

# Private Market Sentiment Remains Bullish Despite Headwinds

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There's a popular axiom on Wall Street that two emotions drive markets: fear and greed. Warren Buffett immortalized the contrarian viewpoint on this subject, famously declaring that investors should "be fearful when others are greedy and greedy when others are fearful."

Sentiment indicators quantify market psychology and are often used to gauge bullish or bearish investor attitudes. In public markets, daily returns act as a scorecard that measures how well the market performed on a given day, which can in turn influence investor sentiment. (Or is it the other way around?)

However, in private markets, determining which way the winds are blowing can prove more challenging because private markets are not subject to the same daily feedback loop as public markets. That's why it's important to pay attention as relevant sentiment data becomes available.

Earlier this month, State Street produced its [2023 Private Market Study](#), gathering responses from nearly 500 asset managers and private market investors across North America, Latin America, Europe and Asia Pacific (APAC). The goal of the study was to better understand the outlook of private market investors amid the current economic and public market landscape.

Below, we've highlighted some key findings from the study:

- Private equity is expected to remain the top alternative asset class for new investments over the next 2-3 years.
- 63% of investors anticipate a higher allocation towards private equity – driven by APAC and North America.
- 68% of institutional investors "will continue to grow private markets allocations in line with current targets."
- 75% of institutional investors believe that more challenging economic conditions will create better opportunities to acquire or invest in assets at discounted prices.
- 69% of firms are in broad agreement that higher rates will lessen the appeal of highly leveraged private assets — a sentiment shared by 81% of asset owners.
- Private equity valuations and overcrowding are among the top investment concerns for investors in private markets.
- Data transparency and enhanced due diligence is the top operational concern for 61% of asset managers and 53% of asset owners.

The above data suggests that the majority of investors remain bullish towards private markets, despite evident headwinds, including rising interest rates, persistent inflation, and a reset in equity prices. Looking at the data, private equity investors have reason to remain optimistic, as the best PE returns have historically followed periods of economic turmoil.

According to a 2022 report by Bain Consulting, investors have earned superior internal rates of return (IRR) in the years following a recession. As outlined in the report, following the dot-com bubble, buyout funds generated a median IRR of 25% in 2001, 40% in 2002, and 47% in 2003. Following the Global Financial Crisis in 2009, they posted an IRR of 24%.

As Alexis Weber, CIO and founder of PM Alpha, recently put it: "Despite growing headwinds, private markets have remained profitable over the last 15 years, with many of the strongest

vintages arising from recessionary periods. Institutional investors, therefore, will continue to allocate to private market asset classes to gain exposure to what are expected to be some of the best vintages to come.”

Circling back to our opening quote by Mr. Buffett, if one is to take the contrarian perspective to “be greedy when others are fearful”, then current headwinds – rising interest rates, persistent inflation, and a reset in equity prices – should uncover superior opportunities for private market investors that know where to look.

If you’re an Evergreen Gavekal client that is interested in learning more about private market opportunities, please reach out to your wealth consultant.

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#### **Sources:**

[Private market investor sentiment holds strong \(pitchbook.com\)](#)

[State Street Private Markets Study 2023 | State Street](#)

[Fear and Greed Index - Investor Sentiment | CNN](#)

[The Best Private Equity Returns Come After a Recession | Institutional Investor](#)

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