

Views From the Stream

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Seven, Eight, Shut The Gate: A Blue Owl By, Paul L. Sloate, CEO

Last month we indicated significant concerns about the Private Credit Industry. (Please see *The Stock Market: Private Credit Trembles & Bubble Valuations* dated December 31, 2026.) As Dodd Frank restricted bank lending, private lending entities stepped into the gap to meet demand. Thus, the Private Credit Industry was born. This lending possessed strong spreads initially and delivered good risk adjusted returns, often 12% or more. However, with assets exploding for the industry over the past decade and the public moving large assets into these managers' hands, credit spreads compressed significantly over the past five years as massive inflows of capital competed for scarcer loans. On February 18, 2026, Blue Owl Capital Inc. announced it permanently stopped quarterly redemptions on one of its funds. In addition, it sold \$1.4 billion in loans to meet redemption requests and shore up liquidity for three funds. While the company sold these loans close to par value, loans similar to loans held by its Technology focused funds trade at 91 cents on the dollar of face value in the high yield market. Typical actions by financial institutions to meet redemptions in the past indicate that when trouble brews, institutions sell their best assets as those assets still possess relatively strong valuations. They keep the lesser quality assets as investors demand large discounts to take those risks upon themselves. A hedge fund, Saba Capital, offered to buy the assets left in the affected funds at \$0.65 to \$0.80 on the \$1.00 of assets. Over the past four years, Blue Owl more than tripled its assets to over \$300 billion. This type of growth in past credit cycles did not end well. And the Cockroach Theory prevailed. For those unfamiliar with the Cockroach Theory, it simply states that if you see 1 Cockroach, there exists 50+ Cockroaches hidden behind the walls. Time will tell if this well established theory over multiple Credit Cycles holds true once more.

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