PANTHEON

FEBRUARY 2025

PANTHEON PERSPECTIVES: PRIVATE MARKETS IN 2025

In conversation with our asset class leaders

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PANTHEON PERSPECTIVES: PRIVATE MARKETS IN 2025

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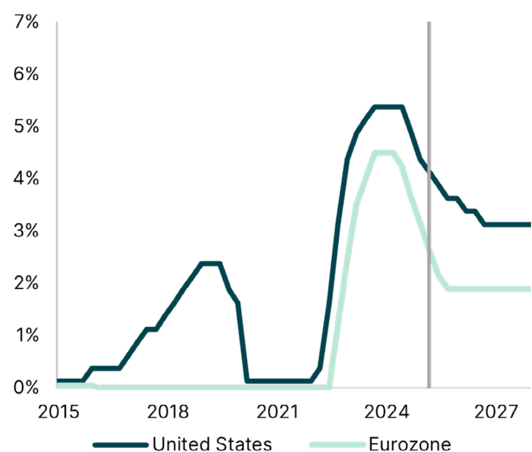
The stage for global private markets is set for a year of robust performance and strategic opportunities, albeit against a backdrop of persistent geopolitical tensions and challenges. As we transition into 2025, we look closely at the macroeconomic trends that have shaped the past year and will continue to influence the private markets.

Pantheon's investment leadership team provides further insights into these trends and highlights key areas of focus for the coming year, with commentary from our asset class heads in private equity, private credit, and infrastructure.

Expect the unexpected

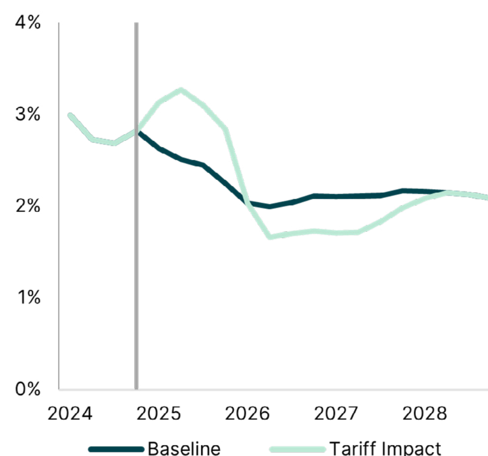
The macroeconomic environment in 2024 was marked by a gradual easing of inflation and initial cuts to historically high interest rates, setting the tone for what should have been a more stable and predictable 2025. But already the opening weeks of the year have seen markets in turmoil from atypical events: the threat of a global trade war, the emergence of a black swan challenger AI technology, and the dislocation of the European and US rates agendas have all caused deep volatility across markets and threatened to upend any potential stabilization. While inflation across both the US and Europe moderated by the end of 2024, although still staying above target levels of 2.5%, the possibility of more instability – not least from supply chain shifts, tariffs, labor dynamics, etc. could cause inflation to resurge and exert more upward pressure on rates.

Figure 1. Interest rates to stay "higher for longer" despite cuts in 2024



Source: Oxford Economics, data as of January 30, 2025

Figure 2. US inflation moderated in 2024, but is forecasted to rise as a result of tariffs

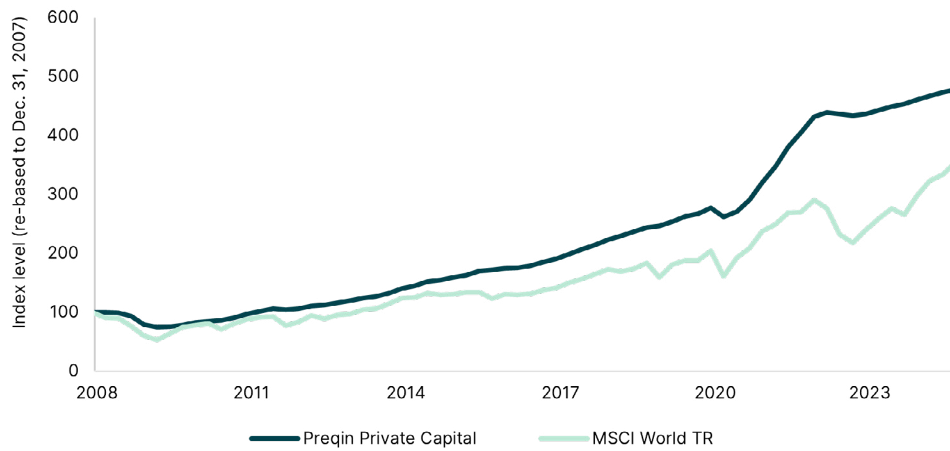


Source: Oxford Economics, data as of February 3, 2025

Against the stabilizing backdrop of 2024, public and private markets performed robustly over the year.

While public markets saw some outperformance, private markets continued to deliver consistent long-term returns: figure 3 illustrates how private capital has outperformed public equities (as represented by MSCI World) over the last 17 years, despite some recent gains by the public markets. Although geopolitical and policy changes against a backdrop of high public market valuations may reintroduce volatility into public markets, private markets are expected to maintain their strong and reliable performance.

Figure 3. Public and private markets performance



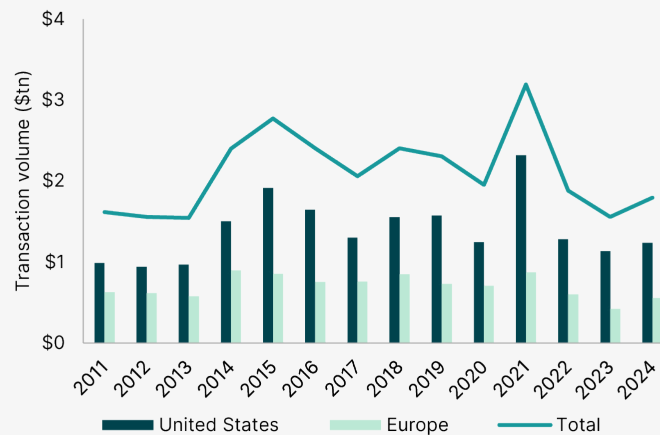
Source: Preqin, as of September 30, 2024. Past performance is not a guide to future results.

Key areas of focus for private markets in 2025

1. A more supportive backdrop for dealmaking

The macroeconomic environment could bring about normalized dealmaking volumes as lower borrowing costs and substantial dry powder have the potential to boost private market deal activity. Although short-term uncertainty emanating from the rising threat of tariffs and other policy changes could delay the pace at which this trend plays out, the reduction of interest rates from recent highs has positively impacted M&A, creating a more conducive environment for deals. In 2024, global M&A deal value had increased by 15% year-over-year.[1] Private equity deal volume in 2024 exceeded $1.5tn, an 11% increase from 2023, though still below the 2021 peak.[2]

Figure 4. M&A shows signs of a gentle recovery

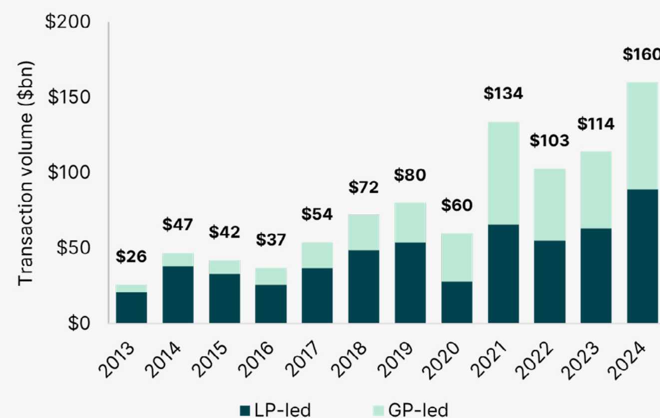


Source: S&P Global Market Intelligence. Data compiled January 30, 2025. Includes announced or completed deals between January 1, 2014, and December 31, 2024, where the buyer purchased a majority stake in a company or an asset.

2. Secondaries to the rescue: poised for sustained growth

The secondaries market has seen significant growth since our initial investments in 1988. Last year, secondaries volume hit a new record of $160bn[1], with record levels for both LP portfolio sales and GP-led opportunities, and in 2025 the demand for liquidity and exits is expected to drive continued strong volume. Factors such as low distributions, aging portfolios, and a recovering exit market position the secondaries market for continued growth.

Figure 5. Secondaries volume hit a new record of $160bn in 2024



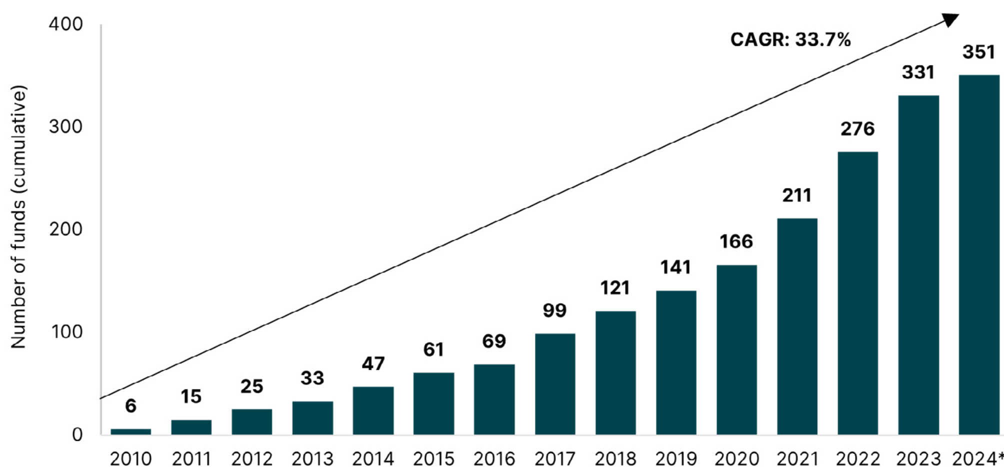
Source: Evercore as of January 2025. "FY 2024 Secondary Market Review".

1 S&P Global Market Intelligence as of December 31, 2024. Data compiled January 30, 2025.
2 PitchBook as of December 31, 2024
3 Evercore as of January 2025. "FY 2024 Secondary Market Review".

3. Semi-liquid funds go mainstream

Semi-liquid funds are growing in popularity and have reached over $350bn in assets, largely driven by growing private market allocations from private wealth investors. These funds provide a number of features that make them attractive access points into private markets including immediate NAV exposure, lack of capital calls, and full recycling of distributions helping to maintain an investor's funded status. These features remove friction for the individual wealth investor but also can have applicability for the institutional investor and overall are broadening investor choice.

Figure 6. Growth in evergreen funds continues an upward trend



Source: PitchBook as of September 17, 2024. "Q3 2024 PitchBook Analyst Note: The Evergreen Evolution".

In summary, 2025 is set to be a dynamic year for private markets, with promising opportunities arising from shifting macroeconomic conditions, increased dealmaking activity, and innovative investment structures. The integration of technological advancements and regulatory changes will further shape the landscape. Staying informed and adaptable will be key for investors looking to capitalize on these trends.

Private equity in 2025

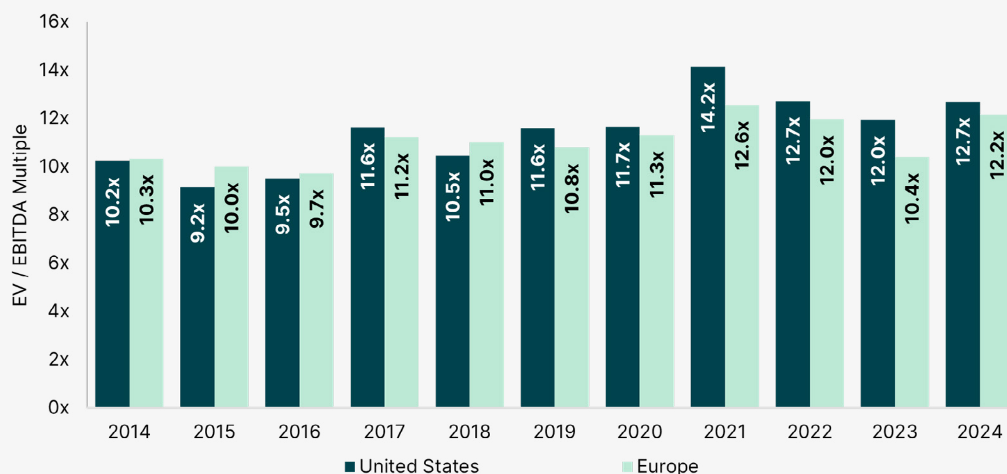
In conversation with Jeff Miller, Chief Investment Officer and Head of Private Equity at Pantheon

A thawing of the M&A market will see a bifurcation of valuations and a continued need for innovative liquidity solutions

What's the most significant macroeconomic factor to consider for private equity in 2025?

One of the most significant factors impacting private equity in 2025 is the expected higher-for-longer interest rate environment and the resulting effect on valuations. Higher rates mean less leverage in deals which should moderate valuations. We have seen some of that effect already as valuations are down some from the peak. And while rates are not necessarily high on an absolute basis relative to history, much of the existing NAV in private equity portfolios was priced in an environment of lower rates which has undoubtedly dampened exit activity. Overall, it takes time for valuations to recalibrate but as they do, that should help support increased new deal and exit activity.

Figure 7. Buyout deal entry multiples



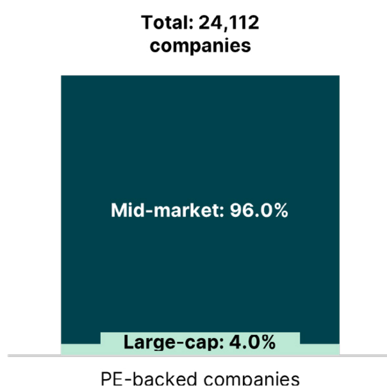
Source: PitchBook as of December 31, 2024.

Will investors be allocating more to the mid-market in 2025?

While large-cap managers have been taking share in the market, given the growth in their product set and greater share of investor wallet, the mid-market still offers the potential to outperform the large end. There are a number of reasons for this including lower leverage and entry multiples, higher growth, and a higher share of strategic exits. There is also less dry powder in the mid-market on a relative basis, as the large-cap end of the market has increased its share of capital raising. However, we are seeing several investors take an increased interest in the mid-market. This could be due to investors filling up on large-cap exposure within their portfolios but also investors are seeing the potential for outperformance. Although one has to acknowledge that the return dispersion is wider in the mid-market[2] so you have to select well.

4 Preqin as of September 30, 2024. There is no guarantee that these trends will persist.

Figure 8. Mid-market companies dominate the private equity universe



Source: PitchBook as of January 2025. Size classification by annual revenue (Mid-market: under $1bn; Large-cap: over $1bn).

The mid-market is also much deeper in terms of number of funds and companies, and can be harder to access and navigate. In figure 8, we can see that 96% of PE-backed companies are in the mid-market. We have worked with managers in this space for decades and have strong relationships and a deep understanding of this dynamic part of the market, which enables us to invest at scale to provide broad-based exposure.

Which sectors of the market look most attractive, and which do you think may face some challenges?

We see opportunities across the private equity landscape and continue to focus on businesses with strong fundamentals. We like services businesses more broadly although there are a number of verticals in that overall category. For example, outsourced services are becoming increasingly appealing as companies look to streamline their operations by outsourcing non-core functions. In the realm of professional services, there's a notable roll-up opportunity, especially in accounting and legal firms. Industrial services also present a promising area for investment. As industries expand and modernize and increasingly move on-shore, the demand for maintenance, repair, and operations services will grow, offering substantial opportunities. We also continue to like insurance services and the roll-up opportunity there.

In terms of headwinds, companies exposed to tariffs could face significant risks due to shifting trade policies, which can increase costs and disrupt supply chains.

Labor-intensive industries may also face some challenges, particularly due to skilled labor shortages and resulting wage inflation which could be exacerbated by immigration policy shifts.

What do you expect private equity activity to look like this year?

Investors have been clear about their intentions to allocate more to the asset class in 2025.[3] Given investment returns have remained strong and the asset class continues to be compelling, there is likely to be a real uptick in fundraising activity across private equity this year.

We anticipate an increase in deals and exits over the next couple of years, though we expect it to be gradual. The exit backdrop should improve some, building on the improvement in the second half of last year, but we expect the pick-up to be modest. We don't expect a sudden surge of deals hitting the market as volumes have stabilized over the last few quarters. We also expect new deal activity to pick up and will be supported by higher dry powder and available financing.

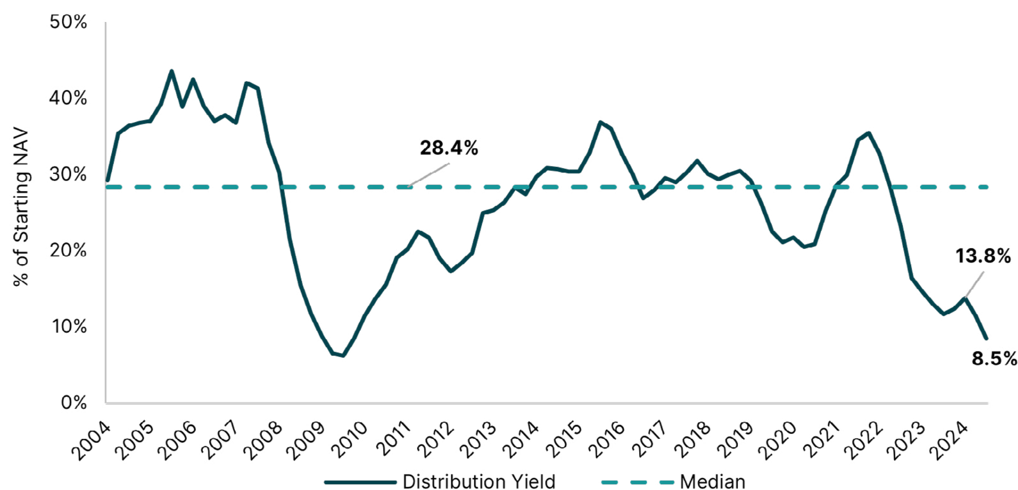
5 Preqin investor surveys as of November 2024.

How will demand for liquidity affect private equity throughout 2025?

There is still a very significant demand for liquidity in private equity, which is a multi-year problem. Average hold periods have increased to six years which is as long as we have ever seen, and distributions continue to be below historical averages, as seen in figure 9. Dry powder in private equity funds has grown from $1.2tn to over $1.5tn in five years, creating a significant buildup.[4] Secondaries will need to continue to be part of this solution in the years ahead which we think should result in heightened secondary activity.

The private equity secondary market has shown substantial growth in recent years, going from $77bn of transaction volume in 2022 to $114bn in 2024, and cementing itself in the market as a critical liquidity tool.[5] The expansion of the market provides a reliable source of liquidity and secondaries have established themselves as a key component of portfolio allocations for private equity investors.

Figure 9. Trailing 12-month buyout fund distribution yield



Source: PitchBook as of September 30, 2024. Includes US private equity buyout funds. Note: The values for the two most recent quarters were estimated from buyout exit values. The distribution yield is calculated using the 12-month total fund distribution divided by the starting NAV.

With the growing popularity of innovative vehicle structuring such as continuation vehicles, do you think they will become a standard feature of the market?

Yes, there is a need for alternative liquidity solutions given the acute liquidity need in the market. Continuation vehicle transactions have gained increased investor acceptance and now represent a majority of GP-led volume. GPs are finding continuation vehicles to be a useful tool, and best practices have formed around providing existing LPs rollover optionality. Some investors are backing this strategy while others are assessing how GP-leds, and single asset continuation vehicle deals in particular, can fit in their portfolios. Single asset deals do not behave the same as traditional LP portfolio secondaries but instead can be viewed similarly to a buyout fund but with higher quality underlying companies and lower expected loss ratios. Industry data thus far suggests that returns from single asset continuation vehicle deals have performed well and with less dispersion than the wider private equity deal set.

6 Preqin as of December 31, 2024. Excludes fund of funds and secondaries to avoid double-counting.
7 Evercore as of January 2025.

Private credit in 2025

In conversation with Rakesh (Rick) Jain, Head of Private Credit at Pantheon

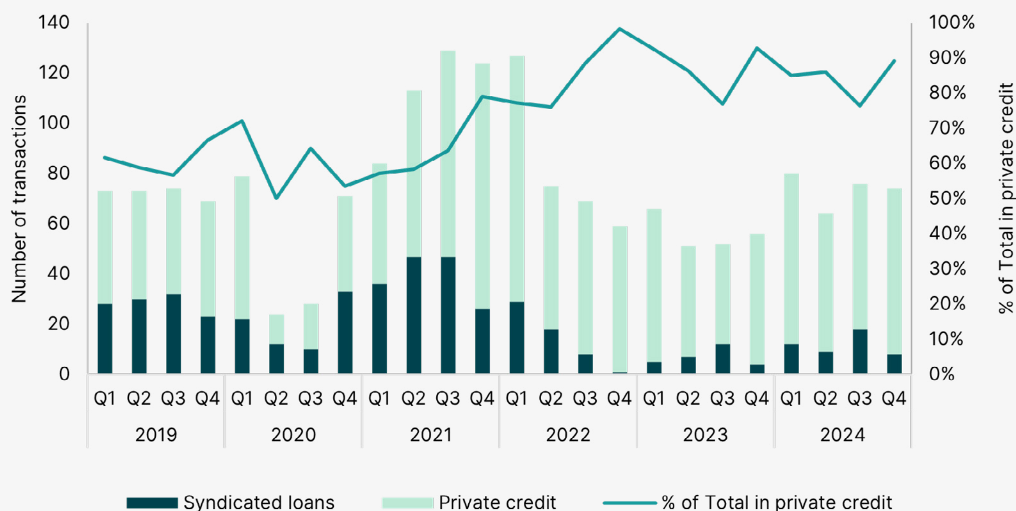
A continued liquidity crunch in the private markets gives private credit another attractive outlook in 2025. The asset class is poised for a strong year in the secondaries market.

What key private credit trends are top of mind for you in 2025?

There's now widespread anticipation that interest rates will remain higher for longer this year. Looking back three to four quarters, there was an expectation in the US that the Fed would moderate interest rates due to a slowing economy and reduced inflation. But we've now seen strong economic performance, continued consumer spending, and fiscal policies from the new administration, and in general macro risks and global uncertainties all suggest rates need to stay higher for longer. On top of that the imposition of tariffs could also increase prices, meaning the Fed can't cut rates as aggressively. The continuation of a higher-rate environment would mean we still see that attractive tail wind to private credit.

The second is a secular trend that has seen private credit continue its expansion across the corporate borrowing landscape, most recently into the investment grade market as an alternative to the public debt capital markets for fixed income instruments. Throughout 2024, private credit transactions made up 76-89% of loan origination volumes. This has been a consistent and growing theme since 2021, as seen in Figure 10.

Figure 10. Leveraged buyout loan origination volumes



Source: PitchBook / LCD as of December 31, 2024. Count of LBO transactions covered by LCD News.

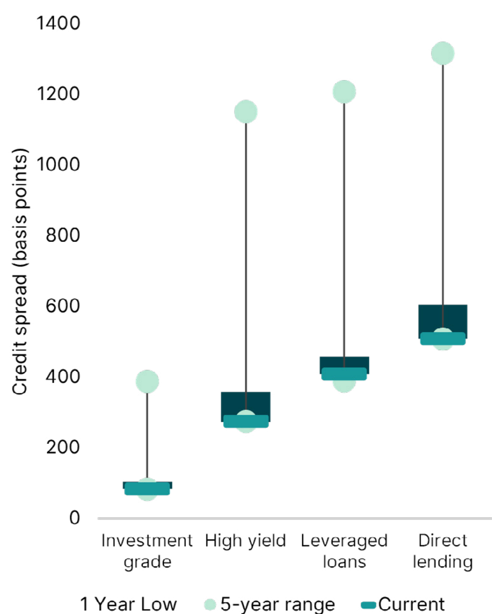
How are investors reacting to the current position in the valuations cycle?

Yield-oriented private credit strategies can continue to provide better relative value (and illiquidity premiums) than public fixed income alternatives, where spreads are incredibly tight, as shown in Figure 11.

Across the board, valuations are stretched with compressed credit spreads and high equity market valuations. The risk of market volatility or dislocation is higher now and it won't take much to change market views on valuations. Market participants need to employ prudent portfolio and risk management as they deploy capital.

In our strategies, we take a bottoms-up view, focusing on individual companies and industries rather than macro trends, as well as relative value across the asset class.

Figure 11. Credit spread ranges across fixed income asset classes



Source: PitchBook LCD as of November 30, 2024.

Are there any strategic developments in private credit where you expect to see growth?

The private credit secondaries market is continuing to grow and mature, fuelled in part by the demand for enhanced liquidity options for investors. Distributions for private equity sponsors (and credit managers) continue to lag and asset duration is above average, resulting in a demand for credit liquidity solutions.

The year-end credit secondary deal flow for 2024 was $36bn, a 42% increase year-on-year. The pipeline looks robust for 2025, with several large multi-billion-dollar LP and GP portfolios coming to market.

Deal sizes are increasing, with transactions now regularly seen at over a billion dollars, and we're seeing more GP liquidity solutions coming to market. We expect deal flow to grow by 5-10% year over year, though it has grown at 40-50% CAGR over the last five years.

We're focused on accessing attractive, seasoned credit, regardless of the structure. We've been successful in sourcing opportunities through proprietary means or broker relationships, employing a creative and solutions-driven approach to both LPs and GPs.

Historical drivers like rebalancing, risk management, and portfolio management will remain. Increased market uncertainty and volatility will drive liquidity demand.

We expect $150bn of deal flow over the next three years, with about a third converting to deals. The market's size and our scale give us confidence in capturing interesting returns. Overall, this is a great time for private credit secondaries.

Are there any particular sectors that look attractive from a private credit perspective?

With more deals coming to market we see a large investment opportunity, but it's important to be discerning and focus on those areas of the market where there is long-term strength.

We favor defensive sectors like technology, healthcare, and business services. These sectors typically have strong value propositions, high free cash flow, recurring revenue, low capital intensity, and low cyclicality – limiting our exposure to credit portfolios with heavy exposure to consumer discretionary or energy sectors. Aerospace, defense, and government services end markets have strong performance indicators.

Potential headwinds could come from a slowdown in AI spending, tariffs impacting export-reliant industries, and dislocation in consumer-tied industries like retail.

Infrastructure in 2025

In conversation with Andrea Echberg, Head of Infrastructure at Pantheon

Short-term dislocation offers attractive valuations, while technological change is driving long-term investment opportunity.

What themes will influence infrastructure investing in 2025?

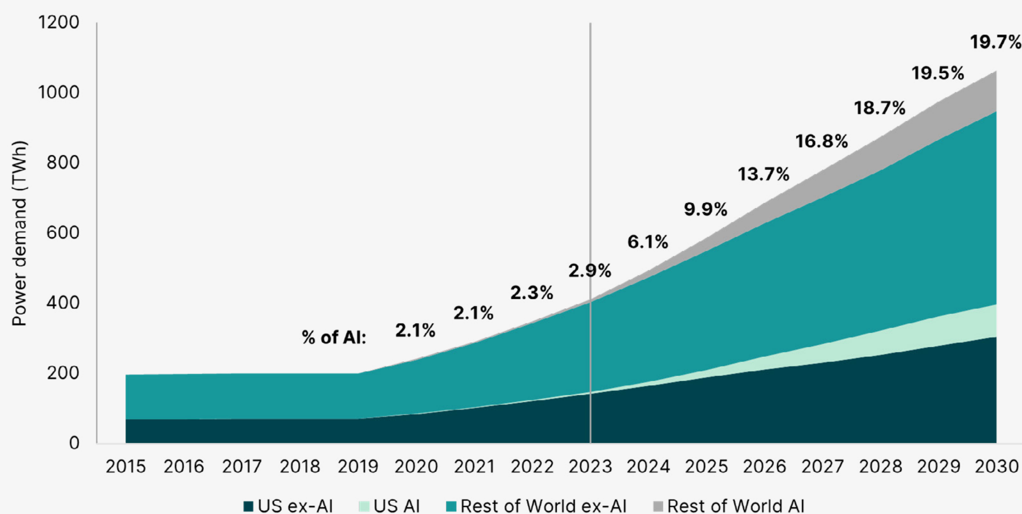
In digital and traditional infrastructure, the increasing demand for AI is significantly driving the need for more data centers. As such, we are looking closely at the AI revolution and the energy transition, while the potential return of inflation could also prove positive for infrastructure.

What new infrastructure does AI require?

The power requirement of AI is vast. There's a real bottleneck around the power required by the data centers, and this demand is expected to grow by 160% from 2023 to 2030, according to Goldman Sachs, to account for over 8% of total US power demand in 2030 from approximately 3% in 2024.[6]

Currently, the needs of AI make up around 3% of the power used by data centers globally, but this is estimated to grow to over 19% in 2030, as shown in Figure 12 below. This situation presents massive opportunities across conventional clean gas and renewable energy sectors on a global scale – we are seeing it across Europe, Australia, and the US. We expect the knock-on effects on independent power producers and renewables to be highly positive.

Figure 12. Power demand from data centers is forecasted to increase with AI



Source: Goldman Sachs Research, Masanet et al. (2020), Cisco, IEA.

8 Goldman Sach, April 2024, "Generational Growth: AI, data centers and the coming US power demand surge"

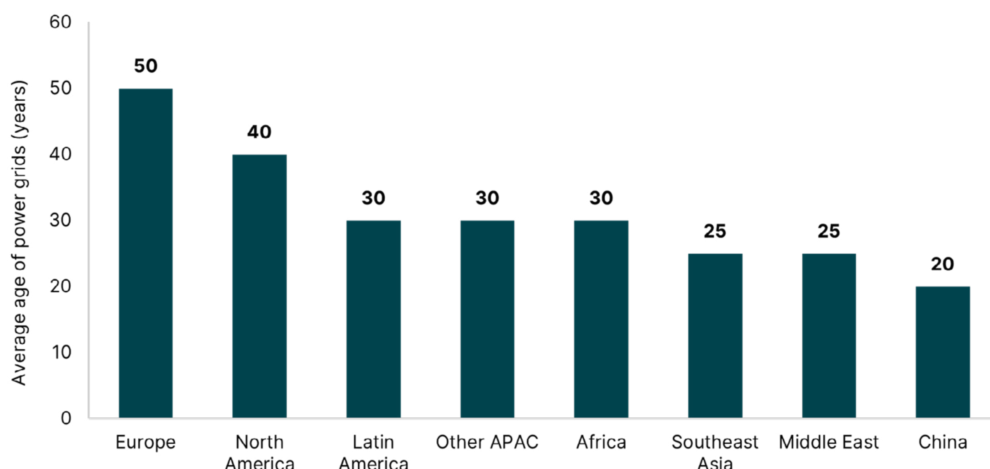
What energy transition themes or sectors look attractive this year?

With more demand from data and increased investment in renewables, the power grids in the US and Europe need reinvestment and modernization. The average age of power grids in North America and Europe are 40 and 50 years respectively, as seen in Figure 13, and upgrading the network will enhance reliability, efficiency, and capacity.

There continue to be some attractive tailwinds behind decarbonization, in areas such as battery and storage and carbon sequestration. Specifically, the liquefied natural gas (LNG) industry continues to be attractive due to its role in the global energy transition. These sectors are expected to benefit from the increasing demand for clean energy, and the need for reliable power sources.

We are also seeing increased opportunities in the logistics sector, which is poised for growth and supported by the ongoing expansion of e-commerce and global trade.

Figure 13: Average age of regional power grids



Source: Goldman Sachs, Nexans Presentation as of May 2024.

Are there any sectors where you are more cautious?

We are cautious about some areas of consumer-linked transportation. Looking at the past few years and the impacts of COVID-19, it's clear that although airports are of interest, investment requires a diligent approach.

Digital infrastructure also faces a confluence of challenges, including competition for scarce resources such as power, materials, and labor. Some parts of the fiber sector are also facing obstacles, and there's more consolidation needed there.

Valuations across infrastructure generally have been flat for a long while, and while we cautiously anticipate a return to more normal growth this year, certain sub-sectors may yet face further de-rating and stress.

What would be the impact of inflation on the infrastructure sector?

Infrastructure investments can inherently be a hedge against inflation, with assets and models linked directly to inflation, providing long-term steady returns and relatively low volatility in times of market dislocation.

If there is renewed inflation, preferences will swing to core holdings. Certainly, several policies in the new US administration, as well as in the UK, look inflationary. As well as the energy transition, which is inherently inflationary

due to substantial upfront investments needed to support the transition, which in turn, can drive up prices of materials and labor. On the other hand, should interest rates fall, we will see a chase for yield, which will benefit other types of infrastructure.

What are you expecting for the infrastructure fundraising environment this year?

The fundraising environment for infrastructure in 2024 was generally on pace with the previous year, largely due to slower distribution activity.

In 2024, $95bn was raised in infrastructure according to Preqin, similar to the previous year's pace but significantly lower than the $138bn average raised annually over the preceding five years.[7]

We do not expect a dramatic change in fundraising in 2025, even with a significant uptick in M&A volumes. However, we do anticipate more interest in the mid-market. This part of the market has demonstrated better value-add capabilities, and that is proving attractive to investors looking for differentiated opportunities.

We also believe there will be an increased focus on strategies delivering yield or cash-on-cash returns. As mentioned, the X-factor here is inflation and we could see investors increasing allocations to infrastructure as an inflation-hedge.

These trends may be dependent on U.S. policy under the new administration. If allocations do increase, they are likely to immediately target seeded portfolios and secondaries instead of blind-pool capital.

We would expect to see this in the second half of 2025 and through 2026.

What is your expectation in terms of deal flow and valuations for infrastructure secondaries?

The secondaries market has seen a significant uptick in deal flow due to the overall maturity of the market and increased investor allocations. Discount rates have stabilized around 5-10% for good quality portfolios, reflecting a more balanced supply-demand dynamic.

From a pricing perspective, we have seen significant pockets of value emerge as a result of the denominator effect. While these are now narrowing for the best quality portfolios, we continue to see very attractive valuations, and we expect this to be ongoing. Even if the M&A market picks up markedly, there would need to be a very significant increase in cash returned to investors before the market reverts to net-positive from a distribution perspective.

In the meantime, investors will continue to use secondaries as a strategic tool to meet their liquidity needs.

9 Preqin as of December 31, 2024.

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