BlueTrust

PRIVATE EQUITY OUTLOOK

The State of Private Equity

A Harder Market, Not a Broken Model

INVESTMENT PERSPECTIVE

DATA THROUGH JUNE 30, 2026

Private equity showed signs of recovery in 2025, but the improvement was narrower than the headline numbers suggest—and the next phase will reward managers who create value through business improvement, not cheap debt and rising valuations.

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OVERVIEW

A Harder Market, Not a Broken Model

Private equity showed signs of recovery in 2025, but the improvement was narrower than the headline numbers suggest. A large backlog of aging investments remains, cash distributions are still unusually low, and renewed uncertainty slowed activity again during the first half of 2026. The next phase of private equity is likely to reward managers that can create value through business improvement—not simply through inexpensive debt and rising valuations.

Private equity has produced attractive long-term returns for many investors, but the environment that supported the asset class for much of the past decade has changed. Financing is more expensive, purchase prices remain elevated, and companies are taking longer to sell. These pressures do not mean private equity is broken. They do mean investors should expect wider differences between managers and place greater emphasis on how returns are created and when value is ultimately realized.

> *The central issue is not simply whether private equity portfolios are increasing in reported value. It is whether managers can ultimately convert that value into cash at or above their marks.*

FOUNDATIONS

What Is Private Equity?

Private equity refers broadly to investments in companies whose shares are not publicly traded. This article focuses primarily on **buyout funds**, which typically acquire controlling interests in established businesses. The private equity manager, often called the general partner or GP, generally seeks to increase the company's value through revenue growth, margin improvement, acquisitions, management changes, and strategic repositioning. Debt is also commonly used to help finance the acquisition.

Unlike a public company stock, a private company cannot usually be sold with the click of a button. A buyout fund may own a business for five years or longer before selling it to another company, another private equity sponsor, or public-market investors through an initial public offering (IPO). Until that sale occurs, much of the fund's reported return is based on an estimated valuation rather than cash that has been returned to investors.

That distinction—between **reported value and realized value and how cash is returned to investors**—is at the center of the private equity market today.

LIQUIDITY

A Rebound in Exits—But Not Yet a Recovery in Liquidity

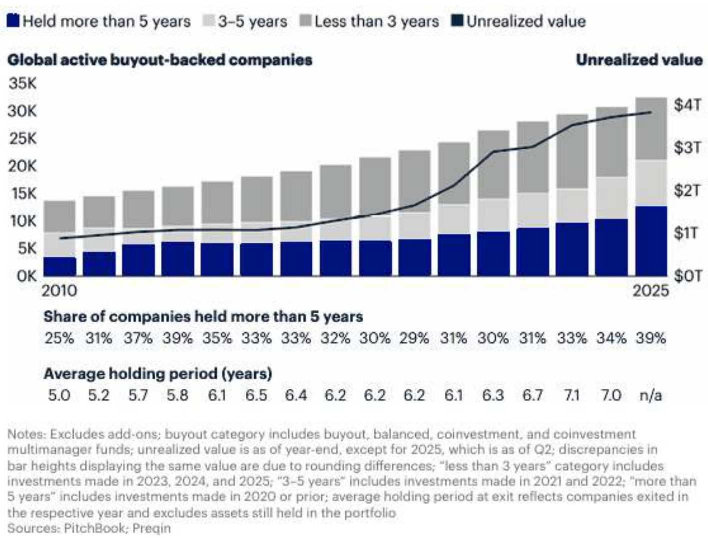
On the surface, 2025 brought significant improvement in private equity exits. Bain & Company estimates that global buyout-backed exit value increased 47% to $717 billion, making 2025 the second-best year on record by value. Beneath that headline, however, the number of exits declined 2% to approximately 1,570. Seven exits valued above $10 billion represented $155 billion, or 22%, of the annual total.[1]

The message is important: Buyers were willing to pay for large, high-quality companies, but the recovery did not extend evenly across the market. Many older, slower-growing, or more highly leveraged businesses remained difficult to sell at prices their owners were willing to accept.

As a result, the backlog continued to grow. Bain estimates that global buyout funds were holding approximately **32,000 unsold companies with $3.8 trillion of unrealized value**. Nearly 40% had been held for more than five years, up from 29% in 2019, while the average holding period for companies that were sold approached seven years.[1]

FIGURE 01 · HOLDING PERIODS

GPs are holding companies longer, pushing the average holding period at exit toward seven years



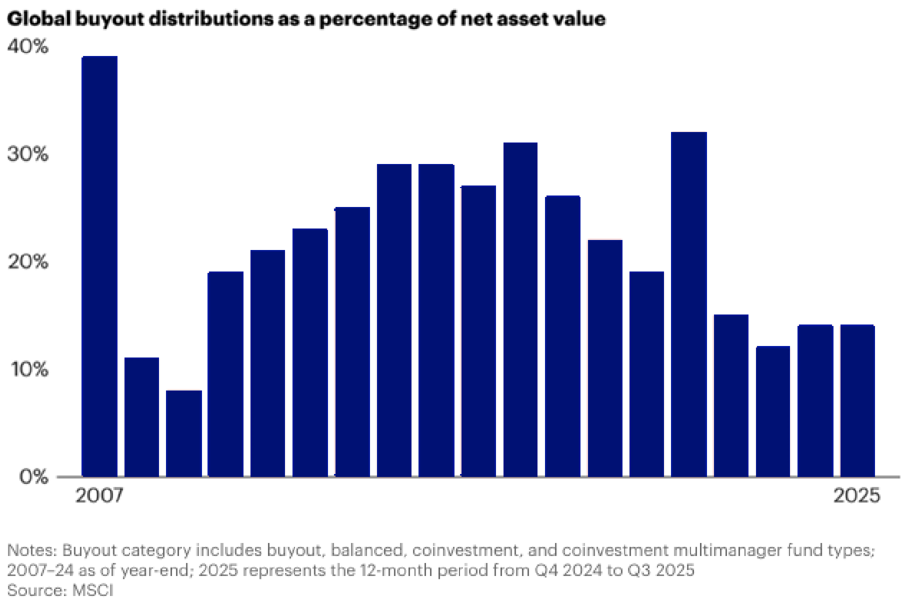
Source: Bain & Company, Global Private Equity Report 2026, including PitchBook and Preqin data.

Longer holding periods are not inherently bad. A strong business may have substantial value left to create, and selling into a weak market can unnecessarily sacrifice returns. Concern arises when an asset is held primarily because the manager cannot obtain a price close to its reported value or because a sale would crystallize a disappointing result.

Cash distributions provide another measure of the challenge. Bain reported that global buyout distributions were only about 14% of net asset value during the 12 months through September 2025, a level materially below their historical average.[1]

FIGURE 02 · DISTRIBUTIONS

Global distributions as a share of net asset value are at multidecade lows



Source: MSCI. Buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types.

The first half of 2026 brought another setback. Geopolitical conflict, uncertainty over tariffs and inflation, sharp repricing in publicly traded software companies, and renewed valuation disagreements caused both buyers and sellers to pull back. Analysts estimated that global private equity exit value declined 19.7% from the first quarter to $275.2 billion in the second quarter. However, year-to-date activity remained roughly in line with the 2025 pace.[2]

This data point does not necessarily mean reported private equity values are broadly fictitious. Bain and MSCI examined global buyout investments that exited between 2021 and 2025 and found that more than 75% sold above their next-to-last quarterly valuation.[3] However, the assets that sell are not a random sample. Managers have generally brought their strongest companies to market first, while more challenged holdings remain in portfolios. Both facts can be true: reported valuations may be reasonable for many investments, and the unsold backlog may still contain a disproportionate share of difficult assets.

CONTEXT

How Private Equity Arrived Here

The current backlog was created by several forces that reinforced one another.

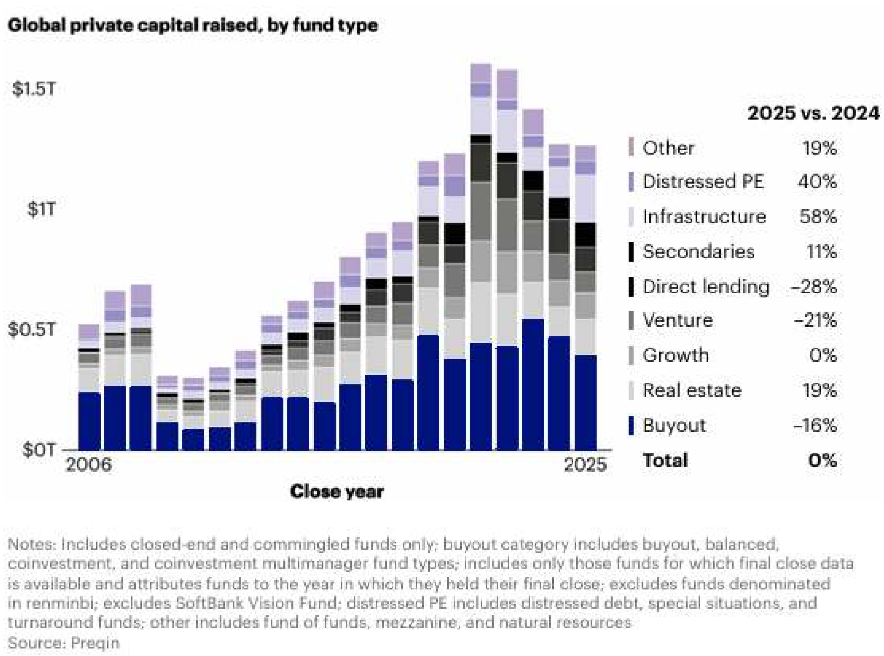
A Long Period of Inexpensive Capital

For much of the decade following the 2008–2009 global financial crisis, low interest rates made debt inexpensive and widely available. Because buyout funds use debt to finance acquisitions, cheaper borrowing could increase equity returns. At the same time, rising public and private market valuations allowed many companies to be sold at higher earnings multiples than managers had originally paid.

Strong returns attracted more investors and more capital. Across private asset classes, fundraising reached a record $1.8 trillion in 2021.[4] Buyout deal activity also surged, creating a particularly large group of companies purchased near the peak of the market.

FIGURE 03 · FUNDRAISING

Global alternatives fundraising leveled out in 2025, but buyout funds continued to struggle



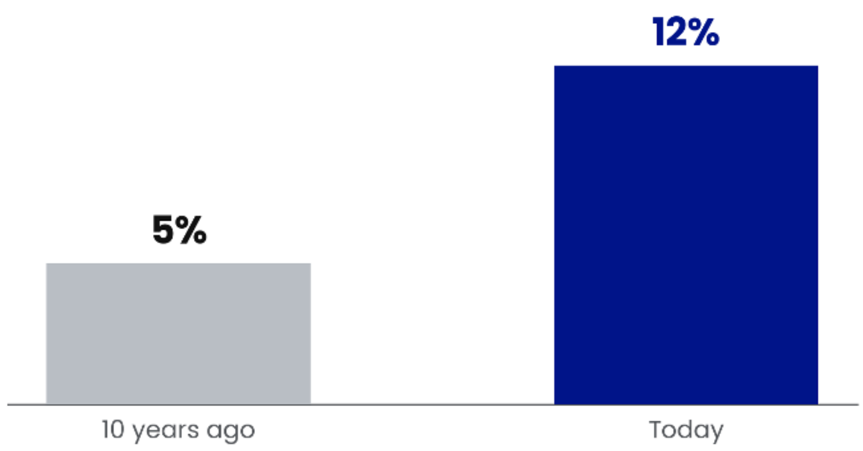
Source: Preqin. Includes closed-end and commingled funds only; excludes the SoftBank Vision Fund.

Then the economics changed quickly. Interest rates rose sharply beginning in 2022, increasing the cost of financing and reducing the amount of debt that could prudently support an acquisition. Yet purchase-price multiples did not fall enough to offset the higher financing cost fully. Analysts estimated that the median buyout entry valuation remained near record highs at 11.8 times EBITDA in 2025, while debt represented 37% of the purchase multiple, down from an average of 44% between 2010 and 2022.[4]

Bain illustrates the change in simple terms. Under a representative 2015 deal structure, approximately 5% annual EBITDA growth could generate a target 2.5-times return over five years. Under the higher-cost, lower-leverage structure modeled for 2025, the same return required approximately 10% to 12% annual EBITDA growth.[5] The precise assumptions vary from deal to deal, but the direction is clear: Managers must accomplish more operationally to produce the same result.

FIGURE 04 · OPERATING BAR

Annual EBITDA growth required to generate a target 20% IRR / 2.5x MOIC over a five-year hold



Source: SPI by StepStone; PitchBook; Bain analysis. Illustrative US example.

A Record Cohort That Has Been Difficult to Exit

Many companies that were purchased during the 2021 boom were acquired at high valuations and with expectations for continued rapid growth. Some performed well. Others encountered inflation, higher labor costs, more expensive debt, slower economic growth, changing consumer behavior, or disruption from artificial intelligence.

Historically, private equity managers sold approximately 30% of their investments by the fourth year of ownership. By the end of 2025, only 19% of companies acquired in 2021 had been sold.[4] The large 2021 cohort is therefore moving deeper into fund portfolios and placing additional pressure on managers to create exits.

Fewer Easy Exit Routes

The IPO market weakened sharply after its 2021 peak, removing an important route for larger private companies. Although IPO activity improved during 2025, Bain found that it remained a relatively minor exit channel and that the rebound came from a small base.[1]

Selling to strategic corporate buyers or other private equity firms also became more difficult. Higher borrowing costs reduced what buyers could pay, while sellers remained anchored to valuations established before rates increased. Regulatory scrutiny added time and uncertainty to certain transactions, particularly large combinations and acquisition strategies involving multiple competitors. More recently, tariffs, geopolitical conflict, and uncertainty about the effect of AI on software business models have made future earnings harder to estimate.

None of these factors alone created the backlog. Together, they made it harder for buyers and sellers to agree on a price.

STRUCTURES

New Ways to Create Liquidity

Private equity managers have increasingly used partial sales, secondary transactions, continuation vehicles, and portfolio-level financing to generate liquidity without completing a traditional sale.

In a continuation vehicle, a manager transfers one or more companies from an older fund into a new fund. Existing investors can generally sell their interests for cash or continue owning the assets through the new vehicle. Properly structured, this can give a strong company more time and capital to grow while offering investors a choice. It can also create conflicts involving price, fees, and the manager's role on both sides of the transaction.

Demand for these solutions has grown rapidly. McKinsey, citing Jefferies, reported that global secondary transaction value reached a record $240 billion in 2025, up 48% from 2024. GP-led transaction volume reached $115 billion, more than triple its 2020 level, and continuation vehicles were estimated to represent approximately 14% of private equity-backed exits.[4]

These transactions have become a permanent part of private markets, but investors should distinguish between a manager retaining an exceptional business and a manager postponing recognition of a weak investment. The relevant questions include whether the transaction was competitively priced, whether investors had a genuine choice, whether the manager contributed new capital, and whether fees and incentives remained appropriately aligned.

OUTLOOK

What Happens Next?

No one can know precisely how quickly the backlog will clear. Our base case is a gradual and uneven adjustment rather than either a rapid return to the pre-2022 environment or a broad collapse in private equity values.

If financing markets remain open, economic growth continues, and valuation expectations stabilize, exit activity should gradually improve. Corporate buyers have substantial capital, private equity firms face mounting pressure to sell, and secondary-market investors have raised significant sums to provide alternative liquidity. However, it will likely take sustained annual exit activity—not one or two strong quarters—to restore normal cash distributions.

The asset class also retains substantial institutional support. In McKinsey's January 2026 survey of 300 global limited partners, approximately 70% planned to maintain or increase their private equity allocations during the year.[6] Investors are not abandoning private equity, but they are becoming more selective.

That selectivity is likely to produce three changes.

First, manager dispersion should become more visible. Different datasets and periods produce different estimates, but the conclusion is consistent: In an environment with less help from leverage and rising valuation multiples, sourcing, entry discipline, sector knowledge, and operational execution should matter even more.

Second, median returns may be lower than those generated during the era of inexpensive capital. McKinsey estimates that leverage and multiple expansion accounted for 59% of buyout returns for transactions completed between 2010 and 2022.[4] Those tailwinds may not reverse entirely, but investors should not assume they will contribute as much in the next cycle.

Third, the manager universe is likely to consolidate. McKinsey estimates that the number of new private equity firms declined approximately 18% annually between 2020 and 2025. Mergers and acquisitions involving the 100 largest alternative asset managers totaled approximately $34 billion in 2025, nearly double the prior year.[4] Managers with weak distributions or undifferentiated strategies may find it difficult to raise successor funds, while established platforms and genuinely differentiated specialists continue attracting capital.

Evergreen private market funds introduce an additional consideration. These vehicles can improve access and diversification, but their underlying investments are illiquid even though the fund offers periodic repurchases. If returns continue to disappoint or distributions remain low, repurchase requests could rise and exceed the amount a fund is willing or able to satisfy in a particular period. Investors should understand that periodic liquidity is conditional, not guaranteed.

FRAMEWORK

Evaluating Private Equity in Today's Market

The current environment does not support abandoning private equity. It supports more disciplined underwriting of both managers and portfolio structure.

01

Treat it as a long-term, illiquid allocation.

Avoid investing capital in private equity that may be needed within the next 3–5 years. Ideally, private equity is held for 10 years or more. Even evergreen funds that offer limited liquidity do not guarantee short-term access to principal.

02

Evaluate realized results, not just reported returns.

Consider distributions to paid-in capital, the pace of exits, sale values relative to prior marks, write-off rates, and the share of return from realized investments. A growing NAV is encouraging, but not a substitute for evidence that value converts to cash.

03

Understand what actually created the return.

Managers should explain how much value came from revenue growth, margin improvement, debt repayment, leverage, and multiple changes. A repeatable operating model is now more valuable than a record built on cheap financing and favorable markets.

04

Diversify deliberately.

Diversify across managers, industries, company sizes, geographies, vintages, and structures. Secondaries and co-investments can improve vintage diversification, reduce the early J-curve, or add exposure to more seasoned assets.

05

Examine liquidity tools and conflicts closely.

Continuation funds, NAV loans, and dividend recapitalizations are not automatically good or bad. Ask whether they support genuine value creation or merely accelerate distributions, defer a difficult sale, or increase risk.

06

Maintain a consistent commitment pace.

Timing private markets is difficult because commitments invest over several years. A measured pacing plan tied to the investor's overall financial plan is generally more durable than reacting to short-term headlines.

CONCLUSION

A More Demanding—But Still Investable—Market

Private equity is entering a period when reported returns will receive more scrutiny and realized cash flow will matter more. The industry still owns many strong businesses, and a sustained improvement in transaction markets could release meaningful value. But the large inventory of aging companies will not clear overnight, and some investments will prove less valuable than their current marks imply.

For investors, the most prudent conclusion is neither that private equity's best days are over nor that past returns will simply repeat. The opportunity remains, but the margin for error has narrowed. Experienced managers with disciplined entry valuations, differentiated sourcing, strong operating capabilities, prudent use of leverage, and a demonstrated ability to return capital should be best positioned for the environment ahead.

> *For Blue Trust clients, private equity should be evaluated as one component of a diversified, long-term financial plan. The objective is not to pursue illiquidity for its own sake, but to accept it selectively when the diversification, expected return, manager quality, and need for liquidity make the trade-off appropriate.*

REFERENCES

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