



Sycamore Tree
Capital Partners

S Y C A M O R E T R E E C A P I T A L P A R T N E R S

Why Liquidity Matters Again

The Case for Traded Credit

The illiquidity premium in private credit has compressed to the point that investors are no longer being adequately compensated for foregoing liquidity, transparency and compromised flexibility. This paper examines why current market dynamics increasingly favor traded credit—and how the same forces are creating selective opportunity in credit secondaries.

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April 2026

Executive Summary

We believe the current U.S. credit markets increasingly favor traded credit over private alternatives. Public markets today offer competitive yields, daily asset liquidity, transparent price discovery, and greater flexibility to reposition risk as conditions evolve. By contrast, parts of private credit are beginning to show the cost of illiquidity, delayed marks, and structural liquidity mismatch—particularly in retail-oriented and semi-liquid vehicles.

KEY T H E S I S

Investors are no longer being adequately compensated for foregoing liquidity and price transparency. The carry differential between traded and private credit has narrowed to the point where the burden of proof has shifted back to private markets.

As Exhibit 1 illustrates, the illiquidity premium has compressed meaningfully. At their mid-2023 peak, private credit yields exceeded leveraged loans by roughly 300 basis points. By December 2025, that spread had narrowed to approximately 160 basis points—with private credit at 9.3%, leveraged loans at 7.7%, and high yield bonds at 6.5% (per the KBRA DLD Index, J.P. Morgan Leveraged Loan Index, and Bloomberg U.S. Corporate High Yield Index, respectively). The compensation investors receive for sacrificing liquidity has been cut nearly in half.

Our view is not that private credit is broken, rather that the relative advantage has shifted. Investors today can achieve attractive yield in traded markets while preserving optionality—and that matters in an environment where the gap between strong and weak credits is widening, especially in Software and Services and in credits exposed to a more volatile geopolitical and energy backdrop.



AT A GLANCE

Experienced Team	>30 Years in Credit
Assets Under Management	~\$4 Billion
Strategies	CLOs Opportunistic Credit Credit Secondaries

1. Why Traded Credit Now

The core argument is straightforward: traded credit offers competitive income without forcing investors to sacrifice liquidity, transparency, or tactical flexibility. That value proposition looks far more attractive today than it did when private credit spreads were wider, public yields were lower, and the illiquidity premium was meaningfully larger.

Today, the carry differential is narrower, and the burden of proof of justifying their risk/return profile has shifted back to private markets. Investors should ask what incremental return they are truly receiving for owning hard-to-price, hard-to-exit assets through vehicles that may not provide full liquidity when it is most needed.

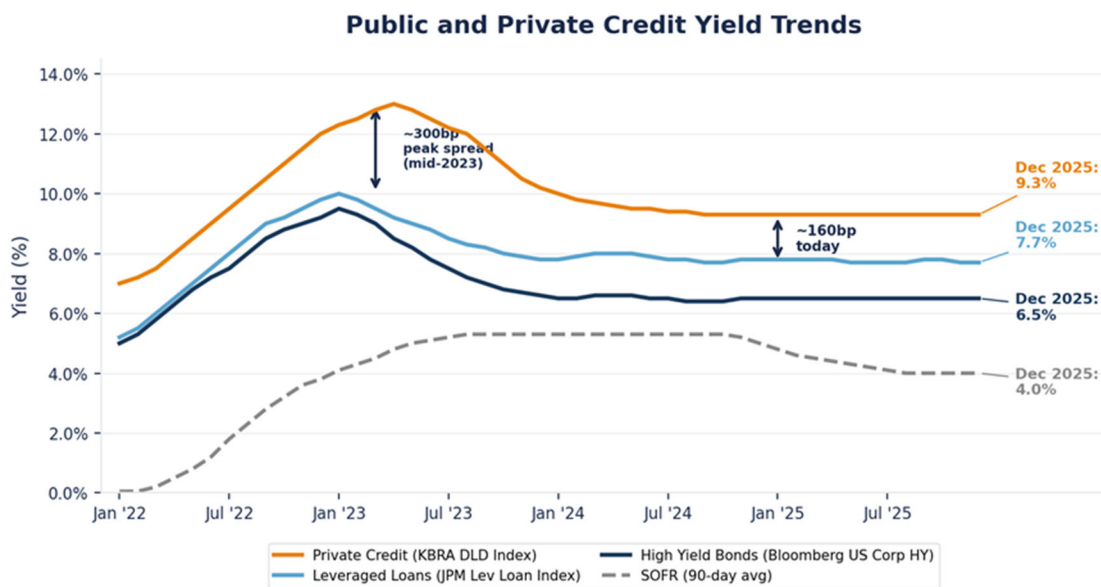


Exhibit 1: Public and private credit yield trends (monthly, Jan 2022–Dec 2025). The illiquidity premium has compressed from ~300bp at its mid-2023 peak to ~160bp as of December 2025. Source: Bloomberg, FactSet, KBRA DLD, J.P. Morgan Credit Research, J.P. Morgan Asset Management. Data as of January 31, 2026.

Liquidity is not merely a convenience. In periods of volatility, liquidity becomes a source of alpha or, more to the point, a source of avoiding catching (holding onto) the proverbial falling knife. Traded credit allows investors to add risk when markets overshoot, reduce risk when conditions deteriorate, and reposition portfolios as sector-level or issuer-level fundamentals change. Private credit, by contrast, often delays that adjustment process through appraised NAVs and periodic liquidity windows. That can make returns appear smoother, but smoother marks are not the same thing as lower risk.

WHAT TRADED CREDIT ENABLES

- Risk repositioning in real time as fundamentals evolve
- Comparable public valuations across issuers and sectors daily
- Asset class rotation — loans, high yield, CLOs, and other traded instruments
- Liquidity management as a portfolio construction tool, not just a constraint



2. Private Credit's Liquidity Mismatch Is Becoming More Visible

The issue in private credit is not simply that the underlying loans are illiquid—that has always been true. The issue is that a growing share of the capital raised in private credit has come through semi-liquid and retail-access vehicles, representing over 25% of the private credit market. At year-end 2024, interval funds, tender-offer funds, and BDCs held \$403 billion of assets, according to ICI; 2025 industry updates suggest that figure increased further.^{1,2} Structure now matters in a serious way.

The structural tension is straightforward: these vehicles typically repurchase only 5% - 25% of outstanding shares per quarter, often on a pro rata basis when requests exceed the allowed amount. That works in a benign environment. It becomes a real constraint when investor sentiment shifts and redemption requests begin to exceed structural capacity—as they did at several large managers in the first quarter of 2026.

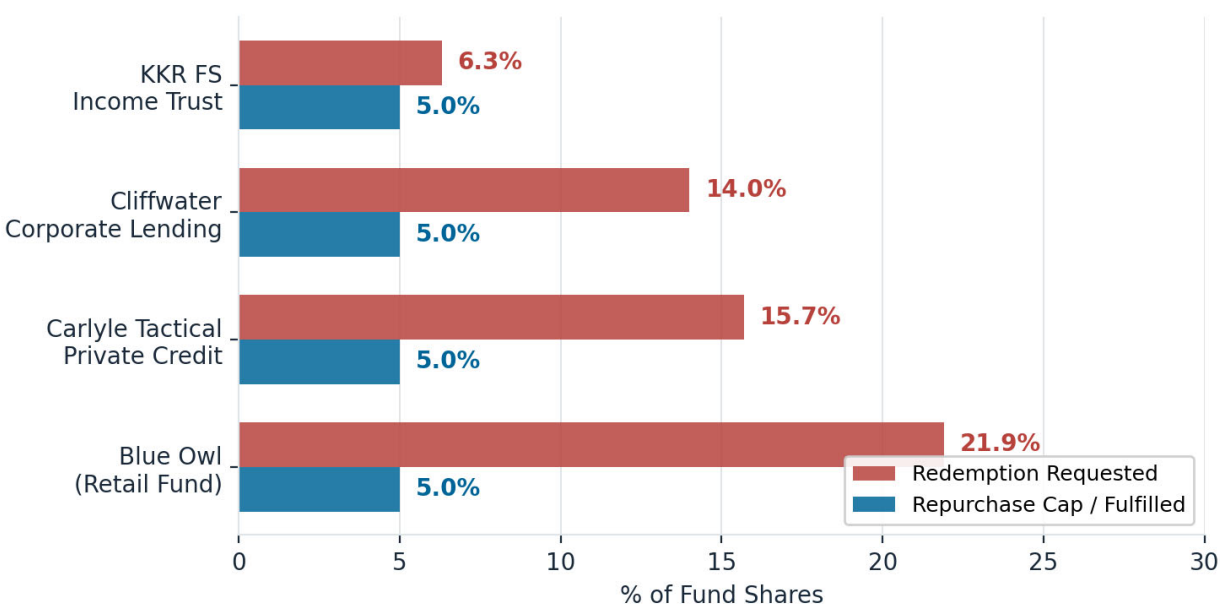


Exhibit 2: Select private credit fund redemption requests versus structural repurchase capacity (Q1 2026). Repurchase caps shown reflect standard quarterly limits or amounts fulfilled.³

The pattern is consistent across managers: withdrawal requests significantly exceed the repurchase capacity of the vehicle, with the gap absorbed by remaining investors rather than resolved through market clearing. The Cliffwater Corporate Lending Fund is an instructive example—not because it is a credit-specific outlier, but because it illustrates a broader reality about the asset class. Cliffwater received redemption requests equal to approximately 14% of shares in the first quarter against a 5% repurchase cap. The point is that interval fund structures are ultimately distribution solutions layered on top of inherently illiquid underlying assets. Even well-run interval funds often need to hold meaningful liquidity buffers to manage repurchase risk, which reflects the structural tension between investor-facing liquidity expectations and the illiquid nature of the underlying portfolios.⁸

Adding to the pressure, U.S. banks have begun raising borrowing costs for private credit funds amid valuation concerns and increased redemption activity. Public markets do not eliminate risk. They simply force faster

recognition of it. In traded credit, volatility is visible. In semi-liquid private credit, volatility is often delayed, smoothed, or rationed through gates and pro-rata withdrawals.



A P P R O A C H T O L I Q U I D I T Y

- Do not rely on appraisal smoothing to defend marks
- Invest in markets with real-time clearing prices
- Be a buyer when others are managing withdrawals
- Embed liquidity in underwriting, portfolio construction, and risk management

3. Credit Fundamentals: Not Broken, but Dispersion Is Rising

It is important to stay balanced. We do not believe the credit market is in broad-based fundamental collapse. S&P Global Ratings expects the U.S. trailing twelve-month speculative-grade corporate default rate to reach 3.75% by December 2026. That is elevated enough to matter, but still consistent with a market in which headline fundamentals remain manageable.

The more important question is not whether defaults are spiking broadly, but whether stress is becoming more concentrated beneath the surface—in weaker issuers, challenged sectors, and more aggressively structured capital.

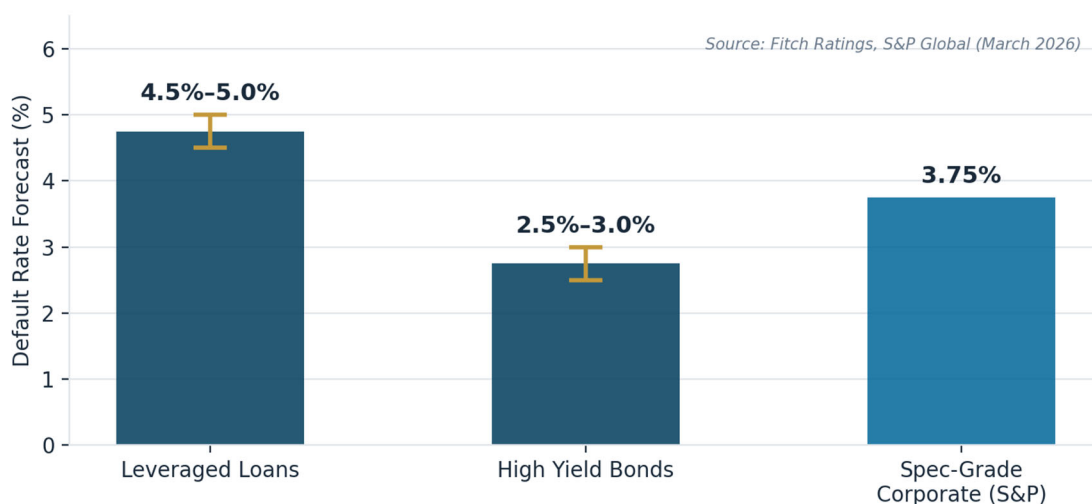


Exhibit 3: 2026 default rate forecasts by credit category. Sources: Fitch Ratings, S&P Global Ratings (March 2026).

It is also worth noting that the Federal Reserve has been monitoring private credit but does not currently view it as a systemic threat to the broader financial system⁴. At roughly \$1.6 trillion, private credit is now too large to dismiss as niche, but it remains substantially smaller than the approximately \$7.3 trillion U.S. corporate bond market, a fraction of the roughly \$49.6 trillion U.S. fixed-income market outstanding, and far below the roughly \$14.7 trillion mortgage market at the end of 2008. In our view, these statistics support treating private credit as an important but not inherently systemic source of risk to the wider economy or markets.

Stress often emerges first beneath the headline default rate. It shows up in covenant amendments, payment deferrals, PIK elections, valuation dispersion, and the growing divide between genuinely durable businesses and weaker credits whose marks have lagged. In software lending specifically, the trend is pronounced: over one-third of private credit agreements with software borrowers included a PIK option at the end of 2025, and PIK income now accounts for more than 20% of BDC net income, with significant concentration in technology. That is not default—but it is a form of credit stress that appraised NAVs are slow to reflect.⁵

This is why we believe this environment increasingly rewards active underwriting, liquidity, and cycle-tested judgment. If this market evolves more like a longer, uneven cycle rather than a short, V-shaped dislocation, broad beta matters less and issuer-level selection will matter more.





EXPERIENCE THROUGH CYCLES

- Multiple credit cycles navigated: 1998–2003, 2008–2010, 2020–2021
- Hundreds of distressed and workout situations managed by Experienced Team in past cycles
- Tenured experience across loans, high yield, structured credit, and dislocated markets
- *Emphasis on downside avoidance, not just income capture—Alpha by Avoidance*

4. Software and AI: A Dispersion Catalyst

One area where dispersion is especially prevalent is software. We do not view AI as a blanket tailwind or blanket headwind for credit. We view it as a dispersion catalyst. Some companies are strengthening their products, improving efficiency, and deepening customer value propositions. Others face rising reinvestment burdens, pricing structure/pressure, weakening differentiation, or the risk that AI compresses switching costs and accelerates obsolescence.

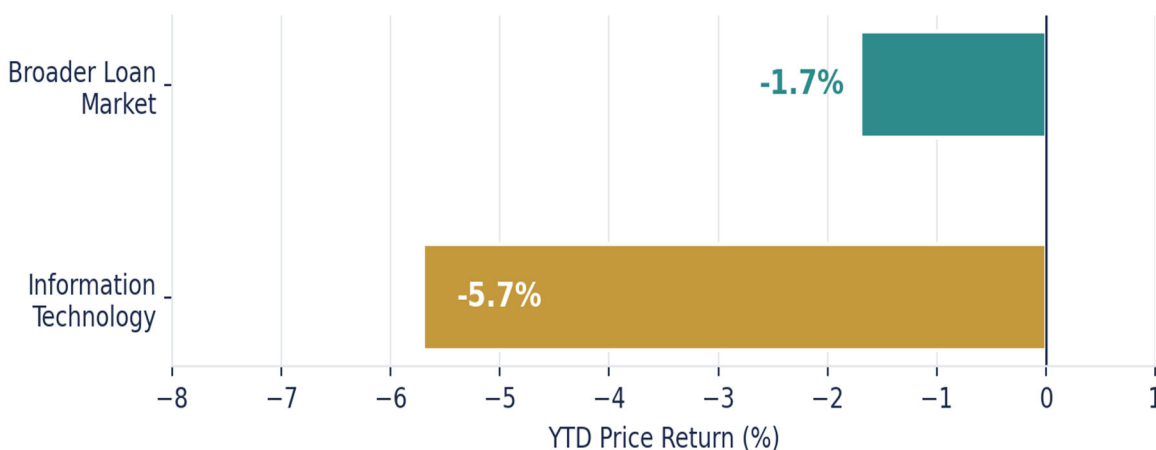


Exhibit 4: Information Technology loan performance versus the broader market, YTD 2026. Source: Morningstar LSTA Leveraged Loan Index.

Private credit has been heavily exposed to software, particularly through loans originated in 2020–2021. S&P Global Ratings estimates total capex by the top five U.S. hyperscalers will reach approximately \$600 billion in 2026, up 38%, with AI tailwinds supporting IT spending growth. That combination supports the view that AI will create real winners—but it will not save every software credit.

This is precisely where deep underwriting matters. Generic comfort around recurring revenue or sponsor backing is not enough. Investors need to know which issuers are positioned to benefit from AI, which are being forced into heavier reinvestment just to defend existing economics, and which are at risk of slower growth, lower pricing power, or impaired cash flow conversion.



SYCAMORE TREE SOFTWARE PORTFOLIO

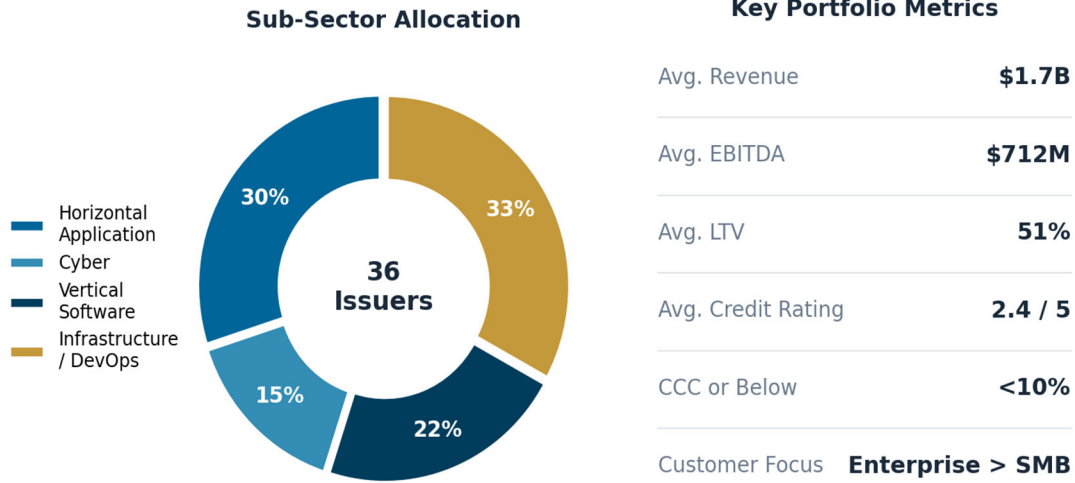


Exhibit 5: Current software portfolio allocation and key metrics. 36 borrowers representing approximately 13.5% of portfolio at market weight. Rating scale: 1 (best) to 5 (worst), integrating AI disruption risk, LTV, liquidity, FCF, and LME risk.

Our software portfolio is differentiated by its focus on larger-capitalization, enterprise-oriented issuers with an average revenue of \$1.7 billion and average EBITDA of \$712 million—meaningfully above the estimated ~\$100 million EBITDA typical of private credit software exposure. We focus on product stickiness, pricing durability, reinvestment burden, churn risk, and margin resilience, and maintain the ability to compare private marks against public comparable companies and traded levels.

5. Geopolitical Risk and Credit Fundamentals

We do not position ourselves as geopolitical forecasters. But we do believe investors must understand how geopolitical shocks impact credit fundamentals. Energy prices, inflation expectations, rate paths, sector demand, and refinancing conditions can all move quickly when geopolitical risk rises, and the current environment, including elevated tensions in the Middle East and disruption to key energy transit routes, illustrates how rapidly those transmission channels can have impact.

The Strait of Hormuz handles approximately 20% of global oil and LNG transport.⁶ When flows through critical chokepoints are disrupted, the effects cascade: energy costs rise, inflation expectations shift, central bank rate paths are repriced, and corporate margins come under pressure—particularly for issuers already operating with too much debt and a thin liquidity cushion. The speed and magnitude of recent energy price moves underscore why real-time price discovery matters. Traded credit markets reprice immediately. Private credit reacts more slowly, first through changes in financing conditions, then through sector-level stress, and only later through formal defaults or non-accruals.

We view geopolitics as a transmission mechanism into credit, not just a headline risk. That view directly informs how we position portfolios. Because geopolitical volatility transmits through energy prices, inflation, supply chains, and risk appetite, our sector positioning reflects not only bottom-up underwriting but also where those shocks are most likely to impact sector-level resilience.

HOW WE ARE POSITIONED

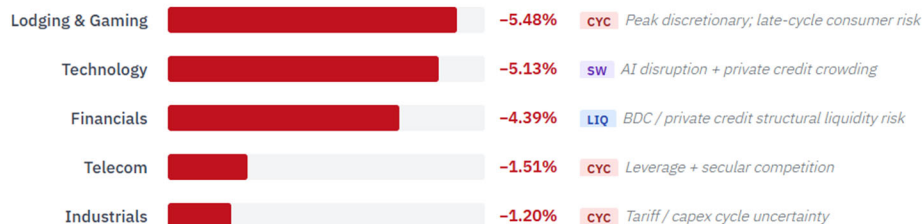
Sycamore Tree CLO Portfolio — Top 5 & Bottom 5 Sector Over/Underweights

CLO 1–7 MV weight vs. Index weight, as of March 31, 2026 (percentage points)

OVERWEIGHT



UNDERWEIGHT



■ Overweight ■ Underweight GEO Geopolitical / Energy SW Software & Dispersion DEF Defensive Quality LIQ Liquidity Advantage CYC Cyclical Caution

Source: Sycamore Tree Capital Partners. CLO 1–7 MV weight vs. Index weight. Data as of March 31, 2026.



Exhibit 6: Sector positioning reflects current platform views on relative resilience and vulnerability under a more volatile geopolitical, energy, and inflation backdrop, as well as sensitivities to current AI landscape.

This is also why the ability to reposition matters. In traded credit, when geopolitical conditions shift, we can adjust sector exposures in real time, adding to sectors where shocks have been overpriced and reducing exposure where the market has not yet reflected the risk. In private credit, that adjustment happens slowly if at all, first through changes in financing conditions, then through sector-level stress, and only later through formal defaults or non-accruals.

Balanced Risks to Our Thesis

We recognize that our views on ongoing credit stress/defaults and further sector and name dispersion may prove early. Markets can remain technically strong for longer than expected, especially when defaults remain contained and income remains attractive. In that scenario, the relative advantages of liquidity and price discovery may take time to be fully reflected in spreads, flows and returns.

A benign default backdrop does not necessarily imply benign outcomes if recoveries weaken, restructurings become more coercive, or documentation proves less protective than expected. To that end, we remain cautious around liability management exercise risk, where stressed issuers and sponsors may seek to preserve flexibility at the expense of existing lenders. In our view, this is another reason why deep documentation analysis, fundamental underwriting, and proactive portfolio management matter more than simple yield capture.



6. The Emerging Opportunity in Credit Secondaries

Against this backdrop, our recent launch of a dedicated Credit Secondaries business is a natural extension of the same market view—pairing the advantages of traded credit with a strategy designed to capitalize selectively on the illiquidity, valuation lag, and mispricing in private markets.

The same forces that support traded credit also create a compelling adjacent opportunity. As private credit has scaled, fund realization timelines have lengthened, liquidity needs have increased, and secondary markets have become a more important mechanism for portfolio management. What was once a niche liquidity solution is increasingly becoming a structural release valve for both LPs and GPs.

Importantly, this is still an early market. Credit secondaries transaction volumes have grown rapidly yet remain small relative to the size of the broader private credit universe. In our view, that gap matters: it suggests a market with increasing relevance, but one that is still inefficient enough to reward selectivity, underwriting rigor, and structuring expertise.

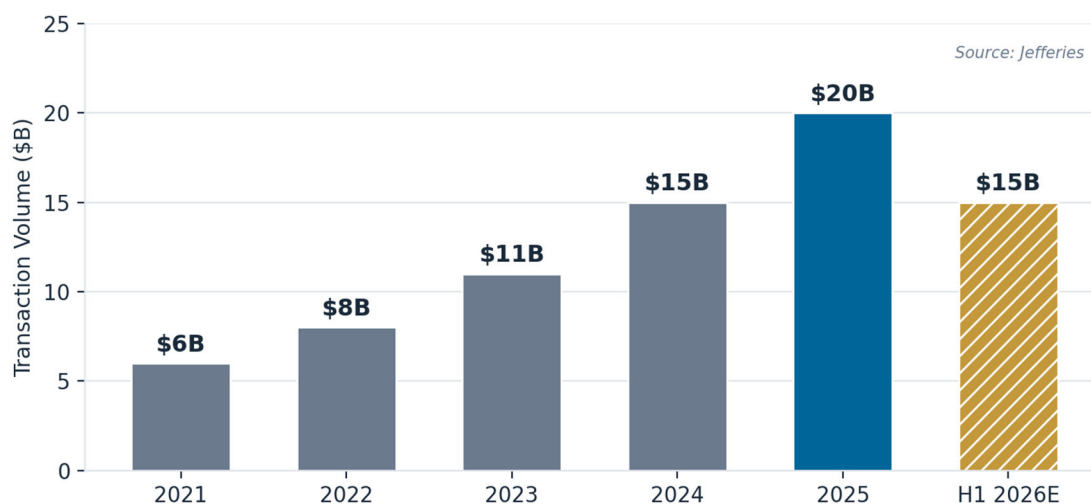


Exhibit 7: Credit secondaries transaction volume. Deal backlog suggests H1 2026 alone should exceed \$15B. Source: Jefferies.⁷

What makes credit secondaries attractive in this environment is not simply illiquidity. It is priced, visible, and often seasoned illiquidity. Investors can access portfolios with known borrowers, established payment histories, and frequently current cash flow, rather than taking blind-pool risk through new primary commitments. In a market where private asset realizations have slowed and valuation dispersion is rising, secondaries can provide a more selective and risk-aware access to private credit. Slower private credit realizations and lower-for-longer DPI have increased the importance of secondaries as a liquidity and duration-management tool.

For disciplined buyers, the appeal is straightforward: acquire exposure to seasoned assets at negotiated discounts, underwrite known portfolios rather than blind pools, and use market dislocation, liquidity pressure, or structural complexity to drive more attractive entry points. In our view, that is where traded-credit instincts – price discipline, relative-value judgment, and downside-focused underwriting—translate especially well to the private markets.





C R E D I T S E C O N D A R I E S C A P A B I L I T I E S

- Experienced and dedicated Credit Secondaries team
- Existing underwriting library across corporate credit
- Public-market price discovery and relative-value discipline
- Ability to underwrite both asset quality and seller motivation
- Structuring capability across LP-led, GP-led, and customized liquidity solutions

Conclusion

We believe the current market increasingly rewards liquidity, transparency, active risk management, and deep underwriting. Public traded U.S. corporate credit offers competitive carry while preserving the ability to adapt as fundamentals, sector dynamics, and market technicals evolve.

That advantage matters more when parts of private credit are showing the limits of semi-liquid structures, when valuation smoothing is being tested by real redemption pressure, and when issuer-level dispersion is rising beneath still-manageable headline default rates.

At the same time, those same pressures are creating a more attractive opportunity for credit secondaries as a selective extension of the same market view. In our judgment, this is not the moment to abandon private credit wholesale. It is the moment to be more selective about where liquidity is valuable, where illiquidity is genuinely compensated, and where underwriting depth can distinguish between technical mispricing and fundamental impairment.

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Important Disclosures

All third-party data referenced herein is sourced from publicly available information, including:

Footnotes: ¹Investment Company Institute, The Closed-End Fund Market, 2024, ICI Research Perspective, Vol. 31, No. 4 (April 2025); ²Office of Financial Research, Measuring Counterparty Exposures to Private Credit, OFR Brief No. 26-02 (March 12, 2026); ³U.S. Securities and Exchange Commission, Investor Bulletin, Interval Funds (Sept. 25, 2020); ⁴Reuters, “Fed watching private credit sector for signs of trouble, Powell says” (March 30, 2026); ⁵Reuters, “Private lenders delay reckoning with payment concessions on stressed debt” (March 31, 2026); ⁶Reuters, “Iran offers proposal allowing ships to exit Oman side of Hormuz free of attack, source says” (April 15, 2026); ⁷Jefferies, “Private Credit Headlines Mask the Bull Case for the Credit Secondary Market” (March 24, 2026); ⁸Reuters, “Cliffwater’s private credit fund redemptions hit 14%, Bloomberg News reports” (March 11, 2026).

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KBRA DLD Index: comprised of approximately 2,900 borrowers and \$280 billion in private credit volume – syndicated loans excluded.

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