

Irregular Cargo

The translation gap between the real economy and modern capital-market infrastructure

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Executive Summary

The modern financial system was built to move standardised assets at speed, yet the productive core of the economy refuses to be standardised. Across OECD economies, small and mid-sized enterprises account for roughly 99% of firms, over half of business-sector value added, and the majority of employment. The mid-market in particular anchors regional industrial ecosystems from advanced manufacturing to life sciences. But these companies sit in a structural gap: too large for retail platforms, too bespoke for public markets. They cannot easily issue equity or tap bond markets, and the channels available to them - bank lending, private equity, private credit, alternative platforms - each solve part of the financing problem while leaving the deeper one untouched: transferability.

That deeper problem is what this note calls the heterogeneity paradox. Capital markets demand uniformity as the price of liquidity; the real economy is heterogeneous. A mid-market company is irregular cargo trying to pass through infrastructure designed for uniform containers and the mismatch does not end at issuance. In the secondary market private positions are functionally immobilised, transacting only through bilateral processes that run months and routinely clear at material discounts. Legacy hedge books compound the drag, leaving firms holding bespoke OTC instruments that no longer serve their purpose but cannot be cheaply unwound. The result is stranded capital - still earning, but unable to move. Three structural forces (post-crisis bank regulation, the capital intensity of the energy transition, and the secular shift toward staying private) are widening the gap rather than closing it.

The note's central argument is that two decades of attempted fixes have misdiagnosed the problem. Junior exchanges and tokenisation are wrapper-and-venue solutions: they address market structure or settlement rails while leaving the underlying asset untouched. Listing a small company creates the possibility of liquidity, not liquidity itself; putting an illiquid stake on a blockchain does not make it tradable absent informed buyers. The answer is not another venue but infrastructure built for heterogeneity-reusable diligence, valuation protocols that travel with the position, risk classifications that preserve rather than erase firm-specific information, and liquidity treatment that separates economic risk from transferability risk.

I. The Hidden Backbone of the Economy

Modern finance sees the economy through its liquid surface. When investors speak of “the economy,” they tend to picture the companies they can see: the mega-caps that dominate the indices, the household brands that fill financial headlines, the trillion-dollar technology firms whose quarterly earnings move markets. This visible economy is vast, liquid, and extensively analysed. It is also a thin upper layer.

Beneath the surface, the real productive economy is composed overwhelmingly of small and mid-sized enterprises. Across OECD economies, SMEs represent around 99% of firms, account for 50–60% of business-sector value added, and employ more than 60% of the workforce.

SMEs are not marginal participants in economic life. They manufacture industrial components, operate regional logistics networks, build specialised software, run healthcare clinics, and supply the intermediate goods that larger firms assemble into finished products. They underpin the activity that listed markets reflect only indirectly.

Mid-market companies, in particular, occupy a distinctive position. Large enough to operate complex businesses with meaningful capital needs, but small enough to remain off the radar of most institutional investors, they sit at the heart of regional industrial ecosystems and often act as anchor employers in sectors from advanced manufacturing to life sciences. They are the load-bearing layer of the productive economy.

Throughout this research note, “mid-market” refers to firms with revenues or enterprise value between roughly €50 million and €500 million (broadly £40 million to £420 million). The range matters because it sits in the gap between funding channels: too large for retail-oriented platforms, too small or too bespoke for the main listed markets. The exact boundary varies by jurisdiction but the structural problem does not.

For all their economic importance, these firms are structurally under-represented in the world’s deepest and most liquid capital markets. They cannot easily issue public equity. They have limited access to bond markets. Their financing options are narrowed by market infrastructure built for cleaner, larger, more standardised claims. That is the visible symptom: the backbone of the real economy is largely invisible to capital markets.

Access to capital is not the only problem. Translation is. Mid-market companies are heterogeneous claims trying to enter infrastructure built for standardised instruments. That is the heterogeneity paradox: the real economy travels as irregular cargo, while modern capital markets were built for uniform containers.

II. The Vanishing Public Perimeter

The divergence between public capital markets and the operating economy is not new, but the shrinking population of listed companies has made it harder to ignore. In the United States, the number of publicly listed firms peaked in 1996 at around 8,000 and has since roughly halved. Several European markets have faced similar pressures, although the pattern varies materially by jurisdiction.

The decline reflects a structural shift in how companies are owned and financed, not an economic contraction.

The cost and regulatory burden of maintaining a public listing have risen since the early 2000s, making a quoted life uneconomic for many mid-sized firms. At the same time, the supply of private capital has expanded sharply. Private equity and private credit assets under management have grown several-fold since the mid-2000s, with private credit alone estimated by the Financial Stability Board at roughly US\$1.5–2 trillion at end-2024, depending on scope. The result is that companies have credible alternatives to public markets, and many are choosing to remain private indefinitely.

A growing share of economic activity - and of the capital financing that activity - now sits outside the perimeter of liquid, transparent markets. Institutional investors reach it through illiquid structures with long holding periods and limited price discovery. The companies themselves face a narrower menu than the abundance of private capital suggests.

III. The Growth Trap and the Financing Penalty

Mid-market companies tend to need capital at awkward moments: when inventory is building, receivables are stretching, a factory needs expanding, or a family owner wants to hand the business to the next generation. These are not marginal financing events. They are often the moments that determine whether a firm scales, stalls or sells.

That is the growth trap. Capital is often needed precisely when conventional credit metrics look weakest.

There are financing channels, but each arrives with a penalty clause.

Commercial Banks

Bank lending remains the primary financing source for most mid-market companies. Banks understand corporate credit, sustain long-term relationships, and can offer structured facilities tailored to specific business needs. But since the 2008 crisis, bank lending to many mid-market borrowers has become more selective - especially where exposures are less liquid, less standardised, or harder to distribute. Post-crisis capital, liquidity and supervisory reforms changed the economics of holding relationship-intensive corporate exposures on bank balance sheets. The result is tighter pricing, shorter maturities, more collateral discipline, and a stronger preference for larger or more standardised credits.

Private Equity

Private equity has absorbed part of the financing and ownership space once more naturally associated with public listings or relationship-bank capital. It provides growth equity, buyout financing, and operational support. But it brings its own constraints: a typical requirement for control, governance structures that may not suit every business, and fixed fund lifecycles of seven to ten years that need not align with the company's own timetable. For many mid-market owners, the cultural and operational implications of a PE transaction are as material as the financial ones.

Private Credit

The rapid expansion of private credit has widened the debt menu. Direct lenders can offer more flexible terms than banks, with faster execution and fewer syndication constraints. The trade-off is price: private credit is typically struck at a meaningful premium to bank debt, reflecting both the illiquidity of the asset and the lender's cost of capital. For borrowers that do not need the speed or flexibility, the price is often prohibitive.

Crowdfunding and Alternative Platforms

At the smaller end of the mid-market spectrum, crowdfunding, marketplace lending and other online financing platforms have widened access to certain types of financing. They remain constrained by ticket size, investor sophistication limits, and regulatory fragmentation across jurisdictions. For a company seeking between €20 million and €50 million of growth capital, they are rarely viable.

Each channel solves part of the problem. None solves transferability.

IV. Stranded Positions: Exit, Hedge Books and the Illiquidity Penalty

The translation gap does not end at issuance. The secondary market is often the harder problem.

When an investor takes a stake in a private mid-market company - through direct equity, a fund commitment, or a structured instrument - that position is almost entirely illiquid. There is no exchange, no continuously quoted price. If the investor needs out, they must find a willing buyer through a bespoke, bilateral process that typically takes three to twelve months and often longer.

Illiquidity has a price. Secondary transactions in private markets often involve material discounts to the most recent net asset value, especially in stressed conditions, weaker vintages, or less favoured strategies. According to Lazard's 2024 Secondary Market Report, fund-level secondaries frequently transact at meaningful discounts to NAV, often in the high-single to mid-double digits. Listed private-equity vehicles in the UK investment-trust universe have also repeatedly traded 25–40% below stated NAV, with several individual names sitting wider still. Some attempted transactions fail to close, particularly where pricing expectations, diligence findings or buyer appetite diverge. The costs are borne on both sides: sellers accept significant price haircuts, while buyers face uncertainty and execution risk.

This creates stranded capital: the capital is not lost - it still earns returns - but it is functionally immobilised. For institutional investors managing portfolios of hundreds of private positions, the cumulative effect can materially constrain their ability to manage risk and respond to changing market conditions.

The hedge book shows the same problem from another angle.

A mid-sized manufacturer exporting to multiple countries will hold a portfolio of foreign-exchange hedges. A company with material floating-rate debt will have interest-rate swaps in place. A commodity-dependent business may run forwards or options against input costs. These instruments

are essential to prudent financial management, and for mid-market firms they are almost always struck over the counter, bilaterally, with a bank counterparty.

The problem emerges when the exposure changes. If the business mix shifts, if a hedged exposure no longer exists, or if the original strategy proves misaligned with actual risk, unwinding or restructuring those instruments is difficult and expensive. Bespoke OTC contracts do not have a liquid secondary market. Termination costs can be material. And for the bank counterparty, the capital, counterparty-credit, CVA and balance-sheet costs associated with holding a legacy derivative position against a mid-market credit can make the relationship economically unattractive.

The result is an under-discussed but persistent balance-sheet problem: mid-market companies accumulate legacy exposures - hedging positions that no longer serve their original purpose but cannot easily be restructured or terminated. They consume credit lines, complicate financial reporting, and create operational drag. They are a hidden cost of operating in the illiquid middle ground of the financial system.

The pattern is the same across all of these positions. A fund interest, a direct stake, a legacy swap: each is a bespoke claim that cannot be easily transferred, priced, restructured, or exited. Each carries its own counterparty, documentation, and termination economics. None fits the infrastructure built for fungible, standardised claims.

V. Structural Trends Making the Problem Worse

Three structural forces are widening the mismatch between mid-market companies and liquid capital markets.

Post-crisis bank regulation. The reforms introduced after 2008 were designed to make the banking system safer. They also changed the economics of balance-sheet lending. Higher risk-weighted capital requirements, the net stable funding ratio, and enhanced supervisory expectations around concentration risk have tended to favour larger, more liquid, more standardised credits - exposures where balance-sheet usage, data quality and exit assumptions are easier to defend. Mid-market borrowers have not been explicitly excluded; the relative economics have simply turned against them.

The energy transition. Decarbonising industrial economies requires an extraordinary volume of capital investment, much of it at the level of individual mid-market companies: retrofitting manufacturing plants, installing on-site renewable generation, redesigning supply chains, building circular-economy infrastructure. A regional manufacturer replacing gas-fired process heat, for example, may need project finance, equipment finance, working-capital relief and transition-risk underwriting simultaneously. These are rarely well-suited to public bond markets. They require project-level and company-level financing that is inherently bespoke and illiquid.

The longer-private trend. As companies stay private for longer - and as the availability of private capital makes that increasingly viable - the stock of illiquid private assets continues to grow. Institutional investors who allocate to private markets are finding a growing share of their portfolios

locked into ten-year structures with limited secondary liquidity. The dynamic is self-reinforcing: as capital flows into private structures, more economic activity moves out of reach of liquid markets.

None of these forces looks merely cyclical. Each adds to the stock of irregular cargo.

VI. The Heterogeneity Paradox

The translation gap has a root cause. Modern financial markets are, at their core, high-speed infrastructure for moving standardised assets. Public equities trade in uniform units. Government bonds are fungible. Listed derivatives have standardised terms. The architecture of market-making, clearing, settlement and risk management is largely built around assets that look like every other asset of the same type.

This is by design. Standardisation is what makes liquidity possible. A share of a listed company is liquid because it is identical to every other share of the same company. The most liquid government bonds are liquid because issuance is deep, terms are standardised, and secondary-market infrastructure is well developed. The uniformity of these instruments is what lets them move through the financial system at speed and at scale - like standardised shipping containers moving through a global logistics network.

Mid-market companies, by contrast, are irregular cargo. Every business is distinctive. Every capital structure is bespoke. Every transaction demands individual analysis of the firm's operations, market position, management, contractual obligations and firm-specific risks. There are no standardised units of mid-market equity that can be traded interchangeably. There are very few fungible blocks of mid-market debt that can be cleared through a central counterparty without bespoke assessment.

This is the deeper form of the heterogeneity paradox. The real economy is fundamentally heterogeneous: composed of millions of unique businesses, each with its own characteristics, needs and risk profile. Capital markets, by contrast, demand standardisation as the price of liquidity. The two systems are structurally misaligned. And because they are misaligned, a large and growing pool of economic value remains trapped in illiquid structures - visible to the owners and operators of those businesses, but obscured from the broader financial system.

This paradox cannot be solved by pretending heterogeneity is a formatting problem. You cannot fully standardise a mid-market company without losing some of the information that makes it valuable. You cannot push heterogeneous assets through homogeneous infrastructure without destroying either the assets or the infrastructure. Building better markets or better technology is not enough. Financial frameworks that can carry heterogeneity without sacrificing the benefits of scale are required.

VII. Partial Solutions That Misdiagnose the Problem

That diagnosis explains why two decades of attempted fixes have disappointed. Many have solved the wrapper, not the asset problem.

SME exchanges. Several jurisdictions have launched junior stock exchanges aimed at smaller companies - London's AIM, Euronext Growth, and various Asian equivalents - seeking to provide a listing venue with lighter regulatory requirements. Some have attracted a meaningful population of issuers. Many have struggled with thin trading volumes, limited analyst coverage, and an investor base that often skews retail and speculative. Listing a small company does not, by itself, create liquidity - only the possibility of it, which is not the same thing.

Tokenisation. More recently, advocates of distributed-ledger technology have proposed tokenising private assets, on the pitch that representing equity or debt as digital tokens reduces settlement friction and enables fractional ownership. But tokenisation has outrun the diligence, valuation and price-discovery infrastructure around it. Putting an illiquid asset on a blockchain does not make it liquid: a token representing a stake in a private company is no more tradable than the underlying stake if there is no active market of informed buyers. A token is not a market. The technology may be useful. It cannot manufacture liquidity where the underlying claim remains heterogeneous, opaque, and hard to price.

These are wrapper and venue solutions. They treat the gap as a problem of market structure or technology - the right exchange design, the right wrapper, the right digital rails - when the deeper problem is the nature of the assets themselves. The underlying asset problem remains.

VIII. Infrastructure for Irregular Cargo

The answer is not another venue, wrapper or token. The goal should not be to make mid-market assets pretend to be listed equities. It is to let non-standard assets move without stripping out the information that makes them financeable. That requires reusable diligence packs, valuation protocols that travel with the position, risk classifications that preserve rather than erase heterogeneity, controlled transfer mechanisms for non-standard claims, and liquidity treatment that separates economic risk from transferability risk.

The current architecture of global capital markets was not designed for that task. It was designed for assets that fit cleanly through standardised channels. The irregular cargo of the real economy is still waiting on the docks - not because there is no capital, but because the handling system was built for containers.

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