

Double Take in Direct Lending

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Reference Report – [ZCG Credit Insights: The “True” Distress in Private Credit](#)



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1 WHAT WE SAID IN 2025

Direct lending valuations were being marked too generously, and credit quality was quietly deteriorating beneath the surface long before it became visible publicly.

2 WHAT IS HAPPENING NOW

Publicly traded BDCs are experiencing widening discounts to NAV, pressured by broader repricing of private credit. Disruption has been amplified by investor redemption pressures and concentrated exposures (especially in software), which have fueled valuation stress and created structural liquidity concerns.

A Glimpse of Direct Lending Market Through the BDCs

For the better part of the last two years, we have been vocal about two themes – (1) valuations in the direct lending market were too generous and (2) credit quality was deteriorating beneath the surface. Publicly traded BDC portfolios are now offering some confirmation of that view – with important caveats about what they actually show.

Publicly traded BDCs are regulated and required to report quarterly fair value marks, giving them more visibility than the average direct lending fund. But BDCs are not a clean mirror as managers have discretion over valuation methodology, so the glimpses are often partial and delayed window into what is happening more broadly across the direct lending asset class.

What the Narrow Glimpses are Telling Us

BlackRock TCP reported a nearly 20% NAV decline in a single quarter, roughly half of the decline was driven by markdown of six portfolio investments, while the remainder of the damage was amplified by leverage.

At Blue Owl, OBDC II gated investor redemptions after withdrawal requests exceeded the 5% quarterly cap – which ultimately led to Blue Owl selling approximately 34% of its OBDC II portfolio to generate liquidity to meet some redemption requests.

It's interesting to note that the portfolio of loans that were sold traded at an average price of 99.7%. The implication is that the loans sold were likely among the more liquid and higher-quality assets in the portfolio, which raises real questions about what remains.

Conclusion

BDCs are giving us an imperfect but meaningful window into the broader direct lending market, and what we're seeing is consistent with what we've been flagging for the better part of two years.

Valuations were too generous, credit quality was deteriorating beneath the surface, and the cracks are now becoming visible.

None of this changes our view that direct lending is an important component of the overall private credit asset class. But it does underscore that manager selection, disciplined portfolio construction, and conservative risk controls are the difference between navigating this environment and being forced to sell your portfolio to meet redemption requests.

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