

# Sector Insights

## Private credit stress moves through Financials

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### Summary

Private credit is now deeply embedded in the Financials sector across Asset Managers, Banks, and Insurers. As investors prioritize liquidity, the key risk is shifting away from credit losses and toward liquidity strain, driving a growing impact on Financials stock performance.

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## From zero-loss narrative to price discovery

After more than a decade of uninterrupted growth, private credit is entering its most consequential test since becoming a mainstream allocation. What was long marketed — and widely perceived — as a low-volatility, income-generating alternative to traditional fixed income is now confronting a far less forgiving reality. Rising defaults, high-profile fund gating, and investor pullbacks have punctured the Financials sector's zero-loss narrative, forcing a rapid reassessment of risk, liquidity, and interconnectedness across the sector.

Recent developments underscore that this shift is no longer theoretical. Several large private credit managers have restricted or capped redemptions after withdrawal requests surged well beyond historical norms, reflecting growing unease over loan quality and valuation transparency. At the same time, defaults are beginning to surface, particularly among highly leveraged, rate-sensitive borrowers. According to a Morgan Stanley research note reported by CNBC<sup>1</sup> and Bloomberg<sup>2</sup>, they estimate private credit default rates could approach 8%, materially above the 2% – 2.5% historical average — still manageable in absolute terms, but enough to challenge prior assumptions around stability and loss insulation.

Importantly, losses are no longer confined to hypotheticals or stress-test scenarios. Bankruptcies and write-downs—spanning consumer finance, automotive suppliers, and software-linked credits—highlight how late-cycle underwriting and sector concentration are beginning to surface.

### Liquidity mismatch and contagion

The market's immediate concern, however, is less about absolute credit losses than liquidity mismatch. Many private credit vehicles offer periodic liquidity while holding fundamentally illiquid, multi-year loans. As redemption requests accelerate, managers are faced with the choice of gating investors, selling assets at discounts, or relying on financing facilities tied to collateral values that are themselves coming under pressure. This structural tension — now visible through widespread redemption limits and prorations — has become the primary catalyst for contagion fears.

We believe those fears matter for the broader Financials sector because private credit is no longer siloed. According to a recent Moody's report, banks have nearly \$300 billion in direct lending exposure to private credit providers<sup>3</sup>, alongside hundreds of billions more in commitments to private equity and fund financing, while insurers and asset managers have become increasingly integral sources of capital for the ecosystem. As valuation marks adjust and risk appetite tightens, stress in one segment has clearer pathways to spill across balance sheets, funding markets, and sentiment toward alternative asset managers.

### A credit cycle, not a crisis

This moment should not be confused with a replay of the 2008 Great Financial Crisis. Most observers agree that private credit remains significant but not systemic. Yet it represents something equally important for investors: the asset class is

### Key takeaways

Liquidity mismatch — not absolute losses — is the near-term risk, driving fund gating and elevating contagion concerns across the Financials sector.

Dispersion will widen, favoring platforms with disciplined underwriting, transparent valuation, and resilient funding structures.

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1. Michelle Fox, "A 'significant private credit shakeout on par with Covid losses is coming, predicts Morgan Stanley," CNBC, March 17, 2026.

2. Rene Ismail, Emily Graffeo, "Morgan Stanley Sees Private Credit Default Rates Reaching 8%," Bloomberg, March 17, 2026.

3. "US private credit market reshapes bank lending and risk," Moody's, October 21, 2025.

entering its first true credit cycle as a scaled market, with real defaults, real liquidity constraints, and meaningful dispersion between platforms with durable underwriting and those built for benign conditions. That said, the current cycle is unfolding against a more challenging macro backdrop, where exogenous risks could amplify stress at the margin. Higher energy prices, renewed supply chain disruption, elevated short-term interest rates, and a slowing economic backdrop increase pressure on highly leveraged, rate-sensitive borrowers — particularly in software, automotive supply chains and small business-oriented credits. These forces may accelerate dispersion and loss recognition without fundamentally altering the system-wide outlook.

For Financials investors, we believe this transition marks a critical inflection point. The coming quarters will likely determine which managers, lenders, and balance sheets can convert stress into opportunity and which are exposed by late-cycle excesses. Understanding where losses concentrate, how liquidity is managed, and how interconnected exposures transmit across the sector is now essential, not optional.

## Who is most exposed

Exposure to private-credit stress is uneven across the Financials sector and is driven less by headline asset allocation and more by liquidity structure, funding dependence, and underwriting vintage.

Alternative asset managers with outsized private credit exposure face the most immediate pressure. Platforms heavily concentrated in direct lending — particularly those offering periodic liquidity through evergreen or retail-oriented vehicles — are more vulnerable to redemption pressure, valuation scrutiny, and gating risk. Where leverage and net asset value-(NAV) based financing are embedded, collateral remarks can amplify stress.

Select Regional Banks are indirectly exposed through lending facilities to private credit funds and sponsor ecosystems. While credit losses are unlikely to be severe, valuation adjustments and tighter terms can pressure fee income, utilization rates, and balance-sheet flexibility.

Life insurers with aggressive private credit allocations also face elevated risk. Illiquid loan exposure, combined with limited ability to reposition portfolios quickly, increases sensitivity to credit migration and capital optics if defaults continue to rise.

## Relative beneficiaries

Insulation in the current environment is defined by balance-sheet flexibility, diversified earnings, and limited reliance on continuous liquidity rather than a complete absence of private credit exposure.

Large, Diversified Banks are relatively better positioned, in our view. Institutions such as JPMorgan Chase & Co. (JPM) and Citigroup Inc. (C) have private credit exposure that is spread across fund finance, sponsor lending, and capital markets activity, allowing valuation adjustments to be absorbed within broader earnings streams. Importantly, their ability to reprice risk, tighten terms, or step back from lending earnings should reduce the risk of forced outcomes.

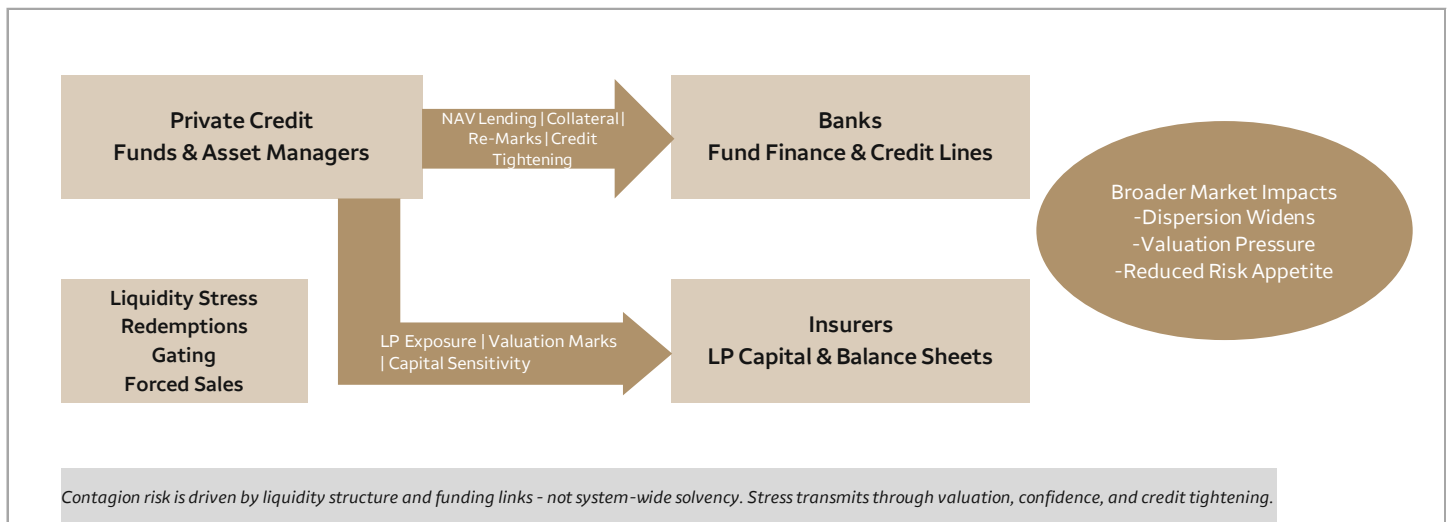
We believe scaled, diversified asset managers also appear more resilient. Firms like BlackRock, Inc. (BLK) and Blackstone Inc. (BX) benefit from broad product platforms spanning public markets, institutional alternatives, and advisory services. While sentiment toward private credit may weigh on valuations, we believe these firms are less exposed to liquidity pressure and are well positioned to deploy capital into secondary or distressed opportunities as weaker players retrench.

In our view, insurers with conservative credit frameworks represent another relative beneficiary. Companies, like Aflac Incorporated (AFL), with lower leverage, strong asset-liability matching, and disciplined private asset allocations can absorb higher defaults while still benefiting from elevated reinvestment yields. For these firms, private credit stress is less a balance-sheet threat than a margin and capital management exercise.

## How private credit stress spreads across the sector

Figure 1 illustrates how stress in private credit can propagate across the Financials sector through liquidity and funding linkages rather than system-wide solvency risk. Pressure typically begins within private credit funds and asset managers as redemptions rise and liquidity constraints emerge, leading to gating or forced asset sales. That stress is transmitted to banks primarily through fund-finance and credit line exposure, where collateral remarks and tighter terms can reduce available liquidity and risk appetite. Insurers are affected through their role as long-term capital providers, as valuation marks and credit migration impact balance sheets and capital optics. The broader market impact is reflected in widening dispersion, valuation pressure, and reduced risk tolerance.

**Figure 1: Private credit contagion pathways across Financials**



Sources: Wells Fargo Investment Institute. Co-Pilot was used to generate graphic. NAV = net asset value.

## Where to invest

The shift toward real price discovery means investors should prioritize platforms that can deploy capital into dislocation rather than those forced to defend liquidity. For Financials investors, we believe this is a moment to lean into durability over a reach for yield by focusing on platforms positioned to absorb volatility, deploy capital into stress, and emerge stronger as the cycle matures.

Consistent with our sector ratings, we favor Capital Markets, Diversified Banks, Insurance Brokers, Multi-Sector Holdings, and selected Regional Banks that are aligned with the current environment given earnings diversity and ability to adapt as liquidity tightens. In contrast, we remain cautious on Business Development Companies and Mortgage Real Estate Investment Trusts (REITs), where reliance on stable funding conditions and compressed risk pricing leaves less margin for error. As the cycle progresses, we expect outcomes to increasingly reward durability and disciplined capital management rather than yield-driven growth.

## Appendix table: Companies discussed

Company	Symbol	Price
Aflac Incorporated	AFL	\$113.07
BlackRock, Inc.	BLK	\$1,001.62
Blackstone Inc.	BX	\$116.90
Citigroup Inc.	C	\$124.92
JPMorgan Chase & Co.	JPM	\$310.33

Sources: FactSet, Wells Fargo Investment Institute. Prices as of April 9, 2026.

## Financials sector equity recommendations

Ticker	Company name	Market cap (billions)	Price	Dividend	Dividend yield	Estimated NTM EPS	NTM P/E	Core	DSIP	Growth	Focus	High Yield	SMID	Value
AFL	Aflac Incorporated	\$55.36	\$113.07	\$2.32	2.1%	\$7.45	15.2x		X					
AON	Aon Plc Class A	\$68.87	\$325.40	\$2.91	0.9%	\$19.66	16.5x							X
AXP	American Express Company	\$206.15	\$317.77	\$3.28	1.0%	\$18.18	17.5x							X
BLK	BlackRock, Inc.	\$160.11	\$1,001.62	\$20.84	2.1%	\$55.93	17.9x	X	X		X	X		
BRK.B	Berkshire Hathaway Inc. Class B	\$1,027.30	\$485.20	\$0.00	0.0%	\$20.86	23.3x	X			X			
BRO	Brown & Brown, Inc.	\$21.89	\$67.13	\$0.62	0.9%	\$4.63	14.5x		X					X
BX	Blackstone Inc.	\$132.47	\$116.90	\$4.69	4.0%	\$6.65	17.6x	X						
C	Citigroup Inc.	\$200.26	\$124.92	\$2.32	1.9%	\$10.74	11.6x					X		X
CB	Chubb Limited	\$126.10	\$332.94	\$3.82	1.1%	\$27.32	12.2x	X	X					X
CBSH	Commerce Bancshares, Inc.	\$7.13	\$51.19	\$1.04	2.0%	\$4.05	12.6x		X					
CPAY	Corpay, Inc.	\$19.86	\$306.57	\$0.00	0.0%	\$26.91	11.4x			X			X	
FDS	FactSet Research Systems Inc.	\$7.19	\$213.52	\$4.34	2.0%	\$18.37	11.6x		X				X	X
ICE	Intercontinental Exchange, Inc.	\$89.06	\$161.97	\$1.92	1.2%	\$7.91	20.5x		X					
JKHY	Jack Henry & Associates, Inc.	\$11.36	\$153.38	\$2.32	1.5%	\$7.05	21.7x		X				X	
JPM	JPMorgan Chase & Co.	\$796.76	\$310.33	\$5.80	1.9%	\$21.97	14.1x	X			X	X		X
KKR	KKR & Co Inc	\$79.27	\$92.83	\$0.73	0.8%	\$6.75	13.8x			X				

Ticker	Company name	Market cap (billions)	Price	Dividend	Dividend yield	Estimated NTM EPS	NTM P/E	Core	DSIP	Growth	Focus	High Yield	SMID	Value
MA	Mastercard Incorporated Class A	\$448.37	\$503.57	\$3.15	0.6%	\$20.29	24.8x	X	X		X			
MKL	Markel Group Inc.	\$23.80	\$1,956.63	\$0.00	0.0%	\$117.36	16.7x							X
MS	Morgan Stanley	\$263.03	\$178.16	\$3.85	2.2%	\$11.60	15.4x	X			X	X		
PFG	Principal Financial Group, Inc.	\$19.24	\$92.32	\$3.08	3.3%	\$9.60	9.6x							X
PNC	PNC Financial Services Group, Inc.	\$83.07	\$223.23	\$6.60	3.0%	\$18.80	11.9x				X	X		
SPGI	S&P Global, Inc.	\$122.05	\$424.32	\$3.84	0.9%	\$20.20	21.0x	X	X					
V	Visa Inc. Class A	\$581.16	\$308.29	\$2.44	0.8%	\$13.67	22.5x	X	X		X			
WRB	W. R. Berkley Corporation	\$24.15	\$67.21	\$0.35	0.5%	\$4.62	14.5x		X				X	
XYZ	Block, Inc. Class A	\$35.95	\$62.69	\$0.00	0.0%	\$3.84	16.3x			X				

Sources: FactSet, Wells Fargo Investment Institute. Prices and data as of April 9, 2026. NTM = next-twelve-months. EPS = earnings per share. P/E = price-to-earnings.

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The **Core List** includes a wide range of what we view as high-quality companies. In general, the list may have representation across all 11 sectors and exposure to stocks with varying levels of maturity, valuation, and cyclicity. The Core List assumes a long-term holding period and can be used to build or supplement a well-diversified equity portfolio.

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