

Will US private credit stress deepen pain in Indian equity markets?

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SUMMARY

The US private credit market is facing rising defaults in its first major test after a decade-long boom. Market veterans say that could exacerbate global risk-off sentiment, driving away flows from emerging markets like India.

The West Asia conflict has roiled oil and equities worldwide. But a new threat is emerging: stress in the US private credit market. If this pain deepens, market veterans say, the stress could flood into already-battered global stocks, triggering a larger pullback from an emerging market (EM) like India.

The US private credit market is facing its first big test after a decade-long boom, as institutions ranging from Morgan Stanley to JPMorgan Chase and BlackRock to Blue Owl restrict redemptions or mark down fund values. Many investors are wondering whether borrowers can repay comfortably amid higher rates and disruption from artificial intelligence.

Apart from war, other risks to global equity markets include high interest rates, rising defaults, worsening of the US private credit market, and a delay in monetizing AI-related capex by leading tech companies, said Gaurav Dua, executive director and chief investment officer at Standard Chartered Securities (India).

“If the situation intensifies and begins to weigh on markets in the US, it could dent investor confidence more broadly and trigger a risk-off sentiment worldwide,” he said. In such situations, according to Dua, the instinct for self-preservation takes over [investors](#), and capital typically recedes from emerging markets as investors scramble for safety.

Credit concerns

First Global founder [Devina Mehra](#) noted that private credit concerns have emerged amid a broader global environment already tilting risk-off. The current stress underscores the inherent risks of investing in illiquid instruments, where exits can become challenging during periods of uncertainty, she said.

Since the US-Iran conflict erupted, the benchmark Nifty 50 is down more than 6%. Brent crude surged to around \$103 on Tuesday after the closure of the Strait of Hormuz, through which about a fifth of global oil and gas flows.

Historically, widening private credit spreads and stress signals have preceded risk-off moves in public equities, said Nilesh Shah, managing director at Kotak Mahindra Asset Management Co., noting the lag can range from immediate to up to 12 months depending on the severity.

Private markets are opaque and illiquid, while public markets sniff trouble first—liquid proxies scream early, he added. “We’ve seen it in cycles—credit cracks show in listed vehicles months before broad equity drawdowns bite hard.”

When institutions face private credit drawdowns or liquidity pressure, they de-risk EM equities first—a classic flight to familiarity. Developed markets (US/Europe) get defended longer as ‘safer’ core; EM/India seen as higher-beta, easy to cut for quick liquidity/rebalancing, he said. While India may hold better than most peers, Shah said EMs get sold before developed markets in a pure risk-off situation. “Bottom line: Watch private credit cracks closely—ripples reach Dalal Street faster than you think.”

Curbs

US banks had nearly \$300 billion in outstanding loans to [private-credit](#) providers as of June 2025, along with another \$285 billion extended to private-equity funds, and an additional \$340 billion in unused lending commitments to those borrowers, a Reuters report citing Moody’s said.

Banking giant Morgan Stanley has restricted withdrawals from one of its private credit funds after investors sought to redeem their money, while JPMorgan Chase has reportedly marked down the value of some loans linked to private credit funds after assessing the impact of market turbulence on software companies. Blue Owl reportedly plans to “permanently restrict investors from withdrawing cash from its

inaugural private retail debt fund". Earlier this month, BlackRock restricted withdrawals from one of its large debt funds after a spike in redemption requests.

Morgan Stanley limited redemptions at one fund after investors requested withdrawals of nearly 11% of outstanding shares, reports said. On 6 March, BlackRock restricted withdrawals from one fund after requests surged to about 9.3% of NAV. Similarly, Blackstone reported a sharp rise in first-quarter withdrawals from a private credit fund, permitting \$3.7 billion in redemptions. Blue Owl Capital said it is selling \$1.4 billion in assets to return capital and cut debt, while halting redemptions at another.

Fidelity International noted that the AI theme has splintered somewhat, particularly among SaaS (software as a service) companies. The London-based investment management firm sees "this permeating into the private credit space and are monitoring risks of rising default rates".

Structural feature?

Yet, some market participants believe limits on redemptions are not an immediate liquidity crisis, but a structural feature of the private credit model.

Private credit funds lend directly to companies through long-duration, illiquid loans that cannot be easily sold in secondary markets, according to Harshal Dasani, business head, INVasset PMS. Unlike public [bond](#) funds, where securities trade daily, private loans are typically held to maturity and are valued periodically rather than continuously.

"When redemption requests rise sharply, fund managers cannot liquidate assets quickly without taking significant discounts," said Dasani. "To avoid forced selling and protect remaining investors, funds such as those run by BlackRock, Blue Owl and Morgan Stanley are activating redemption gates or quarterly withdrawal limits built into their structures."

Volatility bouts

Kanchan Jain, head of Ascertis Credit Group, does not foresee a significant default cycle unfolding in the US or a risk of a spillover to India, as the two markets and drivers are fundamentally different. Still, a rise in defaults could introduce bouts of volatility and weigh on investor sentiment in the US public markets.

If capital is pulled out of US markets, Jain said it will need to find a new home, and diversification could channel a part of those flows into EMs, including India.

Mehra also sees a higher probability that 2026 will be a better year for Indian equities than 2025. Markets that have underperformed in the recent period could now be in line for a catch-up, she said.