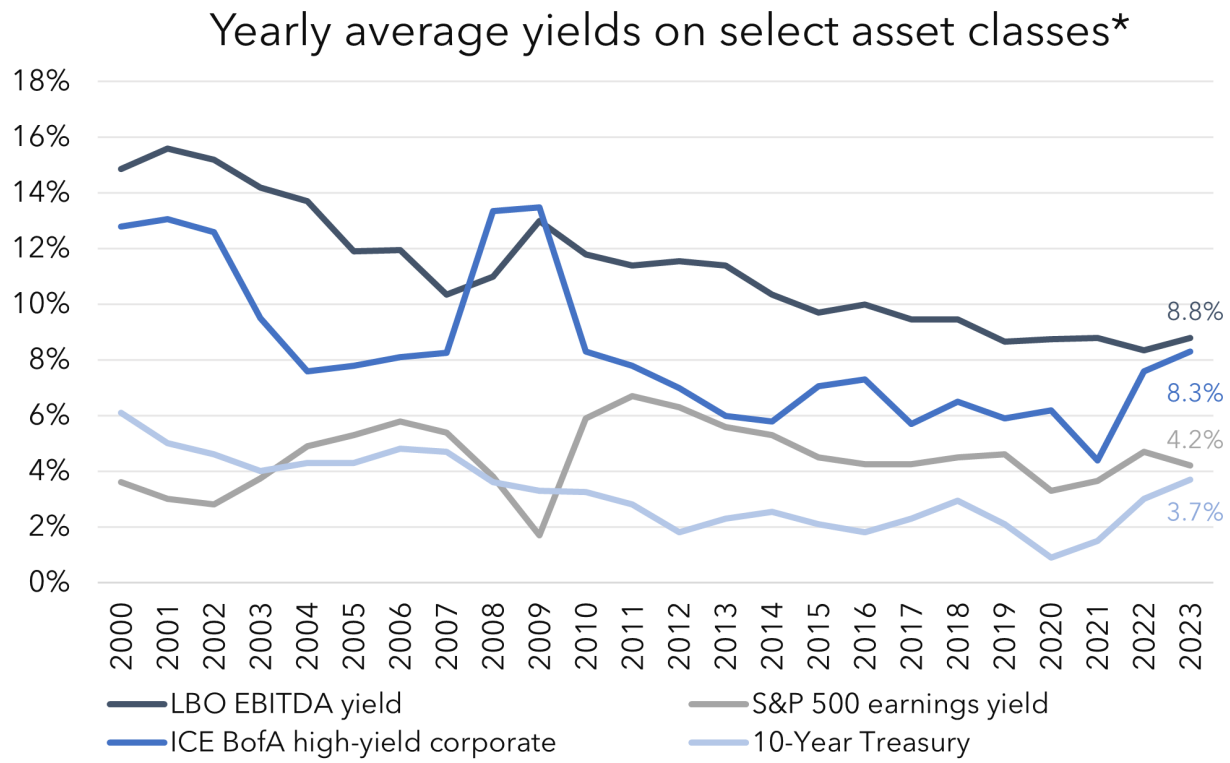
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Are PE valuations normalizing – finally?

PitchBook | August 17, 2023



Source: PitchBook | LCD; FRED; Robert Shiller | Geography: US
*As of July 31, 2023

Although not directly comparable, contextualizing PE dealmaking metrics to broader market figures is instructive. As noted in PitchBook research for some time now, PE's outperformance in terms of rolling one-year fund returns is finally subsiding as marking to market continues inexorably. Meanwhile, LBO EBITDA yields are finally flattening out as high-yield corporate bonds bump upward in response to market conditions – and rate hikes – and other market metrics continue in their respective trajectories. What these four separate metrics indicate when reviewed in tandem is that the revivification of bond market is truly occurring, while increasing costs of capital are complexifying but not overly stymieing buyout activity. For some time now, PE fund returns have been increasingly scrutinized relative to the sheer strength of public equities, with some claiming that PE is nearing a point of unattraction given its costs. Illiquidity has also been claimed to be more attractive than a hindrance. However, in an market environment where active, expert management may finally be regaining an edge after years of dominance by passive market-tracking indices, shrewd PE models could also thrive within private capital markets. That may actually be easier in a more reasonably priced environment, hence the slight increase in yields for LBOs.

(Past performance is no guarantee of future results.)