

Private Markets Outlook

AXA IM Prime Insights: 2025

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MARKET ENVIRONMENT 2025

U.S.

Tailwinds for Private Markets

We expect a robust U.S. macro-outlook with continued GDP growth of above 2%. Expected corporate tax cuts and deregulation should contribute to a benign environment overall for private markets. Additionally, improving merger and acquisition (“M&A”) activity would facilitate more exits of portfolio companies, thereby providing Limited Partners (“L.P.s”) with the liquidity to potentially renew commitments.

We do not expect any meaningful positive impact from falling interest rates in 2025. Our base case calls for only one additional 25bps rate cut from the Federal Reserve (the “FED”).

EUROPE

Interest Rate Cuts: A Potential Bright Spot

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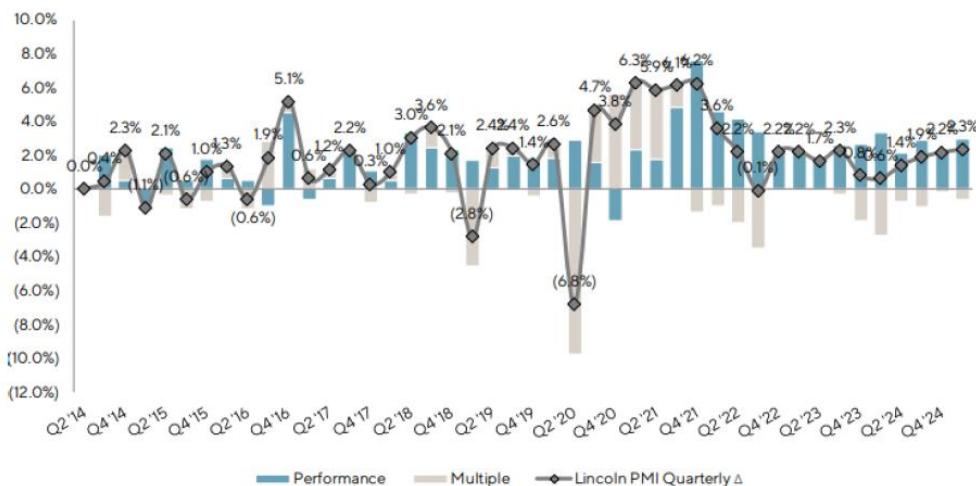
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PRIVATE ASSET CLASSES

Private Equity

Private equity (“PE”) holdings are expected to continue to deliver robust performance with anticipated EBITDA growth exceeding possible multiple contraction, helping GP holdings to move closer into their initial investment case and supporting the outlook for increasing valuations going forward.

EBITDA Growth has been a Main Driver for Increasing PE Valuations: Quarterly Changes in Enterprise Values – the Lincoln Private Market Index (PMI)



Source: Lincoln Private Market Index – Lincoln International LLC, Q4 2024.

Valuations have broadly stabilized and the gap between (higher) holding and (lower) exit valuations has diminished, translating into lower bid-ask spreads.

Active Investments versus Investments Exited

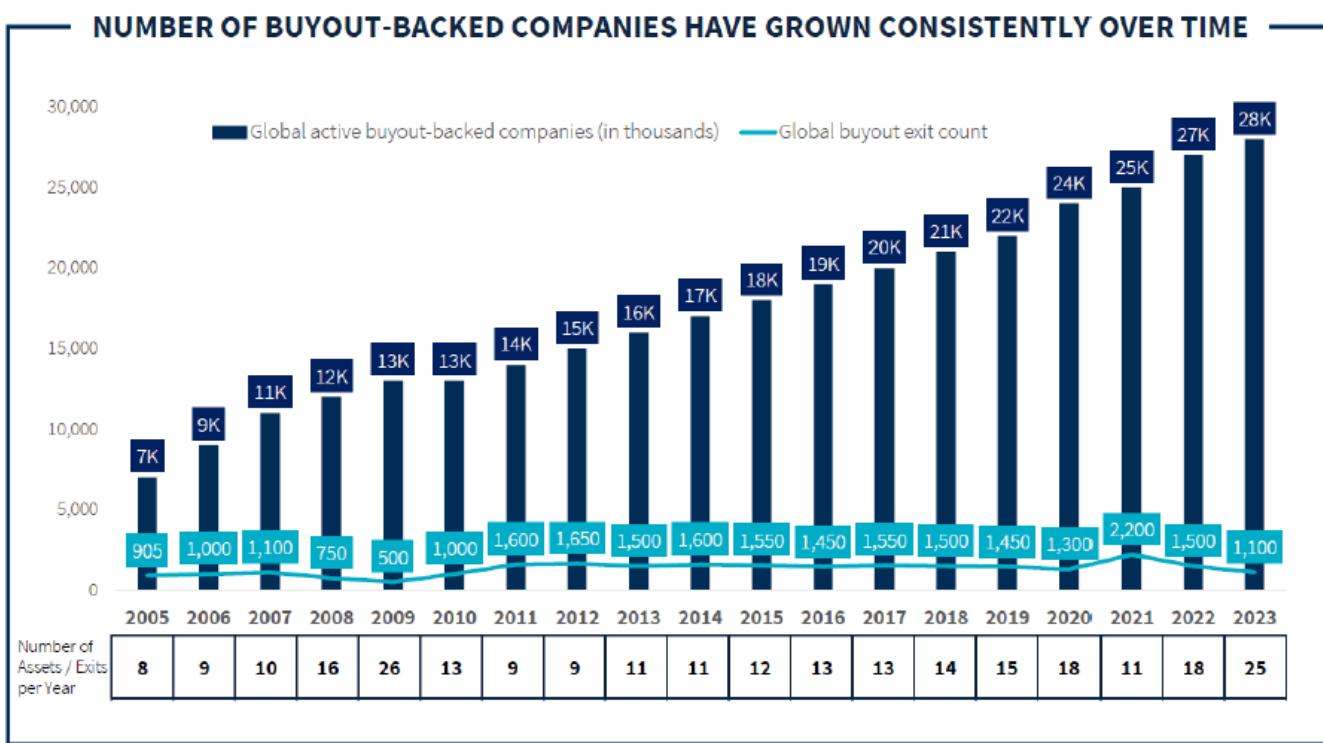


Source: MSCI – Private Capital in Focus: 2025 Trends to Watch, January 2025.

The improvement in buy-out deal activity seen in 2024 is forecasted to gain further traction given the robust economic situation and tailwinds in the U.S. linked to the fiscal and supply-side economic policies of the new U.S. administration.

However, the current backlog of portfolio companies to be exited in the near term is at an all-time-high with “exits-to-investments-ratios” still trending down and shallower DPIs.

Growth in the PE Market: 28,000 Companies Worth \$3.2 Trillion with Extended Hold Periods



Sources: W Capital Partners, PitchBook, Preqin, Bain & Co Global PE Report March 2024.

Liquidity Solutions are Here to Stay

Against this backdrop, we expect to see rising volumes of LP-led secondary transactions as well as GP-led liquidity solutions (including minority recapitalizations, bespoke GP solutions and continuation vehicles (“CV”s)). This will help provide liquidity to LPs and should improve DPI over the remaining lifetime of PE funds. With capital providers placing growing emphasis on alignment, downside protection and protective rights, we are seeing increased activity in direct secondaries including minority recaps. In a context where investment volumes continue to outpace exit volumes and distributions are only gradually trending upwards from historic lows, these liquidity solutions are a portfolio management tool that is here to stay.

The Challenging Deal Landscape Favors Established GPs

In our view, the GPs likely to emerge as winners are those that can successfully confront a challenging deal landscape. The challenges are threefold:

- 1) Coping with and creating value while holding more portfolio companies for longer.
- 2) Managing increasing pressure from LPs for (partial) liquidity via exits.
- 3) Sourcing new investments while, in parallel, spending more time on the road fundraising with LPs that tend to have a “flight to familiarity” approach, i.e. renewing and/or increasing commitments to GPs with whom they have well-established partnerships.

These challenges will drive more pronounced GP polarization and consolidation. It is important to monitor the possible ramifications for GPs that are less successful in fundraising.

Certain GPs may well see these challenges as an opportunity. These include GPs that have: (i) weathered economic downturns in prior vintages, (ii) the proven operational capability to create value across cycles, i.e. less dependency on beta-induced multiple expansion, and (iii) invested early in investor relations resources.

Limited Change in Favored Sectors

Sector-wise, we do not expect significant shifts in terms of deal activity versus 2023 and 2024. The technology sector should continue to dominate with artificial intelligence (“AI”) -related deals expected to gain further traction. Secular trends like digitization are still materializing.

Mid-market strategies may be of interest, in our view, thanks to more moderate leverage and greater scope for operational improvements aimed at delivering value and returns across cycles. Additionally, a growing number of (strategic) buyers could mean more exit channels and less dependence on IPOs.

An uptrend in the volume of (minority) **GP stake transactions** is expected to linger against the background of further consolidation in the asset management industry, increasing the need for GPs to meet GP-commitment requirements from LP for proper alignment of interests.

Infrastructure Equity

Demand for infrastructure investments has been driven by long-term secular trends including decarbonization, digitization (including AI) and deglobalization. We expect this to continue as sizeable investment volume is needed in the years to come.

We did, however, see a further slowdown in infrastructure M&A deal activity in 2024. This implies less distributions to LPs who are already contending with negative net cash flows (i.e. contributions exceeding distributions) over the last decade. While this pattern is also explained by the long-term nature of infrastructure investments, with less frequent portfolio disposals, LPs scaled back on new commitments in 2024. Against this backdrop, we expect another year ahead with significant secondary transactions as LPs and GPs alike use this marketplace to produce cash and/or reposition their portfolios.

Lower Transaction Multiples Help Foster More M&A Activity

A pick-up in M&A activity seems likely in 2025, especially in regions with strong policy support, straightforward policy frameworks and strong economic growth. Late in 2024, deal volume began to rebound with transaction multiples at 14x EV / EBITDA, two turns lower than the peak in 2022, helping to bring buyers and sellers together more often.

Private Infrastructure EV/EBITDA Transaction Multiples



Source: Macquarie Report "Outlook 2025."

We see "core +" and "value add" infrastructure strategies, i.e. those with potentially greater potential for unlocking asset growth, as better positioned versus "core" assets which continue to compete for funding in a context of investment grade ("IG") yields.

Sectors facing challenges augmented by Trump 2.0-induced ramifications such as cuts in subsidies for renewables include offshore wind and hydrogen, given wavering policy stability and muted sales of electric vehicles ("EVs") and thereby lower demand for EV charging.

Private Debt

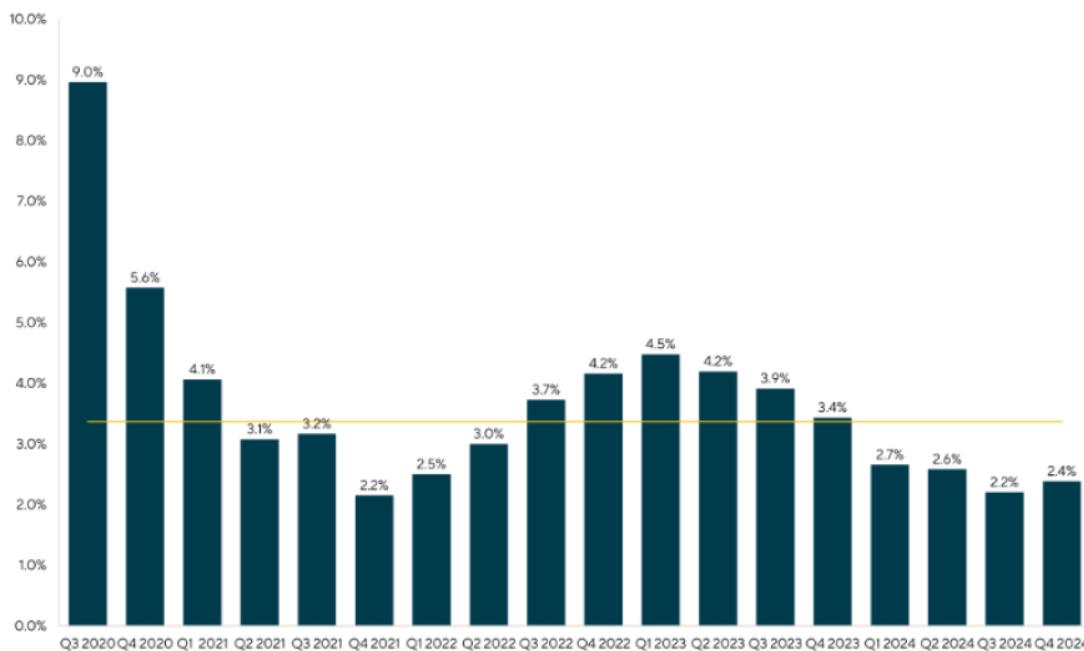
Assets under management in private debt ("PD") have steadily risen, a trend we expect to continue with a net increase of investors' target allocations to this asset class. PD financing can appeal to borrowers seeking tailor-made debt financing and lenders alike, this despite a recent revival of the public (i.e. broadly syndicated loan, "BSL") market.

European PD spreads are still expected to exceed U.S.-related PD spreads by 50-100bps due to more competition in the U.S. Investing in non-sponsor PD to mid-market borrowers in the U.S. could help yield an additional U.S. spread of 100-200bps. This would also compensate for a different underwriting / risk profile with more due diligence resources and bespoke credit agreements needed.

Covenant-based PD still offers a spread pick-up of 150-200bps and 550-600bps versus BSLs and base rates, respectively, including the illiquidity premium. However, spread levels in BSL and PD have flattened across the board since 2022 due to increasing competition among lenders to deploy capital. We do not expect this competition to abate in the short-term given the significant level of dry powder sitting on the sidelines. However, a significant uptick in LBO-related M&A activity might boost loan supply and lead to some spread widening down the road.

We expect default rates to increase only slightly from current low levels, remaining below the long-term average of 4%. Smaller borrowers are particularly impacted by higher-for-longer base rates, but significant repricing and refinancing activity in 2024 will help manage debt servicing costs going forward. Fixed charge coverage ratios have already rebounded since early 2024 and the covenant default rate has steadily declined since early 2023.

PD Loan Covenant Default Experience



Source: *Lincoln Senior Debt Index – Lincoln International LLC*, Q4 2024.

In our view, stress-tested future default and/or recovery rates still imply a decent cushion in terms of net yields, underpinning downside protection for lenders and thus the solid positioning of PD in both challenging economic scenarios and in an upside scenario with more M&A-driven financing demand. Lower- to mid-market segments are of interest, with supply and demand tending to favor lenders.

Augmented PD Investment Universe

We expect demand for “capital situations”-linked strategies offering a spread-pick of 500bps versus first lien PD to gain momentum. This strategy may potentially complement pure unitranche-based PD and implies highly bespoke financing including pre-agreed “payment in kind” (PIK) and equity-kickers while targeting high running cash yields. We foresee higher issuance of IG-rated debt financing providing borrowers with access to rapid execution of tailor-made financing and balance sheet optimization solutions.

Hedge Funds

2024 saw positive performance, on average, for hedge funds across all strategies. Equity long-short and multi-strategy managers performed particularly well.

In our view, the environment remains very supportive, and we expect to see double-digit returns for a well-diversified hedge fund portfolio in 2025. Economic uncertainty, trade tariffs and inflationary pressures are elements contributing to a higher volatility environment which has traditionally been good for hedge fund strategies. At the same time, the Trump election removes some regulatory uncertainties which should be favorable for M&A in regulated segments like healthcare. We are confident that this combination of factors should lead to more trade opportunities and drive returns for a number of managers.

SUMMARY AND CONCLUDING REMARKS

- **We expect the appetite for private assets to continue.** The total share of private versus public markets is still low with growth of total private market investments expected to last, including via a significant untapped pool of capital from retail investors potentially on the horizon.
- **Deregulation, a positive macro environment in the U.S. and looser monetary policies in developed markets should, in our view, be beneficial** for private markets, and we expect these trends to foster higher M&A activity and thereby more cash distributions to investors.
- **GPs will have to catch-up with LP expectations** on distributions to regain momentum on the (re-)commitment cycle with LPs. In our view, this should strengthen the case for a buoyant secondary market in 2025.

PE	<ul style="list-style-type: none"> • Robust EBITDA growth of PE-held companies expected to persist, supporting the case for a positive evolution in valuations and with potential tailwinds from additional central bank rate cuts leading to lower leverage costs and narrower bid-ask-spreads • Trend of improving buy-out deal activity seen in 2024 is forecasted to gather more steam amid a robust economic situation in the U.S., though the backlog of portfolio companies to be exited is high. The magnitude of liquidity solutions (GP-led secondaries including CVs) is expected to continue to grow, helping to provide LPs with liquidity / improve DPI during the remaining lifetime of PE funds • Mid-market strategies seen as attractive particularly due to lower leverage, less dependence on IPO's and untapped potential for operational improvements to deliver value / returns over cycles and with potential future tailwinds from more deregulation in the U.S.
INFRA	<ul style="list-style-type: none"> • Long term secular trends seem set to continue, including digitization / artificial intelligence, decarbonization and deglobalization. This implies significant investment volume needed in the years to come. Potential Trump 2.0 ramifications on decarbonization linked strategies, i.e. renewables, in the U.S. should be monitored closely. • Core + / value add strategies, with their potential to unlock asset growth, are seen as better positioned versus core infra structure assets given that IG fixed income yields are still elevated • Rebound in M&A activity seen in late 2024 is expected to gain further traction following a decrease in EBITDA multiples by 2x from their peak
PD	<ul style="list-style-type: none"> • Still strongly sought after by borrowers and lenders / GPs alike despite a recent revival of the BSL market. PD still offers lenders an appealing spread pick-up (versus BSL) of 150-200 bps with decent down-side protection and borrowers able to access tailor-made financing

- **Stress-tested future default rates still exhibit a decent cushion in terms of net yields to investors.** PD is well-positioned in rather difficult economic scenarios and could also benefit in an upside-tilted environment (with more M&A creating more demand for PD financing)
- **Augmented PD universe** will include borrowing by IG-rated companies and more bespoke “capital situation”-linked strategies

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