

FROM THE DESK OF:

New York Life Investment Management's Global Market Strategy team

Beyond the headlines: perspectives on the current credit cycle

Lauren Goodwin | Julia Hermann | Sarah Hirsch | Michael LoGalbo



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Special thanks to the credit teams at Apogem, Kartesia, MacKay Shields, and NYL Investors for their expertise and contributions.

- Recent pockets of stress have renewed investor scrutiny of where we are in the credit cycle, and what it means for broader markets.
- While private credit has drawn most of the headlines, tight spreads, rising dispersion, and selective stress are emerging across both public and private credit.
- We do not view these developments as indicative of an imminent systemic credit event, but the later stages of a credit cycle typically warrant a more deliberate and risk-aware approach to portfolio construction.
- Broadly, U.S. corporate fundamentals remain sound, liquidity conditions are supportive, and in private credit, institutional investors continue to signal intentions to maintain or increase allocations.
- The next phase of the cycle is likely to be defined less by broad beta and more by performance dispersion, particularly within private credit, which has expanded significantly over the past 15 years.
- In this environment, underwriting discipline, diversification, and deep credit expertise will be key drivers of outcome. We cover this anticipated shift in our [2026 Global Private Markets Outlook](#).

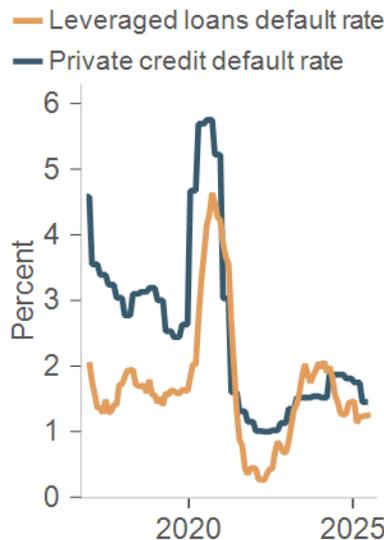
Renewed focus on credit market

Over recent months, investors have absorbed several headline-catching developments in the credit markets, including:

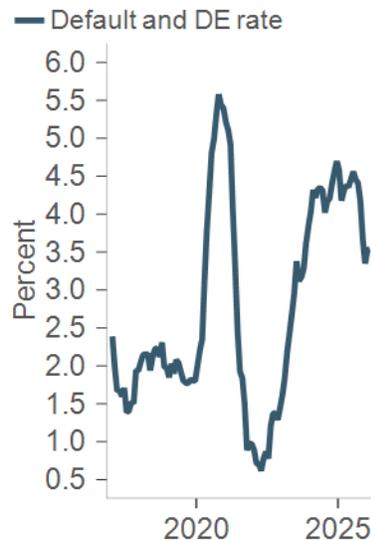
- Bankruptcies at First Brands Group and Tricolor Holdings, both of which involved allegations of fraud alongside elevated leverage, underscoring governance and underwriting risks.
- Rapid valuation adjustments in certain private credit loans, with a small number of positions marked down from par to distressed levels within a relatively short period, prompting questions around underwriting, due diligence, and valuation methodologies.
- Elevated concerns around concentration risk in AI-exposed sectors, particularly software, where private credit exposure is elevated; estimated to exceed 20%, compared with roughly 5% in the U.S. high yield market. In public credit markets, select sectors – including software, telecom, and certain consumer segments – have seen repricing, with spreads widening.
- Higher redemption activity and net asset value (NAV) pressure at select business development companies (BDCs), particularly those with more concentrated portfolios or exposure to stressed borrowers.
- A gradual increase in defaults and liability management exercises across private credit, leveraged loans, and certain segments of structured credit. Parts of the structured credit markets, particularly those tied to weaker consumer cohorts, have exhibited rising idiosyncratic stress.



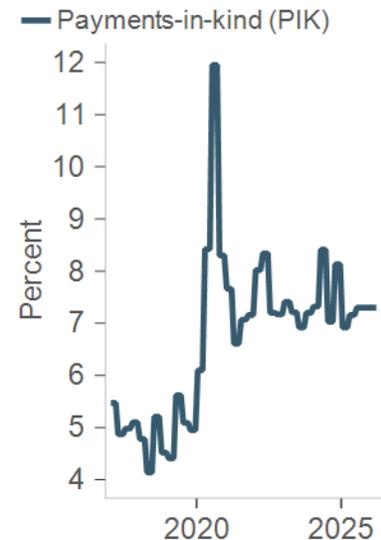
Default rates for both private credit and leveraged loans remain low...



...while leveraged loan default exchanges...



...and private credit payments-in-kind remain elevated post-pandemic



Sources: New York Life Investment Management, Global Market Strategy, Cliffwater LLC, Macrobond, March 2026. Represents private credit data from all loans in the BDC universe. DE: distressed exchanges.

As we wrote [last year](#), the rapid growth and relative opacity of the private credit market have made it particularly vulnerable to headline-driven risks. Despite recent moves, credit spreads remain tight and valuations elevated relative to historical standards – across both public and private markets. It is therefore unsurprising that isolated credit events can take on outsized signaling power.

While investors should remain attentive to these trends, we do not view the current environment as indicative of systemic stress. Historically, true systemic credit risk has been associated with a pronounced economic downturn or an abrupt tightening of financial conditions, neither of which we are observing today.

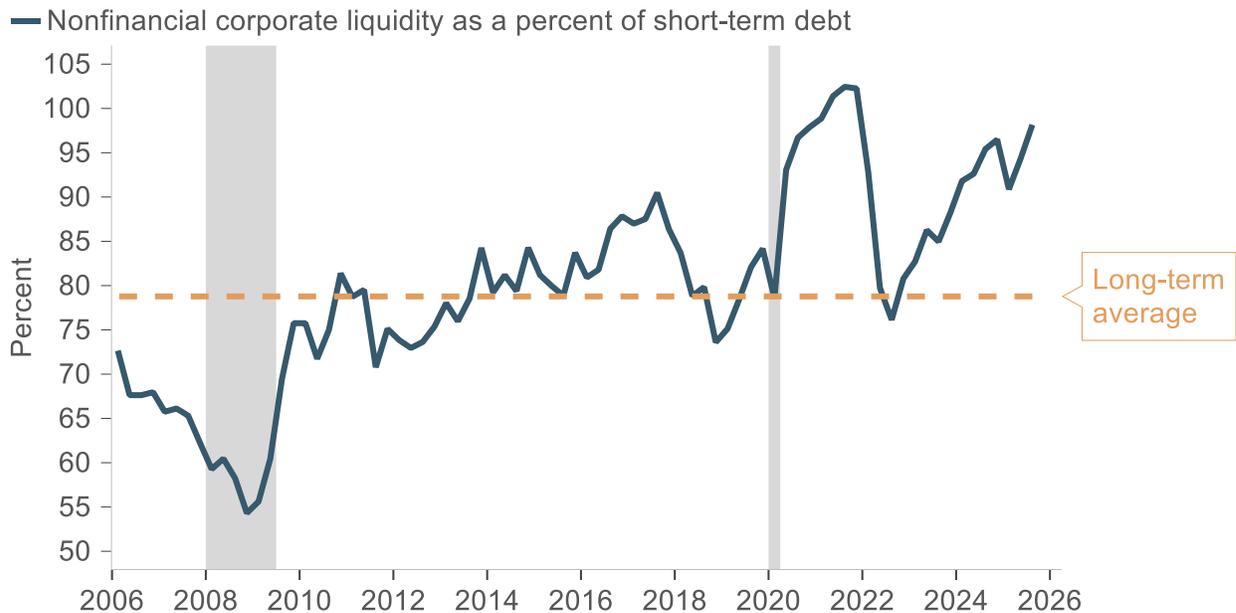
Why we are not overly concerned

Despite the heightened scrutiny, several factors continue to support a constructive view on credit:

- **Economic growth is resilient:** U.S. growth has moderated post-pandemic, but continues at a pace consistent with long-term trend growth. While geopolitical risks are on the rise, the fundamentals of the U.S. economy remain strong. Labor markets and consumer balance sheets are healthy, supportive of consumer demand and, ultimately, corporate health.
- **Corporate fundamentals remain sound:** corporate liquidity and debt coverage remain well above pre-pandemic norms. While defaults have risen modestly from cycle lows, particularly for leveraged loans, private credit, and subprime ABS, default rates in IG and HY fixed income remain well below their long-term averages. Broadly, the U.S. corporate sector is entering the late-cycle phase from a position of relative strength.



Corporates' financial buffers are still at healthy levels



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, March 2026.

- **Credit remains broadly available:** while lending standards have tightened from peak accommodation, capital remains available across public and private markets. According to data from the Fed, bank lending standards remain near neutral and demand for credit from businesses remains strong. Public credit markets remain open, with no evidence of forced selling, and new issuance is expected to pick up. Lower policy rates – we expect one to two Fed cuts this year – may continue to help, easing refinancing pressures and debt service burdens.

What would change our view? Our outlook would shift in the event of a material economic slowdown that meaningfully weakens corporate earnings; this is unlikely in 2026 [in our view](#). We would also be concerned by a contraction in liquidity, such as stress in funding markets, a sharp pullback in bank lending, or forced selling tied to redemption pressures. Finally, while isolated markdowns are manageable, a broad-based pattern of valuation resets across managers and sectors would suggest more systemic underwriting challenges.

The era of uniform outcomes may be ending

Credit has benefited from a decade of structural tailwinds: abundant liquidity and low defaults. For much of that period, dispersion was limited. *We believe that is changing.*

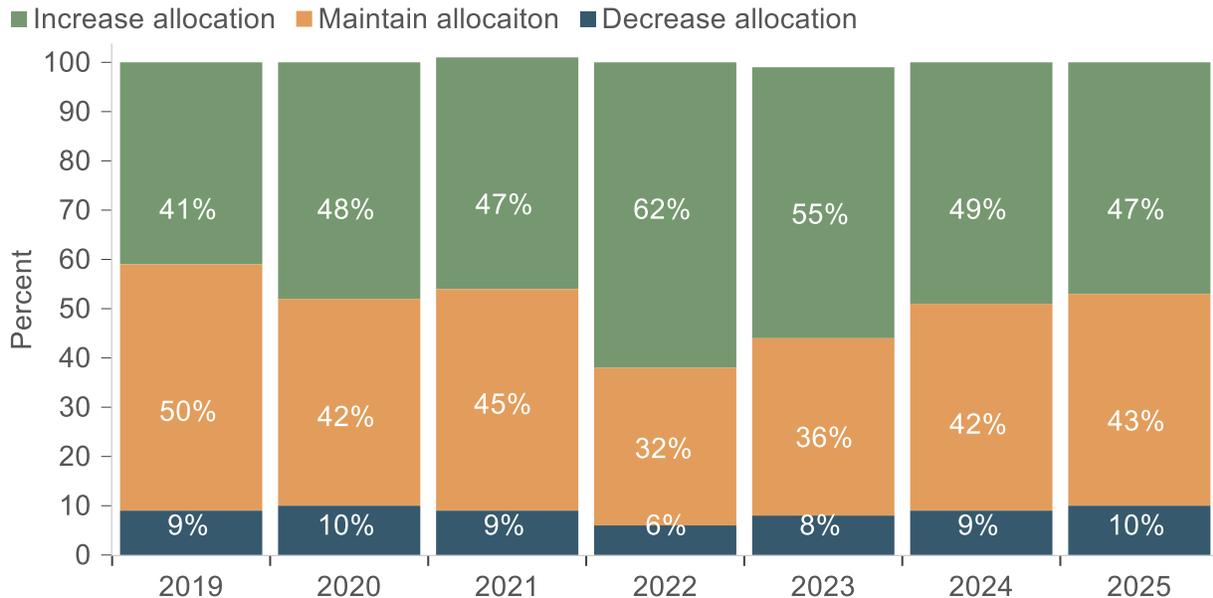
Here we focus on private credit. As we move later in the credit cycle, differences in underwriting, sector exposure, and portfolio construction will likely drive materially different outcomes. Private credit is not a monolith, and it should not be treated as one.



Three themes stand out:

- Underwriting will be increasingly in focus:** private credit valuations rely on internal models and third-party inputs rather than daily market pricing, which may delay the recognition of stress. Recent sharp markdowns demonstrate how quickly impairments can emerge. While we do not view this as evidence of widespread mispricing, it reinforces the importance of partnering with experienced managers with strong underwriting discipline and close borrower-lender relationships.
- Sector concentration warrants attention:** as AI continues to reshape businesses and competitive dynamics across industries, sector exposure may play an increasingly important role in shaping outcomes. Markets are in the early stages of determining how to price AI-related risks, and the ultimate winners and losers remain uncertain. In this environment, concentrated exposure to any single sector – particularly those tied to technological changes – may see a wider range of outcomes.
- Capital will continue to flow into credit:** while select BDCs have faced elevated redemptions, we believe that private credit will remain a core allocation for institutional investors. Recent surveys indicate that most allocators plan to maintain or increase their exposure. That said, capital is likely to become more selective, with flows increasingly favoring managers who have demonstrated consistent performance and disciplined underwriting.

Investor surveys show that the vast majority of institutional investors expect to maintain or increase allocations to private credit



Sources: New York Life Investment Management, Global Market Strategy, Preqin Investor Survey, Private Debt Investor, Macrobond, March 2026.



Portfolio strategy

We remain fully invested in credit, but portfolio construction matters more as liquidity tailwinds fade and the credit cycle extends. Returns are likely to be driven less by asset class beta and more by underwriting discipline and manager selection. Selectivity will be increasingly important – with a focus on improving quality, not reducing exposure.

What does that mean in practice? In private credit, we favor conservative underwriting, strong lender protections, and diversified portfolios that avoid concentrated bets, particularly in sectors undergoing rapid change.

In public credit, we favor high quality securities *within* asset classes, not necessarily *between* them. Put another way: we are still invested in the higher quality segments of high yield, where fundamentals remain solid and refinancing risk is manageable. As dispersion increases, bottom-up issuer selection becomes more important than broad beta exposure.

In structured credit, underwriting of collateral pools and structural protections will likely differentiate outcomes, particularly in consumer-linked and commercial real estate exposures.

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