Global Private Markets Outlook

Prepare to pivot: the global rates cycle is poised to unlock capital

JULY 2024

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 have created a domino effect on liquidity, effectively freezing portfolios with private investment exposure. Now, economic activity is beginning to slow, and central bank rate cuts could unearth a **generational opportunity in private markets allocation**.

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

Private Equity

Apogem Capital
A NEW YORK LIFE INVESTMENTS COMPANY

- Fund investments
- Secondary investments
- Co-investments
- Emerging and diverse
- GP Stakes
- Private real assets

Private Debt

KARTESIA

Apogem Capital
A NEW YORK LIFE INVESTMENTS COMPANY

- Direct lending
- Impact investing
- Unitranche
- Special situations
- Junior and mezzanine
- CLOs

Real Estate

TRISTAN CAPITAL PARTNERS

NEW YORK LIFE INVESTMENTS
NYL Real Estate Investors Division

- Core
- Core-plus
- Value added
- Opportunistic
- Real estate debt

Private Assets Multi-Manager

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Our view of key asset classes

Private equity

- After a two-year slide in deals, exits, and funds closed, private equity activity stabilized somewhat in the first half of 2024. LP pressure is beginning to generate deal activity.
- Paths to liquidity are evolving, creating durable opportunities in **secondaries** markets in our view.
- Fundraising has been concentrated in large and mega funds. In response, we are focused on markets with supply-demand dynamics that enable high investment **selectivity**.
- As the macroeconomic environment evolves, business building and **earnings growth** may matter more than financial engineering for generating private equity returns.
- Consider **lower leverage** opportunities as economic activity slows.

Private credit

- There is still ample room to run in private credit, in our view. Current **yields** remain attractive on an absolute and relative basis.
- Despite the growth in commitments to private credit over time, investors remain underweight in this asset class relative to their targets, suggesting room for future **expansion**.
- In the event of a more significant economic slowdown, we are focused on the factors that have historically provided **resilience**, including conservative capital structure, availability of liquidity, and debt coverage. Contrary to common assumption, size is the least significant factor contributing to default frequency over time. Compared to similar asset classes, default rates for middle market private companies have been lower and recovery rates have been higher.

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.
- **Credit** opportunities remain strong as rates move steadily lower. Adding to this opportunity is the fact that many countries’ banks are still on the sidelines due to regional banking concerns and prospects for enhanced regulation.
- Though there is likely downside in U.S. office to come, the bottom in valuations may already be in for many sectors, creating a market timing opportunity in **equity**.
- Investors who can see to recapitalization and liquidity needs may see **opportunistic** investments among otherwise high-quality managers and assets.
- Focus on sectors experiencing secular demand.

Real assets

- Infrastructure now represents an independent **allocation** category among investors.
- Global trends related to digitization, climate change, and supply chain re-globalization are already fueling a **structural increase** in real assets demand. Private real assets represent a diversified and in some cases undervalued opportunity to capture that demand.

Opinions of New York Life Investments, 2024.

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