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GLOBAL RESEARCH

The Carlyle Compass

July 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 Hannah Khizgilov, Vice President within Carlyle's Global Research & Investment Strategy team. Received this email as a forward? Subscribe here.*

Between Star Systems

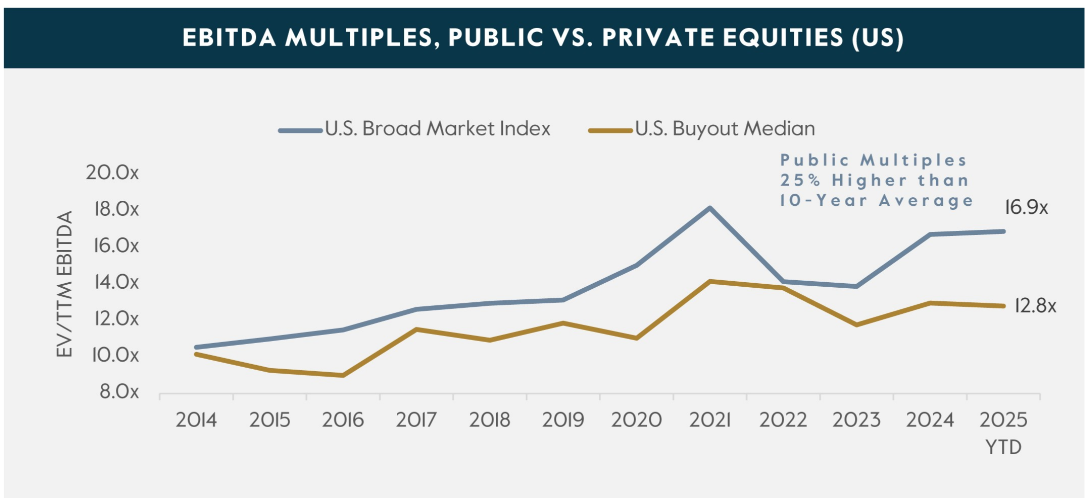
Take Me Higher

The second quarter of 2025 came in like a lion and went out like a lamb. Just two days into the quarter, markets were roiled by higher than expected "Liberation Day" tariff rates. The S&P 500 dropped 12% in the six days that followed. Yet, financial markets ultimately performed quite well over the last three months, as tariff rates were temporarily reduced and the hard economic data held up. In the United States, the S&P 500 and NASDAQ ended the quarter up 10.6% and 17.6%, respectively.

These returns have been accompanied by significant boosts in public equity valuations. Trailing EBITDA multiples for a broad market index of US stocks approached 17x over the first half of the year. Multiples are closer to 2021 peaks than 2023 troughs. There has been differing commentary on the market's apparent exuberance to end the quarter: optimists credit AI and deregulation, while skeptics see a momentum-driven technicality.

Private market multiples, however, have not followed their public peers' higher. In fact, multiples for recently transacted private equity deals look reasonable and almost cheap by comparison. Through the first half of 2025, median buyout purchase price multiples in the US stood close to their 10-year average. Public multiples, by contrast, finished the quarter nearly 25% above their averages over the past decade.

Figure 1: Minimal Correction in Public Market Valuations Since 2021 Peak

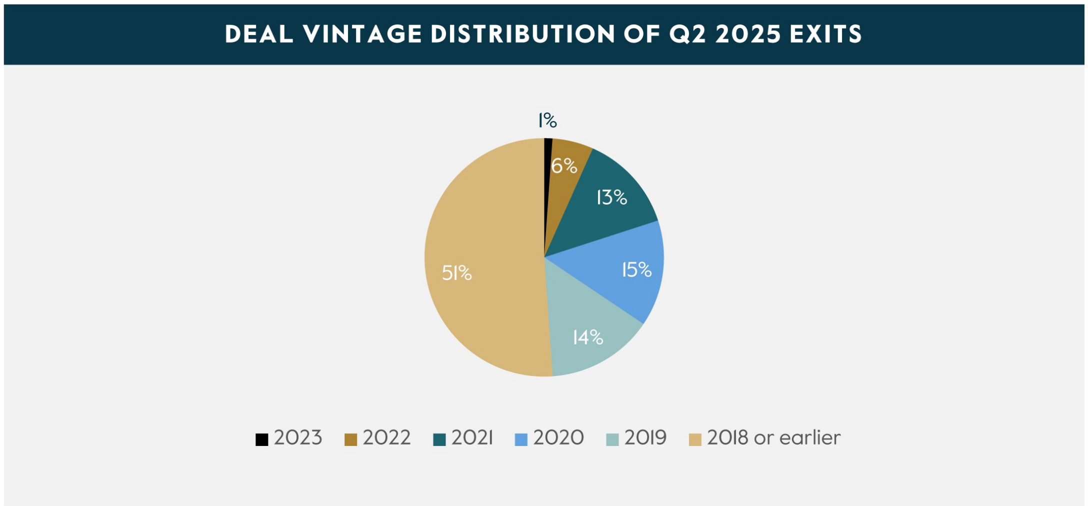


Source: Carlyle Analysis; S&P Capital IQ, Pitchbook, July 2025. There is no guarantee any trends will continue.

Getting Creative

Despite high valuations, underlying volatility and policy-driven uncertainty have kept strategics and sponsors cautious. Exit activity remained subdued in Q2, and those exits that materialized generally skewed older.

Figure 2: Exits Skew Older

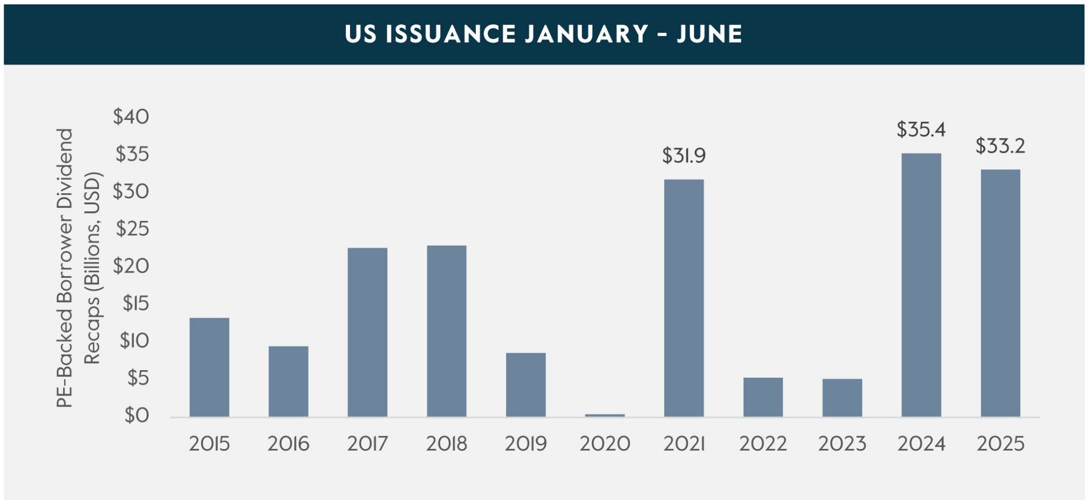


Source: AlpInvest data, July 2025. There is no guarantee any trends will continue.

IPO activity—a barometer of the broader exit environment—reflected this caution in the second quarter with generally smaller transaction sizes and a tilt towards software and biotech companies, which made up seven of the top 10 listings on US exchanges. The disciplined approach taken by private equity sponsors seems wise: IPO performance was a mixed bag, with hot crypto player Circle up 142% year-to-date as of the time of writing, while other high profile-listings such as digital banking services firm Chime and TV ad software solutions provider MNTN, posted more middling performances (-18% and -10% year-to-date, respectively).

Sponsors have found other ways to return capital to investors. In the US, $33 billion in dividend recaps was tied to sponsor-backed companies through the first half of the year, just 6% lower than the record H1 issuance of 2024 and the second highest first-half issuance on record since 2015—an impressive result considering the broader slowdown in institutional finance activity. In Europe, dividend recap volumes reached €15 billion in the first half of the year, 71% higher than in the same period of 2024 and the best 6-month start since 2021.

Figure 3: Strong Dividend Recap Issuance



Source: Pitchbook LCD, July 2025. There is no guarantee any trends will continue.

Secondary stakes, portfolio financings, and continuation vehicles (CVs) also play an important role in today's landscape. CVs now account for more than 13% of exits across buyout funds and tend to involve high quality assets. In our own portfolio we committed $9.5 billion in CV transactions since September 2023, with roll-over equity from existing owners accounting for over a third of the capital invested on deals that generated an average gross MOIC of more than 3x.

Portfolio financings continue to gain momentum. Average NAV-financing volumes per lender more than doubled in 2024 to over $800 million, and deal flow per lender rose from 19 to 25. NAV facilities have become an integral portfolio-management tool for private-markets managers focused on optimizing liquidity, enhancing fund performance, and maximizing capital efficiency.

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