The Price of Illiquidity

What Happens When the World Moves Faster Than Your Portfolio

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Last Tuesday, I had dinner in London with the patriarch of a German industrial family. His family office manages roughly $1.5 billion. The portfolio is textbook sophisticated: private equity co-investments, a substantial allocation to private credit, infrastructure in Northern Europe, and a concentrated position in the family's own manufacturing business, which exports precision components to automotive and aerospace customers across Europe, the Middle East, and Asia.

When the Iran conflict erupted in late February, he was watchful but calm. The family had no direct Gulf exposure. "This is not our crisis," he told me at the time.

Five weeks later, it is very much his crisis. The Strait of Hormuz was formally declared closed by the IRGC on 27 March. European natural gas prices have surged since the war began, with the TTF benchmark peaking above EUR 70 per megawatt-hour in March, more than double pre-war levels. His factory's energy costs have risen sharply in five weeks. Three of his largest Middle Eastern customers have invoked force majeure and suspended orders because their own operations are disrupted. Freight rates on the few vessels still willing to transit alternative routes around the Cape have tripled, and delivery times have extended by three to four weeks, which is straining his just-in-time supply commitments with two German OEMs. His CFO told him last week that the business will need a cash injection of EUR 15 million by June to cover the working capital gap left by stalled receivables and surging input costs.

Here is where it gets painful. He turned to the private portfolio of his Family Office. The private equity programme has not distributed meaningful cash in over two years. The private credit allocation is in a closed-end fund with no liquidity until 2028. The infrastructure holdings are performing well on paper but cannot be sold in weeks. His concentrated public equity position, European industrials, has fallen sharply since the war began. The Stoxx 600 lost 8% in March alone, its worst month since 2022, and the sectors most exposed to energy costs and Middle Eastern revenue have fared considerably worse.[2] Selling now would crystallise a loss he does not want to take. And the one semi-liquid credit vehicle he held has just gated redemptions, returning 45 cents on the dollar of what he requested.

"Ralph," he said, "I built this portfolio to be resilient. Every asset was chosen carefully. But I cannot turn any of it into cash when I actually need it. The war is not on my doorstep, but it is in my factory, in my order book, in my energy bill, and in my supply chain. And my portfolio, which is supposed to be the backstop, cannot help me."

What struck me was not the specifics of his situation, although they are serious. It was the recognition that a family with no direct Gulf exposure, no Middle Eastern real estate, no obvious connection to the conflict, is nonetheless caught in its economic undertow, and that the portfolio architecture most family offices have built over the past decade is structurally unable to respond. The Iran war is no longer an acute shock. It is becoming a structural disruption whose secondary effects reach far beyond the Gulf. Oil executives at CERAWeek in Houston warned last week that if the Strait is not reopened by mid-April, the world faces the largest crude supply loss on record. The strategic petroleum reserves being released by the US and its allies (400 million barrels, the largest coordinated release ever) will be depleted. Gulf producers who shut wells cannot restart them quickly. European energy prices, freight costs, and inflation are compounding in ways that a five-week war was not supposed to produce.

This memo is my attempt to examine what this prolonged disruption, combined with the tariff chaos and a private markets liquidity drought, has revealed about a fundamental weakness in how family offices construct their portfolios. The weakness is not in what they own. It is in what they can access when they need it.

The Quarter That Tested Everything

I want to start with some context, because I think what happened in the first three months of 2026 is genuinely without recent precedent for family offices. It was not one shock. It was the convergence of several, arriving almost simultaneously, each compounding the others.

The geopolitical shock. The Iran war, which began with US and Israeli strikes in late February, has produced what the International Energy Agency has called the largest disruption to global oil supply in history.[1] The Strait of Hormuz, through which 20% of the world's oil normally transits, was effectively closed by the IRGC on 27 March. Brent crude surged past $126 at its peak, with the physical Dubai benchmark hitting $166, more than double the paper price. Gulf oil production dropped by at least 10 million barrels per day. Maersk and MSC, the two largest shipping companies in the world, halted all bookings for cargo to the Middle East. Insurance providers cancelled war-risk coverage, making commercial transit legally and financially impossible. And the secondary effects have been punishing: a 40 to 120% spike in consumer prices across GCC states, a collapse in Dubai tourism and real estate, and the shutdown of refining operations after drone strikes hit Emirates Global Aluminium and Bapco in Bahrain.[1] For families with operating businesses, real estate, or logistics interests in the region, this has not been a portfolio event. It has been a cash emergency that grows more severe with each week the conflict continues.

The trade policy shock. On 20 February, the Supreme Court ruled six to three that the IEEPA did not grant the executive branch authority to levy the Liberation Day tariffs. Within 96 hours, the administration invoked Section 122 of the Trade Act of 1974, imposing a 15% universal "bridge tariff" on all imports, a mechanism that expires after 150 days unless Congress extends it.[3] For families with operating businesses tied to cross-border supply chains, this created an immediate need to reassess margins, renegotiate contracts, or inject working capital. And for the portfolio itself, the impact was severe: European equities sold off, the S&P 500 entered what analysts described as a "sideways chop", and the distinction between tariff-exposed multinationals and domestic-focused companies became the dominant investment question.[4]

The private markets liquidity crunch. Here is where the picture becomes truly uncomfortable. According to Bain's 2026 Global Private Equity Report, distributions to limited partners as a percentage of net asset value have been stuck below 15% for four consecutive years, a record that surpasses even the depths of the 2008 financial crisis.[5] The industry sits on 32,000 unsold companies worth $3.8 trillion. Average holding periods at exit have stretched to seven years. And in private credit, the first quarter brought a wave of redemption gates at some of the largest funds in the market: Apollo, Ares, Blackstone, Blue Owl, BlackRock, Morgan Stanley, Cliffwater, one after another capping or limiting withdrawals from their semi-liquid retail vehicles.[6,7,8]

Now, I want to be precise here, because this point is frequently misunderstood, and getting it wrong leads to the wrong conclusions.

What the Private Credit Events Do and Do Not Tell Us

The private credit gating events of early 2026 have generated a great deal of alarming commentary. Some of it is warranted. Most of it is not.

Let me start with what this is not. It is not a credit crisis. At the index level, non-accruals among publicly traded business development companies remain modest, averaging roughly 2%.[9] Default rates across both public and private credit continue to track at or below historical averages. Goldman Sachs has argued explicitly that private credit is "unlikely to pose a significant financial system risk" because investments are dispersed, leverage at the vehicle level is roughly one to one, and assets and liabilities are structurally well-matched.[10] Marc Rowan, the CEO of Apollo, put it plainly at Bloomberg Invest in early March: the vast majority of private credit is investment-grade lending, roughly $38 trillion of the $51 trillion US credit market, and has "almost nothing to do" with what the headlines describe. Apollo itself carries near-zero software exposure across its credit book.[11]

Morgan Stanley has warned that default rates in direct lending could reach 8%, primarily driven by AI disruption of software business models, a sector representing roughly 21 to 26% of private credit portfolios.[12] This sounds alarming. But J.P. Morgan's credit team notes that the dynamic is "more of a three to five year future development" than an immediate crisis, and that it is more comparable to the contained disruption of

brick-and-mortar retail by e-commerce in 2016 to 2019, where sector default rates spiked to 6.3% while the broader loan market actually improved.[9]

What the events do tell us, however, is something that I think matters far more to family offices than any debate about software loan defaults. The stress has been concentrated almost entirely in semi-liquid retail vehicles, specifically non-traded BDCs and interval funds that promised quarterly redemptions while holding fundamentally illiquid assets. The institutional investor base, which accounts for approximately 80% of total private credit capital, operates through closed-end fund structures with long lockup periods and is largely unaffected.[9]

Most of the families I advise do not hold capital in retail BDCs. They access private credit through institutional channels. Their liquidity terms are transparent and contractual. The panic engulfing retail semi-liquid vehicles is not their panic.

But this is the point I want to make carefully: what the private credit episode reveals is a much broader problem. It is a perfect illustration of what happens when the assumption of liquidity meets the reality of an illiquid asset. And that assumption does not live only in semi-liquid BDCs. It lives across the entire alternatives complex in family office portfolios.

The Real Problem: When Everything Is Locked at Once

The deeper issue is not private credit. It is the cumulative weight of illiquidity across the portfolio, combined with the arrival of events that demand immediate access to capital.

Consider the allocation picture. J.P. Morgan's 2026 Global Family Office Report found that US offices allocate an average of 34% to private markets.[13] Among those most concerned about inflation, and that is the majority, alternatives allocations reach nearly 60%. And 37% plan to increase their private equity exposure over the next 12 to 18 months. The direction of travel is clear: deeper into private markets, deeper into illiquidity.

Now consider what the first quarter of 2026 actually demanded.

A family with operating businesses in the Gulf saw revenues halt as customers declared force majeure. The businesses have their own reserves, of course, but those reserves are finite, and the longer the disruption continues, the closer the family comes to needing portfolio capital to bridge the gap. A family with European manufacturing exposure watched input costs surge and delivery schedules collapse after the Section 122 tariffs compounded the energy shock. The business has reserves, and it can absorb this for a time. But the strain on the balance sheet triggers something that no spreadsheet captures well: a change in the principal's mindset. He begins to think about the portfolio differently. It is no longer an abstract allocation exercise. It is the last line of defence if the operating businesses need support. And when he turns to examine what is actually accessible, the picture changes. A family holding concentrated public equity positions saw mark-to-market losses that triggered margin conversations with their prime broker. And at exactly the same moment, the private equity programme was not distributing, with distributions below 15% of NAV for four years, the private credit fund had gated, and the secondaries market, while growing, cannot deliver liquidity in weeks.

The crisis does not arrive as a single demand for cash. It arrives as a dawning realisation that the operating businesses may need support, that the portfolio cannot easily provide it, and that the options narrow with each passing week.

> *The question is not whether private credit or private equity will deliver good returns over time. I believe they will. The question is whether the family office can manage the gap between when it needs liquidity and when the portfolio can provide it.*

This is not a theoretical problem. For several of the families I advise, it was the defining experience of the first quarter of 2026. And what troubled me most was not that the problem existed. It was that almost none of them had stress-tested for it.

The Liquidity Stress Test Most Offices Have Not Done

In my work with families, I find the most useful exercise is brutally simple. Take the current portfolio and ask: what percentage could you convert to cash within 30 days without accepting a discount of more than 5%?

For most family offices I know, the honest answer is somewhere between 35% and 50%. For those with 60% in alternatives, it can be as low as 20%.

Then ask: is that enough to simultaneously fund 24 months of operating costs for the family's businesses, meet any margin obligations on concentrated public positions, support the family through a supply chain disruption, and, critically, still have capital available for the dislocated opportunities that crises always produce?

In my experience, the honest answer is almost always no.

The table below captures the gap between what most offices assume and what the evidence of the first quarter suggests.

What Most Offices Assume	What Q1 2026 Revealed
Private markets are illiquid, but we can access credit and public holdings	In a simultaneous geopolitical and trade shock, public holdings are down and credit lines tighten at the same time
Our alternatives allocation diversifies the portfolio	At 34 to 60% of assets, it may diversify returns but it concentrates illiquidity
PE distributions will normalise soon	Distributions have been below 15% of NAV for four consecutive years; the exit backlog is $3.8 trillion
Geopolitical risk requires more alternatives for protection	Geopolitical risk requires more liquidity, precisely what alternatives cannot provide quickly
We have enough public equities to generate cash if needed	The Stoxx 600 lost 8% in March; selling into a war-driven decline compounds the problem
The family's operating businesses are separate from the investment portfolio	When a war disrupts your Gulf operations and tariffs hit your European supply chain, the portfolio becomes the emergency fund

What I find striking is not any single row. It is the pattern. Family offices have built portfolios optimised for long-term returns in a stable environment. But the environment is no longer stable. And the portfolios have no release valve.

What Would Actually Help

I am not suggesting families should abandon alternatives. The long-term return premium is real and well-documented. What I am suggesting is that most family offices need to think about liquidity the way institutional investors do: not as a residual, but as a strategic allocation.

Let me describe how I think about this in practice.

First, conduct the stress test. Not the kind that assumes a 20% drawdown in equities and asks whether the portfolio recovers within five years. The kind that assumes three things go wrong at once, because in the real world, they always do. The Iran conflict, the tariffs, and the private credit gates had nothing to do with each other. They arose from entirely separate causes. And that is precisely the point. The world has a way of delivering its blows simultaneously, not sequentially. Stress tests should assume that unrelated shocks arrive at the same time, because in practice, they always do.

Second, separate accessible liquidity from theoretical liquidity. A position in a closed-end PE fund with a seven-year holding period is not liquidity. A secondary market that takes three to six months to execute is not liquidity. A credit line that a bank can pull during a crisis is not liquidity. Only assets that can be converted to cash within 30 days at a discount of 5% or less should count as genuinely liquid. Most offices, if they are honest, will find their genuine liquidity is far lower than they assumed.

Third, hold a strategic cash reserve. This is the hardest recommendation for any investment-oriented family to accept, because cash feels like a drag on returns. But as the first quarter of 2026 demonstrated, the absence of cash when you need it is not merely an inconvenience. It puts you in the position of a forced seller. And

forced sellers, by definition, get the worst prices. I generally think a reserve of 12 to 24 months of total cash needs (operating costs, committed capital calls, family distributions, and a buffer for opportunities) is the minimum. Some families will need more.

Fourth, stress-test liquidity across the operating businesses, not just the portfolio. The distinction between the "investment portfolio" and the "family's businesses" is a fiction in a crisis. When the Iran conflict disrupted Gulf operations, the portfolio became the backstop. When the tariffs hit margins, the family office was the lender of last resort. Any liquidity analysis that ignores the operating side is incomplete.

A Final Thought

Seth Klarman wrote in Margin of Safety that "the trick of successful investors is to sell when they want to, not when they have to." He added a warning that most investors ignore: "When investors do not demand compensation for bearing illiquidity, they almost always come to regret it."

I think those two sentences capture the lesson of the first quarter of 2026 better than anything I could write. The families that are under pressure right now are not suffering from bad investment decisions. Their assets are, for the most part, good. What they are suffering from is the absence of choice. They cannot sell what they want, when they want, at a price they find acceptable. They are instead discovering, in real time, that a portfolio constructed for long-term returns and a portfolio constructed for resilience are not the same thing, and that the difference becomes apparent only when it is too late to change course.

Markets have circuit breakers, central banks, and the accumulated infrastructure of a century of crisis management. A family office has none of these things. It has whatever cash is in the account, whatever assets it can sell without taking a punishing loss, and whatever decisions the principal is able to make under pressure. If 40% or 60% of assets are locked in structures that cannot return capital when the world is in turmoil, the family is not just accepting illiquidity. It is accepting that in precisely the moment when flexibility matters most, it will have the least.

The families that navigated the first quarter of 2026 best were not those with the cleverest allocation models. They were the ones who had cash, who had pre-authorised crisis protocols, and who had separated what they could access from what they merely owned.

The price of illiquidity is not paid when you buy the asset. It is paid when you need the cash and the asset cannot provide it. The families that will look back on this period with the least regret are those that had the cash to act. The rest will have learned, expensively, the difference between owning wealth and having it.

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