

## Private credit's liquidity façade is beginning to fracture

Apostolos Thomadakis

The recent string of withdrawal limits in private credit shouldn't be waved away as a US-only sideshow. Over just a few weeks, BlackRock [restricted withdrawals](#) from one private credit fund; Blackstone flagged unusually elevated [redemption requests](#) at BCRED; Blue Owl [paused redemptions](#) in a vehicle; and this week both Apollo and Ares [limited quarterly withdrawals](#) to 5% after investors sought to redeem more than 11% of assets.

This isn't a full-blown systemic event – yet. Still, it's a pointed reminder that segments of private credit are running into an old constraint: assets that don't trade easily don't become liquid simply because a fund wrapper offers periodic exits.

The near-term explanation is fairly simple. Many of these products were designed to widen access to private credit by striking a middle ground between long lockups and full liquidity. In other words, investors can subscribe on an ongoing basis and redeem quarterly, while managers allocate capital to loans that aren't readily tradable and pay back over time, not on demand. This setup holds together while inflows stay strong, defaults are contained and investors don't all rush for the exit at once. It grows more fragile when sentiment weakens, valuations come under scrutiny or a handful of large investors try to leave simultaneously. Gates, caps and suspensions don't necessarily signal insolvency; they indicate the structure is being pushed exactly where it's most vulnerable – at the seam between illiquid credit and semi-liquid promises.



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An earlier version of this commentary was published by [IPE](#) on April 2, 2026.

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This is precisely why the ‘retailisation’ of private credit matters. The IMF [warned](#) last year that a rising share of retail investors can heighten liquidity risk and make flows more procyclical. It highlighted the expansion of semi-liquid vehicles with periodic redemptions and noted that buffers of marketable assets can absorb idiosyncratic outflows but have clear limits under stress. Put differently, the model shifts once private credit is packaged for wealth clients rather than patient institutional capital. The sector becomes less about locked-in, long-term financing and more sensitive to swings in sentiment, relative performance and distribution incentives.

The broader issue goes beyond liquidity alone. It’s about how liquidity pressure interacts with opaque valuations and a credit cycle that’s maturing. The ECB has already pointed out that private markets bring both advantages and risks, while emphasising that limited data and opacity still impede proper risk assessment. In its November 2025 [Financial Stability Review](#), it went further, noting that exit challenges and US credit defaults had intensified concerns over unclear valuations and looser lending standards. It also argued that better data, stronger supervisory coordination, macroprudential tools and system-wide stress testing should be high on the EU agenda. The same review stressed that euro area banks aren’t insulated. They’re exposed through direct lending to private market funds and to companies backed by those funds.

That framing makes sense from a European standpoint. Europe does need more diverse funding sources. It can’t keep leaning on banks alone, especially if it aims to deepen capital markets and channel more financing to innovative, growing firms. Private credit can help here, as it can support productive investment and broaden funding options. But ‘more market-based finance’ isn’t the same as ‘more semi-liquid retail exposure to illiquid loans’. Those goals diverge.

There is some good news, though, as the EU isn’t starting from scratch. [AIFMD II](#) moves in a constructive direction. Under the revised rules, loan-originating AIFs are closed-ended by default and may be open-ended only if the manager can show the home supervisor that liquidity risk management matches the investment strategy and redemption terms. ESMA has also issued [guidelines](#) on liquidity management tools for open-ended AIFs and UCITS; in October 2025 it submitted final [regulatory technical standards](#) for open-ended loan-originating AIFs, requiring – among other things – adequate liquidity to meet redemptions and at least annual liquidity stress tests. Most AIFMD II provisions will take effect from 16 April 2026, with transition periods for certain elements.

But what matters is how these rules are applied, not how they are read. First, national supervisors should treat the open-ended exemption for loan-originating funds as a narrow carve-out, not a marketing feature. If the underlying loans are illiquid and repayments are gradual, redemption terms need to closely reflect that reality. Second, the EU should push for far stronger, more standardised disclosure on private credit portfolios: non-accruals, payment-in-kind interest, covenant weakening, amend-and-extend practices, sector concentrations, assumptions around secondary sales and actual redemption histories.

The issue isn't just that investors want out, it's that outsiders still can't clearly see what's inside. The ECB, FSB and others have flagged persistent [data and transparency gaps](#) in private markets – and those gaps are no longer peripheral.

Third, system-wide monitoring needs to accelerate. The Bank of England has already launched a [system-wide exploratory scenario](#) focused on private markets, explicitly to assess how banks and non-banks might react in a sharp downturn – and whether those reactions could amplify stress. The EU shouldn't wait for a local shock before acting. A joint ESMA-ECB-ESRB-EBA exercise centred on private credit, fund liquidity and bank-non-bank linkages would be a practical next move.

Finally, distribution deserves more caution. Expanding retail participation in capital markets is a valid policy aim. But steering retail investors into products that are hard to value, hard to exit and easy to mis-sell doesn't deepen markets; it signals muddled policy. The right takeaway from this week's redemption limits isn't that private credit should be curtailed. It's that Europe should insist on a clear, honest trade-off. If a fund invests in illiquid loans, it should either be structured as patient capital or be regulated, disclosed and distributed as something unmistakably less liquid than the pitch implies.

That wouldn't choke private credit. Rather, it would strengthen its credibility.