

Public BDC Credit Performance in the IQ 2026 vs IVQ 2025. Second in a series

In the second article in a series, we share the data the BDC Credit Reporter has collected about public BDC credit performance in the IQ 2026. The numbers suggest that as many as half the BDC universe has reason to be worried but the other half not yet.

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Big Picture

As we noted in our [earlier article](#), there are approximately 6,765 companies listed in the portfolios of the 45 public BDCs we track. Of those, 281 are valued at distressed levels (FMV less than 80% of cost, but with a minimum value greater than \$5mn). We call these the **Important Underperformers**, which account for 4.1% of the total. (Note that both the total count of companies and of Important Underperformers includes many duplicates. We estimate the real number of singular Important Underperformers is closer to 150 and BDC-financed companies overall come to 5,000).

The dollar value of all portfolio assets amounts to \$171.2bn, and the FMV of the Important Underperformers is \$7.515bn, or 4.5% of the total BDC value.

Granular Picture

The number and value of Important Underperformers vary widely by BDC. To help with these comparisons, we look at the value of these troubled investments as a percentage of each BDC's total portfolio size and net assets.

At the end of the IQ 2026 IVQ 2025, 14 BDCs had a very modest level of Important Underperformer assets - under 2.5% of their portfolio, and another 12 had between 2.5% - 5.0%, for a total of 26. In the prior quarter, there were 20 and 7 of these companies, respectively, for a total of 27. By our standards, Important Underperformer investments that account for less than 5.0% of the portfolio are the "normal" level one should expect from a BDC investing in both debt and equity in non-investment-grade companies.

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At the other end of the spectrum, 7 BDCs had Important Underperformer values greater than 10%, and 8 had 7.5%-10% of their portfolios consisting of these stressed assets. That comes to 15 BDCs. By contrast, three months earlier, there were 9 of these most challenged BDCs: 3 BDCs had Important Underperformer values greater than 10%, and 6 had 7.5%-10% of their portfolios consisting of these stressed assets.

When we consider the percentage of Important Underperformer assets as a percentage of BDC capital, we get a different - but broadly similar picture. There are 26 BDCs in the top two categories, versus 25 in the IVQ 2025. and 13 in the bottom 2, up from 12 in the prior quarter.

Here is the table showing the individual Important Underperformer metrics for every BDC:

[Important Underperformers By BDC](#)

REALIZED AND UNREALIZED LOSSES

For the first time in the IQ 2026 - so we've got no comparative data to show you - we counted the Net Investment Income as well as the realized and unrealized gains or losses for every BDC. This is a very interesting way to see how much - if any - recurring income is "lost" in the form of permanent losses or write-downs.

Overall, the BDC sector generated \$2.0bn in recurring net investment income in the first 3 months of 2026. However, this was offset by net realized losses, even taking into account 7 BDCs that were in the black in this category, of (\$389mn). In this quarter, 3 BDCs (FSK,TCPC and PSEC) accounted for (\$366mn) of the realized losses, or 94% - a telling statistic that indicates realized losses were mild for most BDCs.

Unrealized losses were substantial in the period - amounting to (\$2.112bn). As you can see, the public BDC sector in the IQ 2026 booked more in net unrealized losses than in recurring income. When the realized losses are added, the gap between earnings and net losses is even wider.

These were undoubtedly outsized losses. We counted up annual net realized and unrealized losses for all BDCs as reported in their latest 10-K as a point of comparison. The former totaled just over (\$2.0bn), which suggested the results of the IQ 2026 were slightly better. However, unrealized losses aggregated to just (\$595mn).

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That's (\$142mn) expressed in quarterly terms and shows that in the IQ 2026 losses were 14x higher...

Fair Market Value To Book

Overall, by the end of the IQ 2026, total BDC portfolio investments were valued at only a (2%) to their aggregate cost: \$167.8bn to \$171.2bn. That's slightly worse than in the prior quarter, but not a drastic discount in and of itself.

However, there are sharp discrepancies between individual BDCs. We show 14 BDCs with a book value discount of at least (6%). Half of those are greater than (10%), with the worst at (37%). There are another 2 with a discount of (4%) to (6%).

At the other end of this spectrum, there are still 8 BDCs whose book value is greater than cost and 14 where the discount is very modest: no more than (2%). In the middle - discounted by (2%) to (4%) are 4 BDCs.

CONCLUSION

The numbers speak for themselves: the IQ 2026 was characterized by unsustainably high unrealized losses. Partly, this may be due to the impact of the writing down of software debt, a process that seems to have been partly reversed in the IIQ 2026. However, that is unlikely to be the only cause of this red ink, suggesting other reasons for credit weakening. The relatively low level of realized losses suggests we are early in the process and today's unrealized write-downs might become tomorrow's permanent write-offs. However, individual BDC credit performance seems likely to vary widely. Roughly speaking, the metrics paint a picture of a BDC sector where half the players are performing as, or better, than expected, and the other half are performing worse to varying degrees. Frankly, we're a little shocked both by the aggregate extent of the losses and the relatively large numbers of BDCs with the poorest results. The data also seems to suggest that the "better" BDCs are mostly holding their ground where credit performance is concerned while the already challenged players are sinking deeper into trouble.