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Outlook for private markets 2025:

Interest rates higher for longer has important implications for private markets

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Apollo Global Management

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Unless otherwise noted, information as of January 2025.

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Source: Apollo Chief Economist

Outlook for private credit in 2025

Buoyant equity markets, tighter credit spreads, and a cheaper cost of debt capital can lead to more corporate transactions in 2025. Default rates remain low in most cases. We continue to see a clear delta between credit spreads in the public and private markets—that is, investors can earn a premium for lending in the private markets.

We see the most attractive opportunities in lending to businesses with recurring revenue streams that generate a lot of cash flow, that have variable expense structures, and low capex spending-to-revenue ratios. The above attributes lead to stronger leveraged borrower profiles, in our opinion. We point toward one of our primary factors behind the strength of the US economy—the data center buildout. Data centers are typically financed using asset-backed securities, project finance, and private credit, and this macro trend can be a significant source of opportunity.

While leveraged buyout (LBO) activity has picked up in the public markets—the third quarter of 2024 saw the highest level of LBO volume since the first quarter of 2022—LBO volume in the private markets was 50% greater than in the public markets during the first nine months of 2024. There are a lot of opportunities to lend. A high wall of maturities in 2027-2028 can also provide a fresh source of refinancing opportunities.

Higher interest rates for longer can translate into higher yields in private credit, especially for newer vintages as investors seek potential substitution for on-the-run bonds (which, given tight spreads, are trading at lofty valuations). That said, given the risks we see on the horizon, we believe it is paramount to seek first-lien, first-dollar, senior-secured, good covenants, top of the capital structure opportunities. Middle market opportunities are still plentiful. We also see opportunity in direct lending and origination, especially in the asset-backed finance world.

Source: Apollo Chief Economist

Higher interest rates have laid bare some of the weaknesses in business models that were dependent on a cheaper cost of debt capital, especially those that are capex intensive. That's created particular stress in industries that are also seeing increased competition, such as telecom and cable. This has led to individual opportunities to buy secured, downside protected positions in companies that are going through a change in their business model and an evolution in their cost of capital. We see opportunities to get capital to companies that are good businesses in good competitive positions in their subsectors but are going through a change in their funding models.

We also continue to see increased *convergence* of private and public markets with respect to partnerships between alternative investment managers and banks that are focusing on origination. Although often portrayed as adversaries in the media, the reality is that banks and asset managers are increasingly working together. More than a dozen banks have partnered with private credit firms in the last 12 months, a significant increase from the two partnerships announced the previous year. We believe these partnerships should bolster the volumes of private credit origination and expand the breadth of companies accessing the private market. They may also be a source of existential questions: If a deal is originated by a bank but financed by an alternative manager's balance sheet, is it is public or a private deal? Does it even matter?

We also see more opportunities for direct lending in the year ahead, on the heels of enormous growth in 2024. Companies are pivoting to the private credit markets not so much as a response to the level of rates but more as a reaction to how sponsors and management teams are looking to finance their business.

Lastly, if interest rates remain higher, as we expect, and the terminal fed funds rate stays higher than where it has been historically, then credit we believe can be an attractive asset class in the near- to medium-term. With opportunities in credit to create attractive return profiles that are downside protected, we see private credit as an attractive alternative to overvalued public equities.

Source: Apollo Chief Economist

Outlook for private equity in 2025

Fed cuts in 2024 could spark a new wave of deals as, on one hand, sponsors seek to deploy capital raised in the past three years and, on the other, managers may be willing to part with existing investments as cheaper borrowing costs may bolster valuations.

Opportunities in the private equity secondary market remain interesting. Specifically, GP-led deals—those through which general partners negotiate asset sales directly with secondary buyers—have been the fastest growing segment of private equity secondaries since 2018, and accounted for almost half of all secondary transactions in 2022 and 2023. This increase is a result of continued innovation as well as a slowdown in traditional exit avenues such as initial public offerings (IPOs) and mergers & acquisitions (M&A) during a period of higher interest rates. We believe that GP-led deal volume will remain strong even in a more normalized environment, as secondary transactions have become a key component of the private market ecosystem.

Just as with the broader secondaries market, we see the potential for GP-led deals as a function of a) an investment manager's relationships with general partners, b) the size and flexibility of the investment platform, especially as regards innovative capital solutions, and c) the deep industry expertise that accrues to large direct investors.

We believe the secondaries market can offer excess return per unit of risk when compared to other private market strategies due to a variety of factors, including a rapidly evolving secondary investment landscape.

Source: Apollo Chief Economist

Structured finance, including hybrid strategies, remains particularly interesting as well, and we currently see an opportunity to identify hybrid opportunities with credit-like downside protection and equity-like upside. In the heyday of low rates, which were characterized by a low single-digit cost of debt, investors moved up the risk spectrum in search of strong equity returns. In today's more normal rate environment, with high single-digit costs of debt, equity returns are being squeezed and investors are moving *down* the risk spectrum toward hybrid opportunities.

A hybrid approach can fit in between the traditional private credit and private equity portions in a portfolio, with the potential to decrease volatility while increasing downside protection. Hybrid investors have a variety of vehicles at their disposal, including mezzanine debt, preferred equity (with warrants), convertible preferred, and structured common equity.

There is plentiful demand for hybrid solutions, including M&A financing and capital for growth, re-equitization of over-levered balance sheets, owner and sponsor liquidity solutions, and financing to support public company growth initiatives. Estimates suggest that companies will require significant capital to fund growth in the years ahead, including $30 trillion to $50 trillion for energy transition, $30 trillion for power and utilities, and $15 trillion to $20 trillion in digital infrastructure.

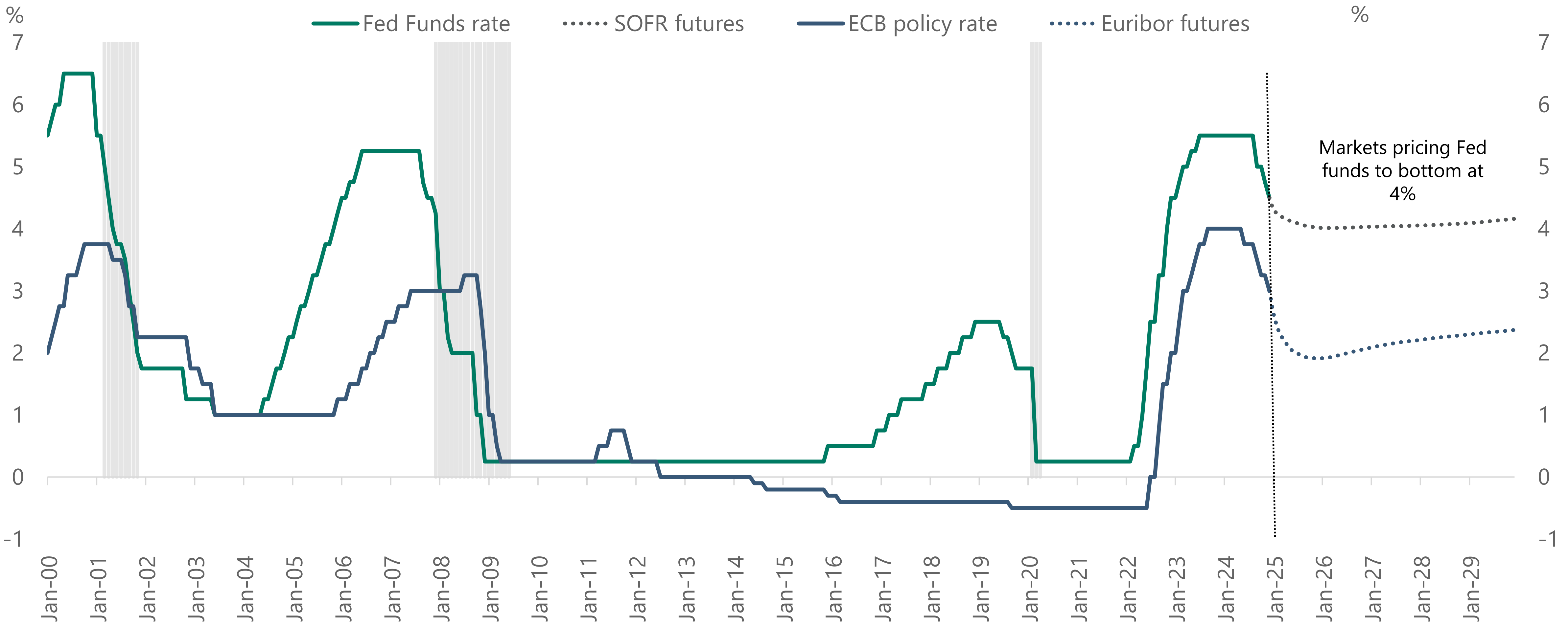
Market inefficiencies have generated a supply-demand imbalance for hybrid capital, dry powder for which is less than 25% that of private debt and less than 10% that of private equity. As of March 2024, hybrid capital strategies sat on an estimated $78 billion of dry powder, versus $333 billion in the private debt space and $1,055 billion available for buyouts.

For more discussion, see our 2025 outlook here:
https://www.apolloacademy.com/new-white-paper-2025-economic-outlook-firing-on-all-cylinders/

Source: Apollo Chief Economist

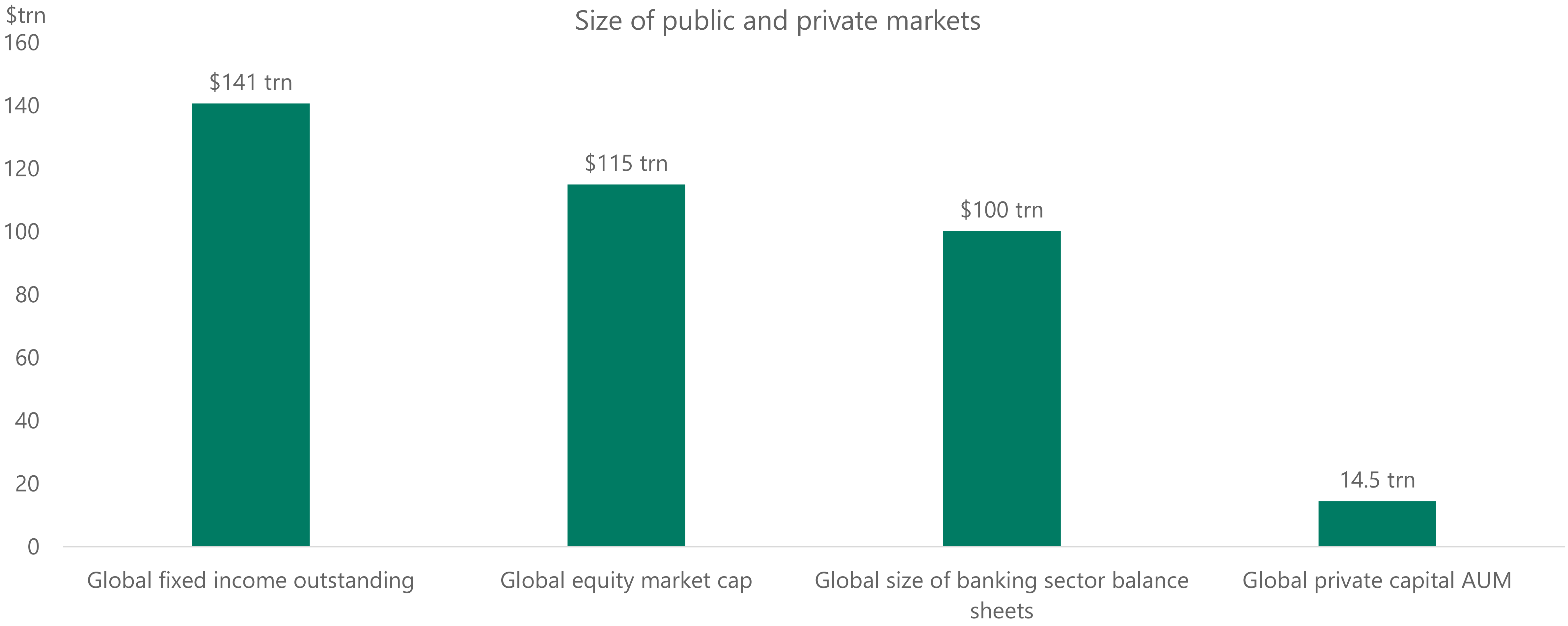
1. Overview

Interest rates higher for longer has important implications for private markets



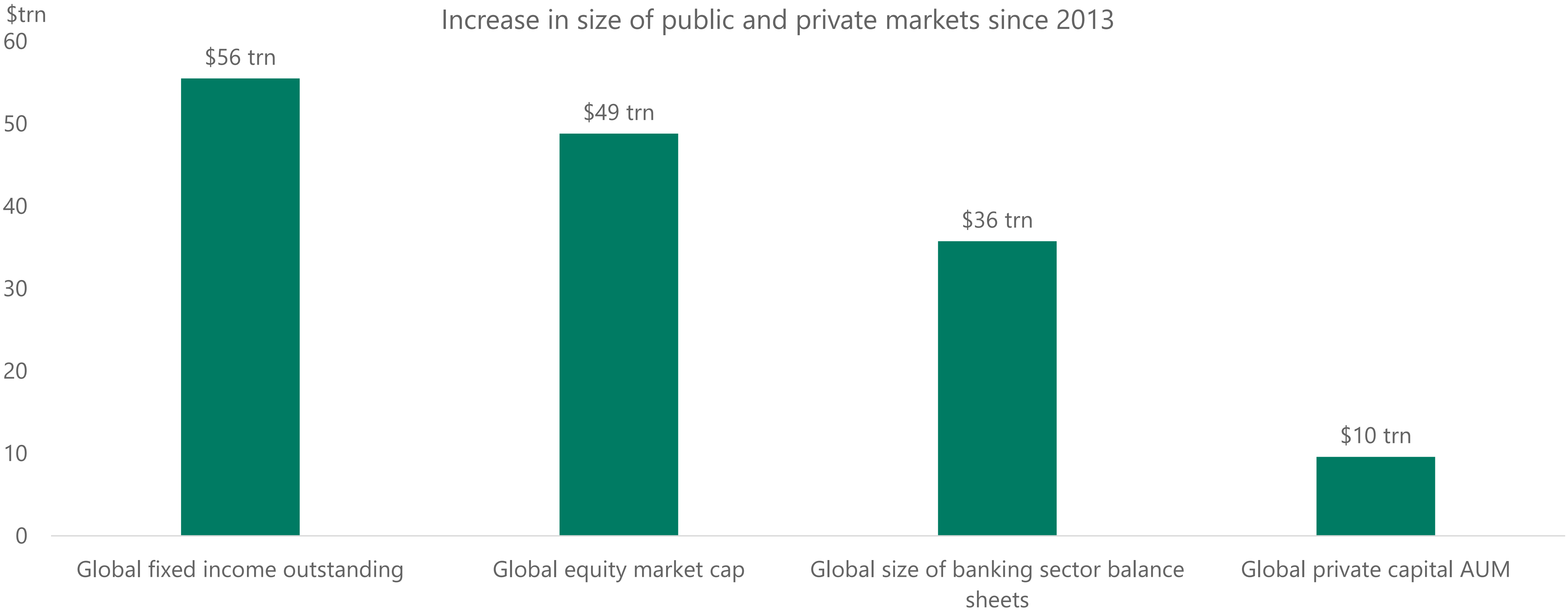
Source: Bloomberg, Apollo Chief Economist

Comparing public and private markets



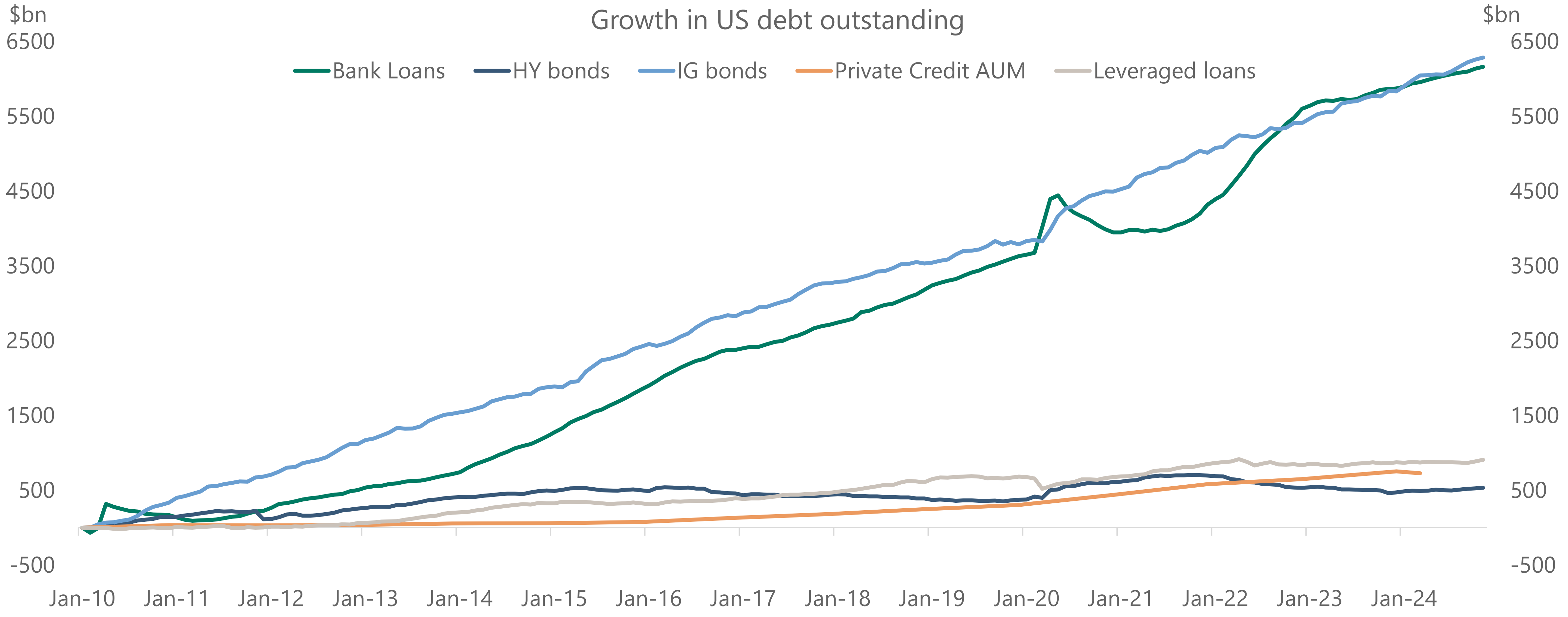
Source: SIFMA, BIS, PitchBook, Apollo Chief Economist. Note: Data as of 2023 and 2024 Q2 (BIS data) and 2024Q1 for private capital

Comparing growth in public and private markets since 2013



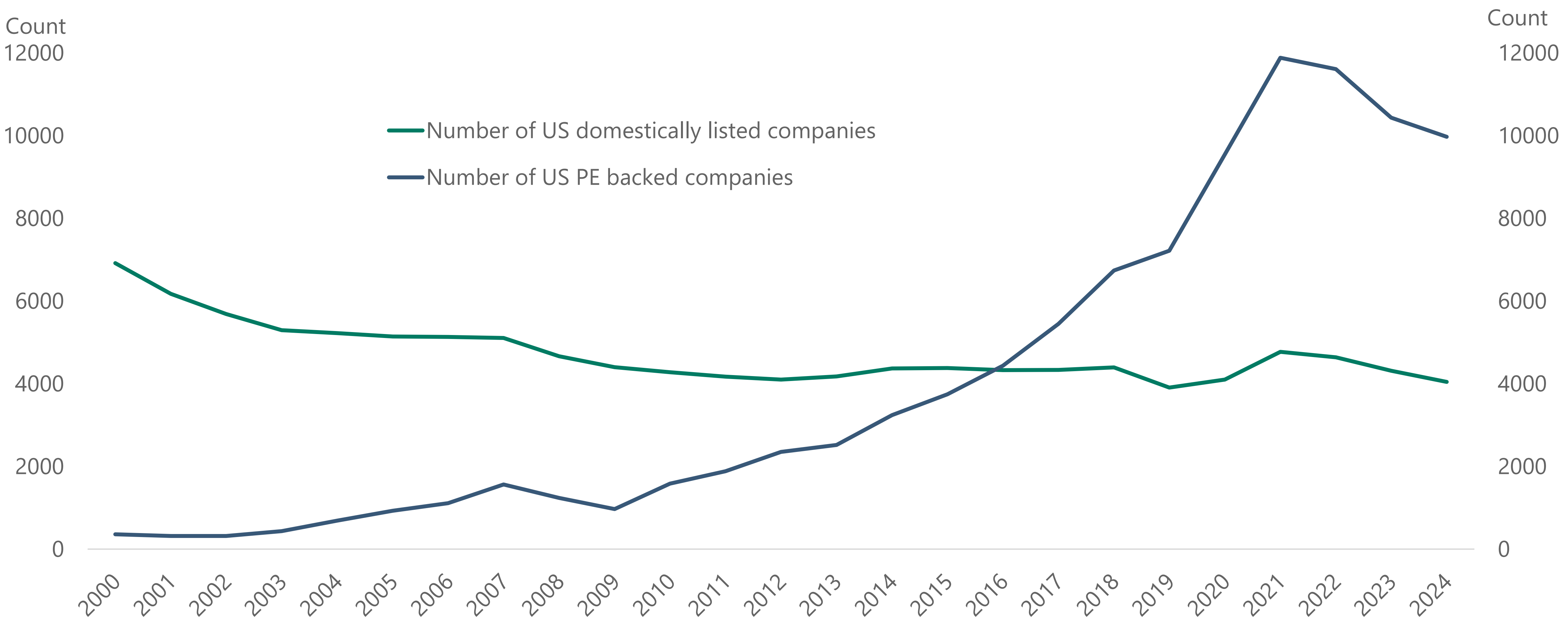
Source: SIFMA, BIS, PitchBook, Apollo Chief Economist

Since 2010, lending by banks has increased by $6.2trn, IG markets have grown $6.3trn, HY markets have grown $500bn, and private credit AUM has increased by $750bn.



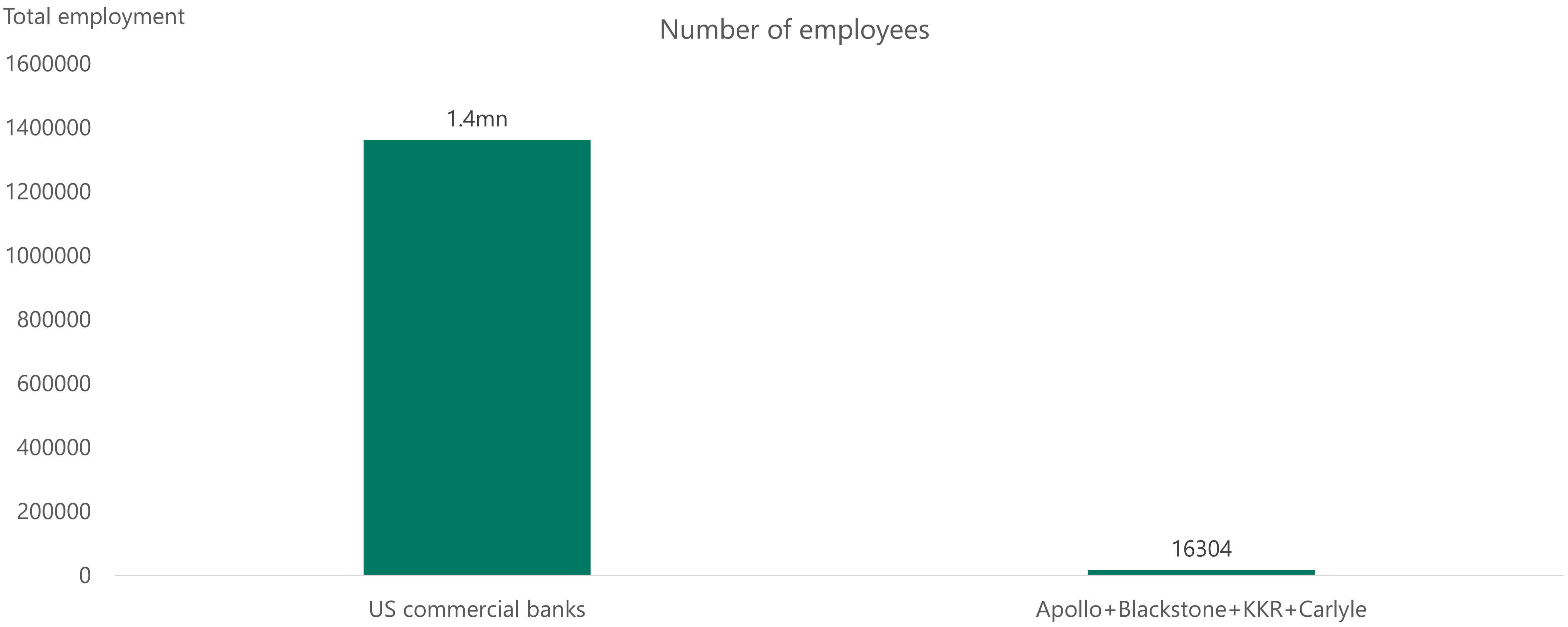
Source: FRB, ICE BofA, Bloomberg, Apollo Chief Economist

The number of PE-backed companies and the number of publicly-listed companies



Source: World Federation of Exchanges, World Bank, PitchBook, Haver Analytics, Apollo Chief Economist

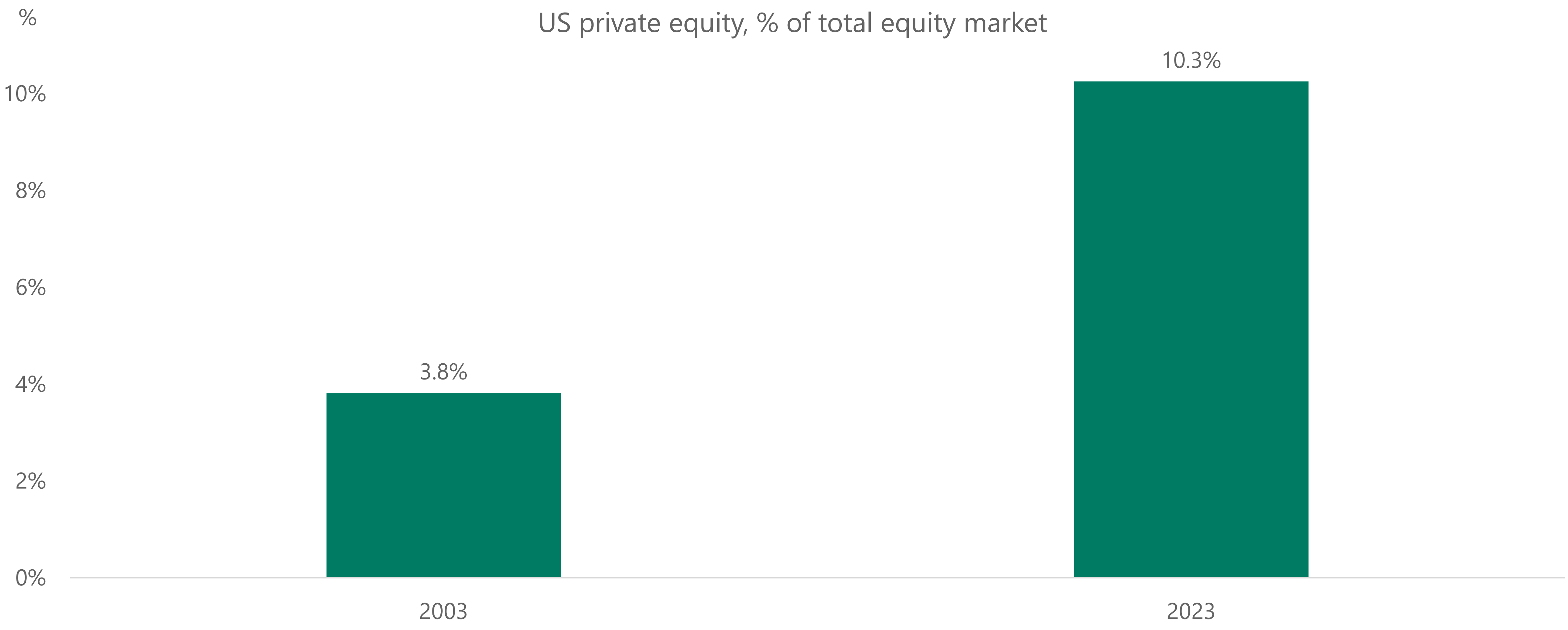
Total employment in US commercial banks: 1.4mn



Source: Haver, Apollo Chief Economist

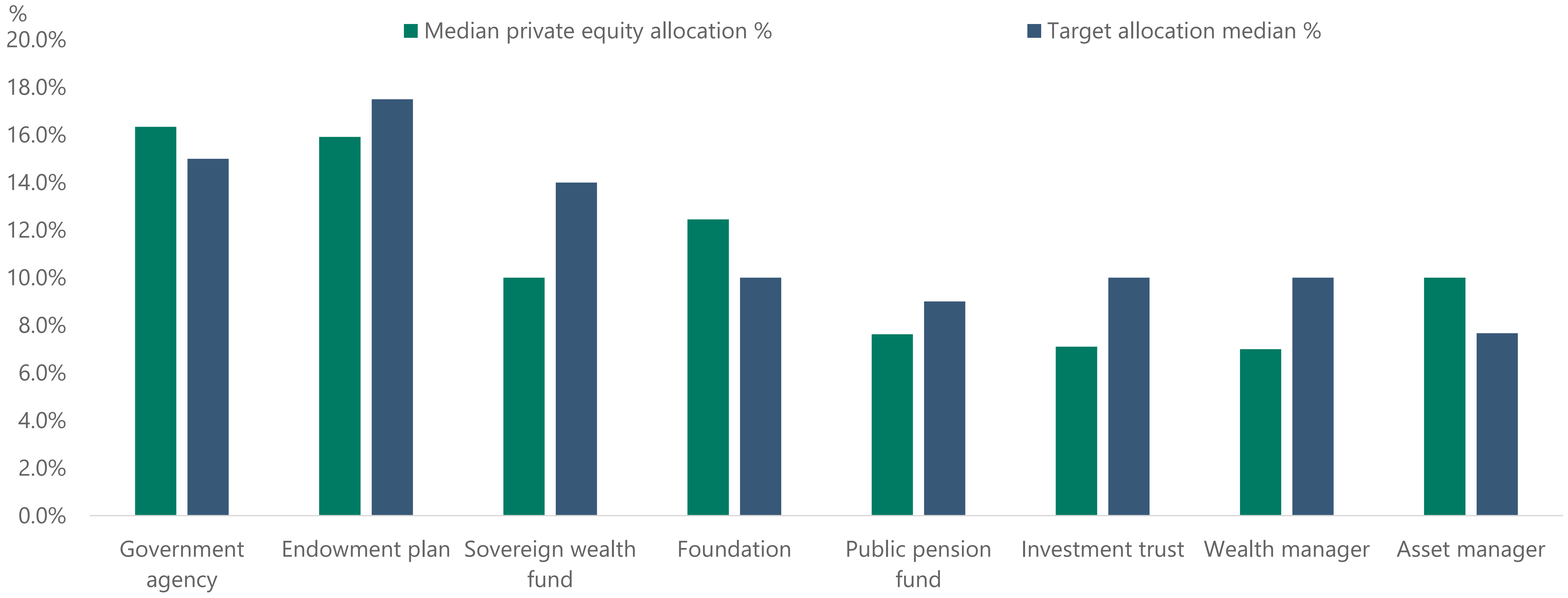
2. Private equity

Private equity as a percentage of all equity outstanding



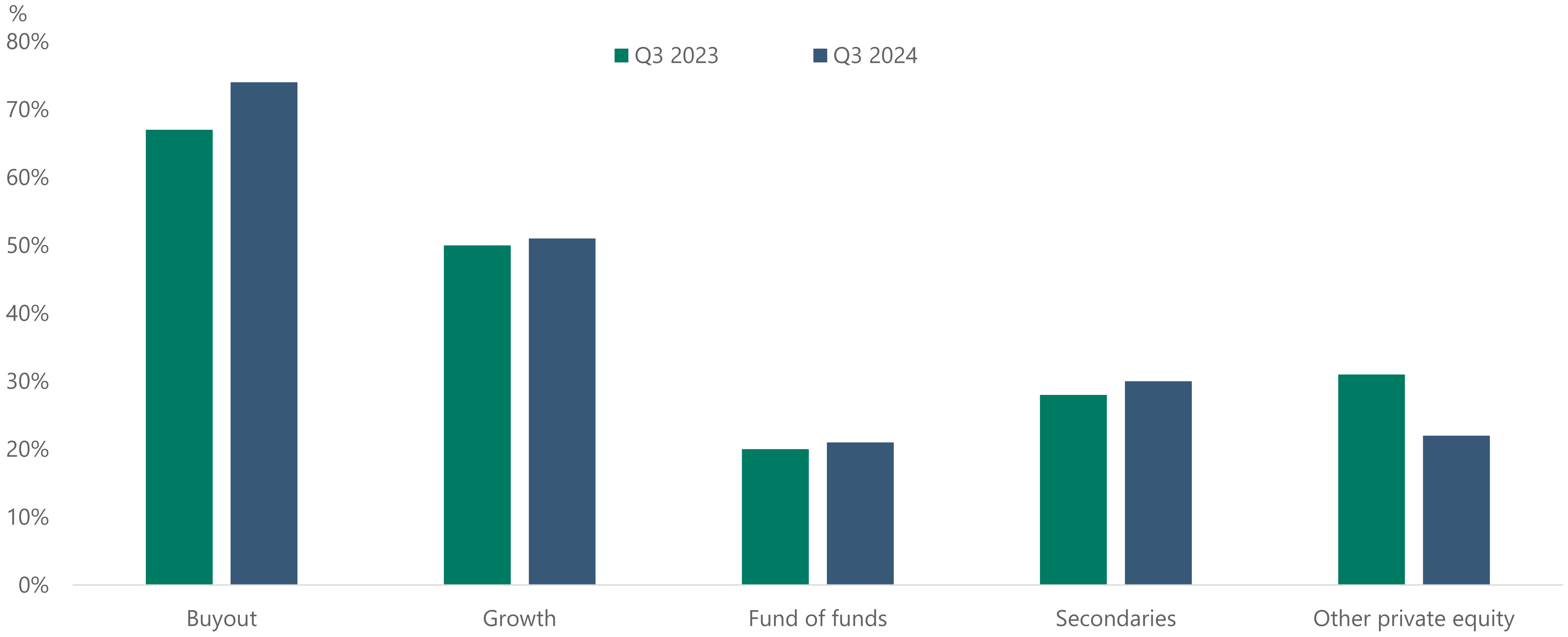
Source: Bloomberg, Preqin, Apollo Chief Economist

Median current and target private equity allocations by investor type, ranked by aggregate AUM of investors by type, Q3 2024



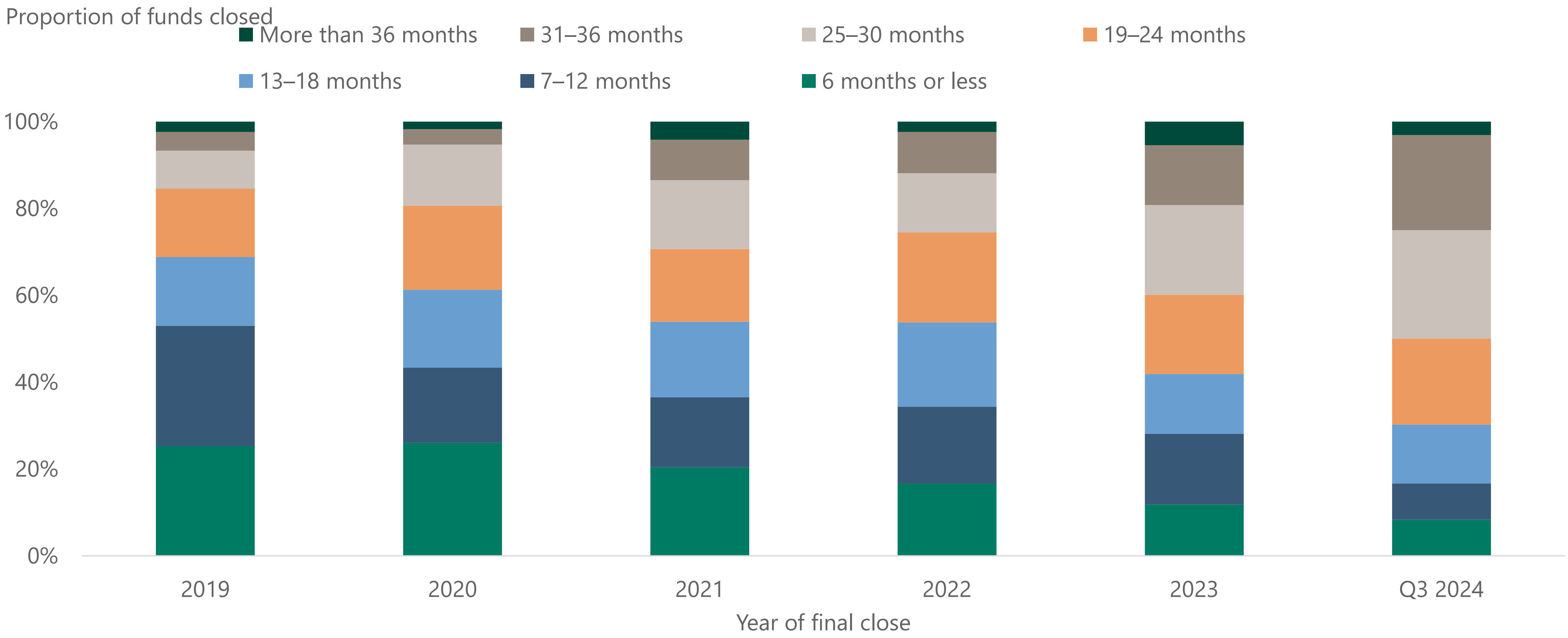
Source: Preqin Pro, Apollo Chief Economist

Strategies targeted by investors over the next 12 months vs. Q3 2023



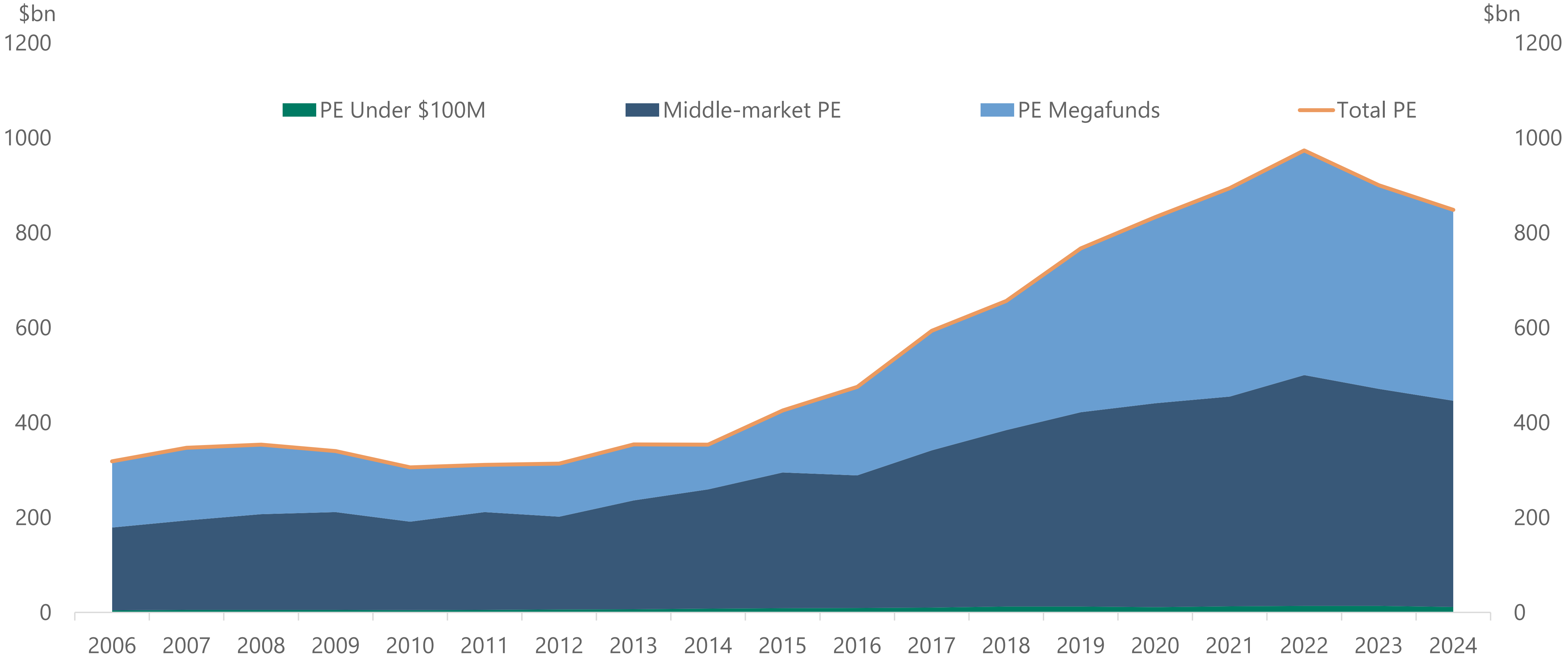
Source: Preqin Pro, Apollo Chief Economist

Private equity funds closed, by time spent in market



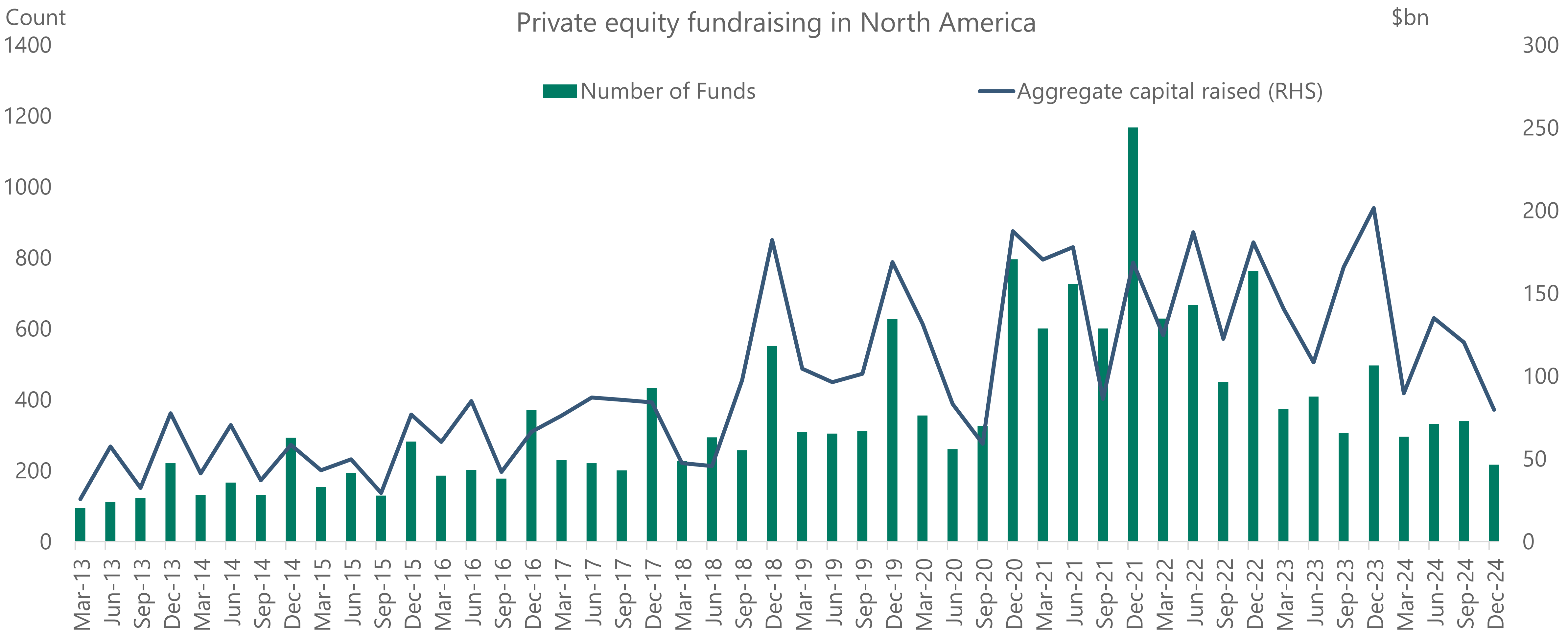
Source: Preqin Pro, Apollo Chief Economist

The composition of PE dry powder



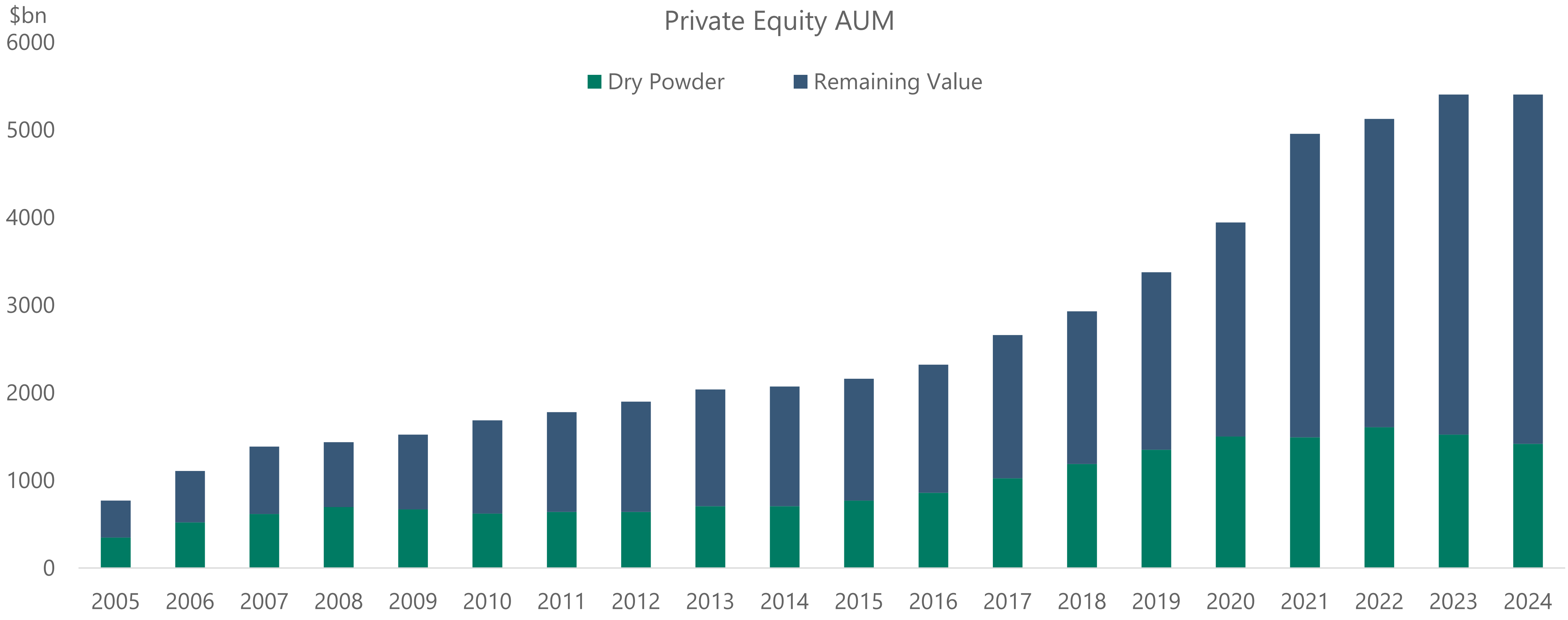
Source: PitchBook, Apollo Chief Economist. Note: Data as of 31st March 2024

Private equity fundraising trending lower after the Fed started raising rates in 2022Q1



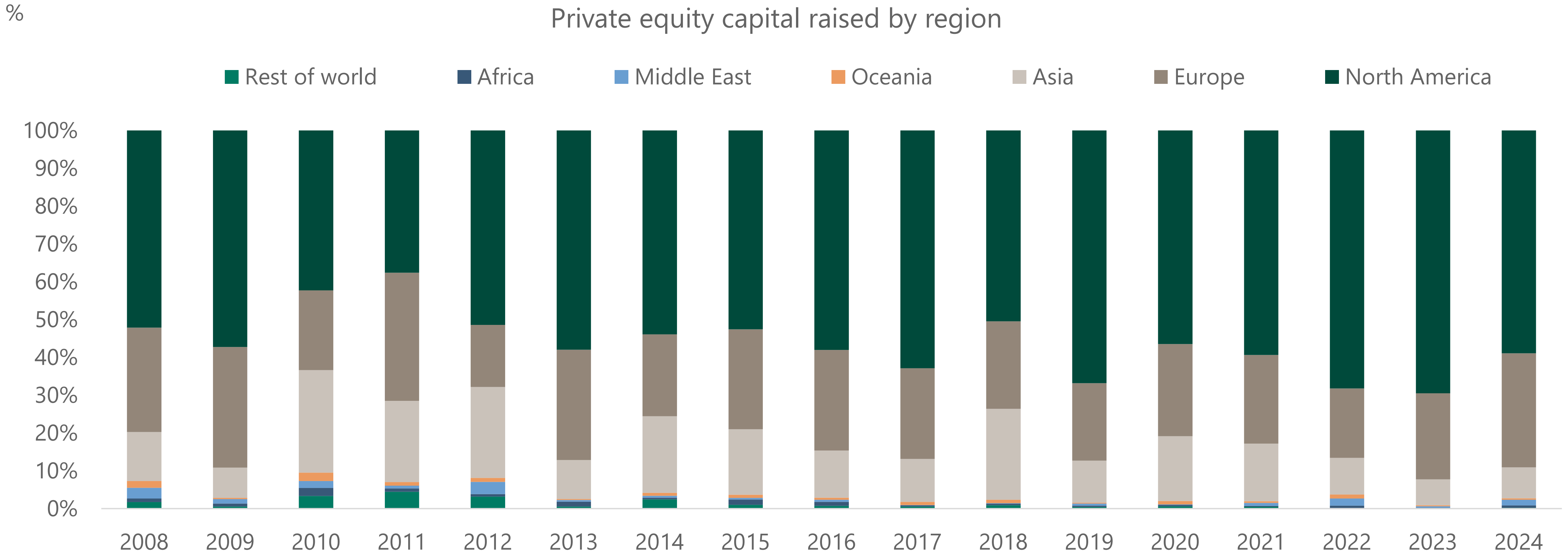
Source: Preqin, Apollo Chief Economist

Global private equity AUM is around $5.4trn



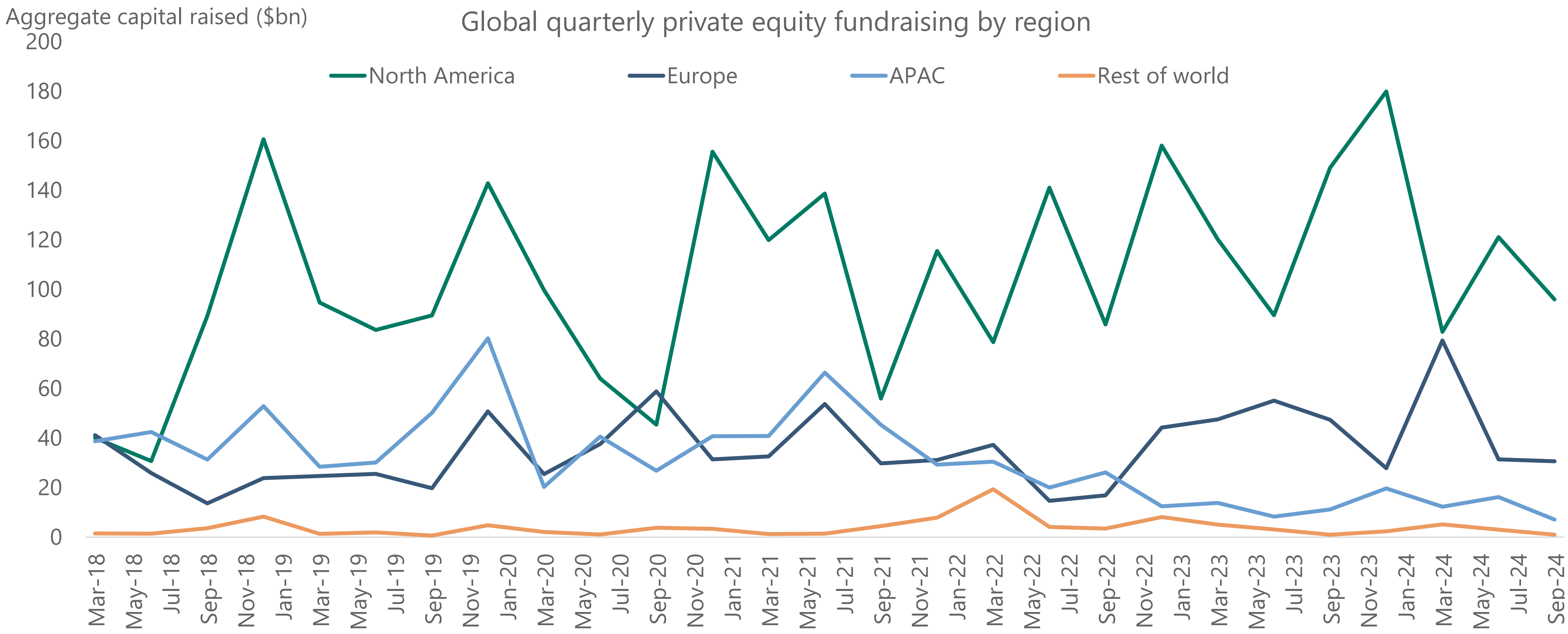
Source: PitchBook, Apollo Chief Economist. Note: Data as of 31st March 2024

60% of global private equity capital is raised in North America



Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

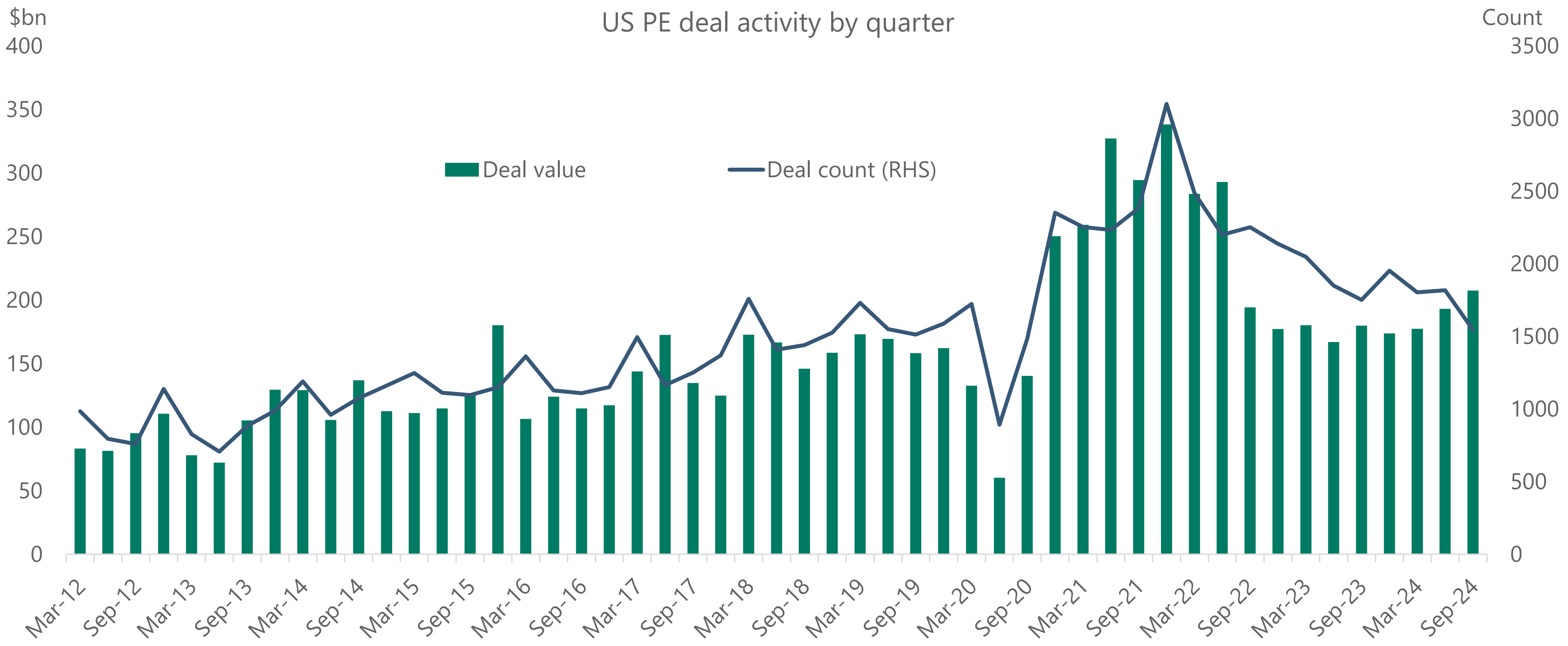
PE fundraising by region



Source: Preqin Pro, Apollo Chief Economist

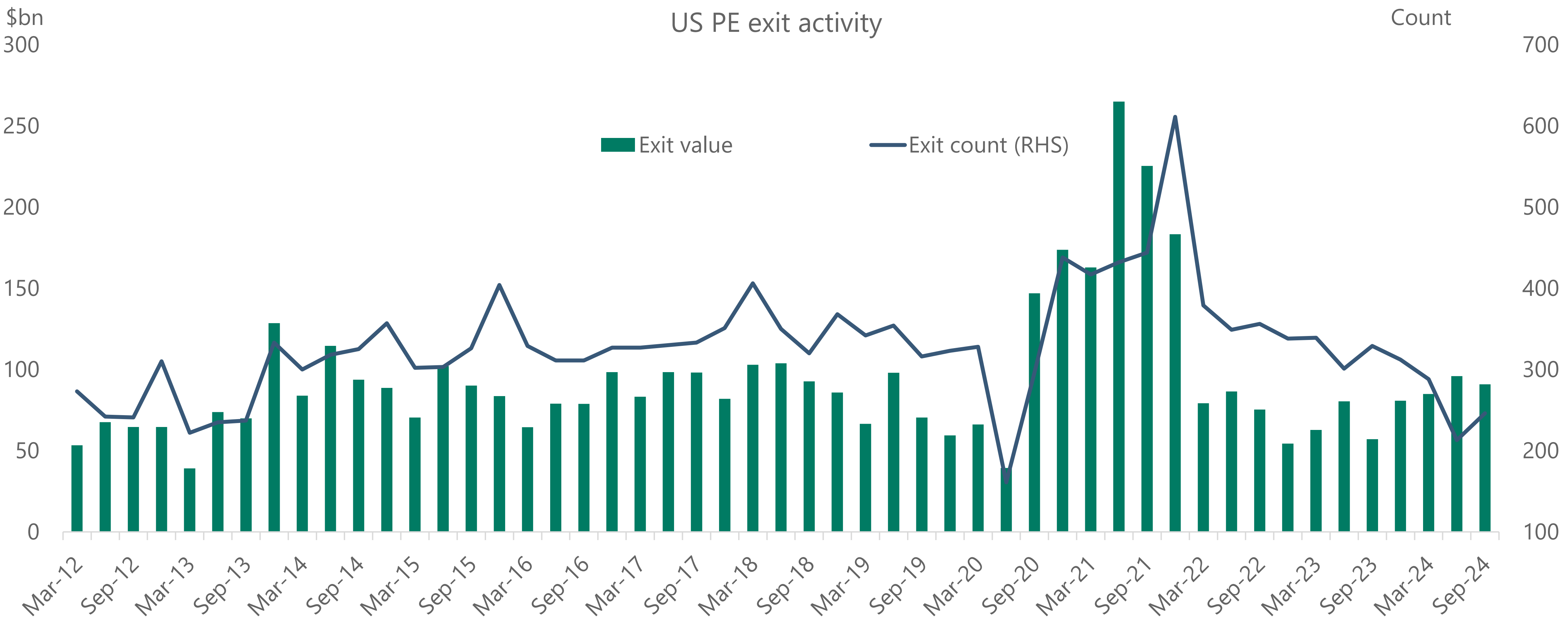
3. Recent PE deal activity

US PE deal activity



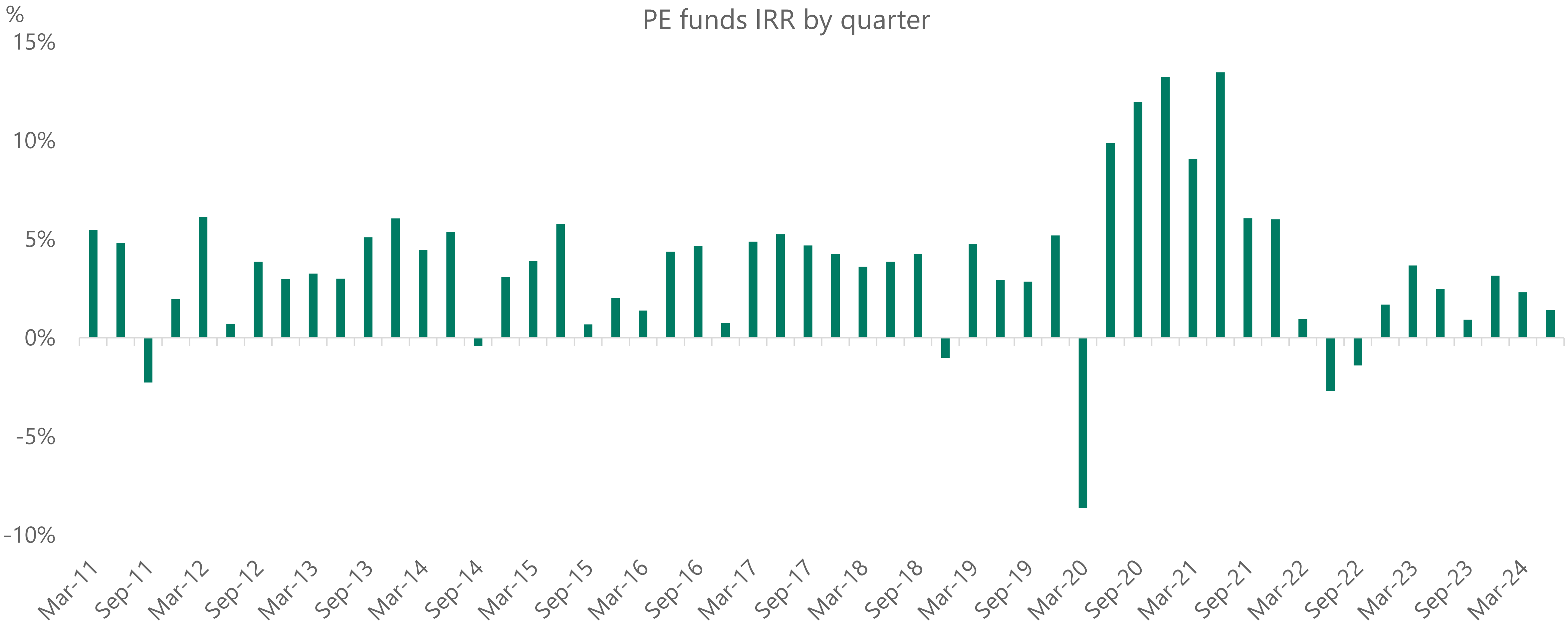
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

PE exit activity declining after the Fed raised rates in 2022Q1



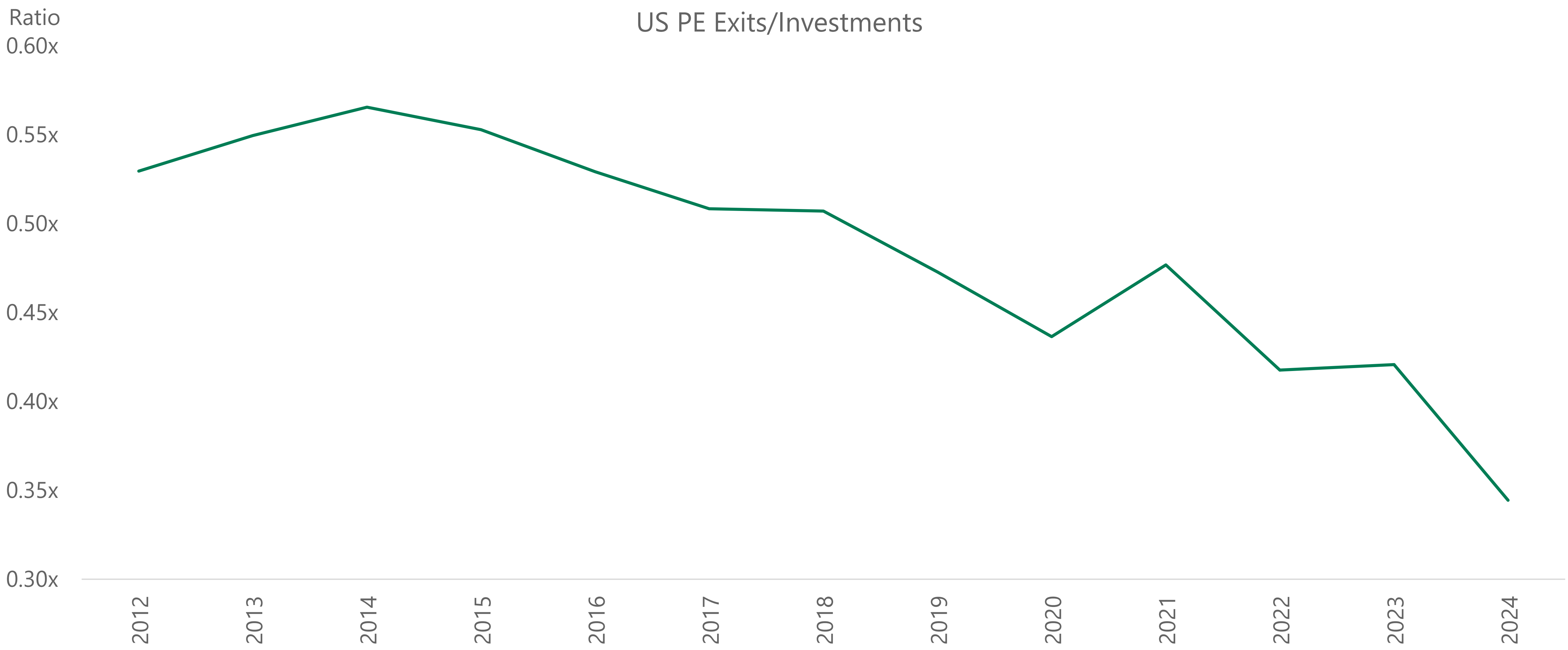
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

PE funds IRR



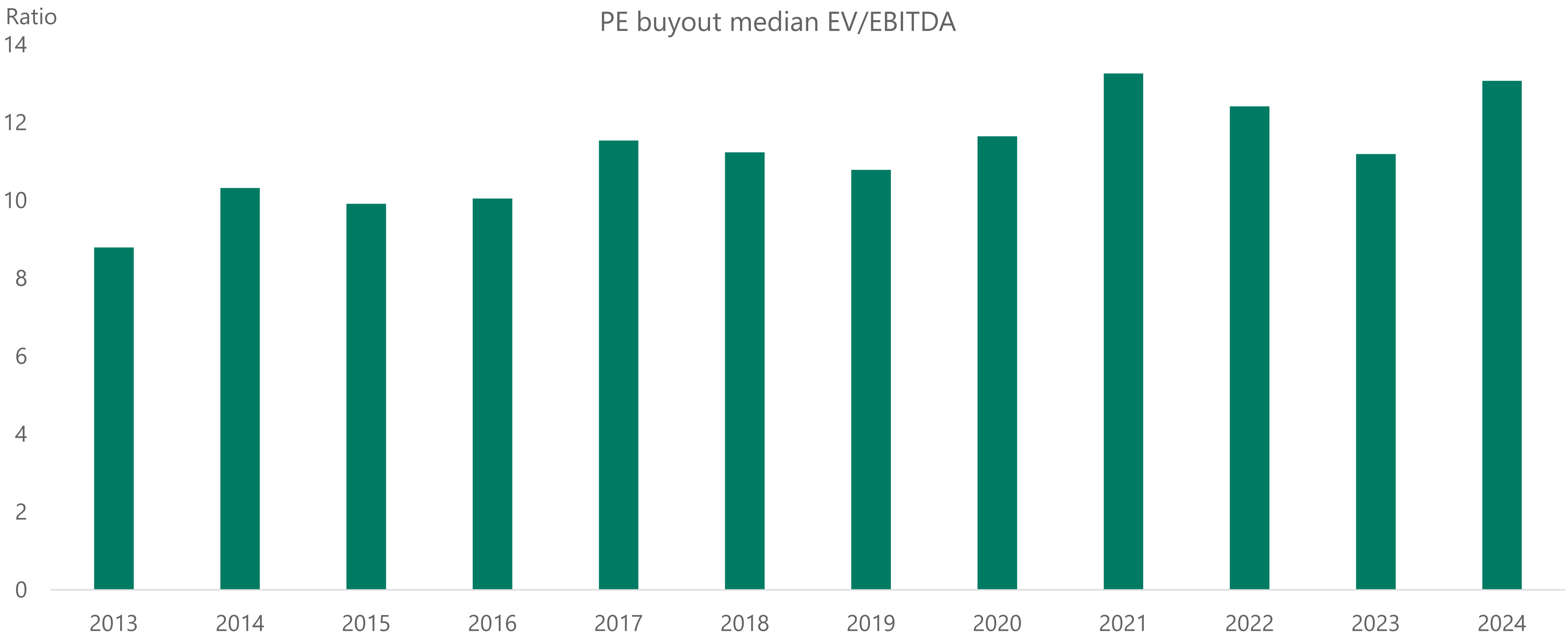
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th June 2024, Q2 2024 preliminary data

The exits-to-investments-ratio is declining



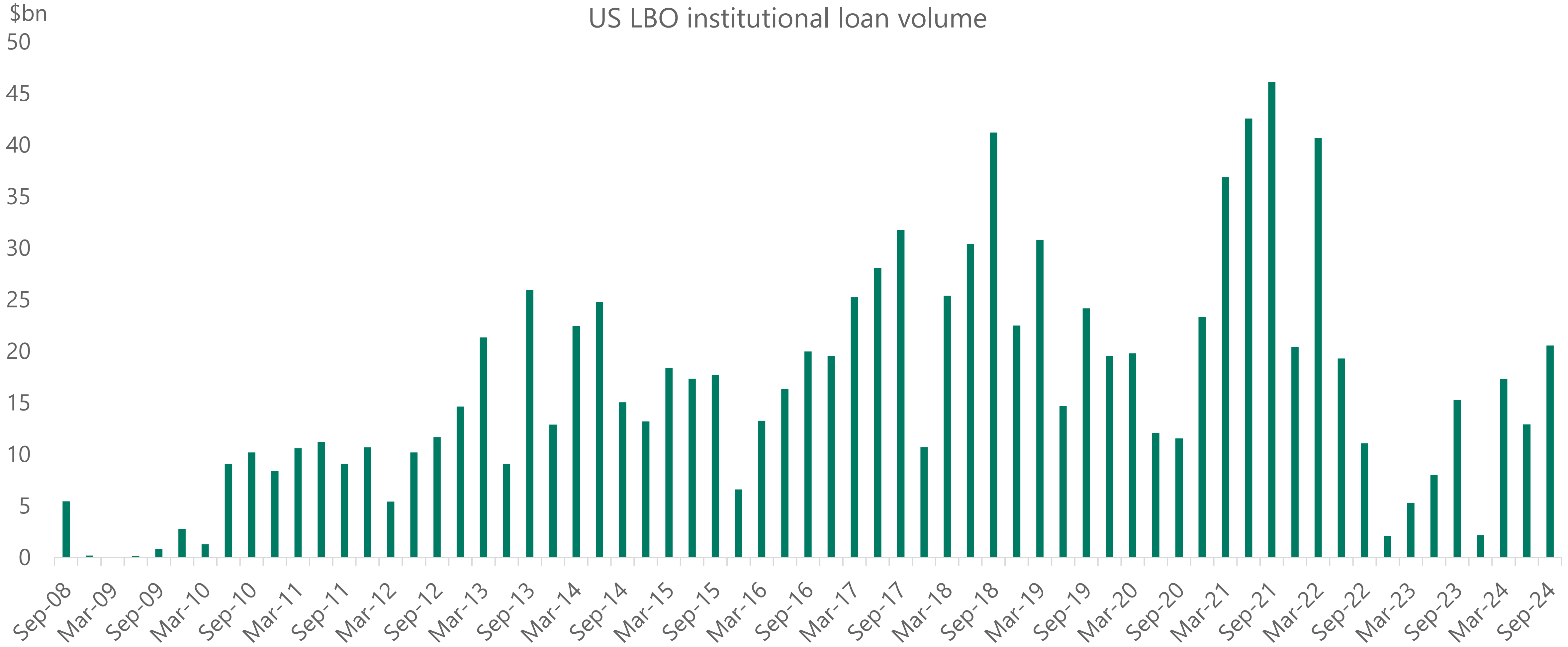
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

Median EV/EBITDA ratio



Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

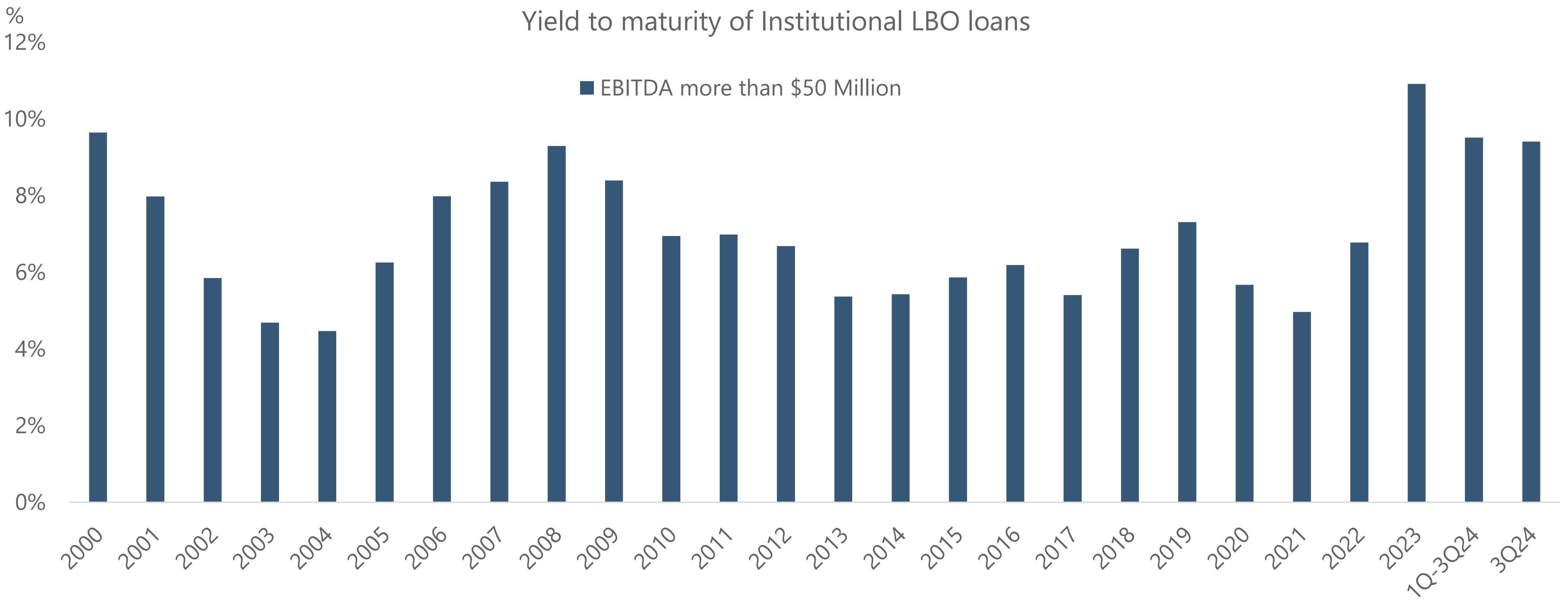
LBO loan volume



Source: PitchBook LCD, Apollo Chief Economist. Note: Data as of Q3 2024

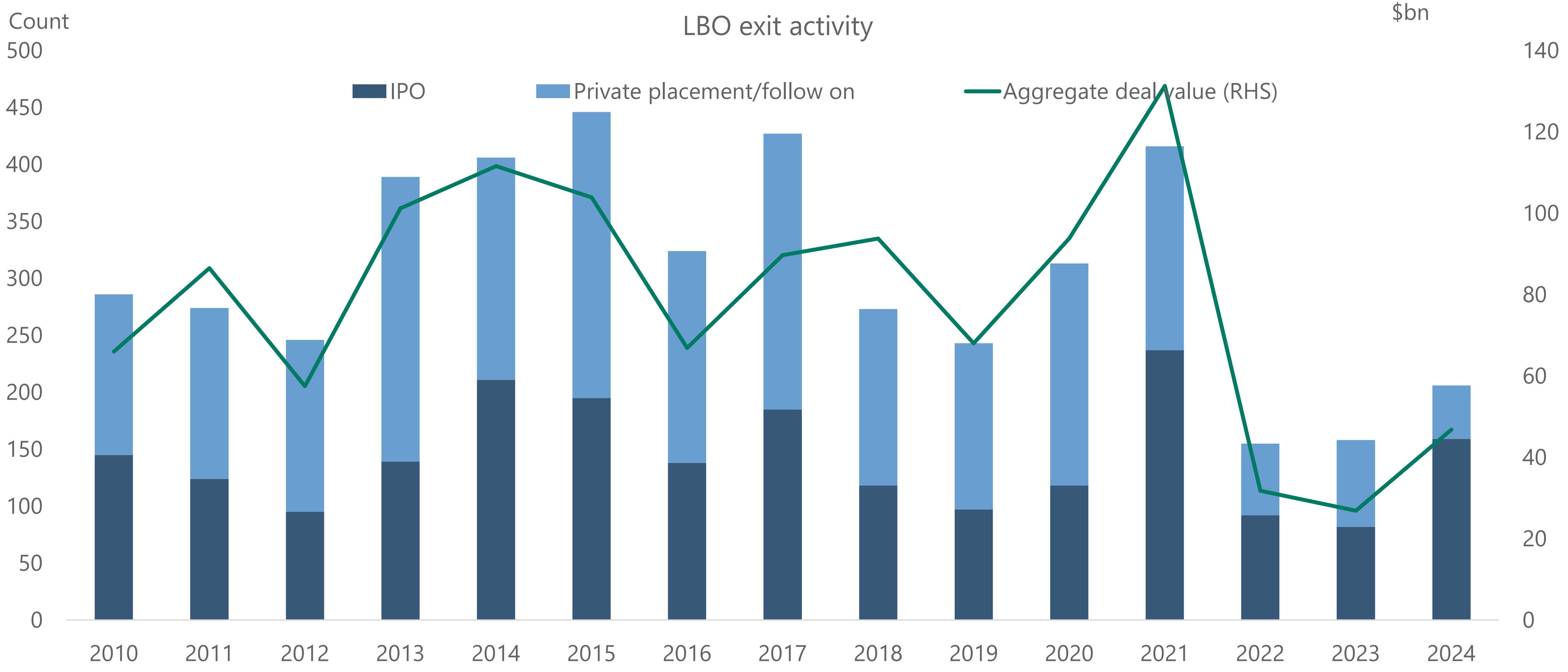
4. Recent LBO activity

LBO loans: Average yield to maturity is around 9.5%



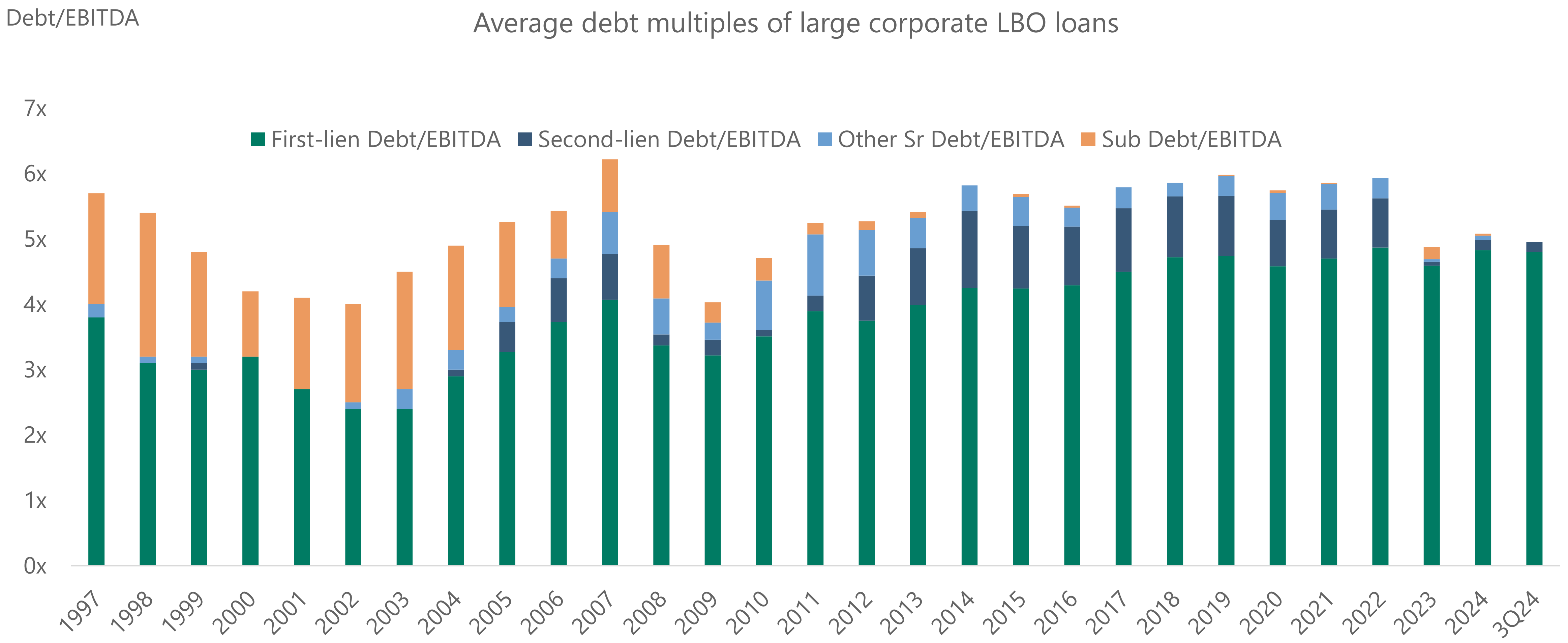
Source: PitchBook LCD, Apollo Chief Economist. Data as of 30th September 2023

IPO activity



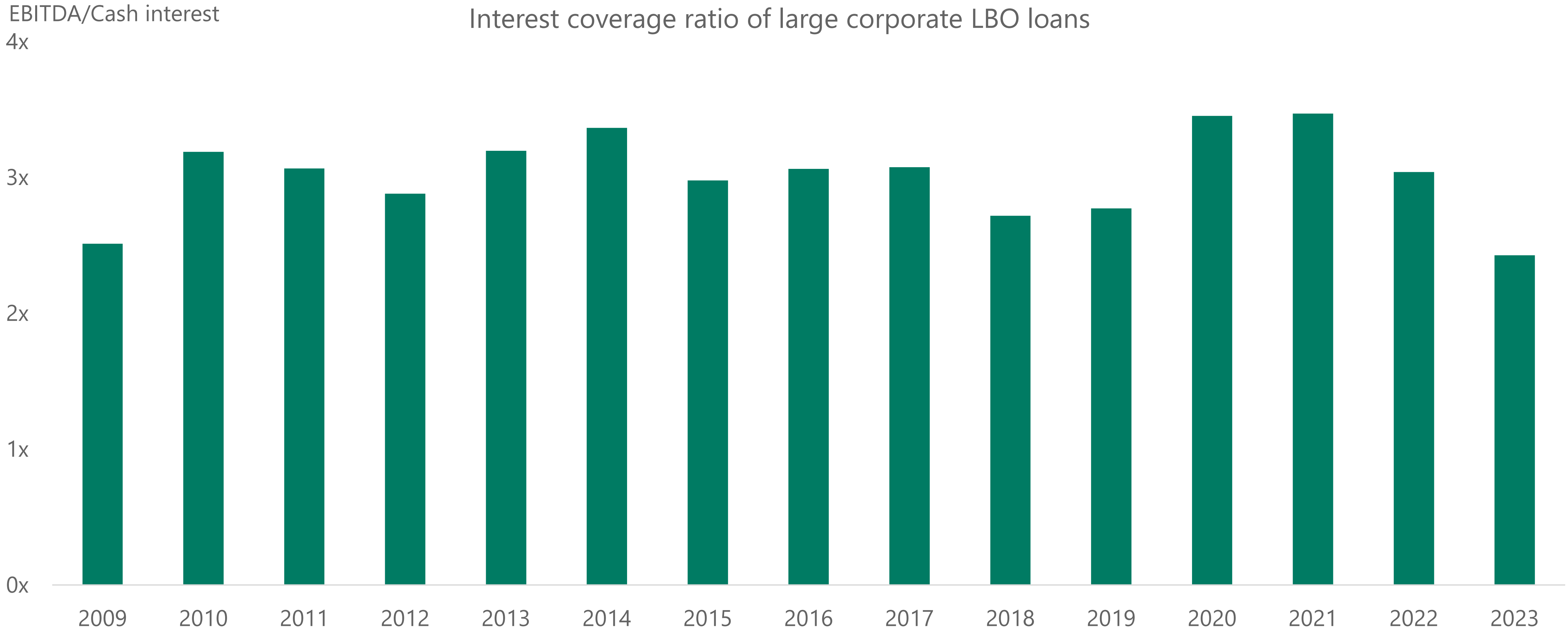
Source: Preqin, Apollo Chief Economist

Leverage for large corporate LBOs has declined



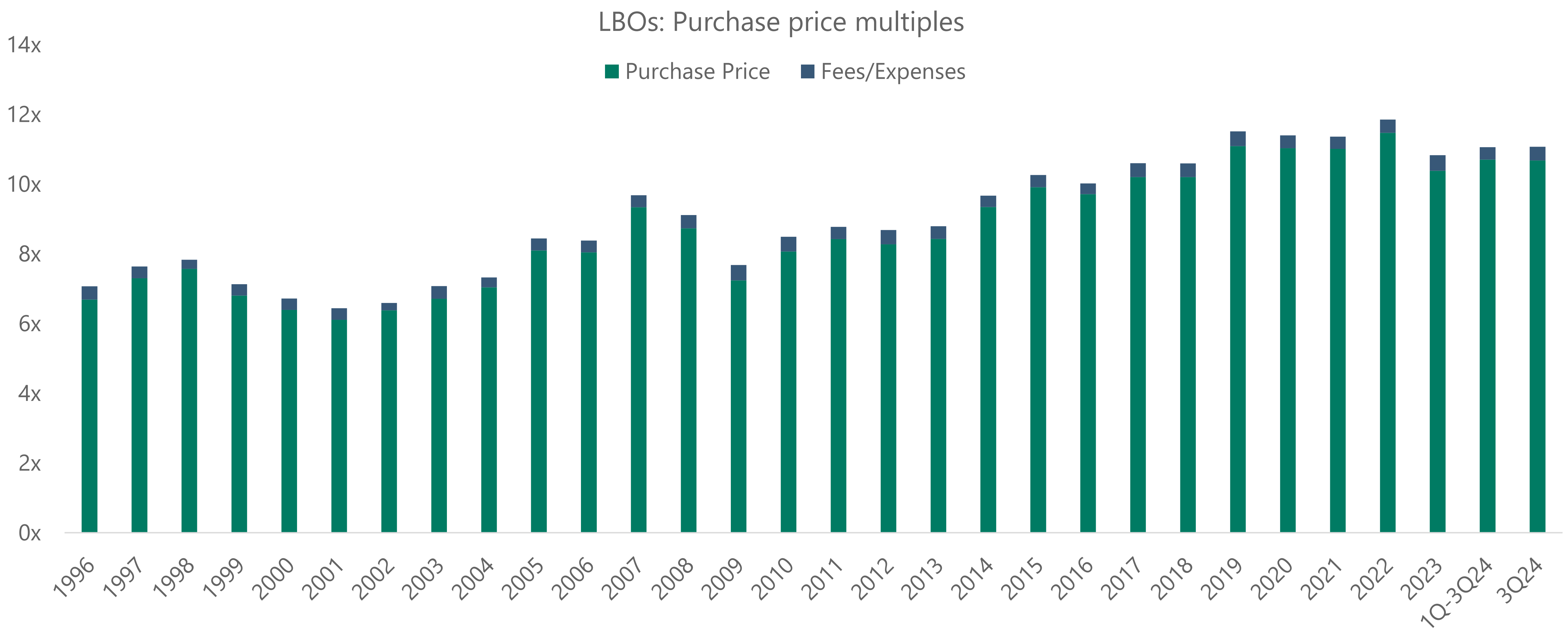
Source: PitchBook LCD, Apollo Chief Economist. Data as of 30th September 2023, Large corporates are defined as EBITDA more than $50 Million

Interest coverage ratio for large corporate LBOs declining after the Fed raised rates



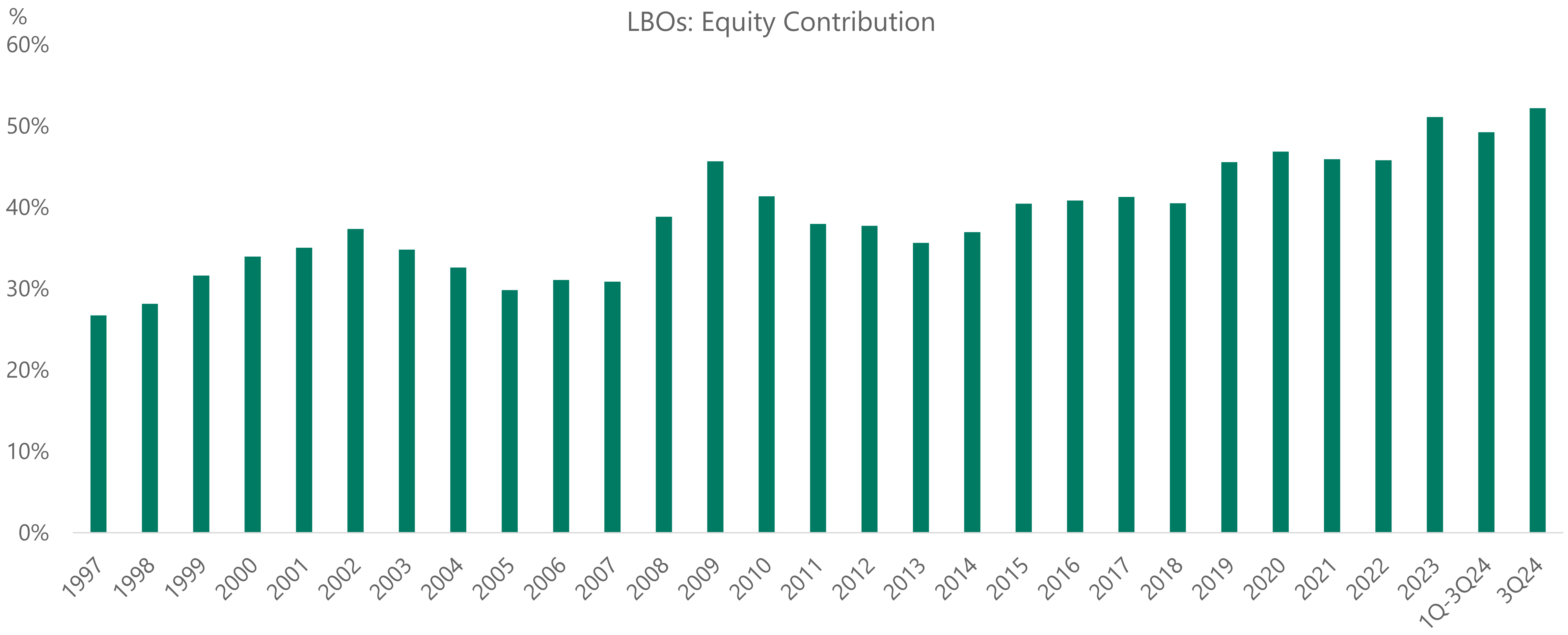
Source: PitchBook LCD, Apollo Chief Economist. Data as of 30th September 2023, Large corporates are defined as EBITDA more than $50 Million

Purchase price multiples



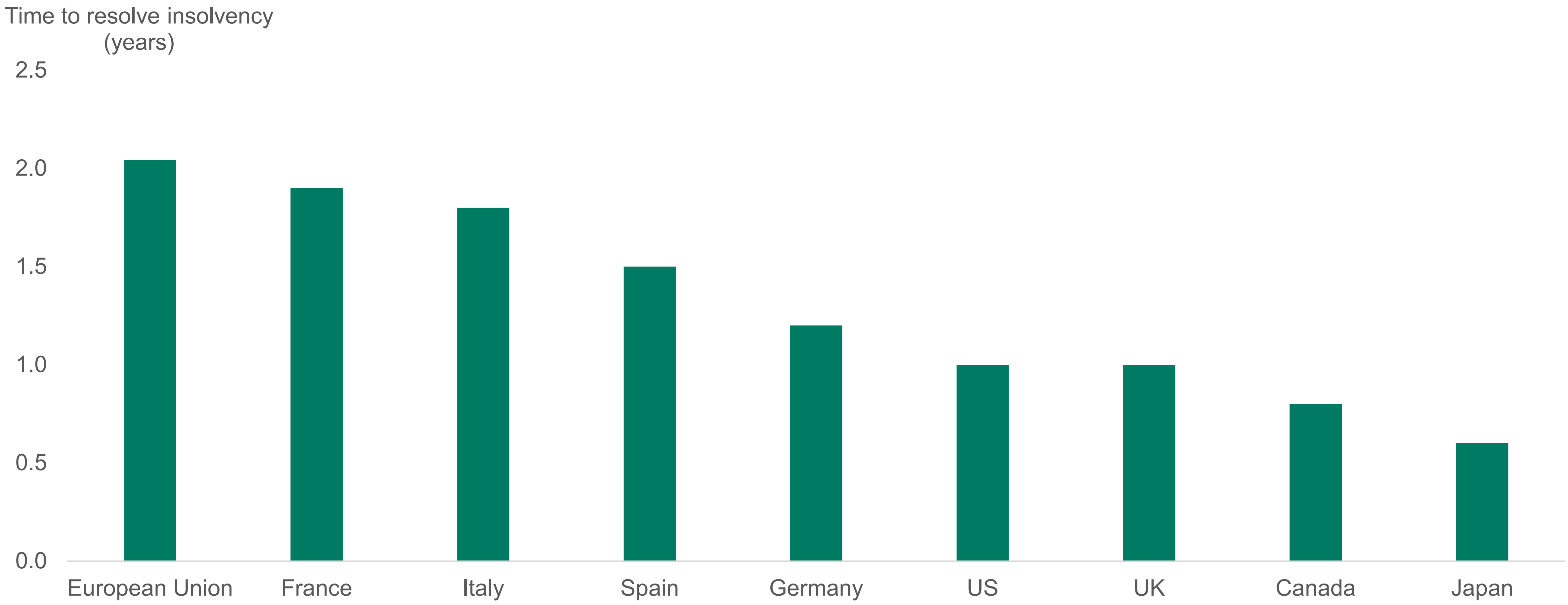
Source: PitchBook LCD, Apollo Chief Economist.

High debt costs leading to high equity contributions



Source: PitchBook LCD, Apollo Chief Economist.

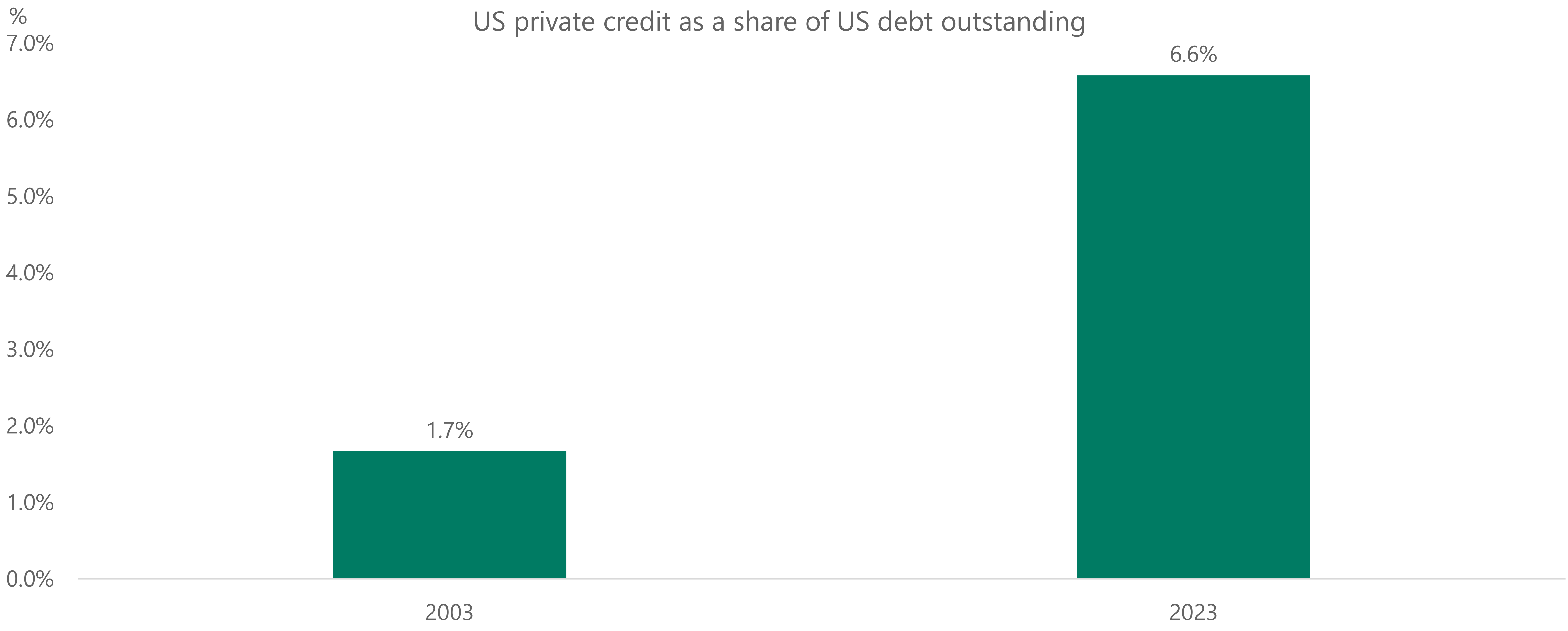
Time to resolve insolvency



Source: World Bank, Preqin, Apollo Chief Economist. Note: Data for 2019.

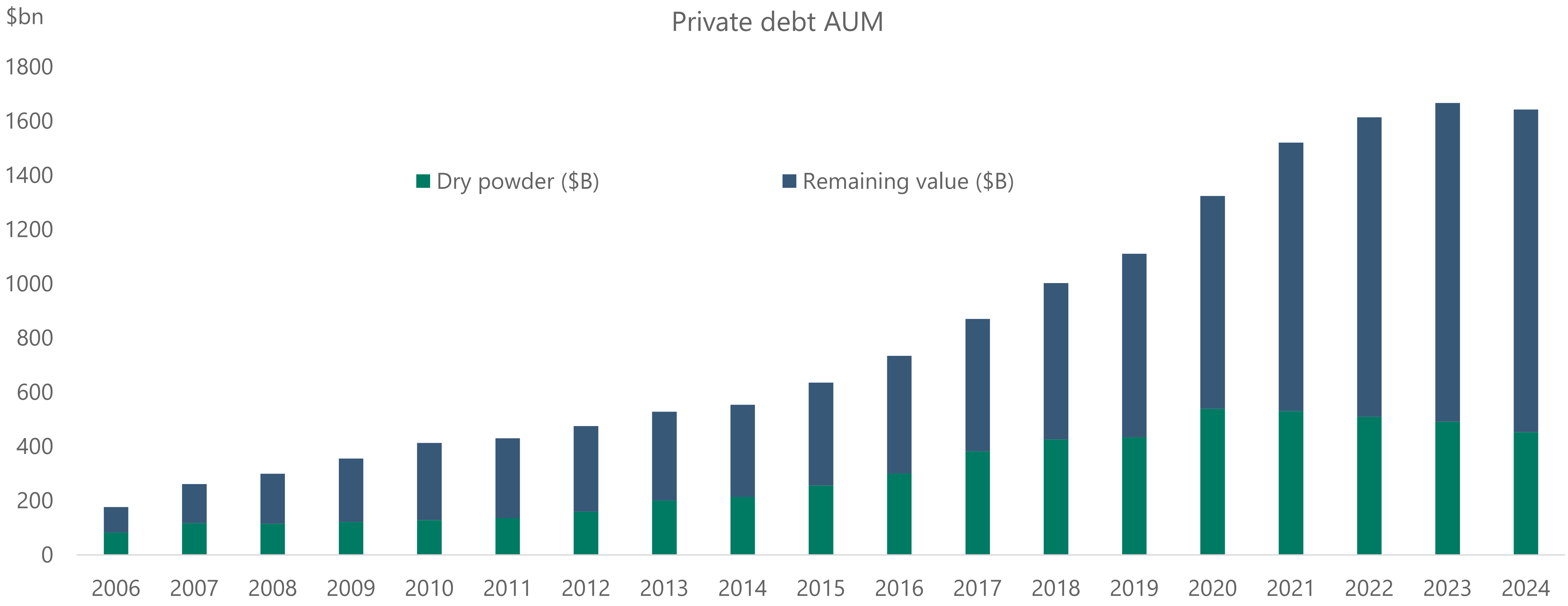
5. Private credit

Private credit as a percentage of total credit markets



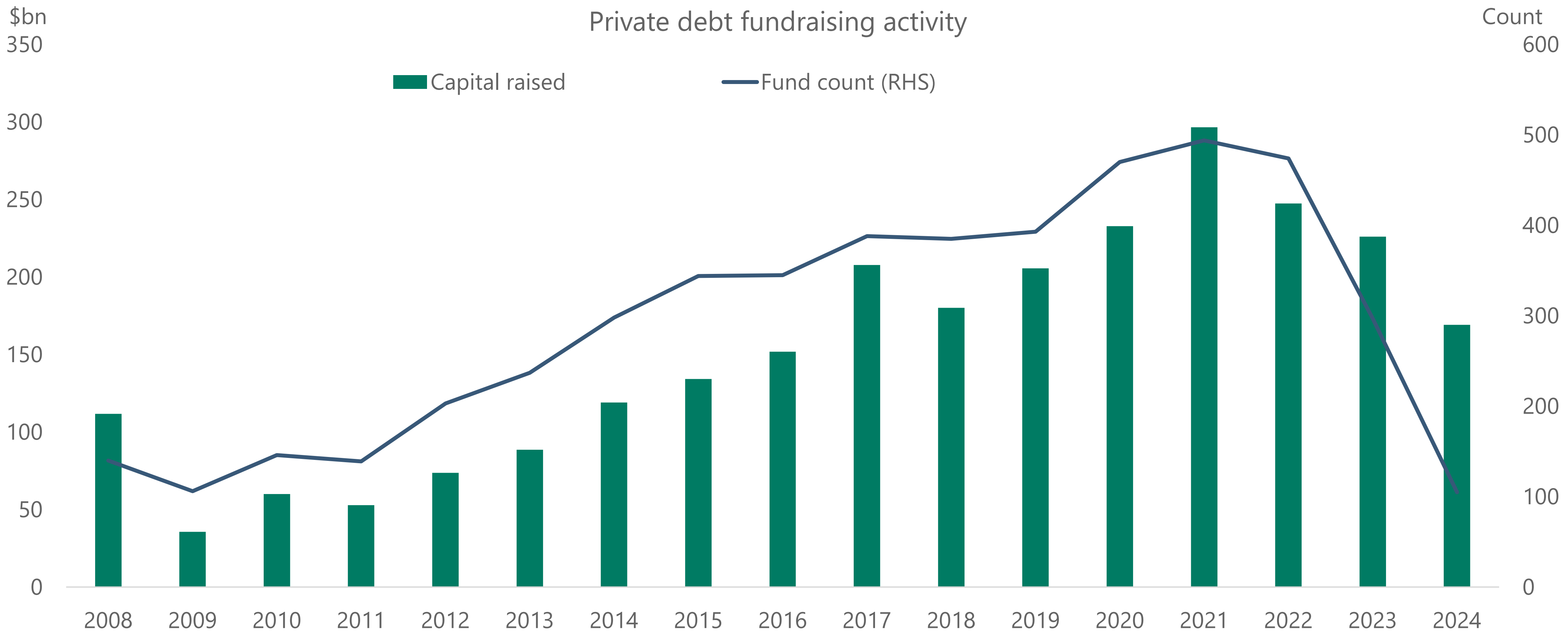
Source: SIFMA, Preqin, Bloomberg, Apollo Chief Economist

About $1.5trn in private credit globally, of which $400bn is dry powder



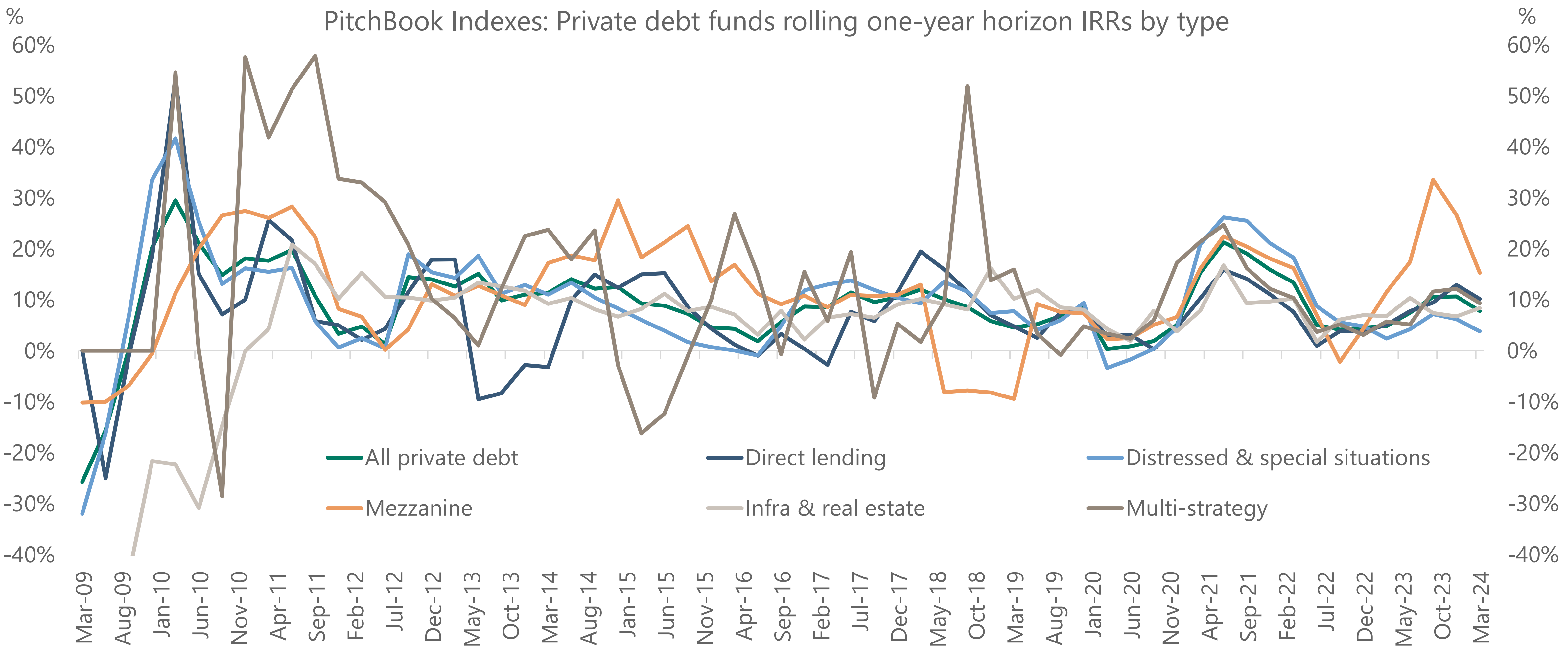
Source: PitchBook, Apollo Chief Economist. Note: Data as of 31st March 2024

Private debt fundraising



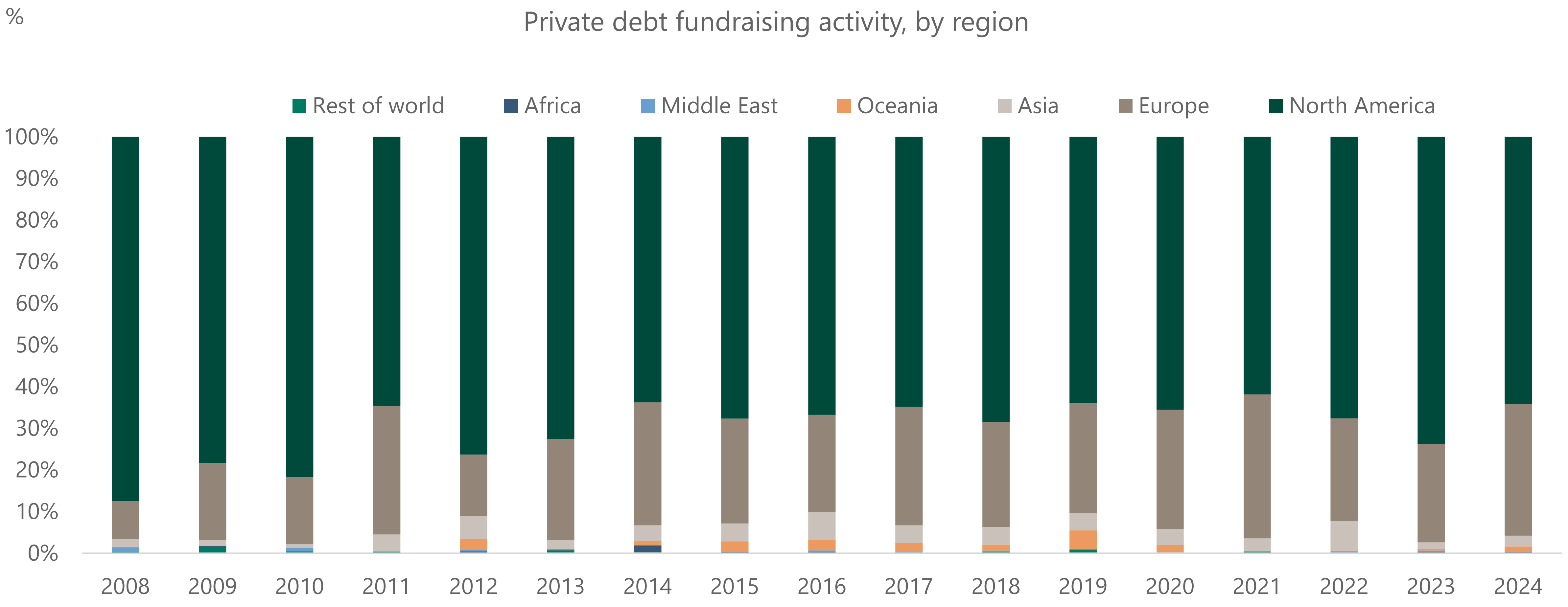
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

Private debt returns, by strategy



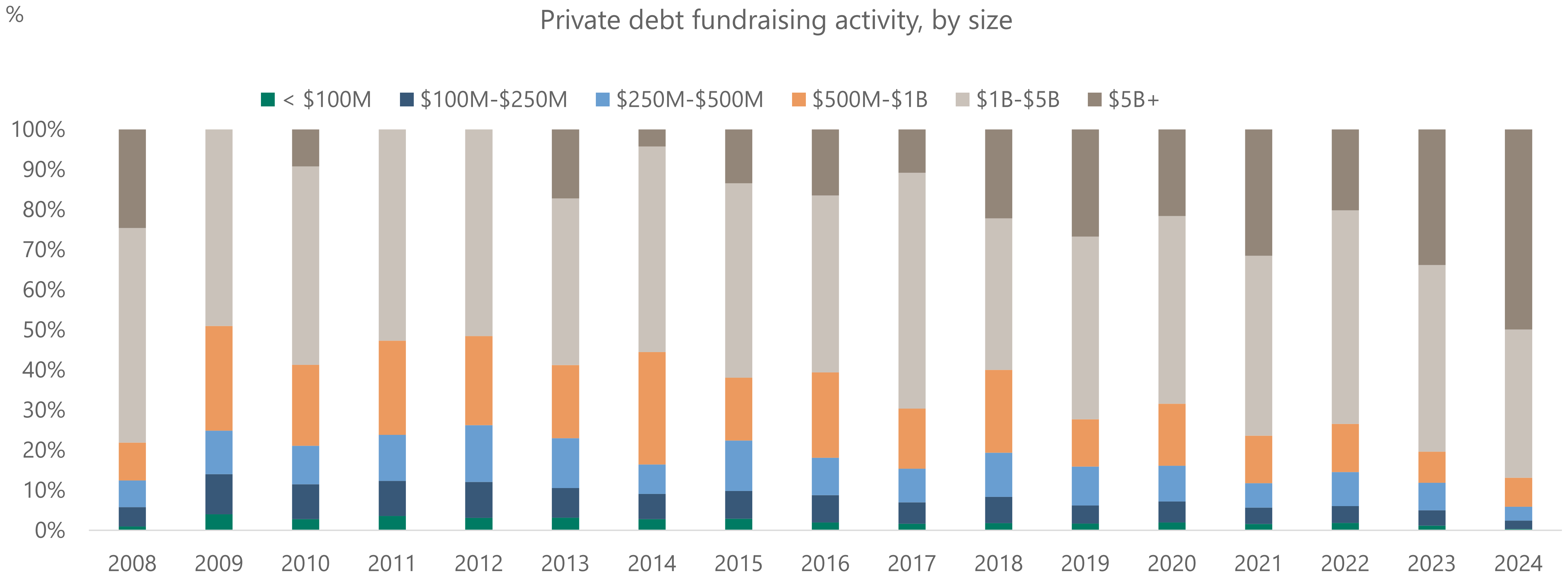
Source: PitchBook, Apollo Chief Economist. Note: Data as of 31st March 2024

Private debt fundraising activity, by region



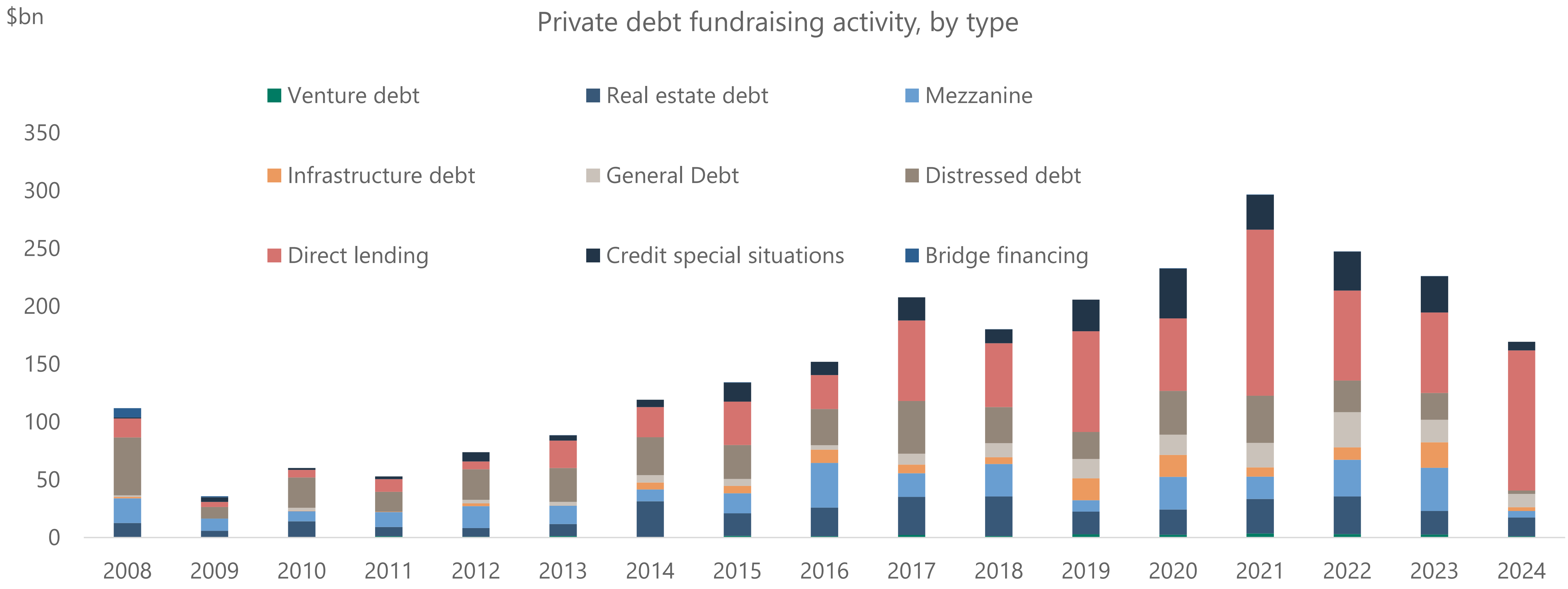
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

Private debt fundraising activity, by size



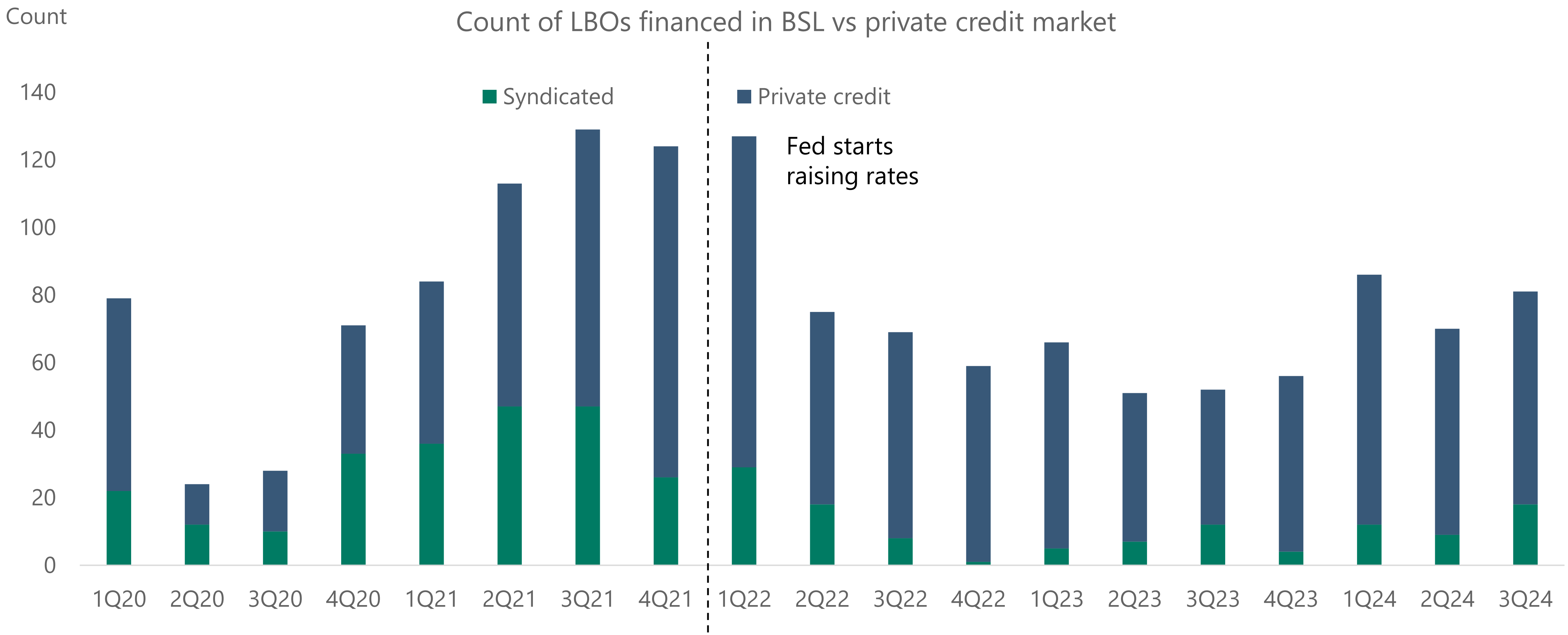
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

Private debt fundraising activity, by type



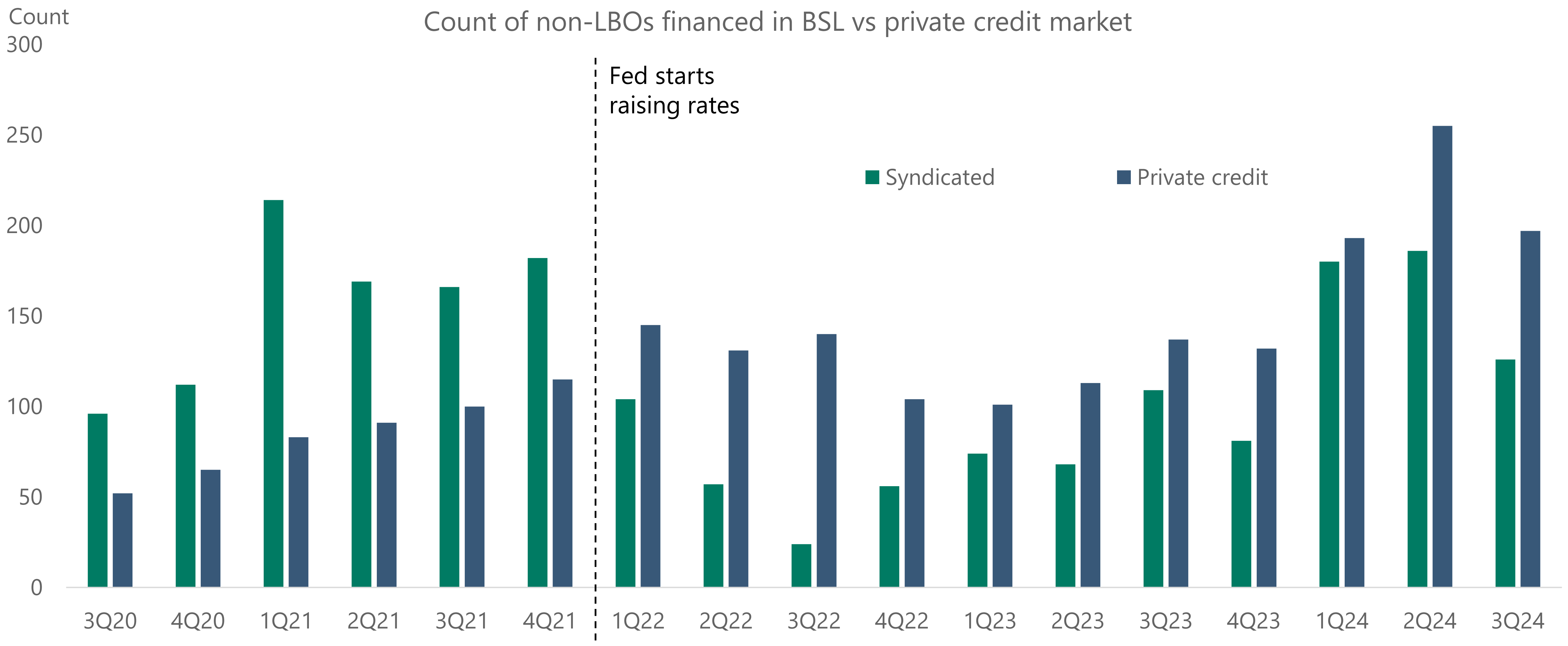
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

LBO financings: BSL vs private credit



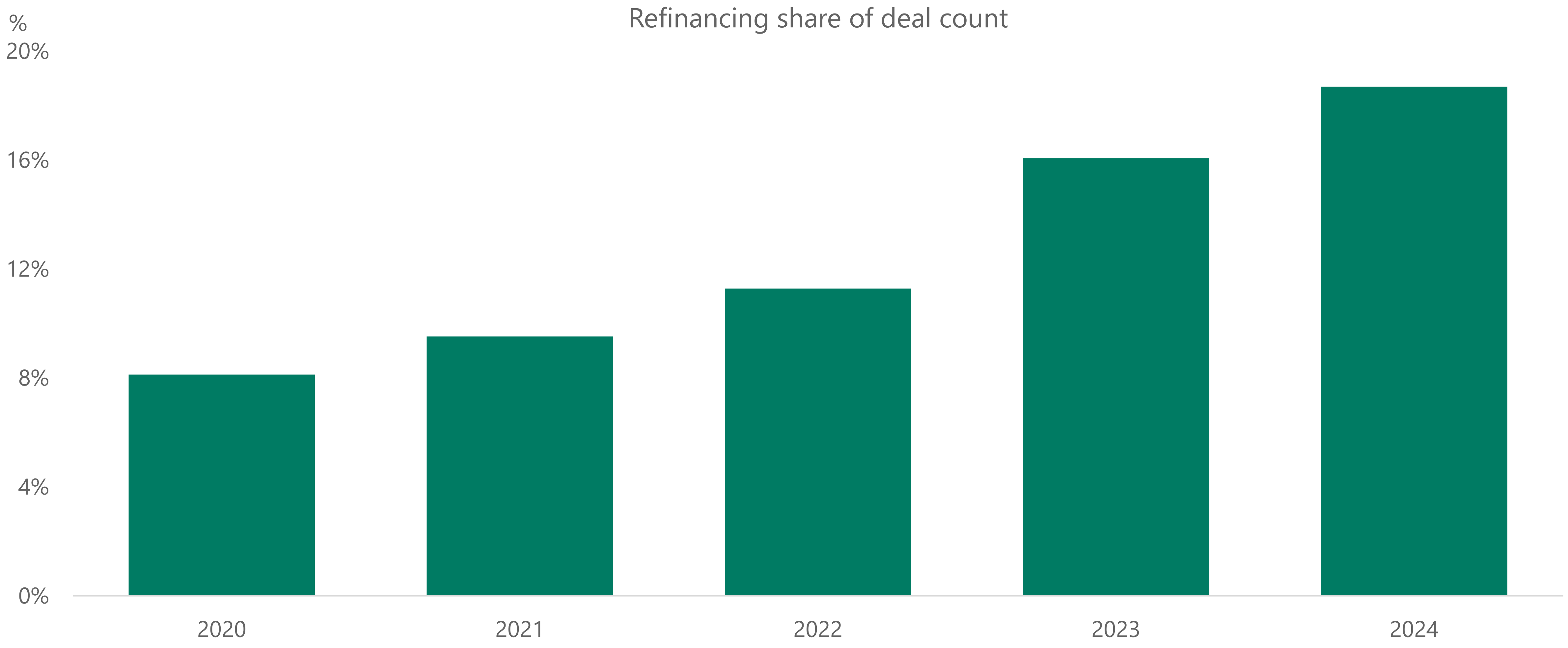
Source: PitchBook LCD, Apollo Chief Economist. Note: Data as of 31st December 2023

Non-LBO financing



Source: PitchBook LCD, Apollo Chief Economist. Note: Data as of 31st December 2023

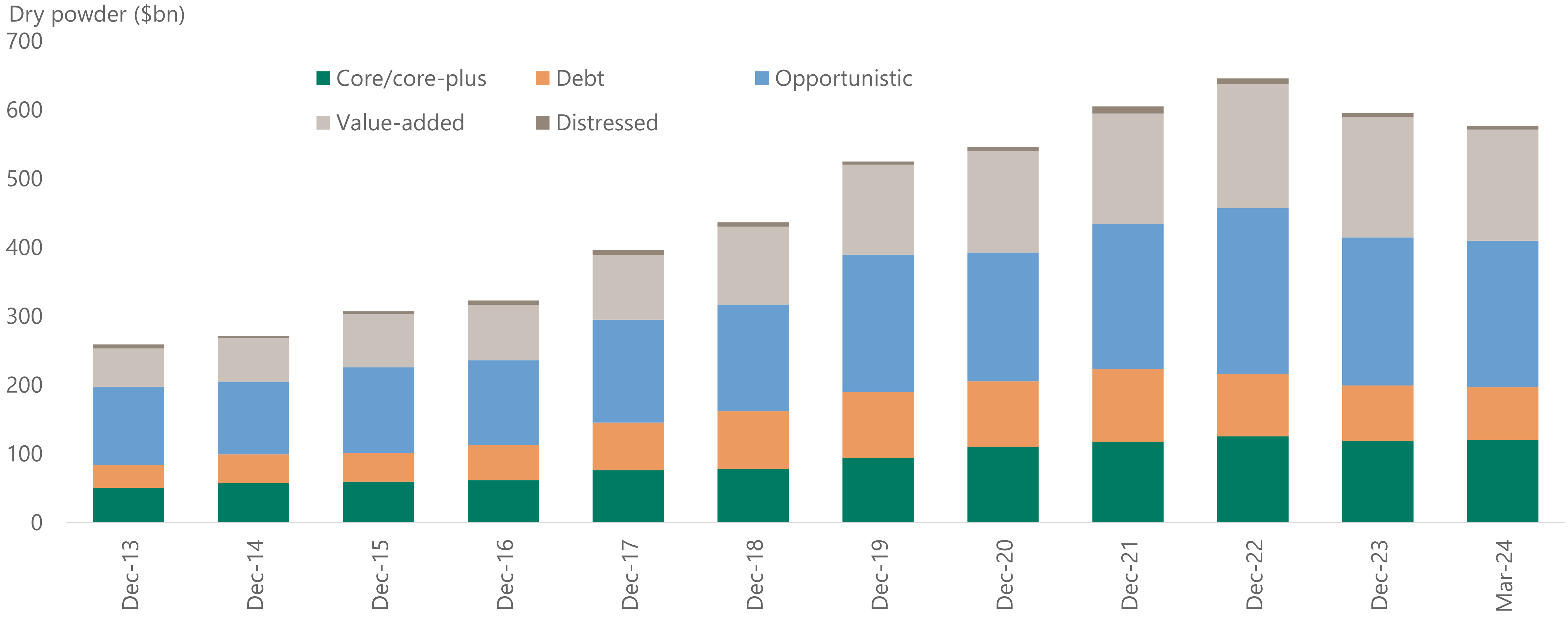
Private credit refinancings, share of all deals



Source: PitchBook LCD, Apollo Chief Economist. Note: Data as of 30th September 2024

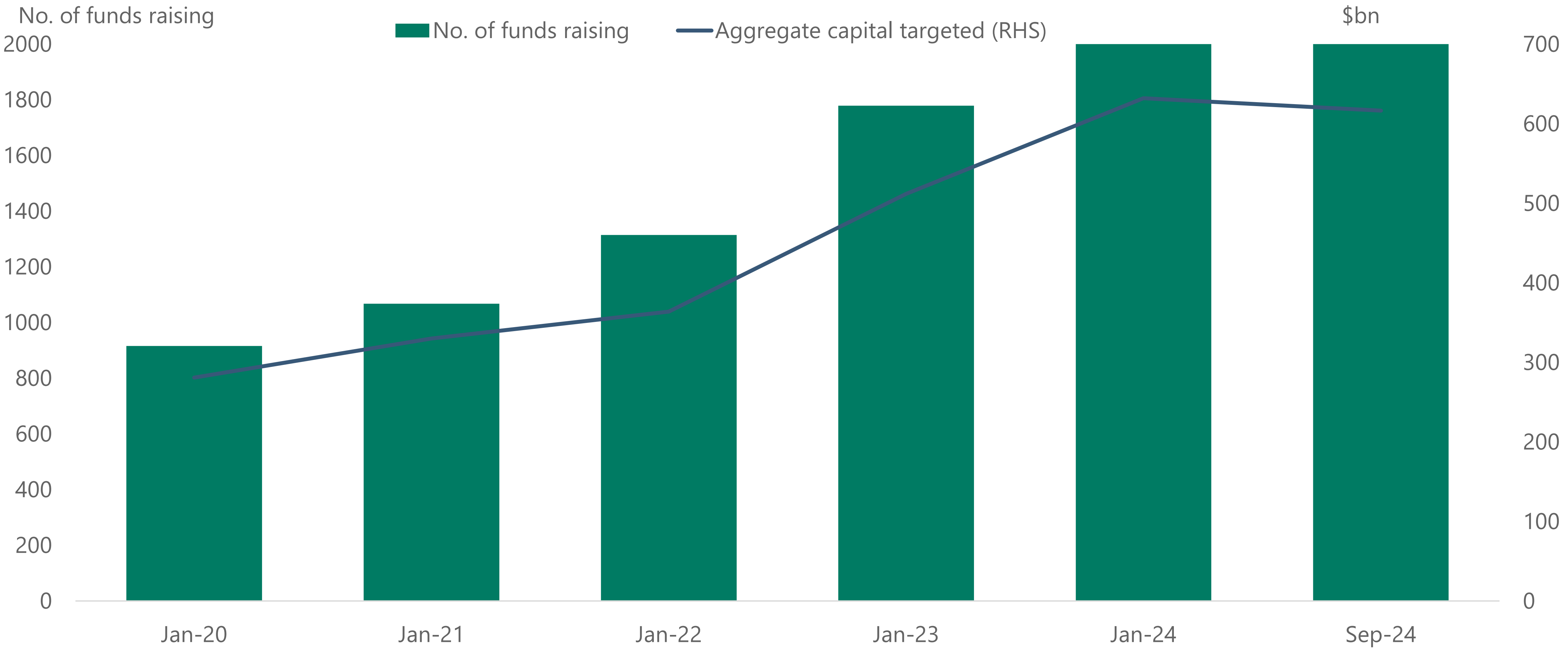
6. Real estate

Closed-end private real estate: dry powder by primary strategy



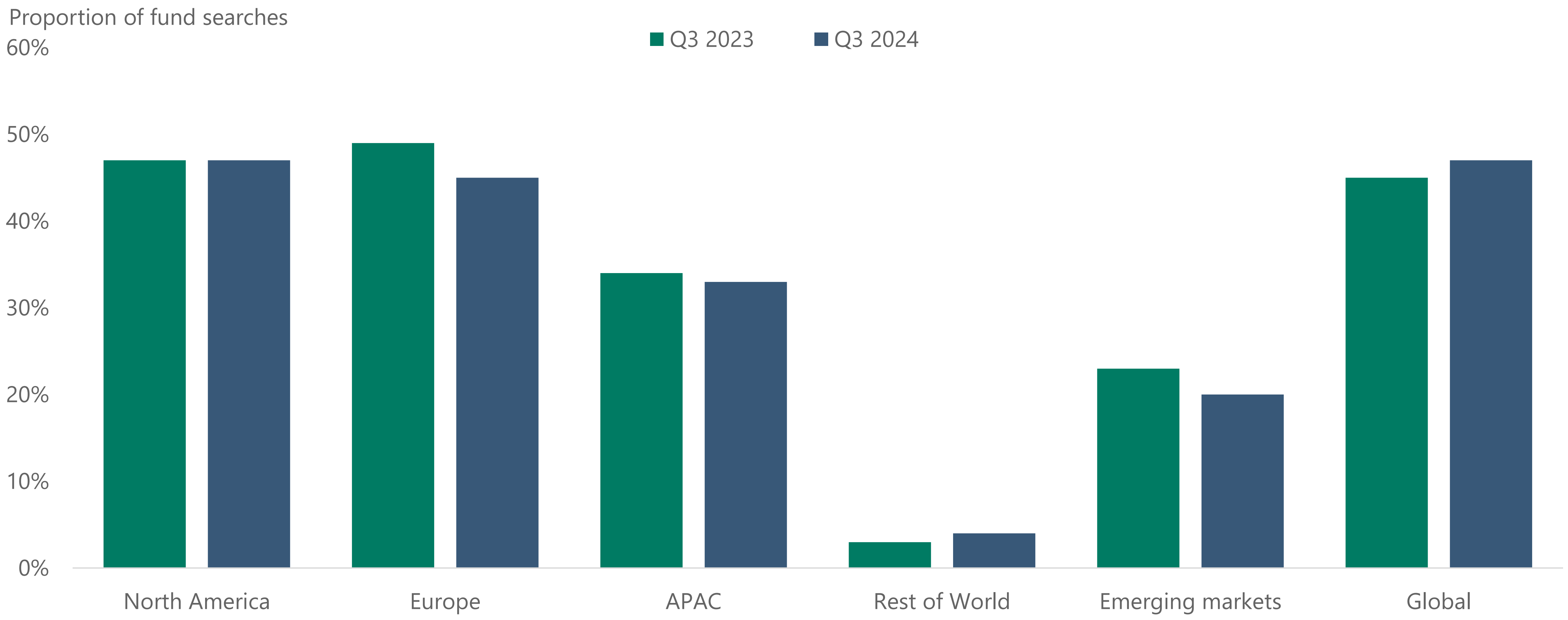
Source: Preqin Pro, Apollo Chief Economist

Closed-end private real estate funds in the market



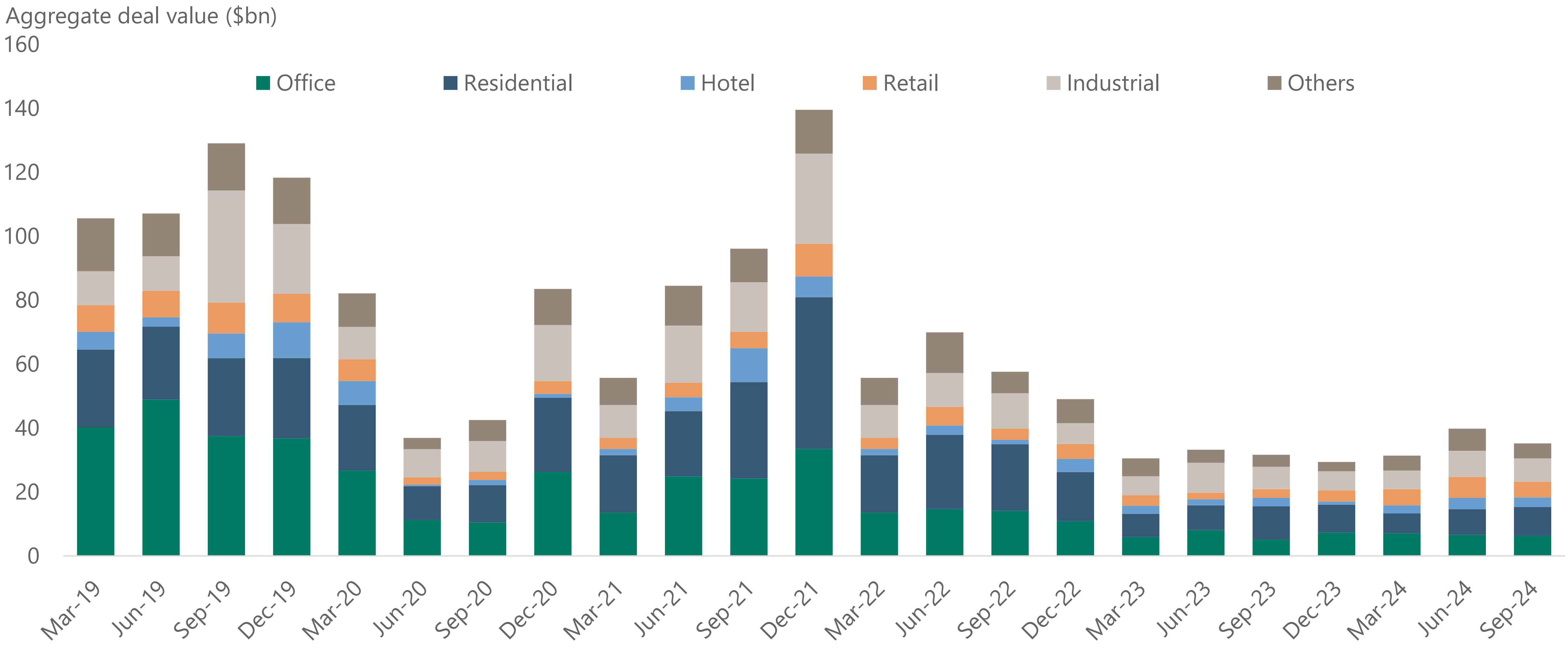
Source: Preqin Pro, Apollo Chief Economist

Regions targeted by infrastructure investors over the next 12 months, Q3 2023 vs. Q3 2024



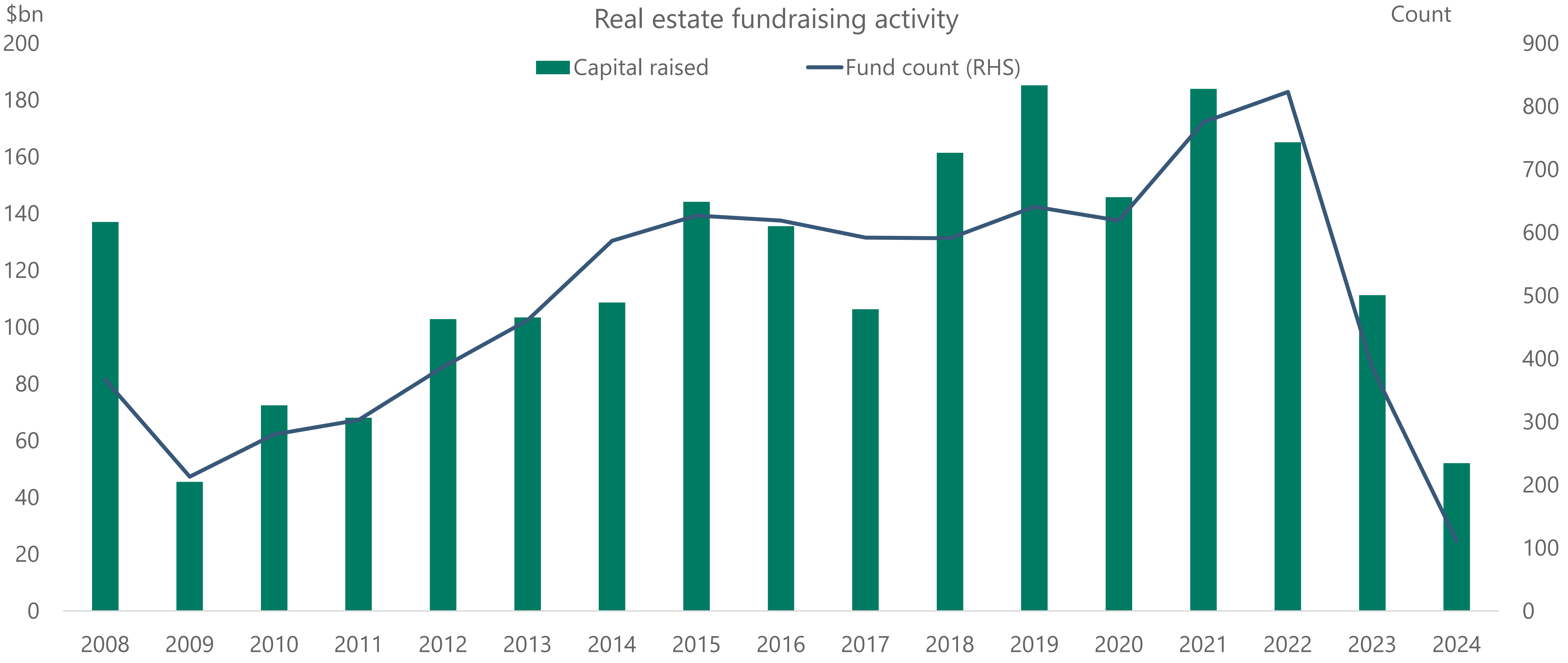
Source: Preqin Pro, Apollo Chief Economist

Quarterly global private real estate deals, by property type



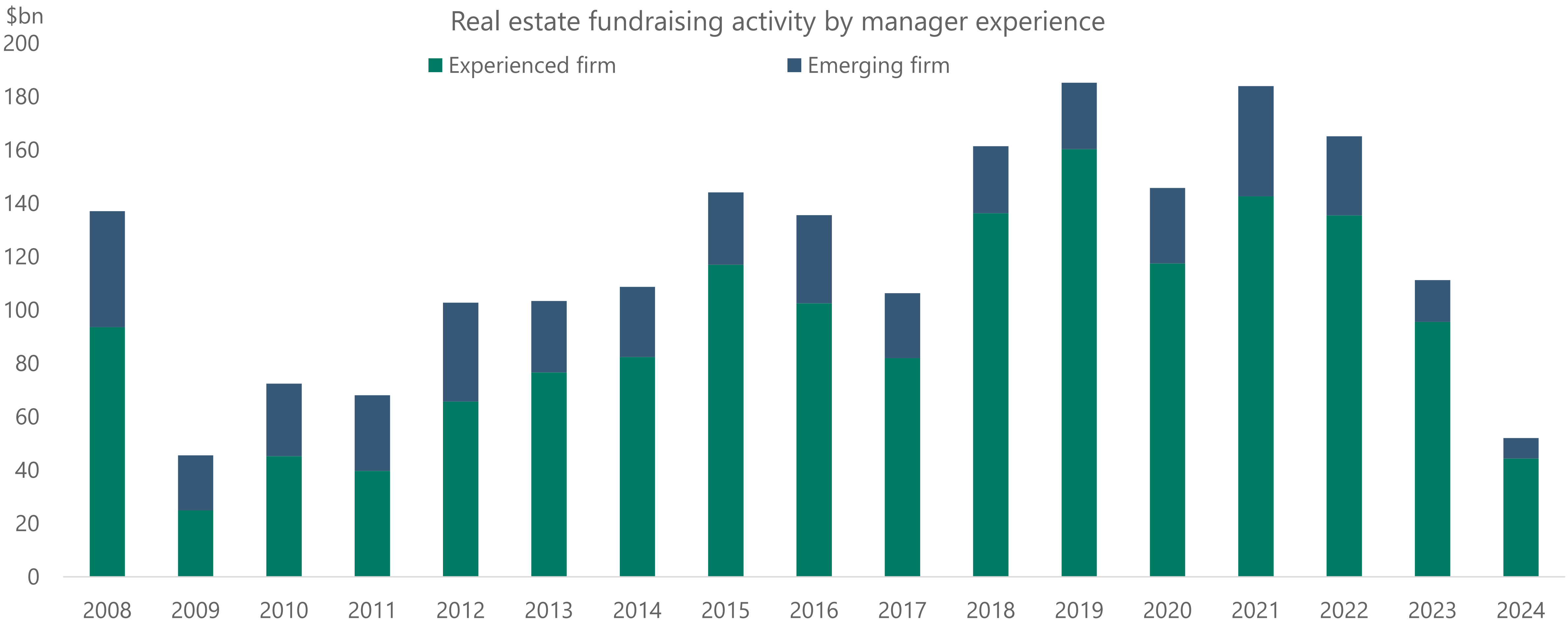
Source: Preqin Pro, Apollo Chief Economist

Real estate fundraising activity declining rapidly after the Fed raised interest rates



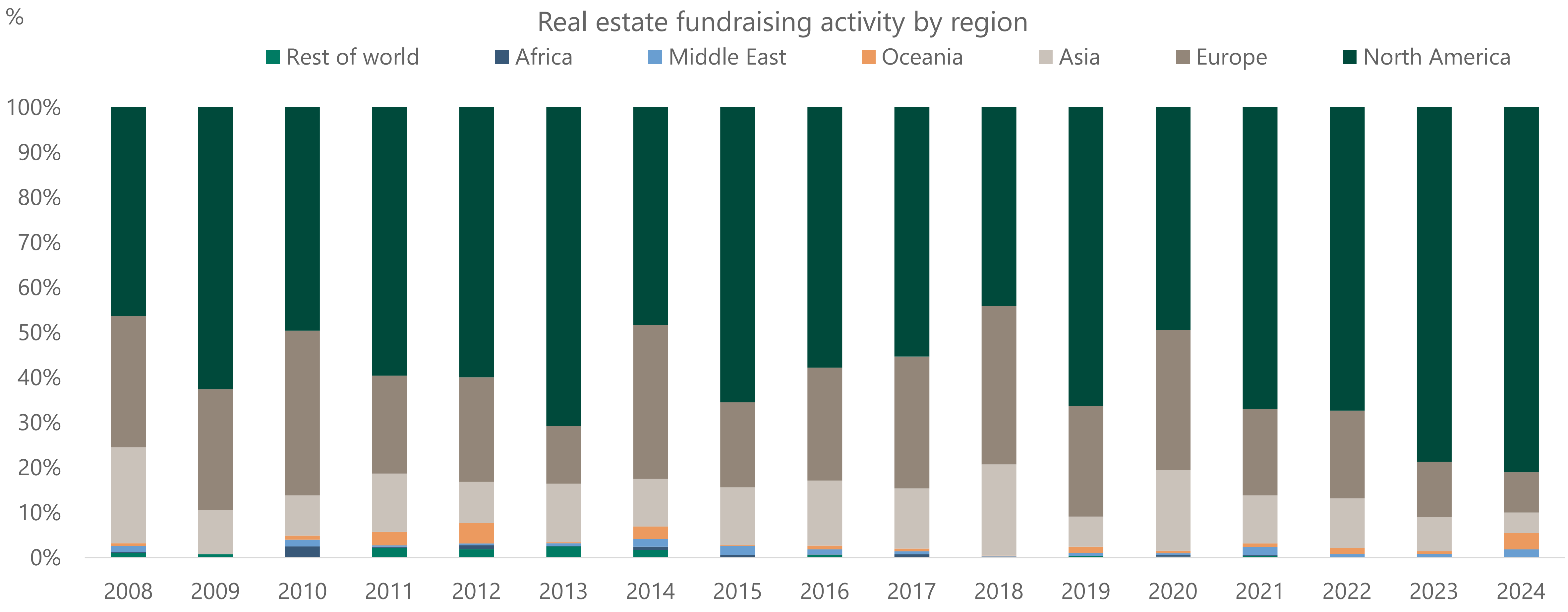
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

Real estate fundraising declining



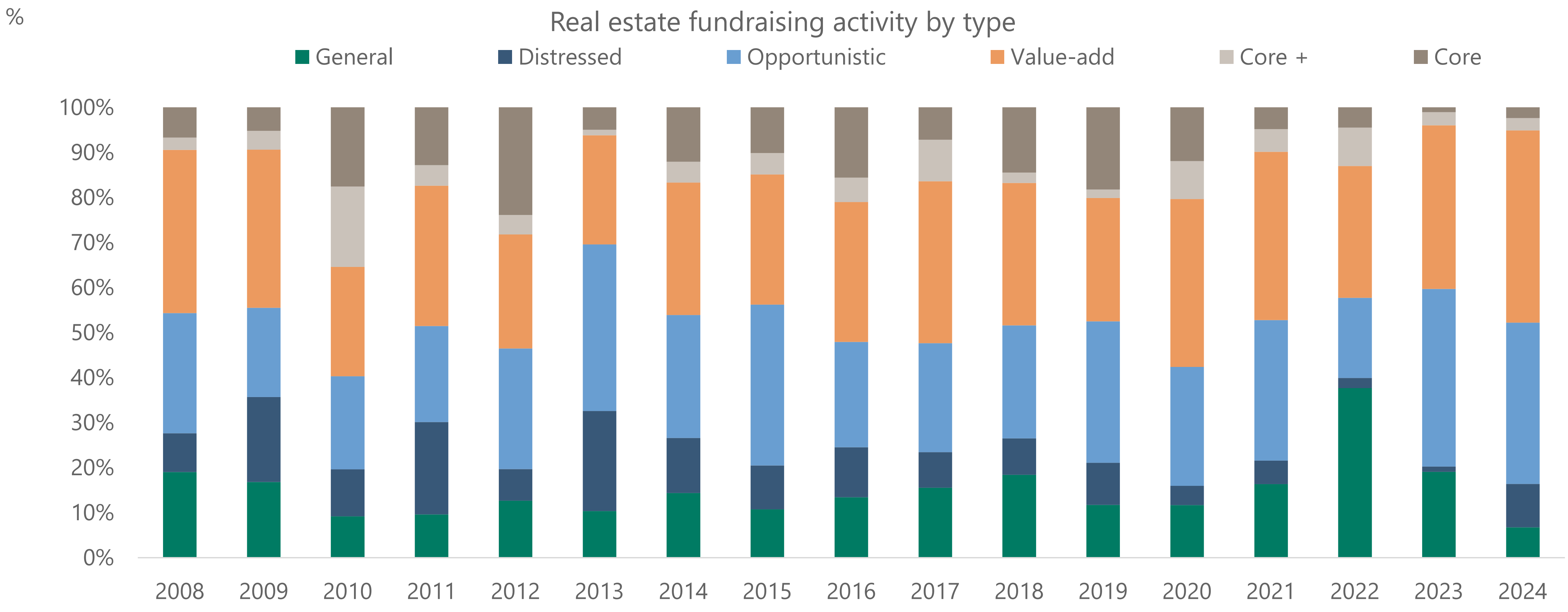
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

80% of real estate fundraising is in North America



Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

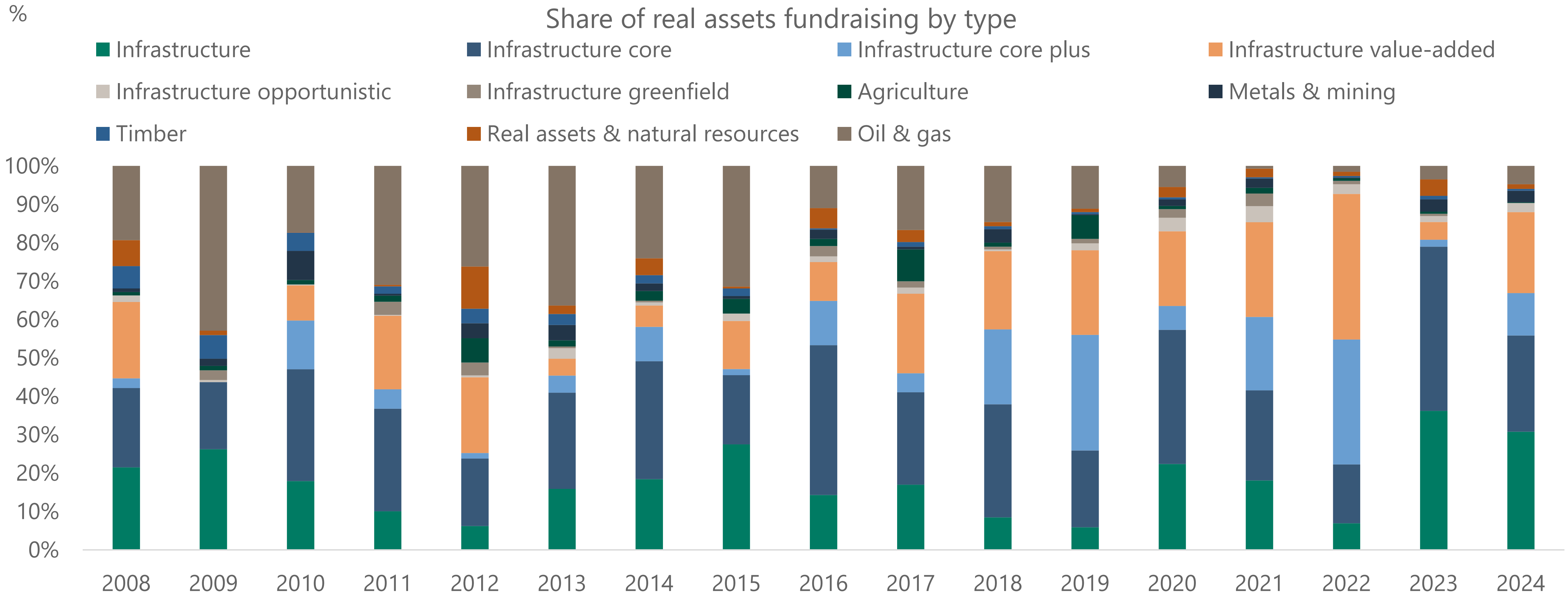
Real estate fundraising activity by type



Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

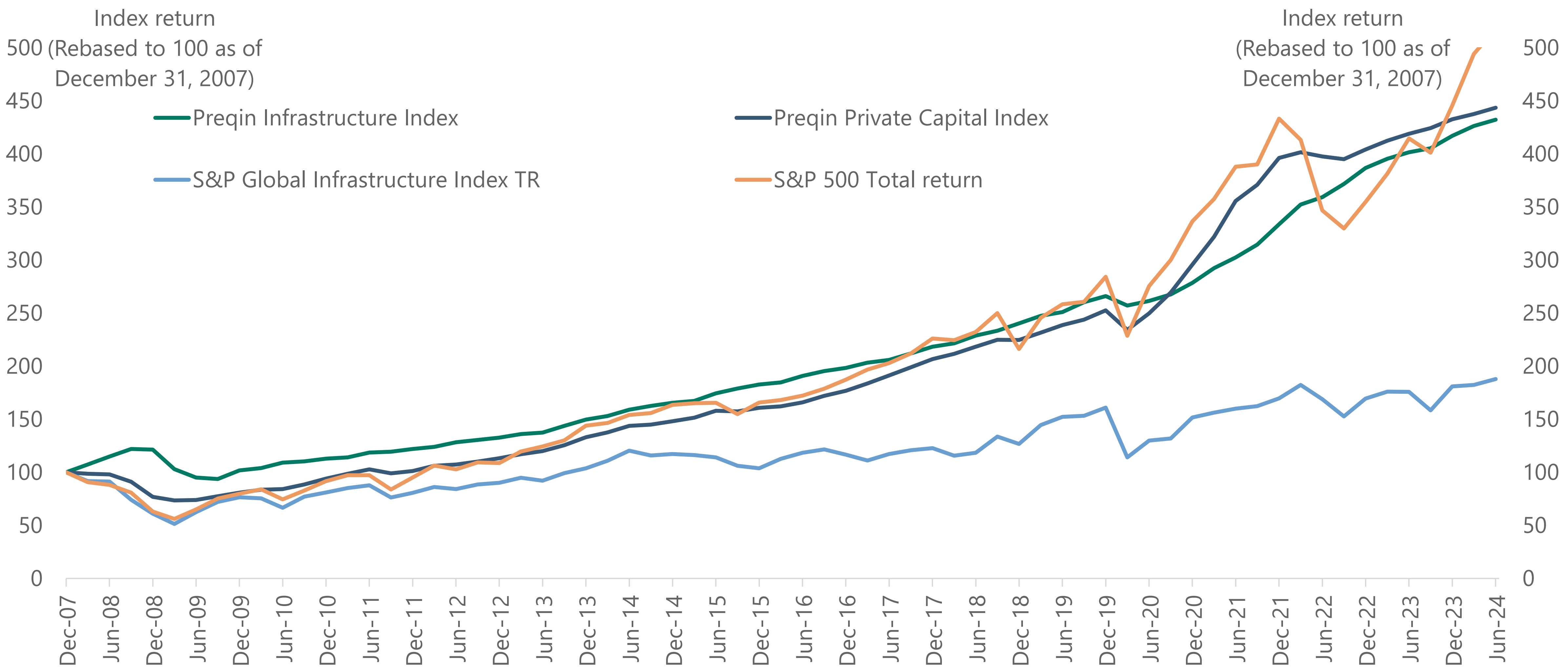
7. Real assets

Real assets is mainly infrastructure



Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

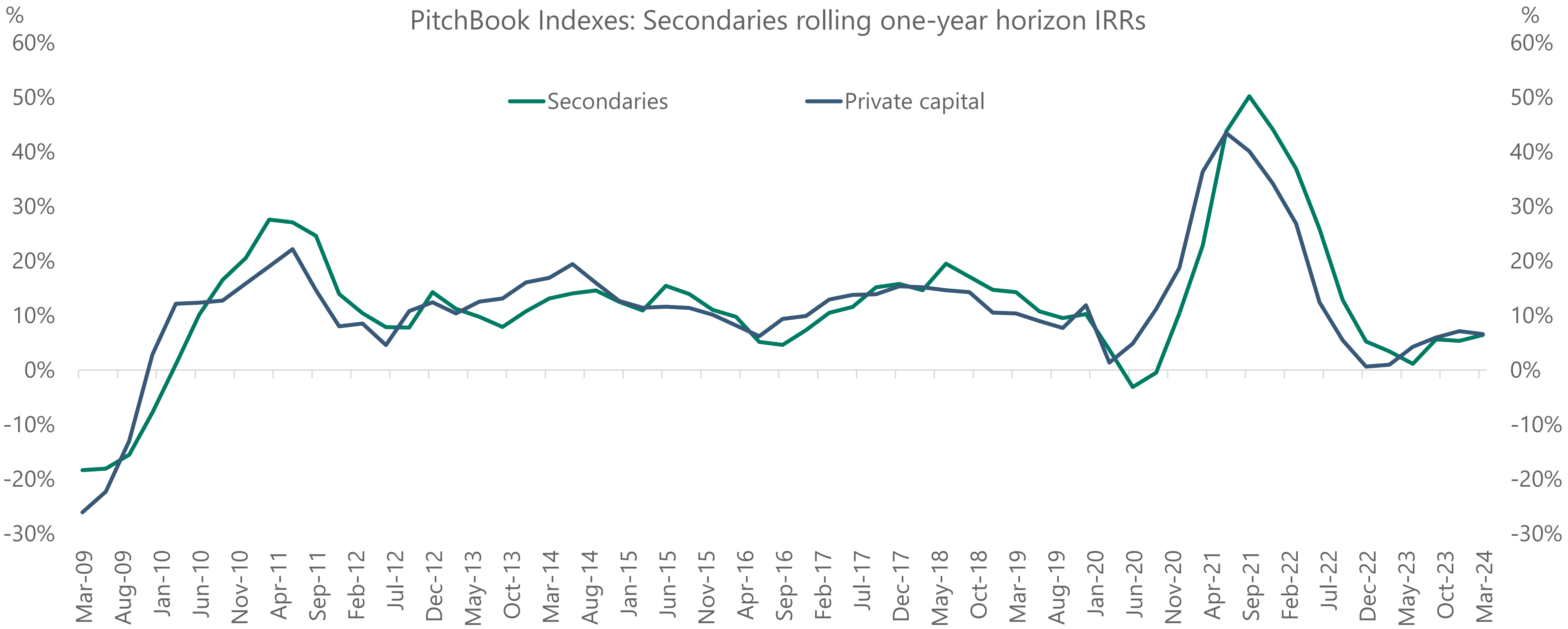
Infrastructure index returns



Source: Preqin Pro, Apollo Chief Economist

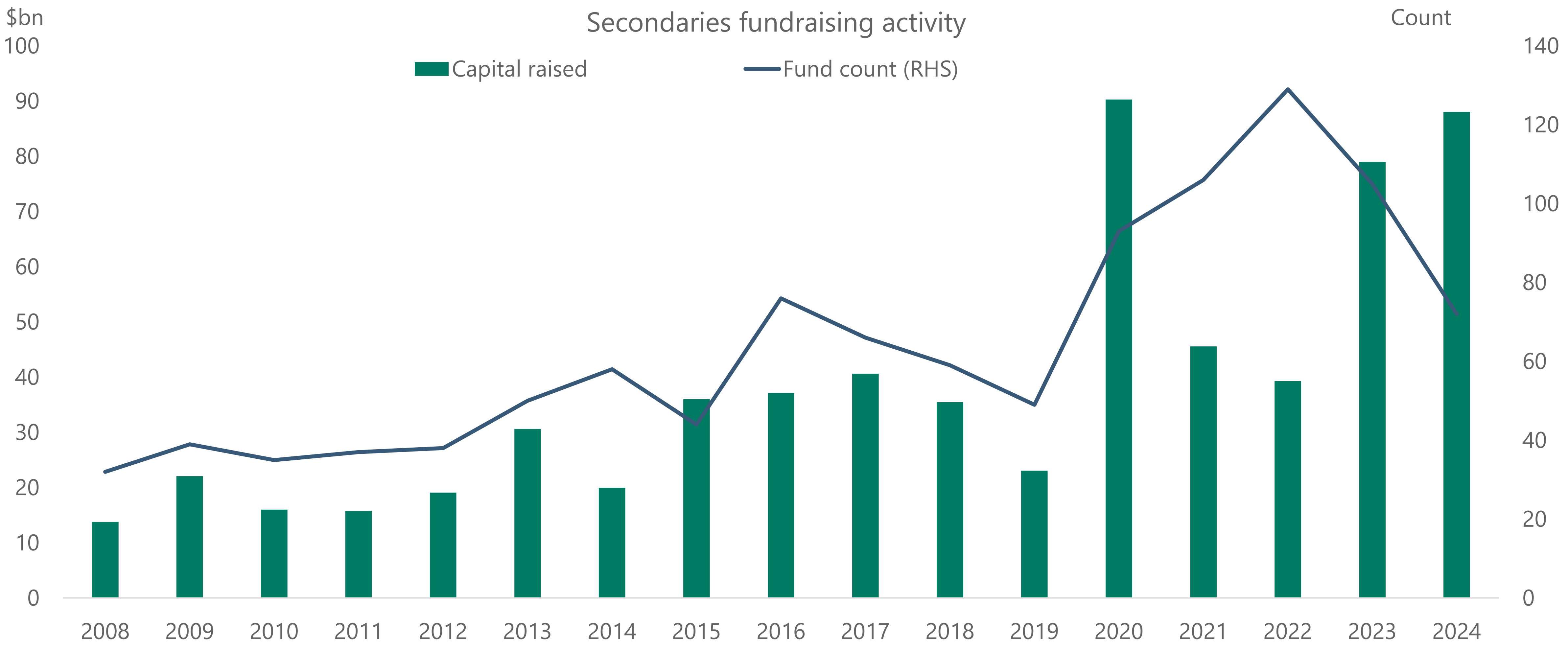
8. Secondaries

Secondaries performance



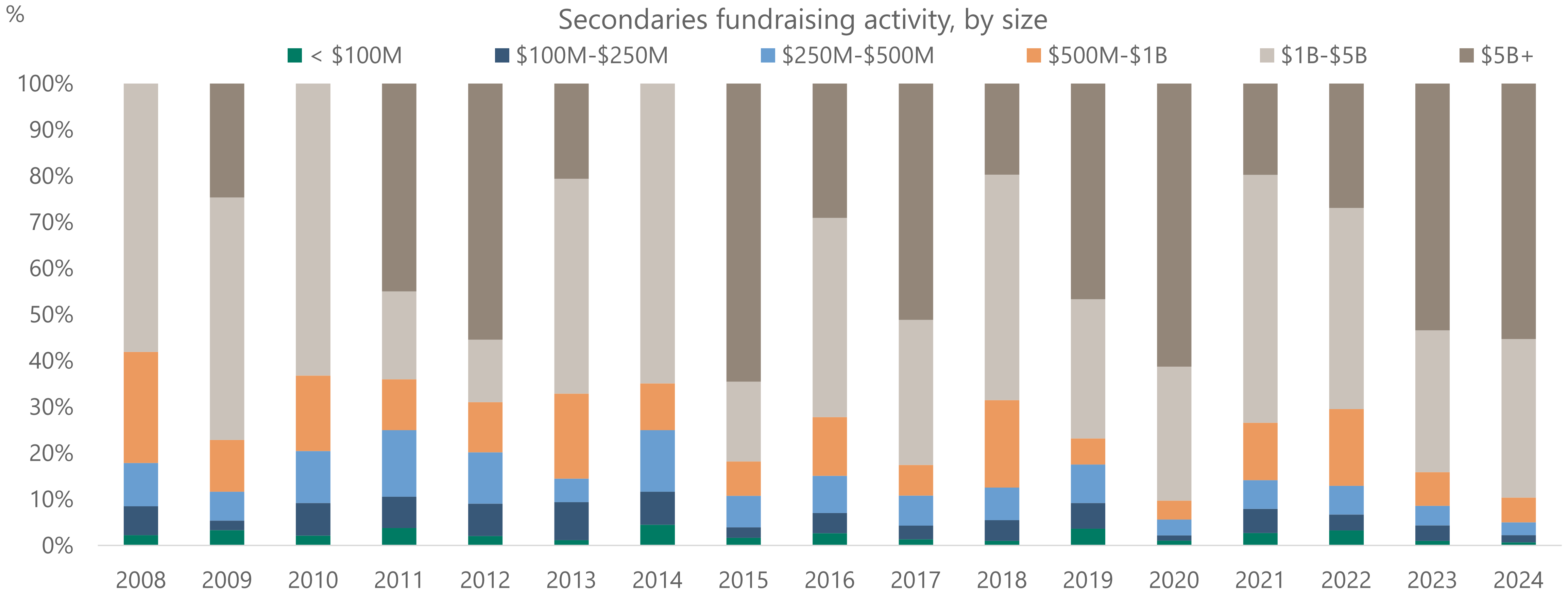
Source: PitchBook, Apollo Chief Economist.

Secondaries fundraising activity



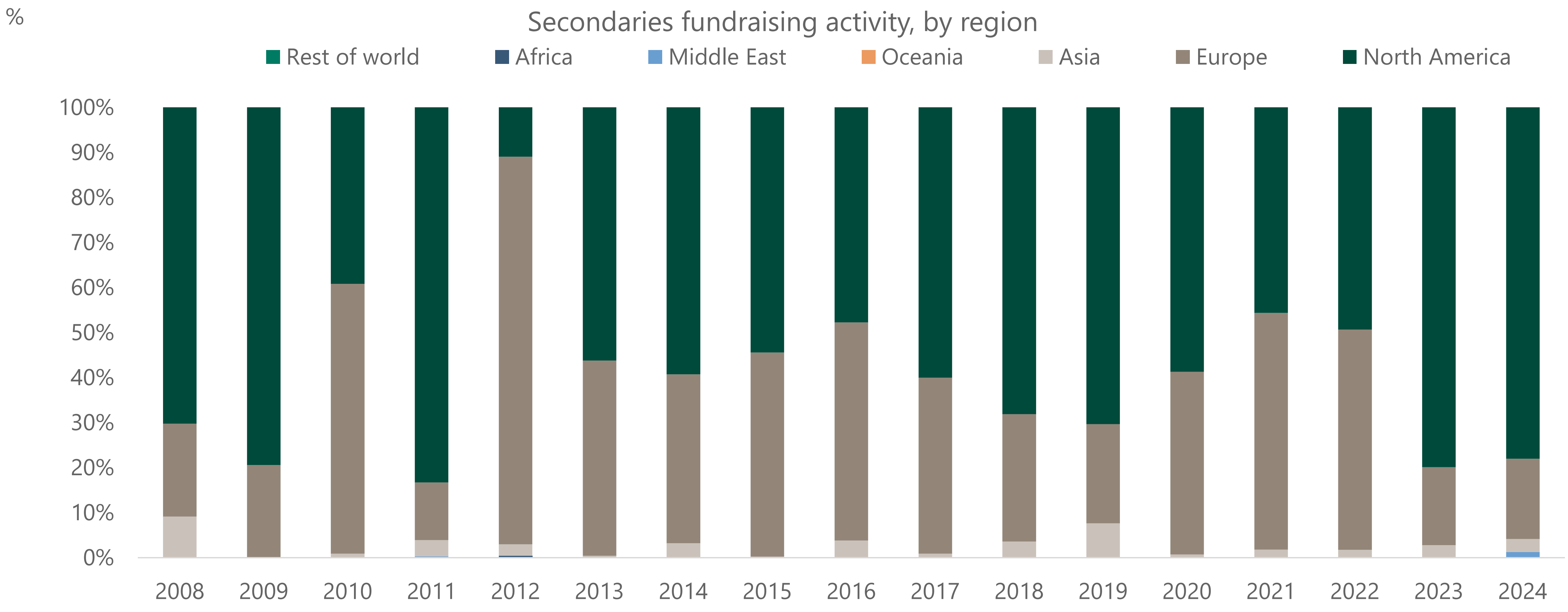
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2023

Secondaries fundraising activity, by size



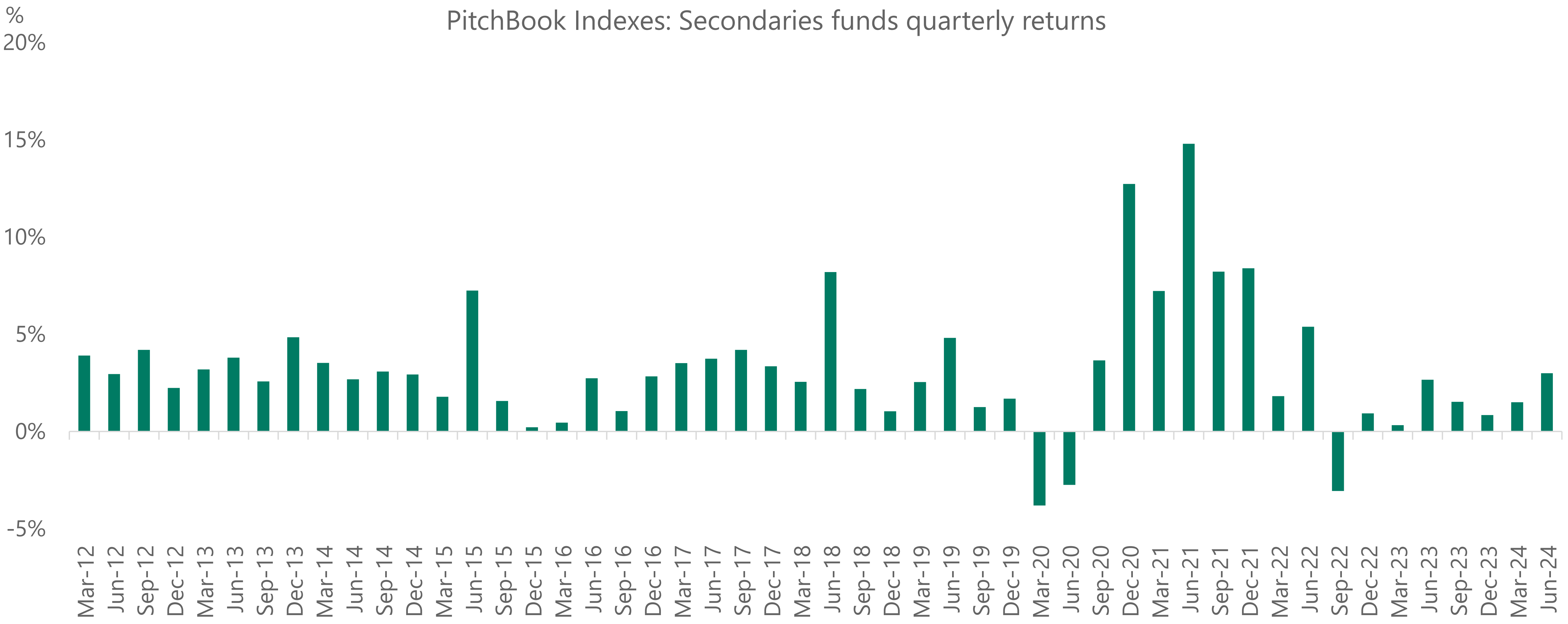
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

Secondaries fundraising activity, by region



Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

Secondaries quarterly returns

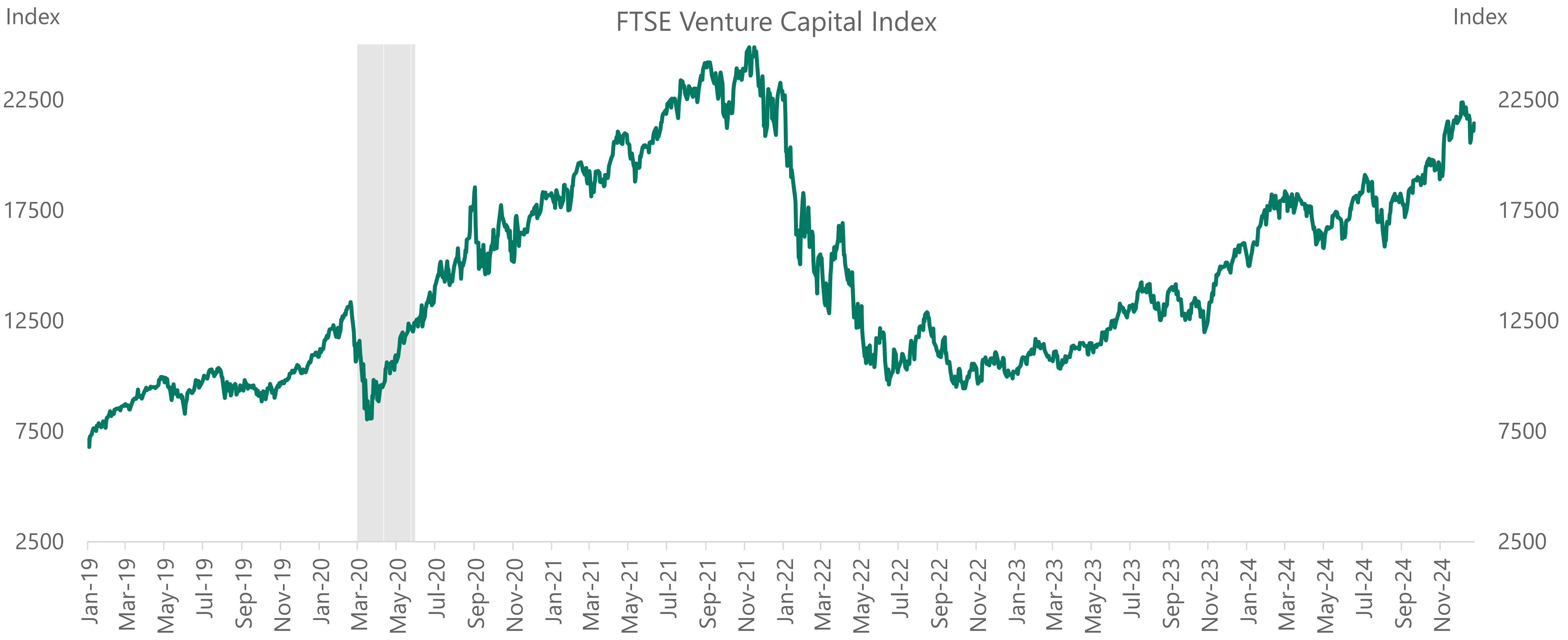


Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th June 2024

9. Venture Capital

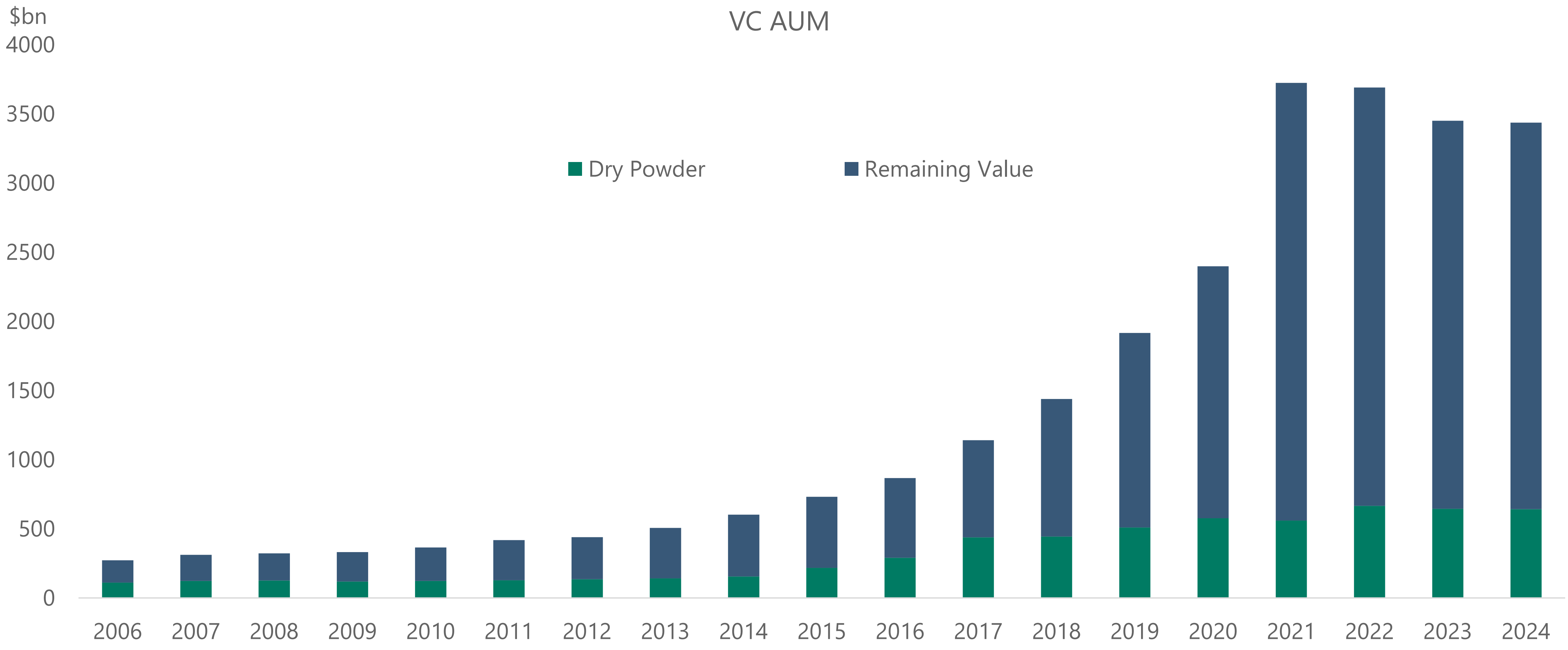
APOLLO

US venture capital valuations



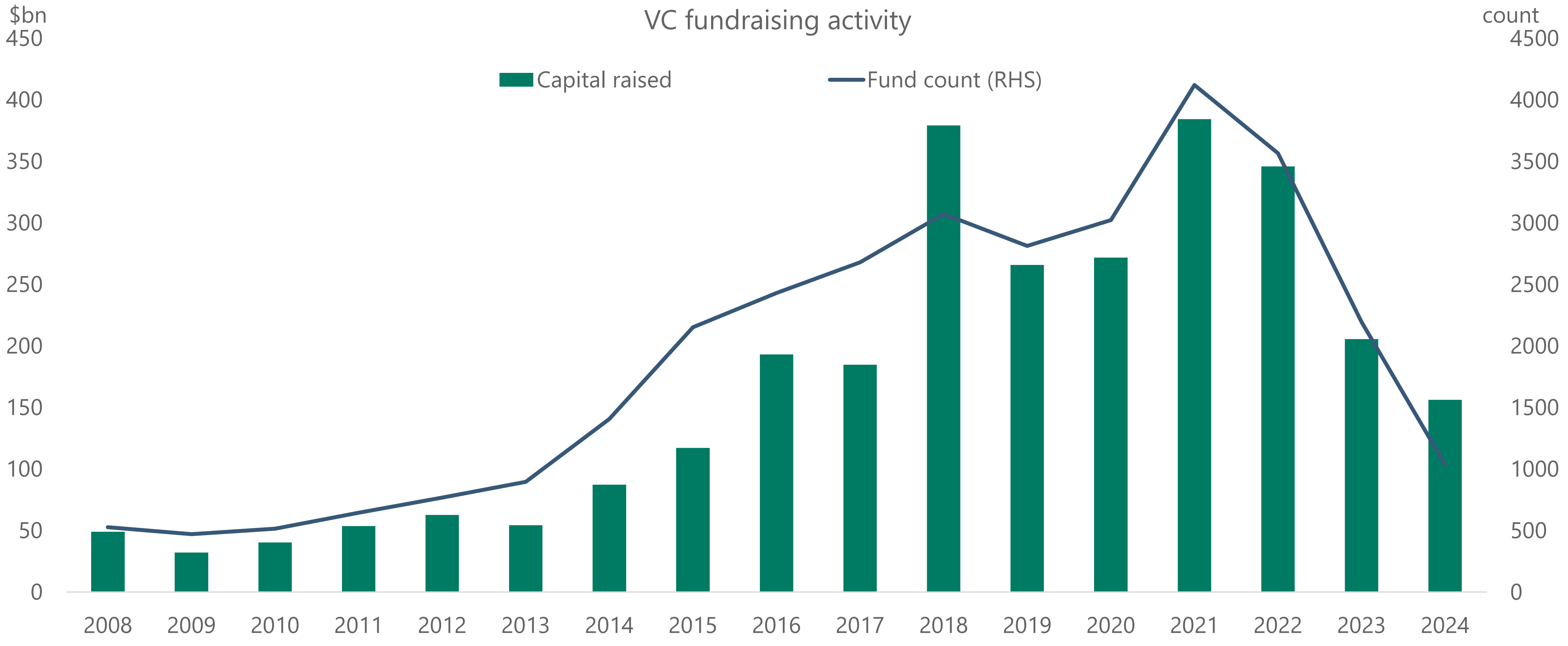
Source: Bloomberg, Apollo Chief Economist. Note: The Thomson Reuters Venture Capital Index is designed to measure the value of the US-based venture capital private company universe in which venture capital funds invest.

VC assets under management declining after the Fed raised interest rates



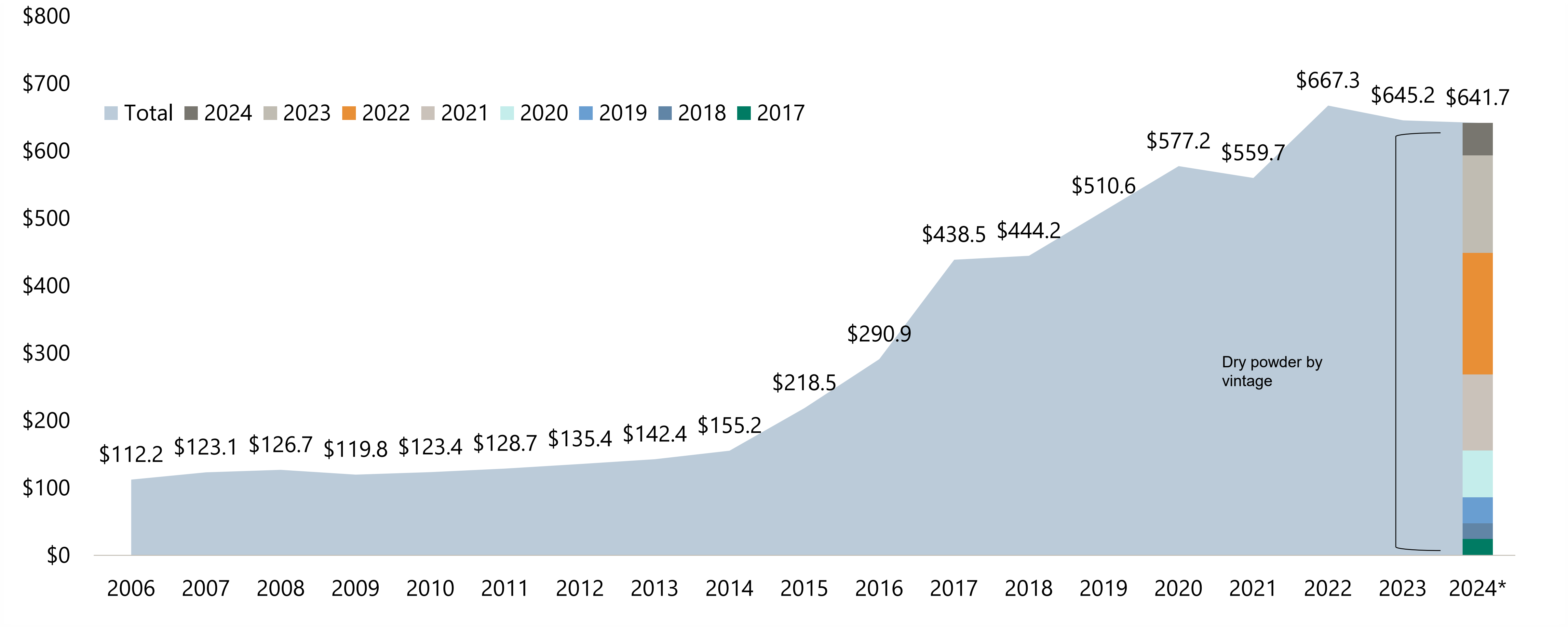
Source: PitchBook, Apollo Chief Economist. Note: Data as of 31st March 2024

VC fundraising activity very weak



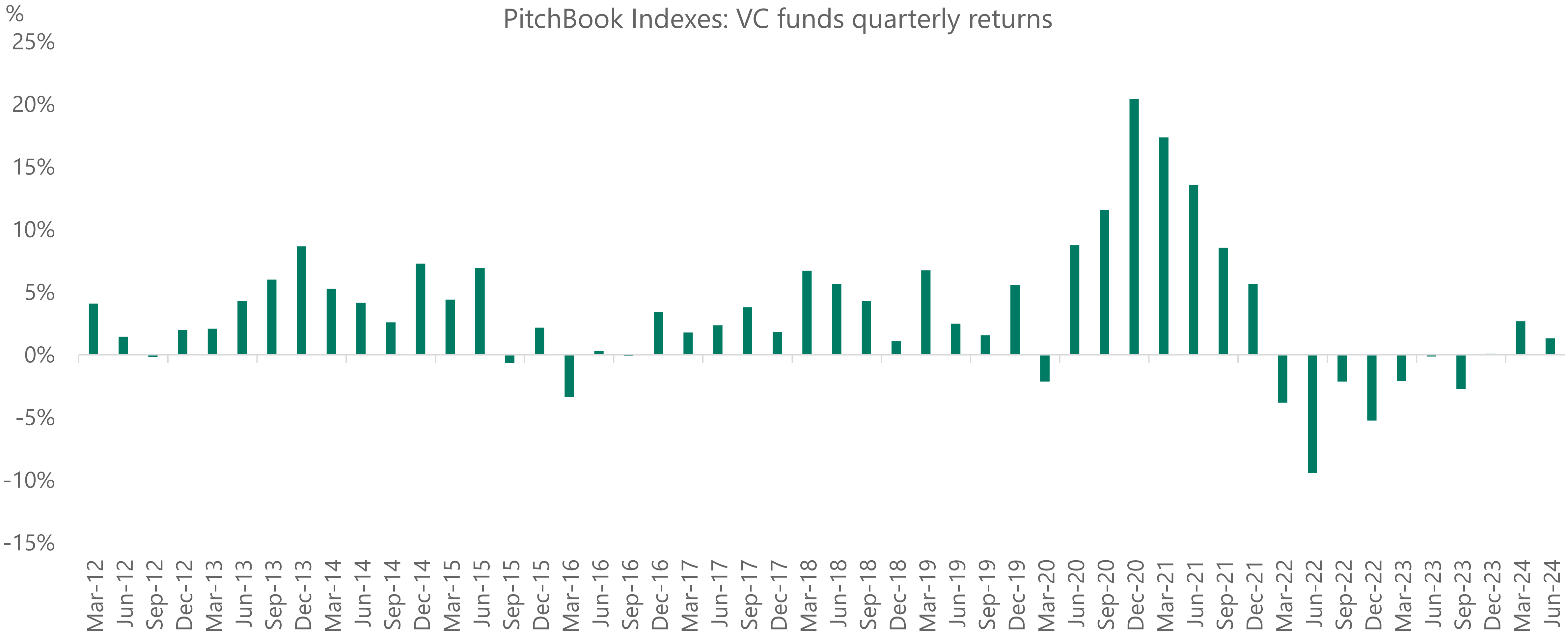
Source: PitchBook, Apollo Chief Economist. Note: Data as of 30th September 2024

VC dry powder, by vintage



Source: PitchBook, Apollo Chief Economist. Note: Data as of 31st March 2023

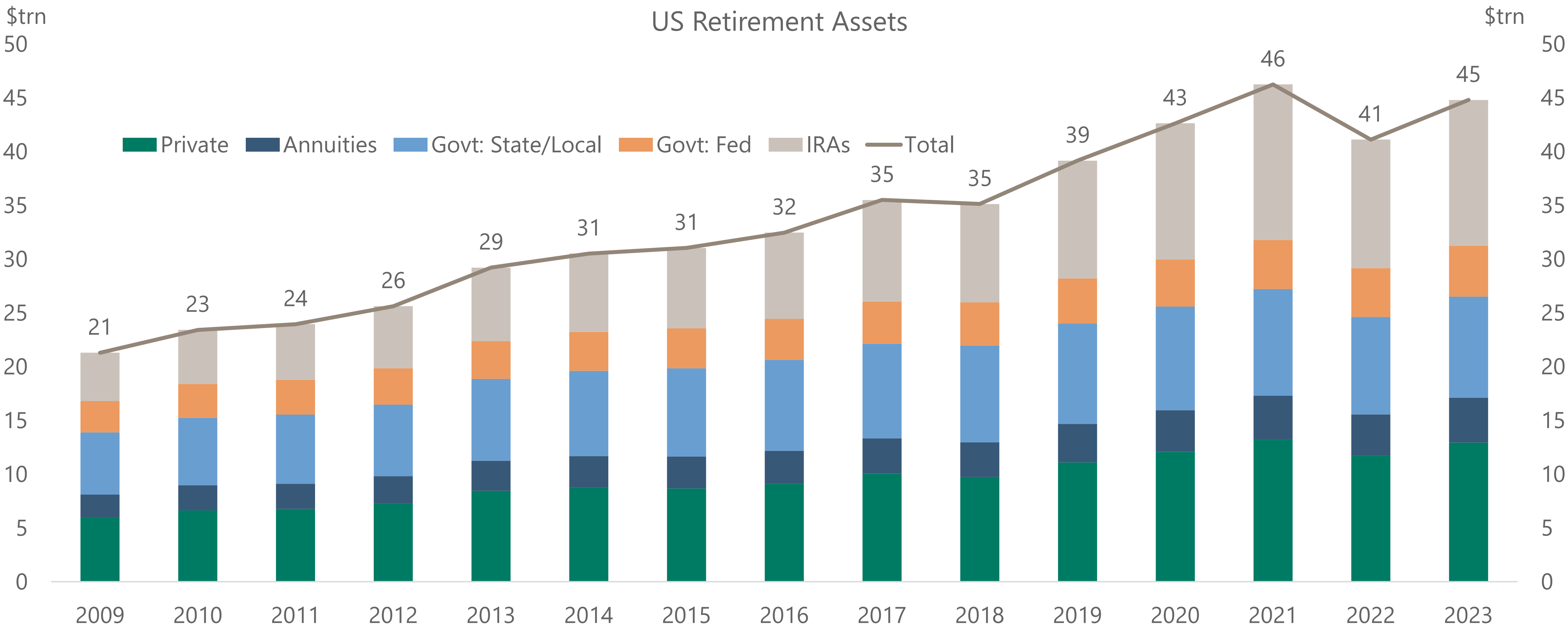
VC returns negative after the Fed raised interest rates



Source: PitchBook, Apollo Chief Economist. Note: Q32023 preliminary figure

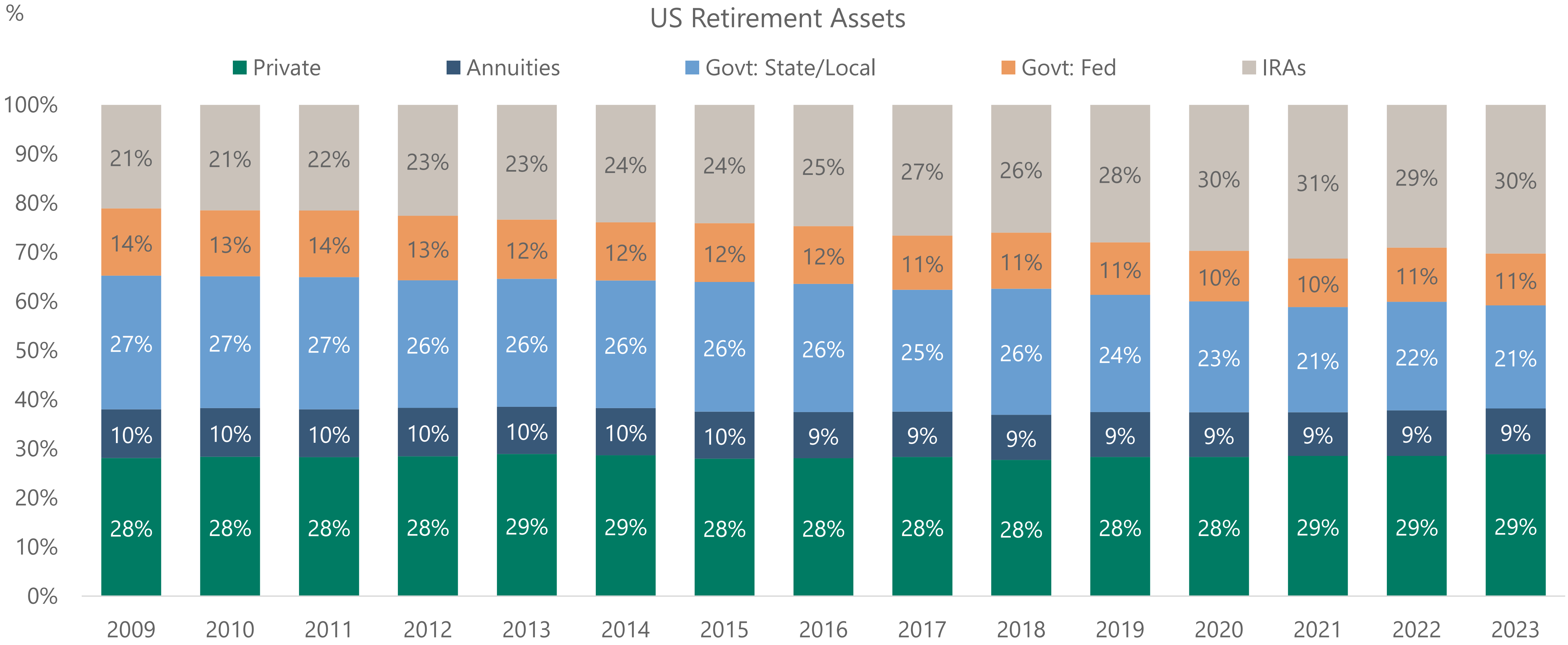
10. Retirement assets

The composition of US retirement assets



Source: SIFMA, Apollo Chief Economist

US retirement assets: % of total



Source: SIFMA, Apollo Chief Economist

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Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.