Global Private Markets Outlook

Tackling the turning point in private markets allocation

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NEW YORK LIFE INVESTMENTS

Executive Summary

The last two years can be described as a slow-motion liquidity crunch across private markets. Consistently high interest rates created a domino effect on liquidity, effectively freezing portfolios with private investment exposure. In the second half of 2024, this effect began to reverse. The combination of lower interest rates, improving deal flow, capital-intensive megatrends, and the democratization of alternatives may unearth a **generational opportunity in private markets allocation** for qualified investors.

A broad range of private market capabilities across New York Life Investments

Private Debt	Private Equity	Real Estate	Private Assets Multi-Manager
KARTESIA; Apogem Capital (A New York Life Investments Company)	Apogem Capital (A New York Life Investments Company); Bow River	Tristan Capital Partners; New York Life Investments — NYL Real Estate Investors Division	Candriam (A New York Life Investments Company)
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Our view of key asset classes

Qualified investors willing to act decisively may benefit from strong structural tailwinds, robust exit markets, and newfound optimism in 2025.

Private Equity

- We see 2025 as a major turning point for U.S. private equity. Buy side activity is finally rebounding after two years of anemic fundraising and distributions. Exits improved strongly in the second half of 2024, kickstarting the process to bring investors liquidity and enable reinvestment.
- Fundraising has been concentrated in large and mega funds, creating an opportunity for middle market and lower-middle market managers to sell upmarket.
- Moderate interest rate levels and higher expected macroeconomic volatility likely mean that private equity funds will need to implement effective value creation initiatives to grow company profits.
- New sources of liquidity have emerged over the last few years that we believe provide private equity investors diversified opportunities to generate liquidity, creating more stability for the space.

Private Credit

- During a turbulent time, private credit has been a relative bright spot, topping private asset classes in terms of fundraising growth, increases in assets under management, and performance.
- Resilient economic activity and modestly lower interest rates support confidence in credit performance for 2025. Leverage may rise as the economic cycle extends, driving our focus on credit quality.
- In the event of a more significant economic slowdown, the direct relationship between borrowers and lenders in private credit may allow funds in this space to navigate risks more fluidly. This appears to be even more the case for the middle market. Historically speaking, default rates for middle-market private companies have been lower and recovery rates have been higher when compared to similar asset classes.

The "deep dive" section at the end of this piece illustrates one of our highest conviction perspectives in this turning point period: size. We see the lower middle market as an opportunity for diversification, relative stability, and attractive supply-demand dynamics for investors.

Real Estate

- The early phase of countries' rate-cutting cycles may kickstart a generational opportunity in real estate allocation. A normalizing yield curve tends to signal the largest range in debt and equity opportunities for private investors.
- Europe has seen more price discovery already. While the U.S. may see more volatility, especially in office, we believe the bottom is in on many sectors' valuations. In our view, this means a market timing opportunity in equity may be arising.
- Investors have often focused on disruptions to office space related to work-at-home adjustments. But similar disruptions are driving higher rents in other sectors. Environmental improvements, better amenities, and strong demand related to secular changes (i.e. demand for data centers warehousing, and logistics) create opportunities in our view.

Real Assets

- In our view, global transitions towards digitization, electrification, and supply chain re-globalization are likely to increase demand for real assets.
- We believe this demand may come through at least two channels. The first is a physical need for commodities and materials to build the structures and items (infrastructure) required to fuel these global megatrends. The second is that this capital-intensive stage in the global economic environment may increase inflation and interest rate volatility. Historically, real assets have outperformed in periods of higher inflation and rates volatility.
- Despite higher valuations in the foundational layer of megatrends like AI, valuations for the inputs to these investment processes have not seen as much uplift. We believe that attractively priced assets with cash flow generating properties may provide return generation and diversification potential.

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