

A satellite night view of Earth, showing city lights and a blue-tinted background. The lights are concentrated in the Americas and Europe, with a dense network of lights in North America and a more sparse network in Europe. The background is a deep blue, with some lighter blue areas suggesting clouds or atmospheric effects.

MILL CREEK

New World Order

Q2 2026 Outlook

Quarterly Review

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Contents

- 3 Outlook: New World Order
- 9 Thematic Opportunities
- 10 Market Review
- 11 Private Credit Spotlight
- 13 Private Credit Interview
- 14 Equities Spotlight
- 16 Disclosures



Key regions highlighted in current Middle East geopolitical landscape.



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New World Order

By Michael Crook, Chief Investment Officer

“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”

– Mark Twain

This quarter, we’re highlighting the dangers of false certainty. Even the quote above has uncertain provenance. Mark Twain gets credit, but there’s no evidence supporting the attribution.

Similarly, financial markets are full of beliefs that investors treat as facts. Some were once true; others were always questionable. But economic regimes change, and when they do, yesterday’s truths often become tomorrow’s mistakes.

These are examples of truths held by many investors that we believe *just ain’t so*:

1. Middle East hydrocarbons are the key geopolitical risk to US growth.
2. The US-China manufacturing dynamic is a binary competition.
3. Interest rates will eventually fall back to pre-COVID levels.
4. Artificial intelligence will replace white-collar work.
5. Bonds hedge equity risk.
6. Private equity structurally outperforms public markets.

Semiconductors, not hydrocarbons, are the 21st-century bottleneck

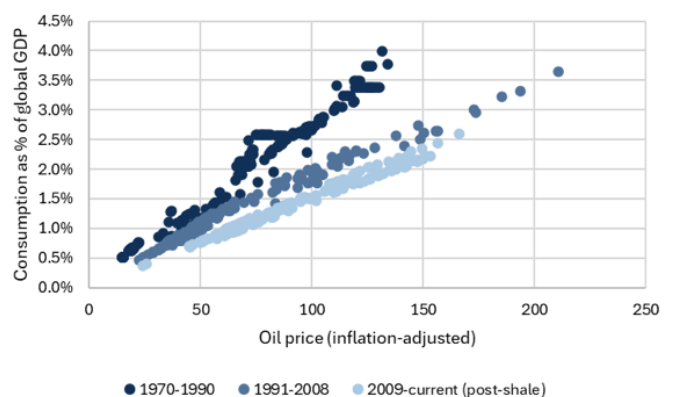
Our first topic relates to the current conflict in the Middle East. We’re overstating this particular “just ain’t so” a bit, as global economic growth continues to be synonymous with cheap and plentiful hydrocarbons. However, the US is now the world’s #1 producer of oil, and economic growth, in the US and globally, is less sensitive to oil price fluctuations than it has been in the past (Fig. 1).

Semiconductors are the bottleneck for the US economy. According to the US Department of Commerce,¹ the US share of semiconductor fabrication dropped to less than 10% in 2024. A large majority of semiconductors are manufactured in Taiwan (more than 60% by value) and China.

It is hard to overstate the importance of semiconductors in the modern US economy. Earnings from the information

¹ <https://www.commerce.gov/news/fact-sheets/2026/01/fact-sheet-restoring-american-semiconductor-manufacturing-leadership>

Fig. 1: Oil price and consumption as a percentage of global GDP



Source: Bloomberg, Mill Creek. As of 3/31/2026.

technology, communications services, consumer discretionary, and industrial sectors of the S&P 500, which we consider a rough approximation of sectors that use semiconductors as a core input or enabler of revenue, are approaching 25%

of US GDP (Fig. 2), and a blockade of Taiwan could quickly put the US economy on its heels and send the stock market into a steep decline.

The United States may be energy independent, but it is far from semiconductor independent. In the modern US economy, chips, not oil, are the critical foreign input. Investors understand the importance of the Strait of Hormuz. They should become equally familiar with the Taiwan Strait.

China has become the world's manufacturer

The erosion of US manufacturing has been an ongoing source of economic and political tension since China joined the World Trade Organization (WTO) in 2001. President Donald Trump brought the issue back to the forefront during his first term in office and many of his Chinese tariff-related policies were continued by the Biden administration. Tariffs have not led to a US manufacturing renaissance. Exports of US goods to the rest of the world are essentially at the same level they were at in 2011 (Fig. 3), despite the global economy growing by 66% over that period.

Since 2020, China has pursued a "manufacturer to the world" economic growth policy driven by state-sponsored manufacturing subsidies and a weak renminbi. This trade policy has eroded goods manufacturing across developed nations, not just the US, and China now has a \$1.2 trillion trade surplus against the rest of the world (Fig.4).

Reiterating a point we made in "[Tariffs, Then Dollars or Investments](#)" (February 2, 2026), China's trade surplus has become a big problem for nearly all major countries. Leaders like French President Emmanuel Macron, European Commission President Ursula von der Leyen, German Finance Minister Lars Klingbeil, and Managing Director of the IMF Kristalina Georgieva have joined President Trump in speaking out about the situation.

We expect firmer pressure on Beijing to allow currency appreciation, like we saw in the early 2000s, and to the extent that electorates demand it, further protectionism from developed nations. Nearly everyone is worse off when we throw proverbial rocks in our harbors to keep the ships out, but countries that are self-sufficient in regard to energy and raw materials will be relatively better off than those that are not.

Fig. 2: Semiconductor-enabled earnings as a % of US GDP



Source: Bloomberg, Mill Creek. As of 3/15/2026.

Fig. 3: United States goods exports (inflation-adjusted, billions)



Source: Bloomberg, Mill Creek. As of 2/28/2026.

Fig. 4: China's trade balance against the rest of the world (billions)



Source: Bloomberg, Mill Creek. As of 2/28/2026.

Higher rates are the new normal

Interest rates have been elevated, relative to 2010–2021, for nearly 5 years. The shift higher has been remarkably stable, and we expect interest rates to remain near their current level, if not higher, for the foreseeable future. Others disagree with our assessment. The Fed, for example, continues to project a 3% long-run fed funds rate,² which is the same forecast they had in September 2018!

Why do we believe higher rates are here to stay?

First, inflation remains elevated above the target of the Federal Open Market Committee (FOMC). Policy rate hikes in 2022 brought inflation back down to about 3%, but not all the way to the Fed's target of 2%. Higher energy prices notwithstanding, we started to see signs that inflation was picking up in late 2025 (Fig. 5). Higher inflation = higher short-term interest rates.

Second, the Fed's own economists³ have recently pointed out that the market participants expect much higher short-term rates than the FOMC is projecting. The current market-implied yield on a 1-year Treasury, purchased 9 years from now, is around 5% (Fig. 6). The Fed attributes higher far-forward rates to (1) a greater risk of supply shocks (e.g., tariff policy, higher energy prices) in today's world, and (2) perceived risks associated with the federal debt, which are concerns we agree with.

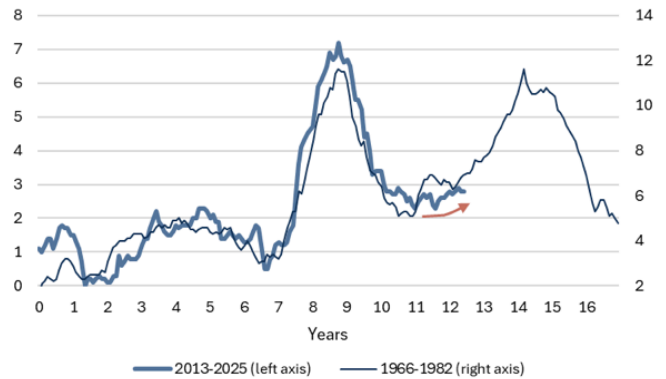
Finally, the *output gap*, which measures the difference between current GDP growth and economists' estimate of potential GDP growth, is one of the better coincident measures of interest rates (Fig. 7). Our current output gap is about 1% (GDP growth is above potential), which implies a fed funds rate and a 10-year Treasury yield of 4% and 4.5%, respectively. Absent a sharp economic slowdown, interest rates are likely to remain structurally higher.

We continue to target an overall bond portfolio that combines high-quality public and private credit, maintains relatively low duration, and doesn't extend into high-yield credit where the compensation is simply not commensurate with the risk. To the extent we have long-duration rate risk in our portfolios, we prefer to combine it with inflation protection, like in infrastructure.

² <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20250319.pdf>

³ <https://www.federalreserve.gov/econres/notes/feds-notes/why-have-far-forward-nominal-treasury-rates-increased-so-much-in-the-past-few-years-20260212.html>

Fig. 5: Inflation remains near 3% (PCE Price Index, % year-over-year change)



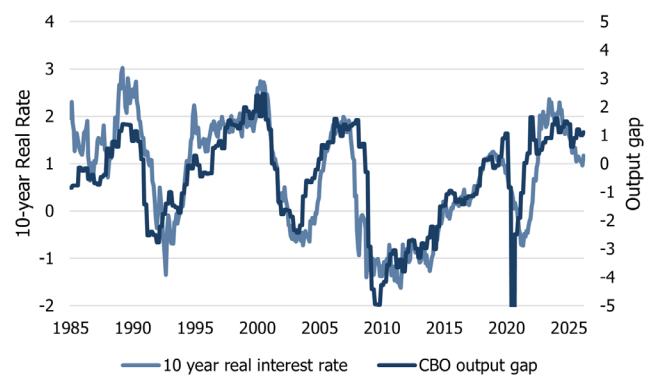
Source: Bloomberg, Mill Creek. As of 2/28/2026.

Fig. 6: Market-implied far-forward rates remain elevated (%)



Source: Bloomberg, Mill Creek. As of 3/15/2026.

Fig. 7: US output gap and real interest rate



Source: Bloomberg, Mill Creek. As of 3/15/2026.

AI isn't replacing workers, but demographics are

The US labor market is undergoing a transformation. The question is why.

After years of post-COVID disruption, the US labor market looks remarkably like the 2015–2019 labor market (Fig. 8). The job vacancy rate is low, but so is unemployment. From the top down it looks like a normal, healthy job market.

Once we open the hood, however, there's a clear transformation occurring. Low birth rates combined with near-zero immigration mean our population is aging quickly and growing slowly. We can see that demographic transformation within the labor market. Nearly 100% of all payroll gains since mid-2023 have occurred in health care and we've lost 435,000 non-health care jobs since March 2024 (Fig. 9). Furthermore, our aging population has increased demand for health care goods and services to the point that health care is the top employer in 38 states, and federal and state spending directly pays for about half of all health care expenditures.

AI, on the other hand, is hard to find in the labor market data (["Firms Are Investing in AI, but the Impact Is Uncertain Thus Far,"](#) January 26, 2026). Sales per employee (an admittedly blunt proxy for worker efficiency) hasn't moved appreciably higher for the S&P 500 since ChatGPT was released, and has actually fallen for the Russell 3000, which includes mid- and small-cap stocks (Fig. 10).

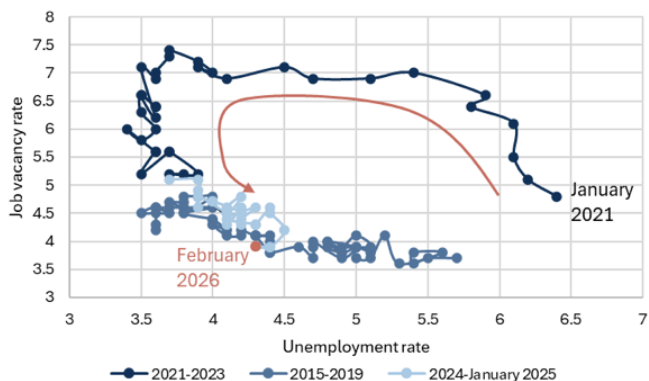
Demographics are destiny. The United States is not replacing white-collar workers with algorithms but is building an economy and labor force centered on an aging population and muted structural demand growth. In our opinion, AI needs to be part of that transition, or we will continue to face worker shortages in certain industries. Firms that can use AI and other automation to efficiently supplement labor will benefit to the detriment of those that cannot.

Diversification matters once again

A simple portfolio of 60% stocks and 40% bonds is designed to balance growth with safety and has generally been successful at that task. For example, the S&P 500 has experienced 18 declines of 10% or more over the last 53 years, and bonds produced positive returns in most of those downturns (Fig. 11, next page).

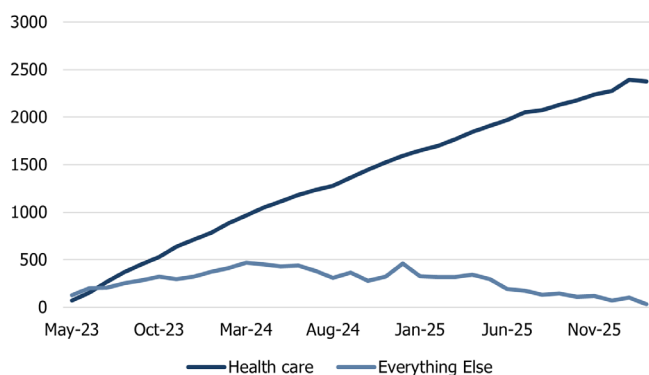
Recent periods of market stress have been less convincing. The S&P declined more than 10% in 2022 and 2025, and bonds had negative performance during both years. The Operation Epic Fury pullback, which has not reached -10% as of this article's publication date, has also occurred simultaneously with negative bond performance. Why? We believe the answer at least partly relates to the Federal Reserve's research about interest rates that we referenced earlier.

Fig. 8: The labor market has normalized back to pre-COVID conditions



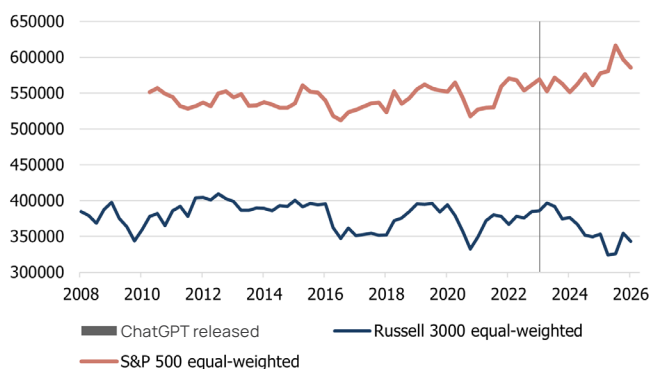
Source: Bloomberg, Mill Creek. As of 3/15/2026.

Fig. 9: Job growth is concentrated in health care (thousands)



Source: Bloomberg, Mill Creek. As of 3/15/2026.

Fig. 10: Inflation-adjusted sales per employee (USD)



Source: Bloomberg, Mill Creek. As of 3/15/2026.

Our economic challenges between the dot-com bust and 2021 were mainly demand-related. When economic demand lags, the Federal Reserve can lower interest rates to stimulate demand, leading to positive bond returns during a down market for stocks. Economic supply shocks (tariffs, higher energy prices, etc.), on the other hand, are negative for stocks and bonds. To the extent that supply shocks are more likely (as the Fed's research suggests), we should expect bonds to be less effective as a diversifier against equity risk.

Stocks and bonds were positively correlated from 1973 to 2000, negatively correlated from 2001 to 2021, and have been positively correlated since (Fig. 12). If supply shocks remain a defining feature of the global economy, stocks and bonds may continue to move together more often than many investors expect.

We also feel obligated to point out that, in our opinion, the likelihood of a simultaneous US dollar and US equity market decline has increased. The US's current account deficit (our reliance on foreign capital to fund domestic consumption and investment) is no longer primarily filled by foreign central banks buying US Treasuries. Over the last 2 years, foreign purchases of US equities have exceeded foreign purchases of US government and corporate bonds (Fig. 13). We don't believe foreign ownership of US equities will be as sticky as foreign sovereign ownership of US bonds during periods of distress, and we could see those assets exit the US, leading to dollar depreciation, at the same time as an equity market decline.

There's no perfect safe asset. Cash can erode purchasing power year-after-year. Bonds lose value when interest rates rise. Gold tends to fall when the US dollar strengthens. Equities can experience sharp declines of 20, 30, or even 40%. To the extent that we're no longer in the 2009-2021 regime, we believe investors need to rediscover real diversification. Stocks, bonds, hedge funds, private equity, private credit, farmland, real estate, and infrastructure. They all have a role to play.

Private equity's golden era has ended

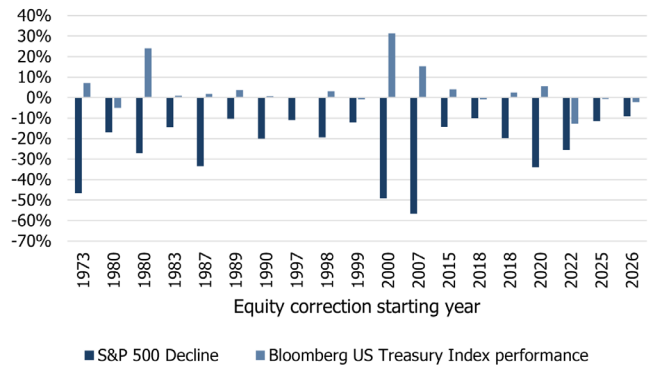
With limited exceptions, private equity outperformed public equity, on average, between 1990 and 2016.⁴ Since 2016, performance has been mixed, with some data providers reporting underperformance against the S&P 500 over the last decade.⁵

We believe there are three primary reasons private equity will continue to struggle:

⁴ <https://faculty.chicagobooth.edu/~media/faculty/steven-kaplan/presentations/kaplan-pe-past-present-future-oct-22.pdf>. Slide 33 (Burgiss data).

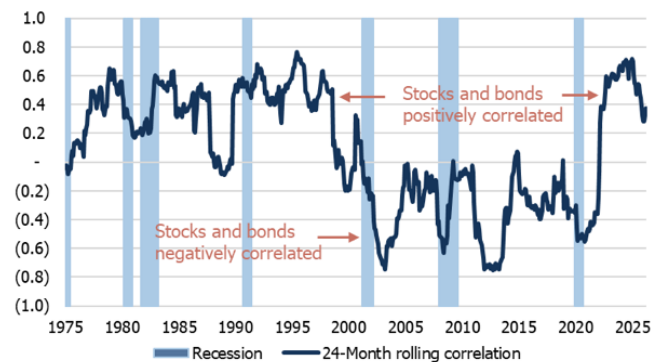
⁵ PitchBook index data and Bain.

Fig. 11: Stock and bond performance during market declines of 10% or more



Source: Bloomberg, Mill Creek. As of 3/15/2026.

Fig. 12: Correlation between US stocks (S&P 500) and US Treasuries



Source: Bloomberg, Mill Creek. As of 3/15/2026.

Fig. 13: Foreign purchases of US securities (rolling 24-month)



Source: Bloomberg, Mill Creek. As of 2/28/2026.

1. Multiple expansion is difficult at current purchase prices (Fig. 14),
2. Cheap, plentiful leverage is no longer available, and
3. Performance persistence between funds has disappeared.

Instead of relying on financial engineering (e.g., add debt, combine similar firms together, and exit at a higher valuation), now general partners must generate actual earnings growth to produce the returns their investors are seeking (“[Private Equity: You Can Fix Everything but the Purchase Price](#),” February 17, 2026). Because of these factors, Bain Capital estimates that the annual EBITDA growth required to generate a 2.5x return over 5 years has jumped from 5% in 2016 to 12% today⁶.

Additionally, limited partners used to be able to rely on performance persistence between funds. The best-performing GPs tended to keep outperforming, which made the manager selection job a bit easier once the top managers had been identified.

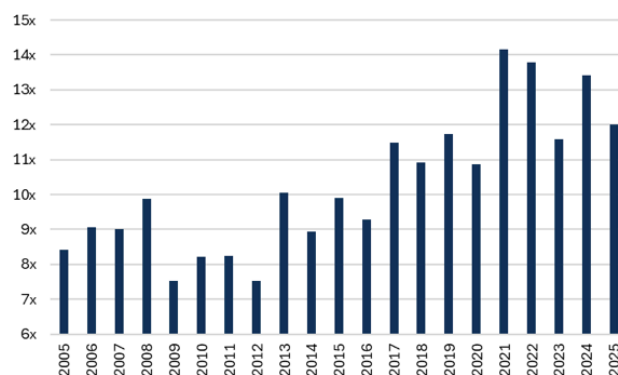
Recent research finds that performance persistence no longer exists in buyouts, meaning that past performance really isn't a good indicator of future returns.⁷ Investors will need to identify, without the help of historical performance, buyout managers that will be able to grow EBITDA through governance and operational changes instead of pushing returns through financial engineering. A challenging task, indeed.

Because of these hurdles, we've focused our efforts on PE commitments with managers that we believe will be successful in focusing on operational improvements rather than financial engineering. We also lowered our target PE allocation at the beginning of the year, and have continued to add other strategies that we believe can offer equity-like returns but don't have the same headwinds as traditional private equity, including value-add real estate, infrastructure, and a hedge fund strategy.

⁶ <https://www.bain.com/globalassets/noindex/2026/bain-report-global-private-equity-report-2026.pdf>. Page 32.

⁷ Harris, Robert S., et al., “Has Persistence Persisted in Private Equity? Evidence from Buyout and Venture Capital Funds” (November 14, 2022). University of Chicago, Becker Friedman Institute for Economics (Working Paper No. 2020-167), Available at SSRN: <https://ssrn.com/abstract=3736098> or <http://dx.doi.org/10.2139/ssrn.3736098>

Fig. 14: Buyout EV/EBITDA purchase price multiples



Source: PitchBook, Mill Creek. As of 3/15/2026.



House View

Economic outlook



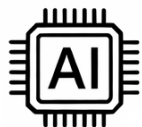
- The global economy entered 2026 on a strong footing. The global economy is less dependent on energy than it has been in the past and we believe economic growth can be resilient to higher energy prices for 3-6 months.
- However, the impact will not be felt evenly. An oil price spike is a negative supply shock. Negative supply shocks raise the price level (inflation) and reduce economic growth. Energy importers face a real risk of stagflation if energy prices remain elevated.
- Energy exporters, like the United States, have an offsetting positive aggregate demand impact due to increased energy revenues from exports.
- However, US inflation was above target prior to the Iran war and will likely remain stubbornly high. Market participants no longer expect the Fed to cut policy rates this year.

Asset allocation outlook



- The Iran war makes the economic and market backdrop less constructive for stocks and bonds.
- Supply shocks can result in stocks and bonds underperforming at the same time. Recent examples include 2022, the tariff turmoil in 2025, and market performance over the last few weeks.
- Diversification remains important, and we continue to see opportunities in asset-based private lending, specialty finance, value-add real estate, hedge funds, and infrastructure.

Equity outlook



- Forward valuations for US equity markets have improved because earnings growth has remained positive while US market returns have flat-lined for six months.
- 12-month forward-earnings growth for the US large-cap growth index is 21.5%.
- However, markets continue to price in assumptions for earnings growth that leave scope for disappointment, particularly in AI-exposed US growth stocks. For example, Concentration risk continues to plague US equities. The five largest companies remain over 25% of the US equity market.
- We continue to recommend diversification away from the Magnificent 7 to US small-cap and international equities.

Fixed income outlook



- Stubborn inflation, above-trend economic growth, and a dovish Fed could lead to upward pressure on long-term interest rates.
- We are underweight fixed income in favor of private credit, specialty finance, and other alternative income strategies.
- Credit spreads in corporate bonds remain near all-time lows.

First Quarter 2026: Market Review

- The first quarter of 2026 was marked by volatility within the capital markets: first, from investor concerns around the potential for AI disruption within industries such as software; then, and more notably, from the US/Israel war with Iran which began at the end of February. In particular, the latter caused oil prices to increase by over +50%, stoking fears of heightened inflation should the conflict have a prolonged impact on energy markets.
- Due to this volatility, global equities finished the quarter in negative territory. Quarter-over-quarter, US markets fared worse than their international counterparts, with the Russell 3000 declining 6.3% vs. the MSCI ACWI ex-USA's return of -0.1%. It is worth noting, however, that international markets bore the brunt of the conflict-driven decline over the last few weeks of the quarter, with non-US equities falling 10.3% in March compared to -7.3% in US equities.
- Fixed income returns were slightly negative during the quarter as interest rates increased. Both investment-grade taxable and tax-exempt bonds declined by less than 1% during the period.
- The Federal Reserve held rates steady during both of its FOMC meetings in Q1, pausing a series of rate cuts that were enacted in the latter half of 2025. Recently, the central bank's attention has shifted away from the labor market and toward inflation (specifically, the potential inflationary impact of the conflict in the Middle East), with markets now predicting the Fed's next move to be a rate hike rather than a rate cut.
- US economic growth is expected to remain healthy during the quarter, with the Federal Reserve estimating Q1 GDP growth of 2%. While the US war with Iran is likely to put downward pressure on economic growth, it is important to note that US growth was on very strong footing entering the year, and that most of the positive impact of last year's One Big Beautiful Bill is expected to materialize in 2026.
- Inflation held steady during the quarter, with both headline and core PCE hovering around 3% year-over-year. Notably, this figure is firmly above the Federal Reserve's long-term target of 2%, and is likely to move higher due to negative impacts from the war with Iran.
- US unemployment also held steady during the quarter, with February's unemployment rate (most recent) reaching 4.4%, identical to that of December 2025.

Index Returns (as of 3/31/2026)	Q1 2026	YTD	2025	2024	2023	2022	1 Year	3 Years	5 Years	10 Years
Global Equities	-3.2%	-3.2%	22.3%	17.5%	22.2%	-18.4%	20.0%	16.6%	9.5%	11.3%
US Equities	-4.0%	-4.0%	17.1%	23.8%	26.0%	-19.2%	18.1%	17.9%	10.9%	13.7%
Large Cap US	-4.2%	-4.2%	17.4%	24.5%	26.5%	-19.1%	17.7%	18.1%	11.3%	14.0%
Mid Cap US	1.3%	1.3%	10.6%	15.3%	17.2%	-17.3%	16.0%	13.3%	7.3%	10.9%
Small Cap US	0.9%	0.9%	12.8%	11.5%	16.9%	-20.4%	25.7%	13.0%	3.8%	9.9%
US Growth	-9.5%	-9.5%	18.2%	32.5%	41.2%	-29.0%	18.7%	20.6%	12.0%	16.4%
US Value	2.2%	2.2%	15.7%	14.0%	11.7%	-8.0%	16.4%	14.3%	9.2%	10.5%
International Developed Equities	-1.2%	-1.2%	31.2%	3.8%	18.2%	-14.5%	21.3%	13.6%	7.9%	8.4%
Emerging Market Equities	-0.2%	-0.2%	33.6%	7.5%	9.8%	-20.1%	29.6%	14.8%	3.7%	7.8%
US Taxable Bond Market	0.0%	0.0%	7.3%	1.3%	5.5%	-13.0%	4.3%	3.6%	0.3%	1.7%
US Municipal Bond Market	-0.2%	-0.2%	5.1%	0.9%	4.6%	-4.8%	4.2%	2.8%	1.2%	1.9%
Diversified Commodities	24.4%	24.4%	15.8%	5.4%	-7.9%	16.1%	32.3%	13.9%	14.0%	8.0%
Hedge Funds	3.6%	3.6%	12.3%	11.1%	7.8%	-6.9%	17.1%	11.0%	6.4%	6.2%

Private Asset Index Returns (as of 9/30/2025)	2025 YTD	2024	2023	2022	2021	1 Year	3 Years	5 Years	10 Years
Global Equities	18.4%	17.5%	22.2%	-18.4%	18.5%	17.3%	23.1%	13.5%	11.9%
Private Equity	6.8%	7.3%	8.2%	-0.3%	36.1%	7.0%	8.5%	13.6%	13.7%
US Taxable Bond Market	6.1%	1.3%	5.5%	-13.0%	-1.5%	2.9%	4.9%	-0.4%	1.8%
Private Credit	5.8%	10.9%	8.6%	1.4%	18.2%	7.7%	9.4%	9.9%	7.8%

Key Rates (as of stated date)	Mar-2026	Dec-2025	Dec-2024	Dec-2023	Dec-2022	Dec-2021	Mar-2025	Mar-2023	Mar-2021	Mar-2016
US 10-Year Treasury	4.3%	4.2%	4.6%	3.9%	3.9%	1.5%	4.2%	3.5%	1.7%	1.8%
Barclays Aggregate Bond Index	4.6%	4.3%	4.9%	4.5%	4.7%	1.8%	4.6%	4.4%	1.6%	2.2%
BBarc Muni 1-10 Yr Blend (1-12) Index	3.2%	3.0%	3.4%	2.8%	3.0%	0.7%	3.3%	2.7%	0.7%	1.4%

Source: Bloomberg, Mill Creek. Returns for periods greater than one year are annualized. Index rates are yield to worst. As of 3/31/2026 unless otherwise stated.

Indices used to represent periodic capital markets returns include: MSCI ACWI (Global equities), Russell 3000 (US equities), Russell 1000 (Large Cap US), Russell Mid Cap US (Mid Cap US), Russell 2000 (Small Cap US), Russell 3000 Growth (US Growth), Russell 3000 Value (US Value), MSCI EAFE (International Developed), MSCI Emerging Markets Index (Emerging Markets Equities), Bloomberg Aggregate Bond Index (US Taxable Bonds), Bloomberg 1-10 Year Municipal Bond Index (US Municipal Bonds), HFRX Global Hedge Fund Index (Hedge Funds), Bloomberg Commodity Index TR (Diversified Commodities), Bloomberg Buyout PE Index (Private Equity), and Bloomberg Private Debt Index (Private Credit).

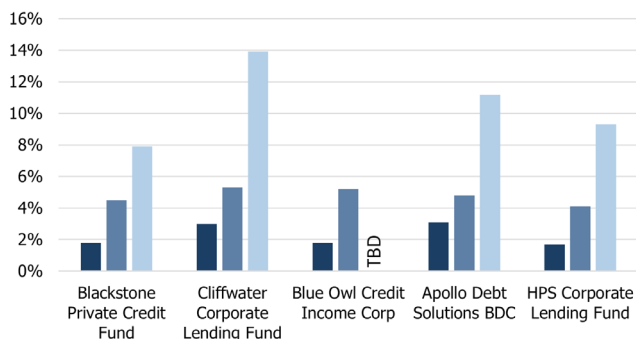
The historical index performance results are provided exclusively for comparison purposes over various time periods only. It is not possible to invest directly in an index. Index performance does not reflect any management fees, transaction costs, or other expenses that would be incurred by a portfolio or fund, or transactions in fund shares. Such fees, expenses, and commissions would reduce returns. It should not be assumed that any account holdings will correspond directly to any comparative index reflected herein. Data as of March 31, 2026.

What the Heck Is Happening in Private Credit (Part 2)?

By **Nora Pickens**, Partner, Investment Strategy

A lot has changed since our last quarterly update on private credit. Most notably, there has been a pickup in redemption requests across several retail-oriented, semi-liquid private credit vehicles (Fig. 1).

Fig. 1: Quarterly redemptions % of outstanding shares, 5 largest semi-liquid funds



Source: Fitch, SEC, Mill Creek. As of 3/30/2026.

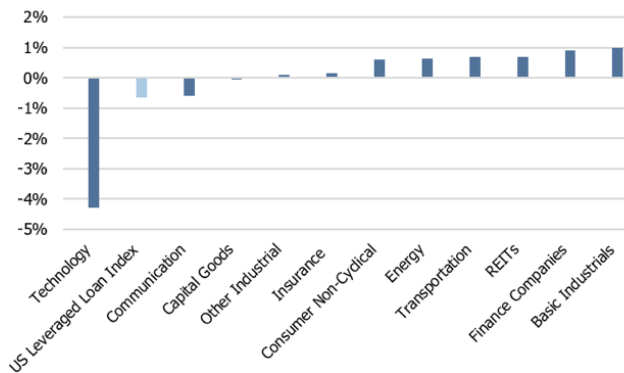
What began as investor concern around falling interest rates and questions surrounding the outlook for software companies has quickly spiraled into a negative feedback loop creating what we view as an interesting “sentiment trade”: opportunities to acquire performing assets in the secondary market at discounts driven by liquidity needs rather than credit deterioration.

We are actively tapping our network to identify these trades and plan to put fresh capital to work over the coming quarters. As a reminder, our private income platform has no exposure to interval funds, software, or traditional large-cap direct lending strategies. This allows us to approach the current dislocation with patience and potentially provide liquidity at compelling terms and yields. That said, many investors understandably have questions about the current dynamic, which we attempt to address as follows:

Some market participants are forecasting 15% defaults. What happens in this scenario?

Credit markets periodically experience sector-driven draw-downs as investor sentiment shifts. In 2014 it was energy, driven by the rapid expansion of US shale production and a crash in oil prices. Today the focus is software, with artificial intelligence adding a new layer of uncertainty around long-term valuations in the sector. Public markets often provide a useful real-time barometer of investor sentiment. Year-to-date, the technology sector is down roughly 4.3%, compared to a decline of approximately 0.7% in the broader leveraged loan index (Fig. 2).

Fig. 2: YTD returns: Leveraged loan index by sector



Source: Fitch, SEC, Mill Creek. As of 3/16/26.

Within private credit, technology/software companies represent roughly 20–30% of portfolios. This concentration is one reason some investors believe defaults could rise meaningfully. But it is important to translate those assumptions into actual return outcomes. If we assume that 15% of private credit loans default and those loans receive a 56% recovery (the current implied recovery rate for technology in the Cliffwater Direct Lending Index), then we can expect a couple years of mid-single-digit returns, depending on the pace and duration of the default cycle. Even if recovery rates fall to the mid-30% range, performance likely drops to the low-single digits. In other words, even under a relatively pessimistic scenario, the outcome would likely be comparable to where liquid, taxable fixed income yields are today.

Periods of volatility in credit markets are rarely comfortable in real time, but they often (1) create some of the most attractive entry points for patient capital, and (2) help differentiate between good and great asset managers.

Should I just buy public BDCs instead?

Public Business Development Companies (PBDCs) provide a liquid proxy to the private credit market. They trade on public exchanges and generate income primarily from interest earned on private loans to middle-market companies.

PBDCs are structured as closed-end vehicles, meaning they have both a publicly traded share price and a reported net asset value (NAV), typically updated quarterly. Today, the Cliffwater BDC Index shows BDCs trading at roughly a 23% discount to their reported NAV.

Fig. 3: Cliffwater BDC Index NAV vs. price comparison



Source: Cliffwater, Mill Creek. As of 3/16/2026.

At face value, this creates a compelling narrative: sell private funds at par and redeploy capital into publicly traded vehicles at a discount. However, the comparison is not entirely apples to apples. There are several differences worth considering:

Fee Structure: PBDCs generally charge management fees on gross assets, while most semi-liquid private credit funds charge fees on net assets. For example, a BDC with \$2 billion

of assets and \$1 billion of debt would generate \$25 million of management fees at a 1.25% fee rate. If the fee were charged only on net assets (\$1 billion), the manager would earn \$12.5 million. When leverage is 1:1, charging on gross assets effectively doubles the fee base. Investors view the fee stream of PBDCs as a permanent drag on the assets, which reduces what the portfolio is worth to shareholders.

Leverage: Interval funds typically operate with lower leverage due to asset coverage requirements. They are required to maintain a 3:1 asset-to-debt ratio (33% leverage). BDCs, by contrast, can operate up to a 2:1 ratio or 50% leverage. This inherently enhances returns during strong markets but also magnifies downside risk during periods of stress.

Investment mandate: BDCs are required to invest at least 70% of their assets in US companies with market values below \$250 million. Interval funds typically have more flexibility across borrower size, industry exposure, and strategy. As a result, portfolio construction and diversification profiles can differ meaningfully.

Public BDCs may represent an attractive opportunity at current discounts, but investors should be careful not to assume they provide a direct substitute for private credit funds.

Why are the interval/tender offer/non-traded BDC fund structures challenging during an outflow cycle?

Semi-liquid funds (interval, tender offer, and non-traded BDCs) have several advantages. They offer daily purchase liquidity, simplified access to private markets, and fully constructed portfolios that avoid the blind pool risk often associated with drawdown vehicles. However, the structure can become strained when investor sentiment shifts quickly. Most semi-liquid funds allow redemptions of approximately 5% of fund assets per quarter. For example, a \$1 billion fund may permit up to \$50 million of redemptions each quarter or \$200 million

per year. Redemption requests above that threshold are typically prorated among investors. When redemptions accelerate, even investors who remain comfortable with the underlying portfolio may look to submit withdrawal requests simply to avoid being locked in during future periods. This creates a classic game-theory dynamic where investors attempt to move first rather than risk being left holding the bag.

A similar pattern occurred during the global financial crisis when many hedge funds faced redemption pressure under similar liquidity terms. One common solution implemented after the fact was the addition of investor-level gates, which cap the amount any single investor can withdraw during a given period. This structure does not eliminate redemption risk but helps ameliorate the “run for the exit” dynamic that can occur when liquidity is limited at the fund level.

Periods of volatility in credit markets are rarely comfortable in real time, but they often (1) create some of the most attractive entry points for patient capital, and (2) help differentiate between good and great asset managers. While defaults may rise from historically low levels, the math of senior secured lending and recovery values suggest that even stressed scenarios are unlikely to produce catastrophic outcomes for the asset class.

DISCUSSION

Current Dynamics in Private Credit



Dimitri Cohen

Nora Pickens

Nora recently moderated a discussion with **Dimitri Cohen, Chief Investment Officer of Credit** at Raven, an asset-backed alternative investment manager, regarding current dynamics in private credit, including market structure, liquidity considerations, and areas of potential opportunity. Here were the key takaways:

1. **Private credit is not a uniform asset class:** Strategies vary widely in structure, borrower type, and risk profile, and outcomes may differ meaningfully across segments.

2. **Recent market pressures appear uneven:** Volatility has been influenced by factors such as interest rate expectations, sector-specific concerns, and investor sentiment, with impacts varying across portfolios and strategies.
3. **Fund structure and liquidity terms are key considerations:** Investment vehicles offering periodic liquidity may face constraints during periods of elevated redemption activity, particularly where underlying assets are less liquid.
4. **Credit selection and structuring may influence outcomes:** Approaches that emphasize collateral, covenant protections, and underwriting discipline may be better positioned to navigate periods of market stress, though outcomes are uncertain.
5. **Market conditions may affect opportunity sets:** Changes in capital flows and investor behavior can influence pricing and availability of transactions, which may create or reduce opportunities depending on market conditions.

▶ [Watch the replay here.](#)

Are US Equities in a Bubble?

By Michael LoCasale

Director, Investment Strategy

Equity markets generated their third consecutive year of double-digit gains in 2025. In particular, US equities have experienced significantly positive performance over the past few years, in no small part due to excitement around artificial intelligence as well as outsized returns from the domestic equity market's largest constituents. Given this strong performance (the S&P 500 has nearly doubled since the lows of late 2022), some investors have begun to voice concerns around a potential market "bubble."

Before we get to those concerns, we believe it is important to put recent US equity returns into context.

The S&P 500 has returned an annualized 14.2% over the past 5 years, significantly higher than the 8.9% annualized return experienced during the prior three decades. However, once inflation is taken into account, recent returns have been less extreme than they appear at first glance.

Over the past century, the average 5-year inflation-adjusted ("real") return for the S&P 500 during a bull market has been 9.7% per year. During the past 5 years, the real return of the S&P 500 has been almost identical at 9.9%. Nominal returns have been impressively high, but that's mainly due to inflation averaging over 4% per year during that period. In other words, recent inflation-adjusted returns have been completely normal for a bull market and well below the 20% real returns we saw during the peak of the dot-com bubble.

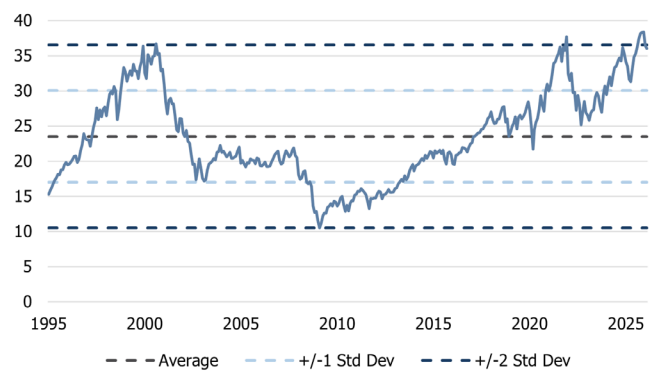
Even so, it is possible that US stocks are in a bubble simply because corporate earnings have not justified recent returns. The remainder of this article takes a look at a few popular methods aimed at defining a stock market bubble and what they say about today's market environment, in addition to providing some context to interpret these methods relative to history.

Valuations

Perhaps the most straightforward method to determine the frothiness of a market is to compare the price of the market to its aggregate earnings, otherwise known as the price-to-earnings (P/E) ratio. One of the more commonly used variants of P/E – the cyclically adjusted price-to-earnings (CAPE) ratio – views market price relative to the average inflation-adjusted earnings of its constituents over the trailing 10-year period, aiming to normalize the impact of business cycles to provide a more consistent view on valuations.

Under this framework, the US equity market appears significantly overvalued (Fig. 1). The S&P 500's current CAPE ratio of 36 sits roughly two standard deviations above its 30-year average of 23. Notably, this reading is about the same as the peak of the dot-com bubble in 1999, when the index had a CAPE ratio of 37.

Fig. 1: S&P 500 CAPE ratio



Source: Bloomberg, Mill Creek. As of 2/28/2026.

With that said, these figures should be taken with a grain of salt. For one, CAPE ratio's reliance on long-term (10-year) trailing earnings discounts the impact of significant changes to market dynamics over that time span. Said another way, are the S&P 500's earnings in 2015 really that important when valuing today's market? Probably not.

Further, we would note that corporations have much healthier balance sheets today than they did during the dot-com bubble. In addition to funding investment in artificial intelligence largely with existing cash (as opposed to issuing debt to do so), net profit margins for the S&P 500 reached their highest level on record in Q4 2025 (most recent) at over 13%. All else equal, investors should be willing to pay a higher multiple for companies with higher margins as this signals balance sheet strength and supports future growth. So, in this context the S&P 500's CAPE ratio today is notably different from the late 1990s.

At the same time, valuations more broadly have historically been a successful indicator of future long-term returns – the high valuations of the dot-com bubble gave way to the "lost decade" of the aughts, while low valuations post-GFC paved the way for the substantial market returns experienced since. Therefore, while the S&P 500's CAPE ratio may not truly be the screaming warning sign that it appears at first glance, investors should take note of expensive valuations and temper expectations for forward returns accordingly.

Concentration

Market concentration is another popular measure used to assess the risk of a potential bubble, especially within the context of an expensive market. Intuitively, an environment of narrow market leadership increases risk – if a handful of companies can have an outsized impact on market returns in periods of positive performance, they can also drag down overall market returns should they experience negative performance.

Given the prominence of the Magnificent 7 over recent years, it should come as no surprise that concentration within US markets is near all-time highs (Fig. 2) – currently, the top 10 companies within the S&P 500 make up almost 40% of the index on a market-cap-weighted basis.

Fig. 2: Top 10 constituents as % of S&P 500



Source: Morningstar Direct, Mill Creek. As of 2/28/2026.

Over the past few decades, the predictive power of market concentration on future returns has been mixed. On the one hand, record concentration (at the time) in the late 1990s portended poorly for market returns in the following years. On the other hand, that figure was easily eclipsed post-COVID and the markets have experienced a very strong 5-year period since.

Market Cap-to-GDP (Buffett Indicator)

Named after the Oracle of Omaha, who popularized the measure, market capitalization-to-GDP aims to assess the value of the stock market relative to economic production. The rationale behind the metric is that corporations ultimately derive their profits from economic activity, and accordingly, stock market appreciation that is significantly in excess of economic growth is likely unsustainable over the long term.

From this perspective, the US stock market also appears quite expensive. Currently, the aggregate market capitalization of the Russell 3000 Index (which includes large-, mid-, and small-cap stocks) is 225% of US GDP, well above the metric's 25-year average of 130% (Fig. 3).

When looking under the hood, the increase in market cap-to-GDP over the past decade has been driven by both multiple expansion (covered in “Valuations”) as well as an increase in earnings per share (EPS). Since 2015, the S&P 500 has experienced cumulative EPS growth of roughly 125% (using FactSet estimates of calendar year 2025), roughly twice the increase in US GDP. For how long this growth differential is sustainable remains to be seen, but it certainly frames this measure in a more encouraging light than if due to price increase alone.

Investor Implications

While the above metrics may not be as dire as they appear on the surface, the domestic stock market undoubtedly contains greater valuation and concentration risk than it did even just a few years ago. As such, we would encourage investors to review their portfolios and ensure their overall asset allocation is in line with their ability and willingness to take risk. Many portfolios may be overweight equities following the significantly positive market performance of the past 10+ years, and it is likely prudent to take some of those gains off the table.

Further, and as previously mentioned, heightened valuations within the equity markets may bode poorly for future long-term returns. With this in mind, alternative sources of return are likely to have an increasingly important role within portfolios moving forward. To this end, we have introduced two private real asset strategies over the past 12 months: one focused on private real estate, and another on private infrastructure. While both have their own unique characteristics, we expect each to produce equity-like returns over their respective life cycles. At the same time, these investments provide exposure to areas of the economy not easily accessed via public markets, thereby avoiding many of the concerns described above.

Fig. 3: US stock market capitalization vs. US GDP



Source: Bloomberg, IMF, Mill Creek. As of 12/31/2025. Depicts market capitalization of Russell 3000 Index relative to US GDP.

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