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Private Markets
Research

Research Note: Private equity's narrowing premium

Recent performance data raises the question of whether private equity is still delivering sufficient compensation for illiquidity

- Private equity's long-run outperformance over public markets has come under pressure as financial conditions have tightened
- Our analysis shows that excess returns have compressed, falling to around 3% over comparable small and mid-cap public equities
- Recent higher dispersion within the asset class means private equity's investment case may now rest more on manager and strategy selection

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RESEARCH NOTE PE

Historically, private markets have outperformed public markets, supported by illiquidity premia, operational value creation, and lower mark-to-market volatility. Recent years, however, represent a clear inflection point. Private equity's long-run outperformance has moderated since 2021, and the asset class has struggled to keep pace with leading public market indices such as the S&P 500 and MSCI ACWI during a period of rapid tightening in financial conditions, higher discount rates, and broad repricing across asset classes.[1] Private equity is disproportionately affected by tighter financial conditions because its higher leverage amplifies valuation changes, while its (typically) shorter-duration debt relative to public companies accelerates the transmission of higher rates into cash flows and returns.

The shift away from private market outperformance has raised important questions for investors: are private markets still delivering sufficient compensation for illiquidity, and is the historical outperformance likely to re-emerge?

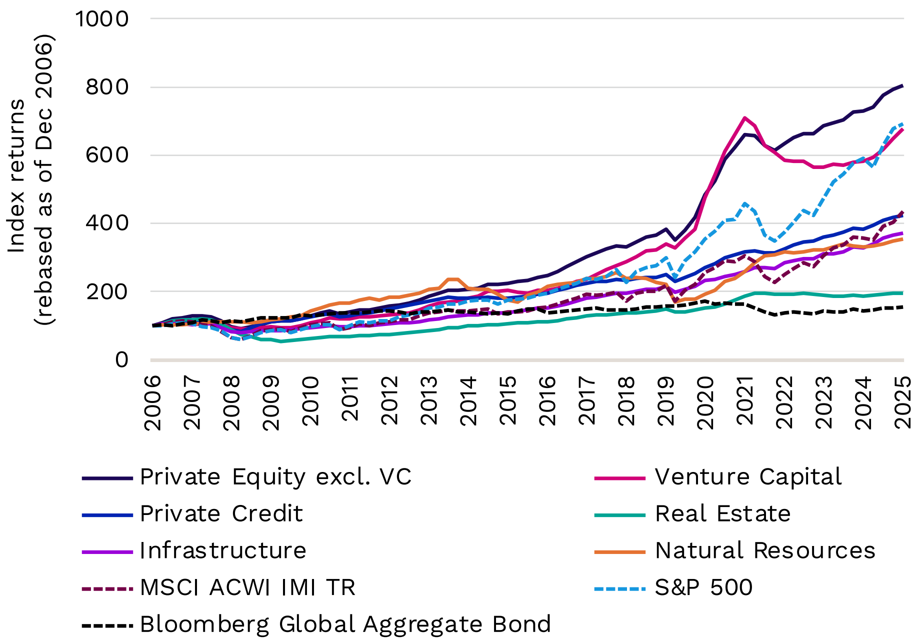
Long-term outperformance, recent divergence

Over longer periods, private markets – particularly private equity funds – have generated compounded returns meaningfully ahead of public benchmarks (Fig. 1). The macroeconomic backdrop of the 2010s provided highly supportive conditions, with low interest rates, abundant leverage, and sustained multiple expansion underpinning strong performance.[2]

Fig. 1: Private equity has outperformed public markets over the longer term

Public and private* markets index returns

View latest chart data on Preqin Pro



*Private market indices are global and capture closed-end funds only

Source: Preqin, S&P CapIQ, MSCI, Bloomberg. Data as of June 2026

1 See, for example, the Preqin 2024 Global Report: Private Equity

2 Private Equity: Still Booming, but Is the Cycle Near Its End? | Bain & Company; accessed July 3, 2026

Private equity fund performance is heavily influenced by historical entry conditions, pricing, leverage, and underwriting, with limited scope for reset, although managers retain some opportunities for additional value creation with revenue exposure and exit timing. Meanwhile, newer vintages deploy capital at prevailing terms, which can create a disparity between forward-looking returns for new funds and the expected outcomes of the existing stock. Private markets also retain an inherent illiquidity premium, an additional factor for investors to consider when deciding whether they are being adequately compensated for accepting reduced liquidity. Typically, this is assessed as the excess return of the illiquid asset over comparable liquid investments, and the expected excess for private equity over public markets has historically ranged between 2% and 4%.[3]

A divergence in public and private market returns emerged in 2022. While both public and private equities experienced drawdowns, their recovery paths were different. Public equities, particularly large-cap indices such as the S&P 500, rebounded strongly in 2023 and 2024, outpacing private market strategies (Fig. 2). Private equity and VC returns remained more muted, reflecting lagged valuation adjustments and weaker exit environments.

Fig. 2: Private market performance has lagged public markets in recent years

Annualized performance of public and private market indices

2021	2022	2023	2024	2025
49.1% Venture capital	22.7% Natural resources	26.3% S&P 500	25.0% S&P 500	36.3% MSCI Europe Standard TR
36.9% Private equity	9.1% Infrastructure	22.2% MSCI ACWI IMI TR	16.9% MSCI ACWI IMI TR	34.4% MSCI Emerging Markets TR
33.6% Natural resources	3.6% Real estate	20.7% MSCI Europe Standard TR	10.5% S&P Global Infrastructure	21.7% MSCI ACWI IMI TR
28.7% S&P 500	3.2% Private credit	15.1% Russell 2000 TR	10.0% Russell 2000 TR	17.7% S&P Global Infrastructure
28.2% S&P Global REIT	-3.7% S&P Global Infrastructure	10.7% Private credit	8.1% MSCI Emerging Markets TR	17.2% S&P 500
22.4% Real estate	-4.1% Private equity	10.3% MSCI Emerging Markets TR	6.1% Private credit	16.0% Venture capital
18.7% MSCI ACWI IMI TR	-14.5% MSCI Europe Standard TR	9.3% Infrastructure	6.0% Private equity	13.4% Infrastructure
17.0% MSCI Europe Standard TR	-16.2% Bloomberg Global Aggregate Bond	8.5% Private equity	5.8% Infrastructure	11.3% Russell 2000 TR
16.6% Private credit	-17.8% Venture capital	6.6% S&P Global REIT	3.3% Natural resources	10.5% Private equity
13.7% Russell 2000 TR	-18.0% MSCI ACWI IMI TR	5.7% Bloomberg Global Aggregate Bond	3.0% Venture capital	10.5% Private credit
12.4% Infrastructure	-18.1% S&P 500	2.5% S&P Global Infrastructure	2.4% MSCI Europe Standard TR	8.2% Bloomberg Global Aggregate Bond
8.4% S&P Global Infrastructure	-19.7% MSCI Emerging Markets TR	1.9% Natural resources	-0.4% S&P Global REIT	6.8% Natural resources
-2.2% MSCI Emerging Markets TR	-21.6% Russell 2000 TR	-2.4% Real estate	-1.2% Real estate	4.6% Real estate
-4.7% Bloomberg Global Aggregate Bond	-26.5% S&P Global REIT	-3.0% Venture capital	-1.7% Bloomberg Global Aggregate Bond	4.3% S&P Global REIT

Source: Preqin, S&P CapIQ, MSCI, LSEG, Bloomberg. Data as of June 2026

3 See, for example, Three Models of the Liquidity Premium | Baz, Han, and Loo; accessed July 9, 2026

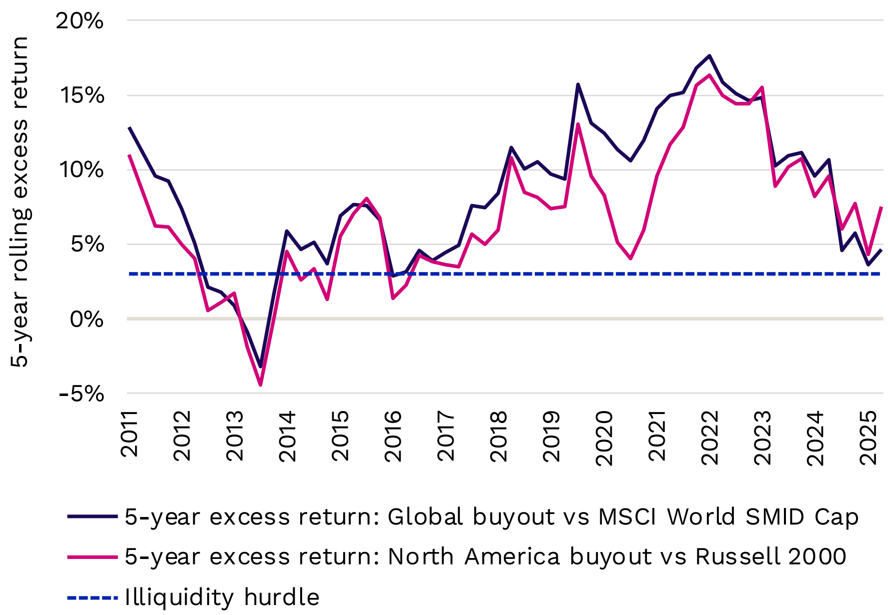
This divergence largely reflects structural differences in valuations and market sensitivity. Public markets reprice rapidly in response to macroeconomic shocks, while private asset valuations adjust more gradually. As a result, public market recoveries typically emerge sooner. However, valuation lags are unlikely to explain the divergence entirely. Higher financing costs, elevated acquisition multiples, and increased competition for assets may also imply that future private market returns will be lower than those achieved during the prolonged low-interest-rate environment following the Global Financial Crisis (GFC). The changing dynamics of the private market premium discussed here are consistent with Aladdin's latest private equity risk framework, which treats private excess as a distinct systematic driver of private equity returns beyond public market exposure.[4]

Compression of excess returns in private equity

Within private equity, we can see evidence of this shift in the compression of excess returns. Historically, buyout strategies have quite consistently delivered a premium over public small- and mid-cap equities, compensating investors for capital lock-up and reduced liquidity (Fig. 3). Five-year rolling excess returns for select Preqin private equity indices peaked in 2022. In more recent years, however, this premium has narrowed materially, with excess returns only modestly exceeding the implied illiquidity hurdle.[5] The illiquidity hurdle associated with private markets is the additional return investors typically expect over comparable public market investments to compensate for committing to reduced-liquidity assets.

Fig. 3: Buyout's return premium over public small/mid-cap equities has narrowed

5-year rolling excess return of buyout funds vs public market indices



Source: Preqin, S&P CapIQ, MSCI, LSEG. Data as of June 2026

4 Aladdin clients can see further documentation and explore assumptions and limitations in the Private Equity 2.5 risk model. See also the private equity instalment of our Strategic Asset Allocation report series

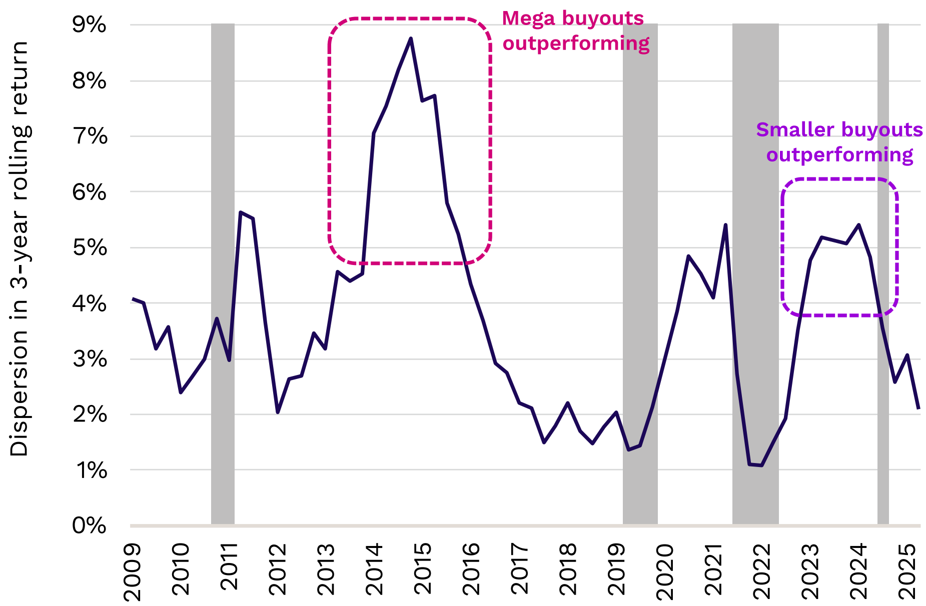
5 In this analysis, we assume a fixed illiquidity premium of 3%, which is broadly consistent with long-run institutional expectations

With excess returns now closer to this 3% hurdle, the compensation for illiquidity appears less robust. This has important implications for long-term investors. The case for private equity has historically rested not only on absolute returns but on a persistent premium over more liquid markets. As this premium compresses, the opportunity cost of allocating to illiquid strategies becomes more apparent, particularly in an environment where public markets are delivering strong returns.

As a result, manager selection, vintage year diversification, and strategy positioning within private equity have become increasingly important. As broad-based excess returns become harder to achieve, the ability to generate manager-specific alpha becomes key. We saw a rise in return dispersion between Preqin buyout indices in the three years to 2023 and 2024, together with a switch in the size of funds enjoying outperformance: amid tighter financing conditions in the post-COVID-19 period, smaller buyout funds outperformed larger peers, reversing prior trends and highlighting the importance of selectivity.

Fig. 4: Dispersion in buyout historically rises after volatility spikes

Three-year rolling dispersion in performance between buyout fund sizes



Note: Shaded areas indicate periods of spiking equity market volatility

Source: Preqin, S&P CapIQ. Data as of June 2026

We may view post-2022 private equity performance not as a weakening of the structural case for investment but as a reset in forward return expectations. While long-term performance continues to support the existence of a private market premium, more recent data shows that the magnitude of this premium has compressed. As excess returns narrow, private markets can no longer be evaluated purely on a top-down basis. Instead, the investment case increasingly depends on whether investors are being adequately compensated for illiquidity, with manager selection, strategy choice, and entry valuations becoming more important determinants of future outcomes.

Smoother return profiles, access to differentiated opportunities, and the potential for operational value creation remain distinct features of private market investing. Moreover, the lagged nature of private market valuations suggests that some of the recent underperformance may reverse as exit activity normalizes and valuations adjust. Nevertheless, the exceptionally supportive conditions that underpinned returns during the prolonged low-interest-rate environment following the GFC are unlikely to be replicated soon, suggesting future private equity outperformance may be more dependent on investor selectivity than broad exposure to the asset class.

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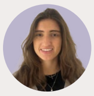

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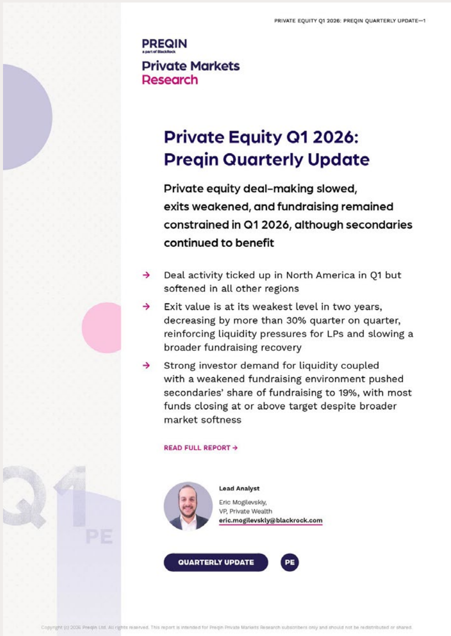

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