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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, I share my thoughts on resilience and provide historical context to current market uncertainty, as part of our 2025 sustainability report to be published later this week. Received this email as a forward? Subscribe here.*

Resilience in an Era of Great Turbulence

Contentment may not be resiliency's antonym, but it is its enemy.

Economists often refer to the period between the mid-1980s and 2007 as the 'Great Moderation.' [1] Relative to the thirty years that preceded it, recessions became milder and less frequent. Inflation rates plunged and remained low, encouraging households and businesses to expect that prices would remain stable going forward.

A less volatile economic backdrop made it easier for businesses to plan and manage risk, which translated into improved market pricing and performance. Long-term borrowing costs halved, [2] and measures of the stock market risk premium fell even more. [3] Thanks to some combination of globalization, technological advancement, and deregulation, the macroeconomic problems and puzzles that had bedeviled analysts and investors for decades had been solved.

Or so it may have seemed.

When reflecting on the triumphalism of that era, one cannot help but be reminded of Goethe's Faust. In the play, if Heinrich Faust ever reaches a moment of total satisfaction and feels so content that he wishes time to stop, he dies, and Mephistopheles claims his soul. It could be said a similar fate awaited investors and management teams whose contentment deprived them of the capacity to anticipate and respond to the series of crises that would soon arrive in rapid succession.

In 2008, the global financial system endured the equivalent of cardiac arrest. Jobs vanished at the fastest rate in three decades. [4] Corporate earnings fell more than at any time on record. [5] Construction projects stopped. [6] Companies operating across large swaths of the economy were at risk of failing.

Just two years later, an aftershock from this quake shook the foundation of European economic integration. With bondholders refusing to roll over one euro member state's liabilities, and yields rising rapidly on the obligations of many others, the eurozone fell into a recession that many feared would metastasize into something far worse. [7]

The 'Eurozone Crisis,' as it came to be known, was then followed by the 'Brexit' referendum in 2016 and years of uncertainty and contingency planning. The US presidential election later that year provided another signal to investors that global economic integration had not only peaked but could reverse.

And if any of the core assumptions that animated the Great Moderation were still intact, the pandemic arrived. As it turns out, inflation was not dead after all, and supply chains scrupulously engineered to minimize production costs can fail in ways that maximize production losses.

Will the tariff shock of 2025 be remembered as the next flashpoint in this era of 'Great Turbulence?' Will it be followed by a climate event that combines some of the worst elements of past shocks? It's impossible to know. But we believe the lessons of the past two decades have inculcated a spirit of resilience among our investment and management teams, who stand ready to leverage the durability of our funding model and breadth of our global portfolio to navigate whatever the future holds.

We believe the resilience of private markets can be observed in the durability of its funds and affiliates' liability structures. In our view, unlike public market investors, who often have no choice but to liquidate assets at inopportune times in the face of margin calls or skittish counterparties, [8] private markets feature closed-end capital and termed-out liabilities that can be better equipped to withstand periods of heightened volatility. And unlike banks or other intermediaries that depend on active syndication markets to distribute risk, [9] private credit funds can provide a stable funding option for borrowers and can scale up exposures when risk-adjusted returns look most attractive.

We believe private portfolios have an inertial quality; exposures cannot typically be sold down during a shock but must instead be managed. And much of that management occurs before the asset is acquired. We may not know which shock is coming next, but we can seek to assess how a given asset is likely to respond to market volatility based on a number of factors, including past sensitivity to macroeconomic fluctuations, operating margins, pricing power, and susceptibility to technological disintermediation. We believe that no one 'lucks into' resilient portfolios; the range of outcomes can be circumscribed through *ex ante* asset selection and diversification.

In exchange for illiquidity, private market investors typically obtain influence and control. We believe resiliency at the asset level requires that the right managers are in place and possess the tools necessary to navigate uncertain outcomes. Knowledge of what tools managers need and when and how to deploy them comes from our experience managing thousands of assets across virtually all industries and geographies through cycles, crises, and policy shocks. This is not simply about mitigating potential negative impacts, but proactive adaptation with an aim to outperform similarly-situated competitors that we believe lack our historical knowledge and platform.

Like Faust, we must constantly strive to learn from these experiences, rigorously document what works and doesn't, and avoid allowing success to foment a sense of contentment that could ultimately prove our undoing.

1. Bean Charles: "The Great Moderation, the Great Panic and the Great Contraction", Schumpeter Lecture at the Annual Congress of the European Economic Association, Barcelona, Spain, August 25, 2009.

2. Federal Reserve Data, accessed April 2025.

3. Aswath Damodaran data, New York University Stern School of Business, accessed April 2025.

4. Bureau of Labor Statistics, accessed April 2025.

5. U.S. Bureau of Economic Analysis, accessed April 2025.

6. Census Bureau data, accessed April 2025.

7. London School of Economics Impact Case Study, "Breaking the vicious circle of the Eurozone debt crisis", 2014.

8. Brunnermeier, M. K., & Pedersen, L. H. (2004). Predatory trading (NBER Working Paper No. 10755). National Bureau of Economic Research. https://www.nber.org/papers/w10755.

9. Lee, Seung Jung, Dan Li, Ralf R. Meisenzahl, and Martin J. Sicilian (2019). "The U.S. Sydnicated Term Loan Market: Who holds what and when?" FEDS Notes. Washington: Board of Governors of the Federal Reserve System, November 25, 2019, https://doi.org/10.17016/2380-7172.2473.

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