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MARKET INSIGHT · PRIVATE CREDIT & INFRASTRUCTURE INTELLIGENCE #005

The rate shock tests "rate-agnostic"; the marginal infrastructure dollar is not American

Floating coupons protect the lender's income, not the borrower's coverage

>>> Floating coupons protect the lender's income, not the borrower's coverage; a September hike with a 1.5x median ICR turns rate volatility into credit risk.

Three bond markets moved at once. The UK 10-year gilt yield reached about 5.2% on 1 September, its highest since June 2008, touching 5.29% intraday on 2 September; markets fully price a Bank of England hike by year-end and another by March 2027. Japan's 10-year JGB rose above 3% on 1 September, the first time since 1996, after US Treasury Secretary Bessent signalled he expects Tokyo and the BoJ to act to support the yen. The BoJ policy rate is 1%, it meets 17–18 September, and markets price an 80–90% chance of a hike to 1.25%. The yen traded at 160.1 per dollar.

The US 10-year Treasury reached 4.818% intraday on 2 September, its highest since November 2023, with Brent at $94.62 after US strikes on Iran. Three-month SOFR was 3.65%.

Fed Chair Warsh at Jackson Hole on 28 August: "We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do". 54% of PCE components rose more than 3% over the past year, against 32% in the two pre-pandemic decades. FedWatch's probability of a September hike went from about 35% to 55.7% that day and 66% on 2 September. The FOMC meets 15–16 September.

Direct lending was sold as rate-agnostic because the coupon floats. That protects the fund's income line. It does nothing for the borrower, whose interest bill rises by the same amount. KBRA's Q4 2025 surveillance of 2,416 middle-market borrowers covering over $1tn of direct-lending debt found 25% with interest coverage (EBITDA divided by interest expense) below 1.0x and a median of 1.5x.

The Q1 2026 update put the median at 1.6x, with defaults at 3.1% by count but 2.2% by dollar value and rising, driven by upper-middle-market names, and a record share of companies taking two-plus-level downgrades as sponsors withdrew support. On a 9.4% all-in coupon, a 25bp hike pulls a 1.5x borrower to about 1.46x and a 100bp path to about 1.36x, holding EBITDA flat. That is a derivation, not a reported figure. Anant Kumar of Benefit Street Partners says the new Fed regime calls "for underwriting a wider distribution of interest rate outcomes than the forward curve implies, and treating rate volatility, not just the level, as a risk".

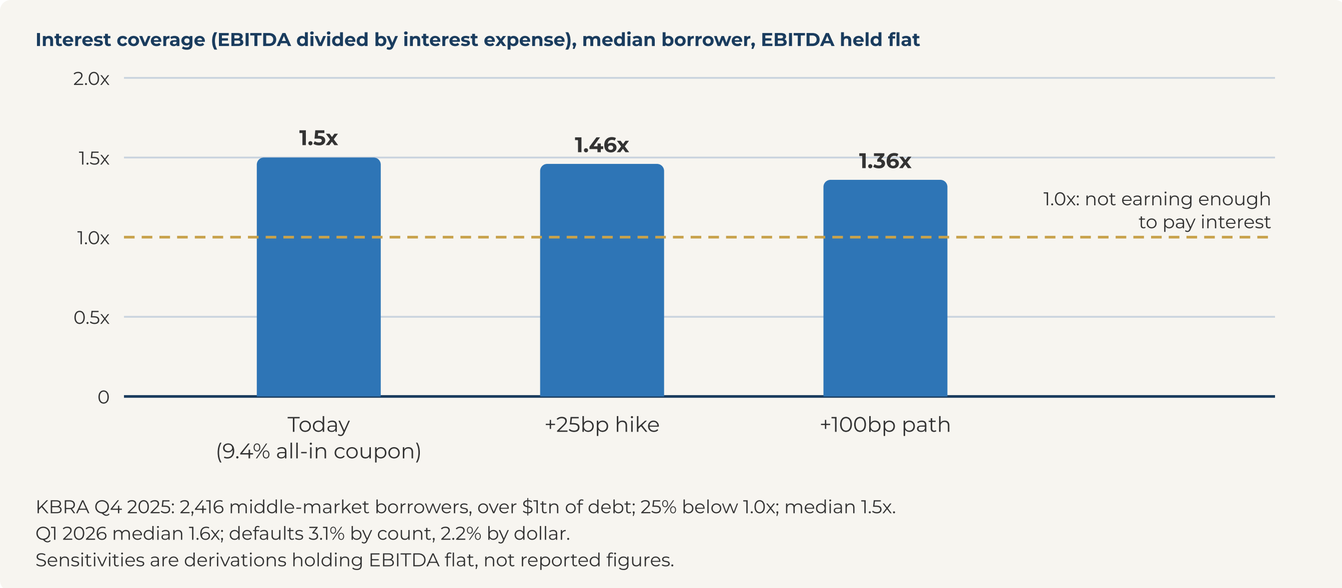

Figure 4 — A floating coupon protects the lender's income, not the borrower's coverage

The software tail is the specific one. Application software has $147bn of leveraged loans outstanding, $32bn of it maturing through 2028, at an average bid of 87.75 on 28 July, down 9% this year. Software was about 15.7% of BDC portfolios at fair value in Q2 2026 per Morningstar DBRS, and BDC non-accruals rose to 3.4% from 3.1%. CVC Credit says technology's share of European private credit deals fell from 29% in 2025 to 22% in H1 2026 as underwriters rotated to hard assets, while private credit raised more than $208bn in H1 2026 with senior direct lending 60% of it, up from 42%.

The top of the market still clears: Ares Management is leading a $2.2bn second-lien loan for MedImpact's purchase of Medical Card System at at least 800bp over the benchmark, "discussions ongoing" per Bloomberg. Ares deployed $8.2bn across 69 US direct-lending commitments in Q2, while PitchBook's Q2 new direct-lending issuance of $33.6bn was the lowest quarter in three years.

Barings Private Credit Corporation, the non-traded BDC, issued $350m of 6.5% unsecured notes due 2031 on 18 August to repay credit lines that cost a weighted 5.561% at 30 June. Swapping them for fixed 6.5% costs about 85–95bp a year today, and only pays if SOFR rises more than about 90bp over the life of the notes: a small, explicit bet on higher rates, by derivation. Listed Barings BDC has $350m of 3.3% notes maturing 23 November 2026 and a performing book yielding 9.4%. Restructuring capacity is being bought ahead of the wall: Bridgepoint completed its purchase of Interpath, the former KPMG UK restructuring unit, on 7 May at about £800m.

Sources: note 13.

For Wealth Managers: The question to put to a manager is not "what is your yield" but "what share of the book covers interest below 1.5x at today's SOFR, and at SOFR plus 100bp". A manager who cannot answer quickly is not running the sensitivity.

For a Japanese client, a 3% JGB and a BoJ priced to hike to 1.25% remove much of the original reason for holding hedged dollar private credit; for a UK client, a 5.2% gilt does the same in sterling. The spread over the risk-free rate has not fallen, but the risk-free rate has risen enough that a 9–10% gross private credit fund is now a 4–5 point premium over gilts, not an 8-point one. If you want the rate exposure without the software tail, this week's manager data point at hard assets.

For Fund Managers: Set 2026-vintage coverage cushions for the range, not the curve. A practical floor is to underwrite at the forward curve plus 100bp and require 1.75x coverage there, so a 1.5x median outcome is a base case, not a downside.

Model the 2028 software wall as a refinancing you may be asked to fund at a price the public market has already marked down 9% this year, to a bid of 87.75. KBRA's finding that sponsors are withdrawing support from weaker names says it will not smooth for everyone, and a private-equity firm has just bought the adviser that will sit across the table in 2027–28 workouts. Managers distributing into Japan should re-run hedged-yield illustrations at current rates and lead with the spread over JGBs.

This week's infrastructure cheques came from Canberra, Toronto, Abu Dhabi, Singapore, Dubai and Delhi

>>> This week's infrastructure cheques came from Canberra, Toronto, Abu Dhabi, Singapore, Dubai and Delhi; Japan and Europe are the next stop, US institutions absent.

NIIF, India's sovereign-anchored manager, announced a first close of INR 19,000 crore (about $2bn) on NIIF Infrastructure Fund II on 31 August, over 60% of a INR 30,000 crore (~$3.2bn) target. The Government of India, which owns 49% of NIIF, anchors. Named global LPs: AustralianSuper, CPP Investments (up to $215m), a wholly owned subsidiary of ADIA, OTPP and Temasek. Indian LPs: ICICI Bank, HDFC Bank, Axis Bank, Kotak Life and HDFC Life. No Japanese or European institution appears. NIIF expects about $950m of co-investment alongside the fund; its first fund raised about $2.34bn. Bloomberg reports NIIF plans to raise another $1.2bn within 18 months, with about $600m expected from Japan, Korea, Australia and Europe.

Aligned Climate Capital held a first close on Aligned Solar Partners 7, targeting $500m; the amount is undisclosed. ASP7 is infrastructure equity, buying construction-ready US distributed solar and storage projects, not credit. The first close came from existing investors including the Bush Foundation; the predecessor closed at $240m in 2025. CEO Peter Davidson says the firm is heading to Europe and Asia for the balance, with a final close possible in autumn 2027.

MTN Digital Infrastructure formed a partnership with a UAE-based platform founded by Tarek Al Ashram, starting in South Africa and Nigeria at 150MW in phase one, with MTN a minority holder. Gulf Data Hub, the KKR-backed platform he founded, is not a party. An SFi survey of 121 Asia-Pacific family offices and asset owners found 27% have more than half their portfolio in impact and ESG strategies, up from 17% in 2025, with sourcing curated products the top-ranked challenge. PGIM's secondaries platform Montana Capital Partners hired Lucas Radal from Mubadala Capital as head of Middle East secondary investments in Abu Dhabi.

Sources: note 14.

For Wealth Managers: The institutions writing infrastructure cheques this week were Australian, Canadian, Gulf, Singaporean and Indian; the next tranche is being sought in Japan, Korea and Europe; no US pension or insurer is named in any of them. That is an inference from the LP lists. A sovereign anchor does not remove the risks a client is taking. Before recommending an NIIF-type fund, ask who holds first loss and whether the anchor's position is senior or pari passu with the client's, what currency the fund reports and distributes in (NIIF states Fund II's size in rupees), and whether the anchor's policy sectors match the return being sold. The MTN venture is an announcement, not an investable asset yet.

For Fund Managers: NIIF's remaining $1.2bn is direct competition for the same Japanese insurer and European pension allocations a Western GP pitches for an Asia sleeve. Gulf and Asian capital is being sourced on the ground, and APAC family offices are polarising toward impact with product supply, not appetite, as their bottleneck. A US-only fundraising plan for an energy-transition vehicle is now the exception, and the product needs to pass an impact screen as well as a yield hurdle.

Sources

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