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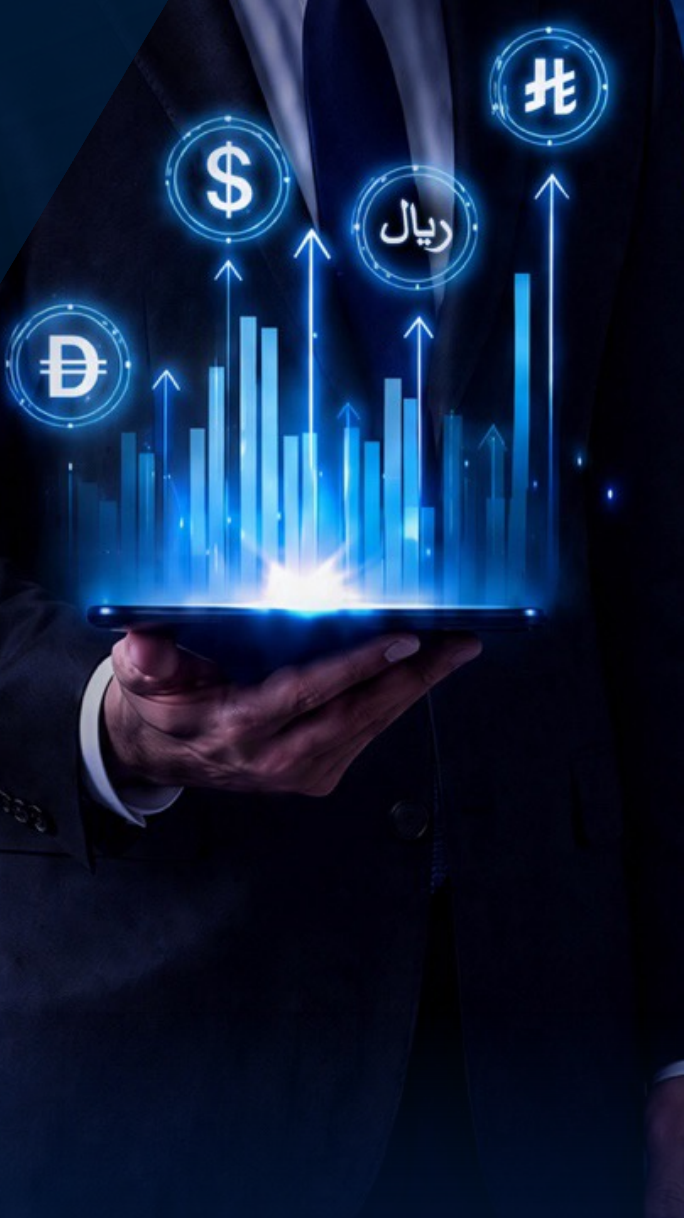
Five Conditions for Private Credit to Regain Momentum in the Gulf

What institutional capital needs to see before returning at scale



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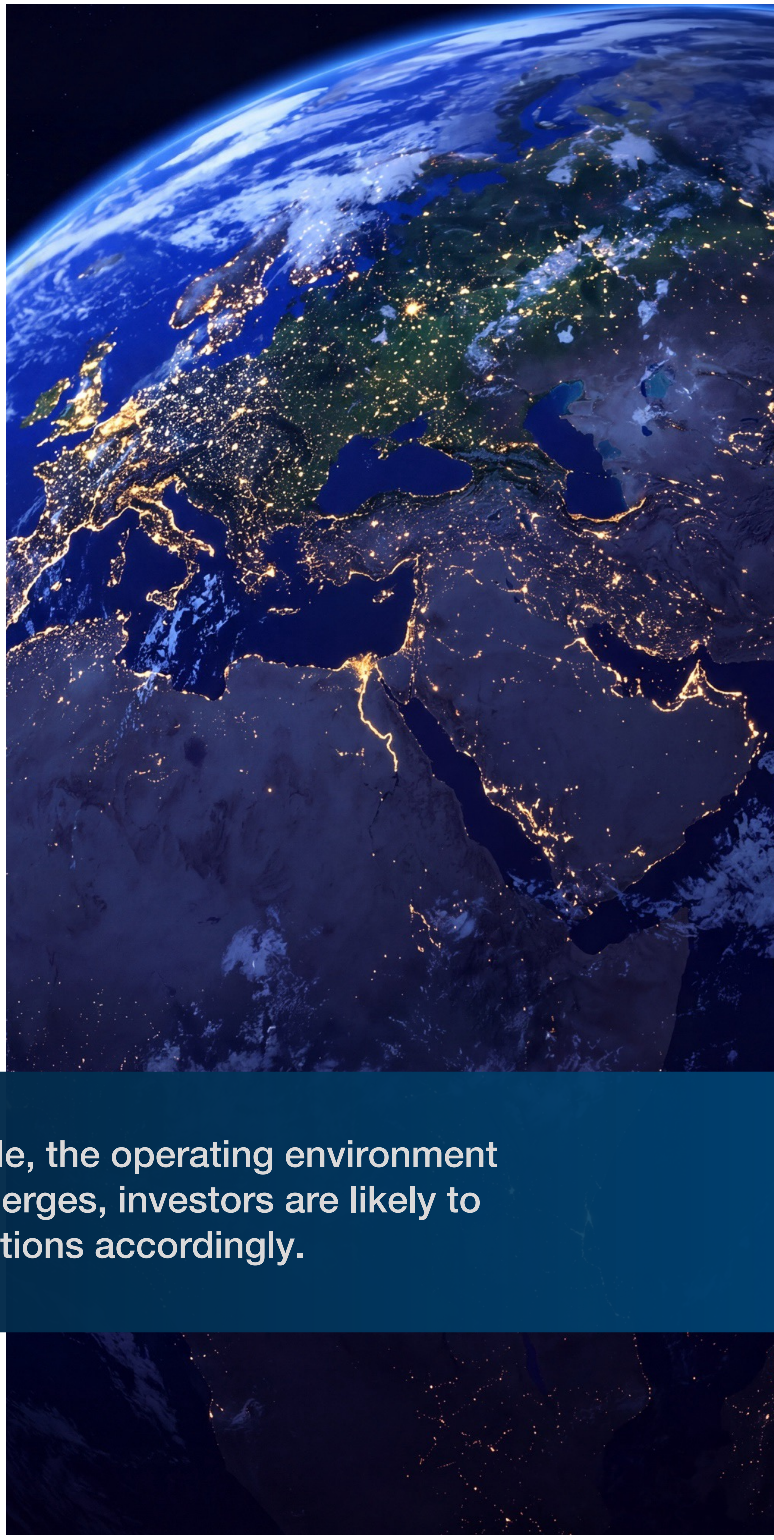
A fast-growing market meets a pause

Private credit has been one of the most significant sources of non-bank financing to reach the Middle East in a generation. Through 2024 and 2025, the regional market was compounding at 15-30% annually, among the fastest growth rates globally. International lenders were expanding their footprint, local frameworks were maturing, and partnerships with global managers were lending structural credibility to what had been a nascent asset class.



That trajectory paused with the regional conflict that started in early 2026. Investment committees in became cautious not on a view about Gulf credit quality[1], but on an institutional risk posture that was, at times, as much reputational as fundamental. Underlying corporates had not deteriorated. Default risk had not materially emerged in Saudi Arabia or the UAE[2]. If anything, the dislocation was creating more compelling entry points for capital prepared to move.

The subsequent ceasefire was widely viewed as a potential turning point. Subsequent developments, however, demonstrated that uncertainty prevailed. The arrangement agreed in April was declared over in July; strikes resumed over an extended period, and what holds today is a pattern of strikes, pauses, and constant flipping between the two sides. The Strait of Hormuz remains contested, traffic remains well below pre-conflict levels, and no framework has been concluded.

While conditions have become more stable, the operating environment remains uncertain. Until greater clarity emerges, investors are likely to continue pricing and underwriting transactions accordingly.

That sequence is itself the most important data point of the past six months. It establishes that an announced cessation does not clear institutional risk, and it raises the evidentiary bar for whatever arrangement follows. Public markets have absorbed this without closing: Gulf sovereigns and investment-grade issuers have continued to clear large transactions[3] at wider but workable spreads. Private credit has not exactly followed, and the reason is structural. Private capital underwrites a three- to five-year forward view. One failed settlement inside a 12-month window materially widens the distribution of outcomes a committee must price.

A recovery in private credit is unlikely to be driven by sentiment alone. Five observable conditions will determine the timing.

1. "Gulf executives reckon with economic consequences of Iran war," Semafor, June 4, 2026
2. "Gulf banks hold full-year guidance despite war risks," Arabian Gulf Business Insight, May 28, 2026
3. "Gulf bond markets extend their rally despite uncertain outlook," Fortune, June 30, 2026

The Five Conditions

1. **A durable settlement**

   Enforceable, multilaterally backed, and capable of withstanding early disruptions.

2. **Sovereign credit validation**

   CDS and secondary investment-grade levels that normalize rather than partially retrace.

3. **Regional capital leadership**

   Sovereign wealth funds anchoring visible transactions, not merely opening discussions.

4. **Insurance market normalization**

   Conflict risk, political risk, and trade credit pricing returning to standardized terms.

5. **A reference transaction**

   A visible, credible, and broadly syndicated deal that others can follow.

1. A durable settlement

Mechanisms over Declarations

Investment committees underwrite forward risk, not current headlines. The April arrangement highlighted that a declared ceasefire, without an enforcement mechanism, may not be sufficient to address the underlying dispute. Subsequent developments have changed what the next arrangement will need to demonstrate.

Durability now requires three things that the previous framework lacked: enforceability, meaningful multilateral backing, and a mechanism that survives its first violation rather than being suspended by it. Greater clarity around the Strait of Hormuz is likely to remain an important consideration as it is the point at which the political dispute becomes a commercial one.

A rolling extension renegotiated month to month does not provide a sufficient foundation. Even where such an arrangement is permitted by mandate, risk cannot be priced on a monthly basis in practice. Committees apply a weighted average assessment across the full investment period, and a settlement with a 30-day horizon contributes very little to a 60-month underwriting.

2. Sovereign Credit Validation

Normalization over Retracement

Credit default swap spreads on Saudi Arabia and Abu Dhabi, together with secondary trading levels for Gulf investment-grade debt, provide the earliest objective signal that risk has repriced rather than merely disappeared. Saudi sovereign CDS widened materially at the height of escalation before partially retracing[4]. That is a meaningful repricing, but it is not full normalization, and the renewed escalation has interrupted the trend.

The transmission to corporate borrowers is amplified rather than proportionate. Illustratively, a 50-basis point differential at the sovereign level is, in theory, the difference between a 7.0% and a 6.5% cost of funds. In practice, it can translate into 100 basis points or more for corporate issuers, once liquidity premiums, tenor, and the absence of a deep comparable set of issuers are taken into account.

Without sovereign normalization as an anchor, private credit managers are effectively asking committees to move ahead of public markets. That argument has historically been difficult to sustain. For most global credit funds, pricing ahead of sovereign levels is a governance breach rather than a judgement call.

4. "After the Iran war, the Gulf's next economic phase awaits," Atlantic Council, May 19, 2026

3. Regional Capital Leadership

Anchored Transactions over Early Discussions

Visible leadership from within the region often provides a stronger market signal than external commentary. When institutions such as PIF, ADIA or Mubadala visibly re-engage, through co-investment, anchor positions or lead orders, at home and abroad, international committees gain the internal cover they require to act. The signal is credible precisely because these institutions carry the regional exposure that international allocators are hesitant to add.

Early discussions are emerging. They are, however, not observable to credit committees. Announced and closed transactions are, and they are what will shift sentiment meaningfully. A series of transactions could help restore market momentum.

4. Insurance Market Normalization

Standardized Terms over Elevated Premiums

Political risk cover, trade credit insurance, and marine and aviation risk pricing adjusted rapidly as the conflict escalated, and they remain elevated. Their return to standardized terms would indicate that underwriters and risk models have recalibrated, which is a more reliable signal than any political statement.

Current pricing suggests normal commercial activity remains some distance away. Conflict risk premiums on Strait of Hormuz transits remain unaffordable for many shippers whether or not the waterway is formally declared open, and insurance constraints continue to restrict travel into the region for advisers, consultants and lenders. These provide more objective indicators than market sentiment alone. They are prices set by independent professional risk takers with capital at stake, and in credit committee discussions they carry more weight than geopolitical commentary.

5. A Reference Transaction

Closed Deals over Advanced Pipelines

The first transaction after a disruption does disproportionate work. It tests execution infrastructure, validates counterparties, and provides institutional cover for those that follow. It does not need to be large, but it must be visible, credible, and broadly syndicated.

There have been early signs of this dynamic. Selected deals, including a recent $250 million Blackstone investment into a UAE-based technology platform[5], suggest capital is beginning to test the market again. Some will argue that such deals were already well advanced prior to the escalation. Some of these transactions were already well-advanced prior to the conflict, while others have since been paused, and some investors are quietly slow-walking deals rather than declining them outright. More closed transactions will be required before momentum can be said to exist.

The Operational Constraint

Operational Normalization Precedes Financial Normalization

Underpinning all five conditions is a practical reality. Private credit depends on physical diligence: site visits, management meetings, and local legal process are not optional. Until compliance functions approve routine travel to Dubai and Riyadh, capital cannot deploy regardless of appetite. Reduced flight schedules and lower business traffic are raised as counter-anecdotes at investment committees, and they are persuasive precisely because they are observable.

The Structural Question

Restoring Confidence Takes Time

Private credit expansion into the Gulf was built on yield, relationships, and an assumption of stability. Yield remains. Relationships remain. Assumptions around regional stability have been reassessed following recent events, and restored confidence will likely require more than a declared ceasefire.

Capital will return. The Gulf's borrowers remain fundamentally attractive and increasingly sophisticated, and the demand for non-bank financing has not diminished. But the firms that re-engage successfully will be those that maintain local presence, relationships, and execution capability through the disruption: an increasingly demanding standard, and one that cannot be met retrospectively.

The long-term need for private credit remains clear. The open question is when market activity returns to more normalized levels, and at what cost of capital.

5. "Blackstone Commits $250 Million to UAE Firm Despite Iran War," Bloomberg, March 26, 2026

How A&M Can Help

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- Sukuk structuring and issuance, including private placements
- Private credit and institutional investor access
- Project and infrastructure finance
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- Capital structure optimization and debt capacity analysis
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- Special situations and stressed financing
- Debt restructuring and creditor engagement
- Financing readiness and diligence preparation

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