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Crude Awakening: How High Oil Prices Impact Private Markets

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- **The shock is asymmetric, not uniform.** Unlike a rate cycle—which reprices everything in the same direction—sustained, high oil prices create winners and losers within the same portfolio. Energy, infrastructure, and renewables benefit, while leveraged non-energy businesses face compounding margin and financing pressure. GPs managing diversified portfolios will need to triage, not manage uniformly.
- **Direct lending carries the most concentrated risk.** Of the three credit markets analyzed, direct lending is most exposed: Higher average leverage, limited transparency around distress/defaults, and the potential for increased fund redemptions create compounding risks that are harder to observe in real time than in public credit markets.
- **The real danger is inflation persistence, not the oil price itself.** A short-lived spike is manageable. The scenario that should concern GPs and LPs most is one where elevated energy costs re-anchor inflation expectations, keeping rates higher for longer and repricing the entire private markets complex—extending pressure well beyond the duration of the underlying conflict.



The oil shock across asset classes

With the conflict in Iran, oil prices have re-emerged as a first-order macroeconomic variable for private markets. While the current elevated levels may only have a modest impact on economic growth, these effects operate through multiple transmission channels simultaneously: cost inflation, rate expectations, sector rotation, and LP cash flow dynamics. Unlike public markets, where repricing is near-instantaneous, private markets absorb the shock gradually, making the medium-term window (three to 18 months) the critical zone for GPs and LPs to navigate. This note maps the key transmission mechanisms and their likely effects across private equity, venture capital, and private credit, assuming an environment of sustained, higher oil prices.

Inflation—and the looming threat of stagflation—poses the largest core risk with the most far-reaching downstream impacts across debt and asset portfolios. This concern has been amplified by the rapid growth of private credit and semi-liquid lending vehicles in recent years, which have proven subject to the whims of retail redemptions. Our analysis examines these effects across multiple dimensions. At the headline level, we find the following net impacts:

- **PE—mixed:** Near-term positive for energy and infrastructure, and negative for leveraged non-energy growth stories.
- **VC—broadly negative:** Liquidity headwinds worsen, AI deal appetite potentially softens if energy costs remain elevated, and a crowded startup landscape faces higher survival hurdles. There are some potential tailwinds for secondary market activity.
- **Debt markets—mixed:** Direct lending is the most exposed (high leverage, opacity, and LP contagion risk from the US); high yield is the most rate-sensitive as a fixed-rate market; broadly syndicated loans have structural resilience via collateralized loan obligation (CLO) capital flows but are not immune to credit quality deterioration.

From a portfolio management perspective, the impact will manifest across several key dimensions—some operational, some structural, and some that will only become fully visible over a 12-to-24-month horizon. These include:

- **Portfolio divergence:** Elevated oil prices create clear winners and losers within the same portfolio, forcing GPs to triage rather than manage uniformly. The net effect depends heavily on energy exposure and end-market sensitivity.
- **Inflation persistence risk:** The direct oil price effect is less damaging than a scenario where elevated energy costs re-anchor inflation expectations, pushing rates higher for longer, which would reprice the entire private markets complex.
- **Vintage-year divergence:** Funds deployed in 2022 to 2024 face margin compression on existing portfolio companies; new deployment can price in the new reality but faces a thinner deal environment.



- **Allocation divergence:** The denominator effect will cut differently depending on LP type. Oil-exposed sovereign wealth funds and resource-linked pension funds see total portfolio values expand, creating headroom for new private market commitments. Import-economy pensions and endowments face the reverse: Public equity drawdowns shrink the denominator, while private net asset values remain sticky, pushing allocations over target and forcing a slowdown in new commitments.

Risks to the view

This analysis assumes a sustained oil price environment above \$100/barrel (bbl), underpinned by ongoing conflict in the Middle East and constrained supply response. These price ranges are elevated but not unprecedented, and many economists have indicated that more stress would result if oil were to persist for several months in a range of \$120 to \$150 per bbl.

- The most significant upside risk to private markets is a faster-than-expected de-escalation in Iran, which could unwind the oil risk premium rapidly. Brent has historically given back 15% to 25% within weeks of conflict resolution, restoring rate-cut expectations and relieving pressure on leveraged borrowers almost immediately. In this scenario, the sector rotation toward energy and infrastructure would partially reverse, and the dealmaking freeze in non-energy assets would thaw.
- A second scenario is demand destruction, whereby elevated prices decrease consumer spending and industrial activity enough to cause a recession, which then collapses energy demand and brings prices back down.
- A third risk is that the energy transition accelerates faster than expected in response to the shock. Governments under pressure to reduce geopolitical energy exposure may fast-track renewables permitting and grid investment, a dynamic already visible in European policy. This would be a tailwind for climate tech and infrastructure but would weaken the oil price super-cycle that currently benefits upstream energy assets.



The impact of oil prices on private markets

Transmission mechanism and market dynamics			
Private equity		Venture capital	
Core risk	● Higher inflation and rates slow growth; margin compression occurs across portfolio companies; rising input costs hit non-energy cyclicals the hardest.	Core risk	● Higher discount rates compress long-duration valuations; public tech multiple compression feeds back into private, late-stage valuations.
Valuations	● Non-energy sectors experience lower multiples as growth slows. Energy assets command higher multiples on stronger cash flows.	Valuations	● Late-stage multiple compression is rapid. The early stage is less immediately exposed but feels pressure if oil remains elevated.
Deal flow	● Deal flow rotates toward energy, infrastructure, and real assets. Widening bid-ask spreads on non-energy companies slow deployment.	Deal flow	● The late-stage pace slows sharply; the market reverts to investor-friendly terms. Fewer exits occur as volatility creates pricing uncertainty.
Financing	● Higher debt costs, lower leverage, and tighter covenants. Refinancing risk rises for low-rate-era deals.	Financing	● Structured rounds increase; nonmarket leaders face significantly harder fundraising conditions.
Portfolio risk	● Non-energy cyclicals face margin compression and default risk. Energy portfolios are better cushioned at sustained high prices.	Portfolio risk	● Down rounds and shutdowns rise. Crowded sectors face higher survival hurdles as baseline costs increase.
LP flows	● Continued rotation into energy and infrastructure funds. Non-energy managers face slower fundraising.	LP flows	● Capital concentrates in megafunds. Established managers capture a larger share of new commitments.

Sector winners and losers			
Private equity		Venture capital	
Winners	● <ul style="list-style-type: none"> • Energy producers and midstream & oilfield services • Renewables and energy transition infrastructure • Defense components and MRO providers • European electric vehicle adoption 	Winners	● <ul style="list-style-type: none"> • Climate tech, energy storage, and solar & wind • Dual-use drone defense startups • Secondary market activity
Losers	● <ul style="list-style-type: none"> • Airlines, airfreight, marine shipping, and trucking • Chemicals, heavy industry, and auto manufacturing • Leveraged non-energy growth stories 	Losers	● <ul style="list-style-type: none"> • High-multiple software & AI • Late-stage-growth companies exposed to repricing • Crowded sectors with stretched cash runways

Net effect in a sustained oil price spike			
Private equity		Venture capital	
●	Near-term positive for energy, infrastructure, and renewables. Negative for leveraged non-energy growth stories facing margin compression and higher financing costs. Sovereign urgency to invest in energy transition accelerates.	●	Liquidity markets, which are already strained, face further pressure. AI deal appetite is at risk if energy costs remain elevated. A crowded startup landscape faces higher hurdles; capital concentrates further at the top of the market.

● Positive/tailwind ● Mixed ● Negative/headwind

Source: PitchBook • Geography: Global • As of March 27, 2026



The impact of oil prices on debt markets

Core transmission mechanism—all credit markets

Credit spreads	●	Widening spreads anticipated in lockstep with rising credit risk, particularly if oil stays above \$100.
Fed policy	●	Likelihood of rate cuts drops significantly as the Fed monitors inflation driven by sustained high energy prices.
IG issuance	●	HG issuers locking in low fixed rates YTD (4.88%) and extending maturities before war-driven inflation is fully priced in.
Lagged impact	●	Q1 performance unlikely to reflect the full effect; real impact will be felt progressively as credit risk reprices and borrowers feel the effect through its operating performance in Q2 on.

Shared sector and valuation dynamics—all credit markets

Sector winners	●	Potential winners are oil & gas, utilities, telecom, renewables, hybrid/EV automotive, media, and supermarkets & private-label products.
Sector losers	●	Potential losers are consumer discretionary (airlines, travel, hotels, retail), chemicals, building materials & housing, and online retail.
Valuation/deal flow	●	Loan and bond prices expected to decline as yields and credit risk rise. Highly leveraged companies may struggle to refinance without new equity. Junior debt at risk; LME activity likely to increase.

Market-specific dynamics

Broadly syndicated loans	Direct lending	High-yield bonds
Financing ● <ul style="list-style-type: none"> Market stays open for low-leverage, high-quality borrowers. BB credits manageable; PE deals could face tighter terms and lower leverage. 	Financing ● <ul style="list-style-type: none"> New deal pipeline may hold as borrowers look for shortened transaction turnaround. Existing portfolio risk elevated; redemptions rising. 	Financing ● <ul style="list-style-type: none"> Issuers rushing to lock in rates before spreads widen further. Near-term maturities under pressure; distressed exchanges likely.
Portfolio risk ● <ul style="list-style-type: none"> 52% rated B- or lower; downgrade wave likely by midyear. Early refinancing ahead of 2028 maturity wall expected. 	Portfolio risk ● <ul style="list-style-type: none"> Distress and defaults likely masked by limited transparency. Inflationary conditions could accelerate volume of distress. 	Portfolio risk ● <ul style="list-style-type: none"> Rising LMEs and distressed exchanges as bond prices fall. Low recovery expectations in default scenarios.
LP flows ● <ul style="list-style-type: none"> CLO inflows slow deal flow. 	LP flows ● <ul style="list-style-type: none"> BDC redemption pressure rising. Private credit appetite has waned meaningfully. 	LP flows ● <ul style="list-style-type: none"> BB-rated issuers may still access market at higher pricing.

Net effect in a sustained spike

At \$100/bbl sustained	Discretionary consumer spending declines materially; even nondiscretionary spend pulls back.
At \$125/bbl sustained	Severely constrains economy; anticipated increase in expense costs could overextend majority of US population.
Broad sector impact	Credit markets would need to reassess borrowers' ability to generate stable cash flows with sufficient cushion for debt service, inflation absorption, and demand stability.

● Positive/tailwind ● Mixed ● Negative/headwind

Source: PitchBook • Geography: Global • As of March 27, 2026



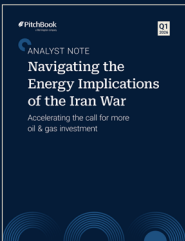
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