debt, where firms have the ability to restrict when and how much of an investor's investment can be withdrawn, often on a quarterly basis.** The fund can limit redemptions above a certain level, a process known as "gating." This prevents the fund from being forced to sell illiquid assets to meet these redemption requests. While not all private credit funds use this mechanism when times get tough, it is a feature that can represent a major risk to investors, and one that they should fully understand before making an investment in private credit.

Transparency Risk: Private Credit Tends to be Opaque in How They are Priced and Marked-to-Market.

The biggest concern that we have regarding the private credit market is pricing transparency. First, in our view, many private credit lenders do not have the same level of regulatory scrutiny that the public debt market has to abide by. There are generally no mandatory public disclosures regarding financial statements of the borrowers, and the valuation methodology is not uniform from issuer to issuer. Valuations are sometimes generated internally, which leaves pricing of the asset to the issuer's discretion. **This dynamic can lead to a lag in marking assets to the current market value, especially during periods of stress.** These questionable valuation methodologies may misrepresent and overstate the actual diversification benefits of the private credit market, in our view.

Credit Quality Risk: Tends to be Lower than Public Market Debt Due to Size of Borrower Companies

Given that the private credit market predominantly caters to small to mid-sized companies, the universe of potential borrowers generally tends to be more operationally challenged than bigger public debt borrowers. **We believe the companies funded by private credit often also have higher leverage ratios,** similar to some lower quality high yield 'junk' bond issuers found in the public debt market. We believe that public debt borrowers tend to be larger and have higher cash flow generation capacity, which ultimately leads to lower debt-to-equity ratios and higher credit quality. In public debt markets, there is a higher concentration of investment grade issuers than non-investment grade issuers (debt rated below BBB). By comparison, private credit's focus on smaller issuers allows the lender to demand higher yields to compensate for the added risk. That said, many private credit loans are senior secured and include lender protections such as covenants.

Conclusion: The Private Credit Market is Evolving...and Must Prove Itself in a Higher Interest Rate Environment

The private credit market has filled a financing gap for many companies that have limited to no other options to raise capital needed to run their business operations. We believe this has been a blessing for the US economy, given that small businesses produce over 43% of US GDP, according to the US Chamber of Commerce. In the GFC, the banking system operated as a more highly levered and centralized unit- creating systemic risk when things went wrong. Today's private credit structure is more decentralized and less levered at the lender level, which we think should better insulate the financial system from systemic contagion.

However, the tremendous growth of the sector - as more retail investors gain access through packaged direct investment vehicles, interval funds, and business development companies (BDCs) - calls for increased vigilance, in our opinion. We will focus on monitoring structure, liquidity, transparency, and credit issues in the private credit market, especially as a higher interest rate environment may test the durability of this new, relatively untested sector in the fixed income market.

Given the level of complexity involved, we believe consulting with your financial advisor is critical when navigating the intricacies of private credit investments, and the tradeoff between higher yields and greater risk.

Risk Discussion: All investments in securities, including the strategies discussed above, include a risk of loss of principal (invested amount) and any profits that have not been realized. Markets fluctuate substantially over time and have experienced increased volatility in recent years due to global and domestic economic events. Performance of any investment is not guaranteed. In a rising interest rate environment, the value of fixed-income securities generally declines. Diversification does not guarantee a profit or protect against a loss. Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability. Please see the end of this publication for more disclosures.

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Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. The issuer agrees to make interest payments at a stated rate and to repay the principal (amount invested) at maturity. Interest and principal payments are not guaranteed and depend on the issuer's ability to pay. In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

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Foreign investments, especially investments in emerging markets, can be riskier and more volatile than investments in the U.S. and are considered speculative and subject to heightened risks in addition to the general risks of investing in non-U.S. securities. Also, inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

Definitions:

Gross Domestic Product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

The global financial crisis (GFC) refers to a period of extreme stress in global financial markets and banking systems between 2007 and 2009, which changed the financial system culminating in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Diversification is the strategy of investing in different asset classes and asset types to reduce portfolio risk associated with price volatility.

Junk bonds are high-yield debt securities issued by companies with lower credit ratings, offering greater returns to compensate for their higher risk of default.

A business development company (BDC) is a type of investment firm that provides capital to small and mid-sized companies, including financially distressed ones, often offering high-return opportunities, along with higher risk, for investors.

A hedge fund is an actively managed investment that pools money from accredited investors and seeks high returns by using complex strategies and significant risk.

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