Leaning Into the Turbulence: Private Equity Midyear Report 2025

Opportunities can flow out of today's uncertainty and ease mounting pressure on the industry.

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At a Glance

- Early signs indicate that tariff turmoil has held back deals and exits while investors digest the implications, both short and long term.
- The second-quarter slowdown has exacerbated the urgent need to improve liquidity by accelerating full exits, refreshing value-creation plans where necessary.
- Amid lingering volatility, PE firms can regain momentum through proactive dealmaking, clear-eyed due diligence, and a renewed focus on revenue and profit growth.

Tariff turbulence has shaken the world, but it hasn't broken the private equity market. However, the pressure within the industry—to find exits, distribute funds, source fresh capital and then put it to work—continues to mount.

That's the headline message so far from the first half of 2025 and its two contrasting quarters.

Private equity began the year still enjoying the momentum from its 2024 improvement. January promised a strong 12 months of dealmaking: Credit markets were open, debt was cheaper, inflation appeared under control, and interest rates were trending down.

The optimistic mood held just long enough for global buyout deal count in the first quarter of 2025 to be roughly in line with the 2024 trend. Deal value was the highest since the second quarter of 2022, having been boosted by a few large transactions, such as Sycamore Partners' $23.7 billion purchase of Walgreens Boots Alliance.

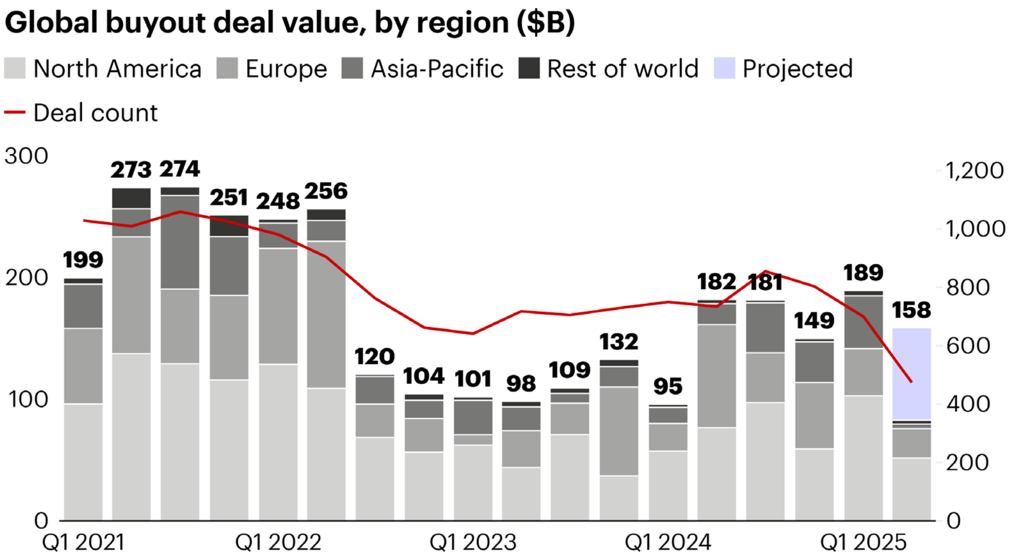
Exits were pushed higher in the first quarter by a surge in sales to strategic buyers, such as GTCR's sale of a majority stake in payment processor Worldpay to Global Payments in a $24.25 billion deal and Mubadala's $13.4 billion sale of Nova Chemicals to OMV and Abu Dhabi National Oil Company.

The relatively upbeat start to 2025 faded hours into the second quarter. Uncertainty about tariffs, which had started to swirl in February, was amplified by the policy announcements of April 2, triggering volatility across global capital markets.

Although the full impact on dealmaking isn't yet clear, given the lead times to bring deals to fruition, there are signs that the second quarter may see a slowdown *(see Figure 1)*. The value of deals announced in April was 24% below the monthly average for the first quarter of 2025, while deal count was down 22%.

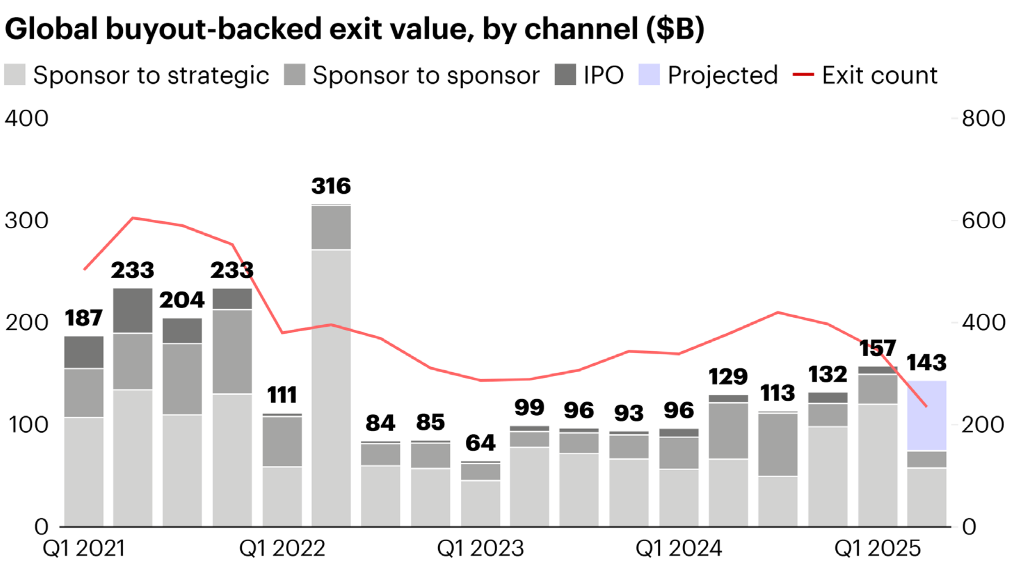
The slowdown on the entry side is mirrored on the exit side. The most immediate and visible impact was seen in the IPO channel, where the already subdued market for initial public offerings essentially shut early in the second quarter, with offerings postponed or canceled amid the tariff turmoil *(see Figure 2)*.

Figure 1: Global buyout dealmaking lost momentum in the second quarter of 2025



Notes: Excludes add-ons, special-purpose acquisition companies, loan-to-own transactions, and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on target's location; data as of May 19, 2025; deal count is scaled to quarterly basis
Sources: Dealogic; Bain analysis

Figure 2: The exit outlook dimmed after a promising first quarter



Notes: Includes partial and full exits; excludes special-purpose acquisition companies and bankruptcies; IPO value represents offer amount and not market value of company; data as of May 19, 2025; exit count is scaled to quarterly basis
Sources: Dealogic; Bain analysis

For instance, Swedish fintech Klarna—whose backers include Sequoia Capital, Silver Lake, and Permira—in early April reportedly paused its plans for a US IPO. While few in number, IPOs are critical for some big portfolio companies.

The slowdown is a direct product of the fresh uncertainty injected into long-term models. Investors had already processed a series of shocks over the past five years: Covid, the war in Ukraine, inflation, and then sharply rising interest rates. Tariff volatility hit just when their confidence in making predictions was starting to return.

Whatever switchback turns lie ahead, PE firms must excel at creative dealmaking, due diligence, and value creation to make the most of the opportunities that will flow out of today's uncertainty.

Overall, constraints on dealmaking are likely to remain in the short term, amid continually shifting macroeconomic conditions. The companies most affected by tariffs have their hands tied. Some strategic buyers are sitting on the sidelines, especially infrequent acquirers. Would-be sellers might be tempted to wait for a better time. And there's no shortage of operational distractions to get in the way of M&A, from managing day-to-day tariff impact to scaling the rollout of generative AI.

That said, there's nothing fundamentally broken in the market. Buyers and sellers can still transact—and history shows that strategic buyers with a strong M&A agenda remain active in turbulent times. General partners (GPs) are under pressure to do deals. There's $1.2 trillion of buyout dry powder waiting to be invested, almost a quarter of which has been available for four years or more, making its deployment even more urgent. Debt markets remain open for the right assets.

Whatever switchback turns lie ahead, PE firms must excel at creative dealmaking, due diligence, and value creation to make the most of the opportunities that will flow out of today's uncertainty. That doesn't mean just pinpointing the short-term effects of tariffs on a company's demand, competitiveness, and margins. With little prospect of the world returning to its pre-April 2 certainties, even if recent tariffs remain fully or partially rolled back, tomorrow's winners will be those that can also gauge the long-term ability of companies to adjust to a new, post-globalized era.

Liquidity remains an issue

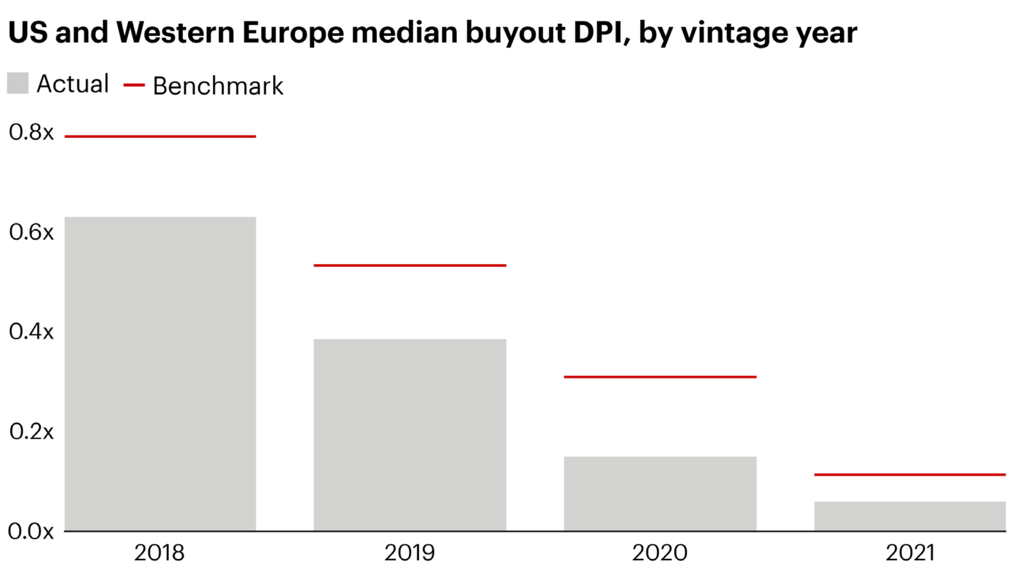
The second-quarter slowdown in dealmaking is set to exacerbate an already critical issue: the lack of liquidity. Recent fund-raising vintages are consistently lagging historical benchmarks when it comes to returning capital to limited partners (LPs). For instance, historical fund cash flows suggest the ratio of distributed to paid-in capital would ordinarily be about 0.8x for US and Western European funds raised in 2018, yet it stands only a little higher than 0.6x *(see Figure 3)*.

The lack of liquidity is a source of pain for both investors and firms. LPs can't realize returns, access cash, or rebalance their portfolios (in response to financial market gyrations, say). GPs must spread their managerial resources across more portfolio companies, while their slow-motion distribution impedes fresh fund-raising. Holding companies for longer, GPs also find it more difficult to progress from management fees to carry fees, given the inevitable challenge of meeting demanding return targets over a more extended period. This can hit their capacity to reward and retain their talent.

LPs are increasingly dissatisfied with partial or minority exits; instead, they are pushing for full, traditional realizations despite the headwinds faced by such transactions. In a recent poll of Institutional Limited Partners Association webinar participants, more than 60% of LPs said they would prefer conventional exits over alternatives such as dividend recapitalizations, even accepting a valuation below recent marks if necessary *(see Figure 4)*.

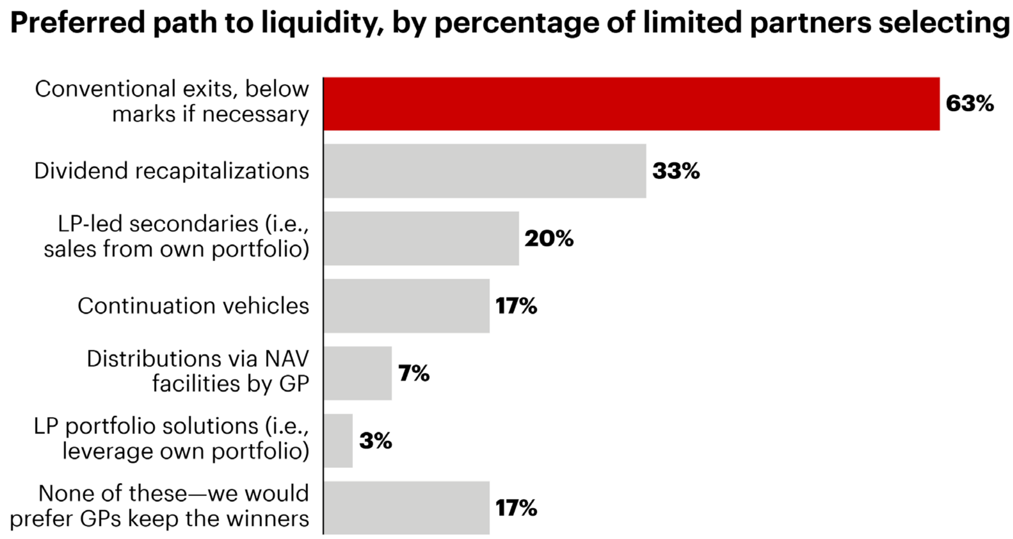
Increasingly, LPs are taking liquidity into their own hands, turning to the secondaries market to rebalance their portfolios or raise cash, driven by a combination of geopolitics, macroeconomic concerns, and individual cash flow needs. China Investment Corporation, the Chinese sovereign wealth fund, has reportedly been seeking secondary market buyers for about $1 billion in private equity investments

Figure 3: Liquidity is lagging historical benchmarks for distributed to paid-in capital



Notes: Benchmark defined as the average of the median DPI for 2010–17 vintages; data as of Q4 2024
Sources: MSCI; Bain analysis

Figure 4: LPs want more conventional exits, even at valuations below recent marks



Source: ILPA–Bain webinar poll, March 2025

managed by US firms. Also in April, Yale University confirmed it was exploring a sale of private equity fund interests from its endowment.

In May, meanwhile, New York City pension systems completed a $5 billion secondary sale, in a "strategic realignment" of their PE portfolio. Blackstone was reportedly the lead buyer.

The secondaries market certainly offers a bargain-hunting opportunity to investors with fewer liquidity constraints. Yet even with their strong growth momentum, secondaries aren't close to being mature enough to resolve the industry's broader liquidity needs, amounting to less than 5% of private equity assets under management globally.

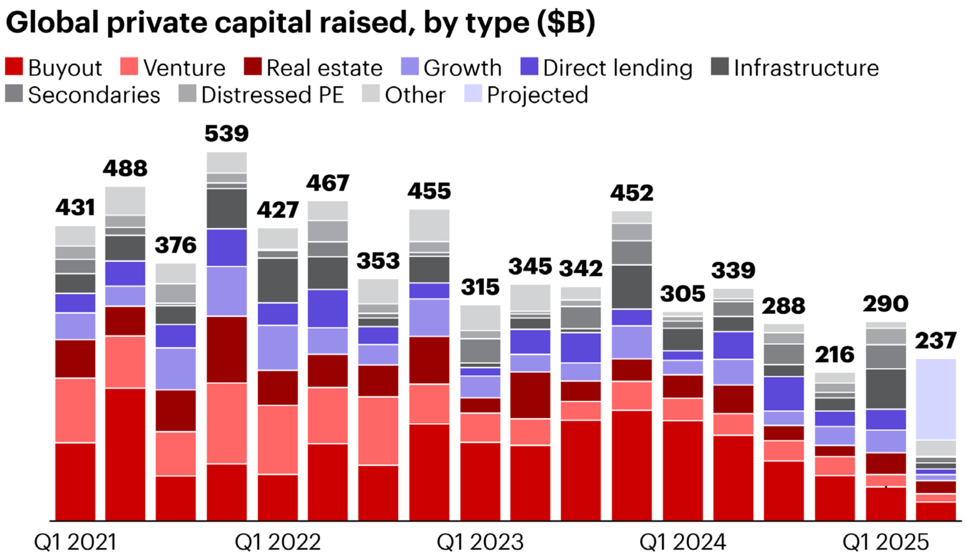
With the pressure to exit mounting to unsustainable levels, a bigger solution is needed. While some GPs are still holding out for the last dollar of value creation, others have decided to "take their medicine" by selling at a slightly lower price than envisioned and returning capital to LPs.

Fund-raising has never been so hard

Private capital fund-raising remains challenged in spite of strength in some categories, such as secondaries and infrastructure *(see Figure 5)*. Global buyout fund-raising may narrowly avoid a sixth consecutive quarter of decline.

None of the buyout funds that closed in the first quarter were bigger than $5 billion. It's the first time in a decade that this quarterly threshold hasn't been beaten. The unwanted milestone is a pointed illustration of two recent trends: a decline in the average size of funds raised and a drop in the number of funds closing.

Figure 5: Pockets of strength in private capital fund-raising have not fully offset buyout fund weakness



Notes: Includes closed-end and commingled funds only; buyout category includes buyout, balanced, coinvestment, and coinvestment multi-manager fund types; includes funds with final close and represents the year in which they held their final close; excludes SoftBank Vision Fund; other category includes fund of funds, mezzanine, natural resources, and others; data as of May 16, 2025
Sources: Preqin, a part of BlackRock; Bain analysis

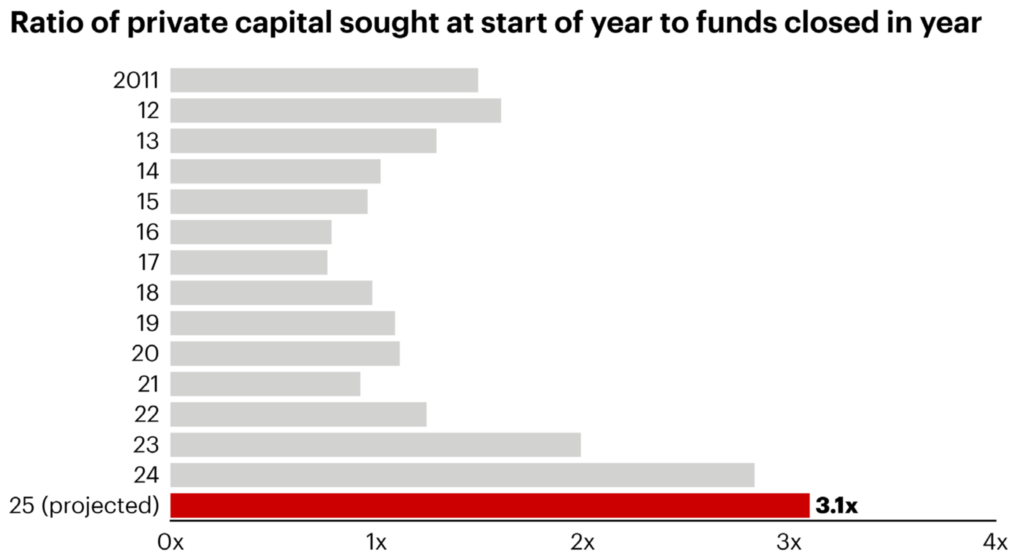
The outlook for buyout fund-raising remains challenged, with investors closely monitoring allocations given weak distributions. Although the decline might have bottomed out, hope for a recovery in the inflows of fresh capital has likely been pushed out into 2026 (or beyond).

Ultimately, fund-raising across all private asset classes is about supply and demand. More than 18,000 private capital funds are on the road, collectively seeking $3.3 trillion. That means there's about $3 of demand out there for every $1 of supply *(see Figure 6)*. It remains to be seen how much the emergence of private wealth as a source of funding can ease this mismatch by boosting supply.

Predictable income-generating assets are gaining in appeal as a counterweight to trade-related volatility. According to a survey by Campbell Lutyens in April, 28% of LPs plan to increase allocations to private credit, while 20% expect to boost their exposure to infrastructure. That's against a cautious backdrop: 33% of LPs said they were slowing their private market investments in response to US tariffs, while 8% were pausing entirely.

Historically, institutional investors have been comfortable being overweight on their exposure to the US vs. Europe. While North America's nominal GDP is around 20% bigger than Europe's, North American private equity assets under management are around 170% larger. While US private equity remains attractive and the biggest market, some pension funds in countries hit by trade tensions with the US have reportedly been cooling on it as a PE destination. Similarly, the Campbell Lutyens survey suggested that about a third

Figure 6: Capital sought by GPs is triple the sum set to be raised this year



Note: 2025 projections based on data through April
Sources: Preqin, a part of BlackRock; Bain analysis

of Canadian and European LPs were expecting their private equity allocations to be less weighted to the US and more to Europe.

Clearly, the first half has been a period of immense geopolitical flux. But there's little doubt that broad shifts are underway as investors rethink their exposure across asset classes and geographies. More than ever, GPs need to probe their assumptions about where their capital will come from, continuing the industry's move away from informal fund-raising to a more systematic approach.

Navigating 2025's uncertainty

In any disruption there are winners and losers—and the best opportunities often come at the most extreme moments of uncertainty. That still seems true in 2025, with noteworthy deals already emerging from the upheaval of recent weeks. Last month, for instance, 3G Capital announced it was buying Skechers for more than $9 billion, less than two weeks after the US footwear maker withdrew its financial guidance due to trade uncertainty that had seen its shares dip as much as 44% below their 2025 peak.

When wait-and-see is the default mode, it pays to be a catalyst. Consider sponsor-to-sponsor transactions, where buyers often must contend with a certain reluctance on the selling side. Potential buyers can be proactive in today's market, recognizing that GPs are increasingly making trade-offs between returns and liquidity.

In today's less benign environment, valuation multiples won't expand on their own, making it vital that PE firms prioritize improving earnings at their portfolio companies through a mix of cost control and sales acceleration. We don't underestimate the difficulty of finding top-line growth in these volatile times, but that also means the rewards are high for those that can achieve it.

Even if cost programs have been run recently at portfolio companies, now is a good time to take another look, not least because generative AI is enabling productivity measures that weren't possible even a few quarters ago. Operating leverage will be increasingly important to ensure that revenue growth leads to stronger margins.

With exit timelines lengthening, GPs may need to refresh or extend their value-creation plans for portfolio companies to convince buyers that there are new chapters of growth ahead. Clear evidence of progress on EBITDA growth will be necessary for that narrative to be convincing. And it needs to be real progress, not a pro forma aspiration.

The wild swings of recent months make midyear predictions harder than usual. What's clear is that the world has changed.

The wild swings of recent months make midyear predictions harder than usual. What's clear is that the world has changed. Financial market lulls and recoveries shouldn't obscure the fundamental reordering of global trade and geopolitics that's underway. Almost all portfolio companies need to rethink how they do business; the assumptions that underpinned their strategies at the start of the year may be obsolete.

As for dealmaking, it's not a foregone conclusion that 2025 will be a bad year. If the tariff uncertainty dissipates, momentum could return more quickly than many might imagine. Tomorrow's winners will be quick to grasp exit opportunities. They will also anticipate what might come to market—and form a clear view of what they want to own. With no end to today's turbulence in sight, leaning into it is likely the best option.

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