



The Intuition Finance Digest

April 2026

Investors exit private credit

Markets attempt to look through Iran conflict – For now



Investors exit private credit

After more than a decade of uninterrupted growth, the private credit market is facing its first major contraction. Recent weeks have seen a rush to exit the asset class, prompting several fund managers to "gate" redemptions – a move only likely to further erode investor confidence.

The primary catalyst for this slump is exposure to sectors threatened by agentic AI, specifically software companies. This secular shift is being compounded by macroeconomic volatility from the Middle East conflict and the reality of structurally higher interest rates.



Post-GFC private credit boom

The aftermath of the Global Financial Crisis (GFC) of 2007–08 provided the backdrop enabling private credit to grow into a USD 2 trillion asset class. Quantitative easing and ultra-low yields forced investors to seek higher-yielding alternatives, while extreme volatility in public bond markets made private debt's perceived stability more attractive.

Quantitative easing (QE) and the resulting ultra-low yields forced investors to seek higher-yielding alternatives, while extreme volatility in public bond markets made private debt's perceived stability more attractive.

Simultaneously, traditional bank lending to corporates dried up. Post-GFC risk aversion and stricter regulatory requirements – such as capital and liquidity ratios for global systemically important banks (G-SIBs) – rendered unsecured interbank lending unaffordable. This forced large institutional borrowers to seek the alternative sources that now define the private credit landscape.



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Retail vulnerability and PE fallout

A major factor behind market nervousness has been the growth of retail investors attracted to the “illiquidity premium” that comes with private debt. Those same investors are now getting wise to the risk that comes with that premium, just as the US administration has ruled to allow 401 (K) retirement savings accounts to invest in private assets.

Further exacerbating the crisis is fallout from the private equity market. Much of the private credit market is generated from leveraged private equity deals. As many of these deals prove overvalued and difficult to exit in an environment of economic and interest rate uncertainty, the underlying financing is coming under extreme pressure.

Sources of leverage

Concerns over underwriting quality have resulted in many private debt funds – particularly business development companies (BDCs) – trading at a discount to net asset value (NAV). This distress is driven by three primary sources of leverage:

- **Target company debt:** Often substantial debt taken to fund acquisitions and amplify investment returns.
- **Fund-level debt:** BDCs can incur debt up to twice their net assets, significantly higher than the limits for traditional US mutual funds.
- **Subscription credit lines (SCLs):** Loans collateralized by “dry powder” (committed but undisbursed investor capital). While SCLs provide flexibility, they add a layer of systemic complexity during liquidity crunches.



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Opportunity vs. systemic risk

Some distressed debt funds see the current private equity/private credit woes as opportunity – with one manager calling it “the biggest opportunity since 2008” – citing anecdotal evidence of forced selling, borrowers opting to defer repayments and increase loan balances, and low interest coverage ratios. But skeptics argue those firms are “talking their books”, incentivized to undermine market confidence.

Meanwhile, the specter of systemic risk looms, as concerns over the private credit have reignited wider worries over the shadow banking sector and its potential to destabilize financial markets, with talk of “gating” doing little to assuage investors’ fears.

While defenders argue that private credit leverage remains well below 2008 banking levels and benefits from higher recovery rates, the interconnectedness of banks and non-bank financial intermediaries (NBFIs) via loans, derivatives, and funding dependencies remains a potential source of global destabilization.

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- ***Alternative Assets – An Introduction***
- ***Private Debt***
- ***Private Equity – An Introduction***
- ***Private Equity – Investing***
- ***Shadow Banking & NBFIs***
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Markets attempt to look through Iran conflict – For now

Market sentiment has oscillated sharply in response to developments in the Arabian Gulf, but recent price action suggests investors are increasingly willing to look through the immediate shock. Having been down roughly 9% earlier in the year, the S&P 500 has recovered most of the losses, with risk appetite improving. Is it back to business as usual then?

A glance at headline indices such as the S&P 500 suggests markets have largely absorbed the Iran conflict, with investors willing to look through near-term geopolitical uncertainty. But this market resilience belies plenty of lingering stress and should not be taken to mean there will be no lasting economic and financial effects from the conflict.

While equities have rebounded, the absence of a clear resolution has lasting implications for energy markets, with consequences that extend well beyond the energy complex. Disruptions around the Strait of Hormuz have intensified an already fragile supply environment for oil products. Even if the conflict were to de-escalate rapidly, the scramble to secure alternative supplies has tightened conditions across the value chain – from crude and refining margins to upstream investment – leaving parts of the global economy exposed to higher and more persistent energy costs.

Inflationary pressures

The energy price squeeze and its many knock-on effects – such as a spike in soft commodities including wheat, soybeans, and cotton – is likely to keep inflation (in particular, headline inflation which, unlike core, includes energy and food) elevated. These inflationary headwinds have already seeped into corporate earnings guidance, consumer confidence, and capital investment.

Dilemma for central banks

This backdrop places central banks in an uncomfortable position. Supply-driven inflation linked to energy prices is difficult to address with interest-rate policy: tightening further risks unnecessary economic damage, while easing too soon could allow inflationary pressures to persist.

With policy rates already high by post-global-financial-crisis standards, there's also a strong case for central banks to do nothing. Maintaining the status quo allows policymakers to assess how much of the inflation impulse proves temporary, even if that caution offers little immediate clarity for financial markets.



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Non-US cyclicals most affected

While the recovery in the S&P 500 suggests business as usual, this headline resilience masks far sharper divergence beneath the surface. The Iran conflict has not primarily hurt US technology leaders, but non-US assets, with European and emerging-market cyclicals absorbing most of the selling pressure.

That pattern reflects a combination of fundamentals and positioning:

From a **fundamental perspective**, the asymmetry is clear. Unlike the US – now a net energy exporter – Europe and much of Asia remain structurally reliant on energy flows through the Strait of Hormuz. Heightened disruption risk therefore translates more directly into higher input costs and weaker margins for energy-intensive industries in these regions, leaving their equity markets more exposed even in the absence of a full-scale supply interruption.

Positioning dynamics have amplified these moves. Since late 2024, global portfolios had been rotating away from richly valued US technology toward cheaper international cyclicals – an unusual period of non-US outperformance and dollar weakness in the post-GFC era. As these inflows into European and EM assets accelerated into 2026, they created a new set of crowded positions that proved vulnerable when energy risk re-emerged. What had been a valuation-driven reallocation quickly became a source of forced de-risking.



US assets: structural headwinds persist

The initial geopolitical shock linked to Iran briefly favored US assets – particularly the dollar – The near-term rebound was consistent with positioning rather than fundamentals: heavy inflows into non-US cyclicals had left those markets exposed, making the US and the unloved dollar a natural relative haven during the spike in uncertainty.

As risk sentiment stabilizes, however, attention may return to the underlying forces that had already been weighing on the US asset complex.



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Over the past decade and a half, a powerful bull market in US assets – driven by secular growth in technology – has led global investors to accumulate exceptionally large exposures to US equities and dollar-denominated assets. By the mid-2020s, US equities accounted for roughly two-thirds of global equity market capitalization, up from around half a decade earlier, reflecting elevated foreign ownership, rich valuations, and heavy concentration in a narrow set of sectors.

Despite tactical rebalancing away from US assets over the past 18 months, these structural imbalances have only partially unwound. Positioning remains stretched by historical standards, valuations are still elevated in several segments, and large foreign holdings coexist with a persistent US current-account deficit that must be continuously financed through capital inflows.

Dollar to resume its slide?

The post-GFC US asset bull market was a natural tailwind for the dollar. The current backdrop – a combination of large foreign ownership, stretched valuations, and substantial external financing needs – represents a durable headwind for the dollar. If global investors continue to diversify away from US exposure, even gradually, the dollar is likely to resume the weakening trend that was in place prior to the Iran shock.

“Safe havens” struggling to do their job

Traditionally, sharp equity sell-offs trigger a flight into safe-haven assets such as government bonds and gold. In the early stages of the Iran-driven shock, however, these traditional hedges offered little protection, reflecting the unusual inflation-heavy nature of the disturbance.

Bond markets initially sold off alongside risk assets as energy-driven inflation fears pushed yields higher. In an environment where inflation risk dominates, bonds can temporarily lose their hedging properties and even become a source of portfolio risk. Concerns about fiscal sustainability and central-bank credibility likely compounded this initial weakness.

More recently, however, bond markets have begun to stabilize. With yields now materially higher than in the post-GFC and ZIRP eras, parts of the bond market are again attracting yield-seeking investors. For some, government bonds also offer insurance against a sharper economic slowdown – one that could ultimately dampen inflation pressures and restore bonds’ defensive role.



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Gold, by contrast, should in theory perform well in an inflationary environment. But it suffered one of its worst months ever in March.

Two factors may explain gold's recent weakness:

- Rising interest rates: gold tends to struggle in an environment of rising interest rates, such as we are seeing, though prior bond market weakness didn't seem to matter.
- Positioning: The second, likely more potent driver, is positioning. Following a massive run-up in recent years that has seen its price go up several times in value, the metal is being treated as a source of liquidity rather than a store of value. This is evidenced by widespread forced liquidations to cover margin calls – where brokers demand additional collateral to cover positions – elsewhere in the market. A further vulnerability is the proliferation of leveraged retail momentum trading, which has become a feature of today's markets. This "retail army" tends to amplify market volatility in both directions, providing a significant volume of "weak hands" that can accelerate the selling during an unwind.

It's fair to say that over the past couple of years, gold has acted more like a "risk-on" than a "risk off" asset.

Conclusion

Markets have demonstrated an ability to absorb geopolitical shocks, but the durability of that resilience remains uncertain. The extent to which the recent recovery broadens beyond headline assets will depend on the longevity of energy-market disruptions and the adjustment of inflation and liquidity conditions. Until greater clarity emerges – particularly around the Strait of Hormuz – volatility and dispersion are likely to persist.

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