

NASHVILLE NOTES

Liquidity and Private Credit Keep Bank Losses in Check for Now**Tuesday, July 8, 2025 7:50 AM CT**

By Jeff K. Davis

Jeff Davis is a veteran bank analyst. The views and opinions expressed in this piece are those of the author and do not necessarily represent the views of S&P Global Market Intelligence; Mercer Capital, where Davis is the managing director of the financial institutions group; or StillPoint Capital, where Davis is a registered representative.

Last month, *The Wall Street Journal* [profiled Sixth Street Partners LLC](#) CEO Alan Waxman. According to S&P Global Market Intelligence, Sixth Street manages about \$110 billion of private credit and other assets. The gist of the article was that Waxman thinks the "golden age" of private credit is or soon will be in the rearview mirror as too much capital has entered the market. I think Wall Street has a retort for that: When the ducks are quacking, feed them.

I do not know if too much capital has entered the sector, but the golden age of private credit was created, in part, through post-Global Financial Crisis regulatory reforms that reduced risk-taking by banks, and by years of zero rate interest policies that forced capital that would have been allocated to traditional fixed income products to seek an alternative.

Also, private credit as a floating-rate fixed-income product, like leveraged loans, saw turbocharged growth in 2022 and 2023 as the Fed hiked short-term policy rates while loss rates did not increase much. Performance attracts capital.

An alternate question to ponder, or perhaps ask Jamie Dimon on [JPMorgan Chase & Co.](#)'s upcoming earnings call, is whether rapid growth in loans to non-depository financial institutions has or will create an above-average level of risk in the banking sector that is not well understood today. Such loans [totaled \\$1.3 trillion](#) as of early May, up from about \$600 billion in early 2020.

My inclination would be to answer the question "no," because bank loans for the most part are senior in the capital stack of business development companies, private credit funds and other nonbank lenders, and the loans nonbank lenders make will be to entities that have some amount of equity and perhaps subordinated debt. Also, private credit lenders like Sixth Street Partners have little, if any, duration mismatch because the bulk of capital that is used to fund loans is provided by limited partners who invest in funds with lives that can be upwards of 10 years.

A question to ponder is whether private credit is suppressing loss rates in the banking sector. I think the answer is yes.

Another question to ponder, or to possibly ask Dimon, is whether private credit is suppressing loss rates in the banking sector. The conventional wisdom is that private credit has lowered loss rates among high-yield issuers in the public market as companies with more levered capital structures or challenged business models migrate to private credit.

I think the answer is yes, even though many of the loans originated by private credit would not be suitable for a bank balance sheet. Credit markets and banks are highly dependent upon liquidity. Most corporate borrowers do not amortize debt very much other than to true-up the amount of debt to maintain a capital stack or to stay within a targeted rating. Debt is repaid by refinancing, and refinancing depends on the amount of capital that lenders are willing to provide.

Other than a brief interruption after "Liberation Day" in April, credit markets are flowing. Liquidity in debt markets, a surge in private credit, robust refinancing activity and the rise of credit risk transfer transactions have worked together to keep commercial loss rates in the banking sector low. Dimon, outwardly at least, has been a doubter. During JPMorgan's annual [investor day](#) in May, he opined that markets reflected an "extraordinary amount of complacency."

He is entitled to his opinion, as are investors. The credit markets in 2025 have been surprisingly resilient. S&P Global Ratings notes that global credit conditions remain supportive, with companies pushing out maturities to ease near-term liquidity pressures. US leveraged loan issuance totaled \$333 billion in the first half of 2025 compared to \$366 billion in the first half of 2024 and \$661 billion for the full year.

Absent intense competition from private credit, the volumes would have been much higher. The Fed's "wait and see" stance, with rates holding higher for longer, has not choked off liquidity yet. Prospective cuts in short-term policy rates, all else equal, will help marginal credits refinance.

Banks have benefited from this deep pool of capital. Unlike 2007-2008, when liquidity slowly then rapidly evaporated, today's markets are buoyed by more diverse funding sources and, I think, more sensitivity to avoiding funding mismatches. Private credit funds and the prospective introduction of private credit ETFs represent additional liquidity at the margin for credit markets that, for now, suppress loss rates.

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Banks are getting creative, too. Credit risk transfer and synthetic risk transfer transactions are gaining traction, allowing banks to offload risk without selling loans outright. The credit-linked notes that absorb first loss on a reference portfolio are another form of private credit. Echoing Sixth Street's Waxman, I expect a surge of capital into the product that will reduce the cost to banks given high yields and limited losses so far.

Too much capital flowing into any asset class will result in lower returns — and higher default rates, in the case of credit — as more marginal borrowers are underwritten. One day the torrent of liquidity in credit markets will turn and, if sustained, will negatively impact loss rates.

Private equity provides one warning of sorts for private credit and therefore liquidity in the credit market ecosystem. It appears private equity took in too much capital during the past decade, culminating in a blow-out of purchases during 2020 and 2021 at very high valuations.

Now, the industry is stuck with a backlog of companies in funds where the assets are mis-marked, and there is not enough M&A and IPO activity to monetize the assets, absent sharp markdowns.

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Jeff K. Davis, Managing Director of Mercer Capital's Financial Institutions Group, is a regular contributor to S&P Global Market Intelligence, formerly SNL Financial. He can be reached at jeffdavis@mercercapital.com or 615.345.0350.