

Private Credit Stress Signals: Looking Beyond Headline Defaults

**SCREEN DATE****Sept, 2026****UNIVERSE****52 BDCs**

In a private credit market where headline defaults and realised losses remain relatively contained; the more actionable signals are increasingly emerging at the individual BDC level rather than in sector averages. **The latest quarter shows meaningful dispersion in credit quality, earnings composition and balance-sheet resilience across the universe.**

This report screens **52 public and non-traded BDCs across three complementary stress dimensions: non-accrual trends, PIK as a share of investment income, and the interaction of NAV, net leverage and asset coverage.** Together, these indicators distinguish persistent borrower stress from improving credit quality, cash-backed income from greater reliance on non-cash accruals, and isolated portfolio marks from deterioration that is beginning to pressure balance-sheet capacity.

Three structural themes emerge: a) non-accrual trajectories are increasingly divergent; b) elevated PIK warrants greater scrutiny of earnings quality; and c) the combination of falling NAV, higher leverage and thinner asset coverage provides the clearest indication of balance-sheet stress. The names highlighted in each theme are therefore selected for the direction, persistence and interaction of these signals - not simply their absolute levels.

THEME 01

Non-Accruals: credit stress is becoming more divergent

The 52-BDC panel shows a widening divergence in credit trajectories. **FSK and BCRED remain above their Q1'25 non-accrual levels**, pointing to a higher persistence of borrower stress, while **GBDC and OCIC have materially reduced non-accruals after earlier increases.** The key signal is therefore not simply the current ratio, but whether elevated non-accruals are continuing to build or beginning to reverse.

FS KKR Capital Corp <i>FSK Public</i> Q1'26 non-accrual ¹ : 4.2% Q2'26 non-accrual: 4.2% YoY comparison: 3.0% in Q2'25 – Rising Indicator: Distribution ratio cut twice consecutively in 2026	Blackstone Private Credit Fund <i>BCRED Non-traded</i> Q1'26 non-accrual: 0.1% Q2'26 non-accrual: 1.1% YoY comparison: 0.2% in Q2'25 – Rising Indicator: Non-accrual at cost of 2.2% vs. 1.1% at fair value
Golub Capital BDC <i>GBDC Public</i> Q1'26 non-accrual: 1.4% Q2'26 non-accrual: 0.3% YoY comparison: 0.6% in Q2'25 – Declining Indicator: Stable Distribution ratio of ~10.1%	Blue Owl Credit Income Corp <i>OCIC Non-traded</i> Q1'26 non-accrual: 2.0% Q2'26 non-accrual: 0.2% YoY comparison: 1.6% in Q2'25 – Declining Indicator: Asset coverage of 2.07x, above 2.02x sector average

1. non-accrual at fair value

Signal: The panel is increasingly bifurcated rather than uniformly stressed. FSK remains the clearest persistent credit-stress signal, with Q2'26 non-accruals of 3.8% versus 2.1% in Q1'25 despite a modest Q2 improvement. BCRED also remains above its historical base (near 0.0% since inception) at 1.1%, although its ratio has declined from the Q1'26 peak.

In contrast, GBDC and OCIC have materially reversed prior deterioration, with non-accruals falling to 0.3% and 0.2%, respectively. The divergence suggests that borrower-level and manager-specific factors are becoming more important than broad private-credit asset-class conditions in explaining non-accrual outcomes.

THEME 02

PIK Income: when reported yield becomes less cash-backed

PIK income represents interest that is accrued to the loan balance rather than received in cash. Across the 52-BDC universe, the dispersion is meaningful: **several younger or more senior-focused vehicles report very low PIK dependence**, while selected portfolios have PIK accounting for more than 10% of investment income. **A high or rising PIK contribution does not by itself indicate credit stress, but it reduces the cash component of reported investment income** and becomes a stronger warning signal when accompanied by rising non-accruals or weakening NAV.

FS KKR Capital Corp <i>FSK Public</i> Q2'26 PIK % of income: 13.5% Q2'26 wtd. avg. yield: 8.8% Driver: ~20% Software exposure	Blue Owl Capital Corp <i>OBDC Public</i> Q2'26 PIK % of income: 11.2% Q2'26 wtd. avg. yield: 9.9% Driver: Healthcare (~15%) and Software (14%) concentration	Ares Strategic Income Fund <i>ASIF non-traded</i> Q2'26 PIK % of income: 0.1% Q2'26 wtd. avg. yield: 8.9% Driver: Senior-secured coverage (~80%)
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Signal: The critical signal is co-movement between PIK and non-accruals: elevated PIK alongside elevated non-accruals can indicate that a greater share of reported income is being generated on a non-cash basis while borrower credit quality is weakening. FSK is the clearest stress case, with 13.5% of investment income from PIK and 4.2% non-accruals at fair value in Q2'26.

OBDC presents a more moderate signal, with 11.2% PIK and 0.8% non-accruals, indicating elevated non-cash income but materially lower current credit stress than FSK. ASIF provides the strongest counterpoint, with only 0.1% PIK and 0.2% non-accruals, reflecting a much lower reliance on non-cash income alongside limited non-accrual exposure.

THEME 03

NAV & Asset Coverage: where credit stress reaches the balance sheet

NAV deterioration and balance-sheet coverage provide a second layer of stress analysis beyond non-accruals. The dispersion across the selected BDCs is pronounced: FSK and BXSL have both experienced NAV erosion and operate with asset coverage below the 2.02x sector average, while leverage is above the 1.08x peer level. By contrast, HTGC and TBCIF have preserved or increased NAV, maintain coverage close to or above the sector average and operate with lower leverage. The combination of declining NAV, higher leverage and thinner coverage is the key balance-sheet warning signal.

FS KKR Capital Corp <i>FSK Public</i> Q2'26 NAV/share: \$18.3 (-21.7% vs \$23.37 in Q1'25) Q2'26 Asset coverage: 1.79x (lower than 2.02x sector avg.) Q2'26 Net Leverage: 1.26x (above 1.08x sector avg.)	Blackstone Secured Lending <i>BXSL Public</i> Q2'26 NAV/share: \$25.53 (-6.8% vs \$27.39 in Q1'25) Q2'26 Asset coverage: 1.78x (lower than 2.02x sector avg.) Q2'26 Net Leverage: 1.27x (above 1.08x sector avg.)
Hercules Capital <i>HTGC Public</i> Q2'26 NAV/share: \$12.15 (+5.2% vs \$11.55 in Q1'25) Q2'26 Asset coverage: 1.95x (stable vs. 2.02x sector avg.) Q2'26 Net Leverage: 0.8x (below 1.08x sector avg.)	TPG Twin Brook Capital Income <i>TBCIF Non-traded</i> Q2'26 NAV/share: \$25.2 (stable vs \$25.29 in Q1'25) Q2'26 Asset coverage: 2.18x (above 2.02x sector avg.) Q2'26 Net Leverage: 0.85x (below 1.08x sector avg.)

Signal: The key warning is not NAV decline alone, but the combination of NAV erosion + elevated leverage + thinner asset coverage. FSK exhibits the clearest stress signal, with NAV/share down 21.7%, net leverage at 1.26x versus the 1.08x sector average and asset coverage at 1.79x versus 2.02x. BXSL shows a similar direction of travel, with NAV/share down 6.8%, leverage at 1.27x and coverage at 1.78x.

In contrast, HTGC and TBCIF demonstrate greater balance-sheet resilience: both maintain leverage below the sector average, while NAV is stable-to-positive and coverage remains close to or above the peer level. The critical early-warning signal is therefore the intersection of falling NAV and rising leverage, particularly when accompanied by declining asset coverage.

BDC Screener:

				Profitability		Leverage			Operating Efficiency				Credit Quality		
BDC	Ticker	Type	Signal	ROE	Wtd Avg Yield	Asset Coverage	Net Leverage	Loan-to-value	Efficiency ratio	OPEX % Assets	OPEX % NAV	Distribution yield	PIK % of Investmt Inc.	Non-Accr (Cost)	Non-Accr (FV)
Ares Capital Corporation	ARCC	Public	Watch	10.3%	10.2%	1.86x	1.14x	47.0%	24.3%	2.5%	5.4%	1.4%	7.6%	2.4%	1.4%
Blue Owl Capital Corp	OBDC	Public	Watch	10.1%	9.9%	1.87x	1.12x	47.0%	25.3%	2.6%	5.8%	9.3%	11.2%	2.8%	0.8%
Blue Owl Technology Finance	OTF	Public	Watch	7.4%	9.6%	2.03x	0.95x	40.0%	26.7%	2.4%	4.8%	9.7%	12.8%	0.6%	0.1%
Blackstone Secured Lending	BXSL	Public	Caution	11.7%	9.4%	1.78x	1.27x	51.9%	12.9%	1.2%	2.8%	12.1%	6.6%	3.6%	1.8%
FS KKR Capital Corp	FSK	Public	Caution	9.5%	8.8%	1.79x	1.26x	--	26.9%	2.6%	6.1%	9.6%	13.5%	5.5%	4.2%
Golub Capital BDC	GBDC	Public	Watch	9.2%	9.4%	1.80x	1.23x	--	22.1%	2.0%	4.5%	2.6%	0.9%	0.6%	0.3%
Main Street Capital	MAIN	Public	Stable	11.4%	12.6%	2.44x	0.80x	--	12.8%	1.3%	2.4%	7.8%	2.8%	4.0%	1.1%
Hercules Capital	HTGC	Public	Watch	16.3%	13.4%	1.95x	1.03x	--	18.8%	2.4%	4.9%	2.3%	8.3%	0.3%	0.1%
Blackstone Private Credit Fund	BCRED	Non-traded	Watch	9.1%	9.0%	2.21x	0.82x	41.0%	18.3%	3.7%	3.1%	9.1%	5.3%	2.2%	1.1%
Blue Owl Credit Income Corp	OCIC	Non-traded	Stable	9.2%	5.0%	2.07x	0.91x	43.0%	17.7%	2.1%	3.2%	9.3%	4.7%	0.3%	0.2%
Apollo Debt Solutions BDC	ADS	Non-traded	Stable	8.7%	8.6%	2.36x	0.87x	--	18.3%	1.7%	3.1%	0.8%	3.2%	0.8%	0.4%
HPS Corporate Lending Fund	HLEND	Non-traded	Watch	20.4%	9.4%	1.98x	1.00x	39.0%	17.1%	3.6%	6.8%	9.8%	5.3%	-	0.7%
Ares Strategic Income Fund	ASIF	Non-traded	Watch	9.9%	8.9%	1.83x	1.18x	40.0%	33.3%	3.6%	6.5%	9.6%	0.1%	0.3%	0.2%
TPG Twin Brook Capital Income	TBCIF	Non-traded	Stable	8.8%	9.1%	2.18x	0.85x	39.0%	18.1%	1.3%	3.1%	10.0%	1.4%	0.2%	-
Monroe Capital Income Plus	MCIP	Non-traded	Caution	9.4%	9.2%	1.78x	1.27x	37.4%	19.5%	2.5%	4.3%	4.4%	3.6%	-	1.2%

Note: Showing selected names here. The entire list is part of our full screener

Framework and Sources:

The Stress Indicator Report is a systematic early-warning framework designed to identify emerging credit stress across the private credit market. The analysis evaluates 52 public and non-traded BDCs across key credit and performance indicators, including non-accrual ratio, PIK income as a % of investment income, NAV per share, and leverage (Net Debt / Net Assets). Each indicator is assessed using quarterly reported data to identify deterioration, emerging vulnerabilities, and trends that may warrant closer portfolio surveillance.

The analysis is based on quarterly regulatory filings and company disclosures, with the indicators evaluated on a consistent basis across the BDC universe. The framework is intended to identify potential stress signals at the portfolio and vehicle level and to highlight areas where credit quality, earnings quality, NAV resilience, or balance-sheet leverage are showing signs of deterioration.



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