

Whenever we think about what lies ahead for the private equity and credit markets, we must begin by looking in the rear-view mirror. In this case, we consider spring 2021, one of the busiest periods in recent history – it is important to remember that 2021 was a record year when considering the relative lull of 2022, 2023 and the start of 2024.

Since 2022, we have seen pockets of activity, whether driven by sectors such as business services, technology or industrials; geography, such as the French and Nordic markets; or size (jumbo deals as a proportion of total deal numbers appear to have driven some investment theses, perhaps fuelled by the general propensity for large businesses to withstand market-wide periods of caution).

As these larger businesses become the subject of transactions, we also see divestments coming from those same businesses. Additionally, the corporate carve-out has been a strong theme over the last year and is likely to prevail as

investors seek areas that are ripe for value creation.

What drove the relative quiet of 2022 and 2023 has been discussed often. Macroeconomic uncertainty driven by geopolitical conflict in Ukraine and rising prices of energy and raw materials combined neatly with post-pandemic inflation and rising interest rates. The resulting landscape switched from an environment where it was easy to transact with cheap debt and plentiful resources. Add the fact that financings in the relatively prolific years of 2017 and 2018 would be due in the near term and the expectation of a wall of restructurings that has not yet materialised, and you get a world in which lack of caution would be foolish.

Are sensitivities easing as parties see the bottom of markets? Possibly. While global geopolitics are more complex than in 2022, public markets have reacted far less aggressively than many expected. Interest rate reductions are now happening after periods of stable rates. Even energy prices are normalising.

That easing of structural and environmental blockers is likely to be one

of many reasons why we can expect an uptick in deal activity throughout the second half of 2024. The fact that fundraising has continued at a good pace, despite the relative slowdown, creates a huge dry-powder buffer from which investors will expect to see deployment and returns, particularly if those same investors are having to wait for returns, roll into continuation funds or 're-up'.

Secondaries uptick

Those circumstances have driven the significant uptick in secondaries transactions. The double dip effect on long-term gaps in returns tends to create a push toward finding yield and value creation. The reduction of the bid-ask spread for valuations has meant that sellers are more willing to sell, and buyers are more willing to buy, especially where there is scope for the outgoing sponsor to retain a small stake alongside the incoming sponsor to continue to benefit from upside.

What may sound very simple was a blocker to many deals in the initial period of rising interest rates and uncertainty. The unwillingness to transact resulting from fear of embarrassment

What's in store for the second half of 2024?



Guest comment by **Ayman Mahmoud** and **Fatema Orjela**

*The private equity and debt markets are gaining momentum
but this doesn't mean there's no cause for concern*



permeates both the private equity and credit markets. The flattening interest rate curve and expectations surrounding interest rates exemplified by the US Treasury markets has instilled confidence, with debt markets running white-hot in May 2024 and activity levels in the US markets providing a strong signal of what is to come in Europe.

It will not be smooth sailing in 2024, however. While we witness a wild return to 2021 activity levels, market spectators should not expect records to be broken every year – an uptick doesn't mean a hockey-stick growth curve. Proceeding with caution is key as investment professionals continue to seek the right kind of return and drive the right kind of growth. That will mean processes may continue to run longer in 2024 than previously.

A return to life for the broadly syndicated loan market has created more opportunities for existing public issuers to think creatively and undertake corporate transactions after being less willing to in the months when the BSL

market dried up. It has also contributed to the repricing market, which has driven pricing down and possibly provided even more runway for the businesses that might otherwise have suffered in a higher interest rate environment. Indeed, activity levels in the CLO market and the increase in secondaries transactions has resulted in some serious cashflow movement, with billions of dollars moving very privately, stimulating markets and easing execution.

As investors look to unlock value, a simple buy-and-build strategy alone may not be sufficient. Instead, the need to think creatively, engage with management teams and deploy strategies designed for growth will form a large part of the investment thesis. Unlocking new markets as part of that strategy can only serve to expand business potential and, therefore, we can expect to see even more bolt-on cross-border transactions (as has been the trend in recent years).

Again, with value creation contributing so significantly in driving

investor confidence, much attention has turned to corporate carve-outs. Looking at what one party has considered non-core to its wider operations with a desire to rationalise and divest is a creative way to avoid overpaying for an asset but also leaves significant room for asset improvement in the transitional period following the buyout.

Minding the gaps

The US and UK elections and pre-pandemic financings are unknowns that will resolve by the end of 2025. There are proportionately more maturities expected in 2025 than in 2022, 2023 and 2024, although this is not to say that we expect a 'wall'. Many will return to active credit markets in the second half of 2024 to address any gaps in the capital structure.

Complexity will be prominent. Whether because of the growth of carve-outs or because processes may integrate financings (private and BSL) with exit preparations and even 'hard staples', deals will need more creativity from deal parties. The alignment in valuation between buy-side and sell-side will drive a return to more natural growth cycles. Founder-driven businesses purchased in the last six or seven years may now be ripe for acquisition in the secondary LBO market, creating a whole additional layer of target options.

We may even see an increase in distressed M&A, where capital structures cannot be sufficiently optimised. That is still M&A and will contribute to the statistics referenced to measure activity. Each of these factors contribute to some meaningful optimism around deal activity in the second half of the year, even taking into account some of the opposing forces. Only time will tell if trepidation or excitement was the correct instinct at the mid-point of 2024. ■

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