



Perspectives

I Did Not Predict What Is Going on in Privates

March 25, 2026

Privates are having a tough time lately. While we do not actually know a ton about the underlying portfolio performance (not knowing is part of the issue!), the stocks of major private equity managers have been [hammered](#). Private credit has been all over the news with talks of [cockroaches](#) and [gates](#) making the rounds. If you follow the financial news, you couldn't have missed this stuff these last few months. Of course, debate rages with some arguing there is much [more](#) to come and some respected voices [pushing back](#).

I've been getting a lot of pings lately (emails, texts, Twitter mentions) along the lines of "you called this disaster!" While (public!) credit for a great call is always fun, this time it is just not true. I called nothing of the sort, nor is it at all clear yet that it is a "disaster."

I have made two main points about private equity, and a third occasional comment when someone pokes me the wrong way about private credit:

- 1 They are not low-volatility, low-correlated (to equities) investments. Not marking something doesn't make it low risk. I'm not going to rehash it here, but please consult [prior work](#) for why the ostrich isn't truly safe from the lion. The same, of course, applies to private credit. The lion doesn't care if the ostrich is first loss or higher up in the capital structure.
- 2 I have concern about the long-term (that hyphenated word is important) return of private vs. public equity going forward. While I focus on going forward, there is indeed [contention](#) about the long-term historical record of private equity. That has never been my area of expertise or my fight. What I have [contended](#) is whatever the historical numbers are, a broad portfolio of private equity will perform worse vs. public equity going forward over medium to long horizons from here. I'm not sure if that amounts to a smaller premium than history for private vs. public (if such a premium has really existed) or a deficit — my conjecture doesn't handle magnitude, just direction. But it seems actually rather obvious that private equity was bought in the early days, say 1980s and 1990s, in large part to earn the "illiquidity premium." That is, all else equal, investors prefer more liquidity. And thus to give it up, as perhaps very long-horizon investors should, they get compensated with higher average returns. My [contention](#) is that today many investors, perhaps most, see the illiquidity as a "feature, not a bug," as it allows them to ignore market turmoil that they are in fact experiencing, but just don't have to acknowledge. That can actually be valuable if it makes you a better long-term investor. But it comes with a cost. A bug is something you get paid to bear through higher long-term returns. A feature is something you pay to receive through lower long-term returns.¹
- 3 Private credit is harder to get a handle on, being so new (e.g., the vast majority has never seen a bear market in credit, which is a concern but not in itself damning). My main role here, largely done through social media, is to point out that like their equity cousins, their reported volatilities are silly low compared to reality, and that those touting 10.0 Sharpe ratios should, you know, not ever ever do that.^{2, 3}

On the plus side, I've pointed out that while they are highly correlated to their public cousins, private equity managers have the ability to add a kind of alpha a quant can only dream about — actually affecting the companies they own. "Improvement alpha" seems like it would be truly diversifying (like all alpha, it may not always work, but perhaps it works on average, and is likely not too correlated to market direction). How much of it there is, how much it has mattered to historical and prospective expected returns, and whether it is worth the enormous fees charged, are topics for someone else to fight about.

I've also noted that both private equity and private credit are important asset classes serving a real function in the economy. I think the same about quantitative market-neutral equities and am used to people not buying it, so there's that.⁴ Though, useful to society or not, I do have [serious misgivings](#) about bringing privates to retail right now. But that's an argument for another day.

But what I emphatically did not do is call today's problems. My contention on [volatility laundering](#) should be seen as symmetric (as is, you know, volatility).⁵ Whether private assets are under-marked or over-marked vs. public is not my jam. That they do not reflect liquid public prices, especially when they move a lot, in either direction, is the hill I will die on.

Furthermore, my worries about long-term expected returns (as a bug becomes a feature) are just that, long term. Again, not really a market call. Rather, if I'm right, it means a slow grinding mild or major — again I can't do magnitude — disappointment vs. the past (and BTW, if you think the past was good enough, less might still be OK).

So, again, it's nice to be complimented, but I did not call anything short term, including the current troubles. I stand by my observations long term, but the long term takes a while (it's in the name). This short term could turn into something ugly or turn out to be a few lonely

cockroaches not auguring anything traumatic.

P.S. Similarly, our showing (not merely arguing, as this one is really close to a proof) that "buffer funds" are generally worse than the equivalent portfolio of "unbuffered" equities and cash is also about the long-term expected return. We do not assert any short-term predictions. Though I will note that despite buffers and privates being two very different things, there is a lot of rhyming between the arguments for private vs. public and those for buffered funds. Both end up, if you push enough, arguing something like "yeah, you may be right, but investors really like a single package that looks more stable even if it's not vs. the truly right comparison, and even if it loses to that simpler portfolio long term." If you want me to force rank them, I'm considerably more sure that buffer funds are negative alpha when measured properly than I am that private is now, going forward, worse than public equity. If you want to amuse yourself, go look at the industry's responses to our work. They amount to moving the goal posts, (comparing to equities sometimes, comparing to bonds sometimes, but never comparing to the right combo of equities and cash), and occasionally an ad hominem "and AQR sucks anyway," a characterization that I somewhat dispute.

P.P.S. Finally, I can't hate privates too much given we have our own massively successful [offering](#).

[1] Independent of my comments on volatility laundering, and my unwillingness to take a firm position on how much lower future private vs. public returns will be compared to the past, AQR's Portfolio Solutions Group has since the late 2010s included Private Equity (PE, specifically US buyouts) in its annual [Capital Market Assumptions](#) reports. Initially we offered more conservative expected return estimates for PE than most observers — but still slightly higher than for listed equity. However, since the Fed tightening in 2022 raised the cost of leverage for PE managers, our method has suggested lower expected returns for private than listed equity, or at best equal. Thus, our point estimate is no illiquidity premium. But it is only a point estimate. The confidence interval ain't tiny.

[2] The late great G.O.A.T. Jim Simons would have killed for a 10.0!

[3] There is a claim of lower default risk in private credit that we think is at least somewhat misleading. If the business model of private credit, and this appears to often be the case, is to respond to near-default situations by a variety of loan modifications (e.g., payment in kind) instead of forcing defaults, it is no wonder the default rates are lower than in, say, high-yield bonds or leveraged loans with similar ratings. How deferred defaults work out in the future is [anyone's guess](#), but it is a roll of the dice and, like volatility laundering itself, reduces the near-term appearance of a problem, but not the problem itself.

[4] On net I think we're buying undervalued (in a much more holistic sense than old school simple valuation ratios) companies where things are improving lately and the market has under-reacted to these improvements. That is, our buys (and sells, the shorts are the opposite story) are generally moving in the direction of equilibrium accurate pricing. It's not our goal; our goal, like the private manager's goal, is to make money for our clients. Call me a cockeyed optimist (or capitalist shill), but I think that invisible hand thing usually does lead to such actions making the world better.

[5] It's OK to give me a little bit of credit for just saying "vol is higher than so many think and you just saw an example," but I did NOT predict the direction nor timing of current problems.

This document is not intended to, and does not relate specifically to any investment strategy or product that AQR offers. It is being provided merely to provide a framework to assist in the implementation of an investor's own analysis and an investor's own view on the topic discussed herein.

This document has been provided to you solely for information purposes and does not constitute an offer or solicitation of an offer or any advice or recommendation to purchase any securities or other financial instruments and may not be construed as such. The factual information set forth herein has been obtained or derived from sources believed by the author and AQR Capital Management, LLC ("AQR") to be reliable but it is not necessarily all-inclusive and is not guaranteed as to its accuracy and is not to be regarded as a representation or warranty, express or implied, as to the information's accuracy or completeness, nor should the attached information serve as the basis of any investment decision. This document is not to be reproduced or redistributed to any other person. The information set forth herein has been provided to you as secondary information and should not be the primary source for any investment or allocation decision. Past performance is not a guarantee of future performance. Diversification does not eliminate the risk of experiencing investment losses.

This material is not research and should not be treated as research. This paper does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of AQR. The views expressed reflect the current views as of the date hereof

and neither the author nor AQR undertakes to advise you of any changes in the views expressed herein.

The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this presentation has been developed internally and/or obtained from sources believed to be reliable; however, neither AQR nor the author guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Diversification does not eliminate the risk of experiencing investment losses.

The information in this paper may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.