ACC: Private Credit Q1 2026 Quarterly Update

Executive summary

- Q1 2026 data drawn from the Houlihan Lokey DataBank covering 70,000+ loan valuations continues to show a private credit market that is broadly stable, with pockets of stress that remain contained and concentrated in identifiable sectors and borrower-size cohorts.
- Loan valuations are healthy: 87% of loans tracked by Houlihan Lokey are valued near par (i.e. above 97% of the amount originally lent). The 6% of loans valued below 90% of par are heavily concentrated among smaller borrowers.
- Borrower earnings continue to grow: median revenues rose 5.4% and EBITDA (earnings before interest, tax, depreciation and amortisation – a common indicator of core earnings) rose 7.3% year-on-year in Q1 2026, which was also the 11th consecutive quarter of margin expansion.
- Defaults are falling on a trailing twelve-month basis, and historical loss rates remain low: Aksia data shows that first-lien direct lending has produced cumulative principal losses of just 0.8% over the 2013–2025 period.
- Use of Payment-in-Kind (PIK) features – which let a borrower defer cash interest – has grown, but the dollar value of PIK amendments granted to stressed borrowers has remained very low at 1.5% of loan value.

Core market indicators

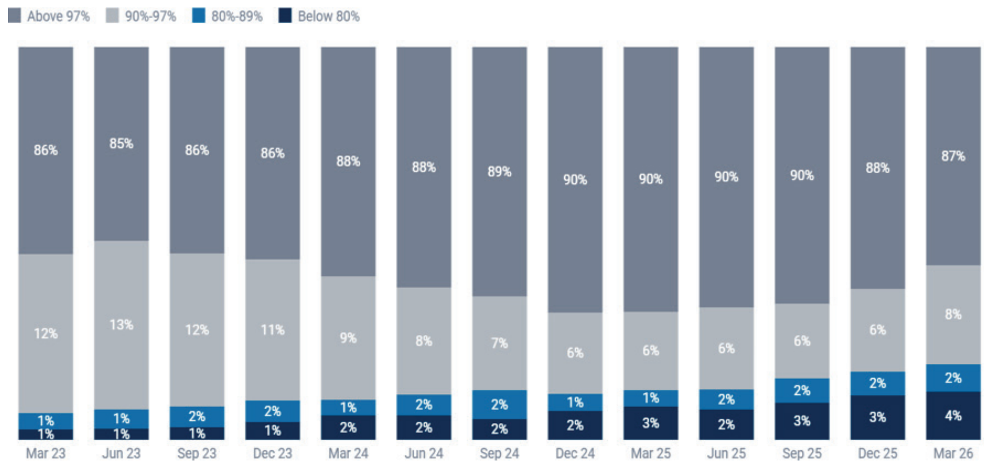
Valuations: healthy headline, with stress concentrated in smaller borrowers

Loan valuations remain healthy. As of March 2026, 87% of loans tracked by Houlihan Lokey were valued above 97% of par (i.e. very close to the amount originally lent). The share of loans valued below 90% of par grew from 5 to 6% over the last quarter, but this cohort is concentrated in specific sectors – particularly software, discussed later – and in smaller borrowers.

Size is a clear differentiator: 12% of borrowers in the $10–20mn EBITDA bracket are valued below 90% of par, compared with only 3% for borrowers with EBITDA above $100mn. This is intuitive – larger companies typically have more diversified revenues, larger balance sheets, deeper management teams, and greater ability to absorb shocks.

Historical Pricing Loan Prices by Bucket: All Borrowers

Fair Value Trend of All borrowers



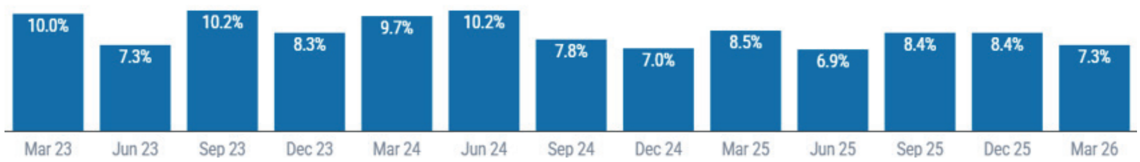
Earnings: margins improving for an 11th consecutive quarter

Median Q1 2026 growth was 5.4% for revenues and 7.3% for EBITDA. EBITDA has now outpaced revenue growth for 11 quarters running, implying continuous margin increases since September 2023. In plain terms, the typical borrower is generating more operating profit per revenue dollar of revenue than it was three years ago – a sign of operating discipline.

By sector, financial institutions led the pack on year on year (YoY) revenue growth. The only sector with negative revenue growth was consumer, food and retail; the only sector with negative YoY EBITDA growth was technology, media and telecoms.

Median Revenue Growth YoY

Median EBITDA Growth YoY



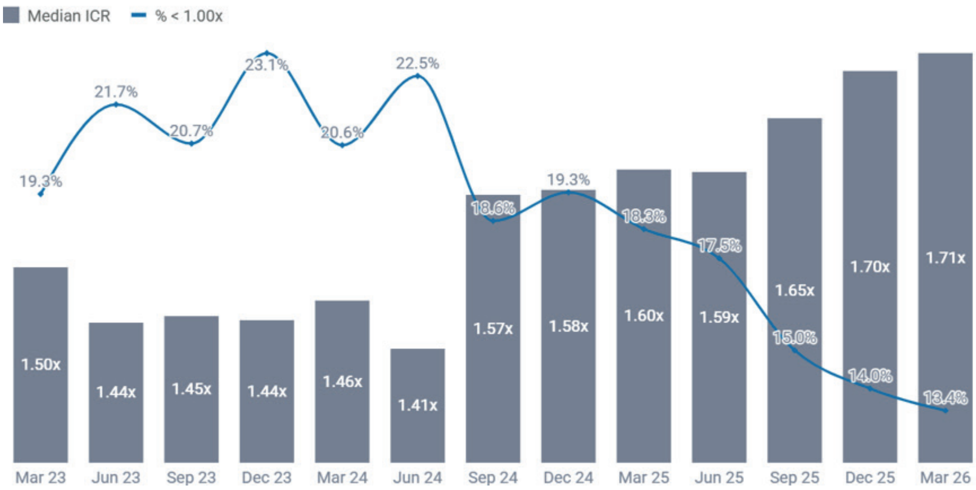
Credit metrics: leverage stable, interest cover improving

Leverage – the ratio of debt to EBITDA – measures how many years of operating profit it would take to repay a borrower's debt. It is broadly stable but varies by borrower size, ranging from 5.36x for borrowers above $100mn EBITDA to 4.13x for those below $20mn. Larger borrowers can typically sustain higher leverage because they have stronger and more resilient business profiles.

Interest coverage ratios (ICR) – the multiple by which EBITDA covers interest expense – have improved markedly. The share of borrowers with ICR below 1x (i.e. those whose operating profit does not cover their interest bill) has fallen to 13.4%, from a peak of 23.1% in December 2023. Two forces are driving this shift: continued earnings growth by borrowers and the decline in benchmark interest rates. Over 90% of private credit loans are floating-rate, meaning that interest rate moves – both up and down – have a material impact on the debt obligations of borrowers.

Interest Coverage

Borrower Interest Coverage ratios



Quarterly focus

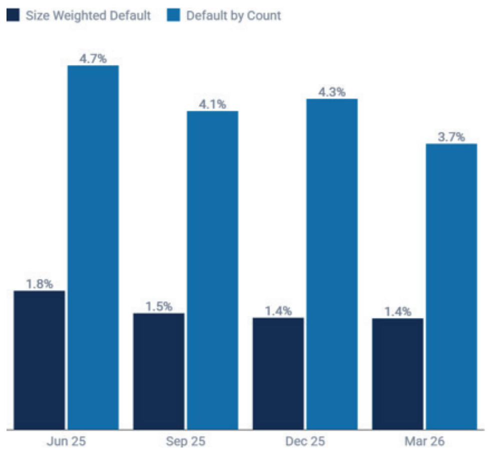
Defaults: falling overall, with industry-level dispersion

Defaults – which here include both missed payments and technical breaches such as covenant violations – have continued to decline despite some softening in valuations. On a rolling twelve-month basis they stood at 3.7% of borrowers by count and 1.4% by loan size as of LTM to Q1 2026. Sector dispersion in Q1 was marked: healthcare saw 8.6% of borrowers experience some form of default, while software had one of the lowest borrower default rates, at 1.4%.

Defaults

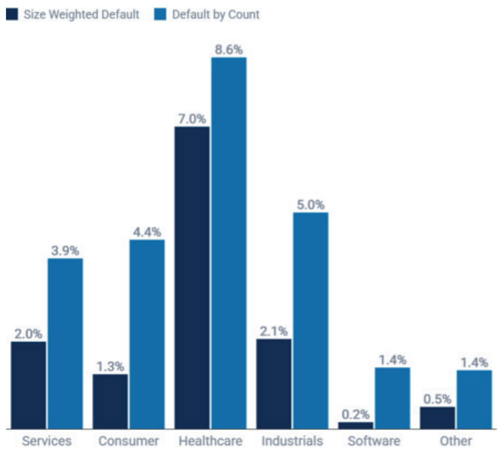
Borrower Interest Coverage ratios

Past Four Quarters



Borrower Interest Coverage ratios

For the Quarter Ended 3/31/26



Note:

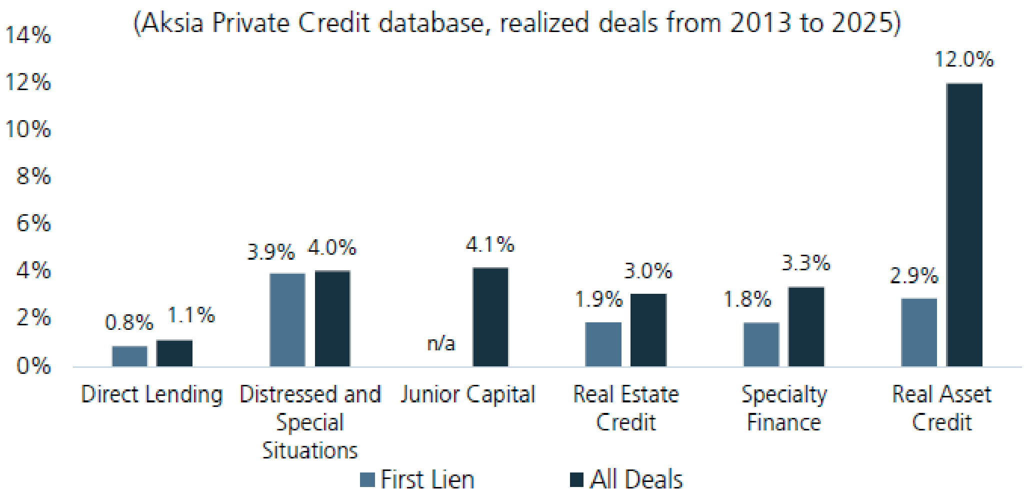
1) Default rates reflect only loans denominated in USD.

2) Default reflects the most sensitive measure of default, including payment default and/or technical default

Aksia's analysis[1] of long term loss-rates in private credit provides useful context to the Q1 2026 data. The chart below shows the cumulative loss ratio – the total dollar losses on impaired loans as a percentage of all capital invested – across 2013 to 2025. For first-lien direct lending, which forms the bulk of the private credit asset class, **the cumulative loss ratio was just 0.8%, equating to roughly 15–20 basis points of annualised principal impairment.** Even distressed and special-situations strategies sit at around 4%. The 12% figure for subordinated real asset credit largely reflects a small sample of oil & gas exposures and is not representative of the broader asset class.

1 https://www.acprivatemarkets.com/research/perspectives-on-private-credit-risk/

Cumulative Loss Ratio



Aksia Database. Realized private credit deals from 2013 to 2025, as of December 31, 2025

Past performance is not indicative of future events

PIK: dollar value of stress-driven usage remains very low

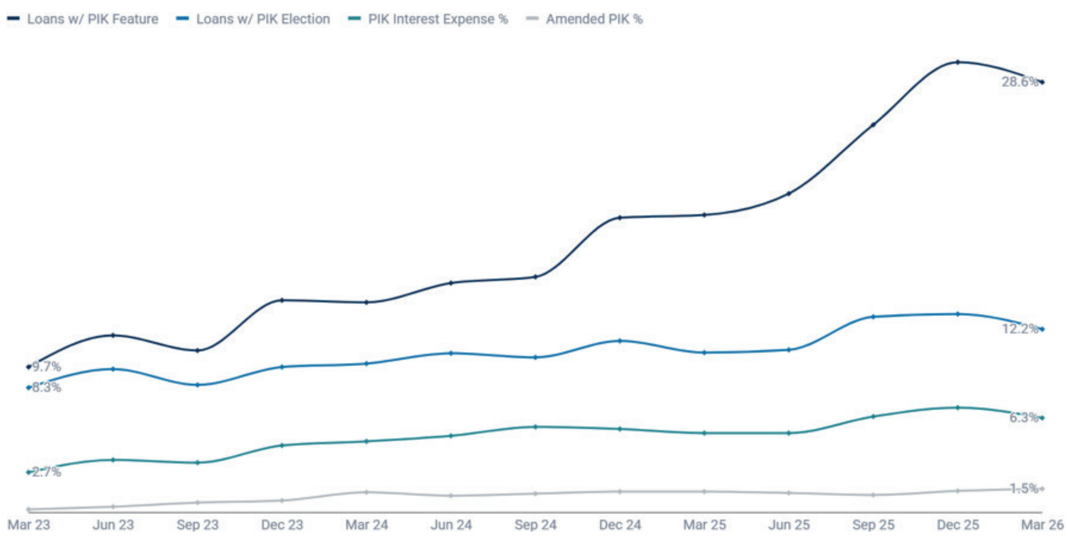
Payment-in-Kind (PIK) facilities allow a borrower to defer cash interest by capitalising it onto the loan balance, to be repaid later. PIK facilities can either incorporated into the loan from the outset or incorporated via a later amendment. The former is an example of pre-agreed flexibility built into a loan at origination, whereas the latter is added in instances where borrowers that need additional breathing room. The second use of PIK facilities is a more relevant stress signal for credit investors.

The most encouraging finding from Houlihan Lokey's data is that **the dollar-weighted share of loans with an amended PIK arrangement – the more relevant stress indicator – remains low at only 1.5% of loans by value** (see PIK Interest by weight chart below). In other words, where stress is occurring, it only represents a modest fraction of capital at risk.

PIK Interest by Weight

Portion of Total Interest Dollars

PIK Portion of Total Interest Dollars by Quarter

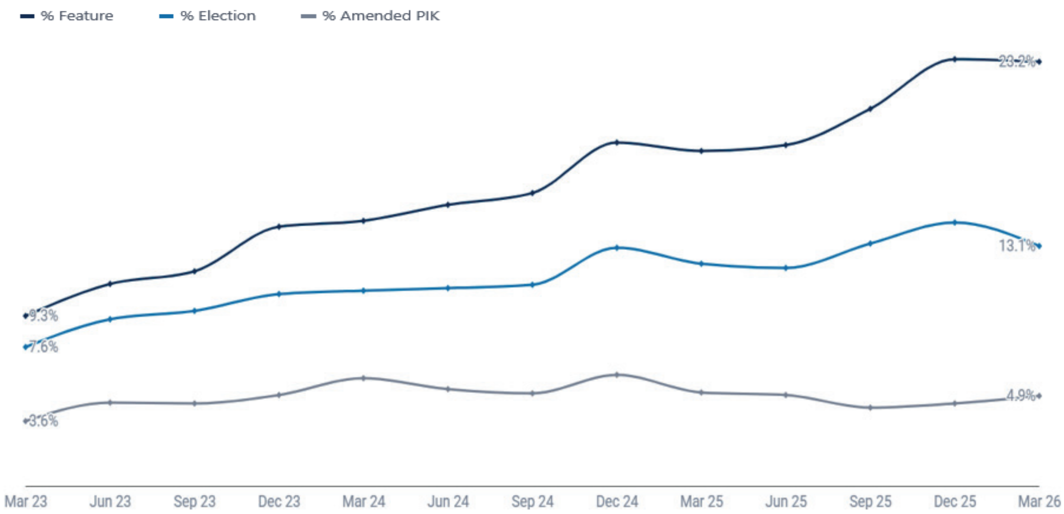


It is worth acknowledging that Headline PIK availability and usage have both risen – loans with a PIK feature now stand at 23% (up from 9.3% three years ago), and actual utilisation has grown from 7.6% to 13.1% (see PIK Interest by count chart below). But much of this reflects greater contractual flexibility being negotiated into new loans at origination, rather than borrowers turning to PIK out of necessity. The divergence between rising PIK availability and falling stress-amendment values noted above is a constructive signal which offers further evidence that any stress is contained rather than widespread.

PIK Interest by Count

Loans with PIK Interest

PIK Feature Availability, Utilization, and Amended PIK % by Count



Software: pockets of strain, but markdowns contained

Software has been the focus of recent concern given AI-related disruption risk. Top-line growth has softened markedly – median revenue growth is now 4.2% year-on-year, down from 18.8% three years earlier – and 64% of software loans were marked down in Q1 2026, roughly twice the rate for non-software loans. However, **markdowns in software have been contained: around 90% were under 2.5% of par, and only 1.9% exceeded 5%.** The main forward-looking watch-point is refinancing risk, with over half of outstanding software debt due to mature by end-2029. The risk is mitigated, however, by longstanding relationships between private credit lenders and borrowers. In ACC's 2025 FTE, for example, noted that a significant portion of capital deployed was for refinancing, and that existing relationships often smooth the refinancing process.

Conclusions

- **Headline narratives have run ahead of the data.** Defaults are falling, cumulative loss ratios for first-lien direct lending sit below 1% across 2013–2025, and the dollar value of stress-driven PIK remains low. Count-weighted distress metrics can overstate the systemic relevance of stress concentrated in smaller loans.
- **Stress is concentrated in smaller borrowers.** Where it is occurring, it sits in the sub-$20mn EBITDA cohort – the segment that largely sits outside the traditional bank lending channel and may warrant focus from supervisors interested in SME credit conditions.
- **Refinancing risk is the main forward-looking concern,** particularly in software where over half of debt matures by end-2029. Long-standing lender-borrower relationships are an important mitigant but should not be assumed under stress.
- **Systemic risk indicators remain benign.** Closed-end fund capital removes deposit-run dynamics, lending is predominantly first-lien and secured, and stress has been idiosyncratic rather than correlated. Bank exposures to private credit vehicles and overall asset-class transparency warrant continued monitoring.

Data sources:

Unless otherwise cited The ACC Quarterly Update incorporates data from the Houlihan Lokey DataBank which covers 70,000+ loan valuations and contains hundreds of loan-level metrics and standardized fields stemming from Houlihan Lokey's recurring portfolio valuation work dating back to 2017. Data is accumulated at monthly, quarterly, or annual intervals over most of an investment's holding period to provide a comprehensive time-series view of portfolio company performance, credit quality, market benchmarking, and valuation outcomes throughout a loan's lifecycle.

ACC is the private credit affiliate of AIMA, the world's largest membership association for alternative investment managers