

We called it: Why private credit's illusion just shattered.

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When we analyzed the behavioral risks embedded in alternatives, we made a specific prediction: opacity doesn't remove uncertainty, it delays recognition. The steadiness of private markets, we wrote, "often rests on imprecise and outdated valuations that understate risk and overstate diversification."

Last month, that prediction moved from theory to \$1.4 billion in forced asset sales.

Blue Owl Capital permanently restricted withdrawals from its OBDC II Fund after redemption requests surged 200% in Q4 2025. BlackRock wrote off \$150 million on a single private loan to Renovo—a total loss that exposed how quickly "stable" valuations can collapse. Private equity purchase multiples hit 11.8x EBITDA even as concerns mounted, proving once again that "the more a price relies on belief, the more room there is for behavioral manipulation."

The "alternatives reckoning" isn't coming. It's here.

For the past several months, we have closely followed a developing story centered around the rush into alternative investments (private equity, private credit, and related strategies) would not eliminate risk but merely relocate it. Read the full analysis here. We argued that behavioral overpricing, the tendency for human investors to fill information gaps with optimistic narratives, would follow capital wherever it flowed. The same forces that concentrate public markets around a handful of dominant names, we contended, would eventually surface in private markets with potentially greater consequences.

What has happened since validates that thesis with uncomfortable precision.

The events of early 2025 have provided concrete evidence that the behavioral risks we identified are not theoretical abstractions. They are measurable, they are material, and they are now manifesting in ways that underscore the central premise of our investment philosophy: **most portfolios underperform not because of the winners they miss, but from holding too many losers—overpriced assets that fail to deliver the growth their valuations imply.**

The recent troubles at Blue Owl Capital and BlackRock's private credit operations offer instructive examples. These are not obscure players. They represent the institutional center of the alternatives industry, the firms that retirement systems, endowments, and individual investors have entrusted with hundreds of billions of dollars on the premise that private markets offer diversification and downside protection.

That premise is being tested.

The illusion of diversification

When we wrote our original piece, we made a specific observation about the nature of risk in private markets: **moving money from public to private markets does not make a portfolio safer. It only hides the same risk behind illiquidity and stale pricing.**

The logic is straightforward. Private market valuations are updated quarterly at best. They rely on appraisals, comparable transactions, and management projections rather than continuous price discovery. When public markets decline, private market portfolios often appear stable—not because their underlying assets have somehow been immunized from economic forces, but because their prices simply have not been marked down yet.

This creates a dangerous illusion. Investors see low reported volatility and conclude they have reduced risk. In reality, they have substituted transparent, real-time risk signals for opaque, delayed ones. The uncertainty has not been eliminated. It has been obscured.

Recent data confirms this pattern is now playing out at scale.

According to McKinsey and Bain & Company research published in early 2025, private asset valuations remain elevated despite deteriorating fundamentals in many sectors. Median purchase multiples for private equity

acquisitions rose to 11.8x EBITDA in 2025, up from 11.3x the prior year. This is not a market correcting excesses. It is a market doubling down on them.

More concerning is the backlog of unrealized investments. Bain's analysis identifies a significant concentration of portfolio companies that have been held for more than four years, raising the specter of "zombie" assets—investments held at potentially inflated values because sponsors cannot exit at prices that justify their original marks.

This is precisely what behavioral finance predicts when information is vague and ambiguous. In the absence of continuous price signals, investors fill the gap with narratives. Growth assumptions extend further into the future. Discount rates compress. Comparables are selected to support existing valuations rather than challenge them.

The h-factor® methodology was built to identify exactly this pattern. It calculates the probability that a company will fail to deliver the revenue growth its stock price implies. When that probability is high, the stock carries uncompensated behavioral risk—risk that investors bear without adequate expected return.

The same logic applies to private markets, but with an additional complication: the opacity of private valuations makes the risk harder to see until it is too late to avoid.

BlackRock's \$150 million wake-up call

No recent event illustrates this dynamic more clearly than BlackRock's reported \$150 million loss on a private credit position in Renovo, a healthcare services company.

According to industry reporting, BlackRock's private credit division experienced a total loss on this investment. The position, which had been carried at full value on the firm's books, was written down to zero. For a firm that has positioned private credit as a cornerstone of its growth strategy—targeting \$400 billion in private market fundraising by 2030—this is not a trivial outcome.

The mechanics of the loss are instructive. Private credit, unlike publicly traded bonds, does not benefit from continuous mark-to-market discipline. Loans are valued based on internal models, third-party appraisals, and comparable transactions. When a borrower's fundamentals deteriorate, the adjustment often comes in a sudden, binary fashion: the position is either performing, or it is not. There is no gradual repricing along the way to signal mounting risk.

This is the behavioral trap we highlighted. **The risk hiding in plain sight isn't financial. It's human. It's the h-factor.**

In public markets, overpricing is revealed continuously. Stock prices adjust daily, sometimes hourly, to new information. Investors who hold overpriced securities experience the consequences in real time. This is painful, but it is also transparent. The feedback loop is immediate.

In private markets, that feedback loop is broken. Investors hold assets at stale prices, confident in their apparent stability, until the underlying reality becomes impossible to ignore. At that point, the adjustment is not gradual. It is catastrophic.

BlackRock's Renovo loss is a single data point, but it is representative of a broader pattern. When capital floods into a sector—as it has into private credit over the past five years—underwriting standards tend to deteriorate. Competitive pressure compels lenders to accept thinner covenants, higher leverage, and more aggressive projections. The same behavioral forces that drive public market concentration, the belief that recent winners will continue winning, drive private market risk-taking.

Blue Owl and the democratization dilemma

If BlackRock's Renovo loss illustrates the risk of private credit at the institutional level, Blue Owl Capital's trajectory reveals the risks of bringing these strategies to a broader investor base.

Blue Owl has been at the forefront of the movement to democratize alternative investments, creating evergreen fund structures that allow wealth management clients and retail investors to access private credit and private equity strategies that were previously reserved for institutions.

The appeal is intuitive. If private markets offer higher returns and lower volatility than public markets, why should those benefits be limited to endowments and pension funds? Why shouldn't individual investors share in the rewards?

The problem is that the premise itself is flawed. **Private markets do not offer lower volatility.** They offer less frequently updated prices. The underlying assets—loans to companies, equity in operating businesses—face the same economic forces that affect their public market counterparts. The smoothness of reported returns reflects reporting conventions, not fundamental risk characteristics.

As Preqin data (now part of BlackRock's research infrastructure) indicates, 2025 has seen a significant shift toward secondaries transactions in private markets.

Secondaries fundraising reached 15% of total private market flows, roughly double the five-year average. This is not a sign of market health. It is a sign that primary investors are seeking liquidity, often at discounted valuations, because they cannot wait for traditional exit timelines.

When institutional investors—sophisticated, well-resourced, advised by armies of consultants—are selling private market positions at discounts to find liquidity, what does that imply for retail investors who entered the same asset classes expecting stability?

Blue Owl's business model depends on sustained inflows from wealth management channels. It depends on investors continuing to believe that alternatives offer diversification benefits that justify their illiquidity and complexity. But as the gap between primary valuations and secondary transaction prices widens, that belief becomes harder to sustain.

The behavioral dynamics at work are familiar. **Behavioral overpricing happens when investors fill information gaps with narratives.** In the case of democratized alternatives, the narrative is that private markets are an untapped source of returns, previously available only to the privileged few, now accessible to all. It is a compelling story. It is also largely disconnected from the underlying economics.

The private equity mindset, misapplied

When we describe our approach at New Age Alpha, we sometimes use the phrase: **"It's the private equity mindset, applied to public markets."**

By this we mean something specific. Private equity firms, at their best, succeed not by identifying winners but by rigorously avoiding losers. They conduct extensive due diligence. They stress-test projections. They assume that management forecasts are optimistic and adjust accordingly. They impose discipline through governance, covenants, and milestone-based capital deployment.

This discipline is the source of whatever legitimate edge private equity possesses. It is not access to asset classes unavailable to others. It is not illiquidity premiums that compensate investors for lock-up periods. It is the willingness to say no to investments that do not meet rigorous standards.

The irony of the current alternatives boom is that this discipline is being diluted precisely as capital floods into the space.

When fundraising targets are aggressive, when deployment timelines are compressed, when competitive pressure intensifies, the rigor that defines the private equity mindset erodes. Firms that once walked away from overpriced opportunities now stretch to deploy capital. Valuation assumptions that once seemed aggressive become baseline expectations.

This is not speculation. It is precisely what the data shows. Purchase multiples are elevated. Hold periods are extending. The backlog of unrealized investments is growing. Distributions to investors—the ultimate measure of private equity success—remain constrained relative to the capital that has been committed.

The behavioral risk we identified in public markets has migrated into alternatives. **Success comes from avoiding the losers—stocks priced for expectations their fundamentals can't support.** The same principle applies to private markets. But when everyone is chasing the same alternatives narrative, discipline becomes the casualty.

What the h-factor® reveals

At New Age Alpha, we apply actuarial science to quantify behavioral risk. The h-factor measures, on a scale of 0 to 100%, the probability that a company will fail to deliver the revenue growth its stock price implies. Companies with high h-factor scores carry uncompensated risk—risk that investors bear without adequate expected return.

In public markets, this methodology allows us to systematically avoid behavioral overpricing. We do not try to predict which stocks will outperform. We identify which stocks carry the highest probability of failing to deliver and we exclude them.

The principle applies equally to alternatives, though the implementation is more challenging. Private market valuations are opaque. Information is limited. The continuous feedback loop that disciplines public market prices does not exist.

But the underlying behavioral dynamics are identical. When investors extrapolate from recent success, when they fill information gaps with optimistic narratives, when they confuse low reported volatility with low actual risk, they create the conditions for overpricing.

The events at BlackRock and Blue Owl are not anomalies. They are predictable consequences of behavioral forces operating in an environment where the checks and balances of public markets do not apply.

The structural impossibility of diversifying away human behavior

The appeal of alternatives has always rested on a seductive premise: that private markets offer something fundamentally different from public markets—lower correlation, reduced volatility, and protection from the behavioral excesses that periodically destabilize equity portfolios. This premise is flawed at its foundation.

The behavioral risks we identified in our original analysis do not disappear when capital moves from public to private markets. They intensify. The same human tendencies that cause overpricing in listed securities—the reliance on vague and ambiguous information, the construction of compelling narratives to fill knowledge gaps, the systematic underweighting of uncertainty—operate with even greater force in markets where transparency is limited and price discovery is infrequent.

BlackRock's experience with Renovo provides a stark illustration. According to Bloomberg, BlackRock suffered a reported \$150 million total loss on a private loan to Renovo, a single position that was marked down to zero. This was not a gradual decline that portfolio managers could observe and address. It was a sudden recognition that the valuation assumptions embedded in that position were fundamentally disconnected from reality.

This is precisely the dynamic we predicted would happen. In private credit markets, where prices are not continuously updated through market transactions, the information gaps are larger, the narratives are more speculative, and the eventual corrections are more severe. The h-factor methodology was developed to identify this pattern—to quantify the probability that a company will fail to deliver the revenue growth its price implies. When that methodology cannot be applied because prices are opaque and infrequently updated, the risk does not disappear. It compounds. BlackRock's experience with Renovo provides a stark illustration. According to Bloomberg, BlackRock suffered a reported \$150 million total loss on a private loan to Renovo, a single position that was marked down to zero. This was not a gradual decline that portfolio managers could observe and address. It was a sudden recognition that the valuation assumptions embedded in that position were fundamentally disconnected from reality.

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The valuation gap that won't close

Industry data confirms what we anticipated: private market valuations remain elevated despite mounting evidence of fundamental stress. According to McKinsey and Bain analysis of the alternatives sector, median purchase multiples rose to 11.8x EBITDA in 2025, up from 11.3x in 2024. This continued expansion occurred even as exit activity remained constrained and the backlog of portfolio companies held for more than four years continued to grow.

The implications are significant. When assets cannot be sold at their marked values, and when new capital continues flowing in at elevated multiples, the system accumulates unrealized losses that will eventually require recognition. This is not a liquidity problem that can be solved through financial engineering. It is a valuation problem rooted in the same behavioral dynamics that create overpricing in public markets.

Bain's research notes that much of the apparent recovery in deal and exit values during 2025 was driven by large, headline megadeals. The broader market—particularly smaller general partners—continues to struggle with what the industry calls the "valuation gap" between buyer and seller expectations. This gap exists because sellers are anchored to prices that reflected optimistic assumptions about growth, while buyers are increasingly skeptical that those assumptions will materialize.

We don't try to predict the next winner. We systematically aim to avoid the losers. The losers in this context are the assets priced for expectations their fundamentals cannot support—and the evidence suggests that private markets are accumulating them at an accelerating pace.

BlackRock's strategic bet and its embedded risks

BlackRock's acquisition of HPS Investment Partners and its aggressive target of \$400 billion in private market fundraising by 2030 represent a strategic commitment to a sector we believe carries substantial uncompensated risk. To be clear: this is not a critique of BlackRock's operational capabilities or its ability to execute transactions. It is an observation about the behavioral dynamics that govern private market valuations regardless of who manages the capital.

The same patterns that concentrate public market returns in a small number of mega-cap companies—patterns driven by narrative momentum and the tendency to extrapolate recent success—are now concentrating private market capital around a small number of dominant strategies and sponsors. The diversification benefits that alternatives were supposed to provide are eroding as capital flows converge.

According to Preqin data (now part of BlackRock's research infrastructure), secondaries fundraising doubled to 15% of total private market flows in 2025, compared to a five-year average of 8%. This surge reflects a fundamental reality: investors need liquidity and are seeking value in discounted assets because primary valuations remain elevated beyond what many buyers are willing to pay. When the secondary market becomes the primary source of liquidity, it signals that the primary market's pricing mechanisms have broken down.

The risk hiding in plain sight isn't financial. It's human. It's the h-factor.

Blue Owl and the institutionalization of illiquidity

Blue Owl's trajectory over the past year provides another instructive case. The firm has positioned itself as a leader in permanent capital vehicles and direct lending strategies—structures designed to match long-duration liabilities with illiquid assets. The theory is sound. The execution has exposed the same behavioral vulnerabilities we identified.

Permanent capital structures reduce the pressure to exit investments at inopportune times. They also reduce the pressure to mark investments accurately. When there is no redemption deadline forcing a price discovery event, valuations can remain detached from fundamentals for extended periods. This is not stability. It is deferred volatility.

Blue Owl's growth has been substantial, and its business model has attracted significant institutional capital. But the assets underlying that capital are subject to the same uncertainty that governs all investments. The difference is that in private markets, that uncertainty is not continuously priced. It accumulates until an event forces recognition—a refinancing, a sale, or, as in BlackRock's Renovo experience, a writedown.

Behavioral overpricing happens when investors fill information gaps with narratives. In private markets, the information gaps are larger by design. The narratives must work harder to justify the valuations. And when those narratives fail, the corrections are correspondingly more severe.

The retirement system implications

Our original analysis focused on the implications for the U.S. retirement system, and the developments of the past year have sharpened those concerns. Policymakers continue to explore expanded access to alternatives within retirement plans. The wealth management industry is developing evergreen fund structures designed to make private assets accessible to individual investors. These initiatives are proceeding despite growing evidence that private market valuations carry embedded risks that most investors cannot evaluate.

The democratization of private markets is being marketed as an expansion of opportunity. In reality, it represents an expansion of exposure to behavioral overpricing risk in asset classes where that risk is hardest to identify and most difficult to avoid.

Most portfolios underperform, not because of the winners they miss, but from holding too many losers—overpriced stocks that fail to deliver. This principle applies with equal force to private market allocations. The losers in a private portfolio are not visible in the same way as public market losers. They do not decline in price daily. They sit on the books at marked values until an event forces a reassessment. When that reassessment comes, the losses are already locked in.

The governance and transparency challenges that accompany the democratization of alternatives are real. But they are symptoms of a deeper problem. The fundamental issue is not disclosure or structure. It is the behavioral dynamics that create overpricing in the first place. Those dynamics cannot be regulated away. They can only be avoided through disciplined, actuarially grounded analysis of what prices actually imply about future performance.

What this means for portfolio construction

The evidence from the past year confirms our core thesis: the risk in alternatives is not different from the risk in public markets. It is the same risk—human behavior—expressed in a context where it is harder to see and harder to avoid.

Success comes from avoiding the losers—stocks priced for expectations their fundamentals can't support. This principle does not require abandoning alternatives entirely. It requires approaching them with the same analytical discipline that the h-factor methodology brings to public markets: a focus on what prices imply, an assessment of whether those implications are realistic, and a willingness to step away from assets where the probability of failure is elevated.

It's the private equity mindset, applied to public markets. Ironically, that same mindset is often absent from private equity itself. The discipline of avoiding losers, of refusing to pay prices that require heroic assumptions about future growth, has been overwhelmed by the pressure to deploy capital and the narrative momentum that surrounds successful strategies.

The developments at BlackRock and the broader patterns in private market valuations do not represent isolated incidents. They represent the predictable consequences of behavioral dynamics. . The question for investors is not whether these dynamics will continue to produce losses, but whether their portfolios are positioned to avoid them.

Conclusion: The discipline required

We wrote our original analysis because we observed a growing disconnect between the confidence with which alternatives were being promoted and the evidence about how behavioral risk operates across all asset classes. The events of the past year have validated that concern.

BlackRock's Renovo loss, the persistent valuation gap documented by Bain and McKinsey, the surge in secondaries activity as investors seek liquidity—these are not anomalies. They are manifestations of the same pattern that creates overpricing in public markets: human beings filling information gaps with optimistic narratives and embedding those narratives in prices.

Not prediction. Probability. The h-factor methodology quantifies the probability that a company will fail to deliver the growth its price implies. That quantification is possible in public markets because prices are transparent and continuously updated. In private markets, the same analytical discipline can be applied conceptually, but the data required for precise measurement is often unavailable. This is not an argument for avoiding alternatives. It is an argument for extreme selectivity and heightened skepticism about valuations that cannot be independently verified.

We don't try to exploit human error. We identify securities with uncompensated risk and avoid them. The uncompensated risk in alternatives today is substantial. The developments of the past year have made it visible in a way that should inform every allocation decision going forward.

The real risk of alternatives remains human. It was human when we wrote our original analysis. It remains human today. And the investors who will navigate the coming years successfully will be those who recognize this reality and build portfolios accordingly.

Sources:

- Bloomberg reporting on BlackRock's Renovo private loan loss
- McKinsey & Company analysis of private market valuations and multiples
- Bain & Company private equity market research, 2025
- Preqin data on secondaries fundraising and private market flows
- VettaFi Webinar materials, January 2026

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