Implications of private credit for the Federal Reserve and financial stability

October 2026

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CHURCHILL
from nuveen

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

A year after “cockroaches"

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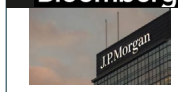
Oil surges past + $100 per Barrel for 1st time in 4yrs

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Private Credit Defaults Are 1%, 6% or 19%, Depending Who You Ask

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Banks and Private Credit Clash After Dimon’s Cockroach Barb

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Private-Credit Investors Are Cashing out in Droves



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Private-Credit Warning Signs After Blue Owl Unloads $1.4B in Assets

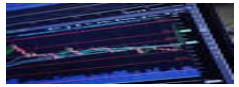
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Gulf States Want the U.S. to Cripple Iran’s Regime Before Ending the War

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In Leveraged Loan Selloff, Most Liquid Debt Gets Hit Hardest



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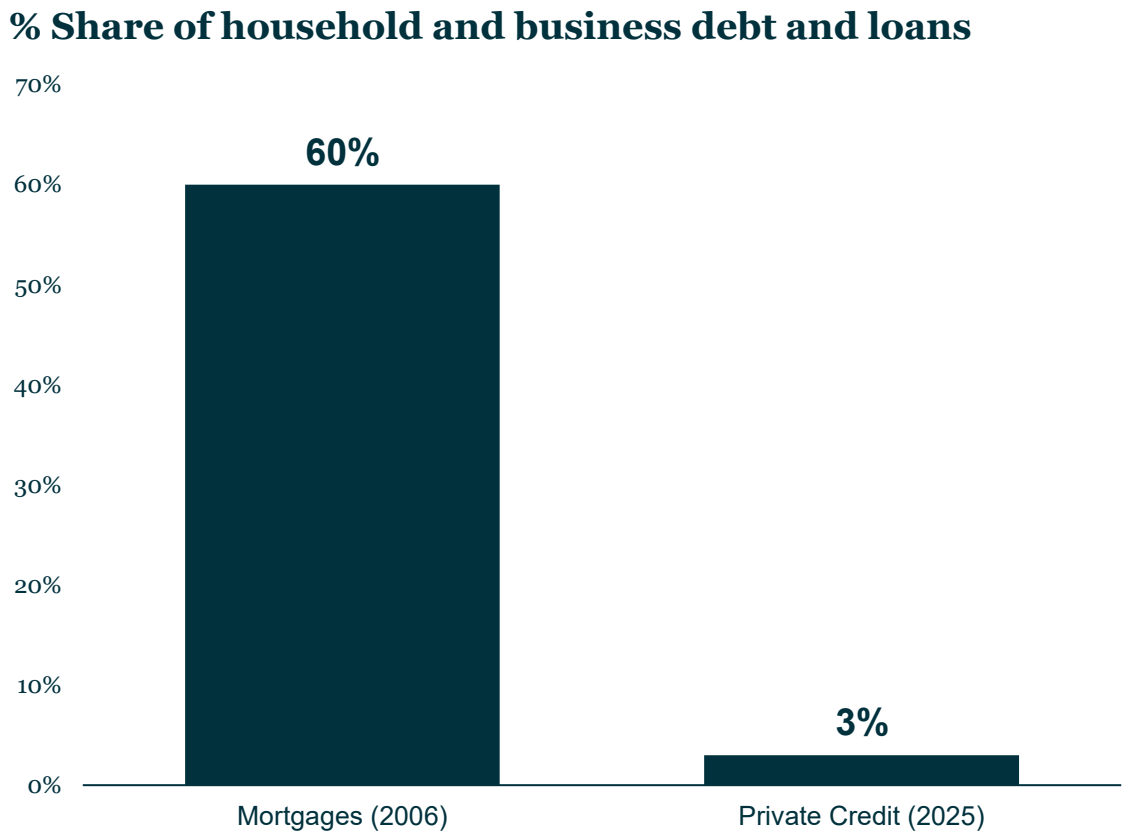
The $20bn+ exodus from private credit

It’s been **one year** since the **“Cockroach” headline**, and there has been no shortage since

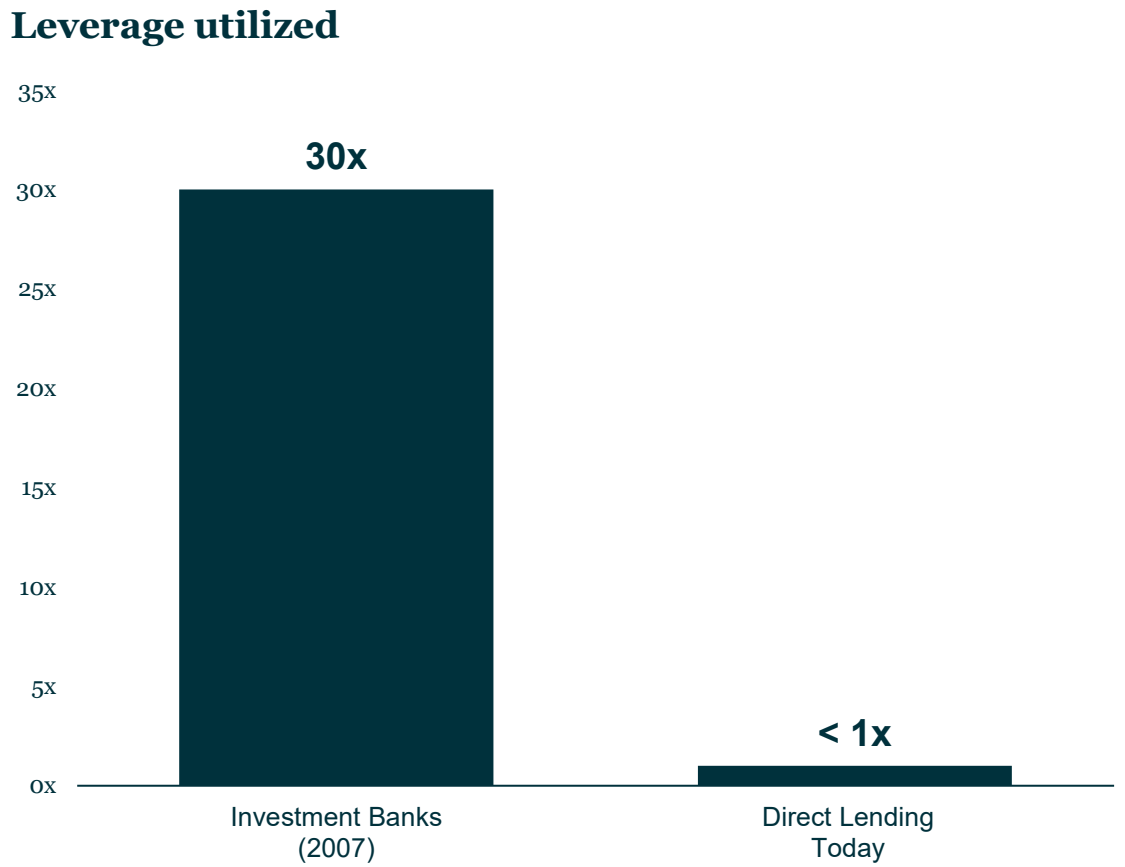
Sources: Bloomberg, Financial times, Wall Street Journal, CNBC, as of Sep. 30, 2026.

Private credit is smaller and less levered than subprime at the height of the GFC

Direct lending represents a small share of total loans



Leverage sits well below the banking system in 2007

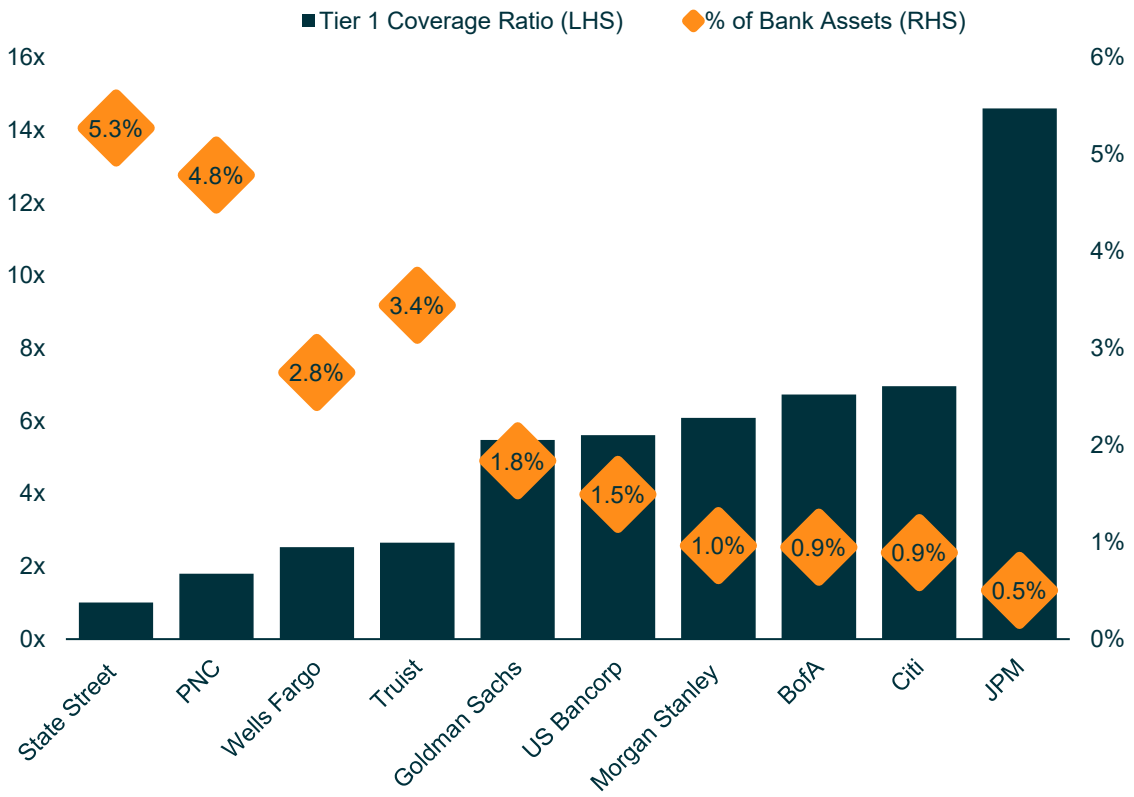


Source: (Left) Preqin, Federal Reserve, Bloomberg as of Mar. 31, 2026. (Right) Blackstone, J.P. Morgan, as of Mar. 31, 2026.

The exposure to the banking system is minimal

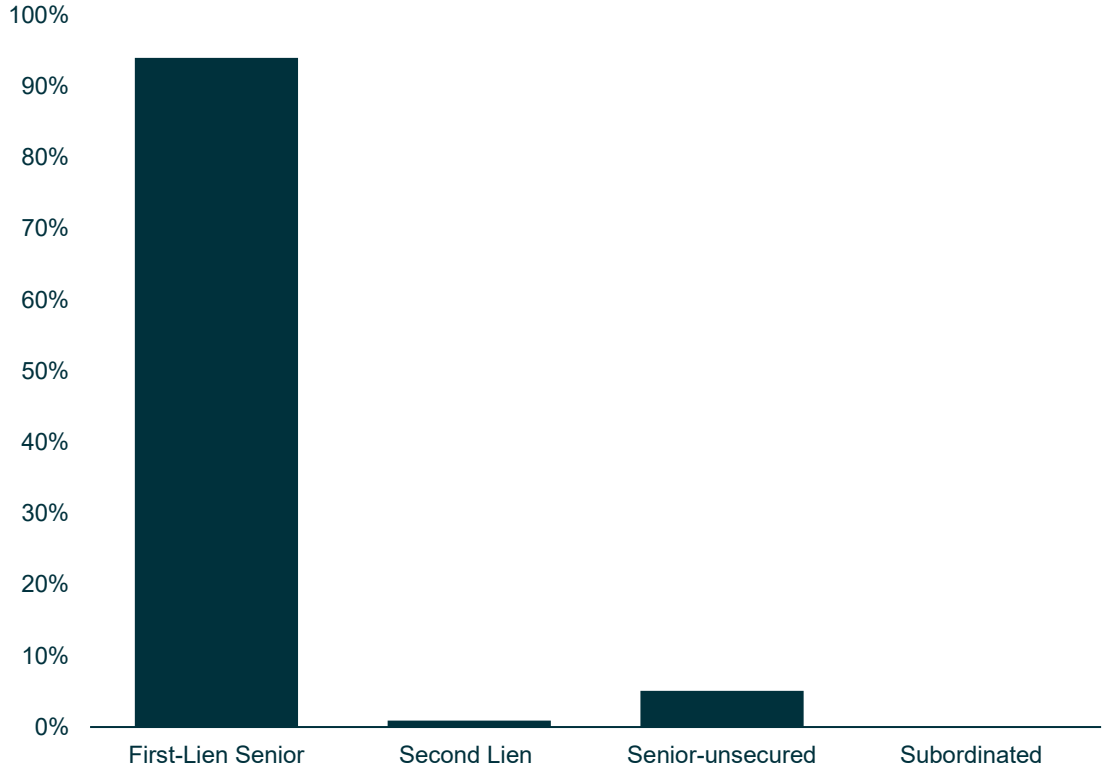
Back leverage is ~2% of total bank assets

US Financial institutions exposure to private credit



It also sits at the top of the capital stack

Composition of volume of bank loans to BDCs

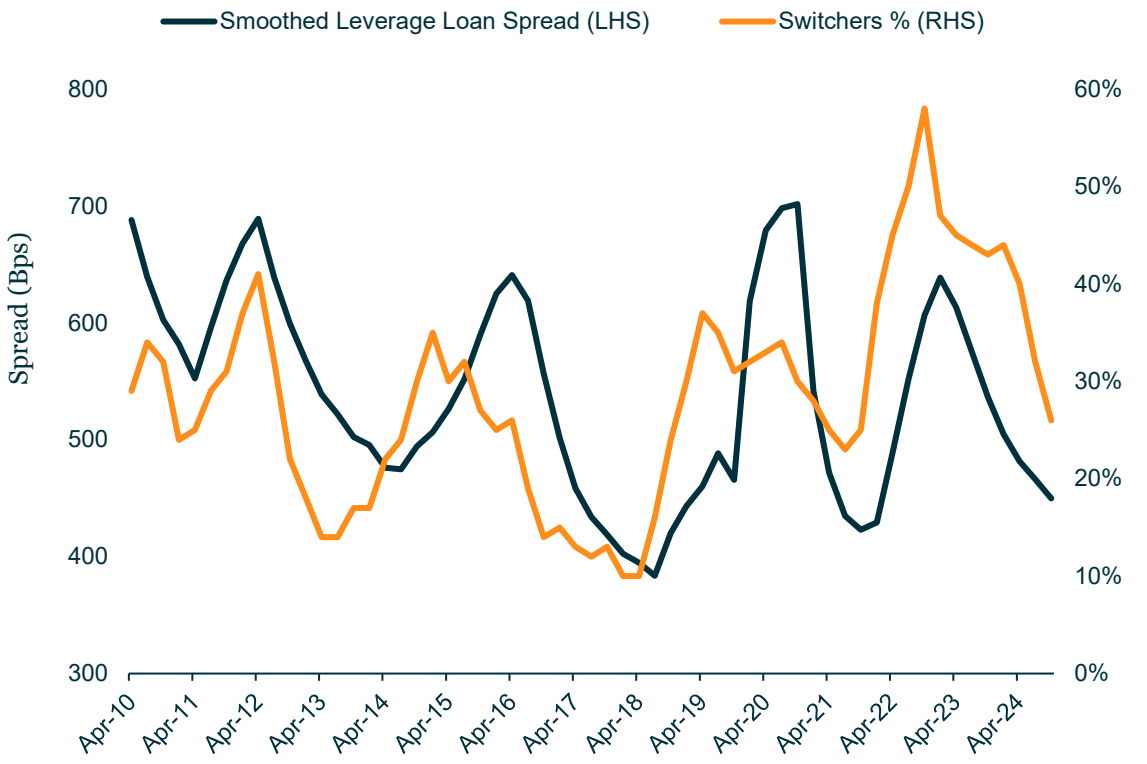


Source: (Left) Bloomberg, Board of Governors of the Federal Reserve System as of Jun. 30, 2025. (Right) Boston Federal Reserve, Could the Growth of Private Credit Pose a Risk to Financial System Stability, as of May 2025.

A countercyclical force when credit conditions tighten

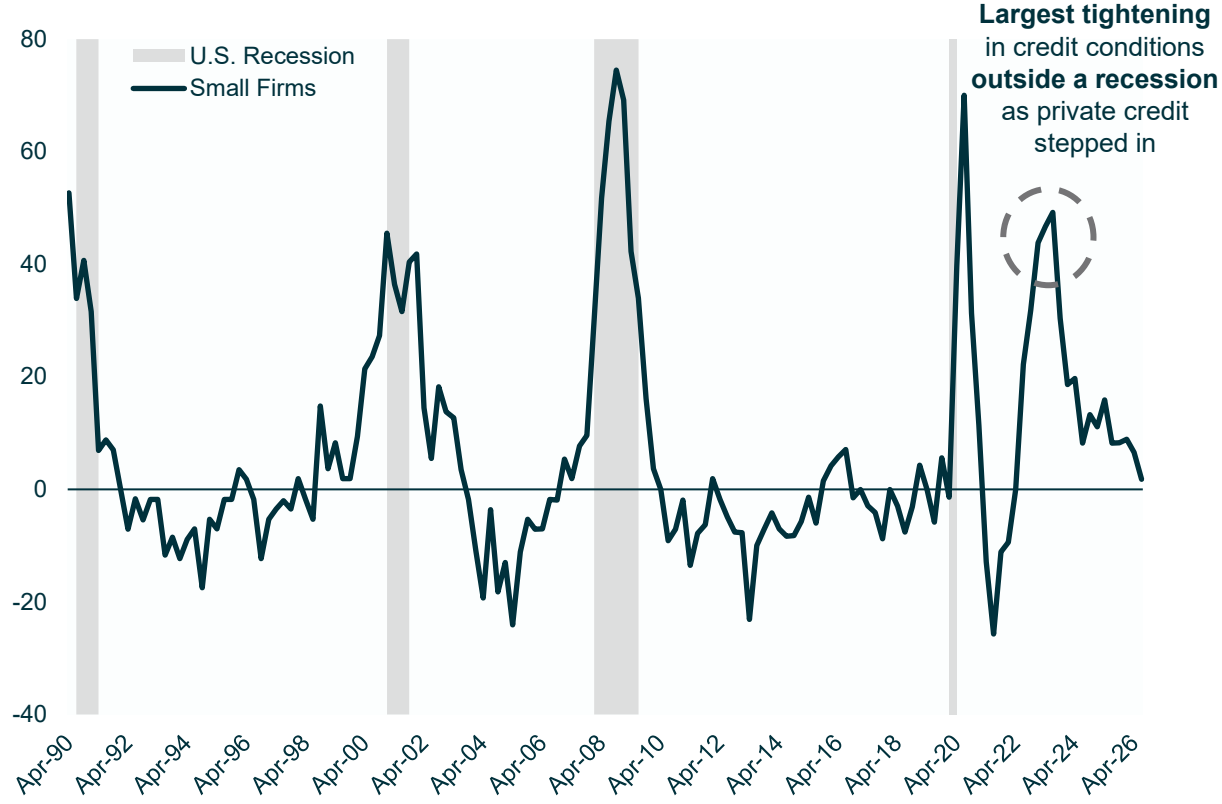
Private credit dampens the cycle as spreads widen

12 mo. share of firms switching to private credit and 12 mo. average discounted leverage loan spread (2010 -2024)



Private credit stepped in when banks pulled back in 2023

Firms reporting tightening Of credit standards

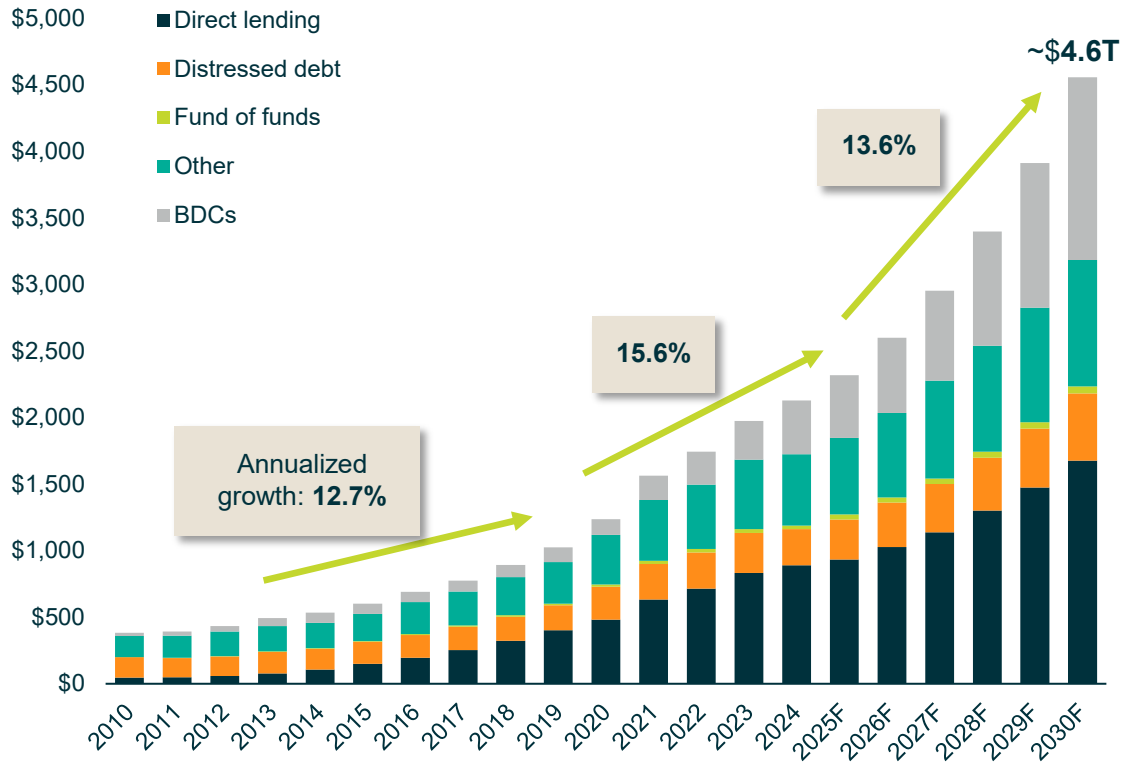


Source: (Left) Financial Times, Hinzen, Franz J. and Mondini, Giorgio and Rintamäki, Paul and Steffen, Sascha, The Cyclicality of Direct Lending (March 29, 2026). (Right) Federal Reserve, as of Jul. 2026.

Why is the media so focused on private credit?

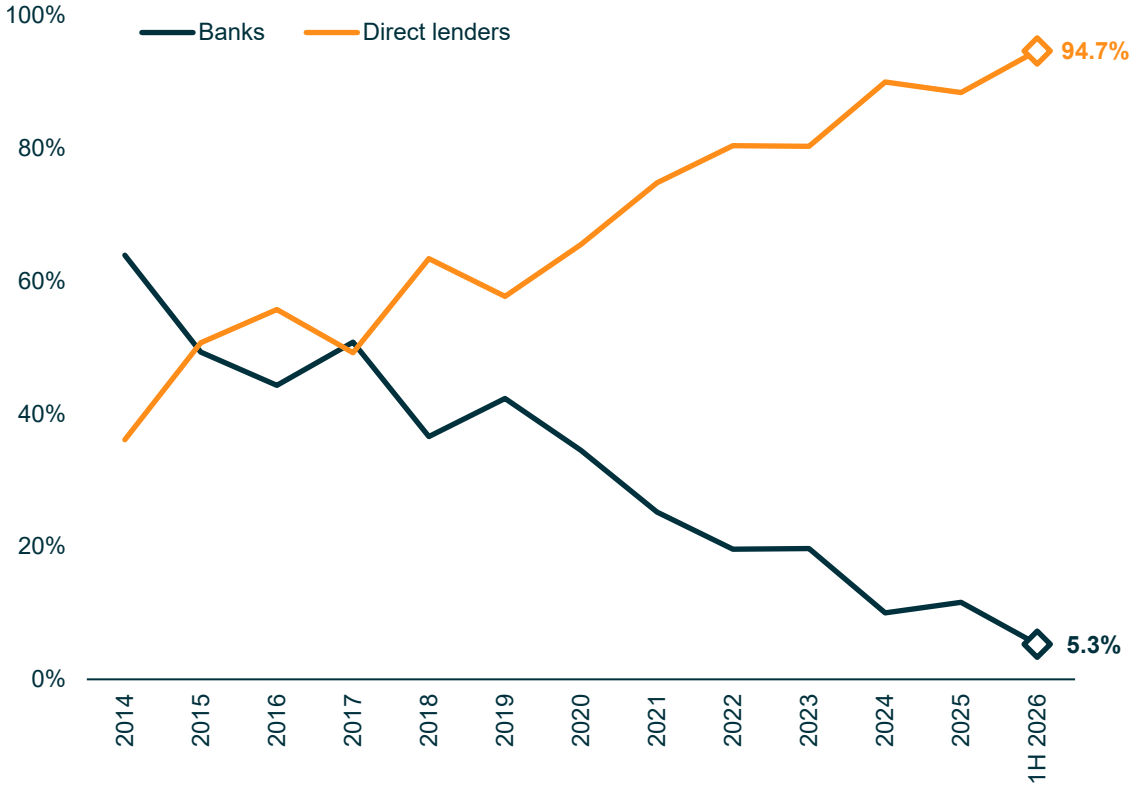
Private credit AUM is expected to double by 2030

Private credit growth through 2030 ($Bn)



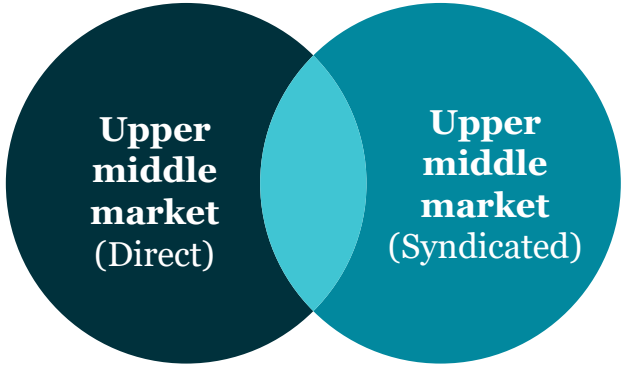
Regulation has pushed share from banks to direct lenders

Direct lenders global market share



Source: (Left) Preqin, State of Private Markets 2030, as of Oct. 16, 2025 (Right) LSEG LPC, as of Jun. 30, 2026.

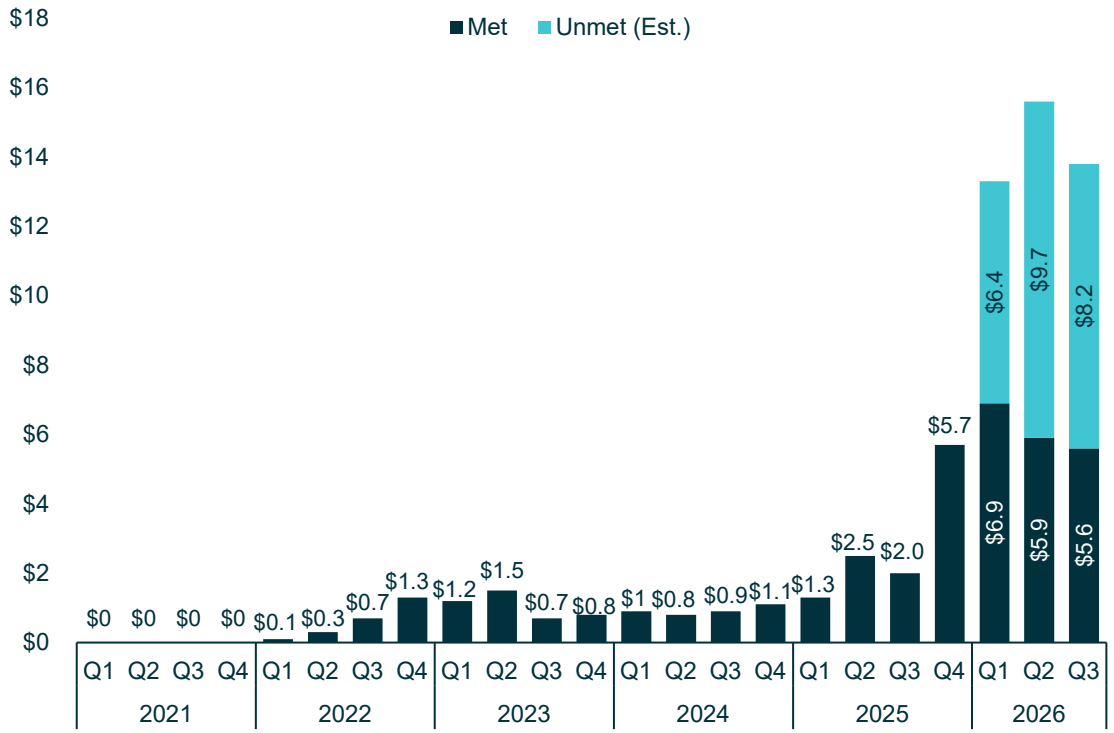
The core middle market: Intersection of quality, structural discipline & opportunity

	< $20mm EBITDA	*$10-100mm EBITDA*	*> $100mm EBITDA*
			
Covenant structure	• Traditional covenants, **enforcement harder**	• Traditional & **conservative covenants**	• Majority **covenant-lite**
Competition & capital flows	• **Fewer** institutional players, **less scale**	• **Fewer** scaled competitor; **relationship flow**	• **Intense** competition with **surging capital inflows**
Leverage & structure	• Lower absolute debt; **limited cushions**	• Lower leverage; **higher equity percentage**	• Higher leverage ratios with **lower sponsor equity**
Deployment consistency	• **Less predictable pipeline**; limited repeats	• **All-cycle,** buy-and-build, sponsor to sponsor	• **Cyclical deal flow:** Increasingly **public market** reliant

Redemptions have risen, but gates are a feature, not a bug

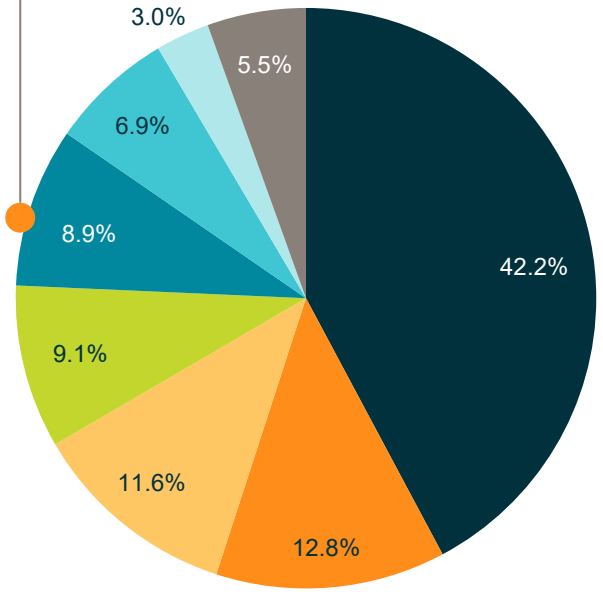
Requests remain elevated but appear to have peaked

Redemption requests ($Bn)



Represents a small share of the private credit universe

Non-traded BDCs only represent **~9%** of the total private credit universe



Private credit AUM %

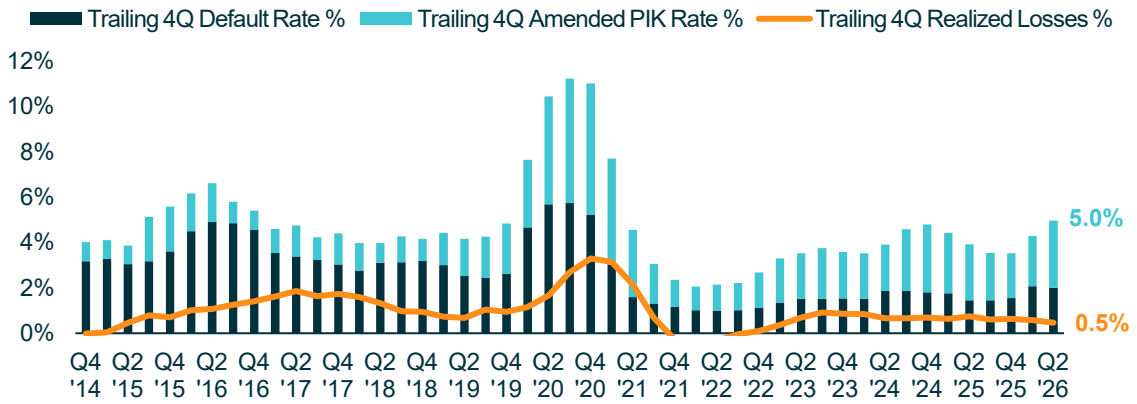
Direct lending	42.2%
Special situations	12.8%
Distressed debt	11.6%
Mezzanine	9.1%
Non-traded BDCs	8.9%
Public BDCs	6.9%
Private BDCs	3.0%
Other	5.5%

Source: (Left) Source: Stanger Market Pulse, with data compiled on Oct. 2, 2026. Note: Data as of Sep. 2026. Note: Universe includes 19 NAV BDCs, as defined by Stanger. (Right) Preqin, as of Dec. 2025.

Fundamentals tell a different story

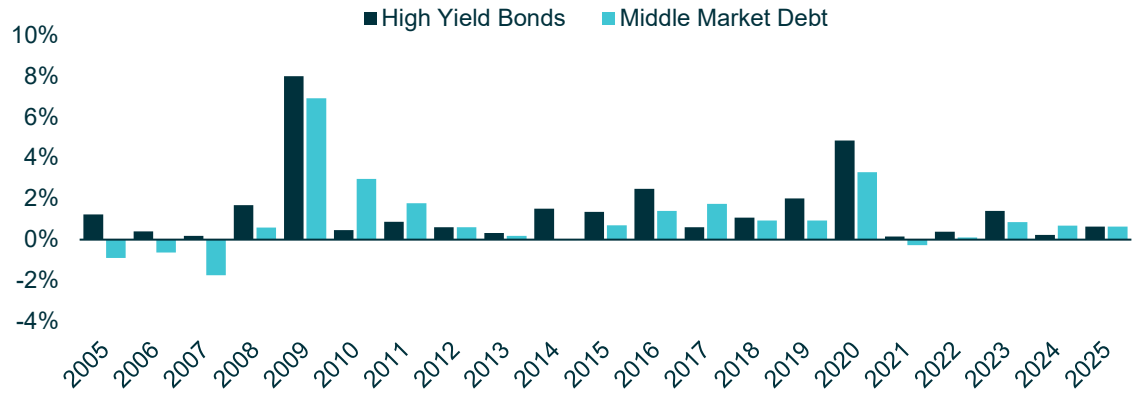
"Soft" credit events have not translated into losses

Trailing 4Q default rate + amended PIK %



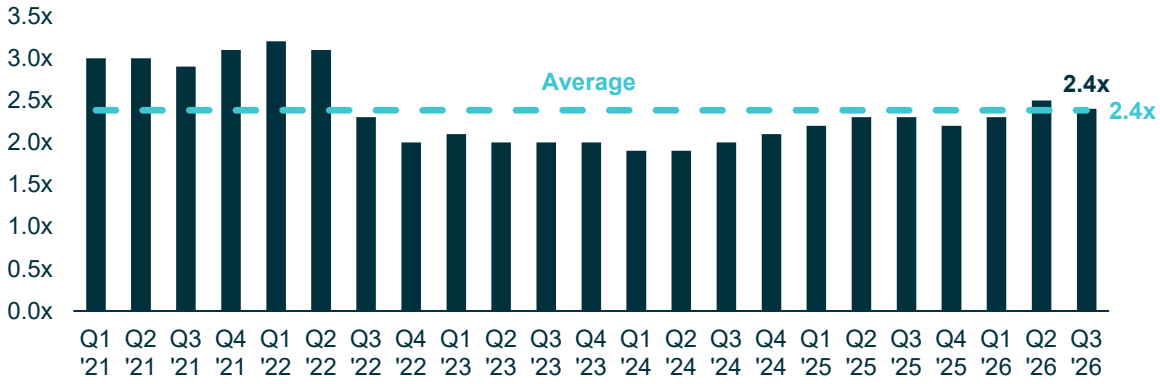
Middle market losses run below high yield

Credit losses



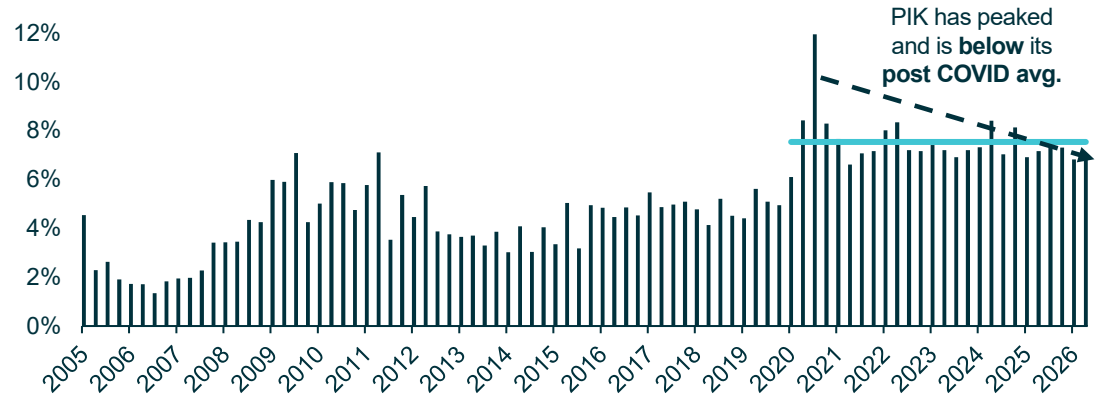
Interest coverage is in a healthier position as the Fed hikes

Interest coverage ratio



PIK has peaked and is reverting to its long-term average

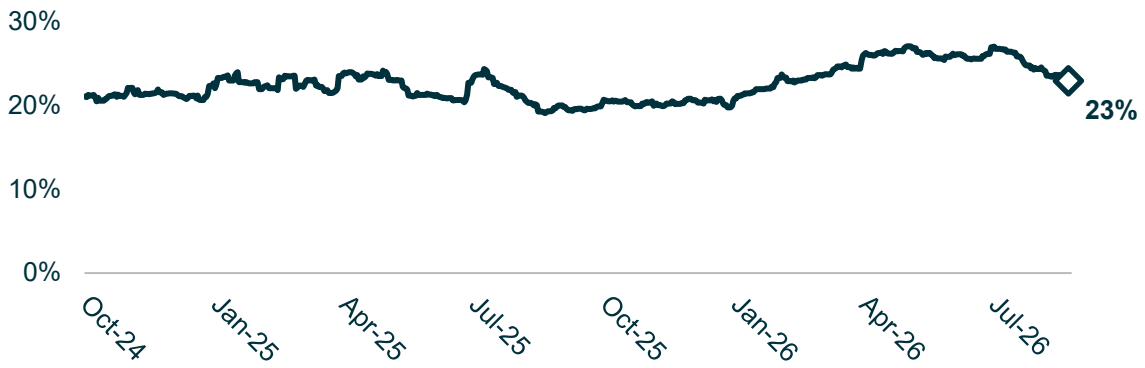
PIK as a % of total income



Source: (Top Left) Cliffwater, as of Jun. 30, 2026. (Top Right) Cliffwater, as of Jun 30, 2026. (Bottom Left) KBRA, as of Sep. 30, 2026. (Bottom Right) Cliffwater, as of Jun. 30, 2026.

Churchill portfolio snapshot

Revolver usage (funded %)



Diversification across industry, position and sponsor

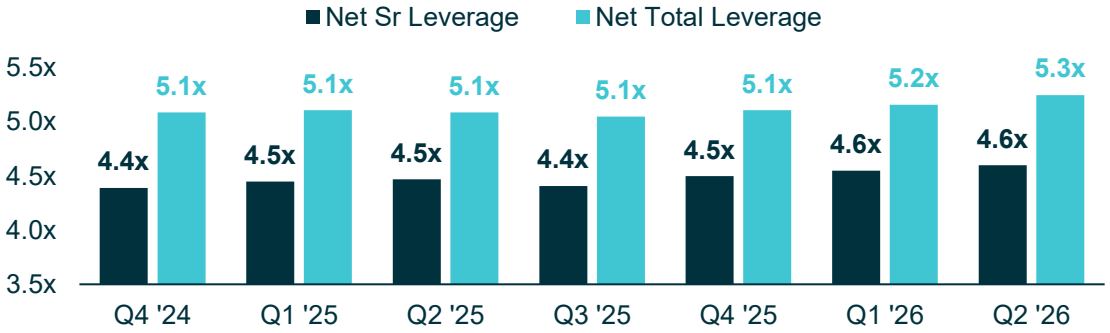
31bps
Average investment size

149
Active sponsors among current senior lending portfolio

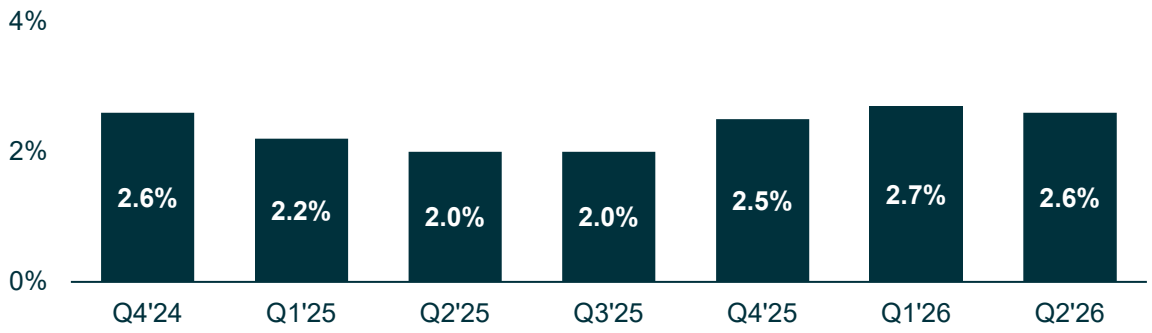


Healthcare & pharmaceuticals	16.1%
Services: Business	15.1%
Capital equipment	8.7%
Beverage & food	8.0%
Services: Consumer	6.8%
Construction & building	6.5%
High tech industries	6.1%
Environmental industries	4.8%
Banking, finance, insurance, real estate	3.4%
Containers, packaging & glass	3.3%
Utilities: Electric	2.7%
Consumer goods: Non-durable	2.7%

Churchill's net senior and total leverage



Churchill's PIK as a % of income



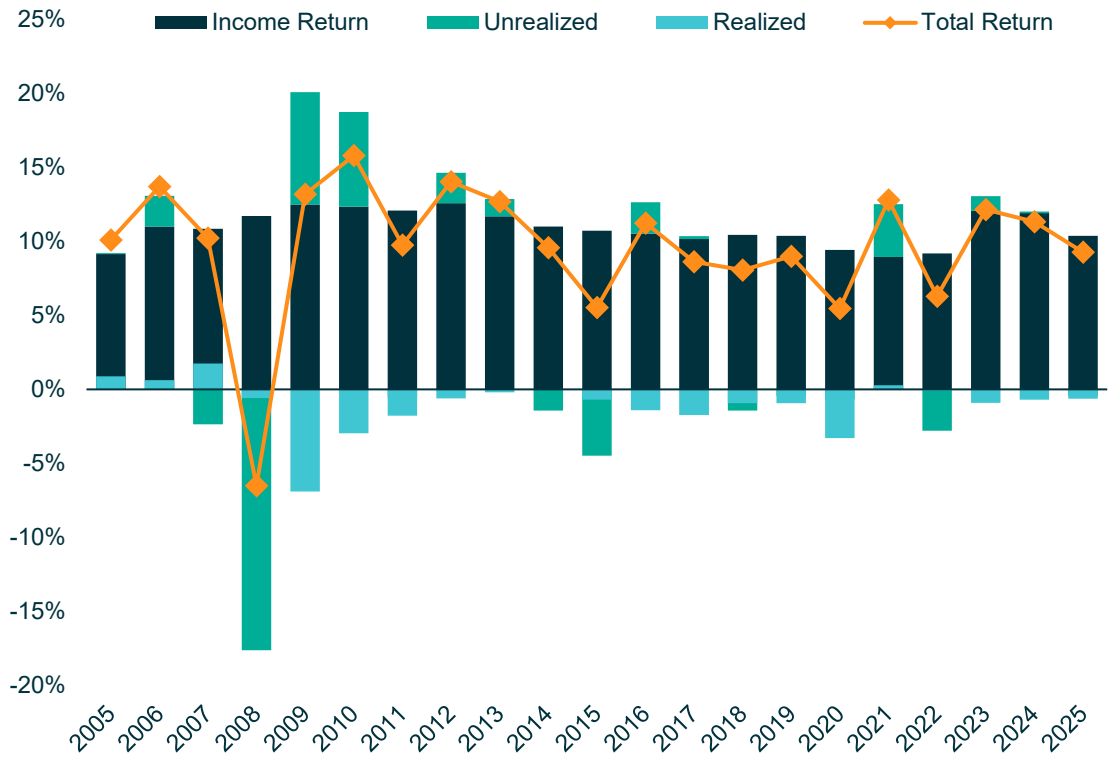
Source: (Top Left) : Source: Churchill Asset Management internal portfolio data, as of 30 June 2026. (Top Right) As of 30 June 2026. The data contained herein relating to Churchill's senior loan investments represents all investments in traditional middle market senior loans and excludes investments in upper middle market senior loans and equity tag investments. Per Moody's Investors Service Industry Classification. (Bottom Left) The data contained herein relating to Churchill's senior loan investments represents all investments in traditional middle market senior loans and excludes investments in upper middle market senior loans and equity tag investments. LTM figures include closed and committed investments as of 30 June 2026. Excludes deals $250MM+ from weighted average EBITDA calculation. (Bottom Right) Data represents Churchill's traditional middle market and upper middle market senior loan portfolio. Includes first lien and unitranche debt positions only.

Presented for illustrative purposes only. The investment strategy of the funds presented in this document is likely to be materially different from that of the Churchill traditional middle market senior loan portfolio. In addition, the funds may employ different investment guidelines and criteria than Churchill traditional middle market senior lending strategies; as a result, the holdings in Churchill's traditional middle market senior loan portfolio may differ significantly from the securities that comprise the funds presented. Past performance, events and trends do not imply, predict or guarantee, and are not necessarily indicative of, future results.

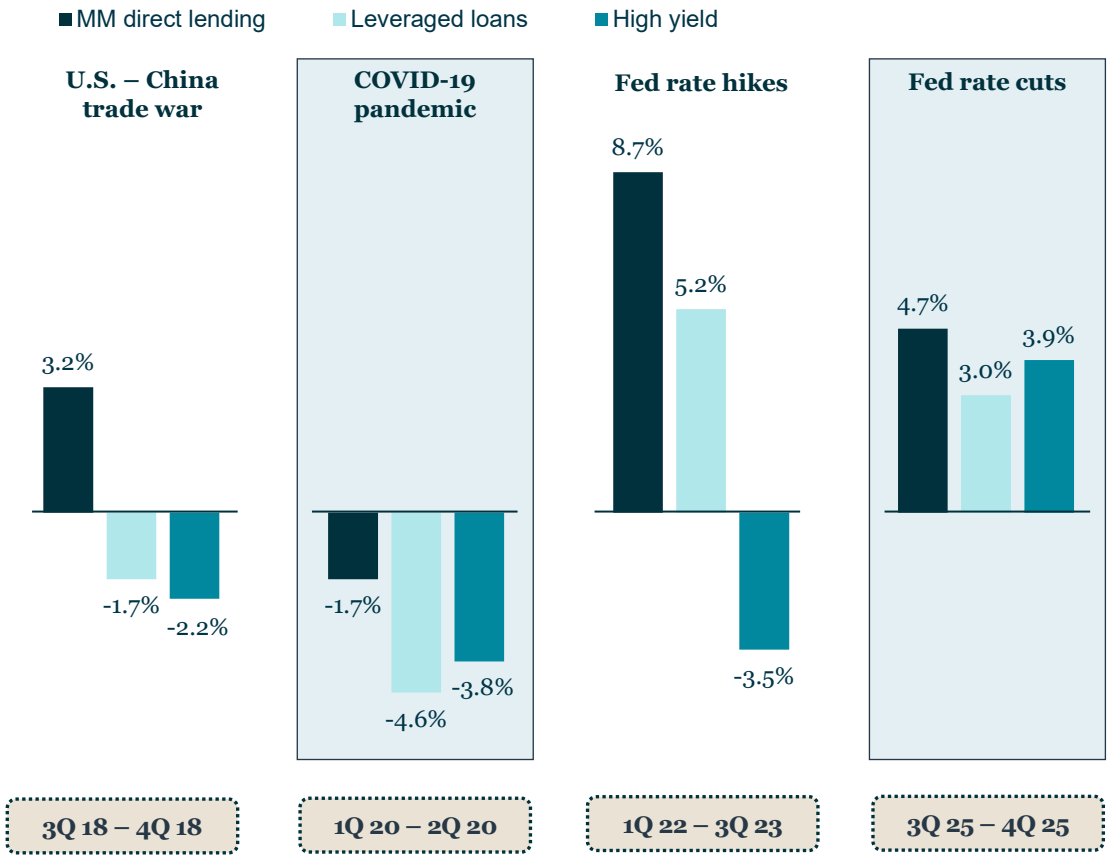
Historically demonstrated capital preservation through cycles

Historically delivered consistent returns through income

Cliffwater direct lending index returns



And demonstrated across multiple risk-off environments



Source: (Left) Cliffwater, as of Jun. 30, 2026. (Right) Cliffwater, Bloomberg Index Services, Morningstar, as of Dec. 31, 2025.

Assessing resilience across private credit managers

Track record through cycles

Evaluate underwriting discipline, capital preservation and experience managing investments across market cycles.

Portfolio construction

Consider diversification across borrowers, sectors and sponsors, alongside position sizing, credit quality and loan seniority, which is intended to help reduce concentration risk and may support portfolio resilience.

Sourcing approach

Look for established relationships and differentiated access to investment opportunities that enables selectivity.

Capital structure

Assess the stability of the capital base, fund-level leverage and whether liquidity terms are appropriate for the underlying investments.

Scale

Assess whether meaningful hold sizes, broad financing capabilities and dedicated resources enable the manager to lead transactions, support borrowers and drive resolutions aimed at preserving investor capital.

Investor alignment

Consider meaningful investment alongside clients on the same terms, transparent fee structures and incentives tied to long-term performance.

Market segment

Evaluate the manager's target market, including borrower size, sector exposures and portfolio concentration, to understand the implications for risk and return.

Opinions and views expressed reflect the current opinions and views of Churchill as of the date of this material only. Under no circumstances should these views and opinions be construed as investment advice.

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