

Opinion – Not all private credit is the same

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Authored by **Andrew Lockhart**, Group CEO and Managing Partner, Metrics Credit Partners

Global commentary on private credit is largely aimed at a US market with different structures, different sector exposures and a different legal framework from Australia's. The distinction matters and it is not being drawn clearly enough.

Not all private credit is the same, but recent commentary has blurred that distinction, unsettling investors by treating offshore stress as universal.

In the United States, private credit is typically sponsor driven, heavily exposed to software and technology enabled businesses, lightly covenanted, and increasingly funnelled through semi liquid retail structures. Australia's market evolved very differently, and ignoring that divergence leads to precisely the misunderstandings investors can least afford.

JPMorgan's Jamie Dimon warned this week that a credit market downturn could be worse than expected, and that with more than 1,000 firms now competing in private credit globally, not all of them will fare well when the cycle turns. It is a reasonable concern. It is also, primarily, a concern about the US market and the decisions that shaped it.

The pressure in parts of the US private credit market has been building for some time. Years of aggressive lending and structures designed for deal velocity rather than lender protection have left some managers poorly positioned as borrowing costs have risen and economic conditions have tightened. The US's concentration in software and SaaS businesses, now facing genuine structural headwinds from artificial intelligence disruption, has compounded those pressures.

These are serious developments. They are also the predictable result of specific decisions: what to lend against, how much covenant protection to demand, which sectors to concentrate in, and how to structure investor access. These events are not evidence of a global failure of private credit. They are evidence that credit outcomes follow credit decisions.

Australian private credit developed along different lines. The domestic market grew around senior secured lending, direct origination, and real-economy asset backing. The businesses that most domestic private credit managers lend to carry tangible assets. The security held is enforceable under a creditor-friendly, well-tested legal framework. When a loan encounters difficulty, the mechanisms for intervention and recovery are clear because the lender has proximity to the borrower, control over the security, and the ability to act decisively.

This reflects a deliberate philosophy about what private credit is. Australian private credit has long operated on the premise that credit risk cannot be separated from legal certainty. Loans are materially harder to manage at arm's length, through third party agents, and under insolvency regimes where creditor enforcement is less predictable. The Australian insolvency framework gives creditors real rights and real recourse. That matters when things go wrong, as they will in some part of any portfolio over a meaningful investment horizon.

Sector exposure matters too. While parts of the US and UK markets leaned heavily into software, Australian private credit has typically focused on commercial real estate, infrastructure-adjacent lending, logistics and transport, and operating businesses backed by tangible assets.

Historically, loss rates in Australian direct lending have been negligible. Through the global financial crisis, Australian banks reported peak net write-offs of approximately 0.67 per cent. That is because the underlying lending structures, security packages, and enforcement systems worked. They protected capital through a period of genuine stress, and they did so by design.

Dimon's point about underwriting standards is worth taking seriously everywhere, including here. Any manager, in any market, can loosen credit discipline in pursuit of deal flow. Whether they have is a matter of fact, not geography. Managing a stressed loan from origination through to resolution is a skill that is not developed in benign conditions, and track records through genuine credit cycles are the most reliable evidence available.

Investors should not be retreating from the asset class. They should be asking harder questions. What does this portfolio actually lend against? What first-ranking security is held? What covenants are in place? How concentrated is the fund in any single sector or structure? Has this manager managed a distressed loan through to resolution, and what was the outcome?

Those are the questions that separate genuinely defensive income from hidden risk dressed up in the language of stability.

Australian private credit exists because banks structurally retreated from certain types of lending following post-GFC regulation. That structural gap has not closed. Australian businesses still need capital. Infrastructure still needs funding. Housing still needs to be built. The demand for non-bank credit here is not a function of market timing. It is a function of how the Australian financial system is structured.

The commentary being directed at private credit globally is largely about a different market. Australian investors who apply that frame to their own allocations risk drawing the wrong conclusions. The right questions are local ones: what does this portfolio lend against, what security is held, what covenants are in place, and does this manager have a credit cycle on their record. The distinction is not incidental. It is the whole point.

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Metrics has significant experience in corporate and institutional lending. Metrics' Investment Team is comprised of senior and experienced market specialists with on average 30 years' experience investing in and managing corporate debt assets (loans, bonds and associated products).

Metrics has the capability to support investors looking to access corporate debt, including listed and unlisted corporates, infrastructure, leveraged & acquisition and property debt, across the entire credit spectrum.

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Author
Andrew Lockhart
Group CEO and
Managing Partner



Media Enquiries
Joel Labi
+61 450 582 360
joel.labi@metrics.com.au

Investor Enquiries
1300 010 311
invest@metrics.com.au

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