On the Minds of Investors

Do recent defaults signal trouble in private credit?

Published: 1 day ago

Aaron Mulvihill
Global Alternatives Strategist

> **Investors have taken the recent defaults as a signal to examine sector exposure across portfolios against broader economic and tariff headwinds.**

A string of large defaults in the auto sector have raised questions around quality across the credit spectrum. Investors are asking whether these troubled companies are "canaries in the coalmine" that could signal broader stresses in an interconnected credit ecosystem that now spans public as well as private credit.

What types of debt did the borrowers default on?

The most notable canaries to croak in September were First Brands, a privately held manufacturer of auto parts, and Tricolor, a provider of subprime auto loans. The companies had amassed billions of dollars of public and private debt of various forms, and became unable to repay their lenders.

It is important to first note that the majority of the recently troubled credit was not private credit, but rather leveraged loans. These are loans that are originated by banks and syndicated to institutional investors. They occupy a space between private and public credit: unlike corporate bonds, they are not registered under securities laws and not offered to individual investors, but they are priced and traded frequently among institutional investors.

In recent years, private wealth investors have gained some exposure to leveraged loans through CLOs. Collateralized Loan Obligations buy up small slices of leveraged loans and tranche them into risk categories. Pools of AAA tranches, perceived as lower risk, have been marketed as below-investment grade securities, leading to easier accessibility by individuals.

If this sounds familiar, it might be because they bear a resemblance to collateralized debt obligations (CDOs), which exacerbated the 2008 global financial crisis. But there are key distinctions. While the CDOs blamed for fueling the financial crisis were concentrated in a single macro factor (the housing market), CLOs generally span a diverse range of economic sectors. Investors have taken the recent defaults as a signal to examine sector exposure across portfolios in the backdrop of broader economic and tariff headwinds.

Could this trouble spill over to private credit?

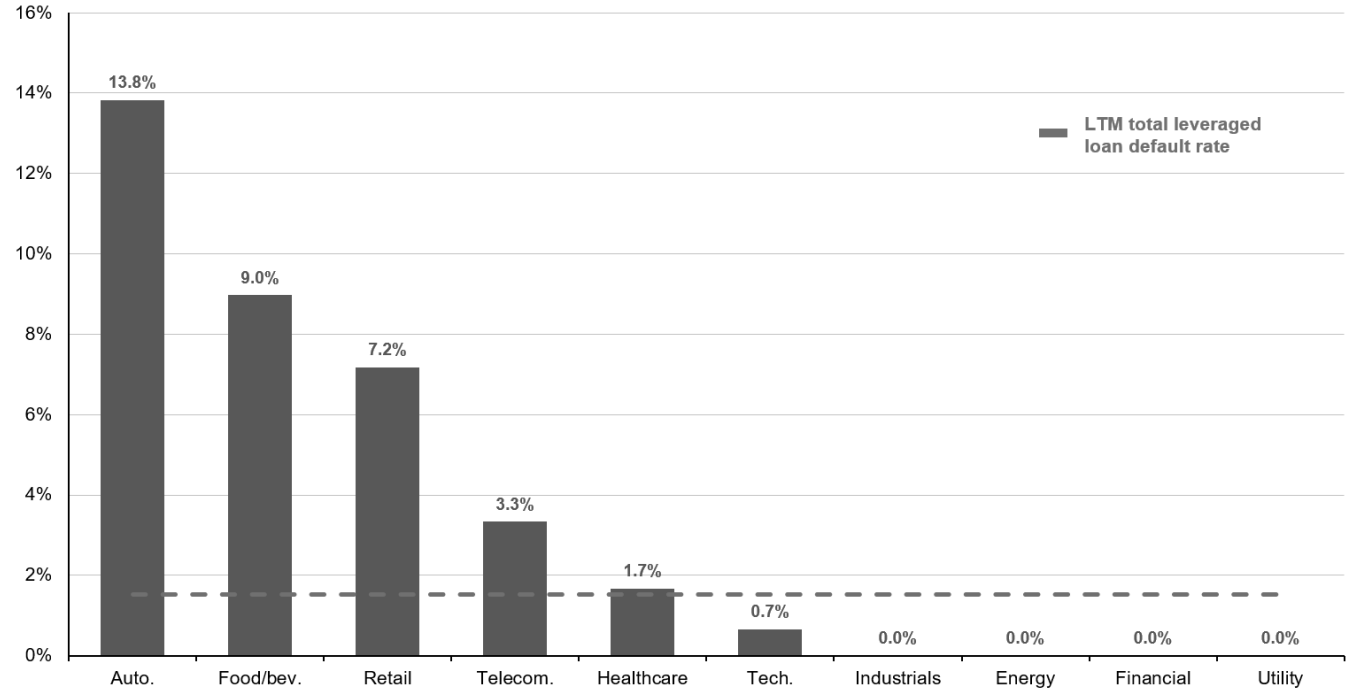
As the popularity of private credit has grown, so too have critiques that some lenders have relaxed their lending standards in an effort to be competitive with banks and other lenders. Indeed, pockets of the market appear more risky, with weaker underwriting and an emphasis on speed rather than quality.

But many lending platforms have remained disciplined, focusing on senior-secured lending and using limited leverage. Private credit has become a go-to source of lending for mid-sized companies with stable cash flows. And investment-grade private credit is a growing category.

Lending, whether it's public or private, is all about managing downside risk. When evaluating credit investments, investors should carefully consider the risks inherent in a strategy, its degree of diversification and the investment manager's ability to evaluate risks as well as to recognize and actively manage them when challenges do emerge. For investors seeking greater diversification within private credit, consider allocating to areas such as private credit secondaries, distressed debt and special situations.

Idiosyncratic credit risks are emerging in certain sectors, but credit fundamentals remain solid

LTM par-weighted leveraged loan default rates by industry, Sept. 2025



Source: Bloomberg, J.P. Morgan Credit Research, Pitchbook, S&P/IHSMarkit, J.P. Morgan Asset Management.

Default rates do not include distressed exchanges.

Data are based on availability as of October 23, 2025.

78c4078e-b0d9-11f0-97aa-27baaee93aae

Article Tags Alternatives Investment Grade Private credit

J.P. Morgan

JPMorgan Chase

Chase

This website is a general communication being provided for informational purposes only. It is educational in nature and not designed to be a recommendation for any specific investment product, strategy, plan feature or other purposes. By receiving this communication you agree with the intended purpose described above. Any examples used in this material are generic, hypothetical and for illustration purposes only. None of J.P. Morgan Asset Management, its affiliates or representatives is suggesting that the recipient or any other person take a specific course of action or any action at all. Communications such as this are not impartial and are provided in connection with the advertising and marketing of products and services. Prior to making any investment or financial decisions, an investor should seek individualized advice from personal financial, legal, tax and other professionals that take into account all of the particular facts and circumstances of an investor's own situation.

Variable annuity guarantees are only as good as the insurance company that gives them. While it is an uncommon occurrence that the insurance companies that back these guarantees are unable to meet their obligations, it may happen. Annuity withdrawals prior to 59½ may be subject to tax penalties, are subject to market risk and may lose value. Riders have additional fees and costs associated with them, and are subject to additional conditions, restrictions, and limitations.

Opinions and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable but should not be assumed to be accurate or complete. The views and strategies described may not be suitable for all investors.

INFORMATION REGARDING MUTUAL FUNDS/ETF: Investors should carefully consider the investment objectives and risks as well as charges and expenses of a mutual fund or ETF before investing. The summary and full prospectuses contain this and other information about the mutual fund or ETF and should be read carefully before investing. To obtain a prospectus for Mutual Funds: Contact JPMorgan Distribution Services, Inc. at 1-800-480-4111 or download it from this site. Exchange Traded Funds: Call 1-844-4JPM-ETF or download it from this site.

J.P. Morgan Funds and J.P. Morgan ETFs are distributed by JPMorgan Distribution Services, Inc. JPMorgan Private Markets Fund is distributed by J.P. Morgan Institutional Investments Inc. Both are affiliates of JPMorgan Chase & Co. Affiliates of JPMorgan Chase & Co. receive fees for providing various services to the funds. JPMorgan Distribution Services, Inc. is a member of FINRA FINRA's BrokerCheck

INFORMATION REGARDING COMMINGLED FUNDS: For additional information regarding the Commingled Pension Trust Funds of JPMorgan Chase Bank, N.A., please contact your J.P. Morgan Asset Management representative.

The Commingled Pension Trust Funds of JPMorgan Chase Bank N.A. are collective trust funds established and maintained by JPMorgan Chase Bank, N.A. under a declaration of trust. The funds are not required to file a prospectus or registration statement with the SEC, and accordingly, neither is available. The funds are available only to certain qualified retirement plans and governmental plans and is not offered to the general public. Units of the funds are not bank deposits and are not insured or guaranteed by any bank, government entity, the FDIC or any other type of deposit insurance. You should carefully consider the investment objectives, risk, charges, and expenses of the fund before investing.

INFORMATION FOR ALL SITE USERS: J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

Telephone calls and electronic communications may be monitored and/or recorded.
Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at https://www.jpmorgan.com/privacy.

If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

Copyright © 2025 JPMorgan Chase & Co., All rights reserved