



# Snapshot: Cautious optimism for the private equity sector?

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The private equity industry managed to post its second-best ever year in 2022, extending the record highs that were seen in 2021 in terms of buy-out activity and fund-raising. Looking more closely though, it was apparent that 2022 was essentially "a game of two-halves".

The post-covid surge in deal activity continued for the first six months of 2022 and this was despite uncertainty caused by the invasion of Ukraine, growing tensions with China and rising inflation. However, the first in a series of interest rate hikes by US central bankers in June led to similar increases by their peers around the globe. As a result, banks withdrew funding from leveraged transactions and dealmaking effectively nose-dived in the latter part of 2022.

In the UK, late 2022 was particularly painful with the short-lived government debt crisis arising from the Liz Truss mini-budget. While the overall totals for the year in terms of fund-raising and exits was very respectable, this abrupt decline in the latter part of 2022 cast a shadow over the start of 2023 - but is the outlook getting more positive?

## A challenging start to 2023

Cheap debt financing is no longer readily available and buyers and sellers appear to be waiting around for clarity on how the economic forces will play out for the remainder of 2023. As a result, global dealmaking suffered its weakest start to the year in a decade\* as a darkening economic outlook depressed activity.

The uncertainty that was stifling deal-making was not helped in March 2023 with the collapse of Silicon Valley Bank in the US and the rescue acquisition of Credit Suisse by UBS.

## Outlook for the second half of 2023

Notwithstanding this uncertain back-drop however, many private equity firms remain stoic. Blackrock, for example, has described its outlook for 2023 as one of "cautious optimism". It believes that "...near-term uncertainty presents an opportunity for investors to achieve their long-term objectives, by continuing to invest in durable global trends such as the transition to a low-carbon economy, ever-expanding technology adoption and emerging demographic shifts".

This note of cautious optimism also appears to be shared by Bain & Company as it suggests that while the current economic environment "... will challenge GPs to find new ways to create value and underwrite risk, the long-term outlook for private equity remains fundamentally sound".

One of the elements upon which their positivity is based, is the comparison on returns in the private equity space compared to public markets. They point to the declining number of US public companies over the years and the fact that the remaining pool is dominated by a handful of large tech firms that "hold disproportionate sway over the indexes". This makes it difficult to find sufficient diversification in the public markets; whilst alternative funds provide access to the broad global economy and full range of asset classes. As a result, private markets continue to grow relative to the public markets.

Uncertainty over the economy is understandably delaying decisions; but globally there is a near all-time high of private equity "dry powder" that must be deployed by these investors. In that context, we at Ogier expect activity to pick up in the second half of 2023. Hopefully, this year will again be "a game of two-halves", but this time ending on a positive note.

\* [Source: FT.com]

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## Key Contacts



Danny Cole

Senior Associate

Jersey

E: [danny.cole@ogier.com](mailto:danny.cole@ogier.com)

T: +44 1534 514370



Richard Daggett

Partner

Jersey

E: [richard.daggett@ogier.com](mailto:richard.daggett@ogier.com)

T: +44 1534 514071



James Fox

Partner

Jersey

E: [james.fox@ogier.com](mailto:james.fox@ogier.com)

T: [+44 1534 514276](tel:+441534514276)

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