Deutsche Bank
Research Institute

Why hasn't there been a major financial crisis in recent years?

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— The economist Hyman Minsky warned, in essence, that "stability is destabilising". He argued that a lengthy period of financial stability could be problematic, as it induced risk-taking and complacency amongst investors, laying the foundation for the next crisis. For example, lenders relax their terms and borrowers are more willing to extend themselves, as nobody wants to miss out. This dynamic makes economies inherently prone to financial panics and boom-bust cycles.

— But since the 2008 crisis, and the subsequent sovereign crisis in the Eurozone, we have yet to see another financial crisis happen on a scale that had a lasting market and macroeconomic impact. There have been clear moments of concern, as in early 2023 with the regional bank turmoil, but nothing that has caused a lasting impact. So this led us to ask why.

— In this paper, we examine why the post-GFC era has seen fewer financial crises. Explanations include the reforms made after 2008 to avoid a repeat, the lower proportion of financial assets held by the banking system, as well as the speedier reaction of policymakers when wobbles have occurred. We then consider a few candidates that could cause the next crisis, including AI vulnerabilities, private credit, and stretched fiscal positions.

— Ultimately, financial crises haven't been abolished, but the reforms of recent years have made it harder for shocks to propagate through the traditional banking system. Moreover, policymakers have become far more inclined to intervene when initial signs of stress have emerged.

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Important research disclosures located in Appendix 1



Section 1: What is a financial crisis, and what causes them?

There isn't a single technical definition of a "financial crisis", and they come in many different types. Commonly, we think of banking crises like 2008, but they can also encompass currency/balance of payments crises, debt crises and other forms too. Given currency and sovereign crises have been more common in emerging markets (the UK's ERM crisis in 1992 and the euro crisis being the two most notable DM occurrences), historical analysis in developed economies has tended to focus heavily on banking crises. Non-bank funding or market-liquidity crises are often not categorised separately in the literature, but they have become more common in recent years. This includes the "dash-for-cash" stress at the onset of the Covid pandemic in March 2020 and the 2022 LDI crisis in the UK.

But for all the different types of financial crisis, there are common themes between them. Often, they are accompanied by asset bubbles that burst in a non-linear fashion. We generally see a severe tightening in credit conditions, which in turn flows through into a broader economic contraction. Frequently, there are contagion-like dynamics that can be difficult to stop. And in the modern world, they usually require policymakers to step in, stabilising the situation with interventions.

At risk of oversimplification, we note four factors that determine the emergence and the severity of a financial crisis. The first three are well-established in the financial literature, sometimes pooled together into a build-up and a crisis phase (Brunnermeier & Oehmke 2013), while the fourth has become increasingly important over the past 15-20 years:

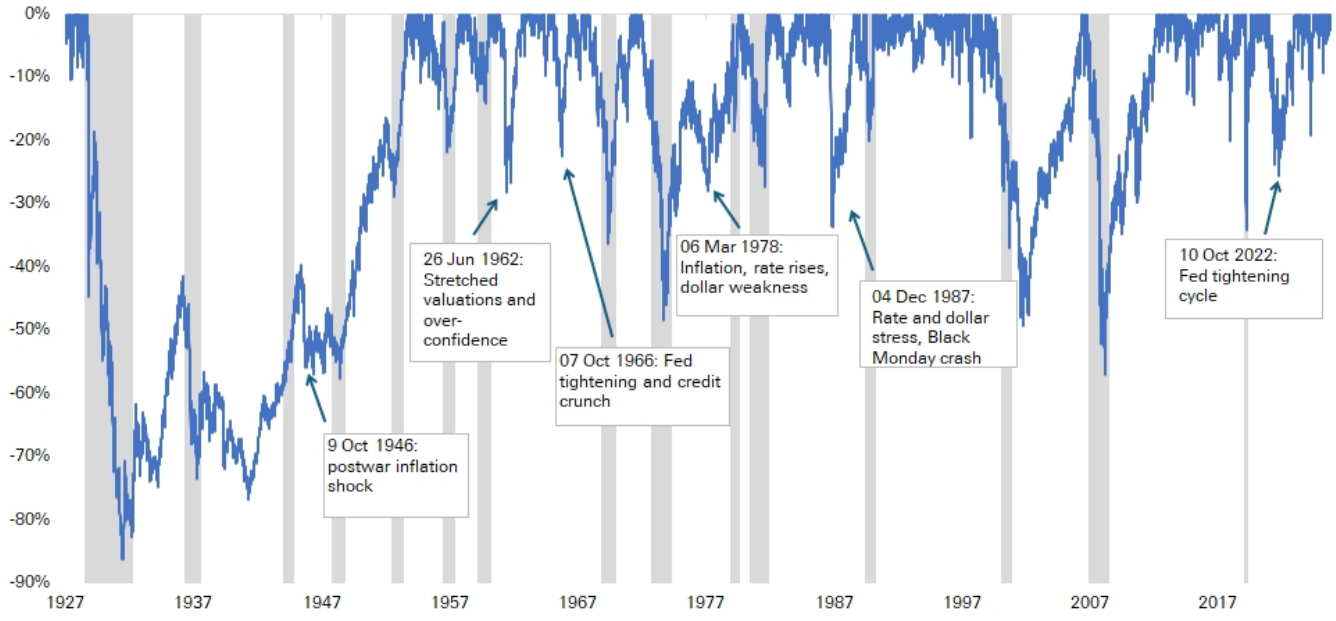
1. **Underlying imbalances.** Bubbles and financial imbalances build during the run-up phase, leaving accumulated risks that materialise when the crisis erupts. This is the build-up typically described by the early phases of Kindleberger's model of financial crises.
2. **Trigger.** This is the shock that turns an existing vulnerability into clear financial stress. These are often very difficult to predict and we mostly leave these outside the focus of this report.
3. **Amplification and financial system fragility.** Various factors determine whether a shock propagates through the financial system, and the intensity of that shock. These include leverage, liquidity and maturity mismatches, interconnectedness, and the concentration of exposures. Other channels in the financial system can then amplify the shock, including bank runs, fire sales and margin calls, and negative net worth effects, sovereign–bank loops etc.
4. **Intervention/policy response.** This has been increasingly important in recent decades as the size and scope of policy response to crises has increased. The outright size can vary, and intervention can occur across several dimensions, ranging from direct intervention in financial markets, to counter-cyclical macroeconomic policy that mitigates the impact on the real economy.

Clearly, these factors are not independent and the interaction between them is what determines the severity of a financial crisis.

One important aspect is the joint role that underlying imbalances and amplification play. While theoretical models such as Diamond & Dybvig highlight the potential for a bank run that triggers a broad crisis, empirical research shows that in practice, it is exceedingly rare for a bank run to lead to bank failure in the absence of an underlying solvency issue (Correia, Luck and Verner 2026). In other words, the presence of amplification channels alone does not lead to a crisis.

Conversely, in the absence of amplification, it is possible to get significant turbulence in asset prices, but without a financial crisis. For instance, a bear market, wider credit spreads, or even a recession do not in and of themselves imply there is a financial crisis. This was seen clearly with the bursting of the dot com bubble, a severe equity decline but not a financial crisis, though it did cause a recession. At the same time, in the chart below, we can see several US equity bear markets that took place outside of recessions. On other occasions, however, a "Minsky Moment" can then happen, where even a seemingly minor event can trigger a high-profile incident that cascades across the financial system.

Figure 1: S&P 500 drawdowns over time, with shaded recessions showing select episodes when the index fell over 20% without coinciding with a recession



Source :Bloomberg Finance LP, NBER, Deutsche Bank Research

Looking back through history, we can see how variation in these factors has led to different regimes over time in terms of frequency/severity of financial factors.

Section 2. Why have financial crises been more or less likely in certain periods of history?

1. Pre-WWII: More frequent financial instability, albeit under a very different system.

Financial instability was a recurrent feature of the pre-WWII era. During the 19th and early 20th centuries, there were frequent panics that often led to major slumps. For instance, the Panic of 1873 sparked a period often known as the "Long Depression", which extended into the 1890s for many countries.

In part, financial panics occurred more frequently because policy operated under very different settings. For instance, the Gold Standard as the monetary system constrained a countercyclical policy response and transmitted deflation internationally, while falling prices increased real debt burdens. Moreover, the Federal Reserve wasn't established until 1913, and the lack of an effective lender of last resort meant there was a private intervention during the US Panic of 1907. The first wave of globalisation also brought new vulnerabilities. Between 1870 and 1913, many emerging economies accumulated debts denominated in gold or foreign currency, leaving them exposed when capital inflows reversed or exchange rates weakened.

The biggest and most famous crisis occurred in 1929, when the Wall Street Crash of that year sparked the Great Depression. The length and depth of that crisis helped to stimulate the study of modern macroeconomics, with huge efforts to prevent a repeat over the years ahead. Indeed, the failures of the response to the Great Depression played a large role in the much swifter response to the 2008 financial crisis, helping to avoid a second Great Depression.

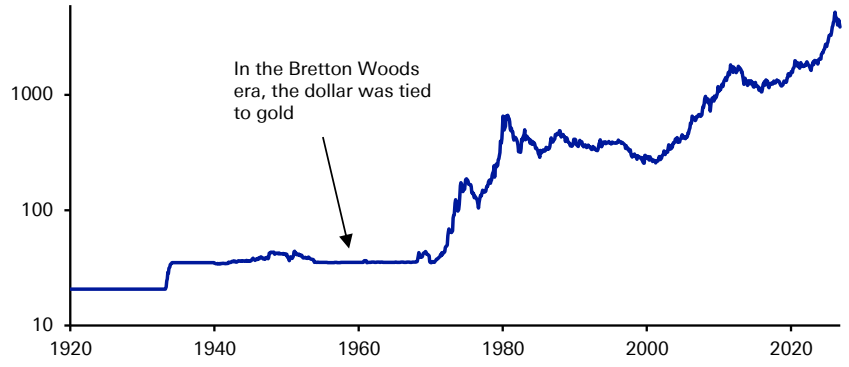
That experience established much of the modern financial safety net that exists to this day. For instance in the US, the Federal Deposit Insurance Corporation was established in 1933. The US and many other countries came off the Gold Standard as well in this period. There were also regulatory reforms, and the Glass-Steagall Act separated out commercial from investment banking.

2. 1944-1971: The Bretton Woods era coincided with fewer financial crises

Around the end of WWII, economic policymakers sought to create an international monetary system for the post-war era. The relative financial calm that followed reflected a combination of restrictions on international capital movement, tightly regulated domestic financial systems, and a system of fixed exchange rates that aimed to provide stability and prevent the competitive devaluations that occurred in the 1930s. This saw exchange rates pegged against the US Dollar, which in turn was convertible to gold at $35 per ounce.

At the same time, capital controls helped preserve monetary policy flexibility, while maintaining the system of fixed exchange rates. These controls had several downsides but they also insulated countries from "sudden stop" crises that can occur, when capital rapidly flees a country. Moreover, capital controls prevented the rapid buildup of cross-border systemic leverage. So it was more difficult to generate a global financial crisis in the same way.

Figure 2: Gold price (USD/oz, log scale)



Source : Finaeon, Deutsche Bank

Alongside capital controls, there were also domestic reforms in the aftermath of the Great Depression, which sought to avoid a repeat. As mentioned earlier, the US Glass-Steagall Act of 1933 separated commercial banking from investment banking. Another example of the era's regulated financial system in the US was Regulation Q, which imposed maximum interest rates that commercial banks could pay on deposits. That meant depositors could not search for yield and cause a run on deposits as easily. Another rationale was that with institutions not competing for deposits, it would avoid a compression in the margin between the rates banks paid on their lending and borrowing, which would disincentivise a push into riskier investments.

Finally, economic growth was also stronger in this period, with the period between WWII and the 1973 oil shock often described as the "Golden Age". This played a role in avoiding financial crises too, as faster growth helped keep debt default rates down, avoiding the kind of "trigger" events above that might spark a financial crisis. Coupled with financial repression, strong growth also helped to bring down the high post-war public debt burdens.

Over time however, the peg between the dollar and gold found itself under growing strain. The economist Robert Triffin identified the "Triffin dilemma". Supplying the world with dollar reserves resulted in outstanding dollar liabilities around the world that exceeded the gold reserves in the US, weakening confidence that dollars could ultimately be redeemed for gold. Conversely, restricting dollar supply to protect those reserves and preserve convertibility risked depriving the system of the liquidity needed to support trade and growth.

These tensions intensified in the late 1960s amid expansionary US policies, including spending on the Vietnam War and Great Society programmes. The continued drain in US gold reserves eventually led the US to suspend the convertibility of the US Dollar into gold, effectively ending the Bretton Woods system. Initially, there were attempts to bring some kind of fixed-exchange rate system back, but the world of fiat currencies (with no link to a precious metal) persists to this day.



3. 1971-2008: Financial crises become more frequent after the breakdown of Bretton Woods to the Global Financial Crisis

After the breakdown of the Bretton Woods system, financial crises became a more regular occurrence. While the end of the gold convertibility did not by itself trigger future crises, it opened the door for wider financial liberalisation, with the resulting rise in capital mobility and looser domestic financial regulation then helping to facilitate a global build-up of imbalances.

The 1980s and 1990s were a period of frequent crisis events. The transition away from capital controls meant that capital could flow more freely across borders. However, this could also cause a "sudden stop" if investors suddenly pulled their capital out of a country, contributing to bank runs and currency collapses. Moreover, many emerging markets borrowed in foreign currencies like the US Dollar, meaning that a depreciation in their own currency would see this USD-denominated debt surge in local currency terms. This meant it was a particular problem if US interest rates were increasing, as it became harder for many emerging markets to repay their debts. This was a contributing factor behind the Latin American debt crisis in the early 1980s. And the rate hikes also had domestic ramifications, being a contributing factor behind the Savings and Loan crisis in the United States.

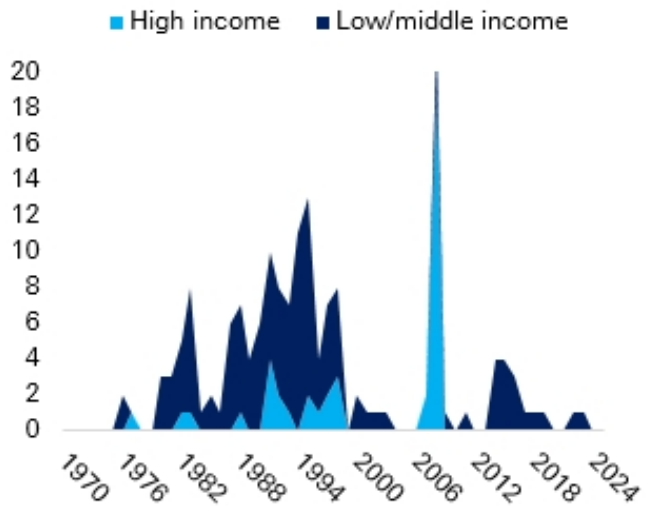
With capital flowing more freely, that also played a role in the 1994 Mexican Peso Crisis, and the 1997 Asian Financial Crisis. A sudden reversal in capital flows led to crisis and ultimately recession in many countries. The following year, the Russian financial crisis then took place, and fears grew in the United States about the wider ramifications, as the hedge fund Long-Term Capital Management (LTCM) came under pressure. Indeed, this period saw 75bps of pre-emptive rate cuts from the Federal Reserve.

This volatility also saw the Fed proactively seek to step in and smooth out the economic volatility. This was broadly successful, but in the process also helped engender complacency and a further buildup of leverage. Indeed, after the dot com bubble burst, the federal funds rate was cut to just 1% in mid-2003, where it remained until mid-2004.

This period saw clear optimism that another Great Depression was highly unlikely. For instance, Nobel Prize-winning economist Robert Lucas argued in his 2003 AEA Presidential Address that "macroeconomics in this original sense has succeeded: Its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades."

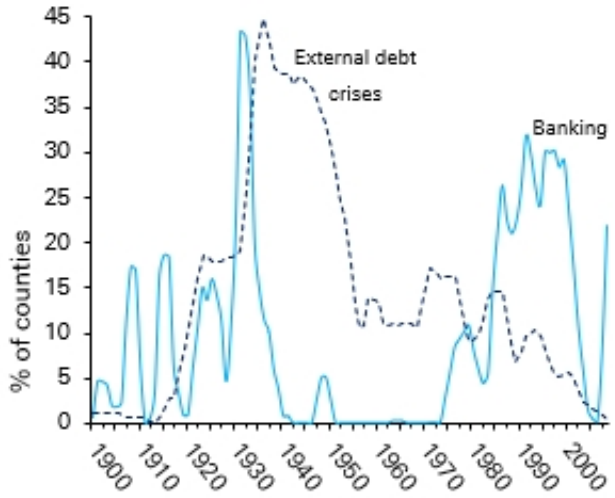
However, as we now know, the 2008 financial crisis occurred, driving the biggest global downturn since the Great Depression of the 1930s. It turned out that Minsky had been correct, and a lengthy period without a crisis had once again helped to induce complacency, laying the foundations for a repeat.

Figure 3: DM economies have avoided systemic financial crises since the post-GFC period



Source : Laeven and Valencia (2026).
Number of financial crises by year since 1970 (by start date)

Figure 4: Banking crises were very uncommon in the post-WWII period, but then proliferated after the 1970s



Source : Reinhart and Rogoff (2013)
Countries with banking and external debt crises, weighted by their share of world income, 1900-2008

Section 3: The Post-2008 world: Why have we not had another big financial crisis?

Since the Global Financial Crisis of 2008, we have thankfully avoided a major financial crisis. Despite clear moments of stress, most notably around the collapse of SVB in March 2023, we have not seen a similar wave of bank collapses on that scale. There are several components to this.

First, post-GFC deleveraging cleared out risks in the system, with countries and sectors that had excess indebtedness before the GFC experiencing pronounced declines in leverage.

Second, there have been reforms explicitly designed to avoid a repeat of 2008. After the crisis happened, there was a clear recognition that gaps in regulation had exacerbated the crisis, leading to effects that cascaded across the financial system.

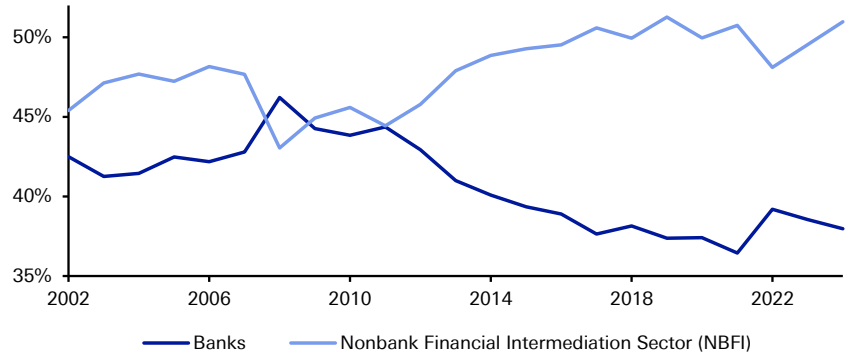
For instance, the Basel III reforms required banks to hold more equity, with a minimum requirement for Common Equity Tier 1 (CET1) capital. They also introduced the liquidity coverage ratio, which requires banks to hold enough high-quality liquid assets to ensure they can cover their net cash outflows under a 30-day stressed scenario. In addition, the net stable funding ratio was brought in, requiring banks to have sufficient stable funding that exceeded the required amount of stable funding for a one-year stressed scenario.

At the national level, further reforms were also introduced. In the US, the Dodd-Frank Act was introduced, with measures including the Volcker Rule that restricted banks from engaging in proprietary trading, and required the Federal Reserve to perform an annual stress test of large institutions. Meanwhile in the European Union, which also experienced a sovereign debt crisis, reforms included a "Single Supervisory Mechanism", whereby banking supervision was brought under the ECB, ensuring harmonised regulatory standards.

Third, the share of financial assets held by banks has fallen since the 2008 crisis. This hasn't eliminated risk, but commercial banks are funded by retail deposits that can quickly fly. By contrast, non-bank financial institutions (NBFIs), e.g. hedge funds, are not as prone to these bank run dynamics. For instance, a private credit closed-ended fund is not one where investors can simply redeem their funds on demand.

We can see this shift in the data. Looking at the FSB's group of 21 plus the Eurozone, we can see that the share of assets held by banks has fallen from a peak of 46% in 2008, to 38% in 2024. By contrast, the share held by NBFIs has risen from 43% to 51%.

Figure 5: Share of Assets of Financial Corporations (FSB 21 + EA Group)



Source :Haver Analytics, Deutsche Bank

Fourth, the lessons of 2008 have meant that when the financial system has had wobbles since, policymakers have acted with incredible speed to stop the turmoil.

This was most obvious when the Covid-19 pandemic began. Whilst a pandemic was very different to a financial crisis, there was initially huge turmoil in financial markets. Indeed, the S&P 500 fell by more than a third in just over a month, a decline at a speed and scale unseen since the Great Depression. Meanwhile, US HY credit spreads soared to levels last seen around the financial crisis, and at the height of the turmoil, there was a huge spike in real yields, despite the economy entering a recession.

Against this backdrop, central banks wasted no time in acting. For instance, the Fed delivered an emergency 50bp rate cut, followed by another 100bp rate cut. Moreover, they swiftly resumed Quantitative Easing, and announced the establishment of multiple new facilities to ensure the smooth functioning of credit markets. These included a Primary Market Corporate Credit Facility, to support new bond and loan issuance, along with a Secondary Market Corporate Credit facility, which offered liquidity for outstanding corporate bonds. Meanwhile, a third facility, called the Term Asset-Backed Securities Loan Facility, was set up to enable the issuance of asset-backed securities. Similarly in Europe, the ECB set up a new Pandemic Emergency Purchase Programme (PEPP), which ultimately had a total envelope of €1.85tn.

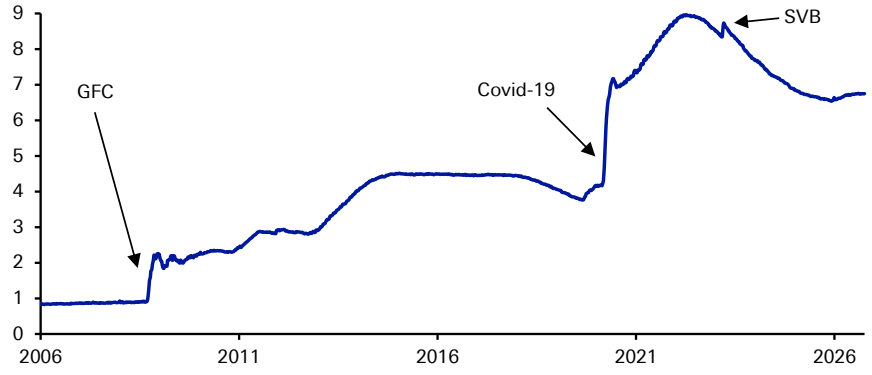
Whilst the pandemic caused a huge economic shock, the swift action meant it did not translate into a financial one, and the brief tightening in credit conditions was

unwound over the coming months.

A similar pattern was seen during the regional banking turmoil of March 2023. This was a financial panic, which initially began with the collapse of Silicon Valley Bank. However, this began to spread, and Signature Bank also failed. Then in Europe, Credit Suisse came under investor scrutiny and saw large deposit outflows, which culminated in a purchase by UBS that included guarantees from the Swiss government. This coincided with huge market moves, with the 2yr Treasury yield posting its biggest daily decline in over 40 years, with a 61bps decline on March 13.

However, policymakers swiftly moved to stop any contagion. The US Treasury, Federal Reserve and the FDIC released a joint statement stating that all deposits at SVB would be protected, and that the Federal Reserve would provide additional funding to ensure banks could meet the needs of depositors. Meanwhile, the Fed's balance sheet briefly expanded again, despite the fact it had begun the process of quantitative tightening. These actions ultimately meant the crisis proved contained and did not lead to a wave of further bank collapses in the manner of 2008.

Figure 6: Federal Reserve Total Assets (USD trillions)



Source : Bloomberg Finance LP, Deutsche Bank

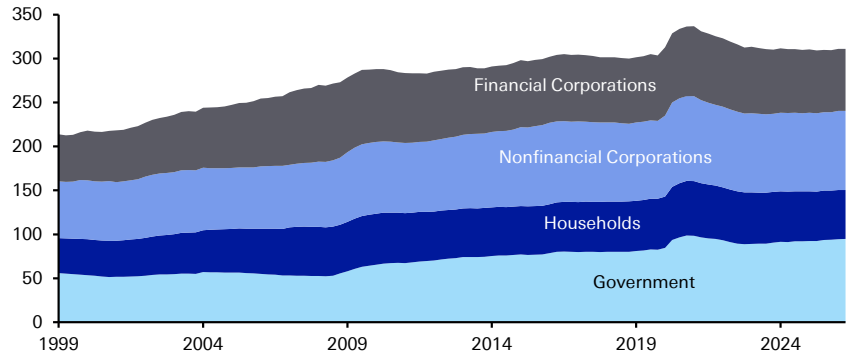
Fifth, policymakers have also responded to recent shocks with huge fiscal transfers, meaning that debt has migrated from private towards sovereign balance sheets.

Whilst global debt has risen slightly over the last decade, if you dig deeper into the numbers, that's entirely driven by a rise in government debt. If we compare the statistics for Q2 2026, relative to Q2 2016, there's actually been a decline in debt for households, financial corporations, and nonfinancial corporations. The only one of the four segments that's gone up in the last decade is government debt.

In relative terms, the transformation is even bigger if we look back to 2007, before the Global Financial Crisis kicked off. Back then, government debt was the smallest of the four categories, but because of the GFC and the pandemic, it's now become the biggest of the four categories.

That in turn has led to separate issues, with government bond yields at multi-year highs, alongside rising net interest spending. So the fiscal space has become limited. However, public balance sheets don't face the same kind of system-wide run that a bank would.

Figure 7: Global Debt (% of GDP) - Since 2007, government debt has gone from the smallest to the biggest category



Source : Haver Analytics, Deutsche Bank

Overall, the post-2008 experience offers three key forward-looking lessons. First, stronger bank balance sheets and the shift towards non-bank finance suggest future stress may originate outside banks. As such, historical analyses centred on banking crises may provide a less complete guide. Second, policymakers have become increasingly effective at containing liquidity pressures and amplification. And third, the shift in debt towards sovereign balance sheets has cushioned private-sector shocks but narrowed the capacity for future intervention.

Section 4: What are potential candidates for the next crisis?

This section considers some of the current risks in the financial system and whether they could be sowing the seeds for the next financial crisis. This section is not designed to be a comprehensive list of financial risks, but rather an assessment of three important areas where risks have risen in recent years.

1. Could AI spark broader vulnerabilities?

A huge driver of the current equity bull run has been the growth in AI-related stocks. This report won't explore the debate as to whether this is a bubble, but examine whether a correction could eventually propagate into a systemic financial crisis. As noted earlier, a reversal in the investment cycle need not cause a crisis in itself, and the bursting of the dot com bubble also did not lead to a broader financial crisis.

Nevertheless, there are issues that could spark vulnerabilities. First, the rapid rise in AI capex raises questions about whether the investment will pay off. The AI build-out is on course to exceed the scale of past technological investment cycles, which have often involved overinvestment even when the technologies ultimately proved transformative. Second, funding is shifting from predominantly operating cash flow towards external capital, and rising debt issuance in particular. Third, greater equity-market concentration increases exposure to a reassessment of technology valuations. Together, these developments make a correction a clear risk.

To assess the potential for systemic stress, we apply the framework in Greenwood, Hanson, Shleifer and Sørensen (GHSS). This associates heightened crisis risk with the combination of a strong run-up in asset prices and excessive credit growth, estimating a 45% probability of a crisis within 3 years if the two thresholds in Figure 11 are met. On a backward-looking basis as of 2025, an economy-wide assessment finds that the equity-price increase meets the framework's "red zone" test, but business credit growth has been considerably more subdued, given the slowdown



in credit following the 2022-23 tightening cycle. That is, going into 2026, the pattern was one of a displacement of credit from other interest-sensitive sectors towards AI and technology rather than any broad-based rise in leverage.

Nevertheless, US data does show a clear acceleration in credit trends so far in 2026. To make a more forward-looking assessment, we incorporate the rise in issuance in 2026 and indicatively extend it into 2027 using the estimated rise in AI capex plans, assuming credit growth elsewhere in the US economy remains stable (footnote: We see two-sided risks to this – we may understate the broader credit demand in tech adjacent areas; conversely, this may understate the drag of higher rates on credit demand in non-AI related sectors). We also extend the estimated 2027 trend into 2028, including an assumption that equity prices continue their trend over the past 12 months, to provide an illustrative scenario over the next two years. Under these assumptions, we would see a visible rise in aggregate US business sector leverage, leaving the sector just shy of economy-wide red-zone levels by 2028. As such, approaching that territory by 2028 is conceivable if the AI cycle continues to accelerate, both in terms of increased debt borrowing and a renewed rise in valuations.

While the GHSS framework gives a useful quantification of the potential risks, its indicators also warrant some qualification, which we judge to come in opposing directions:

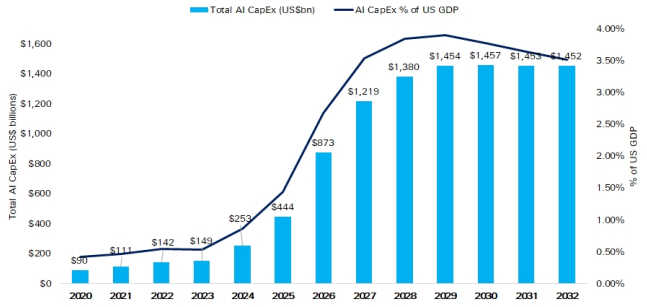
- On the one hand, there is a risk that aggregate credit measures may understate vulnerabilities when borrowing is highly concentrated. Circular financing, leases and off-balance-sheet structures complicate the picture, and while we incorporate the recent rise in payables in our leverage metric to capture some of this risk, it may well be underestimated. Moreover, realised interest costs remain below current market borrowing rates after the lengthy period of ultra-low rates, so leverage trends alone may miss the pressure from rising debt-service costs.
- On the other hand, the price-based metric used by GHSS to assess excess asset price growth (the 3-year real rise in equity prices) may overstate valuation excesses given the strong rise in earnings. Indeed, P/E multiples have already seen a sizeable correction since late 2025, which was most pronounced for software stocks, and currently there is little evidence of overly stretched tech valuations, especially when compared to the dot com boom.

The risk of stress amplification is also likely to depend on the nature of any AI correction. A downgrading of the AI capex cycle due to slower growth in AI demand, financing constraints or supply bottlenecks may result in weaker valuations, leading to negative wealth effects and slower capital expenditure. However, while this would create an economic headwind, it need not produce a systemic crisis. And while parallels to the dot com bubble may well be relevant, currently there are factors that suggest downside risks would be more moderate. For instance, operating cash flow still plays an important role in financing the AI buildout, whilst there has been a limited run-up in borrowing and much less stretched valuations relative to the late-1990s.

Our assessment therefore remains that an AI correction is a clearer risk than an AI-led systemic crisis at this point. For these risks to become more material, it would need leverage to keep building but AI returns to eventually disappoint, raising the likelihood of credit events and amplifying the investment slowdown through the real economy. We will focus on this interaction between debt-service pressures and

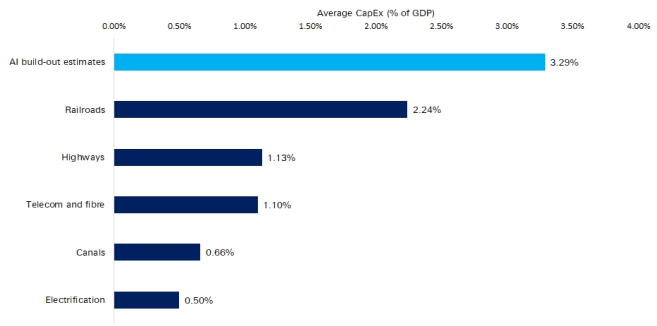
the role of credit events more in the next section.

Figure 8: AI CapEx Total Estimate Spend, Nominal and % of US GDP (2020–2032)



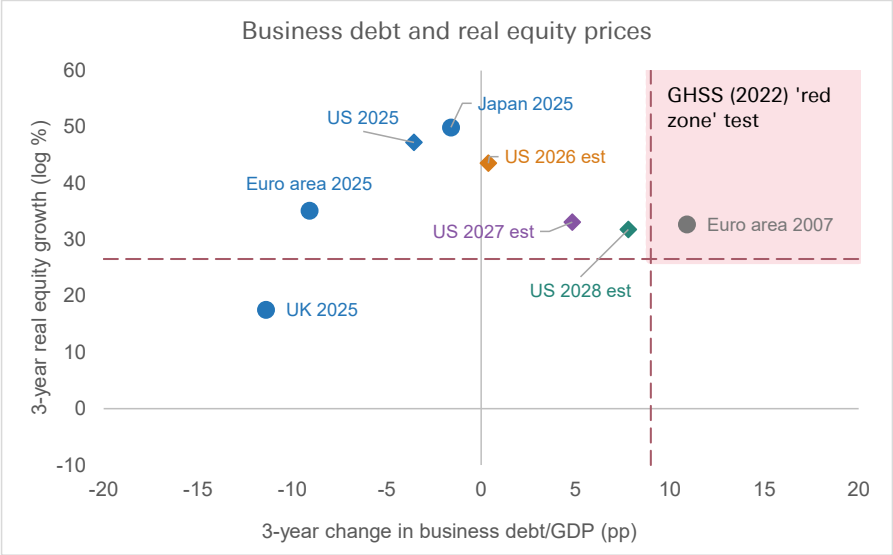
Source : Bloomberg Finance, IMF. CapEx totals include Oracle, Meta, Amazon (AWS), Microsoft, Google and Tier 2/Neoclouds Estimates from Bloomberg.

Figure 9: Annual AI capex spend likely to be bigger than prior US investment cycles



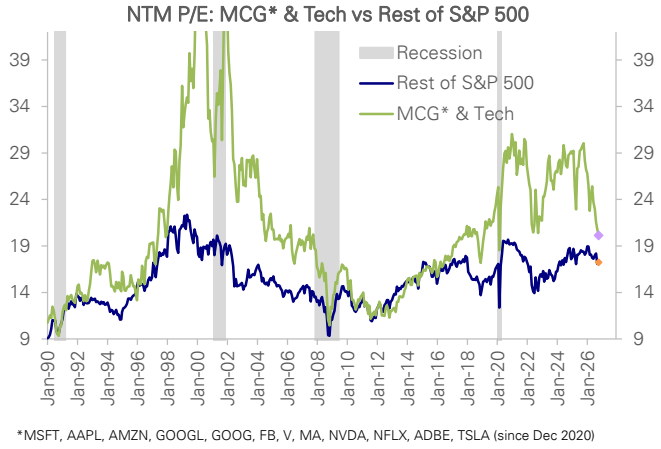
Source : Van Nieuwerburgh (2026), AI projections are based on the Bloomberg estimates in Figure 8.

Figure 10: The combined run up of asset prices and leverage of the US business sector is some way from risky levels, but could approach these by 2028



Source : Deutsche Bank Research, FRB, BIS, Bloomberg Finance LP, Greenwood, Robin, Samuel G. Hanson, Andrei Shleifer and Jakob Ahm Sørensen (2022). "Predictable Financial Crises".
"Red zone" criteria chosen from GHSS paper are a 3-year rise in business-debt of more than 9pp and 3-year rise in real equity prices of over 26%. US estimates for 2026-28 based on: DB macro projections for GDP and CPI; 2026-27 credit growth assumptions used in Figure 14, extended to 2028 at 2027 pace; annual US equity growth of +12.5%, as per the post-GFC trend channel estimated by DB equity strategists.

Figure 11: Unlike the dot com bubble, tech valuations are far from stretched



*MSFT, AAPL, AMZN, GOOGL, GOOG, FB, V, MA, NVDA, NFLX, ADBE, TSLA (since Dec 2020)

Source : Deutsche Bank Research, Bloomberg Finance LP
Latest data point: 27 October 2026.

Figure 12: Borrowing by US corporates has accelerated markedly in 2026



Source : Deutsche Bank Research, Bloomberg Finance LP, FRB Flow of Funds; end-26 and end-27 projections based on (i) indicative AI debt funding based on capex estimates in Figure 8 and (ii) assuming non-AI related credit growth remains unchanged at Q2-26 levels.

2. Risks from higher rates and private credit

In the previous section we noted that modest economy-wide debt growth doesn't necessarily imply modest credit risk when debt-service costs are rising. As existing debt reprices or is refinanced, borrowers can face greater pressure even without additional borrowing. This is a key feature of the debt cycle, whereby vulnerabilities accumulate during the expansion, and rising rates (often amid a monetary tightening due to an overheating economy) can then expose them. These risks are relevant in the context of the current rate hiking cycle, especially as much of the catch up in debt service costs is yet to play out (see chart below).

With banking-sector risks having moderated since the GFC, the rapid expansion of private credit and its opaque structure have understandably drawn attention as a possible source of the next crisis. Parallels with the subprime credit boom have been periodically made. However, we think these should not be overstated. Even though the dollar size of the US private credit market is similar to that of subprime around 2006-07, the market must be assessed relative to the economy (which has doubled in nominal terms). Moreover, the slower build-up, restrictions on redemptions and lower risks of direct wealth effects all suggest much more moderate amplification risks than in 2008.

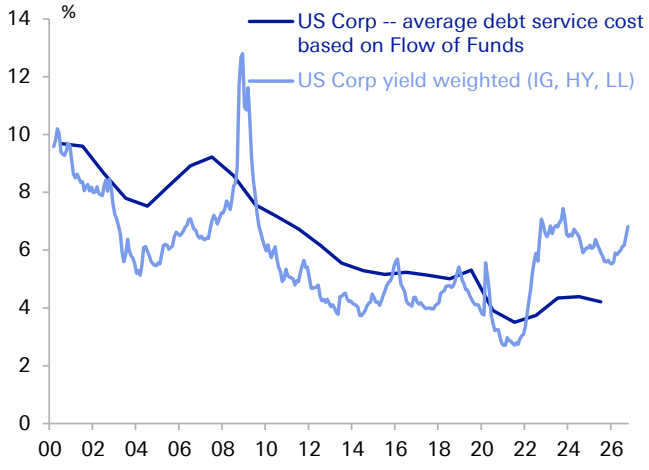
There are already signs that the private-credit growth cycle is slowing (see chart) and our credit strategists have noted warning signs including weaker new inflows into BDCs, increasing payment-in-kind interest and prospective refinancing pressures. That said, defaults remain limited thus far so these should not be seen as evidence of an imminent systemic event.

Whether more systemic risks could emerge will depend on issues of solvency, opacity and capacity for intervention.

- First, while redemption gates can limit immediate cash outflows and reduce the need to sell illiquid loans under pressure, they do not restore a borrower's ability to service debt or absorb underlying credit losses. This distinction between liquidity protection and solvency is therefore central to judging whether a slowing credit cycle remains orderly.
- Opacity remains a concern, both in financing structures and in the distribution of exposures among end-holders, including insurers and other non-banks. This can make losses harder to identify and potential amplification harder to assess.
- Policymakers' success in containing liquidity pressures may not translate into an effective response to credit events - liquidity provision alone cannot repair impaired balance sheets. Extending support to opaque non-bank exposures raises difficult questions about eligibility, loss allocation and the threshold for intervention.

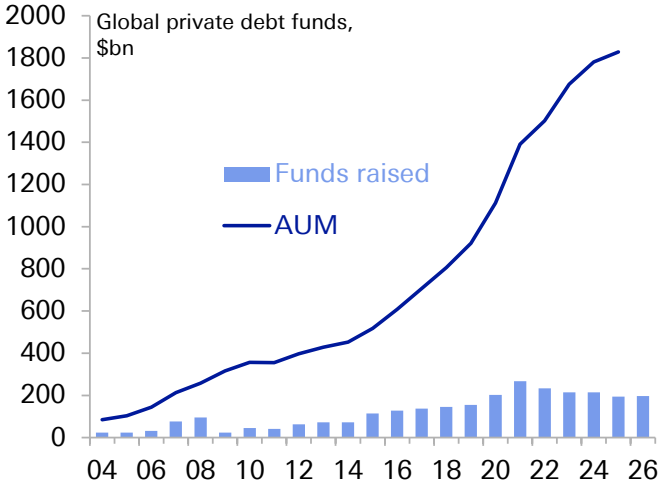
Quite aside from private credit, the fact that we are back in a rate hiking cycle from the major central banks also adds to the current risks. Indeed, higher rates bring down inflation, in part because they tighten financial conditions. But a consequence of this is that it often reveals vulnerabilities in the financial system, and makes a crisis more likely. For instance, it was a contributing factor behind the 2023 regional banking crisis, as banks had growing unrealised losses on their securities portfolio when rates began to rise again. So even if higher rates don't directly cause a crisis, they can often be a key contributor. Indeed, hiking cycles have regularly coincided with some kind of shock, as the experience of recent decades demonstrates.

Figure 13: Market costs of US corporate borrowing is well above existing debt service costs



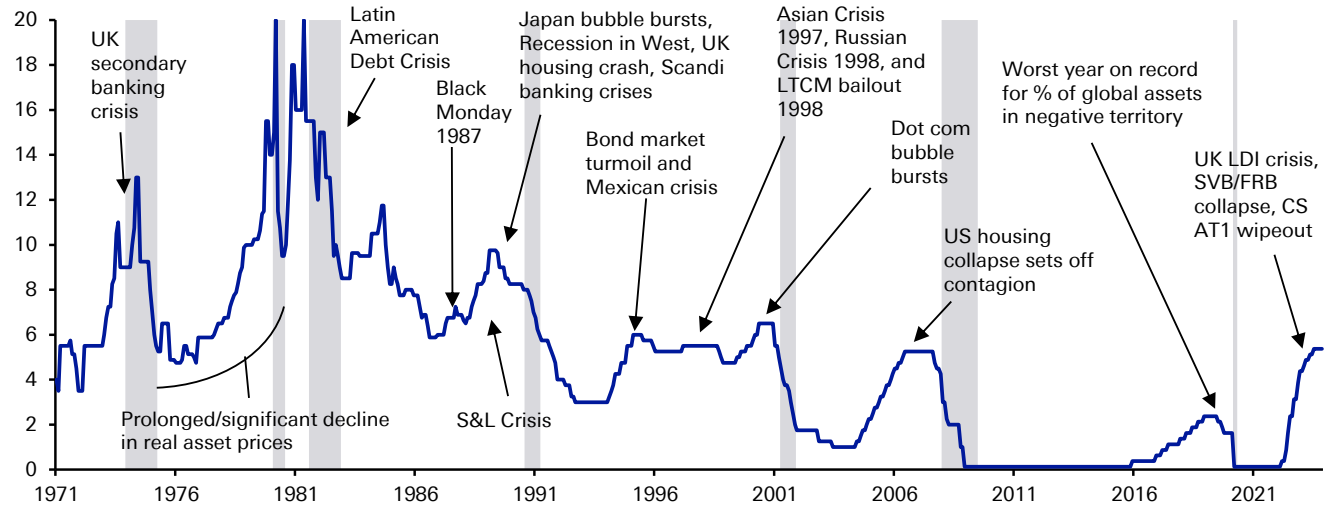
Source : Deutsche Bank Research, FRB, Bloomberg Finance LP, Haver Analytics

Figure 14: Growth of the private credit market has significantly slowed in 2025-26



Source : Deutsche Bank Research, Preqin

Figure 15: Federal Funds Rate and Crises - many crises have often coincided with hiking cycles



Source : Bloomberg Finance LP, Haver Analytics, Deutsche Bank

3. Stretched fiscal positions and possible NBFI amplifiers

As discussed earlier, the migration of debt towards sovereign balance sheets has helped cushion private-sector shocks, but this has come at the cost of higher fiscal risks. Higher public debt and sovereign yields have limited the room for fiscal stimulus, while persistent inflation has limited the room for monetary stimulus. This makes another round of coordinated macroeconomic support harder to deliver.

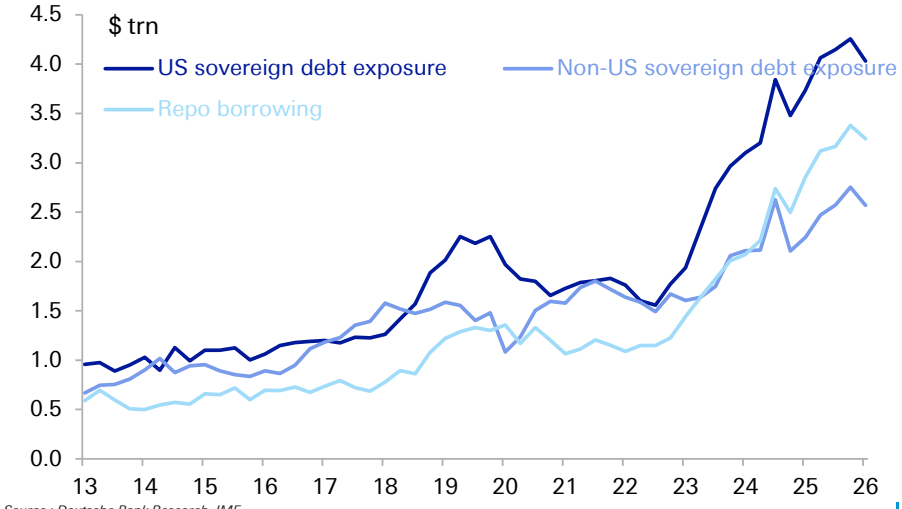
The issue with high public debt is that it if fiscal sustainability is questioned, that can raise sovereign borrowing costs, which can amplify existing private-sector vulnerabilities via a tightening in financial conditions and slower growth.

The financial risk posed by sovereign stress will also depend on the financial amplification channels. These were clear in the European sovereign crisis with the bank-sovereign loop, but the changing structure of sovereign markets suggests that the sovereign–NBFI feedback loop may now warrant increasing attention. This was visible with the 2022 LDI crisis in the UK, while a more recent concern is the run up in leveraged hedge fund positions in sovereign bond markets, with hedge funds' sovereign bond exposures more than doubling since 2022 (see chart below). As noted also by the IMF, this reflects greater issuance and a rising share of sovereign debt held by hedge funds.

The lessons from Black Monday, LTCM and the LDI crisis offer reassurance that intervention can contain market stress originating outside the banking system. But they are not a guarantee that future liquidity shocks will remain economically benign. The greater scale and interconnectedness of non-bank finance mean that we can't simply rely on historical examples today.

Looking forward, a combination of sovereign repricing, leveraged financial amplification and a more constrained policy response risks proving harder to resolve than past episodes.

Figure 16: IMF estimates that hedge funds' sovereign exposures have more than doubled since 2022



Source : Deutsche Bank Research, IMF

Conclusion

Whilst a major financial crisis has been avoided since the GFC and the subsequent sovereign crisis, the problem of financial instability has yet to be permanently solved. On the one hand, reforms to the financial system and the swift actions of policymakers have helped to prevent a repeat. But as we know from Hyman Minsky's warning, lengthy periods of stability can often lay the foundations for the next crisis, even if these take place slowly. Indeed, risks often shift rather than disappear.

Looking forward, there are several vectors of risk worth paying attention to. But financial crises often start in areas where people are paying little attention, or risks are assumed to be contained. Indeed, it is the areas where risk is underappreciated which often prove the most vulnerable.

As such, predicting where the next crisis might arise is inherently difficult. But the topic is a vital one, given the long-lasting damage that financial crises can cause when they do occur. Indeed, with the fiscal space for sovereigns increasingly constrained today, the margin for a future policy error is limited.

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Appendix

Figure 17: List of selected financial crises

Period	Crisis	Type of crisis	What happened?	Financial and economic impact	How did policy intervene?
1929-33	**Great Depression**	Banking	Stock market collapse followed by bank failures, deflation and a contraction in credit.	Adherence to the gold standard constrained policy responses and transmitted deflation internationally, while falling prices increased real debt burdens.	US federal deposit insurance, stronger federal oversight and the separation of commercial and investment banking.
1970s	**Oil Shocks & Stagflation**	Supply shock	Oil embargo in 1973 and Iranian revolution in 1979 caused soaring inflation and recession.	Led to high inflation, low growth, and tighter monetary policy by the 1980s.	Price controls in the early 1970s failed to control inflation. The Fed under Paul Volcker eventually brought inflation down with aggressive monetary tightening.
1982	**Latin American Debt Crisis**	Sovereign, Banking	Countries could not service dollar debts after aggressive Fed rate hikes.	Major sovereign debt crisis across emerging markets.	IMF adjusted programs and repeated rescheduling that kept banks rolling loans over.
1987	**Black Monday**	Market Liquidity	After a run-up of nearly 40% in 1987, stocks collapsed in a single session.	Global stock markets crashed over 20% in a single day. However, there was no deposit run and the real economy grew strongly the following year.	Fed Chair Alan Greenspan publicly reaffirmed his readiness to provide liquidity and act as the lender of last resort, stabilising the market panic.
1990-92	**Japanese Asset Bubble Burst**	Banking, Asset bubble	Property and equity bubbles collapsed.	Marked the start of Japan's "Lost Decades" of weak growth and deflation.	BoJ began easing in July 1991, reached zero rates in 1999 and began QE in 2001.
1992	**ERM / Sterling Crisis**	Currency, Balance of Payment	UK forced out of the European Exchange Rate Mechanism.	Demonstrated vulnerability of fixed exchange rates.	Exit from ERM and the pound floats freely.
1994-95	**Mexican Crisis**	Currency, Balance of Payment, Sovereign	Mexico nearly ran down its reserves trying to defend its crawling peso peg against capital flight. The peso was devalued in Dec 1994 and then floated.	A banking crisis and a deep 1995 recession followed. Argentina and other emerging markets faced capital flight.	The US organised a package including loans from the US Exchange Stabilization Fund and the IMF, plus an austere adjustment program.
1997-98	**Asian Financial Crisis**	Banking, Currency, Balance of Payment	Thailand, Indonesia, South Korea and others experienced currency and banking crises.	Led to deep recessions across Asia; spillovers reached Latin America and Eastern Europe in 1998.	Large IMF programs with the World Bank and ADB, focused on bank restructuring and fiscal tightening.
1998	**Russian Default & LTCM Collapse**	Currency, Balance of Payment, Sovereign	Russia defaulted on sovereign debt; hedge fund LTCM nearly failed as investors dumped risky and illiquid bonds in flight to quality.	Credit spreads widened sharply worldwide. LTCM's forced unwinding threatened fire sales across markets where dealers held the same trades. Russia suffered high inflation and a deep contraction.	In Sep 1998, the NY Fed brought together 14 banks and brokers who put $3.6bn into LTCM. The Fed also cut rates in Sep, Oct and Nov.
2007-09	**Global Financial Crisis (GFC)**	Banking, Asset bubble	US housing collapse triggered worldwide banking crisis.	Drove the biggest global downturn since the Great Depression of the 1930s.	Rates cut to near zero, QE, emergency credit facilities and dollar swap lines from the Fed. TARP bank recapitalization and stress tests in the US, nationalizations and guarantees in the UK and Europe. Then Basel III and Dodd Frank Acts.
2010-12	**European Sovereign Debt Crisis**	Sovereign, Banking, Balance of Payment	Greece, Portugal, Ireland and others faced debt sustainability concerns.	Threatened the survival of the euro.	EU/IMF programs and EFSF and ESM rescue funds. The ECB bought bonds and lent long-term to banks. ECB President Mario Draghi pledged in July 2012 to do "whatever it takes" to save the euro.
Mar-20	**COVID-19 Financial Panic**	Market Liquidity	Global dash for cash froze Treasury and credit markets.	Massive central bank intervention stabilised the financial system.	Massive support to households, firms and markets. Rates went to zero, central banks bought assets without preset limits and backstopped credit markets, governments ran large job-retention programs like UK furlough.
2022	**UK LDI Crisis**	Market Liquidity	Liability-driven pension strategies came under stress after gilt yields surged.	Revealed risks from leverage outside traditional banking.	BoE launched temporary, targeted purchases of long-dated gilts on financial stability grounds. The government reversed most of the fiscal measures.
2023	**SVB / Regional Banking Crisis**	Banking	Silicon Valley Bank and others failed after deposit runs.	Run pressure spread across regional banks. Banks had to borrow through the Fed's emergency programme, total amounting to over $750bn.	Regulators invoked a systemic-risk exception so all SVB and Signature depositors were protected. The Fed launched the Bank Term Funding Program, lending against collateral valued at par for up to a year.

Source : Deutsche Bank Research, Federal Reserve reports, IMF reports

Appendix 1

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