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Market View

Navigating credit markets: isolated events call for careful analysis

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At a glance

Bankruptcies at Tricolor and First Brands, as well as losses at US regional banks raise investor concerns about credit markets.

We view these incidents as isolated and sector-specific, although remain vigilant and selective in our asset allocation and subsequent manager selection.

The best form of risk management is knowing what you own.

Recent headlines around the bankruptcies of Tricolor and First Brands, alongside losses at US regional banks Zions and Western Alliance, have sparked fresh concerns over the health of both public and private debt markets. While these events have heightened speculation about credit, we believe they are isolated incidents and not signs of broader systemic problems. They do, however, underscore the importance of thorough research, ongoing vigilance and fundamental, bottom-up research as credit markets continue to mature and evolve.

At LGT, our commitment to thorough due diligence and disciplined asset and fund selection enables us to navigate shifting market conditions. We look beyond surface-level news to understand the real dynamics at work, ensuring that we invest only in assets that meet our rigorous standards. Although occasional losses are inevitable, the outcomes from these recent cases have not materially impacted the broader credit landscape, nor do they undermine the underlying strength and resilience of well-managed private and public credit funds.

In the following sections, we examine the specifics of each case and discuss the broader implications for credit investing, highlighting why selectivity and expertise continue to serve as the best safeguards for our clients' capital.

What happened?

Tricolor was a Dallas-based subprime auto lender and dealership that entered Chapter 7 liquidation in September.¹ The company had about \$945 million in asset-backed securities – loans that have been bundled together and sold to investors.² It also operated a platform that combined used car sales with in-house financing for borrowers with no credit history, many of whom were recent or undocumented immigrants. Some 68% of its customers reportedly had no credit score, and more than half did not hold a driver's license.³

Interest rates meanwhile of more than 16% reflect the high risk of its lending model. When the Federal Reserve (Fed) began raising interest rates from 2022-2023, this pushed up funding costs and increased the number of Tricolor's subprime auto loan delinquencies, while tighter immigration policies in the US reduced its customer base. Many departing immigrants left their debts unpaid, adding to losses. In addition, the US government is now investigating alleged

misconduct relating to pledging the same loans to several lenders while duplicating vehicle identification numbers to obtain multiple loans on a single car.⁴

Shortly after Tricolor's collapse, First Brands Group, a major leveraged-loan issuer and global auto-parts manufacturer, declared bankruptcy in September.⁵ We believe this represents a clear case of leverage gone wrong. During the years of ultra-low interest rates, the company pursued an aggressive acquisition strategy, spending roughly \$4 billion buying more than 20 businesses between 2018 and 2025.⁶ It financed these acquisitions through incremental term loans and supply-chain facilities.⁷ In its bankruptcy filing, it reported assets of between \$1-\$10 billion against liabilities of \$10-\$50 billion.⁸ Had lenders agreed to roll over its debts, the company may have continued trading, but now the company is under federal investigation as it seeks Chapter 11 protection. This has tightened First Brands' liquidity, increased refinancing risks and created an unsustainable capital structure.

When you see one cockroach...

While many have noted that the above bankruptcies were very sector specific, concerns about the broader health of credit and lending markets began to emerge mid-October when US regional lenders Zions Bancorp and Western Alliance Bancorp announced they had been hit with bad and fraudulent loans.⁹ This not only brought forth memories of the 2023 collapse of Silicon Valley Bank and First Republic Bank but stirred concerns over broader credit markets and the risk of spillover to other asset classes. Indeed, it prompted Jamie Dimon, JPMorgan Chase's chief executive to say, "When you see one cockroach, there's probably more."¹⁰

Although Tricolor and First Brands did not borrow directly from Zions or Western Alliance, their failures increased scrutiny of credit risk and the quality of regional bank lending. Both banks have faced losses linked to fraudulent or inaccurately reported collateral on other syndicated commercial loans.

Banking and capital markets are crucial to a functioning economy, and with the 2008 subprime crisis still fresh in many minds, it is understandable that investors are cautious about recent events. However, at this stage, we view these as idiosyncratic episodes rather than signs of systemic weakness.

Looking under the bonnet

The epicentre of the recent market volatility is around Non-Depository Financial Intermediaries (NDFI), which are loans made to private credit managers or specialty finance companies – in other words, businesses with exposure to lower quality US borrowers that were shut out of traditional bank credit after the global financial crisis led to higher underwriting hurdles post-regulation. Lending in this area expanded rapidly during the low interest-rate period as institutional investors sought higher returns.

Will there be spillover?

Will these events spread to other parts of the wider banking system? Current data suggests this is unlikely.

- 1 Losses are small relative to bank balance sheets. When Tricolor failed, Fifth Third Bank had \$200 million at risk, a negligible sum compared to its \$210 billion balance sheet. Similarly, while a \$50 million charge-off is large by Zions' standards over the past decade, it is minor relative to its \$88 billion in total assets. Broadly, although US banks have been increasing exposure to private credit, estimated at around \$3 trillion,¹¹ this remains manageable compared with the commercial banking sector's total assets of \$24.4 trillion.¹²
- 2 Liquidity remains strong. There are no signs of a deposit flight from the US banking system, so the risk of forced asset sales is low. Even if some of the credit losses affect smaller banks, larger institutions should be able to absorb the impact, as we witnessed with Silicon Valley Bank and First Republic in 2023. JPMorgan estimates the top 13 US banks hold around \$200 billion in total excess capital. Third quarter results show bank profitability and asset quality remain robust, with the US big six banks beating consensus expectations by an average of 8%. Corporate balance sheets are strong, economic growth is expected to pick up gradually and liquidity conditions are healthy, as they are supported by broadly accommodative monetary and fiscal policies.

It is also important to note that the collapses of First Brands and Tricolor have brought extra attention to private credit due to the sector's rapid growth and perceived opacity. However, these failures were not indicative of systemic problems within private credit.

Although some private credit funds and Business Development Companies (BDCs) had exposure to First Brands and Tricolor, their involvement was minimal, largely because many of these managers have closer borrower relationships and perform deeper due diligence. For example, out of 166 BDCs, only 15 had exposure to First Brands, totalling around \$237 million – less than 0.05% of the total BDC sector's assets under management.¹³

Conclusion

The latest news around First Brands, Tricolor, Zions and Western Alliance has raised concerns, but we believe these incidents are highly specific rather than issues with the broader market. They have underscored the importance of performing extensive due diligence and research into the underlying investments. Ultimately, the best form of risk management is knowing what you own.

Rigorous analysis and careful selection remain essential. Our approach relies on robust due diligence – going beyond the headlines to examine our underlying credit and managers in detail. While losses may occur in isolated cases, we see no evidence that these events have significantly affected the broader credit markets. Our disciplined approach, focus on fundamentals and prudent risk management puts us in a strong position as custodians of our clients' capital.

[1] [Auto dealer Tricolor files for bankruptcy, moves to liquidate | Reuters](#)

- [2] [Tricolor's \\$945 Million of ABS Cut to CCC and Lower by KBRA](#)
- [3] [Debt linked to collapsed subprime auto lender Tricolor tumbles](#)
- [4] [Tricolor Records Show Same Cars Tied to Thousands of Loans - Bloomberg](#)
- [5] [Kroll Restructuring Administration](#)
- [6] Company report
- [7] [First Brands' financial tune up raised red flags that Wall Street overlooked - ION Analytics](#)
- [8] [First Brands bankruptcy prompts questions over private credit exposure](#)
- [9] [Fears over US banks cause stock market jitters - BBC News](#)
- [10] [Opinion | How Bad Is Finance's Cockroach Problem? We Are About to Find Out. - The New York Times](#)
- [11] [Private Credit Outlook: Estimated \\$5 Trillion Market by 2029 | Morgan Stanley](#)
- [12] [Federal Reserve Board - Assets and Liabilities of Commercial Banks in the United States - H.8 - November 14, 2025](#)
- [13] [First Brands collapse ripples through BDCs](#)

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Arjun is a Senior Analyst on LGT's Fund Research team, leading fixed income fund selection. He has over a decade of investment experience, beginning his buy-side career at Cumberland Place Financial Management (now part of the Aberdeen Group) after earlier sell-side roles. Arjun holds a BSc (Hons) in Investment and Financial Risk Management and a joint MSc in Finance with Management from Bayes Business School, City St George's, University of London, which included an exchange at Rotterdam School of Management, Erasmus University. He also holds the Investment Management Certificate and the CFA Certificate in ESG Investing, and most recently completed the Certificate in Quantitative Finance (CQF).

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