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## A Guide to the Fault Lines in the Credit Market

Investors have been drawn to high yields—but opacity, complexity and hidden “cockroaches” are worth worrying about.

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Then there’s private credit. This rapidly growing area involves loans made directly to companies outside public markets and without the involvement of banks as an intermediary. Instead, funds and other large investors make the loans and typically intend to hold them until maturity. The specifics of private credit deals are often invisible to anyone not connected to the transactions.

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Private credit has seen blistering growth: The market more than doubled from about \$500 billion in the US alone in 2020 to around \$1.3 trillion as of December 2024, according to the Federal Reserve Bank of New York. It now makes up about 30% of the debt issued by below-investment-grade-rated companies, up from 13% immediately following the global financial crisis.

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And as low interest rates weighed on returns from loans to healthier companies, investors funneled trillions of dollars into the riskier corners of the industry. The motley group seeking higher yields included investors as diverse as sovereign wealth funds in Abu Dhabi, Japanese agricultural banks and teachers’ pension funds from Canada.

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Setbacks for creditors are beginning to pile up. In May 2025, Tropicana Brands Group, owned by European private equity firm PAI Partners, slashed the value of some debt by more than 30% through a deal that preserved PAI's full ownership of the juice maker and extracted even more cash from beat-up lenders. Pet food supplier Wellness Pet later inked a similar deal, as did software companies GoTo Group and Rackspace Technology and canned food brand Del Monte Foods. In 2024 a record 33 US companies with debt of \$500 million or more restructured their debt in a way that cut the value of creditors' holdings while keeping ownership stakes intact; 23 did so in 2025.

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