# WARNING: THE CREDIT CRACKS ARE SPREADING

Public junk bonds are flashing distress while private credit marks reveal a slower-moving but real deteroration.

ZEFFER BUSINESS INTELLIGENCE
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## 1 JUNK BONDS: RISING RISK IN THE WEAKEST CREDITS

CCC bonds are deteriorating rapidly, with spreads and interest coverage at distressed levels.

### CCC CREDIT SPREADS

Spread over Treasuries (ICE BofA CCC Index)

**~1,000 bp**

First time above 1,000 bp since March 2023. Spreads reached 1,340 bp on Oct 22, 2026.




### CCC vs. BROAD HIGH YIELD

Relative spread multiple (CCC / BB)

**3.25×**

CCC spreads are 3.25× the broad high-yield spread.

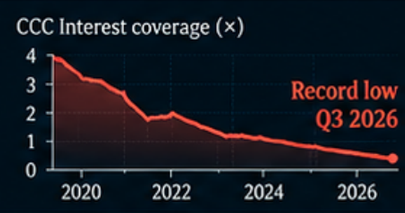



### CCC ISSUER INTEREST COVERAGE

Median EBITDA / interest expense

**Record-low**

CCC issuer interest coverage has fallen to a record low (Chicago Atlantic, Q3 2026).




## 2 PRIVATE CREDIT: LOAN VALUES ARE BEING MARKED DOWN

Private credit portfolios are showing more loans marked down, higher nonaccruals, and greater use of payment-in-kind (PIK) interest.

### LOANS MARKED BELOW 80 CENTS

Across 15 largest BDCs

**$6.8B** | **+64% YoY**

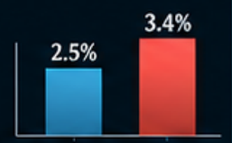
Of loans are marked below 80 cents, up 64% year over year (Chicago Atlantic, Q3 2026).

### NONACCRUAL LOANS

As a share of cost (Reuters sample of 10 BDCs)

**2.5% → 3.4%**

Nonaccrual loans rose to 3.4% in June 2026 from 2.5% at end 2025 (Reuters, Sep 2026).

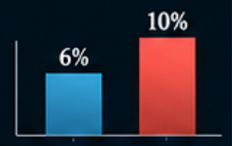



### PAYMENT-IN-KIND (PIK) INTEREST

Share of BDC loans using PIK

**6% → 10%**

The share of BDC loans using PIK rose from 6% in 2022 to 10% in early 2026 (Federal Reserve Bank of Boston, 2026).




## 3 PARALLELS TO 2008: DIFFERENT ASSETS, SIMILAR RISKS

Today's risks share important similarities with 2008, but the assets, institutions and overall financial system are different.

| 2008: SUBPRIME CRISIS | 2026: PRIVATE CREDIT & JUNK |
|---|---|
| **Subprime mortgages** Weak borrower quality and high leverage | **Leveraged borrowers** Highly indebted companies with weaker fundamentals |
| **Securitization & CDOs** Complex structures spread risk through the financial system | **Private credit, BDCs & CLOs** Loans held in private funds, BDCs and CLOs with limited price transparency |
| **Opaque valuations** Hard to know true asset values | **Discretionary loan marks** Valuations based on manager models, not market prices |
| **Confidence shock** Loss of confidence in mortgage assets and structured products | **Refinancing and liquidity stress** Rising defaults, restructurings and potential investor redemptions |

**SIMILAR TRANSMISSION CHANNELS ≠ SAME SYSTEMIC RISK**

Private credit is smaller than the 2008 mortgage market and the banking system is better capitalized, but linkages through institutions, funding markets and investor confidence create potential for contagion.

## 4 REAL-WORLD EXAMPLES: LARGE LENDERS ARE REPORTING MATERIAL LOSSES

**ARES CAPITAL (ARCC)** — $527M

YTD unrealized losses through Q2 2026, with more than one-third attributable to two software borrowers.

**BLACKSTONE SECURED LENDING (BXSL)** — $137M

Unrealized losses in Q2 2026; largest quarterly NAV decline in six years.

**BLUE OWL CAPITAL** — Q2 NAV decline

Q2 2026 NAV declined, mainly due to one credit markdown.

## POTENTIAL CONTAGION CHANNELS

HOW STRESS COULD SPREAD ACROSS THE FINANCIAL SYSTEM (ILLUSTRATIVE, NOT A FORECAST)

**WEAKER CORPORATES** — Slower growth, higher leverage, rising defaults → **PRIVATE CREDIT FUNDS / BDCs** — Loan markdowns, nonaccruals, restructurings, PIK → **CLOs & FUNDING MARKETS** — Mark-to-market pressure, wider spreads, reduced liquidity → **INSURANCE COMPANIES & INSTITUTIONS** — Exposures through private credit funds, CLOs and other vehicles → **POTENTIAL SPILLOVERS** — Stress in funding markets, asset sales, redemptions and reduced credit supply

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