The Pulse of Private Equity – 9/7/2015

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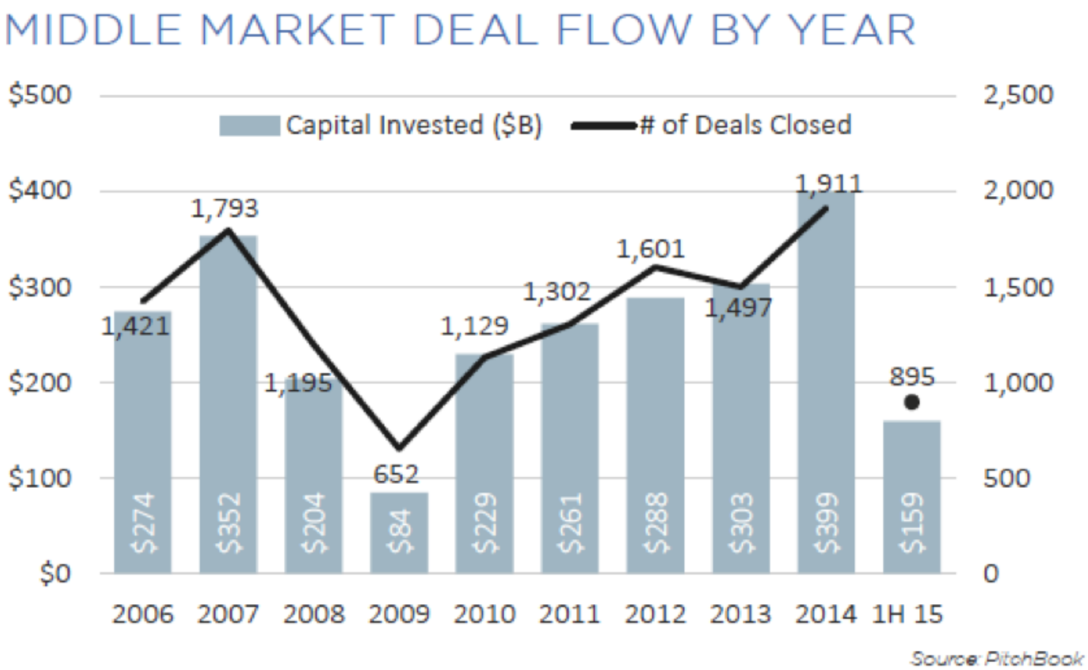
Opportunity Ahead for PE?

The finance community has been hit hard the past few weeks. Even long-term asset classes like venture are keeping tabs on short-term fluctuations in the market. Private equity doesn't seem as concerned, and shouldn't be. The biblical seller's market that began in 2013 was perfectly timed ahead of the current correction. Now the only headache is deal flow, which should stay buoyant despite the stormy market. In fact, the PE environment could be looking at a big opportunity over the next few years. Volatility in the public markets is tethered to uncertainties in Europe and China, and to an extent in the Fed itself. But they have little to do with the U.S. economy itself, which is recovering by many measures.



Especially the U.S. middle market. The MM lacks significant exposure to the global economy, a definite positive in this environment. Two variables that will affect PE – an interest rate hike and fall in energy prices – will have negligible consequences for investors, and in the case of energy prices should help middle market managers lower production costs across their portfolios.

Two other possible perks: cratering stock prices could spur PE sponsors back into the public markets. Other investors may be wary of buying low with so much uncertainty, but PE can justify those take-privates if the margins are wide enough as is. Second, LP capital has begun shifting away from equities, bonds and hedge funds in recent weeks. PE firms haven't had any issue raising money of late, but they could be seeing even more demand from skittish investors going forward. Should that happen, PE will be facing the same competition levels as before, but with healthier deal-making opportunities in front of them.

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