



# Private Credit's Valuation Problem

In any market built on illiquid assets, the reported price is an opinion. That opinion holds up as long as everyone involved has reason to trust it. When trust breaks down, the price becomes the problem. Private credit is now in that position.

Stress in the sector is now dominating the financial news as fund managers are gating exits and limiting redemptions amid growing doubts about the marks. Average redemption requests across larger funds hit 15% in Q1 2026, triple the prior quarter. The industry points to low realized defaults, which is true. But the market is reacting to something else: doubts about whether reported values are timely and credible. Once confidence in the marks erodes, the structures designed for orderly markets start working in reverse. Gating leads to more requests at the next window. Liquid assets get sold first, leaving a worse portfolio behind. That dynamic feeds on itself.

Private credit is the most exposed corner, but the valuation problem runs across the entire private capital stack. That includes continuation vehicles in private equity, net asset value (“NAV”) lending at the fund level, cross-fund transfers and a secondaries market that reached \$240 billion in 2025, up nearly 50% from the prior year’s record. These may look like different transactions, but they share one feature. Each is, at the end, a valuation event. If valuation is not addressed, the problem is only being kicked down the road.

Breaking that cycle requires valuation that does not come from the party reporting it.



## Liquidity Engineering and Conflicts

The recent selloff was triggered by concentrated software exposure and fears that AI could erode the business models of leveraged companies in that sector. But this was the catalyst, not the cause. Private credit still lacks an independent process for verifying the numbers on which an expanding set of complex transactions depends. If software had not forced the issue, something else would have. The period of easy fundraising has ended, stubbornly high interest rates are challenging borrowers and public credit is competing more directly for the same capital.

The industry has responded to the softer markets generally with more financial engineering. Private capital is increasingly relying on continuation vehicles, NAV lending, dividend recapitalizations and the booming secondaries market. Each concentrates pricing power, timing discretion and informational advantage in the same hands. In a continuation vehicle, the general partner (“GP”) sets the price at which some limited partners (“LPs”) exit while others roll forward into a vehicle the same sponsor manages. In NAV lending, leverage is advanced against marks the borrower itself has produced.

At Sidley Austin’s annual [Private Funds conference](#)<sup>1</sup> in March, the opening session was devoted to ethics in secondary transactions — a clear signal of where the legal community sees the risk building. As mentioned in the conference panel, LP advisory committees and occasional fairness opinions can provide some check on these conflicts, but their effectiveness depends on scope, data access and independence. Oversight of process is not the same as verification of price. How valuations are actually built, challenged or verified was not on the agenda at that conference, and it has received little serious attention elsewhere.

## Where the Marks Matter Most

At the recent Sidley conference, one speaker posed a clear question: *if senior secured marks are under scrutiny, what does that imply about unsecured debt or equity below them?* That is a fair point. But it does not answer the question investors are actually asking: *are the marks in the stressed loans realistic, consistent and timely?*

Private credit is particularly exposed because the asset class is marketed on seniority, collateral and downside protection. If marks on the safest part of the capital structure are raising doubts, the natural question is what the marks on everything else reflect. Payment-in-kind (“PIK”) structures, where interest is capitalized rather than paid in cash, account for a growing share of business development company (“BDC”) income. These may defer stress and expose credit dynamics to more sudden changes.

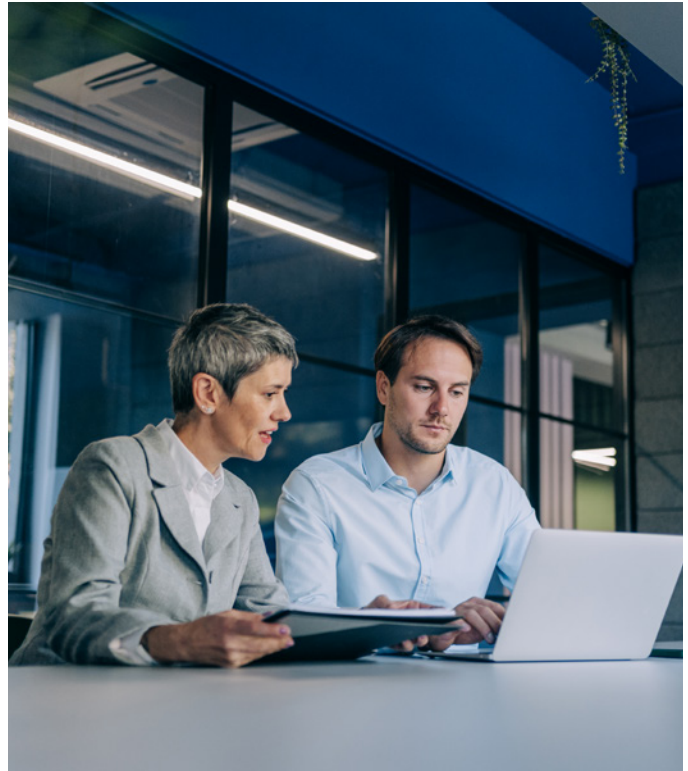
A blended NAV may be acceptable for periodic reporting, where some averaging and lag are understood. It is far more problematic when that same number supports fund-level leverage, frames a secondary transaction or sets the price at which investors redeem.

Valuation objectivity matters even more as private credit expands its investor base. Industry groups have lobbied for Department of Labor rules that would make it easier to include private credit in 401(k) plans. Their diversification argument has merit, but broadening retail access must come after underlying valuations can withstand independent scrutiny.



## The Missing Infrastructure — and What it Actually Requires

Across every dimension of the current stress, the same gap is visible. Private credit does not have a widely accepted framework for independent valuation in the situations where it matters most. Current practices such as selective fairness opinions do not add up to a process that can survive adversarial scrutiny. What investors are asking for is not complicated. They want marks produced independently, built on assumptions they can see, with a clear line between market evidence and model output. They want to know what happens to valuations when defaults rise and liquidity tightens. None of this is unreasonable. But it does require a willingness to separate the valuation function from the parties whose economics depend on the result. The firms that build that infrastructure first will set the standard for the broader market and create a more durable foundation for growth.



1 Sidley, "Private Funds & Asset Management: Developments & Opportunities" (March 12, 2026), <https://www.sidley.com/en/insights/events/2026/03/private-funds-asset-management-developments-opportunities>.

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