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The Carlyle Compass

By Ruulke Bagijn and Peter Cornelius
April 22, 2025

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*Welcome back to **The Carlyle Compass**, your weekly newsletter that brings together the latest research and market insights from our global team. This week's edition features guest authors Ruulke Bagijn, Global Head of Carlyle AlpInvest, and Peter Cornelius, Chief Economist at Carlyle AlpInvest. Received this email as a forward? Subscribe here.*

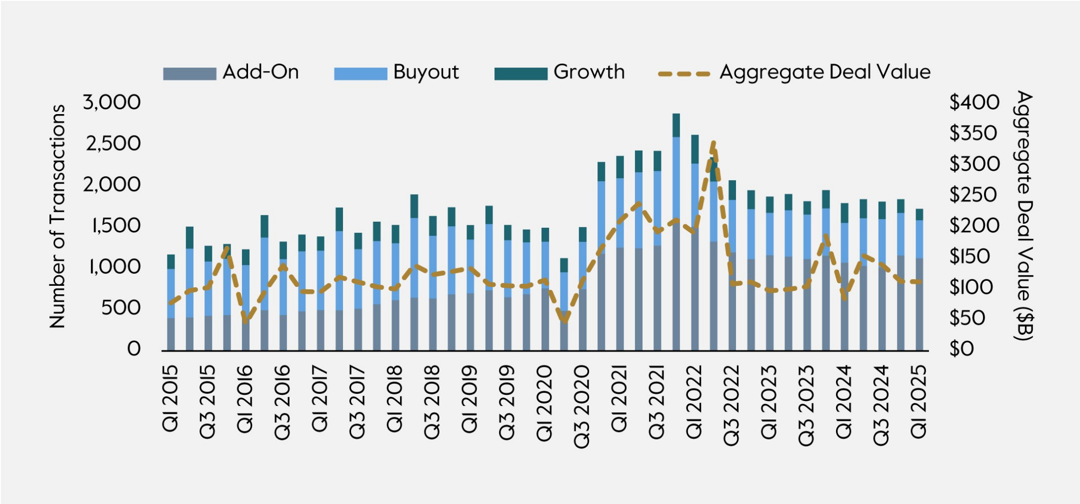
Private Equity in the First Half of 2025

Global financial markets have become significantly more volatile over the first three and a half months of 2025 as investors wrestle with the potential consequences of a sharp increase in U.S. tariffs and a possible global trade war. Global equity markets have come under significant selling pressure, while spreads in the high-yield markets have widened considerably since mid-February amid rising risk aversion. During post-"Liberation Day" market turmoil, after an initial decline, 10-year yields actually rose meaningfully and stand at 4.3% at the time of writing, reflecting a potential shift in Treasury market fundamentals and an increase in the term premium demanded by investors.

Unremarkable Deal Activity

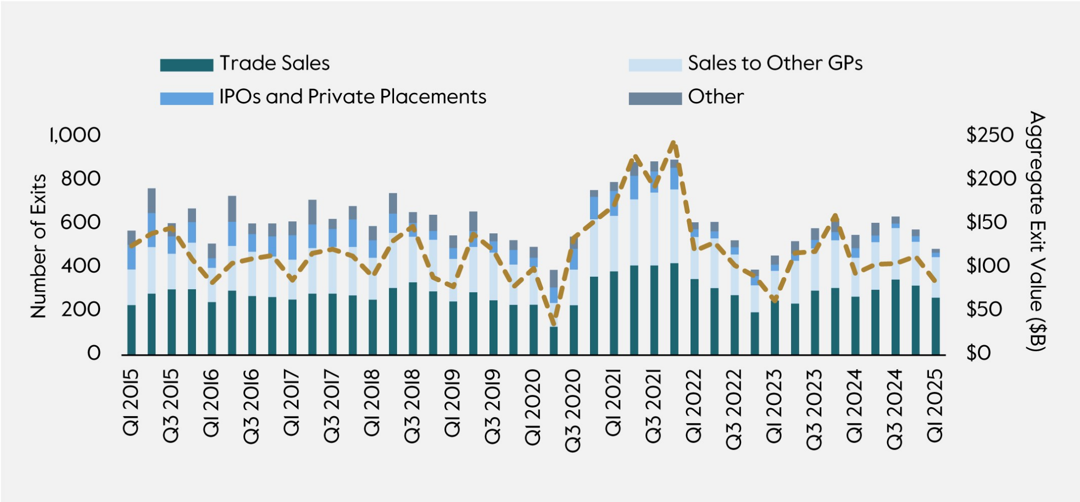
In this environment, financial sponsor buyside activity remained stable in Q1 2025, with minimal acceleration despite a significant decline in financing costs in the first half of the quarter due to a lower base rate and spread tightening (Figure 1). On the exit front, the number of divestments declined in Q1 (Figure 2). Trade sales and secondary buyouts remained subdued, as GPs found it difficult to find buyers willing to acquire an asset at a price the seller considered fair market value. Although conditions in the global IPO market generally remained challenging, there was a silver lining in the U.S. market, where activity regained some momentum. In the first three months, ten sponsor-backed companies went public on U.S. exchanges, compared to 16 during the entire year of 2024. What’s more, half of the IPOs in Q1 priced above the expected price range and aftermarket performance improved until broader trade-related volatility set in.

Figure 1: Global Private Equity Backed Acquisitions, Q1 2015 – Q1 2025



Source: Carlyle Analysis; Preqin, April 2025. There is no guarantee any trends will continue.

Figure 2: Global Divestments of Private Equity-backed Portfolio Companies, Q1 2015 – Q1 2025

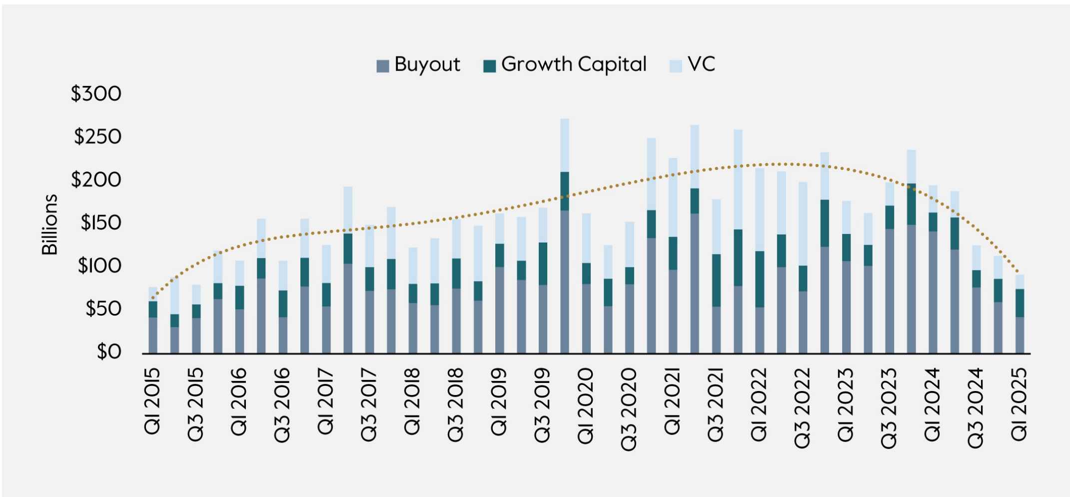


Source: Carlyle Analysis; Preqin, April 2025. There is no guarantee any trends will continue.

Fundraising Drought

Private equity funds (buyouts, growth capital and venture capital) that reached a final close in Q1 2025, raised just over $90 billion worldwide, the lowest amount since Q3 2015 (Figure 3). Buyout and venture capital funds comprised the largest drags, with fundraising down roughly 30% and 40% quarter-over-quarter, respectively. Notably, this was not necessarily due to fewer funds reaching final close; in fact, the number of buyout funds that closed in the first quarter was the highest since Q4 2023. However, the funds that closed were materially smaller on average than has been typical over the past decade. The average fund size for buyout vehicles that closed in the first quarter was just $285 million, the smallest recorded since at least 2013 and 64% lower than the average over this 12-year period. As dramatic as the decline in fundraising has been, it is not surprising: although net distributions for global buyouts recorded at least 2 positive quarters in 2024 (data is currently only available through Q3 of that year), the cumulative shortfall across all private asset classes has amounted to approximately $490 billion since the first quarter of 2022, when net distributions first turned negative. It seems likely that until liquidity conditions meaningfully improve, there will continue to be diminished space to raise fresh capital.

Figure 3: Private Equity Fundraising, Q1 2015 – Q1 2025

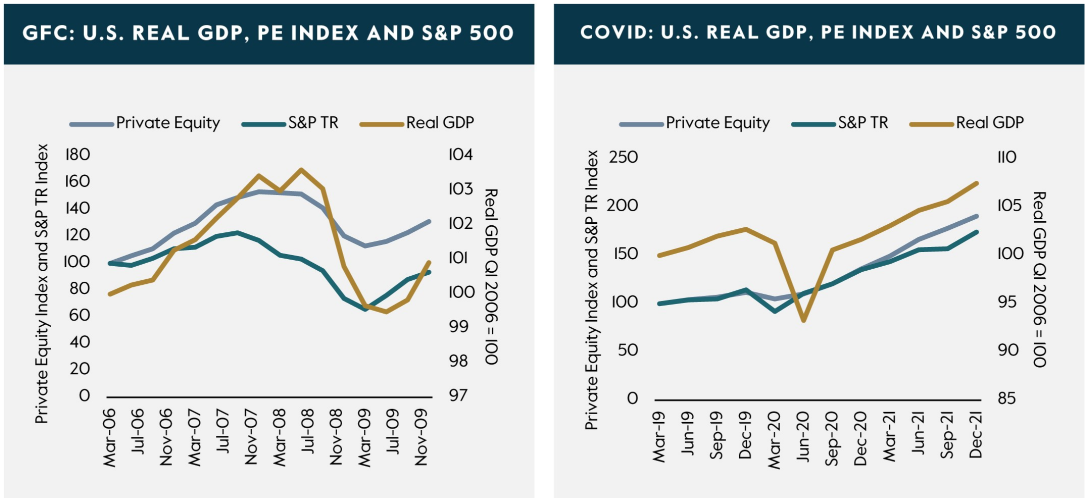


Source: Carlyle Analysis; Preqin, April 2025. There is no guarantee any trends will continue.

Private Equity in an Economic Slowdown

The consensus of economic forecasters has lowered their growth projections for 2025 and 2026. History teaches us that increased protectionism may cause a meaningful slowdown in economic growth. While financial markets have often suffered significant losses in previous recessions, public and private markets may follow different trajectories. During the GFC recession, the S&P 500 fell approximately 50%, while the Preqin Private Equity index lost only 26%. According to academic research, private equity backed companies may be better positioned to obtain external financing when financial markets become dysfunctional. Private equity groups tend to have strong ties with the banking sectors and private debt providers and may deploy dry powder if necessary[1]. During the COVID recession, private equity-backed companies proved comparatively more resilient as well. While the S&P 500 lost almost 20%, the Preqin Private Equity index fell around 6% (Figure 4). However, each macroeconomic shock has its own idiosyncrasies, and it remains to be seen whether private equity-backed companies will prove to be more resilient in a downturn caused by growing protectionism. We believe there is no general answer as each portfolio company will be differently affected, given how their supply chains are set up and where their sales markets are.

Figure 4: Recent U.S. Recessions and Public and Private Markets Performance



Source: Carlyle Analysis; Pitchbook LCD, April 2025. There is no guarantee any trends will continue.

Market volatility is likely to persist as investors aim to digest the economic consequences of growing protectionism. Rapid asset price changes often imply that macroeconomic risk is mispriced, which may give rise to attractive investment opportunities. This may apply to acquisitions by primary private equity funds as well as to the secondary market, which will continue to play a critical role in the transition to a new private equity cycle by offering LPs the opportunity to rationalize their portfolios and providing an alternative exit route through GP-centered transactions.

[1] Bernstein, S., J. Lerner, and F. Mezzanotti (2019). “Private Equity and Financial Fragility During the Crisis.” Review of Financial Studies 34. Pp 1309 – 1373.

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