
The Private Credit Instability Hypothesis

By Kerry Pechter Mon, Dec 1, 2025

Private credit might be healthy in moderation. But 'moderation' isn't Wall Street's modus operandi. We shouldn't expect that to change.



When people speculate about what could “go wrong” with the surge of private credit assets onto life insurance company balance sheets (and potentially into thousands of defined contribution plans), they usually imagine “black swans” that, like the Category 5 hurricane that leveled Jamaica, seem to come out of nowhere. Economists call those “exogenous shocks.”

Or people imagine the periodic blind sell-offs that follow the failures of major financial institutions, when, to paraphrase Warren Buffett, even those who are “wearing bathing suits,” drown in the tsunami’s undertow. These used to be called “panics.”

But the simpler answer is that the intermediaries who work in finance, who earn a geared-up spread from borrowing to lend, or earn fees for creating interest-bearing assets out of nothing, are incentivized to *keep doing what they’re doing until it breaks*. Some tech fund managers, if you remember, contributed to the dot-com crash of 2000 by accepting new investment long after they knew the sector was over-bought. That’s just a minor example of a endemic phenomenon.

The *Financial Times* has been waving yellow caution flags about the over-creation and over-distribution of private market assets. In mid-November, the FT published three separate articles on different aspects of the trend. “PE industry backers sound the alarm over rush of retail money into sector,” said one headline. “Apollo shrugs off rate fears with surge in Athene loans,” said another. “UBS warns of ‘looming systemic risk’ from private credit ratings.

All of these articles are looking, from different angles, at the equivalent of a new **tulip bulb** craze. UBS is, in effect, warning that tulip ratings may be inflated. Analysts are worried that rising tulip sales hide shrinking yields on Apollo’s tulip inventory. A trade group for private equity limited partners worries that mass production of tulips drives down quality for

florists.

Maybe the FT is just playing Debbie Downer. But the underlying truism for all three stories is that financial markets are not only not self-regulating, but contain, to use the handiest cliché, the seeds of their own destruction. This idea is at the heart of Hyman Minsky's hypothesis that financial markets are inherently risky.

Disembodied "markets" don't take risks. People take risks. And when people are using other people's money, and don't have sufficient skin of their own in the game, they have no incentive to stop creating assets before the market runs out of either new investors or worthwhile investments. Then it's Game Over (and cue the Fed).

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